

## **THE INFLUENCE OF THE COVID-19 OUTBREAK ON THE ECONOMY OF THE BALTIC STATES**

**Lela Mamaladze<sup>1</sup> and George Abuselidze<sup>2</sup>**

Received: 8.11.2021, Accepted: 4.03.2022

---

### ***Abstract***

*The pandemic caused by the spread of Covid-19 has become the biggest challenge in the modern world not only for healthcare, but also for economic, political, social, cultural or other sectors. This paper examines the impact of the pandemic on the leading industries of the economies of the Baltic States. Also, the trend of changes in GDP and unemployment rates is analyzed and the circumstances leading to similar and different outcomes are identified. Based on the results of the research, conclusions and recommendations of practical importance have been developed.*

**Keywords:** COVID-19, Crisis, Economy, Pandeconomy, Baltic States.

**JEL Codes:** F63, G01, H12, R58

---

### **Introduction**

The urgency of the research is due to the fact that despite the great scientific and technological progress made in the medical field, the biggest challenge for the world was the coronavirus pandemic, which radically changed the structure of existing social, economic or cultural relations. The need for in-depth scientific research on this issue is also due to the following circumstances: 1) The Covid-19 pandemic is not the only one. World history includes four large-scale pandemics over the past century; 2) On the one hand, there is no accurate data on the duration of this particular pandemic and on the other hand, the circumstance that the economic damage caused covers the long-term existence of the pandemic itself. Accordingly, the development of practical recommendations based on scientific research is necessary to objectively assess the existing challenges and minimize economic damage.

---

<sup>1</sup> Ivane Javakhishvili Tbilisi State University, PhD, e-mail: lela.mamaladze@gmail.com, ORCID ID: 0000-0002-8037-3856

<sup>2</sup> Batumi Shota Rustaveli State University, Doctor of Economics, Professor; E-mail: george.abuselidze@bsu.edu.ge, ORCID ID: 0000-0002-5834-1233

## **Research Methodology**

In the paper are used both qualitative and quantitative research methods. In particular, the scientific literature around the research topic is analyzed and Policy documents (anti-crisis plans) developed by the government are also discussed. As for the use of quantitative research methods, the trend of change in the numerical data of the following indicators in the Baltic States is presented: GDP growth rate and rate of unemployment.

## **Results and Discussion**

### *Covid-19 and its Impact on the Baltic States*

The COVID-19 pandemic has an important impact on global economy. The world economy faces a negative supply stock and thereby disrupting the global network of supply chains (Abuselidze & Slobodanyk, 2020; Abuselidze & Mamaladze, 2020; Abuselidze & Zoidze, 2021; Abuselidze, 2021; Atalan, 2020; Brada *et al.*, 2021; Buheji, 2020; Ciobanu *et al.*, 2020; Černikovaitė & Karazijienė, 2021; Kachanovska & Yakubovskiy, 2020; Karmaker *et al.*, 2021; Nandi *et al.*, 2021; Segal & Gerstel, 2020; Simachev *et al.*, 2020; Zoidze & Abuselidze, 2021). Given the scale of the impact, it is important to study the economic impact of a pandemic across countries and geographic regions and one approach cannot be globally generalized. Indeed, each country or region is distinguished by specific characteristics that need to be taken into account.

In the case of the Baltic States, despite the similarity of the general situation, a number of differences were identified at an early stage in the management of the Covid-19 pandemic and the crisis. In particular, a national-level emergency was developed in Lithuania much earlier (February 26, 2020) than Latvia (March, 12) and Estonia (March 13).

It should be noted that the pandemic has had a significant impact on the economy of the Baltic state since the 1st quarter of 2020. The coronavirus outbreak and the lockdown of various workplaces led to disruptions in supply negative shocks. Also, demand and consumption for exports and investments decreased significantly. During the isolation, the construction sector remained open in all three countries, which helped mitigate the crisis (Staehr & Urke, 2021).

### *Leading Economic Industries in the Baltic States*

When the pandemic was declared, a number of measures were taken in the Baltic States, as well as in other countries, to reduce the number of covid infections. This included

a ban on certain economic activities. Accordingly, at the initial stage of the study, we decided to highlight the leading industries in the economies of the Baltic States by share of GDP in order to clearly identify the degree of impact of the pandemic on the economies of the Baltic States.

It is noteworthy that the tourism sector plays an important role in the Lithuanian economy. As of 2019, it accounted for 5% of GDP and employed 4.9% of total employment in the country. In addition, the food and beverage sector is one of the primary sectors, comprising up to a thousand manufacturing companies, which accounts for 11% of their total exports, accounting for 4.5% of Lithuania's GDP and employing 4.6% of the workforce. A chemical product is another important industrial activity in Lithuania, accounting for about 12.5 percent of total exports since 80 percent of the chemicals produced in the country are exported. It should also be noted that the furniture production sector employs over 50,000 individuals in Lithuania. Also, farming has been one of the most crucial occupations in the country for centuries and modern production is based on safety standards set by high EU standards. The agricultural sector employs more than 8% of the country's workforce and supplies raw materials to most Lithuanian food processing companies. Despite the declining share of GDP, the agricultural sector remains important for Lithuania, as it works with almost 8% of the workforce and supplies materials to the food processing sector (World Atlas, 2021b).

The high level of digital technology adoption should also be taken into account. The 2,000 companies employ about 37,000 people. Lithuania is represented by 13 of the 20 largest IT firms in the Baltic region (The Latvian Institute, 2020). Some of Lithuania's most promising sub-sectors include business process outsourcing and general services (World Atlas, 2021b). Also, Europe's first international Blockchain Center was launched in Vilnius in 2018. Also, Vilnius ranked seventh in the city according to FinTech Foreign Direct Investment (FDI) in 2019.

The Latvian economy is therefore based on four main sectors: agriculture, chemicals, logistics and wood processing. However, there are other industries that are interesting to consider, including the textile industry, the food industry, mechanical engineering and green technologies. High-tech electronics and information technologies make business life much easier, and their products and services more competitive (The Latvian Institute, 2020). In addition, Latvia imports 100% of its natural gas from Russia (Jones, et al., 2015). In addition, tourism is considered to be one of the main drivers of the Latvian economy, a significant source of export earnings and a major contributor to GDP. In 2019, tourism directly accounted for 8.4% of Latvia's total GDP.

Chemicals, textiles, machinery, equipment, electronics, and oil shale energy are all produced in Estonia's industrial sector. Estonia produces virtually all of its power locally,

utilizing oil shale produced on the island. In truth, Estonia's oil shale sector is one of the most developed in the world, with Estonia producing 80 percent of the world's oil shale. Shipbuilding is also part of Estonian industry and boats and ships are used for both recreational and commercial purposes.

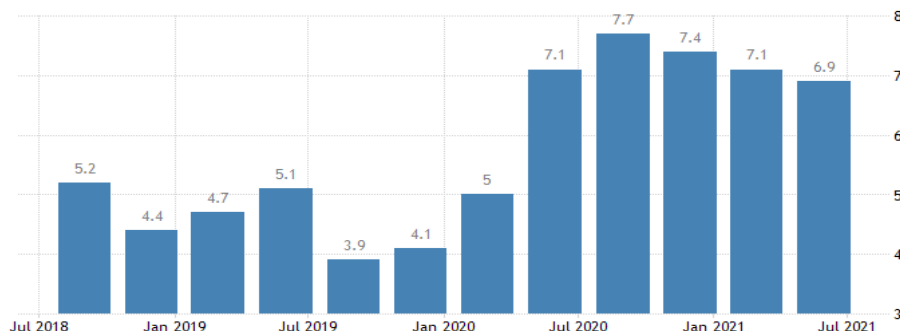
The Estonian metallurgical industry is associated with the production of machinery and equipment, which employs more than 14,000 people. The service sector is the largest industry in Estonia contributing to the country's GDP. It mainly covers transport, telecommunications and banking sectors. The transport sector includes favorable infrastructure and country has a relatively high share in the transit trade, which operates in the Baltic Sea. In addition, foreign investments have been made in the development of the telecommunications sector (World Atlas, 2021a).

### *The Rate of Unemployment*

Unemployment trend in the Baltic States has changed since the beginning of 2020. Despite the general picture of the labor market, differences between sectors were evident. Unlike the financial crisis, in this case, the most affected industries are very labor-intensive, which means that if restrictions persist for a longer period, the employment situation can quickly deteriorate. In addition, there is still uncertainty about the tourism sector, which is related to the weaker expected demand and possible decline in export demand in manufacturing (Foresight Centre, 2020).

Unemployment in the Baltic States increased significantly from the second to the third quarter, especially notable in the case of Estonia (Fig. 1), where labor protection regulations are less stringent than in Lithuania and Latvia. The crisis in Estonia has hit the tourism sector hardest.

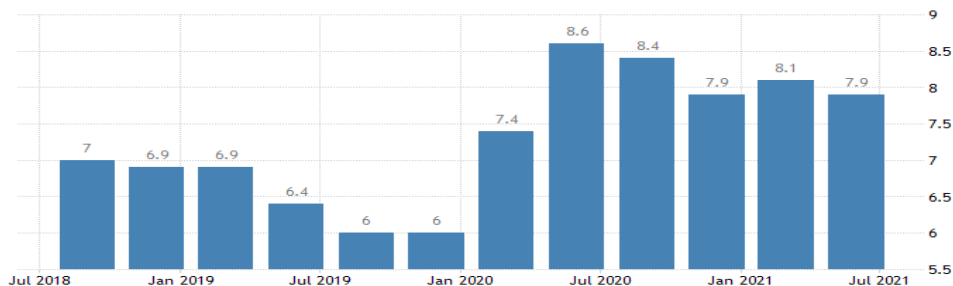
*Figure no. 1 The rate of unemployment in Estonia*



Source: Trading economics (2021)

In the third quarter of 2021, unemployment rate in Latvia (Fig. 2) and Lithuania (Fig. 3) increased again, but at a lower rate (Staeher & Urke, 2021).

*Figure no. 2 The rate of unemployment in Latvia*



Source: Trading economics (2021)

*Figure no. 3 The rate of unemployment in Lithuania*



Source: Trading economics (2021)

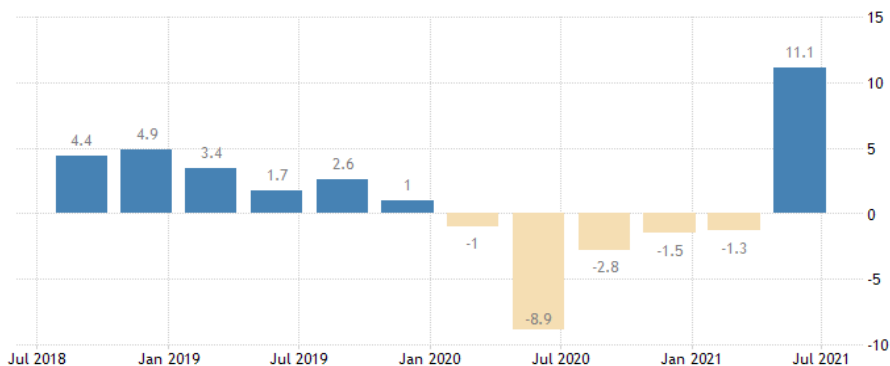
When analyzing the dynamics of unemployment, it should be noted that the data do not include employees on vacation. The coronavirus pandemic disproportionately affected low-wage workers in the service sector and the manufacturing sector (Eesti Pank, 2020).

### *GDP Growth Rate*

Since regaining its independence in 1991 the Baltic States have seen very strong business cycles. The economic downturn due to the coronavirus pandemic in the Baltic States was severe but contained relatively well compared to the experience of the global financial crisis (Staeher & Urke, 2021). GDP has already started to decline in the first quarter of 2020 and growth in Latvia and Estonia has been reversed by the decline. The decline of GDP from the first quarter of 2020 to the second was 5.5% in Estonia, 7.1% in Latvia, and

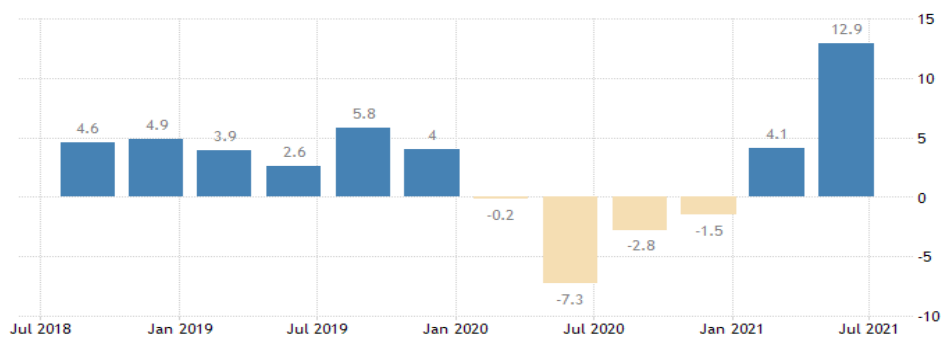
5.9% in Lithuania (Staehr & Urke, 2021). The GDP decreased by a -1% in Latvia (Fig. 4) and -0.7% in Estonia (Fig. 5).

*Figure no. 4 GDP growth rate in Latvia*



Source: Trading economics (2021)

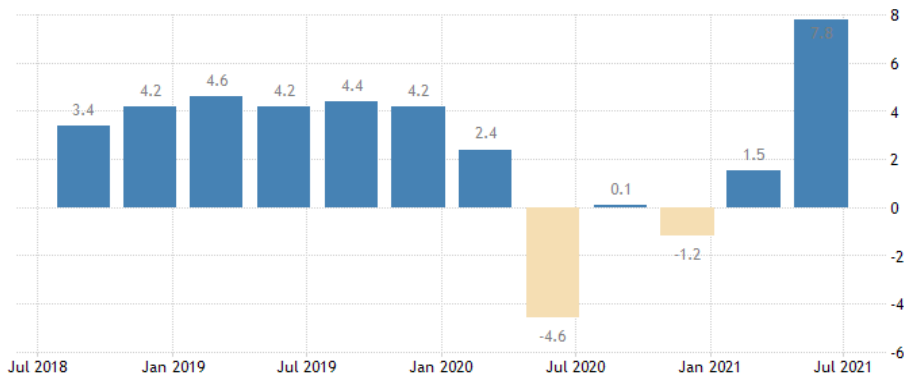
*Figure no. 5 GDP growth rate in Estonia*



Source: Trading economics (2021)

The GDP in Lithuania was still growing in the first quarter of 2020 that can be linked with the stable government expenditures and lower decline in exports (Fig. 6), while export decline in Estonia and Latvia was respectively 2.4% and 2.6%. Export rates changed in the second quarter: in particular, Latvia decreased by only 10.9%, while in Estonia and Lithuania by 14.7% and 16.4% (Eurostat, 2021).

Figure no. 6 GDP growth rate in Lithuania



Source: Trading economics (2021)

The second quarter of 2020 was the most difficult for all three Baltic States. GDP decline reached -8.9% in Latvia, -6.9% in Estonia and -4.6% in Lithuania (Foresight Centre, 2020).

It should also be noted that at the initial stage of the crisis, all three states were in different positions. The slowdown in economic growth in Latvia and Estonia was still observed in 2019, against the background that Lithuania continued to grow steadily. The reason for the slowdown in economic growth was structural problems, in particular in the case of Estonia - significant shrinkage of the oil shale energy sector as a response to increasing environmental charges, while in Latvia a decrease in transit cargo and anti-money laundering efforts in the banking sector (Foresight Centre, 2020).

### *The Ways to Overcome Crisis*

It should be noted that the Baltic States have been able to successfully manage the challenges posed by the first wave of viral health crises. The main reason for the success was the timely response of the government, as all three countries adopted and implemented a strategy to overcome the crisis and get out of the state of emergency.

The Lithuanian government launched the € 5 billion economic assistance plan in March 2020, which included € 500 million for maintaining business liquidity, speeding up investment and to provide for accelerating investment programmes (Baltic Sea Parliamentary Conference, 2020).

In addition, the Economic and Financial Action Plan included five areas: providing the resources needed for the health and social care system to work effectively, maintaining jobs and incomes, maintaining business liquidity and strengthening the economy (Foresight Centre, 2020).

In the case of Latvia, the government support for “employee downtime” which provided for the payment of 75% of the monthly salary to employees from 14 March to 14 May 2020 if the employer was unable to secure work for the employee because of COVID-19 (Baltic Sea Parliamentary Conference, 2020). The Bank of Latvia has launched an initiative to assist small and medium-sized businesses and Fintech in the Baltic States. National Development Finance Institute provides loans to businesses affected by the Covid-19 crisis with loan guarantees and loans for crisis resolution. Interest rates on business loans in the tourism sector will be reduced by 50% for small and medium-sized enterprises and by 15% for large enterprises in the tourism and related sectors (Baltic Sea Parliamentary Conference, 2020).

Estonia's strategy to overcome the situation caused by the spread of COVID19 was more focused on solving public health problems and mitigating the social consequences of the emergency (Foresight Centre, 2020). Estonia has launched a 2 billion euro financial assistance program, which includes a 1 billion euro loan already issued on bank loans to adjust the repayment schedule. The Estonian Tax and Customs Council (ETCB) has closed its public debt analysis tool and provided mass information on debtors as the current information does not provide an adequate picture of the companies' economic situation. The Estonian Unemployment Insurance Fund has paid subsidies to compensate employees for their salaries during the period March-May 2020.

### **Conclusion and Recommendation**

The pandemic has affected the economies of the Baltic States in the following ways: 1) Restrictions on international supply chains were an important factor in exports and imports which was logically reduced by production; 2) Activities that have been banned and of these 3) have significantly affected the tourism sector, which has played an important role in the GDP of each state;

Consequently, the economic sectors affected by the pandemic in the Baltic States are similar (transportation, entertainment and leisure, accommodation and food services). Also, in none of the three countries did the crisis affect the construction sector.

The measures taken by the government in the field of health as well as in the economic field can be assessed unequivocally positively. However, as a recommendation, it should be noted that it is desirable to develop a strategy during a large-scale epidemic to minimize the damage caused by the pandemic and to speed up the recovery of the affected sectors. Also, it is important to identify the factors influencing the country's economic sectors, determine practical methods and use additional political and economic instruments to solve current crisis.



The aim of the paper was to study the impact of the pandemic on the economies of the Baltic States. Accordingly, we analyzed the leading industrial sectors in each state, as well as the trend of changes in the unemployment rate and GDP before and during the pandemic. The study examined the steps taken by the governments of the Baltic States to combat the crisis.

## REFERENCES

- Abuselidze, G., & Slobodanyk, A. (2020). Social responsibility of business and government in the conditions of the COVID-19 pandemic. *E3S Web of Conferences*, 210, 15016. doi:10.1051/e3sconf/202021015016
- Abuselidze, G., & Mamaladze, L. (2020). The Impact of the COVID-19 Outbreak on the Socio-Economic Issues of the Black Sea Region Countries. *Lecture Notes in Computer Science*, 12253, 453-467. Springer, Cham. doi:10.1007/978-3-030-58814-4\_32
- Abuselidze, G. (2021). The Influence of Covid-19 on the Public Debt Growth and Default Risk: A Fiscal Sustainability Analysis. In: *Proceedings of the International Scientific and Practical Conference on Sustainable Development of Regional Infrastructure*, 151-159. doi:10.5220/0010587501510159
- Abuselidze, G., & Slobodanyk, A. (2021). Pandeconomic Crisis and Its Impact on Small Open Economies: a Case Study of COVID-19. *Advances in Intelligent Systems and Computing*, 1258, 718-728. Springer, Cham. doi:10.1007/978-3-030-57450-5\_61
- Abuselidze, G., & Zoidze, G. (2021). The Gravity of Cryptocurrency and Prospects in a Post-Pandemic Economy. *SHS Web of Conferences*, 126, 04001. doi:10.1051/shsconf/202112604001
- Atalan, A. (2020). Is the lockdown important to prevent the COVID-19 pandemic? Effects on psychology, environment and economy-perspective. *Annals of medicine and surgery*, 56, 38-42.
- Baltic Sea Parliamentary Conference, (2020). Baltic Sea Handling and Combating the COVID-19 Pandemic in the Baltic Sea Countries.
- Brada, J. C., Gajewski, P., & Kutan, A. M. (2021). Economic resiliency and recovery, lessons from the financial crisis for the COVID-19 pandemic: A regional perspective from Central and Eastern Europe. *International Review of Financial Analysis*, 74, 101658.
- Buheji, M. (2020). Sharing economy and communities attitudes after covid-19 pandemic-review of possible socio-economic opportunities. *American Journal of Economics*, 10(6), 395-406.
- Černikovaitė, M. E., & Karazijienė, Ž. (2021). Social-economic effects of the COVID-19 pandemic in Lithuania. In The 20th International scientific conference" Globalization and its socio-

- economic consequences 2020", Zilina, Slovak Republic, October 21-22, 2020: Section: Global impact of COVID 19 on economy and society (pp. 1-10). EDP Sciences.
- Ciobanu, R., Şova, R. A., & Popa, A. F. (2020). The impact of fdi over economic growth and how covid-19 crisis can impact the CEE economies. *CECCAR Business Review*, 1(4), 64-72.
- Eesti Pank, (2020). EP Labour Market Review 1/2020, Retrieved from <https://www.eestipank.ee/en/publications/series/labour-market-review>
- European Parliament, (2020). The economy and coronavirus: Weekly Picks.
- Eurostat, (2021). Export statistics from the Statistics authorities of Estonia, Latvia, and Lithuania.
- Foresight Centre, (2020). A comparative review of socio-economic implications of the coronavirus pandemic (COVID-19) in the Baltic States. Strata. Parliament of Estonia.
- Gerstel, S. D. (2020). The Global Economic Impacts of COVID-19.
- Jones, D., Dufour, M., & Gaventa, J. (2015). Europe's declining gas demand trends and facts on European gas consumption. Report: Trend in European gas consumption.
- Kachanovska, M., & Yakubovskiy, S. (2020). Influence of The CovidD-19 Pandemic on The Economic Relations of Ukraine With Latvia, Lithuania and Estonia. Publishing House "Baltija Publishing".
- Karmaker, C. L., Ahmed, T., Ahmed, S., Ali, S. M., Moktadir, M. A., & Kabir, G. (2021). Improving supply chain sustainability in the context of COVID-19 pandemic in an emerging economy: Exploring drivers using an integrated model. *Sustainable production and consumption*, 26, 411-427.
- Nandi, S., Sarkis, J., Hervani, A. A., & Helms, M. M. (2021). Redesigning supply chains using blockchain-enabled circular economy and COVID-19 experiences. *Sustainable Production and Consumption*, 27, 10-22.
- Staehr, K., & Urke, K. (2021). The Coronavirus Pandemic and Next Generation EU in the Baltic States. *CESifo Forum 1*, Vol. 22.
- Simachev, Y. V., Fedyunina, A. A., & Averyanova, Y. V. (2020). Transformation of global value chains in Russia and the Baltics amid COVID-19: prospects for regionalization and implications for economic policy. *Baltic Region*, 12(4), 128-146.
- The Latvian Institute, (2020). Economy. Retrieved from <https://www.latvia.eu/economy/economy>
- Trading Economics, (2021). Retrieved from <https://tradingeconomics.com/>
- WorldAtlas, (2021a). What Are The Biggest Industries In Estonia? Retrieved from <https://www.worldatlas.com/articles/what-are-the-biggest-industries-in-estonia.html#:~:text=The%20industry%20sector%20in%20Estonia,of%20the%20industries%20in%20Estonia>

WorldAtlas, (2021b). What Are The Biggest Industries In Lithuania? Retrieved from <https://www.worldatlas.com/articles/what-are-the-biggest-industries-in-lithuania.html>

Zoidze, G., & Abuselidze, G. (2021). Covid-19 Pandemic and Currency Risk Analysis in Georgia. *Entrepreneurship*, 9(2), 33-46. doi:10.37708/ep.swu.v9i2.3