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CESifo WORLD ECONOMIC SURVEY

VOLUME 8, No. 3

AUGUST 2009

WORLD ECONOMIC CLIMATE

World Economic Climate improves

ECONOMIC EXPECTATIONS

Economic expectations point to recovery

INFLATION

Stabilization of price trend expected

INTEREST RATES

Increase of long-term interest rates
expected

CURRENCIES

Euro appears overvalued

SPECIAL TOPIC

Corruption and the financial crisis



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Ifo World Economic Survey

Regions

- World economy: Expectations point to recovery
- Western Europe: Economic stabilization expected
- North America: Economic climate improves markedly
- Eastern Europe: Economic climate remains unfavourable
- CIS: Low level of business confidence
- Asia: Economic recovery underway
- Oceania: Economic expectations brighten
- Latin America: Economies may bottom out
- Near East: Diverging economic trends
- Africa: Revival of economic confidence

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 July 2009, 1,049 economic experts in 92 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 ist one of the largest economic research institutes in Germany with a three-fold orientation: to conduct economic research, to offer advice to economic policy-makers and to provide services for the research and business communities. The Ifo Institute is internationally renowned for its business surveys.

CESifo is the name under which the international service products and research results of both organizations are published.

WORLD ECONOMIC CLIMATE IMPROVES

The Ifo World Economic Climate Index strongly improved in July 2009 for the second time since the end of 2007 (see Figure 1). The climate indicator rose to 78.7 (after 64.4 in April and 50.1 in January 2009; 1995=100), which, however, is still considerably below its long-term average (1991–2008: 96.4). The improvement of the climate indicator is mainly the result of more favourable economic expectations for the coming six months. But also the assessments of the current economic situation improved for the first time since July 2007, though only marginally (Figure 2).

tion improved only slightly, remaining clearly below the satisfactory level. As long as the assessments of the current economic situation have not caught up more clearly, the global economy remains in a fragile state. A series of factors contribute to major concerns about a sustained recovery in the near term. First of all unemployment remains high almost everywhere and will probably rise further for some time, meaning that household incomes can hardly support a substantial recovery of private consumption. Alarming is also the rising public debt, even in countries which had shown fiscal discipline in the past. However, the extensive

World economy: Expectations point to recovery

The economic expectations improved in July on a global average for the second time in succession after a prolonged period of pessimism that set in at the end of 2007. In July 2009 optimism concerning the future path of the economy grew in all economic regions, particularly in *North America* and *Asia*, and to a lesser degree also in *Western Europe*. However, the assessments of the present economic situation remained clearly below the satisfactory level almost everywhere and have even worsened further in many countries of the *euro area*, *Central and Eastern Europe* and in *Russia*, indicating that the global economy has been showing only weak signs of recovery.

The business-cycle clock (see Box 1) demonstrates that the economic climate index has entered the top left quadrant which marks economic recovery. However, the assessments of the present economic situa-

Figure 1

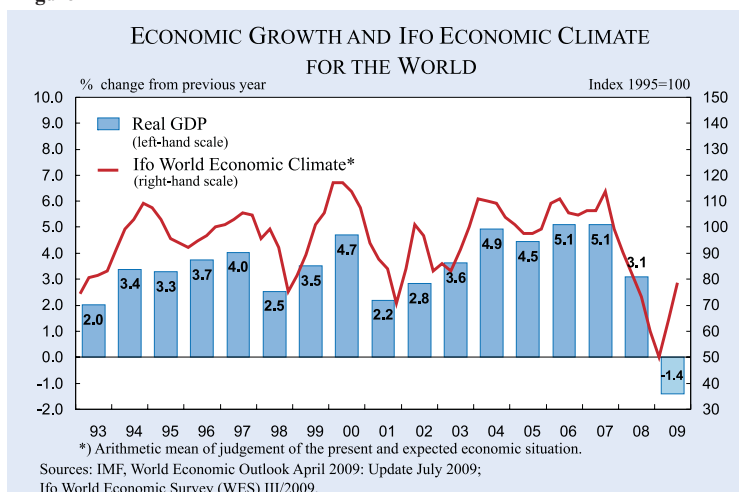
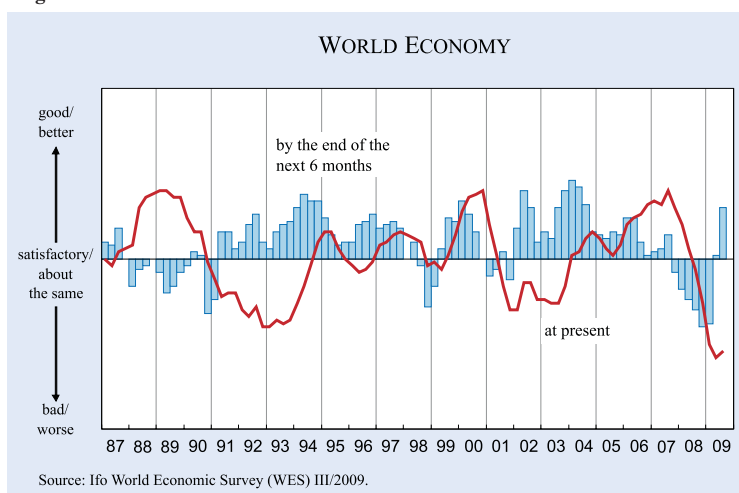


Figure 2

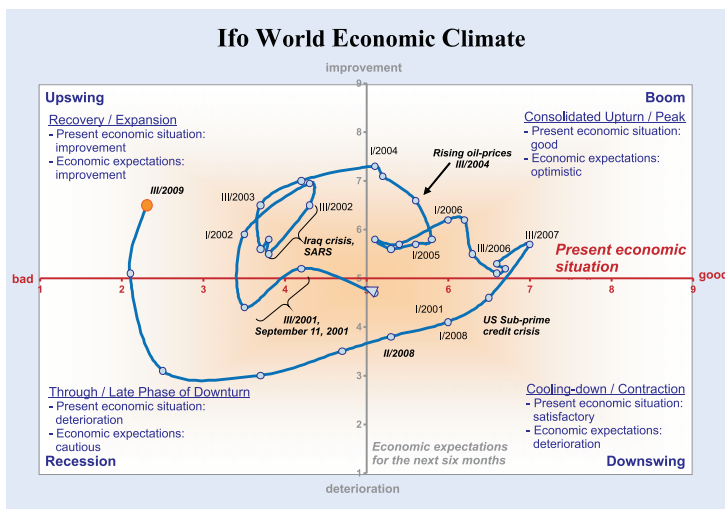


Box 1

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.

In the third quarter of 2009 the economic climate index has left the recession area, as the economic expectations for the next six months have improved considerably. However, the assessments of the present economic remained in the negative area, improving only marginally on a worldwide average. For an upswing, the assessments of the present economic situation have to catch up more clearly with economic expectations, otherwise the economic recovery remains in a fragile state.



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).

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 more positive economic expectations. The present economic situation is still assessed as bad in all *euro area* countries, except *Cyprus*. The economic expectations for the next six months, in contrast, improved in almost all *euro area* countries. They have become particularly optimistic in *Germany, Austria, the Netherlands and France* and have been upgraded somewhat also in *Ireland, Greece and Spain*, although remaining generally cautious. Governments have reacted very differently to the financial and economic crisis in the *euro area* countries. The WES experts assessed the policy measures undertaken by the governments in the *Netherlands, Finland, Germany and Austria* as more or less sufficient. As insufficient, in contrast, the WES experts assessed the governmental measures to fight the financial and economic crisis in *Greece, Spain, Portugal, Ireland and Italy* (see Table 1).

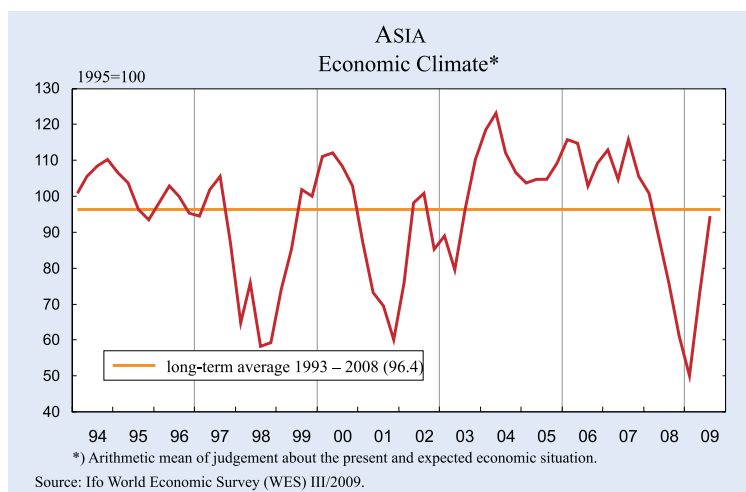
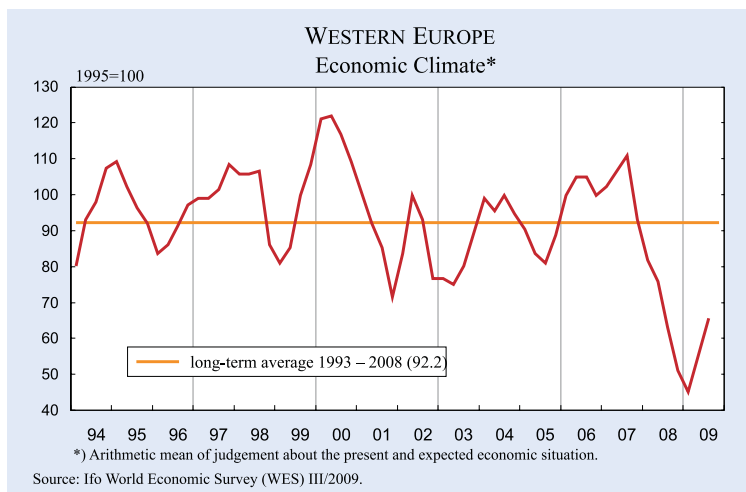
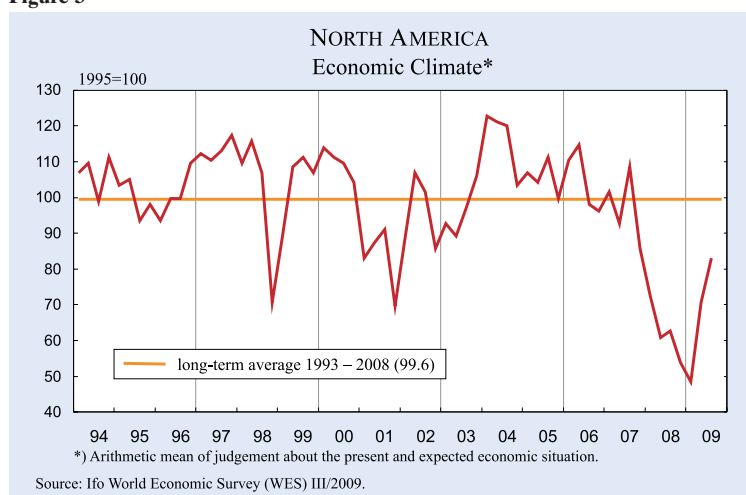
fiscal stimuli have been indispensable to fighting global demand weakness and the withdrawal strategies will have to be designed very carefully. Thus, although the latest survey results indicate that the global recession is receding, some major downward risks prevail and the economic recovery will remain on shaky grounds in the coming months.

Western Europe: Economic stabilization expected

The economic climate indicator for *Western Europe* improved strongly in July 2009 (see Figure 3). The improvement resulted exclusively from more optimistic expectations for the next six months while the assessments of the present economic situation remain as poor as before, according to the WES experts' judgement (see Figure 4).

Also outside the *euro area* the economic climate improved in July 2009. However, a favourable economic climate prevails – according to the latest WES results – only in *Norway*, where the present economic situation was assessed as favourable and economic expectations point to further strengthening in the second half of 2009. *Norway's* current account and public budget surpluses, mainly thanks to revenues from oil exports, enabled a sufficient scope of policy measures that prevented a hard landing of the economy. Also in *Denmark*, and to a lesser degree in *Switzerland* and *Sweden* the political measures to fight the economic crisis were sufficient, according to WES experts. However, although the economic prospects improved in *Denmark* and *Switzerland*, the present economic situation remains weak. Also in *Sweden*, the *United Kingdom* and *Iceland* the current economic situation continues to be assessed with very low marks on the WES scale. While in *Sweden* and *United Kingdom* the

Figure 3



economic expectations brightened in July, they have deteriorated further in *Iceland*.

North America: Economic climate indicator improves markedly

The economic climate indicator in *North America* improved markedly in July 2009 (see Figure 3). As in

the rest of the world, the improvement was due to remarkably optimistic economic expectations, while the assessments of the present economic situation hardly moved up from its very low level (Figure 6). The policy measures undertaken by the government to fight the financial and economic crisis were assessed by the WES experts as sufficient, both in the *USA* and *Canada* (see Table 1). But, until now they have not been able to stop the strong increase of unemployment. However, employment is known from past recoveries to be a lagging indicator. As capital expenditures and private consumption are forecast to pick up in the second half of 2009 in both countries, the unemployment rate may start improving in 2010.

Central and Eastern Europe: Economic climate remains unfavourable

According to the latest WES results, 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, following the global trend, but are still in negative territory on average for the region (see Figure 8).

The assessments of the present economic situation remained negative or worsened further in July in all *EU* countries of that region. Although the economic expectations for the second half of 2009 have been slightly upgraded in almost all countries, except in *Latvia* and in *Lithuania*, they remained generally cautious in the whole region. *Latvia* and *Lithuania* are among the emerging markets that borrowed heavily abroad in the past to

Box 2

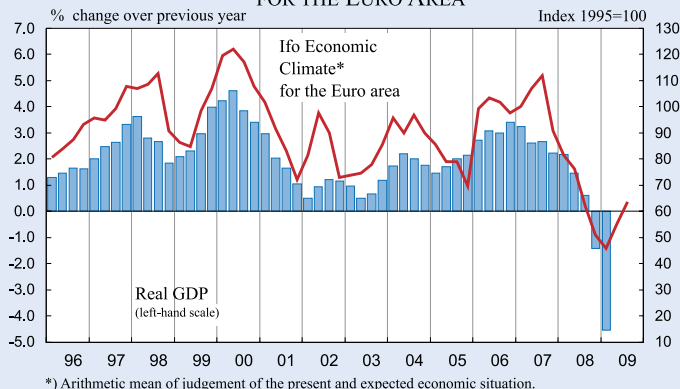
World Economic Survey (WES) and GDP Growth in the Euro Area

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* improved in the third quarter of 2009 for the second time in succession. The increase in the Ifo indicator was solely the result of more favourable expectations for the coming six months; the assessments of the current economic situation, in contrast, still remain at an historical low.

The current economic situation is currently still assessed as definitely unfavourable in almost all countries of the *euro area*. The expectations for the coming six months, however, have brightened in the euro area. Especially in *Germany, Austria, France* and the *Netherlands*, the WES experts anticipate a clear improvement, and in *Italy, Portugal, Slovenia, Slovakia, Belgium, Spain* and *Finland* they foresee at least a stabilisation of the economic situation in the coming six months. A continued pessimistic view, albeit somewhat weaker than in the previous quarter, prevails among WES experts in *Ireland* and *Greece*.

ECONOMIC GROWTH AND IFO ECONOMIC CLIMATE
FOR THE EURO AREA



finance domestic consumption and are now facing sharp economic contractions. In most countries of the region the surveyed economists expect the economies to weaken further in the second half of 2009. Economic stabilization is only forecast by the WES experts in the *Czech Republic* and the two euro area countries of the region, *Slovenia* and *Slovakia*, and to a lesser degree also in *Poland*. *Poland* has not been as strongly affected by the global economic crisis as other countries in *Eastern Europe* due to its large domestic market and the relatively small export ratio of the economy. As elsewhere in the world, governments reacted with a combination of different policy responses to stimulate the economy. However, the *Czech Republic* was the only country in the region where WES experts assessed the policy measures undertaken by the government to fight the financial and economic crisis as fully sufficient. In all the other countries of the region the WES experts

regarded the governmental measures to combat the economic problems as still insufficient (see Table 1).

The economic situation worsened further, according to WES experts, also outside the *EU*, as in *Croatia* and *Albania*. Also in *Serbia* the present economic situation continues to be assessed as bad. While in *Albania* further economic deterioration is expected in the coming six months, in *Serbia* and *Croatia* the economic experts forecast economic stabilization in the course of 2009.

CIS: Low level of business confidence

The overall economic climate index for *CIS* countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan* and *Uzbekistan*) improved somewhat in July due to more positive economic expectations. However, the present economic situation is still regarded as weak in most *CIS* countries (see Figure 6). Only in *Kazakhstan* did the sur-

veyed economists assess the present economic situation as satisfactory, regarding the policy measures to fight the effects of the financial and economic crisis as sufficient. In *Russia*, in contrast, the WES experts stated that the governmental measures undertaken so far are not enough to combat the problems the country experienced in the wake of the global financial crisis (see Table 1). Also the attempts to diversify *Russia's* economy have been hampered by persistent corruption and weak infrastructure, as WES experts point out. Furthermore, *Russia* belongs to the group of countries, where WES experts assessed the legal and administrative restrictions for foreign firms to invest or to repatriate profits as very high at the present (see Table 2). The assessments of the present economic situation in *Russia* deteriorated further in July. Although oil prices have bounced back a bit, the low level of business confidence indicates that recovery will be sluggish in the remaining part

Table 1

**Assessment of the Volume and Structure of Policy Measures
to Fight Financial and Economic Crisis**

Region	WES scale	Number of responses	Region	WES scale	Number of responses
Western Europe			Latin America		
Austria	4.5	8	Argentina	1.6	13
Belgium	4.3	18	Bolivia	1.0	4
Denmark	7.2	9	Brazil	5.4	29
Finland	4.8	19	Chile	6.5	13
France	4.1	14	Colombia	4.1	13
Germany	4.7	71	Costa-Rica	2.0	4
Greece	1.9	18	Ecuador	2.6	10
Ireland	3.3	7	El Salvador	4.0	4
Italy	3.8	30	Guatemala	1.0	5
Netherlands	5.5	15	Mexico	2.0	12
Norway	7.4	5	Paraguay	2.7	7
Portugal	2.8	11	Peru	3.3	16
Spain	2.4	26	Uruguay	5.4	9
Sweden	5.5	16	Venezuela	1.0	5
Switzerland	5.5	17			
United Kingdom	4.3	16	Asia		
Central and Eastern Europe			Bangladesh	4.2	5
Albania	3.7	6	China	7.0	14
Bulgaria	3.4	17	Hong Kong	5.0	4
Croatia	2.1	7	India	5.2	19
Czech Republic	6.3	12	Indonesia	5.0	7
Hungary	2.8	9	Japan	4.1	32
Latvia	1.0	8	Malaysia	3.2	9
Lithuania	5.0	4	Pakistan	1.5	8
Poland	2.9	15	Philippines	4.6	9
Romania	1.3	12	South Korea	6.3	9
Serbia-Montenegro	3.0	6	Taiwan	3.8	16
Slovakia	3.2	13	Thailand	4.1	9
Slovenia	2.5	8	Vietnam	5.0	4
CIS			Near East		
Kazakhstan	5.6	7	Israel	5.0	5
Russia	3.5	39	Turkey	2.4	14
Ukraine	2.5	13	United Arab Emirates	4.5	8
North America			South Africa		
Canada	5.3	14		4.6	27
United States	5.0	35	Oceania		
			Australia	7.0	8
			New Zealand	5.8	10

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

WES scale: 9 – Fully sufficient; 5 – More or less sufficient; 1 – Not sufficient;

Source: Ifo World Economic Survey (WES) III 2009.

of 2009. Particularly private consumption is expected to weaken in the next six months. Also in the *Ukraine* the surveyed economists continue to assess the present state of the economy as weak. They do not expect a pronounced economic turnaround in the second half of 2009.

Asia: Economic recovery underway

In *Asia* the economic climate indicator improved very strongly in July, for the second time in succession (see Figure 3). In contrast to the other main economic regions, the improvement of the climate indicator was due both, to less negative assessments

of the present economic situation, and highly optimistic expectations for the next six months (see Figure 8).

The economic expectations have been upgraded and have become clearly optimistic without exceptions in all countries surveyed in the region (in alphabetic order: *Bangladesh, China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, Vietnam*). Capital expenditures and private consumption are forecast to pick up in the second half of 2009 in the region. Also the export sector is expected to recover in the next six months, although not in all countries of the region. In *China, Malaysia* and

Table 2
Legal and Administrative Restrictions for Foreign Firms

Absent	
Finland	8.6
Israel	8.2
Hong Kong	8.0
Peru	8.0
Uruguay	7.9
Denmark	7.7
Austria	7.5
Portugal	7.5
United Kingdom	7.5
Romania	7.3
Chile	7.2
United Arab Emirates	7.0
Latvia	7.0
Rather Low	
Hungary	6.8
France	6.8
Ireland	6.7
Norway	6.6
Sweden	6.6
Netherlands	6.6
Switzerland	6.6
Bulgaria	6.6
Slovenia	6.5
Belgium	6.5
United States	6.5
South Korea	6.3
Spain	6.3
New Zealand	6.2
Germany	6.2
Turkey	6.1
Canada	5.9
Guatemala	5.8
Malaysia	5.8
Japan	5.8
Italy	5.7
Slovakia	5.6
Poland	5.5
Czech Republic	5.3
Colombia	5.3
Brazil	5.1
El Salvador	5.0
Serbia-Montenegro	5.0
Albania	5.0
Paraguay	5.0
Kazakhstan	5.0
Croatia	5.0
Australia	5.0
Pakistan	5.0
Taiwan	5.0
Ukraine	4.4
India	4.4
South Africa	4.4
Thailand	4.2
Philippines	4.1
Greece	4.1
Bolivia	4.0
Costa-Rica	4.0
Vietnam	4.0
Lithuania	4.0
Mexico	4.0
Rather High	
China	3.6
Russia	3.5
Bangladesh	3.4
Argentina	3.2
Indonesia	2.7
Venezuela	2.6
Zimbabwe	2.6
Ecuador	2.2

* Only countries with more than 3 responses have been included into the analysis.
WES scale: 9 – absent, 5 – low, 1 – high.

Source: Ifo World Economic Survey III/2009.

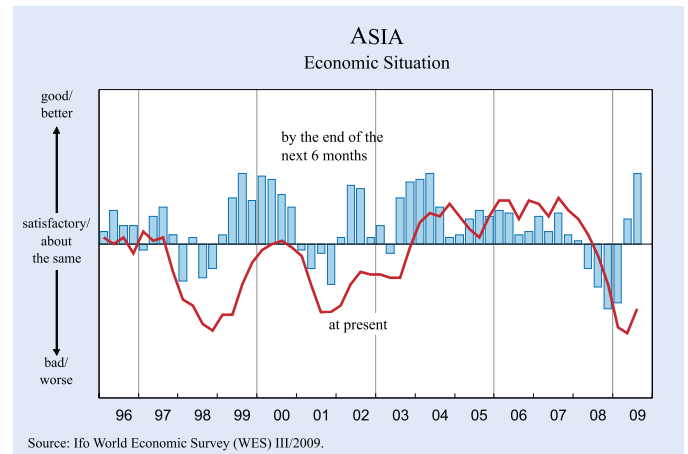
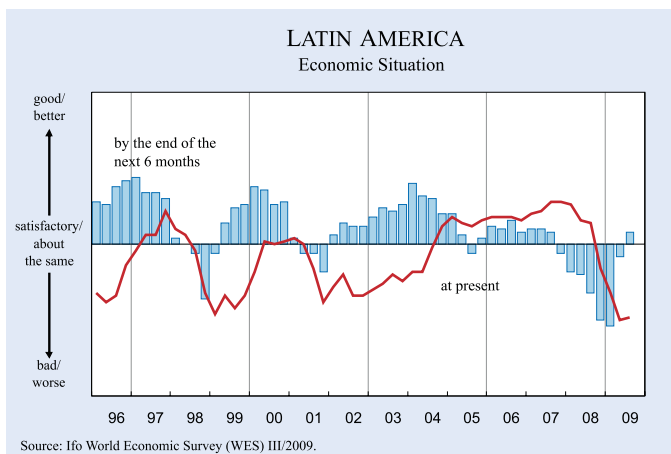
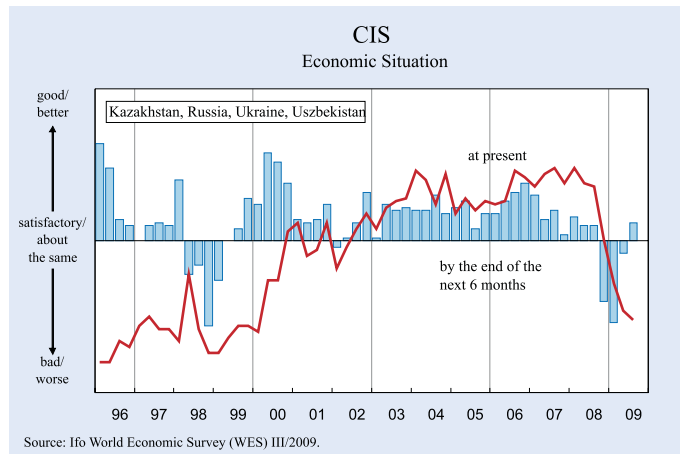
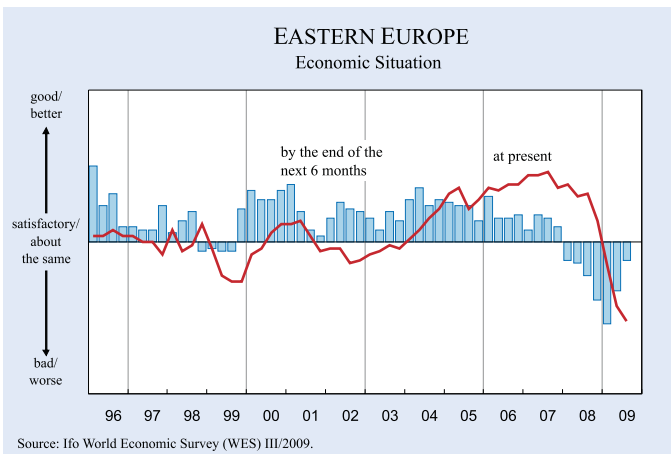
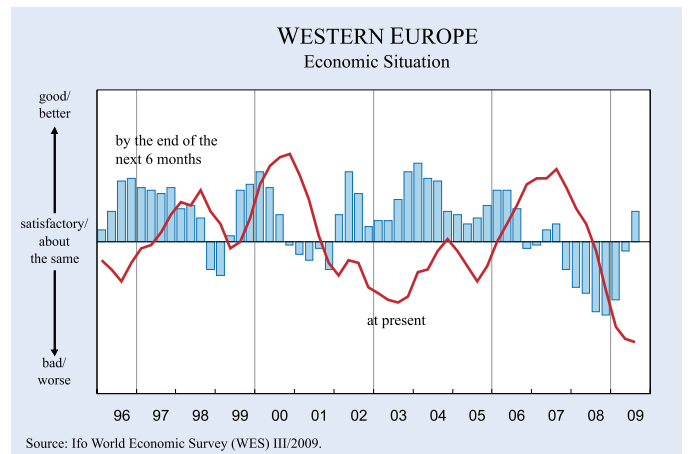
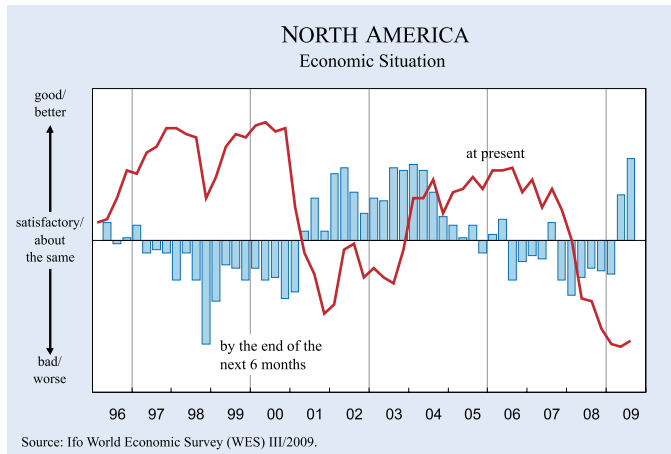
Vietnam the WES experts forecast further decline of exports in the near term. However, particularly in *China*, where a nearly 600 billion US dollar government stimulus package had been installed, the lost earnings from slumping exports obviously have been partly offset by rising domestic expenditures. Also in the vast majority of other *Asian* countries the surveyed economists assess the volume and structure of policy measures undertaken by the government to fight the financial and economic crisis as sufficient in general. However, in most countries the measures so far undertaken appear to not yet have taken full effect. Only in a few countries have WES experts assessed the present economic situation as “satisfactory”. This positive group of countries includes *India*, *Indonesia* and *Bangladesh*. In *India* and *Indonesia* relatively low export dependence and the high share of population and employment in rural areas appears to have sustained domestic demand at a satisfactory level. In all the other *Asian* countries the present economy is performing still far below the satisfactory level, according to WES experts, and is particularly weak in *Japan*, *Taiwan*, *Hong Kong* and *Thailand*. However, also in these countries the expectations relating to capital expenditures and private consumption as well as exports are highly optimistic. With the lowest marks on the WES scale the present economic situation has been assessed in *Pakistan* in July.

Oceania: Economic expectations brighten

Also in *Australia* and *New Zealand* the economic climate improved somewhat in July compared with the results of the April survey (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 – have been strongly upgraded. The WES experts think that the policy measures undertaken by the *Australian* government are sufficient to overcome the economic crisis. However, the present economic situation is still assessed below the satisfactory level. The economic expectations, although much less pessimistic than in the previous surveys, remain cautious. Particularly the capital expenditures are expected to weaken further in the rest of the year. In *New Zealand* the present economic situation remained “bad”, according to the surveyed WES experts. However, the economic expectations moved into positive territory for the first time since 2005.

Figure 4

SELECTED REGIONS



Particularly private consumption is expected to pick up in the second half of 2009.

Latin America: Economies may bottom out

In *Latin America* the economic climate indicator stabilized in July at a low level. However, the economic expectations for the next six months have been upgraded somewhat and point to economic stabilization in the second half of 2009. The present economic situation is still assessed as “bad” in the majority of countries of the region, but the assessments have not deteriorated further (see Figure 9). This economic confidence pattern suggests that the business cycle in many economies in the region has hit the bottom. However, the economic trends in the region are very different:

In a number of countries the economic climate improved considerably in July, according to WES experts. In *Brazil, Chile, Peru* and *Panama* the economic expectations for the next six months have become clearly optimistic, although *Peru* and *Panama* were the only two countries in the region where the present economic situation is assessed as satisfactory by the WES experts in July. The present economic situation in *Brazil* and *Chile* is still assessed as below the satisfactory level. However, the surveyed economists expect both in *Brazil* and *Chile* that capital expenditures, private consumption and only in *Chile* also exports may recover in the further course of 2009. In both countries the WES experts assessed the volume and structure of policy measures undertaken to combat the aftermath of the financial crisis as sufficient. Also in *El Salvador* and *Uruguay* the present economic performance is assessed as below satisfactory, but the economic

expectations have been upgraded strongly and point to economic stabilization in the next six months, despite the fact that the export sector is expected to weaken further. *Uruguay*, along with *Brazil* and *Chile*, was one of the few countries where the surveyed economists judged the governmental economic measures to overcome the economic crisis as sufficient (see Table 1).

With very low marks on the WES scale, and even worse than in the previous survey, is how the present economic situation is assessed in *Costa Rica, Mexico, Paraguay* and *Guatemala*. While in *Mexico* and *Costa Rica* the surveyed economists expect an economic turnaround in the next six months, they remain rather pessimistic in *Paraguay* and *Guatemala*. Also in *Argentina* and *Colombia* the economic situation is assessed as “bad” at present. But the economic expectations have been strongly upgraded and point to economic stabilization in the course of the remaining part of 2009. In contrast, further economic deterioration is expected by the WES experts in *Venezuela*. They foresee here a pronounced weakening of capital expenditures and private consumption in the course of the next six months. Exports are also forecast to decline further. Pessimistic expectations prevail also in *Bolivia, Ecuador* and *Trinidad and Tobago*, where the present economic situation is assessed as below the satisfactory level.

The countries in *Latin America* also differ very strongly relating the climate for foreign investors (see Table 2). *Peru, Uruguay* and *Chile* belong to the group of countries where the legal and administrative restrictions for foreign firms to invest or to repatriate profits are low or almost absent. In contrast in *Argentina, Venezuela* and *Ecuador* the climate for foreign investors has been assessed as bad.

Table 3
Assessment of the Following Factors Influencing the Climate for Foreign Investors
For the Next 6 Months

Climate due to	Change for the next 6 months *	
	Deterioration	Improvement
Legal / administrative restrictions to invest and/or to repatriate profits	Argentina, Ecuador, Venezuela	Malaysia, Portugal, Taiwan, Turkey, United Arab Emirates, Uruguay
Political stability	Argentina, Bolivia, Lithuania, Paraguay, Peru, Romania, Venezuela	El Salvador, India, Indonesia, United Arab Emirates
In those countries, not mentioned in the table no major changes relating the climate for foreign investors are expected during the next 6 months. (Only countries with more than 3 responses have been included into the analysis.)		
Criteria for selection of countries:		
Deterioration: WES grade between 1 and 3.5		
Improvement: WES grade between 6.0 and 9		

Source: Ifo World Economic Survey (WES), III 2009.

Table 4

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

Region	QIII/2009	QII/2009	Region	QIII/2009	QII/2009
Average of 92 countries *	2.5	2.7	Latin America	7.7	8.1
<i>World Bank classification:</i>			Argentina	14.5	14.0
High-income countries	1.1	1.3	Bolivia	4.9	10.0
Middle-income countries	6.7	7.1	Brazil	4.4	4.5
Upper-middle	7.1	7.3	Chile	2.1	3.2
Lower-middle	7.8	6.5	Colombia	4.4	5.3
Low-income countries	5.9	7.5	Costa-Rica	8.1	9.0
EU 27 countries	1.0	1.3	Ecuador	5.0	7.0
EU countries (old members) ¹	0.8	1.0	El Salvador	4.0	4.4
EU countries (new members) ²	3.1	3.4	Guatemala	4.7	6.1
Euro area ³	0.7	1.0	Mexico	5.6	5.5
Western Europe	0.8	1.0	Panama	5.0	7.0
Austria	1.0	1.1	Paraguay	5.8	5.8
Belgium	0.8	0.8	Peru	1.9	3.6
Cyprus	1.8	2.7	Trinidad and Tobago	11.0	12.0
Denmark	1.3	1.6	Uruguay	6.5	8.2
Finland	0.8	1.0	Venezuela	30.0	32.0
France	0.4	0.7	Asia	2.0	1.9
Germany	0.8	1.1	Bangladesh	6.6	6.7
Greece	1.6	1.9	China	0.6	2.3
Iceland	8.5	4.0	Hong Kong	0.6	1.4
Ireland	-2.6	-0.2	India	4.5	3.6
Italy	1.0	1.1	Indonesia	5.4	6.5
Luxembourg	1.0	0.7	Japan	-0.3	-0.4
Malta	-	1.0	Malaysia	3.7	2.8
Netherlands	1.0	1.4	Pakistan	14.0	16.5
Norway	2.1	2.1	Philippines	4.0	4.9
Portugal	0.3	0.5	Singapore	3.0	1.3
Spain	0.3	0.6	South Korea	3.4	3.8
Sweden	0.3	0.3	Sri Lanka	12.0	12.5
Switzerland	0.6	0.5	Taiwan	-0.2	-0.1
United Kingdom	1.4	1.2	Thailand	1.7	0.0
Eastern Europe	3.3	3.5	Vietnam	9.3	9.3
Albania	3.0	3.8	Near East	7.4	8.4
Bulgaria	3.2	3.9	Iran	25.0	25.0
Croatia	3.1	2.7	Israel	2.3	1.4
Czech Republic	1.8	2.0	Jordan	11.0	15.0
Estonia	-0.7	1.7	Kuwait	5.0	9.0
Hungary	5.0	4.9	Lebanon	-	3.8
Latvia	3.6	5.3	Saudi Arabia	4.6	6.6
Lithuania	3.6	4.6	Turkey	6.9	8.0
Poland	3.2	3.2	United Arab Emirate	4.6	4.9
Romania	5.5	6.1	Africa *	8.4	8.9
Serbia	9.0	9.3	Algeria	5.0	4.0
Slovakia	1.8	2.4	Egypt	9.5	-
Slovenia	1.2	1.5	Kenya	16.0	20.0
CIS	13.0	14.0	Mauritius	7.0	8.0
Kazakhstan	10.0	10.0	Morocco	3.0	-
Kyrgyzstan	9.5	16.0	Nigeria	15.0	15.0
Russia	13.0	14.0	South Africa	7.5	7.1
Ukraine	15.0	18.0	Tanzania	15.0	-
Uzbekistan	18.0	15.5	Tunisia	3.0	5.0
North America	1.3	1.3	Zimbabwe	9.4	4.4
Canada	1.2	1.1	Oceania	2.3	2.4
United States	1.3	1.3	Australia	2.3	2.3
			New Zealand	1.9	2.4

* 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).

¹ Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom – ² Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria and Romania – ³ Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

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

In these three countries the WES experts expect further deterioration in the coming six months (see Table 3).

Near East: Diverging economic trends predominate

Diverging economic trends also predominate in the *Near East* region (see Figure 10). In a number of countries the economic situation continues to be assessed as favourable, particularly in *Bahrain*, *Jordan*, *Kuwait* and *Saudi Arabia*. Also in *Lebanon*, where the recent political stability has boosted the economy and helped to mitigate the crisis, the surveyed WES economists described the present economic situation as satisfactory and expect further strengthening in the next six months. In the *United Arab Emirates*, in contrast, the economic climate index slipped in July. The present economic situation here is now assessed below the satisfactory level. The surveyed economists expect only a moderate improvement in the near term and assess the policy measures to combat the aftermath of the financial crisis as not yet sufficient. Also in *Israel*, the assessments of the present economic situation have been strongly downgraded in the previous April survey. According to the July survey results, the present economic situation remains weak. However, the economic expectations have clearly brightened. The WES experts expect capital expenditures, private consumption and the export sector to strengthen in the second half of 2009. The policy measures undertaken in *Israel* to fight the financial and economic crisis appear to be sufficient to the majority of WES experts (see Table 1). Not so in *Turkey*, where the current economic situation is again described as bad. The economic expectations, however, have been upgraded somewhat and point to economic improvement in the next six months, although the export sector is expected to remain weak for the time being. In *Iran*, political tensions dominate the economic development. Although the present economic situation is described as satisfactory, the forecasts remain cautious and strongly depend on whether the political tensions will subside in the near term future.

Africa: Revival of economic confidence

The economic climate slightly improved in *South Africa* in April (see Figure 10). The improvement

of the overall climate indicator was solely the result of more optimistic economic expectations, while the assessments of the current economic situation have been downgraded further. However, the surveyed economists are optimistic, that capital expenditures, private consumption and the export sector will pick up in the next six months, although the policy measures to combat the negative effects of the financial and economic crisis are not yet assessed as sufficient.

In *Kenya* and *Nigeria* the economy continues to be weak, according to WES experts. Also in many other *African* countries surveyed by WES, economists described the present economic situation as “bad”, so in *Cameroon*, *Mauritius* and *Morocco*. In contrast, in *Algeria* and *Egypt* the present economic situation is more or less “satisfactory”, according to WES experts.

In *Zimbabwe* the present economic situation continues to be assessed as “bad”, but for the first time in more than a decade there are sparks of hope in the WES figures for *Zimbabwe*. Although the country's economy is still weak, the surveyed economists expect some improvement in 2009, particularly more capital expenditures.

Stabilization of price trend expected

For 2009 WES experts expect an inflation rate of 2.5 percent on a worldwide scale (see Table 2). This is slightly lower than the annual rate expected in the previous survey (2.7 percent). However, the additional question on the expected tendency of inflation in the course of next six months points to no further decline. The stabilizing of the inflation trend at the current low level will become evident according to WES experts in the course of the next six months in all major regions of the world. In *North America* the new survey data confirm the view expressed already in the April survey that the disinflation process is leveling off and inflation is beginning to stabilize at around 1.3 percent. In *Western Europe* inflation is expected to amount to 0.8 percent in 2009 the lowest level of all regions covered in the survey. But also here the declining price trend is expected to come to a halt in the second half of the year and will be replaced by a stabilization of the price trend. In *Eastern Europe* disinflation will continue in the coming months, but to a lesser degree than in the first half of the year. On average for 2009

Figure 5a

EUROPEAN UNION

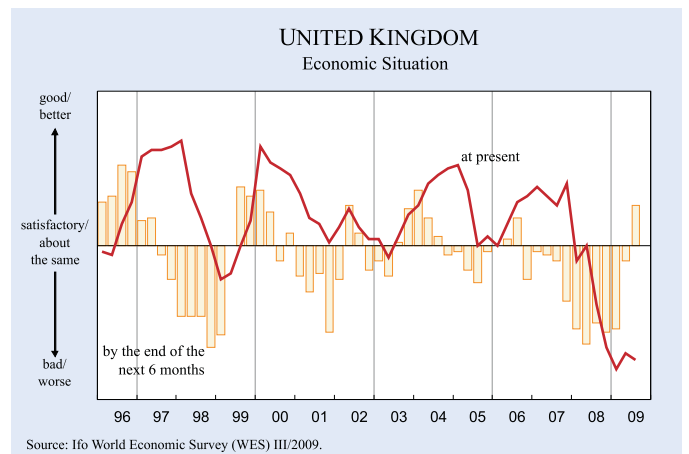
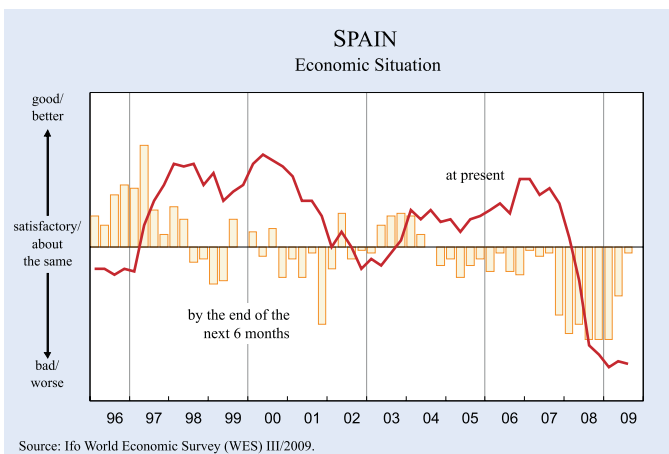
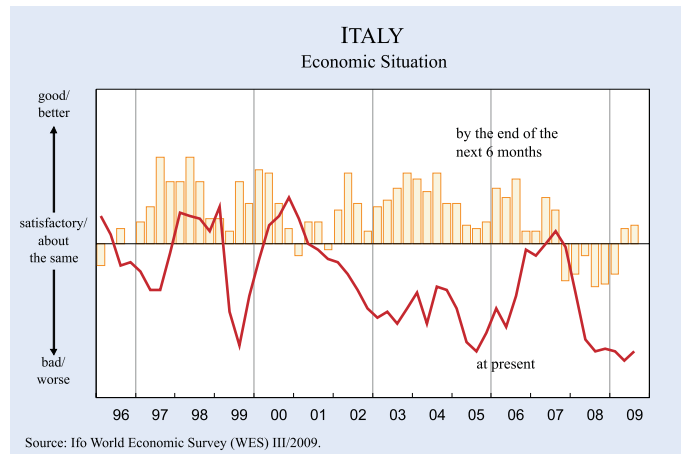
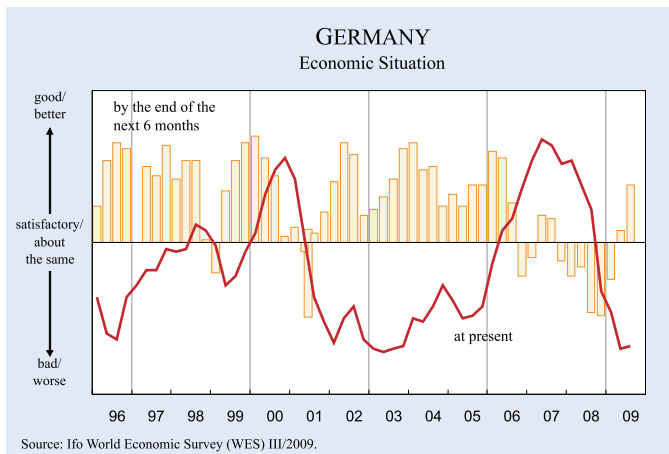
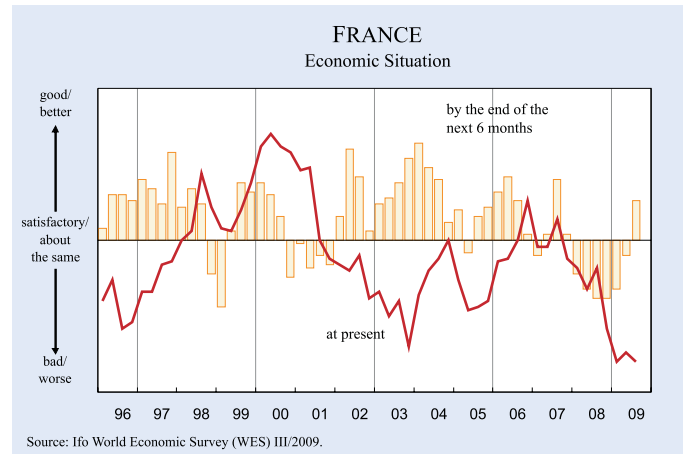
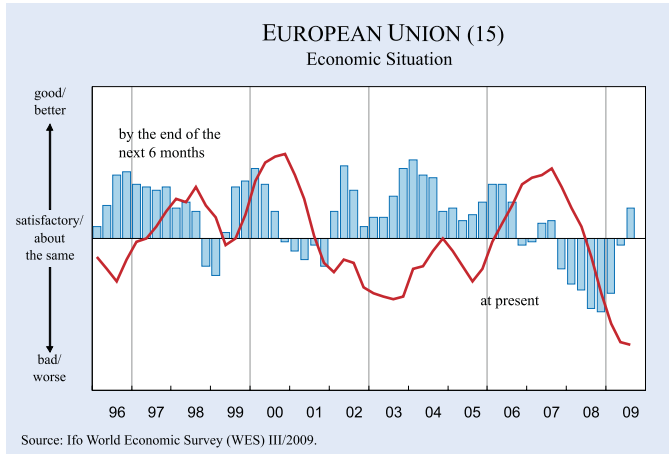


Figure 5b

EUROPEAN UNION

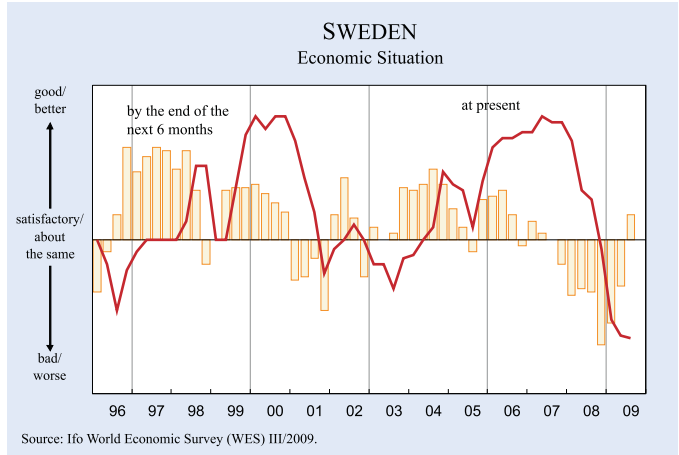
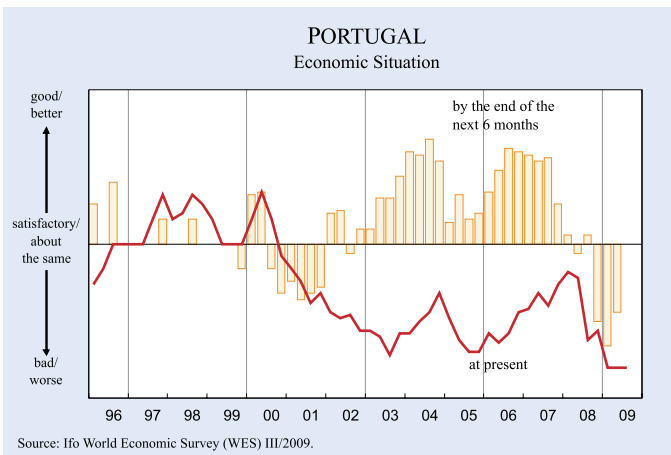
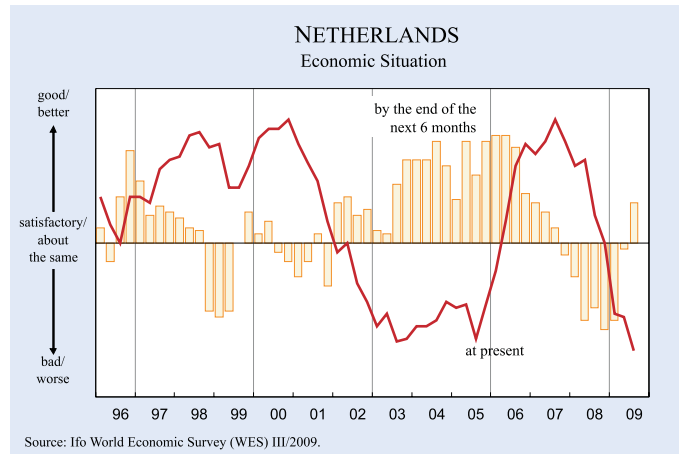
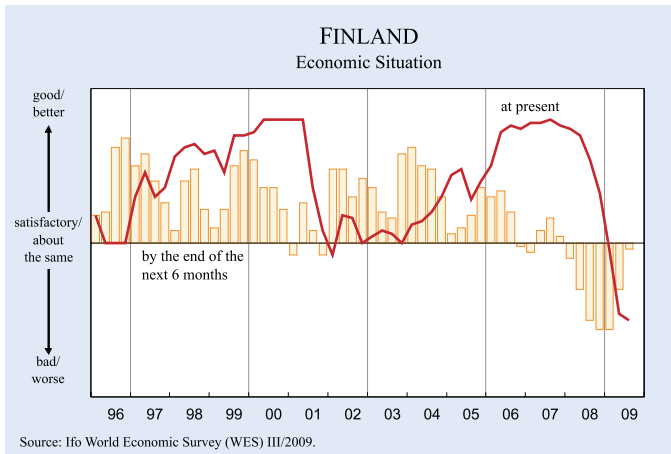
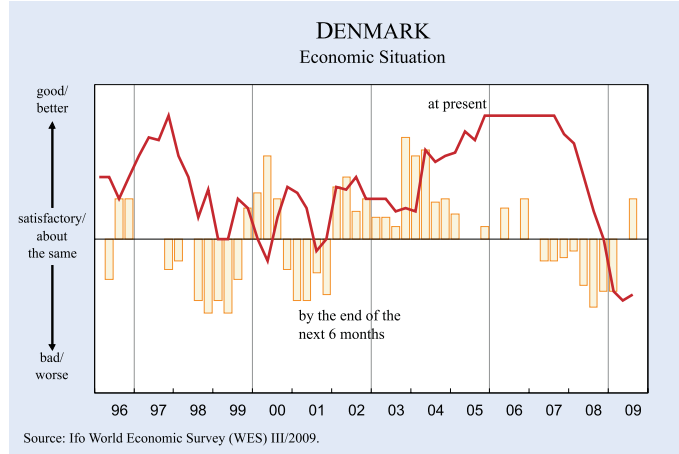
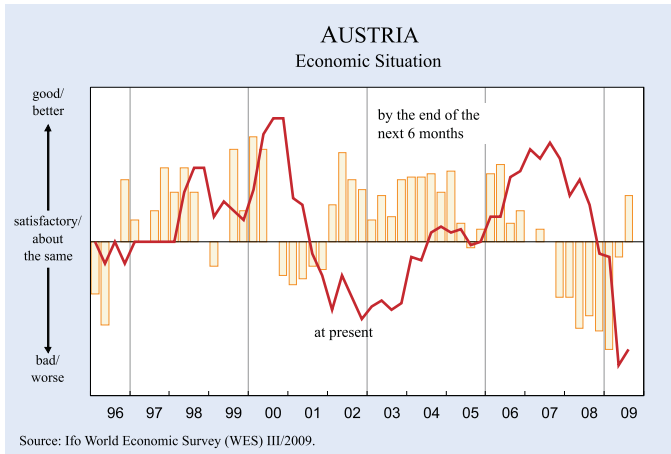


Figure 6

NORTH AMERICA, OCEANIA AND CIS

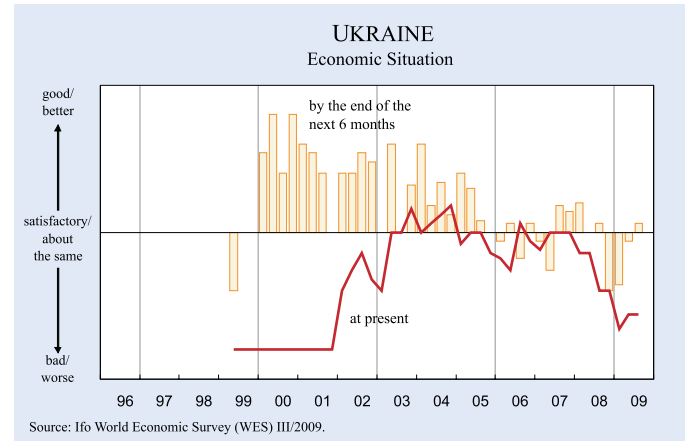
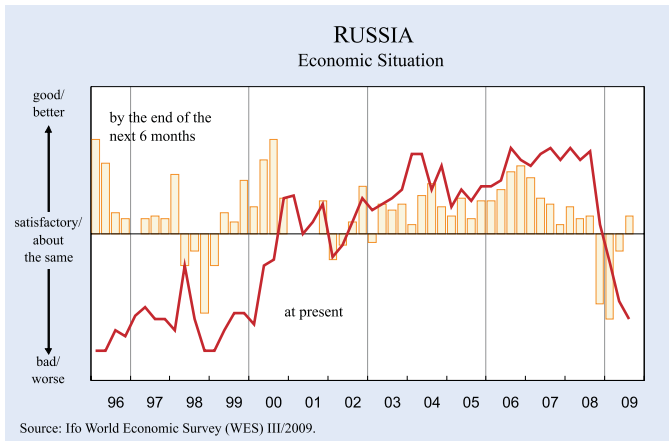
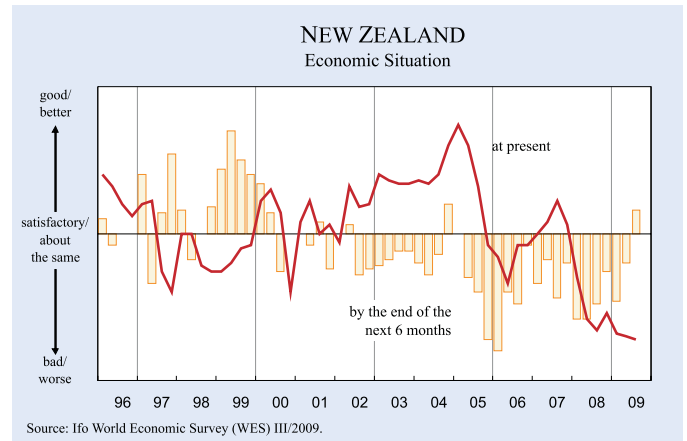
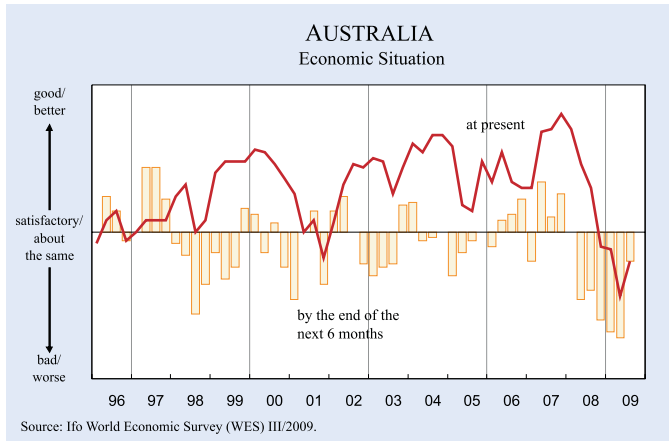
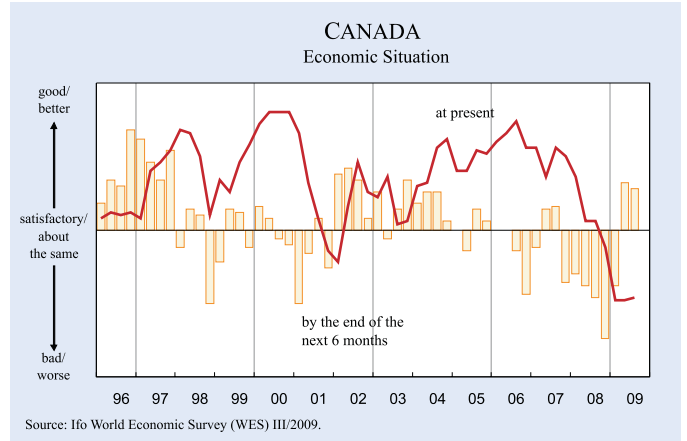
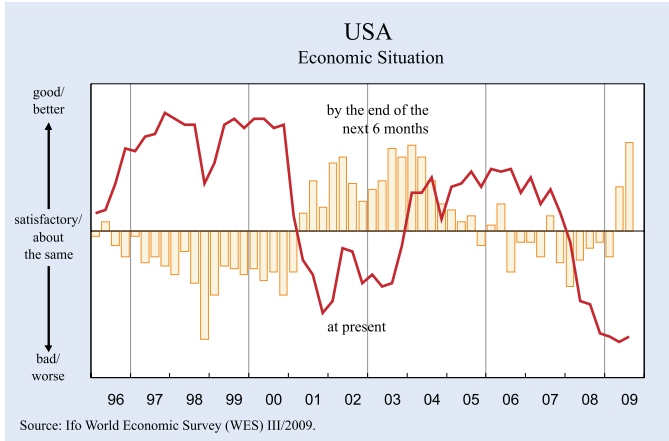


Figure 7

EASTERN EUROPE

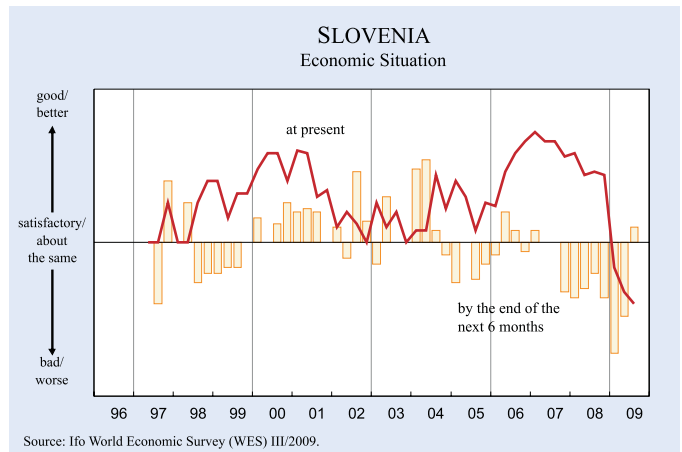
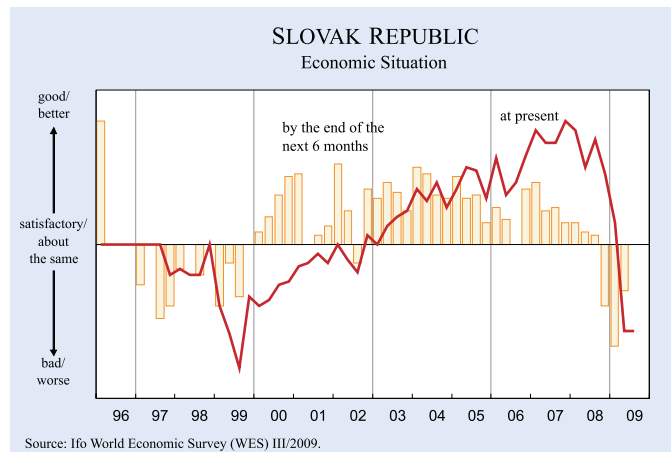
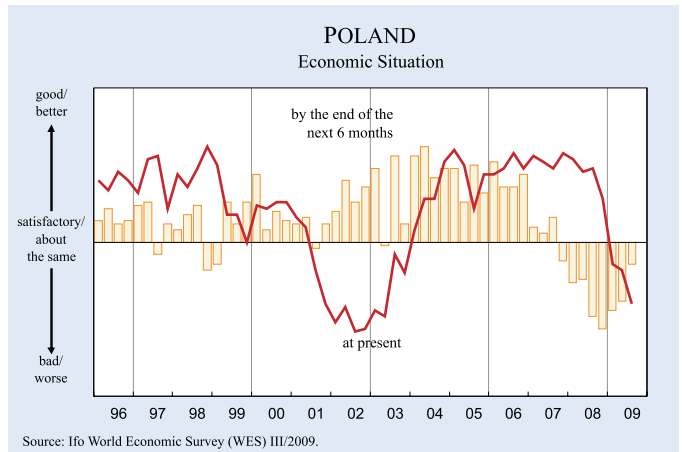
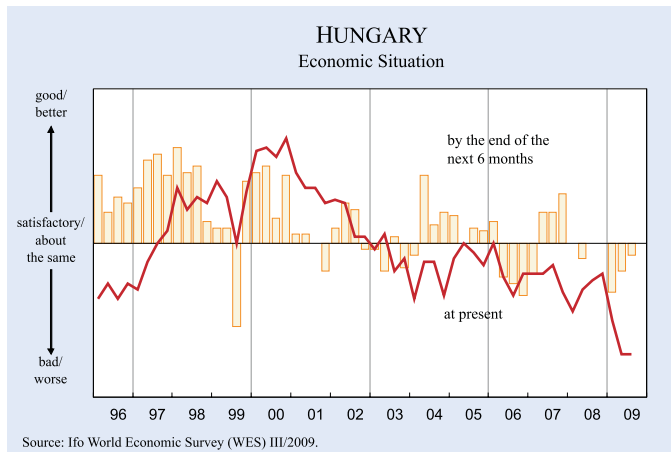
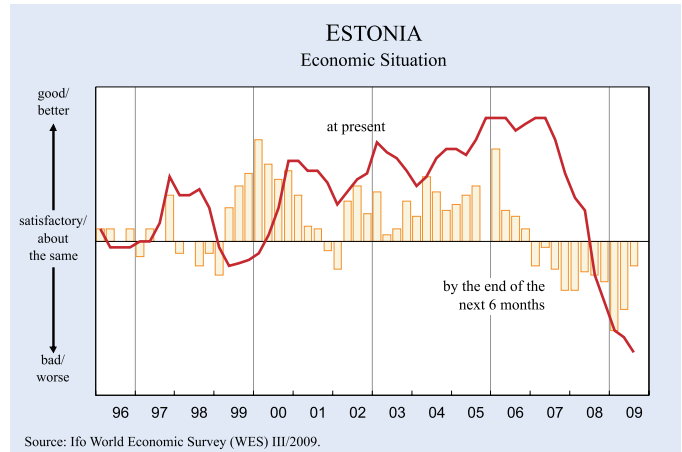
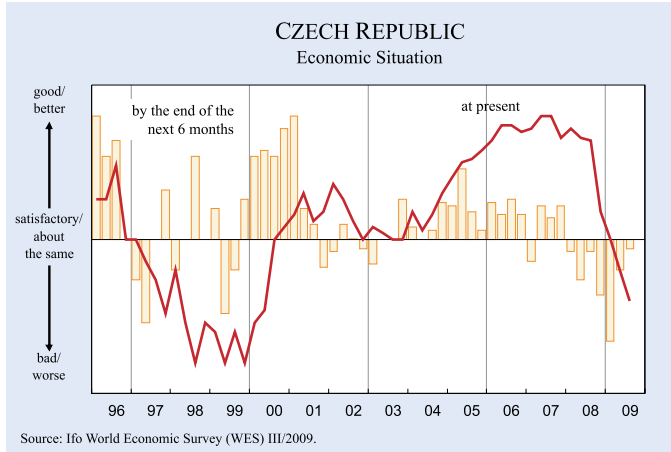


Figure 8

ASIA

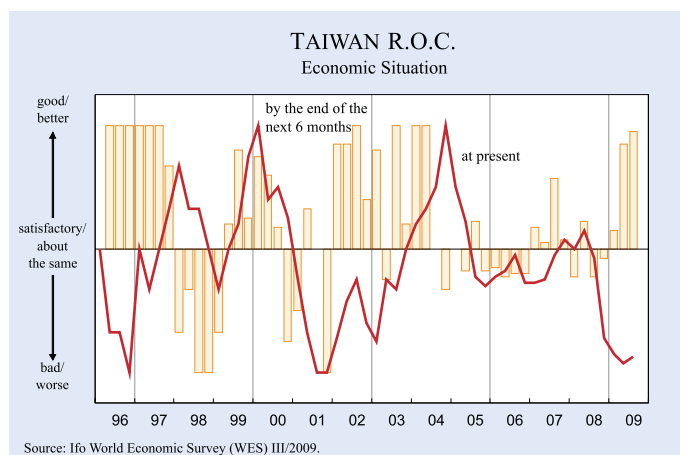
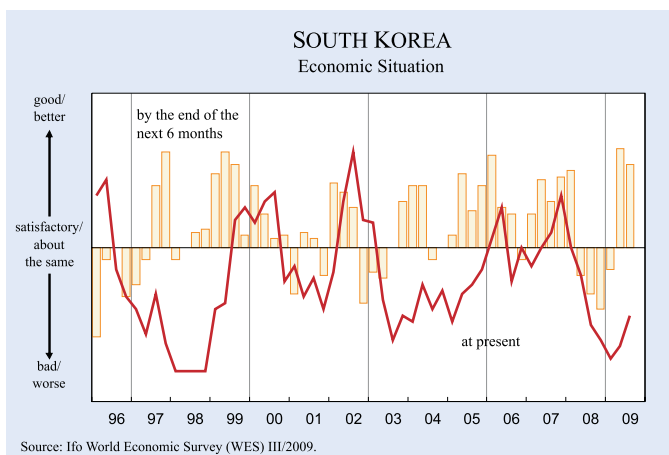
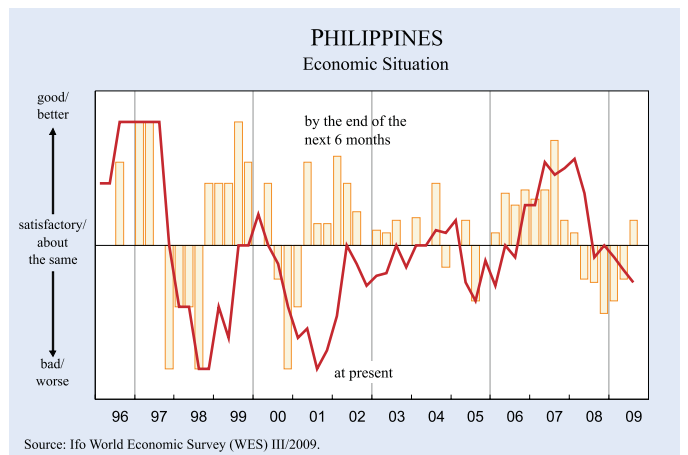
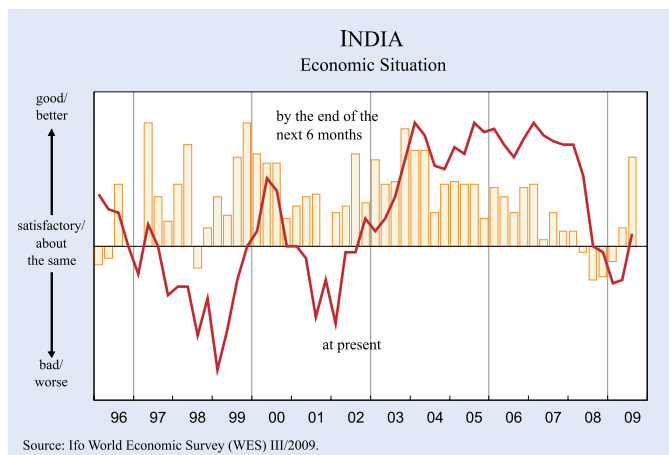
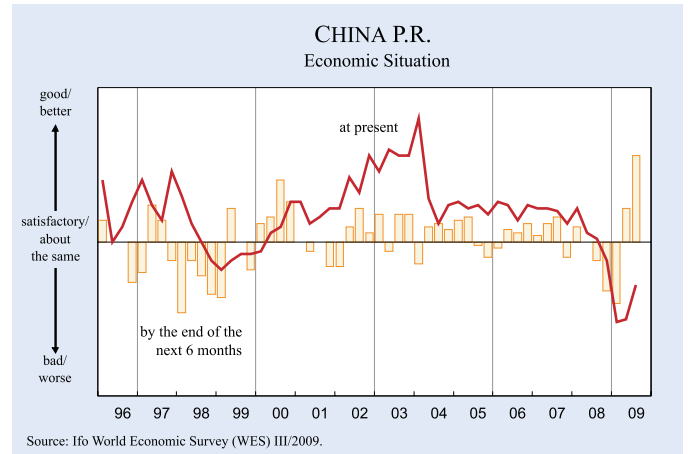
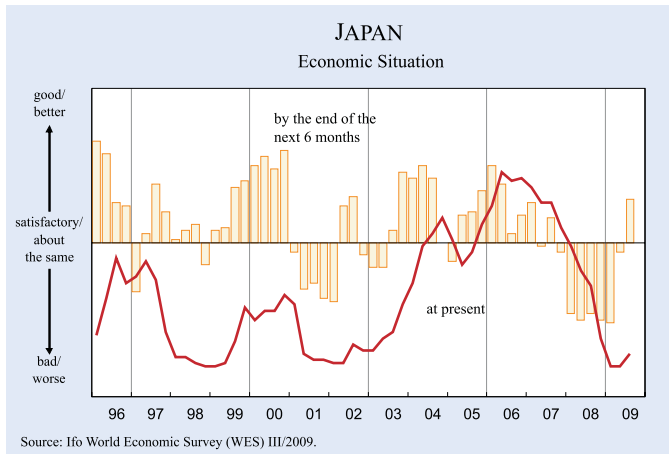


Figure 9

LATIN AMERICA

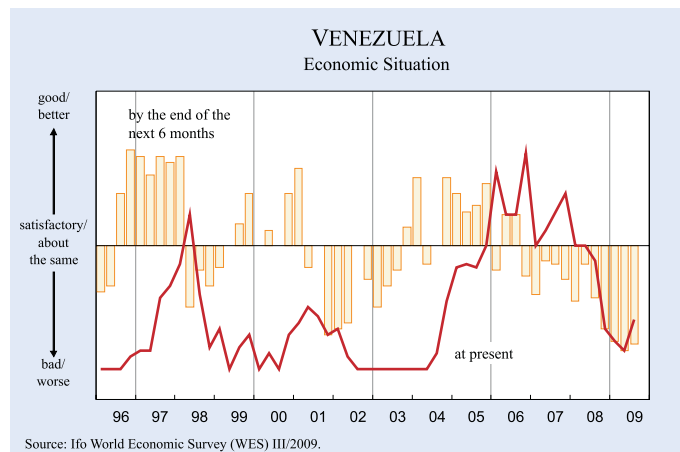
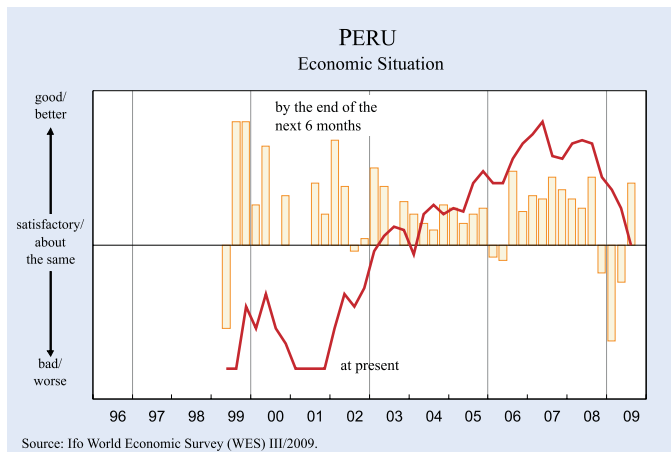
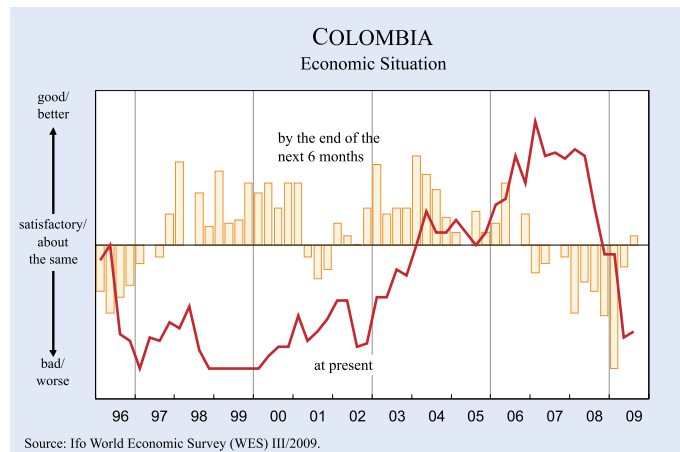
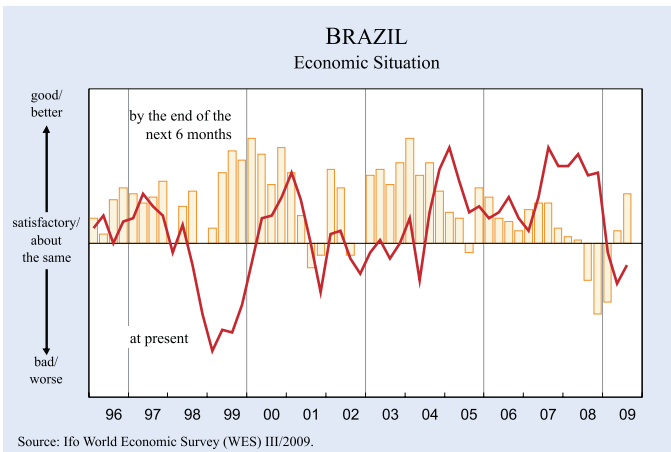
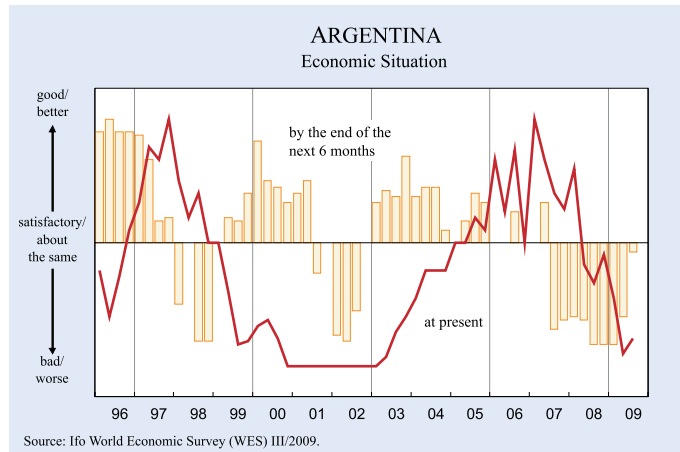
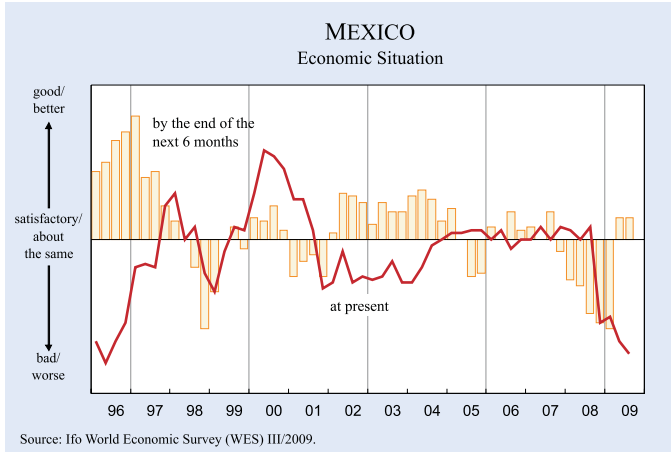
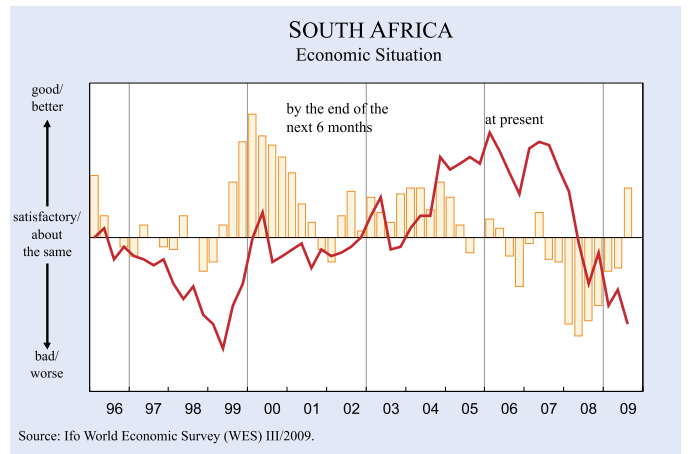
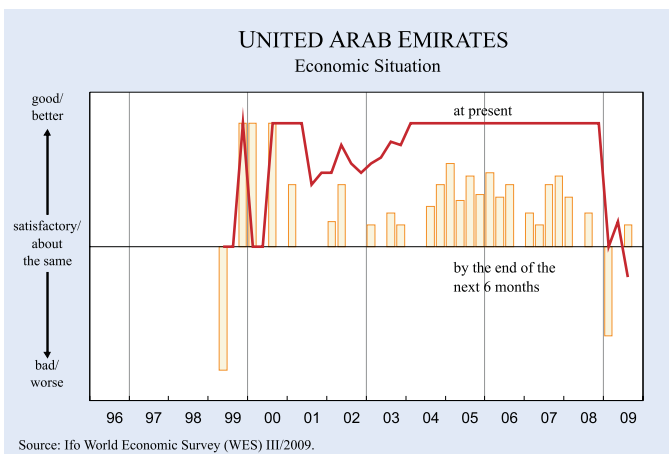
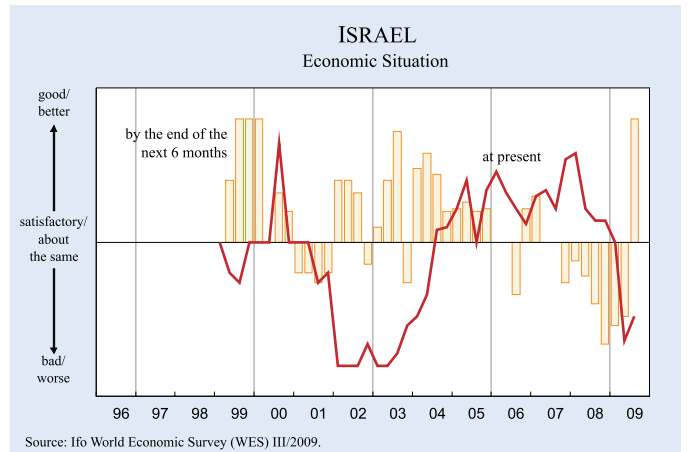
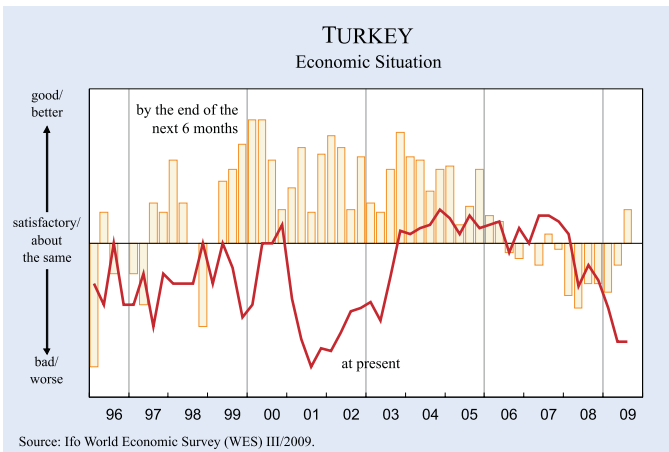
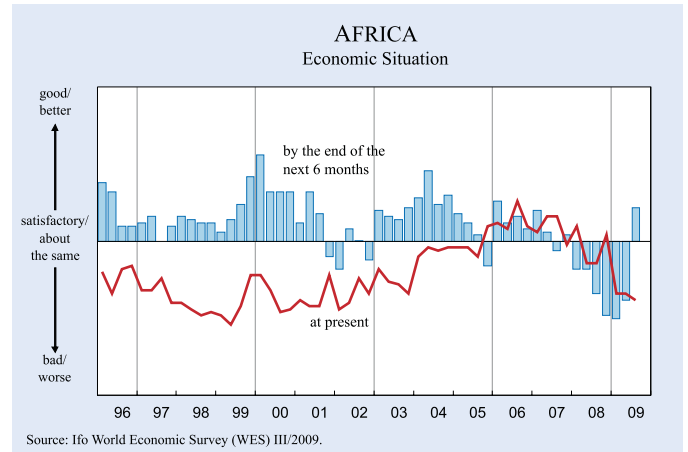
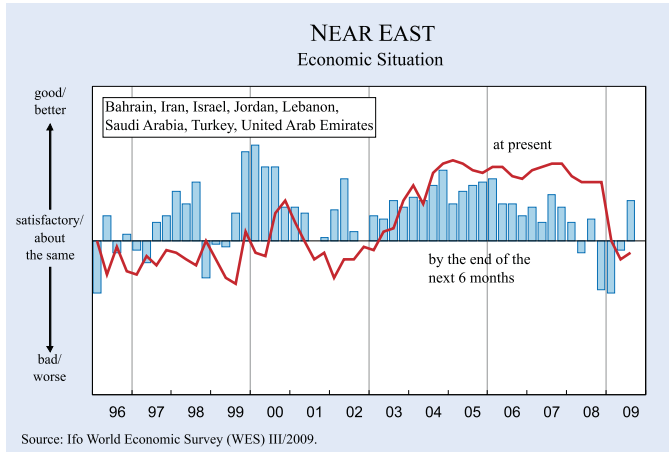


Figure 10

NEAR EAST AND AFRICA



inflation will amount here to 3.3 percent, which is low for *Eastern European* standards but still significantly higher than in *Western Europe*. In *Asia*, the expected stabilization of consumer prices in the course of next six months will result in an inflation rate of 2.0 percent on average for 2009, which is slightly higher than the rate expected in the previous survey (1.9 percent).

Thus, the new data confirm our view that despite the clear disinflation trend, which is still prevailing for the time being in the majority of countries, there are no signs of a deflationary danger in the major regions of the world, though the average inflation figure in 2009 might be negative in some countries (e.g. *Ireland*, *Estonia*, *Japan* and *Taiwan*).

In the *euro area* the lowest inflation rates in 2009 are expected again in the former high-inflation country *Ireland* (–2.6 percent) as well as in *Portugal* (0.3 percent) and *Spain* (0.3 percent). Also in *France* the expected 2009 inflation rate of 0.4 percent is well below the *euro area* average of 0.7 percent. In the majority of the other *euro countries* the inflation rate in 2009 is expected to be close to 1 percent, with only *Slovakia* (1.8 percent), *Cyprus* (1.8 percent) and *Greece* (1.6 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* (0.6 percent) and in *Sweden* (0.3 percent). In the *UK* inflation expectations for 2009 picked up slightly from 1.2 percent in the previous survey to 1.4 percent now.

In the *United States* inflation expectations on average for 2009 remained at a very moderate 1.3 percent, compared with a reported rate of almost 4 percent in 2008. A similar picture as in the *USA* characterizes *Canada*, where the 2009 inflation is not expected to exceed 1.2 percent, compared with an inflation rate of 2.5 percent in 2008.

In *Asia* consumer price inflation rate in 2009 is seen by WES experts only slightly higher than in the April survey (2.0 percent compared with 1.9 percent in April). The marginal increase is mainly caused by higher inflation expectations in *India* (4.5 percent compared with 3.6 percent in the April survey), *Malaysia* (3.7 percent compared to 2.8 percent), *Singapore* (3.0 percent compared to 1.3 percent) and *Thailand* (1.7 percent com-

pared to 0 percent). On the other hand inflation expectations for 2009 declined significantly in *China* (from 2.3 percent in April to 0.6 percent) and *Hong Kong* (0.6 percent after 1.4 percent in April). Also in *Pakistan* and *Sri Lanka* inflation expectations slowed down somewhat, but remained at a very high level (14.0 percent respectively 12.0 percent). In *Vietnam* inflation expectations for 2009 remained unchanged at a high level of 9.3 percent. Only in *Japan* will a moderately deflationary price trend prevail also in coming months which will result in a negative inflation figure of –0.3 percent in 2009. In *Taiwan* as well the 2009 inflation figure will be slightly negative (–0.2 percent). However, here – unlike *Japan* – the inflation trend is expected to pick up moderately in the next six months.

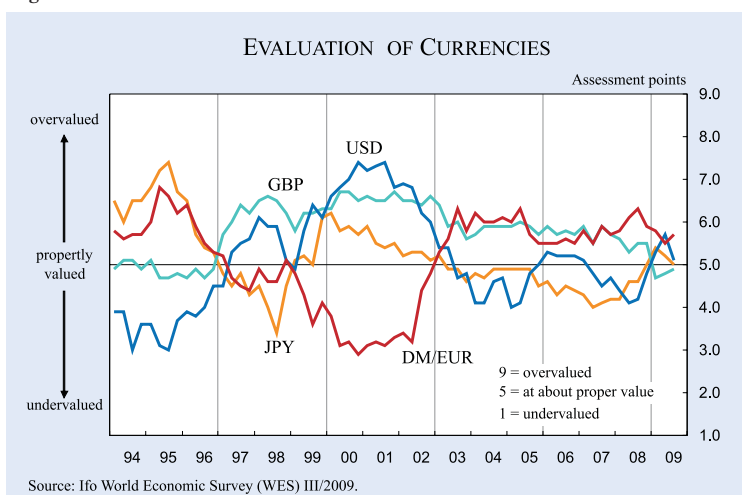
In *Central and Eastern Europe* inflation in 2009 is seen at 3.3 percent which is still substantial but moderately lower than in the April survey of this year (3.5 percent) and significantly lower than in 2008 (6.2 percent). The slow-down is particularly pronounced in *Estonia* (–0.7 percent after an expected 1.7 percent in April 2009 and reported 9.9 percent in 2008).

Inflation in the *CIS* countries continues to be among the highest in the world. In *Russia* inflation expectations for 2009 remained almost unchanged at last year's rate (13.0 percent compared with 14.0 percent) and also in *Kazakhstan* at 10.0 percent it 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 15.0 percent only marginally lower than the reported inflation rate for 2008 (21.0 percent). A significant success in fighting inflation was inhibited in most of these countries, mainly by the devaluation of their currencies which made imports more expensive.

Also in *Latin America* 2009 inflation expectations declined only slightly (from 8.1 percent in April 2009 to now 7.7 percent). Inflation expectations for 2009 remained high particularly in *Argentina* (14.5 percent) as well as *Trinidad and Tobago* (11.0 percent). In *Bolivia* inflation expectations for 2009 declined significantly from 10.0 percent to 4.9 percent and remain almost stable in *Brazil* (4.4 percent) and *Mexico* (5.6 percent). By far the highest inflation rate in the region will continue in *Venezuela* (30.0 percent).

Also in the *Near East* inflation will remain high in 2009 (7.4 percent) This is only moderately lower than the rate expected in the previous survey (8.4 percent). The main exception in the region where inflation expectations remains rather low, though slightly higher than in the April survey, is *Israel* (2.3 percent after 1.4 percent). On the other hand in *Iran* – as in *Venezuela* – a high inflation rate (25.0 percent) will remain a significant obstacle for economy.

Figure 11



In *Oceania* inflation expectations for 2009 declined moderately in *New Zealand* (from 2.4 percent to 1.9 percent) and remain unchanged in *Australia* (2.3 percent).

In *Africa* inflation remains high but is slowing down somewhat (8.4 percent compared with 8.9 percent in the previous survey). In *Zimbabwe* the hyper inflation period had finally come to an end but the new price estimates for 2009 point already again to a pickup of inflation (9.4 percent compared to 4.4 percent expected by WES experts in April 2009). In *South Africa*, the largest economy in the continent, inflation appears to be stabilizing between 7 percent and 8 percent. Inflation in *Kenya* is expected to slow down somewhat but with estimated 16 percent it still poses a great problem. Also in *Nigeria* inflation in 2009 is still expected to be double digit (15 percent).

Euro appears overvalued

Whereas the *US dollar* as well as the *Japanese yen* and the *British pound* appear to be close to their equilibrium values the *euro* was seen by more WES experts than in the previous survey as overvalued (see Figure 11). The *euro* is assessed as overvalued – compared with the countries' own currency – particularly in *Eastern European* countries and here especially in *Hungary*, *Latvia* and *Romania*.

The answers to a supplementary survey question on the likely development of the *US dollar* in the next six months, regardless how currencies are assessed from a fundamental point, signal on a worldwide

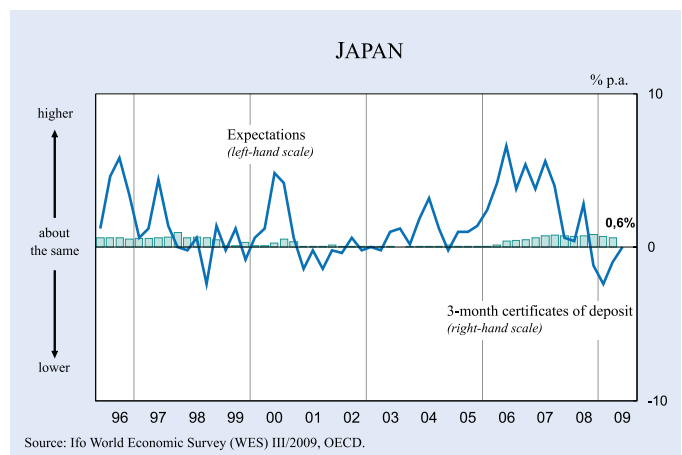
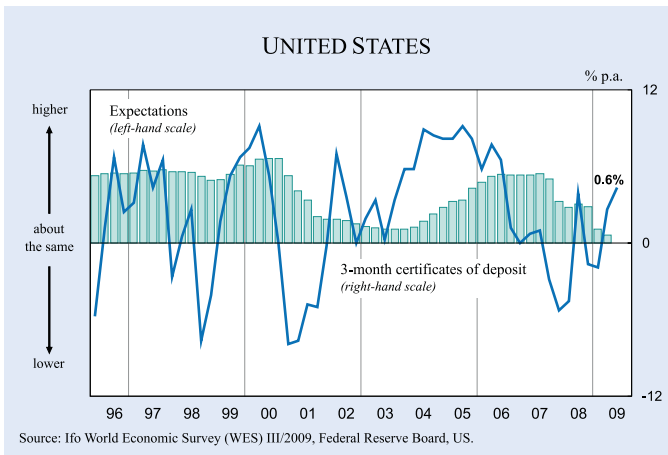
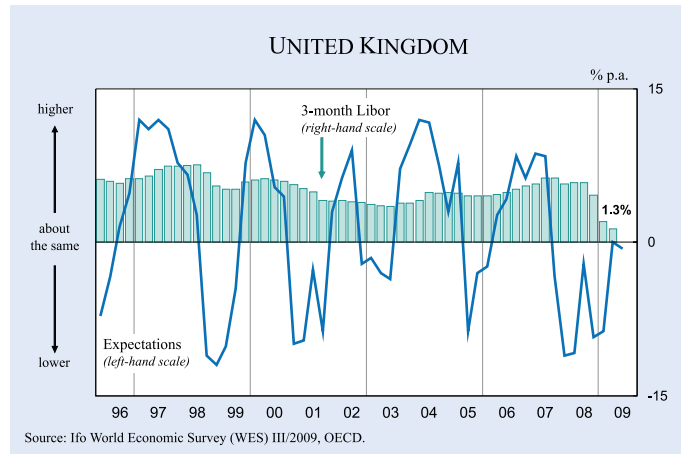
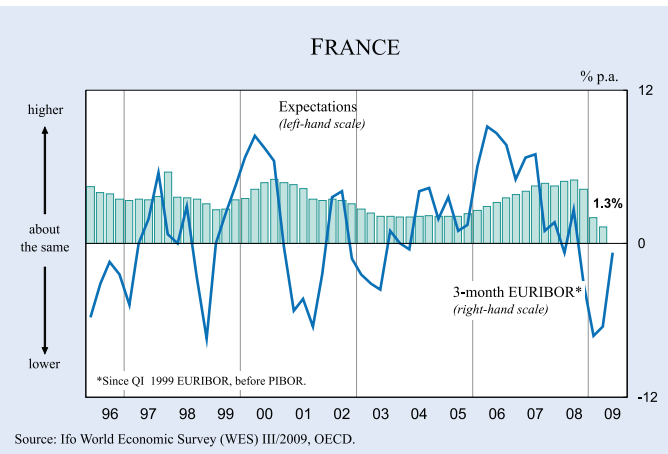
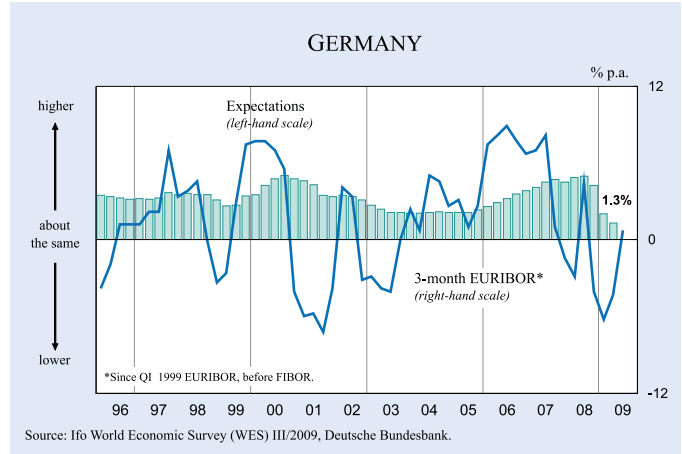
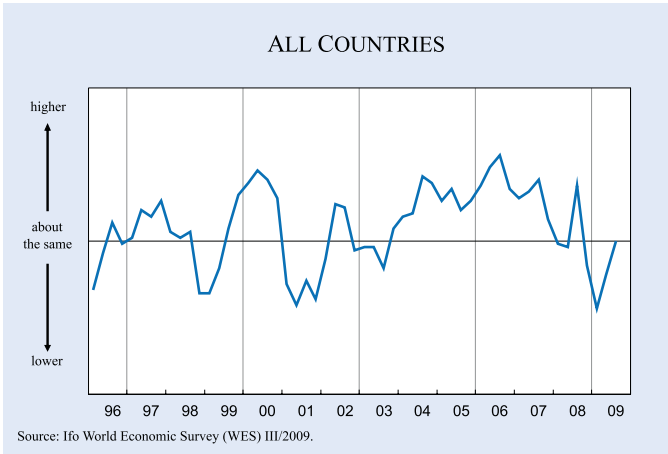
average a stable *US dollar* in the coming months. However, behind this average there are diverging trends: An expected weakening of the *US dollar* in *Asia*, *Eastern Europe*, *Canada* and *Australia* contrasts with an expected increase of the value of the *US dollar* in *CIS* countries, *Africa* and the *Near East*. In *Western Europe* and for *Latin America* on average the value of the *US dollar* – in comparison to the countries' own currencies – is expected to remain largely stable in the course of the next six months.

Increase of long-term interest rates expected

Whereas *short-term interest rates* on a worldwide average are expected to decline further, the future trend of *long-term interest rates* is clearly up (see Figure 12). However, there are differences from this overall trend by country: In *North America* – both the *USA* and *Canada* – *short and long-term interest rates* are expected to increase in coming six months. This can be attributed to the more advanced state of economic recovery in *North America*. In *Asia*, despite also clear signs of economic recovery *short-term interest rates* are seen by WES experts to remain stable in coming six months and only long term rates are expected to start rising. On the other hand, in *Eastern Europe*, *CIS countries* as well as *Latin American* countries and the *Near East*, here particularly *Turkey*, both *short and long-term interest rates* are expected to decline further in coming months. In *Africa*, both *short and long-term interest rates* will remain more or less stable in the course of the coming six months, according to the WES experts' view.

Figure 12

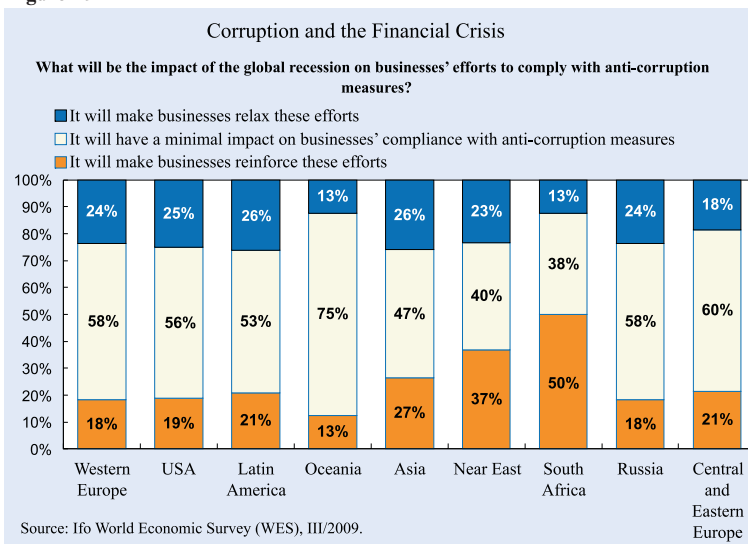
ACTUAL SHORT-TERM INTEREST RATES AND EXPECTED TREND FOR THE NEXT 6 MONTHS (QUARTERLY DATA)



ICC Special Question: Corruption and the financial crisis

This surveys' ICC special topic focused on the question: What will be the impact of the global recession on businesses' efforts to comply with anti-corruption measures? The answers of WES experts to this question differ considerably by country: In most countries the majority of WES experts think that the global recession will not affect businesses' compliance practices relating to anti-corruption (see Figure 13). However, there is also a significant number of experts who think that the economic crisis will change businesses behavior in one or the other direction. In *Vietnam* (75 percent), *United Arab Emirates* (63 percent), *Latvia* (50 percent), *South Africa* (50 percent), *Pakistan* (50 percent), *Serbia-Montenegro* (50 percent), *Canada* (38 percent) and *Spain* (38 percent) the majority or at least a significant part of surveyed economists think that the financial crisis will make businesses reinforce their efforts to fight corruption. In contrast in *Argentina* (55 percent), *Turkey* (50 percent), *South Korea* (50 percent), *Romania* (45 percent), *Portugal* (45 percent), *Taiwan* (44 percent), *Bulgaria* (44 percent), *Peru* (33 percent) and *Paraguay* (29 percent) a considerable proportion of experts think that businesses will relax their anti-corruption measures in the aftermath of the financial and economic crisis.

Figure 13



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