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New restrictions and new (better) economic forecasts in the Baltic States

The increase in COVID-19 infections in the Baltic States in recent weeks has resulted in a number of restrictions, but the second lockdown will not affect the economies of the Baltic States as anticipated. Forecasts indicated that the recession in 2020 in Lithuania and Estonia would be one of the lowest in Europe. However, the most recent restrictions – such as the ban on moving between municipalities in Lithuania or the curfew in Latvia – could already have an impact on economic performance in 2021.

The bursting of the “Baltic Bubble” and new restrictions. Most of the measures implemented by the Baltic States’ authorities in the face of the first wave of the COVID-19 pandemic in spring 2020 did not, in particular, deviate from the solutions adopted in other countries of the Central and Eastern Europe region ([“IEŚ Commentaries”, no. 152](#)). These countries quickly implemented a number of restrictions to reduce the spread of the coronavirus. On 26 February, the Lithuanian Government implemented the State of Emergency and established the national quarantine period from 14 March to 16 June. In Latvia, the State of Emergency was in force from 13 March to 10 June; in Estonia from 13 March to 18 May. These decisions have led to numerous restrictions for citizens and for foreigners.

The precursor solution in terms of lifting the restrictions was introduced on 15 May, the so-called “Baltic Bubble”. At that time, the “flattening” of the infection curve prompted Lithuania, Latvia and Estonia to lift the restrictions previously imposed on travel between these countries.

Thus, the first such zone in the European Union was created ([“IEŚ Commentaries”, no. 191](#)). However, the “Baltic Bubble” burst with the September infection growth. Free travel between the Baltic States has been abandoned and the compulsory quarantine has been restored for travellers crossing borders. When new infection records were reached over the next few weeks in Autumn, 2020, the Lithuanian Government decided to re-introduce the national quarantine. Initially, it was only to last for three weeks, starting on 7 November, but the increasing number of infections resulted in a decision to extend it. It was in force until 31 January, as was the ban on traveling between municipalities introduced on 16 December. By January 3, the police had stopped and denied entry to more than 36,000 vehicles breaking this ban, most of which had done so on the Christmas weekend.

The Latvian Government had also taken decisive steps to prevent the spread of COVID-19 by enacting a State of Emergency from 9 November and renewing the period twice up to 7 February. The State of Emergency imposes a number of restrictions, including a curfew introduced from December 30 to January 4 and from January 8 to 10, i.e. an order for inhabitants to stay in their places of residence from 10 pm until 5 am.

A number of new restrictions have also been introduced in Estonia. Special provisions have been in effect from 12 December in the province of Ida-Viru and from 28 December in the province of Harju, where an exceptionally high number of infections have been reported. According to the decision of the Estonian Government, the restrictions were to apply until 17 January.

The spectre of a deep recession. All the Baltic States have launched extensive fiscal programs to mitigate the effects of the economic crisis caused by the pandemic. According to the data of the International Monetary Fund (IMF), these countries had allocated around EUR 9 billion in total for this purpose by September.

Half of this amount was direct fiscal expenditure that entered the health care system and businesses in difficulty due to the pandemic in the form of allowances, grants, or reductions in taxation. The remainder was allocated to supporting corporate liquidity in the form of loans and guarantees. In relation to GDP in this period, Latvia spent the most, with as much as 11.2%, followed by Lithuania 8.3% and Estonia 7.9%.

This fiscal support, unprecedented on such a scale, was continued during the autumn wave of infections. In addition, many new programs are being introduced in this area. For example, the Estonian Government approved further support measures for a total of €30 million at its last meeting of 2020, of which up to €16 million will be directed to the largest provinces of Ida-Viru and Harju.

Despite such significant fiscal support, all the Baltic States will be faced with recessions of varying scales. In October, the IMF predicted that the Lithuanian economy would shrink by 1.8% in 2020, the smallest decline in Europe. At that time, this forecast was influenced by relatively low infection numbers, but also by the extensive stimulus package adopted by the Lithuanian government. In its Baltic neighbourhood, the IMF predicted a deeper recession – GDP was to fall by 5.2% in Estonia and 6% in Latvia, respectively. These forecasts were published before the announcement of a number of restrictions related to the autumn wave of infections. However, it appears that, despite a negative impact on economic activity, these restrictions will not significantly alter the declines predicted in the autumn forecasts. Indeed, some of the Baltic States may anticipate less severe recessions than predicted.

Better than expected. The latest forecasts of the Bank of Lithuania in December 2020 showed that the economy was shrinking by 2%, one of the lowest decreases in Europe. Estonia can expect significantly less of a recession than the one anticipated from the forecasts of the autumn wave of infections. According to the projections of the Bank of Estonia, GDP would fall by 2.5%, which, against the background of European economies, also means a very limited decline. The Latvian economy has also improved its forecasts, shrinking by 4.3% in the first nine months of 2020, confirming that the economic downturn was not as deep as initially anticipated. It was affected by the construction and agriculture sectors, which were able to grow in the pandemic, but also by industrial production, which showed a relatively good crisis resilience. In the first three quarters, it fell by 2.7%, one of the lowest decreases in the EU sector.

Forecasts for 2021 remain uncertain, but, for the Baltic States and the other European economies, growth is expected after the recession in 2020. High hopes are linked to vaccinations. However, the tightening again of restrictions in the Baltic States could significantly slow down these economies, especially in the first quarter of 2021.

However, the restrictions did not translate into political instability. In Lithuania, the actions of the Government of Saulius Skvernelis limiting the effects of the pandemic, as well as the decisions of Ingrid Šimonytė, were relatively well assessed. It is different in the other Baltic States, especially in Latvia, where there has been some dissatisfaction. In Riga in December 2020, protests were held against further restrictions imposed by the Latvian authorities, as well as the insufficient support for entrepreneurs and workers who were losing their jobs. Pandemic restrictions also met with critical opinions from the Estonian residents of the provinces affected by the specific restrictions.

Conclusions. For a few weeks now, halting the growth of infections has once again become the biggest challenge for the Baltic authorities.¹ To this end, they have introduced a number of restrictions which have significantly reduced business activity. The final scale of the economic downturn that the Baltic States faced in 2020 is not yet known. All the previous forecasts predicted a recession in these countries, while the latest – especially for Lithuania and Estonia – indicate one of the lowest GDP declines in comparison to other European countries. Without doubt, the improvement of economic results in relation to the previous forecasts was due to the broad stimulus packages adopted by the governments of the Baltic States the launch of vaccination against COVID-19.

The new restrictions, implemented at the turn of December and January, have already had a negative impact on economic performance in 2021. Forecasts, subject to high uncertainty, indicate a rebound in the current year. Most international institutions forecast economic growth.

¹ As of January 6 2021, the highest number of infections from the beginning of the pandemic per million inhabitants among the Baltic States was recorded in Lithuania – over 54 thousand, while in Latvia and Estonia it was over 23 thousand. Also, the number of deaths as a result of COVID-19 in relation to the number of population was the highest in Lithuania – 0.7 thousand, while in Latvia it was 0.4 thousand and in Estonia 0.2 thousand.