A SURVEY OF THE LITHUANIAN ECONOMY
2013/2014 (2)
CONTENTS

INTRODUCTION ...................................................................................................................... 3

INVESTMENTS IN LITHUANIA AND ABROAD .............................................................. 3
  Factors that determine the transfer of business operations
  or head offices outside Lithuania............................................................................................ 5

LITHUANIAN ECONOMY ........................................................................................................ 9
  GDP, price increase and unemployment: the economy will grow, so will the threat
  of structural unemployment.................................................................................................... 9
  Imports and exports: Slow economic recovery in trading partners will curtail
  Lithuania’s foreign trade growth ........................................................................................... 10
  The shadow economy and the tax burden: the shadow economy will shrink,
  the tax burden will grow........................................................................................................11
  Personal earnings will continue to grow................................................................................ 12

CONCLUSIONS ....................................................................................................................... 13

SURVEY PARTICIPANTS ........................................................................................................ 15
INTRODUCTION

We are pleased to present for your attention the 33rd edition of the Survey of the Lithuanian Economy which was first launched more than 15 years ago.

Over the past few years Lithuanian companies have been moving their operations or head offices abroad. In this survey we analyse these trends and look at the factors that have pushed business migration. The first part of the study presents analysis of related statistical data and the results of the expert survey.

The second part offers an assessment of the main economic indicators for 2013 and forecasts for 2014 based on the results of the survey. In addition, we provide an overview of the factors that may have influenced the opinions and expectations of the survey respondents.

The evaluations and forecasts of economic indicators are grounded in the market consensus paradigm which is based on the rational expectations theory.1 This theory claims that an economic variable can be associated with observable processes, and market participants form their assessments and forecasts concerning those processes based on all available information. The more information market participants possess, the more reliable their evaluations and forecasts are. The assumption is that individuals who use information about economic processes in their day-to-day activities have the most information about these processes, while their successful performance reflects the abilities to process such information.

The survey under analysis was carried out in January 2014. A total of fifty-five experts were surveyed in a non-representative poll. Survey respondents are chosen not by the type of activity, company or region, but from successful companies. The respondents are requested to estimate indicators that reflect the country’s overall economic situation based on all information available to them. They are not asked to provide data about their own companies or industries. Survey participants are requested to estimate only those variables which they think they are competent enough to appraise. Most of the respondents in this survey took part in the previous editions of the survey. The list of the survey participants is presented at the end of the study.

LFMI expresses its gratitude to the survey participants, donors and to all individuals who have provided comments and remarks.

INVESTMENTS IN LITHUANIA AND ABROAD

Investment is not only a source of economic prosperity, but also a tool to solve social problems. This tool is much simpler, cheaper and more effective than writing millions- or billions-worth government funded studies and strategies to increase employment and income, to stimulate economies or to reduce social inequality. This is confirmed by the 33rd edition of the Survey of the Lithuanian Economy showing a tight relationship between investments, labour force productivity and wages. According to 2012 EU data, an increase in per capita investments by LTL 10,000 results in an increase in labour force productivity by LTL 3.4 per hour and in the average monthly wage, by LTL 433. So if the aim is to stimulate income growth, it is essential to create favourable conditions for investment and job creation. In addition to attracting foreign direct investment, this will also guarantee appropriate conditions for established businesses.

In 2012 Lithuania was lagging behind the EU average and its neighbouring countries in terms of cumulative investment per capita. In order to close this gap, Lithuania needs to enhance its efforts in attracting foreign direct investments. One of the best ways to do this is by improving business conditions and the investment climate. The expert survey shows, however, that the trend is in the opposite direction. As many as seven out of ten survey respondents agree that the number of government policy-related factors that might push companies to move part or all of business operations...
from Lithuania to other countries has increased. Despite the popular rhetoric about the need to attract more foreign direct investments, analysts think that Lithuania’s investment climate is not improving fast enough compared to other countries, and market players have many reasons to move out of the country.

Official statistics also confirm this. According to data on Lithuanian direct investments abroad, in 2012 investments in professional, scientific and technical activities accounted for the largest share of investments, 37 percent. Based on the NACE 2 classification, this refers to activities of head offices and management consultancy activities. In other words, these investments are related to the establishment of holding companies – which means paying taxes but not developing core activities – in countries with more favourable taxation systems. These type of investments have negative implications for budget revenues as taxes are partly paid outside Lithuania, in the countries where holding companies are based.2

By establishing head offices elsewhere companies look for a more favourable investment climate. This is confirmed by the designation of the largest flows of foreign direct investments from Lithuania. From 2008 through 2012 the largest amount of investments went to the Netherlands, Latvia and Cyprus. Two of the three countries attracting the largest investment flows are considered to have a very favourable tax
environment. Out of the three countries, Lithuanian companies carry out core activities only in Latvia. In 2012 half of Lithuanian direct investments in Latvia, or LTL 493 mln, was in wholesale and retail trade and repair of motor vehicles and motorcycles.

In 2012 Lithuanian investments in Estonia went up too, mainly due to a more favourable investment climate and a stable political system. Investments in head offices made up LTL 732 mln. This shows how much Lithuania is losing in the competitive battle over business conditions.

According to market participants, over the last five years the reasons for moving part or all of business to other countries have multiplied. Data on Lithuanian foreign direct investments abroad confirm this proposition. According to Statistics Lithuania, from 2008 through 2012 Lithuanian investments in professional, scientific and technical activities in other countries grew the most, by 482 percent. At the same time overall Lithuanian direct investment abroad went up by 38 percent. As the investment portfolio grew more slowly than its component parts, structural changes were unavoidable. Investments in financial and insurance activities decreased by LTL 383 mln, while the real estate sector went down by LTL 798 mln.

Given the benefits offered by investments, countries invariably compete over creating the most attractive legal and taxation systems. At present Lithuania is losing this battle, as can be seen by comparing the investment flow in professional, scientific and technical activities.

The amount of incoming and outgoing investments provides similar evidence. From 2008 through 2012 about 300 foreign companies invested in professional, scientific and technical activities in Lithuania, while only 30 to 40 companies made similar investments from Lithuania abroad. This shows that in 2012 the average investment per Lithuanian company abroad amounted to 69 mln LTL, while the average investment per company investing in Lithuania totalled 8 mln LTL. Despite the fact that the number of companies that invested in Lithuania was larger, their created value added was lower compared to that of the companies which moved their activities out of Lithuania. Lithuania is clearly losing the battle over large companies. The loss of one big company hurts the country’s economy and reputation much more than migration of 10 smaller companies.

To reverse the trend, it is crucial to identify the factors which stimulate the transfer of businesses to other countries. LFMI surveyed 55 market participants to elicit their opinions. Aggregate results of the survey are presented in the next chapter.

Factors that determine the transfer of business operations or head offices outside Lithuania

The survey participants were asked to evaluate seven most common reasons for moving business operations abroad and to indicate whether these factors might have affected companies’ decisions to transfer part or all of their operations from Lithuania overseas.
An absolute majority of respondents - nine out of ten - agree or tend to agree that a high level of bureaucracy pushes business transfer out of Lithuania. Problems are caused not only by lengthy procedures, but also by the number of procedures or the number of times a company is supposed to deal with various government authorities. According to Doing Business index\(^3\), as many as 16 operations are required to receive a construction permit in Lithuania, as compared with the OECD\(^4\) average of 13. A continuous increase in the number of civil servants augments the bureaucratic burden. According to the Civil Service Department, in 2013 the number of civil servants (excluding statutory civil servants) was 29,761, a 50-percent growth since 2004. A steady growth of the bureaucratic apparatus has triggered the expansion of regulations and government institutions.

More than 90 percent of the surveyed market participants absolutely agree or tend to agree that the unpredictable and frequently changing legal system is one of the main factors that have caused capital migration from Lithuania. It is instructive to note that legal changes are not only hard to predict but also involve additional regulations that inflict negative consequences on business. The World Bank’s Doing Business index also concludes that excessive regulations do not only cause the transfer of business operations overseas but also augment the shadow economy.

The third factor is the level of corruption. A total of 58 percent of the respondents tend to agree and another 20 percent totally agree that corruption makes companies move abroad. Excessive regulations, which particularly refer to small and medium-sized businesses, services, territory planning and healthcare sectors, are one of the most frequently cited factors behind the growth of corruption. According to the findings of research carried out by the World Bank’s investment department,\(^5\) there is a direct relationship between the level of corruption and the number of procedures required to establish a company. The more regulations and authorities a company has to deal with, the higher the costs it has to bear in order to adapt to all regulatory requirements. In such cases undeclared deals are viewed as a cheaper alternative.

According to the survey, a total of 73 percent of survey participants tend to agree or absolutely agree that unreliable protection from political risk has an impact on corporate decisions to transfer part or all of business to other countries. This factor does not only jeopardise the existing investments, but puts off new investors. According to the World Bank research on investments and political risk,\(^6\) this factor is related to violations of property rights and failure to fulfill liabilities and is one of the main concerns among investors globally.

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3 World Bank index on business regulations (http://www.doingbusiness.org)
4 OECD – Organisation for Economic Co-operation and Development
5 “Restrictive regulation is positively correlated to corruption” (http://blogs.worldbank.org/psd/restrictive-regulation-is-positively-correlated-to-corruption)
The tax environment plays a key role too. As many as 44 percent of the survey participants tend to agree and another 27 percent absolutely agree that the tax system impacts decisions to move businesses overseas. Data on Lithuanian foreign direct investments abroad support this proposition. The biggest investment flows are being channeled to head offices in countries with exceptionally favourable tax environments, namely Cyprus and the Netherlands.

The majority (68 percent) of survey participants tend to agree or absolutely agree that unfavourable legal regulations pertaining to investments are a serious factor stimulating business transfer abroad. Investors often mention the legal system and its stability as essential conditions for business expansion. In particular, it is key to ensure legal protection of private ownership.

Direct government involvement in economic activities is seen as the least important factor out of those under analysis. Six out of ten respondents think that government involvement in the economy influences corporate decisions regarding the transfer of business operations abroad, while 37 percent of the survey participants argue that this factor has no effect on business decisions.

The introduction of progressive taxation would complicate and reduce the transparency of the tax system. It would increase the tax burden for high-income earners, augment the shadow economy and illegal wages (by providing bigger incentives to pay illegal wages above the rate of progressivity). Such conditions would certainly deter prospective investors. It is therefore crucial to maintain a proportionate tax system with a low personal income tax rate. It is worth noting that such systems are becoming more and more popular in Central and Eastern European countries and the Balkan states which are Lithuania’s main rivals in attracting investment. Most of the competitor countries have proportionate income tax rates (Latvia, Estonia, etc.), therefore progressive taxation in Lithuania would not only push local companies out of the country and discourage foreign investment, but would also stimulate migration of skilled labour.

The government-affected growth of energy prices is also seen as one of the main factors (16 percent). Rising energy prices have a direct influence on product competitiveness, so moving activities abroad might be a solution for companies which are struggling to keep their market share. An increase in the minimum wage to LTL 1,509 coupled with energy prices have a direct effect on company costs and product competitiveness, so understandably a similar proportion of respondents (14 percent) regard an increase in the minimum wage as a sufficient reason to move operations abroad. Market participants also criticize compulsory labour unions in companies (14 percent consider this as a serious reason to move business abroad). Less than 10 percent of the survey participants singled out other factors. This variety of opinions only confirms that all of the problems under analysis require attention.

Tax issues are often seen as key when it comes to selecting a country for business operations. Hence, survey participants were asked to indicate taxes that are essential in terms of investment. The survey results show that taxation of profit and loss is considered to be the most important. Taxation of reinvested profit was indicated by 98 percent and the profit tax, by 96 percent of the respondents. A total of 93 percent of respondents singled out restrictions on the transfer of tax losses, while 77 percent indicated consolidation of taxable income or loss within a group.

Lithuania abolished a zero tax rate on reinvested profits at the beginning of 2002. Since then we have witnessed ongoing public debates regarding the need to restore the exemption of reinvested profits, a policy adopted by Estonia. This would be a huge incentive...
for local and foreign investors. Although some budget revenues would be lost in the short term, in the long run this policy would stimulate investments, accelerate economic growth and boost tax revenues from other sources (income tax and social security contributions).

The capital gains tax and social security contributions are just as important, as indicated by 93 percent and 95 percent of survey participants respectively. At the same time many respondents mentioned taxation of interest (78 percent), a ceiling on social security contributions (84 percent) and a special tax regime for holding companies (72 percent).

Social security contributions account for a major share of employee costs. This means that a ceiling on social security contributions would not only lower taxation of labour force, but would encourage employers to pay higher official salaries for qualified workers instead of “envelope wages.” A ceiling on social security contributions would help reduce undeclared labour which by the expert estimates constitutes about 26 percent of the shadow economy in Lithuania. In addition, it would ease job creation for well-paid, qualified workers and help attract more investment. A ceiling on social security contributions has been introduced in Poland, the Czech Republic, Slovenia and Slovakia.

The survey rendered fairly homogenous responses regarding personal income taxation and its progressiveness. The personal income tax rate, progressive income taxation and personal income tax breaks are seen as an important factor rather than not by 58, 55 and 54 percent of the survey participants respectively. Evidence shows that an increase in the personal income tax rate brings lower tax revenues, i.e. the opposite result than desired. This was the case in 2009 when the tax on dividends was raised from 15 to 26 percent. The amount of revenues from the tax was three times lower than had been expected. This policy led shareholders to pay out dividends the year before and to look for other ways to pay out profits.

While the majority of survey participants viewed tax base and tax rate-related aspects as important, expert opinions regarding value added tax (VAT) did not coincide. According to the survey results, 26 percent of the respondents do not consider VAT an important factor, and 32 percent have the same opinion about VAT consolidation at the group level and restrictions on VAT deduction.

To summarize, the unpredictable and frequently changing legal environment, a high level of bureaucracy and the unfavorable tax environment are the
main factors stimulating the transfer of head offices to other countries. Taxation of reinvested profits, the profit tax rate and restrictions on the transfer of tax losses are considered to be key tax-related aspects when choosing a country for investment.

The survey also showed that some of the currently debated policies, especially those pertaining to progressive taxation, could aggravate the situation even further. According to market participants, a simpler and more attractive tax system is needed to prevent the transfer of businesses abroad and to attract more foreign investments.

Finally, steps should be taken to improve the situation, not only to prevent problems. Lithuania has ample room for bettering the investment climate. Labour market regulations, a ceiling on social security contributions and a zero tax rate on reinvested profit would be extremely beneficial. Lower taxation of labour, more transparent and effective government institutions, a lower level of bureaucracy and corruption and predictable policies are the desired goals which would significantly improve business conditions and reduce incentives for companies operating in Lithuania to move their head offices or operations overseas.

LITHUANIAN ECONOMY

GDP, price increase and unemployment: the economy will grow, so will the threat of structural unemployment

In this survey **gross domestic product** is understood as the total value of goods and services produced for final consumption within the country during a given period of time, including the shadow economy.

In the LFMI survey **changes in consumer** prices are defined as changes in the average prices of goods and services designated for household consumption compared to the price levels at the end of a given period.

**Unemployment** is defined as the ratio of the unemployed, i.e. individuals of working age who are seeking jobs but are not necessarily registered with the Labour Exchange, to the total labour force. Labour force refers to all people of working age. The LFMI survey respondents were asked to evaluate the rate of unemployment at the end of the year.

According to the estimates of market participants, in 2013 Lithuanian gross domestic product (GDP) grew by 3 percent. This estimate is lower than the official statistics (3.4 percent) and it was partly due to lower results of the fourth quarter than had been expected. The fourth quarter results led the Ministry of Finance to change official economic forecasts.

![GDP growth, percent](chart)

Sources: Statistics Lithuania (SL), Ministry of Finance (MF), 33rd LFMI survey of the Lithuanian economy

According to the Bank of Lithuania, GDP growth was driven mainly by a growing domestic demand. At the same time the industrial sector experienced a slowdown. As data from Statistics Lithuania show, as industrial production reaches the pre-crisis levels, sizeable investments will be needed to stimulate further growth. Still, this sector will remain one of the country’s major economic development engines, creating the highest added value, driving export and import growth and stimulating the expansion of services.

Although the 2013 GDP growth did not meet the expectations (the September forecast was 3.5 percent), experts predict a faster growth (3.5 percent) in 2014. This will make Lithuania the third fastest growing economy in Europe. According to Eurostat data, in 2014 the European economy will start to recover and will grow by 1.6 percent, with the Baltic countries taking the lead. Latvia and Estonia are expected to grow by 4.1 and 4 percent respectively.

Market participants think that the level of unemployment will continue to decrease in Lithuania. According to the survey results, it stood at 11.8 percent in 2013 and was 1.1 percentage point lower than in 2012. Hence, the number of the unemployed reached the level recorded at the end of 2008. The fastest recovery was in the construction sector, while the slowest, in wholesale and retail trade.
Market participants reported positive expectations for 2014. The rate of unemployment is expected to fall by another 1.2 percentage point and reach 10.6 percent. This trend will further aggravate the problem of structural unemployment, reflecting a mismatch between the level of qualifications of the unemployed and market needs. Addressing the shortage of skilled workers is therefore crucial. One solution is to simplify immigration procedures and to attract required labour force. This will not solve directly the in-country problem of unemployment but will create conditions for further economic growth.

According to Eurostat data, unemployment in Europe will be 11 percent. The highest level of unemployment is expected in Spain (26.6 percent) and Greece (25.7 percent), while the lowest, in Austria (4.2 percent) and Germany (5.6 percent). The forecasts for Latvia and Estonia are 12 and 9 percent respectively.

According to the survey results, in 2013 consumer prices grew by about 2 percent, as compared to 3.6 percent in 2012. In 2014 market participants expect a higher increase in consumer prices, by 2.6 percent, which almost coincides with the Eurostat forecast of 2.9 percent. Meanwhile, the Ministry of Finance predicts a 1.6 percent growth, which is below the European Union average of 1.7 percent.

Imports and exports: Slow economic recovery in trading partners will curtail Lithuania’s foreign trade growth

In this survey import and export growth is defined as a change in the value of declared and undeclared imported and exported goods and services during a given year as compared to the previous period.
Market participants believe that the growth of foreign trade will slow down as compared to recent years. According to the survey results, in 2013 the nominal volume of export and import growth stood at 9 and 8 percent respectively, down from 12 and 10 percent in 2012. The year 2014 will see a reverse trend: export growth will decrease to 8 percent, while imports will increase by 9 percent.

The decline in export growth was mainly associated with a lower GDP growth in Lithuania’s export partner countries. If the economic recovery remains slow, the volume of export will remain at a similar level in the short term. Restrictions on dairy exports to Russia will not have a sizeable impact on the overall level of export due to a relatively low share (0.6 percent) of dairy products in the total volume of export to Russia.

The shadow economy and the tax burden: the shadow economy will shrink, the tax burden will grow

The shadow economy is defined as goods and services produced for final consumption within the country and unreported for the purpose of avoiding taxes or regulations as a share of GDP.

In the LFMI survey the relative tax burden is understood as the ratio of total tax revenues of national and municipal budgets and funds to gross domestic product (GDP).

The survey shows that the shadow economy is slowly declining. The highest level of grey economy, 28 percent of GDP, was reported in 2010, while in 2011 and 2012 it stood at 27 percent. The estimate for 2013 is 26 percent and the forecast for 2014 is 25 percent. It is instructive to note though that previously reported expectations for 2013 and 2014 were more optimistic, at 24 and 23 percent respectively.

Changes in market participants’ estimates of the shadow economy may have been influenced by public debates on minimum wage increase that started at the beginning of the year. As the survey shows, more than one-fifth of the unemployed cannot find jobs due to the high mandatory minimum wage. In this situation many jobless individuals look for employment options in the shadow economy. Higher excise duties on alcohol that will come into effect from April 2014 might be another reason behind the pessimistic forecasts. Although the plans to increase excise duties on alcohol in order to collect revenues for the compensation of reduced pensions were not announced during the execution of this survey, the current assessments of the shadow economy show that this policy may obstruct the reduction of the shadow economy in spite of the accelerating GDP growth and falling unemployment.

Survey participants were asked to evaluate the structure of the shadow economy. According to the survey results, excise duties (on cigarettes, alcohol, fuel) and smuggling of and illegal trade in other goods account for the largest share, 33 percent, of the value created in the shadow economy. Obviously, with excise goods making up a third of the shadow economy, further increases in excise duties will only aggravate the problem. Such policies will not bring more revenues, which the government plans for the purpose of com-
pensation of retirement pensions. Rather, they will reduce the consumption of legal alcohol products. Still, even if more revenues are collected from excise duties, these policies are likely to augment illegitimate economic activities.

According to market participants, informal or “envelope” wages and illegal work constitute the second largest segment of the shadow economy, 26 percent. This is mainly due to high taxes on labour. The survey respondents think that about one-fifth of the unemployed enter into illegal employment due to strict labour market regulations and a high minimum wage. Therefore, a further rapid increase in the minimum wage would boost undeclared labour as well as the overall increase of unemployment.

According to market participants, in 2013 the relative tax burden remained at the same level as in the previous years, 36 percent. In 2014 it is expected to increase to percent 37 percent. Previous forecasts for 2013 and 2014 were more optimistic, 34 and 35 percent.

Personal earnings will continue to grow

**Average personal earnings** refer to the average monthly reported or unreported monetary remuneration for work after tax.

The survey shows that the average wage will continue to grow both in nominal and real terms (after adjusting for the effect of price increases).
CONCLUSIONS

1. Lithuania’s direct investments abroad are being mainly directed to countries with favorable tax environments, i.e. the Netherlands, Cyprus and Latvia.

2. From 2008 through 2012 the number of Lithuanian companies investing in head offices or consultancy activities abroad increased by 44 percent and the average amount of investment per company rose from LTL 17 to 70 mln.

3. In 2014 the growth of the Lithuanian economy will accelerate and reach 3.5 percent.

4. In 2013 the average wage exceeded the pre-crisis level, before adjusting for price changes, and is expected to grow by 6 percent in 2014.

5. The shadow economy will decline to 25 percent of GDP and will only reach the 1998 level. According to market participants, one third of the shadow economy consists of smuggled and illegally traded excise goods. The shadow economy also embraces undeclared wages (26 percent), hidden economic activity (22.4 percent), trade in other illegal goods and services (13.3 percent) and other activities (5.4 percent).

6. Seven out of ten survey participants think that the number of government policy-related factors that have pushed companies to move part or all of their business to other countries has increased over the last five years. The unpredictable and frequently changing legal environment, a high level of bureaucracy and unreliable investment protection from political risk are the main causes of business transfer overseas.

7. Progressive taxation, government-affected energy price increases and mandatory labour unions in companies would stimulate business migration to other countries.

8. More than half of the respondents believe that reinvested profit taxation, the profit tax rate and restrictions on the transfer of tax losses are important aspects when selecting a country for investment.

9. According to market participants, four out of ten unemployed individuals could not find jobs due to the poor economic situation. A fifth of the survey respondents regard strict employment regulations and a high minimum wage as the main causes for failure to find employment.
## Indicator | Forecasts for 2013 reported in February 2013 | Forecast for 2013 reported in September 2013 | 2013 estimate reported in February 2014 | Forecasts for 2014 reported in September 2013 | Forecasts for 2014 reported in February 2014
--- | --- | --- | --- | --- | ---
**MACROECONOMICS**
GDP growth | 3.4% | 3.2% | 3.0% | 3.5% | 3.5%
Unemployment rate, end of period | 11.7% | 11.5% | 11.8% | 10.7% | 10.6%
Changes in consumer prices, end of period | 3.5% | 2.5% | 2.0% | 2.6% | 2.6%
Export growth | 10% | 10% | 8.9% | 9% | 8.4%
Import growth | 10% | 9% | 8.1% | 9% | 9.1%
Shadow economy, share of GDP | 26% | 24% | 26.0% | 23% | 25.2%
Tax burden, share of GDP | 37% | 34% | 36.3% | 35% | 37.1%
Monthly net earnings | 1979 | 1744 | 1853 | 1828 | 1958

## ADDITIONAL QUESTIONS

1. Has the number of government policy-related reasons pushing companies to move part or all of business from Lithuania to other countries increased in the last five years?

| Yes | No |
--- | --- |
70% | 30%

2. Do you agree that over the past five years the following reasons have impacted companies’ decisions to move part or all of business from Lithuania to other countries?

| Reason | Totally agree | Tend to agree | Tend to disagree | Strongly disagree | I do not know or cannot evaluate |
--- | --- | --- | --- | --- | --- |
Unpredictable and frequently changing legal framework | 50% | 41% | 9% | 0% | 0%
High bureaucracy | 38% | 53% | 7% | 0% | 2%
Unreliable investment protection from political risk | 33% | 40% | 20% | 7% | 0%
Unfavourable tax environment for investment | 27% | 44% | 24% | 2% | 4%
Unfavourable legal regulations for investment | 20% | 48% | 28% | 2% | 2%
Widespread corruption | 20% | 58% | 18% | 2% | 2%
Direct government participation in commercial activities | 17% | 43% | 31% | 6% | 4%

3. Which aspects of the tax base and tax rate do you think are important when choosing a country for investment?

| Aspects | Very important | Rather important than not | Rather unimportant than not | Absolutely unimportant | I do not know or cannot evaluate |
--- | --- | --- | --- | --- | --- |
Taxation of reinvested profits | 59% | 39% | 0% | 0% | 2%
Profit tax rate | 52% | 44% | 0% | 2% | 2%
Restrictions on the transfer of tax losses | 52% | 41% | 6% | 0% | 2%
Size of social security contributions | 44% | 51% | 5% | 0% | 0%
Capital gains tax | 39% | 54% | 7% | 0% | 0%
Consolidation of taxable income/loss at group level | 38% | 40% | 15% | 2% | 6%
Ceiling on social security contributions | 36% | 36% | 17% | 2% | 9%
Special tax regime for holding companies | 35% | 49% | 11% | 4% | 2%
Taxation of interest | 31% | 46% | 20% | 2% | 0%
Personal income tax rate | 26% | 58% | 13% | 2% | 0%
Restrictions on VAT deductions | 25% | 38% | 32% | 2% | 4%
Lower personal income tax rate on dividends | 24% | 54% | 17% | 2% | 4%
Progressive personal income taxation | 23% | 55% | 17% | 4% | 2%
VAT consolidation at group level | 21% | 38% | 32% | 2% | 8%
Value added tax rate | 17% | 43% | 26% | 11% | 2%

4. Which of the following widely debated policies may increase incentives for companies to move part or all of business from Lithuania to other countries?

| Policies | 27% | 16% | 15% | 14% | 7% | 4% | 3% |
--- | --- | --- | --- | --- | --- | --- | --- |
Progressive taxation of all income | Government policy-related rise in energy prices (e.g. import restriction) | Higher progressiveness of labor income taxation | Mandatory trade unions in companies | Increase in minimum monthly wage to LTL 1,509 | Prohibition of land sale to foreigners | Mandatory collective bargaining agreements | Restrictions on cash payments |

5. What proportion of the unemployed (as a percentage of the total number of unemployed) do you think could not find a job in 2013?

| Reason | 21% | 38% |
--- | --- | --- |
Due to the poor economic situation | Due to high minimum wage and strict employment regulations | Other reasons (% - e.g. lack of motivation, lack of qualifications) |

6. What proportion of value created in the shadow economy do you think the following components account for?

| Components | 33% | 26% | 22% | 13% | 5% |
--- | --- | --- | --- | --- | --- |
Smuggling of and illegal trade in excise goods (cigarettes, alcohol and fuel) and other products | Undeclared wages and labour | Provision of goods and services without paying taxes and hidden economic activity | Trade in illegal goods and services (e.g. prostitution, drugs, trafficking of stolen goods, etc.) | Other |
SURVEY PARTICIPANTS

Marius Adomavičius (AB bankas „Swedbank“); Arvydas Andrijauskas (UAB „AL Holdingas“); Saulius Bačauskas (APB „Apranga“); Gintautas Bartkus (APB Baltic Legal Solutions); Vitalijus Bertašius (UAB „Vilniaus viešasis transportas“); Romualdas Bėkšta (UAB „Ergolain projektai“); Ramušas Bičikaitis (AB „Danske bankas“); Vygaugas Blandis (UAB „Imlitex Holdings“); Vyginas Bubnys (AB „DnB Nord“ bankas); Saulius Buteliauskas (UAB „Baltisches Haus“); Saulius Dalikas (UAB „ALKESTA“); Justas Dargužas (UAB „Santa Monica Networks Group OU“); Nerijus Dąkūnas („UAB „Omnitel“); Jonas Dromantas (UAB „Mida L“); Donatas Frejus (UAB „Orion Asset Management“); Andrius Gailius (UAB „Malsena plius“); Kristina Gvaizdikienė (UAB „Baltic Champs“); Marius Horbačauskas (AB „Volfas Engelman“); Ovidijus Jankauskas (UAB „Jūrės medis“); Ina Jašinskienė (UAB „Avita“); Saulius Juoneika (UAB „Molėtų švara“); Arūnas Jonuška (UAB „Orion Global PET“); Darius Jonutis (UAB „Kardiolita“); Jūratė Jukštienė (ŽŪB „Nematekas“); Algirdas Juozapionis (UAB „Energijos tiekimas“); Regina Kajokienė (AB „Vermitas“); Darius Klimašauskas (UAB „KPMG Baltics“); Rimantas Krauželis (UAB „Eksma“); Al Kris (UAB „Delta Management Solutions“); Robertas Krutikovas (AB „Grigiškės“); Rolandas Lideikis (AB „Gubernija“); Nerijus Mačiulis (AB bankas „Swedbank“); Vytautas Mambaitis (AB „Montuotojai“); Vidmantas Martikonis (UAB „NTF“); Gintautas Monkevičius (UAB „Užmiesčio projektai“); Alvydas Morkėnas (AB „Lēvuo“); Petras Narbutas (UAB „Narbutas Furniture Company“); Rita Nogė (UAGDPB „Aviva Lietuva“); Raimondas Rajeckas (AB „Invalda LT“); Algimantas Sničius (UAB „AAA“); Rimantas Stankevičius (UAB „Silberauto“); Ignas Staškevičius (UAB „NDX energija“); Mindaugas Statulevičius (Lietuvos nekilnojamojo turtų ir plėtros asociacija „LNTPA“); Reda Surdokaitė (AB „Citadele“ bankas); Vaclovas Šleinota (Lietuvos inžinerinės pramonės asociacija „Linpra“); Valdas Trinkūnas (UAB „Raminora“); Vytautas Turonis (UAB „Mano būstas LT“); Valdemaras Vaičekauskas (UAB „Hortus Investment Banking“); Alma Vaitkuniškienė (AB „Citadele“ bankas); Kęstutis Valašiūnas (UAB „Skubra“); Vytautas Valutis (AB „Klaipėdos energija“); Jonas Varkauskas („IF P&C Insurance AS“ filialas); Laimutė Voverienė (UAB „Traidenis“); Vytas Zabilius (UAB „Ober Haus“ nekilnojamas turtas); Asta Žukauskaitė (AB „Kauno grūdai“).