

CESifo WORLD ECONOMIC SURVEY

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WORLD ECONOMIC CLIMATE

World Economic Climate improves

ECONOMIC EXPECTATIONS

Economic expectations remain optimistic

INFLATION

Moderate pick-up of inflation expected

INTEREST RATES

Interest rates expected to rise

CURRENCIES

US dollar appears undervalued

SPECIAL TOPIC

G20 – the premier forum for international economic cooperation?



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Ifo World Economic Survey

Regions

- World economy: Climate indicator above long-term trend
- Western Europe: Gradual economic recovery
- North America: Economy recovers, but sluggishly
- Eastern Europe: Difficult adjustments ahead
- CIS: Exports drive recovery
- Asia: Highly favourable economic climate
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- Near East: Economic stabilization
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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 January 2010, 1,057 economic experts in 94 countries were polled.

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

Methodology and evaluation technique

The survey questionnaire focuses on qualitative information: on assessment of a country's general economic situation and expectations regarding important economic indicators. It has proved to be a useful tool, since economic changes are revealed earlier than by traditional business statistics.

The individual replies are combined for each country without weighting. The "grading" procedure consists in giving a grade of 9 to positive replies (+), a grade of 5 to indifferent replies (=) and a grade of 1 to negative (-) replies. Grades within the range of 5 to 9 indicate that positive answers prevail or that a majority expects trends to increase, whereas grades within the range of 1 to 5 reveal predominantly negative replies or expectations of decreasing trends.

The survey results are published as aggregated data. The aggregation procedure is based on country classifications. Within each country group or region, the country results are weighted according to the share of the specific country's exports and imports in total world trade.

CES – Center for Economic Studies – is an institute within the department of economics of Ludwig-Maximilians-University. Its research concentrates on public finance, includes many diverging areas of economics.

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

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

WORLD ECONOMIC CLIMATE IMPROVES

The Ifo World Economic Climate Index improved in January 2010 for the fourth time in succession (see Figure 1). The climate indicator rose to 99.5 (after 91.4 in October 2009; 2005=100), and for the first time in two years has exceeded its long-term average (1991–2009: 96.9). The economic climate improved due to both less unfavourable assessments of the present economic situation and more optimistic expectations for the first half of 2010 (see Figure 2).

The world economy is recovering

The improvement of the economic climate index set in already in the second quarter of 2009. This positive trend continued throughout the year, with both the assessments of the present economic situation and economic expectations being gradually upgraded. After four consecutive, positive survey results the latest survey results can be interpreted as a clear sign of a global economic recovery. However, in many countries the present economic performance, although gradually improving, is still assessed as below the satisfactory level, being particularly weak in the *euro area*, *North America*, *Eastern Europe* and *Russia*. Major hopes are placed on the *Asian* region, where the economic climate has become highly favourable, according to WES experts.

The business-cycle clock (see Box 1) shows the economic climate index in the top left quadrant, which marks economic recovery. It is continuously moving towards the top right quadrant, which would mark economic expansion. Although the survey

results indicate that the acute phase of the financial crisis is behind us, a series of factors continues to cause concerns about the strength of the recovery in 2010. First of all, unemployment will probably continue to rise in many regions, accompanied by insufficient demand. At the same time large deficits in public finance and the pressure of fiscal consolidation will force many economies to start with scaling down the fiscal and monetary measures taken during the crisis. Furthermore, low interest rates in advanced economies are pulling capital into a number of emerging-market countries, implying new risks, as strong capital flows may lead to a premature

Figure 1

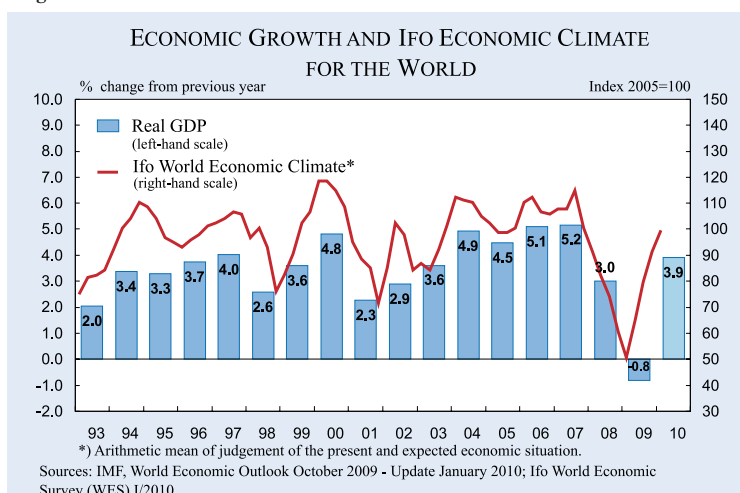
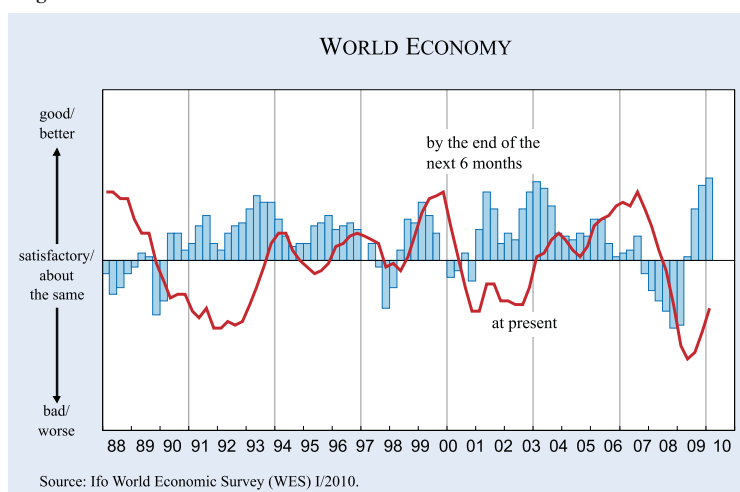


Figure 2

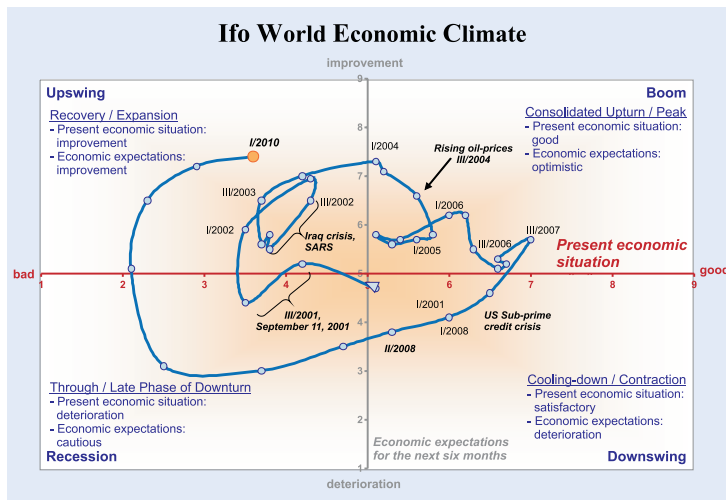


Box 1

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 Indicator improved in the first quarter of 2010 for the fourth time in succession. The rise in the indicator this time is primarily attributable to more positive assessments of the current situation. Although, in most regions, except *Asia*, the present economic state is still assessed as unfavourable. The previously already optimistic expectations for the coming six months have slightly improved again. The overall results indicate that the recovery of the world economy will continue to gain momentum in the coming six months.



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).

appreciation of the local currencies and an unbalanced credit boom, as happened in recent years in *Eastern Europe*, for example. The majority of WES experts thus expects rising interest rates in 2010, which may trim down economic growth. In summary, the world economy is recovering, but national and international economic policy will have to master important challenges to lead the global economy to a balanced and sustained economic growth.

Western Europe: Gradual economic recovery

The economic climate indicator for *Western Europe* improved considerably in January 2010 (see Figure 3). For the second time in succession the assessments of the present economic situation have been upgraded in *Western Europe*, on average. The economic expectations, which had been improving

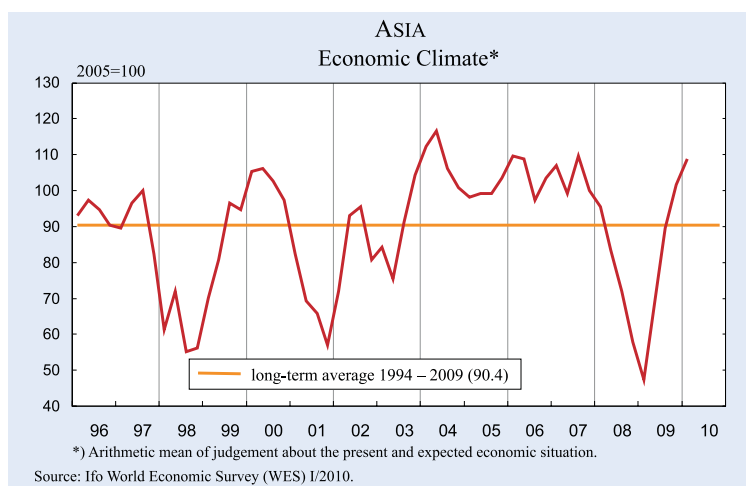
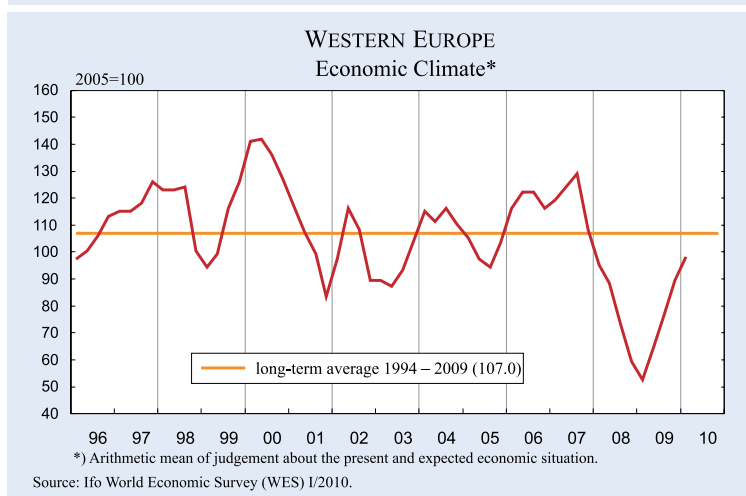
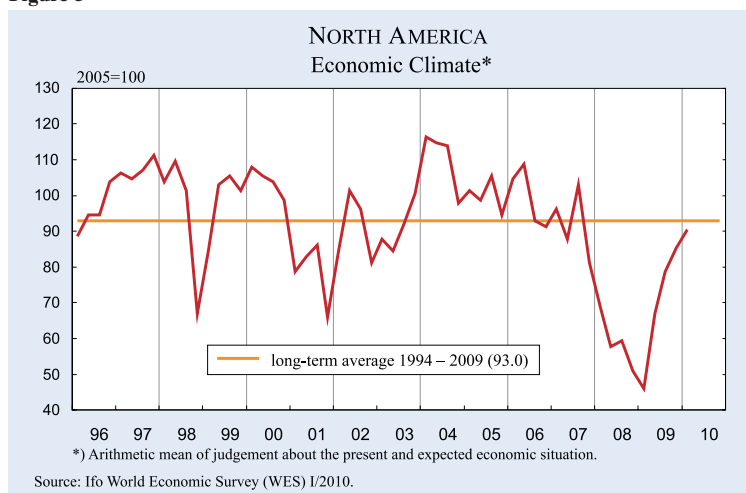
throughout the year 2009, have improved again (see Figure 4). However, the overall climate indicator has not yet reached its long-term average, as the assessments of the present economic situation remain weak in the majority of countries in the region.

The survey results indicate that the *euro area* economy is experiencing a gradual recovery (see Box 2). The economic climate index improved again in the *euro area*, on average, due to both less unfavourable assessments of the present economic situation and more positive economic expectations. However, the economic climate did not improve in all *euro area* countries. It deteriorated in January in *France, Greece, Portugal, Slovenia* and *Cyprus*. In *Cyprus* the present economic situation is still assessed as favourable, but the economic expectations have turned negative pointing to economic deterioration in 2010. Also in *Greece* the WES experts expect further economic weakening in the next six months. In both

countries, *Greece* and *Cyprus*, exports, capital expenditures and private consumption are expected to deteriorate. The present economic situation continues to be assessed as very weak in almost all *euro area* countries except *Luxembourg*. The lowest marks on the WES scale were given by the WES experts for the present economic situation in *Ireland, Spain* and *Portugal*. However, in most countries of the *euro area* WES experts remain optimistic. The economic expectations have been upgraded particularly strongly in *Ireland*, the *Netherlands* and *Belgium*. In the *euro area*, major hopes are placed on the export sector, which is expected to revive in 2010.

The economic climate improved also in most countries outside the *euro area*, except *Iceland*. It is regarded as favourable in *Norway* and to a lesser degree also in *Switzerland*. In both countries the

Figure 3



North America: Economy recovers, but sluggishly

The economic climate indicator in *North America* improved in January 2010 for the fourth time in succession (see Figure 3). The improvement was solely due to less negative assessments of the present economic situation, while the economic expectations remained positive (Figure 6). This economic pattern applies to both, the *US* and *Canada*. However, particularly in the *US*, the present economic performance is still assessed with very low marks on the WES scale. The recovery is underway, but sluggishly. Private demand is still subdued, but the WES experts expect capital expenditures, private consumption and exports to pick up strongly in the next six months.

Central and Eastern Europe: Difficult adjustments ahead

According to the latest WES results, the economic climate index improved also in *Central and Eastern Europe* (see Figure 4). Both the assessments of the present economic situation and economic expectations have been upgraded on average for the region (see Figure 8). However, recovery appears to be uneven across the countries of the region and particularly subdued in countries that have built up major imbalances in the past.

WES experts are highly optimistic that private consumption, capital expenditures and exports will strengthen further in the coming six months. Optimism prevails also among the WES experts in *Denmark*, *Norway* and *Sweden*, as well as in the *UK*. However, the present economic situation in these countries is improving only sluggishly, according to the surveyed economists.

In the vast majority of *Central and Eastern European* countries the present economic situation remains weak, according to WES experts. Particularly low marks for the present economic state were given by WES experts in *Romania*, as well as in the Baltic countries *Latvia*, *Estonia* and *Lithuania*. These countries, along with *Bulgaria*, were hit particularly strongly by the global finan-

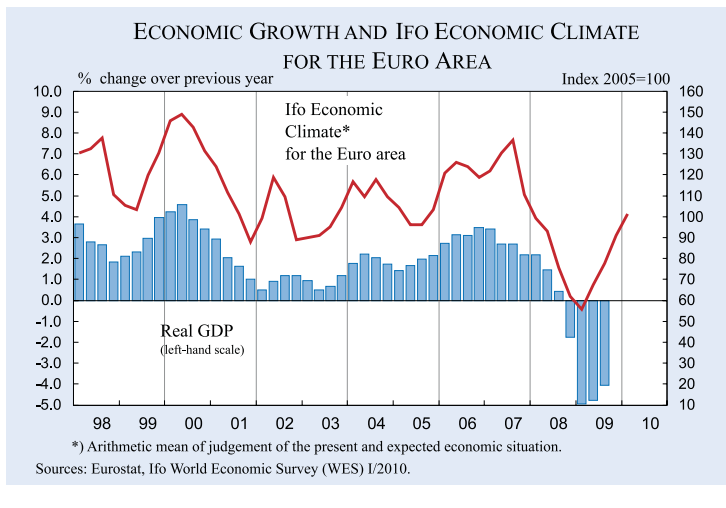
Box 2

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 January results are based on the responses of 286 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 in January for the fourth time in succession. Both the assessments of the current economic situation as well as the expectations for the coming six months brightened noticeably. The latest results are an indication that the economic recovery that became evident already in mid-2009 will continue in the first half of 2010.

The economic climate improved particularly in *Germany* and *Italy*, as well as in *Austria*, *Belgium* and *the Netherlands*. In contrast, the indicator worsened in *France*, *Portugal*, *Slovenia*, *Greece* and *Cyprus*. *Greece* and *Cyprus* are the only countries in the *euro area* in which the WES experts see a further worsening during the coming six months. In all other countries of the *euro area* the expectations are decidedly optimistic. In contrast to the expectations, the current economic situation is assessed in many euro area countries, albeit better than in the previous quarter, but at a still quite unfavourable level. As unchanged bad the present economic situation is assessed *Ireland*, *Spain* and *Portugal* and it worsened even further, in the opinion of the WES experts, in *Greece*.



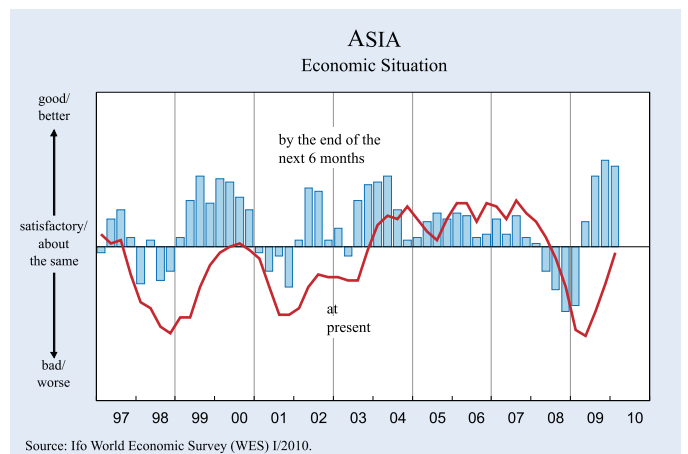
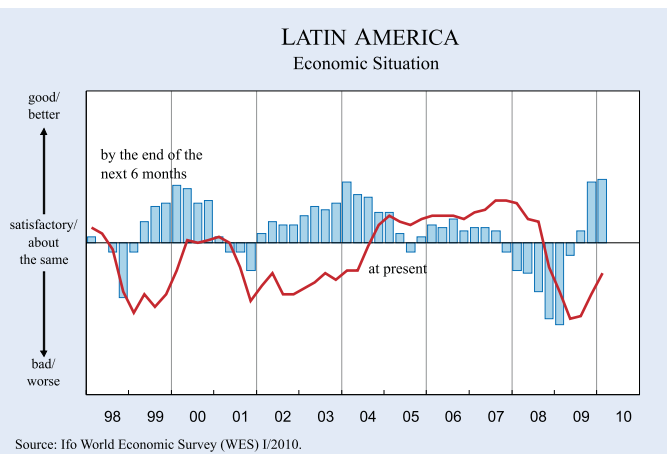
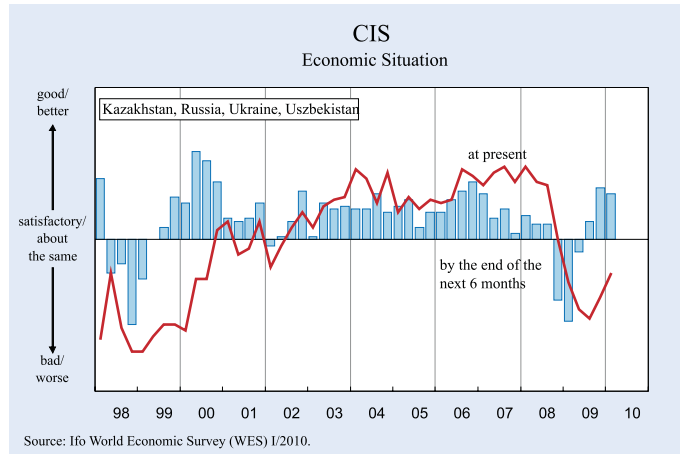
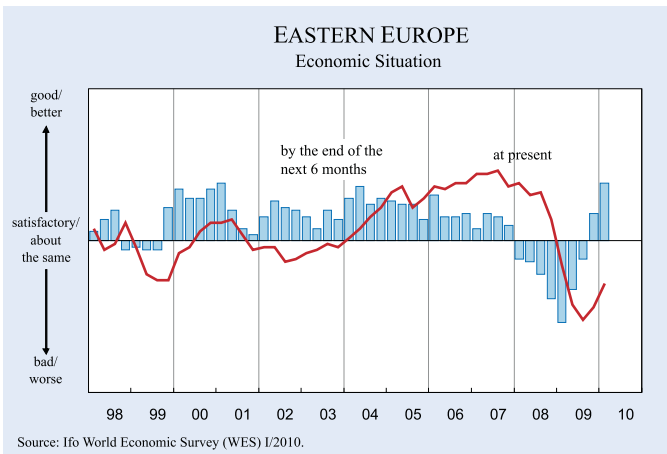
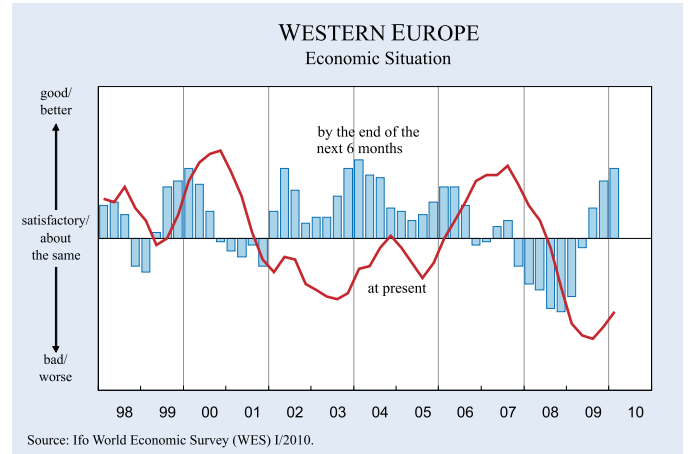
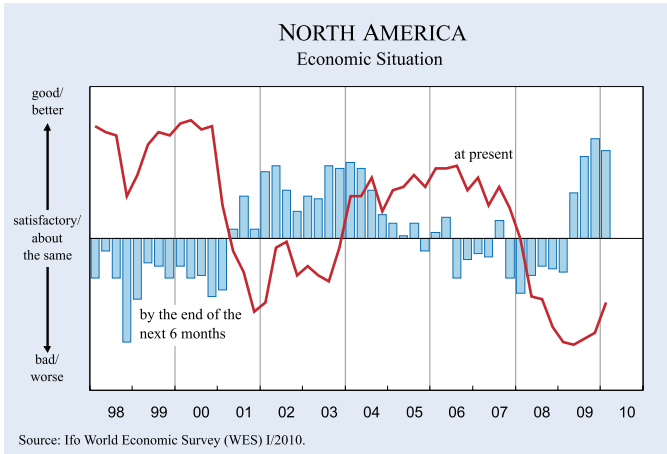
cial crisis. Although, the withdrawal of capital inflows is reducing the current account deficits, this was paid for in form of wage reductions, dismissals and other difficult structural adjustments. The economic expectations are accordingly subdued, particularly in *Bulgaria* and *Latvia*. In *Romania* WES experts expect a further economic deterioration in the course of the next six months. In all three countries the WES experts foresee further weakening of private consumption and capital expenditures in the first half of 2010. In contrast, in *Estonia* and *Lithuania* the WES experts are fairly optimistic concerning an economic turnaround in the course of the next six months. Also the *Czech* economy has been significantly affected by the global crisis, less due to excessive borrowing but rather because of its openness. A downturn

in the *euro area* strongly depressed the country's export sector. So, the recovery in *Czech Republic* also depends on external conditions. Along with the global recovery, the present economic situation is gradually improving in the *Czech Republic*, although being still considerably below the satisfactory level. Also in *Hungary* the WES experts share optimism with regard to the onset of an economic recovery in the course of 2010. *Poland* was the only country in the region to withstand the economic crisis with a remarkable robustness. Here the assessments of the present economic situation have improved considerably over the previous survey. The present economic situation is now assessed as "good". The economic expectations point to further economic strengthening in the next six months, mainly in the fields of capital expenditures, private consumption and exports. In all countries of the region the WES experts place major hopes on the export sector to become the driving engine of economic recovery.

In the non-EU countries of the region (*Albania*, *Croatia* and *Serbia*) the economic climate indicator deteriorated – as in *Albania* and *Serbia* – or remained negative as in *Croatia*. In all three countries the present economic situation is assessed as bad; in *Albania* to a lesser degree than in the other two countries, but the economic expectations here have clearly turned negative. The WES experts expect that capital expenditures, private consumption and the export sector will deteriorate considerably in the first half of 2010. In contrast in *Croatia* and *Serbia*, the present economy is assessed as weak, but the surveyed WES experts are fairly optimistic that particularly the capital expenditures will strengthen, and in *Croatia* private consumption is also expected to pick up somewhat in the next six months.

Figure 4

SELECTED REGIONS



CIS: Exports drive recovery

The overall economic climate index for CIS countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan* and *Uzbekistan*) improved again somewhat in January (see Figure 6). The improvement results solely from the less negative assessments of the present economic situation, while the economic expectations have not improved further. In *Russia* the present economic situation is still assessed as weak, although considerably less so than in 2009. The driving engine of the economy remains the export sector, which is expected to strengthen in the course of the next six months. Despite relatively high oil prices, domestic demand is still subdued. But WES experts expect capital expenditures and to a lesser degree private consumption to revive further. Given the recent upward pressures on the *ruble* associated with capital inflows, WES experts expect the *ruble* to gain in value vis-à-vis the *US dollar* in the coming months. The WES economists also assessed the climate for foreign investors as very bad (see Table 1), as there are very high legal and administrative restrictions for foreign firms to invest in *Russia* and to repatriate profits. The same applies to the *Ukraine*, where the economic climate deteriorated in January. Although the assessments of the present economic situation have slightly improved, the economic expectations for the next six months have been downgraded again. However, they remain in the positive territory and the economic recovery is expected to continue in 2010 in the *Ukraine*. In *Kazakhstan*, the assessments of the present economic situation have improved considerably. The WES experts assess the current economic performance as “satisfactory”. The economic expectations are highly optimistic. Rather positive feedback was also given by the surveyed economists in *Uzbekistan*. In *Kyrgyzstan*, in contrast, the economic situation is assessed as weak at present. The surveyed economists remain cautious. They forecast a decline of exports and private consumption in the next six months.

Asia: Highly favourable economic climate

In *Asia* the economic climate indicator in January improved most strongly, compared to the other regions (see Figure 3) and has clearly surpassed its long-term average. The improvement of the climate indicator was due to more favourable assessments of the present economic situation. The economic expect-

Table 1
Legal and Administrative Restrictions for Foreign Firms

Absent	
Hong Kong	9.0
Uruguay	8.1
Denmark	7.8
Finland	7.8
Latvia	7.5
Austria	7.4
Peru	7.4
Switzerland	7.4
Ireland	7.3
United Kingdom	7.2
Paraguay	7.0
Rather Low	
Romania	6.8
Netherlands	6.8
Norway	6.7
Albania	6.7
France	6.7
Chile	6.6
Hungary	6.6
Bulgaria	6.6
Sweden	6.5
Belgium	6.3
United States	6.3
Japan	6.3
Kazakhstan	6.2
Germany	6.2
Slovenia	6.1
United Arab Emirates	6.0
Portugal	5.9
New Zealand	5.8
Turkey	5.8
Poland	5.8
Spain	5.8
Israel	5.7
Canada	5.6
Australia	5.5
Slovakia	5.3
Italy	5.3
Brazil	5.1
El Salvador	5.0
Sri Lanka	5.0
Guatemala	5.0
Lithuania	5.0
Croatia	5.0
South Korea	5.0
Thailand	5.0
Czech Republic	5.0
Mexico	4.7
Malaysia	4.6
Pakistan	4.6
Greece	4.5
South Africa	4.5
China	4.4
Colombia	4.2
India	4.2
Bangladesh	4.0
Rather High	
Taiwan	3.7
Argentina	3.5
Ukraine	3.5
Venezuela	3.3
Ecuador	3.3
Philippines	3.3
Serbia-Montenegro	3.3
Cyprus	3.0
Zimbabwe	3.0
Russia	2.6
Indonesia	1.4

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

WES scale: 9 - absent, 5 - low, 1 - high.

Source: Ifo World Economic Survey I/2010.

tations for the next six months remain highly optimistic, on average, for the region (see Figure 8).

Asia is the region with the highest economic confidence worldwide. In almost all *Asian* countries economic performance strengthened over last year. In January 2010 the economic situation was assessed as particularly strong in *Hong Kong*, *Vietnam* and *India*. *Hong Kong* is one of the leading countries relating legal and administrative conditions for foreign firms to invest and to repatriate profits (see Table 1). The assessments of the present economy have been upgraded considerably also in the *Philippines*, *South Korea* and *Malaysia*. In *Taiwan* and *Thailand* as well the present economic situation improved considerably compared to the October survey, but the assessments have not yet reached the “satisfactory” mark. In *China*, *Asia’s* biggest economy, the present economic situation stabilized at a favourable level in January. No pick-up in capital expenditures is expected in the next six months, but the export sector is forecast to strengthen in the first half of 2010. Both *China* and *India* economies are expected to grow strongly in 2010. Although, economic growth in *China* is partly attributed to its high fiscal stimulus and credit easing, there are also chances for positive multiplier effects on private consumption, which is expected to remain buoyant in the first half 2010. While in *Japan*, optimism also prevails in forecasts, the present economic situation here is assessed as very weak and the economic confidence is among the lowest in the *Asian* region. But the WES experts expect capital expenditures, private consumption and the export sector to strengthen in the coming six months. In *Asia*, only in *Pakistan* have both the assessments of the present economic situation and economic expectations been downgraded considerably. WES experts expect exports to fall somewhat in coming months. In the other sectors of the economy, the recovery remains rather subdued, according to the latest WES results.

Oceania: Robust economic recovery

Also in *Australia* and *New Zealand* the economic climate continued to improve (see Figure 6). In *Australia*, the assessments of the present economic situation stabilized in the first quarter 2010 at the “satisfactory” mark reached in the fourth quarter of 2009. The economic expectations for the next six months have again been strongly upgraded, pointing to further strengthening of economy. Capital expen-

ditures, private consumption and the export sector are expected to pick in the first half of 2010. Also in *New Zealand* the economy is recovering from recession, according to the WES results. The assessments of the present economic situation have been upgraded again, but have not yet reached “satisfactory” mark. The surveyed economists remain confident that exports will pick up and the economy will continue to recover in 2010.

Latin America: Major differences across countries prevail

In *Latin America* the economic climate indicator improved further in January 2010. Particularly the assessments of the present economic situation have been strongly upgraded, while the economic expectations for the next six months continue to point to further economic strengthening in the first half of 2010. Although most *Latin American* countries are recovering, there are still major differences across the countries of the region (see Figure 9).

A particularly favourable economic climate prevails in *Brazil*, *Chile*, *Peru* and *Uruguay*. In all four countries the economic climate indicator improved over the previous October survey, due to a more favourable assessments of the present economic situation. The economic expectations are also highly positive, pointing to further strengthening of capital expenditures, private consumption and exports in the next six months. The economic climate improved also in *Argentina* and *Panama*. In both countries the present economic situation is regarded as satisfactory and further economic stabilization is expected in the course of the next six months. More positive than during the last year but still considerably below the satisfactory level is how the WES experts assess the present economic performance in *Paraguay* and *Ecuador*. In *Ecuador* capital expenditures are forecast to weaken further, and private consumption and exports to remain subdued in the next six months. Also deterioration of political stability is expected by the surveyed economists in the next six months (see Table 2) In *Paraguay*, in contrast, the WES experts are highly optimistic relating economic recovery in the first half of 2010.

In a variety of other countries of the region, the economic climate is also gradually improving, but the present economy is still regarded as weak. Thus the overall economic climate indicator improved some-

Table 2

Assessment of the Following Factors Influencing the Climate for Foreign Investors in the Next 6 Months

Climate due to	Change for the next 6 months *	
	Deterioration	Improvement
Legal/administrative restrictions to invest and/or to repatriate profits	-	Bangladesh, Chile, Greece, Serbia-Montenegro, Sri Lanka
Political stability	Ecuador, Venezuela	Chile, Cyprus, Guatemala, Hungary, India, Sri Lanka, United Kingdom
<p>In those countries, not mentioned in the table no major changes relating the climate for foreign investors are expected during the next 6 months. (Only countries with more than 3 responses have been included into the analysis.)</p> <p>Criteria for selection of countries: Deterioration: WES grade between 1 and 3.5 Improvement: WES grade between 6.0 and 9</p>		

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

what in *Colombia*, *Costa Rica* and *Mexico*. Although the assessments of the present economic situation have been upgraded in all three countries, they are still far below the “satisfactory” mark. However, in all three countries the economic expectations indicator continues to rise. Capital expenditures, private consumption and the export sector are expected to strengthen in the coming months.

In the other countries of the region surveyed by WES the economic situation further deteriorated, according to WES experts. It is assessed with very low marks on the WES scale in *Venezuela*, *Guatemala*, *El Salvador*, *Trinidad and Tobago* and *Bolivia*. However, in *Guatemala* the WES experts are fairly optimistic that economic recovery will gain momentum in the first half of 2010. Also in *El Salvador* no further worsening is expected and exports are forecast to pick up somewhat in the course of the next six months. In contrast, in *Bolivia* and *Trinidad and Tobago*, the surveyed economists are rather cautious, forecasting economic stagnation and in *Venezuela* further economic deterioration in the next six months. The WES experts also forecast that the political situation will further destabilize in the coming months.

Near East: Economic stabilization

The economic climate stabilized in January in most countries of the *Near East* region (see Figure 10). The economic climate is again regarded as favourable in *Saudi Arabia*, *Bahrain*, *Kuwait*, *Syria*

and the *United Arab Emirates*. In all these countries capital expenditures, private consumption and exports are expected to strengthen further in the first half of 2010. Also in *Lebanon* WES experts report a favourable present economic state. The forecasts for the next six months are also upbeat. Not so in *Israel*. Here the economic situation deteriorated somewhat compared to the October survey, according to WES experts. Also the economic expectations have been downgraded, but remain generally optimistic. Private consumption, capital expenditures and the export sector are expected to

strengthen in the course of the next six months. In *Turkey* the economy is also gradually improving, according to the latest WES results. However, the present economic situation is still regarded as below the satisfactory level. But the economic expectations for the next six months are optimistic. Particularly the export sector is expected to pick up in near term.

Africa: Economic recovery remains subdued

The economic climate brightened further in *South Africa* in January (see Figure 10). The improvement of the overall climate indicator was due to both less negative assessments of the present economic situation and an upgrade of economic expectations. However, the present economic state is still assessed as very weak by the WES experts, though capital expenditures, private consumption and exports will strengthen considerably in the course of the next six months.

A favourable economic climate has been reported by WES experts in *Algeria*, *Ghana*, *Mauritius*, *Tanzania* und *Tunisia*. The surveyed economists foresee an economic stabilization in these countries in the next six months. In *Egypt*, *Kenya* and *Morocco* the present economic situation is regarded as rather weak. However, the WES experts think that in the first half of 2010 capital expenditures, private consumption and exports will pick up somewhat. The same applies to *Zimbabwe*, where the economic situation is critical, but the expectations have become positive in 2009 and the beginning of this year. In contrast in

Figure 5a

EUROPEAN UNION

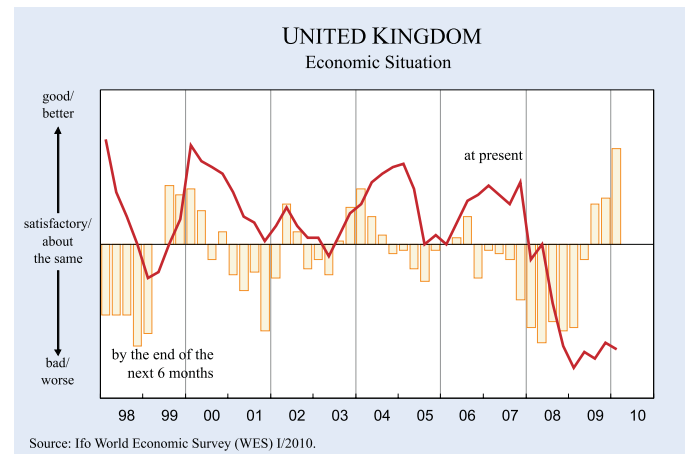
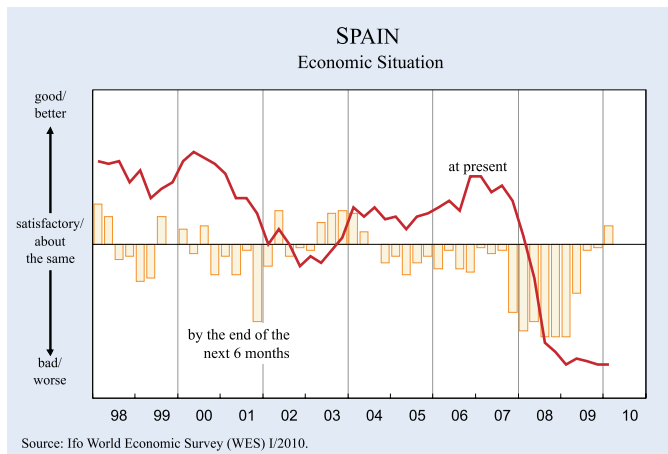
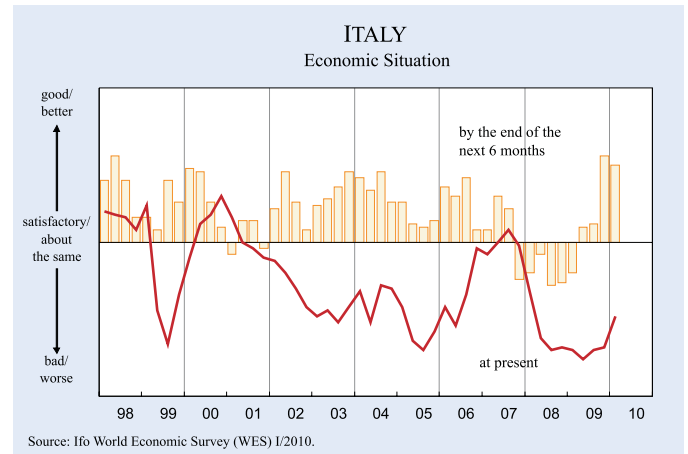
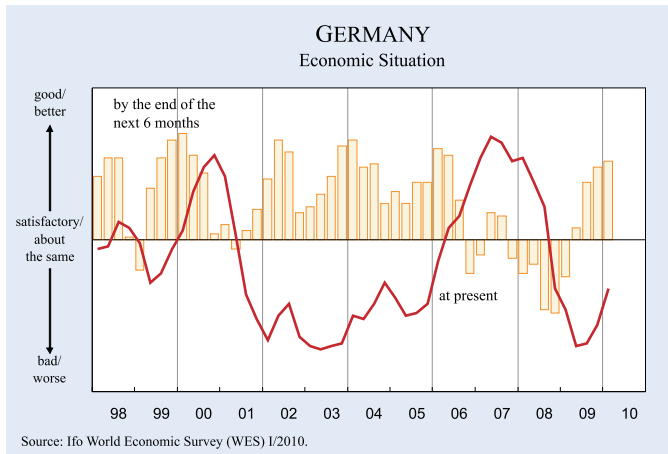
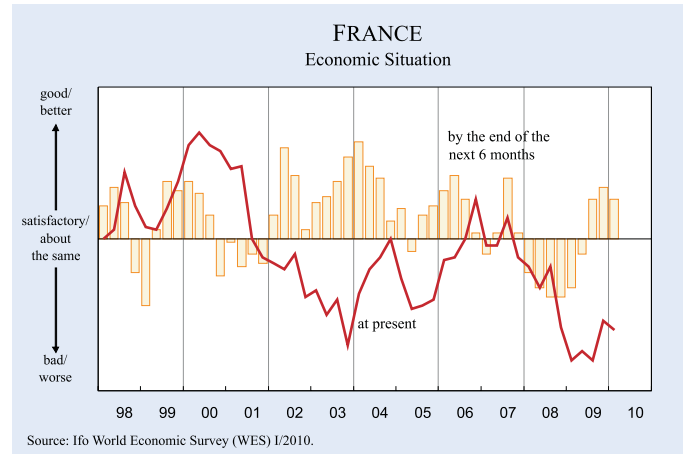
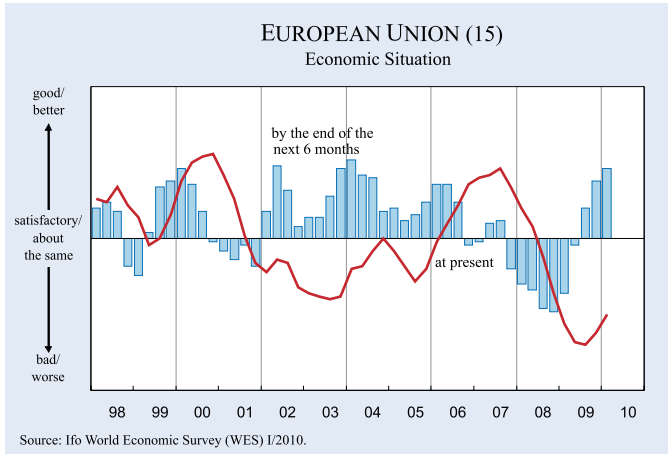
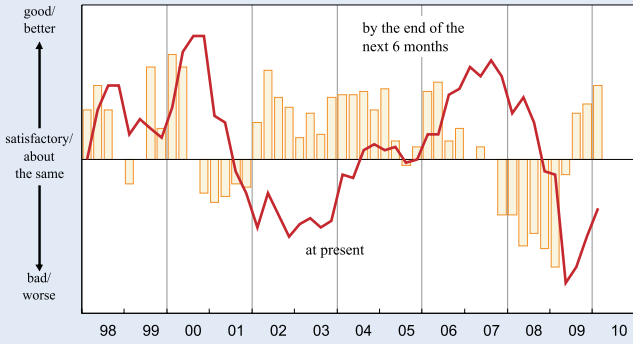


Figure 5b

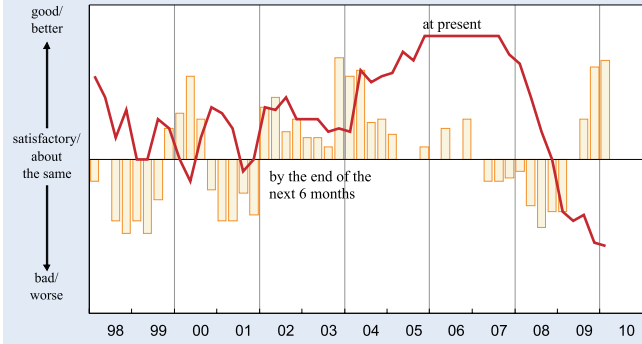
EUROPEAN UNION

AUSTRIA
Economic Situation



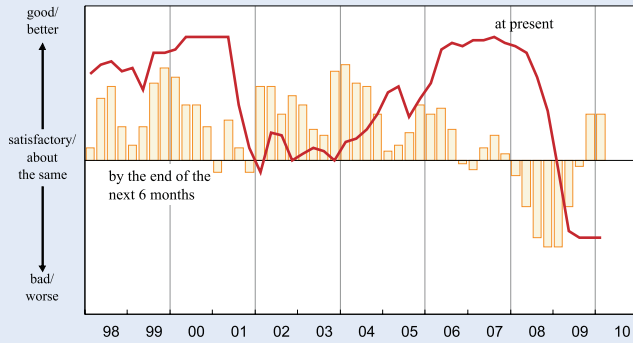
Source: Ifo World Economic Survey (WES) I/2010.

DENMARK
Economic Situation



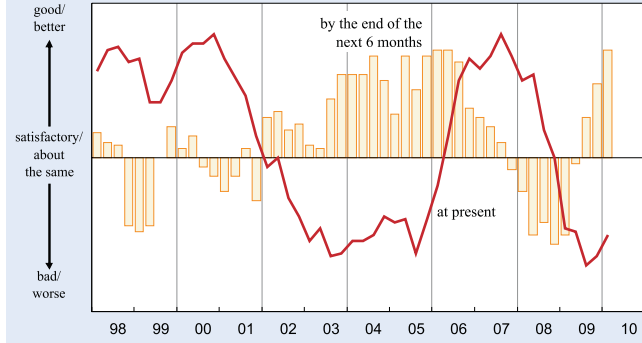
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FINLAND
Economic Situation



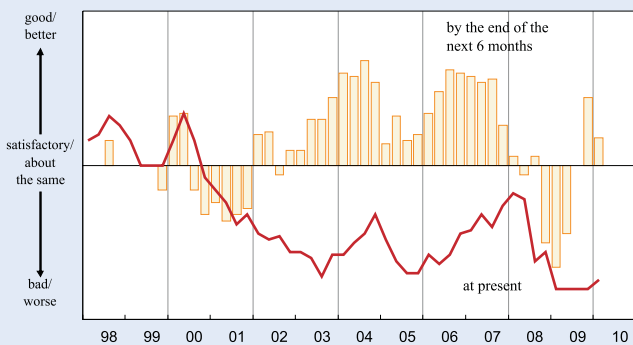
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NETHERLANDS
Economic Situation



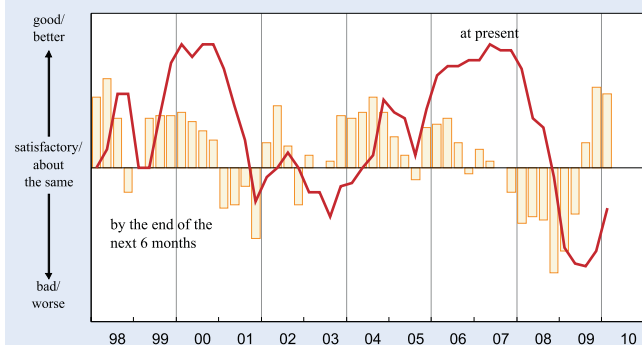
Source: Ifo World Economic Survey (WES) I/2010.

PORTUGAL
Economic Situation



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

SWEDEN
Economic Situation



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

Figure 6

NORTH AMERICA, OCEANIA AND CIS

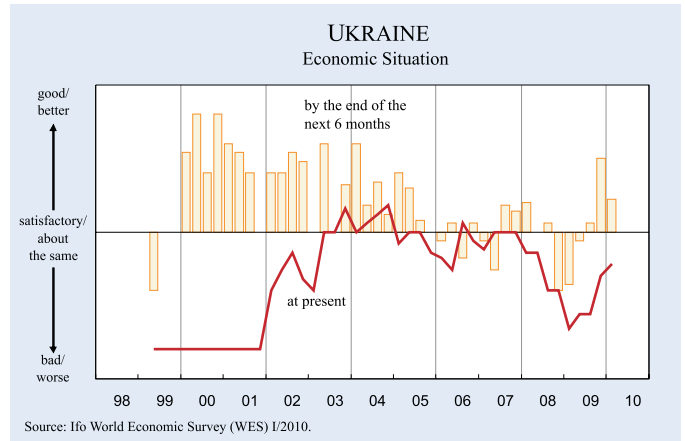
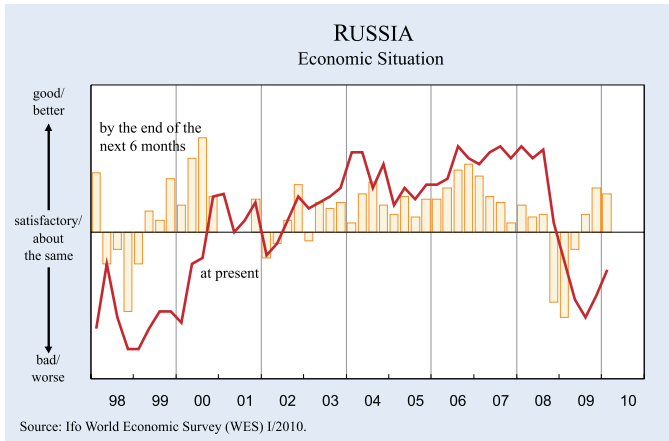
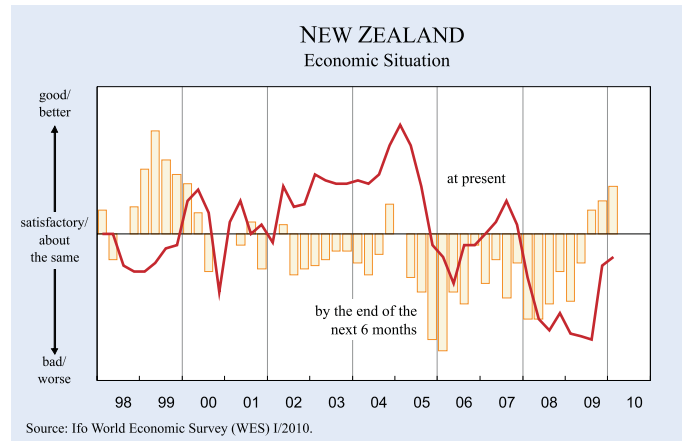
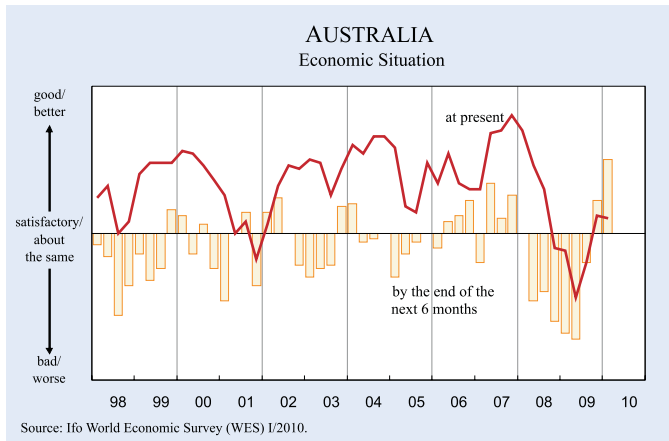
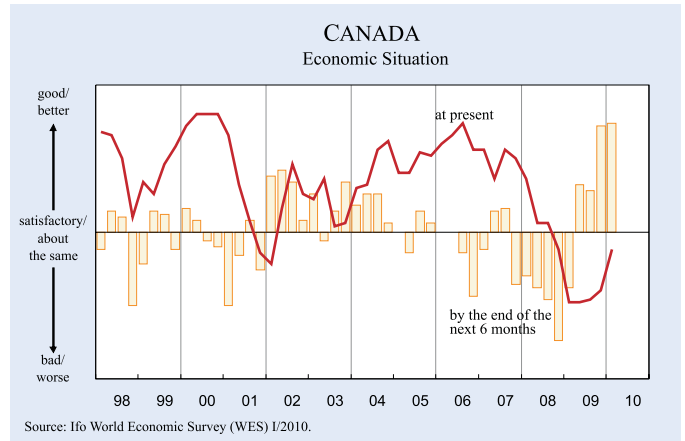
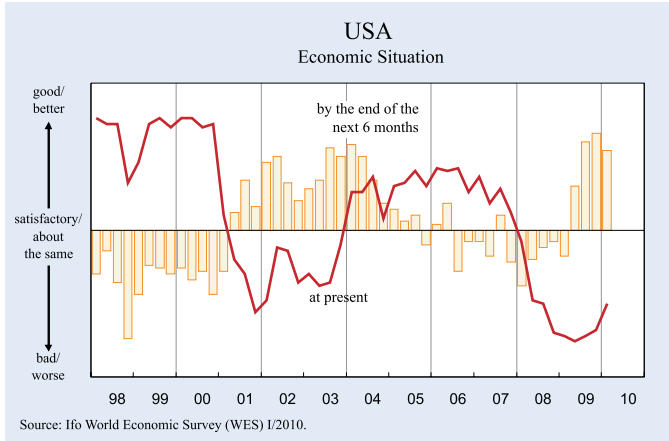


Figure 7

EASTERN EUROPE

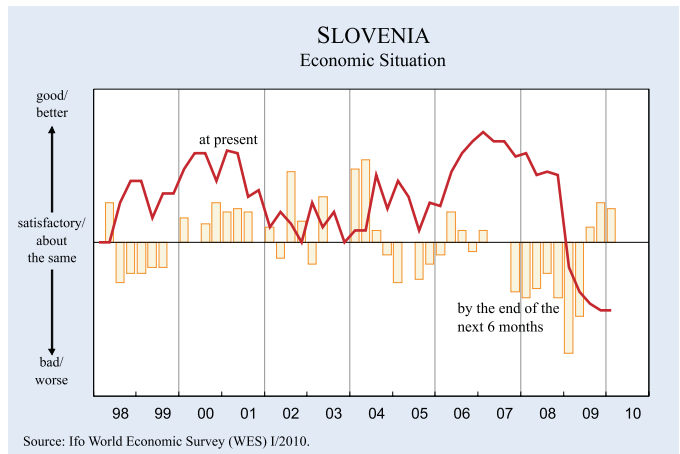
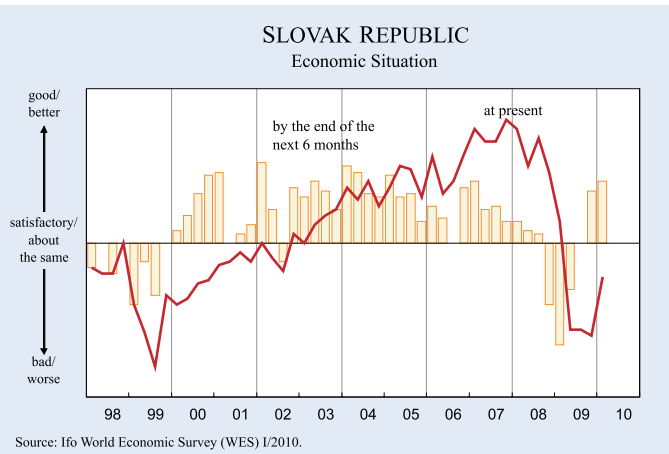
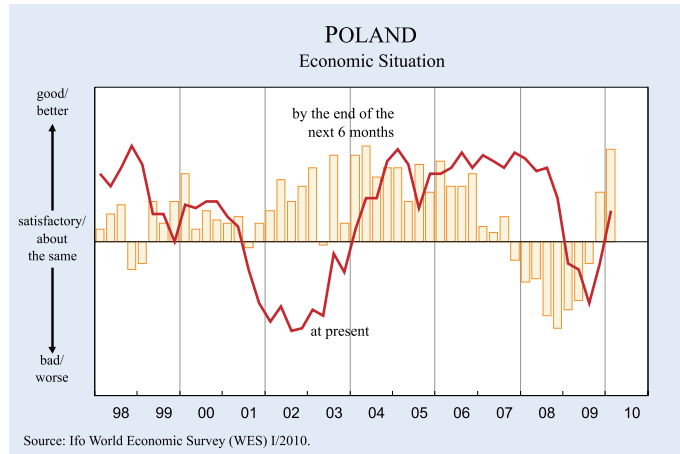
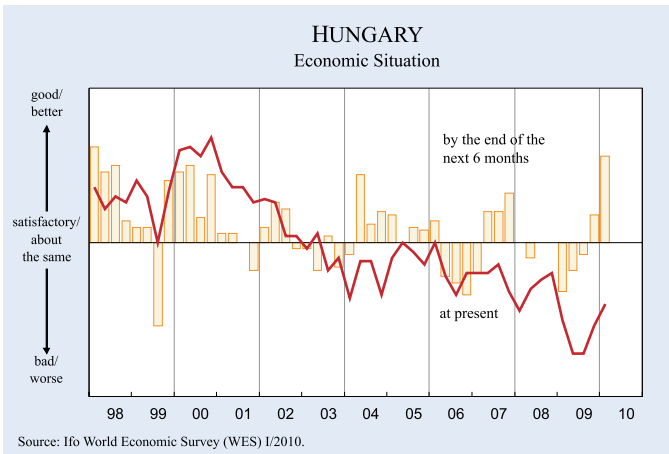
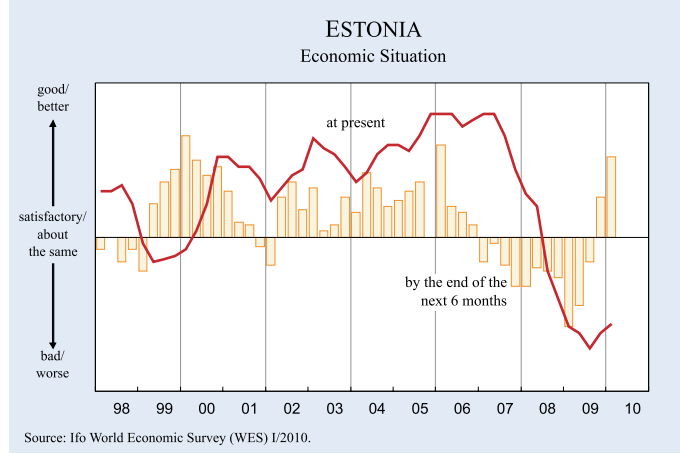
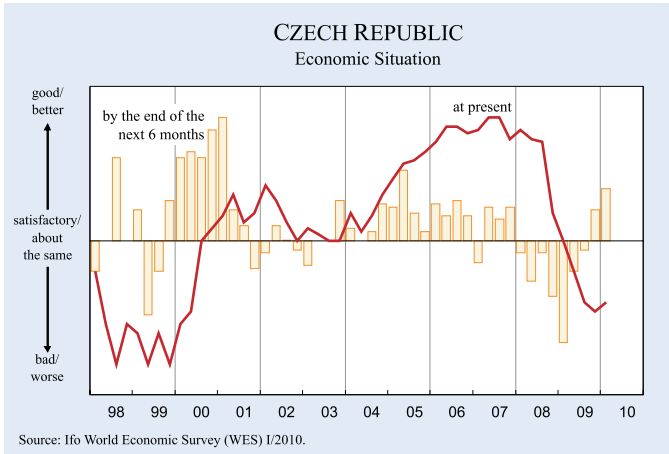


Figure 8

ASIA

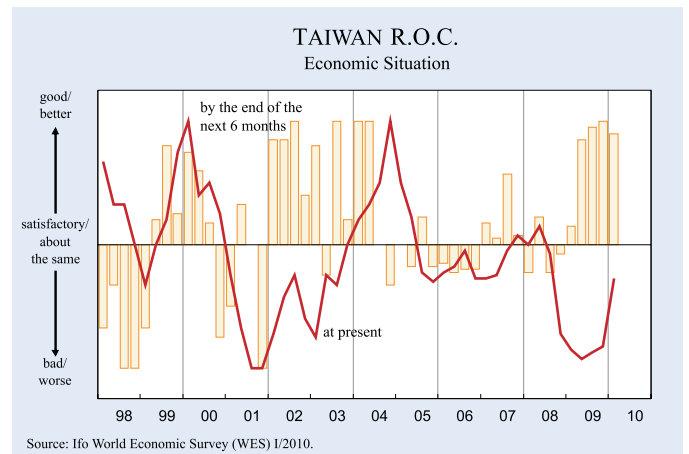
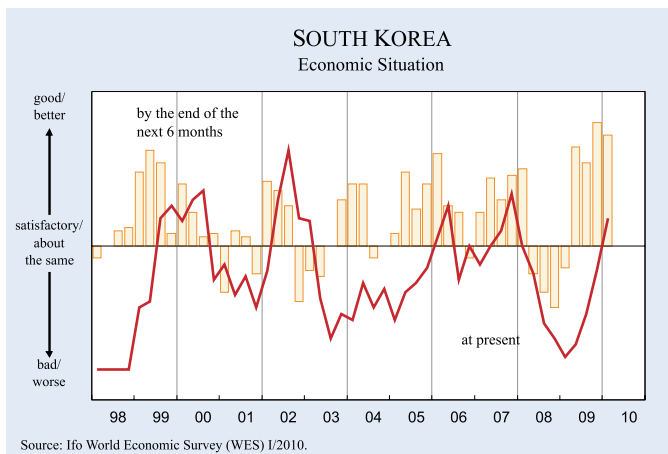
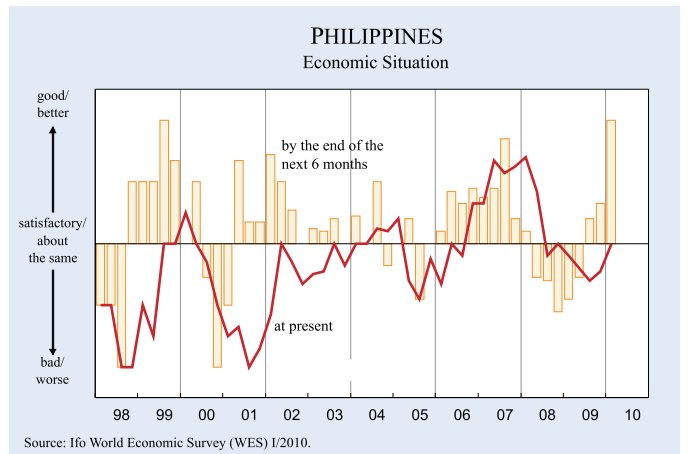
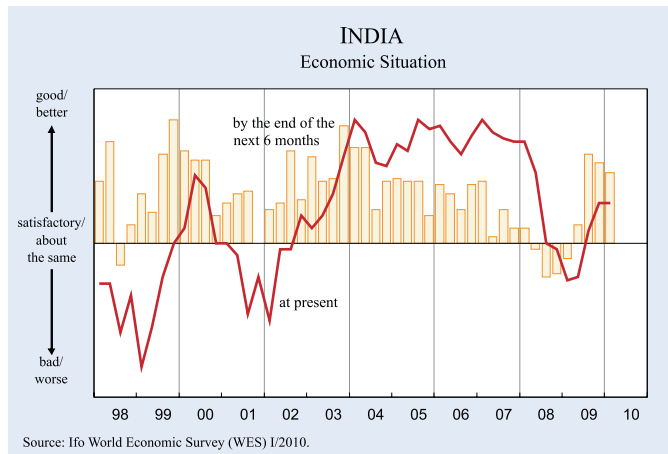
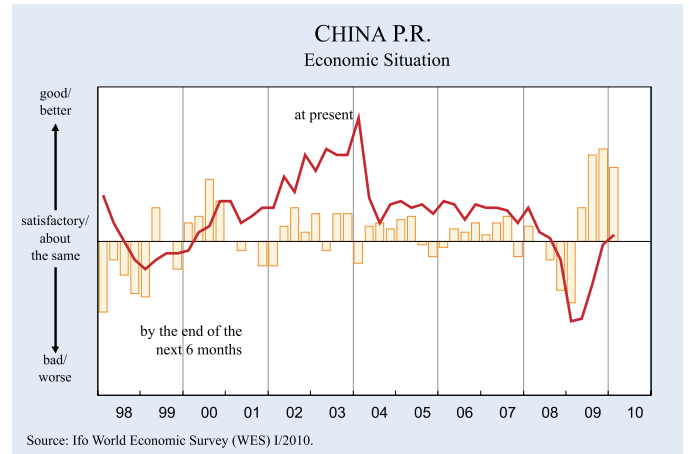
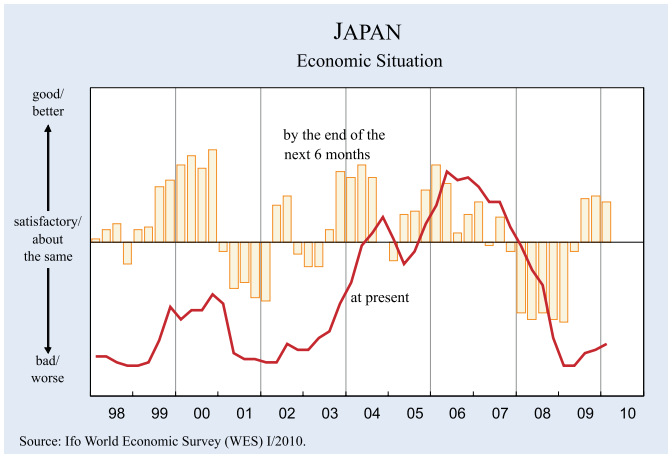
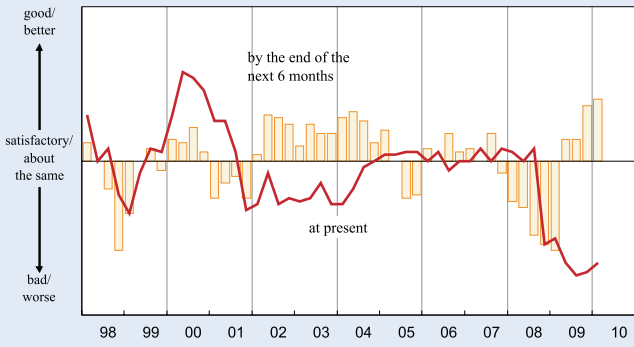


Figure 9

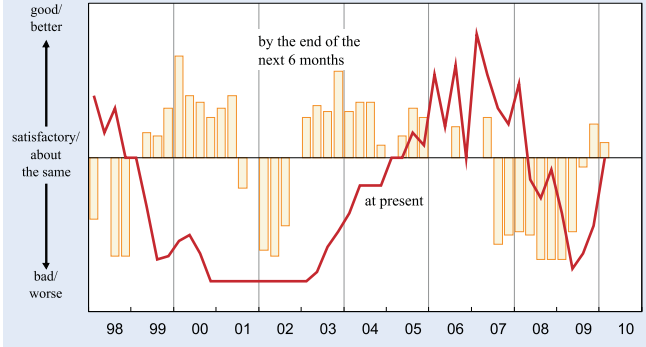
LATIN AMERICA

MEXICO
Economic Situation



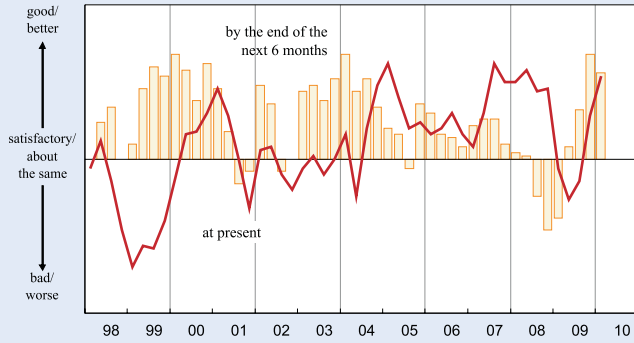
Source: Ifo World Economic Survey (WES) 1/2010.

ARGENTINA
Economic Situation



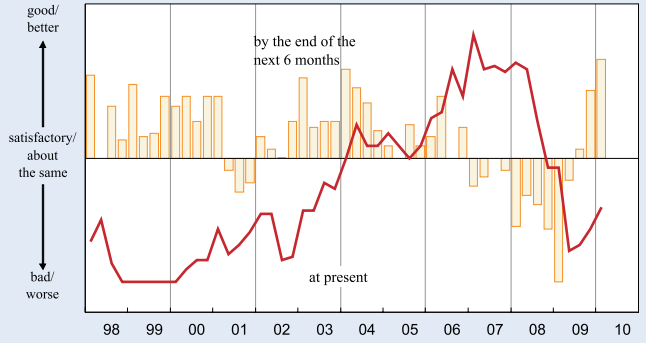
Source: Ifo World Economic Survey (WES) 1/2010.

BRAZIL
Economic Situation



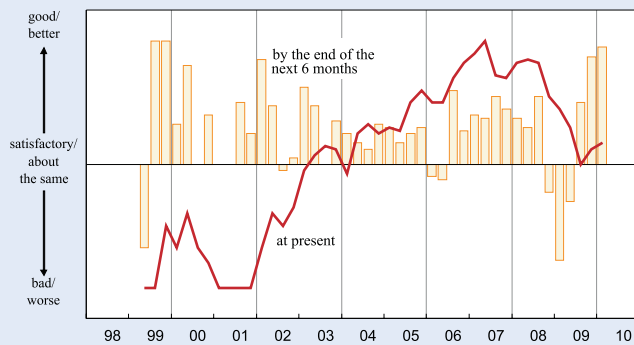
Source: Ifo World Economic Survey (WES) 1/2010.

COLOMBIA
Economic Situation



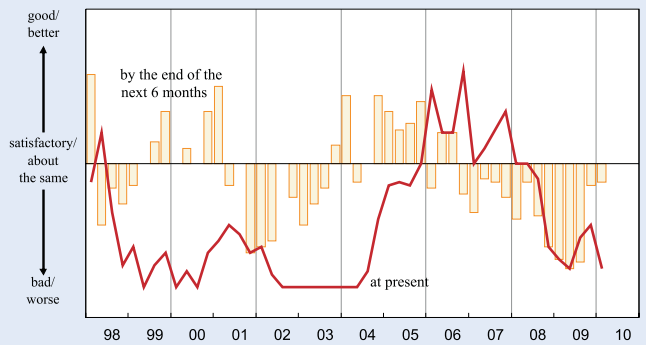
Source: Ifo World Economic Survey (WES) 1/2010.

PERU
Economic Situation



Source: Ifo World Economic Survey (WES) 1/2010.

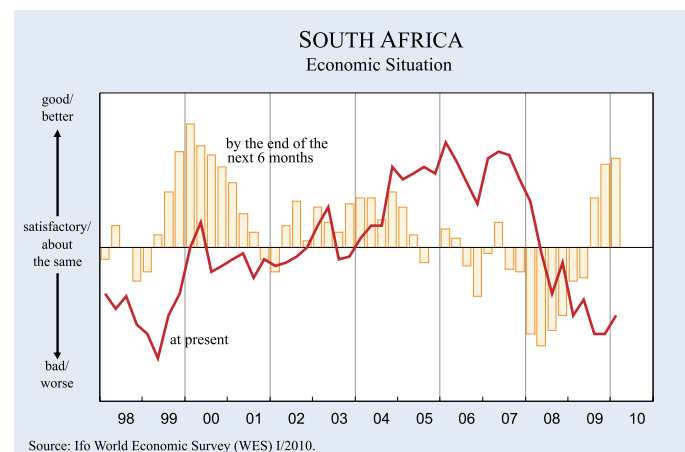
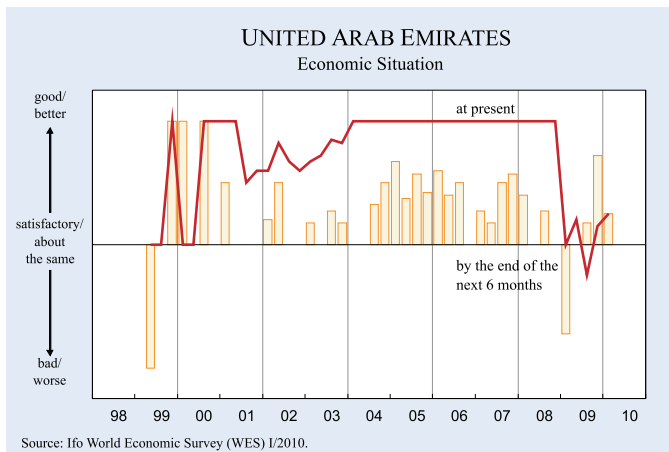
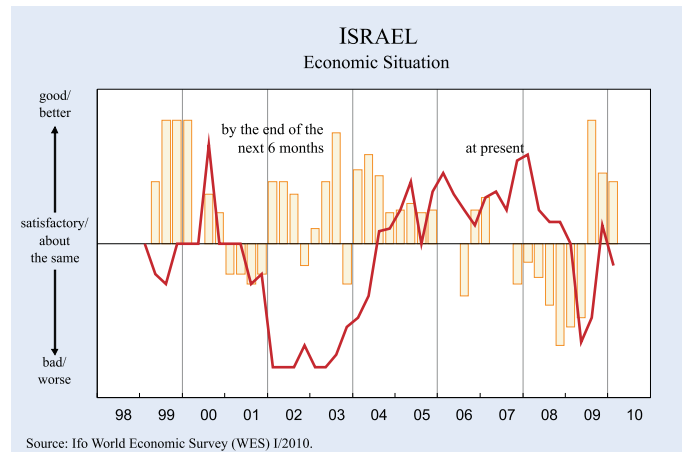
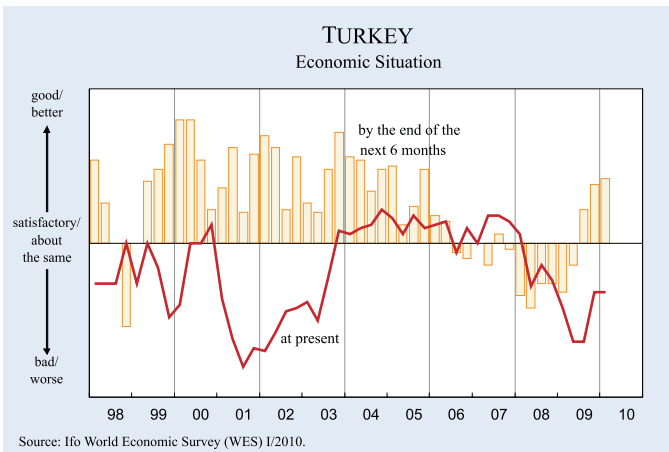
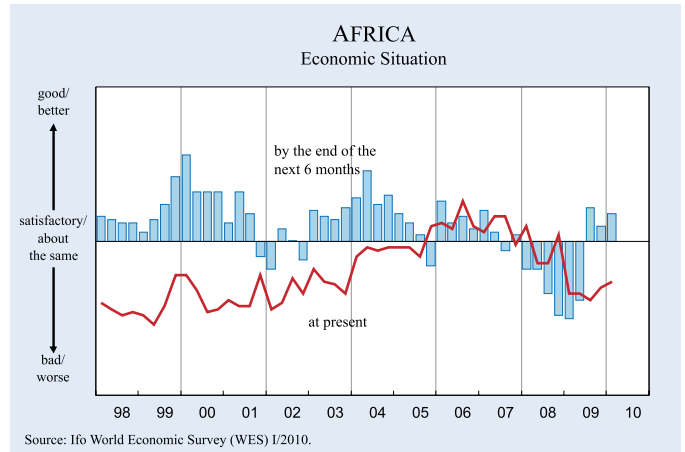
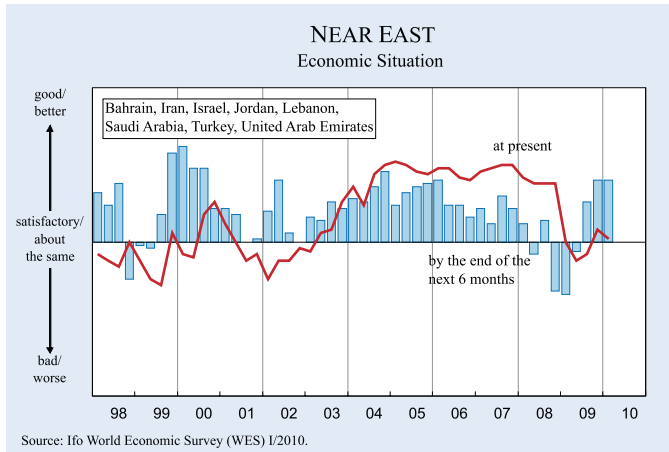
VENEZUELA
Economic Situation



Source: Ifo World Economic Survey (WES) 1/2010.

Figure 10

NEAR EAST AND AFRICA



Nigeria and *Swaziland* no economic turnaround is forecast in the next six months. In both countries particularly the export sector is expected to weaken.

Moderate pick-up of inflation expected

WES experts expect, for the average of 2010, an inflation rate of 2.9 percent on a worldwide scale. This compares with an estimated inflation rate of 2.5 percent for 2009 (see Table 1). An expected moderate pick-up of inflation can also be derived from the answers to the additional question on the expected tendency of the inflation in the course of next six months.

The lowest rate of consumer price inflation will prevail in 2010 again in *Western Europe* (1.4 percent), followed by *North America* (2.1 percent), *Asia* (2.5 percent), *Oceania* (2.6 percent) and *Eastern Europe* (2.8 percent). In *Latin America* (7.9 percent), the *Near East* (6.2 percent) and *CIS* (9.7 percent), inflation will remain well above the world average in 2009.

Whereas in most regions of the world a pick-up of the inflationary trend is expected in coming months, this is not the case in *Eastern Europe*, the *CIS* area and the *Near East*. Here despite the still relatively high annual rates of inflation, the current inflation trend in the course of the next six months will remain stable or even decline, according to WES experts.

In *Western Europe*, *Ireland* is the only country where no pick-up of prices but only a softening of the deflationary trend is expected in the course of the next six months. The expected price increases in the other *European* countries in 2010 are very moderate and will result in a presumable price increase of 1.4 percent in 2010. In the *euro area* the expected inflation rate of 1.3 percent in 2010 remains clearly below the medium term objective of the ECB.

In *Eastern Europe* the price development in *Estonia* is close to a deflationary scenario and in *Asia* it is again *Japan* where an end of price deflation is still not

in sight. On the other hand, the highest inflation rate in 2010, with an even growing tendency in coming months, is expected in *Venezuela* (33.0 percent) and in *Argentina* (19.0 percent).

US dollar appears undervalued

More WES experts than in the previous survey assessed the *US dollar* as undervalued (see Figure 11). In contrast, the *euro* was again seen as overvalued, particularly in the *Near East* and *North America*, here both in *Canada* and in the *US*. The *Japanese yen* and the *British pound* continue to be close to their equilibrium values according to the interviewed WES experts.

By country the own currency appears – according to WES experts – generally somewhat *overvalued* in *Australia*, *South Africa*, *Poland* as well as *Brazil*, *Colombia* and *Guatemala*.

On the other hand, the own currency is assessed as generally *undervalued* in many *Asian* countries, particularly in *China* and *Malaysia*, in the *Near East*, here particularly in *Saudi Arabia* as well as in most *CIS* countries, particularly in the *Ukraine* and *Kyrgyzstan*, but also in *Russia* and *Kazakhstan*. In *Eastern Europe* where most currencies according to WES experts appear to be somewhat overvalued, an exception is the *Croatian* currency which is assessed by WES experts as undervalued.

The answers to a supplementary survey question on the likely development of the *US dollar* in the next 6 months, regardless of how currencies are assessed from a fundamental point of view, signal on a world-

Figure 11

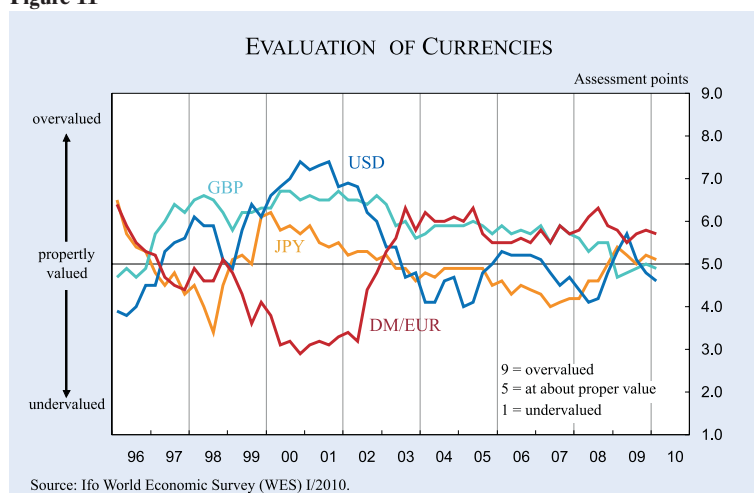


Table 3

Inflation Rate Expectations for 2009 and 2010
(based on WES QIV/2009 and QI/2010)

Region	QI/2010	QIV/2009	Region	QI/2010	QIV/2009
Average of countries*	2.9	2.5	Latin America	7.9	7.7
<i>World Bank classification:</i>			Argentina	19.0	15.5
High-income countries	1.7	1.1	Bolivia	5.3	4.7
Middle-income countries	6.6	6.4	Brazil	4.5	4.2
Upper-middle	6.9	6.8	Chile	2.6	1.6
Lower-middle	6.0	5.7	Colombia	3.1	4.0
Low-income countries	10.5	7.0	Costa-Rica	7.3	5.0
EU 27 countries	1.6	1.1	Dominican Republic	6.5	
EU countries (old members) ^{a)}	1.4	0.8	Ecuador	4.3	4.0
EU countries (new members) ^{b)}	2.7	3.1	El Salvador	3.0	2.7
Euro area ^{c)}	1.3	0.7	Guatemala	4.5	3.9
Western Europe	1.4	0.8	Mexico	5.5	5.4
Austria	1.4	1.0	Panama	2.5	4.0
Belgium	1.4	0.8	Paraguay	4.6	3.5
Cyprus	2.5	1.3	Peru	2.0	1.7
Denmark	1.7	1.5	Trinidad and Tobago	7.0	7.0
Finland	1.3	0.6	Uruguay	6.1	7.2
France	1.3	0.6	Venezuela	33.0	30.0
Germany	1.3	0.7	Asia	2.5	1.9
Greece	2.0	1.2	Bangladesh	7.6	6.5
Iceland	5.0	10.0	China	3.4	1.0
Ireland	-1.3	-1.6	Hong Kong	2.9	1.7
Italy	1.4	1.0	India	6.1	4.6
Luxembourg	2.0	1.0	Indonesia	4.5	5.2
Malta		1.0	Japan	-0.7	-0.7
Netherlands	1.3	1.0	Malaysia	2.9	3.1
Norway	2.3	2.1	Pakistan	13.0	14.0
Portugal	0.8	0.4	Philippines	4.4	3.4
Spain	1.1	0.1	Singapore	1.5	0.8
Sweden	1.4	0.5	South Korea	3.3	3.3
Switzerland	1.0	0.4	Sri Lanka	8.2	7.0
United Kingdom	2.4	1.2	Taiwan	1.2	-0.4
Eastern Europe	2.8	3.2	Thailand	3.1	1.8
Albania	3.5	3.4	Vietnam	7.8	8.0
Bulgaria	2.3	3.3	Near East	6.2	6.9
Croatia	2.9	3.4	Iran	20.0	25.0
Czech Republic	2.0	1.3	Israel	3.1	2.4
Estonia	-0.2	-0.1	Kuwait	4.5	6.0
Hungary	4.3	5.0	Lebanon	6.0	3.0
Latvia	2.0	2.6	Saudi Arabia	4.0	4.1
Lithuania	3.4	3.9	Syrian Arab Republic	7.0	
Poland	2.8	3.2	Turkey	6.6	6.5
Romania	3.9	5.6	United Arab Emirate	3.2	4.6
Serbia	6.7	9.3	Africa	7.5	8.0
Slovakia	1.9	2.3	Algeria	4.0	4.2
Slovenia	1.9	1.6	Egypt	11.5	-
CIS	9.7	11.5	Ghana	9.0	-
Kazakhstan	7.4	8.1	Kenya	17.0	16.0
Kyrgyzstan	8.0	7.5	Mauritius	3.1	4.0
Russia	9.3	11.0	Morocco	2.2	2.0
Ukraine	13.0	14.5	Nigeria	12.5	14.5
Uzbekistan	11.0	14.5	South Africa	6.1	7.0
North America	2.1	1.3	Swaziland	7.3	-
Canada	1.9	1.0	Tanzania	9.0	-
United States	2.2	1.4	Tunisia	5.0	5.0
			Zimbabwe	4.3	3.1
			Oceania	2.6	2.2
			Australia	2.7	2.3
			New Zealand	2.0	1.9

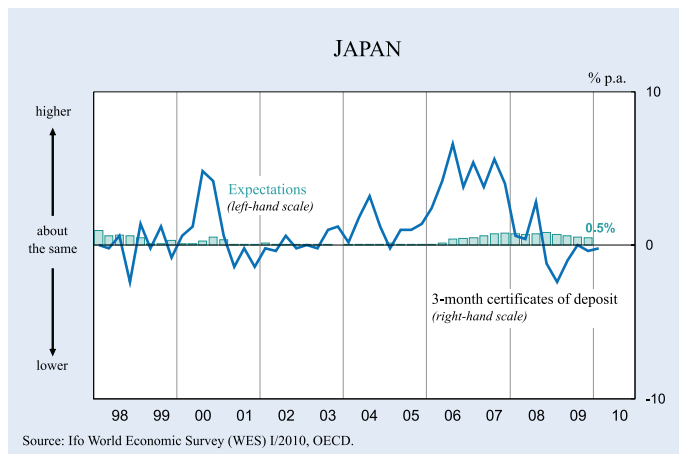
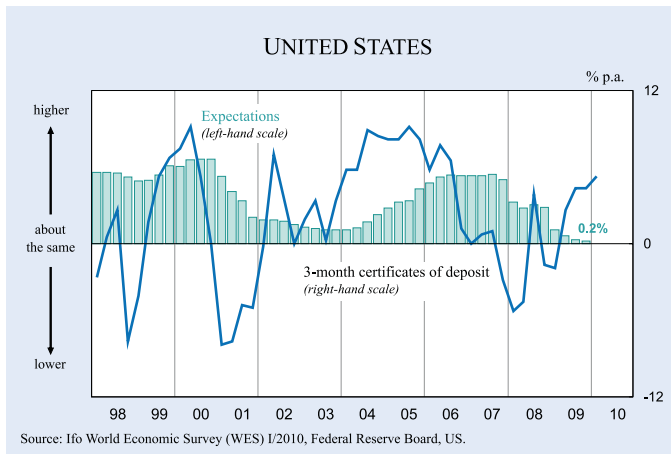
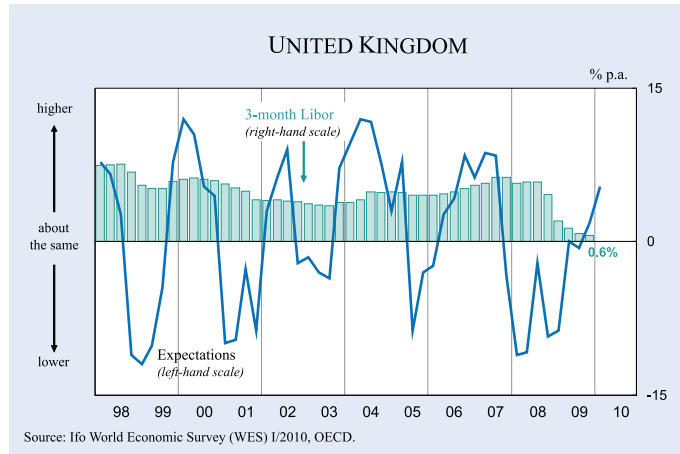
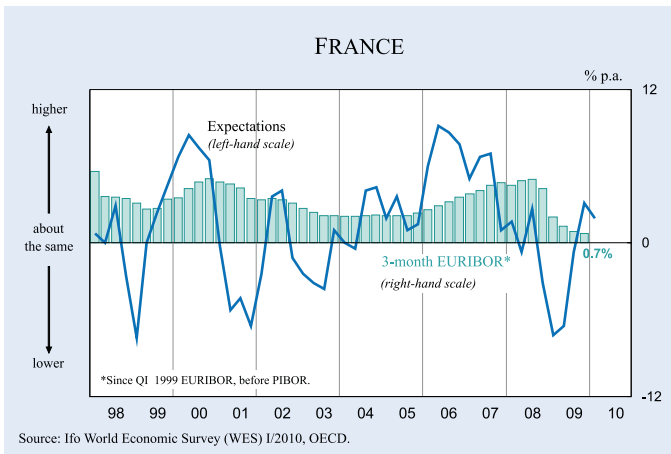
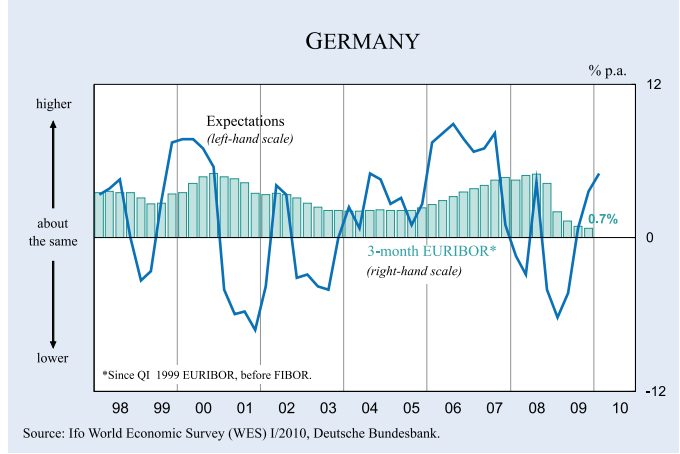
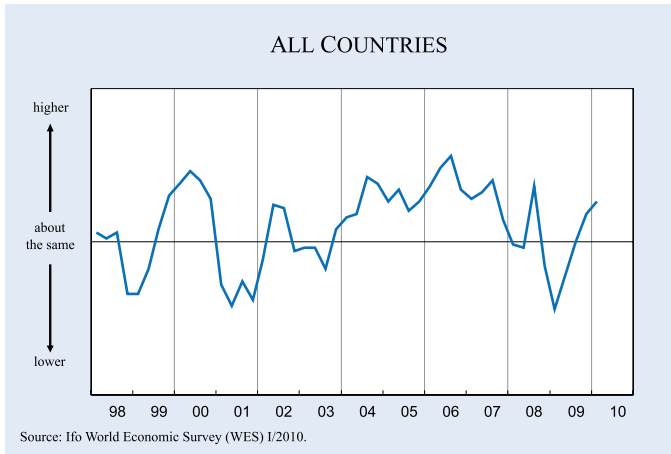
* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade.

^{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 I/2010.

Figure 12

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



wide average a stability of the *US dollar* in the coming months. However, behind this average are diverging trends: An expected *weakening* of the *US dollar* in *Australia, Asia* (here particularly in *China, Malaysia, South Korea, Taiwan* and *Thailand*) and in the *CIS countries* contrasts with an expected *increase* of the value of the *US dollar* in *Africa* (particularly *South Africa* and *Nigeria*), the *Near East* (here particularly in *Israel* and the *United Emirates*), *Latin America* (particularly in *Argentina, Guatemala, Costa Rica* and *Venezuela*) and generally in *Eastern Europe*. In *Western Europe* the value of the *US dollar* – in comparison to the countries' own currencies – is expected to remain largely stable or to increase moderately. Only outside the *euro area* in *Norway* and *Sweden* are the own currencies expected to gain in value vis-à-vis the *US dollar* in the course of the next six months.

Interest rates expected to rise

A growing number of WES experts expect some tightening of monetary policy in the course of the next six months, manifested in an increase of short-term interest rates and also in a further pick-up of long-term interest rates (see Figure 12). Thus, the extended period of falling interest rates appears to have come definitely to a halt in most countries. Exceptions are mainly some countries of the *CIS area* (the *Russian Federation, Kazakhstan* and *Kyrgyzstan*) and in *Eastern Europe* (*Hungary, Lithuania, Romania, Serbia* and *Croatia*) where the declining trend of interest rates still prevails.

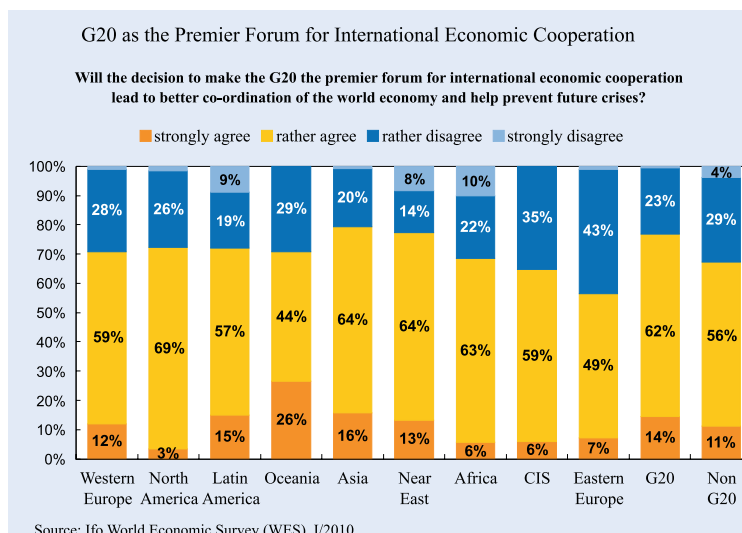
As at the beginning of past recovery periods, the market driven *long-term interest rates* are also this time expected to move up somewhat more strongly than the *policy interest rates* (short-term interest rates). Contrary to this general trend are the expected developments in *Latin America* and the *US*, where no difference in the upward movement of *short- and long-term interest rates* is expected.

ICC Special Question: G20 as the premier forum for international economic cooperation

The financial crisis has demonstrated how important it is to co-ordinate the financial and economic co-operation across regions and countries. Despite the existence of multinational organizations, such as the IMF, the UN and the WTO, no official forum for international financial and economic co-ordination has been established so far. This quarter's ICC special question asked the economists world-wide whether making the G20 the premier forum for international economic cooperation will lead to better coordination of the world economy and help prevent future crises such as the recent wide-ranging financial debacle that provoked a global recession.

The Group of Twenty (G20) is the successor of the G8 and is a group of finance ministers and central bank governors from 20 economies: 19 countries (*Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, UK* and the *USA*) and the European Union. Also representatives from the IMF, World Bank, International Monetary and Financial Committee, as well as the Development Committee of the IMF and World Bank regularly participate in meetings of the G20. Although the G20 provides a broader representation than the G8, its members are not selected on the basis of strict criteria but rather on historical grounds.

Figure 13



Generally the vast majority of surveyed WES economists worldwide think that the G20 is an appropriate forum for co-operation and consultation on issues of the international financial system. The share of proponents of the idea to make the G20 the premier forum of international economic co-operation is 9 percent higher within the G20 countries than within the non-G20 countries (see Figure 13). However, also in countries that are not members of the G20 the vast majority of surveyed economists think that making the G20 the premier forum for international economic cooperation will help prevent future crises; in Eastern Europe this share is somewhat lower than in other regions.



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