



THE ECONOMIC SITUATION IN THE ECE REGION

DIETER HESSE

ECONOMIC ANALYSIS DIVISION

UNECE



Major trends in the global economy so far in 2003

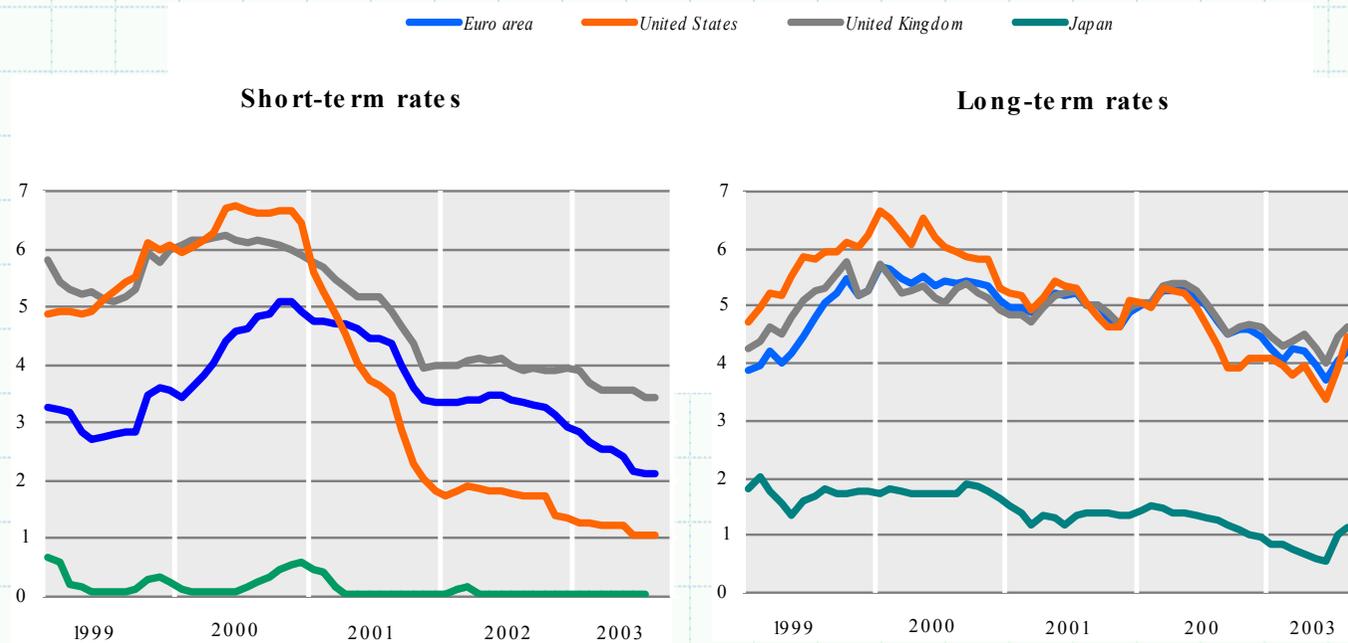
- ◆ Global economic activity picked up – but uneven regional growth forces
- ◆ United States remains main engine of global economic growth
- ◆ Japan and Asian emerging markets: strengthening economic activity
- ◆ Western Europe: continued stagnation
- ◆ Eastern Europe and the CIS: strong resilience to the weakening growth forces in western Europe

Major trends in the global economy so far in 2003

- ◆ Equity markets: driven by optimistic profit expectations
- ◆ Long-term interest rates have edged up
- ◆ Oil prices volatile – but remained at high levels
- ◆ Exchange rates: the euro appreciated further against the dollar and the yen



Nominal short-term and long-term interest rates (Per cent per annum)



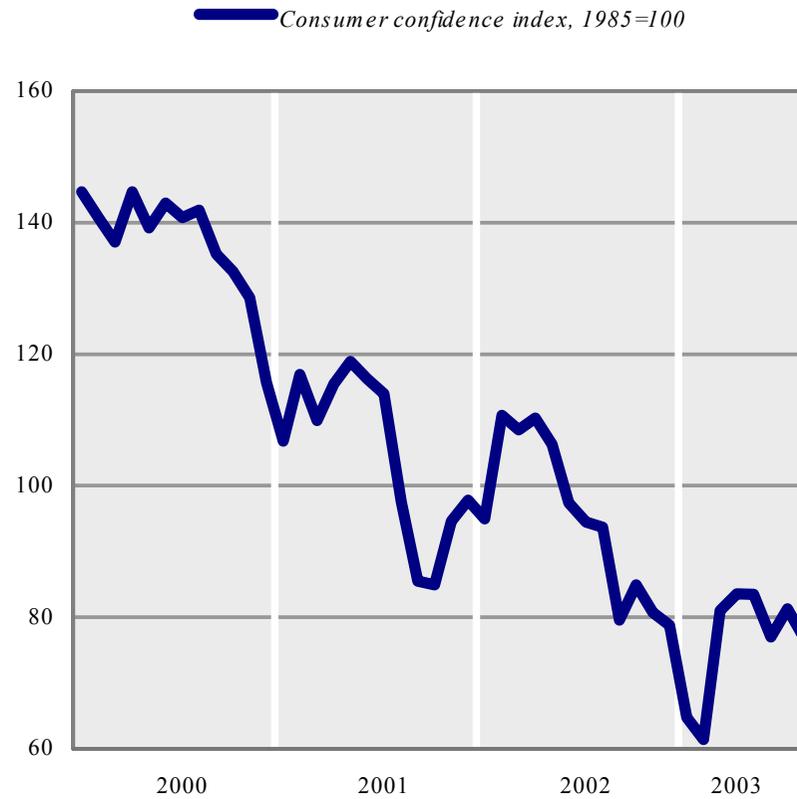
Source: Xxxxxx

United States: On the road to recovery?

- ◆ Strong growth in second quarter 2003
- ◆ Role of special factors: Iraq war
- ◆ Personal consumption remained robust
- ◆ Housing markets remained strong
- ◆ Labour markets remain weak: “Jobless recovery” ?
- ◆ Strong support from economic policy impulses



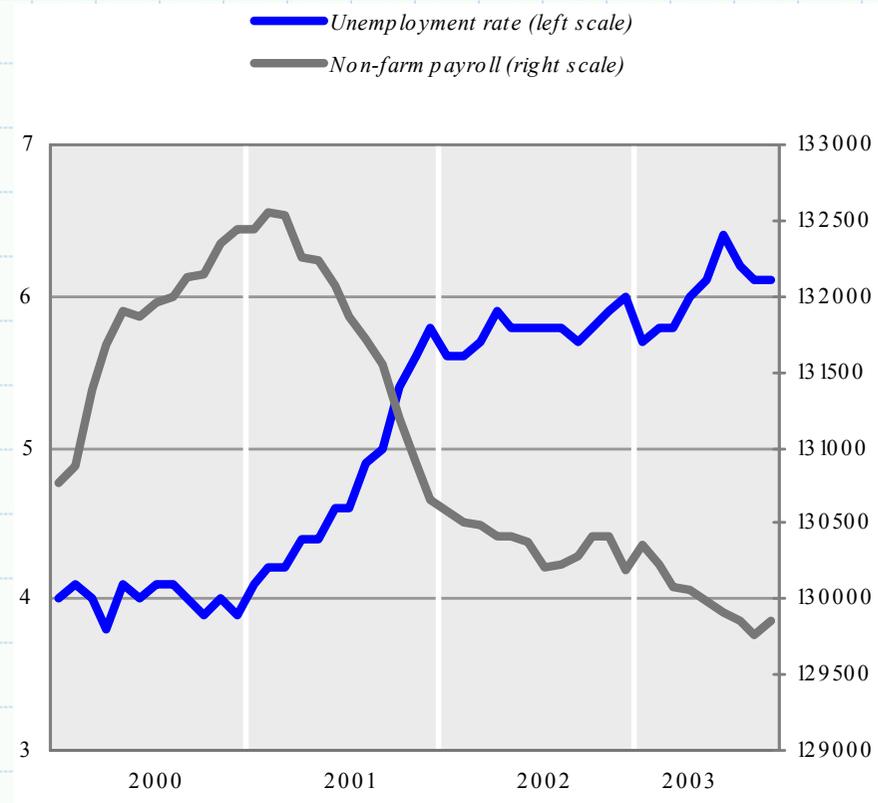
Consumer confidence in the United States



Source: Xxxxxx



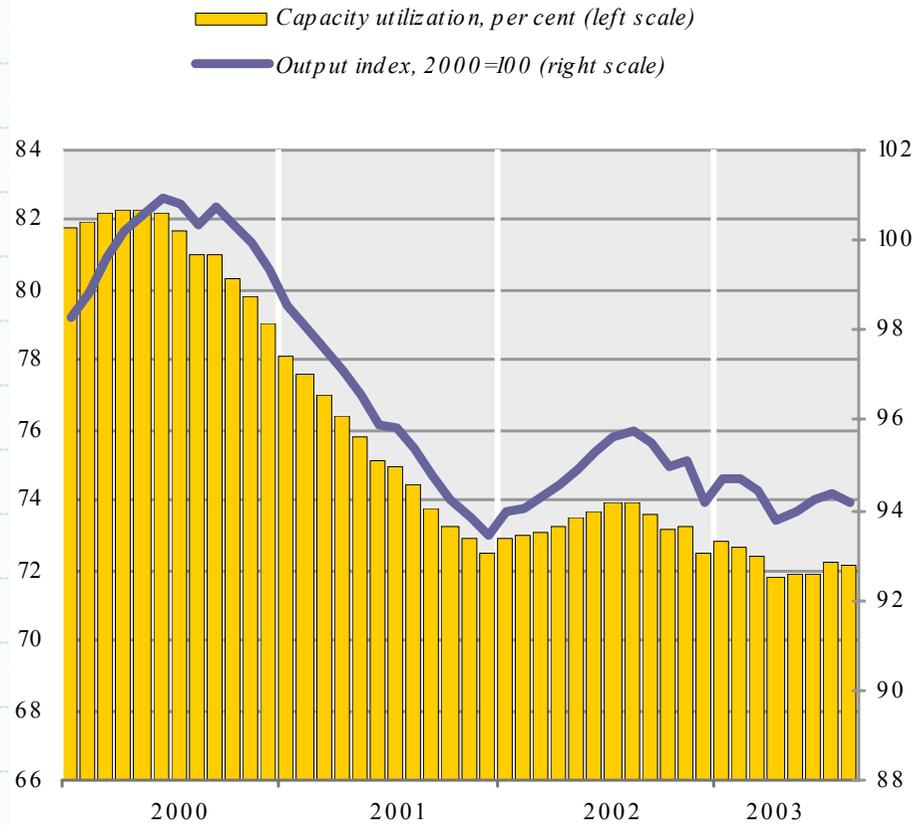
Employment and unemployment in the United States



Source: Xxxxxx



United States: Manufacturing output and capacity utilisation rates



Source: Xxxxxx



Survey on Business Activity in the United States



Source: Xxxxxx

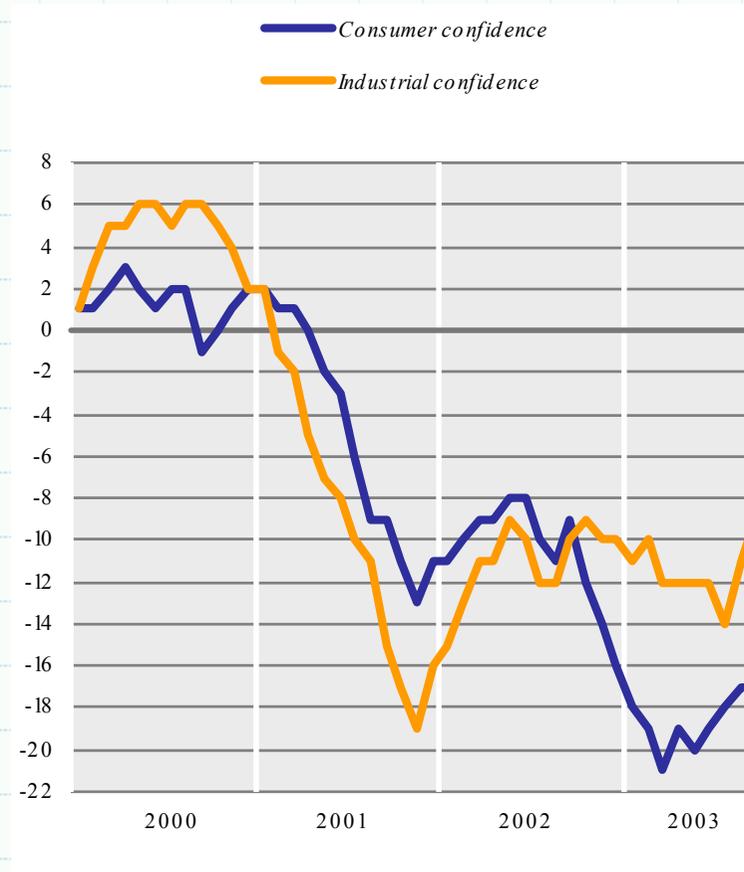
Western Europe: A disappointing economic performance

◆ Euro area:

- Recession in Germany, Italy and the Netherlands
- Persistent weakness of domestic demand
- Exports restrained by stronger euro
- Expansionary monetary policy
- Fiscal policy stance: broadly neutral



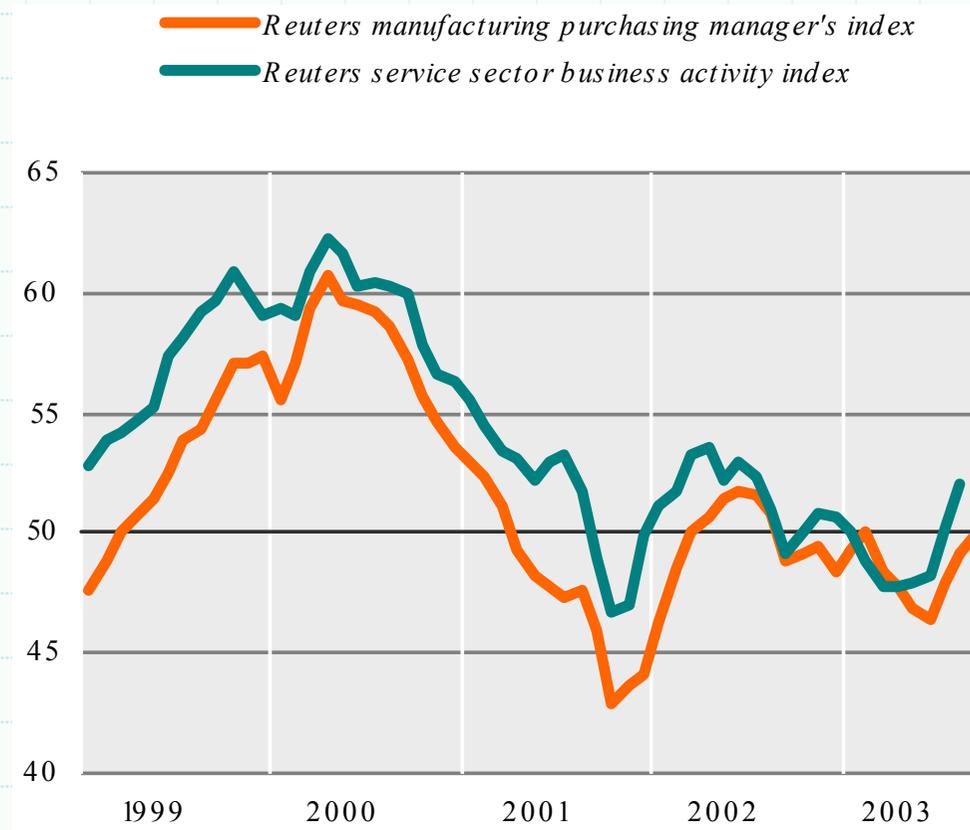
Business and consumer confidence in the euro area (January 2000-September 2003)



Source: Xxxxxx



Surveys on business activity in the euro area (January 1999-September 2003)



Source: Xxxxxx

Other western Europe

- ◆ On average stronger growth than in the euro area
- ◆ United Kingdom: economic growth picks up in the second quarter supported by private consumption
- ◆ Switzerland : recession

Eastern Europe: robust growth

- ◆ Economic growth has maintained strong momentum
- ◆ Domestic demand: mainstay of economic activity
- ◆ Notably strong growth of private consumption
- ◆ Exports dampened by stagnation in western Europe; but supported by re-direction of goods to other markets
- ◆ Changes in net exports subtracted from growth in most countries
- ◆ Buoyant growth in the Baltic States
- ◆ Below average growth in the Czech Republic and Hungary

CIS: strong growth momentum

- ◆ Buoyant growth of economic activity
- ◆ Real GDP up more than 7 per cent in the first half of 2003
- ◆ Main driving forces:
 - Rapid expansion of domestic demand
 - Upturn in world energy and commodity prices (for exporting countries)
 - Increase in FDI in some countries, esp. Russia

The short-term outlook

- ◆ Growth forecasts for western Europe and eastern Europe for 2003 were generally lowered
- ◆ Developments in the United States as projected earlier
- ◆ Some upgrading for CIS countries
- ◆ General strengthening of growth in 2004: reflecting the expected improvement in the external economic environment



Changes in real GDP in the developed market economies, 2001-2004

(Percentage change over previous year)

	2002	2003	2004
France	1.2	0.4	1.7
Germany	0.2	–	1.6
Italy	0.4	0.5	1.6
Austria	1.0	0.7	1.8
Belgium	0.7	0.6	1.6
Finland	1.6	1.3	2.6
Greece	4.0	3.7	3.9
Ireland	6.0	2.7	3.9
Luxembourg	1.1	1.5	4.0
Netherlands	0.2	-0.4	1.3
Portugal	0.5	-0.5	1.6
Spain	2.0	2.3	2.9
Euro area	0.9	0.5	1.9
United Kingdom	1.9	1.8	2.6
Denmark	1.6	1.2	2.0
Sweden	1.9	1.6	2.3
European Union	1.1	0.8	2.0
Norway	1.5	0.6	2.3
Switzerland	0.2	-0.4	1.4
Turkey	7.8	5.3	5.0
Western Europe	1.3	1.0	2.1
Canada	3.3	2.0	3.0
United States	2.4	2.6	3.9
North America	2.5	2.6	3.8
Japan	0.2	1.9	1.2
Total above	1.7	1.8	2.7

Source: National statistics; Eurostat; UNECE secretariat estimates; Consensus Forecasts, September 2003; IMF, World Economic Outlook, September 2003.

Note: Data for 2003 and 2004 are projections or forecasts.



Changes in real GDP in eastern Europe, 2001-2004 (Percentage change over previous year)

	<i>Actual</i>		<i>Official forecast</i>	
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Eastern Europe	3.1	3.0	3.6	4.4
Albania	6.5	4.7	6	6
Bosnia and Herzegovina	4.5	3.7	3	5
Bulgaria	4.1	4.8	4.8	5.0-5.3
Croatia	3.8	5.2	4.7	5
Czech Republic	3.1	2.0	2.4	2.8
Estonia	6.5	6.0	4.5	6*
Hungary	3.8	3.3	2.8-3.2	3.5
Latvia	7.9	6.1	7	5-6
Lithuania	6.5	6.7	6.8	6.2
Poland	1.0	1.4	3.0-3.5	5
Romania	5.7	4.9	4.5-5.0	4-5*
Serbia and Montenegro	5.5	3.8	0-1	4
Slovakia	3.3	4.4	4	4
Slovenia	2.9	3.2	2.6	3.7
The former Yugoslav Republic of Macedonia	-4.5	0.7	2-3	3-3.5*
<i>Memorandum items:</i>				
Baltic states (BS-3)	6.9	6.3	6.3	5.9
Central Europe (CE-5)	2.1	2.2	3.1	4.2
South-east Europe (SEE-7)	4.8	4.6	4.2	4.6

Source: National statistics; direct communications from national statistical offices to UNECE secretariat.



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Can the recovery be sustained?

- ◆ Dilemma: US as engine of growth – this will lead to a further increase in the already huge current account deficit
- ◆ Risk of disruptive adjustment of capital flows and exchange rate patterns
- ◆ « Jobless recovery » : erode consumer confidence and weaken spending
- ◆ Excess capacity (« overinvestment »)

Can recovery be sustained?

◆ **Other risks to US consumer spending:**

- Higher interest rates:
 - ◆ High levels of household debt
 - ◆ Reduced scope for mortgage refinancing
 - ◆ End of boom ("bubble"?) in the housing market
 - ◆ Impact on business investment

◆ **Euro area: risks of stronger euro appreciation**

◆ **Persistently high oil prices**

◆ **Need for rebalancing global growth forces**