

Keywords

Anti-Crisis Measures,
Economic Policy,
Global Finance Crisis,
Macroeconomic Processes

Received: October 10, 2014

Revised: December 06, 2014

Accepted: December 07, 2014

Impact of recession on economic situation in Lithuania

Gediminas Davulis

Vilnius University of Applied Sciences, Faculty of Business Management, Vilnius, Lithuania

Email address

geddav@mruni.eu

Citation

Gediminas Davulis. Impact of Recession on Economic Situation in Lithuania. *International Journal of Economic Theory and Application*. Vol. 1, No. 5, 2014, pp. 67-74.

Abstract

The article deals with the economic situation and the state economic policy in Lithuania before and during the crisis. The problem, considered in the article, is how the global crisis impacts the economy of Lithuania and how to assess the economics policy of Lithuanian governments before and during the crisis. The objectives of the article are the dynamics of macroeconomic processes in Lithuania and other Baltic countries in the period under consideration, the measures of anti crisis policy of Lithuanian governments in comparison with Latvia and Estonia. The research method, used in the article, is a systematic analysis of scientific literature, of legal acts, and statistical data. The macroeconomic situation of Lithuania before and in the period of crisis is analyzed using statistic data of Lithuanian Department of Statistics. The consideration of the economic policy of Lithuanian governments has showed that it did not distinguish itself in economic foresight and the measures of such a policy were not deliberate enough, unbalanced, thus causing additional economic and social problems. The comparative analysis of macroeconomic situation in the Baltic countries has showed that economic processes were similar without essential differences in all Baltic countries with exception the spheres of public finances where Estonia had an obvious advantage in comparison with Lithuania and Latvia. Such investigation can be useful for the purpose of avoiding the errors of the economic policy in future.

1. Introduction

The onset of the current financial crisis is considered 2007, when the Federal Reserve System of the USA had to interfere and grant liquidity to the bank system (Soros, 2009). Economic cycles are on immanent feature of the market economy, because the evolution of the market economy is uneven and there is no other mechanism to equalize disproportions of uneven evolution than periodical shocks – crises. Thus, although crises entail great losses, both economic and social, they are inevitable. On the other hand, the proper economic policy is able to reduce the after- effects of crises. Although economic cycles, i.e. economic booms and recessions, in the market economy are inevitable, apart from common features, each economic cycle is different. Specific reasons that cause an economic recession are also different.

Famous American economist – Lary Summers, Paul Krugman, Joseph Stiglitz wrote about a possible financial crisis in the USA before its onset. J. Stiglitz (2006) paid attention to a deteriorating economic situation of the country and criticized the Central Bank of the USA with regard to their inflationary policy in progress. Rather long before 2007 indicators of the American economics such as inflation of wealth price, a high long-term deficiency of the current account and decreasing rates of economic growth of the country showed that the country is on the verge of financial crisis (Felton, Carman, 2008). According to the US Bureau of Labor Statistics data, unemployment growth rates

considerably increased in the USA, i.e. from the end of 2007 to the end of 2009, the rate of unemployment growth has increased twice. Only in 2010, the rate of unemployment growth began decreasing.

The Lithuanian economics situation and state economic policy in the period before and during economic crisis are analyzed in the article. The pre-crisis period, i.e. 2004-2007 years, were the years of the fast economic growth in Lithuanian economy. Decreasing unemployment, increasing income, hard currency and financial support of EU were the main factors of the growth of Lithuanian economy. The growth of Lithuanian economy was interrupted by global economics and finance crises. The current financial crisis that struck the world has affected the majority of world countries on a larger or smaller degree. Due to the economic crisis, the growth of economics in the EU countries considerably slowed down and the number of unemployed increased a great deal. The Baltic countries suffered perhaps most of all and their economic depression was very painful.

The current global crisis is not the only worldwide crisis in the new history of humanity. We are aware of such economic crises that have affected more than one state and therefore they can be called as worldwide crises (Dash, 2001; Feldstein, 1991; Sylla, 2009; Davulis, 2012). The current global crisis stands out from the previous ones by its measures. It affected the majority of world countries. In this respect it surpassed even the Great depression of 1929-1933 (Eichengreen, O. Rourke, 2010). It should be stressed, that the severe lessons of the Great Depression were not in vain and the governmental response to economic recession was much more expeditious than in 1929 (Romer, 2009). For example, in 2008, the European Commission (Commission of the European Communities, 2009) prepared a restoration plan of economics which implies the increase of demand by enlarging the purchasing capacity of population and restoring the confidence of investors.

Regarding the causes of the current crisis we can enumerate a lot of them. We shall restrict ourselves only to two aspects that, in our opinion, are essential, namely, disorder in stock exchange caused by collapse of real estate bubble and globalization of the world economics. The two aspects distinguish the current global crisis from other crises. Modern financial markets characterizes by application of very complicated derivative financial measures. Though these derivative measures were created namely to diversify and diminish the risk, because latest years showed that banks and investment companies assessed the risk insufficiently. It was one of causes of the current world crisis of finance and economy and the processes in the real estate market were the detonator that invoked the global crisis.

Another important peculiarity of the current global crises is the influence of globalization processes on the spread of economic problems in whole world. Globalization has both positive and negative consequences. The intensifying integration of financial markets is related with the growing risk and uncertainty. Therefore it is difficult to predict its

consequences. On the other hand, with an increase of interrelations and dependences between global financial markets and economics, the risk of problem transmission increases as well.

The current global crisis stands out from the previous ones by its measures. It affected the majority of world countries. In this respect it surpassed even the Great depression of 1929-1933. On the other hand, both the crises have got common features. Actually, both crises arose due to some troubles in the USA financial markets. Their major features are vast credit expansion and financial novelty. The truth is that the current crisis stand out by application of very complicated derivative financial measures and insufficient assessment of risk, though these derivative measures were created namely to diversify and diminish the risk. It should be stressed, that the severe lessons of the Great Depression were not in vain and the governmental response to economic recession was much more expeditious than in 1929. The Great Depression impelled to create the economy regulatory theory the methods of which allowed us to manage the time challenge (Romer, 2009).

Despite that no economic cycle is apt to repeat, the analysis of its causes has a sense for the sole purpose of avoiding the economic policy errors made. For example, the available experience today enabled us to control the global crises much more expeditiously and faster than in 1929-1933. Though we have to accept the fact that today the world experiences less an economic depression on a no smaller scale indeed than that in the years of the Great Depression (Eichengreen, O. Rourke, 2010).

The global crisis, though to a lesser extent than in the USA, had a bad effect on the EU countries as well. Due to the economic crisis, the growth of economics in the EU countries considerably slowed down and the number of unemployed increased a great deal. The Baltic countries suffered perhaps most of all their economic depression was very painful (Andersen, 2008). Because, both the USA and EU institutions took anti-crisis measures rather resolutely. The Federal Reserve System of the USA, later the Bank of Great Britain and the Central European bank began to decrease the basic interest norm with a view to stop the growth of the market interest norm. However, during a depression, even a very low size amount of basic interest does not help to vivify the economic activity. Therefore the financial system of USA was subsidized in large sums to support bank liquidity and later the major share of state expenditure was assigned to stimulate consumer's expenses and social programs. In 2008, the European Commission (Commission of the European Communities, 2009) prepared a restoration plan of economics which implies the increase of demand by enlarging the purchasing capacity of population and restoring the confidence of investors. However, only largest states of EU can afford the necessary resources for restoring its economics.

The factors that influenced the fast growth of Lithuanian economy in the pre-crisis period, the main causes of the

global financial crises as well as its effect on the Lithuanian economics and measures of economic policy of governments in the period under consideration are discussed in the article. Based on statistical data, the macroeconomic state in Lithuania and other Baltic states is analyzed in the period after 2004 year. Such investigation has a sense for the purpose of avoiding the economic policy errors in future. In Lithuania G Davulis (2012), S.Jakeliunas (2010), G.Rakauskiene, E.Krinickiene (2009) investigates problems connected with the impact of global crisis on Lithuanian economy. The research method used in the article, is systematic analysis of scientific literature, legal acts and statistic data.

2. The Economic Situation in Lithuania before and during the Crisis

2004-2007 were the years of the fast economic growth in Lithuania which, according the Rosenberg, (2008) were unprecedented in postwar Europe. In this period, the country's GDP was constantly growing and in 2007 its growth rate reached up to 9.8 percents (Fig. 1). With the growth of economics from 2004 to 2007, unemployment also decreased constantly, the level of which diminished from 11.4 percents in 2004 to 4.3 percents in 2007. The improving economic situation in the country, increasing employment and wages, good prospects of the country's future slowed down emigration streams. The growing country's economics, suitable conjuncture of the international market with the rising needs for importable production of other EU countries allowed us to uniformly increase the country's exported production volumes - in 2008, the country's export amounted up to 25.5 percent of its GDP level.

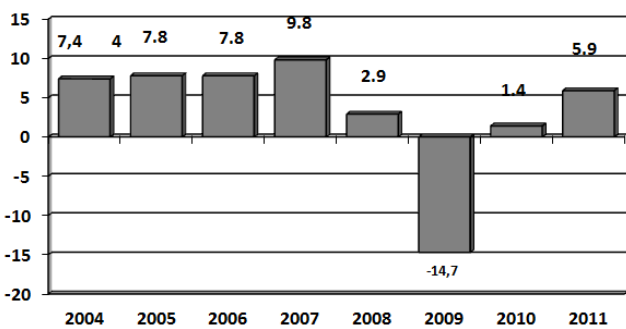


Figure 1. The yearly alteration of Lithuanian real GDP in 2004-2011 (in percent). Source: Lithuanian Department of Statistics

Thus, the Lithuanian economics was increased up to the onset of the crisis. Decreasing unemployment, increasing income, hard currency and financial support of EU were the main factors of the growth. These factors laid the basis, as it is evident at present, to cherish grounded hopes as to the future of the country. Guided by these hopes, both enterprises and households began borrowing for consumption and business ever more and all the more that the banks granted

loans with engaging interests (Fig. 2). The largest share of loans received by a household was aimed at the real estate market (Fig. 3). This process was stimulated by state given tax privileges for lodgings loans which established conditions of forming a real estate bubble. According to the data of the Bank of Lithuania, the volume of loans to acquire lodgings has grown from 50 million Lt in 2004 up to 720 million Lt in 2007. Such an expansion of credit had a decisive influence to form a 'bubble' in the Lithuanian real estate market.

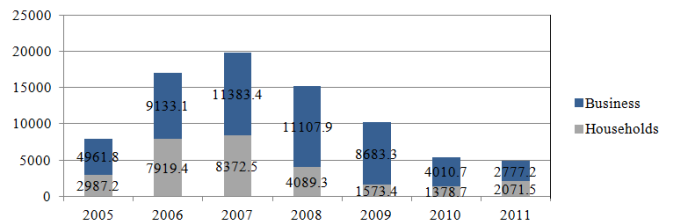


Figure 2. The dynamic of new loans for business and households in Lithuania in 2004-2011 (in mln. of litas). Source: Data basis of the Bank of Lithuania

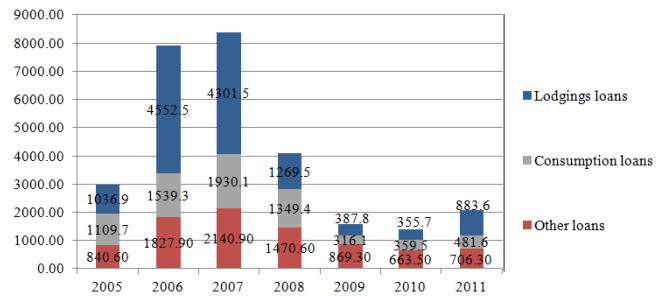


Figure 3. The dynamic of structure new loans for households in Lithuania in 2004-2011 (in mln. of litas). Source: Data basis of the Bank of Lithuania

Thus, from 2004 to the onset of the crisis the Lithuanian economics was growing due to the growth of domestic demand, maintained by ungrounded future expectations. The growth of domestic demand stimulated increase of import as well. However the increase of import was not counterbalanced by an adequate export increase, i.e. export volumes lag behind from that of import until 2011 and thus the country's foreign trade balance was negative (Fig. 4). A constant foreign trade deficit also determined the growth of the current account deficit. In line with the data of the Bank of Lithuania, the current account deficit in Lithuania has grown from 2004 to 2007 almost 300% and exceeded 14 billion Litass.

The global financial crisis the first signs of which appeared in the USA in 2007 before long reached Lithuania, too. As shown the statistical data (Fig. 1), the rate of the country's GDP growth that reached almost 10 percent in 2007, fell down up to 3 percent in 2008 and even 15 percent in 2009, thus pushing Lithuania among the states that suffered most from the crisis. Due to this reason the budget deficit in 2008 amounted up to 3,2 % and in 2009 nearly 9% of the country GDP, i.e. it exceeded the size set by the Maastricht agreement almost three times. Only in the years of recovery country's economy state budget deficit began to decrease and at the end of 2011 it reached 3.3 percent of GDP, i.e. it

exceed Maastricht criterion slightly. With a downturn of production unemployment began to grow in the country which amounted up even to 13.7 percent in 2009), which become a serious problem of country's economics. Emigration from the country started increasing again too and reached more than 25 thousands of emigrants in 2010 according to official data of the Lithuanian Department of Statistics. Lithuania was not ready for such a situation, - its strategy for economic development was based on the macroeconomic stability and on assumption of a uniform growth of economics. A constant foreign trade deficit also determined the growth of the current account deficit. In line with the data of the Bank of Lithuania, the current account deficit in Lithuania has grown from 2004 to 2007 almost 300% and exceeded 14 milliard Lt.

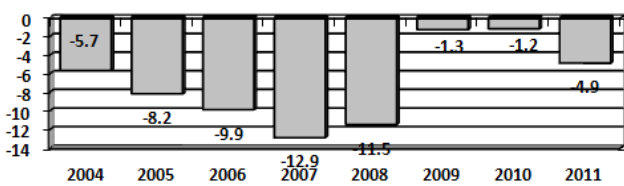


Figure 4. The foreign trade balance of Lithuania in 2004-2011 (in percent of GDP). Source: Lithuanian Department of Statistics

After the burst of the “bubble” in the real estate market of Lithuania, the credit interest, given by the banks acting in Lithuania, have grown as well. That affected negatively the subjects of Lithuanian economy and not so small part of enterprises went bankrupt. Only the processes in the county's real estate market could invoke economic depression, however, mostly the outside factors have affected our economics. Because the balance foreign trade (Fig. 4) and the current account of country, was in deficit, thus in such a situation, the economic growth was feasible only by borrowing in the international finance market to cover the deficit. However, due to the global crisis, increased interests stopped the flow of foreign credits and shook the economic growth basis of the country.

On the other hand, the global crisis predetermined slowdown of economic growth and consumption decrease of many world countries. Decreasing consumption of foreign countries restricted the chances of Lithuanian export and that was one of the most important factors which determined the country's economic depression. The domestic market of Lithuania is too small to maintain the growth of economics and to compensate the decrease in export. With the revival of markets of foreign countries, Lithuanian possibilities have made better as well. The 2010 years became years of beginning the recovery of Lithuanian economy – all main macroeconomic indicators slowly but constantly began to increase. The 2010 years became years of beginning the recovery of Lithuanian economy – all main macroeconomic indicators slowly but constantly began to increase.

Though the signs of global crisis were evident rather early, Lithuania met the crisis quite unready. Such a situation was predetermined by insufficient competence of our government, lack of responsibility, and maybe political reasons. As a

result, Lithuania met the crisis with the chrome foreign trade and current account deficit, with debts of the state and private sector and without any reserves accumulated.

Opponents often reproached the former government that it ungrounded raised salaries of state office employees as well as pensions of pensioners and did not accumulate any financial reserves for the solving most necessary problems arising during the crisis. In our opinion, opponents are right part. On the other hand the greatest errors of the government are not here. It was indispensable to increase salaries with the view of avoiding the loss of the last good specialists. This measure proved to be true: emigration was slackened and even decreased (Fig. 3). If we create the state welfare, pensioners also have the right to a certain level of wellbeing. Thus the decisions to increase salaries and pensions were necessary and they improved the state welfare indeed. On the other hand, when making these decisions the government did not provide for their constant financing taking into consideration a possible economic down turn.

Much more serious errors of this government were associated with public finances. Despite rather high rates of GDP growth in the country, year after year expenditure of the government sector in 2004-2008 exceeded its revenue, i.e. there was a deficit state budget (Fig. 5).

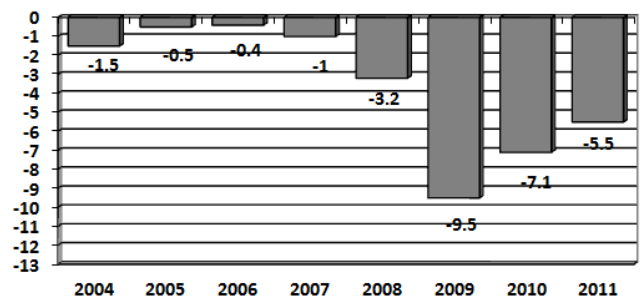


Figure 5. The Lithuanian state budget balance in 2004-2011 (in percent of GDP). Source: Lithuanian Department of Statistics

Though the budget deficit before crisis was not so high, under the conditions of fast economic growth, it increases the economy overheat. On the other hand, the constant budget deficit increased the country's debt which is unacceptable under the conditions of the economic growth. Meanwhile budget surplus would not allow economy overheating and would establish conditions for accumulating the necessary reserves and financing the augmented state liabilities under the cyclic conditions of recession.

Another obvious error of the government is tax decreasing in the period of too rapid economy upturn, which is also contradicting economic principles. The tax policy of that period had to be contrary - an opportunity was missed to impose a real estate tax (of course, with on exempt minimum), luxury wealth tax as well as a progressive tax system. All these measures could also accumulate the necessary finance sources to cover state expenses. Thus, the formation of deficit budget and tax diminishing in the years of a rapid economy upturn were the largest government errors that caused sore consequences in the crisis period.

The right step of this government was adoption of the fiscal discipline law in 2007, aimed the ensure of financial stability and a stable development of economy. The law has set that the deficit the governmental sector in 2008 would not be larger than 0.5 % of GDP. Unfortunately, this law was passed too late and its requirements could not be realized with the onset of the crisis.

The Bank of Lithuania has also not estimated enough the scale of the pending crisis. It stated that the direct impact of the global crisis on the finance system of country can not be considerable because it are not closely connected by economic and financial links with of the investment banks and other institutions of the USA. On the other hand after the Russian finance crisis in 1998, supervision of commercial banks of the country was intensified, which ensure the stability of the system of the Lithuanian finance. However the near future has shown that the Bank of Lithuania was not quite right- the supervision of commercial banks was evidently insufficient.

3. Anti-Crisis Measures of Lithuanian Institutions

In the presence of crisis in 2008 the Bank of Lithuania and Parliament of Republic of Lithuania have made decisions: to diminish the mandatory reserve norm from 6 to 4 percent and to increase the deposit insurance sum up to 100.000 Euro with a view to vivify the domestic market using additional financial resources. Though these decisions were correct and adopted in time, unfortunately, their effect seemed to be insufficient. To maintain the market activity a more intensive promotion of economics was necessary. However, due to an inadvertent and irresponsible budget policy persuaded in the years of economic rise progress, these were no resources to stimulate the economics. Therefore there remained nothing else to do but to take measures that are usually applied not in the period of depression, but in up growth of economics. The newly elected Parliament of the Republic of Lithuania and Government undertook to apply the measure of a restrictive fiscal policy: to decrease expenditure and increase taxes in order to stabilize state finances, which was persistently recommended by the European Commission.

At the end of 2008, decision were made to increase the rate of value-added taxes up to 19% (later on it was increased up to 21%), income-tax, excise duty on fuel, cigarettes and alcohol, as well as to eliminate the majority of reduced tariffs of the value-added tax. The so-called 'night' tax reform has come into force effect since January 1, 2009. This tax reform was aimed not so much with at neutralization of the crisis consequences to economics as at collection of more income to the budget with an expectation to stabilize the state finance system. However, according to the statistical data in 2009 much less income was collected to the state budget than in 2008. Certainly, such a result was mostly predestined by the economic downturn, however, there is little doubt that the night reform was not deliberate enough. Even the country's

government acknowledged that this reform was wrong in some aspects. Maybe, there was some sense to increase the tariff of added-value tax, however, abolition of all privileges of this tax was a mistake: the budget lost not so small part of income that has left for the other countries. On principle the increase of the profit tax tariff was right, but it had to be differentiated according to economic branches and the volume of a company, which indeed has been done later on. The opponents' proposition that an increase of the profit tax limits foreign investments is not so substantiated. The research has shown (Davulis, 2003) that tax privileges have, but a little influence on the volume of foreign investments in the country's economics. Attractiveness of objects to be invested in is much more important for inventors. Consequences of excise increasing are also not single-valued to economics.

Thus, the government had to decide on an undersubscribed decision – to pursue the so-called retrenchment policy, i.e., to diminish government expenses by lowering the employers and officeholders salaries, pensions, and social pays such a policy in assessed ambiguously. On the one hand, it allows diminishing government expenses, on the other hand, it decreases income of the population and thereby consumers demand. The decrease in demand weakens the home market even more. The domestic market will revive only if income of the population starts growing and consumers demand increasing. Straight forward decreasing of expenses for all spheres can yield only a short-term effect. Decreasing expenses for the spheres of activities that predetermine the science and technology progress or development of infrastructure can cause long-term negative consequences for the country. Thus, the retrenchment policy would be deliberate enough and balanced.

Though the macroeconomic situation in Lithuania started improving from 2010 years but in our opinion its improving not so which due to the actions of the government, as due to the improved situation in international markets and especially due to recovery in foreign countries that imported goods of Lithuanian producers.

4. Macroeconomic Situation in the Baltic Countries during the Crisis: Comparative Analysis

The analysis of macroeconomic situation in the Baltic countries is made using the data of Eurostat database. As was mentioned above for a number of years the Baltic countries were marked by a considerably faster economic growth than other EU states. The maximal rate of GDP growth before crisis amounted almost 10% in Lithuania, almost 8% in Estonia and exceed of 12% in Latvia. However, as the global trade shrank as a result of world economic crisis, the export-oriented economics of the Baltic countries plummeted to an all-time low: in 2009 real GDP of these countries decreased by 14-18 % (14% in Estonia, 15% in Lithuania and 18% in Latvia) as compared to 2008 data. From 2010 the Baltic

countries have already shown some signs of recovery in their economies (Fig. 6).

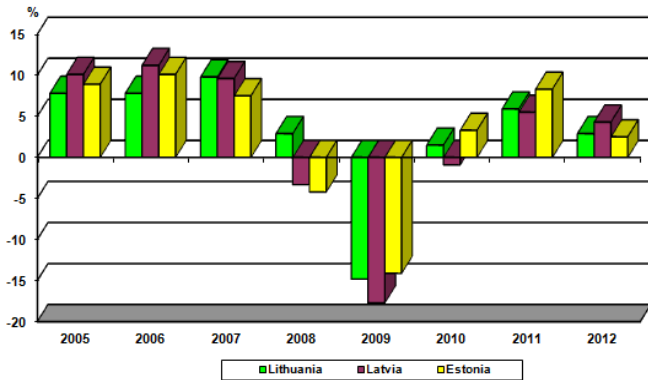
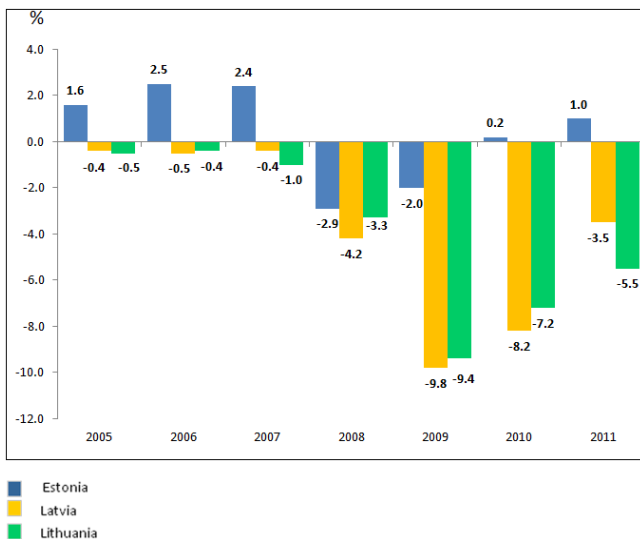
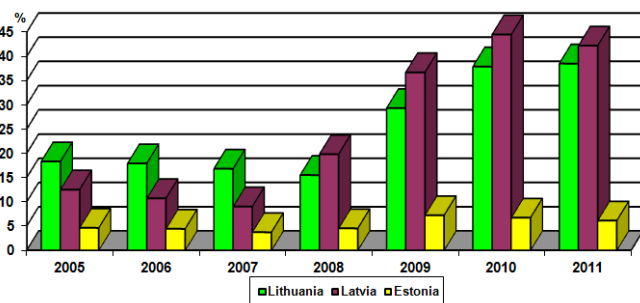


Figure 6. The yearly alteration of real GDP of the Baltic countries in 2004-2011 (in percent). Source: Eurostat database <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00115>



Source: Eurostat database <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>

Figure 7. Government deficit of the Baltic states in 2005-2010 (in percent of GDP)



Source: Eurostat database <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde410&plugin=1>

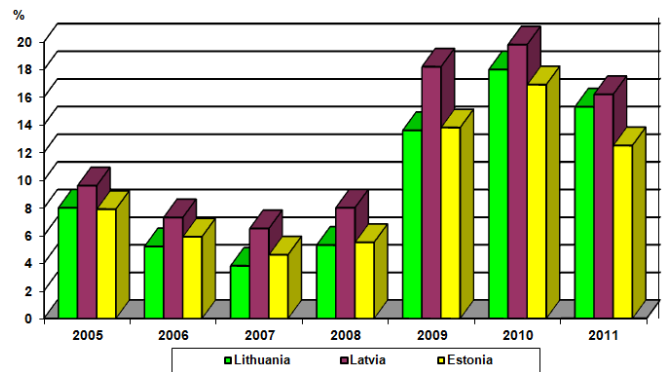
Figure 8. Government dept in the Baltic countries in 2004-2011 (in percent of GDP).

Like many other EU countries, the Latvia and Lithuania

were facing the budget deficit problem: proportion of fiscal deficits to GDP largely exceeds the limit of 3 % prescribed by the Treaty of Maastricht (9.5 % in Lithuania and 9.7 % in Latvia, but in 2010 their fiscal deficits decreased up to 7-8 % of GDP (Fig. 7). In 2010 the proportion of government debt to GDP was equal to 44.7% in Latvia and 38% in Lithuania (in 2011 government debt slightly decreased until 42.6% for Latvia Lithuania and increased until 38.5% for Lithuania). Though these figures satisfy the Maastricht criterion, i.e. not exceeded 60% of GDP, but they were increasing very fast from 2009 (Fig. 8).

The situation in these spheres in Estonia is much better. Estonia has not any problems with budget deficit due to accumulated reserves. However, one must admit here that Estonia did manage to maintain its financial discipline at the level likely to be envied by other countries with much more economic power. In 2009 Estonian budget deficit stayed as low as 2 % of GDP. The Estonian budget was in surplus amounted to 0.2 % of GDP in 2010 and 1.0 % of GDP in 2011. It still did not exceed the limit of 3 % of GDP, in this way satisfying the Maastricht criterion. Moreover, according to data of the Eurostat database Estonian foreign debt, though it constantly increased during the crisis, constituted only 7,2 % of GDP in 2009, which is substantially less than is required for a country to be accepted to the euro zone.

Therefore, Estonia is single state from all of EU states satisfying the Maastricht criteria. It allowed the country to join the European Monetary Union from 1 January of 2011. The most important factors which subsequently led to such remarkable achievements were a well thought-out economic policy, concentration of all national political powers upon one common aim and, as already mentioned, strict financial discipline. The support, which Estonia receives from the Nordic countries, cannot be underestimated either.



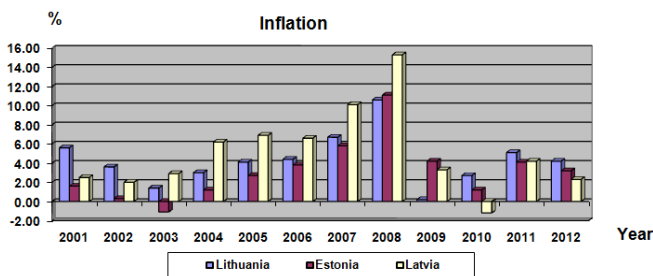
Source: Eurostat database <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>

Figure 9. Unemployment rate in the Baltic states during the period 2005-2011

All the three countries – Lithuania, Latvia and Estonia – are coping with the problem of emigration. If emigration processes are not suppressed in these countries, they will face serious economic problems in the future. Moreover, in spite of intensive emigration unemployment has become a serious and large scale problem in the Baltic countries. According to

the data of the Eurostat database, maximal unemployment rate in these countries has reached unprecedented heights during the crisis and amounts to 17-20 % (in 2010 - 16.9% in Lithuania, 16.9% in Estonia and 19.8% in Latvia). In 2011 unemployment rate in these countries decreased (Fig.9).

According to the date of the Eurostat database in 2004-2008 inflation constantly increased in all three Baltic countries: from 1.2% in 2004 to 11.1% in 2008 in Estonia, from 3% in 2004 to 10.6 in 2008 in Lithuania and from 6.2% in 2004 to 15.3 in 2008 in Latvia. During 2008 level of inflation sharply fell down i.e. to 4.2% in Lithuania, to 0.2% in Estonia, and to 3.3% in Latvia (Fig. 10).



Source: Eurostat database

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00118&plugin=1>

Figure 10. Inflation rate in the Baltic states during the period 2001-2012

In 2010 level of inflation increased because the Baltic countries underwent inflationary pressures from abroad determined by the growth of prices of raw materials, energy supplies and grain in world exchanges. Bearing in mind the fact that, in comparison with the EU average, common price level in the Baltic states is quite low (75 % in Latvia, 68 % in Lithuania), it might be presumed that inflation in the Baltic states will be faster than in the euro zone. Therefore, in order to introduce euro these countries will have to cope with another serious problem and take steps to reduce inflation rate.

Estonia is likely to be the most attractive to foreign investment among the Baltic countries. According to date of the Eurostat database direct foreign investment in Estonia was increasing even during the years of recession and in 2009 it reached almost 9 % of GDP. Despite the slight decrease in direct foreign investment in Estonia in 2010, it still exceeded 8 % of GDP. Meanwhile, direct foreign investment into the Latvian and Lithuanian economy was likely to decline (from 3.8 % of GDP in 2008 to 0.3 % of GDP in 2009 in Latvia and from 3.9 % of GDP in 2008 to 0.9 % of GDP in 2009 in Lithuania) and in 2010 reached negative values.

Thus among the Baltic states Estonia is most attractive to investment, it has the most effective public sector, the situation of public finances does not face any problems and its economic policy is coherent. From other points of view Estonia only slightly differs from the other Baltic countries.

5. Anti-Crisis Measures Performed in Other Baltic Countries

At the end of 2008 Latvian Saima (Parliament) approved the program of stabilization and revival of Latvian economics. The program obliged the government to pursue a strict fiscal policy decreasing the state budget deficit, to establish the stabilization reserve into which money could be transmitted in case of the budget is balanced and the growth of GDP exceeds 2%. The structural reforms were provided in the plan in order to decrease the expenses of the public management by 15%, while financing of social protection measures would not be decreased. Bank of Latvia was obliged to keep fixed ratio between Latas and Euro. In line with the program the government of Latvia plans to decrease the tariff of income tax of inhabitant from 2009 by 2%, to increase the rate of the value-added tax by 3%, to eliminate the majority of reduced tariffs of the value-added tax, to increase the excise duty of fuel, coffee and alcohol as well as to tax dwelling apartment of habitants from 2010. In 2010 the Latvian government submitted a new plan of economics revival to Saima. The stimulation of export, the manufacture of home commodities for replacing import, orientation production to manufacture commodities with high added values as well as stimulation of the economics sectors grounded on the knowledge and innovations have been provided in the plan.

In 2008 the International Monetary Fund, World Bank and finance institutions of EU granted a credit in amounting to 7.5 billion euro (1.7 billion euro from which was granted by IMF) to Latvia to make reforms. Despite that creditors fixed a low interest for credit, but they required to fulfill strict conditions, i.e. to decrease the budget deficit of state up to 3% of GDP in three years, not to increase pensions, to decrease salaries, to set new taxes, to diminish the government management expenses not by 15 but 30%. Thus, anti-crisis measures are similar both in Latvia and Lithuania. The revival of economics is grounded on the strict fiscal policy and saving in both countries.

Estonia began to execute a strict fiscal policy earlier than the other Baltic countries i.e. before the crisis began. In the years of the fast economics growth this country began to form a surplus state budget and to accumulate fiscal reserves. The accumulated reserves allowed Estonia to avoid of the necessity to borrow in the international finance markets paying high interest during global crisis. Thus the accumulated finance reserves before the crisis began permitted to gain obviously advantages for Estonia in comparison with other Baltic countries. Despite that Estonia did not have a formal anti-crisis plan, because it hoped to overcome the economic difficulties in the natural manner, Estonia was forced to apply the saving mode, too. Estonian government has also made decisions to decrease the state expenditure, especially, in the sphere of health protection and education, pensions and salaries (by 15%), to increase the rate of value-added tax from 18 to 20%, the excise duty on tobacco products and alcohol and to introduce new taxes.

6. Conclusions

The domestic and external reasons have invoked the Lithuania economic crisis. Such a small countries of open economics as Baltic countries had no chance of avoiding the effect of the global crisis on its economics but deliberate economic policy of Government would allow to decrease the consequences of global crises for country's economy. The economic policy of Lithuanian governments did not distinguish itself in economic foresight before and during the crisis. Formation of the deficit budget and tax decreasing under the conditions of a rapid economic growth contradict the economic logic and had bad consequences for the country's economy with the onset of the crisis. The limiting fiscal policy of the former government with a view to stabilize state finances under the current conditions is right in essence. However the measures to carry such a policy into effect are not deliberate enough and unbalanced. This kind of policy creates additional economic and social problems that could be avoided by realizing a deliberate and long-sighted economic policy of the country.

Despite the fact that Estonia pursued an expedient fiscal policy before the crisis and accumulated fiscal reserves, the character of macroeconomics processes in the all the Baltic countries was very similar and differed insignificantly. True, the accumulated financial reserves permitted Estonia to avoid additional difficulties in the sphere of public finances that the Lithuanian and Latvian economics confronted.

Politicians, economists and financial specialists should deeply study the lessons of the current crisis in order that the errors made could be avoided in future.

References

- [1] Commission of the European Communities (2008). From financial crisis to recovery: A European framework for action: communication from the commission. [Online] Available: [wp/2009/wp09125.pdf](http://www.commission.europa.eu/en/documents/working-paper/wp/2009/wp09125.pdf).
- [2] Dash M. (2001) *Tulipomania. The Story of the World's Most Coveted Flower and the Extraordinary Passions it Aroused*. Three Rivers Press.
- [3] G. Davulis (2003). The development of the legal framework regulating foreign investment in the Republic of Lithuania: and its impact on the investment process. *Jurisprudencija*, 47 (39), 97–109.
- [4] G.Davulis (2012). The Lithuanian economic policy in the context of global crisis. *Journal of Management*, 2012, 2(21), p. 83-94. Lithuanian business university of applied sciences. ISSN 1648-7974. Klaipėda, 2012.
- [5] Eichengreen B., O'Rourke K. H. (2010). What do the new data tell us? Research-based policy analysis. [Online] Available: <http://www.voxeu.org/index.php?q=node/3421>.
- [6] Embassy of the Republic of Latvia in Vilnius. Program of stabilization and revival of Latvian economics. [Online] Available: <http://www.am.gov.lv/lt/Vilnius/Ambasada>.
- [7] Feldstein M. et al. (1991). *The Risk of Economic crisis*. Chicago, London: The University of Chicago Press.
- [8] Felton A., Carman M. Reinhart (2008). First global financial crisis of the 21st century. A Voxeu.Org. Publication. London, UK: Centre for economic policy.
- [9] Jakeliūnas S. (2010). *The Anatomy of Lithuanian Crisis*. Kaunas: kitos knygos.
- [10] Lithuanian Department of Statistics (2013). Economy and finance. [Online] Available: <http://www.stat.gov.lt/lt>
- [11] Lithuanian Department of Statistics (2013). International trade. [Online] Available: <http://www.stat.gov.lt/lt>
- [12] Rakauskienė O. G., Krinickienė E. (2009). The Anatomy of Global Financial Crisis. *Intellectual economics: scientific work journal*. – Vilnius: Mykolo Romerio universitetas, 2009, No 2(6), p. 116-128.
- [13] Romer C. (2009). Lessons from the Great Depression for economic recovery. Washington. Brookling institute. [Online] Available: <http://www.brooklings.edu>.
- [14] Rosenberg Ch. B. (2008). The Baltic Party Need Not End in a Bust. *IMF Survey Magazine: Countries and Regions*. [Online] Available: <http://www.imf.org/external/pubs/ft/survey/so/2008/CAR021908A.htm>.
- [15] Sylla R. (2009). Lessons for five US crises: 1792, 1837-1842, 1873, 1907 and 1930-1933. [Online] Available: http://www.ibf-frankfurt.de/Slides_Sylla_Symp_IBF_10Jun2009.
- [16] Soros G. (2008). The new paradigm for financial market. *The Crisis of 2008 for financial market*. New York, 2008.
- [17] Stiglitz J. E. (2006). *Making globalization work: The economics and social review*. USA. Columbia University.