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# Global Economy

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## Authors:

Małgorzata Jakubiak  
Wojciech Paczyński  
Łukasz Rawdanowicz



**CASE – Center for Social and Economic  
Research – Foundation**

ul. Sienkiewicza 12,  
00-944 Warszawa  
Poland  
phone +4822 622 66 27, 828 61 33  
fax +4822 828 60 69  
case@case.com.pl, www.case.com.pl

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## Global Outlook

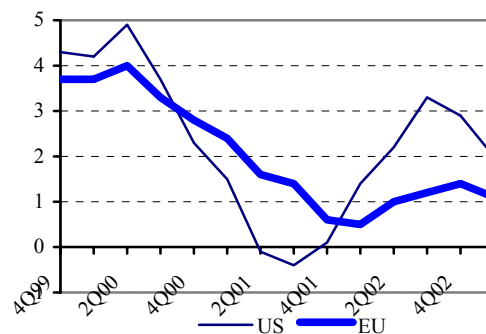
- **Sluggish global economic recovery**
- **Record low interest rates, mounting fiscal imbalances**
- **Oil prices stronger than expected**
- **Downside risks to outlook recede**
- **Optimistic inflation outlook**

The global economic situation has not changed much from 1Q03. Official data confirm a slowdown in the recovery in 1Q03. No further deterioration in economic activity seems to have taken place in 2Q03, with few strong signs of an upturn either. Economic momentum in the major world economies is still primarily dependent on consumption, as investment has not yet rebounded. Labour markets remain tight, though negative trends abated somewhat. Since the end of the conflict in Iraq, business and household confidence has been on the rise. In addition, there has been an adjustment in balance sheets in the corporate, as well as the household, sector, especially in the US and euro-zone.

The US recovery continues, though its pace is very modest. An upturn in investment has not materialised yet. The beginning of the year in the European Union (EU) was marked by a softening of growth momentum, though household consumption turned out to be resilient. While some firming of recovery is envisaged for 2H03, the year as a whole is unlikely to see strong GDP readings. In Japan, net exports continued to drive GDP growth in 1H03. Asian emerging economies were hit hard at the beginning of the year by the SARS outbreak, but the forecasts for 2H03 are fairly optimistic. Central and Eastern European (CEE) countries maintained robust growth at the beginning of the year, with strong export performance in many countries, despite weaknesses in the major euro-zone economies. The growth outlook remains positive – this time around also for Poland. In Russia, GDP growth surprised on the upside. Major Latin American economies, on the other hand, are not expected to sharply accelerate from last year's growth level, despite the stronger-than-expected recovery in Argentina.

2Q03 saw easing of inflationary pressures from the recent highs observed at the beginning of the year, with the sluggish pace of output expansion and moderate wage growth the main reasons behind this. The increase in oil prices on an annual basis did not change the situation, as it was to some extent offset by the depreciation of the US dollar against other currencies. Oil prices climbed to US\$27-29 per barrel of Brent in June and early July, driven by a combination of factors (including delays in restoring oil production in Iraq and low stocks in OECD countries). Prices of other commodities increased to a lesser extent.

**US and EU GDP growth, 1999-2003**  
(% change, yoy)



Source: FedStats, Eurostat

The global economy continues to operate in an environment of accommodative policy measures. Monetary conditions have been loosened in a number of advanced economies (the US, euro-zone, the UK and Japan) as well as in some emerging markets. Interest rates are very low in Europe and at record lows in nearly half a century in the US. In addition, fiscal stimulus have been applied. In the US, new fiscal measures introduced in May are expected to bring about a high budget deficit over the next few years. In Germany, plans to bring forward tax cuts originally planned for 2005 to 2004 were announced, jeopardising fiscal discipline in the euro-zone. The major economies in the CEE continue to run very large budget deficits and appear to be doing little to reduce the mounting imbalances in their economies.

June saw a continuation of the strong stock market recovery in the US, the EU and Japan observed since mid-March 2003. This is primarily attributable to diminishing uncertainty in the major economies. The euro continued to rally in 2Q03,

though by the end of June and the beginning of July this had subsided somewhat. Given the balance of outlooks for the US and euro-zone, further appreciation of the euro is unlikely, though no abrupt weakening is expected.

Overall, the outlook for the global economy has not changed much. A moderate upturn beginning in 2H03 is still envisaged for most economies. For some countries, forecasts have been revised slightly downwards, but the balance of risks has improved.

For the time being, the inflationary outlook remains positive and a lowering of inflation is forecast in the major industrialised countries. Against this background, if the pickup does not materialise, then further monetary easing is possible. Low interest rates, the recent strengthening of corporate balance sheets and rising stock markets provide increased chances for higher investment spending and, with some time lag, stronger labour demand. <LR>

#### GDP in selected countries, 1998-2004 (% change, yoy)

	1998	1999	2000	2001	2002	2003f	2004f
OECD	2.7	3.2	3.8	0.9	1.9	1.6	2.4
USA	4.3	0.1	3.8	0.3	2.4	2.2	3.2
European Union	2.9	2.8	3.3	1.7	0.9	0.9	2.0
Euro zone	2.9	2.8	3.4	1.5	0.8	0.8	2.0
Germany	2.0	2.0	2.9	0.6	0.2	0.3	1.5
France	3.5	3.2	3.8	2.1	1.2	0.8	1.9
Italy	1.8	1.6	2.9	1.8	0.4	0.6	1.6
United Kingdom	2.9	2.4	3.0	2.2	1.9	1.8	2.5
Czech Rep.	-1.0	0.5	3.3	3.1	2.0	2.4	3.3
Hungary	4.9	4.2	5.2	3.8	3.3	3.2	3.5
Poland	4.8	4.1	4.0	1.0	1.4	2.8	3.3
Russia	-4.9	5.4	8.3	5.0	4.3	5.5	4.5
Turkey	3.9	-6.1	6.3	-9.5	7.8	5.0	4.0
Japan	-1.1	0.1	2.8	0.4	0.2	1.2	1.2
China	7.8	7.1	8.0	7.2	8.0	7.4	7.5

Notes: f – forecast

Source: OECD, IMF, statistical agencies (data); CASE, market consensus (forecast).

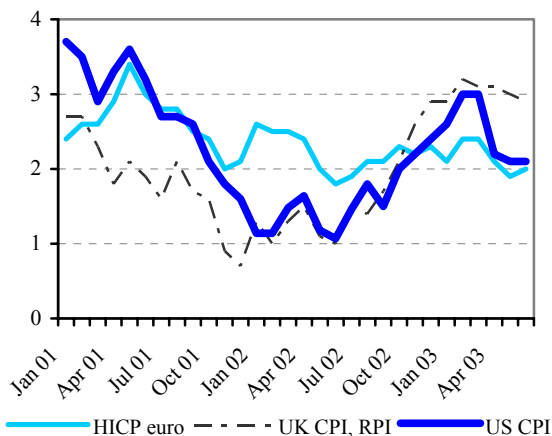
#### CPI in selected countries, 1998-2004 (% change, yoy)

	1998	1999	2000	2001	2002	2003f	2004f
USA	1.5	2.2	3.4	2.8	1.6	2.0	1.3
Japan	0.7	-0.3	-0.7	-0.7	-0.9	-0.4	-0.3
European Union	1.8	1.2	2.5	2.5	2.1	1.7	1.2
Euro area (HICP)	1.2	1.1	2.1	2.3	2.3	1.8	1.4
United Kingdom (RPIX)	2.6	2.3	2.1	2.1	2.2	2.8	2.3
Czech Rep.	10.7	2.1	3.9	4.8	1.8	0.9	2.7
Hungary	14.2	10.0	9.8	9.2	5.3	5.2	4.6
Poland	11.6	7.3	10.1	5.5	1.9	0.8	1.5
Russia	27.8	85.7	20.8	21.6	16.0	14.0	9.0
Turkey	84.6	64.9	54.9	54.4	44.6	29.0	24.0
China	-0.8	-1.4	0.3	0.7	-0.8	1.1	0.8

Notes: f – forecast

Source: OECD, ECB, IMF, statistical agencies (data); CASE, market consensus (forecast).

World inflation, 2001-2003 (% change, yoy)



Source: Eurostat, Bureau of Labor Statistics, National Statistics

## Country Updates

### United States

- **No strong upturn so far**
- **Strengthening of corporate balance sheets**
- **Accommodative measures in the pipe line: record low interest rates and rapid growth of the budget deficit**
- **Recovery on the horizon**

The dissipation of geopolitical tensions after the war in Iraq proved to be a short-lived positive factor for the US economy. Nevertheless, consumer and business confidence recently increased from the lows observed during the military conflict and, more importantly, expectations about future developments – as indicated in surveys – are becoming more optimistic. However, although the recovery is on track its pace is very modest. According to official estimates, the annual GDP growth rate in 1Q03 moderated to 2.0%, though the quarterly rate pointed to modest growth acceleration (0.4% qoq). All components of GDP recorded a slowdown in annual terms.

Growth in investment was close to zero. Companies have been focused on strengthening their balance sheets and it seems that they are currently unwilling to boost either investment outlays or employment. According to a recent FOMC report, the changes in corporate balance sheets have led to a drop in the ratio of business interest payments to net cash flow,

a significant increase in the average maturity of liabilities and a rise in the ratio of current assets to current liabilities. Adjustments to balance sheets have also taken place in the household sector. Lower interest rates have facilitated a restructuring of existing debt and increased the value of almost all kinds of household assets. Consequently, debt service burdens have diminished and the net worth of households increased. On the other hand, households were faced with rising unemployment, wage moderation and subdued consumer credit growth. This, in turn, impacted negatively on household spending. Given sustained growth in labour productivity and sluggish GDP dynamics, labour has been shedding. As a result, the unemployment rate was on the rise, reaching 6.4% in June. A firming of new orders was recorded recently in various regional and national business surveys.

Wage moderation, lower energy prices and low capacity utilisation are expected to help to reduce inflation. Already in recent months, headline inflation (as measured by the CPI) has been inching down, reaching 2.1% in May and June after a temporary rise in 1Q03. The same trend was observed for core inflation (i.e. excluding prices of food and energy), though the decline was not very pronounced. The current price developments do not point to any immediate deflationary threats, though concerns over this pessimistic scenario have been voiced recently by the FOMC.

In 1Q03, the US current account deficit amounted to \$544 billion at an annual rate (i.e. roughly 5% of GDP – a level not seen in 2002). This stems primarily from the widening of the deficit on trade in goods and services, with sub-par growth in the US's main trading partners and rising prices of imports the factors behind that.

The forecast for growth acceleration in 2H03 and 2004 has been still maintained, though is more cautious given the lack of strong signs of a bottoming out. Growth forecast has been trimmed, especially for 2004. Generally, accommodative macroeconomic policies and recent adjustments on the corporate and household balance sheets have provided a good environment for balanced and sustained growth. In the medium-term, private consumption may surprise on the downside, given the recent developments in the household sector.

The exact timing and strength of investment upturn remains uncertain. On the one hand, recent data showing better than expected corporate profits gives hope for potentially faster recovery in investment, though ample capacity in some sectors and lingering uncertainty about future final sales hinder investment decisions. As long as labour productivity growth is sustained and the recovery is modest, no prompt improvement in the labour market should be expected.

In May, the US Congress approved a fiscal package estimated to cost \$350 billion over the next 10 years. The Bank for International Settlements has warned that such a move could undermine investor confidence in the health of US public finances. The package is estimated to provide a fiscal boost of approximately \$70 billion in 2003 and \$150 billion in 2004. These measures will cause the budget deficit to widen further in the near future. Accommodative policy has already led to an increase in the budget deficit to 4% of GDP in 1Q03. According to Joint Committee on Taxation estimates, the latest tax measures should increase household cash flow in 3Q03 by \$35 billion and this could contribute to higher private spending. On the other hand, a rapidly growing deficit could crowd out private investment. Yields on 10-year US Treasuries have increased over the past several weeks by nearly 1 percentage point. <LR>

## European Union

- **Moderation of growth momentum**
- **Surprisingly strong household consumption**
- **Net exports' negative contribution to GDP growth**

In 1Q03, economic activity in the EU softened, as had been expected. GDP increased by 0.8% yoy in the euro-zone and 1.1% yoy in the EU. Quarterly rates were unchanged from 4Q02, amounting to 0.1% qoq for both aggregates and the growth pattern remained fairly stable. Private consumption still acts as the main driving force and its momentum strengthened in 1Q03. This could be attributable to some extent to the appreciation of the euro and the ensuing boost to international purchasing power of euro-zone citizens. Investment continued to contract both on a quarterly and annual basis. This could be associated with subdued sentiment and efforts to consolidate balance sheets

in the corporate sector. In recent months, however, business and household confidence have been strengthening moderately. Sluggish economic growth did not lead to a further deterioration in the labour market. The seasonally adjusted unemployment rate has been fairly flat since the beginning of the year and in June reached 8.8% in the euro-zone (8.1% in the EU). Due to the firming of household consumption, softening of external demand and euro appreciation, net exports contributed negatively to GDP growth.

According to Eurostat estimates, euro-zone annual inflation was 2.0% in June 2003 (1.8% in the EU). Germany continues to record the lowest inflation in the EU. Producer prices have followed a downward trend in recent months, mainly attributable to developments in energy prices. Despite the increase in the dollar-prices of oil, euro-prices declined due to euro appreciation. Prices in total industry excluding construction and energy have been fairly flat since December 2002.

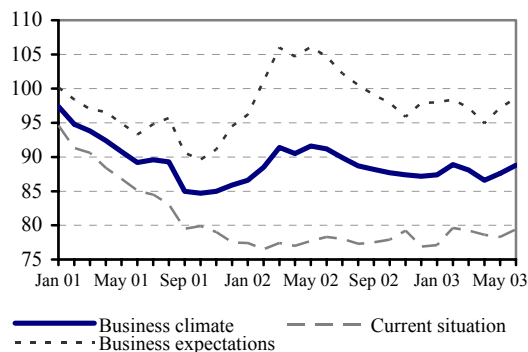
The sluggish performance in 1H03 does not bode well for fast growth for the year as a whole, though some firming of growth momentum should take place in 2H03. We have revised growth forecast for the euro-zone (especially for the largest economies) downward and currently expect lower growth in 2003 than in 2002. This is consistent with market revisions. For instance, Pedro Solbes recently admitted that the Commission's April forecast of 1% growth in the euro-zone in 2003 is unrealistic and that 0.7% might be closer to reality. Furthermore, the European Central Bank reduced its 2003 forecast from 1.1-2.1% to 0.4-1.0% and from 1.9-2.9% to 1.1-2.1% in 2004. The pace of recovery is dependent to a large extent on a boost from investment and external demand. Despite the forecast improvement in the general economic environment and lower real interest rates, investment recovery may be muted due to soft capacity constraints. The recent drops in equities and the appreciation of the euro may take their toll on the profitability of companies. The latter effect may be especially important for firms remitting their profits from abroad. Consumption should remain resilient and over the next quarters it may even strengthen gradually. Forecast lower inflation should boost the real purchasing power of households and, in turn, private spending. Also the situation on the labour market should improve,

resulting in a gradual rise in household confidence. However, as productivity growth is likely to be maintained and output upturn only modest, the impact on employment demand should be delayed. The lower price growth forecast depends on a gradual recovery, favourable developments in import prices and moderate wage dynamics.

### Germany

Although GDP growth slowed in 1Q03 (0.2% increase yoy and 0.2% contraction qoq), domestic demand recorded an annual rise for the first time in many quarters. This development is attributable entirely to stronger expansion of private consumption, as investment continued to contract (-4.5% yoy). Higher consumer spending was possible due to strong growth in income (primarily operating surplus and self-employed remuneration). This suggests that companies' balance sheets have been improving. On the other hand, given the decline in employment and moderate wage growth, the wage bill increase was modest. On the back of firmer domestic demand, imports grew substantially. Even though export performance improved slightly, net exports trimmed GDP growth.

**Ifo business climate index, 2001-2003**



Source: Ifo Institute for Economic Research

Recent Ifo business surveys point to a gradual improvement in the assessment of both the current and future situation. In June, the survey readings increased for the third month in a row, though the overall outlook for Germany has not improved. A sluggish pace of growth is still forecast for this year, with modest recovery next year. On a positive note, the corporate sector's movement towards financial surplus raises the chances of a faster pickup in investment. In this respect, the German banking system still remains a drag on financial intermediation, given its reluctance to fully pass on interest rate cuts. In the mid-term, the strength of

foreign demand is expected to play an important role in any German recovery.

The high budget deficit still remains the key political challenge in the face of disappointing economic performance and a breach of the Stability and Growth Pact. The recently announced plans to bring forward to 2004 tax cuts originally planned for 2005 give little hope that public finances will be consolidated to meet the 3% limit. The planned reduction in taxes (estimated to cut tax revenues by 18 billion euros – roughly 1% of GDP) is very unlikely to be counter-financed. These developments and the political preferences of France and Italy for looser fiscal discipline will likely continue to undermine the principles of the Stability and Growth Pact.

### UK

Output growth in the UK continues to slow, falling below the potential level. In 1Q03, GDP grew by 2.1% yoy (0.1% qoq). Consumption has slowed, though less than expected and housing inflation has moderated. According to the Bank of England, the immediate risks of an abrupt correction in housing prices have diminished. RPIX inflation has been above the 2.5% target for a few months now. This is believed to stem from temporary factors which are expected to unwind in the coming months. In June the RPIX dropped to 2.8% from recent readings of 3.0%. The effects of the pound's depreciation have not yet materialised and in the coming months this may delay the disinflation process. On the positive side, overall wage growth has been muted this year. Despite potentially inflationary effects, the weakening of the pound could contribute to growth bolstering exports in a situation when external demand remains weak. So far, the softening of growth momentum has led to a moderate deterioration in the labour market, which, however, was reversed in June, which saw record growth in employment. Forecast for 2003 and 2004 remained broadly unchanged. <LR>

### Central and Eastern Europe

- Signs of stronger economic upturn in Poland
- Fiscal problems unresolved in most countries
- Lithuania and Latvia exhibit record growth rates in 1Q03

The outcome of EU accession referenda in several CEE countries has eliminated any political risks to the enlargement timetable. Still, the policy agenda for the candidate countries remains vast, with several reforms, particularly concerning the fiscal sector, urgently needed to be undertaken in order to secure gains from EU membership. Given the current state of preparations for EU membership in many accession countries, it seems very unlikely that they will be able to absorb all the structural funds in the early years after enlargement. Economic growth remained strong in the region in 1H03, with no ensuing inflationary pressures.

### **The Czech Republic**

In 1Q03, growth performance surprised on the upside, especially as far as household consumption is concerned. GDP grew by 2.2% yoy and household consumption by 4.6%. High consumer spending was possible due to buoyant growth in wages (7.8% yoy in real terms) and the high dynamics of household borrowing. The Czech Central Bank attributes the latter development to the provision of more attractive offers by banks and other financial institutions, low interest rates and, in particular, the initial low base. Government consumption has also expanded at a fast rate, at the expense of a high budget deficit. On the other hand, investment contracted for the second quarter in a row. As a result of robust growth in domestic demand and a softening of foreign demand, the trade deficit has been widening. In June, consumer prices increased on an annual basis for the first time this year, but only by 0.3%. Deflation in industrial prices, however, continued and the PPI dropped by 0.9% yoy in June. In the course of the year, inflation is expected to pick up. The GDP forecast remains positive, but the current build-up of imbalances (high twin deficits and rising household debt) raise concerns over the sustainability of growth momentum in the longer run.

### **Hungary**

In 1Q03, growth momentum in Hungary moderated, with GDP increasing 2.7% yoy. This was mainly due to the contraction in investment. Household consumption continued to expand buoyantly (8.1% yoy) and government consumption strengthened further (5.4% yoy). Average wages in the public sector (mainly education, health care and administration) soared nominally by 25.9% yoy. The corresponding growth for the total economy

was less pronounced, but still high, at 14.8% yoy. Generous labour compensation is more likely to be a drag on Hungarian companies' competitiveness and profit margins than the allegedly over-appreciated forint (see Exchange rates and Central Banks Watch). This especially applies to the industry sector, where wages rose by 9.3% yoy (January-April), but producer prices by only 0.5%. Thus, exchange rate realignment does not necessarily alleviate manufacturers' problems, especially given a significant rise in interest rates. In this context, it is also important to note that the very high current account deficit does not stem only from a worse export performance, but also from strong domestic demand and ensuing import consumption.

Inflation in April (3.9%) and May (3.6%) was on the decline, though June saw a reversal of this trend, with consumer prices increasing 4.3%. The CPI is primarily driven by increases in the prices of alcohol and tobacco, services and energy, whereas the prices of consumer durable goods are actually declining (for almost the past two years). Moderate increases in the CPI and PPI in the coming months due to the June forint depreciation cannot be ruled out. The government stands by its strong declarations on fiscal consolidation to meet Hungary's pre-accession goals. In the event of exchange rate realignment, the government said it would introduce an immediate fiscal adjustment programme worth HUF 76 billion. The government has ambitiously outlined plans to lower the budget deficit from last year's high of over 9% of GDP to 4.8% in 2003 and 3.8% in 2004. It remains to be seen whether these plans are realistic.

### **Poland**

The Polish economy is finally gathering some growth momentum. Although GDP grew by only 2.2% yoy in 1Q03 (the same as in 4Q02), initial data suggest growth of above 3% yoy in 2Q03. Industrial production soared by 9.0% yoy in 2Q03. It is believed this growth was underpinned by exports, household consumption and a rebound in investment. The better than expected results in construction in June provide support for an investment revival hypothesis. Robust consumer spending is indicated by good retail sales results. Favourable export dynamics, despite a poor performance in the EU, may be attributable to some extent to the recent zloty depreciation against the



euro. Consumer prices continued to grow at a very slow pace (0.5% yoy in 2Q03), whereas producer price increases was stronger (2.3% yoy in 2Q03). Given the better than expected results for 2Q03, growth forecasts are likely to be revised upwards. The strength of the investment upturn will be crucial for overall macroeconomic developments. The recent decline in interest rates (see Central Banks Watch) and improvement in the profitability of enterprises is very encouraging in this respect.

#### **Bulgaria**

Bulgarian GDP, after rising 4.8% in 2002, expanded 3.8% yoy in 1Q03, driven mainly by private consumption and investment. External demand is not expected to add to growth, but robust domestic demand should allow healthy expansion of around 4% in 2003 as a whole to be maintained. The strength of the euro should help in further reducing inflation to around 3% in 2003. Strong growth in imports is likely to result in a widening of the current account deficit to roughly 5% of GDP in 2003 from 4.4% in 2002. The political situation remains tense, with internal divisions within the ruling coalition, though the fiscal stance is under control. The budget surplus recorded in early months of 2003 is expected to disappear as expenditures are boosted in 2H03.

#### **Romania**

Real GDP grew by 4.4% yoy in 1Q03, driven by investment (6.8% yoy increase) and private consumption (3.8% yoy). This strong economic activity is expected to be maintained in 2H03 and 2004. Given the expectations of export growth moderation in 2003, a widening of the current account deficit is very likely. Import demand will be primarily driven by investment expansion. Slow disinflation has continued, with annual CPI growth at 14% in June. However, given the wage hikes at the beginning of this year, further reductions in price dynamics this year seem unlikely and 2004 might see inflation remain above 10%. Under the pressure of prospective EU accession and pressure from the IMF, the government is proceeding with its reform agenda, centred on restructuring of state-owned enterprises. There is a risk that reforms may be slowed due to parliamentary elections in late 2004.

#### **Slovakia**

Strong exports helped to maintain GDP growth of 4.1% yoy in 1Q03. Domestic demand was weaker, with private consumption rising by 2.6% yoy, and public consumption and investment falling by 1% yoy and 2% yoy, respectively. The overall growth rate in 2002 was similar, however, while the demand structure changed – public and private consumption were very strong last year, investments largely stagnant and external demand did not provide any boost to growth. The annual CPI rate stood at 8.4% in June, but this largely reflects the impact of administrative price increases in January. Monthly price developments do not indicate any inflation pressures. Employment rose by 1.2% yoy in 1Q03, continuing the positive trend started in 3Q02. The unemployment rate (survey based) amounted to 18.4% in 1Q03, a 1 percentage point decline yoy. 2Q03 brought a deceleration of growth momentum – expansion in industrial production and the construction sector slowed in April and May, and consumer spending contracted. Foreign trade figures suggest that net exports again provided a major contribution to growth in 2Q03.

#### **Baltic States**

1Q03 brought a slight moderation of growth in Estonia. GDP expanded by 5.2% yoy driven by domestic demand (in particular buoyant investment). A good performance of manufacturing contrasted with somewhat weaker results in the services sector. 2Q03 is likely to bring more evidence of further moderation in growth. A rapid rise of investment-related imports, coupled with weaker export performance, led the 1Q03 current account deficit to rise to nearly 22% of GDP. Still, 80% of the deficit was financed by FDI inflows.

Latvian 1Q03 growth figures surprised on the upside, with GDP rising by 8.8% yoy. This was largely attributable to strong domestic demand fuelled by nominal wage and employment increases. Both industry and services performed well. The transport sector seems to have been able to reduce the impact of the Russian blockade of the Ventspils oil pipeline, with more oil shipped by rail. In 1Q03, both exports and imports exhibited strong expansions.

Lithuania experienced stunning growth of 9.4% yoy in 1Q03. This partly reflects one-off effects, though also indicates the fundamental strength of the

economy. It is noteworthy that in contrast to other Baltic States, growth was primarily driven by external demand. A strong export performance lowered the trade and current account deficits, with the latter fully financed by FDI.

On the fiscal front all three Baltic States approved supplementary budgets increasing expenditures after revenues turned out to be higher than expected in the early months of the year. Such moves may stoke up some problems for the future, given that there will be increased expenditure needs linked to EU and NATO membership. Nevertheless, in 2003 only Latvia is expected to have problems meeting the 3% budget deficit. Central banks have recently voiced their preferences on the planned dates of adoption of the euro. Estonia and Lithuania, which currently operate currency board arrangements fixed to the euro, are planning to introduce the common currency in mid-2006 and early 2007, respectively, while the Latvian central bank governor indicated early 2008 as a convenient date.

## CIS

- **Upward revisions of growth and inflation outlook in Russia**
- **Ukraine maintaining strong growth momentum**

### Russia

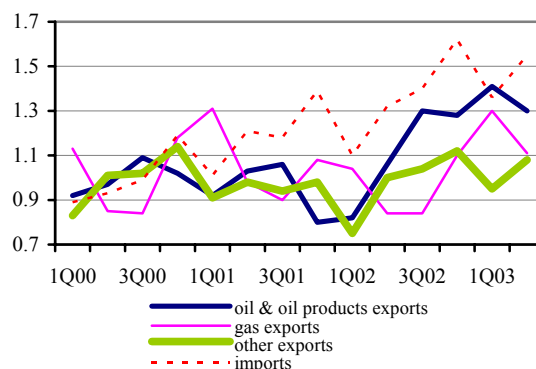
1H03 was marked by sustained acceleration of growth. According to preliminary estimates, GDP expanded by 6.8% yoy in 1Q03, compared to 4.3% in 2002. 2Q03 is expected to record similar GDP dynamics. In January-May gross output in five major sectors of the economy surged by 7.2% yoy, with private consumption and investment expenditures contributing most to these results. Consumption was supported by rising real household incomes – by 14% yoy in January-May. In addition, sustained high oil prices boosted export revenues.

In 2Q03, industrial production growth accelerated to 7.5% yoy, up from 6% in 1Q03. Fuels and metallurgy sectors performed particularly well, whereas results in other sectors were mixed. Strong gains in machinery contrast with stagnation in light industry and slow growth in the food sector. On the

positive side, investment expenditures were on the rise in several non-traditional sectors, such as food and wood processing. In 1H03, the volume of oil extraction grew by 11% yoy, and natural gas extraction expanded by 3%.

Taking into account the above developments, we have revised upwards our growth forecast for 2003 to 5.5%. In 2004, however, growth should moderate to 4.5%. Such an optimistic scenario is underpinned by expected relatively high international oil prices in 2H03, expected strong growth in household consumption due to rising real incomes and a fiscal stimulus. At the same time, the non-energy sectors of the economy remain relatively weak, thus keeping Russia vulnerable to oil price swings. Long-run growth prospects depend on the success of structural economic reforms. It is hoped that after presidential elections early next year another window of opportunity will be opened for a more ambitious reform agenda and more efficient implementation.

**Foreign trade dynamics, 2000-2003 (index, average 2000 value (nominal US\$) = 1)**



Source: Own calculations based on CBR BoP data.

Exports and imports both continued to expand strongly in 2Q03. Analysis is somewhat difficult since trade statistics are published in dollars, which depreciated sizeably against the euro in that period. A boost in exports (up by 28% yoy in 1H03) was mainly driven by higher volumes of oil and gas exports, coupled with high prices for these resources. The share of oil and gas in total exports increased from an already high level of 53% in 2002 to 57% in 1H03. At the same time, other exports rose in 1H03 by only 15% yoy in nominal-dollar terms. This indicates a stagnation in real terms. The picture becomes even bleaker if one notes that the 'other exports' category includes



coal, exports of which increased strongly in 1H03. Imports expanded by 18% yoy in 2Q03 and 21% in 1H03. Similar trends in imports are expected to continue in 2H03 and 2004.

Exceptionally high trade and current account surpluses were recorded both in 1Q03 and 2Q03. According to preliminary data, the 1H03 current account surplus amounted to above US\$21 billion, an increase of 46% yoy. There was some improvement in FDI inflows in 1H03 (US\$2.3 billion).

The Central Bank of Russia continued its policy of managing the rouble exchange rate. The rouble was allowed to appreciate nominally against the dollar and it depreciated against the euro. As a result, the real effective exchange rate of the rouble (CBR calculations) remained broadly stable in 2Q03 as compared to 1Q03 and 2Q02. This policy resulted in a continued build-up of international reserves in 1H03, increasing by US\$17 billion to around US\$65 billion in early July. This also had an impact on inflation developments. After receding to 13.6% in May, the annual CPI climbed to 13.9% in June. Given the rapid growth of monetary aggregates resulting from the CBR exchange rate policy, expectations of a lower harvest (and thus higher food prices) and planned administrative price increases, there does not seem to be much scope for any significant disinflation in 2H03. We have thus revised upwards our forecast of average inflation in 2003 to the 13-15% range.

The fiscal position remains strong on the back of high revenues related to oil and gas production. Federal and consolidated budgets recorded small surpluses in January-May. On the expenditure side, there is a tendency for rising non-interest expenditures. Several changes in the tax system are expected in 2004, in particular a lowering of VAT. According to the plans, resulting losses in revenues will be partly offset by a higher tax burden on oil and gas extraction. The idea behind these changes is to stimulate non-energy sectors by reducing their tax burdens at the cost of increasing the burden for the extraction industry. However, this makes budget revenues increasingly exposed to swings in oil prices.

Progress in other reforms is mixed. Some important acts have been adopted in recent months, but it

appears that the implementation and introduction of particularly difficult reforms has been informally put off until the period after the presidential elections in spring 2004. <WP>

#### **Ukraine and other CIS countries**

In 1Q03, GDP in Ukraine expanded by 7% yoy on the back of dynamic investment and continuously booming exports. Fixed investment increased by 23.1% yoy and exports of goods and services grew by 24.6% yoy. Import expansion was lower, at 22.8% yoy. Ukraine's exports to non-CIS countries expanded fastest.

The preliminary figure of a 7.2% yoy GDP increase in 2Q03 surprised on the upside. Exports remained strong, with the positive merchandise trade balance increasing steadily from the beginning of the year. Investments have probably also been strong, as indicated by the April and May data on enterprises' net profits. On the other hand, consumption did not contribute strongly to growth in 2Q03, as the main determinant of consumer spending, real incomes, remained practically unchanged in April-May on an annual basis.

Inflation is clearly on an upward path. The CPI increased from 3.6% yoy in April to 5.9% yoy in June. There are at least two main reasons behind this. Firstly, the long winter and cold spring made this year's agricultural output fall, leading to higher food prices. It is expected that they will go up in the course of the year. Secondly, the results of the last year's monetary easing are probably still in place. This factor is also expected to continue to fuel inflation in the coming months, as an acceleration in the rates of growth in the monetary base was observed in 2Q03: it expanded 26% yoy in April and 34% yoy in June 2003. The growth in the money supply has already exceeded projected limits. Further monetary easing is expected as the presidential elections near and as banks are likely to intensively use the newly introduced long-term refinancing mechanism to support selected enterprises. In addition, if the hryvnia is steered gradually in a depreciatory direction additional inflationary pressure may come from the exchange rate.

Central budget expenditures turned out to be below projected levels during April-May 2003, though the discrepancy was lower than in 1Q03. Revenues

reached 102% of the plan in May on a cumulative basis. Parliament approved the budget resolution for 2004, with a ceiling on the budget deficit set at 0.5% of GDP, and the maximum public debt limit of 35% of GDP. However, it is expected that 2003 tax reforms (lower PIT and VAT rates) effective in 2004 may force budget adjustments.

Most other CIS economies recorded strong GDP expansion in 1Q03. Exporters of energy commodities performed particularly well. In Belarus, GDP expanded by an estimated 4.4% in January-May (official data), with sustained growth in industry, transport and trade sectors. Both exports and imports rose strongly in dollar terms in January-April. Consumer price inflation remains high at around 30% yoy<sup>1</sup>. In most other CIS countries inflation remains in low territory. <MJ&WP>>

## Turkey

- **Strong growth in 1Q03**
- **Market sentiment restored in 2Q03**

Contrary to analyst expectations and despite the impact of the Iraqi war, high GDP growth of 8.1% yoy was recorded in 1Q03. Growth was driven by higher than expected private demand, particularly investment in machinery, consumption and stock building. It is expected that the GDP growth figure in 2Q03 will also be high, although lower than 8%. In April-May, domestic demand remained solid, as indicated by data on industrial production, investor sentiment and the decline in inventories. GDP growth for the year as a whole is likely to come in close to 5%.

The negative contribution of net exports observed in 1Q03 is believed to have hampered growth also in 2Q03. Exports are likely to turn out weaker given the earlier real appreciation of the lira. On the other hand, strengthening domestic demand, which was behind the 20% yoy import expansion in April-

May, probably continued to drive imports also in June.

These two factors, coupled with weaker tourist revenues because of the Iraqi crisis and lower income from the suitcase trade with Russia, meant the Turkish current account deficit widened nearly threefold on an annual basis during the January-April period. The current account deficit stood at US\$3 billion in April 2003 and FDI inflows were not enough to cover even half of it. Therefore, maintaining the confidence of domestic and foreign investors and thus relations with the IMF and the US have become crucial to secure inflow of foreign funds.

Inflation expectations continued to decline in May-June and consumer price inflation stabilised at 30% yoy in 2Q03. Seasonal factors may push the CPI even lower in 3Q03. Additional downward pressure on prices may come from fading inflationary inertia and the persistent strength of the exchange rate.

The consolidated budget deficit in April-May was higher than in March, mainly as a result of much higher expenditures. However, revenues also increased as a result of better tax collection. It is expected, though, that the budget performance will weaken in the coming months. <MJ>

## Asia

- **Emerging Asian economies contracted in 2Q03, outlook optimistic**
- **Exports and investment support fragile recovery in Japan**
- **China to maintain impressive growth this year**

2Q03 saw economic contraction among several emerging Asian economies. In particular, the service sector was hit severely in some countries due to the outbreak of SARS. In Singapore, GDP contracted by 12% yoy in 2Q03, and growth probably turned negative also in Korea, Hong Kong and Taiwan.

Despite this, the outlook for 2H03 looks strikingly positive. June data points at a revival of economic activity in the region, including a rise in consumer spending and intra-regional travel. A broad-based

<sup>1</sup> More detailed information on the Belarusian economy can be found in publications of the IPM-CASE Research Center available at <http://ipm.by/index.pl?topicid=IC>.

recovery may take some time to materialise, since stocks of inventories are high at the moment. Export sales should be pushed up by increased demand for electronics and already higher capital goods orders from the US. Tourist inflows, which declined dramatically at the beginning of 2003, surged in June. Overall, it is projected that the region will grow at around 5% yoy in 3Q03.

Policy makers in the region also acted flexibly. Fiscal stimulus in the form of tax cuts is to be announced in South Korea and some slight monetary easing took place in 2Q03. The central banks of South Korea, Indonesia, Philippines, Taiwan, and Thailand cut rates, while the Singapore monetary authority lowered the mid-point of the currency band. Regional inflation is expected to be around 2% at the end of 2003.

China continued to differ from the regional trend. According to preliminary estimates 2Q03, it saw GDP expansion of 6.7% yoy, following nearly 10% growth in 1Q03. Industrial production rose by 17% yoy in June, i.e. stronger than in April and May and exports expanded by around 34% yoy in nominal terms in 2Q03. Industrial production and export figures probably overestimate overall economic activity, as the service sector that was hit in 2Q03. Slightly slower expansion is expected in 2H03.

### Japan

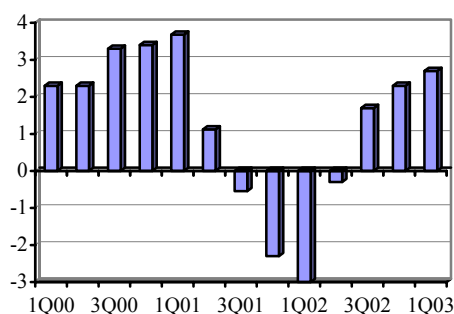
Japanese GDP grew by 2.7% yoy in 1Q03, following the 2.3% rise in 4Q02. The growth in 1Q03 was driven primarily by exports. There are signs that this moderate expansion continued in 2Q03 on the back of firm exports and domestic investment.

Export figures for April and May 2003 remain optimistic. Real exports grew by 9.6% yoy in April and by 6.8% in May. The prospects for exports remain cautiously positive, as threats related to SARS and the war in Iraq faded away and a pick-up in the US economy is expected soon. However, the demand for Japanese exports in other Asian countries seems to be volatile. Import dynamics was also positive in April-May, but not as strong as in the case of exports.

Domestic demand probably improved in 2Q03 due to a strengthening of capital investment. Capital spending surveys point to an increase in large

manufacturers' investment plans. Machinery orders from the private sector surged in annual terms in May. In addition, the widening of the gap between the prices of outputs and prices of inputs led to an improvement in firms' profit margins. This should translate into new investments, as the outlook for capital spending is good and firms tend to increase financing new investments out of their own resources. On the contrary, falling department store sales suggest that consumption is constrained by modest wage growth.

### Real GDP in Japan, 2000-2003 (% change yoy)



Source: Japanese Cabinet Office

Industrial production increased by 1.6% yoy in May and is projected to grow further in June. Manufacturing of electronic parts and devices, transport equipment and general machinery performed particularly well.

Moderate CPI deflation on a yoy basis was noted in April (-0.1%) and in May (-0.2%). The Bank of Japan forecasts that consumer prices will continue to contract until 1Q04. <MJ>

### Latin America

- **Argentina recovers from the slump**
- **Forecast of subdued growth in Brazil and Mexico this year**

The outlook for the region is for a slow economic recovery. Regional GDP is expected to grow by a mere 1.5% this year helped by a strong rebound in Argentina. The economies of Brazil and Mexico should not accelerate visibly from last year, with stronger growth not likely before 2004. Rising net exports are an important factor behind the expansion.

In Mexico, the beginning of the year was marked by rather weak economic activity. 1Q03 GDP increased by 2.3% yoy driven by the services sector. The available data for 2Q03 paint a mixed picture, though growth is expected to strengthen in 2H03, with domestic demand supported by low interest rates that turned out to closely follow US rates. High oil prices have helped on the fiscal front and the government is now likely to meet its deficit target despite anaemic growth at the beginning of the year and a pre-election spending boost. Inflation was on a downward trend in 2Q03. July elections to the lower house in the Congress did not bring major changes to the political scene and there should be no negative impact for the reform agenda.

In Brazil, economic weakness continued, with 1Q03 GDP rising by only 2% yoy. Growth was possible primarily due to stronger external demand. High interest rates have depressed domestic demand – private consumption and investments actually contracted in annual terms. The central bank recently downgraded its growth forecast for 2003 to 1.5%. Lower inflation dynamics raise the possibility of more aggressive monetary easing in the coming months. However, as the current CPI at 17% yoy greatly exceeds the central bank target of 5.5% for end-2004 monetary easing cannot be certain.

In Argentina, the May presidential elections did not bring major changes to existing economic policies but helped ease political uncertainty. The recovery of the real sector continues. GDP expanded by 5.4% yoy in 1Q03 and expectations are for even stronger readings for the year as a whole. External demand is the key factor in driving the recovery. Argentina is currently recording a sizeable trade surplus (US\$3 billion in 1Q03). The central bank continues with its strategy of intervening against the domestic currency to limit the peso's rise and keep exports competitive. The bank bought a record US\$1 billion in June and continued heavy interventions in July. The peso has firmed against the dollar by some 20% from the start of the year. Meanwhile, inflation in 2Q03 came out surprisingly low. In July, Argentina and the IMF formally started talks for a new three-year programme that would replace a transitional arrangement that ends in late August. A deal with the IMF is key before Argentina can restructure its public debt and the

country needs to strike a deal before September 9, when a \$3-billion payment to the IMF is due. <WP>

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## Central Banks Watch

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- **Monetary easing continued in major industrial economies and CEE**
- **Financial instability in Hungary**

Given the sluggishness in global economic recovery and contained inflationary pressures (and in some countries even incipient signs of deflation) monetary policies were loosened in many countries in 2Q03. In the US, interest rates were cut by 25 basis points down to 1.0% on June 25, bringing them to a record 45 year low. The FOMC was primarily concerned about economic performance and continuation of accommodative measures as long as they are deemed necessary. This means that further monetary easing cannot be ruled out in the event of an unsatisfactory recovery. Such an attitude seems justified in an environment of low inflation where accommodation of potential adverse shocks becomes less effective and more difficult, especially when demand is weak.

Interest rates in the euro-zone were also lowered. The ECB cut its rates by 50 basis points on June 5. After this decision the minimum bid rate on the main refinancing operations of the Eurosystem stood at 2%, the lowest level since the launch of the common currency. The positive and improved inflationary outlook, as well as the disappointing growth performance, underpinned this monetary policy easing. The inflationary pressures should be subdued to some extent by the recent appreciation of the euro. Given this fact and still no signs of robust recovery, the monetary authorities are expected to wait with another change in interest rates until the situation clears up. Jean-Claude Trichet will take over the ECB presidency on November 1 2003.

In July, the Bank of England (BoE) cut rates by 25 basis points to 3.50%, the first change since February. This despite RPIX inflation exceeding the inflation target (2.5%). The hesitant global recovery, subdued domestic performance and



-muted overall pay growth were the main factors behind the decision. The cut is believed to be consistent with the objective of maintaining inflation within the medium term target range. Until the end of this year rates should remain unchanged.

In Japan, although no interest rate decisions were taken, monetary policy was loosened using open market operations in April and May. The target range for the outstanding balance of current accounts held at the Bank of Japan were raised and are now set at around JPY27-30 trillion. In addition, an outright purchase of asset-backed securities for its money market operations, with a special emphasis on securities backed by assets of small and medium-sized enterprises, has been considered and it is possible that this measure will be used in the near future.

In the Czech Republic, after the ECB's June decision and favourable price developments, the central bank voted for a reduction in the two-week repo rate by 25 basis points to 2.25%. The discount and lombard rates were also lowered by the same amount to 1.25% and 3.25%, respectively. As inflation is expected to pick up in the course of the year and domestic demand remains robust, no further monetary easing should be expected for some time.

The monetary decisions in Hungary in 2Q03 were primarily determined by changes in the exchange rate parity. After the unexpected realignment of the forint's central parity against the euro on June 4, the market reaction was very nervous and the forint lost ground, reaching 270 HUF/EUR, when the National Bank of Hungary decided to raise interest rates by 100 basis points to 7.5%. When this failed to deliver the expected effects, monetary policy was tightened again on June 19, this time by 200 basis points up to 9.5%. In the aftermath, market yields started to stabilise but the forint remained volatile until mid-July.

2Q03 saw three rate cuts by the National Bank of Poland (NBP), each month by 25 basis points. Consequently the reference rate was lowered to 5.25%. Low inflation and inflationary expectations, contained wage growth and slow recovery weighed in favour of monetary easing. Further rates cuts in 2H03 are very likely, though their scope will be dependent on the pace of recovery and the strength

of the forecast pickup in inflation. In addition, the planned reduction in the obligatory reserve ratio will determine the scope for interest cuts as it will have an expansionary effect. <LR>

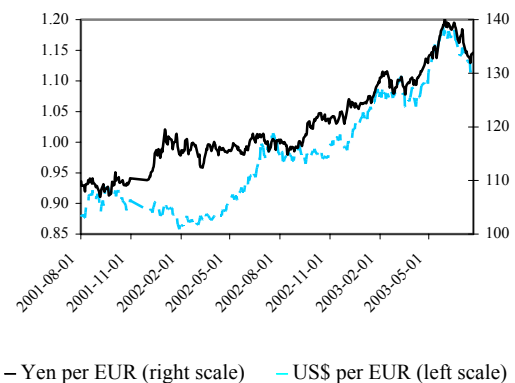
Central Bank	Official interest rate	Current	Last change
US	Federal funds	1.00	25 Jun 03
Japan	Overnight call	0.00	19 Mar 01
ECB	Refi	2.00	3 Jun 03
England	Repo	3.50	10 Jul 03
Czech Rep.	2-week repo	2.25	25 Jun 03
Hungary	2-week repo	9.50	19 Jun 03
Poland	14-day intervention	5.25	25 Jun 03

Source: Central banks

## Exchange Rates

- Euro rally continues...
- ...but the trend is expected to be reversed
- Currencies in CEE on the decline

**Euro exchange rates against US\$ and Yen, Aug 2001-Jul 2003**



Source: ECB.

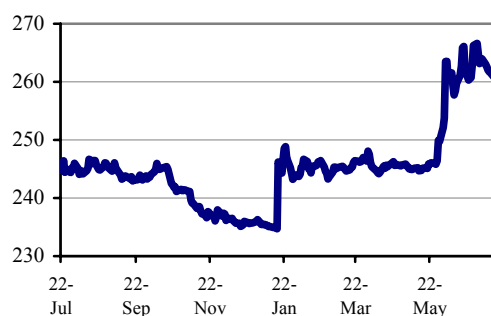
2Q03 saw a further appreciation of the euro against major currencies, although this trend was reversed in the second half of June and at the beginning of July. In total, the euro's real effective exchange rate gained 14.0% yoy. It is expected that its appreciation trend vis-à-vis the dollar will be halted and may possibly reverse by the end of this year and in 2004. The dollar-yen exchange rate remained broadly stable in 2Q03. The British pound, after depreciating against the euro in April and May, gained ground in June. The publishing of the UK Treasury report on the appropriateness of adopting

the euro, suggesting a postponing of EMU accession, proved to have no major impact on the pound's strength.

In 2Q03, the Czech koruna and Hungarian forint depreciated on average by 3.5% yoy and 3.3% yoy against the euro and appreciated by 16.2% yoy and 16.5% against the dollar. Similar trends were observed in Poland, but with different magnitudes. The zloty depreciated by 17.2% yoy versus the euro and appreciated by 5.1% against the dollar. This boosted the competitiveness of Polish-made goods against those from the Czech Republic and Hungary. This is potentially important given the competition of these countries in the European markets. In general, given price and exchange rate developments, all three countries experienced depreciation of their real effective exchange rates. On June 4, the National Bank of Hungary (NBH) depreciated the forint's central parity by 2.26%, while leaving the  $\pm 15\%$  band (consistent with the ERM-2 mechanism) unchanged. The new central parity is 282.36 HUF/EUR (the upper and lower

limits are: 240.01 HUF/EUR and 324.71 HUF/EUR, respectively). This measure was initiated by the government following manufacturers' lobbying. In mid-July, the Hungarian prime minister declared that Hungary wants to enter the ERM-2 in May 2004 and to adopt the euro in 2008. <LR>

**Euro exchange rates against Hungarian forint, Jul 2002-Jul 2003**



Source: ECB.

**Euro exchange rate vs. dollar and yen, 1998-2004**

	1998	1999	2000	2001	2002	2003f	2004f
Dollar	1.121	1.066	0.924	0.896	0.945	1.122	1.093
Yen	146.4	121.3	99.5	108.7	118.1	131.3	125.7

Note: f – forecasts

Source: data – ECB, forecast – CASE, market consensus

## Commodity Prices

- Oil prices on the rise again
- Gold prices still high in May-July
- Falling steel prices

### Oil

After the fall in oil prices in the aftermath of the Iraqi conflict in April and early May, prices started to climb back in late May, June and July. In 2Q03, the Brent price averaged US\$26.2, down 17% compared to 1Q03 and thus returning to its 2H02 levels. The factors underpinning high prices were relatively low OPEC production and delayed return of Iraqi output, uncertainly about Nigerian supplies, the tense political situation surrounding Iran, below average OECD stocks and the weakness of the

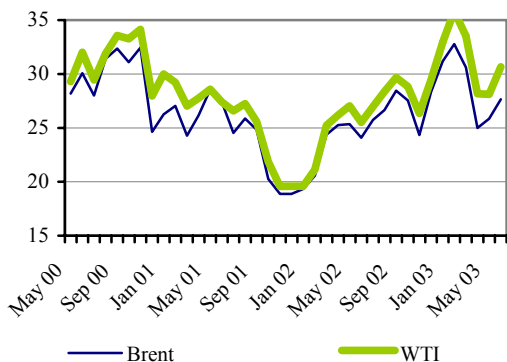
dollar. There are currently no signs suggesting a major weakening of prices in 2H03. Hence, we expect Brent prices to stay in the US\$24-28 range, a significant upward revision from previous quarters. No easing of prices is expected before 2004.

The 2003 global demand forecast of the International Energy Agency was largely unchanged from the previous quarter at around 78 mb/d. 2004 is now expected to bring an increase of a further 1 mb/d or 1.3%. The outlook depends on the strength of the global economic recovery and price developments. Relatively strong 2003 demand stems partly from exceptional factors such as a particularly cold winter and the switch from natural gas and nuclear fuel. On the supply side, it is expected that in 2004 non-OPEC supply will rise faster than demand, indicating a loss of OPEC's share in the market. Among non-OPEC producers,



former Soviet Union countries, primarily Russia, are expected to continue the strong output expansion as it was observed in 1H03. There is still some uncertainty over Iraqi production. <WP>

### World oil prices, 2000-2003 (US\$ per barrel)



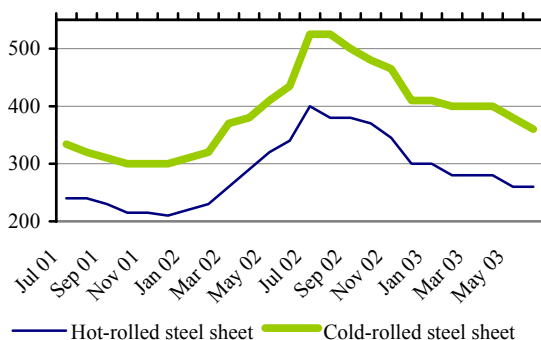
Source: US Energy Information Administration

### Metals

Metal prices in 2Q03 stood at levels similar to 1Q03, as indicated by the IMF composite metal index. A slight upward trend was visible from April to June 2003. This stability was apparent for different types of metals. On average, in June 2003 metal prices were up by 5% yoy.

Steel prices continued to decrease gradually during 2Q03, and fell by almost 35% from the peaks created by the US-EU steel war in spring 2002. Limited demand for steel from the manufacturing sector in 1H03 and abundant supply of steel products caused a continuation of this downward trend. Whether this trend is maintained in 3Q03 depends primarily on the strength of the recovery in US manufacturing.

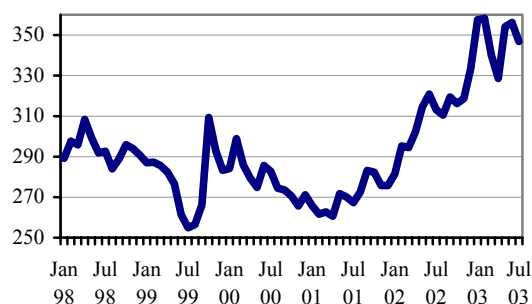
### Steel prices, 2001-2003 (US\$ per ton)



Source: Purchasing Magazine

Gold prices remained extremely strong in May and June, showing monthly gains as high as 10%. This reflected the influence of at least two factors. Firstly, dollar weakness against the euro pushed up dollar prices of the metal and secondly, supply was limited. On top of this, volatile equity markets and uncertainties about the global geopolitical situation added to upward pressures on prices.

### Gold prices, 1998-2003 (US\$ per troy ounce)



Note: July data until mid-month only.

Source: Pacific FX Database.

### Agricultural commodities

The IMF composite food index remained flat in 2Q03, although in June rose by 7% yoy. International prices of cereals remained firm in April-June 2003, but the outlook is mixed. Wheat prices are likely to weaken in the following months as wheat production in North America and Australia is expected to recover strongly. On the other hand, wheat production in Asia will shrink as China and India suffered from dry weather and policies restricting the sown area. Adverse winter weather affected crops in Kazakhstan and in Central and Eastern Europe. Russia and Ukraine might even suffer wheat shortages and need to resort to imports.

Cotton prices also remained firm in 2Q03 and in June cotton was valued 34% higher than a year earlier. The upward trend continues after prices fell to record lows in 2001 and it was recently supported by stable demand from China. <MJ>

## Statistical Appendix

	2000	2001	2002	2Q02	3Q02	4Q02	1Q03	Apr	May	Jun
<b>GDP, % yoy change</b>										
US	3.8	0.3	2.4	2.2	3.3	2.9	2.0			
Japan	2.8	0.4	0.2	-0.3	1.7	2.3	2.7			
EU	3.3	1.7	0.9	1.0	1.2	1.4	1.1			
UK	3.0	2.2	1.9	1.8	2.3	2.3	2.1			
Euro-zone	3.4	1.5	0.8	0.8	1.0	1.2	0.8			
Germany	2.9	0.6	0.2	0.0	0.4	0.7	0.2			
France	3.8	2.1	1.2	1.4	1.3	1.4	1.1			
Czech Rep.	3.3	3.1	2.0	2.1	1.7	1.5	2.2			
Hungary	5.2	3.8	3.3	3.0	3.5	3.7	2.7			
Poland	4.0	1.0	1.4	0.9	1.8	2.2	2.2			
Russia	9.0	5.0	4.3	4.1	4.6	5.2	6.8			
Turkey (GNP)	6.3	-9.5	7.8	10.4	7.9	11.5	7.4			
<b>CPI, % change yoy</b>										
US	3.4	2.8	1.6	1.3	1.6	2.2	2.9	2.2	2.1	2.1
Japan	-0.7	-0.7	-0.9	-0.9	-0.8	-0.3	-0.2	-0.1	-0.2	..
EU15	2.5	2.5	2.0	1.9	1.9	2.2	2.2	2.0	1.8	1.8
UK (HICP)	0.8	1.2	1.3	0.9	1.0	1.6	1.5	1.5	1.2	1.1
Euro-zone (HICP)	2.1	2.3	2.3	2.1	2.1	2.3	2.3	2.1	1.9	2.0
Germany (HICP)	2.1	2.4	1.3	1.1	1.0	1.1	1.1	1.0	0.6	0.9
France (HICP)	1.8	1.8	1.9	1.7	1.7	2.0	2.3	1.9	1.8	2.0
Czech Rep.	3.9	4.8	1.8	2.3	0.7	0.5	-0.4	-0.1	0.0	0.3
Hungary	9.8	9.2	5.3	5.5	4.6	4.8	4.6	3.9	3.6	4.3
Poland	10.1	5.5	1.9	2.1	1.3	0.9	0.5	0.4	0.4	0.5
Russia	20.8	21.6	16.0	15.8	15.1	15.1	14.6	14.6	13.6	13.9
Turkey	54.9	54.4	44.6	47.0	39.5	31.6	27.6	29.5	30.7	29.8
<b>Short-term interest rate, %</b>										
US	6.46	3.69	1.73	1.83	1.76	1.49	1.26	1.24	1.22	..
Japan	0.25	0.12	0.06	0.04	0.04	0.04	0.04	0.04	0.03	..
UK	6.11	4.97	3.99	4.10	3.95	3.92	3.73	3.58	3.57	..
Euro-zone	4.39	4.26	3.32	3.45	3.36	3.11	2.68	2.54	2.41	..
Czech Rep.	5.37	5.17	3.50	3.90	3.10	2.70	2.50	2.50	2.50	2.30
Hungary	11.00	10.80	8.90	8.60	9.40	8.90	6.40	6.40	..	..
Poland	16.62	14.85	..	9.24	7.96	6.58	5.89	5.70	..	..
Russia	12.80	10.00	12.40	12.90	11.50	11.00	8.80	6.70	..	..
Turkey	183.20	59.00	44.00	48.00	46.00	44.00	..	..	..	..
<b>Unemployment rate, %</b>										
OECD	6.3	6.5	6.9	6.9	6.9	7.0	7.0	7.1	7.2	..
US	4.0	4.7	5.8	5.9	5.8	5.9	5.8	6.0	6.1	..
Japan	4.7	5.0	5.4	5.4	5.4	5.4	5.4	5.4	5.4	..
EU	7.8	7.4	7.6	7.6	7.7	7.8	7.9	8.0	8.1	..
UK	5.4	5.0	5.1	5.1	5.2	5.0	5.0	..	..	..
Euro-zone	8.5	8.0	8.3	8.2	8.3	8.5	8.7	8.8	8.8	..
Germany	7.8	7.8	8.6	8.5	8.6	8.8	9.2	9.4	9.4	..
France	9.3	8.5	8.7	8.7	8.8	8.9	9.0	9.1	9.1	..
Czech Rep.	8.7	8.0	7.3	7.3	7.2	7.2	7.1	7.0	7.0	..
Hungary	6.3	5.6	5.6	5.5	5.6	5.8	5.8	5.9	5.9	..
Poland	16.4	18.5	19.9	19.8	20.0	20.2	20.2	20.2	20.1	..
Russia	9.9	8.7	7.1	7.5	7.1	7.1	8.5	8.9	8.6	..
Turkey	6.6	8.5	10.7	9.6	9.9	11.4	..	..	..	..

Notes: 1. GDP growth rates- seasonally adjusted.  
 2. Short term interest rates generally refer to 3-month interbank rates or Treasury rates (overnight rate for Turkey).  
 3. Standardised unemployment rate is presented with exceptions of Russia and Turkey.

Sources: OECD, Eurostat, countries' statistical agencies and central banks.



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**Global Economy** comprises analyses and forecasts for the world economy. The quarterly is prepared by CASE's economists and is targeted at the wide audience, aiming to provide an overview of the most important global economic trends in an attractive and concise way. The choice of discussed issues and the geographic scope of the bulletin are determined by the regional perspectives of Poland, other CEE EU accession countries and the economies of the FSU region. The quarterly also serves as background material to the teams working on quarterly analyses and forecasts for the economies of Poland (**Polish Economic Outlook**), Ukraine (**Economy of Ukraine: Trends, Analyses, Forecasts**), Georgia (**Economy of Georgia: Trends, Analyses, Forecasts**), Belarus (**Economy of Belarus: Trends, Analyses, Forecasts**) and the Kyrgyz Republic (**Kyrgyz Economic Outlook**).

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All analyses are based on data and information available until 17 July 2003. Additional information is available upon request. Please contact CASE at [global.economy@case.com.pl](mailto:global.economy@case.com.pl).

Authors contributing to this issue can be contacted at: Wojciech Paczyński – [wojciech.paczynski@osw.waw.pl](mailto:wojciech.paczynski@osw.waw.pl), Łukasz Rawdanowicz – [lukasr@case.com.pl](mailto:lukasr@case.com.pl), Małgorzata Jakubiak – [Malgorzata.Jakubiak@case.com.pl](mailto:Malgorzata.Jakubiak@case.com.pl).

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