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# The Baltics Attractiveness Survey

Lithuania

August 2024



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# Foreword



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Adaptation is not about winning or losing; it's about surviving and thriving in a changing world.

These words resonate deeply when considering the insights from the latest EY Baltic Attractiveness Survey 2024. For Lithuania to continue as an attractive destination for foreign direct investment (FDI), it is imperative for businesses and government to cooperate and adapt swiftly and decisively.

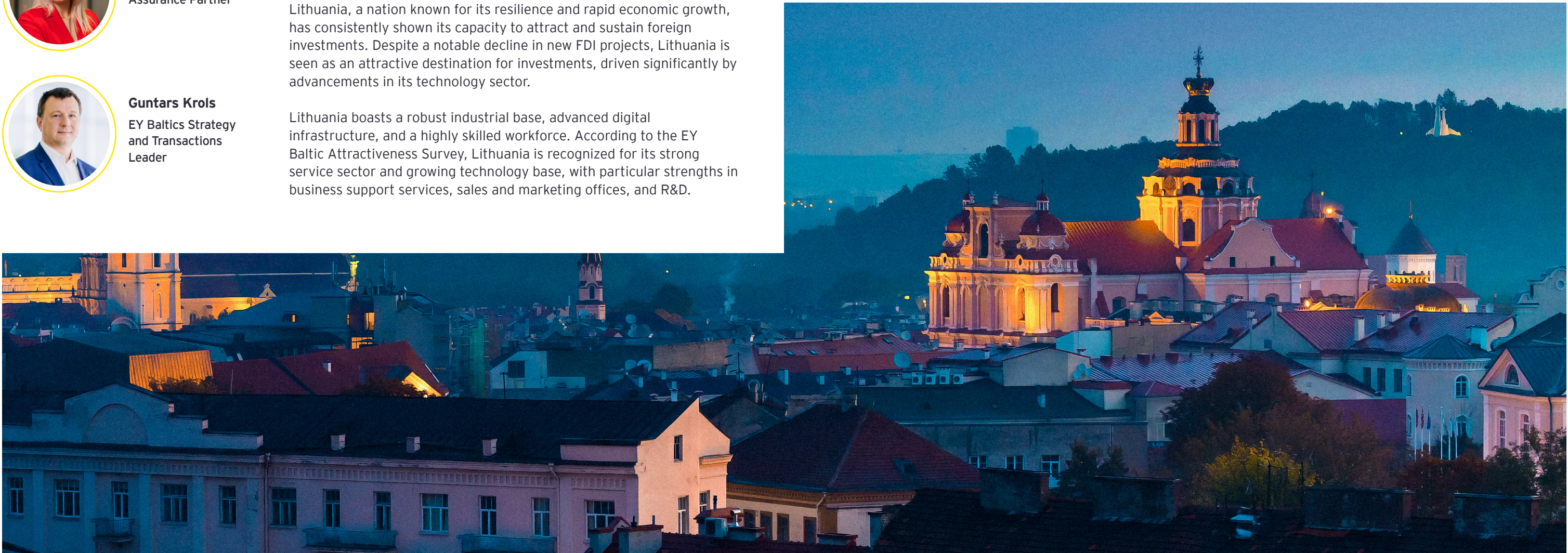
### A Nation on the Rise

Lithuania, a nation known for its resilience and rapid economic growth, has consistently shown its capacity to attract and sustain foreign investments. Despite a notable decline in new FDI projects, Lithuania is seen as an attractive destination for investments, driven significantly by advancements in its technology sector.

Lithuania boasts a robust industrial base, advanced digital infrastructure, and a highly skilled workforce. According to the EY Baltic Attractiveness Survey, Lithuania is recognized for its strong service sector and growing technology base, with particular strengths in business support services, sales and marketing offices, and R&D.

However, Lithuania, like many of its neighbors, faces considerable challenges. Geopolitical tensions, high inflation, and tightening financial conditions pose significant risks to its investment climate. Yet, the optimism remains. Investors show a higher intention to establish or expand operations in Lithuania compared to Estonia and Latvia, indicating confidence in its potential for economic recovery and growth.

To harness this potential, Lithuania must focus on enhancing its sustainability efforts, leveraging its strengths in high-tech industries, and ensuring a stable economic and political environment. By doing so, Lithuania can continue to attract significant foreign investments and solidify its position as a competitive destination in the global market.





# Executive summary

In 2023, Lithuania experienced a significant decline in new FDI projects, with numbers dropping from 47 in 2022 to 28 in 2023. Despite this reduction, Lithuania remains a competitive player within the Baltics, particularly in job creation per capita, where it stands strong. Challenges such as geopolitical tensions, high inflation, and tightening financial conditions continue to pose risks to Lithuania's investment climate. However, the overall sentiment towards Lithuania's investment attractiveness has improved by 5%, indicating growing investor confidence. The outlook for Lithuania remains optimistic, with 68% of investors planning to establish or expand operations in the country, surpassing both Estonia and Latvia.

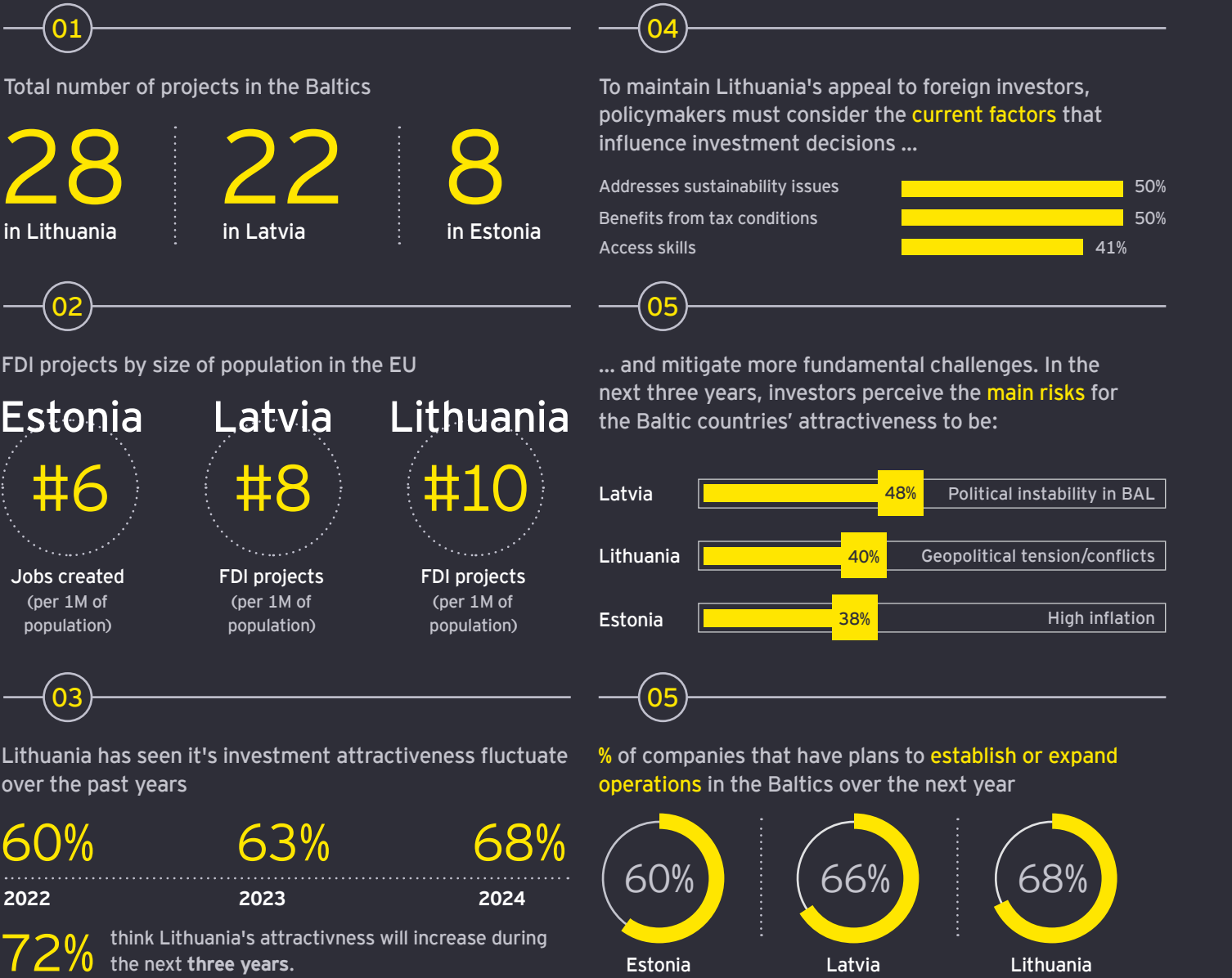
Linās Dīcpetris  
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The rising investor confidence in Lithuania underscores our nation's potential in high-tech and sustainable sectors. While we celebrate these achievements, we must not rest on our laurels. It's crucial to further enhance our strengths and address the challenges highlighted by investors to maintain our competitive edge.



Linās Dīcpetris  
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## Lithuania leads Baltic states in FDI attractiveness

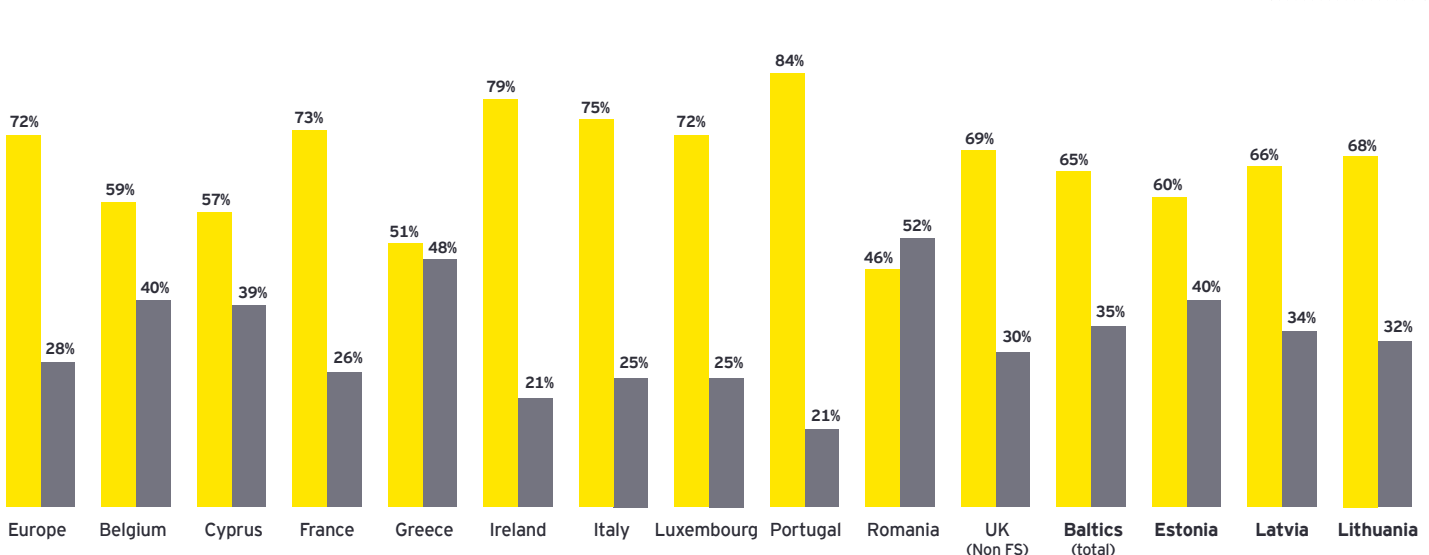
Lithuania's attractiveness as an investment destination has shown consistent growth, with executive interest rising from 60% in 2022 to 63% in 2023, and further to 68% in 2024. This steady increase indicates a positive trend in investor confidence.

In comparison, Estonia's attractiveness improved from 53% in 2022 to 61% in 2023 but dipped slightly to 60% in 2024. Latvia experienced a peak at 75% in 2023, but returned to 66% in 2024, matching its 2022 level.

Looking ahead, 72% of executives expect Lithuania's attractiveness to grow over the next three years, compared to 50% for Estonia and 44% for Latvia.

Lithuania's focus on high-tech and green projects, robust service sector, and efforts to ensure economic and political stability position it well to attract substantial FDI, despite challenges like geopolitical tensions and high inflation. The country's proactive measures and strategic improvements suggest it will continue to be a competitive destination for investment within the Baltics and Europe.

## Does your company have plans to establish or expand operations in 2023?



Europe as a whole has seen a similarly positive trend. In 2022, 53% of surveyed executives planned to establish or expand projects in Europe. This figure increased to 67% in 2023 and further to 72% in 2024. Additionally, 75% of executives expect Europe's attractiveness to improve in the next three years. This optimism is attributed to pent-up demand for project execution following years of low investment, coupled with expectations of stabilizing economic conditions.





# Key Factors *for* FDI Potential in Lithuania

# Key Factors

1

## Pent-up demand

Similar to the trend observed in Europe, Lithuania could benefit significantly from pent-up demand for investment projects. Over the past few years, investors have deferred projects due to high inflation and geopolitical uncertainties. As economic conditions stabilize, these deferred projects are likely to resume, providing a boost to Lithuania's investment landscape.

2

## Economic stabilization

Lithuania's economy is showing promising signs of stabilization with moderated inflation rates and a projected gradual recovery. This economic stabilization is crucial for restoring investor confidence and creating favorable conditions for new investments. As the economy stabilizes, the country's attractiveness to foreign investors is expected to improve.

3

## Technological and Green Investments

Lithuania's focus on high technology and green projects is in line with global investment trends. The country has seen a notable growth in its technology sector year-over-year. Significant investments in green projects and sustainable practices are essential, as investors prioritize addressing sustainability issues. This alignment with global sustainability trends enhances Lithuania's appeal to investors looking for environmentally responsible investment opportunities.

4

## Government Initiatives

The Lithuanian government has been proactive in implementing policies to improve the business environment. Offering favorable tax conditions, which investors find beneficial, is a key strategy. Additionally, government support for high-tech and sustainable industries through tax incentives and structural reforms can further bolster Lithuania's attractiveness. Continued investments in infrastructure and education are also crucial for sustaining long-term growth and competitiveness.

5

## Sectoral Strengths and Access to Skills

Lithuania's robust service sector, particularly in business support services, sales and marketing offices, and R&D, continues to attract significant investment. The country's strong digital infrastructure and the availability of a highly skilled workforce are major assets. Access to skills is a critical factor, with investors emphasizing its importance. Ensuring a steady supply of skilled labor will be key to maintaining and enhancing Lithuania's investment attractiveness.





# Challenges *and* Risks

## TOP Risks ranking

While Lithuania's outlook for foreign direct investment (FDI) remains positive, several significant challenges must be addressed to fully realize its potential.

**40%** Geopolitical tensions

Geopolitical tensions are the foremost concern for investors in Lithuania. The ongoing conflict in Ukraine and Lithuania's proximity to Russia create an uncertain environment that could deter new investments. These tensions disrupt trade and increase the volatility of commodity prices, complicating economic conditions. Investors are wary of the potential for escalating conflicts that could further destabilize the region. To mitigate this risk, Lithuania needs to continue strengthening its alliances within the European Union and NATO, and work towards enhancing regional security.

**30%** High inflation

High Inflation poses a significant risk to Lithuania's attractiveness for FDI, inflationary pressures, driven by rising energy prices and supply chain disruptions, peaked in 2023 and continue to challenge the economic landscape. Although inflation has shown signs of easing, it remains above the euro area average, affecting the cost of doing business and reducing the purchasing power of consumers. Managing inflation effectively will be crucial for maintaining competitiveness and ensuring a stable environment for foreign investors.

**30%** High interest rates & tightening financial conditions

High interest rates and tightening financial conditions are also identified as significant risks by investors. These factors increase the cost of borrowing and can restrict access to capital, making it more difficult for businesses to finance new projects and expansions. The tight financial conditions also reflect broader economic uncertainties, which can dampen investor confidence. Addressing these financial challenges requires coordinated monetary policies that balance the need for economic stability with the facilitation of investment growth.

Other highly ranked challenges and risks



**28%** High levels of public debt

**28%** Tight supply chains & sourcing difficulties

**26%** Tight labor market in certain regions

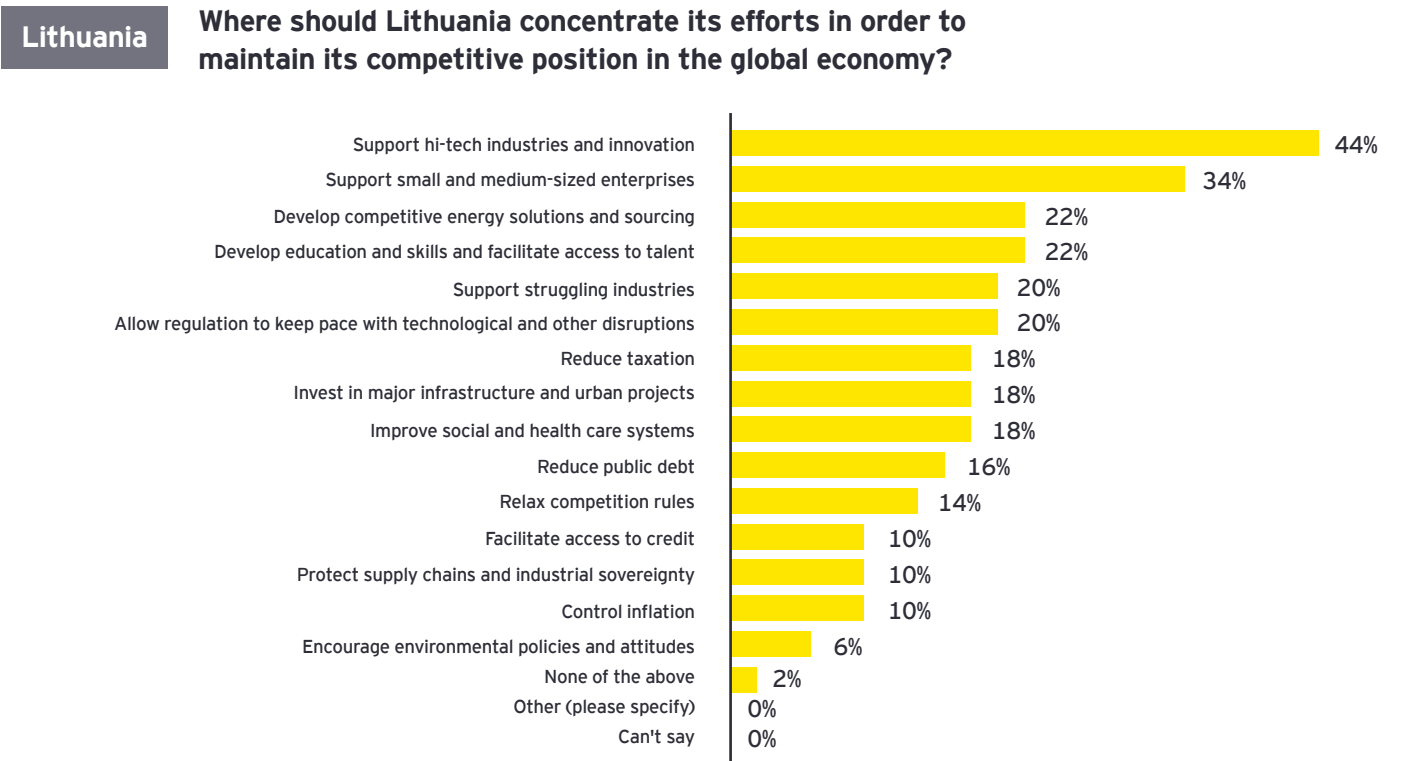
By addressing these top risks—geopolitical tensions, high inflation, and high interest rates—Lithuania can enhance its investment climate and better position itself to attract substantial foreign investments. Leveraging its strengths

in high-tech and green projects and maintaining favorable tax conditions and access to skilled labor, will further bolster Lithuania's appeal as a competitive destination for FDI within the Baltics and Europe.





To maintain and enhance its competitive position in the global economy, Lithuania must focus on several key areas identified by investors as crucial for attracting and securing foreign direct investments (FDI). These areas include supporting high-tech industries and innovation, bolstering small and medium-sized enterprises (SMEs), and developing competitive energy solutions and sourcing.



#1

**Support hi-tech industries and innovation**  
Investors have identified supporting high-tech industries and innovation as the top priority for Lithuania. High-tech industries, including CleanTech, technology, and healthcare, are pivotal for long-term economic growth and competitiveness. By fostering a robust environment for technological advancements and innovation, Lithuania can attract substantial FDI. This involves promoting research and development, providing incentives for technological startups, and facilitating collaborations between educational institutions and the private sector.

#2

**Support small and medium-sized enterprises (SMEs)**  
SMEs are the backbone of the economy, driving innovation and employment. Ensuring their growth and sustainability is essential for a robust economic environment. 34% of investors see supporting SMEs as a critical area of focus. To bolster SMEs, Lithuania should reduce bureaucratic hurdles, provide easier access to capital, and promote digital transformation. These measures will help SMEs scale their operations, innovate, and contribute significantly to the national economy.

#3

**Develop competitive energy solutions and sourcing**  
Energy solutions and sourcing are crucial for maintaining a competitive position in the global economy. 22% of investors emphasized the importance of developing competitive energy solutions. Lithuania should focus on enhancing its energy infrastructure, ensuring reliable and sustainable energy supply, and reducing energy costs. Investing in renewable energy sources and improving energy efficiency can also attract green investments and align with global sustainability trends.

By focusing on these key areas Lithuania can secure its future investment flow. Leveraging these strengths and addressing existing challenges will help Lithuania attract and retain substantial foreign investments, reinforcing its position as a competitive destination in the global market.



# Strengths to leverage

Investors have identified several strengths that make Lithuania an appealing destination for foreign direct investment (FDI). These factors are crucial for

14%

### Cost of Energy

The cost of energy is a significant factor for investors, with 14% highlighting it as a key consideration. Competitive energy costs can reduce operational expenses, making Lithuania an attractive option for energy-intensive industries. Ensuring stable and affordable energy prices will continue to be a critical factor in attracting new investments.

14%

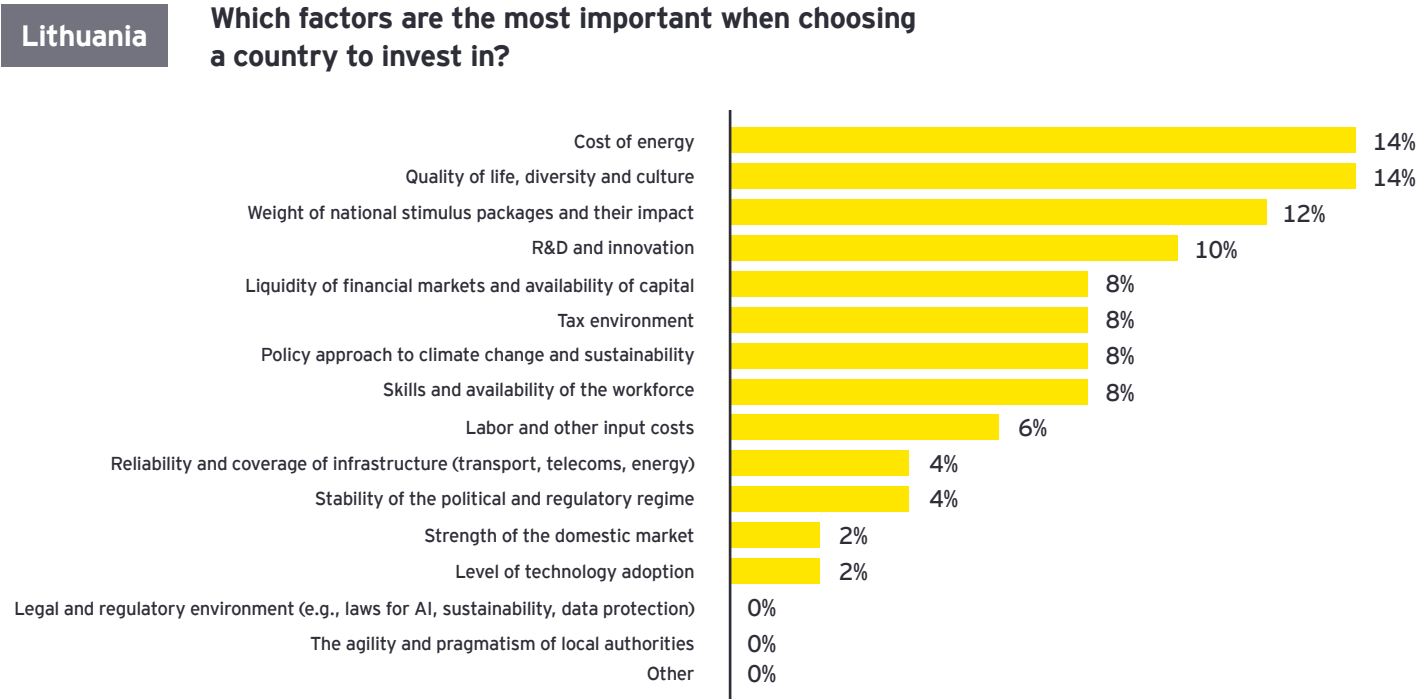
### Quality of Life, Diversity, and Culture

Another 14% of investors cite quality of life, diversity, and culture as important factors. Lithuania's high quality of life, cultural diversity, and vibrant cultural scene contribute to its attractiveness as a place to live and work. These aspects enhance the appeal of Lithuania for expatriates and foreign employees, which is vital for multinational companies considering investment.

12%

### Weight of National Stimulus Packages and

The impact of national stimulus packages is significant for 12% of investors. Effective fiscal policies and economic stimulus measures can create a favorable environment for investment by boosting economic activity and providing financial support to businesses. Lithuania's ability to implement and sustain impactful stimulus packages will play a crucial role in maintaining its attractiveness.



To enhance its competitive position in the global economy, Lithuania must focus on key areas identified by investors, including supporting high-tech industries and innovation, bolstering small and medium-sized enterprises, and developing competitive energy solutions. Prioritizing technological advancements, reducing bureaucratic hurdles for SMEs, and ensuring

understanding why businesses choose to invest in Lithuania and how the country can further enhance its investment attractiveness.

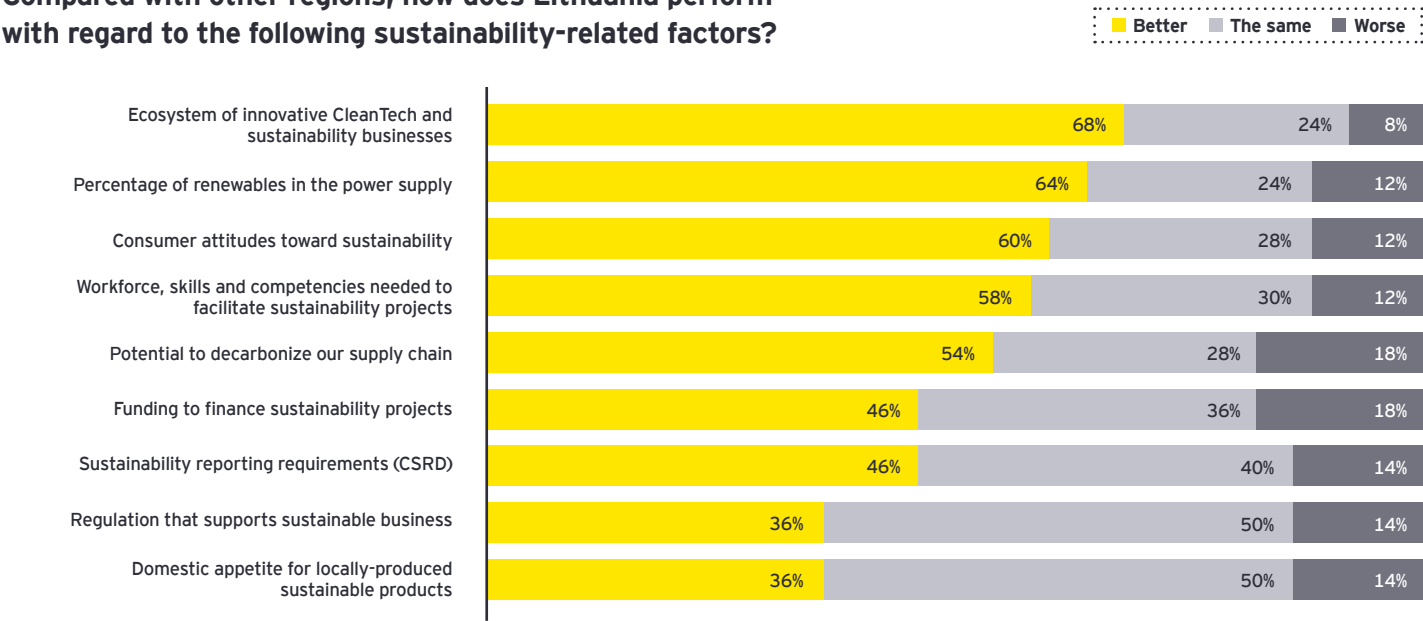
reliable, sustainable energy supply are crucial steps. Additionally, improving education and aligning skills with industry needs will attract foreign direct investments. Leveraging strengths such as competitive energy costs, high quality of life, and effective national stimulus packages will further reinforce Lithuania's appeal as a top FDI destination.

# Sustainability as a key differentiator for Lithuania

Sustainability is increasingly becoming a critical factor for investors when deciding where to allocate their resources, and Lithuania stands out positively in this regard. According to the recent Baltic Attractiveness Survey, investors believe that Lithuania outperforms other regions in terms of its ecosystem of innovative CleanTech and sustainability businesses. Additionally,

many investors view Lithuania as performing better than other countries regarding the percentage of renewables in its power supply. These factors, along with a favorable consumer attitude towards sustainability, indicate that Lithuania is well-positioned to attract sustainability-focused investments.

Compared with other regions, how does Lithuania perform with regard to the following sustainability-related factors?



Lithuania's strengths also extend to workforce skills and competencies needed for sustainability projects, with a significant number of investors rating it higher compared to other regions. The country's potential to decarbonize its supply chain and the availability of funding to finance sustainability projects further enhance its attractiveness.

To build on these strengths, Lithuania should continue to support sustainability initiatives through favorable

regulations and policies. Developing the necessary infrastructure and support for sustainability reporting requirements (CSRD) and fostering domestic appetite for locally produced sustainable products will further solidify Lithuania's position as a leading destination for sustainable investments. By leveraging these attributes, Lithuania can significantly boost its FDI attractiveness and drive long-term economic growth through sustainable development.

## Lithuania's technological edge: Skilled talent and robust financing

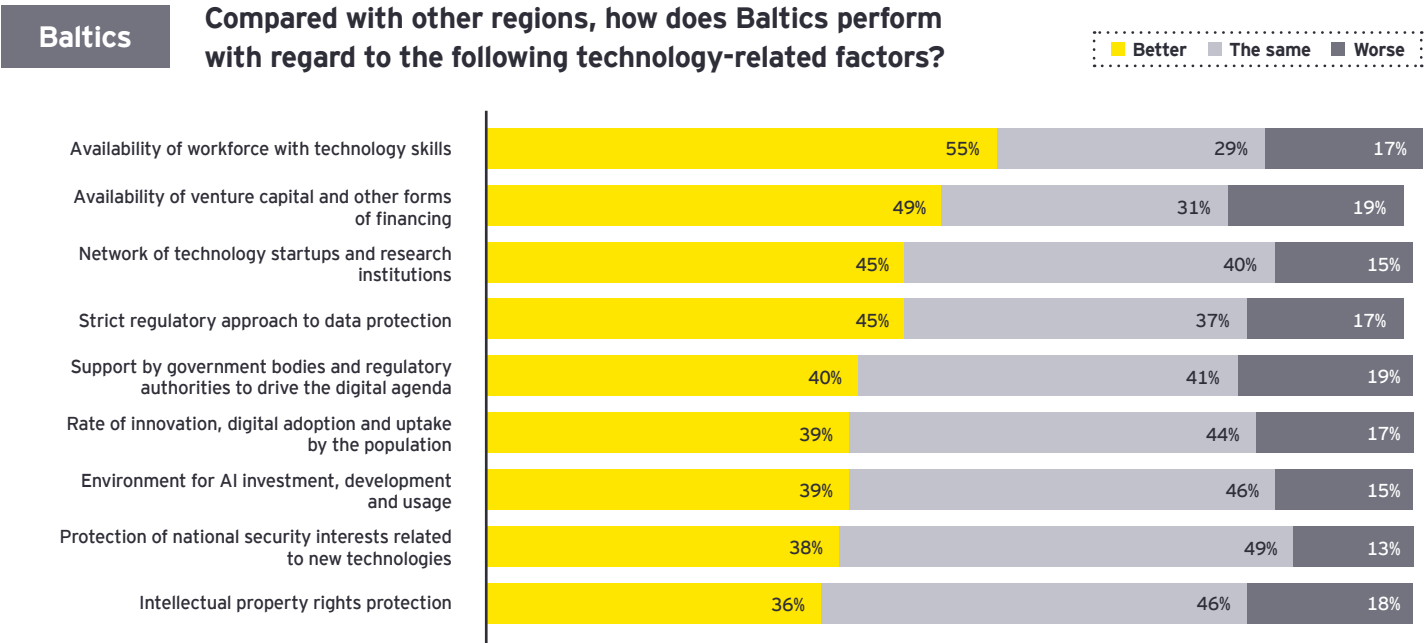
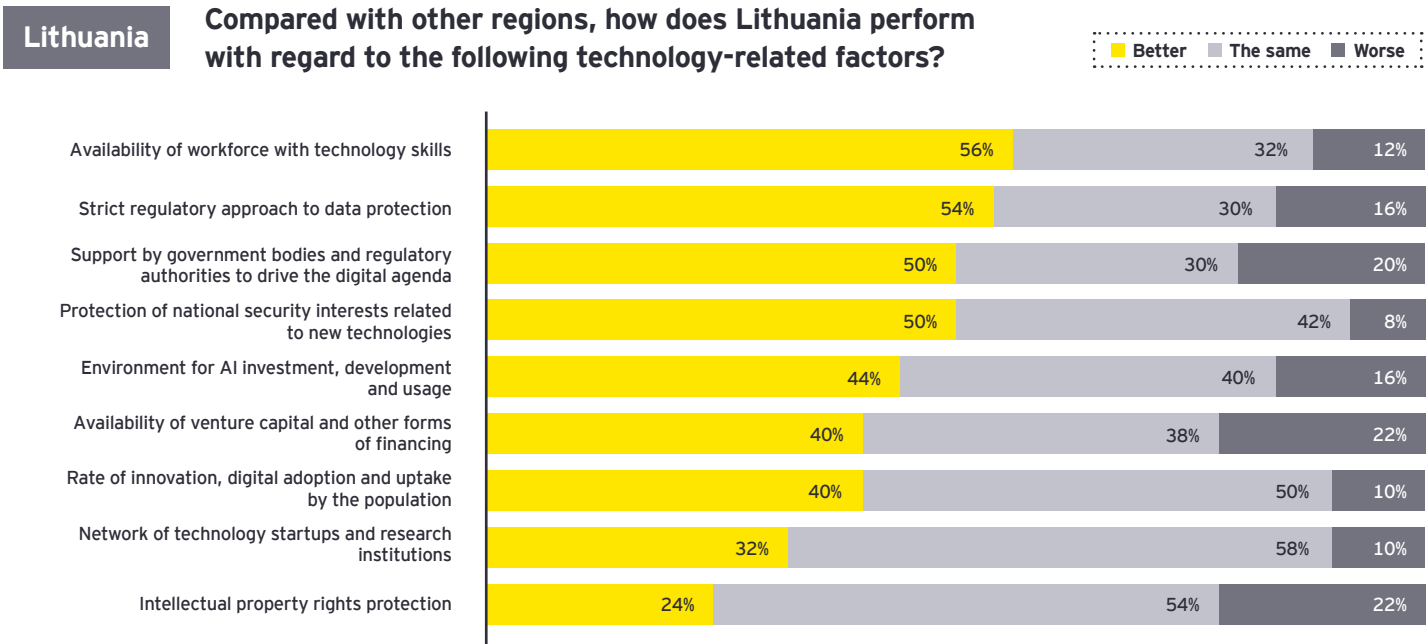
Lithuania's attractiveness for FDI is significantly enhanced by its strengths in technology-related factors. Investors believe that Lithuania outperforms other regions in the availability of venture capital and other

forms of financing, which is crucial for supporting startups and technology-driven businesses. The country's availability of a workforce with technology skills, such as scientists, engineers, and data analysts, is another



major advantage. This skilled labor force is essential for driving innovation and supporting high-tech industries. Additionally, Lithuania's strong network of technology startups and research institutions further bolsters its

position as a technology hub. Furthermore, Lithuania is recognized for its high rate of innovation and digital adoption among the population, indicating a society that is ready to embrace and implement new technologies.



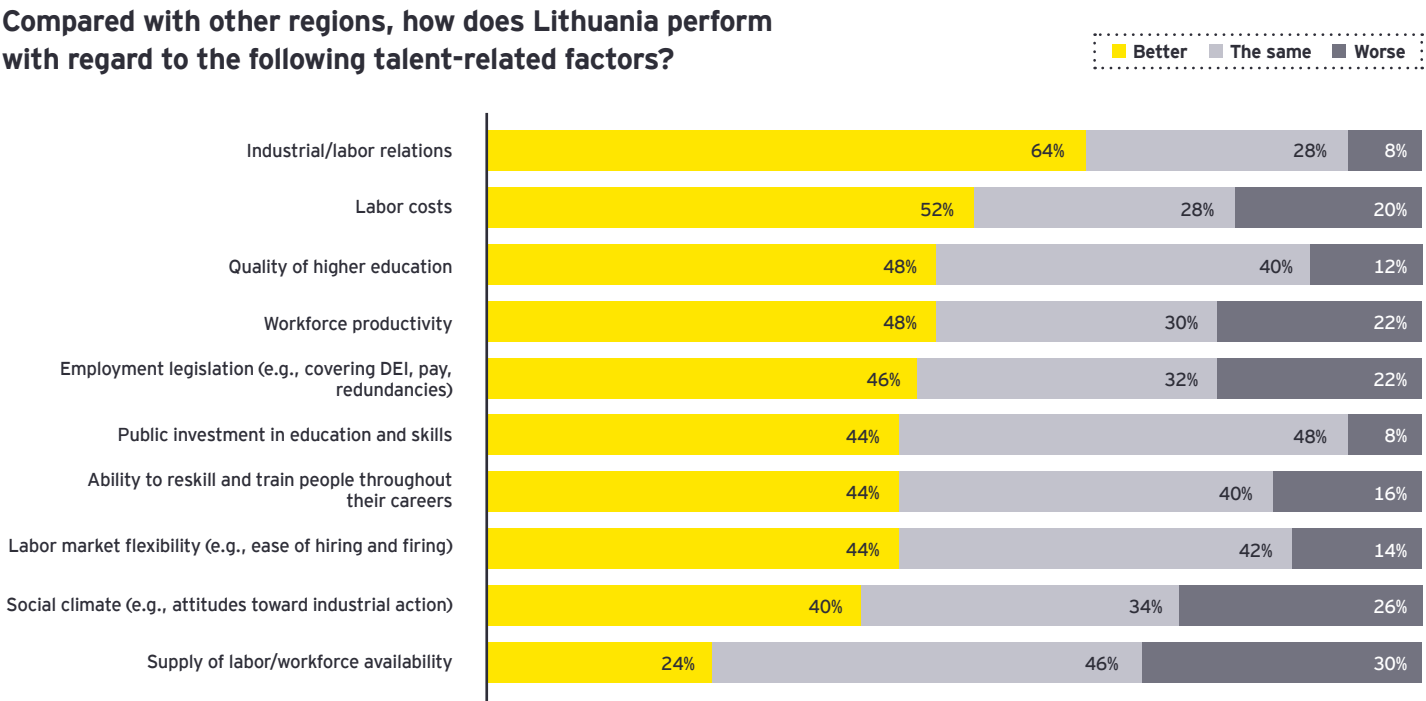
However, areas like protection of national security interests related to new technologies and governmental support to drive the digital agenda are seen as needing improvement. By addressing these areas and leveraging

its existing strengths, Lithuania can further enhance its position as a leading destination for technology-focused investments.

## Lithuania's industrial relations shine, workforce availability needs a boost

Lithuania is particularly noted for its strong industrial and labor relations, which a majority of investors rate higher compared to other regions. Competitive labor costs also stand out, making Lithuania an attractive

destination for businesses aiming to optimize operational expenses. These strengths are crucial in maintaining Lithuania's appeal in the global market.



However, several areas require improvement to fully capitalize on Lithuania's potential. The quality of higher education and workforce productivity are seen positively by many investors, yet there is room for enhancement to match leading regions, particularly, the supply of labor and workforce availability lags behind, with fewer investors rating it better than other regions. To

enhance its FDI attractiveness, Lithuania should focus on improving labor market flexibility, boosting workforce availability, and continuing to invest in education and skills development. Addressing these areas will help Lithuania sustain and enhance its competitive edge in attracting global businesses.





# Balancing tax benefits and challenges

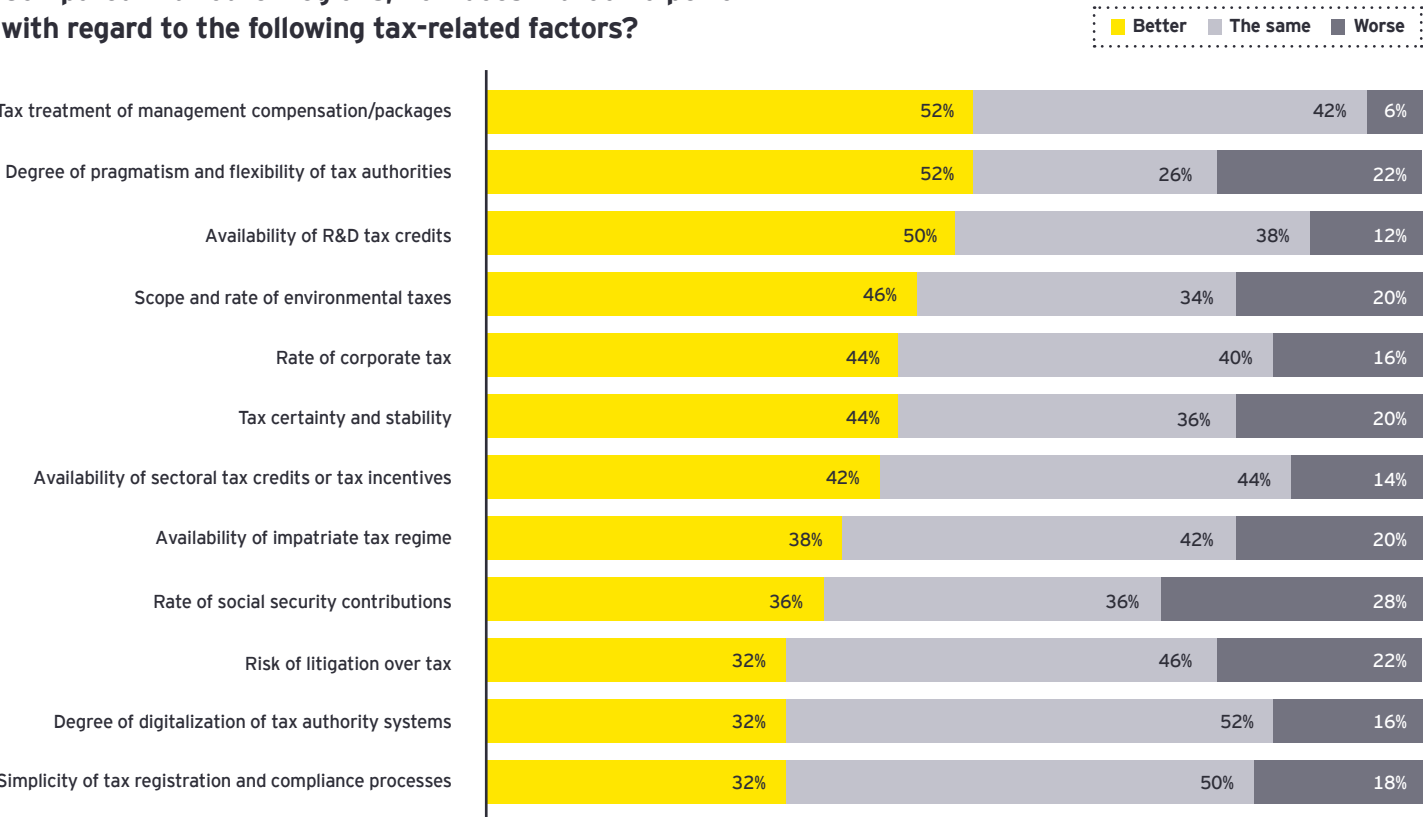
The tax environment plays a critical role in influencing FDI decisions, according to the latest survey, the tax treatment of management compensation and packages, as well as the degree of pragmatism and flexibility of tax authorities, are where Lithuania stands out, with

investors rating these factors better compared to other regions. Additionally, the availability of R&D tax credits is highly regarded, enhancing Lithuania’s appeal to technology and innovation-driven enterprises.

However, there are areas that could boost competitiveness further. Investors highlight the need for improved digitalization of tax authority systems and the simplicity of tax registration and compliance processes. By addressing these areas, Lithuania can

streamline its tax environment, making it more attractive for foreign investors. Enhancing tax incentives, reducing bureaucratic hurdles, and effectively communicating tax policies will be key strategies in maintaining and increasing Lithuania's FDI inflow.

Compared with other regions, how does Lithuania perform with regard to the following tax-related factors?





# Conclusion

Lithuania's journey towards becoming a leading destination for foreign direct investment (FDI) is marked by its resilience and strategic initiatives. The insights from the EY Baltic Attractiveness Survey highlight the critical areas where Lithuania excels, as well as the challenges it must address to maintain and enhance its competitive edge. Key strengths such as robust industrial relations, competitive labor costs, and a strong focus on high-tech industries and innovation have positioned Lithuania favorably within the Baltics and Europe.

However, the country faces significant challenges, including geopolitical tensions, high inflation, and tightening financial conditions. Addressing these issues requires immediate and concerted efforts from policymakers. By improving labor market flexibility, boosting workforce availability, and continuing to invest in education and skills development, Lithuania can better capitalize on its potential. Furthermore, enhancing tax

incentives, streamlining tax compliance processes, and fostering a supportive environment for sustainability and technological advancements will be essential.

The collaborative efforts between the government, businesses, and educational institutions will be vital in driving Lithuania's transformation. The unity and strategic response seen during recent global crises, such as the COVID-19 pandemic and geopolitical conflicts, should be harnessed to ensure Lithuania's sustained attractiveness to investors. By focusing on strategic initiatives aimed at improving infrastructure, simplifying regulations, and promoting sustainability, Lithuania can continue to attract global investments and thrive as a dynamic and innovative economy. The path forward involves leveraging its existing strengths while addressing the identified challenges, thereby securing a prosperous and competitive future for Lithuania in the global market.

# Methodology

## The “real” attractiveness of Europe for foreign investors

The evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), the EY proprietary database produced in collaboration with OCO. This database tracks the FDI projects that have resulted in the creation of new facilities and new jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing and services by foreign companies across the continent.

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.

## 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.

Field research was conducted by FT-Longitude in March and March-April 2024 via online interviews, with **550 international decision-makers** participating.

The Baltic field research was conducted by FT-Longitude in March and April 2024 via online interviews, with **150 international decision-makers** participating.

**Linas Dicipetris**  
EY Baltics Consulting Leader



“The FDI sentiment report highlights that 68% of companies plan to establish or expand operations in Lithuania, reflecting strong investor confidence. By focusing on key areas such as enhancing sustainability efforts, supporting high-tech industries, and improving labor market flexibility, Lithuania can further bolster its investment climate. The belief that Lithuania's attractiveness will grow over the next three years is a testament to our commitment to creating a dynamic and resilient economic environment.





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