



4/2003 (12)

29 OCTOBER 2003

Global Economy

Contents

Global Outlook	2
Country Updates	4
US	4
EU	5
CEE	7
CIS	9
Turkey	11
Asia	11
Latin America	12
Central Banks Watch	13
Exchange Rates	14
Commodity Prices	15

Editor:

Wojciech Paczyński

Authors:

Małgorzata Jakubiak
Wojciech Paczyński



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

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

Highlights

- **Global recovery under way though some risks remain.** 2004 should see world growth close to the trend. Inflation under control. (p. 2)
- **Divergent growth patterns.** US and Asia surprise on the upside, euro-zone lagging behind. (p. 2)
- **US to lead global upturn.** Expansionary policies continue with widening twin deficits. (p. 4)
- **Major European economies still in doldrums.** Gradual improvement forecast in 2004. Stability and Growth Pact tested again (p. 5)
- **Central and Eastern Europe on the eve of EU accession.** Are they ready? (p. 7)
- **Poland no longer the growth laggard in the region.** (p. 8)
- **Strong expansion continues in the CIS.** Delayed reforms cloud medium-term outlook. (p. 9)
- **Good news from Asia.** Is the Japan's rebound sustainable? (p. 11)
- **Better policies and more stability in Latin America.** The reform agenda remains vast. (p. 12)
- **Central banks on hold.** Interest rates to stay at record-lows for another year. (p. 13)
- **Weakening dollar, yen gains.** Will the euro strengthen further? Will Asian central banks float? (p. 14)
- **Oil prices stubbornly high.** Supply side uncertainties remain. (p. 15)
- **Global cereal prices falling but not in Eastern Europe.** Weak crops pose problems in some countries. (p. 16)



Global Outlook

- **Recovery under way – diverging global growth patterns**
- **Industrial confidence on the rise, strong profits drive stock prices**
- **Macroeconomic imbalances remain high**
- **Dollar weakness – will it last, will it deepen?**
- **Short-term interest rates to remain low**

A modest and uneven recovery of the global economy appears to be underway and the balance of risks has improved in recent months, although the longer-term outlook remains uncertain. Inequalities in growth performance widened in 2Q03 and 3Q03, with stronger-than-expected expansion in the US and Japan and more optimistic signals from emerging Asia contrasting with a contraction in the euro-zone. The baseline outlook is of a continued slow strengthening of global growth momentum in the course of 2H03, with the 2004 expansion rate close to the long-term trend. Nevertheless, given the continued dependence of the world upturn on the situation in the US, added to continuing high macroeconomic imbalances in the major economies, the economic policy agenda remains vast and risks to the largely optimistic forecast are still present.

Among positive signs, investment appears to be rebounding in the US and some Asian economies. Indicators of industrial confidence are also generally on the rise, underpinning optimistic outlook. Investment pick-up should add to economic growth along with continued positive stimulus from household consumption. In recent months, consumer confidence has remained largely flat in Europe and the US. Of risk factors that could potentially undermine optimism one should note the possible impact of exchange rate movements, possible further oil price rises, deterioration in the real estate market and a delayed lowering of unemployment. Interest rate developments will also be important for consumer behaviour.

In the US, unexpectedly strong household consumption and a firming of business spending on machinery and software were the leading forces behind robust 2Q03 GDP readings. Increased capital spending was driven by rising optimism

about the strength of the economic rebound and stronger-than-expected corporate profits. It appears that efficiency-enhancing and cost-cutting measures have on the whole been successfully implemented and have started bearing fruit. In the euro-zone, growth momentum has been softening since late 2002 and in 1H03 output was virtually stagnant in annual terms. Private and public consumption contributed positively to growth, while investment was still on the decline, though its pace appears to be diminishing. A negative contribution also came from net exports. Japan's strong 2Q03 results and upward revisions to its 1Q03 figures came as a surprise and, together with an improved global growth, outlook and stock market gains suggest a relatively positive short term outlook. On the other hand there was not much progress in fighting deflation and several structural reforms are still on hold. Growth was strong in most of emerging Asia, which is rebounding from the SARS-induced slowdown. Central and Eastern European (CEE) economies maintained overall solid growth, though with a diversified output pattern. Acceleration in Poland contrasts with moderation of growth momentum in Hungary and the Czech Republic. In the CIS region, Russia and other commodity-exporting countries continued to reap the benefits of high oil prices. Latin America is characterised by varied growth patterns, but a stronger rebound is generally expected late this year and in 2004.

Inflation in the major economies remains in the very low territory – close to 2% in the US and the euro-zone – and there are no signs of inflationary pressures intensifying in the medium term. The impact of sustained high oil prices on inflation is limited to the US and countries pegging their currencies to the dollar, while in other major economies it is offset by the dollar depreciation. In 3Q03, oil prices climbed to an average level of US\$28.5 a barrel, 9% up from 2Q03, driven by a combination of supply side uncertainties and low stocks in OECD countries.

Policy measures have remained very accommodative. The last quarter saw no significant changes in monetary policy in the major economies. The fiscal stance remains highly expansionary, particularly in the US, but also in the euro-zone, where most countries are expected to miss their 2003 budget targets by sizeable margins due to lower-than-expected growth. This gives rise to

some serious concerns. France is extremely likely to breach the 3% budget deficit ceiling for the third year in a row in 2004, undermining credibility of the Stability and Growth Pact. Consolidation measures in the biggest EMU economies are currently being discussed, but their implementation will not come any time soon. Many CEE countries are also threatened by large budget deficits,

undermining the region's outlook, though consolidation by means of substantial reform of public finances is not expected to be seen in the near term.

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	2.0	2.7
USA	4.3	0.1	3.8	0.3	2.4	2.6	3.9
European Union	2.9	2.8	3.3	1.7	0.9	0.8	2.0
Euro zone	2.9	2.8	3.4	1.5	0.8	0.6	1.8
Germany	2.0	2.0	2.9	0.6	0.2	0.2	1.6
France	3.5	3.2	3.8	2.1	1.2	0.3	1.8
Italy	1.8	1.6	2.9	1.8	0.4	0.6	1.7
United Kingdom	2.9	2.4	3.0	2.2	1.9	2.0	2.9
Czech Rep.	-1.0	0.5	3.3	3.1	2.0	2.2	3.0
Hungary	4.9	4.2	5.2	3.8	3.3	2.6	3.3
Poland	4.8	4.1	4.0	1.0	1.4	3.3	3.5
Russia	-4.9	5.4	8.3	5.0	4.3	6.5	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	2.5	1.6
China	7.8	7.1	8.0	7.2	8.0	7.4	7.5

Notes: f – forecast.

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

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

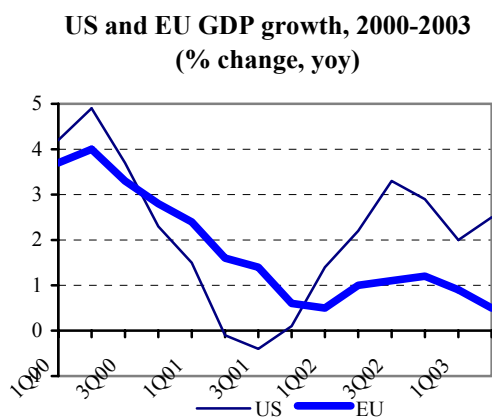
	1998	1999	2000	2001	2002	2003f	2004f
USA	1.5	2.2	3.4	2.8	1.6	2.3	1.6
Japan	0.7	-0.3	-0.7	-0.7	-0.9	-0.2	-0.4
European Union	1.8	1.2	2.5	2.5	2.1	2.1	1.9
Euro area (HICP)	1.2	1.1	2.1	2.3	2.3	2.0	1.6
United Kingdom (RPIX)	2.6	2.3	2.1	2.1	2.2	2.8	2.3
Czech Rep.	10.7	2.1	3.9	4.8	1.8	0.2	2.7
Hungary	14.2	10.0	9.8	9.2	5.3	4.7	5.6
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	14.5	12.0
Turkey	84.6	64.9	54.9	54.4	44.6	26.0	16.0
China	-0.8	-1.4	0.3	0.7	-0.8	0.9	1.0

Notes: f – forecast.

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



Stock markets in major economies followed an upward trend throughout most of 3Q03 before falling in the second half of September and remaining relatively volatile in early October. Strong corporate profits and low short-term interest rates were the main factors underlying growth. On the positive side, stock price volatility in 3Q03 was well below average levels from the last two years. 3Q03 also saw an increase in long-term interest rates on the back of the brighter outlook and large supply of government papers.

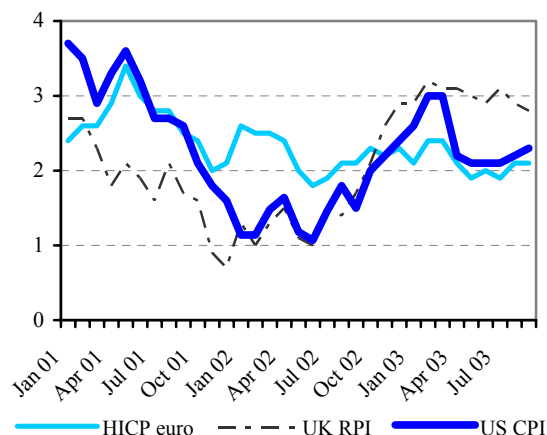


Source: FedStats and Eurostat.

Our baseline forecast is of a continued strengthening of the US economy in late 2003 and in 2004 leading global growth. The EU is set for a more gradual recovery, though 2004 should see growth of about 2%, a level unseen since 2000. We expect Japan to perform strongly in 2H03, with 2004 seeing a moderation in the upturn due to various unresolved corporate and banking system problems. Fiscal policies in the major economies are expected to remain loose into 2004 (the presidential elections in the US are an important factor in the forecast), but we should see the US finally forced to cut its large twin deficit (current account and budget) in around 2005 from their present unsustainably high levels. This will have far-reaching consequences for the rest of the world. Exchange rate developments might also be important in shaping global growth patterns. Calls at the G7 conference in Dubai requesting for Asian economies, particularly China but also Japan, to stop their massive exchange rate interventions aimed at keeping their currencies artificially weak illustrate the point. If the Asian central banks do not listen and the US remains on the expansionary track, the euro could find itself appreciating further,

thus further eroding the competitiveness of European producers. The latest round of monetary easing has most likely come to an end, at least in the US and the UK. The Bank of England is actually expected to hike rates before year-end. In Japan, the quantitative easing policy is expected to continue. The Fed is not forecast to act before 2H03, while the ECB might be able to keep rates at current record low levels for an even longer period or even cut them further in 2004, depending on movements in the euro. <WP>

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



Source: Eurostat, Bureau of Labor Statistics and National Statistics.

Country Updates

United States

- **2Q03 growth surprise**
- **Investment on the rise, also in IT – but will it last?**
- **Strong corporate profits – stock market up**
- **Fiscal expansion continues, twin deficits widen**

US GDP figures came out stronger than expected, up 2.5% yoy, in 2Q03. This was largely due to strong household consumption (in particular of durable goods, up 8.2% yoy) and a firming of fixed investment. Despite worries about over-investment in ITC goods and overcapacities, 2Q03 data indicates sustained pick-up in such investment. De-stocking, which bodes well for future investment, was also prevalent during this period. Still, some uncertainty remains as to the continued surge in corporate IT spending. On the external side, 2Q03

saw a drop in exports (in annual terms) and moderation of imports. Overall, the trade deficit widened, contributing negatively to GDP growth.

Provisional data for 3Q03 indicate a continuation of positive trends from the previous quarter. The stronger economic activity contributed to the stabilisation of unemployment, with the seasonally adjusted rate at 6.1% in 3Q03. Inflation, however, rose in 3Q03 to 2.3% in September.

Very strong growth in corporate profits have pushed stock prices up in recent months. This, coupled with falling short-term interest rates, creates favourable conditions for higher investment and consumption. On the other hand, long-term interest rates started to increase on the back of more optimistic prospects for the US economy and the large supply of government papers on the market.

The outlook for the American economy has recently become more upbeat, with forecasts revised upwards. The pick-up in investment at such an early stage of the business cycle is especially encouraging in this respect. Investment should contribute increasingly to the overall growth momentum. Domestic demand should be also underpinned by household consumption. Given the supportive fiscal stance (significant tax cuts) and expectations of lower prices, real household income should firm significantly in 2004. This is expected to come at the price of a sustained large current account deficit, a key factor influencing the dollar. The current account deficit is expected to rise to over 5% of GDP this year. Against this background, improvements in the labour market are expected to materialise at the turn of 2003/2004. <WP>

European Union

- **Stagnation in 1H03, better outlook for 2004**
- **Fiscal imbalances remain high**

2Q03 saw annual GDP growth of 0.5% yoy in the EU. Relatively strong UK results contrast with a disappointing 0.2% yoy expansion of the euro-zone (in quarterly terms, euro-zone growth momentum has been softening since the beginning of this year and in 2Q03 actually declined by 0.1%). The slowdown in exports and investment was the main drag on growth, but household consumption also

lost momentum. Similar trends are expected to continue in 2H03. Stubbornly high euro-zone inflation (in the face of the economic slowdown and the strengthening currency), as well as the deterioration in the labour market, could deter household spending. The HICP remained at a 2.1%-2.2% level in 3Q03. This was mainly attributable to very high food prices, probably the result of the heat wave that struck many EU countries during the summer. Declining money market rates and rising stock markets could help to prop up investment activities, though a recovery should not be expected soon. The strengthening of the euro (and no expectations of a reversal in this trend) could impact negatively on companies' profits, especially those exposed to trade with non-EMU countries. Thus, the consolidation of corporate balance sheets could be prolonged in the EU and this could also negatively impact the labour market in the near term. We expect unemployment to remain high. In the euro-zone the seasonally adjusted unemployment rate stood at 8.8% in August 2003, unchanged since March. Household and business confidence has been gradually improving over recent months, according to European Commission Business and Consumer Surveys. This bodes well for private spending over coming quarters. Household consumption could be boosted in addition by higher real incomes on the back of the falling inflation forecast for next year.

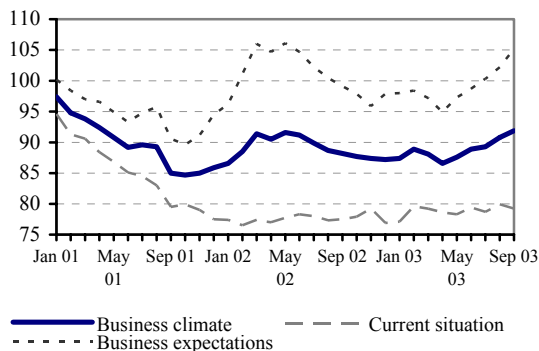
Against this background, 2H03 should see very sluggish growth in most of the EU countries, with no significant improvement over the previous half year. Growth is not expected to gain momentum until 2004 and even then recovery is not expected to be as vigorous as in the US. The pick-up is expected to be mainly bolstered by sustained and firming household consumption and rising exports. However, the latter will be dependent to a large extent on changes in the euro's strength vs. the currencies of the euro-zone's main trade partners. If the euro gains further the expected boost from foreign demand could be muted. The currency position will also be important for corporate profits and, in turn, investment.

Germany

The economic slowdown in 2Q03 was primarily due to a fall in exports and the ensuing negative contribution of net exports. GDP contracted by 0.6% yoy, reversing the positive trend from the two

previous quarters. The very strong euro is commonly blamed for this development. Euro appreciation, low domestic prices and above inflation wage growth considerably undermined German international competitiveness. A negative impact on economic growth also came from investment. On an annual basis, fixed investment contracted after a significant pick-up in 1Q03. The flip-side of low prices is the positive impact on household incomes and, in turn, consumption. Inflation, however, increased in August and September to 1.1% yoy, though is still one of the lowest in the EU. The unemployment rate has been falling from its levels in preceding months, though is above its corresponding 2002 level, in September amounting to 10.1% of the total civilian labour force. The recent Ifo Business Climate indicator for western Germany indicated a sustained upward trend in business expectations and climate over the upcoming months, although the assessment of the current situation deteriorated somewhat in September.

Ifo business climate index, 2001-2003



Source: Ifo Institute for Economic Research.

The unfavourable trends are expected to reverse very gradually and growth momentum in 2H03 should remain broadly unchanged close to zero. Next year, somewhat more vigorous GDP dynamics are expected, but still low compared to historic standards. In the longer term, the economy could get a boost on the back of government reforms. The reform bills were passed by the lower house of parliament, but still have to get through the opposition-controlled upper house. The reforms primarily cover changes in the labour market and earlier-than-planned tax cuts worth 15 billion euros. This latter measure, if introduced, is expected to provide a boost to household consumption.

France

As in the case of Germany, France experienced a sharp fall in exports. This contraction of exports on a quarterly basis has continued for last three quarters, resulting in a 3.2% drop in annual terms in 2Q03. Consequently, given the positive dynamics in imports, net exports considerably dampened GDP growth, which have actually now entered negative territory (-0.3% yoy). In addition, investment continued to contract and private consumption slowed. Higher frequency data suggest that similar trends were sustained in 3Q03. Household and business confidence is gradually improving, but mainly in terms of assessments of expectations rather than the current situation. 3Q02 saw rising inflation – to a large extent due to higher food prices and administrative hikes in prices of tobacco. Against this background, growth momentum should remain subdued until the end of this year. Some acceleration next year is possible. This, however, should not lead to increased price pressures and moderation of inflation is anticipated. Better export prospects and recovery in investment should add to the growth momentum. On the other hand, government consumption is unlikely to stimulate economic expansion. The 2004 draft budget assumes strong fiscal tightening. This is mainly due to expenditure cuts. However, so far not all the necessary measures to reach this goal have been revealed, raising doubts about the feasibility of this ambitious plan. Even if it is achieved, the budget deficit is not expected to fall below 3% of GDP. This limit is unlikely to be met before 2005.

UK

In 2Q03, GDP growth amounted to 2.0% yoy (0.6% on a quarterly basis). The trends in domestic demand were reversed from 1Q03 – private consumption strengthened and fixed investment declined. In annual terms domestic demand expanded, albeit at a slower rate than in previous quarters. On the external side, both exports and imports declined in 2Q03, though the former at a higher rate. In September, the RPIX and RPI dropped to 2.8%. Provisional data for 3Q03 suggest a modest firming of growth momentum. CIPS surveys of manufacturing, services and construction pointed to rising momentum in economic activity. Household consumption is expected to ease somewhat in 2004 on the back of anticipated moderation in the housing market and potential interest rate hikes by the Bank of England. So far,

however, there is no convincing evidence of a cooling of the housing market. On the other hand, exports should accelerate in line with stronger external demand and the weak pound. Overall, growth should be more balanced and stronger in 2004 and 2005. On the fiscal policy side, no reduction in the deficit is foreseen in the medium term. <WP>

Central and Eastern Europe

- **Robust growth maintained**
- **Poland accelerates, Czech Republic and Hungary slow down**
- **Slovakia sustains reform momentum**
- **Political problems in some countries**

With six months left to EU enlargement, several accession countries are still struggling with domestic political problems, the adoption and implementation of outstanding parts of the *aquis communautaire* and preparing for the absorption of funds from the EU budget. The current fiscal conditions and difficulties in the formulation of comprehensive and realistic fiscal consolidation plans remain a source of concern in a number of countries. In particular, excessive budget deficits are likely to delay adoption of the euro by some new EU member states. In contrast, inflation rates in the majority of countries remain within levels consistent with the Maastricht criteria. Meanwhile, despite some moderation as compared to 2002, economic growth remains resilient in most countries. In Poland, the long awaited pick-up in growth is finally taking place. The outlook for the region as a whole largely depends on the timing and strength of rebound in the euro-zone, the primarily destination for exports from the accession countries.

The Czech Republic

According to official estimates, annual GDP growth in 2Q03 slowed in comparison to the preceding quarters. The 2.1% expansion was driven primarily by household consumption. Fixed investment continued to decline, though gross capital formation increased 5.7% yoy in 2Q03. Robust growth in domestic demand in 2Q03 was accompanied by a significant deterioration in net exports, underpinned by a combination of accelerating import dynamics and moderation of export growth. The strong

koruna over this period, buoyant wage growth and sluggish demand from the EU were the main factors behind it. The deterioration in competitiveness may also have led to cuts in labour costs, which seems to be taking place via employment shedding rather than lowering wages. Unemployment has been rising in recent months in annual terms. Despite the recent depreciation of the koruna, the negative contribution of net exports could well continue in 2H03. We expect growth momentum to accelerate no earlier than 2004 on the back of stronger demand from the EU. 3Q03 saw continued deflation (-0.1% yoy), which should, however, come to an end over upcoming months. An acceleration of price dynamics is anticipated in 2004. We also expect more balanced growth in 2004, with moderation of household consumption and a pick-up in investment and exports. Low interest rates and a more favourable external environment should underpin investment activity. The strength of these developments will hinge on the improvement in international competitiveness by bringing wage growth in line with labour productivity advances. In October, a joint document from the government and CNB on strategies for accession to the EMU was released. The authorities outlined strategies of fulfilling the Maastricht criteria and indicated the 2009-2010 as the expected date of accession.

Hungary

1H03 saw very strong growth in final household and government consumption (7.9% yoy and 5.7% yoy, respectively). Given the sluggish export performance and booming imports (driven by buoyant domestic demand), net exports contributed increasingly negatively to GDP growth. In 2Q03, despite the 8.7% increase in domestic demand, GDP expanded by a mere 2.4% yoy. The foreign trade deficit (according to the Hungarian Central Statistical Office's definition) amounted to 3.1 billion euros in January-August, i.e. 70% higher than in the corresponding period of 2002. The structure of demand growth was reflected in value-added data. The manufacturing sector marginally contracted in 1H03 on annual terms (though the industrial production index increased), while most services sectors continued to expand rapidly. The widening of the trade deficit may be primarily attributable to the deterioration in international competitiveness. Wage inflation remained very high – in January-September on average 13.4% yoy, way above inflation and growth in labour

productivity. The CPI stabilised at 4.7% in 3Q03, despite the sharp forint depreciation. It is interesting to note that inflation is mainly driven by prices of services and alcoholic beverages and tobacco. Prices of consumer durable goods have continued to fall since November 2001. On the positive side, employment continued to increase and unemployment to decline. If negative developments on the wage front are sustained, we project a negative contribution of net exports to dampen GDP growth in 2H03 and early 2004. A gradual acceleration in growth momentum is expected in 2004 and 2005.

Poland

National accounts results for 2Q03 surprised on the upside with very strong consumption growth (3.9% yoy). Given the relatively low wage dynamics this could be attributable to the continued dissavings trend. Banking statistics indicate a decline in household deposits and a rise in credits. Low and stable inflation, as well as some stabilisation in the labour market, could also have stimulated higher household spending. The CPI amounted to 0.8% yoy in 3Q03. The PPI saw slightly higher dynamics of 1.9% yoy. Fixed investment had not picked up by 2Q03, yet flash data on investment in machines and equipment suggest the end of investment contraction trend in 3Q03. The construction sector continued to decline. Strong zloty depreciation, sustained growth in labour productivity in the manufacturing sector and modest wage growth helped to significantly boost exports. This was reflected in buoyant expansion of industrial production – also in 3Q03. The structure of domestic demand (mainly household consumption) alongside zloty depreciation helped to keep import growth in check in 2Q03. Thanks to this, the net export contribution was strongly positive and GDP growth soared unexpectedly to 3.8%. We expect this trend to be continued in 2H03 allowing for 3.3% GDP growth for the year as a whole. In 2004 and 2005, fixed investment should firm and a further acceleration of growth dynamics is expected. Recent improvement in corporate profitability, falling interest rates and the weak zloty should stimulate investment. Given the expectations of higher demand in the EU, export momentum should also be maintained. This should allow 3.9% GDP growth in 2004 and 4.4% in 2005 to be achieved. Consequently, prices should pick up but inflation is expected not to exceed 2%. The

major source of concern is the unsustainable position of public finances. There is much uncertainty whether the government will be able to push forward some of its recently revealed reform measures.

Bulgaria

In 2Q03, growth accelerated to 4.4% yoy, driven mainly by investment and private consumption. Industrial output appears to be strong and tourism revenues are expected to turn out high, while the agriculture sector is performing poorly. Continued strong domestic demand should make it possible to reach GDP expansion of over 4% for the year as a whole. Fast growth in imports will result in a widening of the current account deficit to well above 5% of GDP in 2003. While the fiscal position has so far turned out better-than-expected there are expectations of a loosening of fiscal policies towards the year-end and in 2004. These might add to pressures on the current account. Political instability (weakness of the ruling coalition) remains a concern, given the large unfinished reform agenda. A substantial seasonal drop in prices during the summer and continued strength of the euro (and thus the lev) are expected to bring annual inflation to below 3% in 2003 as a whole.

Romania

4.3% GDP expansion in 1H03 confirmed solid output performance, despite some moderation in 2Q03. Domestic demand, underpinned by rising real wages and easier access to credit, is the main driving force. 2H03 should see similar GDP readings with further strengthening expected next year. A combination of high domestic investment-related demand, high oil prices and weak harvests leading to increased cereal imports strongly boosted import growth. Consequently, the current account deficit was on the rise, though is expected to remain below 3% of GDP in 2003. The budget plans for 2004 so far indicate a similar deficit to the one expected in 2003 (below 3% of GDP). Overall, reform progress is satisfactory, though the remaining agenda is vast, particularly with regard state owned enterprises and the energy sector. In mid-October, the IMF agreed to complete its stand-by agreement with Romania – the first such successful programme in the country's post-communist history. Gradual disinflation has continued until August, with the central bank tightening monetary policy to offset pressures from

booming credit to the private sector. In September, inflation increased to 15.9% yoy. It now appears unlikely that inflation falls below 10% in annual terms before 2005.

Slovakia

GDP increased by 3.8% yoy in 2Q03, a minor moderation from 1Q03. Despite weak economic performance in the euro-zone, net exports have proved surprising resilient, remaining the only driving force of growth. Domestic demand actually contracted by 1.2% yoy. 3Q03 should see a similar situation, with fiscal tightening depressing domestic demand, alongside buoyant exports. Positive trends are visible in the labour market. In 2Q03, total employment increased by 2.6% yoy, with the unemployment rate falling 1.6 percentage points to 17%. The high annual inflation figure (9.5% in September) is primarily due to excise tax increases and price deregulation at the beginning of the year, while inflation pressures are currently virtually non-existent. In these circumstances monetary policy was eased with an interest rate cut in September. The government continues its ambitious reforms, though its weakening political support poses risks to their successful implementation. A major move is planned in the tax system, where from January 2004 a 19% flat rate will be introduced for income, corporate and value-added taxes. There has also been some progress in preparations of pension reform and the outlook for privatisation is positive. All these should result in a continued strong inflow of FDI and improve the chances of meeting the Maastricht fiscal criteria for the adoption of the euro.

Baltic States

In 2Q03, growth moderation continued in Estonia with GDP expanding by 3.5% yoy. Domestic demand remained strong, with private and government consumption rising by 6.1% and 5.5% yoy, respectively, while net exports were a drag on growth. The current account deficit remains large (around 14% of GDP in the twelve months to June 2003), though the recent slowdown in investment and slightly stronger exports helped to prevent a further widening of the deficit. With such high financing needs it is not surprising that FDI covered only around 30% of the savings gap in 2Q03. Fiscal policy in 2004 will remain the crucial tool for avoiding imbalances growing to dangerous levels.

In Latvia, GDP increased by 6.2% yoy in 2Q03. Output expansion is broadly based – both domestic demand supported by improved labour market conditions and relatively strong exports added to growth momentum. The boom is visible in industry as well as the services sectors. The current account deficit amounted to around 8% of GDP in 1H03. In late September, Latvia was the last of the EU accession countries to vote in the national referendum for the joining the EU.

Lithuania remained the regional growth leader, with GDP rising by 6.7% yoy in 2Q03. Its current account deficit amounted to 5.9% of GDP in 1H03 but should narrow slightly in 2H03 due to the slower rise in imports.

As in Bulgaria, Estonian and Lithuanian currencies are pegged to the euro and have experienced a visible real appreciation against the major non-EMU trading partners, particularly from the CEE and CIS regions. In Lithuania, the appreciation trend was moderated by continued deflation (-1% yoy in 3Q03). Nevertheless, given the circumstances (stagnation in the euro-zone and real appreciation against other trade partners), the export performance of both Estonia and Lithuania remained relatively solid, indicating strong gains in competitiveness. < WP >

CIS

- **Domestic demand driving Russian growth**
- **Ukrainian agriculture in crisis – other sectors perform well**
- **Oil exporters remain regional growth leaders**

Russia

As expected, strong GDP growth continued in 2Q03, accelerating to 7.2% yoy from 6.8% in 1Q03. Domestic demand, in particular very strong investment growth, and a solid increase in private consumption were the driving forces behind these results. Net exports contributed negatively to growth. Available data suggest that a similarly strong performance was maintained in 3Q03.

Industrial production expanded by 6.8% yoy in 3Q03, maintaining the dynamics from 1H03. Also, the structure of booming sectors and sectors



performing relatively worse remained broadly unchanged. The best results were registered in export-oriented branches, such as fuels, metallurgy and machinery building. In 1-3Q03, the volume of oil extraction grew by 11% yoy and of natural gas by 4.5%. In the case of natural gas, the boost in output was particularly strong in 3Q03. The services sector also performed well.

These developments have inclined us to further increase our growth forecast for 2003 to 6.5%, with an expected moderation to 4.5% in 2004. The positive short-term outlook is primarily underpinned by expectations of continued high oil prices. In addition, domestic consumption should be underpinned by wage increases and moderate fiscal expansion. While investment in the oil-related sectors is expected to remain strong, the weakness in non-energy branches is worrying. It should be impossible to maintain current growth dynamics over the longer horizon without improvement in the business climate in non-energy sectors of the economy. On the political front, no surprises are expected either during the parliamentary elections in December this year or the presidential elections in March 2004. It seems that reform momentum can only gain pace after president Putin is re-elected for a second term. Any serious discussions about gas sector reform, for example, have been explicitly postponed until 2004.

Foreign trade trends have remained largely unchanged from previous quarters. Rising exports of oil, oil products and natural gas (increases in volume, coupled with still high prices) were behind the growth of overall export value. Non-energy related exports lagged behind. In euro terms, non-energy exports in the first nine months of 2003 increased by only 5% yoy, compared to a 19% increase in oil exports. The 2003 share of energy related exports in total exports will likely surpass 55%, the highest level since statistics have been available (i.e. 1994). Strong domestic demand, coupled with rouble real appreciation, have been driving the rapid rebound in imports, which increased by over 20% yoy in US dollar terms and by 9% in euro terms. The strong growth of imports is expected to continue well into 2004, whereas the outlook for exports hinges primarily on oil price developments.

The surplus in the capital account recorded in 2Q03 so far appears to have been a one-off phenomenon. Preliminary figures for 3Q03 suggest a sizeable deficit. Nevertheless, an increase in FDI inflows is visible – net FDI inflows amounted to US\$3.9 billion in 1-3Q03, nearly double the amount a year earlier. In the near future some large foreign investment transactions could well be finalised in the oil sector. Besides, the October two-notch upgrade of Russia's rating by Moody's to Baa3 may attract more foreign portfolio capital inflows.

The central bank has allowed the rouble's nominal exchange rate to appreciate very slowly against the US dollar. Given stubbornly high inflation, this implied a 4.4% yoy appreciation of the real effective exchange rate of the rouble in 3Q03 (CBR calculations). Despite somewhat lower price dynamics in 3Q03, the CPI stayed above 13% yoy in September. The minimal improvement over 2Q03 can be attributed to moderation in administratively controlled prices of services. Given the pace of monetary base expansion and expectations that the CBR will continue its weak rouble policy, average 2003 inflation should be around 14%. Only a minor improvement to 10%-12% is anticipated for 2004.

High oil prices have played a major role in securing healthy fiscal revenues. In January-July, the federal budget recorded a surplus in the range of 3% of GDP. This is expected to lower towards year-end on the back of rising non-interest spending. Regional budgets remained close to balance in 1H03. The draft 2004 budget bill envisages somewhat lower fiscal revenues largely due to a planned reduction in VAT from 20% to 18%. <WP>

Ukraine and other CIS countries

According to revised figures, Ukrainian GDP expanded 9.3% yoy in 2Q03, and is expected to have continued growing at nearly 5% yoy in 3Q03. Strong gains in manufacturing output, as well as retail trade and transport services managed to offset the severe contraction in agriculture (16% over the period January-September).

It appears that 3Q03 growth was mainly driven by individual consumption, as household incomes rose by 18% yoy in July and 5% yoy in August. Industrial output figures indicate expansion to the

tune of around 15% yoy mainly due to metallurgy and machine building. This development suggests that both exports and investment were also on the rise in 3Q03 (in annual terms). Merchandise exports (US\$ value) increased by 29% yoy during January-August 2003.

The state budget recorded a surplus of 2.3% of GDP in July 2003 as a result of solid tax collection and lower-than-planned expenditures. In September, Ukraine easily sold an additional amount of ten-year Eurobonds, signalling improvements in country risk perceptions. Net portfolio capital flows were also positive in 2Q03, for the first time since 2000. As privatisation proceeded, FDI inflows increased in 2Q03.

Consumer prices have been mounting following an adverse supply shock (bad crops). The CPI in September stood at 6.2% yoy with non-food products and services also adding to rising inflation. The inflation path for the next couple of months will depend on which monetary policy line is followed. It is expected that the CPI index may rise to around 10% by the end of 2003 as an additional negative impact from energy price hikes is foreseen.

The National Bank of Ukraine announced a continuation of its current policy in 2004. The authorities plan to sustain current growth in monetary aggregates and slightly depreciate the hryvnia against the US dollar.

Strong economic growth continued in the majority of the other CIS countries. 2003 should see only a minor moderation of growth momentum in the region. Kazakhstan and Azerbaijan, major oil exporters, will remain regional leaders, with expansion rates close to 10%. At the other end, Uzbekistan and Belarus, the least reformed countries, are witnessing a slowdown in output expansion¹. Inflation is expected to remain in the low territory in 2003 and 2004 in most countries, with the exceptions of Belarus, Uzbekistan and Russia. In some countries, the recent widening of current account deficits may pose risks to macroeconomic stability, in particular in highly indebted countries such as Armenia, the Kyrgyz

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

Republic, Georgia, Moldova, Tajikistan and Uzbekistan. Slow progress in structural reforms in most of the mentioned countries is worrisome, as high international oil prices and the ensuing import boom in Russia is set to come to an end at some stage, thus endangering the growth prospects of the smaller CIS economies with weak and uncompetitive business sectors. <MJ&WP>

Turkey

- **Increased confidence in the domestic market**
- **Disinflation continues in 3Q03**

In 2Q03, GDP grew firmly (by 3.9% yoy) on the back of strong domestic demand and exports. 3Q03 trade figures indicate very strong exports but an even stronger increase in imports, thus increasing the trade and current account deficits. These were offset by rising capital inflows. Short-term inflows surged in July as reflected in the portfolio capital balance and the large positive errors and omissions item in the balance of payments. Inflows of capital will probably continue as the government's position seems to be very stable at the moment and the October decision to send peacekeeping troops to Iraq is likely to speed up the release of concessional loans from the US (of around US\$8.5 billion).

Inflation continued to decrease during 3Q03, with the CPI at 23% yoy in September. It seems that there will be no problem reaching the 20% yoy target at the end of the year. The continued appreciation of Turkish lira in 3Q03 should also help disinflation. <MJ>

Asia

- **Strong recovery of emerging Asia in 3Q03**
- **Japanese growth surprises on the upside, deflation continues**

Emerging Asia was among the world's fastest growing regions in 3Q03. Recovery from the SARS-induced slump is observed across the economies, and the worst hit sectors, such as tourism, are reviving strongly. The upturn is most pronounced in Singapore and Hong-Kong – on a quarterly basis, as their annual GDP growth rates are still among the lowest in the region.



Fiscal policies generally continued to be loosely underpinned by the widespread belief among policymakers that fragile demand still needs to be nurtured. Despite intensified calls from the IMF, the US and other actors, it appears unlikely that Asian currencies will be allowed to appreciate in the coming months.

China and India remain the main engines of regional growth. The Chinese economy is estimated to have grown about 8% yoy in 3Q03, with exports expanding in the range of 20%-30% yoy. Industrial production increased by over 15% yoy in 3Q03, and retail sales expanded by 10% yoy in the same period, indicating strong domestic demand. In September, consumer price inflation was around 1% yoy. Notwithstanding US pressure to allow the Chinese exchange rate to appreciate, the Chinese authorities said they would stick to the peg.

India grew by nearly 6% in 2Q03, and is estimated to have sustained similar dynamics in 3Q03. Domestic demand is expected to have taken the lead from slightly moderating exports. A stronger rupee exchange rate was most likely one of the reasons behind weaker export dynamics. The rainy season should fuel a strong rebound in agriculture, and consequently, in rural spending in 4Q03. However, net tax collections recorded up to August are falling below last year's levels, which may indicate a temporary slowdown.

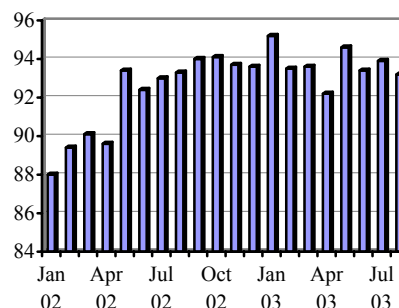
Japan

The 3.0% yoy expansion of the Japanese economy in 2Q03 was primarily driven by high private investment and, somewhat less so, by stronger consumption and exports. More recent data on consumer and business confidence suggest that investment and consumption have also supported growth in 3Q03, though to a lesser extent than in 1H03. The forecast for slowing investment is underpinned by construction data, where, after strong readings in 2Q03, a drop of nearly 9% yoy was recorded in June-July. Real earnings of Japanese workers also decreased in June-July, suggesting a slowdown in private consumption.

On positive news, exports rose 5.5% in July, 8.9% in August and 8.4% yoy in the first 20 days of September. The highest expansion was recorded for the shipment of semiconductors and related parts,

as well as audio equipment parts and visual equipment.

Industrial production index in Japan, 2002-2003 (seasonally adjusted, average 2000=100)



Source: METI.

Industrial production remained flat in 3Q03, waving away hopes for the continuation of the May 2003 increase. Production of machinery recorded the highest contraction in September, as compared to the previous months. The Bank of Japan will probably continue its loose monetary policy in the coming months as the CPI has remained stable since the beginning of 2003. CPI deflation of 0.2% yoy was reported in June and 0.3% yoy in July. <MJ>

Latin America

- Stronger growth expected in 2H03
- Improved macroeconomic policies. Better investor sentiment
- More reforms needed to ensure long-term growth

2Q03 appears to have been a turning point for the region. After a period of contraction or lacklustre expansion there are signs of stronger growth in most economies in the region. Several factors have added to the more positive picture. Exports are firming on the back of a recent rebound in global growth and the earlier depreciation of real exchange rates of many Latin American currencies. In addition, access to credit has become easier following the increased risk appetite among investors and improved outlook for domestic economic policies that have lowered spreads significantly. Nevertheless, risks to this fairly optimistic forecast have not dissipated entirely. As

recent history clearly illustrates, investor sentiment can change very quickly. Thus, longer-term prospects continue to rely on a successful implementation of – sometimes difficult – policy measures aimed at reducing the sensitivity of regional economies to swings in the global financial markets.

The growth pattern is uneven. Those countries that recently experienced the deepest contractions are expected to become regional growth leaders in 2H03 (particularly Argentina and Brazil), while countries that weathered the recent slowdown relatively well (Chile and Mexico) are forecast to expand only modestly. On the other hand, internal political problems are likely to impact negatively on developments in Venezuela, Peru and Colombia. The region as a whole is expected to record moderate growth this year (1.2-1.5%), following last year's recession, before jumping to the high-growth track in 2004 (3.6%-4%).

The Brazilian economy was still contracting in 2Q03, although the macroeconomic environment improved significantly. This lays the ground for a gradual, but broad-based, return to a fast-growth path later this year and in 2004. In the context of still weak domestic demand, exports performed well, with the current account recording a record surplus. Rising market confidence in the policies of President Lula's team drove the *real* up from its lows in 2002, in turn contributing to fairly rapid disinflation. This, then, made room for significant monetary easing, with five consecutive cuts (in total by 7.5 percentage points between June and October). 2003 as a whole should see GDP growth of around 1%, accelerating to 3.5%-4% in 2004, accompanied by strong disinflation.

In Argentina, the rebound from last year's slump has quickened, with 2003 growth projections in the range of 6%-7% increasingly realistic. After an initial boost from exports mainly driven by last year's heavy currency depreciation, there are signs of a strengthening in domestic demand. In particular, investments are expected to perform well. Nevertheless, risks to the longer-term outlook remain high, with public finances still in need of a credible reform programme.

The strength of the rebound in Mexico remains primarily dependant on developments in the US and

thus should expect a boost from exports in 2H03 and 2004. Meanwhile, earlier monetary easing resulted in stronger consumer spending that underpinned the economy's growth in 1H03. Longer term growth prospects, as in other countries of the region, depend crucially on the success in implementing key reforms. The new parliament appears to be more likely to adopt some key fiscal measures. <WP>

Central Banks Watch

- **Monetary policy on hold**
- **Tightening not expected before 2H04 at the earliest**

In August-October, there were generally no changes in interest rates for the main economic areas. The few exceptions were Canada (a cut of 25 basis points in September) and Norway (a cut of 50 basis points in September) and some countries in Latin America.

In the US, the Fed kept interest rates on hold and it is expected to continue this policy until the end of next year. Although the growth momentum is anticipated to increase, inflation should drop in 2004. In 2005, as price pressures mount and the output gap closes, monetary policy should be tightened.

The Bank of England faces a similar situation and monetary tightening come even before the end of this year. Interest hikes were already on the MPC's agenda in October and the chances of tightening in the coming months are increasing. The main arguments behind such a move are to curb the spending spree and avoid overheating and creation of too much inflationary pressure. The measure for inflation targeting in the UK is also likely to be changed by the end of 2003 from the RPIX index to the HICP, and should amount to 2% (currently 2.5% of RPIX).

On the other hand, the euro-zone's growth performance is expected to be less vigorous and the tightening of monetary conditions is taking place due to the strong appreciation of the euro. Against this background, another cut in interest rates in the



coming months should be regarded as a reasonable option. The scope of such a move will depend on inflationary expectations. For the time being, inflation remains stubbornly high given the significant economic slowdown, though the forecasts are optimistic and next year should see prices falling.

In the Czech Republic and Hungary, if external imbalances continue to grow due to exuberant household consumption and loose fiscal policies, some tightening of monetary conditions should take place next year. These decisions will depend also on price developments. In the case of the Czech Republic, this is less of a concern as inflation is significantly lower (even given the expected pickup in the CPI next year). The National Bank of Hungary faces a more challenging situation in this area. In Poland, although there were no cuts in interest rates, obligatory reserve rates were lowered in September (from 4.5% to 3.5%). In the face of forecasts of higher growth momentum and expansionary fiscal policy, the scope for rate cuts next year will be limited. If, however, price dynamics remain roughly in check, then some further loosening is possible. <WP>

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	2.00	31 Jul 03
Hungary	2-week repo	9.50	19 Jun 03
Poland	2-week repo	5.25	25 Jun 03

Source: Central banks.

Exchange Rates

- **Strong yen appreciation**
- **Euro gains grounds against the dollar**
- **Nominal and real depreciation of many currencies in CEE**

In July and August, the euro lost ground against the dollar on a monthly basis. This trend was, however, reversed in September. Overall, in 3Q03, the euro appreciated in annual terms. These developments led to a real appreciation of the euro's effective exchange rate. 3Q03 also saw the appreciation of the yen against the US dollar and the euro. We expect dollar weakness to continue in 2004.

The Hungarian forint, after a sharp depreciation against the euro in June and July, gradually firmed on a monthly basis in the subsequent months, though annual depreciation continued – 5.9% on average in 3Q03. In real terms the change was much less pronounced due to high inflation in Hungary. In the Czech Republic, 3Q03 saw a depreciation of the koruna vs. the euro – 6.5% yoy. On the other hand, however, it gained ground against the dollar, though at a slower annual pace. Similar trends were observed in Poland. In 3Q03, the zloty fell against the euro 8.4% yoy and gained 5.1% yoy vs. the dollar. As inflation in these countries remained low, changes in nominal exchange rates translated into real currency depreciations. We expect current trends to be sustained in the short- to medium-terms, although in the longer perspective, real and also nominal appreciation of CEEC currencies is very likely. The nominal depreciation may be dependent on fiscal developments and declared dates of EMU accession. <WP>

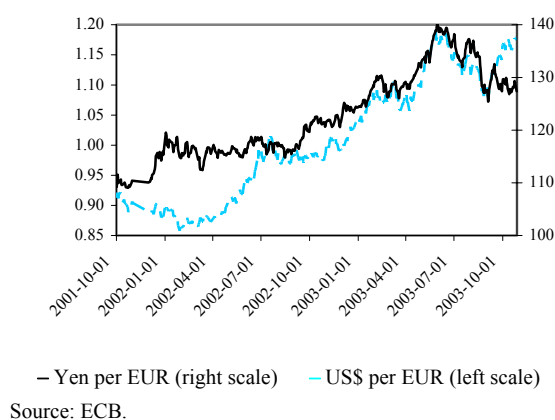
US\$ and yen exchange rates against euro, 1998-2004

	1998	1999	2000	2001	2002	2003f	2004f
Dollar	1.121	1.066	0.924	0.896	0.945	1.120	1.220
Yen	146.4	121.3	99.5	108.7	118.1	130.8	124.1

Note: f – forecasts.

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

US\$ and yen exchange rates against euro, Oct 2001-Oct 2003



Commodity Prices

- **Oil prices persistently high – easing expected in 2004**
- **Gold prices continued to mount in 3Q03**

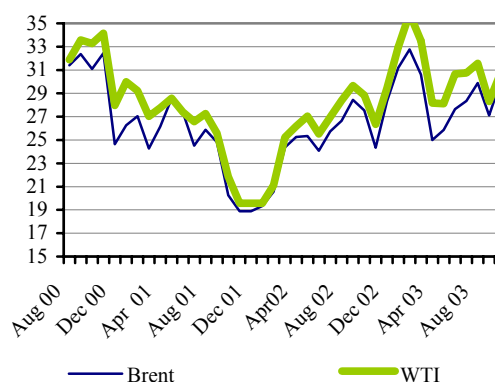
Oil

Oil prices continued their upward trends in July and August, easing somewhat in September. OPEC's 24 September decision to cut output targets sent prices to their highest levels since the Iraqi war. Subsequently, Brent has remained above US\$30 a barrel until mid-October. In 3Q03, the Brent price averaged US\$28.5, i.e. 9% above the 2Q03 level. The balance of risk in the market does not suggest a more pronounced easing of prices in the coming months. We expect Brent to average below, but close to, US\$28 in 4Q03 and remain within the US\$24-28 range in 1H04. It is worth remembering that given current, and forecast, dollar weakness, the outlook for oil prices for European countries is much more positive.

The 2003 global demand forecast from the International Energy Agency was up somewhat on the previous quarter at 78.4 mb/d. 2004 is expected to bring an increase of a further 1 mb/d, or 1.3%. Oil and oil product stocks in OECD countries remain low and this factor appears to have played an important role in driving the recent high price volatility. The supply side of the market is a source of more uncertainty for the outlook. In particular the overall political situation in the Middle East

does not appear to be calming, the prospects of increasing Iraqi production remain unclear and internal problems might again affect the production capacities of other major exports such as Venezuela and Nigeria. The strong rise in production and exports in FSU countries in recent quarters is expected to slow somewhat in 4Q03 before getting back on track in 2004. <WP>

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

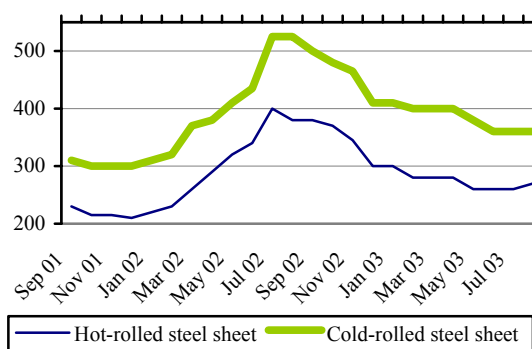


Source: US Energy Information Administration.

Metals

According to the IMF composite metal price index, metal prices increased in 3Q03, following an earlier period of relative stability. This recent increase (16% yoy in 3Q03) was almost uniform, with nickel, lead and uranium recording strongest gains compared to 2Q03.

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



Source: Purchasing Magazine.

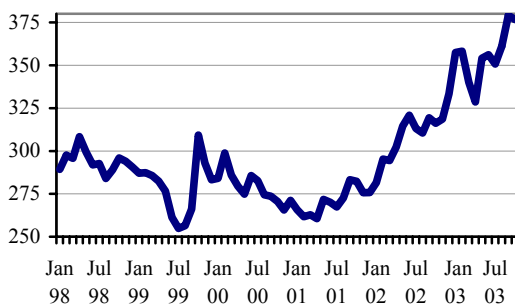
Steel prices remained generally flat during summer 2003, reflecting the usual summer decline in industrial activity. Prices are expected to stay at a



comparable level during the next couple of months, as no sudden rise in steel orders is expected.

Gold prices continued to climb, increasing by as much as 3% and 5% mom in August and September 2003, respectively. The reasons behind this trend were unchanged from the previous quarter: the weakness of the US dollar, limited supply and uncertainties about the geopolitical situation. It is expected that the upward pressure on gold prices will continue in coming months.

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



Note: October data until mid-month only.

Source: Pacific FX Database.

Agricultural commodities

The IMF composite food prices index remained relatively flat for the quarter. However, when one looks at the longer time series, it is evident that prices of food declined moderately in 2003. On

average, food prices decreased by 1.3% yoy in September.

World prices of cereals declined slightly in comparison to 2Q03. However, cereals are much cheaper than a year ago, with September wheat prices standing 23% below levels from a year ago. Price developments are reflecting higher production in North America, Oceania and North Africa. It is expected that downward pressure will continue for global wheat prices for the next few months, as the prospects among some of the main wheat exporters are favourable and a decline in demand for the 2003/2004 season is anticipated. However, the harsh winter and dry summer drastically reduced crops in Russia, Ukraine and Kazakhstan, and severely influenced domestic prices for grain. This might lead to food shortages in some FSU countries. The decline of wheat production was also pronounced in India and China, as an effect of dry weather and some policy measures.

Unlike world cereal prices, cotton prices were up by 6% mom in September, which corresponds to a 31% increase in annual terms. This is a continuation of the recovery from the lows of 2001. The prices of cotton are supported by robust demand, particularly from China. <MJ>

Statistical Appendix

	2000	2001	2002	3Q02	4Q02	1Q03	2Q03	Jul	Aug	Sep
GDP, % yoy change										
US	3.8	0.3	2.4	3.3	2.9	2.0	2.5	..	..	..
Japan	2.8	0.4	0.2	1.5	2.5	2.9	3.0	..	..	..
EU	3.3	1.7	0.9	1.1	1.2	0.9	0.5	..	..	..
UK	3.0	2.2	1.9	1.9	2.0	1.8	2.0	..	..	..
Euro-zone	3.4	1.5	0.8	1.0	1.1	0.7	0.2	..	..	..
Germany	2.9	0.6	0.2	0.4	0.5	0.1	-0.2	..	..	..
France	3.8	2.1	1.2	1.3	1.3	0.7	-0.3	..	..	..
Czech Rep.	3.3	3.1	2	1.7	1.5	2.4	2.1	..	..	..
Hungary	5.2	3.8	3.3	3.5	3.7	2.7	2.4	..	..	..
Poland	4.0	1.0	1.4	1.8	2.2	2.2	3.8	..	..	..
Russia	10	5.0	4.3	4.6	5.2	6.8	7.2	..	..	..
Turkey (GNP)	6.3	-9.5	7.8	7.9	11.5	7.4	3.7	..	..	..
CPI, % change yoy										
US	3.4	2.8	1.6	1.6	2.2	2.9	2.1	2.1	2.2	2.3
Japan	-0.7	-0.7	-0.9	-0.8	-0.3	-0.2	-0.2	-0.2	-0.3	..
EU15	2.5	2.5	2.0	1.9	2.2	2.2	1.8	1.8	2.0	..
UK (HICP)	0.8	1.2	1.3	1.0	1.6	1.5	1.3	1.3	1.4	..
Euro-zone (HICP)	2.1	2.3	2.3	2.1	2.3	2.3	1.9	1.9	2.1	2.1
Germany (HICP)	2.1	2.4	1.3	1.0	1.1	1.1	0.8	0.8	1.1	..
France (HICP)	1.8	1.8	1.9	1.7	2.0	2.3	1.9	1.9	2.0	..
Czech Rep.	3.9	4.8	1.8	0.7	0.5	-0.4	-0.1	-0.1	-0.1	0.0
Hungary	9.8	9.2	5.3	4.6	4.8	4.6	4.7	4.7	4.7	4.7
Poland	10.1	5.5	1.9	13.0	0.9	0.5	0.5	0.8	0.7	0.9
Russia	20.8	21.6	16.0	15.1	15.1	14.6	13.5	13.9	13.4	13.3
Turkey	54.9	54.4	44.6	39.5	31.6	27.6	30.0	27.4	24.9	23
Short-term interest rate, %										
US	6.46	3.69	1.73	1.76	1.49	1.26	1.17	1.05	1.08	..
Japan	0.25	0.12	0.06	0.04	0.04	0.04	0.04	0.04	0.04	..
UK	6.11	4.97	3.99	3.95	3.92	3.73	3.57	3.42	3.45	3.63
Euro-zone	4.39	4.26	3.32	3.36	3.11	2.68	2.37	2.13	2.14	2.15
Czech Rep.	5.37	5.17	3.5	3.1	2.7	2.5	2.4	2.3	2.1	2.1
Hungary	11	10.8	8.9	9.4	8.9	6.4	6.6	9.4	9.6	..
Poland	16.62	14.85	8.71	7.96	6.58	5.89	5.41	5.02	..	..
Russia	12.8	10	12.4	11.5	11	8.8	..	..	..	..
Turkey	183.2	59	44	46	44	44	38	36.5	32.5	30.5
Unemployment rate, %										
OECD	6.3	6.5	7	7	7	7	7.2	7.2	7.1	..
US	4	4.7	5.8	5.8	5.9	5.8	6.2	6.2	6.1	..
Japan	4.7	5	5.4	5.4	5.4	5.4	5.4	5.3	5.1	..
EU	7.8	7.4	7.7	7.7	7.8	8	8	8	8	..
UK	5.4	5	5.1	5.2	5	5	5	..	..	..
Euro-zone	8.5	8	8.4	8.5	8.6	8.7	8.8	8.8	8.8	..
Germany	7.8	7.8	8.6	8.7	8.8	9.2	9.4	9.4	9.4	..
France	9.3	8.5	8.8	8.9	9	9.2	9.3	9.4	9.4	..
Czech Rep.	8.7	8	7.3	7.3	7.2	7.1	7	6.8	6.8	..
Hungary	6.3	5.6	5.6	5.6	5.8	5.8	5.9	5.8	5.8	..
Poland	16.4	18.5	19.9	20	20.2	20.2	20.1	20	20	..
Russia	9.9	8.7	7.1	7.1	7.1	8.6	7.7	7.8	7.6	7.7
Turkey	6.6	8.5	10.7	9.9	11.4	12	10	..	..	..

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.



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** - in Russian only), Georgia (**Economy of Georgia: Trends, Analyses, Forecasts**), Belarus (**Economy of Belarus: Trends, Analyses, Forecasts** - in Russian only) and the Kyrgyz Republic (**Kyrgyz Economic Outlook**).

Successive issues of the **Global Economy** are published at the end of every first month of each quarter. Free downloads in pdf format are available from the CASE web site.

We recommend visiting web sites of our quarterly bulletins:

Global Economy	www.case.com.pl
Polish Economic Outlook	www.case.com.pl
Ukrainian Economy: Trends, Analyses, Forecasts	www.case-ukraine.kiev.ua
Economy of Georgia: Trends, Analyses, Forecasts	www.case-transcaucasus.org.ge
Economy of Belarus: Trends, Analyses, Forecasts	http://ipm.by
Kyrgyz Economic Outlook	www.case.elcat.kg

All analyses are based on data and information available until 23 October 2003. Additional information is available upon request. Please contact CASE at global.economy@case.com.pl.

Authors contributing to this issue can be contacted at: Wojciech Paczyński – wojciech.paczynski@osw.waw.pl, Małgorzata Jakubiak – Malgorzata.Jakubiak@case.com.pl.

Although information herein has been obtained from and is based upon sources that are believed to be reliable, CASE Foundation does not guarantee its completeness or accuracy.