



# Weekly Briefing

**Latvia economy briefing:  
Recovering of the economics of Latvia after the impact of Covid-19**  
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## **Recovering of the economics of Latvia after the impact of Covid-19**

*The current macroeconomic development scenario of the economics of Latvia assumes that the pandemic will be contained in the first half of 2020 and that economic activity will gradually recover thereafter. During May 2020 more attention has been put on currently the weakest point of economics – tourism and as well the formation of the future of the economics of Latvia.*

### **The parliament of Latvia offers a two-tier support mechanism for companies in the hospitality and accommodation sectors to be reopen**

The losses of the tourism sector since the middle of March have amounted to at least 77 million Euros. One of the biggest challenges since the pandemic declaration is the lack of capital turnover. In both sectors of hospitality and accommodation - around 4,000 small and medium-sized enterprises have been directly affected, creating a catastrophic situation in the workforce, with around 40,000 workers affected.<sup>1</sup>

The general situation in the country currently and the epidemiological improvements with the virus containment allows local tourism service providers to resume work, following the necessary health and safety requirements. The ministry of Economics together with the tourism industry have discussed and reviewed all possible options for support mechanisms so that the industry can recover from the virus-induced forced stopping of operation, continue to provide jobs and be ready to start the tourist season. In addition, comprehensive advertising campaigns for local tourism and neighboring countries will be launched to stimulate local demand. Currently, by providing direct and real support, the Latvian tourism companies will be supported, providing employment opportunities for the residents, and achieve an economic breakthrough in the tourism sector, especially in the regions.

The Ministry of Economics has developed a special support mechanism for the accommodation and catering sectors, which had practically stopped operating due to the declaration of a state of emergency in the country. In order to promote the resumption of business during the tourist season, a two-stage support mechanism is offered - to promote

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<sup>1</sup> <https://www.em.gov.lv/lv/jaunumi/27909-vitenbergs-viesmilibas-un-izmitinasanas-sektora-uznemumiem-darbibas-atsaksanai-piedavajam-divu-pakapju-atbalsta-mehanismu>

employment in both the accommodation and catering sectors, and tour operator service providers are offered to introduce a 3-month grant to maintain the company's economic activity. In turn, a mechanism for receiving interest-free loans will be developed for businesses to resume economic activity and increase capacity.

The two-stage support mechanism for the resumption of activities in the tourism sector will offer a grant for the operation, as well as an interest-free unsecured working capital loan. Grants to promote employment for entrepreneurs will promote the services of accommodation, hospitality, or tour operators. The aid can be used by the entrepreneur to cover various operating costs, including staff salaries, rent of premises, purchase of goods, etc. The aid is expected to be granted within a period of 3 months after payment of current salary and taxes. In turn, the interest-free unsecured working capital loan is intended for the resumption of economic activity.

### **In the Covid-19 crisis, the Latvian media is deeply affected by the decline in advertising revenue**

In addition to many industries in Latvia, the media also has been alarming about their future - both broadcasters and print media, which work in rather tense conditions in the state of emergency declared in the country. The biggest concern in the media is the sharp decline in advertising revenue. Advertising revenue for some media has decreased even by 80%.<sup>2</sup> Although even prior the Latvian media had been facing difficulties the Covid-19 crisis has cultivated to even broader problems that has led to decrease in salaries, redundancies and even some platforms are considering closing printed publications. Because of that it is foreseen that in the future of the media of Latvia the share of paid content will increase.

### **To ensure the continuous operation of Latvian manufacturing companies, borders will be opened for the flow of labor**

The continuous operation of Latvian manufacturing, exporting and national security companies is vital for the recovery of the Latvian economy in the near future. Moreover, during these challenging times, these companies continue to maintain stable jobs. It is therefore important to ensure that investment projects are not affected, and that the operation of these companies is not hampered by the operation of equipment, the receipt of the necessary certificates or the recruitment of qualified specialists.

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<sup>2</sup> <https://www.lsm.lv/raksts/zinas/arzemes/covid-19-krize-baltijas-medijus-vissmagak-skar-reklamas-ienemumu-kritums.a360549/>

Because of that during May 2020, the order came into force, stipulating that foreigner workers will not have to observe self-isolation (home quarantine) upon arrival in Latvia if they do not show any signs of an acute respiratory infection.<sup>3</sup> The order from the Ministry of Economics stipulates that a foreign employee will be able to work in Latvia for no longer than five days, but in some cases not longer than a month.

At the same time, a Latvian company whose obligations to a foreigner have arrived in Latvia will have to certify that the foreigner meets the criteria specified in the order, that it is not infected with Covid-19 infection and will comply with all Latvian restrictions related to the emergency, including personal protective equipment and will measure body temperature twice a day.

### **The impact of Covid-19 on the labor market is mitigated by state aid measures**

The decline in economic activity, which has been affected by the introduction of Covid-19 restrictive measures both in the world and in Latvia, has a significant impact on the labor market as a whole. As labor-intensive sectors are primarily affected - transport services / passenger transport, travel agency and tour operator reservation services, accommodation and catering services, arts and various cultural fields, sports centers and other sectors directly related to population movement and assembly. The number of jobs in the directly affected sectors in 2019 alone amounted to about 60 thousand jobs, which is about 7% of the total number of jobs in the economy.

At the same time, it should be noted that the support measures introduced so far have generally mitigated the negative effects of Covid-19 on the labor market. By 18 May this year, more than 45,000 workers and the self-employed had received a downtime allowance, which has partly ensured the preservation of jobs and income during the emergency period.<sup>4</sup>

Meanwhile, both the registered unemployment rates and the dynamics of registered vacancies in general show that the situation in the labor market is gradually stabilizing. According to the State Employment Agency, the growth in the number of registered jobseekers in May has been almost three times slower than in April. However, starting from the beginning

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<sup>3</sup> <https://www.em.gov.lv/lv/jaunumi/27888-vitenbergs-arkartejas-situacijas-laika-ir-butiski-nodrosinat-latvijas-razojoso-uznemumu-nepartrauku-darbibu>

<sup>4</sup> <https://www.em.gov.lv/lv/jaunumi/27945-covid-19-ietekmi-uz-darba-tirgu-mazina-valsts-atbalsta-pasakumi>

of May, the number of registered vacancies has stabilized and resumed growing - from this year. From 5 May to 21 May, the number of vacancies has increased by more than 2,000.

Although the labor market situation has gradually stabilized, it should be borne in mind that with economic activity remaining low for a long period of time and without appropriate state support measures, the situation may change rapidly. Despite the fact that, in general, state aid has ensured the preservation of jobs in the short term, which will allow companies to recover more quickly in the post-crisis period, as well as maintaining economic activity, most of the jobs measures, they can be lost quickly. Against this background, both the overall decline in real employment and the rise in unemployment are higher, partly due to the idle labor force.

According to the Ministry of Economics, the total real (including idle) reduction of the employed population in 2020 could reach 7.5% on average, but the unemployment rate could increase to about 11%.

### **Summary**

To stimulate the tourism sector the parliament of Latvia has created two-tier support mechanisms for companies, which have been deeply affected by the Covid-19 crisis. As the current situation allows to reopen the tourism sector there have been discussed variety of options to ensure the financial recovery of the sector. The two-stage support mechanism for the resumption of activities in the tourism sector will offer a grant for the operation, as well as an interest-free unsecured working capital loan by that providing opportunity to cover salaries of workers, rent and other expenses. Additionally, during May 2020 the topic on the future of the media of Latvia had been raised. The of revenue from advertisements has rapidly decreased, which has led to redundancies, cut in salaries in the sector. From that it is seen that the share of paid content could experience rise in Latvia. To ensure the continuation of the economy of Latvia the borders will be reopened for the flow of labor that foreigner workers will not have to observe self-isolation upon arrival in Latvia. Up until the middle of May this year, more than 45,000 workers and the self-employed had received a downtime allowance, which has partly ensured the preservation of jobs and income during the emergency period. Additionally, both the registered unemployment rates and the dynamics of registered vacancies in general show that the situation in the labor market is gradually stabilizing.