



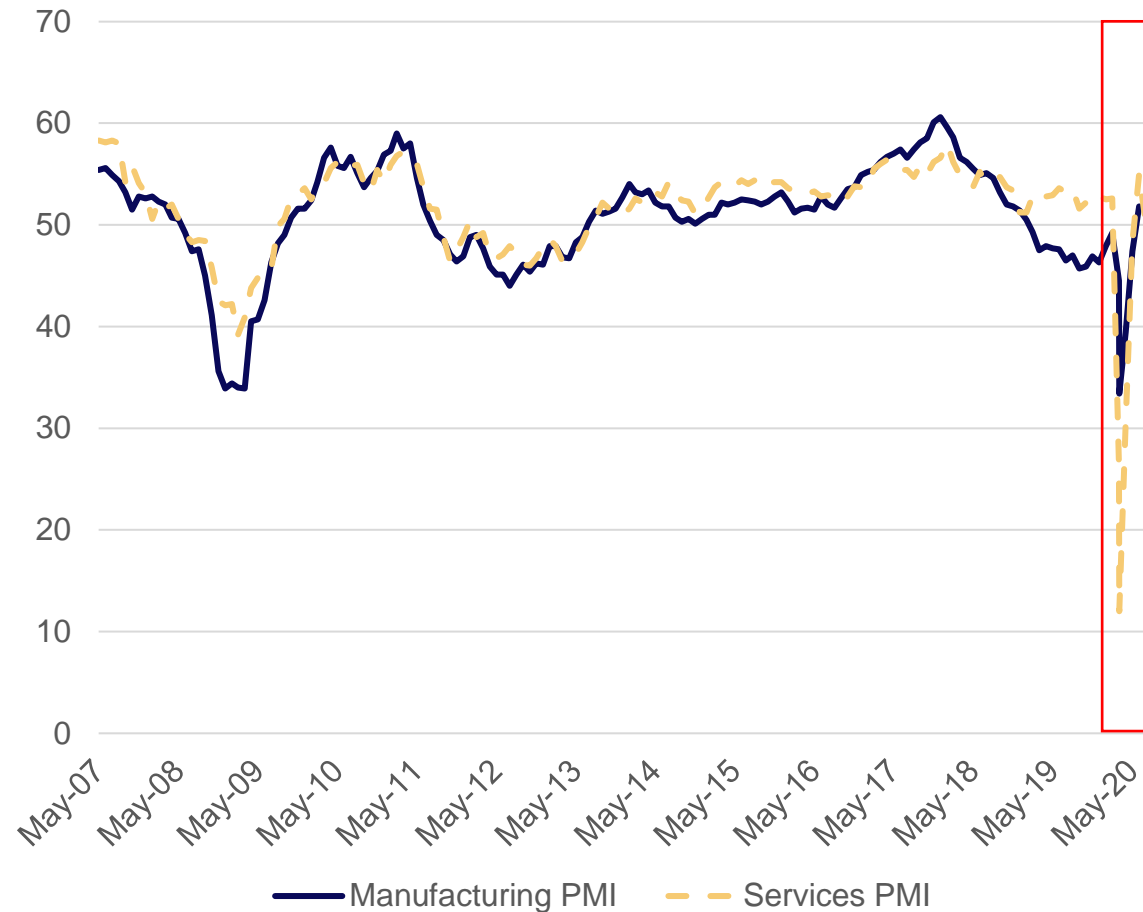
Stop the COVID or save the economy: can we pursue both?

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Governor of Latvijas Banka
26 August 2020

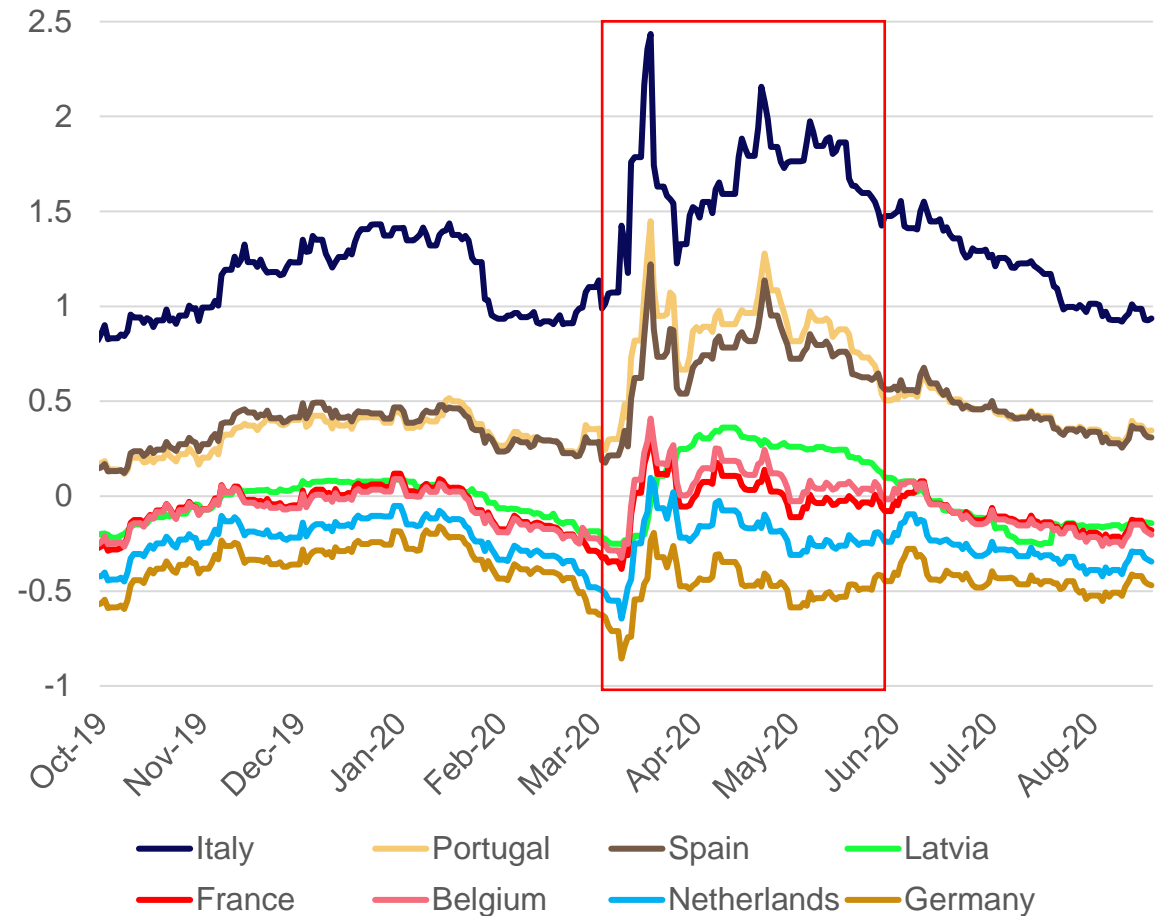
External environment: economic sentiment has improved, but uncertainty remains high

Sharp fall in economic activity and high uncertainty sent shockwaves through financial markets

EA Purchasing Managers Index

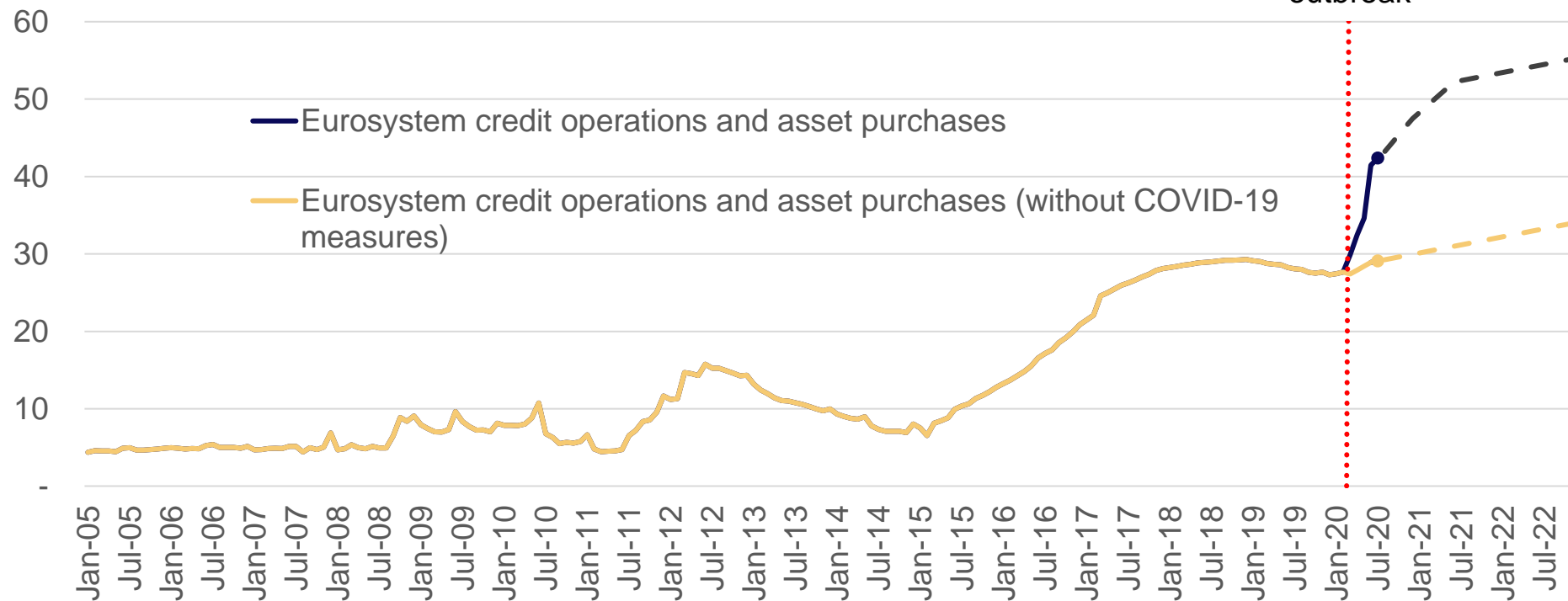


10Y government bond yields (%)



Highly accommodative monetary policy stabilized financial markets providing support to the economy

Eurosysteem balance sheet as % of GDP



Main policy support since the COVID-19 outbreak

APP + 120 bn EUR

PEPP 750 bn EUR

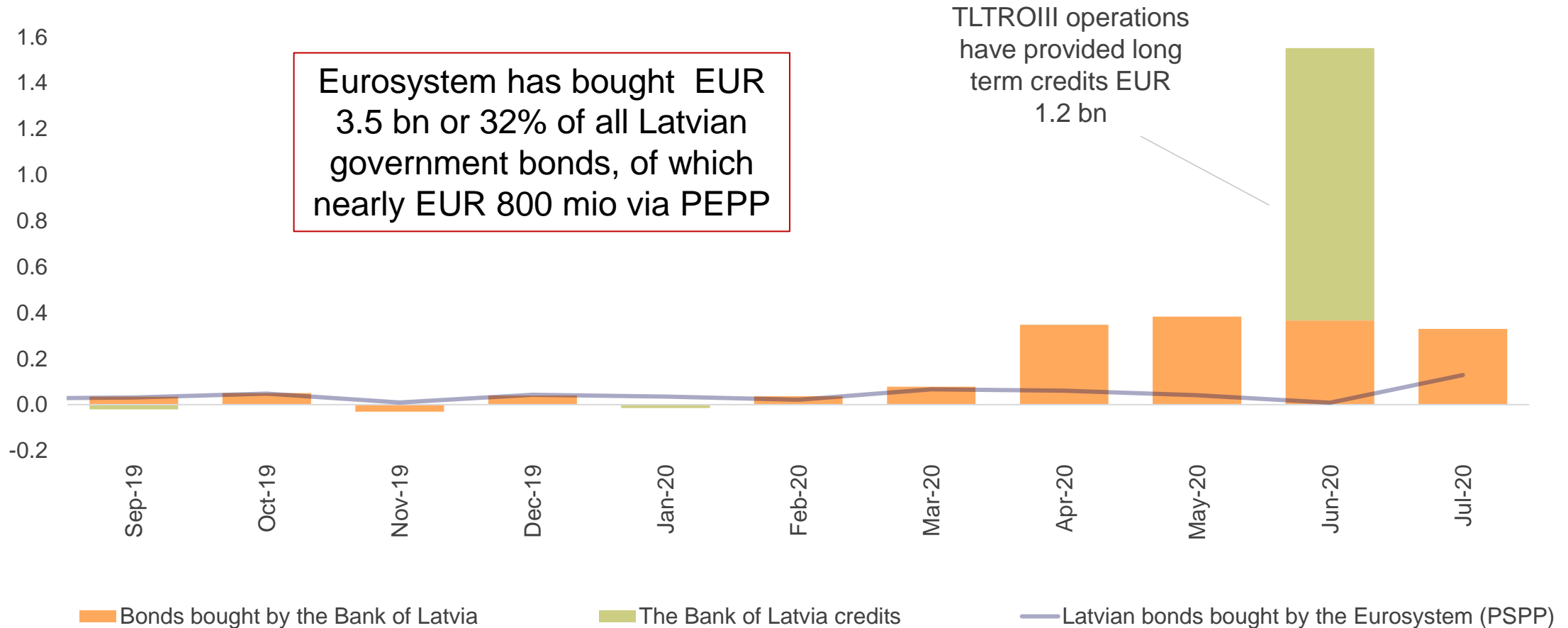
PEPP +600 bn EUR

TLTRO III +1308 bn EUR

APP – asset purchase programme; PEPP – pandemic emergency purchase programme; TLTRO III - targeted longer-term refinancing operations

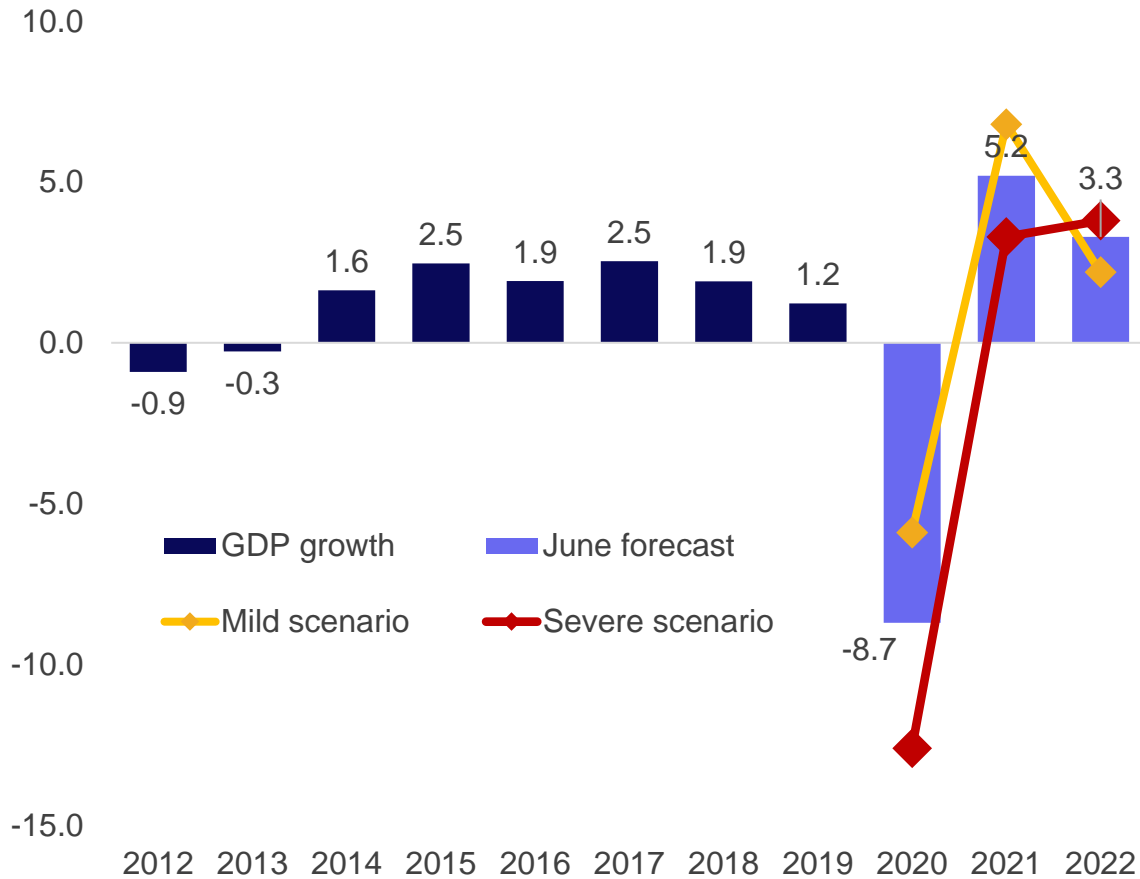
Latvia benefits from monetary accommodation both directly and indirectly

Monthly changes in monetary operations, bn EUR

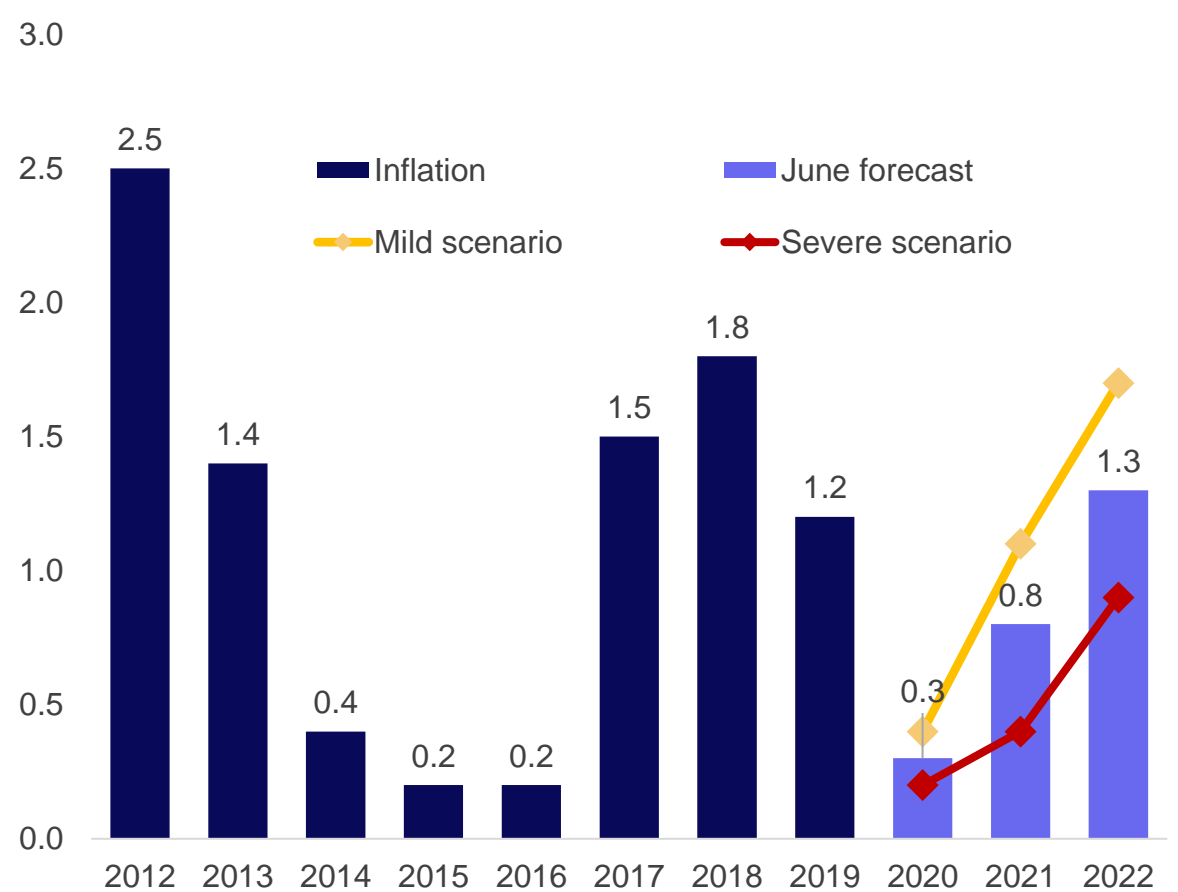


The euro area economy is developing in line with the ECB's baseline scenario

Euro area GDP growth and ECB GDP forecasts, %



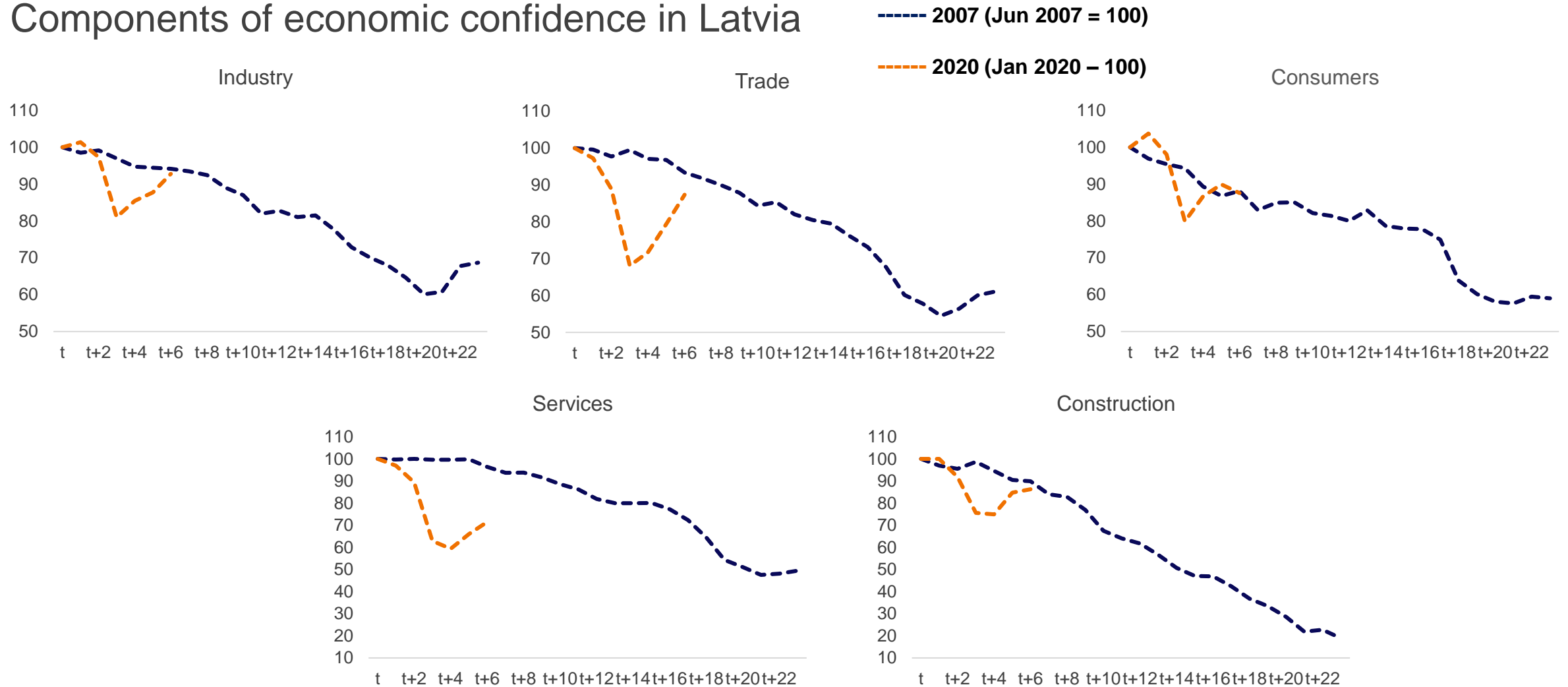
Euro area inflation growth and ECB forecasts, %



Latvia: past recession trough, recovery depends
on external environment and policy support

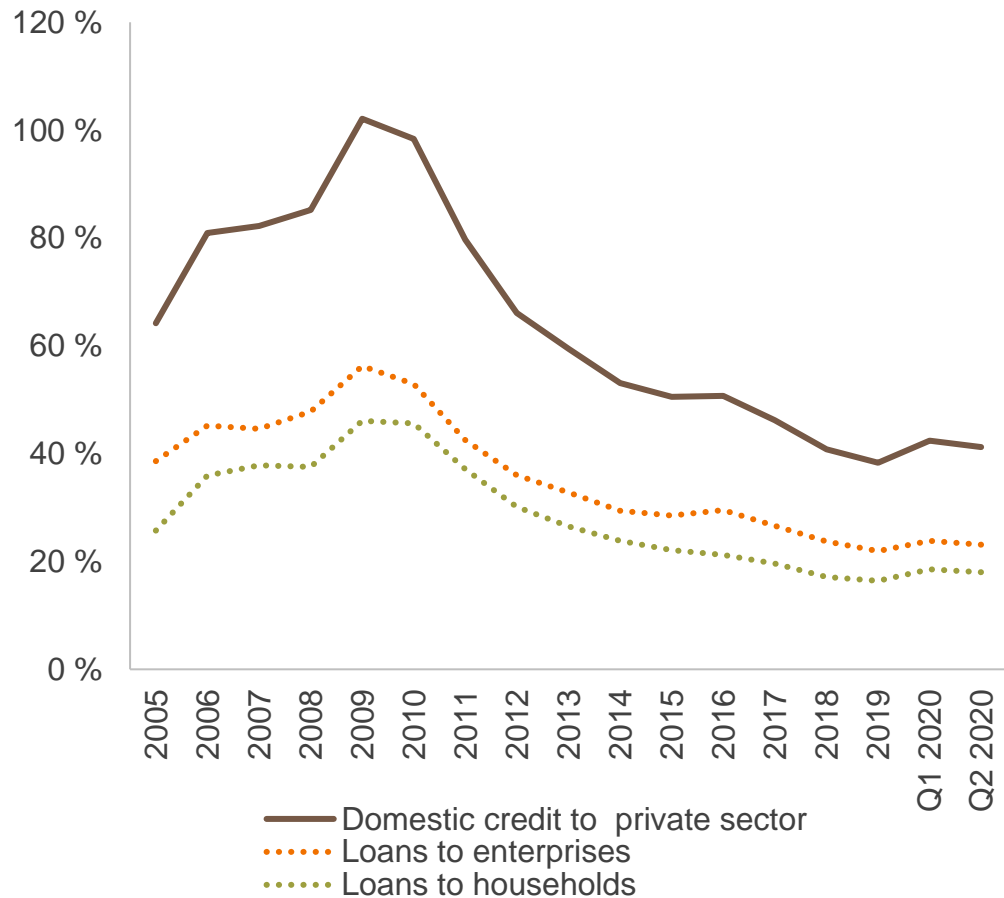
The COVID-19 blow was sharp and painful, but this crisis is different: not preceded by a «bubble», quick recovery in confidence

Components of economic confidence in Latvia

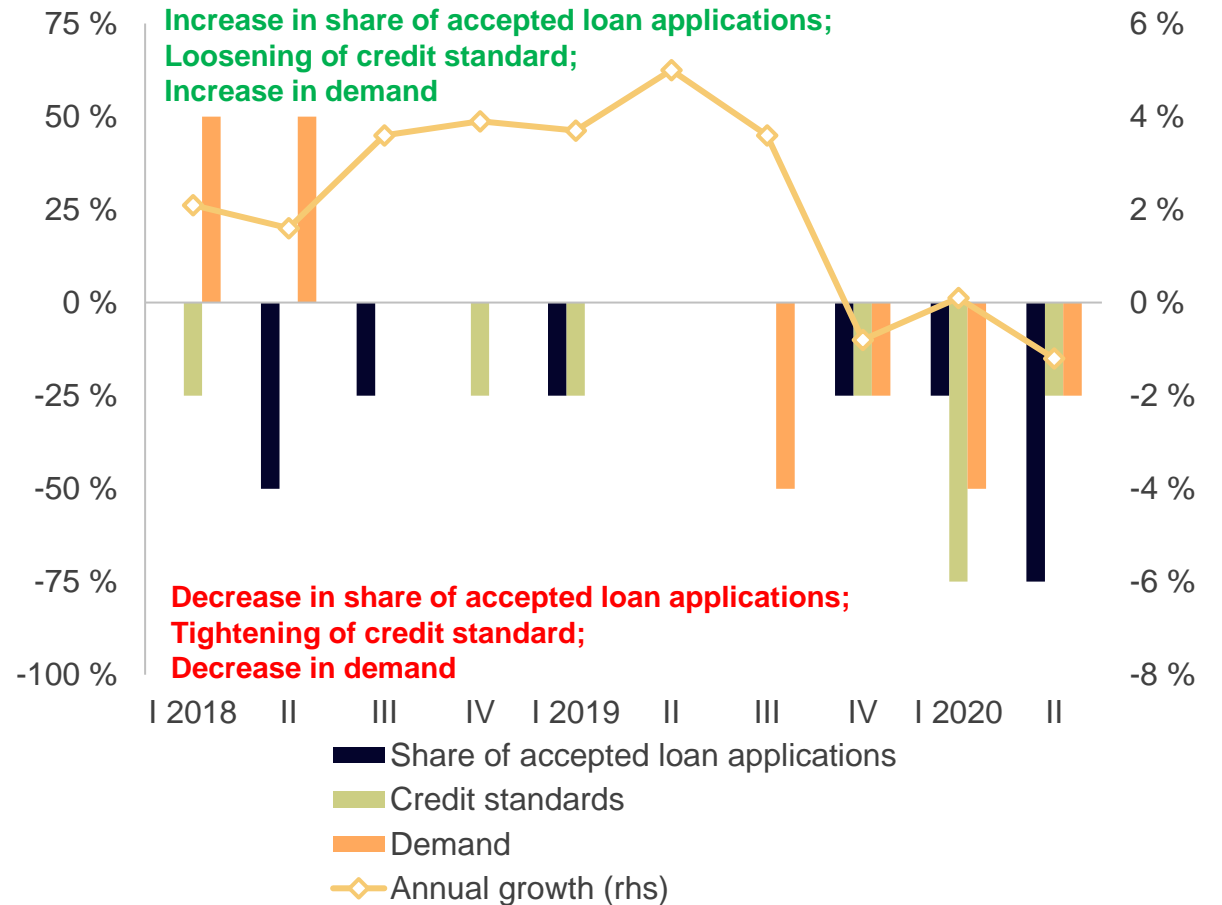


Credit standards seem to have tightened

Domestic credit to private sector
(percentage from GDP)



Loans to Enterprises: annual growth rate (in percent) and credit standards (net percentage of reporting banks)



Latvian economy: projections of key indicators

	2020 (June projections)	2021	2022
Real GDP (y-o-y, s.a., %)	-7.5	6.7	5.0
HICP (y-o-y, %)	0.0	0.2	1.3
HICP, excl. food and energy (y-o-y, %)	0.9	-0.1	1.2
Unemployment (% of econ. active)	9.6	10.3	9.6
Budget deficit (% of GDP)	-7.3	-4.1	-3.4
Government debt (% of GDP)	49.9	46.4	46.6

Government support: key principles

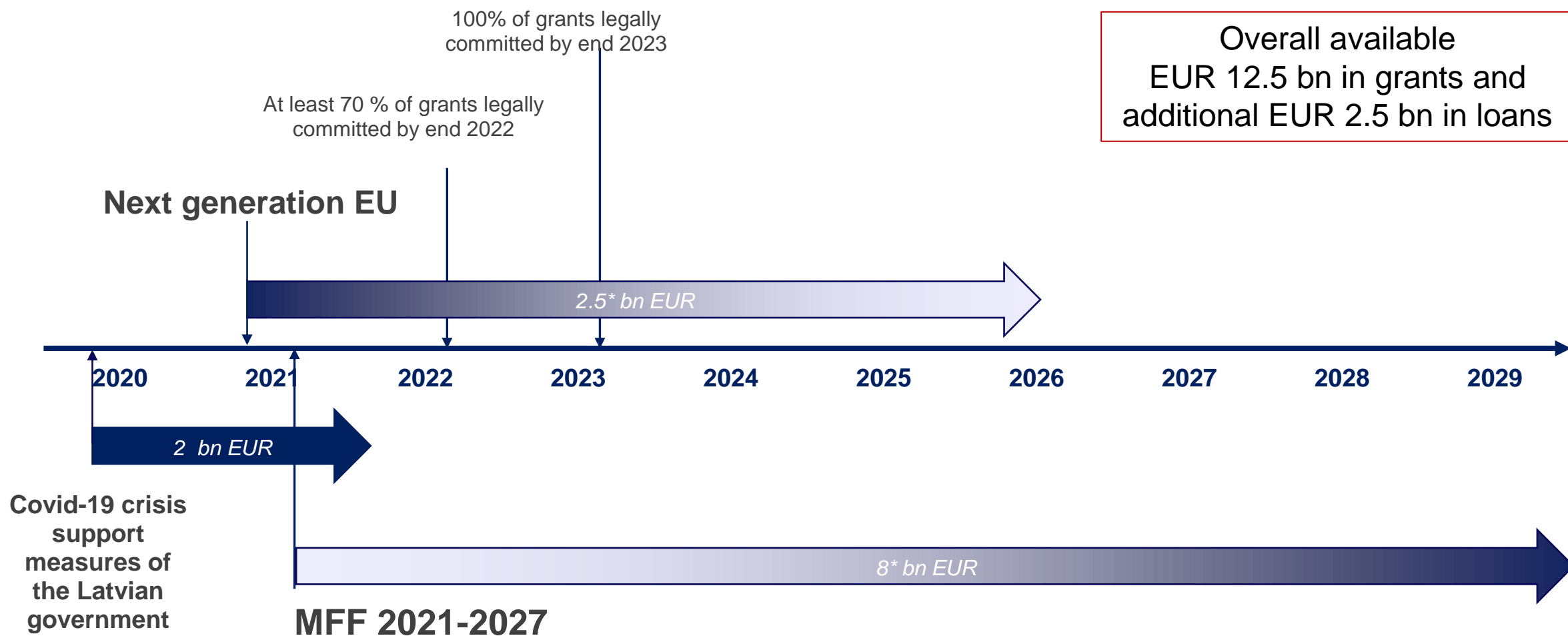
Government has means to support the economy. So far – in the right direction, continuous monitoring necessary, major challenge is quality of support

- ▶ Focus on issues as they evolve
- ▶ Responsible risk sharing between public and private sector
- ▶ Benefit to the society
- ▶ Sustainability



Foto: Latvijas Banka.

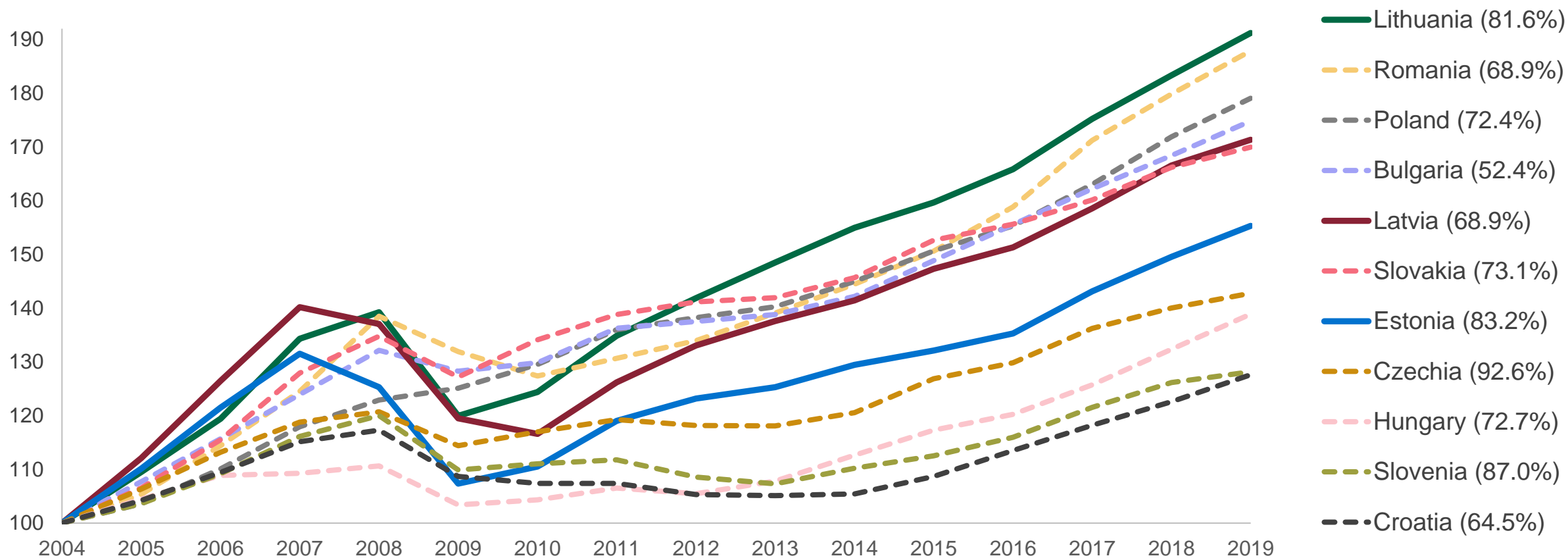
Massive funding inflows available to the Latvian economy over the next few years



* In current prices

Think beyond COVID-19!

Gross domestic product per capita (2004 = 100, volume index and % of EU28, in 2019, (PPP))



Where to invest?

Aim at structural problems and global challenges

Support to investments
and reforms

Green and digital
agenda