

The Baltic Countries Medium-Term Fiscal Issues Related to EU and NATO Accession

**Johannes Mueller, Christian Beddies, Robert Burgess,
Vitali Kramarenko, and Joannes Mongardini**

C
INTERNATIONAL MONETARY FUND

Washington DC

2002

Contents

Preface	v
List of Abbreviations	vi
I Overview	1
Background	1
Run-Up to EU and NATO Accession	1
Medium-Term Fiscal Strategy	3
II The Current Fiscal Position	5
Structure of Expenditure	5
Structure of Taxation	6
III Medium-Term Fiscal Policy: Theory and Evidence	8
Growth	8
Fiscal Sustainability	9
Fiscal Policy Rules	12
Appendix: Determining the Medium-Term Fiscal Position—The Role of Public and External Debt Sustainability	14
IV The Experience of Earlier Accession Countries	17
Similarities and Differences Between the Baltics and the EACs at the Point of Accession	17
Fiscal Challenges of EU Integration	18
Real Convergence	22
V Medium-Term Fiscal Frameworks	28
General Principles and Objectives	28
Scenario I: EU Accession in 2004	32
Scenario II: EU Accession in 2004 in a Low-Growth Environment	39
Scenario III: EU Accession in the More Distant Future	40
References	41
Boxes	
II 1. EU Accession Requirements on Taxation	6
III 2. Fiscal Policy and Economic Growth	9
3. Private Saving and Investment	11
4. Institutional Fiscal Reforms: Rules and Transparency	13
IV 5. Macroeconomic Convergence	23
V 6. EU Pre- and Postaccession Financial Instruments	36
7. Preaccession Fiscal Surveillance	38