II
ECONOMIC DEVELOPMENTS

EXTERNAL ENVIRONMENT

Global Background

In the third quarter the global economy recovered. Among major economic centres the growth was the fastest in the United States of America, followed by the euro area and Japan. Industrial production as well as several preliminary and confidence indicators indicated that the recovery was sustained in the fourth quarter and will continue in 2004. This took the growth forecast for US economy in 2004 to 4.2%. Japan anticipates 1.3% and the euro area 1.7% growth (see Table 2.1).

Table 2.1. World economy forecasts

	Economic growth			Inflation		
	2002	2003*	2004*	2002	2003*	2004*
United States	2.4%	3.1%	4.4%	1.6%	2.3%	1.8%
Euro area	0.9%	0.5%	1.8%	2.3%	2.1%	1.7%
Germany	0.2%	0.0%	1.8%	1.3%	1.1%	1.2%
France	1.2%	0.2%	1.7%	2.0%	2.1%	1.7%
Italy	0.4%	0.4%	1.6%	2.5%	2.7%	2.1%
Finland	2.2%	1.3%	2.6%	1.5%	1.1%	1.0%
Sweden	1.8%	1.6%	2.5%	2.4%	2.1%	1.5%
Japan	0.2%	2.7%	2.1%	-1.0%	-0.2%	-0.3%
World economy, total	1.9%	2.5%	3.5%	2.7%	2.4%	2.1%

Despite the global economic activity growth, international financial markets were extremely volatile at the beginning of the fourth quarter, affected by the implications arising from terrorist acts as well as structural bottlenecks deepening in major economic centres. The surge of the price of gold to a seven-year high of more than 400 dollars an ounce and the price of crude oil settling at about 30 dollars a barrel reflect growing uncertainty. News about sharply declined acquisition of US assets in September weakened the American dollar, sending the exchange rate of the euro to an all-time high of over 1.20.

The Reserve Bank of Australia and Bank of England raised the key interest rate by 50 and 25 basis points, respectively, which was a significant change in the monetary policy of the central banks of industrial countries and could be considered a start of the interest rate recovery cycle. For the time being, it means just weakening of stimulating monetary policy with the aim to cool down an overheated housing market. G3 countries did not raise the key rate as a further economic growth pick-up is anticipated.

United States of America

US economic activity indicators have mostly been higher than anticipated. In the third quarter, the GDP growth reached 2%, fed both by high domestic demand and growing net exports. The industrial activity index (ISM) rose to 62.8, to a 20-year high. It has hiked higher only in 1983, while the economy was recovering from the worst recession since the Great Depression of 1920–1930.

While in the third quarter recovering labour market was the only indicator characterising economic recovery not apparent as yet, in the fourth quarter positive trends were emerging already. In November, the unemployment shrank to 5.9% and employment displayed moderate sustained growth. This implies that companies are ready to recruit additional labour in order to boost production.

Assessing long-term outlooks of the US economy, besides a cyclical activity recovery also implications of structural problems on growth – large current account and budget deficit – should not be left aside. Data revealing that foreign investors purchased less US assets in September (the lowest level since September 1998) and new problems cropping up in US-Chinese relations, sent the exchange rate of the dollar against the euro to a historic low. Although only a month's data does not allow drawing substantial conclusions, there is a pending threat that it will be increasingly difficult for the US to cope with current account deficit in 2004.

On 9 December, the Federal Reserve left the base rate on 1% and both acceleration and deceleration of economic growth had an equal chance. However, while earlier the inflation rate was assumed to decline, now diverging changes had an equal chance. Such an evaluation could be considered a preparatory step towards a neutral monetary policy, ie one with a higher base rate.

Japan

According to annualised quarterly data, Japan's GDP grew by 0,3 % in the third quarter (0,6% in the second quarter). Slowdown was mainly due to investments, although their growth exceeded growth in private consumption (which was close to zero). Besides domestic demand, the economic growth relied also on net exports, which contributed 0.7% to GDP growth. Despite the slowdown, the third-quarter outcome was slightly better than expected and in the fourth quarter the economic growth should start picking up again. The growth will rely on sustained global recovery and more rapid growth of Asia against other regions.

However, it remains open whether domestic demand will ultimately recover from the protracted recession. Sustained deflation (in the third quarter prices were 2.7% below year-on-year) does not favour accelerated growth in consumption and investment readiness. This is partially the reason why the central bank of Japan attempts to do its best to maintain exporting sector competitiveness. Over the recent months only extensive foreign exchange interventions have managed to contain the exchange rate of the yen and the dollar between 108–111 yens against the dollar.

Euro Area

Although the euro area economy left the recessionary cycle in the third quarter (the quarterly growth of GDP reached 0.4%), the growth structure remained primarily confined to export. First and foremost, this applies to the largest euro-area economy, Germany, which at a 0.2% GDP growth shed 1.6% in private investment and consumption. Although the economic growth base in France and Italy was broader, major dependence on external demand revived uncertainty vis-à-vis further pick-up of the euro-area economy.

Despite a narrow base, economic activity continued to grow in the fourth quarter as well. In November, the Purchasing Managers' Index rose to 52.2 and in the services sector to 57.5. A sustained rise also in various assurance indices reflected more positive anticipation as regards German economy.

Regardless of continuously weak domestic demand, annual inflation rate has firmly settled at about 2%. The annual growth of consumer prices declined from 2.2% to 2% in October only to recuperate in November. The European Central Bank's pronouncement was that within the next few months the inflation rate would probably be contained at about 2% and also as an average of 2004 the price growth might not significantly decrease. A rise in oil prices, growing food prices and an increase in indirect taxation sustains inflation. Weak economic growth and labour market as well as stronger euro would tear inflation down.

From economic policy standpoint, the Stability and Growth Pact related issues came once more to the limelight in the fourth quarter. **Although France and Germany will not be able to cut their budget deficits to below 3 per cent as required by the Pact also in 2004 (for the third successive year), EMU finance ministers decided not to apply any sanctions.** The euro-area budget deficit in 2003 is likely to reach 2.8% and decrease by 0.1 percentage points in 2004, suspending slightly economic growth.

Nordic Countries

Together with global economic recovery, also **Finnish** economy continued acceleration in the third quarter – based on monthly data the annualised quarterly growth reached 1.4% (including 2.3% in September). While slowly recovering export volumes were anticipated due to healing external demand, a further rise in the already high level of household consumption, indicated by retail sales and consumer confidence, was a kind of surprise. Retail sales as quarterly average were 5.3% above the third quarter of 2002; car sales and improving retail confidence suggested that high retail sales growth continued also in the last months of the year.

In **Finland**, the volume of industrial production, including slightly growing external orders, exceeded the year-ago volume also in the third quarter – according to preliminary data, the annual growth was 1.5%. Apart from the sheltered sector industries, also sub-industries of manufacturing display a slight revival trend. In September, however, the production volume in timber and electronics industry was 0.1 and 2.6% below the year-ago figures, respectively, but production in other sub-industries grew by more than 10%.

Higher than expected household consumption readiness made the Finance Ministry of Finland, during its regular forecast cycle, to revise upward its GDP growth forecasts for 2003 and 2004, by 0.2 (to 1.4%) and 0.3 percentage points (to 2.7%), respectively. Estimates of private consumption in 2003 were upgraded by 0.7 percentage points (to 3.2%) and export outlooks by 0.3 percentage points due to clearly signalled stronger external demand.

In **Sweden,** the economy, similar to its major trade partners, started to recover in the third quarter. Gross domestic product added 2% against the third quarter of 2002 (merely 0.5% in the second quarter) and 0.5% against the second quarter of 2003. Accelerating economic growth relied on recovered exports: export exceeded by 8.1% the year-ago level.

Apart from recovering external demand, also large private consumption readiness continues to sustain economic growth. The household consumption expenditure growth rate peaked (2.4%, year-on-year) in the third quarter of 2003 and retail sales in October point to high consumption readiness being carried also into the fourth quarter. Continued income growth and declining inflation rate (in October the harmonised annual growth of consumer prices was 2%) contribute to consumer confidence the best. Even consistently declining labour demand (in October the unemployment rate was 1.1 percentage points above the year-ago level – 5.1%) has not curbed consumption interest.

Baltic Countries

The growth rate of economic activity indicators in the Baltic countries continued to be the highest among the EU acceding countries. Domestic demand relied on rapid credit expansion and closed sector investment activity. Recovering external demand accelerated also the volume of exports in the third quarter.

Judging by monthly indicators, in **Latvia's** economy the rapid growth of the first half-year was sustained. In the third quarter, growth in industrial production climbed to 7.1%, year-on-year, and in September, external-demand boosted export volumes were even 18.2% higher than a year ago.

Despite good export indicators, domestic demand grew faster also in the third quarter. Wage rise exceeded 10% year-on-year and low interest rates boosted private sector credit demand. As a result, current account deficit, which had started in the second quarter, continued – according to preliminary data, in the third quarter the deficit to GDP was about 1.5 percentage points above the year-ago period, and as a four-quarter average, was close to 9%. Rapidly growing domestic demand had speeded up also the inflation rate: in October, the 12-month price increase in Latvia was the highest in the Baltic countries, reaching 3.3%.

The economic growth in **Lithuania** accelerated to 8.1% in the third quarter, year-on-year. The growth was based on the highest volume of industrial production among the Baltic States (20.1%, year-on-year) and a relatively strong external sector.

Similar to Estonia and Latvia, domestic demand remains high also in Lithuania. The annual growth of retail sales reached 12.2% in the third quarter and recovering credit demand has pushed prices up at the real estate market (10–15%, year-on-year). Although domestic demand is deepening trade deficit, it is set off by extremely large export of services. Lithuanian Rail Company increased its capacity by 18.4% and the Port of Klaipeda by 8.7% over ten months, against the same period in 2002. The current account deficit was about 4%. Consumer prices continued to fall in the third and early fourth quarter – in October they were 1.4% below the year-ago-level.

Central Europe

Signals of world economic growth recovery have had a positive implication on Central and Eastern European economies. In the third quarter, nearly all EU acceding countries maintained high growth in domestic demand and added slightly to export volumes. The average economic growth of the area probably accelerated in the third quarter.

In the third quarter, the volume of industrial production in the **Czech Republic** increased by 6% year-on-year. Thereby productivity in the manufacturing sector grew by 9.2% in nine months, exceeding wage growth nearly twofold. Also exports displayed relatively substantial growth – export of goods gained 8.6% over nine months and 10.1% in September, year-on-year.

Rapidly growing real wages (about 7% in the third quarter, year-on-year) and shrinking unemployment encourage domestic demand. The volume of retail trade reached a three-year high in September – 9.4%, year-on-year. Deflation turned into inflation. In September, prices remained unchanged year-on-year, whereas a slight growth was seen in October (0.4%).

In **Hungary** manufacturing is growing rapidly. The production volume increased in August by 6.6% and in September by 9% against 2002. Large domestic demand and expansive fiscal policy increased pressure soaring current account deficit and the inflation rate is among the highest in Central and Eastern Europe (4.9% in September, year-on-year). Economic policy conundrums contributed to forint's exchange rate volatility and growing interest marginal in end-November.

In **Poland** the economic growth relies on rapidly growing manufacturing, the highest rate in the Central and Eastern European countries, and domestic demand, which has remained unchanged for a long time. Due to economic recovery, the unemployment, reaching 17.5% in September, is gradually shrinking and wage growth stabilising. Weak fiscal stance and constantly growing government debt made Standard & Poor's downgrade long- and short-term liabilities ratings of Poland in November.

Russia

The Ministry of Economic Development assumed that GDP would grow in October by 7.3%, year-on-year, and by 6.6% over ten months. In the third quarter, external sector, primarily appreciation of oil and metals in the world market, sustained Russia's economic growth most. Exports of crude oil grew by 10%, year-on-year, which in combination with a price increase gave a strong impetus. Since March, export volumes have surpassed 10 billion US dollars a month. Nine-months exports totalled 25% above the year-ago level of 2002. Foreign trade had a surplus (43.8 billion dollars) of 28% against the indicator of 2002.

The role of household consumption in economic growth has grown over the last couple of months. From 6.1% in August, year-on-year, it has climbed once again to 7.1%, mostly because of 17.3% growth, year-on-year, in real income.

In the third quarter, the merger of Yukos and Sibneft into YukosSibneft and the merger of Tjumen Oil Company (TNK) and British Petroleum in Russia into TNK-BP, as well as confirmed rumours of interest by ExxonMobil and ChevronTexaco in the shares of YukosSibneft boosted creditworthiness of Russian economy (RTS index). The onslaught launched against Yukos and its leaders on 25 August was a setback, which sent RTS index from 640 points on 20 October to 490 points in mid-November.

The third quarter succeeded best in inhibiting consumer price growth but in September the inflation rate of the month returned to 1% and for November a 1.1–1.2% growth in consumer prices is forecast. In October, the 12-month CPI grew by 13.2% and the 10-month CPI – 9.7%.

International Financial and Commodity Markets

In the second half of 2003, the dollar weakened against other major currencies in **foreign exchange markets**. Both large current account deficit and various problems in US economy (eg, rapidly growing budget deficit) brought along sustained weakening of the dollar. The appreciation of the yen against the dollar by 9.5% was especially striking, as economic growth in Japan turned out to exceed expectations in recent quarters (see Table 2.2). Even extensive foreign exchange interventions by the central bank of Japan did not curb the appreciation of the yen. G7 governments have also had a share in the weakening of the dollar, as they do not see this as a threat to global recovery and support evolution of exchange rates through market mechanisms. The exchange rate of the euro against the dollar reached a historic high, exceeding 1.20 in December.

Table 2.2. Changes in exchange rates of major currencies

	30.06.03	10.12.03	Change (%)
JPY / USD	119.80	108.45	-9.5
USD / EUR	1.1511	1.2219	6.2
USD / GBP	1.6546	1.7430	5.3

The upward trend prevailed in major **stock markets** due to overall revival and improved economic growth outlooks: G3 leading share indices sustained a growth of about 10%. Booming profits and increasing investing, and in the second quarter, also better geopolitical situation bolstered confidence in stock markets. Prices of high-tech stocks soared especially rapidly, reflected in Nasdaq, which was up 17.4% (see Table 2.3).

Table 2.3. Indices of major stock markets

	31.03.03	10.12.03	Change (%)
USA (S&P 500)	974.50	1059.50	8.1
USA (Nasdaq)	1622.80	1904.65	17.4
Japan (Nikkei 225)	9083.11	9910.56	9.0
Euro area (Eurobloc 300)	891.51	989.88	11.0

Bond markets responded to global recovery with a rise in long-term interest rates. The ten-year interest rates added 80 basis points in the USA but less in the euro area (56 basis points), as the euro area countries have sustained a more modest recovery in domestic demand (see Table 2.4). The level of short-term (3-month) interest rates remained about the same. Adherence to stimulatory monetary policy could be explained with the desire of central banks to wait for further consolidation of economic growth and conviction that inflation rate is not going to pick up in near-term.

Table 2.4. Interest rates of major bond markets

	Interest rates of 3 months			Interest rates of 10 years		
	30.06.03	10.12.03	Change (basis points)	30.06.03	10.12.03	Change (basis points))
USA	0.86	0.91	5	3.52	4.32	80
Japan	0.01	0.01	0	0.85	1.32	47
Euro area	2.16	2.17	1	3.80	4.36	56

Price increase, which started at the end of 2001, remained characteristic of **commodity markets** also during the period under review: the CRB index, which reflects the prices of major commodities edged up 11.4% (see Table 2.5). Global-recovery boosted higher demand for commodities was the most significant factor. Depreciation of the dollar contributed also to the surge in the price of gold by 17%. The price of oil fluctuated between 26–34 dollars a barrel, revealing no pervasive trend. All in all, there was a pressure to raise the price of oil, which could be partially explained with instability in Iraq (terrorist attacks, unclear position on post-war reconstruction).

Table 2.5. Changes in the commodity markets

	30.06.03	10.12.03	Change (%)
CRB index	233.78	260.44	11.4
Crude oil (WTI; USD/barrel)	30.19	31.88	5.6
Gold (USD/ounce)	346.40	405.45	17.0

ESTONIAN ECONOMY

Economic Growth

Improved external environment accelerated Estonian economic growth from 3.5% in the second quarter to 4.6% in the third quarter. The growth was largely based on domestic demand and to a certain extent also on recovering export of goods. **Estonian economic growth was about 4 percentage points up against the euro area indicator, although the difference remained within forecast.** The growth in the export of services did not reach the expected level. However, it is not realistic to depend long on internal sources only – domestic investments and consumption. In such a case, growth would rely solely on ever expanding foreign debt. **If exports are not growing rapidly enough, economic balance can be maintained only provided that domestic demand growth rate gets suspended.**

Domestic Demand

Investments and Private Consumption

Although growth outlooks for export revenue improved, external balance did not recover, as both corporate and household consumption readiness remained high. Domestic-demand encouraged growth of imports accelerated from 11.1% in the second quarter to 17.5% in the third quarter. The most significant contribution was a 30% increase in the import of capital goods. The share of investments was estimated to exceed 30% of GDP in the third quarter.

Import of rail cars accounted for 43% of the growth in direct imports and was about 4% of GDP in the quarter, being one of the main underlying causes of deteriorating external balance. The growth in rail car imports surpassed aggregate growth of all capital goods, as imports of other capital goods shrank in the third quarter.

Infrastructure investments have a relatively long payback period and in our case also depend more on the development of Russian economy. They find support from the low interest rate level and the readiness of banks to finance higher risk projects.

Private consumption was up against the second quarter and import of consumer goods increased by 11.7% (in the first half-year it had decreased by 2.3%). The growth of average wages accelerated and employment increased. Although confidence among private consumers has slightly weakened in recent months, it was primarily due to the fear of an anticipated price rise and no particular pessimism was seen in current evaluations.

Public Sector

The government sector was a major domestic saver also in the third quarter. Despite the adoption of a supplementary budget, which increased expenditure by about 1 billion kroons, the nine-month budget surplus was about 2.5 billion kroons, ie about 3% of GDP. In November the surplus reached 2.8 billion kroons. Local budgets, however, first and foremost in Tallinn, are still in deficit. By end-year public sector surplus is anticipated to be around 1.5% of GDP. For 2004, the government has drafted a balanced budget. However, under the current world economic situation, the implementation of the budget could be more complicated than anticipated.

External Balance

Sustained rapid growth in domestic demand means that export revenue does not suffice to finance demand. As the growth of exports exceeded the growth of imports, external balance continued worsening. Although the role of export of goods in accelerating economic growth is likely to have increased, the growth in domestic demand remained far too expansive.

The current account deficit, which soared to 13% in the third quarter, was mainly spurred by higher investment activity, remaining still unbalanced by growing saving (see Figure 2.1). To encourage saving is a problem in the private sector, as above-the-forecast tax revenues created government surplus and the level of saving in the government sector is going to be higher, year-on-year.

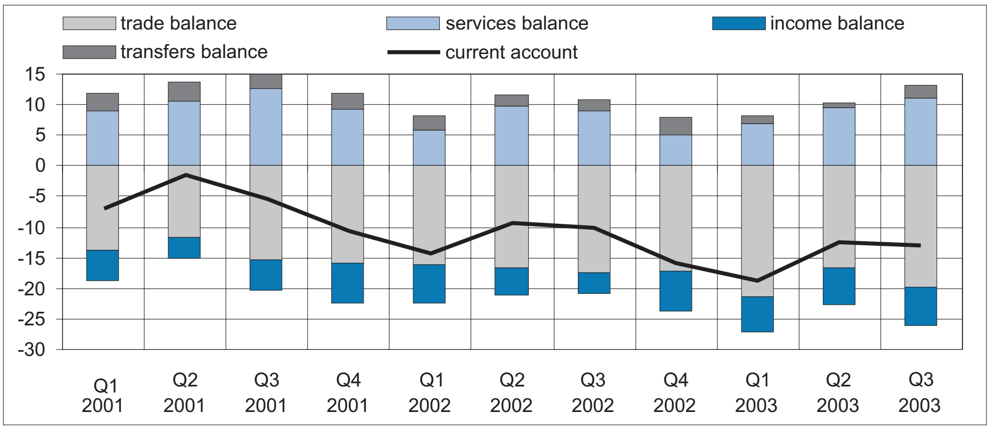

Figure 2.1. Current account and its sub-balances (% of GDP)

Domestic Supply

Sale and Export of Industrial Production

Estonian industrial sector seems to have adequate capacity to meet stronger external demand. Increasing exports boosted annualised manufacturing sales to 9.1% in the third quarter (even up to 11.3% in October), exceeding also the first half of the year (see Figure 2.2).

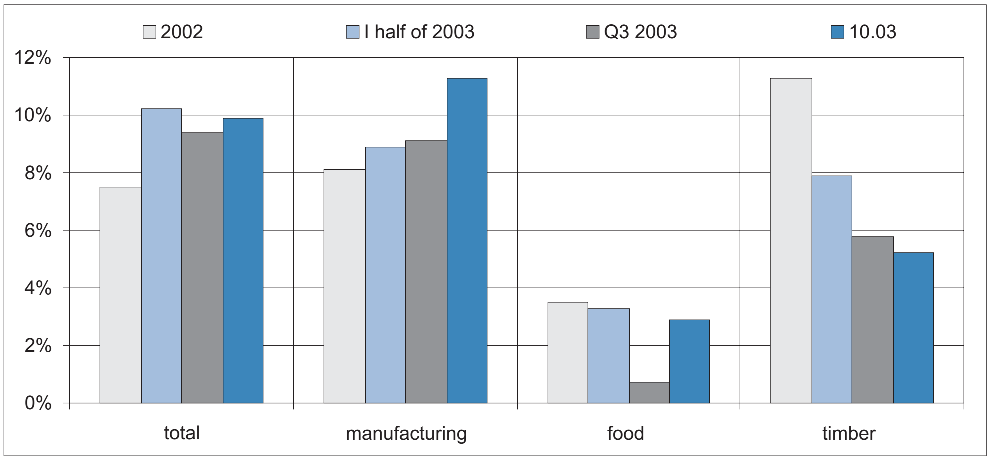

Figure 2.2. Annual growth of industrial sales

However, accelerated growth in sales relied on just a few industries. Sales of metal products were up more than 100% and chemical products more than 60%. The former case is an outcome of a recent large investment (over the last few years Glavex has invested 250 million dollars in its plant in Estonia), the latter – a proof of economic recovery. In the third quarter, export of goods gained pace primarily due to the production of the above industries, although the third quarter and October were successful for the energy sector as well, as increased domestic consumption and exports to Latvia added volume to its production. In October, sales were up by 18%, reflecting slight recovery in the electronics sector, which has been strongly exposed to protracted global technology sector recession (see Table 2.6).

In other industries, sales were more modest and due to weak external demand more volatile. The apparel sector seemed to recover in the third quarter and the 2.2% shredded in the first half-year was replaced by a relatively rapid growth of 15.5%, but in October sales shrank again by 3.5%.

Table 2.6. Volume of normal export by groups of goods (EEK m)

	Q3 2002	Q3 2003	Change	Influence
Food	1,062	1,090	28	3.2%
Mineral products	320	364	44	5.0%
Chemical products	798	914	115	13.2%
Clothing and footwear	1,143	1,144	1	0.1%
Timber, paper and products thereof	2,034	2,335	301	34.3%
Metals and metal products	757	763	6	0.7%
Machinery and equipment	737	808	71	8.1%
Transport equipment	388	487	99	11.2%
Furniture, sportsware	1,032	1,202	170	19.3%
Other	380	423	43	4.9%
Total	**8,651**	**9,529**	**877**	**100.0%**

Sales in timber and textile industry slowed down both in the third quarter (in the first half-year from 7.9% to 5.8% and 16.2% to 2.2%) and in October (down to 5.2 and 0.2%, respectively). Inhibited growth in timber industry was blamed on scarcity of raw materials. Marketing problems occurred in the furniture industry and the growth by 4% in the first half-year turned into a fall in July-October.

Food industry, however, recovered slightly in October. Sales in meat and dairy products were up by about 15%, primarily because an export window broadened. Sales in flour and cereals jumped by 68%, as demand increased: several European states suffered a crop failure. Shrinking quotas prolong recession in the fishing industry, although a feeble improvement could be seen in October.

Although recovering external environment accelerated the annual growth rate of normal export to 15% in the third quarter, it could not balance the financing gap arising from growing domestic demand in Estonia. Under the current world economic circumstances, such a growth signals a slightly improved corporate market position, whereas import demand in Finland and in most other euro area countries remains low. Therefore, further rapid growth in Estonia's export revenue is unlikely. In the third quarter, indicators of transport companies remained more or less on the level of the second quarter.

Manufacturing confidence shrank slightly in October and November (partially seasonally), whereas optimism in external orders kept growing for the third successive month.

Employment and Unemployment

New industrial jobs, 7,900 during a year, accounted for 70% of the 1.9% growth in the third quarter, year-on-year. The number of the employed in manufacturing was up 6.6% but overall employment is sensitive to external orders and has not yet reached the level of two years ago when there were 5,000 jobs more.

Regionally divergent changes occurred in the employment rate. In Tallinn and Northern Estonia the employment had grown by 0.1 and 0.4 percentage points, respectively, during the first half of 2003 but shed 1.2 and 0.7 percentage points, respectively, in the third quarter. Contemporaneously, in Central and North Eastern Estonia the fall in employment sustained throughout the first half-year (by 2.3 and 2.8 percentage points, respectively) was reversed in the third quarter (2.3 and 0.9 percentage points, respectively). Thus, development picked up outside Northern Estonia. In the third quarter, bad weather conditions affected employment in accommodation and catering sectors as well as in agriculture, which are traditionally major seasonal employers.

In the third quarter, the unemployment rate (9.5%) remained below the second quarter (10.7%) but exceeded the third quarter of 2002 (9.1%). The number of the unemployed grew primarily at the expense of activation of the people aged 15–24, non-active in the sense of the labour market: compared to the third quarter of 2002, the number of studying young people seeking, jobs as well as those who could not realise the wish, went up.

In 2003, the share of the long-term unemployed shrank during nine months from 53%, year-on-year, to 44%. According to the Labour Market Board, also the number of registered unemployed decreased, by 9.4% in October and by 11.9% in November. Whereas the number of initial visits fell on the average by 12.2% and beneficiaries of unemployment benefit by 21.8% over the months.

Wages and Productivity

In the third quarter wages continued to soar in Estonia. While the annual growth of 9.9% in gross wages remained below year-on-year average (10.9%), it was above the second quarter (8.8%). Thus, anticipated further adjustment in wage growth did not occur (see Figure 2.3).

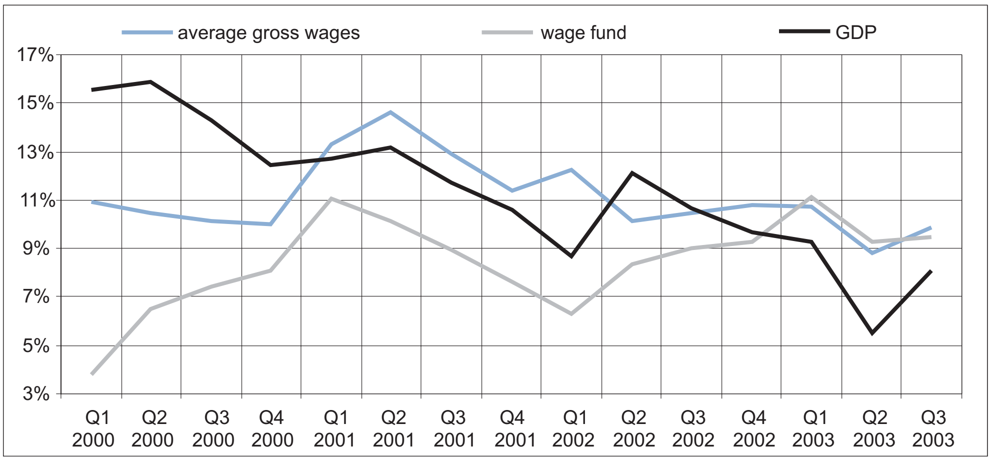

Figure 2.3. Annual nominal changes of average wages, wage fund and GDP

Judging by nine-month results, labour cost in the economy as a whole exceeded growth in productivity. In the long term, such a trend would undermine Estonia's competitiveness.

Wages in the sheltered sector sent the average wage indicator abruptly upward: wages in accommodation and catering edged up by 20.9%, in wholesale and retail trade by 14.8%, in health sector on the average by 13.7%, (including 16.5% in the third quarter, brought along by a rise in the health services' reference price and hourly wage of doctors and nurses). A wage increase in the sheltered sector was probably the main underlying cause why the share of labour cost to GDP went up.

Asymmetry in wage distribution decreased: the median wage calculated from average sector indicators rose more than the average wage, ie the average wage increase was linked to a wage increase of a larger number of low-wage workers. For example, the wages in agriculture and fisheries, which are about 40% below the average, added 11% and 38%, respectively, in the third quarter, whereas wages in financial intermediation, which are about twice above the average, grew merely by 7%.

In earlier years, higher flexibility has characterised wages in the open sector. Nevertheless, in the first nine months of 2003, the growth of labour costs exceeded the productivity growth also in manufacturing. In near future, it is significant that exporting sector would sustain balanced growth of labour costs and productivity.