

THE IMPACT OF THE VIRUS CRISIS ON THE ESTONIAN ECONOMY



**SCENARIOS
UP TO 2030**



FORESIGHT CENTRE
2020

THE IMPACT OF THE VIRUS CRISIS ON THE ESTONIAN ECONOMY

Scenarios up to 2030 Summary

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2020

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Foreword

Will the world ever be the same again as it was before the pandemic? Or has it caused permanent changes that have put the world on a different path of development from where it was before? How will people and businesses adapt in that case?

A lot of the tools used for forecasting the economy and the outlook for the future are ineffective under current circumstances, as the high levels of uncertainty mean that statistical methods that use data from earlier periods are not able to estimate the events that might occur in the future. Equally, there are no useful historical parallels for the current crisis. Some comparisons can be made with the Spanish flu pandemic a century ago, but that happened in a very different social, political and economic context.

With all of this great uncertainty, it is worth thinking about every possible scenario. Doing so allows time to prepare for different possible outcomes and to take the most appropriate measures. This publication describes the main issues that accompany the crisis and the outlooks for development, and brings together alternative scenarios for the future. The scenarios have been put together with a horizon of 10 years into the future, with the main emphasis on the state of the economy and how it may change.

The starting point for drawing up the scenarios was the factors that are currently causing the greatest uncertainty. The developments that key factors could cause have been exaggerated to draw the clearest possible boundaries between the theoretical future paths. In describing the scenarios we also explain the political choices that may drive economic and social processes and steer developments towards one or other scenario.

I hope that this publication will offer you both practical information and exciting and thought-provoking ideas.

Happy reading!

Tea Danilov
Head of the Foresight Centre





SUMMARY OF THE LINES OF RESEARCH



.....

The virus crisis has compressed the development programmes of many businesses, as several years of development work have had to be done within a few months. Digitisation and automation of work and business processes has become a key point for survival. Virtual solutions have come to the fore.

The labour market is polarising faster than expected. Shortages of professionals are biting harder, while there is simultaneously an excess supply of medium and low-skilled labour. Openings for bringing in foreign professionals need to be wider than they were before the crisis.

The coronavirus crisis has shaken up markets around the world as supply chains have been shortened and diversified. If Europe and Estonia act wisely under these circumstances, there is a lot to gain.

.....

The crisis for the economy is a multilateral one: 1) people who are ill and in self-isolation cannot work or create value as they normally would, 2) the restrictions introduced to combat the virus are preventing the economy from functioning normally, and 3) the uncertainty caused by the crisis is affecting how people, companies and the government are behaving and will behave in future.

The sectors that have suffered most are those where the restrictions introduced against the virus have had most impact, which are accommodation, food service, travel, entertainment, and transport and storage. These sectors will play a more minor role in the economy for some time.

Sectors that are better proofed against the virus, notably information and communications, wood and paper production, and the financial sector, will increase in importance. Start-up companies will also benefit if the outlook is favourable, as there is a lot of money around the world searching for investment opportunities.

The virus crisis has accelerated several trends in the economy: 1) the creation of more resilient value chains and working processes, 2) digitisation and automation, and 3) increased use of remote working and virtual communications. Larger and stronger businesses will be able to manage those changes for themselves, but small enterprises and large companies in a weak position will be left in trouble. Rapid structural changes are taking place in the labour market as a result of these processes. The priorities agreed in Europe for relaunching the economy after the crisis will boost the Green Deal. Whether Estonian companies can remain competitive and become more so will also depend on these trends.

				
		The economy on hold	Two-speed Estonia	Super-Estonia
	Current level	Change (increasing, decreasing or staying the same)		
Share of workers who are highly qualified ¹	44% ²	→	↗	↗
Digitisation index of corporate work processes	41.1 ³	→	↗	↗
Registered unemployment rate	7.9% ⁴	→	↑	↗
Employment rate	66.3% ⁵	↘	↘	→
Labour productivity per hour worked compared to the EU28 average	71.2 ⁶	→	↗	↗
State budget balance	-3.8% ⁷	↓	↘	↓

Figure 1. Key economic indicators in the scenarios

¹ ISCO skill levels 3-4, source: ILO, 2018

² ISCO skill categories 3-4, source: www.ilo.org (table: EMP_2EMP_SEX_OCUCU_DT)

³ Digital Economy and Society Index (DESI), integration of digital technology, source: https://ec.europa.eu/newsroom/dae/document.cfm?doc_id=66911

⁴ As at 12.11.2020, source: <https://www.tootukassa.ee/content/tootukassast/paevane-statistika>

⁵ As at Q3 2020, source: <https://www.stat.ee/et/avasta-statistikat/valdkonnad/tooelu/tooturg/toohoive-maar>

⁶ In 2019, source: <https://ec.europa.eu/eurostat/web/products-datasets/-/tesem160>

⁷ As at September 2020, source: <https://www.rahendusministeerium.ee/et/majandusnaitajad>

The crisis will widen the material and technological inequalities in society. New forms of inequality will arise, such as inequality in digital literacy and in the ability to work remotely.

The further course of the virus crisis and how it affects the economy and society may cause developments to move in quite different ways. By combining the main trends, we can produce three possible scenarios for what might come next:

- ***The economy on hold*** is where top priority is given to preserving existing companies and jobs and preventing social conflicts from worsening, and where the main support is given to large and strategically important companies so that growth in the economy can recover.
- ***Two-speed Estonia*** is where the main focus of economic policy falls on the capacity for spontaneous renewal from the crisis. Hope is placed in the appearance of new business models and an expansion of the hi-tech sector. Efforts are made to keep spending on social policy under control to avoid harming the business environment.
- ***Super-Estonia*** is where the crisis is used to spark a renewal of the economy, on the condition that the gains and losses are spread fairly across the layers of society, and agreement is reached in other areas where important decisions have to be made about the quality of life in Estonia, such as the use of natural resources. The priority is to upgrade the economy and infrastructure in line with the digital and green agendas of the European Union.

The scenarios highlight two central points of decision in economic policy.

1. Find a balance between revitalising the economy and preserving companies:

- Use subsidies to save existing companies that have been hurt largely by the restrictions the government introduced, and hope that once the crisis passes they will be able to continue in business and gradually make the structural changes needed. The danger is that there is less capacity for renewal in the economy, and mergers, acquisitions and increased state participation end up reducing competition.
- Direct resources to revitalising the economy and helping the companies that are best able to adapt to make leaps forward in their development. The risk is that companies that are successfully able to adapt may not take the whole economy with them, and may not be able to compensate enough for those that disappear because of the crisis.

2. Find a balance between the need to keep the state budget under control, and the social tensions caused by increasing inequalities:

- Use more generous support than so far to stop social conflicts rapidly escalating. The state debt would grow rapidly in this case.
- Find options for retraining and try to empower people through policies that promote entrepreneurship, with the aim of phasing out support schemes.
- Prioritise above all the capacity of the economy for self-regulation and avoid letting social policy overwhelm the state budget, while avoiding raising taxes but encouraging job creation by keeping state finances orderly and the business environment competitive.



1. ESTONIA IN INTER-NATIONAL COMPARISON



Estonian gross domestic product has fallen less than that in other countries in Europe. This is because Estonia has coped well with the virus, but also because the impact of the virus in Finland, Sweden, Latvia and Lithuania, which are Estonia's neighbours and main trading

partners, was relatively light. Employment fell by more in Estonia than it did on average in Europe though, indicating that companies reacted quite strongly to the crisis despite the relatively large-scale wage support offered by Töötukassa.

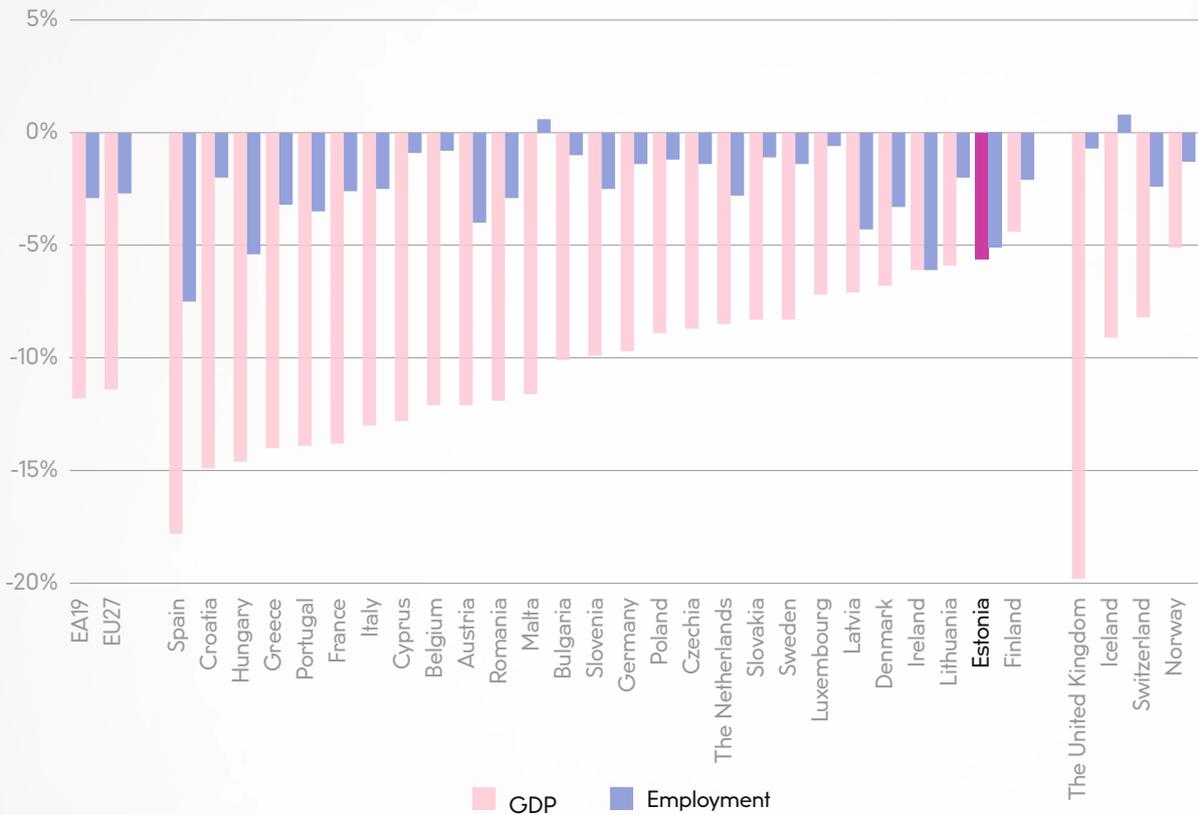


Figure 2. Percentage change in gross domestic product (GDP) and employment in the second quarter of 2020 from the first quarter

Source: Eurostat



2. CHANGES IN SALES REVENUE IN DIFFERENT SECTORS





Labour-intensive branches of the service sector have suffered most during the coronavirus crisis, especially those connected with tourism such as accommodation and food service, where the restrictions introduced to stop the spread of the virus and the changes in public behaviour have had the most impact. Manufacturing has so far been affected less by the crisis, but it was already showing signs of cooling at the end of 2019 and in early 2020. The sectors that have suffered least harm from the crisis have been information and communications, and energy.

Changes in Sales Revenue in Different Sectors

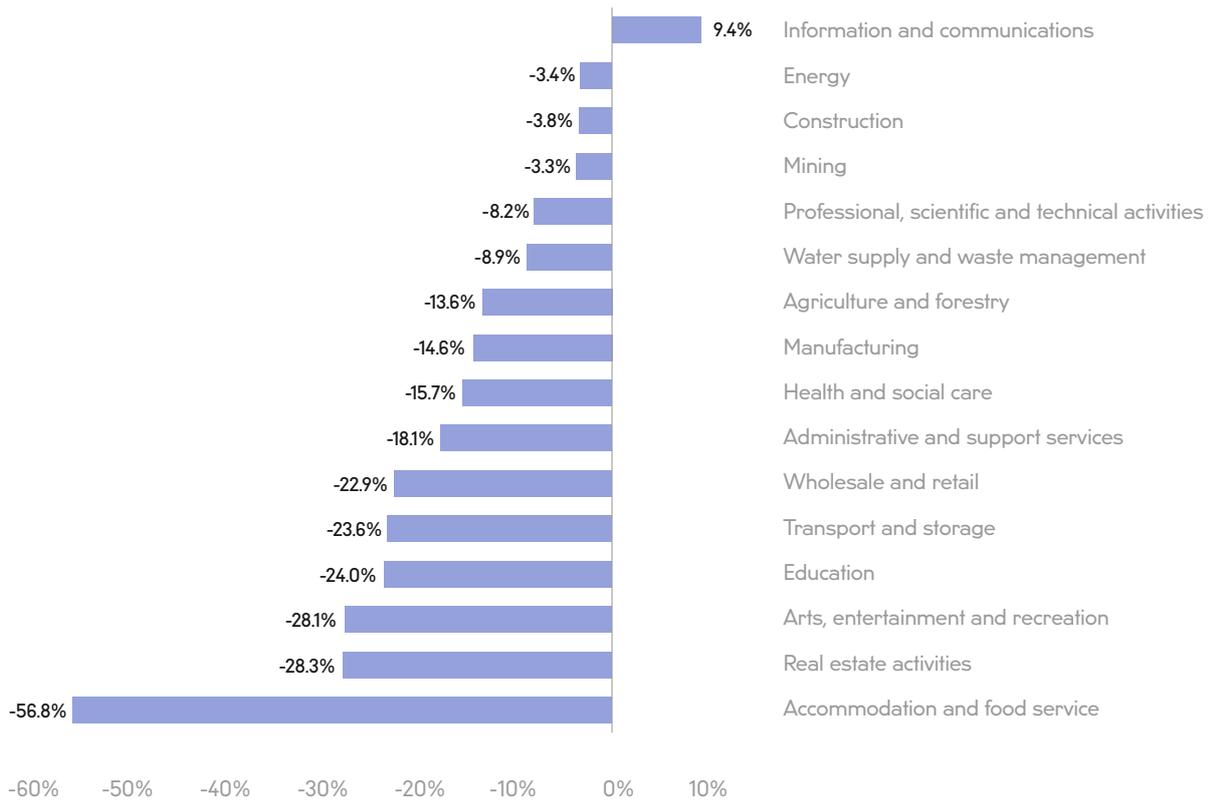


Figure 3. Percentage change in sales revenue in the second quarter of 2020 from the same quarter of the previous year

Source: Statistics Estonia

There have been wide differences within sectors and between individual businesses. While information and communications has generally coped well with the crisis for example, there are some companies in the sector in Estonia that have fallen into difficulties because the crisis has hit hard at the business of clients like airlines. There are equally some companies in

sectors that have generally suffered which have managed to expand their business during the crisis, for example printing companies that have added a new business line of developing printing software. The fact sheets for individual sectors give more details on the performance and outlook of different branches of the economy.

The economy operates as a network

- The income of some households falls → consumption falls
- Reduced consumption of goods imported from other countries → reduced demand for goods exported from Estonia
- Restrictions → obstacles to international and domestic supply channels → reduced production output
- Households and companies are uncertain and decide to wait and see → further declines in consumption and production, especially in manufacturing
- A chain of bankruptcies and spiral of debt: companies go bankrupt → the suppliers and clients fall into difficulties → a new wave of bankruptcies breaks

“A modern economy is a complex web of interconnected parties: employees, firms, suppliers, consumers, banks and financial intermediaries. Everyone is someone else’s employee, customer, lender, etc.” French economist Pierre-Olivier Gourinchas.

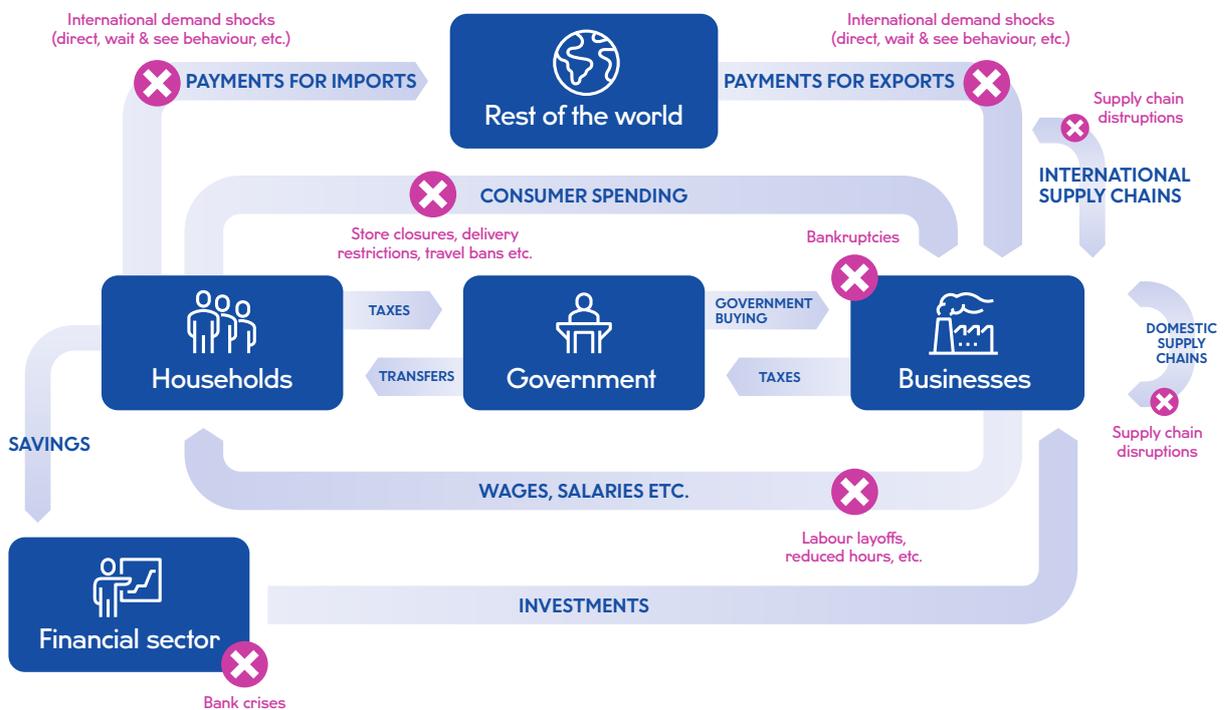


Figure 4. Covid-19’s multiple strikes in the circular flow of income diagram

Source: Baldwin, 2020



3. INTENSIFIED DEVELOPMENT TRENDS



Changes to make supply chains more resilient against risks. Even before the virus crisis erupted, it was beginning to be understood that making global value chains ever more complex with more and more international transactions made the global economy effective, but also made it very vulnerable. Supply problems in one country resulting from increased trade barriers, natural catastrophe or other causes are passed on by participants in the value chain across other countries and parts of the economy. The current crisis has given an additional reason to look for more secure sources of supply. The crisis has led some multinational companies to reconsider their geographical and sectoral

disposition and to shorten their supply chains. This may accelerate some reshoring or nearshoring as they bring a part of their supply chains back home or look for new partners nearby, and so regional economic clustering may increase. Europe stands to gain from the redistribution of markets, as the withdrawal of the US from China has brought new investment to Vietnam and Mexico, but also to Europe. If European companies start to look for new partners more locally, it could offer new opportunities for Estonian companies. Surveys of European managers suggest there could be more factors increasing economic activity in Europe than reducing it (see Figure 5).

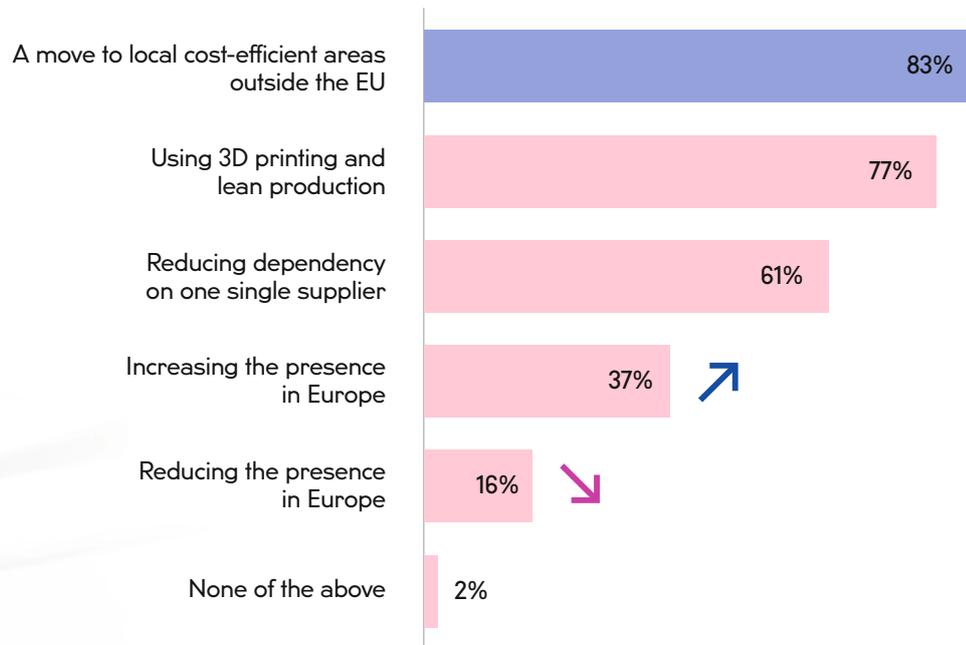


Figure 5. Estimates of companies for adapting their strategy
 Source: EY Flash Survey, May 2020 (total respondents 113)

Accelerating digitisation and automation.

This has been one of the main ways for companies to cope with rapidly rising labour costs and to increase productivity in order to remain competitive internationally. The virus crisis has also strongly increased the need for digitisation in order to reduce the risks from human factors. Wider automation may help businesses in countries with high price levels bring back parts of their value chains that were earlier sent to countries with cheaper labour, and it may also serve the goal of strengthening value chains.

Digitisation is not an instant process though, and there are various barriers to the introduction of new technology and there are delays and transfer costs. Digitisation reduces the demand for low-qualified labour and increases the need for qualifications for all other workers. There is a shortage of labour with the skills needed for digitisation in Estonia, and ever louder calls are being heard for the country to be more open than it was before the crisis to bringing in top foreign specialists. New employees can be found from within Europe, as the wage level in Estonia is approaching that in Portugal and Greece for engineers. Estonia is in the middle of the EU countries for the level of digitisation in business.

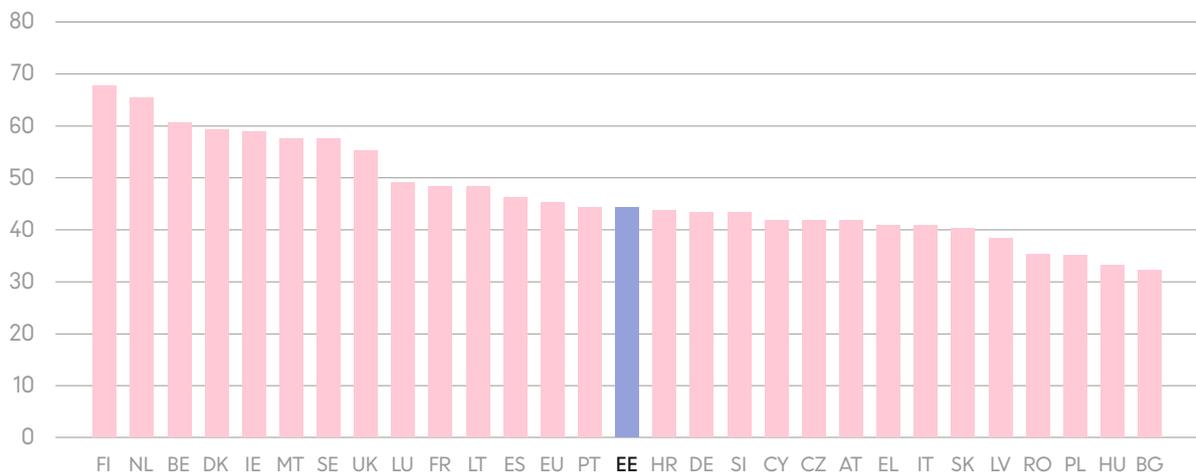


Figure 6. Integration of digital technology into businesses, Digital Economy and Society Index 2020

Source: DESI 2020, European Commission

Leveraging the Green Deal.

The Green Deal is a central part of the long-term vision for Europe alongside the Digital Strategy and it now has funding for around 30% of its subsidy budget from a multi-year financial framework and recovery funds. The current crisis has shown that environmental sustainability and social and economic resilience are very closely related.

Meeting the goal of carbon neutrality by 2050 will need major changes in how the economy and society function. Leveraging the Green Deal will cause the biggest changes in energy systems and transport, but will also mean changes in manufacturing and agriculture. The needs of the economy for raw materials and fuel will also change. Estonia's power may, unexpectedly, lie in our small size, as

this allows us to experiment with various technologies at relatively little risk. Products and services of the Green Deal need to have competitive prices though, and reduced purchasing power because of the economic crisis may mean that these alternatives, which are often more expensive, will take longer than hoped to achieve commercial success.

Remote working and virtual channels. The virus crisis very quickly changed attitudes towards remote working, which became one of the main means that people and companies could use to carry on normally with their lives and their business. Companies had to introduce working from home more or less overnight, which was a serious challenge. Remote working solutions have rapidly been adopted

and the changes to working patterns are likely to be permanent. This also makes it necessary to rethink the meaning of the working place, as the working desk becomes replaced more and more with centres of cooperation where people work to achieve certain goals. Face-to-face meetings in person will become less common, reducing the need for transport and travel. Working from home will prioritise new skills, such as managing virtual and hybrid teams, selling over virtual channels, harmonising worklife and family life, and managing mental health. Of course not all jobs can be done remotely. The statistics show that the sharp rise in the amount of work done remotely in the spring in Estonia occurred mainly among professionals. This suggests that increased remote working could widen the divisions in society.



Figure 7. Number of employed people aged 15-74 working remotely (thousand)

Source: Statistics Estonia



CORONAVIRUS | COVID-19

PULSE 82

125

STATUS: 15% COMPLETED

FUNC ATAT: STABLE

TEMP: 101.2

4. AREAS OF UNCERTAINTY





The further spread of the virus and the consequences for health



The economy and the labour market



Society



Technological development



Geoeconomics



The environment

Uncertainties caused by the spread of the virus and its consequences for health

Is the pandemic a one-off event that will disappear over a year or will new waves of it continue to appear? The answer depends on what forms treatment may take and how quickly vaccines can be deployed and how accessible and effective they are. This will affect whether the changes caused by the crisis become permanent.

How will the virus affect people's health over the long term? Less than a year ago it was still not known how long the various symptoms of Covid-19 would last and whether it would make chronic diseases worse. This in turn affects the burden on the healthcare system, the number of healthy life years, and the number of hours of work lost to the economy through ill health.

Uncertainties from the environment

Will the crisis change people's consumption habits, and how? The experience of the crisis together with increasing environmental awareness may mean the demand for goods remains lower than before, and that people choose to save more. Online shopping and e-commerce will spread more widely and will increase competition in retail.

Uncertainties in the economy and the labour market

Will the role of the state in the economy increase over the long term? Most countries have intervened heavily in economic affairs in order to soften the impact of the crisis. The state may continue to play a larger role after the crisis, as companies and people become used to more generous subsidies or if it is not possible to exit the investments made in companies during the crisis without bearing losses. The opposite case is also plausible, where states that have overdosed on borrowing to fund support measures leave the market to organise more areas of life than before.

Will money printing and increased national debts lead to higher inflation and tax rises? The debt burden built up during the crisis could be reduced by inflation remaining high for decades or taxes being higher than they are now. A sharp deterioration in the economy could also lead to a large part of the debt being written off, which would lead to bank failures and need the financial system to be redesigned. Nor is it impossible that rapid economic growth will let countries grow out of their debt without raising taxes or prices if interest rates remain very low for a long time.

Will the position of young people in the labour market change? The virus is more dangerous to older people than to the young and so this may offer younger people a way into the labour market, especially in jobs that cannot be done remotely. Remote working will also increase global competition in many jobs, which will make experienced workers more competitive and will broaden job opportunities.

Will self-employment through platforms increase? The rise of remote work may lead more people to move from being a salaried employee to being an independent service provider, especially working through online platforms. Equally the crisis may make people value more than before the social protection that comes from working under an employment contract. Another possibility is that social protection at work may expand and create a more level playing field between platforms and traditional forms of employment.

Uncertainties in society

Will the crisis widen gender inequality? The sectors that have suffered more from the crisis are those where the share of women employed is above the average. Equally, increased remote working allows more flexible and family-friendly working schedules. It may also be that the crisis changes opinions about which jobs are most important, leading wages to rise in jobs where women have historically prevailed.

Will the crisis encourage de-urbanisation? High population density may no longer be an advantage. Remote work will become more common, green spaces will be appreciated more, and real estate in rural areas will become more accessible. However, healthcare infrastructure is better in towns and half-empty commercial real estate can be re-purposed to make a better living environment.

Uncertainties from technology

Will the right to privacy and to protection of personal data become a luxury? Keeping the economy open depends being able to monitor effectively the movement of people and the state of their health. Monitoring may remain in place for a long time as part of efforts to protect public health and fight against bioterrorism. Unexpected pressure to extend monitoring could lead to the opposite result, as more focus falls on the protection of personal data, leading to a search for alternative solutions that infringe less on fundamental rights.

Will Covid-19 cause a revolution in health technology? The rapid developments in identifying the spread of the virus and monitoring health will have a positive impact on other areas of health technology such as using artificial intelligence to diagnose illnesses or develop vaccines and medicines. The development of healthcare technology may unfortunately be hindered though if the individual interests of countries or large corporations are allowed to dominate and there is a lack of cooperation.

Uncertainties from geoeconomics

What will the global axes of power be? Increasing rivalry between the USA and China may cause the world to split into two camps as countries in Asia and in the Western hemisphere drift apart from each other, setting up separate economic and technological spheres. Optimistically speaking, this could be a new opportunity for the West as its strong legal space, education systems and personal freedoms become the base for a new wave of global growth, while the focus of foreign investment shifts to Europe.

Will international organisations start to work effectively again? The nature and global impact of Covid-19 are a strong argument for strengthening international cooperation. However, the recent trend may continue, where the selfish behaviour of large countries like China and the USA and shortages of funds mean that international organisations like the WTO become increasingly irrelevant and smaller groupings of nations, or even bilateral agreements and trade and investment relationships, become the norm.

Will Europeanism and European optimism pick up? Shared challenges and EU assistance for member states may strengthen solidarity between people and support for the union. If the crisis drags on however and it becomes harder for people to cope, pro-European thinking may be undermined and the further development of the single internal EU market may be ended. Large debt burdens in several countries will put pressure on the euro.



5. THE FUTURE OUTLOOK FOR SECTORS OF THE ECONOMY



Resistance to the virus⁸ so far and future trends show information and communications, wood and paper production, and the financial sector to be increasing in importance together with start-ups. The outlook for the next few years is much less rosy for accommodation, food service and travel businesses and for the entertainment sector.

Sectors with a bright future

- The role of information and communications in the economy will grow further. This sector has resisted the crisis best, and both the Digital Strategy and the Green Deal are centred around the IT sector. Applications spread horizontally across other branches of the economy.
- The crisis may lead new businesses to emerge in healthcare, particularly connected with ICT and mechanical engineering. Different disciplines need good tools that work well, and they need to be integrated and the user experience harmonised. Solutions based on the blockchain will help make sure that health data are protected. Further ahead, diagnoses may be made by machines, which will reduce the load on primary health care. New solutions will lead to rationalisation and increase value added, but will not create any additional jobs.
- The crisis will spark a move in wood production to focus on quality and on expanding the sector. The development of chemical processing for wood will bring new opportunities that will help create higher value products from domestic wood sources and expand the ways that wood can be used. Stricter environmental requirements will increase the use of wood and wood-based materials in construction, packaging, textile production, pharmaceutical production, and elsewhere. Urbanisation and a growing global population will benefit the consumption of building materials, including wood.
- The financial and insurance sector will be driven by online services. Financial technology businesses that have appeared alongside traditional banking gained new users during the virus crisis and have increased their market share, including among people and companies who were not covered by traditional banking. New opportunities can come from areas like the development of the internet of things (IoT) and contactless payments, as connected cars allow consumers to pay for fuel or food without cash and without touching surfaces that might be infected.
- The outlook for growth in the start-up sector is encouraging. There is still a lot of money around the world searching for investment, and the Estonian start-up ecosystem is attractive to investors. Being more flexible than traditional companies gives an advantage in adapting to rapidly changing demand, by developing contactless services or remote solutions for example, or perhaps environmentally sustainable projects or new forms of energy.

⁸ The Covid-19 resilience index assesses the relative impact of virus crisis on different branches of the economy. The index is based on various economic indicators. It ranges from -5 for the strongest negative impact to +5 for the smallest negative impact. The index covers changes in the turnover of companies in each branch of the economy as the sum of turnover for March-August 2020 compared to that in the same period of the previous year, changes in the number of employees against the same period in 2019 and the dynamics after the emergency situation, changes in labour costs, and changes in corporate profit and investment from the same period of the previous year.

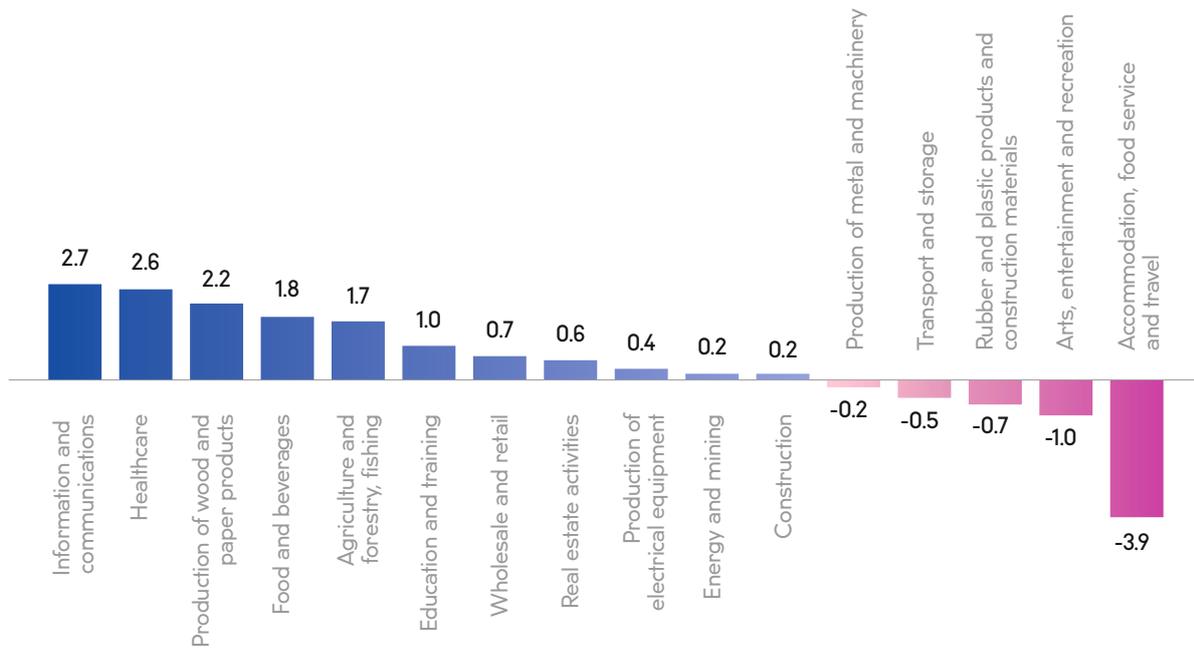


Figure 8. Resilience index of sectors (-5... +5)
 Source: Calculations based on data from Statistics Estonia

- There are new opportunities for shortening supply chains in the production of electronics and electronic equipment, which will help to attract new companies from Estonia and Europe to the client portfolio. The great global trends such as Industry 4.0, the ageing of societies, technological innovation in healthcare, and the search for solutions to combat climate change will create an explosive boom in demand for electronics in the near future.
- Further training in digital skills will provide work for training companies in the short term, as will retraining and additional training in response to changes in working patterns more broadly. Training through digital channels becoming more normal will open the market to export opportunities too, though it will cause inequality to widen. The

Green Deal will increase the need for technical consultation from engineers.

Sectors with a stable future

- Developments in food production will be affected by consumption habits and incomes. Innovation may come from health concerns, while the automation of production will continue. The application of synthetic biological applications, and artificial meat for example, are promising new directions.
- Agriculture and forestry will be maintained by stable demand. Human labour continues to be replaced by machines at an accelerating rate, as limits on the use of foreign labour leave no other option. However, increasing efficiency does not automatically mean that the product portfolio will become more

complex with greater added value. The spread of precision farming will allow less fertiliser to be used and offer an area for cooperation with the IT sector.

- Turnover has fallen in wholesale and retail in the crisis, but trade will not disappear from the physical world. The shift in consumption habits to online purchases has created new opportunities for developing e-products and the e-stores that were set up during the crisis offer the chance for even small companies to move into export markets. This requires new skills, but unfortunately global competition is tight.
- The outlook for real estate and construction depends on orders from the public sector, and also on how consumption habits change and on the Green Deal. The role of the private sector as trendsetter, for example by ordering wood-based solutions, affects the general direction of the sector. Changes in purchasing habits may mean that large retail spaces are replaced by warehouses and e-commerce distribution points.
- The energy sector makes investments over the long term and is vital for the functioning of society, and the factors that affect it most are the weather, given the increase in renewable energy, and regulation. Digitisation and the use of big data offer new opportunities for the sector, and energy efficient services will help this. The wider spread of renewable energy will make energy saving more necessary. The arrival from the distant future of the era of green fuels may benefit Estonia more than the era of fossil fuels did. Estonia has no oil but it can produce green hydrogen, which can be used to produce more exportable fuels and important inputs for the chemical industry such as methanol and ammonia in Estonia.
- The outlook for production of metal and machinery depends on the general investment environment and the state of the economy. The increased use of automated production machinery could lead to new orders for the sector.

Sectors with a bleaker future

- Passenger transport was hit particularly hard in the transport and storage sector, and is not expected to recover in the near future. The virus crisis had a negligible impact on the transport of goods. There are new opportunities to be found in the use of alternative fuels and electrification of transport, but the crisis may limit the capacity to invest in new technology.
- Rubber and plastic products and construction materials have been hurt by the Green Deal. Stricter environmental requirements demand great efforts from the plastics sector. Higher energy prices and environmental fees than in neighbouring countries affect producers of construction materials.
- Arts, entertainment and leisure is a sector that contains businesses of many different types that will find it extremely difficult to transfer over to digital channels without losing value, and so the sector is very vulnerable to constraints.
- Accommodation, food service and travel have been hit very hard by the crisis. The rise in remote work as an alternative to business travel will also reduce demand even once international travel is restored. Stricter hygiene and security requirements will need services to be redesigned. It is difficult to turn a profit from virtual tourism as a business.



6. SCENARIOS FOR THE ECONOMIC IMPACT OF THE VIRUS CRISIS

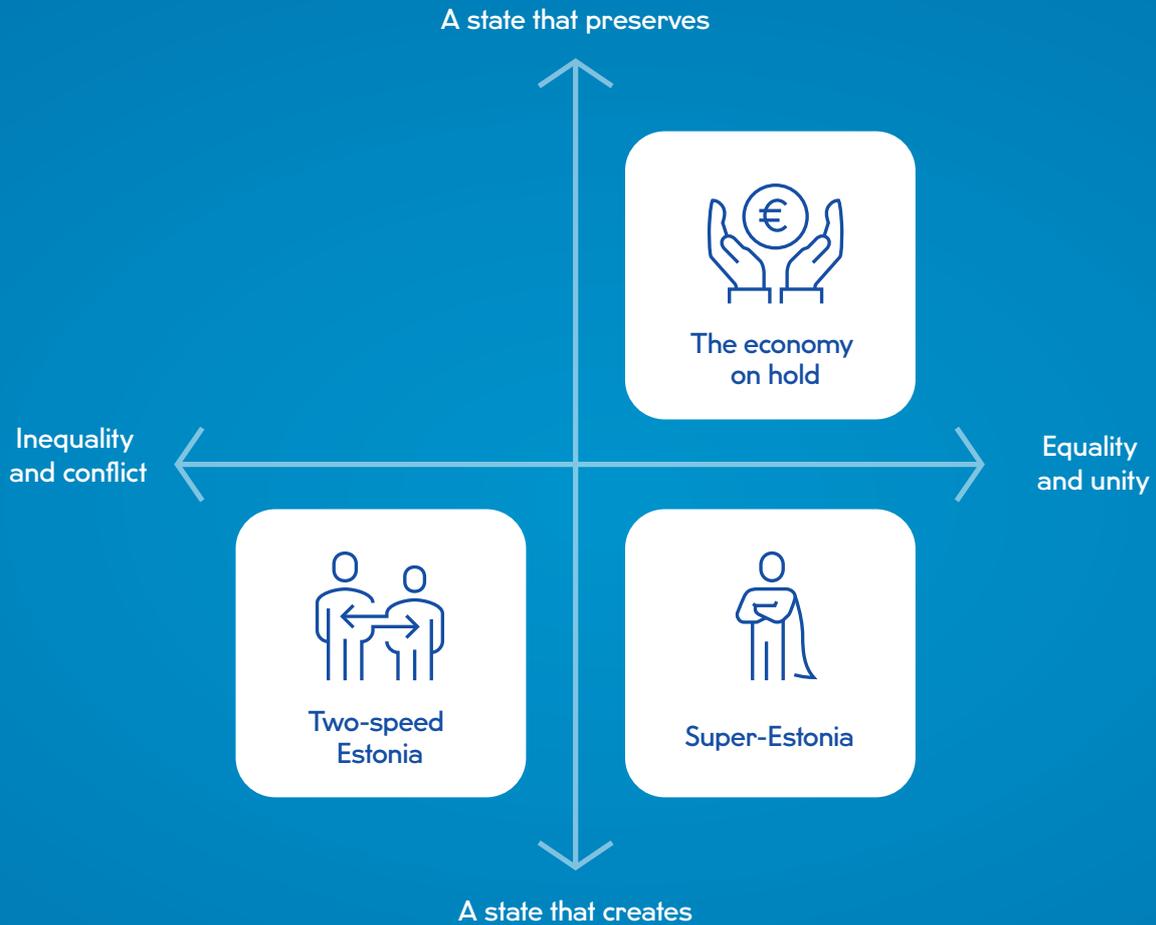




The scenarios for the economic impact of the virus crisis outline alternative future worlds. These worlds show how various factors could combine after the crisis to change how competitive the Estonian economy is and also to change social processes. The developments that key factors could cause have been exaggerated in the scenarios to draw the clearest possible boundaries between the theoretical future paths. Presenting several different versions of how the future may turn out gives a better understanding of what set of policy choices may be most appropriate under different circumstances.

One of the main lines running through the scenarios is the role the state plays in exiting the virus crisis, whether its efforts focus most on preserving the economy as it is and current working relationships, or whether the contribution is towards a leap forward in development in the economy, favouring the rise of new businesses and new ways of working. The second common thread is the social environment that is created by events in the wider world and the efforts of the state, and whether it is unequal and filled with conflict, or more equitable and united.

Scenarios



The economy on hold

Top priority is given to preserving existing companies and jobs and preventing social conflicts from worsening, and the main support is given to large and strategically important companies in the hope of a rapid recovery in the economy.

Two-speed Estonia

The main focus of economic policy falls on the capacity for spontaneous renewal from the crisis, while efforts are made to keep spending on social policy under control to avoid harming the business environment.

Super-Estonia

The crisis is used to spark a powerful renewal of the economy, but the goal is also to maintain balance so that the gains and losses are spread fairly across the layers of society.

1 THE ROLE OF THE STATE IN EXITING THE VIRUS CRISIS



A STATE THAT PRESERVES

- The state gives artificial respiration to the economy to save people and businesses
- It is hoped that when the crisis is over things will go back to where they were
- Structural changes are made gradually
- The state does not manage to reduce the increased role in the economy that it took on during the crisis
- Management is top-down and there is no legal flexibility

A STATE THAT CREATES

- The state drives hard to make structural changes during the crisis
- It aims to empower people and businesses and to reduce its own intervention over time
- It sets an example in vision and in promoting change
- A broad management model includes and enthuses civil society
- A flexible legal environment permits mistakes and corrections

2 THE SOCIAL ENVIRONMENT



INEQUALITY AND CONFLICT

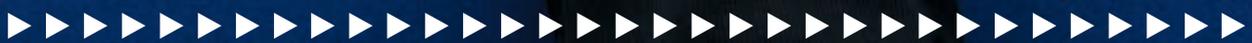
- Measures to reduce inequality are taken for the short term so they put less pressure on the budget
- The economic recovery does not reach all parts of society
- The external environment is difficult and does not help companies to recover
- Automation means there are no options for those who have lost their job and there is little retraining available
- There are new winners and losers as some people and companies cope better with rapid technological change.
- The risk of cultural conflict grows, including mistrust of immigrants
- Social connections weaken and so people become less enterprising

EQUALITY AND UNITY

- The external environment is doing well and Estonia's main markets recover quickly
- Global tensions ease and the world economy becomes more open
- It is generally understood that increased inequality will extend the crisis and slow resolution of it
- Account is taken of the expectations of all the largest interest groups when decisions are taken that affect the long-term development of Estonia
- More work is done internationally to reduce inequality as it is understood that such crises can only be faced together through cooperation
- Higher wealth taxes than previously help to fund measures designed to reduce inequality
- The minimum wage rises rapidly



The Economy on Hold



A scenario where top priority is given to preserving existing companies and jobs and preventing social conflicts from worsening, and where the main support is given to large and strategically important companies so that growth in the economy can recover.

The state tries during the crisis to preserve and maintain as much of the economy as possible, above all strategically important companies that employ many people, but others as well. Support measures focus on surviving through the crisis and try to stop unemployment rising too fast.

Avoiding wealth becoming stratified and poverty increasing during the crisis is a priority. This is supported by calls from the European Union to increase social security and by financing to do it with from European Union funds. Measures like wage subsidies are passed to preserve current jobs and to help the unemployed back to work. Labour from abroad is frowned upon, as it is feared that foreigners may take jobs that would otherwise be filled by local people. Purchases by the state become a vital source of business for companies facing difficulties. The state starts to take a stake in large companies that are in trouble.

The rise in unemployment is successfully stopped in this scenario and people are given confidence that they will not be abandoned during hard times. Many companies are unable to continue operating profitably despite the assistance though, and subsidies catch workers in the trap of zombie jobs without helping them to transfer to sectors and jobs that have

better career prospects. The burden that the state must shoulder increases.

The increased liabilities of the general government need additional funds to service them, and it becomes necessary to raise taxes in parallel with the increasing debt. Given the general difficulties, efforts are made to do this by raising the tax burden on wealthier parts of society, either by making the tax system more progressive or by taxing wealth. The first of these options meets stiff resistance from people in business and enterprise, while the second hits not only the wealthy but also the poor, such as pensioners who own real estate.

The capacity of the economy for renewal is negligible, as digitisation makes slower progress than in neighbouring countries and is not a priority for state support. Even though the European Union has moved forward with its Green Deal and the financing plan for it has been agreed, Estonia does no more than the minimum that is needed to meet EU requirements. The consolidation of companies that was largely unavoidable during the crisis reduces competition and dynamism in business. Support schemes aimed at individuals do not necessarily help them become more enterprising and so the long-term unemployment rate rises.

Opportunities



- + A strategy of survival may well be the right choice for making it through the acute phase of the crisis, and if the crisis does not last for long. Companies largely survive and people are not thrown into long-term unemployment or discouraged
- + A more predictable operating environment for the years ahead supports confidence in business and so helps make Estonia a little more attractive to foreign investors
- + Difficulties in coping and a large rise in poverty are successfully avoided
- + Mergers of businesses during the crisis and state equity investments in strategic companies increase operating volumes, increasing the capacity to break into foreign markets

Risks



- If the crisis lasts for a long time there is a major risk of falling into a spiral of rising national debt, as support measures prove hard to withdraw, the debt becomes unsustainable, and the result is that general macroeconomic stability and government credibility decline
- Giving companies just enough support to keep their heads above water provokes accusations of clientelism and questions about why one company or branch of the economy receives support and not another
- Companies becoming more dependent on subsidies and orders from the state makes them less innovative and less competitive internationally. Businesses fail to take full advantage of the opportunities opened up by the crisis. The long-term capacity of the economy for renewal declines
- Estonia's position in the digital world becomes weaker and there are no gains to speak of from other technologies that are revolutionising the world
- Long-term unemployment remains high, as some jobs do not come back, while state subsidies provide a livelihood that may reduce the entrepreneurial spirit
- It is difficult to move on from crisis policies, as both companies and people get used to the subsidies introduced during the crisis and the increased role of the state in everyday economic life



Policy measures

- Subsidies focused on the current structure of the economy and on preserving companies
- Special measures for companies in the parts of the economy that have suffered most and separate decisions about individual companies
- Expanded social protection through increased support of extended duration
- Subsidies, loans and equity participation in companies as a financial policy
- A more progressive tax system to stem the growth in the national debt

What does it mean for different sectors of the economy?



- The domestic market becomes less and less important for companies in information and communications as there is little demand for digital solutions, and the lack of any way to develop innovative ideas in the local environment means that development work is taken increasingly to countries with cheaper labour.
- Development of green solutions in the energy industry stagnates, and the artificial intelligence test centre for energy is built in Finland.
- Companies in accommodation and food service are kept afloat by state emergency support, but the absence of foreign tourists in the years ahead means that competition is tighter than before and little new investment is made.
- Healthcare provision continues unchanged, but the state funding model starts to show increasing signs of strain.
- Tensions come to the fore in retail over who has received subsidies and who has not; several plans for innovation, such as developments in packaging, are postponed.
- The state sector tries to follow a countercyclical policy in construction to replace reduced orders from the private sector, but there are few spade-ready projects that can be started quickly, as planning and procurement take time.



Two-Speed Estonia



A scenario where the main focus of economic policy falls on the capacity for spontaneous renewal from the crisis. Hope is placed in the appearance of new business models and an expansion of the hi-tech sector. Efforts are made to keep spending on social policy under control to avoid harming the business environment.

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The conviction grows that it is not sustainable to retain jobs over the long term in companies that are very likely to go under in any case and to keep paying flat-rate subsidies to people who have been hurt by the crisis. Estonia's international image is built on having a supportive business environment, steadily reducing the fiscal deficit after it recently widened sharply, marketing itself as an ICT tiger, and being economically innovative. It is hoped that this will attract foreign investment and generous funding conditions for Estonian companies. The goal is to achieve fast new growth in the economy to repair the holes left in it by the crisis and so hopefully improve the social situation.

Innovation policy is seen as important and

is prioritised, but without putting any great burden on the shoulders of the state and making very large investments, so avoiding the role of the state in the economy becoming too large. The regulatory environment is beneficial for technology companies, while technical schools and universities are promoted and encouraged to work with companies, and start-ups are supported.

Estonia continues to be promoted internationally as an ICT tiger. The opportunities for economic renewal offered by the EU and the subsidies they bring are invested in innovation, but more costly commitments such as the rapid transformation of the energy system are avoided as much as possible.

The principle is followed that Estonia's Nokia is not having a Nokia. There is considerable mistrust about the idea of the state actively seeking a fundamental redesign of the economy. This has in the past led to too many white elephants in the form of expensive infrastructure projects that remain underused, or state investment in technologies that turn out to be dead ends as other standards triumph. The tax system maintains its current form and Estonia remains in first place in the competitiveness index⁹ for tax systems.

The fortunes of companies become increasingly divergent as winners and losers become more starkly identifiable. Companies that are successful are above all those built around high skill levels, high technology-intensity, and a large role for intangible assets. The success of such companies does not lead to a substantial rise in employment though. At the same time, many people, especially those with low or average qualifications, become redundant and must survive with a weak social safety net.

Widening inequality in society leads again to talk of the two Estonias. Social divisions emerge between people with different levels of education, places of residence, and language. Political division and conflict deepen along various axes of right versus left, new economy versus old economy, and town versus country.

Running repairs are attempted to the social system, such as retraining for workers made redundant so they can work in branches of the economy that have adapted faster. A major problem remains though that very many of those who lost their jobs during the crisis are unable to find new ones, as the economy is unable to create sufficient new jobs, having become much more digital and less labour-intensive as a result of the coronavirus crisis.

Those who have done better praise the turn away from an economy focused on survival and strong social support measures, saying it is a perfectly justified step and sows the seeds for the future. Other people doubt whether society has ever exited the crisis at all.

⁹Tax Foundation International Tax Competitiveness Index

Opportunities



- + Businesses that have been forced to adapt because of the shock manage to engage in the newly growing international economy, and the success of exporting companies increases demand in the rest of the economy
- + Moves to strengthen supply chains as a consequence of the coronavirus crisis and international companies searching for buffer stocks bring new orders to Estonian companies
- + The coronavirus crisis accelerates digitisation and increases the amount of smart work in the economy
- + Estonia's reputation as a dynamic and innovative business environment increases, bringing even more foreign investment and smart work
- + Spillovers from the digital economy into other parts of the economy increase, and the digital tiger starts to roar

Risks



- Many companies will face great difficulties and go bankrupt in the years ahead, as businesses in different parts of the economy have to adapt in very different ways
- Unemployment shoots up and people with low skill levels are hit particularly hard, as it is difficult to find new roles for them or to retrain them and so they become discouraged and stay out of the labour market
- Things become especially critical for those on low incomes, and crime, alcoholism and domestic violence increase
- Companies do not have not enough qualified people to carry out innovations quickly, and structural unemployment worsens
- Wide social gaps restrict entrepreneurial activity and diversity
- Increasing inequality and the disappearance of the middle-class reduce the purchasing power of consumers in Estonia
- Although some companies cope well and make large profits in international markets, the lasting crisis and weak foreign demand mean this is not transmitted into growth for the whole Estonian economy



Policy measures

- Designing a business and regulatory environment that favours innovative companies
- Active efforts to attract new foreign investors to the Estonian economy
- Creation of a primary market for developing technologies through public procurement
- Subsidies to help companies upgrade their business models for digitisation and automation
- Using labour law to support a flexible labour market and promote digital jobs
- Ongoing reorganisation of the education system to increase the capacity for retraining

What does it mean for different sectors of the economy?



- Companies in information and communications generally do well, as automation and digitisation rely on their input. More work than before is done for Estonian clients, as rapid automation and digitisation are the only way for businesses to survive, whichever sector they are in. New start-up companies are created in the IT sector and exports are promoted. There are still shortages of labour though.
- Estonia's image as an innovator attracts the pan-European artificial intelligence test centre for energy to Estonia, greatly benefiting developments such as charging infrastructure, smart towns and smart grids.
- There are many bankruptcies in accommodation and catering, and the sector survives by reorienting towards smaller volumes and domestic tourism, and becomes more elitist and less accessible to those with average purchasing power. Contactless and platform-based solutions become more widespread in catering and tourism, and are used primarily by the wealthier part of society.
- Start-up firms in agriculture do well, while labour-intensive sectors that cannot easily be automated disappear as people who have lost their jobs in industry and the service sector do not want to move to the country to work and automated technology is expensive, while Estonia is small in scale. Strawberries are not grown in the same amounts as before. Rural life is diminished.
- Following the virus crisis and with some support from public procurement, various healthcare technologies and data based solutions are developed in healthcare, such as artificial intelligence for diagnostics and e-visit services. A key question will be compliance with data protection requirements, which will limit the export options for technologies.

- Retail will see concentration, while e-commerce marches onwards and attracts the faster moving companies, who also sell successfully through Amazon and other platforms. Labour shortages are eased by excess labour from elsewhere and upwards pressure on wages is eased.
- As inequality increases, so does crime and security measures require increasing attention.
- Public procurements in construction set a direction for digital construction and building information modelling (BIM), but many companies find it difficult to reorganise because of skills shortages. There is tight competition for unskilled jobs and many people are prepared to work unofficially.
- Production of wooden houses, which has been a success story in Estonia, moves over towards automated solutions and houses start to be built by machines as large companies succeed through their own efforts while smaller ones rely on state aid.



Super-Estonia



A scenario where the crisis is used to spark a renewal of the economy, on the condition that the gains and losses are spread fairly across the layers of society, and agreement is reached in other areas where important decisions have to be made about the quality of life in Estonia, such as the use of natural resources. The priority is to upgrade the economy and infrastructure in line with the digital and green agendas of the European Union.

The crisis has made discontented citizens and political forces visible and audible in Estonia as elsewhere in the European Union, as they argue that the coronavirus has highlighted society's failings in its inequalities, the inadequacies of the healthcare systems, and the environmental crisis. The key challenge is to find a balance between encouraging entrepreneurial spirits enough while maintaining social welfare. This needs the governing political coalition to take account of all the major groups in society and their needs, even those who are not represented in the government.

In difficult times society understands better that people working together can solve problems that the state alone is not powerful enough to handle. Politicians also start to prioritise social enterprise and citizen initiatives to help one another, giving them attention and support. The stated aim of recovery programmes is to build back better than before.

Social policies centre around supporting and retraining people who have lost their jobs, rather than helping existing companies to keep going. Entrepreneurial risk is encouraged, by giving better social guarantees to people working through platforms for example. Labour legislation is adapted to give better protection to weak contracts.

Economic support comes in several forms. Support is aimed simultaneously at general business activity and grassroots initiatives, and at sustainable progress in the main areas of technological development. Experimentation is encouraged by the principle of try, fail and try again, with support given for example to purchases of hydrogen-powered vehicles in the hope that this will bring production of green hydrogen to Estonia. Great emphasis is put on greening the economy as the state provides subsidies and invests in infrastructure, and contributes substantial amounts from the state budget alongside the NextGenerationEU recovery funds.

Methanol plants and algae farms are built to give Estonia a leading place in developing the business of future fuels and the bioeconomy, and chemical and molecular processing of wood is developed, while support is given to producing bioplastics and medicines in cell factories.

The policy of maintaining social balance while thoroughly renewing the economy at the same time is unavoidably quite expensive. To avoid state debt running away out of control, the tax system needs to be reviewed. Additional funding for social protections is found by making income tax more progressive, from new environmental and wealth taxes, and from expanding the tax base to other streams of income beside labour income. Estonia loses its top position in the Tax Foundation's league table for the competitiveness of tax systems.

Higher taxes on capital and labour and changes to labour legislation make the business environment less favourable for large and labour-intensive companies in particular. Although the new economy is full of enterprise, this cannot compensate for the loss of large employers. This is reflected in lower economic growth and smaller tax revenues, and it deters foreign investors looking for cost advantages.

The foundations of society are quite strong and society is actively engaged, and this can be seen in the relatively patient attitude that the public

takes to the difficulties caused by the crisis. If the crisis drags on though, voices will start to be heard calling the new economic project utopian and demanding support for it be withdrawn. There will be increasing discussion about cashing in on natural resources and introducing market protections.

The government will keep trying to encourage people and businesses to take responsibility for themselves and take advantage of the new business opportunities, and not just rely on the state. Opportunities for retraining will be expanded widely for example, and a system of personalised tax accounts will be created that allows people to use funds to cover their living costs while retraining and to fund their retirement. If the international economy and foreign demand start to grow again after a year or two, the Estonian economy will grow together with them. Rapid digitisation and greening of the economy, including the energy sector and industry, has made it much easier now to continue along a path of more sustainable development than previously.

Macroeconomic indicators start to pick up gradually from the low positions they had reached during the crisis. It is argued retrospectively that the coronavirus had a beneficial impact overall on Estonia, and the crisis was not allowed to be wasted.

Opportunities



- + Greater social unity and social policy that encourages entrepreneurial risk promote the founding of new companies
- + There is strong support from society for changes to the structure of the economy, as a clear majority in society understands that this is about managing Estonia as a whole
- + An equal society and evenly spread purchasing power mean increased consumption and growth in the local market
- + Empowering people to take responsibility for themselves means they will be less reliant on the state in future
- + The economy is renewed securely, as the changes in the economy happen quite fast and deeply, but people are not crushed between the wheels. A generous social policy means the number who are discouraged remains low, and so people can be brought back into the labour market
- + The state and companies think strategically rather than looking for short-term market gain

Risks



- Increased social protection costs money and the challenge is to find the balance between social protection and encouraging entrepreneurialism
- A sharp rise in taxes makes the local operating environment less favourable, especially for large companies, and the growth in new companies may not necessarily compensate for their decline
- Estonia is less attractive to foreign investors for its competitive business environment
- If the global economy recovers slowly, the debt burden may become big enough to start to threaten the further development of the state
- There is a danger of over-investment and misdirected investment if infrastructure is built for new technology that it is not immediately viable and able to pay for itself, while other solutions or standards succeed in the market
- If the international economic environment does not improve in the next couple of years, increasing numbers of companies will get into difficulties. The problems would be made worse in that case, and the debt burden would be higher than before



Policy measures

- Public procurement to create demand for new technologies
- Construction of pilot infrastructure projects and support for the launch of products and services for the future economy
- Tax reform with an increased share of wealth taxes and taxation of capital income
- A larger role at local government level for developing entrepreneurialism
- Major expansion of opportunities for retraining together with a system of personalised tax accounts containing money that can be used to cover living costs during retraining or to fund retirement

What does it mean for different sectors of the economy?



- Companies in information and communications find new opportunities in the green economy and from energy saving, and also from social projects, and they help to reduce unemployment through retraining projects promoting IT. The awakening of Estonia's digital tiger creates exciting new jobs, and the experience gained from them can be used in export markets.
 - The energy sector is doing well at developing green energy solutions, though energy prices in Estonia remain high at first because of renewable energy fees and this makes energy-intensive businesses less inclined to operate in Estonia. At the initiative of the state and with strong support, investment is made in producing fuels of the future, not only hydrogen and methanol, but also biofuels that are made without impacting food production.
- The biofuels are produced with support from the European Union's Just Transition Fund in algae farms in Ida-Virumaa, where they skilfully make use of the CO₂ emissions captured from power stations.
- Accommodation and food service businesses try to adapt and join new trends such as business tourism to neighbouring countries, slow tourism, and nature tourism. Virtual tourism is attempted with encouragement from the state, and joint efforts are made with Finland, Latvia and Lithuania to create a virtual tourism platform that creates great interest around the world.
 - Rural life becomes more attractive and agriculture benefits as it is easier to find people with the right skills. Subsidies are paid to make agriculture more environmentally

sustainable and focus on growing niches in the market such as vegetarian and organic food and producing biofuels from agricultural waste.

- Production of electronics, which is dominated by large-scale companies, is made less competitive internationally by high taxes. The major trends such as greening and digitisation are very intensive in their use of electronics though, and this increases demand for the output of the sector.
- Wood production gains because the share of wooden materials that must be used in public procurements for construction increases. In consequence the construction sector needs to think more about its materials, and training to use wood becomes important. Funds from the Green Deal are used to research chemical enhancement of wood and ways of creating a new business from this.
- The coronavirus will make the need for data analysis and data-based decision-making more evident in healthcare. At the initiative of the state, solutions based on artificial intelligence will be developed that can combine people's socio-economic data, medical histories and lifestyle behaviour to help doctors produce better treatment plans and deliver personalised recommendations to people for caring for their own health.

Comparison of the Scenarios

Area / scenario	 The economy on hold	 Two-speed Estonia	 Super-Estonia
	<p>Top priority is given to preserving existing companies and jobs and preventing social conflicts from worsening.</p>	<p>The focus of economic policy falls on the capacity for spontaneous renewal from the crisis, while efforts are made to keep spending on social policy under control.</p>	<p>The crisis is used to spark a powerful renewal of the economy, but the goal is also to maintain balance so that the gains and losses are spread fairly across the layers of society.</p>
<p>State support for business</p>	<p>Subsidies focus on the current structure of the economy and on preserving companies. Special measures are passed for companies in the parts of the economy that have suffered most and separate decisions are taken about individual companies. Subsidies, loans and equity participation in strategic companies are used as a financial policy.</p>	<p>Various policies are used to foster innovation in enterprise. The spread of new technology is given regulatory priority. Subsidies for digitisation and automation help companies become less labour-intensive.</p>	<p>Public procurement creates demand for new technologies and runs pilot infrastructure projects with an emphasis on greening the economy. Local government gets a larger role in developing entrepreneurialism. Socially responsible enterprise is promoted. An array of support and subsidies is available.</p>
<p>Digitisation</p>	<p>Digitisation is not a priority for support. Digitisation is promoted reluctantly and mainly in stronger companies.</p>	<p>Digitisation and automation become one of the central points of the survival strategy. Support for assessing options for digitisation, and to a lesser extent for making changes, is offered through a digital audit, and some success stories are created, while others slip further back.</p>	<p>Digitisation is a priority for support. Subsidies are used to embed retraining and further training in digitisation successfully.</p>
<p>The state budget and taxes</p>	<p>State debt grows gradually because of wage subsidies and loans to support companies, and new taxes are needed to service that debt. The debt service burden increases over time. The tax system becomes more progressive.</p>	<p>State debt grows at a moderate rate as costly commitments are avoided. There is no major change in the tax system or the tax burden.</p>	<p>The policy of maintaining social balance while thoroughly renewing the economy at the same time is quite expensive. Tax reform is carried out with an increased role for wealth taxes and with taxation of capital income, through general corporate income tax for example, while the personal income tax system is made more progressive. Land taxes are raised after land valuations and new taxes are introduced on the principle that the polluter pays.</p>

The labour force and the labour market	Unemployment is moderate at first. The most vulnerable groups in society remain unemployed over the long term, as some jobs do not come back and state benefits allow a reasonable quality of life. Social protection is expanded through increased benefits of extended duration.	Unemployment rises rapidly. Inequality widens and opportunities narrow for the low and medium-skilled. Labour legislation is used to promote digital jobs, while rules are eased making contracts weaker, to encourage companies to restructure.	Unemployment rises steadily. Labour legislation is adapted to give better protection to weak contracts. Social protection is extended to independent service providers. Workers are retrained, with some employers helping to organise it.
Society	There is a return to the pre-crisis systems, in education and the courts for example, and to the previous organisation of society. Dependency on the state increases, and attitudes are less favourable to innovation and enterprise.	The economic recovery does not reach all parts of society. Divisions in society widen and some new divisions appear, in digital skill levels for example and in access to services that have moved to remote delivery channels. Digital solutions are introduced even after the acute phase of the crisis. Remote learning fractures the quality of education.	There is greater unity and equality. Emphasis is placed not only on economic growth, but also on welfare in the form of health, social relations and similar. Using digital technologies to assess social impacts is considered as obvious as assessing the environmental impact of infrastructure projects. The importance of civil society grows. People are empowered and less dependent on the state.
Climate policy and the Green Deal	The Green Deal is carried out only to the minimum standards of the EU.	Implementing the Green Deal is a goal and it receives state support, but market-based solutions do not emerge rapidly and social divisions make it harder for them to do so.	This is the best scenario for greening the economy, as the state encourages structural changes and adds funds from the state budget to those from the EU's Green Deal.
Changes in the structure of the economy	The structure of the economy does not change substantially at first, but labour-intensive branches of the economy fall into difficulties when subsidies end. Companies are dependent on state subsidies and orders in a form of state-run capitalism.	New technology-intensive enterprise emerges that is better able to cope with the requirements of a contactless economy and is not dependent on access to foreign labour. Companies that are weaker and less able to adapt and invest disappear.	Some branches, especially socially responsible ones, grow. The number of capital-intensive and large-scale businesses, mostly industrial ones, falls though.
The outlook if the global economy recovers quickly	Companies have been preserved and social problems have been prevented from escalating, but at the same time companies in competing countries have stolen a march on those in Estonia.	The success of companies that adapted to the shock and fared well internationally spreads further into the economy and society. A major problem remains though that very many of those who lost their jobs during the crisis are unable to find new ones and become discouraged.	The economy, including the energy sector and industry, is moving along a path of sustainable development. The crisis has sparked a successful revolution.
The outlook if the global economy recovers slowly	There is a major risk of falling into a spiral of rising national debt, as support measures prove hard to withdraw, the debt becomes unsustainable, and the result is that general macroeconomic stability and government credibility decline.	Companies that have adapted quickly may see good results, but the success of the winners is not spread through the Estonian economy as a whole. Widening inequality in society leads again to talk of the two Estonias.	The strong foundations of society mean that social tensions do not increase at first. It becomes harder to maintain the course as difficulties deepen though.

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