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The story how to become slimmer

Personal experience: two times Prime minister, two times during the crisis. Got a nickname „Crisis Prime Minister“.

First time – Prime minister in 1999 – 2000 – during the Russian crisis. Second time – we won elections in October 2008, one month after Lehman Brothers collapse. I spend 4 years managing the deepest crisis – in 2009 Lithuanian economy went into very deep recession – 15 % of GDP, deficit grew up to 14 %. Latvians and Estonians went down in the same way. It was something like free-fall without a parachute.

In 2009 we decided not to appeal for IMF assistance, because here was a danger that IMF will demand currency devaluations. We have our currency pegged to euro, and we saw big danger in devaluation of the currency. We went for what is called internal devaluation. We succeeded – last year we finished with the GDP growth – 3.5 %, and the deficit ~ 3 % GDP, public debt ~40 % of GDP.

How we managed to achieve such a result:

1. **Political will** to implement effective austerity measures with internal devaluation. It was made without delay from the very beginning – public wages were cut by 20 %, my salary went down by 40 %, pension benefits were cut by 5 %. Internal devaluation in Lithuania worked – labour cost went down by 15 %, and because of that competitiveness of economy was regained. Exports started to recover by annual 30% growth, reaching the numbers much larger than it was before the crisis. First of all we were fighting excessive deficit – in 2009, when recession was -15 %, after implementation of all the austerity measures, annual fiscal deficit was 9.5% GDP. In 2010 it went down to 7.0, in 2011 – to 5.0 of GDP, and last year we finished with 3.0 % deficit.

Recovery of economy came very rapidly – if in 2009 recession was – 15%, in 2010 – we got small positive growth – 1.4%, in 2011 – the growth was substantial – 5.1 % and it continued in 2012 – with the growth around of 3.5 %.

Such a development allowed us to come back to international financial markets in the second half of 2009, with the borrowing cost rapidly going below the level which we had before the crisis.

2. National Consensus.

Besides political will to implement austerity measures and internal devaluation, ability to keep national consensus was of a greatest importance. At the end of 2009, when

we understood that without cuts in real social pensions, we shall not be able to stabilize the deficit, we asked our social partners to sign the National Agreement on such austerity measures. Major labour unions, business associations, association of pensioners signed such an agreement, which was the basis to keep social rest during the most difficult period of time.

3. Support to business

Reduction of red tape, reforms of public sector, especially energy sector, modernization of business support agencies, like Export Agency and Investment Agency, and effective usage of EU funds was a prerequisite to overcome the major challenge of the crisis.

Time of crisis is the best time of major reforms - to make the public sector slimmer.

During the crisis we cut the public sector by 10 %, and besides that implemented major reforms in university education, health care system and other areas, creating competitive environment in a larger areas of public sector. Competitive environment in a public sector makes public sector slimmer.

4. Conclusions.

The crisis made us much slimmer. Lithuania is ready to join Eurozone in 2015. Our recipe how to become slimmer – first of all, you need to have a good crisis, and then you need to understand that **deficit of political will** is more dangerous than fiscal deficit.