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HYPOTHETICAL CRISIS POLICY FRAMEWORK FOR THE RECOVERY OF LITHUANIA‘S ECONOMY: SEARCHING FOR IMPACT OF GLOBALISATION

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Abstract

There are many scientific works were globalization, deregulation, liberalization and financial crisis is interpreted as a process that creates great instability and fragility in their emergent markets economies. As it was stressed in the latest work of Martens and Amelung (2010) globalization is something more than a purely economic phenomenon manifesting itself on a global scale. Globalisation supposes to be interpreted as a phenomenon which makes impact to the economic crisis. The depth and breath of the current global financial crisis is unprecedented in post-war economic history. It has several features in common with similar financial – stress driven crisis episodes. It was predicted by relatively long period of rapid credit growth, low risk premiums, abundant availability of liquidity, strong leveraging, soaring asset prices and the development of bubbles in the real estate sector (European Commission, 2009).

This paper points out the statement that globalisation may negatively affect the growth of economy. In order to prove this hypothesis some providences of globalisation as the preconditions for the global financial crisis were presented. The classification of the lessons from the past considering crisis prevention as well as practical analysis of the situation of Lithuania's economy allowed to suggest hypothetical crisis policy framework (hypothetical recipe) for the recovery of Lithuania's economy. *The research problem* being solved in this article: what is the impact of globalisation to the state of economy? What was the impact of present economic crisis on Lithuania's economy? How to construct hypothetical recipe for the recovery of Lithuania's economy? *The object* of the research is Lithuania's economy in the presence of global crisis. *The aim of this article is* – highlighting the points of globalisation impact to the state of economy, to present the hypothetical crisis policy framework for the recovery of Lithuania's economy. To achieve this aim *five tasks were solved*: to present some providences of globalisation as the preconditions of global financial crisis; to classify the lessons from the past economic crisis; to highlight the main impact of global economic crisis on Lithuania's economy; to systemise the specific actions of the Government of the Republic of Lithuania in the presence of Global economic crisis; to recommend hypothetical crisis policy framework for the recovery of Lithuania's economy. *The research methods:* analysis of scientific literature, synthesis; comparative analysis of statistical date. *The results of the article:* there was presented particular approach to the impact of globalisation to the state of economy; constructed the scheme of interrelation of classic and modern economic growth theories searching for impact of globalisation on change of values; classified the lessons from the past economic crisis; highlighted main impact of global crisis to Lithuania's economy; systemised specific actions of the Government of the Republic of Lithuania in the presence of Global economic crisis; recommended hypothetical crisis policy framework for the recovery of Lithuania's economy.

Keywords: economic crisis, globalisation, Lithuania's economic situation, crisis policy framework, economic recovery.

Introduction

There emerging more and more scientific works were globalization, deregulation, liberalization and financial crisis is interpreted as a process that creates great instability and fragility in their emergent markets economies (Giron A., Correa E., 1999). As it was stressed in the latest work of Martens and Amelung (2010) globalization is something more than a purely economic phenomenon manifesting itself on a global scale. During the last few decades, human dynamics, institutional change, political relations, and the global environment have become more intertwined. Among these visible manifestations of globalization are the greater international movement of goods and services, financial capital, information and people. In addition, there are technological developments, new and enhanced legal systems, and institutions that facilitate these flows. As the analysis of historically proved economic works shows (Martens P., Amelung B. (2010); Fukuyama F. (1989), Huntington S. P. (1996) there is direct impact of globalisation to the state of economy. Globalisation suppose to be interpreted as the phenomenon which makes impact on economy and can stimulate economic crisis. The era of globalization in the late 19th and early 20th centuries was reversed by catastrophic war and global depression. Like the 1929 crisis, the current financial crisis will be remembered as one of the most serious in the history of world capitalism. The depth and breath of the current global financial crisis is unprecedented in post-war economic history. It has several features in common with similar financial – stress driven crisis episodes. It was predicted by relatively long period of rapid credit growth, low risk premiums, abundant availability of liquidity, strong leveraging, soaring asset prices and the development of bubbles in the real estate sector (European

Commission, 2009).

This paper points out the statement that globalisation may negatively affect the growth of economy. In order to prove this *hypothesis* some providences of globalisation as the preconditions for the global financial crisis were presented. The classification of the lessons from the past considering crisis prevention as well as practical analysis of the situation of Lithuania's economy allowed to suggest hypothetical crisis policy framework (hypothetical recipe) for the recovery of Lithuania's economy.

The research problem being solved in this article: what is the impact of globalisation to the state of economy? How to could be interpreted? What was the impact of present economic crisis on Lithuania's economy? How to construct hypothetical recipe for the recovery of Lithuania's economy? *The object* of the research is Lithuania's economy in the presence of global crisis.

The aim of this article is – highlighting the points of globalisation impact to the state of economy, to present the hypothetical crisis policy framework for the recovery of Lithuania's economy.

To achieve this aim *five tasks are to be solved*:

- To present some providences of globalisation as the preconditions of global financial crisis;
- To classify the lessons from the past economic crisis;
- To highlight the main impact of global economic crisis on Lithuania's economy;
- To systemise the specific actions of the Government of the Republic of Lithuania in the presence of Global economic crisis;
- To recommend hypothetical crisis policy framework for the recovery of Lithuania's economy.

The research methods: analysis of scientific literature, synthesis; comparative analysis of statistical date.

The results of the article: there was presented particular approach to the impact of globalisation to the state of economy; constructed the scheme of interrelation of classic and modern economic growth theories searching for impact of globalisation on change of values; classified the lessons from the past economic crisis; highlighted main impact of global crisis to Lithuania's economy; systemised specific actions of the Government of the Republic of Lithuania in the presence of World's economic crisis; recommended hypothetical crisis policy framework for the recovery of Lithuania's economy.

The Providences of Globalisation as the Preconditions of Global Financial Crisis

Two essential innovations in the twentieth century – totalitarianism and globalisation – born in Italy. The first term used to explain the tendencies of the middle of XXth century as well as the second – the end of the XX century. Finally totalitarianism collapsed in 1989 and expression of globalisation factors came into the force (Daugėlienė R., 2011).

Analysing scientific works Fukuyama (1989) and Huntington (1996) it is evident that economic welfare could be reached when states' markets becomes open for the global competitiveness which ensures the manifestation of three factors - transparency in all fields of economy as well as in social life; the fight with corruption; attractive / friendly environment for the investments. Krugman P., Venables A. J. (2001), Krugman P. (2001), Mussa M. (2001) identify globalisation as the precondition for the global economic crisis.

Specified factors above could be interpreted as essential for economy growth as well as for the development of *morality paradigms of new economy* (Moral Markets, 2008; Kriščiūnas K., Daugėlienė R., 2006). It is important to stress that the change of values which was inspired by the surplus economy was one of the most important preconditions for the latter economic crisis as well (see Fig. 1). Radical changes in the scope of economies and growth engines were a result of (Kriščiūnas K., Daugėlienė R., 2006):

- increased participation of enterprises in the international as well as local networks (global geographic clusters);
- increased interested in investment in research and development (R&D) and other aspects of implementation of innovations;
- increased understanding about the importance of specified knowledge and their implementation in the processes of enterprise activities;
- increased demand in knowledge workers
- accelerated spread of information and communication technologies which stimulates creation and usage of new knowledge;
- decreased costs of knowledge creation and dissemination;
- accelerated internationalisation of production;
- increased openness of global economy;
- production transfer to more advanced spheres of economy (from production to services)

It is a key to stress that manifestation of globalisation factors changed the attitudes of people to values, to consumption as well as to engines of progress. In order to determine the features of XXI century economy the metaphor of *perfect storm* induced by expression of globalisation could be used. The scientists usually analyse several forms of globalisation. This is *economic, political, military, cultural*, *geographic* as well as *institutional globalisation* (Pekarskienė I., Susnienė R., 2010). Here in the article we are talking about economic globalisation.

The reflection of globalisation processes can be evaluated using specific complex instruments. Dreher, Gaston and Martens (2008) underlines that it is possible to analyze the effects of globalisation on tax policy, government spending, economic growth, inequality, union power, and the natural environment and consider additional avenues for research, analysis, and decision making . The possible criteria of assessment of globalisation expression are (Daugėlienė R., 2011):

- the *A.T. Kearney Globalization Index* or *KOF Globalisation Index* - it assesses the extent to which the world's most populous nations are becoming more or less globally connected and;
- *Maastricht Globalisation Index* (MGI) presented by Martens and Zywietz in 2006.

Detailed analysis considering the Assessment of the Level of Globalization in the Baltic States was presented by Pekarskienė I. and Susnienė R. (2011). In order to highlight Lithuania's level of globalisation the Maastricht Globalisation Index (MGI) was used (for detailed Index Variables see Daugėlienė R., 2011).

Summarising the analysis it could be stressed that according to the MGI Lithuania is in the 47 position among 117 world countries. The leaders are Ireland, Belgium, Switzerland, Netherlands, France, and Austria. Interesting situation arises regarding Ireland. Despite its great economic recession Ireland occupies the first position. Ireland's economy is globally open because of FDI. It could be made a conclusion that if no foreign capital injections, the situation of Ireland considering globalisation index would change in a worse position.

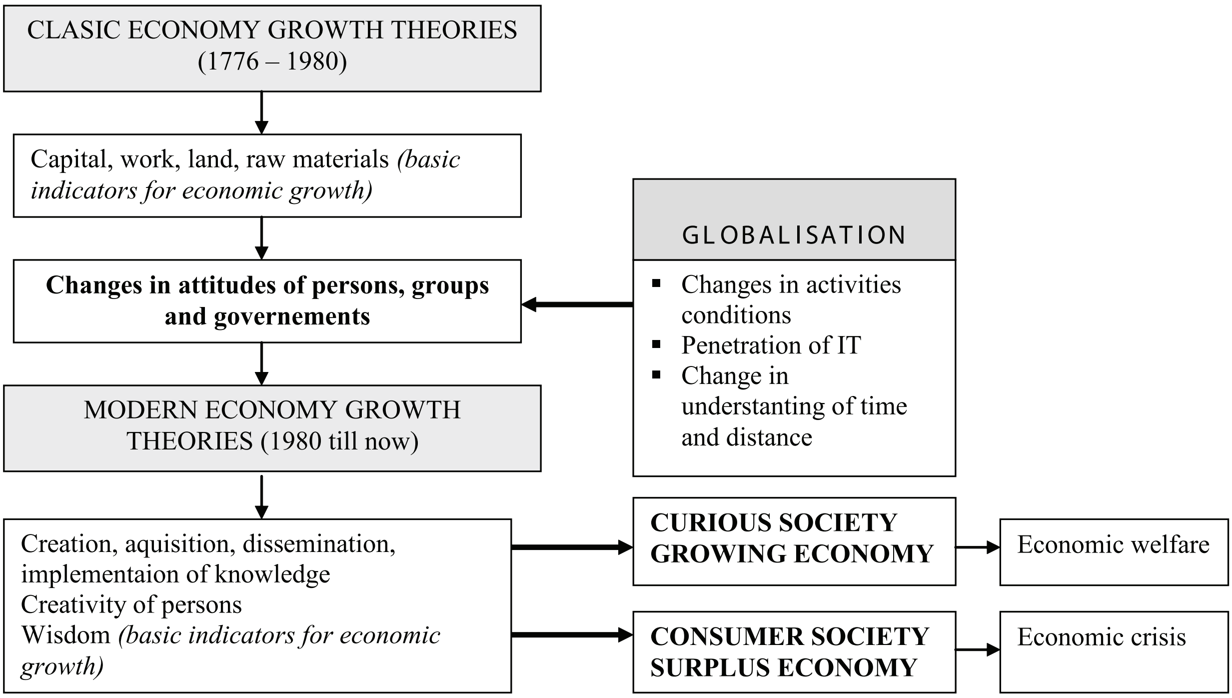

Fig. 1. The interrelation of classic and modern economic growth theories searching for impact of globalisation on change of values

United States occupied just 51 place, Finland – 32. In the contrary analysing KOF Globalisation index, Lithuania is in the 33 position among 208 world countries. The first position belongs to Belgium. Five first positions occupied by Austria, Netherlands, Switzerland, Sweden. It is interesting to stress that despite of economic level Portugal is in the 8 position contra to Finland (9), France (13), United Kingdom (24), United States (27) and so on.

Summarising, the correlations between globalisation expression and situation of world's economic health are direct. If globalisation indexes allows identify the problems in tax policy, to evaluate the rates of government spending as well as the welfare of people, the globalisation could be interpreted as conception of international system management as well as precondition for the global economic crisis (the fact of Ireland and Portugal this confirms). And, according to Krugman and Venable (2001) – economic recession is the price of globalisation.

The Classification of the Lessons from the Past Economic Crisis

The latest economic crisis – not a new phenomenon in the world's history. Today's collapse in trade, the fall in asset prices and the downturn in the real economy are fast and synchronous to a degree with few historical parallels. Any way most of analysts agree that the current crisis is the deepest, most synchronous across countries and most global one since the great Depression of the 1930s. The present crisis has not yet got a commonly accepted name. It was proposed the Great Recession term. In the past the most countries of the word were marked by the "storms" in the economies (Daugėlienė R., 2011).

In some ways current crisis resembles the leverage crises of the classical pre-World War I gold standard in 1873 and in particular the 1907 financial panic. There are clear similarities between the 1907 – 1908 and 2007 – 2009 crises in terms of initial conditions and geographical origin. They all occurred after a sustained boom, characterised by money and credit expansion, rising asset prices and high-running investor confidence and over-optimistic risk-taking. All were triggered in first instance by events in the US, although the underlying causes and imbalances were more complex and more global, and all spread internationally to deeply affect the world economy (European Commision, 2009).

Interesting correlations between "Great depression" and "Great Recession" were presented by European Commission experts. The main over-covering characteristics of "Great depression" (1929 – 1933) and "Great Recession" (2007) could be highlighted:

- the degree of global economic integration and the size of international capital flows had fallen back significantly;
- the recession of the early 1930s deepened dramatically due to massive failures of banks in the US and Europe and inadequate policy responses;
- most negative impacts on the real economy seem to occur not necessarily in the countries at the origin of the crises, but in some emerging economies whose growth has been highly dependent on inflows of foreign capital;
- the crises witnessed mass unemployment.

The current recession is clearly the most severe since the 1930s, but so far less severe in terms of decline of production. As regards the degree of sudden financial stress, and the sharpness of the fall in world trade, asset prices and economic activity, the current crisis has developed faster than during the Great Depression. As seen from Figure 1, the decline in world trade is larger now than in the 1930s. But despite a sharper initial fall in 2008 – 2009, stabilisation and recovery promise to be quicker in the current crisis than in the 1930s (European Commission, 2009).

Analysing the preconditions and features of all mentioned economic depressions, similarities allows to highlight key policy lessons from the past:

- *maintain the financial system – avoid financial meltdown* – the financial system should be supported by government actions in order to prevent a collapse of the credit allocation mechanism and to maintain public confidence in the banking system;
- *maintain aggregate demand – avoid deflation* – this is possible to implement by means of expansionary monetary and fiscal policies. The role of monetary policy is to provide ample liquidity to the system by lowering interest rates and use unconventional methods once rates are close to zero. Fiscal policies should aim at supporting aggregate demand;
- *maintain international trade – avoid protectionism;*
- *maintain international finance – avoid capital account restrictions;*
- *maintain internationalism – avoid nacionalism.*

These lessons had to be learned in order to avoid the economic consequences which are obvious in many countries of the world. For the crisis prevention it had to be secured prudentional micro and macro regulation of financial policy; automatic stabilisers within medium-term frameworks, leaning against asset cycles; market flexibility as well as development of entrepreneurship and innovation (Daugėlienė R., 2011).

The Main Impact of Global Economic Crisis on Lithuania's Economy

Lithuania as most of other countries of European Union did not managed to learn the key policy lessons from the past. In the very rise of economy starting from the 2006 the banks encouraged people to take credits, the prices of assets were not adequate to their real value, and the governmental policy was oriented to the stimulation of total consumption. Such policy inspired the "blow-out" of economy. There could be highlighted the *main preconditions which stipulated the slow down of the Lithuania's economy* (Daugėlienė R., 2011) was - uncontroled borrowing and the "bubble" of real estate prices; ineffective budget management; dependance on external sponsorship sources; labour export; problems in the energy sector; lack of foreign direct investments.

Mentioned preconditions stipulated a huge accumulation of large – scale economic and financial imbalances in the country: the current account deficit, growing inflation, budget deficit, a large part of the loans was given in foreign currency. The priority was given to the stable fixed exchange rate. Due to the fixed national currency exchange rate and the country's participation in the exchange rate mechanism (ERM II) there was no possibility to apply active monetary and fiscal incentive policies in order to stabilise country's economy. Due to declined state of international financial markets the funding needs were hardly satisfied or government hat to borrow on high interest rates (Račickas E., Vasiliauskaitė A., 2010).

As it can be seen the problems listed above could be predicted analysing lessons from the past. The economy of Lithuania was affected by the global crisis and the scope of effects could be identified analysing statistical data.

In order to assess the global financial crisis impact on Lithuanian economy properly, it is necessary to take into account the dynamics of macroeconomic indicators.

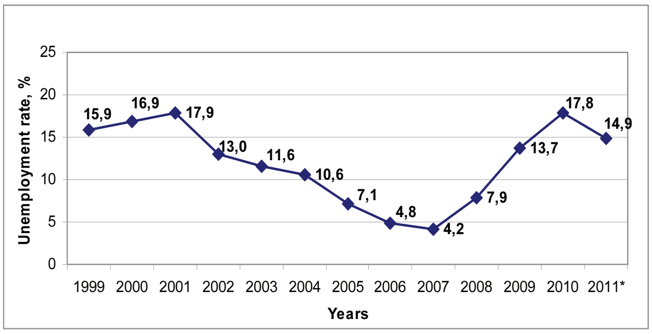

Fig. 2. Unemployment rate dynamics in 1999 – 2012 year

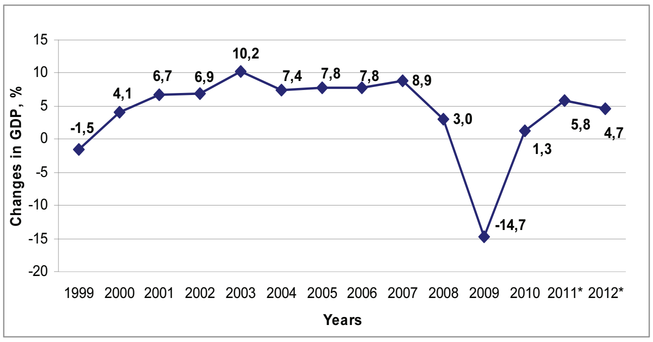

Fig. 3. Lithuanian GDP growth dynamics in 1999 – 2012 year

After sliding by nearly 15 percent in 2009, Lithuania's GDP grew by 1.3 percent in 2010 (Fig. 3). The economy is expected to rise by 5.8 percent in 2011 and 4,7 percent in 2012.

Lithuanian export growth is accelerating rapidly, and the prospects of export markets growth remain positive, therefore updated the central economic development scenario provides for a substantially faster growth in gross domestic product in 2011 - about 5.8 percent and in 2012 growth will decline to 4,7 percent.

In 2010, Lithuania's economy was on the rise, but unemployment did not fall (Fig. 2). It is expected that the unemployment in 2011 would fall 14.9 percent. Market participants believe that unemployment will slump by nearly 3 percentage points this year, but it will remain still high. About 15 percent of job seekers of working age will be unemployed at the end of 2011. Despite the economic recovery, unemployment remains relatively high over the medium term.

In the year 2010, Lithuania felt the recovery of its major export markets, and growing exports at least partially soft-pedalled the diminished demand on the domestic market. It is expected that exports will grow at a high rate in 2011. Market participants think that exports edged up by as much as 17 percent last year, while imports climbed somewhat less rapidly – by 14 percent. Foreign trade will continue to grow rapidly this year. Both imports and exports are expected to increase by about 13 percent (Fig. 4).

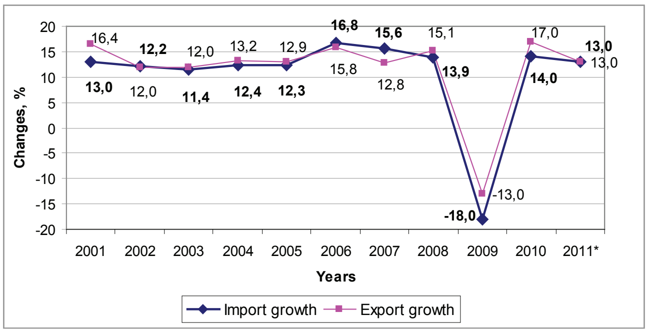

Fig. 4. Lithuanian foreign trade flow dynamics in 2001 – 2011 year

Market participants estimate that prices of consumption goods and services fall 1,3 percent in 2010. This is even 8,6 percent points less than in 2008 and 3,2 percent points less than in previous year. It is expected that prices of consumption goods and services will soar by 2,1 percent in 2011 (Fig. 5).

The downward trend in the price of borrowing, discerned from 2008 to 2010, will end; borrowing in 2011 will cost similarly as in 2010. Market participants estimated that interest on more than 1-year loans in Litas was 6.5 percent last year. The price of borrowing is expected to remain at a somewhat similar level in 2011.

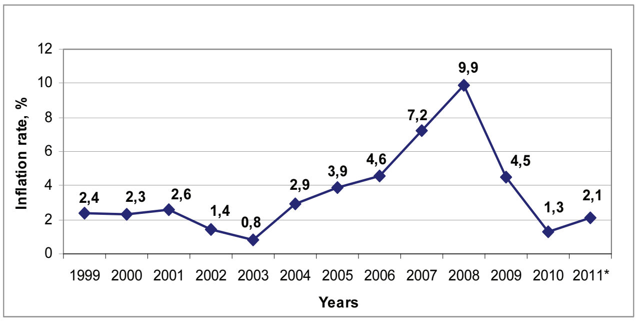

Fig. 5. Lithuanian inflation dynamics in 1999 – 2011 year

Until the beginning of the crisis in 2008 the volume of banks' credits given to the inhabitants of Lithuania was growing in double-digit figures. In just five years from 2003 to 2008, the inhabitants of Lithuania borrowed almost 60 billion Litas. The global financial crisis affected households' incomes that impacted on obtaining credit. On this situation, domestic credit volumes decreased respectively 13,83 percent in 2009 and 5,23 percent in 2010 (detailed analysis see Daugėlienė R., 2011).

The tax burden is one of the major causes of the shadow economy. A heavy tax burden forces enterprises and people to transfer at least parts of their activity to the informal sector and so reduce the total tax load they are coerced to bear. The tax burden in Lithuania remained heavy in 2010 and will increase in 2011. Lithuania's tax burden is expected to grow by one percent point, according for 37 percent of GDP in 2011. Legal business activity is being influenced not just by the tax burden, but also by the regulatory burden. In 2009, the Lithuanian Government assumed an obligation to reduce the administrative burden for business by 30 percent by the end of 2011.

Specific Actions of the Government of the Republic of Lithuania as the Reaction to Global Economic Crisis

As it was stressed above Lithuania was reached painfully by the Global Recession and still feels the consequences. However it is very interesting to analyse the reaction and actions of the Government of the Republic of Lithuania after the beginning of Global economic crisis. This analysis presented in confrontation with the events in the World and Europe. The results are very interesting (see Table 1).

The Government of the Republic of Lithuania responded to the possible consequences of global financial crisis to the Lithuania's economy in the end of 2008. The solution considering financial stability security was initiated. The first actions were pointed to the tax policy. Many rates of taxes were enlarged. This increased tax burden on citizens.

Table 1. The Events / Actions of the Government of the Republic of Lithuania after the beginning of Global economic crisis

Date	The events / actions
2007 September *(Europe)*	**Interbank interest rates increased to the highest level starting from 1998. The problems of *Northern Rock* (JK) started to be obvious.**
2008 November	**First reaction of the Government of the Republic of Lithuania to the crisis. The project concerning assurance of Lithuania's financial stability.**
2008 January *(Lithuania)*	The bankers assured the Prime Minister of Lithuania that there are no threats for Lithuania's economy because of financial crisis in the USA. *While the World Bank made the prognosis about the slowdown of global economy growth. It was obvious the biggest slowdown in the global stock markets sins September 11, 2001. The fears about Americans debt obligations in the real estate market were expressed. To some It was forecasted that such situation can raise many problems in the credit market.*
January 2008 – November 2008 *(Lithuania)*	The personal income tax rate was reduced from 27% to 24%.
	Social tax for the taxable profit was abolished.
	The salaries for the pedagogues were increased.
	Additional 37 mln. Lt. was assigned for the needy families.
	The payments for the social security pensions were increased.
While in Europe and World…	Northern Rock (JK) bank was nationalised by the government of the United Kingdom.
	The G-7 announced that the collapse of USA mortgage market raised a loss approximately in 400 mlrd. dollars.
	The problems of the liquidity of one of the biggest USA investment banks "Bear Stearns" were announced.
	ICF alerted that potential losses regarding financial crisis may reach 1 trillion dollars. And crisis may cover all financial spheres .
	Judicial investigations considering intentional financial crimes were started in the USA.
	The real estate prices in the JK fell to the level of 1991's.
	Injection of 95 mln. Euro was made by the European Central Bank to the banking sector.
	"Lehman Brothers" bank went bankrupt (USA).
	First EU country which fell the consequences of crises was Ireland.
	European banking sector was shocked by the credit crisis.
	The first victim was "Fortis" – European giant in banking and security.
	Island nationalised the banks.
	The Central banks of USA, EU, G. Britain, China, Canada, Sweden and Switzerland reduced the interest rates and presents the report about the recession of global economy for the ICF.

The first actions considering the Global economic crisis made by the Government of the Republic of Lithuania in order to stabilise economy was the tax reform. Then quite drastic actions not friendly for the Lithuanian's were implemented. Starting from January of 2009 the tax policy measures which were implemented increase the level of inflation by 2.7 percents. The main measures are systemised below:

- seeking to economise the state budget there were reduced the salaries for the public sector servants (aprox. for 7 – 38 percents. The scope depended on the amount of salary);
- the personal income tax was splited (but this did not reduced the tax burden for residents);
- the values added tax (VAT) rate was increased from 18 percent to 21 percent (the privileges were abolished);
- the dividends were taxed by 20 percent tariff;
- the tax for use of state property in use was increased from 0.5 percent to 2 percents;
- the income tax was increased (from 15 percents to 20 percents);
- the excise duty for petrol, diesel, gas and ethyl alcohol was increased;
- the total state budget was reduced in 3 mlrd. Litas (it was about 3 percent of GDP);

It is a key to stress that despite these governmental actions were painful for residence however they were inevitable. As the practise of Scandinavian countries shows, it is very important to make correct and accurate decisions considering tax policy in order to manage the consequences of economic crises, though these countries applied totally controversial measures then Lithuania's Government. They reduced taxes, especially the public costs in order to enhance the flexibility of the economy as well as to tighten the budget policy.

Summarising it is a key to stress, that the solution for mentioned above tax policy measures which was made by the Government of Lithuania was the reaction to the recommendations of International Monetary Fund (IMF). These recommendations not always and not for all countries are fully appropriated and could be hundred percent implemented.

Hypothetical Crisis Policy Framework for the Recovery of Lithuania's Economy

Lithuania's economy is recovering supported by a determined policy response and the global upturn. Regardless much has been achieved over the past year, the crisis has left three key policy challenges: fiscal deficit remains high, public debt is growing rapidly and the rising level of unemployment makes it imperative to advance with structural reforms.

It is a key to stress that Lithuania as other EU countries should follow for the requirements or suggestions by European Commission in order to create policy framework for crisis management (see Table 2). This framework, once fully developed, should include policy instruments in the pursuit of crisis prevention, crisis control and mitigation, and crisis resolution. Basically it is important to stabilise monetary and fiscal policies.

Table 2. Crisis Policy Framework for the recovery of economy

	Crisis prevention	*Crisis control and mitigation*	*Crisis resolution*	*EU coordination frameworks*
Financial policy	Regulation, supervision (micro- and macroprudentional)	Liquidity provision, capital injections, credit guarantees, asset relief	State-contingent exit from public support; audits, stress tests, recapitalisation, restructuring	EU supervisory committees, Single Market, Competition policy, joint representation in international forum (G20)
Monetary policy	Leaning against asset cycles	Conventional and unconventional expansions	State-contingent exit from expansion, safeguarding inflation anchor	Single monetary policy, European System of Central Banks
Fiscal policy	Automatic stabilisers within medium-term frameworks, leaning against asset cycles	Expansions plus automatic stabilisers, while respecting fiscal space considerations	State-contingent exit from expansion, safeguarding sustainability of public finances	Stability and Growth Pact, European Investment Bank
Structural policy	Market flexibility, entrepeneurship and innovation	Sectoral aid, part-time unemployment compensation	State-contingent exit from temporary support	Single Market, Competition policy, Lisbon Strategy
EU coordinated tools	Micro- and macro-prudential surveillance, fiscal surveillance, peer pressure, learning	Liquidity provision, balance of payment lending facilities, eurobonds	Definition of coordinated exit strategies, structural funds	-

Source: European Commission, Economic Crisis in Europe, 2009, p. 58

As it was stressed in the document, the EU policy framework for crisis management largely builds on existing institutions and procedures, but parts of it are emerging from the various policy actions during, and prompted by, current crisis. This framework, once fully developed, would include policy instruments in the pursuit of crisis prevention, crisis control and mitigation, and crisis resolution (European Commition, 2009). Every country should now start to think about actions concerning crisis preventions while measures for crisis control and mitigation as well as resolution is still very important.

Hypothetical recipe for the recovery of Lithuania's economy (Daugėlienė R., 2011) could be simulated according to the IMF provisions made in 2010. Considering mentioned above there could be highlighted free challenges for Lithuania in future. They are *reduction of unemployment rate, stipulation of domestic consumption as well as properly organise public finances*. In order to manage these challenges it should be taken the later measures:

- packages of measures to support employment generation and SMEs through increased absorption of EU funds should help to support the economy and job creation at a time of substantial fiscal adjustment. The new proposals in parliament to further enhance labour market flexibility would encourage hiring earlier in the recovery. Further steps to improve the business climate as well as the performance of state-owned enterprises could help stimulate investment;
- further fiscal consolidation is needed to place deficits and debt on a sustainable path. It is important to reduce Sodra's deficit as well as to restore the financial viability of the pension system;
- there is a need to ensure the recovery of viable borrowers and the adequate protection of creditors.

Lithuania is able to overcome the challenges of the crisis and to carry out painful but necessary structural reforms that will create a strong foundation for long-term competitiveness. It would like to believe that effective measures will be implemented in order to enhance the purchasing power of Lithuania's citizens. The concepts of knowledge-based economy development (Daugėlienė R., 2008) should not be eliminated as well. The economic growth needs to be supported by the policy which stipulates the creation, acquisition, implementation and dissemination of knowledge. According to this it is important to strengthen incentives towards R&D activities, maintain labour and product market regulations that do not hinder the process of recourse reallocation towards higher-value-added activities. It is important to create the conditions for faster adoption of new technologies, enhance the innovation potential and attract FDI in dynamics sectors.

Conclusions

- The impact of globalisation to the state of economy is direct and seems to be negative. Globalisation increases the opportunities to deal with a crisis. The main preconditions for globalisation are changes in activities conditions because of IT penetration, changes in understanding of time and distance. The main factors for economy growth stressed in classic economy theories were capital, work, land and raw materials. The expression of globalisation changed the attitudes of persons, groups and governments. According to this there were relooked and basic indicators for economic growth and modern economy growth theories emerged. Since 1980's the expression of the process of creation, acquisition, dissemination and implementation of knowledge became essential engine for stimulation of economy growth. In the interaction with globalisation this process may course the emergence of curious society which creates the economic welfare and , in contrary, consumer society which was the essential precondition for the last economic crisis.
- Starting from 1593 year we could calculate up to eleven prime crises which influenced negative changes in the economies. As the history shows the current downturn is clearly the most severe since the 1930s, but so far severe in terms of decline of production. The analysis allowed to systemise five key policy lessons from the past which would be called as measures to ensure avoidance of economic downturn. These are: to maintain the financial system; to maintain aggregate demand; to maintain international trade; to maintain international finance; to maintain internationalism.
- The economy of Lithuania as many countries of EU was effected by the global economic crisis. The unemployment rate increased significantly as well as GDP rate. The inflation level raised 9,9 percents in 2008. Import decreased by 18 percents as export by 13 percents. This situation stipulated the total downturn of the economy and tax burden increase.
- The first real actions of the Government of the Republic of Lithuania as the reaction to the global economic crisis were made just in January of 2009. While the World and Europe started inform about slowdown of the economy growth in September of 2007. The first actions while very painful for the residents were concerned with the relook of tax policy. This policy could be specified as "tax increase" policy.
- Further actions for the recovery of Lithuania's economy should be taken. The crisis policy framework for the recovery of Lithuania's economy should cover crisis prevention, control and mitigation, resolution actions. They should be done changing financial, monetary, fiscal structural policies. The instruments implemented have to be oriented in order to manage free basic challenges – reduction of unemployment rate, stipulation of domestic consumption as well as properly organise public finances.

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