

# COVID-19 socio-economic responses in Estonia

ESPN Flash Report 2020/52

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*Several measures have been applied or planned to mitigate the impact of the COVID-19 crisis. Among others, the Estonian Unemployment Insurance Fund offered wage subsidies to employers between March and June and wage support from July, and the Health Insurance Fund provided compensation also for the first three days of sick leave during the crisis.*



## Description

During the COVID-19 crisis, the number of registered unemployed has increased significantly. At the end of June 2020, the share of registered unemployed was 7.9% of people aged 16-64. The registered unemployment rate was 1.7 times higher than at the same time in the previous year (4.7% in June 2019) and 1.4 times higher than in February 2020 (5.7%) (Estonian Unemployment Insurance Fund [EUIF]). Several measures have been applied or planned to mitigate the impact of the crisis, of which the most important are related to wage compensation - these also help to prevent increases in registered unemployment.

The EUIF offered wage subsidies to employers to tackle the impact of the COVID-19 outbreak. Between March and May 2020, employers had to meet at least two of the following conditions to qualify for the subsidy: 1) the employer's turnover had fallen by at least 30% compared to the same month in 2019; 2) the employer was not able to provide the agreed amount of work to at least 30% of their employees; and 3) the employer had had to reduce, by at least 30%, the wages of at least 30% of their employees. The compensation was 70% of the employees' gross wage (irrespective of the extent of the reduction in the agreed amount of work but up to a maximum monthly amount of €1,000) and the employer had to pay at least €150 to the employee. This 70%-subsidy was only paid to employees whose employer could not provide the agreed amount of work or whose wages had been reduced; it was paid for a maximum of two months during the period between 1 March and 31 May 2020.

In May 2020, it was decided that the wage compensation measure would continue in June, but the requirements were made stricter: 1) the employer's turnover had fallen by at least 50% compared to the same month in 2019; and 2) one of the following situations applied: i) the employer was not able to provide the agreed amount of work to at least 50% of their employees; and ii) the employer had had to reduce by at least 30% the wages of at least 50% of their employees. The compensation was reduced to 50% of the employees' gross wage (up to a maximum amount of €800 and with a minimum amount equal to the minimum wage). Employer costs remained the same: at least €150 had to be paid to the employee.

In addition to the wage subsidy, the government decided to suspend its contributions to the mandatory funded pension scheme (4% from the social tax) between July 2020 and August 2021. This change is expected to save approximately €142 million in 2020 and €211 million in 2021. Employees can also suspend their contributions to a funded pension scheme (2%) between December 2020 and August 2021. Between 2023 and 2024, the state will reimburse the 4% contributions and the yield of the pension fund to those who continued to pay 2%. (Estonia Public Broadcasting 2020)

Besides, sickness benefit rules were amended temporarily. Sickness benefit is usually paid by the employer from day 4 to day 8, and as from day 9, it is paid by the Estonian Health Insurance Fund (EHIF). However, because of the COVID-19 crisis, the EHIF started to also pay sickness benefit from day 1 to day 3 (70% of the gross wage) between 13 March 2020 and 17 May 2020. The state

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allocated an additional €7 million to the EHIF for this purpose. During the emergency situation, employed persons could themselves, without authorisation from the healthcare system or their employer, decide to apply for sick leave. More than 24,000 applications were made for sick leave (Eesti Haigekassa 2020).

Since 1 July, a new wage support measure has been launched to support the berry-growing sector, as farmers desperately need more labour. This measure is targeted at employers who are active in berry-, fruit- or nut-growing and who hire a registered unemployed person who has not been employed in the last three months. The support amounts to 50% of the gross wage (up to a maximum of €584) and will be paid for up to three months between June and December 2020.

## Outlook and commentary

At the beginning of August, more than 17,000 companies (12.7% of all companies) and more than 137,000 employees (22.8% of all employees) had received a wage subsidy (a total of €256.5 million). According to the EUIF (Eesti Töötukassa 2020a), most beneficiaries are employed in the following sectors: manufacturing (approximately 25%), wholesale and retail trade (20%), accommodation and food services (13%), and construction (8%). The average amount of the subsidy per employee (for the period March-May 2020) was €703.2, and almost 81% of the companies that received the wage subsidy were companies with fewer than 10 employees. (Eesti Töötukassa 2020b)

Looking at the numbers of beneficiaries employed in the various sectors (Statistics Estonia 2019 data), it seems that the share of beneficiaries is highest among workers in the hotel and restaurant sector (60% of workers in this

sector received a wage subsidy). This is followed by the wholesale and retail trade sector (32% of workers), the arts, entertainment and recreation sector (29% of workers), and the mining, manufacturing and utilities sector (26% of workers).

In May 2020, the government also discussed economic recovery measures with the social partners (trade union and employer representatives). The social partners supported the provision of a wage compensation measure, but also proposed allowing the unemployed to engage in temporary work; the government approved this option (read also below).

Previous crisis response reports have highlighted the risk of false incentives in relation to wage subsidies. In Estonia, inspection of sick leave granted during the emergency was started in co-operation between the EHIF and the EUIF. Preliminary results show that there have been cases where a person has been on sick leave and received wage compensation at the same time. A claim to recover the compensation has also been made if the employer has violated a restriction concerning lay-offs. (Eesti Töötukassa 2020b)

In addition, the wage subsidy only covers those who are traditionally employed, i.e. only employees with an employment contract. Thus, persons in non-standard employment, including self-employed persons, are not covered by this measure.

In January 2020, the Ministry of Social Affairs notified its intention to draft a law amending the Unemployment Insurance Act and the Labour Market Services and Benefits Act to improve the unemployment protection system (for more information on this, see Laurimäe 2020). With the outbreak of the COVID-19 crisis, there were discussions on possible earlier implementation of some of the

changes, to improve the situation of the unemployed, as finding a job during the crisis is difficult. In June 2020, the Parliament approved some amendments. The main changes include: 1) unemployment insurance benefit increased from 50% to 60% of previous earnings (as from August 2020); 2) it will be possible to take on temporary work while being registered as unemployed (as from September 2020); and 3) the unemployment allowance will increase from €189 to €292 (as from January 2021).

### Further reading

Eesti Haigekassa (2020). [Eriolukorra lõpp toob mitmeid muudatusi ka tervishoius](#) [EHIF: The end of the emergency situation will also bring many changes in health care].

Eesti Töötukassa (2020a). [Töötasu hüvitise määramine](#) [EUIF: Wage subsidy].

Eesti Töötukassa (2020b). [Töötukassa maksis esimese kolme kuuga töötasu hüvitist ligi 137 tuhandele töötajale](#), uudised 06.07.2020 [In the first three months, the EUIF paid the wage subsidy to almost 137 thousand employees, news 06.07.2020].

Estonia Public Broadcasting (2020): news items from 26 June and 30 June (in Estonian only): <https://www.err.ee/1106409/rii-k-peatab-kolmapaevast-teise-samba-sissemaksed> and <https://www.err.ee/1107607/rii-k-peatab-kolmapaevast-teise-pensionisambasse-tehtavad-maksed>

Laurimäe, M. (2020). "Estonian unemployment protection system: moving towards improved coverage and adequacy?", ESPN Flash Report 2020/10, European Social Policy Network (ESPN), Brussels: European Commission.

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