

Baltic CEO Survey: optimism replaced by caution, with businesses adapting to new conditions 1/9/23



Head of Marketing and Communications,
PwC Latvia
Kalvis Gavars

2022 brought more turmoil to the Latvian economy, businesses and people. When it seemed that we had overcome one crisis and learned to live in the post-pandemic world, another crisis arrived, one that is still difficult to grasp. The Russian war in Ukraine, the energy crisis and the fast-growing rate of inflation make Baltic CEOs more pessimistic than they were a year ago about global and Baltic economic prospects, but they are more optimistic about their companies' own prospects. They see the need for change and they are also thinking about the steps they need to get there, according to PwC's Baltic CEO Survey 2023, which interviewed 323 CEOs in Latvia, Lithuania and Estonia.

According to a "quick" assessment published by the Central Statistical Office in January, Latvia's GDP rose 1.8% in 2022 compared to 2021. And the European Commission forecasts that the EU economy will avoid a downturn and its growth rate will reach 0.8% in 2023. More than a half of Baltic CEOs (51% in Latvia/Estonia and 55% in Lithuania) expect that the global economy will see a downturn in the next 12 months. The outlook is similar for their national economies – a downturn is expected by 63% of CEOs in Latvia, 62% in Estonia and 40% in Lithuania this year. However, CEOs in Europe and globally are even more pessimistic – a downturn is expected by 74% of CEOs in Central and Eastern Europe (CEE) and 75% in Western Europe, while the global percentage has reached 73%, the most pessimistic outlook in the last decade.¹

Despite the geopolitical and economic turmoil, Baltic CEOs stay confident about their companies' revenue increase over the next 12 months (46% in Latvia, 53% in Lithuania and 45% in Estonia). Baltic CEOs are also confident about their companies' ability to overcome the challenges and they expect stable revenue growth over the next three years (80% in Latvia, 89% in Lithuania and 83% in Estonia), while only 50% of CEOs in CEE were confident about that.

Major threats

When asked about threats that are likely to affect their business in the next 12 months, Baltic CEOs named three:

- Geopolitical conflict (cited as the main threat by CEOs in Latvia and Lithuania)
- Inflation (the main risk in Estonia)
- Energy crisis

These threats were far less relevant last year, when labour shortage was cited as the main challenge, but this year 80% of CEOs in Latvia, 82% in Lithuania and 50% in Estonia are concerned about threats posed by the geopolitical conflict.

To mitigate these threats, CEOs plan to diversify their product and service offerings (42% in Estonia, 37% in Latvia and 25% in Lithuania), improve cybersecurity and data privacy (41% in Estonia, 35% in Lithuania and 28% in Latvia), look for and expand into new markets (40% in Lithuania, 32% in Estonia and 25% in

Latvia).

A third of CEOs in Latvia (31%) and Estonia (32%) do not think their companies will be economically viable a decade from now if they continue on their current path (47% in Lithuania). Global CEOs, too, are more pessimistic than their peers in Latvia and Estonia. For example, 45% in CEE do not think their companies will be economically viable a decade from now. However, Baltic CEOs are aware of the situation and willing to take appropriate steps to avoid this by investing in the automation of processes and systems, labour upskilling, technology implementation etc.

Solutions – raising prices, cutting costs, new products and services

As for steps that have been or will be taken soon to minimise potential problems, Baltic CEOs mention raising prices (more than a half of CEOs have done so already and about a third plan to do so) and cutting costs (46% in Latvia, 54% in Lithuania and 39% in Estonia have done so already, and about a third plan to do so). CEOs also say they are trying to diversify their product and service offerings (42% of Latvian CEOs have made this decision, with 32% planning to do so).

When it comes to key export markets, Baltic CEOs mention their neighbouring Baltic States as well as the Nordic countries, Poland and Germany. Latvian CEOs name Estonia (33%), Lithuania (32%), Germany (22%), Sweden (16%) and Finland (14%) as key markets. For Estonian CEOs, key markets are Finland (30%), Latvia (29%) and Lithuania (22%). For Lithuanian CEOs, the leader is Latvia (42%), followed by Estonia (29%) and Poland (26%).

No massive lay-offs expected

The good news is that CEOs do not plan massive lay-offs – 77% of Latvian CEOs say they do not plan to do so in the next 12 months. 83% of respondents say they do not plan to cut pay. Attracting talent has long been a major challenge in Baltic companies. In 2023 this is mentioned as a concern by 52% of CEOs in Latvia, 55% in Lithuania and 43% in Estonia (saying it has become more difficult to attract talent). However, this indicator has dropped across the Baltics compared to 2022. The same as last year, most Baltic CEOs expect to raise pay by up to 10% over the next 12 months.

Government tasks – competitive taxes, national defence and security

Many CEOs in Lithuania and Estonia (62% and 66%) cited strengthening national defence and security as their main government priority for the next 12 months, while this is less important in Latvia (45%). For the fourth consecutive year, Latvian CEOs have mentioned promoting a competitive tax environment as their main government priority for the next 12 months (68%, down from 71% last year), followed by improving the business environment (55%, down from 61% last year), which has ranked second for the last four years; cutting government costs was cited as the third priority (55%, up from 52% last year). Lithuanian CEOs say that in addition to national defence and security, their government priorities include promoting a competitive tax environment (56%, down from 64% last year) and responding to energy crisis (51%); Estonian three top priorities include responding to energy crisis (51%) and adapting educational policy to economic changes (43%, down from 55% last year).

The Baltic business climate is characterised by uncertainty arising from the challenging and volatile geopolitical and economic environment. Yet there are also some positive signs suggesting that CEOs keep

looking for and finding opportunities to leverage the present situation in making their internal processes more efficient and promoting long-term growth.

More details of the survey findings can be found [here](#).

About the survey

PwC's Baltic CEO survey was conducted online over the period from 28 November 2022 to 9 January 2023. We interviewed 323 Latvian, Estonian and Lithuanian CEOs: 47% were women and 49% were men, but 5% did not wish to state their gender/sex. Respondents come from sectors such as trade, finance, construction, manufacturing, IT and telecommunications, health care, and transport.

The Latvian companies surveyed had the following revenues for the last financial year:

- 45% up to EUR 5 million
- 8% EUR 5–10 million
- 10% EUR 11–20 million
- 9% EUR 21–50 million
- 3% EUR 51–99 million
- 6% EUR 100–200 million
- 2% over EUR 200 million
- 18% did not wish to state their revenue

¹ PwC conducts a global CEO survey each year. PwC's latest 26th Annual Global CEO Survey interviewed 4,410 CEOs in 105 countries around the world.