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**Article**

## CESifo World Economic Survey May 2004

CESifo World Economic Survey

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# CESifo WORLD ECONOMIC SURVEY

VOLUME 3, No. 2

MAY 2004

## WORLD ECONOMIC CLIMATE

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World Economic Climate remains favourable

## ECONOMIC EXPECTATIONS

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Current economic situation above satisfactory, optimistic economic expectations weakened only marginally

## INFLATION

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Inflation will remain moderate

## INTEREST RATES

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Only moderate rise expected

## CURRENCIES

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Currency mismatch softens somewhat

## SPECIAL TOPIC

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WES experts regard a restart of multi-lateral trade negotiations as very important

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## Ifo World Economic Survey

### Regions

- World economy: Stabilization on the current favourable level
- Western Europe: Economic recovery subdued
- Eastern Europe: Growing markets
- North America: Growth will continue
- CIS: Economic upturn gains strength
- Asia: Economic expansion continues
- Oceania: Buoyant economy
- Latin America: Good prospects for economic recovery
- Near East: Economic climate continues to improve
- Africa: Diverging economic trends predominate

The survey is produced by the Ifo Institute in co-operation with the Paris-based International Chamber of Commerce (ICC).

## Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide about current economic developments in the respective country. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In April 2004 some 1,204 economic experts in 91 countries were polled.

WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris and receives financial support from the European Commission.

## Methodology and evaluation technique

The survey questionnaire focuses on qualitative information: on assessment of a country's general economic situation and expectations regarding important economic indicators. It has proved to be a useful tool, since economic changes are revealed earlier than by traditional business statistics.

The individual replies are combined for each country without weighting. The "grading" procedure consists in giving a grade of 9 to positive replies (+), a grade of 5 to indifferent replies (=) and a grade of 1 to negative (-) replies. Grades within the range of 5 to 9 indicate that positive answers prevail or that a majority expects trends to increase, whereas grades within the range of 1 to 5 reveal predominantly negative replies or expectations of decreasing trends.

The survey results are published as aggregated data. The aggregation procedure is based on country classifications. Within each country group or region, the country results are weighted according to the share of the specific country's exports and imports in total world trade.

*CES – Center for Economic Studies* – is an institute within the department of economics of Ludwig-Maximilians-University. Its research concentrates on public finance, aspects of the economy, but also includes many diverging fields of economics.

*Ifo Institute for Economic Research* ist one of the largest economic research institutes in Germany with a three-fold orientation: to conduct economic research, to offer advice to economic policy-makers and to provide services for the research and business communities. The Ifo Institute is internationally renowned for its business surveys.

*CESifo* is the name under which the international service products and research results of both organizations are published (in English).

# WORLD ECONOMY: WORLD ECONOMIC CLIMATE REMAINS FAVOURABLE

In April 2004 the World Economic Climate stabilized at the favourable level reached in the previous quarter (see Figure 1 and Box 1). The climate indicator is at 110.1 (1995 = 100), is still considerably higher than its long-term average (1990–2003: 93.0). Differently than in the January survey, where both components of the climate indicator – assessments of the current economic situation as well expectations for the coming six months – had picked up, in the April survey only the assessments of the current economic situation improved. The economic outlook has been slightly downgraded, still remaining optimistic.

## World economy: Stabilization on the current favourable level

The world economy has experienced some severe shocks in the recent past: recession, terrorist attacks, war and severe acute respiratory syndrome (SARS). But the strong pace of recovery that started in the second half of 2003 continued in the first half of 2004, in spite of the turbulent world political situation, related to the Iraq crisis and worldwide terrorist threats. The assessments of the current economic situation continued to improve – the overall economic situation on the world average is now judged above the “satisfactory” level. The economic expectations for the coming six months, though slightly downgraded since January 2004, are still optimistic

(see Figure 2). The overall economic outlook for the second half of 2004 suggests stabilization of the economic situation on the current favourable level.

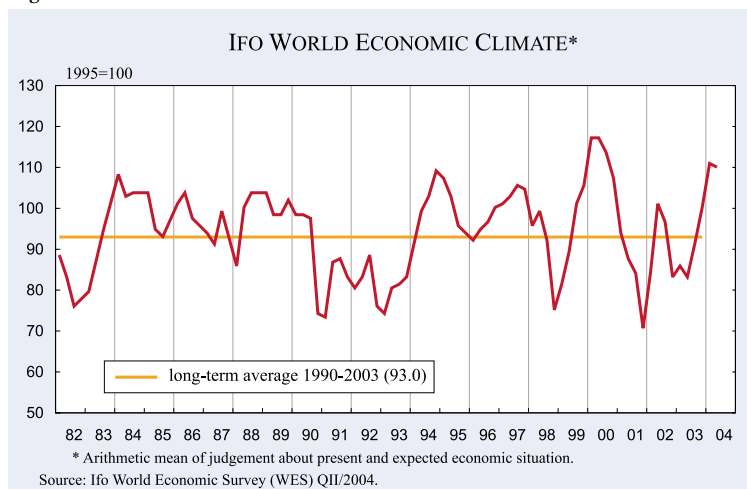
The improvement of the global economic climate in 2004 was led by the United States, Canada, Australia and by strong growth in Asian economies (with centers of economic activity in China, the world’s largest country with 1.3 billion people and India with 1 billion) where in April the current economic state was assessed considerably above the “satisfactory” level. However, the global economy also has weak spots, including still disappointing performance in the Eurozone, where unemployment is regarded, on average of 91 countries surveyed by WES, the most important economic problem.

## Western Europe: Economic recovery subdued

According to the panel’s responses, economic growth in Western Europe still lags behind the rest of the world (see Figures 3 and 4). The overall economic climate indicator slightly slipped in April, resulting from somewhat less optimistic expectations for the coming six months. However, the panel’s assessments of the current economic situation, on average for Western Europe, have followed a positive trend since July 2003.

After nearly three years of stagnation, the economies of the *euro area* turned round in the second half of 2003, but a strong euro and weak private consumption have made the long-expected recovery slower than expected. The strength of economic recovery in April among countries using the euro was subdued relative to the rest of Western Europe. In the euro area, only experts in *Finland* and *Ireland* judged the current economic performance above the satisfactory level. In *France* and *Portugal* the present economic situa-

Figure 1

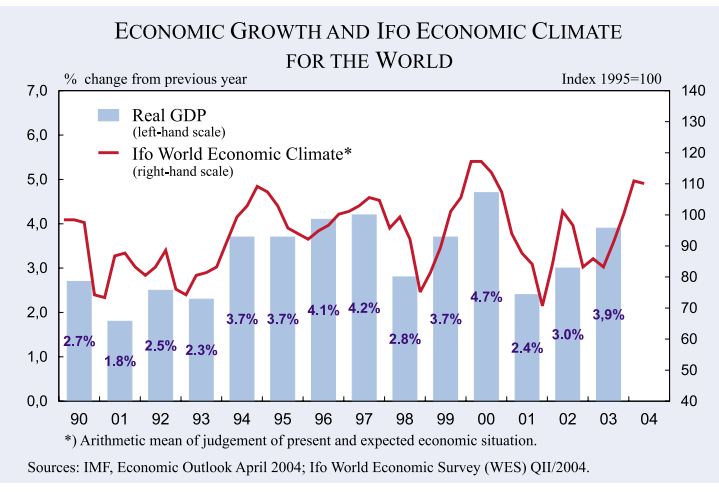


**Box 1**  
**World Economic Survey (WES) and GDP Growth in the World Economy**

The Ifo World Economic Climate is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The April results are based on the responses of 1,204 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend measured in annual growth rates of real GDP (see Figure).

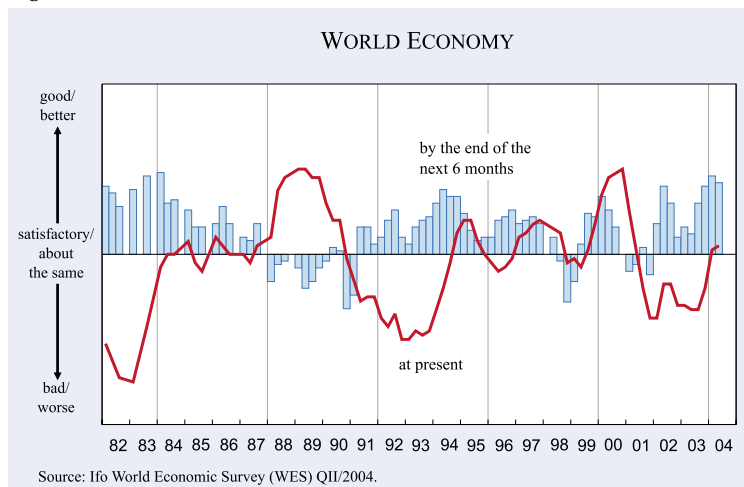
The Ifo World Economic Climate indicator closely tracks the growth of the world economy (see Figure). In April 2004 the world economic climate stabilized at the high level reached in the previous January poll. At 110.1 (1995=100) the climate indicator is considerably higher than its long-term average (1990–2003: 93.0). In contrast to the January survey, only the assessments of the present economic situation improved, whereas the second component of the climate index – economic expectations for the coming six months – failed to improve further, but still remained optimistic. The current results indicate that the world economy at present is in a much better state than one year ago.

While in Western Europe economic recovery remains subdued, the economic climate continues to improve, particularly in Asia. Also in the US the economic upswing continues to be robust.



tion, though slightly improved, according to WES experts, is still on a rough road. In *Belgium, Austria, Spain* and *Greece* the assessments of the economic situation deteriorated somewhat, but remained in the favourable zone. Not so in *Germany, the Netherlands* and *Italy*, where the panel's responses still show no clear evidence of an economic recovery.

**Figure 2**



While in *Italy*, “lack of international competitiveness” and “insufficient demand” were seen as the most urgent economic problems, experts in *Germany* merely emphasized the problem of “unemployment” and “lack of confidence in government’s economic policy”.

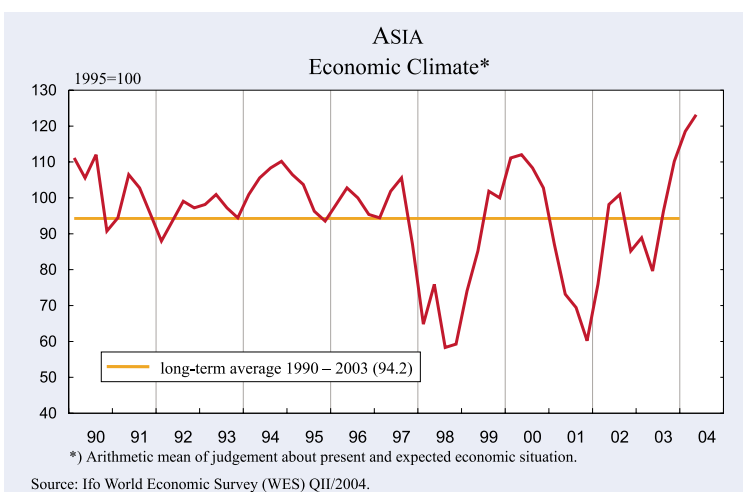
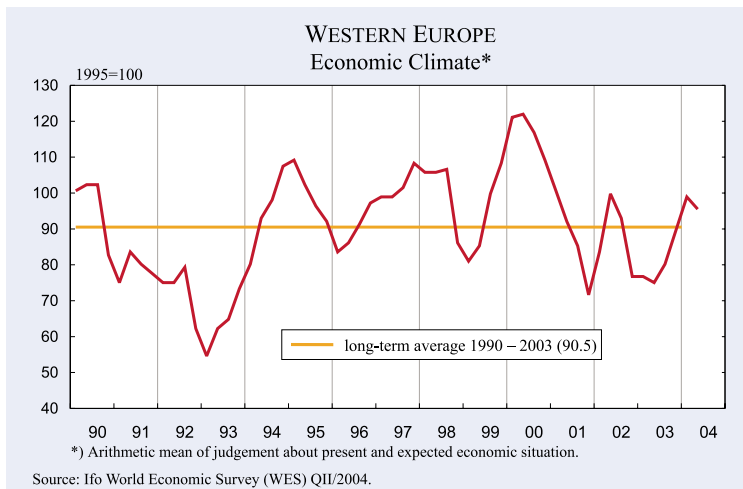
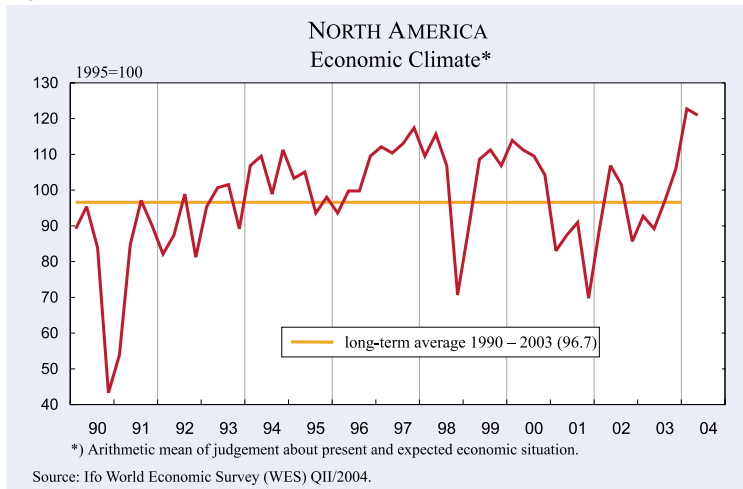
Summarizing the WES results for *euro zone*, the weak present economic performance is expected to improve in the course of the next six months. Despite the euro’s strength against the dollar, the export sector is expected to strengthen in the near future. Private consumption is seen to be weak, as consumers prefer saving rather than spending, but a majority of WES experts surveyed in the world’s second-largest economic region, expect this trend to turn around in the coming months.

Outside the euro area an improvement of the current economic state has been reported from *Denmark, Switzerland, Sweden* and *Norway*. Also in the *United Kingdom* economic recovery has been more robust than WES experts were predicting a year ago. The economic expectations have been downgraded somewhat in the *UK, Switzerland* and *Norway*, remaining, however, optimistic. In *Denmark* and *Sweden* the economic outlook became even brighter than in the January survey. Both increases in capital expenditures as well as in private consumption are expected to support economic growth in all these countries in the second half of the year.

**North America: Growth will continue**

According to the latest survey results the economic climate indicator in North America deteriorated slightly in April, after in January having reached the

**Figure 3**



highest level since 1985 (see Figures 3 and 4). However, both the *US* as well as *Canadian* economies showed a strong performance in April, according to WES experts.

In the *USA*, WES experts assess the level of corporate expenditures as “satisfactory” and expect fur-

ther growth in this economic sector. The weak dollar is further expected to boost business receipts from exports. The outlook is optimistic in the short term, but there may be problems in the future. The *United States*’ “public deficits” pose the number one problem for the world’s largest economy, according to WES experts and it is an open question, whether in the long term the *United States* can continue to be the world’s economic engine, given its large public and current account deficits. Recent economic growth was bolstered by spending by the federal government, especially on defense, partly because of the situation in Iraq and because of a general increase in military expenditures under the Bush Administration. Thus, the long-term prospects of the *US* economy could be an important issue in this year’s presidential election.

In *Canada*, the economic climate has been assessed by WES experts as very favourable, with positive marks for both, the present economic situation as well as economic expectations for the next six months. As economic problem areas experts named “lack of international competitiveness” and “lack of skilled labor”.

### **Eastern Europe: Growing markets**

On May 1, ten countries joined the European Union, eight of them from Eastern Europe: *Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Lithuania* and *Latvia*. For more than 14 years the EU accession countries have been implementing a series of economic reforms that have stabilized their economies, attracting substantial foreign direct investments. The overall economic climate further improved in April, with both the assess-



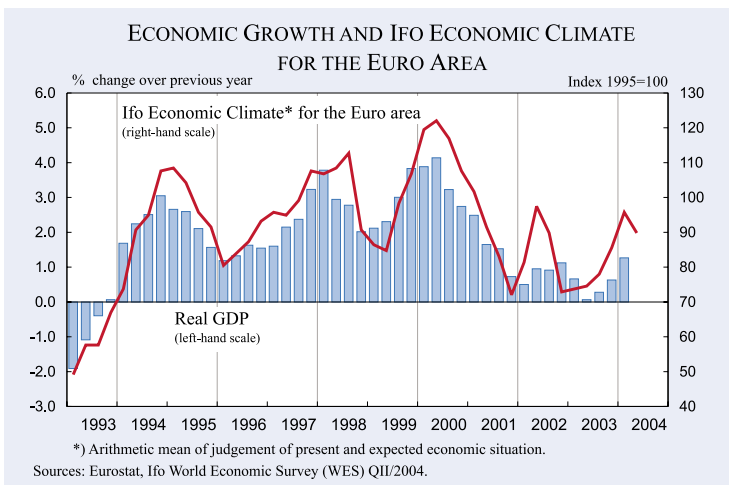
**Box 2**  
**World Economic Survey (WES) and GDP Growth in the Euro Area**

The Ifo World Economic Climate for the 12 member countries of the euro area is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The April results are based on the responses of 334 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The economic climate for the euro zone deteriorated somewhat in April 2004 after three improvements in succession at the end of 2003 and January this year. Both components of the climate indicator – assessments of the present economic situation and economic expectations for the coming six month – have been slightly downgraded.

In Ireland and Finland the present economic state has been assessed as above “satisfactory”. Also in Belgium, Austria, Spain and Greece the assessments of the present economic situation were positive, though somewhat less favourable than in the previous survey. In contrast, in France the assessments of the present economic state improved considerably but have not yet reached the “satisfactory” level. In Germany, Italy and the Netherlands the present economic performance is still low, according to WES experts. However, economic expectations for the coming six months in all countries of the euro zone are optimistic.

The recent survey results suggest that economic rebound in the euro zone will continue, but be less dynamic than in the other Western European countries, the USA or Asia.



ments of the current economic situation as well as economic expectations for the coming six months pointing upward (see Figure 4 and Figure 8).

In the eight new EU members in Eastern Europe the present economic situation was again rated above the satisfactory level in April, except in *Hungary*, where the present economic situation was rated slightly below the satisfactory level, but considerably better than in the January poll. The forecasts for the coming six months point to further economic improvement in all new EU member states. The strongest economies of the region are, according to WES participants, the Baltic States (*Estonia, Latvia and Lithuania*) and *Slovakia*. Also in *Poland*, WES experts show a high level of business confidence. In all eight countries, experts expect marked increases in corporate investments and activation of the foreign trade sector (with rising exports and imports) for the second half of 2004.

In the other Eastern European countries, economic trends observed in April differ. In *Albania* and

*Bulgaria* the overall economic trend points to recovery. The export sector is expected to stimulate economic growth in these countries, and also imports will continue to grow. In contrast, in *Croatia* and *Romania* the present economic performance was rated below “satisfactory” by the WES panel, but the outlook for the next six months raises hopes for an economic revival. The overall economic situation in *Serbia* and *Montenegro* is still signaling concerns, but the near-term prospects have brightened somewhat.

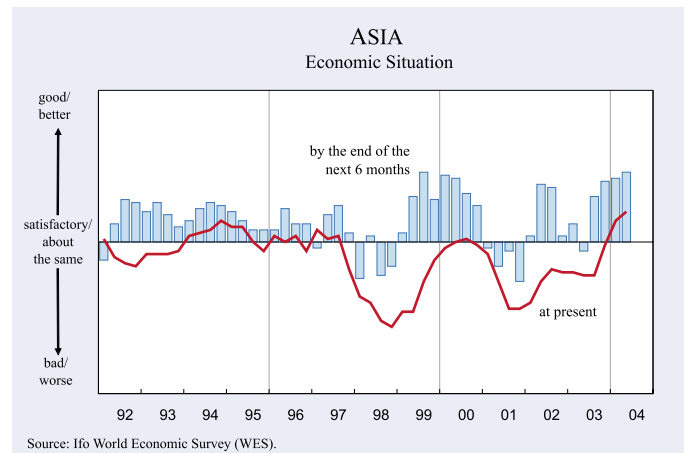
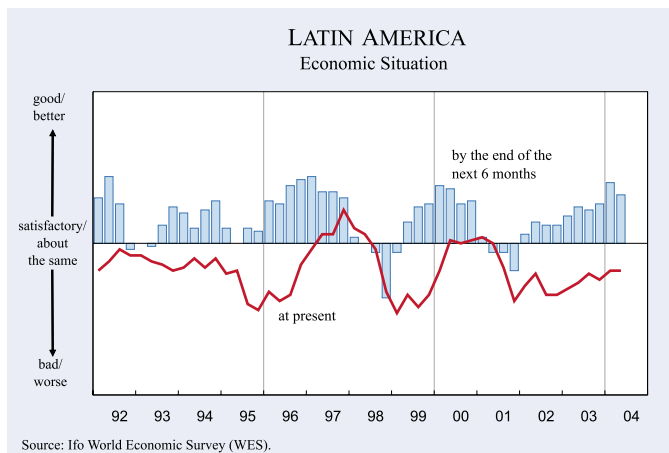
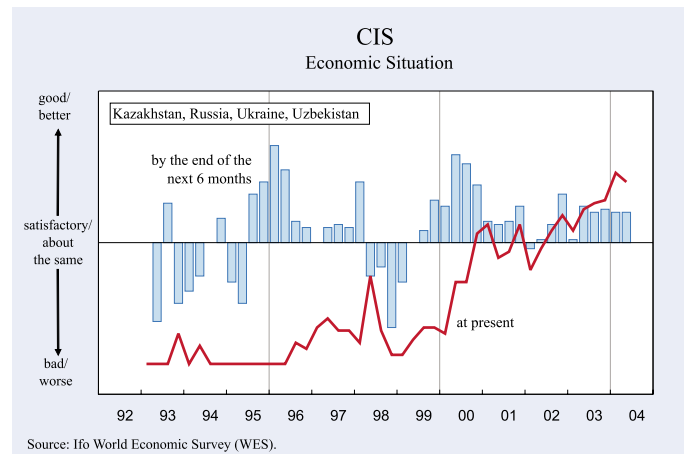
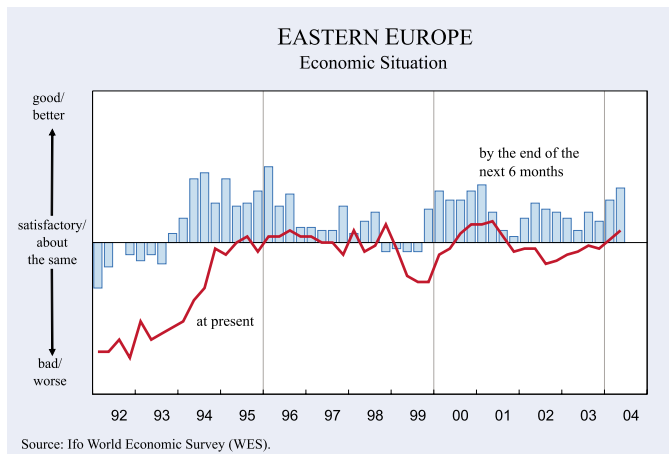
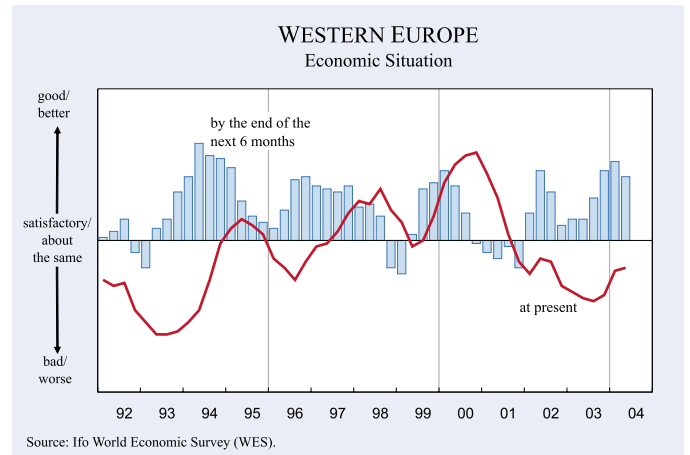
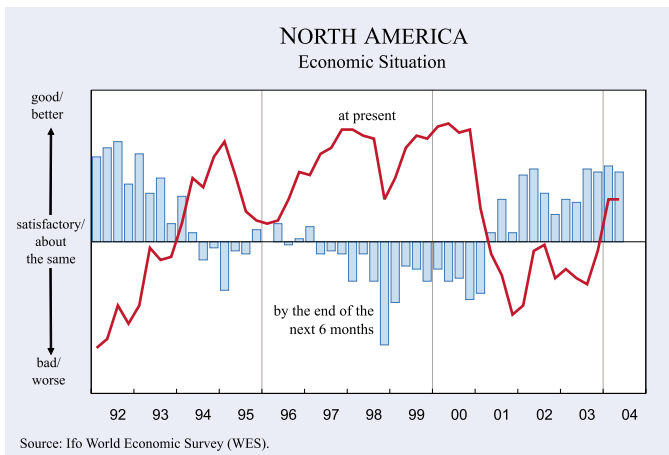
**CIS: Economic upturn gains strength**

The economic upturn in Russia continues, according to the recent WES results. After four consecutive improvements of business confidence, the economic climate indicator in Russia continued to rise in April (see Figure 4). The assessment of the current economic state has stabilized at a high level, while economic expectations continue to point upward. The trade surplus rose in the first quarter of 2004, as exports outpaced imports, but for the second half of the year, experts surveyed in Russia by WES expect a moderate decrease of the trade balance surplus. Corporate investment and private consumption are assessed above the satisfactory level and are forecast to expand further in the near term. As a present economic weak point, experts named “lack of international competitiveness”, which is seen as an important problem also in *Ukraine, Georgia* and *Kazakhstan*.

A good economic climate has been reported for *Kazakhstan*. With regard to the future economic development the participants are fairly confident. Also for the *Ukraine*, WES experts report a favourable economic climate. The expectations concerning future development point to further stabilization at the current “satisfactory” level, with higher forecasts for private consumption, capital expenditure and exports. A less encouraging scenario has

**Figure 4**

## SELECTED REGIONS



been drawn in *Uzbekistan*, where the economic climate is expected to remain intemperate in the coming months.

#### **Asia: Economic expansion continues**

The Asian region is economically the most dynamic in the world. In April, the economic climate index in Asia reached an all-time high (see Figure 3 and Figure 9). The current situation remained above satisfactory, on average of the Asian countries surveyed by WES, and the conditions for an acceleration of the upswing are considered favourable as well. Consumer spending gave an important boost for many economies in East and Southeast Asia, in particular in *China*, *India*, *Indonesia*, *Malaysia*, *Philippines* and *Thailand*. Besides expanding consumer demand, the second driver of Asian growth is intra-regional trade. Both components of growth are expected to strengthen further in the near term.

Rapid growth in *China* is the driving force behind expanding intraregional trade. The present economic performance remained on a high level. The favourable general economic outlook, though slightly downgraded compared to the January results, implies further growth of corporate activity and private consumption. However, as *China's* booming economy is at risk of overheating, WES experts expect a slowdown of the phenomenal growth rates of the recent past. *India* retained the leading position with regard to business confidence in Asia, and its economic growth outlook is buoyant. However, the government that takes over in May 2004 will have to come up with measures to dampen the fiscal deficit and with other urgent reform issues. As much as 70 percent of *India's* population relies on farming for a living, thus growth may dip somewhat in the coming year if monsoon rains are not as ample as last year. But the overall confidence in the economy remains strong. Furthermore, *India* is not harmed by the latest global trend of outsourcing as it is a key destination for such relocations. However, "unemployment" ranks as an important economic problem in the populous country.

After years in the economic doldrums, *Japan* is also expected to contribute significantly to the global economy this year. After many years of stagnation *Japan* has been gaining strength recently, and seems on track to a sustainable growth path. Alongside the export sector, the import sector is expected to pick

up further. Capital expenditures as well as private consumption are foreseen to expand as well. The economic climate index in *Hong Kong* also demonstrates a sharp upturn, the economy having rapidly recovered in 2003. Assessments of the present economic state are above the Asian average. The prospects for the coming six months are very optimistic.

In *Malaysia*, *Singapore*, *Taiwan*, *Thailand* and *Vietnam* the assessments of the present economic situation improved; economic expectations remained at a high level, with capital expenditures, private consumption and the export sector expected to continue to grow in the course of the next six months. Similarly, but to a lesser degree, in *Bangladesh*, *Pakistan* and *Sri Lanka* the present economic performance is seen as satisfactory and is expected to remain on the upward trend. In the *Philippines* the present economic situation remained almost unchanged, being judged slightly above satisfactory. The economic expectations point to stabilization in the course of the next six months. *South Korea* and *Indonesia* were the only countries in the Asian region surveyed by WES where the marks for the current economic situation, though slightly improved, have not yet reached the "satisfactory" level. However, WES experts expect the economy to gain momentum in the second half of the year.

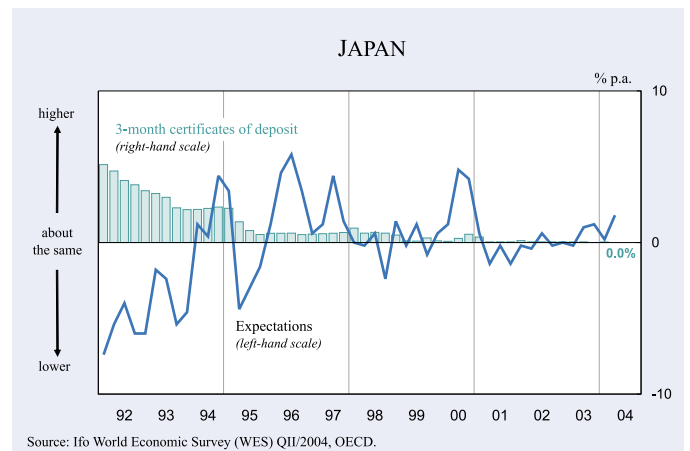
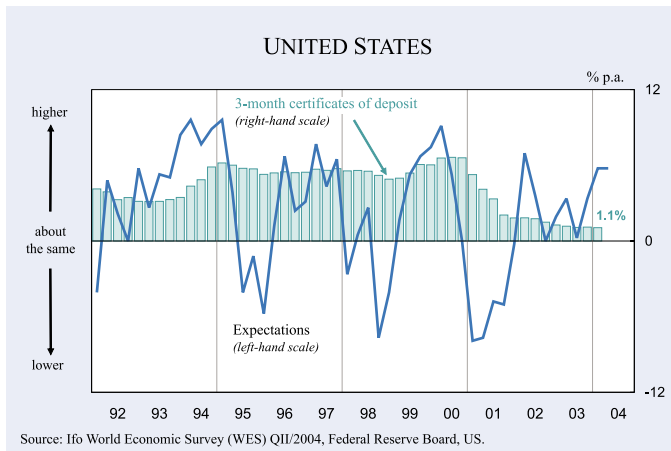
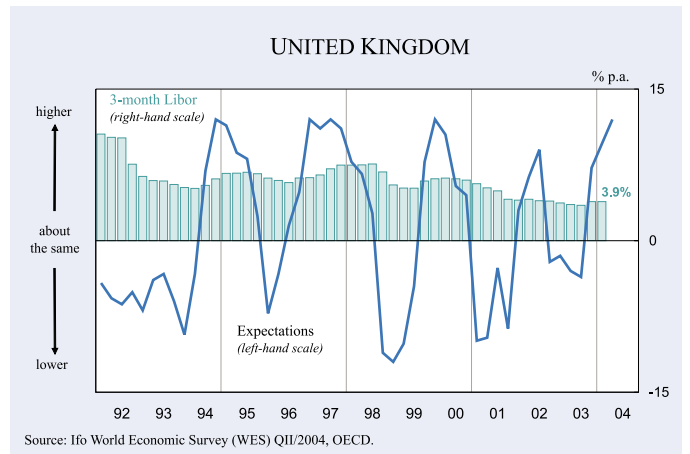
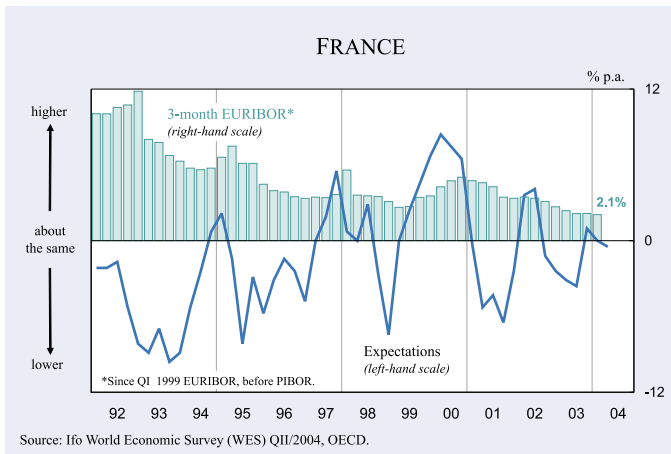
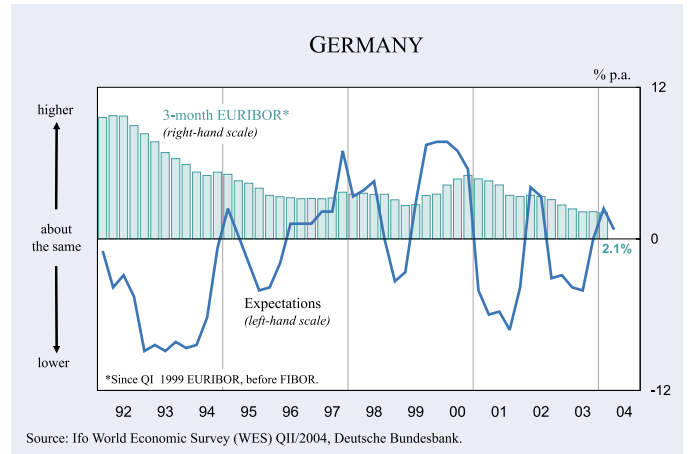
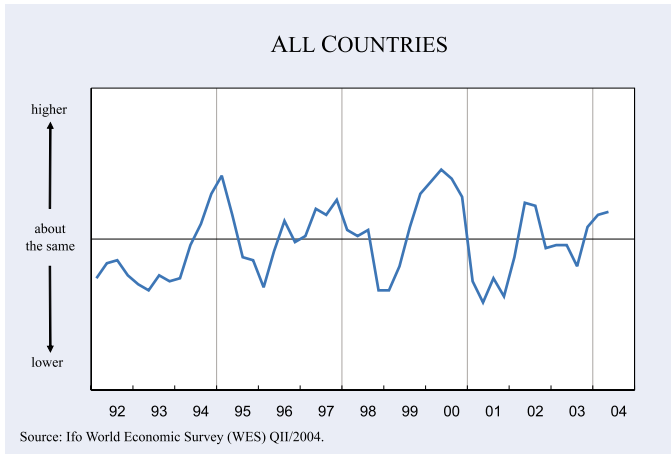
#### **Oceania: Buoyant economy**

Oceania has topped the list of economic performance for almost five years. Experts polled in the region assessed the present economic situation again as above "satisfactory". Other positive signs include robust consumer and business confidence, and low unemployment. But the short-term forecast in the region has been traditionally cautious.

In the January survey the economic climate index in Australia reached the highest level since 1995. According to the April poll results, the overall climate index slipped somewhat. However, the present economic situation in *Australia* is still assessed to be far above the satisfactory level and the economic forecast points to further stabilization. The main weak point in the economy remains the export sector, because of the strong Australian dollar, which has been a problem for exporters, making their goods more expensive on the global market.

**Figure 5**

**ACTUAL SHORT-TERM INTEREST RATES AND EXPECTED TREND FOR THE NEXT 6 MONTHS (QUARTERLY DATA)**



In *New Zealand*, economic outlook is subject to uncertainty, as economic activity is likely to cool due to a stronger NZ dollar, but the current economic situation has been assessed very positively here for more than two years.

### Latin America: Good prospects for economic recovery

According to the latest survey results, the economic climate deteriorated somewhat in Latin America in April. The assessments of the current economic situation remained unchanged – slightly below satisfactory – since the January survey, while the economic expectations for the coming six months have been downgraded somewhat, remaining, however, optimistic (see Figure 4 and Figure 10).

Deterioration of the economic climate on average of countries surveyed in the region mainly results from the economic cooling in *Brazil*, after *Mexico* the major economy on the continent. While in the January survey *Brazilian* experts reported increasing confidence, the assessments of the present economic situation slipped below the “satisfactory” level in April. The expectations regarding economic growth for the next six months have been downgraded somewhat, but remain, optimistic, however. “Unemployment” and “insufficient demand” are still the most urgent problems to be solved by the government of Lula da Silva.

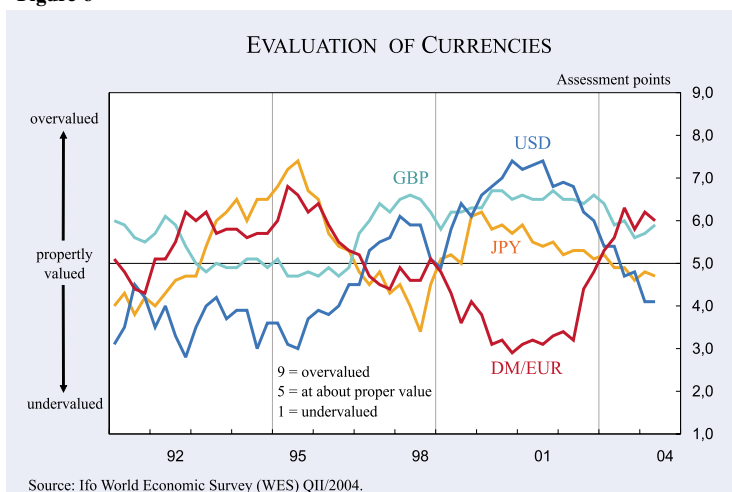
In the majority of other countries surveyed by WES in the region, the economic climate improved considerably, with *Chile* the economic star with regard to business sentiment. As in the previous January survey, both demand aggregates – corporate investment and private consumption – are performing satisfactorily and are expected to gather further speed in the second half of this year. Also foreign trade is expected to develop dynamically in the course of the coming months. “Lack of skilled labor” is seen to be the major economic problem currently. But the bright economic sky has been overshadowed by a diplomatic spat between *Chile* and *Argentina* related to *Argentinean* gas supplies. As the growing economy

has an enormous demand on fuel and relies to 90 percent on imports, the *Argentinean* squeeze on gas supplies to *Chile* became an urgent political and economic issue for the region.

After over four years of recession, the *Argentinean* economy is recovering very strongly, according to the latest WES results, and entering its second year of expansion. The assessments of the current economic situation have almost reached the satisfactory level. Corporate activity is still judged to be unsatisfactory, but the prospects point to an improvement this year. In *Mexico* the recovery from a three-year economic slump is also gaining strength and indicators as capital expenditures, private consumption and export point upward, according to the recent WES results. *Colombia*, *Peru* and *El Salvador* also belong to the expanding economies in the region. In all three countries the marks of the present economic performance are above the “satisfactory” level. Prospects for further development promise increasing dynamics, in the corporate investment sector as well as in private consumption. *Costa Rica* counts economically to the middle field in the region, according to WES experts. The present economic state has been assessed as satisfactory, and is expected to stabilize in the course of the coming six months. A similar picture was drawn by experts in *Panama*.

An economic climate index far below the Latin America average has been reported from *Bolivia*, *Ecuador*, *Guatemala*, *Paraguay*, *Uruguay* and *Venezuela*. In all these countries experts gave low marks for corporate investment activity and the level of private consumption. While some improvement is expected in *Paraguay* and *Uruguay*, WES correspon-

Figure 6



Source: Ifo World Economic Survey (WES) QII/2004.

Figure 7a

# EUROPEAN UNION

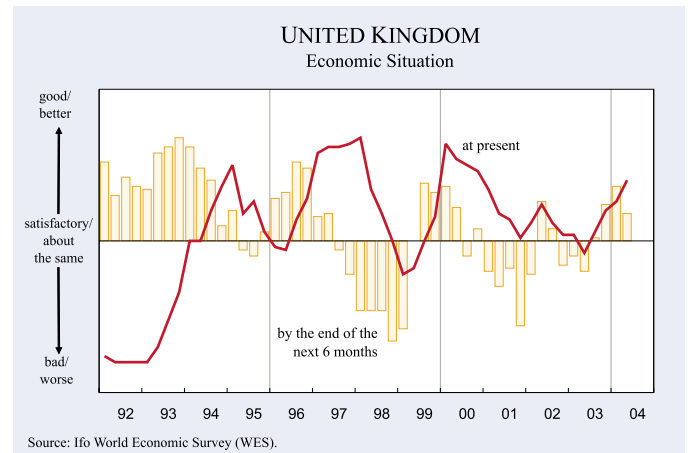
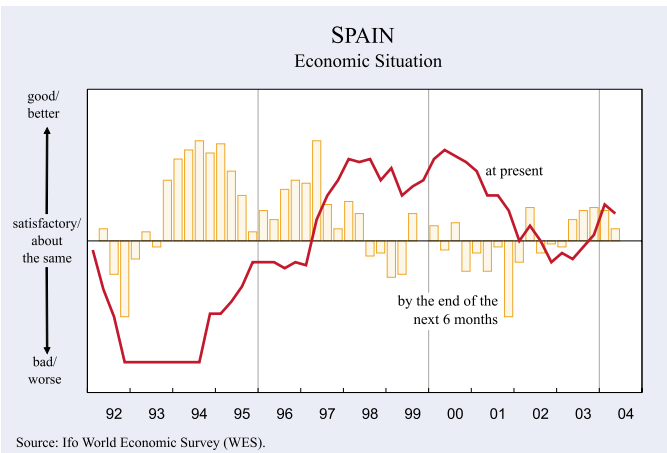
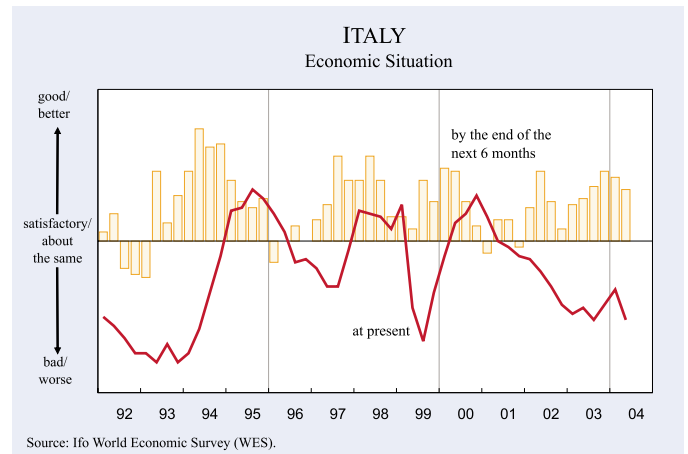
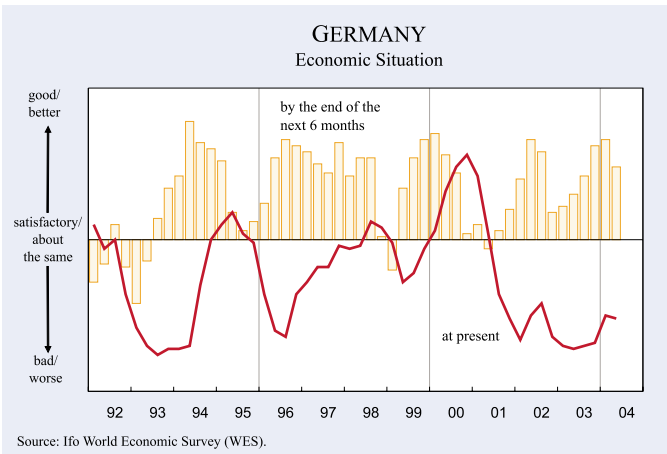
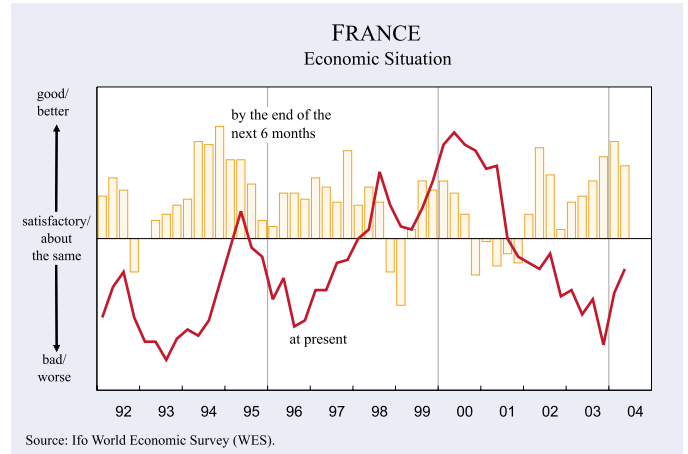
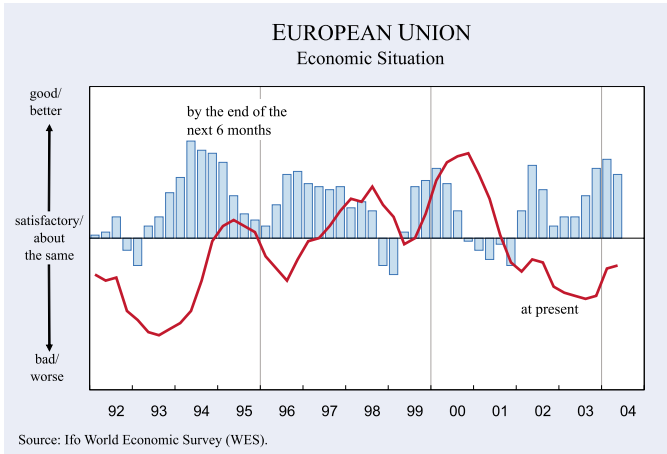
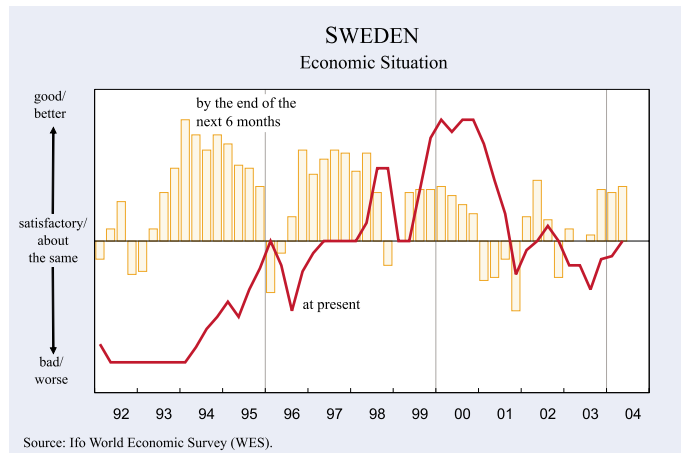
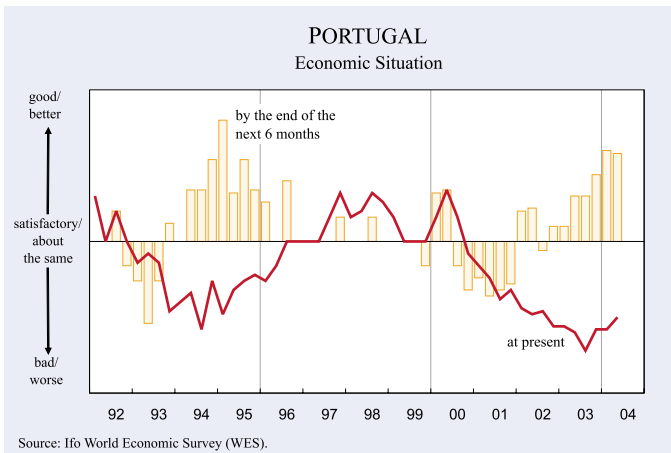
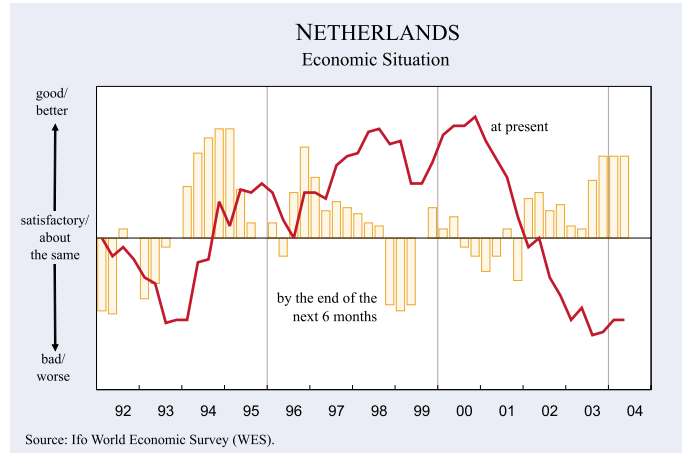
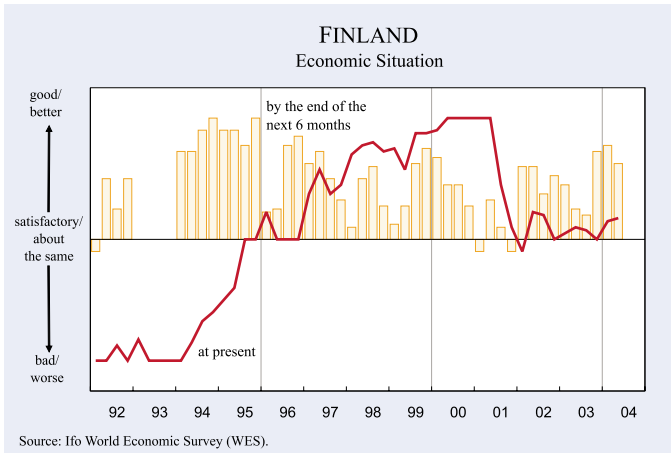
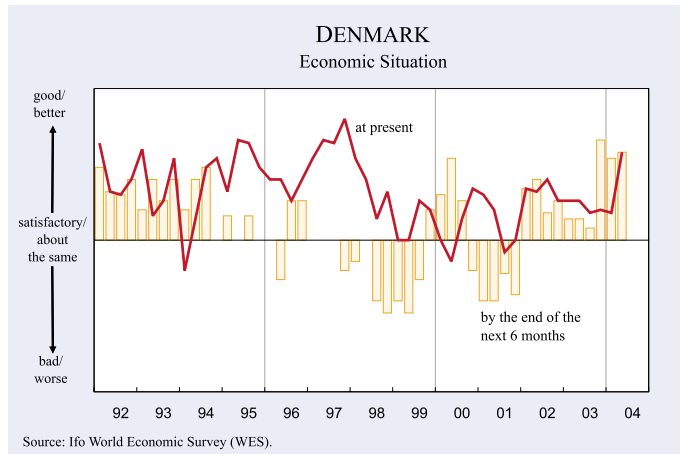
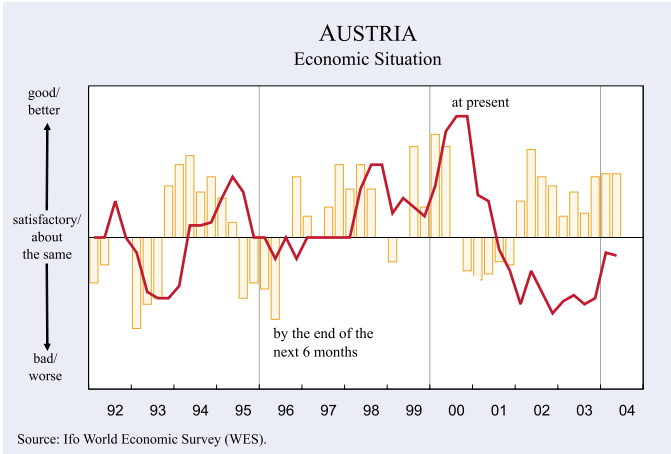


Figure 7b

# EUROPEAN UNION



**Figure 8**

**EASTERN EUROPE**

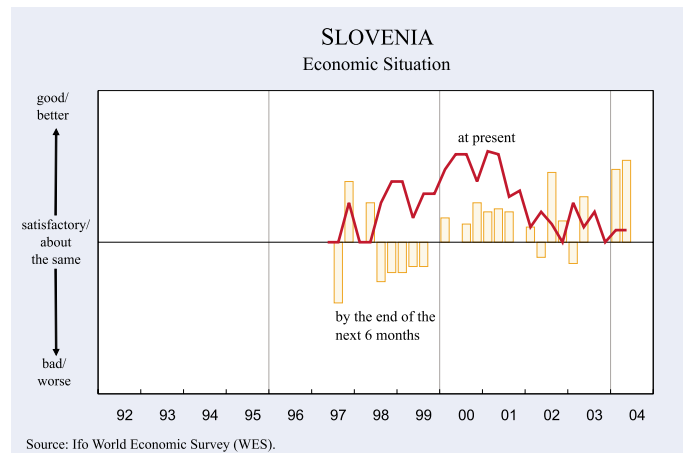
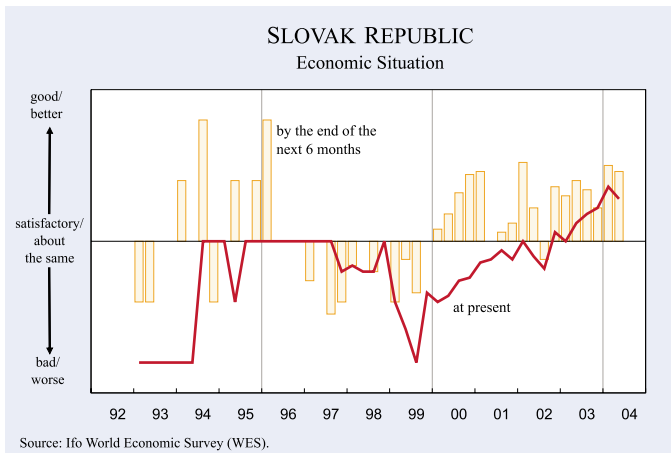
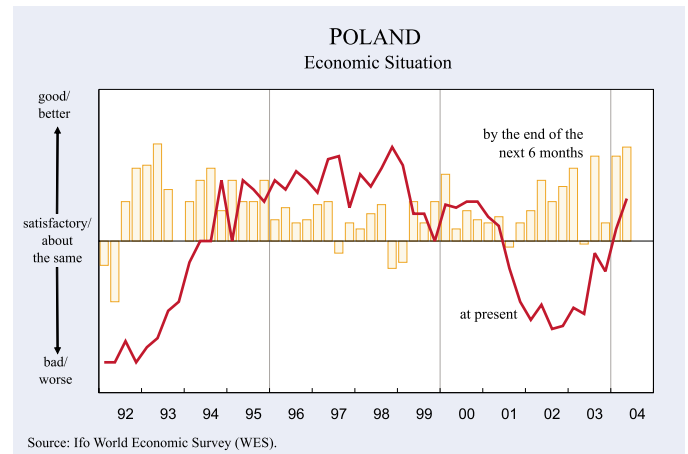
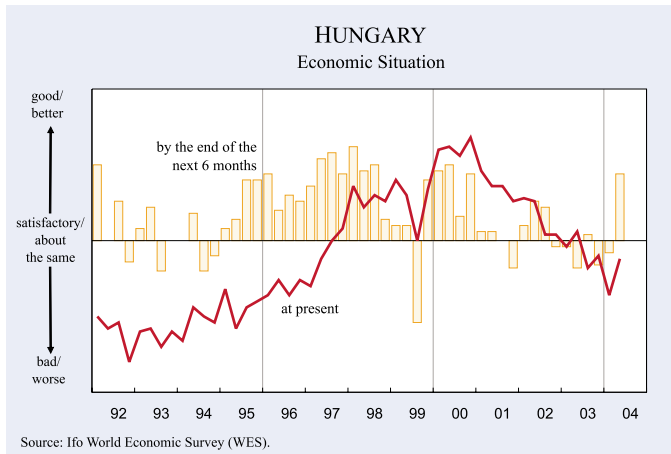
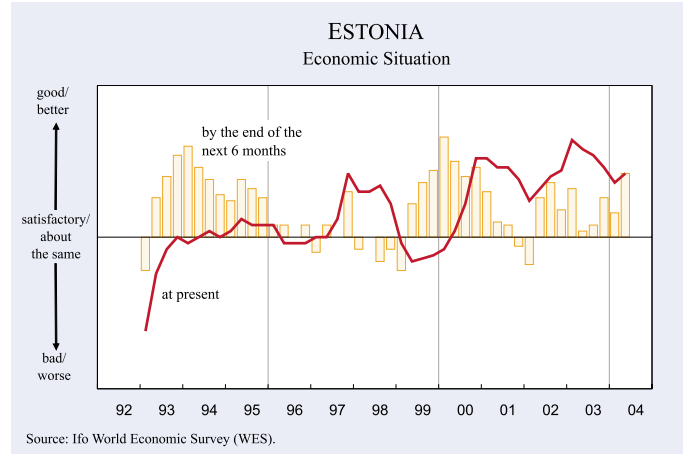
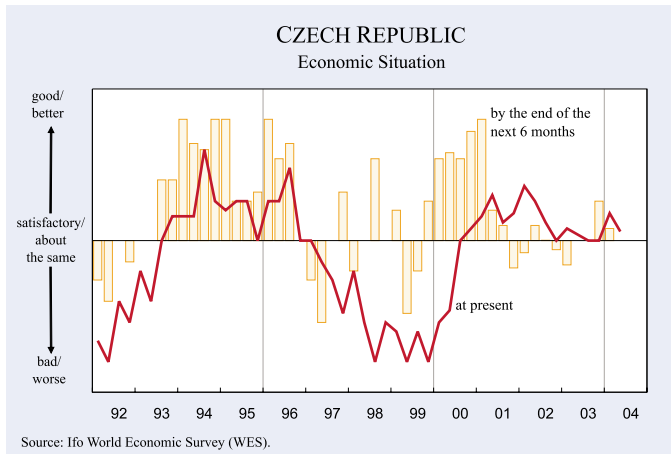




Figure 9

ASIA

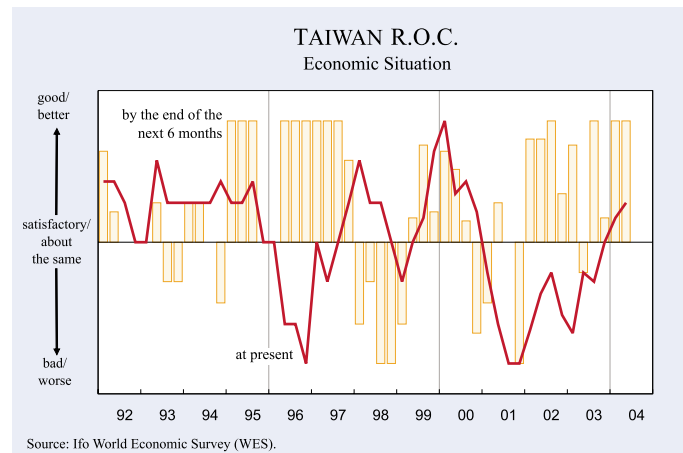
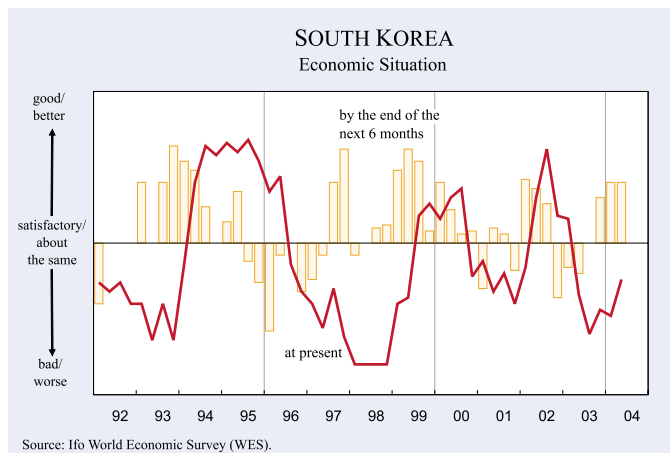
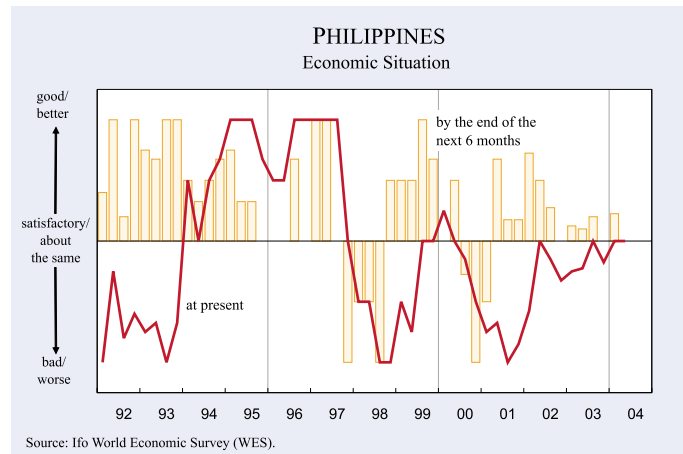
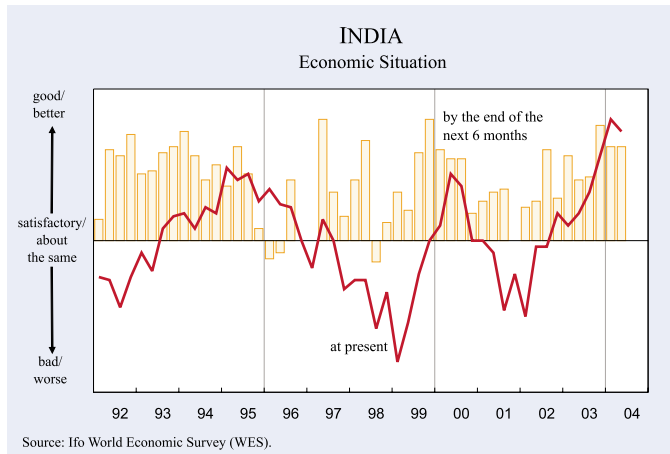
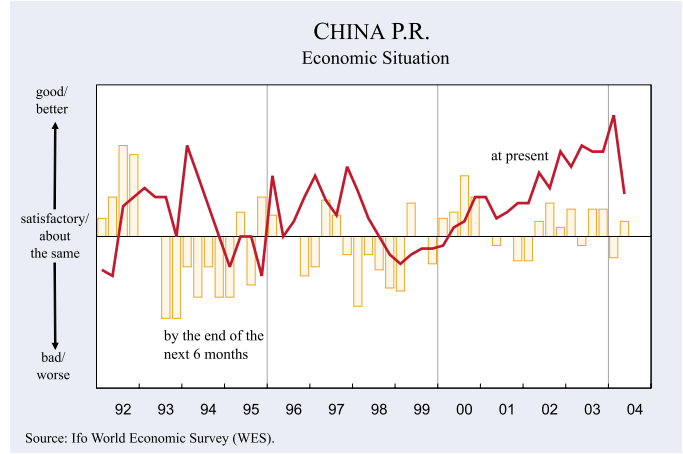
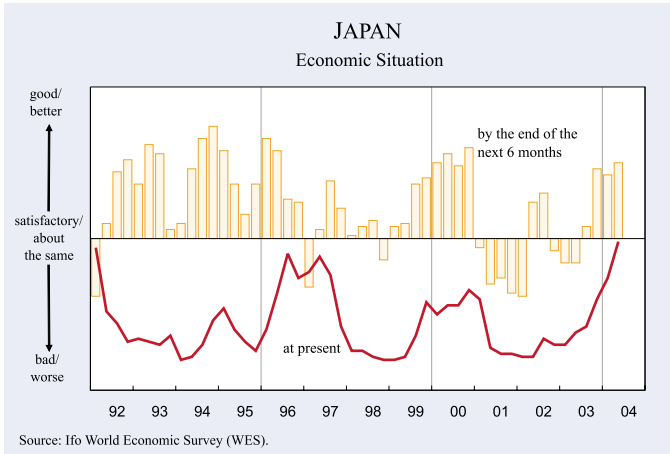


Figure 10

LATIN AMERICA

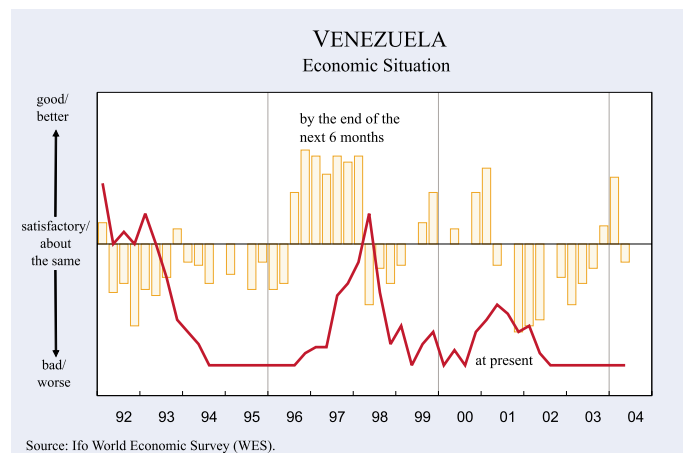
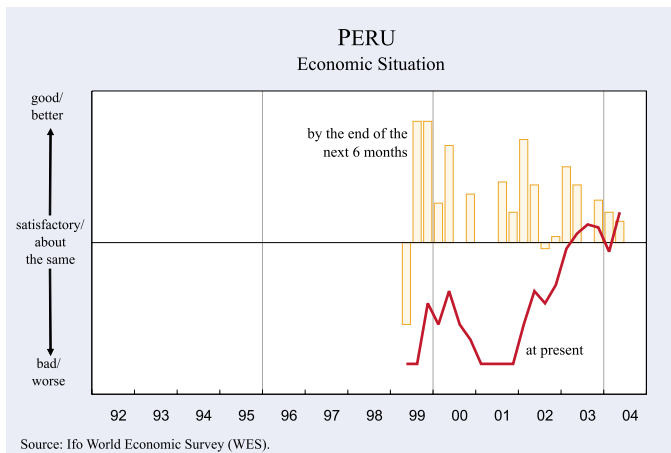
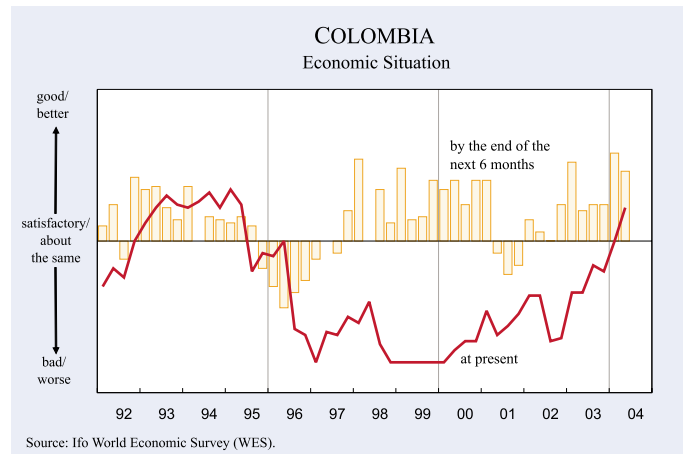
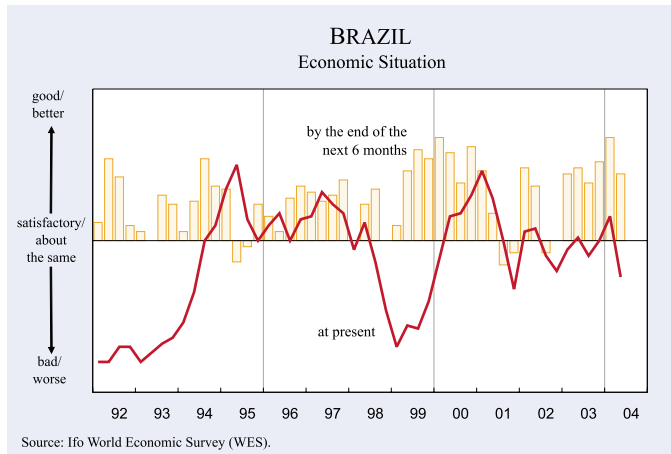
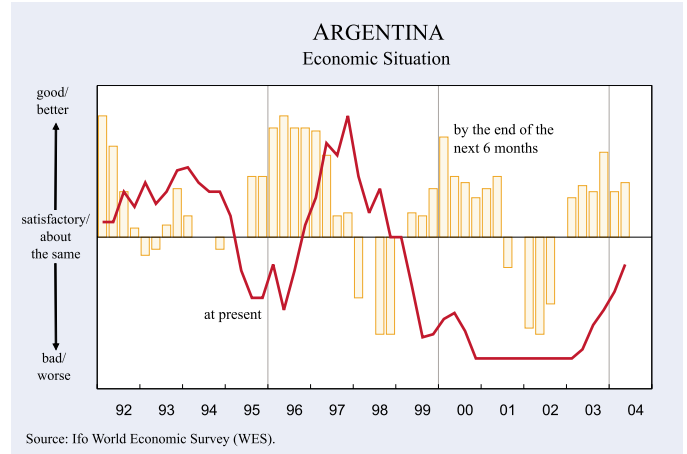
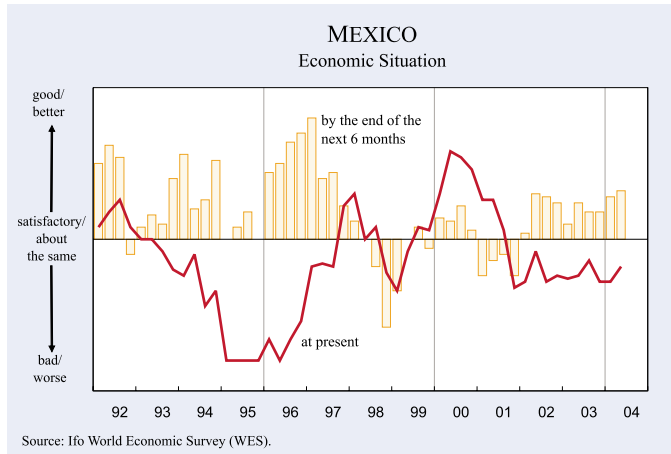
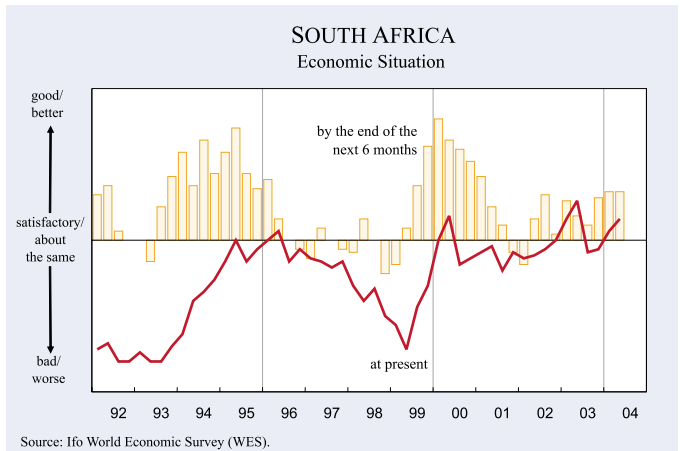
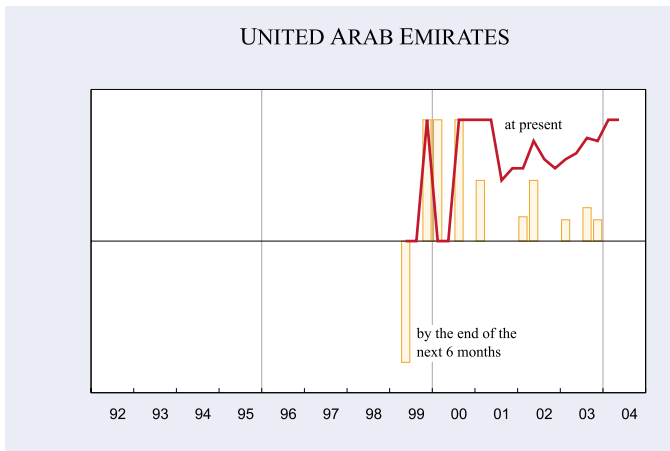
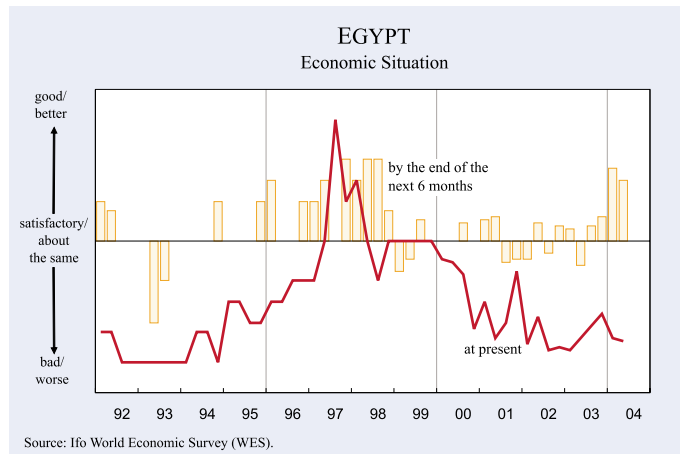
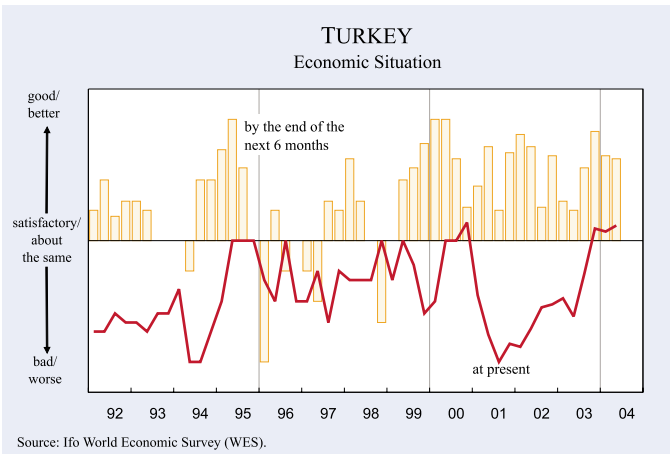
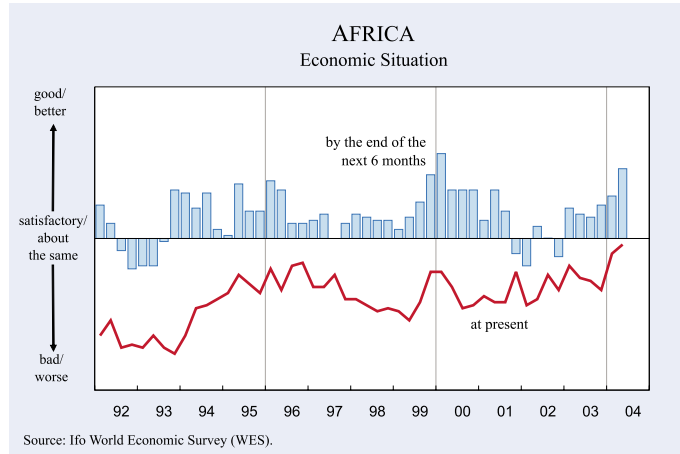
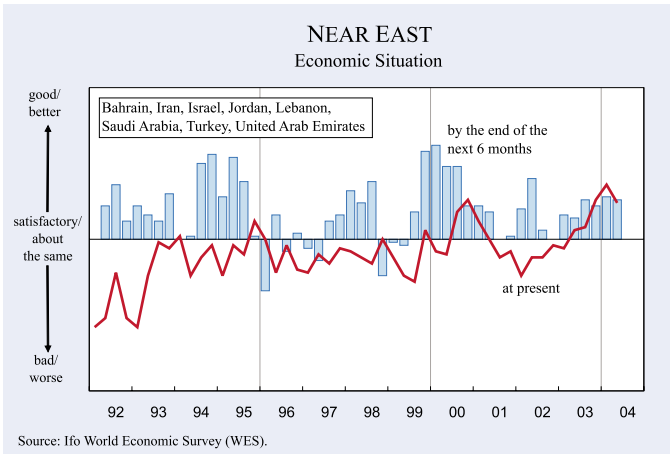


Figure 11

## NEAR EAST AND AFRICA



dents in the other countries are less optimistic concerning the short-term forecasts for both sectors.

### **Near East: Economic climate continues to improve**

The economic climate continues to be highly favourable, for countries covered by WES in the Near East region, on average. Both the assessments of the current economic situation as well as the near-term expectations are positive (see Figure 11).

According to WES indicators, the economy in *Turkey* is rebounding from recession very strongly, beating official and market forecasts. Analysts are confident concerning further economic stabilization. But “public deficits”, “unemployment” and “foreign debts” remain crucial challenges for the near-term future.

The economy in *Israel* is also bouncing back with recent economic indicators showing that a recovery has been underway since the second half of 2003. Hit by impacts of the high tech bubble and the flare up of the *Israel/Palestinian* conflict, the country slid into a recession in late 2000. In 2003, exports began to rise, led by a rebound in the high technology sector, which accounts for about 50 percent of the country’s exports. WES experts project further export growth in the second half of 2004. Also private consumption is expected to pick up and even some rebound in corporate investments is foreseen. Despite the economic turnaround, “unemployment” is ranked as problem number one in the economy. Further economic recovery prospects are closely linked to the peace process in the Near East.

According to the panel’s responses, the current economic situation in *Iran, Kuwait, Saudi Arabia* and *United Arabian Emirates* remained favourable. The forecast for the coming six months points to positive development. In *Bahrain, Jordan* and *Lebanon* the assessments of the economic performance in April were less favourable than in the January survey, slipping below the “satisfactory” level. The less optimistic forecast for *Lebanon* also refers to the capital expenditures sector and private consumption, which are not expected to improve in the course of the coming six months. In contrast, in *Bahrain* and *Jordan* the economic outlook for the coming six months has brightened.

### **Africa: Diverging economic trends predominate**

Diverging economic trends predominate in the economic landscape of the region. While some countries

are in danger of drifting to the margins of the world economy, in particular in the North African region, *South Africa* can look back on ten years of satisfactory economic performance (see Figure 11). Thus, an aggregated climate index for countries surveyed by WES on the continent makes little sense, and the following analysis will focus on the particular economic trends.

In *South Africa* the economy has seen modest but steady growth over the past decade. The economic climate indicator improved three times in succession, with both components – assessment of the present economic situation and the six month economic expectations – pointing upward. The country’s economic performance has been assessed above the “satisfactory” level. Private consumption will remain resilient in the course of the coming six months, but strong appreciation of the rand against the dollar is having a negative impact on the export sector. “Unemployment”, on the one hand, and “lack of skilled labor”, on the other, are seen by WES experts as the most important economic problems in the country, and AIDS remains the most serious social problem, as on the African continent in general.

In contrast, the *Egyptian* economy is facing a major crisis. The government that has been attacked for failure of its economic plans, reintroduced vouchers for basic foodstuffs on May 1 following dramatic increases in prices over the last two years. The bad economic state is reflected in the April assessment of WES experts. The overall economic situation is assessed far below the “satisfactory” level. But optimism prevails in the forecasts for the second half of the year. In *Algeria* the present economic situation has been also assessed as “bad”, but the near term expectations raise hopes for betterment. Not so in *Kenya*, where WES experts don’t expect considerable improvement of the present low economic performance in the coming six months.

### **Inflation will remain moderate**

On average 2.8 percent increase in consumer prices is expected for the world economy in 2004 (see Table 1), which is slightly higher than the January estimate for 2004 (2.7 percent). In the euro area inflation for 2004 is seen to be slightly more benign than at the beginning of the year (1.8 percent compared with 1.9 percent in January 2004). The range of inflation estimates in the euro area is expected to

Table 1

**Expected Inflation Rate on Average of 2004**  
(based on WES QII/2004 and QI/2004)

Region	QII/2004	QI/2004	Region	QII/2004	QI/2004
<b>Average of 91 countries</b>	<b>2.8</b>	<b>2.7</b>	<b>Central a. Latin America</b>	<b>7.1</b>	<b>6.6</b>
<i>World Bank classification:</i>			Argentina	10.1	8.5
High-income countries	1.8	1.8	Bolivia	4.3	3.9
Middle-income countries	5.4	5.3	Brazil	6.7	7.2
Upper-middle	5.0	4.9	Chile	2.1	2.5
Lower-middle	5.8	5.5	Colombia	6.2	6.1
Low-income countries	12.5	10.9	Costa Rica	10.5	8.9
EU countries (old members)	1.8	2.0	Ecuador	4.4	4.9
EU countries (new members) <sup>1</sup>	3.9	4.3	El Salvador	2.4	2.6
Euro area <sup>2</sup>	1.8	1.9	Guatemala	11.0	12.0
Asian Pacific Rim <sup>3</sup>	2.5	2.1	Mexico	4.2	4.2
Arabian OPEC countries <sup>4</sup>	5.3	5.4	Panama	1.3	1.2
<b>Western Europe</b>	<b>1.8</b>	<b>1.9</b>	Paraguay	7.9	8.8
Austria	1.5	1.6	Peru	3.1	2.3
Belgium	1.6	1.6	Trinidad and Tobago	-	5.0
Cyprus	2.9	2.4	Uruguay	8.6	8.0
Denmark	1.6	2.1	Venezuela	31.4	29.4
Finland	1.0	1.4	<b>Asia</b>	<b>2.0</b>	<b>1.6</b>
France	1.9	1.9	Bangladesh	5.0	5.0
Germany	1.3	1.3	China P.R.	3.4	2.0
Greece	3.1	3.3	Hong Kong	0.4	-0.2
Iceland	2.8	2.5	India	5.0	5.3
Ireland	2.0	2.6	Indonesia	6.1	5.9
Italy	2.2	2.5	Japan	0.1	-0.2
Luxembourg	1.8	2.0	Korea	3.7	3.4
Netherlands	1.7	2.0	Malaysia	2.1	2.6
Norway	1.5	2.1	Mongolia	-	7.8
Portugal	2.5	2.7	Pakistan	4.6	4.1
Spain	2.5	2.7	Philippines	4.2	4.4
Sweden	1.5	1.6	Singapore	1.1	1.2
Switzerland	0.6	0.8	Sri Lanka	7.8	8.0
United Kingdom	2.3	2.3	Taiwan	1.3	0.7
<b>Central a. Eastern Europe</b>	<b>4.4</b>	<b>4.9</b>	Thailand	2.4	2.2
Albania	3.9	4.1	Vietnam	5.6	4.7
Bosnia Herzegovina	-	3.0	<b>Near East</b>	<b>5.8</b>	<b>6.2</b>
Bulgaria	5.2	4.1	Bahrain	2.5	1.6
Croatia	2.3	2.6	Iran	18.5	16.7
Czech Republic	2.9	2.8	Israel	1.9	1.7
Estonia	3.7	2.5	Jordan	3.0	1.9
Hungary	6.6	6.9	Kuwait	2.2	2.5
Latvia	5.1	3.6	Lebanon	1.5	2.5
Lithuania	1.7	1.9	Saudi Arabia	1.8	2.0
Poland	1.8	2.3	Turkey	11.5	13.7
Romania	9.6	10.8	United Arab Emirates	3.1	4.2
Serbia a. Montenegro	9.4	5.8	<b>Africa</b>	<b>15.1</b>	<b>12.7</b>
Slovenia	3.9	4.5	Algeria	4.4	5.0
Slovakia	7.2	7.9	Egypt	7.2	8.8
<b>CIS</b>	<b>10.1</b>	<b>9.8</b>	Kenya	7.0	8.8
Georgia	5.0	4.5	Mauritius	-	4.0
Kazakhstan	6.3	6.2	Morocco	2.0	1.9
Russia	10.3	10.7	Nigeria	16.0	12.0
Ukraine	7.9	7.9	South Africa	5.0	4.6
Uzbekistan	30.0	-	Tanzania	4.5	4.0
<b>North America</b>	<b>2.2</b>	<b>2.2</b>	Tunisia	4.6	2.7
Canada	2.0	2.0	Zimbabwe	500.0	550.0
USA	2.3	2.2	<b>Oceania</b>	<b>2.6</b>	<b>2.5</b>
			Australia	2.6	2.6
			New Zealand	2.3	2.0

\* Within each country group the results are weighted according to the share of the specific country's exports and imports in total world average.

<sup>1</sup> Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1. May 2004)

– <sup>2</sup> EU countries without Denmark, Sweden, United Kingdom. – <sup>3</sup> Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore Taiwan, Thailand, Vietnam. – <sup>4</sup> Algeria, Iran, Kuwait, Saudi Arabia. Oatar. United Arab Emirates.

Source: Ifo World Economic Survey (WES), QII/2004.

shrink further; in Ireland where inflation was with 4.0 percent highest within the euro area in 2003 a rate of now only 2.0 percent is expected for 2004, compared with 2.6 percent at the beginning of the year. The lowest inflation rate within the euro area is expected by WES experts this time in Finland (1.0 percent) and no longer by those in Germany (1.3 percent). These low inflation rates in Western Europe will again only be undercut by Switzerland with a rate of 0.6 percent after 0.7 percent in 2003, according to the WES experts.

In the United States a slight pickup of the inflation rate is expected (2.3 percent compared with 2.2 percent at the beginning of the year). But this does not change the overall picture of a still very moderate price climate in the US, with an inflation rate clearly under the 2.5 percent mark that the Federal Reserve (FED) considers acceptable. From this side there appears to be no urgent need for the FED to start the monetary tightening process. A relatively marked upward revision of inflation expectations characterizes Asian countries (2.0 percent compared to 1.6 percent at the beginning of the year). This increase of the Asian average is to a large extent due to China, where inflation is expected to stand at 3.4 percent in 2004 after an expected rise of only 2.0 percent at the beginning of the year. Deflation is obviously no longer a topic bothering the Chinese economy. Also in Japan consumer prices are not expected to shrink any longer (0.1 percent).

This year's inflation in Central and Eastern Europe is now expected to be less strong than according to the survey at the beginning of the year (4.4 percent compared to 4.9 percent in January 2004). In contrast to this overall trend, inflation is expected to pick up in 2004 particularly in Serbia-Montenegro (9.4 percent compared with an expected rate of 5.8 percent at the beginning of the year). Hungary with a presumable inflation rate of 6.6 percent in 2004 – after a price increase of 5.3 percent in 2003 – remains on the high side, though inflation expectations have come down slightly in recent months (from 6.9 percent at the beginning of the year to now 6.6 percent). On the other hand, a slowdown of the inflation appears to be likely this year in Poland (from 2.3 percent expected at the beginning of the year to now only 1.8 percent). In Russia inflation is expected to stabilize at around 10 percent in 2004.

In Central and Latin America inflation is likely to pick up somewhat after a longer period of deceleration (7.1 percent after an expected 6.6 percent at the beginning of the year). The highest inflation rate in this region still persists in Venezuela (31.4 percent after an expected 29.4 percent at the beginning of the year).

Also in Africa inflation is expected to become somewhat stronger in coming months. The average inflation rate for 2004 is now seen at 15.1 percent compared with 12.7 percent expected at the beginning of the year. However, the average for Africa is still distorted by the persisting hyperinflation in Zimbabwe (500 percent); without Zimbabwe the average inflation rate for countries surveyed in Africa is still seen at around 8 percent. In South Africa, the inflation estimate declined from 6.3 percent in 2003 to now 5.0 percent, though the inflation outlook at the beginning of the year was even somewhat more optimistic (4.6 percent).

In the Near East the inflation outlook for 2004 has improved somewhat (expected inflation in 2004 is now 5.8 percent compared with 6.2 percent at the beginning of the year). This trend is particularly pronounced in Turkey where inflation expectations for 2004 declined from 13.7 percent at the beginning of the year to now 11.5 percent. A further decline of the already low inflation is expected in Saudi Arabia (from 2.0 percent to 1.8 percent), in Kuwait (from 2.5 percent to 2.2 percent), in Lebanon (from 2.5 percent to 1.5 percent).

#### **Currency mismatch softens somewhat**

Somewhat less frequently than in the previous surveys, the euro was assessed as overvalued on average of 91 countries. The perceived overvaluation of the euro equals now about attitude towards the British Pound. On the other hand the US dollar – and to a much lesser degree the Japanese yen – were seen by about the same share of WES experts as in the previous survey as undervalued (see Figure 6). This overall pattern of currency assessments characterizes most countries. Noticeable exceptions from this overall pattern are Russia and China, where the own currency is regarded as generally undervalued, i.e. vis-à-vis all four foreign currencies under consideration (US dollar, euro, yen and pound). On the other hand, the own currency was seen generally overvalued in Turkey, South Africa, Egypt and Venezuela.

According to the responses to the supplementary survey question, the US dollar is no longer expected to slip further but to stabilize or increase even slightly vis-à-vis most currencies in the course of the next six months. Exceptions from this general trend are mainly some Asian countries like Japan, Singapore, India and Taiwan – not however mainland China – where the US dollar is expected to lose in value against these countries' currencies; this trend of a weakening US dollar exchange rate also prevails in two Eastern European countries (Estonia and Slovakia).

### **Interest rates: Only moderate rise expected**

Hardly more often than in the previous survey short-term interest rates are expected to start rising in the course of the next six months (see Figure 5). In the euro area the share of WES experts expecting central-bank interest-rate hikes has even declined somewhat; on the average for all euro member countries stable short-term rates are expected for the next six months. In some euro member countries like Ireland, Greece, Spain, the Netherlands and Italy the expectation even prevails that the ECB will cut rates once more in the near future. Outside the euro area a clear upward trend of central bank rates is expected in the United Kingdom, Switzerland and Norway.

In the US the share of experts forecasting a rate hike in coming months stabilized at the level reached at the beginning of the year. In Australia and New Zealand this share leveled off somewhat. In Eastern Europe – as in the euro area – stable short-term interest rates are seen in the coming months, with the exception of Hungary, Slovakia and Slovenia where the downward trend of rates is seen to continue. Also in Russia the expectation of rate cuts prevails. Contrary to these trends a growing tendency of forthcoming rate hikes is expected in Asia, particularly in China, Japan, Vietnam, the Philippines and Taiwan.

In Latin America, sinking short-term rates continue to be expected in Brazil, Colombia and Paraguay, and stable to somewhat rising central-bank interest rates prevail in most other countries of this region. In South Africa the phase of falling central bank rates appears to be over; for the first time since 2002 an increase in rates is expected.

Parallel to the expected increase of short-term interest rates, a trend is also reckoned for higher capital market interest rates though fears of rate increases at the long end have softened somewhat. This is particularly evident in the US but also in the euro area. On the other hand, in Asia the majority of WES experts expect capital market rates to rise in the coming six months. This trend is particularly pronounced in Japan, China, the Philippines, Hong Kong, Vietnam and Taiwan.

### **Overall economic growth in 2004 about 3.4 percent**

On average of all 91 countries included in the survey, real gross domestic product (GDP in constant prices) in 2004 is expected to be 3.4 percent higher than previous year. For comparison: In May last year world wide growth was expected to stand at 2.1 percent. This change in growth expectations underlines the significantly better situation the world economy is currently in. Most pronounced are the higher growth rates in North America, particularly in the US (3.8 percent in 2004 compared with 2.1 percent expected in 2003), in Central and Latin America (3.3 percent in 2004 after 1.5 percent expected in April last year) and in Asia (5.2 percent after expected 3.1 percent in 2003). In Asia the expected pick-up in economic growth is wide-spread; at the lower end of expected growth rates in Asia is Japan with 2.4 percent in 2004, which is nevertheless remarkable after the long period of stagnation. At the upper end are China and India with expected economic growth in 2004 of 8.4 percent and 7.4 percent, respectively. Also in CIS countries growth is an expected to be significantly more buoyant than in 2003 (6.3 percent after expected 4.7 percent in 2003). In Kazakhstan and Georgia growth rates of around 8 percent are expected this year and in Russia of more than 6 percent (see Table 2).

In Western Europe economic growth in 2004 will accelerate somewhat but remain rather moderate (1.9 percent compared with 1.3 percent expected at the same time last year). In Central and Eastern Europe a solid growth rate above 3 percent will be maintained according to WES experts (3.8 percent in 2004 after expected 3.2 percent in 2003). Also in Australia economic growth in 2004 is expected to again surpass the 3 percent bracket. Somewhat stronger than in the overall average, is expected growth in the Near East (4.2 percent after 2.9 percent in 2003) and Africa (3.6 percent after 3.0 percent in 2003).

Table 2

**Expected Growth of Real Gross Domestic Product (GDP) in 2004 and 2003**  
(based on WES QII/2004 and QII/2003)

Region	QII/2004	QII/2003	Region	QII/2004	QII/2003
<b>Average of 91 countries</b>	<b>3.4</b>	<b>2.1</b>	<b>Central a. Latin America</b>	<b>3.3</b>	<b>1.5</b>
<i>World Bank classification:</i>			Argentina	5.9	4.1
High-income countries	2.8	1.6	Bolivia	2.4	2.4
Middle-income countries	5.3	3.1	Brazil	2.9	2.5
Upper-middle	3.8	2.6	Chile	4.3	2.9
Lower-middle	6.3	4.3	Colombia	3.8	2.2
Low-income countries	5.7	6.1	Costa Rica	3.8	2.2
EU countries (old members)	1.9	1.3	Ecuador	4.4	3.0
EU countries (new members) <sup>1</sup>	3.7	-	El Salvador	2.7	2.0
Euro area <sup>2</sup>	1.7	1.2	Mexico	2.6	2.2
Asian Pacific Rim <sup>3</sup>	5.9	3.9	Panama	3.8	1.3
Arabian OPEC countries <sup>4</sup>	4.2	3.1	Paraguay	2.7	2.5
			Peru	3.9	4.2
			Uruguay	5.9	-1.3
			Venezuela	5.1	-13.1
<b>Western Europe</b>	<b>1.9</b>	<b>1.3</b>	<b>Asia</b>	<b>5.2</b>	<b>3.1</b>
Austria	1.7	1.4	Bangladesh	5.3	4.7
Belgium	1.9	1.2	China P.R.	8.4	7.2
Cyprus	3.5	1.9	Hong Kong	5.3	1.4
Denmark	2.1	1.9	India	7.4	5.4
Finland	2.6	1.9	Indonesia	4.3	3.3
France	1.6	1.4	Japan	2.4	0.4
Germany	1.5	0.5	Korea	4.7	4.0
Greece	4.0	3.5	Malaysia	5.7	3.6
Iceland	3.5	3.0	Mongolia	-	0.5
Ireland	3.5	3.0	Pakistan	5.5	4.1
Italy	1.2	1.2	Philippines	4.6	3.9
Luxembourg	2.0	1.2	Singapore	5.4	2.3
Netherlands	1.3	0.8	Sri Lanka	5.5	5.7
Norway	2.5	1.4	Taiwan	4.6	3.0
Portugal	1.0	0.9	Thailand	6.8	4.3
Spain	2.6	2.1	Vietnam	7.2	6.8
Sweden	2.1	1.3	<b>Near East</b>	<b>4.2</b>	<b>2.9</b>
Switzerland	1.5	0.7	Bahrain	6.5	4.0
United Kingdom	3.0	1.9	Iran	4.5	5.5
<b>Central a. Eastern Europe</b>	<b>3.8</b>	<b>3.2</b>	Israel	2.8	0.8
Albania	5.4	3.5	Jordan	4.5	5.0
Bosnia Herzegovina		3.9	Kuwait	3.7	-
Bulgaria	4.3	3.2	Lebanon	2.7	-
Croatia	3.2	2.4	Saudi Arabia	3.3	2.4
Czech Republic	3.0	4.5	Turkey	5.3	4.0
Estonia	5.1	3.4	United Arab Emirates	5.0	2.8
Hungary	3.3	5.2	<b>Africa</b>	<b>3.6</b>	<b>3.0</b>
Latvia	6.3	5.0	Algeria	5.2	4.0
Lithuania	6.8	2.6	Egypt	3.7	1.4
Poland	4.0	4.4	Kenya	2.9	1.8
Romania	4.7	3.2	Mauritius	5.0	-
Serbia a. Montenegro	3.9	4.3	Morocco	3.0	7.6
Slovenia	3.5	3.2	Nigeria	4.0	1.0
Slovakia	4.0	3.5	South Africa	2.7	2.8
<b>CIS</b>	<b>6.3</b>	<b>4.7</b>	Tanzania	5.6	6.0
Georgia	8.0	6.5	Tunisia	4.7	3.0
Kazakhstan	8.5	8.0	Zimbabwe	-7.0	-9.0
Russia	6.5	4.6	<b>Oceania</b>	<b>3.4</b>	<b>3.1</b>
Ukraine	6.3	4.3	Australia	3.5	3.1
Uzbekistan	0.5	-	New Zealand	2.7	3.0
<b>North America</b>	<b>3.6</b>	<b>2.2</b>			
Canada	2.9	2.7			
USA	3.8	2.1			

\* Within each country group the results are weighted according to the share of the specific country's exports and imports in total world average.

<sup>1</sup> Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1. May 2004)

– <sup>2</sup> EU countries without Denmark, Sweden, United Kingdom. – <sup>3</sup> Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore Taiwan, Thailand, Vietnam. – <sup>4</sup> Algeria, Iran, Kuwait, Saudi Arabia, Qatar, United Arab Emirates.

Source: Ifo World Economic Survey (WES), QII/2004.

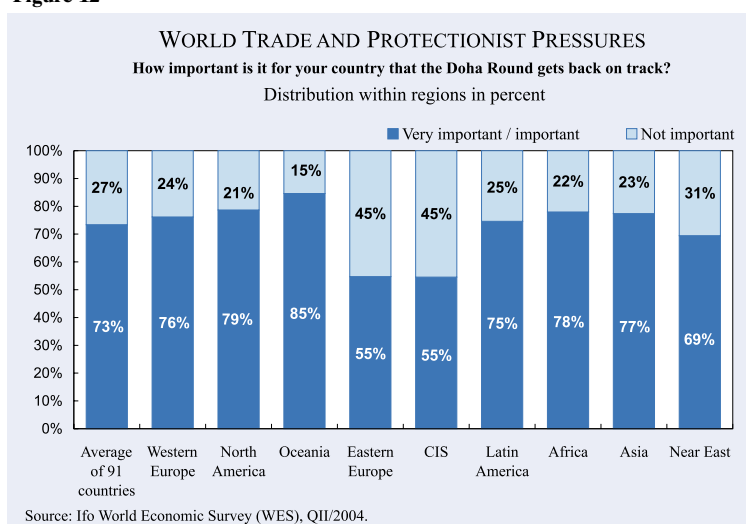


## ICC Special Question: Multilateral Trade Negotiations

The current round of multilateral trade negotiations launched in Doha/Qatar from 9 to 14 November 2001 at the fourth WTO Ministerial Conference has been stalled. Also at the fifth WTO Ministerial Conference in Cancún, Mexico (from 10 to 14 September 2003) participating countries could not come to a mutual agreement. The main objective was to agree upon a “time schedule” for further liberalization of global trade, particularly upon the end-date of export subsidies in developed countries. Negotiations have also been halted because of continuing opposition of at least 70 developing countries to launching negotiations on Singapore issues: creation of new rules on trade facilitation, transparency in government procurement, investments and competition. The decision to prioritize Singapore issues on the agenda delayed discussions on the core agenda of the conference: agriculture. The official deadline for the completion of the multilateral trade negotiations is 1 January, 2005, but some members have expressed doubts about the feasibility of completing talks by that time. Before this deadline, the G8 Summit will occur on June 8–10, 2004 and bring together the leaders of the world’s major industrial democracies: Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, the United States and the European Union to discuss a wide range of international economic, political, and security issues.

The special question asked in the April poll focused on the importance of the multilateral trade negotiations and containment of protectionist pressures worldwide. The question was divided into two parts: The first asked *how important it is to the economy of the respective country that the Doha Round gets back on track*. The second part

Figure 12



dealt with the *assessment of the efforts of the world political leaders to contain protectionist pressures and to promote a better understanding among electorates of the benefits of an open international trade system*.

*How important is it to your business / the economy of your country that the Doha Round gets back on track?*

The vast majority (73 percent) of 1139 WES experts polled in over 90 countries regard the restart of multilateral trade negotiations as important or very important for the economy of their country (see Figure 12). This proportion holds true to all surveyed regions, except CIS and Eastern Europe, where the share of WES participants who do not regard the revitalization of negotiations as important for the economies of their countries (45 percent) is greater than in other regions.

Figure 13



*How satisfied are you with the efforts of the world's political leaders to contain protectionist pressures and to promote a better understanding among electorates of the benefits of an open international trade system?*

The vast majority (74 percent) of experts polled by WES reported that they are dissatisfied with the efforts of the world political leaders to reach fair multilateral agreement (see Figure 13).

Summarizing the results, there is consensus among economists surveyed by WES worldwide, that the multilateral trade negotiations are an important issue and governments are not doing enough to prevent protectionist pressures and to promote an open and fair trade system. Thus, the breaking off of the negotiations does not mean failure of multilateral trade system, but demonstrates that developing countries have strengthened their position and worked in coalitions which enabled them to stand firm on issues of their vital interest. Led by countries such as Brazil, Argentina, India, South Africa and China, developing economies (in total more than 90 countries) acted in unison, as industrial countries, EU and the US did in the past. Increasing polarization may not be exclusively negative, as, at the present, it enables a more balanced negotiation environment with all parts being able to protect their interests. Talks may restart on a new and more constructive basis than in the past, and there are already positive signals towards an open international trade system. The European Commission outlined on May 10, 2004 that it is ready to make further movements in three areas to contribute to the talks: 1) move on export subsidies, provided the EU get full parallelism, 2) new flexibility on Singapore issues: to keep within the Doha Agenda only those for which there is consensus to launch negotiations within the WTO, and 3) further moves in favour of poorest and weakest developing countries: these countries would not be called upon to further open their markets while they would benefit from improved access to other markets for their agricultural and industrial products. It is now up to the other rich and not rich countries to follow. So there is hope that the multilateral trade agreements could proceed, if governments make meaningful concessions on agriculture and the Singapore issues in time for the next conference and come with constructive proposals in hand, listen to the other's needs and be aware of the still uncertain global political climate.

*For more information on the Doha round and WTO please consult to the following websites: European Public Health Alliance, "The Cancun Ministerial conference of the WTO: What went wrong?" at: <http://www.epha.org/a/747>*

*WTO, "Negotiations, implementation and development: the Doha agenda" at: [http://www.wto.org/english/tratop\\_e/dda\\_e/dda\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/dda_e.htm)*

*Website of the European commission on agriculture and international trade relations, "WTO-DDA: EU ready to go the extra mile in three key areas of the talks", 10 May 2004: [http://europa.eu.int/comm/agriculture/external/wto/press/index\\_en.htm](http://europa.eu.int/comm/agriculture/external/wto/press/index_en.htm)*



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