

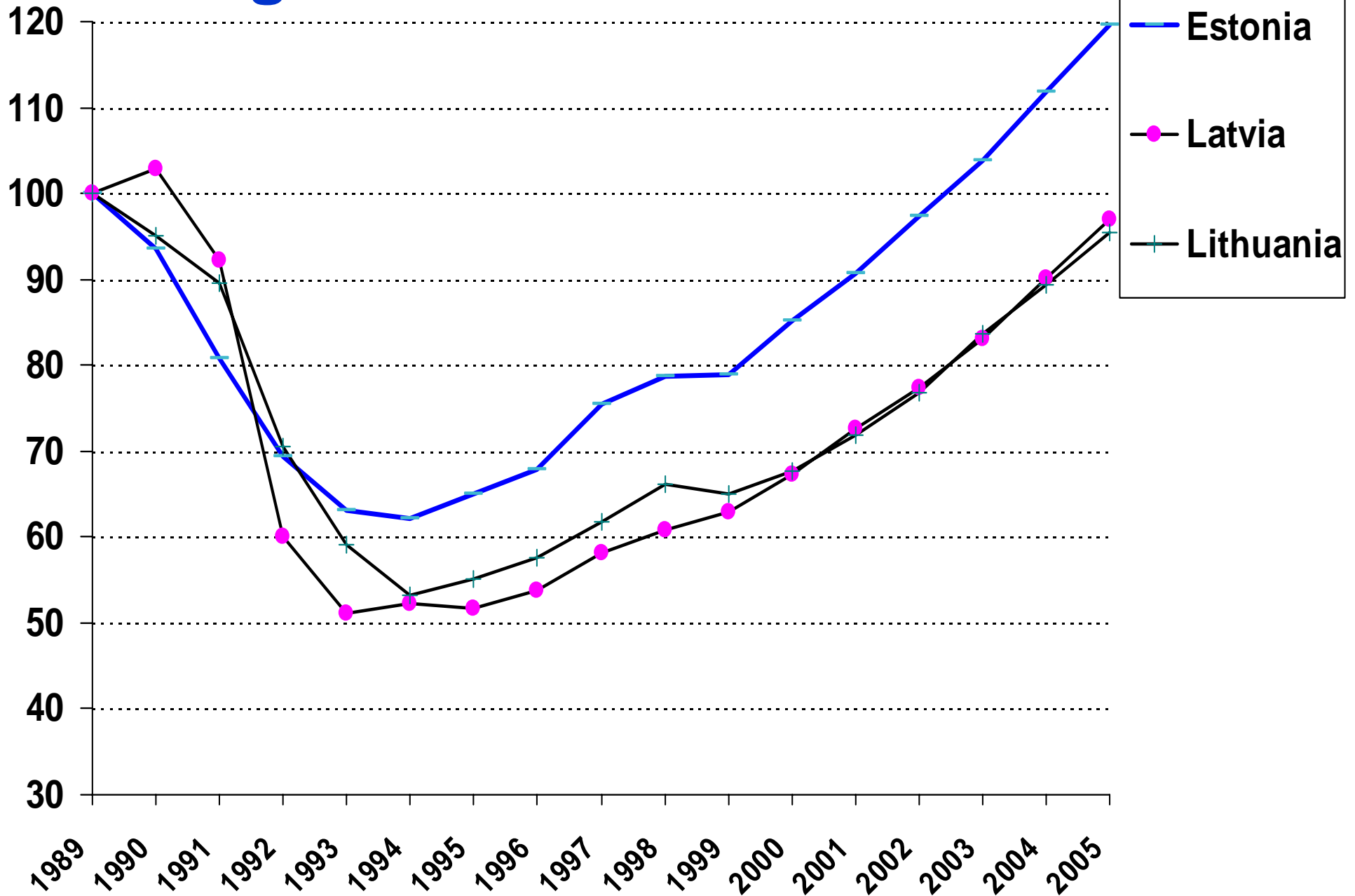
Perspectives for the tourist sector seen in relation to steeply increasing productivity and wages in the Baltic economies

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Trends in the transition in the Baltics

- Steep **fall in production** in early years
- Products and production methods was **not fit for the market**
- Necessary with **deep restructuring** of production – takes time, capital, training
- Restructuring depend on building up new **market institutions – takes time**, (but done relatively fast in the Baltics)

GDP growth: 1989 = 100 EBRD 2005

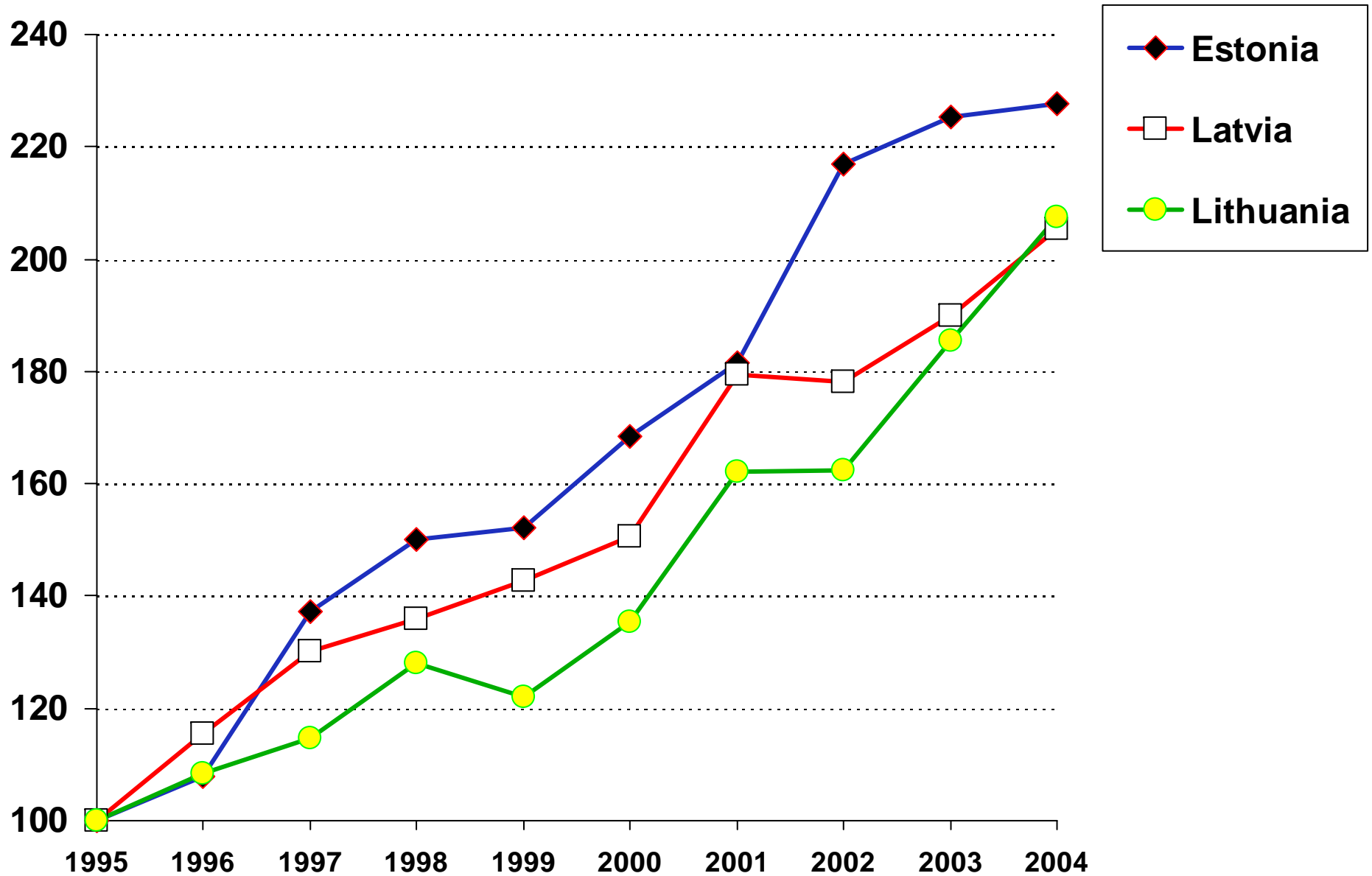


After initial fall – steep increase in productivity and real wages

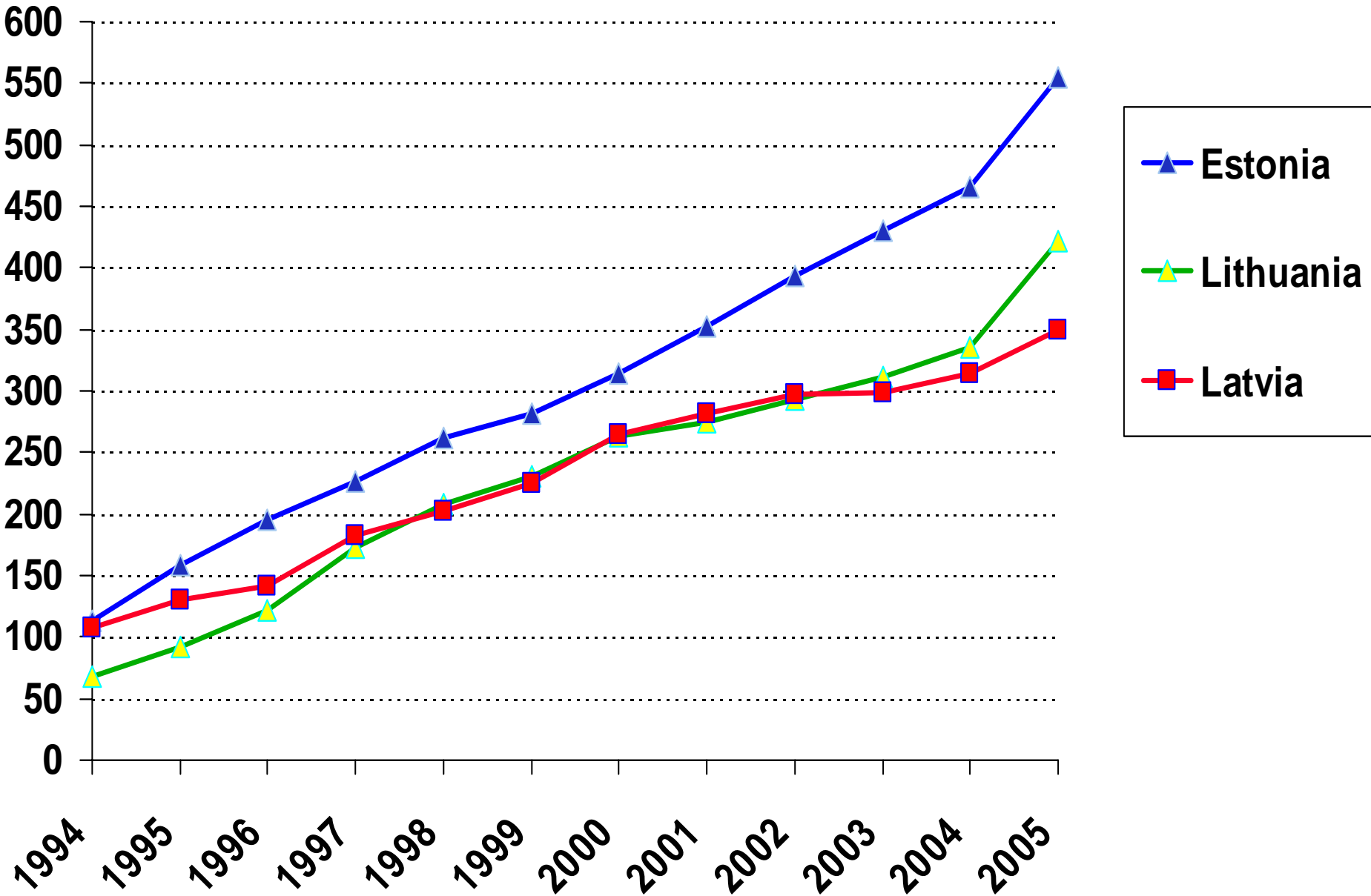
- Baltics have **strong resources** for growth
 - high quality labor
 - Location
- Combined with **developed institutions** and high investments => **high growth in productivity** (from low initial level)
- High **growth in wages**

Index labor productivity in manufacturing

(based on EBRD 2005) 1995 = 100



Average monthly wage – in € based on BOFIT/BRE

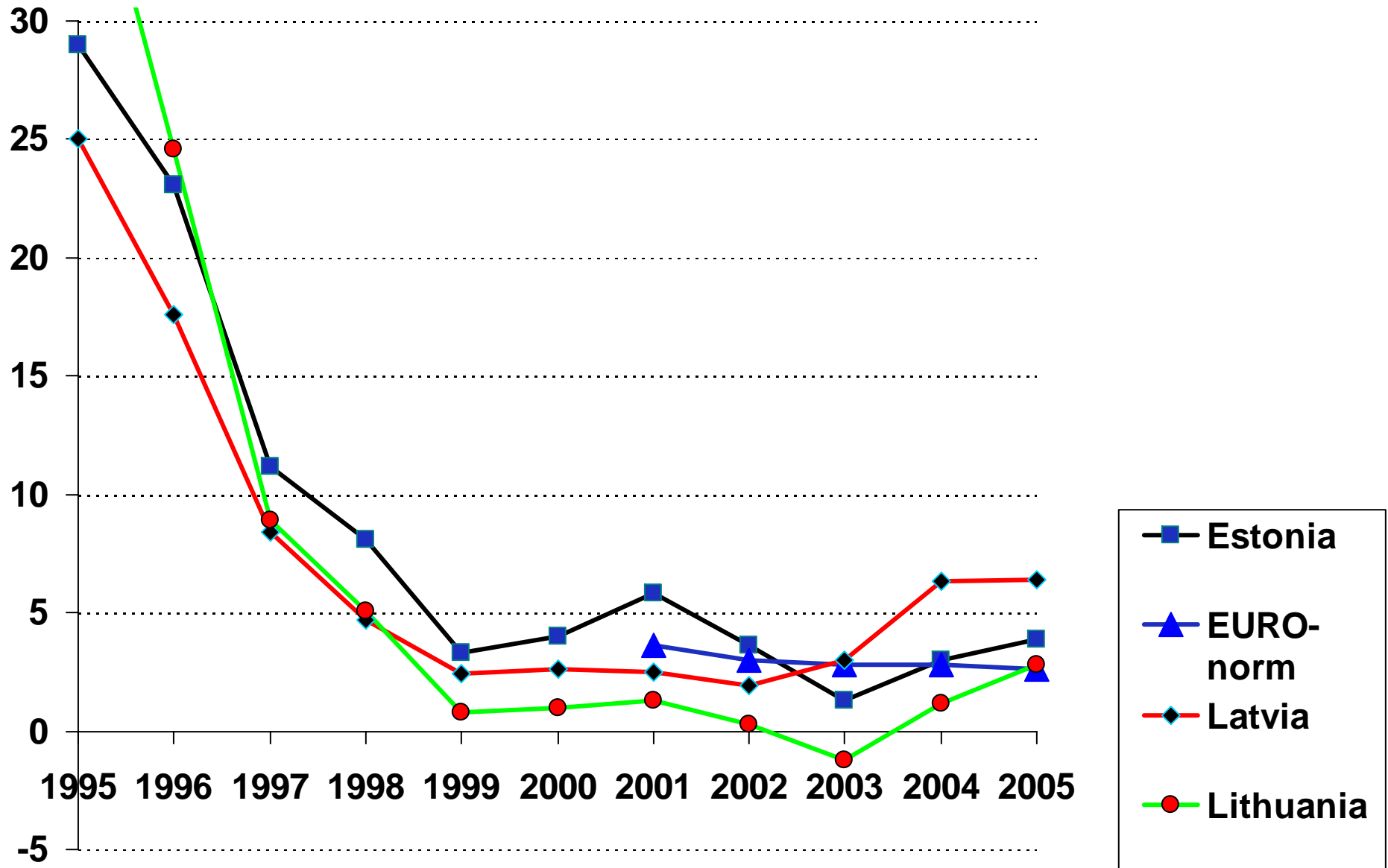


OK with slightly higher inflation

- Baltics have **fixed exchange rates** (Currency board)
- **Wage increases** no problem for exports when based on **higher productivity**
- Higher purchasing power => **prices** in domestic sectors will **increase**
- => with wages catching up, also **price levels** on domestic goods (non-tradeables) will in the long run **converge** to West European levels
- => **room for higher inflation** in the Baltics in catching up process
- **Euro-conditions** on inflation are **too strict**

Inflation 1995-2005

consumer prices, change in annual average
EBRD 2005



Perspectives for tourism in the Baltics

- **Tourism** a "domestic" sector where **price levels follow** the development in **wages**
- Many **tourist services** quite **cheap** in the early transition, but prices increasing (business segment, higher price-levels from start)
- Potential for **mass-tourism** based on low prices on hotels, restaurants, etc
- But in the **longer run** tourism must be based on **high quality** culture, entertainment, nature-environment like in Scandinavia.
- **Tourist sector** also in **upgrading process**