

# Estonia: Socio-economic policy responses to prevent unemployment during the COVID-19 crisis

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*In Estonia, analyses of the temporary subsidy measure implemented between March and June 2020 show that it has been effective in mitigating the negative impact of the COVID-19 crisis on poverty and incomes. Still, some categories of workers affected by the crisis were not (sufficiently) covered by these measures. The new measures launched later on, in December 2020 and in March 2021, have been extended to sole proprietors.*



## Description

Since the beginning of the COVID-19 crisis, the Estonian Unemployment Insurance Fund (EUIF) has temporarily supported companies by reimbursing their salary costs, to prevent redundancies and a rise in unemployment. EUIF paid temporary subsidies between March and June 2020 (Temporary Subsidy I) and between March and May 2021 (Temporary Subsidy II). It also provided salary grants between December 2020 and January 2021. Temporary subsidies were paid directly to the employee, whereas salary grants were paid to the employer. These three measures were temporary.

Between March and June 2020, EUIF offered temporary subsidies (Temporary Subsidy I) to employees whose employers were significantly impacted by the crisis: e.g. their turnover had fallen, they were not able to provide employees with an agreed amount of work or their wages were reduced (for more information, see Laurimäe 2020). The monthly amount was 50-70% of the employees' gross wage (up to a maximum monthly amount of €1,000 between March and May, and €800 in June). In addition, the employer had to pay at least €150 (gross) to the employee per month. In total, the minimal compensation for an employee working full-time was the national statutory minimum wage (€584). 17,529 private sector companies (18% of all companies) and 137,448 employees (21% of all employees) received a temporary subsidy (for a total amount of €256 million). Self-employed people (including sole proprietors) were

excluded from this measure. Most beneficiaries were employed in the following sectors: manufacturing (25%), wholesale and retail trade (21%), accommodation and food services (13%) (EUIF 2021).

Later, at the end of 2020, when stricter restrictions were imposed on Harju and Ida-Viru counties, EUIF started offering salary grants to the companies in these two counties based on their main field of activity. Grants were offered to those companies active in areas affected by restrictions (e.g. accommodation and food services; arts, entertainment, and recreation). The grant was 1.5 times the salary cost of employees in November 2020, but not more than €180,000 per company. Grants were also paid to sole proprietors. A total of 1,627 employers and 393 sole proprietors received a salary grant (for a total amount of €20.8 million). In total, 12,968 employed persons (2% of all employed persons, whether employees or self-employed [sole proprietors]) were entitled to the benefit and more than half of them (66%) were working in the accommodation and food services sector. (EUIF 2021)

Due to the introduction of nationwide restrictions in March 2021, EUIF started offering temporary subsidies (Temporary Subsidy II) in all counties again. The compensation was 60% of the employees' gross wage (with a maximum monthly amount of €1,000). In addition, the employer had to pay at least €200 (gross) to the employee per month. In total, the minimum compensation for an employee working full-time was the national statutory minimum wage (€584). Since March 2021, temporary subsidies have also been paid to sole proprietors whose

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business income in 2020 had fallen by at least 50% compared to 2019. For sole proprietors, the amount of support was fixed at the national statutory minimum wage (€584). As of 4 July 2021, 6,185 companies and 41,078 employed persons (6% of all employed persons) have received the subsidy (for a total amount of €71 million). Most beneficiaries are working in the following sectors: wholesale and retail trade (26%), accommodation and food services (24%), and art and entertainment (12%) (EUIF 2021).

## Outlook and commentary

Temporary Subsidy I was implemented quickly at the outset of the crisis in March 2020. Previous analyses of the effect of this measure show that it has been effective in mitigating the negative impact of the crisis on poverty and incomes. In addition, it has been found that its impact on poverty alleviation was higher for men, people aged 50-63 and people working in the manufacturing or accommodation and catering sectors (Koppel and Laurimäe 2021). Furthermore, as the support depended on previous earnings, and women's earnings are lower on average, the amount of the benefit was on average €120 euros lower for women. (EUIF 2021) The impact of the other two measures (salary grants and Temporary Subsidy II) has not yet been assessed.

Still, the three measures did not cover sufficiently some categories

of non-standard workers and the self-employed. Temporary Subsidy I was targeted only at employees with an employment contract, so all other forms of employment were excluded. In the case of salary grants and Temporary Subsidy II, the coverage was extended to sole proprietors, but natural persons employed on non-standard contracts (contracts for the supply of services) were still excluded. However, in the event of unemployment, it is possible for a person who was employed on non-standard contracts to apply for unemployment benefits.

The salary grants offered only in Harju and Ida-Viru counties have been criticised for their sectoral nature: firstly, they did not consider the secondary activities of companies and, secondly, many records had not been updated in the commercial register which thus sometimes did not show the actual activity of the company. Also, the government and Unemployment Insurance board had difficulty deciding and communicating which activities should receive support and which should not.

In the case of Temporary Subsidy II, offered between March and May 2021, the sectoral condition was left out and similar conditions were set to those applied to Temporary Subsidy I (offered between March and June 2020).

In June 2021, there were 50,160 registered unemployed (7.7% of the labour force aged 16 to retirement age), which is 573 less than at the same time last year (7.8% of the labour force aged 16 to retirement age), but almost 20,000 more than in June 2019

(4.7% of the labour force aged 16 to retirement age) (EUIF 2021). As the number of unemployed has increased, in addition to preventing unemployment, steps have also been taken to support the unemployed. In August 2020, the (contributory) unemployment insurance benefit rate was increased from 50% to 60% of previous earnings; and in January 2021 the (flat, non-contributory) unemployment allowance was increased from €189 to €292 per month. As unemployment benefits for people who became unemployed at the beginning of the crisis are coming to an end, but finding a new job is more difficult during the crisis, an extension of benefits has also been proposed (Laurimäe and Koppel 2021).

### Further reading

Koppel, K. and Laurimäe, M. (2021) [Socioeconomic impact of COVID-19: Salary subsidy paid by the Unemployment Insurance Fund in 2020](#), Tallinn: Praxis Centre for Policy Studies

Laurimäe, M. (2020) [COVID-19 socio-economic responses in Estonia](#), ESPN Flash Report 2020/52, European Social Policy Network (ESPN), Brussels: European Commission

Laurimäe, M. and Koppel, K. (2021). *COVID-19 sotsiaal-majanduslik mõju: Meetmed töötute toetamiseks ja vaesuse ennetamiseks*, Tallinn: Poliitikauuringute Keskus Praxis [Socio-economic impact of COVID-19: Measures to support the unemployed and prevent poverty](#)

EUIF 2021. [Statistics of Estonian Unemployment Insurance Fund](#), 26 July 2021

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