

Feature: The Baltics



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Baltics: Positioned for Success

LATVIA

Latvia is emerging strongly from the shadows of its 1995 banking crisis. Tight fiscal policies and enhanced bank supervision have contributed to the stabilization of the economy leading to the strengthening of the financial system, acceleration of structural reforms, and the improvement of the entrepreneurial climate. After contracting 1 percent in 1995, GDP grew by 2.8 percent in 1996, and is expected to grow by 3 to 4 percent in 1997. Inflation fell to 13 percent in 1996, down from 23.1 percent in the previous year and 958 percent in 1992. Latvia has a freely convertible currency, the lat, which is loosely pegged to the Special Drawing Rights (SDR) of the IMF.

Though Latvia is a small market of 2.5 million people, its central location in the Baltics holds great potential as a commercial, financial, and transportation hub for the region as well as a commercial gateway to Russia.

U.S. Export Potential

Consumer tariffs hover around 15 percent, while tariffs on agricultural goods are significantly higher. A license is

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ESTONIA

Estonia has made significant and rapid progress in its transition to a market economy. A combination of key policies, including commitment to privatization, adoption of an independent currency, establishment of an extremely open trading regime, and successful attraction of foreign investment, have made Estonia one of the success stories of the region. As a result, Estonia was one of five Central European countries recently invited by the European Union for membership talks.

Today, Estonia continues to experience strong growth after its economy bottomed out from post-Soviet shocks in the second quarter of 1993. Estonia's GDP growth in 1995 was 4.3 percent and in 1996 it was 4 percent. The economy is predicted to grow between 5 and 7 percent. Inflation continues to drop, following the trend of the past two years. In 1996, inflation fell to under 15 percent, and it is predicted to drop to 12 percent in 1997. The Estonian currency, the kroon, is stable and has been pegged to the German Mark at the rate of 8 kroons to 1 mark since its introduction in 1992.

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LITHUANIA

Since restoring independence, Lithuania has implemented market-oriented reforms, including privatization, developing modern commercial and investment laws, and restructuring the banking sector. In 1992, with the assistance of the IMF and other international institutions, Lithuania adopted a program to restrain inflation, reduce price controls, lower the budget deficit, and privatize the economy.

After three years of GDP decline, the country experienced its first post-Soviet positive GDP growth rate in 1994, and posted a 2 percent growth rate in 1995. Despite government budgetary problems and a banking crisis in the winter of 1995-1996, GDP grew by 3.6 percent in 1996. Financial sector restructuring, coupled with improved banking supervision, mitigated the macro-economic effects of the banking crisis. Predictions for GDP growth in 1997 are

upwards of 3.5 percent. Inflation fell to 13 percent in 1996 down from 35.6 percent in 1995 and 1,163 percent in 1992. The country has a freely convertible national currency, the lit, which is tied to the U.S. dollar at a ratio of 4 to 1.

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