

# Lithuania: Legal framework modified in response to the crisis



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## The legal framework of Lithuania required modification to respond to the disruption caused by the COVID-19 crisis.

On 21 April 2020, the Parliament of the Republic of Lithuania adopted the Law on the Impact of the Consequences of the Coronavirus (COVID-19) Crisis (“the Law”), which modified the Law on Insolvency of Legal Entities of the Republic of Lithuania.

The Law came into force on 25 April 2020: it applies to legal entities facing financial difficulties and/or insolvency due to the impact of the COVID-19 crisis after 16 March 2020, when a widespread quarantine was announced by the government of the Republic of Lithuania. The so-called corporate bankruptcy moratorium aims to balance the situation among entities affected by financial difficulties. It seeks to make it easier for debtors that face massive solvency and liquidity problems to continue trading and it will help businesses to gain state support.

The Law provides a number of support measures for companies that are facing insolvency problems or financial difficulties due to the quarantine:

- The obligation of the head of a legal entity to apply to a court for restructuring or insolvency proceedings or to initiate the out-of-court bankruptcy proceedings shall be suspended temporarily for the period of the quarantine period and for three months after the end of this period.
- It should be noted that the managers’ obligation to initiate timely insolvency proceedings has not been removed and has not been suspended indefinitely: this obligation remains and must be fulfilled eventually. However, during this period, company directors retain the



right (but not the obligation) to file for bankruptcy. The new regulation aims to give directors time to find a way to survive the difficulties: it provides the freedom for legal entities to seek solutions without fear of liability under the Law on Insolvency of Legal Entities of the Republic of Lithuania;

- The principle of protection of creditors’ interests remains the priority, but for creditors who have already initiated insolvency proceedings against a legal entity, the calculation of the term to conclude the agreement regarding financial aid is suspended during the quarantine period (according to the Law, a term of 15-30 days for concluding the agreement is set);
- The Law stipulates that the restructuring process cannot be discontinued during the quarantine period and for

three months thereafter.

Because of the uncertainties regarding the market recovery and the duration and the impact of these processes on the solvency of legal entities, the government has the right to extend the above measures, until no later than 31 December 2020.

Quite importantly, the financial problems of legal entities and the insolvency proceedings that arose before the announcement of quarantine do not receive the benefits of the new Law. ■



*Insolvency proceedings that arose before the announcement of quarantine do not receive the benefits of the new Law*

