European Investment Bank

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Lithuania

EIBIS 2016

EIB Group Survey on Investment and Investment Finance 2016

Country Overview

EIB Group Survey on Investment and Investment Finance Country Overview: Lithuania

About the EIB Investment Survey (EIBIS)

The EIB Group Survey on Investment and Investment Finance is a unique, EU-wide, annual survey of 12,500 firms. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, EIBIS is representative across all 28 member States of the EU, as well as for firm size classes (micro to large) and 4 main sectors. It is designed to build a panel of observations to support time series analysis, observations that can also be linked to firm balance sheet and profit and loss data. EIBIS has been developed and is managed by the Economics Department of the EIB, with support to development and implementation by Ipsos MORI. For more information see: http://www.eib.org/eibis.

About this publication

This Country Overview is one of a series covering each of the 28 EU Member States, plus an EU-wide overview. These are intended to provide an accessible snapshot of the data. For the purpose of these publications, data is weighted by value-added to better reflect the contribution of different firms to economic output. Contact: eibis@eib.org.

About the Economics Department of the EIB

The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The Department, a team of 30 economists, is headed by Debora Revoltella, Director of Economics.

Main contributors to this publication

Philipp-Bastian Brutscher, EIB

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EIBIS 2016 – COUNTRY OVERVIEW

Lithuania

The annual EIB Group Survey on Investment and Investment Finance (EIBIS) is an EU-wide survey of 12 500 firms that gathers quantitative information on investment activities by both SMEs and larger corporates, their financing requirements and the difficulties they face.

As the EU bank, the EIB Group responds to the need to accelerate investment to strengthen job creation and long-term competitiveness and sustainability across all 28 EU member States. EIBIS helps the EIB to contribute to a policy response that properly addresses the needs of businesses, promoting investment.

This country overview presents selected findings based on telephone interviews with 407 firms in Lithuania in 2016 (July-October). **Note:** The results are weighted by value-added**,** reflecting firms' contribution to the economy.

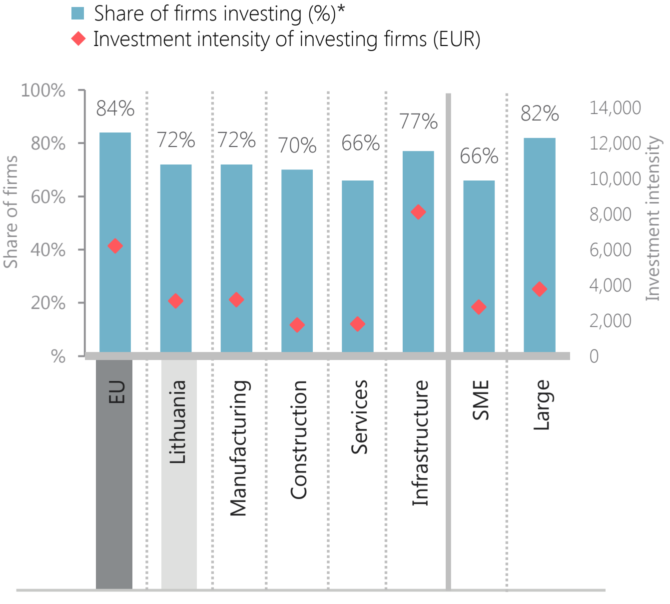
Key results

Investment outlook:	**Investment outlook is clouded**: more firms expect a contraction in investment than expect an expansion for the current financial year; this comes after a relatively weak investment performance in the last financial year.
Investment activity:	**Firms' investment focus is replacement**; more than half of firms' investment in Lithuania is for replacing existing buildings, machinery, equipment and IT.
Investment gap:	**26% of firms report having invested too little** over the last three years and 66% report having invested about the right amount. The share of machinery and equipment that firms consider 'state-of-the-art' and the share of firms' building stock that satisfies high energy efficiency standards are both well below the EU average.
Investment barriers:	**Uncertainty and lack of skilled staff are the main barriers to investment**; broadly in line with the rest of the EU. 'Lack of demand', 'uncertainty about the future', 'energy costs' and 'availability of staff with right skills' stand out as obstacles that are of higher importance in Lithuania than the EU overall.
External finance:	**11% of firms are finance constrained**: overall the proportion of firms dissatisfied with amount of finance, that had application rejected, thought borrowing costs would be too high or discouraged from applying, higher than the EU average.
Firm performance:	**Firms in Latvia lag in terms of productivity** with around four in five firms falling into the lowest productivity class.

INVESTMENT DYNAMICS

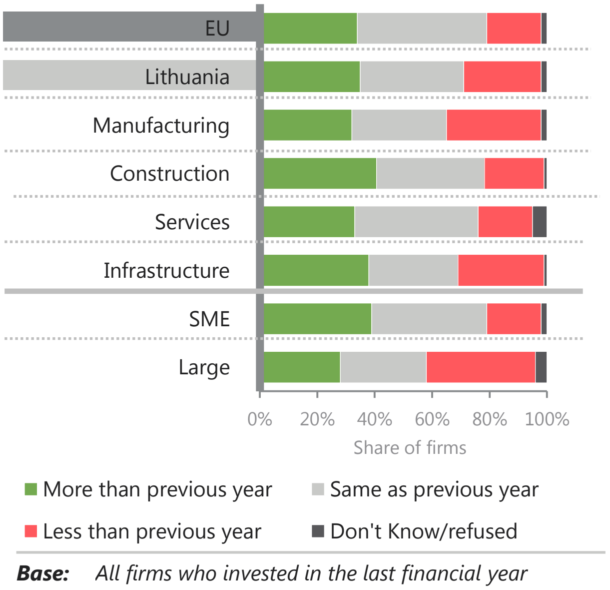
- Just over two thirds of firms in Lithuania (72%) invested in the last financial year, as compared with 84% across the EU as a whole.
- The intensity of investment (investment per employee) of investing firms is also lower than the EU average.

Investment activity in last financial year



Base: *All firms (excluding don't know/refused responses)*
**The blue bars indicate the proportion of firms who have invested in the last financial year.*
A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities.
Investment intensity is the median investment per employee of investing firms.

Investment activity in last financial year compared to previous

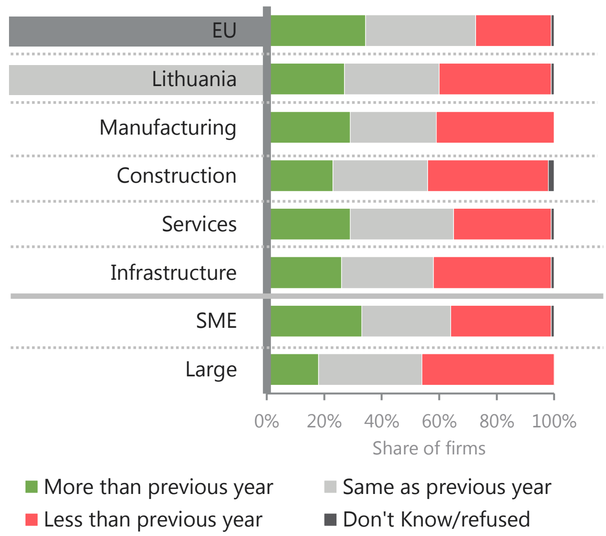


Base: *All firms who invested in the last financial year*
Q. Overall was this more, less or about the same amount of investment as in the previous year?

- Compared to 2014, 35% of firms in Lithuania increased their investment activities in 2015.
- Roughly a quarter of firms invested less (27%).
- This leaves a slightly positive net balance (of +8%); which is in line with the weak macro-economic investment figures for the year.

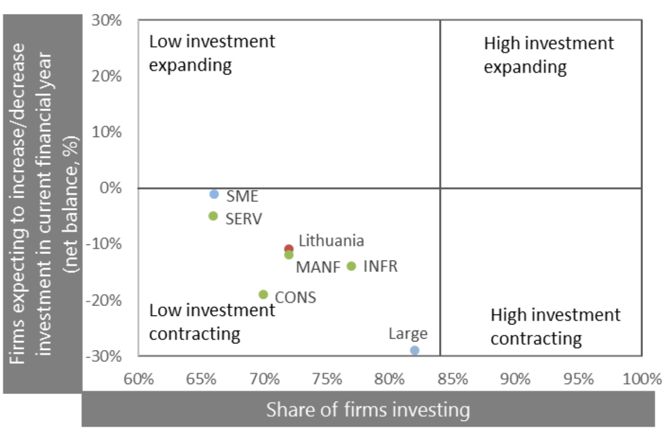
- Firms' investment outlook for 2016 is clouded.
- Four in ten firms (39%) expect to invest less in the current financial year compared to the previous one; while only under three in ten firms expect an expansion (27%).
- On balance, this means a negative investment outlook (-12%); which places firms within the investment cycle in the 'low investment; contracting quadrant.

Expected investment in current financial year compared to last one



Base: *All firms*
Data is derived from two questions: firms who had invested in the last financial year were asked if they expect to invest more, around the same amount or less than last year; firms who had not invested in the last financial year were asked if they had already invested, or expect to invest in the current year

Investment cycle



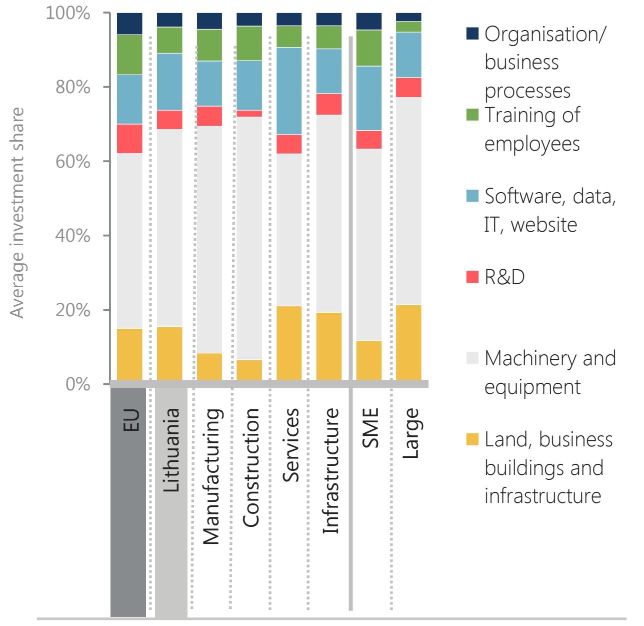
Base: *All firms*
Share of firms investing shows the percentage of firms with investment per employee greater than EUR 500.

- SMEs are on balance somewhat more neutral about their investment outlook than the aggregate (net balance: -2%); but stand at relatively low levels in terms of current investment activities (with less than 70% of firms investing in the last financial year).

INVESTMENT ACTIVITY

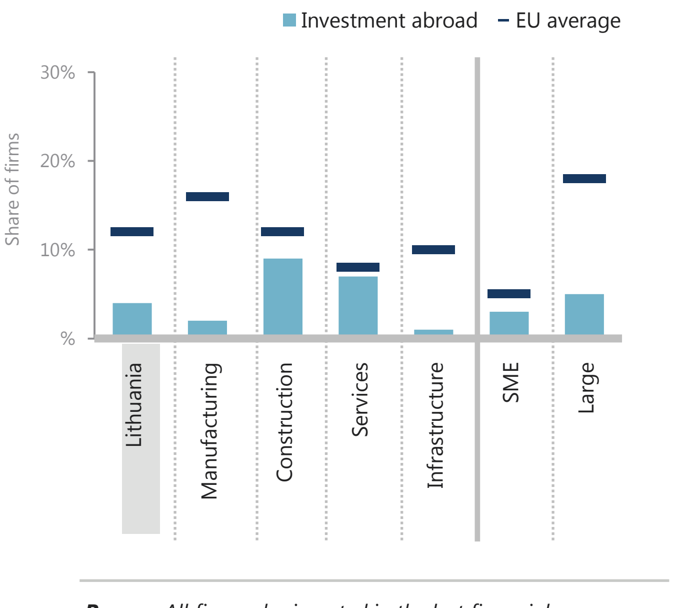
- The highest share of investment spend in Lithuania goes on machinery and equipment (53%), followed by land, business buildings and infrastructure (15%) and software, data, IT networks and website activities (also 15%).
- Share of investment spend on machinery and equipment is higher than average for construction firms in Lithuania. Services firms invest more in software, data, IT and website compared to other sectors.

Investment areas



Base: *All firms who have invested in the last financial year (excluding don't know/refused responses)*
Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

Investment abroad

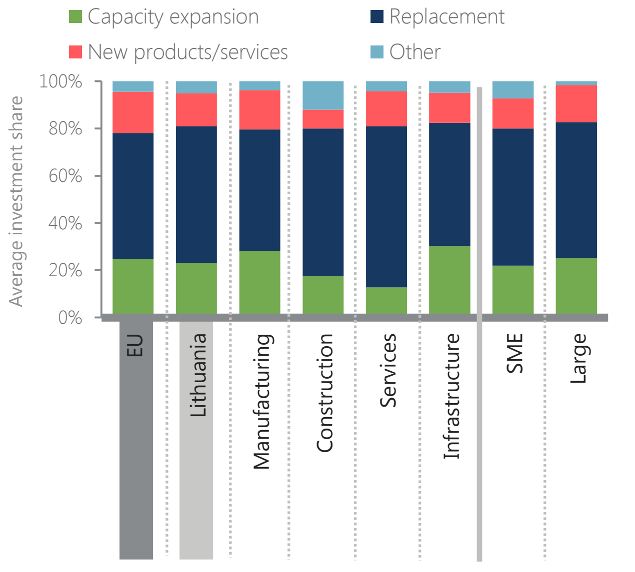


Base: *All firms who invested in the last financial year*
Q. In the last financial year, has your company invested in another country?

- Overall four per cent of firms in Lithuania have invested in another country, which is lower than the EU average.
- Almost one in ten construction companies in Lithuania have invested abroad.

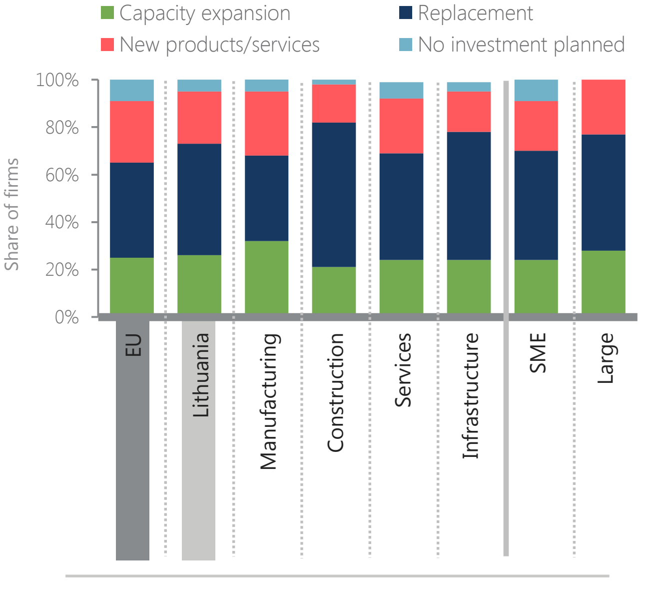
- Nearly 3 in 5 Euros invested by firms in Lithuania went into the replacement of existing buildings, machinery and equipment (58%).
- 23% of firms investment was allocated to capacity expansion; and 17% to the development of new products, processes and services.

Purpose of investment in last financial year



Base: *All firms who invested in the last financial year (excluding don't know/refused responses)*
Q. What proportion of total investment was for (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

Future investment priorities



Base: *All firms (excluding don't know/refused responses)*

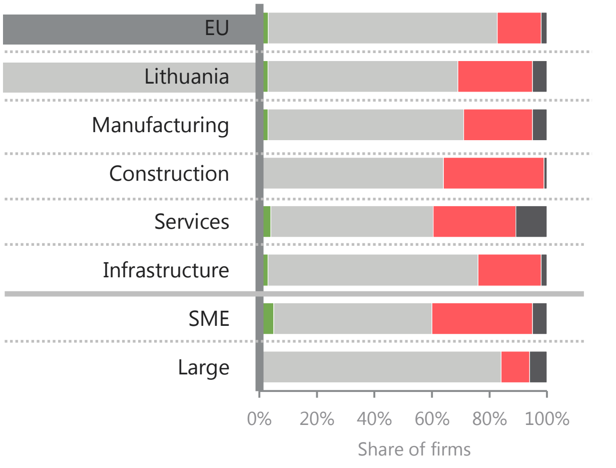
Q. Looking ahead to the next 3 years, which of the following is your investment priority (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

- Overall, replacing equipment is the top investment priority in the future for Lithuanian firms.
- Construction firms in Lithuania are more likely than average to prioritise replacing existing buildings, machinery, equipment, IT.

INVESTMENT NEEDS

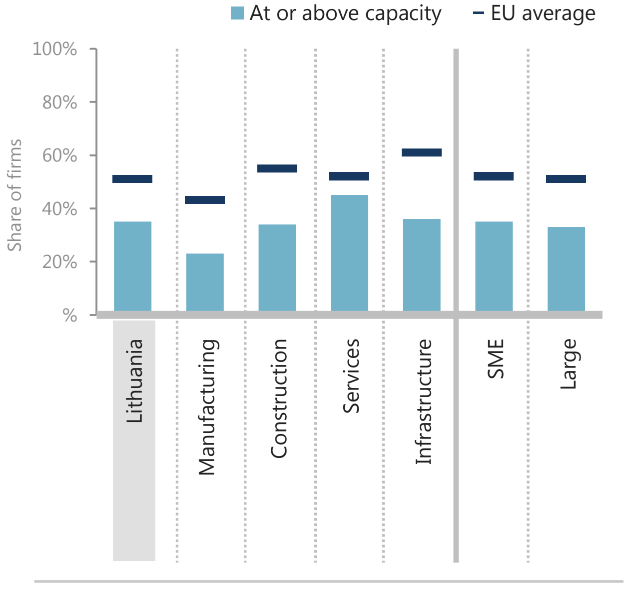
- Two thirds of firms in Lithuania (66%) believe their investment over the last three years was about the right amount; a quarter (26%) think they invested too little, which is significantly more than across the EU.
- Construction firms are more likely than average to say they have invested too little (35%).

Perceived investment gap



Base: *All firms (excluding 'Company didn't exist three years ago' responses)*
Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount to ensure the success of your business going forward?

Share of firms at or above full capacity

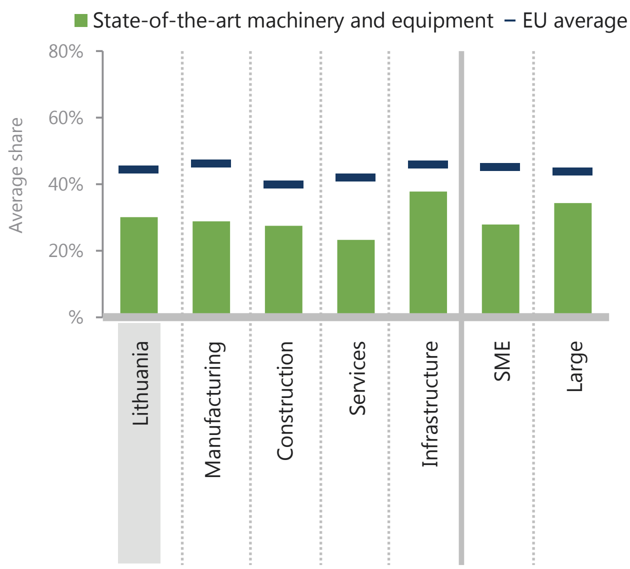


Base: *All firms (data not shown for those operating somewhat or substantially below full capacity)*
Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.
Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances?

- A third of firms in Lithuania (35%) report operating at or above maximum capacity – less than the EU average of 51%.
- The share of firms operating at or above full capacity is relatively low for manufacturing firms in Lithuania (23%).

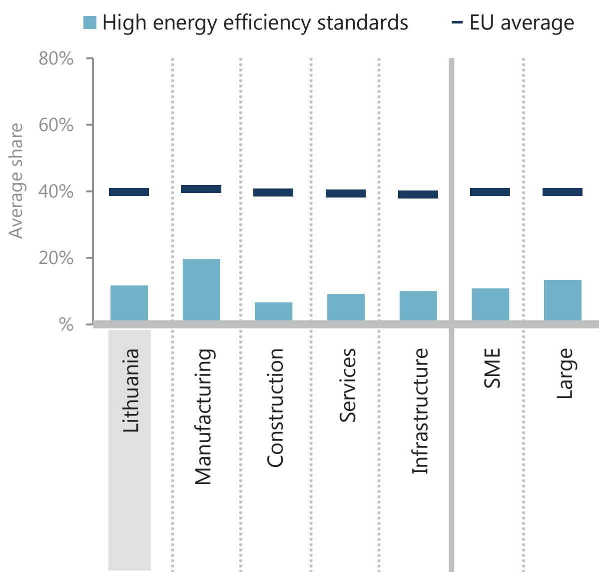
- The average share of machinery and equipment described by firms as being state-of-the-art is 30% in Lithuania, significantly less than the EU average (44%).
- Infrastructure sector companies report having a higher than average share of state-of-the-art machinery and equipment.

Average share of state-of-the-art machinery and equipment



Base: *All firms*
Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

Average share of building stock meeting high energy efficiency standards



Base: *All firms*
Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

- On average firms in Latvia report that about 12% of their building stock satisfies high efficiency standards, significantly below the 40% for the EU as a whole.
- The average share of energy efficient building stock is significantly higher for the manufacturing sector.

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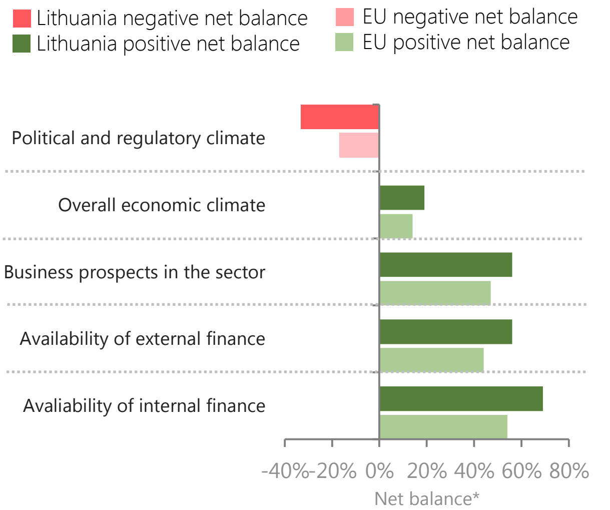
INVESTMENT CONSTRAINTS

- The political and regulatory climate is cited as the main barrier to implementing planned investment in the current financial year in Lithuania; as is the case for the EU as a whole.

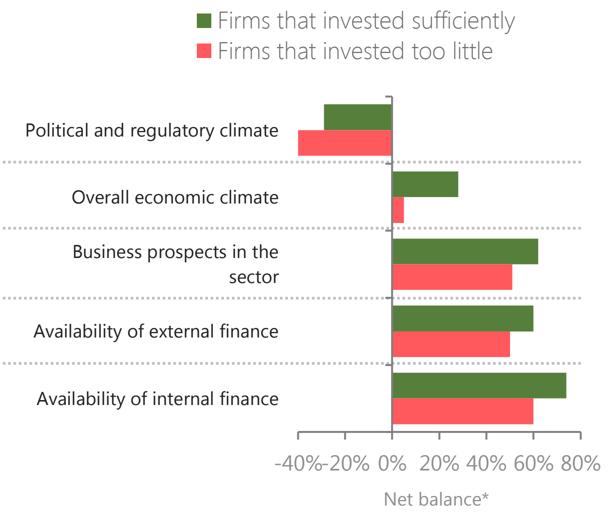
Short term influences on investment



Base: *All firms who have planned to invest in the current financial year*

Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?
**Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect*

Short term influences by investment performance



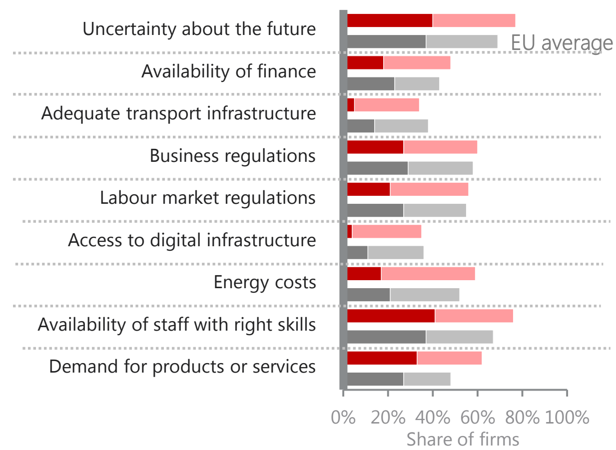
Base: *All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses)*

Q. How do each of the following affect your ability to carry out your planned investment. Does it affect it positively or negatively, or make no difference at all?
** Net balance is the share of firms seeing a positive effect minus the share of firms seeing a negative effect*

- Firms reporting they have invested sufficiently in the last three years and firms reporting they have invested too little over that time both say the political and regulatory climate has a negative effect on their planned investment.
- Firms reporting having invested too little are less positive about the role of the overall economic climate.

- Firms in Lithuania consider uncertainty about the future and the availability of staff with right skills to be the main structural barriers to investment over the longer-term.
- 'Lack of demand', 'uncertainty about the future', 'energy costs' and 'availability of staff with right skills' stand out as obstacles that are of relatively high importance in Lithuania compared to the EU overall.

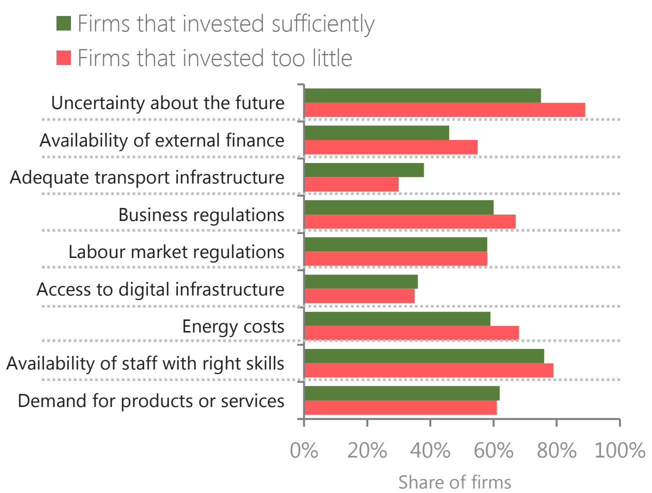
Long term barriers to investment



Base: *All firms (data not shown for those who said not an obstacle at all/don't know/refused)*

Q. Thinking about your investment activities in Lithuania, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Long term barriers by investment performance



Base: *All firms who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses), data shown for firms who said each was a major or minor obstacle*

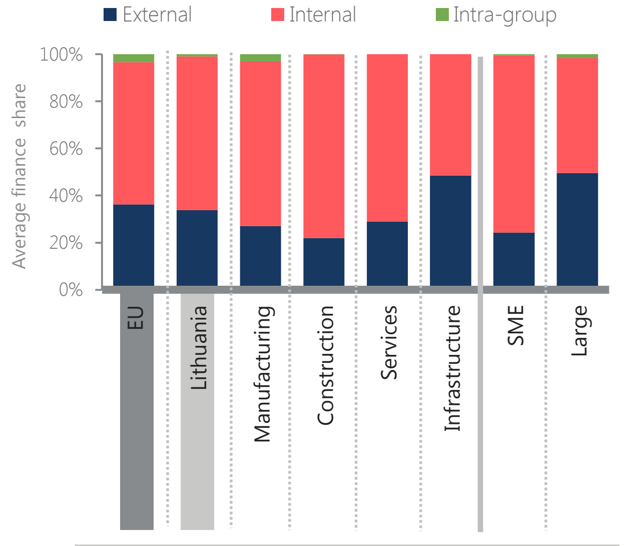
Q. Thinking about your investment activities in Lithuania, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

- Firms that say they have invested too little in the last three years and firms that say they invested sufficiently during this period hold similar opinions on the long term barriers to investment.

INVESTMENT FINANCE

- Firms in Lithuania rely to a large extent on internal funds to finance their investment activities.
- Bank loans are the most common source of external finance, followed by leasing.
- Firms are on balance satisfied with the external finance they have used; albeit less so with respect to collateral requirements.

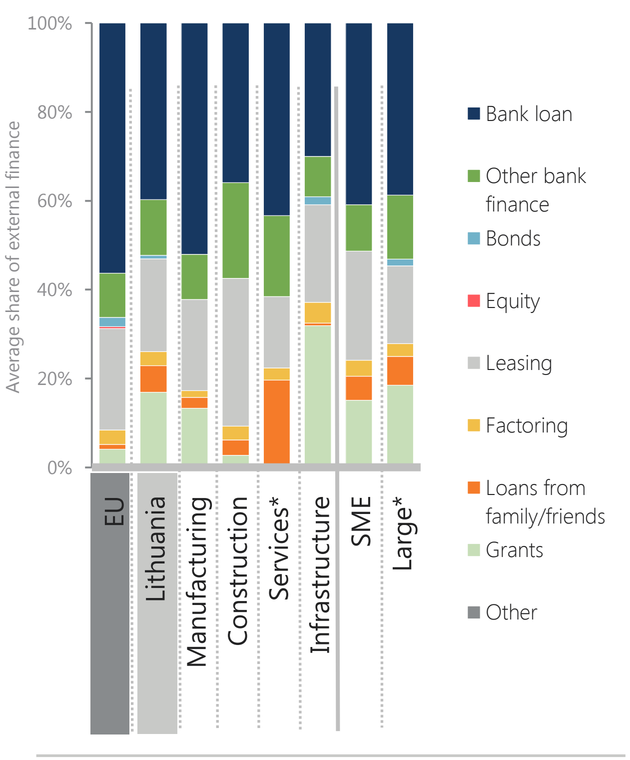
Source of investment finance



Base: *All firms who invested in the last financial year (excluding don't know/refused responses)*

Q. Approximately what proportion of your investment in the last financial year was financed by each of the following?

Type of external finance used for investment activities

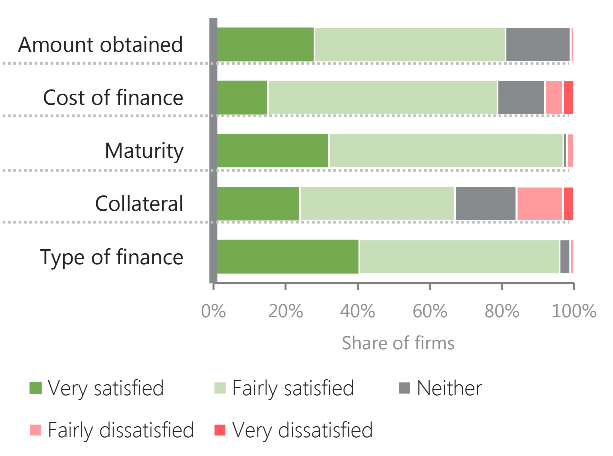


Base: *All firms who used external finance in the last financial year (excluding don't know/refused responses)*

Q. Approximately what proportion of your external finance does each of the following represent?

**Caution very small base size less than 30*

Satisfaction with external finance

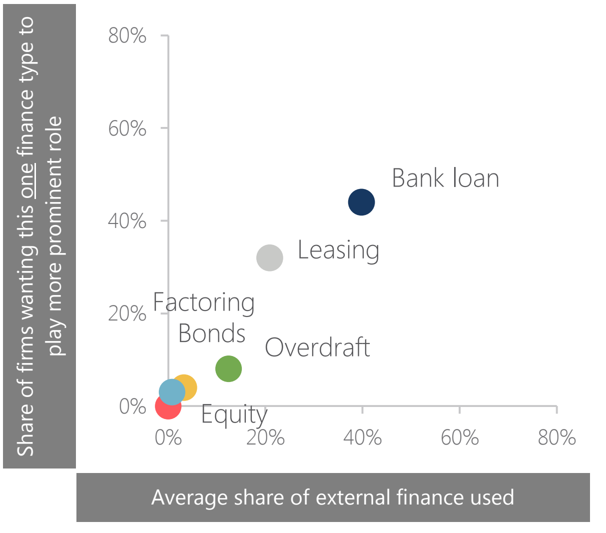


Base: *All firms who used external finance in the last financial year (excluding don't know/refused responses)*

Q. How satisfied or dissatisfied are you with …?

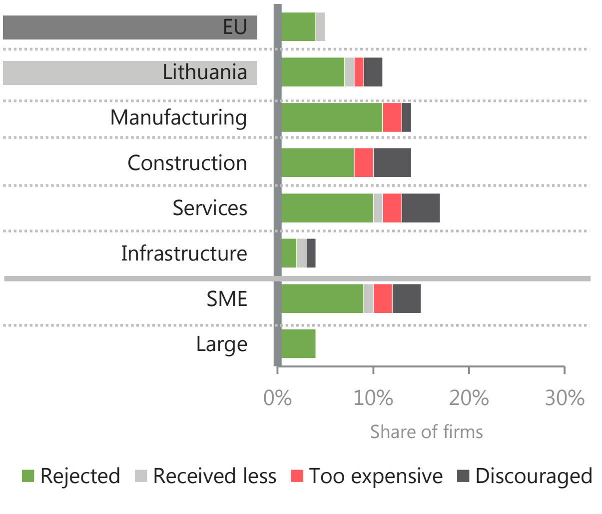
- Overall firms in Lithuania want more of the type of finance they are already using.
- Eleven per cent of Lithuanian companies can be considered finance constrained, this is significantly above the EU average of five per cent.

ypes of finance used versus the one type of finance firms want to use more



Base: *All firms who used external finance in the last financial year (excluding don't know/refused responses)*
Data is derived from two questions: firms were first asked about the types of external finance used in the last financial year and then which one type of external finance they would want to have a more prominent role over the next 3 years

Share of finance constrained firms

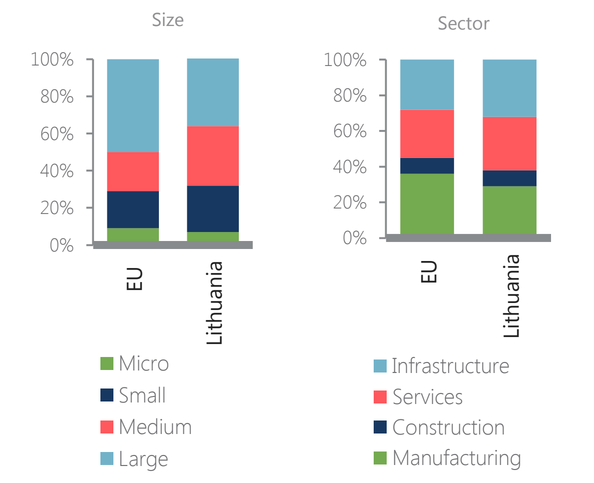


Base: *All firms*
Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)

- Financing constrained firms are less prevalent in the infrastructure sector.

PROFILE OF FIRMS

Contribution to Value-Added

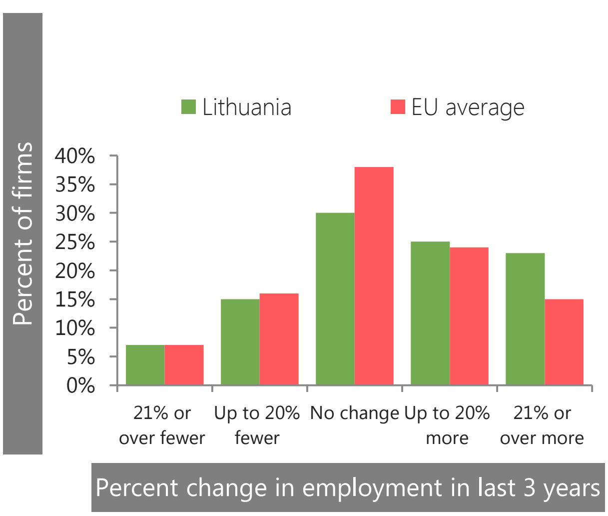


Base: *All firms*

The charts reflects the relative contribution to value-added by firms belonging to a particular size class / sector in the population of firms considered. That is, all firms with 5 or more employees active in the sectors covered by the survey. Micro: 5-9 employees; Small: 10-49; Medium: 50-249; Large: 250+.

- In the weighted size distribution, medium-sized companies account for the largest share of firms in Lithuania (32%).
- Large companies are underrepresented compared to the EU average.
- Firms in Lithuania tend to fall into the lowest productivity class; with some positive outliers in the services sector.

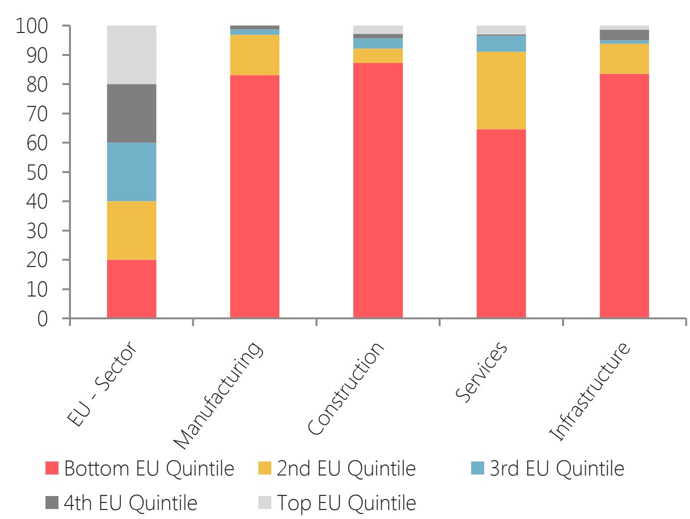
Employment dynamics in last 3 years



Base: *All firms (excluding don't know, refused and missing responses)*

Q. Thinking about the number of people employed by your company, by how much has it changed in the last 3 years?

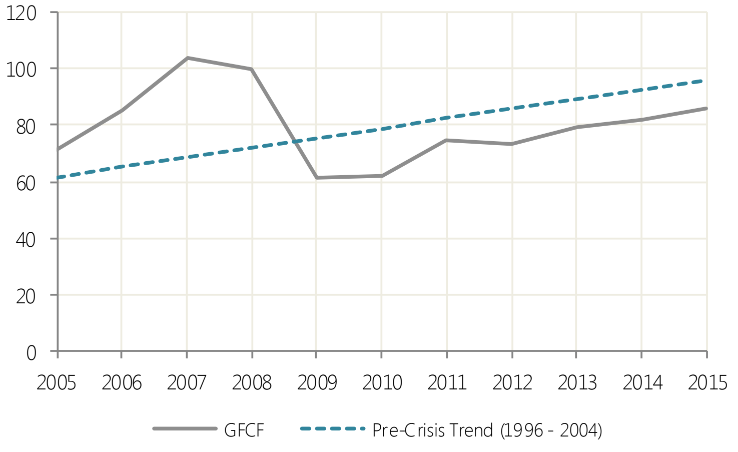
Distribution of firms by productivity class



Share of firms by productivity class (Total Factor Productivity). Productivity classes are sector specific; they are defined on the basis of the entire EU sample (for a particular sector).

MACROECONOMIC INVESTMENT CONTEXT

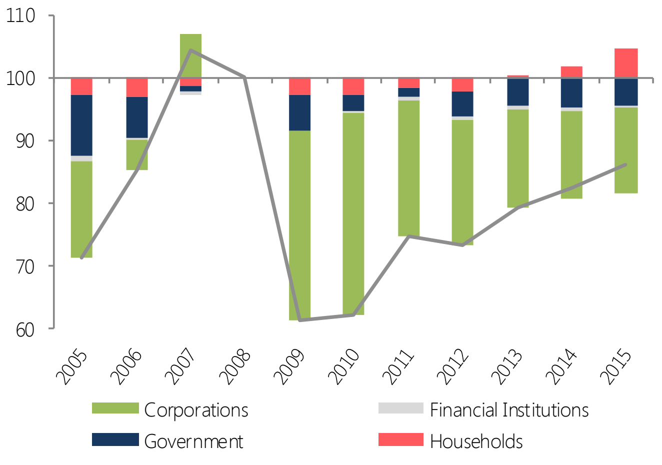
Investment Dynamics over time



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); against the series 'pre-crisis trend. The data has been index to equal 100 in 2008. Source: Eurostat .

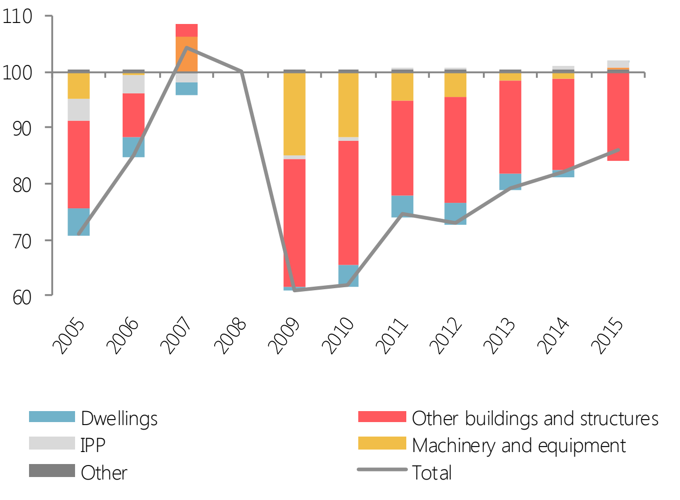
- In 2015, aggregate investment is still some 15% below its 2008 levels.
- The gap is bigger when compared to the pre-crisis trend; even though slowing potential growth makes this a difficult benchmark to reach.
- The corporate sector and investments in 'other buildings and structure' are lagging most compared to 2008.

Investment Dynamics by Institutional Sector



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by institutional sector. The data has been indexed to equal 100 in 2008. Source: Eurostat.

Investment Dynamics by Asset Class



The graph shows the evolution of total Gross Fixed Capital Formation. (in real terms); by asset class. The data has been indexed to equal 100 in 2008. Source: Eurostat.

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

The final data are based on a sample, rather than the entire population of firms in Lithuania, so the percentage results are subject to sampling tolerances. These vary with the size of the sample and the percentage figure concerned.

Approximate sampling tolerances applicable to percentages at or near these levels

	EU	Lithuania	Manu-facturing	Cons-truction	Services	Infras-tructure	SME	Large	EU vs Country	Manufacturing vs Construction	SME vs Large
	(12483)	(407)	(102)	(103)	(101)	(101)	(367)	(40)	(12483 vs 407)	(102 vs 103)	(367 vs 40)
10% or 90%	1.0%	3.6%	6.4%	6.4%	7.2%	6.6%	3.0%	8.3%	3.7%	9.0%	8.8%
30% or 70%	1.5%	5.5%	9.8%	9.8%	11.0%	10.1%	4.6%	12.6%	5.7%	13.8%	13.4%
50%	1.7%	6.0%	10.7%	10.6%	12.0%	11.0%	5.0%	13.8%	6.2%	15.1%	14.6%

Glossary

Investment	A firm is considered to have invested if it spent more than EUR 500 per employee on investment activities with the intention of maintaining or increasing the company's future earnings.
Investment cycle	Based on the expected investment in current financial year compared to last one, and the proportion of firms with a share of investment greater than EUR 500 per employee.
Productivity	Total factor productivity is a measure of how efficiently a firm is converting inputs (capital and labor) into output (value-added). It is estimated by means of a country-by-country regression analysis (with industry dummies).
Manufacturing sector	Based on the NACE classification of economic activities, firms in group C (manufacturing).
Construction sector	Based on the NACE classification of economic activities, firms in group F (construction).
Services sector	Based on the NACE classification of economic activities, firms in group G (wholesale and retail trade) and group I (accommodation and food services activities).
Infrastructure sector	Based on the NACE classification of economic activities, firms in groups D and E (utilities), group H (transportation and storage) and group J (information and communication).
SME	Firms with between 5 and 249 employees.
Large firms	Firms with at least 250 employees.

EIBIS 2016 – COUNTRY TECHNICAL DETAILS

Base sizes

Base definition and page reference	EU	Lithuania	Manufacturing	Construction	Services	Infrastructure	SME	Large
All firms, p. 3, p. 6, p. 7, p. 9, p. 11, p. 12, p. 13	12483	407	102	103	101	101	367	40
All firms (excluding don't know/refused responses), p. 2	11838	393	100	101	94	98	355	38
All firms (excluding those who have no investment planned/don't know/refused responses), p. 5	12159	397	100	102	95	100	358	39
All firms (excluding 'Company didn't exist three years ago' responses), p. 6	12453	406	102	103	100	101	366	40
All firms (excluding don't know, refused and missing responses), p. 13	12162	391	98	99	96	98	356	35
All firms who invested in the last financial year, p. 2	12281	400	102	102	96	100	360	40
All firms who invested in the last financial year, p. 4	10881	362	92	97	81	92	324	38
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 4	10060	338	87	91	75	85	304	34
All firms who have invested in the last financial year (excluding don't know/refused responses), p. 5	9682	337	82	92	76	87	302	35
All firms who invested in the last financial year (excluding don't know/refused responses), p. 10	9093	334	85	92	74	83	301	33
All firms who have planned to invest in the current financial year and who invested too much, about the right amount or too little in the last financial year (excluding don't know/refused/company didn't exist three years ago responses), p. 8	10536	345	N/A	N/A	N/A	N/A	N/A	N/A
All firms who used external finance in the last financial year (excluding don't know/refused responses), p. 10, p. 11	4344	144	36	35	25	48	120	24

Percentage rounding

Percentage with value of less than 0.5 but greater than zero has not been displayed in the charts.

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