

ECONOMIC DEVELOPMENT OF LATVIA IN 2001

The situation in the world economy in 2001 changed considerably, as compared with the year 2000 when the growth rate of the world gross domestic product (GDP) was the highest since 1988. In accordance with the survey of the International Monetary Fund, the world GDP in 2001 increased by 2.4%, which was achieved for the most part by the comparatively high GDP growth rates in Central and Eastern European countries, the CIS and some countries of East Asia.

The growth rates in the advanced countries, though, were lower. The overall world economic activity went down, as well, caused by the decrease in the GDP growth rate in the USA and many countries of East Asia, economic problems in Japan and economic decline in Latin America.

The fall in oil prices and the tendency for the inflation rate to go down in 2001 enabled the reduction of the refinancing rate by the European Central Bank to 4.25%. Though, notwithstanding the stimuli of economic policy, further decrease in the GDP growth rate is

forecasted for the USA and the European Union in 2002.

Economic activity of Latvia in 2001 increased in almost all sectors. More than 3/4 of this increase has been the result of the development of four economic sectors – manufacturing, trade, commercial services and transport and communications. Growth of transport and communications was for the most part influenced by the development of transit services. They made roughly 1/3 of all revenue from the export of Latvian commodities and services, which is approximately 10% of GDP. Statistic data show that 2001 was a successful year for transit business. There was an increase both in the volume of the sent and received cargoes in Latvian ports, as well as that of freight shipments by railway or road transport.

The potential of economic growth is best characterized by the increase in investment. In 2001, the flow of foreign direct investment into Latvia reached 2.7% of GDP. Latvia has come closer to those Central and Eastern European countries with economy in transition which are leaders to attract investment. The amount of





public investment is gradually increasing, as well, mainly for infrastructure funding.

One of the main economic problems of Latvia is the relatively high deficit of the current account. In 2000, the current account deficit reduced to 6.9% of GDP, but in 2001 it increased reaching 10.1% of GDP. Since the current account deficit is for the most part covered by foreign direct investment and long-term loans, this level at the moment is not critical.

In 2001, the number of unemployed persons reduced further and the registered unemployment rate in the country was 7.7% of economically active inhabitants. Every fourth unemployed person represents simple trades, but professionals with higher qualifications are least affected by unemployment.

Inflation in Latvia is one of the lowest among coun-

tries with economy in transition and in 2001 it was 2.5%. During the last three years the average annual inflation has been 2 – 3%. Forecasts show that this level will also remain in future. Lower inflation is not forecasted, as the relative prices will be further adapted to world prices.

Last year the economic growth of Latvia accelerated. In 2001, as compared with the previous year, the GDP grew by 7.6%. Taking into account that the development of the world economy has now considerably slowed down, the achievements of Latvia should be valued as highly positive.

Foreign trade of Latvia developed successfully in 2001. Latvian commodities export in 2001 was 1256 million lats and import – 2201 million lats. In 2001, Latvian exports increased by 11% but, due to considerably more active economic activity, imports grew more rapidly (by 14%) resulting in worse trade balance.

Further development of the country should be viewed in connection with European integration, since only accession to the European Union would ensure irreversible strengthening and growth. On 13 November 2001, the annual report of the European Commission on the progress of Latvia towards accession was published. The European Commission has highly appreciated the achievements of Latvia. The report states that the completion of the ongoing assignments in due time and continuation of structural reforms would provide good opportunity for Latvia to conclude accession negotiations by the end of 2002 and become the Member State of the European Union in 2004.