Business Administration and Business Economics

Anti-crisis Measures. Baltic Economies' Solution

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Abstract: The paper tries to find a solution and to implement good practices connected to the economic recovery under the present global crisis. The objectives of the paper are to analyse the economic trend in the Baltic economies and to realise a forecasts for 2012-2013. The economic analysis is focused on the main macroeconomic indicators during 2010-2011. The forecast covers 2012 and 2013 and is based on the latest official statistic data. The analysis is supported by pertinent diagrams. The main conclusion of the paper is that the solutions to pass the crisis have to be find individually and the Baltic economies can be an example of good practices.

Keywords: economic recovery; economic trend; economic crisis; economic forecast.

JEL Classification: C1; O5

1. Introduction

The global crisis is far away to be defeated. The EU27, as well as the Euro area, is not able to find a global solution to the economic recovery. This is why the Member States are focused on individual solution in order to face the crisis' challenges.

A distinct group of Member States is formed by the Baltic countries, which have common history, common social-economic problems and which find common solutions to the economic recovery.

In order to analyse their economic evolution, we used the latest official statistic data (European Commission, 2011). On the other hand, we tried to have a critical approach to these data.

The main objective of the paper is to realise a forecast of these three above economies, in order to describe their economic recovery trend.

2. Other Research in this Topic Area

There are a lot of books and scientific papers focused on the economic forecasting

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under the global crisis impact. A recent book coordinated by Carnot is focused on the theoretic approach of the forecasting processes, including policy making and forecasts or macroeconomic models. A distinct part of the book covers the risks and accuracy in forecasting (Carnot, Koen & Tissot, 2011).

Another scientific approach provides up-to-date coverage of both new and well-established fields in the sphere of economic forecasting. The chapters are written by world experts in their respective fields, and provide authoritative yet accessible accounts of the key concepts, subject matter, and techniques in a number of diverse but related areas. It covers the ways in which the availability of ever more plentiful data and computational power have been used in forecasting, in terms of the frequency of observations, the number of variables, and the use of multiple data vintages. Greater data availability has been coupled with developments in statistical theory and economic analysis to allow more elaborate and complicated models to be entertained; the volume provides explanations and critiques of these developments (Clements & Hendry, 2011).

2012 started with two important dedicated scientific books. First of them is signed by González-Rivera G. and started from the idea that knowledge of forecasting methods is among the most demanded qualifications for professional economists, and business people working in either the private or public sectors of the economy. The general aim of this textbook is to carefully develop sophisticated professionals, who are able to critically analyze time series data and forecasting reports because they have experienced the merits and shortcomings of forecasting practice (González-Rivera, 2012).

The second is based on the economic and monetary disaster predicted by Peter Schiff. And nobody understands what to do in this situation better than the man who saw it coming. For more than a decade, Schiff has not only observed the economy, but also helped his clients restructure their portfolios to reflect his outlook. What he sees today is a nation facing an economic storm brought on by growing federal, personal, and corporate debt; too little savings; and a declining dollar. Crash Proof 2.0 picks up right where the first edition-a bestselling book that predicted the current market mayhem-left off. This timely guide takes into account the dramatic economic shifts that are reshaping the world and provides you with the insights and information to navigate the dangerous terrain. Throughout the book, Schiff explains the factors that will affect your future financial stability and offers a specific three step plan to battle the current economic downturn (Schiff, 2012).

3. Estonia

The economy supports the domestic demand recovery, which is able to ensure the growth equilibrium. The start of the crisis had a devastating impact on the economy. As a result, the GDP growth rates were negative: -3.7% in 2008 and -14.3% in 2009.

The recovery program applied by the Estonian government led to significant positive economic growth rates during 2010-2011. The economic recovery is forecasted to continue during 2012-2013. The economic growth rates will be significant but lower than those from 2011 (see Figure 1).

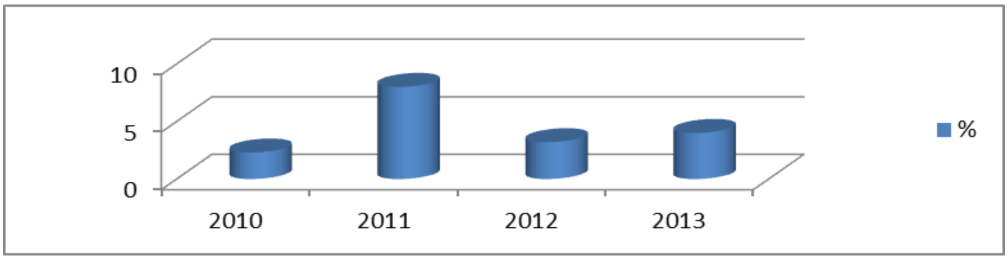

Figure 1. Estonia's GDP forecast
Source: Personal contribution

The private consumption fell by 23.4% during 2008-2010. 2011 brought a low recovery of this consumption, based on a GDP growth rate of 8.0%. The recovery process connected to the private consumption will continue during 2012-2013.The public consumption decreased during 2009-2010 and had a slow recovery in 2011. The forecasts talk about low positive growth rates during 2012-2013 (see Figure 2).

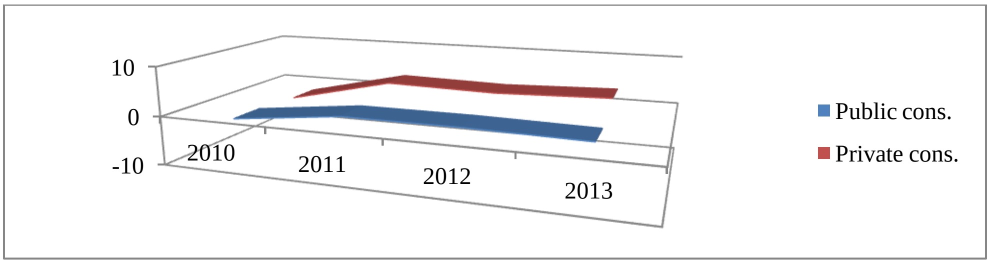

Figure 2. Estonia's consumption forecast
Source: Personal contribution

The negative macroeconomic evolution forced the investment decrease during 2008-2010. The investment rate became significant positive 2011. The investment recovery process is forecasted to continue during 2012-2013, when the growth rates will be significant (see Figure 3).

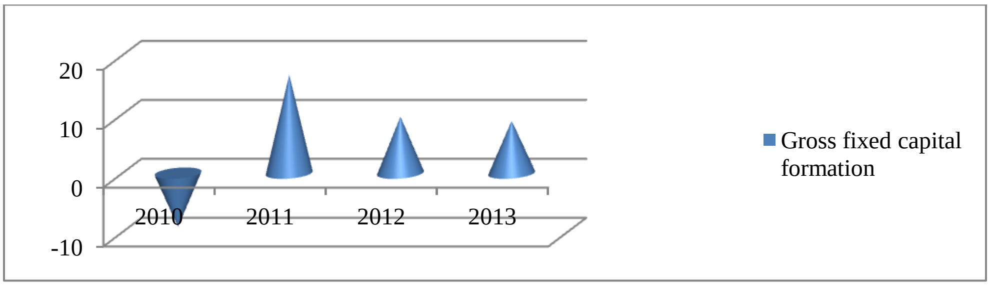

Figure 3. Estonia's gross fixed capital formation forecast
Source: Personal contribution

The negative world trade environment forced Estonia to decrease its imports during 2008-2009. Unfortunately, this process was followed by a decrease of the Estonian exports by 18.0% during the same time period. The growth restoring and the international trade terms improving are determined to return Estonia to high exports and imports growth rates. During 2012-2013, the exports and imports growth rate will be positive but lower than in 2011 (see Figure 4).

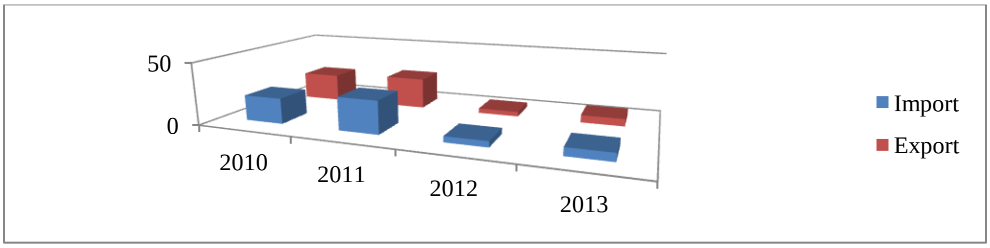

Figure 4. Estonia's foreign trade forecast
Source: Personal contribution

The initial impact of the crisis on the Estonian economy supported a decrease of the employment by 14.8% during 2009-2010.The economic recovery started in 2011 and will continue during 2012-2013. The effect of this recovery will be a weak employment growth rate. This trend will support a decrease of the unemployment rate even that it will remain at double-digit in 2013 (see Figure 5).

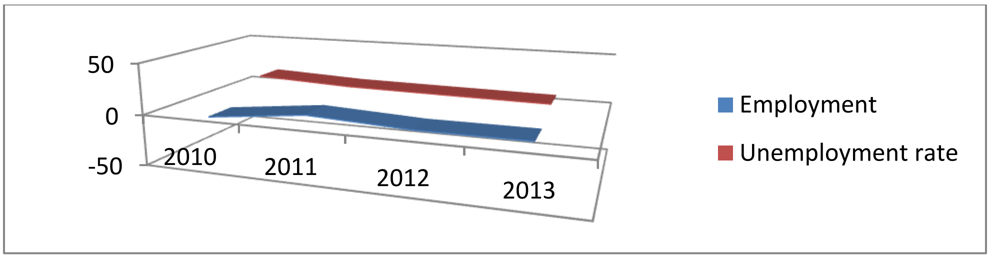

Figure 5. Estonia's employment and unemployment rate forecast
Source: Personal contribution

The uncertainties related to macroeconomic developments have led to higher precautionary savings in the households. These savings are affected by inflation, which is expected to reduce during 2012-2013 (see Figure 6).

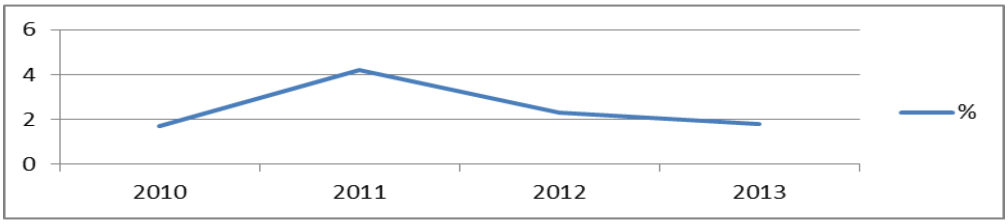

Figure 6. Estonia's inflation rate forecast
Source: Personal contribution

Estonia's government debt is a positive element which supports the macroeconomic evolution. A low level of this debt (about 6% of GDP) is forecasted to the 2012-2013 time period (see Figure 7).

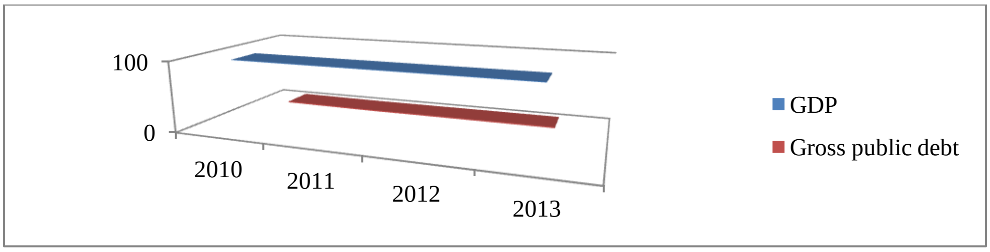

Figure 7. Estonia's gross public debt forecast (% of GDP)
Source: Personal contribution

4. Latvia

Latvia supported high costs connected to the global crisis during 2008-2010. 2011 ended with a higher than anticipated economic growth. The GDP growth will continue during 2012-2013 (see Figure 8).

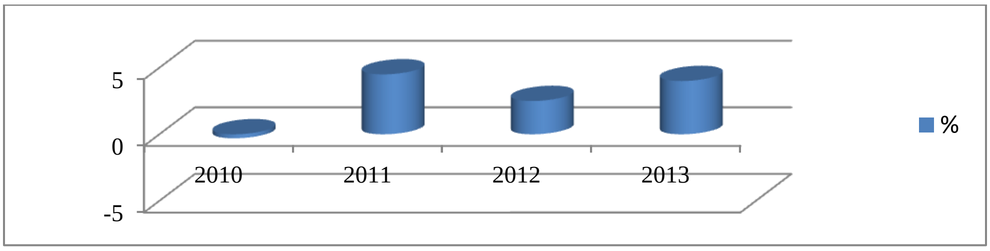

Figure 8. Latvia's gross public debt forecast (% of GDP)
Source: Personal contribution

Recession put down the private consumption, which decreased by 21.3% during 2008-2010. In 2011, an economic recovery process started. It will continue during 2012-2013. In order to adapt to the crisis impact, the public consumption decrease by 19.1% during 2009-2010. Its trend will be the same for the next two years (see Figure 9).

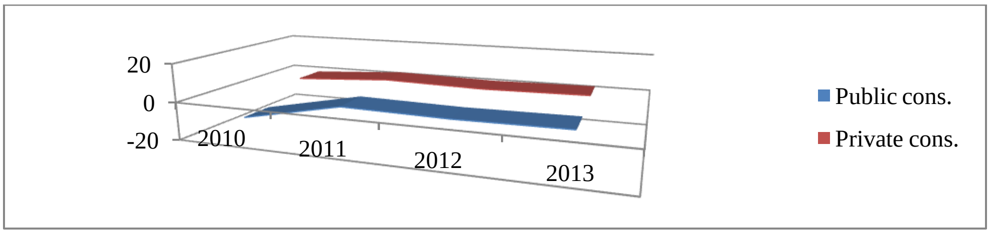

Figure 9. Latvia's consumption forecast
Source: Personal contribution

Latvia is one of the most affected Member States by the economic crisis related to the investment. The gross fixed capital formation decreased by 63.4% during 2008-2010. 2011 brought a sudden reversal in this area, which will be continued during the forecast period (see Figure 10).

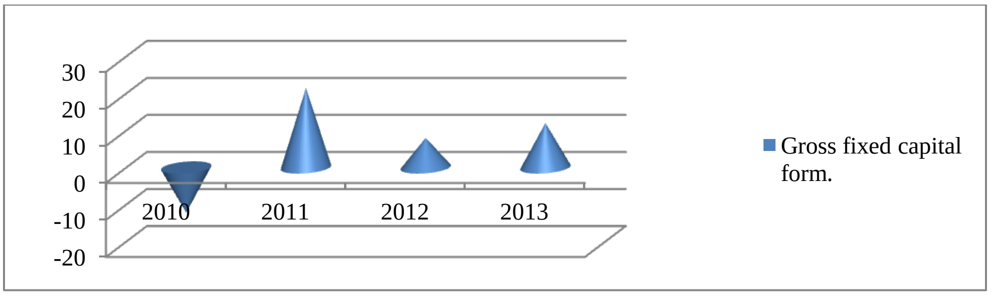

Figure 10. Latvia's gross fixed capital formation forecast
Source: Personal contribution

During the first years of the crisis, Latvia tried and succeeded to reduce its imports by -44.1% (during 2008-2009). Unfortunately, the negative world economic environment put its impact on the Latvian exports. As a result, the exports decreased by -12.1% during the same time period. Since 2011, the imports growth rate was higher than that of the exports and will continue to do so until the end of the forecast (see Figure 11).

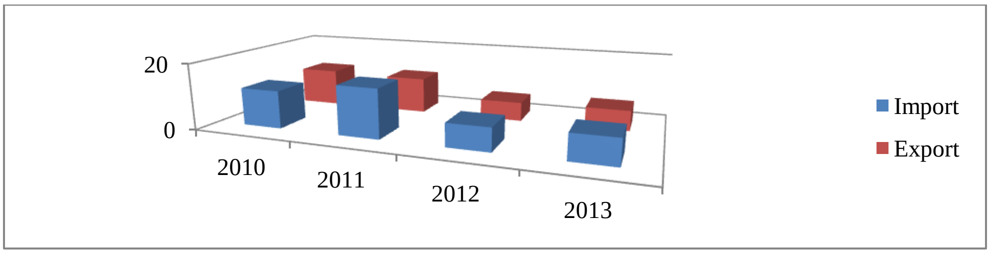

Figure 10. Latvia's foreign trade forecast
Source: Personal contribution

The decrease in employment during 2009-2010, cannot be offset by small but positive rates which will be recorded until the end of the forecast. As a result, the unemployment rates grew during 2008-2010 and achieved 16.1% in 2011. The next two years will face to high unemployment rates even that they will decrease slowly (see Figure 11).

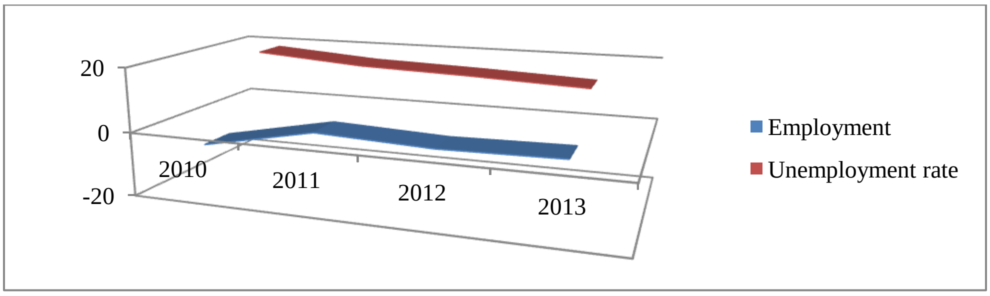

Figure 11. Latvia's employment and unemployment rate forecast
Source: Personal contribution

It is interesting that the households' saving rates were positive during whole crisis. The same positive saving rates will be achieved in 2012 and 2013. On the other hand, Latvia faced to an inflation rate of 14.3% in 2008, then with disinflation, in 2010. Since 2011, the inflation rate decreased significantly and will achieve to 1.0% in 2013 (see Figure 12).

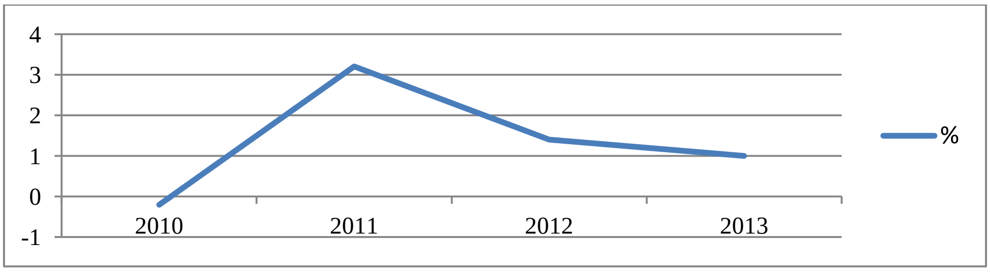

Figure 12. Latvia's inflation rate forecast
Source: Personal contribution

The public gross debt as % of GDP increased during 2008-2011. It is forecasted to increase in the next two years and to achieve 47.1% of GDP in 2013 (see Figure 13).

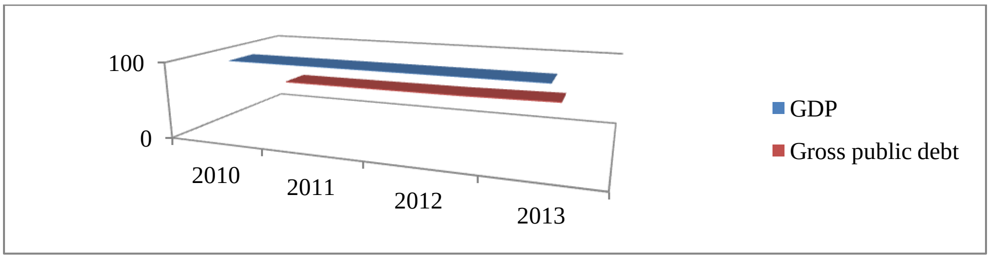

Figure 13. Latvia's gross public debt forecast
Source: Personal contribution

5. Lithuania

The Lithuanian economy was hit by the global crisis in 2009. Nowadays, it follows a powerful economic recovery, which is influenced by the global trends.
The economic recovery will continue in 2012 and 2013 (see Figure 14).

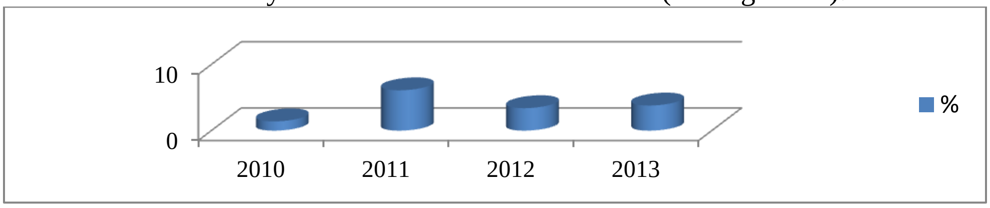

Figure 14. Lithuania's GSP growth rate forecast (%)
Source: Personal contribution

The macroeconomic evolution supported the private consumption decrease by 22% during 2009-2010. A recovery process started in 2011. The public consumption was fluctuant, with positive followed by negative growth rates. The same evolution is forecasted for 2012-2013 (see Figure 15).

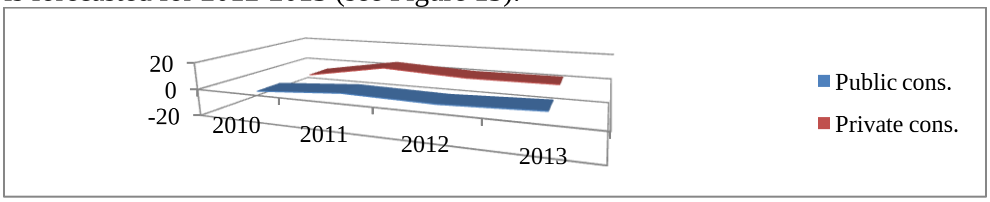

Figure 15. Lithuania's consumption forecast (%)
Source: Personal contribution

The consumption decrease was followed by a spectacularly decrease of the investment by 44.7% during 2008-2009. The economic growth achieved in 2010 and 2011 was the support for the investment recovery. As a result, the gross fixed capital formation will face to high growth rates during 2012-2013 (see Figure 16).

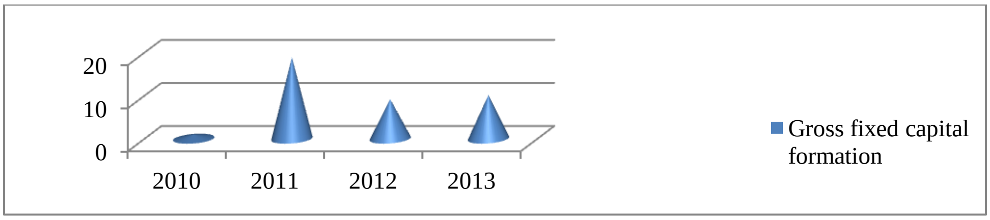

Figure 16. Lithuania's gross fixed capital formation forecast (%)

Source: Personal contribution

The inadequate macroeconomic evolution and the world trade trend caused an important decrease of the good imports in 2009. This decrease was followed by a lower decrease of the Lithuanian exports. From 2010 and continuing to the forecast period, the imports growth rates will bring forward than those of the exports (see Figure 17).

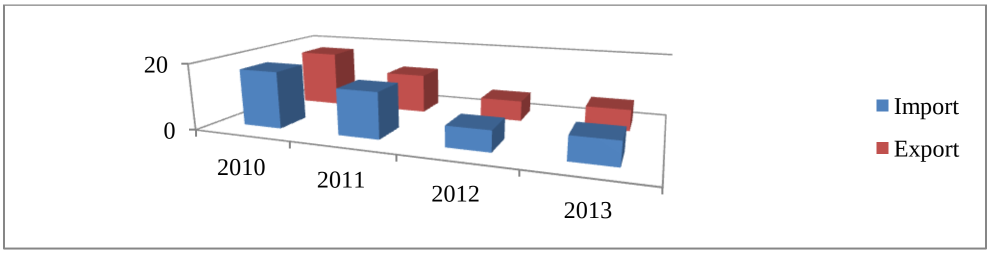

Figure 17. Lithuania's foreign trade forecast (%)

Source: Personal contribution

The global crisis had a powerful impact on the employment in Lithuania. As a result, the jobs decreased by 12.6% during 2008-2010. A recovery process started in 2011 and will continue in 2012 and 2013. On the other hand, the unemployment rate increased, from 5.8% in 2008, to 15.1% in 2011. The unemployment rate will decrease slowly during 2012-2013 (see Figure 18).

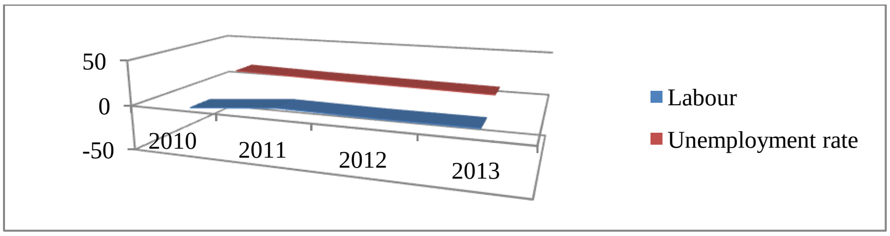

Figure 18. Lithuania's unemployment rate forecast (%)

Source: Personal contribution

An interesting evolution had the households' savings rate, which increased during the crisis. The double-digit inflation, as a result of the crisis in 2008, strongly decreased and achieved 3.0% in 2011. This trend will continue during the forecasted period (see Figure 19).

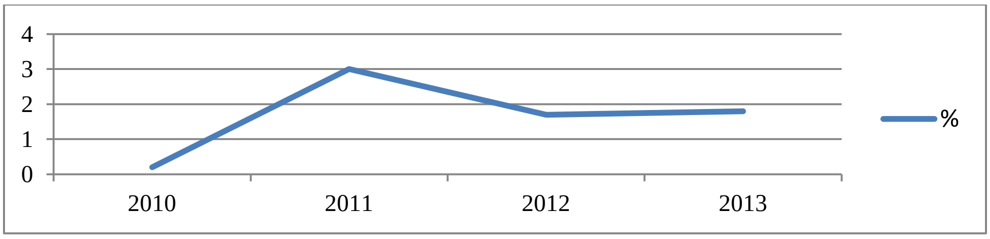

Figure 19. Lithuania's inflation rate forecast (%)

Source: Personal contribution

Lithuania's gross public debt grew, but it is still small related other Member States. The gross public debt as % of GDP will increase in 2012 and 2013 (see Figure 20).

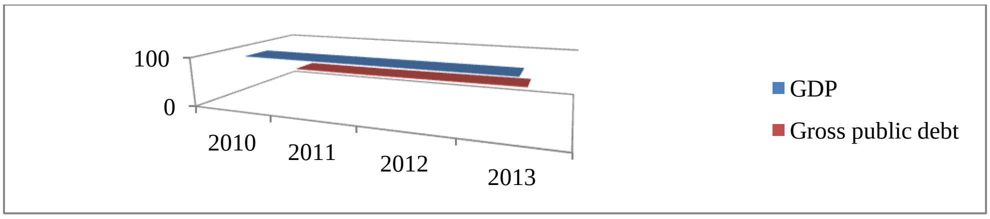

Figure 20. Lithuania's gross public debt forecast (% of GSP)

Source: Personal contribution

6. Conclusions

The Baltic countries succeeded in achieving high economic growth rates in 2011. The economic recovery will continue in 2012 and 2013. As a result, the gross fixed capital formation rate increased in 2011 in all three countries and it will have the same trend during 2012-2013.

The unemployment rate decreased and will decrease during 2012-2013, even that it will remain at double-digit in Estonia in 2013. Moreover, the inflation rate started to decrease in 2011 and will continue to decrease in 2012 and 2013 in these countries.

The economic recovery is supported by a gross public debt lower than 50% of GDP in these countries and by forecasted low but positive growth rates of the public consumption during 2012-2013. These countries represent an positive example for all Member States which try to face the crisis' challenges.

7. References

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