

The government approves Latvia's Stability Programme for 2020 - 2023

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On Thursday, April 30, the Cabinet of Ministers approved the Latvia's Stability Programme for 2020 - 2023 prepared by the Ministry of Finance (MoF). The Stability Programme incorporates the measures for containment of COVID-19 pandemics and support of population and enterprises, which were adopted up to 17 April 2020. At the same time, it must be noted that the Stability Programme does not provide for additional changes of the policies.

It also includes updated forecasts of macroeconomic indicators for the medium term. Initially, the macroeconomic development scenario has been drafted in February this year, providing for Latvia's economic growth in the amount of 2.2% in 2020, similar to the growth rate of gross domestic product (GDP) achieved in the previous year, and in 2021 the economic growth would accelerate to 2.8%. Nevertheless, rapid spread of coronavirus in the world and Europe and the introduced measures for containing COVID-19 pandemics have severely affected the economic development of the countries of the world. Thus, in April this year, the MoF has developed new medium-term macroeconomic development scenario, considering both the adverse effect of Covid-19 on Latvia's economic growth and the support measures introduced by the government of Latvia for minimising the effects of the crisis, stipulating the drop of Latvia's GDP by 7% in 2020.

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Macroeconomic development scenario is based on the assumption that the virus pandemics is contained in the first half of 2020 and afterwards the economic activity gradually restores. Such assumption forms the grounds for the macroeconomic forecasts of all international institutions, based upon the latest data of Covid-19 spread dynamics.

In the coming years, the economic growth will gradually restore, with the GDP growth comprising 1% in 2021 and 3.5% in 2022. Nevertheless, the GDP would exceed the level of 2019 only in 2023.

General government budget deficit this year is being forecasted in the amount of 9.4% of the GDP, whereas, in 2021, at a constant policy, deficit will reduce to 5.0% of the GDP. In turn, the general government debt will grow to 51.7% of the GDP in 2020 and will achieve 52.2% of the GDP in 2021.

Inflation forecast for 2020 is reduced to 0.4%, while the next year's consumer price growth is forecasted at the level of 1.7%. Decrease in inflation this year will be determined by the fall in prices of energy resources affected by steep drop in oil prices, as well as a lower food prices' growth forecast. Along with the weakening demand and disappearing impact of salary increase, the reduction of core inflation is expected, as well.

The MoF forecasts that, due to the spread of virus and under the influence of measures for containment thereof, the number of population employed in national economy would reduce on average by 5% in 2020, as part of employees would lose their jobs in the sectors directly affected by restrictions, including transport, trade, accommodation and catering, professional and administrative services, and the number of those employed in indirectly affected sectors would slightly decrease, as well. Correspondingly, it is expected that the unemployment rate in 2020, as compared to 2019, will grow by 4.9 percentage points to 11.2%. In 2021 and 2022, along with restoration of the economic growth, the number of the employed will slightly increase, stabilising at the level of 883 thousand by 2023.

According to the forecasts, in 2020, the average monthly wage will reduce by 3.0%, as the strong wage increase would still be preserved in the first quarter of the year, but afterwards the entrepreneurs would no more be able to preserve the existing wage level under the circumstances of steep economic downturn. Over the coming years, the wage increase will gradually restore, with the average monthly wage increasing by 3.0% and subsequent stabilisation of the growth at the level close to the total productivity growth in national economy.

It should be noted that the forecasts of macroeconomic indicators have been prepared under the circumstances of high

uncertainty and the scenario risks have a top-down trend. If the containment of coronavirus spread endures, the fall in the GDP and employment indicators would be steeper than forecasted.

The Stability Programme forms one of the elements in the cycle of preparation of the draft annual state budget law and draft medium-term budget framework law. All Member States of the European Union (EU) submit to the European Commission (EC) the Stability Programmes (eurozone countries) or Convergence Programmes (non-eurozone countries) on an annual basis, providing macroeconomic and budgetary forecasts for the coming years. Based on these documents, the EC assesses the condition of the public finance of the countries and the conformity thereof to the EU fiscal discipline rules, and develops specific recommendations to be observed by the Member States, when developing national budgets.

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