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BALTIC STATES: FROM GIDDY SUCCESS TOWARDS THE FINANCIAL MELTDOWN?

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***ABSTRACT**. The global financial turmoil is also impacting the Baltic States, since any severe disturbance in the financial markets and the related uncertainty also undermine the opportunities of banks and other financial institutions operating in the Baltic States to obtain funding. Current and coming year will be probably the most unfavourable for financial markets of the Baltic States. This article considers the impact of current economic crisis on the Baltic States financial system and its economies as a whole.*

The main research tasks of the article are as follows: we analyze the causes and possible indicators for measurement of economic and financial crisis and also we examine the financial systems of the Baltic States and compose our thoughts on changes in economic situation during the last decade.

In different sources of literature various methods and means for analysis of financial market are found. However, in opinion of authors traditional technical or fundamental analysis of financial market is proper in our case, but does not fully display processes in it, as well as interrelationship of these processes. Thus, analysis based on explanation of financial flows inside the country between different subjects present a more comprehensive view. It is especially relevant when changes in economic cycle appear, i.e. crisis, because than formed imbalance between assets and liabilities determines losses not only in the financial system, but also in the entire economy. Considering the latter assumptions, thereinafter, we revealed positions of assets and liabilities of non-financial corporations and households, and to present expert estimations on challenges, that appear even now, when the Baltic States switched to the phase of rapid downturn of economy.

KEYWORDS: financial crisis, economic crisis, financial system, real and financial sectors, Baltic States.

JEL classification: G01, G15, P2.

Introduction

We are dealing with a global crisis in the financial system. “The present problems began to surface in 2007 in the US housing loan markets, as households facing declining house prices found it hard to repay loans. These so-called subprime loans had been bundled and resold as securities, which caused widespread uncertainty in the financial markets. In autumn 2008, the problems culminated into a crisis when distrust in the markets increased rapidly partly in the wake of the bankruptcy of the “Lehman Brothers” investment bank” (Bank of Finland, 2010).

“The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems” (Shah, 2009).

“Although America’s housing collapse is often cited as having caused the crisis, the financial system was vulnerable because of intricate and highly-leveraged financial contracts and operations, a U.S. Monetary policy making the cost of credit negligible therefore encouraging such high levels of leverage, and generally a “hypertrophy of the financial sector” (financialization)” (Crisis Helper, 2010).

The "Big five" banking crisis identified by Reinhart and Rogoff (2008) plus the Saving and Loan Crisis in the United States during 1980s which Reinhart and Rogoff refer to as being "just a notch below". The "Big five" banking crisis are Spain (1982), Finland, Norway and Sweden (all 1991) and Japan (1997). These dates coincide with the big periods of weak economic performance. It also had its (Spain, Norway) roots in inadequate policy mix to accompany the liberalization of financial market. As elsewhere liberalization allowed a rapid expansion of bank credit. This increased the concentration of risk.

The purpose of this paper is twofold. First, we analyze the concepts of financial and economic crisis. Second, we explore an example of Baltic States by explaining whether financial flows inside the country between different subjects (real and financial sectors) might be an indicator of financial crisis.

The structure of this paper is as follows. In *Section 1,* we review the empirical literature concerning about the causes and measurement of financial crisis. *Section 2* offers the Baltic States economic situation and analysis of its financial systems using financial flows inside the country between different subjects (real and financial sectors). The last section provides some concluding remarks and estimation results of the analysis.

1. Financial and Economic Crisis: More and More Bubbles?

1.1 An Issue

Periodic change of economic processes is usually described by phases: crisis, upturn, peak (boom) and downturn (recession). Thus crises are inherent for economy's nature, therefore hardly could be spoken about avoidance of them and should be concentrated on objective of cost minimization based on monitoring system. It is important to notice, that economic cycles are not identical, i.e. they differ in overall duration, length of separate phases, depth of downturns and upturns as well. Business cycles can be described as periodical fluctuation of economic activity (Vainiene, 2005), although it should be noticed, that every economic process has distinctive peculiarities of cyclical development and is unique. It is determined not only by uneven economic development, but also by changes of structure of entire economy and in significant extent by other factors. So while estimating development of economy and every stage of it separately it is significant to consider remarks stated before and interpret the results thoughtfully.

In different sources of literature on analysis of economy development not incidentally there is paid more attention to downturns of economy thus searching for methods of minimization of negative consequences. Crisis is a lowest stage of economic cycle, when indicators characterizing the economy achieve the lowest level. Crises indicate dramatic turning-point of economic conjuncture, which determines the decline of production, collapse of assets market, growth of unemployment, and explosion of real value of government debt (Snieska *et al.*, 2006, 2009; Reinhart and Rogoff, 2008; Martinkus *et al.,* 2009). During it unemployment rate increases, demand lags behind economic capacity, business suffer losses, and incentives for investment are especially weak, thus leverage for economic factors develop. A phase of larger downturn of economy, also named as depression, which differ from crisis in depth and duration. Rapid pace of globalization and integration as in supranational, as well in national level, determined interrelation of financial system and real economy. Interstate flows of financial resources change systemic risk in such way, that difficulties experienced by one or few institutions in some country can heavily violate other segment of global financial sector (Grizas, 2003; Tvaronaviciene *et al.*, 2008). Consequently together with liberalization and deepening of financial system in separate regions the potential of materialization of contagion effect have increased.

Thus when talking about economic crises, it often have to be spoken about financial crises as well. Some authors consider them accompany each other regarding origin of the crisis (Jakutis, 2000; Kancerevycius, 2004; Snieska *et al.*, 2006, 2009). Asymmetric economic dependence is one of the crucial threats for contemporary state. Two essential assumptions indicate the new basis of economic security's definition: a) economy means more than source or instrument of state's power (Kirshner, 1997) and b) all states are converted into small states by powers of global market (Goldfisher, 2002). In a state scale financial stability gathers qualitatively new meaning while estimating the significance of financial stability in context of economic security and its meaning, especially when previously emphasized military security decreased relatively more in a framework of national security.

Global flows of financial resources grow in exponential manner, today flow's extensiveness, intensity, pace of turnover and impact on many dimensions are unprecedented. National financial markets and leading world's centres of finance more and more intertwine in global financial system and peripheries gradually derive systemic magnitude. Together with these processes the finance deepens, therefore infrequent national economy can endure not pursuing daily transactions in world's financial markets. In such context the instability of global financial markets can result significant consequences on national economies, because alteration of financial system in one region makes influence to national financial markets in any other part of the world at lightning speed (Held, 2002). Therefore alongside advantages of globalization there are encountered new challenges – increased risks of contagion effect in unfavourable conditions – enlarge financial instability and raise questions for qualitatively new discussion.

It is difficult to find precise causes of economy's intensity and fluctuation of extent of economic activity and explain them, because of different reasons determining every cycle. In academic literature it could be distinguished several positions on explanation of causes of economy's fluctuation. Representatives of the classical theory of economics fluctuations of economy justified by unbalanced labour market (when wages achieve too high level, supply of labour force exceeds its demand, unemployment grows and determine changes of wages, that again raise demand for labour force. Not classical theory of real business cycles proposes that the most important sources of business cycles are innovations and technological shocks. According to John Maynard Keynes, business cycles are generated by changes of consumers' confidence. Supporter of free market, Ludwig von Mises from Austrian school of economics, proved that cyclical fluctuations are generated by credit emission executed by central bank. Close to last mentioned position took representatives of monetary attitude: they have explained business cycles by circulation of money amount in the market (when amount of money increases, demand for consumption commodities grows as well, absolute employment is reach in economy and therefore prices start to rise, inflation, which stops the growth of economy, starts to climb). While financial system is deepening and unbalances appear, it is easy to ascertain that changes of financial flows caused by objective factors can be named as a reason of economical/financial crisis).

The lowest point of economy's development – or crisis – is replaced by upturn phase. During this phase the perspectives of production, sales and profit get better, appear more incentives for investments and demand of financial instruments. When economy achieves highest point the volume of national products becomes the highest. However further growth of economy is not possible without development of new technologies' based on investment: when expenses of investment are growing together increases the money demand, which could be satisfied by internal and external, i.e. borrowed, financial resources. Thus on one hand instability in financial system can determine downturn of economy, on the other hand services provided by financial system can contribute to upturn of economy in significant extent. Increased demand of lent funds proportionately raises their price, and this encourages to withdraw less profitable investments while changing location of financial resources and lending for financial institutions (usually by increasing deposits). When economy passes peak usually the contraction of investment flows is observed, which determines decrease of production volume, stops technological development, burdens opportunities to compete in foreign markets. As well this restricts demand and supply of services provided by financial sector: on one hand demand of financial instruments decreases because of downfall of overall demand when economy passes into phase of cycle's downturn, on the other hand worsening economic environment increases credit risk when liquidity of potential debtors contracts.

1.2 Causes of Crises

Type of crisis is defined by causes that have determined a change of economy's cycle. These could be not only variation of exchange rate, collapse of banking system, but also unexpected correction of prices of real estate (Belinskaja and Rutkauskas, 2007) and other assets, their loss (e.g. "withdrawal" of foreign investment from the country), formation of the so-called price bubbles. The reason of the mentioned phenomenon may be also found in the alterations of the system that take place due to the scantiness of the supplies (Girdzijauskas, 2005, 2006). The author highlights that this conclusion has been arrived at on the basis of the analysis of the money currents' logistic clear present value and of the internal rate of return. The author also claims that, obviously, the specific behaviour of the prices is not a sole and single phenomenon in the natural world. Therefore the so-called second breath discovered in the evolution of the living organisms as well as other similar phenomena may offer assumptions for a new insight, according to which, the rapidity of increase at the exhaustion of suppliers turns out to be an objective natural law (Girdzijauskas, 2006). This model is applied for the populations that define the growth and have a certain limit to it; biological – scientific processes, information, knowledge, innovations, economic processes, etc. (Girdzijauskas, 2006, 2008; Girdzijauskas *et al.,* 2009). It is essential that every crisis has its own "unique code", thus comparability of economic environment's changes in different countries in order to reveal possible tendencies of development of analyzed object is relatively difficult to implement. However, while indicating a downturn of economy, Roubini and Sester (2004) offer to consider factors that enhance turmoil:

- Great macro economical unbalances (deficit of current account, fiscal deficit);
- Financing of these deficits by borrowing (short-term and long-term debts in foreign currency);
- Uncertainty about political will to take measures for management of long-term debt;
- Fixed and semi-fixed exchange rate (unbalances of deficit of current account);
- Weak supervision of banks, guaranties of government, other macro economical distortions that allow borrow much easier.
- Political shocks – caused by elections, failing governments, scandals, political violence (this increases political uncertainty and encourages irresponsibility of investors);
- External irritants (decline of prices of country's main products, increase of interest rates, changes of expectations of investors, a.o.)

According to I.J. Macfarlane (1997) the nature of crises is changing, and this strengthens their importance even more. Mentioned author proposes that crisis usually arise in emerging countries, although developed countries are not protected from them. I.J. Macfarlane distinguishes two main types of crises. Crises of first type (old type) are caused by inappropriate fiscal and monetary policy of country's government (macro economical policy). It asserts in great and inadequately financed budget deficit, low interest rate and raising supply of money, increasing inflation and thus descending competitive ability of a country, which creates deficit of current account and weakening of currency. Economic crises of second type (new type) emerge not because of inappropriate fiscal or monetary policy. These crises are financial in their nature. The basis of them is credits, and main related institutions – non-financial corporations, banks and other financial institutions. Beginning of second type crises is in times of economy growth when country is attractive for investors and creditors. Hence it is extremely difficult to trace crises of second type, because all better main indicators of economy do not indicate anything threatening in principle. If compared to crises of first type, financial crises indicate more difficulties in private and banking sectors (although country's government influences environment where private business and banks operate). Currency and banking system crises are assigned to this category – financial crises.

Exclusiveness of crises is seen in their different nature of beginning, i.e. factors that could materialize in shape of other crises before and thus complicate proposition of objective estimations and assessment of very fact of crisis. Therefore it becomes important to define these crises and propose explanations of them:

- *Currency crisis* appears when currency is devaluated or depreciated. As well in order to protect its currency from speculative attack country might issue great amount of official currency reserves or rapidly raise interest rates.
- *Banking crisis* proceeds when loss of deposits and default of commitment of liabilities induce banks to stop undertaking of liabilities or government to interfere (it is difficult to identify these crises because of shortage of information (Caprio *et al.,* 2005)).
- *Debt crisis* – situation when country has no capability to maintain liabilities of its own debt.
- *Financial crisis* is perceived as collapse of financial markets, when dissatisfaction grows and moral hazard arises, and financial markets cannot efficiently allocate financial resources for those participants of the market that have best opportunities to invest, therefore have best potential of return and financial stability.

G. Kancerevycius summarizing main crises' types distinguished by different authors appoints these key causes of them (Kancerevycius, 2004): crisis generated by macro economical policy, finance panic, explosion of bubble of assets prices, moral speculations and compulsory withdrawal. So the origins of crises can be various, although they usually arise because of disbalance of economy, deviation of prices of assets and currency from real value, structural imperfections of financial system, decline of reliance on country. Theories of economics explain the causes of economic crises differently:

- *Classical liberal school* – opinion was motivated by static concept of economic equilibrium, not examining the dynamics of system's development.
- *Neoliberal theories* have modified standpoint of classic liberals and explained the causes of crises by dynamic analysis. They have related reasons of crises to objectively existing factors that violate economic equilibrium. John Stuart Mill stated, that in periods of commercial crises it is "practically faced excess of all products compared with monetary demand, i.e. with shortage of money supply".

- *Marxist analysis* – Karl Marx contrasted pre-capitalistic crises, arising because of overproduction of commodities.

In consideration to estimations mentioned above it could be stated, that crisis can be foreseen in beforehand, while observing dynamics of certain macroeconomic factors and comparing it with tendencies appointed in theories. USA experts (Kaminsky and Reinhart, 1999) examined data 76 currency and 26 banking system crises in different developed and emerging countries. They have discovered that financial and macroeconomic factors give signals about threatening embarrassments beforehand. Hence crises afflicting country's economy are systemic factor and while talking about economic, financial, banking or any other type of crises they hardly could be isolated. It is essential that nature of risk is a driving element of further development and if it is not sufficiently evaluated the materialization of crisis could be awaited, when every crisis have its own origins that could be estimated and the phase of current state indicated. Also Reinhart and Rogoff (2008) demonstrate that antecedents and aftermath of banking crisis in rich countries and emerging markets have a surprising amount in common. They are broadly similar patterns in housing and equity prices, unemployment, government revenues and debt. Furthermore, the frequency or incidence of crisis does not differ much historically, even a comparisons are limited – to the post World War II period.

1.3 Measurement of Crisis

In purpose to recognize signals of crisis oncoming and to take possible means for minimization of their consequences in time, there are created assessment techniques based on criterions and indicators which critical values give signals of worsening situation. For example, rating agencies announce ratings of risk of foreign countries, World Bank use a risk rating model for country's credit risk assessment, International Monetary Fund established a system of risk indicators and macroeconomic factors; and after Asian crisis began to create a system of early crisis recognition. Risk assessment and forecasting crises involve great number of indicators and procedures that are chosen and estimated objectively and subjectively as well.

When estimating a situation of subject it is offered to appeal to several viewpoints (Kancerevycius, 2004):

- *Qualitative comparisons* – economic variables after the crisis are graphically compared with those before the crisis.
- *Econometric modelling* – for estimation of changes of variables it is used regression equations, logit and probit models.
- *Non-parametrical forecasting* – usefulness of certain variables in forecasting crisis is evaluated.

Above discussed indicators of crises can be grouped into several categories, which are structured and presented in *Table 1*.

Stated miscellaneous measures of crises are important when pursuing to create conditions for their prevention, because consequences of crises may be significant for economy. Embarrassments of functioning of financial markets, GDP losses, costs of system's restructure, etc. are usually incorporated into the costs of crisis consequences. It should be noticed that emerging countries usually suffer larger costs than developed countries. For example, after currency crises GDP growth returns to normal level after a period of 1-1.5 years, in cases of crises of banks that are the most important participants of financial system, this period would last for 3 years. It is important to consider that growth of losses intensifies when crises follow each other or transfer to other countries (usually closely related), but current crisis performing that it may be a near global collapse?

Table 1. Categories of crises indicators

Category of crises indicator	Indicators
Macroeconomic	Growth of economy, increase of consumption, level of investment, fiscal balance, GDP per capita, trade conditions.
External	Balance of current account, level of real exchange rate (over valuated or under valuated currency), openness of country's economy.
Debt	Ratio of external debt to GDP, burden of debt interest (part of GDP), short-term debt, ratio of FDI to debt.
Financial	Ratio of money amount M2 to GDP, credit growth rate, part of private credit in GDP, etc.
Foreign	Real interest rates (USA, EU), growth rate of OECD countries, etc.
Simulation variables	For example, regime of country's currency

Sources: composed by the authors with reference to Kancerevycius, 2004.

In order to describe those processes there are used special terms in academic literature:

- Monsoonal effect – few crises proceed because of the same common reason.
- *Spillover effect* – crisis in one country generates a crisis in another country because of connection of trade and financial markets.
- *Contagion effect* – when crisis in one country forces creditors and investor to change their attitudes towards perspectives of other countries or better assess the risk.

Hence not only transformation, when crisis of one type can be replaced by crisis of another type, but also the extent, which could be estimated by objectively and subjectively measured indicators, are inherent for crises. Besides in consideration of the world of interrelated flows of globalization and integration, it becomes essential to consider close relations of separate sectors of economy, as well as cohesion of countries, what inevitably accelerates the outspread of undesirable consequences. Thus in purpose to reveal economic crises and their consequences, it is important to have a respect to encoded cyclical development of economy and less probable avoidance of phase of downturn. Economy of almost every country in certain periods of time experiences significant or not so significant crises, when rapid decline of main indicators of economy is observed. Given list of indicators is not final, it usually can be determined by particularity of certain crisis. It is important that fluctuations of economy is measurable, therefore prevention in order to minimize costs becomes possible.

2. "Tigers or "Tiger's Preys": Baltic States Economies

2.1 Baltic States Economies

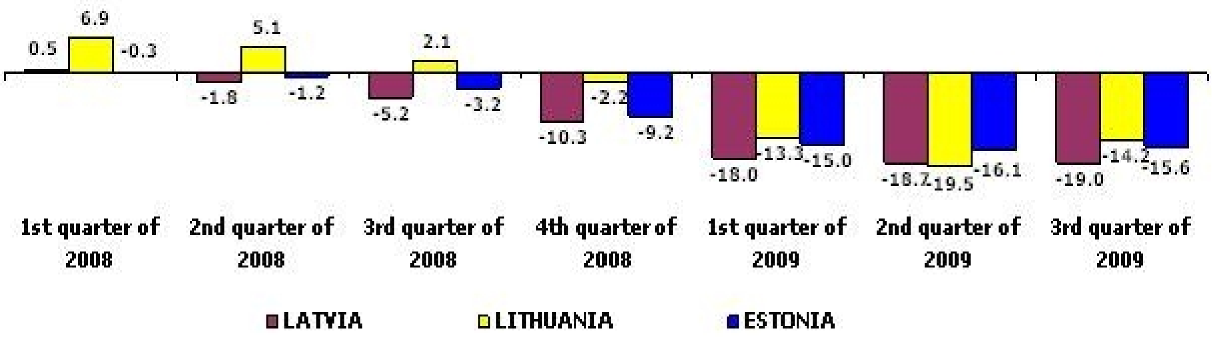
„The story of the Baltic states' economic development since regaining independence in 1991 seems almost too self-evident to tell. The small open economies were flushed with foreign capital, became overleveraged, and are now paying the price. After exhibiting double-digit growth rates during the past decade, the 'Baltic tigers' have also become record-setters in the negative direction, being the first countries to enter a deep economic crisis in 2009" (Kattel, 2009).

Baltic States – Lithuania, Latvia and Estonia - when restated independence, were in a hurry to reorient their systems of economy and follow principles of market economy.

Gradually Baltic States attained substantial support and real assistance not only from close neighbours – Scandinavian countries, but also from the biggest countries of Western Europe. Respectively Baltic States demonstrated determinate actions as well while pursuing integration with international and supranational structures. Processes of transformation required miscellaneous solutions that often were poorly qualitatively weighted and functioned for the good of narrow interest-groups or criminal groups, not for society. Thus inevitably in initial stages of restoration of countries' independence there were confronted with problems of social, criminal, political, economical and other formats.

"Since the 1998 Russian crisis, the economies of the Baltic States have posted remarkable performances. Following a short-lived local crisis in 1999, all three countries experienced rapid growth in 2000 and 2001. During this period the Baltic States were the fastest growing transition economies and among the fastest growing countries in the world. The economy of Latvia, which was the most successful of the three, grew by 14.9 percent during the period, while the economies of Estonia and Lithuania grew by 12.5 and 9.9 percent respectively[1]. This rapid growth trend continued into the later years" (Bems, 2002).

Today, however, the three Baltic "tigers" are in a deep economic crisis. The Baltic economies are expected a decline in their GDP to contract by at least 15% in 2009 (see *Figure 1*).



Source: International Internet magazine. GDP of Latvia fell by 19.0% in Q3. Elita Kalnina, Statistics Latvia. Baltic States news & analytics, http://www.baltic-course.com/eng/analytics/?doc=21344.

Figure 1. **Real GDP at the Baltic Region: Annual Percentage Change (2008, 2009)**

The crisis in the financial system deters the flow of finance in the economy, which in turn may weaken companies' investment possibilities and household consumption as well. Economic growth and employment are forecasted to weaken as a consequence of the crisis. Unemployment in the Baltic States is shown in *Table 2*.

Table 2. Unemployment in the Baltic States, percentages (1998-2009)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Latvia	14.3	14.0	13.7	12.9	12.2	10.5	10.4	8.9	6.8	6.0	7.5	17.6
Lithuania	13.2	13.7	16.4	16.5	13.5	12.5	11.4	8.3	5.6	4.3	5.8	14.0
Estonia	9.2	11.3	12.8	12.4	10.3	10.0	9.7	7.9	5.9	4.7	5.5	14.0

Source: elaborated by authors using Statistics Lithuania, Latvia, Estonia. http://www.csb.gov.lv/csp/content/?cat=2225; http://www.stat.ee/29980; http://www.stat.gov.lt/en/news/view/?id=7170.

[1] http://www.worldbank.org/html/prddr/trans/janfebmar03/pgs32-33.htm (referred on 10/10/2009)

Baltic States was faced with a similar situation. The consequences of crisis in developing countries are delayed, but harsher. Credit loan mechanism began to be widely used by banks as Baltic States became a safer, more reliable state for investing and for lending money.

The major reason for the inflation boom was a change in real estate prices. After Baltic States joined the European Union (2004), the progress was made and Baltic States attracted more investors. Since investors tend to invest in real estate, the demand for the land increased drastically (see *Table 3*).

Table 3. Return on Investment in the Baltic States, percentages (2003-2007)

		2003	*2004*	*2005*	*2006*	*2007*
Lithuania	Shares	105.8	68.2	52.9	9.8	4.4
	Deposits	1.3	1.2	2.1	2.5	3.9
	Housing*	15.4	29.2	61.1	28.8	20.9
	Pillar III Pension Funds	n.d.	0.7	11.8	5.5	7.5
Latvia	Shares	47.2	43.5	63.5	-3.1	-9.2
	Deposits	n.d.	1.9	1.7	1.7	2.6
	Housing*	-10.4	24.3	61.5	69.0	-1.7
Estonia	Shares	34.4	57.1	48.0	28.9	-13.3
	Deposits	2.1	2.1	2.2	3.2	5.0
	Housing*	25.5	23.9	37.8	37.3	-5.9

Notes: *Including only the increase the housing price, without housing rent income.

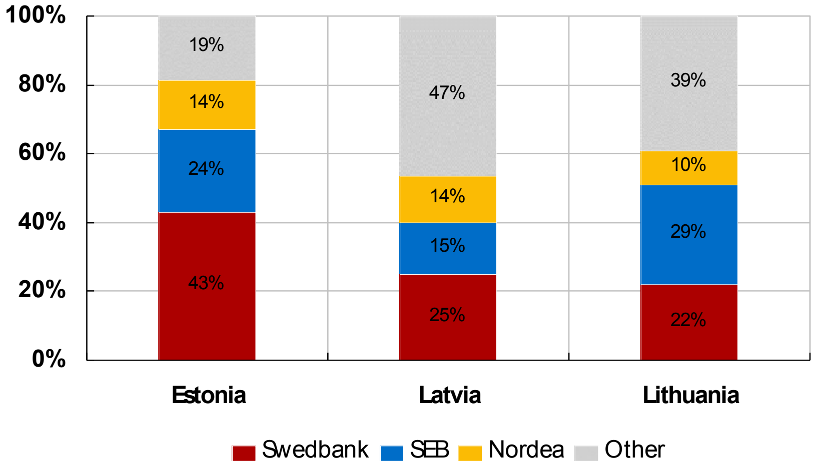
Source: Compiled by the authors with use of National Central Banks, Statistics and OMXV, OMXT and OMXR data.

Expectations regarding the return on investment in the real estate, the scope of the impact of the global financial crisis on the economy of Baltic States and the change in the prices of commodities and its impact on inflation are considered to be the main factors that may determine different dynamics of the economic development than projected in the main scenario (Lietuvos bankas, 2008).

“Banking crisis in OECD and non-OECD countries have sometimes been accompanied by an increase in the foreign presence in the banking sector as a result of a relaxation on rules limiting foreign entry. A World Bank study of 100 developing countries between 1995 and 2002 found that those experiencing banking crisis during this period tending to have a higher share of foreign participation in the banking sector in the aftermath of the crisis than those which did not faced with crisis” (OECD, 2009)[2].

From one hand, we have a lot of “prosecutors” those lay Swedish Banks to charge of financial crisis at the Baltics’ States, but also from another hand we can hear quite argumented opinions that Swedish Banks are simply rescuers saving Baltic’s economies from the total collapse. The position of Central Banks at the moment is that “losses of parent banks due to bank bankruptcy in other countries are insignificant, financial system has encountered no lack of liquidity and the quality of loan portfolio remains sound”[3]. Lets wait and see, but the slowing down mood is in the air. Baltic operations’ share of lending and operating profit in each bank shown in *Figure 2*.

[2]Stephen Thomsen. Investment Policies and Economic Crisis: Lessons from the Past. OECD, 2009.
[3]http://www.lb.lt/eng/economy/macroeconomy/PranesimasSpaudai_20090806_EN.pdf (referred on 09/09/2009)



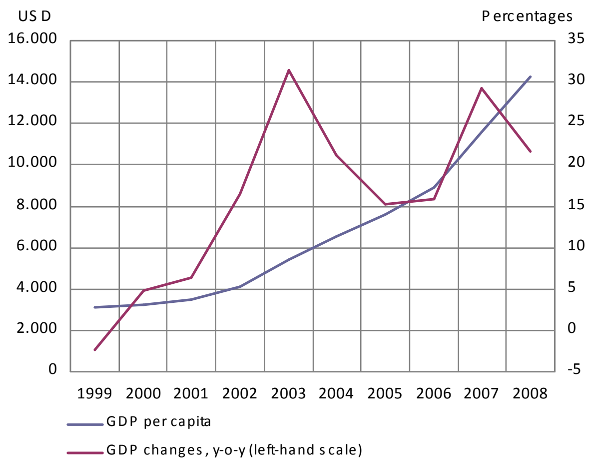
Source: compiled by authors using National Central Banks reports and the Riksbank (Sweden).

Figure 2. Baltic Operations' Share of Lending and Operating Profit in Each Bank

(i) Lithuania

In years 1999-2001 the economy of Lithuania demonstrated first signs of recovery after the Russian crisis (1998-1999) which hit other Baltic States as well (Saboniene, 2009). Annual change of GDP intensified in 2003 and later rapid growth rates have been maintained by increase of in average 6 billions USD every year until 2008, it is shown in *Figure 3* (see *Appendix 1*). This was mainly influenced by opening of financial system for foreign markets, when consumption supported by banks' credits began to increase rapidly as foreign banks offered large spectrum of financial services. Thus deeper integration of financial system consistently stimulated rapid development of economy.

Growth of consumption through taxes collected strengthened the stability of government's financial system and respectively increased its consumption and allowed to realize investment plans as well. Gross fixed capital formation during period of 8 years increased more than five-times and constituted 12 billions USD in 2008.



Source: composed by authors using IMF database.

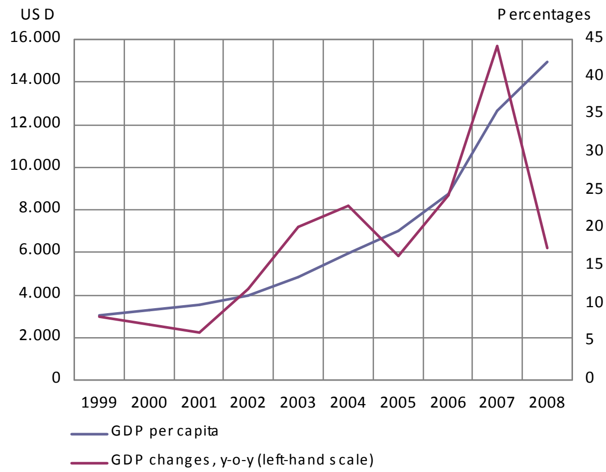
Figure 3. **Annual Changes in GDP and GDP per Capita in Lithuania (1999-2008)**

Volume of export, which indicates competitiveness of Lithuanian economy, in its growth rate moderately lagged behind the changes of GDP, and significant rise in foreign countries' demand for Lithuanian production was observed since 2005. Volume of export doubled during period of four years and in 2008 constituted 29 billions USD. However there wasn't avoided negative foreign trade balance while consumption grew: in 2006-2008 it was three-times larger than in 1999-2005. Growth of economy determined decline of pressure in labour market: since 2001 unemployment rate in the country decreased by 9 percentage points and in 2007 reached 4 percents. Larger income of households induced price growth that was observed through rise of price index since 2004.

While economy rapidly increased, lack of stability determined formation of negative factors. Gap between created value and reward determined distortions in the market and Lithuania gradually lost its low labour costs' competitiveness in international arena (Bernatonyte and Normantiene, 2009). Rising wages encouraged consumption, but shortage of supply of separate commodities (e.g. real estate) and increased demand in liberal financial markets formed deficit, which was not sustained by fundamental factors. Prices of particular types of assets reached unseen heights: prices of real estate increased by 61 percents during 2005, equity market value climbed up by 53 percents (Bank of Lithuania, 2009). Along the growth of government consumption and investments it was observed fast growth of debt. However maintenance of government's and private debt burden in future can determine difficulties of commitment of financial liabilities if adverse changes in financial market and real sector would appear.

(ii) Latvia

Baltic States experience similar cycle of economy, thus above mentioned changes of main factors of economy are familiar in Latvia and Estonia as well. Regarding magnitude of GDP created in Baltic States in 2008 Latvia took second place. Annual changes in GDP and GDP per capita in Latvia is shown in *Figure 4*. During mentioned period its GDP constituted 34 billion USD and this was three-times more than five years ago, when faster growth rates of economy were recorded (see *Appendix 2*). Most significant impulse for economy's development was given by growing internal consumption, which was accompanied by unfading expectations of increase of economy. In four years households doubled their consumption and in 2008 it reached 20 billions USD. As well as in a case of Lithuania, it allowed to increase government's expenditures that grew a bit more reasonably in 2008.



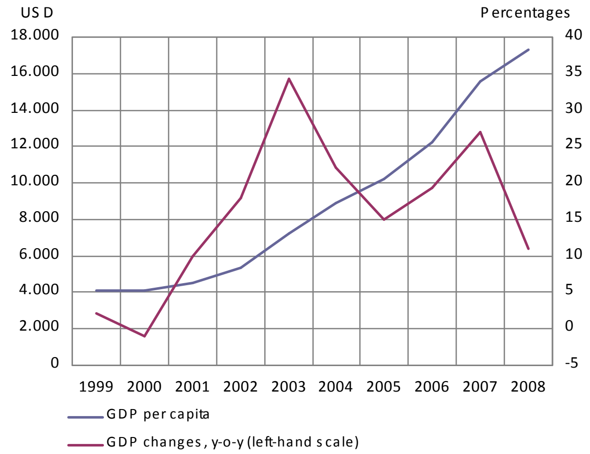
Source: composed by authors using IMF database.

Figure 4. **Annual Changes in GDP and GDP per Capita in Latvia (1999-2008)**

Gross fixed capital formation started to grow in 2004 and in 2008 constituted 10 billions USD. It is believable, that its growth was determined by increase of government's debt during mentioned period. Fast enlargement of consumption determined increase of import demand, and in 2002 foreign trade balance of Latvia became negative. While export development visibly lagged behind the growth of import imbalances in foreign trade increased, and in 2008 consisted 16 percents of GDP of that year. Consumer prices index (CPI) in Latvia was notably higher than in other Baltic States and a little bit more significantly fall in 2004. In 1999-2005 unemployment rate reached in average 9 percents, and while economy grew rapidly in 2005-2008 analogical rate decreased by almost 2 percentage points.

(iii) Estonia

GDP of Estonia in 2008 constituted 23 billions USD and in regard of this indicator it was least among Baltic States, on the other hand level of GDP per capita in Estonia was the highest (see *Appendix 3*). Annual changes in GDP and GDP per capita in Estonia are shown in *Figure 5*. Contrary to other Baltic States, GDP growth was determined not only by households' consumption, but also comparatively rapid development of export. Volume of export in Estonia doubled since 2004 and in 2008 constituted 18 billion USD. Competitiveness of Estonian economy, which allowed to increase volume of export, as well limited growth of foreign trade deficit and thus contributed to development of economy, although flows of import into the country haven't lessen since consumption grew. While economic indicators improved governmental institutions increased their own consumption, and gross fixed capital formation has doubled since 2003 and in the end of 2008 constituted 7 billion USD.



Source: composed by authors using IMF database.

Figure 5. **Annual Changes in GDP and GDP per Capita in Estonia (1999-2008)**

Estonia differentiates from other Baltic States in its little changes of consumer prices index (CPI), however there was observed an increase of CPI while unemployment rate was declining. Rapid growth rates of economy allowed minimizing pressure in labour market, when unemployment rate in the country reached 5 percents in 2007, i.e. by 9 percentage points more that in 2000, when after Russian economic crisis the first signs of recovery of economy appeared.

In relatively short period of independence economies of Baltic States demonstrated substantial growth rates and aspiration to ensure stable welfare. All three countries were hardly affected by Russian economic crisis, which later encouraged reconsidering possibilities of diversification of foreign trade channels. Baltic States as countries of Eastern Europe attained attention of close neighbours, Western Europe and USA as well. This encouraged the recognition in international arena and also allowed to attract financial resources essential for development. Although last mentioned significantly influenced development of economy, but there was observed a growth of systemic risk as well. In this case systemic risk involves possible restrictions of financial resources' flows and rapid growth of financial liabilities in financial system as well.

2.2 Real and Financial Sectors Interrelations

While talking about ensuring of welfare it is important to distinguish sources of it. Economic growth based on development of technologies and ability to compete in market will be much more stable then increase influenced by borrowed financial flows. It is important to have in mind the existence of strong connection between financial and macroeconomic stability, when stable financial system cannot exist without of stable macroeconomic development and otherwise (Hollo, 2007).

Although independency was recovered Baltic States inherited financial market of planned economy (basically national banks and national insurance undertakings), that was poorly developed, thus at the minimum met growing requirements of the market. Processes of privatization encouraged market liberalization. As it was expected, private sector occupied a major part of financial services' market – i.e. households and non-financial corporations. Today its importance to economic development and stability of financial system is especially large. First of all corporations in financial markets (banks, stock exchange) can meet supply of financial resources and realize investment plans. Households have more possibilities to borrow for consumption of long and short term commodities. As well private sector's opportunities of saving are visibly increased – one-way investing in deposits form was replaced by wide range of instruments. While globalization and integration grew, interrelationship of countries in broad sense became tighter, as well separate sectors inside the country became more dependent on each other.

In literature there are relatively broadly described consequences of rapid liberalization of financial markets, when increased supply determines the growth of prices of separate assets, what hardly can be explained by fundamental factors (Kindleberger *et al.,* 2005). As an example of it could be capital markets' value enlargement that could be explained by optimistic expectations (not real value). Another example - phenomenon of real estate market as an object for safe investment, it should be noted that duration the housing price declines is quite long-lived, averaging roughly six years (Reinhart and Rogoff, 2008; Belinskaja, Rutkauskas, 2007). Real estate market price bubbles is possible to keep as one from the models of the financial pyramids as a particular case (Girdzijauskas, 2005; 2006).

In different sources of literature there are found various methods and means for analysis of financial market. However in opinion of authors traditional technical or fundamental analysis of financial market is proper in our case, but does not fully display processes in it, as well as interrelationship of these processes. Thus analysis based on explanation of financial flows inside the country between different subjects present more comprehensive view. It is especially relevant when changes in economic cycle appear, i.e. crisis, because than formed imbalance between assets and liabilities determines losses not only in financial system, but also in entire economy. In consideration of this, thereinafter we will pursue to reveal positions of assets and liabilities of non-financial corporations and households, and to present expert estimations on challenges, that appear even now, when Baltic States switched to phase of rapid downturn of economy.

(i) Lithuania

In the end of 2008 financial assets of non-financial corporations in Lithuania were five-times larger than ten years ago. The most significant influence was made by three major factors: a) growth of deposits in financial system, b) increase of unquoted equities c) trade credits and advance payments.

Fast growth of transferable deposits of non-financial corporations could be related to increasing demand in internal and external markets, which determined growing number of corporations, improving results of performance. Greatest part of such financial assets is kept in banks, thus banking system – as the most important part of financial market in Lithuania – is additionally strengthened by liquid resources. It is essential mutually, because corporations lend for banks resources that are temporarily not so necessary for business and in this way they receive additional financial income. Acquisition of unquoted equities of non-financial corporations and accomplished operations with them are significant for financial system in more indirect manner. While acquiring or establishing other business subjects, the corporations expand their activities, create new workplaces, increase competition and thus the growth of welfare is ensured. However prices of equities are inclined to react significantly strong to changes of economic activity, thus demonstrating fragility of financial assets disposed by corporations. While trade volume grows, demand of resources for financing circulating flows increases. Along with borrowing in financial markets, non-financial corporations actively borrow and lend one for/from each other: in 2008 trade credits and advance payments was the largest position of non-financial corporations' financial assets. On one hand increase of this line can be less important for financial system, but on the other hand worsening economic environment can complex recover of resources from trade partner and destabilize financial position of separate subjects of economy. If similar situation exists, the real danger of emergence of systemic risk appears.

Looking from position of financial sector it is certainly more important to estimate side of liabilities, which shows possibilities of a subject to withstand undesirable external shocks. If not considering position of Shares and other equity, that in our analysis is not important, borrowing took essential role, while the liabilities of non-financial corporations increase: as long-term and short-term (usually from banks), as well as from trade partners. During ten years loans granted to non-financial corporations increased seven-times and in 2008 constituted 16 billion EUR, where the most important role took monetary financial institutions (MFI). In this approach, when financial position of non-financial corporations disimprove and they encounter difficulties of meeting taken financial liabilities, quality of MFI loan portfolio can rapidly and significantly worsen. This happened in Lithuania, where part of non-financial corporations' non-performing loans in loan portfolio increased most rapidly since 2009, and this pushes financial system into risk. There could also be attached and recently increased liabilities to business partners – while financial position of corporation worsened, because of contracted consumption in local and foreign markets, payments stopped and this enhanced the negative impact.

During last decade financial assets and financial liabilities of households in Lithuania changed significantly. Assets of households grew in high rates, because of investments into non-financial corporations (unquoted shares), increased confidence in banks. Equity market is not amplified enough, thus investment into equities is not common and more concentrated in limited number of households. Most intensively are used investments in form of lending for banks: recently there was observed growth of transferable and other deposits as well. Although last mentioned strengthens position of liquidity of banks, but if downturn of economy or panic among depositors appear (bank run), this could determine a crisis of liquidity or entire financial system. Separate shocks of deposits' contraction are observed in Lithuania and other Baltic States as well. Borrowing of households from MFI constitutes a major part of all financial liabilities. Liberalization of financial markets enables households to consume today, while payments are postponed for tomorrow, but negative shocks, such as there are observed now, worsen position of MFI balances. As well as in case of non-financial corporations, quality of loans' to households' portfolio, particularly not for housing acquisition, is bad.

Hence financial assets and financial liabilities of non-financial corporations and households demonstrated essential changes during last decade. It is obvious, that such changes were caused by increased financial market, which enlarged volume of liquid resources in economy. However while stage of development of economy has changed and economy began to decline, results of activity of financial markets worsen, and this is an essential signal about danger for stability of financial system.

(ii) Latvia

Financial positions of particular sectors in the Baltic States are almost similar, but have their own identity. In Latvia a major part of financial assets accumulated by non-financial corporations consists of deposits, granted loans and other receivable amounts. While expanding activities of institutions that can accept deposits and growing of competition between them, the price paid for deposits increased, and this encouraged corporations possessing some free resources to save in such form. However position of liabilities and together of liquidity can rapidly worsen, if corporations would require to repay deposits, thus in severe economic environment corporations could meet other obligations. Latvia's non-financial corporations differ from corporations of other Baltic States in extent of granted loans, and lending for trade partners as well. Thus from position of financial assets non-financial corporations in Latvia are inclined to lend more, although their rates of borrowing are high as well. Long-term and short-term loans constitute the most significant part of financial liabilities of non-financial corporations in Latvia, and borrowing from MFI has tripled during last decade. It is important to remember a real estate market bubble emerged in Baltic States and dramatic price jump, which influenced the growth of lending to sectors related to real estate (Belinskaja and Rutkauskas, 2007). Also the formation of this price bubbles, may be explained by the logistic theory as the result of the increase of the system's efficiency when approaching the limit of the adequate supplies (Girdzijauskas, 2006). Currently when drop in prices is observed, mentioned sectors confront with financial difficulties, thus risk of confrontation with worsening quality of loan portfolio materializes. Trade debts that have increased during recent three years provide less optimism, while evaluating ability of non-financial corporations to meet their financial liabilities in time.

Growth of deposits was encouraged by favourable situation in financial markets and increasing incomes of households: as well as in a case of non-financial corporations, this has strengthened financial institutions that are accepting deposits. However, while interruptions in economy appear, shocks can determine rapid worsening of financial system, what was observed in second half of 2008, when country was forced to rescue one on the biggest national bank. Turbulences encouraged the outflow of deposits that brought financial system to threshold of instability. Equities and other property constitute a significant part of financial assets of households, however, when economic position of other subjects of economy is worsening and mentioned assets become less liquid, households can confront with difficulties in covering other liabilities by these assets. Last mentioned, basically, constitutes of resources lent by MFI. In approach of financial stability it is important, that households in Latvia decreased borrowing growth rates, however these stayed relatively high. While financial position of households was worsening, quality of mentioned loan portfolio declined as well, and this determined losses for financial system and a trouble-spot of instability forms.

Position of financial assets and financial liabilities of private sector in Latvia relatively strong oriented to financial sector. Shocks, that Latvia is hardly experiencing now even with international support, increase influence for stability of financial system.

(iii) Estonia

As in the other Baltic States financial assets of non-financial companies has increased several times over the past decade. Growth of demand in local and in foreign markets improved corporate sector's financial position and allowed free from investment funds lend to financial institutions. This has improved business results from financial and investment activity and strengthened financial sector's liquidity position. Estonian non-financial companies separated their self's from other Baltic States by increase in lending: as other credits, as well trade credits expanded significantly. This shows business development opportunities, although some uncertainty could be observed: falling demand could result falling financial positions of non-financial companies, both directly and indirectly through related companies. Recent performance deterioration will negatively affect the quality of financial assets as strong growth of shares and other equity proportion in non-financial companies financial assets the latter will be forced to fix it reduction (e.g. stock market value in Estonia in 2008 dropped by 63 percent). Financial liabilities of non-financial companies increased mainly due to growth of borrowing form MFI's (not to taking in to account rise of shares and other equity). In environment of growing demand and strengthening optimistic expectations non-financial companies implemented long-term investment plans, witch was often financed by borrowed funds. Recently observed rapid growth of short and long term financial liabilities rises questions about financial system's sustainability in environment of worsening economic situation and parting demand in domestic and foreign markets.

Two main factors that contributed to growth of financial assets recently are acquisitions of shares and other securities and increased amount of deposits in financial system. As mentioned above, the stock market in Estonia (as well in other Baltic States (see more: Bank of Lithuania)) decreased significantly in 2008, so household's financial assets, they can be used where necessary in order to fulfil the financial commitments made in the past, diminished. And this indirectly weakened cost-effective activities projections of subjects, to which households are committed: e.g. in Estonia in last decade since 1997 loans granted to households (i.e. financial liabilities) increased by 27 times, when GDP over the same period doubled. Thus households liabilities to MFI's (generally people borrow from them) and changes in value created obviously stood out, who gives a bold hint of the growing imbalance.

Compared financial assets and financial liabilities of non-financial companies and households with Latvia and Lithuania, the situation in Estonia have no special feature. Although it is worth to highlight business lending growth and development (increase of shares and other equity) and the optimistic expectations of households derivative borrowing, which in terms of economic downturn deserves significant attention.

Concluding Remarks and Implications

Crises indicate dramatic turning-point of economic conjuncture, which determines the decline of production, collapse of assets market, growth of unemployment, explosion of real value of government debt.

Crisis can be foreseen in beforehand, while observing dynamics of certain macroeconomic factors and comparing it with tendencies appointed in theories.

Financial stability is a permanent process, when financial system is able to exercise three main functions smoothly: reallocate resources in time and space, estimate and evaluate forthcoming risks and threats in adequate manner, and manage withstand external and internal shocks.

While talking about the financial stability, it is inevitably to refer to macroeconomic (or simply of whole economy) stability. Some authors closely relate these factors because of their strong interdependence and complexity to find disjunction points (see e.g. Hollo, 2007; and Reinhart and Rogoff, 2008). Together it shows their interdependence and direct influence on each other, for example, decline of value-added created in economy directly correlate with processes in financial system, and otherwise. Therefore the analysis and assessment of materialization of economic and financial crises become as an essential factor in pursuing to assure financial stability of entire system and ensuring the meeting of fundamental requirement – security.

Thus in purpose to reveal economic crises and their consequences, it is important to have a respect to encoded cyclical development of economy and less probable avoidance of phase of downturn.

In different sources of literature there are found various methods and means for analysis of financial market. However in opinion of authors traditional technical or fundamental analysis of financial market is proper in our case, but does not fully display processes in it, as well as interrelationship of these processes. Thus analysis based on explanation of financial flows inside the country between different subjects present more comprehensive view. It is especially relevant when changes in economic cycle appear, i.e. crisis, because than formed imbalance between assets and liabilities determines losses not only in financial system, but also in entire economy. In consideration of this, thereinafter we will pursue to reveal positions of assets and liabilities of non-financial corporations and households, and to present expert estimations on challenges, that appear even now, when Baltic States switched to phase of rapid downturn of economy.

During last 20 years the three Baltic States – Latvia, Lithuania and Estonia – have gone through a long and difficult way of reforms, which affected almost all spheres of economic, social, political and cultural life. However the transition from an administrative economy to a market-type structure has not been yet completed: the countries are still in search of an appropriate growth model (Štreimikienė and Girdzijauskas, 2008).

This encouraged the recognition in international arena and also allowed to attract financial resources essential for development. Although last mentioned significantly influenced development of economy, but there was observed a growth of systemic risk as well. In this case systemic risk involves possible restrictions of financial resources' flow, and rapid growth of financial liabilities in financial system as well.

„Present economic and financial crisis has revealed not only the main problems the Baltic States are facing, but has shown the spheres where additional or new reforms are urgently needed. In fact, this is time for a new "reformation period", i.e. the period dealing with the process of elaborating a development model for the Baltic States as a sub-region and/or for separate states, in particular" (Eteris, 2009).

The most governments also do see the need to implement significant new regulation on financial market. "But here's the rub: financial regulation is enormously complicated, all the more so given that there must be some degree of international consistency. It would be a disaster if countries were to rush in individually to implement their own new system" (Rogoff, 2009).

As for Rogoff (2009) – "So government regulators – and ultimately all of us – are caught between a rock and a hard place. Regulate in haste, repent at leisure. Overly strict regulation could seriously impair global growth for decades. But if regulation is too soft, the next monster global financial crisis could come within a decade. And even if regulators take their time to try to get it right, as most of us think they should, the world may have to live with weak credit expansion as banks hold back, awaiting a clearer verdict on their future. The need to take means for ensuring the financial stability *ex ante* refers to assumption that financial markets cannot ensure stability by themselves and operate efficiently. What made this collapse so remarkable is that it was not caused by some external factor, but originated within the financial system itself and spread from there throughout the global economy. This was almost completely unexpected, as the prevailing view was that financial markets are self-correcting (Soros, 2009).

And here is another painful thought that Harvard historian Niall Ferguson often emphasizes: many of the leaders and legislators who are passing judgment on new rules for banks are the same leaders and legislators who oversaw the regulation in the run-up to the financial crisis."

Also the main concern is that some of the measures already introduced in Baltic states' practice do not work properly and in some cases brings us an opposite results, as for example, rising corporate taxes or suspended pension reform. But this is another story and sequel events that we probably will examine and evaluate afterwards.

Let us hope that situation at the financial market and in the economies of the Baltic States at all will be right at the "deep bottom" at the end of the year 2009 and then afterwards will start "climbing up a mountains again"? The record of the past ten years shows that Baltic countries can accomplish much in building institutions of the market economy. As they did in 20 years ago, there is every reason to believe that countries in the region will rise to the challenges facing them today.

Perhaps the Great Crisis of 2008-2009 will be different from other deep financial crises, and we will see a sustained sharp recovery worldwide. Paul Robin Krugman (Nobel Memorial Prize, 2008) have a doubts about importance of export as a main decision for this crisis if only it will be possible to maintain trade relations with another planet? Joseph Eugene Stiglitz (Nobel Memorial Prize, 2001) believes that all UN countries have to combine common efforts to find a way to cope with world economic crisis, especially he is concerned about developing economies, because its way to enter into world economy extended through export and capital markets. And if such economies will collapse, developed world will suffer much harder that it was during previous crises.

The forecast ability of the processes strongly related to market sentiments is limited. They may be determined not only by market conditions in Baltic States, but also by the changes in the neighbouring European countries and global markets. Uncertainty related to these factors has increased significantly and thus may indirectly affect the prospects of the Baltic economy. Let us to take challenges and let us be cautiously with the optimistic stating that the best time for strategic decision-making of all involved countries' Governments has not been already missed.

Concluding with well-spoken phrase by Reinhart and Rogoff (2008):

> „*I am often asked why economies get themselves into such a bind again and again throughout economic history. Unfortunately, as Reinhart and I document empirically for hundreds of financial crises, covering 66 countries and eight*

centuries, the answer is all too simple: arrogance and ignorance. Investors and policymakers are often altogether ignorant of the myriad historical experiences with financial crises. And the few that are dimly aware of what has happened in other times and other places all too often say, "Don't worry, this time is different."

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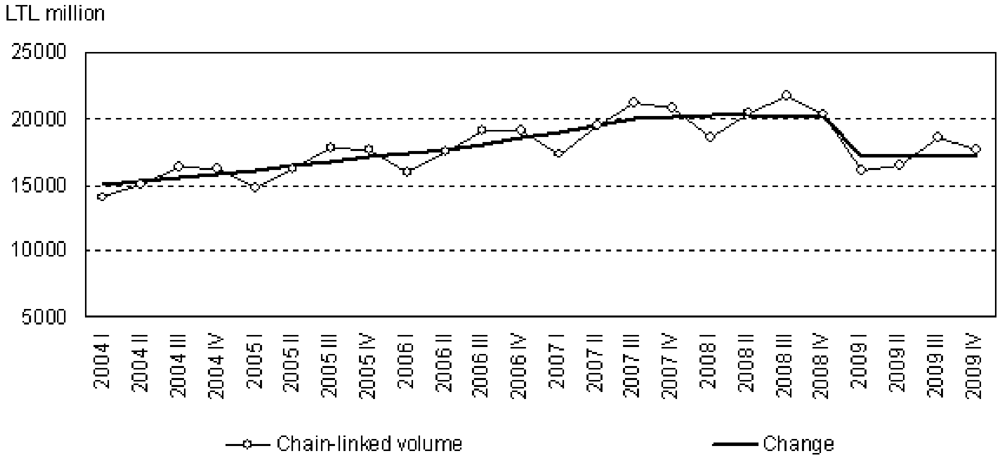
APPENDICES

Appendix 1. Changes in GDP, Lithuania



Source: Department of Statistics to the Government of the Republic of Lithuania (Statistics Lithuania), http://www.stat.gov.lt/en/ news/view?id=8362**.**

Appendix 2. Changes in GDP, Latvia

Gross domestic product at current and constant prices								
	Seasonally unadjusted data				Seasonally adjusted data			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Current prices								
2007	3091264	3631137	3840050	4217359	3361580	3622354	3780788	3953199
2008	3757816	4162501	4167513	4186666	4130270	4111297	4100539	3921090
2009	3311112	3397967	3247863	..	3603035	3392358	3198554	..
Chain linked (reference year 2000)								
2007	1878587	2120780	2271880	2420409	2091034	2164785	2201725	2207512
2008	1888806	2081839	2154611	2170833	2148866	2107977	2075148	1971869
2009	1548869	1691963	1744755	..	1747229	1743684	1674259	..

Note: Please note that due to balancing of the national accounts annual data for 2008 have been revised.

Source: Department of Statistics to the Government of the Republic of Latvia (Statistics Latvia), http://www.csb.gov.lv/csp/content/?cat=2146.

Appendix 3. Changes in GDP, Estonia

Gross domestic product (GDP) at current prices, million kroons	2008	251 492.8		
	3rd quarter 2009	53 224.6		
Gross domestic product (GDP) chain-linked volume (reference year 2000), million kroons	2008	160 455.3		-3.6
	3rd quarter 2009	33 720.3	-4.5	-15.6

Source: Department of Statistics to the Government of the Republic of Latvia (Statistics Latvia), //http://www.stat.ee/most-requested.

BALTIJOS VALSTYBĖS: NUO SVAIGINAMOS SĖKMĖS IKI FINANSINIO NUOSMUKIO?

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SANTRAUKA

Atgavus nepriklausomybę Baltijos valstybės paveldėjo planinio ūkio finansų rinką (iš esmės valstybės bankai ir valstybės draudimo įmonės), kuri buvo menkai išvystyta, taigi ir minimaliai tenkino augančius rinkos poreikius. Privatizacijos procesai paskatino rinkos liberalizaciją. Kaip ir buvo galima tikėtis pagrindinę finansinių paslaugų rinkos dalį užėmė privatusis sektorius – t.y. namų ūkiai ir nefinansinės įmonės – kurio reikšmė tiek ekonomikos raidai, tiek finansų sistemos tvarumui šiandien yra labai didelė. Pirmiausia įmonės finansų rinkose (bankai, draudimo įmonės, akcijų birža) gali tenkinti finansinių išteklių paklausą ir įgyvendinti investicinius planus. Namų ūkiai turi didesnes galimybes skolintis ilgo ir trumpo laikotarpio prekių vartojimui. Taip pat akivaizdžiai yra išaugusios privačiojo sektorius taupymo galimybės – bene vienakryptį investavimą indėlių pavidalų keitė plataus spektro investavimo instrumentai. Taigi kaip valstybių tarpusavio ryšiai plačiąją prasme tapo stipresni didėjant globalizacijai ir integracijai, taip ir valstybės viduje atskiri sektoriai tapo vis labiau vieni nuo kitų priklausomi.

Skirtinguose literatūros šaltiniuose sutinkami įvairūs metodai ir priemonės finansų rinkos analizei, tačiau autorių nuomone pati finansų rinkų techninė ar fundamentali analizė nepilnai atspindi juose vykstančius procesus ar tarpusavio priklausomybę. Taigi analizė, paremta finansinių srautų valstybės viduje tarp skirtingų jos subjektų aiškinimu, pateikia išsamesnį vaizdą. Ypatingai tai yra aktualu esant pokyčiams ekonominiuose cikluose, t.y. krizėms, nes tuomet susiformavęs turto ir įsipareigojimų neatitikimas lemia nuostolius kaip finansų sistemai, taip ir netiesiogiai visam ūkiui. Atsižvelgus į tai šio straipsnio tikslas yra dvejopas: išnagrinėti finansinių krizių priežastis ir galimus jų identifikavimo rodiklius bei atskleisti nefinansinių įmonių ir namų ūkių finansinio turto ir finansinių įsipareigojimų pozicijas. Tikslas realizuojamas apibendrinant teorinius teiginius ir samprotavimus apie ekonominių ir finansinių krizių priežastis ir pasekmes šalių ūkiams, nagrinėjant šiandieninės globalinės ekonominės krizės poveikį Baltijos šalių ūkiams remiantis finansinių srautų valstybės viduje tarp skirtingų jos subjektų analizę bei pateikiant ekspertinius vertinimus dėl iššūkių, su kuriais tenka susidurti jau dabar, Baltijos valstybėms perėjus į staigaus ekonomikos kritimo fazę.

REIKŠMINIAI ŽODŽIAI: finansinė krizė, ekonominė krizė, finansų sistema, realus ir finansinis sektoriai, Baltijos valstybės.