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**Article**

## CESifo World Economic Survey May 2005

CESifo World Economic Survey

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# CESifo WORLD ECONOMIC SURVEY

VOLUME 4, No. 2

MAY 2005

## WORLD ECONOMIC CLIMATE

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World Economic Climate remains in a cooling-down phase

## ECONOMIC EXPECTATIONS

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Assessments of current economic situation and expectations both somewhat weakened but still positive

## INFLATION

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Stable rate expected

## INTEREST RATES

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Trend of moderately rising rates expected to continue

## CURRENCIES

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Euro still seen as clearly overvalued

## SPECIAL TOPIC

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World Trade Negotiations



International Chamber of Commerce  
The world business organization

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## Ifo World Economic Survey

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## 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 2005 some 1,118 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 IN A COOLING-DOWN-PHASE

In April 2005 the World Economic Climate deteriorated for the fifth time in a row (see Figure 1). However, the climate indicator is at 97.5 (after 101.1 in January; 1995=100), still considerably higher than its long-term average (1990–2004: 94.0). Both components of the economic climate index – current economic situation and expectations for the coming six months – have been downgraded somewhat (see Figure 2) though still remaining positive.

## World economy: Renewed deterioration from a still favourable level

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). Last year, the world economy grew, according to IMF figures, by around 5 percent, its fastest rate for almost thirty years, led by very high growth in China and other Asian countries as well as in the biggest economy of the world, the USA, and the economic revival of Japan. By the end of 2004, the economic cycle of the world economy 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 second half of 2005 have been downgraded by experts surveyed in April, the change is expected to result only in »a soft patch« and not in a sharp downturn, as most determinants of the short-term prospects remain positive.

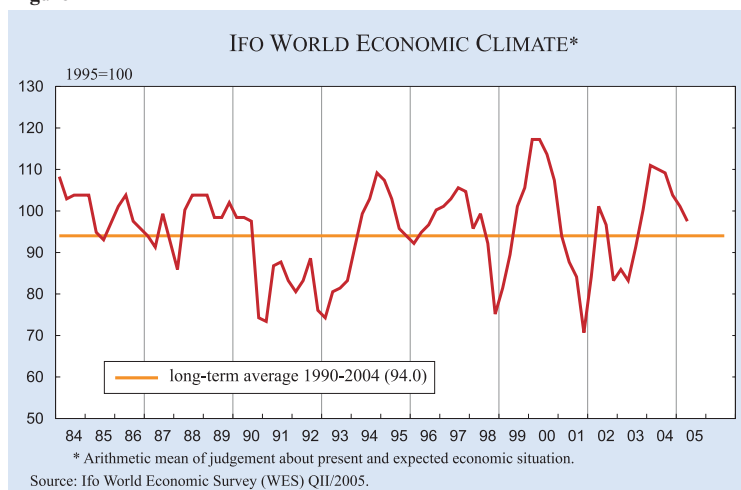
The main driving forces behind the movements in the world economic climate index are the four main economies: the *United States*, the *euro zone*, *Japan* and *China*. The climate indicator fell most clearly in the euro zone, remaining below its long-term average. In *Asia*, the assessments of the present economic situa-

tion deteriorated, while the economic expectations improved over the January survey, resulting in an even slightly higher overall climate index. This pattern reflects also the current economic business sentiments in the two biggest economies of the region – *Japan* and *China*. In contrast, in the *US* the climate index slightly deteriorated due to somewhat less optimistic expectations for the coming six months whereas the current business situation received somewhat more favourable assessments compared to the January figures. For the world economy as a whole, the growth is expected to continue in the coming six months but at a slower pace. However, the expansion may be endangered by serious imbalances in the world economy such as the huge *US* current account deficit, weak growth in the *euro zone* and *Japan*, and inflexible currency regimes in *Asia*, e.g. in *China*.

## Western Europe: Lacklustre development continues

Growth in Western Europe has lagged behind America and most other countries for a long time. According to the panel's responses this trend will continue also in coming months (see Figures 3 and 4). The overall economic climate indicator slipped again in April, resulting from both less positive assessments of the present economic situation as well as somewhat less optimistic expectations for the coming six months.

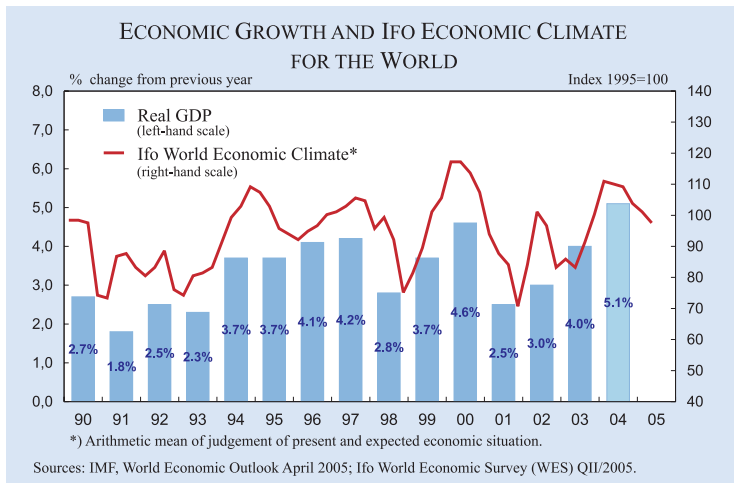
Figure 1



**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 1,118 experts. As a rule, the trend of the Ifo Economic Climate indicator coincides well with the natural business-cycle trend measured in annual growth rates of real GDP (see Figure).

The indicator for the world economic climate was for the first time in nine years below a level of 94.0 (1999=100) the indicator is still above its long-term average of 94.0. The most recent survey results continue to indicate a "soft landing" of the world economy and not a sharp decline in economic activity. This is also evident in the fact that the expectations for the next six months – in contrast to the judgements for the current economic situation – have hardly deteriorated. Apparently the majority of WES experts expect that the present cooling phase in the world economy will be short term.

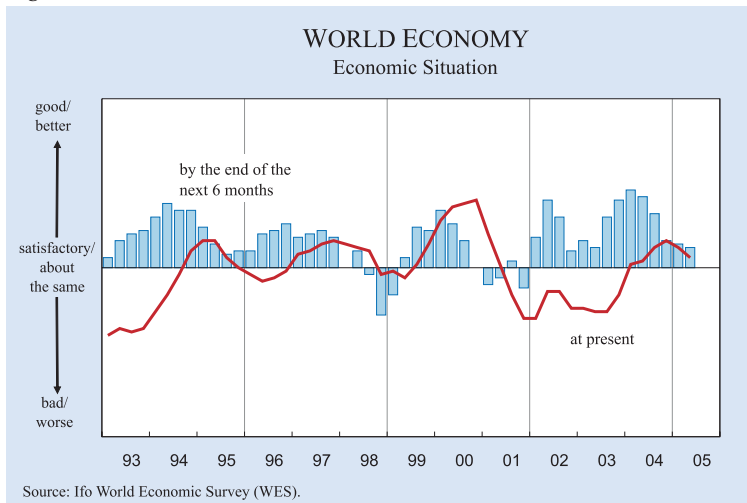


The decline of the overall climate index is mainly due to the big three euro zone countries *Germany*, *France*, and *Italy*, where experts forecast only a weak growth for 2005. The six leading German economic research institutes in the last April week cut their forecast for Germany's growth in 2005 from 1.5 percent to just 0.7 percent. In the euro area, only WES experts in *Finland* and *Ireland* judged the cur-

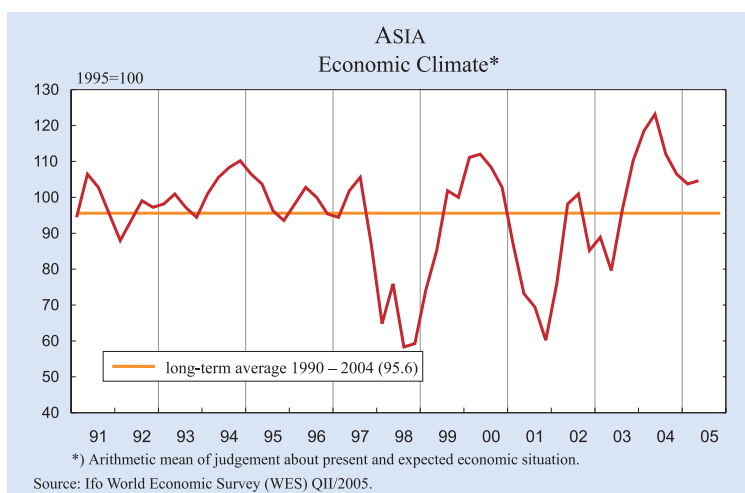
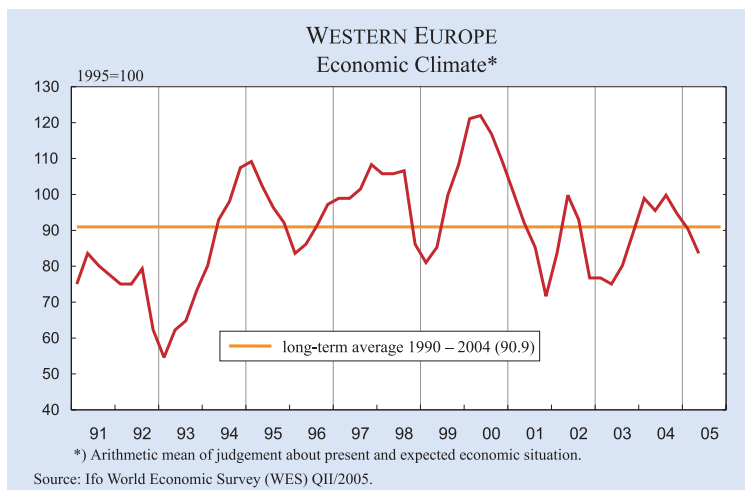
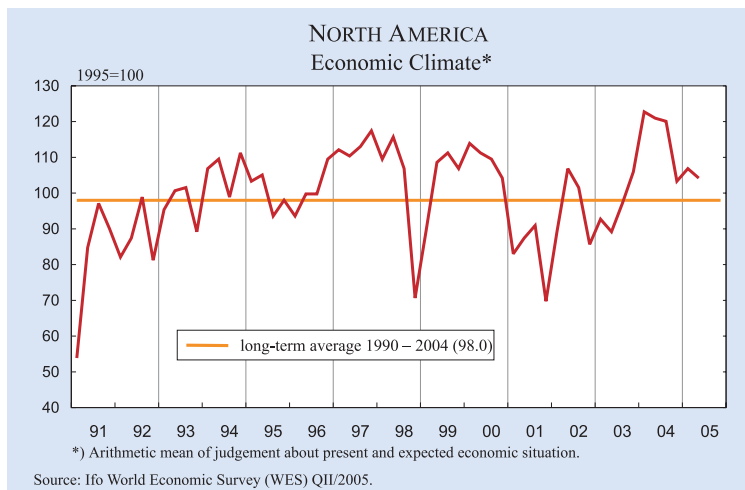
rent economic performance above the satisfactory level and in *Austria* and *Spain* as satisfactory. In the other countries of the euro area the economic situation, according to WES experts, is still on a rough road. In *Greece* and *Belgium*, the assessments of the economic situation deteriorated somewhat but remained in the favourable zone. Not so in *Portugal* and the *Netherlands*, where the panel's responses still show no clear evidence of an economic recovery. Unemployment clearly ranks as the economic problem number one in the euro zone, closely followed by insufficient demand. Further risks for a turn to the better from the long-lasting weak growth trend lie in a possible setback of the American and Asian economies, associated with a sharp decline in the value of the dollar. This would seriously damage the European export industry and thereby deprive the euro zone

of the single source of strength it has had until now. However, this scenario appears not very likely to WES experts. Economic expectations for the coming six months have been only slightly downgraded in the euro area and remained still generally positive (see Figure 4). Also in the European countries outside the euro area, the economic climate slightly deteriorated, but from a quite favourable level. Only in *Denmark* the assessments of the present economic situation continued to improve, while in *Sweden*, the *United Kingdom*, *Norway* and *Switzerland* the assessments of the current economic situation have been slightly downgraded though remaining well above the satisfactory level. Moreover, experts surveyed by WES in these countries are generally positive concerning the short-term prospects.

**Figure 2**



**Figure 3**



### North America: Cautious expectations

According to the latest survey results, the economic climate indicator in North America deteriorated slightly in April (see Figures 3 and 4). In both economies of the continent – the *US* and *Canada* – the deterioration of the climate index was a result of more

cautious expectations, while the assessments of the current economic situation remained at a very favourable level in both countries. The reason for the cautious expectations may lie in the *US* in the record levels of the current account deficit, increased private sector debt burden and low private saving rates.

In *Canada* WES experts named as economic problem areas “lack of international competitiveness” and “trade barriers to exports”; these factors may have caused the downward revision of expectations.

### Eastern Europe: Growing markets

On 1 May 2004 ten countries joined the European Union, eight of them from Eastern Europe: *Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Lithuania* and *Latvia*. Now that the Eastern European countries have become a part of the EU they have bolstered overall economic growth and have become a bright spot for Europe. In April 2005, the overall economic climate in Central and Eastern Europe increased slightly, with the assessments of the current economic situation improving further and the economic expectations for the coming six months pointing further upward (see Figure 4 and Figure 8).

In all the eight new EU members the present economic situation was again rated above the satisfactory level in April. However, these assessments deteriorated somewhat compared to the January poll in some of the strongest economies in the region – *Latvia, Poland* and *Slovenia* – according to WES experts. The forecasts for the coming six months point to further economic improvement in all new EU member states.

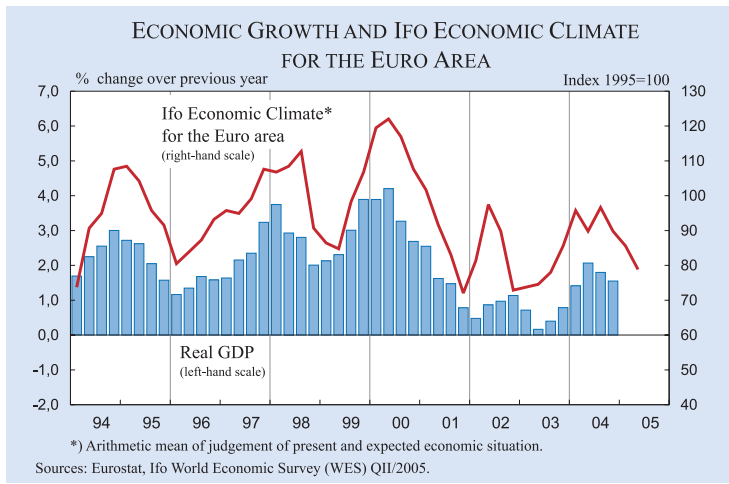


**Box 2**  
**World Economic Survey (WES) and GDP Growth in the Euro Area**

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 294 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 Ifo indicator for the economic climate in the euro zone fell again in April 2005. Especially the assessments of the current economic situation deteriorated again, but also the expectations for the next six months continued to worsen. The gap between the economic climate in the euro zone to that of the rest of the world has grown wider. This is an indication that the economic weakening in the euro area will persist for the time being.

Within the euro area, only in Ireland and Finland was there an improvement of the already very positive assessments of the current economic situation. From the other euro countries, a downgrading of the current economic situation was reported, particularly from Italy, Portugal, Germany and France. While in most euro countries at least a slight strengthening of economic growth in the course of the next six months is anticipated, the opposite holds for Spain and Greece: In these two countries the WES experts expect an economic slowdown in the next half year of the currently on the whole quite satisfactory economic situation.



mate indicator in *Russia* rose in April, with both the assessment of the current economic situation and economic expectations pointing upward. As a present economic weak point, experts named again “lack of international competitiveness”, which is seen as an important problem also in *Ukraine*, where WES experts reported a favourable economic climate as well. The expectations concerning future development point here to further stabilisation at the current “satisfactory” level, with higher forecasts for private consumption, capital expenditure and exports. A highly favourable economic climate has been reported again for *Kazakhstan*. With regard to the future economic development, the participants are fairly confident. However, as in *Russia*, much of the growth in one of the fastest growing CIS economies has been fuelled by oil production and is not widespread over the whole economy. Thus, high unemployment remains one of most important economic problems in the country, according to WES experts.

In the Eastern European countries outside the EU, economic trends observed in April differ. In *Albania* and *Romania* they point to a continuation of the recovery. The present economic situation was assessed as above satisfactory, and economic expectations remained fairly positive, particularly in *Romania*. In *Croatia* and *Bulgaria* the present economic situation was seen positively too, but received slightly lower marks than in the January survey. The overall economic situation in *Serbia* and *Montenegro* still gives cause for concern, but the near-term prospects remained positive.

**CIS: Economic upturn remains strong**

The economic upturn in *Russia* continues, according to the recent WES results. After a slight deterioration of business confidence since mid 2004, the economic cli-

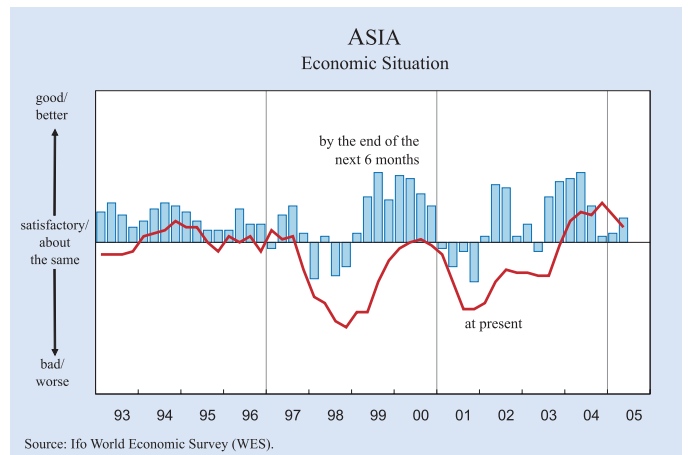
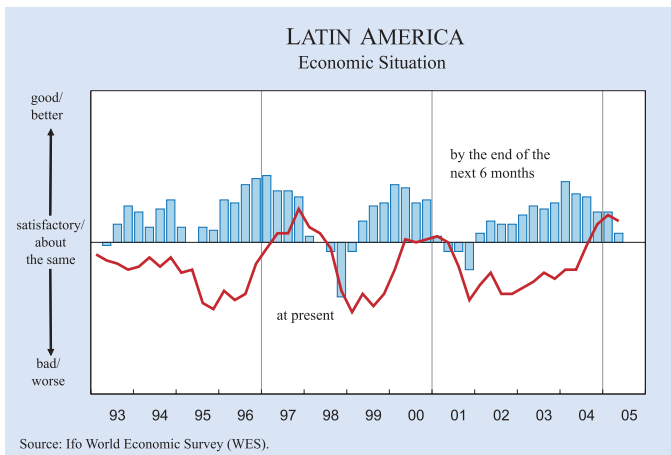
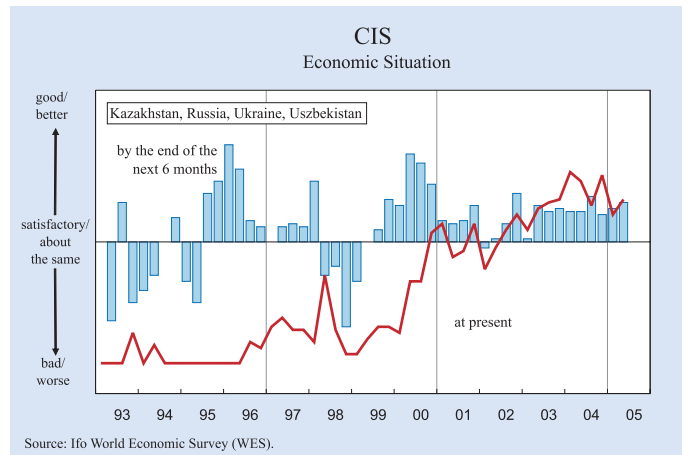
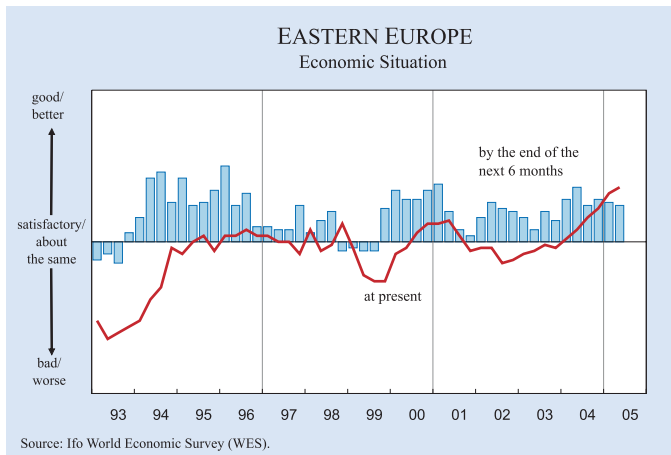
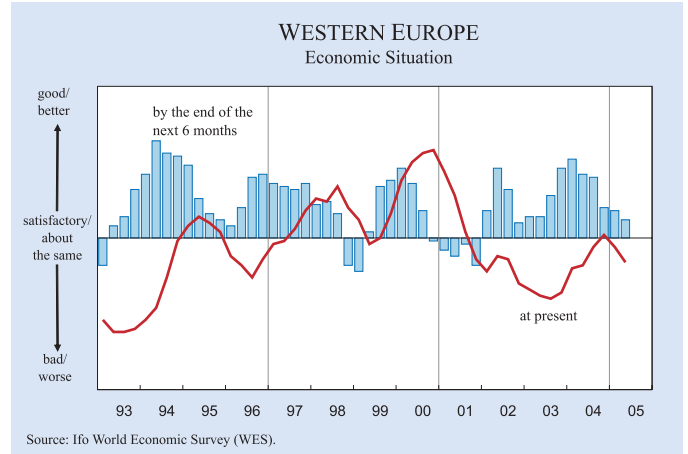
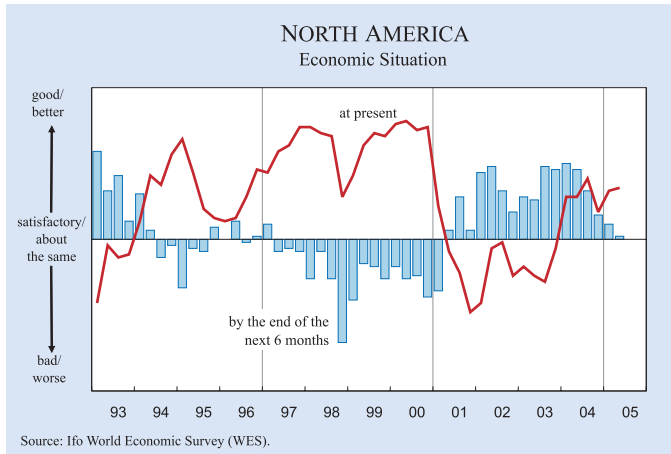
**Asia: Dynamic economies**

The Asian region is economically the most dynamic in the world. In April 2004, the economic climate index in Asia reached an all-time high (see Figure 3). However, at the end of 2004 and in January 2005 the economic climate index deteriorated in succession, mostly reflecting an economic cooling-down in *Japan*. According to the April 2005 survey results, the overall climate index improved slightly, on average, for the Asian countries surveyed by WES experts (see Figure 3). While the assessments of the present economic expectations deteriorated again slightly, economic expectations for the second half of 2005 have improved in most cases.

The experts surveyed in *China* again assessed the present economic situation as above satisfactory though

Figure 4

## SELECTED REGIONS



at a considerably lower level than one year ago. *China's* high proportion of exports to the US would make the economy vulnerable to any economic downturn in North America. However, the overall economic expectations for the Chinese economy in 2005 are judged by WES experts as generally positive. While the country's economy has experienced extraordinary economic growth over the past decade since Deng Xiaoping started to liberalise *China's* economy, the Japanese economy has been stagnating for more than a decade, with growth rates even lower than in the euro zone. But in 2003 and 2004 after many years of economic stagnation *Japan* has been gaining strength. However, in 2005 the economy seems to have left the new growth path. The assessments of the current economic situation deteriorated for the second time in succession after two years of continuous improvement. And also the country's outlook for all of 2005 is cautious, according to WES experts.

Despite a slight deterioration of the climate index, *India* retained the leading position with regard to business confidence in Asia, and its economic growth outlook for 2005 remained buoyant. According to surveyed experts *India's* economy will expand at the rate of seven per cent in the current year thanks to increased output in both agriculture and industry. However, especially *India's* agriculture, which makes up a quarter of the economy and provides livelihood to three-fifths of the country's 1.1 billion people, is dependent on the four-month monsoon rains that will start in June, with wide-ranging implications on other economic sectors. An improved economic situation has been reported by WES experts in *Hong Kong*; the overall economic climate index remained on a very favourable level. In *South Korea*, the marks for the current economic situation, though not yet having reached the "satisfactory" level, improved compared to the January survey. And the economic expectations point to stabilisation in the course of the next six months. In *Bangladesh, Indonesia, Malaysia, Pakistan, Thailand, Singapore* and *Vietnam* the present economic performance is seen as satisfactory and is expected to remain on the upward trend in 2005. *Sri Lanka* and the *Philippines* were the only countries in the Asian region where experts assessed the overall economic situation as below the satisfactory level and the near-term expectations of the surveyed experts remained cautious.

#### **Oceania: Economic cool-down**

Oceania has topped the list of economic performance for almost five years. In the April survey the

assessments of the present economic situation in *Australia* were strongly downgraded. The overall climate index shows that growth is slowing in the Asia-Pacific region's fifth-largest economy. However, the present economic situation in *Australia* is still assessed above the satisfactory level and the economic forecast suggests that *Australia's* economy will remain strong over the current year, although growth is expected to slow.

The *New Zealand* economy, which is dominated by forestry, agriculture and tourism, grew at the fastest pace in four years in 2004, buoyed by surging construction and high prices for its agricultural exports. However, the economic outlook here too is subject to uncertainty, though the current economic situation has been assessed very positively for more than two years.

#### **Latin America: Economic stabilisation**

According to the latest survey results, the economic climate deteriorated somewhat in Latin America in April. Both the assessments of the current economic situation and economic expectations have been slightly downgraded since the January survey (see Figure 4). However, robust local demand and business investment are expected to help the region to remain on its strong economic course in 2005.

The slight deterioration of the economic climate, on average, of countries surveyed in the region mainly results from less positive marks for the present economic situation in *Brazil, Chile, Colombia, Paraguay* and *Uruguay*. However, the economies in *Argentina, Venezuela* and *Uruguay* have shaken off deep recessions, helping brighten the region's outlook. In *Mexico* the current economic situation was again regarded as fully satisfactory. In 2004 *Mexico* grew at 4.4 percent, the fastest pace in four years and the inflation rate in 2005 will drop to 4.6 percent, according to WES experts. Also other forecasts suggest that the country will maintain macroeconomic stability in 2005. In *El Salvador, Panama* and *Peru* the current business confidence remains still strong, while in *Costa Rica, Ecuador, Paraguay, Bolivia* and *Venezuela* the assessments of the present economic situation have not yet reached the satisfactory level. The expectations regarding economic growth for the next six months have also been downgraded somewhat but remained generally optimistic in the majority of other countries surveyed by WES experts (see

**Figure 5**

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

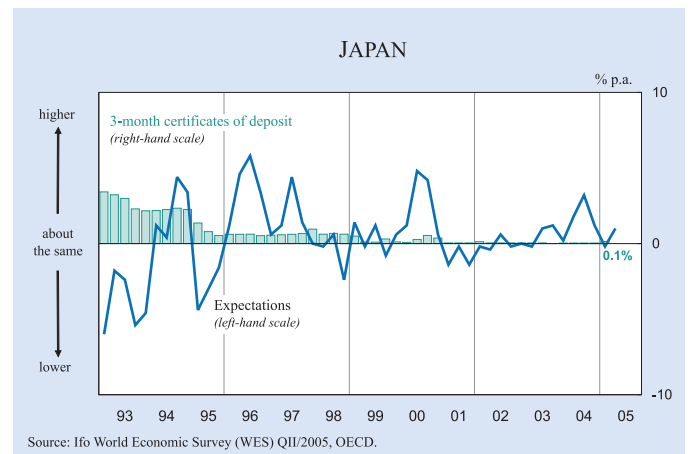
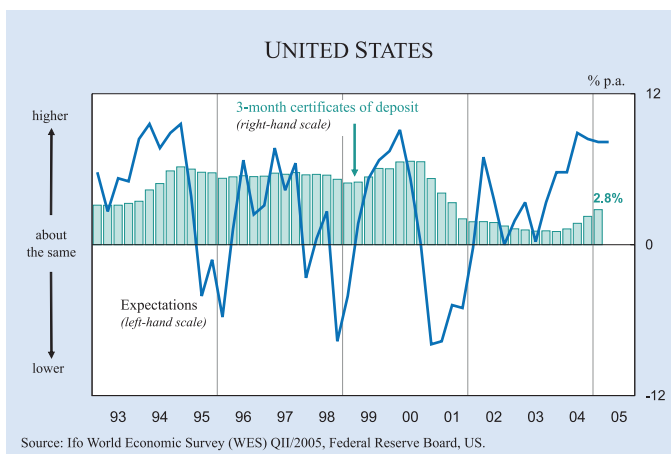
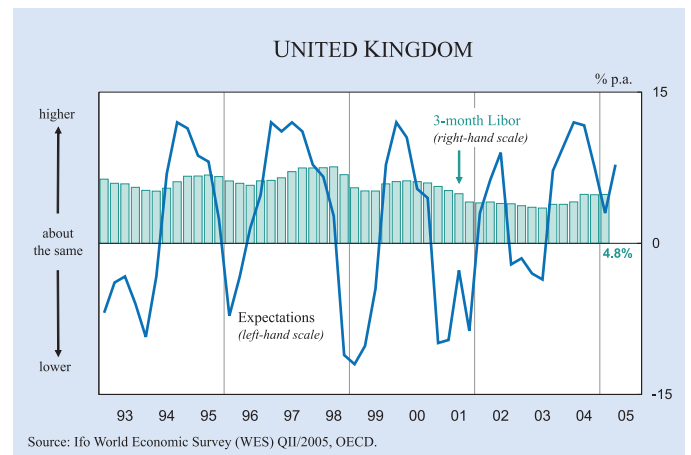
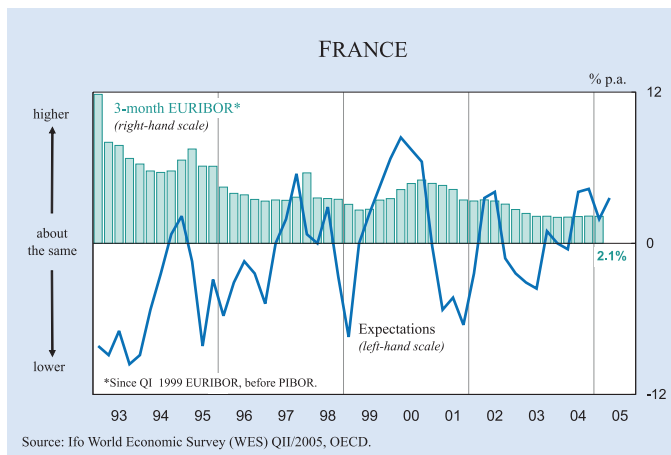
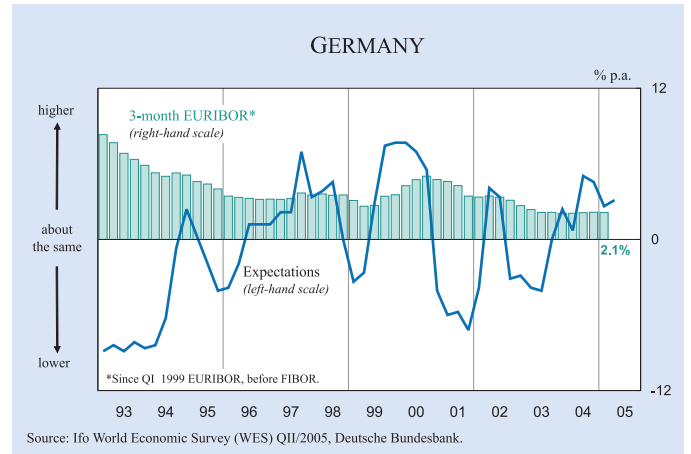
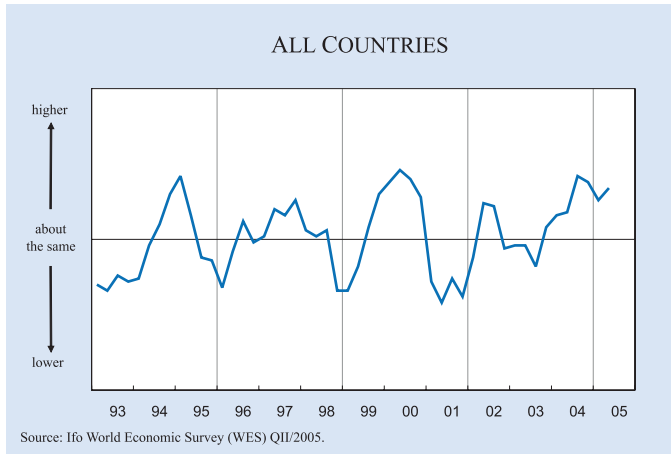


Figure 10). Only in *Bolivia, Costa Rica, Ecuador* and *Paraguay* has the outlook for 2005 become cloudy according to WES experts.

### Near East: Economic climate remains favourable

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

According to the panel's responses, the current economic situation in *Iran, Bahrain, Kuwait, Jordan, Saudi Arabia* and the *United Arab Emirates* remained favourable. The assessments of economic performance in April were above the "satisfactory" level in all these countries. The forecast for the coming six months points to a positive development. According to WES indicators, the economy in *Israel* is also rebounding from recession very strongly. Analysts are confident concerning further economic stabilisation. 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.

The economy in *Turkey* demonstrated strong growth over the past three years. The country's GDP expanded by about 10 per cent in 2004, making its economy one of the world's fastest-growing. However, in 2005 the country's economic climate deteriorated somewhat. Both the assessments of the present economic situation as well as near-term expectations received slightly lower marks than at the end of 2004. Unemployment, foreign debts and

public deficits remain crucial challenges for the near-term future. Also in *Lebanon*, the economic climate worsened in April. *Lebanon* was plunged into a political crisis after the February 14 assassination of former Prime Minister Rafiq Hariri, leading to huge protests in the country. However, WES experts project economic recovery in the second half of 2005. Also private consumption is expected to pick up and a rebound in corporate investments is foreseen.

### Africa: Diverging economic trends predominate

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* (see Figure 11) the economy has experienced steady growth over the past decade. The economic climate indicator continuously improved during 2004. In the beginning of 2005 the overall climate index deteriorated slightly due to less optimistic expectations. However 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. "Unemployment", on the one hand, and "lack of skilled labour", 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.

The *Egyptian* economy is still facing economic hardship. The overall economic situation is assessed far

below the "satisfactory" level. But optimism prevails in the forecasts for the second half of the year. Similarly in *Nigeria* and *Algeria* the present economic situation has been also assessed as "bad", but the near term expectations raise hopes for betterment. Not so in *Kenya, Cote d'Ivoire* and *Zimbabwe* where WES experts don't expect considerable improvement of the present low economic performance in the coming six months. In *Mauritius, Morocco* and

Figure 6

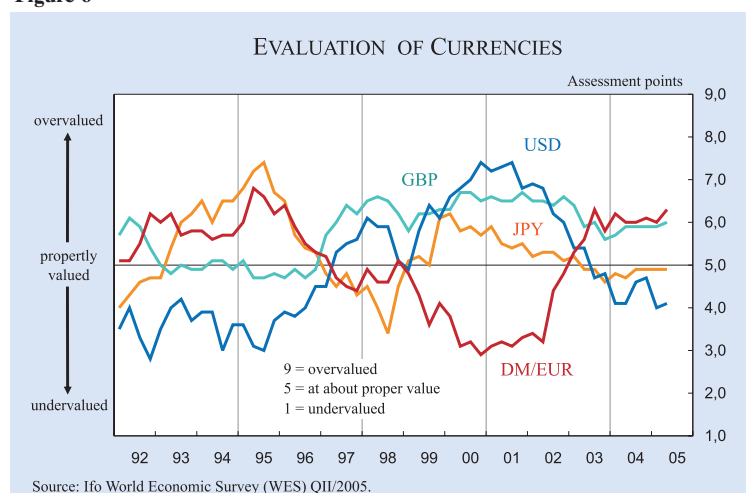


Table 1

Expected Inflation Rate on Average of 2005  
(based on WES Q1 and Q2 2005)

Region	Q1/2005	Q2/2005	Region	Q1/2005	Q2/2005
Average of 91 countries	2.9	2.8	Central a. Latin America	6.1	6.4
World Bank classification			Argentina	12.2	8.4
High-income countries	2.0	2.0	Bolivia	4.4	4.0
Middle-income countries	5.6	5.6	Brazil	6.4	6.2
Upper-middle	4.2	4.7	Chile	2.7	2.4
Lower-middle	7.1	6.5	Colombia	5.3	5.2
Low-income countries	9.0	9.6	Costa Rica	12.7	11.5
EU countries (old members)	2.0	2.0	Ecuador	1.9	2.4
EU countries (new mem- bers) <sup>2</sup>	3.2	3.8	El Salvador	4.4	4.3
EMU area <sup>3</sup>	2.0	2.0	Mexico	4.6	4.7
Asia/Pacific Rim <sup>4</sup>	2.9	3.0	Paraguay	1.3	1.3
Western Europe	1.9	1.9	Peru	7.6	6.0
Austria	2.2	2.1	Trinidad and Tobago	2.8	3.1
Belgium	2.0	1.9	Uruguay	4.5	-
Cyprus	3.0	2.5	Venezuela	6.3	7.3
Denmark	1.8	2.0		19.7	22.0
Finland	1.4	1.7	Asia	2.3	2.4
France	2.0	2.0	Bangladesh	6.0	5.5
Germany	1.6	1.6	China P.R.	4.1	4.1
Greece	3.4	3.2	Hong Kong	1.4	1.5
Iceland	4.0	3.2	India	5.5	6.2
Ireland	2.3	2.5	Indonesia	6.9	6.6
Italy	2.1	2.2	Japan	0.1	0.1
Luxembourg	2.3	2.3	Korea	3.9	3.4
Malta	2.4	-	Malaysia	2.3	2.6
Netherlands	1.6	1.5	Pakistan	9.0	8.0
Norway	1.4	1.3	Philippines	6.8	6.9
Portugal	2.2	2.3	Singapore	2.0	2.3
Spain	3.1	3.1	Sri Lanka	13.0	10.5
Sweden	1.2	1.5	Taiwan	1.7	1.7
Switzerland	1.0	1.2	Thailand	3.3	3.2
United Kingdom	2.1	2.1	Vietnam	6.1	6.6
Central a. Eastern Europe	3.7	4.3	Near East	5.6	4.7
Albania	3.4	3.7	Bahrain	-	1.0
Bosnia Herzegovina	-	1.5	Iran	16.5	20.0
Bulgaria	3.9	4.4	Israel	2.3	1.9
Croatia	2.7	2.4	Jordan	3.1	3.7
Czech Republic	2.4	3.0	Lebanon	2.0	2.5
Estonia	3.5	3.4	Saudi Arabia	1.4	1.6
Hungary	4.2	5.1	Turkey	8.4	8.6
Latvia	5.9	5.9	United Arab Emirates	4.7	3.7
Lithuania	2.6	2.5	Africa	9.0	10.5
Poland	2.9	3.6	Algeria	5.0	4.6
Romania	7.5	8.1	Egypt	8.1	7.0
Serbia a. Montenegro	10.9	12.0	Kenya	10.0	11.0
Slovenia	3.0	2.8	Madagascar	4.0	5.2
Slovakia	3.7	4.4	Morocco	3.0	1.8
CIS	11.2	10.0	Nigeria	13.5	13.5
Kazakhstan	6.6	6.8	South Africa	4.1	4.6
Russia	11.3	10.3	Tanzania	-	5.3
Ukraine	13.2	10.5	Tunisia	2.8	2.7
North America	2.7	2.7	Zimbabwe	170.0	170.0
Canada	2.2	2.5	Oceania	2.8	2.6
USA	2.2	2.7	Australia	2.8	2.6
			New Zealand	2.6	2.6

<sup>0</sup> 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.

<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: ILO World Economic Survey (WES), Q1/2005.

*Tunisia* the present economic situation was assessed as satisfactory. However, the surveyed experts are still concerned whether these economies will maintain a stabilisation course for the rest of 2005.

#### **No change of inflation rate in 2005**

On the world-wide average consumer price inflation (CPI) in 2005 is expected to stay at 2.9 percent, which is exactly the rate registered in 2004. However, compared with the inflation estimate given in the first quarter (2.8 percent) this is a marginal upward revision of expected price increases in the world.

In the *euro area* the inflation outlook for 2005 is identical with the 2004 inflation rate (2.0 percent) and also unchanged from the estimate from the first quarter of this year. The worst inflation performance in the euro area will prevail again in 2005 in Greece, where the inflation outlook has even worsened somewhat (from 3.2 percent to now 3.4 percent), followed by Spain (3.1 percent). On the other hand the lowest inflation rates in the euro area in 2005 are expected in Finland (1.4 percent), the Netherlands (1.6 percent) and Germany (1.6 percent). In Western Europe outside the euro area, expectations for low inflation rates in 2005 continue to prevail in Switzerland (1.0 percent after expected 1.2 percent at the beginning of the year), Sweden (1.2 percent after previously expected 1.5 percent) and Norway (1.4 percent after previously expected 1.3 percent). In the United Kingdom the inflation rate in 2005 will remain 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 creep up further, probably mainly caused by the weaker US dollar rendering imported goods more expensive in dollar terms. With an expected CPI figure of 2.9 percent in 2005 (after a previously expected 2.7 percent) the US inflation rate would be somewhat above the 2.5 percent mark that the FED considers still acceptable.

In *Asia* consumer price inflation is expected to slow down further (2.3 percent after previously expected 2.4 percent and an actual inflation rate of 2.6 percent in 2004). The expected weakening of inflation is particularly pronounced in India (5.5 percent after previously expected 6.2 percent) and Vietnam (6.1 percent after previously expected 6.6 percent).

On the other hand, inflation is expected to pick up in Sri Lanka (13.0 percent after previously expected 10.5 percent), in Pakistan (9.0 percent after previously expected 8.0) and in South Korea (3.9 percent after previously expected 3.4 percent). In China inflation expectations for 2005 remained unchanged at 4.1 percent. In Japan deflation appears to have come to an end, though consumer prices are seen as hardly rising (expected increase of 0.1 percent; unchanged from estimate at the beginning of the year).

In *Central and Eastern Europe* inflation is expected to slow down further (3.7 percent after previously expected 4.3 percent and 5.1 percent in 2004). The relatively highest rate of inflation still prevails in Serbia and Montenegro, though also here some moderation of price increases is in the offing (10.9 percent after previously expected 12.0 percent). The lowest rates of inflation are seen in 2005 in the Czech Republic (2.4 percent), in Lithuania (2.6 percent) and in Poland (2.9 percent).

In the *CIS* countries inflation in 2005 is seen somewhat higher than at the beginning of the year (11.2 percent compared with previously expected 10.0 percent). The upward revision results mainly from higher inflation expectations in Russia (11.3 percent after previously expected 10.3 percent) and Ukraine (13.2 percent after previously expected 10.5 percent). On the other hand, in Kazakhstan the inflation outlook for 2005 is now even marginally brighter than at the beginning of the year (6.6 percent after previously expected 6.8 percent).

In *Central and Latin America* inflation in 2005 appears to be slightly lower than expected at the beginning of the year (6.1 percent compared with previously expected 6.4 percent). However, this is mainly due to Venezuela where the high inflation rate of last year (22 percent) which originally was expected to continue will come down to 19.7 percent this year. Also in Uruguay inflation in 2005 is expected to come in at a lower rate than expected at the beginning of the year (6.3 percent after 7.3 percent). On the other hand the inflation outlook in Argentina has worsened considerably since the beginning of the year (12.2 percent after previously expected 8.4 percent). Also in Costa Rica and Paraguay inflation in 2005 is expected to pick up somewhat more than foreseen at the beginning of the year (12.7 percent compared with 11.5 percent respectively 7.6 percent compared to 6.0 percent). In Brazil the

Figure 7a

# EUROPEAN UNION

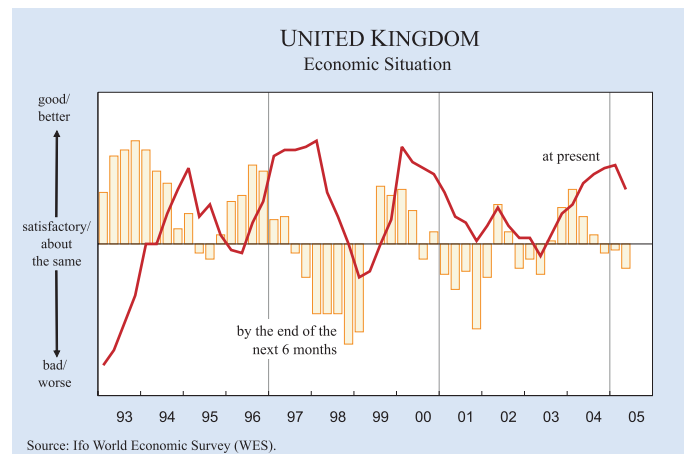
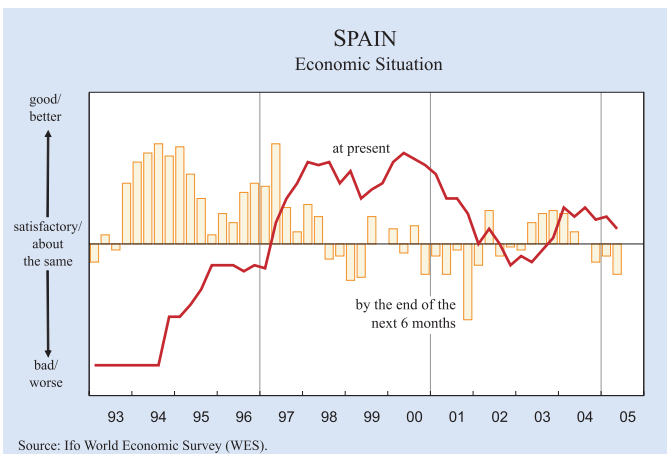
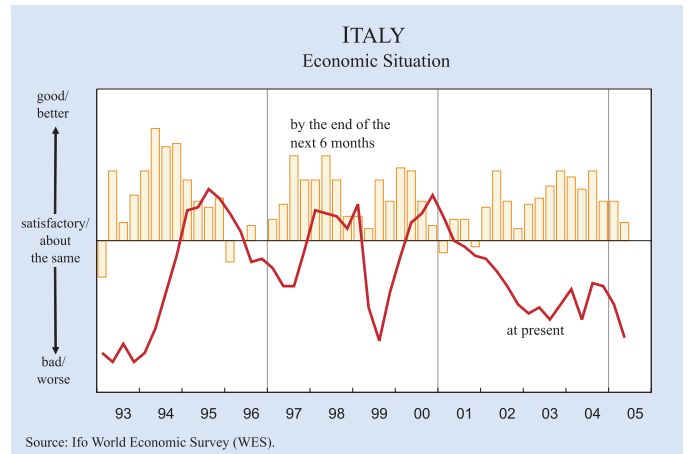
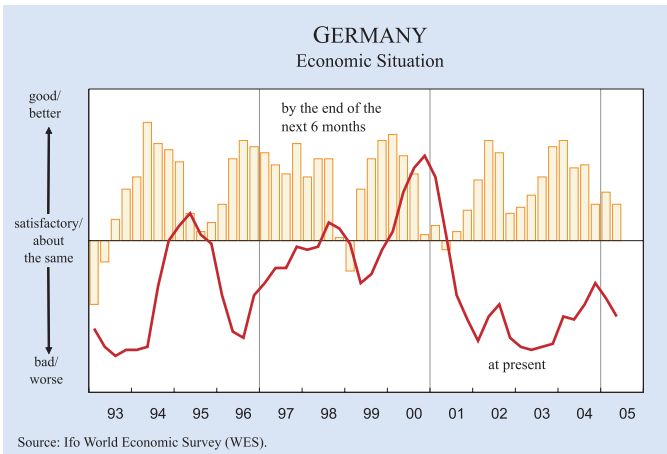
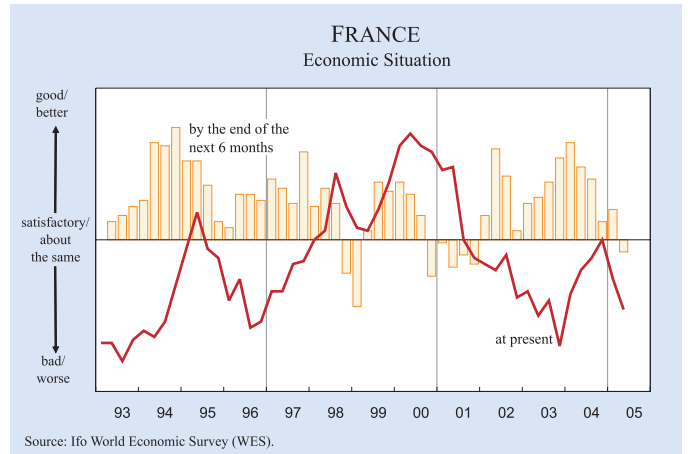
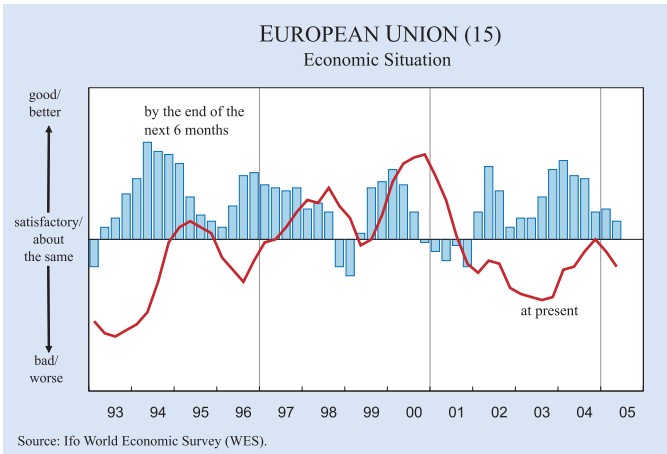
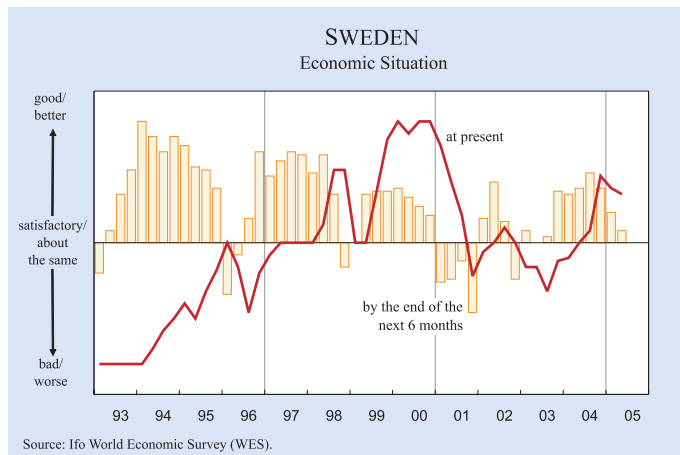
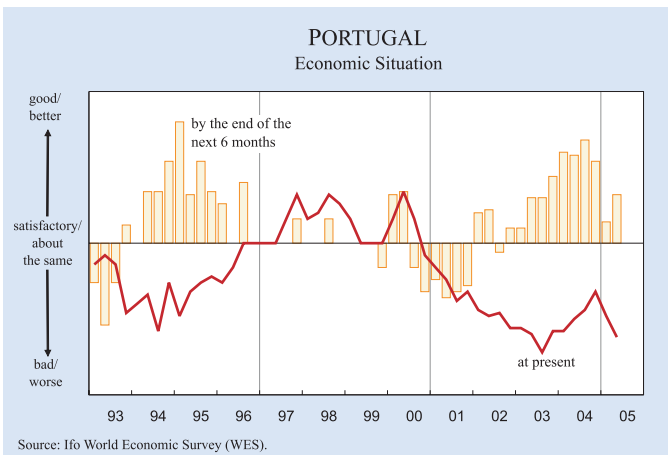
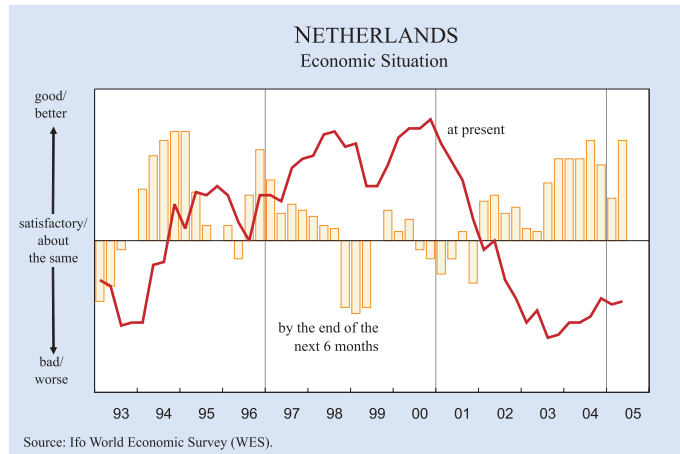
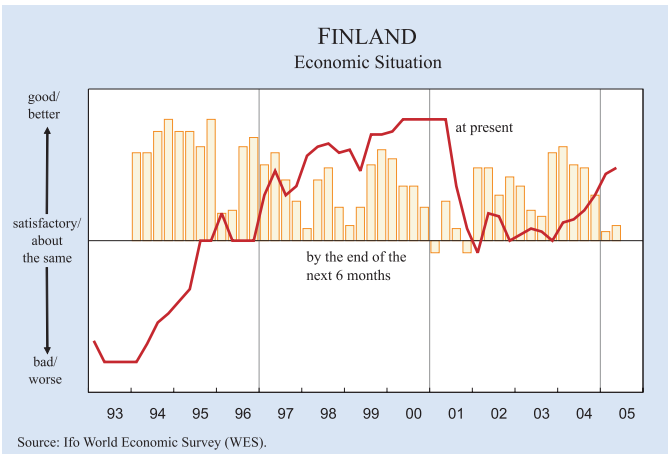
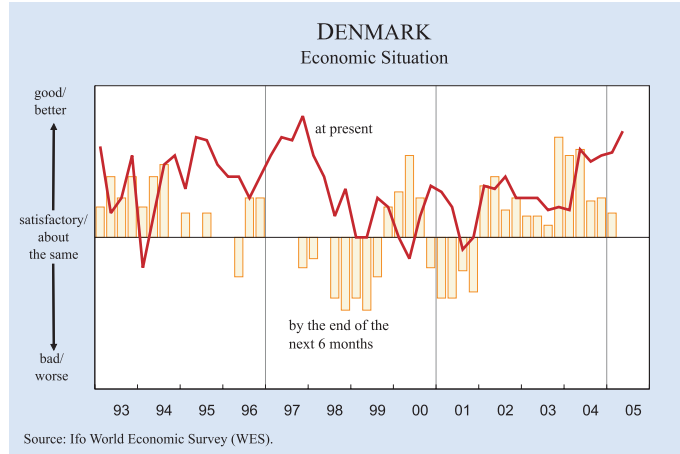
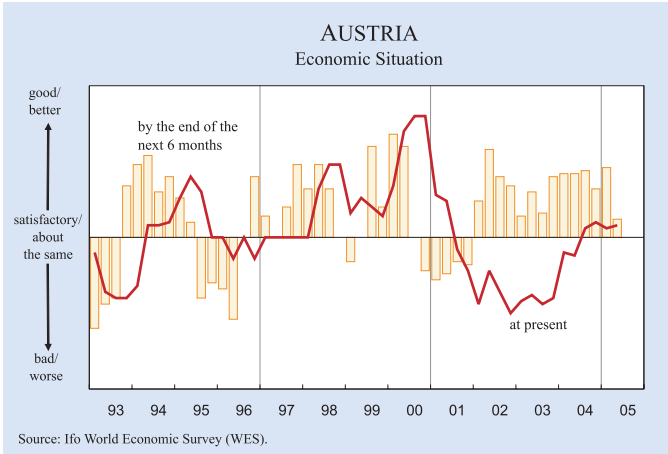




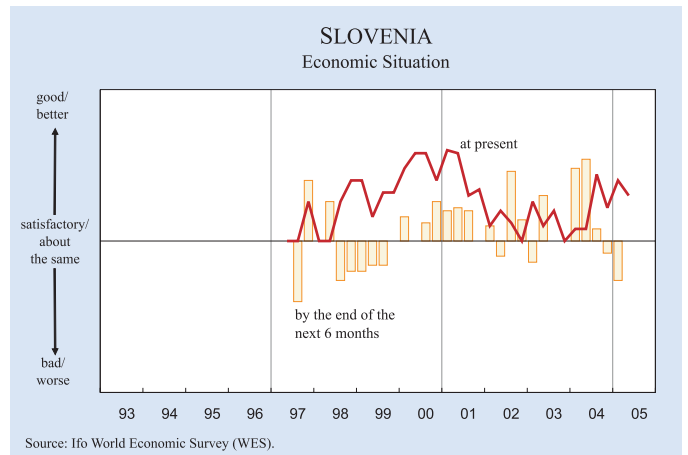
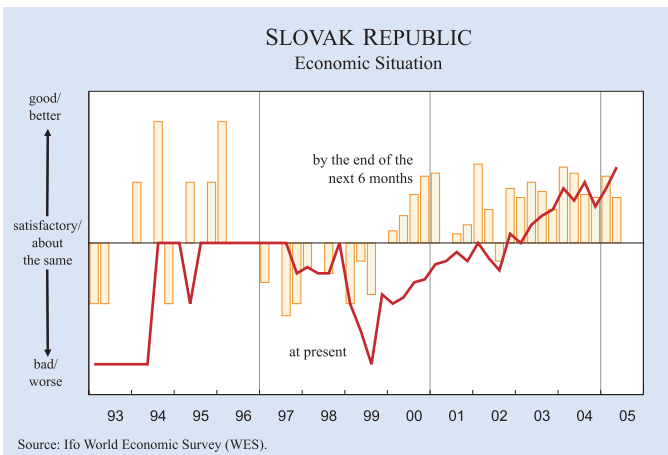
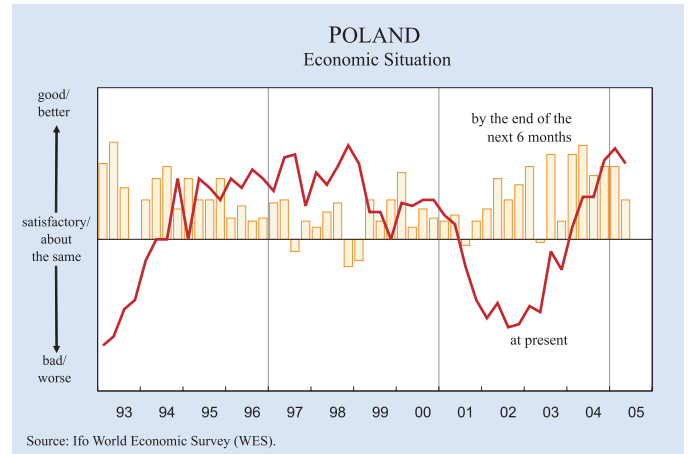
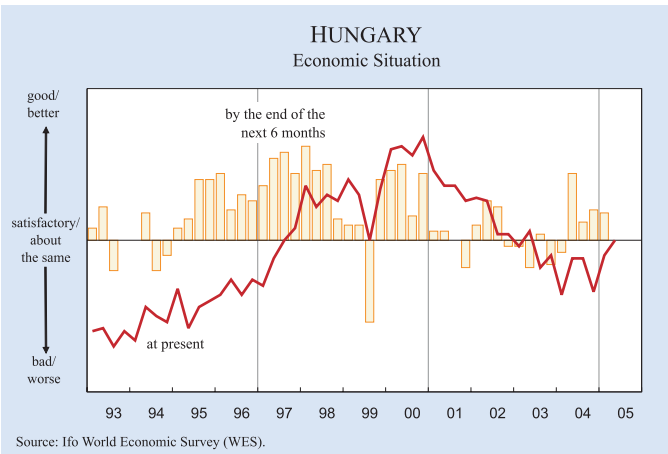
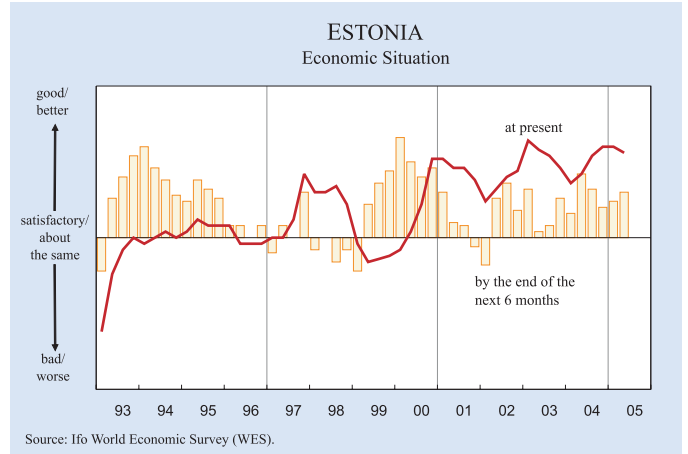
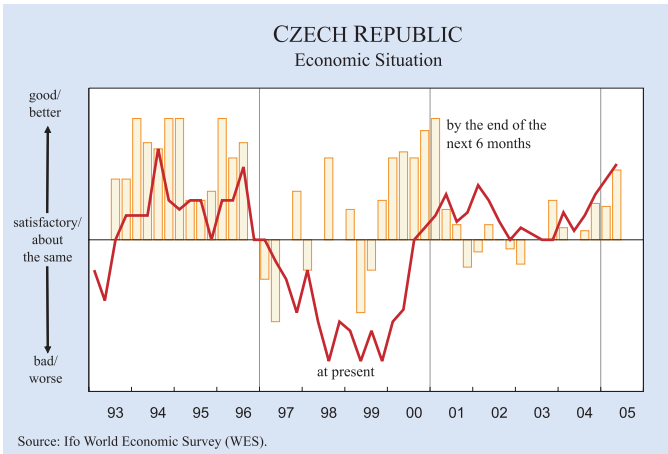
Figure 7b

# EUROPEAN UNION



**Figure 8**

**EASTERN EUROPE**



**Figure 9**

**ASIA**

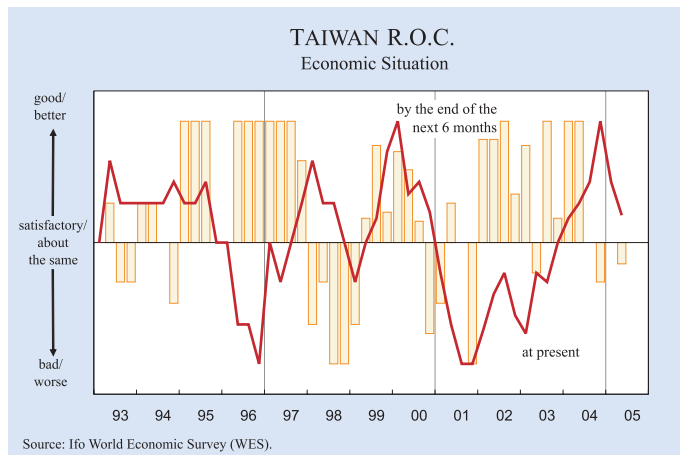
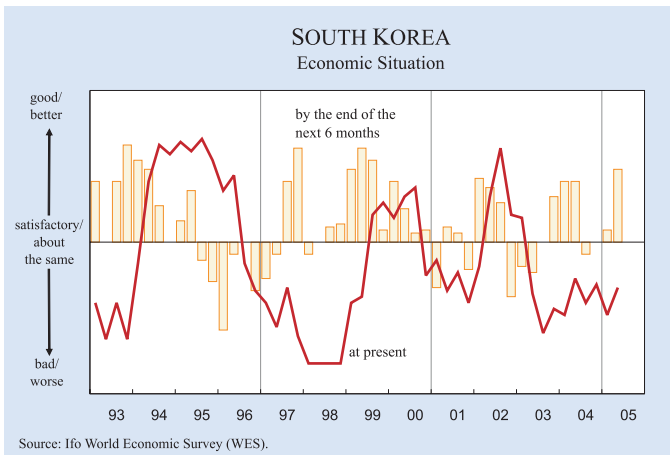
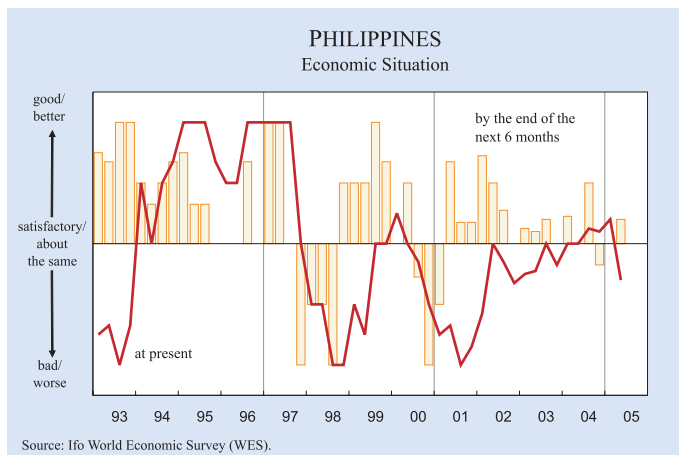
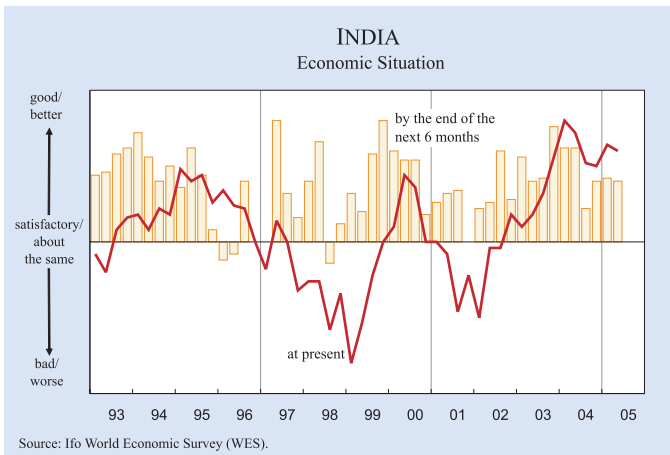
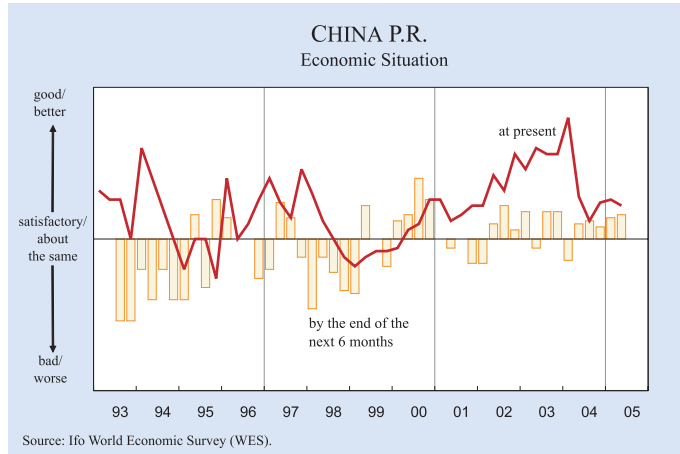
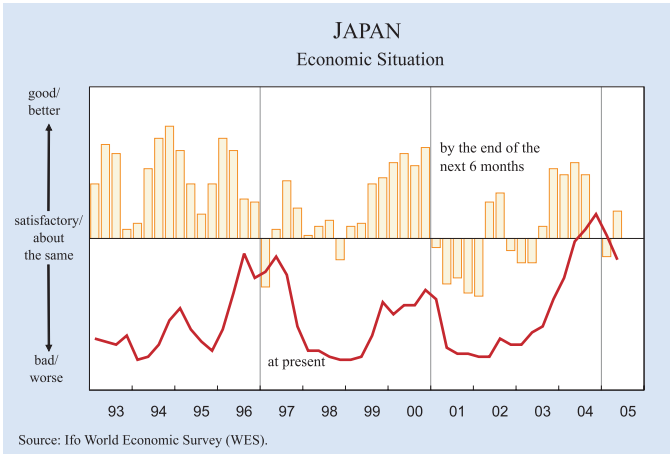
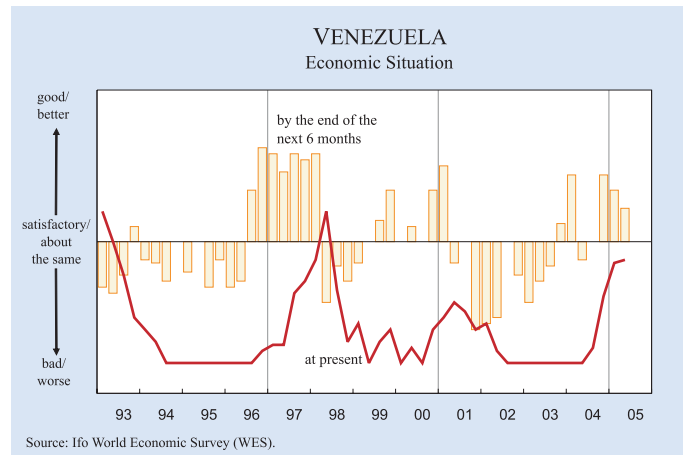
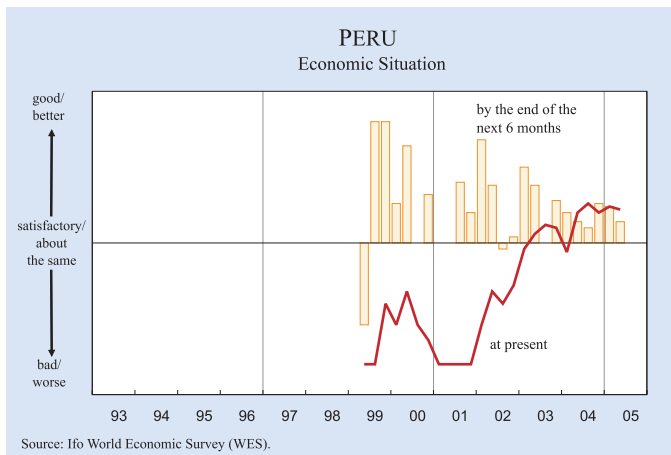
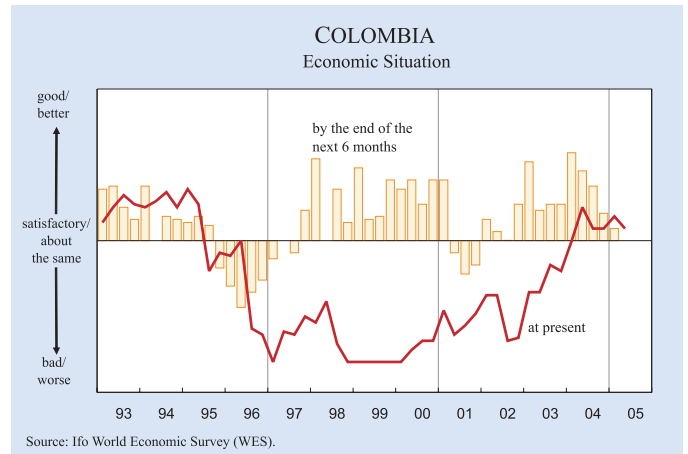
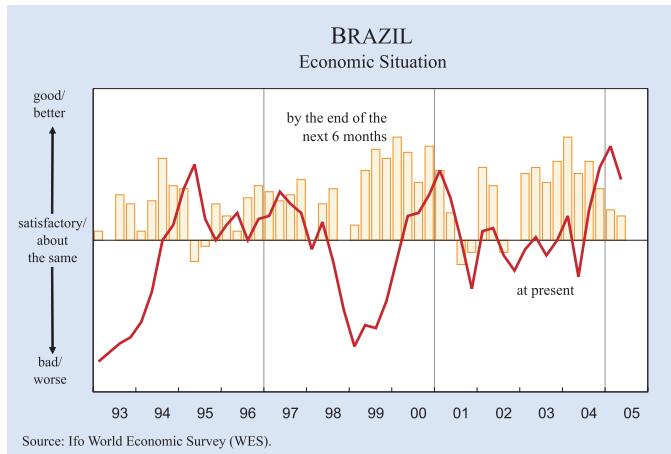
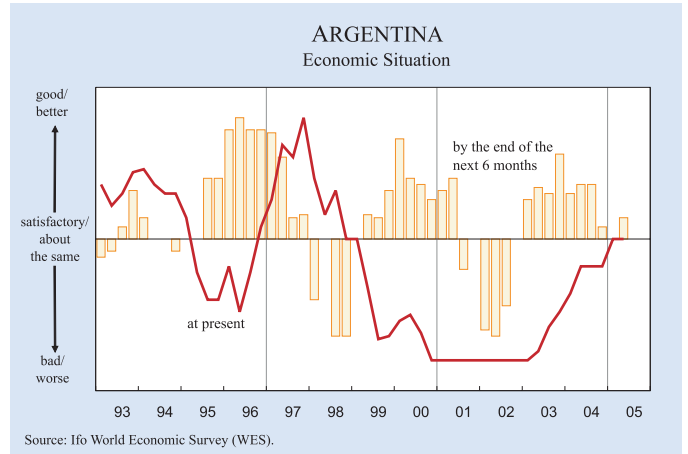
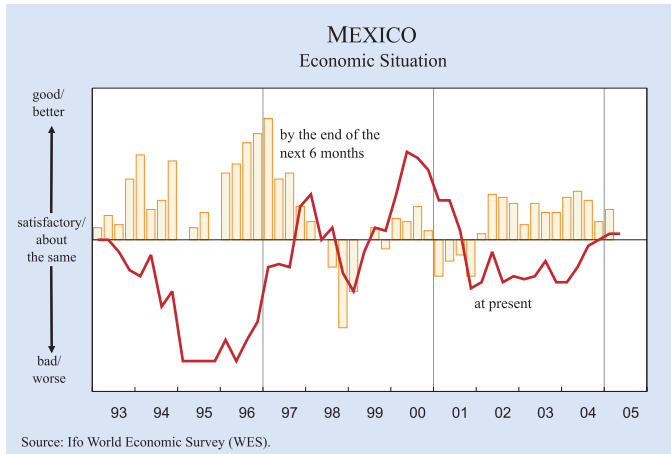


Figure 10

LATIN AMERICA



**Figure 11**

**NEAR EAST AND AFRICA**

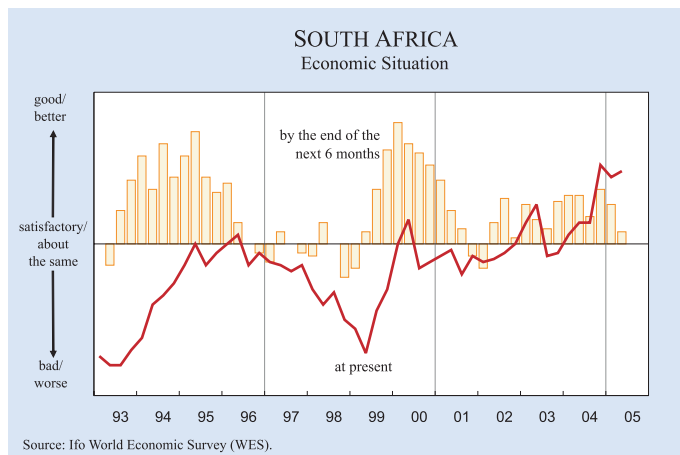
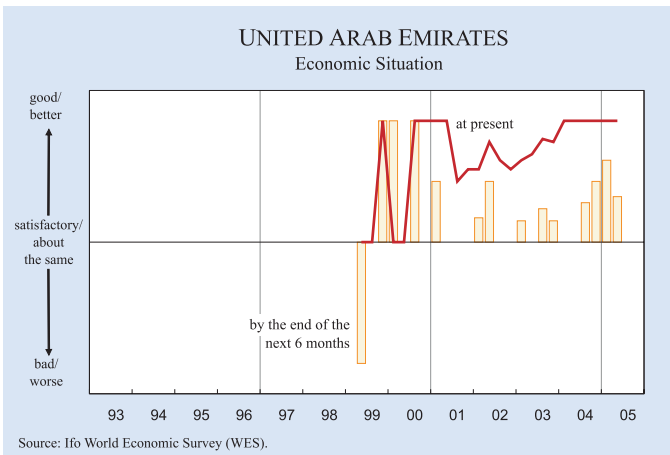
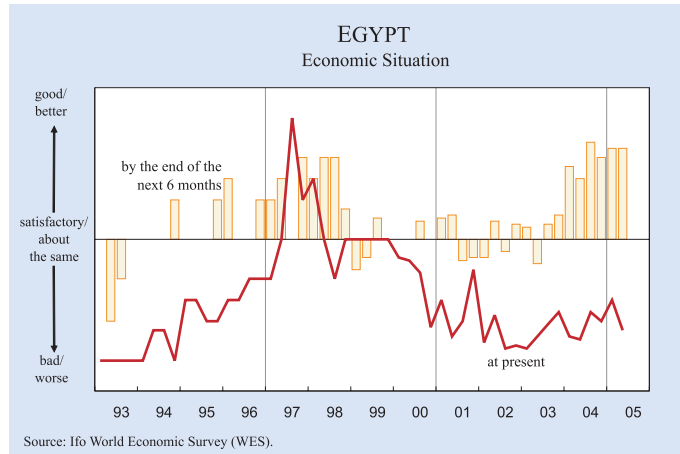
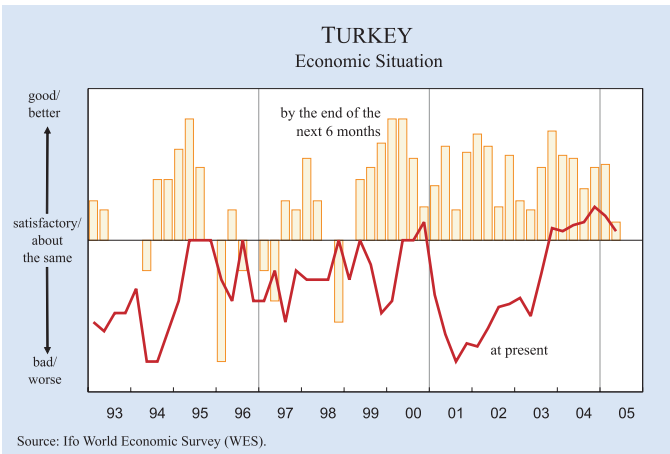
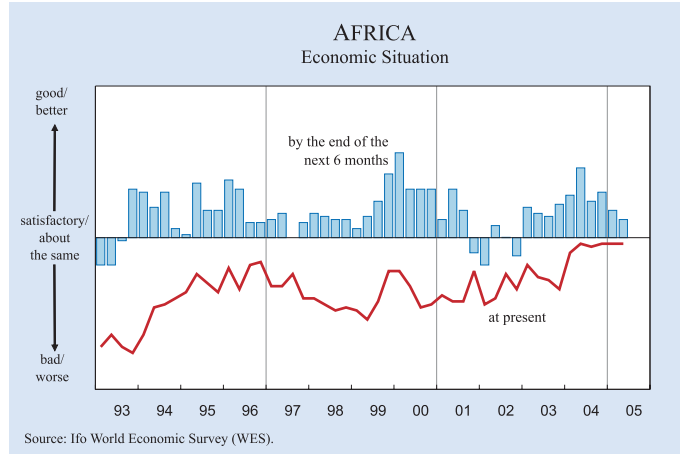
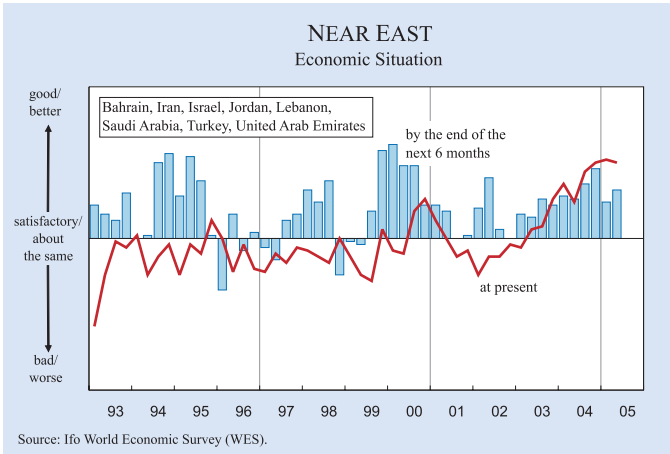


Table 2

Expected Growth of Real Gross Domestic Product (GDP) in 2005 and 2004  
(based on WEA QII/2005 and QII/2004)

Region	QII/2005	QII/2004	Region	QII/2005	QII/2004
Average of 51 countries	3.1	3.4	Central & Latin America	4.2	3.3
World Bank classification:			Argentina	0.4	5.9
High-income countries	2.5	2.8	Bolivia	3.8	2.4
EMU high-income countries	5.2	5.3	Brazil	3.9	2.9
Upper middle	4.7	3.8	Chile	0.0	4.3
Lower middle	5.8	0.3	Colombia	3.9	3.8
Low-income countries	0.2	5.7	Costa Rica	3.2	3.8
EU countries (old members)	1.9	1.9	Ecuador	3.5	4.4
EU countries (new members) <sup>1</sup>	4.2	3.7	El Salvador	2.0	2.7
EU area <sup>2</sup>	1.7	1.7	Estonia	3.8	2.0
Asia Pacific & III <sup>3</sup>	5.0	5.9	Finland	3.3	3.8
Western Europe	1.9	1.9	France	3.1	2.7
Austria	2.1	1.7	Germany	4.8	3.9
Belgium	2.1	1.9	Greece	5.0	5.9
Cyprus	4.0	3.5	Ireland	1.9	1.9
Denmark	2.5	2.1	Italy	1.0	1.5
Finland	3.0	2.0	Japan	3.3	4.0
France	1.9	1.0	Korea	0.8	3.5
Germany	1.0	1.5	Lebanon	5.2	3.5
Greece	3.3	4.0	Lithuania	1.2	1.2
Iceland	0.8	3.5	Luxembourg	3.5	2.0
Ireland	5.2	3.5	Netherlands	1.5	-
Italy	1.2	1.2	Norway	1.4	1.3
Luxembourg	3.5	2.0	Portugal	3.4	2.5
Netherlands	1.5	-	Spain	1.4	1.0
Norway	1.4	1.3	Sweden	2.0	2.0
Portugal	3.4	2.5	Switzerland	2.7	2.1
Spain	1.4	1.0	United Kingdom	1.5	1.5
Sweden	2.0	2.0	Central & Eastern Europe	2.7	3.0
Switzerland	2.7	2.1	Albania	4.4	3.8
United Kingdom	1.5	1.5	Bosnia Herzegovina	5.2	5.4
Central & Eastern Europe	2.7	3.0	Bulgaria	5.5	-
Albania	4.4	3.8	Croatia	5.0	4.3
Bosnia Herzegovina	5.2	5.4	Czechia	3.7	3.2
Bulgaria	5.5	-	Czechia	3.8	3.0
Croatia	5.0	4.3	Estonia	5.7	5.1
Czechia	3.7	3.2	Hungary	3.5	3.3
Czechia	3.8	3.0	Latvia	0.9	0.3
Estonia	5.7	5.1	Lithuania	0.1	0.8
Hungary	3.5	3.3	Poland	4.5	4.0
Latvia	0.9	0.3	Romania	5.5	4.7
Lithuania	0.1	0.8	Slovenia	5.0	3.9
Poland	4.5	4.0	Slovakia	3.7	3.5
Romania	5.5	4.7	Slovakia	5.0	4.0
Slovenia	5.0	3.9	CIS	6.7	6.3
Slovakia	3.7	3.5	Georgia	-	8.0
Slovakia	5.0	4.0	Kazakhstan	8.8	8.5
CIS	6.7	6.3	Russia	0.0	0.5
Georgia	-	8.0	Ukraine	8.1	0.3
Kazakhstan	8.8	8.5	Uzbekistan	-	0.5
Russia	0.0	0.5	North America	3.0	3.6
Ukraine	8.1	0.3	Canada	2.4	2.9
Uzbekistan	-	0.5	USA	3.2	3.8
North America	3.0	3.6	Central & Latin America	4.2	3.3
Canada	2.4	2.9	Argentina	0.4	5.9
USA	3.2	3.8	Bolivia	3.8	2.4
Central & Latin America	4.2	3.3	Brazil	3.9	2.9
Argentina	0.4	5.9	Chile	0.0	4.3
Bolivia	3.8	2.4	Colombia	3.9	3.8
Brazil	3.9	2.9	Costa Rica	3.2	3.8
Chile	0.0	4.3	Ecuador	3.5	4.4
Colombia	3.9	3.8	El Salvador	2.0	2.7
Costa Rica	3.2	3.8	Estonia	3.8	2.0
Ecuador	3.5	4.4	Finland	3.3	3.8
El Salvador	2.0	2.7	France	3.1	2.7
Estonia	3.8	2.0	Germany	4.8	3.9
Finland	3.3	3.8	Greece	5.0	5.9
France	3.1	2.7	Ireland	1.9	1.9
Germany	4.8	3.9	Italy	1.0	1.5
Greece	5.0	5.9	Japan	3.3	4.0
Ireland	1.9	1.9	Korea	0.8	3.5
Italy	1.0	1.5	Lebanon	5.2	3.5
Japan	3.3	4.0	Lithuania	1.2	1.2
Korea	0.8	3.5	Luxembourg	3.5	2.0
Lebanon	5.2	3.5	Netherlands	1.5	-
Lithuania	1.2	1.2	Norway	1.4	1.3
Luxembourg	3.5	2.0	Portugal	3.4	2.5
Netherlands	1.5	-	Spain	1.4	1.0
Norway	1.4	1.3	Sweden	2.0	2.0
Portugal	3.4	2.5	Switzerland	2.7	2.1
Spain	1.4	1.0	United Kingdom	1.5	1.5
Sweden	2.0	2.0	Central & Eastern Europe	2.7	3.0
Switzerland	2.7	2.1	Albania	4.4	3.8
United Kingdom	1.5	1.5	Bosnia Herzegovina	5.2	5.4
Central & Eastern Europe	2.7	3.0	Bulgaria	5.5	-
Albania	4.4	3.8	Croatia	5.0	4.3
Bosnia Herzegovina	5.2	5.4	Czechia	3.7	3.2
Bulgaria	5.5	-	Czechia	3.8	3.0
Croatia	5.0	4.3	Estonia	5.7	5.1
Czechia	3.7	3.2	Hungary	3.5	3.3
Czechia	3.8	3.0	Latvia	0.9	0.3
Estonia	5.7	5.1	Lithuania	0.1	0.8
Hungary	3.5	3.3	Poland	4.5	4.0
Latvia	0.9	0.3	Romania	5.5	4.7
Lithuania	0.1	0.8	Slovenia	5.0	3.9
Poland	4.5	4.0	Slovakia	3.7	3.5
Romania	5.5	4.7	Slovakia	5.0	4.0
Slovenia	5.0	3.9	CIS	6.7	6.3
Slovakia	3.7	3.5	Georgia	-	8.0
Slovakia	5.0	4.0	Kazakhstan	8.8	8.5
CIS	6.7	6.3	Russia	0.0	0.5
Georgia	-	8.0	Ukraine	8.1	0.3
Kazakhstan	8.8	8.5	Uzbekistan	-	0.5
Russia	0.0	0.5	North America	3.0	3.6
Ukraine	8.1	0.3	Canada	2.4	2.9
Uzbekistan	-	0.5	USA	3.2	3.8
North America	3.0	3.6	Central & Latin America	4.2	3.3
Canada	2.4	2.9	Argentina	0.4	5.9
USA	3.2	3.8	Bolivia	3.8	2.4
Central & Latin America	4.2	3.3	Brazil	3.9	2.9
Argentina	0.4	5.9	Chile	0.0	4.3
Bolivia	3.8	2.4	Colombia	3.9	3.8
Brazil	3.9	2.9	Costa Rica	3.2	3.8
Chile	0.0	4.3	Ecuador	3.5	4.4
Colombia	3.9	3.8	El Salvador	2.0	2.7
Costa Rica	3.2	3.8	Estonia	3.8	2.0
Ecuador	3.5	4.4	Finland	3.3	3.8
El Salvador	2.0	2.7	France	3.1	2.7
Estonia	3.8	2.0	Germany	4.8	3.9
Finland	3.3	3.8	Greece	5.0	5.9
France	3.1	2.7	Ireland	1.9	1.9
Germany	4.8	3.9	Italy	1.0	1.5
Greece	5.0	5.9	Japan	3.3	4.0
Ireland	1.9	1.9	Korea	0.8	3.5
Italy	1.0	1.5	Lebanon	5.2	3.5
Japan	3.3	4.0	Lithuania	1.2	1.2
Korea	0.8	3.5	Luxembourg	3.5	2.0
Lebanon	5.2	3.5	Netherlands	1.5	-
Lithuania	1.2	1.2	Norway	1.4	1.3
Luxembourg	3.5	2.0	Portugal	3.4	2.5
Netherlands	1.5	-	Spain	1.4	1.0
Norway	1.4	1.3	Sweden	2.0	2.0
Portugal	3.4	2.5	Switzerland	2.7	2.1
Spain	1.4	1.0	United Kingdom	1.5	1.5
Sweden	2.0	2.0	Central & Eastern Europe	2.7	3.0
Switzerland	2.7	2.1	Albania	4.4	3.8
United Kingdom	1.5	1.5	Bosnia Herzegovina	5.2	5.4
Central & Eastern Europe	2.7	3.0	Bulgaria	5.5	-
Albania	4.4	3.8	Croatia	5.0	4.3
Bosnia Herzegovina	5.2	5.4	Czechia	3.7	3.2
Bulgaria	5.5	-	Czechia	3.8	3.0
Croatia	5.0	4.3	Estonia	5.7	5.1
Czechia	3.7	3.2	Hungary	3.5	3.3
Czechia	3.8	3.0	Latvia	0.9	0.3
Estonia	5.7	5.1	Lithuania	0.1	0.8
Hungary	3.5	3.3	Poland	4.5	4.0
Latvia	0.9	0.3	Romania	5.5	4.7
Lithuania	0.1	0.8	Slovenia	5.0	3.9
Poland	4.5	4.0	Slovakia	3.7	3.5
Romania	5.5	4.7	Slovakia	5.0	4.0
Slovenia	5.0	3.9	CIS	6.7	6.3
Slovakia	3.7	3.5	Georgia	-	8.0
Slovakia	5.0	4.0	Kazakhstan	8.8	8.5
CIS	6.7	6.3	Russia	0.0	0.5
Georgia	-	8.0	Ukraine	8.1	0.3
Kazakhstan	8.8	8.5	Uzbekistan	-	0.5
Russia	0.0	0.5	North America	3.0	3.6
Ukraine	8.1	0.3	Canada	2.4	2.9
Uzbekistan	-	0.5	USA	3.2	3.8
North America	3.0	3.6	Central & Latin America	4.2	3.3
Canada	2.4	2.9	Argentina	0.4	5.9
USA	3.2	3.8	Bolivia	3.8	2.4
Central & Latin America	4.2	3.3	Brazil	3.9	2.9
Argentina	0.4	5.9	Chile	0.0	4.3
Bolivia	3.8	2.4	Colombia	3.9	3.8
Brazil	3.9	2.9	Costa Rica	3.2	3.8
Chile	0.0	4.3	Ecuador	3.5	4.4
Colombia	3.9	3.8	El Salvador	2.0	2.7
Costa Rica	3.2	3.8	Estonia	3.8	2.0
Ecuador	3.5	4.4	Finland	3.3	3.8
El Salvador	2.0	2.7	France	3.1	2.7
Estonia	3.8	2.0	Germany	4.8	3.9
Finland	3.3	3.8	Greece	5.0	5.9
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Lebanon	5.2	3.5	Netherlands	1.5	-
Lithuania	1.2	1.2	Norway	1.4	1.3
Luxembourg	3.5	2.0	Portugal	3.4	2.5
Netherlands	1.5	-	Spain	1.4	1.0
Norway	1.4	1.3	Sweden	2.0	2.0
Portugal	3.4	2.5	Switzerland	2.7	2.1
Spain	1.4	1.0	United Kingdom	1.5	1.5
Sweden	2.0	2.0	Central & Eastern Europe	2.7	3.0
Switzerland	2.7	2.1	Albania	4.4	3.8
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Central & Eastern Europe	2.7	3.0	Bulgaria	5.5	-
Albania	4.4	3.8	Croatia	5.0	4.3
Bosnia Herzegovina	5.2	5.4	Czechia	3.7	3.2
Bulgaria	5.5	-	Czechia	3.8	3.0
Croatia	5.0	4.3	Estonia	5.7	5.1
Czechia	3.7	3.2	Hungary	3.5	3.3
Czechia	3.8	3.0	Latvia	0.9	0.3
Estonia	5.7	5.1	Lithuania	0.1	0.8
Hungary	3.5	3.3	Poland	4.5	4.0
Latvia	0.9	0.3	Romania	5.5	4.7
Lithuania	0.1	0.8	Slovenia	5.0	3.9
Poland	4.5	4.0	Slovakia	3.7	3.5
Romania	5.5	4.7	Slovakia	5.0	4.0
Slovenia	5.0	3.9	CIS	6.7	6.3
Slovakia	3.7	3.5	Georgia	-	8.0
Slovakia	5.0	4.0	Kazakhstan	8.8	8.5
CIS	6.7	6.3	Russia	0.0	0.5

inflation outlook for 2005 remained more or less stable (6.4 percent compared to previously an expected 6.2 percent).

Also in *Africa* inflation is expected to calm down somewhat in 2005 (9.0 percent after previously expected 10.5 percent and an actual rate of 11.4 percent in 2004). This improvement in the inflation outlook is mainly due to Nigeria where the 2005 inflation rate is now expected to stand at 13.5 percent compared with 19.5 percent at the beginning of the year. Also in Kenya inflation in 2005 will probably be somewhat lower than expected at the beginning of the year (10.0 percent after originally expected 11.0 percent). The same holds true for South Africa where inflation in 2005 is now seen at 4.1 percent compared with 4.6 percent some months ago. In Zimbabwe hyperinflation will continue, though not quite as high as last year (170 percent compared with 300 percent in 2004). In Tunisia inflation will remain contained with an expected 2.8 percent in 2005 after 2.5 percent in 2004.

In the *Near East* the inflation rate in 2005 will be lower than last year though by not as much as expected at the beginning of the year (5.6 percent after previously expected 4.7 percent and an actual rate of 6.2 percent in 2004). Whereas in Iran inflation expectations were reduced somewhat downwards since the beginning of the year (16.5 percent compared to originally 20.0 percent), the opposite was true in the United Arab Emirates where inflation in 2005 is now expected to be 4.7 percent after an originally estimated 3.7 percent. In Turkey the inflation outlook for 2005 remained roughly unchanged (8.4 percent compared with 8.6 percent expected at the beginning of the year).

In *Oceania*, in 2005 an inflation rate of 2.8 percent is now expected; this is only slightly higher than estimated at the beginning of the year (2.6 percent). The moderate upward revision is due exclusively to Australia (2.8 percent after 2.6 percent) whereas in New Zealand inflation expectations for 2005 remained unchanged at 2.6 percent.

#### **Euro still seen as clearly overvalued**

The *US dollar* was again 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 over-

valued; particularly in the case of the euro the perceived degree of overvaluation has even further increased since the last survey in January 2005. The *Japanese yen* appeared to most WES experts again as more or less fairly assessed. This overall picture characterises the assessments in most countries. Noticeable exceptions from this general view are in Europe, mainly Norway and Denmark where the *US dollar*, the *euro* and the *British pound* were seen as overvalued vis-à-vis the own currency; only the *Japanese yen* was regarded as fairly assessed or even slightly undervalued. Outside Europe the own currency is judged as generally undervalued – not only vis-à-vis the *US dollar* but also vis-à-vis the *euro*, the *British pound* and the *Japanese yen* – in CIS countries (Kazakhstan, Russia, Ukraine), in some Latin American countries (Brazil and Mexico), in some Asian countries (particularly China, Indonesia and Malaysia) and also in Nigeria. On the other hand the own currency is regarded as generally overvalued compared to the four main currencies *US dollar*, *euro*, *British pound* and *yen* in Serbia and Montenegro, Zimbabwe, Bangladesh and South Africa. However, in South Africa the British pound, which appears to be correctly assessed.

According to the responses to the supplementary survey question on the development of currencies, the *US dollar* is expected to remain more or less stable or continue to decline only marginally in the course of the next six months. In contrast to this general trend the *US dollar* is expected to fall further in the course of the next six months vis-à-vis the currencies of Australia, New Zealand, Canada, China, India, Republic of Korea, Malaysia and Taiwan. On the other hand the *US dollar* is expected to rise vis-à-vis the own currency in the course of the next six months in some Eastern European and CIS countries like Albania, Hungary, Poland, Latvia, Lithuania, Serbia and Montenegro, as well in the majority of Latin American and African countries. In Asia, a rising *US dollar* is expected in coming six months mainly in Bangladesh, Vietnam, Sri Lanka, Pakistan and the Philippines. In the Near East a rise of the *US dollar* is expected mainly in Iran, Israel, Turkey and also Kuwait.

#### **Interest rates: Trend of moderately rising rates is expected to continue**

The trend of rising *short-term interest rates* is expected to pick up only moderately in the next six

months in the euro area as well as Asia and Latin America. In the USA and also in China the share of WES experts expecting higher Central Bank rates is still significantly higher than in most other countries but has not increased further since the last survey. There are only a few exceptions where *short-term interest rates* are expected to decline in the course of the next six months; amongst these countries are Turkey as well as Eastern European countries like Croatia, Hungary and Slovakia and to a lesser degree Poland and Russia.

Also the *capital market rates* were seen to rise only moderately in coming six months. Markedly higher than in the overall average remained the share of WES experts expecting rising *long-term interest rates* in the USA, Australia, New Zealand, Hong Kong, Singapore, the Philippines, Taiwan, Norway, Argentina, and Chile.

#### **Overall economic growth in 2005 about 3.1 percent**

On average of all 91 countries included in the survey, real gross domestic product (GDP in constant prices) in 2005 is expected to be 3.1 percent higher than the previous year. For comparison: In April last year world wide growth was expected to stand at 3.4 percent. This only moderate change in growth expectations points to the likelihood of a somewhat weaker but still robust economic growth in 2005.

However, this presumable weakening of growth is restricted to *Asia* (4.1 percent compared with expected 5.2 percent in April 2004), *North America* (3.0 percent compared to last year's expectations of 3.6 percent) and *Oceania* (2.7 percent compared with last year's expectations of 3.4 percent). In *Western Europe* exactly the same relatively low growth rate as one year ago is expected in 2005 (1.9 percent). In the other regions of the world growth is expected to be stronger than foreseen one year ago: In *Central and Eastern Europe* 4.4 percent compared to 3.8 percent, in *CIS* countries 6.7 percent compared to 6.3 percent, in *Central and Latin America* 4.2 percent compared to 3.3 percent, in the *Near East* 5.6 percent compared to 4.2 percent and in *Africa* 4.2 percent compared to 3.6 percent.

The expected pick-up of growth in the *CIS* area is mainly due to even stronger growth than last year in the Ukraine and in Kazakhstan (in both cases above

8 percent) whereas growth in Russia will slow down somewhat (from 6.5 percent to 6.0 percent).

In *Central and Latin America* the presumable acceleration of growth mainly results from high figures in Chile (6.0 compared with 4.3 percent last year), Brazil (3.9 percent compared to 2.9 percent) and Venezuela (6.0 percent compared to 5.1 percent).

In *Asia* the expected slowdown of growth is caused mainly by Japan (1.2 percent after expected 2.4 percent one year ago), by Thailand (5.7 percent compared with 6.8 percent one year ago) and Singapore (4.4 percent compared to 5.4 percent one year ago). On the other hand, growth in China is seen about as strong as last year (around 8.5 percent) and in Indonesia it will increase to 5.8 percent (after 4.3 percent last year).

In the *Near East* the higher growth in 2005 than in 2004 is mainly due to a significantly more buoyant growth outlook in Saudi Arabia (6.4 percent compared to 3.3 percent last year), the United Arab Emirates (7.8 percent compared to 5.0 percent last year) and Jordan (6.2 percent compared to 4.5 percent last year).

In *Africa* the expected higher growth in 2005 compared to 2004 can be traced back mainly to Nigeria (5.6 percent compared to 4.0 percent last year), Algeria (7.0 percent compared to 5.2 percent), Egypt (4.8 percent compared to 3.7 percent) and South Africa (3.7 percent compared to 2.7 percent).

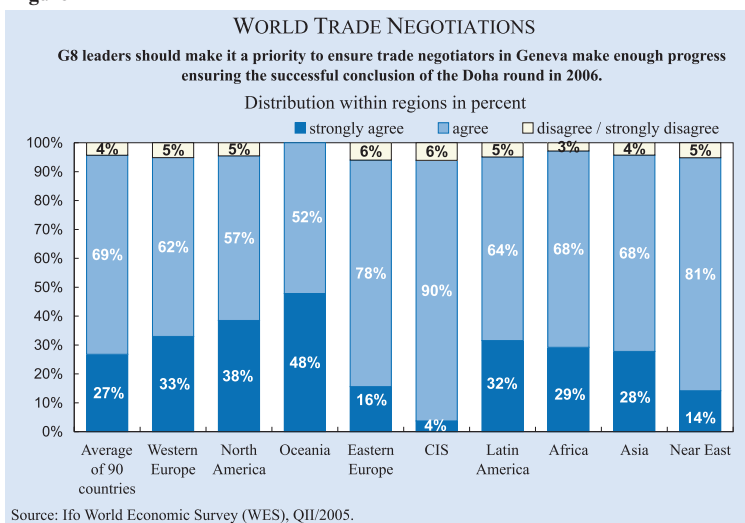
Thus, *Western Europe* with an expected 2005 growth rate of 1.9 percent, will probably remain the slowest growing region of the world. The European growth performance is dampened particularly by Germany with expected growth in 2005 of only 1.0 percent and by Italy with expected growth of 1.2 percent. On the other hand, in Ireland economic growth in 2005 is forecasted to be significantly stronger than expected at the same time last year (5.2 percent compared to 3.5 percent expected at the same time last year).

#### **ICC Special Question: Multilateral Trade Negotiations**

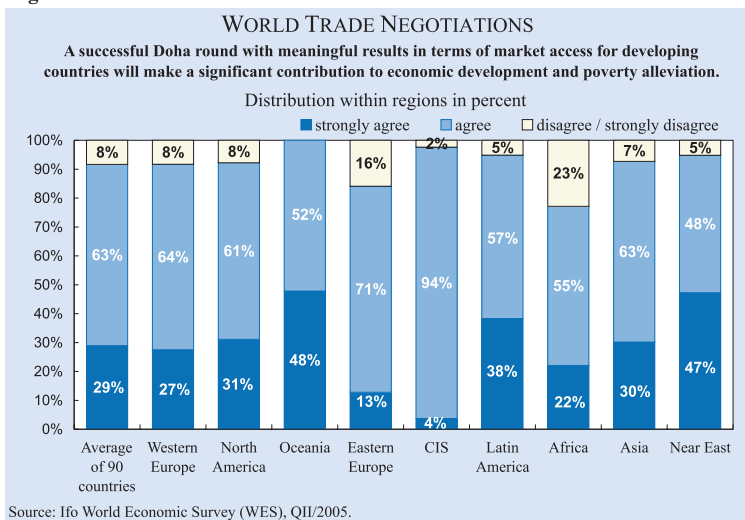
2005 will be a decisive year for the Doha Round of international trade talks and the multilateral trading system. The current round of multilateral trade



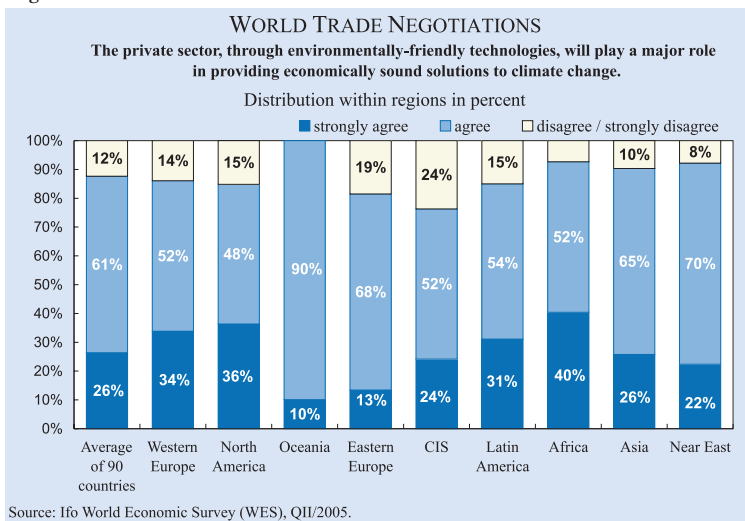
**Figure 12**



**Figure 13**



**Figure 14**



negotiations launched in Doha/ Qatar from 9 to 14 November 2001 at the 4th WTO Ministerial Conference had reached an impasse. Also at the 5th WTO Ministerial Conference in Cancún/Mexico (from 10 to 14 September 2003) participating countries could not come to a mutual agreement and the round almost collapsed. The main objective was to agree upon a time schedule for further liberalization of global trade, particularly upon a date for terminating 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 item of the conference: agriculture. The 6th WTO Ministerial Conference will be in Hong Kong in December 2005. Before this deadline, the G8 Summit will take place at Gleneagles, Perthshire, Scotland from July 6-8, 2005 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 three parts: The first asked

about the importance of a successful conclusion of the Doha round in 2006. The second part focused on the meaning of the Doha round for developing countries. And the third part dealt with the climate change and the role of the private sector in providing economically sound solutions to environmental sustainability. In more detail the questions asked and the answers given, were:

*A) As the G8 Summit approaches in early July, should the G8 leaders make it a priority to ensure trade negotiators in Geneva make enough progress between now and the ministerial conference in Hong Kong in December for ministers to lock in that progress, ensuring the successful conclusion of the Doha round in 2006?*

The vast majority (69 percent) of 945 WES experts polled in over 90 countries agree that the G8 leaders should make it a priority that the trade negotiations make a considerable progress towards their successful conclusion in 2006 (see Figure 12) and about 27 percent of surveyed economists strongly agree on this issue.

*B) Will a successful Doha round with meaningful results in terms of market access for developing countries make a significant contribution to the achievement of the Millennium Development Goals in terms of economic development and poverty alleviation?*

The increased liberalization of world trade has increased the scope of international co-operation and helped raise economic growth in the world and in particular in third world countries. In 2004 developing countries saw their share in world merchandise trade rise sharply to 31 percent, the highest since 1950, according to WTO figures released on 14 April 2005. While this trend is encouraging, trade expansion is still hampered by barriers. Completing the Doha Development Agenda round of trade negotiations would be one major step towards reducing these barriers. The vast majority (82 percent) of 949 of experts polled by WES strongly agrees or agrees that improved market access for developing countries will make a significant contribution to economic development and poverty alleviation (see Figure 13). However, in several countries experts were skeptical about the positive impact of trade on poverty alleviation. The proportion of experts doubting a positive effect in this respect was high in some countries of Eastern Europe, particularly in Slovenia (44 percent), Hungary (29 percent), Albania (25 percent), Poland (22 percent), Estonia (25 percent), Latvia (25 per-

cent) and Lithuania (17 percent). Also in Taiwan (18 percent), France (21 percent), Greece (29 percent), Ireland (25 percent), Egypt (25 percent), China (14 percent) and Japan (20 percent), a relatively high proportion of surveyed experts disagree or strongly disagree that open market access for developing countries will make a significant contribution to the achievement of the Millennium Developments Goals.

*C) Climate change will be an important topic on the G8 agenda this year. Do you agree that the private sector, through environmentally-friendly technologies, will play a major role in providing economically sound solutions to climate change?*

Over the past century temperatures have risen by 0.7°C. The overwhelming view of experts is that warming has been brought about by the increase in greenhouse gases in the atmosphere, which in turn has been caused by human activities – primarily the burning of fossil fuels and deforestation. The G8 countries account for 47 percent of global CO<sub>2</sub> emissions, with the United States, the world's largest emitter of greenhouse gases, refusing to sign up to the Kyoto Protocol. Consequently, the G8 should take a global lead in proposing solutions to climate change, and the UK presidency has made climate change a priority topic in the G8 in 2005. However, according to a majority (88 percent) of 963 the economists surveyed in the WES poll, it will be the private sector that will provide environmentally-friendly technologies and play the major role in economically sound solutions to climate change. However, in some countries experts do not think that solutions to climate change will be led by business. This proportion of experts was particularly high in Egypt (50 percent), Ecuador (43 percent), Poland (43 percent), Slovenia (40 percent), Croatia (40 percent), Argentina (33 percent), Bolivia (33 percent), France (32 percent), Russia (30 percent), Czech Republic (30 percent), Kazakhstan (28 percent), Germany (23 percent) and the Netherlands (18 percent). As no country will escape global climate change, it is up to both individual governments and global policy to establish conditions where innovations with environmental-friendly technologies is supported and the responsibility of the private sector to provide sound environmental solutions.

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