

# **The financial crisis and its impacts on cohesion: some thoughts from Latvia**

Alf Vanags

Baltic International Centre for  
Economic Policy Studies

[alf@biceps.org](mailto:alf@biceps.org)



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## Some issues/questions

- Latvia: some facts
- Latvia and the crisis
- How the crisis affected cohesion policy
- How cohesion policy affected the crisis
- Societal 'cohesion'
- Latvia and Baltics as a 'model'

# Why Latvia is interesting

- Record growth in the boom
- Record bust
- Record austerity
- Life 'after austerity'

## Latvia: key facts

- Small country
- Poor: only Bulgaria, Romania have lower GDP per capita among EU27
- High inequality
- Large shadow economy
- Low social cohesion

## **Population**

2m in 2011

2.38m in 2000 and 2.67m in 1989

700 000 Russian speakers

295 000 non-citizens

## **High emigration**

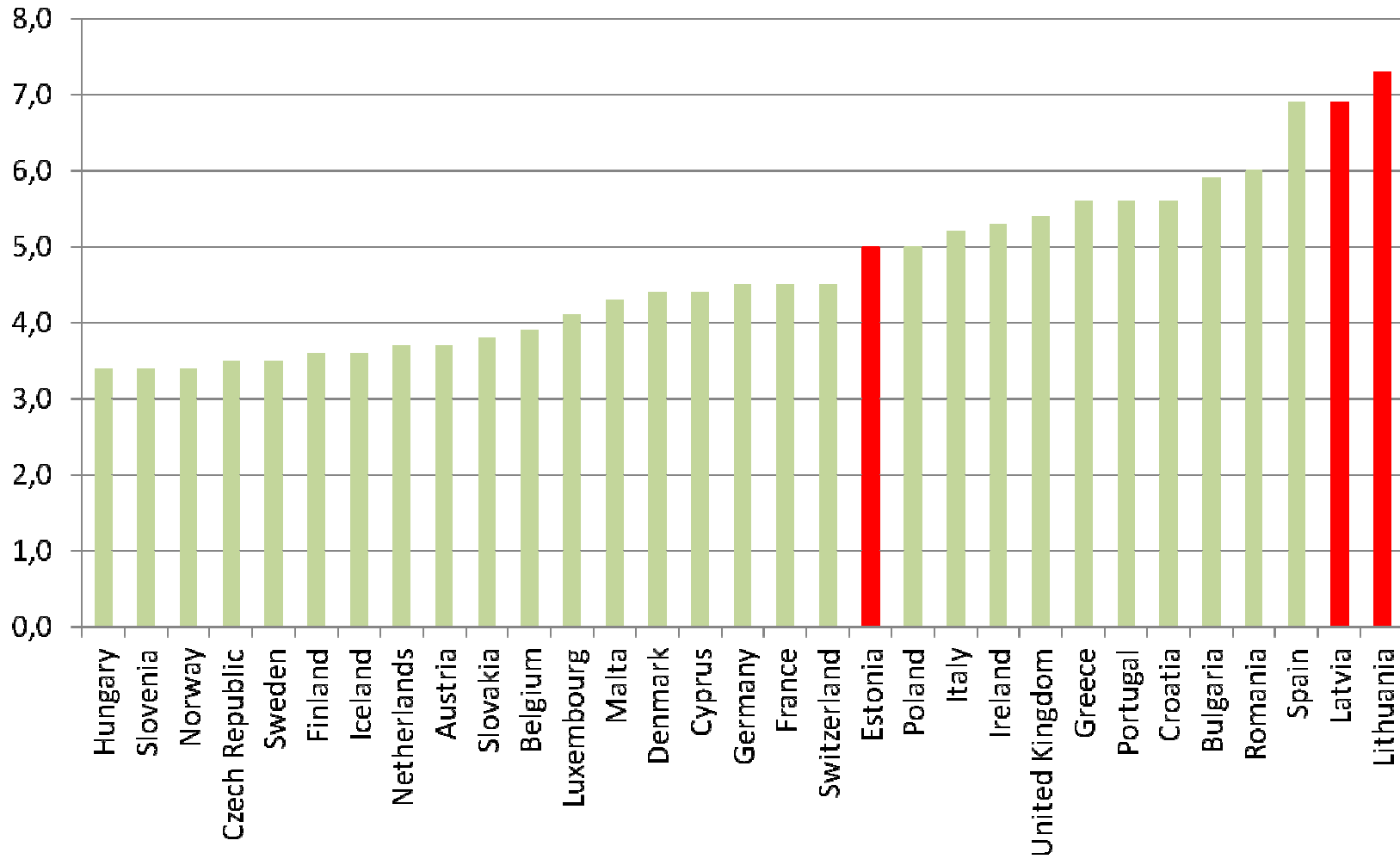
200 000 since 2000

100 000 in the crisis

## Prosperity (2011)

	GDP per capita in PPS as %of EU average	Actual individual consumption
Sweden	126	115
Germany	120	119
Finland	116	112
UK	108	118
France	107	112
Portugal	77	82
Estonia	67	57
Lithuania	62	66
Latvia	58	56
Bulgaria	45	44

## Income of top 20% relative to bottom 20%



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## Share of shadow economy in GDP

	2009	2010	2011
Estonia	20.2% 29.6%	19.4% 29.3%	18.9% 28.6%
Latvia	36.6% 27.1%	38.1% 27.3%	30.2% 26.5%
Lithuania	17.7% 29.6%	18.8% 29.7%	17.1% 29.0%
France	11.6%	11.3%	11.2%
EU Average	19.8%	19.5%	19.2%

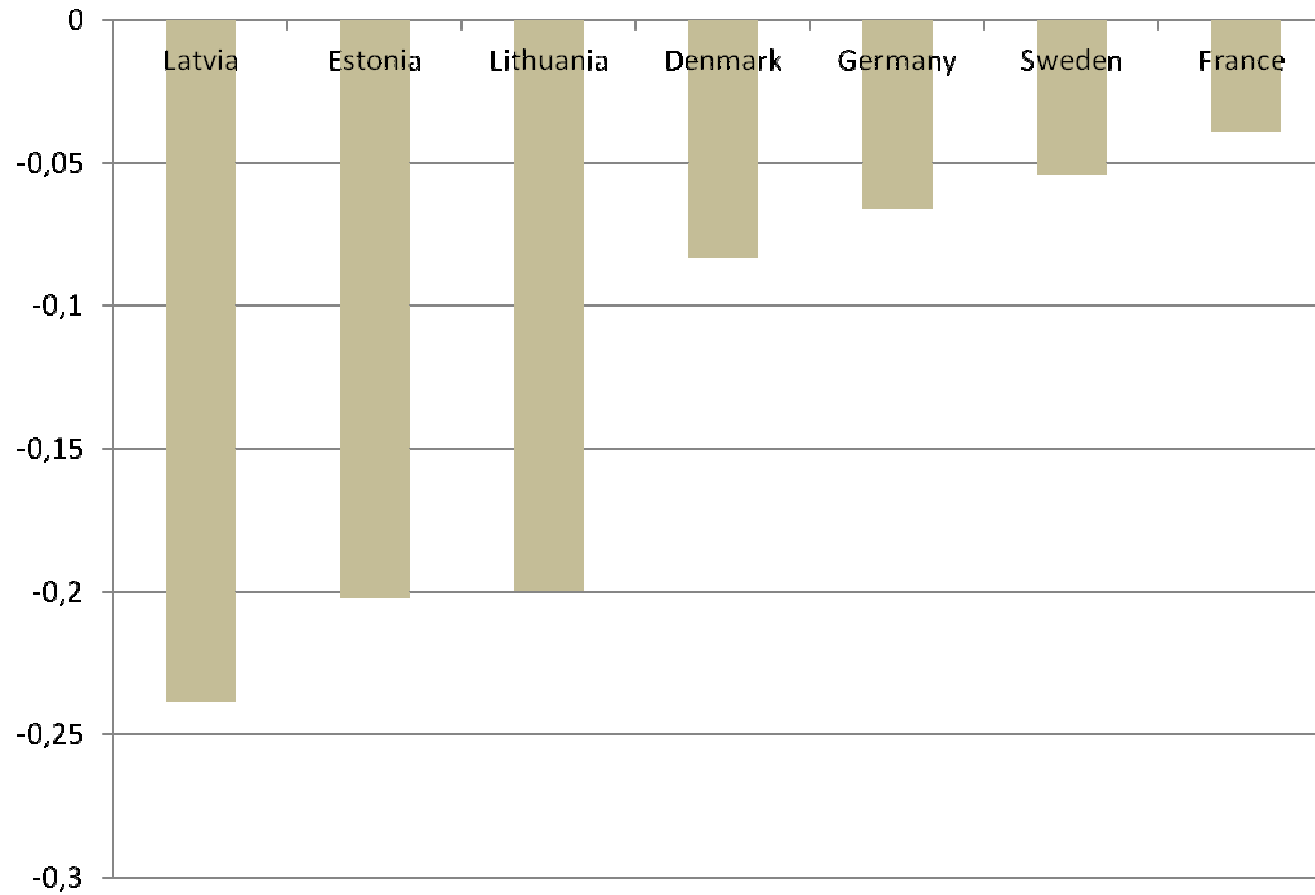
Source: Putnins and Sauka; **Schneider**



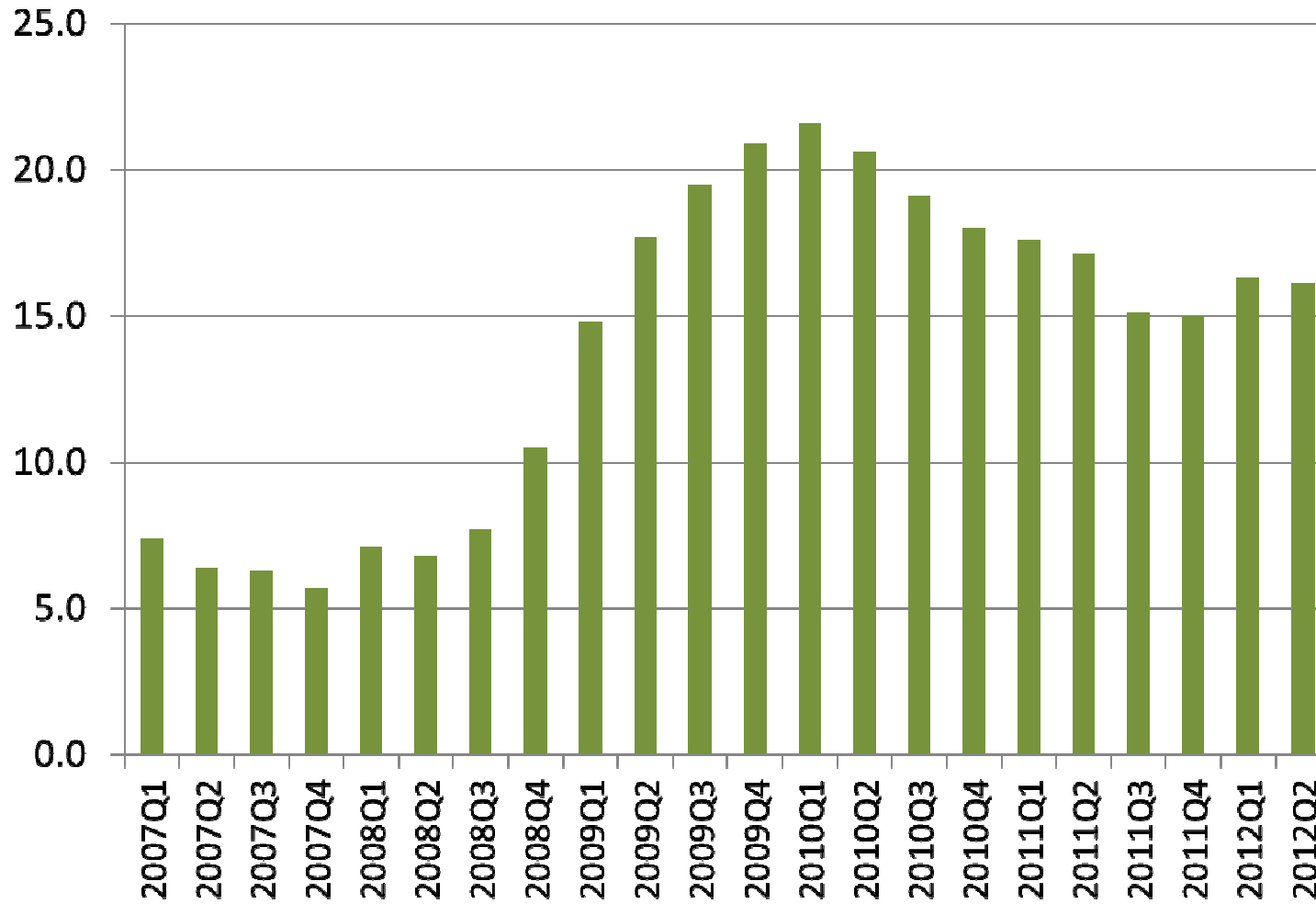
# Latvia and the crisis (1)

- Hardest hit in the EU in the first wave of crisis
- In practice LV was the first of the 'programme' countries
  - IMF/EC called in in December 2008
  - Gov unable to borrow
- Unprecedented fiscal consolidation
  - Cumulatively by 17% of GDP
- Policy making effectively taken over by lenders

## Cumulative GDP decline in the crisis



# Latvian unemployment



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# Cohesion policy in Latvia

- Latvia is a single NUTS 2 region
- Whole country covered by the Convergence objective
- Three Operational Programmes


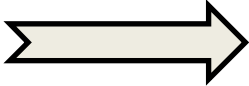
Human Resources and Employment (EUR 551m)

Entrepreneurship and Innovations (EUR 737m)

Infrastructure and Services (EUR 3.2b)

- Total funding: EUR 4.53billion

## Financial crisis and cohesion policy (1)

- The 2004-6 programming period coincided with the boom period
- 2007-13 by contrast has coincided with the crisis and recession
- Two way impact:
  - Cohesion policy  Crisis
  - Crisis  Cohesion policy

## Financial crisis and cohesion policy (2)

### Impact of cohesion policy on the crisis:

- Structural funds claimed as 'only' financing source during austerity
- Financial engineering instruments – guarantees, high risk loans, venture capital
  - Expected to provide financing for business in crisis
  - V slow to be implemented
  - As of end September only 15.6% of available funding contracted

## **Financial crisis and cohesion policy (3)**

### **Macroeconomic impact:**

- Macroeconomic modelling
- GDP: would have been 4 percentage points lower without the funds in peak recession years
- Unemployment: unemployment rate lower than it would have been by 1-2 percentage points.

## **Financial crisis and cohesion policy (4)**

### **From the crisis to cohesion policy:**

- Funds used as anti-crisis instrument
- Considerable adjustment of spending (delays)
- Indicators often not changed
- Compromises monitoring and evaluation

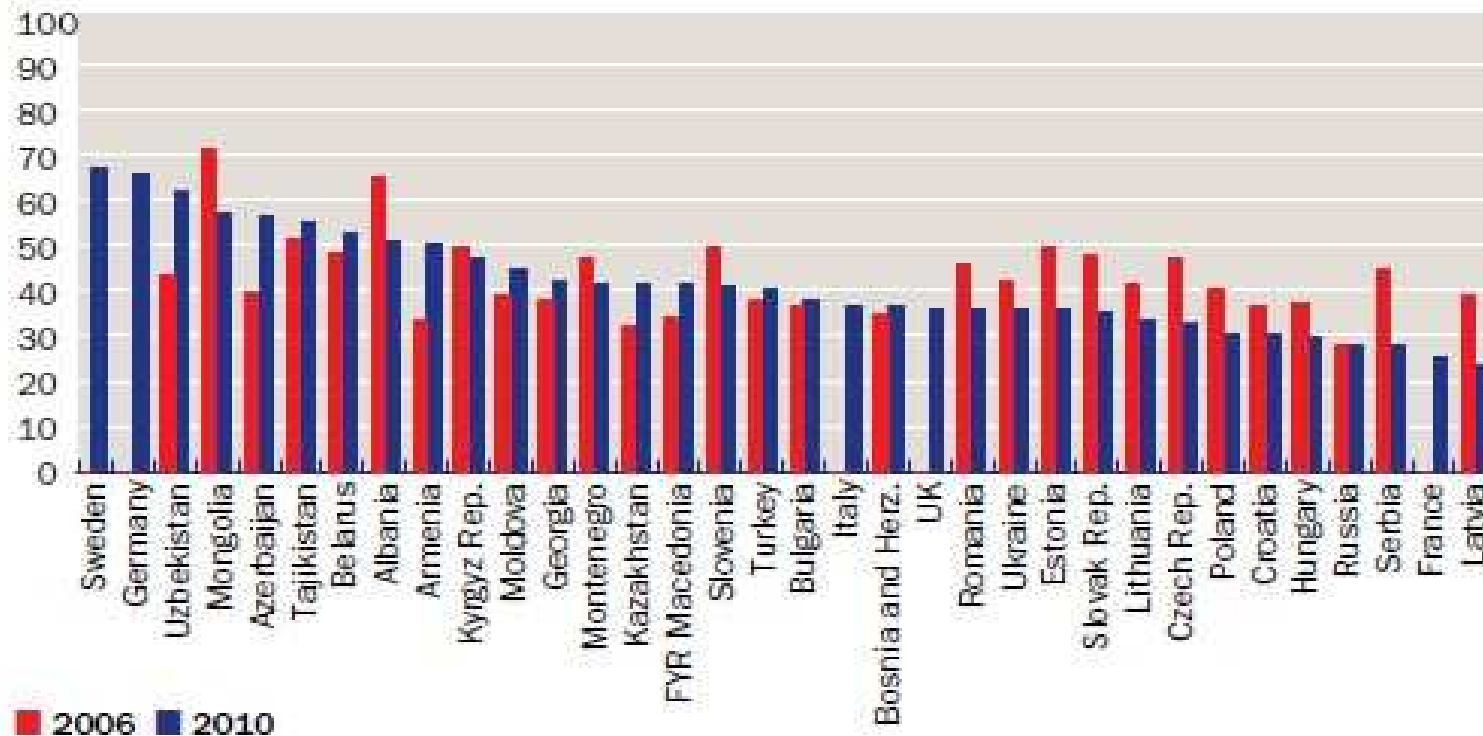


## **Social cohesion**

- Perceptions of society/economy
- Actions e.g. migration; fertility
- Politics
- Unemployment today

**Chart 2.4**  
**Comparative levels of support for a market economy,**  
**2006 and 2010**

% of respondents who prefer market economy over any other type of economic system



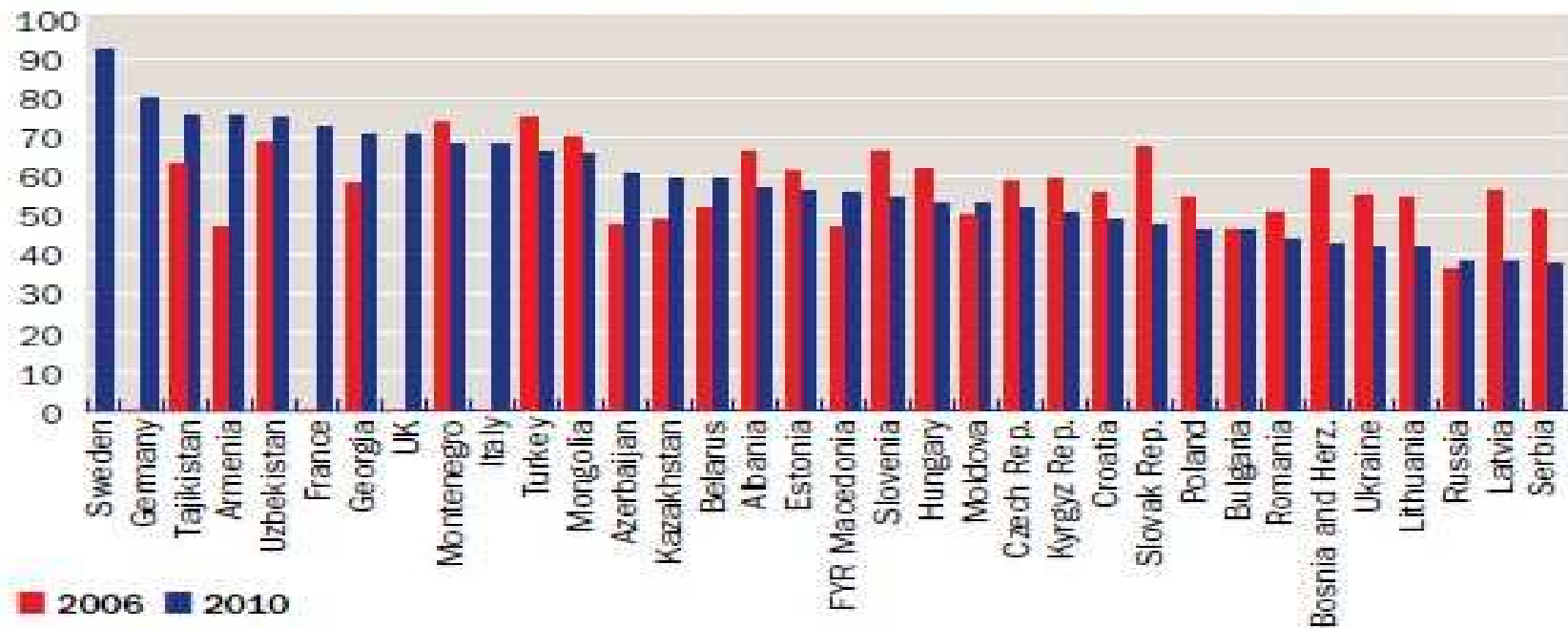
Source: LITS I (2006) and LITS II (2010).

Note: Percentage of respondents who prefer market economy includes respondents who agree with the following statement: "A market economy is preferable to any other form of economic system."

Chart 2.5

## Comparative levels of support for democracy, 2006 and 2010

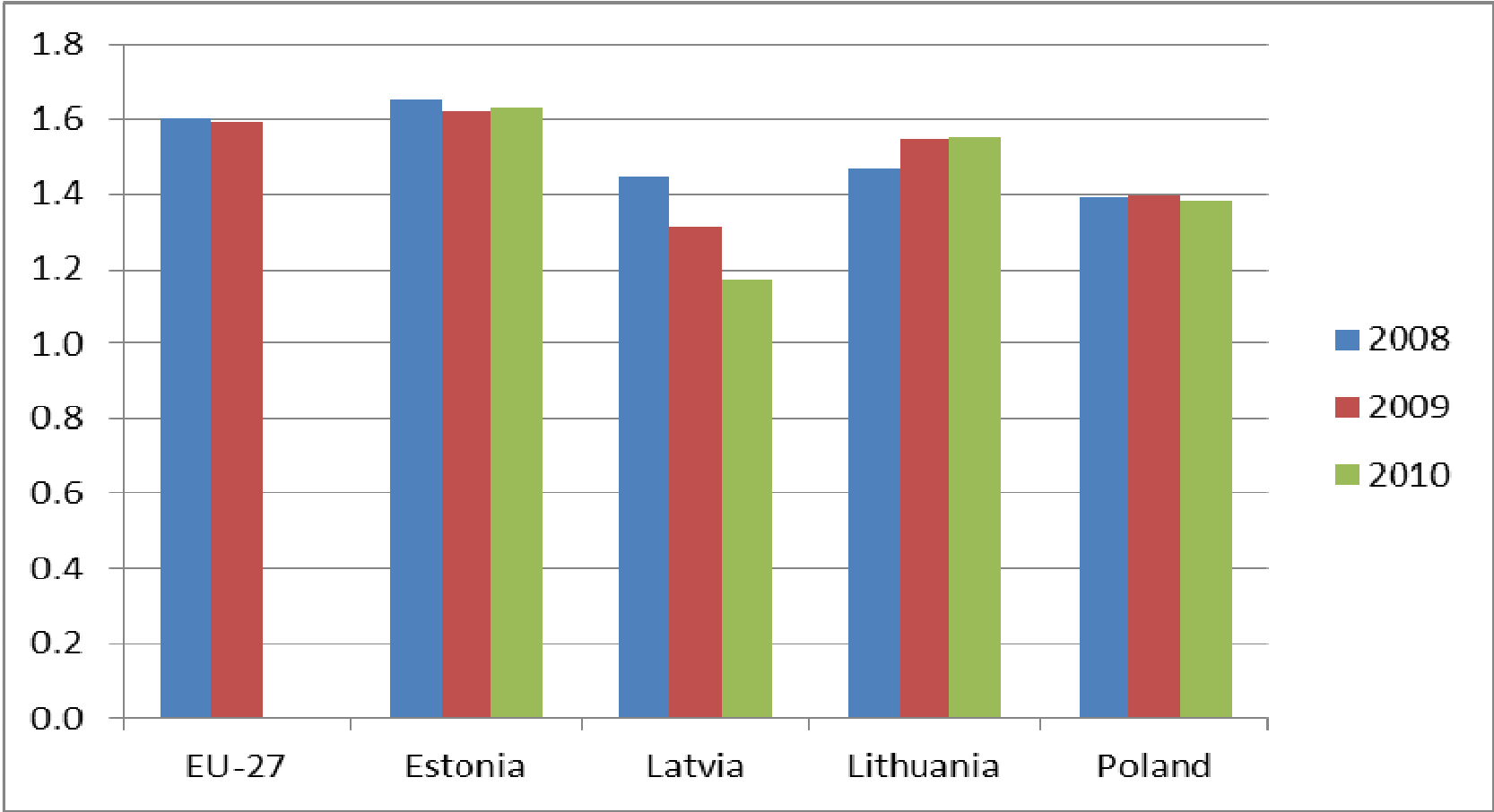
% of respondents who prefer democracy over any other type of political system



Source: LITS I (2006) and LITS II (2010).

Note: Percentage of respondents who prefer democracy includes respondents who agree with the following statement: "Democracy is preferable to any other form of political system."

# Fertility rates



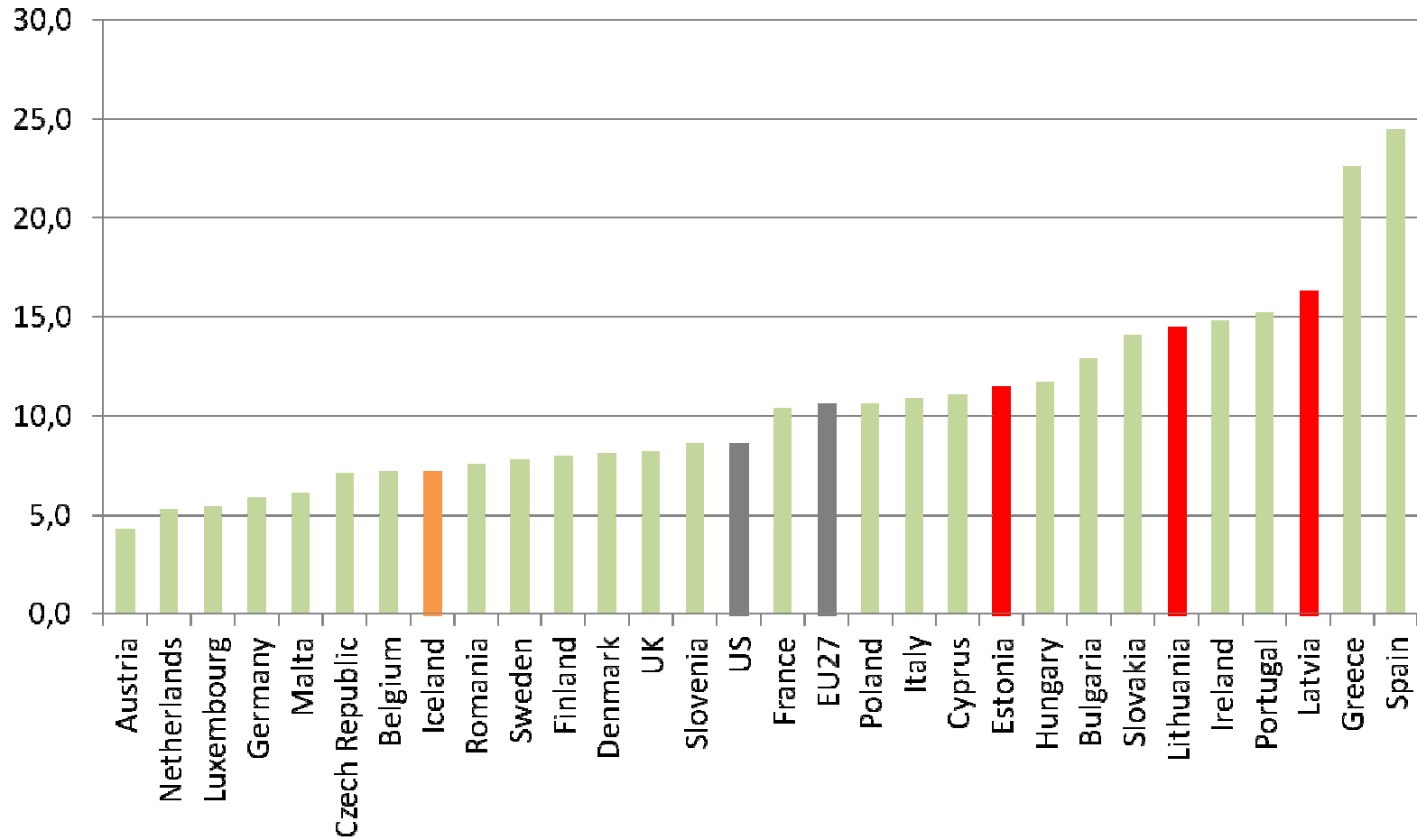
## Latvian politics/elections

<b>Party name</b>	<b>Political position</b>	<b>2011 election</b>	<b>2010 election</b>
<b>Harmony centre (Saskaņas centrs)</b>	Russian populist	28.4%	26.6%
<b>Zatler reform party</b>	Latvian reformist	20.8%	-
<b>Unity (Vienotība)</b>	Latvian centre-right	18.8%	31.9%
<b>National alliance “All for Latvia” /TB/LNNK</b>	Latvian nationalist populist	13.9%	7.8%
<b>Union of Greens and Farmers (Zaļo un Zemnieku Savienība)</b>	Latvian centre	12.2%	20.1%

## **Reaction to 2011 election**

- Polarisation
- Language referendum
- Citizenship referendum

# Unemployment rate Q12012



## Details on unemployment

- Long term unemployed: 54% of unemployed (91 000)
- Very long term unemployed (2yrs+): about 60 000
- Youth unemployment: about 30%

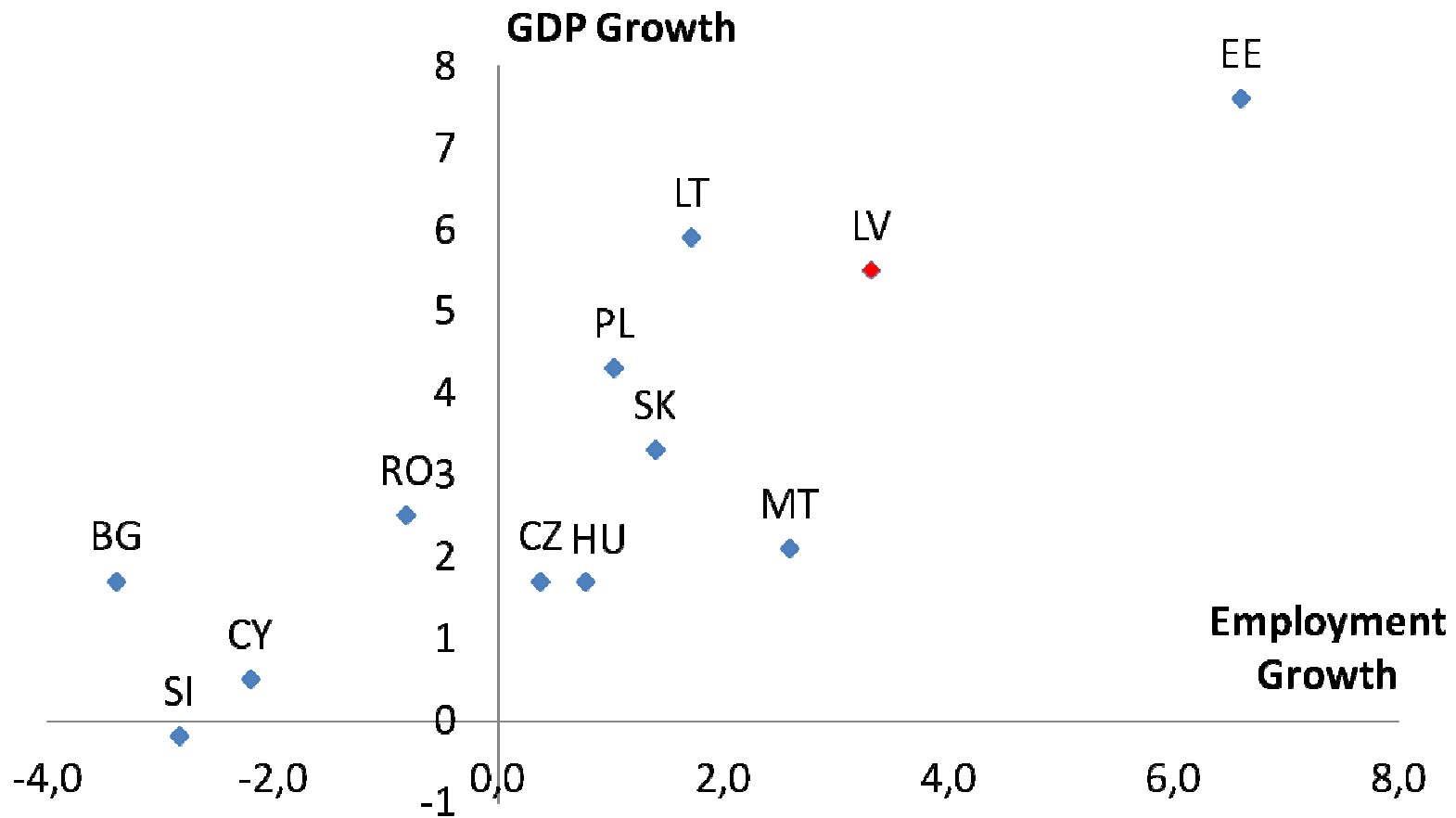


## Trade union density and collective bargaining coverage

	<b>Collective bargaining coverage</b>	<b>Trade union density</b>
<b>France</b>	98%	8%
<b>Sweden</b>	90%	71%
<b>Finland</b>	91%	74%
<b>Denmark</b>	80%	67%
<b>UK</b>	33%	28%
<b>Estonia</b>	33%	10%
<b>Latvia</b>	34%	14%
<b>Lithuania</b>	15%	9%

# $\Delta$ GDP vs. $\Delta$ Employment in 2011

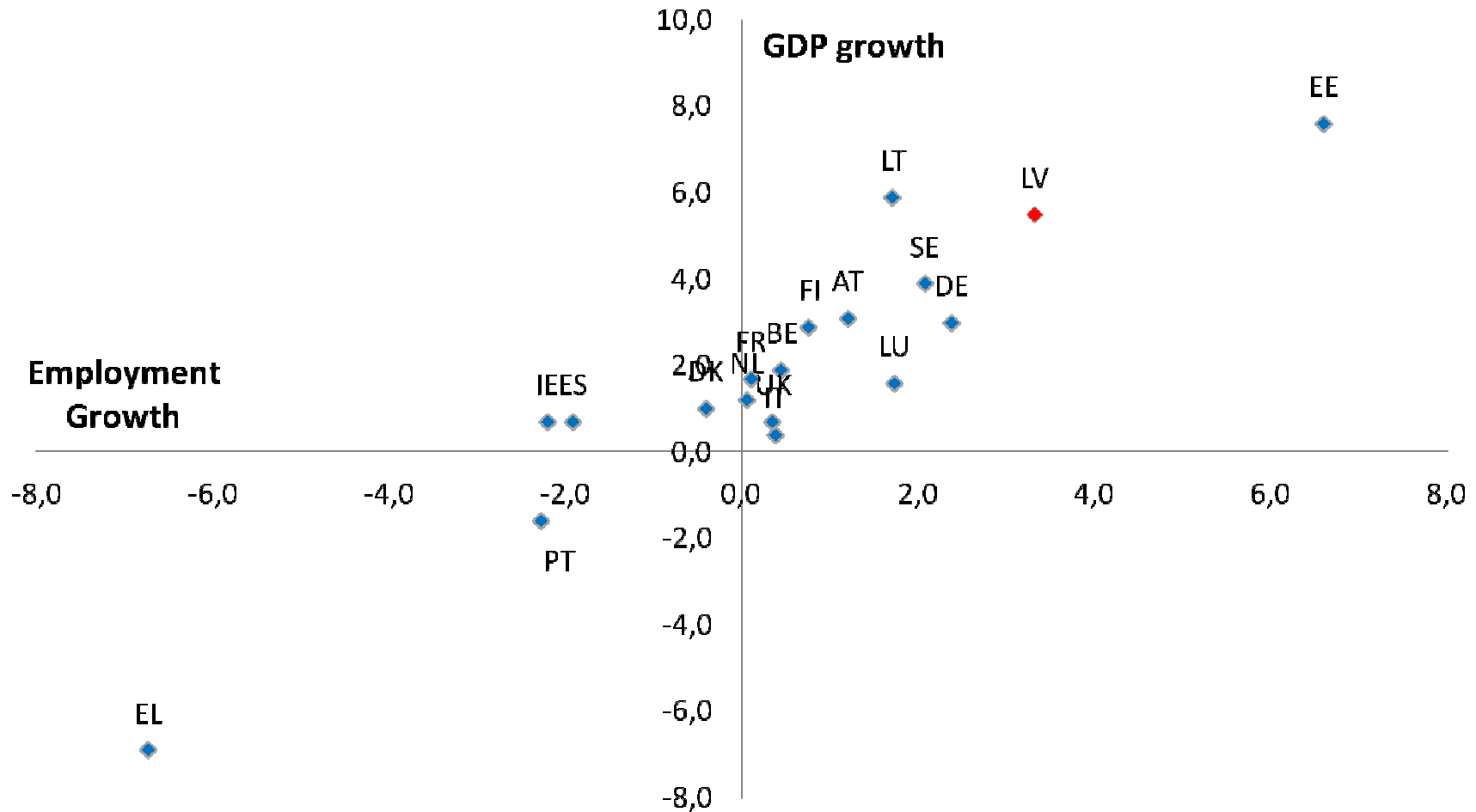
## New member states



Source: Eurostat

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# GDP Growth vs. Employment Growth EU15 and Baltic States, 2011



Source: Eurostat

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## Some concluding remarks

- Latvia hit hard by crisis
- Cohesion policy mitigated some of the impact
- Attempt to use the funds as crisis measure distorted long run aims
- Social cohesion remains fragile
- There is life after austerity