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NOTE

The present *Survey* is the fifty-eighth in a series of annual reports prepared by the secretariat of the United Nations Economic Commission for Europe to serve the needs of the Commission and of the United Nations in reporting on and analysing world economic conditions.

The Survey is published on the sole responsibility of the Executive Secretary of the ECE and the views expressed in it should not be attributed to the Commission or to its participating governments.

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EXPLANATORY NOTES

The following symbols have been used throughout this *Survey*:

.. = not available or not pertinent

– = nil or negligible

* = estimate by the secretariat of the Economic Commission for Europe

| = break in series

In referring to a combination of years, the use of an oblique stroke (e.g. 1998/99) signifies a 12-month period (say, from 1 July 1998 to 30 June 1999). The use of a hyphen (e.g. 1999-2001) normally signifies either an average of, or a total for, the full period of calendar years covered (including the end-years indicated).

Unless the contrary is stated, the standard unit of weight used throughout is the metric ton. The definition of "billion" used throughout is a thousand million. The definition of "trillion" used throughout is a thousand billion. Minor discrepancies in totals and percentages are due to rounding.

References to dollars ($) are to United States dollars unless otherwise specified.

The membership of the United Nations Economic Commission for Europe (UNECE) consists of all the states of western Europe, eastern Europe, the Commonwealth of Independent States (CIS), North America and Israel.

The term EU-15 refers to the aggregate of the following 15 member states of the European Union: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom.

EU-25 refers to the 15 above-mentioned member states plus the 10 countries that joined the European Union in May 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

WECEE comprises the EU-25 plus the countries of Iceland, Norway and Switzerland.

EU-8 (central Europe and Baltic states) includes the new member states listed above excluding Cyprus and Malta.

For the convenience in presentation, countries are sometimes grouped into the following subregions, based on geographical proximity:

- Baltic states: Estonia, Latvia and Lithuania;
- Central Europe: Czech Republic, Hungary, Poland, Slovakia and Slovenia;
- South-east Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Serbia and Montenegro, The former Yugoslav Republic of Macedonia and Turkey;
- Caucasian CIS: Armenia, Azerbaijan and Georgia;
- Central Asian CIS: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan;
- European CIS (excluding Russia): Belarus, Republic of Moldova and Ukraine.

ABBREVIATIONS

BBC	British Broadcasting Corporation
BIS	Bank for International Settlements
c.i.f.	cost, insurance, freight
CIS	Commonwealth of Independent States
CMEA	(former) Council for Mutual Economic Assistance
CPI	consumer price index
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECE	Economic Commission for Europe
EGPRS	Economic Growth and Poverty Reduction Strategy
EME	ECE emerging market economies
EMU	Economic and Monetary Union
ERM-2	Exchange Rate Mechanism-2 (of the EU)
EU	European Union
EURIBOR	euro interbank offered rate
FDI	foreign direct investment
FTA	Free Trade Agreement
G7	Group of Seven
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
HWWA	Hamburgisches Welt-Wirtschafts-Archiv (Hamburg Institute of International Economics)
IFI	international financial institution
ILO	International Labour Office
IMF	International Monetary Fund
IT	information technology
LFS	labour force survey
MDG	Millennium Development Goal
MFN	most favoured nation
NBER	National Bureau of Economic Research
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OPT	outward processing trade

PMI	Purchasing Managers' Index
PPI	producer price index
PPP	purchasing power parity
PRGF	Poverty Reduction and Growth Facility (of the IMF)
R&D	research and development
REER	real effective exchange rate
SGP	Stability and Growth Pact
UNECE	United Nations Economic Commission for Europe
VAT	value added tax
WTO	World Trade Organization

FOREWORD

In mid-2005, there is a broad consensus of forecasters that the recovery of the global economy will continue at a robust rate in the remainder of 2005 and in 2006, with the United States and China seen to remain the major engines of growth. All major economic regions participate, albeit at different speeds, in the expansion which, despite the monetary tightening in the United States and some other countries, is supported by still abundant global liquidity and, related to that, unusually low real interest rates. The upward trend of oil prices, however, has cast a shadow over this relatively favourable outlook and, if continuing, risks choking off economic growth in the oil importing countries. Other important downside risks have been present for quite some time, and these are mainly associated with the United States large current account deficit and elevated levels of prices in asset markets (housing and bond markets).

In the euro area, short-term prospects are for only moderately strengthening activity, largely reflecting the lack of economic dynamism in the three major economies (France, Germany and Italy). Stronger growth of domestic demand is necessary for achieving a sustained and meaningful recovery. Structural reforms need to be continued, but they should be accompanied, to the extent possible, by an accommodative monetary policy to help improve the situation in the labour markets.

Eastern Europe, including the new EU member states, continues to experience robust economic growth, which is significantly above the average for western Europe. This favourable performance reflects a combination of strong export competitiveness and solid growth in domestic demand, partly reflecting the ongoing modernization of the physical capital stock. But several countries face the need to reverse their quite high government budget deficits and current account deficits, which otherwise could risk endangering macroeconomic stability.

In the CIS, economic growth is also maintaining quite strong momentum. Commodity exporters, especially countries that are specialized in hydrocarbons, will continue to benefit from high world market prices and strong demand in some of their main markets. But strong growth of domestic demand, partly fuelled by the expansionary orientation of macroeconomic policies, has led to rising inflationary pressures in some countries, which need to be checked. A major longer-term policy concern in the CIS remains the diversification of their economic structures, leading to a reduced reliance on the natural resources sector.

The rejection of the proposed European Constitution in the referendums held in France and the Netherlands has come as a major shock to policy makers. There appears to be no single dominating motivation for this "No vote", which, rather, reflects the interplay of a host of factors. But among them, a relatively important role appears to have been played by concerns about the economic and social consequences of the process of globalization and the intensification of regional integration in Europe. These frictions were also illustrated by the controversy over the European Commission's Services Directive. These fears and concerns should not be taken lightly.

While it is important to stress the potential – but often only longer-term – benefits of these processes, it is also important to acknowledge that there can indeed be considerable adjustment costs involved, especially for sectors that face a sudden surge in competitive imports of goods and services and a significant relocation of activities to countries with lower labour costs. This points to the need for a coherent scheme of transfer payments to help workers to better absorb these shocks in the short run and for training and education to improve occupational mobility in the medium and longer run.

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