

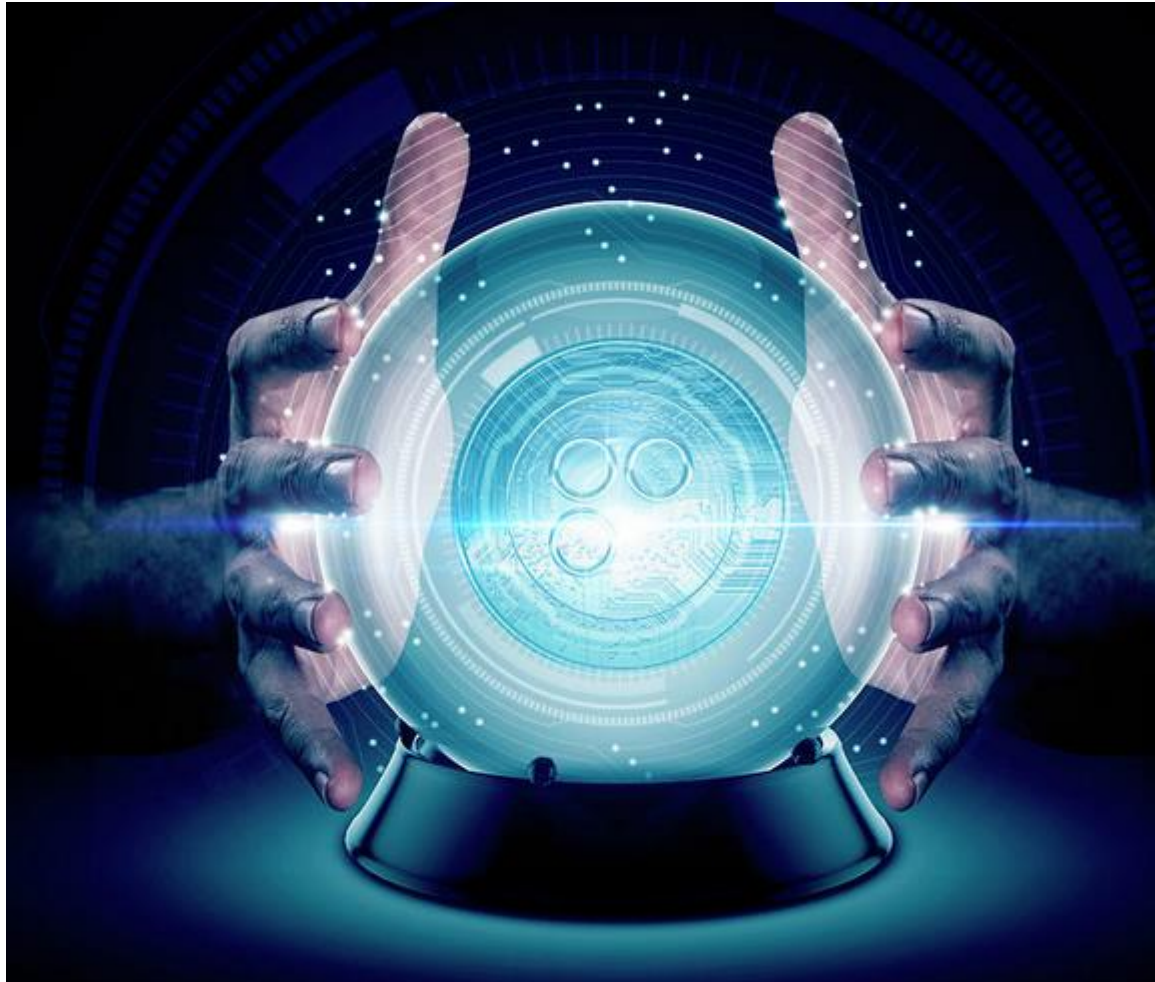
Macro overview: Coronanomics

Vilnius/Cyberspace 8 September 2020

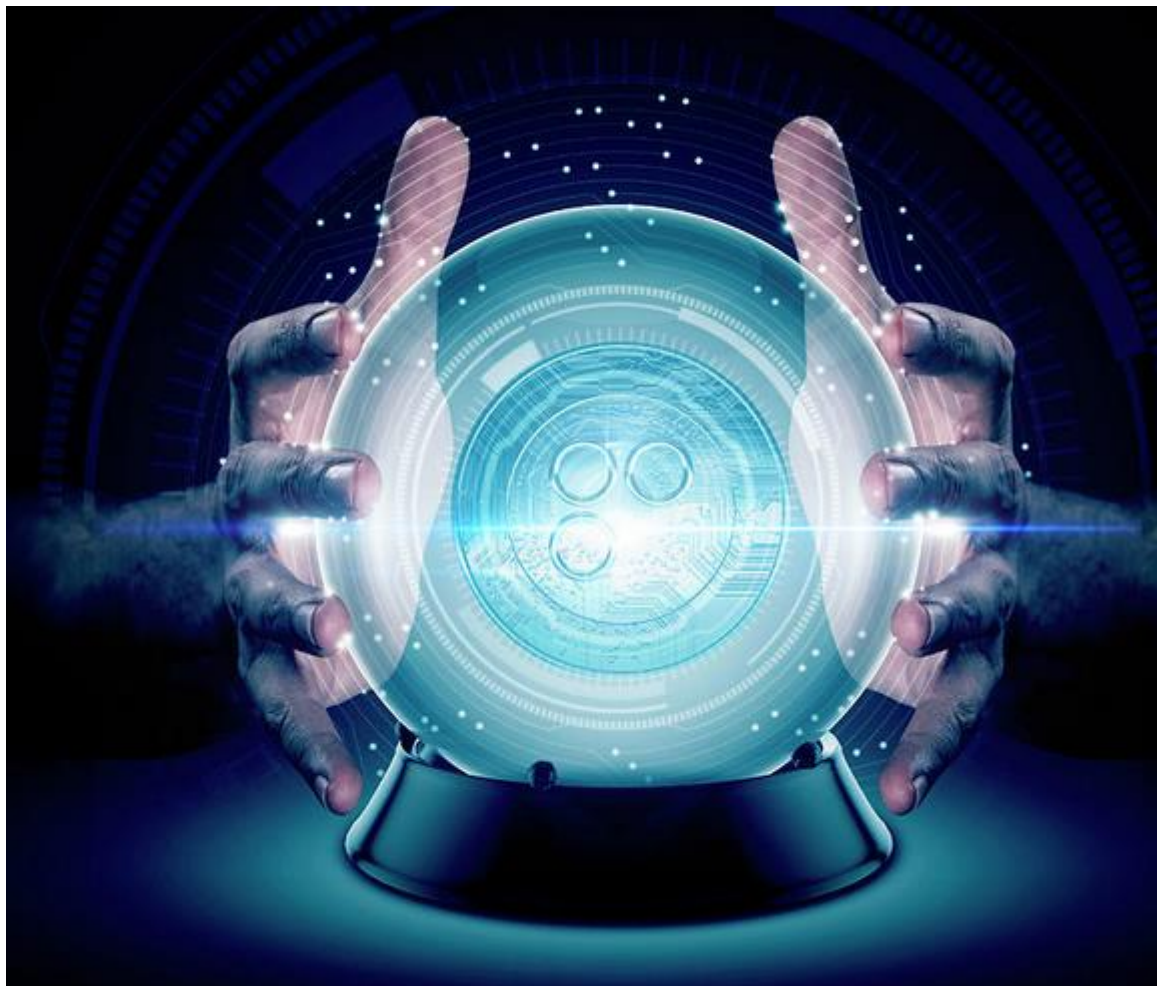
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**The job of an
economist....**



**The job of an
economist....**

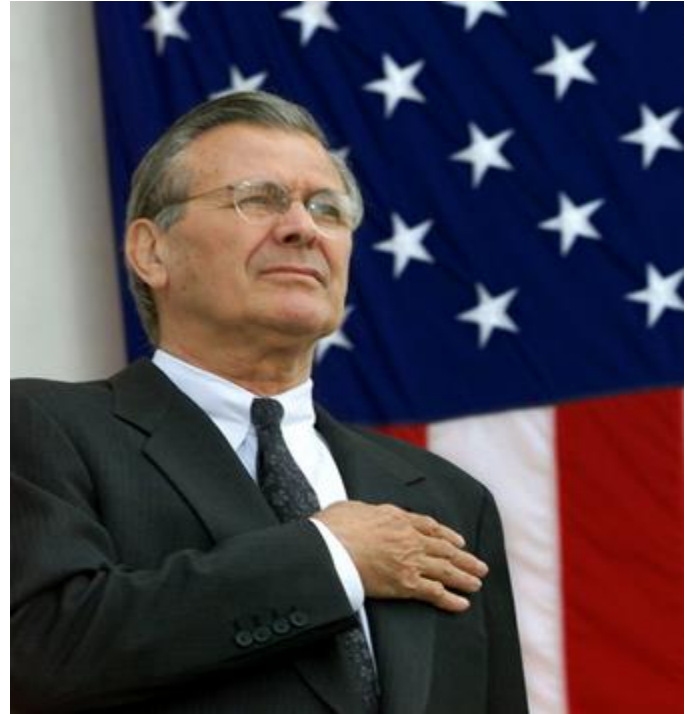
.... very blurry these days....

*There are **known knowns**. These
are things we know that we
know.*

*There are **known unknowns**.
That is to say, there are things
that we know
we don't know.*

*But there are also
unknown unknowns.
There are things we don't know
we don't know.*

Donald Rumsfeld
Secretary of Defense, 2001 - 2006



Idea/plan

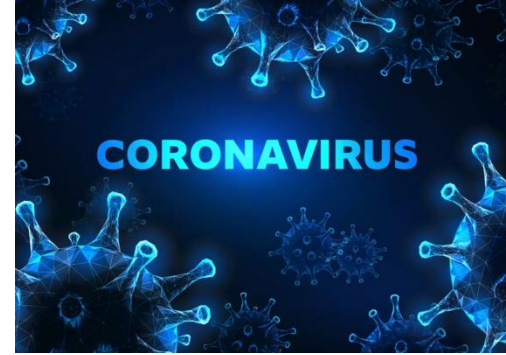
- Compare a bit with the financial crisis (although they are mostly very different)
- Try to make this presentation fit into the panel discussion and the presentation by Swedbank
- ... and put a positive spin on the outlook for Lithuania/the Baltics

Financial crisis, 2008-10



- Many imbalances
- In the eye of the storm

Great lockdown, 2020



- Starting from a position of balance
- Mostly prudent policies

In the old days (about half a year ago)

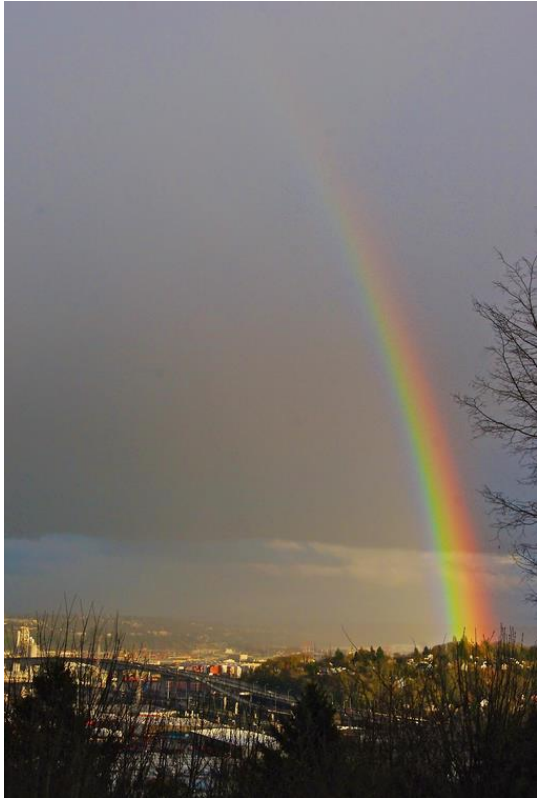


Then.....



- Health *crisis*
- Supply chain *crisis*
- Labour market *crisis*
- Demand *crisis*
- Oil price *crisis*
- Stock market *crisis*
- Currency *crises*
- Debt *crises*

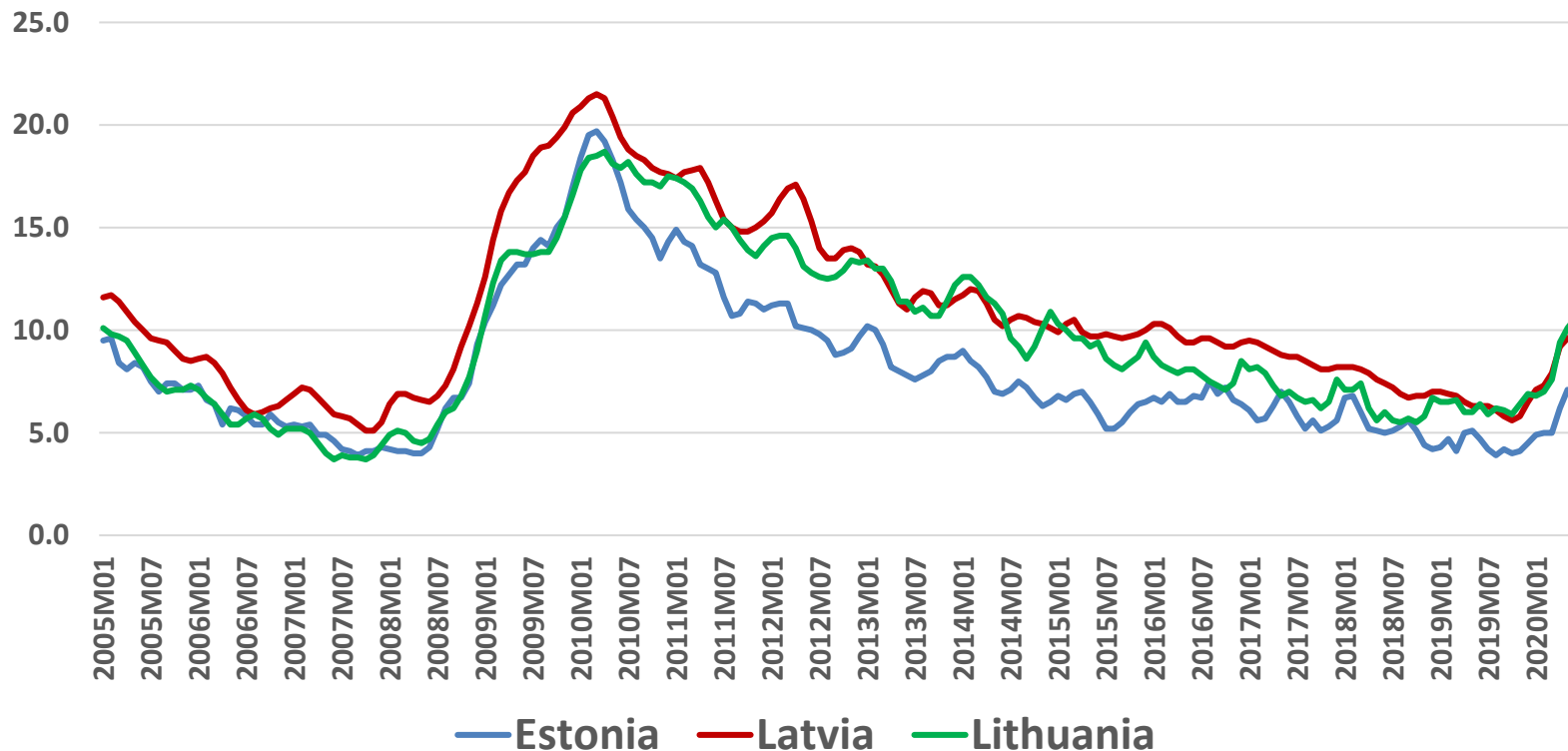
Then, again: The *Baltics*



- Health *crisis*
- Supply chain *crisis*
- Labour market *crisis*
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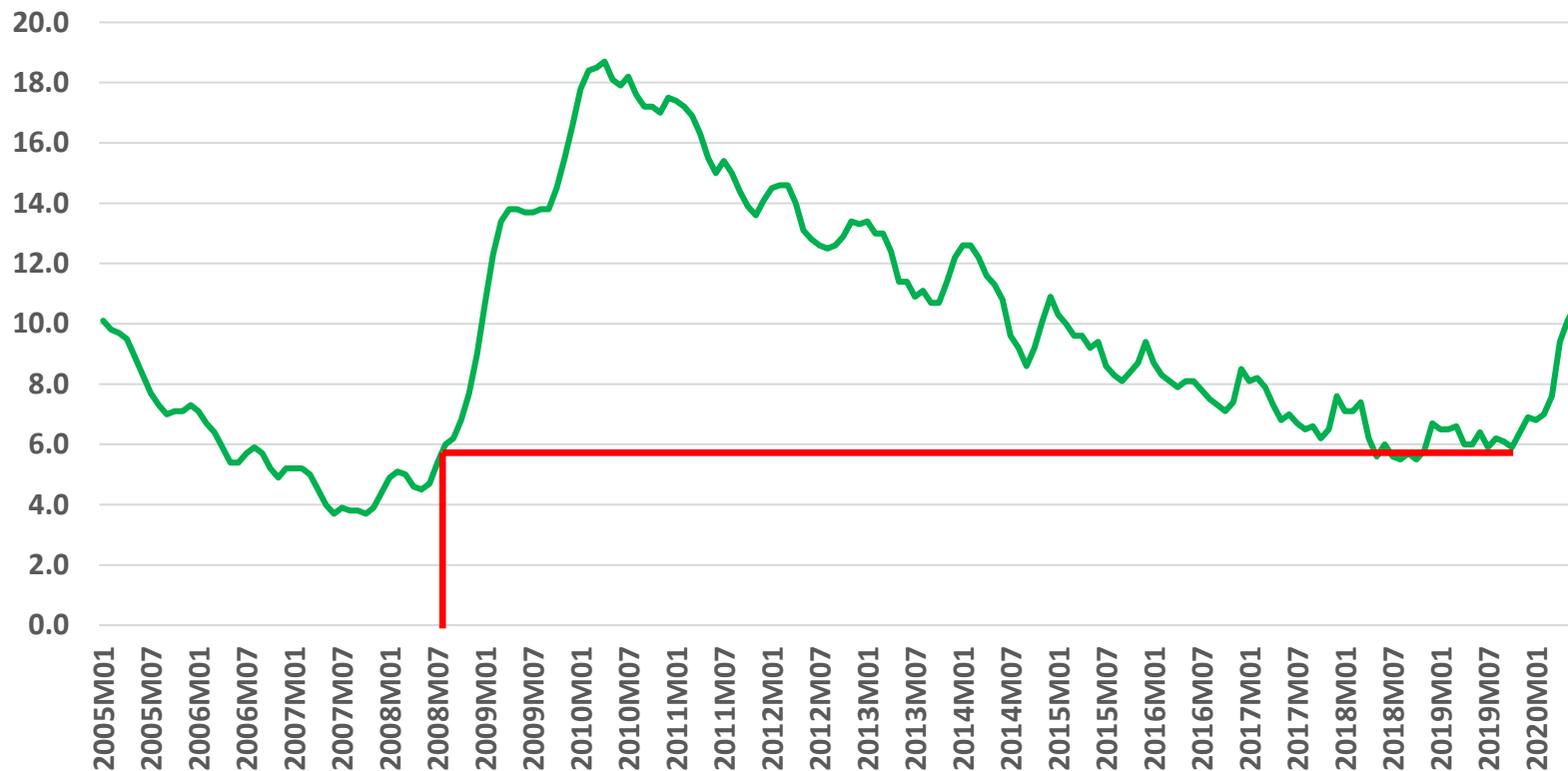
Baltic unemployment rates

Monthly, 2005-I – 2020-V



Lithuanian unemployment rate

Monthly, 2005-I – 2020-V

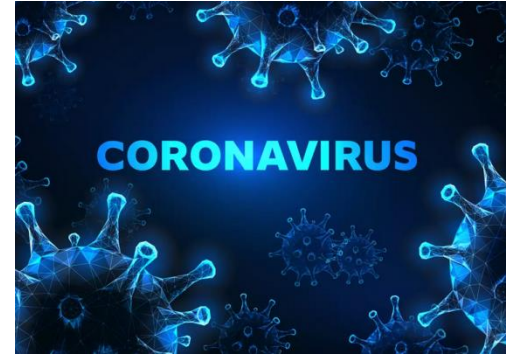


Financial crisis, 2008-10



- **Monetary policy:**
Uncoordinated, not in the Eurozone
- **Fiscal policy:**
Slow response, austerity

Great lockdown, 2020



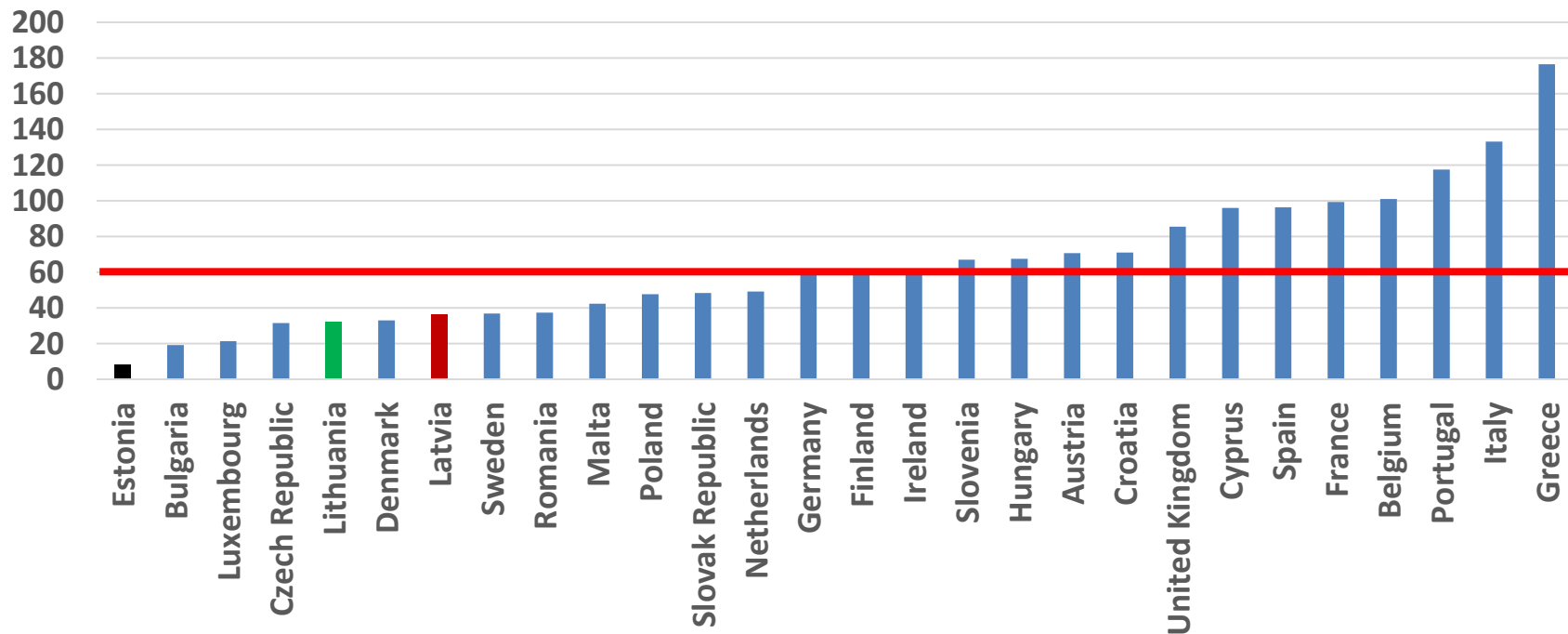
- **Monetary policy:**
Very fast response; in the Eurozone
- **Fiscal policy:**
Also a fast response

Monetary policy: Protected by the Euro

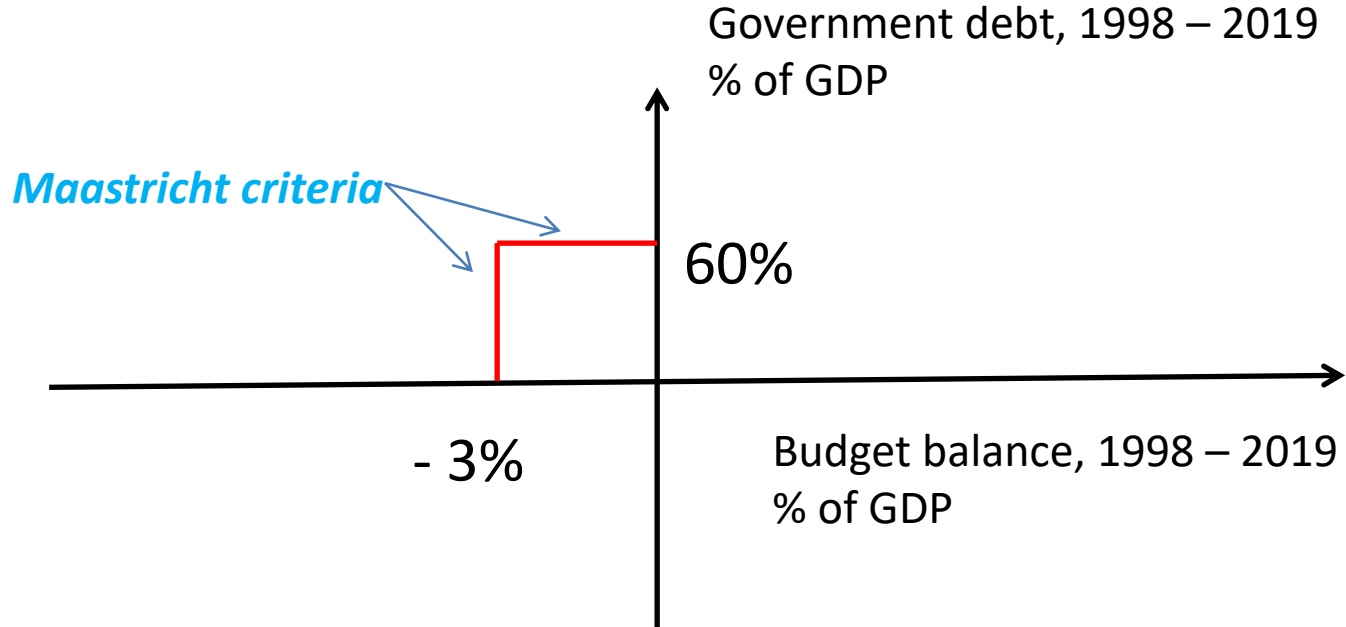


Fiscal policy: **Government debt** as % of GDP

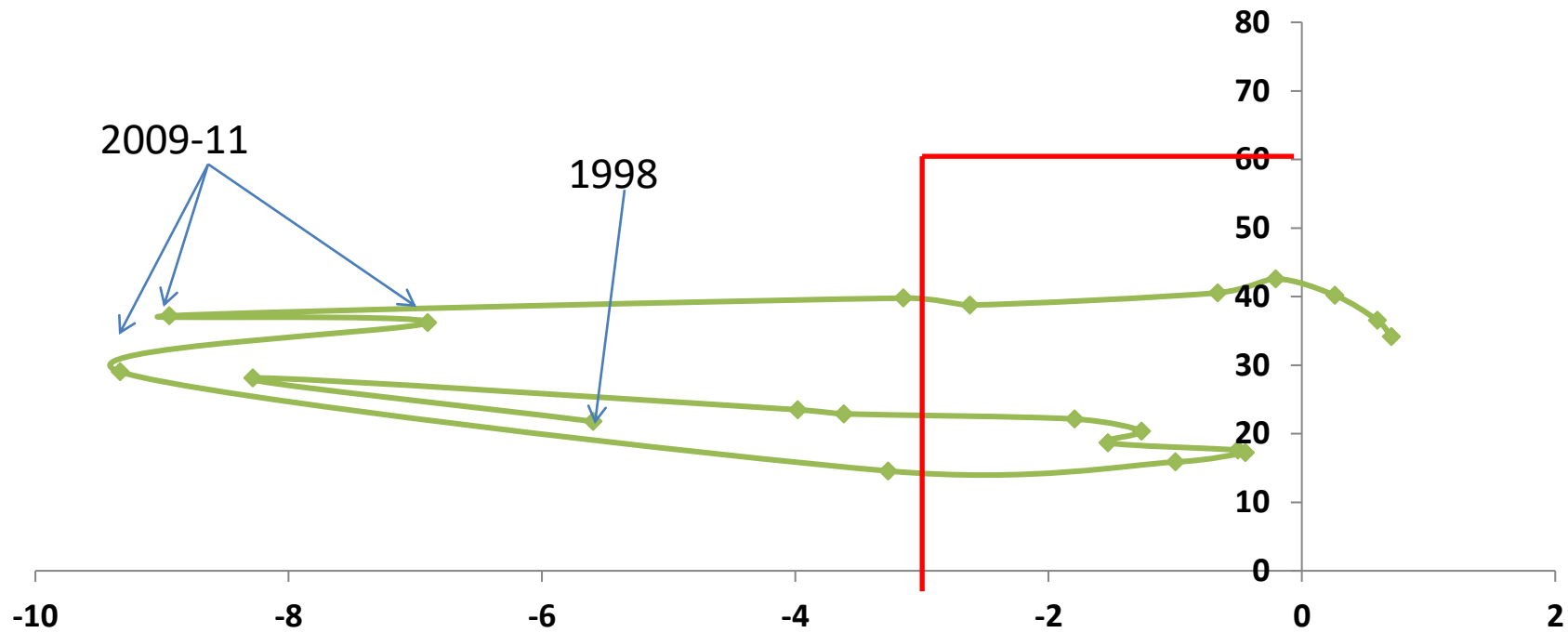
EU28, 2019



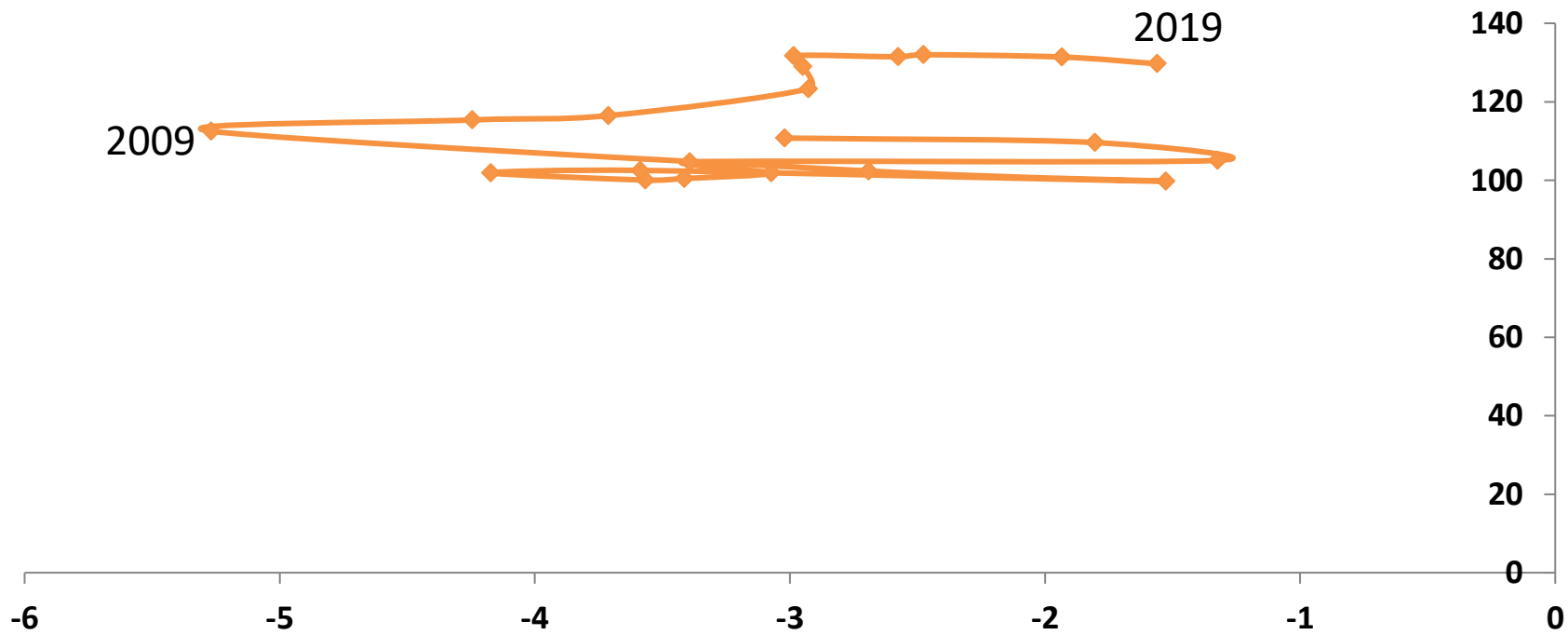
Coping with fiscal policy in the Eurozone



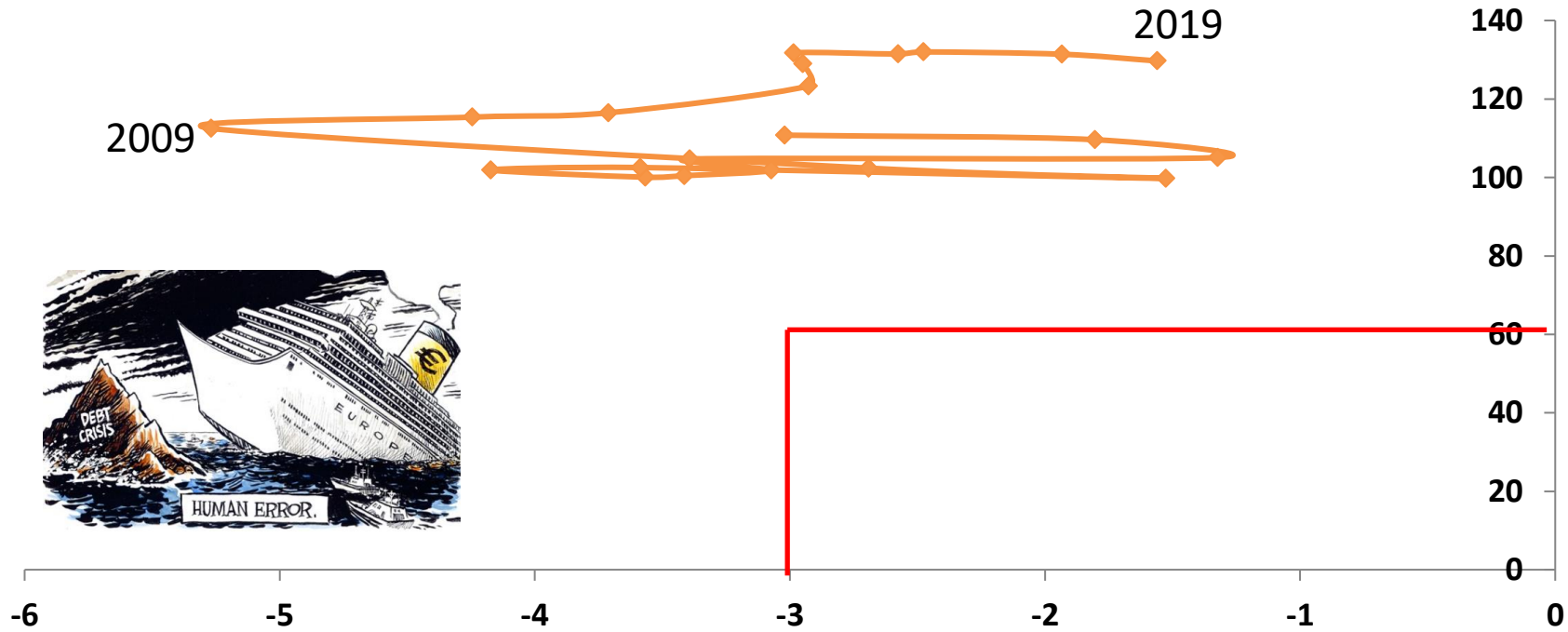
Lithuania



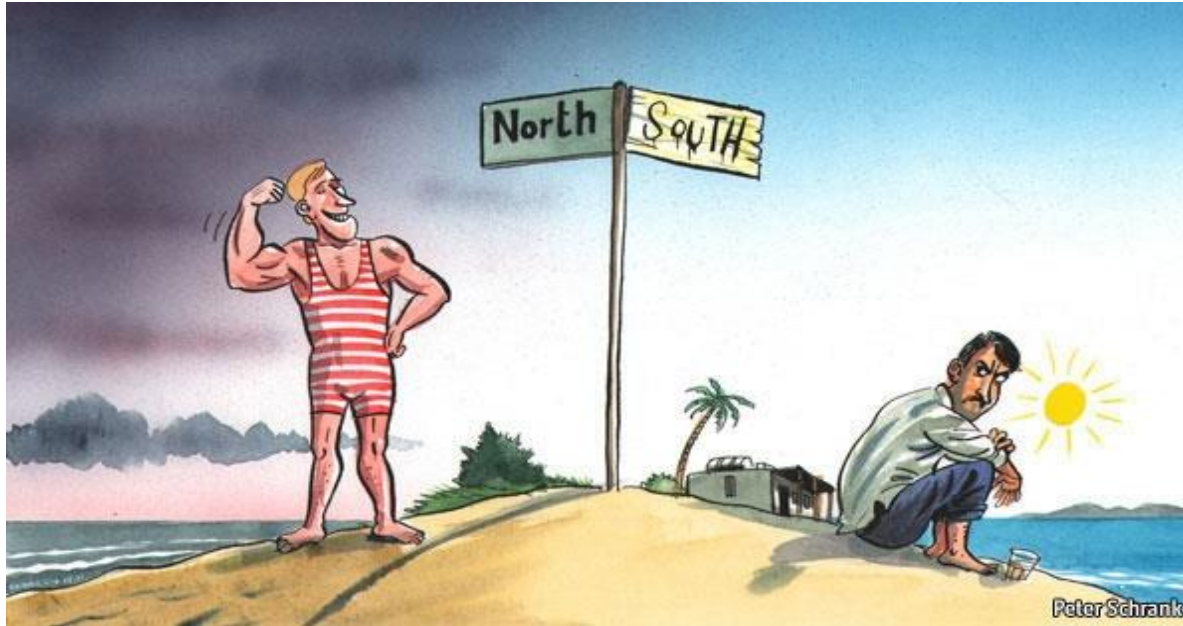
Italy



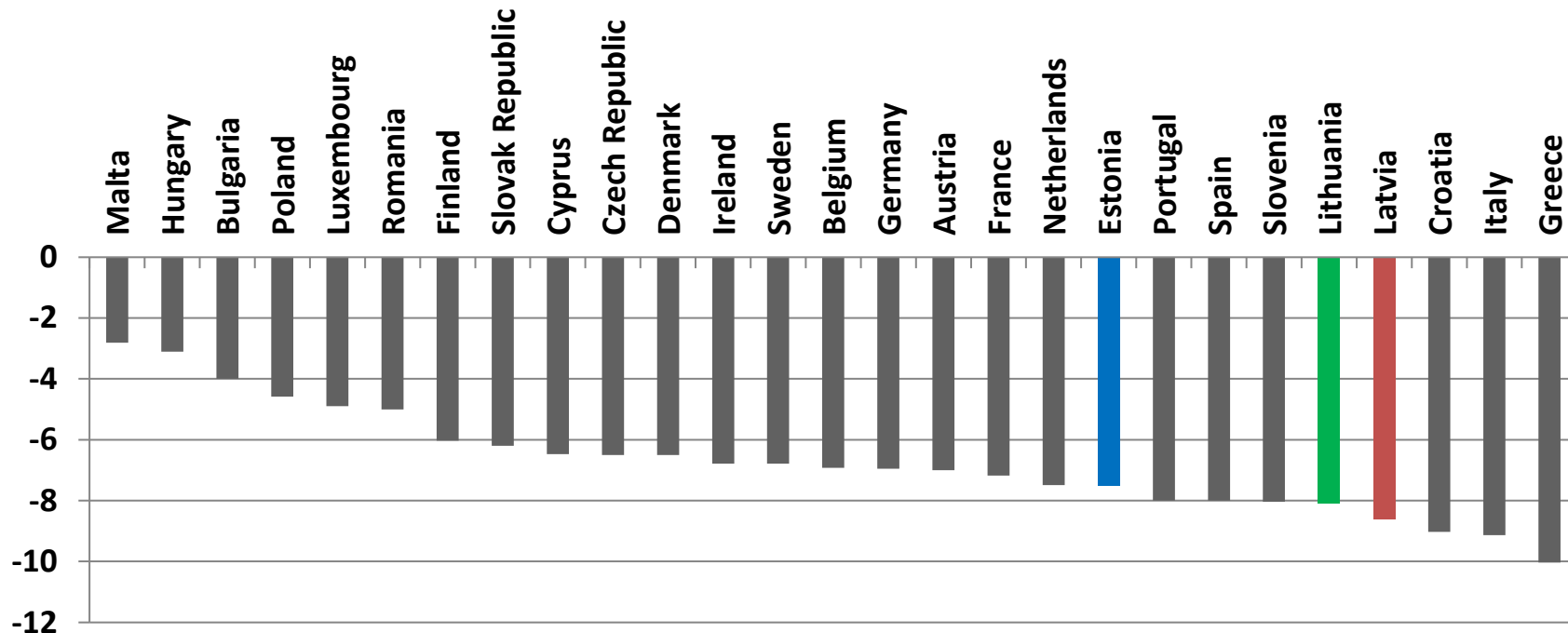
Italy



Corona strengthens the **North – South** divide in the EU



Economic growth (decline...), 2020, EU27, est.



But **what next?**



*What can we expect
from economic policy?*

Low interest rates.....



PRESS RELEASE

ECB announces €750 billion Pandemic Emergency Purchase Programme (PEPP)

18 March 2020

The Governing Council decided the following:

(1) To launch a new temporary asset purchase programme of private and public sector securities to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the outbreak and escalating diffusion of the coronavirus, COVID-19.

This new [Pandemic Emergency Purchase Programme \(PEPP\)](#) will have an overall envelope of €750 billion. Purchases will be conducted until the end of 2020 and will include all the asset categories eligible under the existing asset purchase programme (APP).

... and a lot of borrowing and spending....



European Commission unveils the 'Next Generation EU' recovery plan

10-06-2020

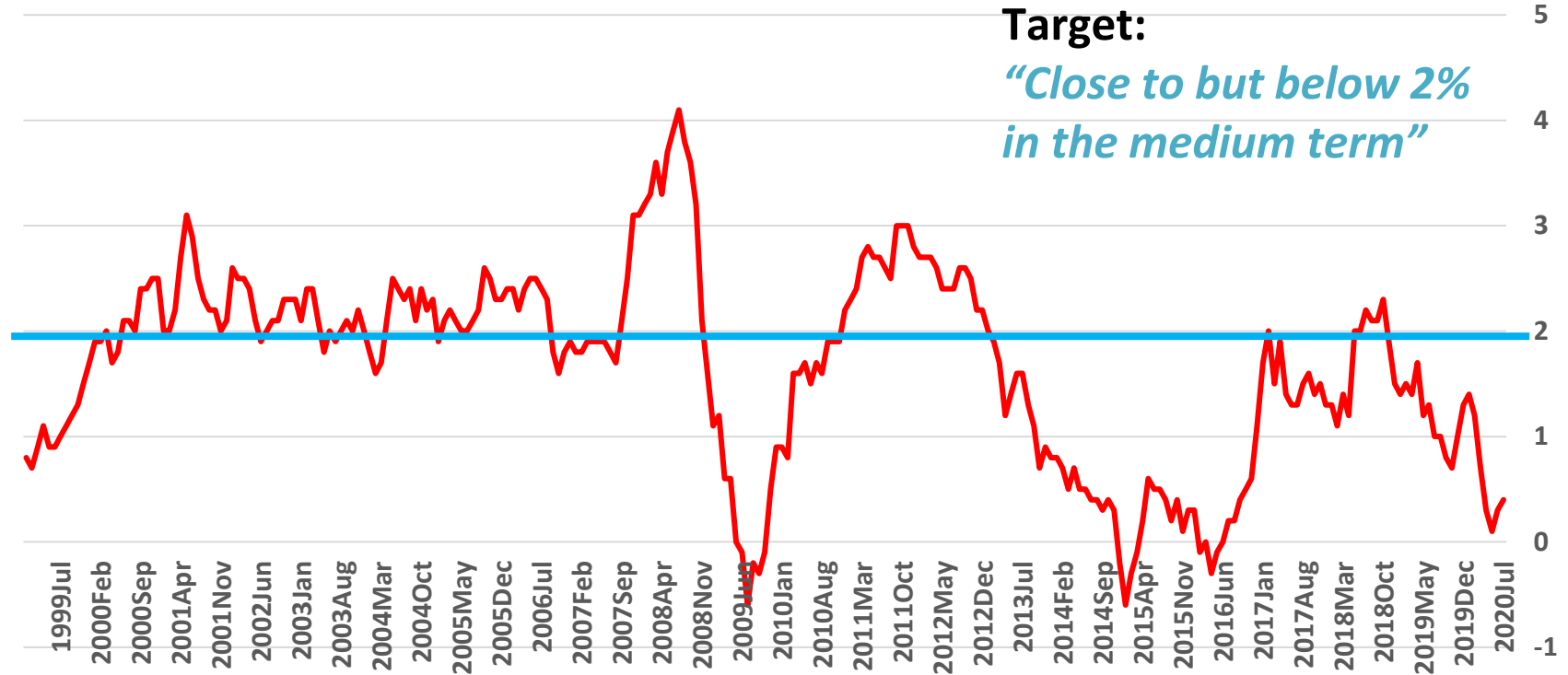
On 27th May the European Commission unveiled its proposal for the '[Next Generation EU recovery plan](#)', an emergency package of €750 billion financed by long-term EU borrowing to jump-start Europe's recovery over the period 2021-2024, in particular in the countries heavily hit by the COVID pandemics. With the [emergency support programme of the European Central Bank \(ECB\)](#), aimed at keeping cheap credit flowing to businesses, this is the most significant response by the EU to the economic fallout of COVID-19.



Growth of the **money supply** in the euro area



Inflation in the euro area



Lithuania (and **Latvia** and **Estonia**) too silent and obedient



The “New Hanseatic League”:

- **Fiscally conservative**
- **Strong emphasis on fiscal rules**
- **Strong emphasis on the single market**

Reasonably **simple** and **not so deep** conclusions...

- Lithuania will have good fiscal room to maneuver
 - *because the country was well-prepared for a crisis*
- Assistance to the private sector necessary – but short-lived:
 - *jobs that may no longer exist should not be kept alive*
- **No** migration issue this time
- Younger people in the Baltics **better off** than in EU South
- Low interest rates, booming stock markets: **Another financial crisis?**
- And will that **V-shaped recovery** take place?

Thank you for your attention!



Stockholm School of
Economics in Riga

Founded 1994