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First and foremost – economy

The European economy has performed relatively well in the first quarter of this year. It is commonly expected that this year will be better last year; however, it still remains difficult to anticipate acceleration in the rate of growth.

Europe experienced a clear slow down in growth dynamics last year, which fortunately did not turn into recession. Overcoming recession trends is troublesome - particularly for countries in the euro zone, where a strong common currency makes increased export more difficult.

In the new European Union - enlarged to 25 countries - economic potential is distributed unevenly. The ten countries accessing the EU represent merely 4.5 percent of the potential of the new Union, and about half of this is attributed to Poland. Also strong potential concentration takes place within the 'old' Union area. About 70 percent of the EU economic potential is concentrated in the four largest Union countries (Germany, the United Kingdom, France and Italy). That is the reason why the macroeconomic business cycle situation in every country seems to be to be more important factor.

The year 2003 turned out not to be the best one for the economies of the largest Union members. In Germany GDP went down by 0.1 percent, while in France it went up by 0.2 percent, and in Italy by 0.5 percent. Only in Great Britain did GDP exceed 2 percent. With regard to the remaining countries - only the Netherlands experienced a drop, while the others experienced economic growth - slightly higher than those of the four the largest Union countries.

The reasons for the difficulties experienced by the large members of the Union last year are both cyclic in nature (typical of the economic development) as well as worries

resulting from excessively extended care-taking functions and activities of a state. National budgets - burdened with social expenses - force high fiscalism, which in turn makes it more difficult to maintain the relevantly high competitiveness of the enterprises of these countries in the world's market.

Accession countries show - in the nature of things - higher economic growth than countries from the current EU. Market reforms conducted in Central and Eastern European countries beginning in 1990 have started to bear fruit. Apart from improved rationality and an increase in managerial effectiveness countries that have decided to transform their economies have brought into play hidden potential and have benefited from the development and strengthening of their business relations with the European Union. In 2003 the three Baltic countries were developing the fastest; their GDP grew by more than 5 percent. Slovakia, Hungary and Poland achieved a growth rate of 3 - 4 percent, and slightly slower growth was noted in Slovenia, the Czech Republic and Cyprus, while Malta was the slowest developing country. For the whole of the previous year the economies of the ten accession countries upped the pace of their economic growth - from 2.7 percent in first quarter to 3.7 percent in III quarter. A similar trend is quite likely to occur in 2004.

This year's forecasts for the 25 countries of the enlarged European Union concerning economic growth

are rather favourable. The German economy is expected to grow by more than 1.5 percent while for other countries even greater growth is anticipated. A two-percent increase in GDP is expected in France and Italy, while in the UK - even 3 percent. The strong economic and trade relations within the Union trigger the good business cycle situation in the largest member countries which then „radiates“ the effect to the remaining ones.

Economic forecasts for the new member countries are even better. This year it is expected that Poland's economic growth will be 4.6 percent, Hungary 3 percent and the Czech Republic - 2.4 percent. In the smaller countries of the ten - especially the Baltic states - this growth may be even higher.

Such a scenario seems to be confirmed by a survey of the economic sentiment indicator, which is a synthetic measure of the situation in the industry, construction and retail sectors as well as of consumer confidence. In most countries of 'the old Union' the consumer confidence indicator has been getting slightly better beginning with autumn 2003. For the accession countries, the Commission has not yet got any global economic sentiment indicator but only some of its components. In all 10 countries the worst situation is for business cycle situation in the construction industry. The consumer confidence level is very low, much lower than in the 15 countries and decreasing. It may be explained by growing concerns about maintaining the standard of living in new member countries. ■