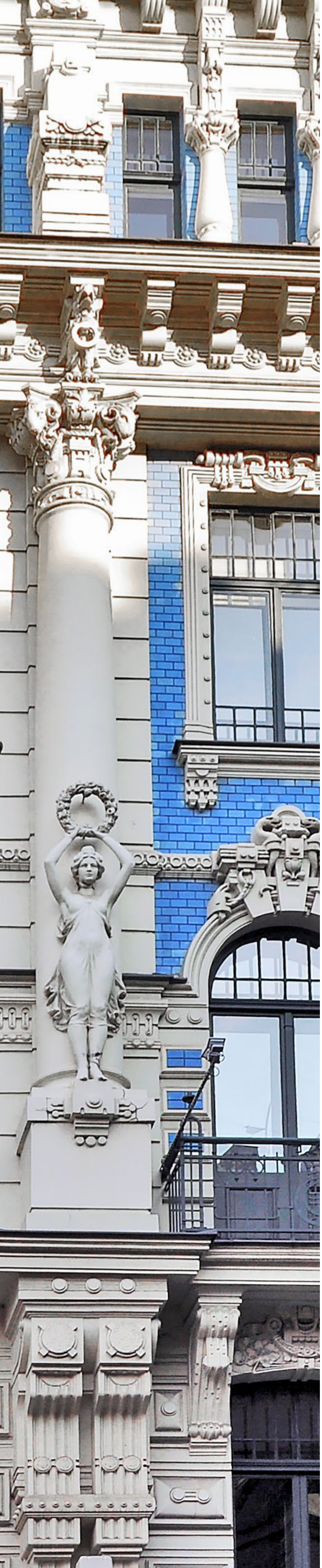

SSE RIGA

Fiscal Discipline Council

LATVIAN ECONOMISTS ASSOCIATION

Coronanomics in Latvia: Impact, policy response and the return to growth

Morten Hansen[1]

Head of Economics Department at Stockholm School of Economics in Riga and Vice-Chairman at the Fiscal Discipline Council of Latvia.[2]

[1] Contact:
Morten Hansen, morten.hansen@sseriga.edu, Stockholm School of Economics in Riga, Strēlnieku iela 4a, LV 1010 Riga, Latvia.

[2] All points of view expressed in this article are mine and may not reflect those of the Stockholm School of Economics in Riga or the Fiscal Discipline Council.

Abstract

This is an unfinished piece of work.

Unfinished because, at the time of writing, May 2021, the Covid-19 pandemic is still raging in terms of infections, vaccinations and economic and social impact.

The aim is to describe and analyze how the pandemic affected in particular Latvia, how the country fared during the crisis, how it responded and how it is emerging from this special crisis.

It is also an unfinished piece or work in terms of only having scratched the surface of many issues and having left out even more.

The pandemic may have affected our economies for about 15 months by the time of writing but the impact hereof and the responses, nationally and internationally, have been vast and will require research for many years to come.

Foreword

This article is the result of an idea by Ojārs Kehris President of the Latvian Economists Association and Ivars Ījabs Member of the European Parliament from Latvia representing political alliance Development/For! and European Parliament group Renew Europe.

The Latvian Economists Association would like to thank the Ivars Ījabs and Renew Europe for helping to organize this research.

LATVIAN ECONOMISTS ASSOCIATION

renew europe.

The Latvian Economists Association was founded in 1994 to promote economic thinking and the long-term development of the economy in Latvia. It is one of the oldest non-governmental organizations in Latvia. The main activities of the Association include economic research, conferences and discussions, and the systematic evaluation of the economic programs of political parties.

Ekonomisti.lv

1. Introduction

In terms of causes, the financial crisis of 2008 – 2010 and the current Covid-19 pandemic have nothing in common but they both have a vast economic impact and they are both what can be characterized as "100-year events" – but they happened with less than 15 years apart. A comparison of them nevertheless provides insights and these are necessary: The corona crisis, with its sudden emergence – in February 2020 economic indicators were still unaffected by the pandemic; in March 2020 our economies changed dramatically – put economic data in very high demand but they remained in short supply for a long period and, as an example, at the time of writing, May 2021, only five quarters of data for economic growth, the single most important economic variable, have emerged.

By March 2020 the world was facing several crises: A health crisis, a supply chain crisis, a labour market crisis, a demand crisis, an oil price crisis, a stock market crisis as well as looming currency and debt crises.

The outcome, so far, turned out less severe than what could be expected; in Latvia for instance, not least due to hitherto unseen support packages from the European Union, from the European Central Bank as well as from the national Latvian government.

This article tries to track some of the developments since February-March 2020. Sections 2, 3 and 4 analyze the situation in Latvia before and after the pandemic struck, section 5 describes some of the many support measures, section 6 deals with the return to growth in Latvia while section 7 discusses still unresolved issues following the pandemic. Section 8 looks into long-term growth in Latvia, section 9 provides suggestions for future research while section 10 concludes.

2. **Before the pandemic struck – February 2020**

A good example of how suddenly the pandemic struck society as well as the economy can be seen from data from the Latvian Ministry of Finance. In February of 2020, the Ministry was preparing forecasts for, inter alia, economic growth in order to prepare for the annual Stabilization Programme to be submitted to the EU, the results of which can be seen in Figure 1. Completely "normal" numbers; a bit disappointing in size but reflecting an economy that was at that time humming along just fine.

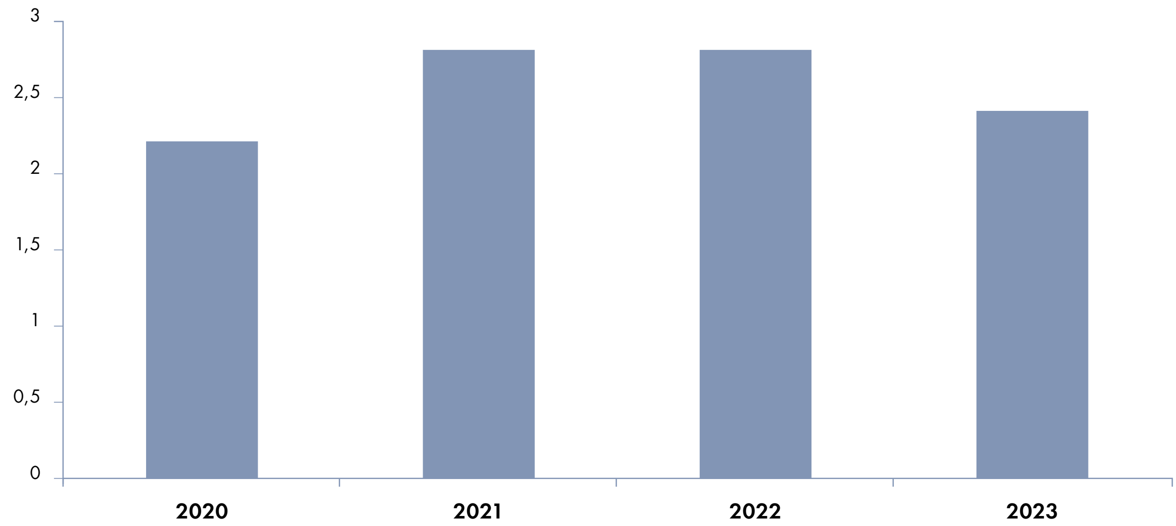

Figure 1: Economic growth forecasts for Latvia, 2020 – 2023 (February 2020)
Source: Ministry of Finance of the Republic of Latvia, Monthly Survey of the Economics and General government budget

At that time the Latvian economy did not exhibit any imbalances except for some possible overheating in the labour market. Inflation was under control, government finances were in very good shape and there were no credit boom or external imbalances either, as is witnessed by Table 1.

Growth rate 2019 Q4	**Unemployment rate** February 2020	**Inflation** February 2020	**Government budget balance** 2019	**Government gross debt** 2019	**Current account balance** 2019
0.6%	7.2%	2.3%	– 0.4% (of GDP)	37% (of GDP)	– 0.6% (of GDP)

Table 1: Main economic indicators for Latvia just before the pandemic
Source: Official statistics portal of Latvia (stat.gov.lv) for growth, unemployment and inflation; IMF (imf.org) for budget balance, debt and current account balance

3. **Covid-19 becomes a household name. March-April 2020**

Latvia registered its first Covid-19 case on 2 March 2020 and lockdown in various places ensued at high speed – as an example, 16 March was the last day of regular flights out of Latvia.

This also had immediate micro- and macroeconomic impact although the economics profession was seriously challenged for two reasons: a) The speed by which the pandemic affected the economy and b) the total lack of any previous similar event to help base forecasts on[3]. A good illustration of this is provided by the IMF's forecasts for the Latvian economy. The IMF provides forecasts twice a year (April and October) and its last four forecasts for 2020 and 2021 are provided in Figure 2. As with the Ministry of Finance, no dangers were visible in October 2019 while the forecasts half a year later envisaged a dramatic drop in GDP in 2020 of more than 8% with an equally strong comeback in 2021. These dramatic expectations (common for most countries) were substantially revised down as the pandemic turned out to be less severe economically, as was first expected but also due to the unprecedented fiscal and monetary stimulus that was initiated, see section 5.

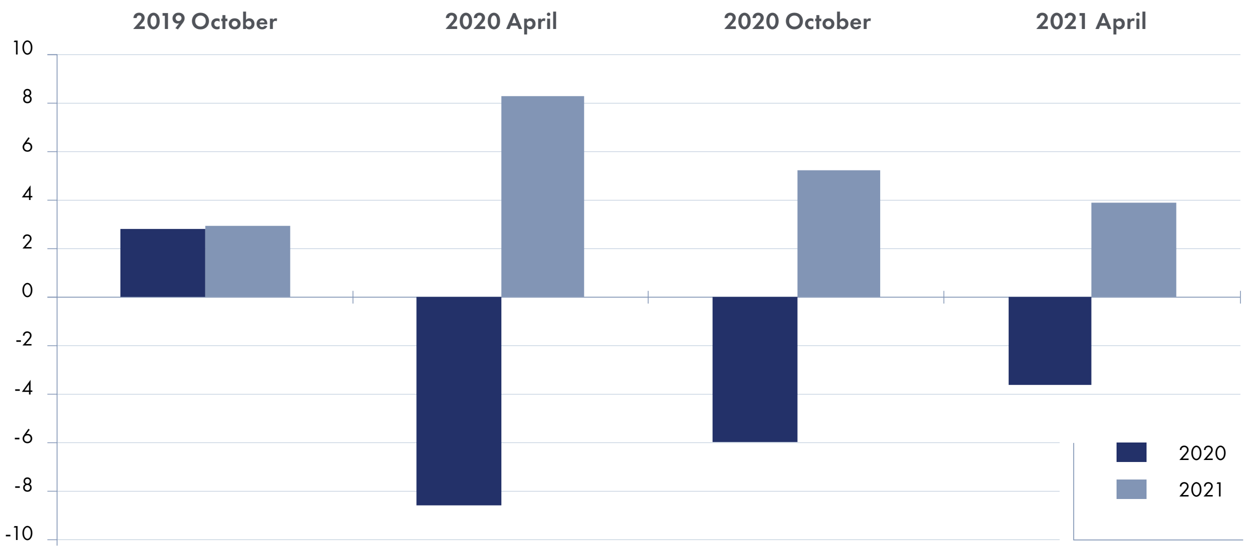

Figure 2: GDP growth forecasts for Latvia for 2020 – 2021 at four different time periods (October 2019, April 2020, October 2020 and April 2021).
Source: IMF, World Economic Outlook Databases, October 2019, April 2020, October 2020 and April 2021, respectively

4. **Anatomy of the crisis in Latvia**

Covid-19 and ensuing lockdowns act as a negative demand shock to the economy. In particular, air travel, tourism, accommodation and restaurants are hard hit. It also acts as a negative supply shock due to supply chains being disrupted around the world but the demand impact was by far the strongest which can be seen by its downward push on inflation (Figure 3). Overall inflation was pushed into negative territory already in April 2020 and remained there until March 2021. Accommodation, obviously, saw major deflation.

3 The Spanish flu of 1918 – 1920 is obviously from a time of very different economies. With much poorer and much less interdependent economies, this episode cannot act as any meaningful comparator.

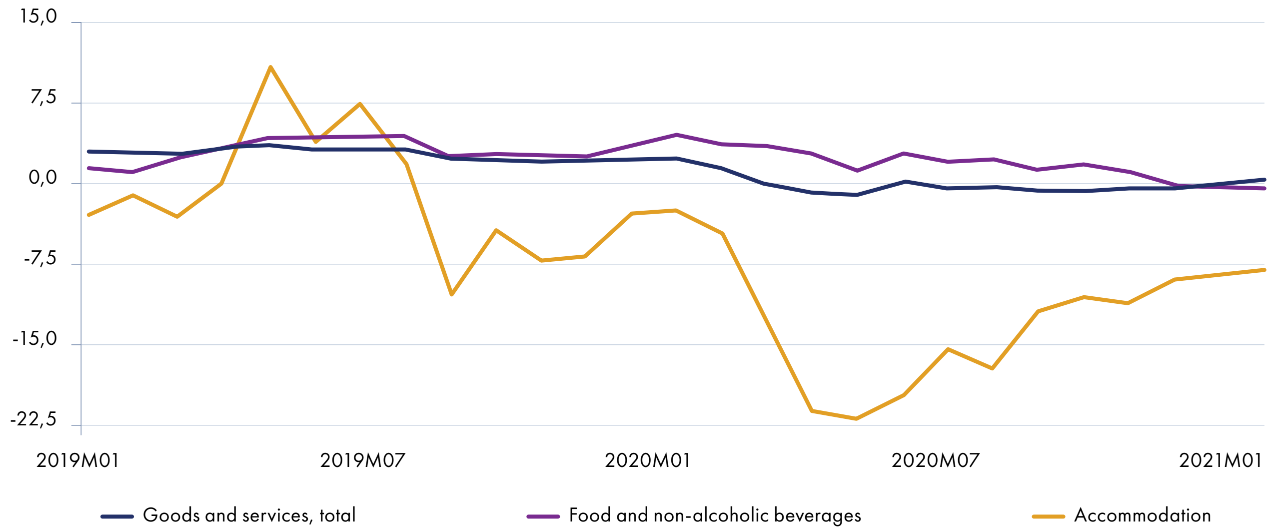

Figure 3: Inflation in Latvia 2019-I – 2021-III, overall and selected sectors
Source: Official statistics portal of Latvia

The current crisis and the financial crisis 2008 – 2010 have nothing in common in terms of root causes but it is nevertheless instructive to make a comparison to see similarities and differences. The last quarter before the pandemic/the last "normal" quarter was Q4 2019; similarly one can identify Q2 2008 as the last quarter before the financial crisis if the onset of that crisis can be defined as the collapse of Lehman Brothers on 15 September 2008. We suffer from a lack of data – only 5 quarters of GDP data have been recorded since the onset of the pandemic but as Figure 4 shows, the impact of the financial crisis was much stronger and much more prolonged.

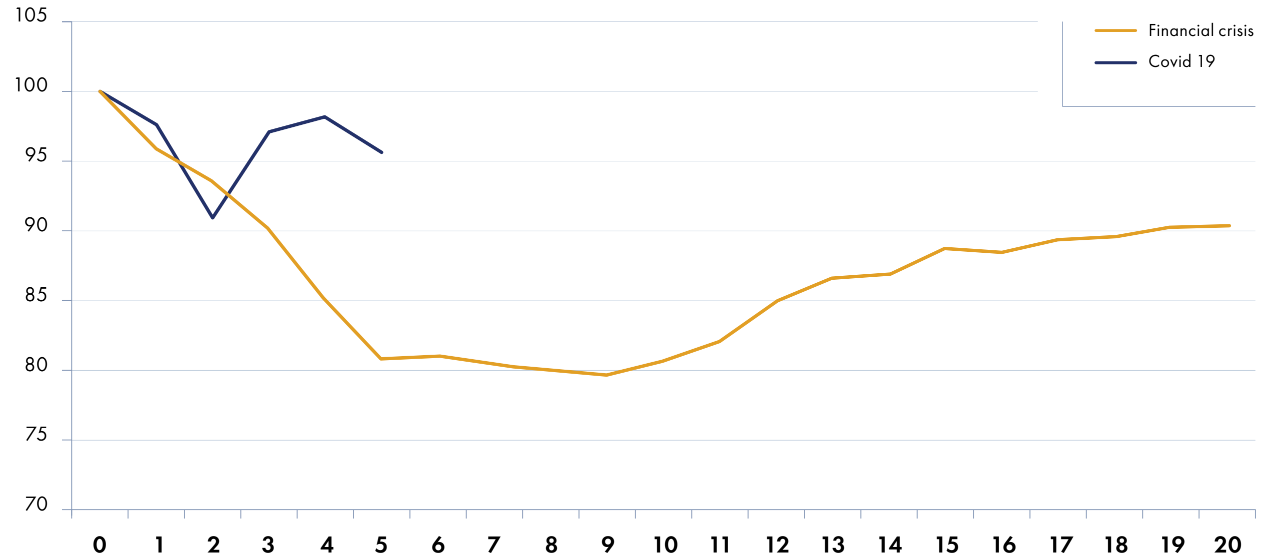

Figure 4: Comparison of Covid-19 and the financial crisis in Latvia. 2019 Q4 = 100 and 2008 Q2 = 100. First axis: Number of quarters following onset of crisis.
Source: Official statistics portal of Latvia and own calculations

This conclusion is also supported by Figure 5, which compares the impact on different sectors of the economy. The financial crisis started with a credit boom becoming a credit bust with immediate – and massive – impact on sectors such as construction, real estate and banking and subsequently on the overall economy. Covid-19 has been much more selective with hard hits to e.g. accommodation and entertainment but a small uptick for construction and no impact to speak of in e.g. employment-heavy manufacturing.

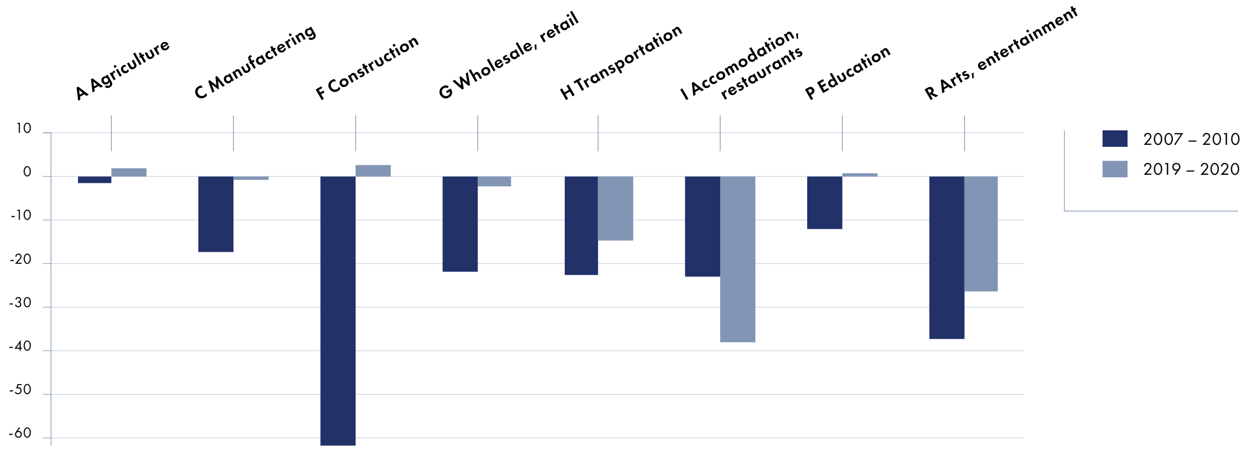

Figure 5: Comparison of Covid-19 and the financial crisis in Latvia. Change in value added (constant prices) 2007 – 2010 and 2019 – 2020 for selected NACE 2 sectors of the economy
Source: Official statistics portal of Latvia and own calculations

Thus it should come as no surprise at all that the impact on unemployment has also been much more benign during the current crisis than it was at the time of the financial crisis. The Latvian unemployment rate has jumped about two percentage points during 2020, a far cry from the devastating twelve percentage points at the time of the financial crisis, Figure 6. This is one the most positive surprises of the pandemic, reflecting its comparative lack of economic severity but most likely also a belief across the economy that return to growth is just around the corner, helped by ECB stimulus, national fiscal stimulus, upcoming EU fiscal stimulus – and, of course, rollout of vaccines.

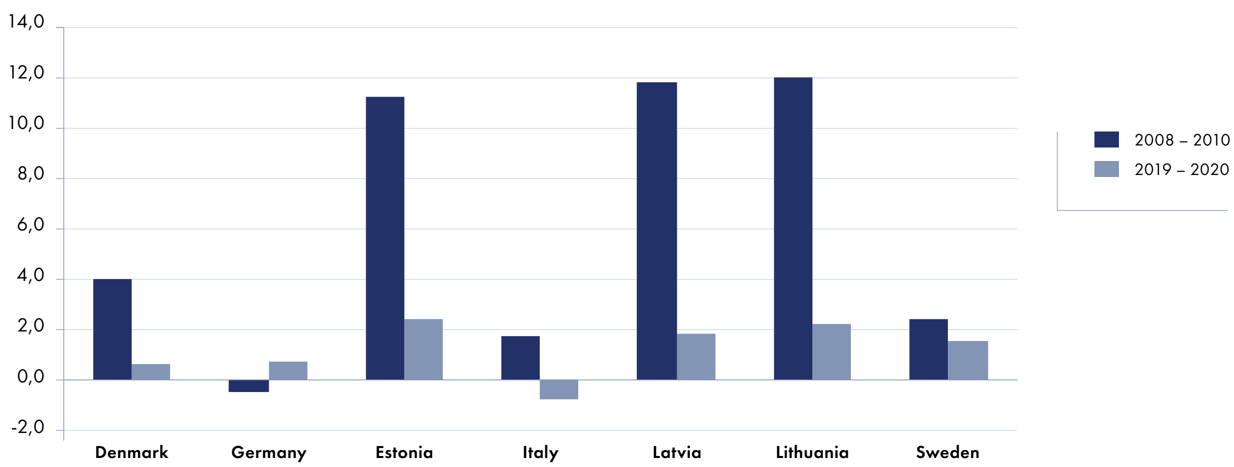

Figure 6: Changes in unemployment rates, 2008 – 2010 and 2019 – 2020, selected EU countries
Source: Eurostat and own calculations

To finish this anatomy of the crisis one may look at the GDP impact across the EU (Figure 7). This reveals Covid-19 as an asymmetric shock with the biggest negative impact on southern European economies that rely strongly on tourism.

In an EU context the impact on the Baltic countries has been benign; Lithuania even being the second-least hit country[4,5].

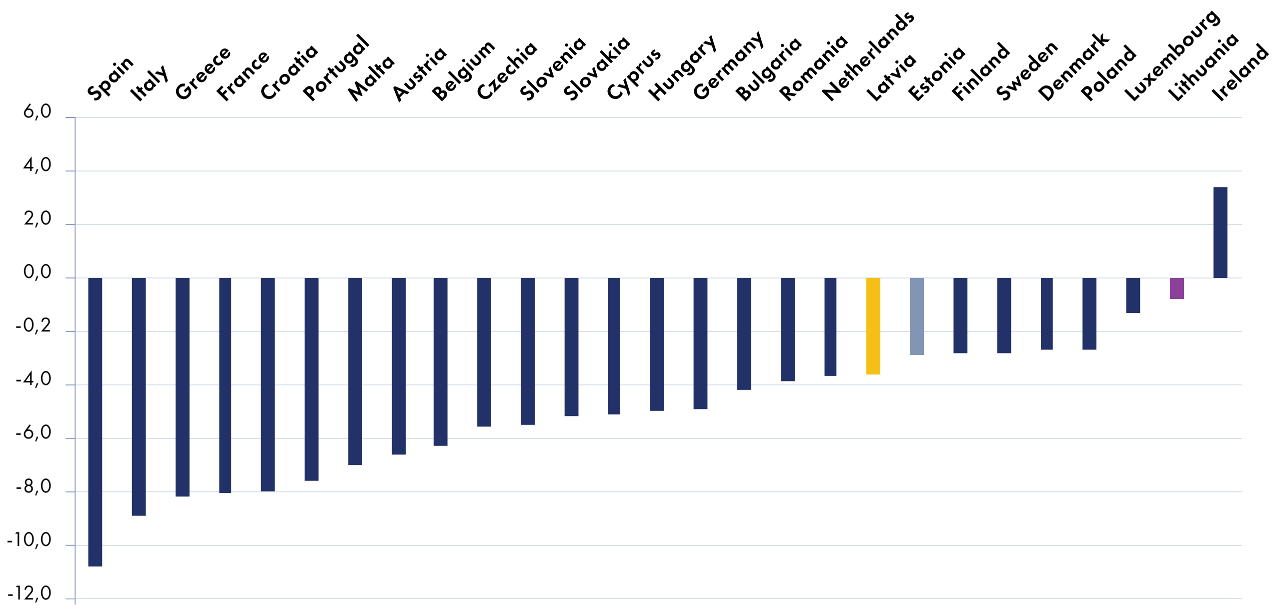

Figure 7: GDP growth (decline...) 2020 in EU27
Source: Eurostat

5. **Policy responses**

Compared to the financial crisis, policy response to Covid-19 was both swift and counter-cyclical. The European Central Bank (ECB) initiated its Pandemic Emergency Purchase Programme, the EU created the Recovery and Resilience Facility (RRF) as part of NextGenerationEU and Latvia (and other countries) introduced fiscal measures of its own. Main issues are presented below.

5.1 **ECB; monetary policy**

Monetary policy of the ECB was already very loose before the pandemic with its marginal lending facility at an all-time low of 0.25% since 16 March 2016 and its deposit facility in negative territory since June 2014, having reached – 0.50% on 18 September 2019, see ECB (1). Interest rates set by the ECB were thus not lowered any further due to the pandemic but the bank initiated, already in March 2020, a new temporary asset purchase programme (PEPP – Pandemic Emergency Purchase Programme) with the aim of bringing down market interest rates; in particular for government bonds of the Euro Area, given that public finances were seriously challenged due to extra spending and tax revenue shortfalls as a result of the pandemic.

4 The impact on Lithuania was mitigated by the company Thermo Fisher Scientific Baltics which helps producing vaccines and which obviously has seen its production increase significantly during the pandemic (lrt news). Additionally, the Lithuanian government provided one of the largest stimulus packages in the world, see later.

5 Growth in Ireland despite the pandemic is most likely due to the heavy presence of US tech companies in the Irish economy. Many of these companies – Amazon, Google etc. have done well during Covid-19.

Originally, PEPP was set at 750 bill. EUR, which was increased in June 2020 by 600 bill. and in December 2020 by another 500 bill. EUR, totalling 1,850 bill. EUR[6], or some 16% of Eurozone 2020 GDP. The emergency purchases will continue until at least March 2022 or when the Covid-19 crisis can be deemed over.

As can be seen from Figure 8, PEPP has managed to reduce borrowing costs. Latvia is able to borrow at negative rates.

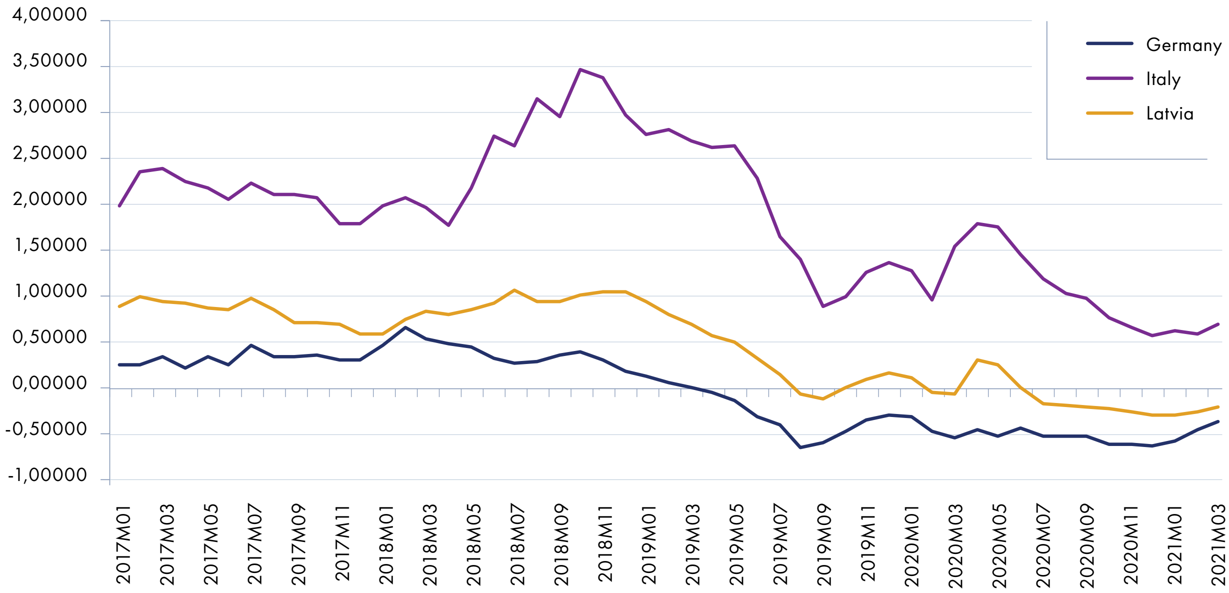

Figure 8: Long-term interest rates, government bonds, Germany, Italy and Latvia, 2017-I – 2021-III
Source: Eurostat

5.2 **EU; RRF**

It is beyond the scope of this article to discuss the EU's NextGenerationEU and RRF in detail. See EU Commission (1) and (2) for details. At 750 bill. EUR, some 5.6% of 2020 EU GDP, it is big but is dwarfed by the Trump-Biden stimulus packages in the United States. The main novelty is a widening of EU powers – a) RRF provides grants, in particular to the hard hit southern European economies, servicing the costs of the programme are done by b) borrowing at the EU level at low interest rates due to a AAA-rating and via c) new taxes to be introduced by the EU. Countries submit national RRF plans (EU Commission (1)); at the time of writing the Latvian plan was not available at the EU website. A very detailed look at RRF is provided by Bruegel (2020).

Support, as already mentioned, is predominantly for countries hardest hit by the pandemic but also reflects the relative affluence of countries. Latvia's decline in GDP was relatively modest but its RRF allocation, at close to 2 bill. EUR, is 6.8% of 2020 GDP,which is the 5th highest share in the EU, see Figure 9 (countries in the graph very close to Latvia are Romania and Slovakia).

6 To gauge the size of this number in a more light-hearted way, the sum would be a stack of 100 EUR bills of about 2000 km or about the distance from Riga to Rome.

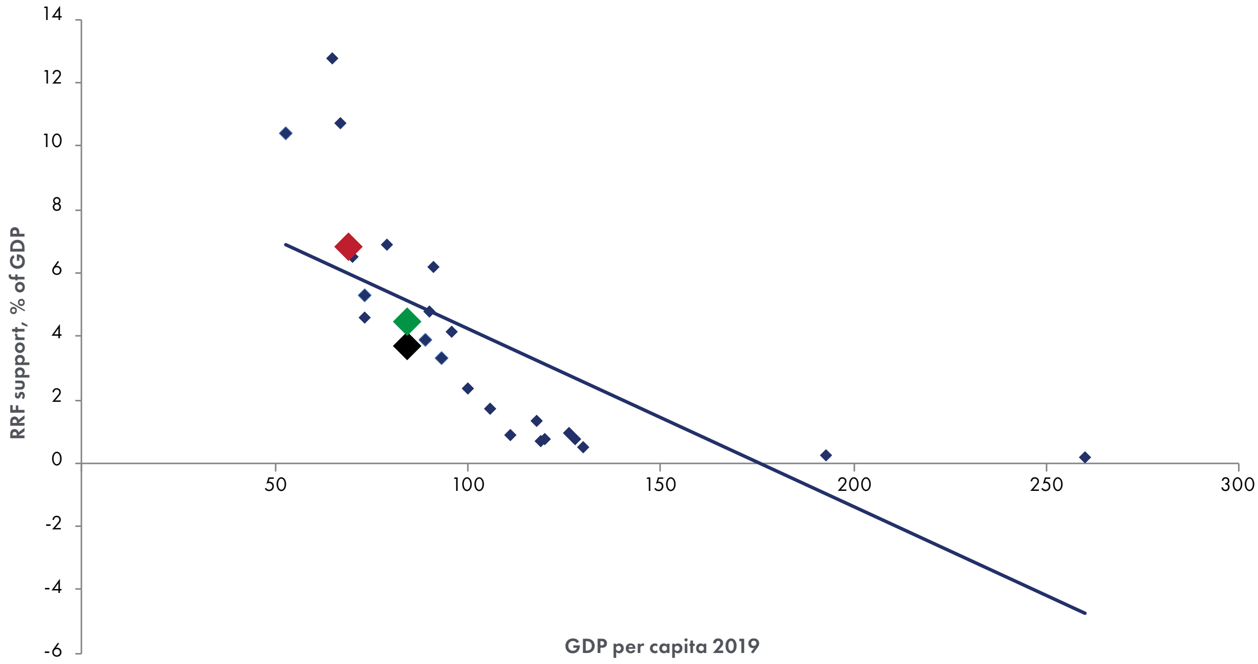

Figure 9: RRF support as % of 2020 GDP versus 2019 GDP per capita (EU27 = 100)
Latvia in RED, Estonia in BLACK, Lithuania in GREEN
Source: EU Commission (2) and Eurostat

Note: The three countries receiving the biggest shares of RRF compared to GDP are Croatia, Bulgaria and Greece. The two rich countries with small allocations are Luxembourg and Ireland.

5.3 **Latvia**

It will be an issue of future research to determine to what extent Latvian government support measures were sufficient and well-targeted. Perfectly sufficient, efficient and targeted would be an illusion since many measures had to be introduced very early on – the Fiscal Discipline Council started publishing bi-weekly (and later monthly) Crisis Monitoring Reports (Fiscal Discipline Council of the Republic of Latvia) in April 2020 and the first report already mentions a set of such measures.

It will also be an issue of future research to make country comparisons. The IMF Policy tracker (IMF) does a heroic job of following developments and support measures of all countries but is inconvenient for comparisons.

In short, Latvia introduced a flurry of measures (Fiscal Discipline Council of the Republic of Latvia), which can be put into five categories: a) Benefits (downtime allowances, wage subsidies), b) loans and guarantees to firms e.g. via Altum, the state-owned financial institution for development, c) taxes, d) sectoral support (e.g. to health and transport) and e) EU funding related support (Stability Programme, 2021).

A crude[7] but still enlightening way to gauge the size of government intervention in the economy is to look at increases in government expenditure. This is done in Figure 10 for the EU countries and it is seen that by EU standards Latvian intervention was relatively modest.

7 Government expenditure may obviously also increase for reasons not related to Covid-19 so the growth rates cannot be interpreted as purely pandemic-related. Countries may also, to different degrees, have made guarantees that have yet to be used, making comparisons complicated.

Lithuania's position may surprise but is, allegedly, also related to its general election in October 2020. Election = more spending, not least in the current situation.

And a word of caution: There seems to a lack of agreement on what constitutes "Covid spending" or "stimulus packages", leading to different percentages in different publications[8]. One should expect (hope for...) some sort of harmonization to make comparisons more adequate as time goes by and solid research emerges.

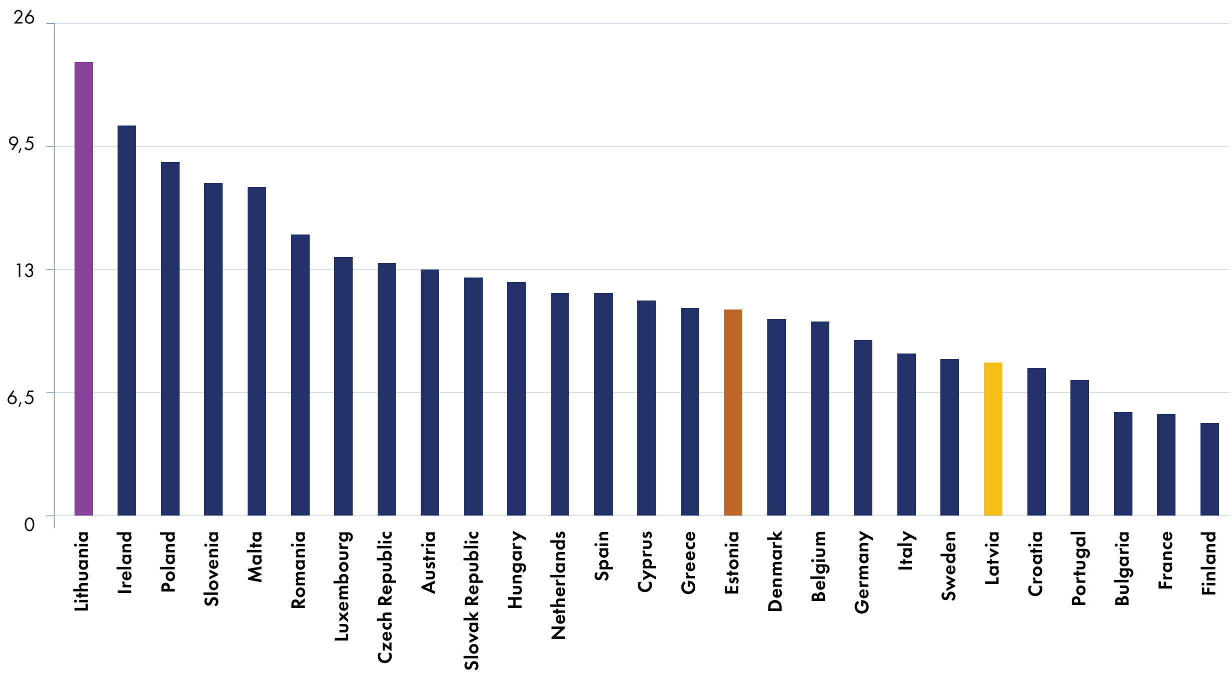

Figure 10: EU27, growth of government expenditure, 2019 – 2020
Source: IMF and own calculations

Allow for just one, in the media quite hyped example of support, a one-time 500 EUR payment to households per child up to 15 years of age[9]. Given Figure 11 this may seem appropriate. Families who lose their income due to corona can be in dire straits since so very few households have savings to speak of.

That said, 500 EUR per child also goes to families where jobs were not lost and/or where incomes are relatively high. As such, the measure is certainly not well-targeted although an argument might be that the transfer is not just support for families but meant for immediate consumption to kick-start the economy. But there is a whiff of populism involved, too. At least, from a fiscal point of view it is a one-off measure so it will not affect negatively budgets in the future.

8 See e.g. the Vox article that puts Sweden and Finland very high, something that does not appear from Figure 10.
9 With a few extra specifications, see Lsm.lv.

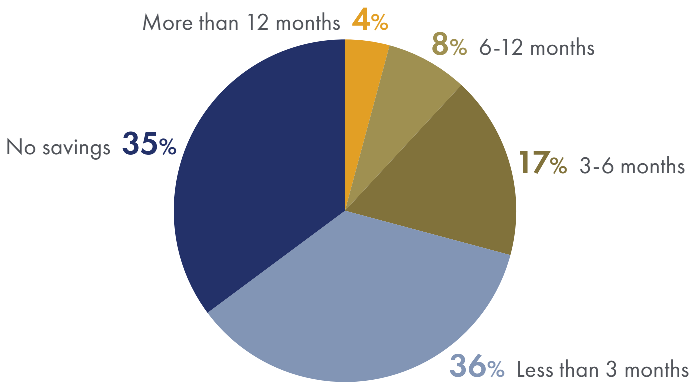

Figure 11: How long can a household maintain its standards of living if having to rely on its savings? Latvia, 2020
Source: Reworked from https://stat.gov.lv/en/statistics-themes/economy/covid/8247-covid-19-impact-household-savings?themeCode=COVID

Summing up, it is far too early to make an assessment of Latvia's support measures. A crude, first conclusion may be that by witnessing how relatively little growth was affected (Figure 7), support was not inadequate or overly stingy.

6. Latvia – Future outlook and return to growth

As has been argued, Latvia's economic suffering from the pandemic has been relatively benign and far from as severe as was forecast in April 2020.

At the time of writing, growth has yet to resume (at least in the data; it may actually have resumed) but, given Figure 4, we have a very different GDP trajectory than during the financial crisis and given an economy without imbalances at the onset of the crisis, there are few obstacles to a resumption of growth beyond lockdowns and vaccines.

This is also the prediction of the IMF, see Figure 12. Its April 2021 forecast expects the economy to reach the non-pandemic scenario of the Ministry of Finance of February 2020 by about 2023 while a return to the pre-pandemic level of GDP should be reached already in 2021.

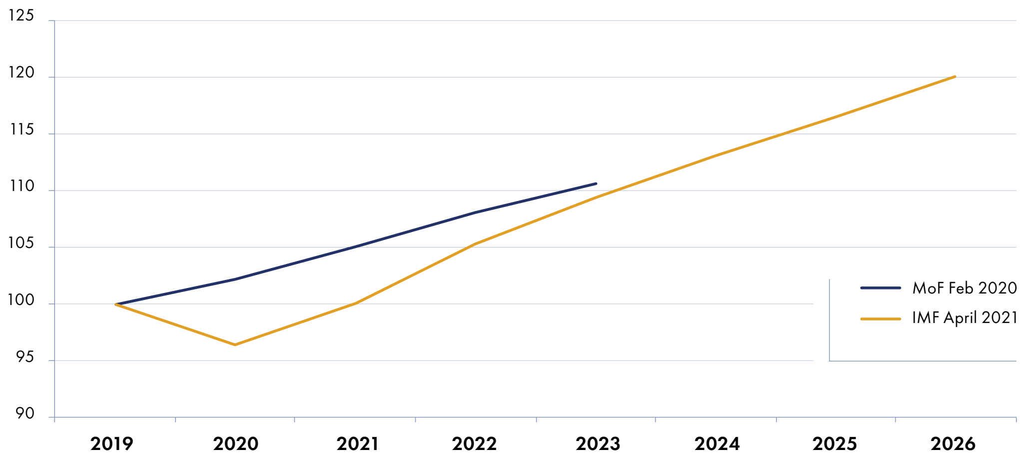

Figure 12: GDP trajectory for Latvia (constant prices), 2019 = 100. Ministry of Finance (pre-crisis forecast). IMF, latest forecast (April 2021)
Source: Ministry of Finance of Latvia, IMF

Growth resumption and faith in the sustainability hereof, of the government's handling of the fallout of the crisis and of public finances are also confirmed by the ratings agencies (State Treasury (1)). Latvia is rated by all the major ratings agencies (Standard and Poor's, Moody's and Fitch as well as by Japanese R&I) and neither of them has downgraded Latvia during the pandemic, see Figure 13.

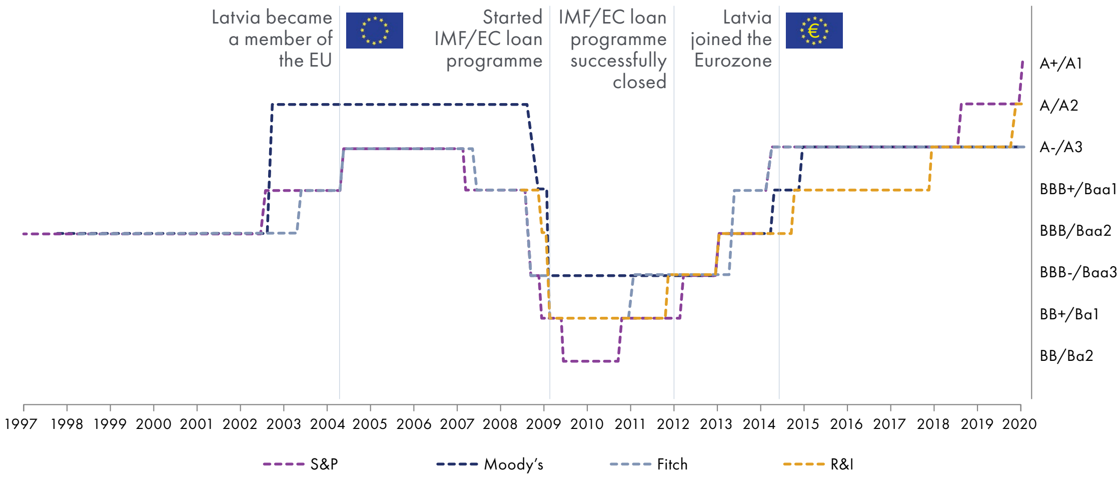

Figure 13: Latvia's credit rating with S&P, Moody's, Fitch and R&I
Source: State Treasury (2), Latvia

This perceived sustainability is supported by forecasts regarding Latvia's fiscal policy. Figure 14 shows the IMF's predictions regarding the government budget balance pre-crisis (October 2019) with minimal deficits projected for 2020 through 2024. The April 2021 forecasts have substantial deficits but only for 2020 and 2021 after which, with normalization of the economy, a swift return to low deficits is projected.

Deficits in 2020 and 2021 will exceed the 3% of GDP threshold of the Stability and Growth Pact (SGP) but with no consequences for Latvia since SGP was suspended on 20 March 2020 and will remain so at least into 2022. This should also be seen as a different step tan was taken following the financial crisis where austerity measures were called for.

We also saw with Figure 8 that financial markets have no qualms buying Latvian government bonds.

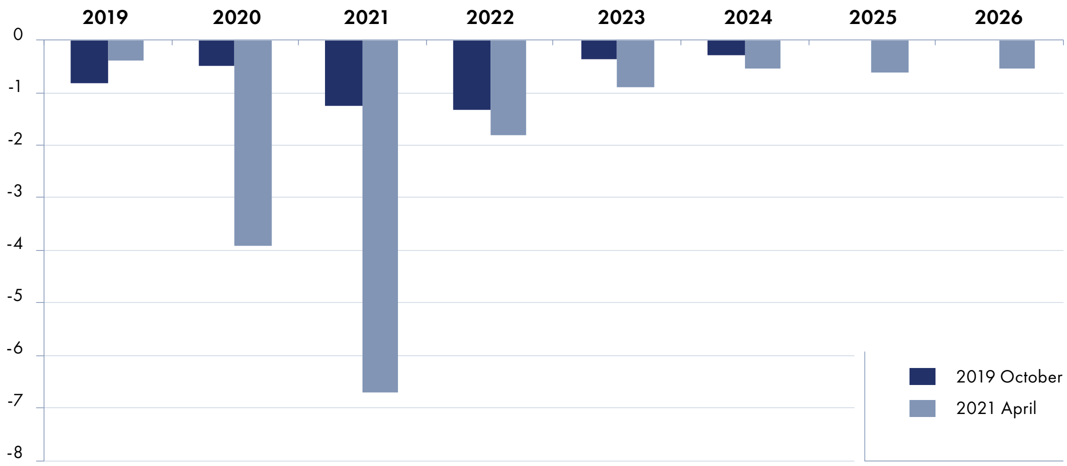

Figure 14: Latvia: Projected government budget balance (IMF), % of GDP, October 2019 and April 2021
Source: IMF

Note: The October 2019 forecast does not include predictions for 2025 or 2026

This sustainability of public finances is further supported by Figure 15 (next section). Government debt is rising as a share of GDP due to larger deficits (and shrinking GDP) but from a small ratio of 37% of debt-to-GDP to a still small and easily manageable level of 47% by 2021; still comfortably inside the Maastricht debt criterion of 60%.

7. Unanswered questions, lingering doubt and glances into a hazy crystal ball

Several issues remain unanswered but are of high importance for the future development of Latvia, the EU and the Eurozone.

Here just a handful of them.

Whereas Latvia's debt sustainability is not in doubt (see previous section), that is not necessarily the case for a country like Italy, the Eurozone's third-largest economy, see Figure 15. How to handle Italy's debt will remain a major issue for years to come.

One may also argue that this issue ties the hands of the ECB. Low interest rates are necessary for Italy to maintain debt sustainability but that forces the ECB to continue with a policy of continuing low rates which might, some day, jeopardize its unambiguous target of price stability.

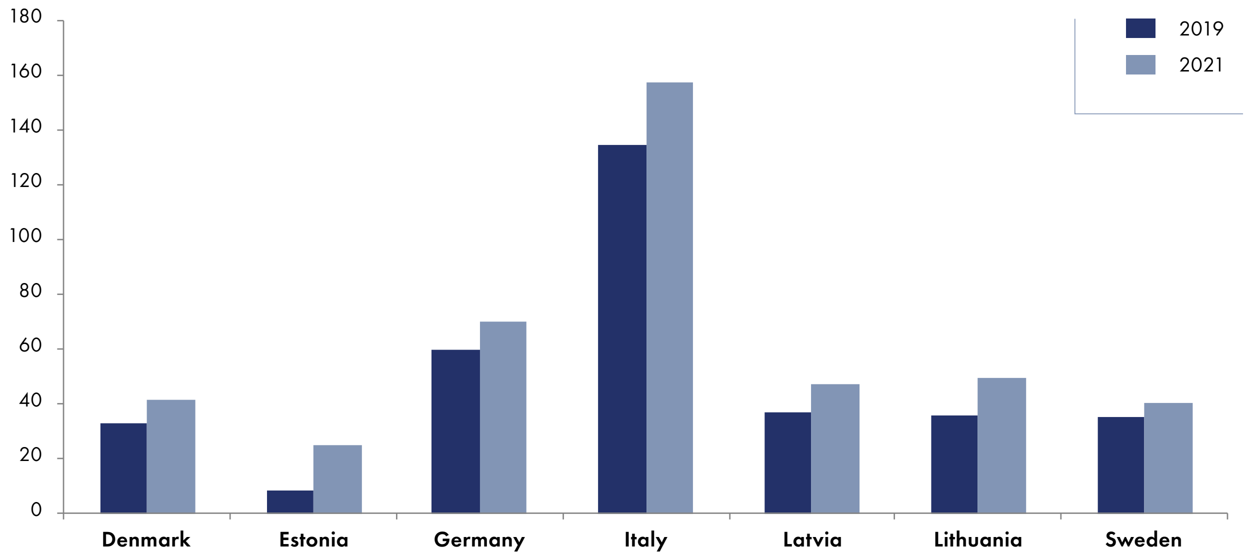

Figure 15: Government debt-to-GDP ratios, 2019 and 2021 (projected), selected countries
Source: IMF

Will RRF be used prudently, efficiently and with no whiff of corruption, in Latvia and the EU as a whole? The EU's track record is not brilliant in this respect.

Might RRF be "too much, too late" and lead to overheating of some economies? Given, that Latvia before the pandemic had clear signs of an overheated labour market; this should be a clear and present danger to be taken seriously when implementing fiscal policy.

With RRF and NextGenerationEU the EU has extended its powers by issuing grants and introducing taxes. These are meant as "temporary programmes" but there will undoubtedly be calls for similar action in the future. Is this in Latvia's interest?

One may also argue that the ECB's aggressive low (and negative) interest rate policy has helped created financial bubbles. Many countries have witnessed big increases in stock markets and housing markets; not what one might expect from a crisis. Latvia has, fortunately, seen very little, if anything, of this but could still be collateral damage if bubbles burst.

8. Future growth in Latvia: Recommendations and evaluation

Growth resumes this year (2021) in Latvia as vaccines are rolled out and lockdowns are removed or are softened. But a lingering issue for Latvia is long-term growth and not least income convergence. Two issues in terms of lacking income convergence can be identified.

Firstly, Latvia has managed substantial partial income convergence with "old" EU countries, see Figure 16. Whereas GDP per capita in Latvia in 1992 was 30% of the e.g. the Swedish level it had climbed to 60% in 2021. Still, a considerable gap exists – also with respect to e.g. Denmark, Germany and the UK – that has triggered[10] and may again trigger outward migration.

Full convergence with these countries in a time-span of about 30 years was most likely to be expected and may never happen. History shows very few examples of convergence like that; Ireland[11] being one of the very few examples in Europe.

Secondly, as is also visible from Figure 16, Latvia has at all time since regaining independence been behind its Baltic neighbours.

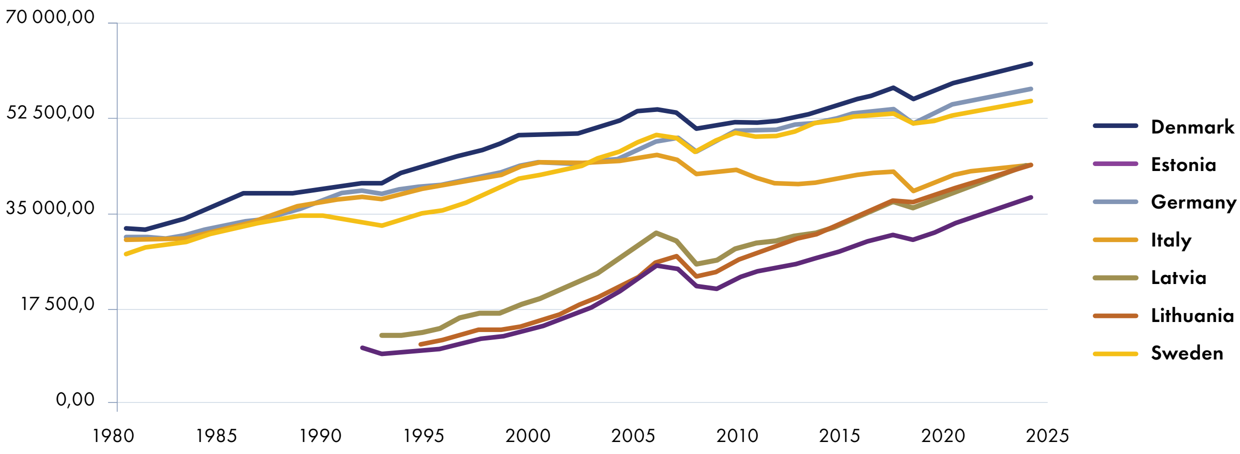

Figure 16: GDP per capita, constant (2017) USD, selected EU countries, 1980 – 2026 (est.)
Source: IMF, World Economic Outlook Databases, April 2021

This fact is explored in more detail in Figure 17 which looks at Latvia's GDP per capita relative to Estonia's and Lithuania's. Latvia has edged closer to Estonia but admittedly at a snail's pace and the gap, in 2021, is still 16%. More worrying, the gap between Latvia and Lithuania has been increasing i.e. Lithuania has been growing faster than Latvia. Latvia had almost caught up with Lithuania in 2007 but on the back of an unsustainable credit boom. Since then the gap has increased and is now about the same as with Estonia, implying, of course, that Estonia and Lithuania are about on par with each other with Latvia being significantly poorer.

10 Outward migration, following the financial crisis was obviously (also) a function of very high unemployment in Latvia.

11 In the late 1980s Ireland was the poorest of the EU countries, behind e.g. Portugal and Greece.

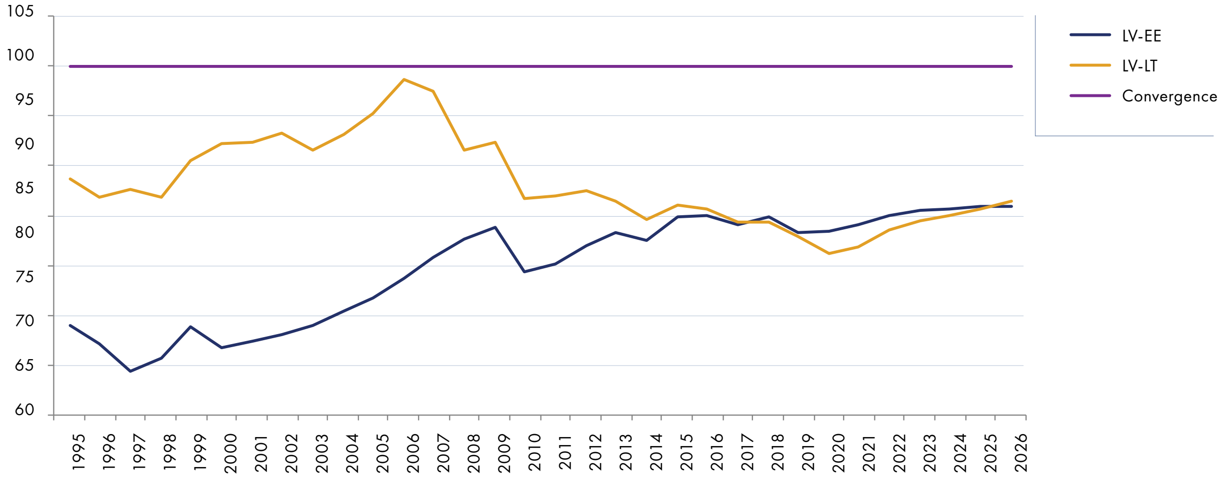

Figure 17: Ratio of Latvian GDP per capita to Estonian GDP per capita and to Lithuanian GDP per capita, 1995 – 2026 (est.)
Source: IMF, World Economic Outlook Databases, April 2021

These facts – that Latvia has always been poorer than its Baltic neighbours and, more importantly, that convergence is not taking place have received attention by economists but remain unexplained in full detail.

Often, Estonia's better early performance is explained by the country being better prepared for the market economy due to its ties with Finland already in the later part of Soviet period. Lithuania, the argument goes, has three large cities (Vilnius, Kaunas and Klaipeda) with significant economic activity whereas Latvia has only Riga.

One may also argue that Latvia has lost two of its otherwise competitive advantages in recent years: Transit trade that has been severely diminished and acting as an offshore banking gateway for especially CIS countries.

But this is hardly the whole story and in particular the divergence between Latvia and Lithuania deserves more scrutiny.

A final heretical comment: Since regaining independence there has not been any lack of recommendations regarding future growth in Latvia. National Development Plans galore, research and recommendations from the World Bank, the IMF and the OECD but also internally in Latvia, from the Foreign Investors Council, from the Latvian Chamber of Commerce, from think-tanks like CERTUS and BICEPS to name a few.

Why, one may ask, has this not led to a more successful convergence?

Wrong advice? Wrong analysis of the problems? Problems not identified? Correctly identified problems and correct advice but lack of execution?

9. **Future research**

As was mentioned early on, this is an unfinished piece of work because a) we are still, at the time of writing, witnessing the pandemic and its impact on the economy, b) much research is impossible to undertake due to lack of data and/or final effects of policies that have yet to materialize and c) the sheer amount of policy analysis that is awaiting scholars.

In terms of Latvia, we shall await deeper analysis of support measures by the Latvian government. Too much/too little? Right or wrong timing? Well-targeted or not?

And for the long term, income convergence and lack thereof as discussed in section 8.

At the EU level (but also at the Latvian level) scrutiny awaits in terms of NextGenerationEU and the Recovery and Resilience Facility – and the additional powers the EU has amassed during the crisis in terms of collective borrowing, issuing grants and raising new taxes.

Was ECB monetary policy appropriate or did it create unhealthy financial bubbles as a side effect?

And one can imagine "grand" endeavours: Has this been a lesson in policy coordination in the EU and what will that imply for the future? What is the outcome of this, the greatest cost-benefit analysis the world has ever seen? Was it worth all the lockdowns and stimulus packages?

And, doubtless, many, many more issues and obviously not just in the field of economics.

10. **Conclusions**

On the eve of the Covid-19 pandemic, the economic future of Latvia looked dire but the outcome turned out to be much less severe.

Economic decline was much less than during the financial crisis, was confined to fewer sectors of the economy and growth resumed much faster, not least due to strong counter-cyclical fiscal and monetary policies.

On the one hand Latvia – like other countries – was unprepared in February 2020 for this type of crisis but on the other hand it was prepared: With no economic imbalances to speak of prior to the crisis and in particular a solid fiscal stance, Latvia was able to tackle the economic fallout of the crisis.

This, a solid fiscal stance with low government debt will emerge as a cornerstone for future preparedness for future crises, be they pandemic, financial or otherwise and it might just be the most important lesson of this crisis.

National and EU fiscal policies couple with unprecedented monetary stimulus also play a very important role but their eventual effect is still too early to tell. Too much/too little/well-targeted or not? Helping to cause overheating and/or unhealthy financial bubbles?

Thus, all in all, Covid-19 and its economic impact may be treated as a short-term issue for Latvia, which also means, however, that neither it nor the cures for it have addressed or altered Latvia's main long-term economic problems: An economy that has managed quite impressive income convergence with its EU peers but which still is far behind the Nordic countries, significantly behind its Baltic peers and languishes near the bottom of the EU27 in terms of income per person.

Add to this a looming demographic crunch and possible renewed outward migration and the long-term goal of economic convergence remains seriously challenged with – yet – insufficient economic, political and intellectual capital invested in overcoming this.

References:

Bruegel (2020), https://www.bruegel.org/2020/06/the-eus-recovery-fund-proposals-crisis-relief-with-massive-redistribution/

ECB (1), https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html

ECB (2), https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html

EU Commission (1), https://ec.europa.eu/info/strategy/recovery-plan-europe_en

EU Commission (2), https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en

EU Commission (3), https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-timeline/national-reform-programmes-and-stability-or-convergence-programmes/2021-european_en#latvia

Fiscal Discipline Council of the Republic of Latvia, https://fiscalcouncil.lv/home

IMF Policy tracker, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#L

lrt news, https://www.lrt.lt/en/news-in-english/19/1332396/thermo-fisher-to-up-production-in-lithuania-make-supplies-for-vaccines-and-tests

Lsm.lv (2021), https://eng.lsm.lv/article/society/society/one-off-childcare-benefit-payments-of-500-euros-approved.a393156/

Ministry of Finance of the Republic of Latvia, https://www.fm.gov.lv/en/monthly-survey-economics-and-general-government-budget-0

State Treasury (1), Latvia, https://www.kase.gov.lv/en/investor-relations/credit-rating

State Treasury (2), Latvia, https://www.kase.gov.lv/sites/default/files/2020-02/Kred%C4%ABtreitinga%20v%C4%93sture_1.JPG

Vox (2020), https://www.vox.com/22348364/united-states-stimulus-covid-coronavirus

LATVIAN ECONOMISTS ASSOCIATION

Ekonomisti.lv