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INVESTORS' CONFIDENCE INDEX FOR LITHUANIA (17)

QUARTER IV, 2019

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 investment climate. The purpose of the Index is to evaluate country's business environment and attractiveness of Lithuanian economy to foreign investors based on the experiences and observations of market participants already operating in Lithuania.

The insights of the largest investors are important in forecasting the direction of the country's economy, assessing business prospects and expectations. Similar larger-sample studies - The CEO Confidence Survey (USA)¹, The CEO Confidence Index (Australia)² also use interviews with the executives of the largest companies. This choice is based on the fact that CEOs who are able to make the most important investment decisions, can not only influence the economy of the country, but also to describe economic trends quite accurately, to provide

valuable insights on the economic conditions in the country and the environment for business.

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. 63 investors participated in this survey in September and October, 2019. ICIL survey is carried out by Investors' Forum, an association of Lithuania's largest foreign investors.

| 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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1- CEO Confidence Survey Third Quarter 2019 <https://www.prnewswire.com/news-releases/ceo-confidence-declined-to-lowest-level-in-a-decade-300929399.html>

2- CEO Confidence Index, <https://tec.com.au/wp-content/uploads/2019/02/TEC-Confidence-Index-Q4-2018-Report.pdf>

SUMMARY AND CONCLUSIONS

IN THE LAST QUARTER OF THIS YEAR, THE INVESTORS' CONFIDENCE INDEX FOR LITHUANIAN (ICIL) REACHED ITS LOWEST LEVEL IN A FIVE YEAR. THE INDEX FELL MORE THAN IN THE LAST QUARTERS OF 2017 AND 2018. CURRENTLY, ICIL FINAL VALUE IS 1,088 OUT OF 2.

ICIL Q2, 2019 = 1,088

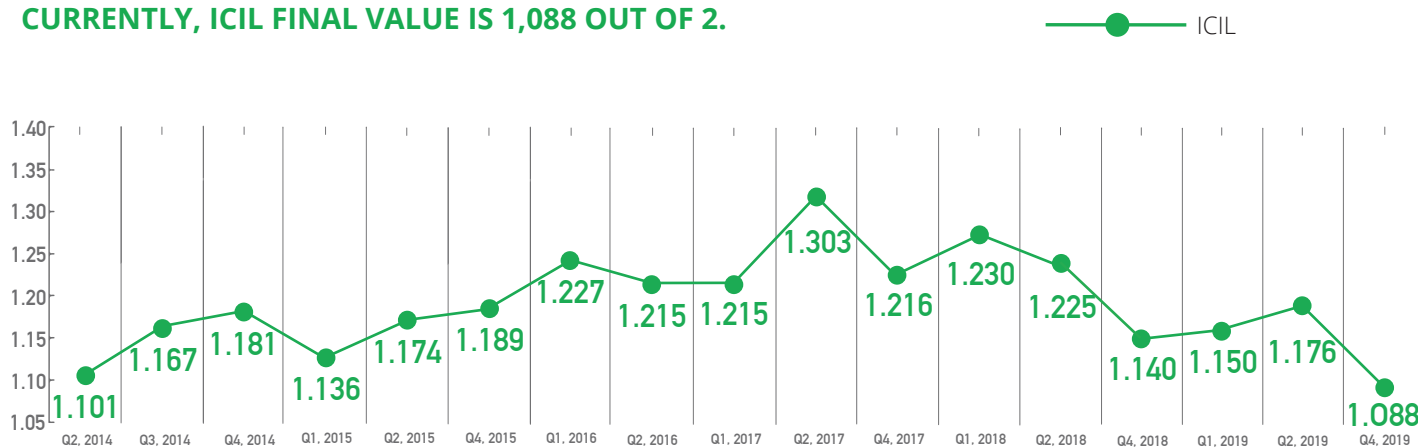


Fig. 2 – ICIL dynamics, ICIL 2019 Q4

This decline was determined by a negative change in valuation of almost all areas. More negative expectations about the macroeconomic environment in the country and much more cautious valuations of possible growth of salaries, new jobs and investment in surveyed companies have contributed to the decline of the index.

Investors emphasize the need for focus on improving highly sensitive areas such as education, talent migration and efficiency of the public sector. Investors mention the same areas as the most important for the fourth quarter in a row.

Investors remain consistent when asked about telecommunications, transport and logistics infrastructure and the foreign language skills of the employees. These areas were marked as the strongest advantages of current business environment in Lithuania. Respondents' expectations regarding these areas are also the most positive.

Major Lithuanian and foreign investors are more cautious in assessing the situation and expectations for the coming quarter. 57 percent of those surveyed believe that their employees' salaries will continue to rise, however this figure is 20 percent lower than in the second quarter of this year. It is also 7 percent less than in the fourth quarter of last year, when the index also fell sharply. Negative changes are also visible in investors' expectations regarding new work places in their companies. Compared with the

second quarter of this year, the number of investors claiming that the quantity of new employees will increase, has fallen twice.

OPENNESS TO NEW INVESTORS AND CONCERNS ABOUT THE MACROECONOMIC ENVIRONMENT AND TAXES

Although the results of this quarterly survey show a decline in positive approaches regarding the current business environment in Lithuania, the best valued areas remain unchanged and some positive developments can also be seen.

For several quarters in a row, telecommunication services, transport and logistics infrastructure, and employee's knowledge of foreign languages have been identified as the strongest areas of current business environment in Lithuania. 95 percent of the surveyed investors have a good or very good opinion about telecommunication field, while 84 percent of business executives identify employees' knowledge of foreign languages positively. Meanwhile, transport and logistics infrastructure are indicated as good or very good by 81 per cent of respondents.

Lithuania's openness to foreign investment is also evaluated positively. Compared to the last survey, the number of respondents who think that Lithuania is open to new investment has increased by 10 percentage points. The World Bank's study "Doing Business 2020" also demonstrates improvement

in this area. Lithuania took 11th place in this rating and outperformed countries like Estonia, Finland, Germany and Poland. Lithuania has strong position in the field of property registration, contract enforcement, also takes a high position in the areas of dealing with construction permits³. Increasing openness to investors is also confirmed by “fDi intelligence” in index of cities. Vilnius is the leader in terms of FDI per capita in greenfield technology start-up projects among the 30 cities, investment attraction centers⁴.

Political stability remains one of the most worrying areas for investors. However, this area is evaluated better compared with previous quarter, 5 percent less investors (19 percent) valued political stability

as low. Efficiency of business regulations is the most negatively valued indicator in this quarter. 23 percent of respondents indicated it as being low level, compared to 16 percent in the previous quarter.

Study also reveals that areas of sustainability of macroeconomic environment and efficiency of taxation system are assessed more negatively. Compared to the second quarter of this year, 10 percent less investors evaluate the level of macroeconomic situation in the country as high. Investors are also worried about the Government’s ambition to change the taxation system: 9 percent more investors indicate efficiency of the taxation system as low.

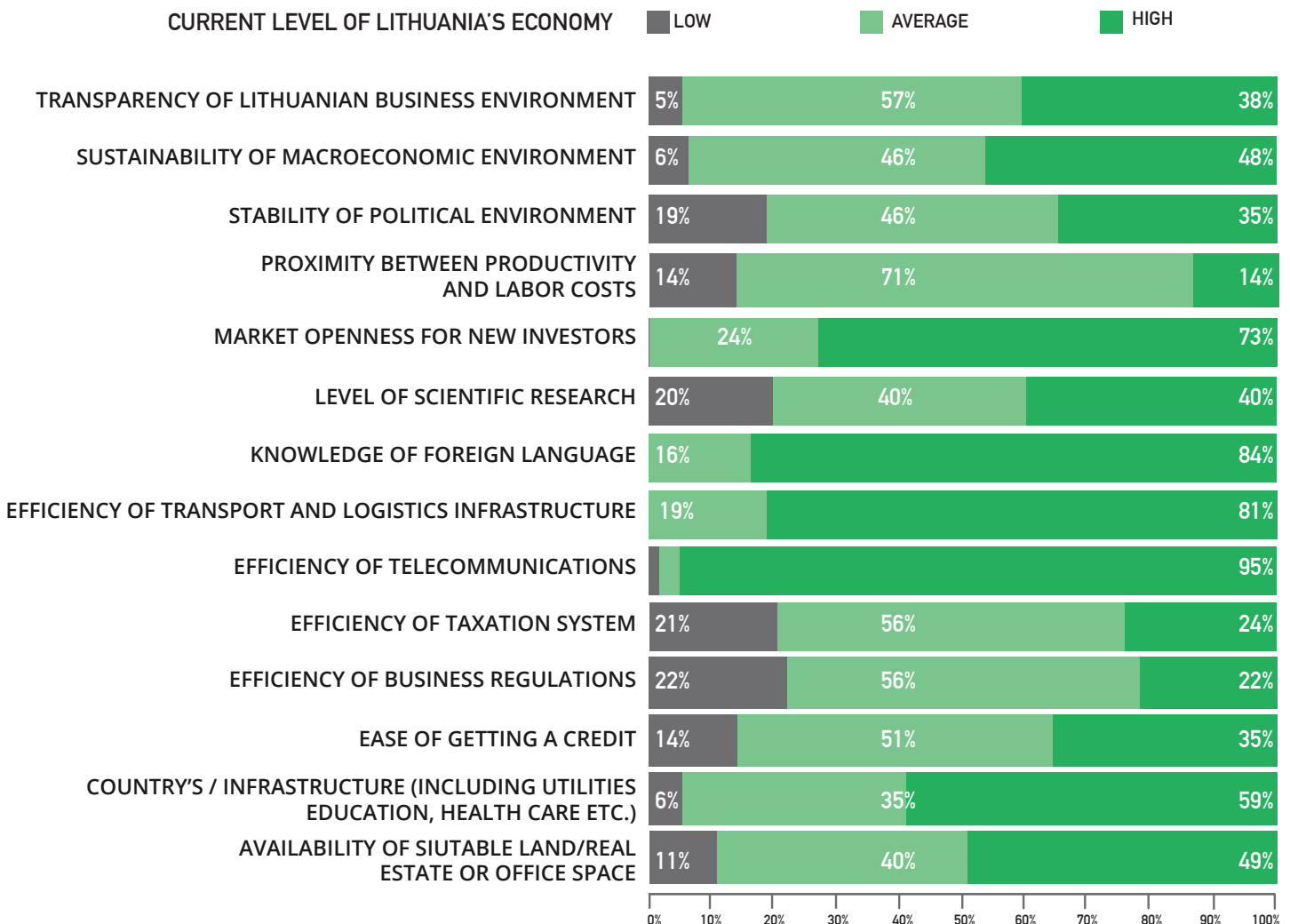


Fig. 3 - Evaluation of current business environment in Lithuania, ICIL 2019 Q4

3- World Bank „Doing Business 2020“ <https://openknowledge.worldbank.org/bitstream/handle/10986/32436/9781464814402.pdf?sequence=2&isAllowed=y>

4-Tech Start-up FDI Attraction Index 2019, <https://www.fdiintelligence.com/Locations/Tech-Start-up-FDI-Attraction-Index-2019>

INVESTORS' DAILY CHALLENGES - LABOR REGULATIONS AND TERRITORIAL PLANNING

Labor regulations are a major challenge for investors in their daily operations. 44 percent of the respondents say that they face problems in this area quite often. 32 percent notes that labor regulations are sometimes a challenge for them, while only 24

percent of investors do not face any problems in this field. Spatial planning is the second most mentioned challenge in investors' daily life. 40 percent of surveyed investors faces challenges in this field frequently or sometimes in their daily activities.

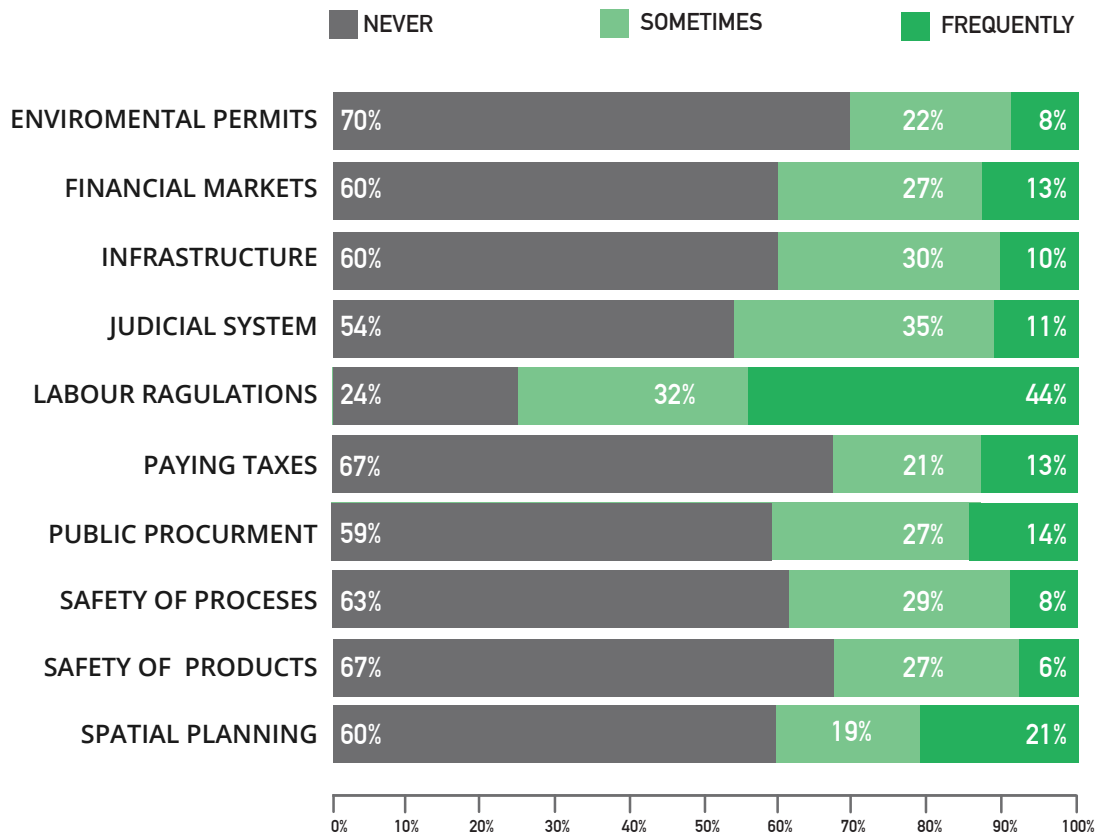


Fig. 4 – Daily problems, ICIL 2019 Q4

LARGEST FOCUS ON EDUCATION, MIGRATION AND PUBLIC SECTOR ISSUES

These three areas – education, migration and efficiency of public sector - remain on top of the list of fields that need most attention for several quarters in a row. More than 7 out of 10 respondents say that education system must be a top priority for the state. The number of investors who share this opinion has increased by 5 percentage points and education is identified as the most relevant area for the seventh quarter in a row.

According to the data provided by schools and vocational training institutions, there were 3002 students per career specialist (2017/18), although this figure should not exceed 1200 according to the guidelines.

Study reveals more negative figures about career education - the average cost of career guidance per

student was only 1.09 euro⁵. Heavy workloads for teachers are one of the most important problems of all education system. Unfortunately, 15 percent of country students are studying in overcrowded classes. Compared to the other members of Organization for Economic Co-operation and Development, Lithuania is one of the countries that allocates the least amount of financial resources to a student throughout its' all learning period.

The ICIL study shows that there is a lack of real change in public sector too. More than half of investors miss higher efficiency and better quality of services provided by public sector.

Migration remains one of the questions, that needs most attention from the government. In the second quarter of this year, investors were asked to evaluate the clarity of migration procedures, availability of information, and duration of processes. All these

5- Presentation of Bank of Lithuania, https://www.lb.lt/uploads/documents/files/G_%20Vilnius_Ar_Lietuvos_svietimo_sistema_atitinka_poreikius.pdf

areas were evaluated more negative than positive. However, migration procedures have begun to be improved and it is likely that some of the identified inconveniences should be removed. At the beginning of this quarter, the Migration Department under the Ministry of the Interior of Lithuania implemented a new Lithuanian Migration Information System, updated and expanded the range of electronically provided services and established a customer service center. This should improve the quality of services provided to people seeking temporary

residence and work permits in Lithuania. Yet, nearly half, 49 percent of investors still think that field of talent migration need more attention from the government.

Lithuania has been ignoring migration procedures for some time and it is reflected not only in investors' perceptions of the lack of skilled labor, but also in other assessments at international level. Lithuania is in the lowest position in the Migrant Acceptance Index: Out of 9 possible scores, Lithuania ranks at the bottom of the list, scoring 2.72 points⁶.

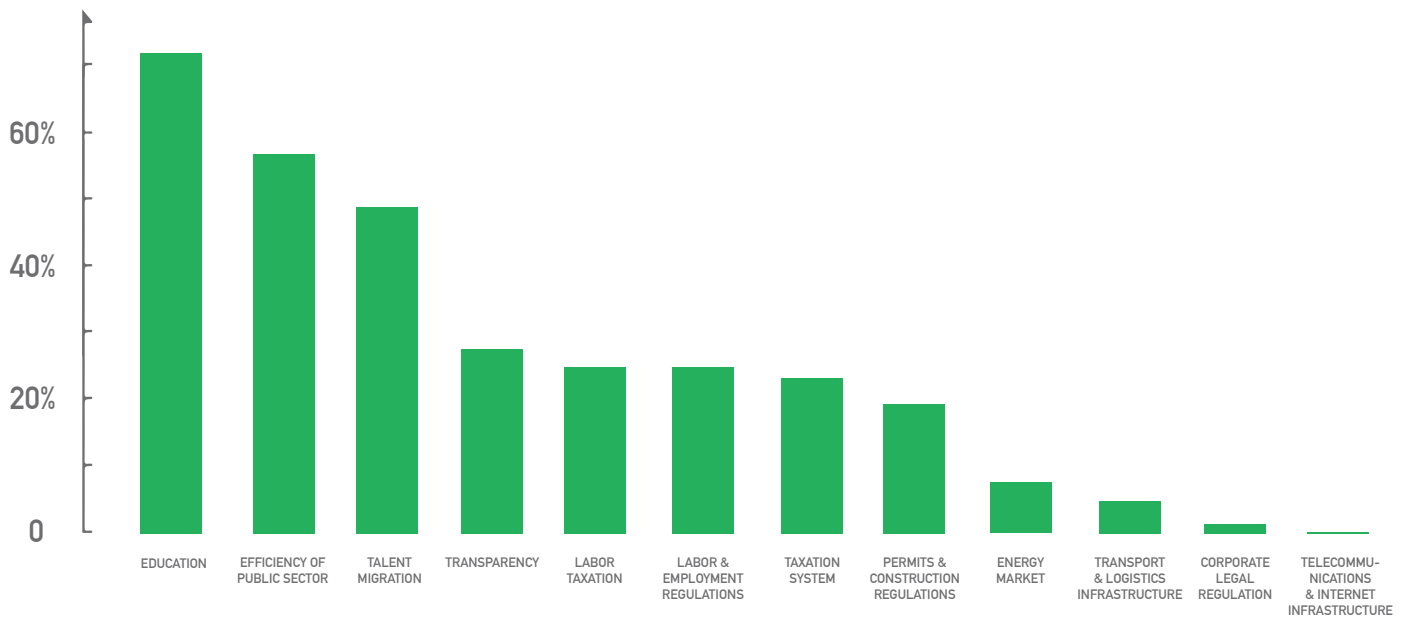


Fig. 5 - Areas that need most attention, ICIL 2019 Q4

INVESTORS' EXPECTATIONS ARE BEING UNDERMINED BY MORE DIFFICULT ACCESS TO CREDIT AND CONCERNS OVER THE MACROECONOMIC SITUATION

Investors' expectations for the near future have dropped significantly this quarter. Respondents are most critical about access to credit and the macroeconomic environment.

More than a third, 37 percent, of investors believe that access to credit will be more difficult. Investors also have low expectations about the macroeconomic situation. Only 5 percent of respondents predicted that the economic situation would worsen in the last quarter. 21 percent of executives surveyed share

this view now.

The International Monetary Fund is also warning of a slowdown in the global economy, which forecasts 3 percent this year economic growth - the lowest since 2009 global economic crises. Growth continues to be weakened by rising trade barriers, increasing geopolitical tensions and by structural forces, such as low productivity growth.

Positive changes and increases in stability are also less expected in the political environment. A year before the election, only 3 percent (compared with 16 percent in the second quarter) of surveyed investors believe that political stability will increase.

6- Migrant Acceptance Index (2017), <https://news.gallup.com/poll/216377/new-index-shows-least-accepting-countries-migrants.aspx>

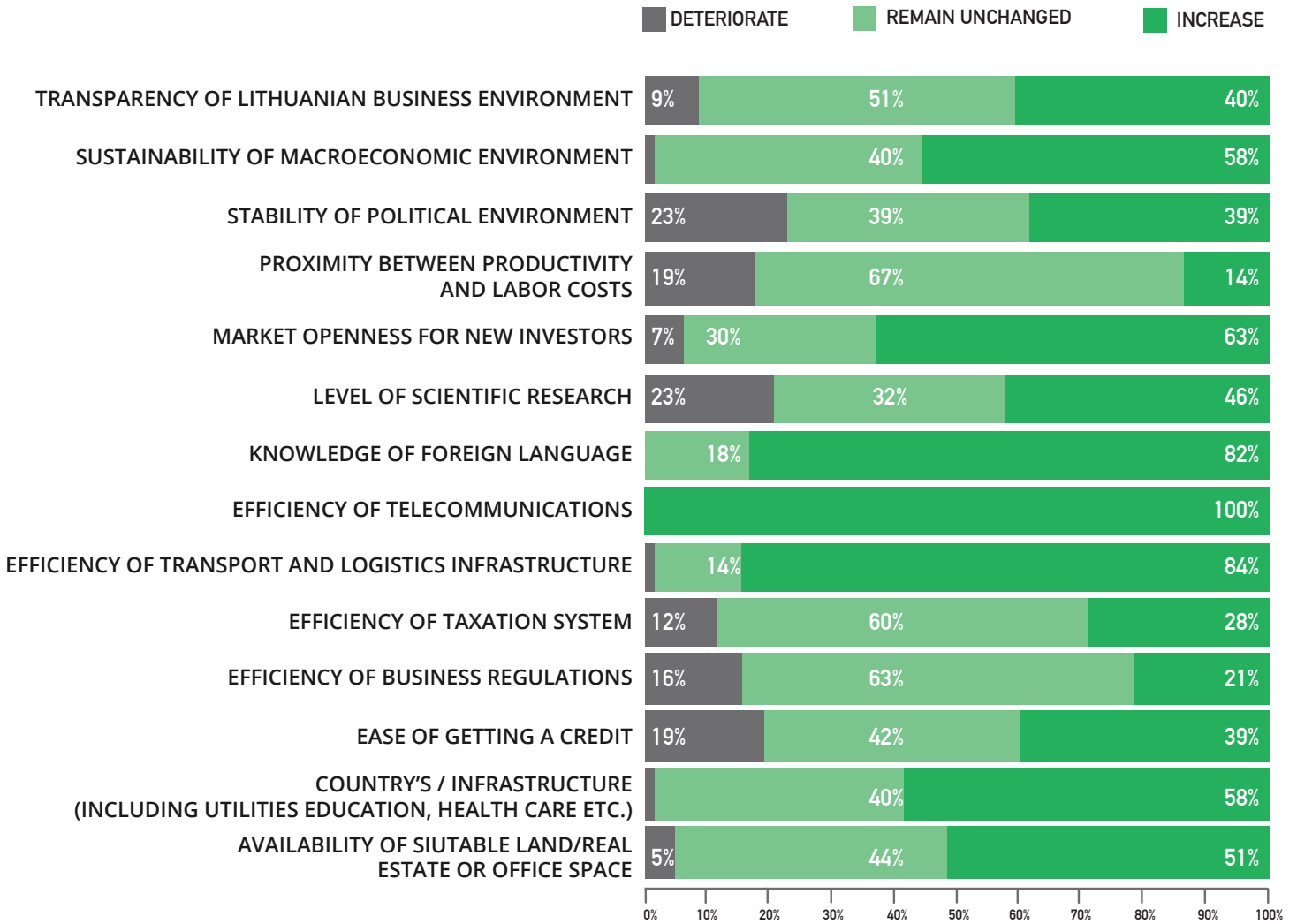


Fig. 6 – Investors' expectations for 2019 Q4

MORE THAN HALF ARE PLANNING TO RAISE SALARIES, OTHER INVESTORS' PLANS ARE MORE CAUTIOUS

Falling expectations of the country's economy also affect investors' plans to raise salaries, create new work places and invest. ICIL results show that positive changes will diminish and the growth of Lithuanian and foreign capital companies will slow down.

Although investors do not expect that wages will decline, the number of those who believe that salaries in their companies will increase in the coming quarter has decreased by 22 percentage points. However, more than half, 56 percent of investors' plan wage increases in this quarter. 44

percent believes that the situation will remain the same and wages will remain unchanged.

Insights about investment and opportunities to create new work places are also less ambitious than in the previous quarter. 15 percent of surveyed investors are planning smaller investments (compared to the 7 percent in the second quarter of this year).

Investors are more cautious about creating new work places in the fourth quarter. Only 26 percent of the respondents expect to recruit new employees. The indicator, compared to the previous quarter, decreased by 24 percentage points.

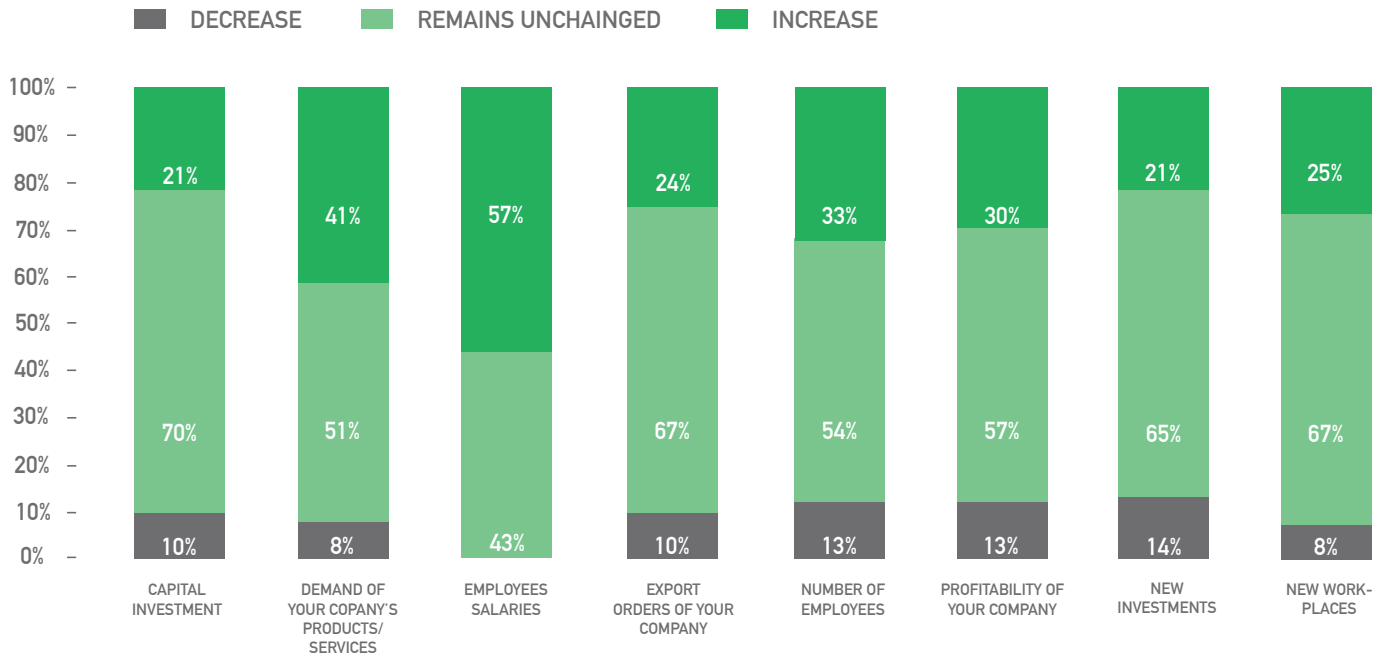


Fig. 7 – Investors' projections for upcoming quarter, ICIL 2019 Q4

TALENT POOL HELPS TO ATTRACT AND RETAIN INVESTMENTS IN LITHUANIA

Asked about Lithuania's advantages in attracting investments, business representatives name three main areas: labor costs, talent pool and infrastructure and logistics. Labor cost was chosen as one of the advantages by 59 percent of respondents. Talent pool and infrastructure and logistics are identified as important for attracting investment by 57 percent of respondents.

The data provided by "fDi Markets" also reflects similar results. Top three motives of manufacturing

WHAT DETERMINES LITHUANIA'S ADVANTAGE TOWARDS INVESTMENT IN COMPARISON WITH OTHER ECONOMIES?

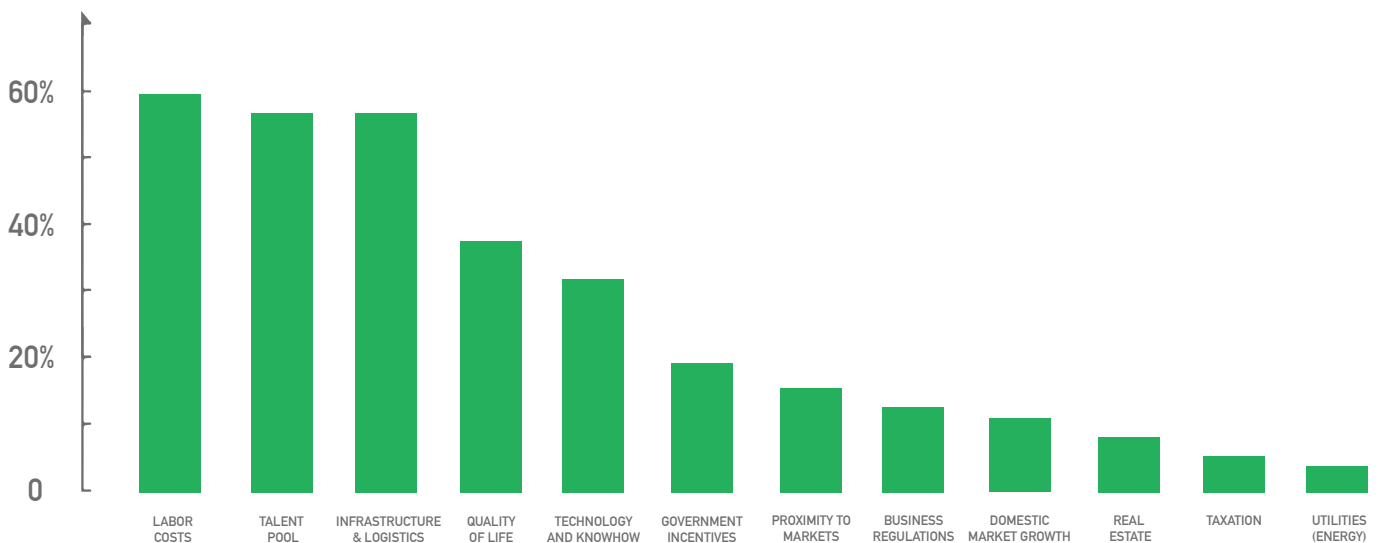


Fig. 8 - Lithuania's advantage towards investment, ICIL 2019 Q4

WHICH FACTORS DO YOU CONSIDER TO BE THE MOST IMPORTANT TO KEEP FOREIGN DIRECT INVESTMENT (FDI) IN LITHUANIA?

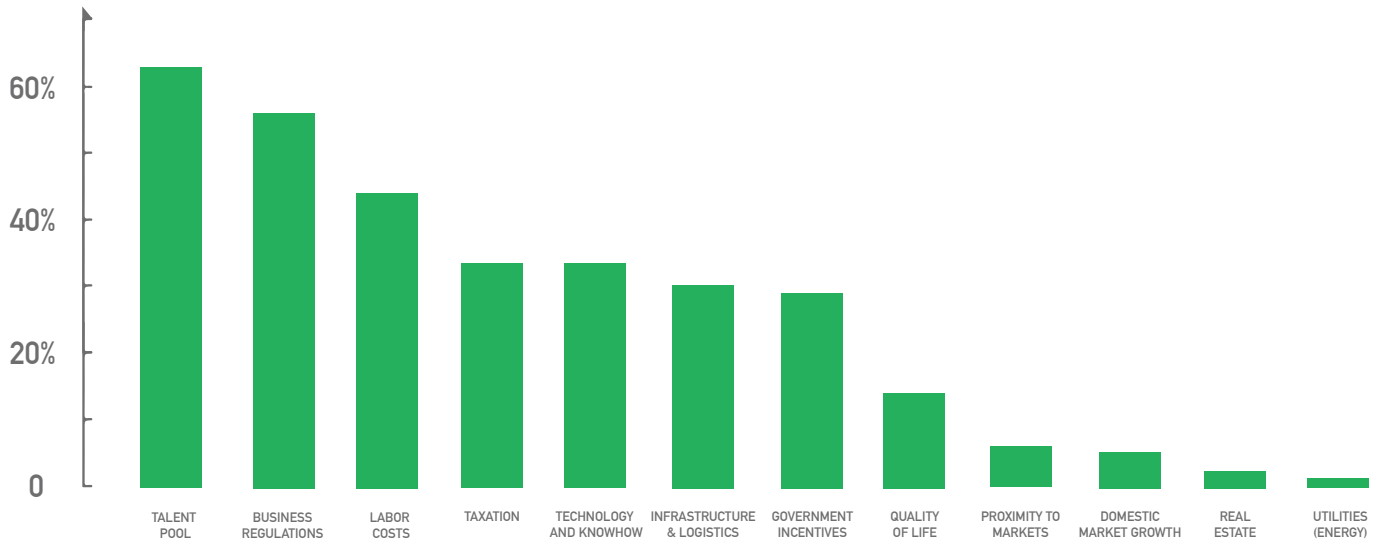


Fig. 9 – Factors that keep foreign direct investment (FDI) in Lithuania, ICIL 2019 Q4

According to the ICIL talent pool and qualified labor are very important for foreign capital companies. Talent attraction and migration remain at the top of the list of priority areas for several quarters in a row and the importance of education is underlined by more than 70 percent of surveyed investors. Talent pool is also named as one of the most important factors for attracting FDI in Lithuania and for keeping these companies here.

Investors were also asked to evaluate the sufficiency of qualified labor in Lithuania. Almost two-thirds, 62 percent of the respondents believe that availability of qualified labor is insufficient or somewhat insufficient in Lithuania. Meanwhile, only 16 percent of investors have a different opinion. They say that availability of qualified labor in our country is sufficient or somewhat sufficient.

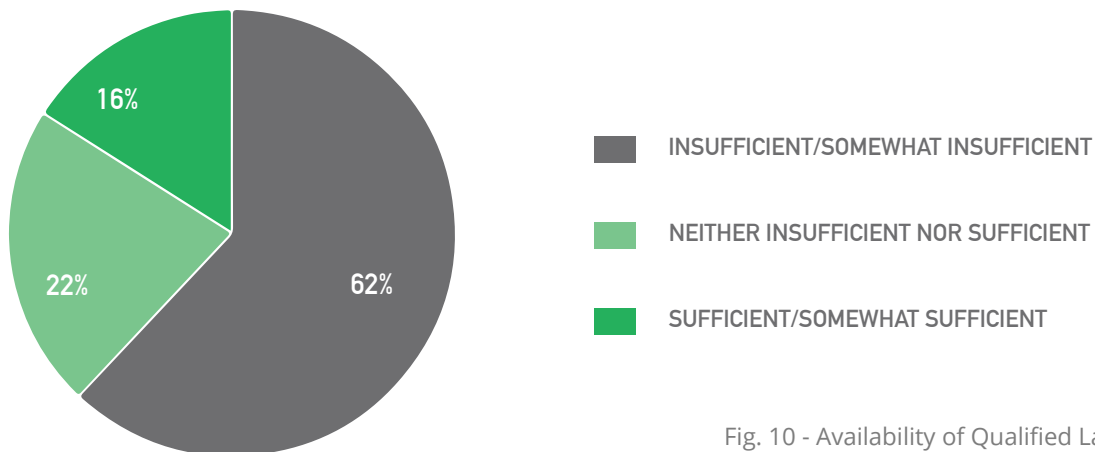


Fig. 10 - Availability of Qualified Labor in Lithuania, ICIL 2019 Q4

ADDITIONAL INSIGHTS

EVALUATION OF UNIVERSITIES

Traditionally, ICIL research is complemented with additional questions about current events and relevant topics. Investors were asked to evaluate the quality of education provided by universities in Lithuania.

The best-ranked universities with more than 70 percent positive evaluations are ISM (University of Management and Economics), Kaunas University of Technology and Vilnius University. Meanwhile, Šiauliai University, Kazimieras Simonavičius University and Klaipėda University received less than 50 percent positive evaluations.

The rankings of schools and higher education institutions published by magazine "Reitingai" are quite similar. All three investors' top-ranked universities are in the top of the list of "Reitingai"

top-evaluated universities. Vilnius University, Kaunas University of Technology and Lithuanian University of Health Sciences are among the best-ranked state universities, while ISM University of Management and Economics is in the leading position among private higher education institutions.

A research by "Invest Lithuania" and Government Strategic Analysis Center shows that the lack of IT and engineering professionals is one of the most prominent trends in the Lithuania's labor market. However, only 19 percent of all graduates of engineering industry were employed as engineers and as related specialists. It is also noteworthy that the increasing supply of these specialists will require changes, as the training of industrial engineers is ineffective due to the high drop-out rate and low employment rate.

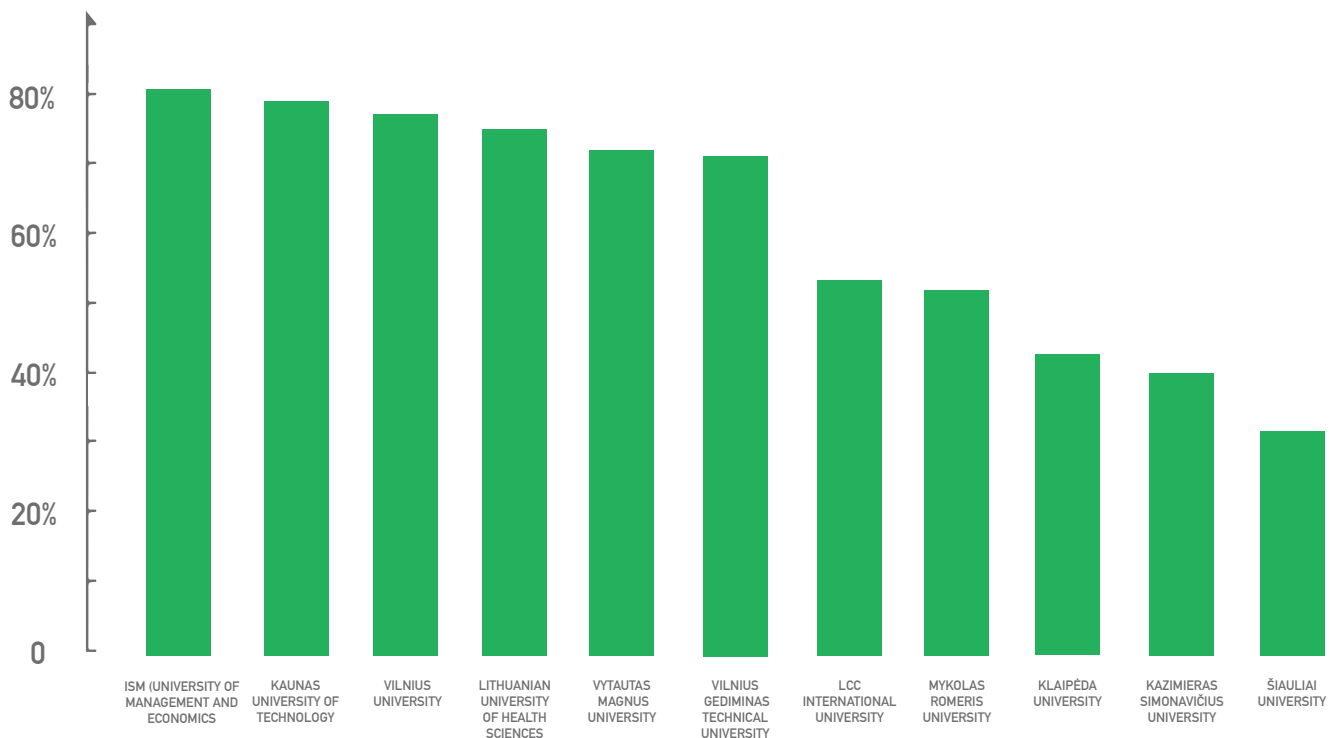


Fig. 11 - Evaluation of Universities, ICIL 2019 Q4