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Outlook on Lithuania 2018/2019

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Lithuania: an FDI success story in the making • Towards the future economy • Talent tops Lithuania's impressive list of assets • Kaunas: Ticking all the right boxes • Tourism: more than a G-spot

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Table of contents

Lithuania: an FDI success story in the making

Lithuania is doing all the right things to make investing in the country easy and profitable.

WORDS YOAN STANEV

According to data from UNCTAD (the United Nations Conference on Trade and Development), Lithuania has been receiving fluctuating flows of foreign direct investment (FDI) over the last decade. For example, while 2015 saw 749.3 million euros of FDI into Lithuania, the following year saw a drop to 227.4 million euros. Things picked up again in 2017, when 512.4 million euros poured into the country. According to provisional data provided by the Bank of Lithuania, cumulative FDI stock rose 5.2 per cent to 14.7 billion euros at the end of 2017. The fluctuation is mainly due to the global financial crisis, as well as the regional crisis involving Russia and Ukraine. Such trends can also be observed in neighbouring Baltic countries. The country improved its position and ranks 16th out of 190 economies in the World Bank's 2018 Doing Business Report, up from 21st position in 2017. The annual report rates 190 countries on their business environment. Lithuania now sits ahead of the likes of Ireland (ranked 17th) and Germany (ranked 20th). Furthermore, Lithuania is the only country in the Central and Eastern European region to have improved its position in the Doing Business index this year. Amongst the other Baltic states, Lithuania ranks in the middle: Latvia is 19th, whilst Estonia took 12th position in 2018. According to the same report, Lithuania has undertaken 31 reforms to its business regulatory environment, six reforms to its business incorporation processes, five reforms to bankruptcy proceedings and four reforms to its taxation system. In the EU, Lithuania ranks fifth for investment attraction.

Moreover, Lithuania offers tax exemptions to foreign companies and conditions have made it easier for companies to set up their businesses. The country made positive reforms in four key areas: obtaining construction permits was facilitated, connecting to electricity networks was improved, minority investors were better protected, and the tax payment system became electronic. As such, Lithuania was second in the whole of Europe and Central Asia for the number of reforms leading to an improvement in the conditions for business. Whilst Lithuania's corporate income tax is 15 per cent, entities with fewer than ten employees and less than 300,000 euros in gross annual revenues can benefit from a reduced corporate income tax rate of five per cent.

Strategic positioning

Emerging Europe got in touch with Simonas Petrulis, CEO of the Baltic Free Economic Zone and president of the Lithuanian Association of Free Economic Zones (LAFEZ). Mr Petrulis gave us a very detailed and comprehensive overview of the business climate in Lithuania, mentioning the country's location as a key factor that is highly beneficial for foreign investors: "due to our bordering with Poland, Kaliningrad Oblast (Russia), Latvia, Belarus our region offers unparalleled logistical access to major markets (East-West)." This strategic positioning of the country has allowed it to develop good infrastructure: it takes 1-2 hours to reach airports and 2-3 hours to reach sea ports.

Lithuania's six Free Economic Zones (FEZ), at Kaunas, Klaipėda, Šiauliai, Kėdainiai, Panevėžys and Marijampolė, have been key for attracting FDI to the country, due to the companies located there receiving special economic and legal operating conditions. Businesses choosing to locate to one of the FEZs enjoy zero per cent corporate income tax during their initial 10 years of operation, 7.5 per cent tax over the next six years, and no tax on dividends and real estate. Kaunas's FEZ has shown particularly encouraging signs of economic development and increased attractiveness for foreign investors. Of the 661 million euros invested in Kaunas FEZ, 70 per cent has come as FDI, which creates an additional 2.5 working places outside the zone for every one working place created in it. *Emerging Europe* spoke to Invest Lithuania, the country's investment promotion agency, who stated that "the latest investment trends in the [Kaunas] region show that smaller scale projects which are more human resource intensive are being developed," which means that there is increasing demand for highly qualified employees. In addition, the Kaunas FEZ has been focused on attracting investors from the fields of manufacturing, medical technology, aviation and MRO (maintenance, repair and overhaul).

Government support

Emerging Europe also spoke with Kaunas FEZ's Marketing Manager Ignas Juknevičius, who pointed out that "there were no

legal hurdles that these companies had to overcome," when setting up their businesses in Kaunas FEZ. Mr. Juknevičius added that "the whole settlement was and still is supported by the government as there were numerous meetings with Lithuania's prime minister and other high-level politicians to ensure best conditions possible in Lithuania."

"The only requirement for a company to settle in Kaunas FEZ or any of Lithuania's free economic zones is to perform activities which are not prohibited by the law of fundamentals of FEZs," added Mr Juknevičius. Mr Petrulis, however, pointed out that companies planning to invest in Lithuania require "more and wider developed local infrastructure from local municipalities," construction permits and other such administrative formalities to be processed quicker, cheaper and greener energy and a greater abundance of qualified specialists.

One of the most well-known companies present in Kaunas FEZ is Continental, the leading German automotive manufacturing company. The company has chosen Kaunas as the site of its new plant, where electronic components for the European market will be manufactured from the second half of 2019. This 95 million-euro investment will span until 2023 and is expected to create around 1,000 new jobs. "The construction of our first plant in Lithuania is an important part of our growth strategy in Europe," stated Helmut Matschi, a member of the Continental Executive Board and head of the interior division.

"We are glad that with the modern industrial region here in Kaunas, the excellent infrastructure and the highly qualified workforce, we have found the ideal location."

Continental specifically selected the site in Kaunas, explains Shayan Ali, managing director of Continental in Lithuania: "Kaunas is Lithuania's industrial centre and the nation's leading electronics and automation hub. At the same time, its population of students – around 10 per cent of whom are specialising in electronics manufacture – puts a wealth of technical know-how at our disposal, so we are expecting to gain some highly qualified employees. All in all, Kaunas is the perfect location for our new plant."

Access to talent

With the biggest technological university in Baltic region, Kaunas University of Technology, the labour pool has been a decisive factor for giants like Continental, Hella and Hollister. The university boasts around 53,000 students, with a quarter studying technical programmes. In addition, a quarter of the population already works in the manufacturing industry, therefore, as Mr Juknevičius stated, "this concentration of engineers and other specialists doesn't possess a challenge. Workers and society perceive international companies very well and look forward to working in these companies."

According to 2016 census data, the demographics of Lithuania are broadly in favour of foreign investors: 84 per cent of young Lithuanian professionals are fluent in English and 2016 Eurostat data states that the country has the second highest share of 25-29 year olds with tertiary education in the EU: 50.4 per cent. Mr Juknevičius adds that "Lithuania is still not saturated in terms of FDI investments (especially manufacturing): there are enough employees to work for new companies and investors." Furthermore, Mr Petrulis also recognised the country's talent potential: "[Lithuania] can deliver with a much higher speed of change management … than our much bigger neighbour countries, competitors and mature economies in the west of Europe."

All in all, for a small country and economy in eastern Europe, Lithuania seems to be doing all the right things to be attracting foreign investors, both small and big. Government incentives, the Free Economic Zones and a reliable talent pool have proven to bring in companies from a variety of sectors to the country. The booming FinTech (financial technology) sector in Lithuania is undoubtedly promising, despite Estonia having established itself as a hub for technology not only in the Baltic region, but the entire EU. Success stories such as Revolut, the platform and app that allows its users to exchange currencies at interbank rates, are proving the desirability of Lithuania as a destination for such start-ups. Not only can foreign investors expect a warm welcome in the country, but also a climate that allows their businesses to prosper. ▲

Lithuanian growth remains strong, but watch the labour supply

Marcin Tomaszewski, associate economist, Economics, Policy and Governance at the European Bank for Reconstruction and Development (EBRD), and Matti Hyyrynen, head of the bank's Vilnius office, speak to Andrew Wrobel about the country's growth and prospects.

WORDS ANDREW WROBEL

AW: When we look at the GDP forecast, we see the Lithuanian economy growing by some three per cent between 2014 and 2019. What is the EBRD's forecast for 2019?

MT: The EBRD's autumn edition of the Regional Economic Prospects was released on November 1, and compared to our spring forecasts, GDP growth expectations for 2018 in Lithuania were revised slightly upwards. This change is mostly driven by higher than expected investment, including through a better utilisation of EU funds and a greater need for capacity expansion among manufacturers. Going forward, however, the economic growth is expected to moderate gradually. While rapid wage growth and a further tightening of the labour market will continue supporting robust private consumption, the expected weakening in external demand from Lithuania's major trading partners, amid an investment-led surge in imports, will result in a negative trade balance, and thus will weigh on GDP growth in the forecast horizon. Also, the shrinking working-age population is expected to hurt businesses increasingly, which in turn may defer investment decisions, as the lack of skilled labour may not be easily replaced by machines.

AW: Tell me which sectors are expected to contribute most to growth? How can sustainable economic growth be ensured?

MT: Well, the two key growth contributors are expected to be private consumption and investment. While the tightening labour markets result in significant wage increases that underpin greater household expenditures, this is investment that extends higher GDP growth rates over time. In particular, a shift towards greater automation may be a solution to the shrinking labour supply and rising labour costs that have already negatively affected Lithuania's and regional international competitiveness. Besides, such a move could push companies to rethink their business models and ultimately lead to a positive shift towards higher value-added production.

AW: And what are the key sectors for Lithuania, according to the EBRD?

MH: There are several, I would say: manufacturing, wood-processing and agriculture in particular, as well as services, mainly banking and retail as well as FinTech going forward. Also, renewable energy is targeted. In all of these sectors energy efficiency and enhanced competitiveness are our primary angles of approach.

AW: The EU has long emphasised the importance of green energy, green economy and renewables. How is Lithuania developing its own economy in this respect? What role does the EBRD play here?

MT: The recently adopted National Energy Independence Strategy set a very ambitious goal for Lithuania. Beyond achieving complete energy independence by 2050, renewables are expected to become the key source of energy in all sectors, starting from a share of 30 per cent in 2020, then 45 per cent in 2030 and 80 per cent in 2050. Besides, Lithuania was the first country in the Baltic states region to issue a sovereign green bond (100 million euros in May 2018). The net proceeds from that placement were on-lent to VIPA, the Public Investment Development Agency, and are expected to be used exclusively to improve the energy efficiency of multi-apartment buildings throughout the country. According to VIPA's ex ante assessment, the financial needs in the energy efficiency sector until 2023 amount to one billion euros, of which about 30 per cent could be covered by VIPA and the remaining part by the private sector.

The EBRD is well equipped to support Lithuania in so-called green investments. We launched the Green Economy Transition (GET) approach in 2015 to put investments that bring environmental benefits at the heart of our mandate. For instance, this and last year, the EBRD successfully supported the two green bond placements of Lietuvos Energija, Lithuania's national energy company. These investments were aimed at upgrading the company's distribution network and expansion of its renewable energy capacity in order to strengthen the sustainability and security of Lithuania's energy supply and reduce its reliance on imported energy.

The side effect of these transactions was the support of the development of local capital markets. This is something that the EBRD is strenuously working on together with the European Commission's Structural Reform Support Services (SRSS) in the other countries of Central Europe and the Baltic region.

AW: How can businesses, especially those based in free economic zones (FEZs), be encouraged to be more environmentally friendly and ecologically aware?

The EBRD's latest Transition Report concludes that producing goods in an environmentally friendly manner or selling green products is also beneficial for firms' financial performance, in addition to the social benefits of greener production. On balance, producers of green products appear to be less profitable than other firms in the same sectors, perhaps partially on account of these firms being more recent entrants into the market. They tend to have higher valuations even if their current return on equity is lower than for their non-green peers. This suggests that investors expect higher future returns in this sector and put a premium on environmental performance. In 2017, for instance, Tesla surpassed leading traditional car-makers such as Ford, General Motors and BMW in terms of market capitalisation – thanks to its growth potential, rather than its profitability.

AW: The EBRD is strongly involved in capital market development in the Baltics, including Lithuania. What opportunities do you see there?

MH: The financial markets in the Baltics have been very much bank-dominated for the last 25 years. Banks' strategies are evolving, Baltic businesses are growing and becoming international. On the one hand this pushes borrowers to look for new financing sources, be they debt or equity. On the other hand Baltic borrowers are better known abroad and the sizes of their financing needs are reaching levels that qualify for capital market transactions. Also, SMEs are growing and equity is needed. In 2018 the EBRD invested via the capital markets in Lietuvos Energija's Green Bonds, in Maxima's bonds, in the Port of Tallinn IPO and in Auga's issue of new shares. The bank is in the process of converting its convertible loan in new shares issued by Siauliu Bankas.

The listings /part-privatisations of Sovereign-Owned-Enterprises (SOEs), as in the case of Port of Tallinn, offers much needed investment opportunities for local as well as foreign investors. Part-privatisations are politically very sensitive, but we feel that the involvement of an IFI can facilitate these listings.

AW: CEE has been experiencing a rather steep depopulation since the 1990s. How serious is this issue in Lithuania? How has the demographic trend affected the Lithuanian economy and the labour market?

MT: According to the European Union's 2018 Ageing Report, Lithuania's population, currently at 2.8 million, is expected to shrink by more than a million over the next 50 years. A less populated country is not a problem in itself but the drop in working-age population (aged 15-64) as a share of the total population constitutes a serious challenge. In Lithuania, this share is expected to drop by more than 10 percentage points, the most severe change among the three Baltics states.

Therefore, the expected population decline may further intensify the current skill shortages that ultimately will need to be offset by increased investment and productivity. Besides, the country's response to the demographic challenge will also depend on migration policies as well as the education system. The latter needs to address the dynamically changing needs of the labour market, such as the rising demand for digital skills, not only from those entering the labour market straight after school but among the general population.

Marcin Tomaszewski. Photo: EBRD

Matti Hyyrynen. Photo: EBRD

AW: At a time when populations across emerging Europe are ageing, how can Lithuania adapt its older generation to these processes, which may of course seem alien to them?

Well, the 2018 Country Report of the European Commission states that less than 60 per cent of Lithuanians aged 16 to 74 have basic or above-basic digital skills, whereas about one fifth of the population has never used the internet. Going forward, the share of people not using the internet will definitely be reduced, as not making use of new technologies, including in banking, has become uneconomical. As current IT solutions became more and more intuitive and can simplify people's daily duties, they may become particularly beneficial for ageing populations as they can foster economic inclusion. ▲

Towards the future economy

Virginijus Sinkevičius, Lithuania's minister of economy, speaks to Andrew Wrobel about economic opportunities, as well as the challenges that the country is facing.

WORDS ANDREW WROBEL

The World Bank forecasts a 'plateauing' of Lithuania's annual GDP growth rate at just over three per cent for 2014-2019. What is your forecast for 2019?

Well, in 2017, GDP growth was the fastest we have seen in the last five years, a result of 13.2 per cent growth in exports, a 7.3 per cent increase in capital investment and a rise in domestic consumption of 3.3 per cent. Given the results of Lithuania's recent economic development, changes in the external environment and favourable conditions for increased domestic demand, we project that Lithuania's GDP could grow by 3.4 per cent in 2018. In the medium-term, GDP should subsequently continue growing as projected, and reach 2.8 per cent in 2019 and 2.5 per cent both in 2020 and 2021.

So which sectors are you expecting to contribute most to growth?

Without question life sciences, the laser industry, FinTech, blockchain and engineering will be the backbone of our economy. Due to extremely favourable regulation by the Bank of Lithuania and the various sandboxes which have been created, Lithuanian FinTech and blockchain have grown by more than 40 per cent, attracting tens of foreign companies, who see Lithuania as their bridge from Israel, China, Singapore and other countries to the EU market. Interest in Lithuania is growing.

Engineering is all a traditionally strong industry, and with new technologies like robotics and advanced transportation systems we see a tremendous opportunity to grow, because Lithuanian companies are already manufacturing advanced automation systems and technologies for autonomous vehicles.

Over the past five years, the turnover of the laser sector almost doubled; growing from 46.5 million euros in 2011 to more than 90 million euros in 2016. Over the past eight years, the sector's income has more than tripled. Almost 90 per cent of Lithuanian laser production is exported, and that is unlikely to change.

Finally, with one per cent of GDP created by life sciences, Lithuania is already one of the main players in Europe; our life sciences sector is six times the size of the European average. Moreover, we have a goal and a strategy worked out to increase the life sciences share of GDP to five per cent by 2030, which would make us the world leader.

What is your strategy for ensuring sustainable economic growth?

Lithuania's growth strategy is based on boosting productivity and increasing competitiveness. Lithuania was the EU leader in terms of productivity growth in 2017. The focus is to maintain the momentum and reduce the productivity gap in the medium term.

In order to ensure sustainable growth in 2018, the government is implementing six major reforms: innovation reform aimed at promoting investment in innovation, creating a major innovation incentive package as well as consolidating and strengthening the research system; structural reform of education, covering secondary, vocational and higher education; tax reform aimed at making the taxation of labour more conducive to the creation of jobs, the promotion of investments and entrepreneurship; the reduction of the shadow economy so as to implement measures aimed at promoting fair tax payments; health reform, covering all types of treatment and nursing, including measures aimed at promoting healthy lifestyles; and finally a cumulative pension reform to prevent the shrinking of overall income levels in old age.

These six priority reforms are expected to boost annual economic growth up to two per cent of GDP or 1.2 billion euros by 2025–2027. The synergies and the results of these reforms will change Lithuania's social and economic situation significantly, especially when it comes to addressing the demographic issue and boosting economic growth. Almost 26,000 job vacancies will be newly created before 2025. The reform will result in a 1.6 per cent reduction in the unemployment rate.

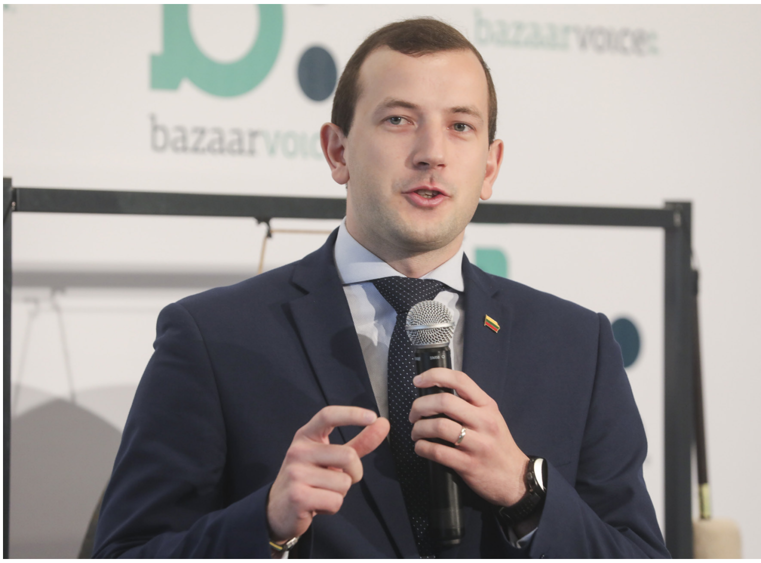
Lithuania joined the eurozone in 2015. Since then, how has the euro affected the business environment and investment, and the economy overall?

Joining the eurozone contributed to economic stability, helped do away with exchange rate risks and had a positive impact on overall economic growth. Likewise, other benefits resulting from EU membership are equally important for the country's economic growth, including participation in the single market, which makes a considerable contribution to Lithuania's economic growth through increased exports.

The country has been experiencing steep de-population since the 1990s. How has this affected the Lithuanian economy and the labour market? Is there an increasingly limited talent pool? What reforms do you plan to undertake, or have already undertaken, to deal with this issue?

With economic growth, the rate of unemployment will continue to decrease, and will account for 6.5 per cent in 2018.

When it comes to migration, the situation is favourable since emigration is decreasing and immigration is growing. Lots of



Virginijus Sinkevičius

Lithuanian citizens who left the country years ago are now coming back because of the growing economy, increases in wages and also because a number of foreign companies have established themselves in Lithuania and offer attractive working conditions.

Moreover, the government is making efforts to simplify immigration procedures for foreign specialists who are in demand on the labour market, so companies may use fast track procedures to employ them.

Surely emigration of the young and skilled workforce and the general ageing of the Lithuanian population will affect the silver economy? How are you tackling this problem?

Recent data show an increasing trend of young and skilled people returning to the country. Although it is too early to draw conclusions about the impact of return migration in the medium term, the status quo suggests that policy makers can manage to address long term demographic challenges. Lithuania has recently adopted a new demographic strategy, encompassing migration and integration, and is currently working out its implementation plan. The government is undertaking initiatives to increase the return of migrants and integrate them to the labour market.

At a time when populations across emerging Europe are ageing, we are experiencing modernisation and digitalisation of not just of our economics, but of our societies. How can Lithuania adapt its older generation to these processes, which may of course seem alien to them? For example, would you encourage the over 65s to embrace FinTech, or other forms of technology?

The success of digitalisation and economic growth depend on the inclusion of all age groups and gender diversity. The size of the country is the reason of why we can exclude no one from the digital transformation process.

There still exist certain groups of the Lithuanian population who do not use or rarely use modern digital tools and the internet in their daily lives. Many Lithuanians use the internet on a daily basis for tax reporting, banking services, searching for professional information or entertaining content. In order to be able to carry out daily tasks online, everyone needs to constantly improve his/her digital skills. The population groups to whom most attention should be given include seniors, those on low-income, the disabled, people in the labour market, teachers, rural residents and the young unemployed.

Given the need to increase the digital skills of the population and in order to achieve the aims and tasks set in the European Digital Skills Strategy, special attention is being devoted to the development of digital skills in the Lithuanian Digital Agenda seeking to pursue digital skill enhancement goals and objectives. The aim is to reduce the digital divide by encouraging people to gain knowledge and skills required for the successful use of ICT.

We are also implementing the Connected Lithuania project to promote the use of e-services, FinTech and similar technology among older people. This includes visual manuals and hands-on learning sessions. At community level, we have nominated digital champions to facilitate the learning process for their peers. We also encourage younger people to help their families and relatives by personally teaching them digital skills.

What are the other economic challenges facing Lithuania? How have geopolitical tensions with Russia affected Lithuania's economy?

The EU has imposed restrictive measures in response to Russian actions in Ukraine, and Lithuania supports these diplomatic measures, asset freezes, visa bans and economic sanctions.

In general, Lithuanian exporters are succeeding quite well in redirecting the export of goods to other markets, in particular to the EU28, so the effect of the economic downturn in Russia and the embargo on the Lithuanian economy was temporary. Moreover, as Lithuania's trade relations with Russia were mainly based on re-exports, which created low value-added, the effect on the Lithuanian economy has been small. ▲

Talent tops Lithuania's impressive list of assets

There are many reasons to invest in Lithuania: talent is not the least of them.

WORDS ANDREW WROBEL

When UK-based financial markets consultancy Catalyst Development were choosing a location for their first nearshore consulting hub earlier this year, they looked at Belfast, Limerick, Dublin, Galway, Tallinn, Warsaw, and Wrocław.

Sean Coote, managing consultant at Catalyst Development spent three months in Lithuania, which ended up being the company's pick, looking at talent accessibility, infrastructure, office space, IT development, meeting with financial tax and legal firms.

Talent is key

"Based on that analysis Vilnius ticked all the boxes in relation to our requirements. We had to make sure we had a pool of talent that was experienced in transformation programmes, had banking knowledge and a good level of English. I very quickly interviewed about 20 people and from those we had no problem shortlisting about 15 of them. This is a very high success rate," he tells *Emerging Europe*.

Dub Landgrebe is vice president and worldwide client care at Bazaarvoice, as well as managing director at Bazaarvoice Lithuania. The US-headquartered global business runs the ratings and reviews functionality for 5,700 brand and retail sites – and therefore serves up more page views per day than almost any other service provider after Google and Facebook.

"We ultimately selected Vilnius because of the high-calibre talent availability. The impressive work ethic, the drive for professional development and the ease of communication between Lithuania and Bazaarvoice US played a large part in the decision," he adds.

In the initial four to six months, Bazaarvoice plans on hiring 70-80 employees. Going forward, the new office is to house a Global Client Services Centre, providing technical support services to a client base of global retailers and brands. It will also manage half of the company's new client implementations. The company is also testing out a model allowing key finance and HR teams with global responsibility to be co-located in its Vilnius service centre.

When Barclays opened its centre in 2009, they projected a team of 170. Now, with 1,150 employees, Barclays Group Operations Centre, which is one of the four largest in the country's global business services sector (GBS) — offers a diverse range of services worldwide, from developing IT systems and infrastructure, to managing IT projects, ensuring security for Barclays' banking systems, solving IT incidents, and developing new mobile apps and other business functions. Barclays' examples, as well as other brands such as Nasdaq, Western Union, Danske Bank, WIX, Uber, SEB, Swedbank and Telia, prove the growth of the entire GBS sector in the country.

Highly-specialised sector

"The industry grew by 17 per cent in 2017 alone. It currently consists of 70 different multifunctional centres and approximately 15,500 field experts. We are really proud that the sector is very diverse both in terms of companies and the workforce itself. For example, 54 per cent of all specialists in the GBS industry are women. But what is more important, more than a third of all general managers in the industry are women," says Laisvis Makulis, head of the business services team at Invest Lithuania.

There is a clear a shift to high-end operations and robotics. More than two-thirds of the centres embrace digital transformation and are engaged with robotic process automation (RPA) activities, while almost 50 per cent develop their RPA solutions in-house. The industry is so focused on robotics, that 2.3 per cent of the total GBS workforce consists of robots. "Not only robotics, but also advanced finance, consulting, analytics, IT, big data, and cybersecurity operations are carried out," he adds.

Lithuania's business service

sector is centred around the Vilnius-Kaunas hub. Located just one hour's drive apart the two cities have a combined population of 1.4 million and a pool of over 100,000 students. According to the Organisation for Economic Co-operation and Development (OECD), Lithuania is ranked first in Europe and fourth globally for the number of people with tertiary education. The country's 35 universities and colleges have strong positions in both science, technology, engineering and mathematics (STEM) and the humanities. The Lithuanian business services sector remains highly multilingual with 43 per cent of all centres using five or more foreign languages. But for a country with a population the size of Toronto in Canada (2.8 million), is access to talent sustainable long term?

"I have been wondering about the sustainability of talent in Lithuania for the last five years and within that time more and more companies came in and everybody who did so is happy with the talent pool," Elias van Herwaarden, EMEA service leader, Global Location Strategies at Deloitte, tells *Emerging Europe*.

"The talent pool is very good in capability and very good in price-performance ratio but size is limited," admits Tom Bangemann, senior VP, business transformation at the Hackett Group. "More challenging are the sought-after capabilities that are in limited supply — relative to demand — for example tech knowledge, analytics, people and management skills," he says.

Size will matter

Catalyst Development's Mr Coote believes that scalability will not be an issue for his organisation.

"If I had a project where I needed to mobilise 10, 20 or even 30 people, I am confident that I would be able to do that very quickly within probably less than two months, whereas in the UK or Ireland that turnaround would be at least three months and it would probably be quite expensive using local agencies. And the overall cost is about two-thirds less," he says.

Anurag Srivastava, vice president at Everest Group says that Lithuania is not a location where you would set up a 2,000-5,000 employee centre to support contact centre or IT-infrastructure or transactional business process work.

"It is rather a location where you'd support more specialised profile – e.g, a centre of excellence (CoE) on robotic process automation (RPA) or digital technology, or if you wanted niche skills on the banking side or complex applications development work; this may mean that the scale you support is smaller, even around 500 or 700 employees. The market has the capacity to absorb more growth and we believe that as much as it now supports the Nordic market, we see room for expansion for a wider European market," he adds.

"The country did prove the naysayers wrong, as we already have four centres that crossed the 1,000 FTEs threshold — Western Union, Danske Bank, SEB, Barclays — and there are several more nearing that same threshold," Mr Makulis says.

"Very large new centres with over 1,000 full-time employees (FTEs) could produce a shortage, especially if growing fast. I foresee the next 20 centres being OK without having too many limitations in setting up, after that the general ratio of centre FTEs/population or FTEs/available labour pool will become more difficult," the Hackett Group's Mr Bangemann says.

For him the key solutions are making relevant skills available in larger demand and bringing more talent from outside Lithuania. Invest Lithuania's Mr Makulis believes that the Lithuanian hub still has plenty of room to grow, compared to places like Prague, Wroclaw and Krakow.

"In Vilnius, the saturation rate (23.0 people employed in GBS centres per 1,000 residents) is still more than three times lower than in Krakow (73.2), a city of a similar size, so there is plenty of room to grow. Kaunas is even less saturated, with only 7.8 people working in GBS centres per 1,000 residents," Laisvis Makulis claims.

"In order to ensure a healthy demand-supply relationship in the industry, 67 per cent of the GBS centres are actively engaged with academia – in terms of providing scholarship and internship opportunities, thesis topics or even temporary job placements in Lithuania or the company's HQ locations. The industry is also employing an increasing number of Lithuanian repatriates — now 10 per cent of the workforce — and international talents currently accounting for four per cent of the workforce," says Invest Lithuania's Mr Makulis.

What's on the horizon

Catalyst Development's Mr Coote confirms the interest in repatriation. "About 20 per cent of the team is Lithuanian returning from other countries," he says.

According to the Lithuanian Department of Statistics, between January and August, almost 28,800 Lithuanians left the country. At the same time, almost 26,800 individuals came to live in Lithuania, of whom two-thirds were returning Lithuanian citizens.

Repatriates account for 10 per cent of those employed in GBS in Lithuania, while four per cent of employees are foreign nationals. For example, Danske Bank currently employs over 200 Lithuanian repatriates, and it seems interest in returning to Lithuania is definitely on the up.

At the same time, salaries in the sector are growing at a slower rate than the average wages in Lithuania. In 2017, salaries at GBS centres grew slightly more than six per cent, and it is estimated that this year salaries will grow 7.5 per cent for IT specialists and 5.3 per cent for other staff.

"If the country can reverse the demographics, encourage even more nationals to return plus keep a slower pace of increase in salaries, they are bound to attract even more investment from the Nordics, US and UK markets, all of which are heavy investors currently," says Tom Quigley, CEO of the London-based Emerging Europe Alliance for Business Services, Innovation and Technology. ▲

Kaunas: Ticking all the right boxes

With a rich history, and its first references in written sources dating back to 1361, the Lithuanian city of Kaunas has seen a lot. Believed to be the centre of Lithuania's economic, academic and cultural life, it is no surprise that the city has gained international recognition in recent years as a business process outsourcing destination of choice. Located only 100 kilometres from the country's capital Vilnius and just over 200 kilometres away from the port city of Klaipeda, Kaunas could be the perfect destination for a variety of businesses.

WORDS SHAKHIL SHAH

Kaunas. Photo by A. Aleksandravicius

For the vast majority of investors who have chosen Kaunas, the primary factor in the decision making process was the city's abundance of talent. Many investors say that there is an increasing number of Lithuanians returning from abroad to work in the country, and many Lithuanians leaving Vilnius are returning to Kaunas to re-establish their roots.

"Access to local talent and excellent infrastructure were the key reasons for choosing Kaunas over other European cities," says Ilona Antonovičiūtė, head of NKT's shared service centre in Kaunas. NKT is a global front-line supplier to the energy sector who develop, manufacture and market high quality cables, accessories and solutions for electrical infrastructure. "We looked at other locations where our factories are already operating, for example in Poland and the Czech Republic. However, these markets are already saturated to a certain extent with service centres, unemployment is low and competition for the right people is high. Kaunas has great potential for attracting more investors because of a pool of young professionals keen on working in international companies and an expanding infrastructure."

"Over 50 per cent of the population speak three languages, and being a small country with no natural resources we must focus on being able to conquer new markets and create value outside of our home market. Language capabilities are also present due to our history, everyone older than 35 speaks fluent Russian and most people under 35 speak English, especially those with higher education," adds Vytenis Šidlauskas, partner at Alliance for Recruitment (AFR), the largest recruitment company in the Baltics focusing on IT, shared services and manufacturing.

He also points out that 56 per cent of the population in Lithuania have a university degree. "We are ranked first in the EU," Mr Šidlauskas says with pride.

According to Mr Šidlauskas, both local authorities and universities are welcoming new investments and providing them with the attention that they can no longer receive in bigger cities in emerging Europe:

"That obviously helps to increase confidence from international companies that maybe heard of Kaunas for the first time just a few weeks ago. We expect Kaunas to receive much more focus from site selection consultants, advisors and global companies themselves looking to tap the talent pool of a city that has not already been spoilt by the attention of hundreds of international employers," explains Mr Šidlauskas.

"One of the main reasons for choosing Kaunas over other locations was the talent pool that Kaunas can provide. Around 1,000 IT students graduate from Kaunas University of Technology (KTU) every year with their high-level knowledge in technology and with perfect skills in English. We hire young people, graduates or even students and additionally training them to work in our company," explains Jonas Lukosius, country manager Lithuania for TransUnion Information Group an American consumer credit reporting agency with offices globally.

It is not all about tapping the existing talent pool: companies are giving back to their communities.

As Mr Lukosius explains; "we work closely with KTU to fine tune their education programmes. Our presence in Kaunas helps the city and region to be more focused in the market we are operating in."

Talent is not limited to Lithuanians either, as Lina Žalpytė, head of AFR's Kaunas office, explains:

Kaunas. Photo by A. Aleksandravicius

"The number of foreigners has been growing, predominantly from Europe. We have also noticed a very positive trend of re-emigration. Lithuanian specialists or students, who went to study or gain experience abroad, are now coming back to Lithuania to continue their professional career here, as international companies and job opportunities are now present in their home country or cities."

The close working relationship between the national and local investment promotion agencies is further strengthening investor confidence in the country.

"Prior to becoming mayor, I built my private business in Kaunas. Due to my efforts it grew into a multinational corporation with over 8,000 employees. This experience has given me the best insight as to what is needed for a new business investor. Every member of the team working in the municipality of Kaunas already knows this. We are flexible, fast, open-minded and ready to help at any time. We all are well aware that a successful business creates the greatest added value for any city and its people. Overall, this perception is strongly reflected in our daily work," Visvalda Matijošaitis, mayor of Kaunas, tells *Emerging Europe*.

"Invest Lithuania and Kaunas IN are working hand-in-hand towards the common goal of not only bringing new investments into Lithuania but also maintaining this competitive environment and working towards the ease of doing business here," explains, Ms Antonovičiūtė

As a result of the new investment, the real estate market in Kaunas has expanded.

"For a long time, Kaunas had an issue with lack of commercial real estate. Now this issue has been resolved as new business centres have started operating over the last few years. We were very lucky from the beginning by being able to set up our office in one of the most beautiful places in Kaunas, the Zalgirio arena," explains Jonas Lukosius.

"The availability of office space in Vilnius is around three per cent compared to approximately 10 per cent in Kaunas. In addition, if you compare the average monthly rent of prime office space, in Vilnius it's about 14 to 17 euros per sq m versus 12 to 14 euros per sq m in Kaunas," adds Jurgita Šilaikytė, head of brokerage at NewSec, a real estate management company covering the Nordics and Baltics.

Whilst Kaunas has a long history, it is also known as a student town, with seven universities and over 35,000 students, and the mix of old traditions and culture with a young and modern vibe make the city an ideal place for new ventures.

"Kaunas is becoming more international; however, it still keeps its own style and face, it is no surprise why UNESCO has listed it as a City of Design. What's special about Kaunas is that it is a student town with its charm, there are places to go out in the Old Town, lots of interesting events (including sports, Kaunas Hansa days, KaunasJazz music festival, Pažaislis classical music festival and other music festivals) while at the same time it offers quality living conditions for families – including schools (even for English speakers) – and Kaunas will be the European Capital of Culture in 2022," explains Ms Žalpytė.

"Lithuania is continuing the positive trend of attracting more investments because companies like the Lithuanian business mindset, communication style and excellent infrastructure. I see that Kaunas is quickly growing and catching up to Vilnius. There's a lot of potential here. There's enough room for everyone, as industry is diversifying by attracting more companies from new industries and new functions," concludes Ms Antonovičiūtė. ▲

A FinTech future

A combination of talent, low taxation and regulation which encourages innovation have made Lithuania a world class FinTech hub.

WORDS CLAUDIA PATRICOLO

In 2017, Lithuania was ranked by the World Economic Forum as one of the most innovative countries in the European Union, alongside the United Kingdom and Sweden. Meanwhile, according to the World Bank Doing Business Report 2018, Lithuania ranked third for ease of doing business, with the third-lowest corporate tax rate in the EU (0-15 per cent), and the second-lowest personal income tax rate (15 per cent). No wonder the country is home to a growing number of FinTech start-ups.

According to Invest Lithuania, the country is home to 117 FinTech companies, 35 of which opened last year only, employing more than 2,000 people.

"What is really tilting the scales in the decision-making process is time," said Marius Jurgilas, a board member at the Bank of Lithuania. "It's not about monetary cost or regulatory burden, it's about how much time do I have to invest to get a decision? Firms want certainty and quick decisions."

Favourable regulation

Lithuania can guarantee both. Mr Jurgilas highlighted the quick authorisation process and broad choice of business models, ranging from electronic money or payment institutions to specialised banks, as some of the key elements of Lithuania's FinTech regulatory regime, as part of the bank's key strategic goals for up to and including 2020.

Start-ups can obtain an e-money or payment license in just three months (four if the preparation stage is included), which is two to three times faster than in other EU jurisdictions. Additionally, initial capital requirements for bank licenses are five times lower than in other EU countries.

In January 2018, the Bank of Lithuania announced the launch of blockchain sandbox platform-service. Domestic and foreign companies will be able to develop and test blockchain-based solutions in the regulatory and technological sandbox platform-service codenamed LBChain, set to be created by the Bank of Lithuania.

"This platform will contribute to the creation of better conditions in Lithuania for the development of the FinTech business and innovation-friendly regulation, as well as help the Bank of Lithuania keep pace with technology innovations that change financial institution activities," explained Mr Jurgilas.

"By creating an innovation-friendly space, we aim at ensuring the best possible conditions for the further development of financial technologies, creating the most favourable environment for FinTech companies in the whole of the Nordic and Baltic region," said Vitas Vasiliauskas, chairman of the board of the Bank of Lithuania.

In addition, FinTech firms are not subject to regulatory sanctions within the first year of operating within the country, while remote video Know Your Customer (KYC) rules allow firms not based within Lithuania to open an account in the country without maintaining a physical presence.

"Lithuania has put a lot of effort in recent years into developing the infrastructure and regulation that fosters FinTech development," Justas Saltinis, CEO of DEBIFO, an invoice financing platform, tells *Emerging Europe.*

"The ability to get an e-money license faster than anywhere else in Europe, for example, is one of the most attractive features of the Lithuania's FinTech ecosystem. The introduction of a specialised banking license by the Bank of Lithuania has also drawn some interest. Start-ups can benefit from the sandbox and strong support from the local community and government agencies such as Invest Lithuania," he continues.

Founded in 2015, DEBIFO is living proof of the positive environment which allows start-ups to grow. Today, DEBIFO has an active invoice portfolio of seven million euros, having helped more than 300 SMEs fund 65 million euros in invoices.

"In the first half of 2018, the number of clients grew by 32 per cent, revenue improved by 50 per cent and our actively managed invoice portfolio increased by 85 per cent. The portfolio structure remained similar to last year – trade, transport, manufacturing and employment sectors accounted for the largest share. We expect to continue increasing our number of clients during the next year as we see many opportunities in our local and foreign markets," Mr Saltinis adds.

Post-Brexit success

Leading companies like IBM AIG, Western Union and Nasdaq all currently have offices in Lithuania. However, this could be just the beginning as Brexit is set to bring more opportunities. United Kingdom-based FinTech startup Revolut has already announced that it has set up a subsidiary office in the country to combat the UK leaving the EU.

Its Vilnius-based team will be responsible for accelerating ambitious growth targets across Lithuania as well as strengthening the service in Latvia and Estonia.

“Lithuanian talent has been building Revolut from the very beginning. The company has always had close ties with the country and the launch of our local team is another step towards strengthening our relationship. We will be planning our further growth based on the availability of the most talented professionals in IT and customer support in the market,” said Andrius Biceika, country manager for the Baltics at Revolut.

Lithuania is betting that Brexit can help it become a global FinTech hub, as the Eastern European country seeks to attract British companies setting up subsidiaries in the EU.

“We are not saying that we will be attracting top firms from the FinTech hub of the world, which is and always will be London, to the new booming financial sector in Lithuanian,” points out Mr Jurgilas. “But there is a huge flow of firms — and we want to participate in that flow — who want to hedge the risk of Brexit.”

“In light of Brexit considerations Lithuania is one of the best destinations to head for,” Mr Saltinis adds. “We have a large talent pool of young, English-speaking IT and finance specialists, and Vilnius, the capital of Lithuania, offers great infrastructure for business set-up as well as high quality of life.”

Talent pool

Talent is another key aspect of Lithuania’s attractiveness as a FinTech hub. With a population of 2.9 million, there are 31,500 IT professionals in Lithuania. And the level of proficiency in English among young professionals is at 84 per cent.

The country is also ranked as the eighth best in the world by Bloomberg for the percentage of graduates enrolled in higher education, with a large number of students undertaking degrees in subjects such as science, mathematics or computing, thus meaning that the country has a ready-made workforce suited to the needs of many incoming foreign FinTech firms.

“The main purpose of cooperation is to create an environment conducive to financial innovation and promote the development of innovative business(es). Lithuania senses global changes and keeps pace with financial innovations. A perfectly developed infrastructure, close network of contacts, and favourable geographical location provide proper conditions for competing with other European countries. This year, we intend to initiate regulatory innovations that would facilitate the activities of FinTech companies in Lithuania,” said Loreta Maskalioviené, the country's vice minister of finance.

According to Invest Lithuania foreign investment in the ICT sector has grown by 70 per cent over the past few years.

Nasdaq, for example, has been present for quite some time in Lithuania, through its merger with OMX (the Helsinki Stock Exchange) in 2008, and has witnessed the rise of the IT sector.

Arminta Saladziene, CEO of Nasdaq Vilnius Services, says the company takes into consideration a range of factors when investing in a country. Among those are technology and communications infrastructure, a well-educated pool of talent, and the quality of life. “Lithuania scores well in all of these,” she says.

Google has also opened an office in Vilnius to be closer to the Baltic area.

“Seeing how digitally savvy people in these countries are, we believe this region is well positioned to take full advantage of the single digital market initiative in the European Union. We've seen Lithuania, Latvia, and Estonia steadily climbing in various innovation and ease of doing business rankings. We're here for the long run,” said Vytautas Kubilius, Google country business development manager for the Baltic States.

Looking ahead

According to the Bank of Lithuania, what unites many of the FinTech companies that come to Lithuania is the desire to conquer the European market.

So far Lithuania has been characterised by an exceptionally large number of successful cryptocurrencies, money transfer and similar start-ups.

“We have been in the global top three in the ICO field according to the volume of attracted investment," the head of Startup Lithuania Roberta Rudokienė tells *Emerging Europe*. "If those cryptocurrencies had been converted they would have totaled more than 500 million euros.”

FinTech development has been a government priority since 2016, when the country first began to make a name for itself as a FinTech innovator offering a favourable environment for the development of blockchain projects.

“We believe that we must not only take advantage of financial innovations, but also control the potential risks of money laundering and terrorism financing as well as guarantee consumer and data protection and cyber security," Vilius Šapoka, Lithuania's minister of finance tells *Emerging Europe*. ▲

"By creating a secure, transparent and clear legal environment, we want to attract foreign investment and promote the development of innovative business in Lithuania.”

Manufacturing in Lithuania

Free economic zones, which offer investors a number of advantages, are just one of the many reasons Lithuanian manufacturing is booming.

WORDS TAMARA KARELIDZE

NEO Group's Lithuanian plant. Photo courtesy NEO Group

According to the Manufacturing Risk Index Report 2018, Lithuania is ranked as the second most attractive location in the world for manufacturing investors. It is notable that in the report, Lithuania is the only European country among the top five, with China, Taiwan, Canada and Malaysia occupying the rest of the four top five places. As such, manufacturing is one of the most crucial parts of Lithuania's economy. Its business environment, logistics, talents, sustainability and easily accessible services make Lithuania attractive for many international manufacturers.

But what really makes the country attractive for manufacturing? The answer is in the skilled workforce, close ties and collaboration between business and education, and the commitment to creating convenient infrastructure which encourages growth in the field. According to a number of different studies, Lithuania offers the market highly-skilled specialists across many innovative fields.

Diversity

A critical part of Lithuania's success is proper planning and measured cooperation. The country has a reasonable tax rate, and the government encourages people to graduate technological and mathematical programmes, and around 85 per cent of young professionals speak English, which makes cross-border cooperation easier. The country has strong links between universities and businesses. The universities have a dynamic relationship with local and international companies, with different firms recruiting young professionals directly from universities.

Automotive and aviation are leading the way in Lithuanian manufacturing. The country is becoming a CEE leader in these industries, for a number of reasons. Most important of all is the country's cost-to-quality ratio, which leaves behind other CEE countries. Secondly, it is that the availability of a wealth of local talent matches market demand: government investing is ensuring that things stay this way.

"Lithuania has for a while has been trying to attract the manufacturers of complex automotive electronics components," says Virginijus Sinkevicius, the country's economics minister. "However, even though we are capable of offering everything that is needed for companies in the industry, Lithuania has not been on the radar of investors due to the size of the market and the distance to major car manufacturers. But as the manufacturers of automotive components carry out the most direct foreign investment projects in Europe, a great number of opportunities are now opening up in Lithuania."

Cooperation

The country cooperates with as many companies as need its assistance. One of the most significant investments in recent times was made by Continental. The German automotive company has a five-year project, during which time it plans to invest around 95 million euros in Lithuania and create about 1,000 jobs. Construction of the company's first plant started last July, which will produce electronic components for the European market, such as door and seat controls, gateways and units for intelligent window control. The factory is set to open in 2019.

"The market for automotive electronics is surging as the number of in-vehicle electronics systems continues to rise. With the latest addition to our global network of 30 electronics plants, we are continuing to expand our production capacity. This will enable us to meet the growing customer demand even more effectively," said Dr Hans-Jürgen Braun, head of Continental's electronics plants.

Free Economic Zones

Besides the convenient environment and ease of doing business, a further significant advantage is offered by the free economic zone in Klaipeda. It was the first tax-free zone in the Baltics, first touted back in 1996 and launched in 2002. The largest duty-free area in Lithuania, it is the country's fastest growing region, and supports a wide variety of local and international companies to promote their business activities. Besides Klaipeda, there are also free economic zones in five other cities: Siauliai, Panevezys, Kedainiai, Kaunas and Marijampole. The specially designed areas offer companies looser labour laws and tax relief. Lithuania's free economic zones are home to most of the industries of the region.

One of the companies now well established in the Klaipeda Free Economic Zone is NEO Group. The company, which manufactures PET (polyethylene terephthalate) production lines and today serves around 300 packing companies across more than 30 countries began operations in Klaipeda in 2004. Today, NEO Group is the second-largest PET producer within the EU, and currently provides approximately 7.5 per cent of all jobs in Klaipeda. Company representatives believe that the major advantage of the country is the expertise and talent of the Lithuanian people. Moreover, Klaipeda is convenient because of its excellent road and rail links, as well as Klaipeda port, which is the most northern ice-free port in the EU.

"This year we completed our most recent investment project, which totalled 50 million euros," says Ruslanas Radajevas, general manager of NEO Group. "We launched a third PET production line, and in the process created 35 new jobs. The company's revenue is set to exceed 500 million euros per year, of which 400 million euros will consist of export sales when the new production line comes on stream. This will allow NEO Group to become one of the most important exporters and taxpayers in the country."

Local & international

NEO Group is one of a number of local players who have complemented foreign investment. It exports around 80 per cent of its products, with Lithuania's location - with its flexible and well-developed logistics networks – allowing efficient and cost-effective product delivery to the EU market, especially in the northern part of the continent.

One of the international companies investing in Lithuania is Switzerland's EuroChem, which has opened a new production plant for highly efficient, water-soluble fertilisers. Its Lithuanian subsidiary Lifosa has been part of the EuroChem Group since 2002. It operates in Kėdainiai, one of the free economic zones.

"Kėdainiai is an important industrial centre for Lithuania, and Lifosa is an unrivalled leader in its field and is an active and responsible member of the community. We believe that the company's investment in its development, and the jobs created, are a significant contribution to the further prosperity of the region. At the same time, we have no doubt that both the new plant and our modern factory will continue to help promote both the city and our country around the world," said Saulius Grinkevičius, mayor of Kėdainiai.

In the field of technological solutions and innovation, Lifosa is a consistent investor committed to helping industry save on natural resources and expand more efficiently. Manufacturing is not the only reason that Lithuania can boast the largest economy in the Baltics – other areas, not least business services, are just as important. But a sound manufacturing base which continues to develop is going a long way towards creating a genuine Nordic powerhouse. ▲

Photo courtesy NEO Group

Tourism: more than a G-spot

Lithuanian tourism has come a long way since independence, but more needs to be done to promote the country's many gems, particularly those located outside the capital.

WORDS CRAIG TURP

Lithuania's capital Vilnius raised more than a few eyebrows this past summer when it launched one of the most original but daring tourism campaigns not just in the country's history, but in the history of travel marketing.

"Nobody knows where it is, but when you find it - it's amazing. Vilnius: the G-spot of Europe." Accompanying posters featured a young woman lying on a map of Europe with her hand gripping Lithuania, her eyes closed in ecstatic bliss.

"Few people know where Vilnius really is, but when they arrive they fall in love with the city," said Jurgis Ramanauskas, one of the team of creative students who came up with the campaign. "This insight came from our conversations with international visitors, and we formulated the idea that Vilnius is synonymous with the G-spot theory – nobody knows where it is, but, when it is discovered, everyone is very pleased!"

Remigijus Šimašius, mayor of Vilnius, believes that the campaign was important for raising awareness about a city which can often fly under the radar of many potential visitors.

"When I welcome international visitors to Vilnius, whether they are investors, journalists or representatives of official delegations, I'm so often told that their first-hand impressions far outweigh their expectations," said the mayor. "On the one hand, this assessment is very pleasing to hear, but on the other hand, it indicates that the perception of Vilnius needs to be dramatically improved to match with the reality."

G-oing viral

Despite much controversy, including criticism from the

The Curonian Spit

Catholic Church, which claimed that the campaign used women's sexuality for advertising and gave 'wrong ideas' about Vilnius, it quickly went viral and generated tens of millions of euros worth of publicity around the world.

Inga Romanovskienė, the director of Go Vilnius, the city's tourism and business development agency, defended the campaign: "When it comes to attracting the modern tourist we're dealing with a very high level of competition with other European cities and countries investing heavily in destination marketing. The young creatives who came up with Vilnius; the G-spot of Europe presented an extremely engaging idea to drive interest in the city."

It's not the first time however that Lithuania has dared to make bold claims. Back in 1998, on one of my first visits to the country, a huge billboard greeted visitors at Vilnius airport with the words: "Welcome to the style capital of Europe." This at a time when Vilnius was still very much a rather bleak, post-communist country coming to terms with its transition to a market economy. Calling itself the style capital of Europe was a stretch, to say the least. But it showed ambition, and that ambition has, at least in part, paid off. The country's two major cities, Vilnius and the former capital Kaunas, while not yet enjoying the numbers of visitors seen in neighbouring Riga and Tallinn, are increasingly popular with visitors from all over Europe.

"Vilnius is now regarded by many as a great city-break destination," says Inga Romanovskienė. "We certainly see tourism together with a well-developed convention and meeting industry as playing an important role in our city's broader economy."

Bed and breakfast

Matthias Luefkens first visited Lithuania in 1990, when it was still part of the Soviet Union. "I loved it, and immediately wanted to live there," he tells *Emerging Europe*. He returned in the autumn of 1991 to do just that, as a freelance journalist working for the AFP, amongst others. The following year, along with three Belgian friends, he published a guide to the city, Vilnius In Your Pocket.

"That's a good question," he says, when I ask him who the guide was for. "There weren't many tourists around. I guess we just published it for ourselves, and for our friends. At the time there wasn't even a telephone directory. I am happy that the guide survives to this day, and that there are *In Your Pockets* all over the world. That was always the dream we had, and it began in Vilnius."

In that first guide to the city Luefkens managed to find just 16 hotels and places to stay. "The cheapest option was a converted railway carriage where you could find a bunk for one US dollar a night," he says, before correcting himself: "Actually, it wasn't converted. It was just a railway carriage. But that changed quickly. A lot of small places, bread and breakfasts, began opening up, often owned by returning Lithuanian expatriates."

Vilnius today offers hundreds of hotels, including some which are part of the largest chains in the world. But there are plenty of local players on the market too, and one, the Europa Group, founded in 2000, has expanded beyond Lithuania's borders, with properties in Latvia and Romania.

"Vilnius is currently experiencing a hotel boom," Ms Romanovskienė tells *Emerging Europe*. "Five new hotels have opened in the city this year, including the first Marriott in the country and the atmospheric five-star Hotel Pacai, which is part of the Design Hotels brand. Moreover, the Radisson Blu Lietuva was expanded to become the biggest hotel in Lithuania. Up to 10 new hotels will be opened by 2022, including a Hilton, a Clarion and a Radisson Red, increasing the number of guest rooms in the city by 25 per cent. As the sector continues its rapid expansion, many more investment opportunities will appear."

Better air connections

Not counting day-trippers (primarily those on short shopping excursions from Belarus) Lithuania as a whole welcomed just over 1.5 million foreign visitors 2017, a healthy 4.3 per cent increase on 2016, but still modest in comparison with the other Baltic States. While the largest number of visitors still come from Russia – almost 16 per cent – the biggest increase was seen in arrivals from the US, up 21 per cent on 2016.

For those numbers to increase further, it's not just marketing that is needed: better air connections are a must.

Lithuania has been without a national airline for a number of years, since flyLAL, the flag carrier, suspended operations in 2009. Local investors set up Air Lituanica in 2013, but after two years of poor results it too went bust, in 2015.

Part of the problem is a lack of capacity at Vilnius International Airport, which forces some international airlines to send flights to Kaunas, and not the capital.

The Soviet-era terminal at Vilnius, built between 1949

Downtown Vilnius

The Hill of Crosses at Šiauliai

and 1954, is a listed building and offers little scope for enlargement. Rokas Masilius, Lithuania's transport minister, recently advocated de-listing the building, which would allow for its demolition and the construction of a newer, larger terminal.

"Removing that old terminal from the heritage list would be an important political step so that we could demolish and build a new modern arrivals terminal," said the minister. "We want people to feel as though they have arrived in a modern country when they land in Vilnius, and not see this peculiar building which does not represent us as an innovative country." The minister wants to see a new airport in Vilnius by 2030.

The Baltic niche

However, there are voices in Lithuania who would like to see the more-central Kaunas airport developed instead, seeing it as being more beneficial to the country as a whole, and better for the development of the tourism industry outside of Vilnius, not least what often gets called the Lithuania Riviera.

While the Baltic Sea may not be as warm as its southern brethren the oft-deserted beaches of the glorious Curonian Spit are amongst the widest, wildest and sandiest in Europe. Even during high summer you need not worry about somebody knocking over your sandcastle on the endless stretches of white beach, although as Ruta Sutkaitytė, who runs a popular guest house in Nida, tells me: "the wind might."

Arguably Lithuania's most exclusive destination, Nida is a small resort close to the Kaliningrad border famed for its wooden houses. An artists' colony in the late 19th and early 20th centuries, Nobel Prize-winning writer Thomas Mann had a home here. And yet while the deserted beaches are undoubtedly part of the attraction for those seeking a different kind of holiday, they also demonstrate how much more needs to be done to promote the country to potential visitors.

According to the World Travel and Tourism Council (WTTC), the direct contribution of travel and tourism to Lithuania's GDP in 2017 was just 736.1 million euros, 1.9 per cent of the country's total GDP. While this is predicted to grow to 2.7 per cent by 2027, both Latvia and Estonia can already boast travel and tourism contributions to GDP of four per cent.

"We are a niche destination," says Ms Sutkaitytė. "There are plenty of Lithuanians who have never been to some of our most treasured sites." She loved the G-spot campaign but is irked that Vilnius still gets most of the country's attention. "There is more to this country than Vilnius, and we need a better national tourism strategy to reflect that," she says. "We could also try and encourage Lithuanians to holiday at home a little more. How can we persuade foreigners to come here when not even we have learnt to appreciate everything that we have?" ▲

The beach at Nida