

FDI and investment outlook

Guntars Krols

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Building a better
working world

Playing catch-up

The extract's scope

- ▶ **Europe's emerging investment destinations**, which although at different maturity levels in terms of investment and reforms, their success in attracting FDI has mirrored their economic growth.
Particularly:
 - ▶ Central and Eastern European (CEE) countries within the EU
 - ▶ Russia and Ukraine
 - ▶ Turkey
- ▶ **FDI activity from the BRICs** into Europe
 - ▶ Investment has increased, reaching an all-time high in 2014
 - ▶ Companies from the BRICs represent the next "big" set of investors for the continent



Note: CEE (EU) includes Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia

The global backdrop

A mixed picture

FDI inflows by region

Share of global FDI inflows

		2012		2013	
Developing Asia	31%		29%		
Europe	16%		17%		
Latin America and the Caribbean	19%		20%		
North America	15%		17%		
Africa	4%		4%		
Transition economies	6%		7%		
Others	9%		6%		

Source: UNCTAD.

- ▶ In 2013, while developed economies attracted a historically low 39% (€426b) share of global investment, emerging markets pulled in 54% (€586b) of inflows.
- ▶ The United Nations Conference on Trade and Development (UNCTAD) is optimistic about FDI prospects and estimates that global FDI inflows will reach €1.2t in 2014 and €1.3t in 2015.

The world's most attractive regions to establish operations

		2006		2010		2014	
Western Europe	68%		38%		45%		
CEE	52%		24%		29%		
North America	48%		22%		31%		
India	18%		22%		17%		
China	41%		39%		44%		
Brazil	5%		12%		13%		
Russia	5%		14%		19%		

Source: EY's 2014 European attractiveness survey (total respondents: 808).

- ▶ Western Europe (45%) overtook China (44%) as the world's most attractive FDI destination.
- ▶ CEE ranks fourth, but its rating rose for the second year in a row (+1 percentage point this year and +7 points in 2014).

Shift in FDI activities share

1999-03

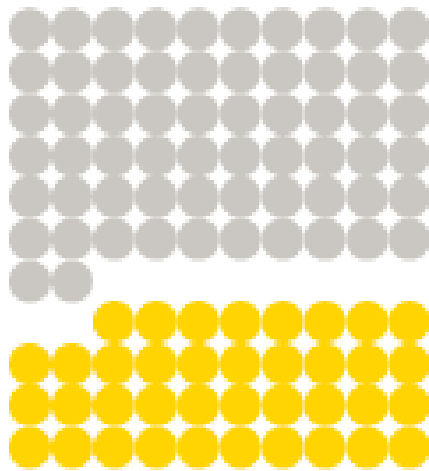


2004-08



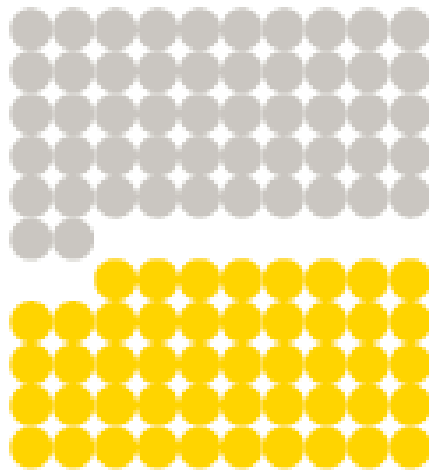
2009-13

62% Industrial



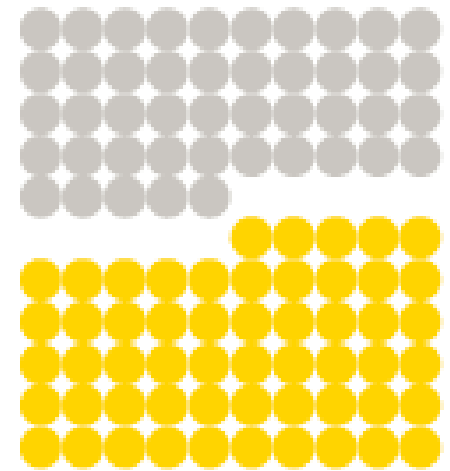
38% Services

52% Industrial



48% Services

45% Industrial



55% Services

Services: headquarters, sales and marketing, business services, education and training. **Industrial:** manufacturing, R&D and logistics.

Source: EY's EIM 2014.

Location decisions

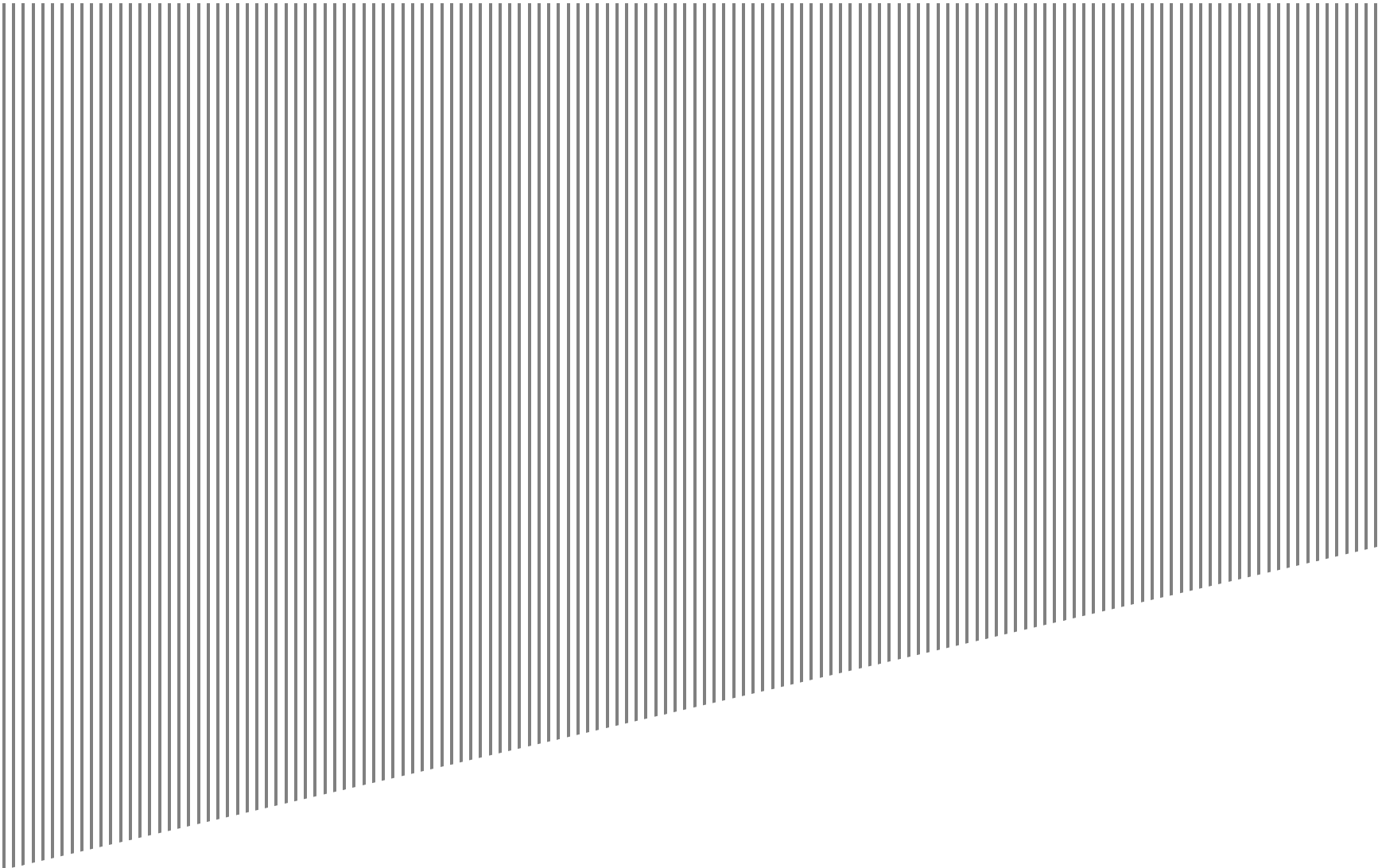
Key location factors

Factors that companies take into account when deciding on a location to establish operations

	2014	2012	2011
Stability and transparency of political, legal and regulatory environment	1	2	3
The country or region's domestic market	2	1	8
Potential productivity increase for their company	3	5	4
Labor costs	4	3	7
Transport and logistics infrastructure	5	4	1
Local labor skill level	6	6	6
Stability of social climate	7	7	5
Corporate taxation	8	8	9
Telecommunications infrastructure	9	10	2
Flexibility of labor legislation	10	9	10

Source: EY's 2014 European attractiveness survey (total respondents: 808).

What is on investor agenda in Latvia?



Represented Investments

- Total FDI in share capital of companies in Latvia is app. 7.25 billion euros
- Of this FICIL member companies represent app. 2.2 billion euros (30%)
- FICIL member companies contribute 15% Tax revenues
 - Add. investments represented and tax paid by the members of 11 Chambers of Commerce
 - Add. investments financed by debt



FICIL corporate members: 29 major investors



FOREIGN INVESTORS
COUNCIL IN LATVIA

FICIL corporate members: 29 major investors



FICIL associate members

AmCham Latvia
Thought leadership hub



**THE BRITISH CHAMBER
OF COMMERCE IN LATVIA**



**ESTONIAN
BUSINESS CHAMBER
IN LATVIA**



**Deutsch-Baltische Handelskamm
in Estland, Lettland, Litauen**
Vācijas-Baltijas Tirdzniecības kamera
Igaunijā, Latvijā, Lietuvā



**Norwegian Chamber
of Commerce in Latvia**



Belux Latvian Business Chamber



**Netherlands-Latvian
Chamber of Commerce**



**FOREIGN INVESTORS
COUNCIL IN LATVIA**

Sustainable Economic Development Work Group



SCOPE OF THE WORK GROUP

- ▶ Preconditions for increasing competitiveness of the country and sustainable economic development
- ▶ What drives competitiveness of the country?
- ▶ Advice on long-term policy (economic, education etc.)
 - i. Demographics - Long-term via immigration, emigration, intra-migration
 - ii. Healthcare - Level playing field
 - iii. Education - Higher-education system
 - iv. Technology – Innovation
- ▶ **FICIL's Sentiment Survey** – Measuring FICIL members for increasing/decreasing their investments in Latvia
 - ▶ Quantitative & qualitative approach
- ▶ **Concerns**
 - ▶ Lack of stability, consistency in decisions, transparency, long-term public policy, clear governance
 - ▶ Labour law constraints, and sustainability of business
 - ▶ The grey economy – employment practices, corruption
- ▶ **Attractiveness**
 - ▶ Labour costs
 - ▶ Industries – Services, IT, food, transport & logistics, timber / wood & natural resources

INNOVATION – CASE STUDY

(i) Education, (ii) high-quality technical professionals, (iii) labour tax code, (iv) IPP & (v) legal enforcement

FICIL 'sentiment' survey

April, 2015



FICIL 'sentiment' survey II

22 interviews took place

Few examples:

Would be ready to invest more in Latvia, including capital.
But the main limiting factor is lack of qualified labor force

Are You ready to invest – «YES»; Will You invest in Latvia –
«NO, as challenges with fitting manpower is growing»

Political risks are important part of the investment decisions.
Some decide not to invest, while others may choose to take
a chance

How competitive is Latvia?

Trends in Global
Competitiveness

Latvia in Global
Competitiveness
Report

Institutional
efficiency

Are international
companies investing
enough?

How to encourage
more large-scale,
smart and high-
value added
investments?

Thank You!

Guntars Krols

EY partner

Office: +371 6704 3801

Mobile: +371 2923 4569

Guntars.Krols@lv.ey.com

The EY logo consists of the letters 'EY' in a bold, sans-serif font. The 'E' and 'Y' are connected at the top. The 'E' has a vertical bar on its left side that tapers to a point, which is part of a larger graphic element on the left side of the slide.

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