BISC Baltic International Security Centre

Credit Where Credit is Due

What borrowing costs tell us about the Baltic states' security

Baltic Barometer

Security, Opportunity and Risk in the Baltic States

A PUBLICATION BY THE BALTIC INTERNATIONAL SECURITY CENTER

SECUREBALTICS.ORG

Executive summary ↘

Contrary to some expectations, financial markets apply only a small geopolitical risk premium to the B3 (Lithuania, Latvia and Estonia).

Low sovereign borrowing costs reflect Baltic strength.

Corporate bank credit remains expensive, but alternatives such as Nasdaq Baltic's corporate bond market are emerging.

Nor is there an 'investment freeze'. Existing foreign investors are reinvesting at scale, particularly in Lithuania.

Baltic venture capital ecosystems are amongst the most dynamic in Europe. Expanding domestic scale capital and exit pathways would boost them further.

Equity markets remain constrained by their classification as an 'advanced frontier market'.

A coordinated regional push for 'emerging market' standing could accelerate institutional capital inflows, support scale-ups, cut bank lending costs and strengthen resilience.

Contents

Introduction

This first edition of the Baltic Barometer does three things. It marks the public launch of the Baltic International Security Centre (BISC), an independent, authoritative thinktank (and do-tank) that aims to amplify the voices of Estonians, Latvians and Lithuanians in discussions about their region's future. BISC will counter the patronising, doom-mongering commentary masquerading as analysis in much of the 'old West' that overstates the Baltic states' vulnerabilities and understates their resilience.

This new report also deals with one of the biggest of these misapprehensions: borrowing costs. Few outsiders realise that the Baltic states' creditworthiness means that they can raise money roughly at the same rate as France, a G7 member with a history of public debt dating back to 1522. The financial markets are not spooked by the Baltic states' proximity to Russia. They apply no significant geopolitical risk premium to sovereign or corporate borrowers. Direct investment too continues to flow – in Lithuania's case at a higher level than before Russia's full-blown invasion of Ukraine in 2022.

These powerful, positive economic signals should be better known, abroad and at home; they come as a surprise even to some in the Baltic states.

It could be even better. This report also highlights the cost of the remarkably low liquidity in the Baltic states' public equity markets, ranked along with Senegal, Mali and Bangladesh. It argues for a pan-Baltic, public-private effort to bring six or more public listings by big companies, which would move Nasdaq Baltic into the 'Emerging Market' category, immediately bringing €300m-400m in investment from foreign funds who would balance their portfolios accordingly.

Compiled by BISC's Christopher Butler Research Fellow, Caspar Schulze, this flagship publication is the first of many. Future editions of the Baltic Barometer will look at other financial and security topics, within the same framework: Europe does not have a Baltic problem; it has Baltic solutions.

This report also includes a preliminary study of energy costs in the B3 in the light of the war in the Gulf. It also features an outline of our Kaliningrad 2050 programme, which starts with a ground-breaking analysis of threats posed by the Russian Federation's westernmost exclave, and of its internal tensions and vulnerabilities.

We look forward to your feedback, and to your support.

Edward Lucas
Director, Baltic International Security Centre.

A Benign Picture: Key Takeaways

- **The Baltic states' sovereign financing conditions reflect strength, not stress:** Debt ratios range from 23.4% of GDP (Estonia) to 48.3% (Latvia), against an EU average of 89.2%. The yield on ten-year Eurobonds is 3.3–3.8% (around the same level as G7 member France or 'safe neighbourhood' Slovenia). Recent B3 Eurobond issuances have been oversubscribed by ratios in excess of 2:1, a further signal of investor confidence.

- **Corporate credit growth** is growing strongly, at an annual average since 2022 of 12.8% in Lithuania and 9.2% in Estonia.

- **Corporate borrowing is diversifying**, with €6.7bn worth of new issues on Nasdaq Baltic's bond markets in 2025. This indicates the emergence of alternative financing channels alongside traditional bank credit, particularly for mid-sized firms.

- **Foreign direct investment (FDI) across the B3 remains robust.** FDI inflows in Lithuania amounted to circa 4% of GDP in 2025 (€3.3bn) driven chiefly by reinvestment. Greenfield investment is strong in Latvia with inflows of €1.27bn in 2025. All three states retain large, stable FDI stocks, with significant investments in capital-intensive 'risk sensitive' sectors.

- **Venture capital ecosystems are a regional success story:** The B3 have secured circa €6.9bn in start-up funding since 2020 and play host an outsized number of Central and Eastern Europe's high-growth firms.

Structural constraints

- **Over-dependence on bank lending and underdeveloped local bond markets keep domestic lending rates above the euro-area average** (e.g. 5.3% in Latvia vs. 3.6% Eurozone-wide).

- **Limited domestic growth-stage financing capacity** means upwards of 20% of Lithuanian, half of Estonian, and 70% of Latvian scale-ups relocate abroad.

- **Shallow equity markets:** Total market capitalisation on Nasdaq Baltic stands at around €11bn, with only ~€3.4bn in free float and average daily trading of just €2.1m. Low liquidity compounds low investor interest and vice versa.

- **The 'Advanced Frontier Market' category (Poland and other peers count as 'Emerging Markets')** excludes Nasdaq Baltic from major indices and constrains institutional investment. Greater capital market depth would boost economic and strategic resilience. A more efficient use of local savings would support growth and reduce overreliance on external capital.

Sovereign Borrowing

Borrowing costs indicate how markets price risk. In the case of Estonia, Latvia and Lithuania, it is clear that international financial markets do not assess either the war in Ukraine or proximity to the Russian Federation as a decisive factor. Since 2022, Baltic sovereign borrowing costs have risen on account of the war by around 10–20 basis points (0.1–0.2%). A headline comparison of B3 borrowing costs today would be with France, a G7 country with centuries of borrowing history. However France's fiscal and structural woes make that an easy target to beat. A more striking comparator is that B3 bond yields are close to par with Slovenia's, a similarly-sized Eurozone economy in an enviably safe neighbourhood. As of late March 2026, Baltic 10-year bonds traded in a 3.3-3.8% range, with France at around 3.7% and Slovenia at 3.5%.

Investor confidence in B3 sovereign debt remains high. In their most recent 10-year international Eurobond issuances, all three states attracted order books comfortably exceeding offerings, at ratios in excess of 2:1.

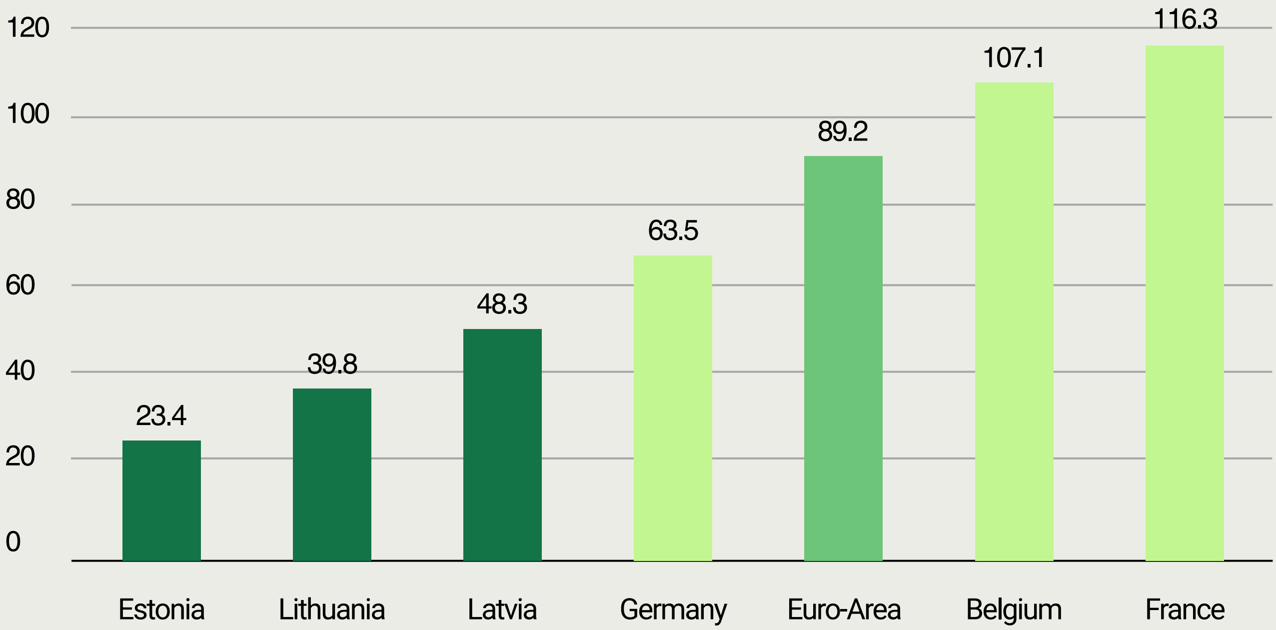
Underpinning these favourable borrowing conditions are A-grade credit ratings, which reflect confidence in the B3's ability, as Nato and EU members, to withstand external geopolitical headwinds, and positive appraisals of their fiscal fundamentals and institutional and economic strength. Baltic sovereign balance sheets are among the strongest in Europe. According to the most recent European Commission data, Estonia's debt-to-GDP ratio stands at just 23.4%, one of the lowest levels in the European Union. Lithuania and Latvia's debt ratios, 39.8% and 48.3% respectively, similarly lie well below the euro-area average of 89.2% and far beneath those of large western European economies.

Table 1/ Baltic credit ratings.

Rating Agency	Lithuania	Latvia	Estonia
Moody's	A2/Stable	A3/Stable	A1/Stable
S&P Global Ratings	A/Stable	A/Stable	[1]
Fitch Ratings	A+/Stable	A-/Stable	A+/Stable
Scope Ratings	A+/Stable	A-/Stable	A+/Stable

[1] S&P Global ratings withdrew their rating for Estonia in December 2024, at the request of the Estonian government.

Figure 1/ Government debt as a percentage of nominal GDP, 2025.



Source: European Commission

Furthermore, the slight increase in borrowing costs since 2022 has not harmed debt sustainability. Much of Baltic government debt was issued in the ultra-low interest rate environment of the 2010s. This, coupled with an average maturity on debt stock of circa eight years ensures that refinancing costs will increase only gradually and remain manageable. Effective interest rates on the outstanding debt stock are a modest 2-2.5% across the B3 (2.14% in Estonia, 2.51% in Lithuania and 2.48% in Latvia), comfortably below nominal average economic growth over the last five years - 8.37% in Estonia, 10.72% in Lithuania and 7.9% in Latvia.

In short, far from being stressed and vulnerable, the B3's combination of strong financial fundamentals and favourable market access leave them well-placed relative to their European peers and with headroom to respond to evolving economic and security challenges.

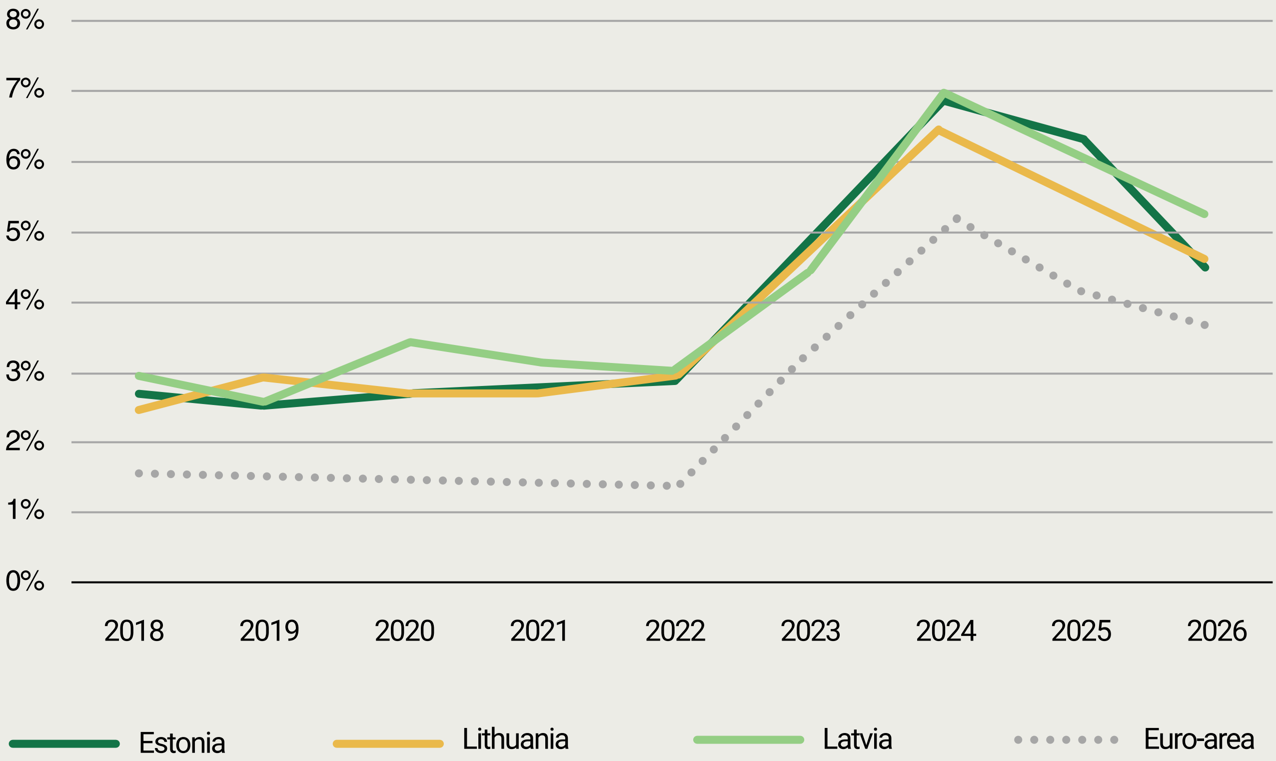
Corporate Credit Conditions ↘

Bank lending remains the largest source of corporate debt financing across the Baltic states, the costs of which are high by European standards. In January 2026, the aggregated cost of borrowing across loan sizes and maturities stood at 4.50% in Estonia, with Lithuanian and Latvian banks charging 4.61% and 5.31%, respectively. These figures were well above the euro-area average of 3.57%.

This competitive drag on business has little to do with geopolitical risk, however, and has been a feature of the B3's financial systems for several years. It reflects other historical and geographical factors, including the market dominance of large foreign banks with comparatively conservative lending policies, the underdevelopment of local equity markets and limited alternative sources of credit.[2]

[2] For further discussion of the structural drivers of high lending rates see, Benkovskis et al. 'Interest Rate Spread in the Baltics and the Rest of the Euro-Area' Latvijas Banka, (2021); Karmelavičius et al., 'What Drove the Rise in Bank Lending Rates in Lithuania', Baltic Journal of Economics, (2023); Lissovolik, 'High Lending Rates and Credit-less recovery in Latvia', International Monetary Fund, (2022).

Figure 2/ Composite cost of bank credit on new loans to non-financial corporations.



Source: European Central Bank

The ECB/EC's Survey on the Access of Finance of Enterprises (SAFE) – which monitors businesses' external financing needs – suggests that perceived availability of bank loans has fallen in each of the last three years. Whilst conditions appear to have stabilised in Lithuania, enterprises in Estonia and Latvia continue to report progressively tighter financing conditions at the firm level.

Though banks may have become more selective in their lending practices, this and the persistent cost premium, have not hampered broader credit growth. Since the ECB's monetary tightening in 2022, corporate lending growth has been strong, averaging 12.8% in Lithuania and 9.2% in Estonia, with Latvia's growth rate of 6.0% still double the euro-area average.

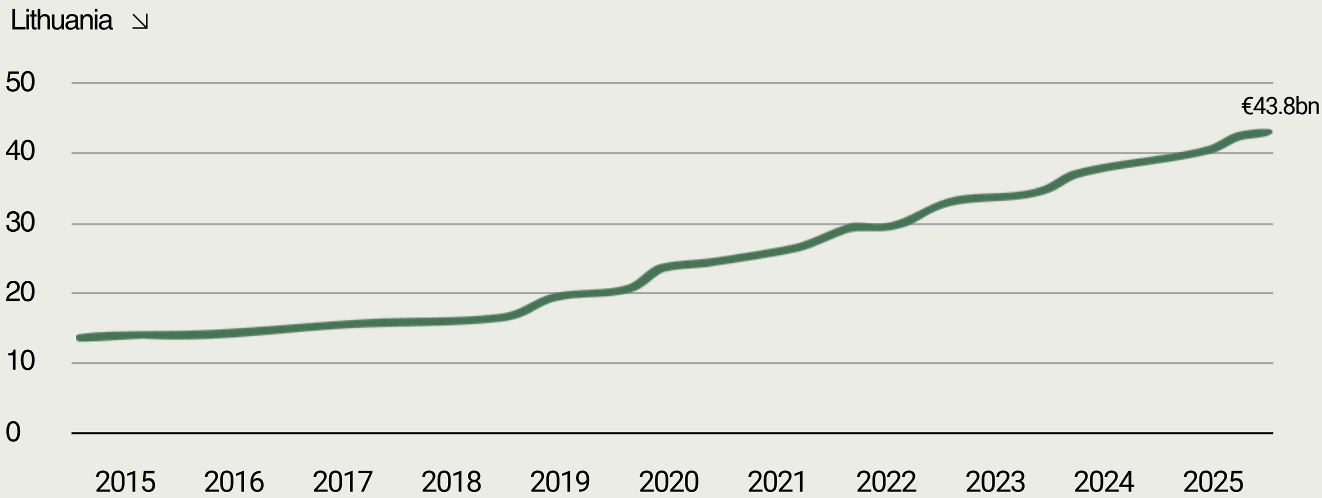
The heavy reliance of Baltic firms on bank financing comes with costs and risks. It is therefore encouraging that corporate bond markets across the Baltic states have been expanding rapidly in recent years. Baltic firms issued a combined €6.7bn in new bonds on Nasdaq Baltic in 2025, more than twice the amount issued in the previous year. Participation in these markets has also broadened, with the exchange adding 60 new listings in 2025 and increasing its number of issuers to 121. Moreover, dedicated market infrastructure such as Nasdaq's First North Corporate Bond List – which has lower entry costs and lighter regulation than its main list big brother – means that bond issuance is no longer the sole preserve of corporate giants. A median issuance size across the regulated main list and First North of approximately €10m highlights how small and medium-sized firms have also been increasingly able to tap into the market. The market's maturity profile is strengthening too, with over half of issuance extending beyond five years, suggesting a growing capacity to provide durable longer-term financing.

It could be better. The corporate bond market remains concentrated, with the five largest issuers accounting for approximately half of the total outstanding bond value. Debt capital markets also remain tiny relative to the B3's economic size – with the outstanding debt stock equivalent to approximately 2-4% of GDP. By comparison in Sweden and France, the leading European countries with respect to corporate bond markets, the equivalent figure was around 25% in 2024.[3] This encouraging growth is not yet a game-changer.

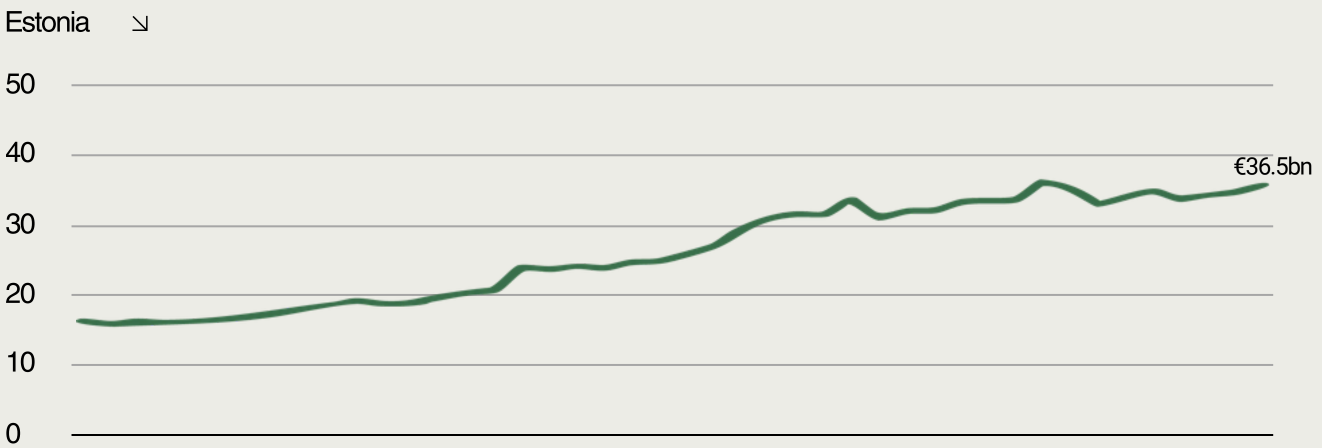
Foreign Direct Investment (FDI)

By the end of 2025, the inward investment stock of foreign capital stood at approximately €43.8bn in Lithuania, €36.5bn in Estonia and €27.1bn in Latvia, indicating a deep and continuing long-term foreign investor engagement with the Baltic states.

Figure 3/ Inward foreign direct investment stock.

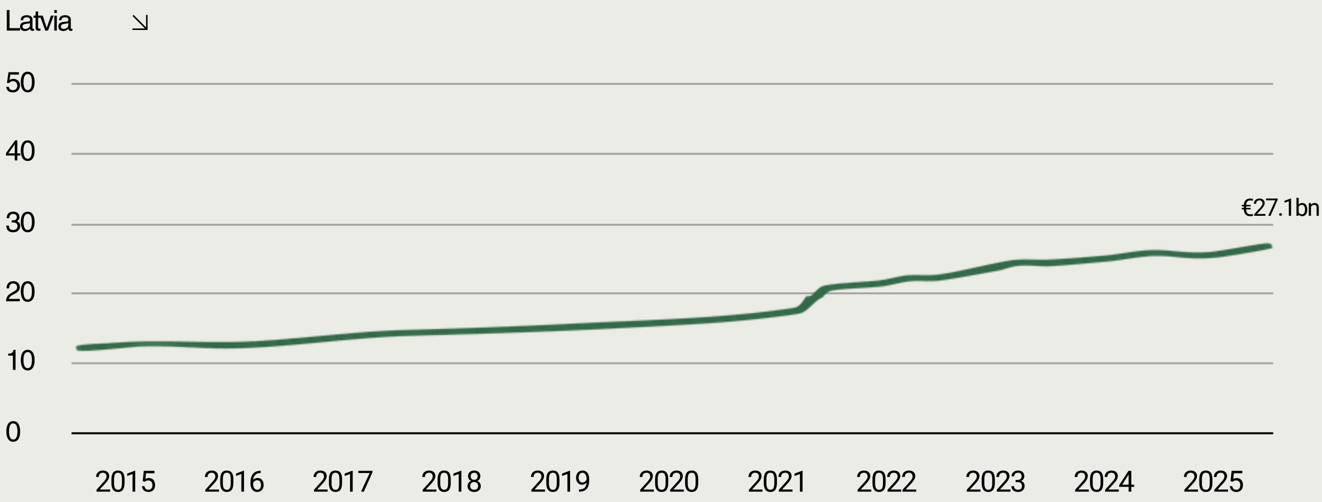


Source: Lietuvos Bankas



Source: Eesti Pank

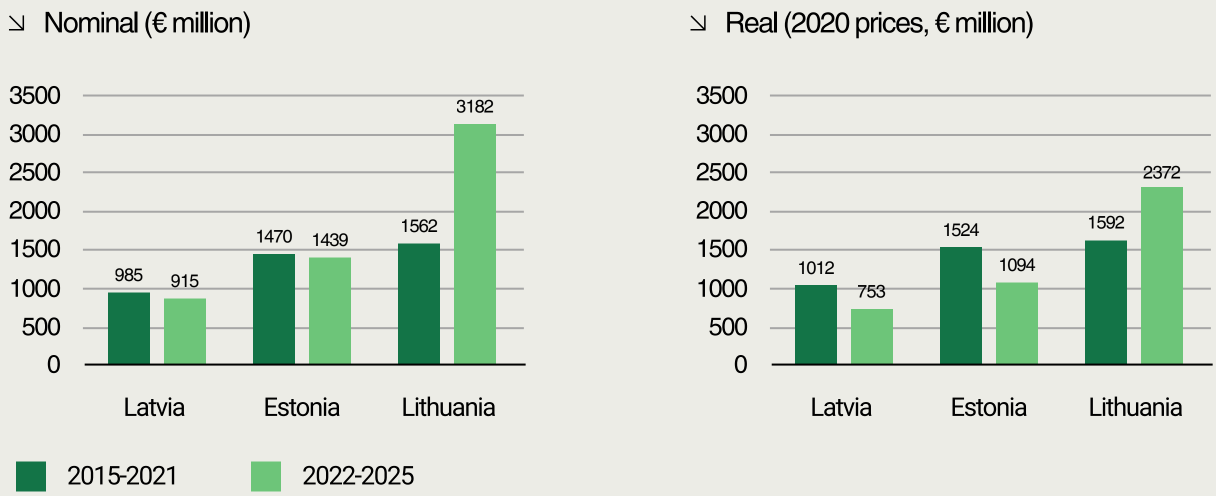
[3] Mai, 'Corporate Bond Markets in Europe – a structural perspective', SUERF, (2025)



Source: Latvijas Banka

Recent FDI inflows point to an increasingly differentiated regional picture. In nominal terms, Estonia's average annual inflows are virtually unchanged from 2015-2021 levels post-2022, with Latvia only recording a modest decline. Adjusting for post-pandemic inflation, however, reveals a more substantial softening in real terms. Lithuania, by contrast, has a recorded a marked increase in inflows. Indeed, in 2025, Lithuania stood out as one of Central and Eastern Europe's strongest performers with regards to FDI, attracting inflows equivalent to 4.0% of nominal GDP – outpacing comparable states like Slovenia (2.0%) and Croatia (2.8%).

Figure 4/ FDI inflows in the Baltic states: annual averages 2015-2021 and 2022-2025.[4]

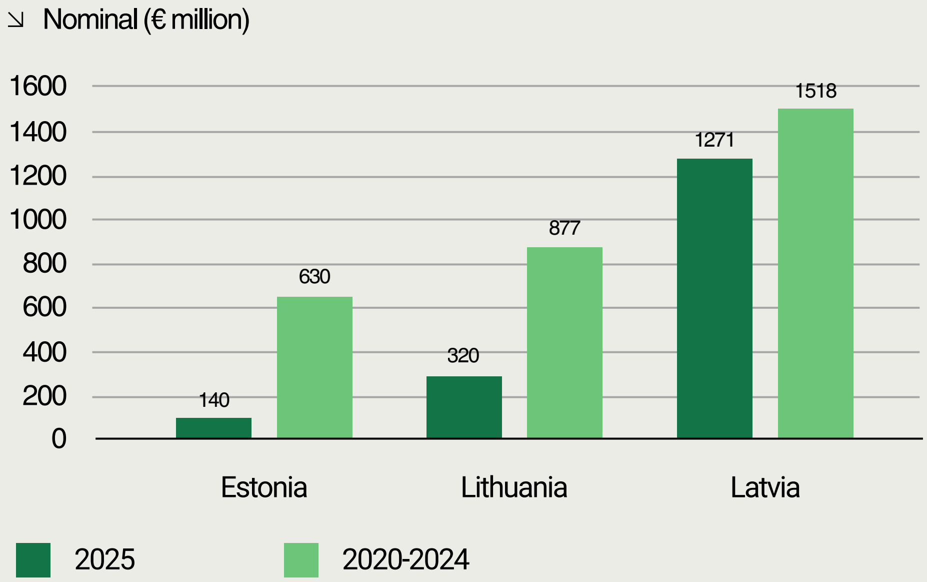


Source: National Banks; author's calculations

There were also notable differences in the composition of investment. Greenfield capital expenditure fell sharply in both Estonia and Lithuania, to €140m and €320m respectively – well below five-year annual averages. This slowdown is also evident elsewhere. Across Central, South Eastern and Eastern Europe, greenfield investment more than halved year-on-year between Q1 2024 and Q1 2025.[5] Against this, Latvia stands out as a partial exception, recording €1.27bn in planned greenfield investment in 2025, broadly in line with its five-year average. This recent surge in new project activity may reflect, at least in part, a degree of 'catch-up' relative to Latvia's regional peers, as capital is allocated across the Baltic economies in line with differing levels of market maturity.

[4] Real series deflated using the ECB's GDP deflator (2020=100).
[5] WiiW, 'FDI in Central, East and Southeast Europe', (2025).

Figure 5/ Greenfield Investments: 2025 and 2020-2024 annual average.



Source: FT fDi Markets; author's calculations .

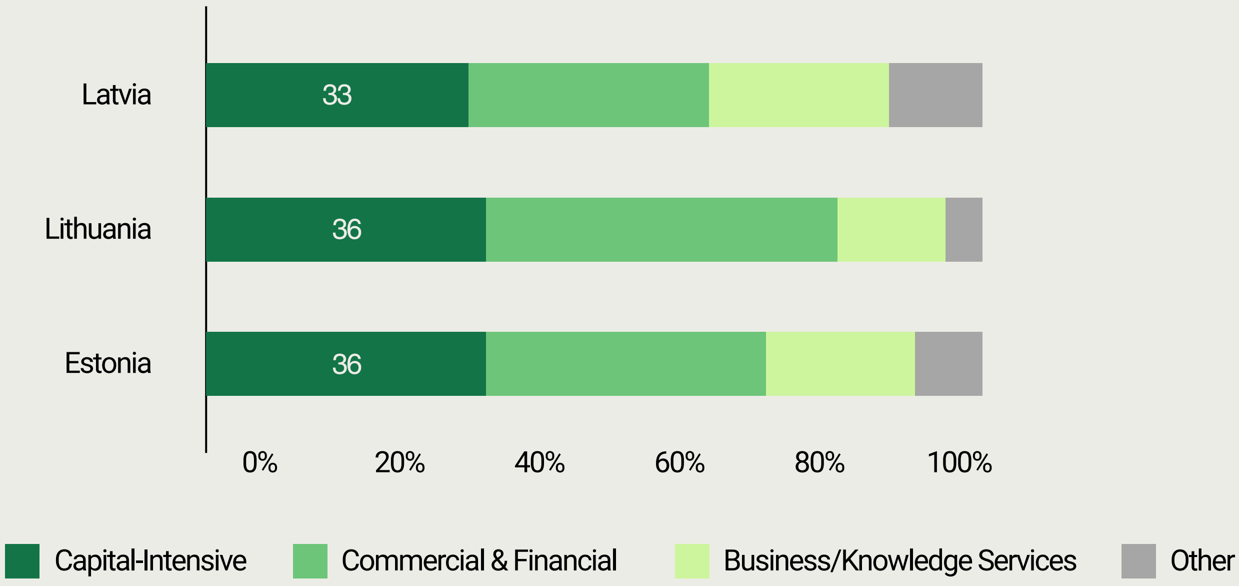
Crucially, weaker greenfield activity is not synonymous with a collapse in underlying investor confidence. A totemic indicator of foreign interest following the restoration of independence in 1991, today greenfield investments capture only part of the picture. In Lithuania especially, softer greenfield flows have been offset by strong reinvestment. Whilst a proportion of Lithuania's €3.3bn worth of inflows in 2025 were accounted for by debt instruments – often large intra-company loans that can inflate headline figures – strong follow-on investment by foreign firms across financial services, manufacturing and other sectors, imply continued investor satisfaction with domestic conditions.

Recent M&A activity similarly points to a more resilient pan-Baltic investment profile than aggregate figures would suggest. Data from Mergermarket and the Baltic business law firm Sorainen highlight that foreign investors accounted for nine of the ten largest Baltic M&A transactions in 2025 – with the three largest deals amounting to some €2.46bn in value.[6] Notably, large sums of foreign capital were deployed in 'risk-sensitive', capital-intensive sectors.

The acquisition of €720m worth of Estonian and Latvian forestry assets by the Swedish Ingka Group, the €1.3bn foreign purchase of supermarket chain Rimi Baltic and a €440m telecom tower deal all demonstrate continued foreign investor confidence. Indeed, upwards of a third of foreign inward stock across the B3 remains concentrated in capital-intensive manufacturing, energy, real estate or logistics projects.

[6] SORAINEN, 'Baltic M&A market overview 2025: solid overall performance with headline deals by foreign investors', (2025).

Figure 6/ Sectoral composition of FDI stock in the Baltic states: percentage of total, 2025.



Source: National Banks; author's calculations

Overall, this paints a mixed, but broadly robust picture. Aggregate activity has slowed in two of the three Baltic states, but there is no sign of a persistent retrenchment of foreign capital. Whilst proximity to Russia may be having a negative effect on investor sentiment at the margin — chiefly in ultra-low risk transactions such as refinancing renewable power installations — the drivers of this slowdown are manifold.

Broader European dynamics, including tighter post-pandemic financing conditions, sluggish growth in key source markets like Germany, and policy uncertainty in the US, are key salient factors. So too are local non-geopolitical forces, like Estonia's own recent economic troubles and rising regional labour costs.

Nevertheless, Lithuania highlights that FDI can be and is still attracted to the 'Baltics' at scale, whilst lively greenfield activity in Latvia demonstrates investors' continued readiness to break new ground.

Venture Capital (VC) ↘

Venture capital has emerged as a vital non-bank financing channel, having provided €4.7bn in funding to Estonian start-ups and SMEs since 2020, alongside €1.6bn in Lithuania and €570m in Latvia. This intensity in VC investment is reflected in a disproportionate share of Central and Eastern Europe's (CEE) high-growth firms. A 2025 report by the market-data platform Dealroom highlighted that Estonia alone is home to approximately 18% of all CEE scale-ups despite accounting for less than 1% of the region's population, with Lithuania (6.1%) and Latvia (3.1%) likewise punching above their demographic weight.[7] Even more strikingly, the B3 have produced or are closely affiliated with 18 unicorn companies (start-ups with valuations in excess of $1bn). **In short, the Baltic states now rank among Europe's leading ecosystems for the creation of innovative enterprises.**

→ Against this backdrop, recent funding dynamics have been shaped less by these strong regional fundamentals than by broader global venture capital cycles. Following a 2021-22 peak, VC investment declined markedly across the B3, with 2024 representing a cyclical trough. Early signs of recovery began to emerge in 2025: Lithuania, for example, recorded €220m in VC investment, up 70% year-on-year and marking one of its strongest years on record.[8]

The B3's venture capital ecosystem's key constraint, however, lies in the limited availability of domestic scale capital and exit routes. Whilst domestic investors play a central role in early-stage company formation – accounting, for example, for 44% of start-up funding in Lithuania since 2020 – international capital becomes increasingly important as firms grow. Upwards of 90% of late-stage VC funding in Lithuania between 2020-2025 was sourced abroad. This shift in the source of capital as firms scale also impacts firm behaviour: more than a fifth of Lithuanian scale-ups have relocated their headquarters abroad, rising to circa half in Estonia and over two-thirds in Latvia. Similarly, whilst 2025 marked a record year for Baltic start-up exits, activity remains heavily skewed towards cross-border deals. Moreover, when IPOs occur, they typically take place on foreign exchanges – illustrated by firms such as Wise, Playtech and the Baltics Classifieds Group, all of which chose to list in London.

The Baltic VC ecosystem's deep integration into global capital markets is undoubtedly a source of strength - one which enables firms to access capital, expertise and exit pathways which would otherwise be lacking. At the same time, an overreliance on external investors and exit routes to achieve growth also limits the extent to which the Baltic states can benefit from home-grown entrepreneurial ingenuity and innovation over the medium-to-long term. The central challenge, therefore, is no longer start-up creation, but the ability to scale and retain companies domestically. Strengthening local exit channels and deepening regional capital markets – particularly public equity markets – will be essential in ensuring that more of the value created across the B3 stays there.

7 Dealroom, 'Central and Eastern European Startups 2025: Spotlight on Scaleups', (2025).
8 Dealroom, 'The Lithuanian Startup Ecosystem', (2025).

Equity Markets ↘

Public equity markets in the Baltic States remain structurally shallow. Total market capitalisation on the Nasdaq Baltic regulated market stands at approximately €11bn, of which only a third, around €3.3–3.4bn, is freely tradable, with the remainder held by strategic or long-term investors. Growth is slow: free-float market capitalisation increased only by circa €300m between 2023 and 2025 and the IPO pipeline is similarly thin, with only a single first-time public offering in 2025 – the Estonian company Primostar.

→ Limited free float is coupled with weak liquidity. Average daily trading across the Baltic exchanges amounted to just €2.1m in the year to October 2025, yielding an annual turnover ratio of roughly 5% of total market capitalisation—far below levels observed in developed markets. Furthermore, data from Lietuvos Bankas (Lithuania's national bank) from 2024 highlighted that whilst Nasdaq Vilnius (the Lithuanian segment of the shared B3 equity market) had some 133,000 investors in total, only 23,541 foreign and domestic individuals were active investors – defined as those who execute at least one buy or sell transaction during a given year. Institutional investors are largely absent, so this slender category of retail participants constitutes the main part of the investor base. This reflects the Baltics' classification as an 'advanced frontier market' by MSCI and as a mere 'frontier market' by FTSE Russell, largely on account of their low liquidity. This excludes them from major developed and emerging market indices and thus places them outside the investable universe of international passive funds, benchmark-constrained asset managers, and many large institutional investors.

The cumulative effect of this is that Baltic equity markets remain neither a significant source of corporate financing nor a viable exit channel for investors. Indeed, limited liquidity and index exclusion operate as a self-reinforcing constraint: low trading volumes deter institutional capital, while the absence of such capital further suppresses liquidity.

→ The negative effects of this are strategic and systemic. The limited depth of public equity markets reinforces corporate reliance on bank lending (costly by EU standards, and constrained by conservative lending policies). Investors in high-growth firms lack a chance to reap the rewards of their risk-taking at home.

While public equity markets across Europe are contending with structural challenges, not least from the rapid expansion of private capital – the Baltic states remain relative outliers in terms of their underdevelopment. Deepening public equity markets would improve capital allocation, increase resilience, boost regional economic growth and bolster the competitiveness of Baltic enterprises. This would not only support high-growth scale-ups or Baltic industrial giants who could themselves feasibly list on Nasdaq, but also benefit SMEs, the backbone of the Baltic economies, by introducing broader financing competition and exerting a downward pressure on bank lending rates. There would also be wider benefits. Strong local equity markets would boost growth and jobs, and provide savers with wider and better options.

Policy Recommendations

Key challenge – improving equity market liquidity and depth: The Baltic states' main weakness is not on international financial markets, but at home.

A pan-Baltic approach could be transformative. Coordinated public-private efforts across the B3, involving the partial listing of state-owned enterprises like the large Baltic utility companies, could significantly improve equity market liquidity. The same could be said of the listing of one or more Baltic 'unicorns', or large Nordic banks with a sizeable Baltic footprint. Likewise, efforts to increase financial literacy, particularly in Lithuania and Latvia, could bolster active retail participation and help channel some of the estimated €26-27bn worth of 'idle' bank deposits across the B3 into productive investments via the capital markets.

These two actions could help yield the requisite improvements in depth and liquidity necessary for a reclassification of the Baltic equity market as an 'emerging market' – a step which Nasdaq Baltic suggest would rapidly precipitate the inflow of €300-400m in portfolio investments from abroad.

Data Sources

Sovereign and Macroeconomic Data

European Commission – AMECO Database (nominal GDP, government debt & interest rates).

European Central Bank – GDP deflator.

Banking and Credit Conditions Data

European Central Bank – Adjusted loans to NFCs granted by MFIs, Annual Growth Rate.

European Central Bank – Composite cost of Borrowing, new euro-denominated loans to nonfinancial corporations.

European Central Bank/European Commission – Survey on the Access to Finance of Enterprises (SAFE).

Sovereign and Corporate Bond Market Data

National Banks (Lietuvos Bankas, Latvijas Banka, Eesti Pank) – Sovereign bond auction results and bid-to-cover ratios.

Bloomberg – Secondary-market sovereign bond yields.

Nasdaq Baltic – Corporate bond listings and market data.

Foreign Direct Investment

National Banks (Lietuvos Bankas, Latvijas Banka, Eesti Pank, Banka Slovenije, Hrvatska narodna banka) – FDI stocks and flows.

Financial Times, fDi Markets – Greenfield FDI investment.

Venture Capital

Dealroom – Aggregate venture capital investment data, start-up relocation metrics, ‘unicorn’ location and number.

PitchBook – Deal count, exit pathways.

Equity Markets

Nasdaq Baltic – Turnover, market capitalization and market growth metrics.

Lietuvos Bankas – Lithuanian investor composition data.

Forthcoming at BISC

↘ **Kalininingrad 2050:** Geopolitical Trophy, Military Bastion — or Achilles Heel?

↘ **Baltic Barometer –** Energy Security

Kaliningrad 2050 ↘

Will Kaliningrad still be ruled by Moscow in 2050? BISC's first in-depth research report focusses on Russia's western exclave, on the threats it poses and on its growing vulnerabilities. These include demographic decline, fraying infrastructure, social conflicts, crime (from corruption to domestic violence and public order), public health problems (physical and mental), civil-military tensions and feelings of cultural isolation and political abandonment.

The report will be written by leading local and international experts, drawing on decades of professional engagement and first-hand experience. Combining advanced quantitative and qualitative research tools, open-source data and high-level interviews, Kaliningrad 2050 will be a powerful agenda-setting tool, showcasing regional expertise and agency.

Instead of doom-mongering commentary about the so-called 'Suwałki Gap', this report poses a far more relevant, policy-framing, question: 'What happens next in Kaliningrad?'.

Baltic Barometer – Energy Security ↘

The second edition of the Baltic Barometer focuses on Baltic energy security in the wake of the US-Israeli conflict with Iran. Whilst direct shipments from the Gulf only account for a small proportion of the B3's total energy supply, the de-facto closure of the Strait of Hormuz and the consequent disruption of global energy supply chains affects all three countries.

Commodity price hikes have already begun to leave their marks on the Baltic economies. Between February and April, petrol prices rose by 15-21%, with diesel prices increasing by 29-38%. As elsewhere in Europe, the Latvian and Lithuanian governments – though not the Estonians – have responded by approving temporary cuts to diesel excise duties. Fiscal cushions, however, are limited. Rising transportation and production costs have fuelled **consumer price increases.** According to Eurostat, Lithuania's harmonized annual inflation rate reached 4.4% in March — the third highest in the European Union, with Latvia (3.4%) and Estonia (3.5%) similarly outstripping the euro-area average (2.6%).

Uncertainty heralds further difficulties. Fuel-switching in large Asian markets has temporarily constrained price spikes for LNG. This respite for European LNG importers like the Baltic states – who rely on shipments to the Klaipėda (Lithuania) and Inkoo (Finland) terminals to satisfy domestic demand – may be short lived. Should Asian demand recover, the Gulf crisis persist and global competition for cargoes intensify – the B3 can expect further **upwards pressure on gas costs**, with effects on industry, district heating and electricity prices. Despite the growing role of renewables in electricity production, gas-fired generation still often sets the market-clearing price, especially during periods of high demand.

For the B3, however, the need to adapt, reorient and insulate energy systems in response to geopolitical upheaval is nothing new. The rapid decoupling from energy dependency on Russia following the Kremlin's invasion of Ukraine, has already prompted one reconfiguration of regional energy architectures this decade, with the ending of Russian gas imports and disconnection from the Russian energy grid. Energy diversification, gas and electricity interconnectors, the rapid expansion of renewables production, and other measures have all helped boost resilience and mitigate shocks.

In light of these recent developments, our second Baltic Barometer offers a forward-looking assessment of what the global energy crisis will mean for the Baltic states, their economies and their security. It will examine what has worked with regards to energy policy, what has not, and what needs to be done.

In energy, as in so much else, the problems the B3 face are shared across Europe, and their solutions are of interest elsewhere. They have shown how supply chains can be overhauled in years not decades, how critical infrastructure can be built at speed; and how regulatory steps can hasten development of new technologies, such as small modular reactors in Estonia. **This report will therefore also highlight how European partners can learn from Baltic dynamism and draw on Baltic expertise.**

The **Baltic International Security Centre (BISC)** is a new thinktank, agile and authoritative, specializing in Estonian, Latvian and Lithuanian national security, and in its messaging to Nato/EU audiences. It is non-governmental, pan-Baltic and editorially independent.

Why is BISC needed?

Estonia, Latvia and Lithuania (the B3) are vigilant, resilient countries with stable economies, strong institutions and lively civil societies. They play host to cutting-edge start-ups and borrow at rates equivalent to G7-member France. Their innovative military-tech companies offer game-changing innovation. Their intelligence insights into Russia and Belarus are unmatched. They offer solutions, not problems.

Yet, too many influential voices in London, Berlin, Brussels and Washington depict the Baltic states as vulnerable, exposed, poor and dependent. In doing so, they wittingly or unwittingly echo Kremlin strategic narratives.

This is mostly not deliberate. It reflects ignorance and laziness in media, academia, thinktanks and government. But it still hurts. In the B3, such messages coming from respected 'western' sources corrode public morale. Abroad, they weaken Nato and EU solidarity. They stoke perceptions of risk and potentially damage trade, investment and tourism.

BISC exists to counter this. Through hard-hitting research and thought leadership, high-level convening across Nato and EU capitals and strategic communications — BISC provides clear, coherent messaging that promotes Baltic strengths and dismantles myths.
The 'Baltics' are not Europe's weak spot. They are, after Ukraine, its strongest and best prepared front line. **BISC explains their achievements — and the lessons for the rest of us.**

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