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Article

CESifo World Economic Survey February 2007

CESifo World Economic Survey

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Nerb, Gernot; Stangl, Anna (2007) : CESifo World Economic Survey February 2007, CESifo World Economic Survey, ISSN 2190-720X, ifo Institut für Wirtschaftsforschung an der Universität München, München, Vol. 06, Iss. 1, pp. 1-24

This Version is available at:

<https://hdl.handle.net/10419/169532>

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CESifo WORLD ECONOMIC SURVEY

VOLUME 6, No. 1

FEBRUARY 2007

WORLD ECONOMIC CLIMATE

World Economic Climate brightens

ECONOMIC EXPECTATIONS

Both assessments of the current economic situation and economic expectations somewhat improved

INFLATION

Expectations for 2007 revised downwards

INTEREST RATES

Trend of rising interest rates is slowing

CURRENCIES

Western European currencies – euro and UK pound – seen as overvalued

SPECIAL TOPIC

Statistical information in public and political decision making



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CESifo World Economic Survey ISSN 1613-6012
A quarterly publication on the world economic climate
Publisher and distributor: Ifo Institute for Economic Research
Poschingerstr. 5, D-81679 Munich, Germany
Telephone ++49 89 9224-0, Telefax ++49 89 9224-1463, e-mail ifo@ifo.de

Annual subscription rate: € 40.00

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Ifo World Economic Survey

Regions

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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 January 2007 1,030 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 is 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.

WORLD ECONOMIC CLIMATE BRIGHTENS

In January 2007 the World Economic Climate slightly improved, confirming the previous quarter forecast of an economic soft-landing (see Figure 1). The climate indicator stands at 106.5 (after 104.7 in October: 1995=100) and is thus considerably above its long-term average (1991–2006: 95.3). The improvement of the overall climate index was due to both better assessments of the current economic situation and somewhat more positive expectations for the coming six months (see Figure 2).

World economy: Stabilization at a favourable level

The latest survey results confirmed the October survey forecast of an economic soft landing in the first half of 2007. The current economic situation was judged somewhat better in January than in October last year and is again far above satisfactory. The economic expectations for the first half of 2007 point to further economic stabilization. The economic climate index improved in January in all three main economic regions – Western Europe, here particularly in Germany and the UK, Asia and the US (see Figure 3 and 4).

The renewed improvement in the global business sentiment is partly attributable to the recent decline in energy prices. However, the trans-global economic growth is based on additional supportive factors, such as increasing corporate profits, and still modest interest and inflation rates. The Ifo Economic Clock (see Box 1) indicates that the world economy will remain in a favourable phase of a consolidated upturn in the first half of 2007.

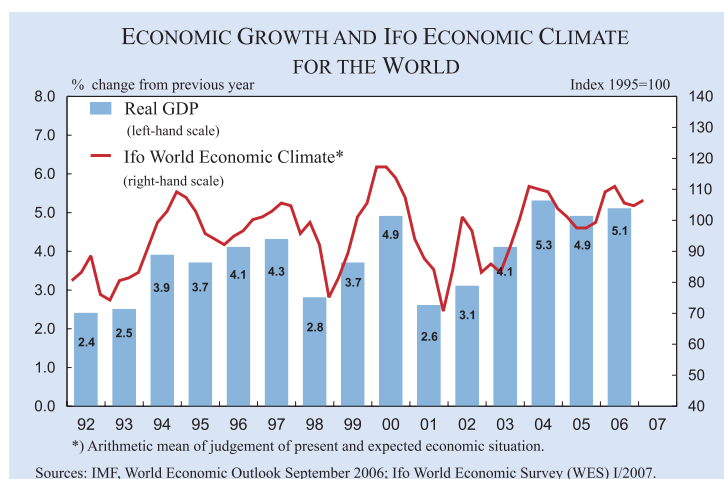
Western Europe: Economic rebound continues

The overall economic climate indicator for Western Europe rose slightly in January (see Figure 3). However, the increase was only of a minor scope, as was the slight decline of the climate

index in the previous quarter. Following a strong rebound in 2005 the Western European region witnessed in 2006 a year of continued economic upswing that, according to economic expectations, will persist in the first half of 2007, though at a somewhat reduced rate of growth (see Figure 4 and Box 2).

The assessments of the present economic situation improved again in almost all countries of the euro area, except *France* and *Italy* where the assessments of the present economic situation slipped below the “satisfactory” level, and the *Netherlands* and *Ireland*, where they declined, but only marginally and remained at a still highly favourable level. Although the economic climate in *Portugal* improved in the course of 2006, the vast majority of surveyed WES experts still judged the present economic situation to be “bad”. The economic expectations continue to point to economic recovery, which, however, is still hesitant (see Figure 5a/b). Marks below the euro area average were given for the present economic performance in *Italy*, *France* and *Greece*. In the other countries of the region the surveyed economists assessed the current economic situation as very positive. Particularly high marks were given by experts in *Finland*, *Ireland*, *Austria*, the *Netherlands*, *Germany* and *Belgium*. In *Germany*, consumer spending is expected to remain sluggish in the next six months following Chancellor Angela Merkel’s sales-tax increase in January. The economic expecta-

Figure 1

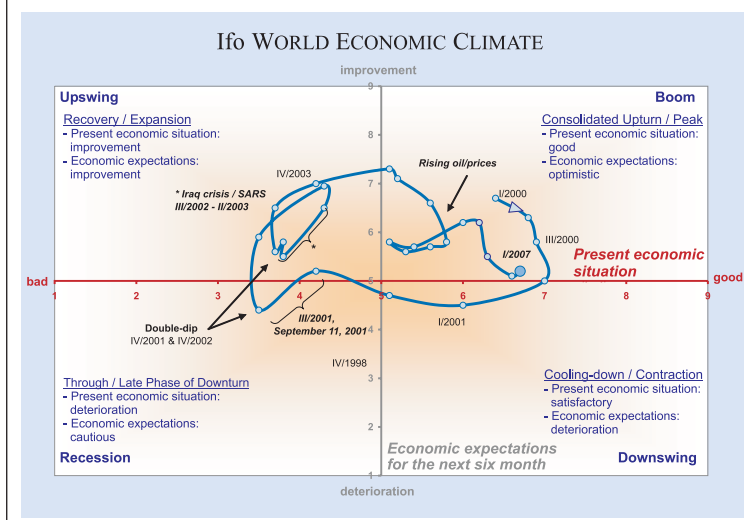


Box 1 Ifo Economic Clock and the World Economic Climate

For a global, medium-term forecast a look at the Ifo Economic Clock showing the development of the two components of the economic climate index over the last seven years visualizes the trend. The business cycle typically goes clockwise in a circle; expectations leading assessments of the present situation.

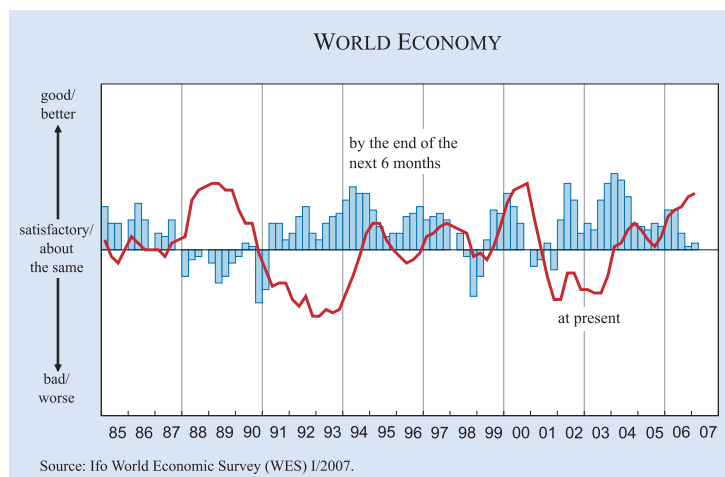
According to the economic clock, business sentiments were cooling in 2006. However, the slow-down of the economic climate index did not accelerate in January 2007, confirming an economic soft landing. Both, the assessments of the present economic situation and economic expectations for the next six months have been slightly upgraded, indicating that the global economy will remain in the favourable phase of a consolidated upturn also in the first half of 2007.

The Ifo World Economic Climate is the arithmetic mean of the assessments of the current situation and economic expectations for the next six months. The correlation of the two climate components can be illustrated in a four-quadrant diagram ("Ifo Konjunkturuhr"). The assessments on the present economic situation are positioned along the abscissa, the responses on the economic expectations on the ordinate. The diagram is divided into four quadrants, defining the four phases of the world business cycle. For example, should the assessments of the interviewed experts on the present situation be negative, but the expectations became positive, the world business cycle is in an upswing phase (top left quadrant).



tions for the euro area, on average, are pointing to an economic stabilization in the first half of 2007. However, in several countries the surveyed economists forecast an economic cooling in the next six months, particularly in Belgium and to a lesser degree in France and Germany.

Figure 2



Source: Ifo World Economic Survey (WES) I/2007.

In the Nordic countries outside the euro area – Sweden, Denmark and Norway – the economic climate remains highly favourable. The present economic situation has been assessed with highest marks on the WES scale, and the outlook for the first half of 2007 promises further economic strengthening in Sweden and Norway, and economic stabilization at a high level in Denmark. The economic climate continued to improve in the United Kingdom and Switzerland. In both countries the assessments of the present economic situation improved over the October 2006 survey, and economic expectations have been slightly upgraded as well.

North America: Solid economy

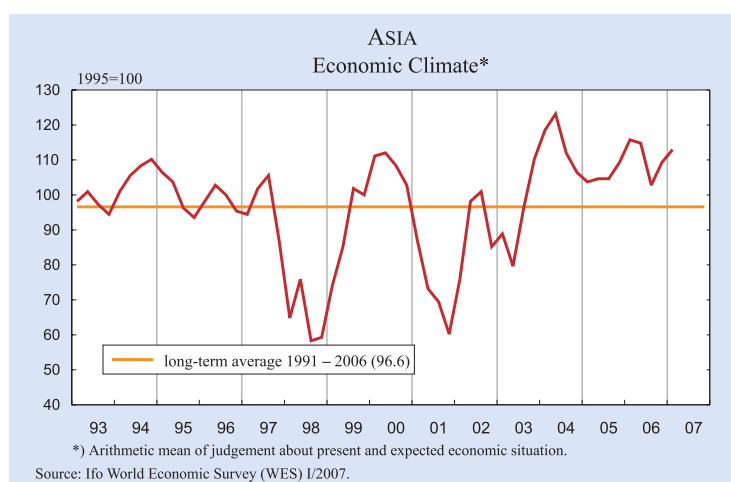
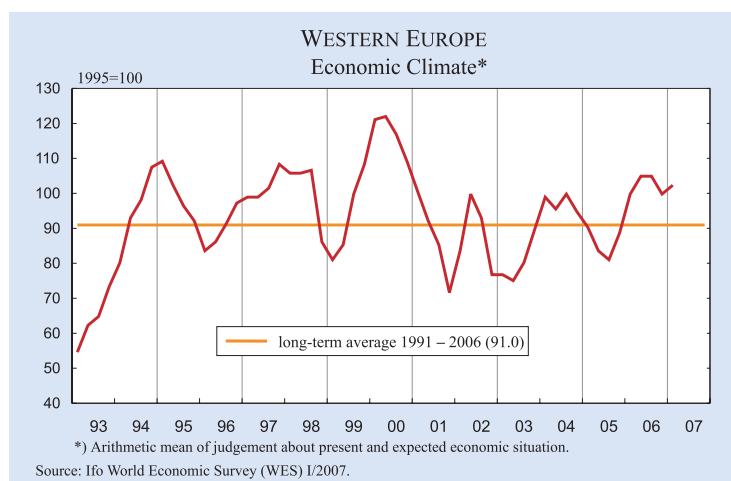
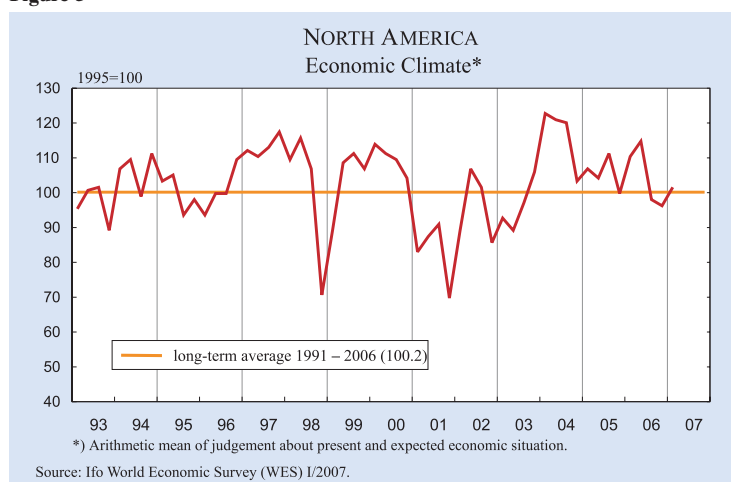
According to the latest survey results, the economic climate indicator in North America improved in January, indicating that the economy is rebounding from last year's slowdown (see Figures

3 and Figure 6). In the US the assessments of the present economic situation have been upgraded somewhat, while in Canada the improvement of the overall economic climate index was primarily due to more optimistic expectations for the coming six months. In both countries, the assessments of the present economic situation remained on a highly favourable level. The panels' forecast points to an economic stabilization in the first half of 2007 with moderate economic growth rates and easing inflationary pressures.

Eastern Europe: Economic climate remains satisfactory

The economic climate index remained more or less unchanged in Central and Eastern Europe, on average (see Figure 4). The

Figure 3



economists, the economic performance in Romania has steadily improved and is now assessed at a favourable level. The economy of *Bulgaria* has also made significant progress. The economic expectations for the first half of 2007 promise further economic strengthening. Corporate investment and private consumption are forecast to pick up further in the coming six months. *Poland's* economy, the largest of the 12 Central and Eastern European countries has also been on a stabilization course for more than two years. However, the economic expectations for 2007 have been downgraded somewhat here, as well as in the *Czech Republic* and *Estonia*. But the present economic situation has been again assessed as very favourable in all three countries. Among the other EU countries, the assessments of the present economic situation deteriorated somewhat only in the two Baltic states – *Latvia* and *Lithuania*. However, it is still regarded as highly favourable. Except for *Hungary*, where the economic expectations for the first half of 2007 are still pessimistic, and *Slovenia*, where they have been upgraded somewhat, but remain rather cautious, the experts' forecasts for the young EU countries are generally promising.

Serbia and *Montenegro* are now separated, *Montenegro* having proclaimed its independence in June 2006. As no separate economic data (particularly imports

and exports that are used in WES for weighting) are yet available, the two countries are again reported together. The assessments of the present economic situation remained below the satisfactory level, on average, for the two countries. The economic expectations for the first half of 2007 have been downgraded but remained confident. Not so in *Albania*, where the surveyed economists forecast an econom-

economic expectations point to a stabilization of the region's economic climate (see Figure 8).

On January 1, 2007 the European Union incorporated another two countries – *Bulgaria* and *Romania* – swelling its size to 27 member states. *Romania*, after *Poland*, has the second largest population in Central and Eastern Europe. According to the surveyed

and exports that are used in WES for weighting) are yet available, the two countries are again reported together. The assessments of the present economic situation remained below the satisfactory level, on average, for the two countries. The economic expectations for the first half of 2007 have been downgraded but remained confident. Not so in *Albania*, where the surveyed economists forecast an econom-

Box 2

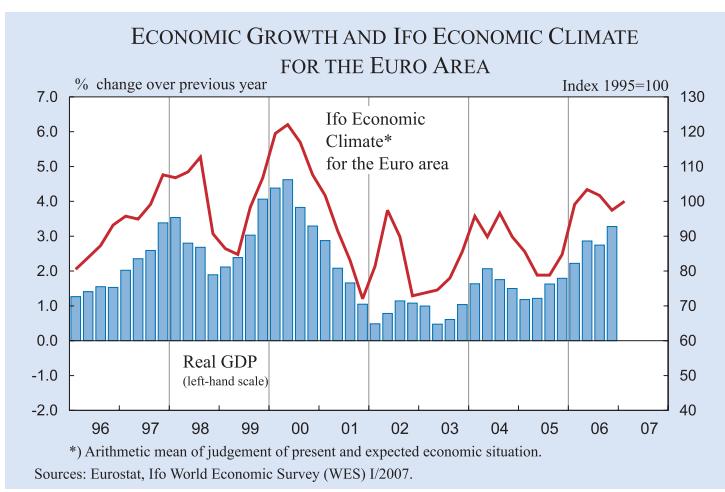
World Economic Survey (WES) and GDP Growth in the Euro Area

The Ifo World Economic Climate for the member countries of the euro area¹ 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 February results are based on the responses of 271 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 Economic Climate in the euro area improved in the first quarter of 2007 after having worsened somewhat in the second half of 2006. The improvement applied to both the assessments of the current economic situation as well as the expectations for the coming six months. The latest survey results indicate a continuation of the economic rebound in the first half of 2007.

The appraisals of the current economic situation improved over the October survey especially in Germany, Belgium and Austria. In Ireland and the Netherlands, the assessments of the current situation weakened somewhat but remained positive overall. Only in Portugal was the general economic situation again assessed as poor. Assessments falling also clearly below the euro-area average came from Italy, Greece and France. Whereas the great majority of euro-area countries expect a stable upswing, the surveyed experts in Germany, France and Belgium see a slight slowing of the pace of economic expansion in the first half of 2007.

¹ Euro area data refer to the composition before the enlargement (12 Member States).



ic deterioration in the next six months, accompanied by weakening private consumption. A very positive picture, in contrast, was reported for *Croatia*. The present economic situation is assessed here with very high marks on the WES scale and even somewhat better than in the previous quarter. The expectations point to further economic strengthening in the first half of 2007.

CIS: Economic climate cooled somewhat

The economic climate cooled somewhat in the CIS countries covered by WES (*Russia, Kazakhstan and Ukraine*) in January. This holds true for all three countries, where both assessments of the present economic performance and economic expectations have been downgraded. However, the deterioration of the climate index components was only moderate. In *Russia* and *Kazakhstan* the present economic sit-

uation is still assessed as above the “satisfactory” level. The economic expectations remained generally optimistic, promising further economic strengthening in the first half of 2007 (see Figure 6). In contrast, in the *Ukraine* the assessments of the present economic state have further deteriorated below the “satisfactory” level. The economic expectations remain cautious.

Asia: Economic climate improves

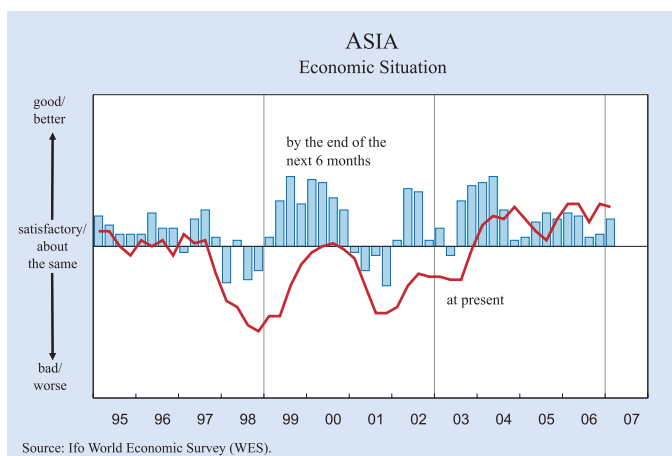
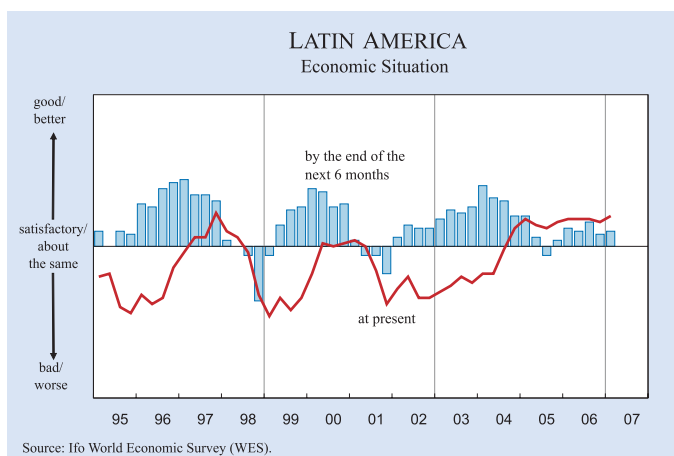
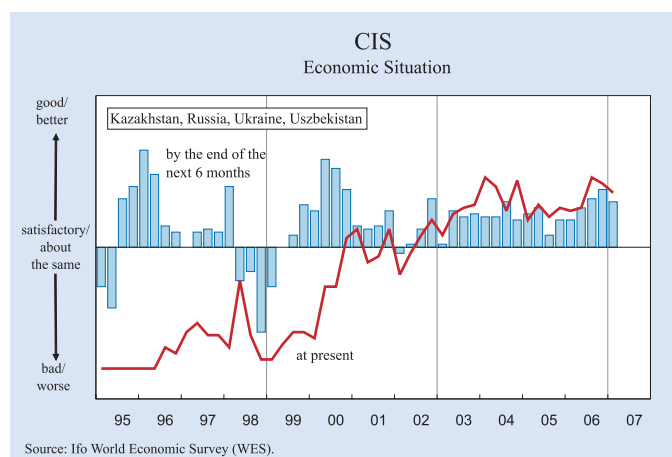
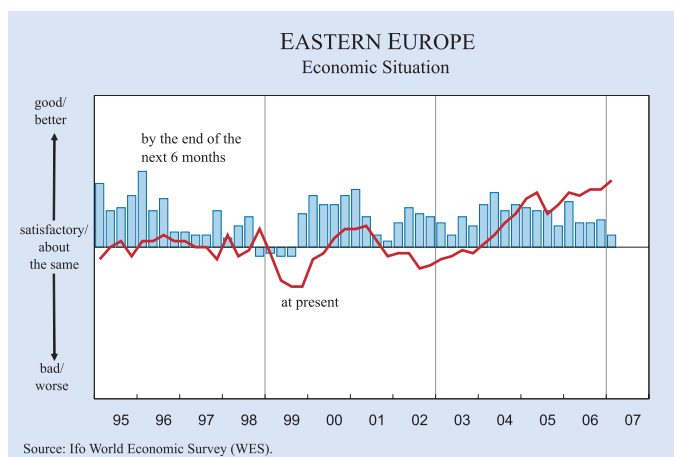
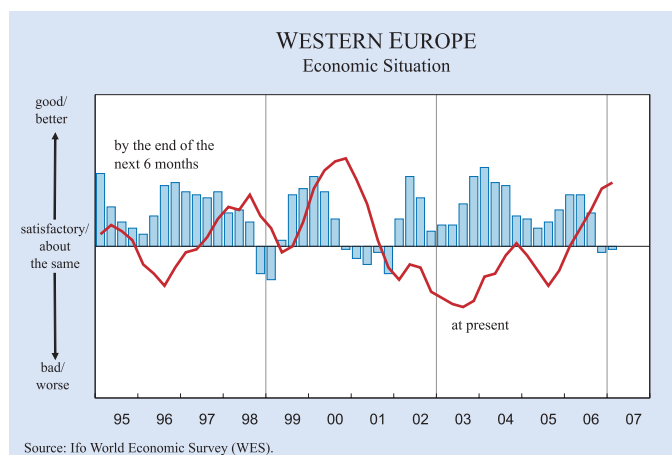
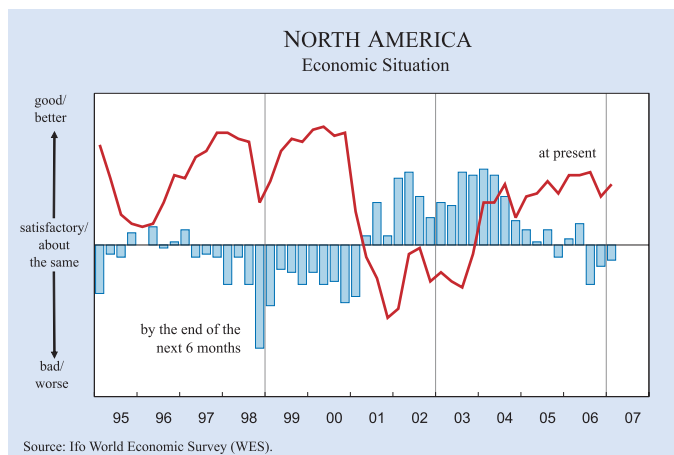
In January, the economic climate index in Asia improved again (see Figure 3). The improvement resulted entirely from more optimistic economic expectations for the coming six months. The assessments of the present economic performance remained favourable, on average, for the region. However, the overall pattern resulted from very different underlying economic trends across countries.

The economic climate index strongly improved again in

India. Particularly the assessments of the present economic situation have been upgraded and reached in January the highest possible level on the WES scale. The economic expectations continue to be highly optimistic, also regarding the capital expenditures and private consumption growth. Most economists expect *India's* rapid growth, averaging about 7 percent annually over the last four years, to continue. Also the foreign trade sector is expected to expand strongly, with both rising exports and imports. In *China*, in contrast – after the *US* and *Germany* the world's biggest trading nation – the surveyed economists expect exports to decline somewhat in the course of the next six months. The economic situation is again regarded as favourable. The expectations promise a stable economic development in the first half of 2007. The *Japanese* economy cooled somewhat in 2006, according to the surveyed WES experts. However, the assessments of the present economic situation, although still positive, were

Figure 4

SELECTED REGIONS



downgraded again somewhat again in January. But, the economic forecasts point to an economic revival in the course of the next six months.

Highly positive assessments of the present economic situation have been given by the surveyed economists in *Hong Kong* and *Vietnam*. The forecasts for *Hong Kong* point to an economic stabilization at the currently favourable level. However, as in *China*, the surveyed economists forecast a decline of exports. In *Vietnam*, in contrast, the surveyed economists expect strong growth in the export and the import sectors. The economic forecasts are generally highly optimistic, also regarding corporate expenditure and private consumption. Far below the “satisfactory” level was the assessment of the present economic state in *Taiwan*, *Thailand* and *Sri Lanka*. Also in *South Korea* the panel’s assessment slipped below the positive mark in the January survey. However, the experts remain optimistic with regard to an economic turnaround in the first half of 2007. In *Taiwan* and *Thailand* the surveyed economists are still rather cautious in their economic outlook and have forecast even further deterioration in *Sri Lanka*. An economic cooling, particularly in the corporate sector, has also been forecast by the surveyed experts in *Pakistan*. The present economic situation is regarded as favourable, however. In *Malaysia*, the *Philippines* and *Bangladesh* the economic climate remained very favourable with bright outlooks for the coming months. A strong improvement of the present economic situation has also been reported by the WES experts in *Indonesia*. The assessments of the present economic situation have reached the “satisfactory” level for the first time in almost ten years. The prospects for the first half of 2007 promise further strengthening of the economy.

Oceania: Cautious expectations

In both countries of the region – *Australia* and *New Zealand* – the economic expectations have been strongly downgraded, while the assessments of the present economic situation remain highly favourable in *Australia* and at the “satisfactory” level in *New Zealand*. The surveyed economists in both countries expect a slow-down in private consumption and capital expenditures. The export sector, however, is forecast to recover in the first half of 2007 from the severe drought that has hit *Australian* exports.

Latin America: Economic climate remains favourable

The economic climate in Latin America remained at a favourable level, also in January. The present economic situation is again assessed above the satisfactory level, on average, for all countries surveyed in the region. The outlook for the coming six months continues to point to economic stabilization (see Figure 9).

The assessments of the present economic situation improved in almost all countries of the region, except *Brazil* and *Venezuela*, where they have been slightly downgraded although still remaining positive. *Paraguay* was the only country where the surveyed economists still assessed the present economic performance as weak. However, the economic expectations promise some improvement in the first half of 2007. An economic deterioration from the currently favourable level is in contrast expected by the surveyed economists in *Venezuela*, *Ecuador* and *Colombia*. In *Venezuela*, particularly the export sector is expected to weaken. In all the other countries of the region the prospects for the coming six months are generally optimistic. In *Mexico* the overall economic performance has been described as satisfactory for more than two years. This picture was confirmed also in January, with the export sector foreseen to expand in the coming six months; this applies also to *Chile*, *Peru*, *Costa Rica* and *Uruguay*. In these countries, the highly favourable economic climate is expected to last into 2007.

Near East: Economic climate unchanged positive

Despite the recent fall in oil prices, the economic climate continues to be highly favourable in the majority of oil-exporting Near Eastern countries (see Figure 10). However, although the economic outlook remains bright in the region, on average, in several countries the forecasts were downgraded somewhat in January. But the present economic situation has been assessed positively in almost all surveyed countries, except in *Lebanon*, whose economy still has not recovered from the July 2006 Israel-Hezbollah conflict. Particularly favourable assessments of the present economic situation have been given by the surveyed economists in *Jordan*, *Saudi Arabia*, *United Arab Emirates*, *Kuwait* und *Bahrain*. “Satisfactory” was how the WES experts described the present economic performance in *Iran*.

However, they expect deterioration in the course of the next six months. The economic climate in *Turkey* can be described as stable: The present economic situation is regarded as satisfactory, and the surveyed economists expect no major changes in the course of the first six months of the year. Growing optimism, in contrast, prevails in *Israel*, where the present economic performance was described as “good” in January.

Africa: Economic climate brightens

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

In *South Africa* the economic climate index recovered strongly in January (see Figure 10), after an economic slow-down in 2006, resulting from a tight monetary policy that had dampened the business sentiments. Now, the *South African* economy is growing by about 5 percent per annum, faster than in many years. Economic growth over the past three years has been driven partly by strong consumer demand, but the surveyed economists expect particularly this sector to weaken in the course of the next six months. A buoyant export sector and increasing capital expenditures continue to serve as driving engines for future economic growth, however. A favourable economic situation prevails, according to WES experts, also in *Kenya* and *Mauritius*. The economic outlook for the first half of 2007 remains bright. Less favourable assessments have been given by the surveyed economists in *Egypt*. However, the export sector, private consumption and corporate investment are expected to recover in the course of the next six months. Similarly optimistic views were reported by the surveyed economists in *Nigeria*, but the present economic performance is still regarded as far below the “satisfactory” level. In *Zimbabwe*, which has been in an economic free-fall for far more than a decade now, the overall situation seems to be close to collapse. The trigger of the crisis – hyperinflation – has reached an almost immeasurable level and is eroding every aspect of the country’s economy: a break-down of water and power supplies and epidemics are only some of the severe consequences.

2007: No change in inflation expected

For 2007 WES experts expect 3.6 percent inflation worldwide, on average; this is exactly the same figure that had been reported for 2006. However, behind this unchanged global rate there are different trends in the regions: In *North America* a significant slowdown of inflation is expected (from 2.9 percent in 2006 to an expected 2.4 percent in 2007). A dampening effect in inflation is also seen as likely in the *CIS* region (from 9.8 percent in 2006 to an expected 8.8 percent in 2007) and in *Oceania* (from 3.4 percent in 2006 to an expected 3.1 percent in 2007); the increase of consumer prices is expected to slow down to a minor degree also in *Western Europe* (from 2.2 percent in 2006 to an expected 2.1 percent in 2007) as well as in *Central and Eastern Europe* (from 4.0 percent to a presumable 3.9 percent in 2007; see Table 1).

In contrast, inflation is expected to pick up further in *Central and Latin America* (from a reported 5.7 percent in 2006 to an expected 6.6 percent in 2007) and in the *Near East* (from a reported 6.0 percent in 2006 to 6.3 percent in 2007). In *Asia* in 2007 no change of the inflation rate is expected (2.8 percent).

In the *euro area* the inflation outlook for 2007 improved slightly, declining from 2.2 percent in 2006 to a presumable 2.1 percent in 2007, which would still be somewhat above the ECB’s target of “slightly below 2.0 percent”. The highest inflation rate in the euro area in 2007 is expected in *Ireland* (4.0 percent after a reported 4.1 percent in 2006). In the two other “high inflation countries” of the euro area, *Spain* and *Greece*, some slowdown in the inflation rate is expected: in *Spain* from a reported 3.6 percent in 2006 to 3.1 percent in 2007 and in *Greece* from 3.4 percent to likewise 3.1 percent. In *Germany* – probably mainly due to the hike of the regular VAT rate from 16 percent to 19 percent – inflation expectations for 2007 now stand at 2.2 percent compared with a reported inflation rate of 2.0 percent in 2006. In most of the other euro area countries, a slight decline of the inflation rate is expected for 2007. The lowest inflation rates in 2007 should prevail in the *Netherlands* (1.6 percent), *France* (1.8 percent) and *Austria* (1.8 percent).

In *Western Europe* outside the euro area, expectations for inflation in 2007 are – as in previous years – particularly low in *Switzerland* (1.2 percent). Relatively low inflation in 2007 will remain, according to WES experts’ views, also in *Sweden* and

Table 1

Inflation Rate Expectations for 2007 and 2006
(based on WES QI/2007 and QIV/2006)

Region	QI/2007	QIV/2006	Region	QI/2007	QIV/2006
Average of countries	3.6	3.6	Central a. Latin America	6.6	5.7
<i>World Bank classification:</i>			Argentina	-	12.0
High-income countries	2.2	2.3	Bolivia	4.2	5.2
Middle-income countries	6.0	6.0	Brazil	3.9	3.8
Upper-middle	6.2	6.2	Chile	3.1	3.4
Lower-middle	5.6	5.6	Colombia	4.5	4.6
Low-income countries	21.4	19.7	Costa Rica	8.9	11.0
			Ecuador	3.6	4.1
EU countries (old members)	2.2	2.2	El Salvador	4.8	3.9
EU countries (new members) ¹	3.7	3.6	Guatemala	4.9	5.9
Euro area ²	2.1	2.2	Mexico	4.2	4.4
			Panama	1.9	2.0
Asian Pacific Rim ³	3.3	3.2	Paraguay	11.6	8.7
			Peru	2.1	2.1
Western Europe	2.1	2.2	Trinidad and Tobago	9.6	-
Austria	1.8	1.7	Uruguay	6.5	6.5
Belgium	1.9	2.1	Venezuela	20.0	14.9
Cyprus	2.3	3.3			
Denmark	2.0	2.4	Asia	2.8	2.8
Finland	1.9	1.7	Bangladesh	7.7	7.5
France	1.8	1.9	China P.R.	2.7	2.3
Germany	2.2	2.0	Hong Kong	2.8	2.2
Greece	3.1	3.4	India	5.5	5.4
Iceland	4.5	7.0	Indonesia	6.5	9.6
Ireland	4.0	4.1	Japan	0.6	0.7
Italy	2.1	2.2	Korea	3.1	2.9
Luxembourg	2.0	2.8	Malaysia	3.7	3.7
Malta	2.5	2.8	Nepal	8.0	-
Netherlands	1.6	1.7	Pakistan	7.7	8.8
Norway	1.9	1.8	Philippines	4.7	6.2
Portugal	2.4	2.5	Singapore	-	1.8
Spain	3.1	3.6	Sri Lanka	14.4	13.3
Sweden	1.9	1.8	Taiwan	1.6	1.4
Switzerland	1.2	1.3	Thailand	3.9	4.5
United Kingdom	2.7	2.5	Vietnam	7.2	7.3
Central a. Eastern Europe	3.9	4.0	Near East	6.3	6.0
Albania	3.4	3.8	Bahrain	-	6.0
Bosnia Herzegovina	-	-	Iran	15.5	13.0
Bulgaria	4.9	5.8	Israel	1.6	2.2
Croatia	3.0	3.4	Jordan	5.1	3.8
Czech Republic	3.0	2.9	Kuwait	2.7	2.7
Estonia	4.4	4.5	Lebanon	3.0	4.0
Hungary	7.2	5.1	Saudi Arabia	2.0	0.9
Latvia	6.7	6.6	Turkey	7.5	10.2
Lithuania	3.4	3.1	United Arab Emirates	8.0	6.9
Poland	2.3	2.0			
Romania	5.1	6.2	Africa	n.a.	n.a.
Serbia	7.0	10.4	Algeria	5.0	4.3
Slovenia	2.6	2.5	Egypt	6.5	7.7
Slovakia	2.7	4.1	Kenya	10.0	-
			Mauritius	8.0	8.0
CIS	8.8	9.8	Morocco	-	3.3
Georgia	10.0	-	Nigeria	11.5	13.2
Kazakhstan	7.6	8.2	South Africa	6.1	5.2
Russia	8.5	9.7	Tunisia	3.0	3.9
Ukraine	11.1	10.9	Zimbabwe	2000.0	1100.0
North America	2.4	2.9	Oceania	3.1	3.4
Canada	1.9	2.2	Australia	3.2	3.3
USA	2.5	3.1	New Zealand	2.8	3.8

* Within each country group or region the country 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.

Source: Ifo World Economic Survey (WES) I/2007 and IV/2006.

Figure 5a

EUROPEAN UNION

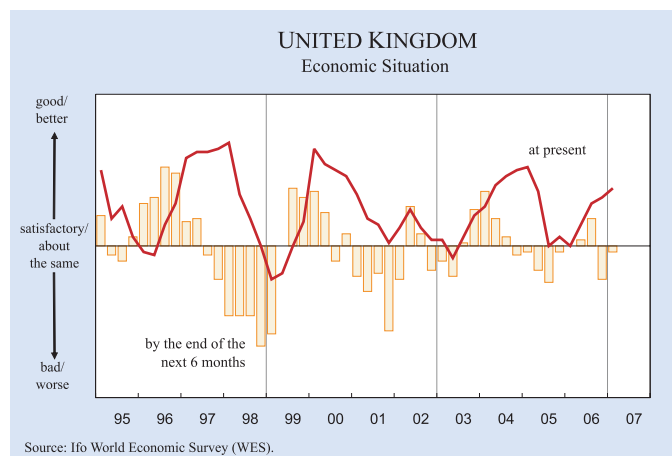
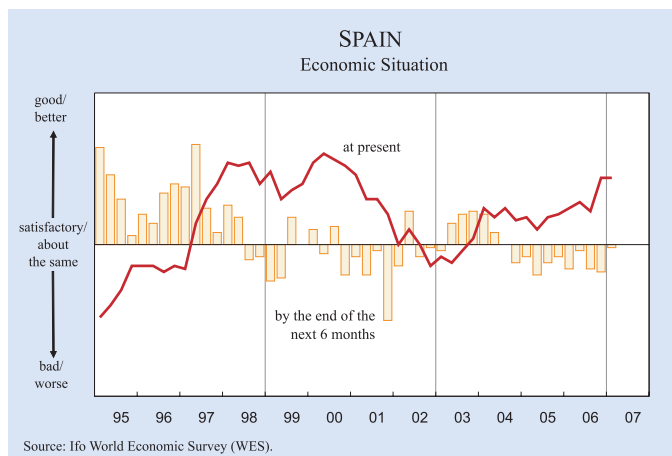
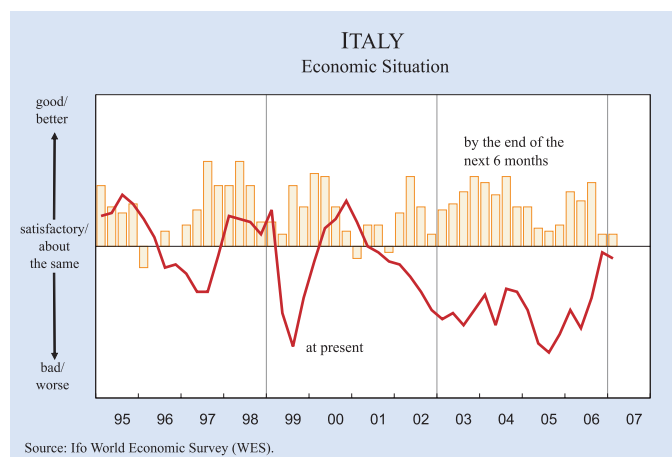
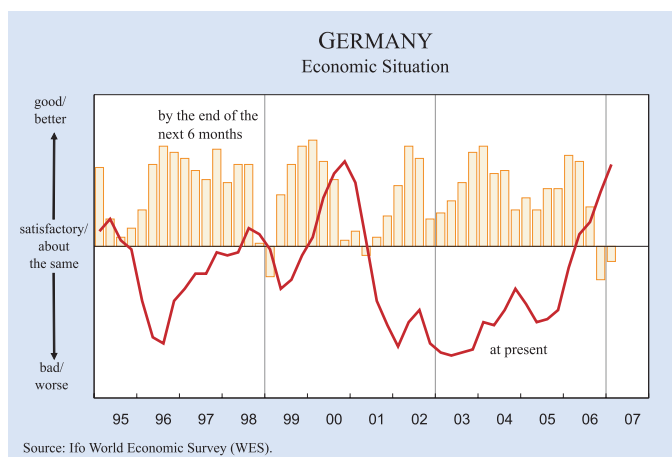
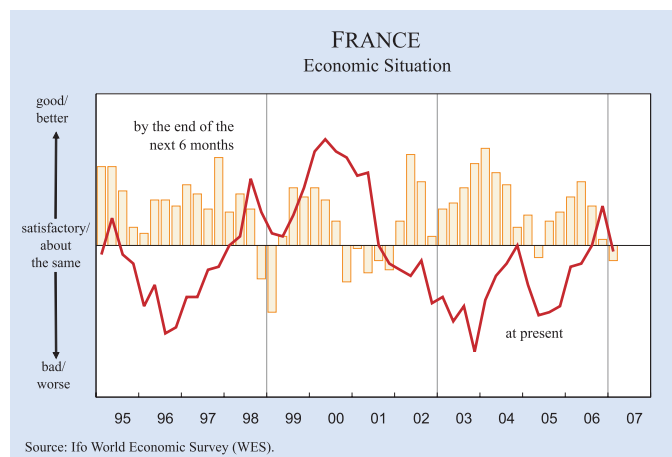
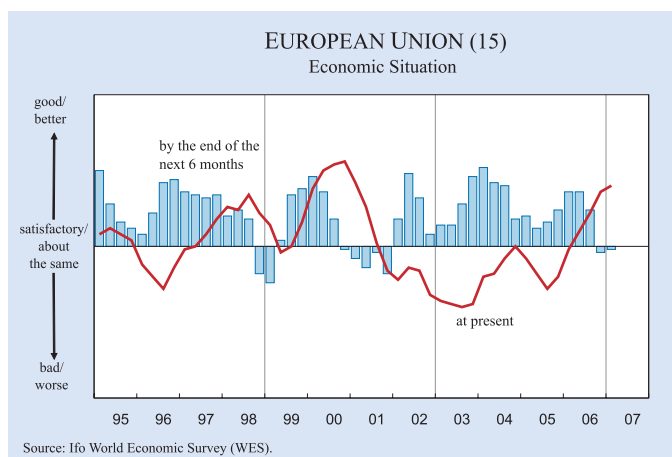


Figure 5b

EUROPEAN UNION

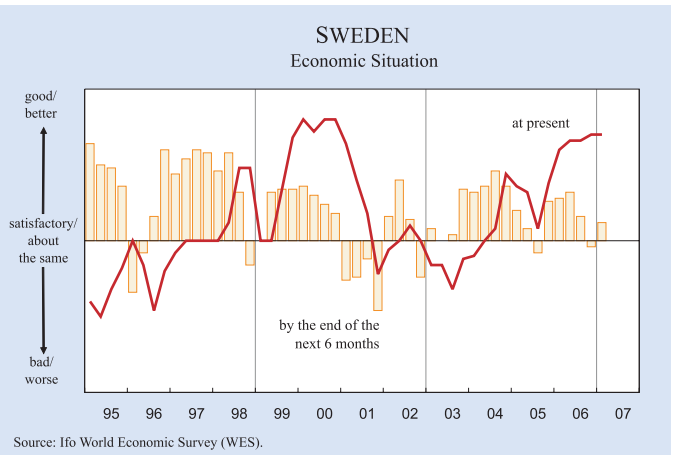
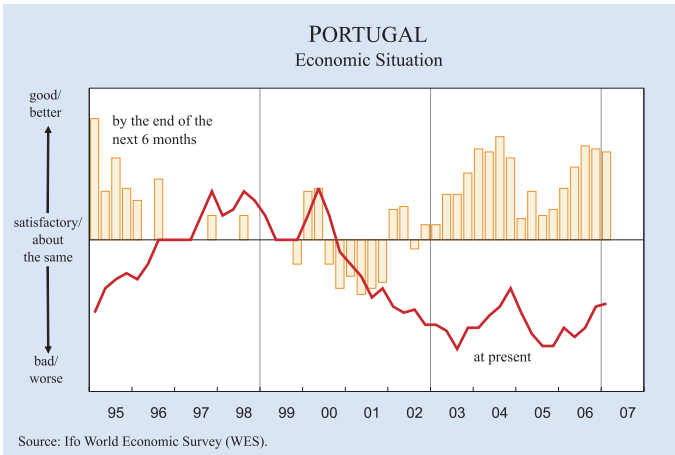
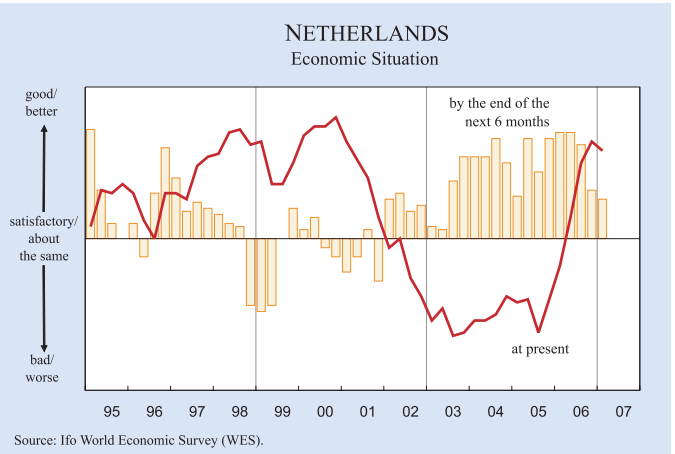
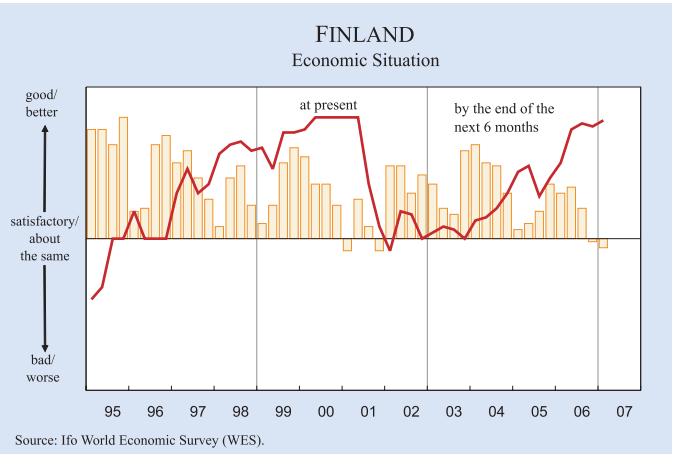
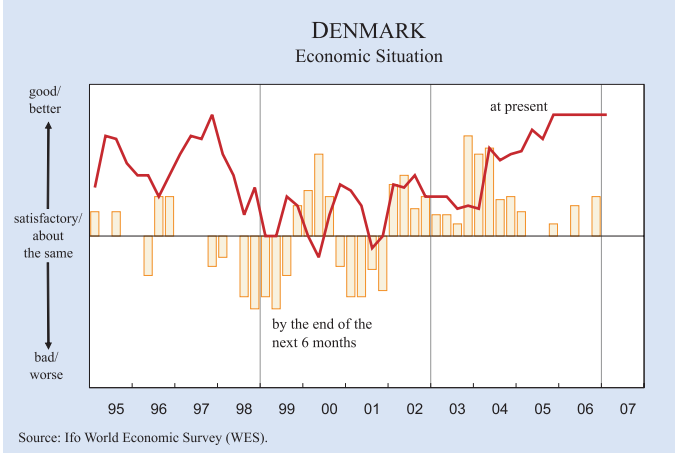
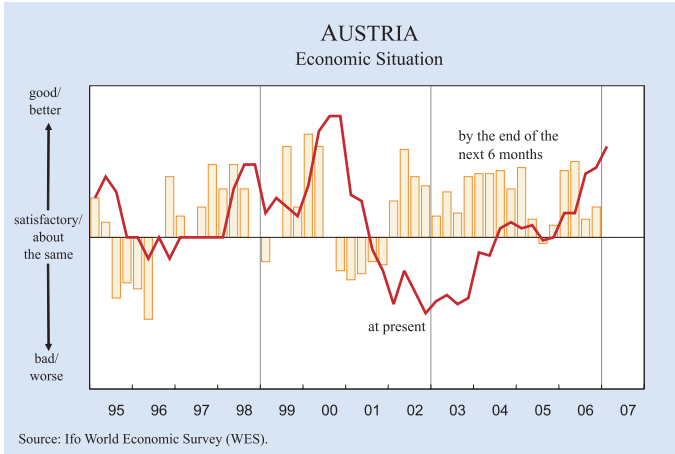


Figure 6

NORTH AMERICA, OCEANIA AND CIS

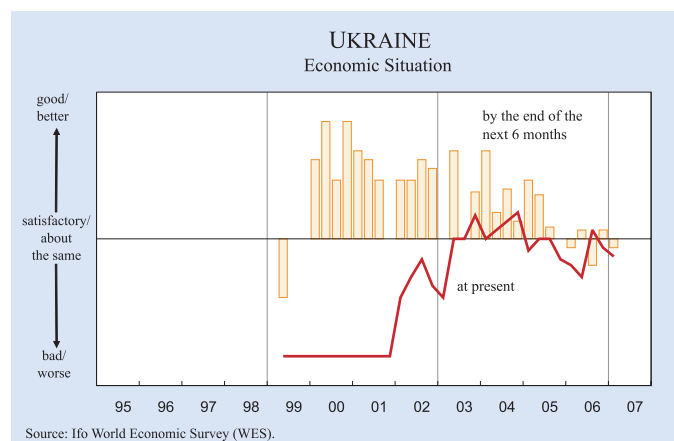
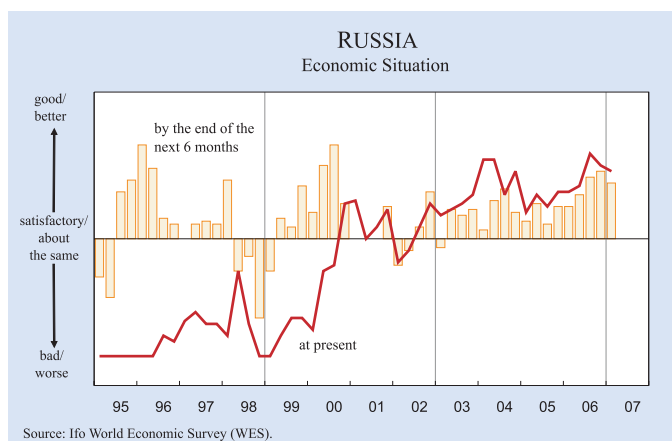
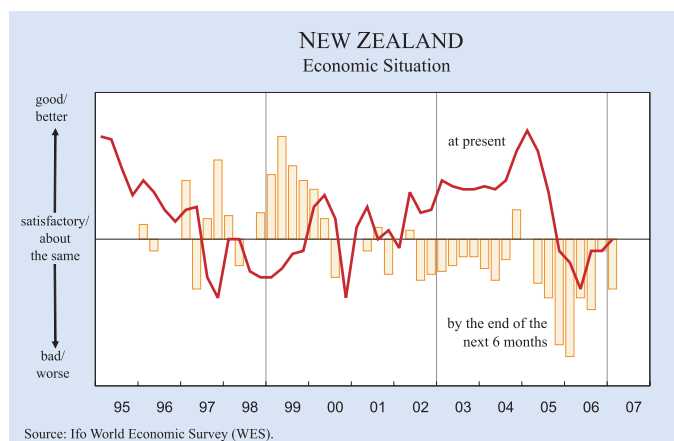
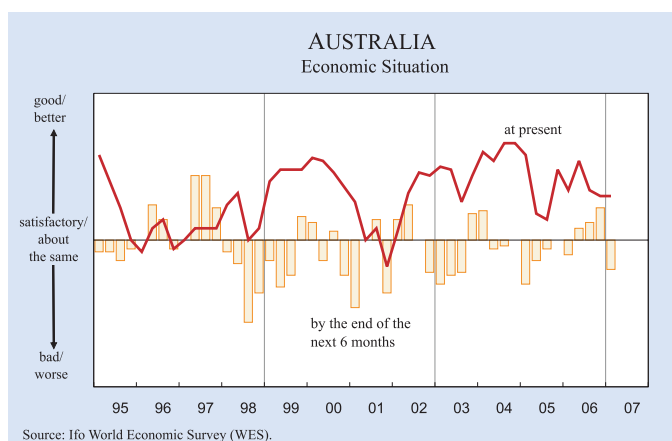
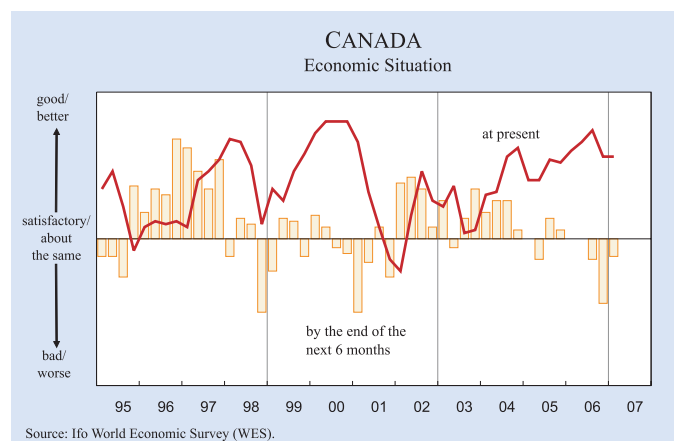
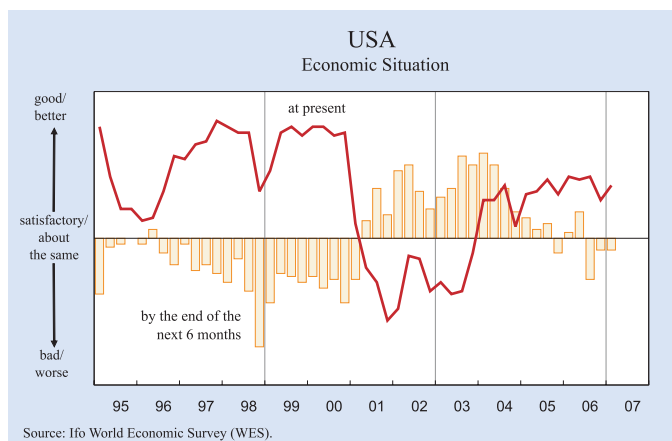


Figure 7

EASTERN EUROPE

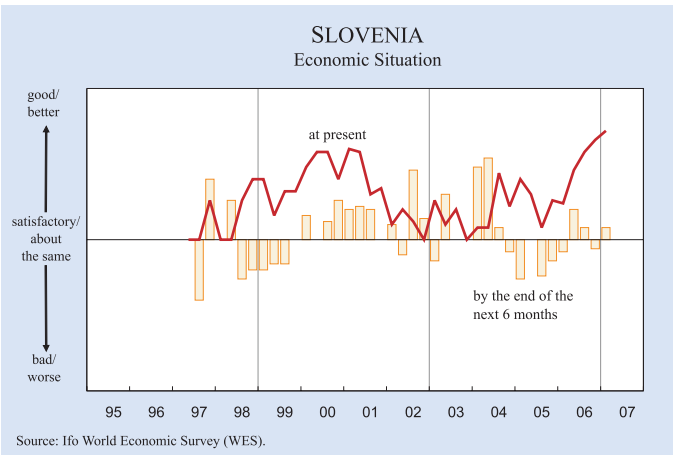
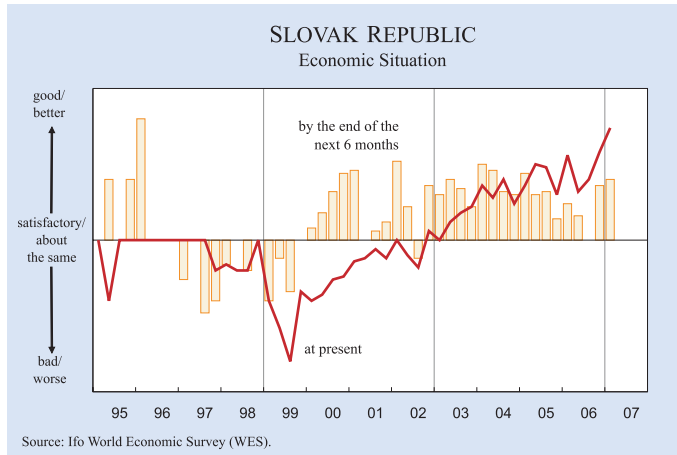
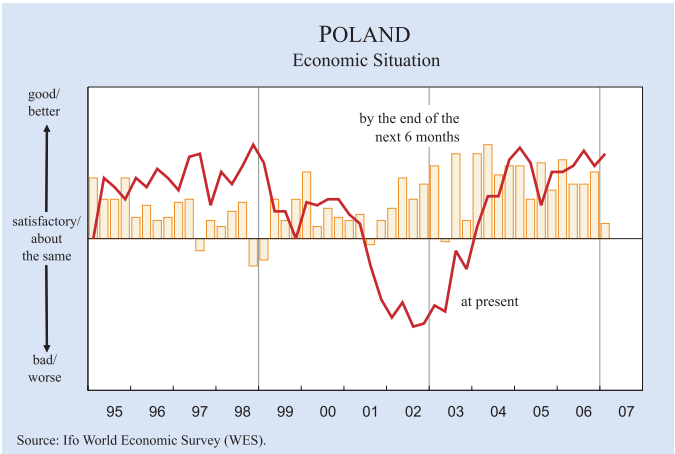
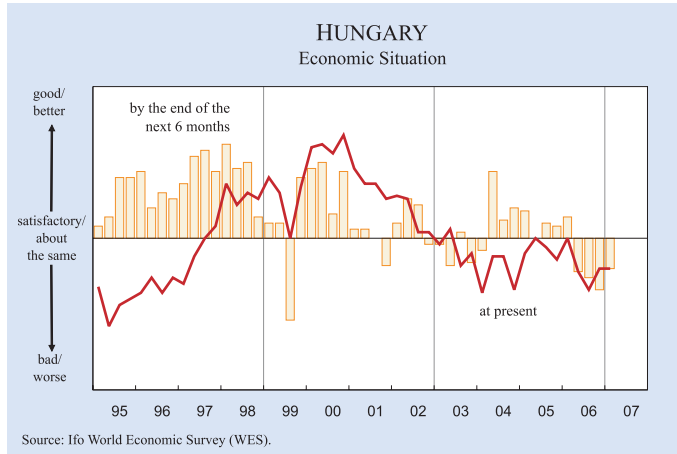
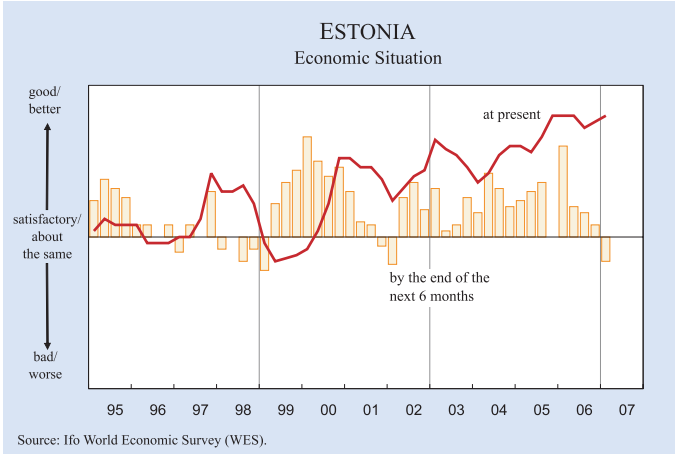
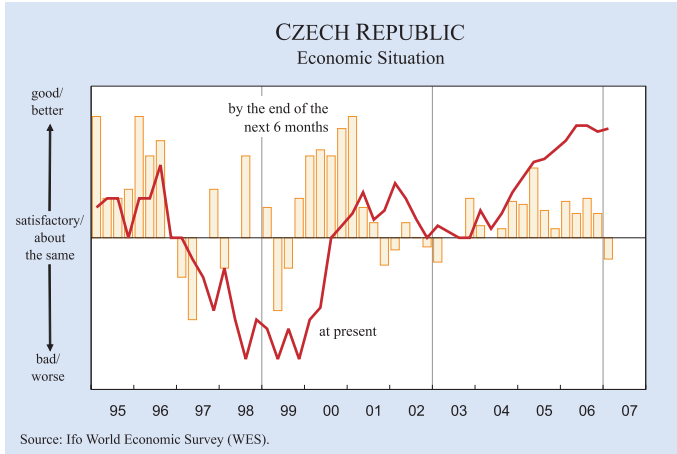


Figure 8

ASIA

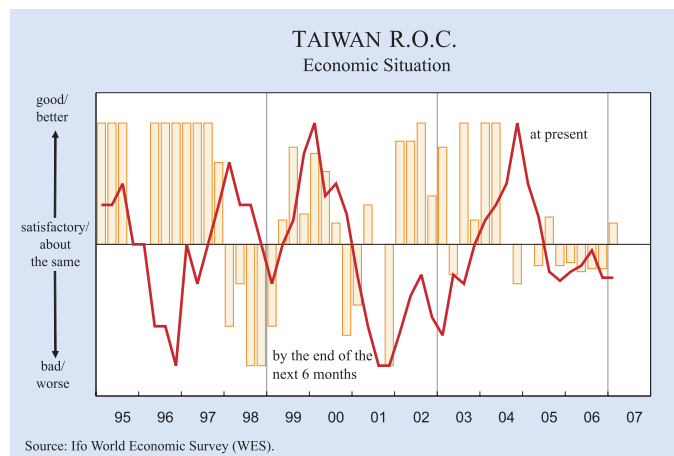
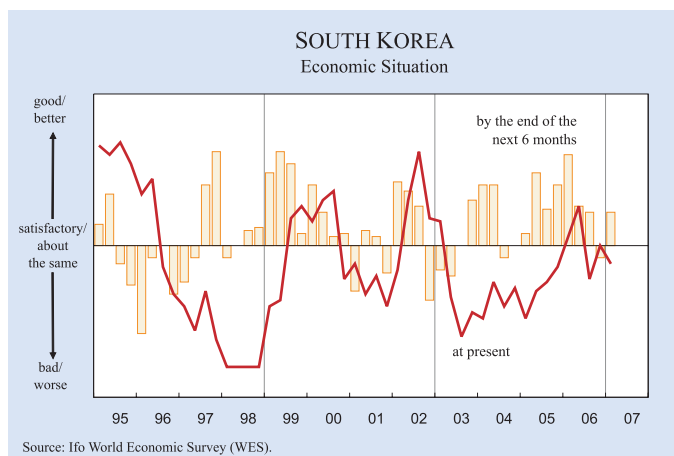
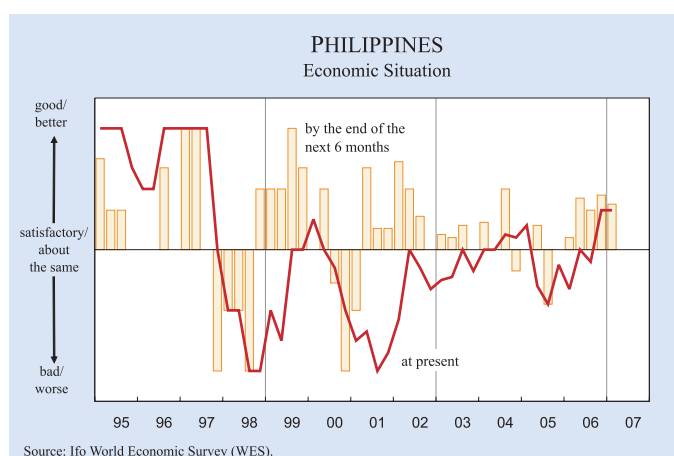
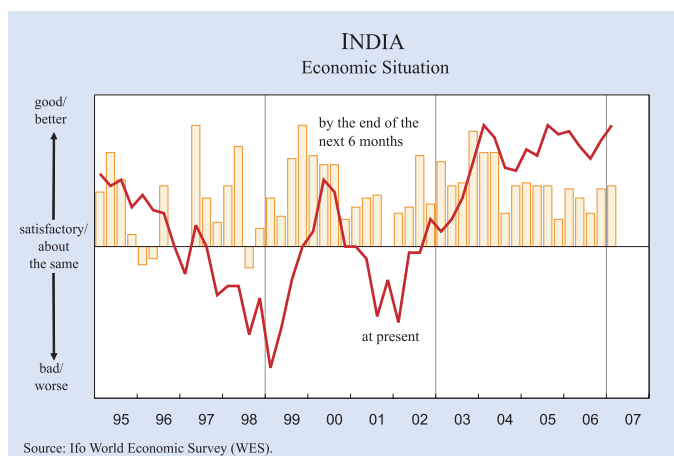
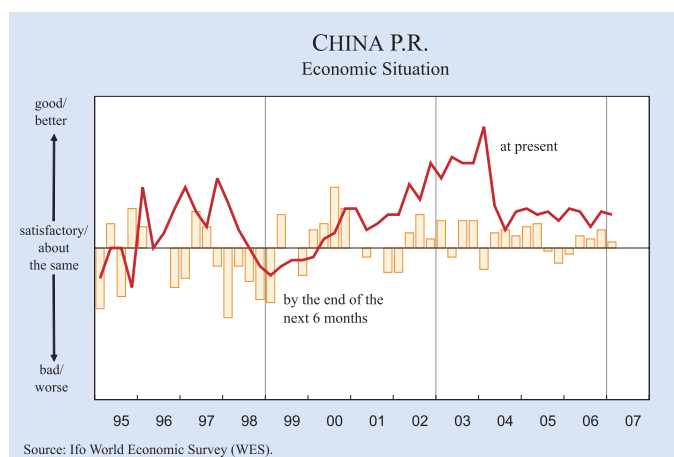
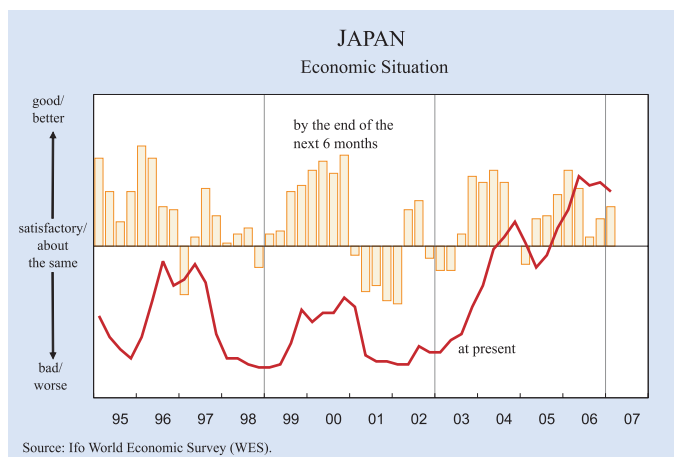


Figure 9

LATIN AMERICA

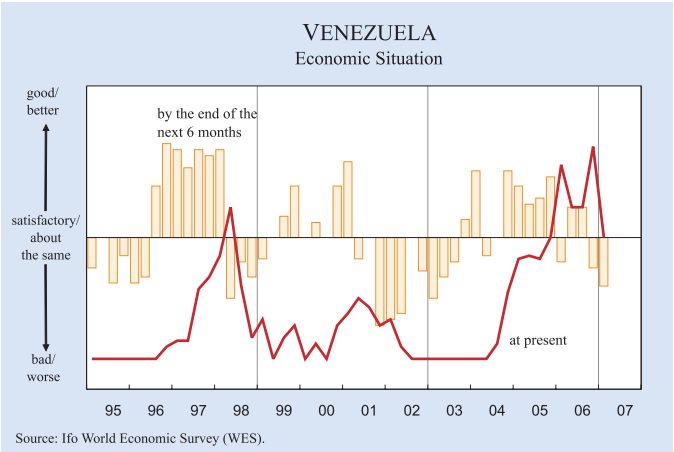
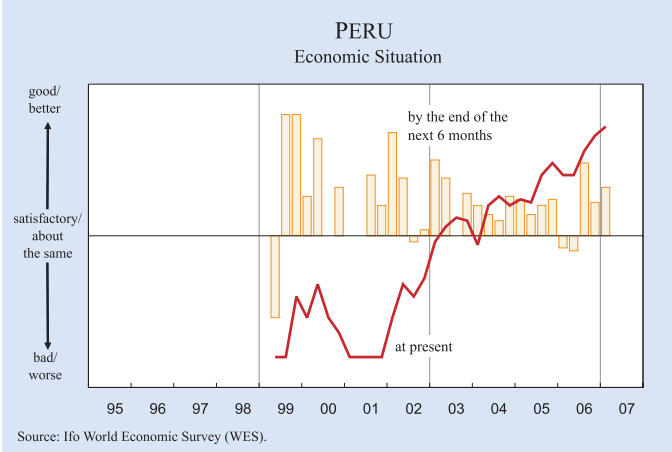
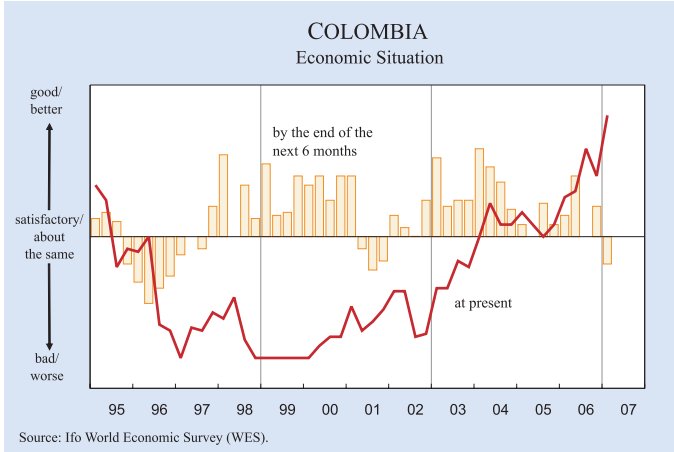
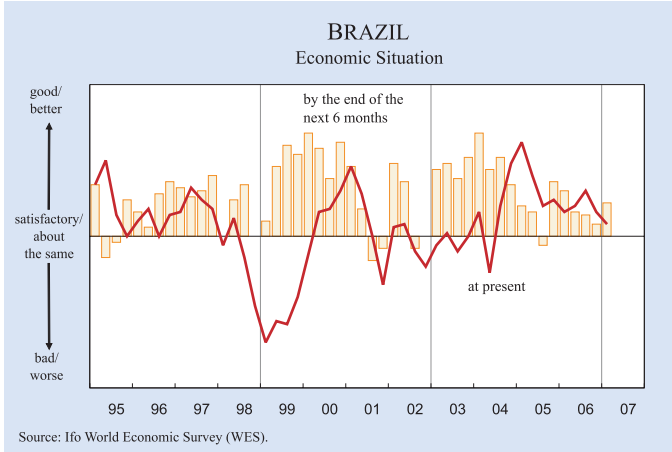
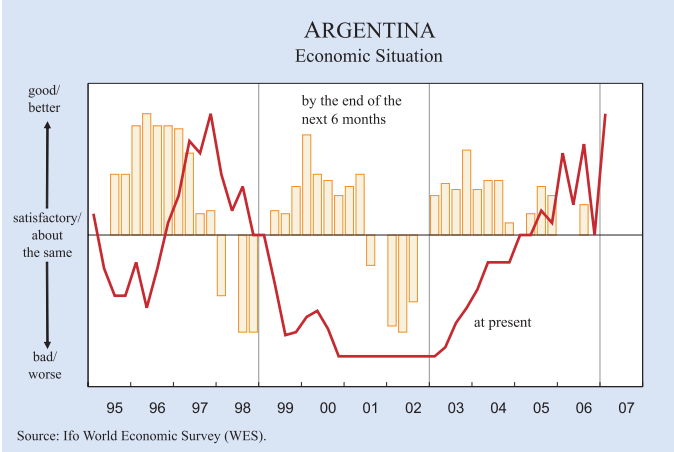
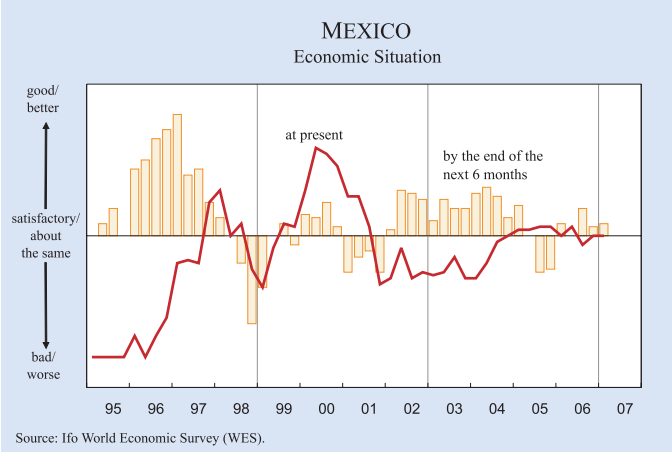
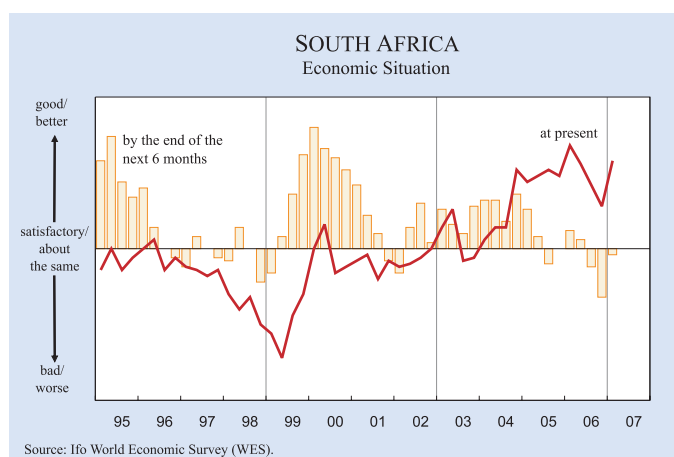
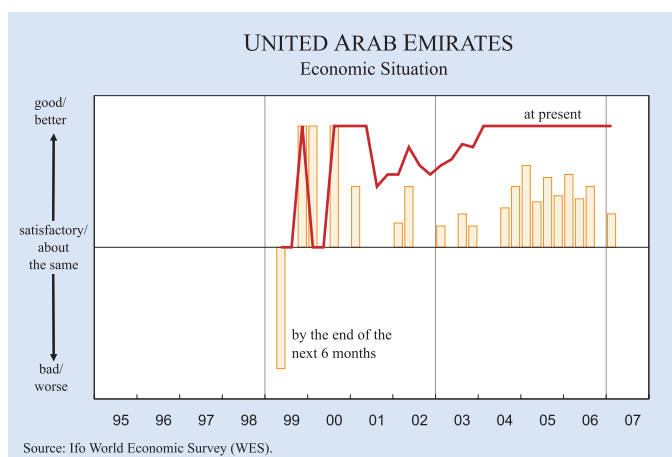
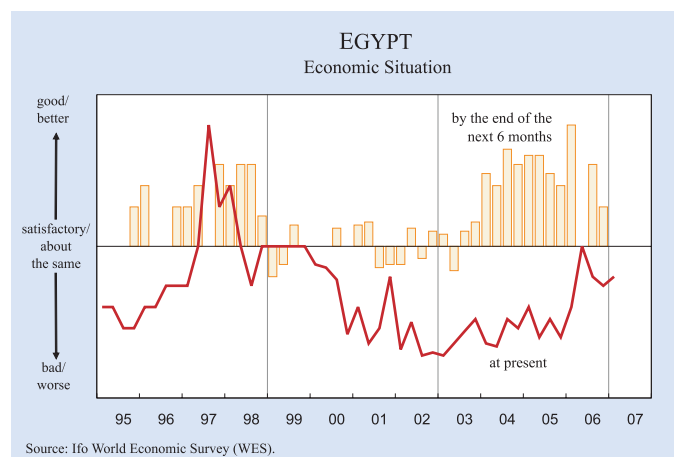
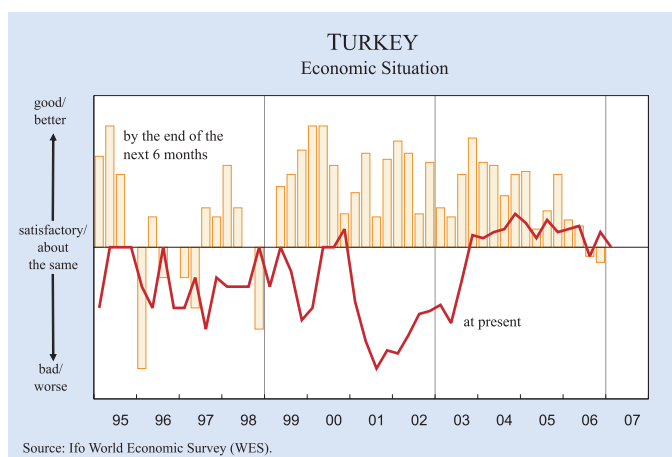
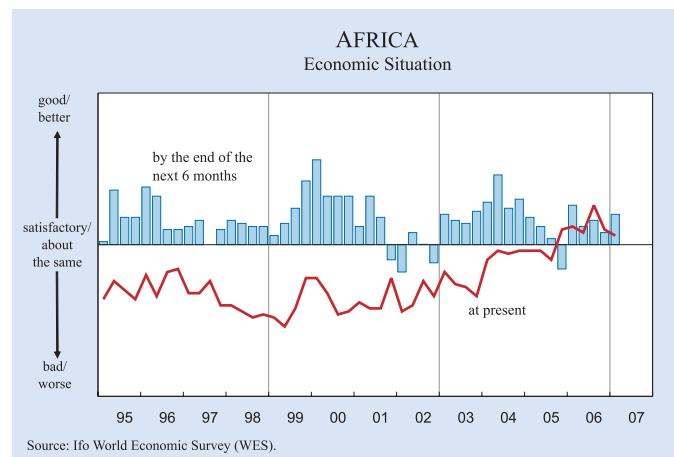
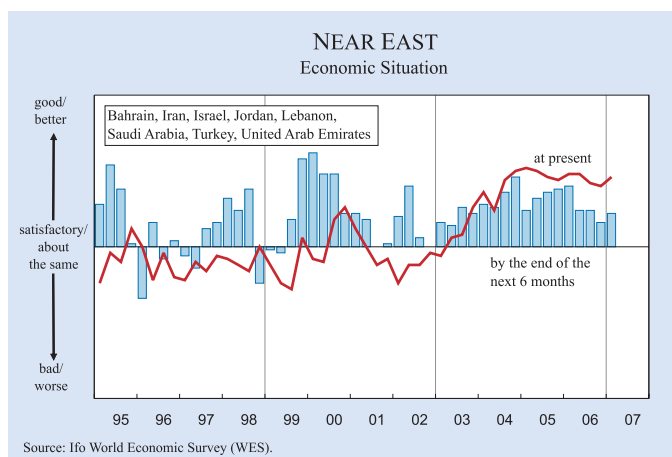


Figure 10

NEAR EAST AND AFRICA



Norway (in both countries 1.9 percent). In the *United Kingdom* the inflation outlook for 2007 deteriorated further and stands now, for the average of 2007, at 2.7 percent (after a reported inflation rate of 2.5 percent in 2006).

In the *United States* inflation expectations slowed down from 3.1 percent in 2006 to 2.5 percent in 2007 and also declined somewhat in *Canada* (from 2.2 percent in 2006 to 1.9 percent in 2007).

In *Asia* consumer price inflation in 2007 is expected to remain at 2.8 percent. The lowest inflation rates in 2007 will continue to prevail in *Japan* (0.6 percent after a reported 0.7 percent in 2006). Moderate though slightly higher inflation rates continue to characterize *Taiwan* (1.6 percent after 1.4 percent in 2006). The relatively highest inflation expectations for 2007 prevail again in *Sri Lanka* (14.4 percent after 13.3 percent in 2006) and *Pakistan* (7.7 percent after 8.8 percent in 2006). Also in *Vietnam* and in *Bangladesh* inflation expectations for 2007 remain well above the Asian average (7.2 percent and 7.7 percent, respectively, compared with 2.8 percent for the Asian average). In *China* the 2007 inflation outlook is somewhat higher than the previous year (2.7 percent compared with 2.3 percent in 2006).

In *Central and Eastern Europe* inflation in 2007 is seen at 3.9 percent, which is only slightly lower than the rate reported for 2006 (4.0 percent). The highest rate of inflation this year is expected in *Hungary* (7.2 percent after a reported 5.1 percent in 2006). In *Serbia* inflation will remain relatively high (7.0 percent); compared with the inflation rate in 2006 (10.4 percent) this is nonetheless a modest improvement. Also in *Latvia*, *Romania* and *Bulgaria*, inflation expectations remain clearly above the average of the region. The lowest rate of inflation is seen in 2007, as in the previous year, in *Poland* (2.3 percent), followed by *Slovenia* (2.6 percent) and *Slovakia* (2.7 percent).

In the *CIS* countries inflation for the first time will be significantly below the 10 percent mark (8.8 percent compared with 9.8 percent in 2006). This downward trend is mainly influenced by an expected decline of the inflation rate in *Russia* (from 9.7 percent to 8.5 percent in 2007). Also in *Kazakhstan* this year's inflation rate is expected to be somewhat lower than in 2006 (7.6 percent compared with 8.2 percent in 2006). Only in the *Ukraine* is the inflation rate in 2007 expected to remain unchanged at around 11 percent.

Table 2
Legal and Administrative Restrictions
for Foreign Firms

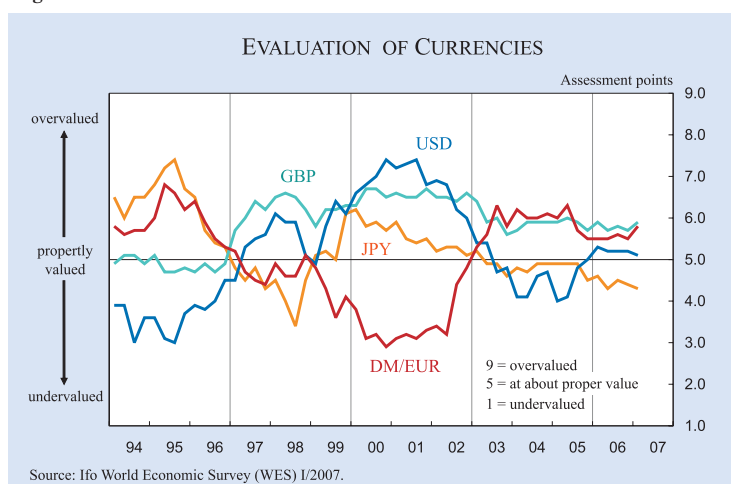
Absent	
Finland	8.6
Hungary	7.9
Norway	7.8
Hong Kong	7.7
Portugal	7.7
Denmark	7.3
Ireland	7.2
United Kingdom	7.2
Latvia	7.0
Rather Low	
Chile	6.9
Slovenia	6.8
Sweden	6.8
United Arab Emirates	6.7
Spain	6.7
Lithuania	6.6
Netherlands	6.6
Austria	6.6
Belgium	6.5
Canada	6.3
New Zealand	6.1
Turkey	6.1
Bulgaria	6.1
Switzerland	6.1
Australia	6.0
United States	6.0
Romania	5.9
Japan	5.9
Serbia-Montenegro	5.8
Peru	5.8
Germany	5.8
Israel	5.5
Greece	5.3
France	5.2
Albania	5.0
Croatia	5.0
Malaysia	5.0
Czech Republic	5.0
Slovakia	5.0
Kazakhstan	5.0
Poland	4.8
India	4.8
Colombia	4.6
Mexico	4.6
South Korea	4.4
Pakistan	4.4
Brazil	4.4
Taiwan	4.2
Paraguay	4.0
Sri Lanka	4.0
Vietnam	4.0
Egypt	4.0
Nigeria	4.0
Kenya	4.0
Russia	4.0
Rather High	
Ecuador	3.9
Italy	3.9
Indonesia	3.5
China	3.5
Ukraine	3.5
South Africa	3.5
Costa-Rica	3.4
Philippines	2.8
Zimbabwe	2.3
Thailand	2.1
Venezuela	1.8

* Only countries with more than 3 responses have been included into the analysis

WES scale: 9 - absent, 5 - low, 1 - high

Source: Ifo World Economic Survey I/2007

Figure 11



Central and Latin America is one of the few regions where 2007 inflation expectations are higher than the reported inflation in 2006 (6.6 percent compared with 5.7 percent in 2006). However, this was caused mainly by a few countries – particularly *Venezuela* – and is not a widespread phenomenon in this region. In most of the other countries in the region, the 2007 inflation outlook is about the same as the 2006 inflation outcome (*Brazil*: 3.9 percent compared with a reported 3.8 percent in 2006; *Chile*: 3.1 percent compared with 3.4 percent in 2006; *Mexico*: 4.2 percent compared with 4.4 percent in 2006).

Also in the *Near East* the inflation outlook for 2006 is slightly worse than in 2006: 6.3 percent compared with a reported inflation rate of 6.0 percent in 2006. This can be blamed mainly on *Iran* where inflation in 2007 is expected to be around 15.5 percent compared with 13.0 percent last year. Also in the *United Arab Emirates*, inflation is expected to pick up somewhat in 2007 (8.0 percent compared with 6.9 percent in 2006). In contrast, inflation in *Turkey* is expected to be lower than in 2007 (7.5 percent compared with 10.2 percent last year). By far the lowest inflation rates in the region will prevail again in *Saudi Arabia* (2.0 percent after 0.9 percent in 2006) and in *Israel* (1.6 percent after 2.2 percent in 2006).

In *Oceania* an inflation rate of 3.1 percent is expected for 2007; this is somewhat lower than the inflation figure reported for last year (3.1 percent compared with 3.4 percent in 2006). A decline in inflation rates is particularly expected in *New Zealand* (2.8 percent after 3.8 percent in 2006), whereas in *Australia* the expected inflation figure for 2007 is only marginally

lower than last year's inflation rate (3.2 percent compared with 3.3 percent in 2006).

By far the highest inflation rate in the world is expected, also for 2007, in *Zimbabwe* (2000 percent after 1100 percent in 2007). In other African countries no clear inflation trend can be observed: In *South Africa* the 2007 inflation rate at 6.1 percent, is expected to be somewhat higher than last year's figure (5.2 percent), whereas inflation should decline somewhat in *Nigeria* (from 13.2 percent in 2006 to an expected 11.5 percent in

2007), *Egypt* (from 7.7 percent in 2006 to an expected 6.5 percent in 2007) and *Tunisia* (from 3.9 percent in 2006 to an expected 3.0 percent in 2007).

Western European currencies – euro and UK pound – seen as overvalued

A growing number of WES experts regard the *Japanese yen* as undervalued. On the other hand, the *US dollar* continued to appear more or less adequately assessed according to WES experts and both the *British pound* and the *euro* were regarded, even a bit more than in previous surveys, as somewhat *overvalued* (see Figure 11).

A supplementary survey question was asked on the likely development of the *US dollar* in the next 6 months, regardless of how currencies are assessed from a fundamental point of view. According to responses to this question, on balance, a moderately declining tendency of the value of the dollar in relation to other currencies is expected, also in the course of the next six months. This is the case in *Western Europe* (particularly in *Sweden* and *Norway*), in *Asia* (here particularly in *China*, *Malaysia* and *Taiwan*) and also in *Russia* and *Kazakhstan*.

Exceptions from the general trend of a weakening *US dollar* are again mainly in *Latin American countries* as well as countries in *Africa* and the *Near East*, where the *US dollar* is expected to gain in value. Also in *Canada* and *Oceania* (both in *Australia* and *New Zealand*) a continued moderate upward trend is seen for the *US dollar* in the course of the next six months.

Figure 12

ACTUAL SHORT-TERM INTEREST RATES AND EXPECTED TREND

FOR THE NEXT 6 MONTHS (QUARTERLY DATA)

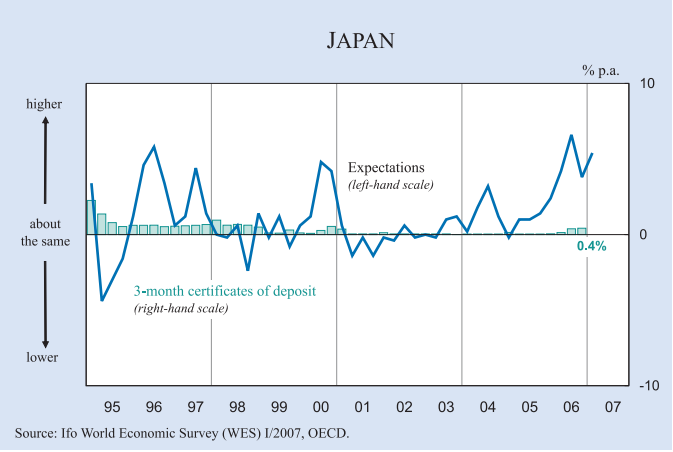
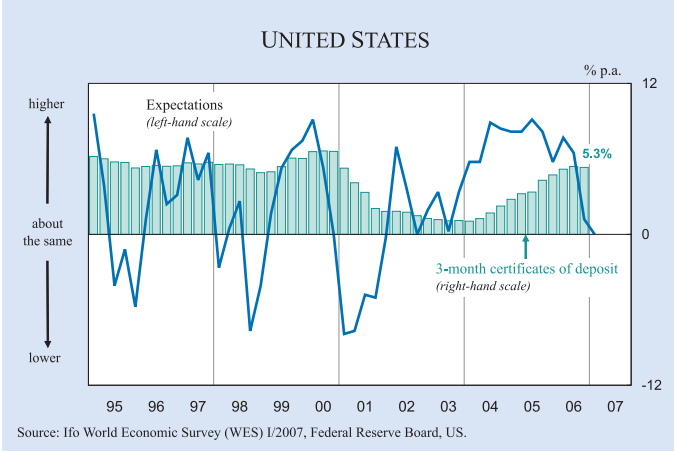
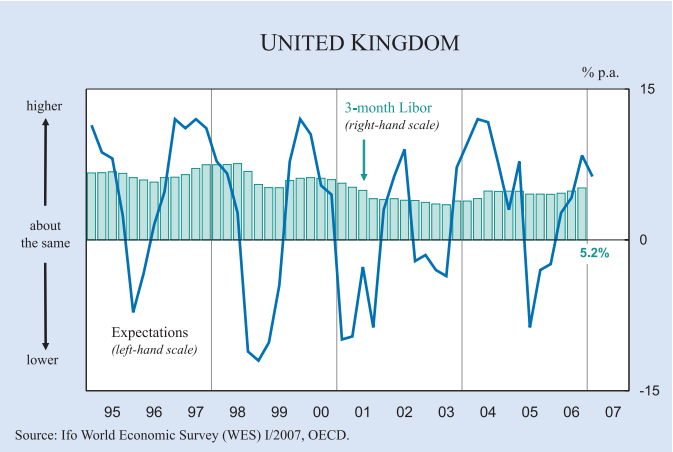
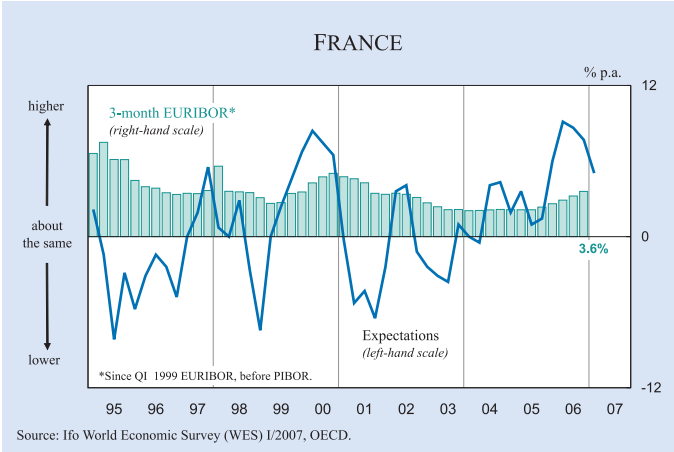
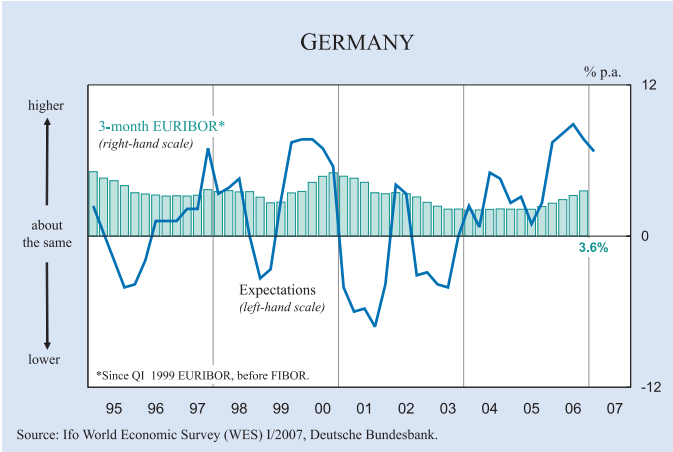
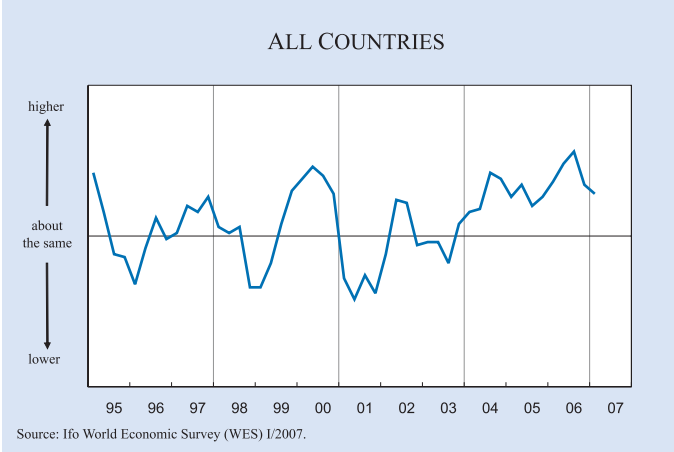


Table 3

**Assessment of the Following Factors Influencing the Climate for Foreign Investors
For the Next 6 Months**

Climate due to	Change for the next 6 months *	
	Deterioration	Improvement
Legal / administrative restrictions to invest and/or to repatriate profits	Ecuador, Venezuela	Greece, Hong Kong, India, Lithuania, Romania, Turkey, United Arab Emirates
Political stability	Albania, Ecuador, Nigeria, Pakistan, Paraguay, Venezuela, Zimbabwe	Hong Kong, Lithuania

In those countries, not mentioned in the table the climate for foreign investors is expected to remain unchanged during the next 6 months (only countries were included in the evaluation that had three or more participants in the WES I/2007).

Criteria for selection of countries:

Deterioration: WES grade between 1 and 3.5

Improvement: WES grade between 6.5 and 9

Source: Ifo World Economic Survey (WES), I/2007

In most *Eastern European* countries the *US dollar* is expected to remain more or less stable vis-à-vis the individual currencies of this region; exceptions from this general trend are again *Estonia*, the *Czech Republic* and *Slovakia* where WES experts expect some weakening of the *US dollar* in the course of the next six months.

Interest rates: upward trend is slowing down further

The pace of interest rate hikes will slow down further according to WES experts. This holds true both for short- and long-term interest rates.

In the *euro area* the number of WES experts expecting a further increase of short-term and long-term interest rates continues to shrink. However, those expecting a continuation of the upward trend are still clearly in the majority. Thus, there seems still some way to go up before the peak in interest rates is reached.

Also in *Western Europe* outside the euro area both types of interest rates are expected to increase further, though at a slower rate than in the recent past (so in *Denmark*, *United Kingdom* and *Switzerland*); only in *Norway* and *Sweden* is no softening of the upward trend of interest rates yet expected.

In the *USA* the upward trend of short- and long-term interest rates is expected to soon come to a halt, and in *Canada* WES experts affirmed their view

that interest rates will come down somewhat in the course of the next six months.

In *Eastern Europe* the upward trend of short- and long-term interest rates is expected to slow down somewhat in coming months, with the exception of *Estonia*, where the current upward trend of interest rates will continue or even accelerate somewhat.

In *CIS* countries, particularly in *Russia*, the trend of shrinking interest rates will continue in coming months, according to WES experts' views.

In *Latin America* more or less stable short- and also long-term interest rates are expected in the coming six months. However, there are strong differences across countries: In *Chile* the upward trend of both short- and long-term interest rates appears to have come to an end and will be followed – for the first time since 2003 – by declining rates. In *Brazil* the downward trend of interest rates has been going on for quite some time and is expected to continue in coming months, though the room for further rate cuts appears to getting smaller. In *Argentina* short-term interest rates are expected to be hiked further in the next six months, whereas long-term interest rates are expected to stabilize at current level.

In *Asia* the upward trend of interest rates, according to WES experts' views, will slow down further in the next six months. The situation in the individual countries is not uniform, however: In *Indonesia*, *Hong Kong* and *Thailand* both short- and long-

term interest rates are expected to decline in coming months. On the other hand, some increase of short-term rates is expected not only in *India* and *China* but also in *Japan*. In *South Korea* at the end of last year WES experts expected an end of the series of rate hikes; according to the new survey a renewed pick-up of interest rates is expected in coming months.

ICC Special Question: Statistical information in public and political decision making

The credibility of statistical information is becoming increasingly important for businesses and for public and political decision-making. In January an international survey on the question of whether the public and political debate across countries is, in general, based on well established statistical evidence, was launched by the Paris-based International Chamber of Commerce and the Ifo Institute. The question was originally initiated by the OECD¹ (Organization of Economic Co-operation and Development), which is launching a long-term project on the creation of a reliable and coherent body of key indicators to measure progress of societies. The project is aimed at addressing the fact that the lack of reliable information leads to the dissemination of ideology instead of knowledge, making people misperceive actions of the governments and undermining a democratic decision process.

More than 700 economists from over 80 countries have responded to the special question. On a global range there seems to be a strong discrepancy across different political debate issues. While main economic indicators, such as GDP, inflation and public

finance statistics (governmental debt) are usually well established, the political debates on environmental aspects, knowledge economy (research and education), as well as social conditions tend not to be well grounded on statistical evidence around the world (see Figure 13). However, there are strong differences across regions (see Figure 14). Particularly in Latin America (as in *Venezuela*, *Peru*, *Paraguay*, *Mexico* and *Ecuador*) and Africa, but also in some Asian (*Indonesia*, *Pakistan* and *Malaysia*) and Eastern European countries (*Serbia* and *Montenegro*, *Albania*, *Poland*) the majority of surveyed economists do not think that the political debate in their country is, in general, based on well-established statistical information. On the other hand, in *Australia* and *New Zealand*, *Western Europe* and North America WES experts generally think that suffi-

Figure 13

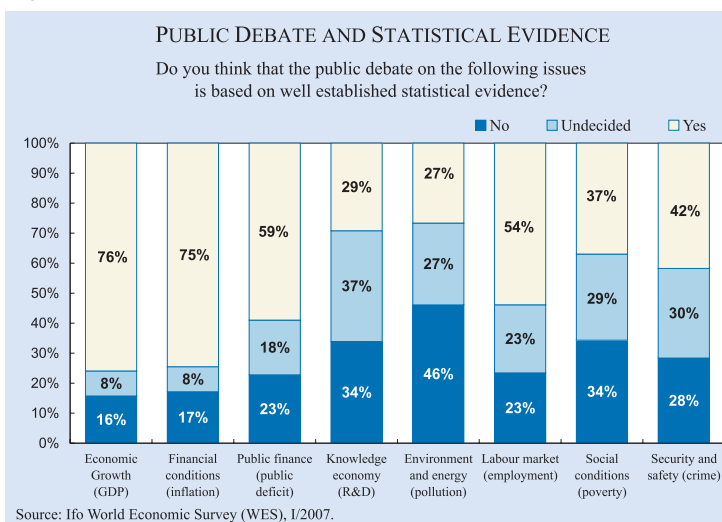
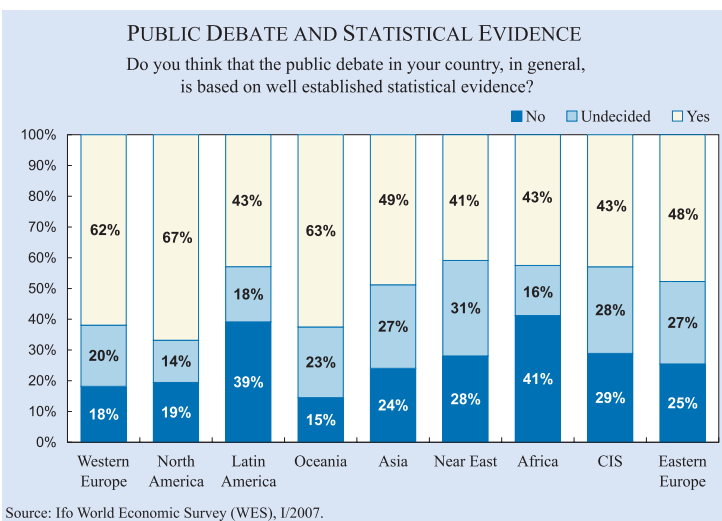


Figure 14



¹ More information is available on the OECD World Forum website: <http://www.oecd.org/oecdworldforum>

cient statistical evidence provides the base to their country's political debate.

The availability of official statistics that present a simplified but reliable view of a country's progress is the starting point for a democratic and informed decision process. Citizens need reliable, comprehensive, and at the same time simple information on which they can base their political decisions. Thus, the survey asked economic experts worldwide about the availability and quality of the official report or website based on statistical indicators that provide the public with a comprehensive view of their country's progress. Economic experts are assumed to be

one of the best informed population groups and thus the most suitable target group for a survey like this.

Particularly good marks for the official report that would provide a comprehensive view on key indicators have been given by the surveyed economists in Northern European countries – *Finland, Norway, Denmark, Sweden, Netherlands* and *United Kingdom* – but also in *Austria* and *France* (see Table 4). Also in some Central and Eastern European countries WES experts judged the statistical information provided by an official body to be good, as in *Slovenia, Slovakia* and *Latvia* and also in *Lithuania* and *Croatia*, but here the official website, however,

Table 4
Quality of Official Report or Website that Based on Statistical Indicators Provides a Comprehensive View on the Country's Progress

Region	Report	Website	Region	Report	Website
Western Europe			Central a. Latin America		
Austria	3.0	2.7	Brazil	3.1	3.0
Belgium	2.9	2.8	Chile	3.0	2.8
Denmark	3.3	3.1	Colombia	3.0	2.8
Finland	3.4	3.3	Costa-Rica	2.6	2.2
France	3.0	2.8	Ecuador	2.5	2.4
Germany	2.7	2.6	Mexico	2.3	2.7
Greece	2.5	2.3	Paraguay	2.3	2.3
Ireland	2.8	2.6	Peru	2.8	2.7
Italy	2.9	2.8	Venezuela	2.3	2.0
Netherlands	3.1	3.1	Asia		
Norway	3.4	3.4	China	2.2	2.2
Portugal	2.5	2.5	Hong Kong	3.2	3.2
Spain	2.9	2.9	India	2.8	2.4
Sweden	3.1	3.1	Indonesia	2.4	2.0
Switzerland	2.7	2.6	Japan	3.2	3.2
United Kingdom	3.1	2.9	Malaysia	2.7	2.4
CIS			Pakistan	2.6	2.3
Kazakhstan	2.7	2.6	Philippines	2.8	2.6
Russia	2.4	2.5	South Korea	3.1	3.3
Ukraine	2.8	2.8	Sri Lanka	3.0	2.0
Central- a. Eastern Europe			Taiwan	2.9	2.9
Albania	2.2	2.0	Thailand	2.5	2.8
Bulgaria	2.6	2.9	Vietnam	2.5	2.3
Croatia	3.0	2.7	Near East		
Czech Republic	2.9	4.0	Israel	3.2	3.0
Hungary	2.9	3.0	Turkey	2.8	2.8
Latvia	3.0	3.0	United Arab Emirates	2.9	2.5
Lithuania	3.0	2.3	Africa		
Poland	2.5	2.7	Egypt	3.0	2.8
Romania	2.8	3.0	Kenya	2.5	2.5
Serbia-Montenegro	3.0	2.7	South Africa	2.8	2.4
Slovakia	3.0	2.9	Zimbabwe	1.8	1.4
Slovenia	3.5	3.4	Oceania		
North America			Australia	3.4	3.4
Canada	2.8	2.7	New Zealand	3.0	3.0
United States	3.0	2.9			

Only countries with more than 3 responses have been included into the analysis

WES scale: 4 – very good, 3 – good, 2 – rather poor, 1 – very poor/absent

Source: Ifo World Economic Survey I/2007

received quite low ranks. In the *United States*, *Australia* and *New Zealand* the experts also expressed confidence in the official statistical information. In Asia, in *Japan*, *Hong Kong* and *South Korea* and in Latin America, in *Brazil*, *Colombia* and *Chile* the panel assessed the official statistical information as satisfactory. The Internet has become the communication medium of choice in academia, business and homes, as it is a less expensive way to reach more people. Although there seem to be no major differences in the quality of the printed and the electronic version of the official report, on global average, the printed version received better marks. However, there were some countries where the experts generally judged the Internet version of the report to be better than the printed version. This was particularly the case in Central and Eastern European countries: *Czech Republic*, *Bulgaria*, *Poland* and *Romania*, but also in *Mexico* and *Thailand* (see Table 4).

Severe deficits relating to the availability of an official report or website providing reliable information on a country's progress were reported by the surveyed economists in several Latin American countries, particularly *Venezuela*, *Costa Rica* and *Paraguay*. Also in *Mexico* the economists criticized the official report. On the other hand, the official website was judged as "good". Similar experience was reported for *Russia*. In Asia, the *Chinese* and *Indonesian* official statistical reports met with criticism. A country where reliable statistical information has been absolutely missing for almost a decade is not surprisingly *Zimbabwe*.

In general, in the majority of countries the official report providing information on a country's progress was judged to be not entirely satisfactory. In sum, the results of the survey have accentuated the need for comprehensive statistical information that can measure the overall progress of a country and create reliable, common knowledge in order to better inform the public debate, particularly on non-economic issues, such as environmental aspects, social conditions, security and education. According to OECD recommendations, a database with key indicators should meet three fundamental criteria: (1) present a simplified but reliable view of the country, (2) contribute to a shared knowledge among citizens and (3) make politicians accountable for their actions. While major progress on these issues has already been achieved in several countries, in the majority of countries severe deficits still seem to prevail.



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