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Global Economy

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Global Outlook

- **Global recovery on track**
- **The EU lagging behind the US and Asia**
- **Inflation low, monetary policy to remain accommodative**
- **Dollar weakness**
- **Deterioration of fiscal balances**

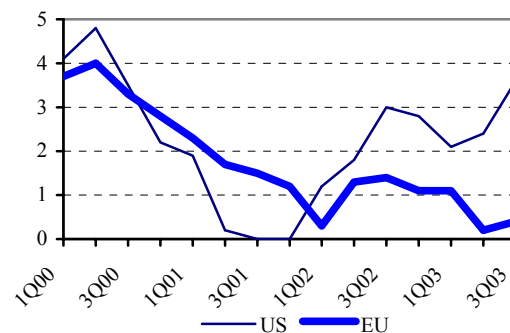
Global economic growth appears to be accelerating, though in an uneven manner. The US and most of the Asian economies surprised on the upside in 2H03, whereas the euro-zone is lagging behind. Inequalities in growth performance actually widened in 3Q03. The balance of risks has improved, at least with respect to the short-term outlook. Our baseline forecast is largely unchanged from the previous quarter, predicting a continued strengthening of growth momentum in 2004 and 2005. In the medium to long-term, there are sizeable risks related mainly to a major deterioration in fiscal balances in most of the largest advanced economies. Consequently, macroeconomic imbalances are building up, posing threats to economic stability. Against this background, the reform agenda remains vast on both sides of the Atlantic as well as in Japan.

Positive news is still coming out of the corporate sector. Currently, prospects for investment actually appear more solid than those for private consumption. A gradual pickup in investment in the US and Asia is being stimulated by very strong corporate profits and favourable financing conditions. In the EU, investment continued to decline in 3Q03, but, judging from available evidence, investment is expected to gradually strengthen in the course of 2004. The pace of the investment upturn may be muted by the recent accounting scandals (most recently the Parmalat case) and a strengthening of corporate governance laws that might make companies more cautious about taking risks. Despite this, industrial confidence has generally remained on the rise up to early 2004. There are mixed signals from the consumer confidence indicators, with significant variation between countries.

Towards the end of 2003 and in January 2004 exchange rate developments attracted the attention

not only of financial market analysts but also of policy makers given their potential repercussions for global growth prospects. There is, however, no consensus view on the significance of the recent rapid and sizeable depreciation of the dollar against other major currencies. Its impact on the US economic situation remains limited given the low degree of openness of the economy. The size of the depreciation is not widely considered strong enough to bring the large current account deficit closer to balance at the present stage of global economic recovery. The impact on the euro-zone and Japan remains a source of controversy. Some fear that a weak export-driven rebound in the euro-zone countries could be seriously hampered by the strength of the common currency. In this context some European policy makers have suggested that Washington should itself address the weakness of the dollar.

US and EU GDP growth, 2000-2003
(% change, yoy)



Source: FedStats, Eurostat

The US economy continued solid broadly-based growth in 3Q03 supported by continued increases in investment expenditure, particularly on purchases of equipment and software. Corporate optimism is on the rise and profits appear particularly strong, consistent with the fast pace of productivity gains. The situation in the euro-zone is markedly less optimistic, with questions as to the strength and sustainability of the pick up. Net exports emerged as a driving force for growth in 3Q03, while consumption was stagnant in quarterly terms. Japanese growth slowed somewhat in 3Q03, with exports and investment leading the expansion. Despite the yen strengthening against the dollar there would appear to be chances of bringing deflation to an end within a year or so. Very strong growth continued in most of other Asian

economies, with China beating again expanding at a record rate. Central and East European economies continued to surge, with Poland returning to the high-growth league. There were no major changes in regional growth patterns in the CIS region, with high oil prices helping to maintain a high expansion rate in Russia. Economic activity seems to be picking up in the Latin American economies with an optimistic outlook for 2004.

Inflation remains subdued in the major economies, with no price pressures looming in the coming

months. Annual inflation actually declined in the US and the euro-zone towards the end of 2003 (in both regions oscillating around 2% yoy). While dollar prices of oil and many other commodities increased in 4Q03, in euro terms they were more stable. The sustained peak of oil prices - in 4Q03 Brent averaged US\$29.4 (3% above the 3Q03 level) resulted from a combination of several short and medium-term factors. Stock markets continued to rally in 4Q03 on the back of very strong corporate profits.

GDP in selected countries, 1999-2005 (% change, yoy)

	1999	2000	2001	2002	2003e	2004f	2005f
OECD	3.2	3.8	0.9	1.9	2.0	2.7	3.1
USA	4.5	3.7	0.5	2.2	3.0	4.0	4.0
European Union	2.8	3.3	1.7	0.9	0.7	2.0	2.6
Euro zone	2.8	3.4	1.5	0.8	0.4	1.8	2.5
Germany	2.0	2.9	0.6	0.2	-0.1	1.6	2.3
France	3.2	3.8	2.1	1.2	0.1	1.8	2.5
Italy	1.6	2.9	1.8	0.4	0.5	1.7	2.3
United Kingdom	2.4	3.0	2.2	1.9	2.1	2.9	3.0
Czech Rep.	0.5	3.3	3.1	2.0	2.9	3.0	3.4
Hungary	4.2	5.2	3.8	3.5	2.6	3.2	3.7
Poland	4.1	4.0	1.0	1.4	3.7	4.2	3.8
Russia	5.4	8.3	5.0	4.3	6.5	4.5	4.0
Turkey	-6.1	6.3	-9.5	7.8	5.0	4.0	5.0
Japan	0.1	2.8	0.4	0.2	2.3	1.6	2.0
China	7.1	8.0	7.2	8.0	9.0	7.5	7.5

Notes: e-estimate, f – forecast.

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

CPI in selected countries, 1999-2005 (% change, yoy)

	1999	2000	2001	2002	2003e	2004f	2005f
USA	2.2	3.4	2.8	1.6	2.3	1.6	2.5
Japan	-0.3	-0.7	-0.7	-0.9	-0.2	-0.2	0.5
European Union	1.2	2.5	2.5	2.0	2.0	1.8	2.0
Euro area (HICP)	1.1	2.1	2.3	2.3	2.1	1.7	2.0
United Kingdom (RPIX)	2.3	2.1	2.1	2.2	2.8	2.6	2.6
Czech Rep.	2.1	3.9	4.8	1.8	0.1	2.7	2.9
Hungary	10.0	9.8	9.2	5.3	4.7	5.6	4.4
Poland	7.3	10.1	5.5	1.9	0.8	2.5	2.3
Russia	85.7	20.8	21.6	16.0	14.5	12.0	10.0
Turkey	64.9	54.9	54.4	44.6	26.0	16.0	16.0
China	-1.4	0.3	0.7	-0.8	0.8	1.0	2.0

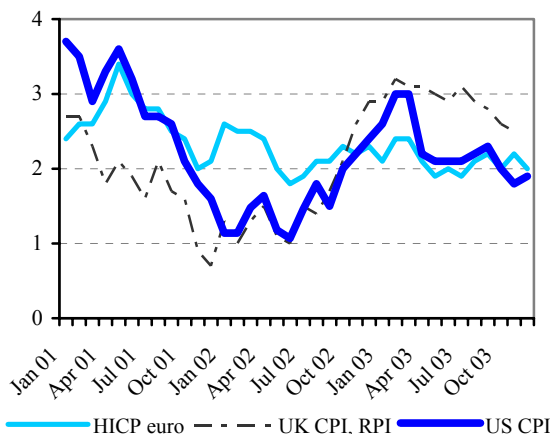
Notes: e-estimate, f – forecast.

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



In 4Q03, given the global inflation developments, there were no significant changes in monetary policy in the major economies, with only the Bank of England increasing interest rates. The fiscal stance remains highly expansionary and the fiscal outlook worsened significantly recently, in particular in the US and euro-zone. In the US, the January forecast of the Congressional Budget Office predicted a cumulative deficit of US\$2350 billion between 2004-2013, a major upward revision from the previous forecast just six months ago. Recently revealed deficit projections for 2004 put it at around US\$500 billion, i.e. higher (in nominal terms) than the 2003 level. In the EU, the November decision of the ECOFIN to suspend the excessive deficit procedure against France and Germany, countries that are now expected to breach the 3% of GDP deficit limit for several years in a row, might be interpreted as an end of the Stability and Growth Pact as a workable mechanism in its present form.

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



Source: Eurostat, Bureau of Labor Statistics, National Statistics

Our baseline scenario for 2004 and 2005 is of sustained growth in the US, followed by progressive recovery in Europe and Japan. The GDP of OECD economies is to rise by 2.7% in 2004, accelerating to 3.1% in 2005. These developments are expected to be accompanied by low inflationary pressures. Ultimately, this will bring an improvement in labour market conditions, though at a more gradual pace and with differences between major economies mirroring their labour market policies. Interest rates are expected to remain in the very low territory throughout 2004 and possibly beyond, with the ECB likely to cut

interest rates once again around in 2Q04, and the Fed keeping rates at current lows at least until 2H03. Exchange rate developments might turn out to be important for the outlook, though our baseline assumption is of a more stable euro-dollar exchange rate in 2004. <WP>

Country Updates

United States

- **Strong growth in 2H03, favourable prospects for 2004-2005**
- **IT investment on the rise**
- **Fiscal expansion continues – twin deficits remain high**

The US GDP figures surprised again on the upside, with 3.6% yoy growth in 3Q03, the highest rate since mid-2000. A continued solid expansion of personal expenditures, particularly of durable goods (an increase of 11% yoy) as well as a deceleration in imports coupled with an upturn in exports were the main factors behind this. Figures on residential fixed investment and purchases of equipment and software came out very strong, leading to an overall increase in gross private domestic investment of 3.6% yoy. Government consumption remained strong, with defence spending still high, despite some moderation in its growth rate from 2Q03. On the external front, 3Q03 saw exports marginally rising in annual terms alongside a moderation in imports. In annualised quarterly terms, net exports contributed strongly to GDP expansion.

Available 4Q03 data suggest a continuation of positive trends. A firming in overall economic activity brought only very modest improvements in labour markets. This might impact negatively on private consumption growth. In December, civilian employment was up by 1.5% yoy. The sluggish pace of job growth is probably to some extent due to rising non-wage labour costs. The average 4Q03 unemployment rate fell to 5.9% in line with the stable downward trend from highs of June 2003. These developments were accompanied by a lowering of inflation, in December reaching 1.9% yoy.

Corporate profits continued to grow very strongly in 3Q03 and beyond, consistent with high productivity gains. Positive profit announcements, coupled with rising appetite for risk helped the steady rise in stock prices. Standard & Poor's 500 index climbed by some 10% in the course of 4Q03. Long term government bond yields have declined somewhat recently, which is hard to reconcile with the high fiscal deficit and other macroeconomic developments.

There is now a widespread optimism concerning growth prospects in the US economy. 2004 GDP forecasts oscillate between 4-5%, with no major price pressures in the near-term horizon. Strong investment is supported by favourable developments in the manufacturing sector and business confidence indicators are on an upturn. At the same time, tax rebates and sustained wage growth should provide support to household consumption. Fiscal and monetary policies are expected to remain stimulative throughout most of 2004. The large current and projected fiscal imbalances are seen as a major challenge for economic policies in the medium-term. The January forecast of the Congressional Budget Office predicted a cumulative deficit of US\$2350 billion between 2004-2013, a major upward revision from the previous forecast just six months ago. In the shorter term, fiscal and current account developments, along with the monetary policy stance, will continue to determine the dollar's exchange rate. <WP>

European Union

- **Gradual recovery to materialise in 2004**
- **Inflation moderation in the euro-zone**
- **Looming fiscal problems – an end to the SGP?**

In 3Q03, the EU recorded GDP growth of 0.6% yoy, up from 0.4% in 2Q03. The disparity between relatively strong readings in non-euro economies and the euro-zone continued, with the UK expanding by 2.1% yoy and the euro-zone by only 0.3%. Germany and France, the two biggest continental economies, saw their GDPs falling in annual terms for a second quarter in a row. EU annual growth was driven mainly by domestic demand, with modest gains in household

consumption making up for continued decline in investment outlays. There are substantial differences in the output composition dynamics of the main economies. Among the major euro-zone countries the improvement in net exports brought overall GDP readings up in 3Q03. This came as a surprise given the continued appreciation of the euro. Available data and survey evidence give mixed signals and suggest a very modest strengthening of the growth momentum in 4Q03.

There has been so far no improvement in the labour market. The euro-zone seasonally adjusted unemployment rate stayed at 8.8% in November, unchanged from 3Q03. Given the pressure on continued adjustment efforts and enhancing productivity by firms we do not expect major improvement in labour market conditions in the coming months.

HICP inflation moderated somewhat towards the end of 2003 with the December figure at 2% in annual terms in the euro-zone and 1.8% in the EU. The strength of the euro and only very gradual rebound of economic activity so far, along with moderation of energy price increases, should drive inflation further down in 1H04. The euro-zone's HICP annual rate is expected to remain below 2% for 2004 as a whole.

Economic conditions in the EU are expected to gradually improve in the course of 2004, though the region, particularly the euro-zone will lag behind the dynamics of other major economies. Ongoing expansion of global demand should allow for continued rise in exports, despite the strength of the euro. Investment is forecast to rebound gradually, helped by favourable financing conditions. Household consumption is also expected to strengthen, despite difficult labour market conditions, on the back of a disposable income boost from terms of trade gains and lower inflation. In the medium-term there are difficult challenges on the fiscal front to be addressed and in the longer horizon it remains to be seen whether EU economies will be able to launch competitiveness-enhancing structural reforms. So far, the EU has been well behind in implementing its ambitious Lisbon Summit targets.

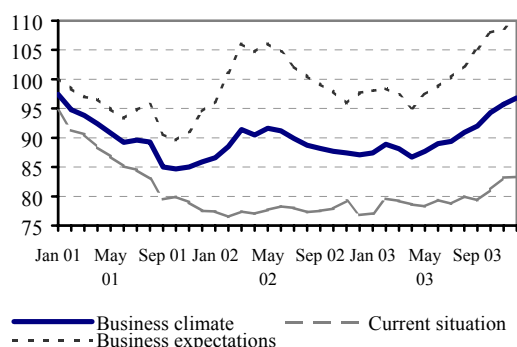


Germany

3Q03 brought no signs of stronger economic activity. GDP fell 0.2% in annual terms, though in seasonally adjusted quarterly terms it recorded a small increase (0.2%) after three quarters of decline. Preliminary estimates suggest that 2003 as a whole witnessed a contraction of GDP by 0.1%. Analysis of GDP structure reveals another weakness – net exports, private consumption and investment were all declining, while government consumption was on the rise. Provisional calculations put net government borrowing at around 4% of GDP, compared to the 3% Maastricht Treaty limit. Inflation has remained subdued, at the lowest level of all EU economies (1.1% yoy in December). Labour market conditions have remained difficult, with the unemployment rate rising to 10.4% in December. On the positive side, the ambitious package of labour market and welfare law reforms was adopted in December 2003, though its successful implementation will not be an easy task and any benefits will not be seen immediately.

The outlook for 2004 is somewhat brighter, with strengthening exports being gradually joined by higher investment expenditure and private expenditure to bring GDP growth to around 1.6%. The forecast is based on a continued strong industrial production trend, business and consumer survey evidence (e.g. a continued rise in the Ifo business climate index) and the expected impact of policy actions.

Ifo business climate index, 2001-2003



Source: Ifo Institute for Economic Research.

France

In 3Q03, GDP declined 0.3% yoy, though was up 0.4% qoq. The improvement over the previous quarter is largely down to external demand – a

particularly strong expansion of exports to the US and China. Private and public consumption and investment were also on the rise in seasonally adjusted quarterly terms. 2004 should bring a gradual improvement in business sentiment, with higher investment outlays. The current difficult labour market conditions (9.8% unemployment rate in December) are likely to continue in 1H04. An improvement then may provide a boost to private consumption, but is unlikely before that. After recording a nearly zero growth rate in 2003, we forecast a visible improvement in 2004, though GDP growth is expected to return to its long term trend (2-2.5%) no earlier than 2005. There are major problems on the fiscal front. Given the government's current objectives, it appears likely that France will not reduce its budget deficit below 3% of GDP for another few years.

UK

The British economy picked up sharply towards the end of 2003. Following the 2.1% yoy increase in 3Q03, the final quarter of the year saw GDP increasing by 2.5%, bringing the estimated growth figure for the year as a whole to 2.1%. The services sector led the way, with somewhat weaker results in industry. Public and private consumption were both on the rise, the latter supported by particularly favourable labour market conditions (an unemployment rate at 4.9% in December, the lowest level in nearly two decades) and continued housing market strength. Inflation has remained in low territory. The consensus expectation is of above-trend broad-based growth in 2004. Longer term prospects are also positive, provided competent economic policy management: interest rate policy (see Central Banks Watch) and slowdown in public spending. Risks of potential instability stemming from the over-heated housing market are still present, though are likely to be avoided. <WP>

Central and Eastern Europe

- Growth rebound in Poland
- Diverging inflation trends in CEE
- Differing approaches to fiscal imbalances

There is a large heterogeneity in growth patterns among economies in the region. With still sluggish demand in the EU, the main export market for

Central and Eastern Europe, GDP growth continues to be largely driven by domestic expansion, with the exceptions of Poland and Slovakia, where exports are booming. Excessive budget deficits are still severe in some countries, in particular in Poland. In other economies policy-makers have become more concerned about them on the eve of accession to the EU. Policies to reform public finances could work, but their success will depend on the long-term commitment of governments to their implementation, which may be undermined by various political developments (e.g. elections, trade union activities). The overall market sentiment towards future growth remains optimistic, though the outlook relies on economic recovery in the EU and on the success of policies aimed at fiscal consolidation.

The Czech Republic

In 3Q03, GDP increased by 3.4% yoy, up from 2.2% in 2Q03. Growth is driven by domestic demand, with a particularly strong contribution from individual consumption, which added 4.1 percentage points (pts). An upturn was also visible in investment, which added another 1.3 pts to overall GDP growth. The negative contribution of the trade deficit has decreased to -1.5 pts from -2.8 pts in 2Q03. The estimated annual GDP growth for 2003 as a whole is 2.9%, with an expenditure breakdown similar to the 3Q03 results. Consumer prices remained stable in 4Q03, with overall annual inflation at 0.1% in December.

The improvement in growth prospects is expected to result from increased demand from the EU, the country's main trade partner, and realistic strategies for elimination of the budget deficit set out in the government's 2004-06 fiscal consolidation package. It is hoped the latter will improve the investment climate, which could help to reverse the drop in FDI inflows observed in 2003. The plan aims at meeting the fiscal requirements for joining EMU by 2008. The deficit is to drop from around 8% of GDP in 2003 to 3% by the end of 2008, which would allow adopting the common currency around 2010.

The generally favourable 2004 growth outlook might be undermined by deteriorating competitiveness, mostly as a result of real wage growth outpacing productivity gains. This has also resulted in the registered unemployment rate hitting

9.9% in 3Q03, close to its last decade record highs. It is possible, though, that a larger exposure of the Czech economy to international competition and the recent government initiative to trim the budget deficit will curb real wage growth.

Hungary

The latest official statistics record a slight improvement in Hungary's real GDP growth (2.9% in 3Q03 vs. a six-year low of 2.4% in 2Q03). The composition of growth was largely unchanged from previous quarters, with very strong increases in household consumption (9.7% yoy) contrasting with the increasingly negative contribution of net exports. A combination of several factors, including the weakness of the forint, drove annual CPI up to 5.7% yoy in December 2003.

Growth projections for 2004 have been cautiously optimistic. A more consistent fiscal policy will be important in shaping growth patterns. CPI inflation is expected to be close to 6% in annual terms, which is mainly explained by the proposed tax reform (effectively increasing indirect taxes such as VAT) and depreciation of the forint against the euro.

Aside from regaining growth momentum, Hungary has a major problem with fiscal laxity, which hampers competitiveness, worsens the current account deficit (8.8% of GDP in 2003 vs. 6.0% in 2002) and boosts the country's already large foreign debt (estimated at 53% of GDP in 2003). Fiscal problems and inconsistencies in the monetary policy framework have resulted in currently very high nominal and real interest rates (see Central Bank Watch). Investor sentiment has clearly been affected, as judged by the exchange rate developments. However, the government's recent initiative to cut spending seems to be better received by the market.

Poland

3Q03 saw a continuation of strong growth dynamics, with GDP increasing by 3.9% yoy. First estimates put 4Q03 growth at 4.7% yoy. Strong export growth continued and the upturn in private consumption was sustained. Labour market conditions remain difficult, with the unemployment rate at 18% in December. The CPI increased 1.5% yoy in 4Q03, the highest rate since 2Q02 and the PPI moved up to 3.4% yoy in 4Q03. We expect the



zloty exchange rate against the euro to remain close to its much depreciated 4Q03 level in 2004. This, alongside the gradual recovery in the EU and very strong gains in labour productivity, should help sustain buoyant exports and industrial production. At the same time, recovery in investment should lead to faster increases in imports. The Central Statistical Office estimates GDP growth for 2003 as a whole at 3.7% and we forecast a further increase to 4.2% in 2004 followed by 3.8% in 2005. The pick up in prices, already evident at the end of 2003, should remain muted with CPI below 2.5% throughout most of 2004 and 2005. The unsustainable position of public finances remains a major concern. The recently unveiled government reform plan appears insufficient to suitably tackle Poland's current economic problems and its adoption by parliament also remains uncertain.

Bulgaria

3Q03 brought a continuation of earlier trends in the economic situation. GDP expanded by 4.3% yoy, driven by manufacturing and service sectors (up 8.4% and 4.2%, respectively), while agricultural sector output shrank (down 2.7% yoy). On the expenditure side, rising private consumption added most to the overall figure, though the remarkable 16% yoy increase in investment is also worth mentioning, whereas net exports (exports +4.0%, imports +13.0%) were a drag on growth. Average annual inflation was 2.7%, although there was a major rise in prices towards the end of the year, with the CPI up 5.6% yoy in December. This is largely explained by the strong pick up in food prices due to weak crops and continued deregulation of prices.

Given foreign trade trends, the current account deficit widened more than previously expected – to around 7.5% of GDP in 2003. To some extent this was also caused by the higher-than-expected fiscal deficit, which is estimated to have reached 0.7% of last year's GDP. While the current account deficit has been easily financed to date in large measure by FDI (estimated to have reached 1.1 billion euro in 2003), its size may pose some risks to the banking system in the event of a sudden change in investor sentiment. Consequently, economic policies should be watched closely.

Romania

GDP growth slowed somewhat from 4.3% in 1H03 to around 3.7% in 2H03, resulting in an estimated 4.0% growth for the year. While private consumption dynamics were maintained, the slowdown in growth was caused by a sharp increase in the trade deficit (2.6% of GDP in 2003 vs. a positive balance of 0.3% of GDP in 2002). Monetary and fiscal tightening have not fully achieved their purpose. While four consecutive interest rate increases between September 2003 and January 2004 helped bring inflation down to 14.1% yoy in December 2003, the government was not able to reduce the budget deficit, which was still at 2.7% of GDP in 2003, unchanged from 2002. Strong investment (that contributed 2.5pts to GDP expansion in 2003) bodes well for growth in 2004. Among risk factors, the 40% increase in lending to the private sector from mid-2002 has raised concerns over banking system performance. IMF experts have argued that neither the Romanian economy nor banks' risk assessment and management skills have improved enough as to be able to sustain such an upsurge in credit operations without a subsequent increase in the non-performing loan ratio (12% in March 2003). Besides, looser fiscal policy is expected in 2004-5 in the run-up to presidential and parliamentary elections in Romania. This, as well as the anticipated increase in the minimum wage lobbied by the trade unions, is likely to have an impact on prices, thus threatening further progress in disinflation.

Slovakia

The Slovak Republic's economic performance is distinct from that of most other CEE countries in at least one important respect: GDP is mostly driven by a positive trade balance, whereas the contribution of domestic consumption is minute. In 3Q03, real GDP grew 4.2% yoy on the back of strong export expansion (23.1% yoy vs. 14.3% yoy rise in imports). Private consumption declined 1.3% yoy in 3Q03. The yearly estimate of GDP growth in 2003 is around 3.9%, driven entirely by foreign demand and a slight rise in investment. The current account deficit dropped from 8.2% of GDP in 2002 to 2.0% of GDP in 2003. In 4Q03, inflation increased to 9.6% yoy up from 9.1% yoy in 3Q03, and 3.1% yoy in 4Q02 reflecting price deregulation (energy, utilities) and indirect tax hikes on real

disposable income, the two factors that are also believed to have curbed consumption growth.

Projections for this year are quite optimistic, with continued strong GDP growth and a reduction in the budget deficit (though to a still rather high level of around 4% of GDP). Inflation is expected to remain high, though, reflecting inflationary inertia, further price deregulation of the utilities market and an increase in the average indirect tax rate. Still, given the absence of other inflationary pressures, the central bank decided to carry on with its policy of lowering the basic interest rate, bringing it down to 6.0% in December 2003.

The government continues its ambitious plans of cutting the budget deficit via consolidation of public finances and structural reforms. In particular, it has increased the retirement age, introduced new payments for health services and launched a major tax reform simplifying the system considerably by introducing a uniform flat 19% rate on corporate, income and value added tax. It has also introduced pension reform to be financed from privatisation proceeds. The expected result of these reforms is further reduction of budget deficit to below 3% of GDP by 2006. After evaluating the success of these reforms and the overall economic performance, the government will decide on the target date for accession to EMU in mid-2004.

Baltic States

Strong GDP growth in the Baltic States was sustained for most of 2003, albeit at a somewhat slower pace than before. High current account deficits and the unsettled political situation remain a source of concern in some countries.

The Estonian economy accelerated in 3Q03, with GDP expanding 4.6% yoy. According to preliminary estimates, 2003 as a whole saw a growth rate of around 4.5%. These developments take place in an environment of strict fiscal policies and a small budget surplus. The current account deficit continues to be in record-high territory, around 14% of GDP in 2003 as a whole. This is a challenge for economic stability.

Latvia has managed to sustain very high economic growth despite the recent downturn in the EU, recording impressive 7.3% yoy GDP growth in 3Q03. Its yearly real GDP growth is estimated at

nearly 6%. Lithuania, though, outguns Latvia on the growth front – 8.8% yoy in 3Q03 and 10.6% yoy in 4Q03, which results in 8.9% for 2003 as a whole. Current account deficits remained steady at 5.6% of GDP in Lithuania and 8-9% of GDP in Latvia, well below the Estonian level. Nevertheless, while the Estonian deficit resulted mainly from high investment-driven imports of machinery and equipment, the other two Baltic States have somewhat looser fiscal policies (with deficits of around 2% of GDP, still much less than in most other CEE economies). Growth prospects are generally positive, with some risk emerging on the political front (instability of the governing coalition in Latvia and corruption scandals and impeachment proceedings against the president in Lithuania). <NZ>

CIS

- **Continued rapid expansion in Russia and Ukraine**
- **Inflation high due to exchange rate policy**

Russia

The Russian economy continued strong expansion in 3Q03 with GDP rising by 6.2% yoy, only marginally below the exceptionally strong results of 1H03. The major sources of growth were private consumption and investment, the latter particularly impressive, with fixed investment rising by 12.2% yoy in January-November 2003. The trade balance also improved on an annual basis, providing further support for GDP expansion. Judging from available 4Q03 data, we estimate GDP growth at around 6.5% for 2003 as a whole. The very strong pick up in investment bodes well for the 2004 outlook. Given the expected slight moderation of energy prices we expect growth of around 4.5% in 2004.

In 2003, industrial production grew 7.0% yoy. 4Q03 witnessed an even stronger reading of 7.4% yoy. Booming sectors included oil-related industries, machine building and metallurgy. In 2003, the fuel industry expanded by 9.3% yoy, ferrous metallurgy by 8.9% yoy and machine building by 9.4% yoy. High world prices of crude oil stimulated an oil production increase of 11% in 2003.

Russia's trade surplus increased markedly in 2003 from already exceptionally high levels in the previous year, if calculated in dollars. According to preliminary estimates, the merchandise trade surplus increased 28.7% yoy in 2003 to US\$59.6 billion, while the trade balance in services worsened by 10% yoy. Total exports expanded by 24.3% yoy in 2003, outpacing the 20.2% expansion of imports. Exports of energy-related products increased 31.4% yoy, while non-energy exports increased only 18.4% yoy. Thus, strong overall export results are mainly the effect of high energy-resource prices and export volumes for oil-related exports, whereas a rise in other-exports category is largely statistical – data are compiled in US dollars, which itself underwent a substantial depreciation against the rouble in 2003. The share of oil-related products (oil, oil products, natural gas) in total exports was 55% in 2003.

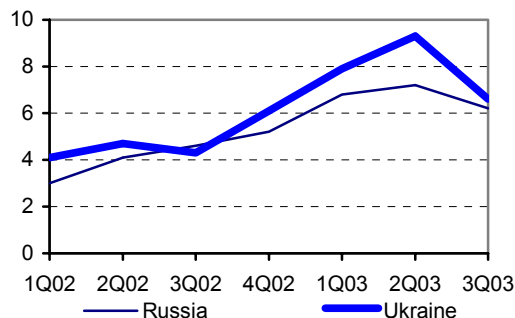
In the first three quarters of 2003, net inflows of foreign investments were positive at US\$4.6 billion, which is an improvement on the stubbornly negative balance during 2000-2002. Another positive feature is a slight increase in the share of FDI in total investment inflows in 1-3Q03.

Despite foreign trade developments, the rouble's real effective exchange rate strengthened only marginally in 2003. The CBR continued its weak rouble policy, with currency interventions allowing for only minor nominal appreciation against the dollar towards the end of 2003. This resulted in the continued rapid build-up of Russia's foreign reserves by nearly US\$30 billion over the year to US\$76.9 billion in January 2004. A related consequence was a fast expansion of monetary aggregates, with money supply expanding by 24.6% yoy in January-November 2003 causing significant price pressures. Preliminary estimates put CPI inflation at 12% yoy in December, only slightly above the end-year target, but this was mainly achieved via delaying administrative price increases. High inflation in turn translates into real currency appreciation pressures. We expect a continuation of price pressures in 2004, with average annual inflation of around 12%.

Given the solid growth of the economy there were no problems meeting budget revenue targets in 2003. After the first ten months of 2003 the federal budget was in surplus of 2.6% of GDP, well above

the planned 0.5%, with budget revenues at 19.5% of GDP and expenditures amounting to 16.8% of GDP. In 2004, the government intends to establish a stabilisation fund aimed at the reduction of budget vulnerability to oil price fluctuations. VAT was reduced by two percentage points to 18% and the sales tax was abolished at the start of 2004.

GDP growth in Russia and Ukraine, 2002-2003
(% change, yoy)



Source: National Statistical Agencies

Ukraine

Revised 3Q03 figures put GDP growth at 6.6% yoy and, according to provisional estimates, the expansion rate for the year as a whole may have reached a stunning 8.5%. Growth appears broadly based, with favourable conditions on external markets, significant investments in fixed assets (18% yoy increase in 1-3Q03) and robust domestic consumption. Although 2003 was remarkable for a significant decline in agricultural production, outstanding growth in industry, construction and the services sector compensated for the results of poor harvests.

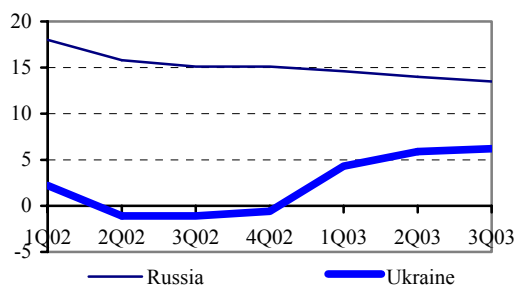
Industrial production expanded by 15.8% in 2003, more than double the earlier expected figure. All sectors registered high expansion, with particularly impressive growth (32.5% yoy) observed in capital asset-producing sectors. Machine building grew by 35.8% in 2003, metallurgy by 14.3% and food industry expanded by 20%.

2003 witnessed strong foreign trade dynamics. Merchandise exports grew by 27.6% yoy in January-November, led by high sales of machine building and metallurgy. In the same period merchandise imports increased 33.6%, largely reflecting the low grain harvest – in 2003 Ukraine was a net grain importer. The usual surplus on the services trade continued, amounting to US\$1.2

billion in 1-3Q03. The main contribution comes from the transportation sector, mainly oil and gas pipelines.

The National Bank of Ukraine has concentrated its efforts on the stability of the nominal hryvnia dollar exchange rate, allowing for an only minor nominal appreciation. This has clearly resulted in a significant nominal depreciation against the euro. Similarly to Russia, managing the exchange rate by currency interventions against the hryvnia in an environment of a positive trade balance resulted in a more than 50% increase in central bank foreign reserves in 2003. Consequently, monetary expansion was strong – the monetary base grew 30.1% and money supply by 46.5%. It is thus not surprising that inflation exceeded the targeted level, with CPI up 8.2% yoy as of December. On top of monetary expansion, an increase in food prices due to the bad harvest was driving inflation.

Inflation in Russia and Ukraine, 2002-2003 (% change, yoy)



Source: National Statistical Agencies

FDI inflows were on the rise in 1-3Q03 compared 2002 to figures; however, in absolute terms net FDI inflows are very low – US\$ 0.9 billion for 1-3Q03.

The fiscal situation benefited from strong economic growth in 2003. After eleven months the consolidated budget was in surplus of 1.8% GDP. It is also worth noting that for the first time since independence, privatisation revenues met the planned level. From the beginning of 2004 the majority of tax privileges were cancelled (except for subsidies to the agricultural sector). Moreover, new rules of personal income taxation and new pension system schemes came into force.

Other CIS economies

Robust economic growth continued in the majority of other CIS countries. Armenia and Azerbaijan

were the regional growth leaders with 15.2% and 10.5% yoy GDP expansion rates in 1-3Q03, respectively, while other countries grew by between 5% and 9% in that period. Inflation remained subdued at below 6% in most countries, with the exceptions of Belarus, Moldova, Russia, Tajikistan and Ukraine. Developments in Russia will continue to have a major impact on economic conditions in other CS economies. <DB>

Turkey

- **5% GDP growth in 2003**
- **Gradual disinflation continues**

The Turkish economy expanded 4.9% yoy in 3Q03 and is estimated to have grown by 5% in 2003, driven mainly by long-depressed consumer expenditure. In 3Q03, consumption surged 5.6% yoy, while fixed investment increased 0.4% yoy only. Growth prospects for 2004 are encouraging, as strong consumer demand and the pick up in economic activity in the EU are expected to boost exports and investment. The latter should be additionally helped by higher bank intermediation and lower interest rates.

Fast growing import demand brought the trade balance into deficit in October and November 2003. As a result, it is estimated that the CA deficit for the whole 2003 was in the range of 2-3% of GDP. Preliminary data suggest a consolidated budget deficit in 4Q03.

Gradual disinflation was supported by the appreciation of the nominal exchange rate vis-à-vis the US dollar, as the Turkish economy is highly dollar-indexed. Annual CPI declined from 19% yoy in October to 18% in November and December 2003. Steadily rising money demand was another factor helping disinflation. Confidence in the domestic currency was on the rise throughout 2003, as reflected in the shift from foreign currency deposits to high-yield *lira* denominated public bonds and the surge in consumption. <MJ>

Asia

- **China and India leading regional growth in 4Q03**
- **Exports and investment driving Japanese growth in 3Q03**
- **End of Japanese deflation on the horizon?**

Economic recovery in Asia gained strength in 3Q03 on the back of dynamically rising retail sales and good harvests. The regional upward trend was led by China and India and followed by around 5-6% yoy GDP increases in Malaysia and Thailand. South Korea, Hong Kong, Taiwan and Philippines recorded lower growth rates, in the range of 2-4% yoy, while Singapore remained the regional laggard. As the economic conditions in the region have been improving, dynamically rising Asian imports fuelled overall global demand. Asia's share in global imports is estimated at 28%, and emerging Asia imports rose by over 20% in October 2003, for example. The region is expected to lead global recovery in 2004.

Preliminary data suggest that China recorded 9.9% yoy growth in 4Q03 on the back of strong – though gradually slowing – investment (21% yoy in 4Q03), exports, and consumption. The growth projections for 2004 are similarly favourable, in a range of 8-9%, with broad-based support of strong exports, investment and consumption. The government is expected to adjust its current exchange rate policy (a peg against the dollar), reacting to the observed weakening of the US dollar. Details are not yet known, but it is likely that the yuan will be re-pegged to a basket of several currencies by around mid-2004, which might be accompanied by a slight appreciation of the exchange rate. The authorities may move to a managed float in the longer term.

India's growth dynamics in 3Q03 amounted to 6-7% yoy, fuelled by rising consumption and exports. Imports remained strong as well, and as the trade deficit widened towards the end of 2003, net exports were giving a negative growth impulse. On the supply side, industrial production was up over 7% yoy in November 2003 and agriculture rebounded strongly after the previous year's contraction. The government announced it was lowering a number of customs duties, mainly on power, information technology, electronics, health care and aviation. Although Indian import tariffs still remain among the highest in the region the move will prolong the current boost in consumer spending and improve the competitiveness of Indian manufacturing, as the costs of intermediates will decrease. The Reserve Bank of India further eased some restrictions on overseas investment, as foreign reserves have been steadily rising. The large fiscal deficit – forecasted at 5-6% of GDP by April

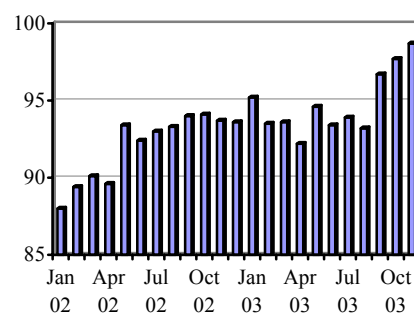
2004, the end of this fiscal year – remains worrying.

Japan

Japanese growth slowed to 1.9% yoy in 3Q03, with exports and investment leading the expansion. Exports increased by 7.5% yoy, while imports were up only 5.7% yoy. The growth in inventories together with an increase in business fixed investment in the manufacturing sector were behind the overall surge in investment. Consumption fell in real terms in 3Q03, following a 1% yoy decrease in the disposable income of households.

The same factors probably supported growth in 4Q03. Strong annual growth in private sector machinery orders and orders received for construction in October-November suggest a continuation of the investment pick up. Shipments of capital goods in October-November 2003 indicate a further expansion of exports. However, customs clearance data for October-November show a slowdown in exports and a narrowing of the trade surplus. Consumption remained depressed during the same period, as incomes continued to fall in annual terms and the propensity to consume was lower than in 3Q03.

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



Source: METI.

On the supply side, industrial production was growing in annual terms in 4Q03. In December, the largest increases were recorded for: machinery, electronic part and devices, transport equipment, iron and steel.

The deflation rate eased towards the end of 2003, with the CPI down 0.4% yoy in December. <MJ>

Latin America

- **Stronger expansion in 4Q03**
- **Argentina still the regional growth leader**
- **Optimistic outlook for 2004**

Developments in 4Q03 improved prospects across Latin America. The region is projected to grow at over 4% in 2004. Economic activity seems to have been picking up in the three biggest economies (Brazil, Mexico and Argentina) and nearly all the Andean countries in 4Q03. Even the slump in Venezuela turned out to be less severe than earlier expected. The main driving force of better results was a revival in global economic activity which stimulated demand for regional exports. Higher international manufacturing commodity prices underpinned the expansion of Latin America's processed-goods exports, while lower interest rates lowered debt servicing costs, in turn easing balance of payments pressures.

In 3Q03, the Brazilian economy contracted on an annual basis following an unexpected drop in agriculture (disappointing coffee crops) and smallish gains in industrial production. In 4Q03, industrial production continued to mount gradually – up 0.3% yoy in November 2003 – and exports remained strong up to the end of the year. The development of the export sector supported higher investment outlays, which were likely flat in 2003 as a whole but are estimated to have increased in 4Q03. The unemployment rate fell to 11% in December, down from 13% in October 2003. End-year inflation stood at 10% yoy, and is expected to decline further during 1Q04. Lowering inflation should be supported by exchange rate stability, as current account surplus (unseen in Brazil since 1992) should continue to help the monetary authorities build up their foreign reserves. The Brazilian Congress approved social security and tax reforms at the end of 2003.

The pace of economic expansion in Argentina is thought to have remained strong in 4Q03. Consumption was expected to pick up as consumer confidence increased in 4Q03. Merchandise trade data point to a significant surplus. Investment also probably rose, as industrial production growth was in the range of 15-17% yoy in October-November 2003. Growth for the 2003 as a whole is expected to be above 7% and there are optimistic prospects

for expansion in consumption, exports and investment. Inflation stood at around 3-4% yoy in December, below target, and is now expected to be below 7% in 2004. Low 2003 inflation was achieved without peso appreciation and without growth sacrifices. The public sector balance moved into deficit in December 2003, after registering small surpluses during the two preceding months. It is unlikely that the fiscal sector will be a source of monetary expansion in 2004. The payment of the next IMF credit tranche is scheduled for early March.

In Mexico, GDP expanded by a mere 0.4% yoy in 3Q03, supported by the growth of construction, mining and agriculture but constrained by a 3.6% yoy drop in manufacturing. However, there is a widespread consensus that a turnaround took place in 4Q03. The recovery of the US economy pushed up manufacturing exports, up around 4% yoy in October-November. Imports remained subdued during the period. Consumer confidence is advancing, as indicated by retail sales, up by 4-5% yoy in October-November. The open unemployment rate fell from 3.6% in October to 3.0% in December. Fixed investment was up 0.8% yoy in October and there are signs that it contributed more to GDP growth towards the end of 2003. CPI inflation was 4% yoy in December. The overall 2003 GDP growth should be around 1% and prospects for 2004 are much more encouraging. However, in the longer term, Mexico needs to focus on structural reforms, which were somewhat disregarded in 2003. <MJ>

Central Banks Watch

- **Monetary policy on hold**
- **ECB to consider lowering rates**
- **Monetary disarray in Hungary, new MPC in Poland**

In November-January only limited changes were made to interest rates in the major economies. Following the Bank of England hike in November 2003, policy was also tightened in Australia. In contrast, Canada and Norway both continued easing, with 25 basis point cuts in January and December, respectively.



The acceleration of economic growth in the US has so far been taking place in the absence of any significant price pressures. The Fed sees balanced risks to both growth and output and is not giving any signs of its willingness to tighten the policy in the near future. We do not expect any increase in interest rates before 2H03.

In the euro-zone, the delayed economic upswing, recent fall in inflation – with a projected continuation in the trend – and, in particular, exchange rate developments have increased the chances of the ECB deciding to cut interest rates in 1H04. No monetary tightening is expected until late 2004 or early 2005 at the earliest. The Bank of England, in turn, faces a somewhat different dilemma. Strong pick-up in the UK economy in 4Q03, with a continued rise in the housing market, increased the chances of another hike in rates possibly in 1Q04. On the other hand, inflation remaining in low territory, strengthening the pound against the dollar, and the yet to be revealed results of November's tightening do not suggest a need for a significant move.

In mid-January, the Bank of Japan surprised the markets by raising its target for current account balances in the central bank with a view to supporting the economy. The BoJ confirmed its objective of ending deflation, with some consideration to be given to exchange rate developments – a recent strengthening of the yen against the dollar.

Among Central European economies, the most interesting and worrying news came again out of Hungary. In late November, faced with a weakening of the forint and rising inflation, the central bank opted for a major interest rate hike (300 basis points). This brought interest rates to extremely high levels, with above-target inflation and slowing economic growth, posing a challenge to the country's EMU entry strategy, amongst other things. Recent developments illustrate the problems associated with the ERM II mechanism in the context of lax fiscal policy. In Poland, the markets kept their eyes closely focused on the appointment of the new MPC. The consensus view is that final nominations due in February will result in a balance between hawks and doves selected to sit on the rate setting body that there is little risk of ill-motivated policy moves of the new MPC. <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	3.75	6 Nov 03
Czech Rep.	2-week repo	2.00	31 Jul 03
Hungary	2-week repo	12.50	28 Nov 03
Poland	2-week repo	5.25	25 Jun 03

Source: Central banks.

Exchange Rates

- **Dollar weakness**
- **Reactions in Japan and Europe**
- **Mixed trends in CEE**

The recent major depreciation of the dollar against other major currencies has been one of the key developments shaping global financial markets, influencing monetary policy considerations and also entering economic growth discussions. Throughout October-January the dollar lost ground against the euro, hitting consecutive new record lows. Between September and January the nominal appreciation of the common currency amounted to 12.6%, in annual terms it was over 20%. We do not expect further weakening of the dollar in the course of 2004 from the levels prevailing in January. There is, however, considerable uncertainty surrounding this forecast.

The impact of recent adjustments in exchange rates remains to be seen in the coming quarters. Their impact on the US should be limited, with only a smallish correction to the current account position and delayed and small transmission to inflation. In Europe, the debate is focused on how strong the effect on exports will be and whether there is a risk of undermining the weak recovery in the real sector. There are signs that the ECB has become more concerned about the euro's strength, though we do not foresee it taking any action to influence market developments. In contrast, dollar depreciation against the yen inclined the Japanese authorities to embark on massive market intervention, which reached a record high monthly scale in January.

US\$ and yen exchange rates against euro, 1999-2005

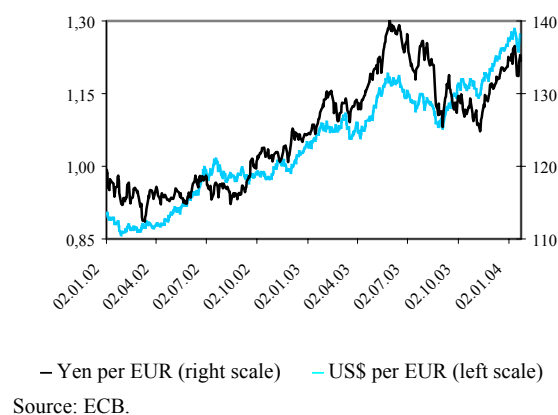
	1999	2000	2001	2002	2003	2004f	2005f
Dollar	1.066	0.924	0.896	0.945	1.131	1.22	1.20
Yen	121.3	99.5	108.7	118.1	131.0	134	132

Note: f – forecasts.

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

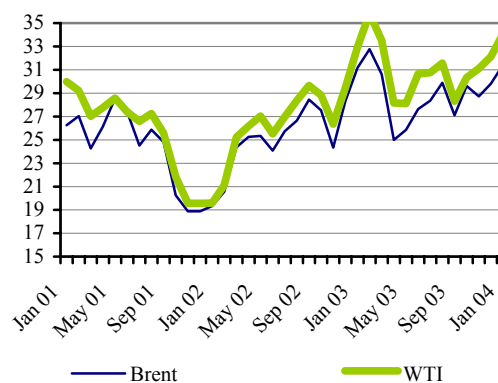
Among Central European currencies, recent exchange rates against the euro were largely determined by domestic policy considerations. The Hungarian forint and Polish zloty weakened against the common currency, responding to inconsistent monetary policy and fiscal problems in Hungary and uncertainties surrounding public finance reform plan in Poland. The Czech koruna remained stable against the euro in October-January, while the Slovak koruna slightly appreciated over the period. <WP>

US\$ and yen exchange rates against euro, Jan 2002-Jan 2004



prices surpassed US\$30. Such developments result from a combination of several short and medium term factors. More vibrant global growth, particularly in the US and Asia, low OECD stocks, no progress in the Middle East peace process (with a tense situation in Iraq), natural gas price developments and cold weather in the US all added to upward price pressures. The steep weakening of the dollar against other major currencies also acted as an additional factor influencing prices, while at the same time greatly limiting the impact of high dollar energy prices in Europe. In euro terms, oil got cheaper in 4Q03 on both a quarterly and annual basis. We expect Brent to average between US\$27-30 in 1H04, an upward revision to our earlier projections.

World oil prices, 2001-2004 (US\$ per barrel)



Source: US Energy Information Administration.

Commodity Prices

- Strong pick up of commodity prices
- Oil to remain expensive in 2004

Oil

September 2003's easing of prices proved short-lived and they returned to an upward trend in 4Q03 and in January 2004, reaching new record highs since the Iraqi war. In 4Q03, Brent averaged US\$29.4, 3% above the 3Q03 level. In January,

The International Energy Agency sees 2004 global demand at 79.6 mb/d, up 1.2 mb/d from the estimated 2003 level. A large share in the increase is expected from China and other Asian economies. On the supply side, the last months of 2003 saw OPEC output rising to its highest level since March 2001, with very little of the remaining spare capacity left. The February OPEC meeting is now expected to leave quota levels unchanged. Non-

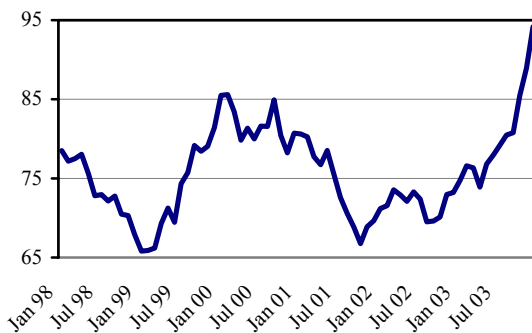


OPEC output gains were concentrated on non-OECD economies. <WP>

Metals

4Q03 witnessed an exceptionally strong acceleration in the upward trend of metal prices. The IMF metals index surged 16.6% between September and December 2003. Prices on metal-rod and scrap metal expanded 40% during 2003, for example. The upswing in prices is stimulated by rising global demand due to faster economic growth. Particularly strong demand rises were observed in China. At the same time, supply of many metals remains rather tight. It is commonly believed that 1H04 should see a continuation of price increases with a possible 'bungee cord reaction' (i.e. major correction in prices) after the summer.

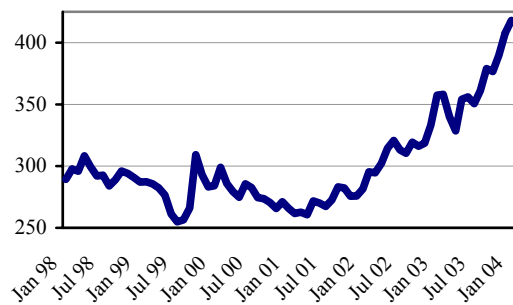
Metal prices, 1998-2003 (index in nominal terms)



Source: IMF Research Department.

Gold prices continued to rally in 4Q03 (21% yoy) and in January 2004. Prices are underpinned by the weakening of the dollar against other major currencies and continued geopolitical instability. <DB>

Gold prices, 1998-2004 (US\$ per troy ounce)



Source: Pacific FX Database.

Statistical Appendix

	2000	2001	2002	4Q02	1Q03	2Q03	3Q03	Oct	Nov	Dec
GDP, % yoy change										
US	3.7	0.5	2.2	2.8	2.1	2.4	3.6	..	..	..
Japan	2.8	0.4	0.2	2.5	2.9	3.2	2.5	..	..	..
EU	3.3	1.7	0.9	1.1	1.1	0.2	0.4	..	..	..
UK	3	2.2	1.9	2.0	1.9	2.1	2.1	..	..	..
Euro-zone	3.4	1.5	0.8	1.1	0.7	0.1	0.3	..	..	..
Germany	2.9	0.6	0.2	0.3	0.4	-0.7	-0.2	..	..	..
France	3.8	2.1	1.2	1.3	0.6	-0.4	-0.3	..	..	..
Czech Rep.	3.3	3.1	2	1.5	2.4	2.4	3.4	..	..	..
Hungary	3.3	3.1	2	3.7	2.7	2.4	2.9	..	..	..
Poland	5.2	3.8	3.5	2.2	2.2	3.8	3.9	..	..	..
Russia	4	1	1.4	5.2	6.8	7.2	6.2	..	..	..
Turkey (GNP)	6.3	-9.5	7.8	11.5	7.4	3.7	4.9	..	..	..
CPI, % change yoy										
US	3.4	2.8	1.6	2.2	2.9	2.1	2.2	2.0	1.8	1.9
Japan	-0.7	-0.7	-0.9	-0.3	-0.2	-0.2	-0.2	0.0	-0.5	..
EU15	2.5	2.5	2	2.2	2.2	1.8	1.9	1.9	2.0	..
UK (HICP)	0.8	1.2	1.3	1.6	1.5	1.3	1.4	1.4	1.3	1.3
Euro-zone (HICP)	2.1	2.3	2.3	2.3	2.3	1.9	2.1	2.0	2.2	..
Germany (HICP)	2.1	2.4	1.3	1.1	1.1	0.8	1.0	1.1	1.3	1.1
France (HICP)	1.8	1.8	1.9	2.0	2.3	1.9	2.1	2.3	2.5	..
Czech Rep.	3.9	4.8	1.8	0.5	-0.4	0.0	-0.1	0.4	1.0	1.0
Hungary	9.8	9.2	5.3	4.8	4.6	3.9	4.7	4.9	5.6	5.7
Poland	10.1	5.5	1.9	0.9	0.5	0.5	0.8	1.3	1.6	..
Russia	20.8	21.6	16	15.1	14.6	14.0	13.5	13.1	12.4	..
Turkey	54.9	54.4	44.6	31.6	27.6	30.0	25.1	20.8	19.3	18.4
Short-term interest rate, %										
US	6.46	3.69	1.73	1.5	1.3	1.2	1.1	1.1	1.1	1.1
Japan	0.25	0.12	0.06	0.0	0.0	0.0	0.0	0.0	0.0	..
UK	6.11	4.97	3.99	3.9	3.7	3.6	3.5	3.7	3.9	4.0
Euro-zone	4.39	4.26	3.32	3.1	2.7	2.4	2.1	2.1	2.2	2.2
Czech Rep.	5.37	5.17	3.5	2.7	2.5	2.4	2.1	2.1	2.1	2.1
Hungary	11	10.8	8.9	8.9	6.4	6.6	9.5	9.4	9.9	..
Poland	16.62	14.85	8.71	6.6	5.9	5.4	5.0	5.1	..	5.3
Russia	12.8	10	12.4	11.0	7.7	4.7	4.3	4.8	4.6	..
Turkey	183.2	59	44	44.0	44.0	38.0	33.2	27.5	..	..
Unemployment rate, %										
OECD	6.3	6.5	7	7.0	7.0	7.2	7.1	7.1	7.0	..
US	4	4.7	5.8	5.9	5.8	6.2	6.1	6.0	5.9	..
Japan	4.7	5	5.4	5.4	5.4	5.4	5.2	5.2	5.2	..
EU	7.8	7.4	7.7	7.8	8.0	8.0	8.0	8.0	8.0	..
UK	5.4	5	5.1	5.0	5.0	5.0	4.9	..	..	..
Euro-zone	8.5	8	8.4	8.6	8.7	8.8	8.8	8.8	8.8	..
Germany	7.8	7.8	8.6	8.8	9.2	9.4	9.3	9.3	9.3	..
France	9.3	8.5	8.8	9.0	9.2	9.3	9.4	9.5	9.5	..
Czech Rep.	8.7	8	7.3	7.2	7.5	7.7	7.6	7.6	..	..
Hungary	6.3	5.6	5.6	5.8	5.8	5.8	5.7	5.8	5.8	..
Poland	16.4	18.5	19.9	20.2	19.4	19.2	19.2	19.1	19.1	19.1
Russia	9.9	8.7	7.1	7.1	9.1	8.2	7.9	8.3	..	..
Turkey	6.6	8.4	10.3	11.0	12.3	10.0	9.4	..	..	..

- Notes: 1. GDP growth rates are generally 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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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 27 January 2004. Additional information is available upon request. Please contact CASE at global.economy@case.com.pl.

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