

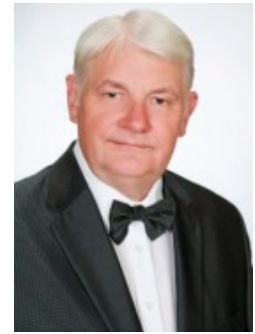
Latvia and COVID-19: Preliminary impressions

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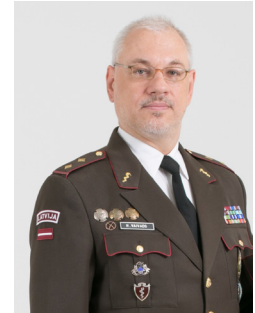
Latvia and COVID-19: Preliminary impressions

By Dzintars Mozgis and Normunds Vaivads

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Abstract

Like in other countries also in Latvia the COVID-19 pandemic has set numerous challenges having caused an unprecedented health-related and economic crisis. The International Monetary Fund (IMF) estimates that the global economy shrunk by 4.4 percent in 2020 and such a decline created the worst recession since the Great Depression of the 1930's with the ongoing impact of COVID-19. The crisis undermined global financial stability, and large segments of the global economy ground to a standstill. Despite the development of new vaccines, uncertainty remains what recovery could look like.

Key words: COVID-19, Latvia, economy, GDP

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1. Key features of Latvia and Latvian encounter with COVID-19

The Republic of Latvia is a country in the Baltic region of Northern Europe located on the east coast of the Baltic Sea. Latvia is a parliamentary republic, bordered by Estonia to the north, Russia and Belarus to the east, and Lithuania to the south.

Latvia has slightly more than 1.9 million inhabitants at the beginning of 2020, of whom almost 1 million live in and around the capital city of Riga, the metropolis of the Baltic region. With its relatively small population, Latvia is not a major market, but the country's key advantage is its location at the crossroads of Northern and Eastern Europe, which provides access to its immediate neighbours.

Latvia has skilled and multilingual labour force, abundant natural resource what makes it as one of the greenest countries in the Europe. Latvia is a member state of the European Union. The country fulfilled the Maastricht criteria and joined the Eurozone on the 1st of January 2014. Since 2016, Latvia has been a member of the Organisation for Economic Co-operation and Development (OECD).

The unemployment rate, which exceeded 20 percent less than a decade ago, was once again on the decline in 2019. According to the IMF, the unemployment rate increased to nine percent in 2020, due to the negative economic impact of the COVID-19 pandemic and should decrease to eight percent in 2021.

Furthermore, the Latvian economy is negatively impacted by a demographic challenge: the country has one of the largest relative decreases in population in the EU; -6.4 per 1,000 persons, with birth rates declining continuously¹. Moreover, Latvia must face a strong emigration of skilled youth. The latest data published by the Central Statistical Bureau (CSB) show that 21.6 percent of the country's population was at risk of poverty in 2019.

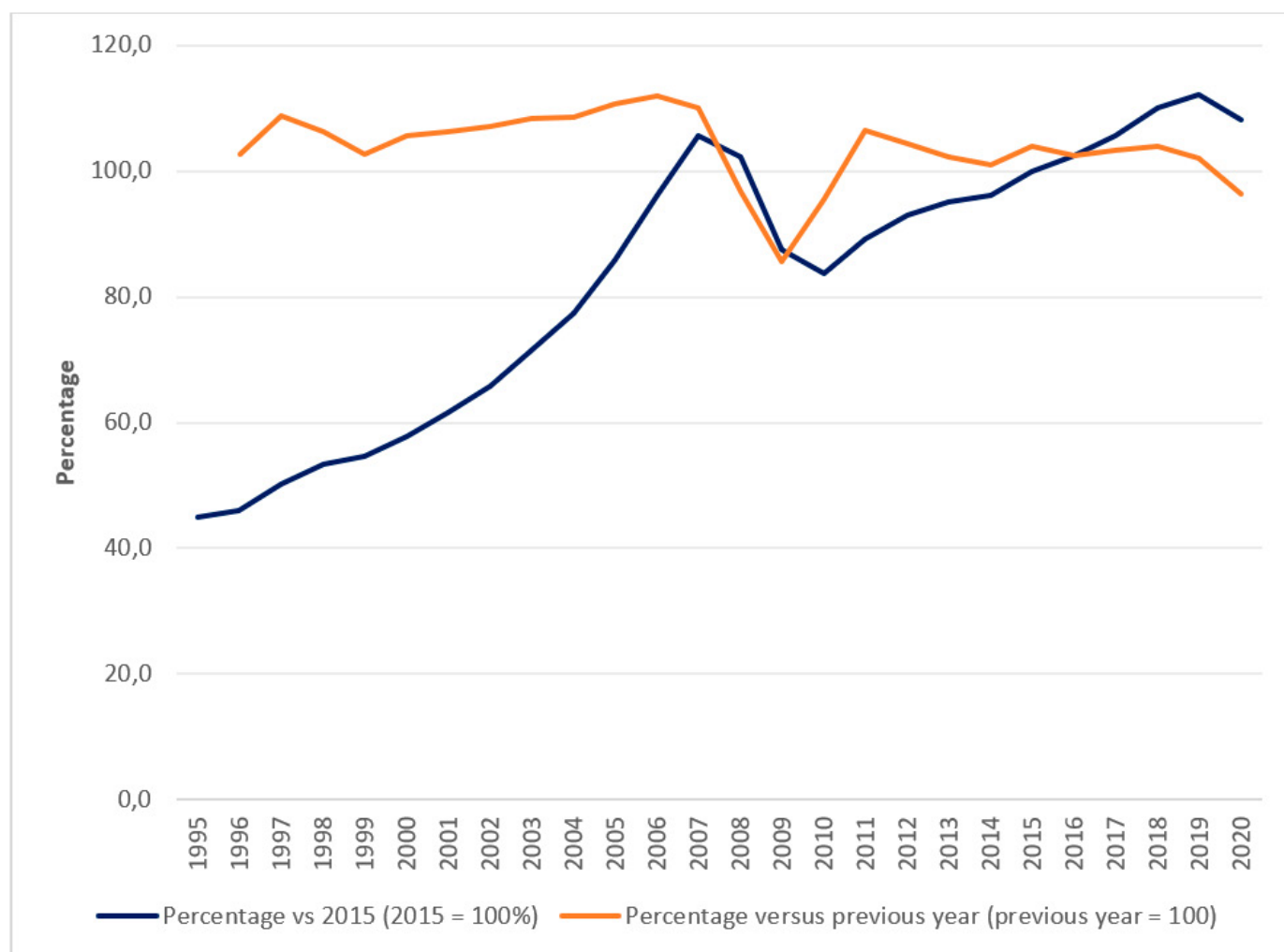
The average life expectancy at birth increased in Latvia from 70.4 years in 1999 to 75.6 years in 2020, reaching 79.9 in women, however remaining a gap of 4.3 years in the average lifespan for men².

In accordance with the Human Development Index (HDI) Latvia is ranked as the 37th among 189 countries in 2019. However, Latvia has overtaken four countries after the previous assessment in 2018³. Latvia has outperformed six countries in the Global Gender Gap Index 2020 rating, reaching the 11th place among 153 countries in 2019⁴. According to the Global Sustainable Competitiveness Index 2020, the purpose of which is to measure the competitiveness of nations based on 127 measurable and comparable quantitative indicators, Latvia has been ranked the 7th among 180 countries⁵.

Latvia has recovered from the severe economic recession of 2008 thanks to its strict fiscal discipline. The government honoured all obligations of the international creditors and Latvia's economy got back on the track between 2011 and 2013. The national credit rating reached a stable A- by 2014. Unemployment decreased to a single-digit number by summer 2014. All banks in Latvia passed the stress tests by the European Central Bank later the same year.

According to the World Bank, the annual GDP growth from 2011 to 2019 was on average three percent. Latvia's GDP reached in 2019 EUR 30.5 billion or EUR 15,924 per capita in comparing to EUR 29.1 billion or EUR 15,084 a year before. The private consumption of GDP was 58.6 percent.

Figure 1. GDP growth in Latvia in the period 1995-2020 (at 2015 reference prices)



Source: Central Statistical Bureau of Latvia.

2. Key epidemiological safety measures in Latvia to limit the COVID-19 transmission

However, the tight financial constraints and austerity measures had a significant negative impact on the health system, where public spending only reached pre-crisis 2008 levels in 2017, with a reduction of 25 percent in 2010.

Despite gradual increases in spending the health care system remained underfunded until the COVID-19 pandemic. In the aftermath of the crisis, there was a major effort in Latvia to decrease the total number of hospital beds and the number of hospitals, from 88 in 2008 to 63 in 2017, but the major concern for the Latvian health system became the number of nurses, which is in Latvia among the lowest in the EU⁶. This should be mentioned because the key argument for introducing various restrictions in both the first and second wave of the COVID-19 morbidity was the evaluation of the resilience of the health care system.

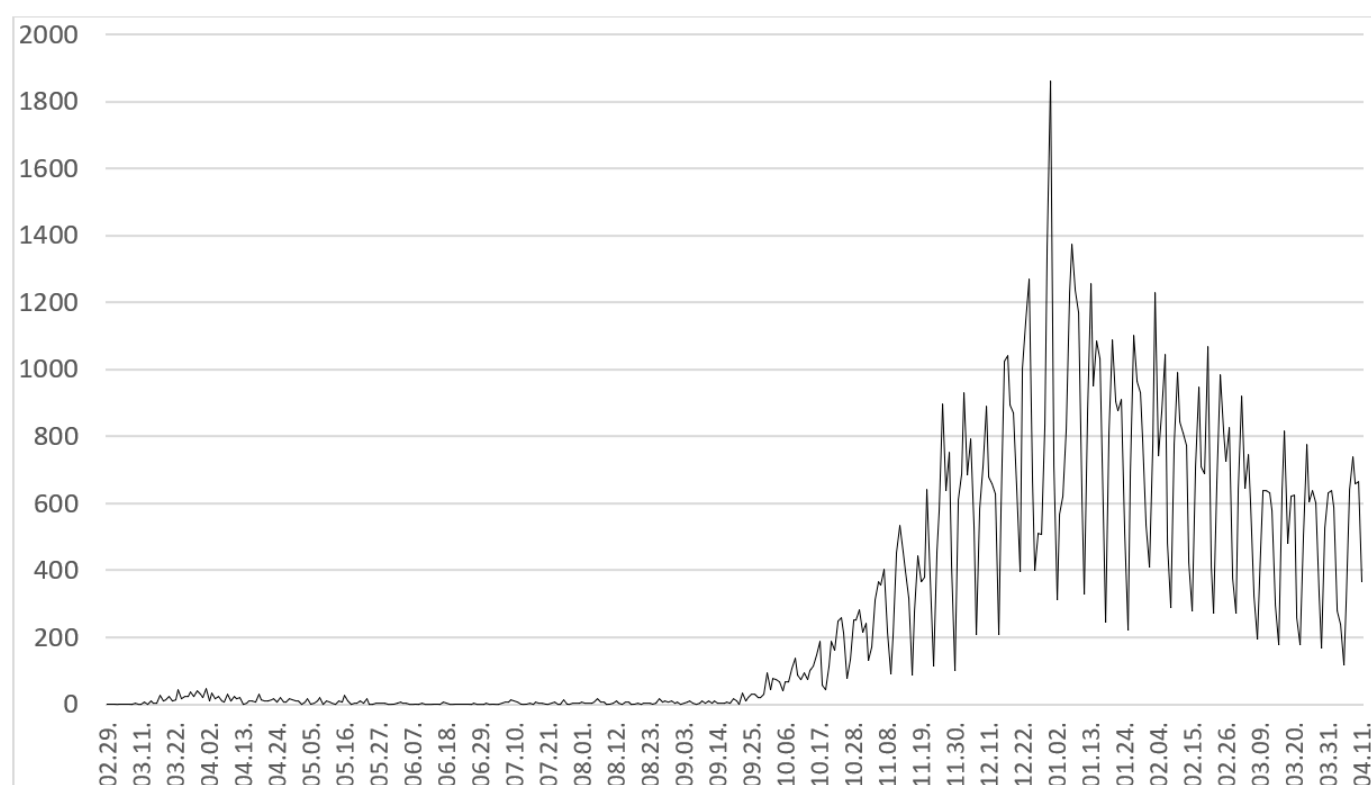
The state of emergency was introduced in Latvia firstly on the 12th of March 2020 or the next day as the WHO declared a pandemic and was in effect until the 9th of June. The situation remained stable during the summer months. The second wave of infection began at the end of September, but the state of emergency was introduced on the 9th of November 2020, which remained in effect until the 7th of April 2021. All public events were cancelled, restaurants were limited to take-out and delivery only. Only grocery stores, pharmacies, and gas stations were open for clients.

The government renewed the 2+2 rule, requiring no more than two individuals within two metres of others when in public. Masks or mouth/nose coverings were mandatory in all public indoor places. The on-site training process in all educational establishments was suspended, providing remote learning, in most workplaces, work had to be organised only remotely.

As from the 2nd of February 2021, it was decided to return to on-site training in municipalities where morbidity rates were low, initially by resuming on-site training for pupils in grade 1 and 2, complying epidemiological safety requirements, including the wearing of facial masks. From the 7th of April 2021 onwards, the state of emergency in Latvia was no longer in effect.

Nevertheless, considering that the decrease of infection rates was not steady or dependable, the government has decided to keep in place and consolidate various epidemiological safety measures, i.e. neither private nor public gatherings or events were permitted, only up to ten people from two households may meet outdoors at private events they organise, shopping must be done individually, with some exceptions, beauty salons were open for business, public catering places must offer food and drinks as 'takeaway' item, etc. The highest point observed in Latvia in 14-day COVID-19 case notification rate per 100,000 was slightly above 600 at the very beginning of 2021.

Figure 2. Number of new confirmed COVID-19 cases in Latvia in 29.2.2020-11.4.2021



Source: Centre for Diseases Prevention and Control of Latvia.

3. Impact of COVID-19 on the Latvian economy

Latvia has succeeded in overcoming the first wave of the pandemic quite successfully and have had one of the strongest results according to many economic indicators in the second half year of 2020. There was a hope that, thanks to previous experience and Latvia's strong position compared with other countries, a second flare-up may be easier to overcome. For obvious reasons, no verified information was available at the time this article was produced, but initial information based on seasonally and calendar non-adjusted data from the Central Statistics Bureau (CBS) shows that GDP as a percentage of the corresponding period of the previous year decreased in 2020 as follows: Q1 – one percent, Q2 – 8.9 percent, and Q3 – 2.6 percent⁷.

Although the initial negative effects on the economy were not as large as in other countries, in the Q2 of 2020 the economic downturn continued, so only thanks to the adopted fiscal and monetary policy measures to stimulate the economy the fall in Q3 was not large. These measures have, to some extent, managed to absorb the negative impact of the crisis on the economy and on the incomes of the Latvian population. On the other hand, the COVID-19 crisis has made particularly vulnerable bottlenecks in Latvia's economy, such as social protection and tax avoidance.

In Latvia, an idle benefit mechanism has been made operational, covering a wide range of beneficiaries. The crisis-stricken companies already have financial support instruments, credit guarantees, as well as loans to a crisis solution provided by the State Development Financial Institution ALTUM. Latvia has focused its efforts on tax relief measures, allowed the Ministry of Finance (MOF) to make loans, suspend the selection of EU-funded projects and redirect released funds to mitigate the effects of the crisis. The government has opened a revolving fund grant granted to COVID-19 crisis-stricken companies to compensate for the fall in the flow of working funds to overcome the second wave of COVID-19 infection. There is also a wage subsidy introduced for part-time employees and self-employed etc. Eight million euros for staff remuneration has been allocated to strengthen the health care system and is expected to have additional public funds available at least until the second half year of 2021.

According to the monitoring report of the Fiscal Discipline Council of Latvia the main macroeconomic indicators in 2020 are better than expected in the first half of 2020. The budget deficit reached 5.3 percent of GDP instead of the planned 7.6 percent. According to preliminary estimates, government debt reached around 44 percent of GDP instead of the planned 47.3 percent. However, recent developments point to macroeconomic risks, e.g., the decline in retail trade was observed at 4.5 percent in December 2020, but already reached 11.4 percent in January 2021, which is higher than the decline in April 2020, when the country had even stricter restrictions on movement and shopping. In general, considering the severity of the COVID-19 crisis, the macroeconomic data in 2020 indicate that the goal of economic stabilisation was achieved by the government from the macroeconomic point of view⁸.

4. Impact of COVID-19 on the Latvian population

According to a study in the National Research Programme, it appears that in Q3 2020, compared to the corresponding period in 2019, the number of employees, recalculated full-time, decreased by 25,400 or 3.3 percent because of the COVID-19 crisis. Negative trends in the economy and business led to a reduction in remuneration funds in Q1 and Q2 of 2020, which can be explained by redundancies and increases in unemployment, reduced workload, and sequentially reduced wages. However, the decrease was observed in all sectors, except for information and communication services, education, health and social care, where there was an increase in employees. The decrease in employment is due to the reduction in workload, the number of employees and the granting of salary-free leave to employees. Some companies have optimised their work organisation, introduced remote work, made more use of information technology in the business. Employment rates changed dramatically in many sectors: tourism, catering, arts, etc. were particularly critical.

Overall working conditions have deteriorated: 44 percent recognised that their workload increased, but only seven percent of the total number of respondents experienced wage increases. The survey data show the polarisation of adult working time. The standard working time of some of the employees (within eight hours) was reduced (less than six hours), while for another part of the employees it was increased (more than ten hours a day). Moreover, for those who declined working time, revenue fell most significantly (even above 30 percent). Although the Riga residents – nearly half of the population – have been affected more in employment and other areas of life than in other cities and rural areas, the majority of residents outside Riga (61 percent) admit that the standard of living in Latvia has deteriorated compared to the time before the COVID-19 pandemic. The decline in population revenues is mainly due to a drop in income from salaried work. Most importantly, it affected the population of working age, including the self-employed, for a large part of which the reduction exceeded half of previous revenue.

In terms of age, the largest drop in revenue was in the group of 45-54 years. On the other hand, the increase was observed in the group of 25-44 years, which could be due to the higher ability of these workers to adapt to remote work and higher workload and possibly to education. Households' incomes have decreased most significantly in households with three or more people, including families with children under 18 and low and moderate incomes (low incomes – less than EUR 249; on average – EUR 250-319 per family member per month). Population survey data shows that over 80 percent of respondents have very low savings levels or do not have them at all.

Although the government had directed financial support to maintaining employment as well as to compensating for lost income, only 26 percent of the respondents received statutory benefits during the emergency state – they have recognised that benefits have played “a significant or quite significant” role in overcoming the crisis. 41 percent of respondents with children of school age have not been satisfied

with the remote learning process. The biggest discontent has been seen in the age group of 35-44 years, in ethnic minorities, and in women. Women are likely to be more frequently involved in child care and education every day, making it difficult for them to reconcile work and family responsibilities.

The problems of pensioners and elderly people are less related to changes in the standard of living and routine, but more to the sense of loneliness and isolation created by the threats of COVID-19 disease. Seniors use social media and digital communication technologies less, limiting their capabilities during remote social relations. During the pandemic, solidarity and assistance were expressed. 12 percent had received assistance from relatives or friends as well as public organisations, while 15 percent of respondents were assisted individually or through an organisation. It is interesting that there has been a statistically significant association found between institutional confidence and perceptions of COVID-19 and the policy assessments for mitigating the pandemic. The more respondents trust institutions, the less they agree with misleading information. Respondents who do not rely on institutions demonstrate a tendency not to accept government health communiqués and criticise behavioural limitations⁹.

Another study of the National research programme with a sample size of 2,559 respondents was to evaluate the emotional and psychological impact of COVID-19 pandemic on individuals and families from different generations with a special emphasis on the potential increase in domestic violence. The research showed that there is no evidence that the introduction of an emergency state would lead to increase in self-assessed violence in couples. However, as these results contradict other sources of evidence, showing of an increasing trend in violence, so it can be assumed that this reflects the situation in the period preceding the second wave of the pandemic. However, three risk factors can be identified for violence: (1) a sense of loneliness, (2) the difficulty of adapting to life remotely and (3) a younger age¹⁰.

5. Conclusions

Preliminary analysis shows that Latvia has been relatively successful in overcoming the COVID-19 pandemic, although the depth and breadth of the measures for limiting the virus transmission must be linked to the long-underfunded health system which could be more resilient, especially if we look back at the austerity measures for overcoming the previous global financial crisis in 2008.

However, COVID-19 pandemic has led to high and long-term psychosocial stress in people and families, currently there is no evidence of increase in violence in public, which shows in general that the public understands the situation well and tolerates constraints.

Recent evidence shows that under the extremely unpredictable situation, imposed by COVID-19, most of approaches on national government level have been sufficiently effective for the mitigating of potentially negative impacts of the crisis.

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