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**Article**

## CESifo World Economic Survey November 2010

CESifo World Economic Survey

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# CESifo WORLD ECONOMIC SURVEY

VOLUME 9, No. 4

NOVEMBER 2010

## WORLD ECONOMIC CLIMATE

World Economic Climate slightly deteriorated

## ECONOMIC EXPECTATIONS

Economic expectations weakened but remain positive

## INFLATION

Stable price trend expected

## CURRENCIES

Euro appears slightly overvalued

## INTEREST RATES

Short-term interest rates expected to rise less than formerly anticipated

## SPECIAL TOPIC

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## Ifo World Economic Survey

### Regions

- World Economy: Differing developments in various economic regions
- Western Europe: Further improvement of the current economic situation
- North America: Deterioration of the present situation
- Eastern Europe: Lacking momentum
- CIS: Economic climate slightly clouded
- Asia: Weaker economic expectations
- Oceania: Renewed improvement of the economic climate in Australia
- Latin America: Major differences across countries prevail
- Near East: Favourable economic climate persists
- Africa: Economic recovery continues

## 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 2010, 1,087 economic experts in 113 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 SLIGHTLY DETERIORATED

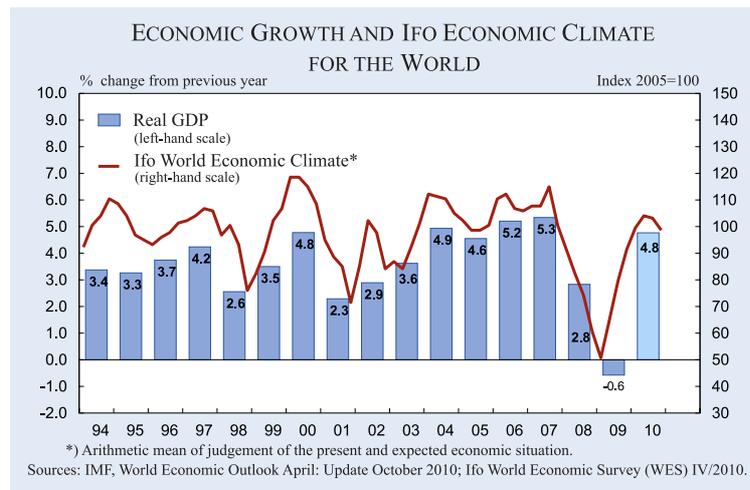
The Ifo World Economic Climate indicator has gone down slightly for the second time in succession in October 2010 (see Figure 1). However, with a value of currently 98.6, the indicator is still above its long-term average (1991–2009: 96.9). The slight decline in the world economic climate indicator is solely attributable to the weakening of respondents' expectations for the coming six months. The current economic situation, in contrast, has been assessed as better than in the previous quarter. This is the sixth quarter in a row that the worldwide surveyed experts assess the economic situation with less reserve than in the respective previous quarter (see Figure 2). On the whole, the results indicate that the recovery of the world economy will progress in the coming half year at a slower pace. This is also shown by the business-cycle clock (see Box 1).

## World Economy: Differing developments in various economic regions

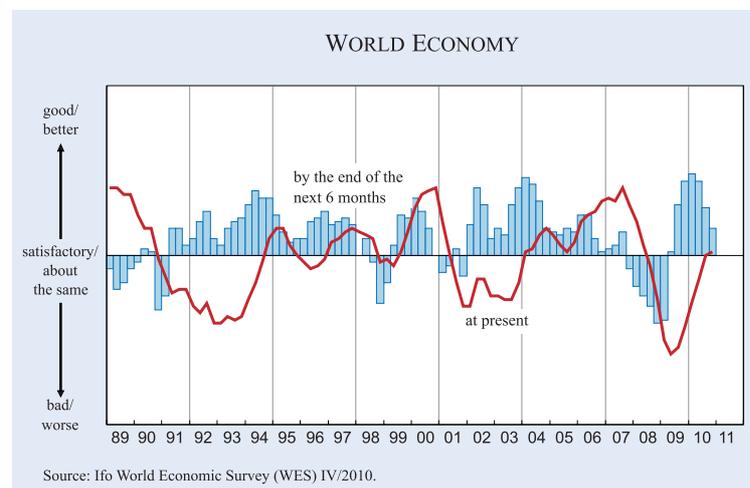
Behind the slight drop of the World Economic Climate stand different developments in the economic regions. In *Western Europe* the business climate improved further. On average, the economic situation for *Western Europe* is judged as satisfactory (see Figure 3). But there are huge differences between countries. Especially in *Germany, Luxembourg, Switzerland* and *Sweden* the current economic situation is appraised as highly favourable. On the other hand, the situation in *Ireland, Portugal* and *Spain* still remains very poor. This reflects the very different economic performance within *Western Europe* and also within the *euro area*. The expectations of the sur-

veyed experts regarding the coming six months for *Western Europe* are still positive, although to a lesser degree than in the previous surveys. In *North America* the appraisals of the current economic situation clouded over again, while the expectations for the coming six months remained constant. As a consequence, the World Economic Climate for *North America* deteriorated somewhat. It has also fallen in *Eastern Europe* and in *Latin America*. Also in *Asia* the economic climate is cooling somewhat. The situation in *Asia* is very different from the situation in *Western Europe* or in the *US*, though. With the exception of *Japan* the current economic situation is

**Figure 1**



**Figure 2**

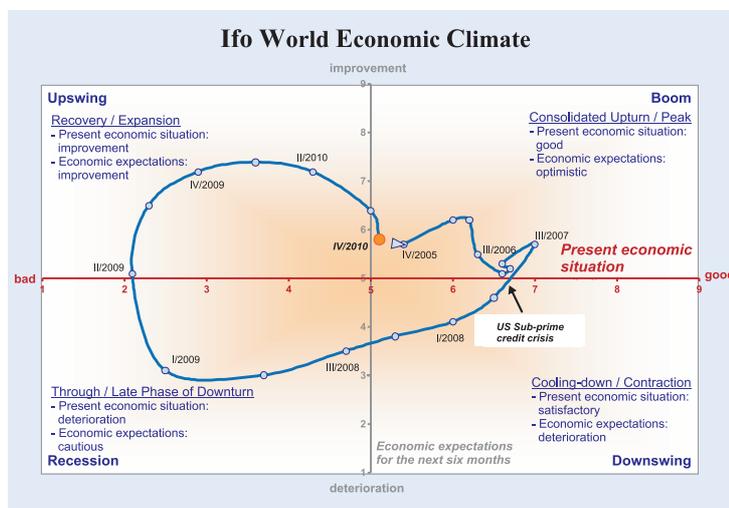


## Box 1

### 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.

The Ifo World Economic Climate clouded over in the fourth quarter of 2010 for the second time in succession. The slight decline in the world economic indicator is solely attributable to the weakening of expectations for the coming six months. The current economic situation, in contrast, received better appraisals from the surveyed experts than in the previous quarter. On the whole, the results indicate that the recovery of the world economy will progress in the coming half year at a slower pace.



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).

assessed as good in all surveyed *Asian* countries. *Japan* at the moment is the exceptional case in that region. Its current situation is unsatisfactory and the WES experts even expect a further worsening in the coming half year. Otherwise the declining economic climate in *Asia* points to a gradual calming of the robustly growing economies. The huge differences of the economic situations and in addition of inflation perspectives in various regions and countries may explain the intense and controversial discussions between the G20 members about current account imbalances. Although the global economy is in a recovery phase, currency turbulences may be a major risk for further development. Especially some emerging economies could be affected. Remarkably,

countries are reacting very differently at the moment. While *China* is stockpiling foreign reserves and *Brazil* is raising taxes in part on incoming capital, *India* is letting capital flow relatively freely.

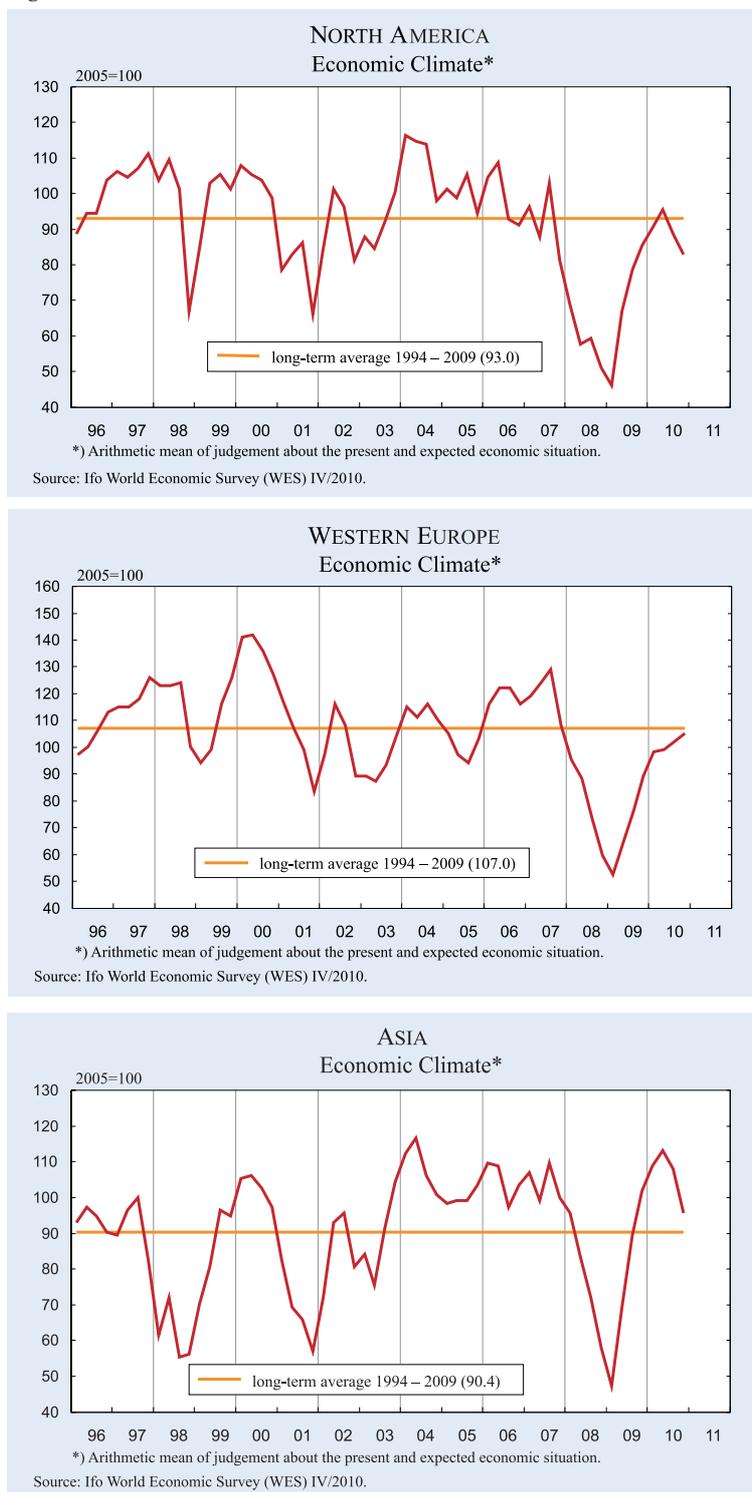
### Western Europe: Further improvement of the current economic situation

The economic climate indicator for *Western Europe* improved again in October 2010 (see Figure 3). However, this was only due to the assessments of the present economic situation, which improved further for the fourth time in succession. The economic expectations, in contrast, have again been downgraded (see Figure 4); nonetheless, they remain positive;

Similar to *Western Europe* the economic climate indicator in the *euro area* continues to rise, though only marginally (see Box 2). The assessments of the present situation improved further in nearly all *euro area* countries. However, at the same time the economic expectations have been downgraded somewhat, but still remain positive.

The differences of the economic situation of the countries within the *euro area* are still huge. On the one hand, the WES experts in *Germany, Austria* and *Luxembourg* assess the present situation as very good or favourable; in *Belgium, Cyprus, Finland* and *Slovakia* at least as satisfactory. On the other hand, the surveyed economists of *France, Italy* and *Slovenia* judge the present situation as weak. In *Greece, Ireland, Portugal* and *Spain* the WES experts gave the lowest marks on the WES scale regarding the present situation in the country. In comparison to the previous survey in July, the current situation deteriorated in *Portugal, Italy* and *Slovakia*. In all other countries of the *euro area* the present economic situation remained stable or even improved. In

Figure 3



contrast to the assessments of the current situation, the economic expectations for the next six months have been downgraded somewhat in most of the *euro area* countries. Particularly the WES experts in *Portugal* strongly downgraded their expectations concerning the economic outlook in the coming six months. In all other *euro area* countries the eco-

conomic expectations, despite some weakening, are still rather confident. The two main problems the *euro area* is facing at present are public deficits and unemployment, according to the surveyed economic experts.

Outside the *euro area*, the situation is unchanged over the previous survey in July. A favourable economic climate still prevails in *Sweden, Norway* and *Switzerland*. In these countries lack of skilled labour was cited as an important economic problem. In *Denmark* the present economic performance is now assessed as satisfactory and has even improved somewhat further. In the *UK*, where insufficient demand and public deficits are the biggest problems, the assessments of the present economic situation have been further upgraded considerably but still remain unfavourable. In *Iceland* the present situation is assessed as very bad but it has not deteriorated further. The economic expectations for the next six months have been downgraded by the surveyed economists for *Denmark, Sweden* and *Switzerland*. In contrast, the WES experts in the *UK, Norway* and *Iceland* revised their expectations upwards. In summary, the economic expectations continue to be optimistic.

**North America: Deterioration of the present situation**

The economic climate indicator in *North America* deteriorated again in October 2010 and moved further below its long-term average (see Figure 3). This time the present situation deteriorated while the economic expectations remained stable (Figure 4). In the *US* the assessments of the present economic situation deteriorated for the first time since mid-2009 when the downturn had come to an

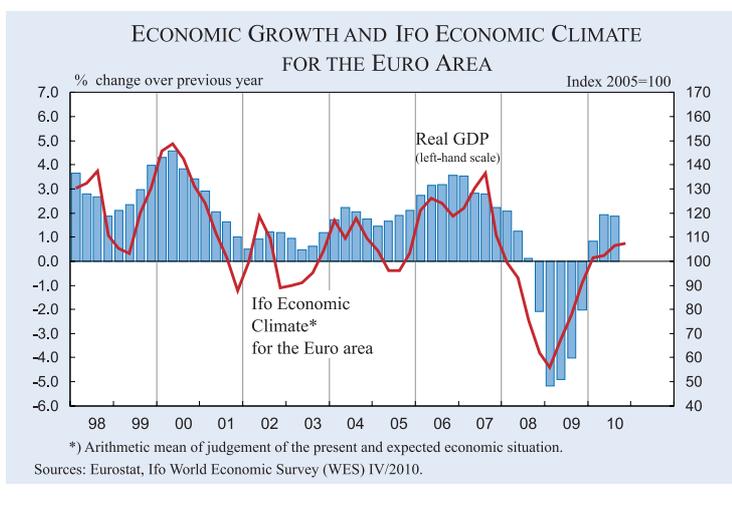
## Box 2

### 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 October results are based on the responses of 265 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 indicator for the economic climate in the euro area rose once again marginally in the fourth quarter, and is now only slightly below its long-term average. The assessments of the current economic situation were considerably more favourable than in the third quarter of 2010. The expectations for the next six months, however, were once again weaker although they remain positive on the whole. The survey results indicate that the economic recovery in the euro area will continue in the coming six months, albeit at a slower pace than before.

The present economic situation continues to be appraised very differently in the countries of the euro area. The current economic situation is assessed as particularly favourable in Germany, Austria and Luxembourg, it is appraised as at least satisfactory in Belgium, Slovakia and Finland. Much more unfavourable assessments of the current situation were made in France and Italy. The current economic situation in Greece, Ireland, Spain and Portugal remains particularly poor. The expectations for the coming six months are positive in nearly all countries of the euro area, except for Portugal, even though they are not quite as optimistic as at mid-year.



end and recovery set in (see Figure 6). In contrast, economic expectations remain positive and even improved somewhat signalling that WES experts regard the current slowdown of the US recovery as temporary and not as the beginning of a renewed downward trend. The most important economic problems the US is facing at present, according to WES experts, are unemployment, lack of confidence in government's economic policy, public deficits and insufficient demand. Also private consumption and capital expenditures are still assessed as weak by the surveyed economists. However, the survey was

polled before the Federal Reserve decided to increase its quantitative easing activities by another \$600 billion up to mid-2011.

In Canada, the economic experts still assess the current situation as positive. However, both the present situation and expectations have been revised downwards. The forecasts for the next six months are less optimistic in Canada, mainly due to the strong link with the US. As the most important problems "lack of international competitiveness" and "public deficits" were named.

### Central and Eastern Europe: Lacking momentum

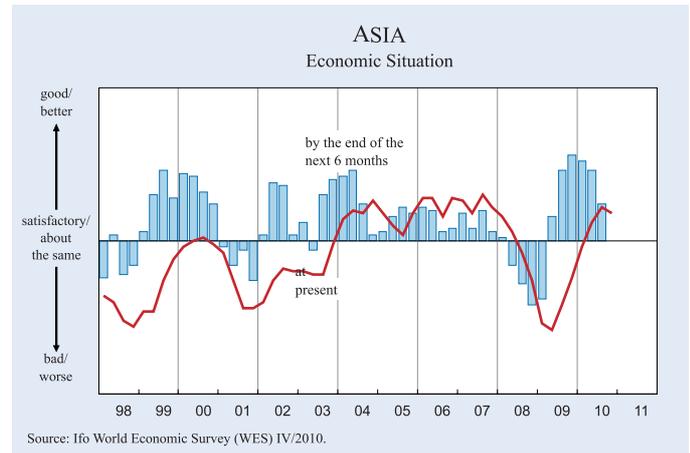
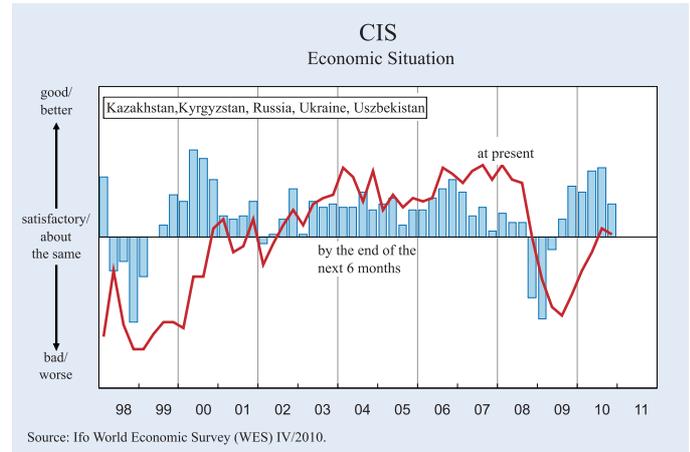
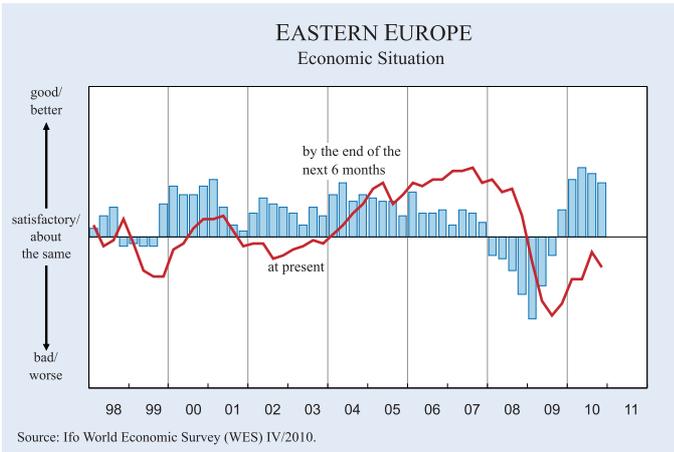
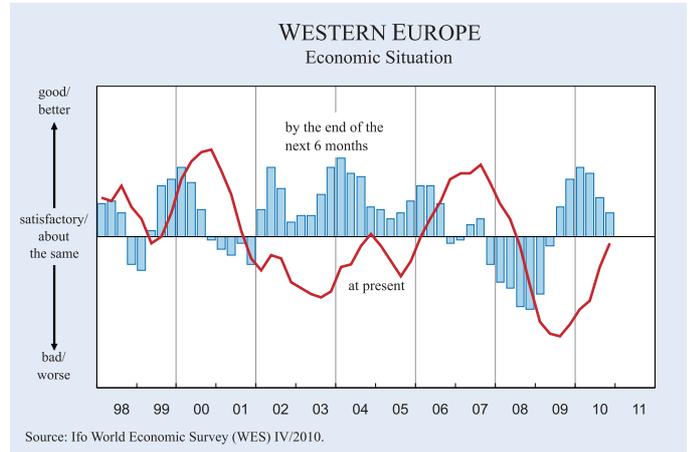
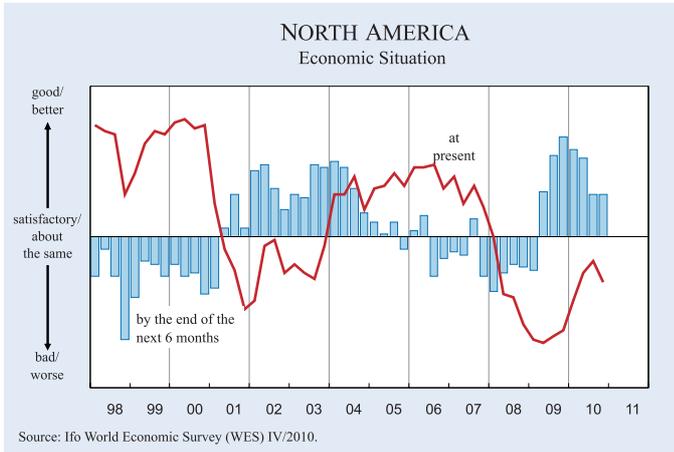
The economic climate in Central and Eastern Europe deteriorated considerably for the first time since mid-2009 due to downgrades of both the present situation and economic expectations (see Figure 4 and Figure 7).

Amongst the EU Member countries in the region the relatively best economic performance is still reported from WES experts in Poland and the Czech Republic. Here the current economic situation has been assessed as satisfactory again but to a lesser degree than in the

July survey. In both countries public deficits were named as the most important economic problems. In Bulgaria, Estonia, Hungary, Latvia and Lithuania the assessments of the present economic situation improved somewhat but remained weak according to the WES experts. Unemployment has been singled out as the main problem in these countries. In Bulgaria the economic experts named, in addition, insufficient demand and lack of confidence in government's economic policy. The present economic situation in Romania deteriorated further and was assessed with the lowest marks on the WES scale. At

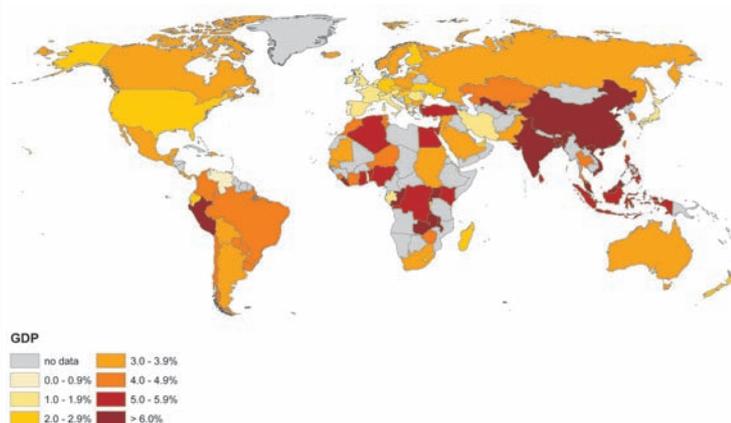
Figure 4

SELECTED REGIONS



**Box 3****Brighter Medium Term Growth Outlook**

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



Together with the cyclical recovery also the medium-term growth outlook brightened. On average for all 113 countries included in the survey, an annual economic growth of 2.9 percent is expected in the next three to five years, compared to a comparable estimate of 2.5 percent one year ago (see Table 1). However, there is still a gap to the pre-crisis level of autumn 2007 when the medium growth rate on a world-wide average was seen at 3.3 percent.

The highest medium-term economic growth rates are expected in *Africa* (4.7 percent) and *Asia* (4.3 percent). Within *Africa* the strongest economic growth in the medium term will take place, according to WES experts, in the *Republic of Congo-Brazzaville* (11.3 percent), *Liberia* (9.2 percent), *Zambia* (6.6 percent), *Uganda* (6.4 percent) and *Rwanda* (6.3 percent). In *Asia* the fastest growing country in the region, *China*, will remain so in the next three to five years (7.8 percent), but also *Malaysia* (7.0 percent) and *Vietnam* (7.0 percent) will show an above average growth performance.

Above the worldwide growth average are also *Australia* (3.8 percent), *CIS* countries (3.8 percent; here particularly *Uzbekistan* with 7.0 percent and *Kazakhstan* with 4.7 percent), *Latin America* (3.5 percent; here particularly *Peru* with 6.5 percent, *Uruguay* with 4.7 percent as well as *Brazil* and *Chile* with each 4.6 percent) and the *Near East* (3.6 percent; here particularly *Turkey* with 5.2 percent and *Israel* with 5.0 percent).

In the middle range of growth regions stands *North America* with an estimated medium term growth outlook of 2.6 percent (both in the *US* with a slightly upward revision from 2.1 percent to 2.4 percent and in *Canada* from 3.3 percent to 3.4 percent). Included in the middle range is also *Eastern Europe* with an average growth rate of 3.0 percent. Particularly in *Albania*, *Estonia*, *Poland* and *Slovakia* the WES experts revised their medium term growth outlook upward compared to one year ago and now expect 3.8 percent in each of these countries.

At the bottom of the growth spectrum is *Western Europe* (on average 1.8 percent). Within this region especially the Scandinavian countries expect above average growth performance: *Sweden* (3.5 percent), *Norway* (3.3 percent) and *Finland* (2.8 percent). In contrast *Greece* and *Portugal* are the two most depressed countries, with medium-term growth estimates of 0.6 percent and 0.9 percent per year respectively.

present the country is facing many economic problems, particularly lack of confidence in government's economic policy, public deficits, insufficient demand and unemployment.

The outlook for the coming six months have been revised slightly downwards by the economic experts in the *Czech Republic*, *Poland* and *Lithuania*, but the expectations remain in positive territory. In all other countries the expectations improved.

In the *non-EU* countries of the region (*Albania*, *Croatia* and *Serbia*) the economic climate indicator deteriorated somewhat in *Albania* but improved slightly in *Croatia* and *Serbia*. However, the assessments of the present situation in *Croatia* and *Serbia* still remain at very low levels, in *Croatia* at the lowest on the WES scale. Both private consumption and capital expenditures are seen as very weak in both countries. In contrast the economic expectations for the coming six months in *Croatia* and *Serbia* are regarded as positive by the WES experts. Although in *Albania* the assessment of both present situation and economic expectations deteriorated somewhat over the previous survey, the current situation is still judged as good and the economic outlook remains positive. According to the WES experts in *Albania*, the most important economic problems in the country are the lack of international competitiveness and unemployment.

**CIS: Economic climate slightly clouded**

The overall economic climate index for *CIS* countries covered by WES (*Russia*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan* and *Uzbekistan*) clouded slightly for the first time since the beginning of the economic recovery in spring 2009 (see Figure 4). The

Table 1

**Expected Average Annual Growth Rates of Real Gross Domestic Product (GDP) over the Next 3 to 5 Years\***  
(based on WES QIV/2010 and QIV/2009)

Region	QIV/2010	QIV/2009	Region	QIV/2010	QIV/2009
<b>Average of countries</b>	<b>2.9</b>	<b>2.5</b>	<b>CIS</b>	<b>3.8</b>	<b>3.7</b>
High-income countries	2.4	2.1	Kazakhstan	4.7	3.9
Middle-income countries	4.7	3.4	Kyrgyzstan	3.3	–
Upper-middle	4.0	3.1	Russia	3.8	3.6
Lower-middle	5.9	4.1	Ukraine	2.8	3.5
Low-income countries	5.9	5.5	Uzbekistan	7.0	–
EU 27 countries	1.9	1.6	<b>Latin America</b>	<b>3.5</b>	<b>3.2</b>
EU countries (old members) <sup>a)</sup>	1.8	1.5	Argentina	3.8	2.7
EU countries (new members) <sup>b)</sup>	3.0	2.4	Bolivia	3.5	3.8
Euro area <sup>c)</sup>	1.8	1.4	Brazil	4.6	3.8
<b>Western Europe</b>	<b>1.8</b>	<b>1.5</b>	Chile	4.6	3.6
Austria	1.8	1.4	Colombia	4.2	2.8
Belgium	1.8	1.3	Costa Rica	3.8	2.8
Cyprus	3.0	3.8	Dominican Republic	3.8	–
Denmark	1.6	1.5	Ecuador	2.8	2.1
Finland	2.8	1.6	El Salvador	2.1	1.5
France	1.5	1.3	Guatemala	3.3	–
Germany	2.0	1.5	Mexico	3.0	3.0
Greece	0.6	0.7	Panama	3.8	3.8
Iceland	3.8	1.5	Paraguay	4.2	3.2
Ireland	1.9	0.3	Peru	6.5	4.8
Italy	1.6	1.3	Trinidad and Tobago	3.8	2.3
Luxembourg	2.7	2.6	Uruguay	4.7	3.5
Netherlands	1.5	2.1	Venezuela	0.1	2.8
Norway	3.3	3.2	<b>Near East</b>	<b>3.6</b>	<b>3.7</b>
Portugal	0.9	0.8	Iran	1.5	3.8
Spain	1.3	1.1	Israel	5.0	3.2
Sweden	3.5	2.2	Jordan	3.8	3.8
Switzerland	1.9	1.5	Kuwait	–	3.8
United Kingdom	1.7	1.8	Lebanon	4.2	5.4
<b>Eastern Europe</b>	<b>3.0</b>	<b>2.4</b>	Saudi Arabia	3.8	3.0
Albania	3.8	3.3	Syrian Arab Republic	3.8	–
Bulgaria	3.1	1.4	Turkey	5.2	3.7
Croatia	1.8	1.6	United Arab Emirates	2.7	4.7
Czech Republic	2.3	2.1	<b>Africa</b>	<b>4.7</b>	<b>n.a.</b>
Estonia	3.8	3.8	Algeria	5.0	3.8
Hungary	2.5	1.4	Benin	5.0	–
Latvia	2.6	0.7	Burundi	2.0	–
Lithuania	3.3	2.6	Comoros	2.7	–
Poland	3.8	3.4	Congo Dem. Rep.	5.4	–
Romania	1.9	1.8	Congo-Brazzavill Rep.	11.3	–
Serbia	2.7	2.1	Djibouti	1.5	–
Slovakia	3.8	3.2	Egypt	5.4	–
Slovenia	2.8	2.6	Gabon	1.5	–
<b>North America</b>	<b>2.6</b>	<b>2.3</b>	Ghana	5.9	–
Canada	3.4	3.3	Ivory Coast	4.4	–
United States	2.4	2.1	Kenya	5.7	3.8
<b>Asia</b>	<b>4.3</b>	<b>3.5</b>	Lesotho	2.7	–
Bangladesh	6.6	5.9	Liberia	9.2	–
China	7.8	7.2	Madagascar	2.9	–
Hong Kong	3.8	3.8	Malawi	7.1	–
India	7.4	6.8	Mauritania	3.0	–
Indonesia	5.6	5.0	Mauritius	3.8	3.8
Japan	1.5	1.1	Morocco	4.4	4.5
Malaysia	7.0	3.8	Niger	4.7	–
Pakistan	3.1	3.4	Nigeria	5.6	2.6
Philippines	5.0	3.9	Rwanda	6.3	–
Singapore	3.8	3.8	Senegal	3.8	–
South Korea	4.2	3.5	Sierra Leone	4.5	–
Sri Lanka	5.3	3.8	South Africa	3.7	3.5
Taiwan	4.1	3.6	Sudan	3.9	–
Thailand	4.7	3.5	Swaziland	2.7	–
Vietnam	7.0	5.2	Togo	0.8	–
<b>Oceania</b>	<b>3.6</b>	<b>3.3</b>	Tunisia	4.2	3.8
Australia	3.8	3.4	Uganda	6.4	–
New Zealand	2.3	2.8	Zambia	6.6	–
			Zimbabwe	4.6	3.8

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

<sup>a)</sup> Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom – <sup>b)</sup> Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria and Romania – <sup>c)</sup> Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: Ifo World Economic Survey (WES), IV/2010 and IV/2009.

deterioration resulted both from a downgrade of the assessments of the present economic situation and the economic expectations for the coming six months.

In *Russia* the assessments of the present economic situation again improved somewhat and are still on the “satisfactory” level (see Figure 6). However, the expectations for the next six months have been downgraded considerably; nevertheless they remain positive. As the most important economic problems in *Russia*, “lack of international competitiveness” and “inflation” are cited. Capital expenditures, private consumption and the export sector are expected to strengthen further in the course of the next six months.

Also in the *Ukraine* the assessments of the present economic situation have been upgraded somewhat, but they have still not reached the “satisfactory” level. The expectations for the next six months remain positive, but to a lesser degree than in the previous survey in July. Capital expenditures and private consumption are expected to stabilize by the economic experts. In contrast, the export sector is forecast to weaken in the course of the next six months. The most important problems *Ukraine* is facing at present are inflation, which is around 14 percent, and “lack of international competitiveness”.

WES experts still assess the present situation in *Kazakhstan* as good but to a considerably lesser degree than in July. The expectations for the next six months have been basically downgraded, too. Nevertheless the economic outlook still remains positive. The same pattern prevails in *Uzbekistan*. Both the present situation and economic expectations deteriorated considerably. The current situation now is seen as satisfactory and the expectations for the next six months although less optimistic remain positive.

*Kyrgyzstan* still has to cope with some major economic problems like public deficits, foreign debts, lack of confidence in government’s economic policy and unemployment. The assessments of the present situation by WES experts deteriorated further and have reached a very low level. On the other hand, the expectations for the next six months improved considerably but still remain cautious. Capital expenditures, private consumption and exports are further foreseen to decline.

### Asia: Weaker economic expectations

In *Asia* the economic climate indicator deteriorated considerably in October but predominantly due to the weaker economic expectations in *Japan* and *Hong Kong* (see Figure 3). The assessments of both the present situation but mainly the economic expectations deteriorated in all surveyed *Asian* countries, mainly in *Japan* and *Hong Kong* (see Figure 4 and Figure 8). However, the overall economic climate of the *Asian* region still remains above its long-term average.

At present *Japan* is suffering from insufficient demand, lack of confidence in government’s economic policy and public deficits. The assessments of the present situation as well as the economic expectations for the next six months have been strongly downgraded by the surveyed economists. The current situation received very low marks on the WES scale and is now assessed as “bad”. The economic outlook is cautious and particularly exports are foreseen to remain subdued. The WES experts in *Hong Kong* assess the current situation as still favourable but to a lesser degree over the previous survey. However, the economic outlook has been strongly downgraded and is now foreseen as cautiously as in *Japan*. In both countries capital expenditures and private consumption are expected to weaken by the end of the next six months. The influence of both countries on the *Asian* economic climate is considerably high as they have a major weight regarding exports and imports in total world trade.

Disregarding *Japan* and *Hong Kong*, the positive economic climate for *Asia* declined only marginally in October. The present economic situation is still assessed with the highest marks on the WES scale in *India*, *Singapore* and the *Philippines*. Also in *Bangladesh*, *Indonesia*, *Malaysia*, *South Korea*, *Sri Lanka*, *Taiwan*, *Thailand* and *Vietnam*, a favourable or even good current economic situation prevails according to the surveyed economic experts. However, in all these countries the economic expectations have been downgraded, even considerably in *Thailand*, *Singapore* and *Taiwan*. Nevertheless the economic outlook is forecast to remain in the positive zone in all these countries albeit to a lesser degree in *Thailand* and *Taiwan*. In both countries capital expenditures and private consumption are expected to weaken by the end of the next six months. In *Thailand* the lack of international competitiveness and the lack of skilled labour are regard-

Figure 5a

# EUROPEAN UNION

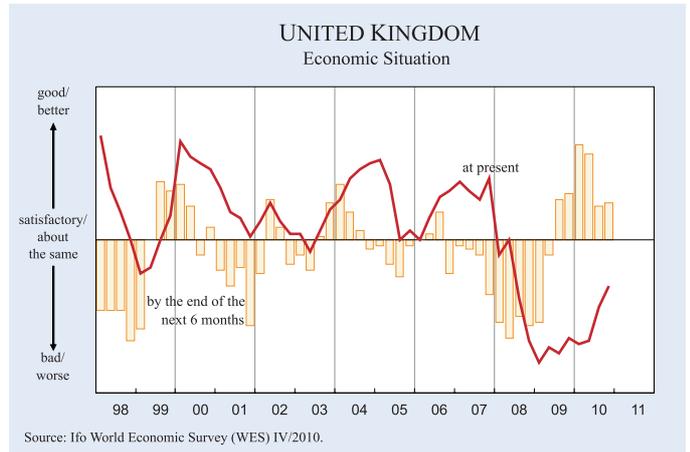
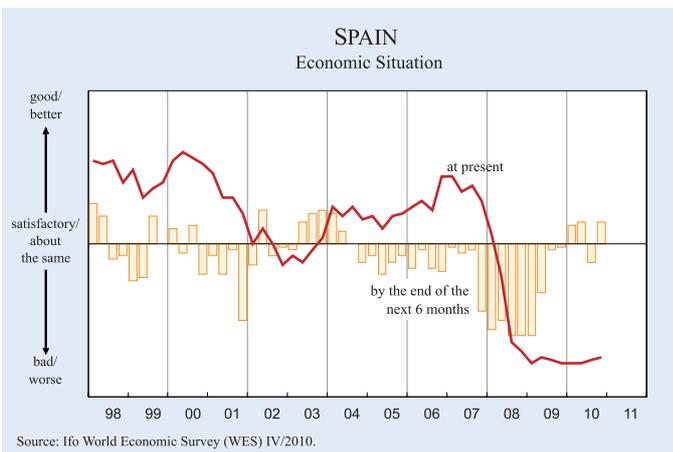
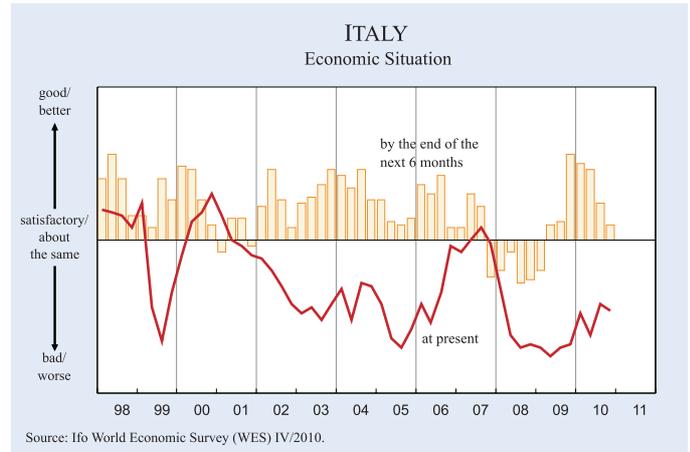
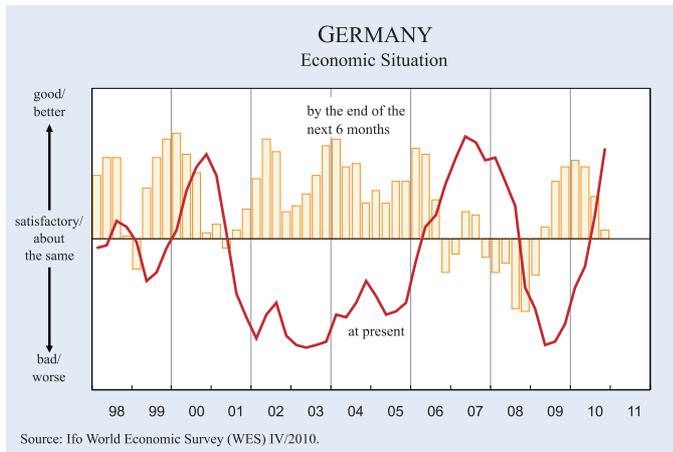
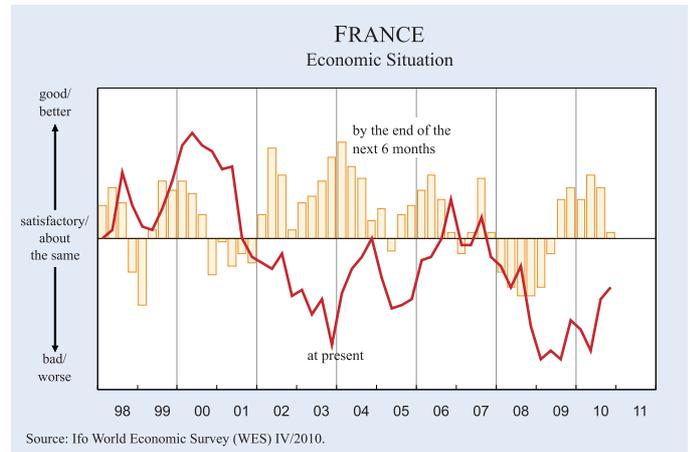
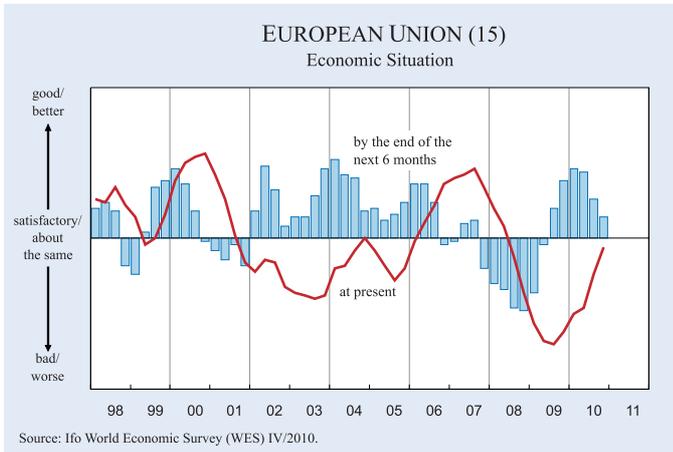
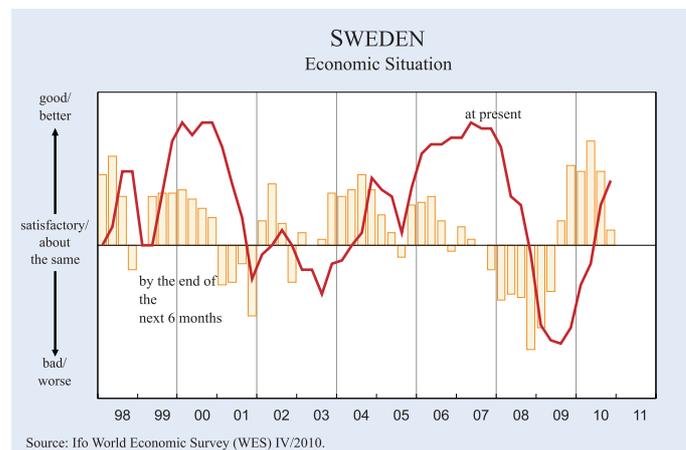
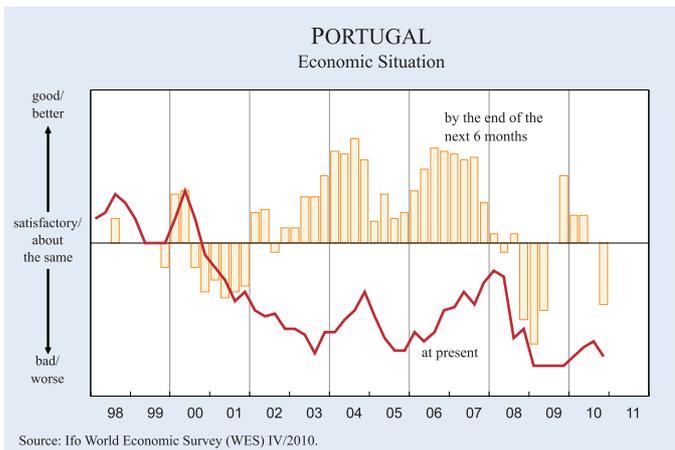
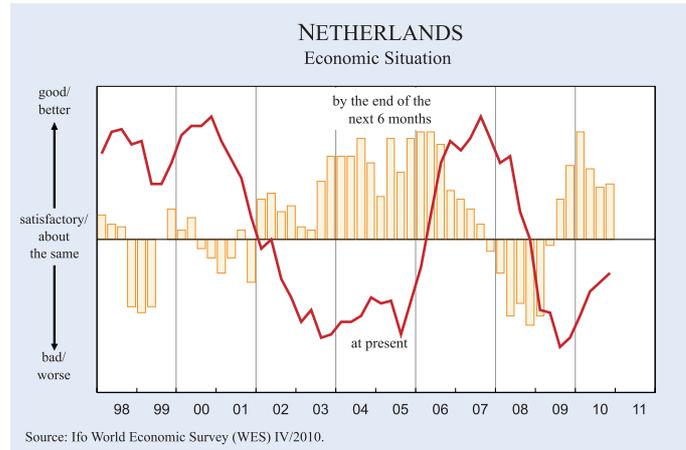
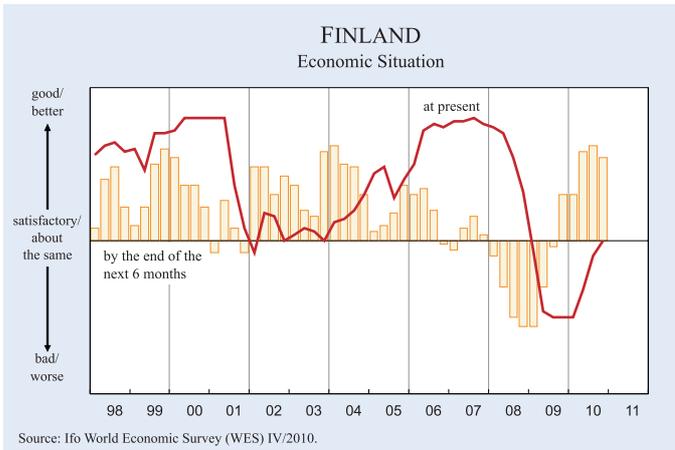
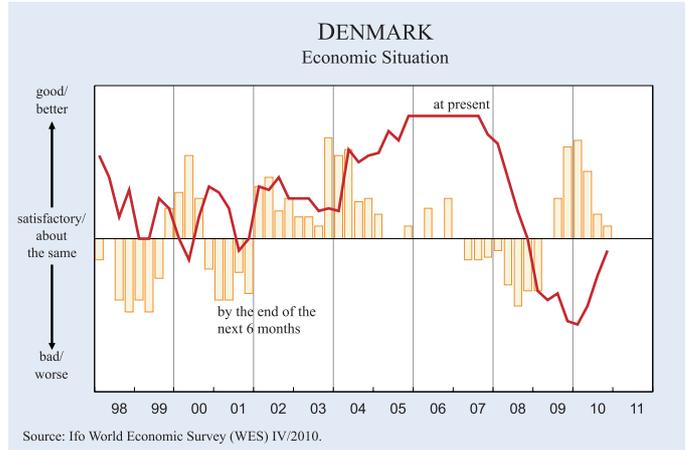
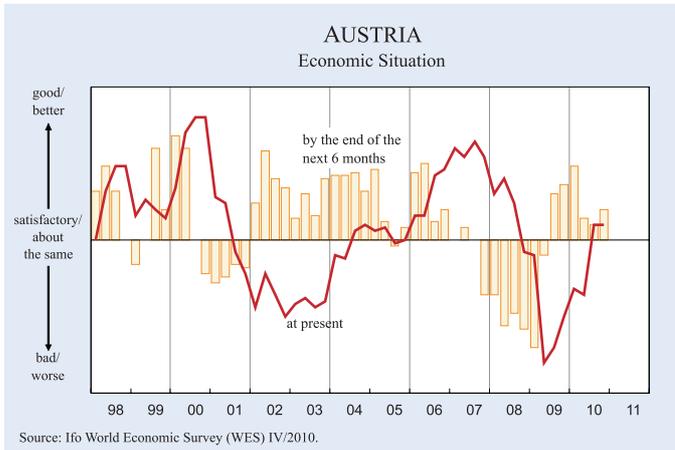


Figure 5b

# EUROPEAN UNION



**Figure 6**

## NORTH AMERICA, OCEANIA AND CIS

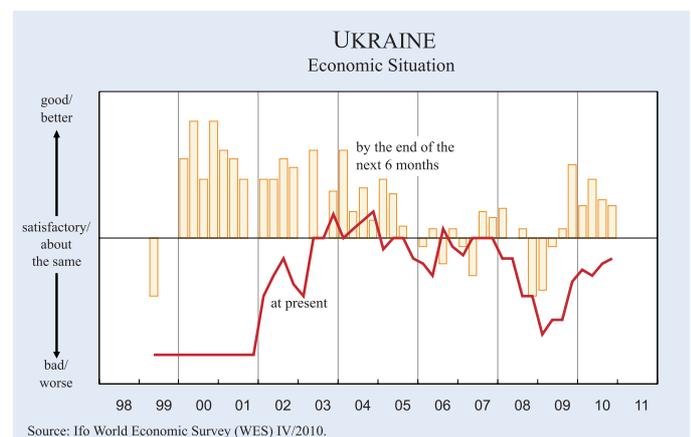
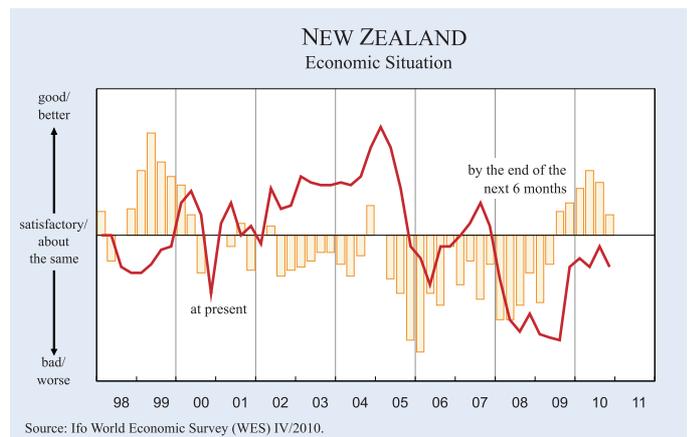
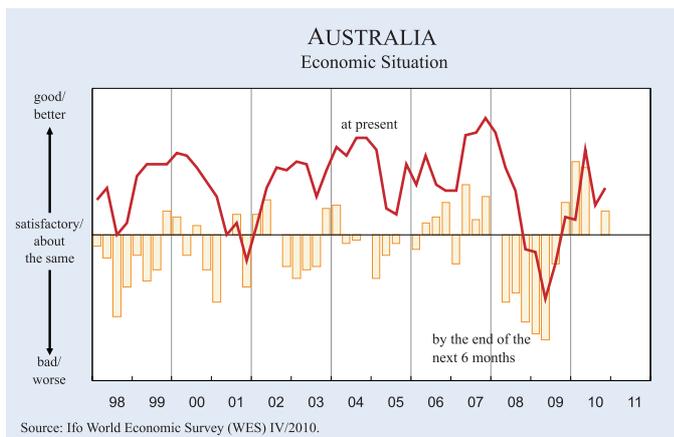
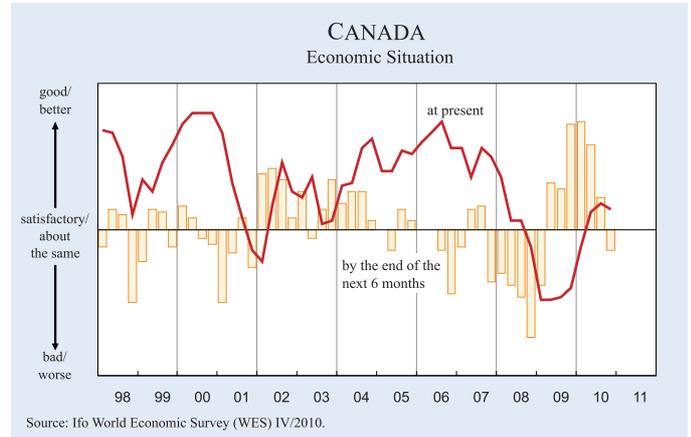
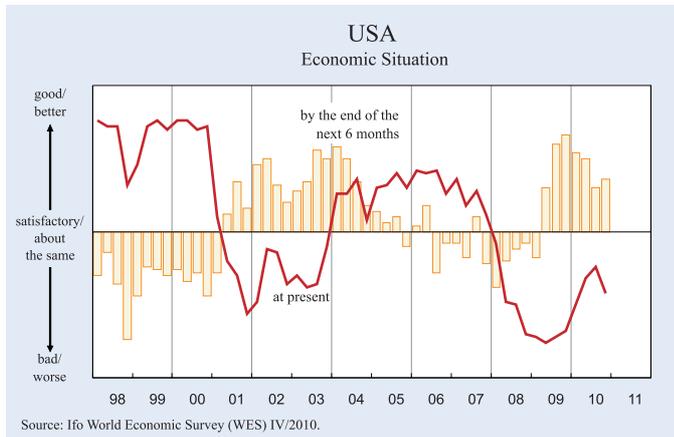
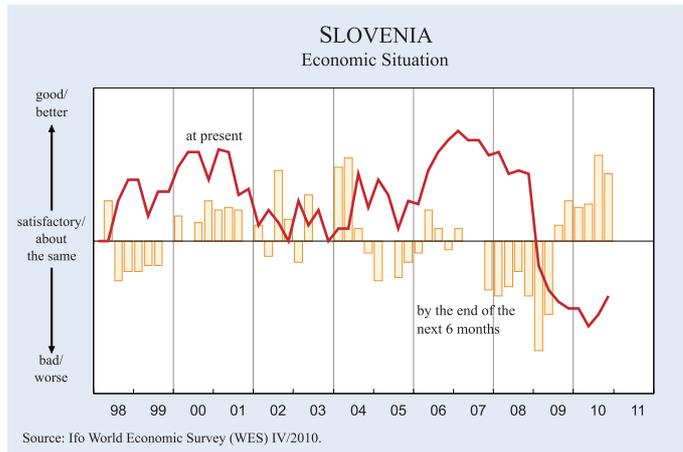
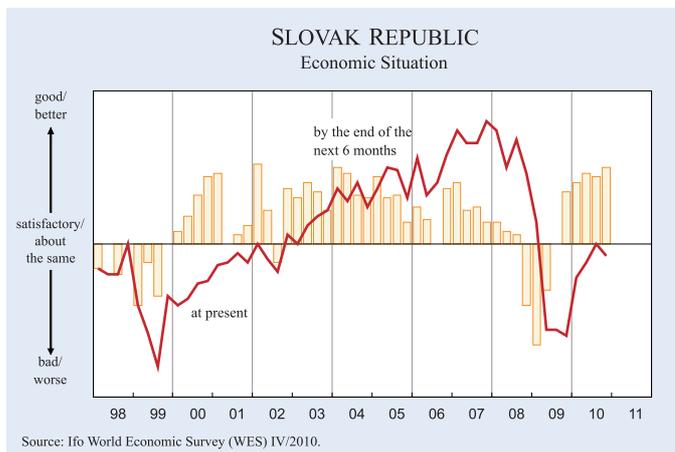
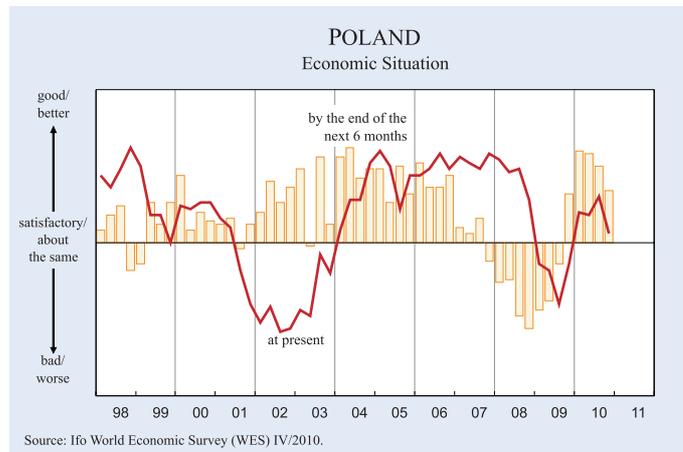
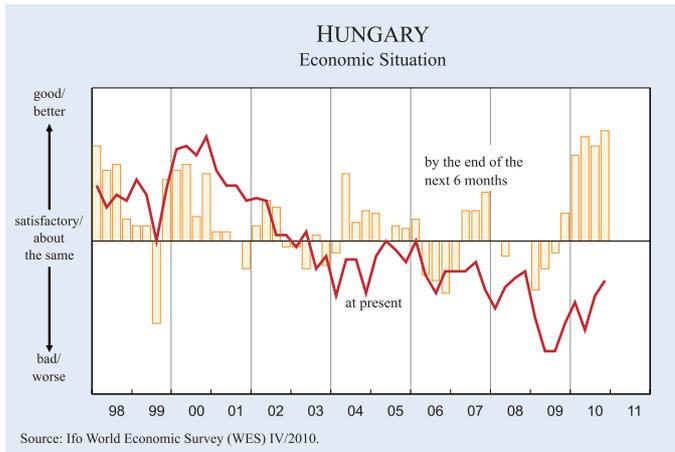
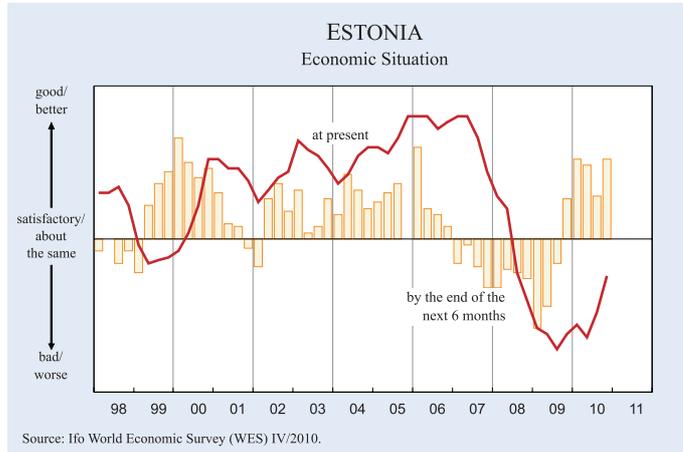
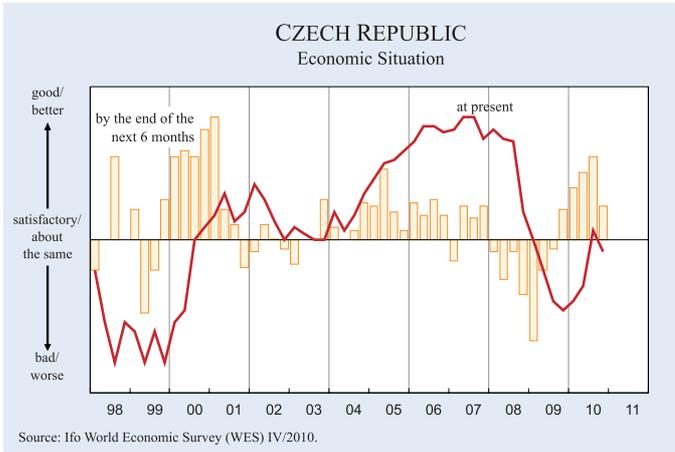


Figure 7

## EASTERN EUROPE



**Figure 8**

**ASIA**

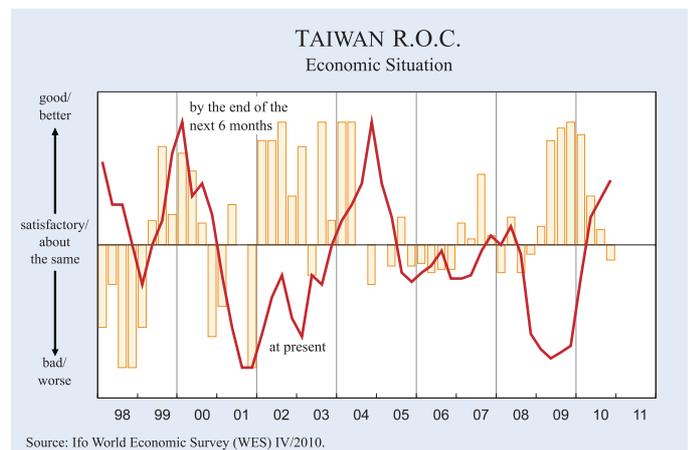
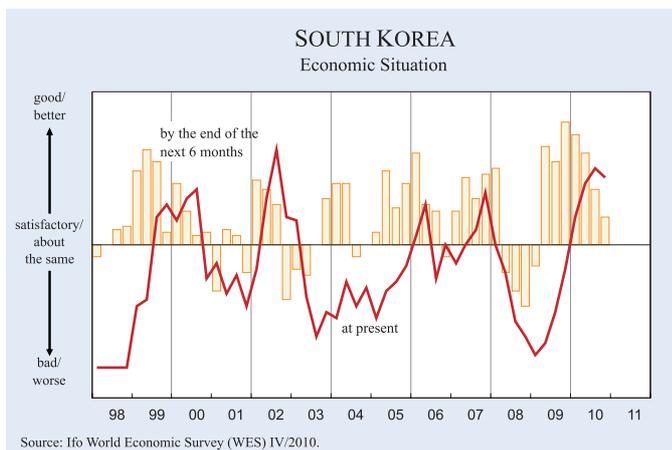
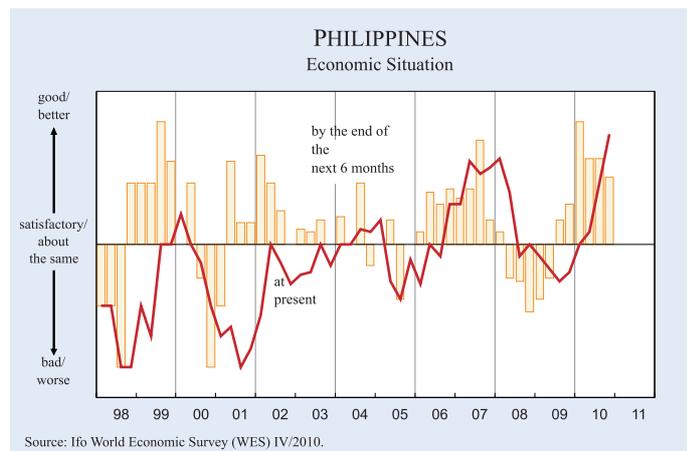
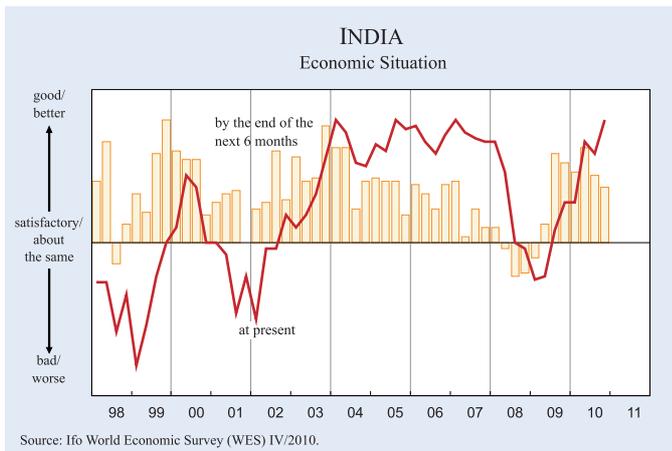
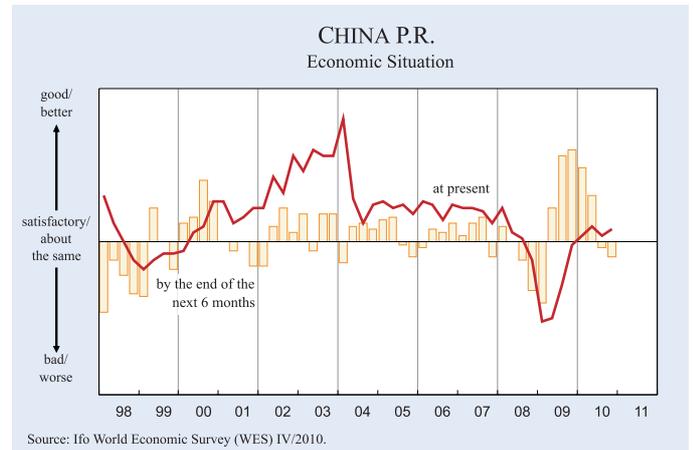
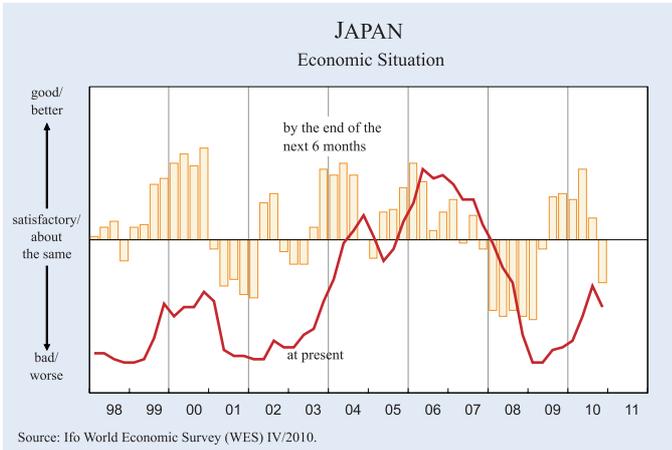


Figure 9

# LATIN AMERICA

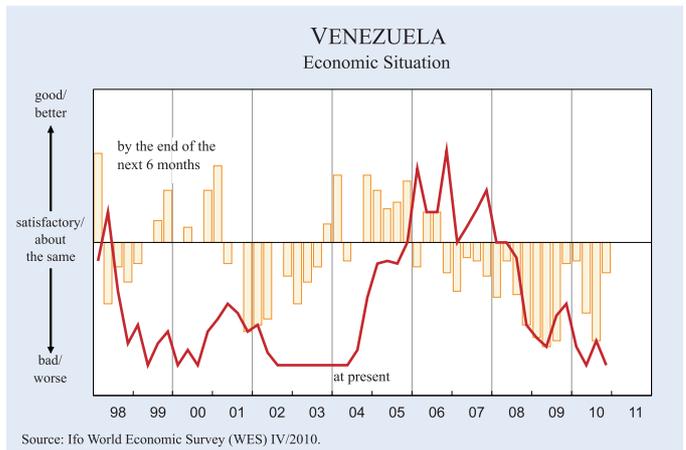
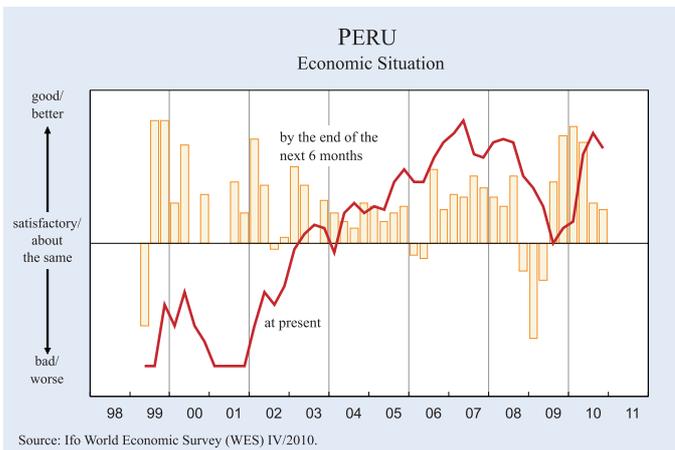
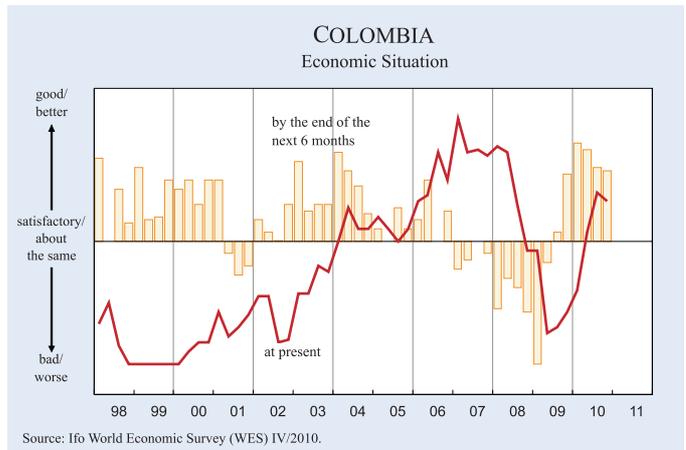
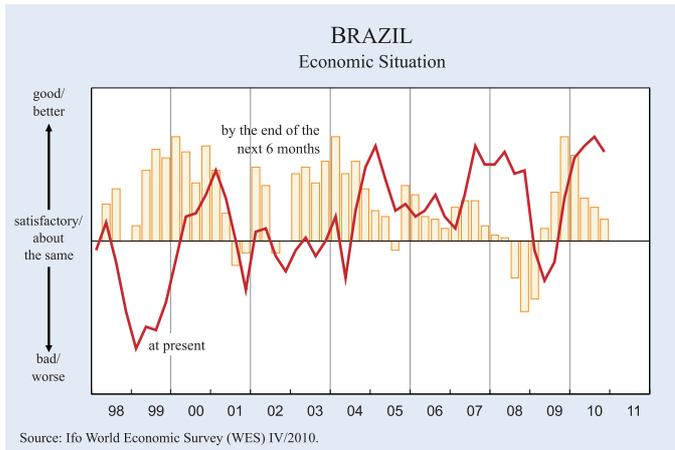
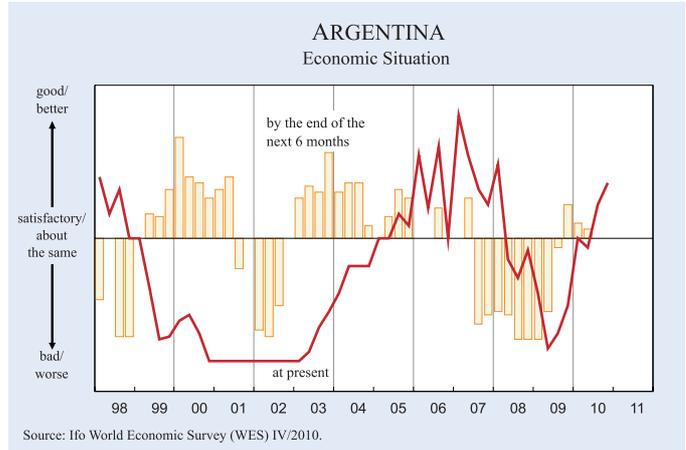
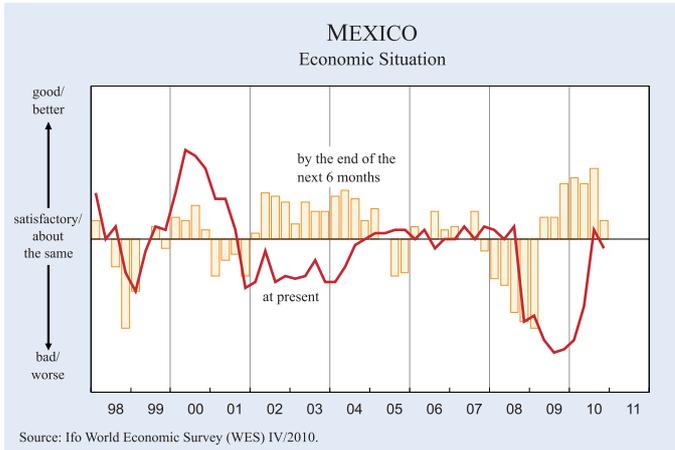
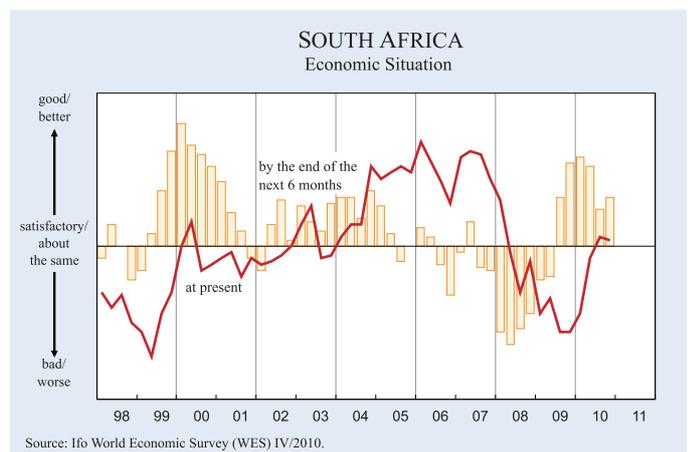
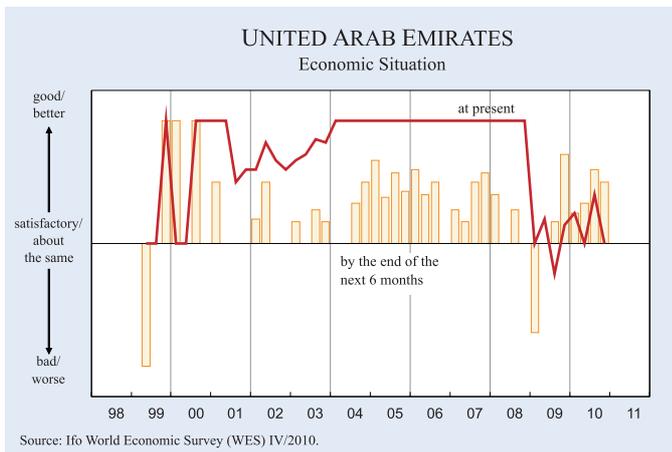
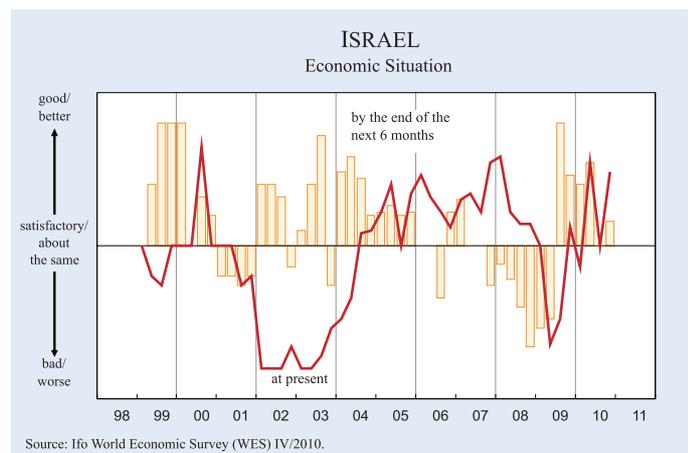
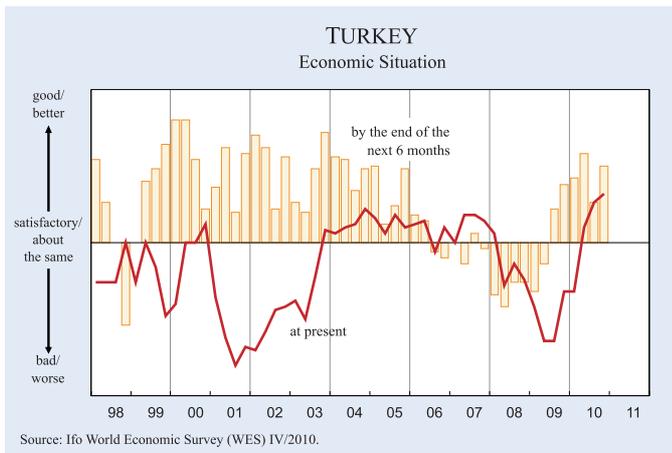
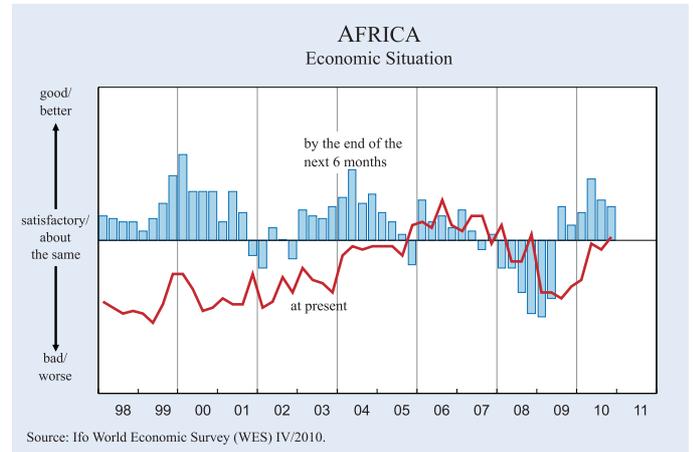
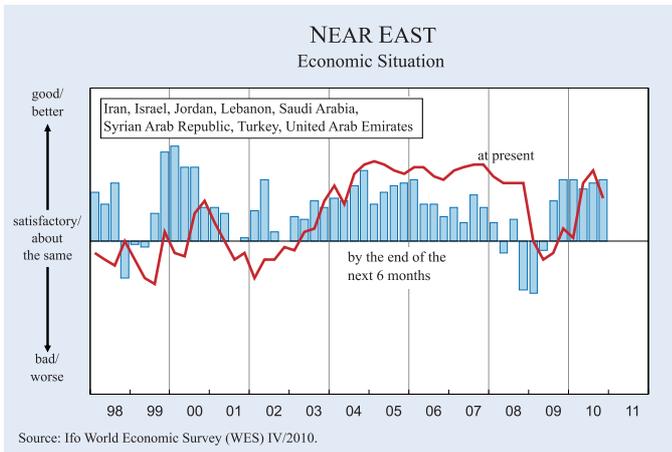


Figure 10

## NEAR EAST AND AFRICA



ed as the most important economic problems at present. In contrast, *Taiwan* is struggling particularly with unemployment.

The assessments of the present situation in *China* have been upgraded marginally. However, as the economic expectations have been downgraded somewhat, the economic climate in *China* has hardly changed over the previous survey. The current situation is still regarded as satisfactory. The expectations are pointing to an economic stabilization, although capital expenditures are foreseen to contract further by the end of the next six months. The most important economic problem *China* is facing at present, according to WES experts is inflation, as in most *Asian* countries.

In *Pakistan* the present situation remains weak and actually deteriorated. This time the surveyed economic experts assessed the current situation with the lowest marks on the WES scale. In contrast, the economic expectations for the next six months improved marginally but still remain subdued. *Pakistan* is struggling with the highest inflation rate within the *Asian* region of 15.5 percent. Other important economic problems according to the WES experts are lack of confidence in government's economic policy, public deficits and lack of international competitiveness.

#### **Oceania: Renewed improvement of the economic climate in Australia**

The economic climate index for *Australia* rose in October after a considerable deterioration in July 2010 (see Figure 6). Both the assessments of the present situation as well as the expectations improved over the previous survey. The current economic situation is now seen as "good" and the expectations point to an economic stabilization. *Australia's* economy appears to be in a very robust state. This was probably an important aspect behind the recent preemptive hike of interest rates by 25 basis points by the Reserve Bank of Australia. WES experts cited "lack of skilled labour" and "inflation" as the most important economic problems *Australia* is facing at present.

In contrast in *New Zealand* the economic climate worsened due to less positive assessments of the present situation as well as less positive expectations. The current situation is now assessed as un-

favourable according to the WES experts. The six-month economic outlook remains subdued. However, the export sector is expected to strengthen further in the next six months. Insufficient demand, capital shortage and foreign debts are the most important problems *New Zealand* is struggling with at present.

#### **Latin America: Major differences across countries prevail**

In *Latin America* the economic climate indicator deteriorated somewhat due to less positive expectations. In contrast, the assessment of the present situation remains stable (see Figure 4). This region's most important problems are "lack of international competitiveness" and "unemployment" according to the WES experts. The differences of the economic situation within the countries in *Latin America* still remain huge (see Figure 9).

In *Brazil*, *Peru* and *Uruguay* a highly favourable present situation still prevails, although to a lesser degree than earlier this year. Also the economic expectations remain optimistic but have been downgraded somewhat by the economic experts. All three countries cited "lack of skilled labour" as the most prominent economic problem. A very good economic situation continues to prevail in *Chile*, *Colombia* and *Paraguay*. In *Chile* and *Paraguay* the assessments of the current situation are even better than in the July survey. The economic expectations have been downgraded in all these countries by the WES experts. Nevertheless they remain positive. *Chile* and *Paraguay* are also struggling with a lack of skilled labour. In *Colombia* and *Paraguay* unemployment has been cited by the economic experts as most important problem at present. Furthermore all three countries are facing a lack of international competitiveness. In *Bolivia*, *Costa Rica*, *Dominican Republic*, *Ecuador*, *Mexico*, *Panama* and *Trinidad and Tobago* the surveyed economists ranked the economic situation as "satisfactory". While in *Mexico* the present situation deteriorated somewhat, the economic situation in the other countries remained stable or even improved considerably as in *Bolivia*, *Ecuador* and *Trinidad and Tobago*. The forecast for the economic situation by the end of the next six months remains fairly positive in all these countries. However, in *Mexico* and *Panama* the economic experts downgraded their six-month expectations over the previous survey. In *Mexico*, *Ecuador* and *Bolivia* capital

expenditures are seen to weaken further in the next six months. In all three countries “lack of international competitiveness” represents a major problem. In *Bolivia* and *Ecuador* lack of confidence in government’s economic policy is named as an additional important problem. In contrast, *Mexico* is struggling with a high unemployment rate. In *Argentina*, the overall economic climate indicator improved further, thanks to a more positive assessment of the present economic situation. In contrast, the economic expectations still remain in positive territory. The WES experts expect capital expenditures to contract further in the next year. In contrast, private consumption is expected to remain stable in the coming months. The most important problems *Argentina* is facing at present, according to WES experts, are “lack of confidence in government’s economic policy” and “inflation”. At nearly 25 percent, the country’s inflation rate is one of the highest in *Latin America*. The economic experts in *El Salvador*, *Guatemala* and *Venezuela* rated the present economic situation with very low marks on the WES scale, in *Venezuela* even with the lowest possible grade. Also in *Venezuela* and *Guatemala* the WES experts see no improvement of the economic situation. In both countries private consumption and capital expenditures are foreseen to weaken in the next year. *Venezuela*’s economy is still struggling with the highest inflation rate in *Latin America* of around 32 percent. A huge problem is the lack of confidence in government’s economic policy, which prevails also in *El Salvador*, where nevertheless the expectations for the coming six months are relatively confident. Here a lack of skilled labour and unemployment are important bottlenecks for a sound economic development, according to WES experts.

#### **Near East: Favourable economic climate persists**

The economic climate remains favourable in October in nearly all *Near East* countries (see Figure 10). In *Saudi Arabia* and *Israel* the WES experts assess the present situation as highly favourable. While in *Israel* the assessments improved considerably over the survey in July, they remained unchanged in *Saudi Arabia*. The expectations for the coming six months improved in both countries and are fairly optimistic. However, *Saudi Arabia* is struggling with a high unemployment rate and in *Israel* the lack of international competitiveness and high public deficits are seen as the most important problems according to the WES experts. Also in *Jordan*,

*Lebanon*, the *Syrian Arab Republic*, *Turkey* and the *United Arabian Emirates*, a favourable economic situation prevails despite some downward revisions of the assessments. The expectations for the next six months in all these countries remain positive and further improved particularly in the *Syrian Arab Republic* and *Turkey*. *Iran* is the only country in the *Near East* region which has been assessed with the lowest mark on the WES scale. The economic expectations for the next six months remain very pessimistic according to the surveyed experts. The most important economic problems *Iran* is facing at present are lack of international competitiveness and unemployment.

#### **Africa: Economic recovery continues**

The countries of the *African* region display a very differing pattern in the economic climate. Thus, an aggregated climate index for countries surveyed by WES on the continent makes little sense, and the following analysis will focus on particular economic trends in individual countries.

The economic situation continued to improve in *South Africa* (see Figure 10). The assessments of the present economic situation have been slightly downgraded, but in contrast the expectations for the next six months improved somewhat and remain fairly confident. This country’s most important economic problems are unemployment, lack of skilled labour and lack of international competitiveness, according to the surveyed economic experts.

In *Congo-Brazzaville*, *Congo Democratic Republic*, *Kenya*, *Liberia*, *Malawi*, *Mauritania*, *Rwanda*, *Sierra Leone*, *Sudan*, *Zambia*, *Morocco* and *Uganda* a favourable economic climate still prevails. The assessments of the present economic situation are above the satisfactory level, on average. The economic expectations for the next six months also remain optimistic, pointing to a pick up of capital expenditures, private consumption and exports. *Sudan* is the exception, where the WES experts forecast some weakening of private consumption, capital expenditures and the export sector in 2011. Furthermore in this country the economic expectations for the coming six months have been rated with the lowest marks on the WES scale by the economic experts and are regarded as very pessimistic. Accountable for this are many of the problems *Sudan* is facing at present like “trade barriers to

export”, “lack of skilled labour”, “public deficits”, “foreign debts”, “unemployment” and “lack of international competitiveness”.

In *Djibouti, Egypt, Gabon, Ghana, Ivory Coast, Lesotho, Mauritius, Niger and Tunisia* the economic situation is regarded as “satisfactory” by the WES experts. The economic outlook for the next six months in all these countries is highly positive.

The present situation is assessed as unfavourable or even bad in *Togo, Zimbabwe, Senegal, Nigeria, Madagascar, Comoros and Algeria*. However, the majority of these countries expect an improvement by the end of the next six months. Exceptions to this favourable outlook are *Algeria, Zimbabwe and Togo*, where the economic expectations for the next year remain weak. The *African* countries *Benin, Burundi and Swaziland* had been assessed by the surveyed economic experts with very low marks on the WES scale, *Swaziland* even with the lowest. The present situation is seen as very weak in these countries. The WES experts expect no improvement in the coming months. In contrast, in *Burundi* the expectations for the next six months have been upgraded somewhat.

### Stable price trend expected

The new survey confirms that currently on a worldwide scale neither inflationary nor deflationary problems are causing major problems. On average, WES experts continue to forecast an annual inflation rate for 2010 of 3.1 percent, on a world average (see Table 2). The lowest rates of consumer price inflation will prevail in 2010 in *North America* (1.6 percent) followed by *Western Europe* (1.8 percent). In the middle field of the expected inflation performance in 2010 lie *Asia* (2.9 percent), *Oceania* (3.1 percent) and *Eastern Europe* (3.2 percent). In the *Near East* (5.2 percent) and particularly in *Africa* (7.6 percent), *Latin America* (8.0 percent) and the *CIS* area (9.4 percent) inflation in 2010 will also remain well above the world average.

In *Western Europe* the overall price increase in 2010 is now seen at 1.8 percent, which is practically unchanged from the forecast in the previous quarter (1.7 percent). In *Ireland* the economy is still suffering from a severe recession caused by the burst of the real estate bubble and huge problems in the banking sector. Consumer prices are expected to pick up very

moderately (0.9 percent) in 2010, following a deflationary trend in the previous year. In *Greece* a temporary deflationary period as in *Ireland* – as a consequence of the ongoing recession – has until now not set in and is also not expected by WES experts in coming months. In contrast, the increase of taxes and charges as parts of the fiscal consolidation program will lead in 2010 to a high *Greek* inflation rate of 4.6 percent; a similar price development also characterizes *Iceland* (5.0 percent). Lying above the *European* average is the expected 2010 CPI increase also in *Cyprus* (2.7 percent) and in the *United Kingdom* (3.2 percent). According to WES experts in most of the other *European* countries the price increase in 2010 will remain significantly below two percent, so in *Switzerland* (1.0 percent), *Portugal* (1.1 percent), the *Netherlands* and *Germany* (in both cases 1.3 percent). On average for the *euro area* the expected inflation rate of 1.6 percent of 2010 is still below the medium-term inflation objective of the ECB (“below but close to two percent”).

In *Eastern Europe* inflation expectations for 2010 picked up particularly in *Estonia* (2.8 percent compared to estimated 2.1 percent in the previous survey) and in *Romania* (7.1 percent compared to previously 6.3 percent). The lowest inflation expectations for 2010 prevail in *Slovakia* (1.6 percent), *Croatia* and *Lithuania* (in each case 1.8 percent) and in *Slovenia* (1.9 percent).

In *North America* consumer price inflation in 2010 has been continuously revised downwards since the beginning of the year and now stands at 1.6 percent (compared to 1.8 percent in July and 2.1 percent in April). This price stabilization trend is particularly pronounced in the *US* (1.5 percent compared to 1.7 percent in July and 2.1 percent in April).

In *Asia* 2010 inflation is expected to stand at 2.9 percent after an expected 3.1 percent in the July survey. A downward revision of inflation expectations occurred mainly in *Malaysia* (from 3.6 percent to 2.6 percent) and *Vietnam* (from 9.3 percent to 7.8 percent). On the other hand, a rise of inflation expectations can be observed in *Sri Lanka* (from 5.5 percent in July to 7.5 percent in October) and in *Pakistan* (from 13.0 percent to 15.5 percent). In *China* the expected CPI inflation rate in 2010 remains at 3.7 percent, practically unchanged. *Japan* is the only *Asian* country where prices are still expected to decline in absolute terms (– 0.5 percent).

Table 2

**Inflation Rate Expectations for 2010**  
(based on WES QIV/2010 and QIII/2010)

Region	QIV/2010	QIII/2010	Region	QIV/2010	QIII/2010
<b>Average of countries*</b>	<b>3.1</b>	<b>3.1</b>	<b>CIS</b>	<b>9.4</b>	<b>8.3</b>
High-income countries	1.9	1.9	Kazakhstan	7.5	7.7
Middle-income countries	7.1	6.5	Kyrgyzstan	14.0	15.0
Upper-middle	7.2	6.9	Russia	8.5	7.5
Lower-middle	6.9	5.9	Ukraine	13.7	12.0
Low-income countries	7.6	9.9	Uzbekistan	16.0	11.0
EU 27 countries	2.0	1.9			
EU countries (old members) <sup>a)</sup>	1.8	1.7	<b>Latin America</b>	<b>8.0</b>	<b>8.4</b>
EU countries (new members) <sup>b)</sup>	3.1	3.0	Argentina	24.8	23.0
Euro area <sup>c)</sup>	1.6	1.6	Bolivia	3.3	7.3
			Brazil	4.9	5.2
<b>Western Europe</b>	<b>1.8</b>	<b>1.7</b>	Chile	3.2	3.5
Austria	1.8	1.9	Colombia	3.0	3.0
Belgium	2.2	1.9	Costa-Rica	5.5	7.5
Cyprus	2.7	3.5	Dominican Republic	5.0	6.0
Denmark	2.1	1.7	Ecuador	3.6	3.7
Finland	1.8	1.7	El Salvador	1.5	2.2
France	1.8	1.7	Guatemala	5.6	5.8
Germany	1.3	1.3	Mexico	4.5	4.3
Greece	4.6	4.7	Panama	3.5	2.8
Iceland	5.0	6.7	Paraguay	4.7	5.1
Ireland	0.9	0.4	Peru	2.5	2.2
Italy	1.5	1.6	Trinidad and Tobago	13.0	8.5
Luxembourg	2.2	2.3	Uruguay	7.0	6.8
Malta	–	2.0	Venezuela	31.6	35.0
Netherlands	1.3	1.4			
Norway	2.2	2.5	<b>Near East</b>	<b>5.2</b>	<b>4.2</b>
Portugal	1.1	1.0	Iran	10.0	–
Spain	1.6	1.6	Israel	2.7	2.7
Sweden	1.4	1.4	Jordan	3.0	4.9
Switzerland	1.0	1.0	Lebanon	4.8	5.0
United Kingdom	3.2	3.1	Qatar	–	2.0
			Saudi Arabia	6.0	3.9
<b>Eastern Europe</b>	<b>3.2</b>	<b>3.1</b>	Syrian Arab Republic	8.0	5.0
Albania	3.9	3.4	Turkey	8.1	8.3
Bulgaria	3.2	2.8	United Arab Emirates	2.0	2.4
Croatia	1.8	2.0			
Czech Republic	2.0	1.8	<b>Africa</b>	<b>7.6</b>	<b>7.6</b>
Estonia	2.8	2.1	Algeria	5.4	5.2
Hungary	4.4	4.6	Benin	3.3	3.3
Latvia	2.1	0.9	Burundi	8.1	7.1
Lithuania	1.8	2.2	Comoros	2.6	5.2
Poland	2.8	2.9	Congo Dem. Rep.	14.4	19.0
Romania	7.1	6.3	Congo-Brazzavill Rep.	3.3	3.5
Serbia	8.0	7.4	Djibouti	3.0	3.0
Slovakia	1.6	1.7	Egypt	12.8	12.0
Slovenia	1.9	1.9	Gabon	3.6	3.1
			Ghana	12.0	10.0
<b>North America</b>	<b>1.6</b>	<b>1.8</b>	Ivory Coast	2.3	2.8
Canada	1.8	2.0	Kenya	5.3	5.6
United States	1.5	1.7	Lesotho	4.2	6.8
			Liberia	6.4	9.0
<b>Asia</b>	<b>2.9</b>	<b>3.1</b>	Madagascar	9.3	10.0
Bangladesh	6.8	6.8	Malawi	7.6	8.1
China	3.7	3.6	Mauritania	5.5	5.5
Hong Kong	2.9	2.8	Mauritius	2.5	3.7
India	7.9	8.2	Morocco	2.0	3.5
Indonesia	6.1	5.2	Niger	1.6	1.6
Japan	–0.5	–0.6	Nigeria	12.4	12.0
Malaysia	2.6	3.6	Rwanda	6.1	6.0
Pakistan	15.5	13.0	Senegal	–	1.6
Philippines	4.1	4.2	Sierra Leone	15.2	15.0
Singapore	2.5	2.5	South Africa	4.8	5.4
South Korea	3.5	3.5	Sudan	15.0	15.0
Sri Lanka	7.5	5.5	Swaziland	4.1	5.5
Taiwan	1.4	1.4	Tanzania	–	10.0
Thailand	3.1	3.4	Togo	1.3	5.7
Vietnam	7.8	9.3	Tunisia	3.9	3.6
			Uganda	–	8.0
<b>Oceania</b>	<b>3.1</b>	<b>3.2</b>	Zambia	7.9	8.1
Australia	3.2	3.2	Zimbabwe	4.5	6.9
New Zealand	2.8	3.1			

\* 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.

<sup>a)</sup> Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom – <sup>b)</sup> Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria and Romania – <sup>c)</sup> Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: Ifo World Economic Survey (WES) IV/2010 and III/2010.

In *Australia* a new preemptive interest rate hike may have helped to contain inflation expectations – at least at 3.2 percent on average for 2010 – despite a strong economic upswing, particularly in the primary goods sector.

In *Latin America* the downward revision of inflation expectations continued but the presumable inflation for 2010 is still rather high (8.0 percent). Contrary to this general trend, consumer prices in 2010 will pick up more than originally foreseen in *Argentina* (from 23.0 percent to 24.8 percent) and also in *Trinidad and Tobago* (from 8.5 percent to 13.0 percent). By far the highest inflation rate in 2010 will prevail in *Venezuela* (31.6 percent).

In *CIS* countries inflation expectations for 2010 rose again after being contained somewhat according to the previous survey. In *Russia* inflation this year is now expected to be around 8.5 percent, i.e. a full percentage point higher than in the July survey. Also in the *Ukraine* (from 12.0 percent to 13.7 percent) and *Uzbekistan* (from 11.0 percent to 16.0 percent) inflation forecasts for the current year have been revised upwards. Only in *Kazakhstan* (7.5 percent compared to 7.7 percent) and in *Kyrgyzstan* (14.0 percent compared to 15.0 percent) do inflation expectations remain stable or have even declined somewhat.

In the *Near East* inflation expectations were revised upwards from July to October from 4.2 percent to 5.2 percent. Increases occurred particularly in *Saudi Arabia* (from 3.9 percent to 6.0 percent) and in the *Syrian Arab Republic* (from 5.0 percent to 8.0 percent). The highest inflation rate in 2010 will prevail in *Iran* (10.0 percent), according to WES experts.

In *Africa* the expected inflation rate for 2010 remains at 7.6 percent. However, price trends in *Africa* are very heterogeneous. Relatively low inflation rates for 2010 are again expected in *Niger* (1.6 percent), *Morocco* (2.0 percent), *Ivory Coast* (2.3 percent), *Mauritius* (2.5 percent), *Comoros* (2.6 percent), *Benin* (3.3 percent), *Congo-Brazzaville Rep.* (3.3 percent), *Gabon* (3.6 percent) and *Tunisia* (3.9 percent). In a medium inflation bracket are *Lesotho* (4.2 percent), *South*

*Africa* (4.8 percent), the former hyper inflation country *Zimbabwe* (4.5 percent), *Kenya* (5.3 percent), *Algeria* (5.4 percent) and *Mauritania* (5.5 percent). High inflation rates predominate particularly in *Madagascar* (9.3 percent), *Ghana* (12.0 percent), *Nigeria* (12.4 percent), *Egypt* (12.8 percent), *Congo Democratic Republic* (14.4 percent), *Sudan* (15.0 percent) and *Sierra Leone* (15.2 percent).

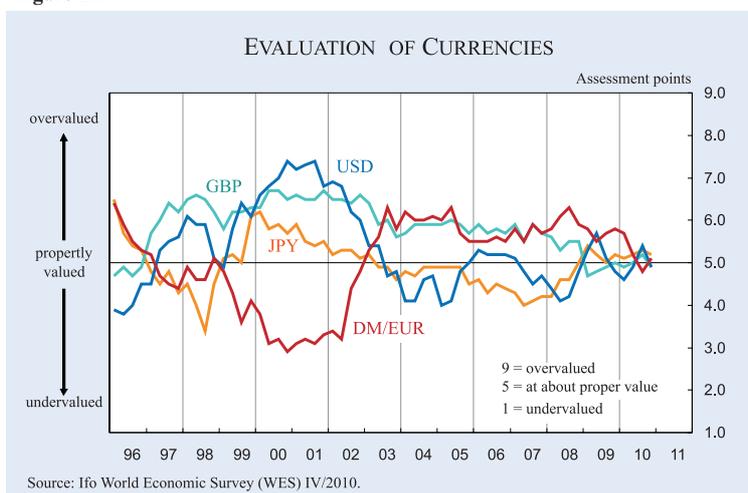
### Euro appears slightly overvalued

The strengthening of the *US dollar* vis-à-vis the *euro* in mid-2010 appears to have been only of a temporary nature. In past weeks the *US dollar* lost again in value and is now considered by WES experts as somewhat undervalued. The same judgment – “slightly undervalued” – applies also to the *British pound* according to WES experts (see Figure 11). On the other hand, the *euro*, after a short intermezzo of undervaluation, is now again considered by WES experts as slightly overvalued. To an even greater extent this judgment of “overvaluation” appears appropriate to the *Japanese yen* according to WES experts’ view.

The WES experts regard their own currency as generally **overvalued** in *Japan*, *Switzerland*, as well as in *South Africa*, *Zambia*, *Lebanon*, *Guatemala*, *Uruguay* and to a lesser degree also in *Brazil*. In contrast, particularly in *China* the economic experts assessed their own currencies as generally **undervalued**. Also in *Malaysia*, *Taiwan*, *Kenya*, *Malawi*, *Congo-Brazzaville Rep.*, *Sudan*, *Sierra Leone* and *Togo* the country’s own currency is **undervalued** according to WES experts.

The answers to a supplementary survey question on the likely development of the *US dollar* in the next

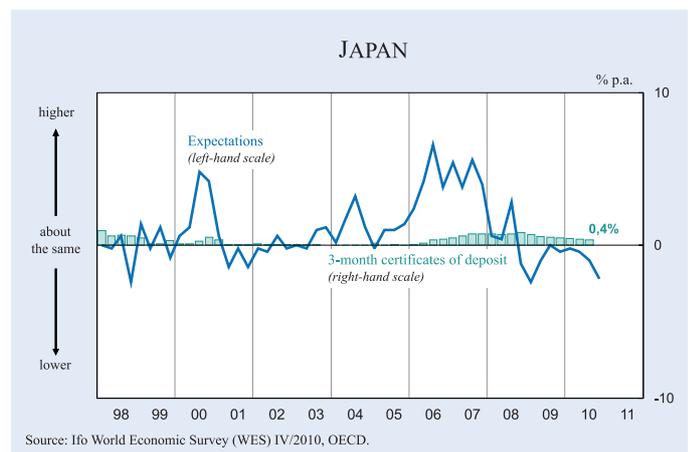
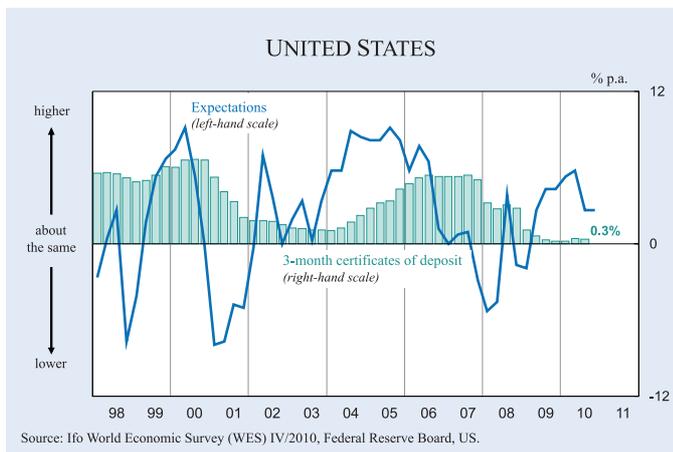
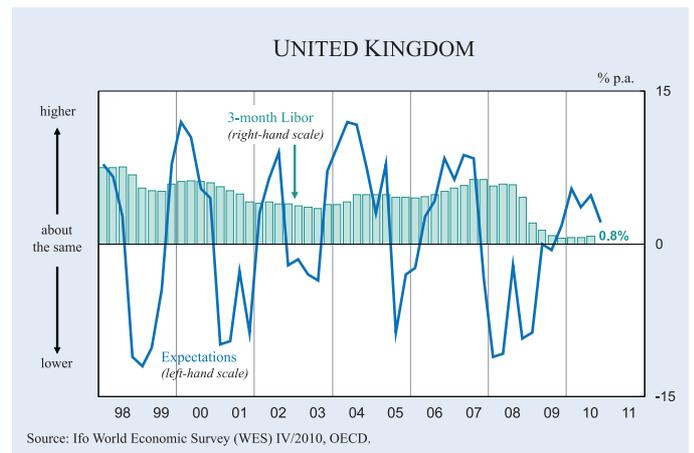
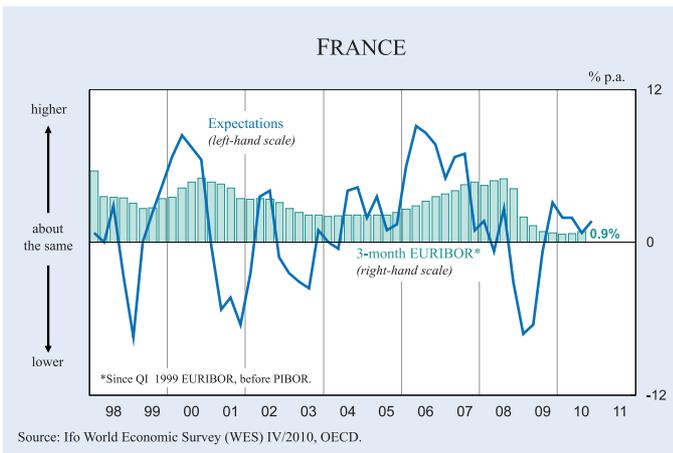
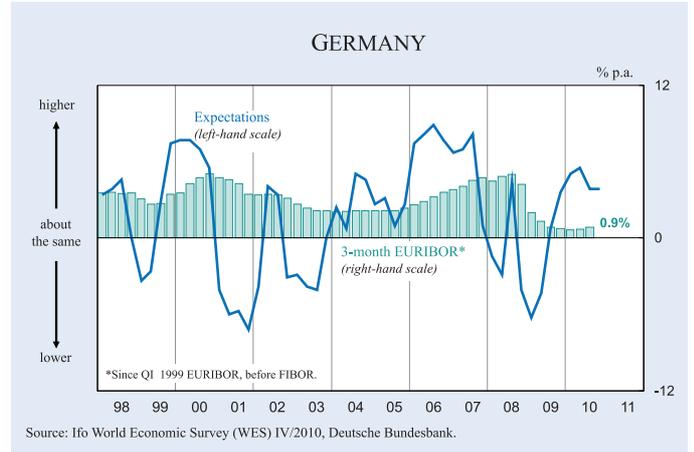
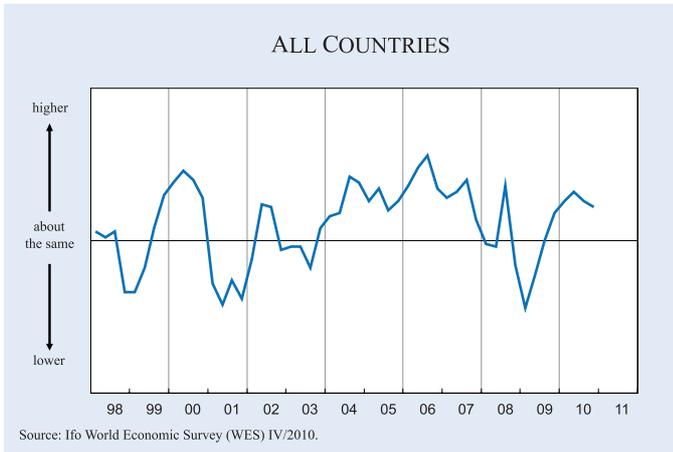
Figure 11



Source: Ifo World Economic Survey (WES) IV/2010.

**Figure 12**

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



six months, regardless of how currencies are assessed from a fundamental point of view, signal on a world-wide average a further weakening of the *US dollar* in coming months. However, behind this average are diverging trends: an expected **weakening** of the *US dollar* is expected in most *Western European* countries as well as in *Australia, Canada* and most *Asian* countries, except *Pakistan* and *Vietnam*. These results contrast with an expected **increase** of the value of the *US dollar* in the *CIS* area (except *Kazakhstan*), most *African* as well as *Latin American* countries. In *Eastern Europe* and also in the *Near East* the *US dollar* is expected to be more or less stable in relation to the individual country's currency.

### Short-term interest rates expected to rise less than formerly anticipated

The number of WES experts expecting some tightening of monetary policy in the course of the next six months has further declined both with regard to short- and long-term interest rates (see Figure 12). This result is probably caused by some doubts concerning the further progress of economic recovery and relatively moderate inflation expectations as well as the applied quantitative easing in some countries. The tendency of stable interest rates can be observed worldwide with some exceptions like *Australia, China, Taiwan* and *South Korea* where the central banks have already entered an exit strategy from a very loose monetary policy applied during the financial crisis. Also in some *Eastern European* countries like *Poland* and *Czech Republic* more WES experts than in the July survey expect an increase of interest rates in coming months.

### ICC Special Question: Incoterms® rules

The Incoterms® rules, short for “international commercial terms”, were created by the International Chamber of Commerce to facilitate trade relations, especially the cross border ones. The rules clarify by definition the responsibilities, costs and risks of buyers and sellers in the delivery of goods (e.g. Ex Works (EXW), Free on Board (FOB), Cost and Freight (CFR)). By using the generally accepted standard terms, conflicts and misunderstandings which could result from different interpretations within the countries can be avoided. The Incoterms® rules are broadly recognized concerning international trade and are supported by the *United Nations Com-*

*mission on International Trade Law (UNCITRAL)*.<sup>1</sup> However they have not been adopted into national legislation.

The Incoterms® rules were originally launched in 1936 and were last revised in 2000. The latest *Incoterms® 2010*, which were published in mid-September 2010, come into effect on 1 January 2011. These rules take into account the latest developments in global trade.<sup>2</sup> This quarter's special question focused on two topics related to the Incoterms® rules.

The WES experts were asked whether they think that international trade is facilitated by broad global use of common rules and standards, such as ICC's Incoterms® rules. The vast majority of economists surveyed worldwide agrees and thinks that broad global use of common rules and standards facilitate international trade (see Figure 13). This share of economists is particularly high in *Asia, Near East* and *Oceania* with even no dissent. In *Western Europe, Latin America, Eastern Europe* and *CIS* at least a minority ( $\leq 3.0$  percent) disagreed. In *North America* the share of disagreement is somewhat higher and amounted to 9 percent. Also in *Africa*, exactly in *South Africa, Kenya, Ivory Coast, Nigeria, Congo Democratic Republic, Comoros* and *Sudan*, some surveyed economists with a marginal share of 6 percent do not agree that the use of common rules and standards facilitate international trade.

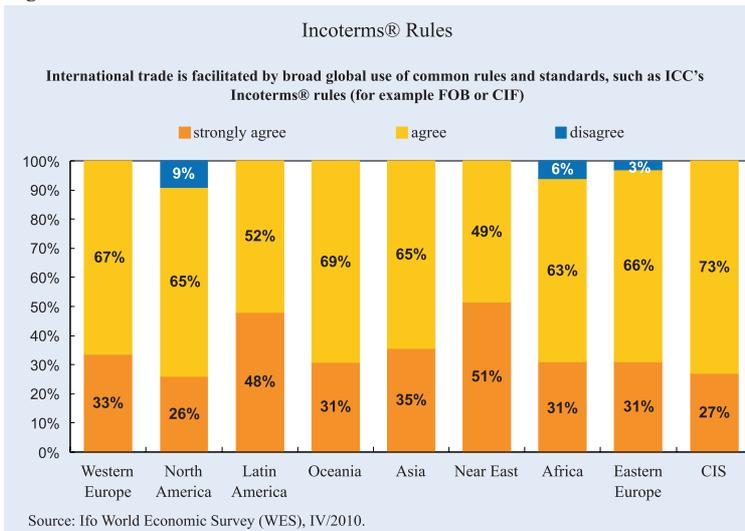
Other dissenting votes were recognized in *Western Europe* in *Italy* and the *Netherlands*, in *Latin America* in *Argentina* and *Trinidad and Tobago*, in *Eastern Europe* in *Czech Republic, Poland* and *Slovenia*, in *North America* in the *US* as well in the *CIS* region in *Russia*.

In the second part of the question the surveyed economic experts were asked whether they agree that the government of their country should adopt the Incoterms® rules into national legislation. More than three quarters of the WES experts agrees or strongly agrees with this (see Figure 14). In *Latin America, Oceania, Asia, Africa* and *CIS* the share of agreement was even more than 90 percent. In *Latin America* the share of the surveyed economists who

<sup>1</sup> ICC Deutschland (2010): ICC Incoterms® -Regeln: <http://www.icc-deutschland.de/index.php?id=46>, retrieved on 29 October 2010.

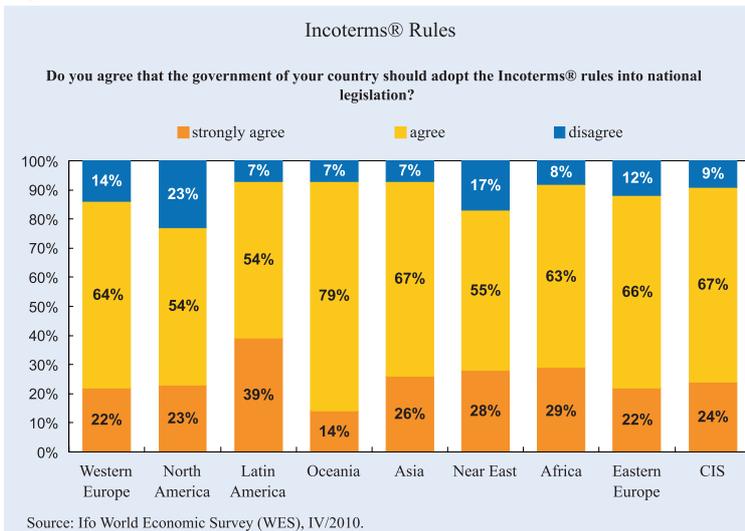
<sup>2</sup> ICC (2010): Incoterms® 2010: Revised trade rules for an inter-connected world: <http://www.iccwbo.org/policy/law/index.html?id=38880>, retrieved on 29 October 2010.

**Figure 13**



sent. However, through all the regions a broad majority agreed that the governments of their country should adopt the Incoterms® rules into national legislation.

**Figure 14**



*strongly agree* with an adoption of the Incoterms® rules into national legislation stands at 39 percent. Particularly in *Colombia, Bolivia, Paraguay* and *Peru* the majority of the WES experts agreed *strongly* to the second part of the question. In contrast, in the *Near East, Western-* and *Eastern Europe* about 15 percent of the surveyed economists disagreed with the option of a legislation adoption. In *North America* the share of disagreement voices was even 23 percent.

In summary, nearly all surveyed WES experts agreed that international trade is facilitated by broad global use of common rules and standards, such as ICC's Incoterms® rules. Regarding the adoption of the Incoterms® rules into national legislation, the surveyed economic experts showed no such mutual con-



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VOLUME 11, No. 3

# Forum

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Documentation of the  
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29–30 April 2010

Jointly organised with BMW Foundation Herbert Quandt

