



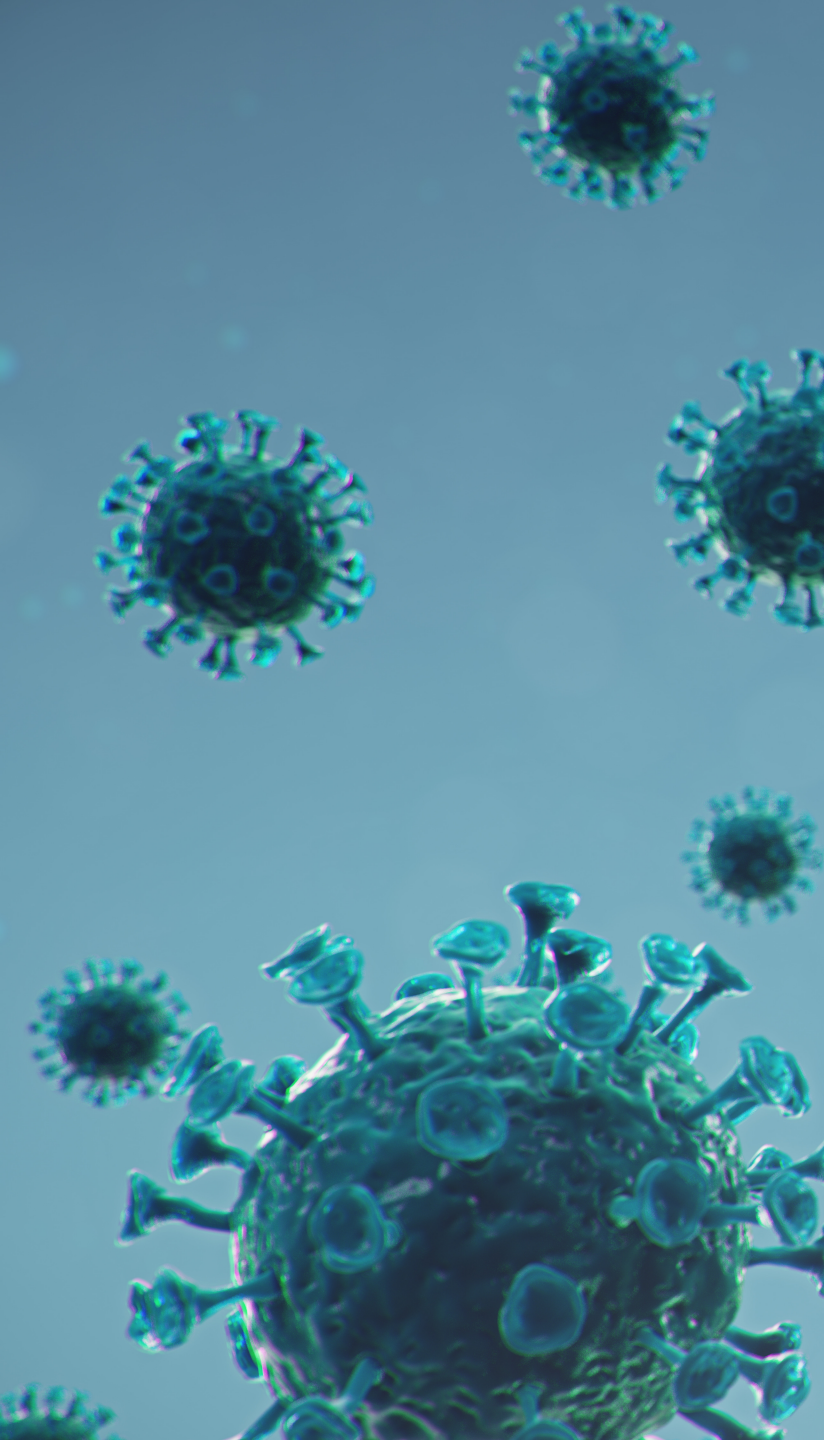
Corononomics in Latvia: Impact, response and the return to growth

Riga 9 June 2021

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Outline/idea



EKONOMISTU
APVIENĪBA

- A broad but not a deep overview
- **Latvia-focused**
- **Impact**
 - Economics (and economists...) in trouble
 - Disaster averted
- **Policy response**
 - ECB, EU, Latvia
- **Future outlook**
 - Lots of research to be done
 - Lingering problems

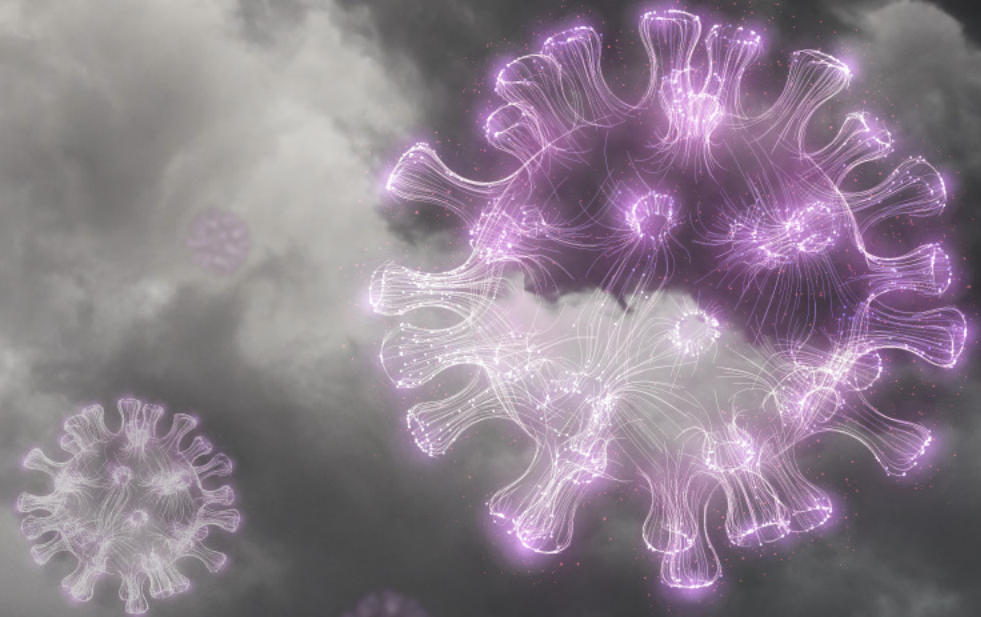
Back in the old days...

(February 2020)



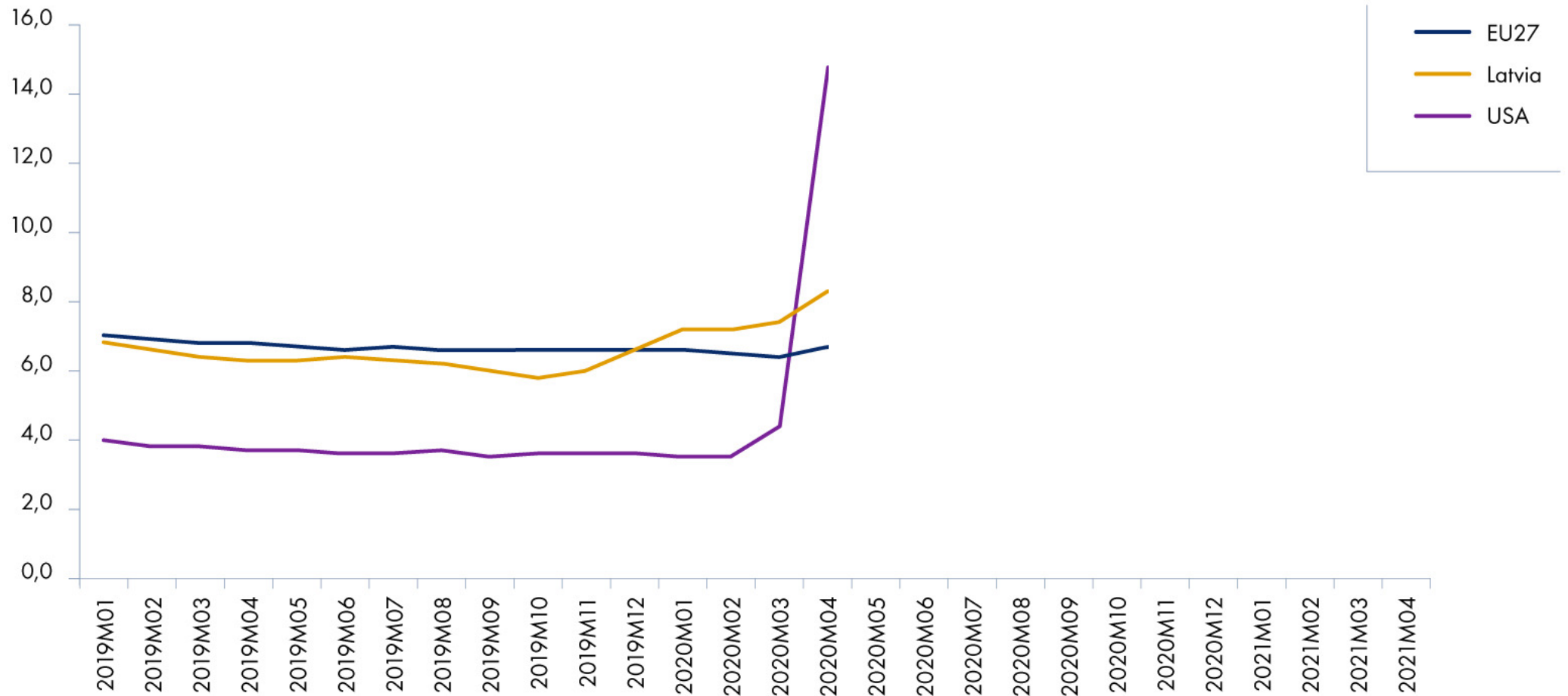
Then... March 2020

- Health **crisis**
- Supply chain **crisis**
- Labour market **crisis**
- Demand **crisis**
- Oil price **crisis**
- Stock market **crisis**
- Currency **crisis**
- Debt **crisis**



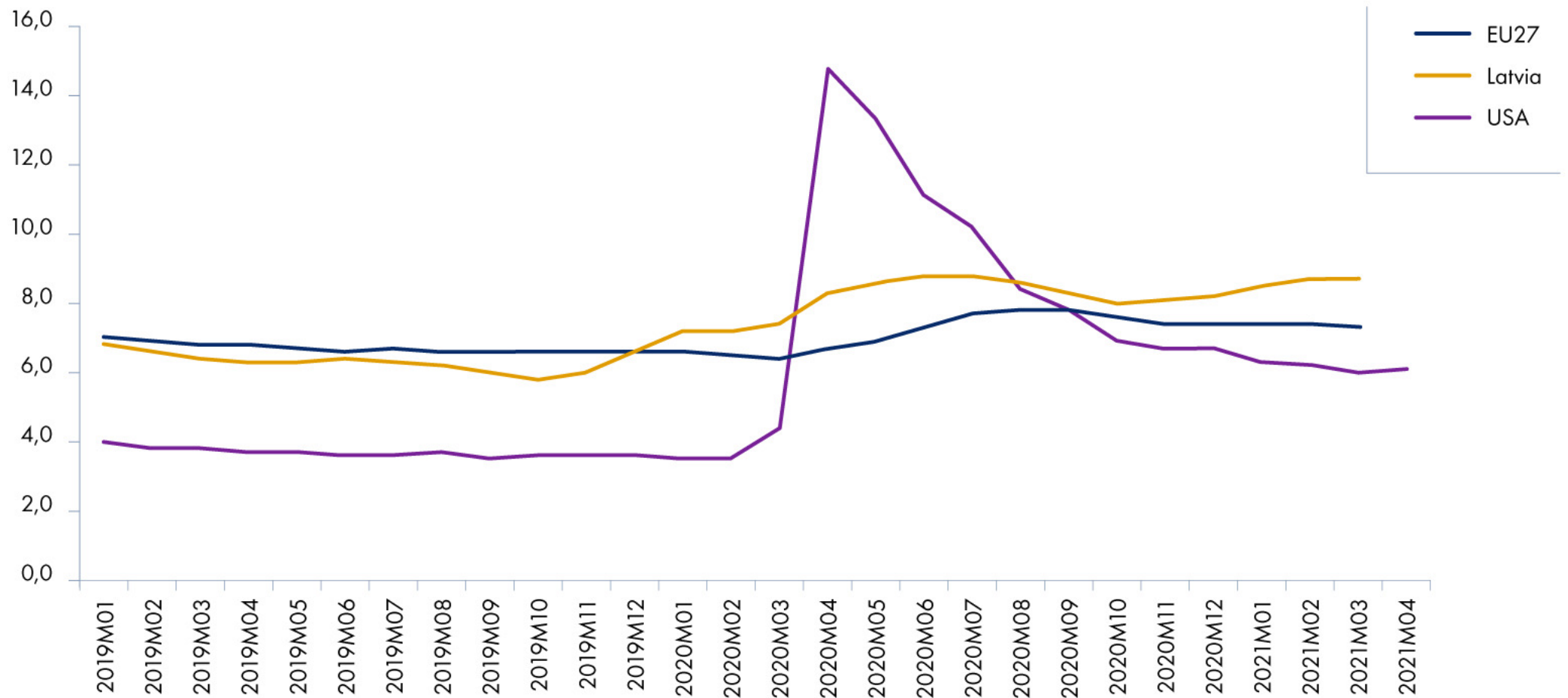
Unemployment rates

2019-I – 2021-IV | EU27, Latvia, USA

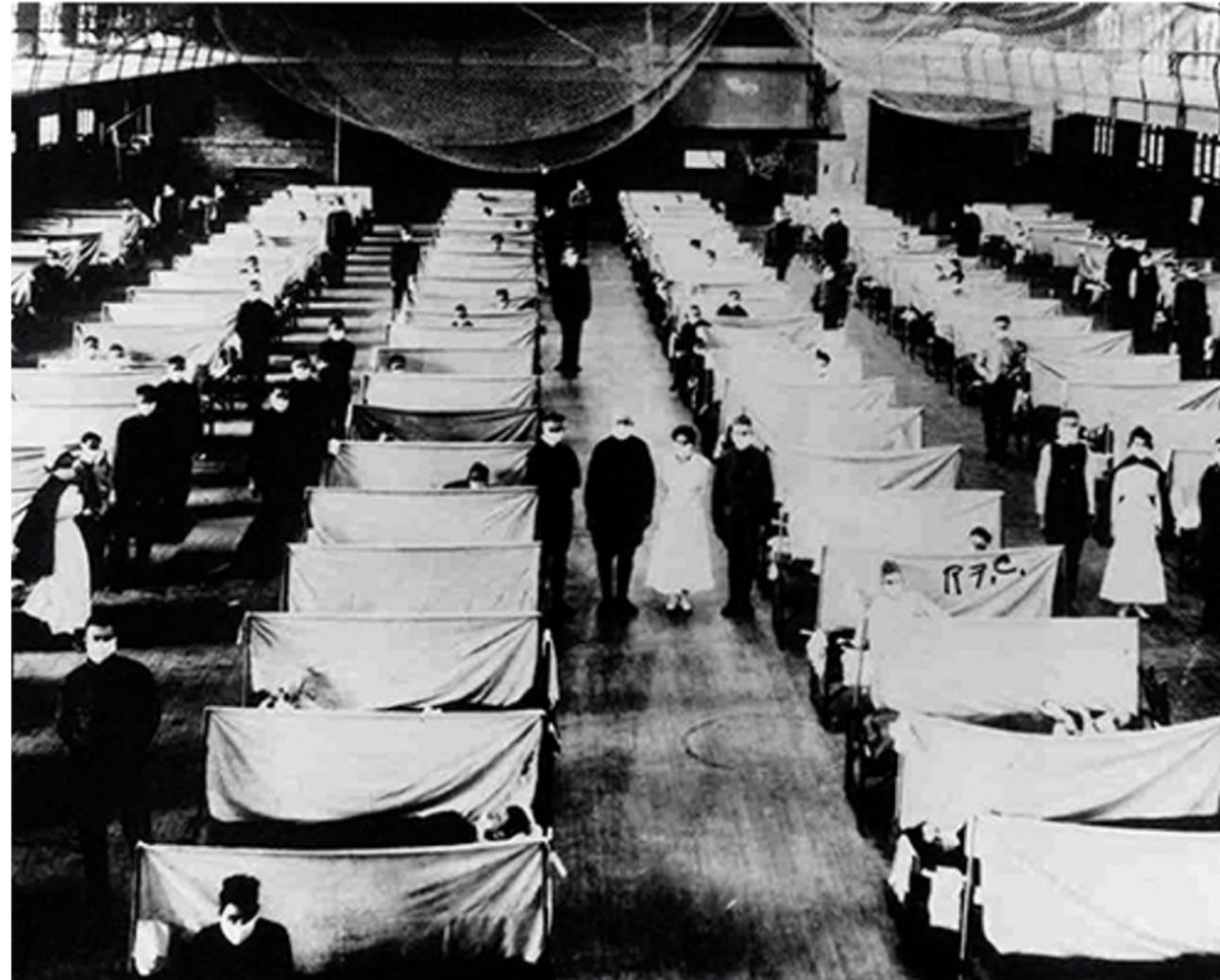


Unemployment rates

2019-I – 2021-IV | EU27, Latvia, USA



Illustrations of the problem facing economists



Illustrations of the problem facing economists



Number of observations of our most important economic variable to date – **GDP growth**



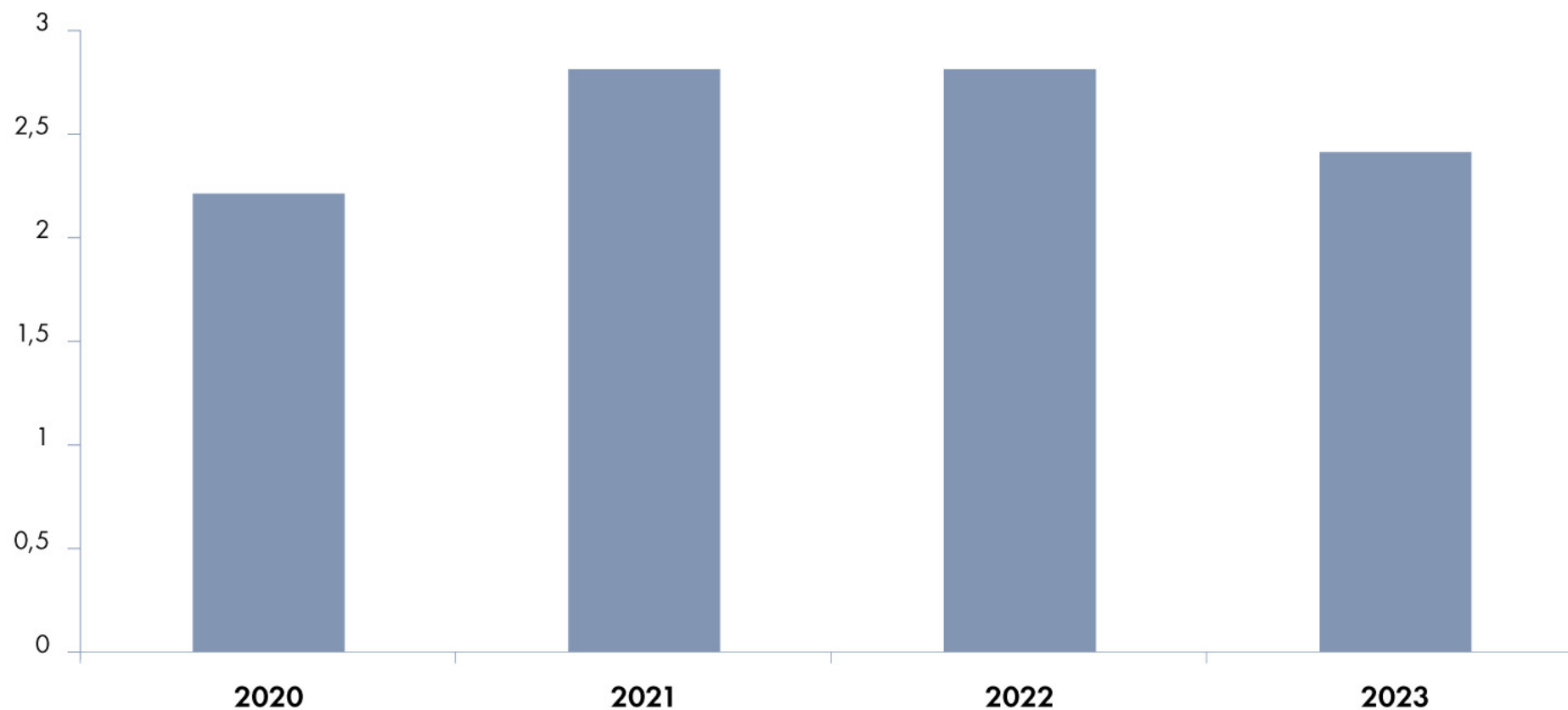
Most recent event to act as comparator:
Spanish Flu, 1918 – 1920

Economic growth forecasts for Latvia

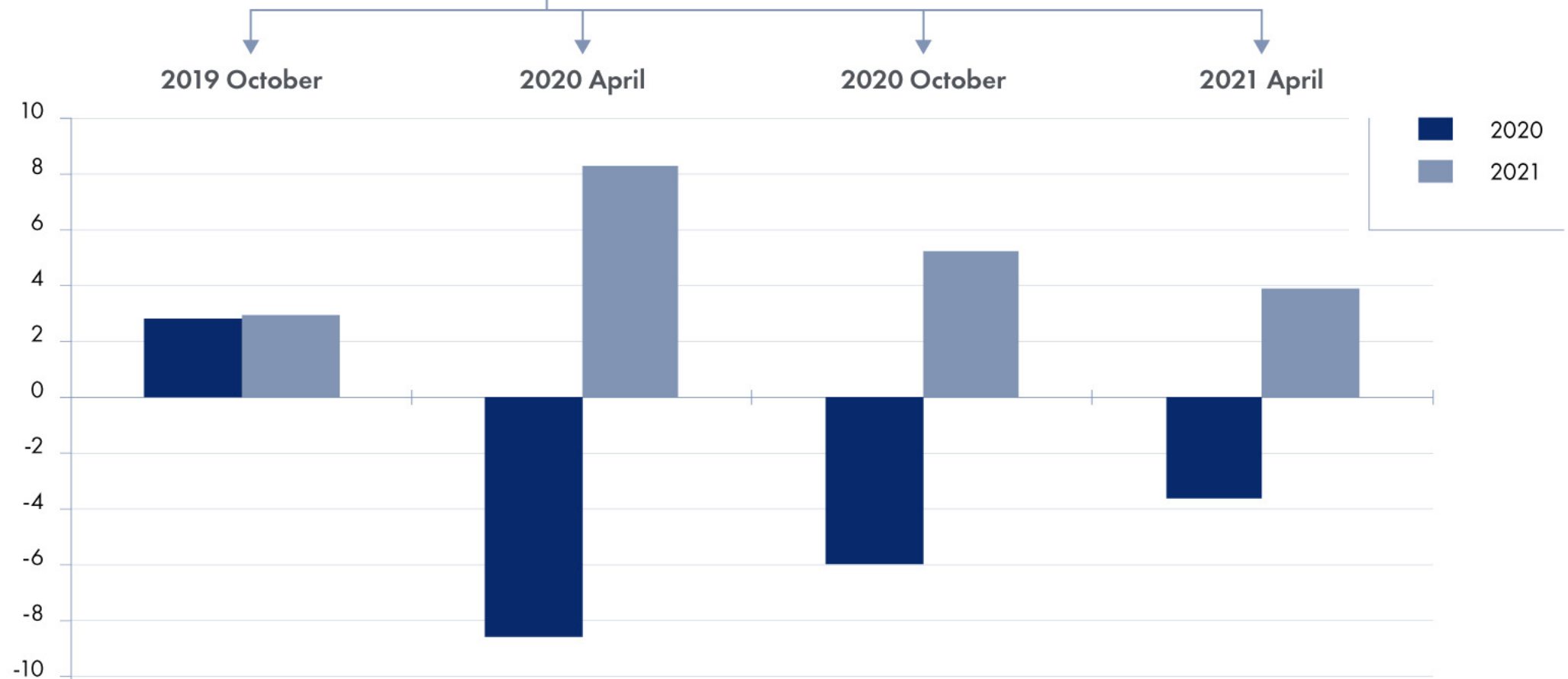
2020 – 2023 (February 2020)



Ministry of Finance
Republic of Latvia



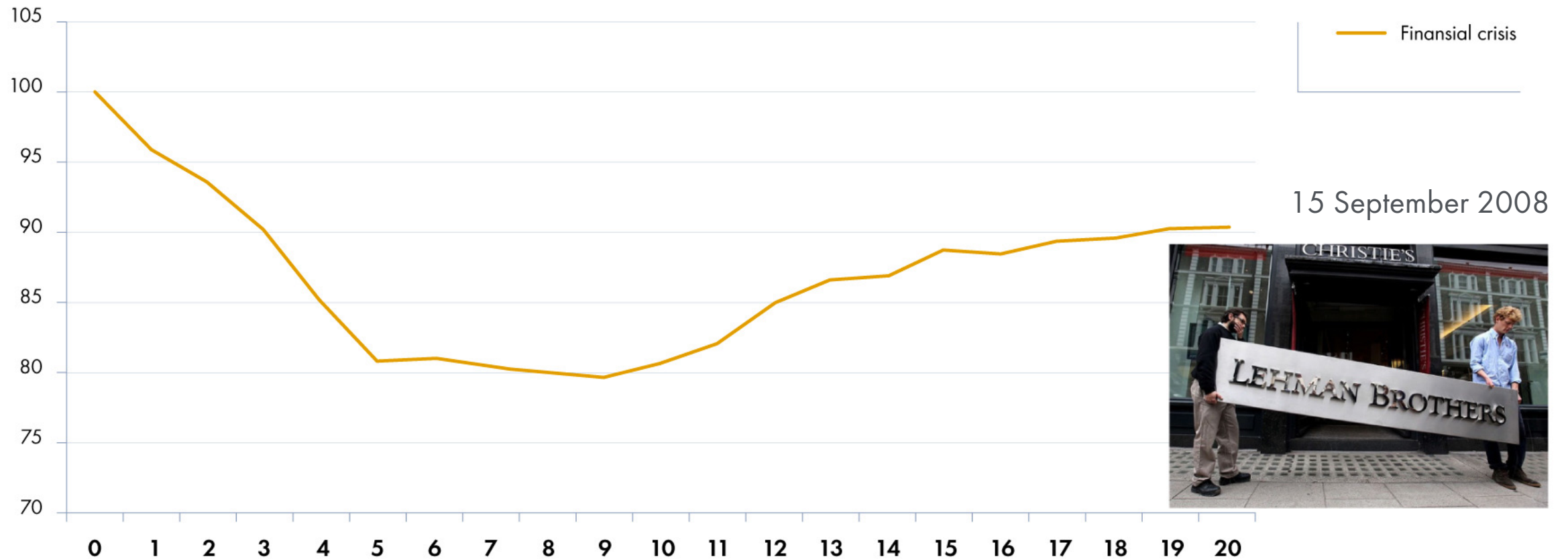
IMF forecasts for economic growth in 2020 and 2021 in Latvia - at four different time period



GDP development, Latvia

Q2 2008 = 100

1st axis: Number of quarters since Q2 2008



GDP development, Latvia

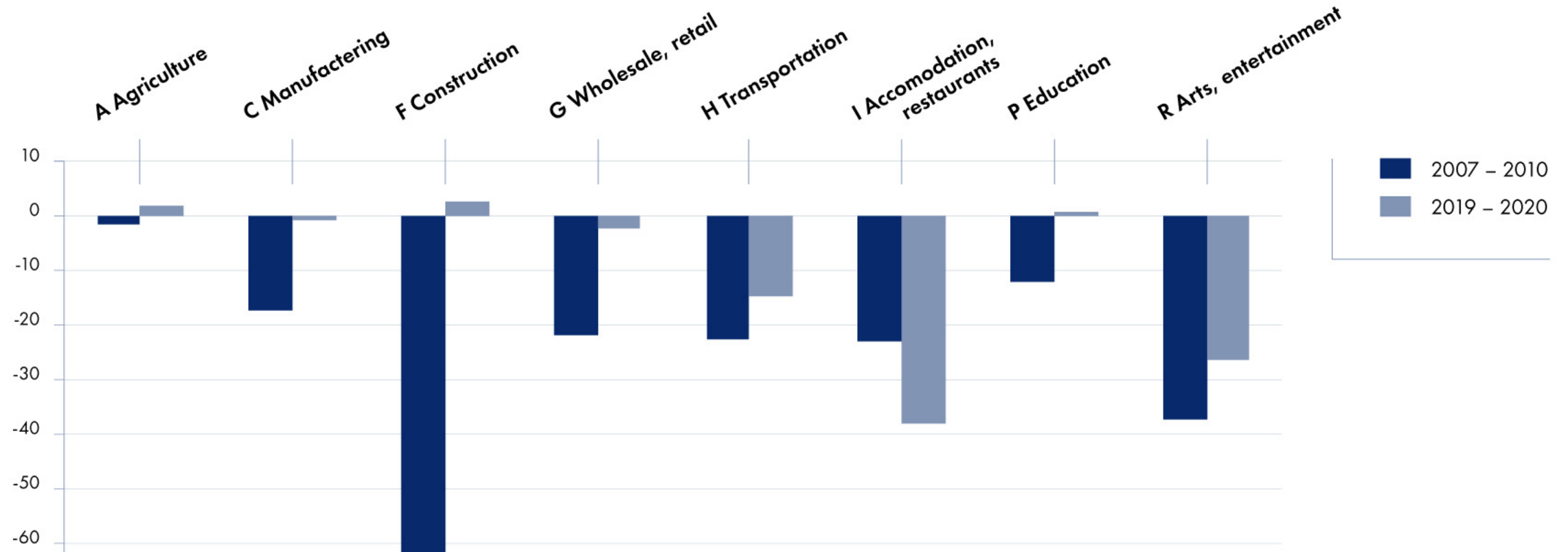
Q2 2008 = 100 and Q4 2019 = 100

1st axis: Number of quarters since Q2 2008 and Q4 2019



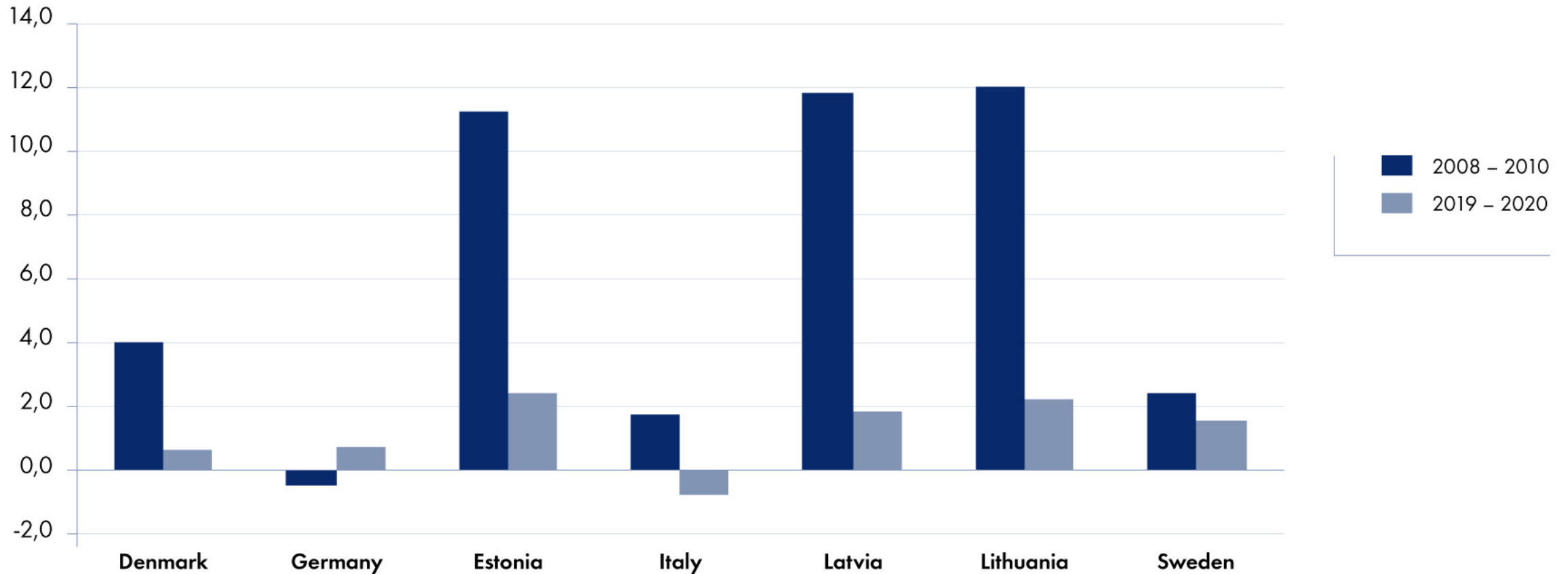
Comparison of Covid-19 and the financial crisis in Latvia

Change in value added (constant prices) 2007 – 2010 and 2019 – 2020 for selected NACE 2 sectors of the economy

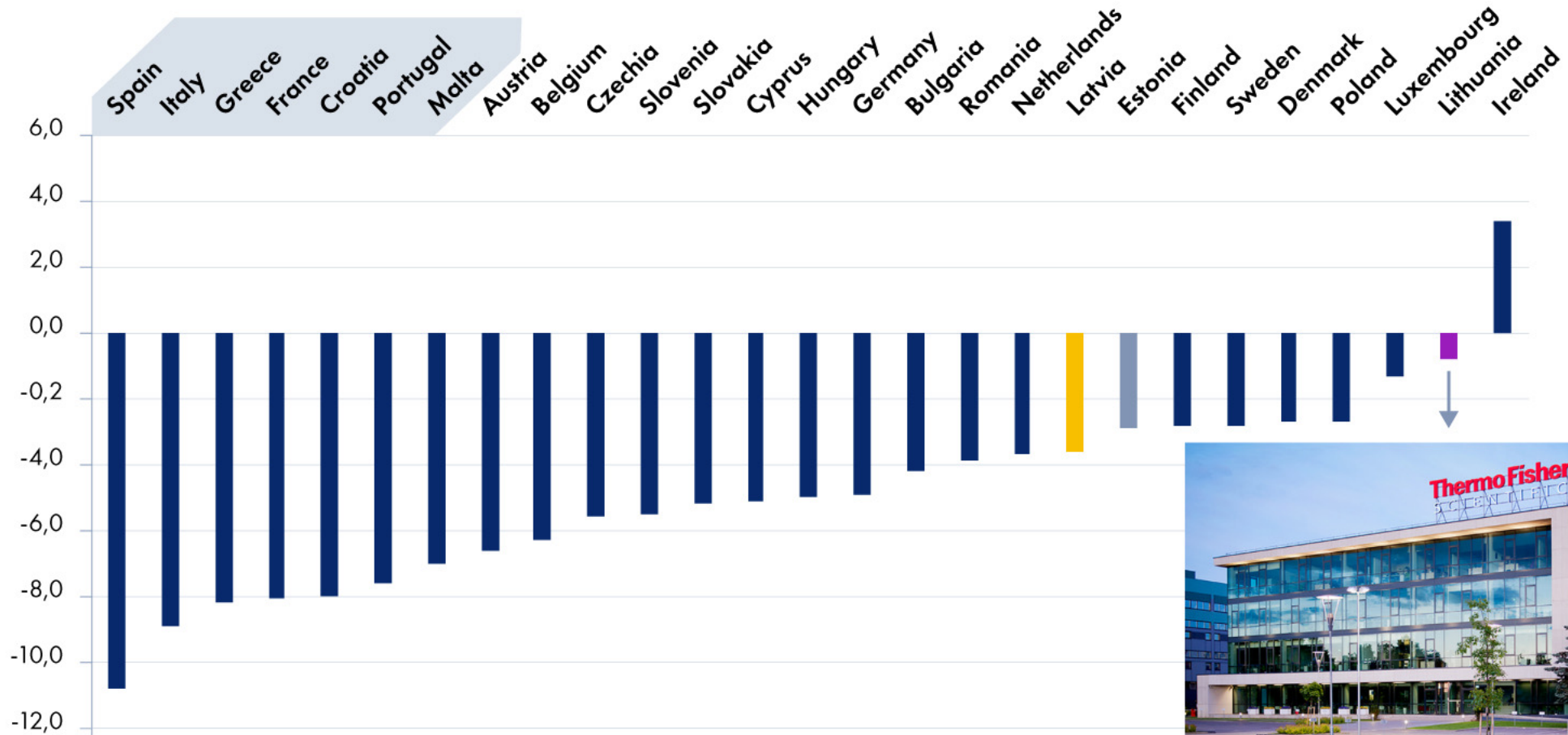


Comparison of Covid-19 and the financial crisis

Change in unemployment rates, percentage points, selected EU countries



Economic growth (decline...), 2020, EU27



2008 – 2010



WARNING

Policy response

2020 – 2021



WARNING

PRESS RELEASE

ECB announces €750 billion Pandemic Emergency Purchase Programme (PEPP)

18 March 2020

The Governing Council decided the following:

(1) To launch a new temporary asset purchase programme of private and public sector securities to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the outbreak and escalating diffusion of the coronavirus, COVID-19.

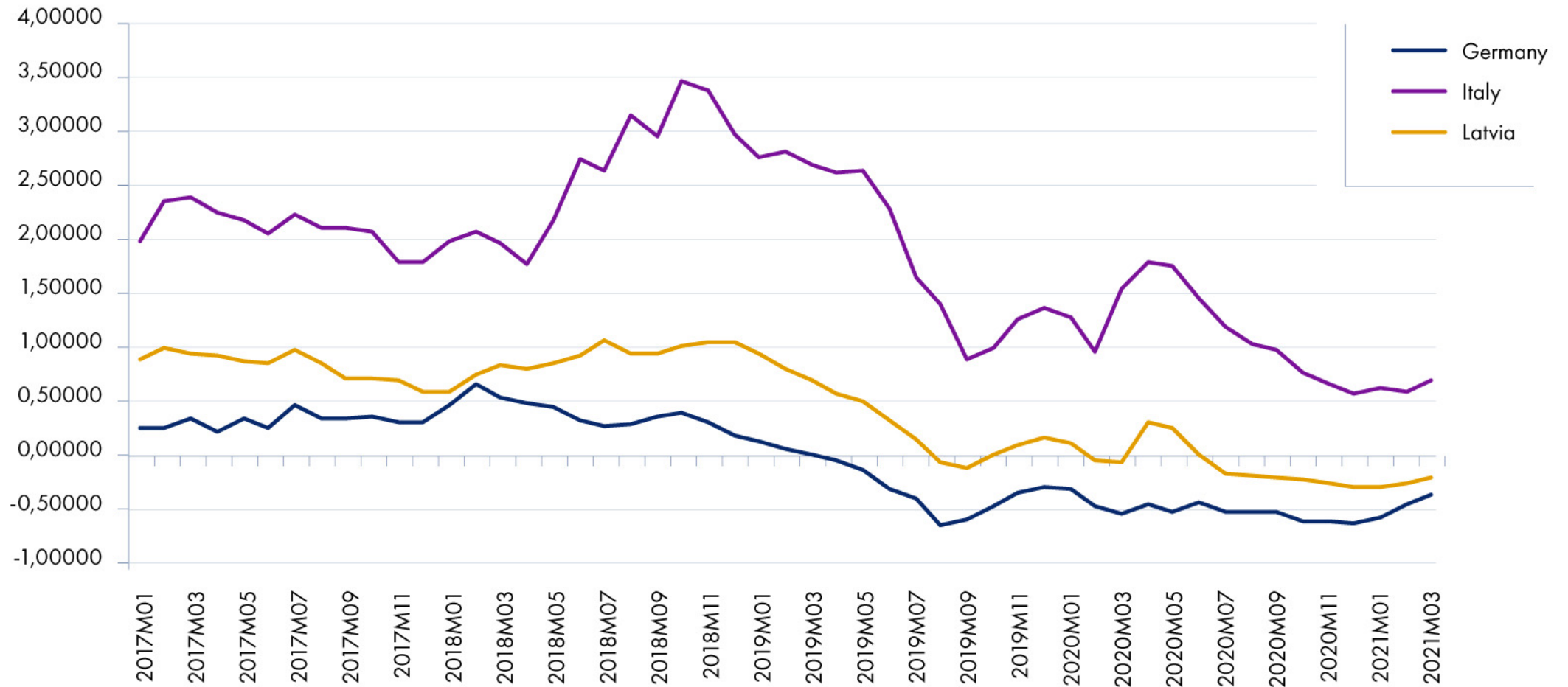
This new [Pandemic Emergency Purchase Programme \(PEPP\)](#) will have an overall envelope of **€750 billion**. Purchases will be conducted until the end of 2020 and will include all the asset categories eligible under the existing asset purchase programme (APP).

Increased to
1,850 bill. EUR



Long-term government bond interest rates, 2017-I – 2021-IV

Latvia can borrow at negative rates



Commission proposes unprecedented suspension of EU's fiscal rules

📅 Mar 20, 2020



European
Commission

THE PILLARS OF NEXT GENERATION EU

#EUSolidarity #StrongerTogether



RECOVERY AND RESILIENCE FACILITY

Financial support to public investments and reforms



Recovery and Resilience Facility:
Maximum grant allocations* (current prices)

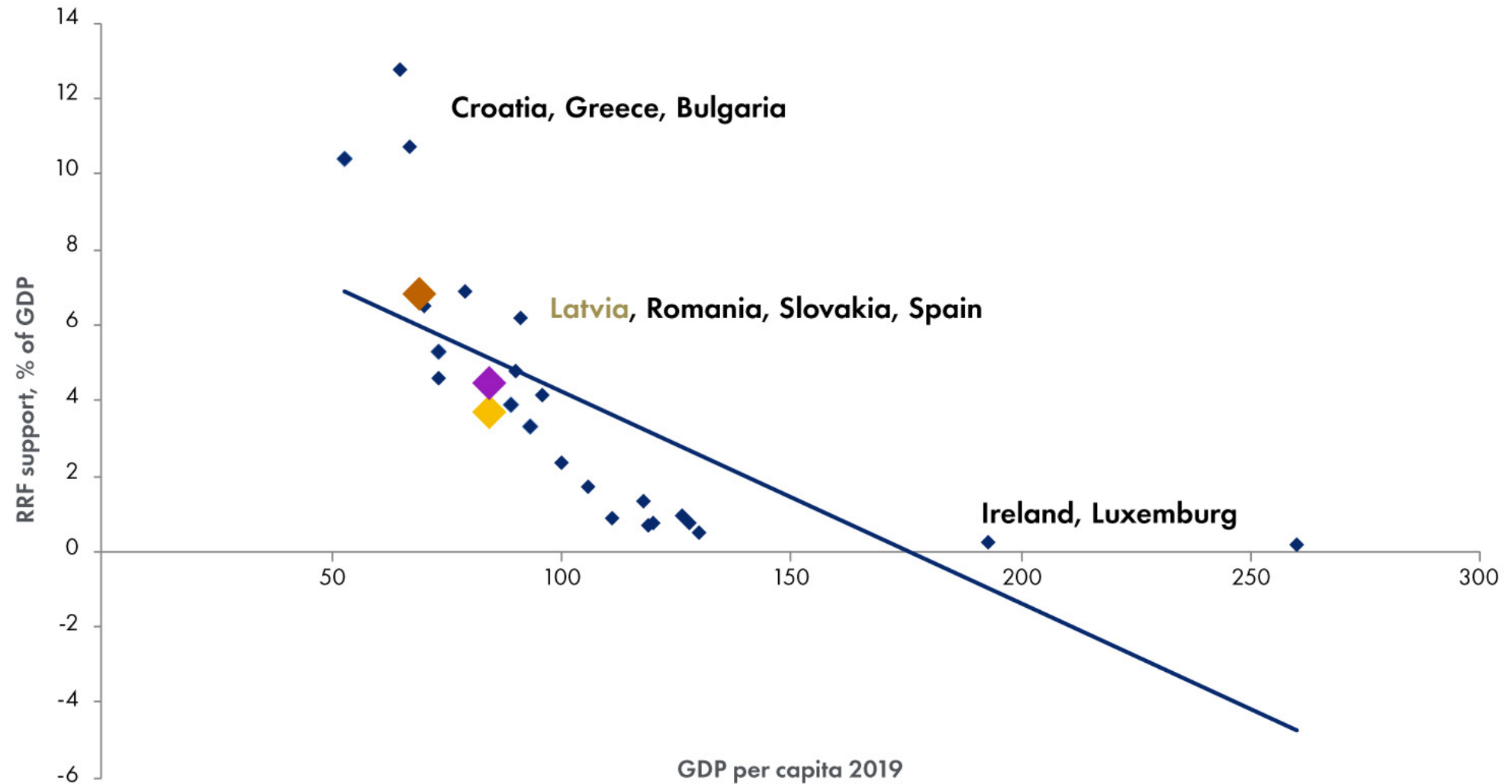
	For 70% of the amount available	For 30% of the amount available	Total
Belgium	3.6	2.3	5.9
Bulgaria	4.6	1.6	6.3
Czechia	3.5	3.5	7.1
Denmark	1.3	0.2	1.6
Germany	16.3	9.3	25.6
Estonia	0.8	0.2	1.0
Ireland	0.9	0.1	1.0
Greece	13.5	4.3	17.8
Spain	46.6	22.9	69.5
France	24.3	15.0	39.4
Croatia	4.6	1.7	6.3
Italy	47.9	21.0	68.9
Cyprus	0.8	0.2	1.0
Latvia	1.6	0.3	2.0
Lithuania	2.1	0.1	2.2
Luxembourg	0.1	0.0	0.1
Hungary	4.6	2.5	7.2
Malta	0.2	0.1	0.3
Netherlands	3.9	2.0	6.0
Austria	2.2	1.2	3.5
Poland	20.3	3.6	23.9
Portugal	9.8	4.1	13.9
Romania	10.2	4.0	14.2
Slovenia	1.3	0.5	1.8
Slovakia	4.6	1.7	6.3
Finland	1.7	0.4	2.1
Sweden	2.9	0.4	3.3
EU 27	234.5	103.5	338.0

(In billion EUR, current prices)



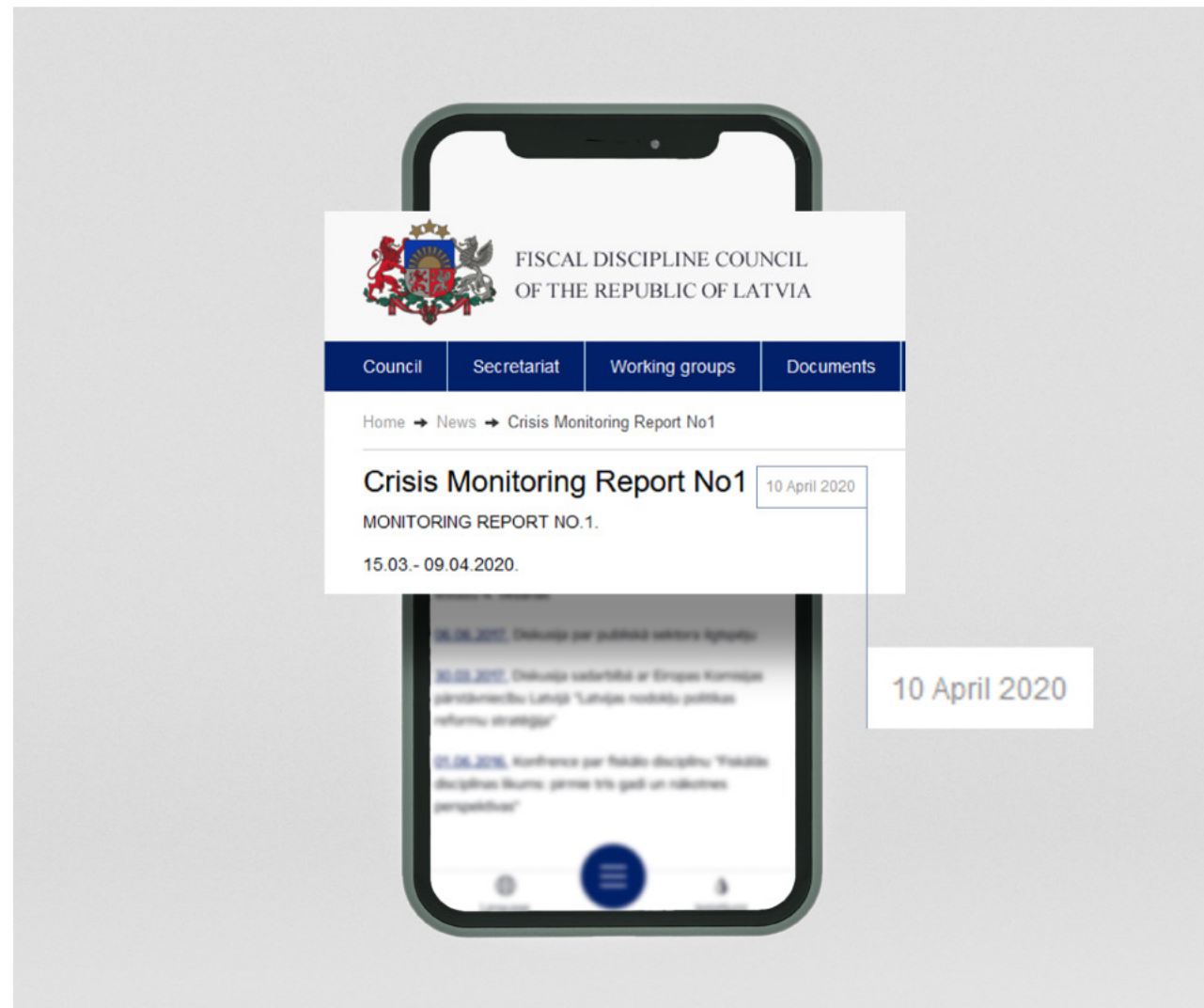
EU27

1st axis: GDP per capita
2nd axis: RRF support as % of GDP



The Latvian government acted fast

Activity	Predicted impact on economy (mlj. eur)	Predicted on impact on budget (mlj. eur)
Support to residents		
Idling payment (2 month)	147,9	-147,9
Sick leave if diagnosed with COVID-19 or in quarantine	34,5	-34,5
Support to municipalities	2,2	-2,2
Amendments to unemployed (self-employed and microcompanies)	1,4	-1,4
Support to companies		
Tax holidays	291	-291
ALTUM working capital loans	200	-50,8
ALTUM credit and portfolio guarantees	715	-50
Support to industries	218,1	-182
total	1610,1	-759,7
No IKP	5,2%	-2,5%



Efficiently?
With surgical precision?
Too much/too little?
Country comparisons?

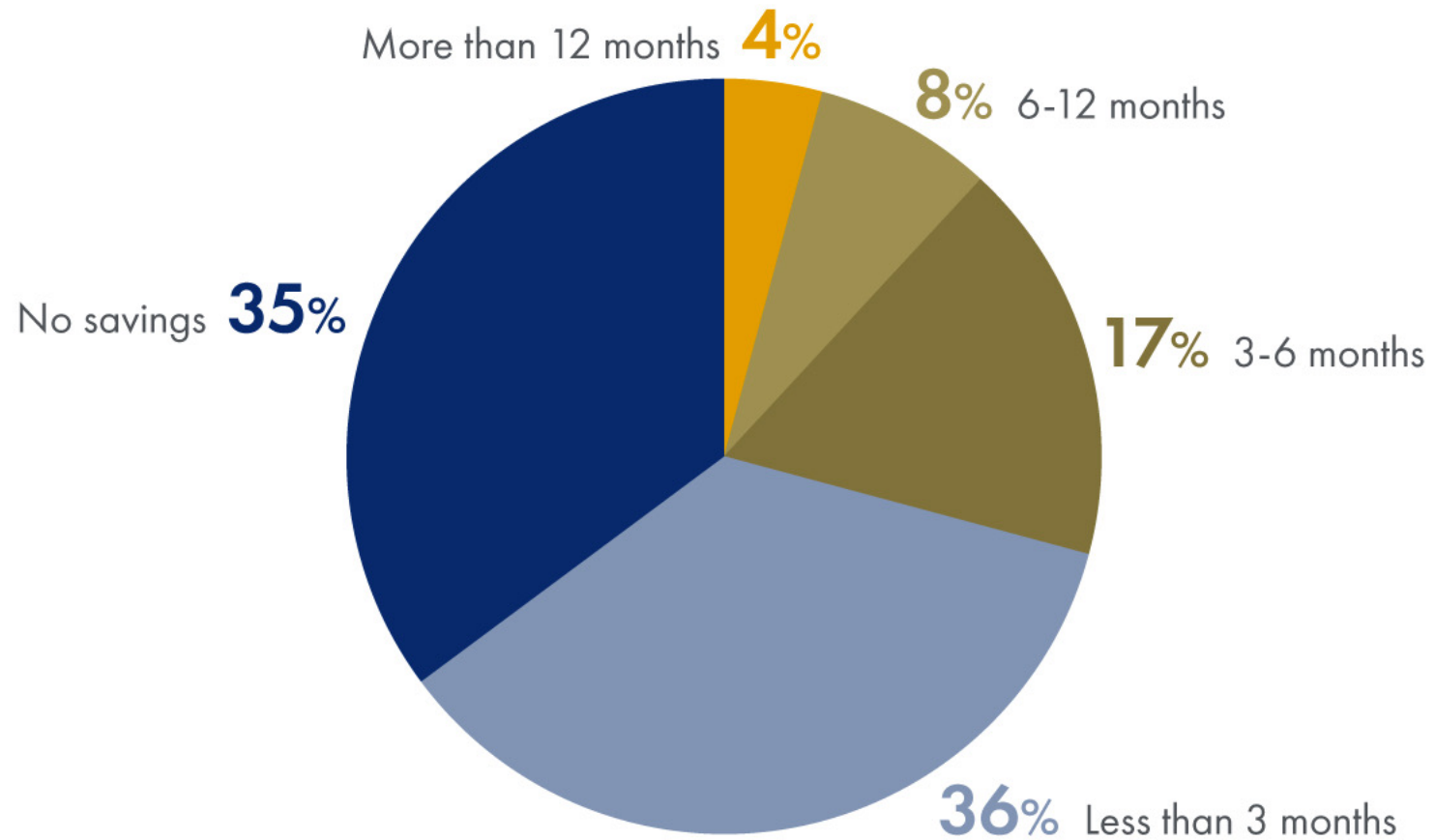
- **Benefits**
- **Loans and guarantees**
- **Sectoral support**
- **Taxes**
- **EU funding related support**

The logo for 'altum' features the word in a lowercase, sans-serif font. Above the letters 'u' and 'm', there are three horizontal bars of varying lengths, resembling a stylized roofline or a bar chart.

Saeima approves one-off childcare benefit payment

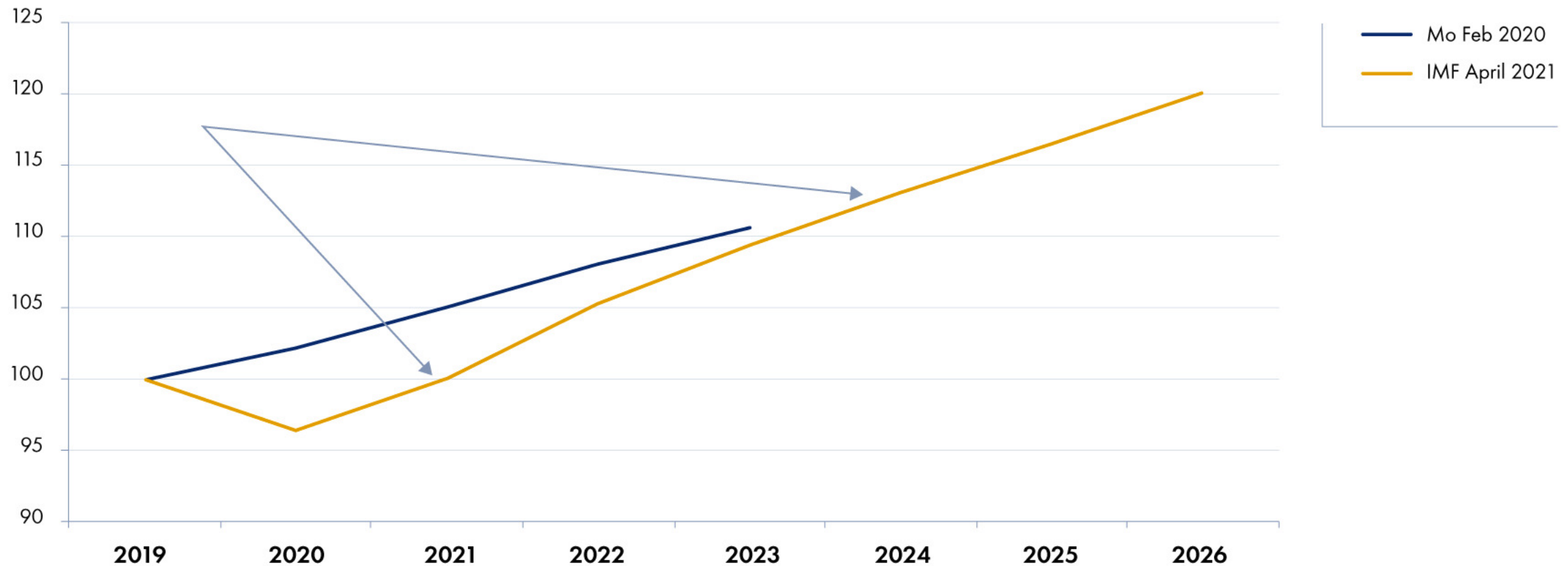
One-off aid to be granted for pensioners and disabled people in Latvia

How long can a household maintain its standards of living if having to rely on its savings? Latvia, 2020



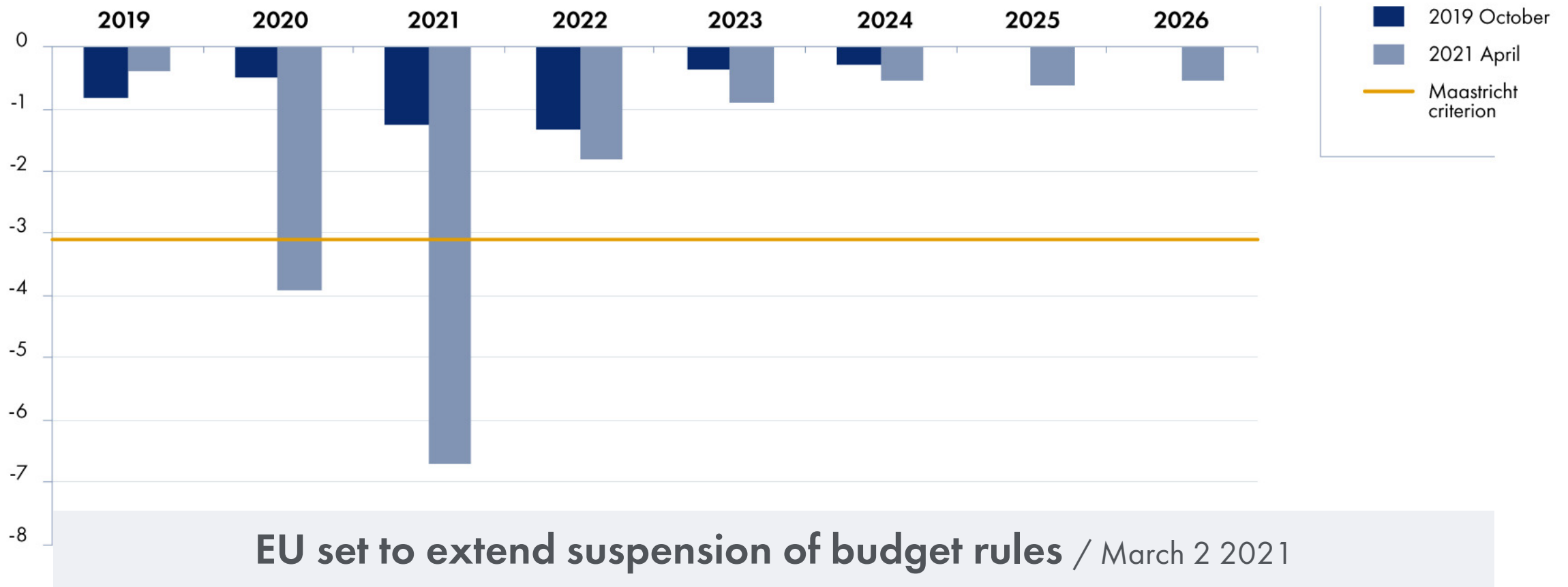
GDP trajectory for Latvia (constant prices), 2019 = 100.

Ministry of Finance (pre-crisis forecast). IMF, latest forecast (April 2021)



Latvia: Government budget balance, % of GDP

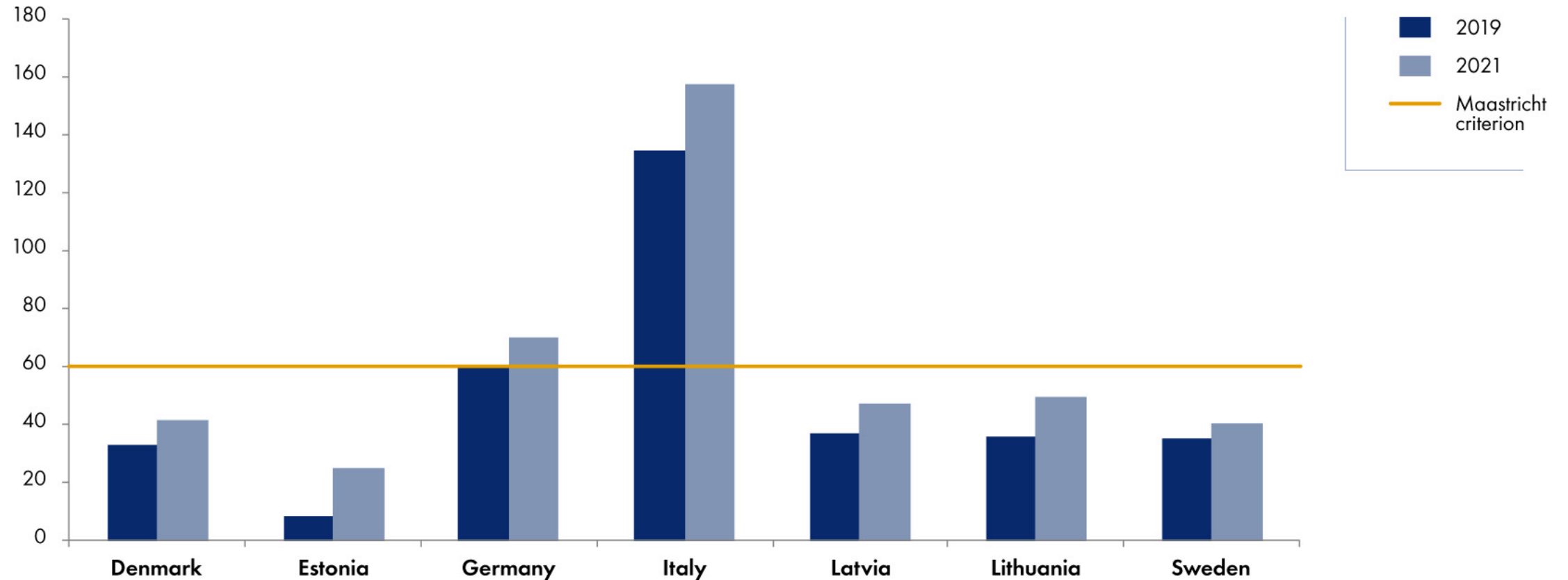
IMF forecasts October 2019 and April 2021



Note: No forecasts were made in 2019 for 2025-26

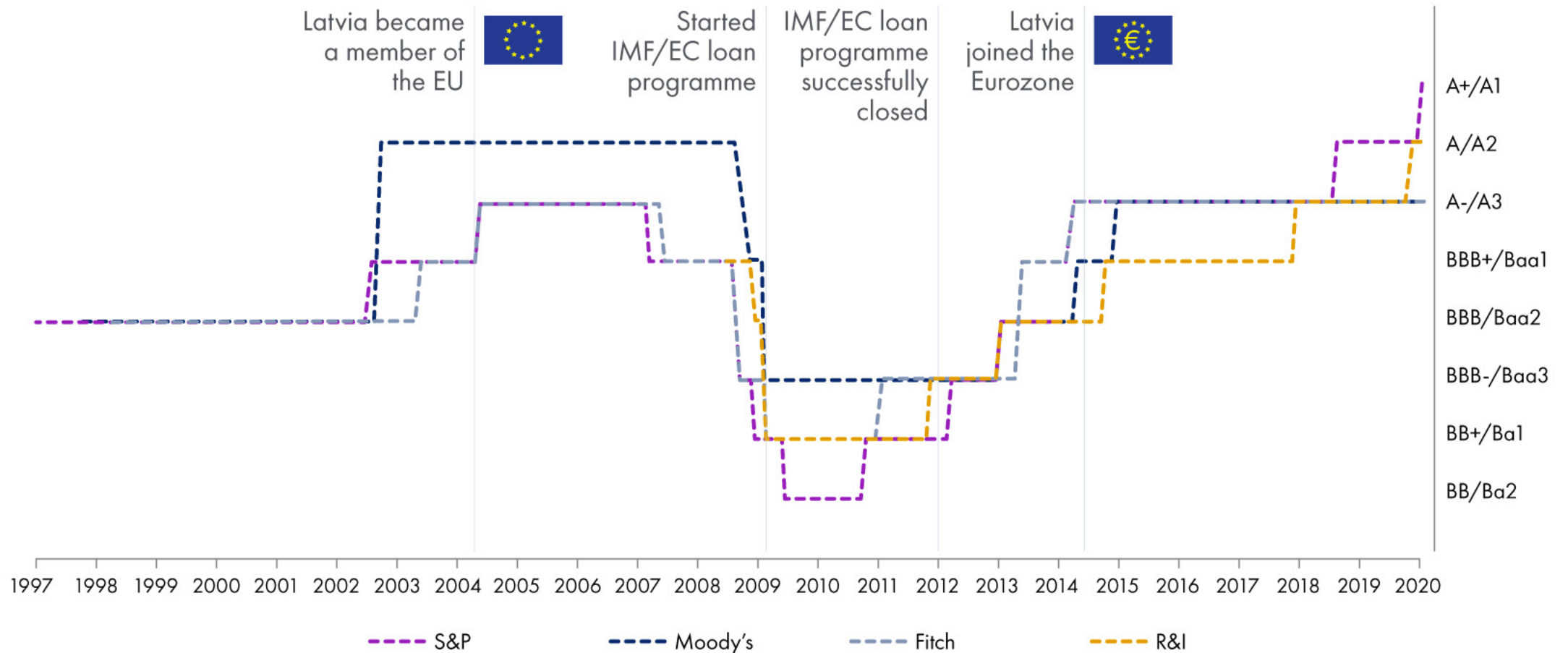
Government debt, % of GDP, 2019 and 2021 (est.)

Selected EU countries



Latvia's credit rating

NO downgrade during the pandemic



In 2020 the house was in order

- No imbalances in the economy when the pandemic struck
- Swift return to growth possible





Some conclusions

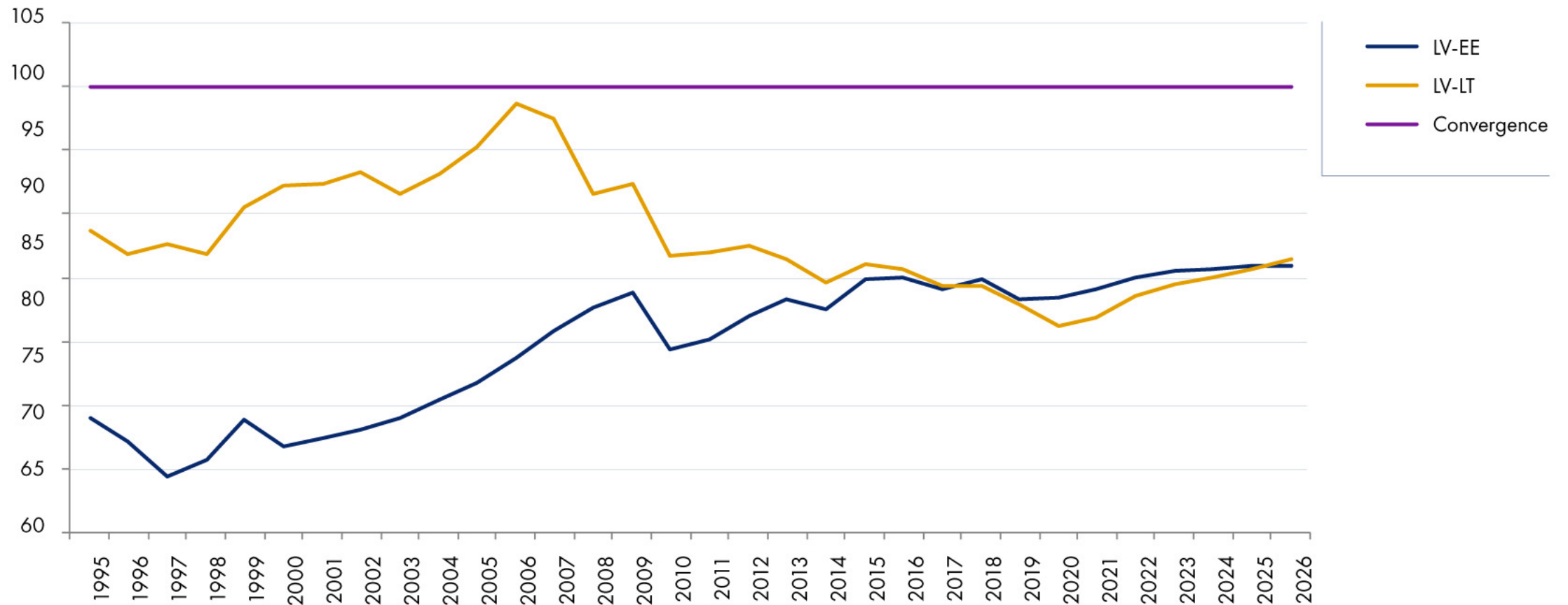
- Latvia economically prepared
 - The importance of no imbalances pre-crisis
 - The importance of sustainable public finances pre-crisis
- Swift, counter-cyclical policy responses
- Much smaller impact than first envisaged
- Very different from the financial crisis
- Latvia will emerge from this crisis without much lasting harm
- ... and can then again focus on the main long-term issue:

Income convergence

GDP per capita ratios

Latvian GDP per capita as % of Estonia's

Latvian GDP per capita as % of Lithuania's



Latvia: Government budget balance, % of GDP

Issues for future research


Latvia

- Efficiency and timing of support measures
- Use of RRF
- Possible overheating?
- Income convergence and the long run

EU/Eurozone

- Comparisons of programmes
- Accentuated debt problems
- ECB as a hostage of its own policies?
- ECB and financial bubbles



The background of the slide is a photograph of a grand, classical-style building facade. It features multiple stories with ornate architectural details, including tall columns with decorative capitals, arched windows with blue-tiled surrounds, and intricate carvings and sculptures. The building is light-colored, possibly white or cream, with blue tiles used for window accents.

**Thank you
for your attention!**

Questions and comments
are welcome

Stockholm School of Economics in Riga
Founded 1994