

Q1, 2022

# Investors' Confidence Index for Lithuania



# Investors' Confidence Index for Lithuania (ICIL)

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 the country's business environment and attractiveness of the 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)<sup>1</sup>, The CEO Confidence Index (Australia)<sup>2</sup> 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 can also describe economic trends quite accurately, and 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 bring an overview of the business environment, factors that influence the 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-level management are invited to participate in the survey. 58 investors participated in this survey in January and February 2022. ICIL survey is carried out by Investors' Forum, an association of Lithuania's largest foreign investors. It is important to note that the survey was conducted before the Russia started the war in Ukraine.

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

Fig. 1 - Index values and descriptions

1 - Source: [CEO Confidence Survey](#)

2 - Source: [CEO Confidence Index](#)

# Summary and conclusions

ICIL: THE INDEX FELL SLIGHTLY, INVESTORS' EXPECTATIONS ARE MORE MODERATE IN THIS QUARTER.

ICIL Q1, 2022 = 1.057

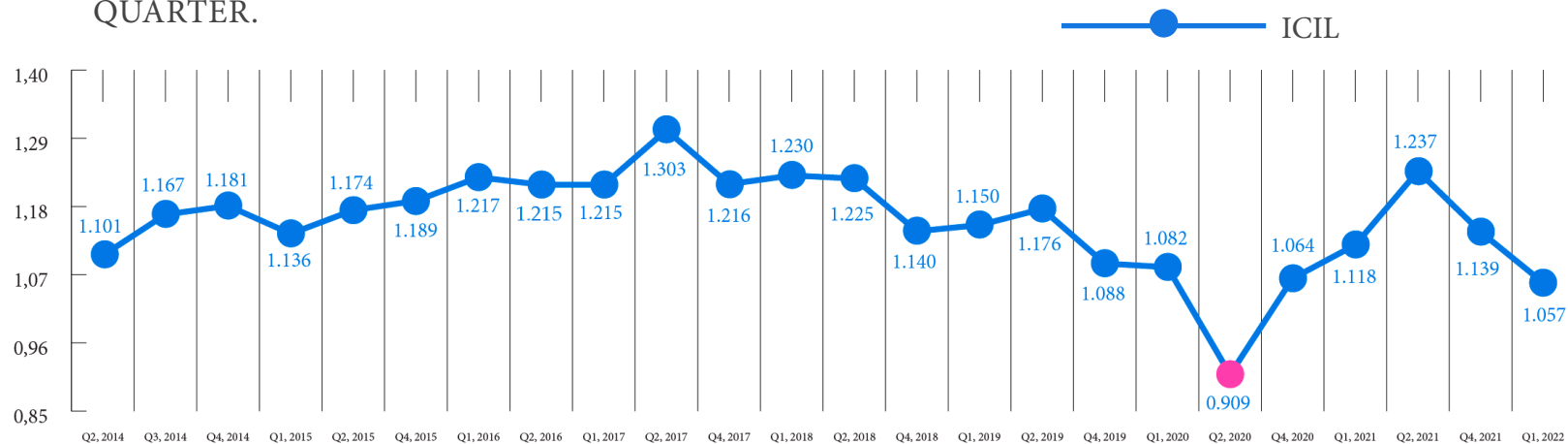


Fig. 1 - Index values and descriptions

Investors' expectations are more moderate in this quarter. The value of the index fell slightly last quarter and fell further this quarter again. The index reached the value it had after the first quarantine in 2020. On the other hand, the value of the index remains above 1, meaning investors have more positive than negative expectations. At the beginning of the year, the index stands at 1,057 out of a 2 possible. For comparison, the value of the index was 1,139 last quarter. The best-valued areas that strengthen Lithuania's attractiveness for investment are telecommunications, transport and logistics infrastructure, and employees' foreign language skills.

- Respondents continue to view the conditions for obtaining credit in the country positively.
- One-fifth of respondents say that the level of scientific research in Lithuania is low.
- The assessment of the stability of the political environment has deteriorated: 25 percent of company executives say it is low, 4 out of 10 believe that political stability will decrease in the near future.
- Businesses are cautious about productivity growth, therefore there are concerns about the gap between wages and productivity.
- Business leaders remain consistent in assessing areas that require more state attention. Changes are most needed in the education system, the public sector, and the migration of talent.
- Naming the main everyday problems, investors notice that most of them arise in matters related to the regulation of labor relations.
- 95 percent of company executives are positive about the growth of employees' salaries in their companies. A quarter notes that the company's profits are expected to decline in the coming period.
- The best-rated state institutions are the Center of Registers, the State Tax Inspectorate, the Customs Department, and the Fire Protection and Rescue Department. The Migration Department and the Migration Services receive the least positive evaluations.

## INVESTORS ARE CONCERNED ABOUT THE POLITICAL STABILITY

The value of the index has changed over the past two years, driven by several key factors: pandemic and the uncertainty it has caused, as well as elections and changes in the ruling majority, and the Government. The consequences of the pandemic for business have led to a more cautious attitude of investors towards access to credit, economic growth prospects, corporate profits, and demand for products. On the contrary, the changing political environment has given business leaders confidence in the stability of the political environment. As businesses and residents adapt to the conditions of the pandemic and the restrictions of the pandemic decrease, economic factors have been assessed more positively for some time now, company managers are determined to increase salaries and the number of new employees. However, the stability of the political environment is again worrying for investors and the negative change in valuation of this area had the biggest impact on the decline in the value of the index in this quarter.

Only 10 percent of surveyed investors described the stability of the political environment in the country as low last quarter, the rest shared it evenly: 45 percent thought the situation in this area was average, and another 45 percent tended to be more positive. Positive assessments fell by 16 percentage points this quarter, while negative assessments of political stability rose to 25 percent. It is important to mention that the survey was conducted before the Russian aggression and the start of the war in Ukraine, but concerns about the stability of the political environment had already been felt

Labor shortages and rapidly growing wages in the country pose productivity challenges, investors said in a quarterly survey. 35 percent of company executives surveyed note that the situation in this area is poor. Last quarter, the number of those who thought so was 9 percentage points lower, and the majority of investors tended to assess the situation on average.

Despite the negative changes in these areas, business representatives do not express concern about the possibility of obtaining credit in the country. The assessment of this area has been particularly affected by the consequences of the pandemic in the country, but for some time now investors have been more confident about the situation in the credit market. Just as at the end of last year, only 5 percent of company executives believe that access to credit in the country is low. The number of those who assess the situation on average has increased by 7 percentage points. 47 percent of respondents in the country currently assess credit opportunities positively and the same number values it neutrally.

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. 84 percent of company executives positively evaluate employees' ability to speak foreign languages, and 98 percent of the surveyed investors rate telecommunications in Lithuania very high. 8 out of 10 investors surveyed are positive about transport and logistics infrastructure in the country.

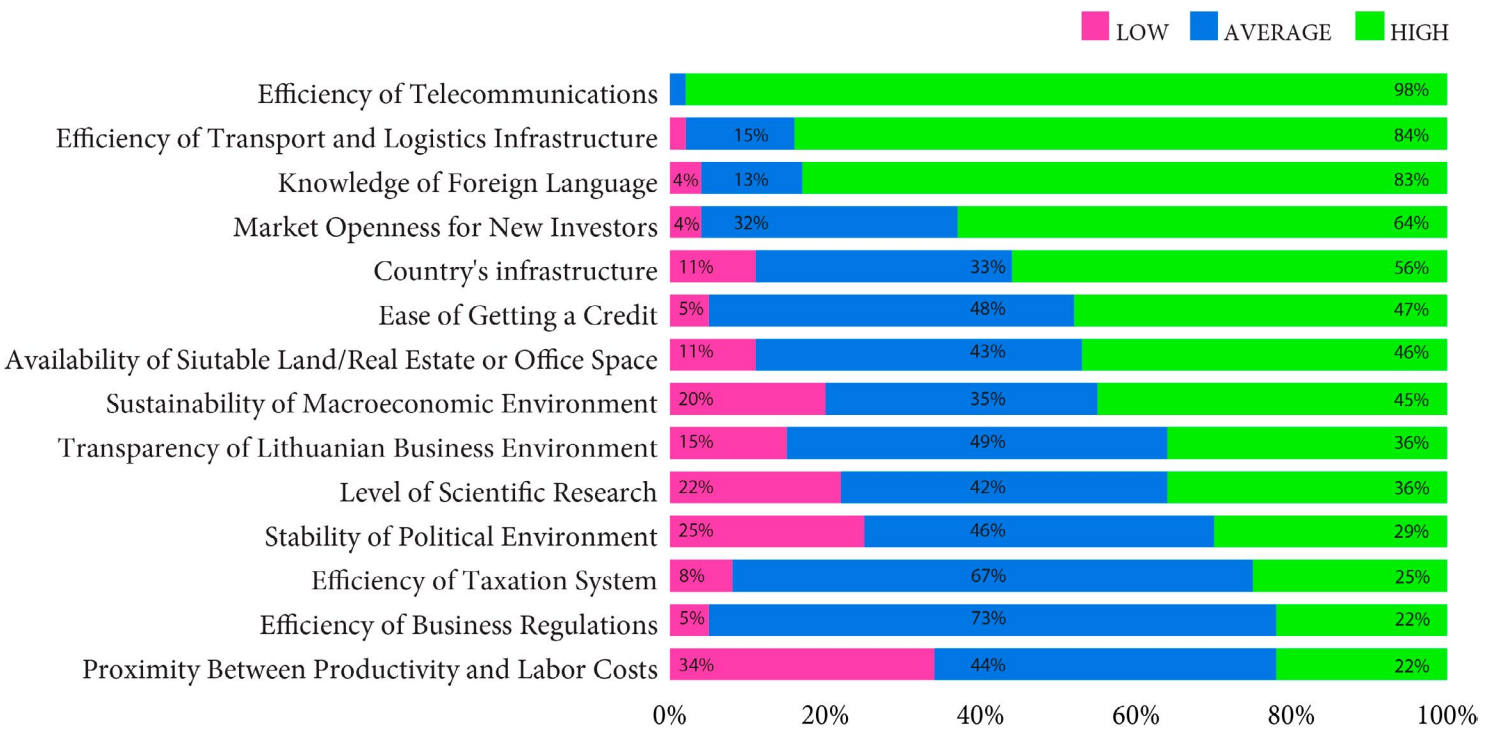
Investors also pay attention to the level of research level in the country. Unfortunately, although 36 percent have a positive opinion about the situation

in this area, one-fifth of respondents rate the level of research as low. This area remains one of the areas receiving the most negative evaluations. It is worth noting that this assessment of investors is indeed reasonable, given that Lithuania is one of the countries that invests the least in research among OECD countries (according to 2020 data, Lithuania invests only 1.17 percent of GDP). On the other hand, the Government's attention in

this area is growing - it is promised that by 2024, Lithuania will increase investment in research to 1.5 percent of GDP.

Although investors still believe that the country is open to new investors, the negative change in the valuation of the political environment, economic stability, wage growth, and productivity ratios had the biggest impact on the index's decline at the beginning of this year.

Evaluation of current business environment in Lithuania, ICIL 2022 Q1

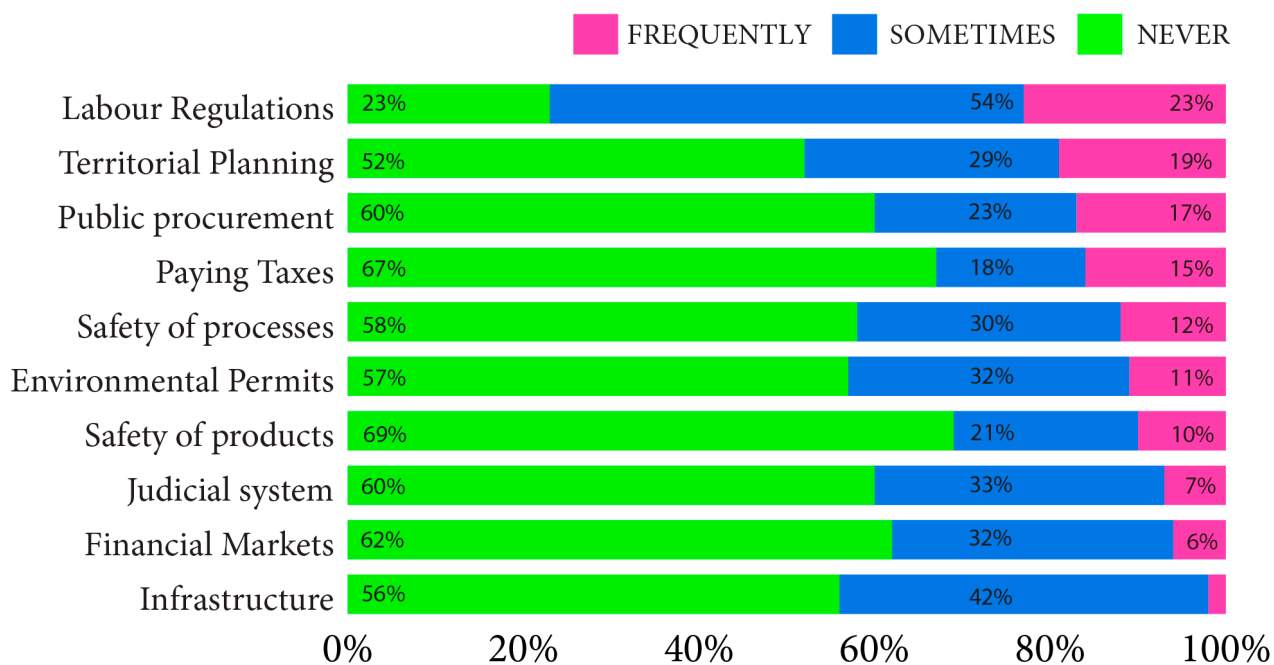


## INVESTORS' DAILY CHALLENGES - LABOR REGULATIONS AND SPATIAL PLANNING

Labor regulation is a major challenge for investors in their daily operations. A quarter of respondents say that they face problems in this area quite often. 54 percent of the respondents note that labor regulations are sometimes a

challenge for them. Spatial planning is the second most mentioned challenge in investors' daily life. 19 percent of surveyed investors face challenges frequently in this field in their daily activities. Payment of taxes and safety of products and processes are the areas where investors do not face significant challenges in their daily business activities.

## Daily problems, ICIL 2022 Q1



## PRIORITIES FOR THE STATE – EDUCATION, TALENT MIGRATION AND EFFICIENCY OF PUBLIC SECTOR

Investors remain consistent when asked about the areas on which the state should focus the most. As the top three priorities executives choose education, efficiency of the public sector and talent migration. These three areas as the most important ones named by investors for some quarters in a row.

The opinion of business representatives does not change - education is the first area that needs the attention of the state and changes. 71 percent of company executives surveyed share this opinion. The problems of education are discussed in the programs of parties and in the program of the Government. Parties signed a National Agreement on the Future of Education in the Country, which aims to mobilize for

major changes in the education system. The planned changes are necessary because the educational system in the country, according to various indexes and assessments of international organizations, is in bad shape. This is also confirmed by data of EURYDICE reviews of European education systems. According to the research, four largest problems related to the education system in Lithuania are: level of students' achievements, network of educational institutions (it does not reflect the demographic decline of recent years), leadership shortage in educational institutions and an unattractive teaching profession. The problem of the school network in Lithuania is also presented in the Review of the State of Education in Lithuania: an average of 320 students are educated in one general education school, and schools in urban areas are 3 times larger than in rural areas. Data provided by the OECD also shows that Lithuania

7 - Šaltinis: [Ooma 2020, Investuok Lietuvoje](#)

8 - Šaltinis: [NCSI 2021](#)

9 - Šaltinis: [Investuok Lietuvoje skaičiavimai](#)

10 - Šaltinis: [Pasaulio ekonominės laisvės indeksas, 2021 m.](#)

has one of the largest students' differences in achievements between rural and urban areas. Lithuania is the sixth in Europe according to the difference in student achievements determined by geographical factors. The EUROGRADUATE pilot study, which examines data on higher education graduates in Lithuania and other European countries, revealed that the salaries of academic staff in Lithuania are among the lowest in the EU. According to a survey conducted in 2016, the salaries of Lithuanian teachers and researchers were only a quarter of the EU-27 average. In addition, higher education institutions use funding inefficiently. Some higher education institutions have spent as much as 30 percent of their annual budget on administrative and infrastructure costs in 2016.

Investors note that the state should not forget the public sector as well, and must pay more attention to making it work as efficiently as possible. 51 percent of the respondents noted public sector efficiency as one of the most important areas to focus on. The need for change in this sector is also shown by the country's assessment in the international context. According to the International Civil Service Performance Index, which in 2019 covered 38 countries (OECD), Lithuania ranks 20th and is below average. In the context of the European Union countries, Lithuania is in 11th place (for comparison - Latvia is in 13th, Poland is in 16th, and Estonia - is in 5th place). The calculation of the index focuses on the central level civil service. The index

consists of a set of 12 indicators. The evaluations of these indicators show that Lithuania performs significantly worse than New Zealand in the field of capabilities, which is rated the best in this field. On the other hand, Lithuania is very close to the strongest country in the area of digitization of services (Estonia is in the 1st place).

The third area identified by investors is talent migration. The importance of this area for executives has already been emphasized for five years. 44 percent of the respondents identified this area as requiring more state and public attention in this quarter. Talents are crucial to the country's investment climate. This factor is identified as one of the key drivers to invest in Lithuania and stay here, investors constantly emphasize that there is a shortage of skilled labor in the country. Lithuania's competitiveness is well illustrated by the GTCI study (Global Talent Competitiveness Index). Scoring 60.25 points, Lithuania ranks 32nd in the world and 22nd in the region (Europe). This index shows a country's ability to attract, retain and empower talent in the country. The results of the MIPEX index also shows challenges of talent migration and integration in Lithuania. The results of the latest survey, based on data from 2020, show that Lithuania still scores only 37 out of 100 points, which means that Lithuania's integration policy creates more obstacles than opportunities for immigrants. Lithuania's score is lower than the average MIPEX score (50/100).

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3 - Šaltinis: [Eurydice, Lithuania Overview](#)

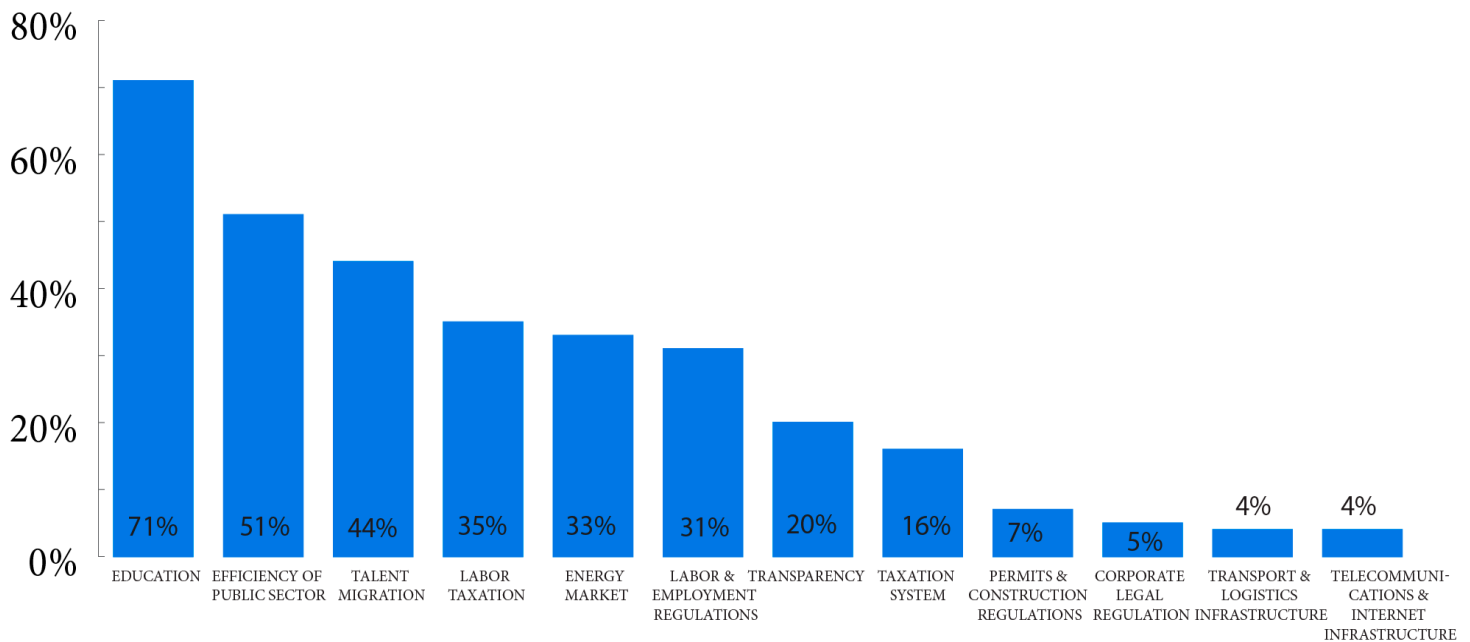
4 - Šaltinis: [Lietuvos švietimo būklės apžvalga](#)

5 - Šaltinis: [Lietuva. Švietimas šalyje ir regionuose. Finansavimas. 2020](#)

6 - Šaltinis: [Mapping the state of graduate tracking policies and practices in the EU Member States and EEA countries](#)

7 - Šaltinis: [International Civil Service Effectiveness \(InCiSE\) Index](#)

## Areas that need most attention, ICIL 2022 Q1



### INVESTORS' EXPECTATIONS REGARDING THE BUSINESS ENVIRONMENT ARE MORE MODERATE

Investors' expectations rose in the post-pandemic period. Business representatives usually hoped that situation would remain unchanged in most areas. However, respondents have more negative expectations in this quarter, especially in areas that are generally sensitive to various crises and external factors. One of these is the stability of the political environment. The assessment of this area and the assessment of expectations for it have become the main reason why the value of the index has fallen. Investors began to view political stability more favorably after the last election in the fall of 2021. However, the results of this quarter are somewhat different - as many as 40 percent of the surveyed company managers believe that the situation in this area will worsen soon, no respondents predict growth in the stability of the political environment, and the

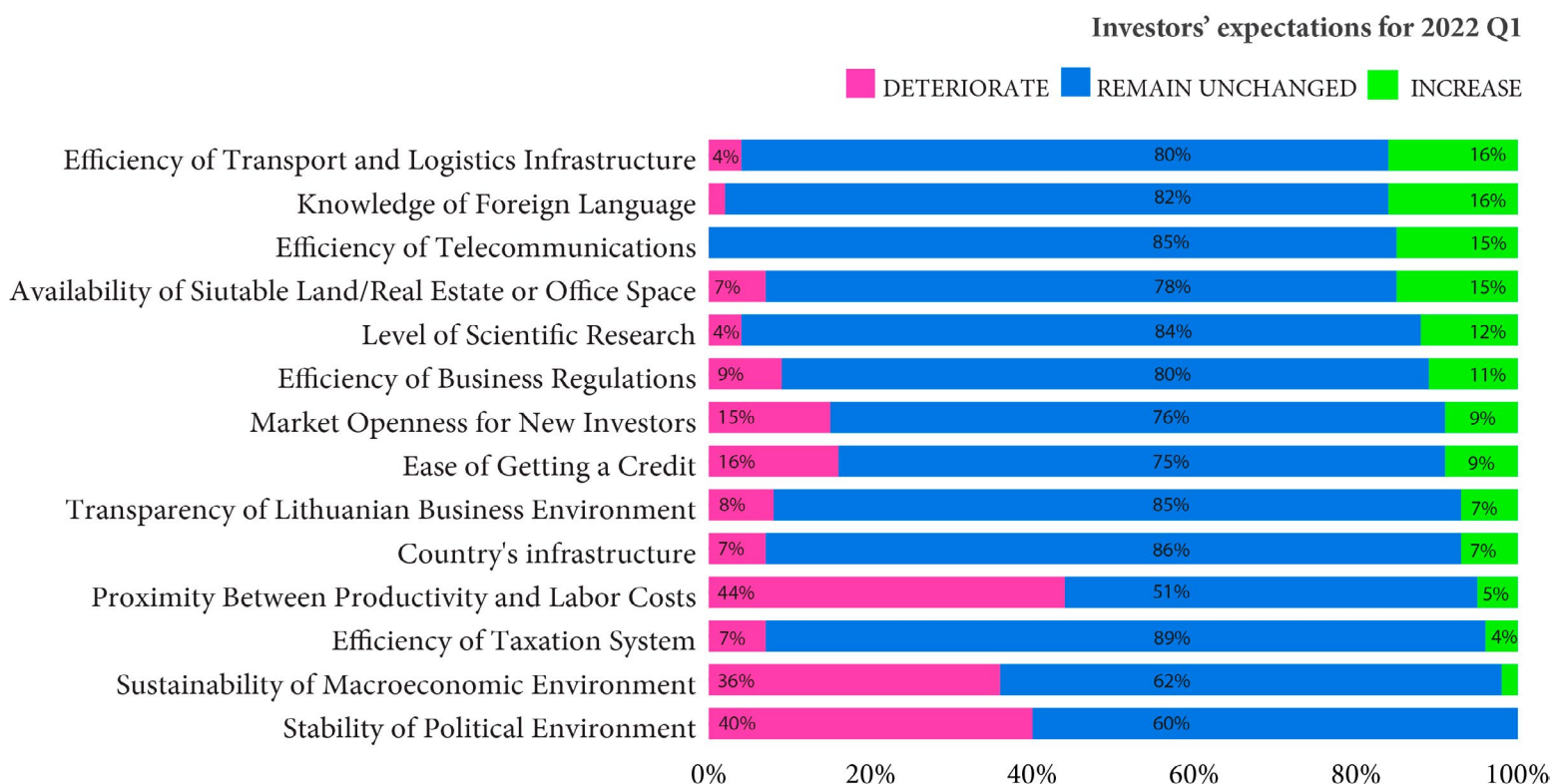
remaining 60 percent expects nothing to change. In the last quarter, the prospects for the stability of the political environment were viewed negatively by only 20 percent of the surveyed executives. Investors are also more concerned about the stability of the economic situation. 36 percent of investors surveyed believe that macroeconomic stability will deteriorate in the near future. The gap between wages and productivity also worries investors. In the last quarter, 41 percent of respondents said that the situation in this area will get worse and a similar number of investors (44 percent) have negative expectations this quarter. The rapid growth of wages, as described by the Bank of Lithuania, has been observed for some time. The problem of staff shortages is also a major factor and it was relevant even before the pandemic crisis. This was one of the main reasons for the significant rise in wages. At the start of the pandemic, when uncertainty

8 - Šaltinis: [The Global Talent Competitiveness Index](#)

9 - Šaltinis: [MIPEX](#)

about the economic outlook was high and labor demand was declining, wage pressures eased briefly, with average wages in the private sector declining in the second quarter of 2020 compared with the previous quarter. As economic activity began to recover, long-standing problems in the labor market became relevant again. However, while investors are concerned about the gap between productivity and wages, productivity in the country has also risen. During the pandemic,

Lithuanian companies stood out with quite a significant increase in labor productivity. The value added created per hour worked increased by 5.4 per cent in Lithuania. The growth of labor productivity in Lithuania was one of the highest among the EU countries. Nevertheless, the surveyed business leaders are cautious and looking at labor market trends, when there is a particular shortage of skilled and unskilled labor in the country and wage growth continues.



## INVESTORS: PROFIT AND INVESTMENT WILL POSSIBLY DECREASE, BUT THE SALARIES WILL GROW

Investors are most positive about the growth of employees' salaries. 95 percent of the managers of the companies surveyed anticipate such changes in their companies. The rest believe that the situation in this area will not change. No investor

expects wages in their companies to fall. The results of the survey of companies conducted by the Bank of Lithuania also show positive trend regarding the increase in employees' salaries. According to this survey, which included more than 500 companies of various sizes and located in different regions, it can be seen that more than a half of the companies surveyed plan to increase their employees' wages, most of them citing staff

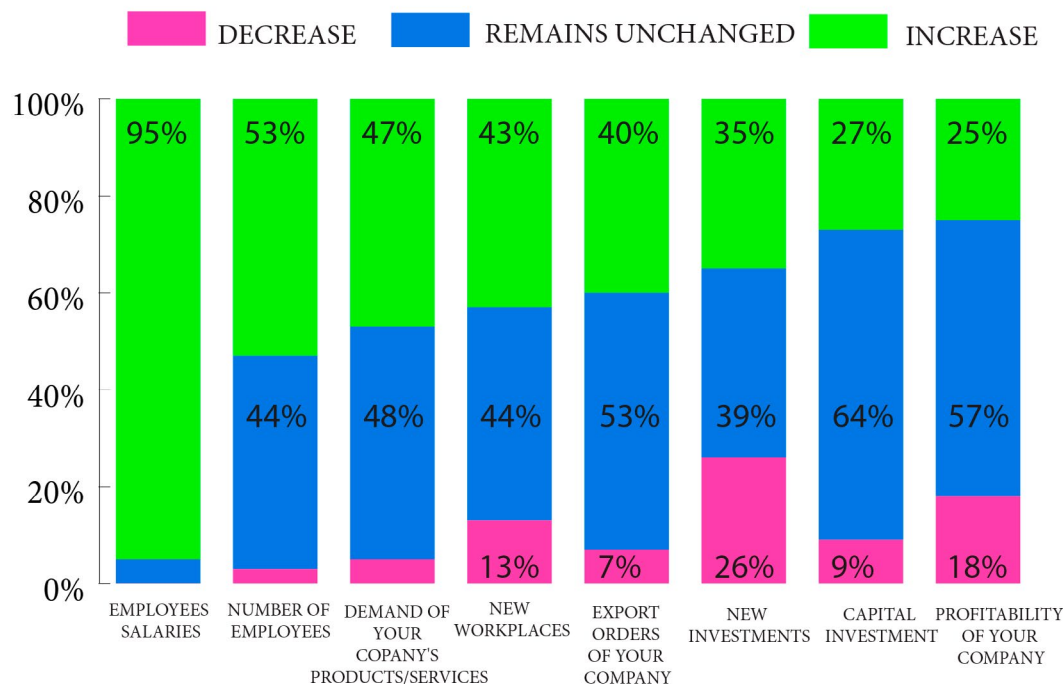
shortages as the main reason of that.

Also, similar to the end of last year, respondents expect the number of employees in their companies to grow (more than half expect growth in this area). In many other areas the situation is expected to remain stable and unchanged, with some respondents predicting more negative developments.

Slightly more than a quarter of executives surveyed say the investment will decline in the coming period (up from just 3 percent last quarter). The decrease is also expected in terms of the company's profit. 18 percent of business executives surveyed say profits will decline in

the coming period. Although some of the areas under assessment show that investors are more cautious about the growth prospects, most of them are still positive or believe that the situation will not change in the near future. 4 out of 10 respondents believe that the export of the company's products will continue to grow, and their demand, according to 47 percent of managers, will also continue to grow. The slight increase in negative trends in these areas also contributes to the decline in the value of the index, but not as much as the assessment of the current investment climate in the country and expectations for the near future.

**Investors' projections for upcoming quarter, ICIL 2022 Q1**



## TALENT POOL HELPS TO ATTRACT AND RETAIN INVESTMENTS IN LITHUANIA

When asked about Lithuania's advantages in attracting investments, business representatives name three main areas: talent pool, quality of life

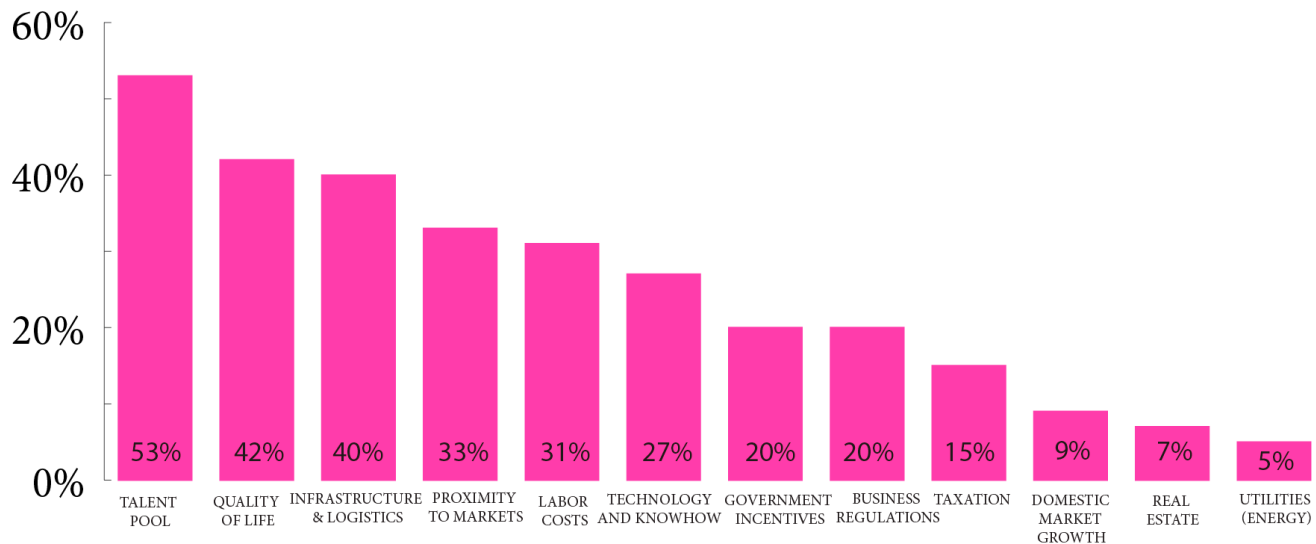
and infrastructure and logistics. Talent pool was chosen as one of the advantages by 53 percent of respondents and quality of life as important for attracting investment by also 42 percent of respondents. 4 out of 10 of investors name the importance of infrastructure and logistics. The

data provided by “fDiMarkets” also reflects similar results. Top three motives of manufacturing companies for choosing Lithuania in 2013 – 2017 was qualified labor (57%), infrastructure and logistics (39%), investment agencies and government incentives (35%).

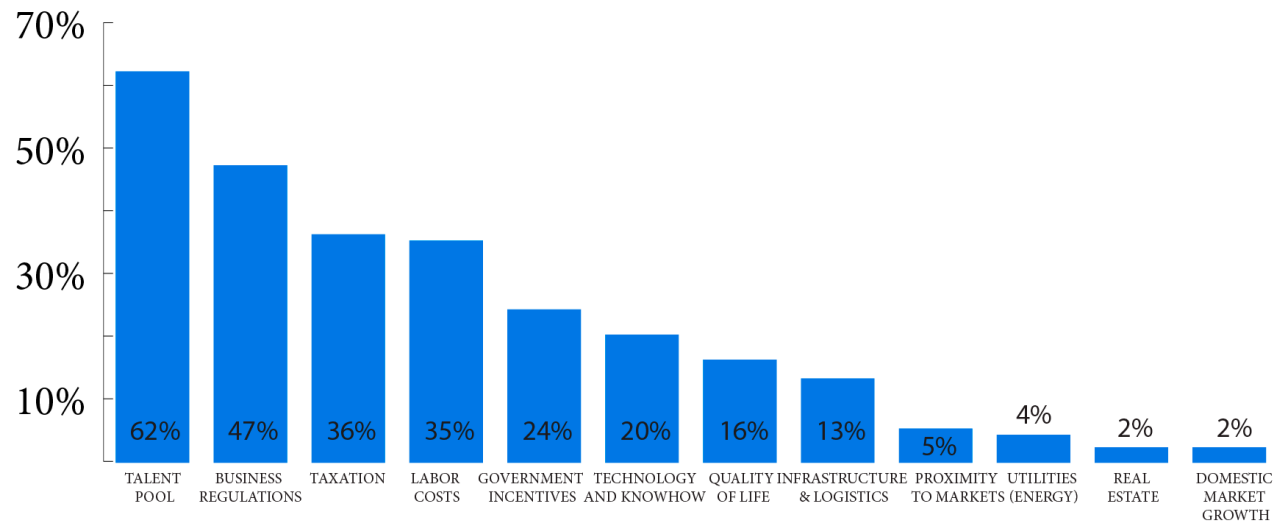
Naming the main reasons why investors stay in Lithuania, the respondents indicate that it is talents and decisions related to business

regulation and the tax system. 47 percent of respondents consider business regulation to be one of the main reasons for maintaining investments in Lithuania. As many as 62 percent of respondents emphasize the importance of talent, and 36 percent of company executives mark labor taxation as an important reason to keep investing.

### Lithuania’s advantage towards investment, ICIL 2022 Q1



### Factors that keep foreign direct investment (FDI) in Lithuania, ICIL 2022 Q1

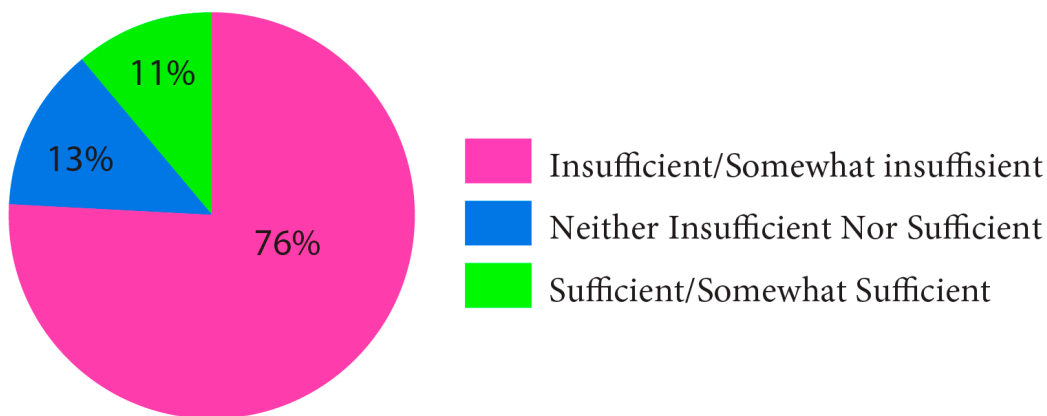


## QUALIFIED LABOR IS VERY IMPORTANT FOR FOREIGN CAPITAL COMPANIES

According to the ICIL talent pool and qualified labor are very important factors for foreign capital companies. Talent attraction and migration remain top priority areas for several quarters in a row. 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. 76 percent of the respondents believe that availability of qualified

labor is insufficient or somewhat insufficient in Lithuania. Meanwhile, only 2 percent of investors have a different opinion. They say that availability of qualified labor in our country is sufficient or somewhat sufficient. According to the Bank of Lithuania, although the unemployment rate is still about half a percentage point higher than before the pandemic, the share of companies that cited labor shortages as a limiting factor has risen to its highest level since the global financial crisis and is visible in all major economic sectors: construction, industry, trade and service.

### Availability of Qualified Labor in Lithuania, ICIL 2022 Q1



## ADDITIONAL INSIGHTS

Traditionally, ICIL research is complemented with additional questions about current events and relevant topics. This time, we asked the investors to evaluate the work of various state institutions. Also, we asked investors about the situation of exporting and importing goods in/from/through China.

Investors evaluated the activities of state and municipal institutions for the seventh time. Compared to last year's assessment, respondents'

attitudes towards most institutions have changed slightly. The Register Center is best rated institution by investors. 60 percent of respondents evaluate this institution positively. Compared to last year's survey, the rating of this institution has fallen slightly (by 2 percentage points). The State Tax Inspectorate, the Customs Department and the Fire Protection and Rescue Department are also rated well (58 percent of respondents evaluate the work of these institutions positively).

Respondents also favor the work of Sodra (57 percent of positive assessments) and the State Labor Inspectorate (56 percent of positive assessments).





















The assessment of several institutions has changed significantly. Investors evaluated the work of the State Land Fund, the State Forest Service, and the Department of Cultural Heritage better (the rating of the first two institutions increased by 9 percentage points and the rating of the Department of Culture increased by 11 percentage points).

Among the institutions with the worst evaluation are the Migration Department (39 percent of positive assessments evaluations), the National Land Service (40 percent of positive assessments),

and the State Inspectorate for Spatial Planning and Construction (42 percent of positive assessments).

The evaluation of the progress of the activities of the Supervisory Authorities (Scoreboard) prepared by the Ministry of Economics and Innovation also responds to the investors' opinion on the most important state institutions. The scoreboard results show that the State Tax Inspectorate and the State Labor Inspectorate are also among the top-rated institutions. The Customs Department and the Fire Protection and Rescue Service are also positively evaluated, although it should be noted that ICIL respondents rank these institutions higher than they are in the scoreboard assessments.

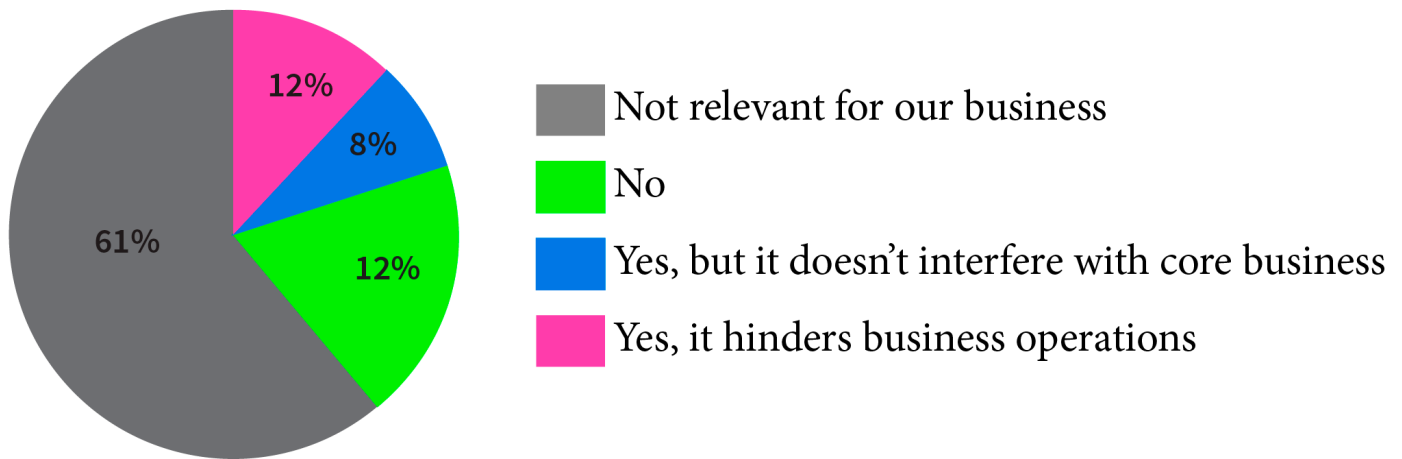
#### Evaluation of the institutions, ICIL, 2022 Q1

NAME OF INSTITUTION	EFICIENCY	TENDENCY	CHANGE
CENTER OF REGISTERS	60 %		- 2 p.p.
STATE TAX INSPECTORATE	58 %		- 7 p.p.
CUSTOMS	58 %		2 p.p.
FIRE AND RESCUE DEPARTMENT	58 %		1 p.p.
SOCIAL INSURANCE (SODRA)	57 %		- 2 p.p.
STATE LABOUR INSPECTORATE INFORMATION	56 %		0 p.p.
ENERGY DISTRIBUTOR OPERATOR	55 %		- 3 p.p.
STATE FOOD VETERINARY SERVICE	54 %		- 2 p.p.
STATE LAND FUND	52 %		9 p.p.
LITHUANIAN LABOUR EXCHANGE	51 %		- 4 p.p.
NATIONAL PUBLIC HEALTH SERVICE	49 %		- 1 p.p.
NON-FOOD INSPECTION	49 %		- 4 p.p.
DEPARTMENT OF CULTURAL HERITAGE	48 %		11 p.p.
STATE FOREST SERVICE	47 %		9 p.p.
STATE ENERGY INSPECTORATE	46 %		- 7 p.p.
THE ENVIRONMENTAL PROTECTION AGENCY	46 %		2 p.p.
STATE SERVICE FOR PROTECTED AREAS	44 %		4 p.p.
STATE TERRITORIAL PLANNING AND CONSTRUCTION INSPECTORATE	42 %		- 2 p.p.
NATIONAL LAND SERVICE	40 %		2 p.p.
MIGRATION DEPARTMENT	39 %		0 p.p.

Assessing the situation of companies in business relations with China and in importing and exporting products, the majority of companies surveyed indicate that this is generally irrelevant

to their activities (46% for imports and 61% for exports). A very small proportion of the managers of the companies surveyed say that they have problems with importing/exporting.

### Do you face any challenges in exporting products, equipment, and production materials to/through China?



### Do you face any challenges in importing products, equipment, and production materials from/through China?

