



## **Weekly Briefing**

### **Latvia external relations briefing:**

### **Latvia will become more integrated in Baltics and European Union**

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## **Latvia will become more integrated in Baltics and European Union**

As Latvia is a relatively small economy the external cooperation between Baltic countries and European Union has been crucial for the recovery after economic and social consequences caused by the Covid-19 crisis. Because of that it is seen that within the upcoming months Latvia's cooperation with both members of Baltic countries and European Union will continue to increase and Latvia will integrate even further within the European Union.

### **Latvia could become more integrated in European Union**

Evaluating the European Commission proposals to the European Union Council for the European Reconstruction Fund and the Multiannual Budget it can be seen that the overall amount that Latvia could receive as a support aid, the main criterion for the distribution of money being the severity of the economic shock, according to the Fiscal Discipline Council it is seen that Latvia could receive 2.9 billion Euros in grants and 1.6 billion in loans. These proposals for financial instruments have yet to be agreed by EU Member States, so the total amount of funding earmarked and its distribution among Member States is considered as indicative.

Although the macroeconomic impact of these EU financial instruments will be relatively small (around 1.5% of EU GDP against the current 1%), it is significant that part of the financing is planned to be obtained through European Commission maturing bonds in 2027 and 2028 and increased revenues from the European Unions's own resources, all this can be seen as a step towards fiscal union, which is essential for the stabilization and more balanced economic development of the euro area. Because of that it can be seen that Latvia will become more integrated into Euro zone.

Although the governments of the member states have become the main reference point in the conditions of the pandemic and the previous closure of the borders has been a strictly national measure, the European Union will be even more important for Latvia after the post-Covid crisis. Latvia's economic growth in recent years has been based on the openness of the Latvian economy, active exports and the fact that the environment of Latvia has opened opportunity of tourism. For this reason, countless small companies have developed that provide

catering, beauty, health, cultural and many other services. In the post-Covid conditions, Latvia's ability to join the wave of economic recovery of the entire European Union will be very important. If the crisis caused by Covid-19 is symmetrical - everyone is equally affected, the recovery from it will be asymmetric - those with more resources and smarter management will recover faster. For that reason, it can be seen that Latvia will follow more to the guidelines of EU to ensure stable recovery from the Covid-19 crisis.

Currently more focus has been put on European Recovery Instrument regarding envisaged proposal of grants and loans that Latvia will receive to mitigate the consequences of Covid-19 crisis rather than assessing Latvia's potential contribution to the recovery funds.

### **The cooperation within the Baltic countries and Poland will be increasing**

The outbreak of Coronavirus in 2020 has strengthened the cooperation between the Baltic countries. With the current political developments, it is seen that within the upcoming months the links between the Baltic countries will be even closer.

The Covid-19 crisis had marked similar challenges and situation in all three Baltic countries. The unprecedented prevalence of Covid-19 in all countries has created challenges that will affect their economies and societies in the foreseeable future. In addition, in recent months, national measures of all three Baltic countries have made undeniable progress in curbing the spread of Covid-19 and a gradual easing of restrictive measures has begun. The great achievements with Covid-19 crisis prevention in the health sector and noting the need to restore regular cross-border passenger traffic by road, rail, air and sea between the Baltic States in order to reduce the economic and social impact of the restrictions imposed to stop the spread of Covid-19 and to ensure the free movement of persons across borders, Baltic countries were one of the first European Union member states, which partially re-opened the borders by not enforcing the 14 days quarantine.

The early re-opening of the borders came with additional challenges. Such as considering that, as Covid-19 continues to spread, the resumption of regular passenger traffic between the Baltic States without strong safety measures may increase the prevalence of Covid-19 due to increased travel intensity. Furthermore, noting that the promotion of regular cross-border passenger traffic during the Covid-19 pandemic may require, in the interests of public health,

the collection of information to ensure the protection of public health from serious cross-border health threats related to the spread of Covid-19.

These and other previously mentioned aspects served for the reason for closing Memorandum of Understanding between the Baltic member states about abolition of travel restrictions between Latvia, Estonia and Lithuania for road transport, rail, air and maritime transport and cooperation in this field during the Covid-19 crisis.<sup>1</sup>

The Memorandum provides that the Baltic countries will encourage the establishment of communication systems or the use of existing systems by the competent authorities of Latvia, Estonia and Lithuania to collect, process and transmit information confirming that a person is aware of the Covid-19 restriction conditions in place to protect against cross-border health threats. According to the Memorandum of Understanding Latvia, Lithuania and Estonia will continue to contribute to the Baltic countries cooperation by facilitating consultations between the responsible authorities on measures affecting cross-border movements, including, but not limited to, plans to facilitate border controls with other countries, exchange of information on flights and maritime routes to be detected, while active operations and measures to combat the Covid-19 crisis in Latvia, Estonia and Lithuania remain.

During the June of 2020 Baltic countries together with Poland marked the priorities regarding the partnership between the countries. One of the main priorities still remains strengthening security in the region.<sup>2</sup> In addition, the need to further develop NATO's defense capabilities in the Baltic and Polish region is emphasized, including through training, maneuvers and increasing the interoperability of the four NATO multinational battle groups and enhancing the region's air defense capabilities. An agreement was reached to expand work to build resilience to cyber and hybrid threats, thus contributing to EU and NATO action in this area. Representatives of the Baltic and Polish countries have emphasized the urgent need to make appropriate investments in the development of military mobility infrastructure and procedures. The foreign ministries of all four countries have noted that the United States' expanded military presence in the region is an essential component of security. In addition, a target has been set to improve the security of communications between countries, including 5G.

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<sup>1</sup> <https://www.mfa.gov.lv/aktualitates/zinas/66002-saprasanas-memorands>

<sup>2</sup> <https://www.mfa.gov.lv/aktualitates/zinas/66061-baltijas-valstu-un-polijas-arlietu-ministru-kopigs-pazinojums-pec-tikšanas-tallina-2020-gada-2-junija>

An important aspect of increasing security is the emphasis on the development of regional connectivity, the implementation of strategic regional energy and transport infrastructure projects, including in the framework of the Three Seas Initiative, and the implementation of the European Union's digital agenda. More modern and developed connections are important to expand the economic potential of the whole region. The synchronization of the electricity systems of the Baltic States with the European networks through Poland remains essential for the energy security of Baltics and Poland. Given the economic difficulties caused by Covid-19, sufficient European Union funding is crucial for the successful conclusion of this project. In addition, strengthening the region's economy, together with the EU-level economic recovery plan, will contribute to the economic growth and job creation of the Baltic and Polish economies, also exploiting the potential of the European Union's transition to a green economy. Economic cooperation at regional and European Union level must be pursued in a coherent and effective way in various directions, including in order to strengthen and support the European Union's joint market. Global efforts must be continued to work together to maintain open and flexible international trade and transport opportunities, thus minimizing the already huge impact on the regional economies.

### **Summary**

The role of both European Union and Baltic member states has played significant role for mitigating the consequences of Covid-19 crisis. It is seen that because of the increased cooperation due to the outbreak of Coronavirus Latvia will become more integrated in the European Union. Evaluating the European Commission proposals to the European Union Council for the European Reconstruction Fund and the Multiannual Budget it can be seen that the overall amount that Latvia could receive as a support aid, is approximately 2.9 billion Euros in grants and 1.6 billion in loans. As the Latvia's economic growth in recent years has been based on the openness of the Latvian economy, active exports and the fact that the environment of Latvia has opened opportunity of tourism, with the current Covid-19 crisis the European Union will be even more important for Latvia. The recently closed Memorandum of Understanding between the Baltic countries aims to strengthen the cooperation to prevent the health system threats due to the Covid-19. As for the Baltic countries and Poland the main priority within the upcoming period will remain safety of the region.