

A black and white photograph showing the side of a boat's hull on the right, which is white with dark horizontal stripes near the waterline. To the left is a dark, textured vertical structure. The boat is on a body of water, with ripples and reflections visible. In the top right corner, there is a dark blue rectangular box containing the word "Lithuania" in white, bold, sans-serif font.

Lithuania

ECONOMIC OVERVIEW

The Lithuanian economy has shown robust growth and resisted the global economic slowdown prevailing in recent years. This is reflected in its gross domestic product growth, export and import volumes and foreign direct investment. In 2002, Lithuania's GDP grew by 6.7%, exports and imports rose by 10.7% and 12.4% respectively, and foreign direct investment flows increased by 23.7% and reached EUR 3.8 billion. Retail trade was among the sectors that created the highest added value in 2002.

GDP and CPI

Lithuania's GDP growth was accompanied by a fall in CPI in 2002. Over the year the CPI rate has decreased by 1 point, which was a result of deflation recorded for seven months of 2002. Deflation triggers an increase in consumer purchasing power, however, if the trend continues it may become an obstacle to economic growth.

	1998	1999	2000	2001	2002
GDP Growth, %	7.3	-1.8	4.0	6.5	6.7
CPI (Year Average %)	5.1	0.8	1.0	1.3	0.3

Source: Lithuanian Department of Statistics

Unemployment

Unemployment in Lithuania has been rising in recent years but the trend reversed in 2002 when the average rate fell to 11.3%, according to the Lithuanian Labour Exchange. The real unemployment rate may however be higher. Labour market surveys conducted by the Lithuanian Department of Statistics put the average unemployment rate at 13.6% in 2002 and the European Commission's calculations stood at 16.6%. Nevertheless, unemployment is forecast to fall gradually in the coming years.

Unemployment rate

	1998	1999	2000	2001	2002
Unemployment rate, average %	6.4	8.4	11.5	12.5	11.3

Source: Lithuanian Labour Exchange

Economic Forecasts

The Lithuanian economic outlook is generally optimistic. The largest bank in Lithuania, Vilniaus Bankas, projects that GDP will grow by an annual 5.5-6% in 2004 and 2005. Forecasts also show a rise in CPI from 2004, mainly due to stronger domestic demand.

GDP and CPI forecasts

	2003	2004	2005
GDP (% change)	6.1	6.2	6.5
CPI (Year Average %)	0.1	2.8	2.5
Unemployment Rate %	10.8	10.2	9.1

Source: Lithuanian Ministry of Finance



Size area ('000 sq km): 65
(US 9,364 – EMU 2,346 – World 133,432)

Population (million): 3
(US 285 – EMU 307 – World 6,130)

GDP (USD billion): 12
(US 10,065 – EMU 6,111 – World 31,121)

GNI per capita (USD): 3,350
(US 34,280 – EMU 20,670 – World 5,120)

Languages: Lithuanian (official), Polish, Russian.

Main religions:
Roman Catholic (79%),
Russian Orthodox.

Government type:
Parliamentary democracy

Entry date in EU:
1st may 2004.

1 EUR = 3.4528 LTL

REGULATORY ENVIRONMENT

Foreign Direct Investment

The State investment policy is detailed in the Law on Investment of 7 July 1999, as amended and supplemented. The general stance of such policy in Lithuania is to welcome foreign investment. The State is vested with the function to provide favourable conditions for private investment and is charged with supporting investment intended for the improvement of the ecological situation, upgrading of technology of prospective industries, development of small and medium-sized businesses and satisfaction of the basic social needs of the public.

The Law on Investment is expected to be amended in 2003 to include additional investment encouragement vehicles, including support to green field investment, science and technology parks, innovations, knowledge economy clusters, etc.

A foreign investor is entitled, upon paying the taxes due, to convert its profits/income into a foreign currency and/or repatriate them without any restrictions. No restrictions are established for repatriation of capital by a foreign investor either.

In case of an investment dispute, the foreign investor is entitled to apply directly to the International Centre for Settlement of Investment Disputes.

Lithuania has entered into more than 30 bilateral international agreements on investment promotion and protection.

Expected Impact Following EU Entry

The majority of EU directives on consumer protection have already been incorporated into Lithuanian legislation. Before joining the EU, Lithuania will have to approximate its local laws to the EU legislation. Upon the EU entry, Lithuania will comply with the EU legislation.

Property / Real Estate Regulations

Foreign legal entities and individuals are entitled to acquire title to land in Lithuania in accordance with the special Constitutional Law, provided they meet the criteria of the European and Transatlantic Integration of Lithuania. A foreign legal entity is considered to meet these criteria if it is incorporated in a member State of the European Union; in a State which has entered into the Europe (Association) Agreement with the European Communities and their member States; or in a State which is a member of the OECD, NATO or European Economic Area Treaty.

Foreign legal entities and individuals meeting the above-mentioned criteria are entitled to acquire, subject to statutory exceptions, title to non-agricultural land for construction and maintenance of buildings and structures set aside for business operations specified in their foundation documents, provided they have obtained a permit for land acquisition issued by the Government or its authorized institution.

Before the transitional period of 7 years established by Lithuania's EU Accession Treaty expires, foreign legal entities and individuals meeting the above-mentioned criteria cannot acquire title to agricultural and forestry land. This statutory land acquisition prohibition does not apply to foreign individuals who have been permanently residing and engaging in agricultural activities in Lithuania for no less than 3 years as well as to foreign legal entities and organisations which set up a representative office or a branch in Lithuania – they are entitled to acquire title to agricultural and forestry land once Lithuania joins the EU, provided they meet the statutory criteria.

Foreign investors are entitled to acquire title to all other types of immovable property in Lithuania and may take a long-term lease on state-owned plots of land.

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Other Regulations

Lithuania has established a number of regulations related to the retail and consumer sectors. The most important legislation includes:

- The **Law on Competition** of 23 March 1999, as amended and supplemented. This law protects fair competition in Lithuania. It prohibits agreements by which competition is intended to be restricted or which restrict or may restrict competition, regulates a dominant position in the market and abuse of the dominant position, sets out the requirements for competition clearance in cases of market concentration as well as prohibits unfair competition. The Lithuanian Competition Council is in charge of control of competition restricting actions and may apply different sanctions, including imposing fines and, upon having received a court approval (sanction), business restrictions on offenders for non-compliance with the Law on Competition.
- The **Retail Trade Rules** approved by the Government (effective from 1 July 2001). These rules set out general requirements for retail trade, such as requirements for packing, marking and quality of goods and safety of products. The rules also establish the seller's and purchaser's duties and regulate the specifics of contracts for sale and purchase of consumer goods, settlements and liability of the sellers and their employees for non-compliance with the rules.
- **Industry-specific regulations** (including industry-specific retail trade rules and licensing regulations, namely, for retail of alcoholic beverages, tobacco, unpacked petroleum products (including petrol), liquid gas, medicine and medical substances, etc.).

DEMOGRAPHICS AND CONSUMER BEHAVIOUR

Population

Based on the 2001 census, Lithuania's population totalled 3.48 million in April 2001. By 2003, the population decreased to 3.46 million, mainly due to a low birth rate. Over the period of 1989 to 2001, the figure fell by 5%, or by some 200,000 people. Urban population accounts for 67% of the country's total population and rural 33%.

Population overview 1989 – 2001

	1989	2001
Total population (mn)	3.67	3.48
Proportion (%) of population aged:		
0-14 years	22.7	19.5
15-64 years	66.7	66.4
65+ years	10.6	14.1

Source: Lithuanian Department of Statistics

Comparison of the population figures in 1989 and 2001 shows a clear trend of ageing of Lithuania's population.

Income / Buying Power

Based on the data of the Lithuanian Department of Statistics, the average recorded gross monthly pay rose by 5.3% to reach EUR 331.6 at the end of 2002.

For the last three months of 2002, the average gross monthly pay of men was EUR 369 and that of women EUR 298.6. Wages and salaries in the Lithuanian economy have shown strong growth over the past years and they are expected to rise further. Vilniaus Bankas forecasts that in 2003 the average monthly pay will increase by 7.5% to EUR 356.5 and projects an annual growth of 9% in 2004 and 2005.

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Household disposable income per capita was EUR 128.9 per month at the end of 2002. In urban areas disposable monthly income per household member was EUR 141 and in rural areas it amounted to EUR 104.6. The main source of income is wages and salaries accounting for 64% of total disposable income, with pensions and other benefits making up 25% and other income 11%.

Consumer Behaviour

Based on the household budget survey conducted by the Lithuanian Department of Statistics, monthly household expenditure per capita was EUR 126.3 for the last three months of 2002. The breakdown of expenditure reflects the lifestyles and spending patterns of Lithuania's population. Food makes up the largest share of household expenditure, i.e. 39.1%. Housing and utility bills account for 14% of the total expenditure per household member and clothing and footwear 7.9%.

Breakdown of average monthly household expenditure per capita, Oct-Dec 2002

Consumption expenditure	100%
Food and non-alcoholic beverages	39.1
Alcoholic beverages and tobacco	3.8
Clothing and footwear	7.9
Housing, water, electricity, gas and other fuel	14.0
Furnishings, household equipment and maintenance of the house	5.3
Health care	5.5
Transport	6.5
Communication	4.8
Recreation and culture	5.3
Education	0.7
Hotels, restaurants, cafes	4.0
Miscellaneous goods and services	3.2

Source: Lithuanian Department of Statistics

The households surveyed were asked to evaluate their standard of living. Only 1% considered themselves wealthy while 31% poor. The remaining 68% of households rated their standard of living as medium.

RETAIL & CONSUMER SECTOR PERFORMANCE

Major Consumer Goods Players

Top 10 consumer goods companies

Company name	Category of products	2002 Sales (EUR mn, excluding VAT)
Rokiskio Suris	Dairy products	108.4
Pieno Zvaigzdes	Dairy products	99.0
Svyturys-Utenos Alus	Beverages	81.1
Kraft Foods Lietuva	Confectionery and other food products	73.5
Snaige	Refrigerators and freezers	72.6
Zemaitijos Pienas	Dairy products	70.1
Utenos Trikotazas	Clothes	37.7

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Panevezio Cukrus	Sugar	32.4*
Stumbras	Beverages	29.4
Vilniaus Tauras	Beverages	29.0

* For financial year 01/05/2001-30/04/2002

Major Retail Players

Retail trade is one of the fastest growing sectors in Lithuania. Based on the data of the Lithuanian Department of Statistics, in 2002 the total sales of retail companies grew by 12.4% and reached EUR 4.52 billion. Companies trading in textile, apparel, footwear and leather products achieved a 38.3% growth in 2002 and food retailers saw an 8.3% rise in their sales.

Major food retailers

Company Name	Store Brand	Retail Formats	Number of outlets	2002 Sales (EUR mn, excluding VAT)
VP Market	T-Market	Discount stores		881.3
	Minima, Media, Maxima,	Supermarkets	168 (Lithuania) 55 (Latvia) 1 (Estonia)	
	Maxima Baze, Hyper Maxima	Hypermarkets		
Palink	IKI	Supermarkets	54	289.6
	Ikiukas	Traditional food stores	8	
	Pigiau Grybo	Discount stores	53	
Rimi Lietuva	Hyper Rimi	Hypermarkets	2	127.4
	Rimi	Supermarkets	16	
	Eko, Vikonda, Sustok Ir Pirk	Supermarkets	17	
Norfos Mazmena	Norfa	Supermarkets	46 (Lithuania) 1 (Russia)	117.6
Aibes Mazmena	Aibe	Traditional food stores	380	121.6

Source: Companies' websites and press releases

The largest Baltic retail chain operator is VP Market, a privately-owned company, whose sales in 2002 totalled EUR 881.3 million. VP Market runs 168 stores in Lithuania, 55 in Latvia and one in Estonia. This retail chain has stores under such brand names as T-Market, Minima, Media, Maxima, Maxima Baze and Hyper Maxima. Each name marks a different store format: from T-Market discount stores to Maxima supermarkets and Hyper Maxima hypermarkets. In addition, Akropolis, a shopping and entertainment centre opened in 2002 with total floor space of 54,000 sq meters, is the largest VP Market development. Akropolis houses restaurants, an ice-skating rink, a cinema, a bowling centre and as many as 100 specialist shops as well as a Hyper Maxima store. The company plans one more Akropolis centre in Kaunas, the second largest city in Lithuania. In total, VP Market plans to invest some LTL 300 million in

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further expansion of its retail chain in 2003, with a particular focus on the Latvian market.

The second largest retail chain in Lithuania under the IKI brand is also privately owned, with total sales of EUR 289.6 million in 2002. The chain includes 54 Iki supermarkets, 8 Ikiukas stores (small food stores) and 53 Pigiiau Grybo stores (discount stores). The chain opened its first store in 1992 and since then has been marketing itself as a retailer with a French flavour, i.e. a major share of its goods being imported from France. Previously, separate Iki stores were operated by separate companies but the chain is undergoing re-organisation by which all stores will be consolidated into one operating company, Palink, in 2003. The company plans to open 13 new stores in Lithuania by the end of 2003.

The third largest retail chain in Lithuania, Rimi Lietuva, has two hypermarkets, 16 supermarkets and 17 stores under such names as Eko, Vikonda and Sustok Ir Pirk, which will be re-branded to Rimi standards. RIMI Lietuva's sales in 2002 totalled EUR 127.4 million. The chain is owned by Ica Ahold via Ica Baltic.

Norfa, a retail chain operated by Norfos Mazmena, has 46 food stores in Lithuania. In 2002, the company opened a food store in Moscow region. Norfa has ambitious expansion projects and plans to open up to 20 stores in Russia in 2003 and 2004. The chain's turnover in 2002 was EUR 117.6 million.

Finally the Aibe chain run by Aibes Mazmena unites some 100 retailers with a total of 380 food stores. Small and medium-sized retailers join Aibe to benefit from suppliers' discounts available to the chain's members and resist the competitive pressure from the big retail players. Aibe generated EUR 121.6 million in sales in 2002.

Apparel retailing

A significant player in the Lithuanian apparel retail market is Apranga. This company runs a network of 25 apparel stores with the total floor space of more than 11,000 sq meters. The company's sales in 2002 totalled EUR 18.4 million.

Home goods retailing / DIY

A big player in the household appliances, construction materials, fittings and other home goods retailing is Senukai with the turnover of EUR 144.8 million in 2002. In addition to its own shopping centres, Senukai also has a network of 55 stores all over Lithuania operating as franchise businesses. In 2003, Rautakesko, a company controlled by the Finnish Kesko Corporation, became a strategic partner of Senukai retail chain.

Drugstores

The drugstore market in Lithuania is dominated by local retail chains. The largest drugstore chain is Euro Vaistine with some 70 pharmacies in Lithuania and it is also rapidly expanding its network in Latvia and Poland. Euro Vaistine is owned by the same group as VP Market. Other major players in the drugstore market include Korys, Farmacijos Projektai and Mauda. A recent newcomer is Farma, an Icelandic-capital drugstore chain.

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RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

The future of the retail and consumer sector / Regionalisation

Developments in Lithuania's retail and consumer sectors reflect general trends of the overall economy. Big retail chains have been rapidly expanding their networks by opening new stores and shopping centres both in Lithuania and in the neighbouring countries (notably Latvia). Their expansion plans are ambitious and the boom of store opening may be expected to continue over the next 2-3 years. Retail chain operators are making large investments in new stores to secure a stronger position when the market matures and the growth slows down. Big retailers will gain stronger market power and smaller players will be exposed to increased competitive pressures.

ICA Ahold, which controls Rimi Lietuva, is the only large international retailer present in the Lithuanian market. However, there are already signs that foreign retail market players are exploring opportunities of operation in Lithuania and indeed the Baltic states as a whole. There are probably two differing reasons why an international player might become interested in the Baltics: either because they consider it to be the next step of a regional strategy, or because they already have business contacts with one of the local chains.

Finnish companies such as Kesko fall into the first category, and so in future may other big players that are already doing well in a neighbouring country (Poland) and see the opportunity to extend their reach relatively cheaply.

Customer Relationship Management

The big retail players in Lithuania all run a variety of sales promotion campaigns in the form of games and lotteries. In addition, some of the Lithuanian retail chains have started implementing customer loyalty programmes/cards.

Evolving Consumer Power

Broadly the retailers' confidence seems to be well placed, although there are one or two possible clouds on the horizon that should not be ignored. The first is economic. Lithuania's tight fiscal and monetary policy has led to an extended period of negligible inflation and even deflation. Deflationary trends may of course increase the consumer purchasing power on the one hand, but can adversely affect retail turnover growth, on the other hand. However, forecasts show that inflation will go up in the forthcoming years, so perhaps the risk is not so great.

Rising average wages and salaries, expected to accelerate as Lithuania joins the European Union and integrates its economy, will however mean a rise in retailers' operating costs. Most likely when this starts to happen the local chains will start to feel the pinch and possibly seek the support of a major international player.

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