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CESifo WORLD ECONOMIC SURVEY

VOLUME 8, No. 4

NOVEMBER 2009

WORLD ECONOMIC CLIMATE

World Economic Climate brightens

ECONOMIC EXPECTATIONS

Optimism prevails in economic expectations

INFLATION

Moderate pick-up of inflation expected

INTEREST RATES

Interest rates expected to increase somewhat

CURRENCIES

Euro appears increasingly overvalued

SPECIAL TOPIC

Special topic: Low-carbon economy



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Ifo World Economic Survey

Regions

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Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide about current economic developments in the respective country. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In October 2009, 1,026 economic experts in 88 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 strongly improved in October 2009 for the third time in succession (see Figure 1). The climate indicator rose to 90.4 (after 78.7 in July 2009; 1995=100), and is thus step-by-step approaching its long-term average (1991–2008: 96.4). The economic climate improved due to both less unfavourable assessment of the present economic situation and more optimistic expectations for the first half of 2010 (see Figure 2).

World economy revives

Survey indicators continue to signal an ongoing recovery of global economic activity. According to the latest WES results optimism about the global economy in 2010 continued to strengthen in all economic regions, particularly in *Asia* and *Western Europe*, and to a lesser degree also in *North America*. In *Asia* the economic climate index has even surpassed its long-term average. A noteworthy sign of global economic recovery is that the assessments of the present economic situation have again been upgraded on a global average, confirming the positive expectations of the preceding surveys. However, in many countries the present economic performance is still assessed as below the satisfactory level, particularly weak in the *euro area*, *North America*, *Eastern Europe* and *Russia*.

The business-cycle clock (see Box 1) illustrates that the economic climate index remains in the top left quadrant which marks economic recovery and is moving toward the top right quadrant, which would mark

economic expansion. Although the survey results are highly encouraging, a series of factors continue to cause concerns about a pronounced recovery in 2010. First of all, unemployment remains high almost everywhere and has been named by WES experts as the most important economic problem in the vast majority of countries. It is closely followed by insufficient demand and public debts. As unemployment will probably continue to rise in many economic regions, insufficient demand and consequently also the negative output gap will pose a serious problem for some time. Furthermore, the extensive governmental economic programs have so far played a cru-

Figure 1

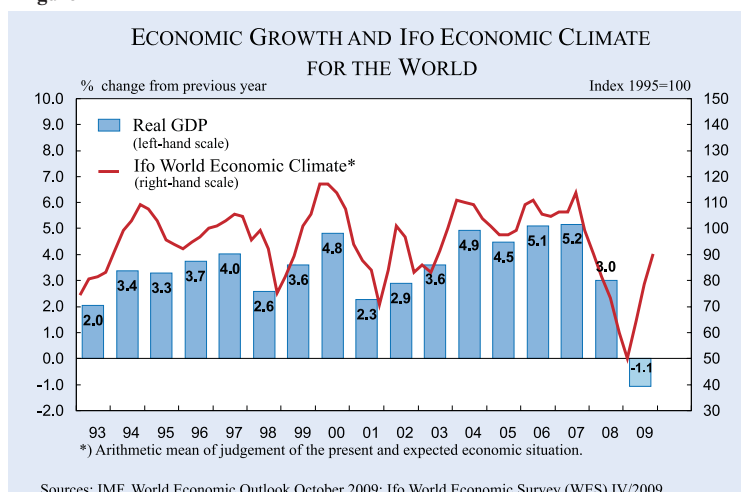
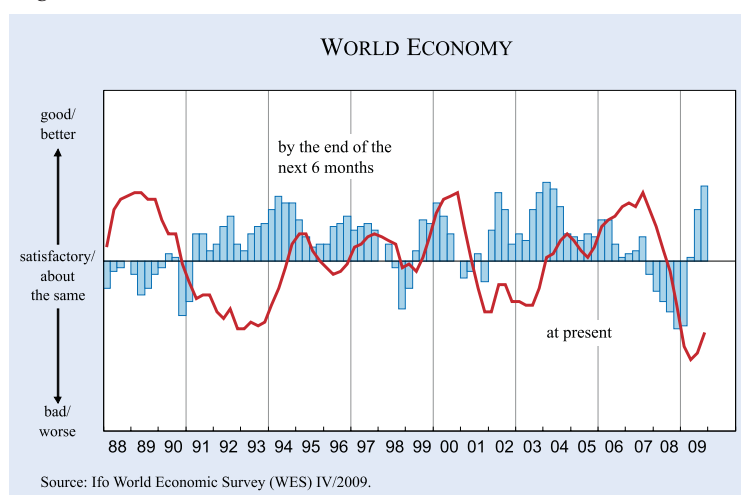


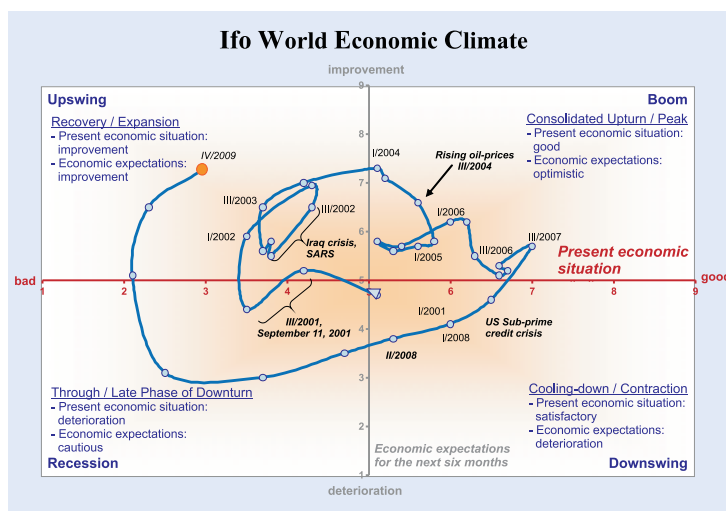
Figure 2



Box 1 Ifo Economic Clock and the Ifo 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 fourth quarter of 2009 both, the economic expectations and the assessments of the present economic situation, have been considerably upgraded pulling the overall economic climate index further into the area of the economic clock marking pronounced economic recovery. However, the global economy is not yet out of the woods. So far, the recovery of the world economy is driven especially by the dynamic development in *Brazil* as well as in *India*, *China* and other *Asian countries*.



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).

The survey results indicate that the euro area economy is stabilising and stepping towards a gradual recovery (see Box 2). The economic climate index improved in the *euro area*, on average, due to both less unfavourable assessments of the present economic situation and more positive economic expectations. However, the present economic situation continues to be assessed as very weak in all *euro area* countries, except *Cyprus*. The economic expectations for the next six months have become particularly optimistic in *Italy*, *Germany*, the *Netherlands* and *Portugal* and to a lesser degree also in *Austria*, *France*, *Finland*, *Belgium*, *Slovenia* and *Slovakia*. Rather sluggish economic recovery is forecast for the first half of 2010 in *Spain* and *Greece*. The only country in the euro area where WES experts expect further economic weakening in the next six months is *Ireland*. In *euro area*, as for the world average, unemployment has become the most important economic problem, closely followed by insufficient demand and public

debt. Still, several *euro area* economies have experienced relatively modest increases in unemployment rates so far despite rather large contractions of GDP. Not so *Ireland* and *Spain*, where unemployment has risen markedly. Here WES experts also emphasized lack of trust in governments economic policy.

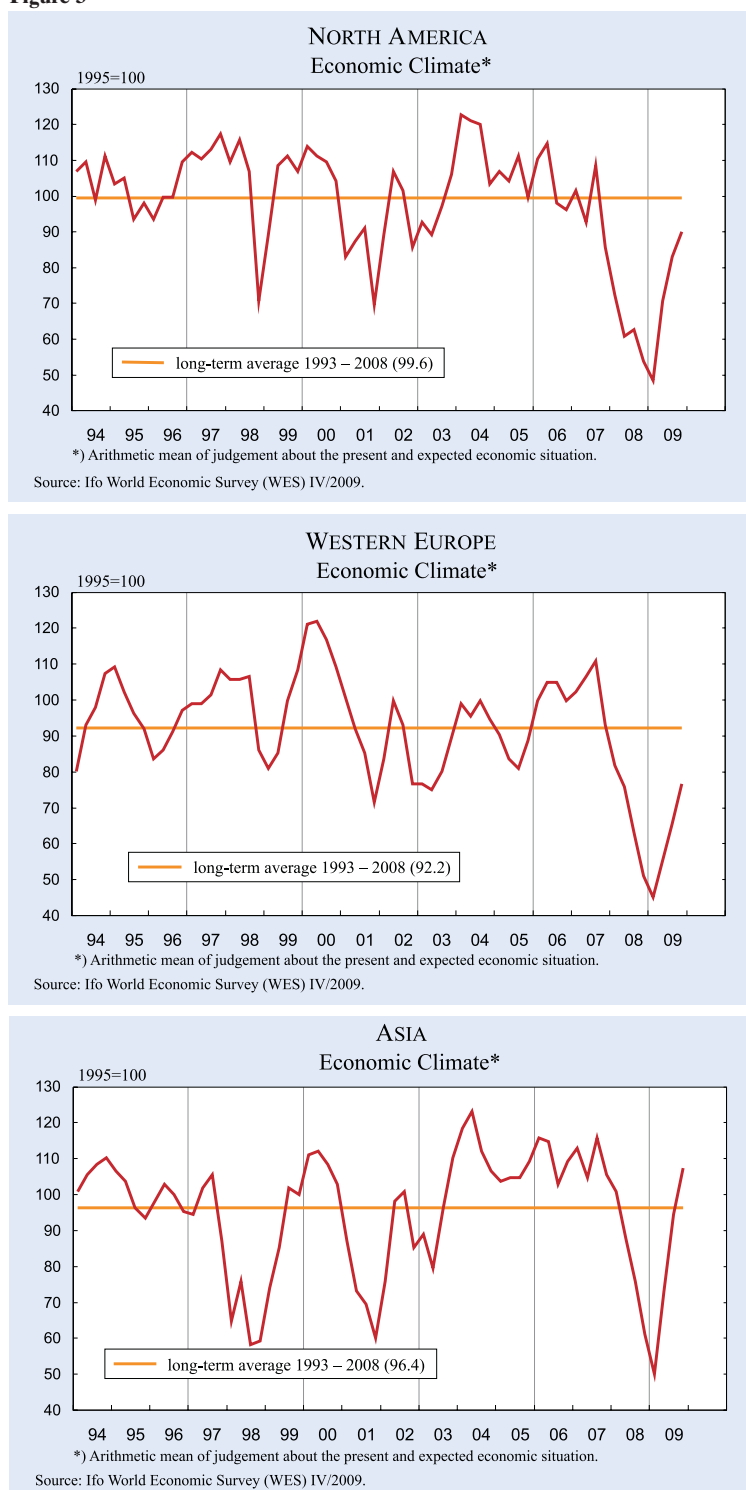
The economic expectations have again been strongly upgraded also outside the *euro area*, so in *Sweden*, *Norway*, *Denmark* and also in the *UK* and *Switzerland*. However, the present economic performance here is also still regarded as weak, particularly in the *UK* and *Sweden*. However, in the *UK* consumer spending is expected to start rising in early 2010, while business investment is expected to stabilize. In *Western Europe*, only in *Norway* does the present economic situation continue to be assessed as favourable.

Western Europe: Economic recovery expected

The economic climate indicator for *Western Europe* improved strongly in October 2009 (see Figure 3). For the first time since the end of 2007 the assessments of the present economic situation have been upgraded in *Western Europe*, on average. The economic expectations have been improving throughout the year and have lately become clearly optimistic (see Figure 4).

The economic expectations have again been strongly upgraded also outside the *euro area*, so in *Sweden*, *Norway*, *Denmark* and also in the *UK* and *Switzerland*. However, the present economic performance here is also still regarded as weak, particularly in the *UK* and *Sweden*. However, in the *UK* consumer spending is expected to start rising in early 2010, while business investment is expected to stabilize. In *Western Europe*, only in *Norway* does the present economic situation continue to be assessed as favourable.

Figure 3



North America: Economic climate continues to improve

The economic climate indicator in *North America* improved again in October 2009 for the third time in succession (see Figure 3). As in the rest of the world, the improvement was due to both upbeat economic expectations and upgraded assessments

of the present economic situation, which however are still at a very low level (Figure 6). This economic pattern applies to both countries, the *US* and *Canada*. The WES experts expect capital expenditures, private consumption and the exports to pick up strongly in the first half of 2010. As household spending seems to be expanding, also the imports are forecast to increase in the near term, which in the case of the *US* would help pull the global economy out of recession. However, insufficient demand also in the *US* is still the economic problem number one at present. Also unemployment and the public deficit remain critical, according to WES experts.

Central and Eastern Europe: Recovery expected to be rather uneven

According to the latest WES results, the economic climate index improved slightly in *Central and Eastern Europe* (see Figure 4). Both the assessments of the present economic situation and economic expectations have been upgraded somewhat compared to the preceding July survey, on average for the region (see Figure 8). However, recovery is expected to be rather uneven across the countries of the region.

In the vast majority of *Central and Eastern European* countries the present economic situation is still assessed as very weak. Particularly low marks were given by WES experts in the *Baltic countries* (*Latvia*, *Lithuania* and *Estonia*) as well as in *Romania*. In *Latvia* and *Romania* WES experts expect that the economic situation will further deteriorate in the next six months, including contraction of capital expenditures and

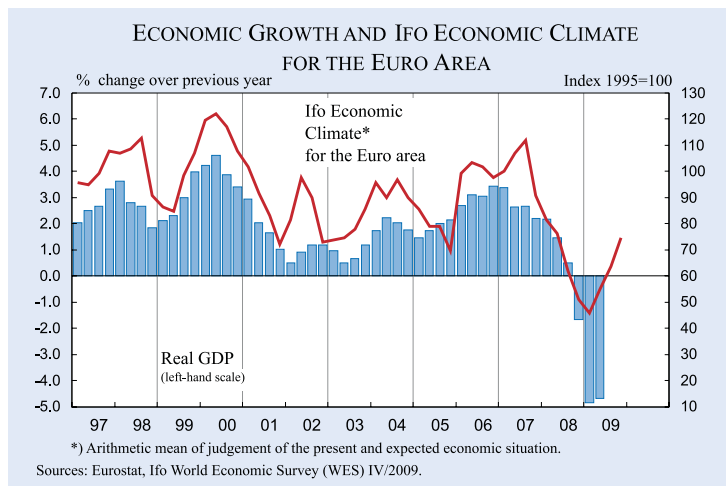
Box 2

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 Economic Climate for the *euro area* improved in the fourth quarter of 2009 for the third time in succession. The rise in the Ifo indicator is primarily the result of more favourable expectations for the coming six months, but also the assessments of the current economic situation have improved slightly. This shores up hopes that the recovery in the *euro area* economy will continue in the first half of 2010.

The expectations for the coming six months improved in all countries of the *euro area*. The economic expectations are especially optimistic in *Italy, Germany and the Netherlands*. In *Spain and Greece*, however, the WES experts remain cautious in their expectations although less so than in the previous quarter. In the entire *euro area* it is only in *Ireland* where a further worsening of the economy is anticipated in the coming six months. In nearly all countries in the *euro area* the current economic situation, however, is still appraised as quite unfavourable.



private consumption. In both countries the surveyed economists stressed lack of confidence in government's economic policy and capital shortage as main impediments to economic recovery. In *Estonia* and *Lithuania*, in contrast, the economic expectations turned optimistic for the first time in more than two years. The export sector is expected to revive in both countries in the first half of 2010. Nevertheless, in *Lithuania* economists expressed concern about a lack of confidence in the government's economic policy. The same holds true for *Hungary*. However, also here optimistic expectations prevail concerning capital expenditures and exports. Less confident are the WES experts, in *Bulgaria*. Particularly the exports are forecast to decrease further in the next six months. Declining exports are also forecast by the WES experts in the *Czech Republic*, but capital expenditures are expected to strengthen and private consumption to stabilize further in the coming

months. In *Poland* the economic climate remains fairly favourable. Due to its small export ratio, *Poland* has not been as strongly affected by the global recession as other countries, but has also experienced substantial economic cooling in 2008 and 2009. In the fourth quarter of 2009 the assessments of the present economic situation have been upgraded again and have almost reached the "satisfactory" mark. Economic expectations turned positive, particularly relating to the export sector. However, the public deficit continues to pose a serious economic problem, according to WES experts.

Also in the non-EU countries of *Croatia* and *Serbia*, the present economic situation is weak, according to WES experts. However, the economic expectations for the next six months have been upgraded here as well in October, although both countries have to combat a variety of economic problems, including unemployment, insufficient demand, public and foreign debts,

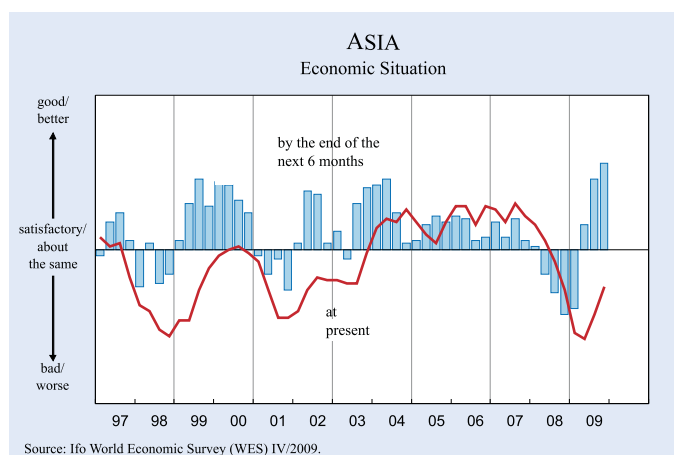
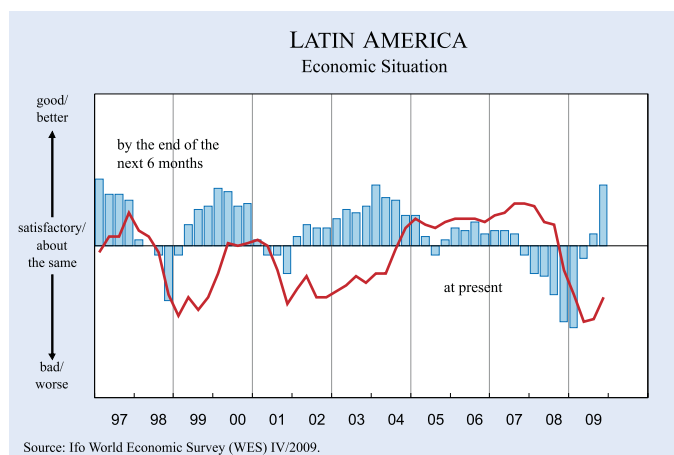
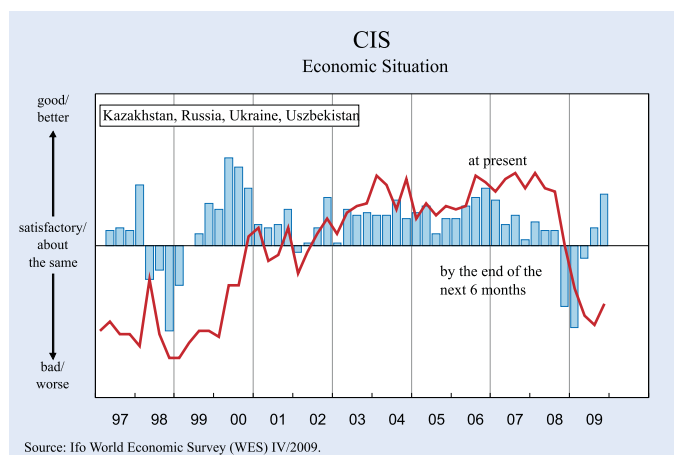
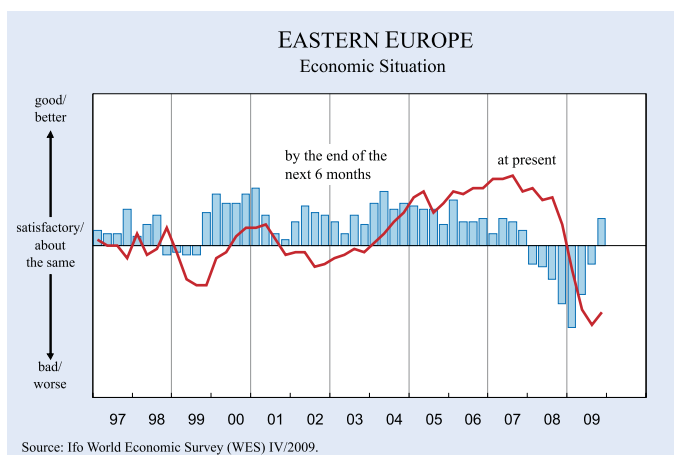
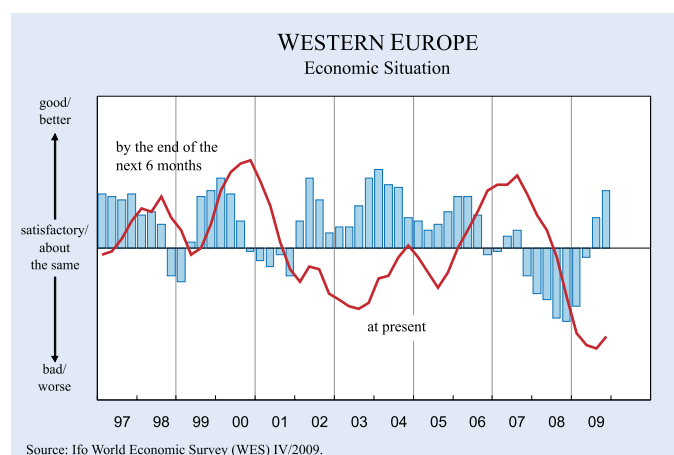
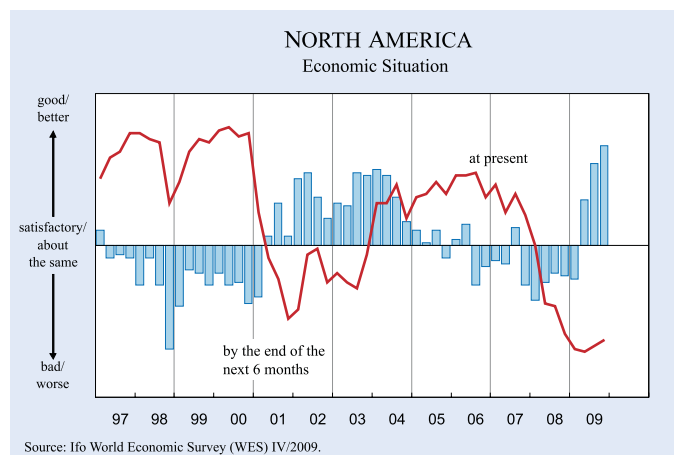
capital shortages and lack of international competitiveness. A favourable economic climate prevails, according to WES experts, in *Albania*, with the present economic situation assessed as satisfactory and economic expectations pointing to further strengthening in the first half of 2010.

CIS: Confidence returns in Russia

The overall economic climate index for CIS countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan and Uzbekistan*) improved again somewhat in October, suggesting that the downturn is bottoming out in this region as well. Both survey components – present economic situation and economic expectations for the next six months – have been upgraded (see Figure 6). However, the present economic situation in *Russia*, although improving, is still considered weak, underscoring

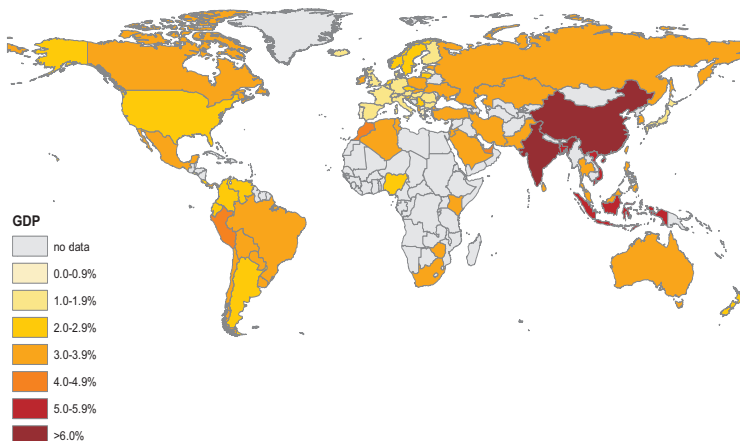
Figure 4

SELECTED REGIONS



Box 3**Medium-term growth outlook still cautious**

Expected Average Annual Growth Rate of the Real Gross Domestic Product over the next 3 to 5 Years



The medium-term growth outlook for the next 3 to 5 years stayed, at 2.5 percent (p.a.), exactly at the same value reported one year ago, compared with around 3 percent in the longer term average (see Table 1).

A moderate growth outlook (1.5 percent) is particularly pronounced in Western Europe, which is nevertheless a marginal increase compared to last year's estimate (1.3 percent). Within *Western Europe* particularly *Greece* and *Portugal* are the two most pessimistic countries, with medium-term growth estimates of only 0.7 percent and 0.8 percent per year respectively.

In *North America* (2.3 percent) the medium-term growth outlook appears to WES experts to be somewhat brighter than last year (both in the *US* with an upward revision from 1.5 percent to 2.1 percent and in *Canada* from 2.3 percent to 3.3 percent). However, the new medium-term growth rate for *North America* is almost a full percentage point lower than the long-term average.

Also in *Oceania*, both in *Australia* and *New Zealand*, last year's already rather positive medium-term outlook was revised up slightly (in *Australia* from 3.2 percent to 3.4 percent and in *New Zealand* from 2.4 percent to 2.8 percent).

In two other growth regions of the world – *CIS* countries and *Asia* – a further erosion of expected medium-term growth rates set in. But despite this moderation the expected annual growth rate will be in both cases a full percentage point higher, at around 3.5 percent, than the overall average of the world. Not surprisingly, by far the highest medium-term growth rates are still expected in *China* (7.2 percent) and *India* (6.8 percent).

In *Latin America* the medium term growth outlook of about 3 percent is confirmed by the WES experts. By country *Peru* and *Brazil* are again among the best performers, despite the fact that the growth outlook was revised downwards somewhat (in *Peru* from 6.9 percent to 4.8 percent and in *Brazil* from 3.9 percent to 3.8 percent).

Also revised slightly downwards but still well above the world average is the medium-term growth outlook in *Africa* and the *Near East* (from 3.9 percent to 3.5 percent in the case of *Africa* and from 4.3 percent to 3.7 percent in the case of the *Near East*).

Eastern Europe, one of the growth stars of the past 10 years, reduced its medium term growth significantly from 3.7 percent to 2.4 percent.

which has become *Russia's* second largest trading partner. Thus WES experts expect further economic strengthening in the first half of 2010, although the pre-crisis growth rates will not be achieved quite so soon. As the most important economic problem, the experts named lack of international competitiveness, underscoring structural weaknesses apart from the problems caused by the financial crisis. This applies also to the other *CIS* countries. Also in the *Ukraine* the marks for the present economic performance have been slightly upgraded over the previous July survey. The WES experts are fairly optimistic that capital expenditures, private consumption and the exports will recover in the next six months. However, the *Ukraine* still has to cope with some major economic problems, one of which is an inflation rate of around 14 percent, which is among the highest on a world-wide scale. Also continued political turmoil results in a lack of confidence in government's economic policy. A stable economic climate prevails in the *Central Asian countries* of *CIS* (*Kazakhstan*, *Kyrgyzstan* and *Uzbekistan*), according to WES experts. Particularly in *Kazakhstan*, capital expenditures, private consumption and exports are expected to pick up in the near-term.

Asia: Further economic strengthening

the amount of damage the global financial crisis and lower oil prices have caused to *Russia's* economy. But supportive factors for the *Russian* economy are the rising oil prices and increasing demand for fuel and raw materials from *China*,

In *Asia* the economic climate indicator improved very strongly in October, for the third time in succession (see Figure 3). Again, the improvement of the climate indicator was due to both less negative assessments of the present economic situation and

Table 1

GDP
Expected Average Annual Growth Rates of Real Gross Domestic Product
Over the Next 3 to 5 Years*
(based on WES QIV/2009 and QIV/2008)

Region	WES QIV/2009	WES QIV/2008	Region	WES QIV/2009	WES QIV/2008
Average of Countries	2.5	2.5	Latin America	3.2	3.1
Western Europe	1.5	1.3	Argentina	2.7	3.3
Austria	1.4	2.1	Bolivia	3.8	3.0
Belgium	1.3	1.0	Brazil	3.8	3.9
Cyprus	3.8	3.8	Chile	3.6	3.7
Denmark	1.5	1.5	Colombia	2.8	3.6
Finland	1.6	1.9	Costa Rica	2.8	-
France	1.3	1.3	Ecuador	2.1	2.5
Germany	1.5	1.5	El Salvador	1.5	1.5
Greece	0.7	3.2	Mexico	3.0	2.4
Iceland	1.5	2.6	Panama	3.8	-
Ireland	0.3	-0.4	Paraguay	3.2	3.8
Italy	1.3	0.5	Peru	4.8	6.9
Luxembourg	2.6	3.8	Trinidad and Tobago	2.3	3.0
Netherlands	2.1	1.5	Uruguay	3.5	3.5
Norway	3.2	3.4	Venezuela	2.8	2.3
Portugal	0.8	1.2	Africa	3.5	3.9
Spain	1.1	0.7	Algeria	3.8	2.6
Sweden	2.2	1.9	Kenya	3.8	-
Switzerland	1.5	1.6	Mauritius	3.8	3.8
United Kingdom	1.8	1.0	Morocco	4.5	4.9
North America	2.3	1.6	Nigeria	2.6	4.5
Canada	3.3	2.3	South Africa	3.5	3.8
United States	2.1	1.5	Tunisia	3.8	3.8
Oceania	3.3	3.1	Zimbabwe	3.8	0.9
Australia	3.4	3.2	Central and Eastern		
New Zealand	2.8	2.4	Europe	2.4	3.7
CIS	3.7	5.2	Albania	3.3	4.9
Kazakhstan	3.9	5.9	Bulgaria	1.4	4.8
Russia	3.6	5.1	Croatia	1.6	3.8
Ukraine	3.5	5.3	Czech Republic	2.1	3.9
Asia	3.5	4.1	Estonia	3.8	1.9
Bangladesh	5.9	5.3	Hungary	1.4	2.0
China	7.2	7.6	Latvia	0.7	2.5
Hong Kong	3.8	4.2	Lithuania	2.6	1.7
India	6.8	7.1	Poland	3.4	3.9
Indonesia	5.0	5.8	Romania	1.8	4.6
Japan	1.1	1.5	Serbia	2.1	5.0
Korea Rep.	3.5	3.9	Slovenia	2.6	3.5
Malaysia	3.8	3.7	Slovakia	3.2	5.0
Pakistan	3.4	3.2	Near East	3.7	4.3
Philippines	3.9	3.5	Iran	3.8	3.1
Singapore	3.8	6.0	Israel	3.2	3.0
Sri Lanka	3.8	4.9	Jordan	3.8	5.3
Taiwan	3.6	4.0	Kuwait	3.8	3.8
Thailand	3.5	4.2	Lebanon	5.4	3.8
Vietnam	5.2	5.7	Saudi Arabia	3.0	4.8
			Turkey	3.7	3.0
			United Arab Emirates	4.7	6.3

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade.

Source: Ifo World Economic Survey (WES), QIV/2009 and QIV/2008

highly optimistic expectations for the next six months (see Figure 8).

In all *Asian* countries surveyed by WES, economists are fairly optimistic that the economy will gain more

momentum in the first half of 2010. Also the export sector is expected to revive in the next six months in the majority of countries in the region. A particularly favourable economic situation prevails according to WES experts in *India, Vietnam* and *Indonesia*. In

all three countries capital expenditures and private consumption are expected to revive in the next six months, and in *India* and *Indonesia* also the export sector. In contrast, in *Vietnam* the export sector is forecast to deteriorate further in the near-term, mainly due to a fall in the export prices of *Vietnam's* agricultural, forestry and aquatic export products on the world market. Also in *China* the export sector is expected to weaken further. However, the present economic situation is assessed as satisfactory and is expected to strengthen further in the beginning of 2010, particularly with regard to capital expenditures and private consumption. *China's* economic stimulus package has succeeded in generating domestic demand that has boosted its imports, stimulating not only the region but also the global economy. Satisfactory, according to WES experts, is the economic situation also in *Malaysia*, *Bangladesh* and *Sri Lanka*. In all three countries exports, which collapsed this year, are expected to pick up again in the next six months. Much better than in the previous survey but still below the satisfactory level is how the present economic situation has been assessed in *South Korea*. However, the economic expectations have become here highly optimistic with capital expenditures, private consumption and exports foreseen to strengthen in the next six months. Economists surveyed in the *Philippines* are also confident that the economy will bounce back at the beginning of the next year, although some major economic damage has been caused in the past months by the tropical storms. Particularly the export sector is expected to recover in early 2010. However, the WES experts also stressed that public deficits, lack of confidence in government's economic policy, lack of international competitiveness and unemployment are hindering a stronger bounce back of the economy in the near term. With extremely low marks on the WES scale is how the present economic situation has been assessed in *Japan* and *Taiwan*. In both countries the surveyed economists named insufficient demand and unemployment as the most important economic problems at the present. In *Taiwan* lack of confidence in government's economic policy also appears to pose a downside factor for the economy. However, the economic expectations in both countries point to economic recovery. Economic revival in the whole *Asian* region reduces the downward pressure on economies in this region that are still struggling in the recession. Also in *Hong Kong*, *Singapore* and *Thailand* the present economic situation is assessed as far below the satisfactory level, although somewhat bet-

ter than in the previous surveys of this year. An unfavourable economic climate continues to prevail, according to WES experts, in *Pakistan*. A substantial turnaround is not expected in the next six months. Inflation of around 14 percent, foreign debts, unemployment, lack of confidence in government's economic policy and a persistent terrorist threat are only some of economic problems hindering economic revival in the near term.

Oceania: Economy revives

Also in *Australia* and *New Zealand* the economic climate improved considerably since the first half of this year (see Figure 6). In *Australia*, the assessments of the present economic situation have been strongly upgraded and have again reached the "satisfactory" mark. The economic expectations point to further strengthening of capital expenditures, private consumption and the export sector in the next six months. In *New Zealand* the present economic performance also improved, according to WES experts, but has not yet reached the "satisfactory" mark. The economic expectations point to further stabilization in the coming months. Weak demand has been named by WES experts as one of the most important economic problems at present. As a result, capital expenditures and exports are expected to remain subdued in the first half of 2010. *New Zealand* has had the worst recession in three decades and the pickup appears to be slower and more vulnerable than in *Australia*, which avoided a recession.

Latin America: Economic climate index bounces back

In *Latin America* the economic climate indicator bounced back in October. Particularly the economic expectations for the next six months improved considerably and are now pointing to economic strengthening in the first half of 2010. Also the assessments of the present economic situation have been upgraded. However, in the majority of countries of the region the present economic performance is still regarded as weak by the WES experts (see Figure 9).

Brazil, *Peru* and *Uruguay* are among the group of economies that recovered from the economic crisis particularly fast. In all three countries the WES experts assess the present economic situation as

Figure 5a

EUROPEAN UNION

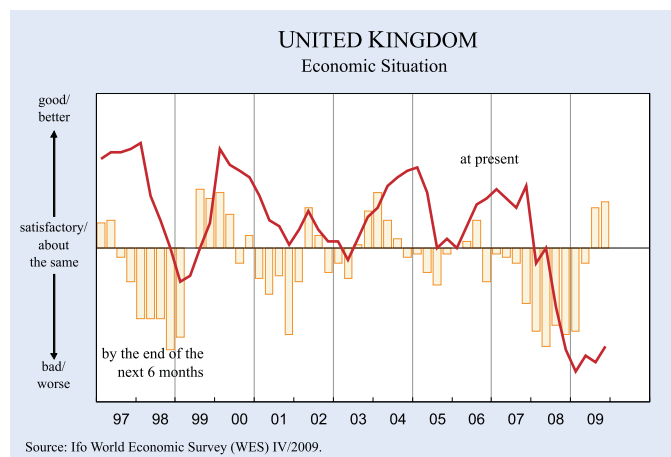
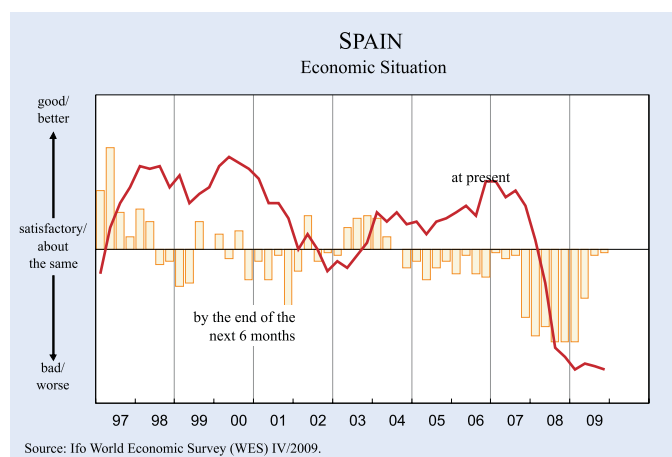
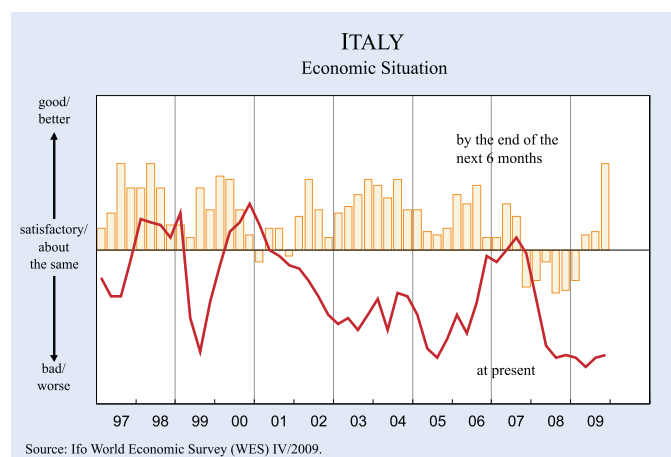
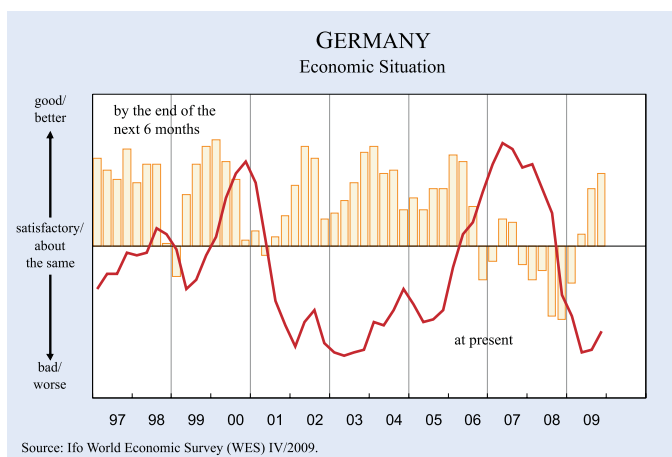
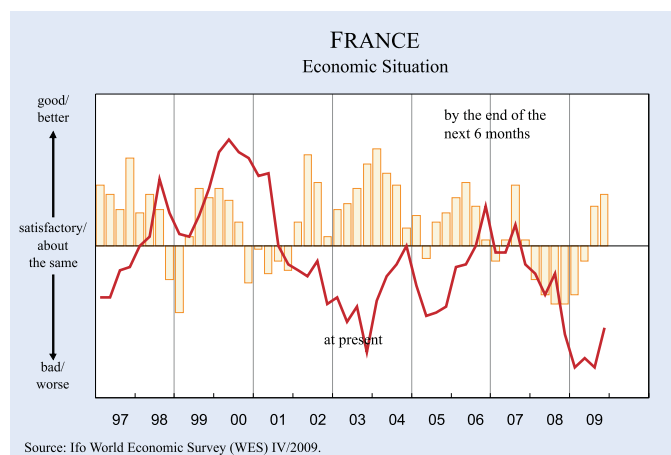
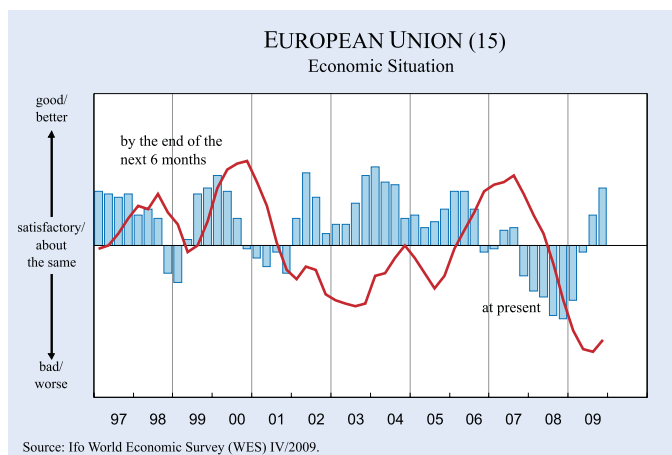


Figure 5b

EUROPEAN UNION

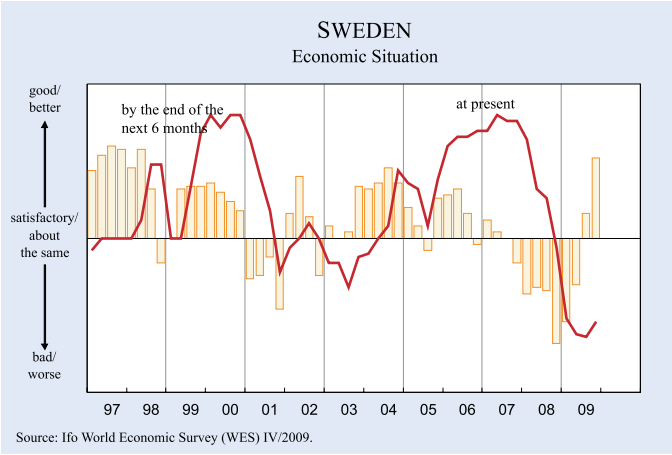
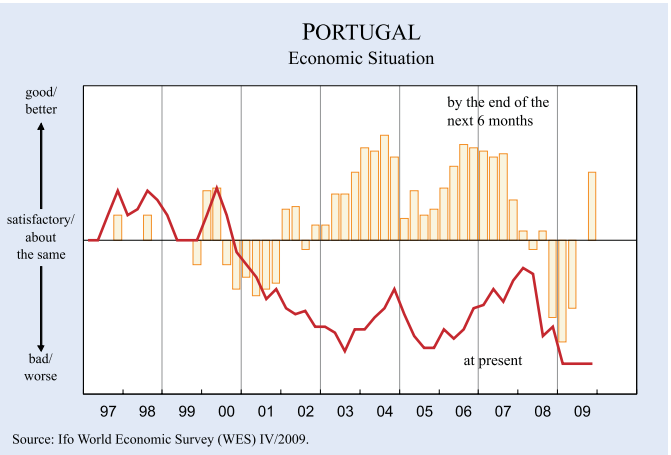
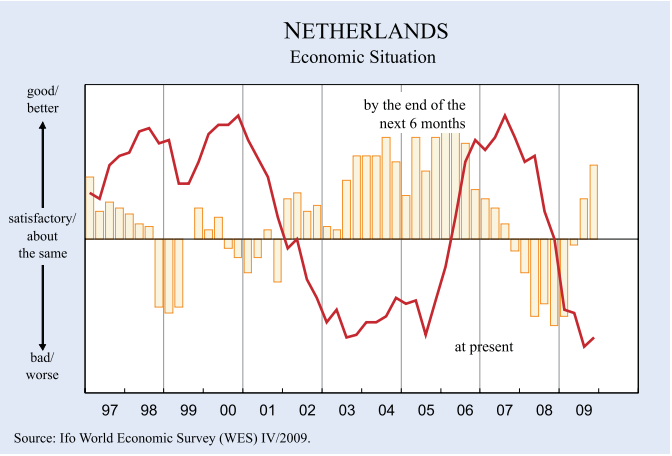
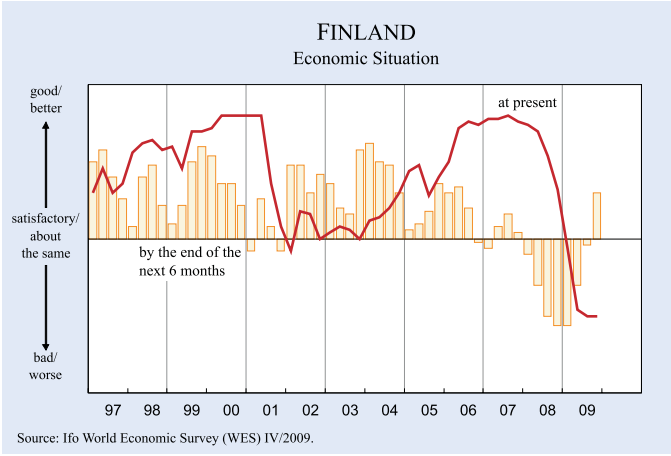
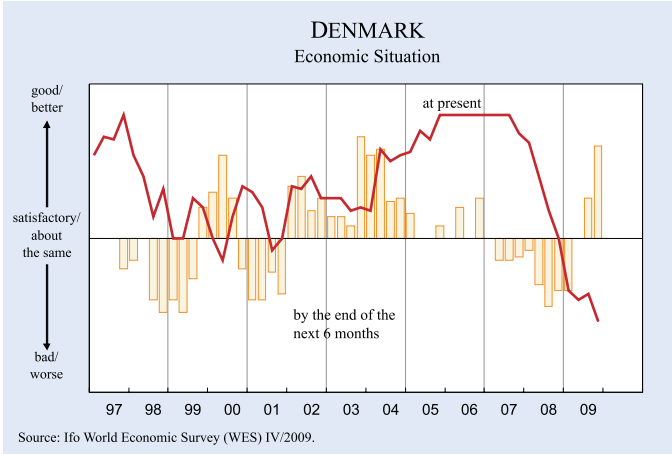
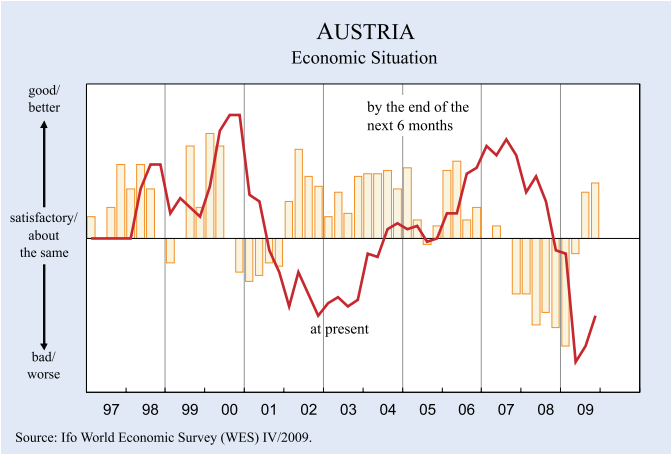


Figure 6

NORTH AMERICA, OCEANIA AND CIS

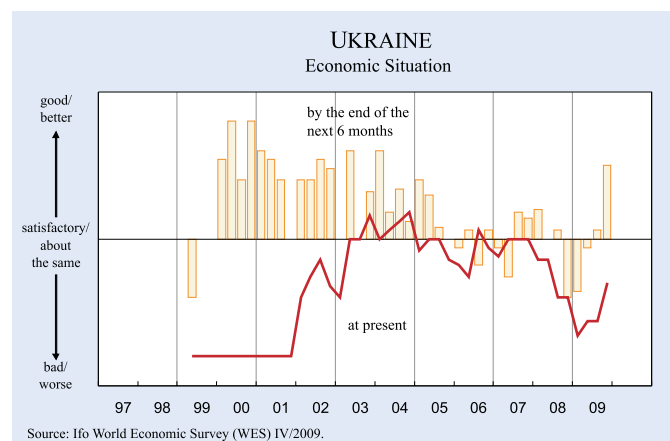
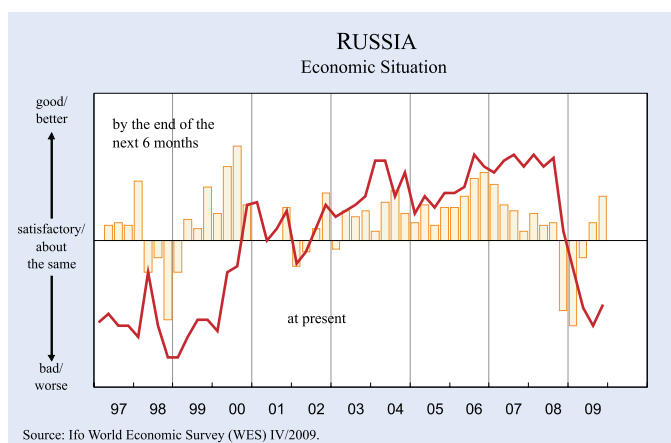
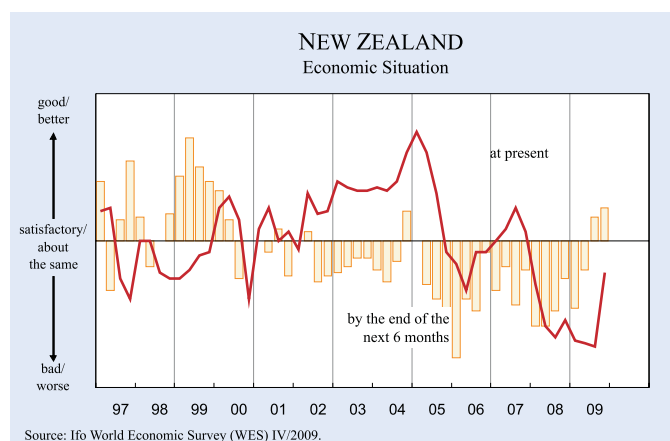
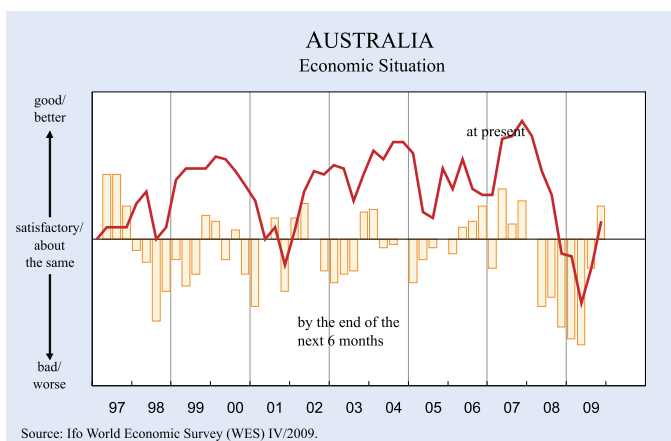
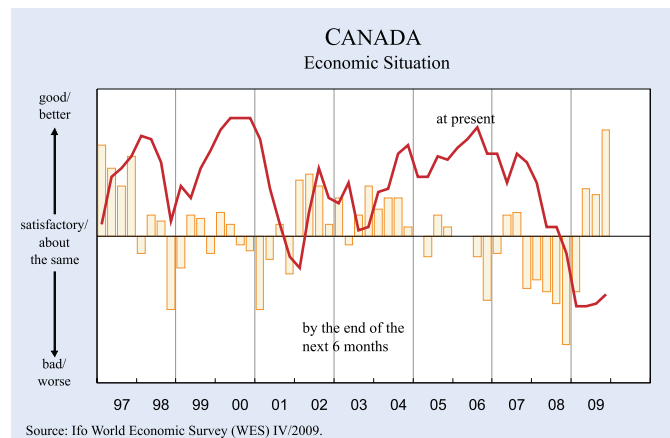
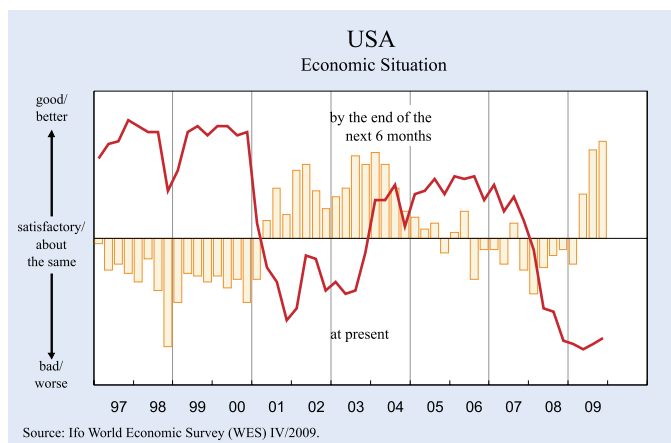


Figure 7

EASTERN EUROPE

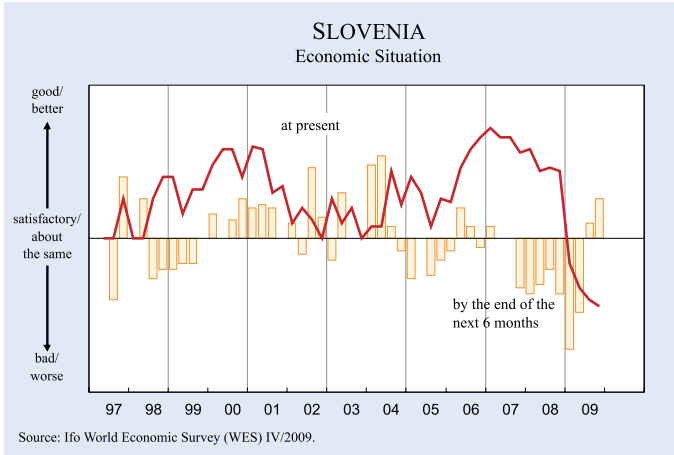
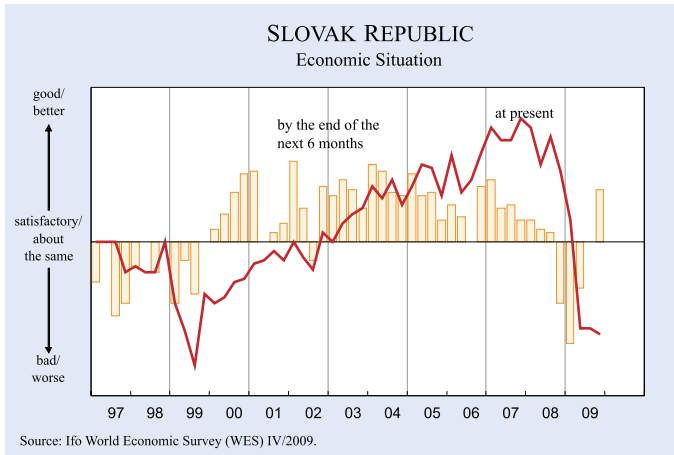
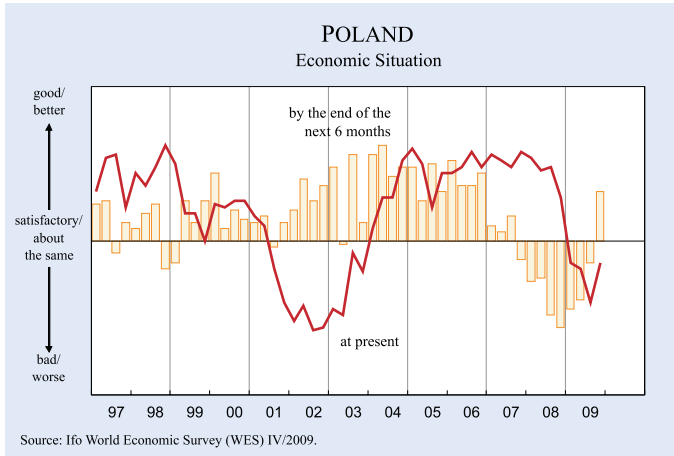
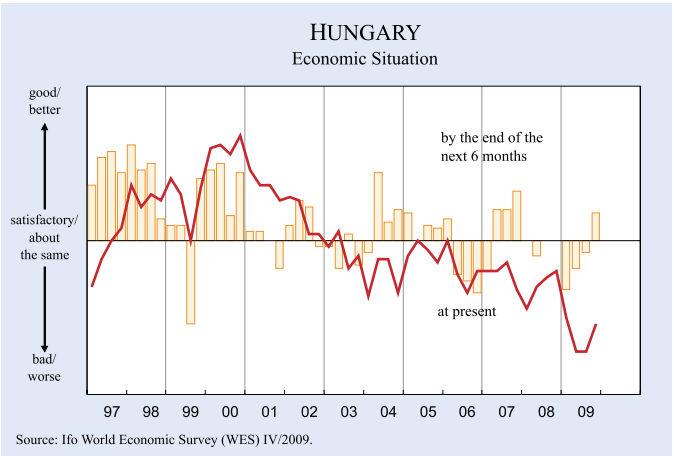
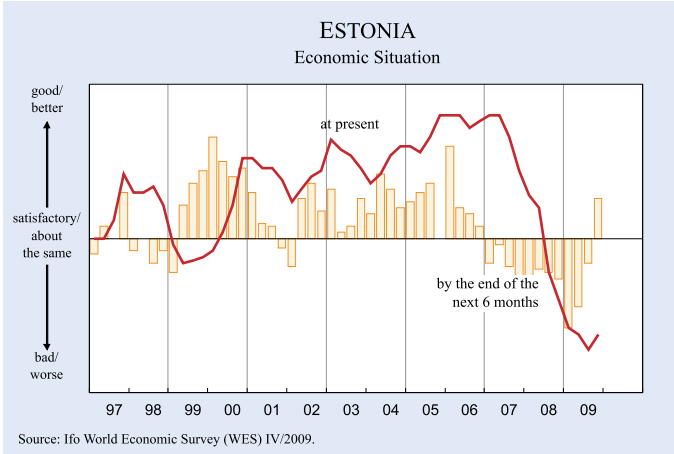
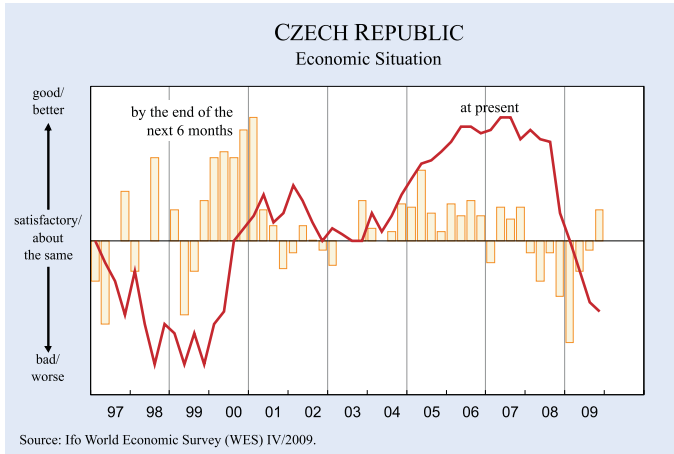


Figure 8

ASIA

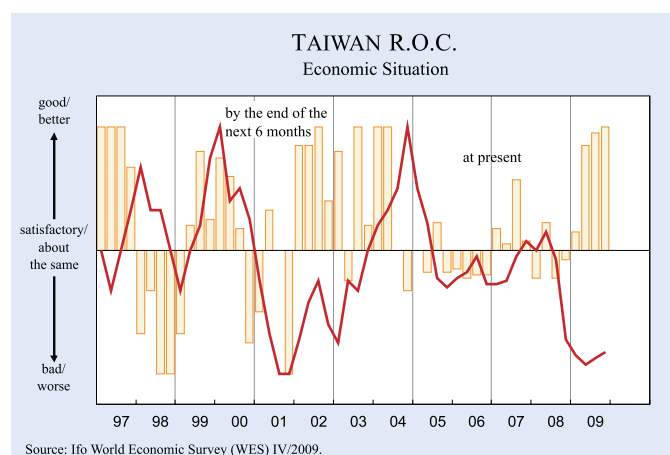
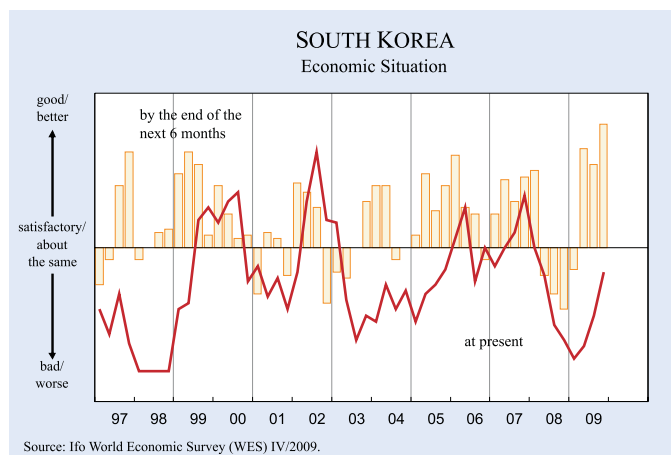
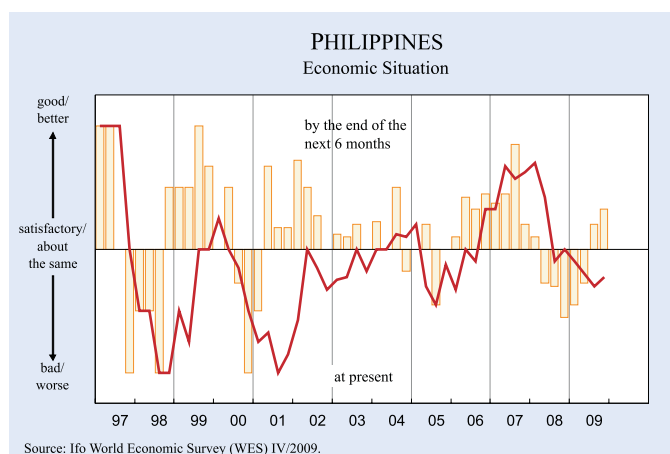
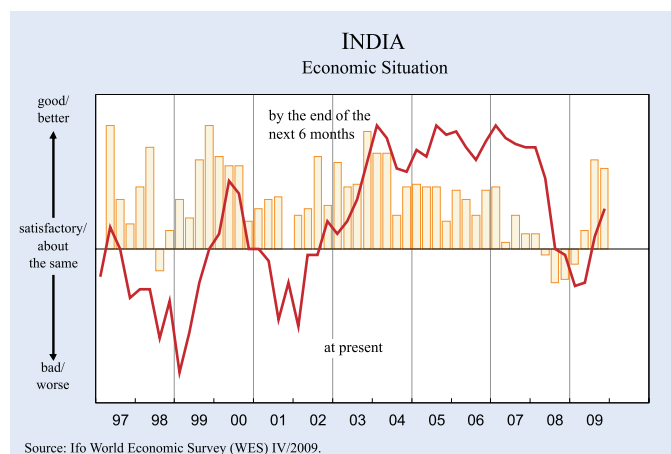
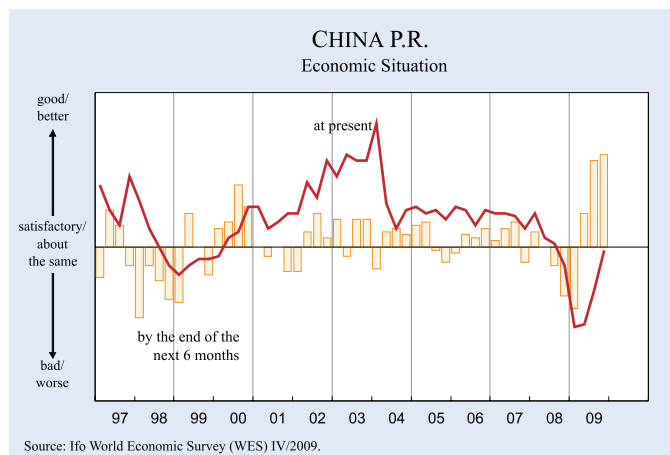
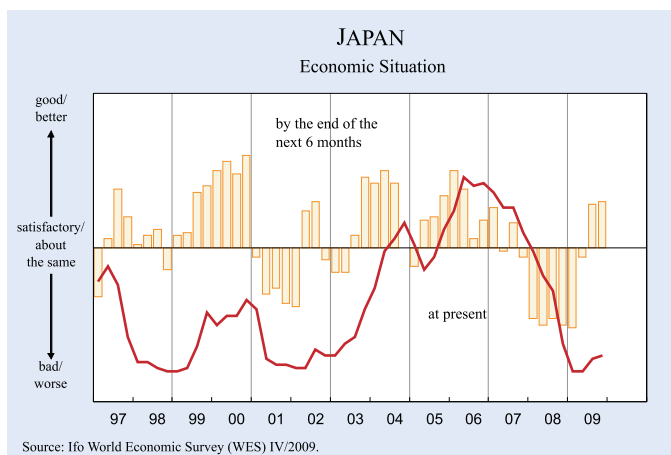


Figure 9

LATIN AMERICA

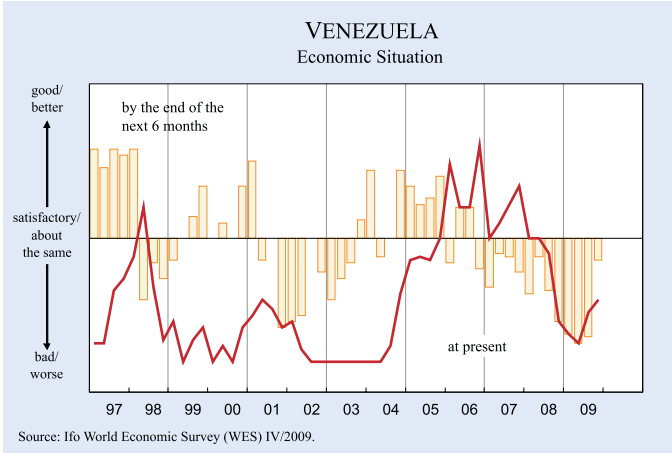
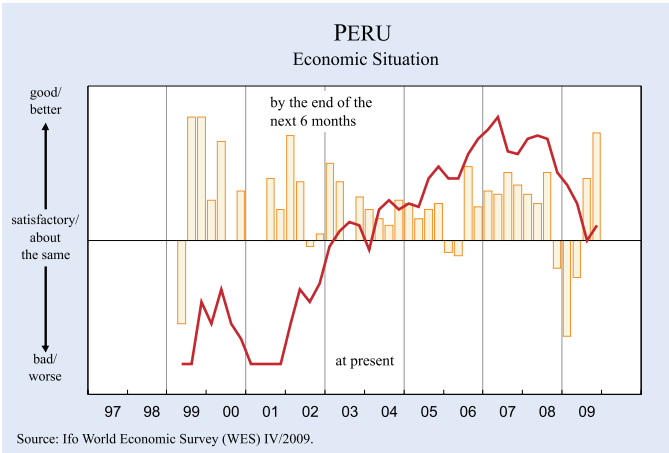
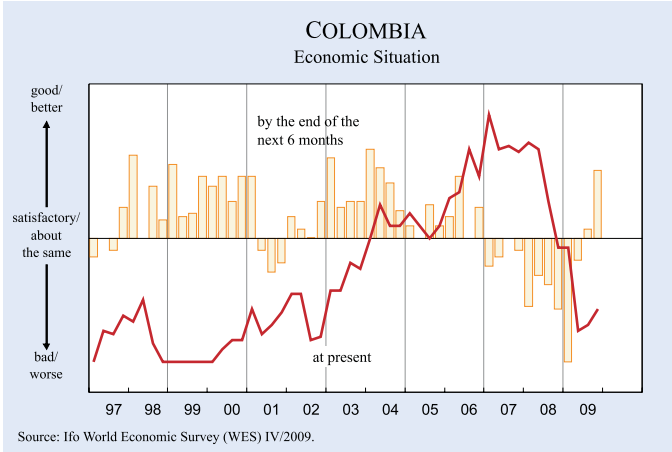
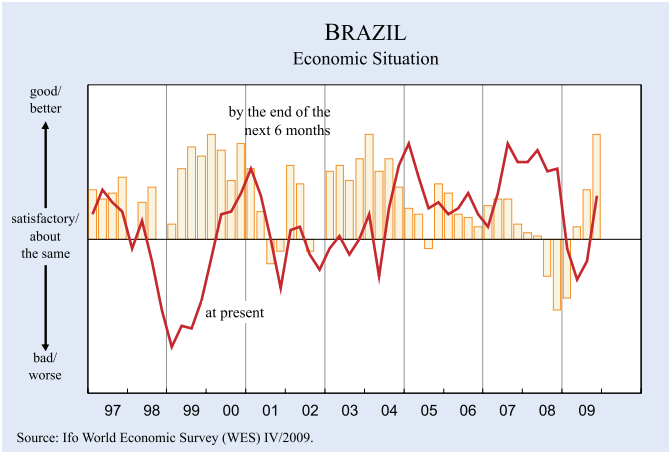
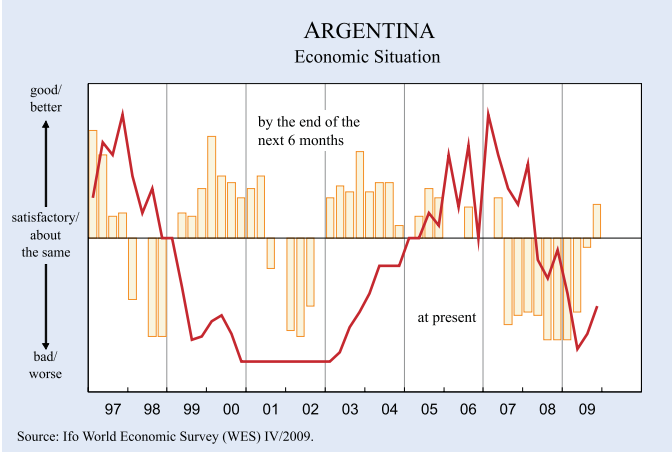
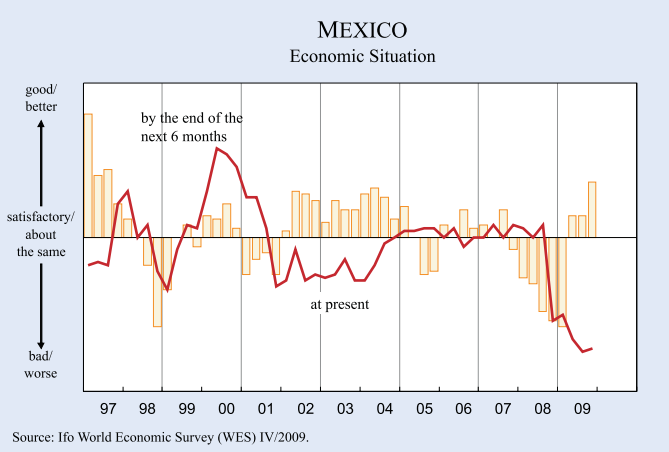
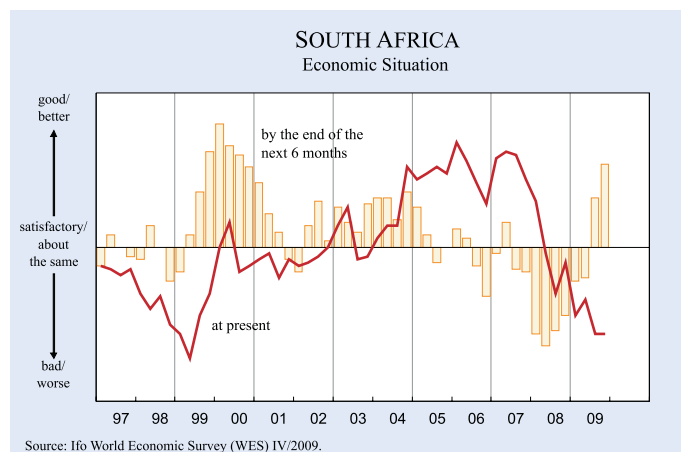
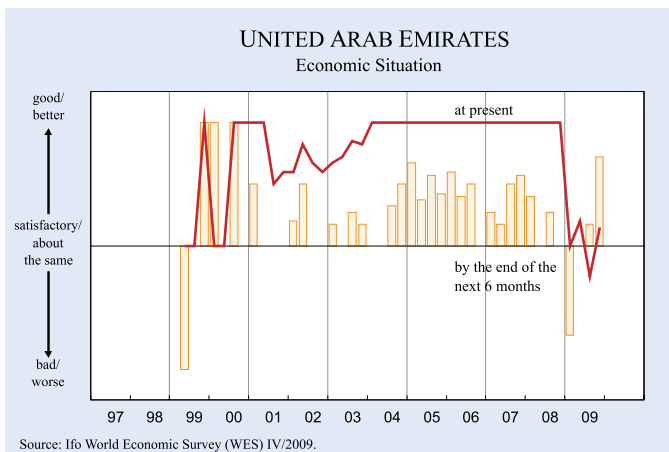
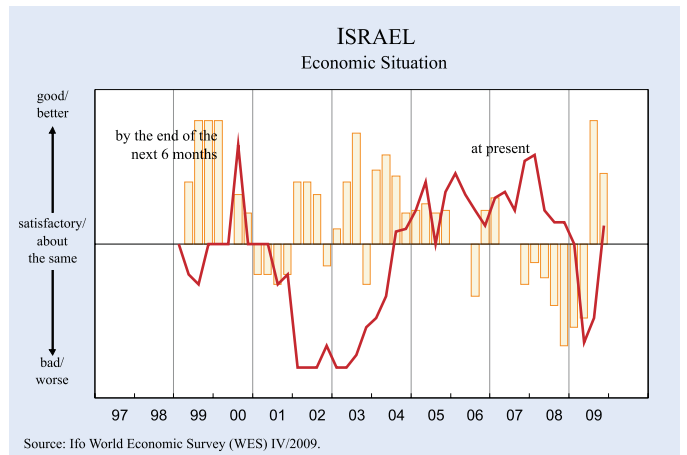
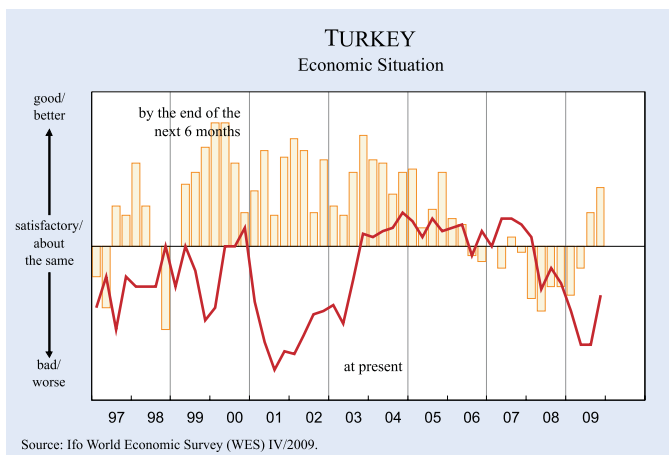
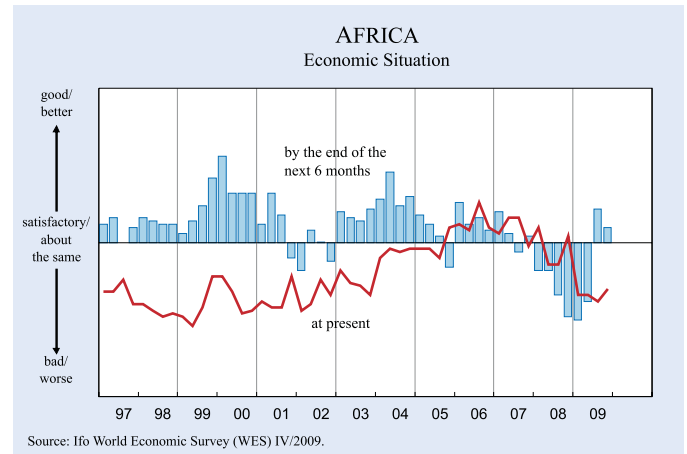
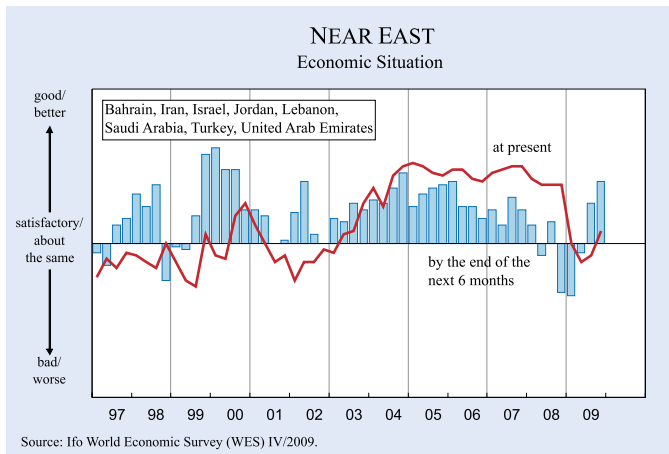


Figure 10

NEAR EAST AND AFRICA



favourable and are fairly confident that these economies will strengthen further in the coming six months. Capital expenditures, private consumption and exports are expected to pick up further in the first half of 2010. In *Brazil* also imports are expected to increase markedly. As it is the region's largest domestic market, other *Latin American* countries are expected to benefit from the economic upswing in *Brazil*. However, in *Brazil* the experts stressed lack of international competitiveness of its own products, although the country appears to be in control of economic issues that are challenging the other economies in the region. Particularly high unemployment has again become the economic problem number one in many countries of the continent, so, among others, also in *Chile*. However the assessments of the present economic situation have been improving since the summer. The economic expectations have also become highly optimistic, also relating to the export sector, signalling that the *Chile* economy is picking up. As Michelle Bachelet government's economic policy enjoys high approval in the country, the prospects that the country's economy will revive in the near-term are good. In contrast, lack of trust in government's economic policy poses serious economic problem, according to WES experts, in *Argentina, Bolivia, Ecuador, Paraguay, Trinidad and Tobago* and in *Venezuela*. In all these countries, except *Bolivia* and *Trinidad and Tobago*, the present economic situation is assessed as bad. Further economic deterioration is expected in *Ecuador* and *Venezuela*. Particularly the export sector is expected to weaken further in the next six months. In *Venezuela* a combination of economic problems aggravates the situation, among them unemployment, public deficits and lack of international competitiveness. Furthermore, *Venezuela* suffers at present from the highest inflation of all countries surveyed by WES, amounting to around 30 percent. The economic climate improved slightly, in contrast, in *Bolivia* and *Trinidad and Tobago*. For the next six months the WES experts expect economic stabilization, although not in the export sector, which is expected to weaken further. Rising exports are forecast by the surveyed economists, in contrast, in *Argentina* and *Paraguay*. Also private consumption is expected to recover in the beginning of 2010. However, in both countries the present economic situation is still regarded as very bad. The same holds true for *Mexico, Colombia, Costa Rica* and *Guatemala*. In these countries the WES experts stated that insufficient demand is posing one of the most important impediments to economic recovery in the short-

term. However, in *Mexico* and *Costa Rica* the surveyed economists are fairly confident that capital expenditures, private consumption and the export sector will recover during the next six months. Not so confident are the economists surveyed by WES in *Guatemala* and *Colombia*. While in *Guatemala* the export sector is expected to remain sluggish into the beginning of next year, it is even expected to weaken further in *Colombia*. But, capital expenditures are forecast to increase in both countries in the next six months. In contrast, no economic turnaround is seen in the near-term in *El Salvador*. Unemployment and public deficits have been named here as the most important economic problems at present.

Near East: Rising oil-prices drive recovery

The economic climate improved in October for the second time in succession, also in the *Near East* region (see Figure 10). The global economic crisis and the credit crunch has caused, also in the economies of *Saudi Arabia, Jordan, Kuwait* and the *United Arab Emirates* an economic downturn in 2009. The *Saudi Arabian* economy may even contract this year, which would be the first drop since a decade. But the recent turnaround in oil prices is boosting economic recovery in the world's major oil-producing countries. In October the WES experts surveyed in these countries again assessed the present economic situation as favourable. They expect further strengthening in all these countries with a revival of capital expenditures and private consumption, as well as the export sector. Also inflation, which was a problem during the boom, is easing, according to WES experts. Further economic stabilization is forecast in *Lebanon*. Also in *Israel*, the assessments of the present economic situation have been strongly upgraded in the October survey. The present economic situation is now assessed as above the satisfactory level. The economic expectations point to further strengthening of capital expenditures, private consumption and exports. The economic climate is also gradually improving in *Turkey*, according to the latest WES results. However, the present economic situation is still assessed as weak. But the economic expectations for the next six months have again been upgraded and are pointing to further economic recovery. Private consumption, capital expenditures and exports are expected to strengthen in the beginning of 2010. In *Iran*, in contrast, the economic climate remains cool. The present economic situation is now described as bad,

Table 2

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

Region	QIV/2009	QIII/2009	Region	QIV/2009	QIII/2009
Average of countries*	2.5	2.5	Latin America	7.7	7.7
<i>World Bank classification:</i>			Argentina	15.5	14.5
High-income countries	1.1	1.1	Bolivia	4.7	4.9
Middle-income countries	6.4	6.7	Brazil	4.2	4.4
Upper-middle	6.8	7.1	Chile	1.6	2.1
Lower-middle	5.7	7.8	Colombia	4.0	4.4
Low-income countries	7.0	5.9	Costa-Rica	5.0	8.1
			Ecuador	4.0	5.0
EU 27 countries	1.1	1.0	El Salvador	2.7	4.0
EU countries (old members) ^{a)}	0.8	0.8	Guatemala	3.9	4.7
EU countries (new members) ^{b)}	3.1	3.1	Mexico	5.4	5.6
Euro area ^{c)}	0.7	0.7	Panama	4.0	5.0
			Paraguay	3.5	5.8
Western Europe	0.8	0.8	Peru	1.7	1.9
Austria	1.0	1.0	Trinidad and Tobago	7.0	11.0
Belgium	0.8	0.8	Uruguay	7.2	6.5
Cyprus	1.3	1.8	Venezuela	30.0	30.0
Denmark	1.5	1.3			
Finland	0.6	0.8	Asia	1.9	2.0
France	0.6	0.4	Bangladesh	6.5	6.6
Germany	0.7	0.8	China	1.0	0.6
Greece	1.2	1.6	Hong Kong	1.7	0.6
Iceland	10.0	8.5	India	4.6	4.5
Ireland	-1.6	-2.6	Indonesia	5.2	5.4
Italy	1.0	1.0	Japan	-0.7	-0.3
Luxembourg	1.0	1.0	Malaysia	3.1	3.7
Malta	1.0	-	Pakistan	14.0	14.0
Netherlands	1.0	1.0	Philippines	3.4	4.0
Norway	2.1	2.1	Singapore	0.8	3.0
Portugal	0.4	0.3	South Korea	3.3	3.4
Spain	0.1	0.3	Sri Lanka	7.0	12.0
Sweden	0.5	0.3	Taiwan	-0.4	-0.2
Switzerland	0.4	0.6	Thailand	1.8	1.7
United Kingdom	1.2	1.4	Vietnam	8.0	9.3
Eastern Europe	3.2	3.3	Near East	6.9	7.4
Albania	3.4	3.0	Iran	25.0	25.0
Bulgaria	3.3	3.2	Israel	2.4	2.3
Croatia	3.4	3.1	Jordan	4.5	11.0
Czech Republic	1.3	1.8	Kuwait	6.0	5.0
Estonia	-0.1	-0.7	Lebanon	3.0	-
Hungary	5.0	5.0	Saudi Arabia	4.1	4.6
Latvia	2.6	3.6	Turkey	6.5	6.9
Lithuania	3.9	3.6	United Arab Emirate	4.6	4.6
Poland	3.2	3.2			
Romania	5.6	5.5	Africa	8.0	8.4
Serbia	9.3	9.0	Algeria	4.2	5.0
Slovakia	2.3	1.8	Egypt	-	9.5
Slovenia	1.6	1.2	Kenya	16.0	16.0
			Mauritius	4.0	7.0
CIS	11.5	13.0	Morocco	2.0	3.0
Kazakhstan	8.1	10.0	Nigeria	14.5	15.0
Kyrgyzstan	7.5	9.5	South Africa	7.0	7.5
Russia	11.0	13.0	Tanzania	-	15.0
Ukraine	14.5	15.0	Tunisia	5.0	3.0
Uzbekistan	14.5	18.0	Zimbabwe	3.1	9.4
North America	1.3	1.3	Oceania	2.2	2.3
Canada	1.0	1.2	Australia	2.3	2.3
United States	1.4	1.3	New Zealand	1.9	1.9

* 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.

^{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) IV/2009 and III/2009.

and further deterioration is expected in the coming months.

Africa: Economic recovery remains subdued

The economic climate improved slightly in *South Africa* in October (see Figure 10). The improvement of the overall climate indicator was again solely the result of more optimistic economic expectations, while the assessments of the current economic situation remained downbeat. However, the surveyed economists remain optimistic that capital expenditures, private consumption and the export sector will recover more strongly in the beginning of 2010. The surveyed WES experts named insufficient demand, unemployment, lack of international competitiveness and lack of skilled labour as some of the persistent economic problems the country is facing today.

In *Algeria, Mauritius, Morocco, Kenya and Tunisia* the surveyed economists foresee an economic stabilization in the next six months, although unemployment remains high. In *Nigeria* the present economic situation is assessed as weak by the WES experts. An economic turnaround during the next six months appears rather unlikely, given the variety of economic problems the country is facing at the present and the lack of trust in government's economic policy. Also *Zimbabwe* has to cope with persistent economic problems. Although the present economic situation continues to be assessed as "bad", the surveyed economists expect a continuation of the economic recovery in the next six months.

Moderate pick-up of inflation expected

WES experts expect on average for 2009, an inflation rate of 2.5 percent on a worldwide scale (see Table 2). This is exactly the same rate that was forecast already in the previous survey for this year. However, the additional question on the expected tendency of inflation in the course of next six months points to a moderate increase of consumer prices, whereas in the previous 4 surveys on a worldwide scale a declining tendency of

consumer prices was expected. The expected pick-up of the inflation trend appears to be a general phenomenon in all major regions of the world. The only exceptions are the *CIS* countries and *Africa*, which nevertheless are among the regions with the highest inflation in the world (*CIS*: 11.5 percent and *Africa*: 8.0 percent).

The lowest rate of consumer price inflation will prevail in 2009 in *Western Europe* (0.8 percent), followed by *North America* (1.3 percent), *Asia* (1.9 percent), *Oceania* (2.2 percent) and *Eastern Europe* (3.2 percent). In *Latin America* (7.7 percent) and the *Near East* (6.9 percent) inflation will remain also in 2009, well above the world average.

In the course of the financial crisis and worldwide recession inflation differences across country within a region appear to have become smaller than in the past. In *Western Europe*, a big outlier in 2009 inflation is only *Iceland* with a presumable consumer price inflation of 10 percent in 2009. In *North America* the difference of CPI in 2009 is relatively small between *Canada* (1.0 percent) and the *USA* (1.4 percent). Also in *Oceania* the differences in the 2009 inflation rate are relatively small with an expected 2.3 percent in *Australia* and 1.9 percent in *New Zealand*. In *Eastern Europe* the extremes with regard to inflation are *Estonia* with a presumably slight decline of consumer prices in 2009 (– 0.1 percent), and *Serbia*, with a still high inflation rate (9.3 percent). In *Asia* inflation in most countries is low and in *Japan* with an expected rate of – 0.7 percent even negative; the main exceptions from this general trend are *Pakistan* with an expected CPI of 14.0 percent, *Vietnam* of 8.0 percent as well as *Sri*

Figure 11

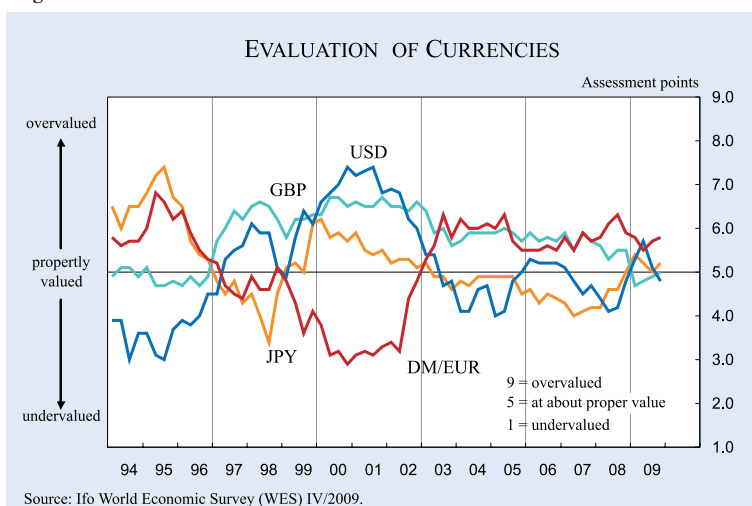
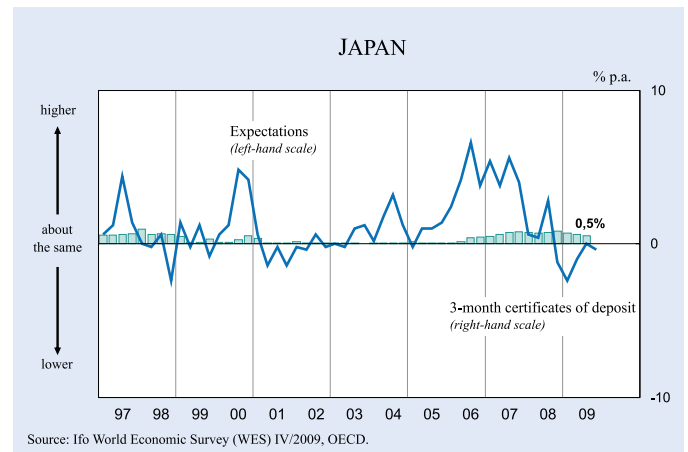
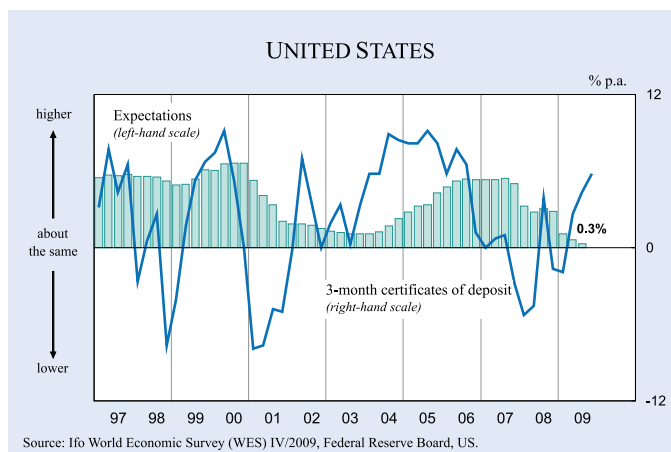
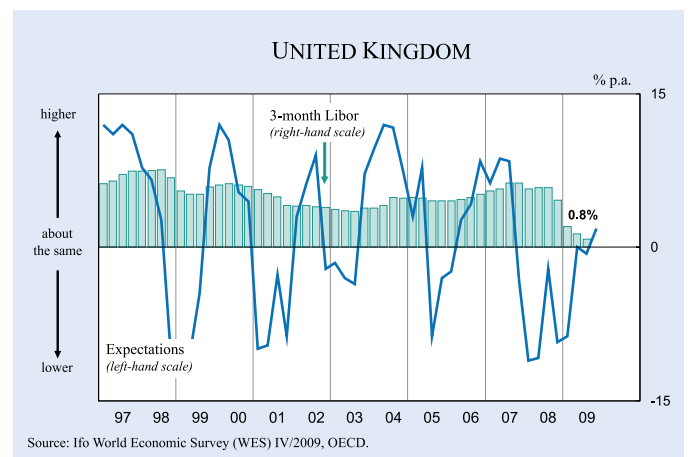
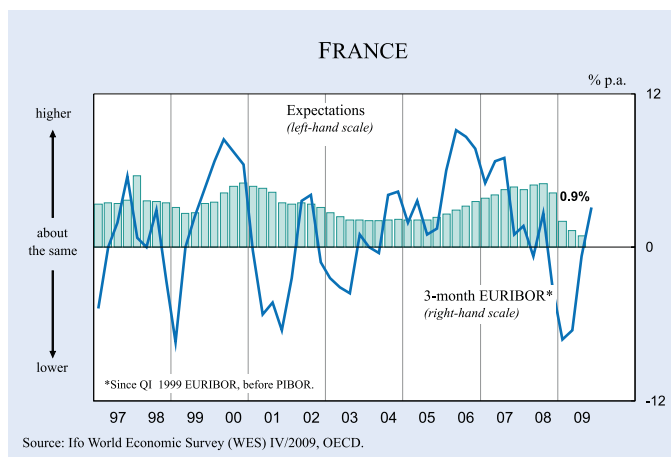
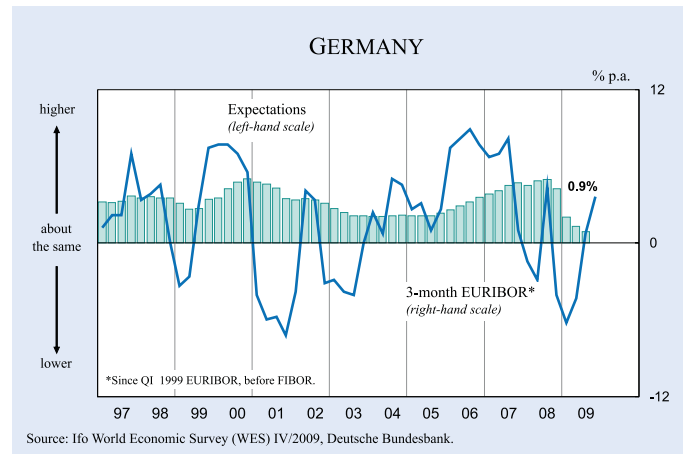
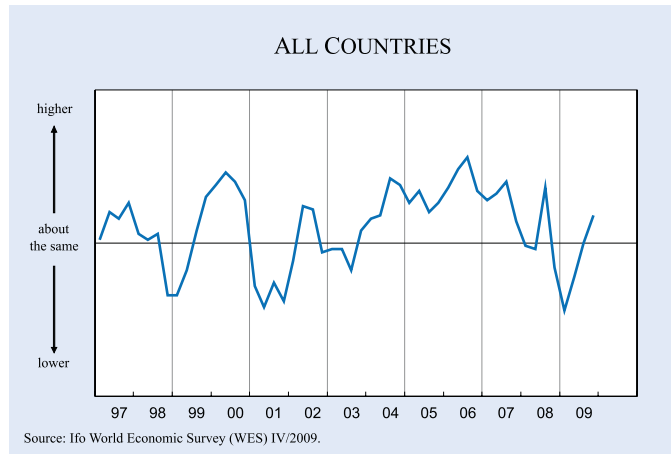


Figure 12

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



Lanka and *Bangladesh* with an expected inflation rate of 7.0 percent and respectively 6.5 percent.

In *Latin America* the relatively high average inflation rate of 7.7 percent is strongly influenced by the traditionally high inflation rate in *Venezuela* (30.0 percent) and also in *Argentina* (15.5 percent). On the other hand in some *Latin American* countries like *Chile* (1.6 percent) and *Peru* (1.7 percent) the presumable 2009 inflation rate is very low; also in *Brazil* inflation remains significantly below the average of the region at 4.2 percent.

In the *Near East* the still relatively high inflation rate of 6.9 percent is strongly influenced by the ongoing strong inflation in *Iran* (25 percent). In *Africa* for the first time in years the average figure is now pulled down somewhat by *Zimbabwe* (3.1 percent), whereas in the past the hyperinflation in this country made it almost impossible to calculate a meaningful average figure for the whole region. This time the high average figure of 8.0 percent for *Africa* was mainly driven up by *Kenya* (16.0 percent) and *Nigeria* (14.5 percent).

Euro appears increasingly overvalued

As in the previous survey the *US dollar* as well as the *Japanese yen* and the *British pound* appear to be close to their equilibrium values (see Figure 11). On the contrary, the *euro* was seen by even more WES experts than in the previous survey as overvalued. The *euro* is assessed as overvalued – compared with the countries' own currency – particularly in the *Near East*, e.g. *Saudi Arabia*, but also in *Africa* and *CIS* countries.

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 in terms of a fundamentals, signal on a worldwide average a further declining *US dollar* in the coming months. However, behind this average are diverging trends: An expected **weakening** of the *US dollar* in *Oceania*, both in *Australia* and *New Zealand*, as well as in *Canada* and *Asia* contrasts with an expected **increase** in the value of the *US dollar* in *Africa*, the *Near East* and *Latin America*. In *Western Europe*, as well as in *Eastern Europe* and *CIS* countries, the value of the *US dollar* – in comparison to the countries' own currencies – is expected to remain largely stable or to decline only marginally in the course of

the next six months. Generally undervalued according to WES experts are the currencies of *China*, *Vietnam*, *Taiwan*, *Saudi Arabia*, *Mexico* and *Kazakhstan*. On the other hand, currencies of the *Czech Republic*, *Serbia*, *Peru* and *Uruguay* are generally overvalued, according to WES experts, compared to each of the key currencies *US dollar*, *euro*, *yen* and *British pound*.

Interest rates expected to increase for the first time in a year

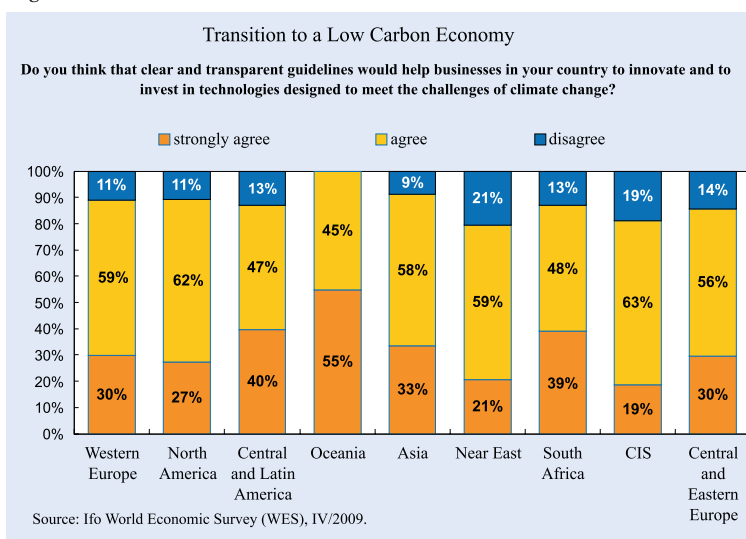
The stabilization of the world economy and the expected upward trend of consumer prices – though rather moderate – led WES experts to forecast a beginning reversal of monetary policy in the course of the next six months in some parts of the world (see Figure 12). In *Australia* and also in *Norway* some tightening of monetary policy has already started. In *North America* such a move appears to be rather likely, according to WES experts, in the course of the next six months. However, in the larger part of the world the economic outlook still appears too fragile for a tightening of monetary policy within the next half year.

The market driven, long-term interest rates are expected to move up earlier than the policy interest rates. This trend is most pronounced in *Australia* but also clearly visible in the WES results for the *United States*, the *euro area* and other *Western European* countries like the *United Kingdom*, *Denmark* and *Switzerland*. On the other hand, a further decline of interest rates is expected in the *CIS area* and the *Near East* as well as some *Eastern European* countries like *Bulgaria* and *Hungary*. More or less stable interest rates – both short and long – are seen by WES experts in the majority of *Eastern European* countries (apart from *Bulgaria* and *Hungary* where rates are expected to decline further), *Asia*, *Latin America* and *Africa*.

ICC Special Question: Transition to a Low Carbon Economy

Climate change is one of the greatest environmental challenges that the world is facing at present. Climate change also affects the economic environment in which businesses operate. Although the transition to a low carbon economy is in some

Figure 13



Although the spread of non-polluting products and services appears to bear new economic chances all over the world, there are still significant obstacles to innovation because of lack of legislative and regulatory guidelines. The WES experts clearly stated that transparent guidelines would help businesses in their country to innovate and to invest in environmentally friendly technologies. This view is particularly pronounced in *Western Europe* and *Asia*, and somewhat less, however, in *North America*, the *Near East*, *CIS*, *Central and Eastern* countries as well as in *Central and Latin America* (see Figure 14).

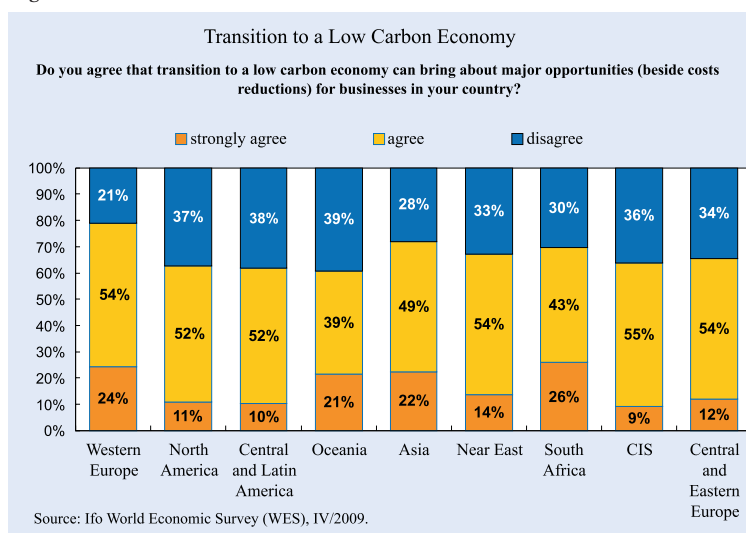
industries associated with additional costs, the number of such disadvantaged industrial sectors is limited. Far greater are the immense opportunities for businesses that are developing and delivering low carbon products and services. This quarter's special question focused on two topics related to the transition towards an environmentally compatible economy.

tries as well as in *Central and Latin America* (see Figure 14).

The feedback to this ICC special question explicitly demonstrated that economists worldwide agree that it is highly important to coordinate economic measures and policies to meet the challenges of climate change.

The WES experts were asked whether they think that a transition to a low carbon economy can bring about major opportunities for businesses in their country. The vast majority of economists surveyed worldwide thinks that moving to a low carbon economy bears new chances for many businesses in their country (see Figure 13). This share of economists is particularly high in *Western Europe* and *Asia*.

Figure 14



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