

VII. DEVELOPMENTS IN THE WORLD ECONOMY

The world economy experienced high growth rates in 2000; world output grew by 4.7 percent and world trade volume increased by 12.4 percent annually. Following the 5.7 percent growth rate in the second quarter of 2000, the U.S.A. economy went into a gradual recession, growing by 0.3 percent in the second quarter of 2001 and contracting by 0.4 percent in the following quarter. Similarly, the growth in the Euro area began to slowdown in the second half of 2000, and could only reach 2.4 percent and 1.7 percent in the first and second quarters of 2001, respectively. Japan entered a recession after growing by 2.4 percent in the first quarter of 2000; it grew by 0.5 percent in the first quarter of 2001 and contracted by 3.2 percent in the second. Other industrialized countries and developing countries were negatively affected by the recession tendencies: low growth rates were observed in these countries especially in the second quarter of 2000 and during 2001. According to the IMF estimates, the world output is expected to grow by 2.6 percent and world trade volume by 1.3 percent in 2001, while they are projected to increase by 3.5 percent and 5.2 percent respectively in 2002. However, these estimates have been revised downward considering the negative scenario after the terrorist attacks against the U.S.A., so that the world output is now anticipated to increase by 2.4 percent in both 2001 and 2002. It is expected that the slowdown in both world output and trade volume would negatively affect the Turkish exports and tourism revenues and capital inflows to Turkey.

It is anticipated that while the world economy, which has been in recession since the second half of 2000, is expected to recover in 2002, the September 11 terrorist attacks against the U.S.A. would threaten the global recovery in the short term.

Table VII.1. World GDP Growth Rates
(Annual Percentage Change)

	2000	2001*	2002*
World	4.7	2.6	3.5
Developed Countries	3.8	1.3	2.1
U.S.A.	4.1	1.3	2.2
Canada	4.4	2.0	2.2
Euro Area	3.5	1.8	2.2
Germany	3.0	0.8	1.8
France	3.4	2.0	2.1
Italy	2.9	1.8	2.0
U.K.	3.1	2.0	2.4
Japan	1.5	-0.5	0.2
Developing Countries	5.8	4.3	5.3
Developing Asian Countries	7.0	5.1	5.9
Newly Industrialized Asian Countries**	8.2	1.0	4.3
ASEAN-4***	5.0	2.4	4.1
China	8.0	7.5	7.1
India	6.0	4.5	5.7
Developing Countries in America	4.2	1.7	3.6
Argentina	-0.5	-1.4	2.6
Brazil	4.5	2.2	3.5
Chile	5.4	4.0	4.7
Mexico	6.9	0.8	4.0
EU members	4.9	1.1	4.7
Turkey	7.5	-4.3	5.9
Czech Republic	2.9	3.3	3.9
Hungary	5.2	4.5	4.5
Poland	4.1	2.5	3.7
Bulgaria	5.8	4.5	5.0
Romania	1.6	4.1	4.5
CIS	7.9	4.4	4.0
Russia	8.3	4.0	4.0
Africa	2.8	3.8	4.4
Middle East	5.5	4.5	4.4

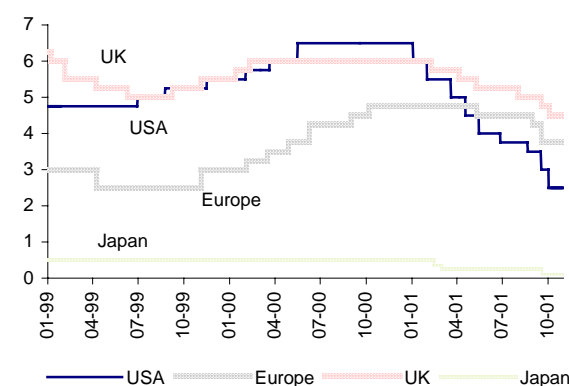
*These projections were finalized before the September 11 terrorist attack in the US and subsequent economic policy actions.

**Newly Industrialized Asian economies are Hong Kong., Korea, Singapore and Taiwan.

***ASEAN-4 includes Indonesia, Malaysia, the Philippines and Thailand.

Source: IMF, World Economic Outlook., October 2001

Figure VII.1. Main Central Bank Interest Rates (Percentage)



Source: Corresponding central banks.

Table VII.2. CPI Inflation for Selected Country Groups (Annual Percentage Change)

	2000	2001*	2002*
Developed Countries	2.3	2.4	1.7
U.S.A.	3.4	3.2	2.2
Canada	2.7	3.1	2.3
Euro Area	2.4	2.7	1.7
Germany	2.1	2.5	1.3
France	1.8	1.8	1.1
Italy	2.6	2.6	1.6
U.K.	2.1	2.2	2.4
Japan	-0.6	-0.7	-0.7
Developing Countries	6.0	5.9	5.1
Developing Asian Countries	1.8	2.7	3.1
Newly Industrialized Asian Countries**	1.2	2.1	2.1
ASEAN-4***	3.0	6.6	5.0
China	0.4	1.0	1.5
India	4.0	3.6	5.5
Developing Countries in America	8.1	6.2	4.9
Argentina	-0.9	-0.6	0.6
Brazil	7.0	6.2	4.8
Chile	3.8	3.4	3.3
Mexico	9.5	6.3	4.8
EU members	24.3	20.5	14.7
Turkey	54.9	51.9	32.7
Czech Republic	4.0	3.9	3.8
Hungary	9.8	9.4	6.4
Poland	10.1	5.7	5.7
Bulgaria	10.4	6.8	3.2
Romania	45.7	33.8	26.0
CIS	25.0	21.6	13.0
Russia	20.8	22.1	12.9
Africa	13.6	12.6	8.0
Middle East	9.4	9.6	8.9

* These projections were finalized before the September 11 terrorist attack in the US and subsequent economic policy actions.

**Newly Industrialized Asian economies are Hong Kong, Korea, Singapore and Taiwan.

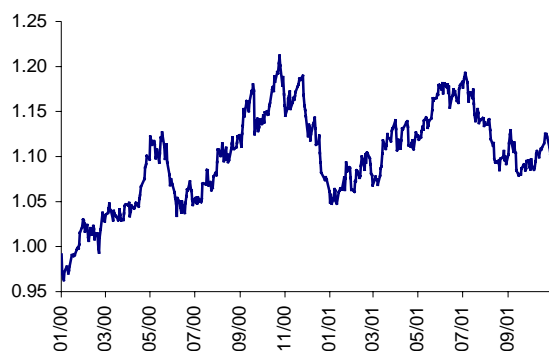
***ASEAN-4 includes Indonesia, Malaysia, the Philippines and Thailand.

Source: Corresponding Central Banks.

The recession in the U.S.A., which started in 2000 and continued in 2001, stemmed from the decrease in the productivity improvement, capacity utilization, industrial production, and from the slowdown in the high technology investment growth. The U.S.A. Federal Reserve cut its indicative interest rates several times in favor of investment and production, so the intended federal funds rate, which was 6.5 percent at the beginning of 2001, was decreased to 2 percent with the recent cut on November 6th. The IMF estimates imply that, with the effect of terrorist attacks and following events, the recession in the U.S.A. would persist until mid-2002. The U.S.A. output is expected to increase only by 1.1 percent in 2001, despite the 4.1 percent growth rate in the preceding year. Sectors such as airline, insurance and tourism are especially to be directly affected by the terrorist attacks. Changes in the consumer confidence and risk perception, as the changes in the consumption pattern, are more likely related to the future non-economic developments; hence, at this stage, it is not possible to come up with a definite comment on the situation.

While the decrease in the productivity improvement, capacity utilization, industrial production and the slowdown in the high technology investment growth caused the U.S.A. recession; the recession in the Euro area was a result of the contraction in the domestic and foreign demand, the fall in stock markets, and the slowdown in the technology industry.

Figure VII.2. Euro-US Dollar Parity



The growth rate in the Euro area has been slowing down since the latter half of 2000 and this tendency has been widening within the area. Weakened domestic demand due to the pressure on real income exerted by high petroleum and food prices, the declining stock markets, and worsened situation of communication and technology sectors have become main factors behind the economic deceleration. The fall in the growth rates of both exports and imports due to weakened global demand has further added to the downward pressure. Concurrently, that the European Central Bank had raised interest rates with the fear of inflationary

pressures had also a negative effect on the slowdown in the first half of 2001. The gross fixed capital investment considerably decreased in Germany –where construction activity diminished significantly-, France, and Italy, the three largest economies of the Euro area. The inventory reductions in Italy, where a relatively strong growth rate was observed due to the inventory investment in the first quarter of 2001, and in Germany also put a decelerating pressure on the overall economic activity. The French economy weathered the global slowdown relatively well with the help of tax cuts and ongoing improvement in employment. However, the significant slump in the consumer and business confidence, and the recent rise in the unemployment rate point out a decline in the economic activity in the remaining part of the year and in 2002. Contrary to the Euro area, the domestic demand maintained its strength in the United Kingdom. Strong domestic demand was partially able to compensate for the weak manufacturing industry and slowing exports. Low unemployment rate and leveled off growth in earnings supported the demand growth and consumer confidence while the fiscal measures supported expenditures. As an outcome of these developments and after the terrorist attack on September 11th, the IMF projected the growth rates of both the European Union and the Euro area to be 1.8 percent and 2.2 percent in 2001 and 2002, respectively. Nevertheless, in November, the IMF revised its projections for the European Union downward to 1.7 percent and 1.4 percent in 2001 and 2002, respectively. It is anticipated that Turkey’s exports would be negatively affected by the deceleration in European Union’s import demand and GDP growth rate.

Despite the reforms that the new government has been implementing, the recession in Japan is expected to continue in the short run, while the reforms would contribute to growth in the long run.

Table VII.3. Current Account Balance to GDP ratio for Selected Country Groups Percentage

	2000	2001*	2002*
Developed Countries	-1.0	-0.9	-0.8
USA	-4.5	-4.0	-3.8
Canada	2.5	1.9	0.9
Euro Area	-0.1	0.3	0.4
Germany	-1.0	-0.8	-0.5
France	1.8	2.5	2.6
Italy	-0.5	-0.1	0.1
UK	-1.7	-1.7	-2.0
Japan	2.5	2.2	2.6
Developing Countries			
Developing Asian Countries	3.0	2.1	1.6
Newly Industrialized Asian Countries**	4.9	5.0	4.8
ASEAN-4***	8.0	4.8	3.9
China	1.9	1.0	0.2
India	-0.9	-0.8	-0.9
Developing Countries in America	-2.5	-3.0	-3.0
Argentina	-3.2	-2.9	-2.8
Brazil	-4.2	-5.0	-4.5
Chile	-1.4	-2.2	-2.3
Mexico	-3.1	-2.8	-3.3
EU members	-5.1	-2.8	-3.6
Turkey	-4.9	3.0	-0.4
Czech Republic	-4.6	-5.0	-4.9
Hungary	-3.6	-4.8	-4.8
Poland	-6.3	-5.2	-5.0
Bulgaria	-5.8	-6.0	-5.7
Romania	-3.9	-6.0	-5.5
CIS	3.5	2.5	1.7
Russia	18.0	11.5	7.9
Africa	0.5	-0.9	-1.4
Middle East	11.6	8.9	6.1

* These projections were finalized before the September 11 terrorist attack in the US and subsequent economic policy actions.

**Newly Industrialized Asian economies are Hong Kong, Korea, Singapore and Taiwan.

***ASEAN-4 includes Indonesia, Malaysia, the Philippines and Thailand.

Source: IMF, World Economic Outlook, October 2001.

By the second half of 2000, weakened foreign demand and globally diminished demand for electronic products led to a contraction phase of the Japanese economy. Despite the rise in private consumption expenditures in the second quarter of 2001, production decreased sharply as public and private investment curtailed remarkably. Ongoing negative view and speed of firm restructuring were unfavorable on securities markets. The monetary policy, which pulled overnight interest rates down to zero, was put into action in May. It was considered as a positive step towards the future of the economy. However, private consumption was excessively weak due to firm restructuring, increased unemployment rate and falling income. Decreasing business confidence and falling volume of extended credit deepened negative thoughts about the Japanese economy. While the reform package of the newly elected government is expected to have adverse short-term effects on production and employment, it is anticipated to support long-term growth. The IMF revised its growth projections for Japan to 0.9 percent and 1.3 percent contraction in 2001 and 2002, respectively. Additionally, East Asian economies, which grew by 7 percent in 2000, are estimated to grow 5.1 percent in 2001 and 5.9 percent in 2002 according to the IMF projections made before September 11th events. Those events are expected to deteriorate growth rates further.

East Asian economies are adversely affected by the recession of their most important trade partner, Japan.

Negative economic outlook of the Japanese economy has considerable effects on East Asian countries as an important trade partner. Japan consists of large portion of trade volume of the countries in consideration. Furthermore, these countries have very high exports to GDP ratio. Hence, the recession in Japan is expected to restrict the growth rates of these countries to a great extent. Moreover, there is a relatively strong interaction between the security markets of Japan and East Asian economies. Low levels of Japanese securities may cause investors to draw out of the region. Further, the Japanese banking system is the main financial source of

the banks in East Asian region. These countries may encounter with problems as Japanese banking sector problems and contraction of the Japanese economy continue. Japanese foreign direct investment facilities in East Asia may be restricted as well.

Latin American economy was adversely affected from the US recession and the financial crisis in Argentina to a great extent, which led to a considerable decline in the growth rates.

Reaching 4.2 percent growth rate in 2000, the IMF projects Latin American economies to grow only by 1.7 percent in 2001. The effect of global slowdown on the region and especially Mexico and Chile troubles in the Argentinean economy spreading through other countries in the region, political uncertainties and energy crisis in Brazil can be considered as reasons for the downward revision of the growth rates. As a result of negative outlook of the regional economy, deepening crisis in Argentina in July and the uncertainty after September 11th events, investment flows in the region are restricted to a great extent. Prevailing circumstances insert pressure over the currencies of most countries in the region. High public debt is mostly financed by foreign sources. Devaluation of currencies, high interest rates and low growth rates put pressure on public finance. They are unlikely to implement accommodative monetary policy because of the devaluation of the currencies.

Crude oil prices experienced a sharp rise just after the terrorist attack to the US and then declined during the following days.

Crude oil prices rose rapidly in the 1999-2000 period; however, decreased again in 2001 due to global economic slowdown and accumulated stocks. While the price per barrel was around US \$ 27 before September 11th terrorist attacks, it rose up to US \$ 31 during the following days. However, expectations of low demand as a consequence of expected recession in the global economy, caused prices to fall around US \$ 26 per barrel. Further, the OPEC announced that it could increase production to prevent prices from rising as war fears prevail.

Table VII.4. World Commodity Price Developments (US \$, Annual Percentage Change)

	1999	2000	2001*	2002*
Manufactured Products	-1.8	-5.1	-3.1	-0.6
Crude Oil	37.5	56.9	-5.0	-8.6
Basic Non-Oil products	-7.0	2.6	-2.6	4.5
Food	-15.6	-0.5	2.6	5.3
Beverage	-21.3	-16.6	-16.8	4.5
Agricultural Products	2.4	4.1	-1.0	2.0
Metal Products	-1.5	12.1	-7.3	7.5
World Trade Prices Deflator	-1.5	-0.8	-2.3	0.6

* These estimates exclude the September 11th terrorist attack to USA and developments afterwards.

Source: IMF, World Economic Outlook, October 2001