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CESifo WORLD ECONOMIC SURVEY

VOLUME 8, No. 2

MAY 2009

WORLD ECONOMIC CLIMATE

World Economic Climate improves somewhat

ECONOMIC EXPECTATIONS

Economic expectations brighten, while assessments of the current economic situation deteriorate further

INFLATION

Further decline of inflation expectations, but no deflation expected

INTEREST RATES

Further decline of short-term interest rates, and stabilization of long-term interest rates expected

CURRENCIES

US dollar seen as slightly overvalued

SPECIAL TOPIC

Counterfeiting and piracy



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Ifo World Economic Survey

Regions

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- Western Europe: Economic stabilization expected
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- Eastern Europe: Economic climate remains unfavourable
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Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide about current economic developments in the respective country. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In April 2009, 1,040 economic experts in 90 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 BRIGHTENS

The Ifo World Economic Climate Index improved in April 2009 for the first time since the end of 2007 (see Figure 1). The climate indicator now stands at 64.4 (after 50.1 in January; 1995=100), but is still considerably below its long-term average (1991–2008: 96.4). The improvement of the climate indicator is exclusively the result of more favourable economic expectations for the coming six months. The assessments of the current economic situation, in contrast, have worsened further (see Figure 2).

World economy: Bottoming out

The economic expectations – the heralds of future economic trends – improved in April on a global average for the first time since the third quarter of 2007, leading to a rise of the overall economic climate indicator. The improvement of the Ifo World Economic Climate resulted particularly from the optimistic economic expectations in *North America* and *Asia*. But also in *Western Europe*, as well as *Central and Eastern Europe*, *Russia* and *Latin America* the economic expectations for the next six months have been upgraded. However, the world economy has been in free-fall for many months and the deep global recession is not yet overcome, demonstrated by the fact that in the vast majority of countries the present economic situation is still assessed as “bad”. The assessments of the present economic situation fell further in April to a historically lowest level since introduction of this survey in the early 1980s (see Figure 2).

For a medium-term forecast, a look at the business-cycle clock

offers valuable insight (see Box 1). The latest WES results show that the global economic recession has not deepened further in the second quarter of 2009. The economic climate indicator has even started to leave the “recession” quadrant, although with the current economic situation in extremely bad shape. The difficulty of forecasting the future scenario of the world economy is unprecedented as the financial sector is still fragile. But the current pattern of the economic climate adds to signs that the deepest economic slump since World War II may bottom out in the second half of the year. However, the economic

Figure 1

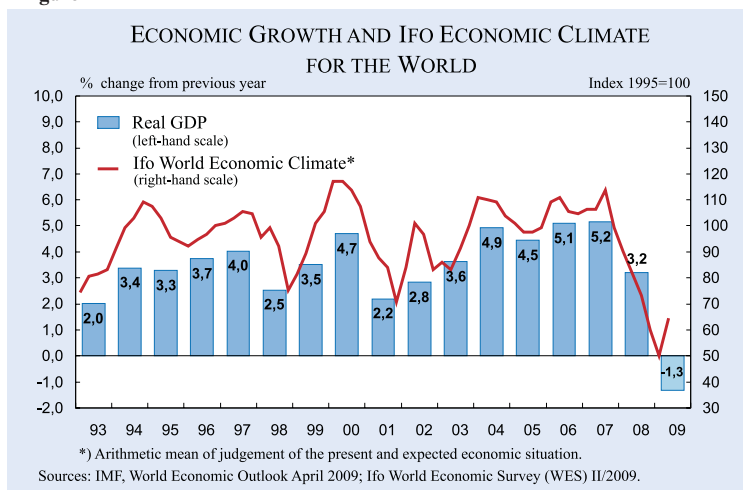
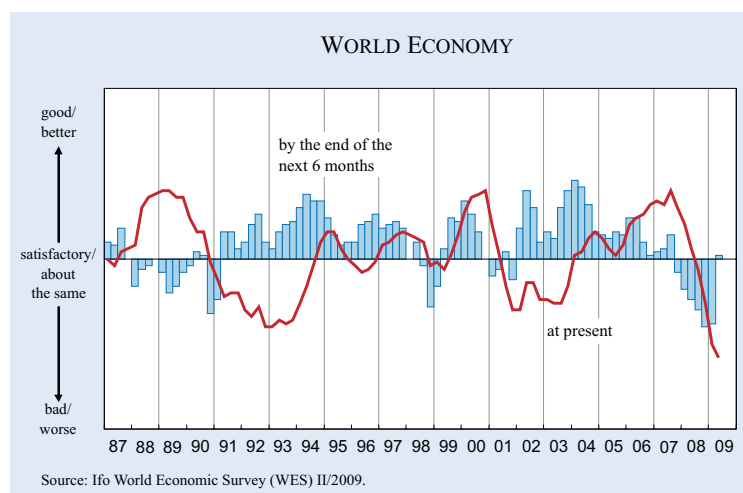


Figure 2

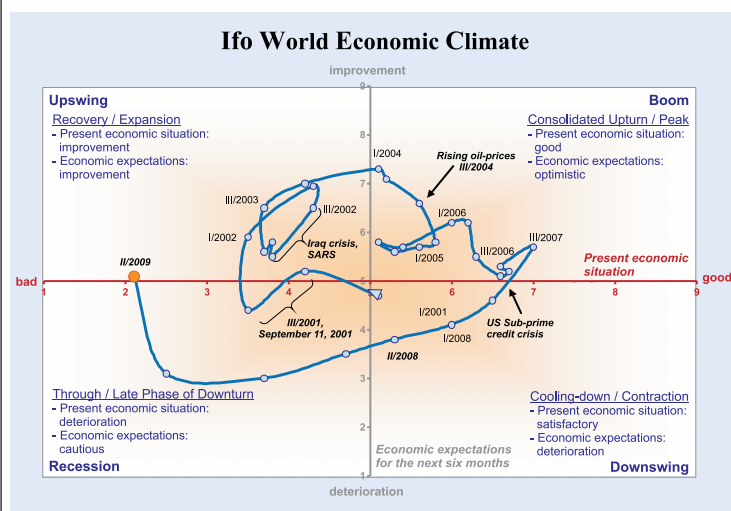


Box 1

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 economic climate index entered the recession area in the third quarter of 2008, as the assessments of the present economic situation slipped below the “satisfactory” mark. Also in the fourth quarter of 2008 both the assessments of the present economic situation and economic expectations further deteriorated. However, the deterioration of economic expectations ended in the first quarter of 2009. The latest WES results show that global economic sentiments have not worsened further. The Ifo World Economic Climate Indicator rose in the second quarter of 2009 for the first time since autumn 2007 and has even started to leave the “recession” quadrant. The assessment of the current economic situation, however, worsened again, falling to a new record low.



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).

recovery is likely to only gradually gain momentum in 2009.

Western Europe: Economic stabilization expected

The economic climate indicator for *Western Europe* improved in April 2009 (see Figure 3). The improvement resulted from the rebound of economic expectations for the next six months, while the assessments of the present economic situation have again been downgraded, on average (see Figure 4).

This pattern of economic confidence also applies to the *euro area* (see Box 2). The economic climate index improved in the *euro area*, on average, but only due to the less negative economic expectations, while the assessment of the present economic situa-

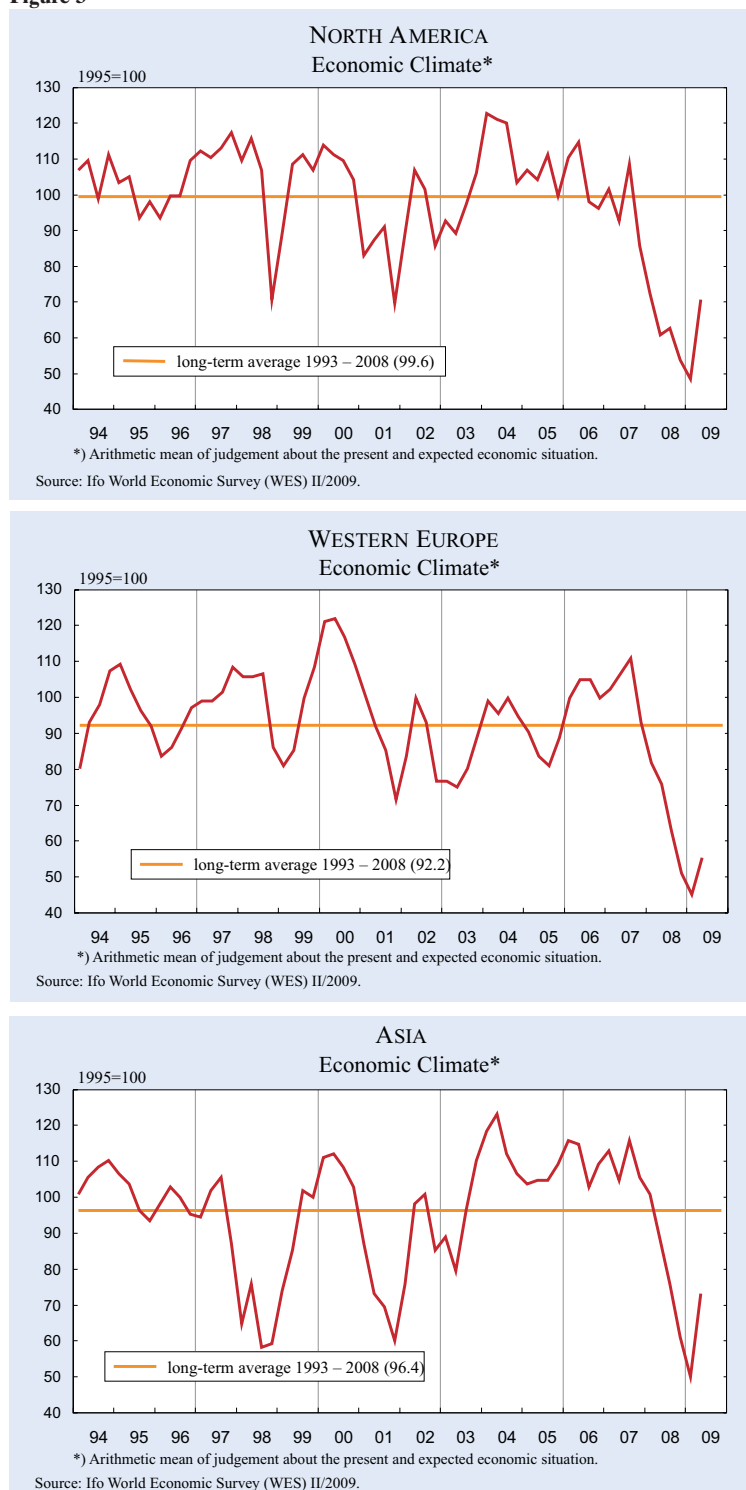
tion has worsened further. The global recession has hit the *euro area* harder than the *US*, partly because the majority of *euro area* countries are more dependent on exports for growth and consequently more vulnerable to drops in global demand. The present economic situation is assessed unanimously as bad in all *euro area* countries. However, the economic expectations for the next six months improved in all *euro area* countries as well, except *Greece*. Particularly in *Belgium, Italy and Germany*, the surveyed economists expect an economic recovery in the second half of 2009. The economic expectations have been considerably upgraded also in *Austria, France and the Netherlands* where the WES experts expect an economic stabilization in the further course of 2009. In other countries of the *euro area* the economic forecasts remain cautious. The export sector in the *euro area* is expected to weaken further in 2009. As the most important economic problems the surveyed economists named “insufficient demand”, closely followed by “unemployment” and “public deficits”.

Also outside the *euro area* the economic climate improved somewhat in April 2009, particularly in the *United Kingdom* and *Denmark*. In both countries the economic expectations point to an economic stabilization in the next six months. In contrast, in *Norway* and *Sweden*, but also in *Switzerland*, the economic expectations remain negative. As in the *euro area*, the present economic situation is still assessed as “bad”, with insufficient demand posing the economic problem number one, according to WES experts.

North America: Economic climate indicator improves markedly

The economic climate indicator in *North America* clearly improved in April 2009 (see Figure 3). As on the world average, the improvement was due to

Figure 3



more optimistic economic expectations, while the assessments of the present economic situation deteriorated further (Figure 6). These results indicate that the *US* economy appears to begin to bottoming out and may start to recover in the second half of 2009. In the *US*, as well as in *Canada*, the capital expenditures and private consumption are forecast to revive in the coming six months. However, the

high unemployment of more than 9 percent, along with public deficits, will probably remain an urgent economic problem in the *US* through 2009.

Central and Eastern Europe: Economic climate remains unfavourable

The economic climate remains unfavourable in *Central and Eastern Europe* (see Figure 4). The assessments of the present economic situation fell further below the satisfactory level. The economic expectations for the next six months have been slightly upgraded, but remained negative in April, on average for the region (see Figure 8).

The assessments of the present economic situation worsened further in April in all *EU* countries of the region. Many *Central and Eastern European* countries are highly dependent on the *Western European* markets for their exports and credits. The credit crunch and economic slowdown in *Western Europe* have strongly hit the *Central and Eastern European* countries and has even led some, among them *Hungary* and *Latvia*, to the brink of bankruptcy. The deterioration of the assessments of the present economic situation is particularly pronounced in *Lithuania*, *Romania* and *Bulgaria*. But also in other *EU* countries of the region the economic performance weakened since the pre-

vious January survey, according to WES experts. In almost all countries of the region the present economy is assessed as “bad”. Only in *Poland* and the *Czech Republic* is the present economic situation assessed as close to the satisfactory level. In *Latvia*, *Estonia*, *Romania* and *Bulgaria* capital shortage has become an important economic problem. In *Latvia* and *Romania* also “lack of confidence in govern-

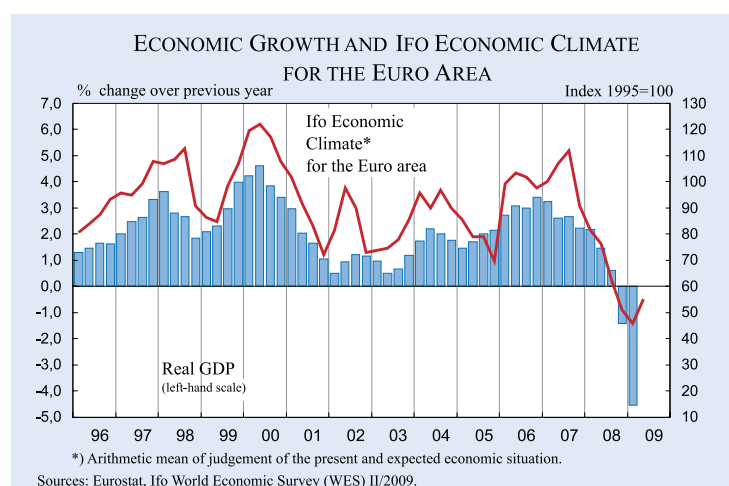
Box 2

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

The Ifo World Economic Climate for the 16 member countries of the euro area is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The April results are based on the responses of 280 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 World Economic Climate for the euro area has improved in the second quarter of 2009 for the first time since autumn 2007. The rise in the Ifo indicator is the result of less negative expectations for the coming six months; the assessments of the current economic situation, however, have worsened further and now stand at a new all-time low.

The current economic situation has been assessed as very unfavourable in all countries of the euro area without exception. The expectations for the coming six months, however, have improved in almost all countries of the euro area, with the exception of Greece. WES experts in Belgium, Germany, Italy and Luxemburg anticipate improvement, and in Austria, France and the Netherlands at least a stabilisation of the economic situation in the coming six months is seen.



ment's economic policy" has been emphasized by the WES experts. The same holds true for *Hungary*, where along with public deficits, high foreign debt burden economic development.

The economic situation also worsened outside the *EU*, so in *Croatia* and *Serbia*. Also the economic expectations for the next six months remain cautious. Only in *Albania* is the present economic performance still assessed above the satisfactory level, but insufficient demand and lack of international competitiveness remain important economic problems.

CIS: Less negative economic expectations

The overall economic climate index for *CIS* countries covered by WES (*Russia*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan* and *Uzbekistan*) improved somewhat in April due to less negative economic expectations.

Although the present economic situation is also regarded as weak in the *CIS* countries, the surveyed economists do not expect further deterioration in the next six months (see Figure 6).

The economic expectations have been upgraded strongly since the previous January survey in *Russia* and *Kazakhstan*. Both economies have been hit by the slump in demand and prices for their main exports of oil, gas and metals, so that economic growth came to an abrupt halt in the second half of 2008 after a decade of economic expansion. Although, the *Russian* government and the central bank have been successful so far in stopping the depreciation of the rouble, a set of downward risks still predominate, including capital shortage and possible bankruptcies of businesses and in the financial sector. According to the latest WES results, the capital expenditure and private consumption are expected to remain downbeat in the course of the next six months. In *Russia*, the surveyed economists emphasized that lack

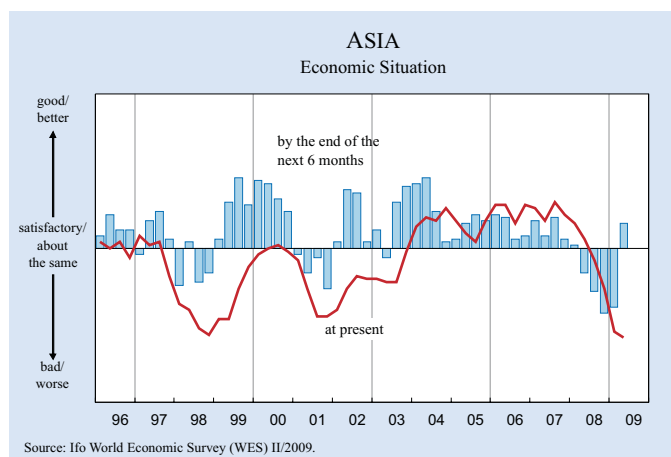
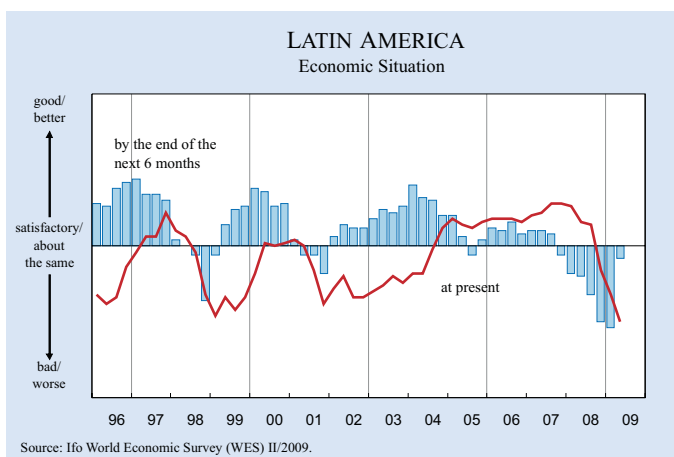
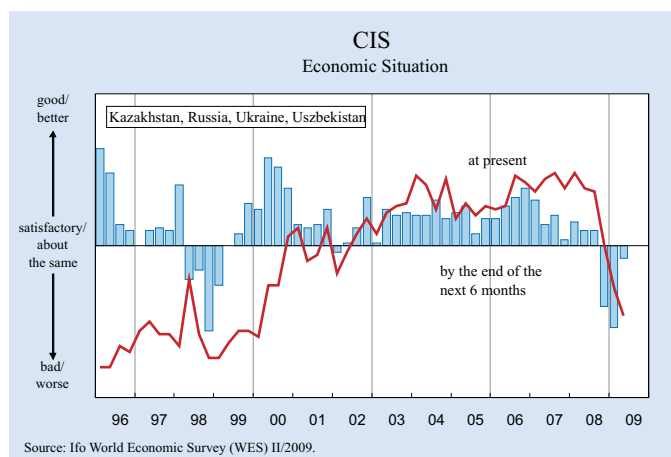
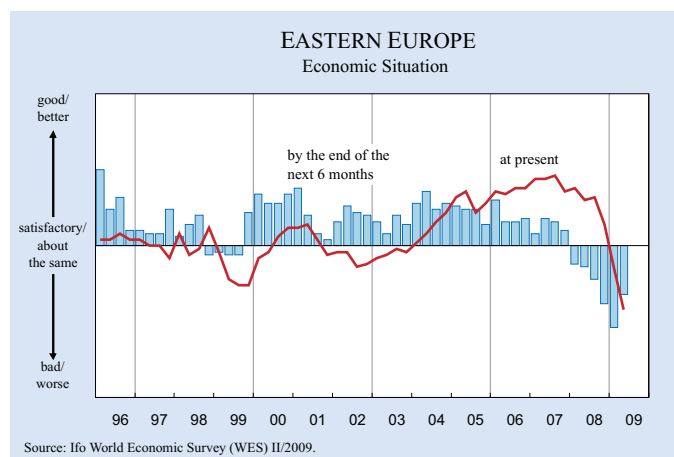
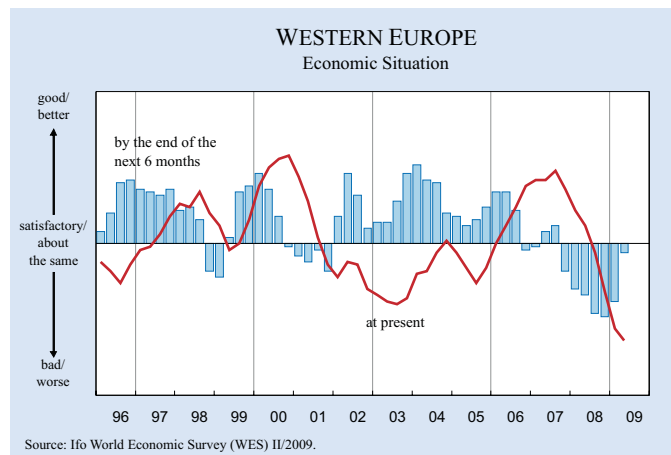
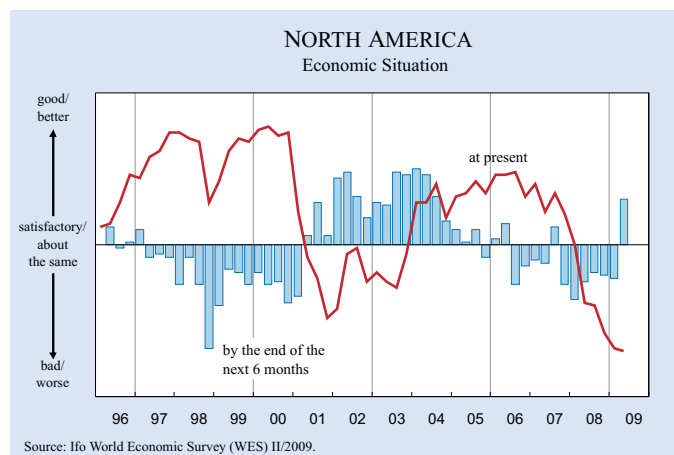
of international competitiveness, accompanied by insufficient demand for its fuel exports, are the country's most important economic problems at the present. Also in the *Ukraine* the present economic situation is assessed with very low marks on the WES scale, although it is not expected to aggravate further in the next six months. According to the surveyed economists, lack of confidence in the government's economic policy, inflation and capital shortage are the most important impediments to economic recovery at the present. With the lowest marks on the WES scale the present economic situation has been assessed in *Kyrgyzstan*. In *Uzbekistan*, in contrast, the surveyed economists describe the economy as stable, although unemployment remains high.

Asia: Economic revival

In *Asia* the economic climate indicator clearly improved in April compared with the January survey

Figure 4

SELECTED REGIONS



(see Figure 3). As in the other main economic regions, the improvement was solely the result of optimistic expectations, while the assessments of the current economic situation remained on a low level (see Figure 8).

The economic expectations have been upgraded in almost all countries of the region, except *Indonesia* and *Bangladesh*. The economic expectations have become particularly optimistic in *Taiwan*, *South Korea*, *Singapore* and *Thailand*. In *South Korea*, the government's fiscal spending over the past year helped *Asia's* fourth-largest economy recover. The optimistic forecasts here include robust capital expenditures, a pre-crisis level of consumer sentiment and growing exports. A rebound of exports is – along with *South Korea* – expected only in *Taiwan*. In other *Asian* countries the WES experts forecast further weakening of the export sector in the next six months, as global demand for the region's exports remains sluggish. Also in *China* and *India* – despite weakness particularly in the export sector – the surveyed economists forecast economic strengthening in the coming six months. However, the present economic situation still is assessed as bad in almost all *Asian* countries. As all over the world, insufficient demand and unemployment have been named in the majority of countries as the most important economic problems at the present. In *Vietnam* and *Bangladesh* the WES experts assess the present economic situation as more or less satisfactory and forecast a stable economic development in the next six months, although, in both countries inflation appears to be high, compared to the *Asian* average. Moreover, in *Vietnam* capital shortage and public deficits continue to pose important impediments to an economic rebound, according to the surveyed economists. High inflation of more than 10 percent also prevails in *Pakistan* and *Sri Lanka*. The present economic situation is assessed as bad in both countries. Along with political instability and internal conflicts, the WES experts reported a capital shortage and emphasized a lack of international competitiveness. However, while WES experts in *Pakistan* are fairly optimistic with regard to an economic stabilization in the next six months, in *Sri Lanka* they fear further economic weakening in 2009. Economic weakening is also forecast by the surveyed economists in *Malaysia* and the *Philippines*, and to a lesser degree also in *Indonesia* and *Hong Kong*. The lowest level of economic confidence in *Asia* has again been recorded in its biggest economy, in *Japan*. The present economic performance is here assessed with the

lowest marks on the WES scale. The economic expectations for the next six months, although upgraded somewhat compared to the first quarter's survey, remain rather cautious.

Oceania: Economic stagnation expected

In *Australia* and *New Zealand* the economic climate deteriorated further (see Figure 6). In *Australia*, both components of the economic climate indicator – assessments of the present economic situation and economic expectations for the next six months – deteriorated again in April. The assessments of the present economic situation slipped deeper below the satisfactory level. The surveyed economists expect that the economy will deteriorate further in the rest of this year. In *Australia*, “capital shortage” has been named by WES experts ahead of “insufficient demand” as the country's most important economic problem at the present. Also in *New Zealand* capital shortage poses an important economic problem. In April, the economic expectations in *New Zealand* have been upgraded somewhat, but the present economic situation is still assessed as “bad” by the surveyed economists.

Latin America: Economic expectations brighten

In *Latin America* the economic climate also improved in April, as economic expectations for the next six months have been upgraded in almost all countries surveyed in the region (see Figure 9). However, here too the assessments of the present economic situation deteriorated further, indicating that most economies have not hit the bottom yet.

In *Trinidad and Tobago* and *Uruguay* the present economic situation has been assessed as satisfactory by the surveyed economists. However, in *Trinidad and Tobago*, as well as in *Uruguay* the WES experts still expect economic deterioration in the course of the next six months. Further economic weakening is also forecast by WES experts in *Bolivia*, *Costa Rica*, *Ecuador* and *El Salvador*. In all four countries, the WES experts reported that lack of trust in government's economic policy and capital shortage are the most important impediments to economic recovery at the present. Lack of trust in government's economic policy has also been emphasized by surveyed economists in *Argentina*, where the marks for the

present economic situation are at the lowest level in *Latin America*. Also here the surveyed economists expect further economic deterioration in the next six months. A very negative economic climate has also been reported from *Venezuela*. Aggravating factors of the already critical economic situation are, along with lack of trust in the government's economic policy and public deficits, inflation, which at more than 30 percent, is the highest not only in *Latin America* but also on a global scale, according to WES estimates.

However, there are also a number of countries where the economic climate improved considerably over the previous survey of January. A number of *Latin American* countries has obviously succeeded in strengthening fiscal conditions and financial systems, leading to reduction of inflation and economic credibility. The present economic situation is assessed by WES experts as above the satisfactory level in *Peru* and *Panama*. The surveyed economists expect economic stabilization at the current level in the course of the next six months. The economic expectations have become positive also in *Brazil* and *Chile*, adding to signs that the two economies are heaving out of contraction. Also in *Mexico* the economic expectations have become more optimistic. Particularly capital expenditures are expected to strengthen in the next six months. However, the WES survey was conducted before the flu outbreak, which has had widespread negative effects on the fragile economic recovery. Economic stabilization is forecast for 2009 also for *Paraguay*, *Guatemala* and *Colombia*, although the present economic performance is below the satisfactory level at present, according to WES experts.

Near East: Diverging economic trends

The economic climate remains moderate in a number of countries of the *Near East* (see Figure 10). The present economic situation continues to be assessed as satisfactory, particularly in *Saudi Arabia*, *Jordan* and the *United Arab Emirates*. Also in *Lebanon*, the surveyed WES economists described the present economic situation as satisfactory. In contrast, in *Israel*, the assessments of the present economic situation have been strongly downgraded. Further economic deterioration is forecast by the surveyed economists for 2009. Also in *Turkey* the present economic situation is described as bad in April. The economic expecta-

tions for the next six months are rather cautious. The surveyed economists reported about a set of problems the economy is facing at the present, such as unemployment, insufficient demand, capital shortages and public deficits.

Africa: Looming recession in South Africa

The economic climate indicator remained in the negative territory in *South Africa* in April (see Figure 10). Although, the assessments of the current economic situation have been slightly upgraded, but the economic expectations for the next six months remain cautious, indicating that in *Africa's* largest economy the first recession in 17 years looms. Capital expenditures and the export sector are expected to weaken further in the next six months. Private consumption, in contrast, is expected to stabilize over the next half of the year. Unemployment and lack of skilled labour continue to pose the most important economic problems, according to WES experts.

An economic deterioration is also expected by the WES experts surveyed in the *North African* countries, *Morocco* and *Tunisia*, as well as in *Nigeria*, *Cameroon* and *Mauritius*. In *Kenya* and *Algeria*, in contrast, the surveyed economists expect a stable economic performance over the next six months.

For the first time in more than a decade there is a spark of hope in the WES figures relating to *Zimbabwe*. After *Zimbabwe's* long standing President Robert Mugabe and his opposition rival Morgan Tsvangirai formed a coalition government in February this year, several encouraging actions have been undertaken by the new government. The local currency which was suffering enormous hyperinflation has been suspended and replaced by foreign currency, resulting in improved availability of goods and commodities. Although the country's economy is still weakened, the surveyed economists expect an economic turnaround in 2009.

Further decline of inflation expectations, but no deflation expected

WES experts expect for 2009 an inflation rate of 2.7 percent on a worldwide scale. Compared with the inflation rate experienced in 2008 (5.4 percent)

Table 1

Inflation Rate Expectations for 2009
(based on WES QII 2009 and QI 2009)

Region	QII/2009	QI/2009	Region	QII/2009	QI/2009
Average of 92 countries*	2.7	3.3	Latin America	8.1	8.7
<i>World Bank classification:</i>			Argentina	14.0	15.0
High-income countries	1.3	1.8	Bolivia	10.0	12.5
Middle-income countries	7.1	8.1	Brazil	4.5	5.0
Upper-middle	7.3	8.2	Chile	3.2	4.5
Lower-middle	6.5	7.9	Colombia	5.3	5.6
Low-income countries	7.5	7.4	Costa-Rica	9.0	11.0
			Ecuador	7.0	7.4
EU 27 countries	1.3	1.8	El Salvador	4.4	5.2
EU countries (old members) ^{a)}	1.0	1.6	Guatemala	6.1	7.2
EU countries (new members) ^{b)}	3.4	3.9	Mexico	5.5	6.1
Euro area ^{c)}	1.0	1.6	Panama	7.0	7.0
			Paraguay	5.8	7.5
Western Europe	1.0	1.6	Peru	3.6	4.1
Austria	1.1	1.8	Trinidad and Tobago	12.0	10.0
Belgium	0.8	1.5	Uruguay	8.2	8.3
Cyprus	2.7	3.0	Venezuela	32.0	32.5
Denmark	1.6	1.9			
Finland	1.0	1.9	Asia	1.9	2.9
France	0.7	1.4	Bangladesh	6.7	6.0
Germany	1.1	1.3	China	2.3	2.4
Greece	1.9	3.1	Hong Kong	1.4	3.1
Iceland	4.0	9.3	India	3.6	5.5
Ireland	-0.2	1.4	Indonesia	6.5	6.8
Italy	1.1	2.0	Japan	-0.4	0.0
Luxembourg	0.7	1.5	Malaysia	2.8	4.3
Malta	1.0	2.0	Pakistan	16.5	17.5
Netherlands	1.4	1.8	Philippines	4.9	6.9
Norway	2.1	1.9	Singapore	1.3	2.3
Portugal	0.5	1.6	South Korea	3.8	4.3
Spain	0.6	2.2	Sri Lanka	12.5	15.0
Sweden	0.3	1.5	Taiwan	-0.1	0.7
Switzerland	0.5	1.2	Thailand	0.0	1.4
United Kingdom	1.2	1.3	Vietnam	9.3	8.5
Eastern Europe	3.5	4.1	Near East	8.4	9.6
Albania	3.8	3.6	Iran	25.0	33.5
Bulgaria	3.9	6.7	Israel	1.4	1.5
Croatia	2.7	3.9	Jordan	15.0	-
Czech Republic	2.0	3.0	Kuwait	9.0	5.0
Estonia	1.7	4.0	Lebanon	3.8	5.5
Hungary	4.9	3.9	Saudi Arabia	6.6	5.7
Latvia	5.3	6.9	Turkey	8.0	9.6
Lithuania	4.6	6.3	United Arab Emirate	4.9	7.8
Poland	3.2	3.0			
Romania	6.1	6.8	Africa*	8.9	n.a.
Serbia	9.3	9.7	Algeria	4.0	3.8
Slovakia	2.4	3.6	Egypt	-	-
Slovenia	1.5	2.6	Kenya	20.0	13.0
			Mauritius	8.0	7.0
CIS	14.0	14.0	Morocco	-	3.5
Kazakhstan	10.0	8.7	Nigeria	15.0	8.0
Kyrgyzstan	16.0	17.5	South Africa	7.1	7.6
Russia	14.0	14.0	Tanzania	-	11.0
Ukraine	18.0	17.0	Tunisia	5.0	4.8
Uzbekistan	15.5	18.0	Zimbabwe	4.4	<i>Hyperinflation</i>
North America	1.3	1.4	Oceania	2.4	3.2
Canada	1.1	1.3	Australia	2.3	3.2
United States	1.3	1.4	New Zealand	2.4	2.9

* 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, Bulgaria and Romania. – ^{c)} Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: Ifo World Economic Survey (WES) II/2009 and I/2009.

Figure 5a

EUROPEAN UNION

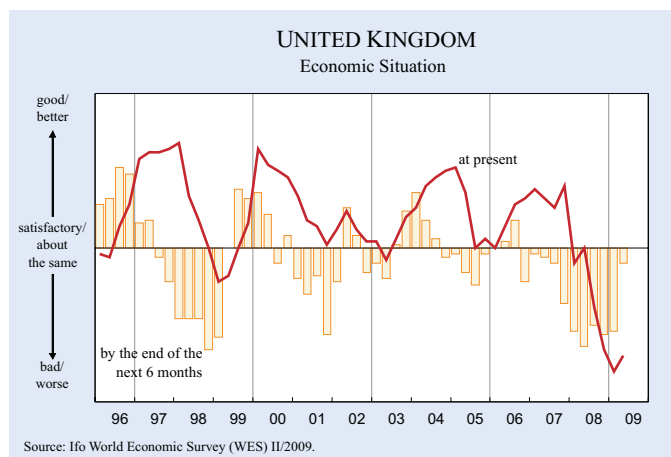
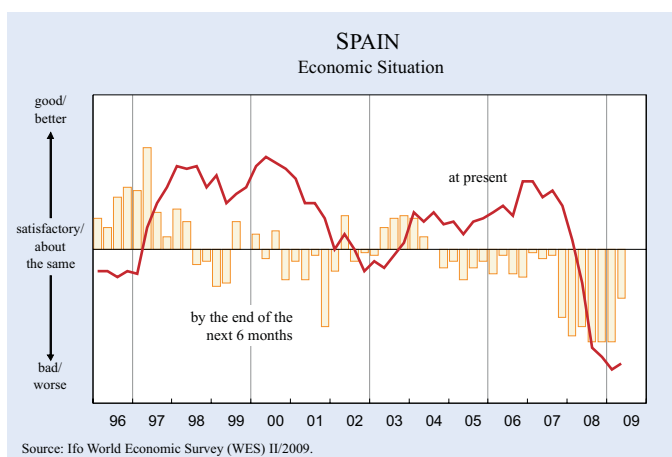
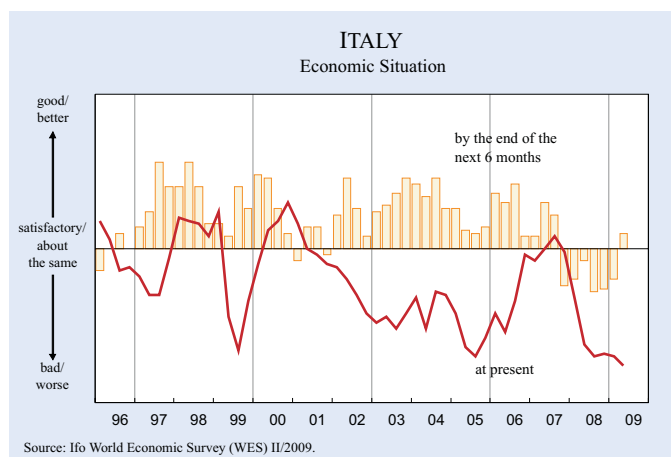
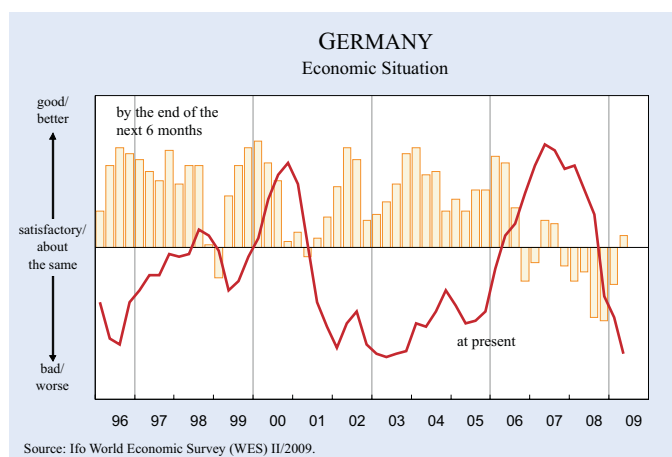
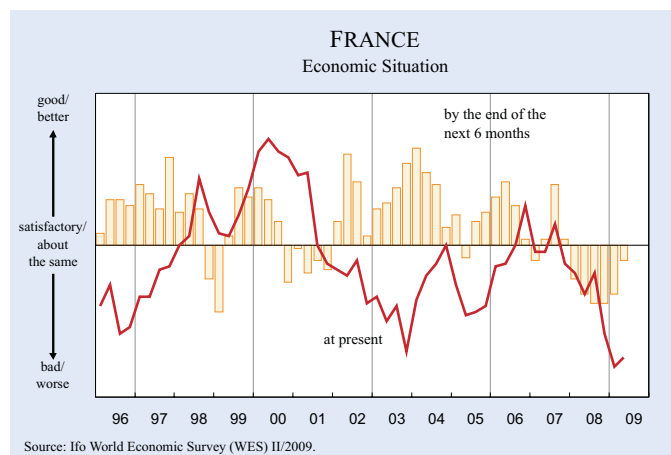
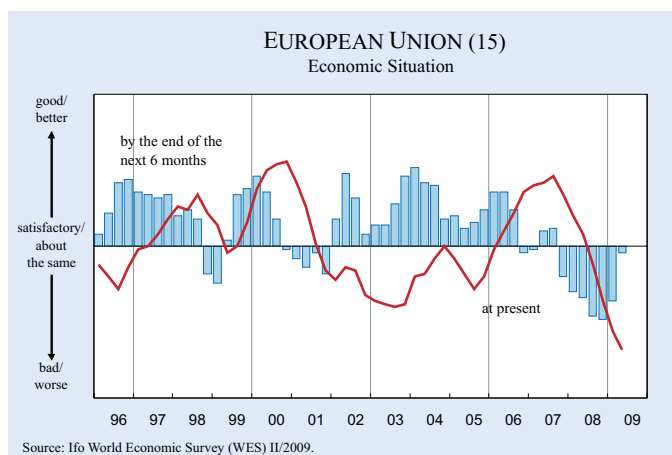


Figure 5b

EUROPEAN UNION

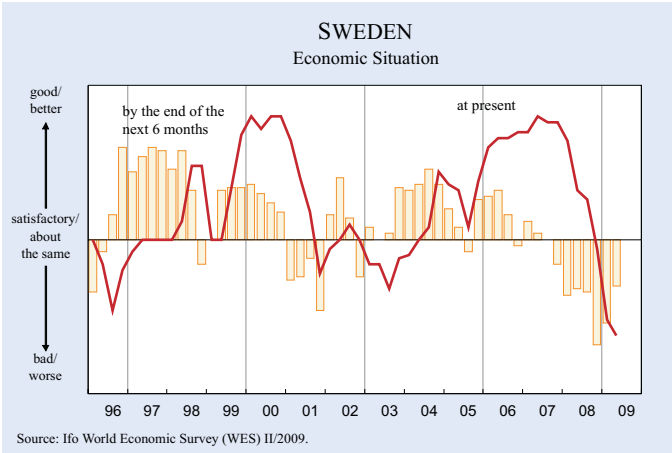
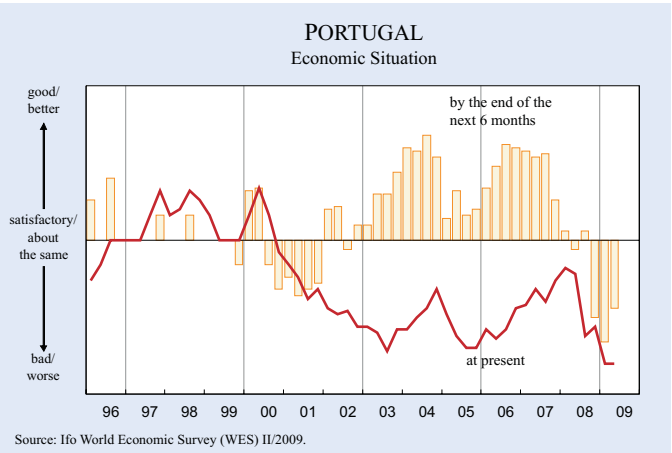
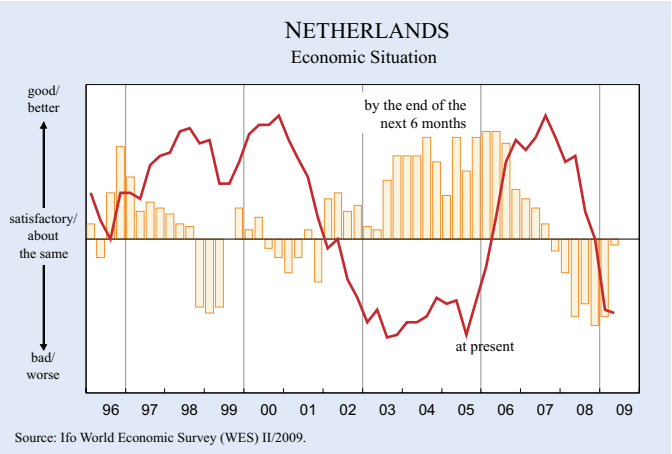
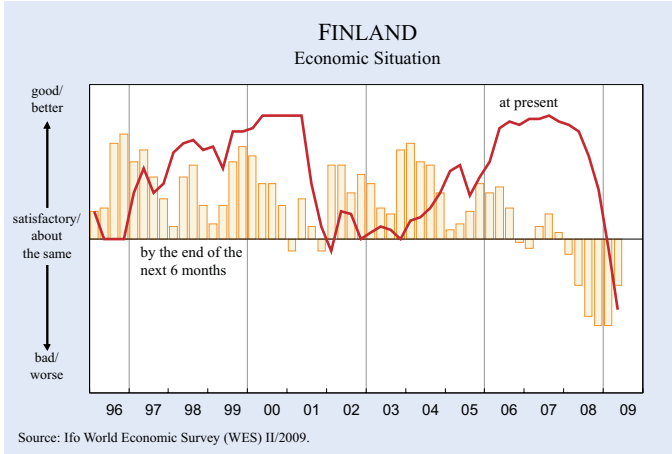
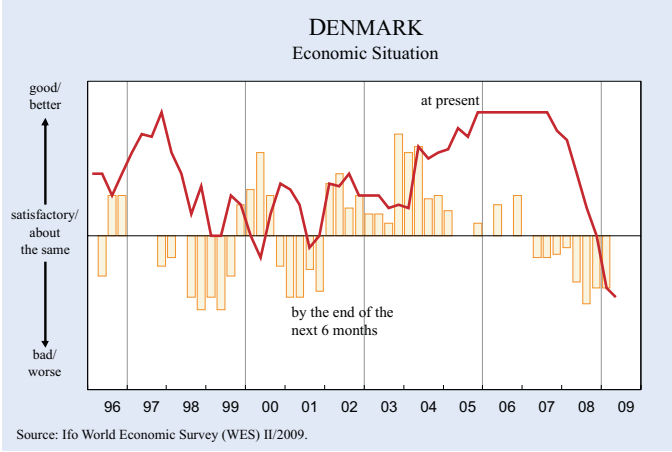
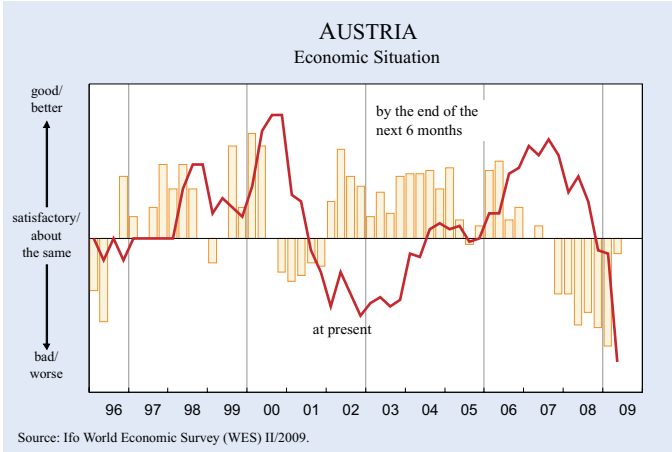


Figure 6

NORTH AMERICA, OCEANIA AND CIS

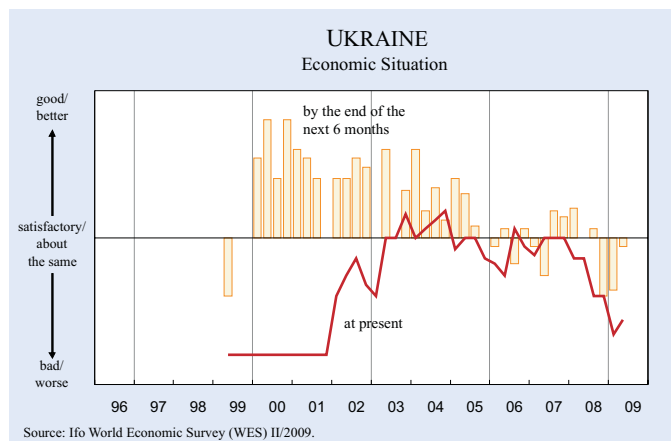
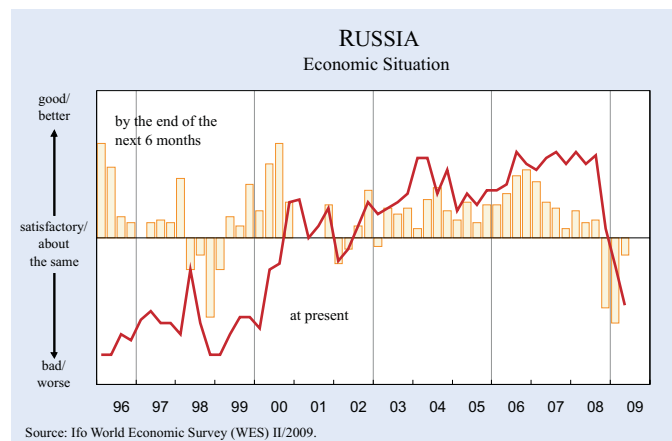
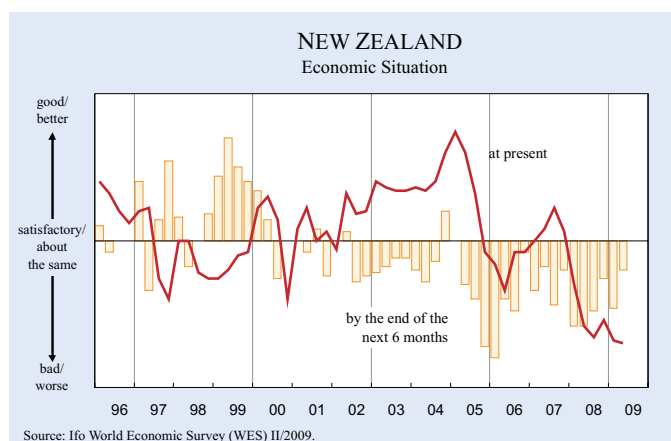
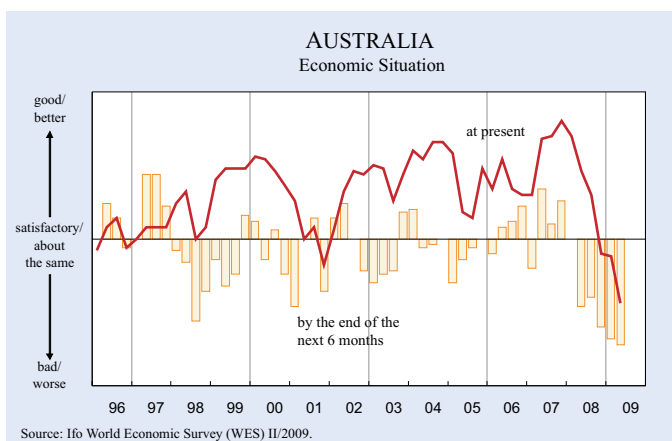
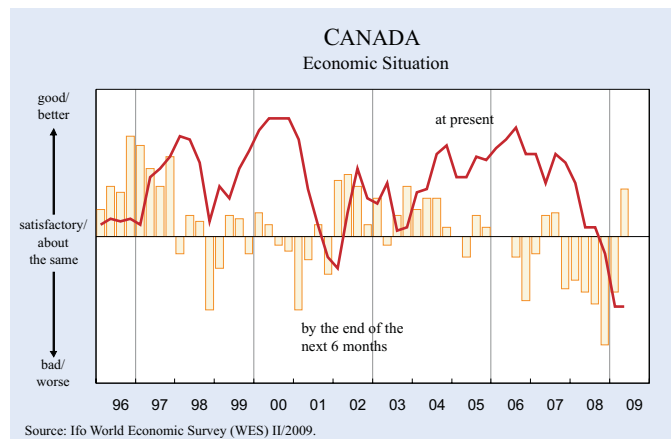
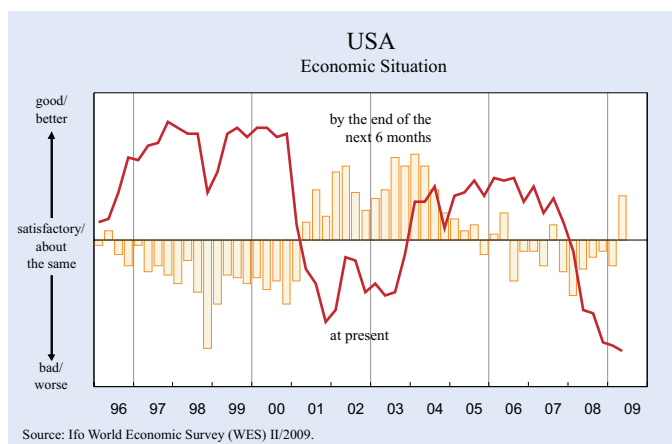


Figure 7

EASTERN EUROPE

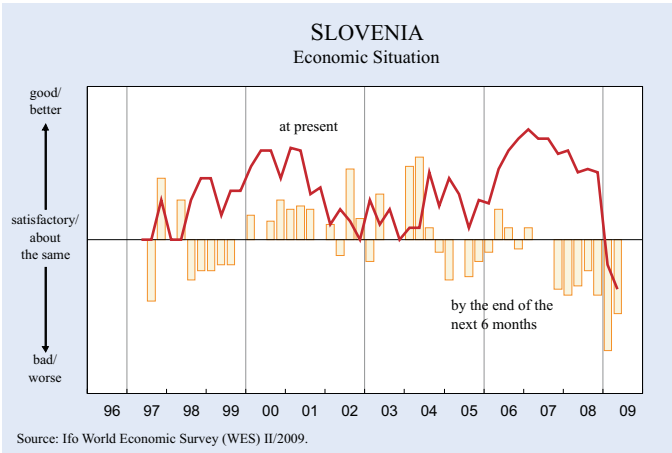
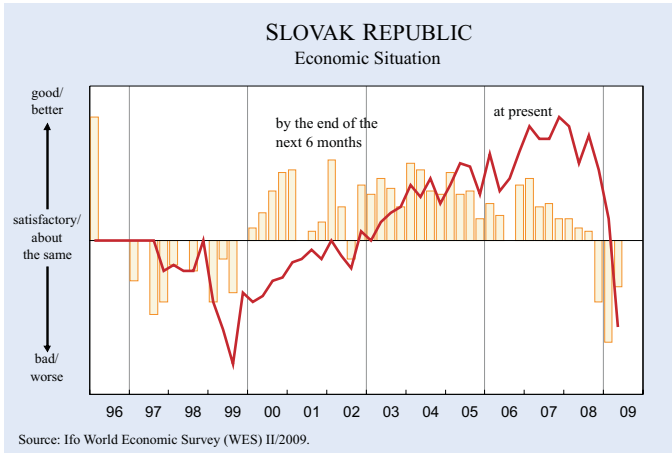
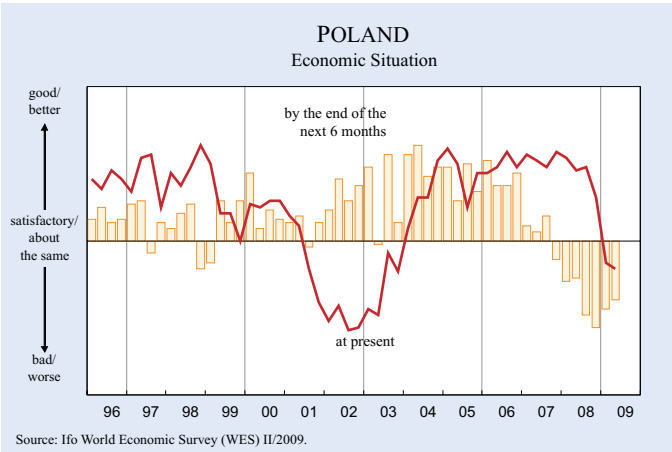
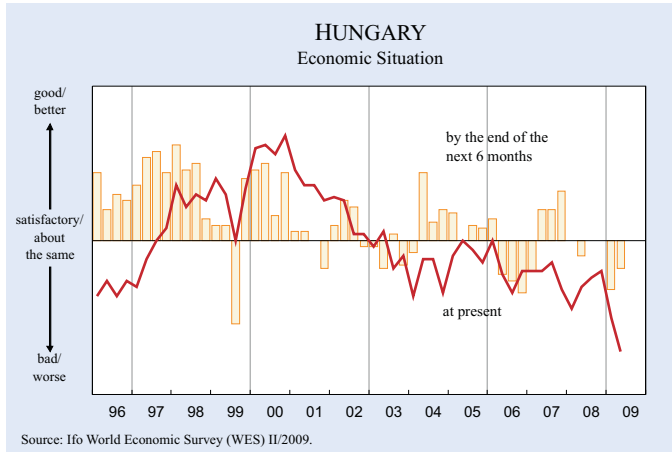
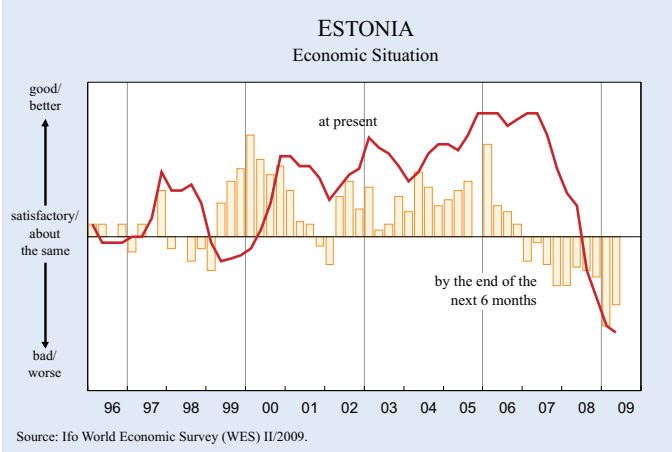
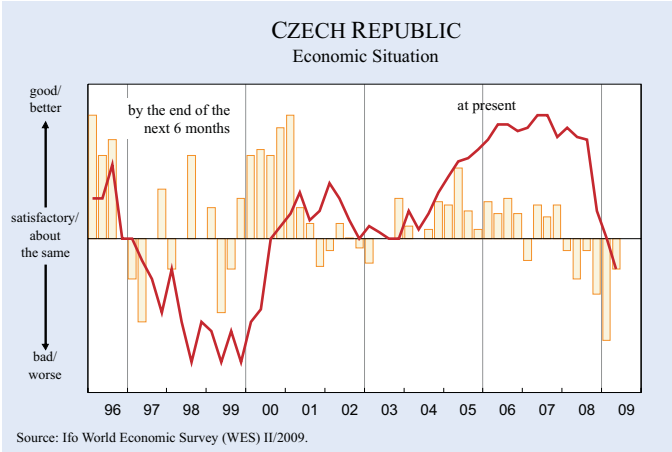


Figure 8

ASIA

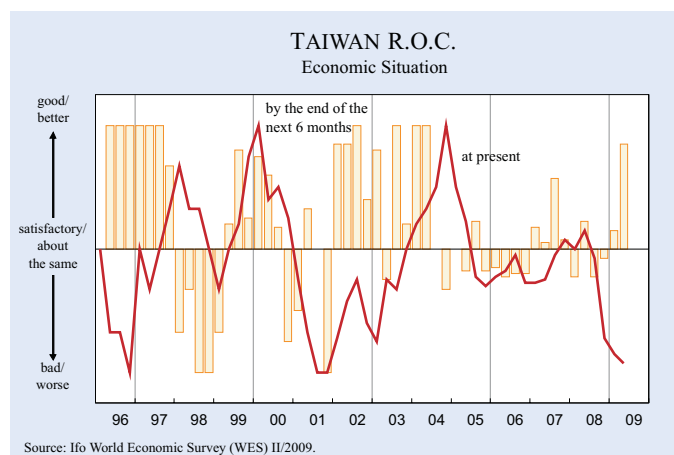
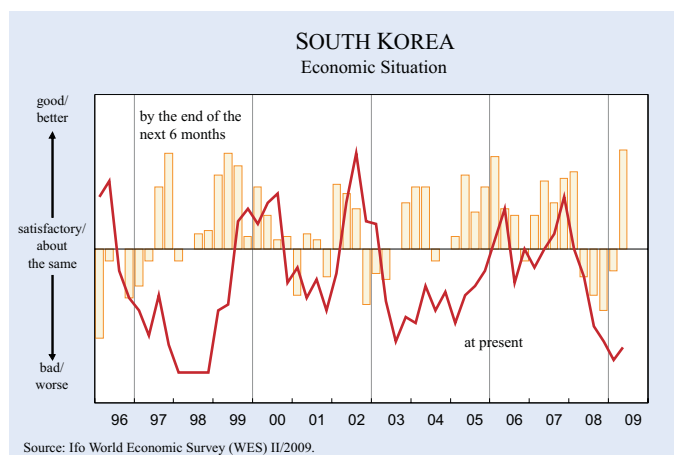
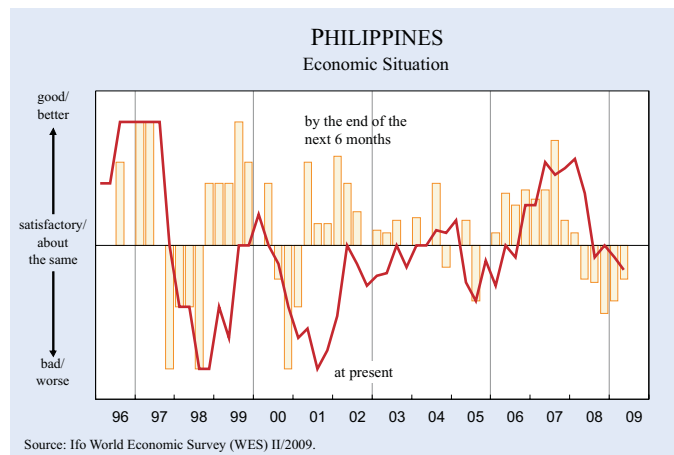
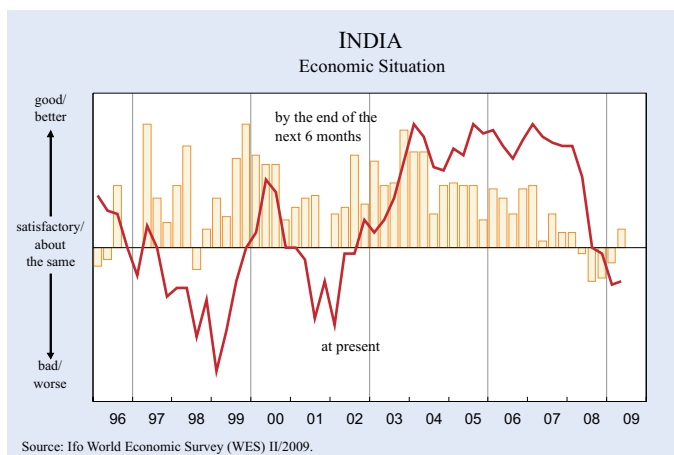
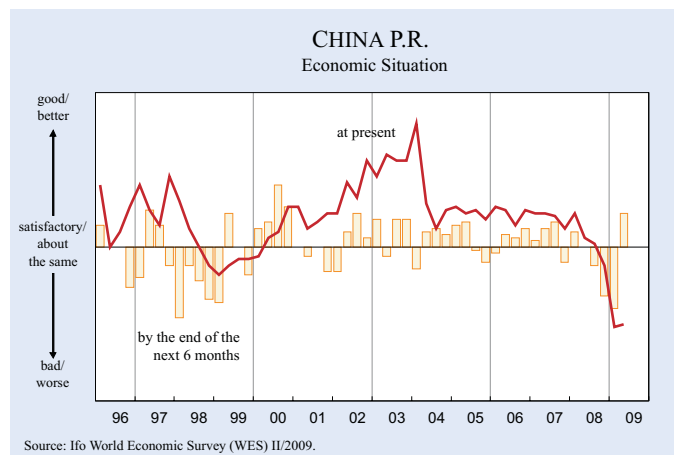
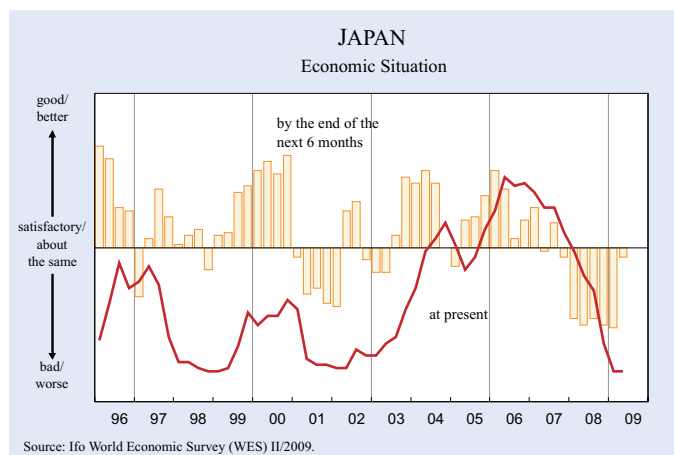


Figure 9

LATIN AMERICA

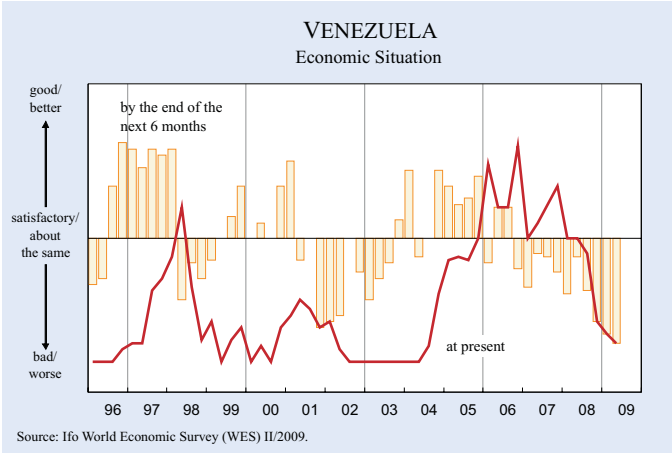
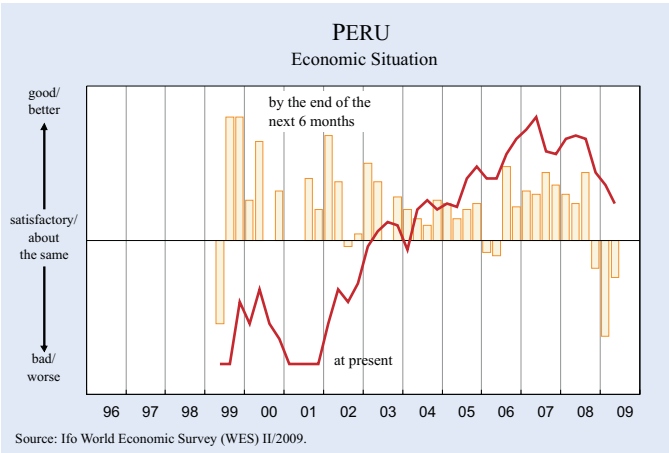
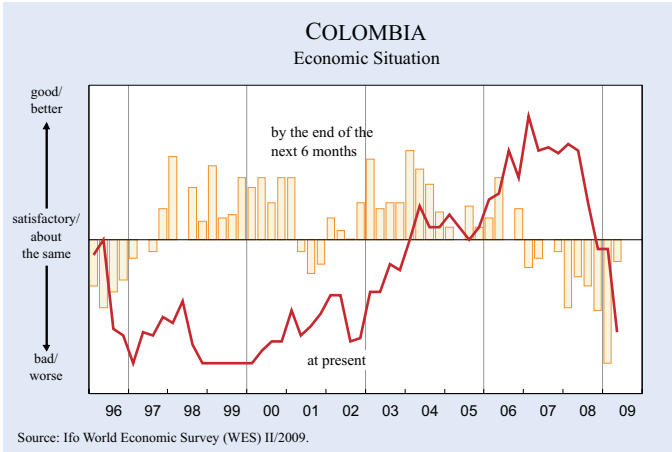
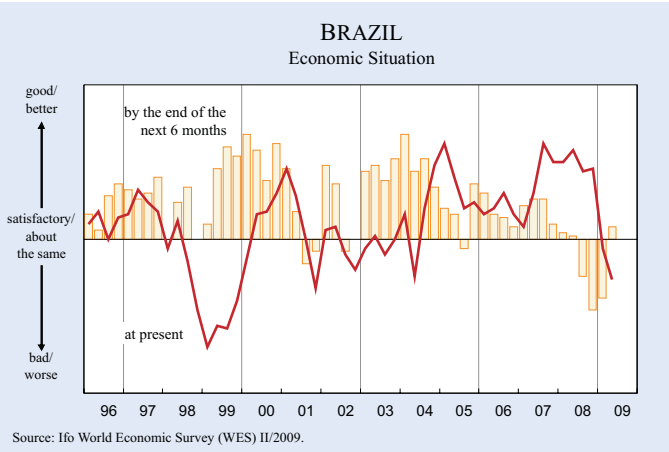
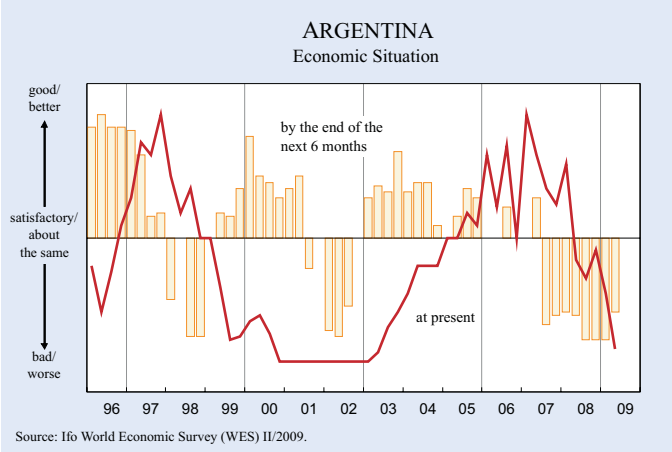
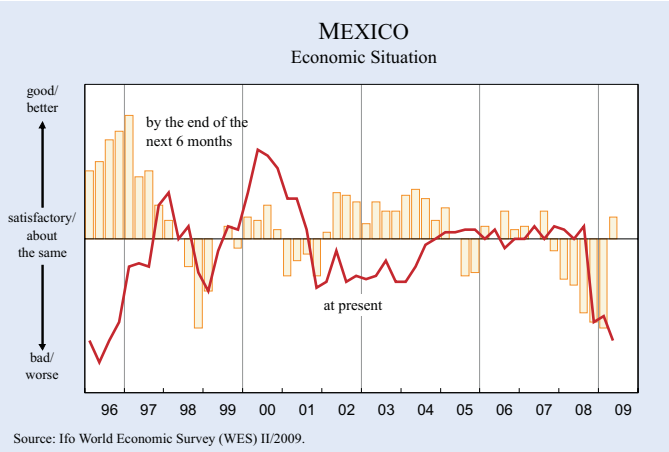
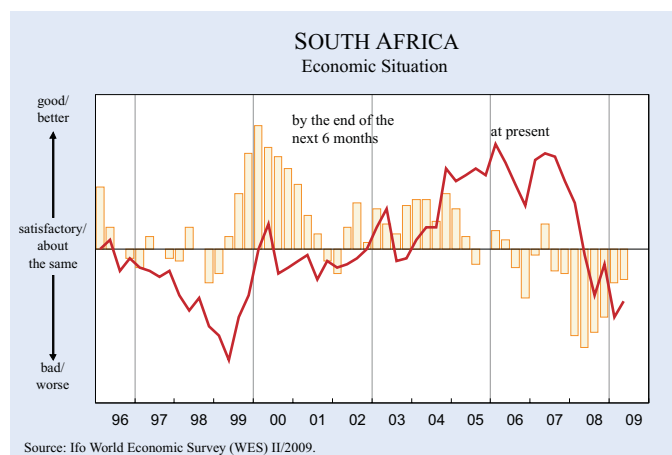
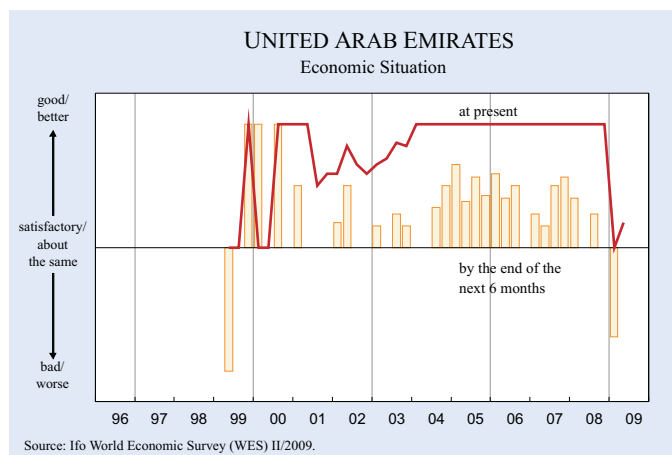
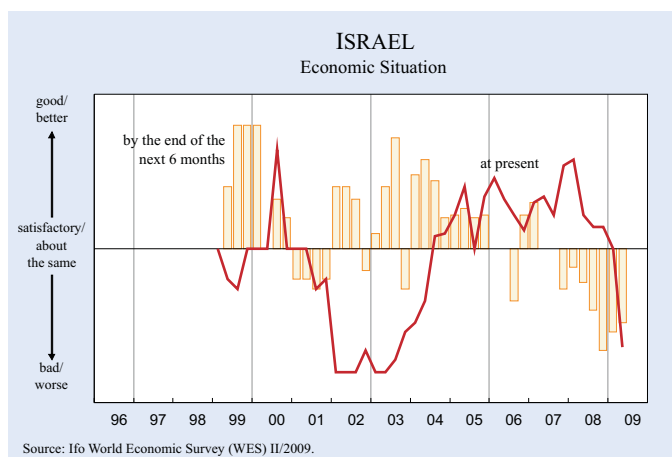
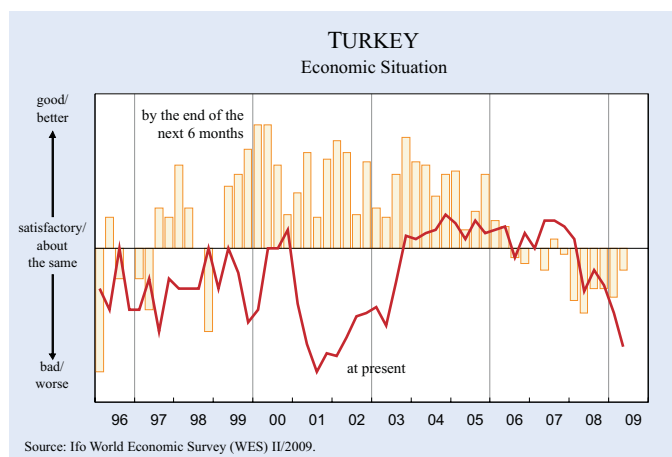
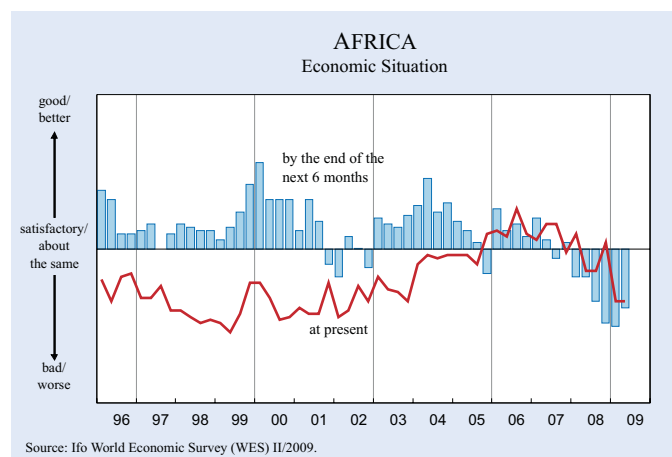
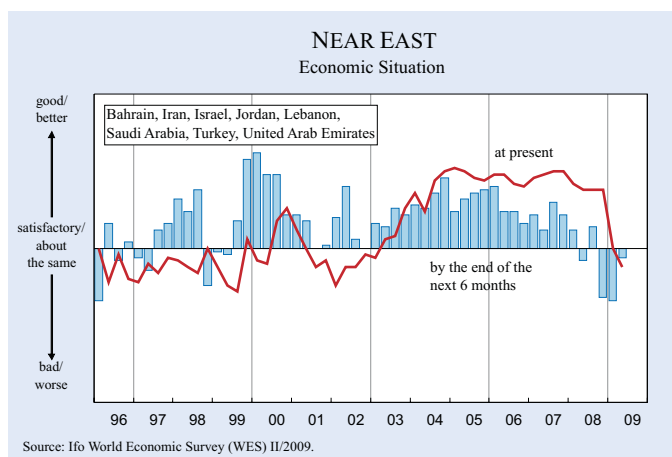


Figure 10

NEAR EAST AND AFRICA



the current estimate for 2009 is thus only half as large (see Table 1). Moreover, the additional question on the expected tendency of the inflation rate in the next six months clearly signals a further declining trend in the course of the year. The disinflation trend is evident in most big regions of the world, with the exception of *CIS* countries where inflation in 2009 is likely to remain at 14 percent. In *North America* the moderate inflation outlook given at the beginning of 2009 was confirmed (1.3 percent compared with 1.4 percent in the January WES survey), signaling that in *North America* the disinflation process is leveling off and inflation is beginning to stabilize at a rather low level. In *Western Europe* inflation is expected not to surpass 1.0 percent in 2009, the lowest level of all regions covered in the survey. Also in *Eastern Europe* disinflation will continue in coming months, but inflation will remain at 3.5 percent, which would be significantly higher than in *Western Europe*. In *Asia*, disinflation is expected to continue and to result in an average 2009 inflation of 1.9 percent compared with 2.9 percent expected at the beginning of the year and an experienced inflation rate of 5.7 percent in 2008. In the rest of the world the slowdown of inflation is muted: In *Oceania* from 4.1 percent in 2008 to a now expected 2.4 percent in 2009, in *Latin America* from 9.8 percent in 2008 to now 8.1 percent, in the *Near East* from 12.8 percent in 2008 to now 8.4 percent.

However, despite the clear disinflation trend which is prevailing in the majority of countries worldwide there are hardly any signs for a deflationary danger, possibly with the exception of *Japan*, where now a decline of consumer price inflation of almost half a percentage point is expected on average of 2009.

In the *euro area* the lowest inflation rates in 2009 are expected in the former high-inflation country *Ireland* (– 0.2 percent) as well as in *Portugal* (0.5 percent) and *Spain* (0.6 percent). In the majority of the other *euro* countries inflation rate in 2009 is expected to be close to 1 percent, with only *Slovakia* (2.4 percent), *Cyprus* (2.7 percent) and *Greece* (1.9 percent) showing a somewhat stronger inflation trend.

In *Western Europe* outside the *euro area*, inflation expectations for 2009 are – as in previous years – particularly low in *Switzerland* (0.5 percent) and in *Sweden* (0.3 percent).

In the *United States* inflation expectations for the average of 2009 came down to a moderate 1.3 percent from almost 4 percent in 2008. A similar picture as in the *USA* characterizes *Canada*, where the 2009 inflation is expected not to exceed 1.1 percent, compared with an inflation rate of 2.5 percent in 2008.

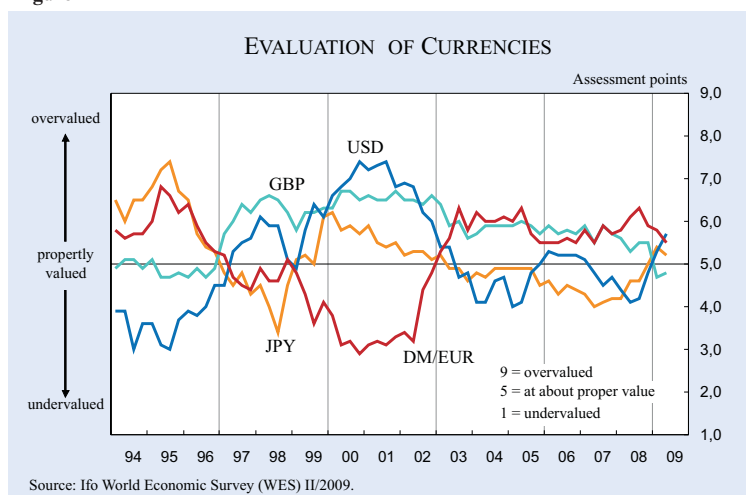
In *Asia* consumer price inflation rate in 2009 will be only one third of the one measured in 2008 (1.9 percent compared to 5.7 percent in 2008). A significant slowdown of inflation is expected in *China* (from 6.1 percent in 2008 to an expected 2.3 percent in 2009). In *India* inflation is expected to remain well above the average of the region, but will be significantly lower than in 2008 (3.6 percent compared with 10.5 percent in 2008). However, in some countries, particularly *Vietnam*, inflation is expected to pick up again already this year (9.3 percent compared with an expected 8.5 percent at the beginning of the year). On the other hand, in *Japan* the very moderate price increase (1.8 percent) observed last year is expected to be followed in 2009 by a moderately deflationary trend (– 0.4 percent). In *Taiwan* consumer prices in 2009 are expected to be flat (– 0.1 percent).

In *Central and Eastern Europe* inflation in 2009 is seen at 3.5 percent, which is still substantial but significantly lower than in 2008 (6.2 percent). The slowdown is particularly pronounced in *Estonia* (1.7 percent after 9.9 percent in 2008).

In the *CIS* countries inflation in 2008 will remain amongst the highest in the world. In *Russia* inflation expectations for 2009 remained unchanged at last year's rate (14.0 percent) and also in *Kazakhstan* at 10 percent will reach almost the same intensity as in 2008 (11.0 percent). A similar picture arises in the *Ukraine* where inflation expectations for 2009 are at 18.0 percent only marginally lower than the inflation in 2008 (21.0 percent).

Also in *Latin America* 2009 inflation expectations declined only slightly (from 9.8 percent in 2008 to a now expected 8.1 percent in 2009). Despite some slowing down, inflation expectations for 2009 remained relatively high particularly in *Argentina* (14.0 percent) and *Bolivia* (10.0 percent). In *Brazil* inflation in 2009 is seen at 4.5 percent, which would be somewhat lower than in 2008 (6.1 percent). By far the highest inflation rate in the region will prevail in *Venezuela* (32.0 percent).

Figure 11



early 2007, is again seen as overvalued, by WES experts. An overvaluation is also attributed by WES experts to the *euro*, however here with no interruption since more than 5 years. The *Japanese yen* which for a long period had been regarded by the majority of WES experts as undervalued continues to be seen, since mid last year – after a strong revaluation had taken place in past months – as more or less properly assessed. The *British pound* which had been regarded by WES experts for many years as

overvalued, appears since the beginning of the year as correctly assessed or even as slightly undervalued (see Figure 11).

The answers to a supplementary survey question on the likely development of the *US dollar* in the next six months, regardless of how currencies are assessed from a fundamental point, signal a slight weakening of the *US dollar* in coming months, on a world average, and particularly in *Asia*, *Western Europe*, *Oceania* and also in *Canada*. In contrast, an expected slight upward tendency of the value of the *US dollar* is recorded in *CIS countries* and even more in *Latin America*, *Africa* and the *Near East*.

Stabilization of long-term interest rates expected

Despite signs of a softening of the worldwide recession accompanied by a slowdown of inflation, practically everywhere in the world WES experts continue to expect a further decline of *short-term interest rates*, though the scope of further cuts has already disappeared in several countries like the *USA* and *Japan*, or is rather limited like in the *euro area* (see Figure 12).

On the other hand, the decline of *long-term interest rates* is expected to come to an end in the course of the next six months. This would be in line with past experience that a stabilization in the real economy – as it is signaled by the improved economic expectations of WES experts – goes as a rule hand in hand with first stabilizing and then slowly increasing *long-term interest rates*.

In the *Near East* the inflation outlook for 2009 – similarly to *Latin America* – continued to improve moderately (from around 13 percent in 2008 to a now expected 8.4 percent in 2009). The main exception in the region where inflation expectations remain rather low is *Israel* (1.4 percent after 3.5 percent in 2008). On the other hand in *Iran* – as in *Venezuela* – a high inflation rate will remain a significant obstacle for the economy (25.0 percent compared with 28.5 percent in 2008).

In *Oceania* inflation expectations for 2009 declined further from the 2008 level (2.4 percent after an expected 3.2 percent at the beginning of the year and an experienced 4.1 percent in 2008), with marginal differences both in *Australia* and in *New Zealand*.

In *Africa*, an average figure for all the countries surveyed by WES for 2009 (8.9 percent) may make sense again as there are signs that the hyperinflation in *Zimbabwe* has come to an end. In *South Africa*, the largest economy in the continent, inflation appears to continue to slow down (7.1 percent compared with 7.6 percent at the beginning of the year and 11.5 percent experienced in 2008). On the other hand, in *Kenya* and *Nigeria* inflation seems to be already starting to accelerate again (20 percent respectively 15 percent in 2009 and thus significantly higher than at the beginning of the year and also higher than in 2008).

US Dollar seen as slightly overvalued

After being regarded as undervalued during the past two years the *US dollar* for the first time since

Figure 12
ACTUAL SHORT-TERM INTEREST RATES AND EXPECTED TREND
FOR THE NEXT 6 MONTHS (QUARTERLY DATA)

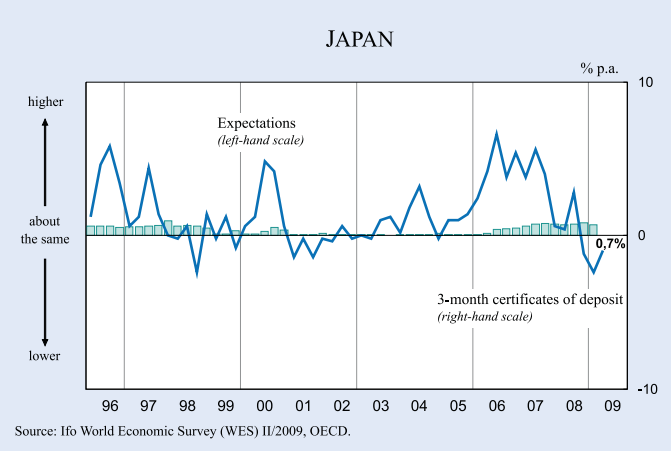
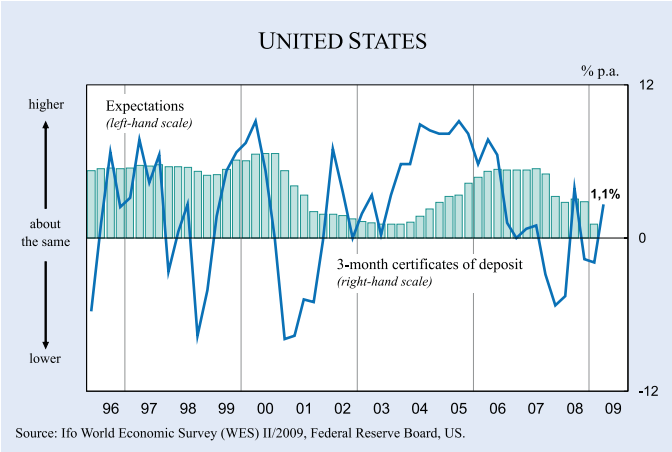
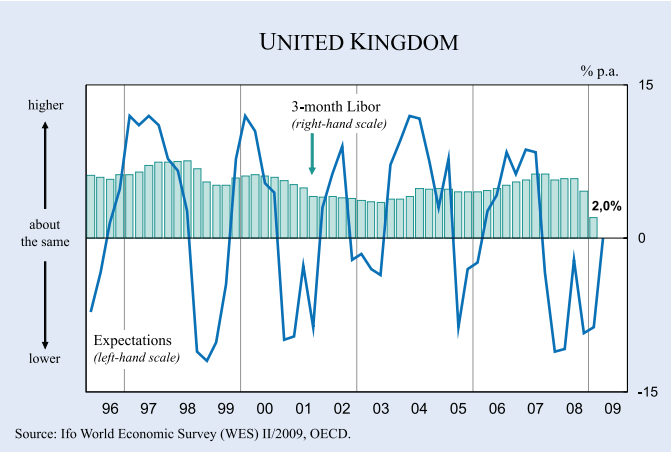
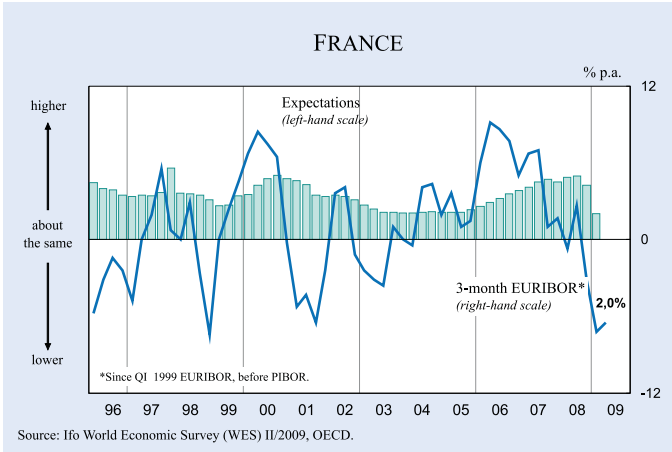
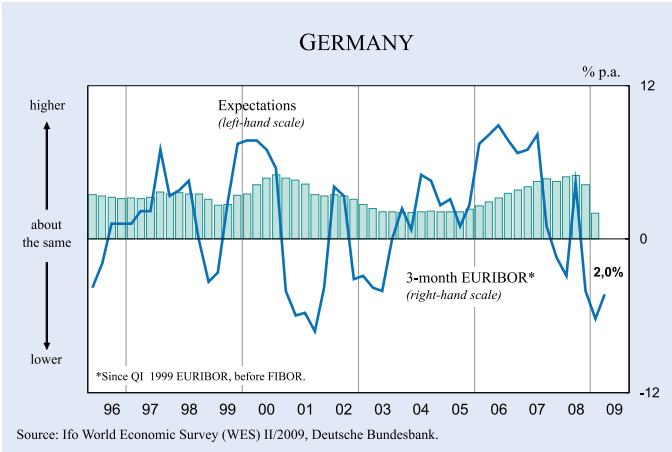
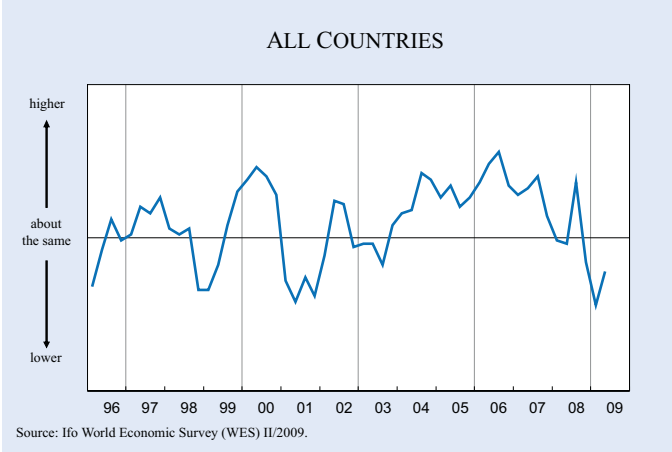


Table 2

Expected Growth of Real Gross Domestic Product (GDP) in 2009 and 2008
(based on WES QII/2009 and QII/2008)

Region	QII/2009	QII/2008	Region	QII/2009	QII/2008
Average of countries*	-1.5	3.0	Central and Latin America	-0.4	3.9
<i>World Bank classification:</i>			Argentina	-1.6	6.6
High-income countries	-2.1	2.4	Bolivia	3.0	4.0
Middle-income countries	-0.3	5.1	Brazil	0.3	4.7
Upper-middle	4.6	4.7	Chile	0.5	4.4
Lower-middle	-1.3	5.8	Colombia	1.1	5.3
Low-income countries	1.7	7.2	Costa Rica	0.5	4.3
EU 27 countries	-2.7	2.0	Ecuador	1.1	2.9
EU countries (old members) ^{a)}	-2.8	1.7	El Salvador	1.7	3.0
EU countries (new members) ^{b)}	-1.6	4.8	Guatemala	1.0	4.7
Euro area ^{c)}	-2.8	1.8	Mexico	-1.8	2.4
Asian Pacific Rim ^{d)}	-0.5	5.1	Panama	4.7	10.0
Western Europe	-2.7	1.8	Paraguay	1.0	5.9
Austria	-1.6	2.0	Peru	3.6	7.2
Belgium	-2.0	1.7	Trinidad and Tobago	1.5	5.0
Cyprus	2.1	5.5	Uruguay	0.9	6.4
Denmark	-1.9	1.7	Venezuela	0.2	6.0
Finland	-4.5	2.6	Asia	-0.7	4.4
France	-2.1	1.6	Bangladesh	5.3	6.3
Germany	-3.6	1.7	China P.R.	7.1	9.6
Greece	0.5	3.5	Hong Kong	-2.5	4.1
Iceland	-10.0	1.5	India	5.9	8.5
Ireland	-6.2	2.4	Indonesia	3.9	6.2
Italy	-2.8	0.6	Japan	-3.4	1.4
Luxembourg	-2.8	3.8	Korea	-1.7	4.7
Malta	2.0	3.5	Malaysia	0.7	5.4
Netherlands	-2.6	2.2	Pakistan	3.0	5.5
Norway	0.0	2.5	Philippines	3.4	5.7
Portugal	-1.3	1.8	Singapore	-1.8	6.0
Spain	-2.0	2.3	Sri Lanka	3.2	5.3
Sweden	-3.2	1.9	Taiwan	-3.5	4.3
Switzerland	-0.9	2.0	Thailand	-2.6	4.9
United Kingdom	-2.8	1.7	Vietnam	4.6	8.8
Central a. Eastern Europe	-1.6	4.8	Near East	1.1	5.7
Albania	1.5	5.9	Bahrain	-	-
Bulgaria	-0.3	5.4	Iran	5.0	5.0
Croatia	-2.2	4.0	Israel	-0.1	3.2
Czech Republic	-0.9	5.0	Jordan	5.0	6.0
Estonia	-5.0	4.5	Kuwait	-2.0	6.0
Hungary	-5.2	2.1	Lebanon	3.1	2.5
Latvia	-9.3	6.1	Saudi Arabia	2.4	5.0
Lithuania	-9.3	6.6	Turkey	-1.3	4.9
Poland	1.1	5.2	United Arab Emirates	1.7	9.4
Romania	-0.3	5.5	Africa	n.a.	n.a.
Serbia	0.6	5.8	Algeria	4.0	5.0
Slovenia	-2.3	4.1	Egypt	-	8.0
Slovakia	-1.5	7.0	Kenya	-	3.2
CIS	-2.8	6.7	Mauritius	3.0	5.0
Kazakhstan	-0.3	6.8	Morocco	4.0	5.8
Kyrgyzstan	1.5	5.6	Nigeria	3.5	6.5
Russia	-3.1	6.9	South Africa	0.6	3.6
Ukraine	-4.5	5.2	Tunisia	2.5	6.3
North America	-1.2	1.7	Zimbabwe	0.5	-12.8
Canada	-1.5	1.9	Oceania	-0.2	3.0
USA	-1.1	1.7	Australia	0.1	3.3
			New Zealand	-1.5	1.6

* 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.

^{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 (from 1. January 2007) – ^{d)} Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore Taiwan, Thailand, Vietnam

Source: Ifo World Economic Survey (WES) II/2009 and II/2008.

Negative growth rates expected in 2009

World economic output¹ is expected to decline in 2009 by – 1.5 percent, which would be the first annual decline since the introduction of the WES survey in the early 1980s (see Table 2). However, it has to be stressed that the uncertainty amongst WES experts concerning the growth outlook for 2009 is huge, reflected by a great variation in answers in almost all countries covered.

The most pronounced negative growth rates are expected by WES experts in *Western Europe* (– 2.7 percent), and here particularly in *Iceland, Ireland, Finland* and *Germany*. Only in a few countries like *Cyprus* and *Malta* is positive economic growth expected in 2009.

Also the CIS countries with – 2.8 percent will be more negatively affected by negative growth rates than the world average. Sharp economic declines are expected especially in the *Ukraine* and in *Russia*.

In *Central and Eastern Europe* extraordinarily negative economic growth rates will prevail in 2009, particularly in *Latvia, Lithuania, Hungary* and *Estonia* (in each case at least – 5 percent). Thanks to moderately positive growth rates in some countries like *Poland* and *Albania* the whole region's economy will contract by – 1.6 percent and thus less strongly than the CIS and the *Western European* countries.

In *North America* where the economic downturn had already started by mid-2008, the annual growth rate in 2009 will amount to – 1.2 percent (*Canada* – 1.5 percent, and *USA* – 1.1 percent), according to WES experts.

In *Central and Latin America, Asia* and *Oceania* the regional economic growth rates will be only marginally negative in 2009. However, there are enormous differences across countries within the regions, particularly in *Asia*. Here growth rates of about 7 percent in *China* and about 6 percent in *India* contrast sharply with the negative growth rates in *Japan* (– 3.4 percent), *Taiwan* (– 3.5 percent) and *Thailand* (– 2.6 percent).

¹ Country economic growth rate is the GDP in constant prices. Within each country group or region, as well as for the world GDP forecast, the country results are weighted according to the share of the specific country's exports and imports in total world trade. These global GDP growth rates are different from the world GDP growth that is calculated using purchasing power parities as country specific weights, as applied by the IMF forecasts.

The *Near East* and *Africa* are, according to the survey, the only two regions where economic growth in 2009 will be positive, though also here much weaker than in the previous years. Apart from that, particularly in the *Near East* there are great differences in the expected 2009 growth rate by country, e.g. – 2.0 percent in *Kuwait* and 5.0 percent in *Jordan*.

ICC Special Question: Counterfeiting and piracy

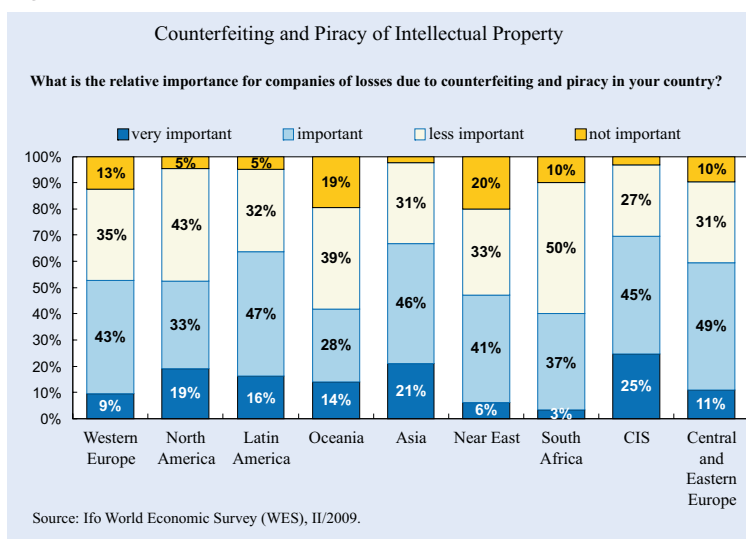
According to the latest OECD report² on the economic impact of counterfeiting and piracy, there has been an alarming shift of the types of products being counterfeited, from luxury items (such as deluxe watches and designer clothing), to items that can even pose health and safety risks (such as pharmaceutical products, food and drink, medical equipment, personal care items, toys, tobacco and automotive parts). Economy-wide, counterfeiting has various negative effects on the economy and society, which can be summarized in four general dimensions: (1) general socioeconomic effects (on innovation and growth, criminal activities, environment, employment, foreign direct investment, and trade); (2) effects on rights holders (on sales volume and prices, brand value and firm reputation, royalties, firm-level investment, costs and the scope of operations); (3) effects on consumers (health and safety risks and consumer utility); and (4) effects on government (tax revenues, expenditures and corruption).

The special question asked in April focused on the costs of counterfeiting and piracy and the actions undertaken by companies, such as the enforcement of corporate programs to combat piracy and upgrading of consumer awareness on the risks and damage of fake products. The special question was divided in three parts: (1) The relative importance for companies of losses due to counterfeiting and piracy. (2) The necessity to enlarge investment of companies in upgrading corporate programs to limit counterfeiting and piracy. (3) The necessity to upgrade consumer awareness efforts of corporations on the value of intellectual property and the merit of protecting it.

In the majority of countries in *Asia* and *Latin America* the surveyed economists stated that compa-

² OECD (2008): "The Economic Impact of Counterfeiting and Piracy", <http://www.oecd.org/sti/counterfeiting>.

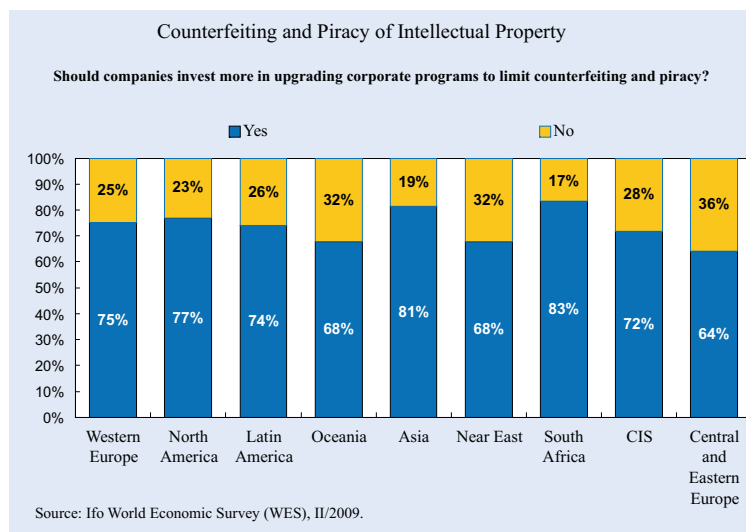
Figure 13



nies suffer important losses due to counterfeiting and piracy (see Figure 13). The importance of such losses is according to the surveyed WES experts, particularly high in *Taiwan, China, Hong Kong, the Philippines and Japan*; in *Latin America* it is high in *Peru, Guatemala, Colombia and Venezuela*, but also in *Italy, Belgium, Romania and Turkey*.

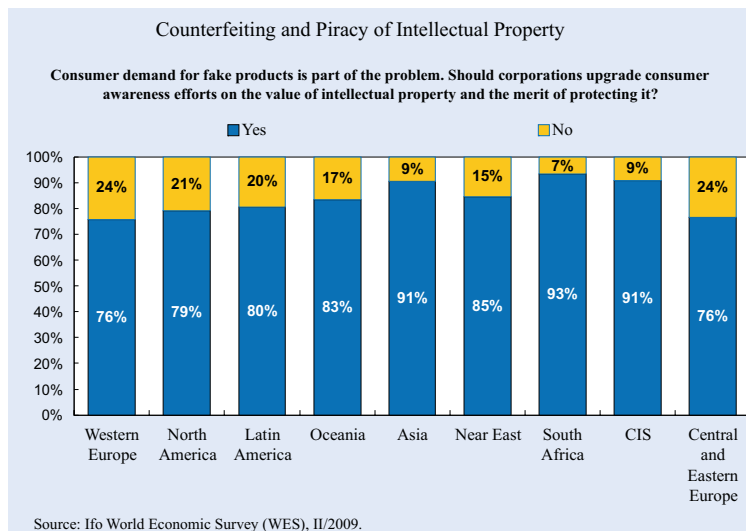
The vast majority of economists in all regions emphasized that companies should invest more in upgrading corporate programs to limit counterfeiting and piracy (see Figure 14).

Figure 14



There is no question that consumer demand for fake products is part of the problem. So the WES experts concur that corporations should upgrade consumer awareness efforts on the value of intellectual property and the merit of protecting it (see Figure 15). One of global initiatives founded by industry in this area is the Business Alliance to Stop Counterfeiting and Piracy³ (BASCAP), which was launched by the Paris-based International Chamber of Commerce (ICC).

Figure 15



³ ICC Business Alliance to Stop Counterfeiting and Piracy (BASCAP): <http://www.iccwbo.org/bascap>.



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