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INVESTORS' CONFIDENCE INDEX FOR LITHUANIA (12)

QUARTER I, 2018

The Investors' Confidence Index for Lithuania (ICIL) reflects attitudes and expectations that the largest foreign capital businesses operating in Lithuania have for the country's business and investment climate. The purpose of the index is to evaluate the country's business environment and the attractiveness of Lithuanian economy to foreign investors based on the experiences and observations of market players already operating in Lithuania.

ICIL also serves as a tool for identifying the most influential factors that shape these conditions. It provides potential investors and other stakeholders with principal

information about Lithuanian economy, national market and short-term prospects for business development.

The index consists of three indicators that provide an overview of the business environment, factors that influence business and investment plans of companies operating in the country. When measuring ICIL, priority is given to adequate and relevant information that reflects real market trends. With this in mind, only the heads of foreign companies and top tier management are invited to participate in the survey.

The ICIL survey is carried out by Investors' Forum, an association of Lithuania's largest investors. A total of 62 Lithuania's foreign capital businesses participated in this quarter's survey.

Index value	Interpretation
ICIL=2 (maximum value)	All participants indicate positive expectations (absolutely positive expectations).
ICIL>1	The percentage of participants with positive expectations exceeds the percentage of respondents with negative expectations.
ICIL=1	Equal numbers of participants indicate positive and negative expectations.
ICIL<1	The percentage of participants with negative expectations exceeds the percentage of respondents with positive expectations.
ICIL=0 (minimum value)	All participants indicate negative expectations (absolutely negative expectations).

Fig. 1 – Index values and descriptions

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SUMMARY AND CONCLUSIONS

THE 12TH ICIL SURVEY: INVESTORS' CONFIDENCE IS ON THE RISE, BUT SHORTAGE OF QUALIFIED LABOR FORCE MAY CAUSE SLOWDOWN

ICIL_{Q1, 2018} = 1,230

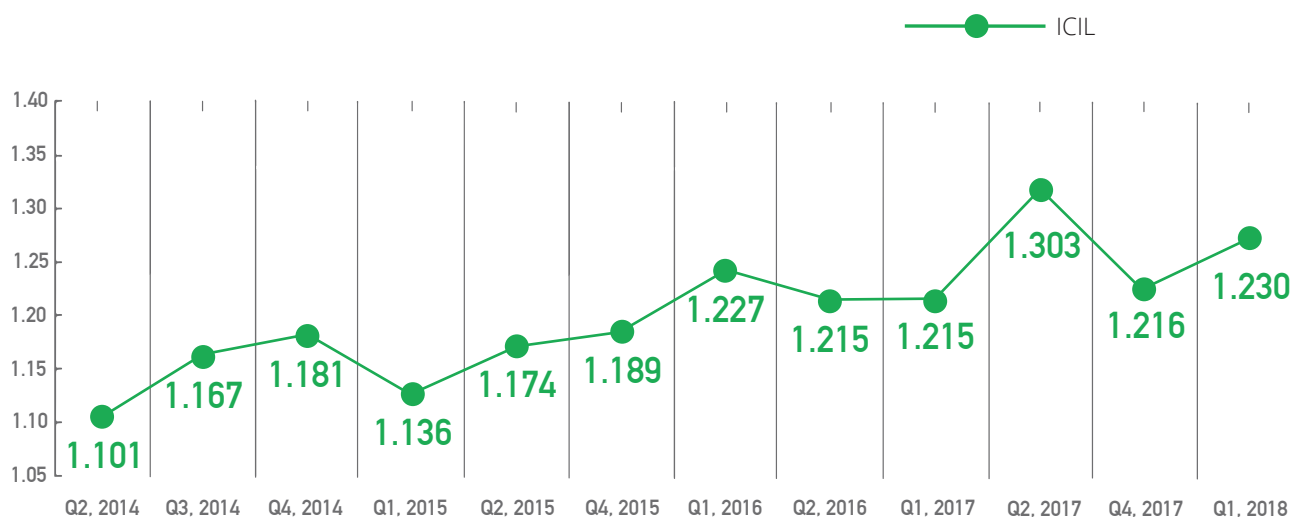


Fig. 2 – ICIL dynamics, ICIL 2018 Q1

Most recent Investors' Confidence Index for Lithuania (ICIL) indicates growing investors' trust in Lithuania's economy as its final value reaches 1,23 points from 2 (maximum value). In addition, country's GDP growth is higher than EU average and signals positive growth trend since 2015 (fig. 3).¹

Lithuania's telecommunications and transport infrastructure have been highlighted as most advanced fields in Lithuania. Nevertheless, investors also indicate challenges arising from education, labor taxation and talent migration. In addition, business representatives name low political stability and inefficiency of business regulations as main reasons, which have kept final index value from reaching a record high score. Nevertheless, in the near future, foreign capital companies are planning to create more jobs and rise wages.

In addition to traditional questions, business leaders were asked to evaluate the efficiency of state institutions and state-owned enterprises. As a result, energy distribution operator (ESO) was named as the most efficient organization. 76% of respondents rated it as highly effective.

Finally, participants were asked to indicate the decision of the year, which had the most positive effect on business environment in 2017.

INVESTMENT ENVIRONMENT IN LITHUANIA: INVESTORS CRITICIZE EFFICIENCY OF TAX SYSTEM

Most favored areas of Lithuania's economy remained unchanged since previous ICIL study. Currently, 96% of investors gave positive reviews for the country's telecommunication sector. This area of Lithuania's economy maintains leading position among others since 2014 Q2.

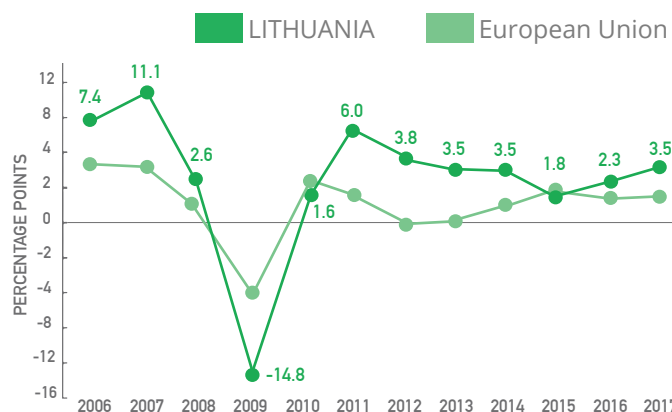


Fig. 3 – Lithuania's & EU average GDP growth, ICIL 2018 Q1

Meanwhile, 82% of respondents stated that the level of Lithuania's infrastructure is high. The support for this area increased by 2 percentage points.

In addition, more than two thirds of investors (77%) say that Lithuanian employees have a good command of foreign languages.

2018 Q1 ICIL research has also revealed that: 93% of investors named level of efficiency of business regulations as low or average. Furthermore, 23% of investors highlight that there is a problem with the efficiency of tax system: its complexity and high level of administrative burden.

Political stability also remains as an obstacle for higher ICIL value. 18% of investors believe that level of political stability in a country is low, 45% considers it as average and 38% name it as high.

1-http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

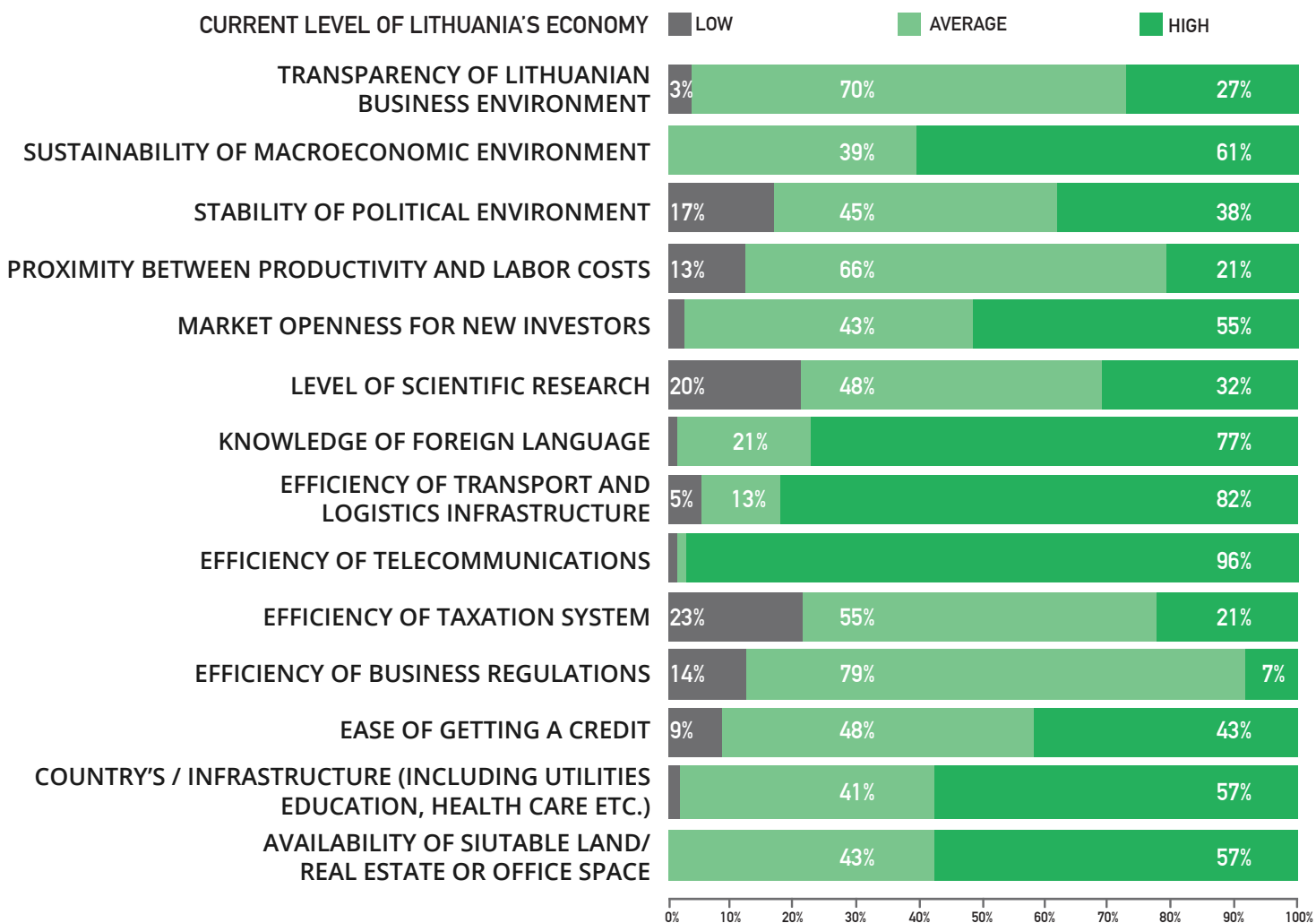


Fig. 4 - Evaluation of current business environment in Lithuania, ICIL 2018 Q1

MAIN CHALLENGES: INSUFFICIENT AMOUNT OF QUALIFIED LABOR FORCE DISCOURAGES FASTER ECONOMIC DEVELOPMENT

43% of respondents see upcoming positive changes in the country's telecommunication sector. In addition, 32% of investors believe that transport infrastructure will remain at a high level of development. Moreover, 36% of respondents believe that there will be more employees that know and can apply foreign languages. However, further growth of ICIL has faced slowdown,

because business community continues to show a low level of trust in political stability. High political tension in the Parliament and the beginning of new election period, are some of the reasons for low level of confidence among investors. 89% of them do not expect any positive changes in political stability during the upcoming quarter. This evaluation had the most negative effect on final ICIL value. Another field, which has negative effect on ICIL is the efficiency of business regulation.

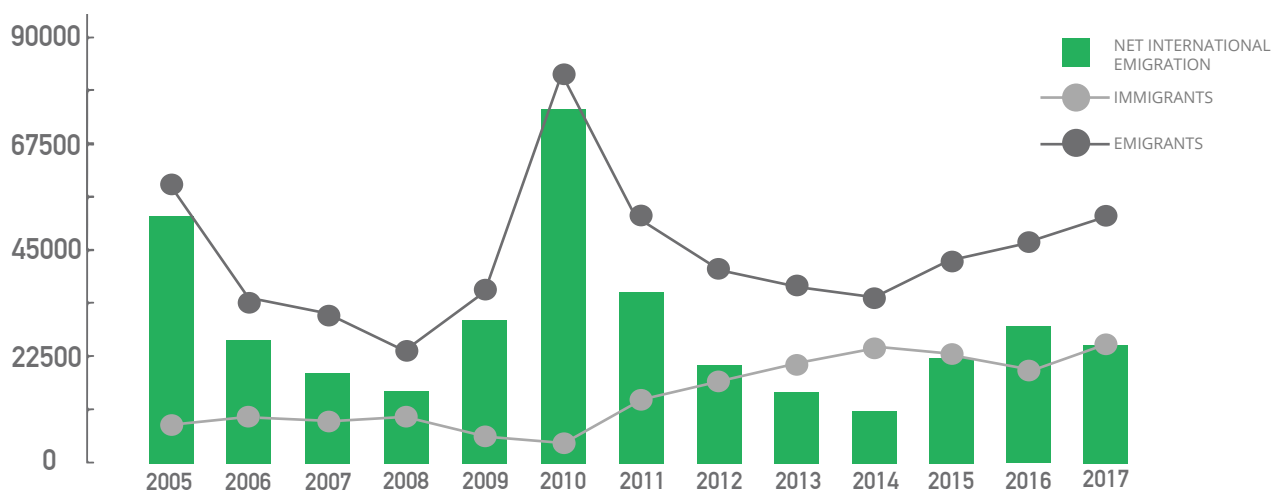


Fig. 5 - Lithuania's migration trends, ICIL 2018 Q1

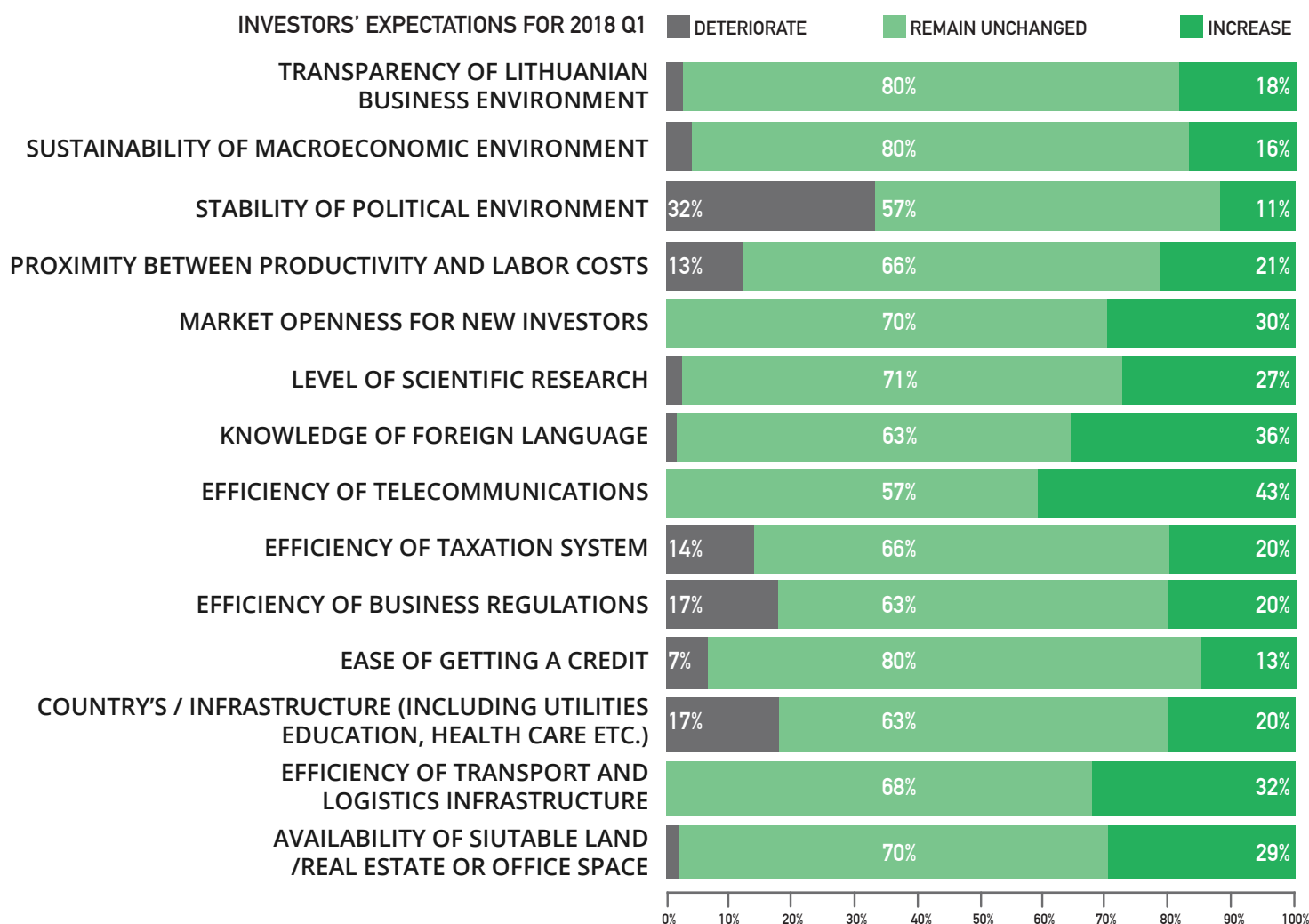


Fig. 6 – Investors' expectations for 2018 Q1, ICIL 2018 Q1

ATTENTION TO EDUCATION IS A PRIORITY

According to 73% of investors, the improvement of education system in Lithuania remains a priority in 2018 Q1.

Labor taxation was named as second area which needs most government's attention. More than two thirds (70%) of respondents agree that the level of taxation on labor is too high. In addition, it is worth mentioning that since the last ICIL research concerns towards labor taxation have increased by 36 percentage points. Moreover, previous ICIL research suggested that implementation of social security cap² could be the key factor in reducing the burden of labor taxation. This idea was supported by 49% of investors.

In addition, 81% of investors would agree to have universal real estate tax in return for reduced labor taxation. Furthermore, 69% of investors suggest that universal taxes on cars could contribute to tax income

loses from reduce taxes on labor.

Talent migration is another important issue in Lithuania. 57% of respondents highlight that talent migration has negative effect on labor market supply. Since the last survey, concerns about this situation have increased by 11 percentage points. Current research indicates that 9 out of 10 companies lack highly qualified labor force.

All in all, shortage of qualified labor force is one of the most significant issues for investors. It starts from education system, which is not fully able to provide sufficient level of qualified labor force into the market.

European Union's Labor Cost Index (LCI)³, which measures financial burden on employer (generated from acquiring additional worker), supports investors' concerns. Recent LCI findings indicate that the burden of labor taxation on employer in Lithuania is significantly higher than EU average.

2- http://investorsforum.lt/wp-content/uploads/2017/12/LIPI-LT-2017-IV-KETV-FINAL_FINAL.pdf

3- http://ec.europa.eu/eurostat/statistics-explained/index.php/Labour_cost_index_-_recent_trends

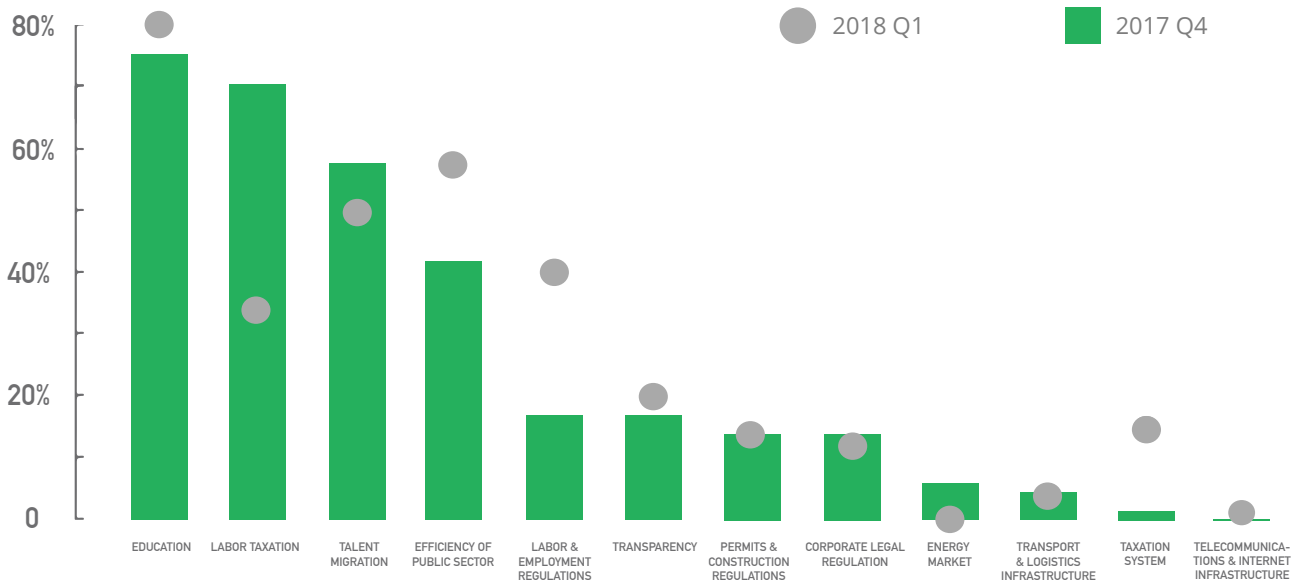
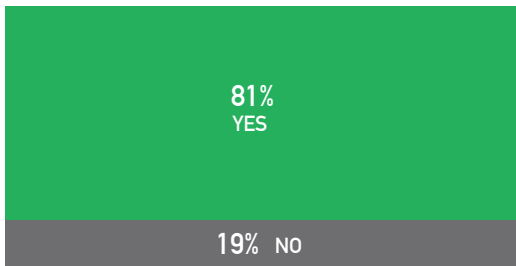


Fig. 7 - Areas that need most attention, ICIL 2018 Q1

WOULD YOU AGREE TO HAVE UNIVERSAL TAXATION ON REAL ESTATE PROPERTY IN RETURN FOR REDUCED LABOR TAXATION?



WOULD YOU AGREE TO HAVE UNIVERSAL TAXATION ON CARS IN RETURN FOR REDUCED LABOR TAXATION?

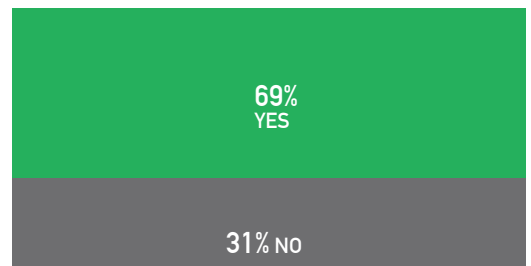


Fig. 8 - Ways to reduce high level of labor taxation, ICIL 2018 Q1

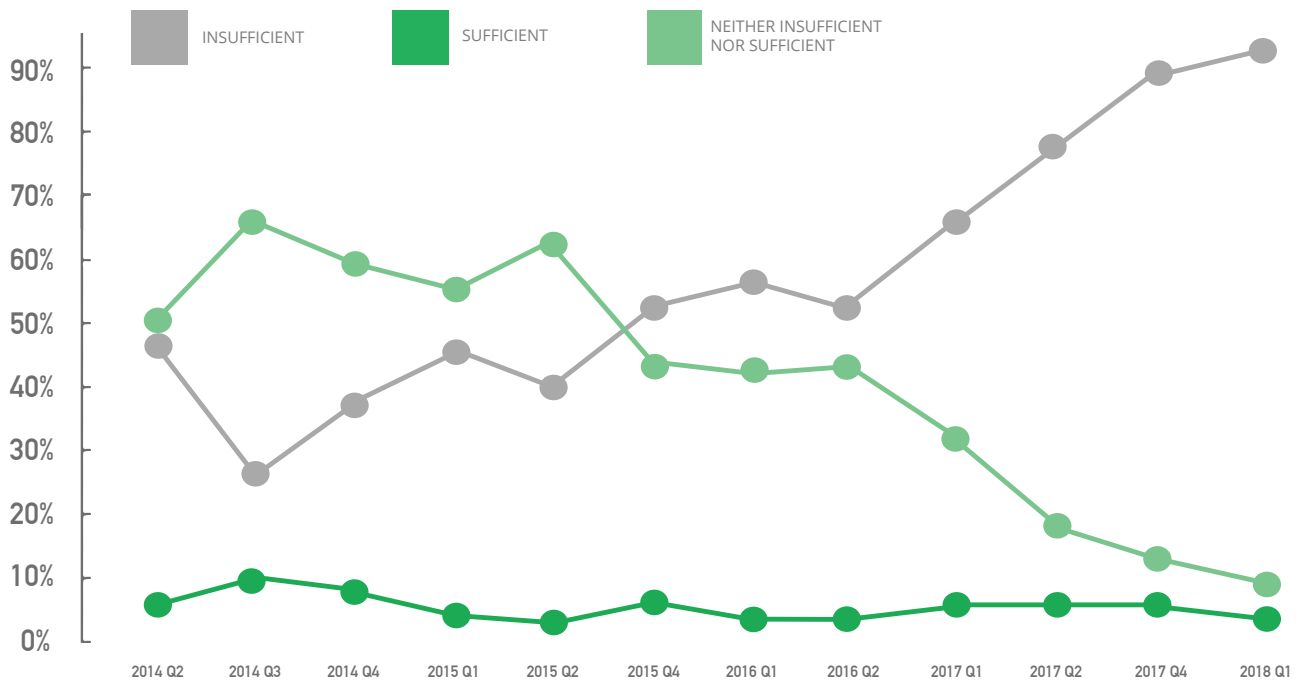


Fig. 9 - Availability of qualified labor force in Lithuania, ICIL 2018 Q1

INVESTOR'S FUTURE PLANS: MORE JOBS AND HIGHER WAGES

Despite prevailing problems (fig. 7), investors continue to implement ambitious plans. More than two thirds (68%) of foreign companies are planning to increase wages to their employees. Meanwhile, the remaining 32% of respondents intend to keep wages steady.

In addition, more than a half (52%) of respondents will employ new workers in the first quarter of the year. Moreover, 39% of investors are expecting higher profits and 30% of respondents are planning to reinvest.

Since the end of 2017 foreign capital enterprises have reduced their expectations on increasing their company's profits. Current ICIL indicates that only 39% of investors predict increasing profits (result decreased by 5 percentage points).

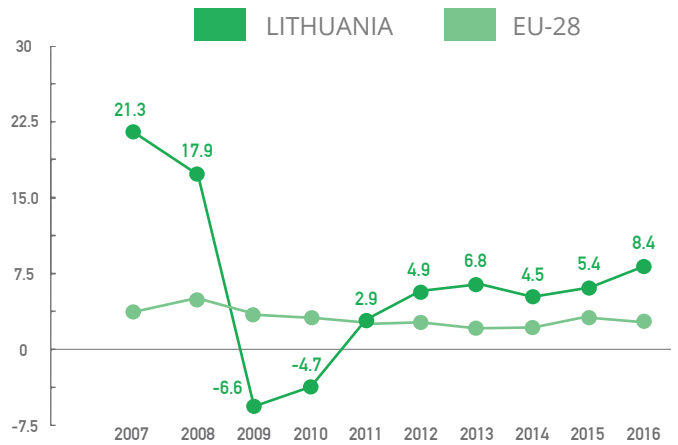


Fig. 10 – Labor cost index, ICIL 2018 Q1

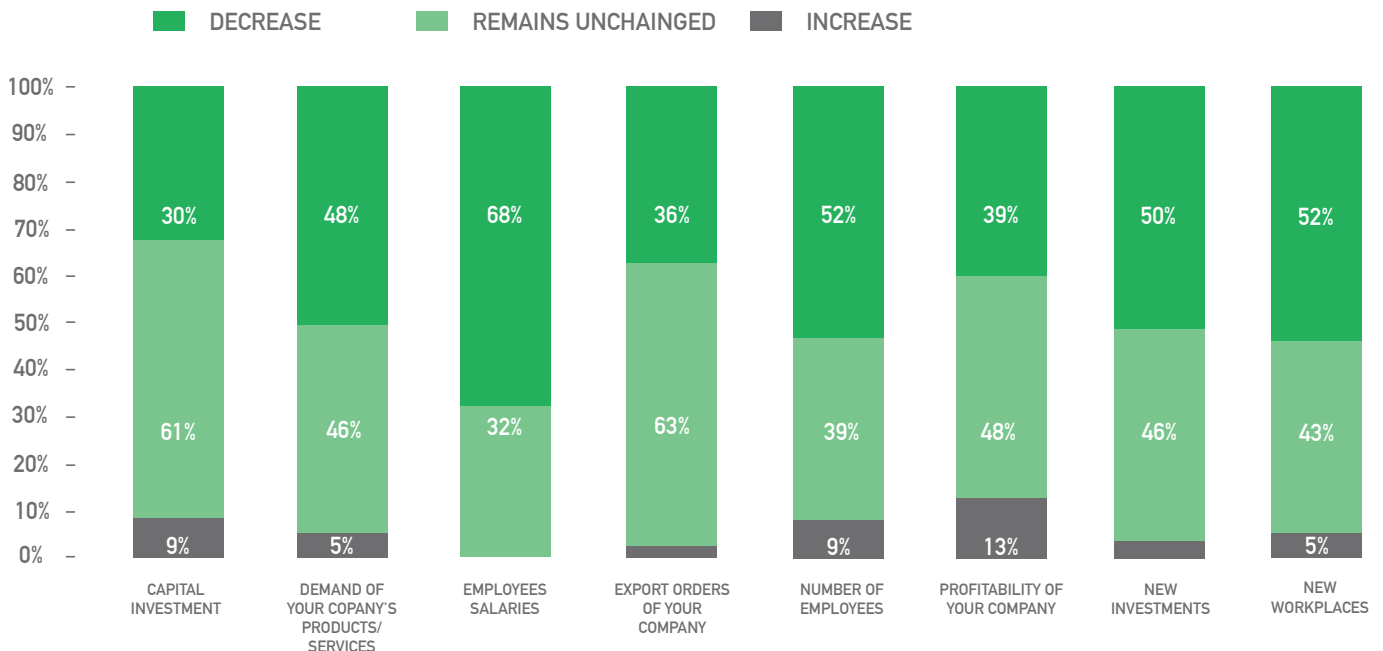


Fig. 11 – Investors' projections for upcoming quarter, ICIL 2018 Q1

ADDITIONAL INSIGHTS

EVALUATION OF INSTITUTIONS: MIGRATION DEPARTMENT – UNDER THE MAGNIFYING GLASS

This quarter's ICIL research marked the third time when investors were asked to evaluate the Government's institutions and state-owned enterprises. Surprisingly, Fire and Rescue Department, which has been the highest ranked organization in previous studies, this quarter gave away the leading position to Energy Distribution Operator (ESO). In addition, positive attitude towards this company has been consistently improving and as a result investors'

confidence has skyrocketed from 46% in 2017 Q1 to 76% this year. Center of Registers is another favorite. 74% of investors believe that this institution is efficient.

On the opposite, investors name Migration Department and National Land Service as facing biggest challenges. As a result, Migration department experienced the biggest decline (by 12 percentage points) since previous research among all other organizations. In addition, only 37% see this institution as efficient.

NAME OF INSTITUTION	EFFICIENCY	TENDENCY	CHANGE*
ENERGY DISTRIBUTOR OPERATOR	76%		10%
CENTER OF REGISTERS	74%		11%
FIRE AND RESCUE DEPARTMENT	73%		0%
CUSTOMS OF THE REPUBLIC OF LITHUANIA	61%		6%
NON-FOOD INSPECTION	58%		1%
STATE TAX INSPECTORATE	58%		-5%
SOCIAL INSURANCE	57%		1%
LITHUANIAN LABOUR EXCHANGE	56%		7%
STATE LABOUR INSPECTORATE INFORMATION	55%		-2%
STATE TERRITORIAL PLANNING AND CONSTRUCTION INSPECTORATE	52%		1%
STATE ENERGY INSPECTORATE	52%		-6%
DEPARTMENT OF CULTURE HERITAGE	52%		2%
STATE FOOD VETERINARY SERVICE	50%		-4%
THE ENVIRONMENTAL PROTECTION AGENCY	50%		-2%
STATE SERVICE FOR PROTECTED AREAS	50%		0%
STATE LAND FUND	47%		6%
NATIONAL PUBLIC HEALTH SERVICE	44%		-7%
STATE FOREST SERVICE	43%		4%
MIGRATION DEPARTMENT	37%		-12%
NATIONAL LAND SERVICE	34%		-6%

*Change from 2017 Q2

Fig. 12 – Institution evaluation, ICIL 2018 Q1

EVALUATION OF MAJOR EVENTS: LABOR CODE - THE BEST DECISION OF 2017

This quarter's ICIL study overviewed the decisions that had the biggest effect for the investment climate last year. 43% of investors agree that new Labor code had

the most positive effect. Second place was taken by the corporate tax reduction for commercialization of patentable innovations which received 28% of the vote.

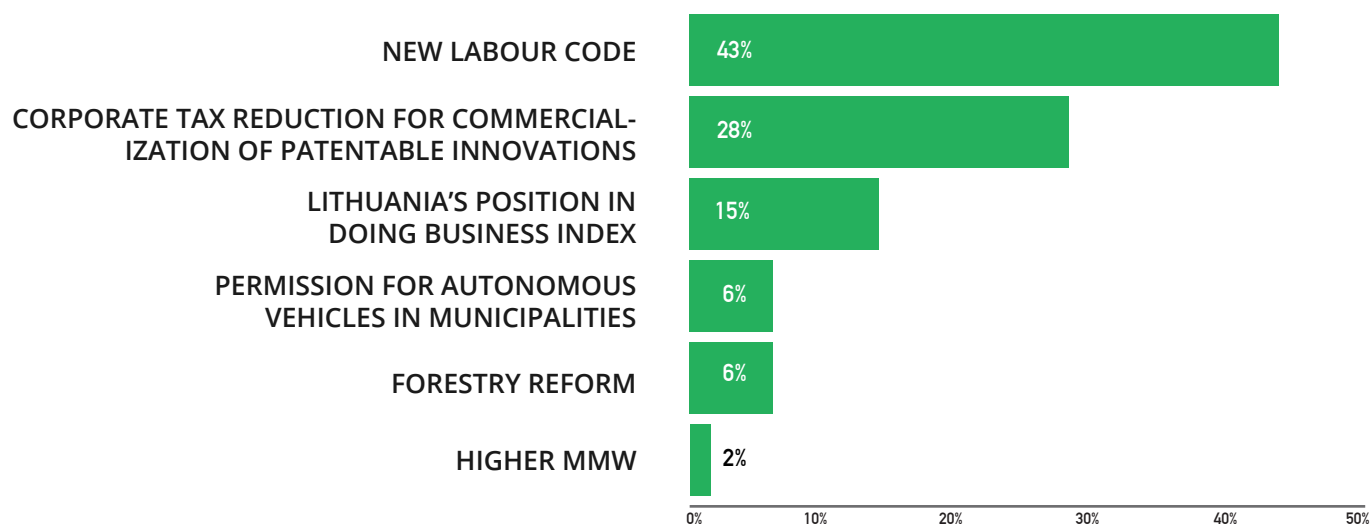


Fig. 13 – Most important decision for Lithuania's investment climate in 2017, ICIL 2018 Q1