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# Global Economy

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## Global Outlook

- **Strengthening global growth**
- **The euro-zone lagging behind the US and Asia**
- **Inflation low, questions about future monetary policy**
- **Fiscal balances to pose policy challenges**
- **Limited gains for the dollar**
- **Record-high commodity prices**

Global recovery appears firmly on track and indeed data releases from recent months have shown that global growth is at above-trend pace. This makes for very optimistic forecasts for the 2004-2005 period. While improvement is broad based and the current cycle appears surprisingly across-the-board, differences in performance remain in place, with the euro-zone clearly lagging behind. With substantial capacity margins, and relatively low price pressures, the medium-term outlook appears very optimistic, with the exception of the euro-zone. Risk factors include the impact of macroeconomic imbalances in some major economies, the possibility of disruption of the oil market and the impact on consumer confidence of terrorist attacks on the major industrialised countries.

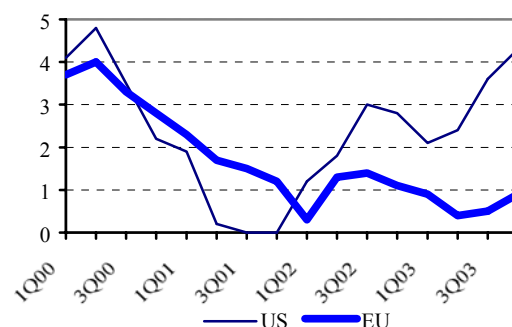
Finally, signs of investment strengthening, particularly in the US, have surfaced. This results from rising corporate profitability due to a combination of strong output growth and very low inflation. Such trends are expected to continue, with an investment surge supporting GDP growth, in 2005 and beyond. Consumer attitudes have so far generally been more cautious, particularly in Europe. Consumer spending is expected to increase gradually in 2H04.

Earlier expectations of persistent US dollar weakness do not seem to have been confirmed by recent developments. As we expected, the dollar stabilised around levels seen at the turn of 2003/2004. We do not anticipate any significant exchange rate movements of the major currencies in the course of 2004. A more important source of short-term uncertainty may be the strength of emerging price pressures and the timing and size of monetary policy moves. So far, inflation has

remained in very low territory. This can in part be explained by available excess production capacity and relatively high unemployment rates at the start of the upturn. Nevertheless, early inflation estimates for April in the US and the euro-zone suggest that the risk of a more rapid build-up of inflation cannot be ruled out entirely. Some risks are also related to oil market developments – in 1Q04 Brent surged to US\$31.9, surpassing US\$33 in March and April. Stock markets in the US and the euro-area closed 1Q04 at levels seen at the turn of 2003/2004, with early gains being reversed in the aftermath of the Madrid 11 March terrorist attack. Particularly good news on corporate profitability was thus offset by geopolitical concerns, uncertainty about future interest rates and mixed signals from labour data. April witnessed further, albeit small, losses of the major world stock indices, with the exception of Japan.

The US is the leading force of the global recovery, alongside emerging Asian economies. Japan is surprising on the upside. The euro-zone is clearly lagging behind, with the medium-term growth outlook actually worsening from a few months ago. In contrast, the new member states of the EU are accelerating and are set to be the fastest growing EU economies this year and next. The former Soviet Union region is also experiencing very strong output expansion, as is the case in Latin America, where the recovery is expected to be the fastest since the Asian crises of the late 1990s.

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



Source: FedStats, Eurostat

In 1Q04, there were no significant changes in monetary policy in the major economies, with only the Bank of England increasing rates in February. The expansionary fiscal stances in the US and most

European countries was maintained and as many as six euro-zone countries are expected to breach the 3% of GDP budget deficit limit this year. Several of the new EU member states are also facing very difficult fiscal challenges.

Our baseline scenario for 2004-2005 remains largely unchanged from the previous quarter. We have upgraded our 2004 growth forecast for the US, Japan and some European economies while scaling down the euro-zone figure. The GDP of OECD economies is set to rise by 3.1% in 2004 followed

by a 3% increase in 2005. Inflation is expected to rise modestly in the US, while remaining below 2% in the euro-zone. Japanese deflation is not expected to end before 1Q05. We maintain our expectation that the Fed's first interest rate hike will be in 2H04, most probably in 3Q04. The ECB now looks less likely to cut interest rates further and no hike is expected until 1H05. The dollar is expected to strengthen only very gradually against the euro.  
<WP>

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

	1999	2000	2001	2002	2003	2004f	2005f
OECD	3.2	3.8	0.9	1.9	2.1	3.1	3.0
USA	4.5	3.7	0.5	2.2	3.1	4.5	4.0
European Union	2.8	3.3	1.7	0.9	0.7	1.8	2.4
Euro zone	2.8	3.4	1.5	0.8	0.4	1.6	2.4
Germany	2.0	2.9	0.6	0.2	-0.1	1.4	2.0
France	3.2	3.8	2.1	1.2	0.5	1.5	2.4
Italy	1.6	2.9	1.8	0.4	0.4	1.2	2.0
United Kingdom	2.4	3.0	2.2	1.9	2.2	2.9	2.9
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	2.9	3.2	3.7
Poland	4.1	4.0	1.0	1.4	3.7	5.7	4.4
Russia	5.4	8.3	5.0	4.7	7.3	5.5	4.5
Turkey	-6.1	6.3	-9.5	7.8	5.9	5.0	5.0
Japan	0.1	2.8	0.4	-0.4	2.7	3.0	2.0
China	7.1	8.0	7.2	8.0	9.1	9.2	7.5

Notes: f – forecast.

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

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

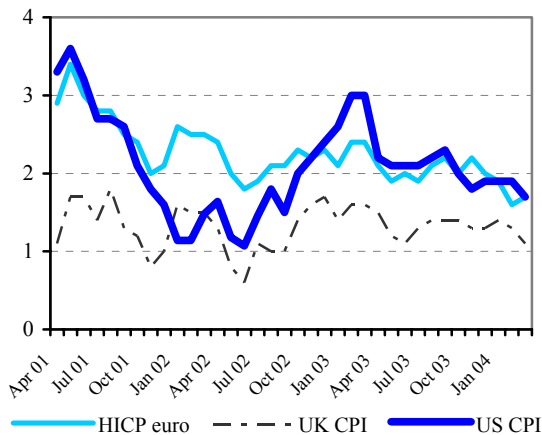
	1999	2000	2001	2002	2003	2004f	2005f
USA	2.2	3.4	2.8	1.6	2.3	1.6	2.3
Japan	-0.3	-0.7	-0.7	-0.9	-0.2	-0.2	0.1
European Union	1.2	2.5	2.5	2.2	2.0	1.7	1.8
Euro area (HICP)	1.1	2.1	2.3	2.3	2.1	1.7	1.8
United Kingdom (HICP)	2.3	2.1	2.1	1.3	1.4	1.5	1.8
Czech Rep.	2.1	3.9	4.8	1.8	0.1	2.7	2.9
Hungary	10.0	9.8	9.2	5.3	4.7	6.3	4.5
Poland	7.3	10.1	5.5	1.9	0.8	2.4	2.5
Russia	85.7	20.8	21.6	16.0	13.5	12.0	10.0
Turkey	64.9	54.9	54.4	45.0	25.3	13.0	10.0
China	-1.4	0.3	0.7	-0.8	0.8	4.0	3.5

Notes: f – forecast.

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



World inflation, 2001-2004 (% change, yoy)



Source: Eurostat, Bureau of Labor Statistics, National Statistics

## Country Updates

### United States

- **Firm growth to continue in 2004-2005**
- **Record high corporate profitability – bright investment outlook**
- **Will the labour situation improve at last?**

The US economy continued its strong expansion in 4Q03, with GDP rising by 4.3% yoy. Major contributions to growth came from personal consumption expenditures (a 4% increase yoy) and private investment (7.4% yoy). Expenditures on durable goods continued to rise robustly and investment outlays on equipment and software climbed 10% yoy. A more pronounced increase in imports was offset by better export results. Government consumption and investment moderated somewhat, with declining growth rates for both defence and non-defence expenditures.

Data for 1Q04 suggest a continued strong and widespread expansion of the economy, with very good news from the corporate sector and somewhat more muted consumer spending. The slightly cautious attitude of consumers may have been partly a reflection of uncertainty about labour prospects, though evidence on retail sales in March and early April suggest an improvement in this sphere. Also, April readings of the Conference Board's Consumer Confidence Index indicate a stronger sentiment. This could be related to rising

house prices and labour market trends, with more optimistic March data (a very strong increase in non-farm payrolls). All this suggests that strong output expansion might finally have fed into the labour market. Unemployment rate decreased to 5.6% in 1Q04 from 5.9% in 4Q03, though this mainly reflected a rise in the non-active population. Wage increases have remained modest and CPI inflation declined to 1.7% yoy in March, though there are sign of price pressures on the horizon.

The chances for improvement on the labour market are enhanced by particularly impressive corporate earnings figures. Corporate profitability has continued to rise and the share of profits in GDP is at its highest level in many years. Business confidence in both manufacturing and services sectors points to further expansion over the medium term. The April survey of the Institute for Supply Management indicates rising capacity utilisation in both the manufacturing and non-manufacturing sectors, with sizeable production capacity increases forecast in 2004.

The medium-term outlook for the US economy continues to be very favourable, with GDP expected to rise by 4.5% in 2004 and 4% in 2005. Price pressures are building only gradually and a modest rise in inflation is expected in the coming quarters. Output expansion is forecast to be broad-based, with consumer spending and investment both contributing strongly. Not much has changed in the perception of major risk factors. The sizeable fiscal imbalances are seen as a major challenge for economic policy in the medium-term. Also, future US fiscal policies will continue to have a sizeable impact on the rest of the world. <WP>

### European Union

- **The Union enlarges to 25 countries**
- **Euro-zone growth lagging behind other regions**
- **Solid output expansion in new member states**
- **Inflation in check**
- **Fiscal problems will not be resolved quickly**

May 1<sup>st</sup> marked the largest and the most complicated enlargement in the European Union's history. Its success is very good news for all countries in Europe. While the symbolic

importance of the enlargement date is unquestionable, the economic impact of the change will remain modest in the short to medium term. This is for several reasons. Firstly, many elements of the internal market were already in place some years ago. The recently observed rise in foreign trade is one visible consequence of that. The last remaining issue – less restricted movement of labour – will be delayed for a few years due to transitional restrictions imposed by most of the old member states. On the other hand, the economic size of the ten new entrants is very small compared to the EU-15. While enlargement increased the geographic size of the EU by 23% and its population by 19%, its combined GDP rose by only around 5%.

### **Euro-zone**

The economic situation in the euro-zone has not changed much from the previous quarter, with growth remaining subdued. A gradual improvement is expected in 2H04 and 2005. Nevertheless, delayed structural reforms mean that current growth potential remains well below levels in the other main economies. In 4Q03, GDP increased by 0.6% yoy, mainly on the back of domestic demand with rising household consumption and government expenditure. Investment declined in annual terms, but at a lower rate than in previous quarters and was on the rise on a quarterly basis. Imports expanded at a faster pace than exports. Patterns of growth differed substantially between euro-zone countries. Among the largest economies, output rebounded somewhat only in France (1.2% yoy), with Germany and Italy seeing virtually no GDP change in either annual or quarterly terms.

In line with our expectations, labour market conditions have not improved in recent months. The euro-zone seasonally adjusted unemployment rate stayed at 8.8% in January and February 2004. The lowest rates are observed in Ireland, Austria and Luxembourg (4-4.5%). At the other end of the spectrum unemployment in Spain has been over 11% and in France and Germany over 9% in recent months.

HICP inflation has remained at under 2% over the last few months, with the March reading at 1.7%. Relatively persistent inflation in the most recent period of slow economic growth can be largely attributed to weak labour productivity gains. The

key question is whether the on-going gradual recovery will be accompanied by rising productivity, thus helping to curb inflation. Given assumed levels of output, exchange rates and commodity price developments we expect to see HICP oscillating at just under 2% in the coming quarters. Fiscal imbalances remain high with six of the single currency's 12 member states forecast to run deficits above the ceiling of 3% of GDP set in the Stability and Growth Pact this year.

We remain cautious in our assessment of the euro-zone's near- to medium-term economic prospects. The recovery here appears less established than in the other major economic regions, as indicated by weak domestic consumption, the uncertain impact on external demand of the euro's exchange rate developments and mixed signals from forward-looking indicators. We expect GDP to increase 1.6% in 2004 and 2.4% in 2005, mainly on the back of external demand and gradually improving investment. In view of the importance of investment developments, profitability of the corporate sector should be watched closely.

### **Germany**

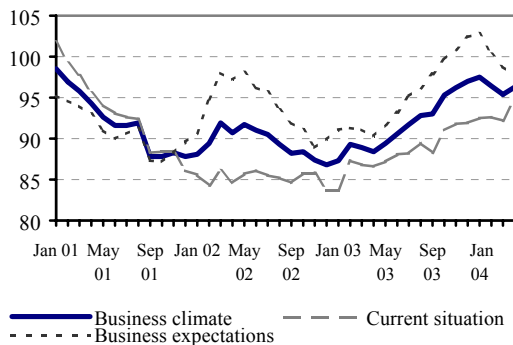
In 4Q03, GDP expanded by a mere 0.2% both in quarterly and annual terms. Manufacturing and most branches of the services recorded positive growth, while construction was still on the decline. Investment rebounded somewhat on the demand side, while household consumption and net exports declined on an annual basis. Government consumption increased, which cannot be seen as a particularly optimistic sign, given the budget deficit at 3.9% of GDP in 2003. Adequate fiscal consolidation measures do not appear to be on the horizon and with slow growth Germany is set to breach the 3% of GDP budget deficit ceiling for the third year in a row in 2004. Inflation has remained in the low territory, with March's reading at 1.1% yoy. There has been no good news from the labour market, with employment on the decline in 1Q04.

The outlook for the rest of 2004 remains much worse than for other major world and European economies. A weak job market, rising oil prices and the strong euro all point to only modest output gains this year. Recent survey evidence has been usually disappointing, with the ZEW expectations index plummeting in April, for the fourth time in a row. The Ifo index continued its downward trend in



1Q04, surprising with a modest improvement in April. We expect GDP expansion of around 1.4% in 2004.

**Ifo business climate index, 2001-2004**



Note: Pan-German index instead of previously reported index for western Germany.  
Source: Ifo Institute for Economic Research.

### France

Signs of a gradual recovery that were already visible in 3Q03 strengthened in 4Q03, bringing GDP growth to 0.5% for the year as a whole, after major revisions to 2002 and 2003 national accounts. Revised data point to the strength of household consumption throughout last year, with investment expenditures gradually rebounding towards the end of 2003. The contribution of net exports was negative and government expenditures were on the rise, adding to the large fiscal deficit, which is not seen falling below 3% of GDP until 2006. In the context of current fiscal problems reforming the health care system will be a major challenge for the government. It will be made even more difficult by strong popular opposition against the reform measures, as illustrated by March's regional election results. The inflation rate declined to 1.9% yoy in March. Labour market conditions remain difficult, with employment stagnant in 4Q03 and unemployment rate at 9.8% in 1Q04. 2004 should see moderate acceleration of economic growth (we forecast 1.5%), without the emergence of significant price pressures.

### Other EU economies

Economic developments in the EU member states outside the euro-zone have continued to be much more favourable. Solid growth in the UK drove the overall EU growth figure for 4Q03 to 0.9% yoy, 0.3 percentage points above the euro-zone result. Sweden and Denmark expanded by 2.1% yoy and 1%, respectively. The strong growth dynamics in

the new member states (those that joined on May 1<sup>st</sup>) contrast with much weaker figures in the majority of euro-zone countries. However, the relatively small economic weight of the ten new countries in the EU-25 indicates that their influence on EU aggregate growth will be minimal. Indeed, assuming the EU-15 expands by some 1.7% in 2004, 4.7% GDP growth in the new member countries would translate into EU-25 growth in the range of 1.8-1.9%.

### UK

Strong economic recovery continued towards the end of 2003 and despite a slightly lower dynamics in 1Q04, the forecast remains optimistic for the rest of 2004 and 2005. GDP expanded by 2.6% yoy in 4Q03, bringing the figure for the year as a whole to 2.2%. In 1Q04, output expanded by an estimated 3% yoy. As in previous quarters, the services sector led the way, with weaker results for manufacturing. Still, manufacturing business surveys are pointing to a recovery in this sector, which might be somewhat mitigated by the strength of the pound. Recently published data indicate a further improvement in already favourable labour market conditions, with a record-high employment rate (74.9%) and record-low unemployment rate (4.8%). Inflation edged down in March, with the CPI (targeted at 2% annually +/-1 percentage point) at 1.1% yoy and the RPI at 2.6%. The growth outlooks for 2004 and 2005 are both very positive, though government forecasts of 3-3.5% expansion in 2004 used for budgetary calculations might be a bit too optimistic. Fiscal pressures will need to be addressed in the upcoming years. The overheated housing market remains another source of potential vulnerability.

### Poland

4.7% yoy GDP expansion in 4Q03 brought the growth figure for the year as a whole to 3.7%. The recovery has continued to be driven by net exports, with domestic demand rising by 2.7% yoy in 4Q03 and 2.4% in 2003 as a whole. Investment has not yet recovered (it was nearly flat in 2H03 in an annual comparison), with household consumption rising 3.9% in 4Q03. The role of exports in driving the current rebound has had the effect of creating a boom in industrial output, with somewhat more limited gains in the services sector. There was no improvement in the labour market and 4Q03 witnessed a falling employment and activity rate

compared to 3Q03. In March 2004, unemployment rate climbed to 20.5%.

Macroeconomic trends from late 2003 were maintained in 1Q04. Industrial production soared 19.1% yoy in an environment of strong labour productivity gains and declining employment, though at slower pace. The CPI increased 1.7% yoy in March. We expect the zloty to remain weak against the euro, which, alongside productivity gains in manufacturing and a slowly developing recovery in the EU, should allow for a continuation of the particularly strong export trend. We also expect a gradual recovery of investment in 2004 to drive imports. We forecast GDP growth of 5.7% in 2004, followed by 4.4% in 2005. CPI inflation is expected to reach its peak of slightly above 3% yoy in 3Q04, before resuming to around 2.5% at the turn of 2004/2005. The major risks are related to the unsustainable position of public finances. In a highly unstable political situation (the uncertain future of the new government, prospects of early elections) addressing these concerns could prove very difficult. <WP>

#### **The Czech Republic**

In 4Q03, GDP expanded by 3.1% yoy, slightly below the 3Q03 figure (3.4%), resulting in yearly growth of 2.9%. Growth was fuelled by domestic demand. The latest data suggest a rebalancing of the economic growth pattern towards a lower contribution from private consumption and rising contribution of investment expenditures. The external trade balance, after worsening towards the end of 2003, improved somewhat in early 2004, with February trade surplus at the highest level in 10 years. After a period of very low inflation (0.1% in 2003), inflationary pressures intensified in 1Q04 (2.4%), but this is largely explained by the one-off adjustment due to EU entry.

With EU accession the prospects for more balanced economic growth are generally optimistic. However, the country's competitiveness is somewhat hindered by high indirect labour costs and a fast growth in real wages (6.2% yoy in 4Q03). The unemployment rate increased from 9.9% in 4Q03 to 10.6% in 1Q04. The major policy challenges are related to the fiscal situation. Decreasing political stability on the wave of resistance to newly proposed fiscal reform is illustrative of the problem.

#### **Hungary**

4Q03 saw a continuation of the growth pick-up trend, with GDP increasing 3.6% yoy, up from 2.9% in 3Q03, bringing the growth figure for the year as a whole to 2.9%. Expansion of Hungarian exports, helped by improvements in labour productivity and possibly by a weakening of the forint, contributed to the country's strong external trade performance, with a 17% yoy increase in exports in 4Q03 despite sluggish growth in the EU-15. However, a 13.4% increase in imports offset the impact from export growth on GDP. Private consumption increased by 4.2% yoy in 4Q03 and fixed capital formation jumped 4.7%, suggesting a more balanced growth pattern.

CPI inflation was on the rise in 4Q03 and 1Q04, hitting 6.7% yoy in March 2004, but is expected to gradually fall back again towards the end of this year. The current account deficit is expected to remain high this year. Unemployment increased to 6.1% in 1Q04 (up from 5.5% in 4Q03), despite the recent reduction in labour costs. The political situation remains fairly stable, although parties in the political debate continue to articulate various populist fiscal demands, which does not bode well for the prospects of fiscal consolidation and prospective EMU entry. With a broadly optimistic forecast, one should note that market sentiment will critically depend on the success of the government's fiscal-side measures aimed at restoring market confidence and bringing back FDI.

#### **Slovak Republic**

Output growth continued to be predominantly driven by external demand. Net exports added 10.7 pts to a 4.7% GDP growth figure 4Q03. Investment dropped by 9.7% yoy and consumption increased 1.7%. Slovakia's foreign trade is now close to balance. Future economic growth should be underpinned by the expected revival in domestic consumption on the back of projected real earnings growth and cheaper credit, as well as sustained high investment inflows.

CPI inflation remained in high territory in 1Q04 (8.2% yoy in March), owing to excise increases and price deregulation. A more visible lowering of inflation is not expected before 2005. Core inflation was on the decline in March. The national bank has thus focused on the koruna exchange rate and the



key interest rate cut at end-April was mainly motivated by the recent koruna appreciation. Unemployment reached 16.4% in 1Q04, up from 14.5% in 4Q03, though this is likely to be only a temporary increase. The country's current account remains stable and very close to balance. The deficit amounted to only 1% of GDP in 2003, down from 8% of GDP in 2002.

### **Baltic States**

The latest data generally reconfirm earlier expectations about the economic performance of all three Baltic States: high growth rates, but less of a success in export revenues resulting in stable or growing current account deficits.

Estonian GDP grew 5.7% yoy in 4Q03 and 4.8% for the whole of 2003. Although export revenues increased towards the end of 2003 it was not enough to significantly improve the current account balance, which is now at an alarming level of -13.7% of GDP. Estonia is also faced with costly reforms in pensions and the health sector, where economic sustainability has not yet been fully ensured. Nevertheless, the highest ever budget surplus (2.6% of GDP in 2003) does provide room for manoeuvre in implementing these reforms.

In Latvia, GDP expanded by 7.4% yoy in 4Q03 and by 7.5% in 2003 on the back of buoyant household consumption. The external trade balance declined at the end of 2003, with a small improvement in the early months of 2004. Inflation started to pick up and was at 4.3% yoy in 1Q04 (1.9% in 1Q03) as a result of price deregulation. This could become a serious policy challenge in the near-term. The current account deficit reached around 9% of GDP in 2003 and is set to remain in the high territory this year as domestic demand remains strong. Such a large imbalance might be worrying given the lowering of FDI inflows in 2003.

Lithuania has remained the growth leader among the EU economies, with record-high 10.6% yoy expansion in 4Q03 translating into 9% growth for the year as a whole. Early estimates suggest sound 7.5% yoy output gains also in 1Q04. Growth has been driven by household consumption (an 11.1% increase in 2003) and robust investment expenditures (11.4%). As a result, the current account deficit widened to 9.8% of GDP in 4Q03. Strong growth has caused a decline in

unemployment from 13.8% in 2002 to 12.4% in 2003. With stable prices and fair progress on structural reforms, the main risks to Lithuania's further economic development could well be in the political sphere. <NZ>

## **Emerging Europe**

- **Strong growth and sustained disinflation in Turkey**
- **Favourable outlook for Bulgaria and Romania**

### **Turkey**

The Turkish economy expanded by 6.1% yoy in 4Q03, yielding expected 5.8% growth for the whole of 2003. The result surprised on the upside, with an earlier official estimate of 5%. Growth was underpinned by a strong recovery in domestic demand, with the biggest contribution from investment, which increased 19.2% yoy in 4Q03, while consumption climbed 10.3% yoy. Exports remained strong, up 16.9% yoy in 4Q03. However, imports expanded even faster, by 33%, and the trade deficit widened.

On the production side the biggest contributions to GDP growth in 2003 came from the expansion of industry, retail trade and transport and communications. Construction started to show positive annual growth rates only in 4Q03. Strong output growth continued in early 2004. Manufacturing industries were up 12.4% yoy in January-February 2004.

Inflation continued its downward trend in early 2004, with the annual CPI rising 10.2% in April, down from 18.4% in December 2003. A further slow-down in inflation rates is predicted, underpinned by a shift towards Turks saving more in Turkish liras (and hence further appreciation of the currency), lower inflation expectations, and the strong confidence in the stability of the domestic market.

Turkey's consolidated budget recorded a deficit of 11% of GDP in 2003, only slightly below the official target. With no political risks on the horizon the 2004 deficit should be around 8% of GDP. Such high deficits are caused by the fact that over 40% of budget expenditures are interest payments.

However, as GDP growth is set to continue the debt to GDP ratio should fall below 50% in 2004. <MJ>

### **Bulgaria**

In 4Q03, GDP expanded by 4.9% yoy, driven by domestic demand, with consumption increasing 7% yoy and investment up 10%. CPI inflation shot up to 6.2% yoy in March 2004 due to higher excise taxes, food price increases and price deregulation measures. Unemployment was fairly stable at a high level – up from 12.7% in 4Q03 to 13.7% in March 2004 after seasonal increase in January and February.

Imports rose much stronger than exports (14.0% yoy and 5.3%, respectively in 4Q03) leading to widening of the current account to 8.7% of GDP in 2003, up from 4.6% in 2002. This gives rise to concerns despite the fact that more than 80% of the deficit was financed by FDI inflows. With large-scale privatisations coming to an end the country may find it increasingly hard to tolerate such high levels of domestic demand growth, which lead to external imbalances. It remains to be seen what tightening of fiscal stance will be necessary. At the currently observed level the current account deficit leaves the economy vulnerable to sudden reversals in investment flows.

### **Romania**

GDP expanded by 4.9% in 2003, somewhat more than was predicted by most analysts, owing to increases in output in industry (4.6%) and services (5.2%). On the expenditure side, GDP growth was fuelled by domestic demand, with consumption rising 6.9% and investment up 9.2%. The trade deficit widened by 73.5% from its 2002 level. Early 2004 saw a continuation of general trends from 4Q03 with a continued upturn in industrial production and the 1Q04 trade deficit stabilising at just a little above its 4Q03 level. Given the structure of Romanian imports (predominantly machinery and other investment goods) and booming credit growth (50% in 2003), it is unlikely that the current gap between exports and imports will be narrowed in the near future. The investment build-up is expected to fuel growth in 2004-2005.

The growth outlook for the next two years is generally positive, with inflation expected, finally, to fall below 10% by the end of 2004. Major policy challenges include continued disinflation,

privatisation and restructuring of some state owned sectors, in particular energy, and keeping the budget deficit in check. This will need to be done in the context of upcoming parliamentary elections (November 2004) and at a difficult stage in work on preparation for EU entry. <NZ>

## **CIS**

- **Growth accelerates in Russia and Ukraine**
- **Booming investment fuelling GDP expansion**
- **Inflation to remain the medium-term issue**

### **Russia**

The impressive dynamics of macroeconomic indicators observed in 2003 was maintained at the beginning of the current year. Growth rates of GDP and industrial production accelerated. The stability of the financial system was preserved. Inflation was reduced somewhat in an environment of stable and predictable foreign exchange markets.

Growth of 7.3% of GDP was recorded in 2003, higher than our earlier estimates. This was the fifth year in a row of rapid economic expansion (on average GDP increased 6.6% annually during the period). Growth now appears broadly based with strong contributions from household consumption (a 7.9% increase in 2003) and domestic fixed investment (12.9%) on top of net exports helped mainly by developments in commodity prices. Very strong investment activity is stimulated by a combination of factors. High oil prices stimulated investments in the fuel and energy sector. Furthermore, falling yields on Russian financial instruments, coupled with an improvement in the financial standing of Russian enterprises and overall macroeconomic stability, provided a stimulus to put more resources for investment in the real sector.

Available 1Q04 data confirm the continuation of trends observed in 2003, with output of the five main sectors of the economy expanding by 7.9% yoy. Acceleration in the pace of growth is largely attributed to an investment boom – investments in fixed assets increased by 13.1% yoy in 1Q04. On the supply side the expansion appears broadly based. Industrial output increased 7.6% yoy in 1Q04, supported by domestic investment demand

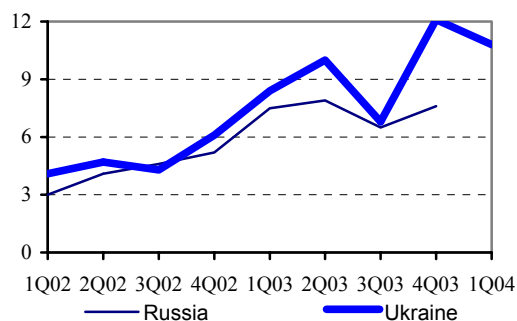


and rising exports of raw materials. Machinery and metal-working, construction materials production, the chemicals and petrochemicals industry and the fuel industry experienced the most rapid output gains. In the same period the construction sector was up 13.8%, retail trade up 10.3% and transport up 7.7%. Only agriculture saw production down, by 1.4% yoy.

The Russian merchandise trade surplus continued to rise, reaching around US\$17 billion in 1Q04, according to preliminary estimates. Exports increased 15.1% yoy, while imports grew 19.0% yoy. Export dynamics were largely determined by high world prices for oil and metals. Merchandise import expansion was stimulated by real growth in household income in an environment of gradual real appreciation of the rouble.

2003 witnessed much higher capital inflows into Russia compared to previous years. According to Goskomstat data (which differ substantially from CBR data), total foreign investment inflows into Russia amounted to US\$29.7 billion in 2003. Positively, FDI grew most dynamically (69.4% yoy), reaching US\$6.8 billion.

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



Source: National Statistical Agencies

In 1Q04, the rouble continued to appreciate in real effective terms (+6.7% yoy). The CBR in turn continued to intervene on the forex market, limiting the nominal appreciation of rouble, which amounted to 20.3% yoy in 1Q04 against the US dollar and 3.5% against the euro. Such a policy led to a significant increase in foreign currency reserves (of US\$6.5 billion in 1Q04). Fast expansion of monetary aggregates was another related outcome. Nevertheless, 1Q04 witnessed a decrease in

inflation – the CPI was up 10.1% yoy as opposed to 14.8% yoy in 1Q03.

The dynamics of federal budget revenues were determined by robust economic growth and the favourable external market situation (most importantly oil prices increases). In 1Q04, the federal budget was in surplus of 1.8% of GDP. Revenues amounted to 19.8% of GDP and expenditures were equal to 18.0% of GDP.

### Ukraine

2003 was an impressively successful year for the Ukrainian economy, with revised annual growth estimated at 9.4%. Provisional data for 1Q04 suggest further acceleration to 10.8% yoy. The factors behind such a strong expansion are similar to those operating in Russia: favourable external market conditions, booming investments in fixed assets (27.7% yoy increase in 2003) and robust domestic consumption.

In 1Q04, industrial output surged 18.8% yoy. As in previous periods this was mainly driven by developments in capital asset-producing and export-oriented sectors, with machine building expanding by 46.3 % yoy in 1Q04, metallurgy up 18.8% yoy and the food processing industry up 16.5% yoy.

Strong foreign trade dynamics were maintained at the beginning of 2004, with merchandise exports rising faster than imports. In January-February, merchandise exports increased 44.4% yoy in US dollar terms, led by high sales of metallurgy, machinery and chemical industry products. Merchandise imports increased 37.2% yoy in the same period (mainly owing to developments in mineral products, machinery equipment and grain categories). The trade balance on services continues to be positive (US\$2.9 billion for 2003) due to rising transportation services.

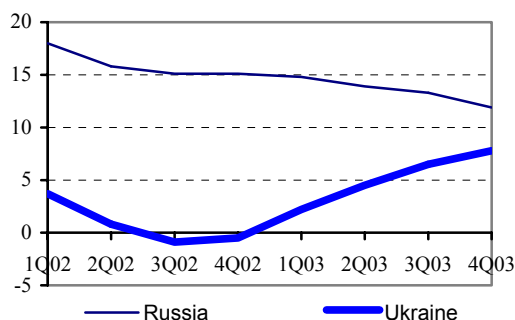
The National Bank of Ukraine has continued the policy of keeping the hryvnia-dollar nominal exchange rate stable via active interventions on the forex market. In the context of increasing export volumes, interventions on the foreign exchange market led to a rise in foreign exchange reserves (of 19.2% for 1Q04). A related consequence was expansion in monetary aggregates – in 1Q04 the monetary base rose 32.7% yoy and money supply

45.1% yoy. Growth in monetary aggregates in 2003 and at the beginning of 2004 stimulated a rise in the CPI – up 7.4% yoy in 1Q04. Still, on a quarterly basis, price increases in 1Q04 were slower than in 1Q03.

FDI inflows were relatively high, at US\$1.4 billion 2003; however, they are still negligible, especially in per capita terms – only about US\$30. Since regaining independence Ukraine has accumulated about US\$7 billion in FDI, i.e. US\$147 in per capita terms.

Economic growth has had a positive impact on executing the consolidated budget. In 1Q04, the budget was in surplus of 2.1% of GDP. Revenues to the consolidated budget in the first quarter amounted to 28.2% of GDP, while expenditures were executed at the level of 26.1% of GDP. In 1Q04, almost 50% of annual privatisation revenues were realised.

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



Source: National Statistical Agencies

### Other CIS economies

Strong economic growth continued also in other CIS countries. In 2003, Armenia and Azerbaijan emerged as the regional leaders, with 13.9% and 11.2% GDP expansion, respectively. Growth rates in the other CIS countries were in the range of 6-10%. Similarly to Russia and Ukraine, foreign trade and investment activity were the driving forces of economic development in the region. 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 CIS economies. <DB>

## Asia

- **Recovery strengthens in Japan, end of deflation on the horizon**
- **China hitting new growth records**
- **Exchange rate appreciation pressures set to continue**

Regional growth in Asia in 2003 as a whole was led by China and India, though towards the end of the year domestic demand rebounded in several other countries. Thailand expanded by nearly 7% in 2003, and is expected to sustain this pace of growth in 2004. Indonesia, the Philippines, Korea and Taiwan grew at 3-4% in 2003 and of these countries Korea has the best prospects for 2004. Hong Kong and Singapore are recovering fast, with domestic demand joining the already strong external sector. Both economies are expected to grow at 6-7% in 2004. Overall, in 1Q04 Asian economic expansion appears to be turning towards domestic demand-led growth, as indicated by growing retail sales. Appreciation pressure on local currencies vs. the US dollar is expected to persist during 2004 as strong capital inflows are predicted to continue. Inflation is gaining momentum, running above 3% yoy in March 2004 in Korea, Indonesia, the Philippines and India.

China continued its fast economic expansion in the 4Q03, with GDP rising 9.7%. Preliminary data suggest that 1Q04 will end with a similar figure. Fixed investment booming at about 50% yoy, industrial production close to 20% yoy and retail sales up by 10% yoy during the period from January to March 2004 all indicate that the expected slowdown is yet to emerge. Merchandise exports strengthened in 1Q04, up around 43% in March 2004. Imports remained strong, although annual rates of growth decreased. Capital inflows continued to rise during January-February. Although the general opinion is that the Chinese economy is overheated, recent declarations from government officials make it clear that no extensive measures to cool down investment will be introduced in 2004. Thus growth for 2004 as a whole is expected to be above 9%. CPI inflation was up 3.0% yoy in March 2004 and should increase further in the coming months.

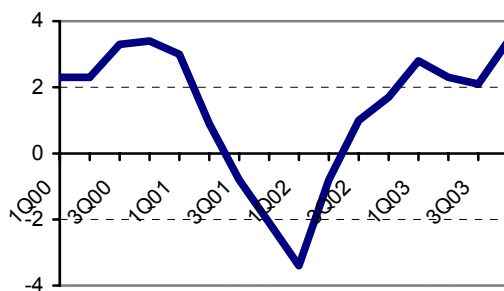
India ended 2004 with 8.5% output growth on the back of particularly strong domestic demand. Easier

access to credit and lower interest rates should further support consumption in 2004 and sales of manufacturing goods should increase. The good outlook for raw material prices and for Asian regional growth should also support Indian exports. However, the appreciation of the *rupiah* will be a hampering factor, following continued capital inflows. In March the Reserve Bank of India decided to step back from its earlier persistent interventions, thus signalling that it would not prevent further appreciation. Overall, 2004 should record slightly slower but still impressive growth in the range of 6-7%.

### Japan

With 3.4% yoy economic expansion recorded in 4Q03 the Japanese growth figure for 2003 as a whole moved up to 2.7%. Non-residential investment, exports and private consumption contributed significantly to the 4Q03 results. Booming exports to Japan's East Asian trading partners has been pushing Japanese manufacturing production and, at the same time, households have begun to spend more. It looks as if Japan has started its long-awaited recovery.

**GDP growth in Japan, 2000-2003**  
(% change, yoy)



Source: Bank of Japan.

Investment probably continued to positively impact overall GDP growth in 1Q04, as indicated by data on machinery orders for January-February 2004. Growing disposable incomes of the population and expanding retail sales in the first two months of 2004 indicate that individual consumption is gaining strength. However, a 15.7% yoy jump in real exports in 1Q04 may indicate that the current growth is still led primarily by external demand. Import dynamics are lower, indicating relatively weak domestic demand, while import volumes increased 7.4% yoy in 1Q04.

Industrial production was up 5.3% yoy in January and 6.7% yoy in February 2004. In January-February, the fastest growing areas were shipments for final demand, capital goods and producer goods (mainly chemical machinery, electrical measuring instruments, special industrial machinery and electronic parts and devices).

Consumer prices did not change in February 2004 compared to figures from the same time last year, after recording smallish annual declines at the end of 2003. Rising household incomes, domestic consumption and demand for investment goods should underpin the end of deflation. With the Bank of Japan's current exchange rate policy aimed at "not importing new deflation", deflation is expected to vanish in early 2005. Domestic corporate goods prices rose 0.2% yoy in March 2004, though this was primarily supported by the growing world prices of raw materials. <MJ>

### Latin America

- **Optimistic outlook for 2004**
- **Structural reforms still badly needed**
- **Argentina to remain regional growth leader**

The 2004 economic outlook for Latin American countries has improved, partly on the back of better external terms of trade and stronger external demand. Moreover, with lower interest rates and more flexible exchange rate regimes, Latin American countries are now less vulnerable to external shocks. Chile, Peru and Ecuador are expected to grow 4-5% this year, while Brazil and Mexico should grow 3-4% and Argentina by over 8%. Venezuela surprised in 4Q03, with 9% yoy growth, following three years of contraction. There are also optimistic growth forecasts for this country, as high oil prices will support the recovery in production. From a more general perspective the bright 2004 outlook for the region appears to be down mainly to cyclical factors, given that the improved growth performance of Latin American countries can hardly be put down to structural reforms or productivity gains.

The Brazilian economy recorded a contraction of -0.2% in 2003 (no change on the annual basis in 4Q03). The outlook improved in 1Q04, together

with data on February industrial production slightly up, by 1.8% yoy, and higher March tax collection (up 15.6% yoy). Retail sales rose 6.1% yoy in January 2004, followed by a mild increase in incomes and probably strengthened further in February-March. Investment remains the main obstacle for broad-based growth. Despite some advances in 4Q03, the low rate of investment in relation to GDP (17.8%) remains a source of concern. There are also risks that the IMF target for a primary fiscal surplus of 4.25% of GDP in 2004 will not be met as the government plans to increase the minimum wage above the budgeted level. Inflation remains low at 5.9% yoy in March. The currency is expected to be relatively stable throughout 2004.

Argentina finished 2003 with estimated growth in the range of 8-9%. The strong rebound was possible due to the recovery of domestic demand. Growth momentum is expected to have been maintained in 1Q04 for the same reasons. Retail sales are pointing to still strong consumer sentiment, following increased employment and modestly higher wages. Industrial production was up 13% yoy in January-February 2004. Although the outlook for Argentina's main trading partners improved significantly it is not expected that it will be enough to boost the country's exports. In January-April the peso appreciated nominally vis-à-vis the US dollar, but mild depreciation is foreseen later in 2004. Stronger economic activity brought fiscal benefits and there should be no problems meeting IMF fiscal targets for 1Q04. Inflation is expected to gradually increase from 2.3% yoy recorded in March 2004, but should remain at a single digit level until the end of the year.

Some signs of export-led recovery were observed in Mexico in 1Q04. Following strong growth in US manufacturing production, Mexican manufacturing exports expanded 9% yoy in February, after a small January gain of 1.6% yoy. Exports of cars likely rebounded in March. Industrial production was up 2.2% yoy in February, with all sectors improving. Overall, the economy is expected to grow significantly faster in 2004 than the 1.3% recorded in 2003. Inflation came in at 4% yoy in 1Q04. Mounting unemployment during 1Q04 remains a key worrying factor. <MJ>

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## Central Banks Watch

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- **Monetary policy on hold – volatile expectations about future moves**
- **Waiting for the Fed decision**
- **Rate cuts in Hungary and Slovakia**

While there were no major monetary policy moves made by the main central banks in the period January-April, expectations about future actions are somewhat volatile. The Bank of England hiked rates by 25 points in early February, while mid-April witnessed another rate cut in Canada. Conflicting news from the real economy, consumer and housing prices and exchange rate markets in the US, the euro-zone and other major economic regions have impacted on expectations about future policy stance there.

The Fed now sees no deflationary risk on the horizon and inflation is expected to gradually rise in the next quarters. Together with strong economic growth this should make the Fed raise rates from their current record-low levels in order to avoid any build up of inflationary expectations. We expect the first hike in 3Q04. The expected Fed move will have far-reaching consequences for central banks in Asia, but their responses are likely to vary depending on their monetary/exchange rate policy frameworks.

The ECB has so far stood short of any policy decisions, with somewhat conflicting signals ranging from weak domestic demand and output recovery and a slight depreciation of the euro in recent months to upbeat news from other major economies and inflation remaining very close to the 2% ceiling. There have been calls for rate easing from the IMF and OECD, though they also clearly indicated that this would not be sufficient in itself to boost growth. Compared to the last quarter, the probability of another rate cut has decreased. We do not expect any rate hikes until 1H05.

The Bank of Japan is expected to continue its zero interest rate policy until early 2005. In its recently released semi-annual outlook on growth and prices, BoJ board members revealed their inflation forecasts, with the core CPI staying in negative territory up to spring 2005.



The Bank of England faces a difficult trade-off, with low and declining inflation and a continuation of the real estate market boom.

In CEE, the Hungarian central bank opted for two minor rate cuts (25 points each time) in March and April and is set to continue a gradual easing from the current very high rates level (12%). The Polish MPC announced a change in its policy bias from 'neutral' to 'tightening'. Still, we do not expect it to move its rates in 2004. At end-April the Slovak National Bank cut its interest rates to 5%, responding mainly to koruna exchange rate developments. <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	5 Jun 03
England	Repo	4.00	5 Feb 04
Czech Rep.	2-week repo	2.00	31 Jul 03
Hungary	2-week repo	12.00	5 Apr 04
Poland	2-week repo	5.25	25 Jun 03

Source: Central banks.

## Exchange Rates

- Dollar regaining ground against the euro
- Mixed trends in CEE exchange rates

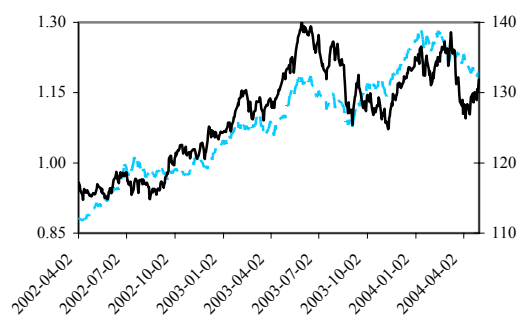
After hitting record lows against the euro in February, the dollar appreciated against the main European currency in March and April, returning to levels from late 2003. Still, in annual terms, the dollar depreciated by some 10% between April 2003 and April 2004. The Japanese yen also gained some ground against the euro in March-April. These trends resulted in the euro's real effective exchange rate returning in April to levels from

November 2003. We foresee the euro-dollar exchange rate remaining broadly stable with a very slow euro depreciation trend against the dollar, reaching US\$1.16 at the end of 2004 and US\$1.13 at the end of 2005.

With the euro surge coming to an end we see limited impact on other macroeconomic developments. The consequences for the US are hardly observable at all. There are many controversies concerning the likely impact of exchange rate developments on the manufacturing sector in the euro-zone.

Among Central European currencies, political instability kept the zloty weak against the euro. The Czech koruna also lost some ground in recent month compared to 4Q03. In contrast, the Slovak koruna continued its appreciating trend that started in summer 2003 and the Hungarian forint recently rebounded from the lows of December 2003 – February 2003, caused by earlier panicky monetary policy moves in the context of a difficult fiscal situation. <WP>

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



– Yen per EUR (right scale) — US\$ per EUR (left scale)  
Source: ECB.

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	1.20	1.13
Yen	121.3	99.5	108.7	118.1	131.0	132	124

Note: f – forecasts.

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

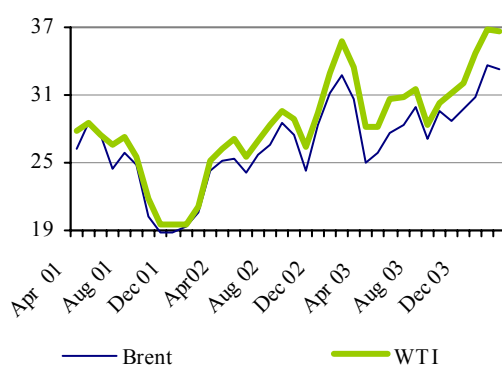
## Commodity Prices

- **Prices hitting record highs**
- **Chinese market impacts decisively price developments**
- **Oil and metals to remain expensive in 2004**

### Oil

In 1Q04, oil prices again surprised on the upside with average Brent price climbing to US\$31.9 per barrel, a major rise from 4Q03 and also surpassing the levels from 1Q03, when the prospects of war in Iraq drove prices up. The trend continued in March and April with average Brent prices over US\$33, significantly higher than we expected. The combination of factors behind such developments has remained largely unchanged. On the supply side, the OPEC-10 policy of keeping production curbed, coupled with continued difficulties and uncertainty concerning supplies from Iraq, played a major role. On the demand side, the most important factors were stronger-than-expected global growth, coupled with low stocks. Exchange rate developments also affected the dollar prices and part of the recent volatility reflects speculative activity of market participants.

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

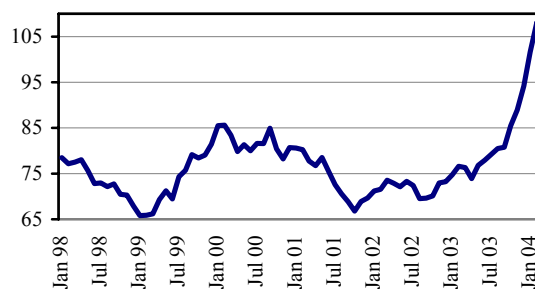


Source: US Energy Information Administration.

Currently, the International Energy Agency expects global oil demand to rise 1.7 mb/d, an upward revision mainly attributed to developments in China. 1Q04 witnessed a significant 4% yoy increase in global supply, most of which is accounted for by OPEC output, which is at present relatively close to capacity levels. Iraqi production returned close to pre-war (early 2003) levels, though still slightly below estimated sustainable

production capacity. On the other hand, the tenuous security situation implies high uncertainty concerning future output trends. Among non-OPEC producers, FSU output continued its upward trend in 1Q04. Also, recent reports suggest a possibility of significant upward revisions to estimates of crude reserves in Russia. <WP>

### Metal prices, 1998-2004 (index in nominal terms)

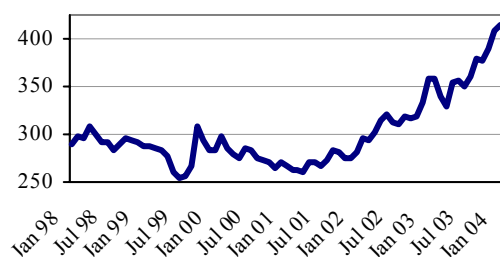


Source: IMF Research Department.

### Metals

1Q04 witnessed a continuation of the upward trend of metal prices. Between December 2003 and March 2004 the IMF metals index surged 16.5%. The upswing in prices is stimulated by rising global demand due to faster economic growth. Booming demand from China has been particularly important for the metals markets. At the same time, supply of many metals remains rather tight due to shortage of free production capacities. The recent drastic increases in world metal prices has stimulated work on the creation of metal futures market – the London Metal Exchange and New York Mercantile Exchange have declared their intention to introduce an instrument for smoothing sharp price fluctuations. It is commonly believed that the shortage of coke and scrap will enforce further metal price increases at least until 3Q04.

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



Source: Pacific FX Database.



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After achieving its highest point in January 2004, gold prices eased somewhat in the following months. This can partly be explained by strengthening of the dollar against other major currencies. Nevertheless, gold prices remain at a

very high level mainly due to geopolitical instability. <DB>

### Statistical Appendix

	2001	2002	2003	1Q03	2Q03	3Q03	4Q03	Jan	Feb	Mar
<b>GDP, % yoy change</b>										
US	0.5	2.2	3.1	2.1	2.4	3.6	4.3	..	..	..
Japan	0.4	-0.4	2.7	2.8	2.3	2	3.6	..	..	..
EU	1.7	1	0.7	0.9	0.4	0.5	0.9	..	..	..
UK	2.1	1.6	2.2	1.9	2.2	2.2	2.7	..	..	..
Euro-zone	1.5	0.9	0.4	0.7	0.1	0.3	0.6	..	..	..
Germany	0.8	0.2	-0.1	0.1	-0.3	-0.3	0.0	..	..	..
France	2.1	1.2	0.5	0.8	-0.2	0.3	1.2	..	..	..
Czech Rep.	3.1	2	2.9	2.5	2.6	3.4	3.1	..	..	..
Hungary	3.8	3.5	2.9	2.7	2.4	2.9	3.6	..	..	..
Poland	1	1.4	3.7	2.3	3.9	4	4.7	..	..	..
Russia	5.1	4.7	7.3	7.5	7.9	6.5	7.6	..	..	..
Turkey (GNP)	-9.5	7.8	5.9	7.4	3.6	5.6	7.2	..	..	..
<b>CPI, % change yoy</b>										
US	2.8	1.6	2.3	2.9	2.1	2.2	1.9	1.9	1.7	1.7
Japan	-0.7	-0.9	-0.3	-0.2	-0.2	-0.2	-0.3	-0.3	0.0	..
EU15	2.5	2.0	2.0	2.2	1.8	1.9	1.9	1.8	1.5	1.5
UK (HICP)	1.2	1.3	1.4	1.5	1.3	1.4	1.3	1.4	1.3	1.1
Euro-zone (HICP)	2.3	2.3	2.1	2.3	1.9	2.1	2.1	1.9	1.6	1.7
Germany (HICP)	1.9	1.3	1.0	1.1	0.8	1.0	1.2	1.2	0.8	1.1
France (HICP)	1.8	1.9	2.2	2.3	1.9	2.1	2.4	2.2	1.9	1.9
Czech Rep.	4.8	1.8	0.1	-0.4	0.0	-0.1	0.8	2.3	2.3	2.5
Hungary	9.2	5.3	4.7	4.6	3.9	4.7	5.4	6.6	7.1	6.7
Poland	5.5	1.9	0.8	0.5	0.5	0.8	1.5	1.6	1.6	1.7
Russia	21.6	16.0	13.5	14.8	13.9	13.3	11.9	11.3	10.7	10.4
Turkey	54.4	45.0	25.3	27.6	30.0	25.1	19.5	16.2	14.3	11.8
<b>Short-term interest rate, %</b>										
US	3.69	1.73	1.15	1.26	1.17	1.07	1.10	1.06	1.05	1.05
Japan	0.12	0.06	0.04	0.04	0.04	0.04	0.03	0.03	0.03	..
UK	4.97	3.99	3.67	3.73	3.57	3.50	3.86	3.99	4.10	..
Euro-zone	4.26	3.32	2.34	2.68	2.37	2.14	2.15	2.09	2.07	2.03
Czech Rep.	5.17	3.55	2.28	2.50	2.40	2.12	2.07	2.07	2.06	2.05
Hungary	10.80	8.91	8.22	6.40	6.60	9.48	10.38	12.33	12.66	..
Poland	14.85	8.71	5.38	5.89	5.41	5.01	5.20	5.30	..	5.24
Russia	10.00	12.40	5.40	7.70	4.70	4.30	4.70	3.00	3.00	2.90
Turkey	59.00	44.00	26.50	44.00	38.00	33.20	26.50	26.00	24.33	23.13
<b>Unemployment rate, %</b>										
OECD	6.5	7.0	7.1	7.0	7.2	7.1	7.0	6.9	6.9	..
US	4.7	5.8	6.0	5.8	6.2	6.1	5.9	5.6	5.6	..
Japan	5.0	5.4	5.3	5.4	5.4	5.2	5.1	5.0	5.0	..
EU	7.4	7.7	8.0	8.0	8.0	8.0	8.0	8.0	8.0	..
UK	5.0	5.1	5.0	5.0	5.0	4.9	4.9	..	..	..
Euro-zone	8.0	8.4	8.8	8.7	8.8	8.8	8.8	8.8	8.8	..
Germany	7.8	8.6	9.3	9.2	9.4	9.3	9.2	9.2	9.3	..
France	8.5	8.8	9.4	9.2	9.3	9.4	9.5	9.5	9.4	..
Czech Rep.	8.0	7.3	7.8	7.5	7.8	8.0	8.1	8.2	8.2	..
Hungary	5.6	5.6	5.8	5.8	5.8	5.7	5.8	5.9	5.9	..
Poland	18.5	19.8	19.2	19.4	19.2	19.2	19.1	19.1	19.1	..
Russia	8.7	7.1	8.6	9.1	8.2	7.9	8.6	8.0	8.1	7.9
Turkey	8.4	10.3	10.5	12.3	10.0	9.4	10.3	..	..	..

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

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All analyses are based on data and information available until 29 April 2004. Additional information is available upon request. Please contact CASE at [global.economy@case.com.pl](mailto:global.economy@case.com.pl).

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