



# LITHUANIA:

PI FOCUS REPORT Summer 2004

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## BACKGROUND

Having once shared an Empire with Poland that stretched from the Baltic to the Black Sea, Lithuania fell under Russian control in 1795. For more than a century, Lithuania fought bitterly against Tsarist oppression. Declaring independence during the two World Wars, Lithuania grew in stature and recognition. However, Lithuania once more found itself under Russian control in 1940. Once again the Lithuanians fought against Soviet regime, and in 1990, Lithuania became the first of the Soviet Republics to declare independence. Since restoring its independence, Lithuania has worked hard to restore itself to its former glory, with architects and scientists restoring many of Lithuania's architectural and historical monuments to their original splendour. Lithuania remains a centre for learning and excellence, playing host to Eastern Europe's oldest centre for Higher Learning, the Vilnius University.

## PEOPLE

Prior unions with Germany and Poland, together with the legacy of Soviet regime have left Lithuania with an exciting blend of cultures and religions. The populace is around 3.6 million, with the main language being Lithuanian, although many people speak Russian as a second language. 80% of the population is Lithuanian with ethnic groups of Russians, Belarussians and Poles. Lithuania is a highly literate country and schooling is compulsory until 16. Despite the strong emphasis placed on education, Lithuanians are a fun-loving and friendly race who take great pride in their country's new found independence.

## ECONOMY

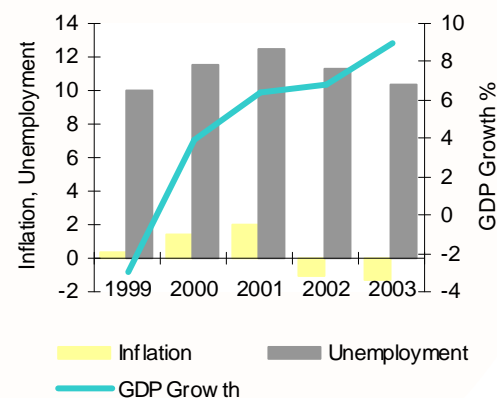
Lithuania has always opposed Russian rule, and during its brief interlude of independence between World Wars, Lithuania established good links with the rest of Europe. On declaring its independence in 1990, Lithuania quickly restored former diplomatic relations with the rest of the World. Today, Lithuania is a member of the World Trade Organization and has acceded to the EU in May 2004.

Most of Lithuania's trade has been with Russia, and consequently Lithuania's economy was hit hard by Russia's 1998 financial crisis. However, its recovery has been aided by foreign investment and growing domestic consumption. This also resulted in a re-orientation of trade towards the West. This new direction in trade orientation was reflected in a re-pegging of the Litas from the US Dollar to the Euro, at a rate of 3.45 Litas to 1 Euro.

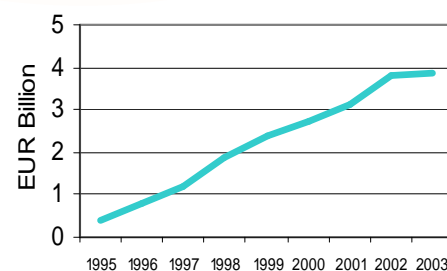
With unemployment rates falling and domestic consumption increasing, overall Lithuania's economic indicators seem optimistic. Increasing investment from foreign governments means Lithuania is rapidly moving into a free market economy.



### Economic Indicators



### Cumulative Foreign Direct Investment



2003: III Quarter Statistics

### Top Investors

(Cumulative in EUR million)

Denmark	670
Sweden	597
Germany	393
U.S.A	330
Finland	329

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Looking forward, Lithuania's economy is dependent on its ability to counteract revenue losses in the aftermath of privatization by adding support to Greenfield investments. This will involve increasing incentives to attract foreign investors. Currently, Lithuania offers the second-lowest wage in the EU after Slovakia, and a 15% profit tax. Steps towards attracting foreign investment include amending investment laws in order to offer investors sizeable advantages.

## PROPERTY

A property market began to develop in Lithuania as early as 1991. This was the result of the Government passing an Apartment Privatization Bill that allowed the citizens of Lithuania to purchase their apartments from the state. Since then, house prices have risen steadily with the exception of 1993, when the Soviet Army withdrew from the country and the market became flooded with their apartments.

In accordance with EU regulations, it is possible for natural and legal entities of EU countries to have the right to acquire land in Lithuania. At present, there are no additional special requirements for acquiring land of a non-agricultural purpose. However, parcels of land for residential purposes have been limited thus far to the major cities such as Vilnius and Kaunas. The prices of which are dependent on the local infrastructure, for example public transport, closeness of city centre and landscape.

Last year, the cost of new suburban apartments grew 15-25% (600-800 EUR/sqm) and new city centre flats grew by 50%. Vilnius prices range from EUR/sqm 900-1300 for renovated or New Build and 600-800 for a non-renovated space. Prices for land plots jumped 20-50% in 2003 and will continue to rise due to the lack of supply in Vilnius. Average property prices across Lithuania have grown approx 20% over the last 3 years.

New units are often sold as a shell, without interior works, flooring, bath or kitchen. Further interior works cost 150-200 EUR/sqm). Per capita living area is 22 sqm, still half the EU average. The strongest demand is for cheap 1 and 2 bedroom units starting at 700 EURO/sqm. Over 2200 new units were completed in 2003 and nearly all were sold before completion. Another 2600 are due to be finished in 2004 with 70% already pre-sold. Demand remains strong due to high GDP growth for the 5<sup>th</sup> consecutive year and low interest rates (3.89%).

## SUMMARY

In summary, economic growth in Lithuania has exceeded the average growth within the EU, and the number of property transactions has grown steadily. Property prices look set to rise over the coming years as Lithuania sets about meeting the living standards expected of an EU country. Demand for new housing will also increase as unemployment rates fall below double figures. It is evident therefore that Lithuania's property market will develop well alongside its economy.