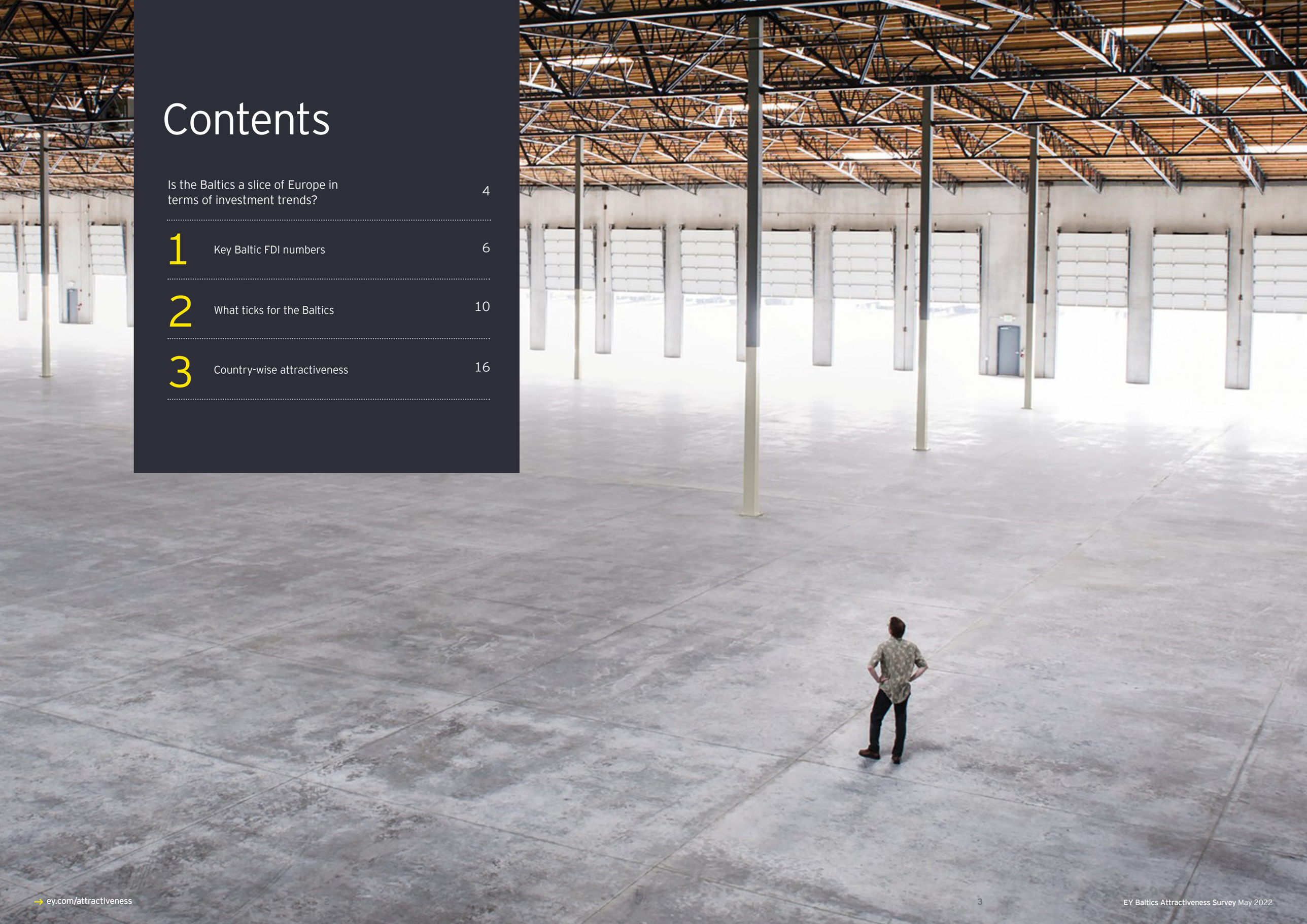
The Baltics Attractiveness Survey

May 2022

EY

Building a better working world

Contents



Is the Baltics a slice of Europe in terms of investment trends?

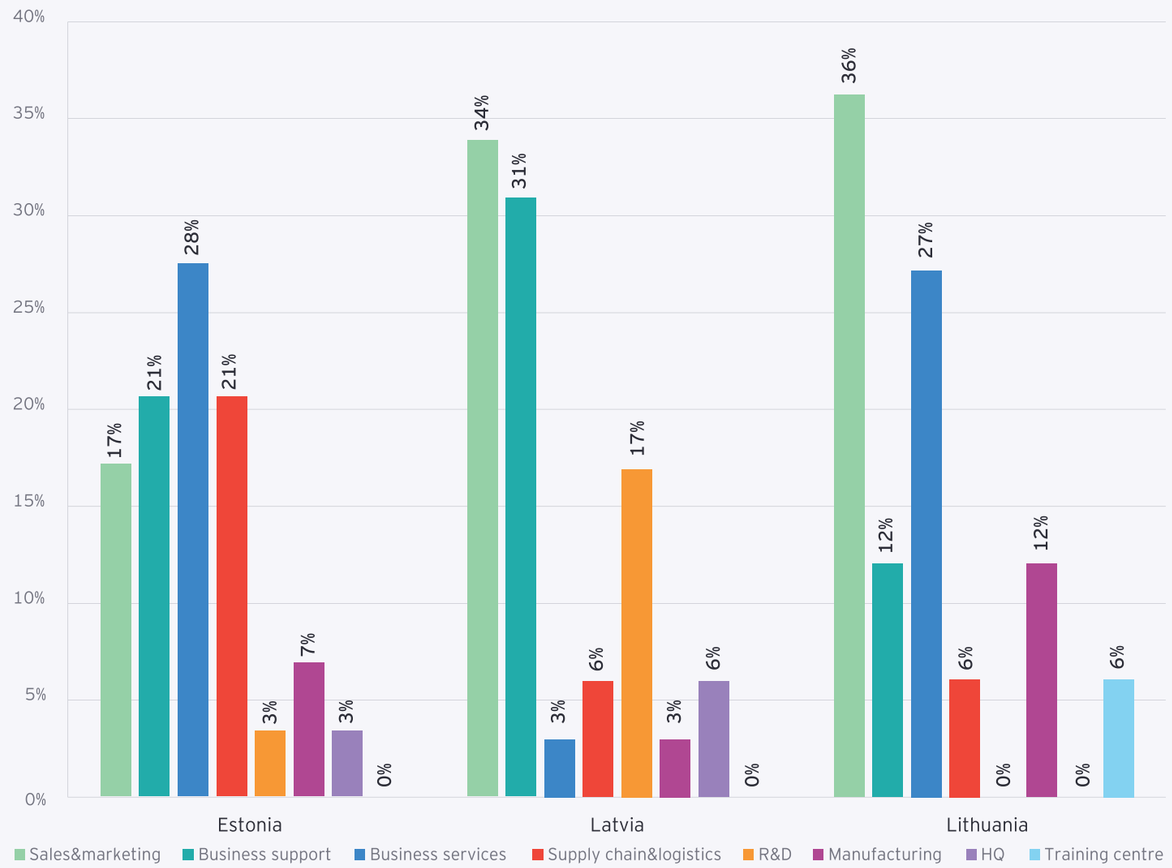
Right now, everything about Europe is tectonic – frequent changes at the political frontiers, geopolitical shifts, high volatility in currencies and a pandemic that's not yet over add to the chasm created by a war that's still ongoing. Yet, Europe stays attractive. The same goes for the Baltic countries – lying close to war-affected Ukraine – that partly buffer the rest of the Europe from Russia.

In fact, in many of the key investment parameters, the Baltics is a slice of Europe. For instance, The Baltics mirror the European trend in "the sectors that will drive growth in the coming years." The digital sector tops in Europe as well as in the Baltics. The Baltics' average stands at 52% whereas the European average is 45%. The growth of digital economy will be a defining trend over medium term both in Europe as well as in the Baltics with the highest share of investors (58%) showing confidence in Latvia among the Baltic nations.

In terms of operations, across Europe, companies are looking to invest primarily in sales and marketing offices, and business services operations. This holds good for the Baltics too. (See Figure 1)

In terms of the Baltics' image and optimism among investors, the region has many positives attached. For instance, the region is perceived as an emerging technology hub. The general consensus is that the Baltic countries are directly in competition with some of the more established digital and technology hubs, including the Nordic countries as well as Israel and Singapore, in inviting attention from investors. Unfortunately, the image might be a little skewed now because of the geographic location and the geopolitical situation that the region is in. A lot depends on how the war progresses.

Figure 1: What operations are you planning to establish or expand?



1 Key Baltic FDI numbers

82
FDI Projects have been realized in the Baltics in 2021

60%
of businesses plan to establish or expand operations in the Baltics during the next year

54%
of investors state that a stable political and social environment is vital in attracting investment.

The Baltic countries still remain attractive

Europe is regaining some of its sheen with regard to foreign direct investment (FDI). The Baltic Countries, in spite of the war and other geopolitical tensions, still remains attractive, albeit with caution. In 2021, though the turbulence and uncertainty resulting from COVID-19 continued, FDI in Europe grew by 5%. The number of FDI projects in the Baltics in 2021 stands at 82 with Lithuania accounting for exactly half of those numbers. Overall, Lithuania, Latvia and Estonia are assessed positively but cautiously for future expansion.

Even with the prevailing tensions, FDI recovery seems to be accelerating in the Baltic countries. Close to 60% of businesses plan to establish or expand operations in the Baltics during the next year. This is 7% more than the European average of 53%. A good reason for this would be the positive investment environment in the Baltics – political and administrative stability, constructive governance, and relative availability of human resources. Above all, the region has one of the finest startup ecosystems in Europe.

In the medium term, investors are optimistic about the European investment landscape, although vigilant about the Ukraine crisis. However, in the Baltics, the trend is slightly different from that of Europe. The prospects seem mixed, with a significant number of investors saying attractiveness will decrease in Estonia and Latvia over the next three years, while investors in Lithuania are extremely positive about the country's investment prospects.

Figure 2: To what degree do you think attractiveness will evolve over the next three years?

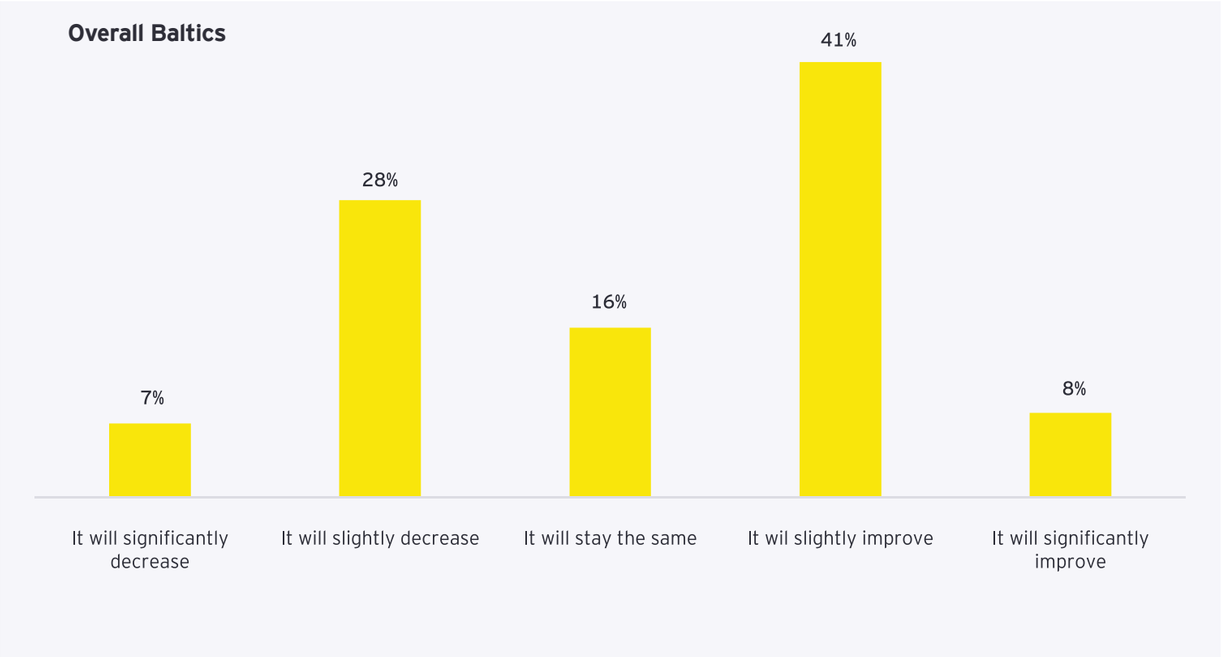
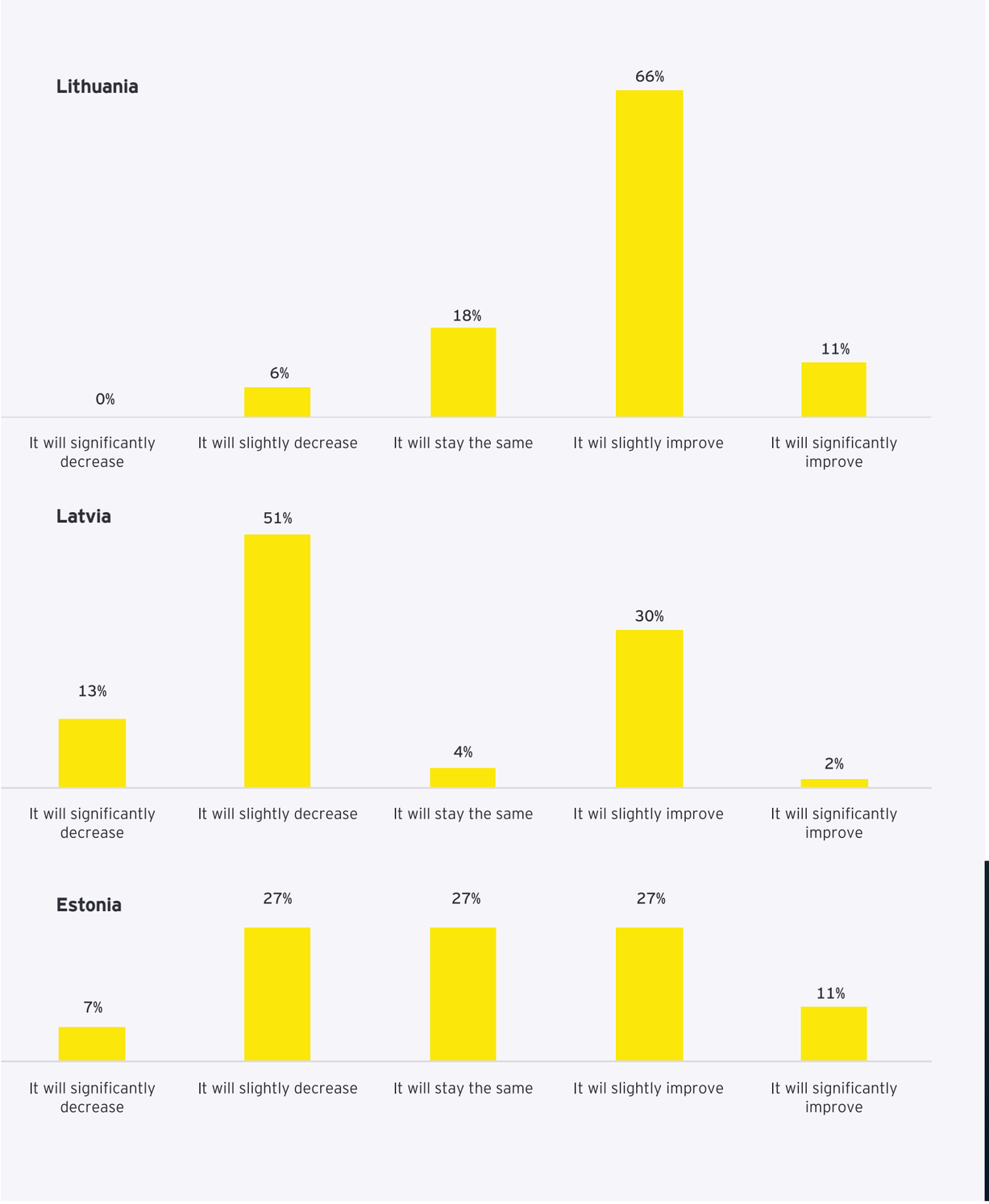
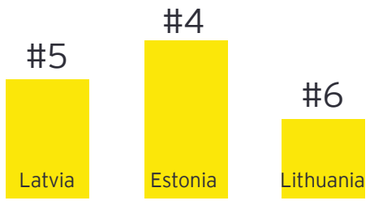


Figure 2.1: To what degree do you think attractiveness will evolve over the next three years?



In brief

The Baltic countries are in the top 10 of Europe



With regard to jobs created per million people, the Baltic countries are among the top 10 in Europe – Estonia, Latvia and Lithuania occupy ranks number four, five and six respectively.

60% Sixty percent of investors in the survey plan to establish or expand operations in the Baltics in the next 12 months.

49% Forty-nine percent of investors expect the Baltics attractiveness to improve over the next three years.

41% Forty-one percent of respondents in the Baltics are planning digital transformation programs to be implemented.

Eighty-two inward investment projects are at hand:

Digital economy growth will be a defining trend over medium term both in Europe as well as in the Baltics, with the highest share (58%) in Latvia.

In driving growth, digital and business services occupy top spots:

- 24% vouch for the digital sector
- 21% vouch for the business services

54% Fifty-four percent of investors state that a stable political and social environment is vital in attracting investment.

43% of investors confirmed a stable political and social environment as being an important investment attraction.

2 What ticks for the Baltics

14
Unicorns in the three countries

10
of which based in Estonia

56%
of the respondents think that the region's digital infrastructure makes it attractive.

The age of the Baltic unicorns

The Baltic countries, specifically Estonia has been successful in creating startups, and in attracting a few big names as well. Estonia now has 10 unicorns, Latvia two and Lithuania onetwo. One of the technology stories in the region goes like this: When a famous technology startup in which an Estonian was a founder was sold, some of the money got invested back in Estonia and the region, again in startups. This gradually developed into a thriving startup ecosystem, spreading to the rest of the Baltics. These startups multiplied and some of them grew significantly over the years.

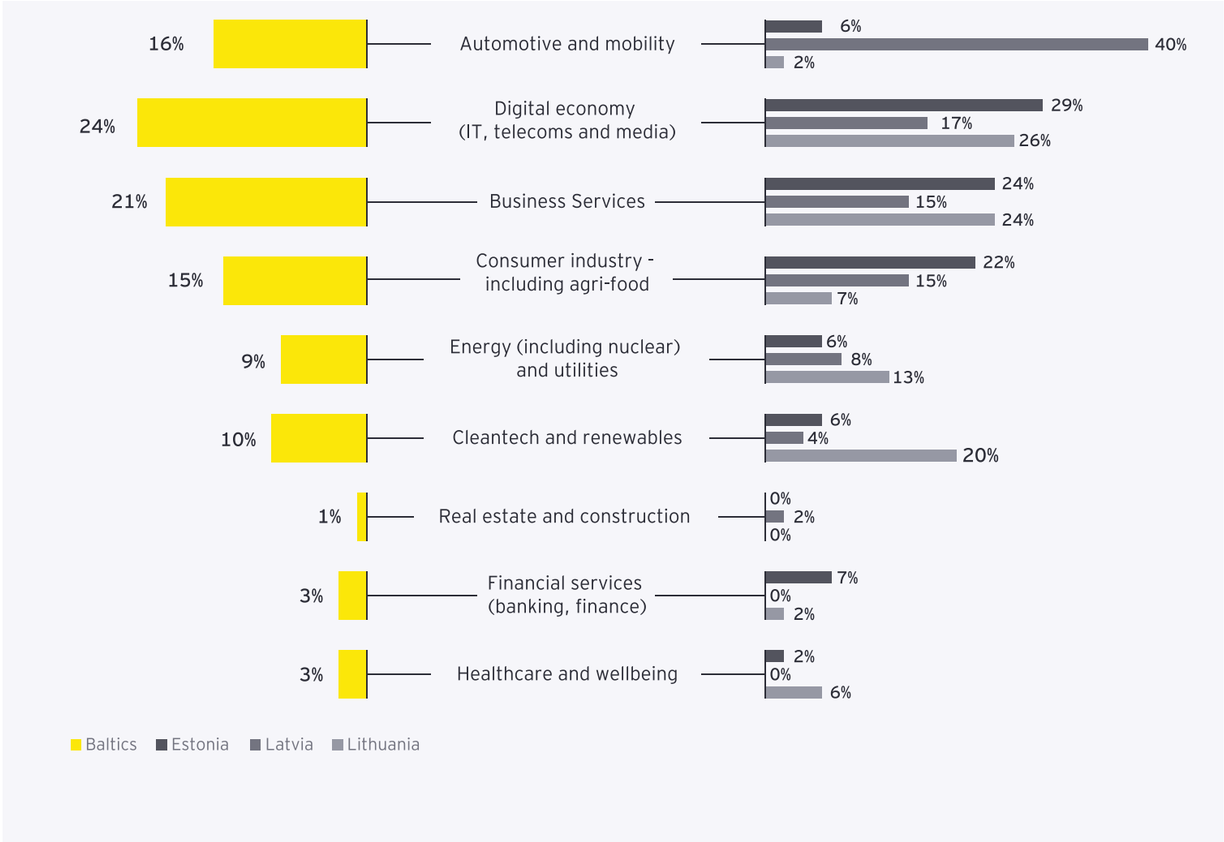
The overall startup and innovation environment is favorable. In all the Baltic countries, the respective governments too played their part by removing the barriers that would hinder investments and the growth of these technology startups.

They invested extra interest and effort into developing good infrastructure, especially digital infrastructure. Latvia, for example, provides a very favorable tax regime to startups. Part of this development is cultural.

Close to 48% of investors think that the region's entrepreneurial and startup culture is a key factor in attracting investment. Around 56% of the respondents think that the region's digital infrastructure makes it attractive.

Nearly 32% of investors in the survey say that Baltic countries should concentrate their efforts in supporting high-technology industries and innovation (cleantech, health care, smart electricity grids, etc.) in order to maintain a competitive position in the global economy.

Figure 3: In your opinion, which business sector will drive the growth in the coming years?



Technology takes the Baltics to the forefront

The Baltics seems to outdo Europe as far as some key technology-related factors are concerned. Part of it is owing to the thriving startup ecosystem and the digital edge that the Baltic countries have. For instance, 92% investors think that the Baltics fare as well or better than Europe with regard to the availability of workforce with technology skills.

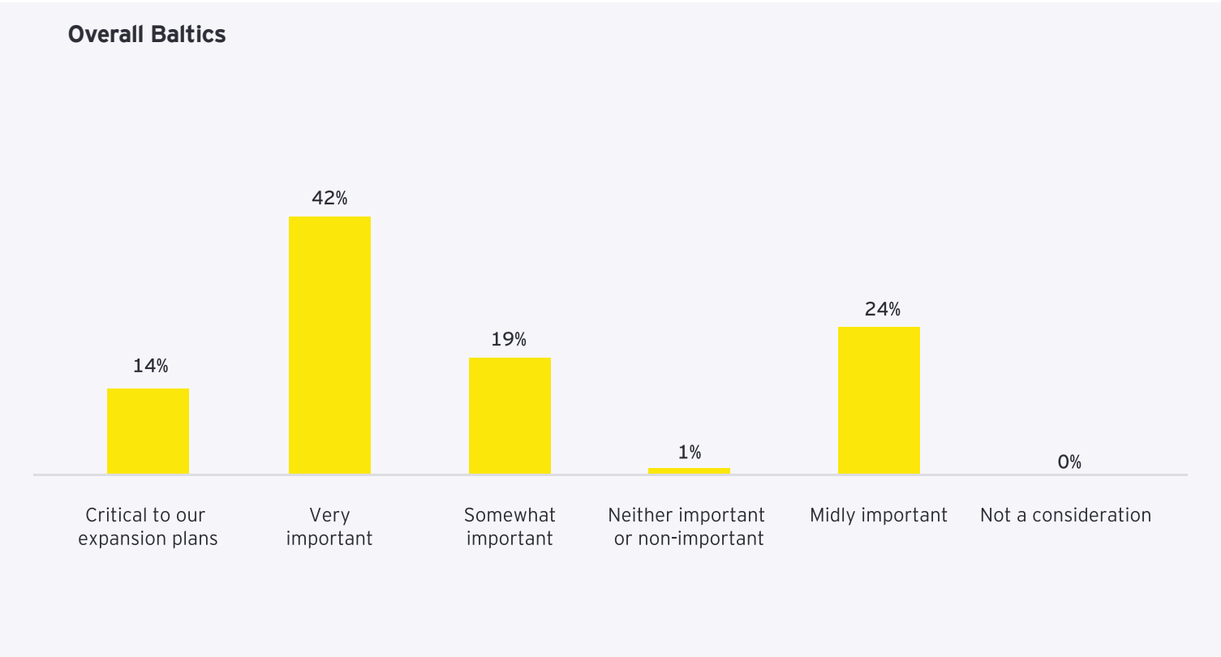
Ninety percent of the investors think that the Baltics perform as good as or better than Europe vis-à-vis the network of startups and research institutions.

Eighty percent of the investors surveyed in the Baltics think that the support by government and regulatory authorities to drive the digital agenda is on par with or better than the European average.

92%

investors think that the Baltics fare as well or better than Europe with regard to the availability of workforce with technology skills.

Figure 4: How important is availability of digital skills for your investment plans?



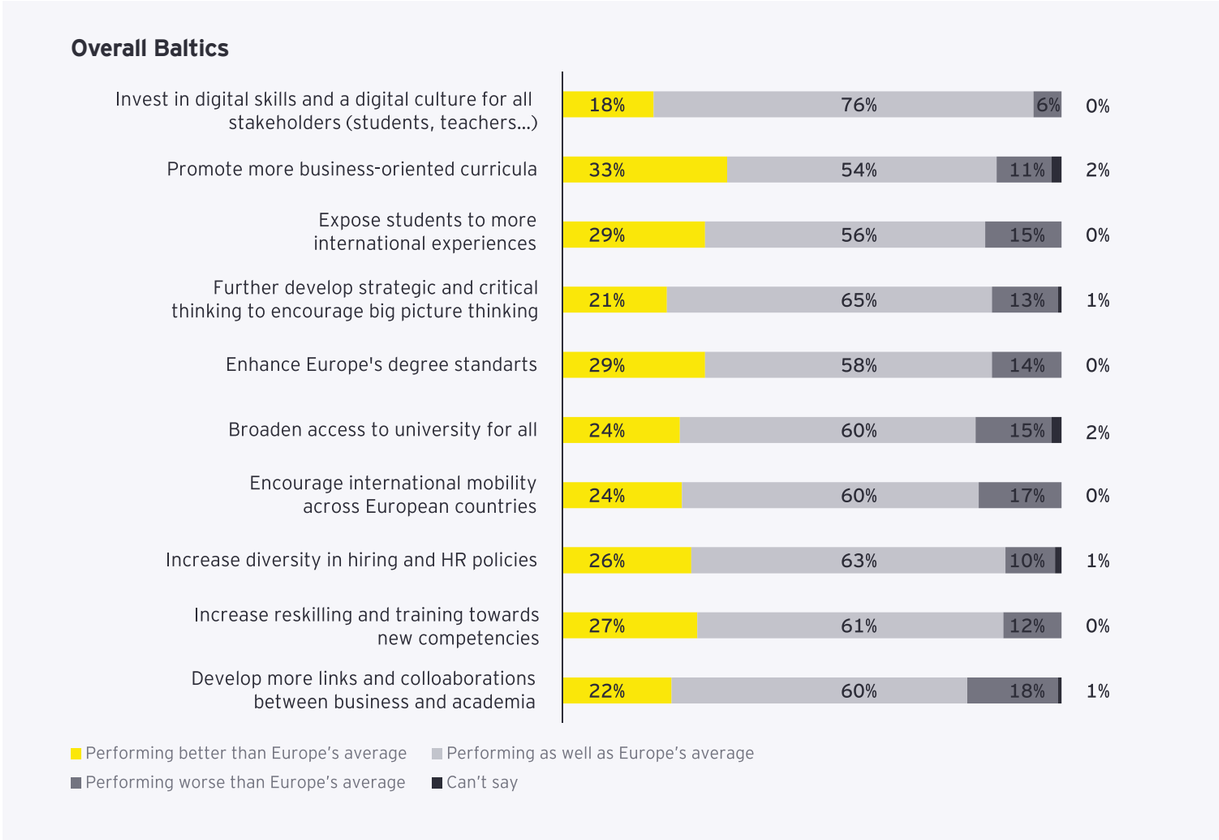
What ticks for tha Baltics

The Baltics – a sea of talent

Majority of investors who responded – about 95% – consider the Baltics on par with the European standard in cultivating a digital culture for students, teachers, employees, citizens and others.

In terms of diversity and inclusiveness practices, more than 89% investors think that the Baltic region either outperforms or performs as well as Europe in increasing diversity in hiring and HR policies.

Figure 5: In your view, how does the country perform with regard to the following talent-related areas?



Political and social factors – stability attracts

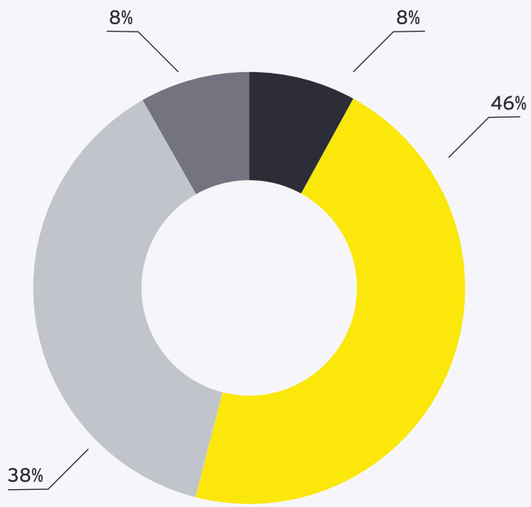
It's no secret – what works best for the Baltic countries along with a favorable startup ecosystem is its relative stability. This includes a favorable political and governance environment as well as helpful administration and bureaucracy. About 55% of all respondents in the survey across the Baltics think that the region's political and social environment make it advantageous as an investment destination. The numbers are particularly high in Latvia – 67%. Please note that a significant part of the survey was conducted after the war in Ukraine started.

However, amid the optimism, the region needs to be cautious. Close to half of the investors (48%) who took part in the survey think that the Baltics' bureaucracy and administration make it attractive to make investments. However, this shows a significant drop from 63% in 2021. Additionally, a large number of investors (48%) find that the current or planned tax policies make the destination less attractive.

Figure 6: Please rate how attractive the country is as a location for establishing new activities with regard to the following criteria:

Overall Baltics

A stable political and social environment



- Very attractive
- Fairly attractive
- Little attractive
- Not at all attractive

What ticks for tha Baltics

> "When asked about the region's potential to decarbonize supply chain, 82% of investors said that the Baltics is on par with or better than Europe.

Sustainability – an environment for growth

Over the years, sustainability has become a key FDI driver not just in Europe, but across the world. Not so long ago, sustainability and environmental factors were not key parameters for investors, but with changing consumer awareness and preferences, these have become an absolute necessity. Overall, investors in Europe consider sustainability as an indispensable factor to their investment strategy. Even in these, the Baltics share similar sentiments as Europe.

When asked about the region's potential to decarbonize supply chain (through transport reduction, access to sustainable materials, etc.), 82% of investors said that the Baltics is on par with or better than Europe. Even in terms of regulations to support sustainable business practices (recycling obligations, biodiversity protection regulation, green building standards, etc.), the region at 71% seems to fare equally or better than Europe's average. Additionally, 73% of investors think that the percentage of renewables in the electricity supply is as high as Europe's or better.

3 Country-wise attractiveness

> In fact, Latvia keeps competitive position among the Baltic countries.

Confident investors: the Latvian advantage

Digital economy seems to be the sector that will drive Latvia's growth in the coming years. Unlike in Lithuania and Estonia, mobility industry too will drive Latvia's progress, states investors.

A large number of investors who responded to the survey intend to either commence or further operations in Latvia. In fact, Latvia tops the list among the Baltic countries while staying significantly above European average, reflecting the confidence of international investors despite the turbulence in the region.

However, not everything is rosy. A significant number of investors say that Latvia's attractiveness will decrease over the next three years. Estonia also shows similar trend whereas investors in Lithuania are extremely positive about the country's prospects. It's quite possible that the general economic outlook, inflationary pressures and increased salaries could be making the country less attractive to investors, and now a protracted war in the region adds to this.

Furthermore, in Latvia, more than half of the investors are unhappy with the current or planned tax policies and think that they are creating stumbling blocks for foreign investment.

Seven key findings from the Latvia Attractiveness Survey 2022

01
Investors are confident to make new investments or add to the ones already made.

02
At 34%, sales and marketing tops investment projects; R&D surges.

03
Latvia is at number 10 in Europe in terms of FDI investment projects per million population.

04
Digital economy will drive growth in Latvia in the coming years.

05
Investors hold significant confidence in local cleantech and sustainability business ecosystem.

06
Small and medium-sized enterprises (SME) need support.

07
Technology factors play a key role in attracting investors to Latvia.

1. Investors are confident to make new investments or add to the ones already made.

About 66% of the investors are ready to make first-time investment or willing to invest more. This is significantly above the European average at 53% and tops Lithuania at 60% and Estonia at 53%.

2. At 34%, sales and marketing tops investment projects; R&D surges.

In terms of investment projects, sales and marketing projects occupy the top spot just like last year. Interestingly, this year shows a significant leap with 34% of investors identifying sales and marketing as the investment project their company wants to establish or expand, as against 21% a year back. Business support services sector (call centers, shared services, data centers) also shows growth at 31% (26% the previous year). The most heartening, however, is the interest in R&D – 17% investors as against 11% last year – showing in which direction the country is headed.

3. Latvia is at number 10 in Europe in terms of FDI investment projects per million population.

For every million people, there are 16.9 FDIs made in Latvia; this is the highest among Baltic states.

4. Digital economy will drive growth in Latvia in the coming years.

Technology is always a key factor in deciding the attractiveness of a location and, in the next few years, digital sector is expected to drive growth in Europe overall. Latvia tops the list among Baltic countries with 58% investors thinking that it's the key business sector to drive growth. The European average stands at 45%, while the figures stand at 51% and 46% for Estonia and Lithuania respectively.

5. Investors hold significant confidence in local cleantech and sustainability business ecosystem.

Nearly 96% Latvian investors are extremely positive about the performance of their cleantech and sustainability business ecosystem.

6. Small and medium-sized enterprises (SME) need support.

Close to 43% of the investors said that the country should concentrate its efforts in supporting SMEs in order to maintain a competitive position in the global economy, a significant leap from 31% last year. Incidentally, 38% of investors are of the view that the effort should be focused on large industries and innovation. A large number wants support for struggling industries as well. The priorities are more or less the same across the Baltics.

7. Technology factors play a key role in attracting investors to Latvia.

According to investors, the country performs very well with regard to most of the key technology-related factors. For example, with reference to network of technology startups and research institutions, 100% of investors think that Latvia is better than or similar to Europe. Out of this, more than half think that the performance is better than Europe's. Even in terms of availability of workforce with technology skills, such as scientists, engineers and data analysts, Latvia fares better or at the same level as Europe.

Diverse sectors: the Lithuanian leverage

Unlike Estonia and Latvia, Lithuania has multiple sectors that would drive the country's growth in the coming years. Like everywhere in the Baltics, digital economy leads the charge, say investors. However, business services, energy and utilities, and clean tech and renewables too play a significant role in the near future.

A very large number of investors think that Lithuania will grow in terms of attractiveness in the next few years. It's mainly due to the successful investment environment nurtured over the last several years. Moreover, logistically, Lithuania is strategically located, giving access to key markets. Years of reforms, especially in tax would have played a vital role in keeping the country attractive. In terms of the number of reforms, Lithuania is one of the top countries in Europe. Also, the last decade saw Lithuania emerging as the fintech hub of the region despite Estonia having the technological edge.

Most investors would make new investments or expand on the existing investments in the country. In this too, the investor confidence is much higher than the European average. In short, the war in Ukraine has changed many things, but not investor confidence in the country.

However, there are a few things Lithuania needs to be concerned about. For instance, salaries have been shooting up for a while. Geopolitics and regional instability add to the concerns. Further, a good number of investors stressed on the need to support struggling industries. The need for regulations in order to support sustainability business practice is another concern that's widely shared.

Eight key findings from the Lithuania Attractiveness Survey 2022

01
Investors are poised to take new investment decisions or willing to make additional investments in the next year.

02
Lithuania will remain the most attractive Baltic country for the next three years.

03
Decrease from last year aside, digital sector will spearhead growth in the coming years.

04
Like in the rest of the Baltics, sales and marketing tops investment projects followed by business services.

05
Investors in Lithuania are happy about the tax policies.

06
A healthy mix of renewables in power supply exist.

07
The digital culture provides the advantage.

08
Lithuania has a clear attractiveness policy.

1. Investors are poised to take new investment decisions or willing to make additional investments in the next year.

Sixty percent of the investors surveyed say that their companies are willing to invest or planning to invest more in Lithuania. This is significantly above the European average of 53%.

2. Lithuania will remain the most attractive Baltic country for the next three years.

Investors in Lithuania are extremely positive about the country's investment prospects with 76% investors saying attractiveness will increase. Whereas, in Estonia and Latvia, the next three years seem to be not so attractive.

3. Digital sector will spearhead growth in the coming years.

Forty-six percent of investors think that digital is the leading sector for Lithuania. Thirty-eight percent of investors consider business services as a key sector while 31% believe energy and utilities will play a significant role in the country's growth.

4. Like in the rest of the Baltics, sales and marketing tops investment projects followed by business services.

In terms of investment projects, sales and marketing projects at 34%, show a huge leap from 14% last year. Business services

projects too grow at 27% (24% last year). The most notable sector, however, is manufacturing – 12% as opposed to 8% last year. In Estonia and Latvia, manufacturing figures are in single digit.

5. Investors in Lithuania are happy about the tax policies.

An overwhelming 77% of the investors think that the existing or proposed tax plans in the country make it more attractive to investors. This shows that reforms in the past have paid off in terms of attractiveness.

6. A healthy mix of renewables in power supply exist.

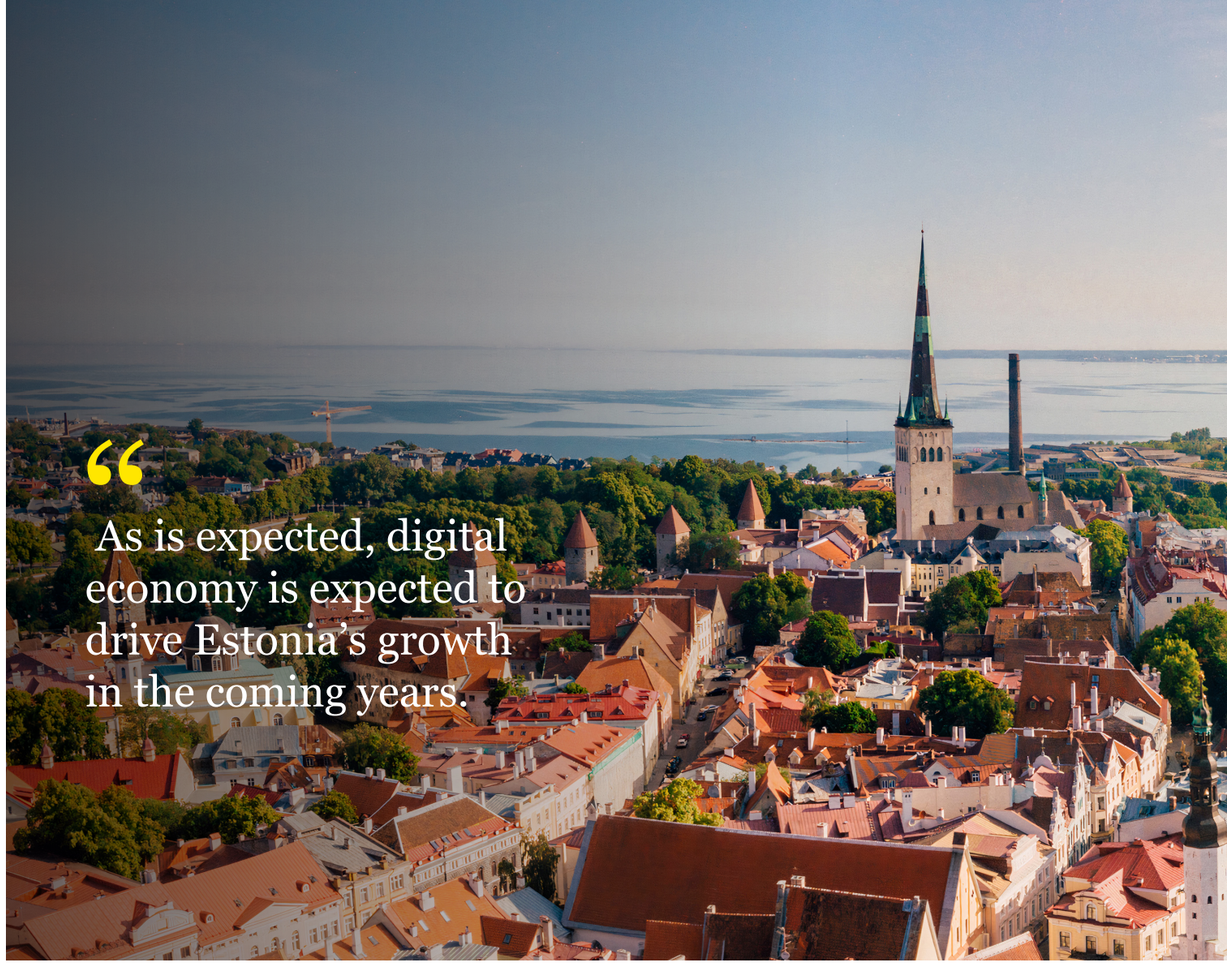
In terms of the use of renewables in the country's energy mix, investors believe that Lithuania fares much better than Europe. An overwhelming 96% consider Lithuania's efforts in this regard to be as good or better than the European average.

7. The digital culture provides the advantage.

Hundred percent of investors surveyed consider Lithuania on par or above the European standard in cultivating a digital culture for students, teachers, employees, citizens and others. This is a clear validation of the effort the country has been putting into developing the digital sector.

8. Lithuania has a clear attractiveness policy.

About 77% investors think that the country currently implements an attractiveness policy that attracts international investors. This is the highest among the Baltic countries.



Technology, innovation and digital hub: the Estonian edge

One of the top countries in the world for e-governance, Estonia has a few aces up its sleeve. Estonia is considered the region's startup hub. And rightly so – the country boasts of the highest number of unicorns in the Baltics reiterating its prominence as technologically and digitally advanced. As is expected, digital economy is expected to drive Estonia's growth in the coming years. Business services and consumer industry (including agri-food) too will join hands in driving the growth, say investors. A good number of investors plan to establish or expand operations in Estonia.

Where should Estonia concentrate its efforts to stay competitive globally? The topmost suggestion from the investors is to support high-technology industries and innovation including cleantech, healthcare, smart electricity grids and more. No surprises there considering the country's technology priorities. Taxation and labor cost, however, are concerns for investors.

Most investors agree that the availability of technologically skilled workforce is on par with European average or better. However, they are quick to point out that the overall availability of workforce across other sectors is a big concern.

Though not alarming, investors in Estonia seem to be concerned about multiple factors including availability of workforce and increasing labor costs. A significant portion of investors who took part in the survey drew attention to the not-so-friendly tax and related policies in decreasing Estonia's attractiveness.

Seven key findings from the Estonia Attractiveness Survey 2022

01
Estonia is at number four in Europe in terms of jobs created per million population.

02
Digital will drive growth just like in the rest of the Baltics.

03
Estonia's attractiveness will weaken over the next three years.

04
Stifling tax policies affect attractiveness.

05
A well thought out attractiveness policy helps.

06
New investment decisions or expansion plans are on par with European average.

07
Estonia's sustainability efforts are paying off.

1. Estonia is at number four in Europe in terms of jobs created per million population.

At number four, Estonia leads the Baltic countries followed by Latvia at number five and Lithuania at number six. In Europe, only Ireland, Portugal and Serbia are ahead.

2. Digital will drive growth just like in the rest of the Baltics.

Fifty-one percent of investors recognize that digital economy is poised to play a part in driving growth. This could stagnate in the long run, partly due to the high digitization already achieved. Besides, technology and other technology-oriented companies are moving into a hybrid work model instead of a totally digital approach. Investors predict that business services (33%) and consumer industry – including agri-food – at 40% would contribute significantly in driving growth.

3. Estonia's attractiveness will weaken over the next three years.

Only 38% of investors think that Estonia's attractiveness will increase in the medium run. Part of it could be down to tax and associated policies. For example, 31% respondents say that Estonia needs to reduce taxation. Part of it could be cost and workforce availability –24% of investors consider the country's labor costs to be steep.

4. Stifling tax policies affect attractiveness.

Seventy-three percent of investors are dissatisfied with the current or planned tax policies, and think that they are not adding any value in attracting foreign investment. In tune with the changing times, investors consider agility of tax processes an important factor ahead of tax rates.

5. A well thought out attractiveness policy helps.

Fifty-three percent of investors who participated in the survey think that Estonia currently implements an attractiveness policy that attracts international investors. This is better than the Baltics' average of 46%.

6. New investment decisions or expansion plans are on par with European average.

Fifty-three percent of the investors are willing to invest or are planning to expand in Estonia. This is the same as the European average, which also stands at 53%.

7. Estonia's sustainability efforts are paying off.

A good number of investors are positive about the location's potential to decarbonize. Around 82% think that Estonia's performance is similar to Europe's efforts with a good number of them thinking that it's better than the European average. More or less, 71% of the investors state that the presence of regulation to support sustainable business practices, such as recycling obligations, biodiversity protection regulation and green building standards, is better than or the same as European average. The percentage of renewables in electricity supply at 73% too is comparable with Europe's standards.

Methodology

The evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), an EY proprietary database.

This database tracks the FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment in manufacturing and services by foreign companies across the continent. Data on FDI is widely available.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings, and intracompany loans.

To confirm the accuracy of the data collected, the research teams aim to directly contact more than 70% of the companies undertaking these investments. The following categories of investment projects are excluded from the EY EIM:

- M&A and joint ventures (unless these results in new facilities or new jobs being created)
- License agreements
- Retail and leisure facilities, hotels, and real estate*
- Utilities (including telecommunications networks, airports, ports and other fixed infrastructure) *
- Extraction activities (ores, minerals, and fuels) *
- Portfolio investments (pensions, insurance, and financial funds)
- Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- Nonprofit organizations (charitable foundations, trade associations and government bodies)

*Investment projects by companies in these categories are included in certain instances: e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

However, our figures also include investments in physical assets, such as plant and equipment. This data provides valuable insights into:

- How FDI projects are undertaken
- What activities are invested in
- Where projects are located
- Who is carrying out these projects

The EY EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EY EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business, and investment.

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources.

The perceived attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investor confidence, and the perception of a country's or area's ability to provide the most competitive benefits for FDI. The field research was conducted by Euromoney in February, March, and April 2022 via online surveys, based on a representative panel of 501 international decision-makers.

The Baltic field research was conducted by Euromoney in March and February-March 2022 via online interviews, with 150 international decision-makers participating.

Addtional sources

- Why remote working is the way forward EY – Global
- EY – FDI Center of Excellence

Thanks

EY Attractiveness surveys are widely recognized by clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyzes both the reality and perception of FDI in the country or region.

Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a 21-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:
ey.com/attractiveness #EYAttract

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