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CESifo WORLD ECONOMIC SURVEY

VOLUME 4, No. 1

FEBRUARY 2005

WORLD ECONOMIC CLIMATE

World Economic Climate is softening

ECONOMIC EXPECTATIONS

Current economic situation and economic expectations have been downgraded somewhat

INFLATION

No pick-up expected in 2005

INTEREST RATES

Trend of rising interest rates is expected to slow down

CURRENCIES

US dollar seen as clearly undervalued

SPECIAL TOPIC

Increased international co-operation on the protection of intellectual property rights required

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Ifo World Economic Survey

Regions

- World economy: Economy is softening
- Western Europe: Economic performance remains sluggish
- North America: US still the driving force in the world economy
- Eastern Europe: Further economic stabilization
- CIS: Economic climate index deteriorates
- Asia: Subdued soft-landing
- Oceania: Moderate cooling-down expected
- Latin America: Economic rebound continues
- Near East: Economic situation remains favourable
- Africa: Economic stabilization in South Africa

Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide on current economic developments in their respective countries. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In January 2005 some 1,131 economic experts in 90 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).

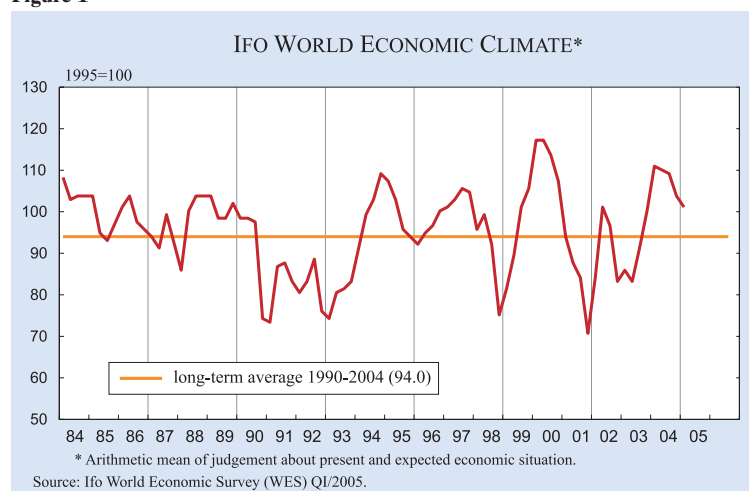
WORLD ECONOMIC CLIMATE ENTERS A COOLING-DOWN PHASE

In January 2005 the World Economic Climate slightly deteriorated for the fourth time in succession since April (see Figure 1). Both components of the economic climate index – current economic situation and expectations for the coming six months – have been downgraded somewhat (see Figure 2). However, the climate indicator, at 101.1 (after 103.8 in October 2004; 1995=100), is still higher than its long-term average (1990–2004: 94.0).

World economy is softening

The steep path of global economic growth over the last two years was part of a cyclical recovery that reached its peak in mid 2004 (see Box 1). By the end of 2004 the economic cycle had already entered a cooling-down phase. According to the latest WES results, growth is expected to slow down further in the coming months. However, though assessments of the current economic situation as well as economic expectations for the first half of 2005 have been slightly downgraded by experts surveyed in January, the change is not expected to result in a strong downturn. Most determinants of the short-term prospects remain positive. However, further downward risks remain, e.g. possible disruption in oil supplies as result of terrorism in an oil-producing country in the Near East. Nevertheless, a soft-landing of the economic climate index is seen by surveyed experts to be the most likely scenario for 2005.

Figure 1



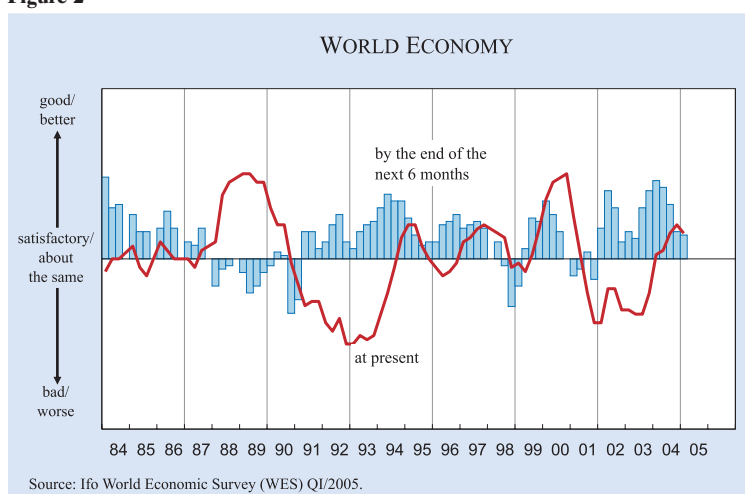
By region, growth in Asia and Latin America was last year the fastest for more than two decades and will remain robust also in 2005. Among the other economies, economic performance in 2004 was more varied: growth was strong in North America, moderate in Japan and remained weak in Europe. In 2005 these trends will continue in a slightly softened way in all three cases. Economic regions like the euro area and Japan will have to live with a rise of their currencies vis-a-vis the US dollar, making their exports less competitive compared to the US goods and the US economy will face rising interest rates and less expansionary fiscal policy bringing new challenges to keep up economic growth.

Western Europe: Economic performance remains sluggish

The overall economic climate indicator slipped in January for the second time in succession (see Figure 3 and Box 2). The assessments of the present economic situation have fallen slightly below the satisfactory mark, on average for all Western European countries. Also the economic expectations for the coming six months have been slightly downgraded but remained generally positive (see Figure 4). This pattern also holds true for the majority of countries of the euro area. However, in *Belgium, Finland, Spain and Greece* surveyed experts assessed the present economic state somewhat better than in the

October survey. The best marks for the current economic performance in the euro area were again given by experts surveyed in *Ireland and Finland* (see Figure 7a/b). The lowest marks for the present economic situation were given by experts in *Portugal, Italy and the Netherlands*. Though *Germany's* economy experienced an upturn in 2004 thanks to strong exports and the world economic recovery, its present economic situation is assessed once again as below satisfactory. An important

Figure 2



aspect for the lagging economy in the euro zone is the euro's 50 percent appreciation against the dollar over the past three years, as the cheaper dollar makes European goods more expensive in global export markets. For 2005 experts in the euro zone are expecting the export sector to develop less dynamically than in 2004. But the exchange rate is not the only dampening factor. Unemployment and

Also, the *United Kingdom's* economy has begun 2005 on course to continue its period of growth, with low inflation and interest rates, and the government continuing to meet its fiscal goals. The current economic situation in the *UK* has been assessed as highly satisfactory by WES experts. The economic expectations for the next six months point to further stabilization. Also in

weak private consumption are the other problem areas. However, surveyed experts see a bettering in both aspects for the first half of 2005.

The economic climate in the Nordic countries outside the euro area (*Denmark, Sweden, Norway and Iceland*) remained very favourable. The assessments of the present economic situation continued to improve in *Denmark* and *Norway* and have been slightly downgraded in *Sweden*, though remaining far above the satisfactory level.

Switzerland, the economic recovery continues to gain momentum, according to the January survey.

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 January results are based on the responses of 1,131 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).

According to the latest results of the Ifo World Economic Survey, the world economy will slow down in the first half of 2005 (see Figure). At a level of 101.1 (1995=100) the indicator is still above its long-term average of 94.0. Both the expectations for the coming six months as well as the appraisals of the current situation have weakened somewhat. However, the assessments of the current situation have worsened for the first time in five quarters. The decline in still positive expectations continued, albeit at a weaker pace. This constellation is not indicative of an economic downturn but merely of a temporary growth slowdown in the world economy.

North America: Still the driving force in the world economy

According to the latest survey results, the economic climate indicator in North America has improved in January (see Figures 3), due to higher marks for the present economic situation in the *US*. The country's economy is still fairly strong despite the slip-page in business sentiments in the preceding October poll. However, the economic expectations for the coming six months have been downgraded again, reflecting that business confidence remains weakened though no sharp downturn is expected. Concerns persist that the rising interest rates and oil prices combined with federal budget deficits and fears of expanded military

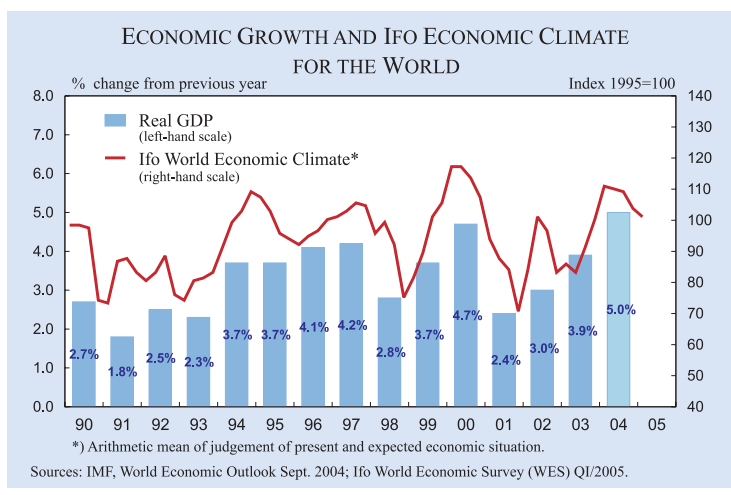
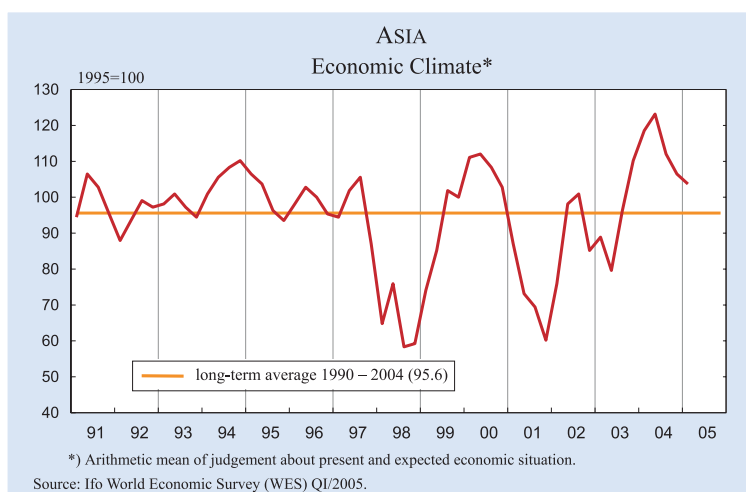
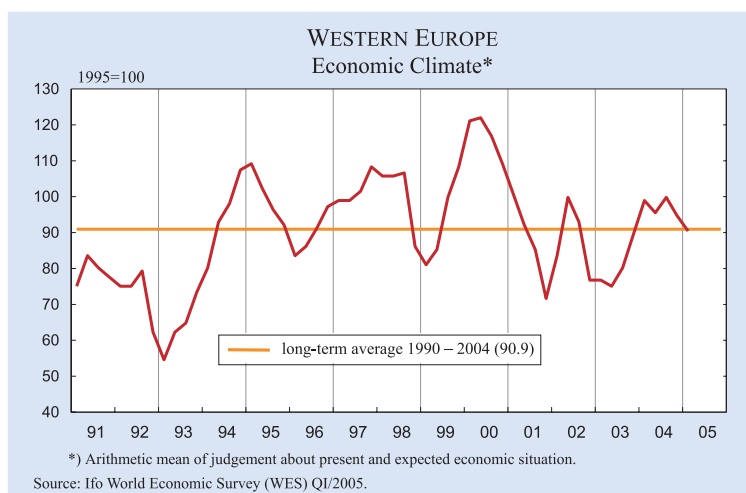
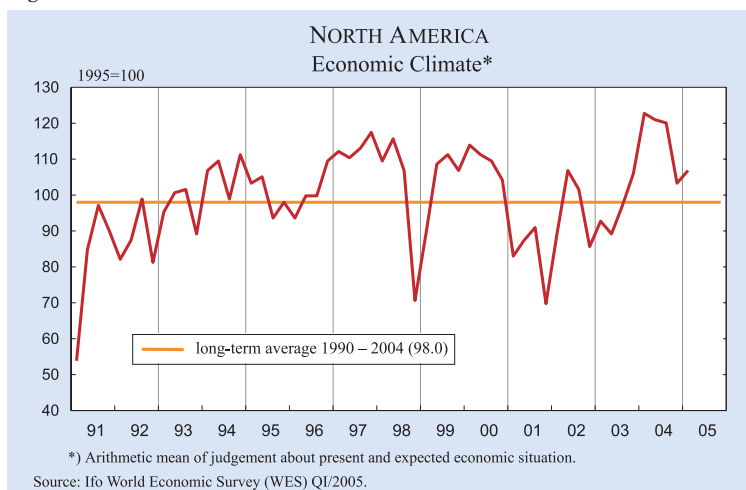


Figure 3



activity in the Near East may slow the US economy in 2005.

In *Canada* both components of the economic climate index have deteriorated. However, the assessments of the current economic situation remain favourable. Economic expectations, though slightly downgraded, are still generally positive.

Eastern Europe: Further economic stabilization

The sluggish Western European economic performance has evidently had no far-reaching effect on its neighbors, particularly in Central and Eastern Europe. According to the January survey, the overall economic climate index followed its positive trend, with the assessments of the current economic situation continuing to improve and economic expectations for the coming six months pointing upward (see Figure 4). The general present economic conditions as well as business sentiments are regarded as positive, on average of Eastern Europe.

As already in the October survey, the assessments of the present economic situation in almost all new EU countries – *Czech Republic, Cyprus, Estonia, Latvia, Lithuania, Poland, Slovenia and Slovakia* – were above the satisfactory level in January. The present economic performance has considerably improved also in *Hungary*, though the satisfactory level has not yet been reached, according to WES experts. The forecasts for the coming six months remained positive throughout. The strongest economies in the region, according to WES experts, are *Estonia, Poland, the Czech Republic and Slovenia*. The surveyed economists remained optimistic about the near-term future. Particularly, the capital expenditures and

exports are expected to boost the overall economic expansion in the coming six months.

Also in Eastern European countries outside the EU, economic trends observed in January are generally positive. The economic climate is particularly favourable, according to WES experts, in *Bulgaria and Croatia*. Also in *Romania, Albania, Bosnia*

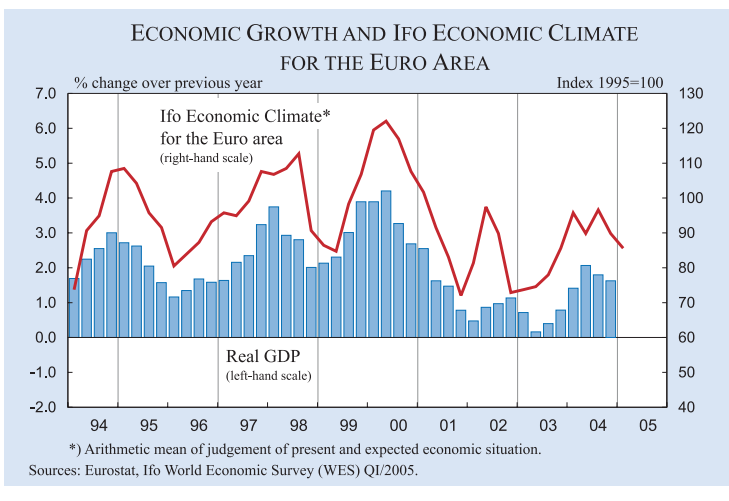
Box 2

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 January results are based on the responses of 325 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 latest Ifo World Economic Survey indicates that the economic climate in the euro area has worsened in the first quarter of 2005 vis-à-vis the fourth quarter of 2004: The assessments of the present economic situation were less favourable than in the October 2004 survey. The expectations regarding the economic development over the coming six months remained positive, however. These results indicate a moderate weakening of the economy in the first half of 2005.

Within the euro area the current economic situation was again most favourably assessed in Ireland and Finland. The worst appraisals from the surveyed experts again came from Portugal, the Netherlands, Italy and Germany. In all euro countries with the exception of Greece and Spain an improvement in the economy is expected in the course of the coming six months. Export expectations are not as high as before, not least because the surveyed experts anticipate that the euro will gain further in value vis-à-vis the US dollar.



Herzegovina and *Serbia-Montenegro* the present economic performance is rated “satisfactory” or above. The outlook for the next six months points to a continuation of the economic revival.

CIS: Moderate economic slowdown expected

According to preliminary official figures *Russia's* economy grew at about 7 percent in 2004, benefiting from the rising prices for oil, gas and metals. In the beginning of 2005 the economic climate in *Russia* deteriorated somewhat, according to the recent WES results. The present economic situation is judged less favorably than in the preceding October survey. Also the economic expectations, though remaining positive, have been slightly downgraded. Economic growth is expected to slow in 2005, partly due to constraints on oil export capacity. This implies that for achieving sustainable growth, *Russia's* econ-

omy needs restructuring away from its dependence on energy resources. At the present, investors are still suspicious about the country's corporate governance and President Vladimir Putin's commitment to reforms.

Less positive signals than in the October survey have also been reported from the *Ukraine*. The present economic situation has been described by WES experts as slightly below satisfactory; but the prospects for the coming six months have been upgraded here and are now displaying optimism. Yushchenko, the new President, wants EU membership talks to start in 2007 and thus there is more confidence among panelists that *Ukraine* is now on course towards becoming a full-fledged democracy and market economy.

Very positive marks for the present economic performance were given by experts in *Kazakhstan*. The economy grew at about 9 percent in 2004, making the Central Asian country one of the fastest growing

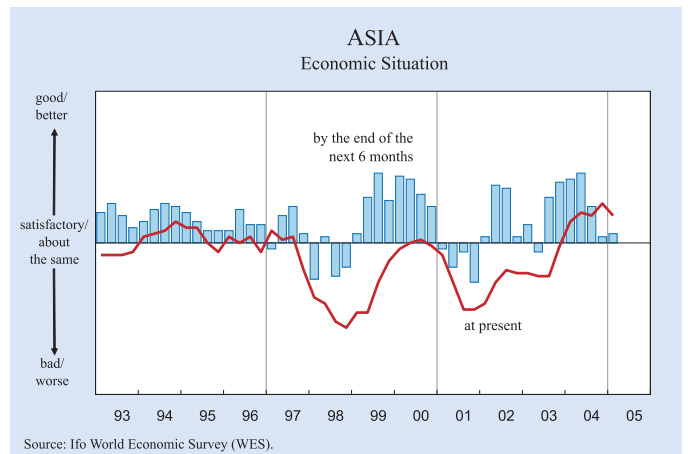
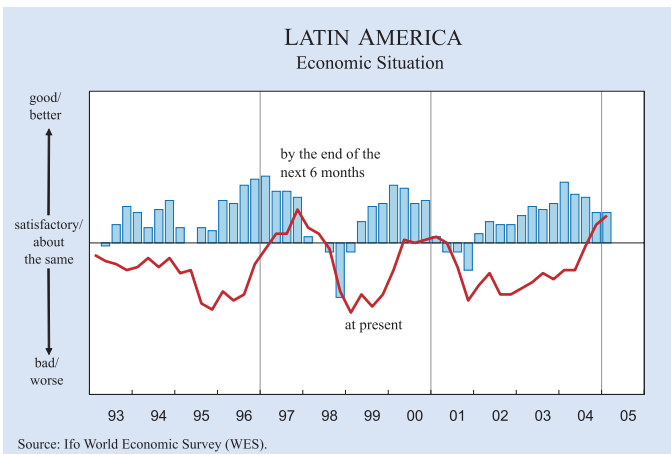
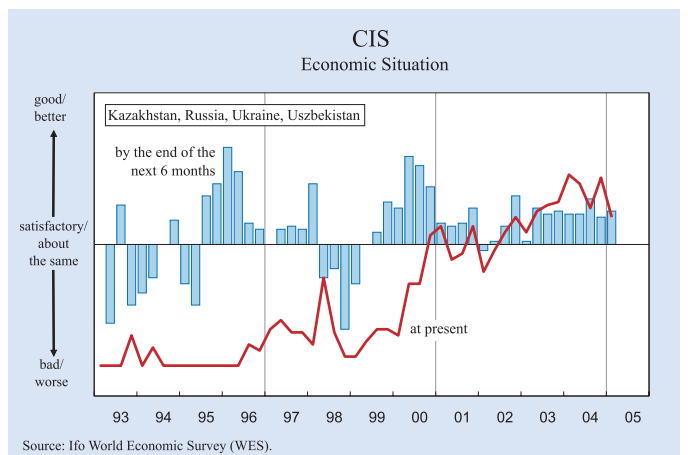
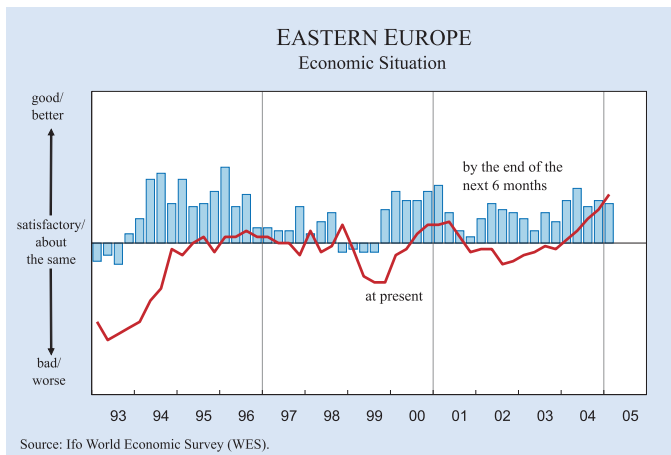
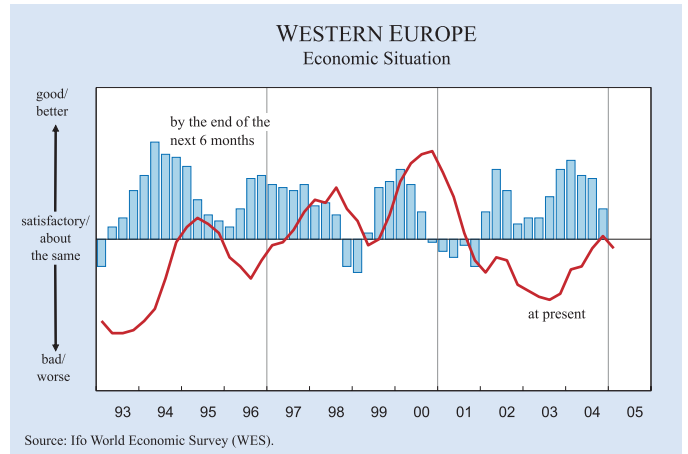
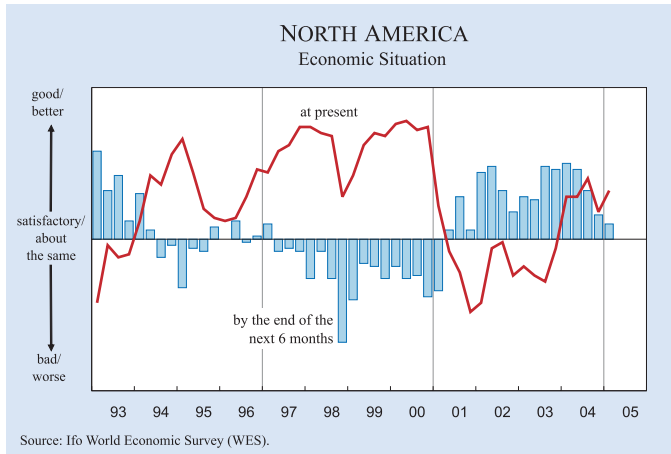
economies in the CIS. The current situation is judged at a highly favourable level and is expected to improve further in the course of the next six months. Similarly to *Russia*, much of the growth has been fueled by oil production. The extraction of natural resources remains the most attractive sector for investors and the main driving force for exports. However, other sectors are also emerging and the favorable general economic outlook includes higher corporate activity outside the oil sector as well as growth in private consumption.

Asia: Economic soft-landing

Asia was the most rapidly growing economic region in 2004, largely driven by *China's* and *India's* economic expansions, making the Western economies increasingly dependent on their Southeast Asian counterparts. In January, the economic climate index in Asia deteriorated slightly for the third time in suc-

Figure 4

SELECTED REGIONS



Box 3
The Aftermath of the Tsunami Disaster

In the last days of 2004 one of the most devastating natural disasters in modern history has affected at least seven countries of the Asian region. While, given the costs in human life that are appalling by any measure, the damage of the tsunamis on the economy of the affected countries may be a secondary question, it is nevertheless important to try to assess the costs of the disaster for the survivors. WES experts in Asia were asked to give an assessment of the aftermath of the tsunami disaster in their country.

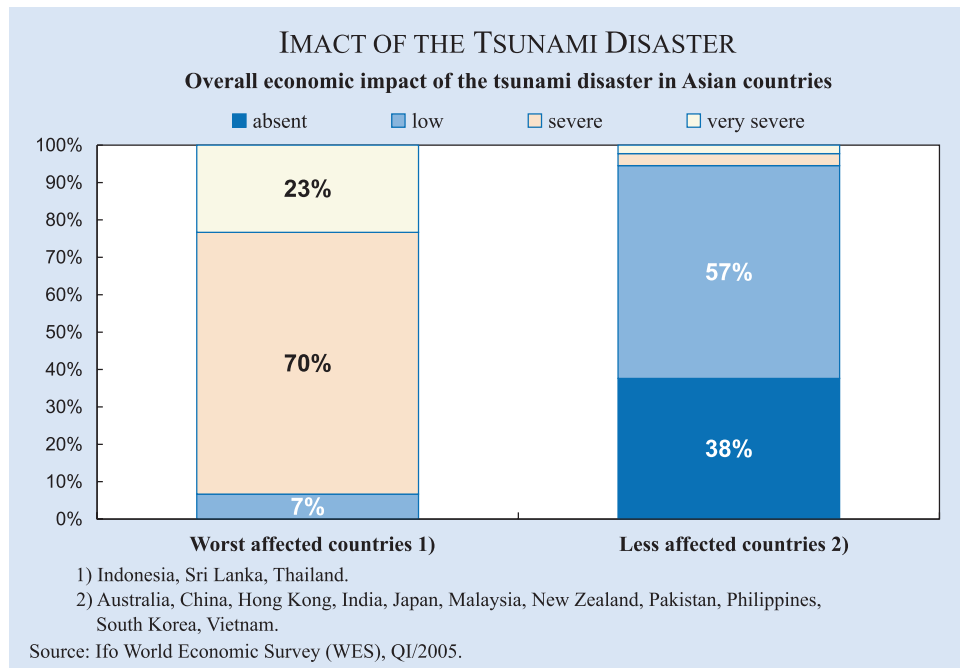
Human Losses: The number of people dead and missing from the Indian Ocean tsunami is now estimated at approximately 300,000, according to the latest UN figures. Millions of people displaced, without food, clothes and shelter and jobs. The worst affected countries in this respect include *Sri Lanka, Indonesia, Thailand and Maldives*.

Environmental damage: A UN assessment shows that *Indonesia* faces a massive loss of livelihoods with the destruction of about 40,000 hectares of rice paddies and 70 % of the fishing industry. Agricultural land in the affected areas may take years to recover from the sea water flood. The massive flooding by sea water has also damaged water supplies.

Psychological trauma: In *Indonesia, Sri Lanka and Thailand*, but also in less affected countries as *India and Hong Kong*, surveyed experts assessed the emotional and psychological trauma from the disaster as severe or very severe.

Economic cost: Most of the victims belong to the poorest of the world economy and also of their national economies. This is the reason, why except for *Indonesia and Sri Lanka*, WES economists say that the overall economic impact will be small, as the tsunamis did not destroy any major industrial, commercial and port facilities. For *Sri Lanka*, the Asian Development Bank, the Japan Bank for International Cooperation and the World Bank joint assessment, indicates that economic damage from the tsunami equaled 4.4 percent of GDP.

Political instability: The expectation is that the political impact of the regional disaster will be low.



cession (see Figure 3). The assessments of the current economic situation have deteriorated somewhat, on average for the Asian countries surveyed by WES, mostly reflecting an economic cooling-down in *Japan*. However, economic expectations for the first half of 2005 point to an only moderate slowdown of economic growth. The December 26 earthquake and the giant tsunami that shattered coastal regions in 11 Asian countries, killing some 250,000 people and leaving millions homeless, has caused little major damage to the economic infrastructure of the affected countries, while the costs in human life remain, of course, appalling by any measure (see Box 3).

The economic recovery in *Japan*, the world's second largest economy, appears to be losing momentum,

according to WES experts. A further appreciation of the yen against the dollar poses a downside risk, making it difficult to keep Japanese exports attractive on the global market. The *Chinese* economy was also expected to achieve a soft-landing in 2005. But as it seems, there has been no landing at all, as the assessments of WES experts polled in the country in January are more positive than in the October survey, reflecting that optimism has the upper hand. But economic near-term expectations remain subdued, signaling concerns that slowing global growth may reduce demand for goods made in *China*. Nevertheless, *China's* long-term prospects remain very promising. Particularly consumer spending is expected to continue benefiting from the country's

economic growth. Closely related to the economic growth of the *Chinese* mainland are the business sentiments in *Hong Kong*, where private consumption and investment in fixed assets gave momentum to economic growth last year and are predicted to remain strong, though to a slightly lesser degree than in 2004. Also *India* will again record healthy economic performance this year, according to WES experts. The overall economic situation was assessed considerably above satisfactory. The outlook for the coming six months is generally positive and implies further growth of corporate activity and private consumption.

In *Malaysia*, *Singapore* and *Taiwan* the assessments of the present economic situation, though slightly deteriorated, remained far above the satisfactory level. *Thailand* major tourist areas were severely affected by the tsunami. However, the assessments of the present economic situation here even improved somewhat from an already favourable level of the October survey. From an economic point of view, the impact of the tsunami on *Indonesia* is also limited, since the Aceh province contributes only 2.1 percent of *Indonesia's* GDP and its oil and gas production industries have not been affected. But the country's tourism industry has been strongly hit again, though experts expect that the region's tourism will recover faster than after the Bali bombings in 2002 and the SARS outbreak in 2003. Production and international trade flows were not affected in these countries as manufacturing production facilities and major ports weren't damaged and economic expectations for the first half of 2005 remain generally positive.

Oceania: A moderate cooling-down expected

According to the January survey the assessments of the present economic situation in *Australia* have been slightly downgraded, after having reached an all-time high in October 2004. The forecast for the next six months points to a moderate cooling-down phase. However, *Australia* is expected to remain at the forefront of developed economies concerning the success of structural reforms and macroeconomic management.

In *New Zealand*, the assessments of the current economic situation have been considerably upgraded again. The general outlook remains positive for the first half of 2005. High commodity prices of predom-

inately agricultural products have eased in *New Zealand* the negative influence of the country's strong currency on exports.

Latin America: Economic rebound continues

According to the latest WES results, the assessments of the present economic situation continue to improve, in all surveyed countries of the region without exception. Economic expectations are pointing to further stabilization in 2005 (see Figure 4). Further strengthening in imports and exports is expected to support economic growth in Latin America. Private consumption and capital expenditures are also forecast to boost further in the coming six months.

Except for *Costa Rica* and *Paraguay*, where the assessments of the present economic situation have not yet reached the satisfactory level, all countries have contributed to the improvement of the economic climate in the region. *Chile* again topped the list of expanding economies. The present economic situation is regarded as highly satisfactory and experts are confident that the country's economy will grow further in the coming months. In the three major regional economies, *Brazil*, *Argentina* and *Mexico*, WES experts also reported an improvement of the current economic situation. Economic expectations for the coming six months, though slightly downgraded, point to further stabilization (see Figure 10). Particularly, *Brazil's* economic performance is surpassing economists' forecasts, as President Lula da Silva has implemented enormous structural reforms since coming to power in January, 2003. But also *Argentina's* economy is making considerable progress, according to surveyed economists. *Venezuela's* economic performance has also become noticeably better, with assessments of the present economic situation approaching the satisfactory level and economic expectations for the first half of 2005 being, except for the export sector, generally optimistic. For the coming six months experts forecast a decrease in exports. One reason may be that *Venezuela*, the world's fifth-largest producer of oil and a major supplier to the United States, is planning to reduce its dependence on the United States as the main consumer of its oil.

Near East: Economic situation remains favourable

The economic situation in the Near East region has further improved and continues to be highly

favourable in all countries covered by WES. However, the near-term prospects for the first half of 2005 have been slightly downgraded resulting in a lower value of the economic climate index (see Figure 11).

The highest marks of business confidence were again given by experts surveyed in the *United Arab Emirates*, *Saudi Arabia*, *Bahrain* and *Kuwait*, followed by *Lebanon*, *Iran* and *Jordan*. The prospects for further economic stabilisation are, except in *Iran*, very bright.

According to the January WES results, the economic climate in *Israel* further improved. Both components of the climate index – present economic situation as well as economic expectations for the next six months – received very positive marks. *Turkey's* GDP expanded by about 10 percent in 2004, making it's economy one of the world's fastest-growing. Much of the GDP growth is due to rising productivity and corporate investment that are expected to strengthen further. In 2005 the country's economy will remain on the strong stabilization course that it set in 2002, according to WES experts polled in January.

Africa: Diverging economic trends

Africa remains a region with very diverging economic trends. Thus, an aggregated climate index for countries surveyed by WES on this continent makes little sense, and the following analysis will focus on particular economic trends in individual countries.

In *South Africa*, the present economic situation in January was assessed as above satisfactory, though to a slightly lesser degree than in the preceding October survey. The near-term forecast remains strong, with further increase in private consumption and capital expenditures.

According to WES experts, *Egypt's* economy, which faced a major crisis in the first half of 2004, has strengthened again and is expected to remain on a recovery course in 2005, thanks to further growth in tourism, food, cement and textile exports. In *Algeria* the present economic situation also received better marks by surveyed experts than in the October survey and economic expectations for the coming six months point to further improvement. In *Morocco* and *Tunisia* experts surveyed by WES again assessed

the present economic performance as satisfactory. A similarly favourable economic climate was reported in *Mauritius* und *Tanzania*. But a less positive picture was drawn by economists in *Kenya* and *Nigeria*, where the current economic situation was rated as below the satisfactory level, and no major changes are foreseen for the coming six months.

Inflation: no pick-up expected in 2005

On a worldwide average, consumer price inflation (CPI) in 2005 is expected to stay at 2.8 percent and thus will even be slightly lower than in 2004 (2.9 percent).

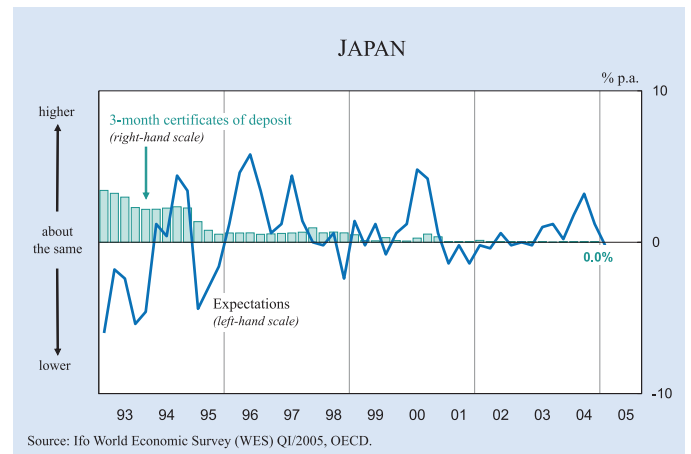
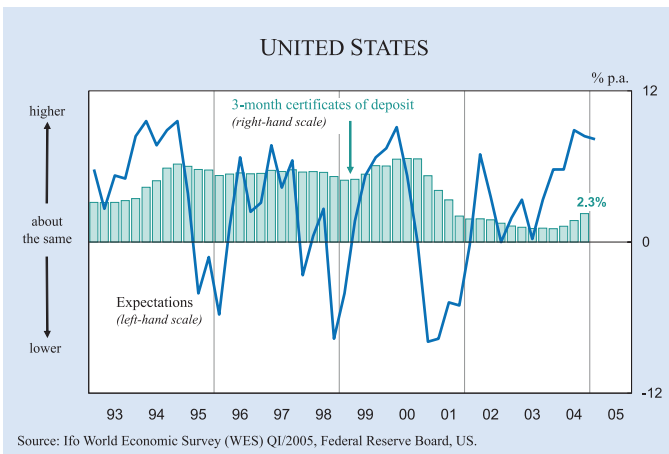
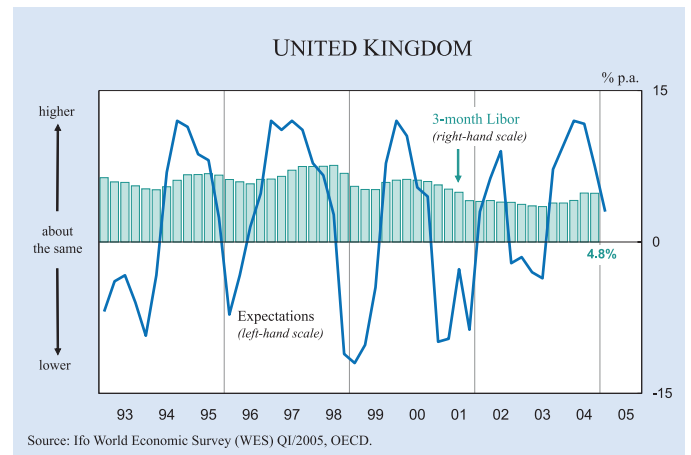
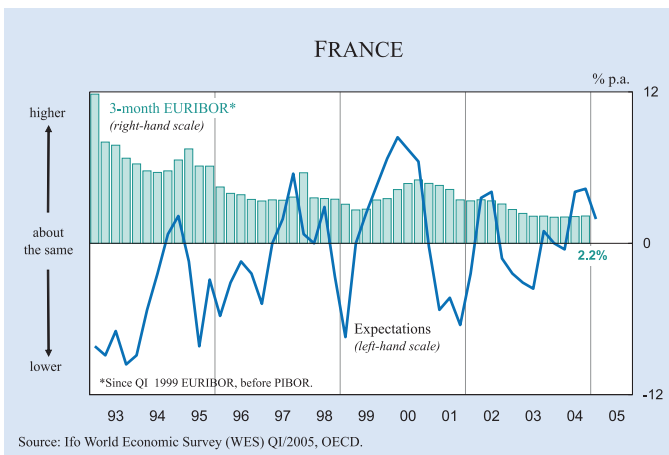
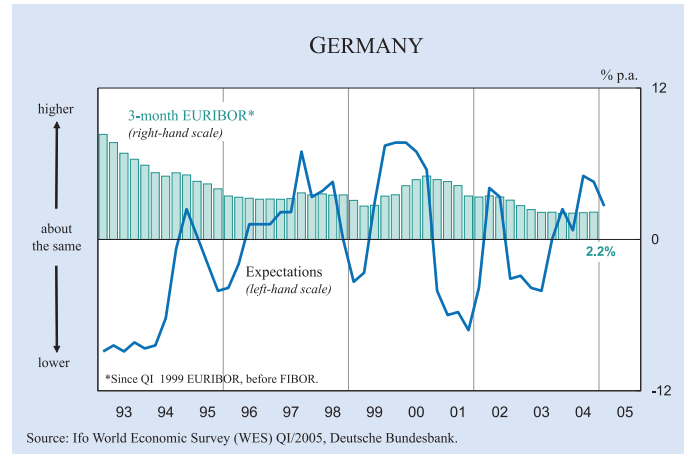
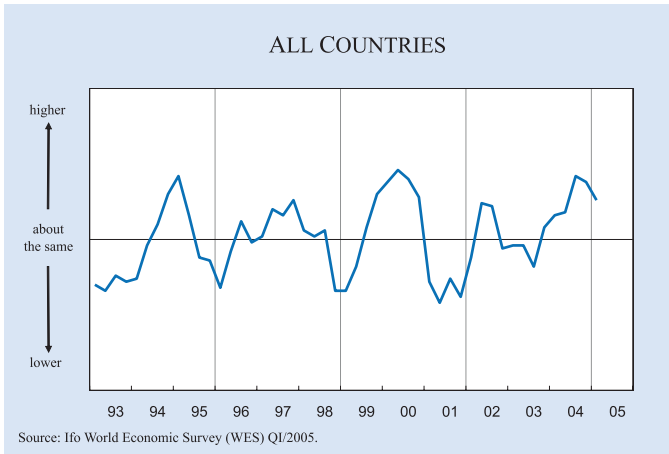
In the euro area the inflation outlook for 2005 matches with the 2004 inflation rate (2.0 percent). As in 2004 the worst inflation performance in the euro area in 2005 will again be in Greece and Spain (3.2 percent respectively 3.1 percent). The lowest inflation rates are expected in the Netherlands (1.5 percent), Germany (1.6 percent) and Finland (1.7 percent). In Western Europe outside the euro area expectation for low inflation rates in 2005 also prevail in Switzerland (1.2 percent), Norway (1.3 percent) and Sweden (1.5 percent). In the United Kingdom, the inflation rate in 2005 will be very close to the euro area figure (2.1 percent compared with 2.0 percent).

In the United States inflation in 2005 is expected to edge up somewhat, probably caused by the weaker US dollar, which will make imported goods more expensive in dollar terms. However, with an expected CPI figure of 2.7 percent in 2005, US inflation will only be marginally above the 2.5 percent mark that the Fed considers still acceptable.

In Asia consumer price inflation is expected to slow down somewhat (from 2.6 percent in 2004 to 2.4 percent in 2005). The expected weakening of inflation is particularly pronounced in China (from 4.8 percent to 4.1 percent in 2005) and in India (from 7.0 percent to 6.2 percent in 2005). Exceptions from this downward trend of inflation are countries like Pakistan (increase from 6.8 percent in 2004 to 8.0 percent in 2005), the Philippines (from 5.5 percent to 6.9 percent in 2005) and Sri Lanka (from 8.0 percent to 10.5 percent in 2005). In Hong Kong the deflationary period appears to be over, with consumer prices expected to rise by about 1.5 percent in 2005 after a further decline in 2004 by – 0.2 percent. Also in

Figure 5

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



Japan, deflation appears to have come to an end, though consumer prices are seen as hardly rising (expected increase of 0.1 percent in 2005 after an increase of 0.2 percent in 2004).

In Central and Eastern Europe inflation is expected to slow down somewhat (from 5.1 percent to 4.3 percent in 2005). Diverging from the average, inflation is expected to pick up further in Serbia and Montenegro (from 10.3 percent to 12.0 percent in 2005). In Croatia, Lithuania and Bosnia Herzegovina, inflation will also rise in 2005, but will still remain very moderate (2.5 percent or slightly lower).

In the CIS countries inflation in 2005 is seen at 10.0 percent after 10.8 percent in 2004. Some progress in bringing down inflation is expected both in Russia (from 11.2 percent in 2004 to 10.3 percent in 2005) and in the Ukraine (from 11.5 percent to 10.5 percent in 2005). In Kazakhstan the inflation rate in 2005 will remain almost unchanged, according to the WES expert's (6.8 percent in 2005 after 6.6 percent in 2004).

In Central and Latin America inflation in 2005 is expected to pick up somewhat (from 5.8 percent in 2004 to 6.4 percent in 2005). This is mainly due to Argentina where inflation is likely to climb to 8.4 percent in 2005 after 6.0 percent in 2004 according to WES expert's view. In Brazil – on the other hand – inflation is seen to slow down somewhat (from 7.1 percent in 2004 to 6.2 percent in 2005). The lowest inflation rates in the region prevail also in 2005 in Panama (1.3 percent), Chile (2.4 percent), Ecuador (2.4 percent) and Peru (3.1 percent). By far the highest inflation rate in the region will be recorded again in Venezuela (unchanged from 2004: 22 percent).

In Africa, the expected progress in bringing down the average inflation rate of these continent is mainly due to some weakening of the hyperinflation in Zimbabwe (from 300 percent in 2004 to 170 percent in 2005). In most other countries in the region, inflation is expected to creep up somewhat in 2005 (e.g South Africa from 3.9 percent to 4.6 percent in 2005; Algeria from 3.8 percent to 4.6 percent, Egypt from 5.0 percent to 7.0 percent and Kenya from 8.1 percent to

11.0 percent). Exceptions from this upward trend are Morocco (expected rate of 1.8 percent in 2005 after 3.0 percent in 2004) and Mauritius (expected rate of 5.2 percent in 2005 after 6.5 percent in 2004). In Tunisia inflation will remain contained with an expected 2.7 percent in 2005 after 2.5 percent in 2004.

In the Near East the expected slowdown of inflation in 2005 will be relatively widespread. It is particularly pronounced in Turkey (from 11.1 percent to 8.6 percent in 2005), the Lebanon (from 3.5 to 2.5 percent in 2005) and the United Arab Emirates (from 4.6 percent to 3.7 percent in 2005). An exception of this downward trend of inflation is Iran, where CPI is expected to be around 20 percent in 2005 after 16.7 percent in 2004.

In Oceania – both in Australia and New Zealand – in 2005 an inflation rate of 2.6 percent is expected. Compared with the 2004 inflation outcome, this would mean some improvement in Australia (2004: 2.9 percent) and a slight deterioration in New Zealand (2004: 2.4 percent).

US dollar seen as clearly undervalued

More than in the preceding two surveys the US dollar was regarded as undervalued vis-à-vis the average of the other currencies covered in the survey. On the other hand, the euro and the British pound continue to appear to be clearly overvalued and the Japanese yen to be more or less fairly assessed. This overall picture characterises the assessments in most countries. Noticeable exceptions from this general

Figure 6

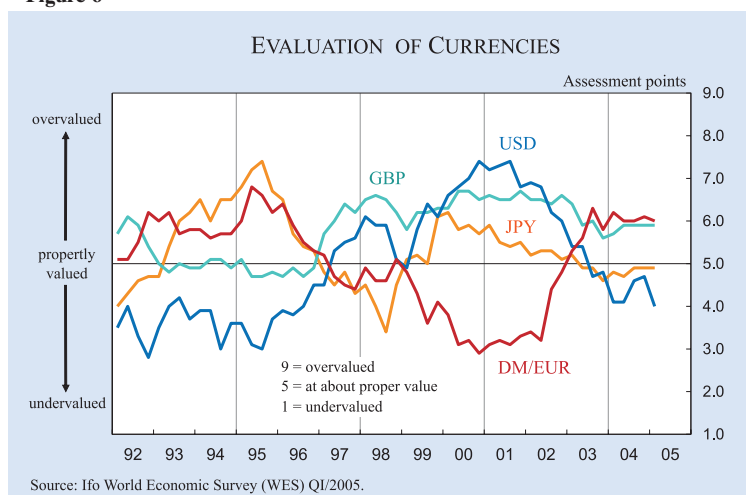


Figure 7a

EUROPEAN UNION

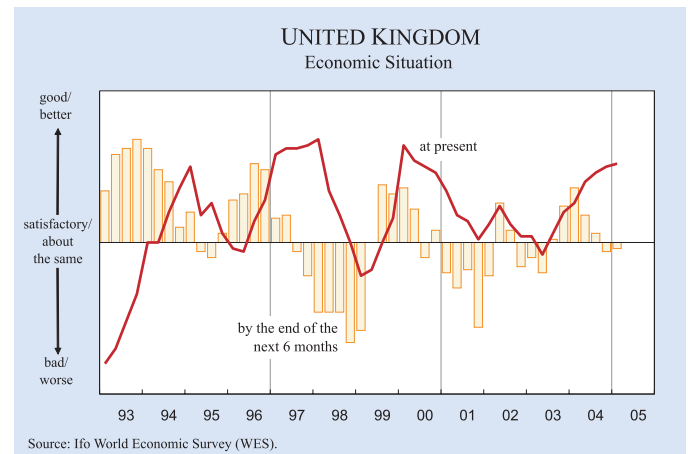
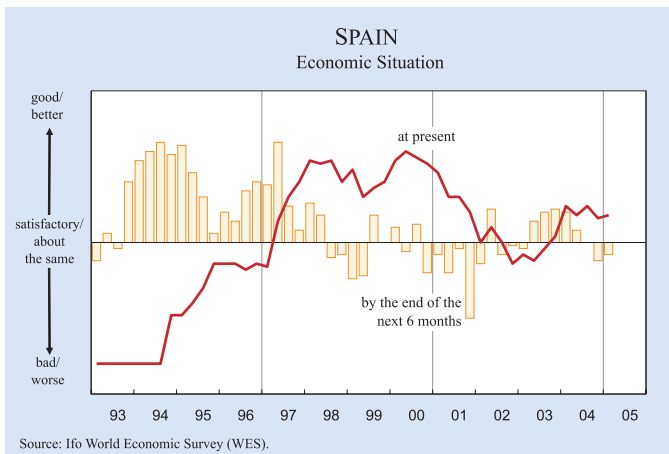
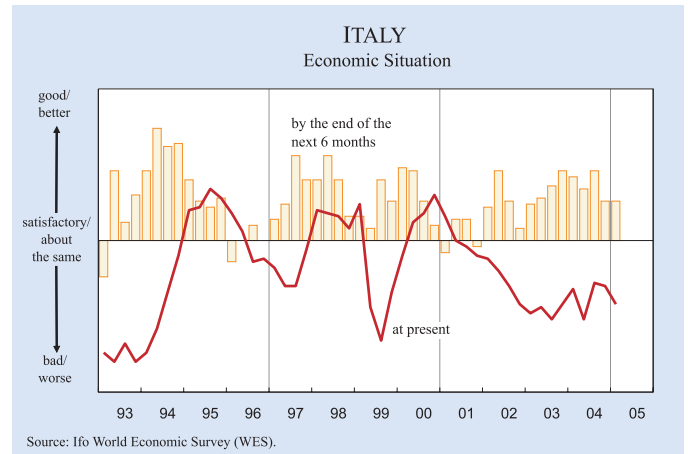
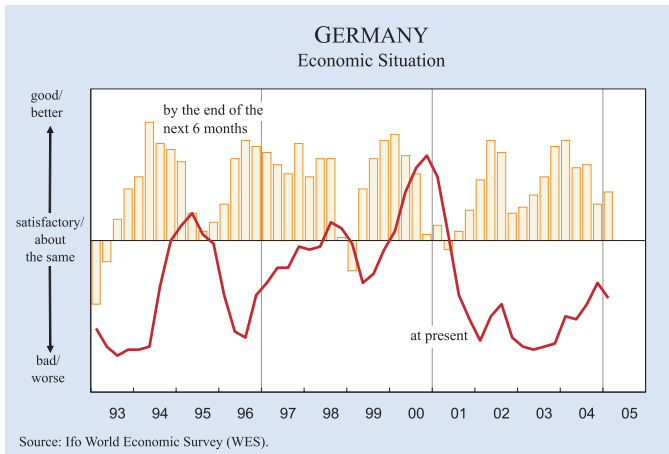
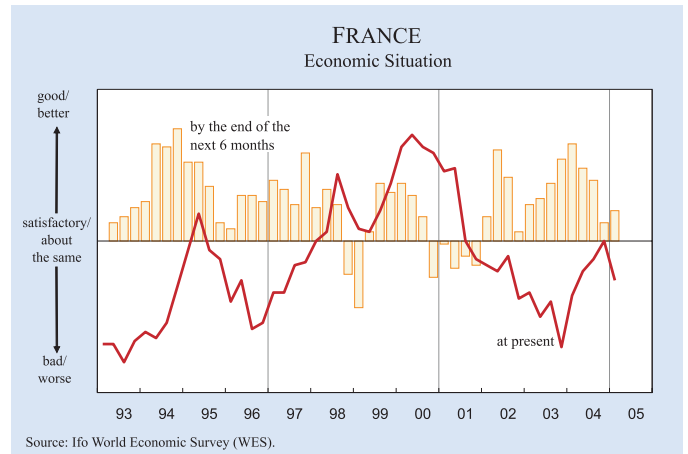
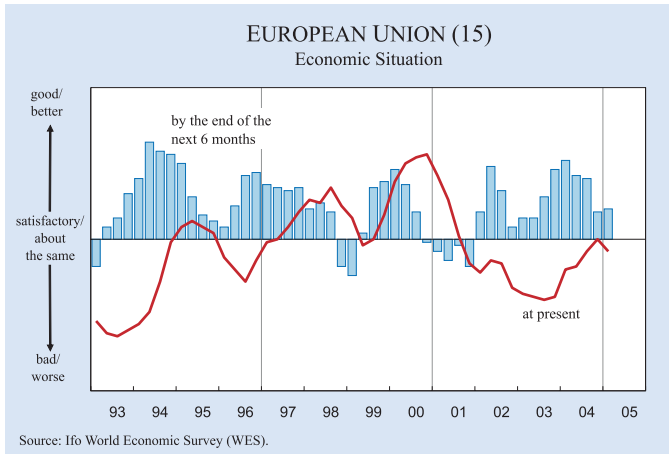


Figure 7b

EUROPEAN UNION

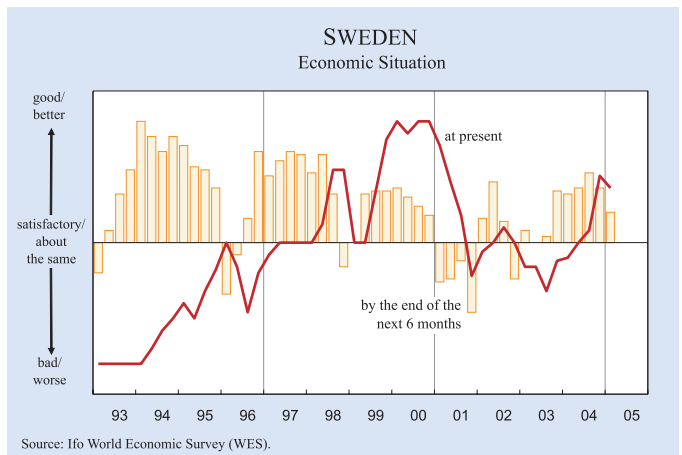
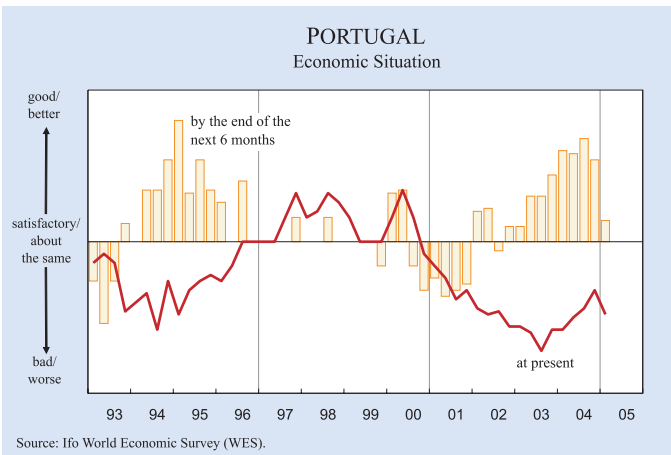
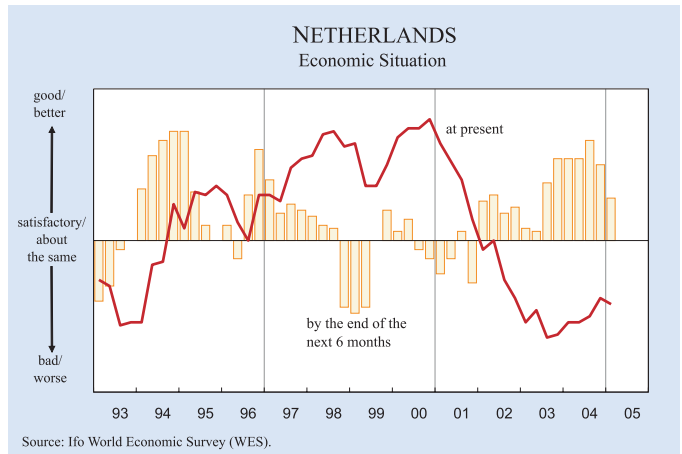
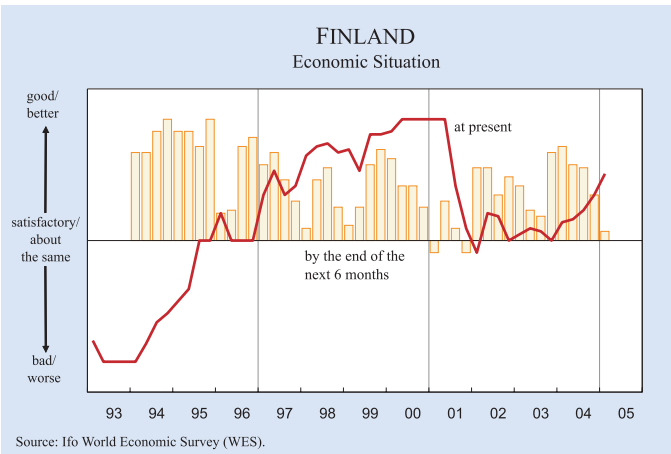
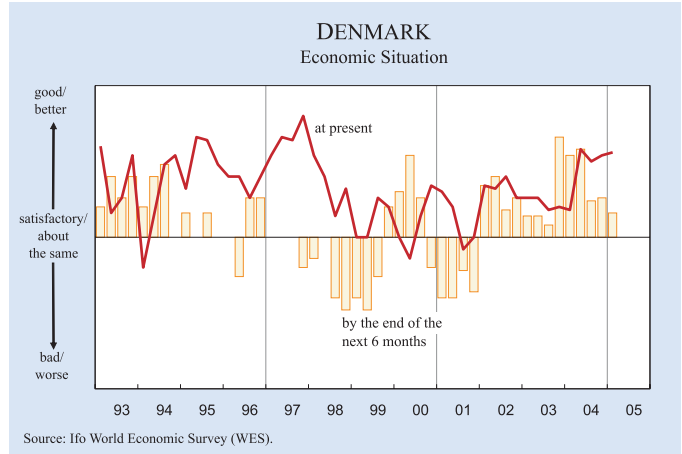
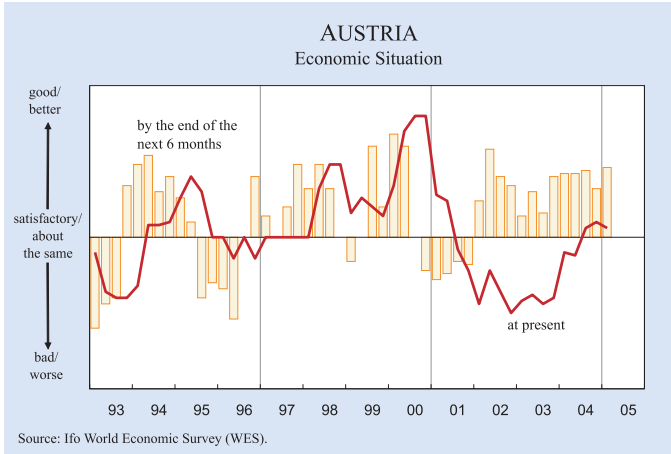


Figure 8

EASTERN EUROPE

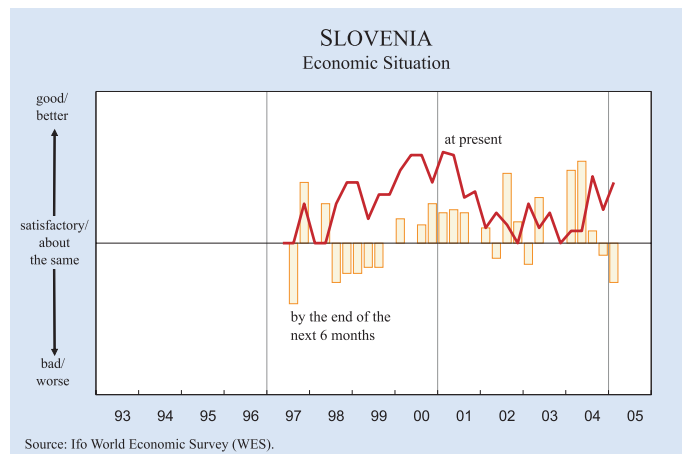
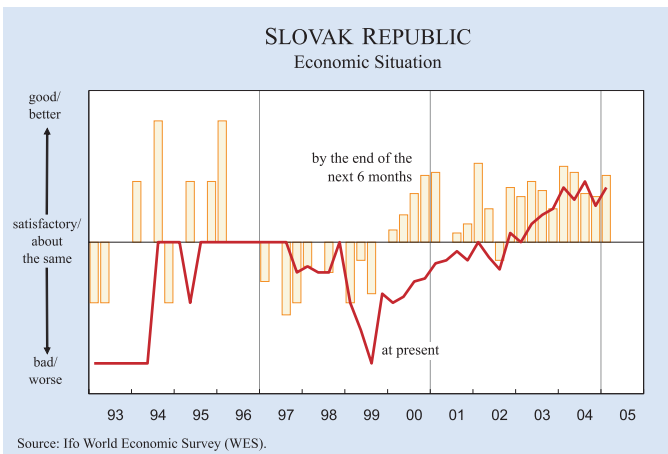
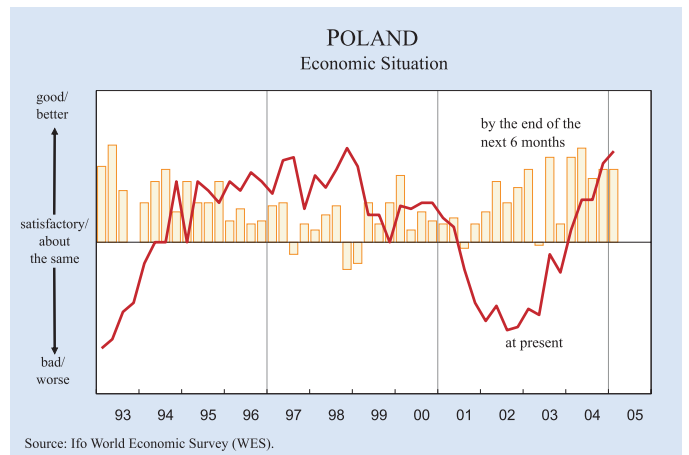
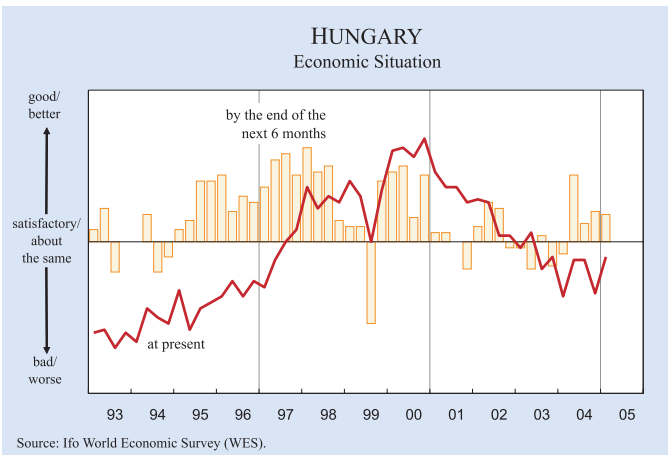
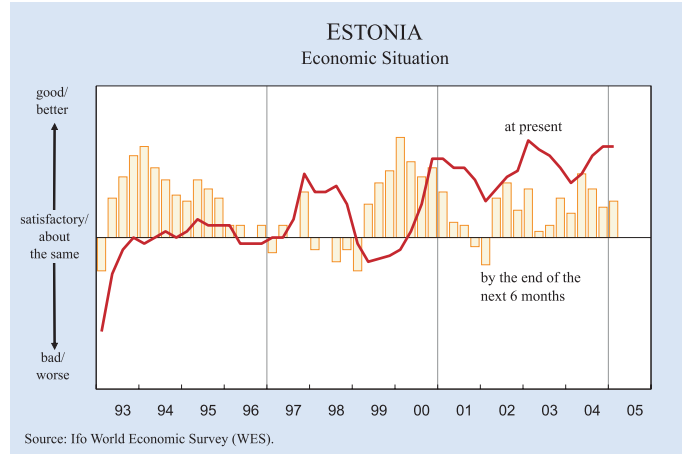
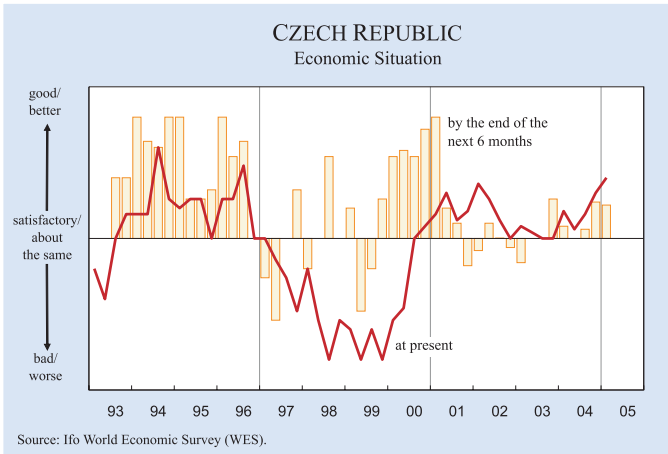


Figure 9

ASIA

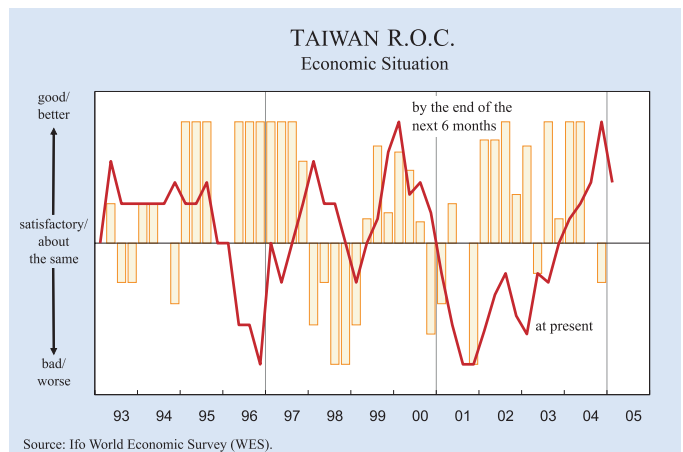
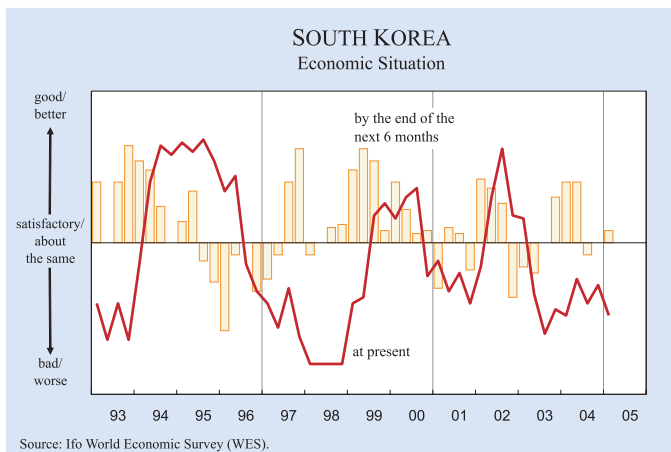
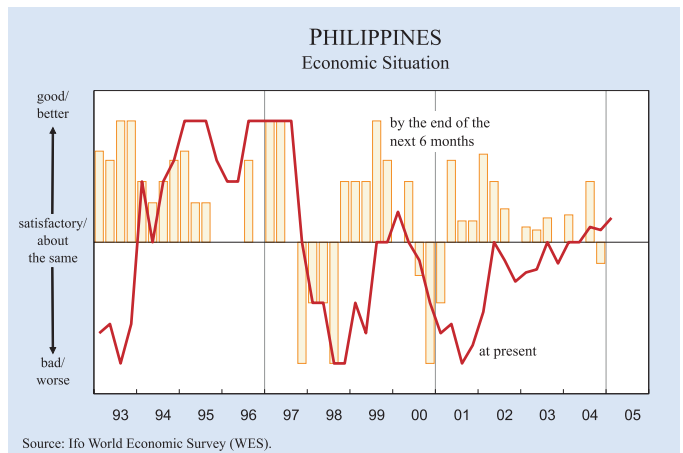
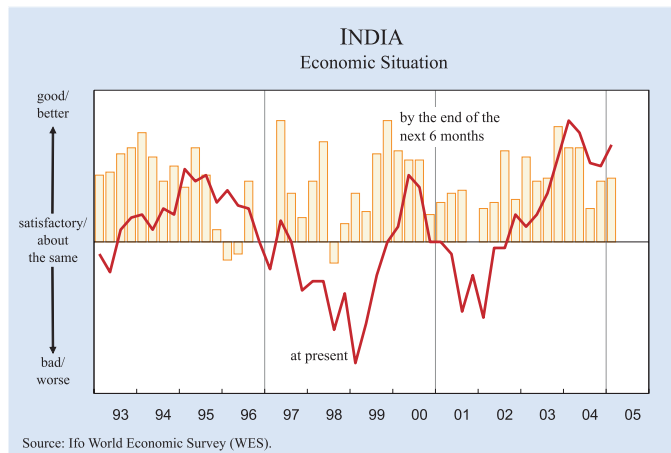
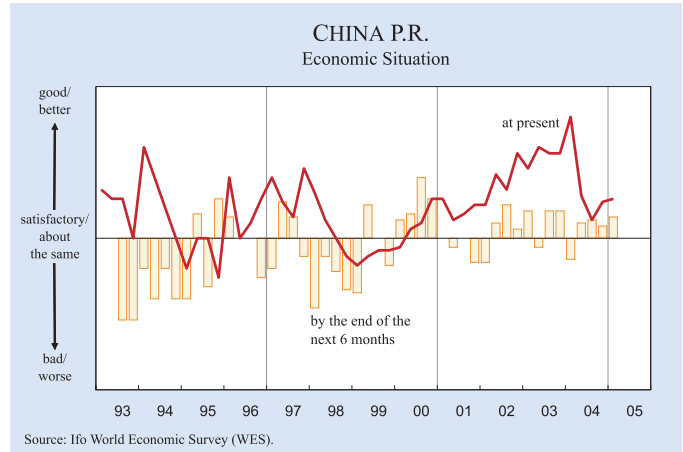
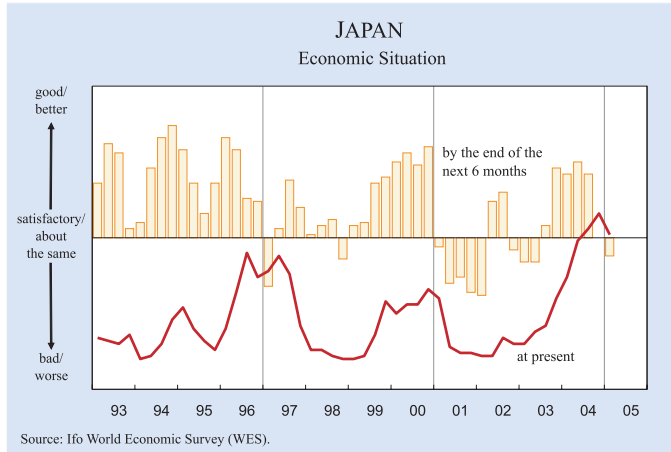


Figure 10

LATIN AMERICA

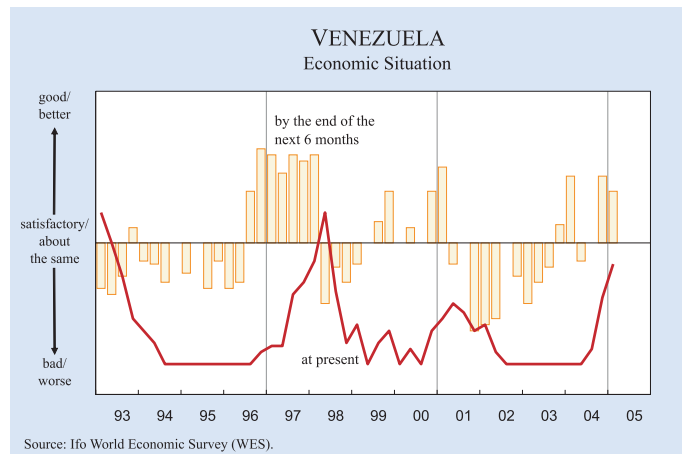
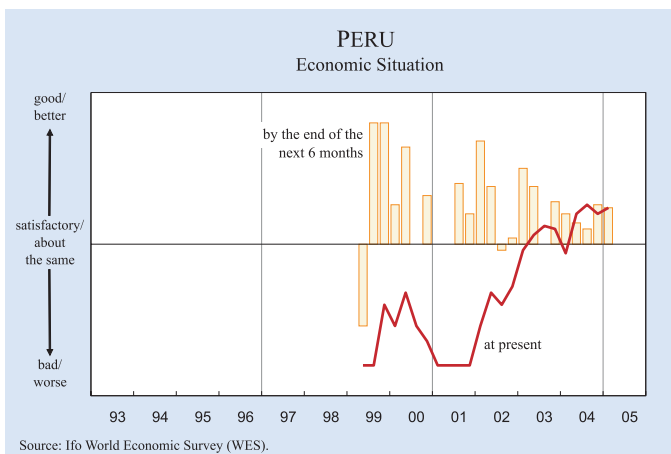
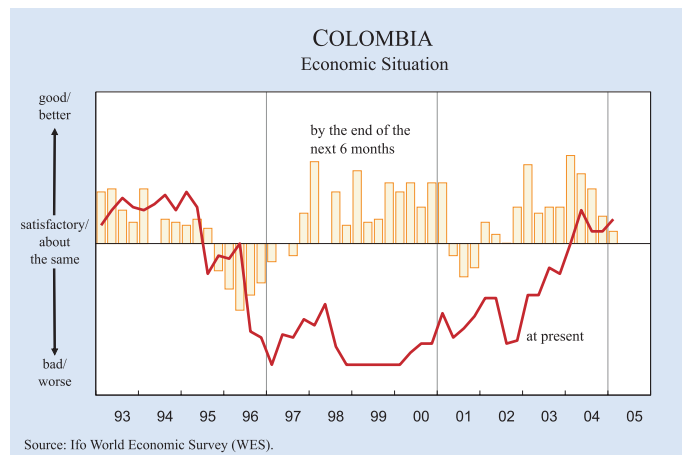
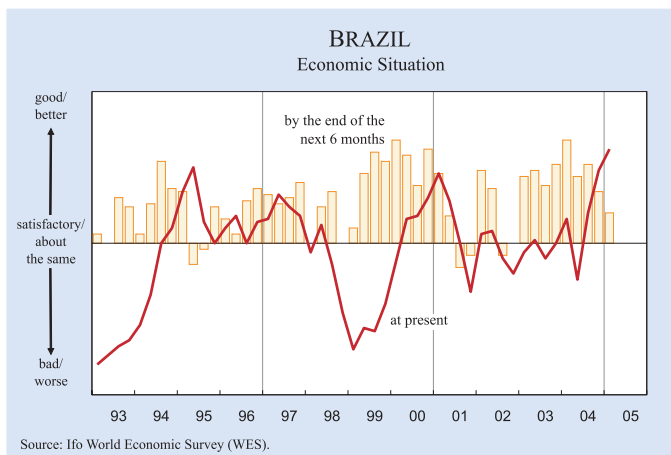
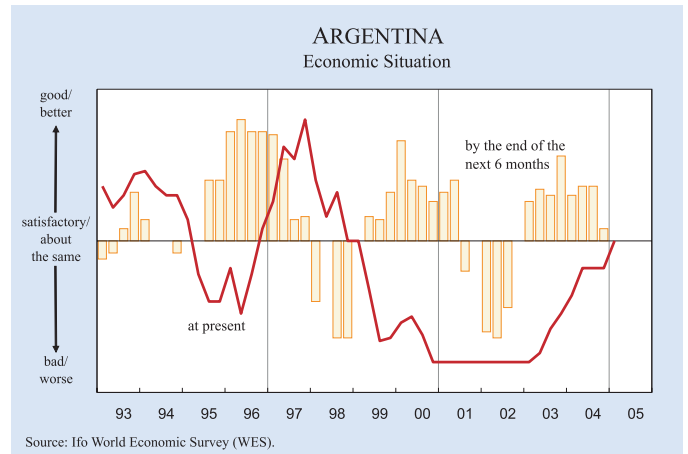
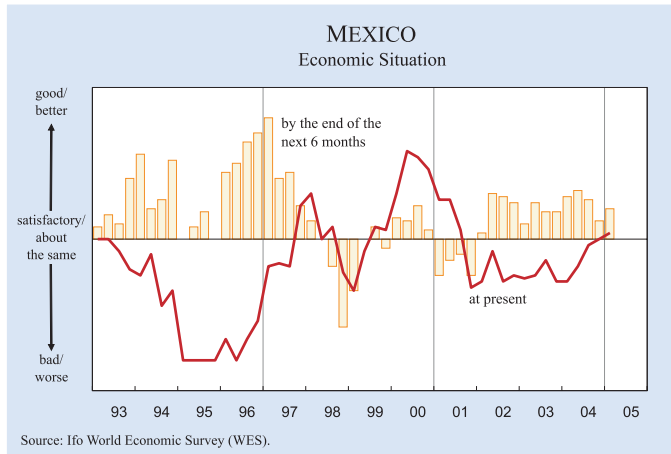


Figure 11

NEAR EAST AND AFRICA

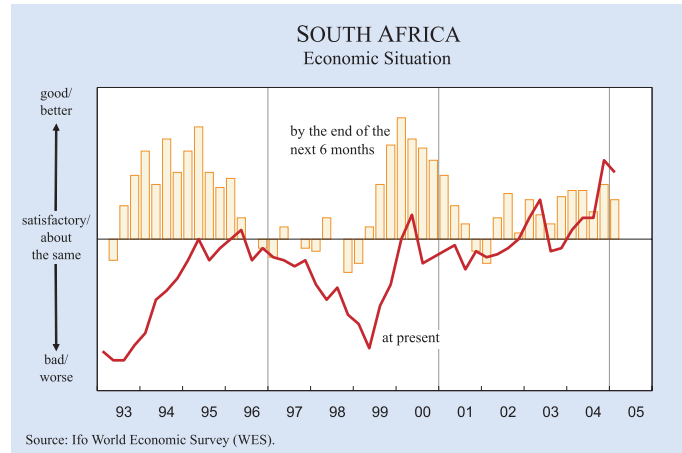
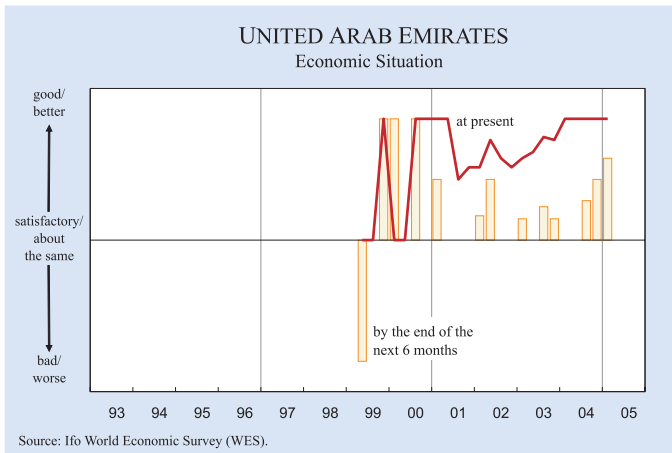
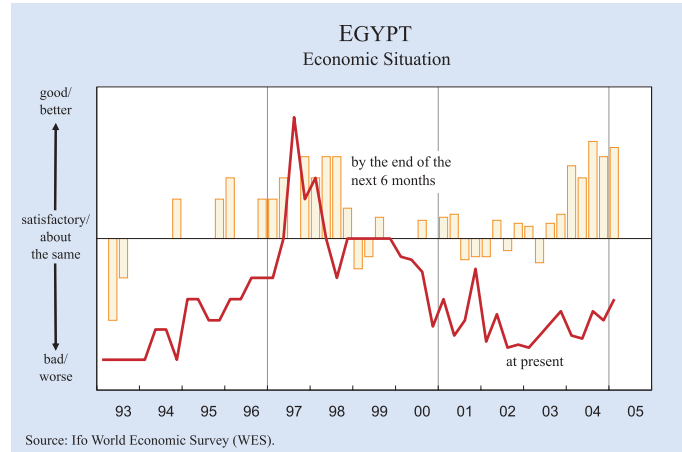
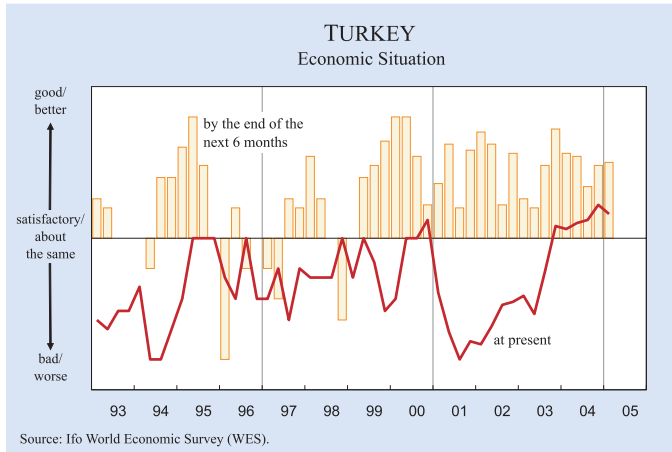
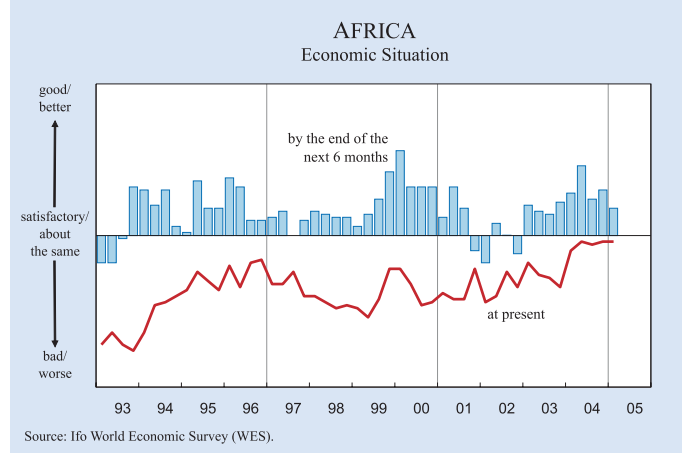
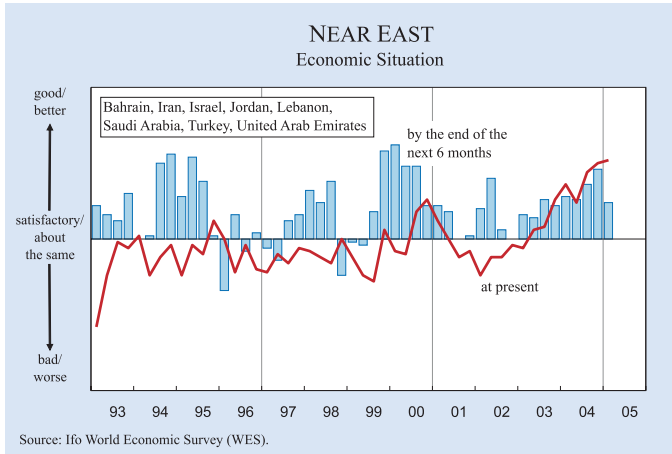


Table 1

Expected Inflation Rate on Average of 2005 and 2004
(based on WES QI/2005 and QIV/2004)

Region	QI/2005	QIV/2004	Region	QI/2005	QIV/2004
Average of 90 countries	2.8	2.9	Central a. Latin America	6.4	5.8
<i>World Bank classification:</i>			Argentina	8.4	6.0
High-income countries	2.0	1.9	Bolivia	4.0	4.4
Middle-income countries	5.6	5.5	Brazil	6.2	7.1
Upper-middle	4.7	4.5	Chile	2.4	2.0
Lower-middle	6.5	6.3	Colombia	5.2	5.7
Low-income countries	9.6	11.2	Costa Rica	11.5	12.3
EU countries (old members)	2.0	2.0	Ecuador	2.4	3.7
EU countries (new members) ¹	3.8	4.7	El Salvador	4.3	4.3
Euro area ²	2.0	2.0	Mexico	4.7	4.8
			Panama	1.3	1.6
Asian Pacific Rim ³	3.0	3.1	Paraguay	6.0	7.0
Arabian OPEC countries ⁴	3.9	5.2	Peru	3.1	3.7
Western Europe	1.9	1.9	Trinidad and Tobago	-	4.0
Austria	2.1	2.1	Uruguay	7.3	9.7
Belgium	1.9	1.9	Venezuela	22.0	22.0
Cyprus	2.5	2.1	Asia	2.4	2.6
Denmark	2.0	1.7	Bangladesh	5.5	5.5
Finland	1.7	1.0	China P.R.	4.1	4.8
France	2.0	2.1	Hong Kong	1.5	-0.2
Germany	1.6	1.8	India	6.2	7.0
Greece	3.2	3.2	Indonesia	6.6	7.1
Iceland	3.2	3.0	Japan	0.1	0.2
Ireland	2.5	2.6	Korea	3.4	3.9
Italy	2.2	2.3	Malaysia	2.6	2.8
Luxembourg	2.3	2.1	Pakistan	8.0	6.8
Netherlands	1.5	1.5	Philippines	6.9	5.5
Norway	1.3	0.6	Singapore	2.3	1.7
Portugal	2.3	2.5	Sri Lanka	10.5	8.0
Spain	3.1	3.2	Taiwan	1.7	2.1
Sweden	1.5	1.3	Thailand	3.2	2.9
Switzerland	1.2	0.9	Vietnam	6.6	7.1
United Kingdom	2.1	2.0	Near East	4.7	6.2
Central a. Eastern Europe	4.3	5.1	Bahrain	1.0	-
Albania	3.7	3.8	Iran	20.0	16.7
Bosnia Herzegovina	1.5	1.0	Israel	1.9	2.2
Bulgaria	4.4	4.9	Jordan	3.7	3.3
Croatia	2.4	2.1	Lebanon	2.5	3.5
Czech Republic	3.0	3.1	Saudi Arabia	1.6	1.3
Estonia	3.4	3.6	Turkey	8.6	11.1
Hungary	5.1	6.6	United Arab Emirates	3.7	4.6
Latvia	5.9	7.3	Africa	10.5	11.4
Lithuania	2.5	1.7	Algeria	4.6	3.8
Poland	3.6	4.0	Egypt	7.0	5.0
Romania	8.1	9.6	Kenya	11.0	8.1
Serbia a. Montenegro	12.0	10.3	Mauritius	5.2	6.5
Slovenia	2.8	3.7	Morocco	1.8	3.0
Slovakia	4.4	7.6	Nigeria	19.5	17.9
CIS	10.0	10.8	South Africa	4.6	3.9
Kazakhstan	6.8	6.6	Tanzania	5.3	5.0
Russia	10.3	11.2	Tunisia	2.7	2.5
Ukraine	10.5	11.5	Zimbabwe	170.0	300.0
North America	2.7	2.4	Oceania	2.6	2.8
Canada	2.5	2.3	Australia	2.6	2.9
USA	2.7	2.5	New Zealand	2.6	2.4

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

¹ Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1. May 2004) –

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

Source: Ifo World Economic Survey (WES), QI/2005.

view are Norway, where the US dollar – despite its sharp weakening in the past two years – is still seen as overvalued. Outside Europe the own currencies is judged as generally undervalued – not only vis-à-vis the US dollar but also the euro, the UK pound and the Japanese yen – in Kazakhstan, in Latin America in Argentina, Mexico, Paraguay and in Asia in China and Indonesia. On the other hand, own currencies are regarded as generally overvalued compared to the four main currencies – US dollar, euro, UK pound and yen – in Venezuela, South Africa, Morocco, Zimbabwe, Bangladesh, Republic of Korea and the Lebanon.

According to the responses to the supplementary survey question on the development of currencies, the US dollar is expected to decline further, though only moderately in the course of the next six months. This trend of further weakening of the US dollar is pronounced in most euro member countries, in the United Kingdom, in Norway, in Canada, Australia, China, Japan, Malaysia, Singapore, Thailand, New Zealand, Slovakia, Peru, Uruguay and particularly in Kazakhstan. On the other hand, the US dollar is expected to rise vis-à-vis the local currency in the course of the next six months in some Eastern European and CIS countries like Estonia, Hungary, Poland, Lithuania, Serbia and Montenegro, Russia, Ukraine as well in the majority of Latin American and African countries. In Asia, a rising US dollar is expected in coming six months only in Vietnam, Sri Lanka, Pakistan, Bangladesh and the Philippines. In the Near East an expected rise of the US dollar is restricted to Iran, Israel and Turkey.

Interest rates: Trend of rising rates is expected to slow down

The trend of rising short-term interest rates is expected to continue in the next six months, though losing some momentum. This trend characterises the Europe area as well as the United Kingdom, Switzerland, Canada, Australia, most Eastern European and also most Asian countries. There are only a few exceptions where the hike of short-term interest rates is expected to accelerate in the course of the next six months. Amongst these countries are

Norway, Argentina, China, Malaysia and Saudi Arabia. In the USA the trend of rising central bank rates is expected to continue in “moderate” steps, similar to the past six months. This scenario also characterises Chile, Brazil and Indonesia (see Fig. 5).

Parallel to the slowing down of the upward trend of short-term interest rates, also the capital market rates were seen to rise weaker than expected in previous surveys. Exceptions from this general trend are the USA, China, Hong Kong, Australia where the current upward trend of long-term interest rates will continue unchanged in coming six months.

ICC Special Question: Intellectual Property Rights

The special question asked in January focused on the problems of counterfeit products and the theft of intellectual property worldwide and its impact on global and regional businesses.

Intellectual property rights¹ are usually divided into two main areas: protection of distinctive signs, in particular trademarks, and protection of inventions, in particular patents. The protection of distinctive signs and trademarks aims to ensure fair competition and to protect consumers against buying goods that are

¹ Intellectual property rights were introduced into the multilateral trading system for the first time by the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), negotiated in the 1986–94 Uruguay Round. Further information resources: International Trademark Association – <http://www.inta.org> WTO information on intellectual property – http://www.wto.org/english/tratop_e/trips_e/trips_e.htm

Figure 12

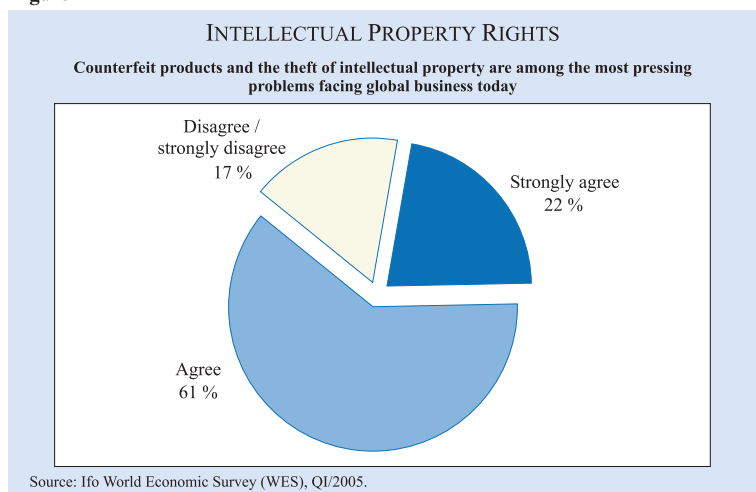


Figure 13a

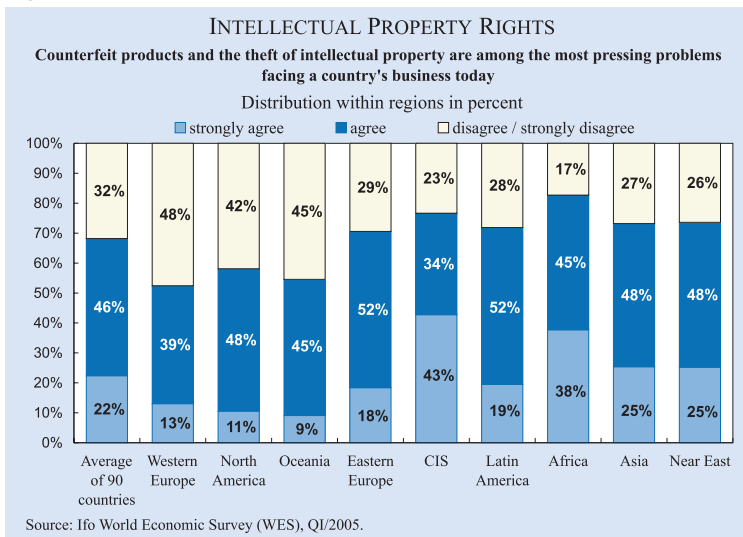


Figure 13b

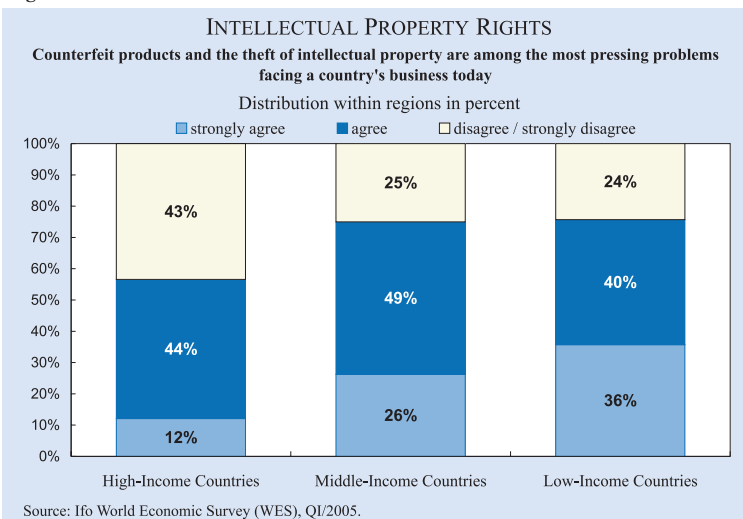
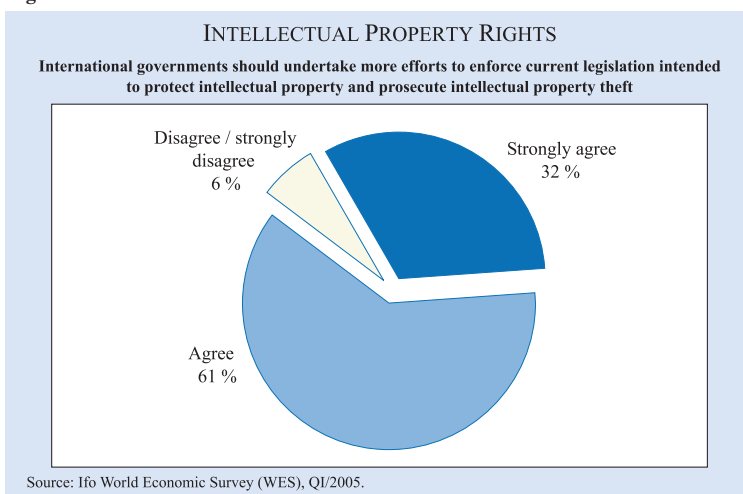


Figure 14



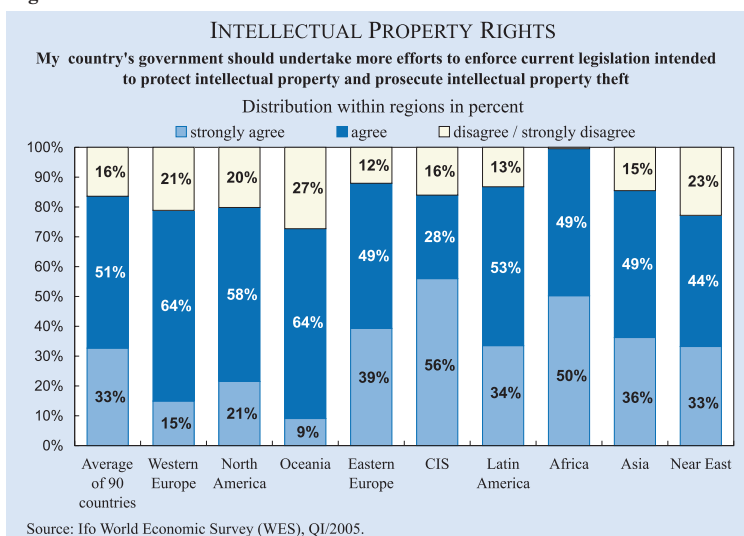
falsely presented as the genuine product. The social purpose of protection of inventions is to provide incentive for research and development of new tech-

agree that theft of intellectual property rights is among the most pressing problems facing global

nologies. Counterfeit products are widespread in many areas of the present marketplace and have a significant impact on many aspects of the global economy, so that almost every industry is affected by counterfeit products. These products are often not only unsafe to the consumer, but also cause unfair competition. Alongside consumer harm (particularly important aspect for pharmaceutical products) and economic losses, counterfeit products can also damage a manufacturer's reputation. For example, counterfeiting of luxury goods leads to loss of prestige and distinctiveness for consumers of the legitimate product. However, it is consumer demand that drives counterfeiting: the low household income and the high price of genuine goods. Furthermore, the public often perceives counterfeiting as harmless. But also weak anti-counterfeiting laws and a lack of effective penalties combine to make counterfeiting a profitable business to some, while it is enormously harmful to others.

The World Intellectual Property Organization emphasizes the correlation between a strong intellectual property regime and foreign direct investment. Low priorities for intellectual property rights in a country have a direct negative impact on the growth of economies. Surveyed WES experts were asked to judge whether *counterfeit products and the theft of intellectual property are among the most pressing problems facing business in general and business in their country today*. On average of 90 countries 83 percent of polled experts agree or strongly

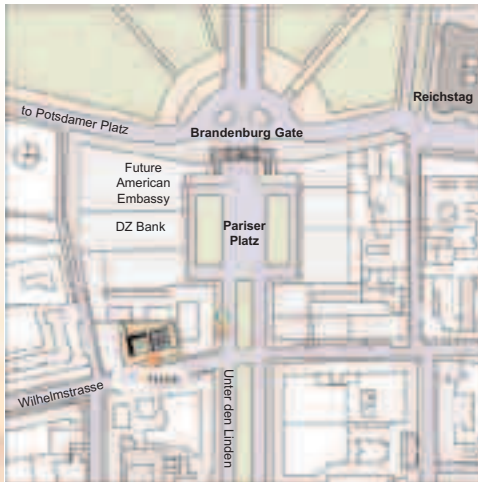
Figure 15



should increase efforts to enforce current legislation on intellectual property. Though there is no single solution for the problem of counterfeiting, obviously an increased co-operation among national governments and industry associations is required.

business today (see Figure 12). According to the panel's responses, counterfeit products pose a particular problem to economies in Africa (particularly in Morocco, Kenya and South Africa), CIS (in Kazakhstan and Russia) and the majority of Eastern European and Asian countries (see Figure 13a). But also in some other regions a vast majority of surveyed WES experts (more than 70 percent) agree or strongly agree that theft of intellectual property belongs to the most pressing problems in the country, so in Italy, Portugal, Israel, Turkey, Paraguay, Peru, Costa Rica and Mexico. This share of experts is particularly high in low-income countries (see Figure 13b).

The majority of countries have a variety of legislation relating to intellectual property rights. Different official bodies are in charge of penalties and regulations. This sharing of competences makes an effective handling of trade piracy difficult. 94 percent think that international governments should undertake more efforts to prosecute intellectual property theft (see Figure 14). The law often lacks enforceable rules regarding counterfeiting, according to surveyed experts, particularly in Africa and the majority of Eastern European countries (see Figure 15). But also in many Asian countries (particularly in China, Indonesia, Hong Kong, India the Philippines and Pakistan) more than 90 percent of surveyed economists think that the government, of their countries should take action to curb the growing levels of counterfeiting. Also in Costa Rica, Israel, Peru, Kazakhstan, Portugal, Italy, Belgium, Turkey, Mexico and the United Arab Emirates, a similarly high share of experts think that their country's government



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Programme

Thursday 17th and Friday 18th March 2005
British Embassy, Berlin



The International Platform of the ifo Institute for Economic Research
and University of Munich's Center for Economic Studies

International Spring Conference 2005



17 March 2005

11:00	Press conference
11:00	Cold buffet lunch
12:00	Welcome and Introduction Hans-Werner Sinn, President, Ifo Institute, Munich, Hans-Günther Vieweg, Ifo Institute, Munich
12:15	Challenges for European Economic Policy Bernd Pfaffenbach, Undersecretary of State, Federal Ministry for Economics and Labour, Berlin
12:45	Discussion
13:15	Global Economic Outlook John Llewellyn, Lehman Brothers, New York
13:45	The European Economy Hans-Werner Sinn, Ifo Institute, Munich
14:15	Threats to Eurozone Economic Stability David Walton, Goldman Sachs, London
14:45	Discussion
15:45	Coffee break
16:15	Turkey Fatih Özatay, Central Bank of Turkey, Istanbul
16:40	Central and Eastern Europe Michael Landesmann, WIIW, Vienna
17:05	PR China Stefan Schilbe, HSBC Trinkaus & Burkhardt, Düsseldorf
17:30	General discussion
19:30	Dinner at the British Embassy

18 March 2005

9:00	Welcome and Introduction Hans-Günther Vieweg, Ifo Institute, Munich
9:10	European Institutional Framework- Unleashing Economic Growth Horst Reichenbach, Director General, DG Enterprise, Brussels
9:40	Discussion
10:10	Coffee break
	Major European Industries
10:25	Overview Sebastian de-Ramon, Cambridge Econometrics, Cambridge
10:50	Steel Industry Jeroen Vermeij, Corus, IJmuiden
11:10	Chemical Industry Peter Claes, FEDICHEM, Brussels
11:30	Mechanical Engineering Stephen Radley, EEF, London
11:50	Automotive Industry Peter Wells, Center for Automotive Industry Research, Cardiff
12:10	Computers & Telecommunications Axel Pols, Bitkom, Berlin
12:30	General discussion
13:00	End of Session
	Hot buffet lunch
14:30	End of conference

Registration Form

Please register before **26 Feb. 2005**. For more information, visit www.cesifo.de/isc, the conference's main page.

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