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Global Economy

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Global Outlook

- **Weak and hesitant growth**
- **Household and business confidence on the decline**
- **Lower oil prices**
- **Growth forecast revised downward—downside risks prevail**
- **Improved inflation outlook**

The economic conditions in the world economy have deteriorated over recent months. Weak or hesitant growth has been most widely prevalent and the signs are that any emergent recovery momentum may be receding somewhat. The growth that has been witnessed has been mainly driven by household consumption, with investment yet to pick up. In major industrialised countries, investment outlays continued to contract and due to the waning economic activity, world trade volumes diminished. The major reasons for this slowdown are the bursting of the equity bubble and geopolitical tensions related to the conflict in Iraq. These developments have impacted negatively on business and household confidence. The most recent surveys show a worsening of expectations for future economic development. The economic headwinds have also taken their toll on labour markets, with firms shedding employment and cutting labour costs. This in turn has undermined household incomes and consequently also spending.

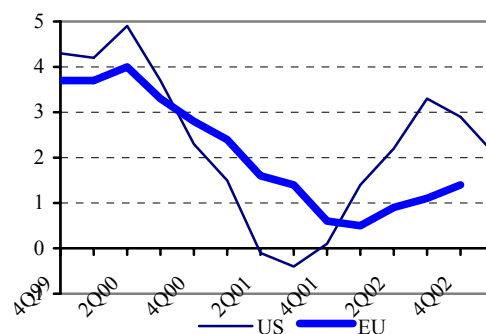
In the US, private consumption moderated somewhat and investment continued to decline. The economic expansion in the eurozone surprised on the downside, especially in the biggest economies, like Germany and Italy. Domestic demand continued to decline and export prospects deteriorate. Added to this, the UK economy fared much worse than in previous quarters and signs of a slowdown in household spending and service sector emerged. Economic conditions also deteriorated in Japan, with slowing domestic and external demand. Countries in emerging Asia are performing well, although some (Hong Kong, Singapore, Thailand and China) may be hit in the short term by the SARS epidemic, especially as far as the transport and tourist sectors are concerned. Emerging economies in the CEE continue to weather the global slowdown pretty well, largely due to their greater dependence on domestic demand –

household consumption in particular. In Latin America, the uneven and fragile recovery that started in 2H02 was maintained, owing partly to gradually receding political risks.

Due to sluggish growth and ample capacity utilisation, inflation was generally on the decline in 1Q03. Capacity utilisation rates in manufacturing remained well below historical averages in all three major regions. In some countries hikes in headline inflation were recorded on the back of a temporary increase in energy prices and various specific domestic factors (such as tax changes and currency depreciations). Oil prices have been rising since late 2002, reaching US\$34 per barrel (Brent) in mid-March. Then, with the start and successful completion of the war in Iraq, and the increase in the OPEC production, prices eased considerably. Overall, oil prices turned out to be lower than previously feared. Given the weakness of demand and significantly reduced uncertainties on the supply side it appears unlikely that prices could will rise persistently rise above US\$25 in the coming months. We see that Brent prices oscillating in the US\$20-24 range is the most probable scenario for the rest of 2003.

Long-term interest rates have been on a downward trend for the past six months. In 1Q03, spreads between corporate and government bonds narrowed and price-earning ratios have moved closer to historical averages. Stock markets continued to fall, though in the middle of March the trend was halted and in some cases later reversed. Monetary policy in the US has not been changed since November 2002, but monetary authorities in Europe cut their interest rates in 1Q03.

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



Source: FedStats, Eurostat

Against this background, most forecasts have been revised downwards. This applies also to the recently released outlooks by the IMF and OECD. Although GDP growth forecasts have been slashed, expectations of a general recovery have been sustained. Any major improvement has, however, been put off until 2004. Future economic expansion is anticipated to be more dependent on investment than consumption. Added to this, the ebbing of geopolitical tensions surrounding the war in Iraq and the end of stock market corrections are

expected to benefit economic growth in the short-term. The global recovery is widely seen as being driven by the US economy. Any unevenness in the upturn appears to stem largely from countries' and regions' differing accommodative positions. More stimulating measures are in the pipeline in the US and UK, for example, than in the eurozone and Japan, with the latter regions having less leeway to pursue accommodative policies.

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

	1998	1999	2000	2001	2002 _e	2003 _f	2004 _f
OECD	2.7	3.2	3.8	0.8	1.8	1.8	2.7
USA	4.3	0.1	3.8	0.3	2.4	2.3	3.5
European Union	2.9	2.8	3.5	1.6	1.0	1.2	2.4
Euro zone	2.9	2.8	3.6	1.5	0.8	1.0	2.4
Germany	2.0	2.0	2.9	0.6	0.2	0.4	2.0
France	3.5	3.2	4.2	1.8	1.2	1.2	2.4
Italy	1.8	1.6	2.9	1.8	0.4	1.0	2.4
United Kingdom	2.9	2.4	3.1	2.0	1.8	2.0	2.5
Czech Rep.	-1.0	0.5	3.3	3.1	2.0	2.4	3.5
Hungary	4.9	4.2	5.2	3.8	3.3	3.5	4.0
Poland	4.8	4.1	4.0	1.0	1.3	2.3	3.2
Russia	-4.9	5.4	8.3	5.0	4.3	4.0	3.5
Turkey	3.9	-6.1	6.3	-9.5	7.8	3.0	4.0
Japan	-1.1	0.1	2.8	0.4	0.3	1.1	1.0
China	7.8	7.1	8.0	7.2	8.0	7.4	7.0

Notes: e-estimate, f – forecast

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

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

	1998	1999	2000	2001	2002 _e	2003 _f	2004 _f
USA	1.5	2.2	3.4	2.8	1.6	1.9	1.4
Japan	0.7	-0.3	-0.7	-0.7	-0.9	-0.5	-0.5
European Union	1.8	1.2	2.5	2.5	2.1	2.1	1.6
Euro area (HICP)	1.2	1.1	2.4	2.4	2.2	1.9	1.5
United Kingdom (RPIX)	2.6	2.3	2.1	2.1	2.2	2.8	2.5
Czech Rep.	10.7	2.1	3.9	4.8	1.8	1.0	3.0
Hungary	14.2	10.0	9.8	9.2	5.3	4.9	4.8
Poland	11.6	7.3	10.1	5.5	1.9	1.3	1.9
Russia	27.8	85.7	20.8	21.6	16.0	13.0	9.0
Turkey	84.6	64.9	54.9	54.4	45.0	30.0	25.0
China	-0.8	-1.4	0.3	0.7	-0.8	1.4	1.0

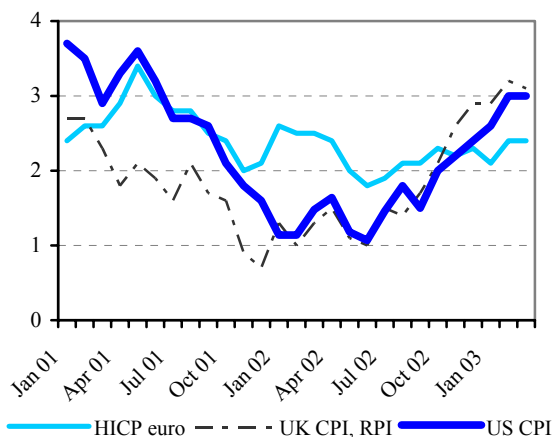
Notes: f – forecast

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



The oil prices forecast and expectations of only modest recovery in the world economy make the inflation outlook extremely favourable, with even some concerns about deflation being raised. According to IMF research, the chances of a global deflationary spiral in the world's major economies are slim. However, short periods of deflation in a larger number of countries are possible. The IMF says the major industrialised economies all have sound financial markets and institutions, manageable levels of corporate and household debt and retain enough scope for policy adjustment if the needs to fend off deflation arose. Furthermore, the threat of importing deflation should not be of major concern as the trade shares of countries currently experiencing deflation is overall small.

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



Source: Eurostat, Bureau of Labor Statistics, National Statistics

Despite expectations of recovery, the balance of risk remains on the downside. The key issue in the longer perspective is how the current imbalances in the global economy will be resolved – i.e. the large current account deficit in the US and corresponding surpluses in Asia and the eurozone. An abrupt correction in the dollar could derail any nascent recovery, for example, while further declines in equity markets could well postpone a pickup in investment. The OECD also notes the build-up in personal debt to finance consumption. This leaves household balance sheets vulnerable to interest rate increases or declines in house prices that in several countries have so far to some extent offset losses in equity markets. For the moment, no monetary tightening is however expected. In fact, markets

have already priced in interest rate cuts in the US, eurozone and the UK, but housing prices collapse is very likely. <LR>

Country Updates

United States

- **Consumer consumption moderates**
- **Higher headline inflation and producer prices**
- **Planned fiscal stimulus**

The US economy did not dip into another recession in 1Q03, as many analysts had feared. According to advance data for 1Q03, GDP increased by 2.1% yoy (1.6% at an annualised quarterly rate), versus 2.9% (1.4%) in 4Q02. Household consumption moderated, especially in the case of durable goods. In addition, investment dropped by 3.7% yoy, though the contraction was smaller than in 4Q02 (8.7% yoy). Non-residential fixed investment declined, though investment in equipment and software grew, albeit at very moderate pace. Despite this, surveys pointed to declines in business and consumer confidence, especially after the beginning of the war in Iraq in March. In 1Q03, headline inflation picked up on the back of higher energy prices, though core inflation continued to wane. Producer prices increased, driven by higher prices of gas and oil, the atrocious weather conditions (a particularly cold and long winter) and weakening of the dollar. Price dynamics should moderate in the course of the year as energy prices are expected to decline, added to the remaining excess capacity in the economy. The situation on the labour market remains difficult, with weaker demand for labour and wage cuts evident, reinforced by recent labour survey findings. The recent drop in payrolls, furthermore, cannot be attributable only to the call-up of reservists. As a result of this, income growth has moderated and the savings rate seems to have increased. The latter effect can be ascribed not only to difficult labour market conditions, but also to recent wealth losses related to bearish stock markets. These developments bode badly for sustaining high growth in household consumption and, in turn, in GDP. If consumption slackens off before

investment picks up, the period of sub-par growth may be protracted. Although GDP forecasts have been revised downwards, a gradual improvement is still envisaged in 2H03 and 2004. The recovery is expected to be driven by strengthening investment and a modest re-building of stocks. Accommodative policy measures remain in place. A further fiscal boost is on the agenda in the form of up-front tax cuts (accelerated income tax rate reductions and tax credits, alternative minimum tax (AMT) adjustments, as well as marriage-penalty relief) and some longer-term tax measures. However, so far it is uncertain which measures will be implemented. Another cut in interest rate is also expected (see *Central Bank Watch*).

European Union

- **Lacklustre growth**
- **Falling confidence and rising unemployment**
- **Germany on the verge of recession**
- **Higher prices, but inflation outlook remains positive**

4Q02 data indicate some improvement in the economic situation in the EU and eurozone, but nonetheless its pace is still lacklustre. GDP increased in the final quarter of 2002 by 1.3% yoy – a slightly better result than in previous months. A minor pickup in household consumption (0.8% yoy) was recorded and investment declined at a slower pace. However, available data tend to suggest a deterioration in economic activity at the beginning of 2003. This was primarily in Germany, Italy and the Netherlands. Purchasing Manager Indices, both for manufacturing and services, have been falling in recent months. In addition, confidence has been on the decline, as indicated by European Commission measures and Ifo survey index. Advanced data for April also showed a continuation of these adverse trends. If these results are followed by hard data, we are likely to see fundamental softening and recession may become a real threat. Household confidence has been undermined primarily by the deteriorating situation in the labour markets. Unemployment has increased and this, coupled with higher inflation and lower incomes, does not bode well for private consumption. The HICP grew in February and March. Data for January also point to pick up in industrial producer prices. As far as the outlook is

concerned, inflation should edge down due to euro appreciation and subdued economic activity. In the short-run, falling oil prices should also help to curb inflation. The recent easing of oil prices should already be reflected in the April figure. The ECB expects inflation to fall below 2% in 2003.

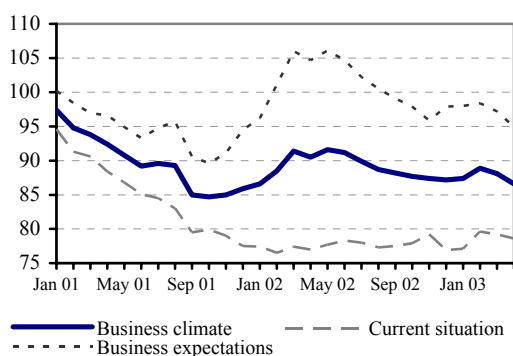
The eurozone's external environment has also deteriorated, with slower economic growth in its major trading partners, added to appreciation of the euro. As such, no rapid, export-driven recovery should be expected in the near-term. This, coupled with the sluggish momentum in domestic demand, has led most forecasting centres to downgrade forecasts for most member countries. Currently, similar growth to 2002 is expected in 2003. A better performance is awaited in 2004, though forecasts have been revised downward somewhat in the last three months. The IMF notes that key uncertainties over economic developments in the eurozone have stemmed largely from corporate behaviour and balance sheet adjustments to stock market falls. The ensuing financial strains, as well as a combination of banking system and corporate weaknesses, could undermine credit expansion. This could have a devastating impact on the recovery – especially in Germany, where banking system profits are weak.

Germany

Economic performance in Germany continues to disappoint. Results for 4Q02 showed stagnation and advance data for 1Q03 suggest that the economy is on the verge of recession. In 4Q02, GDP increased by a mere 0.5% yoy, and private consumption and investment contracted. This disappointing economic activity led to a growth in unemployment, with no prompt improvement in labour demand expected, at least in the short-term. This is the primary factor undermining household confidence. In this situation no rapid recovery in private consumption should be expected. On the other hand, labour cost cuts could help to increase corporate profit margins and spur investment, though business confidence has deteriorated as well, with the Ifo indicators falling in March and April. The deterioration in March could be attributable to some extent to uncertainties surrounding the conflict in Iraq and political tensions between Germany and France on the one side and the US on the other, but further worsening in April despite the positive outcome of the war is more worrisome. On the other hand, manufacturing

output actually increased in January-February by 2.4% yoy (2.1% yoy according to seasonally adjusted data). With deteriorating export prospects (a stronger euro and less vibrant world economy), forecast for Germany for 2003 and 2004 have been slashed. The pace of GDP growth is expected to remain broadly unchanged in 2003 from the previous year. Lacklustre economic performance and euro appreciation have led to strong disinflation. In March, HICP growth amounted to 1.2%, the lowest among EU member countries. This situation raises fears about deflation, which is more likely than in other industrialised countries (apart from Japan). To some extent these fears have been softened by recent rather generous wage settlements.

Ifo business climate index, 2001-2002



Source: Ifo Institute for Economic Research

In the face of its excessive budget deficit and punitive sanctions, the German government proposed a consolidation plan in March. This includes more flexible labour law, the introduction of stronger incentives for employment and cuts in non-wage labour costs. The reforms are a step in the right direction, though no immediate impact on economic performance is expected. More complex and coherent reforms are still needed. Besides, room for manoeuvre is limited by budget consolidation objectives. The IMF has said that Germany's economic woes can at least in part be put down to the weakness of its banking system, which has experienced a combination of low structural profitability and cyclical downturn. These factors appear to underpin Germany's recent performance and in turn may slow the pace of recovery.

France

Growth moderation has also been evident in France. In fact, revised GDP contracted by 0.1% yoy in 4Q02, mainly on the back of declines in exports and investment. As a result, the industry sector performed particularly weakly. Household consumption has been resilient so far, in turn benefiting the service sector most. Unemployment has increased gradually, but robust income growth has helped sustain relatively high levels of consumption. France's growth forecasts for 2003 and 2004 have been lowered and 2003 should not be significantly different in GDP growth from 2002. Loose fiscal policy in 2002 led to France breaching the Stability and Growth Pact budget deficit threshold. This year the authorities forecast the deficit to reach 3.4% of GDP. Given the projected lacklustre momentum, no major austerity measures are envisaged, as policy makers have shied away from any measures that could potentially hamper economic growth. Consequently, the public debt may exceed 60% of GDP. No major improvement in the budget position is envisaged for 2004.

UK

In contrast to previous quarters, the economic situation in the UK has recently deteriorated, in line with other EU countries. Although GDP performance in 4Q02 was better than expected (driven mainly by private consumption), available data for 1Q03 suggest weaker domestic and foreign demand. In 1Q03, GDP grew by 2.3% yoy, but by only 0.2% qoq. The slowdown in household consumption is reflected in a weaker performance from the service sector. The CIPS private services activity index fell below 50 in March and retail sales declined also, largely due to falling real disposable incomes. Although the labour market remains fairly stable, recent increases in national insurance contributions and council tax have taken their toll. The latter has impacted also on higher inflation. The RPIX increased to 3% in February and March (from 2.3% in October 2002). Prices were driven up additionally by higher oil and housing prices, which is likely to impact on higher inflation in 2Q03, though is expected to abate thereafter. First signs of housing prices moderation have emerged. The pace of output growth should become more vigorous by the end of 2003 and in 2004. The most serious risk is associated with a potential drop in household consumption. The

current macroeconomic assumptions of the new budget are very optimistic and are at odds with the current trend of downward revisions in growth forecast. This may lead to further deterioration of the budget position. <LR>

Central and Eastern Europe

- **Output growth resilient to global weaknesses**
- **EU accession on track – policy challenges remain**
- **Fiscal stance a major problem in most of the countries**

The EU accession process remains on track. After the signing of the Accession Treaty at the Athens Summit in April 2003 and positive outcomes of the referenda in Slovenia, Malta and Hungary, the planned enlargement on May 1st 2004 would appear to be a certainty. However, most of the accession countries still face major policy challenges if they want to secure significant gains from EU membership after enlargement. The challenges pertain primarily to the fiscal sphere, where far-reaching reforms are necessary to free resources for co-financing projects for which EU funds could be obtained. Added to this, 1Q03 was marked by rising political tensions in the region (particularly in Bulgaria, Serbia and Poland).

Robust domestic demand was a major factor underpinning growth in CEECs in 2002. This was accompanied by strong export expansion (above 10% yoy in Hungary, the Czech Republic, Romania and Slovakia) despite the shrinkage of total imports in the euro area last year, this indicates on-going and strong productivity catch-up and perhaps also the increasing importance of intra-firm linkages between EU and accession countries. Substantial FDI inflows during the last decade have arguably played a role in the latter process.

Czech Republic

The annual rate of GDP growth slowed to 1.5% in 4Q02. Household and government consumption, as well as changes in inventories, were the main drivers of growth. Fixed investment declined and exports geared down. The beginning of 2003 saw an improvement in exports and manufacturing performance, though unemployment climbed

slightly above 10% in 1Q03. The GDP outlook is still expected to improve in 2003 and 2004, though the forecast has been trimmed for both years. Growth is expected to be primarily driven by household consumption, as wage increases are expected to moderate only a little and the situation in the labour market should gradually improve. 2004 should see a stronger contribution to growth from investment and net exports. 1Q03 saw deflation, with the CPI declining on an annual basis in all three months of the first quarter, mainly due to falling food prices and no hikes in regulated prices. Given the expectations of robust consumption in the course of the year, combined with gas prices increases and a somewhat slower nominal appreciation of the koruna compared to the previous year, inflation is expected to rise over the next few months. In addition, planned VAT and excise tax changes in 2004 related to the EU accession are likely to add to inflation. High government budget and current account deficits remain the main concerns. In 2002, the budget deficit reached 6.3% of GDP. Although, some fiscal reform plans were proposed in December 2002, no concrete decisions have yet been made. The construction of the 2004 budget could lead to political tensions in the ruling coalition. The current account gap amounted to 5.3% of GDP in 2002, though recent data revisions indicate a stronger export performance.

Hungary

Soaring household consumption (8.8% growth in 2002) has been the unquestioned driver of economic growth in Hungary. Thanks to it, the economy has weathered the world slowdown relatively well. Buoyant consumption was possible due to very rapid growth in wages and salaries. This trend is expected to remain in place, though wages should see more moderate increases. In 2003 and 2004, fixed investment and net exports are expected to contribute more to GDP growth. 2003 should see economic growth close to the figure recorded last year. Recent inflation readings turned out better-than-expected, though inflation remains high by regional standards. Moreover, expected hikes in regulated energy prices, as well as loose fiscal policy, pose concerns for the inflation outlook. The budget deficit remains exceptionally high, in 2002 reaching 9.5% of GDP (according to ESA methodology). So far, plans to reduce this alarming ratio have been mainly dependent on optimistic

GDP forecasts. Loose fiscal policy has led to rapid growth in the public debt and due to booming domestic demand, the current account came in at 4.0% of GDP in 2002. Revisions in balance of payments statistics were introduced and this resulted in a smaller deficit than previously indicated.

Poland

Recent months have not brought any major breakthrough in the sluggish recovery of the Polish economy. GDP growth estimated at 2.1% in 4Q02 and 2.2% in 1Q03 came in largely in line with expectations. Expansion is mainly driven by robust household consumption and exports. The former is, however, estimated to have slowed in 1Q03. There are signs that household savings are on the rise, a reasonable development given the long period of robust spending and difficult labour market conditions. Unemployment rose to 18.7% in March, while fixed investment continued to decline, though at a slower rate. On the positive side, industrial production (and in particular manufacturing) output came in surprisingly high (an increase of 4.4% yoy in 1Q03). This is primarily attributable to higher exports. On the other hand, the construction sector surprised on the downside. 1Q03 saw stronger disinflation. The opposite trend, however, was recorded for producer prices, which increased on the back of zloty depreciation (see *Exchange Rates*). Consumer prices are expected to remain very low in 2Q03. Generally, the outlook for inflation is positive over the next year. As far as GDP performance is concerned, we see no major outlook changes.

Bulgaria

The economy continued to grow vigorously towards the end of last year, with remarkable investment expansion underpinning average growth of about 4.2% for the year as a whole. Export performance provided another positive boost, while private and public consumption remained subdued, reflecting the government's fiscal policy. Growth prospects for 2003 remain positive, with investment and private consumption expected to contribute most to the forecast GDP expansion of 4-5%. Political tensions, in particular the weak position of the ruling coalition, pose risks. Political factors have been behind the slowdown in structural reforms and privatisation, reflected in lower FDI inflows last year. Any combination of all these

factors could undermine longer term economic prospects. Despite its currently solid macroeconomic fundamentals, the country still needs to implement a large reform agenda. The external policy anchor, namely the prospects of EU membership, could prove very important in this respect.

Romania

Output growth remained solid until the end of 2002, with GDP expansion of 4.9% for the year as a whole. Investments and exports were the main growth drivers, while domestic consumption moderated, partly due to fiscal tightening. The investment boom is expected to continue in 2003, along with a strengthening of private consumption. Continued fiscal restraint in 2002, coupled with favourable external trade developments, helped bring the current account deficit down to 3.5% of GDP, which was easily financed by capital inflows – mainly by FDI. Planned privatisation for 2003 is large, with a commensurate FDI increase likely. Slow but stable disinflation continued in the early months of this year. The central bank continued to follow its somewhat contradictory objectives of simultaneous bringing inflation down and intervening to prevent leu appreciation. The bank has indicated plans to move closer to an inflation targeting strategy as inflation declines, largely because its current policy seems unsustainable in the medium-term.

Slovakia

Particularly strong output expansion in 4Q02 brought Slovakia's growth figure for 2002 to 4.4%, its best result since 1998. However, this was mainly due to buoyant domestic consumption resulting from earlier expansionary pre-electoral policies. In the course of 2003, one should see a moderation of domestic consumption, with exports and investments becoming the main growth drivers. Administrative price increases this year have already lowered households' real disposable incomes, thus limiting the impact of earlier wage rises. They have also resulted in a faster price upsurge. At the end of March, the CPI climbed to 8% yoy. However, these developments would appear to be transitory in nature and should not feed into core inflation. Koruna appreciation pressures eased somewhat in 1Q03 on the back of political instability in Poland and the Czech Republic, amongst other factors, before strengthening against

the euro again in April. On the fiscal front, some consolidation measures have been assumed in this year's budget – especially as compared to the particularly expansionary policy last year. However, a more significant budget deficit fall is not expected before 2004 (to around 3.5% of GDP). The FDI outlook remains positive and the impact of previous foreign investments is already visible in trade data.

Baltic States

The Baltic States' remarkable output growth performance continued in 4Q02. GDP expanded 5.6% in Estonia, 5.9% in Lithuania and 6.1% in Latvia in 2002, driven mainly by buoyant domestic demand. In addition, an increase in exports was a positive stimulus in Latvia and Lithuania. Estonian exports of mobile phones and related equipment dropped, particularly in 1H02. This resulted in a widening of the current account deficit to 12.5% of GDP in 2002, its highest level ever. The growth outlook remains optimistic for all the Baltic States' economies, with an expected increase in the contribution of exports. Privatisation and other reforms remain on track. Fiscal policies are in check in Estonia and Lithuania, though the Latvian budget deficit exceeded its planned limits in 2002 and is expected to average about 3% of GDP this year. <LR&WP>

CIS

- **Energy commodities drive CIS-wide growth**
- **Other sectors in the doldrums**
- **Russia and Ukraine to maintain robust growth but uncertainties increase**

Russia

According to preliminary figures, GDP expanded by 4.3% in 2002 driven mainly by private consumption. At the beginning of the year the economy gathered higher momentum after the slowdown in late 2002. Higher commodity prices, leading to a surge in exports, were the most important factor behind the upturn. Gross output in five major sectors of the economy surged by 6.7% yoy in 1Q03 compared to 3.9% in 2002. The strengthening of industrial production growth (6% yoy in 1Q03) had the strongest contribution. Among industrial sectors, the rebound was again concentrated in traditional heavy sectors such as

fuels and metallurgy, while output in light industry actually shrank. This duality, which has been clearly visible in the data for some time, indicates a major weakness in the economic structure.

Given the results from early 2003, one should expect to see somewhat stronger than had been previously expected growth figures for 1H03 and the year as a whole. However, the forces that drove growth recently are transitory in nature and with the fall in oil prices and recent moderation of investment expenditures one should see a weaker performance in 2H03 and 2004. Longer term growth prospects hinge on structural reforms in several spheres that could allow for increased competitiveness of the Russian economy. While the reform record of the past three years is encouraging, the political calendar for late 2003 (parliamentary elections) and early 2004 (presidential elections) makes maintaining the reform momentum unlikely over the next 12 months. Russia remains vulnerable to potential swings in the energy commodities' markets. We have upgraded our growth forecast for 2003 to 4% and expect a slight waning to 3.5% in 2004.

Exports continued to expand at a particularly strong rate in 1Q03, up 38% yoy in dollar terms after increasing 25% in 4Q02. This, however, is primarily attributable to exports of energy commodities that skyrocketed due to exceptionally high oil prices and slightly rising volumes. The value of oil and oil product exports nearly doubled in 1Q03 relative to 1Q02, while non-energy-related exports increased by 13% (in part simply reflecting dollar depreciation against the euro). Imports continued to rise in 4Q02 and 1Q03, but with weaker dynamics than exports. Consequently, in 1Q03 the trade and current account surpluses increased to around US\$14.6 billion and US\$11.9 billion, respectively, levels unseen since 1Q01. Such results are unlikely to be sustained in the coming quarters. The current account surplus is expected to stay at around last year's level (US\$33 billion) for 2003 as a whole. Imports will continue to grow fast.

The CPI stood at 14.8% yoy in March, hardly changed from the end of last year, while the PPI increased by 19.7% yoy as of March. We do not see much scope for significant disinflation. For 2003 as



a whole, average annual CPI growth will likely be in the 12-14% range.

In January-April, the rouble slightly strengthened against the dollar and weakened against the euro in nominal terms. In 1Q03, the rouble real effective exchange rate (calculated by the CBR) remained unchanged from the previous quarter. Given the unfavourable inflation forecast, the rouble's real appreciation trend is expected to resume in the coming months.

In 2002, the fiscal surplus reached around 1.4% of GDP. Non-interest expenditures are planned to rise this year (in part on the back of election-related considerations) and the revenue side is heavily reliant on international oil prices. However, one can expect the fiscal position to remain close to balance or in small surplus this year.

In February, the BP announced its plans to invest more than US\$6 billion in Russia's new oil company formed from a merger of the fourth biggest oil producer, TNK, and its smaller affiliate, Sidanco. The deal is expected to be finalised later this year and, if successful, will constitute the biggest ever inward FDI in Russia. It might also act as a catalyst for increased FDI inflows, primarily directed towards energy-related sectors.

Ukraine and other CIS countries

After the rapid economic expansion in 1H02, a slowdown was visible towards the end of last year. Full year growth was 4.8%, a solid result, but markedly lower than 9.2% recorded in 2001. Industrial output, which grew by 14.2% in 2001, expanded by 7% last year. Agricultural production increased by a mere 1.9% in 2002 compared with 10.2% growth a year earlier.

Although the 7.0% yoy GDP growth in 1Q03 was more impressive, output expansion is expected to decelerate towards the end of the year. From the production side, strong 1Q03 readings stem primarily from favourable developments in the construction sector, energy sector and manufacturing. On the demand side, exports and domestic consumption contributed the most, as indicated by the January-February data on trade and incomes.

Falling prices of agricultural products led to a continuation of consumer price deflation in the summer and autumn months of 2002. At the end of the year, the influence of low food prices was still reflected in a low consumer price index, hence consumer price deflation of -0.6% yoy recorded in December. However, as grain prices have been mounting since the beginning of 2003, and the results of monetary expansion of 2002 became apparent, CPI inflation reached 4.3% yoy in March.

Ukraine's 2002 privatisation plans were not met, undermining the overall investment climate. Lower budget revenues, resulting partly from deflation and partly from poor planning or bad tax collection, did not result in a budget deficit, as expenditures were cut accordingly. After the first two months of 2003 the central budget was in surplus, again largely due to lower expenditures.

Rising political tensions shifted attention away from much needed structural reforms, and this will probably continue in 2003. Payment discipline in the energy sector worsened significantly in 1Q03. This may create negative spill-over effects and add to the worsening of total payments discipline in the country and consequently stimulate accumulation of arrears to the budget.

The 2002 FDI inflows figures – lower than the previous year – indicate that Ukraine is still regarded as a high-risk economy by foreign investors. The outflow of short term capital, which doubled in 2002, indicates that domestic business is also afraid of investing in Ukraine, despite continuing economic growth.

For the CIS region as a whole, the positive impact of higher oil prices dominated, resulting in a strong growth performance in 2002. Even for some energy-importing countries the negative effect of higher oil prices was offset by rising demand in their CIS trade partners. The strength of the energy commodities related sectors masks the relative weakness of other parts of the economies. The pace of structural reforms varied among CIS economies but still seems unsatisfactory in most cases. 2003 should see some growth moderation amid slightly increased inflation pressures. Longer term growth prospects remain uncertain and to a large extent reliant on developments in world commodity prices. <MJ&WP>

Turkey

- **Slower growth expected in 2003**
- **Foreign loans restore market sentiment in April**

The Turkish economy is expected to slowdown markedly in 2003 from its 7.8% output expansion in 2002. Growth in 4Q02 was remarkably high, at 11.4% yoy, but the situation changed in 1Q03. Industrial production grew only by 4% yoy in February, compared to 13% yoy in January. However, judging by capacity utilisation figures, economic activity rebounded in March – notwithstanding the war in Iraq – mainly due to the private and export-oriented sectors. The modest output outlook for 2003 is motivated by expectations of a fall in tourist revenues and weaker investments.

Exports remained strong in 1Q03, with the EU accounting for most of the growth. Imports are expected to have recovered in March, as market sentiment and domestic demand improved. It would appear that the impact of the war in Iraq on Turkish trade with its neighbouring countries will be more short-lived than was previously thought.

The government introduced a fiscal package, including measures aimed at the reduction of the budget deficit in 2003. However, even after spending cuts, the consolidated budget is expected to see a deficit of 15% of GDP in 2003. Interest payments will probably consume over 90% of tax revenues. Furthermore, prospects for the next few years are not bright, either – interest payments are set to increase alongside the build-up of external debt.

In April, the IMF decided to support Turkey with the new loan tranche of US\$701 million. The next disbursements will be released after regular bi-monthly reviews through November 2003. On top of this, the US government said it would support Turkey with a grant of US\$1 billion, which could be converted into loans of US\$8.5 billion. The Turkish government said it plans to use the funds primarily to lengthen external debt maturities and lower interest rates.

The end of the Iraq conflict and news on foreign financing restored some positive market sentiment

in April. The Turkish lira, after gradually depreciating in 1Q03, strengthened by nearly 10% to the dollar in April. Inflation stabilised at 30% in 1Q03, but is expected to gradually fall after seasonal factors and the spill-overs from the January-March depreciation and higher oil prices wane. <MJ>

Asia

- **Japan – slow recovery vulnerable to risks**
- **Optimistic forecasts for China, notwithstanding SARS outbreak**
- **Worsening 2003 growth prospects in the region**

January-February 2003 was marked by the strong start in emerging Asia. However, at the same time the outlook for the coming quarters worsened and by March there were already signs of output deceleration. The US recovery has been weaker than expected, the full effects of the Iraq war are yet to be fully known and the SARS epidemic have all hit the short-term outlook. Output growth in 2003 is expected to slow from 2002, with the first signs of deceleration in industrial production already visible in the March figures. The only exception is India – which suffered from drought last year – which is expected to see improved growth prospects in 2003. The larger ASEAN economies are expected to grow at 3-4% in 2003, and South Korea at over 5%. Fiscal expansion is expected in the region as a way to promote growth. Inflation should remain low and monetary policy will probably remain unchanged.

Chinese GDP expanded remarkably at 9.9% yoy in 1Q03. The figure remained solid, notwithstanding the outbreak of the SARS epidemic in February. SARS is expected to have a negative impact on consumption and exports, and on falling inventories. However, its impact – assuming that the epidemic is under control before the summer – is expected to be limited and full-year growth should be over 7%. The data on fixed investment indicate potential downside risks to this scenario, however. The continued surge of fixed investment and bank loans in 2002 and in the first months of 2003 bring fears of a looming investment bubble.

The effects of the SARS outbreak are forecast, however, to extend beyond 3Q03 in Hong-Kong



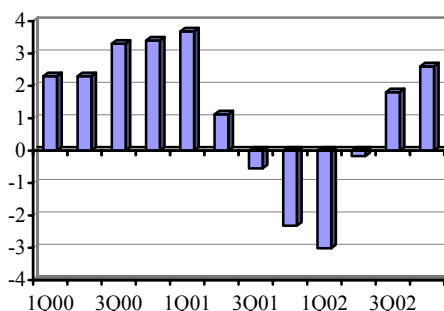
and Singapore. Tourism, retail and foreign trade have already been hard hit in February-March, and economic activity within these sectors came to a virtual standstill in Hong-Kong.

The Indian economy grew by 2.6% yoy in 4Q02, mainly due to the drought and lower agricultural output. However, full 2002 growth was estimated at 4.3%, with consumption and exports the main contributors. Many believe that growth has already rebounded, reflected in the February rise in exports. A surge in imports signifies solid domestic demand. On the supply side, activity in the industrial and service sector is encouraging. Inflation, which peaked in March as a result of the oil price hike, seems to be under control. The government approved a rather populist budget for the fiscal year 2003-2004 starting in April, with a budget deficit of around 5.7% of GDP.

Japan

The Japanese economy recorded moderate growth of 2.6% yoy in 4Q03. This increase in economic activity was driven mainly by external demand and investment. Data on enterprise profits suggest that the returns accumulated during 2H02 were transformed into new investment in 1Q03. This came in time to balance out weak consumer spending – as indicated by data on sales and consumer confidence surveys in January and February 2003 – and decelerating exports.

Real GDP, 2000-2002 (% change yoy)



Source: Bank of Japan.

There are worries that external demand in Asian countries struggling with SARS will deteriorate, worsening prospects for Japanese exports. However, a deceleration of export growth was already visible in the figures on customs-cleared

trade in March when export volume growth slowed to 6% yoy, compared to over 10% yoy in January and February.

The above facts, combined with precarious consumer spending, make growth in investment the crucial factor for economic expansion in 2003. This also makes the Japanese economy extremely vulnerable to shocks, however. Some warning signals were also visible on the supply side. The index of industrial production remained almost totally flat in 1Q03, indicating a deceleration of economic activity in the January-February period.

CPI deflation continues, with the CPI falling 0.2% yoy in February. It is also expected to be negative in March, as indicated by the fall in consumer prices in Tokyo. Growth in monetary aggregates slightly decelerated in 1Q03, but is expected to pop up in April, as the Bank of Japan expanded liquidity provisions ahead of the fiscal year end. <MJ>

Latin America

- Uneven and fragile recovery continues
- More stable political scene

The particularly bad downturn in economic activity in the region that was observed in 2001-2002 seems to be coming to an end. Already 2H02 has brought some improvement in output performance. Still, the prospects remain uncertain and the recovery is not expected to gain momentum until late 2003. Also, there are significant differences in terms of economic performance and outlook among countries in the region. External developments, particularly in the US and in the international capital markets, will be important for domestic conditions. Meanwhile, domestic political tensions have waned slightly (with the exception of Venezuela), though several political challenges remain to be tackled in the region.

Confirming our earlier expectation, there are increasingly more signs that Argentina may have already bottomed out after the recent crisis. GDP plunged by around 11% in 2002 as a whole, but towards the year-end and also in 1Q03 a strong upturn in real activity was seen. The exchange rate started to appreciate in January-April and consumer inflation fell further. The formulation of the more

coherent economic programme is not expected before the second round of the presidential elections in mid-May.

Political uncertainties eased in Brazil, with the new ruling team sticking to its policies. News from the real sector is mixed. In contrast to other large regional economies, Brazilian industrial production was actually on the decline in January-February, though export performance has so far been very encouraging. It remains to be seen whether it will pass the test of a significantly stronger domestic currency – the *real* has appreciated by around 20% since mid-February. One should expect GDP growth above 2.5% this year. Inflation should return below 10% yoy in late 2003 or early 2004.

Mexico, owing partly to its healthier macroeconomic policies, weathered the 2002 global slowdown relatively well. Given its strong trade links with the US, the outlook remains heavily dependent on economic developments across the country's northern border. Any stronger boost to output from its northern neighbour is not expected until 2H03. Meanwhile, domestic demand strengthened visibly in 1Q03. GDP growth above 2% is possible in 2003 and inflation should recede from its recent highs. <WP>

Central Banks Watch

- **Monetary easing in Europe and Asia**
- **Expectations of further cuts in the US and euro zone**

The first four months of 2003 saw further monetary easing in Europe and Asia, while interest rates were raised in Canada and some countries of South America. Interest rates in the US were left unchanged.

The ECB, in line with market expectations, went for a 25 basis points cut in March. The main refinancing operations rate was lowered to 2.5% and the marginal lending facility and the deposit facility rates to 3.5% and 1.5%, respectively. Given the positive inflation outlook and disappointing performance of the largest economies in the EMU, as well as some concerns over deflation in

Germany, further monetary easing is possible in the course of this year. In the UK, on the other hand, markets were taken by surprise with the 25 basis points cut in February. The main interest rate now stands at 3.75%. The Bank of England faces a difficult situation, as its inflation target has been overshoot and the economy has demonstrated increasingly strong sluggishness. The trade-off between price stability and output performance will have to be resolved. If the economy softens further and the house price bubble bursts, additional easing is possible. Otherwise, if the economy enters a faster track by the end of this year, interest rate hikes cannot be ruled out at the turn of 2003/4. In the eurozone and the US, further interest rates cuts have already been priced in by the markets. In the case of the Fed, the manoeuvre is limited by the current very low level of interest rates. The new monetary authorities in Japan decided to lower interest rates in March by 15 basis points, bringing them to 0.

In the CEE, monetary conditions have been loosened once again. In the Czech Republic interest rates were cut by 25 basis points to 2.5% in January. Although markets had been speculating that there would be further cuts, the CNB appeared to indicate that the chances for a further easing were diminishing. Expectations of inflation hikes in the near term may be the main factor deterring any cuts. If inflation increases significantly, monetary tightening is very likely by the end of 2003.

In January, the forint exchange rate was very close to the lower margin of its exchange rate band (234.7 forint/euro) and the National Bank of Hungary (NBH) had to intervene. On January 16 and 17, two aggressive cuts in interest rates (200 basis points each) were administered and 5-6 euro billion was purchased to check the appreciation pressure. The resulting increase in forint liquidity in the system was cleared with intermittent euro sales. Consequently, the forint-euro exchange rate stabilised around the level of 245. Defending the exchange rate band, combined with such significant loosening of monetary policy, may turn out to be very costly in terms of higher inflation and a failure to meet this year's inflationary target.

In Poland, the policy of gradual lowering of interest rates has been maintained. In 2003, interest rates have been cut on four occasions so far – by 25 basis



points each time. As a result, the 2-week repo rate has been brought down to 5.75%. Given the positive inflationary outlook, and still lacklustre growth, further monetary easing in the course of this year is highly likely. <LR>

Central Bank	Official interest rate	Current	Last change
US	Federal funds	1.25	6 Nov 02
Japan	Overnight call	0.00	19 Mar 01
ECB	Refi	2.50	6 Mar 03
England	Repo	3.75	6 Feb 03
Czech Rep.	2-week repo	2.50	31 Jan 03
Hungary	2-week repo	6.50	17 Jan 03
Poland	28-day intervention	5.75	24 Apr 03

Source: Central banks

Exchange Rates

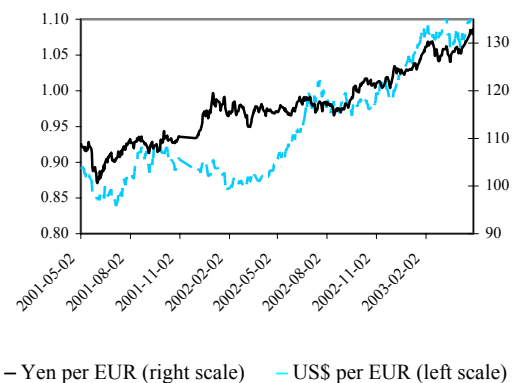
- Further strengthening of the euro
- Nominal and real depreciation of some CEE currencies

In 1Q03, developments in the exchange rate markets were generally dominated by the war in Iraq, the ensuing political tensions and movements in oil prices. In January and February, the main currencies (euro, dollar and yen) were relatively stable. In contrast, March saw sizable fluctuations. Over the analysed period, the dollar generally lost against the euro and the yen. The weakening of the euro vs. the dollar in the middle of March should be primarily attributable to technical trading factors. The euro position is expected to be maintained in 2003 and even into 2004, despite potentially faster economic growth in the US. Low interest rates and murky equity markets in the US should weaken the dollar in the short-run. In Japan, the strengthening of the yen triggered a change in the Bank of Japan's intervention policy, with 'covert' interventions being conducted recently. Expectations of further such interventions led to a depreciation of the yen against the dollar, and yet stronger losses against the euro. Overall in 1Q03, the euro appreciated in real effective terms by 14.0% yoy. In 1Q03, the pound sterling also lost ground, primarily on the back of uncertainties over the war in Iraq and

renewed prospects of the UK adopting the euro. On June 7, the British government is to reveal what progress, or lack of it, has been made on its five test of the UK's readiness to join the eurozone.

1Q03 saw depreciation of some CEE currencies against the euro. In Poland, the zloty depreciated sharply at the end of January and then once again at the end of February. In March, the zloty-euro exchange rate was on two occasions closer to the record level of 4.40 zloty/euro. In 1Q03, the zloty lost on average 15.5% yoy. These developments were associated mainly with political tensions in the ruling coalition. In April, the exchange rate stabilised a bit, though at a high level. The coming months should see a gradual nominal appreciation of the zloty. In Hungary, the forint stabilised around 245 forint/euro after testing the lower band of 234.7 and subsequent NBH interventions in January. This indicates a nominal depreciation as compared to the previous months of last year. There are no indications of a change in the current exchange rate regime in Hungary. The NBH intends to limit the forint's volatility against the euro to a narrower 240-250 range. The Czech koruna also recorded gradual nominal depreciation in the subsequent months of 1Q03, though not as strong as in the case of Poland and Hungary. Given the nominal weakening of these currencies and strong disinflation (apart from Hungary), the real effective exchange rates of these countries also depreciated. <LR>

Euro exchange rates against US\$ and Yen, May 2001-Apr 2003



Source: ECB.

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

	1998	1999	2000	2001	2002	2003f	2004f
Dollar	1.121	1.066	0.924	0.896	0.945	1.068	1.042
Yen	146.4	121.3	99.5	108.7	118.1	128.2	124.0

Note: f – forecasts

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

Commodity Prices

- **Oil prices drop significantly from recent highs**
- **Gold prices down**
- **Lower production of cereals in Eastern Europe**

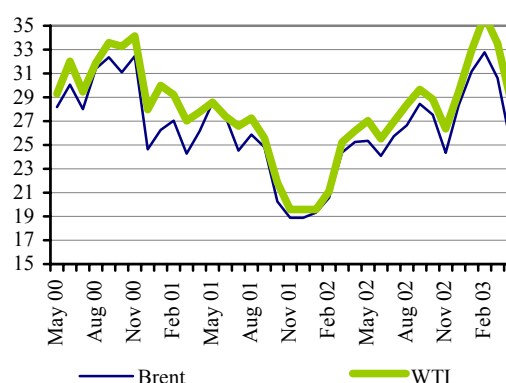
Oil

Developments in Iraq had the decisive impact on oil price dynamics in 1Q03 and in April, with prices rising sharply, a barrel of Brent, for example, averaging at US\$31.5 (18% up on 4Q02). The positive outcome of the Iraq war resulted in a fairly rapid price slump in the second half of March and in April. At the end of the month Brent prices fell to US\$23-24 per barrel, i.e. below the average level in 2001 and 2002. Given the weakness of demand and significantly reduced uncertainties on the supply side it appears unlikely that prices will rise persistently above US\$25 in the coming months. Further significant declines in prices cannot be excluded, though this seems unlikely given OPEC's record of successful price management over the last two years. We see Brent prices oscillating in the US\$20-24 range as the most probable scenario for the rest of 2003.

The International Energy Agency currently sees 2003 global demand at 78 mb/d, a 1.5% rise over 2002. Asia and North America will be responsible for the bulk of this increase. However, the possibility of the weaker-than-expected global recovery and continued troubles in air transport (among other factors due to the SARS outbreak) constitute downside risks to the forecast and it will likely be reduced in the coming weeks. Global supply increased visibly in February and March. Among OPEC producers, losses from Iraq and Nigeria were compensated by Saudi Arabia and

Venezuela. Among non-OPEC producers, the biggest gains were observed in Canada, the UK and the FSU. The very limited destruction of the oil infrastructure in Iraq should enable the country to return to the market relatively soon. OPEC's surprise decision in April to raise output limits while reducing the supply to the markets added to downward pressures on prices. The consensus view was that the decision masked some mismatches between officially declared and actual production levels. <WP>

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



Source: US Energy Information Administration

Metals

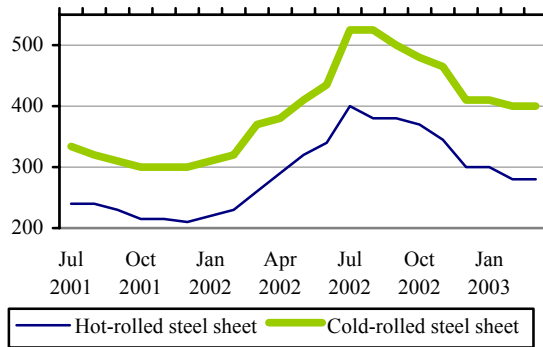
The IMF base metal price index was again higher in 1Q03, though the increase reflected mainly dollar/euro exchange rate movements, as the prices used for this index are expressed in dollars. When looking at both euro and the dollar prices, it is clear that 1Q03 metal prices were largely unchanged from late 2002. Only nickel prices surged in 1Q03. Moreover, nearly all metals became slightly cheaper in March.

Steel prices continued to decrease in 1Q03 on the back of increased supply, low end-user demand and high stock levels. Lower capital spending in the US



and continuing weaknesses of the manufacturing sector in the US and Germany constrained demand. There are no expectations of steel price increases in 2Q03.

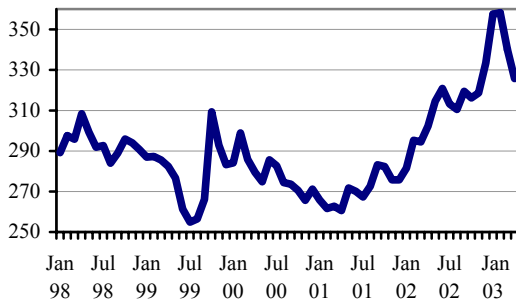
Steel prices, 2001-2003 (US\$ per tonne)



Source: Purchasing Magazine

Gold prices reached a peak of around US\$360 per ounce in February 2003. With the hopes of an early end to the war in Iraq, prices of gold fell by as early as March, and continued falling in April. Further decline of gold prices is expected.

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



Note: April data until mid-month only.

Source: Pacific FX Database.

Agricultural commodities

The IMF composite food price index in 1Q03 was at the same level of the last quarter of 2002. Prices of cereals decreased slightly, with the exception of rice. Cereal prices are expected to remain under downward pressure for the rest of the year, as world production is expected to rise from the weak 2002 harvest. Production of wheat is expected to expand primarily in Australia, Canada, the US and – to a lesser extent – in South America and in African wheat producing countries. However, a decline in wheat production is expected in 2003 in Asia, after the period of dry weather, and in the Central and Eastern Europe, where the winter was exceptionally harsh.

World prices of cotton followed an upward trend in 1Q03. Recall that in 2001 record high crops increased stocks and drove cotton prices down to levels unseen for several years. Prices have now finally recovered to their pre-2001 levels. Whether the upward trend will continue depends on the strength of demand in Asia. For now, it seems that demand, particularly in China, will remain strong. Although an increase in production is foreseen, stocks will also be reduced, which should support further cotton price increases over the course of 2003. <MJ>

Statistical Appendix

	2000	2001	2002	1Q02	2Q02	3Q02	4Q02	Jan	Feb	Mar
GDP, % yoy change										
US	3.8	0.3	2.4	1.4	2.2	3.3	2.9			
Japan	2.8	0.4	0.3	-3.1	-0.2	1.8	2.6			
EU	3.3	1.7	0.9	0.5	0.9	1.1	1.4			
UK	2.9	2	1.8	1.2	1.6	2.2	2.2			
Euro-zone	3.4	1.5	0.8	0.4	0.7	0.9	1.3			
Germany	2.9	0.6	0.3	-0.2	0	0.4	0.7			
France	3.8	1.8	1	0.7	1.2	1.2	1.7			
Czech Rep.	3.3	3.1	2	2.6	2.1	1.7	1.5			
Hungary	5.2	3.8	3.3	2.9	3	3.6	3.7			
Poland	4	1	1.3	0.4	0.8	1.6	1.3			
Russia	9	5	4.3	3	4.1	4.6	5.2			
Turkey (GNP)	6.3	-9.5	7.8	3.3	10.4	7.9	11.5			
CPI, % change yoy										
US	3.4	2.8	1.6	1.2	1.3	1.6	2.2	2.6	3	3
Japan	-0.7	-0.7	-0.9	-1.4	-0.9	-0.8	-0.3	-0.4	-0.2	..
EU15	2.5	2.5	2	2.2	1.9	1.9	2.2	2	2.3	2.3
UK (HICP)	0.8	1.2	1.3	1.5	0.9	1	1.6	1.4	1.6	1.6
Euro-zone (HICP)	2.1	2.4	2.2	2.5	2.1	2.1	2.3	2.1	2.4	2.4
Germany (HICP)	2.1	2.4	1.3	2	1.1	1	1.1	0.9	1.2	1.2
France (HICP)	1.8	1.8	1.9	2.2	1.7	1.7	2	1.9	2.5	2.6
Czech Rep.	3.9	4.8	1.8	3.7	2.3	0.7	0.5	-0.4	-0.3	-0.4
Hungary	9.8	9.2	5.3	6.2	5.5	4.6	4.8	4.7	4.5	4.7
Poland	10.1	5.5	1.9	3.4	2.1	1.3	0.9	0.5	0.5	0.6
Russia	20.8	21.6	16	18	15.8	15.1	15.1	14.3	14.8	14.8
Turkey	54.9	54.4	44.6	70.3	47	39.5	31.6	26.4	27	29.4
Short-term interest rate, %										
US	6.46	3.69	1.73	1.82	1.83	1.76	1.49	1.29	1.27	..
Japan	0.25	0.12	0.06	0.12	0.04	0.04	0.04	0.04	0.04	0.05
UK	6.11	4.97	3.99	4.01	4.1	3.95	3.92	3.91	..	..
Euro-zone	4.39	4.26	3.32	3.36	3.45	3.36	3.11	2.83	2.69	2.53
Czech Rep.	5.37	5.17	3.5	4.4	3.9	3.1	2.7	2.7	2.5	2.4
Hungary	11	10.8	8.9	8.7	8.6	9.4	8.9	7.6	..	..
Poland	16.62	14.85	..	9.92	9.24	7.96	..	..	..	..
Russia	12.8	10	12.4	14.2	12.9	11.5	11	10.4	..	..
Turkey	183.2	59	44	54.73	48	46	44	44	44	..
Unemployment rate, %										
OECD	6.3	6.5	6.9	6.8	6.9	6.9	7	7	7	..
US	4	4.7	5.8	5.6	5.9	5.8	5.9	5.7	5.8	..
Japan	4.7	5	5.4	5.3	5.4	5.4	5.4	5.5	5.2	..
EU	7.8	7.4	7.6	7.5	7.6	7.6	7.7	7.9	7.9	..
UK	5.4	5	5.1	5.1	5.1	5.2	5	..	..	..
Euro-zone	8.5	8	8.3	8.1	8.2	8.3	8.5	8.6	8.7	..
Germany	7.8	7.8	8.2	8	8.1	8.3	8.4	8.6	8.7	..
France	9.3	8.5	8.7	8.6	8.7	8.8	8.9	9	9.1	..
Czech Rep.	8.7	8	7.3	7.5	7.3	7.2	7.2	7.1	7.1	..
Hungary	6.3	5.6	5.6	5.6	5.5	5.6	5.8	5.8	..	..
Poland	16.4	18.5	19.9	19.8	19.8	20	20.2	20.2	20.2	..
Russia	9.9	8.7	7.1	8.2	7.5	7.1	7.1	8.6	..	..
Turkey	6.6	8.5	10.7	11.8	9.6	9.9	11.4	..	..	..

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

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



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

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All analyses are based on data and information available until 28 April 2003. Additional information is available upon request. Please contact CASE at global.economy@case.com.pl.

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