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THE FINANCIAL CRISIS IN THE BALTICS: SOCIAL AND POLITICAL LESSONS

This paper analyzes the features of the global financial crisis in the Baltic states, shows the differences between the countries in the process of its development, and examines changes in the mass consciousness of the political establishment in the countries considered.

Key words: small countries, recession, consumer boom, real estate market, cheap loans, short and long-term loans, economic cooperation of cities.

Having received independence, the Baltic countries have successfully carried out economic reforms. They have managed to make diversification of industries over a short period of time, and — what is most important — learnt to use their "geopolitical rent". In the 1990s a powerful transit resource came into operation, as it was created already in the Soviet period: a developed network of motor roads, well equipped marine ports including the most modern Novo-Tallinn (now called Muuga port), the oil pipeline up to Venspils is now used for the transit of the Russian oil to Western Europe, while the Majeikja refinery is used for oil processing. It is worth stating that during the first ten years of market economy the state budgets were filled up mainly by the transit infrastructure. Thus, in 1995 the transport services amounted to 86 % of export in Estonia, 91 % of export in Lithuania and 93 % of export in Latvia [1, p. 7]. And even now they play a significant role in the economy of these countries.

In the 2000s Latvia, Lithuania and Estonia were spoken about as the "economic tigers" (in line with the "Asian tigers" of South-East Asia), demonstrating high and stable economic growth rates. They became the most rapidly developing countries not only among countries of the post-soviet space and Central and Eastern Europe but also in the European Union. Economic growth rates of these countries were much better than the growth rates of economies in the EU in general.

Table 1

Annual growth of real GDP (2000—2007) (% to the previous year)

Year	EU	Latvia	Lithuania	Estonia
2000	3.9	6.9	3.3	10.0
2001	2.0	8.0	6.7	7.5
2002	1.2	6.5	6.9	7.9
2003	1.3	7.2	10.2	7.6
2004	2.5	8.7	7.4	7.2
2005	2.0	10.6	7.8	9.4
2006	3.2	12.2	7.8	10.0
20007	2.9	10.0	9.8	7.2

Source: [3].

In 2000—2007 the GDP per capita in the Baltic countries increased by 2.5—3.0 times: in Latvia — from 3.6 to 10.2 thousand Euro, in Lithuania — from 3.5 to 9.6 thousand Euro, in Estonia — from 4.5 to 12 thousand Euro, which however amounted only to 37%, 34% и 47% respectively of the average European level (in 2000—19%, 19% and 24%) [3, p. 3]. Economic success of the Baltic states facilitated their admission to the EU in 2004, which was a strategic task of these countries set up immediately after they became independent.

It is not by chance that the expanding European Union is becoming more and more attractive for the new members. In its democratic frameworks small countries and first of all the Baltic states feel politically valuable, their security is guaranteed, and the economy built in the common European economy mechanism poses less concern to the leaders of these states, as part of these concerns is put upon the EU. The category "small countries" has attracted attention of social science researchers during the last ten years. The specifics of the situation of small countries in the international policy was deeply analyzed by Robert Gilpin [13, p. 49—54], while Kenneth Woltz in his work "Theory of international policy" [15, p. 126—127] developed a concept of "contiguity" according to which countries which do not have an opportunity to influence a world policy often strive for joining a union with stronger countries, this providing them with specific practical benefits including a guarantee of security. Small countries are implementing the "bandwagon" policy when they believe that the cost of such a union — for example, loss of part of sovereignty — will be less important than those benefits which they will acquire. During the first three years of membership in the EU (2004—2006) Latvia received 1.1 billion Euro, Lithuania — 1.7 billion Euro, Estonia — 800 million Euro from the EU funds [3, p. 3].

Compared to large countries, small countries have got some benefits. These countries are more flexible in the processes of public regulations, are able to rebuild their economies in a more speedy way, they are better at adapting to the modification of environment. However, this refers to the stable global processes and first of all to the period of the growth of global economies. At the same time, giving small countries a possibility to develop by means of specialization, the globalizing world makes these countries particularly dependant (e.g., on external financing, fluctuation of world prices on the goods of their specialization, import of most manufactured goods) and, to some extent, even unprotected in the condition of economic instability especially in the period of global cataclysms.

The financial crisis which started with a substandard credit crisis on the USA mortgage market in July/August 2007 resulted in the global recession in the condition of a decrease in economic activities in the leading countries. As a result, the external economic demand in Europe has decreased. For small countries with open economies and with high integration into the global economy, the decrease in export had a vast negative impact on the production and employment.

The crisis in the Baltic countries and Hungary was the most vulnerable among the post-socialist countries in Europe. Moreover, Latvia, Lithuania and Estonia not only suffered from the crisis but also became outsiders, i. e.

countries which became on the edge of the economic collapse. Although in the process of preparing an admission to the EU and during the first years of the EU membership, these countries were assessed by many experts as citadels of economic growth and as an example of successful socio-economic reforms, as well as the countries which gained maximum benefits from the integration into western political and economic structures. The Baltic states took one of the strongest strikes of the global financial crisis on themselves and overcame the hardest economic recession since the time of the USSR decay, to a large extent due to the consumer spirits if not to say a parasitical attitude, which in some extent is typical to all small countries. Such countries not only ask for economic aid but demand it. And an attempt of the nearly poor post-soviet countries to reach western standards of consumption resulted from cheap loans is leading to the growth mortgage and leasing non-payments. At the same time, in the total amount of given credits, a share of short-term credits has decreased, while a share of long-term credits has increased. The real estate market reacted by higher prices for any housing including the most unpresentable ones. It is not quite clear, whether the level of prices for real estates was raised too high, as on the crisis wave the process for housing in Latvia decreased more than by 60 % of the maximum level, while in Lithuania — more than by 25 %. This was the reason for other risks including inability to repay a credit and decrease the cost of the loan service.

Credit boom on the real estate market was exaggerated by giving consumer credits. The following widely used type of transaction should be pointed out which was quite common in the Baltic banks: a client, very often a non-resident, received a loan on the security of his real estate in one bank, and this money was placed on the deposit in another bank earning the interest rate; after the loan was paid, a margin was divided between a client and a bank. Naturally, this concerns very large sums of money. In 2005 the growth of loans in Latvia was 90 %, in Lithuania — 88 %, and in Estonia — 75 % [1, p. 14].

During the years before the present global economic crisis, the countries of the "golden billion", as it is acknowledged everywhere, had been living beyond their means. "Having once seen a wonderful mirage, — as writes an American political scientist Robert Kaigan about this period, — people believed in its reality and do not want it to disseminate" [10, p. 4]. In the Baltic states it was a typical situation that when payments for one credit came to an end, a client got a persistent call from the bank with an offer to take out one more loan. Waking up became uneasy for all people. The tendency characterizing the population of highly developed countries and first of all, the USA, to live with loans, most negatively influenced former post-soviet and post-socialist countries in the Eastern Europe.

By that time, the basis of the banking sector in the Baltic states was formed by the banks with the capital of the Nordic countries. They provoked with the help of syndicated loans a sharp decrease in the credit rates and a credit boom in the sector going on until the end of 2007, when a share of credits in the aggregated bank portfolio amounted to more than 50 % reaching in some banks up to 90%. In 2009 the banks of the Baltic states bore serious losses. They were afraid of investing and therefore, stopped to give credits to businesses insuring against non-payments, so the banks did not get profit.

At the same time, the population having got a guarantee from the EU for deposits (up to 50,000 Euro), gradually increased their savings. After the banks started to reduce a deposit rate — from 4—6% per year in October 2008 up to 1.5—1.7% per year in March 2009 and up to 0.6—0.8% in September 2010, the arrival of new deposits went down. In the Baltic cities there were no visitors on the contrary to what occured in Russia. Even paying such a small deposit rate to investors, the banks in the Baltic states operated with losses. A financial crisis starting from the second half of 2008 actually paralyzed their operation. Most of given credits turned to be “bad credits”. They were mainly taken to purchase premises and construction works. The practice shows that such credits are practically not repaid. Here comes another problem: now the banks have to fulfill a function which is not typical to them including managing forfeited objects. In the present situation on the real estate market it is not reasonable to sell these objects, as the prices went down and it is better to wait for their rise. The expenses for these functions are increasing.

Many local analysts warned about a dangerous investment boom in the Baltic states but the leaders of these countries could not restrain the negative economy processes. An impetuous economic growth resulted in the deformation of the economy structure and redistribution of labour forces by sectors. The number of employees in the construction sector, trade and banking sector sharply increased due to the decrease in the production sphere. Parallel to flow-out of the western capital, the deficit of a balance of payment was increasing; earlier it was covered by the foreign credits and a flow of direct foreign investments. The tax base became sufficiently dependant on the cycles of consumption. The Cohesion Fund or the fund of integration set up in the EU was smoothing dangerous tendencies. In the territorial aspect it was aimed at the income leveling of the EU countries’ population, similar to the Soviet time when the national republics were preferably developed. In the social aspect the fund is aimed at decreasing the gap between different groups of the population, i. e. social outsiders (people with small salaries, unemployed etc.) got various subsidies. From the political point of view, this fund is a symbol of solidarity of countries and peoples which are part of the European Union. In the heads of Europeans the Baltic countries symbolize countries which fought for their independence and escaped from the totalitarian Soviet Union. A special status of the former Soviet Baltic states was revealed not only in the well-disposed public opinion but also in the investment preferences of the Coherent Fund and other structural funds of the EU. It is possible to say that after the admission to the EU, the Baltic states got a vast flow of money. During three years (2005—2007) the growth of the average salary amounted to 45%. On the whole, during nine years before the economic crises the population of the Baltic countries increased by 3—3.5 times, which apparently was not accompanied by the same growth of labour productivity.

Money from the EU funds became not only accessible but abundantly accessible. For instance, if a person had a plot of land, he could have a sufficient financial compensation for the obligation not to use it for growing rye, rape, potatoes or something else in order to protect the inner EU market. In other words, it was possible to receive the EU money for doing nothing. Different EU funds for cultural, youth, municipal, economic, educational, research and regional programmes were an important source of financing many population groups in these countries, for example, the well-known Interreg Programme, within which it was possible to get 5 million Euro for a comparative three-year study of the specifics of national cuisine in different EU countries.

Persistent appeals of western banks to buy the shares of prosperous companies, to change an old car for a new one which is of more prestige and power, to travel to exotic islands, to buy a more comfortable apartment or to build a two-storied house by taking cheap loans (2—3 % credit rate per year which is in line with the inflation in these countries) have created the so-called consumer revolution including an explosion of mortgage crediting. This was especially evident in Latvia (a Baltic Switzerland) which suffered from this revolution most compared to other countries. By many indicators Latvia was in the zone of the highest risk among the new EU countries, with the GDP growing more rapidly than in other Baltic countries, but a decrease (Table 2) starting earlier than in the neighbouring countries.

Table 2

Specific macro economic indicators of the Baltic countries in the period of 2000—2007

Country	2000	2001	2002	2003	2004	2005	2006	2007
GDP growth, in% to the previous year								
Latvia	6.9	8.0	6.4	7.5	8.5	10.1	11.9	10.1
Lithuania	3.9	6.4	6.8	9.7	6.7	6.9	7.2	8.9
Estonia	7.8	6.4	7.2	5.9	6.2	9.0	7.5	6.4
Annual inflation,%								
Latvia	2.6	2.5	1.6	2.9	6.2	6.9	6.5	11.2
Lithuania	1.1	1.6	0.3	—1.2	1.3	2.7	3.8	5.7
Estonia	4.0	5.4	2.7	1.3	3.0	4.2	4.4	6.7

Source: [1—7].

The growth of inflation was the fist negative symptom. In Latvia it was much higher than in Lithuania and Estonia. It was high inflation which prevented the Baltic States from entering the Euro zone in 2008.

By the beginning of 2006, an accumulated amount of foreign investments in Estonia had amounted to 97.2 % of the GDP, in Lithuania and Latvia it was 33.6 and 33.1 % respectively. In 2007 it was the highest also in Estonia — 12,664 billion USD or 77.2 % of the GDP, in Latvia — 7,532 billion USD (37.5 % of GDP), in Lithuania — 10,939 billion USD

(36.7% of the GDP) [3, p. 5]. In the years of the economic boom the Baltic states were increasing external debts without any control. By the end of 2008, the debt of Latvia had reached 44 billion USD, i. e. nearly by 9 times more than the gold and foreign currency reserves of the country (5 billion USD), Lithuania — 35.5 billion USD, exceeding 4 times the reserves of the country (over 8 billion USD). The reserves of Estonia were only 1/8 from the external debt of the country amounting to 29.5 billion USD [2, p. 8].

In 2008 the economic activity in the Baltic states started to decrease. Thus, the growth rate of the GDP began decreasing already in the fourth quarter of 2007. If in Lithuania the growth was observed during I—III quarters of 2008, in Latvia and Estonia the growth was insufficient, and only in the first quarter (0.5 and 0.2% respectively), while since the second quarter a sharp decrease started. In the first quarter of 2009, compared to the same period of 2008, the most serious decrease in the GDP occurred in Latvia amounting to 18%, while in Estonia the decrease was 15.1%, and in Lithuania — 13.6% [6, p. 9]. In the condition of the global financial and banking crisis, the collapse which put the "Baltic tigers" on the knees started.

The level of inflation in Latvia already in 2007 reached the highest value among all EU states. This was caused by the oversaturation of the national economy with speculative money pouring to the market from abroad, mainly from Sweden. A shortage of income in the state budget occurred, as well as a decrease in production and an increase in unemployment. A national crisis in the framework of the developing global financial crisis increased, and by January 2009 the economic, social and political processes in the Latvian society became uncontrolled. In the first quarter of 2009, compared to the same period of 2008, a decrease in the GDP in Latvia was 18%. In the trade sector it was 25.8%, in transport and communication — 15.4%, manufacturing industry — 25.8%, construction — 28.2%. Spendings on food stuff went down by 4.6%, leisure and culture — by 9.8%, clothes and footwear — by 4.2%. At the same time, expenses for housing and electricity increased by 3.7%, transport — by 1.4%, public health — by 0.9% [4, p. 4]. The average index of the GDP decrease in Estonia in 2009, compared to 2008, was 91.6%, in Lithuania it was 85.2%, and in Latvia — 82.3% [5, p. 3].

One more problem occurred in autumn 2008 was the need to repay large syndicated credits. As a result, the largest bank in the Baltic countries (Parex bank), the leader in the Latvian market with the local capital, with the largest syndicated credits in the region in its portfolio, turned to be bankrupt in November 2008 and appealed for help to the state. The main shareholders of the Parex banka sold all their shares to the state of Latvia for 2 lats. During one month and a half 240 million lats was withdrawn and the bank passed into ownership of the state. The total capital loss in the Parex group in 2008 amounted to about 100 million lats (over 140 million Euro). That was the largest companies' loss in the Baltic states. The measures undertaken saved the banking system of Latvia but became a hard burden on the budget of the state. The economy stagnation resulted in a decrease of the tax revenue. Latvia was in the situation near to the bankruptcy, and was forced to appeal to the international financial institutions for help. In January 2009 the EU Council at the level of the EU Council of the Ministers of Finance made a decision to allocate a loan of the total amount of 3.1 billion Euro to Latvia as aid in order to overcome the financial crisis. Latvia will get the credit during three years; the repayment period will be in seven years. It is a part of the total credit of 7.5 billion Euro consisting of the funds allocated by the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development and a number of European countries until the end of 2011.

Unlike Latvia, Lithuania entered the crisis having saved a reserve fund since the accession to the EU. However, none of the economic sectors of Lithuania was able to avoid a decrease. The largest and fastest recession occurred in the construction sector (37.3 %). This industry has still been decreasing. The volume of construction during the first quarter of 2009 was by 42 % less than in the same period of 2008. In the trade sector, transport and communication the recession was 20.9 %, in the industry and energy sector — 13.5 % [8, p. 5]. Oil producing and oil processing companies also sufficiently suffered from the economic crisis. In the tendency of reducing oil production during the last years, no new big oil deposits were found in Lithuania. After the credit boom the prices for premises rose dramatically, while the production was not developing. As a result, a huge foreign trade misbalance occurred — a surplus of import over export reached 20 %. A gap between the production potential and demand which was formed in 2007 resulted in the growth of not only the income but also in the growth of salaries.

Insufficient amount of investments into the production facilities, and lack of labour forces related to the growth of emigration in search of better salaries needed to repay credits, contributed to the gap between the credit demand for consumption and speculative investments into premises, and the production potential. The labour market suffered most of all from the damaging economic crisis. The level of unemployment causing new waves of emigration was increasing very fast. The level of unemployment was contributed by a growing number of bankrupt enterprises: in 2008 a number of bankruptcies was the highest since 1993 (976 enterprises or by 1.6 times more than in 2007) [9, p. 4]. The largest capital flow occurred in Lithuania in 2009. In Estonia this indicator went up only by 1 % compared to 2008, in Latvia — by 2.4 %, while in Lithuania this indicator was 29.7 % [12, p. 43].

In Estonia which also managed to create a sufficient reserve fund mitigating the consequences of the economic crisis for the population, during the whole 2008 year there was a decline of production: from March to October it was about 5 %, in October-November — 15 %, and in December — 22 %. In 2009 the recession continued, and in April production was by 34 % less than in April 2008. In the manufacturing industry the volume of production in April, compared to the same period in 2008, decreased by 36 %, which was at the same level as in 2003. The recession occurred in all sectors: the volume of production dropped nearly by 50 % in the chemical industry, production of metal works, construction materials and paper; by more than 30 % — production of transport facilities, electronics, clothing industry, wood processing sector; by 20 % — energy production, while the import of energy increased almost by 60 %. Less recession was evident in the food production sector oriented for local market: the production volume dropped only by 9 % [7, p. 6—7]. Unlike its neighbours, Estonia was able to reduce the state expenses very fast and decrease the deficit of foreign trade by two times. The national budget of Estonia during 2008—2009 was three times reconsidered with regard to decreasing the expenses: on 30 April 2009 the Government made a decision on borrowing 3.5 billion crones (224.4 million Euro), nearly half of the Reserve Fund's money to compensate the budget deficit. In the whole, the crisis situation in Estonia was less sharp than in Lithuania and Latvia. According to the EU criteria, the state debt should not exceed 60 % of the GDP. In Estonia it is slightly more than 3 % of the GDP, being the lowest debt in the EU. According to Mr. I. Padar, Minister of Finance of Estonia, there is a situation in the country when credits are necessary and it is possible to take them without any special concern. This will not be a burden, even if a state debt reaches 10 % of the GDP [14, p. 13]. The price fall for engine fuel and natural gas made it possible for Estonia to fulfill the Maastricht treaty requirements on the inflation level (in 2010 it was less than 3 %) and enter the Euro zone on 1 January 2011.

The populism in the political process is one more factor complicating the situation in the banking sphere. In all three Baltic countries the crisis was developing on the background of the election campaigns: in Lithuania — the election of the President, in Estonia — municipal elections, in Latvia — elections to the Seim, and in the current year — the election of the President. This influenced the modification of civil legislation which now better protects clients from creditors. It means that the conditions of giving loans by banks were changed to the worse. For instance, in case of a private person bankruptcy the former legislation allowed to demand repaying credits without any time limitation. At present a period of maximum from two to four years was established. After the termination of this period the debtor is exempted from the responsibility to repay the rest of the credit. Banks suffered losses not only from the credit non-return but also from deposits both to legal and physical persons. First it refers to long-term deposits. Before the crisis, for the deposit for two-three years or longer, high deposit rates were established, i.e. 7—8 % a year. The banks should have paid large amount of money to depositors among which there were many big companies including insurance companies. In order to avoid the fall of the financial and credit system, the state had to subsidize the banks — the measure applied almost by all countries under the crisis. That was a great pressure on the state budget causing double reduction of salaries for civil servants— from ministers to the office staff.

Along with the global problems, the crisis highlighted typical regional problems of the Baltic states. First, it turned out that for such small countries as the Baltic states there are very many banking institutions (in Latvia this number is 26). Second, there is a big dependence on the Nordic and German banks. Decisions are made in other countries resulting in the ignorance of sharp national problems. Providing security and stability of the banks in the Baltic countries, both Nordic countries and Germany are not interested to support production projects, particularly with a long pay-back period. Third, in the legislation of the Baltic countries the processes of crediting from non-banking institutions were not regulated. In the crisis time, there appeared private investment companies, funds and semi-legal structures like “send sms and get a credit” which made the situation for the banks even worse. In most European countries it is not allowed to get a credit from private funds, while in the Baltic countries such limitations do not exist. Fourth, unlike other EU countries which are not part of the Euro zone, the banks in the Baltic countries give credits in Euro, while other financial system exists on a local currency (at present, Estonia turned to Euro but Latvia and Lithuania will not get this opportunity until 2014). As a result, financial systems lack freedom to a large degree. For instance, it is not allowed to devalue the national currency, as it was made in Poland by having devalued a zloty by 25 %, which activated the Polish export and sufficiently softened the crisis situation. The devalue of national currencies in the Baltic countries would have improved the competitiveness of their economies which started to decrease in 2008, and improved the export conditions, as compared to the main trade partners there was high inflation and salaries were not in line with labour productivity. Taking into account the total amount of credits, the devalue of national currencies would inevitably have broken the banking system in the Baltic countries.

However, the main result of the financial and economic crisis in this region was the start of reconsidering the basics of the ruling parties not only in foreign economic relations but also in the political sphere. It is evident that this process is of situational character. In the Baltic countries there have been discussions during the recent years not only of an economic and financial crisis but also of a political crisis. Most of temporary governments focus on short-term promises. In the condition of a crisis such position of temporary governments is only increasing. An unstable economic situation is always accompanied by political instability. Elected officials cannot afford looking too far ahead. The results should have been reached by the next election; otherwise the position may be occupied by somebody else who promises much more. Focus on short-term results hampers an effective fight of the state with the economic crisis. It is known that the frequent changes of governments are characteristic of unstable economies. This is to a large extent typical for the Baltic countries. These countries experienced political instability during the entire period after they got independence. It goes without saying that the change of the government results in changes of the leadership of the ministries and institutions. During the last 20 years the heads of governments were changed 19 times in Lithuania, 15 times in Latvia and 10 times in Estonia.

During the same period the number of civil servants was rapidly increasing, particularly in Latvia — from 59.2 thousand people in 1996 up to 83.6 thousand in 2007 [11, p. 4]. It should be noted that in the Soviet times the number of civil servants in Latvia was 22.5 thousand people.

At present, some unpopular measures have to be taken to reduce the number of civil servants both in the administration sphere and in other sectors like education, public health and culture. Schools, medical institutions and cultural institutions are closing down. Political leaders have to cut down social programmes, salaries, different social subsidies increasing unemployment in order to decrease the deficit of the state budgets. It is clear that all these measures create political tension in these countries, some of which resulted in demonstrations of dissatisfied people near the Parliaments in Riga and Vilnius in autumn 2009.

In these conditions, political leaders of the Baltic countries started to look back to the eastern neighbour. In practice an anti-Russian rhetoric disappeared, the leaders of these countries including members of the governments started visiting Moscow, Saint-Petersburg and other cities of Russia. The crisis also sufficiently influenced the results of the election. In Lithuania the former USA citizen Valdas Adamkus was changed by the former Soviet citizen Dana Gribauskaite who graduated from the Economic faculty of the Leningrad University and at the end of 1980s defended a candidate (PhD) thesis at the Academy of Social Sciences attached to the Central Committee of the Communist Party. She is a member of the Social-Democratic party of Lithuania which was created and headed by Algirdas Brazauskas. In the government headed by him, Dana Gribauskaite was Minister of Finance until 2004 and worked as an EU Commissioner on the budget and financial planning by the decision of the government. Lithuanian analysts agree that coming to power of a leader of the republic with such a biography to a large extent is explained by a financial and economic crisis in Lithuania. The President of Latvia Valdas Zatlers was the first of the leaders of this republic to get an invitation from the Russian side to visit Russia officially from 15 to 17 December 2010. During this visit very important economic documents were signed including an agreement on cancellation of double taxation which opened wide possibilities for the development of economic cooperation. The results of the municipal elections in Estonia strengthened the position of the Centrist party headed by the Mayor of Tallinn Edgar Savisaar who is supporting the development of cooperation with Russia and is a consistent opponent of the Estonian national radicals. During the Days of Tallinn in Moscow held in December 2008, the delegation of Estonian entrepreneurs headed by him signed more than a dozen contracts with Russian businessmen on mutually beneficial cooperation for the total amount of over 180 million Euro. The parties focused on the cooperation with Russia achieved even more success at the local elections in Riga where for the first time of independence in Latvia a Russian mayor, Nil Ushakov, was elected representing the party “The Centre for national consent”. In the period after the election a new mayor made successful trips to Moscow where he signed agreements on joint projects with the Moscow Government. In March 2011 Mr. Ushakov opened a Trade and economic representation of Riga in Moscow. Cooperation of the two capitals of the Baltic states and Russia is sufficient compensation for the cool relations formed at the inter-governmental level. And the financial and economic crisis in the Baltic states was well-timed in this sense. It confirms that the economy is the best remedy for political neurosis, while a long-term recession makes the most incorrigible dreamers to come closer to the ground.

Russia and the Baltic countries are coming into a new phase of economic relations when a role of complex schemes of foreign economic relationship based on mutual investments will be increased. Escape from the political phobias opens the way to the Russian investments into economies of the

Baltic states and by this to the economy of the EU. The financial and economic crisis has changed the situation in the social and political life of these countries, and resulted in transition from a common ideological platform of anti-Russian opposition started in the period of fight for independence to joint elaboration of mechanisms for interrelation with Russia in the framework of the united Europe.

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