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Global Economy

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Global Outlook

- **Global moderation in growth visible in 3Q04**
- **US expansion slowed, growth trend unbroken**
- **Recovery in the euro-zone losing momentum**
- **Japan 2004 expansion not higher than 2003**
- **Emerging Asia, Latin America and CIS countries leading the growth league**
- **Energy prices still high**
- **Upward pressure on consumer prices continues towards end-2004 in emerging economies**
- **Dollar unstable**
- **Fiscal challenges yet to be addressed**

The second half of 2004 saw a moderation in global growth. The main factors causing deceleration in global expansion were detrimental to the world's largest economies. Still high energy prices, trade deficits in the US and the euro-zone and lower domestic demand in Japan put a drag on growth. These constraints will probably continue to be visible further into 2005, holding back the year's overall results. However, the outlook remains optimistic.

The growing US trade deficit continued to exert negative pressure on the overall GDP figure in 2H04. US domestic demand was unable to compensate for the loss in net exports and GDP growth slowed moderately in both 3Q04 and 4Q04. Similar factors – also reinforced by an appreciating euro – were behind the slowdown in the 3Q04 euro-zone growth rate. Even the Japanese recovery lost its momentum somewhat at the end of 2004, despite the first half of the year bringing hopes for long unseen growth acceleration.

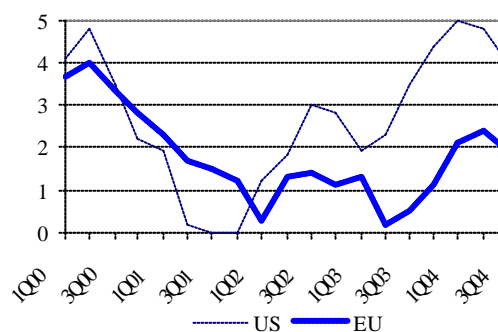
Contrary to earlier expectations regional growth continued in emerging Asia, especially China. As before, exports remained the regional driving force. The over 9% expansion in China in 2H04 remains one of the key factors underpinning high world commodity prices. The economic effects from the tsunami tragedy for the Pacific countries have so far been limited and will probably vanish in 2H05. Latin America maintained its strong expansion, based mainly on domestic demand, with exports largely dependent on fluctuations in demand for certain commodities. Growth moderation has been

observed in Russia, constraining future speed of development in some other CIS economies.

The euro appreciated strongly against major currencies and in particular against the US dollar in 4Q04, following by market participants' concerns regarding the US budget and current account developments. The Japanese yen also weakened against the euro and hit its highest level since 1999 in December 2004. However, January saw a reversal of these trends, with the dollar and yen returning to their earlier parities. The gap between US and euro-zone inflation widened in 4Q04, as the US CPI index remained under pressure from high energy prices. This was one of the arguments used by the Fed in support continuation of its gradual monetary tightening policy. In contrast, the ECB and the Bank of England saw no risk on the inflation front and retained their neutral stances.

Given the slight improvement on the fiscal front in 4Q04 in the US it seems reasonable to expect a reduced threat from the US budget deficit in the 2005 fiscal year (ending in September). An expansionary fiscal stance by the larger euro-zone members in 2004 - deficits of over 3% of GDP - was the main reason behind the violation of the Growth and Stability Pact.

US and EU GDP growth, 2000-2004
(% change, yoy)



Source: FedStats, Eurostat

Our projections have changed slightly, principally by a lowering of the US growth forecast for 2005 on the basis of a weaker contribution from net exports and consumer demand following persistent pressure from energy prices in 2004. The outlook for euro-zone growth is slightly lowered, also on the back of 2H04 signals. The GDP of the OECD economies is set to rise by around 3% in 2005 and

in 2006. In contrast, higher energy prices have again improved the medium-term outlook for Russia. The situation on the energy and commodity markets has prompted us to broadly maintain our 2005 inflation estimate for the US. As before, we expect euro-zone HICP inflation to fall below 2% some time in 2005. Deflation in Japan will probably

not be prolonged in 2005. The Fed will most likely continue its policy of gradual interest rate rises over the coming next months. Given the current outlook for the euro-zone, ECB rates are likely to stay unchanged well into 2005. The dollar is expected to remain weak against the euro in 2005-2006. <MJ>

GDP in selected countries, 1999-2006 (% change, yoy)

	2000	2001	2002	2003	2004e	2005f	2006f
OECD	3.9	1.0	1.7	2.2	3.0	2.7	2.8
USA	3.7	0.5	2.2	3.0	4.4	3.2	3.2
European Union	3.3	1.7	1.0	0.7	2.2	2.3	2.4
Euro zone	3.4	1.5	0.8	0.5	1.9	2.0	2.2
Germany	2.9	0.6	0.2	-0.1	1.6	1.5	1.8
France	3.8	2.1	1.2	0.5	2.4	2.1	2.3
Italy	2.9	1.8	0.4	0.3	1.2	1.7	2.0
United Kingdom	3.0	2.1	1.6	2.2	3.1	2.6	2.6
Czech Rep.	3.3	3.1	2.0	3.1	4.0	3.9	4.0
Hungary	5.2	3.8	3.5	2.9	4.0	3.7	3.7
Poland	4.0	1.0	1.4	3.8	5.4	4.0	4.6
Russia	8.3	5.0	4.7	7.3	6.8	5.5	4.9
Turkey	6.3	-9.5	7.8	5.8	8.5	5.5	5.5
Japan	2.5	-1.1	0.8	2.0	1.9	1.9	2.0
China	8.0	7.2	8.0	9.1	9.4	8.5	8.8

Notes: e – estimate, f – forecast.

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

CPI in selected countries, 1999-2006 (% change, yoy)

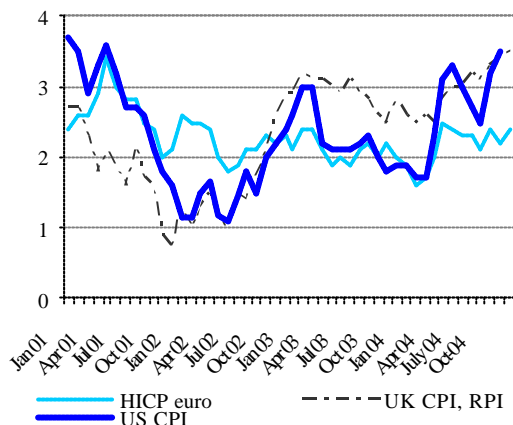
	2000	2001	2002	2003	2004e	2005f	2006f
USA	3.4	2.8	1.6	2.3	3.4	2.2	2.3
Japan	-0.7	-0.7	-0.9	-0.2	0.0	0.2	0.4
European Union	2.5	2.5	2.2	2.0	2.1	2.1	1.8
Euro area (HICP)	2.1	2.3	2.3	2.1	2.1	2.1	1.7
United Kingdom (HICP)	2.1	2.1	1.3	1.4	1.3	1.6	1.8
Czech Rep.	3.9	4.8	1.8	0.1	2.6	2.6	2.7
Hungary	9.8	9.2	5.3	4.7	6.8	4.5	4.1
Poland	10.1	5.5	1.9	0.8	3.5	3.0	2.4
Russia	20.8	21.6	16.0	13.5	11.7	10.0	9.1
Turkey	54.9	54.4	45.0	25.3	10.3	8.5	6.8
China	0.3	0.7	-0.8	0.8	3.1	2.3	2.3

Notes: e – estimate, 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

- **Rising trade deficit behind deceleration in rates of growth**
- **Outlook still optimistic**
- **Inflation on the rise in 4Q04**

Although US economic expansion continued in 2H04 its growth has been slowing slightly. GDP grew by 4.0% yoy in 3Q04, compared to 4.8% yoy in 2Q04. As expected, consumption remained strong in 3Q04 and investment grew – although slower than in 2Q04 – at an astonishing rate of 11.7% yoy. It was the growing trade deficit that continued to exert more negative pressure on the overall GDP figure. A more or less similar situation prevailed in 4Q04. According to advance estimates, US GDP increased at the end of 2004 by 3.7% yoy. Individual consumption strengthened to 3.9% yoy, influenced by more intensive purchases of durables and services. Investment increased by 10.6% yoy. However, the effects of the cheap dollar have not transferred themselves into stronger exports. Export volumes were up only by 4% yoy in 4Q04, while in the first three quarters of 2004, they grew by 8-10% yoy. Imports, increasing 9% yoy, remained strong. As a result the trade deficit accounted for 5.4% of the US's GDP in 2004.

Industrial production grew 4.1% yoy in 4Q04, after a 2.7% yoy rise in 3Q04. The difference was due to

higher energy production in 4Q04. Manufacturing output for the whole of 4Q04 was up 4.1% yoy, similar to a quarter earlier, and production of high-tech goods throughout 4Q04 performed very well on an annual basis. Capacity utilisation in industry overall and in manufacturing improved month by month in 4Q04.

Positive news continued to come from the labour market. As payroll employment in 4Q04 increased on average by almost 500,000 jobs, the unemployment rate declined slightly to 5.4% from 5.5% in 3Q04. Employment in December 2004 was 1.3% (or 1.8 million jobs) higher than in December 2003.

Inflation increased slightly in annual terms compared with 3Q04. Consumer prices grew 3.2% yoy in October, 3.0% yoy in November and 3.3% yoy in December 2004. The increase was caused almost exclusively by the surge in energy prices (up 16.6% yoy in December). Core consumer price inflation – although higher than in 3Q04, increased moderately, to 2.2% yoy in December 2004. Producer prices also increased in comparison to 3Q04, by 4.1% yoy in December, that is to the rate in 2Q04. The increase in producer price inflation was driven by a surge in prices for intermediates and crude goods.

The US federal budget during 4Q04 (the first quarter of the fiscal year 2005) is estimated at US\$114 billion, or about 1% of GDP. This is about US\$16 billion less than in 4Q03, because the growth in revenues outpaced the expansion of outlays. According to current projections, the budget deficit for the fiscal year 2005 should be at 3.0% of GDP, which is lower than the record high deficit of 3.6% in the fiscal year 2004.

We have slightly revised downward our GDP growth forecast for 2005 to 3.2% as negative pressure from net exports is expected to continue well into 2005. The US growth in 2006 is also estimated at 3.2%, which makes the medium-term outlook optimistic, still. There have been no sudden or high increases in market interest rates and inflation expectations have stayed calm, which means inflation estimates for 2005 broadly unchanged at 2.2%. <MJ>

European Union

- **Slowdown in euro-zone recovery in 3Q04**
- **Largest euro-zone members to record fiscal deficits in excess of 3% of GDP**
- **Growth in larger new member states decelerating**
- **Inflation stays high due to elevated oil prices**

Euro-zone

Gradual recovery in the euro-zone continued in 3Q04, although at a slower rate than in 2Q04. GDP expanded 1.7% yoy and 0.3% qoq. The drag on growth, at least in the largest euro-zone countries – was caused primarily by the effects of the appreciating euro. Import growth accelerated, while export dynamics fell in annual terms, thus creating a negative impulse from net exports. In addition, there were no signs of recover in consumption. Ireland continued to be the fastest growing euro-zone member, with gross production expanding well above the euro-zone average at 5.8% yoy in 3Q04. On the supply side, industrial production increased 2.8% yoy in 3Q04, almost a one percentage point lower than in 2Q04. Rates of growth in industrial output in the euro-zone fell towards the end of 2004. Production expanded 1.1% yoy only in October and, according to preliminary estimates, remained almost unchanged in November 2004.

Labour market conditions in the euro-zone in 3Q04 remained unchanged from the previous quarter, with the harmonised unemployment rate at 8.9% of the labour force. This level of unemployment was also maintained in October-November 2004. According to preliminary figures, unemployment grew in December 2004 in Germany and Belgium. At the other end of the spectrum were Ireland, Finland, and Spain, where a falling unemployment trend was evident in 2H04.

Consumer price inflation accelerated at the end of 2004 to 2.4% yoy in December. Energy prices, up 6.9% yoy in December, created the strongest drag, as in the previous quarter. Prices of services up 2.7% in annual terms also exerted upward pressure. All of these were counterbalanced by food price growth of only 0.5% yoy in December. The highest inflation at the end of 2004 was recorded in Greece and in Spain, with prices rising 3.1% yoy and 3.3%

yoy, respectively. The lowest was in Finland, where the CPI index was up only 0.1% yoy.

As signalled in the previous issue of Global Economy, fiscal forecasts show a significant worsening in the euro-zone deficit-to-GDP and deficit-to-debt ratios in 2004 compared to 2003. The average fiscal deficit will probably amount to 2.9% of GDP with the deficits in Germany, Greece and France in excess of 3%. In addition, deficits in Italy, the Netherlands and Portugal were all very close to the 3% threshold. The primary reason for such high deficits is the somewhat expansionary fiscal stance. The average deficit-to-GDP ratio is expected to decline in the euro-zone in 2005 as fiscal tightening and economic growth should be close to potential. However, it is now evident that Germany and Greece, at least, will not bring their fiscal deficits below the reference ratio of 3% of GDP in 2005.

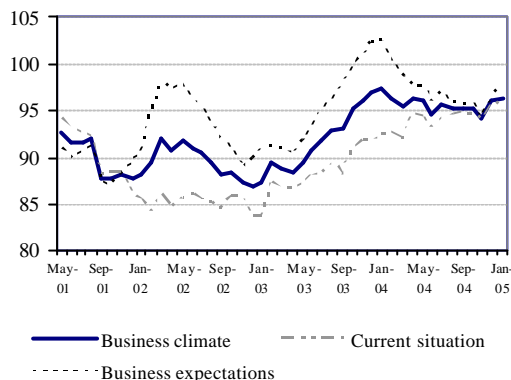
As the slower growing US and Japanese economies will act as a drag on euro-zone growth we have slightly lowered our 2005 growth forecast to 2.0%. The recovery is expected to gain some momentum in 2006. Inflation is predicted to ease at some point in 2005, although the average annual indicator should be around 2%.

Germany

Economic expansion slowed slightly in 3Q04 to 1.3% yoy. The main reason for this was the over 10% yoy surge in imports. It seems that as consumption continued to fall slightly on an annual basis, this strong growth in imports is connected with inputs from export-processing industries and investment goods. This is confirmed by the still strong export figures for 3Q04, when exports increased 7.3% yoy. The most positive news for 3Q04 is the long awaited surge in investment. As previous export earnings finally materialised, investment was up by 11.4% yoy in 3Q04, giving the strongest growth impulse for some time. Figures from the labour market are giving a mixed picture. On the one hand, increased employment, on both quarterly and annual bases shows that the 2004 export boom has finally resulted in job creation. However, the seasonal entry of young people onto the labour market looking for jobs in autumn 2004 resulted in a higher overall unemployment rate in 3Q04 and 4Q04. In December 2004, the German unemployment rate

climbed to 10.8% (by national accounting), a level unseen since early spring. The next month's figures should tell whether this was a purely seasonal move or not. Harmonised consumer price inflation increased from 1.9% yoy in September to 2.2% yoy in December 2004, all the time below the euro-zone average.

Ifo business climate index, 2001-2005



Source: Ifo Institute for Economic Research.

Although German growth slowed a bit in 3Q04 it remained in line with our earlier forecasts. The recovery is continuing and annual growth for 2004 should be above 1.5%. For the moment we withhold our relatively optimistic forecasts for German growth in 2005 at a similar level.

France

After an impressive 2.9% yoy in 2Q04, French GDP expanded 1.9% yoy in 3Q04. The main leading force is still domestic demand. Consumption and investment recorded positive gains, expanding by 1.5% yoy and 2.5% yoy, respectively, although lower than in 2Q04. Exports continued to grow at about 4% yoy, the same rate as a quarter earlier. In contrast, imports accelerated from 8% yoy in 2Q04 to 10.9% yoy in 3Q04 and the small trade deficit contributed negatively to overall 3Q04 growth. With continued strong external demand (at least in October-November 2004) and a surge in individual consumption towards the end of the year, the growth figure for 4Q04 is expected to be higher. On the supply side, strong expansion of agricultural output on an annual basis contributed positively to the 3Q04 figure. However, the most important gains were recorded in manufacturing (2.3% yoy) and in business services value added (2.5% yoy). The standardised unemployment rate, slightly up qoq in 3Q04 at 9.7%, decreased a bit to 9.6% in October-

November 2004. Consumer price inflation in 4Q04 stayed almost unchanged at the level recorded in September 2004, of 2.2% yoy. Cheaper food than a year earlier counterbalanced hikes in energy prices. Following recent growth deceleration, the forecast for 2005 has been downgraded slightly, to 2.1%. Still, the outlook for 2005-2006 remains fairly optimistic.

Other EU economies

The difference in annual growth rates between the euro-zone and other EU countries remained significant in 3Q04. Almost all new member states and Sweden recorded GDP expansion of over 3% in 3Q04, with the Baltic countries' growth rates close to or above 6% yoy.

UK

The rates of growth in the UK slowed moderately in 3Q04 to 3.1% yoy, and according to preliminary figures to 2.8% yoy in 4Q04. Full year 2004 growth is estimated at 3.1%, the highest since 2000. The expansion of 3Q04 was broadly based, with domestic demand giving the highest growth impulse. Consumption was up 3.1% yoy and investment 4.6% yoy. Net exports remained negative due to the strong expansion of imports. The negative contribution of net exports probably strengthened in 4Q04, judging by trade data for October-November 2004 and by stagnant manufacturing production in 4Q04 when measured on an annual basis. Service industries continued to grow firmly by about 4% yoy in 2H04. The situation on the labour market remained stable, with the unemployment rate in October at 4.7%. CPI 12-month inflation was on an upward trend throughout 4Q04. The CPI rose 1.2% yoy in October, 1.5% yoy in November and 1.6% yoy in December 2004. Year-end increases in inflation rates were caused by a combination of factors, including hikes in energy tariffs, prices of furniture, toys and recreation and culture. Average inflation for 2004 was 1.3%, signifying that UK inflation rates are still among the lowest in the EU. On the back of recent growth developments we have broadly maintained our growth forecast of 2.6% per annum for the 2005-2006 period.

Poland

Growth decelerated slightly in 3Q04 to 4.8% yoy, after over 6% yoy growth in 2Q04, mainly as a result of weaker domestic demand. Consumption –

up 3.5% yoy – expanded slower than in 2Q04, following a slowdown in real wages. In contrast, investment strengthened to 4.1% yoy, in large part as a result of a rise in stocks. Exports continued to benefit from 2Q04 EU accession, increasing in real terms by over 20% yoy in 3Q04, also driving demand for imported intermediates. Consumption, and hence also domestic demand, is expected to continue decelerating, thus making the yoy 4Q04 growth figure lower than in 3Q04.

Inflation stayed above 4% yoy during 4Q04, as earlier expected, again stimulated by still high oil prices and EU accession developments. Consumer prices were up 4.4% yoy in December, similar to the end of 3Q04. The easing of world energy prices from their 3Q04 hikes reduced producer price inflation from 7.9% yoy in September to 5.6% yoy in December 2004. Labour market signals were ambiguous. While the unemployment rate fell to 18.9% in 3Q04, it moved back to over 19% in 4Q04. The number of people registered as employed stayed the same in 4Q04 as half a year earlier.

We have maintained our growth forecast for 2005 more or less fully, mainly on the back of a weaker contribution from exports and stock-building than in 2004, which is impacting industrial production and incomes. Polish GDP is estimated to grow at 5.4% in 2004 and 4.0% in 2005, followed by 4.6% in 2006. As earlier, we see consumer price inflation returning to 3% yoy in mid-2005. Public finances remain a major risk factor in the medium-term outlook and fiscal deficits above the 3% threshold may delay future entrance to the euro-zone. <MJ>

The Czech Republic

According to the preliminary data, GDP in 3Q04 recorded 3.6% yoy growth (just a few percentage points less than the revised 3.9% yoy growth in 2Q04), putting the cumulative figure at 3.7% yoy for the January-September period. As in previous periods growth was mainly stimulated by an increase in investment (up 9.7% yoy). Decelerating since 3Q03, private consumption grew 2.0% yoy in 3Q04. The slowdown in private consumption dynamics since the beginning of 2004 is explained by increases in VAT on services and consumer tax on cigarettes (due to harmonization with the EU). Government expenditure decreased by 5.5% yoy. On the supply side, agriculture was the best

performing sector in 3Q04, registering 12.4% yoy growth in value added. However, the largest contributors to total value added were industry (up 5.9% yoy), financial services (up 3.8% yoy) and trade and transport (up 3.3% yoy).

Czech exporters have started to benefit from EU entry. In May-November 2004 exports and imports in current prices grew 28.6% yoy and 23% yoy on average, against 16.3% yoy and 15.8% yoy in January-April. As a result, the 12-month trade deficit fell to 1.2% of GDP in November. After some widening in August, the CA deficit narrowed to 6.6% of GDP in September; but was above 6.4% of GDP at the end of 2Q04. The Czech CA balance is now mainly affected by the deficits on the income account (dividend payments and estimated reinvested earnings) and the balance of current transfers. At the same time, considerable FDI inflows have largely offset the deficit and contributed to the strengthening of the domestic currency. A stronger national currency, in turn, exerts downward pressure on prices.

Consumer price inflation was 2.8% yoy in December 2004. Following deceleration since September 2004 in consumer price inflation, growth in producer prices slowed in November-December as energy prices stabilized.

Hungary

The rate of economic expansion in 3Q04 continued decelerating. GDP grew 3.7% yoy compared to the revised 4.2% yoy in 1H04. As in the previous quarter, growth was primarily stimulated by the strong performance of investments and the expansion of private consumption. Despite decelerating growth in credits to the corporate sector, fixed capital investment grew 12.7% yoy against 10% yoy in 2Q04. The growth of private consumption amounted to 3% yoy (down from 3.8% yoy in 2Q04). Private consumption was negatively affected by zero or negative growth in real wages and high real interest rates. Nevertheless, strong growth of retail sales was registered in 3Q04. However, falling employment, negative growth in real wages and tight monetary policy will all exert downward pressure on consumption in the near future.

With a favourable inflation performance - CPI inflation at 5.5% yoy in December 2004 on the



back of a stronger national currency and decelerating consumption - the major concern remains the high CA deficit. In 3Q04, the CA deficit widened by another EUR1.7 billion, putting the January-September deficit at EUR5.3 billion. However, due to downward revision of earlier data, the 12-month deficit remained at 9% of GDP at the end of September. If the current growth in exports continues, it is possible that the CA deficit will soon start to fall. In 3Q04 exports grew 12.7% yoy, while imports reported modest 8.6% yoy growth. As a result, the recorded trade deficit of EUR403 million was 55% less than in 3Q03. Net FDI inflows are growing, in 3Q04 amounting to EUR1.2 billion. With the cumulative figure of over EUR2.1, FDI inflows covered almost 41% of the CA deficit in the January-September period. At the same time, a large share of the CA deficit is financed by portfolio investments, which continue growing, attracted by high interest rates.

The fiscal deficit recorded at the end of 2004 was 6.3% of GDP, below the 6.5% target. However, this number does not yet include delayed VAT refunds and the target for 2004 was three times revised upwards during the year. According to the revised convergence programme, the government expects to reduce the fiscal deficit to below 3% in 2007, which at the moment looks very ambitious.

Slovak Republic

The country's economic expansion slowed slightly in 3Q04, registering a 5.3% yoy increase versus 5.5% yoy in the previous quarter. Private consumption accelerated to 3.7% yoy, up from 2.8% yoy growth in 2Q04. This improvement in private consumption can be attributed to the subsiding effect of higher prices since the beginning of the year, higher real wages and changes in income tax. At the same time, on the back of strong FDI, fixed capital formation continued to grow fast in 3Q04. Net exports contributed negatively to the overall 3Q04 figure. Given the worsening in industrial production growth in 2H04 (from 7.3% yoy in July to -1.4% yoy in October), GDP is expected to decelerate further in 4Q04, giving an overall figure for economic growth in 2004 at about 5.2% yoy. Although GDP growth is expected to slow in 2005 due to the negative contribution of net exports, it is still forecasted at a solid 4.5%.

The trade deficit continued to widen throughout 3Q04, and following recent developments it is estimated that it may reach 28% of GDP for the year as a whole. The widening trade deficit caused a further worsening of the CA balance, whose deficit for January-October 2004 reached EUR800 million. This figure is almost four times larger than in the corresponding period of 2003. However, since the National bank of Slovakia revised the deficit for the first eight months of the year considerably down the CA deficit is expected to be around 3% of GDP for 2004 as a whole.

Consumer inflation was 5.9% yoy in December 2004, slightly lower than the NBS's forecasts. The appreciation of the national currency and good harvests constrained price rises more than expected in 2004. However, there are certain risks that inflation will surge in 2005.

Baltic States

The Baltic States continued growing at a robust pace in 2004. The major concern for all three countries remains the widening CA deficit. In Latvia the situation is exacerbated by a high inflation rate of 6.2% (annual average for 2004). At the same time, Lithuania's inflation at 1.2% yoy makes it the most stable in the region.

According to preliminary data, in 3Q04 Estonia grew stronger, 6.2% yoy, than in 2Q04 (5.9% yoy). Strong external demand stimulated the 25.5% yoy expansion of exports in 3Q04, which outpaced imports (24.6% yoy), and the trade surplus positively contributed to the overall GDP figure. Robustly advancing exports and increasing productivity drove industrial production, which grew 7.4% yoy in 3Q04. Following current economic performance, the Bank of Estonia expects GDP growth for 2004 as a whole to reach 6.2% (compared to 5.1% yoy in 2003). Export growth is expected to stabilize at 8-10% yoy. Despite slower growth of real wages, private consumption has remained strong and is estimated to increase 6% yoy in 2004. As a result of a deteriorating balance of trade and persistently high income outflows (dividend payments), the CA deficit is forecasted to remain at 13% in 2004, within the same range as the previous year. If domestic demand weakens and savings improve, the CA deficit could fall to below 10% of GDP in 2006. Otherwise, the prospects for economic development may worsen.

Latvia's economy continued to develop buoyantly in 3Q04, registering 9.1% yoy real GDP growth. With 8.5% yoy growth expected by the Bank of Latvia for 2004, it should remain the fastest growing economy in the European Union. As in previous periods, growth was primarily driven by domestic demand on the back of growing employment and expanding credit to the private sector. On the supply side, growth was based on an increase in construction (up 11% yoy) and services (up 10% yoy). Growth in these two sectors accounts for 73% of January-September GDP growth. Strong domestic demand has had, though, a negative impact on foreign trade and the CA. The CA deficit widened considerably to 12.2% of GDP in 3Q04, against 9.3% in the corresponding period of the previous year. Moreover, strong domestic demand has not facilitated efforts to reduce inflation, which reached 7.3% at the end of 2004. Latvia's annual average inflation rate of 6.2% is among the highest in the region. Fiscal policy, especially after pegging the *lat* to the euro since January 1, 2005, will be the main instrument for calming inflation.

Lithuanian GDP grew 5.8% yoy in 3Q04 (compared to 7.3% yoy and 7.1% yoy in 2Q04 and 1Q04 respectively), the slowest since 1Q02. The economy continued to benefit from growing investment, which expanded 13.5% yoy in 3Q04 and strong domestic demand. Robust private consumption, which grew 8.8% yoy in 3Q04, encouraged imports, which soared 19.6% yoy. At the same time, export growth of 21.5% yoy outpaced import growth for a second consecutive quarter. The CA deficit narrowed to 7.7% of GDP in 3Q04 (down from 11.1% of GDP in 2Q04). Despite high inflows of FDI (expected to exceed EUR600 million in 2004), they represent only 37.1% of the CA deficit as of January-September. <OP>

Emerging Europe

- **Turkey slows in 3Q04**
- **Robust growth performance in Romania and Bulgaria**
- **Romania and Bulgaria to sign Accession Treaty in Spring 2005**

In December 2004 Romania finalized its accession negotiations with the EU. Romania and Bulgaria were invited to sign the Accession Treaty in April

2005, while a full membership schedule was confirmed for January 1, 2007. However, in the case of Romania's accession, this may be postponed by a year if Romania does not adhere to all the commitments made at the negotiations.

Turkey

After peaking in 2Q04, the Turkish rate of growth started slowing (from 13.4% yoy in 2Q04 to 4.5% yoy in 3Q04). Domestic consumption expanded in 3Q04 6.7% yoy (down from 16.4% yoy in 1Q04 and 2Q04 each). At the same time, investment remained strong in 3Q04, expanding 23.5% yoy. Investment is expected to boom further as opportunities for external and domestic borrowing increased alongside Turkey's commitment to fiscal discipline and structural reform after reaching a new 3-year stand-by agreement with the IMF in December.

Net exports positively contributed to GDP growth in 3Q04. However, after improving in September-October, the trade deficit widened considerably in November. Over the January-November period the CA deficit grew by US\$12.7 million.

The reduction of consumer inflation to 9.3% yoy (well below the official target of 12% yoy) at the end of 2004 is one of the most important achievements of 2004. Turkey has not recorded single-digit inflation for almost thirty years. The reduction in prices was achieved by prudent fiscal policy and further structural adjustments with the help of appreciation of the Turkish lira (for example by 6.8% against the US dollar). Starting in 2005, a new CPI was introduced. Its main changes are a 2003 base year (instead of 1994) and an increase in relative weights for foods, transportation, alcoholic drinks, the introduction of technological innovations and a lower weight for housing products. It is expected that the new index will produce relatively lower inflation figures than the old one, making the achievement of next year's target easier. Considering also that year-end inflation has outperformed targets for three years in a row, the CBRT has start to pursue a softer monetary policy in early 2005.

Romania

The Romanian economy continues to be among the fastest growing in the region. In January-September 2004 real GDP soared 8.1% yoy, stimulated by



strong domestic demand and investment. In Q304 alone GDP accelerated 10% yoy. Stimulated by impressive growth in credit to the private sector and increase in revenues of the population, private consumption grew 12.2% yoy in Q304. Booming credit has also contributed to considerable growth in fixed capital formation (17.4% yoy in Q304). On the supply side, outstanding growth in 3Q04 was recorded in agriculture (26.1% yoy), construction (10.8% yoy) and industry (6% yoy).

In spite of elections at the end of autumn 2004 the government maintained prudent fiscal policy. Robust economic growth and improved tax collection allowed the fiscal balance to record a surplus of 0.1% of GDP in January-October. Some loosening is expected to the end of the year; but the year-end target of 1.6% of GDP was kept. The 2005 fiscal balance will likely move into deficit as a result of lower tax revenues after the introduction of a flat personal and corporate income tax rate of 16%.

Consumer inflation continued decelerating and reached 9.3% yoy at the end of 2004. Developments in the CA remain a major concern, with the deficit widening to 4.7% of GDP in January-October 2004. It is also expected to be higher in December 2004.

Bulgaria

In Q304, Bulgarian GDP grew 5.8% yoy, putting the cumulative figure for January-September at 5.7% yoy. Solid economic growth during the first three quarters of the year, supported by expansion in export-oriented industries, good performance in agriculture and services, make expectations of 6% yoy growth for the year as a whole quite realistic. On the expenditure side, exports had the largest impact on GDP growth this quarter (up 15.5% yoy), followed by investments (12% yoy). For the first time since 2002, net exports positively contributed to GDP growth, as imports grew 12.5% yoy. Stagnating growth in real incomes and strict regulations of credit operations are among the main reasons for decelerating consumption. In 3Q04, consumption growth continued slowing; up 4.1% yoy and lower than in 1H04.

Following acceleration of import growth in October 2004, the cumulative trade deficit widened, for January-October accounting for roughly 10% of

GDP. The summer period resulted in a considerable surplus on the balance of services in 3Q04, positively affecting the current account. The 12-month CA deficit amounted to 6.8% of GDP in October 2004. Although the CA deficit remains high, FDI inflows are growing and are expected to reach EUR2 billion by the end of 2004. <OP>

CIS

- **Russia decelerating slightly**
- **Ukraine growing strongly despite mass protests and political uncertainty in 4Q04**
- **Inflation on the rise**

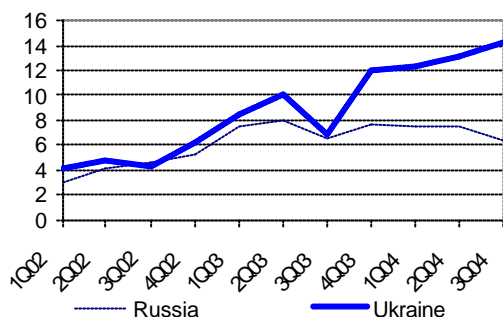
Russia

Russia preserved its strong economic growth in 2004 on a wave of high export prices. However, a deceleration in the real economy was noted in 2H04. This is one of the consequences of the increasingly top-down power model being adopted by the Russian president. The Yukos saga entered its final stage, with the large oil producing enterprise Yukos Yuganskneftegaz being nationalized by the government. In addition, the widely heralded social reform via monetization of social benefits collapsed mainly due to large-scale corruption in the bureaucratic allocation process – privileges were canceled while money compensation for vulnerable groups has not been received.

In January-September 2004 GDP grew 7.0% yoy. Of note, in 3Q04 the real economy decelerated slightly to 6.4% yoy, which appeared to be down to some weakening of domestic demand. Overall, external demand on the back of high commodity prices and still significant domestic consumption underpin robust development of the economy.

Strong external demand and high export prices played the major role in Russia's external trade developments in 2004: for the first ten months of the year foreign trade turnover increased 29.4% yoy. Oil and metals continued to stimulate robust export development (39.2% yoy in 3Q04) and powerful private consumption and investment demand acted as driving forces for imports (25.9% yoy in 3Q04). The trade balance markedly improved – provisional estimates from the Central Bank suggest a 45.6% yoy increase in the trade surplus in 2004 to US\$87.2 billion.

GDP growth in Russia and Ukraine, 2002-2004 (% change, yoy)



Source: National Statistical Agencies

Foreign trade developments and the EUR/USD exchange rate structured rouble dynamics on the forex market. Inflows of foreign currency due to steady trade balance improvement were the main reason behind continued rouble strengthening against the US dollar – in 4Q04 the rouble appreciated 2.3% qoq (+2.2% yoy in December 2004). The weakening of the US dollar against major world currencies played a key role in the depreciation of the rouble versus the euro in 4Q04. In real terms the rouble lost 1% qoq against the euro in the fourth quarter. Real effective exchange rate (REER) depreciation of 0.7% qoq in 4Q04 was a consequence of the rouble “tie in” to the US dollar’s exchange rate; however, the rouble strengthened 4.6% yoy in December 2004 due to still strong domestic inflation.

In 4Q04, monetary reserves continued to increase to US\$124.5 billion on the back of powerful foreign currency inflows, which grew 31% qoq in 4Q04 (61.9% for 2004 as a whole). Monetary aggregate enlargement was a related consequence of the monetary reserves accumulation. After a decrease in the summer (due to the banking crisis) aggregates recommenced their upward movement. As of December 1st 2004 reserve money had increased 8.8% from the beginning of the year and money supply had surged 22.6% in the same period.

In line with growing monetary aggregates inflation accelerated at the end of the year (11.6% yoy in 4Q04). Food and service prices fed accelerating dynamics in the fourth quarter. Overall, the CPI decelerated in 2004 to 10.9% yoy compared to 13.7% yoy in 2003. The major factor of the inflation slowdown should be attributed to the

service prices, which decelerated almost twofold in yearly terms in 2004.

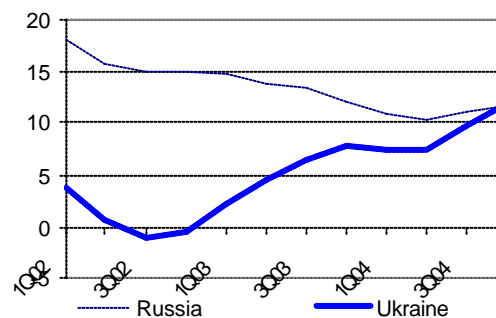
High world oil prices and the subsequent successful development of the real economy in Russia guaranteed consolidated budget execution and fast Stabilization Fund formation. As a result of January-October 2004 revenues the consolidated budget was registered at 32.0% of GDP, while expenditures constituted only 25.9% of GDP. The significant budget surplus allowed for an accumulation of about RUR520 billion (US\$18.7 billion) in the Stabilization Fund up to the end of 2004.

Ukraine

Provisional information suggests that Ukrainian GDP grew 12.1% yoy in 2004. Private consumption (15.8% yoy in 2004) and net exports (114.7% yoy) were the main sources of growth. In contrast, gross capital accumulation (10.2% yoy) and government consumption (4.9% yoy) lagged behind.

Although external and internal demand remained strong, development of the real sector gradually slowed. In 3Q04, all sectors except agriculture and transport decelerated significantly. In fact, only 36.2% yoy growth in agriculture in the third quarter supported outstanding indices in real sector growth in the period (actually, the strong development of agriculture was merely a statistical effect of the low base). In other sectors drastic change was observed: construction halved to 17.2% yoy and market services slowed threefold to 7.1% yoy in 3Q04. All these changes can be largely explained by the social tensions surrounding the presidential election crisis.

Inflation in Russia and Ukraine, 2002-2004 (% change, yoy)



Source: National Statistical Agencies



Stable development in the world economy and continued high prices of base metals maintained the high positive value of the trade balance in 3Q04. In July-September 2004 exports surged 34.6% yoy, led by strong external demand, and imports increased 21.4% yoy on the back of private domestic consumption. In 3Q04, the balance of goods switched to a strongly positive value (US\$683 million in 3Q04 vs. US\$-155 million in 3Q03) as a result of strong grain exports. The trade balance on goods and services improved sixfold in yearly terms to US\$1.2 billion in 3Q04.

Although inflows of foreign currency were sufficient to maintain the stability of the hryvnia, the forex cash market in Ukraine showed some destabilization starting in autumn 2004. Political instability, coupled with significant social payments from the budget, stimulated intensification of black market transactions, where the hryvnia was traded at over 7UAH/USD (5.3UAH/USD was the official exchange rate). The situation only stabilized at the end of 2004. The hryvnia's official exchange rate against the US dollar remained at a stable level of 5.3, while the euro appreciated against the hryvnia by 10% in 4Q04 (in line with EUR/USD dynamics). Panic demand for foreign currency on the cash market in 4Q04 interrupted the steady tendency for monetary reserve accumulation. In 4Q04 gross reserve assets fell 21.5% qoq to US\$9.5 billion (4 months of merchandise imports).

NBU interventions on the forex market set monetary aggregate dynamics. In 3Q04, reserve money continued to accelerate at 17.3% qoq (+45.7% yoy in 3Q04), while in the fourth quarter the monetary base decreased 3% qoq (+34.1% yoy), which was the consequence of negative interventions made by the NBU on the forex market.

In 4Q04, inflation continued to accelerate – the CPI hit 11.8% yoy and the PPI 24.6% yoy. Consumer prices grew on the back of high product prices (meat and bread became expensive after a poor harvest in 2003). Producer prices continued their upward movement thanks to high world commodity prices. As a result the CPI increased 9.0% yoy and the PPI surged 20.3% yoy in 2004.

In 2H04 the government spent the resources that had been accumulated in the preceding periods. As a result, the consolidated budget deficit in 2004

came in at 3.1% of GDP and was financed from privatization revenues. For 2005 a state budget deficit of 2.2% of GDP has been accepted. The 2005 state budget was approved during the mass protests and appeared to be only a temporary document that is expected to be amended in the near future.

In 2H04, Ukraine saw significant political turmoil due to the presidential elections. Two major candidates were competing in the first round: Viktor Yushchenko (the opposition candidate) and Viktor Yanukovych (the successor to the pre-existing authorities). After widespread electoral fraud the candidate of the oligarchs, Yanukovych, was declared the winner. But massive protests which followed, and which became known as the "Orange Revolution," forced the authorities to reconsider the decision: the Supreme Court subsequently repealed the decision of the Election Committee and a second round of elections was called. On December 26, 2004, Yushchenko was elected the new president. The economy continued its robust development despite such turbulent circumstances.

Other CIS economies

Growth in the CIS region started to slow in 3Q04, although remained at high rates. Belarus and Tajikistan were among the fastest growing, with more than 10% yoy GDP growth, while other economies slowed with 6-10% yoy for the first nine months of 2004. With the exception of some regions most FSU countries cooled due to deceleration of the world economy and the Russian economy in particular. Both investment and consumption activities decreased in the region. Inflation continued to accelerate (except in Belarus and Tajikistan) to around 4-8% yoy. Moldova and Belarus remained the outliers, with double-digit inflation. <DB>

Asia

- **Still strong regional growth**
- **Cooling in China still to come**
- **Japanese recovery weaker near 2004 end**

Some cooling of the Asian economies was visible in 4Q04, although regional annual rates of growth remain at high levels, especially in China and India. Export growth remained the regional driving force in 2H04. The Asian tsunami tragedy will most

likely shadow the outlook for Thailand, which has been the most affected and at the same time the most dependent on tourism. However, the overall economic consequences of the tsunami are estimated to be less severe than the 2002-2003 SARS outbreak. Major production facilities and ports have not been damaged, and even in Thailand the tsunami contagion is expected to vanish in 2H05.

Contrary to earlier expectations, China continued its high-speed expansion in 2H04. Its GDP increased 9.1% yoy in 3Q04 and, according to preliminary figures, by 9.5% yoy in 4Q04. Gross fixed investment decelerated gradually, although its growth remained very high. Investment increased in nominal terms by 26.4% yoy in October and 21.2% yoy in December 2004. Real changes were not much lower, as CPI inflation was around 2-3% yoy in December. Strong merchandise exports boosted the trade surplus, which amounted to almost US\$30 billion in 4Q04. Consumption also remained strong. Although the monetary authorities took measures to cool the economy, by raising interest rates, it is unlikely that the reduction in growth rates will be rapid. The problem is that investment is in large part financed by funds from outside the banking sector. In 2005 the move to a more flexible currency arrangement is expected, followed by nominal appreciation. However, alongside firm external demand and China's entry into the WTO, this is not expected to threaten Chinese exports. We have therefore raised our forecast of Chinese GDP growth to 8.5% in 2005.

Indian GDP in 3Q04 expanded 6.6% yoy, after over 7.4% yoy growth a quarter earlier. Industrial production strengthened further in 4Q04, growing on average around 8.5% yoy in October-December, with manufacturing expanding 10.4% yoy. Agriculture declined yoy in 4Q04, similarly to 3Q04. Consumer prices were on the rise, with 4Q04 CPI annual inflation of 5%.

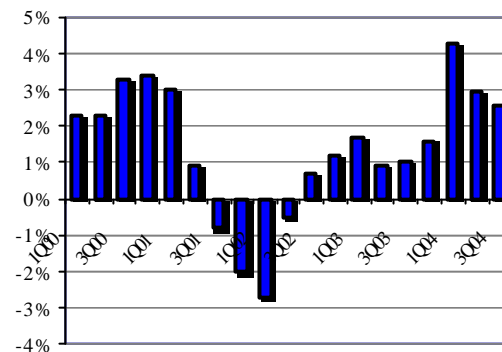
Japan

The new data brought a downward correction to the 2Q04 growth rate. According to current information, Japanese GDP expanded 3.0% yoy in 2Q04, followed by 2.6% yoy growth in 3Q04. The projections for all of 4Q04 are low, meaning about 2% growth for 2004 as a whole. Estimates suggest that Japanese economic expansion in 2004 was

comparable with 2003. Growth rates moderated in 2004, after a 1Q04 hike. As in the previous quarter, GDP growth in 3Q04 stemmed from private consumption, non-residential investment, exports and government consumption.

It is possible that the growth of personal consumption in 4Q04 slowed on the annual basis. The annual increase in disposable incomes and living expenditures in October-November 2004 – although positive – was lower than in 3Q04. The propensity to consume also decreased mom, as did the consumer confidence index. On the other hand, purchases of durables increased.

GDP growth in Japan, 2000-2004
(% change, yoy)



Source: Bank of Japan.

Weaker growth of industrial output in 4Q04 confirms expectations of a lower growth figure for 4Q04. Industrial output on average expanded 1.7% yoy in 4Q04, after 6.4% yoy in 3Q04. Manufacturing of high-tech goods, as before, drove overall industrial production in 4Q04. A decrease in demand was the main cause behind the slowdown in production, as indicated by falling shipment dynamics.

New job openings increased 6.2% yoy in October and 21.6% yoy in November, but the number of employed stayed unchanged in October-November 2004 on an annual basis and even decreased compared with 3Q04. Due to exits from the labour force, the unemployment rate continued to fall and was 4.5% in November 2004 (5.0% at the beginning of 2004).

Real exports rose in 4Q04 1.3% yoy, after a mere 0.1% yoy increase a quarter earlier. However,



imports remained strong, growing 2.6% yoy after 2.1% yoy in 3Q04. As a result the trade surplus shrank in 4Q04 both yoy and qoq. However, for the 2004 as a whole the trade surplus increased by ¥7.8 billion compared with 2003.

Consistent with our previous expectations, deflation came to a halt in September 2004. Consumer prices grew 0.5% in October 2004 and 0.8% in November 2004. However, CPI index, excluding fresh food, remained on a negative trajectory. The corporate goods price index was up 0.9% in December 2004. <MJ>

Latin America

- **Regional broadly based upturn strengthened in 3Q04**
- **Prospects for 2005 weaker, although still favourable**

Regional growth accelerated in 3Q04 and probably remained strong also in 4Q04. The region as a whole is estimated to have expanded 6% in 2004. As before, prospects for Latin America remain favourable, although growth deceleration for the largest economies is expected in 2005-2006.

Brazilian GDP expanded 6.1% yoy in 3Q04. Growth looks broadly based, with not only accelerating exports (up 18.2% yoy), but also intensive investment (19% yoy in 3Q04 vs. 13% yoy in 2Q04) and consumption (5.8% yoy in 3Q04 vs. 4.5% yoy in 2Q04). Such growth is expected to continue into 4Q04 at the similar rate, on the back of the same factors. Annual inflation was again up in 4Q04 at 7.6% yoy in December.

Domestic production expanded 8.7% yoy in Argentina in 3Q04, after 7.1% yoy in 2Q04. Private consumption remained strong, rising 8.9% yoy, and investment also maintained its growth rate of 3.4% yoy, similar to 2Q04. Exports – stagnant in 2Q04 on an annual basis – increased 9.2% yoy in 3Q04, representing the strongest growth factor in 3Q04. Growth in 4Q04 was probably at least as strong as in 3Q04. It is estimated that the public sector fiscal deficit in 2004 was small, close to balance, as a result of growing tax collection rates at the end of 2004.

Mexico's economy continued its upward path, growing 4.6% yoy in 3Q04, after 4.1% yoy in

2Q04. Manufacturing production strengthened to 5% yoy, and construction to 5.9% yoy in 3Q04. CPI inflation in 4Q04 was on an upward trend compared to 3Q04, reaching 5.2% yoy in December. Inflation rates are expected to fall in the coming months. <MJ>

Central Banks Watch

- **Gradual monetary tightening in the US**
- **ECB and BoE on hold**
- **Monetary easing in CEE economies**

The US FOMC continued its very gradual tightening of policy with a 25 basis point increase in December 2004, bringing the funds' rate to 2.25%. This was motivated by an improved perception of growth prospects and some signs of emerging risks to the inflation outlook. The policy of very gradual monetary tightening is expected to continue, though there is little guidance as to the precise timing of next policy moves.

There has been no change in the monetary policy stance in the euro-zone. The ECB noted restraint in short-term inflationary risks, owing - inter alia - to a moderation in oil prices. The bank appears confident that interest rates at their present low level are appropriate given economic conditions. Euro-zone inflation will likely remain above the 2% target, but the risks of this feeding into wages and thus threatening the medium term inflation outlook so far appear limited. Given the current outlook interest rates can be expected to stay unchanged in 1H05.

There was also no change in Bank of England rates and the market consensus is that rates will remain at 4.75% for 1H05 at least.

Monetary easing was dominant in CEE countries. The recent decline in inflation and an encouraging inflation forecast allowed the Czech National Bank to lower rates to 2.25 in late January 2005. In Slovakia, moderating inflation and koruna nominal appreciation prompted the national bank to cut rates by 50 basis points in late November 2004. Positive developments in Hungary allowed the Hungarian National Bank to continue monetary easing, with

rates falling to 9% in late January 2005. Rates have remained unchanged in Poland, so far. <WP>

Central Bank	Official interest rate	Current	Last change
US	Federal funds	2.25	14 Dec 04
Japan	Overnight call	0.00	19 Mar 01
ECB	Refi	2.00	5 Jun 03
England	Repo	4.75	5 Aug 04
Czech Rep.	2-week repo	2.25	27 Jan 05
Hungary	2-week repo	9.00	25 Jan 05
Poland	2-week repo	6.50	26 Aug 04

Source: Central banks.

Exchange Rates

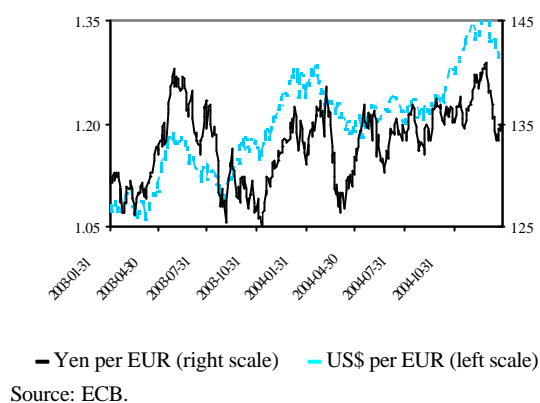
- Dollar weakness...
- ... followed by signs of its reversal
- Strengthening of major CEE currencies

In 4Q04, the euro appreciated strongly against the major currencies and in particular against the US dollar. In late December, the euro surpassed 1.35 US dollars. This appears to be mainly driven by market participants' concerns as to the US budget and current account developments. The Japanese yen also weakened against the euro to over 140 yen in the last days of December, its highest level since 1999. January saw a reversal of these trends, with the dollar and yen returning to around 1.3 and 135, respectively. We foresee the dollar remaining weak

against the euro in 2005 at an average of around 1.35 dollars per euro.

The zloty continued its strong appreciation trend that started almost a year ago. By January 2005 it had gained some 20% against the euro, returning to levels unseen since the turn of 2002/2003. The Czech and Slovak korunas also continued to strengthen against the euro, with the Slovak currency hitting all-time lows in January, and the Czech koruna testing levels close to all-time lows. In contrast, the Hungarian forint followed a horizontal trend against the euro. The Latvian authorities re-pegged the lat from the SDR to the euro, effective from January 2005, just making a step towards joining the ERM II. <WP>

US\$ and yen exchange rates against euro, Feb 2003-Jan 2005



Source: ECB.

US\$ and yen exchange rates against euro, 1999-2006

	2000	2001	2002	2003	2004	2005 ^f	2006 ^f
Dollar	0.924	0.896	0.945	1.131	1.244	1.35	1.43
Yen	99.5	108.7	118.1	131.0	134.4	132.2	145.7

Note: f – forecasts.

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

Commodity Prices

- Oil prices easing from record-highs but further weakening unlikely
- Metal prices hitting new records
- Gold prices again on upward path

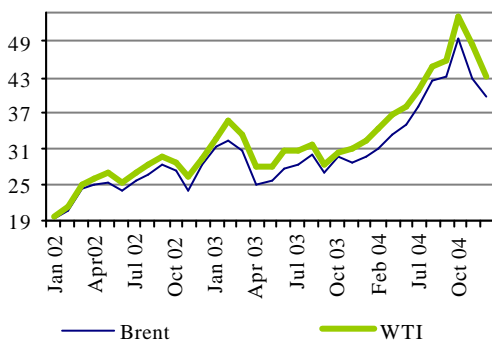
Oil

In 4Q04, oil prices edged up again, hitting record-high levels of US\$44.16 per barrel of Brent. This was mainly down to developments in October, when Brent traded at close to US\$50 per barrel, on average – an all-time nominal record. November and December witnessed an easing of prices, but in early January prices jumped by some US\$10 per



barrel on the back of non-OPEC supply problems, expectations of tough OPEC production policy and the cold winter, particularly in the US. Such high price volatility stems from a combination of fundamental factors, where solid demand increases are accompanied by limited spare production and refining capacity. Such a combination creates conditions for strong market reactions to news on both the supply and demand sides of the market. Consequently, oil price forecasts are extremely difficult to make and are subject to particularly high margins of error. After 2004 prices reached their highest levels in real terms since the early 1980s, we expect modest easing in 2005. However, Brent is unlikely to fall below US\$35 per barrel.

World oil prices, 2002-2004 (US\$ per barrel)



Source: US Energy Information Administration.

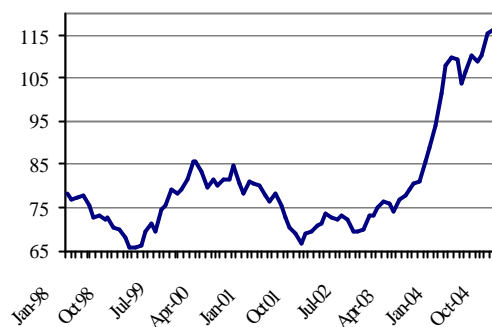
The International Energy Agency currently estimates 2004 global demand growth at 2.65 mb/d, the fastest rate in nearly three decades. 2005 will see somewhat more moderate increases, at 1.44 mb/d, led by China and non-OECD Asian economies. Most of this increase will be met by non-OPEC production rising by around 1.1 mb/d in 2005. <WP>

Metals

In 4Q04 the IMF composite metal price index continued to increase gradually – up 6.5% for the period. The steady upward movement of the index was predetermined by the global tin deficit (low investment in the sector and high demand for products). In general, metal markets showed low activity at the end of 2004 in line with the slowing of the world economy. Metal prices are expected to remain at a high level at least until the end of 2005

and 2006 is seen as a starting point for a decline in world metal prices. Deceleration of Chinese industrial development and the upsurge in the world metal supply are considered the main factors governing metal price dynamics in the immediate future.

Composite metal price index, 1998-2004



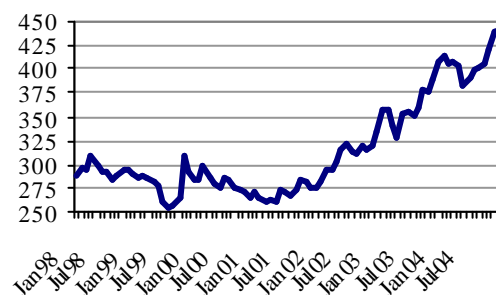
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Source: IMF Research Department.

Gold

Gold prices continued to increase – for September-December 2004 average prices grew 9%. The weakening of US dollar against the major world currencies was the main source of the growing interest in precious metals. In addition, continued geopolitical instability and the perceived risk of terrorist attacks on the eve of New Year holidays contributed to the steady upward movement of gold prices in 4Q04. <DB>

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



Source: Pacific FX Database.

Statistical Appendix

	2001	2002	2003	4Q03	1Q04	2Q04	3Q04	October	November	December
GDP, % yoy change										
US	0.8	1.9	3.0	4.4	5.0	4.8	4.0	..	..	..
Japan	0.4	-0.4	2.7	3.1	5.9	4.2	3.9	..	..	..
EU	1.7	1.0	0.7	1.1	2.1	2.4	1.9	..	..	..
UK	2.1	1.6	2.2	2.2	3.1	2.1	3.1	..	..	..
Euro-zone	1.5	0.9	0.4	0.8	1.9	2.4	1.7	..	..	..
Germany	0.8	0.2	-0.1	0.2	1.5	1.9	1.3	..	..	..
France	2.1	1.2	0.5	1.3	1.8	2.9	1.9	..	..	..
Czech Rep.	3.1	2.0	3.1	3.3	3.5	3.9	3.6	..	..	..
Hungary	3.8	3.5	2.9	3.5	4.3	4.2	3.7	..	..	..
Poland	1.0	1.4	3.7	4.7	6.9	6.1	4.8	..	..	..
Russia	5.1	4.7	7.3	7.6	7.5	7.4	6.4	..	..	..
Turkey (GNP)	-9.5	7.8	5.8	6.1	10.1	13.4	4.5	..	..	..
CPI, % change yoy										
US	2.8	1.6	2.3	1.9	1.8	2.9	2.7	3.2	3.5	..
Japan	-0.7	-0.9	-0.3	-0.3	-0.1	-0.3	-0.1	0.5	0.8	..
EU15	2.5	2.0	2.0	1.9	1.6	2.1	2.0	2.1	2	2.2
UK (HICP)	1.2	1.3	1.4	1.3	1.3	1.4	1.3	1.2	1.5	1.6
Euro-zone (HICP)	2.3	2.3	2.1	2.1	1.7	2.3	2.2	2.4	2.2	2.4
Germany (HICP)	1.9	1.3	1.0	1.2	1.0	1.9	2.0	2.2	2	2.2
France (HICP)	1.8	1.9	2.2	2.4	2.0	2.6	2.4	2.3	2.2	2.2
Czech Rep.	4.8	1.8	0.1	0.8	2.4	2.6	3.2	3.5	2.9	2.8
Hungary	9.2	5.3	4.7	5.4	6.8	7.3	7.0	6.3	5.8	5.5
Poland	5.5	1.9	0.8	1.5	1.6	3.3	4.5	4.5	4.5	4.4
Russia	21.6	16.0	13.5	11.9	10.8	10.2	11.1	11.6	11.7	11.7
Turkey	54.4	45.0	25.3	19.5	14.1	9.3	9.5	9.9	9.8	9.3
Short-term interest rate, %										
US	3.69	1.73	1.15	1.10	1.05	1.25	1.70	2.04	2.26	2.45
Japan	0.12	0.06	0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.03
UK	4.97	3.99	3.67	3.86	4.11	4.51	4.85	4.83	4.82	4.81
Euro-zone	4.26	3.32	2.34	2.15	2.06	2.08	2.12	2.15	2.17	2.17
Czech Rep.	5.17	3.55	2.28	2.07	2.06	2.18	2.59	2.67	2.61	2.57
Hungary	10.80	8.91	8.22	10.38	12.44	11.49	11.23	10.72	10.10	..
Poland	14.85	8.71	5.38	5.21	5.48	5.97	6.77	6.84	6.77	..
Russia	10.00	12.40	5.40	4.70	3.00	3.10	3.20	..	..	..
Turkey	59.00	44.00	26.50	26.50	24.49	22.00	21.51	20.00	20.00	19.23
Unemployment rate, %										
OECD	6.5	7.0	7.1	7.1	6.9	6.9	6.9	6.8	..	..
US	4.7	5.8	6.0	5.9	5.6	5.6	5.5	5.5	5.4	..
Japan	5.0	5.4	5.3	5.1	4.9	4.6	4.8	4.7	4.5	..
EU	7.4	7.7	8.0	8.1	8.0	8.1	8.0	8.0	..	..
UK	5.0	5.1	5.0	4.8	4.7	4.7	..	..	..	..
Euro-zone	8.0	8.4	8.8	8.9	8.9	8.9	8.9	8.9	..	..
Germany	7.8	8.6	9.3	9.6	9.6	9.8	9.9	9.9	..	..
France	8.5	8.8	9.4	9.6	9.6	9.5	9.6	9.5	..	..
Czech Rep.	8.0	7.3	7.8	8.1	8.4	8.4	8.4	8.4	..	..
Hungary	5.6	5.6	5.8	5.7	5.8	5.8	5.8	6.0	..	..
Poland	18.5	19.8	19.2	19.1	19.1	18.9	18.7	18.6	..	..
Russia	8.7	7.1	8.6	8.6	8.0	8.1	7.3	7.5	7.6	..
Turkey	8.4	10.3	10.5	10.3	12.4	9.3	9.5	..	..	..

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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All analyses are based on data and information available until 25 February 2005. Additional information is available upon request. Please contact CASE at global.economy@case.com.pl.

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