January 2019

Baltic Business Outlook

Foreword

As expected, 2018 was another successful year for Baltic economies. Private consumption and investments played the leading role in the economic expansion. Manufacturing, agriculture, construction, administrative services: these are sectors where the share of optimists is the largest.

Furthermore, reduced forecasts on economic growth in Baltic countries so far have not threatened the SMEs, which maintained rather positive outlook on the business development in 2019. Main concerns for large and small companies are related to the lack of labor force in some lower paid jobs, so the workers from abroad will certainly remain one of the options for the SMEs. Especially in the field of product and service development, numerous companies are aware of the importance of innovation, which is another crucial factor of sustainable business growth.

SEB strives to maintain its position as the #1 bank for business clients in Nordic and Baltic countries. From this point of view, in the latest edition of Baltic Business Outlook we have collected important insights about small and medium-sized enterprises plans, their concerns and needs from 4,500 companies in Lithuania, Latvia and Estonia. SMEs are the backbone of Baltic economies, and their confidence indicators can give us a good idea about future developments of economic processes. Please read more findings which are presented in this report.

Executive summary

- 2018 was another successful year for Baltic economies. Private consumption and investments played the leading role in the economic expansion. However, the growth in exports decelerated on slower expansion in the main export partners.

- Reduced forecasts on economic growth in the world and here in Baltic countries so far have not threatened the SMEs, which maintained rather positive outlook on the business development in 2019. More than 3 of 4 responded companies in Baltic countries plan the same or up to by 15% higher sales revenue this year. The largest share of the companies, expecting the drop in sales is in Latvia, the smallest – in Estonia. However, the difference is relatively small and provides evidence that the economic expectations are rather similar among all three countries.

- Manufacturing, agriculture, construction, administrative services: these are sectors where the share of optimists is the largest. Such diversification of economic activities in which the entrepreneurs have neutral or positive expectations on sales revenue growth is supportive to overall economic picture for 2019.

- Although there was a slight decrease in the share of companies in Lithuania (down from 26% to 19%), forecasting higher number of employees, no significant changes occurred among Latvian or Estonian companies. Around ¾ of the companies will maintain similar number of staff, while the share of enterprises planning to increase staff is around twice higher compared to the share of the SMEs willing to reduce the headcount.

- Despite the recent surge in employment of workers from foreign countries, the survey again does not reveal major shifts in this field. 4% of responded companies in Latvia, 6% in Lithuania and 8% in Estonia have employees from abroad. The only significant change occurred among Latvian companies, because there was an increase from 7% to 12% in the share of companies, which have not already tried, but are interested in employing foreign workers. Taking into account the increase in the standard of living in Baltic countries and the lack of labour in some lower paid jobs, the workers from abroad will certainly remain one of the options for the SMEs, too, especially if the employment conditions will be further relaxed.

- Contrary to the previous years, the share of Lithuanian companies, focusing on the domestic market increased from 66% to 76% and approached the typical level of companies in Latvia and Estonia with similar geographical focus. Last year private consumption greatly recovered in Lithuania and perhaps encouraged higher concentration on domestic market.

- The willingness to invest is little changed in Estonia and Lithuania, but more pronounced changes took place in Latvia. The share of companies that do not plan any investments dropped profoundly from 35% to 19% and even decreased below the levels of Lithuanian (23%) and Estonian companies (22%). It seems that recent positive changes in Latvian economy increased the motivation and financial possibilities for the companies to invest.

- However, the share of SMEs that do not plan innovation activities, increased among the companies in all three Baltic countries. Just in Latvia, the share of companies that plan the product and service innovations was up from last year. Meanwhile, there was a drop in the number companies, which plan to invest in employee development. Such tendencies are worrying taking into account the shortfall in innovative businesses compared to other EU countries.

- There was a jump in the share of Latvian companies, that include digitalisation into the list of business priorities. Currently 44% of Lithuanian, 45% of Latvian and 51% of Estonian SMEs think that digitalisation is important on their businesses agenda.

- 25% of Estonian, 22% of Lithuanian and 20% of Estonian SMEs provide the opportunity to purchase goods or services online. Estonian companies are the most eager to launch internet sales in the future, too.

Key indicators

	Estonia	Latvia	Lithuania
Population (January 2018)	1.32	1.93	2.81
GDP per capita PPS (EU=100, 2017)	79	67	78
Real GDP growth (Q1-Q3 2018)	3.8%	4.7%	3.3%
Inflation, HCPI (2018)	3.4%	2.6%	2.5%
Unemployment rate (Q3 2018)	5.2%	7.0%	5.9%

Sources: Eurostat, national statistics bureaus of Baltic States

Economic forecast for 2019

	GDP	Inflation
Estonia	2.8%	2.6%
Latvia	3.5%	2.9%
Lithuania	2.9%	2.5%

Source: SEB forecast.

Methodology

Only the results of the small and medium enterprises (SMEs) with the age above 3 years were included in this report.

Turnover growth
In the survey, companies expecting at least 15% turnover growth in 2019 are labelled as optimists while the companies expecting growth figures below 15% are moderate optimists and the rest, predicting a decline in turnover, are considered pessimists.

Employment
The employment outlook is divided into three groups:
- companies planning to hire new staff in 2019,
- the ones keeping the headcount unchanged,
- and the companies intending to cut back on personnel.

Exports
The respondents are divided into three groups: companies planning to enter new markets in 2019, those intending to grow in existing export markets, and companies focusing on the domestic market.

Innovation
The analysis refers to two groups of companies: those planning innovations in 2019, be they in products, services, business models, and/or employee development, or those not planning any of the above-mentioned.

Investments
The threshold of major investments is set at 30,000 EUR for this survey, with the companies investing amounts above and below that constituting the first two groups, and the third group composed of companies not planning any investments in 2019.

Expected changes in business environment during 2019

January 2019

More moderate optimists regarding sales revenue

	Optimists	
Estonia	13%	→
Latvia	10%	→
Lithuania	11%	↓

	Moderate optimists	
Estonia	79%	↑
Latvia	76%	↑
Lithuania	77%	↑

	Pessimists	
Estonia	8%	↓
Latvia	14%	↓
Lithuania	12%	↓

Focus on domestic markets dominates

	New markets	
Estonia	11%	↑
Latvia	7%	→
Lithuania	13%	↓

	Existing export markets	
Estonia	15%	↓
Latvia	16%	↑
Lithuania	11%	↓

	Domestic markets	
Estonia	73%	↓
Latvia	77%	↓
Lithuania	76%	↑

Appetite for investment will remain at similar level

	Investments over 30,000 euros	
Estonia	16%	↑
Latvia	17%	↑
Lithuania	16%	↓

	Investments up to 30,000 euros	
Estonia	25%	↓
Latvia	36%	↑
Lithuania	26%	→

	No investments	
Estonia	22%	↑
Latvia	19%	↑
Lithuania	23%	↓

Slight decrease in the willingness to hire new staff

	Hiring staff	
Estonia	17%	↓
Latvia	16%	→
Lithuania	19%	↓

	No changes	
Estonia	78%	↑
Latvia	76%	→
Lithuania	73%	↑

	Reducing staff	
Estonia	4%	→
Latvia	8%	→
Lithuania	8%	↓

Still low attitude toward employee development

	Product/service	
Estonia	35%	↓
Latvia	35%	↑
Lithuania	26%	↓

	Business model	
Estonia	13% ↑	↑
Latvia	6% →	→
Lithuania	8% ↓	↓

	Employees	
Estonia	16%	↓
Latvia	17%	→
Lithuania	16%	↓

Digitalisation will be quite important on business strategy

	Very important	
Estonia	16%	↓
Latvia	12%	↑
Lithuania	15%	↓

	Quite important	
Estonia	35%	→
Latvia	33%	↑
Lithuania	29%	↓

	Not important at all	
Estonia	22%	↑
Latvia	39%	↓
Lithuania	22%	↑

Business sentiment in different industries

Trade

	Optimists
Estonia	14%
Latvia	10%
Lithuania	9%
	Moderate optimists
Estonia	77%
Latvia	76%
Lithuania	77%
	Pessimists
Estonia	10%
Latvia	15%
Lithuania	14%

Transport and Logistics

	Optimists
Estonia	7%
Latvia	6%
Lithuania	10%
	Moderate optimists
Estonia	80%
Latvia	74%
Lithuania	79%
	Pessimists
Estonia	13%
Latvia	20%
Lithuania	10%

Construction

	Optimists
Estonia	15%
Latvia	7%
Lithuania	7%
	Moderate optimists
Estonia	75%
Latvia	81%
Lithuania	80%
	Pessimists
Estonia	10%
Latvia	12%
Lithuania	13%

Manufacturing

	Optimists
Estonia	11%
Latvia	11%
Lithuania	10%
	Moderate optimists
Estonia	80%
Latvia	82%
Lithuania	82%
	Pessimists
Estonia	9%
Latvia	7%
Lithuania	9%

Agriculture

	Optimists
Estonia	19%
Latvia	13%
Lithuania	27%
	Moderate optimists
Estonia	74%
Latvia	73%
Lithuania	68%
	Pessimists
Estonia	6%
Latvia	14%
Lithuania	5%

Housing and catering

	Optimists
Estonia	7%
Latvia	0%
Lithuania	13%
	Moderate optimists
Estonia	87%
Latvia	77%
Lithuania	75%
	Pessimists
Estonia	7%
Latvia	23%
Lithuania	13%

Administration and services

	Optimists
Estonia	11%
Latvia	14%
Lithuania	18%
	Moderate optimists
Estonia	79%
Latvia	72%
Lithuania	78%
	Pessimists
Estonia	11%
Latvia	14%
Lithuania	5%

Education and health

	Optimists
Estonia	12%
Latvia	8%
Lithuania	11%
	Moderate optimists
Estonia	74%
Latvia	76%
Lithuania	72%
	Pessimists
Estonia	14%
Latvia	16%
Lithuania	16%

Other

	Optimists
Estonia	10%
Latvia	11%
Lithuania	9%
	Moderate optimists
Estonia	84%
Latvia	74%
Lithuania	79%
	Pessimists
Estonia	6%
Latvia	15%
Lithuania	12%

Estonia

Mihkel Nestor
Economist at SEB Estonia

For a third year in a row, Estonia has been one of the Eurozone's fastest growing economies. During the first three quarters of 2018, GDP expanded by 3.8%. However, the growth has not been broad-based, as almost half of it came from the construction and real estate sectors. In 2018, Estonia's construction volumes surpassed even the last peak of 2007. This was supported by active residential development, but also large infrastructure projects commissioned by the public sector. Despite high construction volumes, the real estate boom has not caused distortion in prices, which have grown hand-in-hand with salaries. However, the market sentiment seems to have reached its peak and now the number of issued building permits for residential developments has declined by around 10%. In addition, the number of people planning to purchase a home has declined to the lowest level since 2012.

Another concern for the economy is foreign trade. Exports still account for around 75 per cent of GDP, but based on national accounts, growth in export of goods came almost to a standstill in Q3. This can be explained by cyclical but also structural problems. On one side, the economic growth of Estonia's largest trade partners such as Sweden or Finland decelerated last year. Additionally many of Estonia's largest exporters belong through their Nordic clients and parent companies to much further reaching value chains and have been influenced by reasons such as slowing demand in China or Germany. On the structural side, it is clear that to the rapid rise in wages during last couple of years has decreased Estonia's cost-based competitiveness. Labour intensive manufacturing tasks that were previously shifted to Estonia from more costly Nordic countries are not that profitable in a country where the average wage stood above EUR 1,300 last year. It is increasingly likely that some of those companies may restructure their operations in few years' time.

On the positive side, Estonia's labour market continues strong. The employment rate stands above 68% placing Estonia at the top in the ranking of EU countries. Lack of freely available labour continues to drive up wages, which increased around 7%. During last three years, the average salaries have grown almost by a quarter. Additionally disposable income of many households has increased thanks to the personal income tax reform, which increased the tax-exempt minimum to most of the households. Many will gain from the same reform also in 2019 when the Tax Office will starts to reimburse overpaid taxes. Strong labour market has been a boon for private consumption that during three quarters of 2018 increased by 4.4%. Surging incomes will continue to drive growth in consumption also in 2019.

Although in Q3 capital spending improved, it did little in breaking the longstanding trend of declining investment rate of the business sector. Looking at the uncertain economic environment and structural shift from manufacturing to services, there are few reasons to expect the trend to reverse during coming years. However, public sector investments will continue to support capital spending at least until 2020. The outlook becomes more uncertain after that as EU's financial support for such projects will be cut.

Nearing parliament elections will put the tax and fiscal policy at the core of discussions. While more expansionary measures are likely, late tax reforms have also caused confusion and uncertainty, which needs to be addressed. Yet the future coalition is likely to comprise both left and right-leaning parties, which holds the future policies of the government at the centre of political spectrum.

Assessment of business environment: Estonia

- Estonian SMEs maintained positive sentiments regarding the outlook of the next twelve months: 79% of surveyed companies forecast that sales revenue will not change or increase by up to 15% in 2019. Just 8% of SMEs forecast that the sales revenue will drop this year. This is the lowest figure among Baltic countries.
- In Estonia the most positive outlook on 2019 is among the agricultural and construction SMEs, while businesses in transport, health and education sectors are the most cautious. Construction sector has been demonstrating solid results in the last several years, it seems, that the expectations of further growth in construction output remains. However, more anxiety comes for exporting businesses, as the forecasts of slower economic growth in EU countries will have a negative impact on such companies.
- Just 4% of responded companies claimed that they are planning to reduce staff and 17% are expecting to increase it. Certainly, this is positive news to employees, but taking into account really tight labour market's situation and rising labor costs, the challenge for businesses to maintain profitability and attract new labor, will be very profound.
- 8% of Estonian companies employ foreign workers and 13% of companies are discussing such possibilities. These are the largest number among Baltic countries. That is no surprising, as the employment rate is the highest in Estonia. There is no doubt that the companies will keep on employing even more employees from abroad in the next few years.
- The investment plans remain unchanged since last year. However, there was a disappointing jump in the share of companies, that do not plan any innovation activities in 2019. The share of such companies increased from 30% to 46%. Nevertheless, 35% of companies plan innovations in their products or services in 2019.
- 51% of companies acknowledge the importance of digitalisation on their business agenda. However, still 22% of companies do not see the benefits in digitalization and the rest 26% have not year decided about it.
- A quarter of SMEs offers the option for the clients to buy goods or services online. Besides, 21% of companies plan to launch sales on internet. That are the highest figures in all three Baltic countries.

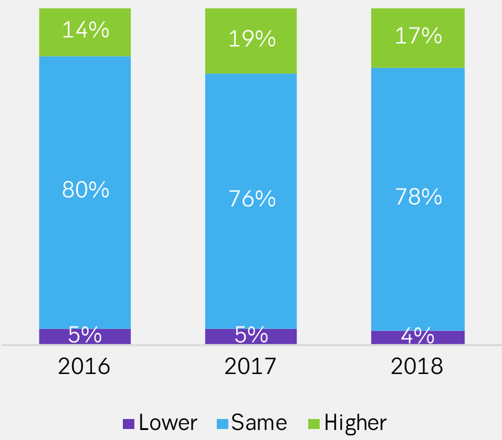
Estonia: SME plans for 2019

78%	will keep the number of employees unchanged
73%	will remain focused on domestic market
41%	will make investment projects
79%	do not plan hiring employees from foreign countries
47%	plan innovations in business model or products/service

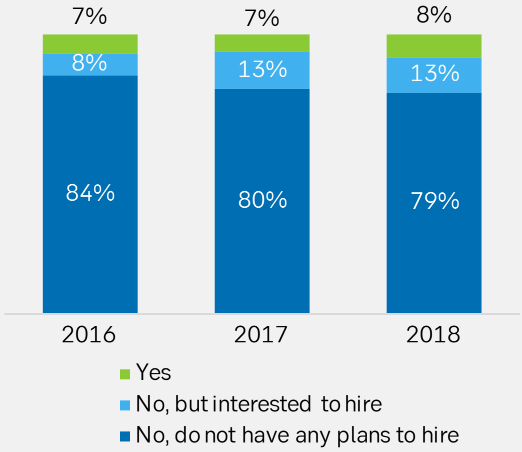
Up and down: Where are they?

13% **optimists**	• Construction and agriculture, 1-9 employees • Turnover up to EUR 65th
8% **pessimists**	• Construction and retail, 1-9 employees • Turnover up to EUR 65th

Number of employees next year

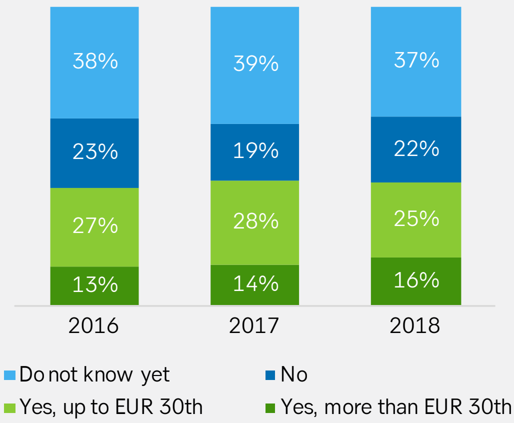


Employees from foreign countries



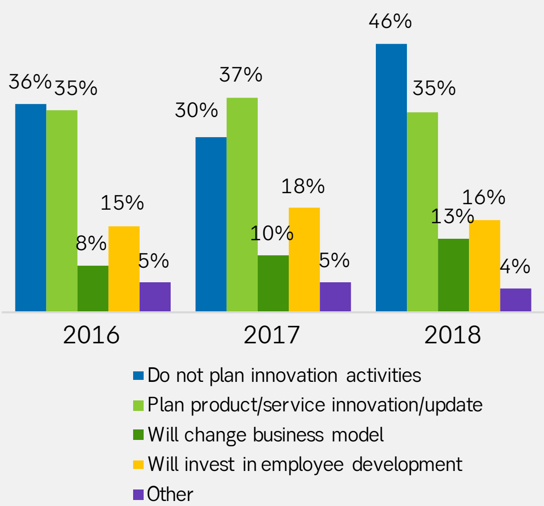
Export markets next year

Investment projects next year

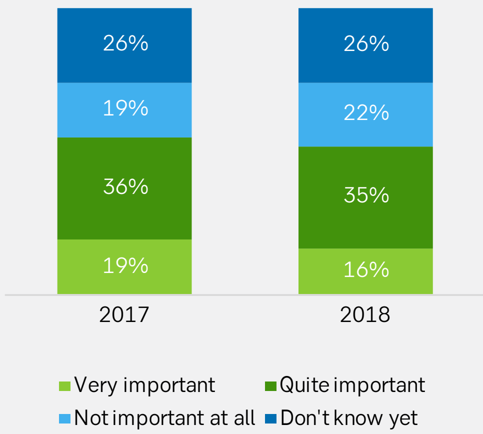


Most popular export markets: Baltic and Nordic countries (especially Finland).

Innovation and changes



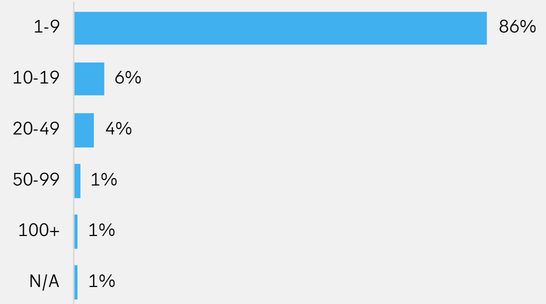
Digitalization on agenda next year



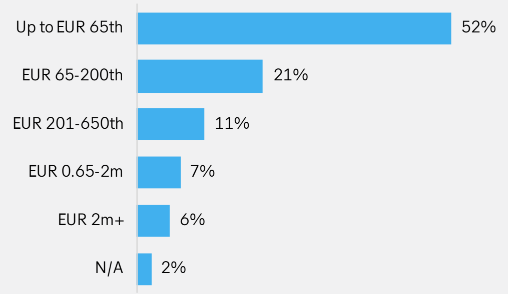
Profile of the Estonian survey

2169 companies participated

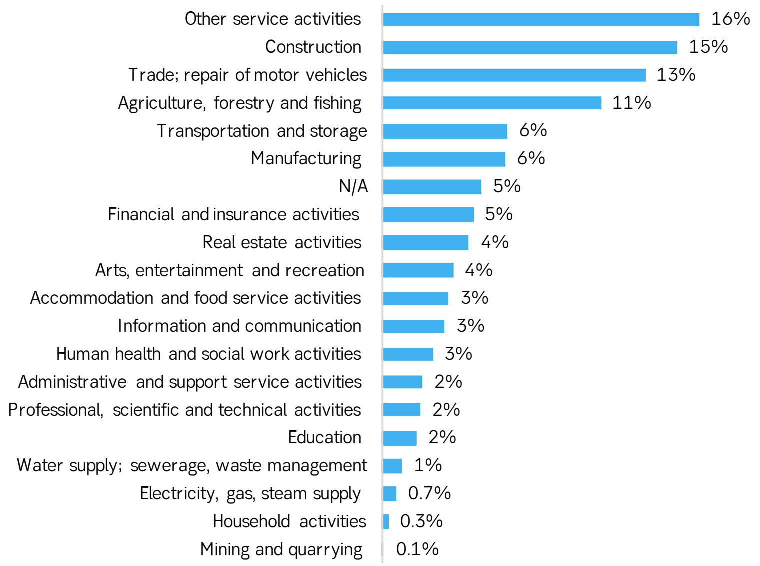
Number of employees



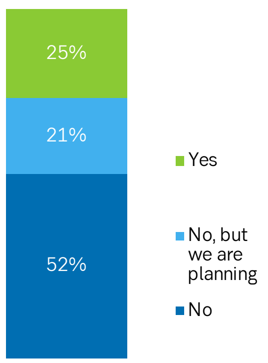
Annual turnover



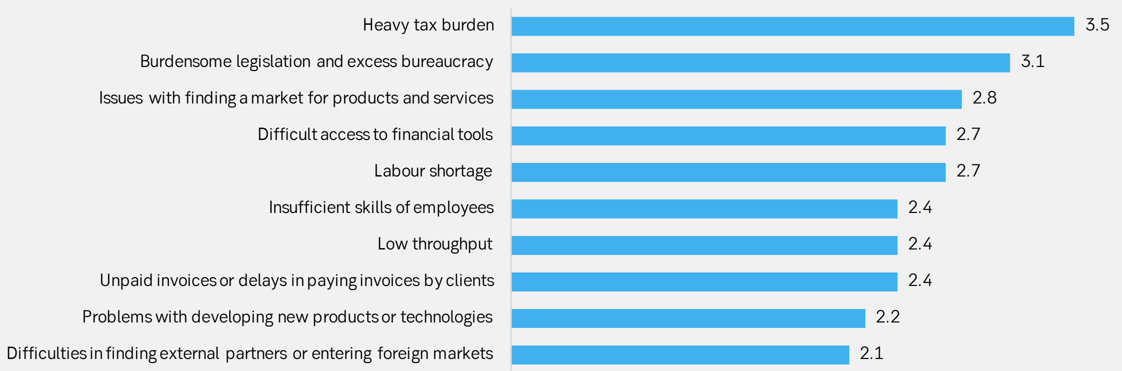
Sector



Online sales



Obstacles for the growth in turnover in the next twelve months (1 = not at all; 5 = very much)



Comments of Estonian entrepreneurs

“ In order to cut monthly costs, we must first invest in technology

“ Pressure on wage increase that outpaces productivity, “drains out” older type production companies

“ We commit to the development of e-solutions

“ Recruitment of external workforce must become easier

“ Uncertainty about the trade rules prevents development

Latvia

Dainis Gašpuitis

Macroeconomics expert at SEB Latvia

2018 has been another successful year for Latvian economy, which grew by 4.5 per cent. Although the rise is remarkable, nearly half of the growth was generated by construction industry and improved collection of taxes. This year GDP growth will slow down to 3.5 per cent and 3.2 per cent in 2020. Private consumption will be one of the major drivers in the nearest future. Conditions are favourable because of the labor market and solid growth of real wages. This should boost consumption by around 3.7 per cent in 2019. Capital expenditure will be stimulated by the EU funds, however entrepreneurs' appetite for investment might decrease due to external uncertainty and surging construction costs. Weakening external demand means sluggish export expansion.

In the coming two years the focus will be on the construction sector, where more signs of overheating are emerging. During three quarters of 2018, industry shot up by 22 per cent. Cost surge is turning into side effects. Spare capacity and efficiency limits to sustain growth are unknown. We are particularly pleased to see expansion in information and communication services, which increased by 12 per cent during nine months of 2018, and its exports. Hence, we believe this robust growth will continue this year. A more modest growth of 3.5 per cent is expected in retail. Outlook for manufacturing is souring, but it will be supported by the domestic demand, and we foresee an expansion at a pace of 3-3.5 per cent in 2019.

In November 2018, the annual inflation stood at 3 per cent. Equally, both prices for goods and services increased by 3 per cent. The inflation outlook for the coming two years is twofold. On the one hand, external inflationary pressure is still subdued. On the other hand, we see mounting cost pressure that should manifest itself in higher prices for services. We see higher prices for food, electricity, heating and excise goods. Inflation forecast is 2.9 per cent for 2019 and 2.5 per cent for 2020.

In the third quarter of 2018 unemployment rate dropped to 7 per cent, which is close to pre-crisis levels. Meanwhile employment reached an unprecedented level at 65.3 per cent. Demand for employees will stay pronounced, but further opportunities for a faster fall in unemployment are limited. By the end of this year, the unemployment rate could approach 6 per cent. The number of vacancies will continue to grow. The necessity to address the issue of immigration of labour will become more pronounced. It is important to note that last year migration balance finally drew close to zero. However, it will take some more years of current wage growth to stop emigration.

In 2018 the average wage increase was at 8 per cent. This year the growth will be around 7 per cent, average gross monthly wage will reach 1100 euros. Both private sector and public sector will be under considerable pressure, and the government will have to keep up the pace of reforms to minimize pressure on the budget. Regional competition for labour is very fierce as Central and Eastern European countries see similar or even higher wage growth. Thus, even if economic growth slows down, high capacity utilization and demographic trends will not be a major relief for employers. As rapid rise in wages will continue to wipe out profits, there should be more investments in productivity to relieve this pressure.

Assessment of business environment: Latvia

- The economic sentiment of SMEs is positive as 76% of surveyed companies expect that sales revenue will not change or increase by up to 15% in 2019. However, still the share of companies forecasting the drop in sales (14%) is the highest in Baltic countries.
- 76% of SMEs plans to retain current number of staff, while 16% intend to increase and just 8% to reduce the headcount. These numbers are almost the same as one year ago and indicate that the labour market will be tightening even more, supporting the growth in labour costs and the drop in unemployment level in Latvia.
- The share of companies employing people from foreign countries remained stable at 4%. However, there was a rebound from 7% to 12% in the number of companies, which are interested in hiring employees from abroad. That is one of the measures how enterprises might solve the problem when it is difficult to find the employees. Estonia and Lithuania has already advanced in these practises.
- Contrary to case in Lithuania and Estonia, less Latvian companies plan to focus on domestic market (a drop from 83% to 77%) and more will be interested in expanding into current export markets (from 11% to 16%). That is certainly positive from the long- term perspective despite the fact that economic growth in Latvia is one of fastest among EU countries.
- There was a positive change in the significant drop from 35% to 21% in the share of SMEs, which do not plan any investments in 2019. Latvia historically used to take the last position according the projected investments among Baltic countries, but it seems that the time has come for Latvian companies to invest more. Relatively solid growth of domestic economy is also supportive to invest more despite the bleaker outlook outside Latvia.
- However, still 52% of Latvian SME do not plan any innovation activities in 2019. This gloomy figure has remained stable in the last several years. Besides, Latvia is the last one among Baltic States according to the share of companies, which provide the clients opportunity to buy the products or services online.

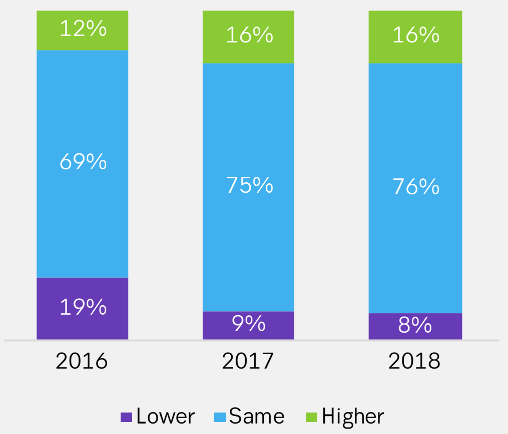
Latvia: SME plans for 2019

76%	will keep the number of employees unchanged
77%	will remain focused on domestic market
53%	will make investments
52%	are not planning any remarkable innovation activities
39%	digitalisation is not important in their business

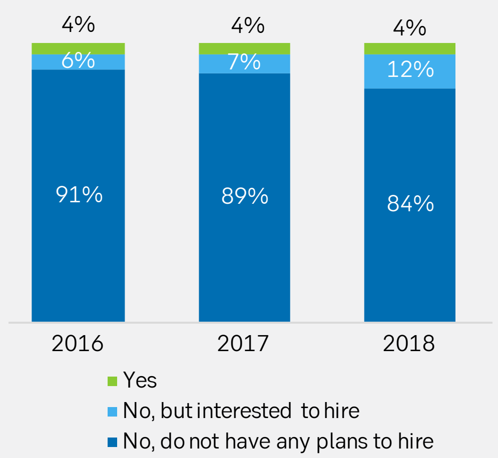
Up and down: Where are they?

10% **optimists**	• Agriculture, Trade, Other services • Turnover up to EUR 200th
14% **pessimists**	• Agriculture, Trade, Other services • Turnover up to EUR 65th

Number of employees next year

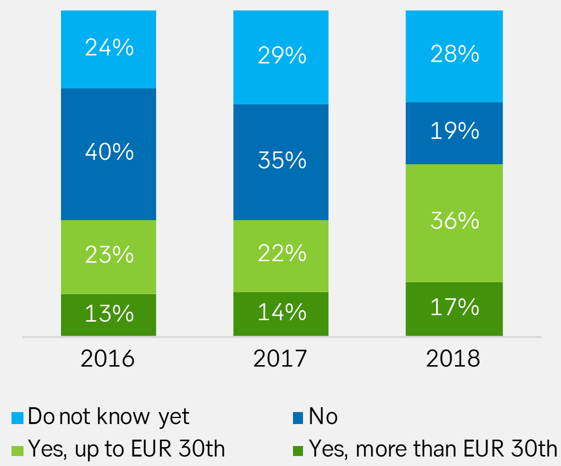


Employees from foreign countries



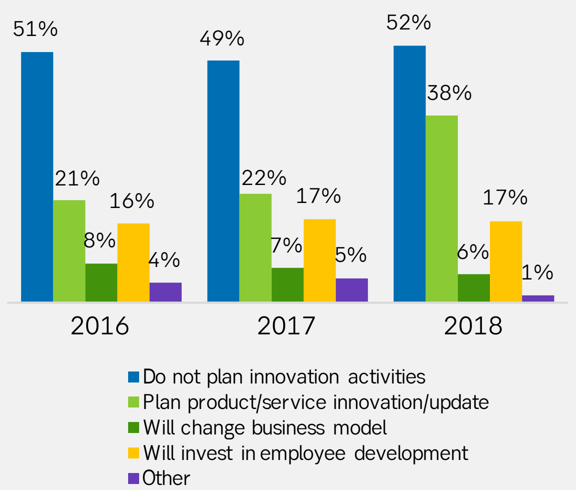
Export markets next year

Investment projects next year

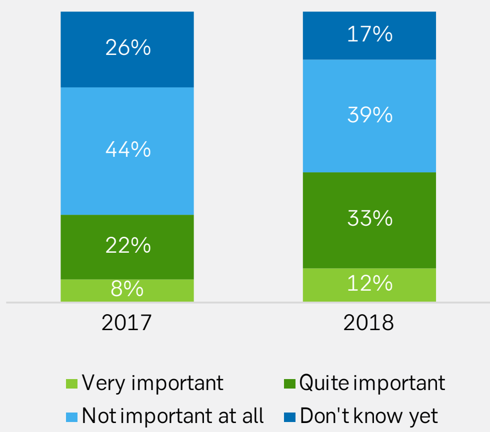


Most popular export markets: EU (especially Germany and Baltic countries) and Nordic countries (especially Sweden and Norway)

Innovation and changes



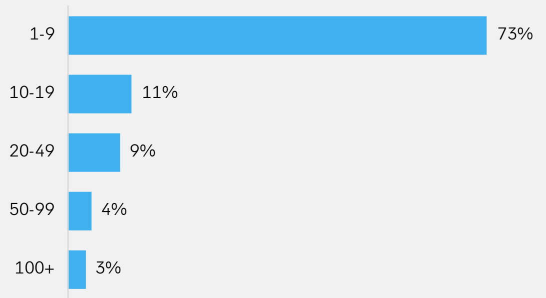
Digitalization on agenda next year



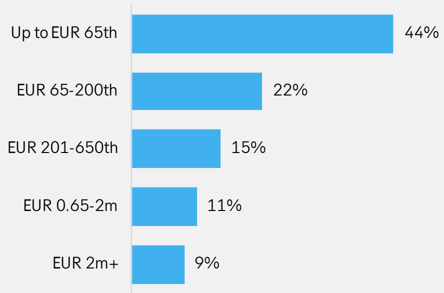
Profile of the Latvian survey

1177 companies participated

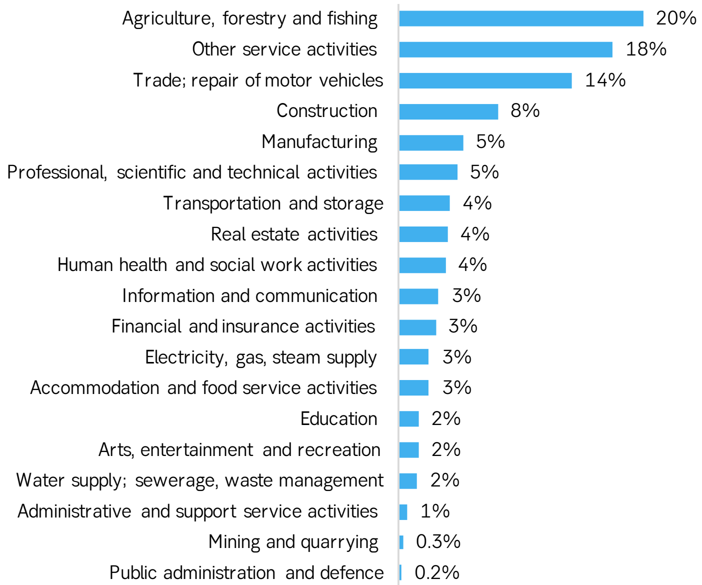
Number of employees



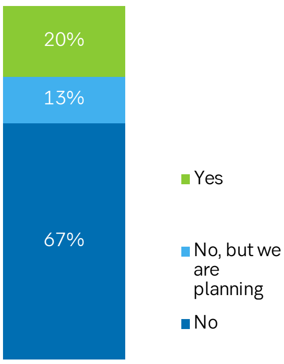
Annual turnover



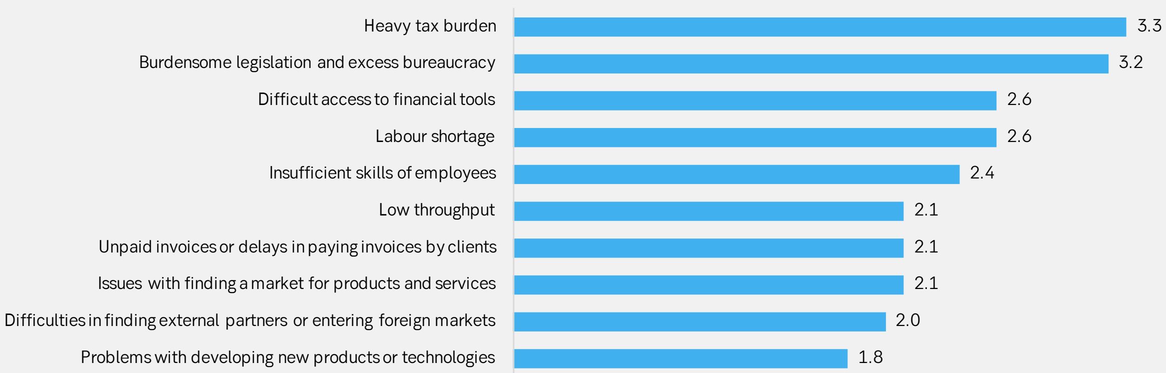
Sector



Online sales



Obstacles for the growth in turnover in the next twelve months (1 = not at all; 5 = very much)



Comments of Latvian entrepreneurs

“ We will continue to do our best and hope that next year the weather will be more favourable.

“ It would help to do better business if Latvia would be more successful in fighting corruption and stop being nationalistic.

“ We are continuing to develop with each year!

“ Within two years we will be the leading company in our industry!

“ It is hard to find skilled and knowledgeable employees. Municipality is not doing enough to help businesses to develop.

“ We are planning to develop several private label product lines and strengthen our positions in the Baltic market.

“ Will continue to modernise our company and invest in educating our employees.

“ We will continue to renew our vehicle fleet by acquiring cars, which are environmentally friendlier

Lithuania

Tadas Povilauskas

Economist at SEB Lithuania

2018 was another successful year for Lithuania's economy. GDP growth was close to 3.4 per cent, supported by strong private consumption and capital spending. Meanwhile, export growth decelerated due to both demand and supply side factors. The worsening situation in external markets is leading to a more cautious growth outlook in the next couple of years. We forecast that GDP will expand by 2.9 per cent in 2019 and 2.4 per cent in 2020.

Economic sentiment indicators dropped only marginally in the final months of 2018, indicating a still-positive mood among consumers and businesses. There are no clear signs so far that the businesses will be delaying their investments in 2019. However, if the situation deteriorates abroad, their plans might change. The emergence of trading difficulties in case of a hard Brexit and the consequent temporary turmoil would be painful to Lithuanian exporters. It is also worth pointing out that this year investments financed by EU structural funds will peak, providing support to the construction sector too.

The labour market continues to heat up. Average unemployment fell from 7.1 to 6.3 per cent in 2018. However, we forecast that unemployment will stabilise at close to 6 per cent in the next two years. The unemployment level in remote regions will remain rather high due to low mobility and other structural reasons, while unemployment in the Vilnius district is already record-low. Businesses will keep importing and training labour from Ukraine and Belarus, due to persistent shortages of domestic employees in the construction and transport sectors.

Rapid wage growth continued in 2018. In the third quarter, gross wages and salaries were up by 10 per cent year-on-year. Contrary to the situation in previous years, wages increased more for public sector employees. Discontent about low public sector pay increased sharply last year, and a teachers' strike in December was instrumental in this process. The teachers' demands were rational, because employees in the education and health care sectors used to be underpaid. One reason for their relatively low salaries is still the country's ineffective network of education and health care institutions. Another reason is that the Lithuanian national budget is relatively small (33.6 per cent of GDP in 2017) and the government's capacity to raise wages is low. The government has no choice but to keep on working to repair this situation over the next few years.

In 2018 average annual inflation decreased from 3.7 to 2.5 per cent, a relatively low level considering the sharp growth in labour costs. Lower inflation and high real wage growth had a positive impact on household consumption last year. At the beginning of 2019, annual inflation will reflect increases in government-regulated prices. Electricity and natural gas for households have thus become 15 and 12 per cent more expensive. Even taking these changes into account, we feel comfortable in maintaining our previous forecasts that inflation will average 2.5 per cent in 2019 and 2020.

Residential property prices were up by 6.6 per cent annually in the third quarter, the slowest increase since mid-2016. Prices rose faster in smaller cities, while in the capital Vilnius home prices were up slightly more than 3 per cent. A sufficient supply of new homes and higher uncertainty regarding household incomes will limit home price increases ahead.

Assessment of business environment: Lithuania

- General mood among Lithuanian SMEs remained positive. 77% of surveyed respondents expect that sales revenue will remain the same or increase by up to 15% in 2019, while there were only 12% of respondents forecasting the decline in their companies' sales.

- The most optimistic entrepreneurs might be found among Lithuanian companies operating in agriculture, IT, transport and manufacturing companies. Last year was very difficult for agricultural companies due to lower grain harvest and smaller milk production, but this year, if the weather is favourable, will be much better. The fact that majority of the companies related with foreign markets forecast the growth in sales revenue 2019, too, reassures that at least for now the companies do not feel the pain from slower growth of export partners.

- The share of companies expecting the increase in the number of employees dropped from 25% to 19%, while the share of enterprises, planning the layoffs dropped from 10% to 8%. Although the changes are marginal, but they send some signals about slower growth of staff among companies. However, the reasons for that might be driven by both demand and supply factors. The lack of skilled labour will remain in 2019 and successfully growing companies will have resources to attract people, while those struggling will have difficulties with even retaining current staff as the labour costs continues rising.

- Although the number of working foreigners is rapidly increasing in Lithuania, the survey do not show any breakthrough in the plans to hire more foreigners. 6% of companies that participated in the survey claimed that there are employed persons from foreign countries.

- Unexpectedly, the share of companies focusing on domestic markets increased from 66% to 76%, while the share of entities, which will pay the most attention on the current export markets dropped from 18% to 11%. Only 13% of companies have a priority on expanding export markets. Perhaps the companies expect that private consumption will keep on booming in Lithuania in 2019 and pay most attention to the local market.

- More than the half of SMEs do not plan innovating in 2019 and it is much worse result compared to last year's survey. Only 16% of companies will invest into employee's development, which is hardly justified in the current labour market situation. However, the share of companies having plans regarding investment projects remained the same since last year.

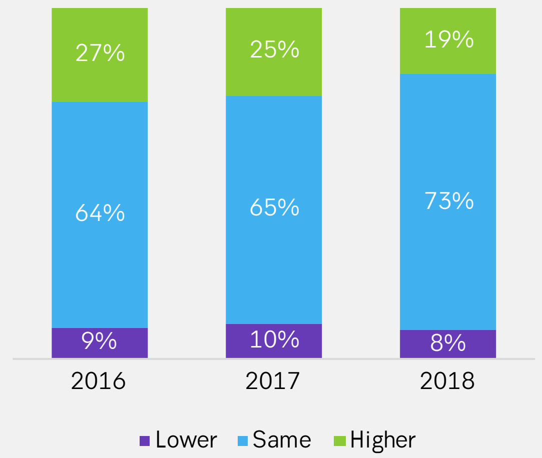
Lithuania: SME plans for 2019

73%	will keep the number of employees unchanged
76%	will remain focused on domestic market
42%	will make investments
44%	digitalisation is important in their business
34%	plan innovations in business model or products/service

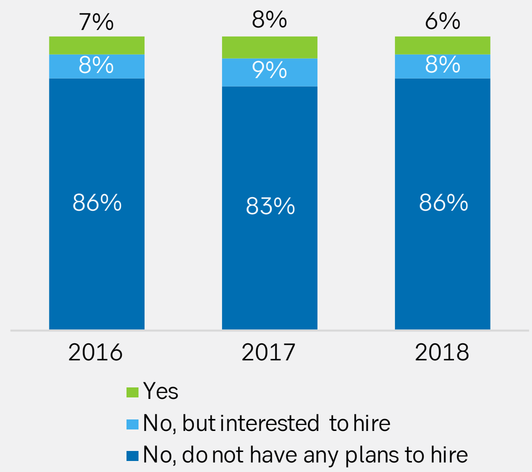
Up and down: Where are they?

11% **optimists**	• Agriculture and Information & Communication • Turnover higher than EUR 200th
12% **pessimists**	• Education, Culture, Health Care • Turnover up to EUR 650th

Number of employees next year

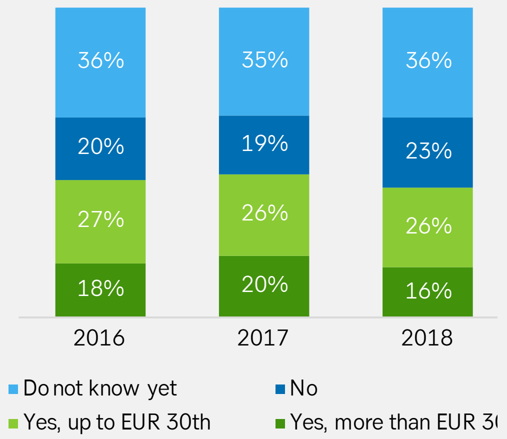


Employees from foreign countries



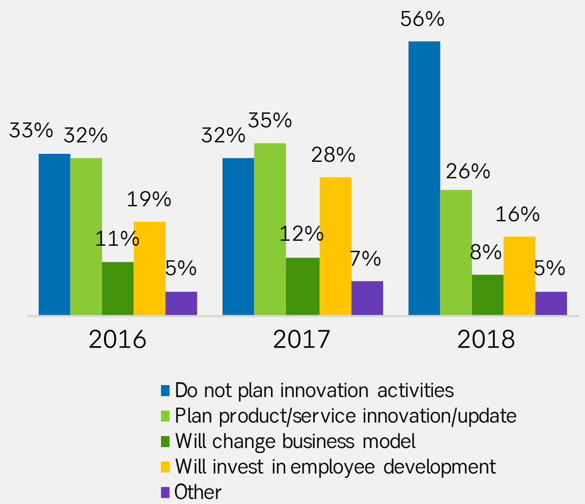
Export markets next year

Investment projects next year

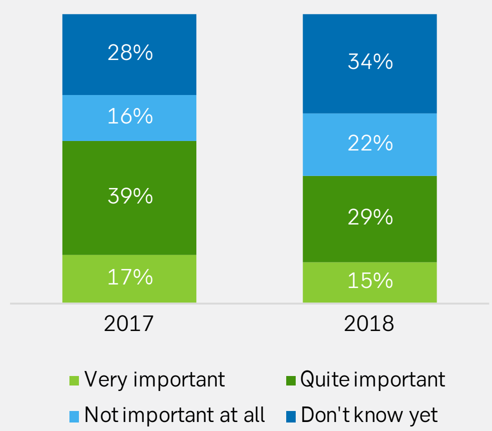


Most popular export markets: EU (Germany, UK, Latvia, Poland, Nordic countries), Ukraine, USA, Asian countries (China, Bangladesh, Taiwan).

Innovation and changes



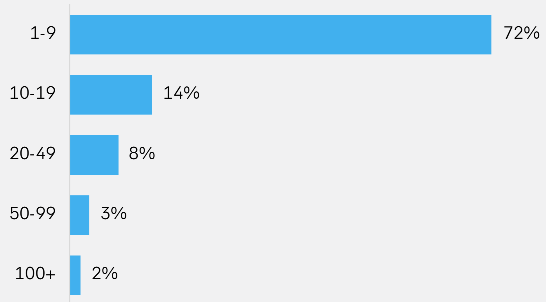
Digitalization on agenda next year



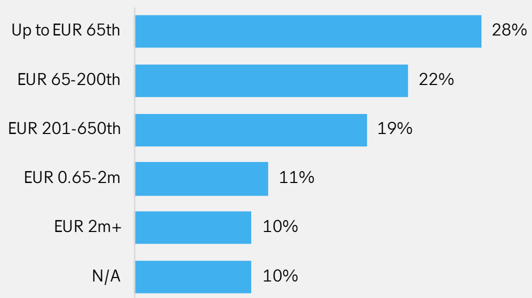
Profile of the Lithuanian survey

1121 companies participated

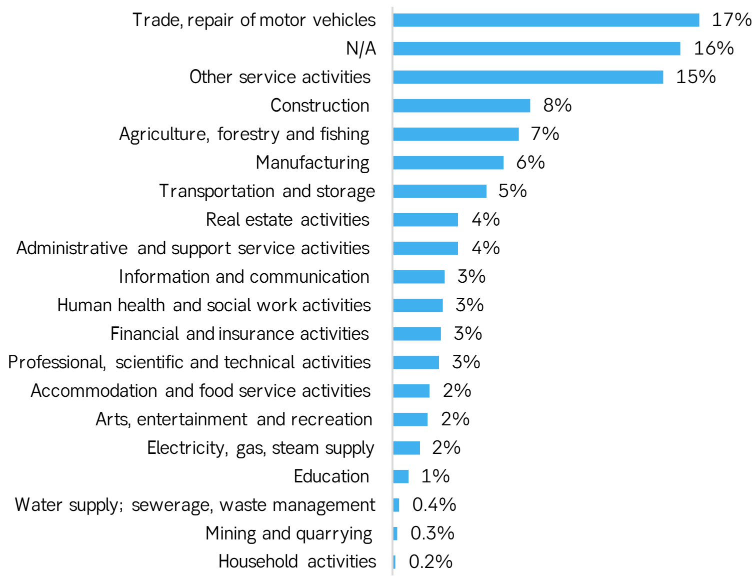
Number of employees



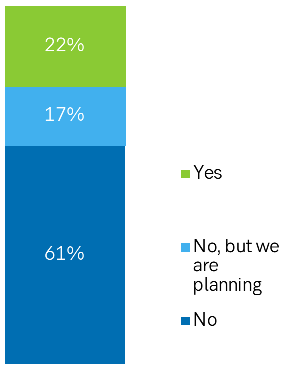
Annual turnover



Sector



Online sales



Obstacles for the growth in turnover in the next twelve months (1 = not at all; 5 = very much)