

The effect of Russian economic sanctions on Baltic States

Russian economic sanctions: Russia imposed import ban on meat, fish, fruit, vegetables and dairy imports from all the EU countries for the period of one year starting from August 7, 2014. The Baltic States will undoubtedly be among the most affected EU countries due to their extensive trade linkages with Russia. As much as 19.8% of Lithuanian, 16.2% of Latvian and 11.4% of Estonian exports were directed to Russia in 2013. In addition, neighbouring countries also have considerable trade linkages with Russia with 9.6% of Finnish, 5.3% of Polish and even 40% of Belarussian exports going to Russia. Hence, Russian economic sanctions could facilitate negative economic repercussions in the whole Baltic region (about energy market dependence please read: [Baltics: High energy dependence does not mean high energy insecurity](#)).

Overall economic effect: The imposed sanctions will negatively affect food production, transport and agriculture sectors in all the Baltic States, but the overall direct effect on economic growth will be somewhat limited and would amount to 0.6% of GDP for the whole Baltic region with comparably higher effect in Lithuania (0.81%) than in Latvia (0.44%) or Estonia (0.46%). Hence, the sanctions, ceteris paribus, would allow Baltic economies to remain in positive GDP growth territory both in 2014 and 2015. However, this estimate only includes direct effects of sanctions (production, transport and agriculture sectors) and does not take into account secondary effects, which could cause overall economic slowdown in the Baltics, Russia and the EU as a result of an ongoing political instability.

Industry by industry effect: Dairy sector will be mostly affected by Russian economic sanctions, since dairy exports (EUR 227 million) constitute a significant share of overall food product exports to Russia in all the Baltic States. Finland alone, which also fell victim of Russian sanctions, used to export EUR 230 million (20% of overall Finnish food exports) of dairy products to Russia. Hence, dairy producers will have to cope with an unexpected EUR 0.46 billion regional overcapacity problem. In addition, in Lithuania and Estonia roughly 25% of all dairy product exports were directed to Russia (in Finland – even 47%) which could cause difficulties in trying to redirect these quantities to other export markets. Hence, reductions in prices and/or quantities produced are highly expected in dairy industry.

Latvian fish and Lithuanian meat exporters may also find it difficult to find alternative markets for their products, which to a large extent are unlikely to be competitive in the Western markets. Other industries are not expected to face major challenges as their export markets are generally well diversified.

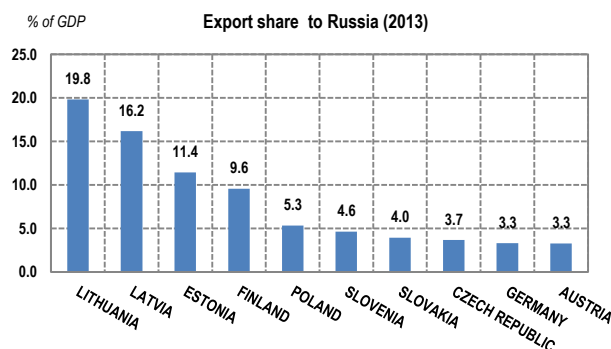
Economic effect of Russian sanctions*

	Estonia	Latvia	Lithuania	Baltics
Effect on GDP (direct)*	0.46%	0.44%	0.81%	0.62%
Exposure: Food exports (% of GDP)	0.60%	0.60%	0.79%	0.69%

Source: Author's calculations based on 2013 data

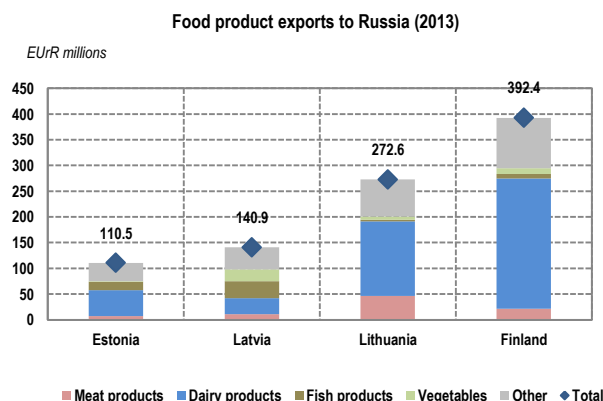
*Direct effect on food manufacturing, transport, & agriculture sectors

Baltic States have significant exposure to Russia



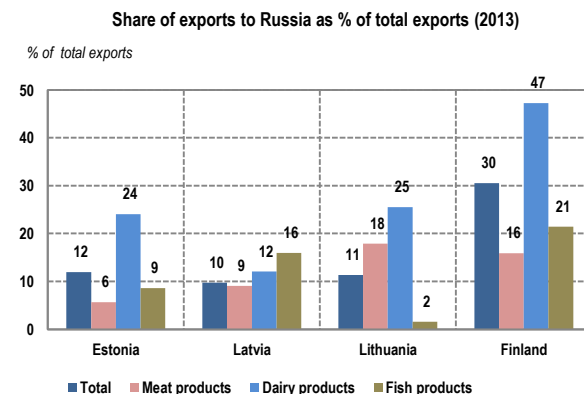
Source: Eurostat

Overproduction expected in dairy industry



Source: Eurostat

Export markets are well diversified



Source: Eurostat

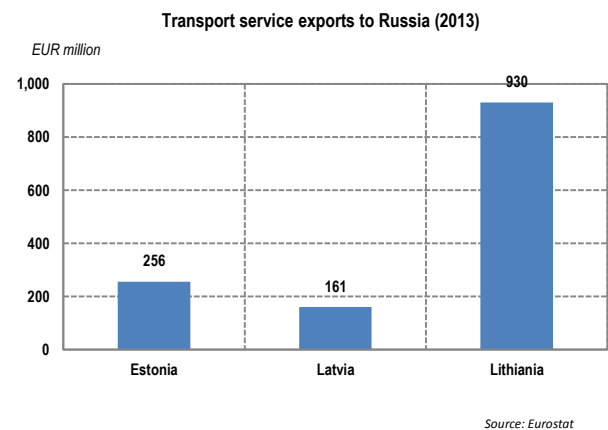
Effect for transport sector: In addition to food industry, transport sector also faces significant challenges as a result of Russian sanctions. Lithuanian transport companies received as much as EUR 930 million revenues from Russia in 2013. Significant part of revenues (~25-35%) were received from food product exports and re-exports to Russian market. In 2013, Lithuania re-exported fruits and vegetables worth EUR 600 million (mainly from Netherlands, Spain and Italy). Hence, ban on vegetable and fruit imports from the EU may have a significant negative effect on Lithuanian transport sector even though attempts are being made to diversify to Morocco and Azerbaijan markets (please read more on Lithuanian dependence on Russia and the role of re-exports: [\(Lithuania: Economic dependence on Russia\)](#)). Latvian and Estonian transport sector is also subject to losses of revenues, but the potential magnitude is significantly lower.

Risk mitigating factors: An important risk mitigating factor is that it is not the first time Baltic States experience temporary import bans from Russia. For example, in October-December 2013 Russia banned all dairy imports from Lithuania (see graph), which apparently did not have any material long-lasting negative effects on Lithuanian dairy industry. In addition, Russia currently bans all pork and pork products import from the EU. Another “economic war” episode occurred in end 2009 when Russia decided to impose stricter border controls several months before the creation of the Customs Union. Exports from all the Baltic States fell close to 50%, but this ban did not have any material long-term effects either (in fact, export growth to Russia was very fast in 2010 and 2011).

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Lithuanian transport sector dependent on Russia



Import bans have happened in the past



