“Smart Austerity” and the New Baltic Growth Model

Latvia, one of the Nordic-Baltic countries, had a 15% export growth and 5.5% GDP growth in 2012. Clearly, economic dynamics of this kind defy the trends in Europe. These came as a result of radical fiscal consolidation and sweeping structural reforms in the public sector that Latvia carried out during the crisis of 2008-9. Therefore, an increasing number of economists view Latvia as an example from which Southern-European and other troubled economies could derive a lesson. Yet critics say that Latvian policy was focused mainly on austerity measure and not enough growth. According to Mr Daniels PAVĻUTS, "Smart Austerity" would be a more accurate description of Latvian’s policy. Smart austerity is economic stimulus, but not of the "borrow and print money" sort. Smart austerity means reviving the business environment by making it more competitive. The idea is to create a macroeconomic framework that restores confidence and directs the economy away from debt-driven financial services and construction. Another principle is safeguarding social stability and protecting education spending from cuts, thereby preserving Latvia’s long-term competitiveness.

The Nordic-Baltic region is regularly described as one of the most dynamic in the world and is certainly in Europe. Latvia is now moving forward with a modern National Industrial Policy to boost productivity and advance exports, to make Latvia’s growth sustainable in the long run. Latvia is creating industrial zones, stimulating R&D and innovation, making smart choices where to focus and where not to focus. Like Singapore, Latvia is a small country that, unlike its larger peers, can only afford to focus on excellence and achievement in any field. It is exciting to see what Latvia and Singapore could learn from each other.

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