



THE SWEDISH TRADE & INVEST COUNCIL



Embassy of Sweden



BUSINESS
SWEDEN

BUSINESS CLIMATE SURVEY IN ESTONIA, LATVIA AND LITHUANIA

AN ATTRACTIVE REGION FOR SWEDISH BUSINESS

June 2018

BUSINESS CLIMATE SURVEY 2018

- ▶ The Business Climate Survey was conducted from March 22nd 2018 until April 30th 2018 by Business Sweden in collaboration with the Embassies of Sweden in Tallinn, Riga and Vilnius and Glimstedt Law Firm in the Baltic States
- ▶ Ninety five individuals (34 from Estonia, 35 from Latvia and 26 from Lithuania) representing all company sizes and industries have participated in the survey from approximately 500 Swedish executives who were identified as potential respondents' pool. In comparison to the previous survey 107 respondents participated in the Business Climate Survey 2015
- ▶ The respondents of the survey were non-local representatives of companies with Swedish capital, local companies with Swedish management and other companies associated with Sweden
- ▶ The survey was composed of quantitative and qualitative questions aiming to understand the current business climate and expectations (including opportunities and challenges) of the Sweden related companies in the Baltic States
- ▶ In order to understand the current status of business, a number of questions about internal factors such as turnover and number of employees were also included in the survey. The respondents were as well asked to express their opinion about the future in order to get acquainted about their current view on the development of the Estonian, Latvian and Lithuanian business climate

COVERAGE

95

PARTICIPANTS



46%

Production



11%

Agriculture and forestry



11%

Services



9%

Finance



8%

Logistics



8%

IT and Telecom



5%

Building materials



8%

Other



LITHUANIAN BUSINESS CLIMATE IS ATTRACTIVE

YET THERE ARE AREAS FOR POTENTIAL IMPROVEMENT

Investments



70% EST
61% LAT
69% LIT

...plan to continue investing

Positive perception of Sweden



92% EST
69% LAT
67% LIT

...of the Swedish companies are perceived well or very well

Strenghts

- Majority of Swedish investors see Lithuania and other Baltic states as attractive markets to do business in
- Lithuania demonstrates high increase of respondents that call it excellent or very good environment compared with 2015 (55% → 76%)
- Lithuania is perceived to be slightly ahead of Estonia and Latvia in productivity vs. salaries ratio, but this is expected to equalize in 2-3 years
- Labour force is considered to be hard-working and easy to train
- In Lithuania less respondents than in Estonia & Latvia say developments in Russia had effect on investment decisions
- Majority of respondents (71%) believe Lithuania offers good conditions for doing responsible business

Challenges

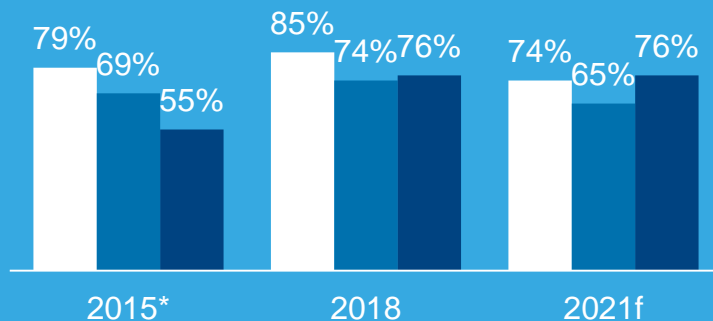
- Competition for talent is increasing and hiring has become more difficult in Lithuania, Latvia, Estonia compared with 2015
- Productivity is expected to grow slower than salaries in the coming 2-3 years
- Slightly higher % of respondents in Lithuania than in Estonia and Latvia have been exposed to transparency issues, but also larger proportion of respondents say situation is improving



BALTIC STATES – A GOOD REGION TO LIVE IN AND DO BUSINESS WITH

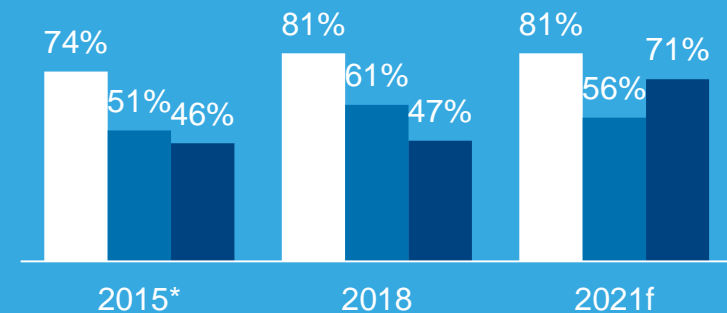
Baltic States are excellent or good places to do business in

■ Estonia ■ Latvia ■ Lithuania



Quality of life is excellent or good in the Baltic States

■ Estonia ■ Latvia ■ Lithuania



- ▶ Respondents find the Baltic States excellent or good places to do business with
 - ▶ More equal perception of business climate in all three Baltic states compared to 2015
 - ▶ Estonia still leads as the best place to do business in the Baltics, but Lithuania shows strongest improvement

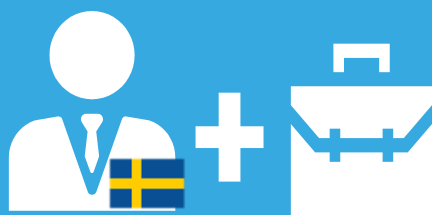
- ▶ Quality of life in the Baltics is good and is improving
 - ▶ Swedish managers in Estonia are most positive about quality of life
 - ▶ Quality of life is perceived to have improved the most in Latvia during the last 3 years (10%), while Lithuania has the best positive outlook for the future
 - ▶ Respondents in Estonia and Lithuania are more confident about the future than in Latvia

* Data from Business Climate Survey 2015



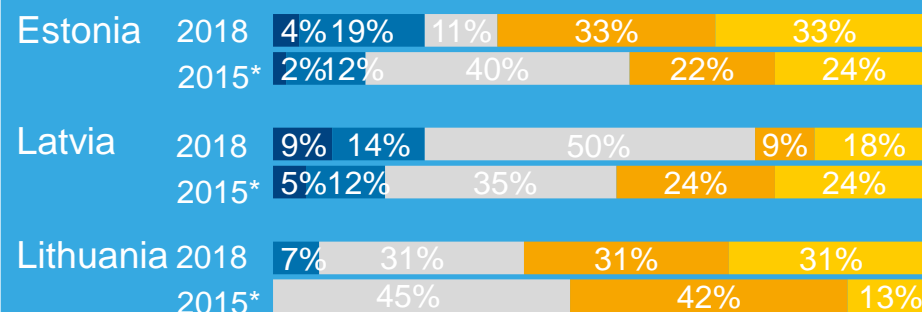
MAJORITY OF SWEDISH COMPANIES PLAN TO CONTINUE INVESTING IN THE BALTIC STATES

Ambition to invest



70% EST
61% LAT
69% LIT

Have the developments in Russia affected investment decisions into the Baltic States?



■ To very high extent ■ To high extent ■ To some extent ■ To very little extent ■ Have not affected at all

- ▶ Swedish investors' plans to invest in the Baltic States compared to 3 years ago have remained on a similar level in Latvia (64%) and Lithuania (73%), but in Estonia investment confidence has increased and a larger proportion (70%) of Swedish companies plan to invest compared to 3 years ago (55%)*
- ▶ The developments in Russia have some effect on planning investments in the Baltic States
 - ▶ 23% of respondents in Latvia and Estonia answered that the developments have affected investment decisions to very high or high extent while in Lithuania only 7% say there were affected
 - ▶ Developments in Russia have slightly larger effect in Latvia and the proportion of affected investment decisions
 - ▶ Over 60% of respondents in Estonia and Lithuania stated that the developments have not affected them at all or very little

* Data from Business Climate Survey 2015

SWEDISH COMPANIES ARE WELL PERCEIVED IN ESTONIA, LATVIA AND LITHUANIA

Positive perception of Sweden among Baltic counterparts



92% EST
69% LAT
67% LIT

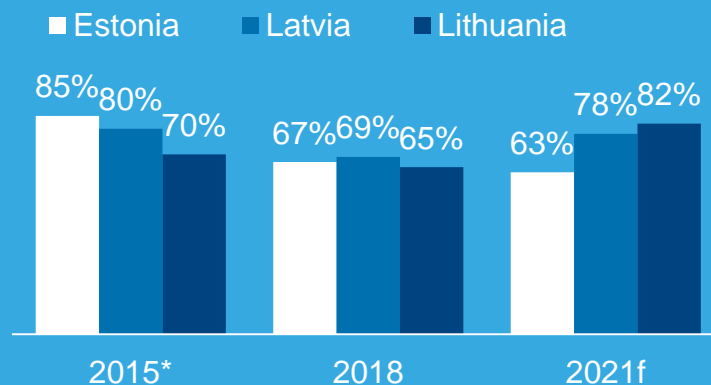
...of the respondents think that as a representative of a Swedish company they are perceived well or very well

- ▶ The majority of companies agree that it is beneficial to highlight the Swedish origin on the Baltic States market, but it has declined in Latvia and Lithuania in comparison to data from 2015* while in Estonia it has remained on a similar high level
- ▶ Using the Swedish brand can also be beneficial for sales as well as when looking for to recruit staff on the Baltic States market

* Data from Business Climate Survey 2015

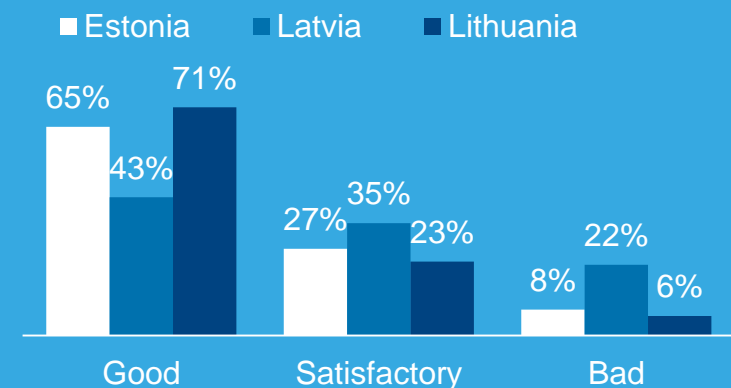
MAJORITY OF RESPONDENTS SAY IT IS EASY TO FIND RELIABLE BUSINESS PARTNERS

It is easy to find a reliable business partner



- ▶ Respondents find it satisfactory to find reliable business partners in the Baltic States
 - ▶ It has become more challenging to find business partners today compared to 3 years ago
 - ▶ Respondents in Latvia and Lithuania believe it will be easier to find good business partners in the future

Conditions for doing responsible business in the Baltics



- ▶ Conditions for doing responsible business in the Baltic States are good
 - ▶ Based on the evaluations, the best conditions for doing responsible business in the Baltic States are in Lithuania
 - ▶ Service companies find the conditions for doing responsible business slightly more challenging than production companies, but trading companies assess the conditions being very good

* Data from Business Climate Survey 2015

COMPETITION ON THE MARKETS IS FIERCE

Company establishment 2018



75% EST
48% LAT
50% LIT

...consider company establishment very easy or easy

Competition on the market is fierce



56% EST
61% LAT
62% LIT

...consider competition on the market being high or very high

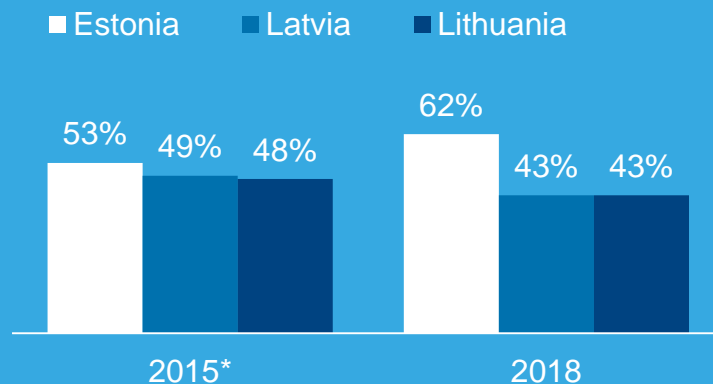
- ▶ In Estonia 10% and in Latvia 13% of respondents consider company establishment more difficult while in Lithuania 18% say that company establishment has become easier compared to 2015*

* Data from Business Climate Survey 2015

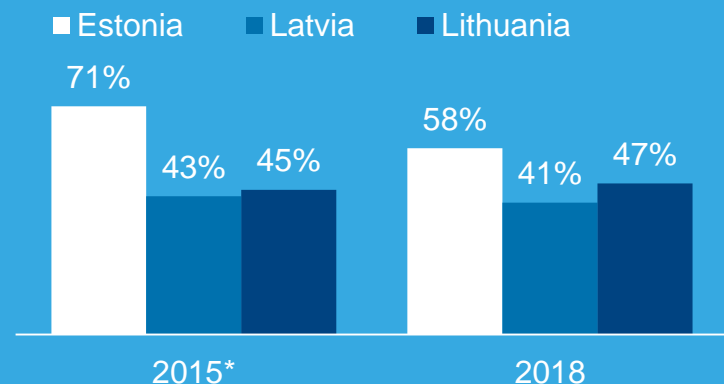


PAYMENT TERMS ARE PERCEIVED TO BE FOLLOWED BETTER IN ESTONIA THAN LATVIA AND LITHUANIA

Payment terms are followed to high or very high extent by private companies



Payment terms are followed to high or very high extent by public institutions



- ▶ For private companies there are no significant changes in payment behaviour in Latvia and Lithuania, but the gap between Estonia vs. Lithuania and Latvia has increased
- ▶ Production companies are more satisfied with payment discipline than service or trading companies in all three countries
- ▶ Estonian companies have improved their payment behaviour while public institutions in Estonia demonstrate a slight drop

* Data from Business Climate Survey 2015



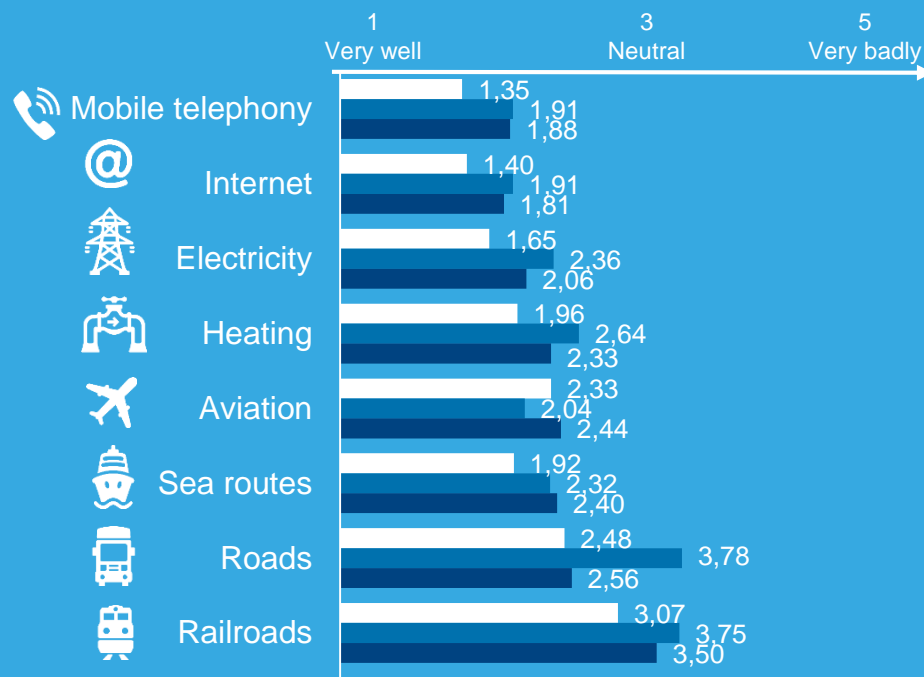
INFRASTRUCTURE WORKS WELL

LITHUANIA - IMPROVEMENT IN AIR AND SEA, BUT DROP IN ROAD AND RAIL VS. 2015

How well does infrastructure work?

Average score (1-Very well, 5-Very badly)

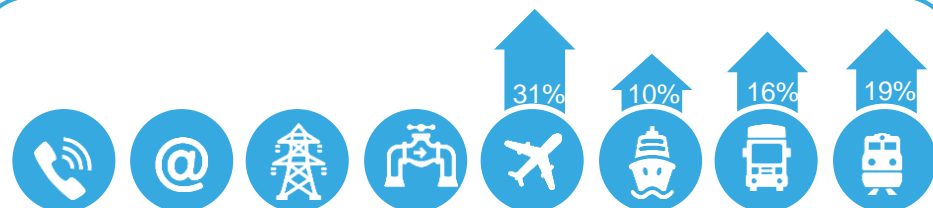
■ Estonia ■ Latvia ■ Lithuania



Main trends on infrastructure developments 2015* vs. 2018

Comparison** on evaluations on "Very well" and "well"

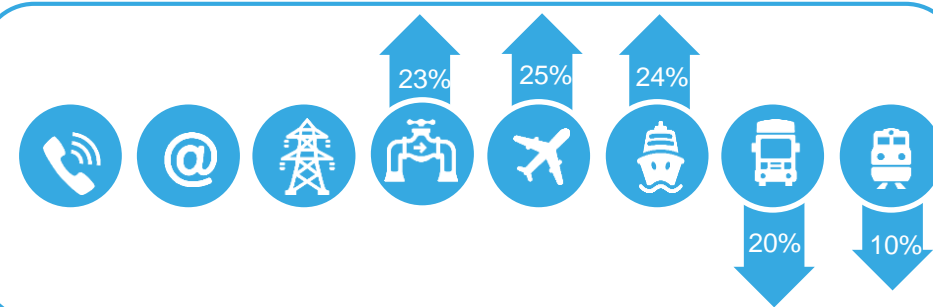
EST



LAT



LIT

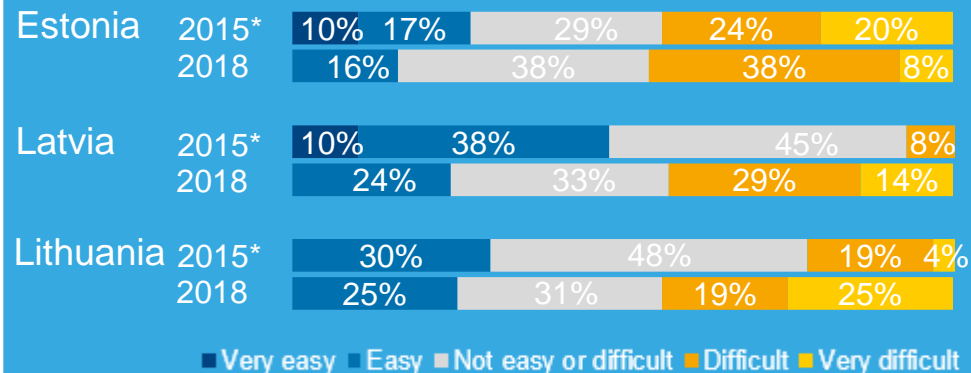


**Change of percentage points

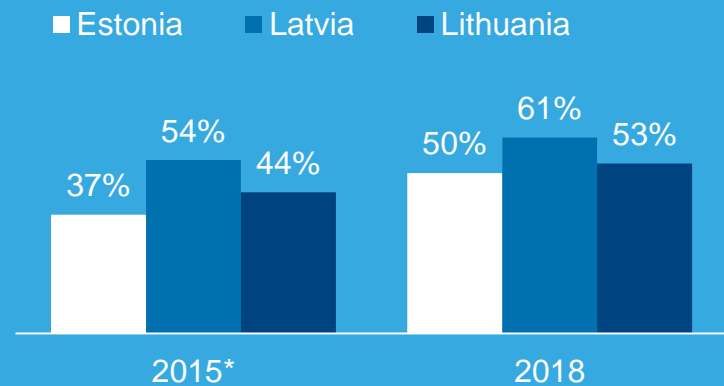
* Data from Business Climate Survey 2015

HIRING OF PEOPLE HAS BECOME MORE CHALLENGING

How is hiring of staff in the Baltic States?



Hiring of Swedish speaking staff not crucial for operations in the Baltics



- ▶ Competition for good employees is fierce, hiring of staff is equally difficult in all the three countries
- ▶ From the labor force availability perspective the countries are more similar today than three years ago

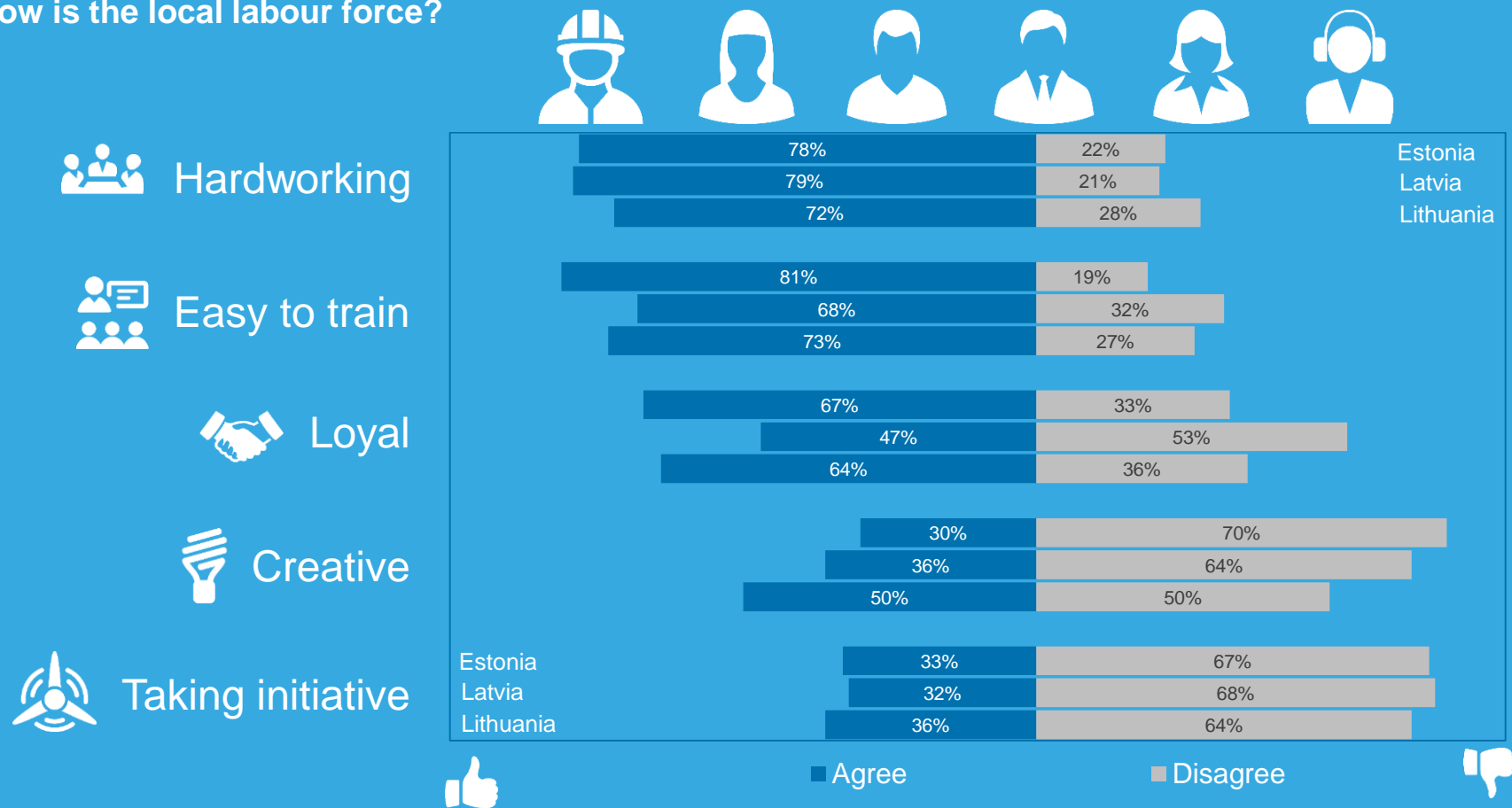
- ▶ Swedish language requirements are becoming less crucial for operations in all three countries say the Swedish companies which are already present on the markets
- ▶ Service companies are more in need of Swedish speaking staff than production or trading enterprises

* Data from Business Climate Survey 2015



LOCAL LABOUR FORCE IS HARD WORKING AND EASY TO TRAIN

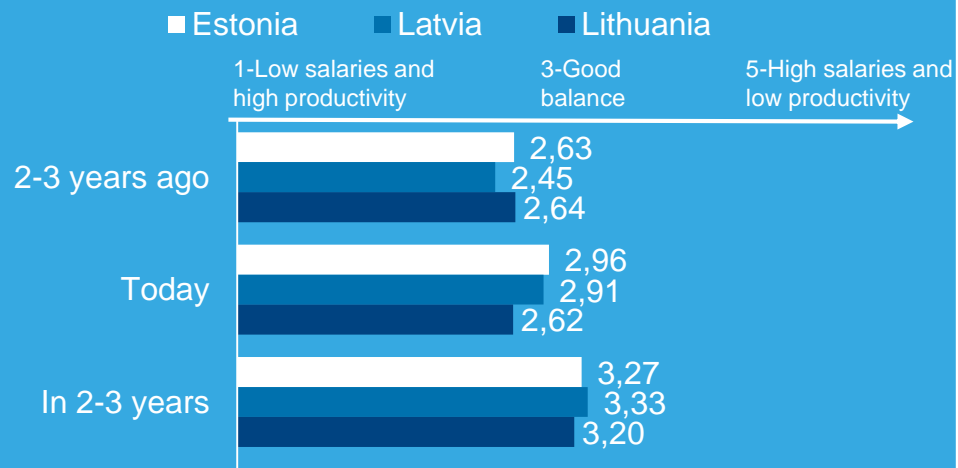
How is the local labour force?



BALANCE BETWEEN SALARIES AND PRODUCTIVITY IS GOOD IN ALL THREE BALTIC STATES

How are salaries compared to productivity?

Average score (1-Low salaries and high productivity, 5-High salaries and low productivity)

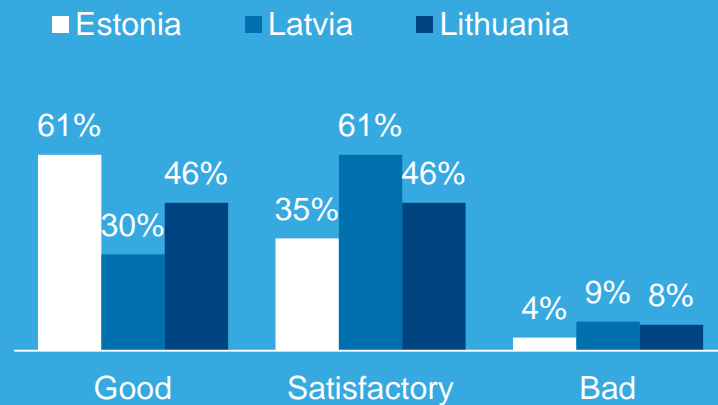


- ▶ Lithuania is perceived to offer the slightly better salary vs. productivity compared to Latvia and Estonia
- ▶ The salary growth is expected to be slightly faster than productivity growth in the coming 2-3 years in all three countries
- ▶ The Baltics are expected to be similar in terms of salary vs. productivity in 2-3 years time



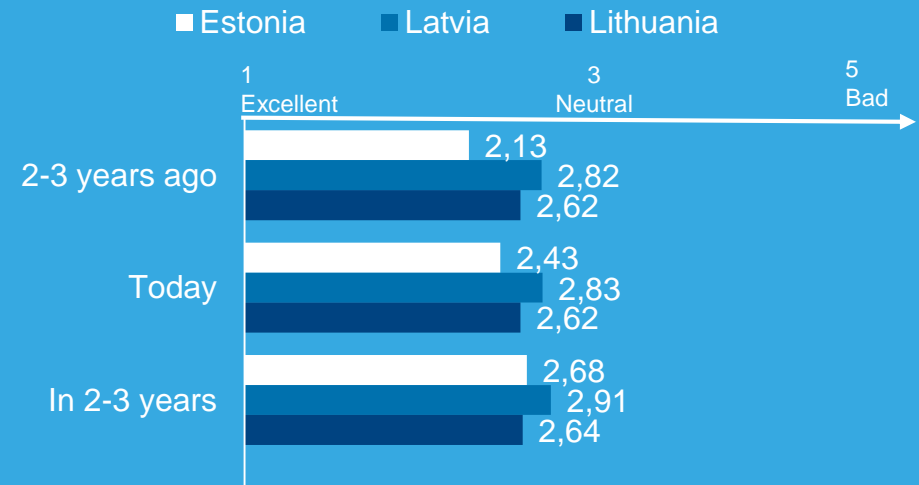
OVER 90% SAY THE TAX SYSTEM IS GOOD OR SATISFACTORY IN ALL THREE COUNTRIES

Evaluation of the current taxation system in the Baltic States



Evaluation of the taxation systems

Average score (1-Excellent, 5-Bad)



- ▶ 61% in Estonia, 30% in Latvia and 46% in Lithuania consider the existing taxation system to be good today, but that is lower than 3 years ago



LAW IS FOLLOWED IN ALL 3 BALTIC STATES

BUT RESPONDENTS IN LATVIA ARE SLIGHTLY MORE CRITICAL TOWARDS LEGAL ENVIRONMENT THAN PEERS IN LITHUANIA AND ESTONIA

Legal environment in the Baltic States

Average score (1-Very high extent, 5-Not at all)

■ Estonia

■ Latvia

■ Lithuania

1 Very high extent 3 Neutral 5 Not at all

The legal environment is favourable towards business

2,21
3,10
2,73

Dispute settling system is trustworthy

2,19
3,06
2,67

The legislation for fair competition is followed

2,22
3,00
2,57

The law is followed

1,89
2,41
2,36

- ▶ Respondents say that the law is followed in the Baltic States
- ▶ Respondents in Latvia are slightly more critical towards the different aspects of local legal environment than respondents in Estonia and Lithuania



TRANSPARENCY IS IMPROVING

Have you experienced corruption while doing business, been offered to pay a bribe or to use other corruption mechanisms?

-NO! **83% EST**
74% LAT
60% LIT

...have not experienced any corruption or been offered to pay bribes

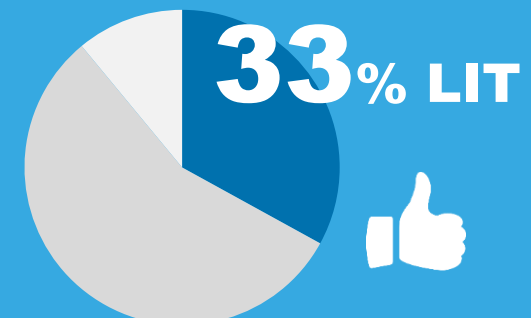
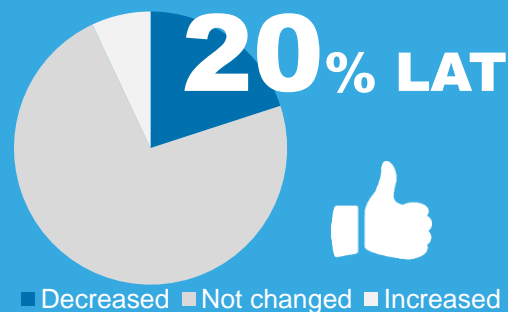
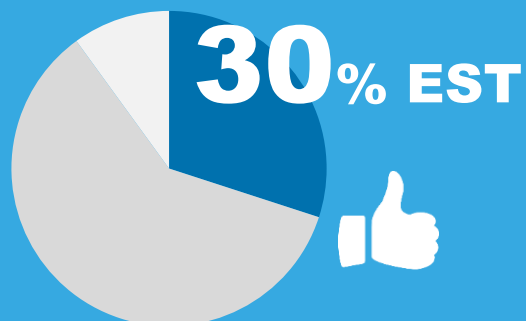


Have you experienced that your competitors have won tenders because of corruption mechanisms involved?

-NO! **78% EST**
53% LAT
50% LIT

...have not experienced that their competitors have won tenders due to corruption mechanisms involved

Perception of corruption: has the situation changed in the Baltic States?



■ Decreased ■ Not changed ■ Increased



VOICES: WHAT IS ATTRACTIVE FOR YOUR BUSINESS IN THE BALTIC STATES?

It is connected to the Nordic and Baltic markets and this gives synergies for us

Cost level, small country where it is easy to meet decision makers

High quality and in some cases competitive costs

Riga is great value for money for incoming tourists and this is what I measure as we are a hotel, Riga recently also came onto the top 10 of places to visit in the world according to Tripadvisor, so i predict a bright future for the numbers of guests visiting Latvia/Riga

VOICES: WHAT SHOULD BE IMPROVED IN THE BALTIC STATES?

Difficult to recruit staff, maybe more liberal immigration policies

Drop the quota for working permits

Hard to find engineers.

The constant change regarding taxes and fast political decisions makes it very difficult to plan long term

Better transparency in public sector, investments are held back by "political" interference in EU founded projects, political and personal interest gets in the way of the general good for the society.

Step up and fight against corruption and 'envelope salaries', allow labor immigration from any country



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