COUNTRY REPORT

Estonia

Latvia

Lithuania

1st quarter 1996

The Economist Intelligence Unit
15 Regent Street, London SW1Y 4LR
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For over 40 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide.

The EIU delivers its information in four ways: through subscription products ranging from newsletters to annual reference works; through specific research reports, whether for general release or for particular clients; through electronic publishing; and by organising conferences and roundtables. The firm is a member of The Economist Group.

London
The Economist Intelligence Unit
15 Regent Street
London
SW1Y 4LR
United Kingdom
Tel: (44.171) 830 1000
Fax: (44.171) 499 9767

New York
The Economist Intelligence Unit
The Economist Building
111 West 57th Street
New York
NY 10019, USA
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2

Hong Kong
The Economist Intelligence Unit
25/F, Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong
Tel: (852) 2802 7288
Fax: (852) 2802 7638

Electronic delivery

EIU Electronic Publishing
New York: Lou Celi or Lisa Hennessey Tel: (1.212) 554 0600 Fax: (1.212) 586 0248
London: Moya Veitch Tel: (44.171) 830 1007 Fax: (44.171) 830 1023

This publication is available on the following electronic and other media:

Online databases

FT Profile (UK)
Tel: (44.171) 825 8000

DIALOG (USA)
Tel: (1.415) 254 7000

LEXIS-NEXIS (USA)
Tel: (1.800) 227 4908

M.A.I.D/Profound (UK)
Tel: (44.171) 930 6900

CD-ROM

Knight-Ridder Information Inc (USA)

SilverPlatter (USA)

Microfilm

World Microfilms Publications (UK)
Tel: (44.171) 266 2202

ISSN 1360-9459

Symbols for tables

“n/a” means not available; “–” means not applicable

Printed and distributed by Redhouse Press Ltd, Unit 151, Dartford Trade Park, Dartford, Kent DA1 1QB, UK

Summary

Estonia, Latvia, Lithuania 1st quarter 1996

January 12, 1995

Estonia

Political and economic structures **Pages 3-4**

Outlook: Market reforms will remain the centrepiece of the new government's economic strategy. A more pragmatic approach will be adopted in relations with Russia. Deficiencies within Estonia's defence structure will be a major obstacle in the country's bid to join NATO. Moderate economic growth is forecast for 1996 and 1997, while inflation will fall gradually. **Pages 5-7**

Review: Following a highly publicised row with the defence minister, the commander-in-chief has been forced to resign. The parliamentary elections in Russia have had little impact on bilateral relations. Estonia has given up territorial claims in its border dispute with Russia, but Russia has still not recognised the Tartu Peace Treaty. The legislature has finally ratified the Russian troop withdrawal treaty. The 1996 budget has increased the threshold for tax allowances, shifting more of the burden on to consumption. With the privatisation programme in 1996 focusing on utilities, the government plans to sell two-thirds of Estonian Air. More Estonian municipalities have tapped the international capital markets. Estonia's economic growth in 1995 has been more modest than expected because of the poor performance of industry and agriculture. Inflation has been higher than expected, but the standard of living has risen, and unemployment has remained low. The trade deficit has continued to grow. Estonia has formally applied to join the European Union (EU) and has become a member of the European Free Trade Association (EFTA). **Pages 7-16**

Latvia

Political and economic structures **Pages 17-18**

Outlook: The diverse membership of the new coalition government makes it inherently unstable. The new government will pursue the foreign policies of its predecessor in terms of integrating into Western structures such as the EU and NATO, and in maintaining smooth relations with Russia, but a proposed referendum on citizenship threatens to reopen old divisions with Moscow. The new prime minister will support increased privatisation, but due to the ramifications of last year's banking collapse foreign investors will stay on the sidelines. Inflation should come down slowly in 1996 and 1997 **Pages 19-22**

Review: A new government has been formed after the third attempt. Headed by a businessman, Andris Skele, it is a coalition of six parties which has excluded the extremist People's Movement for Latvia. With the retention of Valdis Birkavs as foreign minister, foreign policy towards the West and Russia has remained unchanged. However, For Fatherland and Freedom, a member of the coalition, has been able to win funding for a referendum on the law on citizenship. Latvia's dispute with Lithuania over oil-rich Baltic Sea territory has remained unresolved. Baltija Bank has officially been declared insolvent and more banks have been suspended. Latvia has launched a radical new pension

scheme. The gas debt to Russia has built up as a result of unpaid bills from local industry, but Latvia has obtained a concessionary price for 1996. The banking crisis stifled growth in 1995. The control of inflation has proved difficult because of large rises in electricity prices. Foreign investment has slowed. The volume of trade has risen substantially, as has the trade deficit. Latvia has joined EFTA.
Pages 22-30

Lithuania

Political and economic structures ***Pages 31-32***

Outlook: Both the ruling Lithuanian Democratic Labour Party and the president himself will suffer a loss of popularity following the revelations that government ministers withdrew deposits from two failing banks prior to their closure. The banking crisis will stem economic recovery and make it difficult for the government to keep the budget deficit under control. Unemployment will rise and inflation will be slow to fall. Foreign capital inflows will remain low, but a proposed new law allowing foreign ownership of land would make the country more attractive to foreign investors. ***Pages 33-36***

Review: Following the suspension of the country's largest banks as a result of fraud, it was revealed that the prime minister and several other ministers had withdrawn their deposits prior to the banks' closure. The foreign and defence ministers and the governor of the central bank have offered their resignations, but the president, Algirdas Brazauskas, has refused to accept them and has also rejected demands for the dismissal of the prime minister. The government has survived a motion of no confidence, as has the interior minister. A run on foreign currency deposits, rumours of the devaluation of the lit and a shortage of interbank liquidity have followed the banks' closure. The Seimas has drafted a compulsory deposit insurance scheme. The 1996 budget is based on optimistic growth assumptions, and the government will have problems keeping the deficit under 2% of GDP. The 1996 privatisation programme will take the form of cash sales. The legislature is to consider proposals to allow foreign ownership of land, within limits. The deadline for the first reactor closure at the Ignalina plant has been postponed by five years. With disappointing results from industry and agriculture, GDP growth in 1995 was not as strong as expected. Inflation has been higher than target and unemployment has risen, but the overall standard of living has improved. Lithuania has formally applied to join the EU and the World Trade Organisation. ***Pages 36-44***

Statistical appendices ***Pages 45-54***

Important

The following tables, located in the Statistical appendices, have been updated.
A: The new currencies in the former Soviet republics.
B: Quarterly exchange rates for the currencies of the former Soviet republics.
C: GDP and GDP per head in purchasing power parities for all 15 former Soviet republics. These tables give an indication of living standards and domestic purchasing power, free from the distortions caused by the exchange rates.

Editorial queries: Timothy Ash Tel: (44.171) 830 1000 Fax: (44.171) 499 9767
Subscription queries: Jan Frost Tel: (44.171) 830 1007 Fax: (44.1708) 371 850

Political structure: Estonia

Official name: Republic of Estonia

Legal system: on October 7, 1992, the Estonian State Assembly, the Riigikogu, declared legal continuity between the 1918-40 republic and the present state. A new constitution was adopted in June 1992 by referendum

National legislature: unicameral assembly, the Riigikogu, of 101 members. All members are directly elected but parties need a minimum of 5% of the vote to enter the Riigikogu. Members can sit as independents. The Riigikogu's term is four years

Electoral system: proportional representation. There is universal suffrage for Estonian citizens (as defined by the reinstated 1938 citizenship law) over the age of 18, whether resident in Estonia or abroad. Other residents, mainly Russians and other minorities, may not vote in general elections, but can vote in municipal elections. As from 1996 the president is to be directly elected by members of the Riigikogu

Last election: March 5, 1995 (legislative)

Next elections due: 1996 (presidential); 1999 (legislative)

Head of state: president, currently Lennart Meri, elected for a four-year term by the Riigikogu on October 5, 1992, after direct elections failed to produce a candidate with a majority of the vote

National government: A centrist coalition government led by Tiit Vahi, consisting of the Coalition Party-Rural Union (KMU) and the Reform Party, which together have 60 seats in the 101-seat Riigikogu

Main political parties: KMU (Coalition Party-Rural Union, 41 seats in the Riigikogu); Reform Party (19 seats); Centrist Party (16 seats); Estonian National Independence Party (Isamaa-ENIP, 8 seats); Moderates (6 seats); Our Home is Estonia! (Russian bloc, 6 seats); Right Wingers (5 seats)

Council of Ministers	
Prime minister	Tiit Vahi (KMU)
Key ministers	
agriculture	Ilmar Maendmets (KMU)
defence	Andrus Oovel (KMU)
economy	Andres Lipstock (Reform Party)
education	Jaak Aaviksoo (Reform Party)
environment	Villu Reiljan (KMU)
finance	Mart Opmann (KMU)
foreign affairs and deputy prime minister	Siim Kallas (Reform Party)
internal affairs	Maert Rask (Reform Party)
justice	Paul Varul (KMU)
social services	Toomas Vilosius (Reform Party)
transport and communications	Kalev Kukk (Reform Party)
Governor of the Bank of Estonia	Vahur Kraft

Economic structure: Estonia

Latest available figures

Economic indicators	1991	1992	1993	1994	1995[a]
GDP at current prices EEK m	13,683	13,100	21,918	30,228	40,461
GDP ($m) at exchange rate	622	1,036	1,655	2,328	3,506
Real GDP growth %	–11.8	–19.3	–2.1	4.7	3.8
Consumer price inflation % (annual av)	210.6	1,069.3	89.4	47.7	29.0
Consumer price inflation % (year-end)	n/a	950	35.7	41.6	28.8
Population m (mid-year)	1.58	1.54	1.51	1.51	1.49
Exports $ m	2,268[b]	439[c]	813	1,320	1,797
Imports $ m	2,351[b]	525[c]	958	1,680	2,444
Current-account balance $ m	n/a	34[d]	24[d]	–169[d]	–192
Exchange rate (av) EEK:$	n/a	12.65	13.24	12.98	11.54
Exchange rate (av) EEK:DM	n/a	8.0	8.0	8.0	8.0

January 12, 1996 EEK11.55:$1

Origins of gross domestic product 1993[e]	% of total
Agriculture, forestry & fisheries	11.1
Manufacturing	19.0
Mining	1.9
Energy	3.5
Construction	6.6
Trade and services	40.8
Others	17.1
Total incl others	100.0

Components of gross domestic product 1994[d]	% of total
Private consumption	58.1
Public consumption	20.6
Consumption of non-profit organisations	0.4
Investment	26.2
Change in stocks	2.9
Net trade	–10.9
Statistical discrepancy	2.7
GDP	100.0

Principal exports 1994	% of total
Foodstuffs	22.2
Clothing, footwear & headgear	16.4
Timber products	11.0
Machinery and equipment	9.3
Chemicals	8.6
Metals	8.0

Principal imports 1994	% of total
Machinery & equipment	19.7
Foodstuffs	16.0
Minerals	14.1
Clothing, footwear & headgear	12.7
Chemicals	11.5
Motor vehicles	8.6

Main destinations of exports 1994	% of total
Russia	23.1
Finland	18.0
Sweden	10.7
Latvia	8.1
Germany	7.4

Main origins of imports 1994	% of total
Finland	36.4
Russia	16.2
Sweden	9.8
Germany	8.8
Netherlands	3.7

[a] EIU estimates. [b] Valued at domestic prices which represent internal prices originally set under the centrally planned economic system, and differ substantially from world market prices. [c] Hard-currency trade only. [d] IMF estimates. [e] Official estimates.

Estonia

Outlook

No change in economic policy is forecast

Estonia's new government, formed on October 26, 1995, will maintain a broadly similar economic programme to that pursued by its predecessor. The presence of the free-market Reform Party in the coalition counterbalances the left-wing leanings of the Coalition Party-Rural Union (KMU), particularly the latter component. The stability of the existing government depends on the extent to which each party is willing to compromise its policies in exchange for remaining in government. For example, while in opposition the Reform Party criticised the recently approved 1996 budget. However, in the short period that the government has been in power a general willingness to compromise appears to have emerged. In the sphere of economic policy the personal tax burden has been lowered through the raising of tax thresholds, which will please the right. The more protectionist elements in government, notably the Rural Union, have also received some concessions: the recently increased excise duties on alcohol exempt small local producers of beer and wine. Since the country is in the throes of an economic recovery and most of the difficult economic reforms have already been implemented, the present government in any case faces relatively little pressure to introduce radical, and therefore controversial, measures.

A more pragmatic approach to foreign policy is expected

The appointment of the leader of the Reform Party, Siim Kallas, as foreign minister is probably the shrewdest move the prime minister, Tiit Vahi, has made. Although a finance or economic portfolio might have been the obvious job for the former central bank governor, Mr Vahi is not sidelining the dedicated free-marketeer but is acknowledging that foreign policy will now play as crucial a role as economic management. Mr Kallas is well known and respected internationally, and his experience will be invaluable in Estonia's negotiations to gain full membership of the European Union (EU). His pragmatic approach is likely to prove more productive in Estonia's complicated relations with Russia than the nationalistic tone adopted by previous foreign ministers. One of the immediate results is that the tortuous discussions with Russia over the Tartu Peace Treaty, which appeared to have reached a stalemate, look set to reach an early conclusion, although not before presidential elections are held in Russia.

EU membership remains a priority—

Full membership of the EU will remain the priority issue in Estonia's foreign policy. Estonia will benefit from the EU's recent decision to rule out any ranking of applicants for EU membership into a premier tier, consisting of the Visegrad states, and a number of lower divisions. Estonia, in particular, resented being bracketed in a "Baltic states" group and hence being made dependent on weaker members of the group improving their economies, particularly given that its economic and trade regime is more liberal than that of some Visegrad members such as Poland. However, Estonia's membership will ultimately depend on existing member states agreeing to the union's enlargement. The Madrid summit of EU heads of state held in December seems now, at last, to have given the green light for a gradual eastward enlargement of the EU.

—but a lack of preparedness will delay NATO membership

Despite its declared objective to ensure its future security by becoming a member of NATO, Estonia's present defence structure fails to meet many of the alliance's basic requirements. The US secretary of state, William Perry, who visited the Baltic states in mid-November, told the Estonian prime minister that NATO members had to meet a number of criteria. These included having a defence structure under civilian control and a system of military training that met NATO standards. Yet the recent forced resignation of General Aleksander Einseln as commander of Estonia's defence forces (see The political scene) demonstrated that in Estonia the military is still something of a law unto itself. The defence minister, Andrus Oovel, on behalf of the civilian authority, had battled to wrest control of the country's defence structures from the military. Worse still, this was conducted as a public spectacle. The recent exposure of an arms smuggling operation involving members of the army general staff also revealed a lack of military control within the armed forces. Although NATO is obliged to pay lip-service to eastward expansion, it is obviously reluctant to do so for fear of upsetting Russia and possibly destabilising the region. In Estonia's case it can, however, point to the grave inadequacies in the country's armed forces as a reasonable excuse for delaying membership.

Modest growth predicted for 1996—

The Estonian economy will continue to recover in 1996, although conflicting data on both the extent of real GDP growth and on industrial sales and production in 1995 make precise calculations difficult. The prime minister has estimated annual GDP growth in 1995-96 at 4-5%. Other forecasters, for example the IMF, have predicted 5% growth. Meanwhile, the new government's finance ministry takes a more downbeat view on the economy, more in line with the notoriously pessimistic Estonian Department of Statistics. It estimates 1995's growth at just 3% and forecasts a similar figure for 1996. Given the patchy nature of the industrial recovery, the EIU has revised its own estimates downwards. We now forecast GDP growth to fall from 3.8% in 1995 to 3.5% in 1996 and to 3.3% in 1997.

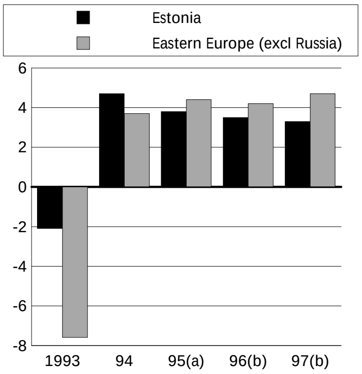
—while inflation faces new upward pressures—

With most prices now fully liberalised, strong consumer demand and wage pressure will make further cuts in inflation difficult to achieve. As a reflection of this, the new government is less upbeat over its ability to trim inflation and has revised its forecast for annual inflation to 20% in 1996. We have also revised our forecasts upwards: from 15% to 20% in 1996 and from 12.5% to 15% in 1997. This compares with our estimate of 29% inflation in 1995.

—although unemployment will fall

Estonia's economic recovery has translated into new jobs, and the country now has the lowest unemployment rate in the Baltic region. Although, for seasonal reasons, unemployment did creep up towards the end of 1995, the overall trend towards more job creation will continue in 1996. This will be aided by increased foreign investment, in particular in greenfield sites. Reductions in tax

Gross domestic product
% change on previous year



(a) EIU estimates. (b) EIU forecasts.
Sources: EIU; IMF, *International Financial Statistics*.

thresholds will encourage more people out of the black economy and into the formal sector, holding unemployment down while also helping to boost tax revenue.

Forecast summary
(% change on previous year unless otherwise indicated)

	1994[a]	1995[b]	1996[b]	1997[b]
Real GDP growth	4.7	3.8	3.5	3.3
Industrial production	7.0	2.0	3.0	3.5
Consumer prices (annual av)	47.7	29.0	20.0	15.0
Consumer prices (year-end)	41.6	28.8	15.0	10.0
Trade balance ($ m)	–360	–646	–735	–833
Average exchange rates				
EEK:$	12.98	11.54	11.70	11.87
EEK:DM	8.0	8.0	8.0	8.0

[a] Actual. [b] EIU forecasts.

Review

The political scene

Defence chief is ousted—

General Aleksander Einseln, commander-in-chief of Estonia's defence forces, was finally forced to resign by the president, Lennart Meri, on December 3. The dismissal came after yet another highly publicised row between General Einseln and the defence minister, Andrus Oovel, in which the two men are reported to have come close to exchanging blows. Mr Oovel went so far as to accuse the general of having blood on his hands as a result of his US war service in Vietnam. Somewhat disingenuously, Mr Meri claimed that he was responding to an early letter of resignation written by the commander in May 1993, not long after his original appointment. General Einseln, who was born in Estonia in 1931, fled to the USA in 1944 and later took US citizenship. A veteran of the Korean and Vietnam wars and a senior member of the US Joint Chiefs-of-Staff, he was appointed as Estonia's commander-in chief in 1993 by Mr Meri. His appointment was opposed by the US Congress, which wanted to strip him of his US citizenship for taking a post with a foreign armed service.

—but still plans to run in the 1996 presidential elections—

General Einseln hinted that his subsequent dismissal could have been partly at the behest of Moscow, which dislikes the notion of a retired US officer commanding the forces of a former Soviet republic. A more credible explanation was the unresolved issue, not unique to Estonia, of establishing civilian control over the country's armed forces. During his tenure as head of Estonia's armed forces, General Einseln was frequently criticised for his highly publicised attacks on corruption within the armed forces, for stepping into the political arena and for public disagreements with a series of defence ministers, for sacking or forcing the resignation of around half the country's officers and for overspending his budget—all charges which implied that the general did not respect the principle that in democratic countries it is the defence ministry, and not the military, which ultimately controls the armed forces. The final nail in the general's coffin was the recent revelation of a major arms smuggling operation which implicated members of his staff and the head of intelligence and counterintelligence (4th quarter 1995, page 10). As a gesture of goodwill Mr Meri offered General Einseln the post of head of Estonia's military academy. The general rejected this latter posting and now reportedly plans to set up his own political party; he has suggested that he may even run for the presidency in the 1996 elections. Meanwhile, Mr Meri's nomination of Johannes Kert, commander of the Defence League, as General Einseln's replacement has been accepted by the cabinet.

—although a direct presidential election will not be held

Estonia's next presidential election will be held in October 1996. Under the Estonian constitution the president is elected by secret parliamentary ballot. In November some Riigikogu deputies presented a draft law which would have meant that the president would have to be elected by the population at large. The motion never got as far as a parliamentary debate because a change in the electoral procedure would have required substantial changes to other parts of the constitution, including increased powers for the president. Under the Estonian constitution the presidency is largely an honorary position. The current incumbent, Mr Meri, remains popular and is likely to run for a second turn in office. Meanwhile, General Einseln, with no party affiliation, lacks a power base in parliament from which to launch his campaign, and hence is unlikely to be able to mount a serious challenge to Mr Meri.

New government portfolios are announced

The government has split the Ministry of Culture and Education into two separate portfolios. The new ministry of education will absorb the National Board of Education, while the Sports Board will be folded into the ministry of culture. The incumbent culture and education minister, Jaak Aaviksoo, becomes the new minister of education, while Jaak Allik takes over as the new culture minister.

Russian legislative elections make little impact—

Estonian politicians took the results of the December 1995 elections to the Russian Duma (lower house) in their stride. Unlike the 1993 elections, which propelled Vladimir Zhirinovsky's ultra-nationalist Liberal Democratic Party into a surprise third place and accelerated the drive by east European countries to gain NATO membership, the 1995 results were largely as forecast. The Russian Communist Party, which won the largest percentage of votes and favours a re-establishment of the Soviet Union, albeit on a voluntary basis, was overwhelmingly supported by the more than 15,000 Russian residents in Estonia (out of a total ethnic-Russian population of 82,000) who voted in the Duma elections. Estonia itself did not go out of its way to make it easy for its Russian residents to vote, allowing only two polling stations, in Tallinn and Narva. Unlike Mr Zhirinovsky, who publicly called for Russia to starve the Baltic states back into the Soviet fold by depriving them of energy, the Russian Communist Party has attempted to portray itself as a party of moderation so as not to frighten off foreign investors. It is therefore unlikely to push for a more aggressive Russian stance towards the Baltic states. Furthermore, although Russia has frequently accused Estonia of mistreating its Russian minority, the accusations are generally designed for domestic Russian consumption. According to a recent poll among Estonia's minority residents, 94% regard Estonia as their home.

—but the presidential election campaign may harden Moscow's stance—

Of more concern to the Baltic states is the resignation, in January, of the Russian foreign minister, Andrei Kozyrev. Mr Kozyrev has long been regarded by his opponents as carrying out a foreign policy more for the West's benefit than Russia's. While Mr Kozyrev resigned so that he could take a seat in the Russian Duma, his resignation came after a tirade of criticism of his performance from the president, Boris Yeltsin. Mr Kozyrev's departure signals that, in advance of the Russian presidential elections set for June, Mr Yeltsin has taken note of the recent elections and may be about to adopt a more aggressive foreign policy stance both in relations with the West and with the Baltic states. The appointment of Yevgeny Primakov, regarded as a hardliner on national issues, as Mr Kozyrev's replacement supports the above assertion.

—as border discussions continue—

Discussions over the prickly border dispute between Estonia and Russia have continued. The issue centres around Russia's failure to recognise the 1920 Tartu Peace Treaty which delineated the border between Estonia and the then Soviet Union, and which Russia abrogated in July 1993. After the Soviet annexation of Estonia in 1940, Estonia lost two tracts of land, Pechori (formerly Petseri) and Ivangorod (formerly Jaanilinn). In March 1994 Estonia issued a draft law which aligned its borders according to the treaty, prompting Russia physically to demarcate the existing border. The two sides have since held numerous talks on the issue, but have failed to make progress since Russia has no intention of giving up the disputed land and Estonia has no means of enforcing its claim. Estonia has now given up its territorial claims and has accepted the existing border. For its part, the Russian negotiating team has accepted the historic significance of the treaty, but not its validity as the document governing present-day relations between the two countries. Instead, it is adhering to the document on interstate relations signed between the two countries in January 1991. In Estonia the issue appears to have run its course. According to a recent poll, the majority of Estonians believe that their country should give up any further demands for Russia to recognise the treaty. Meanwhile, several politicians have warned that the prolonged negotiations have now turned into something of a liability for Estonia. In particular, they have argued that Estonia's chances of joining NATO, whilst embroiled in a dispute with Russia, are non-existent.

—and the language law is criticised—

Russia's main complaint against Estonia, and other former Soviet republics, focuses on alleged discrimination against Estonia's ethnic Russian minority. Western bodies, such as the Council of Europe, have exonerated Estonia's citizenship law but the language law, which insists on a certain fluency for people applying for citizenship, has come in for criticism. Estonian experts consider that the current language examination, which has to be taken prior to applicants gaining citizenship, demands a knowledge which even native Estonian speakers find difficult. Recently the high commissioner for ethnic minorities at the Organisation for Security and Cooperation in Europe (OSCE), Max van der Stoel, called on Estonia to ease its language requirements and also to provide state support for language tuition. At present most ethnic Russians in Estonia who want to learn the language have to pay for the classes themselves. However, the foreign minister has accused the OSCE of overreacting to Russian complaints, which he described as part of a general propaganda machine aimed at stirring up Russian minorities throughout the former Soviet Union in order to destabilise the countries concerned.

—as applications for citizenship are set to rise

Citizenship is increasingly becoming essential in many walks of life. As of the beginning of 1996 only Estonian citizens could enter the civil service, while non-citizens currently employed as civil servants have until February 1997 to acquire citizenship. At the same time, there are moves to end some of the anomalies which those residents currently without citizenship have to endure. The president's council of advisers has called for all those living in Estonia before July 1990 to be granted permanent resident status—they must currently first apply for temporary residency—and to be issued passports. These documents would still classify non-citizens as aliens, but the council of advisers has requested other countries to recognise the passports as valid documents. troop withdrawal treaty on December 20, 1995. The treaty was originally

Troop withdrawal treaty is finally ratified

After an embarrassingly long delay the Riigikogu finally ratified the Russian troop withdrawal treaty on December 20, 1995. The treaty was originally signed in July 1994 and came into effect on August 31, 1994. The agreement has already been ratified by the Russian Duma, and Siim Kallas has warned that any further delays by the Estonian parliament would only work to Russia's diplomatic advantage. It would also be a major obstacle to Estonia's plans to join NATO. The treaty was ratified as two separate bills after the foreign affairs commission had earlier separated the issue of social guarantees for Russian military pensioners who remain in Estonia (an estimated 19,300, including families) from the main bill concerning the withdrawal itself. Estonia also added a codicil stating that the agreement only applied to military pensioners who had been receiving a pension prior to the signing of the agreement, as well as a clause stating that it considered its annexation into the Soviet Union in 1940 as illegal.

Dispute emerges over the Orthodox Church

The most recent disagreement between Moscow and Tallinn involves the two countries' Orthodox churches. Estonia has registered the Estonian Apostolic Orthodox Church, as successor to the Estonian Orthodox Church, active before the Soviet annexation in 1944, as subordinate to the patriarch in Constantinople (now Istanbul). The church's synod moved to Stockholm after the annexation. The legal successor would have title to substantial assets, including land and buildings. The Moscow patriarchy has protested at the move, but an attempt by Archbishop Kornelius, the head of the Moscow-led Estonian Apostolic Orthodox Church, to file a lawsuit claiming his church as legal successor was rejected by Tallinn City Court. Russia's foreign ministry entered the fray, warning that a ruling in the Constantinople church's favour would harm relations between the two countries. Estonia is maintaining that the issue can only be settled in court.

Madrid summit improves prospects of EU membership

The European Parliament ratified Estonia's associate membership on November 15, while Estonia signalled its intention to join the EU by submitting a formal application on November 24. At the EU summit which took place in Madrid on December 15-16 the German Chancellor, Helmut Kohl, reassured the Estonian prime minister that applicants would not be ranked in leagues, and the summit itself declared that negotiations with all applicants would start simultaneously. This will work to Estonia's advantage because Estonia's economic performance has outstripped that of both Latvia and Lithuania, while its trade regime is among the most liberal in the entire east European region. Estonia was fearful that negotiations with all three Baltics states would be linked, which would delay Estonia's entry until its southern neighbours were also able to meet EU entry conditions.

Economic policy

The budget raises tax allowances—

Although taxes account for 90% of budgetary revenue, successive Estonian governments have been committed to an overall cut in income tax and profits tax. Under the 1996 budget the threshold at which personal income tax is paid has been raised from EEK3,600 ($450) per year to EEK6,000 ($750), in line with the recent rise in the minimum wage (see below). Furthermore, a greater percentage of income tax revenue (66% as opposed to 52%) will now be channelled into municipal budgets. The government has introduced other tax cuts, many of which are designed to stimulate a shift away from state social provision for the middle classes to the private sector. The tax on premium payments to insurance companies has been reduced from 5% to 4%. The sale of property, provided that it had been owned for at least two years, had been acquired through the privatisation programme or returned after confiscation in the former Soviet Union, will now be tax-free. Loans for house purchases and home improvements will be tax-deductible, as will expenditure on education and donations to charity, and state and municipal institutions dealing with medicine, sport, culture, social services and the like, up to a maximum 10% of income.

—but taxes on consumption will rise

As is the case with western Europe, Estonia is shifting the tax burden away from earnings to consumption. The City of Tallinn has, for example, recently introduced a vehicle tax. The tax, which came into effect on January 1, is based on the engine power of the vehicle and levied at a rate of EEK5 (45 cents) per kw. State and local government officials are exempt, as are the disabled, while pensioners receive a 50% deduction. The government has also raised the level of excise duty on locally produced cigarettes to that on imported brands. This move has angered Sweden's Svenska Tobaks which, through its two-thirds stake in the Estonian producer, Eesti Tubakas, has the largest share of the Estonian tobacco market. The Swedish company announced that it will not make any further investments in Estonia and may even shift production outside the country.

A Treasury is established

In a radical change in economic management, Estonia has established a Treasury department to handle the country's finances. Four banks (Hansapank, the Union Bank of Estonia, the North Estonian Bank, and the Estonian Savings Bank, have been authorised to set up Treasury accounts. The new Treasury will streamline the government's management of revenue collection and expenditure. The latter is currently handled by some 1,600 separate departments.

Privatisation is to focus on utilities

The privatisation programme in 1996 will focus on utilities, including flagship companies such as the national carrier, Estonian Air. Estonian Air was spun off from the Soviet monopoly, Aeroflot, in 1991 soon after Estonia became independent. It has consistently made losses but is expected to move into the black in 1997. Its privatisation would mark the first sell-off of a national airline in the former Soviet Union. Within eastern Europe only the Hungarian carrier, Malev, and the Czech Republic's CSA have been privatised. However, even in private hands, it faces the problem of being a small operator in a small market where even the world's largest airlines, such as Lufthansa and British Airways, are forming strategic alliances. Up to two-thirds of the airline will be privatised through a competitive share tender, the deadline for which closes on January 23. Bids are open to foreign and domestic investors, although the government would prefer a Western airline as a strategic partner as this would provide the airline with greater access to investment finance. Other utilities to be sold off include Estonian Gas (30% will be floated off), Estonian Energy, the Port of Tallinn, Estonian Railways and Estonian Telecom. The government intends to continue using competitive tenders as the main vehicle for privatising controlling blocks of equity in these companies. In 1995 55 companies were initially privatised this way, although the state's residual stake was subsequently made available to the public. The advantage of the system is that it guarantees a strategic investor for the newly privatised companies and improves companies' access to investment finance.

Foreign funding for water supplies is announced—

The Estonian Water Company has received substantial foreign financing for an Ecu45.8m ($67m) project to improve the quality and reliability of water supplies, and to upgrade waste-water treatment, in 13 municipalities. The European Bank for Reconstruction and Development (EBRD) is providing Ecu10.6m in loans; EU-Phare, the Nordic countries and Switzerland are providing a total of Ecu11.6m in grants and the Nordic Environment Financing Company a further Ecu1.6m. The balance of the funding will be provided by the government of Estonia (Ecu4.2m) and the municipalities themselves (Ecu17.8m).

—as municipalities raise funds through capital markets

Estonian municipalities have started to raise funds through local bond issues, with the cities of Tartu, Parnu, Tallinn and Narva raising EEK218m ($27m) in total. In the absence of a government Treasury bill programme, since, by law, Estonia cannot run a budget deficit, the new municipal bond issues will provide a welcome addition to the country's nascent capital market. Another boost to the local bond market came from the recent EEK64m bond issue by Finland's Merita Bank. Its three-year bond is the longest issue to date in the kroon market. Merita Bank has close links with the Estonian market; its securities arm is a market-maker for Hansapank's share issue in Finland, representing the first international equity issue by an Estonian company. Tallinn City is also set to raise funds internationally through a DM45m ($31m) Eurobond managed by Nomura International, the bank which arranged successful issues for Latvia and Lithuania in 1995 as well as for the City of Prague, the only east European municipality to have tapped the Eurobond market. Tallinn intends to use the proceeds for road improvements.

The economy

Modest economic growth was achieved in 1995—

Estonia's economy continued to grow in 1995, although the extent varies according to the data source. The EIU's own estimates put real GDP growth at 3.8%, although some forecasts are as high as 7%. One of the least optimistic estimates has come from Estonia's finance ministry, which has calculated 1995's growth rate at 3%. In 1996 the ministry is forecasting a growth rate of 4%. The more downbeat Department of Statistics, which famously contradicted everyone in 1994 by claiming that Estonia was still in recession, had, at the time of writing, not committed itself; its estimate of growth for the first half of 1995 was 1.2%.

—due to poor industrial performance—

Estonia's economic performance in 1995 was undermined by a poor industrial performance in the first half of the year, although there was a recovery in later months. Month-on-month, industrial output rose 19.1% in August and 13.1% in September. According to the finance ministry, sales of industrial goods increased by 1.5% year-on-year in the first ten months of 1995. The Department of Statistics estimate is far gloomier. According to its figures, industrial output fell by 5.9% in the first half of the year. Among the worst declines were electrical machinery (down 26.9%), other machinery (down 21.2%) and mining (down 12%). The most successful industry was timber (production up 27%), reflecting the worldwide rise in demand for paper and wood products. Other industries which increased production over that period included metal products (10.9%), peat (10%), rubber and plastics (9.7%), furniture (9.7%) and chemicals (7.2%).

—and a fall in agricultural production

Estonia's agricultural sector also suffered in 1995, according to figures from the Department of Statistics. In the first nine months of the year milk production fell by 6.5% year-on-year and grain production by 10%, although sales of livestock and poultry rose by 4.4%. Estonia's agricultural sector continues to suffer from a combination of too many small farms, complications over land restitution and an open market which draws in cheaper foreign products. Estonia has also found its traditional markets for livestock products in the Commonwealth of Independent States (CIS) closed through import tariffs and quotas, and it currently runs a large trade deficit in foodstuffs which compares with the large surpluses it used to run while part of the former Soviet Union. As a consequence, the share of agriculture as a percentage of GDP has declined markedly in the last few years.

Control of inflation fails to live up to expectations—

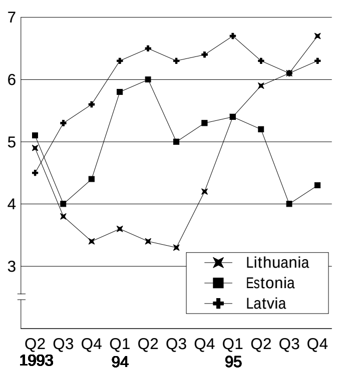
Although price rises were markedly more restrained in 1995 than in 1994, inflation still overshot government targets. Prices rose markedly at the beginning of the year, and again towards the end. The month-on-month rise in consumer prices was 3.2% in October, 1.4% in November and 2% in December; we estimate an annual average for the year of 29%. In October food prices roses substantially, with the prices of dairy products and eggs increasing by 7% and fruit and vegetables by 5.4%. A 13% rise in electricity prices also came into effect. The biggest monthly price increases recorded in November were those of consumer goods (up 2.2%), food (2.5%) and manufactured goods (1.9%). Over the 12-month period the main source of inflation has proved to be administered prices, such as energy and rents, which increased by 46.2%. Furthermore, the government's continuing shift towards taxing consumption has inevitably fed into consumer price rises. In mid-November the excise duty on petrol and diesel was increased by 200%, which will inevitably raise the cost of public and private transport. In December higher excise duties on alcohol came into effect, again producing a spurt in inflation. The price of alcohol and tobacco products rose by 17.5% in December alone.

Consumer price inflation

	% change on previous month	% change on year-earlier period
1994		
Oct	1.1	48.8
Nov	1.6	45.4
Dec	1.4	41.6
1995		
Jan	5.5	39.0
Feb	2.9	36.0
Mar	2.4	27.8
Apr	1.0	25.3
May	2.6	27.1
Jun	2.3	29.0
Jul	1.7	27.6
Aug	0.6	27.1
Sep	2.1	25.8
Oct	3.1	28.3
Nov	1.4	28.0
Dec	2.0	28.8

Sources: *The Baltic Independent;* Bank of Estonia.

Unemployment
%; year-on-year



Source: Official sources.

The standard of living in 1995 rose markedly as nominal wage growth outstripped the rise in prices. According to the prime minister, Tiit Vahi, real wages in the first nine months of the year increased, year on year, by 10% and purchasing power by 10.2%. This trend is set to continue as the monthly minimum wage, negotiated between the trade unions and employers' federations and effective from January 1, 1996, was raised from EEK450 ($39) to EEK680. From the employers' perspective the negotiations were a satisfactory compromise: the unions had initially demanded a minimum wage of EEK900. Even this rate, however, could not support an individual, let alone a family. According to the Department of Statistics, the average per head monthly income as of October was EEK1,316, of which 54% came from earned income and 17% from social benefits. An important indicator of the rising standard of living is the fact that food no longer accounts for the largest share of expenditure. The Department of Statistics notes that in October non-food consumer goods accounted for 45% of average expenditure, followed by food and services (30%). Rent and household expenses took up 14% and transport 6%.

—and unemployment remains low

Month on month, unemployment rose slightly in November and December, in line with seasonal trends, but Estonia still has the lowest jobless rate in the Baltic region. According to the Labour Market Department, the number of people out of work was 14,948 or 1.76% of the eligible workforce. Regionally the highest unemployment rate, 4%, was recorded in Voru, southern Estonia, while the lowest, 0.54%, was in the western district of Parnu. Among Estonia's cities, Narva and Sillamae, in the Russian-dominated north-east had the greatest number of jobless, 3.67% and 2.76% respectively. By contrast, the unemployment rate in Tallinn was just 0.78%. However, OECD data which use a slightly different definition of unemployment put Estonia 's unemployment at 4.3% in November.

Foreign trade and payments

Trade deficit is still growing

With the growth in imports continuing to outstrip that of exports, Estonia's trade deficit has spiralled. According to figures from the Bank of Estonia (the central bank), whose data include energy flows, in the first nine months of 1995 exports grew by more than one-third over the corresponding period in 1994, to EEK21.3bn ($1,849m), while imports rose by one-quarter to EEK28.3bn. The EEK7bn deficit accounted for 14.2% of turnover in 1995, compared with 11.3% in 1994. Financing the deficit has not proved problematic as Estonia continues to run a large surplus in invisibles, especially tourism, and on the capital account. The trade deficit is also seen as a positive reflection of the state of the domestic market, with Estonian companies increasingly importing capital goods to enable them to meet domestic demand; machinery is thus the most important trade item. However, Estonia is running a deficit on all items except timber, paper, furniture and other wood products. In terms of trading partners, Finland's importance continues to grow. It now accounts for 30.9% of total trade, followed by Russia (16.7%), Sweden (9.6%) and Germany (8.1%).

Foreign trade
($ m)

	Exports	Imports	Balance
1994			
Oct	130	173	–43
Nov	144	182	–38
Dec	135	190	–55
1995			
Jan	123	161	–38
Feb	127	161	–34
Mar	159	217	–58
Apr	138	188	–50
May	151	223	–72
Jun	165	220	–55
Jul	117	208	–91
Aug	165	204	–39
Sep	175	218	–43
Oct	188	252	–64
Nov	341	408	–67

Source: Bank of Estonia.

International treaties and agreements

Recent international treaties signed include a tax agreement with Canada, a defence cooperation agreement with Slovenia and a military cooperation treaty with the UK. In early December Estonia also joined the European Free Trade Association (EFTA), the non-European Union (EU) west European group of countries comprising Norway, Switzerland, Iceland and Liechtenstein.

Business news

A liberal business environment

The Estonian business environment is considered the most liberal in the Baltic region, and indeed in the former Soviet Union. Restrictions on the import of foreign currency have been abolished, as have almost all tariffs, with a few exceptions, such as an export tariff on works of art and import tariffs on sea and road vehicles. Foreigners may engage in most businesses; however, licences are required for banking, mining, some utilities, transport, retail sales of medicines, and communications. Virtually all prices, barring energy, have been fully liberalised. The kroon has its stability guaranteed by the D-mark peg (DM1:EEK8), which is enshrined in law. Speculation about the kroon's devaluation, usually related to the rising trade deficit, is thus a fruitless exercise. Banking controls were tightened after the banking crisis of 1992, and the collapse of the Social Bank in 1994. Unlike in Latvia and Lithuania, the development of a securities market has been a low priority. With no budget deficit to finance, the government has no need to issue Treasury bills. Privatisation has favoured strategic investors rather than public offerings, and the Tallinn Stock Exchange will only open later in 1996.

US-Swedish petroleum terminal

A US company, Coastal Corporation, and Sadkora of Sweden have formed a joint venture to develop an oil products terminal at Maardu near Tallinn. The venture, which owns the private Estonian company, Estonian Oil Services, will increase the port's storage facilities and build a pipeline to the nearby port of Muuga to export the oil products to Russia and other former Soviet republics.

Political structure: Latvia

Official name: Republic of Latvia

Legal system: after the failed coup in Moscow, the government of Latvia declared on August 21, 1991, that the transition period to the restoration of independence had ended and effectively established legal continuity between the 1918-40 republic and the present state

National legislature: the 100-seat Saiema, the pre-Second World War legislature, with only Latvian citizens and those resident in Latvia before June 27, 1940, eligible to vote. The Saiema's term is three years

Electoral system: proportional representation and 5% popular vote barrier for parties to enter the Saiema

Last election: September 30-October 1, 1995

Next elections due: July 1996 (presidential), 1998 (legislative)

Head of state: Guntis Ulmanis, elected president by the Saiema on July 7, 1993

National government: a six-party coalition comprising: the Democratic Party; Latvian Way; the LNNK; For Fatherland and Freedom; the Latvian Unity Party; and the Latvian Farmers' Union/Latvian Christian Democrat Union/Latgale Democratic Party coalition. The current government won parliamentary approval on December 21, 1995

Main political parties: Democratic Party "Saimnieks" (DPS, 18 seats); Latvian Way (Latvijas Cels, 17 seats); People's Movement for Latvia (Siegerists, 16 seats); For Fatherland and Freedom (14); Latvian Unity Party (7 seats); Greens and LNNK coalition (Latvian National Independence Movement, 8 seats); Latvian Farmers' Union/Latvian Christian Democrat Union/Latgale Democratic Party coalition (8 seats); People's Harmony Party (6 seats); Latvian Socialist Party (5 seats)

Council of Ministers	
Prime minister	Andris Skele
Key ministers	
Deputy prime minister	Ziedonis Cevers (Democratic Party)
Deputy prime minister and minister of agriculture	Alberts Kauls (Latvian Unity Party)
Deputy prime minister and minister of defence	Andrejs Krastins (LNNK)
Deputy prime minister and minister of education & science	Maris Grinblats (For Fatherland and Freedom)
Deputy prime minister and minister of the environment	Maris Gailis (Latvian Way)
culture	Ojars Sparitis (Latvian Farmers' Union)
economy	Guntars Krasts (For Fatherland and Freedom)
finance	Aivars Guntis Kreituss (Democratic Party)
foreign affairs	Valdis Birkavs (Latvian Way)
industrial policy and privatisation	Eriks Kaza (Democratic Party)
internal affairs	Dainis Turlais (Democratic Party)
justice	Dzintars Rasnacs (For Fatherland and Freedom)
transport	Viis Kristopans (Latvian Way)
welfare	Vladimirs Makarovs (For Fatherland and Freedom)
Chairman of the Bank of Latvia	Einars Repse

Economic structure: Latvia

Latest available figures

Economic indicators	1991	1992	1993	1994[a]	1995[a]
GDP at current prices LVL m	22,305[b]	182,004[c]	1,467	2,044	2,602
GDP ($m) at exchange rate	1,014	1,332	3,716	5,501	6,131
Real GDP growth %	–8.3	–33.8	–11.7	2.0	1.0
Consumer price inflation % (annual av)	124.5	951.2	109.0	36.6	26.0
Consumer price inflation % (year-end)	n/a	958	34.7	28.0	23.7
Population m (mid-year)	2.66	2.61	2.58	2.57	2.53
Exports $ m	3,638[d]	800	1,058	1,022	1,250
Imports $ m	3,330[d]	840	1,051	1,322	1,575
Current-account balance $ m	2,356	193	416	202	79
Exchange rate (av) LVL:$	n/a	136.6[e]	0.67	0.55	0.52
Exchange rate (av) LVL:DM	n/a	88.2[e]	n/a	0.35	0.37

January 12, 1996 LVL0.5413:$1

Origins of gross domestic product 1994[f]	% of total
Agriculture, hunting & forestry	7.8
Manufacturing	18.5
Electricity, gas & water supply	5.3
Construction	5.7
Services	50.7
Total incl others	100.0

Components of gross domestic product 1994[f]	% of total
Private consumption	54.0
Public consumption	22.0
Gross fixed investment	14.0
Increase in stocks	0.0
Exports of goods & services	54.0
Imports of goods & services	–67.0
Total	100.0

Principal exports 1994[f]	% of total
Wood & wood products	21.3
Textiles	13.2
Foodstuffs	12.8
Metals	10.1
Transport equipment	10.0
Mechanical equipment	9.2

Principal imports 1994[f]	% of total
Mineral products	29.4
Machinery and equipment	16.1
Chemicals	10.2
Agriculture & food products	8.4
Textiles	5.9
Base metals	5.0

Main destinations of exports 1994[f]	% of total
Russia	28.1
Germany	10.5
Sweden	6.9
CIS	42.7
EU	27.9

Main origins of imports 1994[f]	% of total
Russia	23.6
Germany	13.5
Sweden	6.4
CIS	30.4
EU	24.9

[a] EIU estimates. [b] Rb m. [c] Rublis m. [d] Valued at domestic prices which represent internal prices originally set under the centrally planned economic system, and differ substantially from world market prices. [e] Rublis. [f] Official estimates.

Latvia

Outlook

The coalition government will be riven by disagreements—

The new government of the prime minister, Andris Skele, has all the odds stacked against its remaining in office for an extended period. It is a compromise formed to exclude Joachim Siegerist's ultra-national People's Movement for Latvia (Siegerists), and this is its only unifying thread. The government is an exceptionally broad coalition, even by east European political standards, with six political groups representing the full spectrum of economic and political views except the two extremes, the right-wing Siegerists and the Latvian Socialist Party, which are now the official opposition, along with the People's Harmony Party, which declined an invitation to join the coalition. Despite representing so many shades of political and economic opinion the cabinet has signed an agreement to govern by consensus, a principle which will only work if no controversial issues arise. Should the government prove unpopular—and with the economy still reeling after the impact of the collapse of Baltija Bank, any Latvian government will now have to implement some highly unpopular policies—the opposition could benefit by default.

—with strains already visible

The largest right-of-centre party, Latvian Way, believes that it did not receive its fair share of government portfolios, and has complained that For Fatherland and Freedom, the party with the fourth largest number of deputies, received a disproportionate share of portfolios. The outgoing interior minister, a member of Latvian Way, publicly questioned the suitability of the new prime minister and voted against the new cabinet, hardly an auspicious beginning for the coalition. However, Latvian Way had to cooperate or risk another general election which would most likely produce a similarly unsatisfactory split among voters. The Democratic Party "Saimnieks" will be a more accommodating partner, if only because of its obsessive desire to be in power. However, the current consensus is unlikely to last for more than a few months. The resignation of one of the larger coalition parties, most likely Latvian Way, which would destroy the coalition's majority and force early elections, appears highly probable. The only factor working against such a move is the desire among all the coalition partners to allow some time to elapse so as to dim the novelty of the People's Movement for Latvia.

There is no change in foreign policy towards the West—

With no party in a position to make radical policy changes, Latvia's foreign policy will be pretty much similar to that of the preceding coalition, particularly as Mr Skele, has retained the foreign affairs minister in the previous government, Valdis Birkavs, in his post. In terms of relations with the West, the priorities will be to join the European Union (EU) and NATO. On the issue of EU membership the main concern for Latvia comes from the recent signals that the

Union may start looking at applications on a case-by-case basis rather than in blocs. This would favour Estonia, whose economy is well ahead of those of Latvia and Lithuania, and which has moved furthest ahead in liberalising its trade. Estonia has also developed close political and economic ties with Finland, an EU member state, whereas Latvia's closest economic links on a country basis are still with Russia.

—but an oil dispute with Lithuania will spoil relationships

Latvia's continuing dispute with Lithuania over an oil-rich stretch of the Baltic Sea is set to escalate. Both countries are energy-poor and desperate to exploit what limited resources they possess, and have governments under domestic pressure to adopt a hard line in negotiations. Latvia's award in November of oil exploration rights to two foreign companies, in spite of promising to defer the matter until the dispute is sorted out, has raised the diplomatic stakes. However, the dispute has wider implications since, by placing a question mark over Baltic unity, it also sends a poor signal to the EU as to the Baltic states' ability to compromise, a key prerequisite for membership of the EU.

Relations with Russia remain stable

On the eastern front, the government will aim to keep relations with Russia as smooth as possible. The success of the Russian Communist Party in parliamentary elections in December is unlikely to impact on existing Russo-Latvian relations, which have remained on a reasonable footing since Russia withdrew its troops in August 1994 and Latvia dropped its controversial quota requirements from the citizenship law. The retention of Mr Birkavs as foreign minister will also ensure a continuity in foreign policy towards Russia. The exclusion of the Siegerists from government has also served to limit the chances of heightened tension between the two countries.

Although the new government contains members from parties that want good relations with Russia, such as the Democratic Party and the Latvian Unity Party, it also has a disproportionately high number of ministers from For Fatherland and Freedom, the nationalist party which has always strongly opposed the citizenship law because of what it sees as the law's excessively generous provisions for the country's large Russian minority. Now entrenched in government, the party has finally succeeded in setting the wheels in motion for a referendum on this measure. The high support for anti-Russian parties such as For Fatherland and Freedom and the People's Movement for Latvia in the recent election shows that a large section of the population, particularly outside Riga, also considers the law too lax. However, a large vote against the citizenship law, which would be perceived as an anti-Russian vote, would be disastrous for the country, not only poisoning economic and political relations with Russia but jeopardising those with the West itself.

The new prime minister will support increased privatisation—

Little is known about Mr Skele's planned economic policies, but he has declared himself in favour of further privatisation, a stable currency and membership of the EU. With his diverse business interests the new prime minister can be assumed to be in favour of a strong private sector. Furthermore, given Mr Skele's background (he was formerly the acting director-general of the Latvian Privatisation Agency), it is likely that the new government will inject some much-needed momentum into Latvia's privatisation programme. Unlike the previous government, which saw the implementation of many of its privatisation plans stalled at parliamentary level, the new administration has a broad enough support to push through major sales. However, although Mr Skele is to resign from his commercial positions, his extensive business interests could turn out to be a liability as well as an asset. Any subsequent privatisation of companies linked in some way to the prime minister will be attacked by the opposition as indicating government corruption.

—but the pace of foreign investment will slow

Foreign investors will continue to hedge their bets about Latvia until the recent banking crisis is sorted out and it is clear that the remaining banks are operating under strict controls. Disquiet about the banking system remains one of the major deterrents against further foreign investment in Latvia, according to a recent World Bank report. Foreign investors are also concerned about crime, corruption and bureaucracy, and about difficulties in acquiring land despite a law allowing foreign ownership, which was passed in 1995. The current lack of foreign interest will also dampen the revenue that the Latvian government had hoped to earn from privatisation. Foreign investors have shown relatively little interest in recent privatisation tenders.

Finance ministry and central bank are set for clash

Mr Skele's most controversial appointment is that of the Democratic Party member, Aivars Kreituss, to the finance portfolio. The finance minister has the unenviable task of sorting out Latvia's budget deficit crisis in the wake of the collapse last year of Baltija Bank and other banks, and he will have to work closely with the governor of the Bank of Latvia (the central bank), Einars Repse. However, in its election campaign the Democratic Party was critical of the central bank's handling of the banking crisis; Mr Repse's dismissal was one of its few declared campaign pledges. Mr Kreituss, meanwhile, has already attacked the bankruptcy ruling on Baltija Bank. Clashes between the finance ministry and the highly independent central bank are inevitable in the coming months, particularly concerning the central bank's future provision of credits to the government. The central bank's policy of maintaining a strong lat will also come under attack from the business-interest parties in government because of its dampening effect on exports.

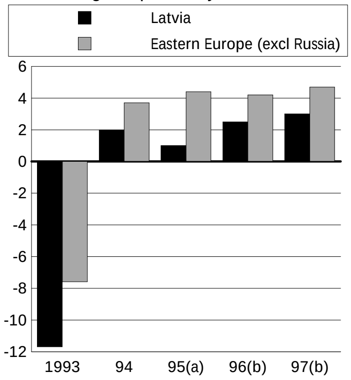
Agriculture will gain from the new government

Agriculture is the sector most likely to benefit from the current coalition government. With both the right and left blocs in the coalition containing agricultural parties (the Latvian Farmers' Union and the Latvian Unity Party, respectively), there will be increasing pressure for the imposition of agricultural tariffs, as was the case when the Latvian Farmers' Union was a coalition member of the previous government. Albert Kauls, leader of the Latvian Unity Party, is the new minister of agriculture. As the party has close ties with former collective farm managers and also won a substantial number of votes amongst the rural electorate, a more interventionist agricultural policy is likely.

Inflation will fall slowly

The government forecasts that inflation in 1996 could remain unchanged from its 1995 average of 26%; in its best-case scenario it predicts that inflation could fall to 17%. Given that the economic recovery is expected to remain relatively subdued due to the continuing impact of the collapse of Baltija Bank, the EIU is predicting a fall in the annual rate to 20%. Most Latvian prices have been liberalised. At the same time the banking collapse has reduced money supply, put a temporary brake on growth and depressed consumer confidence. Under Mr Repse, the central bank will continue to resist the persistent calls for a devaluation of the lat. However, increased tensions between Mr Repse and Mr Kreituss could eventually lead to the former's resignation, a looser monetary policy and a devaluation which would increase import prices, fuelling inflation and threatening our forecast.

Gross domestic product
% change on previous year



(a) EIU estimates. (b) EIU forecasts.
Sources: EIU; IMF, *International Financial Statistics*.

Forecast summary
(% change on previous year unless otherwise indicated)

	1994	1995[a]	1996[b]	1997[b]
Real GDP	2.0[a]	1.0	2.5	3.0
Industrial production	–11.0[a]	–1.0	2.5	2.0
Consumer prices (annual av)	36.6[c]	26.0	20.0	15.0
Consumer prices (year-end)	28.0[c]	23.7	15.0	12.5
Trade balance ($ m)	–300[c]	–325	–350	–400
Average exchange rate (LVL:$)	0.55[c]	0.52	0.52	0.52
Average exchange rate (LVL:DM)	0.35[c]	0.37	0.37	0.37

[a] Actual. [b] EIU estimates. [c] EIU forecast.

Review

The political scene

The formation of a coalition government proves difficult—

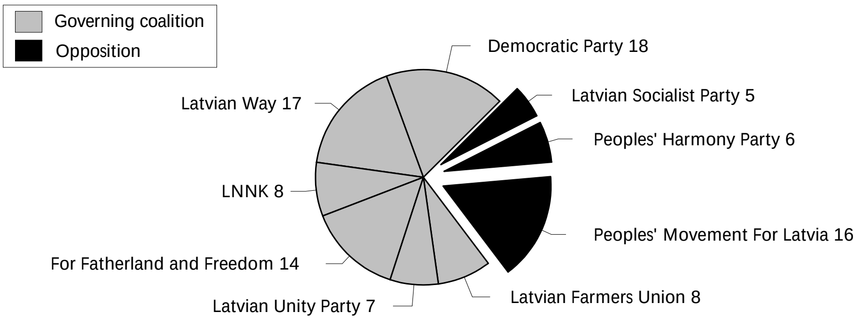
The result of Latvia's general election on September 30-October 1, which produced a parliament split into two almost equal blocs, made the formation of a new government an unenviable task (4th quarter 1995, pages 23-26). Under the terms of the Latvian constitution the president appoints a prime minister who must then select a cabinet acceptable to the majority of the Saiema. For the president, Guntis Ulmanis, the task was complicated by his reluctance to accept Joachim Siegerist, head of the ultra-nationalist People's Movement for Latvia (Siegerists) and the third largest party, in any government. As a result, Mr Ulmanis turned first not to the left-of-centre national reconciliation bloc, which has a slight majority but includes the Siegerists, but to the right-of-centre national bloc. The first nominee for the premiership, the For Fatherland and Freedom leader, Maris Grinblats, failed to win the Saiema's (parliament's) approval for his government. Mr Ulmanis then turned to Ziedonis Cevers, head of the Democratic Party, the most successful individual party in the recent election and part of the national reconciliation bloc. The condition was that Mr Siegerist, who was initially to have had the economics portfolio in the putative government, was not in the cabinet. Despite excluding Mr Siegerist, Mr Cevers failed to gain parliamentary approval of his government, as two members of the Latvian Unity Party, a group representing the interests of the country's large collective farms and part of the national reconciliation bloc, voted against the proposed government.

Final results Sep 30-Oct 1, 1995 parliamentary election

	% of votes	Seats in Saiema
Democratic Party "Saimnieks"	15.1	18
Latvian Way	14.6	17
People's Movement for Latvia (Siegerists)	14.9	16
For Fatherland and Freedom	11.9	14
Latvian Unity Party	7.1	8
Latvian National Independence Movement/Green coalition	6.3	8
Latvian Farmers' Union/Latvian Christian Democratic Union/Latgale Democratic Party coalition	6.3	8
People's Harmony Party	5.5	6
Latvian Socialist Party	5.5	5

Source: Central Electorate Committee.

Composition of Latvian parliament



Source: EIU.

—succeeding only on the third attempt

With neither of the two blocs able to nominate an acceptable prime minister, Mr Ulmanis's third choice was a neutral candidate, Andris Skele. Mr Skele, an agricultural engineer by training, was a deputy agricultural minister in Ivars Godmanis's government in 1991-93, briefly serving as acting agricultural minister. However, his main interest is business, having served as the chairman of the board of the state-owned Latvian Shipping Company and holding directorships of several other companies, including the majority of those now listed on the Riga Stock Exchange. Mr Kele has also served as the acting director of the Latvian Privatisation Agency. Mr Skele succeeded in welding together a cabinet with ministers from the right bloc (Latvian Way, Fatherland and Freedom, the Latvian National Independence Movement and the Farmers' Union alliance) and the left (The Democratic Party and the Latvian Unity Party). The three parties absent from the coalition are the People's Harmony Party, which declined the invitation because its leader, Janis Jurkans, was not offered the foreign affairs portfolio; the People's Movement for Latvia, because Mr Siegerist's participation in government was unacceptable to the president; and the Latvian Socialist Party, which vowed all along not to cooperate with the major blocs, and which in any case has already split.

The new administration formally won parliamentary approval on December 21, gaining the support of 70 of the 100 deputies. The coalition has been constructed not so much through reaching compromise agreements on policy but by allocating ministries to individual parties: Latvian Way gets the foreign affairs portfolio, the Democratic Party gains finance and defence, the Latvian Unity Party gains agriculture and so on. Should a minister resign, his party will nominate the replacement. Given the wide range of political and economic views represented, this formula could provide some basis for stability were it not for the strong personalities involved. The Democratic Party was the first party to back Mr Skele's nomination, which was not surprising given the party's willingness to work with just about anybody as long as it secured a place in government, while Latvian Way had to be wooed. Several prominent Latvian Way politicians, notably the outgoing interior minister, Janis Adamsons, have already questioned whether Mr Skele, the former director of the now bankrupt Lata International, is suitable prime ministerial material. Latvian Way also believes that it received fewer portfolios than it deserved. The cabinet also represents not only parties with substantially differing political views but parties with different vested interests. The Farmers' Union and the Latvian Unity Party, for example, stand for the interests of small and large-scale farmers, respectively, who have lobbied for increased protection and the use of agricultural subsidies. These policies are likely to be opposed by the more business-oriented Latvian Way and For Fatherland and Freedom. Thus there is a good chance that fissures will appear early on in the cabinet's lifetime, although it is expected to hold out at least until after the presidential election due in July 1996.

Foreign relations to stay on course

All the parties in the governing coalition are committed to Latvia's eventual membership of the European Union (EU) and NATO, and increased Baltic cooperation. The retention of Latvian Way's Valdis Birkavs as foreign minister will ensure continuity of policy in these fields. At its recent congress Latvian Way pledged to work closely with reformist political groups in Russia, such as Viktor Chernomyrdin's Our Home is Russia and Grigory Yavlinsky's Yabloko Bloc. The exclusion of Mr Siegerist's party will also reassure both Moscow and Western institutions. Relations with Russia have focused on the unresolved question of how many Russian pensioners remained in Latvia after the final troop withdrawal on August 31, 1994. The Russian government has yet to supply Latvia with a list consistent with the numbers actually present, as it was required to do under the terms of the agreement.

Mounting threat of plebiscite on citizenship law

With the inclusion of For Fatherland and Freedom in the cabinet, Latvia faces the possibility of a re-run of the acrimonious debate on citizenship which dominated the political scene in 1994 and which threatened to poison relations with Russia. The nationalist, anti-Russian, For Fatherland and Freedom party has maintained that the citizenship law is too generous to the country's ethnic minorities, particularly the large number of ethnic Russians resident in Latvia, and that the law was passed ultimately as a result of international pressure rather than in Latvia's best interest. For Fatherland and Freedom, which has four portfolios in the new government, the largest number of all the parties, has long pushed for a referendum on the issue (which it promised its electorate in the campaign) and has succeeded in acquiring funding from the state budget for the purpose. The large number of votes acquired by it and by the more rabidly anti-Russian People's Movement for Latvia demonstrates that a large number of Latvians are unhappy about the citizenship law and that the chances of the measure being rejected at the polls appear high.

No resolution to the maritime dispute with Lithuania

Little progress has been made in resolving the dispute between Latvia and Lithuania concerning territory in the Baltic Sea. Latvia, which awarded oil exploration concessions in the disputed territory to Amoco of the USA and OPAB of Sweden, thereafter signed a secret memorandum on the issue with Lithuania at presidential level (3rd quarter 1995, page 21). It subsequently agreed to have the border settled by international arbitration. However, the president, Algirdas Brazauskas, has come under strong domestic pressure to revoke the memorandum, and on November 8 the Lithuanian foreign ministry informed Latvia that Lithuania was unilaterally fixing the border, on the grounds that Latvia had unilaterally violated it in the first place. Lithuania was also angered by the fact that, despite assurances that it would wait until the issue was resoled, Latvia went ahead and formally signed the agreement with the oil companies in November. Under the agreement, the two companies will finance the project in return for 45% each of any oil extracted, with Latvia receiving the remaining 10%. Latvia, meanwhile, has accused Lithuania of politicising the issue and has rejected the Lithuanian document. It has also rejected Estonia's offer of mediation because it has a separate dispute with Tallinn over fishing rights in the Baltic, in which Lithuania has offered to mediate. The Latvian-Lithuanian fight over the oil-rich territory is understandable given both countries' lack of domestic energy reserves, but it bodes ill for much-vaunted pan-Baltic cooperation. In late December, at the EU Madrid conference, the presidents of the two countries did agree to waive all previous documents with regard to the dispute and start from scratch, but it looks as if international arbitration will eventually be necessary (see Lithuania: The political scene).

Economic policy

Baltija Bank officially insolvent—

Baltija Bank, whose collapse last year as a result of fraud tipped the country into a fiscal crisis, has been officially declared bankrupt. The decision was taken by the Economic Court on December 12 following evidence from Ugis Grube, Baltija's administrator, and international accountants Ernst and Young that the bank's losses were irrecoverable. In particular, the administrator has had little success in obtaining either information or cooperation from Intertek Bank, the Moscow-based institution which had originally been sold a large part of Baltija Bank's profitable portfolio in return for Russian Treasury bills. The bills never arrived in Latvia, and a Moscow court recently ruled against claims against Intertek brought on Baltija's behalf. Meanwhile, a number of people involved in the Russian transactions have disappeared.

Of Baltija's 200,000-odd creditors, only personal depositors have received some repayment; this has been limited to LVL500 ($925) each. As of mid-December around 6,000 depositors had received compensation totalling around LVL1m ($1.8m), but the 1996 budget makes no provision for additional payments.

Baltija's total losses are estimated at LVL200m. Creditors at Baltija and Aivars Kreituss, the head of the Saiema's budget and finance committee and newly appointed finance minister, have both protested against the bankruptcy order. The creditors are taking their appeal to court because the insolvency was carried out at the behest of the administrator, and not, as Latvian law stipulates, of the creditors themselves or of the Bank of Latvia (the central bank).

—while other banks are written off—

Baltija is but one of many banks currently in some form of suspension or liquidation. In November the High Court ruled that Olympija, Kredo and Olti banks were to be liquidated. The following month the Bank of Latvia (the central bank) ruled that six other banks (Latvijas Depozitu Banka; Centra Banka, Liepaja Commercial Bank, Alejas Commercial Bank and Lettika) would have their licences revoked. The banks had been declared insolvent earlier in 1995 for a variety of reasons, including inadequate capitalisation and liquidity problems. In early 1996 the central bank also suspended the operations of Doma Banka and the Latvian Capital Bank.

—and only a handful of banks are viable

It is by no means certain whether Latvia has seen the last of bank failures. Of the remaining institutions only 18 are allowed to handle deposits, which leaves the remainder with virtually no means of expanding their balance sheets. In any case, only six banks are considered strong, viable and well-run, and the public has little means of discovering which ones these are. After the collapse of Baltija Bank, the country's largest, size is no longer considered a reliable guide. Some banks, however, are receiving support from international institutions. Latvijas Unibanka, one of the largest banks and shortly to be floated on the Riga Stock Exchange, received a $20m credit line from the European Bank for Reconstruction and Development (EBRD) in December to on-lend to small and medium-sized companies. Both the EBRD and Estonia's Hansapank have also expressed interest in taking an equity stake in Unibanka. This is the third credit line extended by EBRD to a Latvian commercial bank; the two earlier recipients were Zemes Bank (Land Bank) and Latvijas-Vacijas Banka (Deutsche-Lettische Bank).

The control of the budget deficit will be a priority—

Budgetary discipline will be the new government's main task. The Skele administration has inherited a deficit which as of November stood at LVL70m, compared with a LVL40m target at the beginning of 1995. Confidence has slowly returned to the Treasury bill market, which provides the government with a cheap, non-inflationary means of financing the deficit. However, successive governments have faced problems with poor tax administration: in 1995 only two-thirds of the value-added tax (VAT) due was collected. Meanwhile, the new government will be forced to instigate further cuts in expenditure to keep the deficit within the IMF prescribed limit of 2% of GDP. According to the finance minister, Aivars Kreituss, the 1996 draft budget, which will be discussed by the Saiema in February, projects a deficit of up to LVL87m.

—as will reforming pensions—

As elsewhere in eastern Europe, Latvia has a growing number of pensioners, many of whom retired early, on a benefits system which by the end of the decade will be unaffordable for the state. In Latvia the situation is particularly acute because, according to the World Bank, as a proportion of the population it has the world's largest number of pensioners. Their benefits, which are indexed to prices, are currently financed by employer contributions. Under a radical new scheme which has been under discussion for several years, employees would have a proportion of their wages deducted and paid into a pension fund. At retirement they would receive a pension based on the contributions paid in and on average expected lifespan. The advantages of the system are that it rewards those who continue to work as opposed to those who take early retirement, and it encourages workers out of the black economy. The new scheme will not affect those already entitled to benefits.

—as workers get increased benefits

In November the newly convened Saiema passed a comprehensive set of employee and other benefits. Child benefits are to be substantially increased for larger families, presumably as an incentive to arrest the alarming decline in the Latvian population. All employees, regardless of length of service, are entitled to sick pay and maternity benefit equivalent to 80% of their full salary. Unemployment benefit is earnings-related and has been extended from six to nine months out of work. In addition, employers in industries considered dangerous have to provide health insurance for their workers. As in the new pensions scheme, the intention is to shift the burden away from the state and onto employers, particularly as many companies routinely fail to pay their social taxes or try to defraud the government by officially declaring far lower payrolls than is the case, and will to some extent also draw workers onto official payrolls and consequently into the tax system.

Ventspils Oil Company to link into Russian oil supplies—

Ventspils Nafta is to build an oil pipeline network linking it directly with Russian oil supplies. The LVL5m projects envisages a pipeline running alongside the Riga-Moscow rail line connecting, on the Latvian side, to an existing pipeline near Daugavpils. The project would increase oil supplies into Ventspils, Latvia's main port. Ventspils has experienced occasional closures, ostensibly because of shortages of Russian products. In October its diesel pipeline to Russia was damaged by thieves who cut into the line to siphon off fuel. As a result, around 100 tons of diesel spilt into the surrounding waters.

—while gas debts are to be paid off

A chain of inter-enterprise energy debts has once again brought the wrath of Gazprom, the Russian gas monopoly, which is the country's sole supplier, upon Latvijas Gaze (Latvian Gas). As of November Latvian Gas owed Gazprom $15m, and was itself forced to threaten its debtor companies with cutting off supplies. Outstanding debts to Latvian Gas exceeded $100m, the main debtors being the state energy company, Latvenergo, which owed more than $14m, and Liepaja Metal, which owed around $12m. Latvian Gas succeeded in paying off some of the debt and in mid-December reached an agreement with Gazprom to pay off the remainder by April. Gazprom also agreed on a concessionary price of $77.50 per 1,000 cu metres for Latvia's 1996 supply. Latvian Gas's relationship with Gazprom is complicated by the fact that the Russian company is keen to buy a majority stake in its Latvian counterpart. Such a move is unpopular and, while the government is prepared to let the Russian gas company participate as a bidder, it seems intent on retaining a majority stake in state hands. Meanwhile, an attempt by Latvenergo, the state energy company, to impose VAT on heating and hot water charges in Riga was voted down by the city council. If the rise had gone through the council would have faced counter-demands from unions for a compensatory rise in salaries and benefits.

The economy

Financial crisis stifles growth

Little information has been published on Latvia's recent economic performance. However, the banking crisis and its effect on budgetary expenditure, consumer spending and corporate expansion effectively killed off any economic revival that Latvia was expected to enjoy in 1995. Initially the economy was projected to grow by up to 5%; in the event, estimates for changes in GDP as of the end of the year range from plus 1% to minus 1%. In addition to the problems caused by frozen bank accounts, rising energy prices continue to dampen industrial activity. The energy payments gridlock, which has prevented the state monopoly, Latvian Gas, from meeting its obligations to Russia, shows that many companies are too cash-strapped to pay their bills. The EIU expects growth to remain relatively subdued in 1996 and 1997, at 2.5% and 3% respectively, which is low when compared with the depressed base and the performance of other former centrally planned central European economies, particularly Poland and Slovakia.

Inflation on the rise again

Inflation edged up towards the end of 1995. Month-on-month prices rose 1.8% in September, 1.6% in October, and 2% in November, representing a year-on-year change of 24% in November. The performance was disappointing given that money supply in the country inevitably declined as a result of the banking crisis. Part of the rise was due to the seasonal increase in the price of food. In November fruit and vegetable prices increased by an average 14%, eggs by 5.4% and dairy products by 4.3%. The most important component, however, was the substantial rise in electricity prices, up by 43.5%. Further increases in energy prices are expected, partly to enable Latvian Gas to meet its energy bills to Russia.

Consumer price inflation

	% change on previous month	% change on year-earlier period
1994		
Nov	2.0	32.0
Dec	2.4	28.6
1995		
Jan	3.5	27.6
Feb	3.2	27.4
Mar	2.6	28.5
Apr	1.9	27.5
May	1.4	29.0
Jun	1.5	28.4
Jul	0.3	27.4
Aug	–0.3	24.6
Sep	1.6	22.7
Oct	1.8	23.6
Nov	2.0	24.2

Source: *The Baltic Independent*.

Unemployment remains stable

Latvia's unemployment rate has remained stable at around 6%. In November there was a slight increase to 6.3%, with the number out of work rising by 3,139 to 79,929. According to the State Employment Service the increase is a seasonal one because those registered as unemployed are entitled to heating benefits. Overall, women are bearing a greater share of job losses in the economy, and account for 53% of those out of work.

The rate of foreign investment has slowed

Political uncertainty coupled with continuing concerns about the banking sector has resulted in a slowing in the rate of foreign investment. Latvia has around 1,240 registered companies with foreign capital, and attracted around $85m of investment in 1995, according to a recent report by the World Bank's Foreign Investment Advisory Service. The study criticised government investment regulations as cumbersome, and cited poor banking regulation, crime, corruption and bureaucratic tax and excise rules as major deterrents. The study also noted that the recent law allowing foreigners to own land was not being implemented properly. These deficiencies, according to the World Bank, act as serious barriers in what is a market with good potential for foreign investment. One casualty of the lower inflows is the Latvian Investment Bank, which was set up in 1992 under the Nordic Investment Programme to provide medium-term credits for viable projects. The European Bank for Reconstruction and Development (EBRD) is a shareholder in the bank.

Foreign trade and payments

Trade volume rises, as does the deficit

Latvia's trade turnover in the first nine months 1995 was 24.6% up on the corresponding period in 1994, according to the State Statistics Committee. At the same time the deficit increased from 23.8% of turnover to 30.3%. At the end of September 1995 exports stood at LVL496.7m ($903m) while LVL647.2m of goods had been imported.

Latvia joins EFTA

On November 7 Latvia joined the European Free Trade Association (EFTA). EFTA encompasses the non-European Union (EU) European states: Switzerland, Norway, Iceland and Liechtenstein. Lithuania and Estonia have also joined. Under the EFTA agreement Latvia retains some protection for its fishing industry; for the next four years it can impose import restrictions on Norwegian and Icelandic salmon.

Norwegian credit for opera house

Norway's export credit agency, Eksportfinans, has granted Latvia a seven-year credit worth $6.3m. The credit will be used for the reconstruction of the National Opera House in Riga.

International treaties and agreements

Recent treaties and agreements concluded include a free-trade agreement with Ukraine, a trade agreement with Cyprus, and agreements on investment protection and economic cooperation with Vietnam.

Business news

Inter-enterprise debt remains a problem because the bankruptcy law, passed in 1991, is not being applied, and technically insolvent companies continue to build up payment arrears. The trade regime is considered relatively liberal, with most quota restrictions on exports and imports, and export tariffs, abolished. There is an extremely wide range of import tariffs, but businesses can apply for exemptions on raw materials and other goods required for production. In common with other east European countries, Latvia has phased out tax concessions for foreign investors. Certain business sectors require a licence from the appropriate ministry, whereas other sectors, such as pharmaceuticals, are barred to foreigners. The land law, which allows investors, under certain conditions, to purchase as opposed to lease land, is reportedly not been applied as uniformly as it should. The lat, which is informally pegged to the SDR, is an exceptionally strong currency. There are vested interests which would want to see the currency devalued, particularly companies heavily dependent on imports, but it is this wishful thinking rather than market fundamentals which account for the periodic devaluation rumours.

The biggest concern for foreign businesses, and businesses in general, is the banking system. Size is not necessarily a guide to health. As has been common throughout eastern Europe, many banks were set up to lend to their shareholders, and will often offer above-market rates to attract deposits to bulk up the balance sheets. In the absence of a bank rating system, investors have to rely on market intelligence.

Political structure: Lithuania

Official name: Republic of Lithuania

Legal system: on March 11, 1990, the Supreme Council voted to restore Lithuanian independence. A new constitution was approved on October 25, 1992

National legislature: unicameral assembly, the Seimas, with 141 members, elected for four years

Electoral system: 71 Seimas seats are directly elected and 70 seats are elected on a proportional basis; parties need 4% of the vote to be represented, with the exception of parties representing national minorities. All Lithuanian citizens over the age of 18 may vote

Last elections: October-November 1992 (legislative); February 1993 (presidential)

Next elections due: October 1996 (legislative); 1998 (presidential)

Head of state: Algirdas Brazauskas, directly elected for a five-year term

National government: Council of Ministers headed by the prime minister, Adolfas Slezevicius. The current government, appointed on December 10, 1992, is a broad-based coalition consisting of the LDLP and independents. The current cabinet was formed on March 10, 1993

Main political parties: Lithuanian Democratic Labour Party (LDLP; former communists, 70 seats in the Seimas); Social Democratic Party (8 seats); Polish Electoral Action (4 seats); Fatherland Union (30 seats); Union of Lithuanian Political Prisoners and Deportees (5 seats); Christian Democratic Party (9 seats); Lithuanian Democratic Party (4 seats); Centre Union (2 seats); others (7 seats)

Council of Ministers	
Prime minister	Adolfas Slezevicius
Key ministers	
agriculture	Vytautas Einoris
communications & information	Gintautas Zintelis
culture	Guozas Nekrosius
defence	Lynas Linkevicius
economy	Vytas Navickas
education & science	Vladislovas Domarkas
energy	Arvydas Kostas Lescinskas
environmental protection	Bronius Bradauskas
finance	Reinoldijus Sarkinas
foreign affairs	Povilas Gylys
forestry	Albertas Vasiliauskas
health	Jurgis Bredikis
housing & urban development	Algirdas Vapsys
internal affairs	Romasis Vaitiekonas
justice	Jonas Prapiestis
social security & labour	Mindaugas Mikaila
trade & industry	Kazimieras Juozas
transport	Jonas Birziskis
Chairman of the Bank of Lithuania	Kazys Ratkevicius

Economic structure: Lithuania

Latest available figures

Economic indicators	1991	1992	1993	1994[a]	1995[a]
GDP at current prices LTL m	22,305[b]	3,387	11,108	16,981	31,722
GDP ($m) at exchange rate	1,304	2,000	2,777	4,269	6,040
Real GDP growth %	–13.4	–35.0	–16.5	1.0	2.5
Consumer price inflation % (annual av)	224.7	1,020.5	409.2	71.8	39.0
Consumer price inflation % (year-end)	344.0	1,162.0	188.8	44.0	35.9
Population m (mid-year)	3.74	3.75	3.76	3.77	3.72
Exports $ m	6,786[c]	852	2,025	2,031	2,300
Imports $ m	4,938[c]	602	2,275	2,232	2,500
Current-account balance $ m	2,259	163	–84	29	80
Exchange rate (av) LTL:$	n/a	n/a	3.9	4.0	4.0
Exchange rate (av) LTL:DM	n/a	n/a	2.4	2.5	2.8

January 12, 1996 LTL4.00:$1

Origins of gross domestic product 1994	% of total
Agriculture & forestry	8.1
Manufacturing	23.2
Electricity, gas and water supply	2.8
Construction	8.7
Transport	8.1
Services	51.9
Total incl statistical discrepancy	100.0

Components of gross domestic product 1994	% of total
Private consumption	74.1
Public consumption	19.2
Gross fixed investment	20.2
Increase in stocks	–7.3
Export of goods & services	57.7
Import of goods and services	–63.9
Total	100.0

Principal exports 1994	% of total
Food & agricultural goods	23.0
Minerals	18.0
Misc manufactured goods	16.0
Machinery	12.0
Textiles	12.0
Chemicals	11.0

Principal imports 1994	% of total
Mineral products	33.0
Oil & gas	31.1
Machinery & metalworking equipment	17.0
Chemicals	9.0
Textiles	7.0

Main destinations of exports 1994	% of total
Russia	28.2
Germany	11.5
Latvia	8.1
Belarus	6.6
Ukraine	6.1
Netherlands	5.2
Poland	5.0

Main origins of imports 1994	% of total
Russia	39.3
Germany	13.8
Ukraine	5.3
Poland	4.2
Belarus	3.5
Netherlands	2.8
Italy	2.7

[a] EIU estimates. [b] Rb m. [c] Valued at prices which represent internal prices originally set under the centrally planned economic system, and differ substantially from world market prices.

Lithuania

Outlook

Ruling party heads for defeat—

The collapse of Lithuania's two leading banks, the Joint-Stock Innovation Bank and the Litimpeks bank, appears to have sealed the fate of the ruling Lithuanian Democratic Labour Party (LDLP) which now seems set to be removed from office in the October parliamentary elections. The party has in any case watched its support dwindle due to a lack of socialist policies (the reason why it was elected in the first place), a series of unsubstantiated but persistent corruption charges and a foreign policy towards Russia which is seen as supine. More than the collapse of the banks themselves, it has been the behaviour of many government members and the party itself which has given the widespread impression of corruption. Whereas thousands of Lithuanians may have lost their savings, senior ministers, including the prime minister, Adolfas Slezevicius, allegedly acting on inside information, withdrew their savings prior to the bank's closure. They have thus far refused to resign and appear determined to remain in office in the hope that if they are able to steer Lithuania through the crisis the electorate could still re-elect them.

—as the centre-right looks set to form next government—

The opposition nationalist Fatherland Union (formerly Sajudis) and the centre-right Christian Democrat Party look set to benefit from the current fiasco engulfing the LDLP. Both parties did well in the 1995 municipal elections and current polls suggest that a coalition of the two parties is well placed to win an outright victory in the October elections. Throughout the current parliament the leader of the Fatherland Union, Vytautas Landsbergis, has levelled corruption charges against the LDLP and accusations that the government has adopted too conciliatory a line in relations with Moscow and in negotiations with Latvia over the exploitation of oil reserves in the Baltic sea. Both issues are set to be played to full advantage by the Fatherland Union in the election campaign. A victory by a Communist or nationalist candidate in the Russian presidential elections would also play into the hands of the Fatherland Union.

—with the president's popularity also set to decline

Until October's elections the LDLP's sole objective will be to stay in power. Despite a handful of defections, party discipline inherited from its communist ancestry will ensure a facade of unity. However, this policy seems certain to rebound on the president, Algirdas Brazauskas, although presidential elections are not due until 1998. The president initially tried to distance himself not only from the scandal itself, by publicly criticising the prime minister for withdrawing his own deposits at the Innovation Bank, but also from the increasingly unpopular government. He recently blamed the foreign and economy ministers for Lithuania's poor image within the European Union (EU) and the difficulties it is expected to experience persuading the EU to accept its early membership.

However, the president refused either to accept the resignations of the foreign and defence ministers, who had tendered them in disgust over the banking scandal, or to force the prime minister to resign. By putting his loyalty to the party above his duties as head of state, the president may well have destroyed his relatively good standing among the Lithuanian public.

Economic recovery will be curtailed

Lithuania's economic recovery has proved more fragile than initially predicted. Inflation is well above target, while recent fuel price increases, introduced at the start of what is proving an exceptionally cold winter, will further dent living standards. Industrial performance is still poor, and agricultural production continues to decline. Although the government has forecast a growth rate of 5% for 1996, and premised its budget on this assumption, it is difficult to see how it can achieve such an impressive result. Past experience has shown the government's economic forecasting to be wildly optimistic. This year the banking crisis will inevitably weaken the economic recovery by increasing inter-enterprise debts, delaying wage payments, depressing consumer confidence and imparting a negative impact on potential foreign investment. On the positive side, Lithuania will benefit from economic growth in both its Western and Russian markets. In the light of this the EIU has revised down its previous forecasts for real GDP growth to just 1% in 1996 and 2% in 1997, from 3.5% and 3.7% respectively.

It will be difficult to keep the budget deficit within limits—

The government's 1996 budget has all the hallmarks of a pre-election package. It allows for a budget deficit that is uncomfortably close to the 2% limit imposed by the IMF. Although the LDLP government has a good record on tax collection, its income forecasts for the 1996 fiscal year are based on an overoptimistic evaluation of the economy's growth this year and an assumption that investors will be willing to finance the deficit by buying cheap government Treasury bills. Domestic interest rates and hence the cost of financing the deficit will inevitably rise, particularly given the current liquidity crisis in the banking sector. Furthermore, the budget was formulated before the banking crisis: it thus takes no account of government accounts which were deposited at the failed banks and could therefore be lost, or of the inevitable costs of the banks' recovery.

—leading to further rises in unemployment

The number of people out of work is rising at a point in the economic cycle when the unemployment rate should have stabilised, as has happened in Estonia and, to a lesser extent, Latvia. Lithuania has the largest number of people out of work among the three Baltic states. Furthermore, the government will exacerbate the problem by cutting back on budgetary expenditure in a bid to avert a fiscal crisis. This will curtail employment in the public sector and will also increase effective unemployment through enforced layoffs and delayed wage payments. With large numbers of bank deposits currently frozen, companies will be forced to lay staff off or delay wage payments. High unemployment will continue to be exacerbated by the decline in the agricultural sector. Even the government fails to display its usual optimism here: the economy ministry forecasts that unemployment (currently close to 6%) will reach 7.9% in 1996 and 10% in 1997.

Inflation will rise well above expectations

The government has once again made itself a hostage to fortune by forecasting an unrealistically low annual inflation rate of 15% for 1996. We believe that 30% is a more achievable target. The government's record on meeting its targets is poor: in 1995 it predicted that annual inflation would be 25% despite the fact that it intended to raise energy prices. In the event annual inflation in 1995 reached 39%. Monetary policy is also lax by regional standards. Further price rises are imminent because fuel prices have yet to be fully liberalised and Lithuania did not secure as cheap a deal with its gas supplier, Gazprom, as it initially hoped for. As a result the price of industrial goods will rise. The one feature offsetting too dramatic a rise in prices in the near future is the contraction in money supply as a result of the banking crisis and the fall in domestic demand.

Privatisation policy will continue to flag

Although Lithuania's privatisation programme has recently changed its emphasis towards cash sales, and a new agency has been established to streamline the process, the country's approach to state sell-offs still appears half-hearted. Lithuania's most valuable assets, such as energy, transport, ports and communications, have been classified as strategic and consequently are to be excluded from the privatisation process. However, these are sectors which are in urgent need of capital investment for modernisation and, with state finances likely to be strained following the recent banking collapse, sufficient finance is unlikely to be forthcoming from domestic sources. The situation is unlikely to improve if, as seems likely now, a Fatherland Union-Christian Democrat coalition takes power after the general election in October 1996. The LDLP's right-wing opposition is convinced that the privatisations which have taken place to date have been riddled with corruption, and may decide to focus first on some form of reprivatisation. Fatherland believes that assets have been sold off too cheaply and could attempt to inflate future prices at a time when there are still relatively few domestic or foreign buyers. A slowing in the privatisation process therefore seems inevitable.

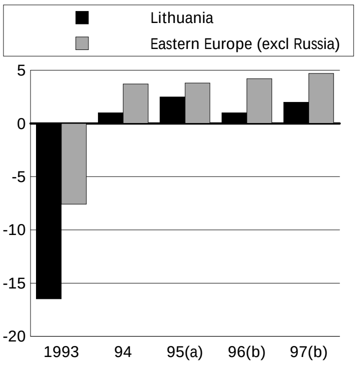
New laws aim to make Lithuania attractive to foreign investment—

Lithuania is finally moving towards allowing foreigners to own land. The barriers to date have not only put the country at a disadvantage as compared with Estonia and Latvia with regard to foreign investment, but also hindered Lithuania's chances of gaining full membership of the EU. A new draft law on foreign land ownership is set to be debated in the Seimas, and, unlike previous bills, it stands a good chance of being passed because it has been formulated to exclude Russian investors, the group which has shown a high interest in Lithuanian assets but whose ownership of Lithuanian land would be anathema to the majority of the public. Free economic zones in Kaunas, Klaipeda and Siauliai will offer extended corporate tax holidays and reductions on value-added tax (VAT) and land tax.

—but negative perceptions will persist

Lithuania has done little to allay foreign investor fears about rising crime, terrorist actions, such as the recent bombings, and widespread corruption. Foreign perceptions about policy consistency and the role of nationalism, and more recently the question marks over the health and integrity of the banking system, will also continue to act as major deterrents to foreign investors. In the longer term the political uncertainty in Russia following the success of the

Gross domestic product
% change on previous year



(a) EIU estimates. (b) EIU forecasts.
Sources: EIU; IMF, *International Financial Statistics*.

Communist Party in December's Duma election and the appointment of the anti-Western Yevgeny Primakov as Russia's new foreign minister will also have an impact. The likely election of a right-of-centre nationalist Lithuanian government in October will inevitably lead to a worsening in relations with Russia.

Forecast summary
(% change on previous year unless otherwise indicated)

	1994[a]	1995[b]	1996[b]	1997[b]
Real GDP growth	1.0	2.5	1.0	2.0
Industrial production	–8.0	2.0	1.5	2.0
Consumer prices (annual av)	71.8	39.0	30.0	25.0
Consumer prices (year-end)	44.0	35.9	26.1	21.0
Trade balance ($ m)	–202	–200	–150	–87
Average exchange rate (LTL:$)	4.0	4.0[a]	4.0	4.0
Average exchange rate (LTL:DM)	2.5	2.8[a]	2.8	2.8

[a] Actual. [b] EIU forecasts.

Review

The political scene

Government under attack over bank failures—

Lithuania is in the midst of a political crisis following the collapse of the Joint-Stock Innovation Bank and the Litimpeks bank, the country's two largest banks (see Economic policy). It was discovered that prior to the announcement of the banks' closures, at the end of December, the prime minister, Adolfas Slezevicius, had withdrawn deposits totalling $30,000 from the bank. He argued that had he not done so he would have been accused of a vested interest in subsequently trying to save the banks. Mr Slezevicius was not the only minister, however, who took advantage of advance information about the banks' imminent closure, a privilege denied to the hapless depositors of Joint-Stock Innovation and Litimpeks. The internal affairs, finance and power engineering ministers, the prosecutor- general, and the chairman and deputy chairman of the Lithuanian Democratic Labour Party (LDLP) parliamentary group also withdrew their deposits.

—but the president refuses to accept resignations—

The president, Algirdas Brazauskas, criticised the prime minister for naiveté and ordered him to return his deposits, but refused to dismiss him, partly on the grounds that there was no one else available to do the job. Furthermore, since Mr Slezevicius is also head of the LDLP, it would, in addition, have entailed finding a new leader for the party. Mr Slezevicius does not, in any case, believe that his actions were serious enough to warrant his departure, and at the time of writing was resisting calls for his resignation. The banking crisis did, however, reveal divisions within the LDLP and follows recent criticism of the prime minister at the annual congress of the LDLP when Mr Slezevicius was accused of running the party in a dictatorial manner. In response to the current banking crisis two cabinet members, the foreign minister, Povilas Gylys, and the defence minister, Linas Linkevicius, handed in their resignations in protest over the actions of the prime minister and some members of the cabinet. However, Mr Brazauskas refused to accept the resignations, arguing that in the interests of stability both ministers were required to remain in office. The president likewise rejected the resignation of Kazys Ratkevicius, governor of the Bank of Lithuania (the central bank).

—as the opposition calls for action

The affair has tainted the government, the party and the president himself. The leader of the Fatherland Union, Vytautas Landsbergis, described the president's behaviour as tantamount to handing over the role of head of state to the prime minister, and of subordinating the interests of country to those of the LDLP party. Somewhat optimistically, given the LDLP's large parliamentary majority, Mr Landsbergis called for the government's resignation. While this is unlikely, the Fatherland leader can take comfort from the fact that the LDLP has effectively destroyed its chances in October's general election. Mr Landsbergis did, however, distance himself from calls by Romualdas Ozolas, leader of the small but highly vocal Centre Union, for acts of civil disobedience by aggrieved depositors to force the removal of the LDLP.

The prime minister survives a vote of no confidence—

Even prior to the recent debacle the government has been under severe attack. In November the prime minister faced a vote of no confidence, his second to date. Mr Slezevicius survived only because LDLP deputies abstained in the vote, rendering the vote invalid but hardly representing a show of LDLP party loyalty to the prime minister.

—and the LDLP faces internal conflicts

The LDLP faced another defection of a senior member, the sixth since it came to power in 1993. The latest to leave is Bronislovas Genzelis, head of the Seimas committee for education, science and culture, who resigned from the party in December because of what he termed its increasing authoritarianism. There have also been tensions recently between Mr Brazauskas and the government. The president accused the foreign affairs and economy ministries of not putting enough effort into measures aimed at expediting Lithuania's membership of the European Union (EU). The president also publicly questioned the likelihood of Lithuania becoming a full member of the EU by the end of the decade, the government's officially declared target date.

A bomb destroys newspaper office—

Organised crime appears to be getting the upper hand in Lithuania. On November 17 a bomb demolished part of the office of Lietuvos Rytas, Lithuania's biggest daily newspaper. The press has long been a target of Lithuania's criminal gangs. In 1995 the mafia boss, Boris Dekanidze, was executed for his involvement in the assassination of an investigative journalist from the *Respublika* newspaper. Later in November another bomb destroyed a fish cannery belonging to a Lithuania-Dutch joint venture. In response the government issued a decree ordering all illegal explosives to be handed in to the police, and unlicensed possession or manufacture of explosives now carries a five-year prison sentence. Many of the explosives are believed to have found their way to criminal gangs from the military.

—prompting another vote of no confidence

Partly in response to recent bombings, opposition deputies tabled a motion of no confidence in the minister of the interior, Romasis Vaitekunas. The deputies also charged the minister with several serious complaints about institutions under his control, notably the police force which, according to the opposition, routinely makes false arrests and harasses journalists, while organised crime goes unpunished. The motion fell for the same reason as November's vote against the prime minister, namely because the ruling party abstained.

An oil dispute sours relations with Latvia

Lithuania's territorial dispute with Latvia has worsened in recent months. The disagreement centres on a section of the Baltic Sea where, in November last year, Latvia awarded oil exploration rights to a Swedish and a US company. In May 1994 the two countries signed a memorandum at presidential level, the contents of which were never revealed, leading to charges from the opposition in Lithuania that the country's national interests had once again been sacrificed. The dispute escalated in November when Lithuania recalled its ambassador from Riga and sent a diplomatic note to the Latvian ambassador in Vilnius stating that it no longer felt bound by any previous negotiations (for further details see Latvia—The political scene).

Economic policy

Two major banks are suspended—

Lithuania has declared a moratorium on its two largest banks following allegations of fraud. Operations at the Joint-Stock Innovation Bank, the country's biggest bank, were suspended on December 20 and those of the Litimpeks bank, the second largest, two days later. The two were in the process of merging to create the Lithuanian United Bank and the fraud was uncovered during pre-merger audits. Following a dramatic siege at the headquarters of the Innovation Bank police arrested its chairman, Arturas Balkevicius. He has been charged with defrauding the bank of LTL271m ($68m). Two senior Litimpeks officials, the chairman, Gintautas Preidys, and Jonas Mackevicius, were also arrested. They have been accused of defrauding their bank of LTL137m.

—while earlier reassurances rebound on the government—

The crisis has proved exceptionally embarrassing for Lithuania's financial authorities. During Latvia's banking crisis, involving its largest institution, Baltija Bank, as well as a series of others, the Lithuanian finance ministry and the central bank asserted that Lithuania's banking system was more stringently controlled than Latvia's and therefore would not experience the problems that befell its neighbour. This line was maintained even when Aurasbankas, Lithuania's eighth largest bank, had its operations suspended in mid-1995 for financial irregularities (3rd quarter 1995, pages 32-33). The governor of the Bank of Lithuania (the central bank), Kazys Ratkevicius, has become the inevitable scapegoat for the crisis, even though there is technically little the central bank could have done in the face of a determined fraud. He did offer to resign, but the president, Algirdas Brazauskas, refused to accept his departure while the two banks are being investigated, fearing that the departure of Mr Ratkevicius would only serve to increase uncertainty in the financial markets.

—leading to devaluation rumours and a liquidity crisis—

With the suspension of the two banks Lithuania was awash with rumours of an impending currency devaluation. Panicky depositors ignored assurances by both the government and the central bank that the lit would remain pegged at LTL4:$1 and rushed to withdraw their hard-currency deposits, creating a shortage of foreign exchange throughout the entire banking sector. In the two days

December 22-23 the amount of money in the commercial banking system fell by 20% to LTL256m, with withdrawals of foreign currency deposits exceeding those of litas deposits threefold. The government's assurances that there was no crisis in the banking system fell on deaf ears, and its call on customers at other banks not to withdrew their deposits sounded extremely hollow in the light of the poor example shown by its own ministers.

—and a gridlock in wages and payments

The closure of the two banks froze corporate as well as personal accounts, leading to delays in wage payments throughout both the state and private sectors. Inter-enterprise debts have also built up. For example, many companies in the energy sector, including the Ignalina nuclear plant, banked at the Joint-Stock Innovation Bank: it held nearly half of Lithuania's power supply corporate accounts. Ignalina faced the danger that it would have been unable to pay for its nuclear fuel from Russia, with the result that much of the country could have faced a blackout, and had to plead for emergency funds from the government.

The Seimas rushes through deposit insurance scheme

In a classic case of locking the stable door after the horse has bolted, the Seimas has voted through a deposit insurance law. The law covers only litas deposits, not hard-currency deposits, but provides for compensation of up to 80% of total deposits or a maximum of LTL5,000. The scheme is to be financed through a compensation fund to which all banks have to contribute. After Baltija Bank, Latvia's largest institution, was declared insolvent (see Latvia: Economic policy), it no longer follows that governments will automatically stop their major institutions from going under. However, in the light of the behaviour of Lithuanian Democratic Labour Party (LDLP) ministers, the government and the central bank are under a strong moral obligation to rescue the two banks.

Seimas passes 1996 budget

The 1996 budget was finally passed by the Seimas on December 7, with 63 votes in favour, 44 against and six abstentions. The budget sets revenue at LTL4.84bn and expenditure at LTL5.50bn, and is premised on real GDP growth of 5% and an annual inflation rate of 15%. The LTL655m deficit is equivalent to 1.8% of projected GDP, within the 2% limit imposed by the IMF under its stand-by agreement with Lithuania. The government has a good record on tax collection and keeping previous budgets on course. However, there is some dispute about the projected inflation rate. The Lithuanian statistical department believes that the government is too optimistic, and that the deficit may end up as high as 2.3% of GDP. The budget was devised with the October election very much in mind. Expenditure is up by 30% overall, with increases of 79% on social welfare, 42% on health and 37% on education. The element of most concern is that Lithuania intends to finance all its deficit through securities issues. In the wake of the banking crisis, however, Treasury bills will have to offer higher interest rates to compensate investors for the increased risk.

Lithuania launches its first Eurobond

Notwithstanding its eventual size, Lithuania intends to finance a greater proportion of the deficit through government securities. The government has followed in Latvia's footsteps by raising funds abroad, making its debut in the international capital markets in mid-December with a $60m Eurobond. The issue, sold as a private placement, was managed by Nomura International, the same bank which handled Latvia's issue in July 1995 (4th quarter 1995, page 27). The two-year bond carries a coupon of 10%, representing a cheaper source of financing than the domestic market. Lithuania was also lucky in that the issue was placed before the banking scandal broke. Bank problems notwithstanding, the country intends to raise further funds abroad in 1996. In January Nomura handled the first equity issue for a Lithuanian bank. Vilnius Bank, the country's largest privately owned bank, launched 34,000 new shares, priced at LTL500 each, raising $4.5m through the offer.

High reserves keep currency stable

The Bank of Lithuania's hard-currency reserves continue to grow. At the end of October 1995 they stood at $694.5m, an increase of $37.6m over the previous month and of $184m since the beginning of 1995. The central bank's total reserves, including gold and a currency stabilisation credit from the IMF, stood at $776.2m. No details have been made available on currency reserves following the banking crisis. However, the earlier boost in reserves will enable the central bank to maintain the national currency's peg of LTL4:$1 amid the widespread rumours about its devaluation. At the time of writing, officials from the IMF were in Lithuania to discuss the country's financial position in the wake of the bank failures, but the Fund considers the lit peg essential to Lithuanian economic reforms and will apply strong pressure against a devaluation.

Privatisation focuses on cash sales—

By the end of 1995 Lithuania had privatised a total of 5,706 enterprises, leaving a further 6,644, mostly medium- and large-scale enterprises, to transfer to the private sector. The largest number of enterprises privatised thus far have been in trade and services, with 2,795 in this category. The pace of privatisation has slowed perceptively from the peak in 1992, which in part reflects the fact that the most easily privatised enterprises, eg small-scale enterprises in profitable sectors such as trade and services, were transferred first. Lithuania's voucher programme has now expired and the 1996 privatisation programme will focus on cash sales. Of the LTL8bn of assets still in state hands, the government expects to sell off around LTL2bn by the year 2000, with the initial priority being given to companies which have already been partially privatised. An earlier decision to retain state control of strategic companies such as those in the energy sector still stands. The government also intends to pass a law allowing the privatisation of agricultural land, which until now has been excluded. According to the government, 80% of assets earmarked for privatisation have now been sold off.

Privatisation of enterprises
(no)

	1991	1992	1993	1994	1995	Total privatised	Still to be privatised
Industry	54	258	220	154	113	799	902
Transport	5	59	52	28	17	161	187
Construction	51	261	164	78	45	599	656
Trade	226	927	301	184	103	1,741	2,120
Public utilities	23	59	92	108	77	359	465
Services	444	348	121	52	28	993	1,051
Other	43	312	307	217	175	1,054	1,263
Total	846	2,224	1,257	821	558	5,706	6,644

Source: Department of Statistics

—and foreigners may be allowed to buy land

Lithuania appears to be moving closer to allowing foreigners to buy land. The principle of restricting land ownership to nationals is enshrined under Article 47 of the Lithuanian constitution and in the past has had broad parliamentary support: bills to reverse it have been voted out by the Seimas. The present government has always been keen to allow foreign companies to own land, rather than just lease it for up to 99 years as under the current law, because it believes that the restriction deters potential foreign investors. Leased land, for example, cannot be used as collateral in loans. Furthermore, Lithuania's land laws, the most restrictive in the Baltic region, are at odds with those of the European Union (EU); associate membership was only granted to the country on the presumption that the law would eventually be changed. At the end of 1995 a parliamentary committee drew up a draft foreign land ownership bill which will now be debated by the Seimas. Significantly, it restricts ownership to foreign nationals of countries which were members of the OECD as of 1989. This will ease concern that land could be acquired by nationals from Russia, one of Lithuania's larger investor countries. The draft bill also excludes agricultural land.

Deadline on Ignalina's closure postponed

Barely had the government set a closure deadline for the Ignalina power station than it was extended. In mid-1995 the government announced that one of the plant's Chernobyl-style reactors would be shut by 2005, the second by 2010 (4th quarter 1995, page 42). It has now extended the closure date of the first reactor by five years. The official reason was that Lithuania wanted to keep in step with Sweden which also wants to stop its nuclear power programme by 2010. The more credible explanation is that while the country depends on Ignalina for 80-90% of its electricity generation, it has only recently started looking at candidates to replace the nuclear plant, not to mention sources of finance. The US Plus Energy Group has an agreement with the state energy company, Lietuvos Energija, to secure $30m of financing to build a hydro-electric station at Kruonis and up to $200m for a joint Polish-Lithuanian electricity project. A new nuclear plant has been suggested, although it is not clear whether Lithuania could afford Western technology or would opt for a cheaper Russian or Czech model. Meanwhile, one of the Ignalina reactors had to be temporarily shut down in November following a fire in the machine room.

The economy

Conflicting figures on the state of the economy—

Uncertainty surrounds the performance of the Lithuanian economy in 1995 in the light of contradictory statements from government departments. According to the Department of Statistics, large sectors of the Lithuanian economy performed badly in the first 11 months of the year. Compared with the corresponding period of 1994, the sale of industrial goods fell by 0.3%. In agriculture, animal and poultry sales fell by 7% and those of milk by 0.9%. Freight experienced particularly large falls: 40% in air transport, 26% for river freight and 12% for sea and rail transport. On the other hand, energy sales, which provide a reliable indicator of economic activity, rose by 22.2% in the first ten months of the year. The Ministry of Economy, meanwhile, has estimated that real GDP grew by 3.1% to LTL17.5bn ($4.4bn) in 1995. The poor performance of the industrial and agricultural sectors is, however, offset by the unrecorded rise in the services industry and the black economy. In this context the EIU estimates GDP growth in 1995 at 2.5%.

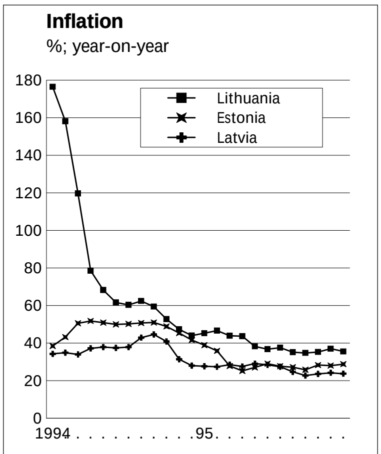
—with more bad news on inflation—

The government appears temporarily to have lost the fight to keep price rises down. Month-on-month inflation was 3.2% in October, 4.3% in November and 2.7% in December. The rise in November was the second highest in 1995, reflecting large increases in energy prices and the rise in energy consumption with the onset of winter. Rents, which rose by around 9%, also contributed to November's inflation jump. Year on year the increase as of November 1995 was 37%, a disappointment for the government, which at the beginning of the year was aiming to keep annual inflation to within 25%. The government's target was always unrealistic, however, because it had also committed itself to further liberalisation of fuel prices: in November they rose 9.1% and in 1995 as a whole by 40%.

Consumer price inflation

	% change on previous month	% change on year-earlier period
1994		
Nov	3.6	47.5
Dec	3.8	44.8
1995		
Jan	5.7	45.2
Feb	3.9	46.6
Mar	1.6	43.9
Apr	1.4	43.6
May	2.2	38.2
Jun	1.0	36.7
Jul	2.7	37.6
Aug	0.4	35.1
Sep	2.0	34.7
Oct	3.2	35.3
Nov	4.3	37.0
Dec	2.7	35.5

Source: *The Baltic Independent*.



Source: Official sources.

—and unemployment—

The number of Lithuanians out of work continues to rise. In November the number of people unemployed rose by 7,600 to 124,400 or 5.9% of the eligible workforce. According to the Department of Statistics, the number of unemployed at the end of November 1995 had increased by 68% over the level a year earlier. Furthermore, the economics ministry has predicted the unemployment rate to rise to 7.9% in 1996 and 10% in 1997.

—but real incomes have risen

For those in employment, the standard of living improved throughout 1995. In October 1995 the average monthly net wage was LTL423.49 ($106), a rise in real terms of 7.3% over the preceding 12 months. The minimum wage has also increased, from LTL80 at the beginning of 1995 to LTL180 as of October, as has the official subsistence level, from LTL60 to LTL80. However, income disparity has widened, with bank, transport, storage and energy workers receiving the highest wages, and staff in the state education and health sectors the lowest. Under the 1996 budget the government has promised to increase the minimum wage to LTL300 by the end of the year, although it remains to be seen whether the government in power by then will be able to afford such a large increase given the budgetary problem likely to stem from the recent banking crisis.

Foreign trade and payments

Formal application for WTO and EU membership—

In November Lithuania opened discussions on future membership of the World Trade Organisation (WTO). In the following month it submitted a formal application for full membership of the European Union (EU), the last of the three Baltic states to do so. The country is already an associate member, although its status has not yet been ratified by all EU member countries.

—and Lithuania joins EFTA—

Lithuania has become a member of the European Free Trade Association (EFTA), the trade block for non-EU countries comprising Liechtenstein, Iceland, Norway and Switzerland. Latvia and Estonia joined at the same time as Lithuania. The agreement, which comes into effect on June 1, 1996, removes customs duties on industrial and processed agricultural goods, and on fish and marine products. Lithuania will, however, receive a temporary exemption on certain industrial goods.

—while undertaking discussions with Poland on free trade

Lithuania and Poland have started negotiations on a free-trade agreement. Talks started in mid-December on a draft treaty prepared by Poland. From Lithuania's perspective the treaty is essential because of its wish to become a member of the Central European Free Trade Agreement (CEFTA) trading bloc of which Poland is a founder member, and which requires bilateral agreements between members.

Agreements and treaties

Other agreements and treaties recently signed by Lithuania include a military cooperation treaty with the UK, several trade agreements with China, and a technical cooperation deal with Uzbekistan.

Business news

Politically, foreign investment is considered an extremely important way of giving other countries a stake in ensuring Lithuania's continued independence. Lithuania is unusual among east European transition economies in canvassing for foreign participation in a large number of its infrastructural projects. However, the country has lagged behind Estonia and Latvia in attracting foreign capital. One of the factors deterring investors is Lithuania's restriction on foreign ownership of land. To date investors have only been able to lease land and buildings. Under a new draft law investors from countries which were OECD members before 1989 will be able to acquire land. There are also proposals to allow agricultural land to be privatised. The government is drafting a law on free economic zones. Investors who commit more than $1m in these will receive a tax holiday of five years (compared with three years for the standard exemption) and a 50% reduction for the subsequent five years. Although trade has been liberalised extensively since 1993, Lithuania does impose a range of tariffs, particularly on agricultural products. These are being gradually dismantled in accordance with the country's Association Agreement with the European

Union. On the tax front, the most disquieting recent development is a proposal in the 1996 draft budget to raise the top rate of income tax to 45%. Crime and corruption remain major concerns and a deterrent to investment. According to a recent World Bank survey, 90% of foreign investors have to pay some form of bribery to officials. More worrying is organised crime: there were more than 60 bomb explosions in 1995. Some Lithuanian mafias are believed to have links to wider international crime gangs involved in the smuggling of drugs, weapons and nuclear materials. Fraud was also responsible for Lithuania's recent banking crisis, and in its wake government reassurances about the healthy state of the financial sector cannot be taken particularly seriously. However, by comparison with neighbouring Latvia, Lithuania has fewer banks (19, including the recently closed institutions) and consequently individual banks are likely to be stronger.

Appendix 1

Quarterly indicators of economic activity in Estonia, Latvia and Lithuania

		1993			1994				1995		
		2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
ESTONIA											
Industrial production	Monthly av										
Total index[a]	Dec 1993=100	99.0	91.6	106.0	103.2	96.0	88.6	103.5	98.4	100.5	97.4[b]
Mining											
Oil shale	'000 tons	1,023	1,114	1,347	1,425	1,027	1,153	1,328	1,277	947	893[b]
Construction											
Dwellings started	units	113	107	106	42	112	44	55	72	131	n/a
Wages & prices											
Earnings in industry	EEK per month	1,073	1,174	n/a	1,535	1,875	1,956	2,275	2,253	2,582	n/a
Consumer prices	1993=100	96.5	102.0	111.2	130.1	145.6	153.5	161.6	174.4	185.2	193.5[b]
change year on year	%	136.5	60.4	37.1	44.1	50.9	50.5	45.3	34.1	27.2	n/a
Producer prices, Industry	1993=100	97.2	102.9	110.3	123.4	132.1	139.7	148.7	165.1	166.7	167.3[b]
Money	End-Qtr										
M1	EEK m	3,693	4,317	5,227	5,212	5,378	5,741	6,318	6,330	7,066	7,493[c]
change year on year	%	272.3	82.2	83.1	74.8	45.6	33.0	20.9	21.5	31.4	n/a
Foreign trade	Qtrly totals										
Exports fob	EEK m	2,394	2,843	3,503	3,593	4,145	4,121	4,865	4,930	5,074	3,208[d]
of which:											
former Soviet Union	"	812	1,179	1,795	1,756	1,791	1,783	2,114	1,995	1,743	1,177[d]
Imports cif	"	2,609	3,052	4,347	4,721	5,035	5,079	6,408	6,488	7,058	4,549[d]
of which:											
Former Soviet Union	"	763	808	989	1,322	1,257	1,126	1,463	1,615	1,676	1,035[d]
Exchange holdings											
Official reserves[e]	EEK m	3,720	4,507	5,237	4,503[e]	4,438	4,399	4,710	4,579	5,099	5,468[c]
Exchange rate	Monthly av										
Official rate	EEK:$	12.93	13.43	13.45	13.79	13.30	12.49	12.35	11.84	11.17	11.56[c]
LATVIA											
Industrial production	Monthly av										
Total index	1990=100	38.3	37.5	42.6	35.4	34.8	34.4	38.6	32.5	31.3	33.1[b]
Electricity	m kwh	372	161	333	368	709	134	268	514	466	106[b]
Construction											
Dwellings completed	units	220	125	642	294	218	161	352	137	88	n/a
Employment											
Total employed	'000	1,270	1,253	1,245	1,215	1,209	1,201	1,196	1,193	1,191	n/a
Unemployment, total											
registered	"	60.1	71.8	74.9	84.1	86.1	83.3	81.7	86.0	80.7	78.1[b]
Wages & prices											
Earnings in industry	LVL per month	n/a	53.0	63.5	60.4	78.3	82.6	94.8	94.2	101.2	n/a
Consumer prices	Jun 1992=100	248	253	285	322	341	356	373	407	432	440[b]
change year on year	%	n/a	83.3	33.8	34.6	37.5	40.7	30.9	26.0	26.7	n/a
Producer prices,											
manufacturing	Dec 1990=100	18,801	19,208	20,653	22,132	22,777	23,092	23,604	25,067	25,514	25,890[b]

continued

Quarterly indicators of economic activity in Estonia, Latvia and Lithuania *(continued)*

		1993			1994				1995		
		2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Money	End-Qtr										
M2	LVL m	n/a	277.6	336.9	351.9	401.7	430.9	491.2	495.6	446.1	440.8[c]
change year on year	%	n/a	n/a	n/a	n/a	n/a	55.2	45.8	40.8	11.1	n/a
Foreign trade	Qtrly totals										
Exports fob	LVL m	375.2[f]	151.9	148.5	120.9	135.5	142.1	154.9	162.2	165.5	109.7[d]
of which: NIS[g]	“	188.6[f]	85.1	89.8	65.4	66.0	73.3	76.7	63.6	57.7	40.5[d]
Imports cif	”	333.3[f]	155.2	153.7	157.3	173.3	162.6	201.4	210.2	208.4	145.1[d]
of which: NIS[g]	“	233.8[f]	91.2	97.1	93.7	82.5	69.8	83.3	65.2	52.1	38.9[d]
Exchange holdings	End-Qtr										
Official reserves, excl gold	LVL m	207.5	226.7	265.5	260.9	259.5	280.5	329.4	254.4	207.7	251.5[c]
	Monthly av										
Exchange rate	LVL:$	n/a	0.64	0.61	0.58	0.57	0.55	0.55	0.54	0.51	0.52[b]
LITHUANIA											
Industrial production	Monthly av										
Manufacturing	Dec 1990=100	60.7	58.2	54.1	43.1	39.1	39.4	39.8	34.7	40.4	43.4[b]
Electricity	m kwh	940	824	1,186	1,218	242	676	1,184	1,163	875	1,026[b]
Construction											
Dwellings completed	units	533	633	1,167	467	567	567	667	333	367	n/a
Employment											
Total employed	’000	1,837	1,755	1,676	1,670	1,690	1,686	1,654	n/a	n/a	n/a
Unemployment, total registered	“	31.3	32.5	30.9	29.2	26.7	27.3	31.7	39.1	46.5	51.1[b]
Wages & prices											
Earnings in manufacturing	LTL per month	194.8	213.2	268.7	326.5	380.1	403.7	462.3	476.7	542.2	593.7[b]
Consumer prices	May 1992=100	839	951	1,123	1,290	1,419	1,533	1,670	1,888	1,994	2,081[b]
change year on year	%	n/a	n/a	241.3	148.6	69.1	61.2	48.7	46.4	40.5	n/a
Producer prices, manufacturing	Dec 1990=100	20,282	21,732	24,229	26,153	28,195	29,101	32,201	36,862	35,110	35,786[b]
Money	End-Qtr										
M1	LTL m	684	1,361	1,775	1,847	1,997	2,251	2,474	2,434	2,661	2,967[c]
change year on year	%	n/a	n/a	n/a	142.7	192.0	65.4	39.4	31.8	33.2	n/a
Foreign trade	Qtrly totals										
Exports fob	$ m	449.0	637.4	597.3	426.2	473.0	630.4	499.2	460.3	605.2	n/a
Imports cif	“	511.3	665.7	713.5	654.9	570.3	531.8	596.4	591.6	594.3	n/a
	End-Qtr										
Exchange rate	LTL:$	4.50	4.25	3.90	4.00	4.00	4.00	4.00	4.00	4.00	4.00[c]

Note. Annual figures of most of the series shown above will be found in the Country Profile.
[a] Estimate. [b] Average for July-August. [c] End-August. [d] Total for July-August. [e] Including gold prior to 1994. [f] Total for January-June. [g] New Independent States of the former Soviet Union, excluding Baltic States.

Appendix 2

OECD trade with Estonia, Latvia and Lithuania

($ m; monthly averages)

	Exporting countries fob					Importing countries cif				
	Jan-Dec 1992	Jan-Dec 1993	Jan-Dec 1994	Jan-Jun 1994	Jan-Jun 1995	Jan-Dec 1992	Jan-Dec 1993	Jan-Dec 1994	Jan-Jun 1994	Jan-Jun 1995
Austria	1.0	1.2	2.3	2.0	n/a	0.8	1.0	1.2	1.0	n/a
Belgium-Luxembourg	3.3	4.9	8.4	7.1	n/a	9.2	7.2	11.4	11.2	n/a
Denmark	7.2	7.8	13.2	11.8	17.9	9.3	13.4	13.1	12.1	16.6
Finland	22.7	34.1	74.0	63.3	79.0[a]	12.3	14.2	22.8	18.4	21.9[a]
France	5.3	9.9	8.0	8.7	9.0	8.3	11.5	9.3	9.0	11.9
Germany	31.8	51.4	80.5	73.2	96.5	37.1	39.3	53.3	43.0	78.9
Greece	0.7	0.3	0.3[b]	0.2	n/a	3.1	0.3	0.8[b]	0.1	n/a
Ireland	0.0	0.3	0.6	0.6	2.7[c]	0.5	1.1	1.0	1.0	0.9[c]
Italy	1.7	5.5	10.3	8.2	14.6	3.0	4.7	6.5	5.4	10.9
Netherlands	3.5	11.2	15.8	15.1	19.8[d]	4.7	36.6	35.5	24.9	37.2[d]
Norway	3.0	0.8	3.5	2.8	6.5	1.8	3.4	6.0	4.4	12.1
Portugal	0.0	0.1	0.6	0.2	0.9[e]	0.7	0.6	1.5	1.1	2.6[e]
Spain	0.3	0.9	2.0	1.9	n/a	1.2	5.2	4.0	3.7	n/a
Sweden	13.7	17.6	31.8	31.3	n/a	20.3	20.9	40.1	33.2	n/a
Switzerland	0.8	1.3	3.3	2.7	4.0	0.2	0.6	0.9	0.9	1.2
Turkey	0.2	0.6	0.9	0.5	4.5	0.4	1.7	1.2	1.6	2.4
UK	2.8	4.7	8.9	7.0	11.6	13.3	29.1	55.7	52.0	56.7
Canada	89.7[f]	1.5	0.5	0.4	0.9	18.6[fg]	0.5[g]	0.6[g]	0.5[g]	3.1[g]
USA	13.1	16.7	14.6	12.0	22.9	2.3[g]	4.9[g]	7.9[g]	7.5[g]	14.2[g]
Japan	0.6	1.4	2.0	2.4	1.3	2.9	5.3	6.0	5.5	4.8
Australia	0.0	0.1	0.3	0.3	3.1	0.0[g]	0.1[g]	0.1[g]	0.1[g]	0.1[g]
Total listed	111.7[h]	172.3	281.8	251.7	274.5	131.4[h]	201.6	278.9	236.4	275.5

[a] January only. [b] January-November. [c] January-April. [d] January-March. [e] January-February. [f] Including the republics of the former Soviet Union. [g] Imports fob. [h] Excluding Canada.

Appendix 3

OECD exports to Estonia

($'000)

	Germany		USA		UK		France	
	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994
Food	21,032	15,922	14,608	8,791	3,052	4,581	10,405	4,104
of which:								
cereals & preparations	3,823	2,467	14,314	6,398	237	476	0	32
sugar & products	13,013	4,250	5	1,236	2,140	2,735	9,972	1,809
Chemicals	8,291	17,566	3,749	7,977	1,251	3,869	1,815	3,136
Textile yarn, cloth & manufactures	9,602	8,838	7	6	394	467	389	1,264
Iron & steel	1,600	1,528	286	6	0	47	0	0
Machinery & transport equipment	38,494	79,160	10,364	11,348	3,019	5,641	695	2,076
of which:								
road vehicles	19,560	35,281	2,664	2,006	162	1,158	123	1,481
Clothing & footwear	2,342	3,359	213	401	238	863	260	440
Scientific instruments etc	1,824	4,741	291	943	115	489	157	166
Total incl others	103,110	165,498	53,534	32,619	12,319	23,411	17,608	16,300

Appendix 4

OECD imports from Estonia

($'000)

	Finland		Germany		UK		USA	
	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994
Food	8,134	10,259	3,270	5,194	25	244	561	533
of which:								
fish & products	3,970	5,404	2,029	2,829	0	195	109	153
fruit & vegetables & preparations	2,401	3,729	851	1,818	14	0	0	0
Wood & cork & manufactures	16,306	27,744	8,833	11,541	5,090	26,166	1,014	646
Metalliferous ores & scrap	27,284	20,258	25,369	16,748	415	2,179	8,425	2,464
Petroleum & products	22	6	11,083	13,811	2,244	3,820	0	0
Chemicals	2,147	1,565	1,938	3,077	12,988	11,371	333	2,533
Textile yarn, cloth & manufactures	8,741	12,252	4,874	9,702	95	662	6,908	13,078
Non-ferrous metals	3,639	618	12,751	10,823	2,386	9,874	552	2,969
Machinery & transport equipment	9,121	43,411	1,779	4,228	182	24,179	403	145
Clothing	28,789	55,233	12,015	14,488	437	648	682	1,000
Total incl others	133,104	217,571	99,219	118,068	30,732	90,104	21,405	32,538

Appendix 5

OECD exports to Latvia

($'000)

	Germany		USA		UK		France	
	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994
Food	27,516	31,249	11,078	4,331	5,924	1,777	22,633	3,824
of which:								
cereals & preparations	7,035	3,332	3,638	153	272	187	10,380	2,196
sugar & preparations	11,169	1,939	369	466	24	77	5,978	11
Chemicals	13,385	25,252	8,977	16,718	961	2,732	3,276	4,783
Textile yarn, cloth & manufactures	13,037	25,391	1,178	2,054	180	992	127	249
Metal manufactures	3,451	5,854	1,530	402	685	380	290	776
Machinery & transport equipment	89,457	120,731	29,736	33,148	5,556	23,426	9,702	12,090
of which:								
road vehicles	51,329	57,884	12,423	5,768	1,538	5,125	3,324	4,802
Clothing & footwear	9,502	14,664	3,480	2,075	1,927	1,371	260	754
Scientific instruments etc	2,607	8,494	1,147	3,237	297	783	0	543
Total incl others	210,588	315,932	88,017	99,825	23,767	47,014	38,182	29,122

Appendix 6

OECD imports from Latvia

($'000)

	UK		Germany		France		Finland		Italy	
	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994
Wood & cork & manufactures	32,053	113,410	13,640	26,247	1,658	1,633	9,807	12,231	142	254
Metalliferous ores & scrap	3,094	1,167	30,794	25,942	690	15	2,587	3,667	0	129
Petroleum & products	30,569	179,470	54,131	78,762	53,791	45,206	1,030	4,014	18,881	0
Chemicals	17,281	12,260	3,940	5,830	3,351	2,685	148	200	162	179
Non-ferrous metals	6,004	7,739	16,993	17,664	451	2,618	1,883	0	746	2,755
Machinery & transport equipment	278	660	5,100	10,572	174	271	1,373	1,764	711	1,104
Clothing	437	1,230	16,453	37,994	298	292	2,009	5,132	584	1,186
Total incl others	104,036	340,594	178,000	260,493	65,788	59,207	23,073	31,308	32,697	24,013

Appendix 7

Exports to Lithuania

($'000)

	Total imports[a]	Germany[b]		USA[b]		France[b]		UK[b]	
	Jan-Dec 1992	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994
Food	80,472	44,069	35,515	17,818	18,927	53,198[c]	4,153	1,102	1,219
of which:									
cereals & preparations	36,880	23,717	1,586	12,315	4,050	14,617	30	574	0
animal feeding stuff	29,885	215	2,491	5,314	13,344	0	50	18	129
Chemicals	70,842	22,684	41,336	424	1,788	3,418	5,706	2,632	9,007
Textile yarn, cloth & manufactures	25,763	22,558	34,535	102	121	2,232	739	2,234	4,560
Machinery & transport equipment	119,382	116,272	176,325	14,652	11,600	3,354	26,312	4,976	8,000
of which:									
road vehicles	10,887	62,776	75,670	3,353	2,321	1,768	4,483	262	1,567
other transport	n/a	555	11,066	88	49	0	162	311	146
Clothing & footwear	9,486	12,263	14,337	252	307	993	1,053	1,005	1,744
Scientific instruments etc	n/a	5,050	13,919	1,844	1,507	1,107	2,580	147	337
Total incl others	805,776	302,551	483,970	56,491	40,791	70,002	51,584	20,647	36,881

[a] Figures from Lithuania's trade accounts. [b] Figures from partner countries' trade accounts. [c] Of which sugar, 36,739.

Appendix 8

Imports from Lithuania

($'000)

	Total exports[a]	Germany[b]		UK[b]		Italy[b]		France[b]	
	Jan-Dec 1992	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994	Jan-Dec 1993	Jan-Dec 1994
Food	164,025	26,930	18,768	30	564	1,193	1,414	1,478	2,241
of which:									
fruit & vegetables & preparations	3,297	23,424	13,150	0	0	547	423	814	595
Wood & cork & manufactures	2,995	8,033	19,287	5,460	21,010	326	1,107	479	734
Metalliferous ores & scrap	n/a	42,317	38,476	4,930	21,504	50	1,098	0	447
Petroleum & products	25,213	3,091	495	166,988	136,008	9	4	29,507	75
Chemicals	74,711	22,002	34,537	17,019	25,057	640	440	12,836	10,239
Non-ferrous metals	n/a	18,952	19,090	6,023	1,242	4,428	1,981	7,472	1,506
Machinery & transport equipment	197,006	11,440	16,467	3,138	2,506	511	6,488	278	2,197
Clothing	55,804	33,528	63,511	1,771	6,891	214	263	4,350	3,172
Total incl others	805,014	193,258	260,510	215,481	237,991	24,440	38,999	65,969	36,026

[a] Figures from Lithuania's trade accounts. [b] Figures from partner countries' trade accounts.

Appendix A

Status of currencies of the former Soviet republics

Country	Name	Status	Introduction date	Remarks
Estonia				
Final currency	Kroon	Sole legal tender	Jun 20, 1992	
Latvia				
Final currency	Lat	Sole legal tender	Jun 28, 1993	Lat phased in between March 1 and June 28, 1993.
Lithuania				
Final currency	Lit	Sole legal tender	Jul 20, 1993	Lit phased in between June 25 and July 20, 1993.
Russia				
Final currency	Rouble	Sole legal tender	1993	Soviet roubles issued between 1961 and 1992 withdrawn. Russian 1993 rouble is devoid of Soviet emblems.
Ukraine				
Interim currency	Karbovanets	Sole legal tender	Nov 13, 1992	The karbovanets superseded the kupon (introduced January 1, 1992).
Final currency	Hryvnia	Delayed	No date set	
Belarus				
Interim currency	Rubel	Sole legal tender	Jun 1992	Sole legal tender as of November 10, 1992.
Final currency	Taler	Delayed	No date set	One rubel introduced for 10 Russian roubles.
Moldova				
Final currency	Leu	Sole legal tender	Nov 29, 1993	
Armenia				
Final currency	Dram		Nov 22, 1993	
Azerbaijan				
Final currency	Manat	Parallel	Jan 1, 1993	One manat is equivalent to 10 roubles. Manat is sole legal tender as of January 1, 1994.
Georgia				
Interim currency	Coupon	Sole legal tender	Apr 5, 1993	Parallel currency from April 5; sole legal tender as of June 11, 1993.
Final currency	Lary		No date set	
Kazakstan				
Final currency	Tenge	Sole legal tender	Nov 15, 1993	
Kyrgyz Republic				
Final currency	Som	Sole legal tender	May 10, 1993	Sole legal tender as of May 15, 1993.
Tajikistan				
Interim currency	Rouble	Sole legal tender	1961, 1993	Tajikistan is to continue to use the Russian rouble until the end of 1995.
Final currency	Somon	Delayed	No date set	Introduction indefinitely postponed.
Turkmenistan				
Final currency	Manat		Nov 1, 1993	
Uzbekistan				
Interim currency	Som	Parallel	Nov 29, 1993	Introduced as a coupon to circulate in parallel with the rouble as of November 29, 1993.
Final currency	Som	Final	Jul 1, 1994	

Appendix B

Currencies of the former Soviet republics

(exchange rate per $)

	Oct 4, 1993	Jan 3, 1994	Apr 4, 1994	Jul 4, 1994	Oct 3, 1994	Jan 6, 1995	Apr 9, 1995	Jul 3, 1995	Oct 6, 1995	Jan 5, 1996
Outside rouble zone										
Estonia (Kroon)	12.9	13.9	13.4	12.61	12.4	12.49	11.2	11.1	11.4	11.6
Latvia (Lat)	0.61	0.59	0.57	0.55	0.54	0.55	0.51	0.51	0.54	0.54
Lithuania (Lit)	4.23	3.9	3.9970	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Ukraine (Karbovanets)	16,826.9	31,849.7	50,000.0	44,500	75,000	104,837	132,900	142,693	172,000	179,900
Kyrgyz Republic (Som)	6.7	9.15	12.3	11.3	n/a	n/a	10.90	10.60	10.86	10.95
Georgia (Coupon)	22,450[a]	132,275	292,000	1,000,000	2,060,000	n/a	1,300,000	1,300,000	1.28[b]	1.17
Moldova (Leu)	2,041.7	3.6	4.0	4.05	4.19	n/a	4.49	4.54	4.54	4.53
Armenia (Dram)	n/a	100.0	254.08	310.10	356.68	403.57	406.91	408.20	400.00	402.00
Azerbaijan (Manat)	n/a	n/a	1,000	995	n/a	n/a	4,395	4,395	4,395	4,440
Kazakstan (Tenge)	n/a	7.52	19.84	45	50	n/a	60.5	63.6	61.4	64.3
Turkmenistan (Manat)	n/a	24.0	50.0	n/a	75[c]	n/a	230	230	500	2,100
Uzbekistan (Som)[d]	n/a	n/a	20,000	7[d]	17	n/a	26.10	30.25	33.80	34.60
Inside rouble zone (local parallel currencies & Russian rouble)										
Russia (Rouble)	1,164.9	1,239.2	1,750.01	2,008.5	2,674.5	3,880	4,961	4,548	4,495	4,674
Tajikistan (Tajikistan Rouble)[e]								}—51[ef]	n/a	n/a
Belarus (Rubel)	n/a	5,662.5	n/a	27,350	5,900	11,195	11,500	11,500	11,500	11,500

[a] October 21. [b] Coupon replaced by Lari. [c] August 18. [d] Som-coupon replaced by Som on July 1. Conversion from old currency to new at rate of Som-coupon 1,000:Som1. [e] Used the Russian rouble until May 11, 1995, when the Tajik rouble was introduced. [f] June 16.

Appendix C

European republics: GDP and GDP per head

(purchasing power parities)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Russia										
GDP										
$ m	914,313	957,286	963,030	1,043,925	1,117,000	1,140,400	1,032,000	865,500	781,400	678,200
per head ($)	6,398	6,616	6,616	7,145	7,581	7,710	6,962	5,821	5,266	4,573
Ukraine										
GDP										
$ m	223,051	234,204	247,788	265,133	288,200	289,800	265,300	226,600	199,400	156,800
per head ($)	4,352	4,570	4,885	5,222	5,567	5,590	5,107	4,344	3,822	3,015
Belarus										
GDP										
$ m	52,851	56,868	58,858	62,389	70,500	71,200	72,600	66,800	60,600	48,800
per head ($)	5,291	5,640	5,866	6,101	6,894	6,900	7,066	6,495	5,936	4,788
Moldova										
GDP										
$ m	17,132	18,890	18,924	19,965	22,700	23,300	19,900	16,200	14,200	14,200
per head ($)	4,128	4,528	4,437	4,614	5,214	5,332	4,532	3,695	3,222	3,218

Baltic republics: GDP and GDP per head

(purchasing power parities)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Estonia										
GDP										
$ m	10,301	10,652	11,534	12,566	14,200	13,600	12,500	9,800	9,500	10,500
per head ($)	6,819	6,955	7,442	8,060	9,651	8,675	7,941	6,389	6,502	6,996
Latvia										
GDP										
$ m	13,750	15,538	16,424	17,919	19,800	20,000	19,000	13,100	11,900	12,800
per head ($)	5,615	5,974	6,243	6,693	7,416	7,481	7,157	4,993	4,593	4,658
Lithuania										
GDP										
$ m	16,810	18,609	20,321	23,511	24,800	24,000	21,600	14,500	12,400	12,900
per head ($)	4,705	5,176	5,580	6,629	6,709	6,462	5,784	3,868	3,323	3,424

Appendix C *(continued)*

Central Asian republics: GDP and GDP per head

(purchasing power parities)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Kazakstan										
GDP										
$ m	73,772	71,928	82,286	89,856	93,900	97,200	89,100	79,700	71,300	54,300
per head ($)	4,697	4,556	5,057	5,446	5,707	5,848	5,334	4,718	4,217	3,212
Kyrgyz Republic										
GDP										
$ m	10,336	10,977	11,383	13,364	14,500	15,600	15,400	11,900	10,200	8,400
per head ($)	2,590	2,694	2,802	3,250	3,347	3,554	3,460	2,647	2,261	1,899
Tajikistan										
GDP										
$ m	10,177	10,818	11,013	12,808	13,000	13,300	12,600	9,100	6,800	5,900
per head ($)	2,188	2,263	2,195	2,502	2,502	2,509	2,319	1,623	1,170	1,010
Turkmenistan										
GDP										
$ m	10,275	11,025	11,830	13,576	13,200	14,000	13,900	13,500	12,800	12,400
per head ($)	3,152	3,404	3,530	3,918	3,683	3,815	3,707	3,527	3,267	3,145
Uzbekistan										
GDP										
$ m	44,949	46,792	47,821	54,277	58,500	62,000	63,800	59,400	59,500	54,600
per head ($)	2,469	2,469	2,469	2,765	2,909	3,020	3,054	2,737	2,720	2,490

Transcaucasian republics: GDP and GDP per head

(purchasing power parities)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Armenia										
GDP										
$ m	15,506	16,235	16,836	17,257	19,500	18,900	17,300	8,500	7,400	7,700
per head ($)	4,664	4,809	4,881	5,028	5,611	5,339	4,798	2,299	2,119	2,207
Azerbaijan										
GDP										
$ m	23,896	25,019	26,958	28,980	28,400	26,200	27,000	20,400	18,100	14,800
per head ($)	3,652	3,725	3,948	4,185	4,018	3,664	3,749	2,755	2,454	1,999
Georgia										
GDP										
$ m	25,504	23,209	23,790	26,168	28,000	26,000	21,400	12,600	7,900	5,200
per head ($)	4,816	4,383	4,427	4,782	5,145	4,762	3,950	2,325	1,450	953

Sources: IMF; World Bank, *Statistical Handbook of States of the Former USSR*; UN Economic Commission for Europe, *Bulletin for Europe, Vol 44 1992; EIU calculations.*