I. WORLD ECONOMY

In 2002, world economic growth stabilised and accelerated against 2001; however, major economic and political risks remained. According to the International Monetary Fund (IMF) estimate, the GDP of developed countries increased by approximately 1.4% (0.6% in 2001; see Table 1.1). **Economic recovery is expected to continue in 2003, although results depend largely also on geopolitical developments.**

Table 1.1. Economic indicators of industrial countries

	GDP (%)		CPI (%)		Unemployment (%)		Budget surplus/deficit (% of GDP)		Current account balance (% of GDP)	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
World	**2.2**	**2.8**								
G7 countries	0.6	1.4	2.1	1.2	6.0	6.6	-1.7	-3.0		
USA	0.3	2.4	2.8	1.6	4.8	5.8	-0.7	-3.6	-3.9	-4.8
Japan	0.4	0.3	-0.7	-0.9	5.0	5.4	-7.2	-7.7	2.1	2.8
European Union	**1.6**	**1.0**	**2.6**	**2.3**	**7.4**	**7.6**	**-0.9**	**-1.9**	**-0.2**	**0.4**
Euro area	1.4	0.8	2.6	2.2	8.0	8.3	-1.5	-2.3	0.4	1.1
o/w Germany	0.6	0.2	2.4	1.3	7.8	8.2	-2.8	-3.7	0.1	2.2
France	1.8	1.0	1.8	1.9	8.6	8.9	-1.4	-3.0	1.8	1.9
Finland	0.7	1.6	2.7	2.2	9.1	9.4	4.9	3.4	6.5	6.7
Other EU countries										
o/w Great Britain	2.0	1.7	2.1	2.2	5.1	5.2	0.8	-1.5	-1.7	-1.8
Sweden	0.8	1.9	2.4	2.4	4.0	4.0	4.7	1.6	3.1	3.9

The data for 2002 are preliminary.
Source: International Monetary Fund, World Economic Outlook, March 2003

The world faced the year 2002 with uncertainties. The US economy declined in the first three quarters of 2001 and this was further aggravated by the negative impact of the September 11th terrorist attacks on the economy, financial markets and overall confidence. In Japan and the euro area, economic growth slowed down in the conditions where various structural problems blocked the increase of domestic demand. Therefore, growth forecasts were moderate: the US economy was expected to grow by 0.9%, 1.2% growth was predicted for the euro area and 0.3% for Japan[1].

[1] Consensus Forecasts, February 2003.

The US economic growth differed most from the forecast, amounting to an estimated 2.4% and exceeding the expectations by more than two times. This can mainly be attributed to the relatively rapid growth of both public and private consumption, supported by very expansive monetary and fiscal policy. In the euro area, where monetary incentives were weaker, economic growth fell short of expectations (approximately 0.8%). In Japan GDP did not decline, but growth remained modest (0.3%).

Thus, 2002 was in many ways similar to 2001: growth rate remained below its long-term potential, the increase of unemployment and weakening of stock markets continued. Still, certain stabilisation and passing of the low point could be noticed, which gave hope that growth would pick up moderately in 2003. The increase of tensions at the end of the year due to geopolitical risks can be regarded one of the characteristics of 2002. This led to a considerable increase in oil prices. The second half of 2002 saw also extensive weakening of the US dollar.

In 2003, economic growth is predicted to accelerate in major economic areas, although rebound to trendline growth is generally not expected until 2004. Besides economic factors, the actual development depends also on geopolitical factors. The volatility of 2002 economic indicators and confidence can thus persist also in 2003. The GDP growth in major global economies over the last decade is given in Figure 1.1.

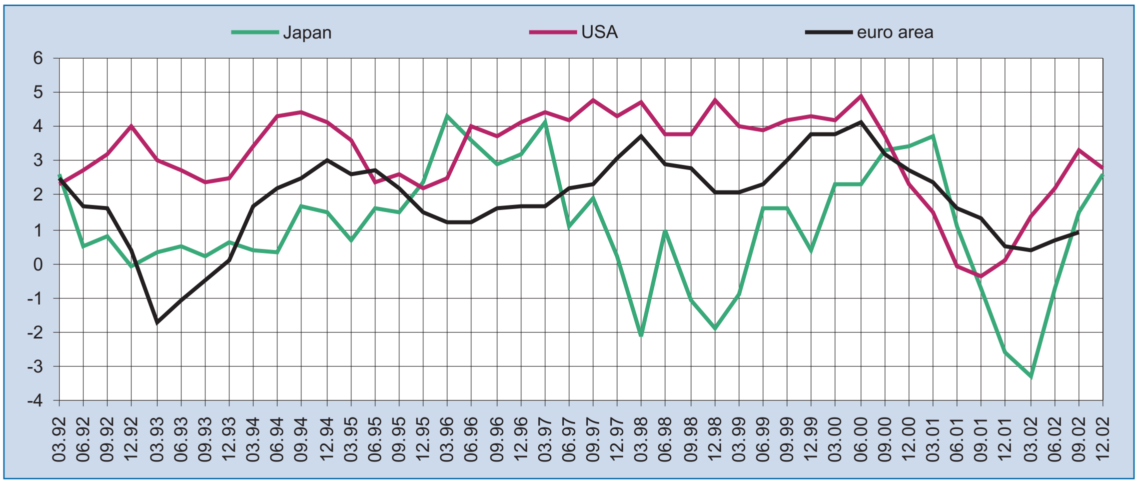

Figure 1.1. Annual growth of GDP in major global economies over the last decade

UNITED STATES OF AMERICA

In the USA, the 2002 economic growth turned out higher than predicted, although the average level of the second half of the 1990s was not achieved. Recovery is expected to continue in 2003, and the risks threatening economic growth are expected to diminish.

The US economic growth increased faster than expected due to several factors. At the beginning of the year, the economy received a strong stimulus from the need to replenish stocks that had decreased rapidly in 2001. Growth-stimulating monetary and fiscal policy also played an important role. The rapid decline of base rates in 2001 supported private consumption, and in November the Federal Reserve decided to reduce the base rates by another 0.5 percentage points[2] – to 1.25%. The fall of interest rates to the lowest level of the past 40

[2] Percentage points are used to measure the difference between two indicators expressed in per cents. For example, when some indicator used to be 5% and is now 6%, it has increased by one percentage point.

years encouraged car and real estate sales. This brought along a new wave of mortgage refinancing, which supplemented the income of households and stimulated private consumption. The growth of public consumption also helped: defence spending increased by 9.3%, which is the sharpest growth since 1967. Accommodative fiscal policy led to an increase in budget deficit to 3.6% of GDP. Rapid shift from budget surplus to deficit constitutes a potential risk to the stability of public finances in the medium and short term.

At the same time, company investments continued to decline and the fall of stock markets accelerated. Unemployment rate climbed to 5.8%, as the desire to cut expenses and uncertain growth prospects slowed down hiring of new workers. Weakness of the labour market, downward trend of the stock market and geopolitical factors dragged consumer confidence to its lowest level since 1993. The inflation rate was 1.6%.

Moderate global growth and higher domestic demand increased the current account deficit to 4.8% of the GDP. Higher dependence on capital inflow combined with the rapid decline of the US stock markets led to a turnaround in the long-term appreciation trend of the dollar. In the longer run, weakening dollar should support the growth of US exports and decrease the current account deficit.

JAPAN

Japan managed to avoid the repetition of economic recession in 2002, but growth was mostly based on external demand. Recovery of domestic demand is the main objective of Japan's economic policy, requiring extensive reforms.

According to preliminary estimates, Japan's GDP increased by 0.3% last year. In the fist half of the year, economic growth was facilitated by global recovery which supported industrial output and private consumption. Dependence on external demand can be seen from the fact that while export increased by 8.3% domestic demand fell by 0.4%. The latter resulted from the decline of company investments, as both public and private consumption increased.

The 2002 developments derived from the long-term structural problems of the Japanese economy, which have resulted in sluggish growth, increase of unemployment, crisis of the financial sector and other symptoms of economic stagnation. Persistent deflation hinders the growth of domestic demand, adding to the debt burden and encouraging saving. Deflation in Japan constitutes a warning example to the US and euro area policy makers, as stopping the fall of prices has turned out to be a difficult task.

However, no major reforms were carried out in 2002, which would have created better opportunities for alleviating current economic problems, although some steps in this direction were taken. Economic reforms are particularly important because the scope for more expansive monetary and fiscal policy is limited: the base rate has been dropped to zero and public debt has increased to nearly 150% of the GDP. Therefore, no significant acceleration of economic growth is predicted for 2003 and the focus of attention is still on the efforts to reform the economy.

EUROPE

Economic growth in the EU countries remained slow in 2002 due to both internal and external factors. However, economic recovery is expected to continue and strengthen in the second half of 2003. Firmer economic upturn requires both cyclical stimulus and continuation of structural reforms.

The EU and euro area economic growth fell short of expectations in 2002, amounting to 1 and 0.8%, respectively. In contrast to the US and Japan, where GDP growth increased and exceeded forecasts, economic decline in the euro area continued. The main problem was persistently weak domestic demand, accompanied by the slowdown of external demand in the second half of the year. Unemployment climbed to 8.3% by December, being one reason for the decline in consumer confidence. There were significant regional differences in economic activity, notably the weakness of the German economy as compared to other countries. In Germany, GDP increased by just 0.2%, at lowest rate since the 1993 slump.

While domestic demand in the euro area was already weak in 2001, the weakening of external demand was caused by the appreciation of the euro and the resulting decrease of competitiveness on the world market[3]. Economic growth was also negatively affected by the fall of the stock market, which was more extensive than the decline in the US and Japanese equity market. Although the European Central Bank (ECB) added monetary stimulus by continuing to lower the base rates in 2002, financial conditions actually became more restrictive for economic growth compared to the beginning of 2001.

The level of inflation remained above the ECB's 2% target almost throughout the year. Rise of consumer prices was partly caused by changeover to euro banknotes and coins at the beginning of 2002. This prevented early loosening of the monetary policy. The slow increase of demand, however, improved the outlook for inflation slowdown, which provides grounds for the central bank to continue lowering the base rates in order to support growth.

As global economic growth is expected to pick up in 2003 and additional monetary policy stimulus is possible, gradual economic recovery is predicted for the euro area. However, trendline growth is expected to resume in 2004 depending on the resolution of geopolitical problems. Hopefully, structural reforms will also continue in the euro area, which determine the long-term growth rate of the economy.

Finland and Sweden

In 2002, fewer signs of economic recession were seen in **Sweden** than in the euro area countries. After the slow recovery at the end of 2001 and early 2002, the GDP growth accelerated to a potential level in the second and third quarter. Therefore, annual growth rate amounted to 1.9% as expected (see Figure 1.2). Looking at the 2003 forecast (1.9%[4]), it has to be kept in mind that the 2002 recovery can mostly be attributed to the growth of government spending and private consumption. No clear signs of the growth of export demand were seen and investments of companies decreased. However, the services sector, which accounts for 60% of the GDP, is capable of balancing the more unstable growth of goods for some time.

In the first half of 2002, the Swedish central bank increased repurchase rates twice, to the final 4.25%. Due to the delayed enlivenment of the world economy, monetary policy was loosened by 0.5 percentage points in November and December, following the example of the ECB. The government, in turn, cut taxes and increased spending, which brought state budget surplus down from 4.7% to 1.6% of the GDP. As further shrinking of the income base would unbalance the budget, the government agreed to tighten fiscal policy in 2003.

However, the 2002 developments did not point to the weakening of the entire economic structure of Sweden. The foreign trade surplus increased by 13%, year-on-year, since the volume of imports needed for growth was the smallest of several recent years. The decrease of unemployment continued as well – over the past four years the unemployment has dropped from 8% to 4%.

While in the first quarter of 2002 economic decline continued in **Finland**, GDP growth accelerated to 3.1% in the fourth quarter and the annualised growth rate of 1.6% corresponded to expectations. As the growth rate

[3] Analysis conducted with IMF's macromodel Multimod indicates that persistent 10%-increase of the real rate of the euro reduces GDP growth by 1.1 percentage points in the first year and by 0.2 percentage points in the second year.
[4] Consensus Forecast, February 2003.

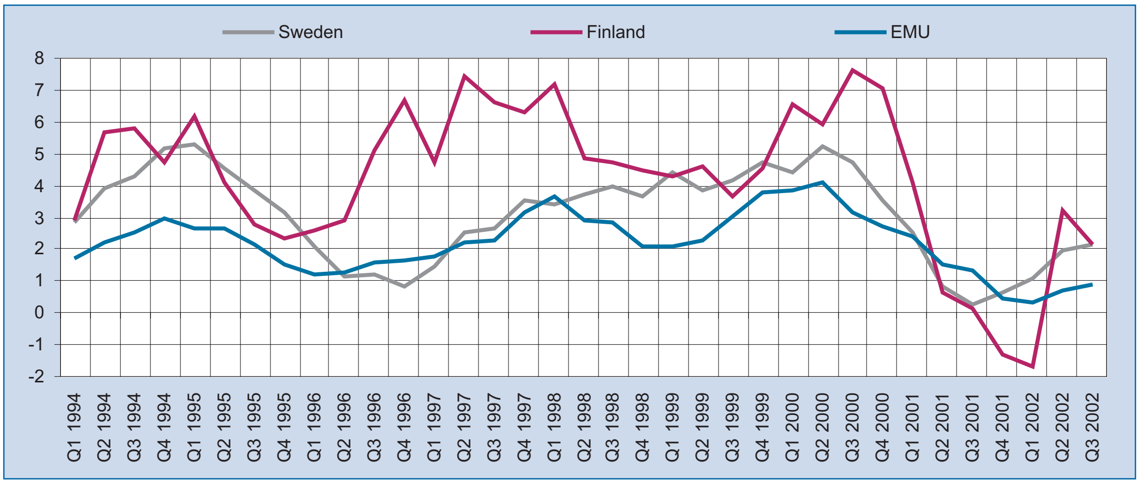

Figure 1.2. Annual economic growth in Sweden, Finland and EMU countries on an average (%)

of the euro area import demand is still uncertain, the 2003 economic growth has been projected at 2.6%. Forecasts about export-related recovery are based on trade relations with Asia, Russia and the Baltic countries that have tightened from year to year.

Another indication that Finland's economic cycle was ahead of other euro area countries in 2002 was the fact that the growth of private consumption accelerated from 1% to 2.5%. Decline of consumer confidence due to the fall of the stock market was balanced by increase of real wages and tax reductions. Inflation rate corresponded to the euro area average.

Given the duration and depth of the recent recession, the stability of Finland's external balance and unemployment is remarkable. Expected surplus of the current account amounted to 6.7% of GDP and unemployment stood at 9.4%. Like in Sweden, the surplus of the general government budget has decreased sharply – from 7% to 3.4% over the past two years.

Central and Eastern European Accession Countries

Despite the problems, the economic growth of the EU candidate countries was considerably faster in 2002 than that of the EU countries (see Figure 1.3). Given the impact of external environment, the growth was relatively robust, although it was smaller than in 2001. Delayed recovery of external demand was compensated by relatively strong domestic demand. Price pressure was moderate and inflation decreased considerably, making way for possible lowering of interest rates. Strong inflow of capital into EU candidate countries continued in the form of both direct and portfolio investments. This indicates the continuing attractiveness of the CEE countries due to their lower production costs and pending convergence to the EU countries. At the same time, it created also considerable upward pressure on the exchange rate, leading to worries about the fall of competitiveness. Due to the relatively unfavourable external environment and structural shortcomings, the imbalances of the economy have increased in some countries, expressed mainly through higher budget deficits. Budget deficit has even become a potential obstacle for joining the euro area. Ensuring sustainability of the current account is also important.

In 2003, economic growth of the EU candidate countries is projected similar to 2002 or slightly higher, although external risks remain (see Table 1.2). Inflation is expected to accelerate slightly, driven by higher fuel prices and accession-related factors. No rapid decrease of budget and current account deficit is expected.

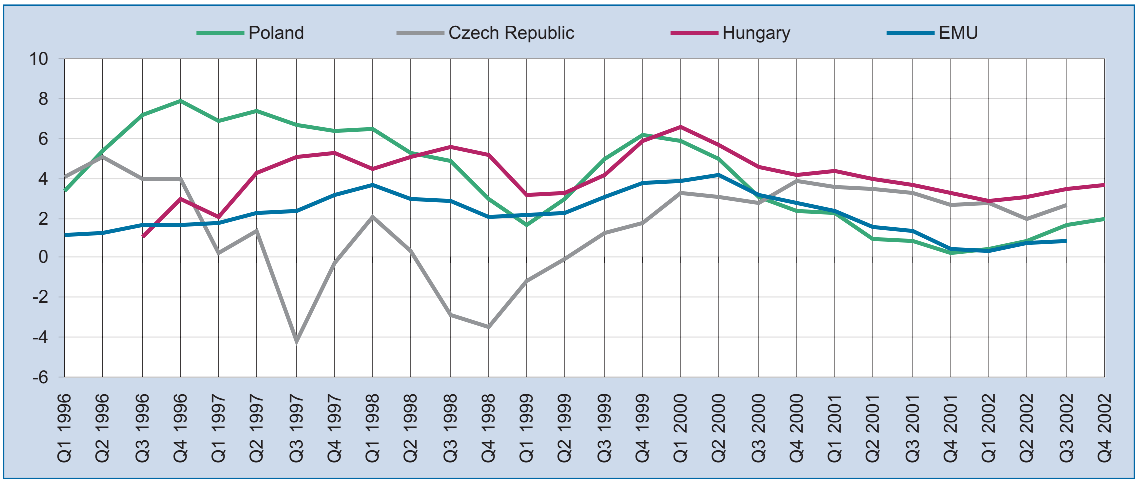

Figure 1.3. GDP growth in some Central and Eastern European countries compared to the average of EMU member countries (%)

Table 1.2. Economic indicators of EU candidate and some other countries

	GDP growth (%)			Average growth of CPI (%)			Current account balance (% of GDP)		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Candidate countries									
Cyprus	2.0	3.5	4.5	2.8	4.5	2.5	-9.1	-7.4	-6.6
Czech Republic	1.9	1.8	3.4	1.8	1.8	3.1	-5.7	-5.4	-5.0
Estonia	**5.6**	**4.9**	**5.2**	**4.3**	**3.6**	**2.9**	**-10.1**	**-5.0**	**-5.1**
Hungary	3.3	3.6	4.2	5.3	5.2	4.7	-5.5	-5.8	-5.1
Latvia	6.1	5.5	6.0	1.9	3.0	3.0	-8.8	-8.5	-7.2
Lithuania	5.9	5.3	5.7	0.3	2.1	2.5	-5.4	-5.8	-5.4
Malta	2.7	3.2	3.5	2.2	2.4	2.5	-6.5	-6.0	-5.5
Poland	1.3	2.7	4.3	1.9	1.3	2.5	-3.4	-4.0	-4.4
Slovakia	4.1	3.8	4.0	3.3	8.8	7.5	-8.3	-6.8	-6.6
Slovenia	2.8	3.0	3.6	7.5	5.7	4.4	2.2	2.1	1.9
Other countries									
Russia	4.3	3.5	3.0	16.0	13.0	9.8	8.6	9.0	3.6
Argentina	-11.0	1.7	4.5	25.9	26.8	16.5	8.7	6.4	5.0
Brazil	1.5	2.5	3.5	8.4	13.9	5.8	-1.7	-1.4	-1.9
China	8.0	7.5	7.5	-0.7	-0.7	-1.5	1.9	1.5	1.2

Source: IMF (data for 2002 are preliminary, data for 2003 and 2004 are forecasts)

In the **Czech Republic**, GDP growth was smaller than in 2001, reaching approximately 2%. The effect of Western European, notably German recession, was strongly felt, although it became apparent later than in other countries. So far, the economy has been supported by private consumption and low interest rates being even lower than those of the euro area. The appreciation of the koruna until the second half of 2002 and weak external demand put companies under continuing pressure of cost cutting in order to maintain competitiveness. Although cost cutting has improved productivity, it has also increased unemployment. The Czech economy received a serious blow also from extensive flooding in August that disrupted both production activity and movement of goods. Budget deficit is remarkably large, dominated by extensive social transfers and costs related to the restructuring of the banking sector. Balancing of the budget will take time. A slightly faster economic growth is expected in 2003, based on domestic demand and investments.

In **Hungary** external weaknesses were extensively compensated by domestic factors in 2002, first of all, by expansive fiscal policy. Domestic demand remained high, due to public sector investments and strong private consumption. The latter was supported by extremely rapid increase of earnings. Real wages increased by more than 13% in 2002, and in the public sector wages increased by more than two times. Inflation remained within the projected range, due to the favourable dynamics of fuel and food prices, but in 2003 inflation is expected to increase slightly due to the growth of wages. High domestic demand more than tripled the absolute volume of current account deficit. Besides higher trade deficit, considerable decline in the tourism industry income also contributed to the current account deficit. Extensive investments and post-election pay rises boosted the government sector deficit to more than 9% of the GDP. The deficit is expected to be cut by approximately half in 2003. The weakening of the fiscal stimuli means that economic growth will depend more on the development of Western European countries.

In **Poland,** economic activity was slightly higher in 2002 than it had been in 2001: the GDP increased by 1.3 and 1%, respectively. Modest growth can be attributed to the relatively low domestic demand for some time now. In 2002, consumption increased somewhat, but mostly due to single factors. One of the factors that restricted demand was high unemployment. The unemployment rate has been increasing since the Russian crisis five years ago and reached the record level of 18.1% at the end of 2002. As commodity prices remained low, besides the lack of domestic price pressure, the rate of inflation kept decelerating throughout the year. In future, prices are expected to grow faster due to the EU accession-related changes in the tax policy. Modest domestic demand helped to reduce the current account deficit. As inflation slowed down, monetary policy was loosened considerably and investments started to resume in the second half of the year. The turnaround of the zloty exchange rate dynamics also helped to ease the situation of the export sector. Despite all this, growth expectations for 2003 are rather cautious.

Baltic Countries

The Baltic countries boasted high economic growth also in 2002, which met earlier expectations or even exceeded them (see Figure 1.4). Stable and open economic environment and strong domestic demand helped to maintain the growth rate. Still, weak external demand was felt, first of all, in the relatively large current account deficit.

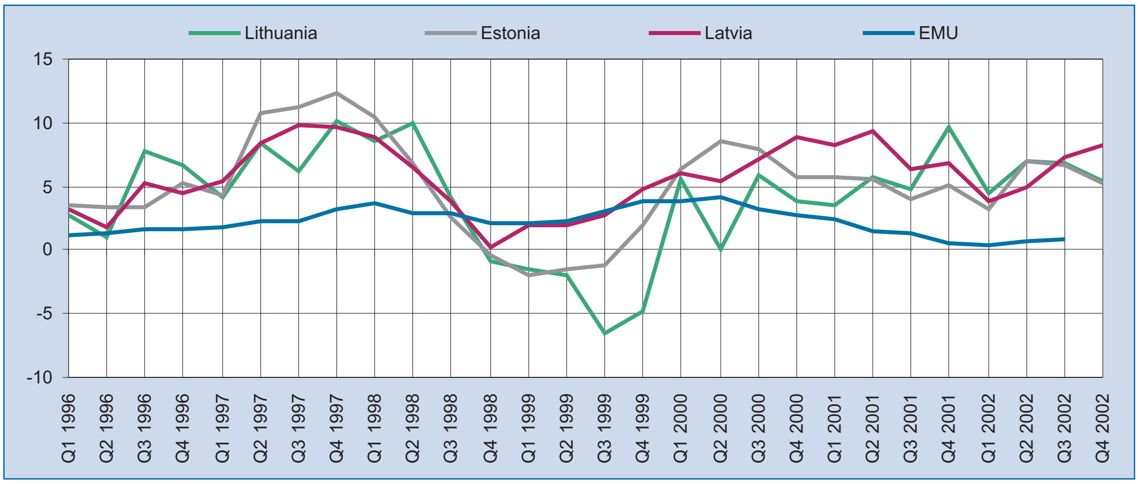

Figure 1.4. GDP growth in the Baltic countries compared to the average of EMU member countries (%)

2002 was successful for all three Baltic countries as far as accession to the EU is concerned. Negotiations were concluded and at the Copenhagen summit in December Estonia, Latvia and Lithuania were invited to join the EU in May 2004. Due to the fixed exchange rate and deepening economic integration, the Baltic countries hope to adopt the euro soon after full membership. Unlike in large candidate countries, the fiscal deficit of the Baltic States has been under control and the prospects of meeting the Maastricht criteria are better in this respect.

In **Latvia,** economic activity increased gradually throughout the year. The GDP growth amounted to 6.1%, being higher than predicted at the beginning of 2002. Growth can mostly be attributed to consumption and investments. The determining factor was robust private consumption, supported by the increase of income and extensive growth of borrowing. Domestic demand and export, which improved in the second half of the year, supported the production sector, however, due to lower demand in the first half-year industrial output growth remained below the respective indicator of 2001. Despite the growing demand, inflation declined, supported by lower fuel and food prices.

In the second half of 2002, foreign trade picked up and weakening of the exchange rate of the lat supported Latvia's competitiveness in the European markets. Depreciation of the lat was caused by the weakening dollar in the currency basket the lat is pegged to. Export volume increased by 12.1%, but import increased even faster, due to domestic demand. Higher trade deficit led to a relatively large current account deficit – 8.8% of the GDP. The shrinking of oil transit through Latvian ports had a negative impact, as well. So far, current account deficit has mostly been covered by direct investments.

Latvia's fiscal policy was mostly balanced in 2002 and the objective was to keep budget deficit at 1.8% of the GDP. In December, however, the government sector spending increased sharply, first of all, at the level of local governments, and general government deficit climbed to approximately 2.6%. In 2003, budget deficit is planned at 3% of the GDP.

The activity of the financial sector remained high in Latvia also in 2002 and private sector loans increased by 36.5%. Lower interest rates contributed to the growth of borrowing. Latvia has 23 commercial banks, including one branch of a foreign bank. The share of foreign capital in banks is two thirds and the state still owns approximately 8% of the banks.

In **Lithuania,** economic growth was estimated at 5.9% in 2002, the same as in 2001. The GDP growth clearly outstripped forecasts, which indicates that the economy was able to overcome the early-year recession quicker than expected. Growth was relatively broad-based – private consumption remained high throughout the year and investments improved as well. Consumption was facilitated by higher income and declining unemployment. Besides consumption, economic activity was also supported by accelerating export growth.

Price level decreased in 2002: regardless of high domestic demand consumer prices increased by just 0.3%. This can mostly be attributed to the cheapening of food and fuel. Besides external impact and tighter competition, another important factor that slowed down inflation was the repegging of the litas at the beginning of the year and the subsequent rapid strengthening of the euro. As the litas has been pegged to a strong and strengthening anchor in recent years, inflation has been limited.

However, the impact of the growing real exchange rate and lower economic growth of the euro area was modest. Export continued to grow from mid-2002 and by the end of the year the growth rate amounted to 10.6%. Import increased at a slightly faster rate. Lithuania was active in finding new export markets and more attention was directed towards Russia. Export of services was also successful and therefore Lithuania had the lowest current account deficit among the Baltic countries – just 5.4% of the GDP. The government sector deficit was kept below the planned target (1.2% of GDP instead of 1.5%) due to efficient revenue collection. In 2003, general government deficit is set at 2% of the GDP.

Alongside the overall enlivenment of the economic environment and decline of interest rates, activity of the Lithuanian financial sector increased considerably in 2002. Bank loans increased by 22% year-on-year, and long-term loans to private persons even surged by 76%. Among major changes in the banking sector we could mention privatisation of Žemes Ukio Bankas (Agricultural Bank) and issuing of operating licence to VB Busto Kreditu ir Obligaciju Bankas (Mortgage Bank). There are 14 commercial banks in Lithuania, including four branches of foreign banks. Foreign ownership in banking exceeds 80%.

Russia

Rapid economic growth (4.3%) continued in Russia in 2002, characteristic of transition countries. The structure of growth changed considerably as compared to previous years. Private consumption increased and its share in GDP growth was up 2.2 percentage points. Consumption was supported by the 16% growth of real wages and pensions. However, investment activity decreased and production and export are still based on commodities. Therefore, the increase of domestic demand for manufacturing was balanced by the 12.5% growth of import. Import of goods was also facilitated by the appreciation of the real rate of the rouble. As fuel and electricity account for approximately 60% of Russian export, growing dependence on the prices of commodities poses a risk for the Russian economy. Customs duties make up approximately 20% of budget revenue and besides earnings from privatisation these are an important source of finance for the planned structural reforms.

EMERGING MARKETS OF LATIN AMERICA AND ASIA

Economic and political situation in Latin American emerging markets remained unstable in 2002, but in Asia economic growth accelerated.

In major **Latin American** countries political and economic risks remained relatively high. Therefore, investors were cautious and capital flows decreased considerably. The consequences of inadequate economic policy, huge debts and shrinking capital flows can most clearly be seen in the decline of the Argentine economy that has lasted for four years already and has also affected neighbouring countries. The negative experience of Argentina deepened suspicions about the sustainability of the Brazilian economic policy in financial markets. Countries that have been able to implement more efficient and stable economic policies and have reduced their debt burden and dependence on foreign capital have coped much better with the fluctuating impact of the world economy and neighbouring countries.

In the developing countries of **Asia**, economic growth was restored in 2002 in accordance with expectations. The average growth rate of the GDP was 5–6% (excluding Japan). Besides export as the traditional engine of economic growth, the role of domestic demand has increased. Domestic demand is supported by the decrease of savings and higher borrowing. China’s membership in the WTO has benefited the entire Asian region, boosting trade and attracting new investments. Economic growth similar to that of 2002 is expected in Asia also this year. Main risks are seen in the global weakness of capital spending, vulnerability to changes in the demand of high-tech products and increased external risks (including geopolitical problems and oil price).

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Major **stock markets** continued to trend downwards in 2002 (see Figure 1.5). Below trendline economic growth, persistent pressure on company profits and uncertainty arising from increasing geopolitical risks had negative effect on equity investments. Stock market fell the most in the euro area (by 35%). The decline was steeper in 2002 than in 2001 also in the USA (23 versus 13%). In Japan, where the stock index fell by 19%, the decline has continued for more than a decade.

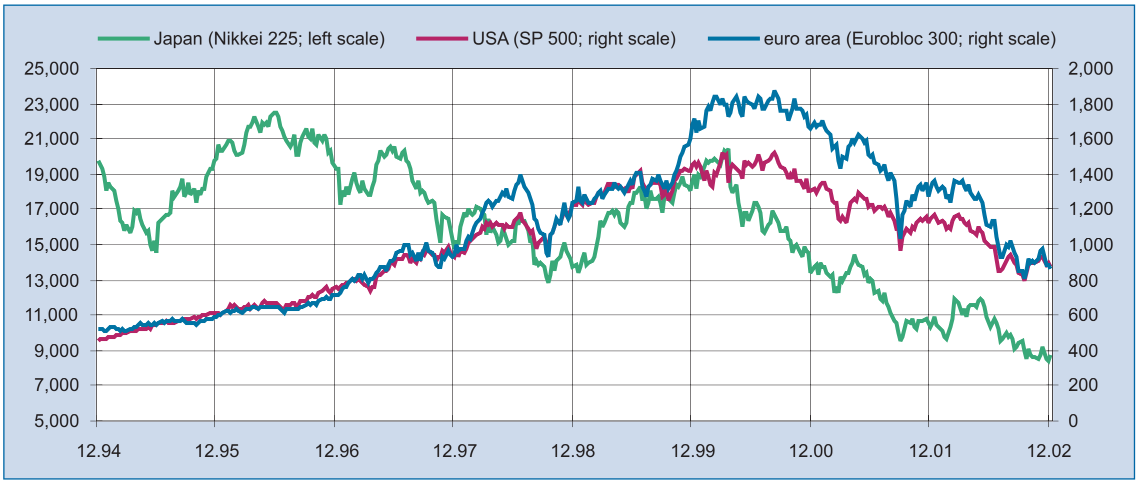

Figure 1.5. Indices of major stock markets between 1995 and 2002

Bond markets were supported by the decline of stock markets, small economic growth and geopolitical instability. These factors prompted the US Federal Reserve and the European Central Bank to lower the base rates by another 50 basis points (to 1.25 and 2.75%, respectively), resulting in the decline of short-term interest rates. Long-term (10-year) interest rates fell even more (by 123 basis points in the USA and by 80 basis points in the euro area), as investors traditionally buy more government bonds in times of economic and political uncertainty (see Figure 1.6).

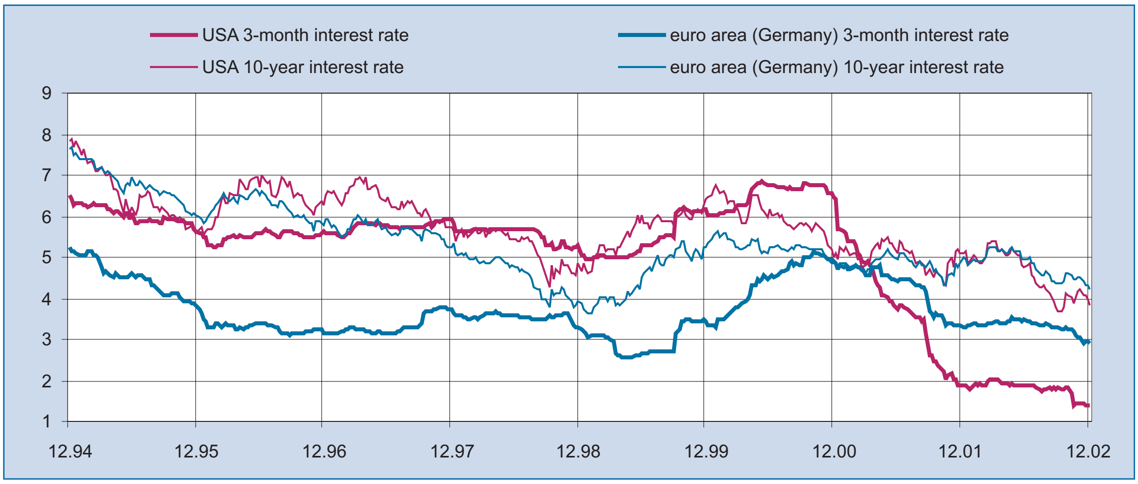

Figure 1.6. Interest rates in the USA and euro area between 1995 and 2002

In **foreign exchange markets** the most significant change was the turnaround of the trend of the US dollar exchange rate. The dollar depreciated by 18% against the euro and by approximately 10% against the Japanese yen, regardless of the weaker economic indicators of the euro area and Japan (see Figure 1.7). A major reason for the weakening of the dollar was the continuing decline of the US stock market. Another important factor was the record current account deficit (nearly 500 billion dollars), the financing of which requires involvement of a large part of other countries' savings through capital inflow. However, it is becoming more and more difficult to sustain such inflow.

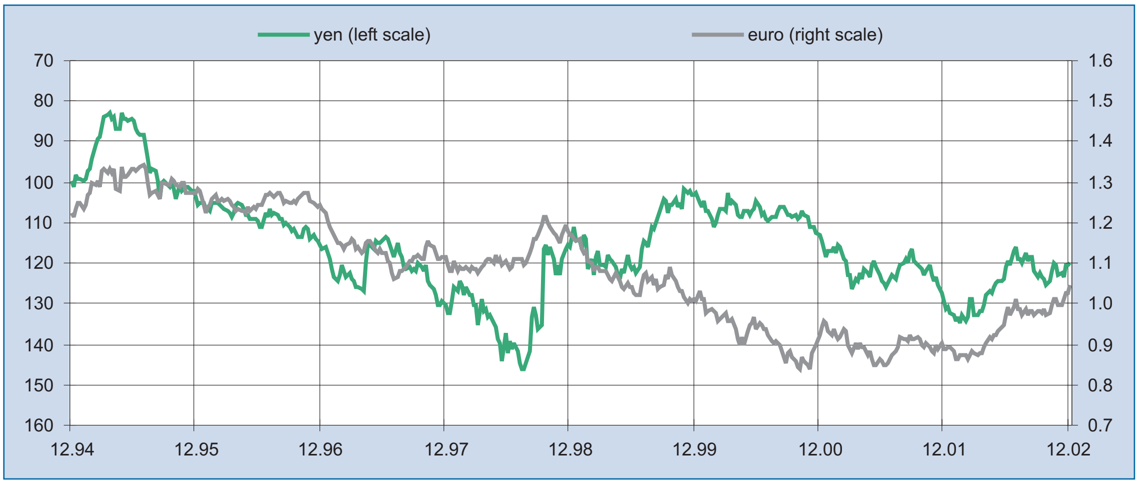

Figure 1.7. Exchange rates of the US dollar against the euro and the Japanese yen between 1995 and 2002

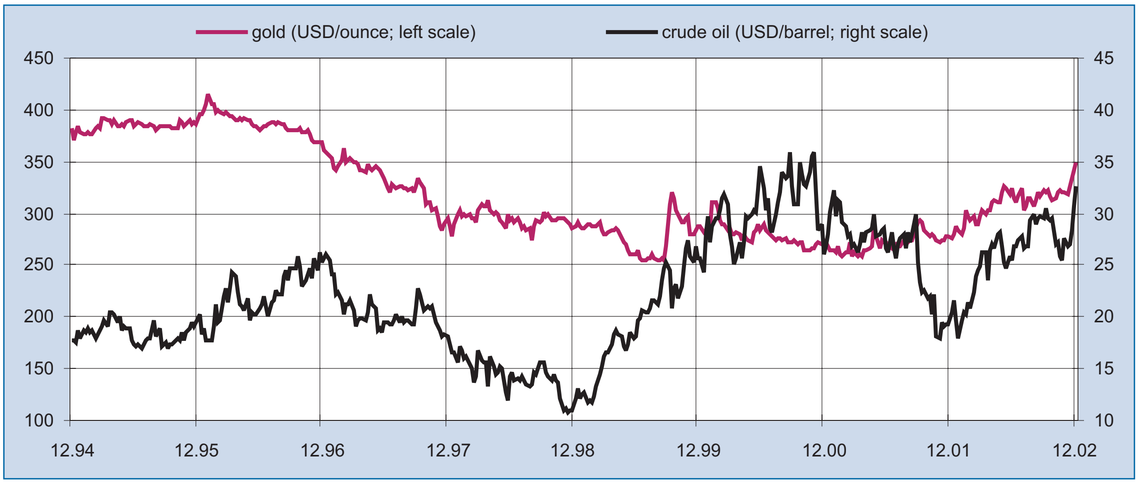

Figure 1.8. The price of crude oil and gold between 1995 and 2002

Commodity markets were characterised by an upward trend of prices (see Figure 1.8). The CRB index, which reflects the prices of 17 major commodities, increased by 23% and reached the highest level since 1998. Instable geopolitical situation and other factors boosted the price of crude oil to more than 30 dollars a barrel by the end of the year (up 57% year-on-year). The increase of general uncertainty could also be seen in the price of gold, which reached the highest level of the past five years. The price of timber continued to fall in 2002, as Russia and Eastern European countries are increasing production volumes from year to year. The fall of timber prices was one of the steepest among 23 commodities.