

March 2021

Baltic Business Outlook

Foreword

The Baltic economies have fared significantly better than most eurozone countries – a striking difference compared to the global financial crisis. Official stimulus measures and resilient exports dampened last year's GDP declines. Continued rapidly rising wages and salaries will improve purchasing power and lay the foundation for a rapid recovery when recently re-imposed restrictions are lifted. According to SEB forecasts [Lithuania](#) will grow by just below 2% in 2021, [Latvia's](#) GDP will increase by 3.9%, while [Estonia's](#) economy will grow by more than 3 per cent this year.

In the latest edition of Baltic Business Outlook we have collected important insights about small and medium sized enterprises plans, their concerns and needs as well as impact of Covid-19 from 3,071 companies in Latvia, Lithuania and Estonia. SMEs are the backbone of Baltic economies, and their confidence indicators can give us a good idea about future developments of economic processes. Please read more findings which are presented in this report.

Methodology

Only the results of the small and medium enterprises (SMEs) with the age above 3 years were included in this report.

Turnover growth

In the survey, companies expecting at least 15% turnover growth in 2021 are labelled as optimists while the companies expecting growth figures below 15% are moderate optimists and the rest, predicting a decline in turnover, are considered pessimists.

Employment

The employment outlook is divided into three groups: companies planning to hire new staff in 2021, the ones keeping the headcount unchanged and the companies intending to cut back on personnel.

Exports

The respondents are divided into three groups: companies planning to enter new markets in 2021, those intending to grow in existing export markets, and companies focusing on the domestic market.

Innovation

The analysis refers to two groups of companies: those planning innovations in 2021, be they in products, services, business models, and/or employee development, or those not planning any of the above-mentioned.

Investments

The threshold of major investments is set at 30,000 EUR for this survey, with the companies investing amounts above and below that constituting the first two groups, and the third group composed of companies not planning any investments in 2021.

Sustainability

This year questions regarding sustainability were also included to find out the importance of different factors for achieving success and how much effort they have put in these areas during last 3 years.

Latvia

Executive summary: SME plans for 2021

78%

will keep the number of employees unchanged

77%

will remain focused on domestic market

47%

will make investments

91%

doesn't plan hiring employees from foreign countries

53%

do not plan innovations

44%

digitalisation is not important in their business

Up and down: Where are they?

7%

optimists

- Agriculture, forestry and fishing; other service activities
- Turnover up to 65 TEUR
- 1-10 employees
- More in Riga region

24%

pessimists

- Turnover up to 200T TEUR
- More in Riga region and Kurzeme region

* 764 respondents

Estonia

Executive summary: SME plans for 2021

74%

will keep the number of employees unchanged

72%

will remain focused on domestic market

41%

will make investments

83%

doesn't plan hiring employees from foreign countries

45%

do not plan innovations

48%

digitalisation is not important in their business

Up and down: Where are they?

8%

optimists

- Construction; wholesale and retail trade; repair of motor vehicles and motorcycles; manufacturing; agriculture, forestry and fishing
- Turnover up to 200T TEUR
- 1-10 employees

10%

pessimists

- Agriculture, forestry and fishing
- Turnover up to 200T TEUR

* 1019 respondents

Lithuania

Executive summary: SME plans for 2021

68%

will keep the number
of employees
unchanged

69%

will remain focused
on domestic market

54%

will make
investments

84%

doesn't plan hiring
employees from
foreign countries

41%

do not plan
innovations

42%

digitalisation is not
important in their
business

Up and down: Where are they?

10%

optimists

- Wholesale and retail trade; repair of motor vehicles and motorcycles; manufacturing
- 1-10 employees

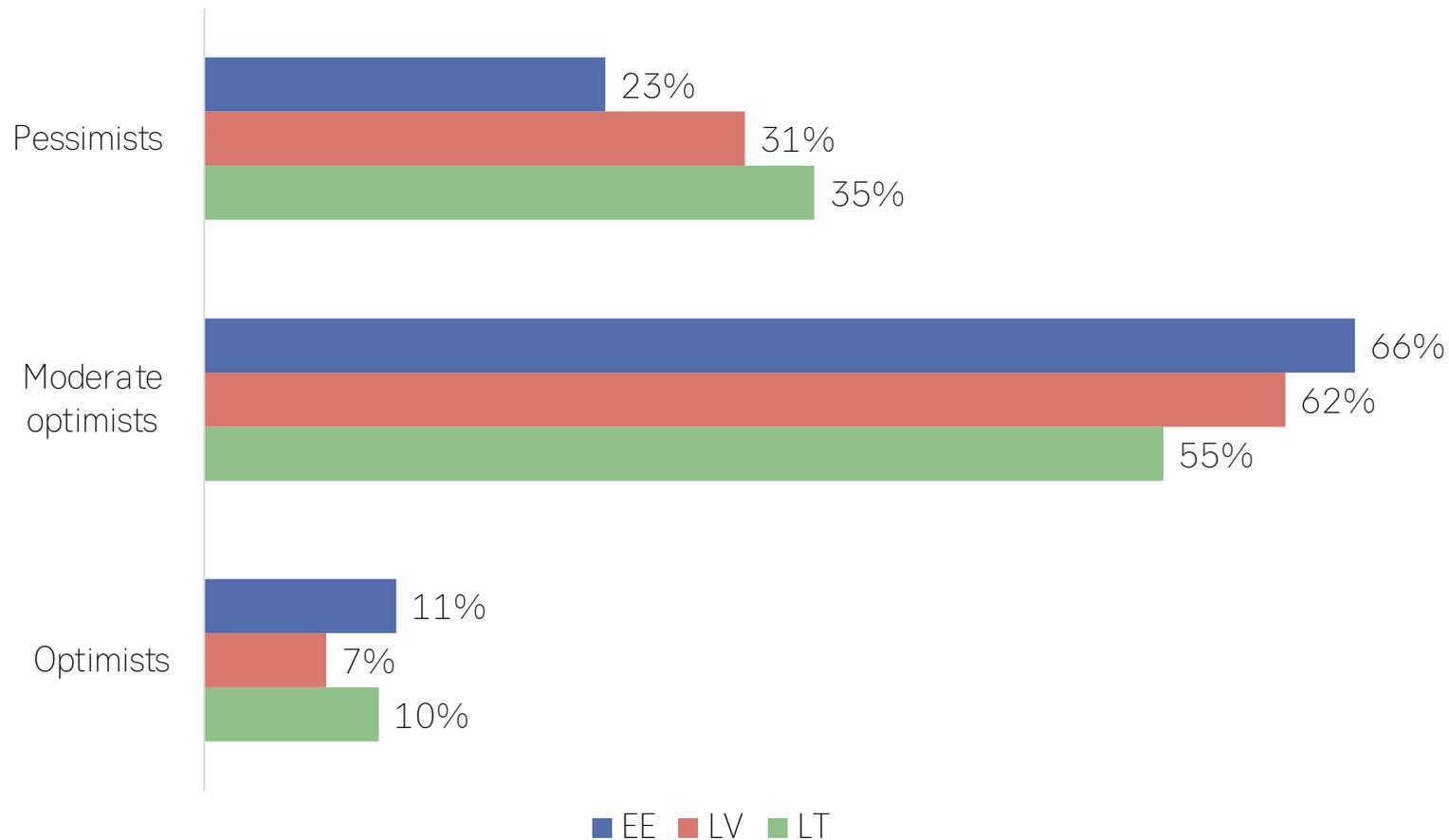
13%

pessimists

- Wholesale and retail trade; repair of motor vehicles and motorcycles; other service activities
- Turnover up to 200T TEUR

* 1019 respondents

While the Covid-19 crisis did not have a significant impact on the share of optimists in the Baltics, the general mood has become much more subdued, with the share of cautious optimists falling and the share of pessimists rising. Despite the smallest economic decline among the Baltic countries in 2020, pessimism has grown the most in Lithuania.



What kind of turnover is your company forecast to have by the end of 2021, compared to now?

Pessimists

will decline (by less than 15% + by more than 15%)

Moderate optimists

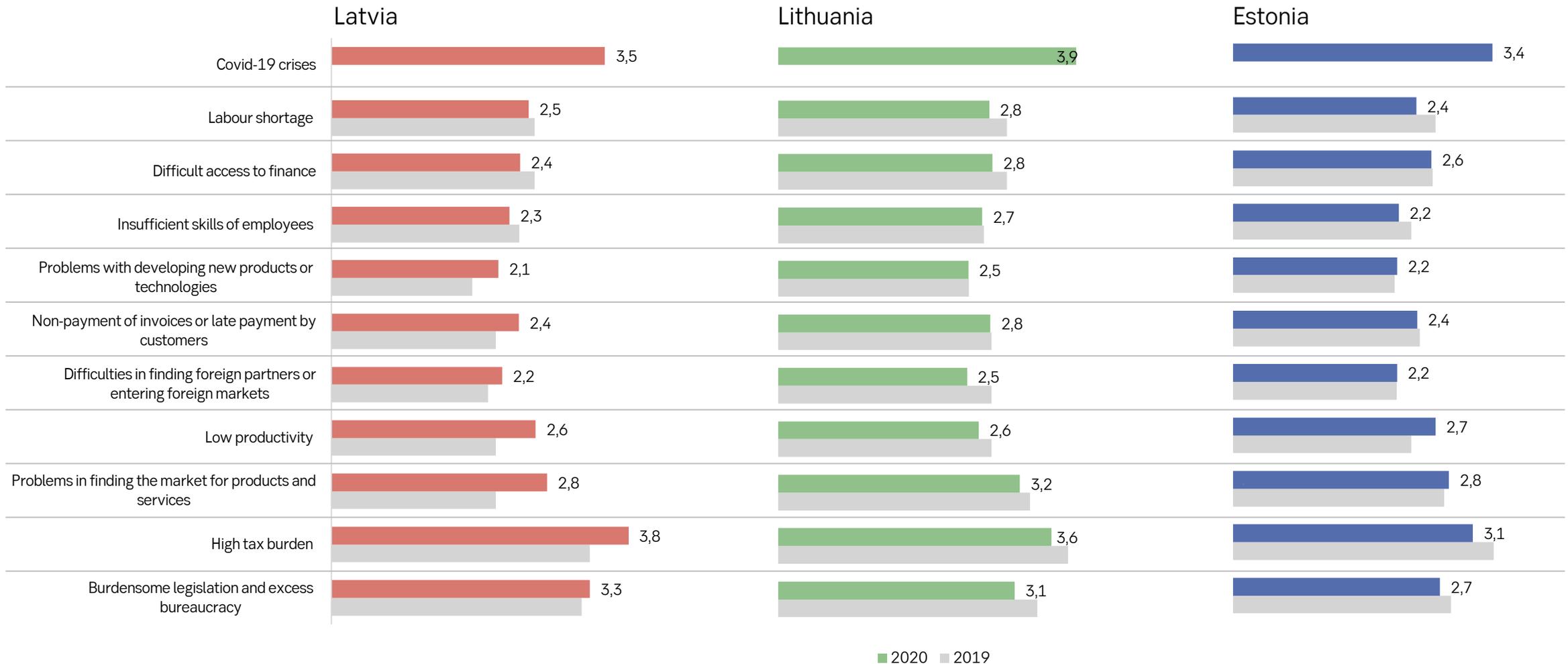
It will grow up to 15%; It will remain the same

Optimists

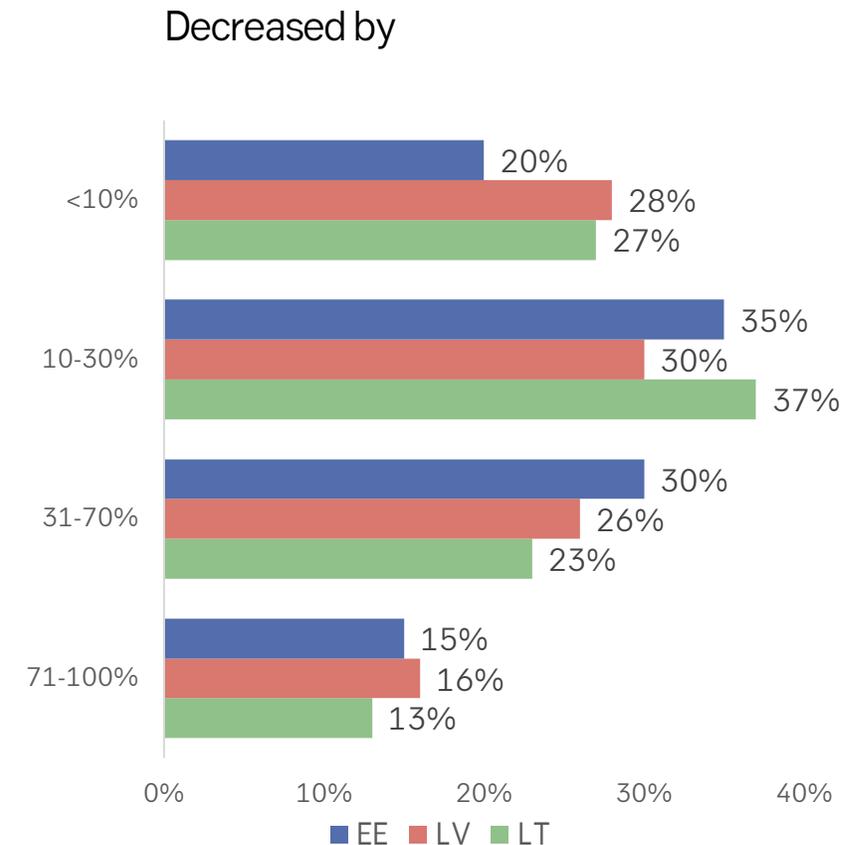
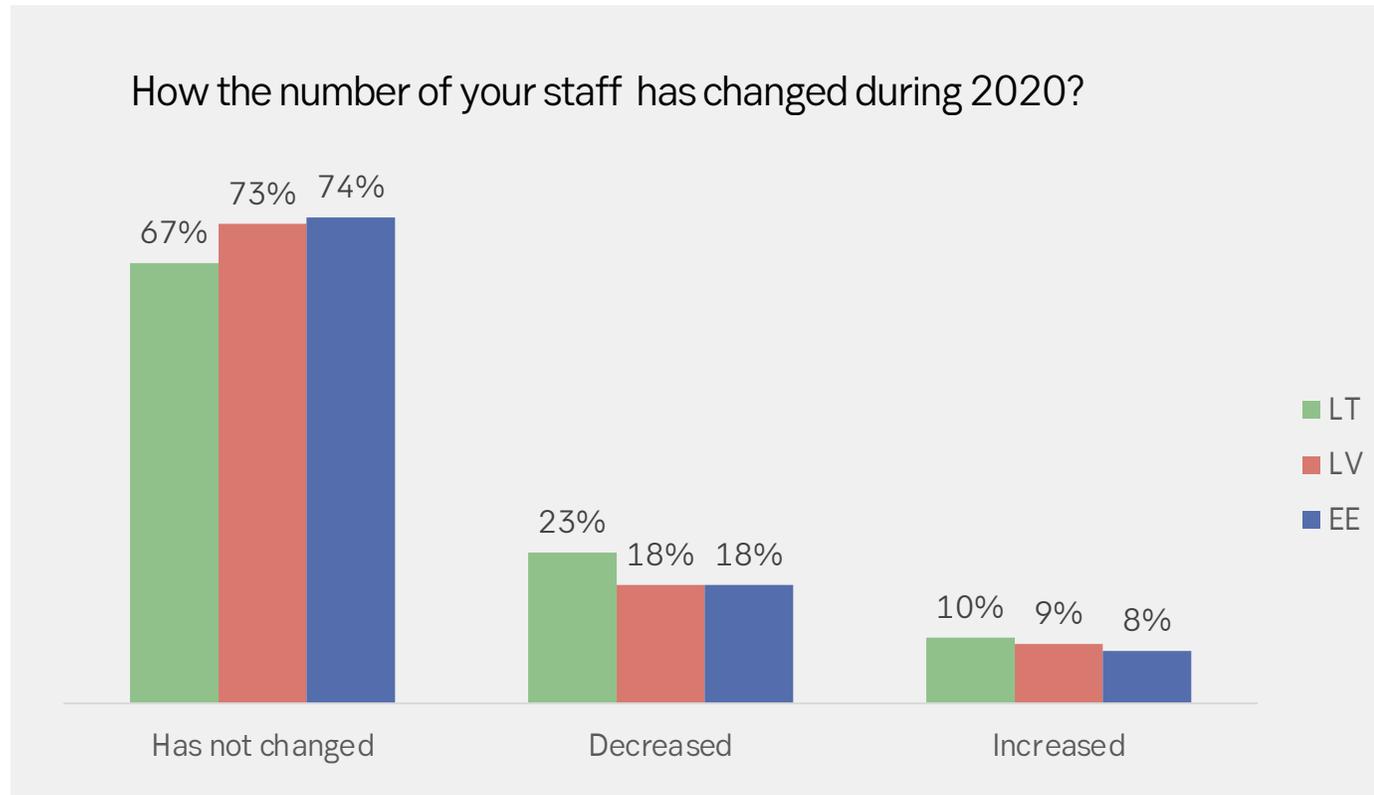
will grow by more 15%

In Lithuania and Estonia, the main problem for SMEs is COVID – 19, followed by the tax burden and the difficulty of finding new markets. In Latvia, the main challenge is the tax burden, followed by COVID – 19 and the administrative burden.

Rate the following factors on a scale from 1 to 5, regarding their effect on your company's turnover in the next 12 months.

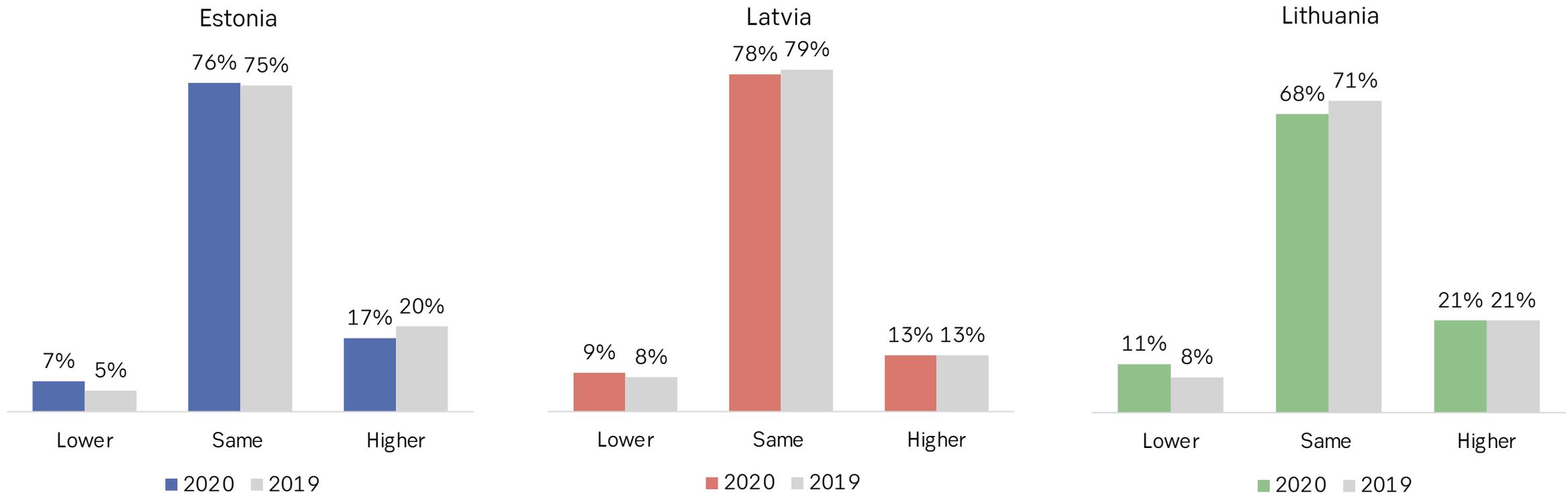


Despite the negative impact of COVID – 19, two-thirds of SMEs report that the number of their employees has remained stable. However, almost a quarter of Lithuanian entrepreneurs and a fifth of Estonian and Latvian entrepreneurs were forced to lay off employees, which is reflected in the unemployment data. At the same time, some entrepreneurs have hired more employees, which is indicating the uneven impact of the pandemic on different sectors.



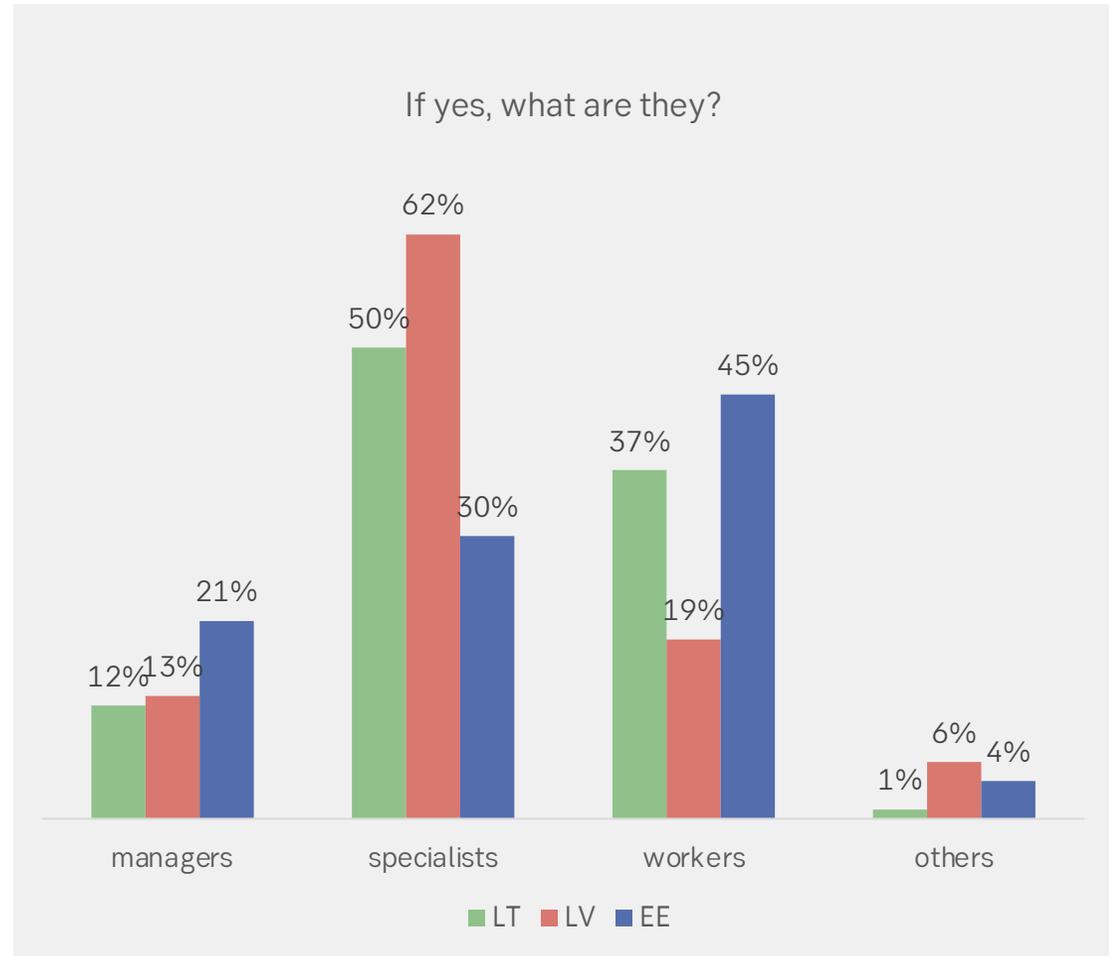
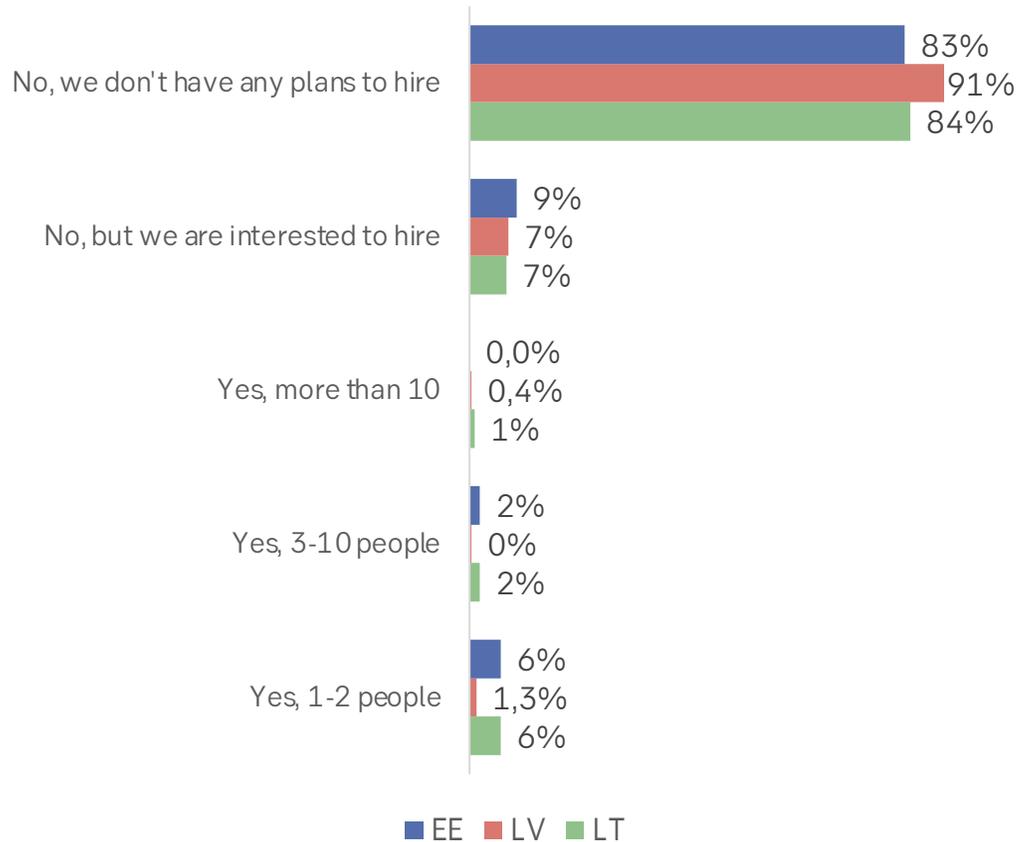
Hopes of overcoming the pandemic also led businesses to anticipate the need to renew and/or increase the number of their workforce, therefore the number of employers planning to hire new employees outnumber those planning layoffs. Lithuanian entrepreneurs are the most optimistic, followed by Estonian and Latvian entrepreneurs. However, the absolute majority of businesses have no plans of changing their team.

How will the number of staff at your company change by the end of 2021?



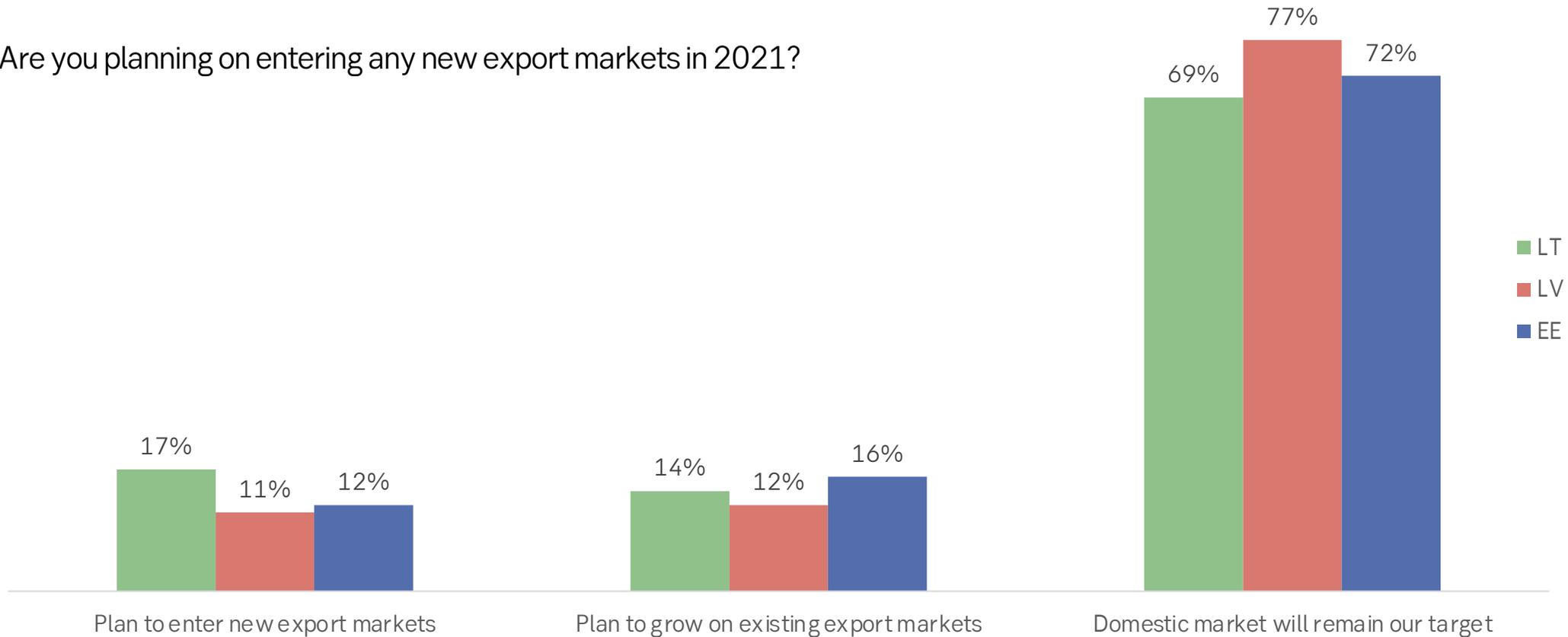
The pandemic did not change the views of Baltic entrepreneurs on the need to hire foreign labour. Of those considering such an option, the majority of Estonian entrepreneurs would hire workers, while entrepreneurs in Latvia and Lithuania would prefer to hire employees.

Does your company have employees from foreign countries?



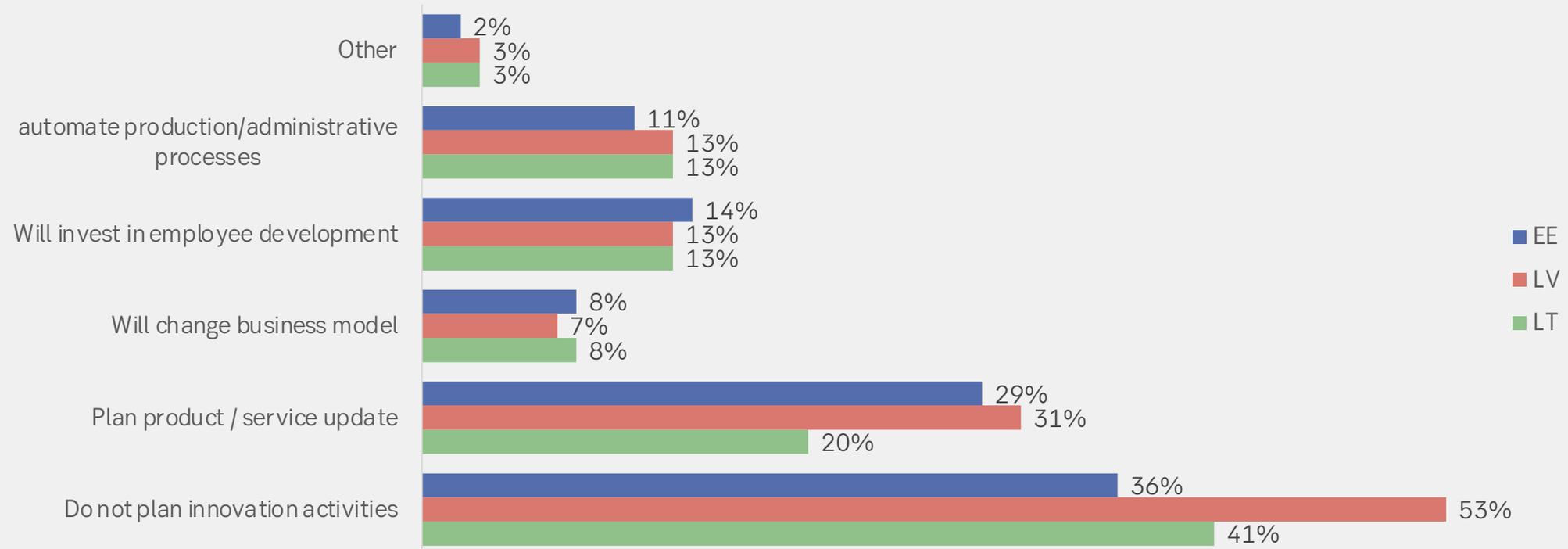
The domestic market is still the main target of Baltic SMEs, but Lithuanian entrepreneurs are most actively planning to enter new markets. The cautious approach to export markets is an untapped potential for growth, which, however, points to the need for State support to encourage such a move.

Are you planning on entering any new export markets in 2021?



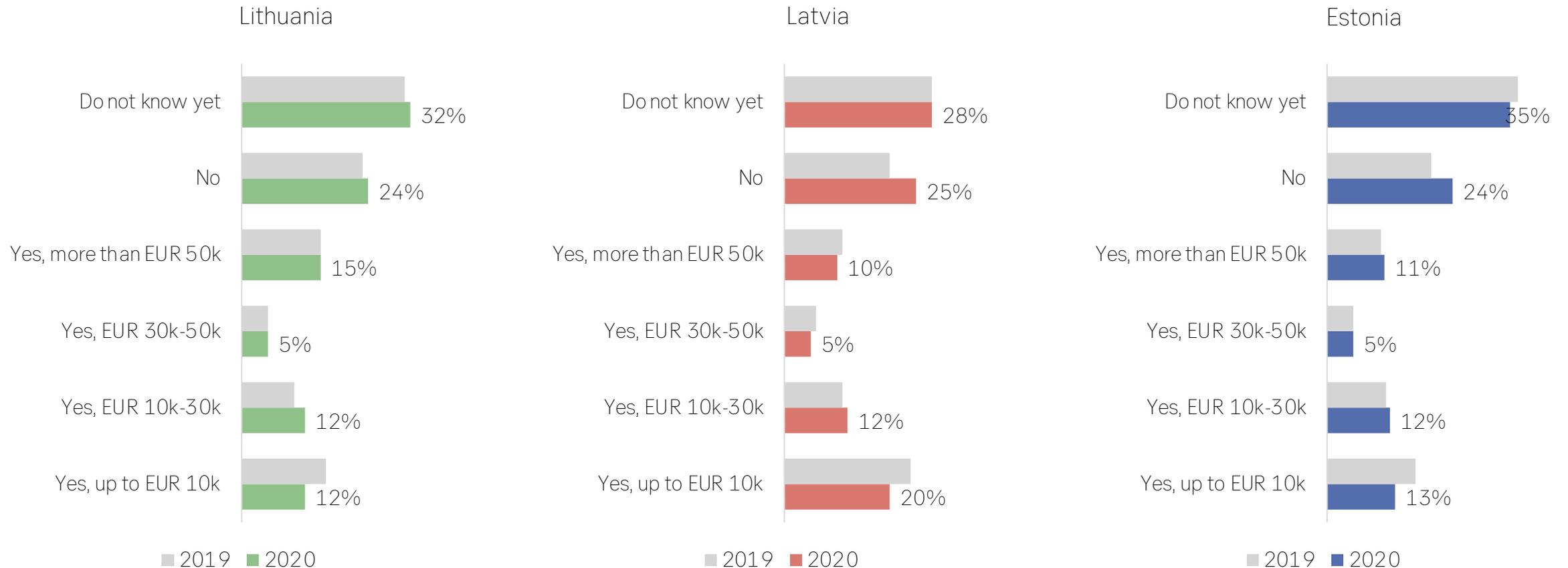
The prevailing cautiousness, lack of prospects, information, or confidence in their own business indicate a lack of ambition in the SME environment. A relatively large share of SMEs does not intend to focus on innovation, while some see the need to focus on improving products and services.

What kind of innovations and developments are you planning for 2021?



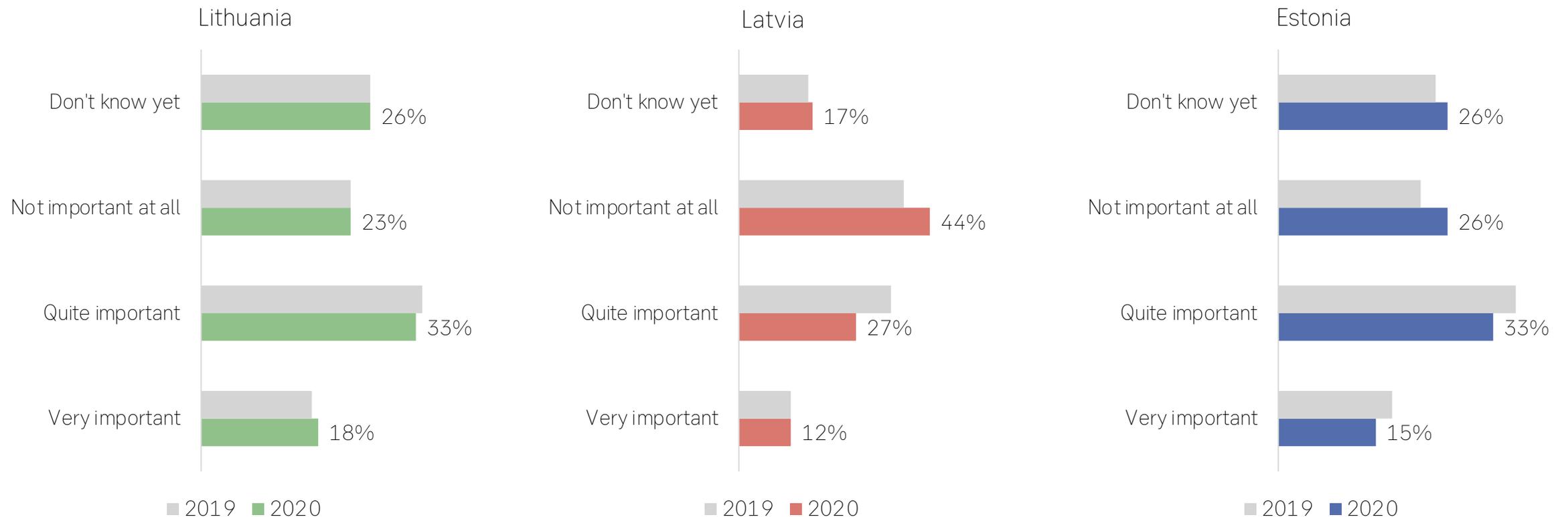
Uncertainty also affects investment plans as most entrepreneurs do not plan to invest this year.

Are you planning any investments for 2021?



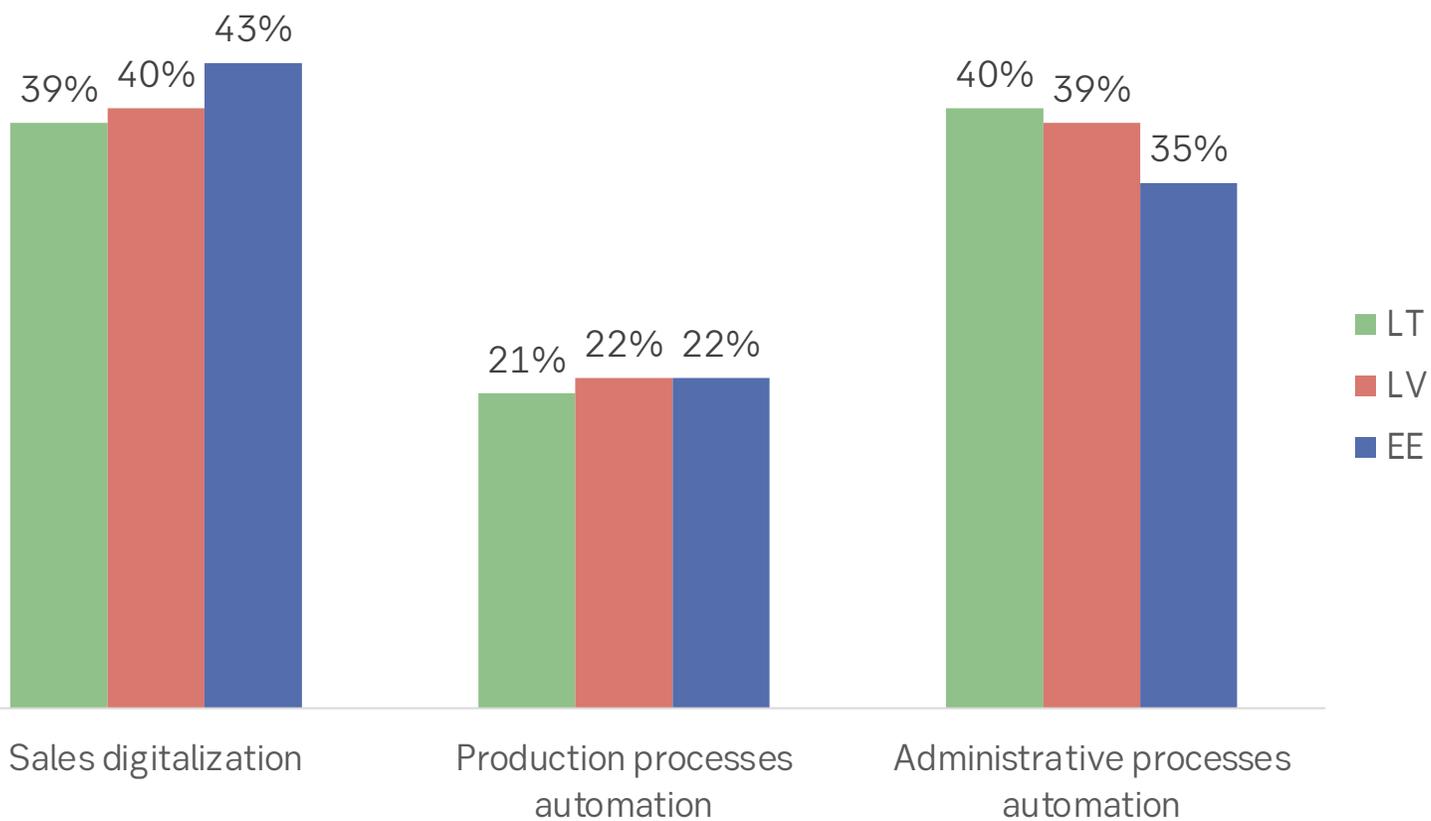
Despite the compelling growth in e-commerce, the importance of digitalization among SMEs has declined. This could be due to high uncertainty, shifting priorities and uncertain benefits.

How important is digitalization in your company's agenda for 2021?



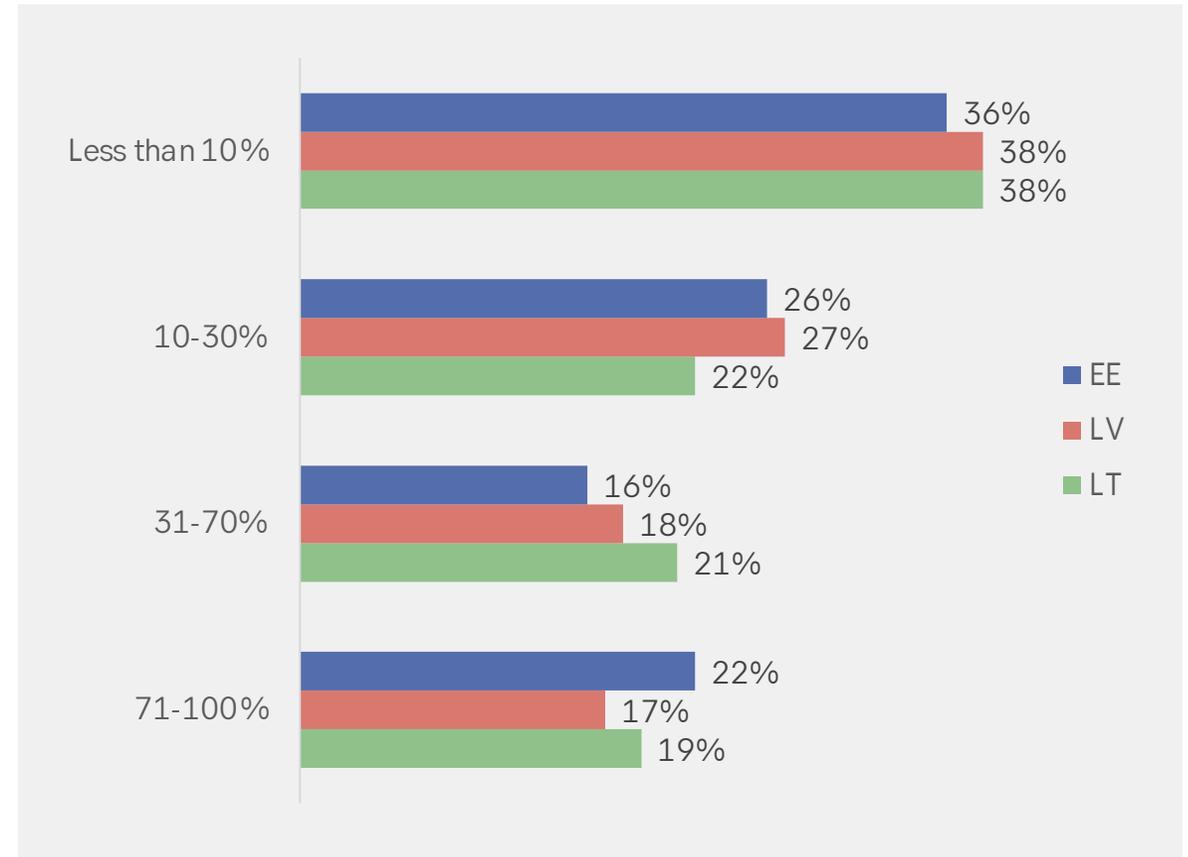
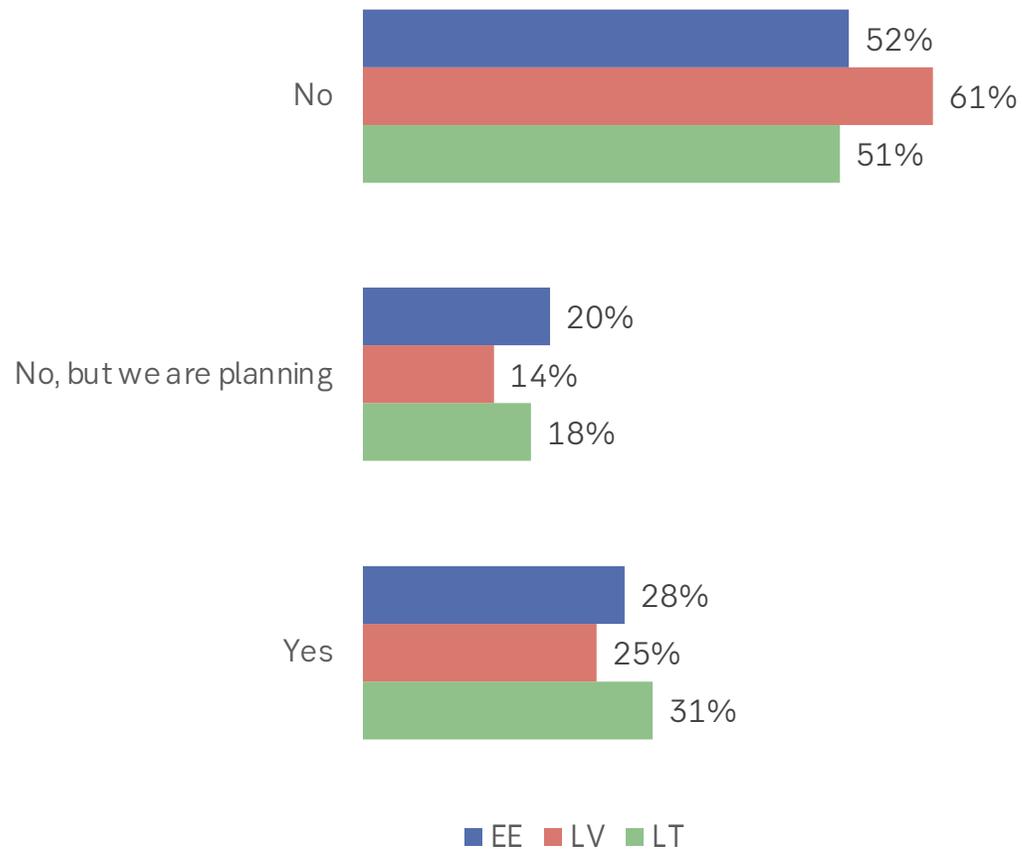
The main focus is on the digitalisation of commerce and the automation of administrative processes.

On which digitalization activity you will focus?

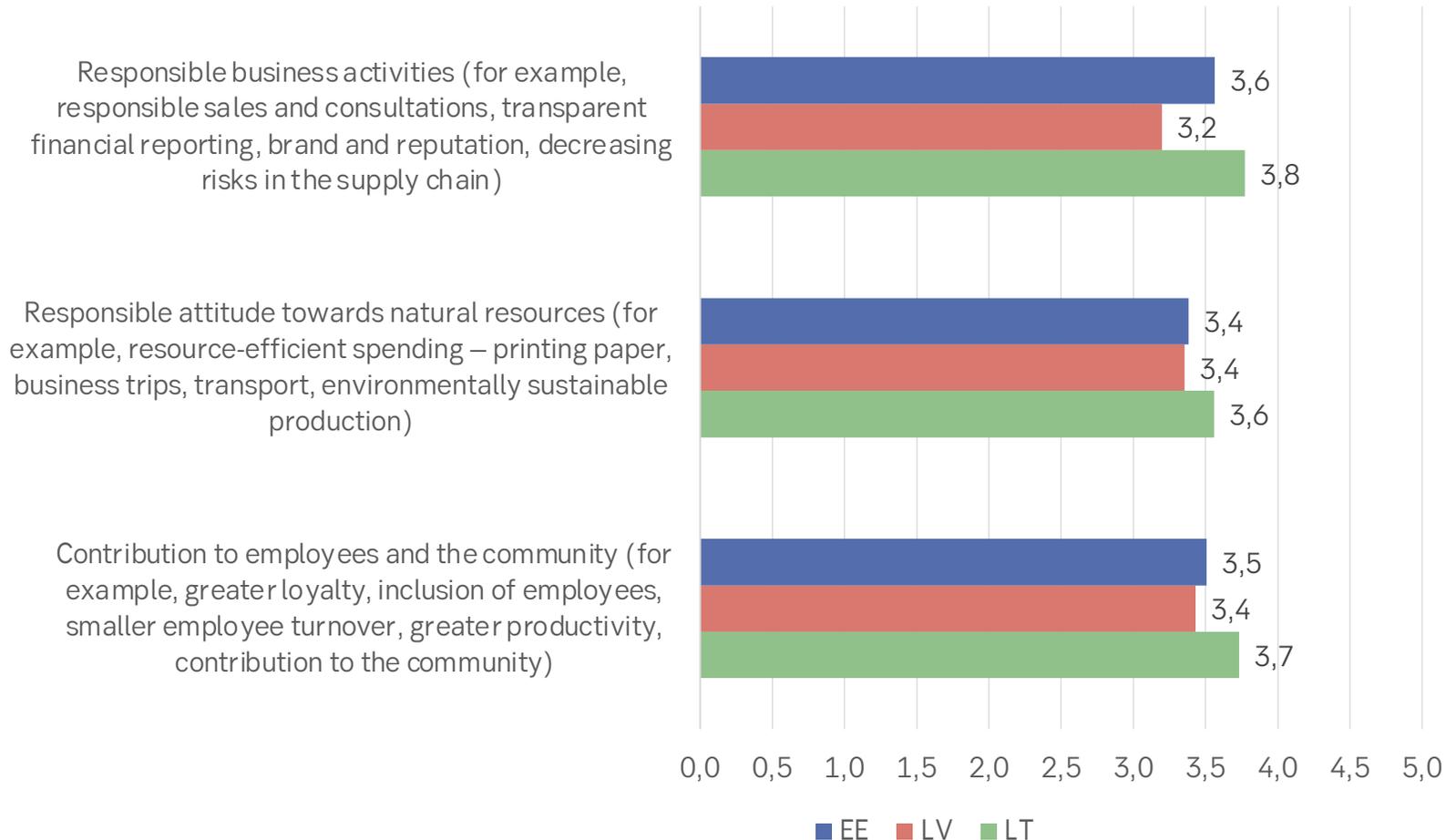


At least half of SMEs in the Baltics do not yet use electronic channels. On the other hand, those that do use them still make most of their sales through traditional channels.

Do you provide for your customers to buy your company products and services from internet?

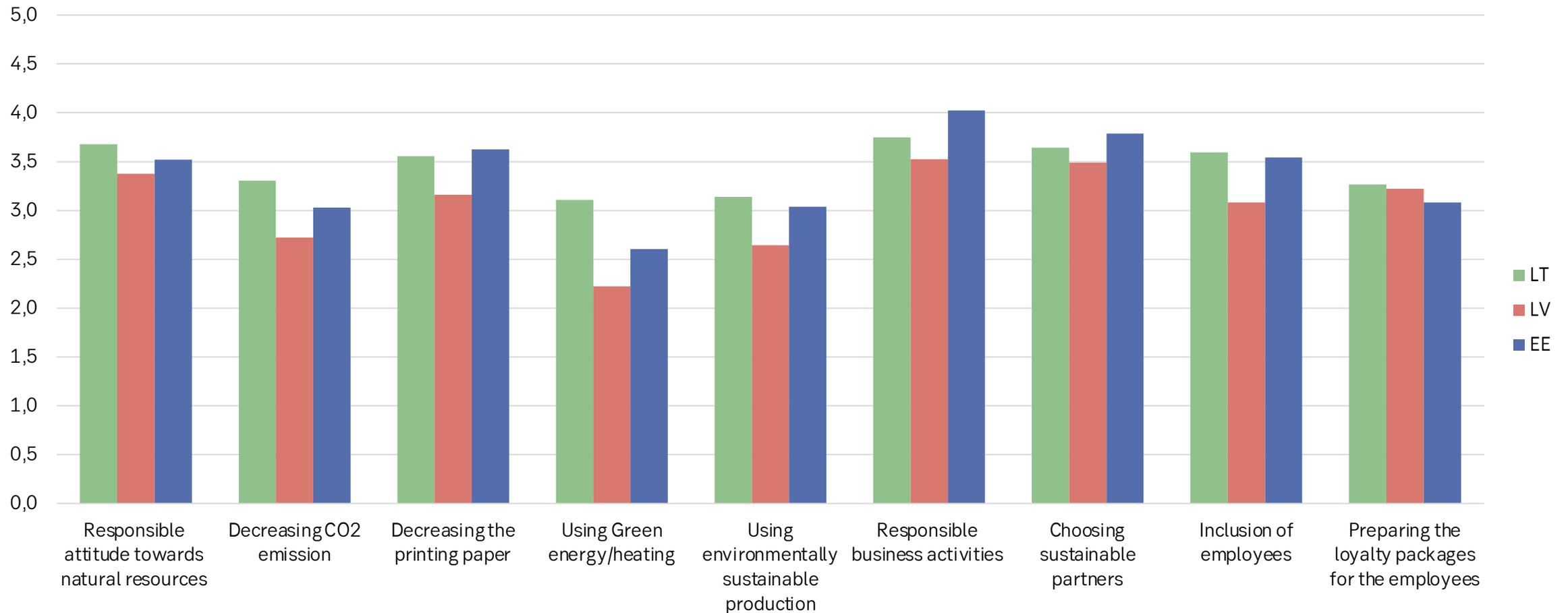


Baltic entrepreneurs are not yet actively thinking about the risks of climate change, as they are not as cardinal as elsewhere in the world, but gradually the investment in sustainable projects is growing. Over the last three years, companies have invested the most in responsible business activities and attitude towards natural resources as well as decreasing printing paper and choosing sustainable partners.



Do you provide for your customers to buy your company products and services from internet?

How much effort you have put in these areas during last 3 years?



Business sentiment in different industries

	Pessimists	Moderate Optimists	Optimists
Agriculture			
Estonia	14%	75%	11%
Latvia	17%	76%	7%
Lithuania	15%	75%	10%
Administration and services			
Estonia	3%	92%	5%
Latvia	50%	50%	0%
Lithuania	25%	62%	13%
Construction			
Estonia	28%	58%	14%
Latvia	36%	55%	9%
Lithuania	30%	62%	8%
Education, health care			
Estonia	26%	70%	4%
Latvia	30%	54%	16%
Lithuania	48%	47%	5%
Housing and Catering			
Estonia	36%	55%	9%
Latvia	37%	52%	11%
Lithuania	49%	37%	14%

	Pessimists	Moderate Optimists	Optimists
Manufacturing			
Estonia	23%	64%	14%
Latvia	46%	47%	7%
Lithuania	28%	54%	18%
Trade			
Estonia	24%	62%	14%
Latvia	33%	62%	5%
Lithuania	39%	52%	9%
Transport and Logistics			
Estonia	26%	70%	4%
Latvia	30%	54%	16%
Lithuania	48%	47%	5%
Arts and Entertainment			
Estonia	14%	75%	11%
Latvia	17%	76%	7%
Lithuania	15%	75%	10%
Other			
Estonia	3%	92%	5%
Latvia	50%	50%	0%
Lithuania	25%	62%	13%

Key indicators

Latvia

	2020	2021	2022
GDP	-4,7	3,9	4,6
Private consumption	-10,1	4,3	5,7
Public consumption	2,6	3,2	2,9
Gross fixed investment	-1,2	3,5	4,5
Exports	-4,2	3,5	4,0
Unemployment (%)	8,4	8,7	7,5
Consumer prices	0,2	1,2	2,2
Wages and salaries	5,4	6,0	6,7

Estonia

	2020	2021	2022
GDP	-2,8	3,3	3,8
Private consumption	-2,2	4,5	4,0
Public consumption	3,5	1,8	1,5
Gross fixed investment	-3,9	3,0	7,0
Exports	-8,0	5,0	5,0
Unemployment (%)	7,0	8,5	6,8
Consumer prices	-0,6	1,4	2,3
Wages and salaries	3,0	3,0	4,5

Lithuania

	2020	2021	2022
GDP	-1,5	1,8	4,2
Private consumption	-2,7	2,6	3,5
Public consumption	0,3	0,2	0,2
Gross fixed investment	-4,0	3,5	6,0
Exports	-2,4	4,0	5,4
Unemployment (%)	8,7	9,1	7,7
Consumer prices	1,1	2,0	2,4
Wages and salaries	9,3	4,5	6,0

Sources: Eurostat, national statistics bureaus of Baltic States

Latvia

Startup companies

We have also collected insights about plans, concerns and needs from 392 startup companies in Latvia, Lithuania and Estonia. As we can see the share of optimists among startups is higher than in SMEs as well as digitalisation seems to be more important to develop their business.

33%

expect turnover growth by more than 15%

34%

plan to increase number of employees

63%

will remain focused on domestic market

36%

will update products and services

51%

digitalisation is important in their business

* 83 respondents

Estonia

Startup companies

32%

expect turnover growth
by more than 15%

33%

plan to increase number
of employees

56%

will remain focused on
domestic market

49%

will update products
and services

57%

digitalisation is
important in their
business

* 135 respondents

Lithuania

Startup companies

32%

expect turnover growth
by more than 15%

37%

plan to increase number
of employees

58%

will remain focused on
domestic market

28%

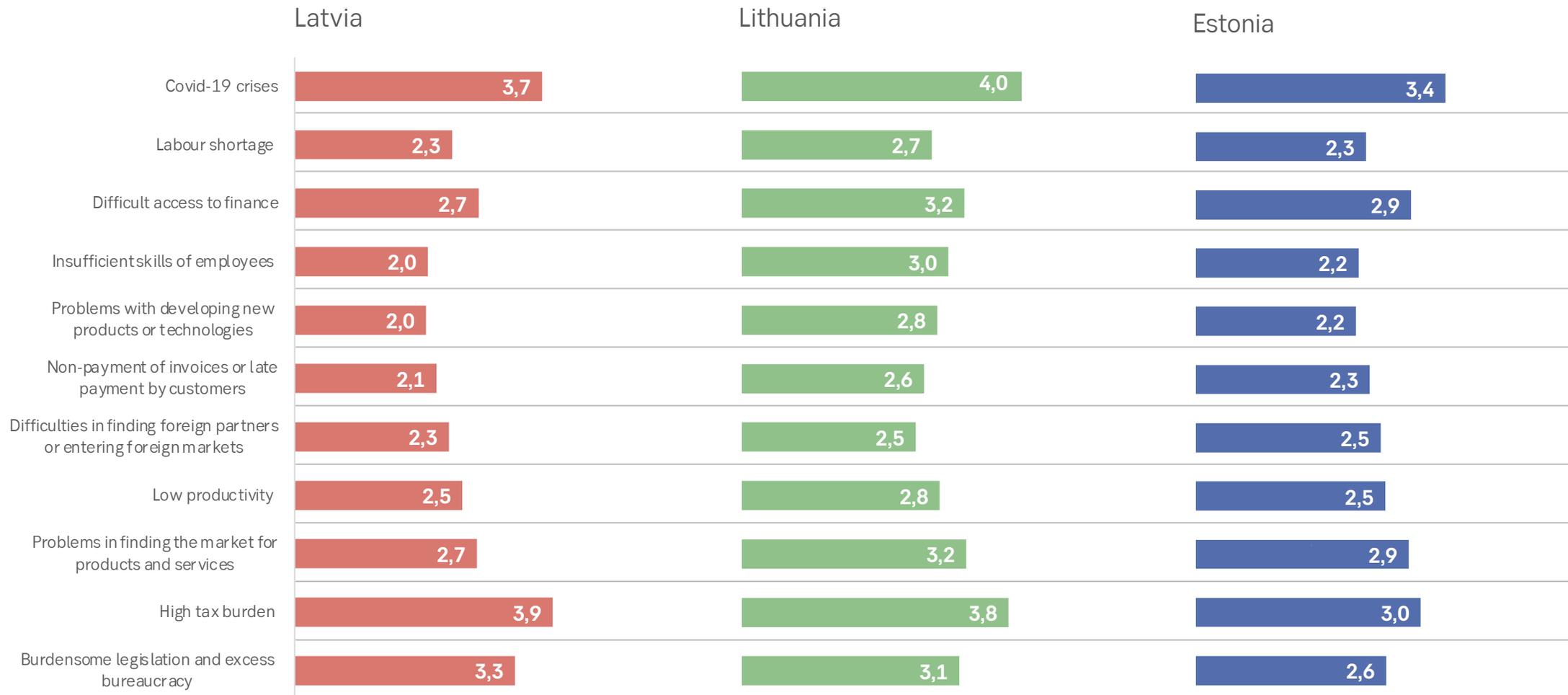
will update products
and services

53%

digitalisation is
important in their
business

* 135 respondents

In Lithuania and Estonia, the main problem for startups is COVID – 19, followed by the tax burden and the difficulty of finding new markets. In Latvia, the main challenge is the tax burden, followed by COVID – 19 and the administrative burden.



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