I. WORLD ECONOMY

In 2001 the growth slowdown continued in the world economy. According to preliminary estimates the total output of developed countries grew by roughly 1.2% – remaining about three times below the year 2000 (3.9%). In 2002 a gradual revival is forecast in the economy whereas the growth could remain modest (1.2%; see Table 1.1).

Table 1.1. Forecasts of real growth of GDP and changes in CPI

	Real GDP (%)				CPI (%)			
	2001		2002		2001		2002	
	IMF[1]	Other analysts[2]	IMF	Other analysts	IMF	Other analysts	IMF	Other analysts
Developed countries	**1.2**	**1.2**	**1.2**	**1.4**	**2.3**	**1.2**	**1.2**	**1.4**
USA	1.1	1.2	1.4	2.1	2.8	2.8	1.4	1.4
Japan	-0.4	-0.5	-1.0	-1.1	-0.7	-0.7	-1.1	1.1
Euro area	1.5	1.4	1.2	1.2	2.7	2.6	1.6	1.8
Developing countries	**4.0**	**2.2**	**4.3**	**3.0**	**5.7**	**6.7**	**6.2**	**7.6**
Latin America	0.7	0.5	1.1	0.3	6.4	5.5	6.8	13.3
Developing countries of Asia	6.7	3.8	5.8	5.0	2.6	2.0	2.9	1.5
EU candidate countries	3.1	2.3	3.0	3.0	9.6	–	7.0	–

[1] The source of the IMF forecasts is World Economic Outlook, March 2002.
[2] Estimates of other analysts are based on the data of Consensus Forecast, Lehman Brothers and JP Morgan.

At the beginning of 2001 it was thought that, because of few trade relations, the US recession would not significantly influence developed countries in Europe. The development seen over the year revealed, however, that due to closer financial relations the economy of the euro-zone and primarily of Germany is much more dependant on the US than in the early 1990s. Relatively rigid economy and labour market hinder faster economic growth in Europe.

The growth slowdown in 2001 exceeded anticipation. In major economic regions it happened to be more synchronous than during previous economic cycles. Japan appeared to be again the weakest among the developed countries. Neither the US nor the euro area was able to avoid short-term downfall. Corporate profit decline and lower growth expectation were reflected in stock markets as a sustained downward trend. Weaker economy was accompanied by higher unemployment. The drop of the global inflation rate to the record low of several decades, primarily encouraged by depreciating oil prices, was a positive aspect.

Several countries applied expansive monetary and fiscal policies to boost economy. Thus, it was possible to suspend growth slowdown and at the end of the year several countries revealed signs of stabilisation in economy, which forecast economic revival in spring 2002, as well as recovery in industrial output growth.

United States of America

The major test for the US economy in 2001 was to overcome the slump in the technology cycle and implications of the terrorist attack on September 11. Several controversial trends will make

the US economic growth rate insecure in the short term, but faster development should facilitate synchronous growth in European and Asian countries as well.

The economic growth in the US slowed throughout the year and GDP grew by a mere 1.2% (by 4.1% in 2000). The underlying reason was excessive investments in previous periods and realisation of accumulated stocks. In the second half of the year, just after the signs of end-recession, the terrorist attack to the World Trade Centre and other buildings took place. Consumer confidence became paralysed and stock markets fell. Despite the growth slowdown, private consumption kept sustaining economic growth. A rapid decline in interest rates, boosting consumption of durable goods and housing market, tax cuts and lower inflation rate in the second half of the year were also supportive.

The Federal Reserve and the government responded to the growth slowdown with expansive economic policy. The central bank started to lower the benchmark rate as early as in January, by end-year the level had dropped from 6.5% at the beginning of the year to 1.75%. The government reduced taxes and increased public expenditure, reducing the budget surplus from 2.2% to 0.7% of GDP during the year. The benchmark rate is not expected to decrease further in 2002, the budget funds will be used to support economy. Therefore, an about 0.2% budget deficit has been scheduled for 2002.

Due to weaker external and internal demand both export and import volumes decreased and the current account deficit shrank to 4.1% of GDP. At the end of the year domestic demand increased but no adjustment in corporate production volume followed. Business climate indicators refer to upcoming end of recession as the number of orders is increasing in many companies. Should these trends be sustainable, the economic growth could be expected to approach gradually the regular trend.

Declining energy prices and weak demand contained the inflation rate below the year 2000 – at 2.8% on the average. Such a trend could continue for a while (see Table 1.2). Shrinking production brought along a redundancy wave and a rapid growth in unemployment – the unemployment rate increased from 4% to 4.8% year-on-year.

Table 1.2. Economic indicators of industrial countries[1]

	GDP (%)		CPI (%)		Unemployment (%)		Budget surplus/deficit (% of GDP)		Current account balance (% of GDP)	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
World	**4.7**	**2.5**								
USA	4.1	1.1	3.4	2.8	4.0	4.8	2.2	0.7	-4.5	-4.1
Japan	2.2	-0.4	-0.8	-0.7	4.7	5.1	-7.6	6.3	2.5	2.1
Euro area	3.4	1.5	2.4	2.7	9.0	8.4	0.5	-0.9	-0.2	-0.7
o/w Germany	3.0	0.6	2.1	2.4	7.5	7.4	1.2	-2.6	-1.0	0.5
France	3.6	2.0	1.8	1.8	9.5	9.0	-1.4	-1.0	1.8	2.5
Finland	5.7	0.6	3.0	2.6	9.8	9.2	6.9	4.0	7.4	7.0
European Union	**3.4**	**1.7**	**2.3**	**2.6**	**8.1**	**7.6**	**1.0**	**-0.7**	**-0.4**	**-0.2**
o/w Great Britain	3.0	2.4	2.1	2.1	5.6	5.1	4.3	4.6	-1.9	-1.3
Sweden	3.6	1.3	1.0	2.6	4.7	4.0	4.3	4.6	2.9	2.8

[1] The data for 2001 are preliminary
Source: IMF World Economic Outlook, March 2002

Japan

In 2001 problems rooted in Japanese economy during the last decade deepened. Growth recovery depends largely on the progress of the reforms oriented to financial sector regulation.

The GDP growth slowed from 2.2% in 2000 to 0.4% in 2001. Propensity to save remained high but a large amount of foreign capital was placed in foreign stock markets. Under the second year of deflation the competition grew and companies gave up additional investments. Real sector's economic difficulties amplified in banking, which is under a burden of bad loans. In order to recover from classical deflation debt crisis the technology sector should be strengthened through recovered export volumes and aggressive financial sector reforms undertaken by the government. As the implementation of structural changes and the recovery of the technology sector are both long-term processes, Japan is forecast not to reach the economic growth by end 2002.

The gross output started to decrease in the second quarter and continued till the end of the year. The industrial output declined by 7.8% against 2000 and private consumption was also inhibited. Deflation induced low corporate and household consumption. Acute problems in Japanese economy and financial sector brought along a rapid depreciation of the yen.

In early 2001 the Japanese central bank lowered the benchmark rate to zero again. However, the state has few monetary policy measures to support economy: the largest national debt (about 140% of GDP) among the developed countries makes slackening of the fiscal policy hard and banking is suffering from bad loans.

While in previous years export demand supported economy, in 2001 exports dropped by 4.9%, becoming an economic-crisis-facilitating factor. Because of shrinking export volumes, investment income exceeded trade balance for the first time.

Europe

Inhibited economic growth in the US has had larger-than-forecast impact on the development of European countries. In 2001 the European Union continued integration, preparing for the adoption of the euro and enlargement.

The economic growth of the **European Union** and the **euro area** slowed more than twofold (down to 1.7% in the EU and to 1.5% in the euro area) in 2001 – after the most successful year of the decade. While at the beginning of the year the growth slowdown in the US was expected to have little impact on the euro area economy, this was not confirmed in reality. Beginning from the second quarter the growth in production nearly came to a halt and started to shrink in the last quarter. Like in the United States, also in the euro area the growth decelerated primarily because investments and stocks started to decrease and private consumption slowed down.

Business climate started to improve in the euro area as well at the end of the year. It is likely that the bottom had been reached and in early-2002 the economic activity is gradually anticipated to recover whereas the potential growth level is expected to achieve in 2003.

Countries in the euro area responded to the growth slowdown with expansive monetary and fiscal policy. The European Central Bank started to curb benchmark rates in May and cut rates by 1.5 percentage points over the year. Fiscal measures increased budget deficit to 0.7% of GDP and in 2002 it is anticipated to reach 1.8%.

The average inflation rate rose to 2.6% in 2001, but declining oil prices and reference base effect took it down to 2.1% in December. However, base inflation, which is calculated without energy and food prices, kept growing throughout the year reaching 2.3% by December. In 2002 the general inflation level is forecast to continue declining.

Despite weaker external demand, net exports remained a growth-sustaining factor. Trade surplus increased (partially due to the weakening of the euro) and the current account deficit decreased down to about 0.7% of GDP. In the euro area, Germany had the lowest growth where GDP started to shrink from the second quarter onwards and the annual growth reached merely 0.6%.

Slower growth interrupted the downward trend of unemployment, whereas the average unemployment level nevertheless shrank from 9.0% to 8.5%. The relatively rigid euro area labour market inhibited also the growth of unemployment. At the same time slower growth rate and weaker labour market significantly undermined consumer confidence.

Finland and Sweden

The cooling of the world economy was quite sharply reflected in **Sweden's** shrinking export volumes as early as in the beginning of 2001. The above-average share of exports in gross output curbed the growth of GDP significantly, which was estimated to reach 1.3%, remaining threefold below the year 2000. Shrinking export earnings also inhibited the growth of private consumption – during the first three months consumption expenditure remained even 0.2% below the year-ago period. Reduced final consumption together with shrinking demand of the industrial sector for interim commodities was reflected in lower import demand. For the first time in six years import of goods decreased (by 2.4%).

Expansive fiscal and monetary policy succeeded significantly to offset weakening demand. As in several years in the past, Swedish economy grew faster than the EU economy on the average; current conservative fiscal policy has eased cyclic slackening of the fiscal policy. Lower taxes and change in the structure of budgetary expenditure facilitated growth in domestic demand. Aggressive fiscal policy interference aims at smoothing the cyclic development of the economy. Thus, the mid-term objective is to maintain the average 2% budget surplus of GDP. In case of economic recession, accumulated reserves of earlier periods would be channelled to the labour market in which the 1 percentage point growth in unemployment is intended to balance with additional transfers of 6–7 billion kroons.

Despite shrinking external and internal demand, the level of unemployment in Sweden remained among the lowest in Europe. The average annual unemployment rate was close to 4% according to estimates, being about twice below the euro area indicator. However managers of local traditional industries repeatedly expressed their dissatisfaction with the high tax load of the working force. Difficulties in sales and rigid labour costs sent corporate profit margin probably to the record low of the decade.

During the three quarters of 2001 the GDP in **Finland** grew by 0.6% due to favourable lending-induced strong private consumption. Local manufacturing, ranking second in Europe by its share of GDP (26%), got into difficulties already at the beginning of the year, just like in most of the open economies. The above-average share of telecommunication and timber industry made adjustment in the Finnish economy one of the largest in the euro area. Apart from weak external demand also Nokia's decision to take one of the crucial production lines out of the country had an adverse impact on the manufacturing and export sectors. It is impossible to underestimate the implications of Nokia's and its subcontractors' behaviour on the Finnish economy as the company generated a third of the GDP growth in Finland in 2000 and was responsible for 43–47% of private sector's investments in research and development.

The price growth in Finland followed quite precisely that of the euro area. In May the 12-month CPI reached its highest level (3.4%), as of the second half of the year the drop in fuel and food prices curbed also inflation. The annualised consumer price growth in Finland followed the pace of the euro area – 2.6%.

Central and Eastern European Countries

In 2001 several political events important for the Central and East European (CEE) countries took place. A breakthrough in NATO enlargement into east was achieved and some candidate countries reached key economic issues in negotiations with the European Union.

The CEE countries have managed to stabilise their development through structural reforms. By purchasing power parity the GDP per capita in 13 candidate countries was 38.2% of the EU average in 2001. An anticipated rapid price convergence has brought along a slight increase in inflation rate. High unemployment level in the candidate countries remains a significant problem.

The candidate countries aspiring to accede to the European Union by 2004 should complete negotiations on 31 chapters of the *acquis communautaire* in 2002. Slovenia has closed the largest number of chapters – 26. Estonia, Latvia and Lithuania rank among the first half of the candidates.

Adverse development trends in the global economy left their imprint also on the development of the CEE countries, although they were relatively less exposed to the economic recession of the USA and European countries than other developed economies (see Table 1.3). The impact of the contracted export demand appeared in the fourth quarter. Monetary policy was primarily influenced by slower inflation rate, due to economic activity and dropping fuel prices, creating favourable circumstances for lowering monetary policy interest rates. The economic growth is anticipated to recover in the second half of 2002, although this would largely depend on the development of European industrial countries' economies.

Table 1.3. Economic indicators of Central and Eastern European countries and Russia[1]

	GDP (%)		CPI (%)		Current account balance (% of GDP)		Unemployment (%)		Budget surplus/deficit (% of GDP)	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
CEE countries										
Estonia	6.9	5.4	4.0	5.8	-6.4	-6.5	13.7	12.6	-0.7	0.4
Latvia	6.6	7.6	2.6	2.5	-6.9	-10.1	8.4	7.8	-2.8	-1.8
Lithuania	3.9	5.9	1.0	1.3	-6.0	-4.8	11.5	12.9	-2.8	-1.7
Hungary	5.2	3.8	9.8	9.1	-3.3	-2.2	6.4	5.6	-2.9	-3.0
Poland	4.1	1.1	10.1	5.4	-6.3	-4.0	14.0	17.4	-2.2	-4.5
Czech Republic	2.9	3.6	4.0	4.7	-4.8	-4.8	9.0	8.9	-2.4	-3.2
Slovenia	4.6	3.0	8.5	8.4	-3.2	-1.1	12.1	11.5	-1.4	-1.2
Slovakia	2.2	3.0	12.0	7.3	-3.7	-9.2	18.2	18.6	-3.1	-2.9
Bulgaria	5.8	4.5	10.4	7.5	-5.8	-6.4	18.1	17.5	-2.6	1.0
Romania	1.6	4.8	45.7	34.5	-3.7	-6.0	11.7	8.9	-3.6	-4.0
CIS countries										
Russia	8.3	5.0	20.8	20.7	18.0	11.2	10.5	8.9	4.7	4.3

[1] Indicators of 2001 are preliminary
Sources: IMF World Economic Outlook, April 2002; Ecofin; BMI; State Statistical Office; Ministry of Finance; Eesti Pank

Among larger CEE economies shrinking growth rate under external circumstances characterised the economy of **Hungary** in the second half of the year. While during the first three quarters GDP grew by 4%, in the fourth quarter deteriorating economic climate in Europe inhibited growth, which reached an annualised 3.8%. The industrial sector recovery is postponed to the second half of 2002. Current account deficit declined significantly in 2001, being 2.2% of GDP (against 3.3% in 2000). The Consumer Price Index shrank from 10.1% to 5.4% in 2001 and in the second half of the year the central bank cut the benchmark rate by 1.5 percentage points. Lowering of interest rates continued in early-2002 as well. Significant monetary policy steps of 2001 were liberalisation of the movement of capital and abandoning of the floating exchange rate. The economic growth is forecast to gain pace in the second half of 2002 and will reach an annualised level of 2001.

In the **Czech Republic** the GDP grew relatively fast in 2001 – reaching 3.6% year-on-year. It is remarkable that, contrary to expectations, the growth of industrial output in the fourth quarter accelerated.

High growth in exports was sustained throughout the last months of 2001 and beginning of 2002. Current account deficit was contained on the level of 2000 – 4.8% of GDP. In 2002 privatisation is expected to provide large foreign investments and also capital investments in automobile industry are on the agenda. The anticipated inflow of capital has strengthened the national currency. Due to investments the GDP could grow even more than in 2001.

In **Poland** tightening of the monetary policy brought along deepening of the shrinkage in domestic demand that had started in 2000. Together with deteriorating export opportunities it inhibited significantly the development of the economy: in 2001 the GDP increased by 1.1%. Current account deficit dropped to 4% of GDP (against 6.3% in 2000) because the economic slowdown curbed demand for import goods. Growing unemployment became an ever-increasing problem. In December unemployment reached 17.4% and continued growing also in early-2002. The labour market struggles with low mobility and high minimum wages. The decline in economic activity was accompanied by slower price growth whereas referring to weak fiscal policy the central bank refrained from cutting interest rates for quite a time despite decreasing inflation pressure. The budget deficit for 2002 is drafted to be up to 6% of GDP, forcing to compensate weak fiscal policy with monetary policy measures in future as well. No quick economic recovery is expected in 2002.

Latvia and Lithuania

In Latvia and Lithuania the economic growth exceeded significantly the growth of the Central European countries in 2001. This is a sign of successful reforms and accelerating convergence. Improving political and economic relations with the Eastern European countries offset implications of deteriorating external environment.

In Latvia the GDP growth reached 7.6% and was the fastest among the EU candidate countries, regardless of the pace slowdown in the second half of the year. The economic growth was primarily based on strong domestic demand and export of services. Worsening external environment and growing domestic demand facilitated internal disequilibrium of the economy. The annualised growth rate of imports exceeded exports (13.8% and 11.1%, respectively) and expanded trade deficit. The rapid deterioration of the trade balance at the end of the year made current account deficit to reach 10.1%. Growing economic activity facilitated faster growth of inflation, although the annualised average CPI growth remained quite moderate – 2.5%. Besides dropping fuel prices also the lat's peg to the SDR helped to curb price increase.

The Lithuanian economy managed to recover from the aftermath of the Russian crisis and the annualised GDP increased by 5.9%. The economic growth was primarily sustained by external demand, although domestic demand has been reviving since end-2000 as well. Large growth in exports throughout the year inhibited current account deficit to 4.8%. The annualised growth in exports (20.3%) significantly exceeded growth in imports (15.1%), whereby exports to Russia increased considerably. Also the growth in private sector borrowing in 2001 refers to strengthening domestic demand. The litas' peg to the US dollar helped through import prices to keep the inflation rate low – the average CPI growth in 2001 was merely 1.3%.

A significant monetary policy step was that the central bank of Lithuania repegged the litas to a new anchor currency, the euro, on 2 February 2002 (3.4528 LTL/EUR). The anchor currency was changed because of increasing trade with the EU countries and the upcoming accession to the European Union. The faster growth of productivity compared to trade partners and an increasing share of the European Union in trade will restrain the adverse impact of the potential strengthening of the euro on Lithuania's competitiveness.

Both in Latvia and Lithuania the fiscal policy of 2001 was expansive, which will continue in 2002, supporting, in its turn, economic growth. In Latvia the budget deficit is intended to be 2.5% of GDP, in Lithuania – 1.5%. The International Monetary Fund (IMF) has been quite critical of the Latvian budget scheme, considering the intended deficit to be too high. Latvia and Lithuania have been successful at the EU accession negotiations.

Russia

The year 2001 was favourable for Russia: due to the achieved stability the state remained relatively immune to the global economic recession.

According to the preliminary data of the Statistics Committee, the GDP in Russia grew by 5.0%. Primarily domestic-market-oriented production boosted development whereas the production growth exceeded total production growth (4.9%). Domestic consumption (retail trade turnover increased by 10.8% over the year, showing accelerated growth during the year) was encouraged by preferential growth of people's real income, reaching an annualised 5.9%.

The budgetary reform performed well. The uniform 13% private income tax and 35% (25% as of 1 January 2002) corporate income tax replaced graduated income tax system. All taxes with social orientation were aggregated into uniform regressive social tax. As a result the collection of tax revenues exceeded by a third budget forecasts. Besides tax administration simplification also continuous tightening of financial discipline has made its contribution. Also budget expenditure exceeded the target by 15.3%. Despite good financial situation in the country, structural reforms, specifically in banking, transport and energy, had no considerable success.

Nevertheless, weakening external demand brought along several indications at the end of 2001 that the economy was cooling down. Since September Russia's annual growth in exports had been negative and remained by 20.2% below end-2000 in December. Dropping world prices of major export commodities – fuel (primarily crude oil) and metallurgic production (steel and aluminium) – as well as shrinking external demand inhibited export capacity. In January 2002 also the annualised growth of industrial output shrank significantly – down to 2.2%. However, high domestic demand was able to maintain the more-than-10% growth till the end of the year, inhibiting surplus net exports. Trade balance in December – 2.55 billion USD – has been the lowest since June 1999 and the balance in the fourth quarter – 9.27 billion USD – the lowest since the third quarter of 1999. Year-on-year the share of net exports decreased by 7.2 percentage points – down to 12.9% of GDP.

Emerging Markets

Among **Latin American countries** the economic environment deteriorated significantly in **Argentina** in 2001. The ever-deepening decline continued for the fourth successive year: the GDP shrank even by 4.5% and pushing the unemployment up to about 20%. Argentine competitiveness has also significantly contracted under the strengthening of the US dollar and weakening of Brazilian and other trade partners' currencies. Confidence in the banking system has dropped, as the 20–25% deposit shrinkage in 2001 indicates. The president and the government had to resign. Argentina brought servicing of its external debt to a halt and established restrictions on the movement of capital. In February 2002 the peso was finally unpegged. In order to involve additional financial assistance the government has to implement an economic programme complying with the IMF requirements. The weakest links in the economic programme are excessive optimism vis-à-vis budget revenues and restrictions imposed on the movement of capital.

Retrospectively it can be said that the crisis of 2001 in Argentina had been maturing throughout the last decade. There were two major reasons there – **the weak fiscal policy facilitated affluent existence exceeding realistic possibilities for a long time** and **unpopular structural reforms to increase the competitiveness of the economy were continuously postponed.** The lesson of Argentine economic difficulties lies in the fact that **despite the monetary policy system chosen** (Argentina used also the currency board), **the economy can be successfully developed only through co-ordinated and long-term targeted policy** (fiscal, monetary and trade policy as well as structural reforms).

Shrinking US import demand and decreasing capital flows slowed economic growth also in other Latin American countries in 2001. According to private institutions the GDP in the region grew by a mere 0.7% (by 4.1% in 2000). Should the US economy strengthen in 2002, the growth in the region would recover relatively rapidly. **Brazil** has escaped the adverse impact of Argentina and the economic growth outlooks for 2002 are positive. The growth forecasts for the entire region remain within 1%.

In 2001 the economic growth slowed down also in **Asian developing countries** whereas this was not comparable to the year 1998. Suspended growth was primarily due to lower demand for high-tech products and sharply declined export volume thereby. However, compared to developed countries, the annual growth was moderate, reaching an estimated 3.5%. In the second half of the year several countries revealed signs of economic revival: exports stabilised, the growth of industrial output recovered and stock markets went up. First and foremost, the acquisition of new stocks sustained the revival whereas a rise in the global economic activity is going to have a favourable impact on the entire region.

Compared to most of the other Asian countries **China** managed to maintain rapid economic growth in 2001, reaching 7.3%. Domestic consumption remained strong and growth in exports was continuously high. The share of Chinese exports in the global gross exports has been increasing; also investments made in Asia are channelled more and more into Chinese economy.

Financial and Raw Material Markets of Developed Countries

The economic growth slowdown in G-3 countries has not significantly altered trends prevailing in **foreign exchange markets** already in 2000. The US dollar continued to strengthen, becoming most pronounced (about 15%) against the Japanese yen. The deepening economic crisis in Japan made the yen weaken especially rapidly at the end of the year – while US economic data increasingly referred to the beginning of a revival. The euro and the British pound (see Table 1.4) have weakened less against the dollar whereas they even lightly strengthened in the second half of the year.

Table 1.4. Changes in exchange rates of major currencies

	29.12.00	31.12.01	Change (%)
JPY/USD	114.41	131.66	15.1
USD/EUR	0.9427	0.8895	-5.6
USD/GBP	1.4930	1.4546	-2.6

In 2001 **stock markets** continued weakening as instead of the anticipated growth slowdown a direct downfall took place in the developed countries. The terrorist attack against the USA in September brought along an additional sharp drop in many stock indices all over the world (see Table 1.5). During the next months they recovered from the shock, but the weak economy made the markets cautious at the end of the year, anticipating data on economic revival and improved corporate profit outlooks in each country.

Table 1.5. Indices of major stock markets

	29.12.00	31.12.01	Change (%)
USA (SP 500)	1,320.28	1,148.08	-13.0
USA (Nasdaq)	2,470.52	1,950.40	-21.1
Japan (Nikkei 225)	13,785.69	10,542.62	-23.5
Euro area (Eurotop 300)	1,533.47	1,261.06	-17.8
Great Britain (FTSE 100)	6,222.50	5,217.40	-16.2

In **bond markets** the level of short-term interest rates changed significantly. Central banks employed expansive monetary policy in order to boost economy. The US Federal Reserve made the fastest and most extensive cuts in the benchmark rate. The European Central Bank started to curb the benchmark rate in May, Japan returned to the zero interest rate. The downward trend of long-term interest rates in the US and the euro area reversed in November. Improving economic indicators and expectations of tightening monetary policy induced a reverse. The annual total change remained low (see Table 1.6).

Table 1.6. Interest rates of major bond markets

	Interest rates of 3 months			Interest rates of 10 years		
	29.12.00	31.12.01	Change (basis points)	29.12.00	31.12.01	Change (basis points)
USA	5.90	1.73	-417	5.11	5.05	-6
Japan	0.42	0.01	-41	1.65	1.37	-28
Euro area	4.70	3.38	-132	4.85	5.00	15

In **raw material markets** the year 2001 brought along a price fall, mostly because the global economic growth had slowed down and demand for raw materials had contracted. The CRB index fell by 16.3% and got close to the record low of the recent decades again in October. The price for crude oil dropped even further (by 26%) and remained within 18–20 USD a barrel during the last months of the year. This made the energy price go down and the inflation rate underwent a rapid fall in the developed countries in the second half of 2001.