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CESifo WORLD ECONOMIC SURVEY

VOLUME 7, No. 4

NOVEMBER 2008

WORLD ECONOMIC CLIMATE

World Economic Climate deteriorates further

ECONOMIC EXPECTATIONS

Assessments of the current economic situation and economic expectations again downgraded

INFLATION

Lower inflation expectations

INTEREST RATES

Decline expected

CURRENCIES

Euro seen overvalued to a lesser degree

SPECIAL TOPIC

Climate change policies and international trade



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The world business organization

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Ifo World Economic Survey

Regions

- World economy: Global downswing
- Western Europe: Strong economic decline
- North America: Economic climate index falls further
- Eastern Europe: Economic cooling
- CIS: Economic climate index drops
- Asia: Economic climate deteriorates
- Oceania: Economic slowdown continues
- Latin America: Economic weakening
- Near East: Economic climate cools moderately
- Africa: Economic downturn in South Africa

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 October 2008, 1,001 economic experts in 91 countries were polled.

WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris.

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, includes many diverging areas 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 DETERIORATES

The Ifo World Economic Climate Index fell in October 2008 to the historically lowest level since more than 20 years (60.0; 1995=100). The decline is primarily the result of more unfavourable assessments of the current economic situation, but also the expectations for the coming six months have worsened further (see Figure 2).

World economy: Global recessionary trend

The world economic climate continued to deteriorate in October 2008 (see Figure 1). The assessments of the present economic situation fell in October clearly below the satisfactory level, on a global average. The economic expectations for the next six months have again been downgraded. The economic downturn has clearly become global. The cooling of the Ifo World Economic Climate has this time affected not only the major economic regions of *North America, Western Europe* and *Asia* but also *Central and Eastern Europe, Russia, Latin America* and *Australia*. Although, surprisingly, in the *US* the economic expectations brightened somewhat for the third time in succession, the assessments of the present economic situation have been strongly down-graded. In *Western Europe* the economic climate indicator has again worsened in nearly all countries of the region. Especially the assessments of the current situation clearly worsened. The economic expectations remained pessimistic. In *Asia*, the assessments of the current situation deteriorated as well, and the six-month outlook has also

been revised downwards. Particularly unfavourable appraisals of the economic situation have been given in *Japan, South Korea* and *Taiwan*.

Overall, the data confirm a global recessionary trend. The business-cycle clock illustrates the movement of the economic climate indicator over the last years (see Box 1). At present, a scenario that the economic climate index remains in a recessionary period in the first half of 2009 appears realistic. In many countries, the WES experts stated that insufficient demand has become the major economic problem at present. However, there are also supportive factors

Figure 1

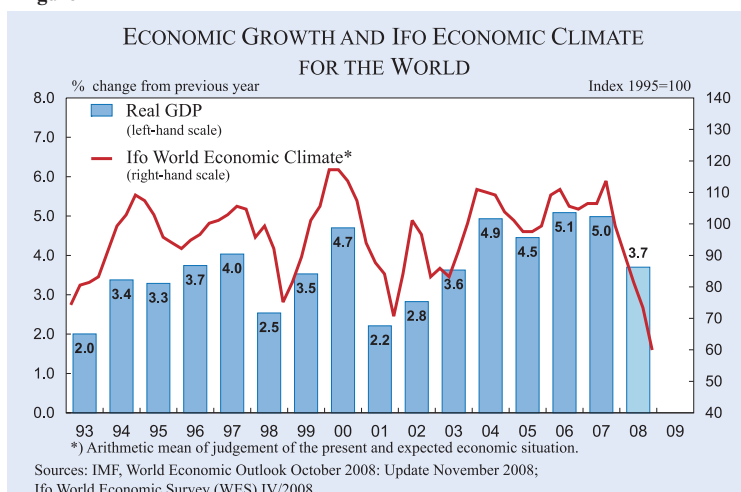
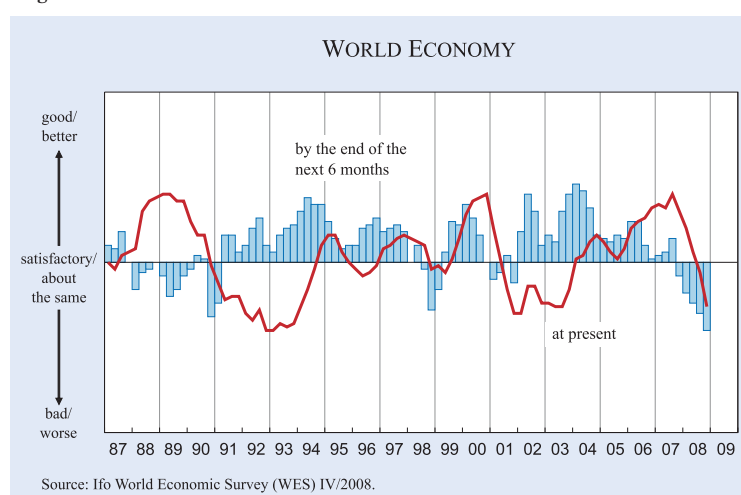


Figure 2

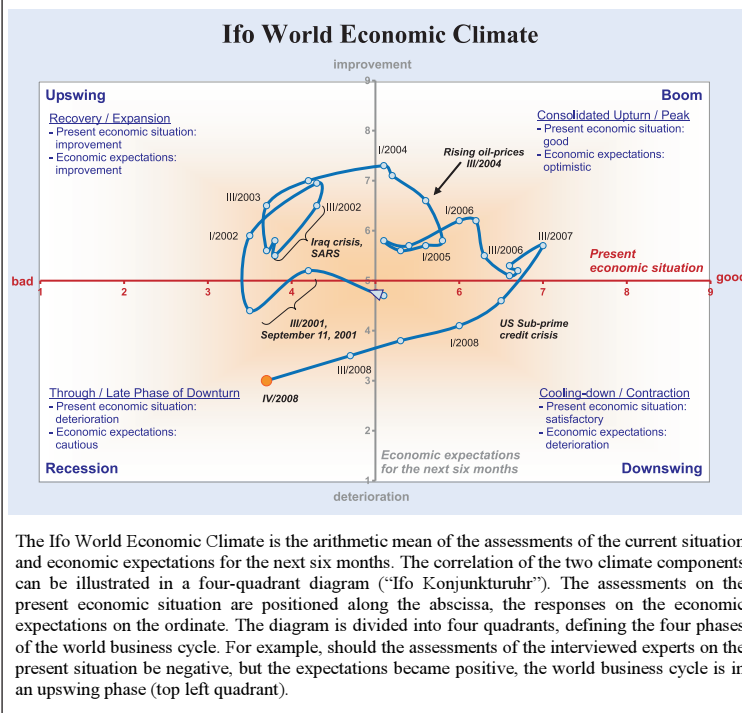


Box 1

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.

The strong decline of the economic climate index begun in summer 2007 caused by the US mortgage crisis. In autumn 2007 the economic climate index entered the cooling-down area of the business clock and it fell further in the first half of 2008. In the third quarter 2008 the economic climate index entered the cyclical trough area, as the assessments of the present economic situation slipped below the “satisfactory” mark, on a global average. The decline is primarily the result of more unfavourable assessments of the current economic situation, but also the expectations for the coming six months have worsened further. Overall, the data point to a global economic recession in the first half of 2009.



for the global economy, such as the falling oil and energy prices, easing inflation, declining interest rates and multiple governmental economic programs in the *US*, *Western Europe* and *Asia*. The downward pressure for the global economy, however, remains the weak consumption sector in the *US* and the unprecedented spread of the financial crisis all over the world and its unpredictable impact on the global economy.

Western Europe: Strong economic decline

The economic climate indicator for *Western Europe* further deteriorated in October (see Figure 3). Particularly the assessments of the present economic situation have been strongly downgraded. The economic expectations remained negative (see Figure 4).

The economic climate index strongly declined in the *euro area* (see Box 2). In almost all countries of the *euro area* the assessments of the present economic situation deteriorated in October, particularly in *Italy*, *Belgium*, *France*, *Austria* and *Germany*. In *Ireland* and *Portugal* the assessments of the present economic situation have not further deteriorated. However, the economic expectations have been very strongly downgraded in both countries. In the other countries of the *euro area*, the economic expectations for the next six months remained pessimistic. WES experts in all *euro area* countries expect a pronounced economic weakening in the beginning of 2009. They named “insufficient demand” as the most important economic problem at the present.

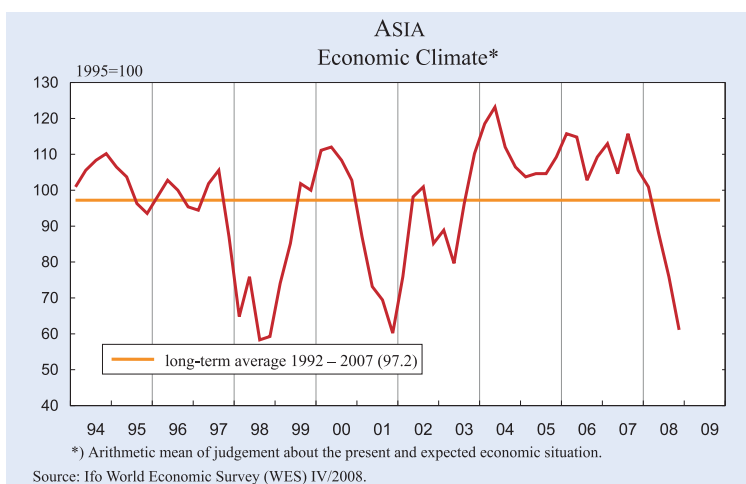
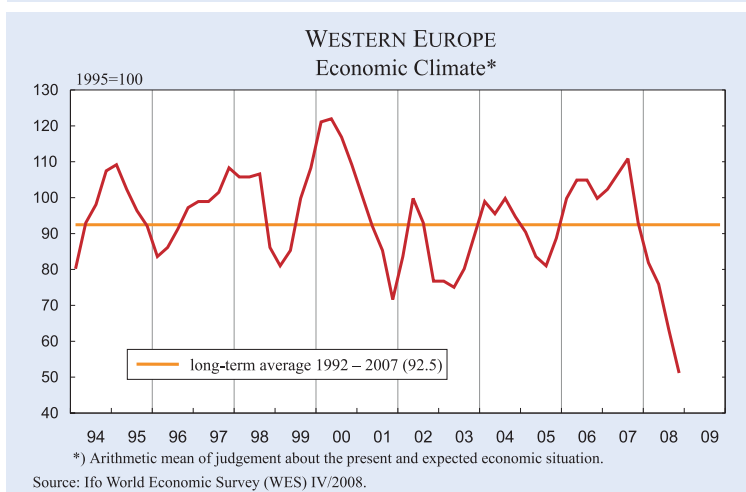
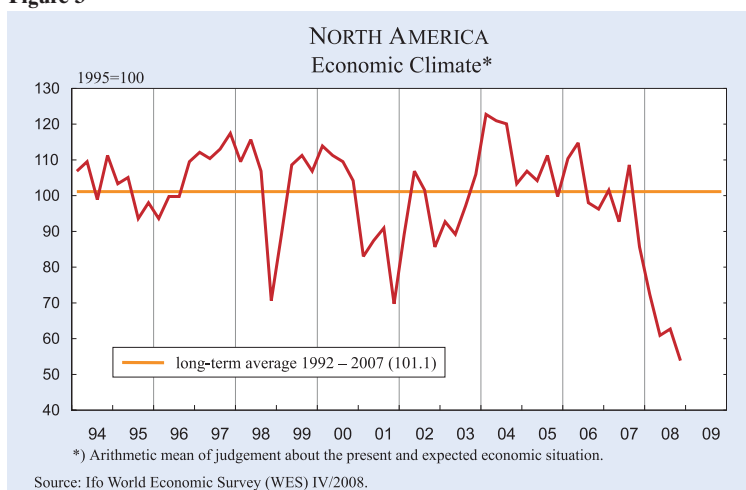
Outside the *euro area* the economic climate index also fell in October. In *Sweden*, *Norway*, *Denmark*, *Switzerland* and the *UK* the assessments of the present economic situation further deteriorated in October. However, the present economic sit-

uation in *Switzerland* and *Norway* is regarded as good by the surveyed economists. Also in *Sweden* and *Denmark* the WES experts described the present economic performance as satisfactory. In the *UK*, in contrast, the present economic performance is regarded as very weak. Also here, WES experts emphasized that “insufficient demand” is aggravating the economic downturn as a consequence of the financial crisis. Further economic slow-down is expected in these countries in the next six months.

North America: Economic climate index falls further

The economic climate indicator in *North America* deteriorated in October (see Figure 3). However, unlike the other regions, the economic expectations

Figure 3



for the next six months have been up-graded somewhat again in the *US*. But the assessments of the present economic situation deteriorated strongly, reaching the historically lowest level since the introduction of WES in 1983 (Figure 6). Lack of confidence in the government's economic policy was named by the surveyed economist as the most important economic problem at present. The survey was launched

Slovenia and *Slovakia*) and point to economic cooling in the next six months.

The economic climate deteriorated somewhat also in the three countries surveyed outside the *European Union* – *Albania*, *Croatia* and *Serbia* – due to a downgrade of economic expectations for the next six months. However, in all three countries the assess-

before Barak Obama won the presidential election. The next WES survey results will reveal whether the new administration will be able to boost confidence in its economic policy, and thus succeed in brightening up consumer and business confidence in the *US*.

In *Canada* both the assessments of the present economic situation and economic expectations have been downgraded.

Central and Eastern Europe: Economic cooling

The economic climate cooled also in *Central and Eastern Europe* (see Figure 4). The assessments of the present economic situation strongly deteriorated in October, although remaining above the satisfactory level, on average. The economic expectations for the next six months have been downgraded again and are pointing to lower economic growth rates in the near-term (see Figure 8).

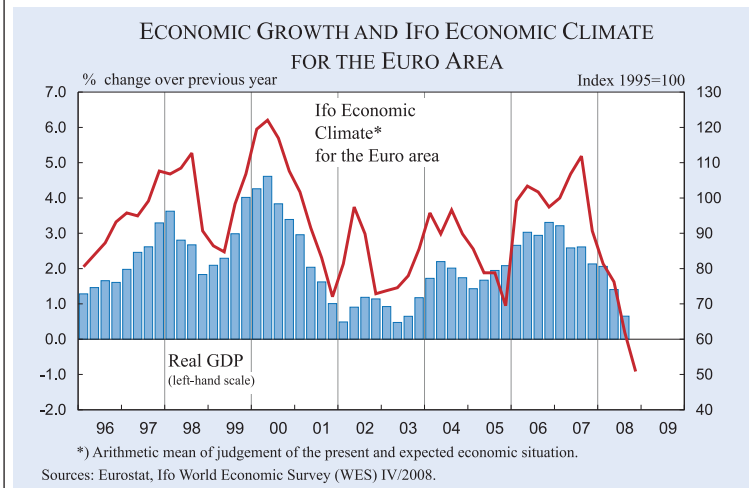
The economic climate deteriorated in all *EU* countries of the region. However, the present economic situation is still assessed as satisfactory or favourable in most countries, except *Hungary*, *Latvia* and *Estonia*. The economic expectations have been downgraded in all new *EU* countries (*Bulgaria*, *Czech Republic*, *Estonia*, *Hungary*, *Latvia*, *Lithuania*, *Poland*, *Romania*,

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

The Ifo World Economic Climate for the 15 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 October results are based on the responses of 262 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* has worsened again in the fourth quarter of 2008 for the fifth time in succession and has now fallen to the lowest level since 1993. The decline in the Ifo indicator is primarily the result of less favourable assessments of the current economic situation. The pessimistic level of the expectations for the coming six months remains virtually unchanged. These survey results suggest that the economic decline will further continue in the *euro area*.

The economic climate indicator has fallen in the fourth quarter of 2008 in nearly all countries of the euro area and is now clearly below its long-term average. The most unfavourable economic climate prevails in *Spain* and *Ireland*. The assessments of the current economic situation have worsened this time especially in *Italy*, *Belgium*, *France*, *Austria* and *Germany*. The expectations for the coming six months remain clearly pessimistic in most countries, in *Ireland*, *Portugal* and the *Netherlands* they have further deteriorated.



ments of the present economic situation were even up-graded somewhat in October compared to the July survey. The surveyed WES experts described the present economic performance as satisfactory in *Albania*, *Croatia* and *Serbia*. An economic deterioration is forecast for the next six months by the surveyed economists in *Croatia*. In *Albania* and *Serbia* the economy is expected to stabilize at the current level, according to WES experts.

CIS: Economic climate index drops

The overall economic climate index for *CIS* countries covered by WES (*Russia*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan* and *Uzbekistan*) dropped sharply in October. Both components of the economic climate index – the assessment of the present economic situation and economic expectations – have been strongly downgraded.

problem in the *Ukraine* at present. A stable economic climate prevails, in contrast, in *Kazakhstan*. The present economic situation continues to be satisfactory. The surveyed economists expect further moves to economic stabilization in the next six months. Also in *Uzbekistan*, a favourable economic climate prevails, according to WES experts, but not so in *Kyrgyzstan*, where the present economic performance remains weak.

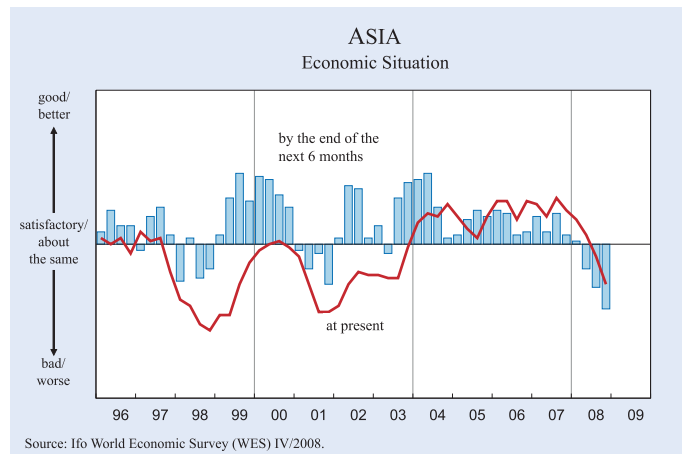
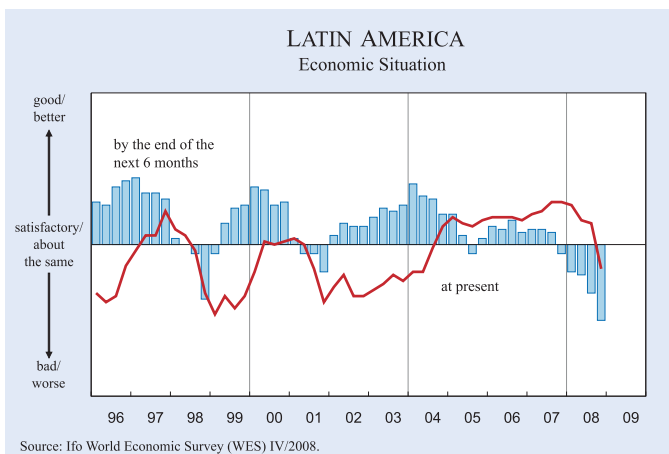
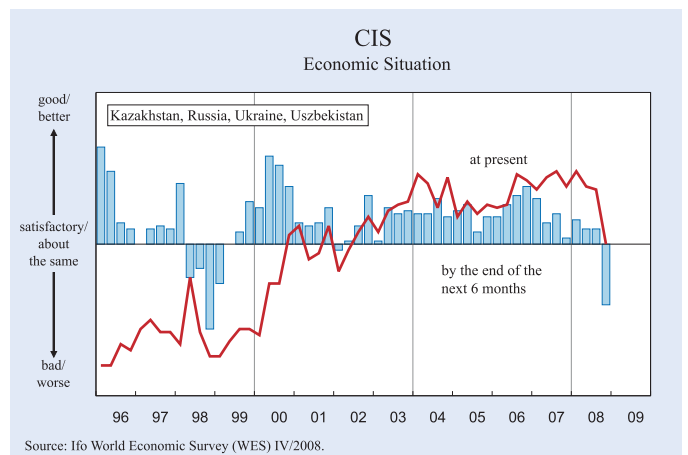
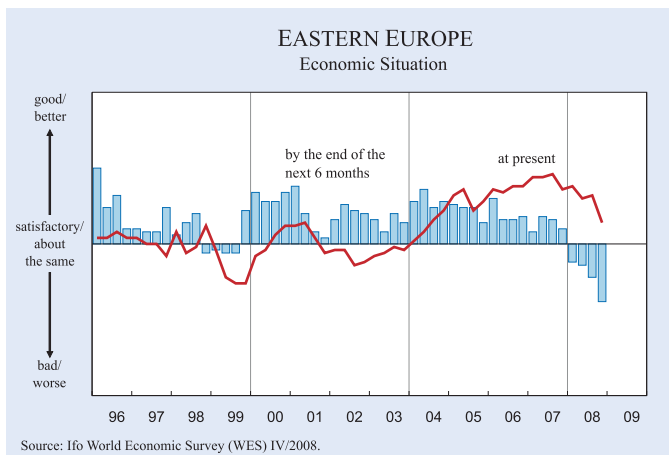
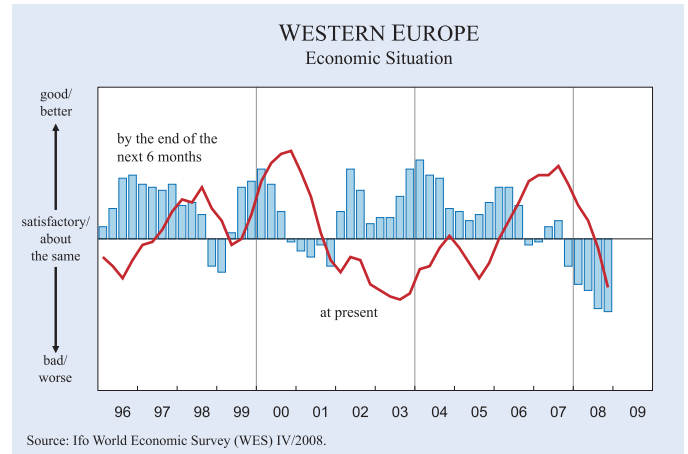
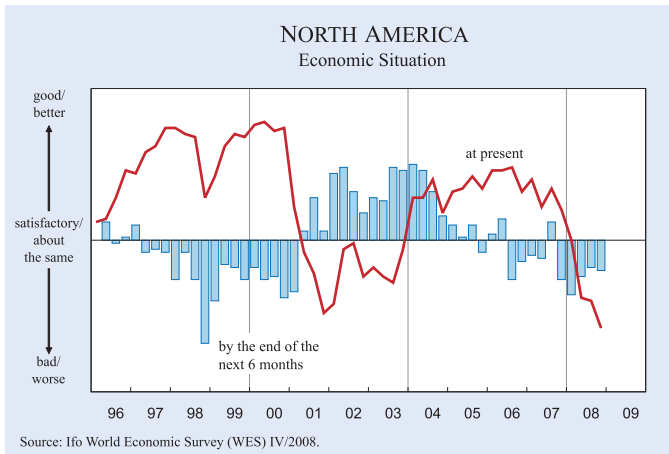
Asia: Economic climate deteriorates

Also in *Asia* the economic climate strongly deteriorated and has fallen to the lowest level since 2001 (see Figure 3). Both the assessments of the present economic situation and economic expectations for the next six months have again been downgraded for the region, on average (see Figure 8).

The economic climate deteriorated particularly strongly in *Russia*. The assessments of the present economic situation have been sharply downgraded. However, the surveyed economists described the current economic performance as satisfactory, whereas the economic expectations for the next six months have become clearly pessimistic. *Russia* is expecting a decline in global demand for its primary exports of goods. Also credit-driven private consumption and business investments are expected to weaken in the coming months. As an important economic problem the surveyed economists named high inflation, which is estimated to amount to 14 percent, on average, for 2008. Even much higher inflation of more than 20 percent was reported for the *Ukraine*. The present economic situation here has been described as weak by the surveyed economists. Further economic deterioration is forecast for the coming months. Lack of confidence in government's economic policy is, according to WES experts, the most important economic problem

Figure 4

SELECTED REGIONS



The economic climate index fell further in all major Asian economies except *Pakistan*, where the economic expectations have been up-graded somewhat. However, the present economic performance in *Pakistan* is judged by WES experts as very weak, although it is not expected to deteriorate further in the course of the next six months. The present economic performance was assessed in *Japan*, *South Korea* and *Taiwan* as far below the satisfactory level and much worse than in the preceding quarter. In *Japan* and *South Korea* further economic deterioration is expected by the WES experts, with pronounced weakening of the capital expenditures and private consumption. In *Taiwan* the surveyed economists expect the economy to stabilize at the current level, although exports are forecast to decline in the next six months. Lack of confidence in government's economic policy was named as an important economic problem by the surveyed economists in *Taiwan*. The economic climate index deteriorated strongly, also in *China*. Export growth is foreseen to weaken strongly in the next six months. The economists also emphasized that domestic demand is insufficient in *China* at present. Further economic deterioration is expected also in *Indonesia*, *Thailand* and *Malaysia*. Although, in *Malaysia*, the present economic situation is still assessed as "satisfactory" by the majority of surveyed economists. As "satisfactory" is how the present economic performance was described by WES experts surveyed in *Hong Kong*, *Singapore* and the *Philippines*. However, also here the prospects appear to be rather clouded. Particularly in *Hong Kong* and the *Philippines* WES experts expect that capital expenditures, private consumption and the export sector will weaken strongly in the course of the next six months.

In *India* the economic climate also cooled somewhat but not considerably. The present economic situation here was assessed as satisfactory in October. The economic expectations for the next six months have been downgraded only slightly, pointing to a moderate economic cooling. Inflation poses the most important economic problem at present. The same applies to *Vietnam*, where the assessments of the present economic state have been even up-graded somewhat over the preceding July survey. The expectations point to an economic stabilization in the next six months. Private consumption is even expected to pick up somewhat. *Bangladesh* was one of the few countries where the surveyed economists assessed the present economic state as above satisfactory. Although inflation is also here one of the main eco-

nomical topics, the overall economic expectations are positive, pointing to a strengthening of capital expenditures and the export sector in the course of the next six months.

Oceania: Economic slowdown continues

Economic slowdown continues in *Australia* (see Figure 6). For the first time since 2001 the assessments of the present economic situation slipped below the satisfactory line. The economic expectations point to further economic cooling in the next six months. Growth of capital expenditures and private consumption are expected to decline strongly. The export sector, however, remains buoyant, according to WES experts. Also inflation, which is generally easing on a global average, remains an important economic problem in *Australia*.

In *New Zealand*, the economic climate index improved somewhat in October over the July survey. However the present economic situation is still assessed as far below the satisfactory level. The economic expectations for the next six months have been up-graded somewhat but are still generally cautious. Lack of international competitiveness and inflation continue to be the country's most important economic problems at present, according to WES experts.

Latin America: Economic weakening

The global economic weakening has also reached *Latin America*. The economic climate index fell in October in *Latin America* as a whole. However, the diverging economic trends still predominate in the region (see Figure 9).

The present economic situation continues to be favourable, according to the surveyed economists, in *Brazil*, *Chile*, *Panama* and *Paraguay*. However, the economic expectations for the next six months here have been strongly down-graded, as in *Latin America* in general, and point to a pronounced economic cooling. Private consumption, capital expenditures and the export sector are expected to weaken in the near-term. Also in *Peru*, *Trinidad and Tobago* and *Uruguay* the present economic performance received high marks on the WES scale. However, the economic expectations for the next six months have also become generally cautious. Also in *Argentina*

and *Colombia* the economic expectations deteriorated, although the present economic state has been assessed as satisfactory in October. In *Argentina*, inflation and lack of confidence in government's economic policy were named as the most important economic problems at present. Far below the satisfactory level, is how the surveyed economists described the present economic state in *Bolivia*, *Ecuador*, *El Salvador*, *Guatemala*, *Mexico* and *Venezuela*. The economic expectations in all these countries point to economic weakening in the next six months, particularly relating to capital expenditures and private consumption.

Near East: Economic climate cools moderately

The economic climate has also cooled somewhat in countries surveyed in the *Near East* (see Figure 10). However, in the majority of countries the present economic situation continues to be assessed as highly favourable, so in *Jordan*, *Kuwait*, *Saudi Arabia* and *United Arab Emirates*. The economic expectations point to a moderate cooling in the next six months and a generally stable economic performance. A pronounced economic deterioration is, in contrast, expected by the surveyed economists in *Israel*. Although, at the present, the economic performance is assessed as above the satisfactory level here as well. In *Turkey*, the assessments of the present economic situation have been strongly downgraded. The economic expectations for the next six months remained cautious, although the export sector is expected to rebound somewhat. Further economic deterioration is expected by the surveyed economists in *Iran*. Also in *Lebanon* economic recovery remains subdued, according to WES experts.

Africa: Economic downturn in South Africa

The economic climate index improved somewhat in *South Africa* in October over the July survey (see Figure 10). Both the assessments of the current economic situation and economic expectations for the coming six months have been upgraded somewhat. The present economic situation is now assessed close to the satisfactory level. However, the economic expectations, although less pessimistic than in the preceding surveys of 2008, are still pointing to further economic deterioration in next six months. Capital expenditures, private consumption and the

export sector are expected to weaken further in the next months, according to WES experts. Unemployment, lack of skilled labour and inflation continue to be the country's most important economic problems, crime and AIDS are the country's most important social problems at present.

An economic deterioration is also expected by the WES experts surveyed in the *North African* countries, *Morocco*, *Tunisia*, *Egypt* and *Algeria*, as well as in *Tanzania*, *Nigeria* and *Mauritius*. In *Kenya*, in contrast, the surveyed economists expect a strengthening of the economy in the next six months, with growing private consumption and exports.

Fewer and fewer economists assess the economy for WES in *Zimbabwe*. Many of them have left the country or have no access to communication media. The information that reaches us reflects that the disastrous economic and political circumstances continue to prevail in the country and may even further aggravate in the near term.

Inflation expectations: Peak appears to have been passed

For the average of 2008 WES experts expect on a worldwide scale an inflation rate of 5.4 percent, which is even somewhat higher than the rate expected in the previous survey in July this year (5.2 percent). However, the additional question on the expected tendency of the inflation rate in the next six months clearly shows a declining trend, which is particularly pronounced in *Western Europe* and in many Asian countries including *China*, *India*, *Taiwan* and *Vietnam*. Also in *North America*, particularly in *Canada*, as well as in *Eastern Europe* the inflation trend is expected to slow down in the course of the next six months. In *Africa* inflation should at least stabilize at the current level. In contrast, in the *CIS* countries as well as in *Latin America* and the *Near East* the peak of inflation expectations appears not yet to have been reached.

However, these tendencies of softening inflation in coming six months, which prevail on average for all 92 countries covered in the survey, were in most cases not able to brighten up the expected inflation rates for the average of 2008. One of the few exceptions is the *euro area* where the inflation outlook for the average of 2008 has improved somewhat and now stands at 3.4 percent compared with 3.6 percent

Table 1

Inflation Rate Expectations for 2008
(based on WES QIV/2008 and QIII/2008)

| Region | QIV/2008 | QIII/2008 | Region | QIV/2008 | QIII/2008 |
|--|-------------|-------------|----------------------|-----------------------|-------------|
| Average of 90 countries* | 5.4 | 5.2 | Latin America | 9.8 | 9.7 |
| <i>World Bank classification:</i> | | | Argentina | 22.5 | 22.5 |
| High-income countries | 3.9 | 3.7 | Bolivia | 16.5 | 17.5 |
| Middle-income countries | 9.6 | 9.6 | Brazil | 6.1 | 6.7 |
| Upper-middle | 9.5 | 9.2 | Chile | 8.6 | 7.5 |
| Lower-middle | 9.8 | 10.5 | Colombia | 6.9 | 6.3 |
| Low-income countries | 12.5 | 12.0 | Costa-Rica | - | 12.5 |
| | | | Ecuador | 10.0 | 10.5 |
| EU 27 countries | 3.8 | 3.8 | El Salvador | 7.9 | 6.8 |
| EU countries (old members) ^{a)} | 3.5 | 3.6 | Guatemala | 12.0 | 11.5 |
| EU countries (new members) ^{b)} | 6.1 | 6.1 | Mexico | 5.8 | 5.9 |
| Euro area ^{c)} | 3.4 | 3.6 | Panama | - | 8.0 |
| | | | Paraguay | 8.4 | 11.0 |
| Western Europe | 3.5 | 3.5 | Peru | 5.6 | 5.1 |
| Austria | 3.5 | 3.3 | Trinidad and Tobago | 12.5 | 11.0 |
| Belgium | 4.5 | 4.5 | Uruguay | 8.1 | 8.0 |
| Cyprus | 4.1 | - | Venezuela | 30.5 | 32.0 |
| Denmark | 3.6 | 3.6 | | | |
| Finland | 3.9 | 3.7 | Asia | 5.7 | 5.3 |
| France | 3.0 | 3.3 | Bangladesh | 9.1 | 10.0 |
| Germany | 2.9 | 3.1 | China | 6.1 | 6.6 |
| Greece | 4.5 | 4.7 | Hong Kong | 4.9 | 5.1 |
| Iceland | 13.0 | - | India | 10.5 | 9.6 |
| Ireland | 4.6 | 4.7 | Indonesia | 12.0 | 11.5 |
| Italy | 3.5 | 3.4 | Japan | 1.8 | 1.7 |
| Luxembourg | 3.4 | 3.4 | Malaysia | 5.8 | 5.6 |
| Malta | - | 3.5 | Pakistan | 19.0 | 14.0 |
| Netherlands | 3.0 | 3.0 | Philippines | 9.5 | 8.0 |
| Norway | 3.0 | 3.3 | Singapore | 6.0 | 3.5 |
| Portugal | 2.8 | 2.8 | South Korea | 5.4 | 4.7 |
| Spain | 4.4 | 5.0 | Sri Lanka | 20.0 | 23.5 |
| Sweden | 3.7 | 3.5 | Taiwan | 3.9 | 3.7 |
| Switzerland | 2.3 | 2.4 | Thailand | 5.9 | 7.6 |
| United Kingdom | 4.3 | 3.6 | Vietnam | 24.5 | 23.5 |
| | | | | | |
| Eastern Europe | 6.2 | 6.3 | Near East | 12.8 | 10.5 |
| Albania | 4.0 | 5.7 | Iran | 28.5 | 26.5 |
| Bulgaria | 11.0 | 10.5 | Israel | 3.5 | 3.9 |
| Croatia | 5.7 | 6.0 | Jordan | 5.7 | 12.0 |
| Czech Republic | 6.0 | 5.9 | Kuwait | 9.0 | 10.0 |
| Estonia | 9.9 | 8.9 | Lebanon | 7.0 | 8.0 |
| Hungary | 6.2 | 6.7 | Saudi Arabia | 11.0 | 6.0 |
| Latvia | 13.0 | 15.5 | Turkey | 11.5 | 10.5 |
| Lithuania | 11.0 | 10.5 | United Arab Emirate | 14.0 | 12.0 |
| Poland | 4.4 | 4.5 | | | |
| Romania | 7.4 | 7.0 | Africa* | n.a. | n.a. |
| Serbia | 9.4 | 12.5 | Algeria | 5.0 | - |
| Slovakia | 4.2 | 3.9 | Egypt | 22.0 | - |
| Slovenia | 5.2 | 5.8 | Kenya | 19.0 | 26.5 |
| | | | Mauritius | 9.0 | 10.0 |
| CIS | 14.5 | 14.5 | Morocco | 4.5 | 3.0 |
| Kazakhstan | 11.0 | 14.0 | Nigeria | 10.0 | 10.0 |
| Kyrgyzstan | 25.0 | 28.0 | South Africa | 11.5 | 11.5 |
| Russia | 14.0 | 13.5 | Tanzania | 9.0 | - |
| Ukraine | 21.0 | 20.0 | Tunisia | 5.3 | 10.0 |
| Uzbekistan | 6.5 | 18.0 | Zimbabwe | <i>Hyperinflation</i> | |
| | | | | | |
| North America | 3.5 | 3.6 | Oceania | 4.1 | 3.9 |
| Canada | 2.5 | 2.8 | Australia | 4.1 | 3.9 |
| United States | 3.9 | 3.8 | New Zealand | 4.1 | 3.9 |

* 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 (without Zimbabwe). ^{a)} Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom – ^{b)} Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1. May 2004), Bulgaria and Romania (from 1. January 2007) – ^{c)} Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Slovenia.

Source: Ifo World Economic Survey (WES) IV/2008 and III/2008.

Figure 5a

EUROPEAN UNION

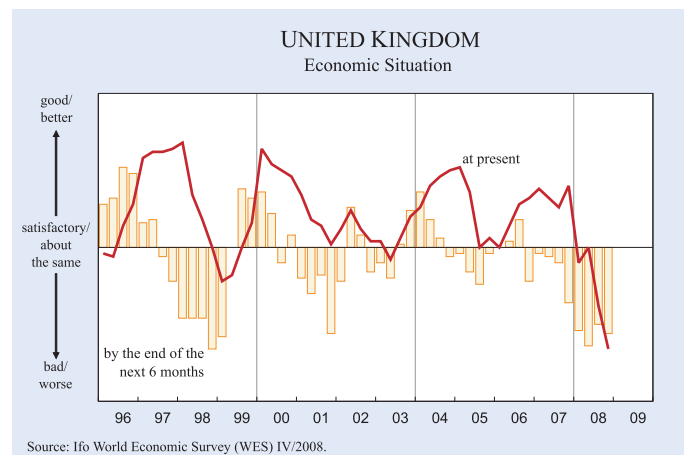
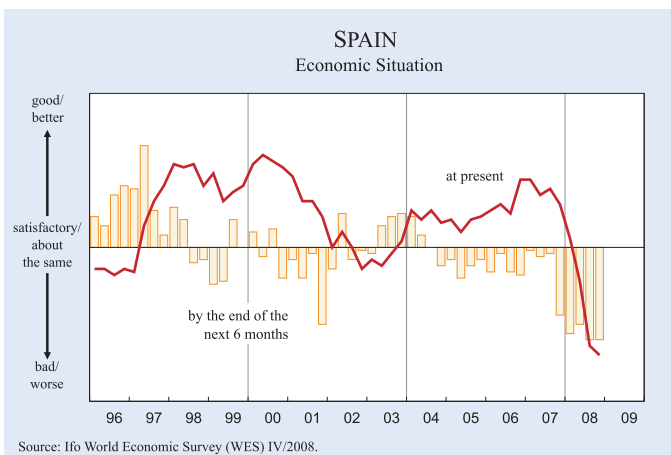
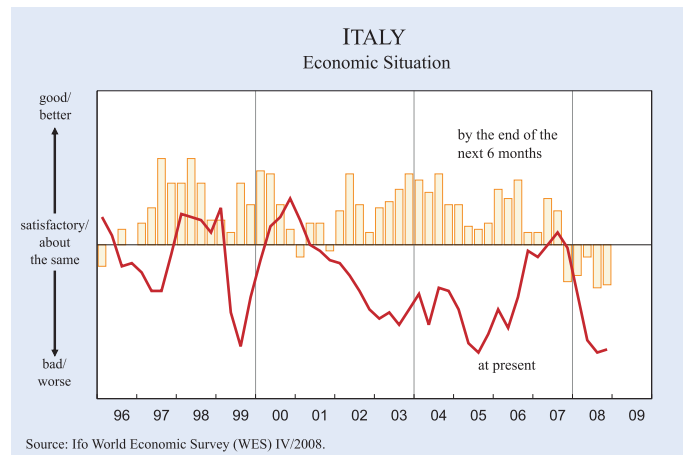
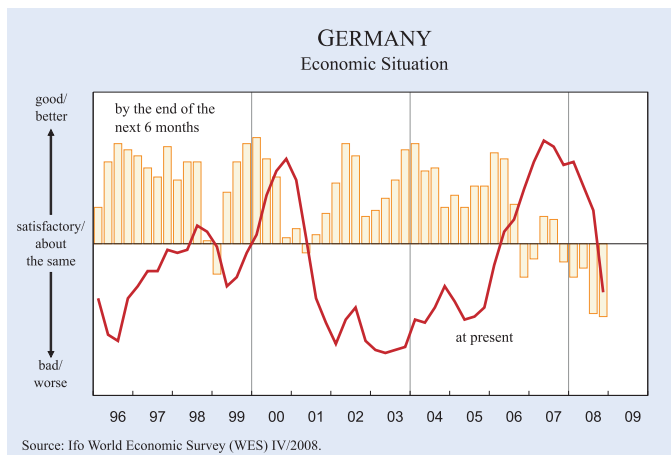
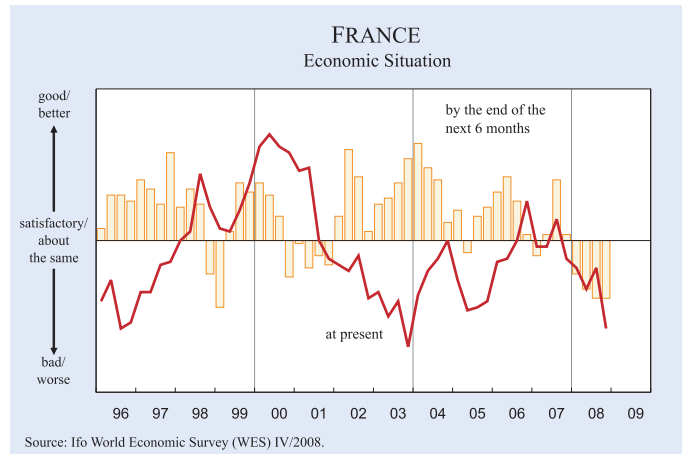
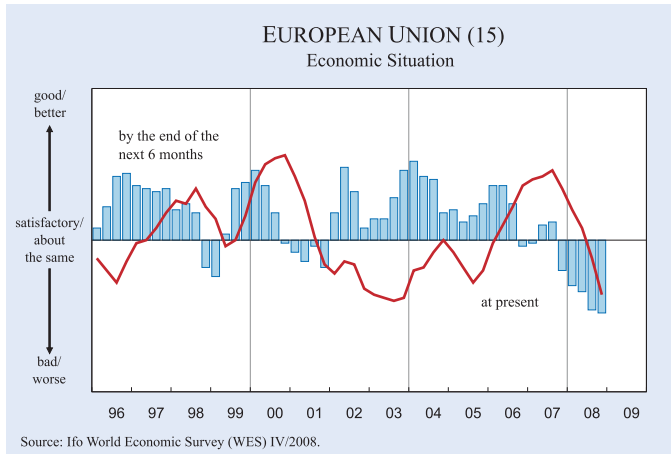


Figure 5b

EUROPEAN UNION

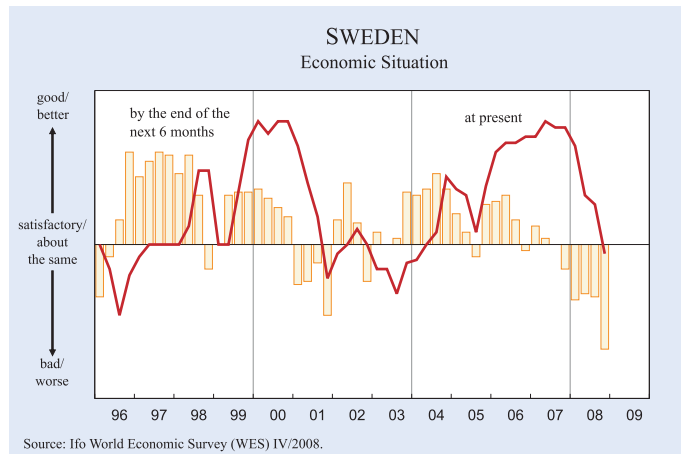
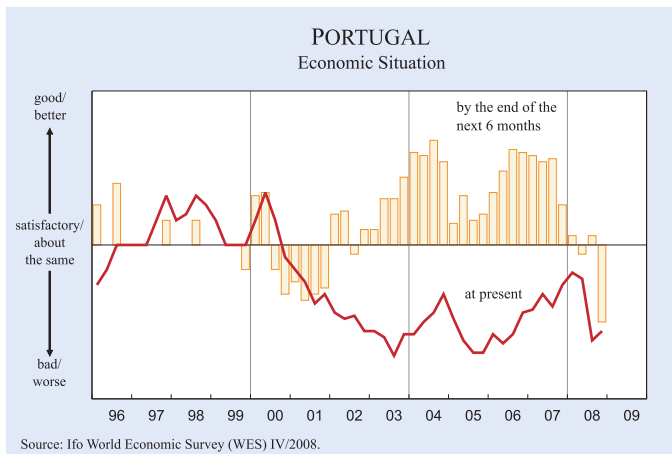
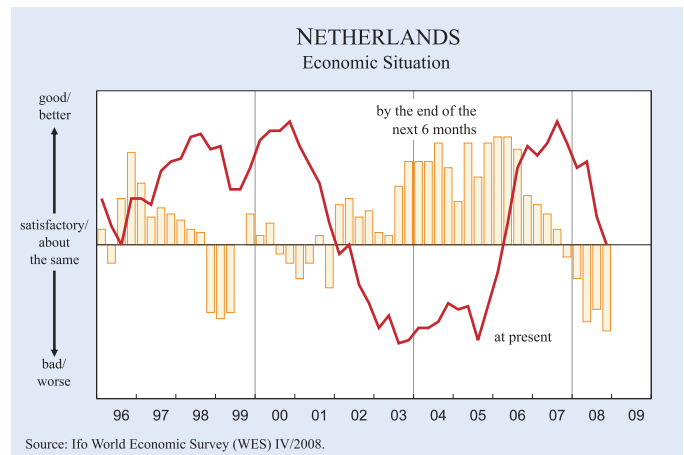
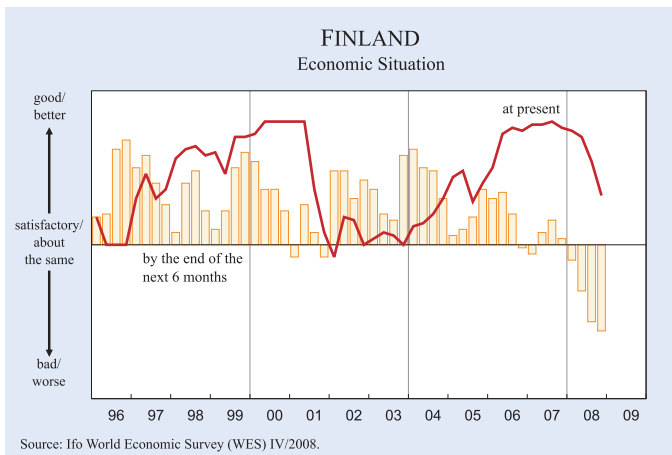
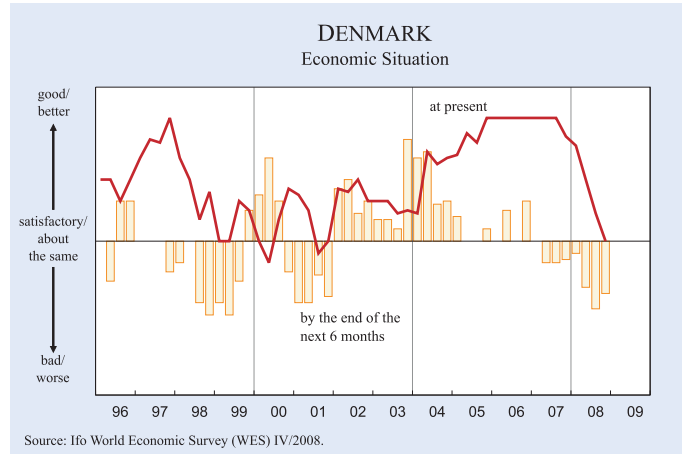
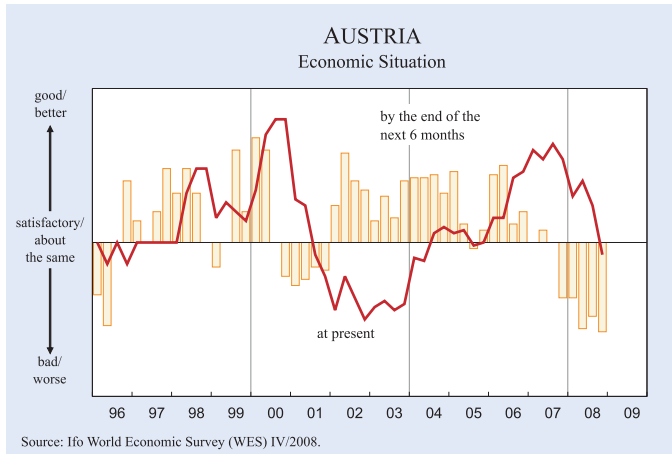


Figure 6

NORTH AMERICA, OCEANIA AND CIS

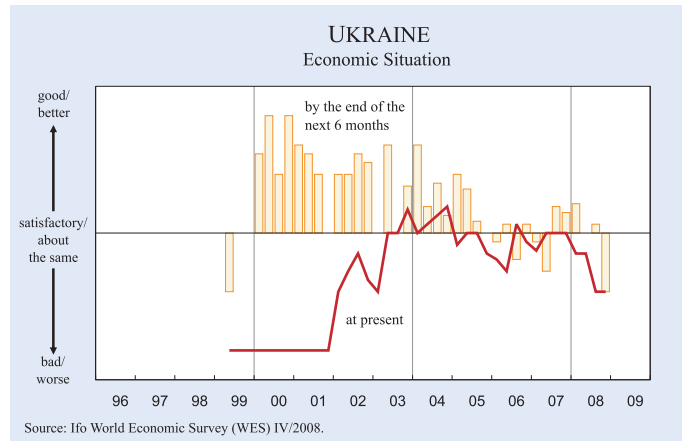
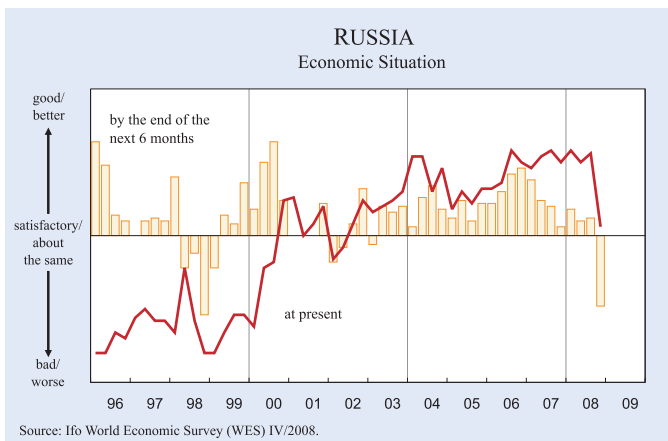
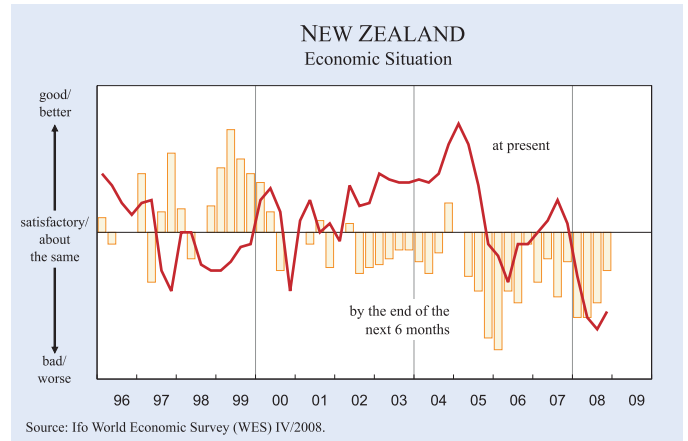
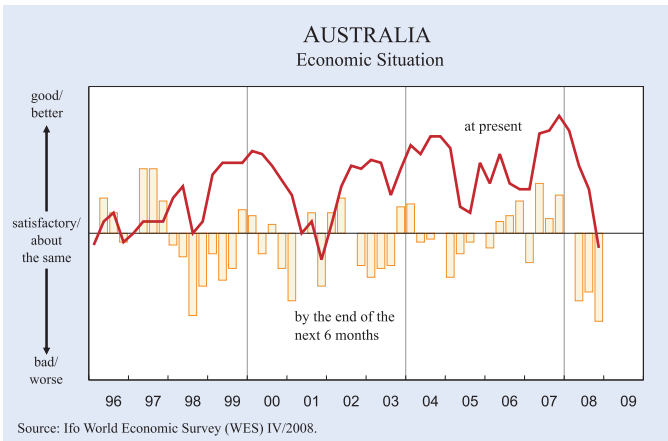
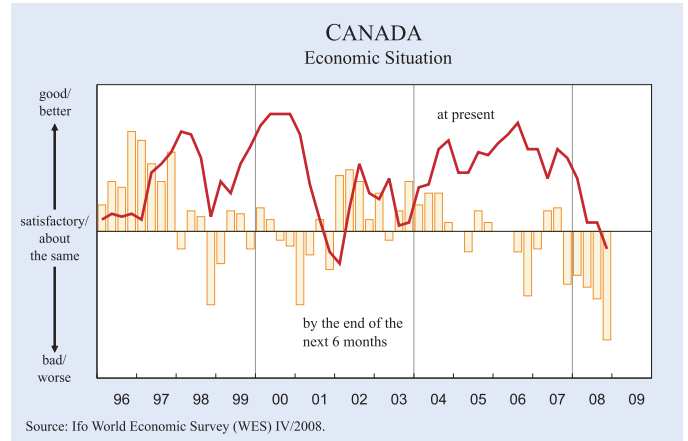
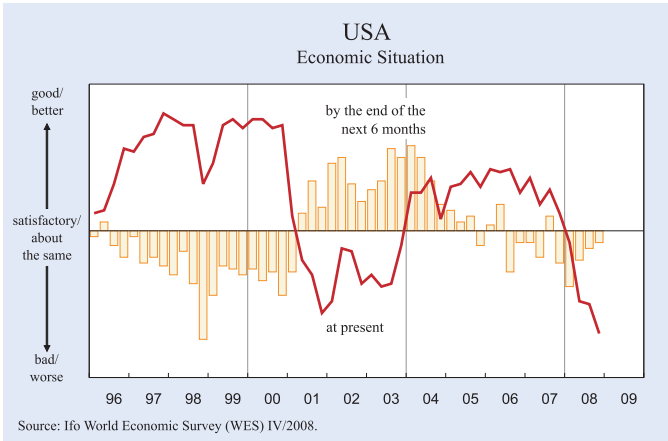


Figure 7

EASTERN EUROPE

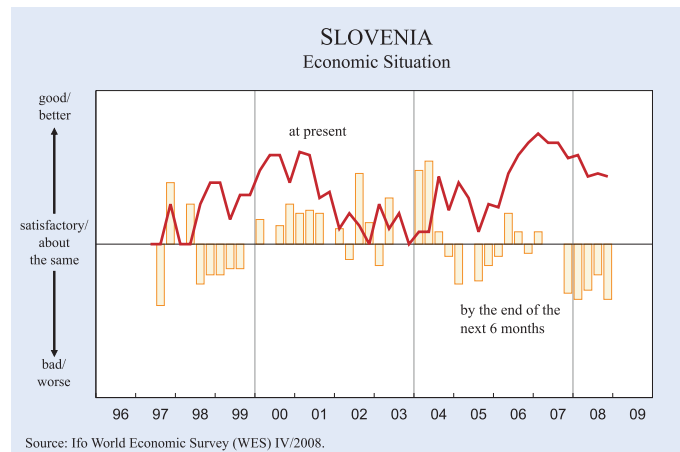
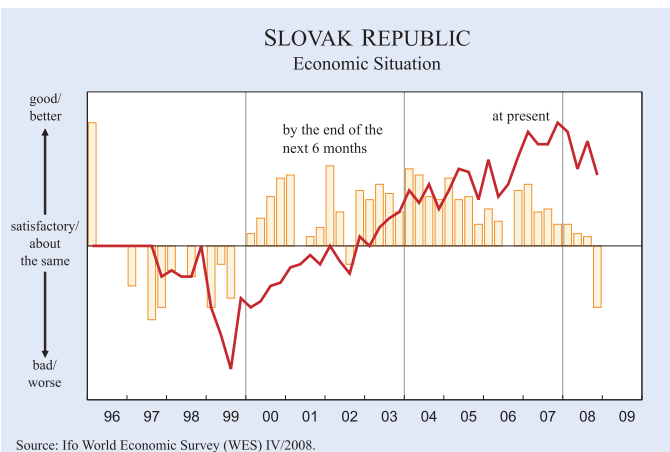
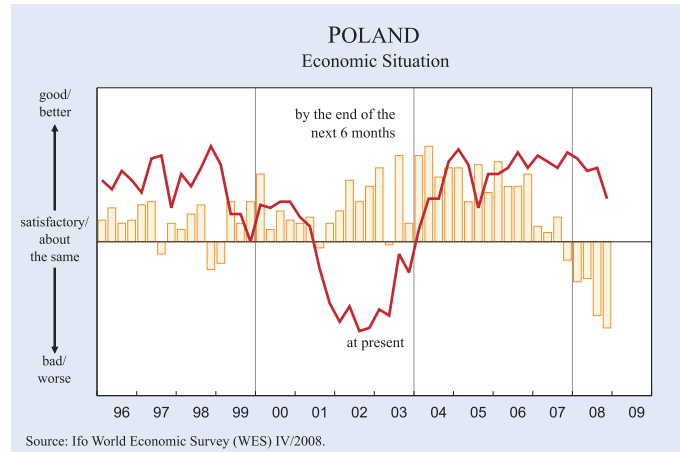
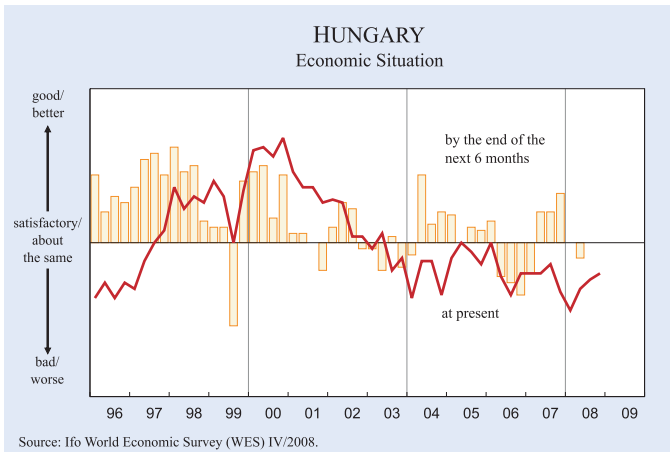
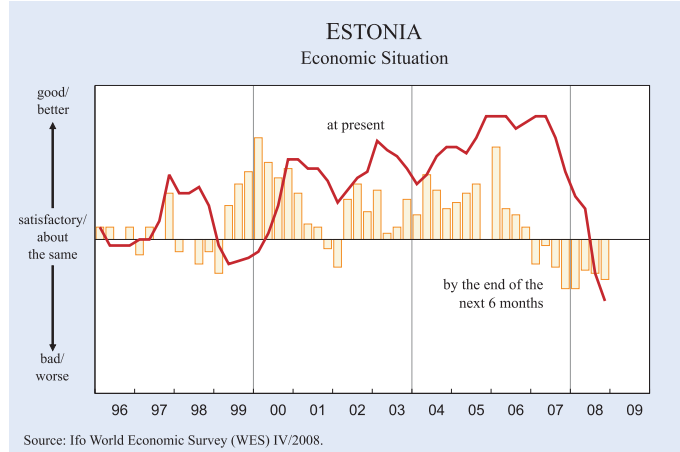
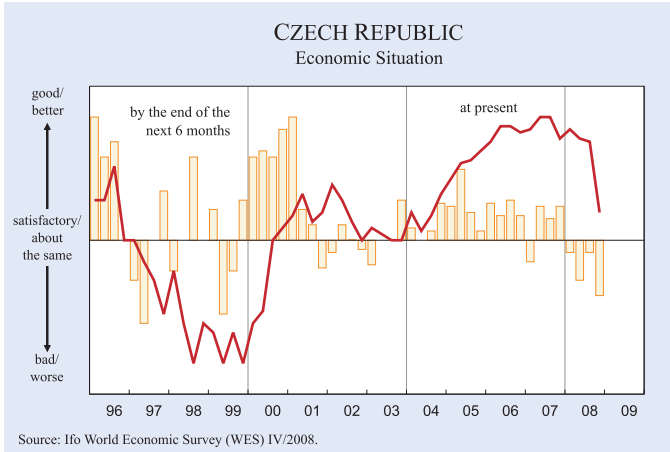


Figure 8

ASIA

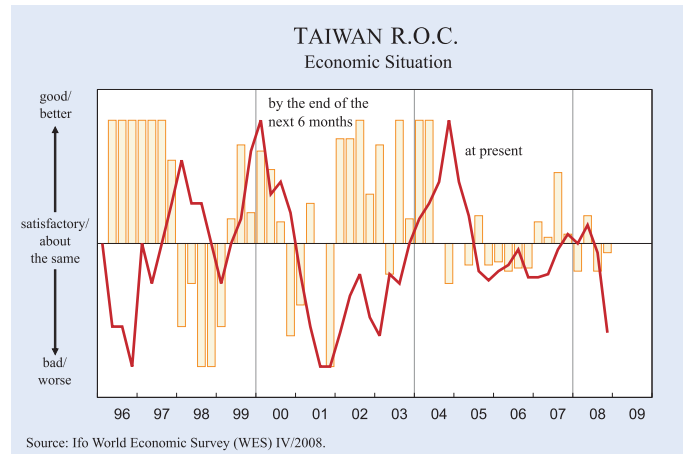
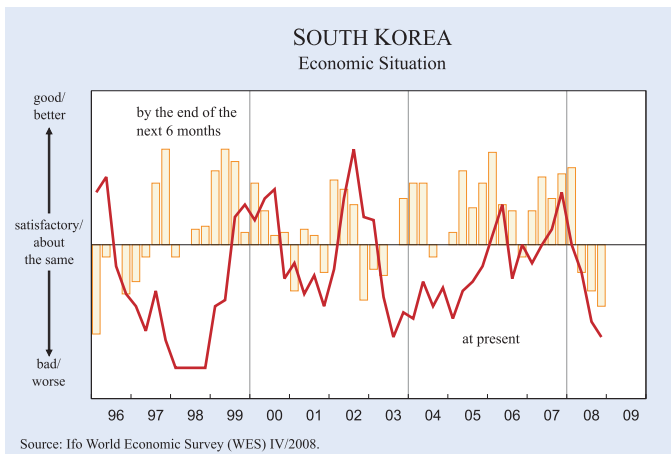
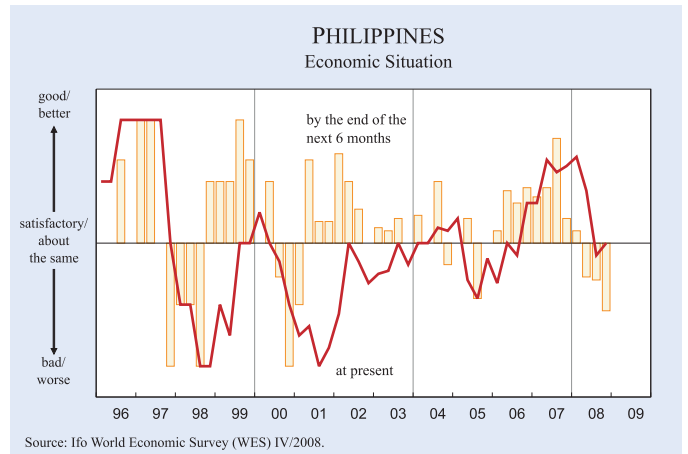
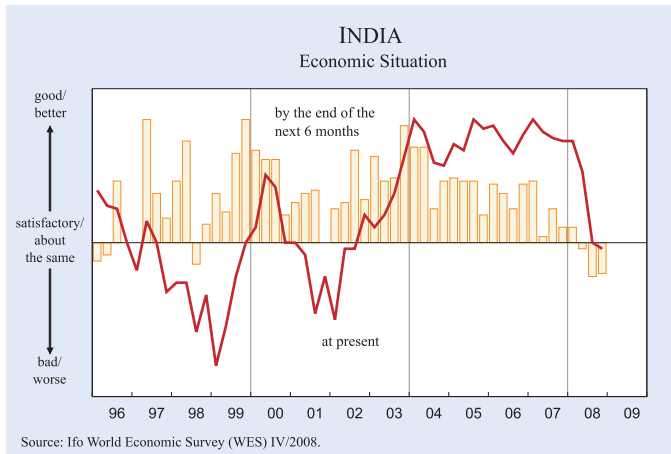
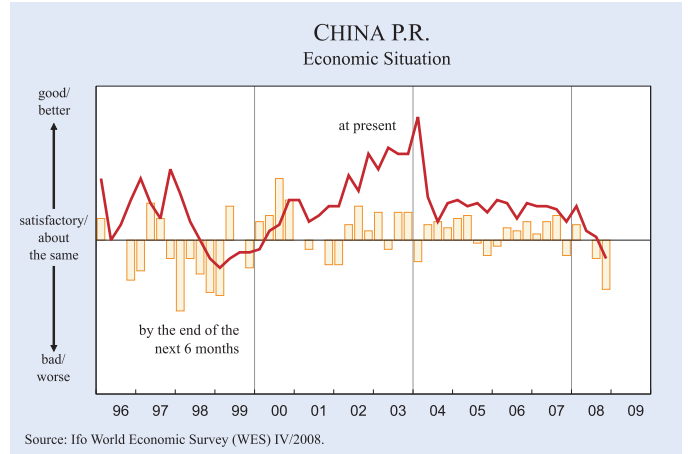
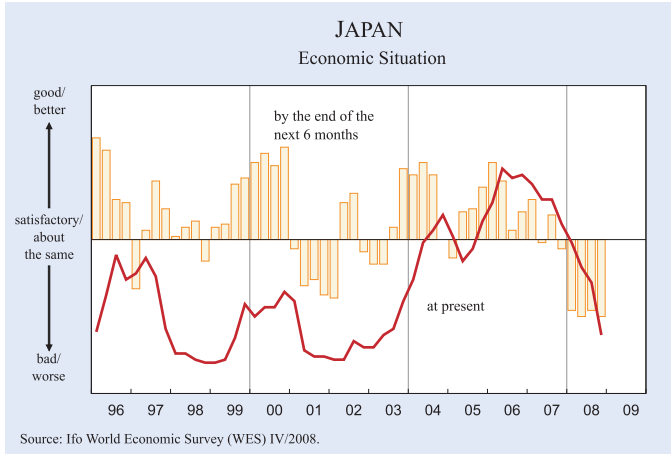


Figure 9

LATIN AMERICA

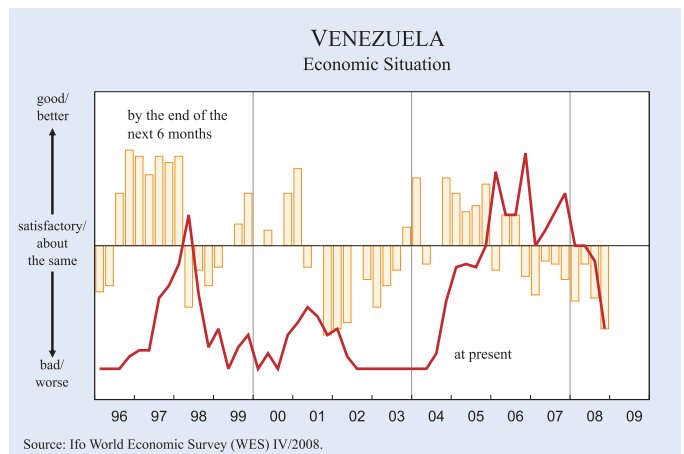
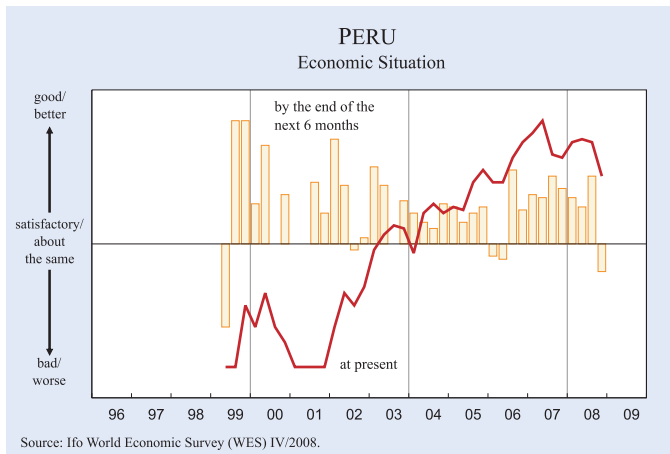
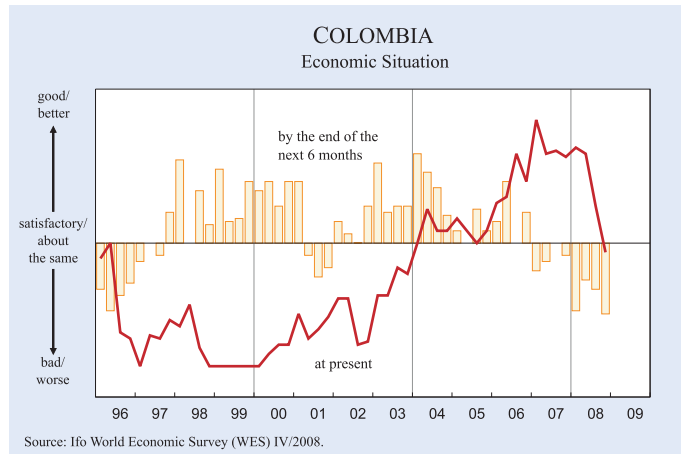
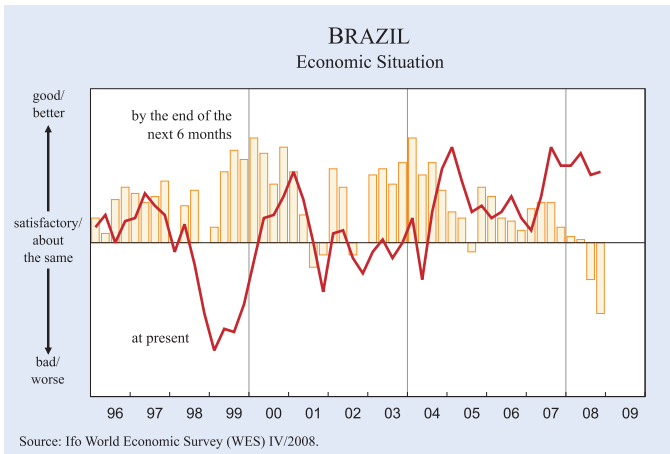
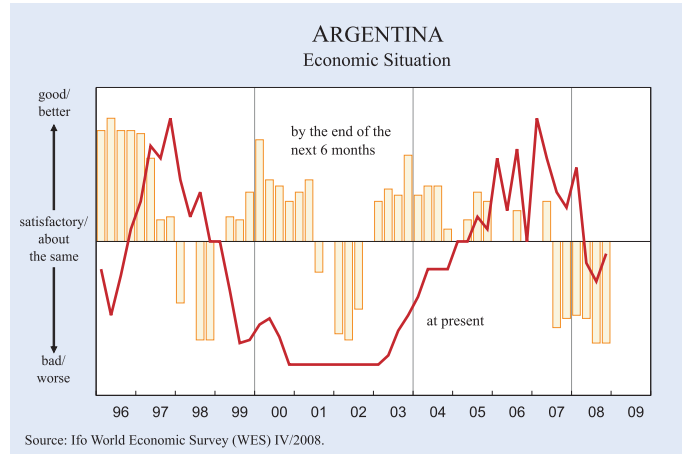
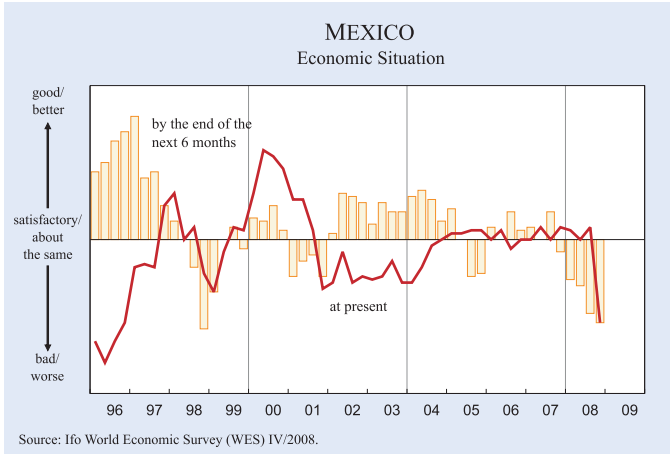
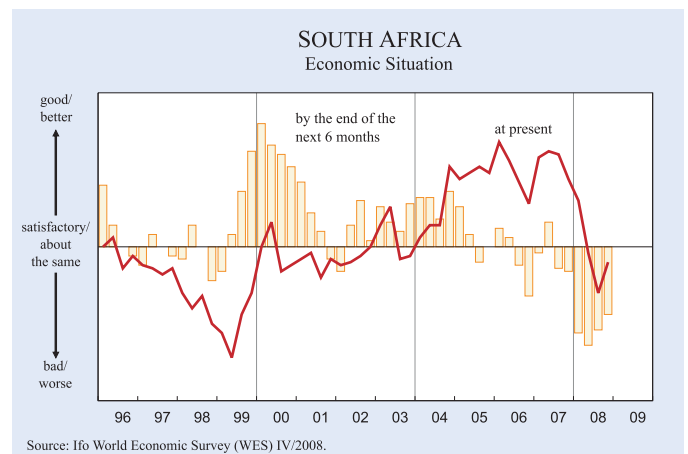
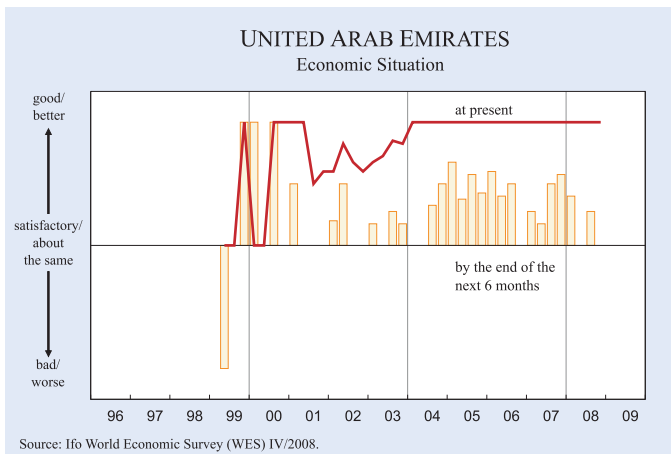
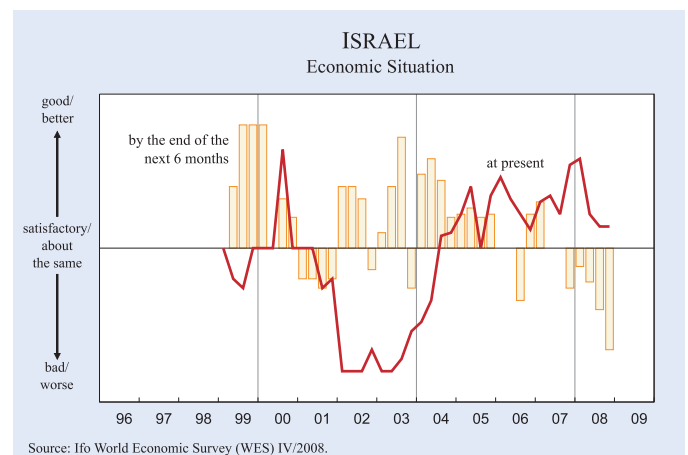
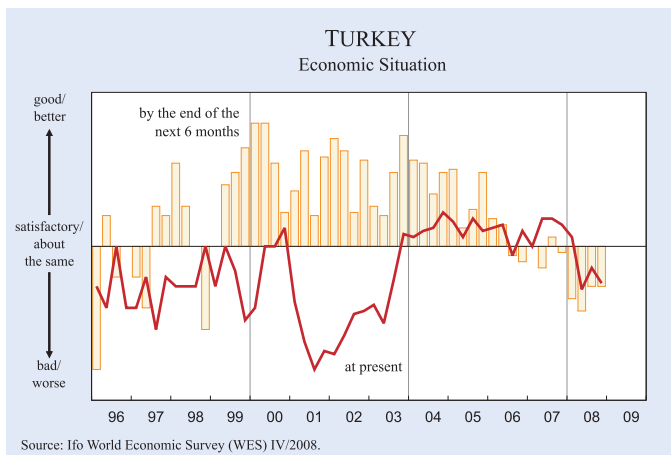
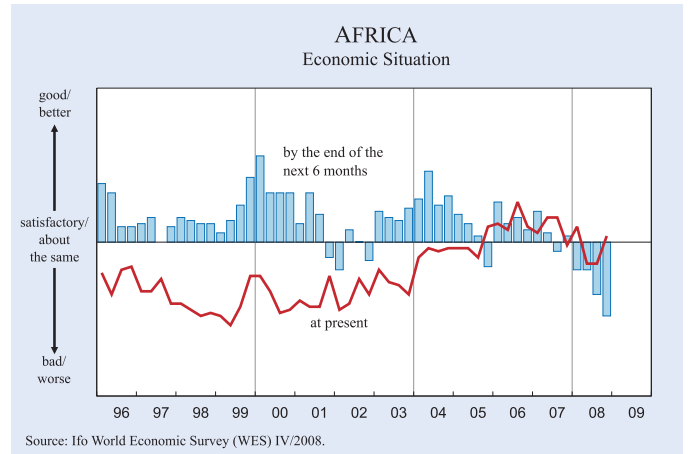
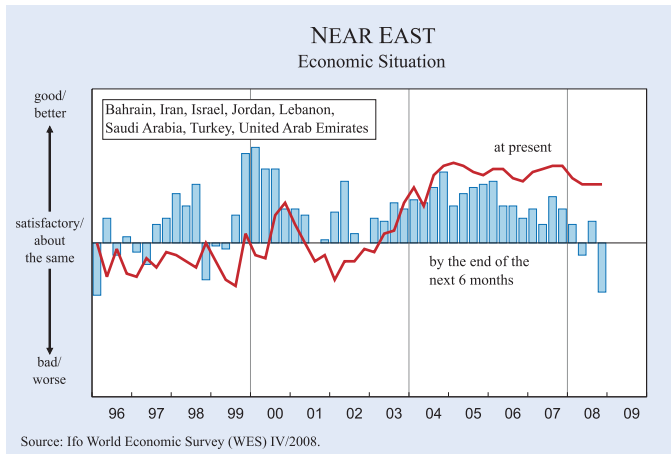


Figure 10

NEAR EAST AND AFRICA



according to the July survey. The highest inflation rates in the *euro area* in 2008 are expected again in *Slovenia* (5.2 percent compared to 5.8 percent in July), followed by *Ireland* (4.6 percent after 4.7 percent in July), *Greece* (4.5 percent after 4.7 percent in July), *Belgium* (4.5 percent unchanged from July) and *Spain* (4.4 percent after 5.0 percent in July). The relatively best price performance in 2008 is expected again in *Portugal* (2.8 percent unchanged from July), *Germany* (2.9 percent after 3.1 percent in July) as well as the *Netherlands* (3.0 percent unchanged from July).

In *Western Europe* outside the euro area, expectations for inflation in 2008 are – as in previous years – still relatively low in *Switzerland* (2.3 percent after 2.4 percent in July). However, in the *United Kingdom* the inflation outlook for the full year 2008 remains clearly above the *Western European* average (4.3 percent after an expected 3.6 percent in July).

In the *United States* inflation expectations on average for 2008, edged up from 3.8 percent in July to 3.9 percent in October despite growing signs that inflation expectations for coming months have started to weaken. In *Canada* this process is further advanced and already reflected in the expected average inflation rate for 2008 (2.5 percent compared to 2.8 percent in July).

In *Asia* consumer price inflation in 2008 is expected to reach 5.7 percent, after an estimated 5.3 percent in the July survey. However, this increase results strongly from an expected acceleration of inflation in some countries like *Pakistan*, the *Philippines* and *Indonesia*. In other important *Asian* countries like *China* and *Thailand*, the expected slowdown of inflation in the coming six months is already reflected in the yearly inflation estimate for 2008 (*China*: 6.1 percent after 6.6 percent in the July survey and *Thailand*: 5.9 percent compared with expected 7.6 percent in the July survey).

In *Central and Eastern Europe* inflation in 2008 is seen to be almost at the same rate as in the previous survey in July (6.2 percent compared to 6.3 percent in the July survey). Thus, the declining trend in inflation expectations for the next six months does not yet show up in this year's average inflation forecasts. The highest rate of inflation is expected again in *Latvia*, though with a declining tendency (13.0 percent after 15.5 percent in July)

followed by *Bulgaria* and *Lithuania* (each 11.0 percent). Also in *Serbia* the inflation figure for 2008 is clearly above the average of the whole region, but a deceleration of inflation is clearly discernible (9.4 percent compared to 12.5 percent in the July survey).

In the *CIS* countries inflation in 2008 will be amongst the highest in the world; however, there has been at least no further increase in the 2008 inflation forecast (14.5 percent). Apart from *Kazakhstan* (11.0 percent compared with expected 14.0 percent in July) and *Uzbekistan* (6.5 percent compared to 18.0 percent in July) there are no signs that inflation will slow down in coming months. The inflation outlook for 2008 is particularly bleak in *Kyrgyzstan* (25.0 percent after an expected 28.0 percent in July) and in the *Ukraine* (21.0 percent after expected 20.0 percent in July). In *Russia* inflation expectations for the average of 2008 remained relatively stable (14.0 percent after 13.5 percent in the July survey).

Also in *Latin America* 2008 inflation expectations for 2008 remained almost unchanged from the July estimate (9.8 percent compared with 9.7 percent). By far the region's highest inflation rate in 2008 is expected in *Venezuela* (30.5 percent, only marginally down from the 32.0 percent expected in July) followed by *Argentina* (22.5 percent unchanged from July). In *Brazil* 2008 inflation expectations declined moderately from 6.7 percent in July to now 6.1 percent and they remained almost unchanged in *Mexico* (5.8 percent).

In the *Near East* the inflation outlook for 2008 worsened from an expected 10.5 percent to 12.8 percent. The main exceptions in the region where inflation expectations for 2008 came down was *Israel* (3.5 percent after expected 3.9 percent in July) and *Lebanon* (7.0 percent after 8.0 percent in July). On the other hand, inflation expectations picked up strongly in *Saudi Arabia* (from 6.0 percent to 11.0 percent), the *United Arab Emirates* (from 12.0 percent to 14.0 percent) and *Turkey* (from 10.5 percent to 11.5 percent). By far the highest 2008 inflation rate in the region is again expected in *Iran* (28.5 percent after expected 26.5 percent in July).

In *Oceania* inflation expectations for 2008 deteriorated slightly from 3.9 percent in July to now 4.1 percent, both in *Australia* and in *New Zealand*.

In *Africa* an average figure continues to make no sense due to the even growing hyperinflation in *Zimbabwe*. In most other countries covered in the region inflation expectations remained unchanged since the July survey, so for example in *South Africa* (11.5 percent) and *Nigeria* (10.0 percent). In *Tunisia* the inflation outlook for 2008 improved since the last survey (5.3 percent compared with 10.0 percent) and also in *Kenya*, though here inflation is still rather high (19.0 percent compared to 26.5 percent in July).

Euro seen to a lesser degree as overvalued

The *euro* is still assessed by WES experts as overvalued but to a lesser degree than in the previous survey. On the other hand, the *US dollar* and the *Japanese yen* are no longer seen as undervalued but have reached according to the majority of respondents, a fair level. The *British pound* is regarded by the WES experts – despite the significant depreciation – still somewhat overvalued.

The supplementary survey question on the likely development of the *US dollar* in the next six months, regardless of how currencies have been assessed from a fundamental point of view, confirmed the finding from July that on balance a moderate upward trend of the value of the *US dollar* is expected almost worldwide. Only in *Asia*, but here mainly only in *China* and *Japan* as well as in *South Korea*, *Thailand* and *Malaysia*, is the *US dollar* expected to lose somewhat in value in the course of the next six months.

Interest rates: Decline of rates expected

In view of recessionary tendencies in the real economy of many countries accompanied in most cases by a slowdown of inflation expectations, there is room to cut interest rates. An expected decline of *short-term* and to a lesser degree also *long-term interest rates* is the clearly prevailing mood in most countries covered in the survey. Exceptions from this general trend are only the *CIS* countries, particularly *Russia* where interest rates are expected to increase further in coming months both at the short and long end. Also in some *Latin American* countries particularly in *Argentina*, *Venezuela*, *Uruguay* and *Mexico* interest rates are expected to rise in the coming months often engineered by the respective Central Banks to prevent a too strong devaluation of the national currencies.

In *Western Europe* further cuts in *short-term interest rates* are expected particularly in the *United Kingdom* but also in *Denmark*, *Sweden* and *Switzerland*. In the *euro area* in all member countries a decline of interest rates is expected in the course of the next six months.

Medium-term growth outlook significantly more cautious

The medium-term growth outlook for the next 3 to 5 years dropped significantly to 2.5 percent (p.a.) from 3.3 percent reported one year ago. This is the lowest medium growth estimate since October 2001.

The decline in the growth outlook is discernible in all major regions of the world, but is particularly pronounced in *Western Europe* (from 2.2 percent to 1.3 percent) and in *North America* (from 2.9 percent to 1.6 percent). In the other large regions of the world the downward correction of the medium-term growth outlook is, in relative terms, much smaller, for example in *Oceania* from 3.3 percent to 3.1 percent, in *CIS* countries from 6.0 percent to 5.2 percent, in *Asia* from 4.6 percent to 4.1 percent, in *Latin America* from 4.1 percent to 3.1 percent, in *Africa* from

Figure 11

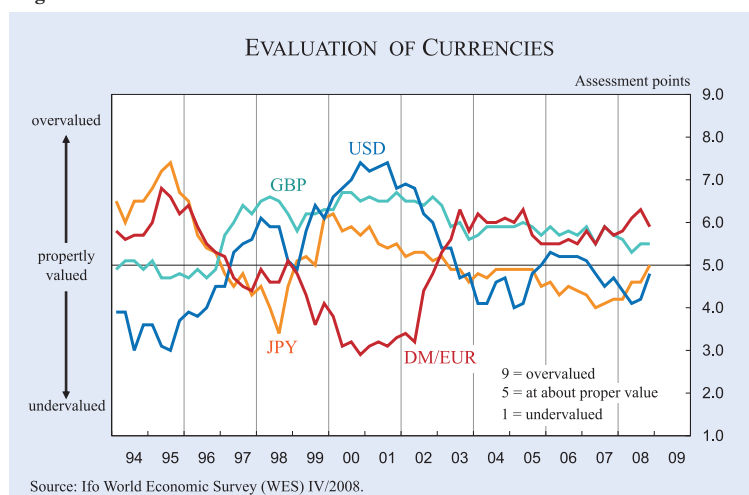


Figure 12

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

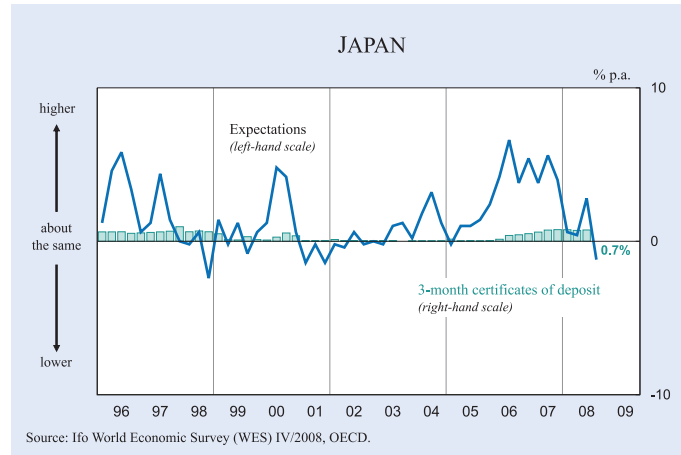
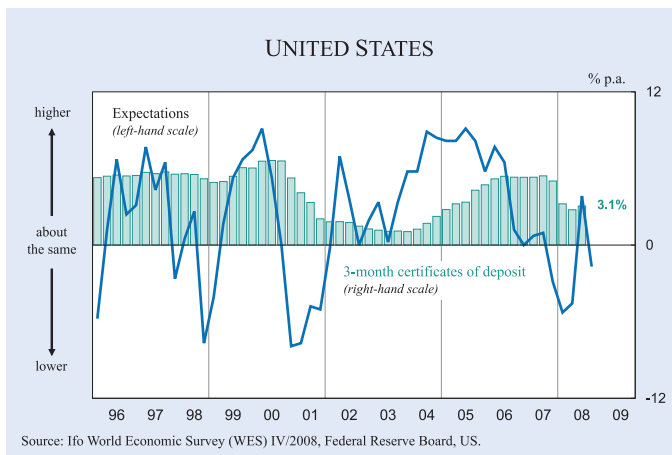
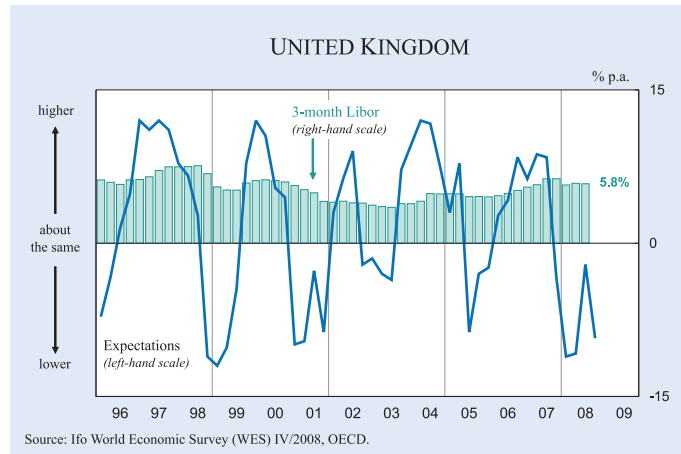
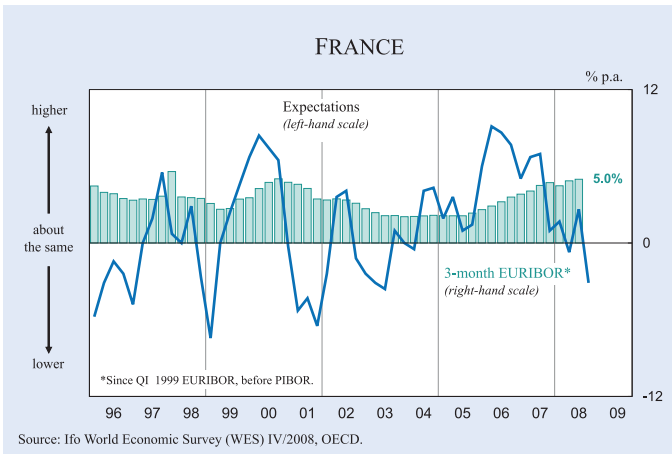
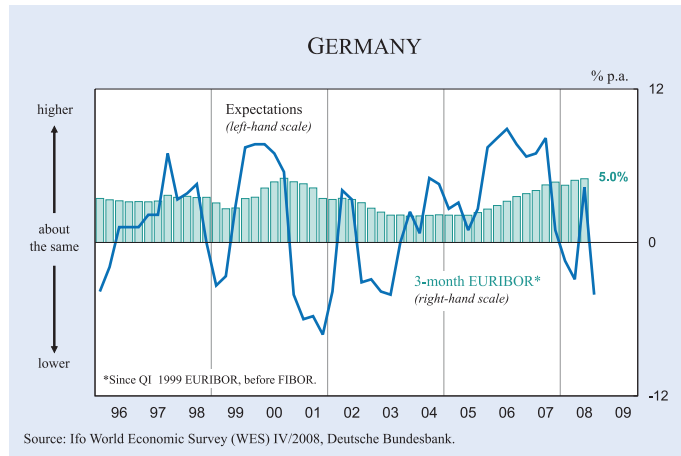
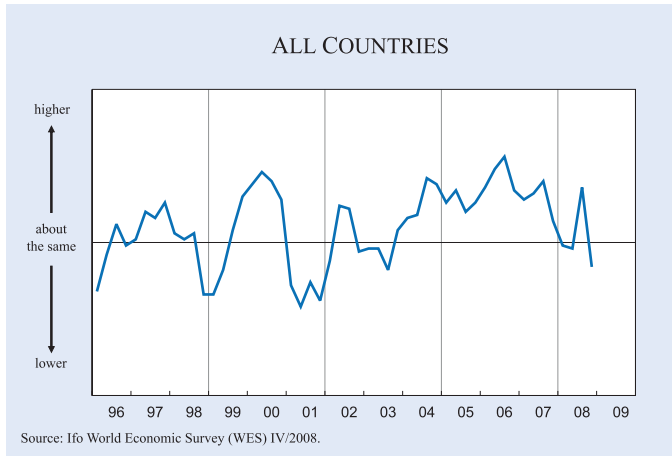


Table 2

GDP
Expected Average Annual Growth Rates of Real Gross Domestic Product
Over the Next 3 to 5 Years*
 (based on WES QIV/2008 and QIV/2007)

| Region | WES QIV/2008 | WES QIV/2007 | Region | WES QIV/2008 | WES QIV/2007 |
|-----------------------------|-----------------|-----------------|-----------------------------------|-----------------|-----------------|
| Average of Countries | 2.5 | 3.3 | Latin America | 3.1 | 4.1 |
| | | | Argentina | 3.3 | 3.8 |
| | | | Bolivia | 3.0 | 3.8 |
| Western Europe | 1.3 | 2.2 | Brazil | 3.9 | 3.7 |
| Austria | 2.1 | 3.0 | Chile | 3.7 | 4.8 |
| Belgium | 1.0 | 1.8 | Colombia | 3.6 | 5.1 |
| Cyprus | 3.8 | 1.5 | Costa Rica | - | 5.5 |
| Denmark | 1.5 | 2.1 | Ecuador | 2.5 | 2.9 |
| Finland | 1.9 | 3.4 | El Salvador | 1.5 | 2.6 |
| France | 1.3 | 1.9 | Mexico | 2.4 | 3.5 |
| Germany | 1.5 | 1.8 | Panama | | 8.0 |
| Greece | 3.2 | 3.6 | Paraguay | 3.8 | 4.4 |
| Iceland | 2.6 | - | Peru | 6.9 | 6.4 |
| Ireland | - 0.4 | 3.8 | Trinidad and Tobago | 3.0 | 8.5 |
| Italy | 0.5 | 1.4 | Uruguay | 3.5 | 5.6 |
| Luxembourg | 3.8 | 3.8 | Venezuela | 2.3 | 5.8 |
| Netherlands | 1.5 | 2.0 | | | |
| Norway | 3.4 | 3.5 | Africa | 3.9 | 4.5 |
| Portugal | 1.2 | 1.8 | Algeria | 2.6 | 3.8 |
| Spain | 0.7 | 3.3 | Egypt | 3.8 | - |
| Sweden | 1.9 | 3.0 | Mauritius | 3.8 | 3.8 |
| Switzerland | 1.6 | 2.0 | Morocco | 4.9 | 1.5 |
| United Kingdom | 1.0 | 2.9 | Nigeria | 4.5 | 8.0 |
| | | | South Africa | 3.8 | 4.0 |
| North America | 1.6 | 2.9 | Tanzania | 6.0 | - |
| Canada | 2.3 | 3.5 | Tunisia | 3.8 | 4.9 |
| United States | 1.5 | 2.8 | Zimbabwe | 0.9 | - 3.8 |
| | | | | | |
| Oceania | 3.1 | 3.3 | Central and Eastern Europe | 3.7 | 4.6 |
| Australia | 3.2 | 3.4 | Albania | 4.9 | 4.6 |
| New Zealand | 2.4 | 2.8 | Bosnia Herzegovina | - | 6.0 |
| | | | Bulgaria | 4.8 | 5.3 |
| CIS | 5.2 | 6.0 | Croatia | 3.8 | 4.5 |
| Kazakhstan | 5.9 | 7.8 | Czech Republic | 3.9 | 4.6 |
| Russia | 5.1 | 5.9 | Estonia | 1.9 | 7.0 |
| Ukraine | 5.3 | 4.9 | Hungary | 2.0 | 2.8 |
| | | | Latvia | 2.5 | 7.4 |
| Asia | 4.1 | 4.6 | Lithuania | 1.7 | 5.4 |
| Bangladesh | 5.3 | 6.4 | Poland | 3.9 | 5.0 |
| China | 7.6 | 9.1 | Romania | 4.6 | 5.0 |
| Hong Kong | 4.2 | 3.7 | Slovenia | 3.5 | 3.5 |
| India | 7.1 | 8.6 | Slovakia | 5.0 | 6.0 |
| Indonesia | 5.8 | 6.3 | Serbia | 5.0 | 5.8 |
| Japan | 1.5 | 1.8 | | | |
| Korea Rep. | 3.9 | 4.3 | Near East | 4.3 | 4.5 |
| Malaysia | 3.7 | 5.0 | Iran | 3.1 | 3.8 |
| Nepal | - | 8.0 | Israel | 3.0 | 4.0 |
| Pakistan | 3.2 | 5.9 | Jordan | 5.3 | 5.2 |
| Philippines | 3.5 | 5.9 | Kuwait | 3.8 | 6.0 |
| Singapore | 6.0 | 7.5 | Lebanon | 3.8 | - |
| Sri Lanka | 4.9 | 4.9 | Saudi Arabia | 4.8 | 2.6 |
| Taiwan | 4.0 | 3.8 | Turkey | 3.0 | 5.0 |
| Thailand | 4.2 | 4.2 | United Arab Emirates | 6.3 | 5.8 |
| Vietnam | 5.7 | 7.8 | | | |

* 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.

Source: Ifo World Economic Survey (WES), QIV/2008 and QIV/2007

4.5 percent to 3.9 percent, in *Central and Eastern Europe* from 4.6 percent to 3.7 percent and in the *Near East* from 4.5 percent to 4.3 percent.

Some remarkable examples of a "great moderation" in the medium-term growth outlook are *Ireland*

(from 3.8 percent to now - 0.4 percent), *United Kingdom* (from 2.9 percent to 1.0 percent), the *United States* (from 2.8 percent to 1.5 percent), *Venezuela* (from 5.8 percent to 2.3 percent), *Nigeria* (from 8.0 percent to 4.5 percent), *Estonia* (from 7.0 percent to 1.9 percent), *Latvia* (from 7.4 percent

to 2.5 percent) and *Lithuania* (from 5.4 percent to 1.7 percent).

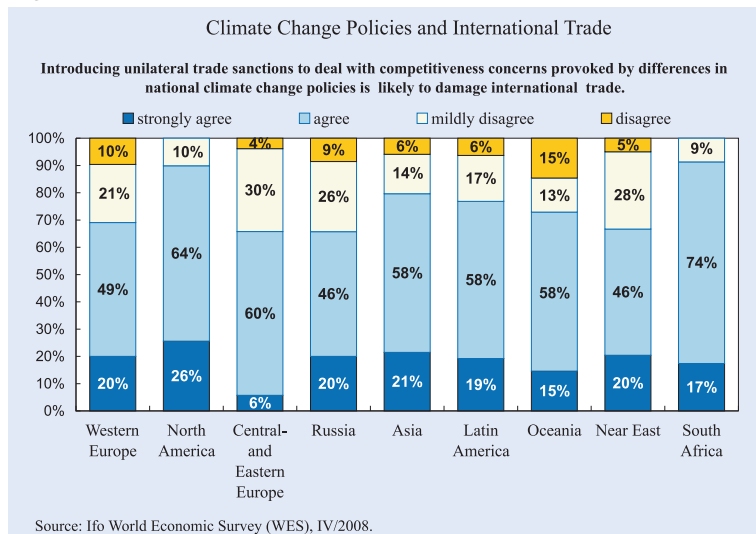
On the other hand, the growth outlook has deteriorated only moderately in *China* (from 9.1 percent to 7.6 percent), *India* (from 8.6 percent to 7.1 percent) and *Japan* (from 1.8 percent to 1.5 percent).

An upward revision of the medium-term growth outlook was restricted mainly to *Saudi-Arabia* (from 2.6 percent to 4.8 percent), *United Arab Emirates* (from 5.8 percent to 6.3 percent), *Brazil* (from 3.7 percent to 3.9 percent), *Peru* (from 6.4 percent to 6.9 percent) and somewhat surprisingly in *Morocco* (from 1.5 percent to 4.9 percent). In *Zimbabwe*, after an expected medium term decline of - 3.8 percent p.a., moderate growth of 0.9 percent is expected in the course of the next 3 to 5 years.

ICC Special Question: Climate-change policies and international trade

The Doha Round negotiations have become disruptive and complicated. Also issues relating to climate-change policies have had to be suspended without any new timetable, because of wide gaps between key players. The ICC special question in the fourth quarter's WES survey focused on the negative impact that difficulties in the Doha Round negotia-

Figure 14

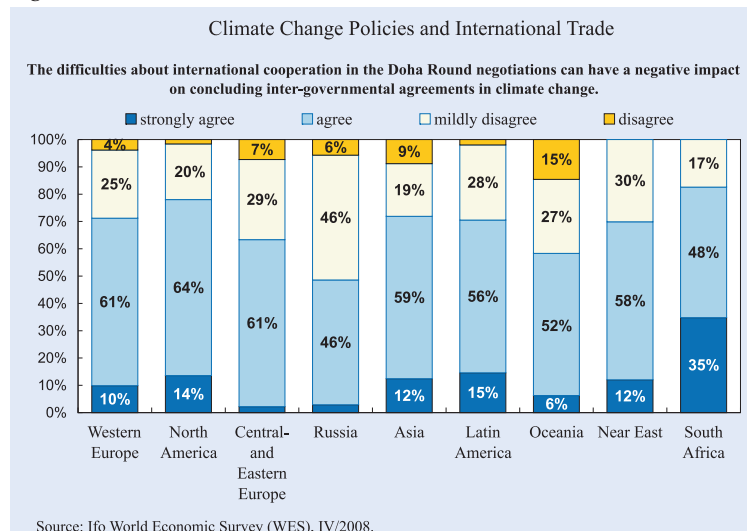


tions can have on concluding inter-governmental agreements in climate change. One major concern is that unilateral trade sanctions may emerge resulting from national climate-change policies. Companies fear that differences in national climate-change policies may result in protectionist governmental actions and damage international trade instead of spreading cleaner environmental practices.

The vast majority of surveyed economists agree that the failure in the international trade negotiations will have a negative impact on concluding inter-governmental agreements in climate change (see Figure 13). The result of such a failure will be unilateral national environmental policies, which may influence competitiveness of domestic products and imports. WES experts fear that trade sanctions may be introduced by governments in order to deal with competitiveness concerns provoked by differences in

national climate change policies. These sanctions, if introduced, are more likely to damage international trade, according to a majority of WES experts, than to spread cleaner environmental practices (see Figure 14). Resuming international trade negotiations appears not only important for achieving economic growth goals but also for sustained climate change and environmental policies that are able to promote cleaner environmental practices on a global scale.

Figure 13





Forum

WINTER
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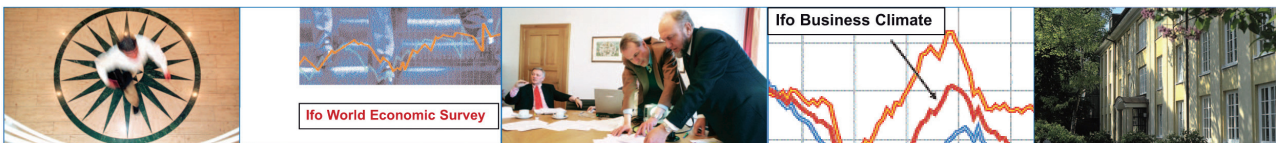


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