A. THE EXTERNAL ECONOMIC ENVIRONMENT

1. THE WORLD ECONOMY

Global Trends in Outputs and Prices

In 2001, the global output of the world economy fell in comparison with 2000. The year-on-year fall in economic dynamics was substantially greater than had been predicted by major international financial institutions. An additional factor in the general downturn in economic activity was the terrorist attack on the USA on 11 September 2001. Global output increased by 2.5%, representing the slowest rate of growth since 1993. The sharp fall in business confidence led to decline in international trade, with the volume of global trade in goods and services recording a year-on-year fall of 0.2% in absolute terms, compared with an increase of 12.4% in 2000.

The high degree of synchronisation of business cycles and the integration of financial markets led to a slowdown in the rate of growth in all major countries and regions of the world economy. The driving force behind this global trend was the development of the US economy, the dynamics of which slowed considerably in the last quarter of 2000 (after 10 years of accelerated growth), and the continued fall in output in 2001. A slowdown in economic growth was also recorded in the European Union and the euro area. The persistently slow and negligible growth in the economy of Japan turned into recession in 2001. This led to a sharp fall in the economic performance of newly industrialised Asian countries. More moderate slowdown in the rate of growth was recorded in transition economies, i.e. Central and Eastern Europe and developing countries, particularly in China. The performance of these two groups of countries was favourably affected by a reduced degree of dependence on international financial markets. The downturn in economic activity in the developing countries of Latin America was fuelled by the financial crisis in Argentina. However, the potential danger of its spreading was avoided, since the crisis was expected by the markets.

Global price development in 2001 was not exposed to any unexpected inflationary effects. Despite the fading effects of increased oil prices from 2000 and the repeated interventions of leading central banks to ease monetary policy and support the markets, price levels showed a tendency to fall in 2001, which was interrupted by a marked increase only in May.

Global output in 2001 (year-on-year growth in %)

	2000	2001	2002 (forecast)
Global output	4.7	2.5	2.8
Advanced economies	3.9	1.2	1.7
USA	4.1	1.2	2.3
Japan	2.2	-0.4	-1.0
European Union	3.4	1.7	1.5
Euro area	3.4	1.5	1.4
Newly industrialised Asian countries	8.5	0.8	3.6
Transition economies	6.6	5.0	3.9
Central and Eastern Europe	3.8	3.1	3.0
Russia	9.0	5.0	4.4
Developing countries	5.7	4.0	4.3
China	8.0	7.3	7.0
Brazil	4.4	1.5	2.5

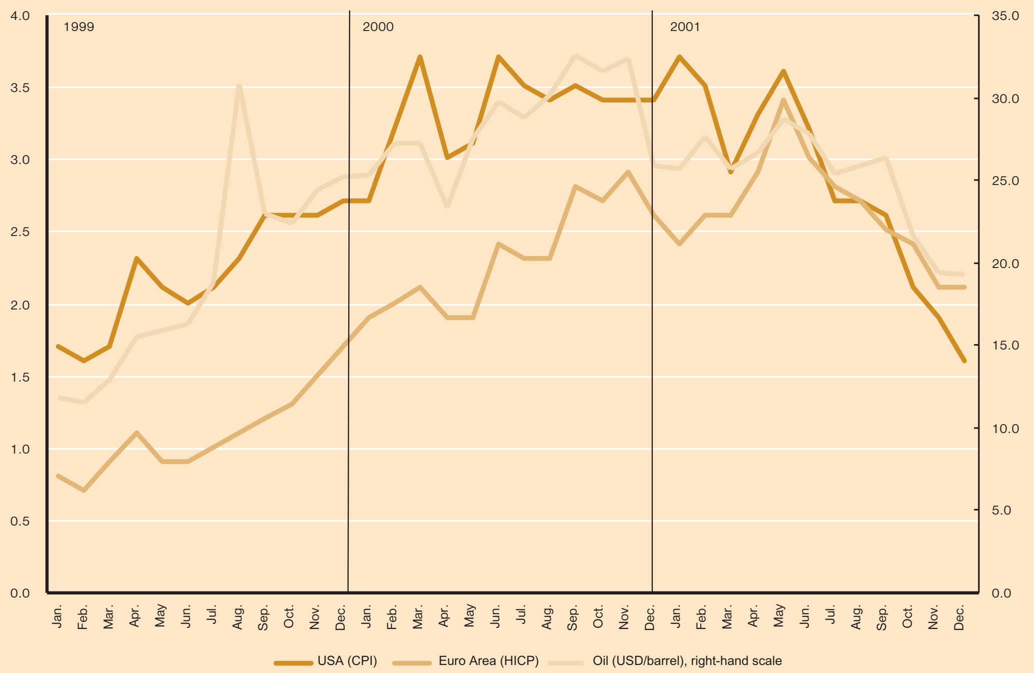
Source: World Economic Outlook, April 2002

The prices of oil and other raw materials fell during the year (the price of oil by 14%, that of non-energy raw materials by 5.5%), as a direct result of the downturn in global economic activity. In 2001, the average price of oil reached US$ 24.28/barrel. Over the course of the year, however, oil prices showed marked volatility: in initial months, they were roughly at the level of the end of 2000, rose temporarily in May, and after the September events in the USA, fell sharply, to less than US$ 19/barrel by the end of the year. The level of oil prices fell in 2001 despite the effort of OPEC to maintain the price of oil within a target range of US$ 22 – 28/barrel. The repeated reductions of oil production in OPEC countries, as well as non-member states, failed to offset the fall in demand and prevent the price of oil from falling below the lower limit of the target range.

The downturn in economic activity in advanced economies had a dampening effect on the rise in consumer prices, and caused the rate of inflation (expressed in terms of the Consumer Price Index - CPI) in these countries to fall to 2.2% (from 2.3% in 2000). In the countries of the EU and the euro area, consumer prices (expressed in terms of the Harmonised Index of Consumer Prices - HICP) increased equally by 2.6% (compared with 2.3 and 2.4% respectively in 2000). Price dynamics also moderated in developing countries, by a total of 5.7% on a year-on-year basis (from 6.1% in 2000), as well as in transition economies, where prices increased year-on-year by 15.9% (compared with 20.2% in 2000). In candidate countries for EU membership (except Romania), the average rate of consumer-price inflation reached 6.0% in 2001.

In 2001, developments on international foreign exchange markets reacted sensitively to changes in economic development, increased risks, and uncertainties in the main areas of the world economy. However, the trend in the exchange rates of major currencies recorded no marked changes during the year. The US dollar maintained the confidence of financial markets despite a substantial slowdown in the rate of economic growth in the USA, and recovered quickly even after the short-term fall, caused by the September 11 events. The exchange rate of the euro to the dollar again depreciated on a year-on-year basis, to USD/EUR 0.88 at the end of 2001, which is 6.5% less than at the beginning of the year and 4.5% below the average level of 2000. On the

Development of consumer prices and oil prices (year-on-year change in %)



other hand, the exchange rate of the euro to the Japanese yen appreciated year-on-year by 6.5% and reached JPY/EUR 115.3 at the end of 2001, which is almost 16% above the average level of 2000.

On major international stock markets, share prices had been falling since the last months of 2000 and the trend continued in 2001. At the end of 2001, the values of reference indices in the USA and the euro area stood roughly at the level of the end of 1998 (i.e. before the expansion phase, which culminated in the first half of 2000). In 2001, share prices were affected mainly by the unfavourable prospects of the global economy, the uncertain outlook of corporations for profits, and continued uncertainty about the future of the Japanese economy. The September events in the USA caused much volatility in share prices, but the quick return of prices to normal levels confirmed that the measures taken by the central banks of the USA and the euro area, as well as the fiscal measures of the US government, had helped to regain the confidence of the markets. The overall share index of the USA (Standard & Poor's 500) fell year-on-year by 14%, the broad share index of the euro area (Dow Jones EURO STOXX) fell by 20%, and Japanese index (Nikkei 225) fell by 24%.

Developments in the Main Centres of the World Economy: USA, Japan, Euro Area

After a decade of accelerated growth, the economy of the **USA** recorded a downturn in 2001, which had already been indicated by a marked fall in business and consumer confidence at the end of 2000. The rate of year-on-year growth in real GDP slowed to 1.2% (from 4.1% in 2000). The slowdown in economic growth culminated in the third quarter, when GDP recorded an absolute quarterly fall of 0.3%. On a year-on-year basis, the rate of growth fell continuously, from 2.5% in the first quarter to 0.4% in the fourth quarter. The main factor behind the slowdown in the rate of real GDP growth was a sharp fall in fixed private investments (1.9% per annum on average, compared with an increase of 7.6% in 2000) and inventories. The growth in GDP was maintained by private consumption and public spending. With continued credit expansion in the private sector and the increased indebtedness of households (to an all-time high), the ratio of the current account deficit to GDP decreased year-on-year only slightly, to 4.1% (from 4.5% in 2000). The slowdown in the rate of growth and fall in domestic demand, coupled with a fall in oil prices, had a favourable effect on consumer prices, causing the annual rate of consumer-price inflation to fall to 2.8% (from 3.4% in 2000). The rate of unemployment increased to 4.8% (from 4.0% in 2000).

The economy of **Japan** entered recession in 2001, after several years of unsuccessful attempts to start a convincing revival. Real GDP fell year-on-year by 0.4% (compared with 2.2% growth in 2000). The economic decline was caused by a fall in global demand and continued structural problems in the private entrepreneurial sector, and by falling share prices. Fewer export opportunities led to the reduction of production in high-tech industries, from where the recession spread to other sectors of the economy. This caused further increase in the rate of unemployment, to 5.0% (from 4.7% in 2000). The deflation trend in price development continued: the year-on-year index of consumer prices fell by 0.7% (compared with 0.8% in 2000). The main problem of the Japanese economy is the persistently low level of consumer confidence and the absence of internal stimuli to growth (public capital injections, used frequently in the past, had only a short-term effect on the level of business activity), which have, together with the lack of favourable export opportunities, a negative effect on overall economic performance.

The growth of GDP in the **euro area** slowed to 1.5% in 2001 (from 3.4% in 2000). The rate of economic growth began to slow in the second half of 2000, but marked decrease in GDP dynamics was recorded only from the second quarter of 2001 (in the individual quarters, GDP recorded a year-on-year increase of 2.4%; 1.6%; 1.4%; and 0.6%). The unfavourable trend in external demand led to a fall in exports from the euro area and a substantial downturn in investment activity in the private sector. The September 11 events resulted in another fall in business and consumer confidence, and an absolute fall in GDP dynamics in the fourth quarter (0.2% compared with the third quarter).

The main cause of deceleration in the rate of economic growth in the euro area in 2001 was a fall in domestic demand. Final domestic demand contributed 1.4 percentage points to the growth of GDP (of which, the change in inventories represented a negative contribution of 0.5 percentage point), compared with circa 3 points in 1998 – 2000. The contribution of net exports amounted to 0.6 percentage point (as in the year 2000), since the fall in exports was offset by a fall in imports. Total private consumption increased by 1.8% in 2001 (compared with 2.5% in 2000). The disposable incomes of households were favourably affected by cuts in direct taxes in several euro-zone countries in 2000 and 2001. An abrupt year-on-year change took place in investment, when gross fixed capital formation fell by 0.2% in 2001 (after growing by 4 – 5% in 1998 – 2000). Increased uncertainty affected the behaviour of investors, who showed little willingness to implement their investment plans, despite the favourable conditions for investment and continued moderate wage development. In 2001, exports from the euro area grew by 3.4% and imports by 1.8%, representing a year-on-year fall of roughly 9 percentage points in both cases.

The slowdown in the rate of GDP growth in the euro area was due, first and foremost, to a fall in industrial production, which fell year-on-year by 0.2% in absolute terms (after growing by 5.8% in 2000). Production was reduced mainly in sectors that are dependent on exports: the production of intermediate goods fell by 1.2% and that of durables by 2.6%. The major shocks that affected the rate of economic growth in 2001, had a negative effect on the output of the market services sector as well, the growth of which slowed from 4.5% in 2000 to 3.1% in 2001.

On a year-on-year basis, the rate of real GDP growth slowed in all member states of the euro area with the exception of Greece, where it remained at the level of 2000 (4.1%). The most pronounced slowdown took place in Ireland, where the dynamics of GDP fell from 11% in 2000 to 6.5% in 2001, but still represented the highest figure in the euro area. The total output of the euro area was affected, above all, by the stagnation, and in the 3rd and 4th quarters, even recession of the German economy, caused mainly by the collapse of investment demand. The average annual rate of GDP growth in Germany reached 0.6%, representing the lowest dynamics among euro-zone countries. Lower than average GDP growth (1.5% in the euro area) was recorded in Belgium, Austria, and Finland (from 1.3 to 0.7%), whose economies showed signs of recession during 2001. In the Netherlands, GDP increased by 1.5%. Apart from Greece and Ireland, higher than average growth was recorded in Spain (2.7%); France, Italy, and Portugal (from 2.0 to 1.7%). The national differences in the slowdown in GDP dynamics led to reduction in the interval between the highest and lowest rates of GDP growth in the individual countries, to 5.5 percentage points in 2001 (from 8.5 points in 2000).

Price development in the euro area was rather uneven in 2001. The rate of inflation was affected during the year by the most volatile components of HICP – the prices of energy and unprocessed foodstuffs. As a result of a cyclical fall in productivity, the growth in unit labour costs accelerated somewhat during the year, however, domestic price pressure remained a secondary issue. From the beginning of the year, inflation (HICP) increased to 3.4% in May. After the fall in energy prices and the suppression of the price effects of measures undertaken in connection with the farm animal diseases, inflation fell to 2.0% in December. In 2001, the energy component of HICP (especially the price of oil in euros) was determined by fluctuations in oil prices in dollars, while its development in 2000 depended primarily on the exchange rate of the euro against the dollar.

Average inflation (expressed in terms of HICP) in the euro area reached 2.5% in 2001 (compared with 2.3% in 2000) and thus remained above the level of 2.0%, which is the limit set by the European Central Bank (ECB) for price stability. The year-on-year increase in HICP inflation in the euro area as a whole, did not affect the difference between the lowest and highest rates of inflation, which amounted to 3.3 percentage points in 2001 (as in 2000). The changes in average HICP inflation rates in the individual member states of the euro area were determined by the effects of temporary or one-off factors of varying intensity across the countries (mainly the impacts of diseases among farm animals, weather conditions, and food prices).

In the individual countries of the euro area, average HICP inflation in 2001 ranged from 1.8% in France, where price level remained unchanged on a year-on-year basis, to 5.1% in the Netherlands, where the highest increase was recorded (from 2.3% in 2000). A marked increase in inflation was also recorded in Greece (0.8 percentage point, to 3.7%) and Portugal (1.6 point, to 4.4%). Inflation also rose in Germany and Austria (by 0.3 point, to 2.4 and 2.3% respectively). The inflation rate fell in Ireland (by 1.3 point, to 4.0%), Belgium, Spain, Italy, and Finland (equally by 0.3 point, to 2.4%, 3.2%, 2.3%, and 2.7% respectively).

The decline in economic performance led to a partial deterioration in labour market conditions, mainly in a slowdown in employment growth in industry. Due to the continued creation of new jobs in the services sector, the level of employment in the euro area rose by 1.4% in 2001. The average rate of unemployment fell to 8.3% (from 8.8% in 2000). The relatively favourable trend in employment in the euro area persisting for the last few years, which continued despite the worsened economic conditions in 2001, is partly due to ongoing reforms of the labour and product markets, and also to a moderate wage development.

In 2001, the current account balance in the euro area (the data below refer to 12 member states) resulted in a deficit of EUR 9.3 billion, which is far less than in 2000 (EUR 70.1 billion). The reduction in the current account deficit was due mainly to an increased surplus on the balance of trade, from EUR 11.7 billion in 2000 to EUR 74.1 billion in 2001, and the surplus in the services balance (EUR 1.5 billion), which had recorded a deficit in 2000 (EUR 5.2 billion). The surplus in these two accounts were absorbed partly by an increase in the income balance deficit (of EUR 10.2 billion, to EUR 37.7 billion). The deficit in the account of transfers remained virtually unchanged. Although the decline of foreign and domestic demand was accompanied by a fall in exports and imports during the year, the fall in imports was greater. This partly explains the surplus achieved in the trade balance. The volume of imports was favourably affected by developments in import prices, which fell by roughly 10% in 2001 (mainly as a result of oil prices development), compared with 20% in 2000.

In 2001, the capital account of the euro area recorded a net outflow of direct and portfolio investments, in the amount of EUR 53 billion, which was less than in 2000 (EUR 87.6 billion). The fall in the net outflow was due, first and foremost, to a shift in the net position of portfolio investments, from a massive outflow in 2000 (EUR 102.3 billion) to an inflow in 2001 (EUR 40.9 billion). The net inflow of portfolio investments was partly offset by a change in the net position of direct investments from an inflow (EUR 15.2 billion) in 2000 to an outflow (EUR 93.9 billion) in 2001. The year-on-year difference in the development of direct and portfolio investments was caused mainly by the restriction on mergers and acquisitions in 2001, including, probably, activities performed within the scope of portfolio investments for the restructuring of international portfolios in connection with the worsened growth prospects of the US economy.

Economic development in the remaining three EU countries, i.e. Denmark, Sweden, and the United Kingdom, was also affected in 2001 by the global slowdown in the rate of growth. The growth of GDP reached 1.2% in both Sweden and Denmark; Denmark entered recession in the second half of the year, while Sweden recorded a sharp fall in exports. In the United Kingdom, GDP increased by 2.4% with domestic demand remaining at a high level. HICP Inflation was kept at 1.2% in the United Kingdom, the lowest level within the EU (as in 2000). In Sweden, inflation rose by more than 1 percentage point (to 2.7%), while Denmark's inflation rate fell slightly (to 2.3%). The three countries maintained a favourable situation on the labour market, with unemployment rates of 4 to 5%.

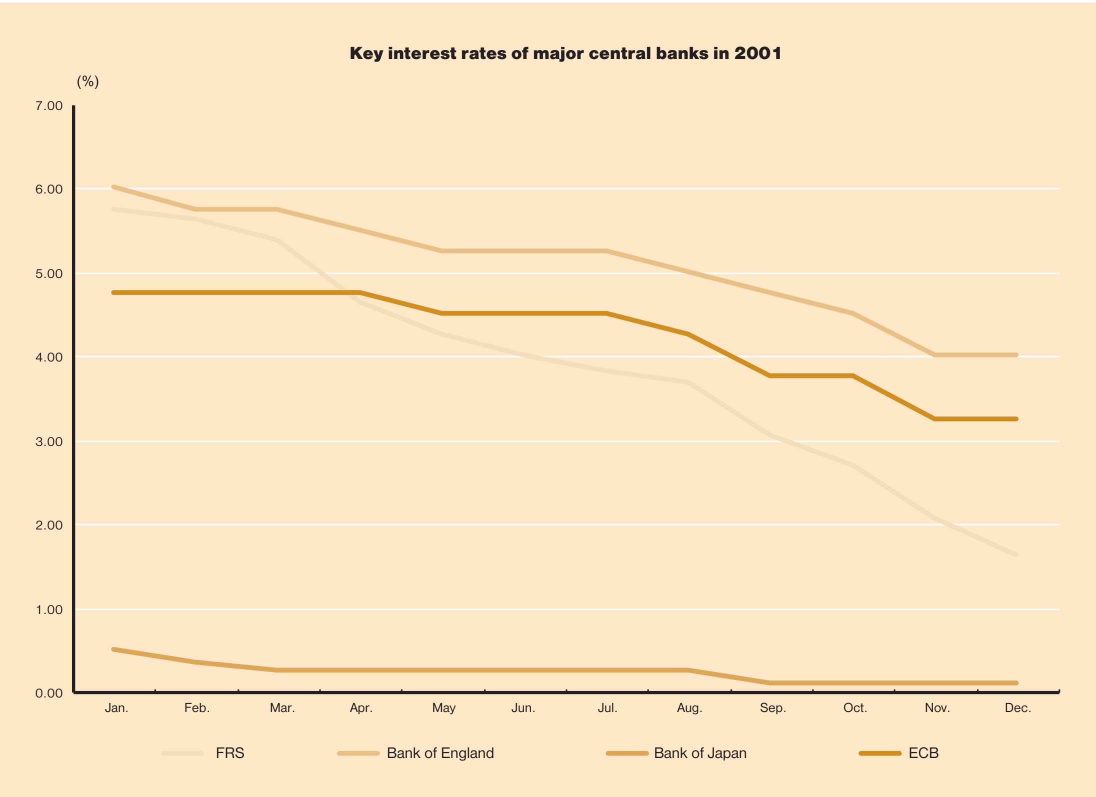
Monetary Conditions and Fiscal Policy

In 2001, with the decline in activity in the corporate sector, the Federal Reserve System (FRS) focussed its monetary policy on relaxing the monetary environment. At the beginning of January, the Federal Open Market Committee (FOMC) of FRS lowered the target overnight rate for federal funds to a significant extent (by nearly one percentage point). The rate was further reduced step by step, to 1.75% at the beginning of December. During the year, the target rate for federal funds was reduced by 500 base points, to the lowest level in the last 40 years. A marked fall was also recorded in the discount rate of FRS, i.e. from 6% at the end of December 2000 to 1.65% at the end of December 2001. Despite a marked fall in economic performance, the fiscal sector generated a moderate surplus in the balance of public finances (0.1% of GDP). In February 2001, the incoming American administration submitted, to Congress, a proposal for reduction of public revenues from personal income taxes. In May, Congress passed a resolution, setting the total amount of reduction in tax revenues for the period 2002 – 2011 at US$ 1,350 billion.

The economic policy of Japan has been in stalemate for a long time, as monetary policy has been paralysed by the near zero interest rates of the central bank in an atmosphere of price deflation, while fiscal investment stimuli have had only a short-term effect on economic activity. In 2001, the Bank of Japan started to follow a policy of quantitative monetary expansion. The main operational target for open market operations was changed: the non-collateralised overnight rate was replaced by targeting of the outstanding balance on the current account at the Bank of Japan. In addition, the central bank substantially increased the limit for direct purchases of long-term government bonds. The new operational strategy will be applied until the annual rate of change in the consumer price index stabilises at a level of 0% or above. Within the scope of fiscal policy, the year 2001 saw an additional increase in budget expenditure on structural reforms and strengthening of the social safety network. The deficit in public finances reached 6.4% of GDP in 2001. The ratio of debt to GDP increased to 132%.

During the year, monetary conditions were gradually relaxed in the euro area. After the risks to price stability were tackled at the beginning of the year, the ECB responded to the worsening prospects for economic growth by lowering its key interest rates by a total of 50 base points in May and August. After the terrorist attacks in the USA, the ECB lowered its rates by 50 base points on September 17 (in the same way as the FOMC of FRS in America), in order to restore the confidence of the financial markets and ensure their smooth operation. This was followed by another cut of 50 points at the beginning of November. Thus, the ECB's main refinancing rate reached 3.25%, and remained at this level until the end of 2001 and in the first months of 2002.

The decision of ECB to lower its interest rates in 2001 was, to some extent, complicated by the development of the M3 monetary aggregate (broad money), representing the 'first pillar' of price stability in the euro area. In 2001, the annual rate of growth in M3 reached in average 5.5%, but the rate of growth accelerated during the year, to 8.0% in December. As a result, the three-month moving average of the annual rate of growth in M3 exceeded the reference value (4.5%) and reached 7.8% in the last quarter. However, analysis of this development led to the conclusion that the excessive growth in M3 was caused by factors of a temporary nature (replenishment of transaction money in view of the previous rise in oil and food prices, a flat yield curve, and the weakened stock markets), therefore, the basis of price stability in the euro area was not threatened, in the medium term.



In systemic terms, fiscal policy in the euro area is in large part responsible for cyclical stabilisation and is determined in the medium term by the commitments of Member States, laid down in the Stability and Growth Pact (SGP). The average budgetary position of the euro area as a whole deteriorated in 2001, for the first time since 1993. According to preliminary data from EUROSTAT, public finances in the euro area resulted in a deficit of 1.3% of GDP (compared with 0.8% of GDP in 2000, or after taking receipts from the sale of UMTS licences into account, a surplus of 0.2% of GDP). The main factors behind the deterioration in the fiscal position were the action of automatic stabilisers in the context of a downturn in economic activity, as well as the marked reduction in tax rates and social insurance contributions, applied by several euro-zone countries without sufficient cuts in expenditures. As a result, the majority of countries failed to meet the budgetary objectives set in the national Stability Programmes for 2001. On average, targets were exceeded by 0.7% of GDP.

Despite a worsening in the total fiscal position, certain countries managed to improve their fiscal balances (Greece, Austria, Spain, and Italy), due partly to the delayed effects of economic growth from 2000 in tax revenues and partly to one-off measures. Eight countries achieved balanced (or near balanced) or surplus budgets, while the deficits remained relatively high in four countries (France, Germany, Italy, and Portugal). The most problematic fiscal development was recorded in Germany, where the fiscal deficit (2.7% of GDP) came dangerously close to the reference value (3%) set in the Maastricht Treaty.

In the euro area, the ratio of government debt to GDP fell by 1 percentage point, to 69.1% in 2001. The debt ratio decreased in all countries with the exception of Portugal, but to a lesser extent than expected (due to poorer results in budgetary performance and the slowdown in the rate of economic growth). The most significant fall in government debt (more than 3 percentage points) was recorded in Spain and Greece.

In line with the conclusions of the Lisbon meeting of the European Council in 2000, the process of structural reforms in public finances in the euro area become one of the most important components of the strategy for increasing the growth potential of the EU. After a period of economic boom, which contributed to the relatively rapid progress in fiscal consolidation in the euro area, the results of the fiscal sector in 2001 reflected the cumulative effects of the slowdown in the rate of economic growth and reduction in tax rates with unfavourable effects on the revenue sides of public budgets. For that reason, the potential danger of fiscal imbalances persists. Therefore SGP requires that the budgets of member states are maintained during the cycle ‘close to balance or in surplus’ in order to have sufficient operating space for any deterioration in government finances.

In the money markets of the euro area and the USA, short-term interest rates responded to the cuts in key central bank rates in 2001, while market rates fell more rapidly than official rates over the first half of the year, due to growing expectations of a further easing in monetary policy. The three-month EURIBOR rate fell only by an average of 14 base points over the year (to 4.26%), reaching a level of 3.37% in December 2001, compared with 4.93% in December 2000. A much greater fall was recorded in three-month rates in the USA, which fell during the year by 275 base points (to 3.78% on average), while the December figure was at the level of 1.92%, compared with 6.54% in December 2000. Long-lasting low interest rates on the Japanese money market fell to almost zero in 2001. In December, the three-month rate stood at 0.08%, but the average figure for 2001 was 0.15%.

Long-term interest rates (on 10-year government bonds) showed certain fluctuations in 2001, both in the euro area and the USA; but their year-end values remained virtually unchanged in comparison with the level at the end of 2000. The comparative developments in interest rates led to further reduction in the interest rate differential between rates in the USA and the euro area: the differential diminished to 11 base points (4.96% in the euro area and 5.07% in the USA) in December; the average differential for 2001 represented only 2 base points, in reversed order (5.03% in the euro area and 5.01% in the USA).

The relative stability of long-term rates in the USA was probably, particularly during the first half of the year, an indication of markets' confidence in the correct setting of key FRS rates at a time when the economy was entering recession and the optimism of investors in respect of fast economic revival, was growing. As long as pessimism increased, reinforced by the September events, the rates began to fall, but not dramatically. The fall in long-term rates was also supported by changes in investment portfolios, characterised by shifts from the stock market to the safer long-term government bond market. In the euro area, yields in government bonds followed basically the same course as in the USA, since interest rates reacted to the same stimuli. This trend was, however, less volatile and less pronounced over the year than in the USA, which indicated that the expectations of the market in respect of inflation and economic growth were more stable in the euro area. This caused periods, when interest rates in the euro area were temporarily higher than in the USA.

In Japan, yields on long-term government bonds are moving, for a long time, independently of interest rate developments abroad, due to specific problems of this country. In 2001, yields on Japanese 10-year government bonds fell by roughly 30 base points, to 1.35% in December, compared with 1.62% in December 2000. The fall in yields was caused mainly by the deepening recession and persistent deflation trends in the country. After the change in the monetary policy framework of the Bank of Japan, the fall in long-term bond yields came to a halt in the second half of the year, due probably to growing concerns among market participants about the excessive bond issues and a reduction in the credit ratings of Japanese government bonds.

2. ECONOMIC DEVELOPMENT IN TRANSITION COUNTRIES

In comparison with the other areas of the world economy, transition economies were affected by the slowdown in the global growth in 2001 to a limited extent and with a certain delay. The least affected countries were those of the Commonwealth of Independent States (CIS), which grew by 6.2% as a whole, due to dynamic growth not only in the leading economies, i.e. Russia and the Ukraine, but in other member states as well.

Macro-economic results of candidate countries under transformation in 2000 – 2001 (data in %)

	GDP		Inflation rate		Current account/GDP		Unemployment rate		General government/GDP [1/]	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Slovakia	2.2	3.3	12.0	7.3	-3.7	-8.8	18.6	19.2	-4.8	-5.5
Czech Rep.	2.9	3.6	3.9	4.7	-5.6	-4.7	8.8	8.9	-3.3	-5.5
Poland	4.0	1.1	10.1	5.5	-6.3	-4.0	16.0	18.2	-3.8	-5.6
Hungary	5.2	3.8	9.8	9.2	-2.9	-2.2	6.4	5.8	-3.1	-4.3
Slovenia	4.6	3.0	8.9	8.4	-3.4	0.0	6.9	6.4	-1.6	-1.3
Bulgaria	5.8	4.3	10.3	7.5	-5.9	-6.9	17.8	18.3	-0.7	1.8
Romania	1.8	5.3	45.7	34.5	-3.7	-5.9	7.1	6.4	-4.0	-3.3
Estonia	6.7	5.4	4.0	5.9	-6.4	-6.5	13.8	12.7	-0.4	0.2
Lithuania	3.8	5.9	1.0	1.3	-6.0	-4.9	11.4	12.3	-3.3	-1.5
Latvia	6.8	7.6	2.7	2.5	-6.9	-10.2	13.2	12.9	-2.7	-1.7

Source: Ecofin
1/ The data are not fully comparable; they may not correspond to the national data.

In the group of candidate countries for EU membership, real GDP growth reached 3.1% in 2001. The main stimulus to growth was domestic demand, as these countries experienced, namely in the second half of the year, a slowdown in the rate of growth in exports due to their close ties with the EU.

In the group under review, the most dynamic growth took place in the Baltic states, due to growing domestic demand as well as to a dynamic growth in Russia. The rate of growth accelerated in the Czech Republic and Romania (after a period of recession), and in Slovakia (after a period correcting the macro-economic imbalances). The greatest slowdown in the rate of growth in comparison with 2000 was recorded in Poland.

The inflation dynamics in 2001 was affected mainly by the process of price deregulations and changes in indirect taxes, the favourable trend in commodity prices, as well as the national monetary policies focussed on price stability. With the exception of Romania, the rates of inflation reached a single-digit figure in the group of candidate countries under transformation.

The current account balance resulted in substantial deficits in the majority of countries. Due to the availability of adequate resources with a large proportion of foreign direct investments and to the prospects for EU membership, however, the region retained the confidence of investors.

In most countries, the situation on the labour market was rather unfavourable. The negative effect of the ongoing restructuring in the corporate sector on the rate of unemployment exceeded the creation of new jobs. A low, and decreasing unemployment rate was recorded only in Hungary, Slovenia, and Romania.

In the Czech Republic, the rate of economic growth accelerated again (after recession in 2000), due mainly to growth in investment demand and household consumption. The course of inflation was determined by the upward effect of continued price deregulation and the rise in food prices in the first half of the year. At the end of the year, however, the inflation rate fell as a result of reduced commodity prices. Fiscal policy was of an expansive nature determined by the high costs of restructuring in the banking and corporate sectors.

In Hungary, the high rate of economic growth achieved in previous years slowed as a result of a fall in foreign demand and a downturn in investment activity in the private sector. The main stimulus to growth in 2001 was demand in the household and government sectors. The change in the monetary policy framework towards the inflation targeting together with the change in the exchange rate regime – replacement of the system of crawling peg by the floating rate regime – contributed to the mitigation of inflationary expectations and reduction of inflation.

Poland entered the phase of corrections to the excessive growth of the second half of the 90's, as early as 2000, to become fully apparent in 2001. Domestic demand fell significantly, especially investment demand, so the growth could only be maintained with the help of net exports. The slowdown in the rate of economic growth led to a fall in inflation and a reduction of the external imbalance on the one hand, and to an increase in the rate of unemployment on the other.

As far as the process of EU enlargement is concerned, the June 2001 meeting of EU Member States in Gothenburg approved the time schedule for the completion of the accession process presented in Nice. This means that negotiations with countries that will be prepared for entry shall be completed by the end of 2002, in order to create conditions for their admission to the EU in 2004.