

AIECE

General Report

Brussels, 24-25 October 2002



**Federal
Planning Bureau**

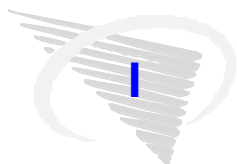
Economic analyses and forecasts

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Préambule: Dans quel monde vivons-nous?

*“When your neighbour loses his job, it is called an economic slowdown. When you lose your job, it is a recession. But when an economist loses his job, it becomes a depression.”
quoted from The Economist September 28th 2002*

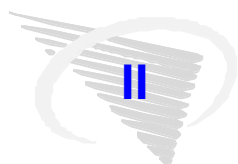
Le moins que l'on puisse dire, c'est que la situation économique internationale actuelle présente un ensemble de facettes pour le moins contrasté. Au pessimisme des marchés financiers et des acteurs opérant dans certains secteurs de l'économie fortement touchés (télécommunications, institutions financières) s'oppose un optimisme prudent de la part des macro-économistes. Pourquoi un tel contraste?

Du côté des pessimistes, les pièces à verser au dossier ne manquent pas. L'éclatement de la bulle boursière dans le secteur des nouvelles technologies a brutalement mis fin au débat sur la 'nouvelle économie' et sur ses miracles escomptés sur la croissance potentielle. La vitesse et l'ampleur de la diffusion de ce choc essentiellement américain à l'économie européenne ont rapidement jeté aux oubliettes ceux qui prétendaient que le caractère relativement fermé et des 'fondamentaux' favorables mettaient la croissance dans l'Union Européenne à l'abri d'un ralentissement aux Etats-Unis. Les déséquilibres financiers (re)mis à jour depuis (surinvestissements, surendettement des ménages, déficit de la balance courante) de l'autre côté de l'Atlantique, font peser des nuages noirs sur les perspectives à court et moyen terme. Enfin, les scandales comptables et financiers qui se sont succédés (Enron, WorldCom etc...) sont venus à bout de la résistance des marchés boursiers et ont précipités les cours à leurs niveaux d'il y a cinq ans. Le décloisonnement des marchés financiers, l'importance grandissante des investissements directs étrangers, une sensibilité accrue de la consommation et des investissements aux cours boursiers et la synchronisation grandissante des cycles qu'impliquent ces phénomènes, ne sont pas de nature à rassurer les plus pessimistes. Un scénario à la japonaise appliqué à l'ensemble des économies industrialisées est même évoqué par les plus audacieux. Réapparaissent du coup les vieux spectres enrichissant le vocabulaire des analystes financiers: double/triple dip, credit crunch, stagflation...

Les optimistes eux se disent qu'il est dangereux de se braquer exagérément sur l'exubérance des marchés financiers et sur les difficultés que traversent des secteurs spécifiques, mais qu'une vision plus large et plus centrée sur l'économie réelle doit être considérée. Et là que voit-on? Aux Etats-Unis, la reprise amorcée en début d'année s'est accompagnée d'une forte hausse de la productivité, ce qui a permis aux profits d'amorcer un redressement. La consommation privée a également été soutenue par une progression du revenu disponible (rendue possible en particulier grâce aux baisses d'impôts accordées), et par un marché immobilier très porteur. Les corrections intervenues sur les marchés financiers et des changes devraient permettre à moyen terme de résorber certains déséquilibres et assurer in fine une meilleure allocation des ressources. A court terme, ce choc sur la consommation et l'investissement devrait être en partie compensé aussi bien par la dépréciation du dollar que par la baisse des taux d'intérêt à long terme. Les économies de l'Union Européenne ne présentent pas les mêmes déséquilibres que l'économie américain-

ne et un certain nombre de facteurs sont en place pour soutenir une reprise de l'activité économique dès qu'interviendra le redémarrage aux Etats-Unis. La fin du cycle de dés-
stockage et une progression de la consommation privée soutenue par des hausses de
salaires, une inflation qui décélère et une situation qui reste favorablement orientée sur le
marché du travail, devraient nourrir la reprise de la demande intérieure en Europe. Les
économies émergentes d'Europe centrale et d'Asie du Sud-Est n'ont pas subi la contagion
des turbulences en Amérique latine et continuent à bénéficier d'un apport important d'in-
vestissements directs étrangers. Enfin, la Russie a retrouvé le chemin de la croissance et
la Chine continue sous l'impulsion des réformes économiques à afficher des taux de crois-
sance impressionnants.

Pour conclure ce préambule, le scénario privilégié par les instituts de l'AIECE, et dont le
présent rapport fait l'objet, peut être qualifiée d'optimiste prudent en ce qui concerne les
perspectives économiques pour 2003, intégrant toutefois les éléments fournis par les pes-
simistes comme facteurs de risque, sans oublier d'y ajouter la menace militaire qui pèse
sur l'Irak (et ses puits de pétrole).



Summary

Despite the accumulation of uncertainties, a central scenario of a gradual pick-up of the world economy in the course of 2003 remains most likely according to AIECE institutes. The recovery will nevertheless be slower and weaker than expected a few months ago.

World trade is expected to recover more rapidly than the economic activity in industrial countries and should reach a growth rate of 6.5% in 2003 (compared to nearly 8% forecasted in spring).

TABLEAU 1 - Summary of AIECE-forecasts
(forecast ranges are mentioned between brackets)

	2001	2002		2003		Differences Autumn 02 - Spring02	
		Spring 2002	Autumn 2002	Spring 2002	Autumn 2002	2002	2003
Real GDP, percentage change							
European Union	1.5	1.5	1.1 (0.7 - 1.5)	2.7	2.1 (1.5 - 2.6)	-0.4	-0.6
United States	0.3	1.8	2.2 (2.0 - 2.4)	3.2	2.7 (2.2 - 3.3)	0.4	-0.5
Japan	-0.3	-1.1	-0.5 (-1.0 - 0.3)	1.0	0.9 (0.5 - 1.6)	0.6	-0.1
World trade, percentage change	0.4	2.7	2.4 (-1.1 - 3.8)	7.9	6.5 (3.8 - 10.0)	-0.3	-1.4
Oil price, USD per barrel	24.5	23.4	25.2 (24 - 26)	23.5	25.5 (24 - 27)	1.7	1.9
US Federal funds rate, in percent	3.7	2.3	1.8 (1.7 - 1.9)	3.6	2.1 (1.7 - 2.5)	-0.5	-1.5
Euro-dollar exchange rate, USD per euro	0.90	0.90	0.95 (0.92 - 1.01)	0.93	1.01 (0.94 - 1.06)	0.05	0.08

Even if the recovery in the *United States* seems to have come to a halt, its own existence is not disputed yet. Thanks to an aggressive counter-cyclical budgetary policy and extremely favourable credit conditions that supported households' expenditure, economic growth for 2002 has been revised upwards in comparison with the spring forecasts. However, in the short run, the American economy will not sustain the rapid growth path of the beginning of this year, but the improvement in corporate profits and the gradual recovery of business investment should contribute to a growth acceleration during 2003. This means that a "double dip" scenario is not considered to be the most likely one.

The rebound in the US economy is not expected to be as strong as in previous recoveries. US GDP growth is forecasted to reach, on average, about 2.7% next year compared to 3.2% forecasted in spring. Private consumption is now expected to slow down somewhat in the following quarters. On the one hand, employment growth should remain subdued

until the recovery in profits will strengthen - which up to now mainly rely on sharp productivity gains - . On the other hand, the stimulating impact coming from expansionary economic policies on household spending will progressively fade off. The Fed is expected to remain cautious until the rebound in activity firmly materializes. An increase in short-term interest rates is then only expected in the course of 2003. This should result in a moderate increase in the US Fed funds rate to 2.1% on average for the whole year.

US domestic demand is expected to remain the main engine for growth. A further deterioration of the US current account is again anticipated for next year in favour of the European and mainly Japanese current accounts. This evolution, combined with the re-emergence of a US public deficit, should result in a further, although moderate, depreciation of the effective dollar exchange rate. The US dollar is therefore expected to be at parity with the euro in 2003.

AIECE forecasts for the *Japanese economy* have become more optimistic for 2002 and should hardly changed in 2003. In spring, the recession of 2001 was expected to continue, but it did not. Japanese GDP stabilized during the first quarter of this year and registered a positive growth in the second quarter, thanks to a slowdown of destocking and a positive contribution of net exports. The latest indications of the Tankan survey remain in line with AIECE forecasts: the Japanese recovery will be export-led since internal demand growth is expected to remain sluggish in view of the ongoing deflation and the crisis in the banking sector. Moreover, monetary and budgetary policy are both not expected to provide significant stimuli. All in all, Japanese GDP should decline by 0.5% this year, while it should increase by 0.9% next year.

Since spring, AIECE institutes have quite heavily revised downside their forecasts for the *European Union*. This indicates that a U-shaped recovery is now expected, while spring forecasts rather pointed to a V-shaped recovery. The EU GDP grew respectively by only 0.3 and 0.4% during the first and second quarter of 2002. The AIECE consensus growth rate of 1.1% this year, implies a slight acceleration in the second half of the year, which should materialize mainly thanks to improving exports, while internal demand should remain subdued for the remainder of the year. In fact, private consumption still suffers from rising unemployment rates and the fall of the stock markets. Gross fixed capital formation did not perform better as it has been declining for six consecutive quarters due to low profitability and past overinvestment.

A recovery is expected to show up as from the beginning of 2003. Exports should improve further thanks to the acceleration of world trade growth. Under the assumption that oil prices do not soar, private consumption should be stimulated by low inflation and tax reforms. The strength of the upturn of investment is more uncertain, but the consensus is that investment in the EU will start to improve later on than in the US. Overall, AIECE institutes expect GDP to increase by 2.1% next year, although the forecast range is quite big, which is mainly explained by uncertainties surrounding the strength of the US recovery.

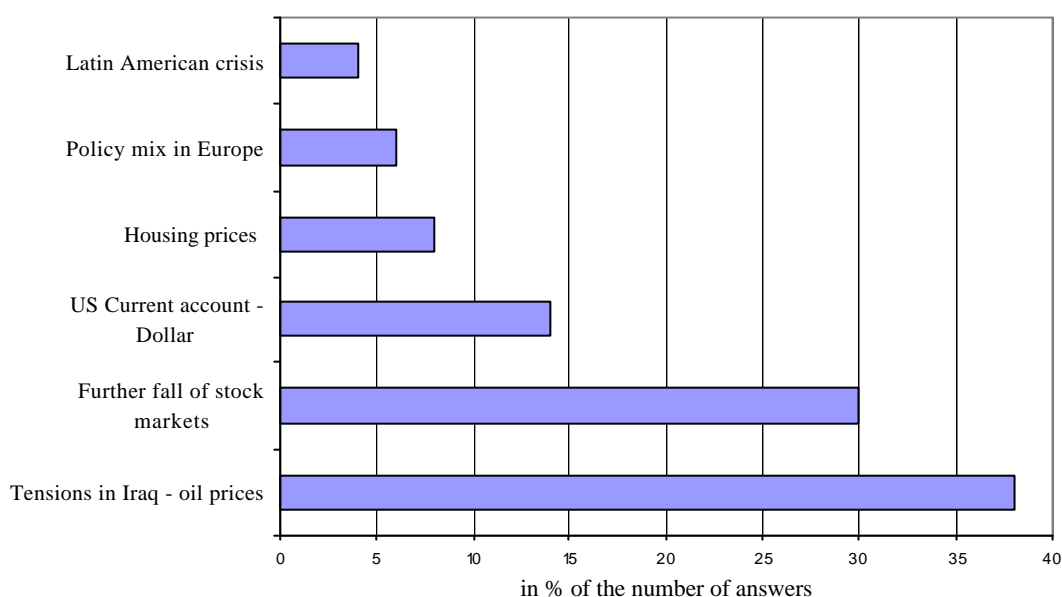
Several *downside risks* surround this cautiously optimistic scenario.

The majority of AIECE institutes mention 'prolonged tensions in the Middle East or a war in Iraq' as the main risk surrounding their forecasts for 2003. The international economic environment may be darkened by a further lasting rise in oil prices. Such a shock in the context of a war scenario will not only erode households' purchasing power but will also

have a dramatic impact on the confidence of consumers and investors, and may, at this phase in the economic cycle, place a heavy burden on the recovery expected in industrialized countries (see topic 1 at the end of the report).

The second risk mentioned by the institutes relates to the development of the stock markets, as a further fall in equity prices, and its consequences on financing conditions and confidence, should hamper investment and consumption through a variety of channels (see topic 2). A simultaneous correction on the major stock markets should jeopardize the expected recovery.

FIGURE 1 - Risks associated with the forecasts



Source: AIECE, October 2002.

The third risk is that the possible reserve of financial markets to finance the current deficit on the American balance of payments could lead to a further depreciation of the American currency and to an increase of the interest rates in the United States, thus undermining the recovery scenario both in the United States and in other parts of the world (see topic 3).

Finally, besides the elements mentioned, a fall of real estate prices on both sides of the Atlantic Ocean (especially in the United States but also in the United Kingdom) increases the risks weighing on the sustainability of households' expenditure.

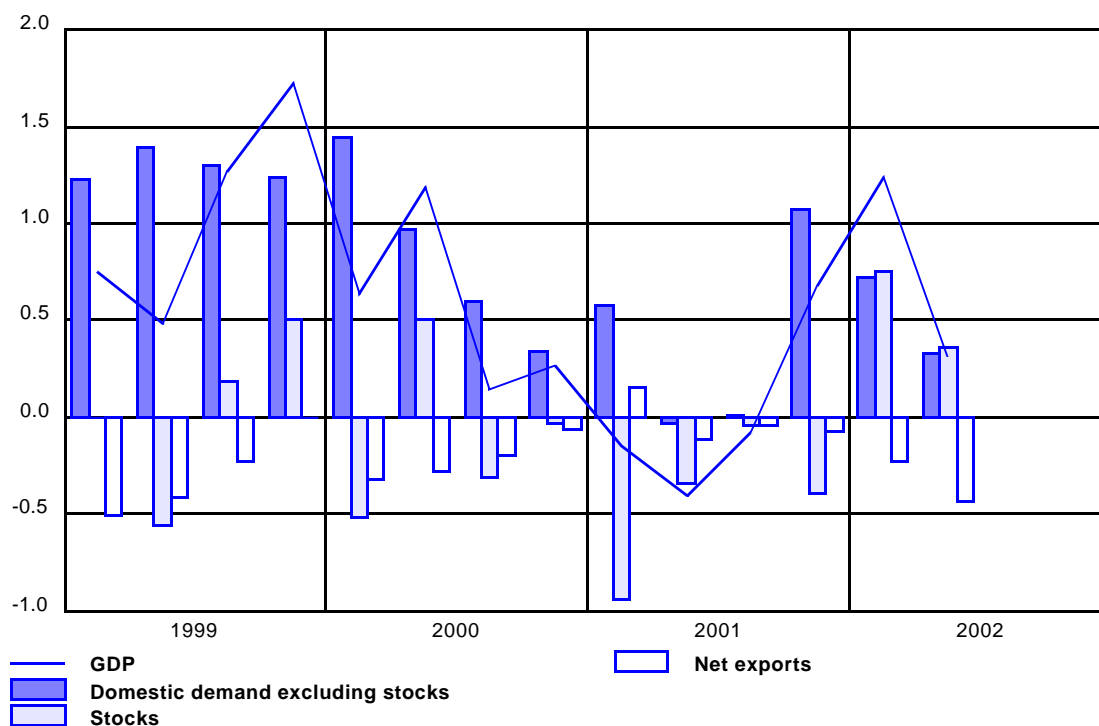


III United States

La récession aux Etats-Unis s'est *in fine* avérée plus profonde que ne laissait présager les estimations initiales. En effet, les comptes nationaux ont non seulement procédé à une révision substantielle de la croissance 2001 (de 1,2 à 0,3%) mais confirment également que les Etats-Unis ont bien subi une récession caractérisée par trois trimestres consécutifs de croissance négative (du 1er au 3ème trimestre 2001). La chute prononcée des investissements et le déstockage massif des entreprises sont à l'origine de cette piètre performance de l'économie américaine et font suite à l'éclatement de la bulle spéculative du secteur des technologies de l'information et de la communication.

La reprise économique américaine amorcée au dernier trimestre 2001 a dans un premier temps surpris par sa vigueur; la croissance trimestrielle du PIB s'élevant à 1,25% (qoq) au premier trimestre 2002. Plusieurs facteurs exceptionnels ont toutefois contribué à cette vigueur de l'économie américaine. La consommation privée a notamment été dopée par des incitants financiers et fiscaux (crédits octroyés à taux zéro sur l'achat de véhicules neufs et baisses fiscales rétroactives), tandis que les dépenses publiques se sont fortement relevées suite aux attaques du 11 septembre 2001. Le ralentissement du déstockage des entreprises s'est mécaniquement traduit, au début de l'année en cours, par une contribution largement positive de la variation des stocks à la croissance américaine (+0,75% qoq).

**FIGURE 2 - USA - contribution to GDP growth at constant prices
(seasonally adjusted, QoQ changes in %)**



Source: Datastream

Toutefois, à partir du deuxième trimestre 2002, un certain nombre d'indicateurs ont affiché une certaine hésitation ou même un recul. La confiance des ménages et des entreprises est entamée par les faillites et la chute des marchés boursiers de ces derniers mois. Au cours du deuxième trimestre 2002, le taux de croissance trimestriel du PIB des Etats-Unis est resté très modéré (+ 0,3%); la consommation, tant publique que privée, montre des signes d'essoufflement, l'apport à la croissance de la variation des stocks n'atteint plus la même ampleur qu'au premier trimestre et les investissements des entreprises tardent à se redresser.

A. Potentiel de rebond de la croissance assez limité à court terme mais accélération graduelle en 2003

Si la reprise américaine marque un coup d'arrêt plus net que prévu, elle n'en est pas hypothéquée pour autant. L'économie américaine ne renouera pas à court terme avec la reprise tonitruante du début de l'année, mais un certain nombre de facteurs laissent présager une accélération dans le courant de l'année 2003, indiquant que le scénario de "double dip" n'est actuellement pas considéré comme le plus probable.

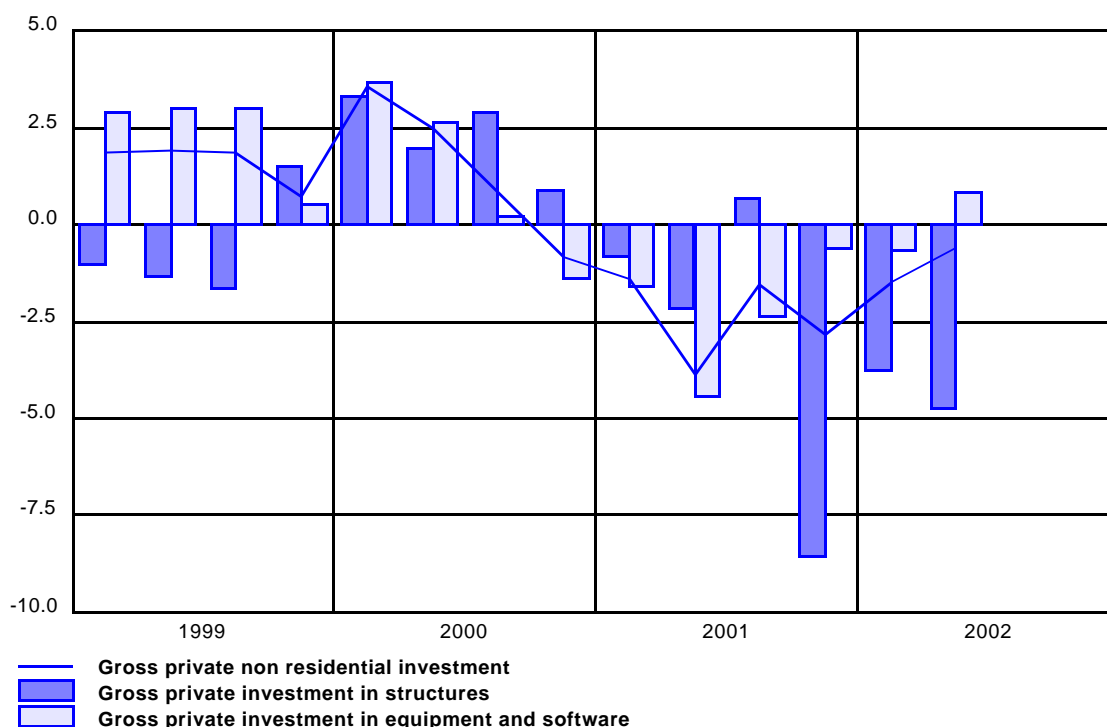
1. Selon les instituts de l'AIECE, la croissance américaine atteindrait en moyenne 2,2% en 2002 et s'élèverait jusqu'à 2,7% l'année prochaine¹. Le rythme de croissance de l'économie américaine serait donc supérieur à celui de l'Union Européenne au cours des deux années sous revue (respectivement 1,1 et 2,1%). En outre, les révisions réalisées pour la croissance US sont moins prononcées que celles effectuées pour l'Union Européenne dans son ensemble. En mai dernier, les prévisions de croissance de l'économie américaine s'établissaient à 1,8% en 2002 et 3,2% en 2003.
2. La révision à la hausse de la croissance pour cette année s'explique à la fois par le rebond exceptionnel du premier trimestre 2002 ainsi que par une croissance au troisième trimestre qui devrait être dopé par des dépenses de consommation privées soutenues par la réactivation des programmes de crédit à taux zéro des principaux constructeurs automobiles. Les ventes d'automobiles, qui représentent environ 1/8 ième des dépenses de consommation des ménages, devraient permettre à celles-ci d'augmenter d'environ 1,25% en rythme trimestriel au troisième trimestre 2002 contre un peu plus de 0,4% au deuxième trimestre. La croissance du quatrième trimestre devrait par contre en être négativement affectée.
3. De manière quasi unanime, les instituts de l'AIECE escomptent une accélération graduelle de la croissance américaine dans le courant de l'année prochaine. Certains instituts s'attendent à ce qu'elle se produise durant la première moitié de l'année, d'autres tablent sur une accélération au cours de la seconde moitié de l'année, d'autres enfin s'attendent à ce que la croissance tendancielle soit à nouveau atteinte en 2004.

1. Notons qu'une croissance de 3% en 2003 est le chiffre le plus fréquemment cité par les instituts.

B. Les investissements des entreprises sont proches de leur point de retournement, mais le rebond ne sera pas aussi important que lors des reprises antérieures.

1. Les données les plus récentes en provenance des comptes nationaux et des commandes de biens durables dans le secteur de l'informatique, de l'électronique et du transport indiquent que la correction du surinvestissement de ces dernières années arriverait à son terme. Les investissements en équipement et en logiciels ont ainsi renoué avec une croissance positive dès le deuxième trimestre 2002 (0,81% en rythme trimestriel). La résorption des stocks excédentaires est également en bonne voie puisqu'au cours de la même période les stocks se sont accrus de près de 5 milliards de dollars après 5 trimestres de recul consécutifs.

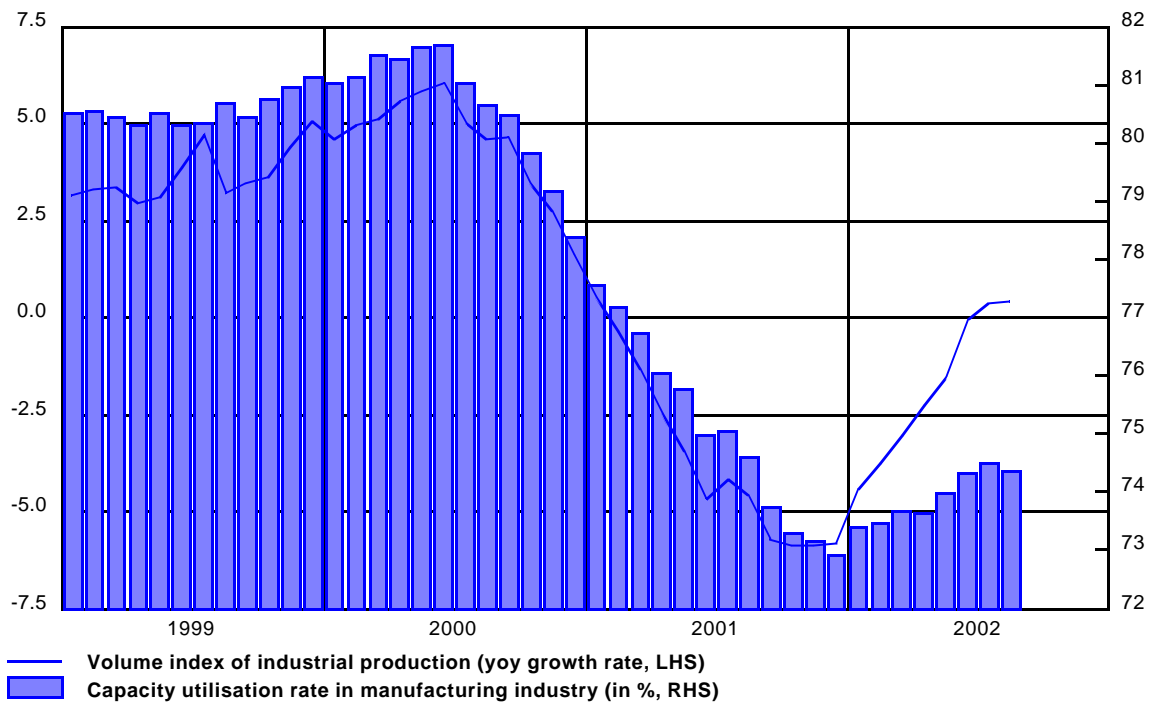
FIGURE 3 - USA - gross private non residential investment (qoq growth rate, sa)



Source: Datastream

2. Cependant, même si des signes de reprise apparaissent, les instituts de l'AIECE considèrent que la croissance des investissements des entreprises devrait demeurer très réduite cette année. Le niveau encore particulièrement bas du taux d'utilisation des capacités de production dans l'industrie manufacturière témoigne en effet de la persistance de surcapacités de production dans certains secteurs (notamment les télécommunications) ainsi que de la faiblesse de la production industrielle.

FIGURE 4 - USA - industrial production and capacity utilisation rate



Source: Datastream

3. Globalement les instituts s'attendent à ce que la croissance des investissements des entreprises américaines s'accélère l'année prochaine; les restructurations en cours au sein des entreprises et le rétablissement de leurs profits devraient, in fine, contribuer au redémarrage des investissements. Cependant, la progression des investissements devrait demeurer plus modérée qu'au cours des reprises antérieures. Un certain nombre de freins pèsent en effet sur la vigueur des dépenses d'investissements des entreprises.
- Les surcapacités ne devraient entièrement se résorber que dans le courant de la première partie de l'année 2003.
 - La mise en oeuvre de nouveaux investissements est postposée en raison de l'importance des incertitudes actuelles dont témoignent notamment la morosité des anticipations des entreprises.

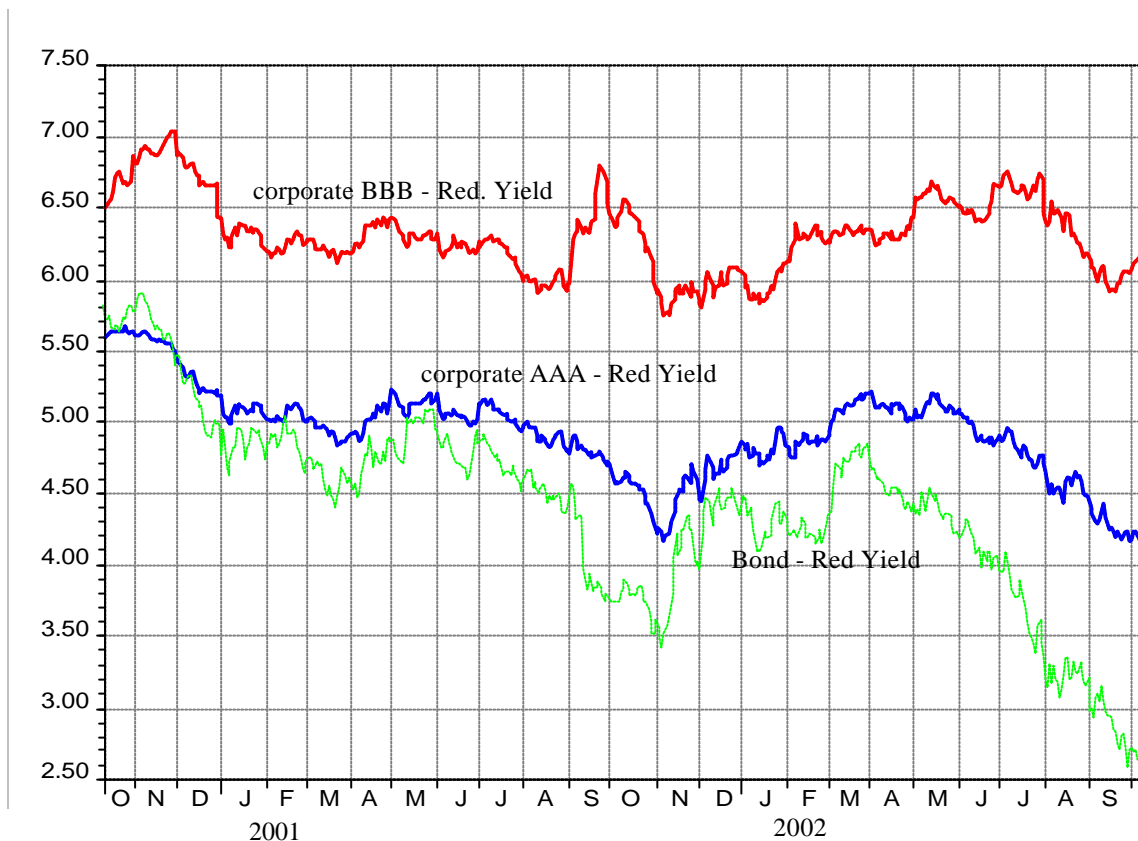
FIGURE 5 - USA - business cycle indicators
Seasonally adjusted indices



Source: Datastream

- La dégradation de la situation financière des entreprises limite très fortement le rebond escompté. La chute de la valeur des actions des sociétés se traduit par une hausse du coût du capital qui accroît leurs difficultés de financement (cf. Topic 2). En situation “normale”, le bas niveau des taux d’intérêt devrait logiquement soulager les entreprises. Toutefois, sans pour autant parler d’une situation de “credit crunch”, l’aversion au risque - renforcée par les récents scandales comptables - s’est traduite par une forte progression de la prime de risque imposée aux émissions obligataires d’entreprise par rapport aux taux appliqués aux emprunts d’Etat. Le spread imposé aux entreprises les moins bien notées par les agences de rating dépasse même aujourd’hui le niveau particulièrement élevé qu’il avait atteint en septembre 2001. Cette situation est particulièrement préoccupante dans un contexte où les prêts bancaires sont de plus en plus restreints et où l’émission d’obligations est la principale source de financement des entreprises.

FIGURE 6 - USA - Risk premium on corporate bonds



Source: Datastream

C. Les perspectives de profit s'améliorent mais les créations d'emplois devraient demeurer limitées

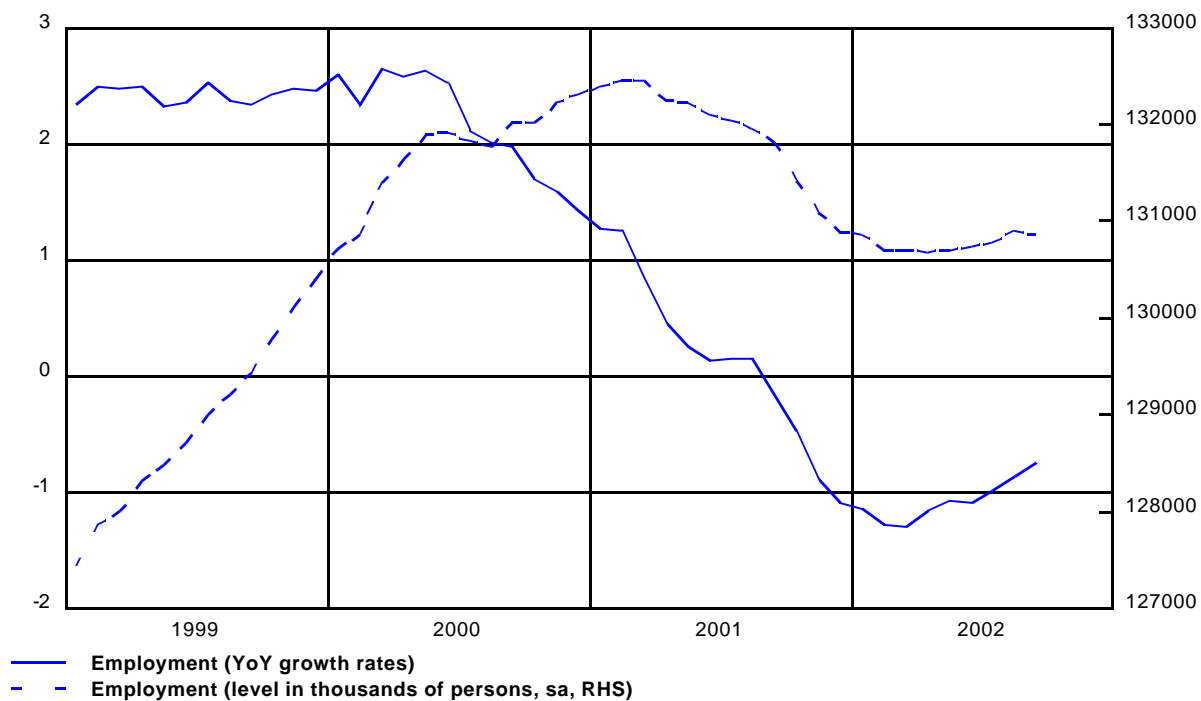
1. Les instituts de l'AIECE considèrent globalement qu'à court terme, les perspectives de redressement des profits des entreprises existent mais sont assez restreintes en raison des pressions relativement fortes qui subsistent sur les prix. Par ailleurs, même si des signes de rétablissement des profits apparaissent dans les comptes nationaux, les entreprises devraient maintenir leur comportement restrictif en terme d'emploi au moins jusqu'à la fin de cette année voir, jusqu'au milieu de l'année prochaine.
2. L'emploi US se trouve donc dans une situation cyclique difficile car non seulement le rythme actuel de la production ne nécessite pas de nouvelles créations d'emploi mais, en outre, la légère reprise des profits repose essentiellement sur des gains de productivité peu favorables à l'emploi

FIGURE 7 - USA - productivity and labour cost indices
YoY growth rates



Source: Datastream

FIGURE 8 - USA- employment in nonfarm industries



3. Toutefois, certains instituts estiment que grâce à la productivité élevée de la main d'œuvre, la baisse de l'inflation salariale devrait à terme permettre une remontée de l'emploi, d'autant plus qu'avec un marché de l'emploi très flexible, les Etats-Unis ne devraient pas subir les phénomènes d'"hysteresis" qui caractérisent les marchés de l'emploi plus rigides.

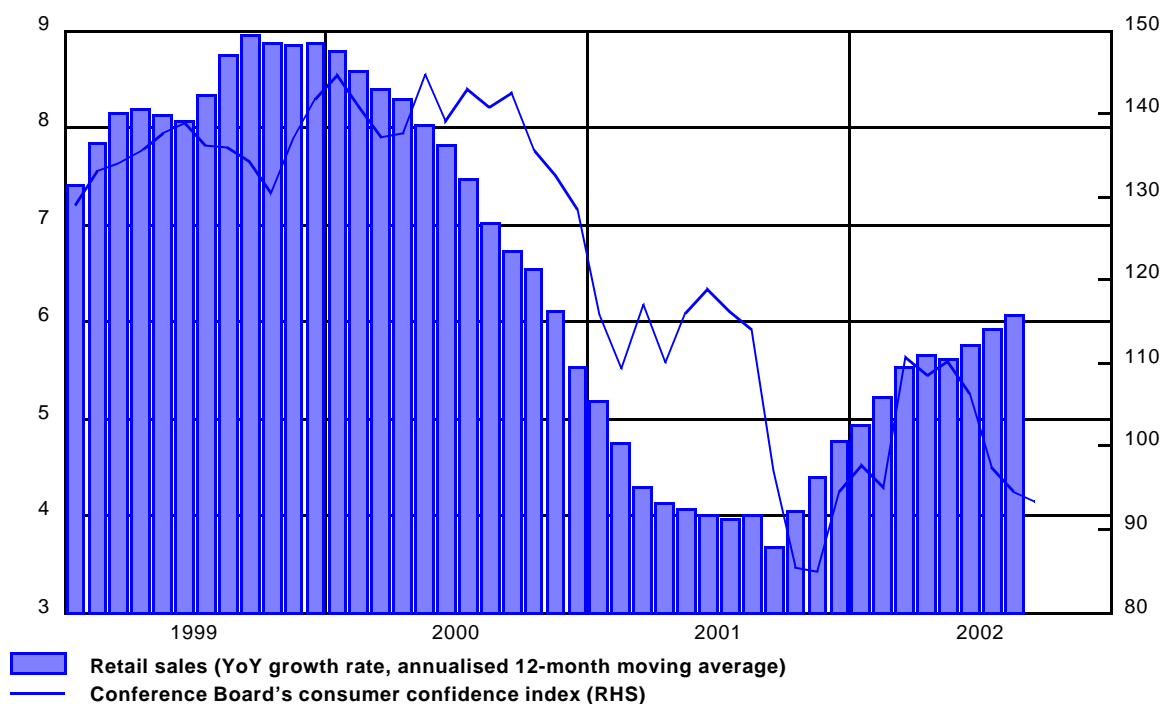
D. A moins de nouveaux aléas, les marchés boursiers devraient être proche d'un plancher mais la remontée pourrait être particulièrement lente

1. La question de savoir si, après la correction spectaculaire de ces derniers mois, les marchés boursiers ont atteint leur plancher ou si les cours des actions peuvent encore chuter est loin d'être aisée à répondre. Elle nécessite non seulement une correcte évaluation des profits, auxquels les modèles théoriques n'apportent pas de réponse unanime, mais également la prise en compte de réactions excessives des investisseurs, liées notamment aux effets de confiances, et les incertitudes ou aléas liés à d'éventuels nouveaux scandales comptables.
2. Un certain nombre d'instituts considèrent qu'à moins de nouveaux scandales d'envergure, les cours des actions devraient avoir atteint leur plancher, ou, à tout le moins, l'atteindre d'ici la fin de l'année 2002. La légère amélioration des profits apparue récemment dans les comptes nationaux est un des facteurs évoqué pour accrédiiter cette thèse. Ces instituts considèrent généralement que les profits ne sont plus surévalués mais que la remontée des cours pourrait être très lente. Les rendements obligataires particulièrement bas (tout au moins pour les obligations d'Etat et celles des entreprises les mieux notées) pourraient également contribuer à inverser le shift entre les deux marchés financiers. D'autres instituts estiment par contre que les profits sont encore surévalués, de sorte que la purge pourrait se poursuivre accompagnée d'une volatilité des cours encore élevée à court terme.

E. Le dynamisme de la consommation privée devrait être tempéré par la faiblesse de l'emploi et les effets de richesse

1. La plupart des instituts de l'AIECE s'accordent pour considérer que l'effet de richesse négatif induit par la déprime des cours boursiers devrait ralentir la consommation privée (cf. topic 2) d'autant qu'elle s'accompagne d'une perte de confiance non négligeable ces derniers mois.

FIGURE 9 - USA - consumer confidence and retail sales



Source: Datastream

2. Toutefois, malgré la faiblesse du marché de l'emploi, la consommation américaine est demeurée plus robuste qu'en Europe et les intentions d'achats restent favorablement orientées.
3. Un certain nombre de facteurs ont en effet soutenu les dépenses des ménages.
 - Les assouplissements fiscaux réalisés sous formes de crédits d'impôt octroyés aux ménages l'année dernière ont constitué un important soutien à la progression de leur revenu disponible en 2001 et 2002.
 - Les ménages ont bénéficié de conditions de financement particulièrement favorables du fait du bas niveau des taux d'intérêt pratiqués par les banques commerciales pour les crédits à la consommation ainsi que pour les emprunts hypothécaires. Les ménages ont d'ailleurs profité de ces taux réduits pour renégocier leurs emprunts hypothécaires à des conditions plus avantageuses, amoindrissant ainsi la charge de remboursement de leur endettement hypothécaire. Comme mentionné plus haut, les conditions de crédits exceptionnelles octroyées par les constructeurs automobiles ont également dopé les achats de véhicule neufs.
 - La hausse des prix de l'immobilier¹, en accroissant la valeur du patrimoine immobilier des ménages, aurait constitué un important facteur d'amortisseur du déclin de leur patrimoine mobilier. Toutefois, les instituts de l'AIECE considèrent, d'une part, que cette compensation n'est que partielle et, d'autre part, que la hausse des prix de l'immobilier ne devrait pas perdurer. En outre, la revalorisation de leur patrimoine immobilier a facilité la poursuite de la pro-

1. Le bas niveau des taux d'intérêt hypothécaires a en effet facilité l'accès à la propriété et accru la demande, provoquant une hausse des prix.

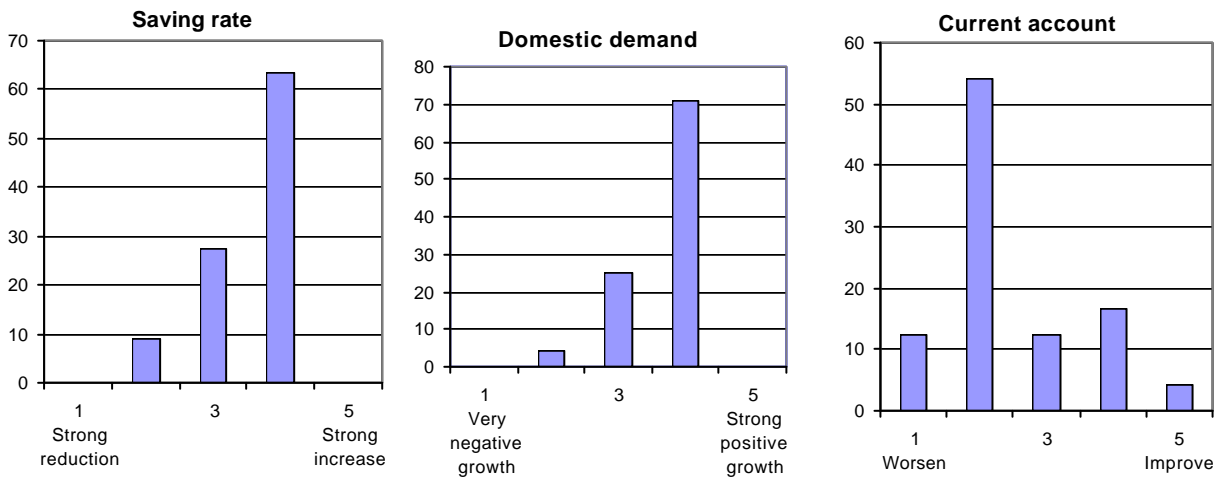
gression de l'endettement des ménages, renforçant ainsi leur vulnérabilité en cas de retournement des prix sur ce marché. Toutefois, le risque de création et d'éclatement d'une bulle sur le marché immobilier n'est que peu mentionné par les instituts.

4. La marge de rebond de la consommation privée est cependant assez limitée. La détérioration des finances publiques américaines laisse peu de latitude à de nouveaux assouplissements fiscaux. Les perspectives en termes d'évolution de l'emploi sont limitées à court terme et les effets positifs de l'abaissement des taux d'intérêt à court terme réalisé l'année dernière devraient progressivement s'essouffler. Une majorité d'instituts s'attendent donc à un ralentissement des dépenses de consommation privée au cours des prochains trimestres ainsi qu'à une remontée du taux d'épargne des ménages en 2003¹, sans pour autant cautionner un scénario de désendettement privé qui pèserait sur la croissance à moyen terme.

F. La balance courante pâtit toujours de la faiblesse de l'épargne intérieure

1. La faiblesse de l'épargne domestique américaine s'est traduite ces dernières années par une forte progression du déficit de la balance courante, financée en grande partie par les flux d'investissements directs et de portefeuille des entreprises européennes. Au deuxième trimestre 2002, le déficit courant américain atteignait environ 5% du PIB américain.

FIGURE 10 - USA: Opinions of AIECE institutes for 2003 (percentages of total answers)



Source: AIECE, October 2002

2. Une majorité d'instituts de l'AIECE anticipent pour l'année prochaine une accélération de la demande intérieure américaine plus forte qu'en Europe et au Japon, accompagnée d'une nouvelle détérioration de la balance courante. Un

1. Le taux d'épargne des ménages est remonté jusqu'à 4% du revenu disponible des ménages au deuxième trimestre 2002. Cette remontée peut également s'expliquer par la détérioration des finances publiques qui inciterait les ménages à une certaine épargne de précaution.

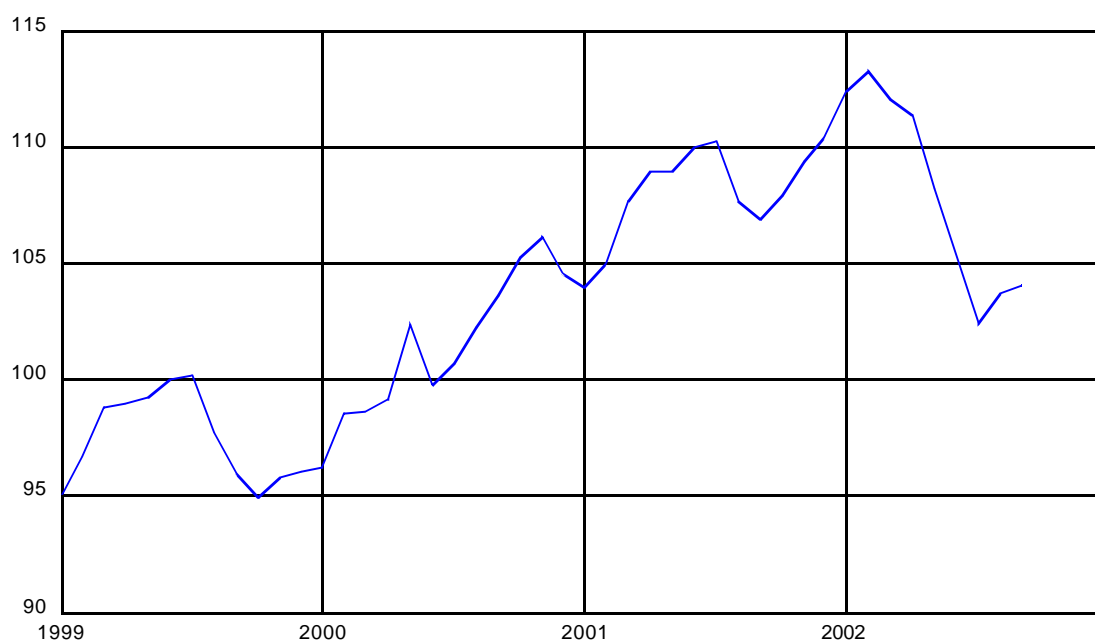
institut sur trois considère par contre que la dépréciation du taux de change effectif du dollar, en apportant un ballon d'oxygène aux entreprises exportatrices, devrait permettre une stabilisation, voir une légère amélioration du solde courant en 2003.

G. Les pressions sur le dollar devraient s'amoinrir

1. La crise de confiance que traversent les marchés financiers (scandales comptables et marasme boursier) fait resurgir les doutes quant à la soutenabilité d'un tel niveau de déficit courant et se traduit par le rapatriement d'une partie des capitaux placés aux Etats-Unis, lui-même à l'origine de la dépréciation du taux de change effectif du dollar enregistré ces derniers mois (cf. topic 3).

Le taux de change de l'euro vis-à-vis du dollar est ainsi passé de 0,87 \$/euro en février 2002 à 0,99 \$/euro en juillet 2002 avant de se stabiliser aux alentours de 0,98 \$/euro depuis le mois d'août.

FIGURE 11 - US dollar effective nominal exchange rate



Source: Datastream

2. Les instituts de l'AIECE s'attendent à ce que la dépréciation du dollar se poursuive au cours des prochains mois. En moyenne, le taux de change du dollar vis-à-vis de l'euro s'établirait à 0.95 \$/euro sur l'ensemble de l'année 2002 et atteindrait la parité sur la moyenne de l'année prochaine. Plusieurs facteurs sont évoqués pour justifier la dépréciation du dollar:

- la réapparition de déficits jumeaux (déficit courant doublé d'un déficit public). En effet, après avoir réalisé un excédent budgétaire au cours de ces quatre dernières années, les USA devraient renouer avec un déficit budgétaire

cette année. D'après les instituts, le déficit public pourrait avoisiner 2% du PIB cette année et l'année prochaine. Les dépenses militaires et de sécurité occasionnées par les attentats terroristes de 11 Septembre 2001 et les assouplissements fiscaux accordés aux ménages pour faire face à la détérioration de la situation économique sont à l'origine de cette détérioration.

- Les anticipations d'un modeste redressement des profits et de reprise molle des marchés boursiers.
 - Le différentiel des taux d'intérêt favorable à l'euro.
3. Toutefois, le rythme de dépréciation du dollar devrait être nettement moins prononcé qu'au cours des trois derniers trimestres. En effet, d'une part, tant la croissance économique que les gains de productivités et les perspectives de profit devraient demeurer plus élevés aux Etats-Unis qu'en Europe (différentiel de croissance positif). D'autre part, certains instituts considèrent que les tensions géo-politiques au Moyen-Orient seraient susceptibles, en l'absence d'alternative, de renforcer le rôle de valeur refuge du dollar US.
 4. Notons également que si la dépréciation du dollar pourrait contribuer à l'ajustement des déséquilibres américains, une trop forte dépréciation de la monnaie américaine est loin d'être souhaitable (cf. risques et Topic 3).

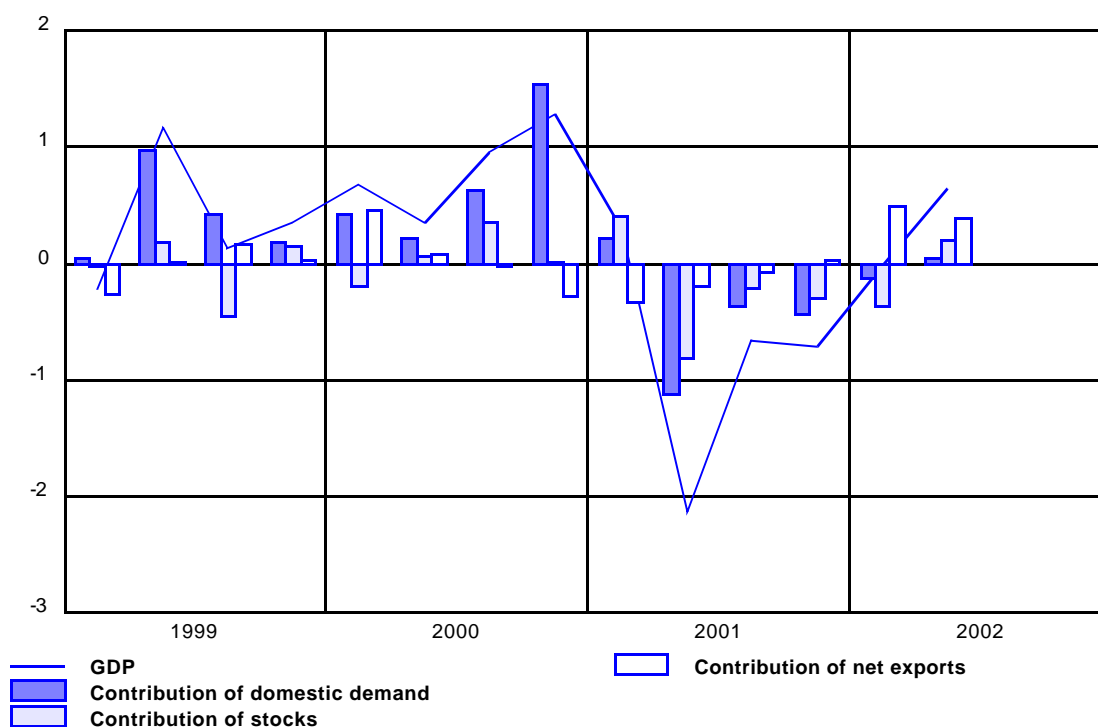
H. Politique monétaire: assurer un rééquilibrage en douceur?

1. L'incertitude relative à l'ampleur de la reprise a conduit la Réserve Fédérale à maintenir son taux de base inchangé depuis la fin de l'année dernière. Seuls quelques instituts estiment que la débâcle boursière pourrait encore occasionner une diminution de 25 points de base des taux d'intérêt directeurs durant le dernier trimestre 2002, mais la plupart considèrent que la politique monétaire est adaptée à la situation conjoncturelle américaine.
2. La Fed ne devrait par contre pas redresser ses taux directeurs tant que des signes tangibles et durables d'accélération de la croissance ne se manifestent. Une remontée progressive des taux est donc attendue dans le courant de l'année prochaine. Le timing et l'ampleur de ce redressement varient assez logiquement selon les instituts, puisqu'en l'absence de pressions inflationnistes, celui-ci est étroitement lié au timing et à l'ampleur du rebond envisagé pour la croissance. Environ la moitié des instituts s'attendent à une remontée des taux à partir du premier semestre 2003, l'autre moitié ne l'escompte qu'à partir du second semestre. En moyenne, le taux directeur de la Fed passerait de 1,8% en 2002 à 2,1% en 2003.
3. En raison du décalage dans le délais de transmission d'une baisse des taux à l'économie réelle, on peut considérer que la baisse des taux d'intérêt (tant à court qu'à long terme) devrait encore exercer des effets positifs sur la demande intérieure américaine au cours des prochains trimestres mais de manière nettement plus restreinte.

IV Japan

Last year, Japan experienced the third recession of the last ten years. Due to the deceleration of the US economy, Japanese exports started to decline from the first quarter of 2001 onwards. The worsened external environment hit business and consumer confidence and consequently domestic demand dropped by about 2% between the second and the fourth quarter of 2001. This was the result of a combination of weak consumption growth and plummeting business investment. At the same time, a massive destocking took place which dampened GDP growth further. On average, GDP declined by 0.3% in 2001¹.

FIGURE 12 - Japan: decomposition of quarterly GDP at constant prices (seasonally adjusted, QoQ changes in %)



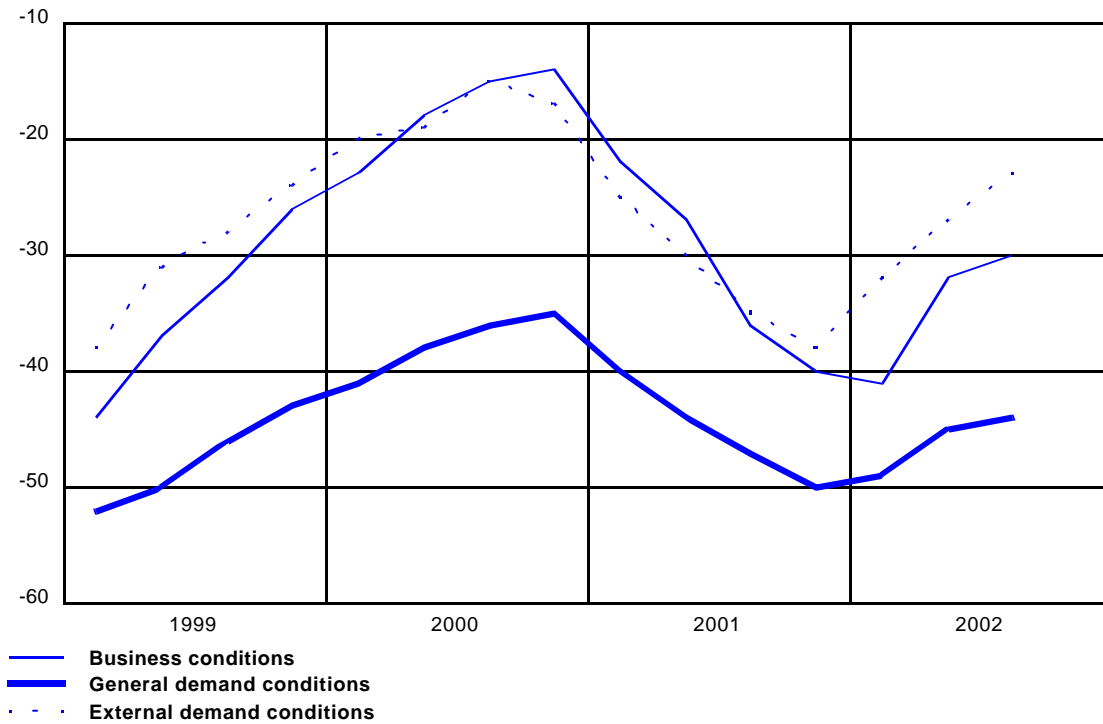
Source: Datastream

Signs of improvement showed up at the beginning of this year. Several indicators of business conditions, as well as consumer confidence indices and yoy growth rates of industrial production bottomed out or even initiated a rising trend at the beginning of this year. The Tankan survey reported a stronger improvement of external demand conditions than general demand conditions, which reflects that the Japanese recovery has been export-led. This is confirmed by the national accounts reporting a stabilisation of GDP in the first quarter of this year² which was due to a positive contribution of net exports

1. In 1998, GDP declined by 1.2% on average. Although, this recession can be considered as less sharp than the one of 2001 as qoq growth rates were much weaker during the latest recession.

compensating for the negative contribution of domestic demand. GDP growth finally turned positive again in the second quarter (0.6%) thanks to the slowdown of destocking and the contribution of net exports that remained positive, even if it was somewhat smaller than in the first quarter. It should be clear, however, that the current upturn is very fragile and sensitive to the exchange rate of the yen as it totally depends on external demand. The recent concerns about the appreciation of the yen against the dollar, illustrate this (see Topic 3).

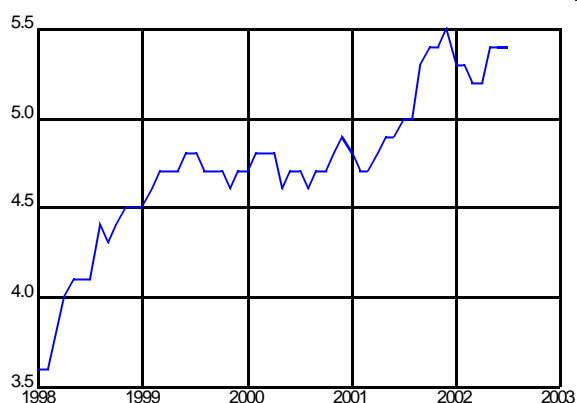
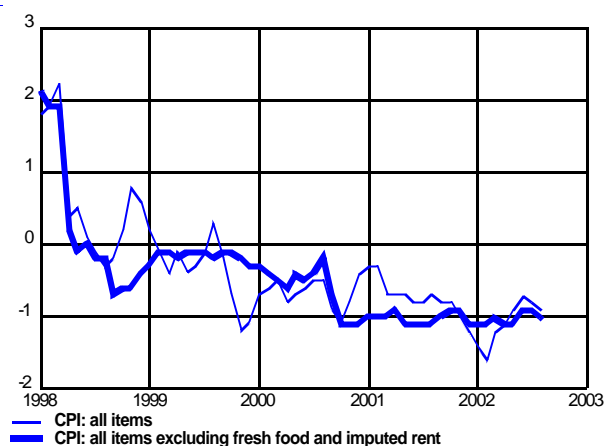
FIGURE 13 - Japan: Tankan survey



Source: Datastream

The Bank of Japan intervened several times on the exchange rate market during recent months to pull the yen down. Japanese officials also tried to talk the yen down by stating that an appreciation of the yen is not in line with economic fundamentals. However, AIECE institutes mention that the interventions do not solve the huge structural problems of Japan which make it very difficult to assure a robust recovery.

2. Note that the first estimate reported a growth rate of 1.4% in the first quarter of this year. A different methodology to establish the national accounts has been introduced in August. Significant revisions for the past were the result of this operation.

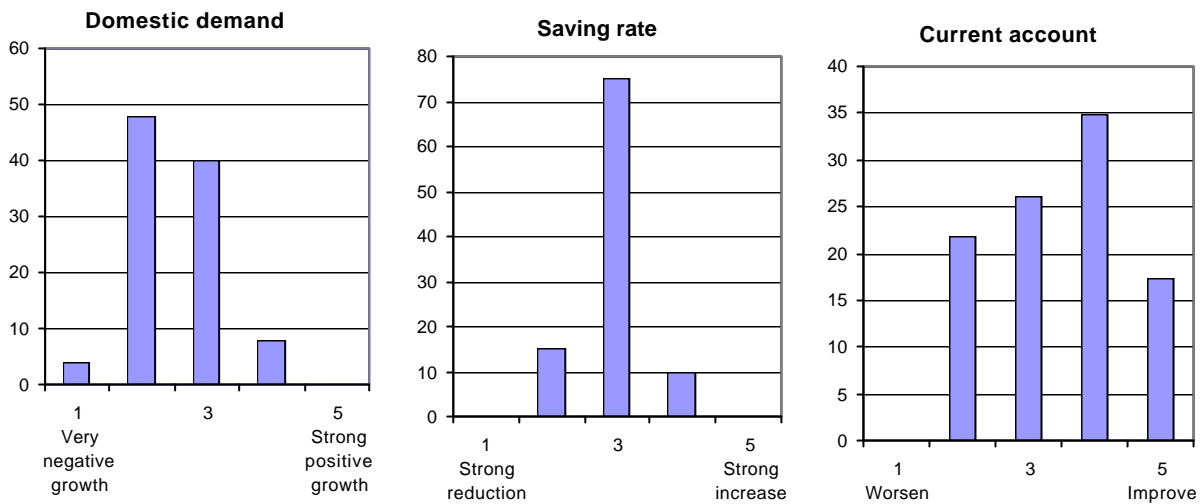
**FIGURE 14 - Japan: unemployment rate
ILO-definition**

**Japan: inflation and core inflation
yoy growth rates**


Source: Datastream

Domestic demand is expected to remain weak for the remainder of the year. At the moment, consumption remains weak because of the ongoing deflation that stimulates households to postpone important purchases, while the historically high unemployment rates negatively affect disposable income. At the same time, institutes do not expect investment to grow strongly either since most companies still face excess capacities. This stimulates them to use their cash flow to reduce debt and to accelerate restructuring processes. Moreover, banks still face enormous amounts of bad debts that make them reluctant to lend. All in all, AIECE institutes expect GDP to decline by about 0.5% this year. This growth rate is even lower than that of 2001, but it is largely influenced on the downside as the carry-over in 2002 was seriously negative (-1.4%). To arrive at an annual growth rate of -0.5%, GDP should continue to grow at a rate of 0.6% per quarter during the second half of this year.

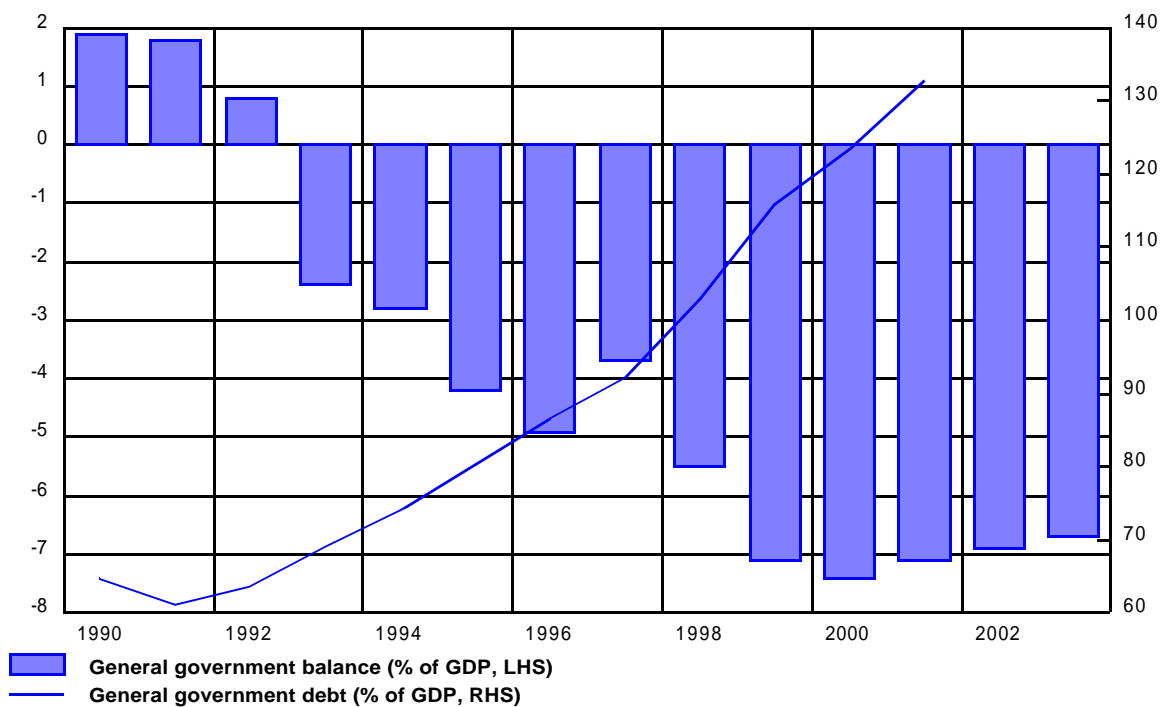
Exports remain the main engine for growth during 2003. AIECE institutes think domestic demand will remain subdued in 2003 since the structural problems mentioned above are expected to persist. As domestic demand remains weak, imports should recover only moderately. Exports are expected to gain momentum due to the US recovery and the acceleration of world trade growth. Consequently, the Japanese current account should improve next year. All in all, GDP should grow by about 0.9% in 2003 according to AIECE institutes.

FIGURE 15 -Japan: opinions of different AIECE institutes for 2003 (in percent of total answers)



Source: AIECE, October 2002.

FIGURE 16 -Japan: government financial balance and government debt

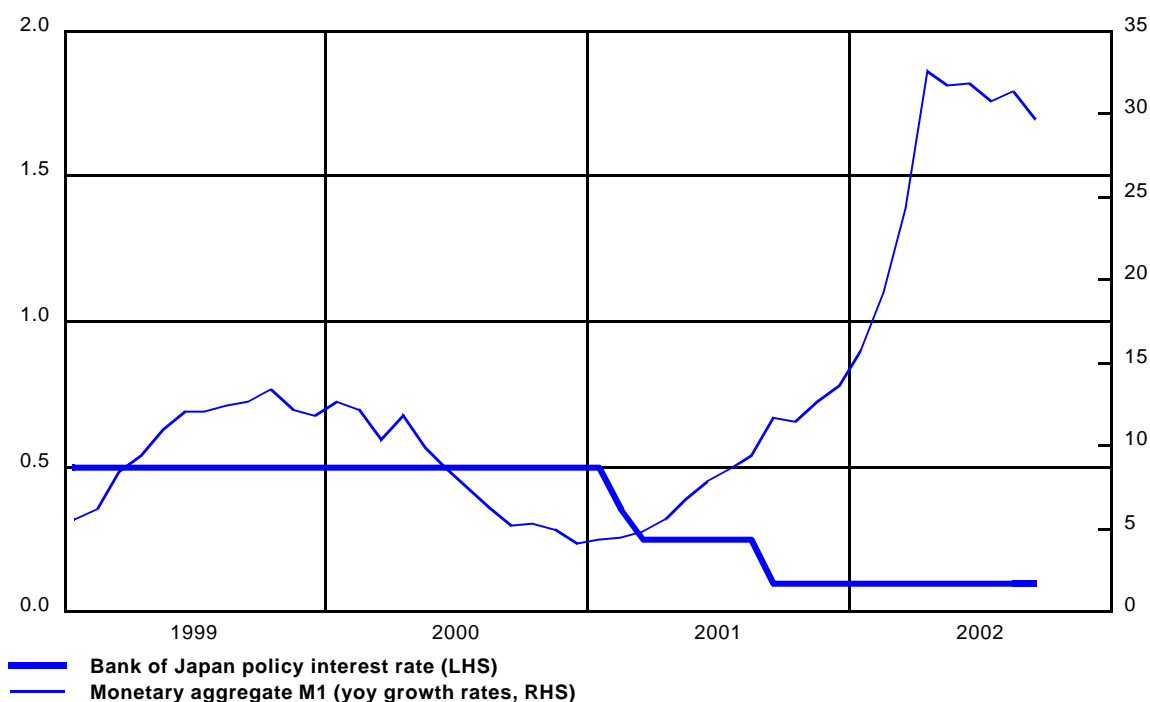


Source: OECD, data for 2002 and 2003 are averages of AIECE institutes forecasts

Monetary policy is still trapped while budgetary policy is becoming unsustainable. Budgetary policy has been very expansive since the beginning of the nineties. The fact that the Japanese budgetary deficit and public debt have been the highest of all industrialised countries since 2000 while the Japanese government performed better than the OECD average on both fronts in the beginning of the nineties, illustrates this. However, this has not helped the economy to recover after the bursting of the Japanese

bubble. As government debt is currently moving towards 140% of GDP, budgetary authorities have no other choice than to consolidate. AIECE institutes expect the general government balance (as a % of GDP) to be -6.9% this year and -6.7% next year which means that the government will have to cut back quite seriously on the expenditure side in view of the weak economic growth. Monetary policy was also very accommodating with a policy interest rate that has been held at 0.1% for more than a year and that is not expected to be raised significantly in the coming quarters. Moreover, the monetary aggregate M1 has increased at yoy growth rates between 11% and 33% during the last year due to purchases of government bonds by the BoJ. But again, this has not helped to stimulate domestic demand.

FIGURE 17 - Japan: monetary policy indicators



Source: Datastream

Tackling structural problems seems to be the only way to restore confidence. As stated by different AIECE institutes, the Japanese government must deal in the first place with the problems in the banking sector. At the moment, bad loans are officially estimated to be 8% of GDP, although the Economist refers to figures that are two or even three times higher. There are two ways to deal with this problem that risks to keep on hampering economic growth: the government could buy the bad loans, or the government could force the banks to solve this problem on their own. Since the second option implies the bankruptcy of many firms and banks and consequently a massive rise of unemployment, this option would exacerbate the problem of deflation. The Bank of Japan seems to be in favour of the first option as it recently spurred the government to help banks to write off their bad loans, although this could further worsen the budgetary situation of the Japanese government. At the same time the BoJ bought for about two trillion yen of shares from banks to alleviate the problems they could face as the Nikkei 225 fell to a 19-year low.

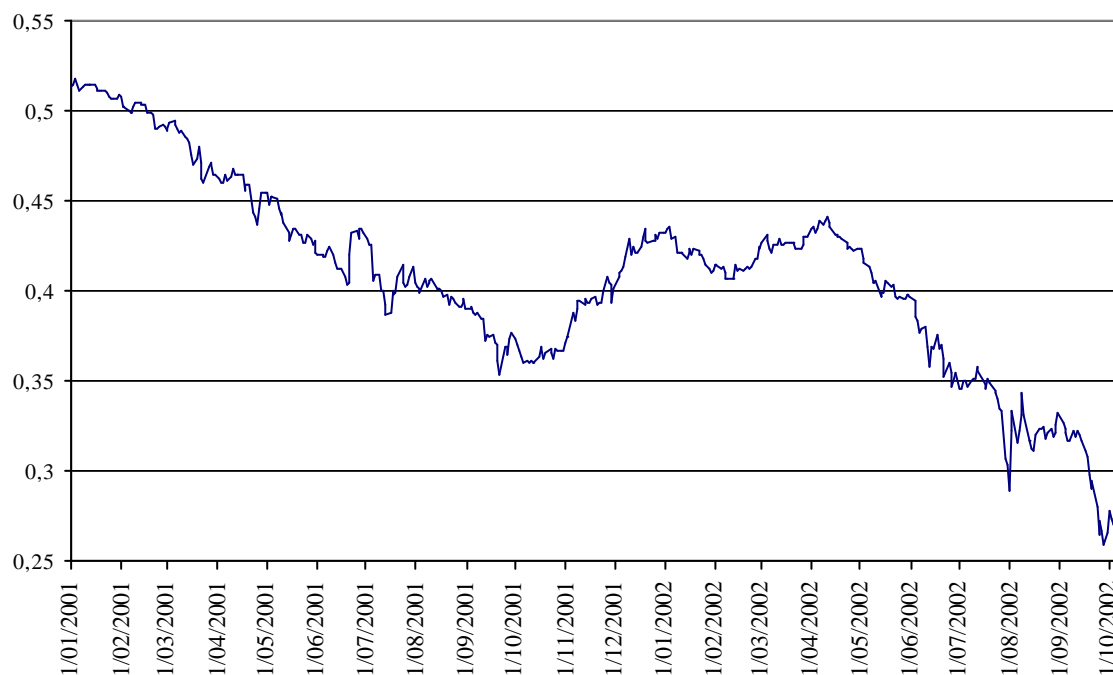


Latin America and the Argentina crisis

The direct effect of the crisis in Argentina (through trade, tourism and financial channels) appears to be limited. Contrary to the Russian and Asian crisis of 1998, financial turbulence did not spread to all emerging economies. However, this crisis has sharply enhanced the financial risk perception (in terms of public and foreign debt as well as fragility of the banking systems) of the Latin America continent. This was mirrored by the abrupt increase in risk premium and falls in exchange rates particularly in the Mercosur (Brazil, Uruguay and Paraguay). Only Chile and Mexico showed strong resistance, thanks respectively to a low public debt and strong links with the US.

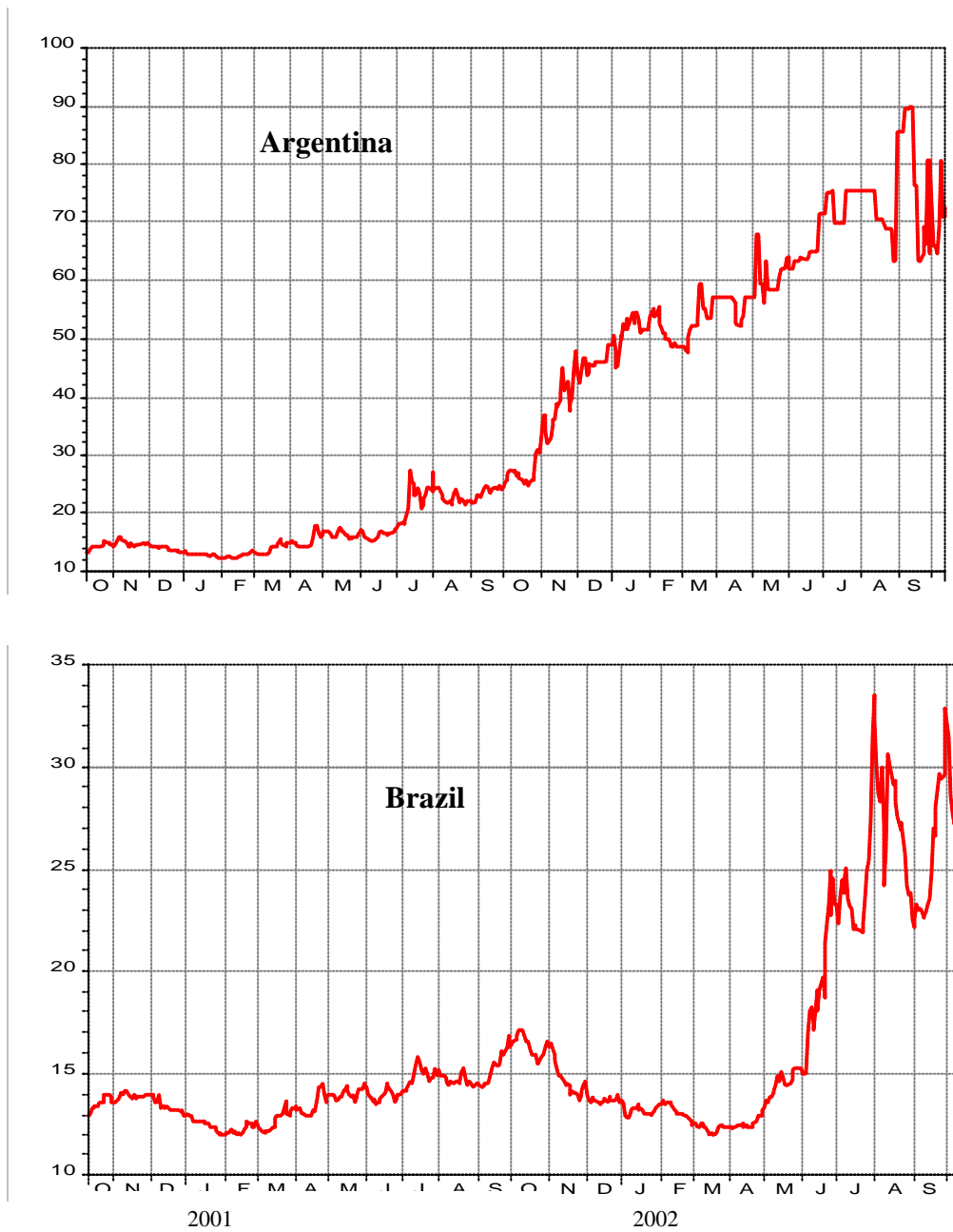
The deterioration in financial market sentiment is also largely related to political uncertainty in Brazil in the aftermath of the October presidential elections, as it is reflected by the sharp depreciation of the real against the US dollar that even persisted after the August agreement between Brazil and the IMF. If political stability is maintained after the elections and fiscal policy remains on track, the situation could improve substantially.

FIGURE 18 - Exchange rate of the brazilian real against the US \$



Source: Datastream

FIGURE 19 - Risk premium in Argentina and Brazil (bond yield for long term maturities)



Source: Datastream



VI Transition economies and Eastern European countries

Growth in most Central and Eastern European accession countries¹ remained relatively sustained during the global economic downturn. The only exception is Poland which faced a persistent economic slow down after several years of strong economic activity. However, the first signs of improvement showed up recently.

Despite a slight downward revision, in line with the delay in the European business recovery and the deceleration in Germany, growth forecasts for the current year remain rather close - although somewhat lower - to the realisations of last year and far above the small growth expected for Western European countries. A strengthening of economic activity is unanimously projected for next year.

TABLEAU 2 - Real GDP and domestic demand growth rates

	GDP			Domestic demand		
	2001	2002	2003	2001	2002	2003
Czech Republic	3.6	2.4	3.6	5.0	4.2	3.5
Hungary*	3.8	3.4	4.1	2.1	5.1	5.0
Poland	1.0	1.0	3.1	-1.9	0.8	3.5
Slovenia	3.0	2.9	3.3	0.5	2.7	3.0

AIECE, October 2002

* Average of Kopint and GKI forecasts.

The following factors contributed to the dynamism registered till mid-2002:

1. Continuing inflows of FDI underpinned business investment and remained the main financing source of the large current account deficits (as domestic demand in the transition economies increases faster than in their export markets, mainly the EU). In that sense, FDI inflows contributed to the financial stability of these countries.
2. Domestic demand has driven economic growth, except for Poland. Private consumption was stimulated by robust increases in real wages and real disposable income, thanks to sound productivity gains, declining inflation rates and stimulating fiscal policies. Investment activity was encouraged by the reforms made for the accession to the EU.
3. Strong price competitiveness and highly labour intensive products helped to sustain exports in the context of declining world trade, especially since the

1. Most of the following refers to the four accessing countries, members of the AIECE, which represent more than 75% of the GDP of the 10 Central and Eastern European accession countries.

demand for consumption goods was less sensitive to the business cycle downturn than the demand for investment goods.

4. The low level of stock market capitalization of those countries¹ limited the impact of depressed equity prices on the real economy.

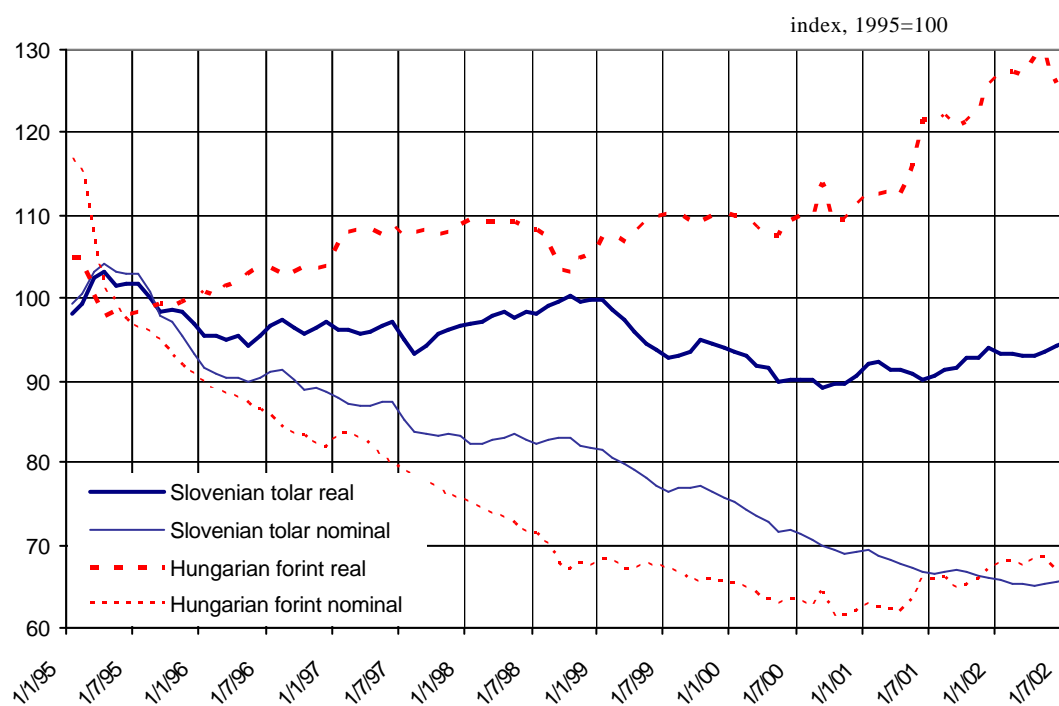
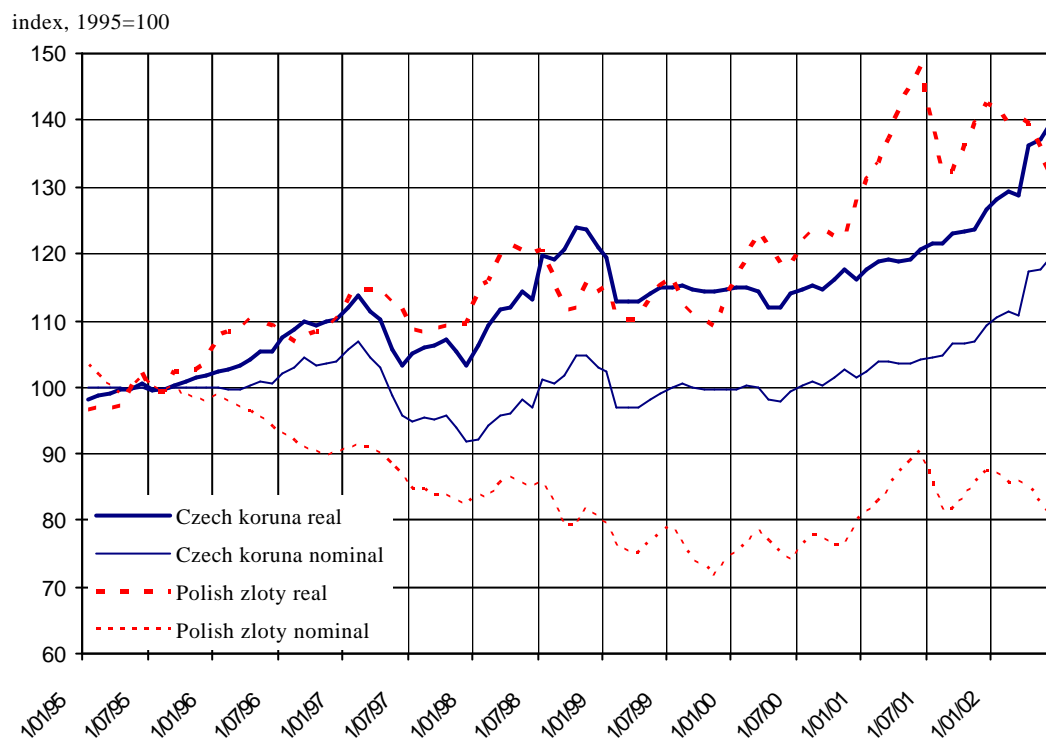
Most of these factors should support economic activity in the coming quarters:

1. The majority of the AIECE institutes consider that FDI inflows should remain strong or even intensify in the years to come. Indeed, even if the privatization process is slowly fading, relatively low cost production bases, financial stability, the predominance of greenfield investment and the perspective of accession to the EU will maintain the attractiveness of these economies for foreign direct investment.
2. Domestic demand should remain robust next year. FDI inflows will further contribute to enhance business investment while private consumption will be stimulated by the continuing catching up of incomes. In Hungary, for example, public wages have strongly increased in September 2002. Domestic demand should strengthen in Poland, reflecting currently the more accommodating stance of economic policy.
3. Price competitiveness eroded somewhat recently because of the appreciating path of nominal exchange rates against the euro throughout 2001², except for Slovenia. The attractiveness of these countries for foreign investment, combined with strong productivity growth, largely explains this path. Since the European market accounts for about two thirds of the export markets of the most advanced Central European countries, this appreciation against the euro led to an appreciation of their effective exchange rates (see graphs below). The relatively higher inflation rates in these countries than in the euro area explain why this appreciation is more important in real than in nominal terms. However, the Hungarian forint stabilized since the beginning of 2002 and the Polish zloty even depreciated in nominal terms from April 2002 onwards, reflecting, in the last case, the more accommodative stance of monetary policy.

1. According to the ECB, stock market capitalization amounted to only 14% of GDP in Poland and 30% in Slovenia in 2000 against 72% in the euro area.

2. The Slovenian tolar follows a managed float while the Czech koruna and the Polish zloty follow a free float and the Hungarian forint is pegged to the euro with 15% fluctuations bands.

FIGURE 20 - Effective exchange rates



Source: Datastream

Most AIECE institutes also consider that high productivity growth and still relatively low labour costs (despite the recent upward trend in unit labour costs) should help to sustain external competitiveness of the European countries in transition. The expected re-emergence of stronger growth in Western Europe, and continuing market share gains would also contribute to the GDP growth acceleration forecasted for next year.

Some AIECE institutes also mention that the relatively large current account deficits (around 4% of GDP)¹ do not represent a major source of financial vulnerability. Indeed, in the context of a recovery in world trade, these deficits are not expected to deteriorate any further next year.

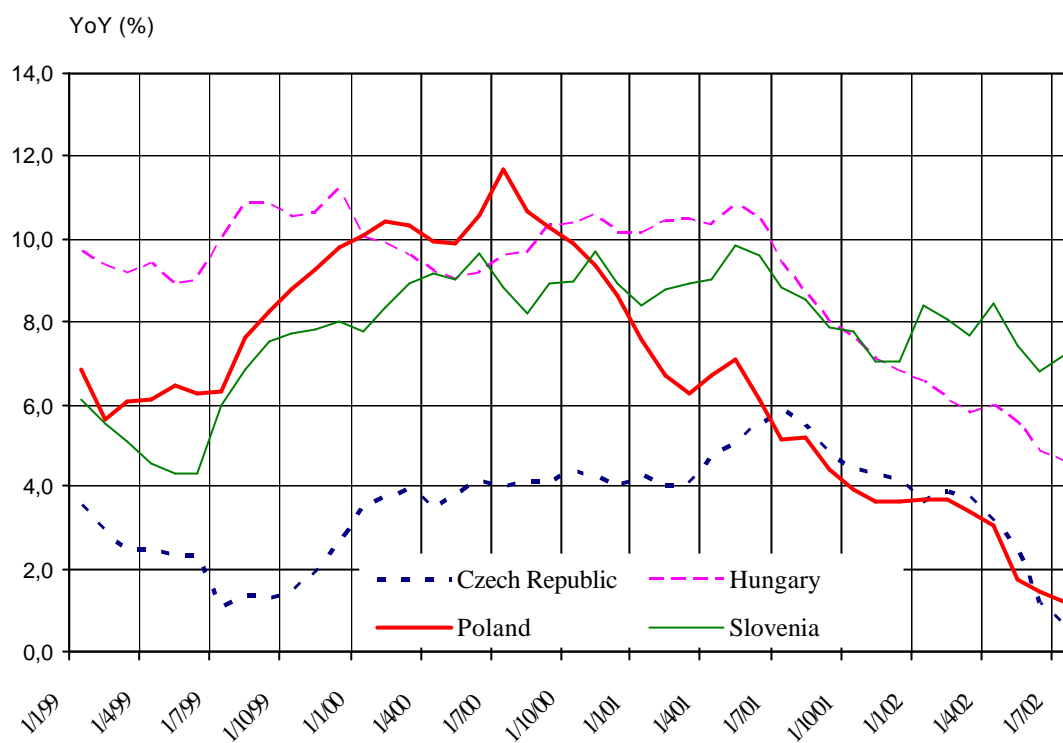
Most institutes consider that an earlier participation of the accessing countries to the EMU would harm employment and economic growth because their economic policies could then turn out to be too restrictive in order to fulfil all the Maastricht criteria. Finding and adopting the appropriate balance between monetary, budgetary and structural policies is already one of the main challenges faced by the Central European countries in transition. The Czech Republic, Hungary and Poland also have to face a twin deficit.

In the four countries under review, budget deficits should increase in 2002 -even in Poland despite public expenditure cuts - and only a limited budget consolidation is expected for 2003. The Czech republic and Hungary both experienced serious fiscal slippages during the election year 2002. Moreover, the Czech Republic has been seriously hit by the summer floods so that the fiscal deficit could increase again next year².

As already mentioned, the appreciation of exchange rates and the inflation targeting framework adopted by the central banks contributed to a significant deceleration of inflation rates, at the exception of Slovenia. This in turn allowed central banks to lower their official interest rates³. In the Czech Republic inflation even undershoot the National Bank's target. However, except for the Czech Republic, double digit interest rates probably reflect concerns about budget deficits (as is the case in Hungary and Poland), still high inflation in non-tradable sectors as is the case in Slovenia⁴.

-
1. Slovenia should record a surplus from this year on, thanks to fast inflows of tourism expenditures, dynamic trade with transition countries as well as a more moderate domestic demand.
 2. In spite of the fact that the government will try to cover part of these damages by curtailing other budgetary expenditures as well as by an increase in VAT and excise taxes.
 3. Although, the Hungarian Central Bank has raised its official rates twice since May 2002 in order to avoid inflation slippage resulting from vigorous wage growth.
 4. Reflecting the so called "Balassa-Samuelson" effect?

FIGURE 21 - Inflation rates



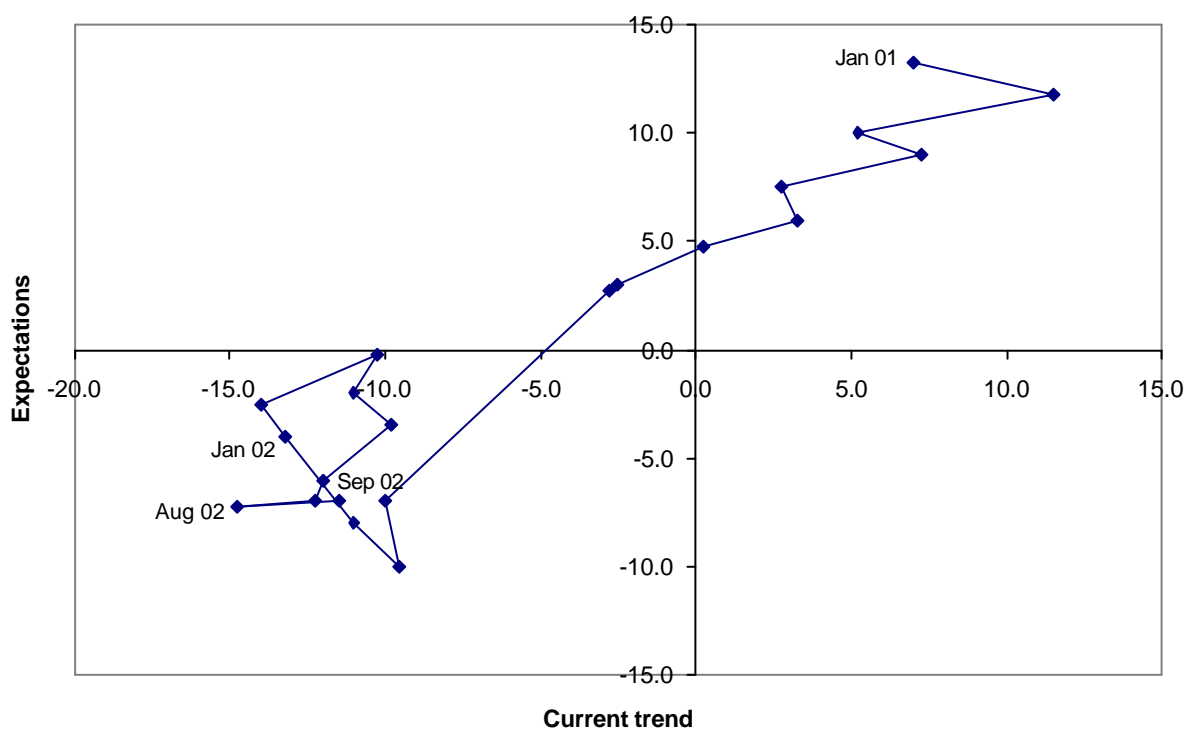
Source: Datastream



European Union

In the beginning of this year, most forecasts pointed out that the downturn of 2001 would come to an end in the first quarter of 2002 and that the economy should improve progressively afterwards. Most hard and soft data confirmed this view as they improved markedly during the first half of the year. The euro area economy expanded again in the first quarter of 2002, yoy growth rates of industrial production were on a rising path and confidence indicators improved significantly. The expectations of a progressive improvement turned out to be too optimistic, however, and during summer, most indicators stabilised or even declined again due to falling stock markets and doubts about the strength of the US recovery and its implications for world trade. As is clear from the graph below, this decline was due to a more pessimistic judgement about the current situation, as well as to less optimistic expectations. Again the American recovery seems to be crucial for an upturn in the euro area.

FIGURE 22 - Assessment of the business situation in the EMU (services included)

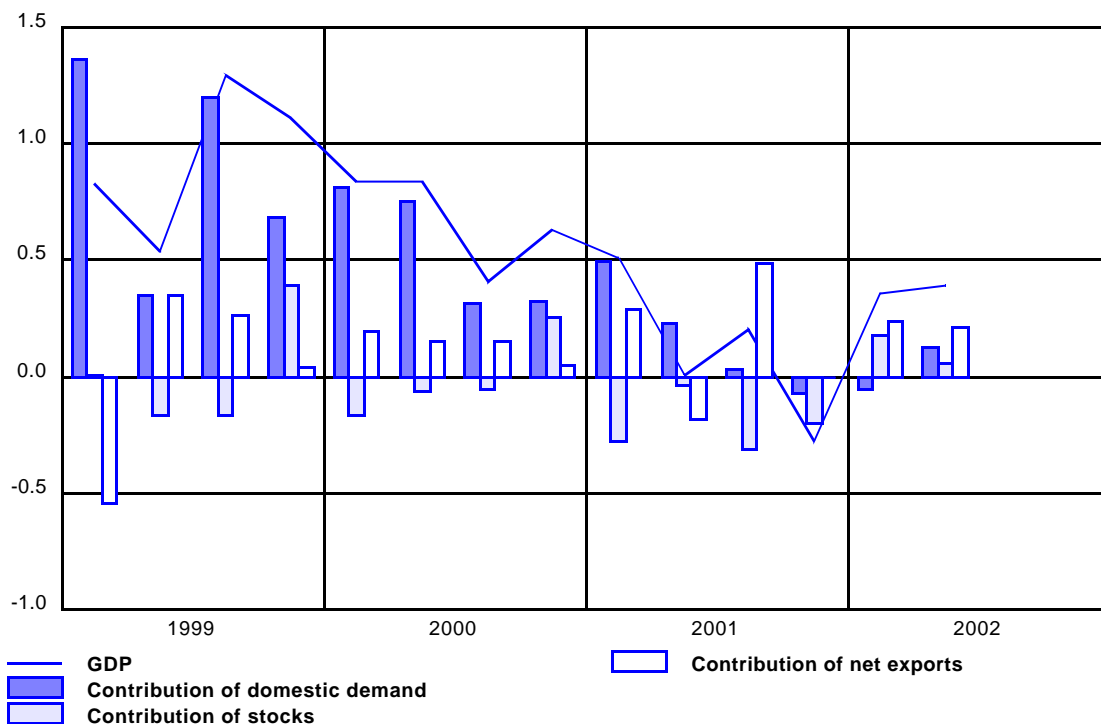


Source: Datastream

A. Economic growth remains subdued in 2002

As anticipated in most forecasts, euro area¹ GDP at constant prices increased again in the first quarter of this year after its decline (of 0.3%) at the end of last year. The 0.4% growth of GDP in the first quarter was mainly due to the positive contribution of net exports, and to a lesser extent to a slowdown of destocking. In fact, exports almost stabilised under impulse of the strong performance of the American economy while imports decreased by 0.9%. The most recent data for the second quarter show that GDP growth remained at 0.4% which is explained by the smaller contribution of net exports and the sluggish performance of domestic demand which suffers from the weakness in fixed capital formation.

FIGURE 23 - Euro area: decomposition of quarterly GDP at constant prices (seasonally adjusted, QoQ changes in %)

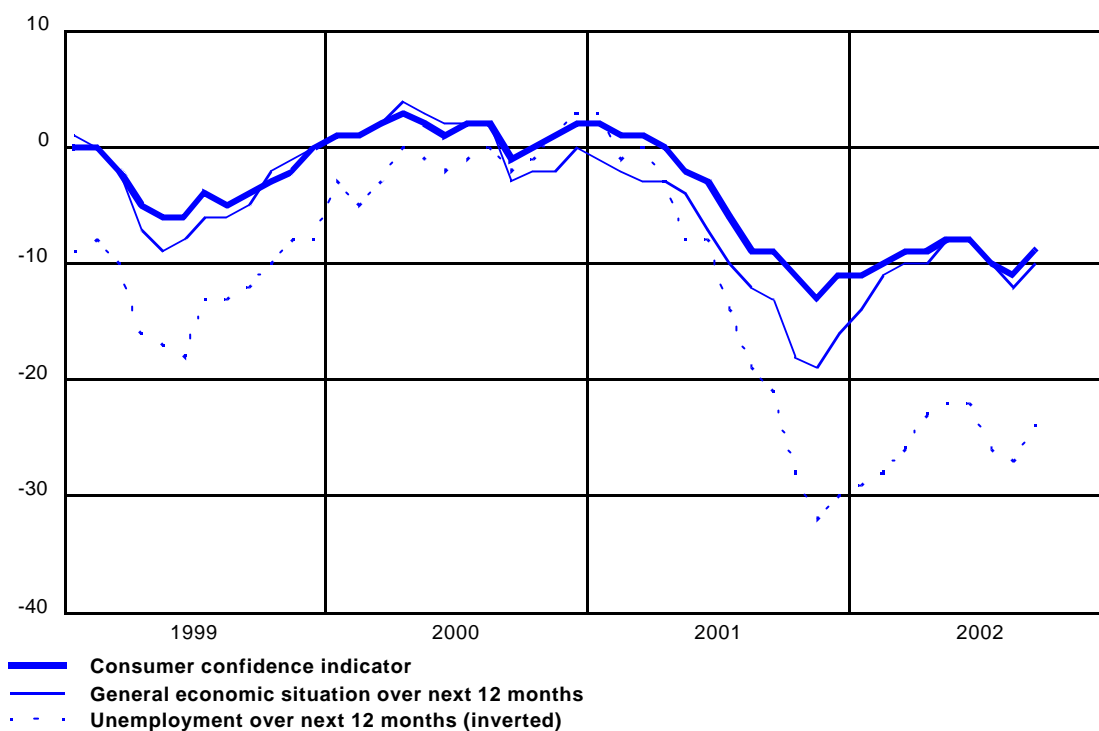


Source: Datastream

The private consumption outlook remains mixed. Private consumption growth turned positive (0.3%) in the second quarter of 2002 after a stabilisation in the second half of 2001 and the 0.2% decline in the first quarter of this year. These figures mask quite different evolutions across countries. Private consumption growth was particularly strong in France and Spain, while it was negative for three consecutive quarters in Germany. Private consumption growth was somewhat stronger in the EU than in the euro area during the past quarters which was mainly due to strong consumption growth in the UK.

1. Note that the figures mentioned in this part refer to the euro area. If figures refer to the EU or EU members, this will be explicitly specified.

FIGURE 24 - Euro area: consumer sentiment indicators

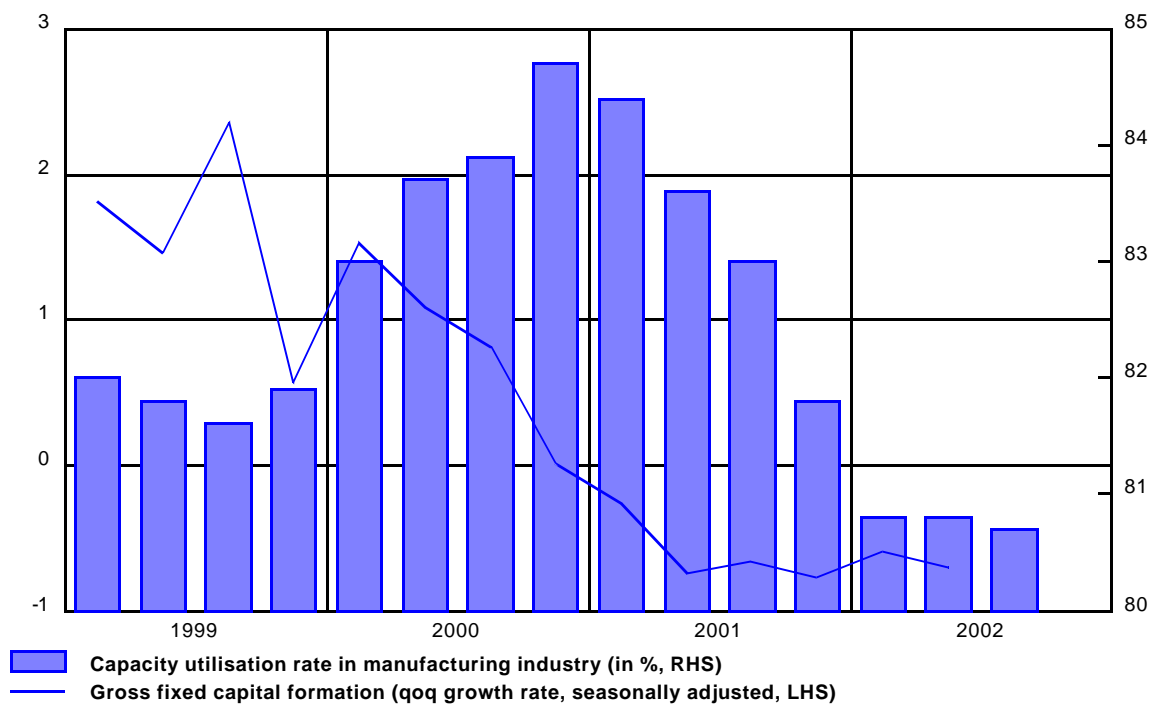


Source: Datastream

Several factors have depressed private consumption during the downturn. First of all, stock markets have been on a declining path since mid-2000 which negatively influences household wealth (see Topic 2). Secondly, households' purchasing power was hit by inflation which remained quite high until the first quarter of 2002. Finally, uncertainties about the general economic situation and the fall of unemployment that came to an end caused a rise in the saving rate. These last two factors also explain the fall of consumer confidence during 2001 which declined mainly because of higher unemployment expectations and a more pessimistic general economic outlook. Since the beginning of 2002 consumer confidence edged up, but fell again in July and August due to the collapse of stock markets. Since the forces that weigh on consumption are expected to unwind only gradually, private consumption growth should not accelerate during the second half of this year.

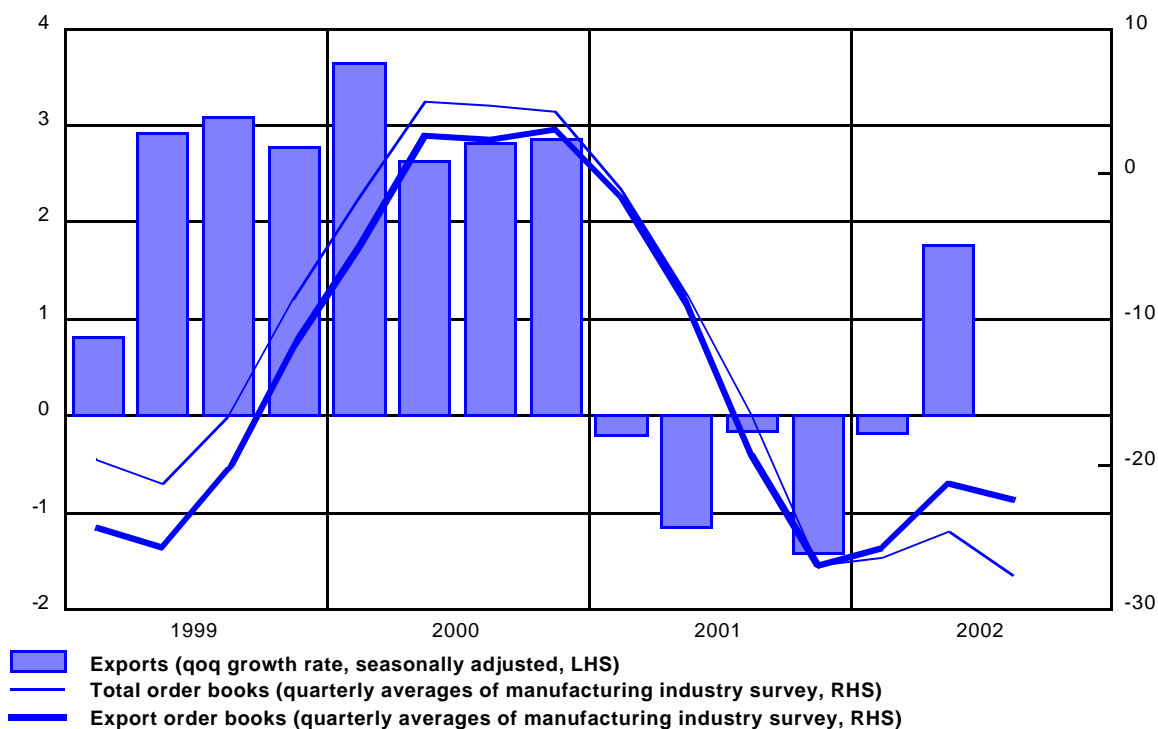
Euro area gross fixed capital formation has been hit severely by the downturn. In fact, it has been declining for six consecutive quarters since the beginning of 2001, which is due to a decline in almost all sectors of the economy, apart from investment in software that kept up remarkably well. Investment actually suffers from low profitability and the overinvestment that took place during the past years and that caused large overcapacities. Capacity utilisation has been declining in the course of 2001 and stabilised at a quite low level during the first three quarters of this year which does not point to a swift recovery of investment. The fact that industrial confidence indicators have recently declined will not help much either. It should be mentioned, however, that euro area investment statistics have been and still are heavily influenced by the malaise in the German construction sector.

FIGURE 25 - Euro area: gross fixed capital formation and capacity utilization rate



Source: Datastream

FIGURE 26 - Euro area: export situation



Source: Datastream

World demand gains momentum. Exports have been on a declining path during 2001 and were at the end of last year, in real terms, more than 3% below their peak level of the fourth quarter of 2000 due to disappointing world trade growth. In the first quarter of this year, qoq export growth was still slightly negative (-0.2%), but it gained strength during the second quarter (1.9%) despite the appreciation of the euro. Survey data show that export order books have expanded more strongly than total order books until now, which leads to the expectation that world demand will remain the main engine of growth for the euro area throughout the year.

B. Recovery scenario postponed

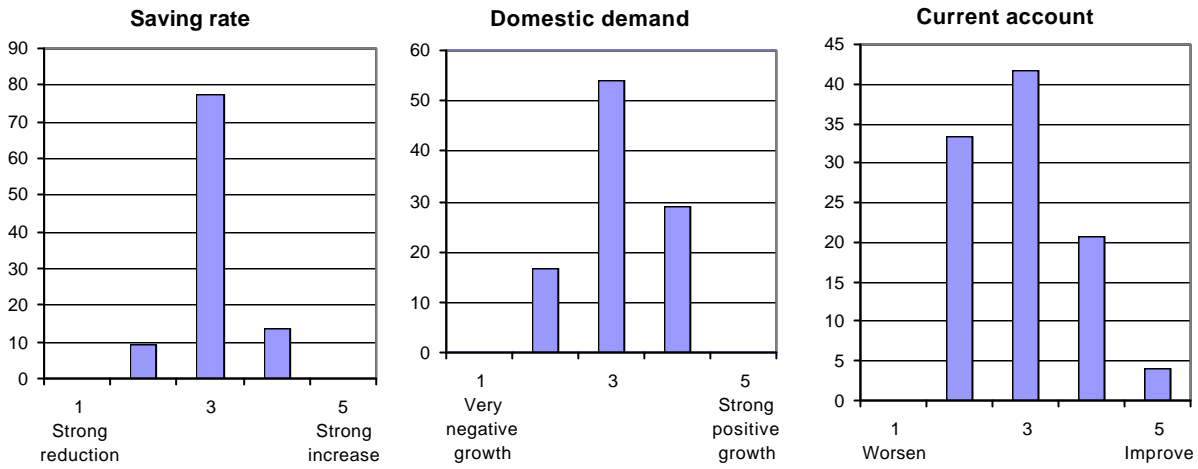
Although the slowdown in destocking and the pick-up of exports stimulated growth in the first half of this year, the upswing of internal demand has not yet materialised and is not expected to do so for the remainder of the year. Most AIECE institutes do not expect euro area economic growth to accelerate significantly before the beginning of next year. This view is compatible with the short term quarterly forecasts for the euro area of the European Commission that point to a growth rate between 0.2% and 0.5% for the third and the fourth quarter of this year which would result in a growth rate of less than 1% this year. As mentioned, similar indications are given by confidence indicators.

It is widely accepted that the recovery in the euro area will not materialise without an upturn of the US economy because economic policy is not expected to stimulate internal demand. On the one hand budgetary policy is unable to further stimulate the economy since its hands are tied because of the Stability Pact and engagements that were made in the past. On the other hand, monetary policy has not been very accommodating during the recent downturn and monetary conditions even tightened recently due to the appreciation of the effective exchange rate of the euro. On top of that, intensifying financial integration increases the correlation between the business cycles of both economies.

At the moment the consensus among AIECE institutes is that a recovery should show up from the beginning of 2003 onwards. World trade growth is expected to accelerate from 2.4% this year to 6.5% next year¹, which should stimulate exports. It should be noted that the recent appreciation of the euro against the dollar could harm export growth (see Topic 3), but this impact should remain limited. Private consumption growth is expected to accelerate next year due to planned tax reforms and low inflation, which should boost real disposable income under the assumption that oil prices do not soar (see Topic 1). The saving rate is not expected to continue its rise of this year, and should thus not restrain private consumption growth. Regarding investment, it seems clear that the turning point in the investment cycle will occur later on in the euro area than in the US, just as for the other elements of internal demand. Two different opinions prevail however about the strength of the upturn in the investment cycle: some institutes expect a more moderate recovery in the euro area as compared to the US since the downturn in investment was also less explicit, while other institutes expect a stronger upswing in the euro area investment cycle because the problem of excess capacities is bigger in the US than in Europe. These developments should, according to AIECE institutes, result in a moderate growth rate for domestic demand. All in all, they expect GDP growth in the EU to rise to 2.1% next year, compared to 1.1% this year.

1. Averages of AIECE forecasts.

FIGURE 27 -Euro area: opinions of AIECE institutes for 2003 (percentages of total answers)

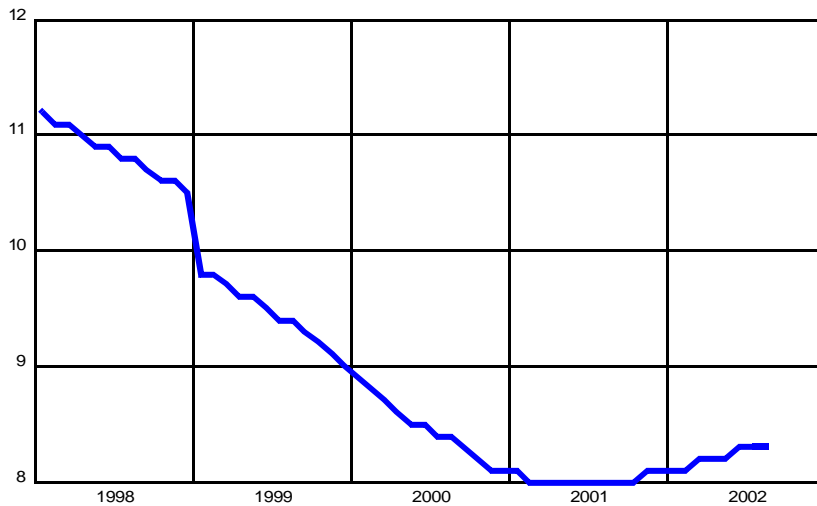


Source: AIECE, October 2002.

C. Labour market kept up well

The unemployment rate in the euro area had been on a declining path since 1997. By the end of 2001, when the unemployment rate was at 8%, it began to rise again to reach 8.3% in August 2002 as a consequence of the economic downturn¹.

FIGURE 28 - Euro area: unemployment rate ILO definition



Source: Datastream

The worsened economic situation has only taken a modest toll on the labour market, though. Even if employment growth has fallen quite heavily, it still continues to grow at

1. Note that the unemployment rate in the EU moves in line with that of the euro area, although its level has been 0.6 percentage points lower during the last years. The latter is the consequence of lower unemployment rates in the UK, Sweden, as well as Denmark.

positive rates. In the first quarter of this year employment increased by about 0.1% compared to the last quarter of 2001, while the European Commission expects a stagnation in the second quarter of this year.

Recent survey data from the EC suggest that employment growth will remain sluggish in the next months which is logical in view of the weak performance of domestic demand and the delay of the employment cycle vis-à-vis the GDP cycle. As a consequence, unemployment should continue to rise steadily for the rest of the year, but next year, as the upturn gains strength, employment growth should be sufficiently high to bring the unemployment rate down.

D. Moderate wage growth important to safeguard competitiveness

When cyclical conditions started to deteriorate in the second half of 2000, employment growth remained quite strong due to labour hoarding. As a result, yoy productivity growth declined from the second quarter of 2000 onwards and even became negative in the fourth quarter despite the weakening of employment growth. At the same time, the nominal compensation per employee continued to grow at an annual rate of more than 2%. These developments imply strong increases of unit labour costs (ULC). In fact, the annual growth rate of ULC rose from 1.3% in 2000 to 2.6% in 2001, which is the highest growth rate since 1993, and in the first quarter of this year the yoy growth rate of ULC was even higher than 3%. These figures are, again, the result of quite different growth rates among euro area countries. ULC rose by only 1.3% in Germany in 2001, while this increase was bigger than 5% in Finland, Ireland, the Netherlands, Portugal and Luxembourg.

FIGURE 29 - Euro area: labour costs and productivity
YoY growth rates



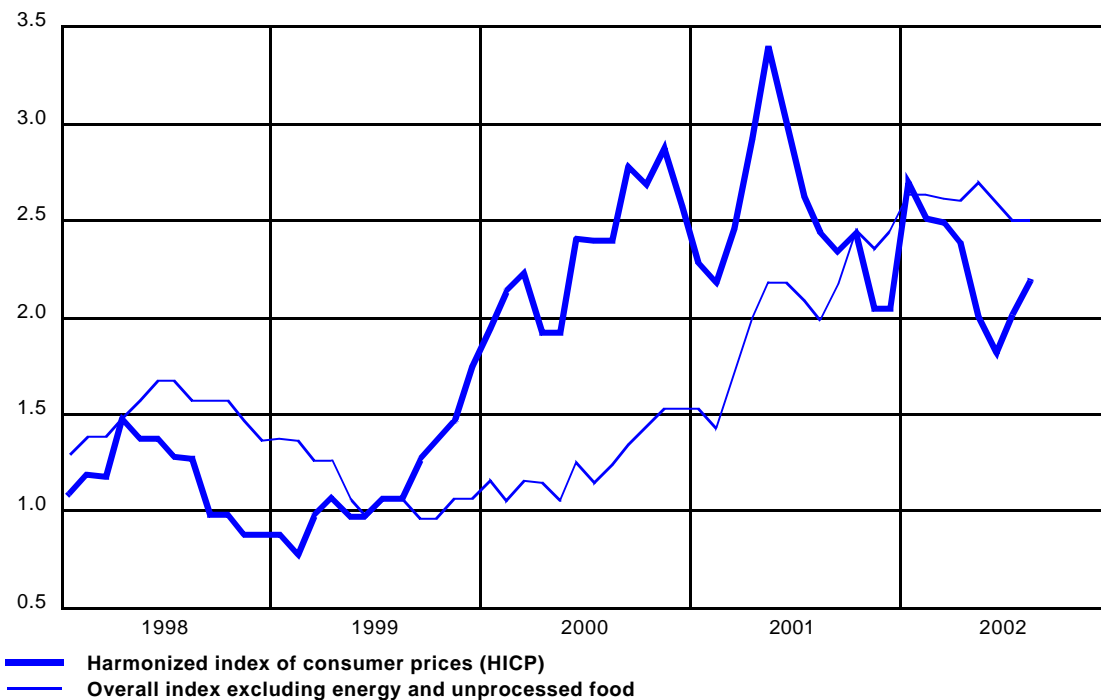
Source: ECB

During the last two years, these strong wage increases hardly harmed competitiveness in the euro area because of the contemporaneous depreciation of the euro. But now the euro has appreciated, wage moderation is crucial to limit the loss of competitiveness. In the current situation of rising unemployment and falling inflation, most AIECE institutes expect wage claims to cool down. In combination with the business cycle related upturn of labour productivity, this should cause a decline of ULC growth. The wage share, which increased in most European countries during the last few years, however without reaching levels seen in the beginning of the nineties, should remain more or less stable under these circumstances.

E. Inflation declines at a slower pace than expected

Headline inflation, as measured by the yoy growth rate of the HICP, increased from 2.0% in December 2001 to 2.7% in January 2002 and remained above the 2% threshold until April. Later on headline inflation declined to 1.8% in June and accelerated again to 2.2% in August¹. Core inflation, as measured by the yoy growth rate of the consumer price index excluding energy and unprocessed food, remained around 2.6% during this year.

FIGURE 30 -Euro area: inflation and core inflation
YoY growth rates



Source: Datastream

Different factors explain why headline and core inflation decline at a slower pace than expected by the end of last year. The first factor is the increase of unprocessed food prices at the beginning of this year that is now affecting processed food prices. Secondly, recent oil price increases due to tensions in the Middle East are already passed on to headline

1. Headline inflation was about 0.2% points lower in the EU during the last year, which was totally due to the low inflation rates in the UK as they were even somewhat higher in Sweden.

inflation, while the high oil prices of reached at the beginning of 2001 are still influencing core inflation. Also the development of wages and in particular the rise of unit labour costs could have contributed to rising inflation rates. The introduction of euro notes and coins pushed up prices by about 0.2% according to Eurostat. Finally, the recent floods could also raise the prices of unprocessed food, but most AIECE institutes think this effect will be negligible.

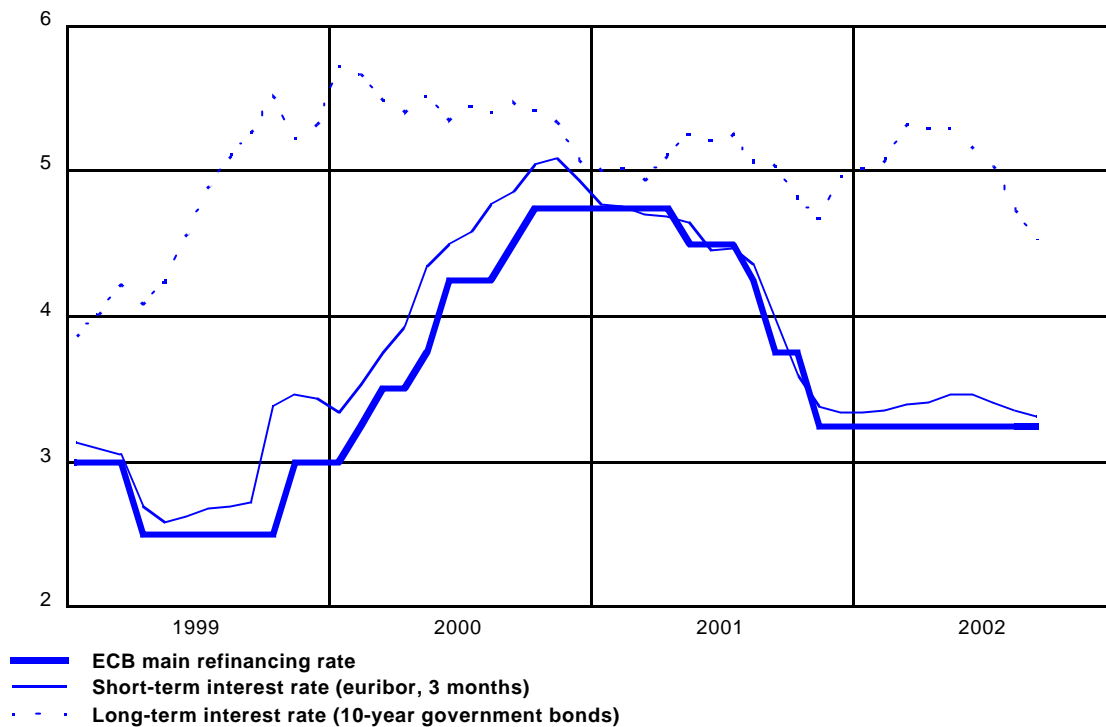
The ECB expects headline inflation to remain around 2% for the remainder of this year. For 2003, it expects inflationary pressures to dampen due to moderate demand growth and the appreciation of the euro. However, if oil prices soar due to a military conflict in Iraq or if ULC keep on growing vigorously, it will be difficult to obtain an annual inflation rate of less than 2% next year. The central scenario of declining inflation next year seems to be confirmed by many sources. Recent results from the EC consumer survey indicate that expectations about the price trend during the next twelve months are on a downward trend since the beginning of this year. Year-over-year growth rates of producer prices have been negative since October last year, while survey results show that selling price expectations in the manufacturing industry have remained constant since March 2002. National inflation forecasts of euro area AIECE institutes all point to an inflation rate of less than 2% next year, except for Ireland, Spain and the Netherlands.

F. Accommodating monetary policy

The ECB has kept its refinancing (refi) rate unchanged at 3.25% since the beginning of this year. While the discussion about raising the interest rates dominated during the first months of the year as a consequence of the improving economic situation and the high inflation rates, it shifted to a discussion about a further loosening of monetary policy later on as the upturn of the business cycle turned out to be weaker than expected. The opinions of AIECE members about the future path of the refi rate are not unanimous. Some institutes think it will be kept at its current level, while others believe it will be reduced by 25 or even 50 basis points during the next two quarters since economic growth remains quite sluggish and because upward inflation pressures will disappear due to tighter monetary conditions caused by the appreciation of the euro. Most institutes are quite convinced, however, that the ECB will raise its central rate by the end of 2003. All in all it is clear that monetary policy will not be tightened significantly in the coming year.

The doubts about the future path of the refi rate are also visible in the predicted path of short term interest rates. Since November 2001, the three-month Euribor has remained virtually constant at 3.4%. Depending on the assumptions made about the future development of monetary policy, institutes predict that the short-term interest rate will rise, remain constant or fall on average in 2003 as compared to 2002.

FIGURE 31 - Euro area: interest rates



Source: Datastream

In the first quarter of this year, euro area long-term interest rates rose by about 30 basis points to 5.3% in March which was due to improving economic prospects. Due to US accounting scandals such as Enron and WorldCom, investors have reallocated a huge part of their capital from the stock market to the less risky bond market. In view of the increased risk aversion among investors, the demand for government bonds was particularly strong and their yields plummeted. Consequently, long-term government bond rates declined by about 80 basis points in the euro area between May and September to 4.5%. Once the recovery gains momentum, part of this decline should be reversed as money should flow back to the asset markets. It remains unclear when these movements will happen, which probably explains why the development of long-term interest rates in 2003 differs across AIECE institutes.

G. Budgetary policy and the Stability Pact

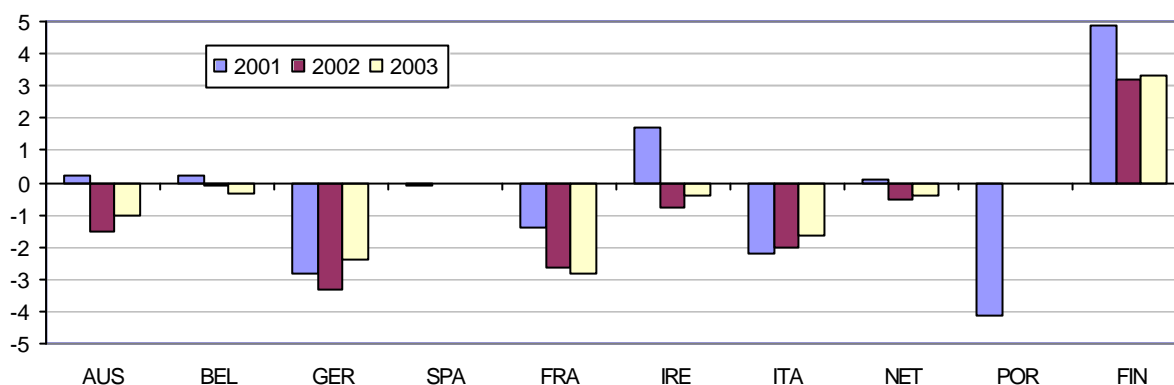
In the context of the Stability and Growth Pact, national governments within the euro area are forbidden to run a budget deficit of more than 3% of GDP and they should reach a balanced budget in the medium term. Due to cyclical setbacks and expansive policies, four euro area countries now face some problems to meet these requirements. Moreover, national governments are not in favour of a restrictive budgetary policy at the moment, since this could harm the recovery that is underway.

In the beginning of this year Germany and Portugal almost got a warning from the European Commission because their budgets of 2001 were very close to the 3% threshold. Portugal revised its budget deficit of 2001 later on to 4.1% and the European Commission launched the excessive deficit procedure against Portugal. In response to this the Portuguese government recently stated that it would reduce its budget deficit to 2.8% this

year and to 2.4% next year. If it fails to establish such a restrictive budgetary policy, Portugal could be fined.

Germany ran a deficit of 2.8% of GDP last year and it risks to rise further this year due to the extremely weak economic growth. On top of that, the recent floods will make government expenditures rise in Austria and Germany. The German government already announced that it will postpone the planned income tax cuts to compensate these additional expenses. German institutes nevertheless estimate that the budget deficit will be higher than 3% of GDP next year. Italy and France also face quite large budget deficits, but both countries are expected to respect the 3% threshold.

FIGURE 32 - Budget deficits of euro area countries (averages of AIECE forecasts)



Source: AIECE

Note: No Portuguese forecasts for 2002-2003, no data for Greece and Luxemburg

Apart from the 3% threshold, the Stability Pact also requires a balanced budget in the medium term. The deadline to meet this objective was set at 2004, but Germany and Portugal as well as Italy and France will not be able to stick to this timing. In view of these problems many officials called for a relaxation of the Stability Pact, but this was not supported by other euro area members. However, the European Commission launched a proposal in which deficit countries have to cut their cyclically adjusted deficit by 0.5 percentage points per year and have to reach a balanced budget by 2006. The French government already objected to this arrangement telling that it prefers 2007 as the deadline and that it only wants to start cutting its structural deficit from 2004 onwards.

It is not the first time that the Stability and Growth Pact is criticised. It was already suggested to interpret it less strict by using the cyclically adjusted deficit to evaluate budgetary policies for example. Hence, shifting the focus to the structural deficit will be welcomed by certain countries, although highly indebted countries such as Belgium and Italy will probably have to keep on monitoring the observed deficits.



Topic 1 - Oil prices and the real economy

Overall, AIECE members expect a moderate rise in the Brent oil price from 24.5 USD per barrel in 2001 to 25.2 USD in 2002 and 25.5 USD in 2003. These yearly average figures imply an oil price of around 27.5 USD per barrel in the fourth quarter of this year, falling to 26 USD in the first half of 2003 and 25 USD in the second half. Accordingly, the consensus scenario can be depicted as a gradual return of oil prices in the second half of next year to the centre of the 22-28 USD OPEC 'target range'.

The underlying profile up to the end of 2003 is based on two ideas:

- the current oil price level (in the first two weeks of October, Brent was at 28.5 USD) contains a risk premium (of more than 3 USD), that will gradually disappear in the course of next year as tensions in the Middle-East fade away;
- the central scenario of a mild global recovery will not put pressure on oil prices, as oil production is expected to adjust to the higher oil demand; in this context, some institutes mention explicitly the higher production capacity of non-OPEC-members (in particular Russia).

A. Risk premium and the war scenario

As far as the first idea is concerned, the majority of AIECE institutes mention 'prolonged tensions in the Middle East or a war in Iraq' as the risk number one surrounding their forecasts for 2003. It is taken for granted that such a scenario will involve a serious oil price shock, but it is impossible to assess the magnitude and the duration of this shock. On top of the traditional channels (cf. infra) through which higher oil prices affect the real economy, such a shock in the context of a war scenario has also a dramatic impact on the confidence of consumers and investors. In the current context, most AIECE institutes consider the latter factor as extremely important.

B. Supply and demand balance for oil

Concerning the second idea, there is the risk that oil supply should not respond appropriately to rising oil demand, leading to a pronounced increase in oil prices (in a non-war context). The table below compares the simulated impact of a stylised oil price shock on GDP and inflation, generated by two often cited international models: Interlink-OESO and Multimod-IMF.¹

1. Unfortunately, the comparison of the simulation results is hampered somewhat as the magnitude and the feature of the oil price shock in the two simulations are not identical. The shock in the Multimod-simulation is somewhat larger.

TABLE 3 - Impact of an oil price shock on GDP and inflation

	Level of Real GDP (percentage deviation from baseline)				Consumer price inflation (deviation from baseline in %-points)			
	INTERLINK		MULTIMOD		INTERLINK		MULTIMOD	
	T	T+1	T	T+1	T	T+1	T	T+1
<i>Oil price shock (USD per barrel)</i>	+3.3	+4.5	+5	+5	+3.3	+4.5	+5	+5
US	-0.1	-0.2	-0.3	-0.4	0.2	0.2	0.8	0.5
Euro Area	-0.2	-0.2	-0.2	-0.4	0.2	0.2	0.7	0.5
Japan	-0.2	-0.3	-0.1	-0.2	0.2	0.1	0.3	0.2

Higher oil prices affect the global economy through a variety of channels. First, due to the terms of trade effect, there is a transfer of income from oil consumers to oil producers. As the propensity to spend of oil producers is lower than of oil consumers, there will be some fall of aggregate demand. Moreover, higher oil (input) prices increase production costs, leading simultaneously to lower output and higher inflation (i.e. a negative supply shock). There will be both a direct and an indirect (i.e. second round effect on core inflation) impact on consumer price inflation. Differences in net oil import to GDP-ratios and oil intensity of production¹ generate *ceteris paribus* different macroeconomic effects across countries.

So far there is little discussion. Comparing however the simulation results given in the table above, some interesting differences appear which highlight the uncertainties surrounding the estimated impact (magnitude, timing and regional dispersion) of an oil price increase. From the concisely published simulation results, it is impossible to identify the exact reasons that explain the differences between both simulations. Of course, the specifications and multipliers in both models are not the same. Moreover, a list of possible, more oil specific, explanations can be made.

The direct inflation effect can be different depending on the adjustment of other (international) energy prices (such as gas) to the oil price shock and because of a different modelling of the translation of crude oil prices into domestic prices of oil products. Second round effects on (core) inflation depend among other things on the degree of monetary tightening (and thus on the monetary policy rule used in the simulation), the response of wages to the fall in real disposable income generated by the higher consumer prices and the extent to which producers restore profit margins.

Differences in the inflationary impact, and the associated monetary response, do of course explain part of the differences in the impact on real GDP. Moreover, the recycling hypothesis, reflecting the degree to which oil exporting countries convert their additional revenues into an increase in import demand, is also crucial for the assessment of the impact on GDP.

1. It is useful to make a distinction between these two elements. The US, for instance, has (as a substantial oil producer) a smaller net oil import in per cent of GDP than the euro area and Japan, but its intensity of oil in production is much higher than elsewhere. For the sake of completeness, we add that the oil content in production has gradually fallen in all advanced economies over the last three decades, limiting the global macroeconomic impact of oil price shocks.

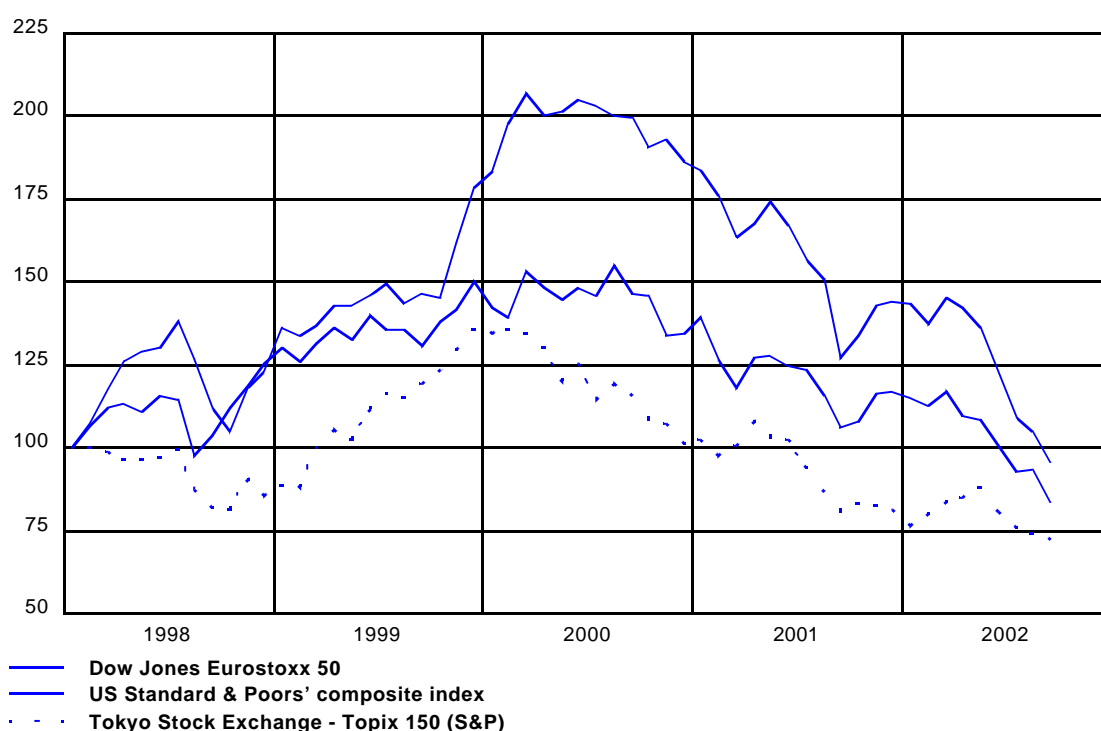


Topic 2 - Equity prices and the real economy

In recent months the spectacular fall in equity prices caught a lot of attention and many economists were asked to examine the effects of this drop on the real economy, especially when a timid recovery seemed under way. As we shall try to make clear, there is no straightforward answer to this question, as, in theory, a range of transmission mechanisms could be involved and empirical relationships are difficult to establish.

The only certainty is the almost continuously downward trend in equity prices in the three most advanced economies since their peak in March 2000 (see graph below), triggered by the bursting of the technology bubble. After a short recovery, following the 11 September terrorist attacks, stock market prices fell again precipitately during the last months. This recent collapse in equity prices is different. It is now widespread and not mainly concentrated in the ICT sector. It reflects partly a loss of credibility of audited accounts, as a result of a number of accounting scandals in the United States (e.g. Enron followed by WorldCom, Xerox and Bristol Meyers-Squibb). Between March and September the Dow Jones EURO STOXX 50 and the Standard & Poors' 500 dropped by respectively 34% and 29%. The Tokyo Stock Exchange -Topix 150 showed a somewhat more resilient profile with a drop of 'only' 13%. The bulk of the decrease took place in all three stock markets during the period from June to September and was associated with an increase in equity price volatility.

FIGURE 33 - Stock market indices
1998M1 = 100



Source: Datastream

As stated, a decline in equity prices could affect growth through a variety of channels and the causality of the effects cannot always be identify clearly. The most described and empirically tested channel in economic literature is the so-called *wealth* effect on private consumption. The theory of permanent income tells us that, in addition to future anticipated income, an upward shift in financial and non-financial wealth perceived as permanent, will induce consumers to spend more of their current income. Based on this mechanism, the strength of the impact of a shift in equity prices on consumption will depend on two factors: the level of households' equity holdings and the propensity to consume out of equity wealth.

Concerning the first factor, US households' direct and indirect equity holdings (as a percentage of total financial assets) remained almost unchanged at around 30% between 1997 and 2000. In the euro area this share increased from 15% to 20% during the same period¹. This higher stock market exposure implies that, compared to some years ago, a given fall in equity prices means a larger decrease in euro area households' financial wealth.

Concerning the second factor, most empirical studies² find that in the United States there is a significantly higher propensity to consume out of equity wealth for (between 0.03 and 0.05) than in most individual euro area countries (estimated around 0.01³). The explanation put forward to justify the higher propensity in the United States than in the euro area is twofold. First, in so-called market-based economies like the US, consumers are less credit constraint. They have access to a larger range of credit instruments, which means that households can borrow more easily against their assets than in bank-based economies (according to the IMF, countries such as France, Germany, Italy, Spain and Belgium). Secondly, the higher propensity to consume in the United States out of wealth may be due to the fact that households still have more direct equity holdings than households in the euro area. However, recent national household surveys point out that the share of households with stockholdings increased during the last couple of years in the euro area⁴.

To recapitulate, wealth effects, although relatively small, would have increased in recent years in bank-based systems, as households expanded their share of equity holdings and found it easier to borrow out of wealth to finance consumption. If there is a significant wealth effect, one can of course, wonder why consumption offered resistance to the drop in equity prices that occurred in 2000-2001 in countries such as the United States, United Kingdom or France. The answer is, according to IMF estimates, that the impact of this fall was partly or wholly neutralized by higher housing prices.

Stock market prices could affect consumption through a second channel. According to the dividend discount model, equity prices should reflect expected future dividends. Households could interpret a decline in equity prices as an increased risk concerning prospects for economic growth and employment. This in turn may harm *consumer confidence* and consumer spending, even if households do not possess equity holdings. A few empirical studies found some evidence of a (weak) equity price effect on consumer confidence in the United States. However, such a relationship could not be established for

1. European Central Bank, Monthly Bulletin, September 2002.

2. See for example, International Monetary Fund, World Economic Outlook, April 2002 or INSEE, Note de Conjoncture, décembre 2001.

3. This means that a permanent increase of 1 euro in financial wealth implies a 1 cent increase in consumption spending.

4. See European Central Bank, op.cit.

euro area countries, where the current unemployment evolution remains the most important explanatory factor¹.

Stock prices may also have a direct impact on business investment through mainly two channels. The first channel operates through the *cost of equity capital*. A decrease in equity prices means that the market value of the firm relative to the replacement cost of its stock of capital (called Tobin's q in the literature) declines. As the financing cost of investment by new issues of equities will increase, the firm will decrease its investment spending as some projects previously perceived as profitable will be cancelled. Capital stock will gradually adjust to its lower long-term level and the q will return to its normal value. The second channel operates through the *balance sheet* effect. Decreasing equity prices erode corporate collateral and reduce the firm's ability to borrow and consequently to invest. The link between stock market prices and investment should be stronger in countries where firms rely more on equity funding (as in the United States). However, investment should neither be immune to equity price movements in bank-based economies because in these countries financial institutions own large equity holdings and there can be substantial effects on their balance sheet (see next section on insurance companies). Nevertheless, in euro area countries, the impact of stock price movements on business investment has been difficult to identify empirically and is therefore commonly believed to be small.

According to the European Commission², the recent decrease in equity prices "...is somewhat atypical and could be associated with a stronger drop of investment than during previous stock market corrections." In a 'normal' situation, the downward revision of expected future earnings should be associated with reduced borrowing interest rates, reflecting lower growth prospects and a lower inflation³. However, as has already been mentioned earlier in the paper, the current collapse is partly due to a loss of confidence in company balance sheets. This could imply a rising risk premium and a reduced access to corporate loans, as reflected by increasing spreads on lower-grade corporate bonds in Europe and the United States since April of this year.

To summarize, there are good reasons to believe that the recent drop in equity prices will affect consumption and investment negatively, more especially now that stock market corrections have hit all major economies simultaneously, which should reinforce the synchronization in business cycle movements. Considering the complexity of possible transmission channels involved, quantifying the impact of the stock market corrections on economic activity is not a simple task as such. Finally, to have an overall picture, one also has to keep in mind that part of the shock could be offset by changing monetary conditions (changes in effective exchange rates and lower long-term interest rates) and a further increase in housing prices.

Etude de cas: les compagnies d'assurances européennes

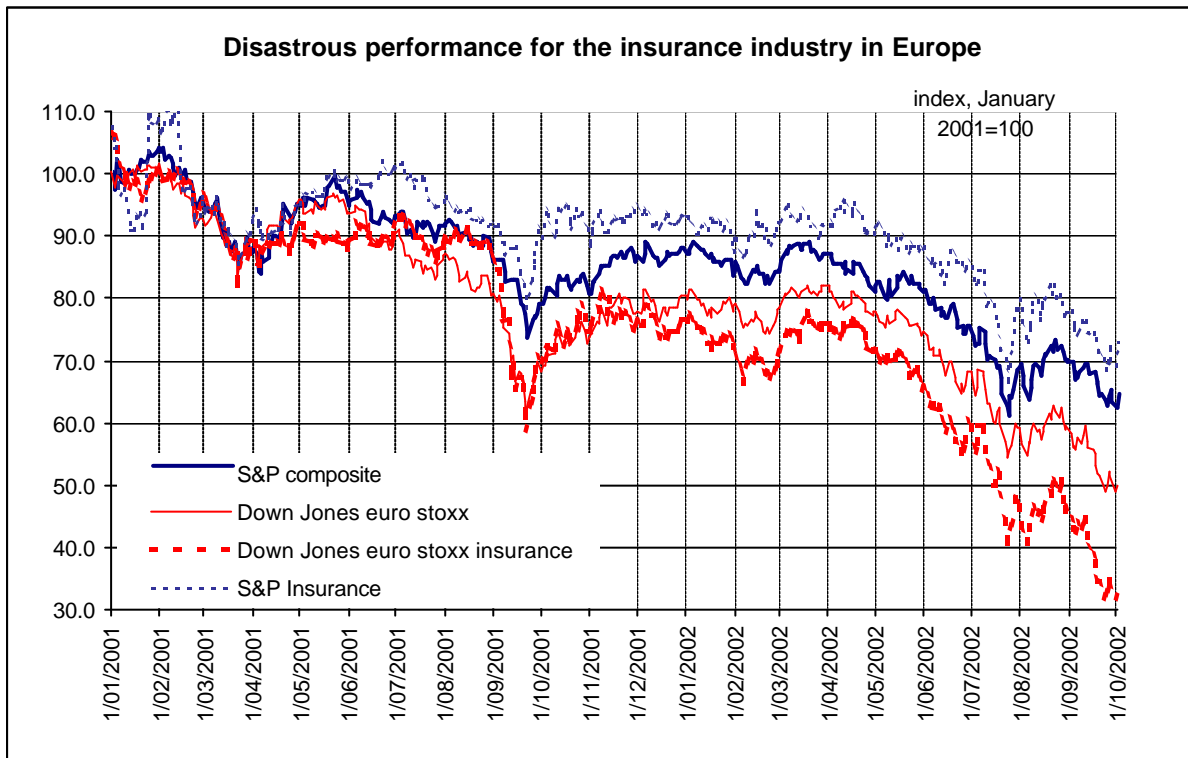
Le secteur des assurances en Europe a été particulièrement exposé à la chute des marchés boursiers de ces deux dernières années. Globalement, de janvier 2001 à septembre 2002, les valorisations ont fondu, l'indice euro stoxx insurance ayant chuté de près de 70% alors que sur la même période, le Dow Jones EuroStoxx reculait d'un peu plus de 50%. Ces pertes se sont fortement accélérées depuis le mois d'avril 2002; les actions des assureurs européens perdant plus de 57% de leur valeur en cinq mois, contre seulement 25% pour

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1. See IRES, "La consommation est-elle à l'abri des crises boursières?", Regards économiques, août 2002.
 2. See European Commission, Quarterly Report on the Euro Area, September 2002.
 3. By 'normal' we refer to a situation where a decrease in stock prices is induced by expected lower future dividends and not because investors apply a higher discount rate.

leurs homologues américains, tandis qu'entre la fin avril et la fin septembre, les bourses européennes ont chuté de 37%, contre 24% pour le S&P500.

Il semblerait donc que toute baisse du marché boursier entraîne un mouvement plus que proportionnel du secteur européen des assurances reflétant à la fois la défiance accrue des investisseurs à l'égard du secteur mais également le fait que les compagnies d'assurances détiennent souvent leurs propres actions ainsi que celles des autres compagnies.

FIGURE 34 - Disastrous stockmarket performance for the insurance companies in Europe



Source: Datastream

Globalement, il apparaît aujourd'hui que les problèmes rencontrés dans le secteur des assurances sont le fruit d'une mauvaise gestion doublée d'une mauvaise politique d'investissement liée à une trop grande prise de risques.

Les normes de *solvabilité* imposent aux assureurs de constituer d'importantes réserves (ou des fonds propres) pour répondre à un sinistre. Il s'agit, en sus des provisions techniques qui représentent le montant de leurs engagements, d'une marge¹ de sécurité financière qui garantit que les entreprises d'assurances disposent de fonds propres adaptés à la nature des risques qu'elles couvrent, notamment en cas d'éventuelles variations économiques défavorables. Cela signifie qu'une part importante de leur capital est immobilisée pour respecter ces seules normes de solvabilité.

1. La directive européenne concernant l'exigence de marge de solvabilité des entreprises d'assurances a été modifiée le 5 mars 2002 (directive 2002/12 et 2002/13 du Parlement européen et du Conseil).

Or, au cours de la dernière décennie, le capital disponible des compagnies d'assurances européennes a été sérieusement entamé par la vague de fusions et d'acquisitions, alors qu'aux Etats-Unis, ce flot s'était déjà produit à la décennie précédente.

En outre, ces dernières années, une part croissante des fonds propres des assureurs européens a été investie en actions afin de bénéficier de la hausse des cours boursiers de la fin des années nonante. Morgan Stanley¹ cite aujourd'hui des ordres de grandeur d'environ 30% des actifs des assureurs européens qui seraient placés sur le marché des actions, près de 60% dans le cas des assureurs britanniques (et moins de 5% pour les américains).

La dégringolade des marchés boursiers de ces deux dernières années a sérieusement entamé ces réserves et partant la solvabilité du secteur en renforçant les doutes sur leur capacité à répondre à un sinistre important. Certains assureurs se retrouvent même aujourd'hui dans les limites imposées par les agences de rating pour éviter un déclassement.

La déprime boursière a également mis à jour certains problèmes de *rentabilité*. La rentabilité des diverses branches que comporte le secteur (assurance vie, santé, dommages,...) n'est généralement pas assurée au travers des primes payées par les assurés, mais bien en tenant compte des investissements réalisés grâce au paiement de ces primes (soit le résultat technico-financier). Jusqu'en 2000, les plus values réalisées sur les placements boursiers ont contribué à masquer la précarité des résultats de certaines branches. Depuis, la baisse de la rentabilité de ces investissements a directement affecté celle de certaines branches du secteur des assurances. Ces évolutions contribuent certainement à la baisse des cours des actions des assureurs.

Sachant que dans les assurances non vie, les différentes branches se doivent généralement d'être rentables indépendamment l'une de l'autre, celles-ci n'ont d'autres choix que de réduire leurs coûts (frais de personnels, de gestion et autres), d'accroître le montant de leurs primes (comme le mouvement semble s'initier dans l'assurance automobile) ou, à l'extrême, de supprimer les catégories de produits d'assurances les moins rentables.

La branche des assurances vie est particulièrement fragilisée dans la mesure où non seulement les primes ne peuvent pas être relevées chaque année mais également car ils ont investi plus fortement en action que dans le non-vie. Par ailleurs, la hausse des marchés boursiers des années '90 a favorisé la vente de produits d'assurances de la branche 23, qui correspondent à des fonds d'investissement dont le rendement est lié à l'évolution des marchés boursiers et dont le risque est entièrement assumé par l'assuré. La vente de ces produits est aujourd'hui en nette baisse au profit des formules à taux garanti de la branche 21, qui correspondent à des fonds garantis dont le risque est, cette fois, entièrement assumé par l'assureur. Cependant, la chute des cours boursiers et le niveau particulièrement bas des taux d'intérêt affecte la marge bénéficiaire des assureurs sur ce type de fonds, mettant en difficulté les compagnies d'autant que les assureurs n'ont que peu de latitude pour réduire le niveau du taux garanti. La Suisse est particulièrement affectée en raison de l'importance de ce type de contrats de sorte que le taux garanti sur les contrats d'assurance-retraite devrait passer de 4 à 3% en octobre 2002².

1. The Economist. D'après la fédération Française des Sociétés d'Assurances, en moyenne 42% du portefeuille d'investissement des compagnies d'assurances européennes seraient détenues en action.
2. Boursorama.

Pour les polices contractées sous forme de formules à taux garantis, les assureurs se doivent normalement d’agir en bon père de famille en ne plaçant qu’un quota limité de leurs réserves sur les marchés d’action et le reste dans des titres à revenus fixes. La pratique se révèle cependant bien différente! Pour assumer leurs engagements, certains assureurs ont même été contraints de profiter de la hausse du cours des obligations pour revendre une partie de leur portefeuille obligataire. Mais le portefeuille obligataire des compagnies d’assurances se révèle être un nouveau facteur d’inquiétude eu égard au risque de défaillance des entreprises (notamment dans le secteur des télécommunications) et de scandales comptables en cascades (cf. WorldCom).

Le problème des compagnies d’assurances est particulièrement épineux dans la mesure où elles se trouvent embarquées dans un véritable cercle vicieux. D’une part, la baisse des marchés boursiers incite les assureurs à liquider leurs portefeuilles à risque en se retirant massivement des marchés d’action. Un tel mouvement de la part du premier investisseur institutionnel, dont l’ampleur est difficilement quantifiable, ne fait qu’accentuer la baisse des cours boursiers en Europe. D’autre part, nombre d’assureurs se trouvent aujourd’hui contraints d’accroître significativement leurs provisions afin de respecter la marge de solvabilité imposée par les organismes de contrôle des assurances¹. Les nouvelles émissions ne se comptent plus, certaines compagnies allant jusqu’à émettre de nouvelles actions à des prix inférieurs à ceux du marché pour attirer de nouveaux investisseurs. Cette surabondance de l’offre ne permet non seulement pas de résoudre de manière durable leur problème de solvabilité, mais exerce également une pression à la baisse supplémentaire sur leurs propres actions.

Les divers éléments présentés ci-dessus fournissent quelques explications partielles sur la plus grande vulnérabilité relative des assureurs européens par rapport à leurs homologues américains. Il convient également de tenir compte de facteurs supplémentaires qui se sont traduits par une propagation transatlantique des risques. Il s’agit notamment du mouvement d’acquisitions transfrontalières de ces dernières années, et plus particulièrement l’achat d’assureurs américains par les européens, la présence d’assureurs européens aux Etats-Unis et le développement de l’assurance crédit, qui consiste en une prise d’assurance par les banques dans le but de se couvrir contre le risque de prêts.

Dans un contexte où le secteur des assurances est aujourd’hui confronté à un certain nombre de chocs dits “one off” tels que les dommages liés aux attentats terroristes du WTC, les fraudes comptables, les inondations en Europe, mais aussi, et non des moindres, les procès liés à l’indemnisation des maladies de l’amiante aux Etats-Unis et en Grande Bretagne- dont les coûts pour les assureurs pourraient s’avérer à très court terme bien supérieurs à ceux des attentats du 11 Septembre -, le fait qu’une partie des risques américains soit aujourd’hui supportée par les compagnies européennes ne peut qu’amplifier la baisse des actions européennes.

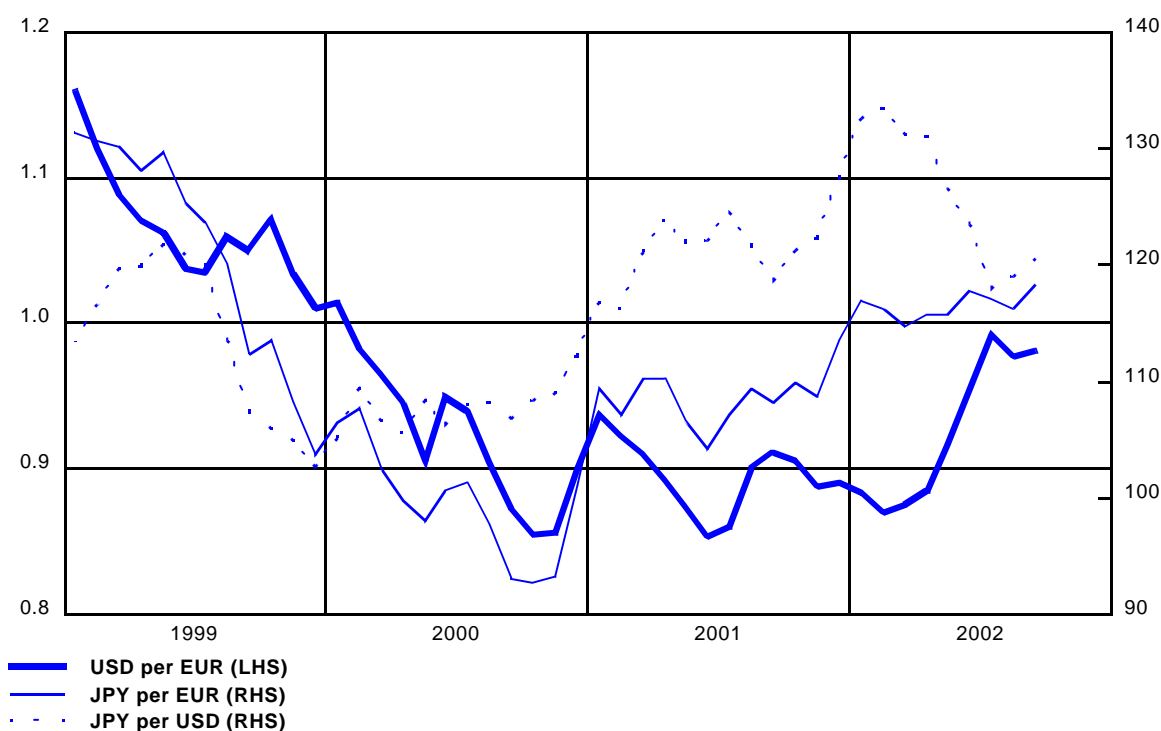
1. Cette marge est imposée par chaque Etat membre à chaque entreprise d’assurances dont le siège social est sur son territoire. Une séparation très nette existe entre la branche assurance vie et non vie.



Topic 3 - The macro-economic effects of an effective depreciation of the US dollar.

During the first half of 2002, the dollar depreciated quite heavily against the euro and the yen. In the months to come, AIECE institutes expect the dollar to depreciate somewhat against the euro while it should appreciate a little against the yen. The central scenario of AIECE institutes is thus that the depreciation of the dollar will not be neutralised in the short term. On the contrary, doubts about the sustainability of the US current account deficit could even trigger a further fall of the dollar. To evaluate the macroeconomic effects of such a development, a 20% effective depreciation of the dollar was simulated with the NIME model¹.

FIGURE 35 - Graph: Main bilateral exchange rates
Monthly averages of spot rates



Source: Datastream

1. The NIME model is a macroeconomic world model developed at the Belgian Federal Planning Bureau. A detailed presentation of the NIME model can be found in: Meyermans and Van Brusselen, "The NIME Model: A Macroeconomic World Model", Working Paper 03-01, Federal Planning Bureau, 2001, URL: http://www.plan.be/nl/pub/wp/detail_wp.stm?pub=WP0103

A. Variant description

The simulation presented in this box is carried out under the assumption that the US dollar depreciates by 20% against the currencies of the European Union and the Japanese yen in the year t and that it remains at this level, due to a re-assessment of risks in the foreign exchange markets¹. It is assumed that other currencies move in line with the US dollar. For the US, this only translates into a 6.8% depreciation of the nominal effective exchange rate (NEER). In the euro area and Japan, the NEER appreciates by 11.5% and 13.2% respectively. From $t+1$ onwards, real effective exchange rates start to converge to their baseline level in all areas. It is assumed in this simulation that policy makers do not react to the exchange rate shock.

B. Simulation results

In the NIME model, the adjustment process to such an exchange rate shock is straightforward. Since prices adjust only sluggishly, the nominal depreciation of the US dollar deteriorates immediately the competitiveness in the euro area and Japan, so that the exports of these areas fall, thereby reducing output, employment and inflation². Lower output and employment reduce household income, while lower inflation increases the real value of the nominal assets of the household sector and increases the real interest rate. Table 4 shows the major short-term macroeconomic effects of this shock for t and $t+1$, while the figures until $t+5$ are added to evaluate the medium-term effects.

In the euro area, the increased competitiveness of US dollar denominated trade is partly offset by a decline in export prices expressed in euro ('pricing to the market'). However, this drop in export prices is insufficient to compensate for the nominal appreciation of the euro, and exports fall 5.8% below their baseline level in the first year. The overall effect of this exchange rate shock is that GDP falls by 0.8% in the first year, and by 1% in the second year, followed by gradually smaller deviations from the baseline during the following years. Inflation is almost unaffected in the first year, but it falls by 0.4% in the second year, followed by further reductions the following years. Private sector employment remains about 0.2% below the baseline level.

In the US, the increased competitiveness initially boosts exports by 0.5%, leading to higher domestic output, employment, and private consumption. However, after two years the rise in US exports is halted, and after four years exports fall below the baseline level, due to reduced export markets and increased export prices. GDP and private employment tend to return rapidly toward their baseline level. Inflation increases by 0.27% in the first year, followed by additional rises in the following years.

In Japan, the NEER appreciates by 13.2%, reflecting the substantial exposure of this country to US dollar denominated trade. However, the relatively greater importance of the US economy for Japanese trade initially tends to limit the Japanese loss of export markets. Notwithstanding, the US dollar depreciation leads to a decline in Japanese exports, imports, private consumption, employment and GDP.

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1. I.e., the risk premium on US assets increases by such an amount that it necessitates a 20% depreciation to balance the interest parity condition.
 2. In order to ensure coherence with the interest parity condition, the nominal interest rates are kept exogenous in this exercise, i.e. they are fixed to their baseline levels.

C. Conclusions

This simulation shows that the downward effects on output and inflation of a depreciation of the dollar against EU currencies and the yen are smaller in Japan than in the euro area in the short term, but larger in the medium term. Monetary policy makers are assumed not to respond to this shock, although the ECB would probably lower interest rates, while the Federal Reserve can be expected to raise them. The BoJ has less room for manoeuvre to adjust its interest rates in response to the impact of this shock on the real economy. All in all, on the basis of this simulation it seems that a further depreciation of the dollar would jeopardize the current worldwide recovery through a decline in world trade and the Japanese economy would be the biggest victim of such a development in the medium term.

TABLE 4 - Main macro-economic effects of a 20% depreciation of the US dollar against EU currencies and the yen
(variables defined in deviations from baseline, in percent)

	t	t+1	t+2	t+3	t+4	t+5
I. Euro area						
1. Private consumption	-0.17	-0.15	-0.29	-0.38	-0.47	-0.57
2. Exports	-5.76	-5.83	-6.09	-6.20	-6.12	-5.88
3. Imports	-3.38	-2.38	-4.63	-5.51	-6.02	-6.37
4. Gross Domestic Product	-0.75	-0.97	-0.65	-0.59	-0.55	-0.49
5. GDP deflator	-0.08	-0.46	-1.29	-2.03	-2.80	-3.58
6. Export prices	-0.60	-1.61	-2.88	-4.29	-5.76	-7.21
7. Import prices	-0.01	-1.91	-0.26	-0.38	-0.87	-1.48
8. Nominal effective exchange rate (+=depr)	-11.53	-11.53	-11.53	-11.53	-11.53	-11.53
9. Real effective exchange rate (+=depr)	-10.99	-10.20	-9.24	-8.22	-7.19	-6.16
10. Private sector employment	-0.23	-0.17	-0.23	-0.23	-0.23	-0.21
II. United States						
1. Private consumption	0.20	0.40	0.58	0.64	0.63	0.59
2. Exports	0.46	1.25	0.91	0.12	-0.57	-0.95
3. Imports	0.77	0.61	1.64	1.81	1.60	1.34
4. Gross Domestic Product	0.11	0.41	0.30	0.19	0.09	0.03
5. GDP deflator	0.27	0.45	0.85	1.10	1.23	1.27
6. Export prices	2.22	4.46	5.91	6.48	6.43	6.08
7. Import prices	0.01	1.70	0.53	0.30	0.34	0.44
8. Nominal effective exchange rate (+=depr)	6.79	6.79	6.79	6.79	6.79	6.79
9. Real effective exchange rate (+=depr)	4.42	1.93	0.31	-0.50	-0.72	-0.64
10. Private sector employment	0.14	0.30	0.32	0.24	0.12	0.02
III. Japan						
1. Private consumption	-0.04	-0.17	-0.39	-0.55	-0.61	-0.59
2. Exports	-2.04	-5.64	-7.53	-8.76	-9.60	-10.16
3. Imports	-0.55	-1.45	-2.00	-2.34	-2.54	-2.60
4. Gross Domestic Product	-0.26	-0.73	-1.03	-1.23	-1.36	-1.42
5. GDP deflator	-0.05	-0.12	-0.32	-0.59	-0.91	-1.27
6. Export prices	-0.51	-0.94	-1.41	-1.89	-2.38	-2.88
7. Import prices	-0.00	-0.05	-0.17	-0.35	-0.57	-0.81
8. Nominal effective exchange rate (+=depr)	-13.21	-13.21	-13.21	-13.21	-13.21	-13.21
9. Real effective exchange rate (+=depr)	-12.70	-12.31	-11.94	-11.61	-11.31	-11.03
10. Private sector employment	-0.02	-0.06	-0.08	-0.09	-0.10	-0.09
World trade	-2.05	-2.86	-3.27	-3.50	-3.58	-3.51

