

## **Recent Global Economic Trends and Outlook for 2003**

The global economy during 2002 pulled out of the previous year's recession, but the pace of recovery was generally slow. Particularly with the lingering uncertainties, including the concerns over a possible U.S.-Iraq war, the financial markets became unstable; economic indicators were highly volatile; and economic agents' confidence was also dampened. In consequence, the overall economic rebound gradually lost its luster.

The U.S. economy, having shifted to an upward trend from the last quarter of 2001, exhibited unstable movements from the second quarter of 2002 with a double-dip recession being predicted due to the prevailing uncertainties, including the corporate accounting scandals and worries over a possible U.S. attack on Iraq. The Euroland and Japanese economies witnessed only a sluggish upturn, being also in thrall to widespread uncertainties surrounding domestic and external conditions, including the delayed recovery of the U.S. economy, falls in stock prices and heightened tension in the Middle East; and consumption and investment sentiment generally worsened further in the second half of the year. The Latin American economy experienced instability, which was triggered by the 2001 financial crisis in Argentina and developed into financial unease in Brazil and some other the countries in the region in April. The Chinese economy, however, achieved a rapid growth rate of nearly 8%, bolstered by brisk exports and a sharp increase in foreign direct investment. Other Asian countries registered a rapid growth rate of 3-4% on

the back of increased exports to China and robust domestic demand.

The world economy in 2003 is predicted to recover rather gradually before gathering pace from the middle of the year, centering on the U.S. economy. The U.S. economy is forecasted to register somewhat lackluster growth for the time being owing to concerns about a war with Iraq. It should pick up its pace of recovery from the second half of the year, however, thanks to the continuance of low interest rates and additional tax cuts to be announced early 2003. From mid-2003, in particular, facilities investment is expected to see a more visible rebound, thereby helping pull the economy out of the doldrums together with improved corporate profits, and non-housing construction investment.

The Euroland economy will experience robust growth from the second half of the year thanks to an increase in domestic consumption and this will be supported by the economic recovery in the U.S. and continued low interest rates. The Japanese economy will shift into a positive growth from the middle of the year as the improvement in the global economic conditions is expected to generate an increase in exports and a recovery of facilities investment. The Chinese economy will continue to register high growth, being led by the briskness of exports and foreign direct investment. The tone of the Asian economy is projected to remain firm, bolstered by the rapid Chinese economic growth, the U.S. economic rebound and the increase in demand for IT.

In Latin America, Brazil and Mexico will move into recovery, albeit even at a modest pace. In the case of Argentina, an improvement in economic conditions is awaited in 2003. However, if the nation's structural vulnerabilities, including its external and public liabilities do not improve significantly and the political situation remain uncertain, it is difficult to rule out the possibility that this will have a negative impact on the regional economy and the international financial markets.

Meanwhile, with the world-wide economic recovery, seen to become evident from the middle of this year, world trade should register a higher rate of growth than last year.