

# CESifo WORLD ECONOMIC SURVEY

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## WORLD ECONOMIC CLIMATE

World Economic Climate improves further

## ECONOMIC EXPECTATIONS

Economic expectations slightly downgraded but remain positive

## INFLATION

Moderate pick-up of inflation expected

## INTEREST RATES

Interest rates expected to rise

## CURRENCIES

Currencies appear balanced

## SPECIAL TOPIC

Public deficits



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## Ifo World Economic Survey

### Regions

- World economy: The world economy stays on recovery path
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- North America: Gradual recovery
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## Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide about current economic developments in the respective country. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In April 2010, 1,154 economic experts in 110 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 FURTHER

The Ifo World Economic Climate Index continued to improve in April 2010 (see Figure 1). The climate indicator rose to 104.1 (after 99.5 in January: 2005=100) and is now clearly above its long-term average (1991–2009: 96.9). The economic climate improved solely due to less unfavourable assessments of the present economic situation. The economic expectations for the next six months continue to be positive (see Figure 2).

## The world economy stays on recovery path

The global economy has been recovering since Spring 2009. In 2010 the world economic climate index remained on recovery path. Although the economic expectations have not again been upgraded, the assessments of the present economic situation improved further. However, the “satisfactory” level has not yet been reached, on a global average (see Figure 2). The economic climate index improved particularly strongly again in *Asia* (see Figure 3). Here it even reached a six-year high in April. In *North America* the economic climate index has considerably improved, surpassing its long-term average for the first time since more than two years. However, the improvement was solely the result of less negative assessments of the present economic situation. In *Western Europe*, in contrast, the economic climate indicator remained almost unchanged, still below its long-term average. Although the economic expectations for the next six months remain positive, the present economic situation continues to be weak, on average, in *Western Europe*.

The business-cycle clock (see Box 1) shows that the economic climate index remains on course towards the top right quadrant, which marks economic upturn. However, it is still in the early upswing area and there are a series of factors causing concerns about the strength and durability of the economic recovery. First of all, public deficits, drops in tax revenues and the pressure of fiscal consolidation have been named by the economic experts as the most important economic problems at present. The debt crisis in the *euro area* is causing new uncertainty in the credit markets. Particularly economists in *Europe* worry that the debt crisis might jeopardize

Figure 1

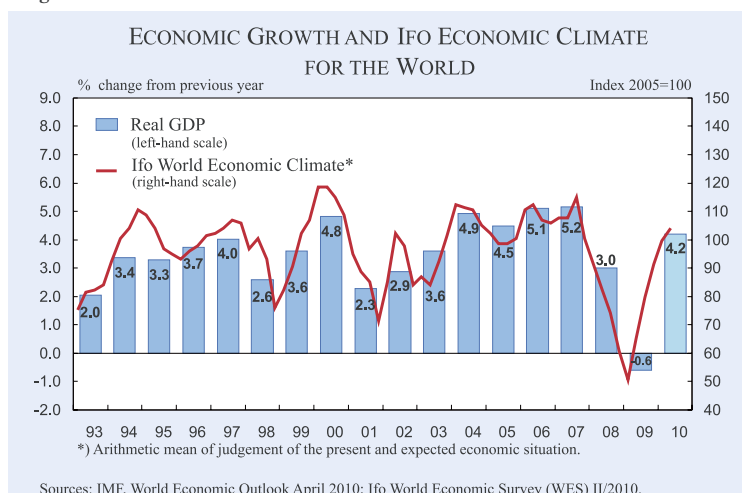
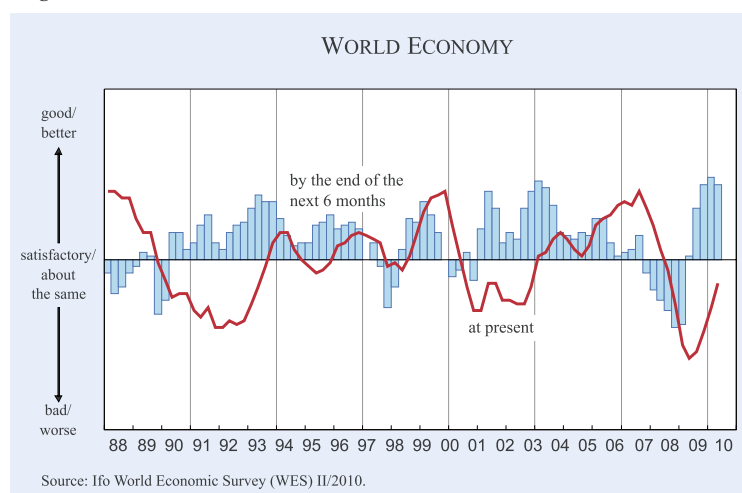


Figure 2

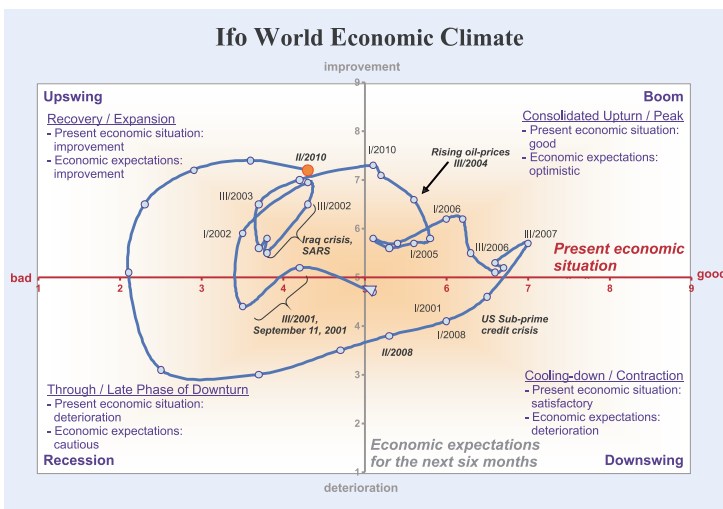


### Box 1

#### 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 second quarter of 2010 for the fifth time in succession. The rise in the indicator this time is solely attributable to more positive assessments of the current situation. Although, in most regions, except *Asia*, the present economic state is still assessed as below satisfactory. The economic expectations for the coming six months have been slightly downgraded, but remain positive. The survey results indicate that the world economy has found its footing.



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).

economic recovery. Furthermore, the scaling down fiscal and monetary measures introduced during the peak of the crisis in late 2008 and early 2009 may aggravate unemployment, which is still considered as the most pressing issue in many countries around the world. In summary, the world economy is recovering, but risks remain high. Major hopes are increasingly placed on the *Asian* region, which remains the driving engine of global economic recovery.

#### Western Europe: Stumbling economic recovery

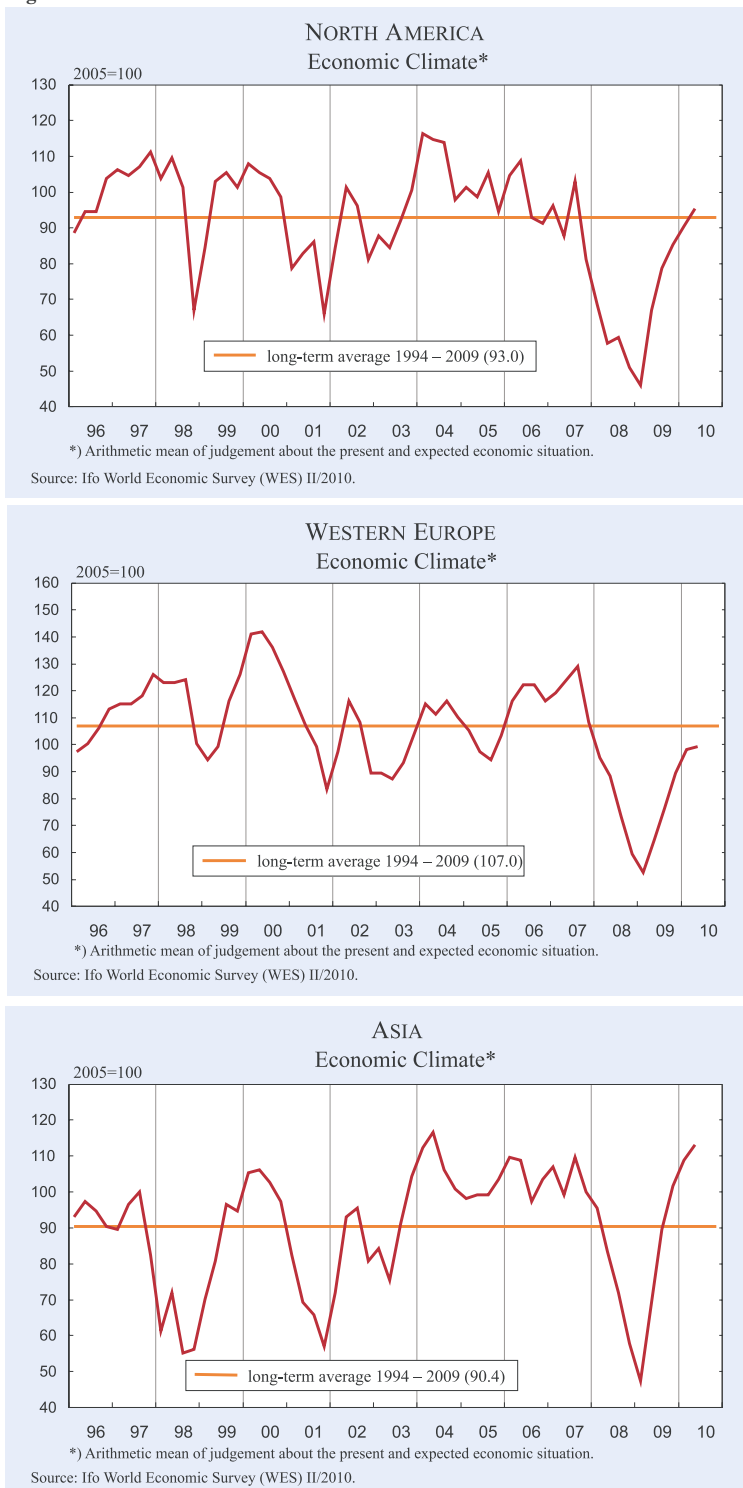
The economic climate indicator for *Western Europe* improved only marginally in April 2010 (see Figure 3). However, the assessments of the present economic situation have been upgraded in *Western Europe* on average for the third time in succession. But economic expectations, which had been improv-

ing since the beginning of the year 2009, have not been upgraded further (see Figure 4); however, they remain positive.

The economic climate in the *euro area* remained almost unchanged in April compared to the January survey (see Box 2). However, the pattern of the economic climate differs strongly across countries. While in some countries, including *Germany, Finland, the Netherlands, Belgium* and *Slovakia*, the economic situation continues to improve, it deteriorated again in *France, Austria* and *Slovenia*, as well as in *Greece* and *Italy*, where it is assessed with very low marks by the WES experts. The present economic state remains also very weak in *Ireland, Spain* and *Portugal*. *Greece*, however, is the only country of the *euro area* where the WES experts expect further economic deterioration in the coming months. In all the other countries the economic expectations, although being down-graded somewhat, remain positive. The *Greek* parliament approved the austerity plan that will cut the national budget for

civil servants' pensions and salaries. The cuts were a precondition for the European Union and the IMF to provide the financial assistance that will help to contain *Greece's* debt crisis. However, the protests in Athens against the austerity plan threaten to undermine tourism, which accounts for about 16 percent of *Greece's* gross domestic product as well as other areas of the economy. Furthermore, experts fear that *Greece's* debt problems could spread to other *euro area* countries. In the *euro area* in general, public deficits rank as the economic problem number one. This issue is prevalent not only in *Greece* but also in *Spain, Portugal, Ireland, Germany* and *Belgium*. Summing up, the uncertainty about the path of economic recovery is again very high in the *euro area*. It remains to be seen to what extent the euro stabilization program agreed on by the heads of states of the euro zone member countries, the EU Commission and the IMF on May 9 in Brussels will help to restore

Figure 3



confidence in the *euro*, which would also help the recovery process in the real economy.

Outside the *euro area*, the economy continues to strengthen, according to WES experts. The assessments of the present economic situation have been upgraded in almost all countries. The economic cli-

mate is regarded as favourable in *Norway*, *Switzerland* and to a lesser degree also in *Sweden*. In *Denmark*, in contrast, the present economic state improved only marginally this year and is still regarded as very weak. The economic situation remained negative throughout the year 2009 in the *United Kingdom*. Also in 2010 up to now no substantial improvement has been reported by the WES experts. In the *UK*, as in *Iceland*, public deficits and lack of trust in government's economic policy have been named by WES experts as the most important economic problems at present. In *Norway* and *Denmark* it is a lack of international competitiveness that is considered to be one of the most important economic challenges the countries are facing at present.

### North America: Gradual recovery

The economic climate indicator in *North America* improved in January 2010 for the fifth time in succession and has even surpassed its long-term average (see Figure 3). The improvement was solely due to less negative assessments of the present economic situation, while the economic expectations remained positive but did not improve further (Figure 6). The economic growth in 2010 was powered by both consumer spending and capital expenditures. This economic pattern applies to both

the *US* and *Canada*. Although these results are encouraging, the assessment of the present economic situation remains weak, particularly in the *US*. Although the latest data demonstrate that the *US* job market is improving, unemployment is still ranked as economic problem number one by the WES experts. Public deficits in the *US* are ranked

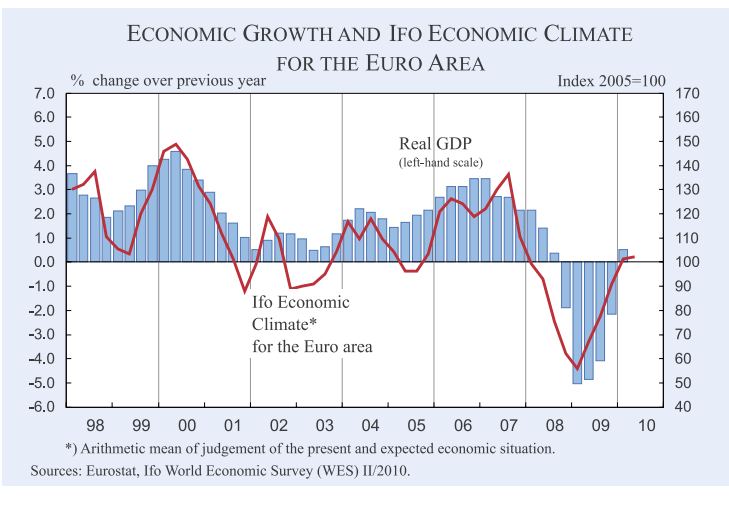


**Box 2**  
**World Economic Survey (WES) and GDP Growth in the Euro Area**

*The Ifo World Economic Climate for the 16 member countries of the euro area is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The April results are based on the responses of 264 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 somewhat in the second quarter and continues to stay below its long-term average. The assessments of the current economic situation improved only slightly vis-à-vis the first quarter. The expectations for the coming six months weakened somewhat but remain positive on the whole. These results indicate that the economic recovery will continue in the second half of the year, albeit at a slower pace.

The current economic situation is still assessed as unfavourable in all countries of the euro area. The best appraisals of the current economic situation came from *Germany* and *Slovakia*. Particularly poor assessments came from *Greece, Ireland, Spain, Portugal, Italy* and also *France*. The expectations for the coming six months, however, are positive in almost all countries. Weaker confidence was expressed by the WES experts in *Spain* and *Portugal* and especially in *Greece*, where a further clear worsening of the economy in the coming six months is anticipated.



second. As private demand remains subdued, major hopes are placed on the export sector, which is expected to strengthen further in the next six months. However, the debt crisis in the *euro area* adds uncertainty to this forecast, as more than 20 percent of *US* exports go to the *European Union*. In *Canada* the present economic situation is now seen as “satisfactory” by the WES experts. Also the economic expectations are positive, pointing to further economic improvement in the coming months.

**Central and Eastern Europe: Economic recovery is subdued**

According to the latest WES results, the economic recovery remains subdued in *Central and Eastern Europe* (see Figure 4). The assessments of the pre-

sent economic situation have not improved in April over the January survey, on average for the region. *Eastern Europe* experienced a very strong economic damage caused by the financial crisis in the last two years, because of its extensive borrowing in foreign currencies. However, the economic expectations for the rest of the year remain rather optimistic (see Figure 8).

In the vast majority of *Central and Eastern European* countries the present economic situation is still assessed as weak by the WES experts. Furthermore, the assessments for the present economic state have even been further down-graded in many countries, so in the *Baltic states (Estonia, Latvia and Lithuania), Bulgaria* and *Hungary*. Very low marks for the present economic state were also given by WES experts in *Romania*. In the *Czech Republic*, in contrast, the economy is stabilizing, driven by exports, although the present economic situation is still assessed as weak. Only *Poland* remains a positive exception in the region. Here the present

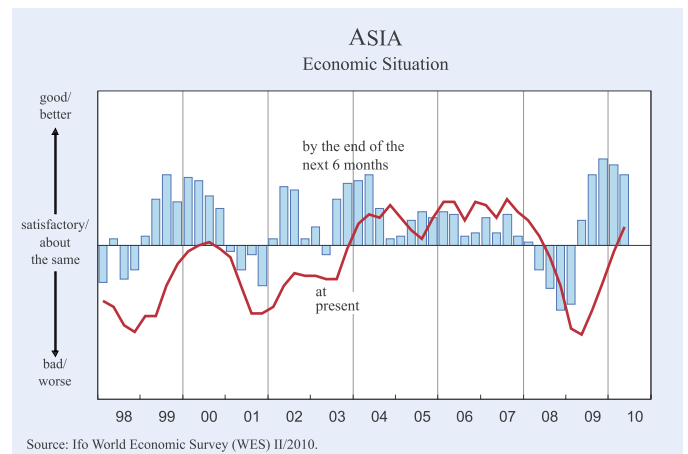
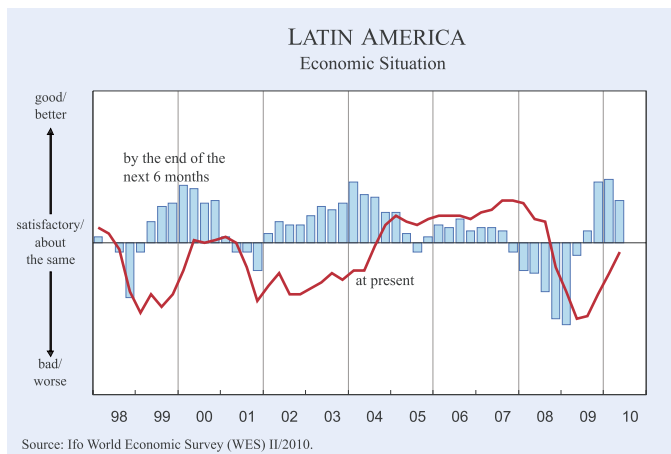
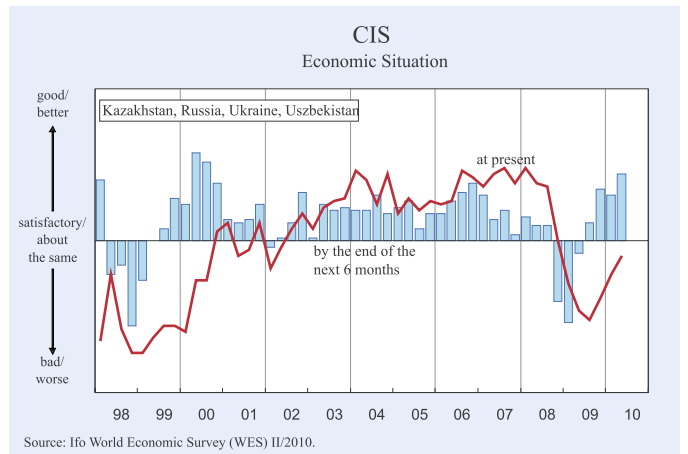
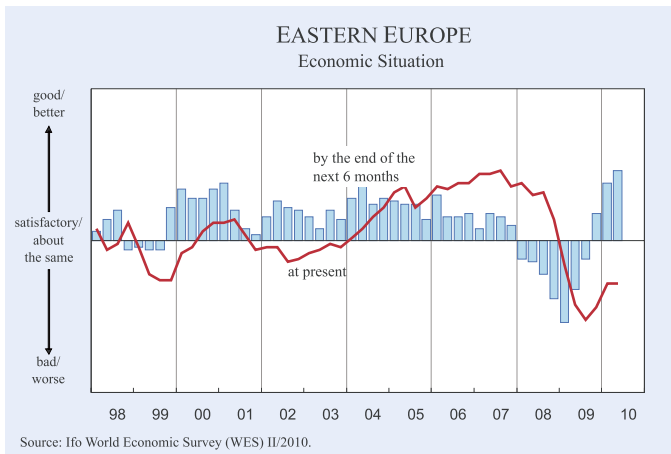
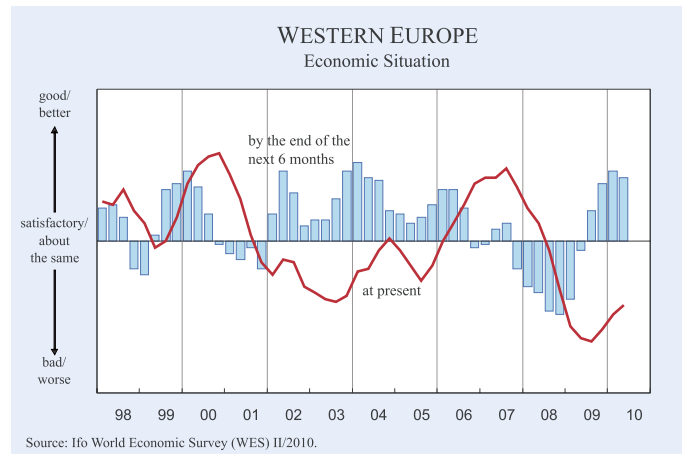
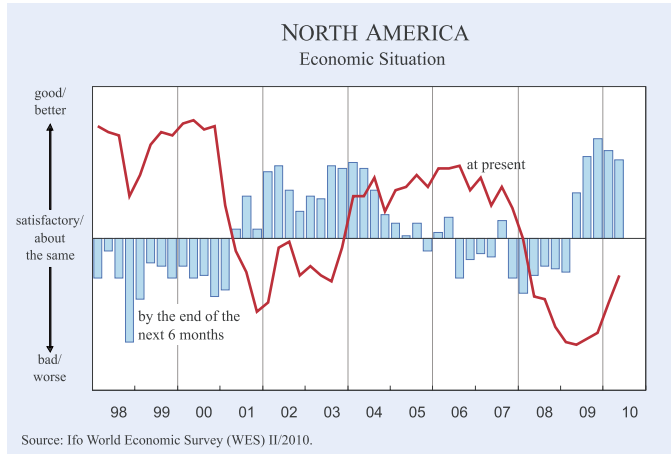
economic situation was again assessed as “satisfactory”. The economic expectations for the rest of 2010 remain highly optimistic. The WES experts expect capital expenditures, private consumption and exports to strengthen strongly in the course of the next six months. However, also here, as in almost all *Eastern European EU countries*, public deficits are regarded as the most important economic problem.

In the *non-EU countries* of the region – *Croatia* and *Serbia* – the economic climate remains cool, according to the latest WES results. The present economic situation is again assessed as very weak, with no economic turn-around forecast for the coming six months. In both countries the WES experts named lack of trust in government’s economic policy, public and foreign debts as the most important economic problems.



Figure 4

## SELECTED REGIONS



**Box 3**

**The Most Important Economic Problems**

This is a summary of results of the bi-annual question about current main economic problems in the individual countries. On a worldwide scale, *unemployment* is still considered as the single most important problem though thanks to the beginning economic recovery not as often as in 2009. However, and this has not been the case in past WES surveys, *public deficits* now rank second in the list of economic problems (see Table).

In *Western Europe* and in *Eastern Europe* “*public deficits*” rank on top of the list for the first time and have thus even surpassed the previous top problems “*unemployment*” and “*insufficient demand*”, which rank in both regions at places two and three.

In *North America* “*unemployment*” still remains by far the single most important problem followed at some distance by “*public deficits*” and “*foreign debts*”.

In *Oceania* – and here particularly *Australia* – economic recovery is already rather advanced, which is reflected in the priority of problems: “*Lack of skilled labor*” ranks on top of the list followed by “*unemployment*” and in third place by “*inflation*”.

*CIS* countries suffer, according to WES experts, most from a “*lack of international competitiveness*”, followed by “*insufficient demand*” and third from “*capital shortage*”.

In *Asia* the share of respondents citing any major problems is generally lower than in the world average. With this restriction in mind the relatively largest current problem is seen in “*unemployment*” followed by “*lack of confidence in governments’ economic policy*” and “*public deficits*”.

In the *Near East* “*lack of confidence in governments’ economic policy*” leads the list of main problems, followed by “*unemployment*” and “*inflation*”.

In *Africa* the main problems are – in this order – “*unemployment*”, “*lack of international competitiveness*” and “*lack of skilled labor*”.

In *Latin America* “*lack of international competitiveness*” ranks top on the list of problems, followed by “*unemployment*” and “*lack of governments’ economic policy*”.

**Ranks of the Three Most Important Economic Problems**

	World	Western Europe	North America	Oceania	Eastern Europe	CIS	Asia	Near East	Africa	Latin America
Lack of confidence in governments' econ. policy							2	1	2	3
Insufficient demand	3	3			3	2				
Unemployment	1	2	1	2	2		1	2	1	2
Inflation				3				3		
Lack of international competitiveness						1				1
Lack of skilled labor				1					3	
Public deficits	2	1	2		1		3			
Foreign debts			3							
Capital shortage						3				

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

**CIS: Fuel exports drive recovery**

The overall economic climate index for *CIS* countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan* and *Uzbekistan*) improved further in April (see Figure 6). The improvement results from both less negative assessments of the present economic situation as well as more optimistic economic expectations for the coming six months. This pattern reflects the economic recovery in *Russia*. Here the economic situation has been gradually improving since the second half of 2009. In the beginning of 2010 this positive trend continued, although the assessments of the present economic performance have not yet reached the “satisfactory” level again.

The economic expectations remain upbeat, with capital expenditures, private consumption and the export sector forecast to strengthen in the course of 2010. However, the most important economic problem, which made *Russia* so vulnerable to the drop of the raw material prices in the aftermath of the financial crisis – lack of international competitiveness – remained the most pressing issue, according to WES experts. The government started various programmes to promote innovation and investments in competitive industries; their success must still be awaited. The economic climate further improved also in *Kazakhstan*, where the present economic situation is now assessed above the “satisfactory” level. The economic expectations for the next six months

remain highly optimistic. As in *Russia*, capital expenditures, private consumption and the export sector are expected to revive further in the course of 2010. Also here the rising prices for fuel are the driving engine of economic recovery. And, as in *Russia*, lack of international competitiveness remains the main worry. The economic climate index stabilized in the *Ukraine* in April. However, the economy is struggling to crawl out of the deep recession, which saw GDP contract 15 percent last year. The present economic situation is still assessed as far below the satisfactory level, according to WES experts. But the economic expectations have been upgraded somewhat and point towards an economic recovery. Despite political change and the presidential election of Viktor Yanukovich, the WES experts state that lack of confidence in government's economic policy continues to prevail, posing the economic problem number one. Further economic problems are foreign debts, capital shortage and lack of international competitiveness. In *Uzbekistan*, the economic climate is stable, according to WES experts. Not so in *Kyrgyzstan*, where political turmoil dominates public and economic life. The country is presently led by an interim government that came to power as a result of mass unrest that swept *Kyrgyzstan* in April, forcing the former President Kurmanbek Bakiyev to leave the country. Although the situation in *Kyrgyzstan* is gradually returning to normal, it will take time to stabilize the political and economic situation in the country and to combat the numerous economic problems.

### **Asia: Highly favourable economic climate**

In *Asia* the economic climate indicator continued to rise in April, moving further above its long-term average (see Figure 3). The improvement of the climate was due to more favourable assessments of the present economic situation. The economic expectations for the next six months remained highly optimistic, on average, for the region (see Figure 8).

In almost all *Asian* countries economic performance further strengthened over the preceding survey. In April 2010 the present economic situation was assessed as particularly favourable in *India*, *Singapore*, *Hong Kong* and *South Korea*. In all these countries the economic climate improved, according to WES experts. The economic expectations point to a further strengthening of capital

expenditures, private consumption and exports in the next six months. In *India*, inflation of around 8 percent starts to pose a serious economic problem. The same holds true for *Vietnam*, where inflation now amounts to around 9 percent. However, the WES experts assess the overall economic climate again as favourable. The assessments of the present economy have been upgraded considerably in *Taiwan*, *Indonesia* and *Malaysia*. In *Taiwan* the present economic situation is now regarded as satisfactory by the WES experts, although unemployment remains high. In *China* the present economic situation stabilized at a favourable level in April. However, the economic expectations have been down-graded somewhat since the beginning of the year. Accordingly, the WES experts expect capital expenditures to weaken somewhat in the course of 2010. Also no substantial further pick-up in private consumption is expected in the next six months; only the export sector is forecast to strengthen further. The present economic situation is assessed as "satisfactory" in the *Philippines* and *Sri Lanka*. In both countries the WES experts are fairly optimistic that the economies will remain on the recovery path in 2010. However, in both countries a variety of economic problems dominate the economy, including a lack of confidence in government's economic policy, public deficits and lack of international competitiveness. While in *Japan*, optimism continues to prevail in forecasts, the present economic situation here is still assessed as very weak, although somewhat less negative than in 2009 and the beginning of this year. Given the upbeat economic confidence in the region, also in *Japan* the WES experts expect capital expenditures, private consumption and the export sector to strengthen in the coming six months. In *Thailand*, in contrast, economic expectations have been strongly down-graded over the January survey, reflecting political unrest which has been sweeping the country for several months. The present economic situation continues to be assessed as slightly below the "satisfactory" mark. The situation will probably remain unsettled until the differences across parties are reconciled. In the *Asian* region, the lowest marks on the WES scale were given for the present economic situation by the WES experts surveyed in *Pakistan*. The country's economy is burdened by high unemployment, public deficits, foreign debts and an inflation amounting to almost 15 percent. Given the lack of confidence in government's economic policy, the WES experts expect no economic turnaround in 2010.

### Oceania: Upbeat economy

According to the latest WES results the economic climate index for *Australia* returned to its pre-crisis level in April 2010 (see Figure 6). The present economic situation is now assessed as highly favourable. The expectations point to even further economic strengthening in the coming six months. Capital expenditure, private consumption and exports are forecast to revive further in 2010. *Australia* is one of the few economies world-wide where public deficits do not seem to be an issue. The WES experts accent lack of skilled labour as the most important economic problem. Not as favourable as in *Australia* but also a brightening economic climate is reported by WES experts in *New Zealand*. Here the assessments of the present economic situation have not yet reached the “satisfactory” mark. But the economic expectations have been upgraded again and point to the continuation of economic recovery.

### Latin America: Major differences across countries prevail

In *Latin America* the economic climate indicator stabilized at the favourable level reached in January 2010. While the assessments of the present economic situation strongly improved again, the economic expectations for the next six months have been downgraded somewhat. However, while the economy of many *Latin American* countries is strengthening, there are others, like particularly *Venezuela*, where the economic climate continues to deteriorate (see Figure 9). Unlike the other regions, in the majority of *Latin American* countries public deficits are not causing troubles. The WES experts instead emphasized the lack of international competitiveness and unemployment as the most urgent economic problems at present.

A particularly favourable economic climate continues to prevail in *Brazil*, *Peru* and *Uruguay*. In all three countries the present economic situation is assessed as highly favourable and even better than in January. The economic expectations are also optimistic, although to a lesser degree than in the preceding survey. The WES experts forecast capital expenditures, private consumption and the export sector to strengthen further in the course of 2010. In *Chile* the economic climate stabilized at a favourable level. The economic expectations for the next six months are highly optimistic here too. However, the

unemployment is still high, according to WES experts. But as capital expenditures and exports are expected to strengthen further, the labour market situation may ease in the course of 2010. In *Colombia*, *Costa Rica* and *Paraguay* the economic climate improved since the January survey, according to the latest WES results. In all three countries the present economic situation is now rated as satisfactory. The economic expectations for the next six months point to further economic revival. However, in *Paraguay* the WES experts emphasized that lack of confidence in government’s economic policy is along with lack of skilled labour and international competitiveness, is one of the most important economic problems at present. The same applies to *Bolivia*, where the economic climate improved somewhat in April. However, the WES experts do not expect a strong economic rebound in the next six months, as in the countries described above. Only the export sector is expected to pick up somewhat in the course of 2010.

In *Argentina*, both the assessment of the present economy and economic expectations have been downgraded somewhat in April, compared to the beginning of the year. The WES experts stated that lack of confidence in government’s economic policy and the extremely high inflation of around 25 percent are the most important economic problems at present. They do not expect a pronounced bettering in the next six months, although, given the global recovery, exports are expected to pick up somewhat. As far below the satisfactory level, although somewhat better than in the previous survey, WES experts here assessed the present economic situation in *Mexico* and *Guatemala*. The economic expectations for the next six months in both countries are positive, with capital expenditures, private consumption and exports forecast to revive. In both countries, as in the *Latin American* region in general, the WES participants accented a lack of international competitiveness as one of the most important economic problems at present.

A critical economic situation prevails, according to the latest WES results, in *Venezuela*, *Ecuador*, *El Salvador* and *Trinidad and Tobago*. Although the present economic performance has been assessed in *Ecuador* and *El Salvador* quite badly, the WES experts do not expect further aggravation in the next six months. In *Venezuela*, in contrast, the present economic situation has been assessed with the lowest marks of the WES scale. The WES experts expect

Figure 5a

# EUROPEAN UNION

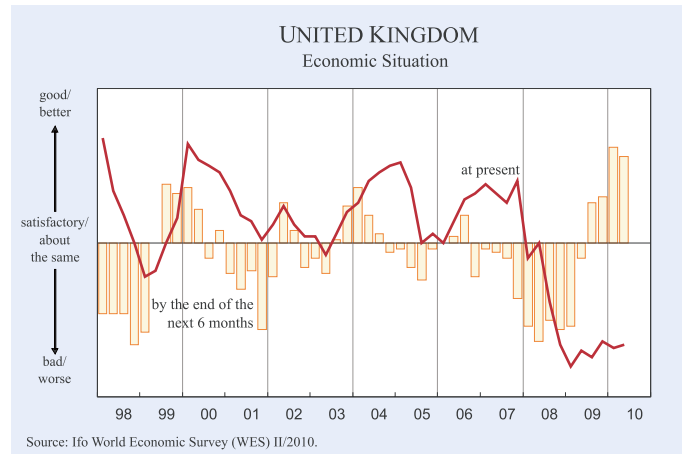
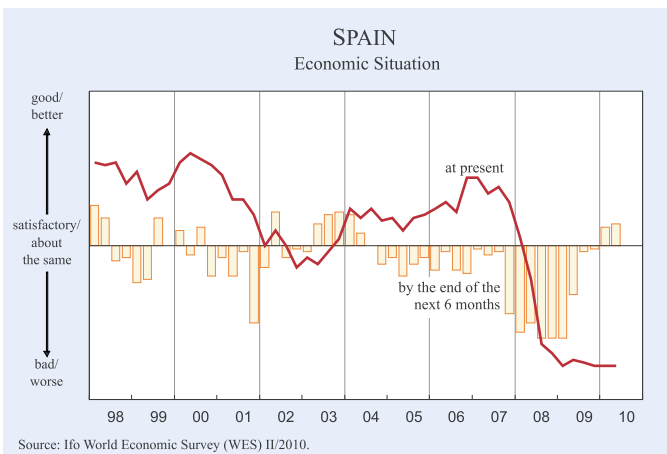
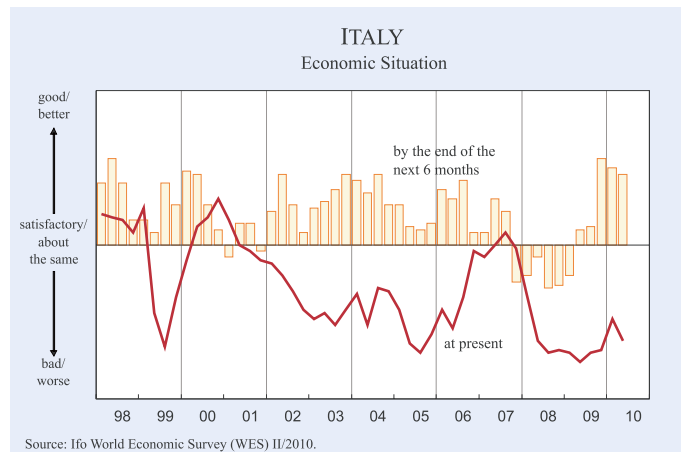
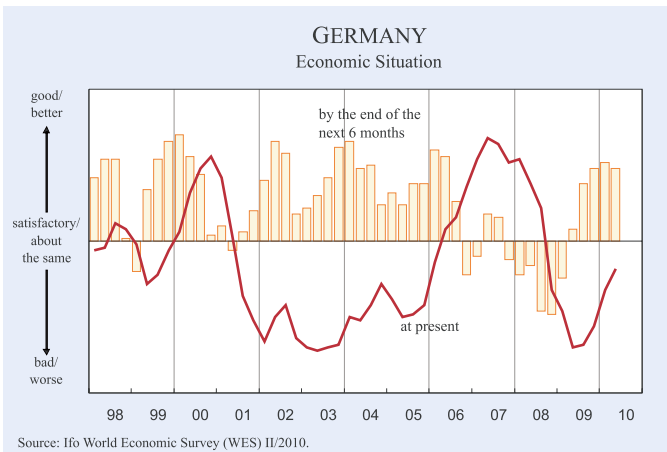
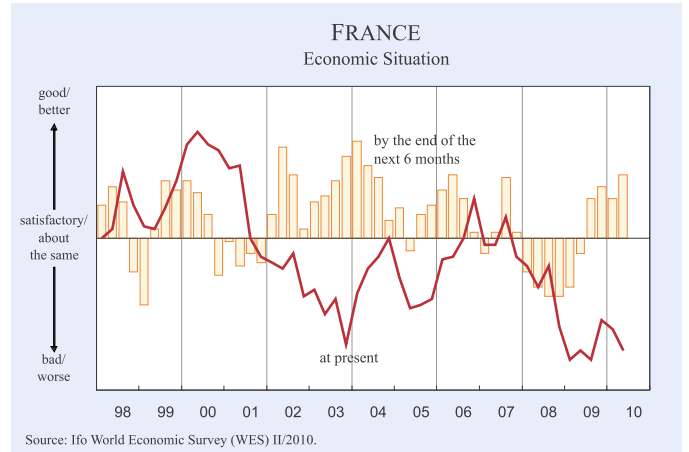
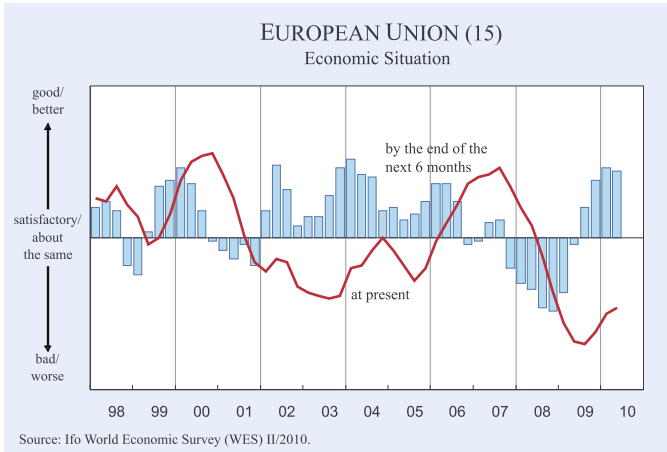
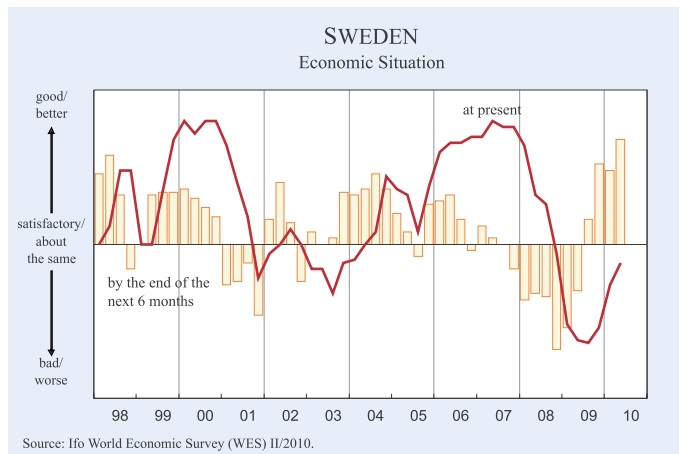
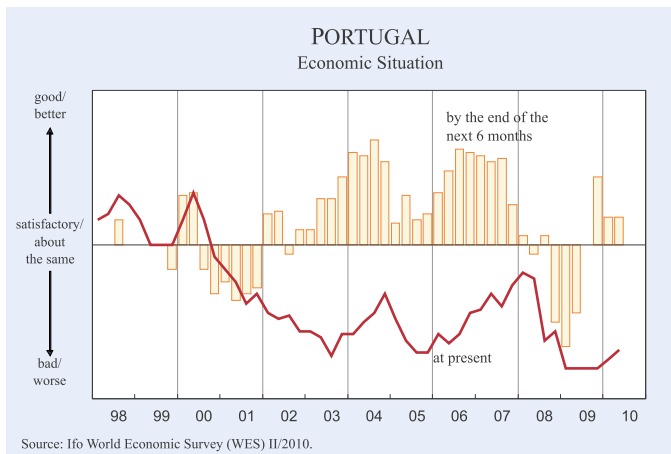
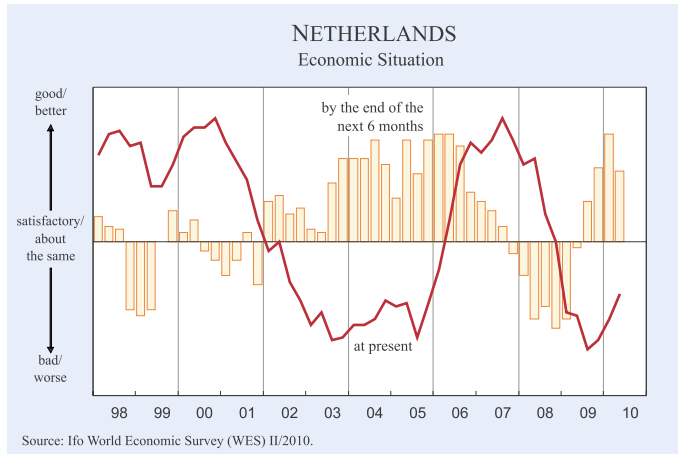
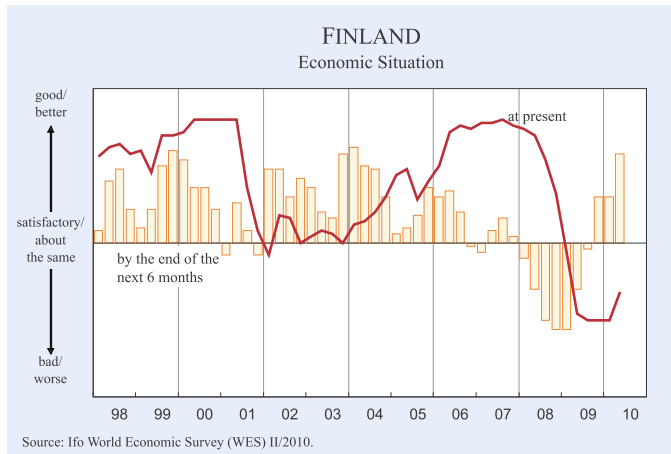
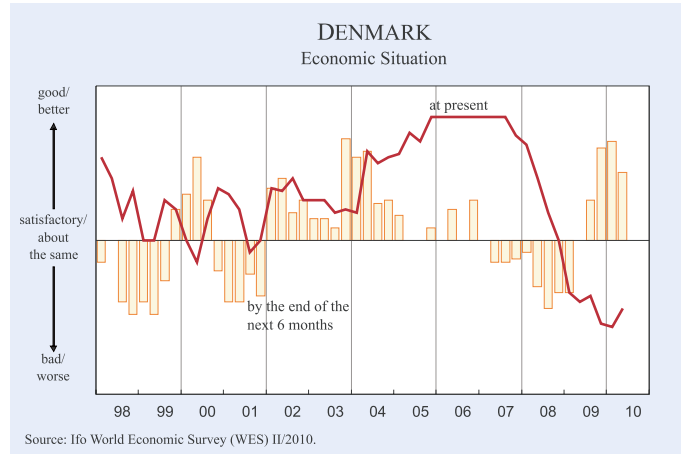
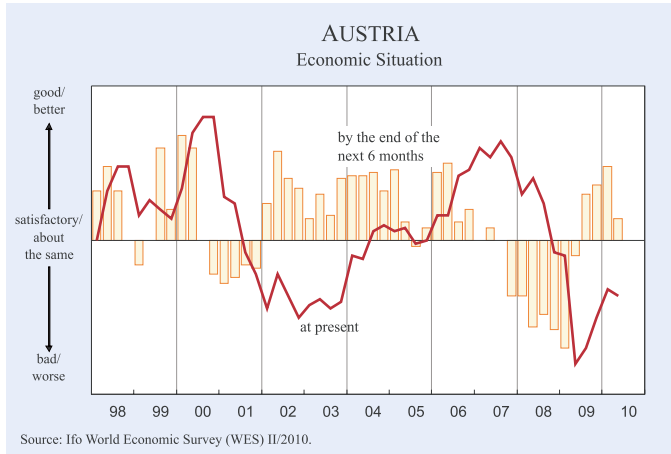


Figure 5b

EUROPEAN UNION





**Figure 6**

## NORTH AMERICA, OCEANIA AND CIS

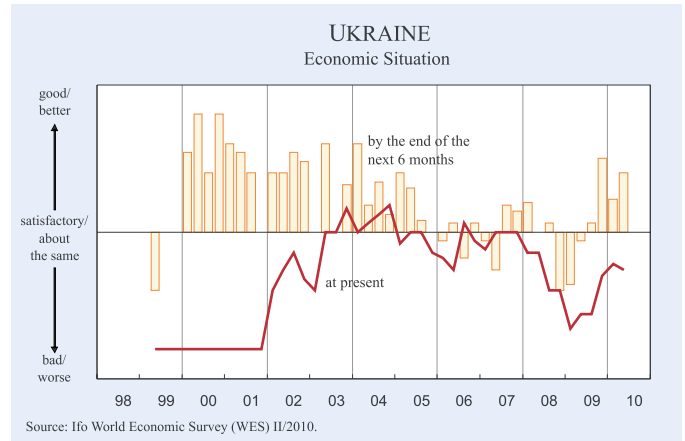
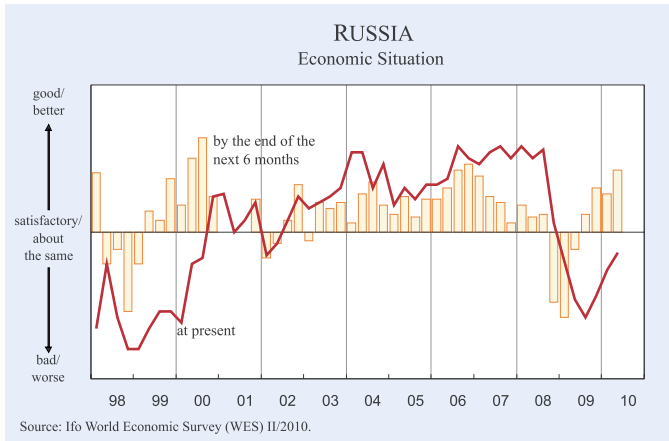
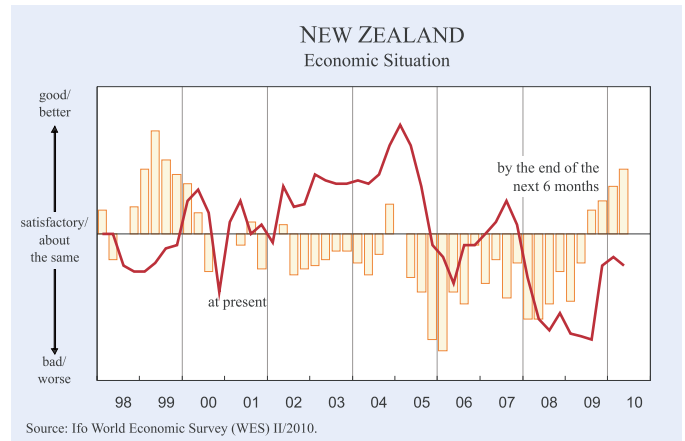
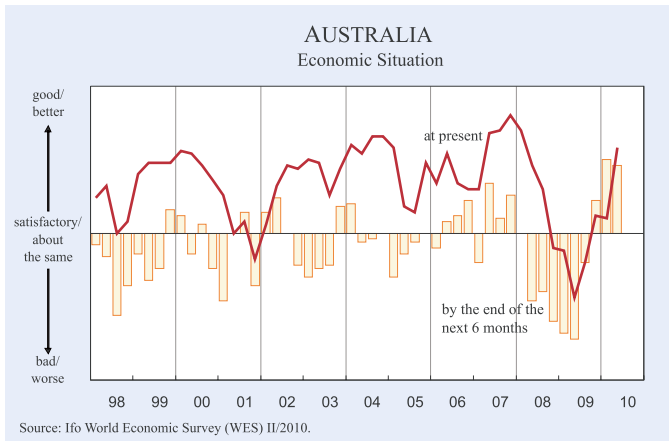
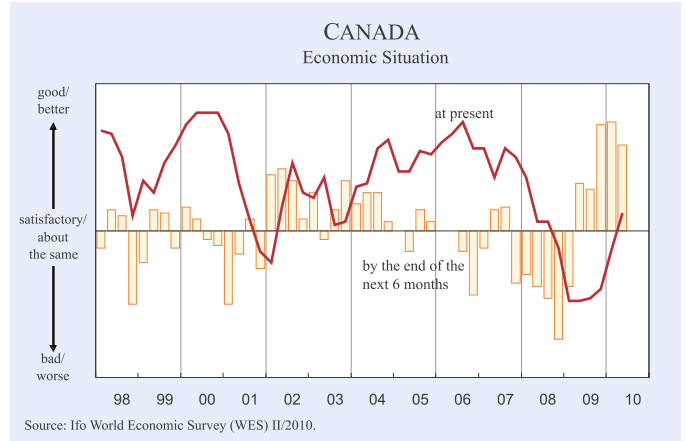
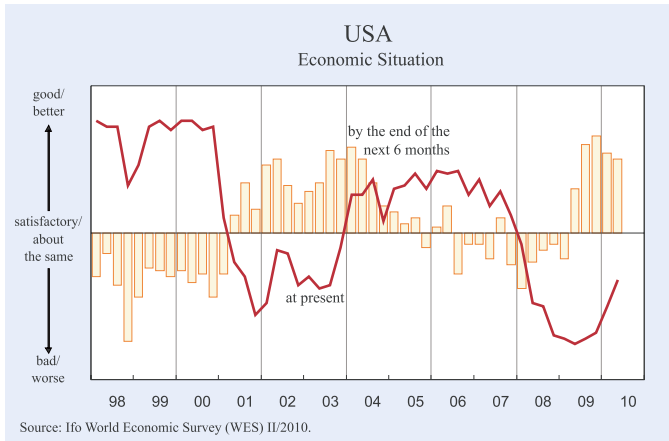


Figure 7

## EASTERN EUROPE

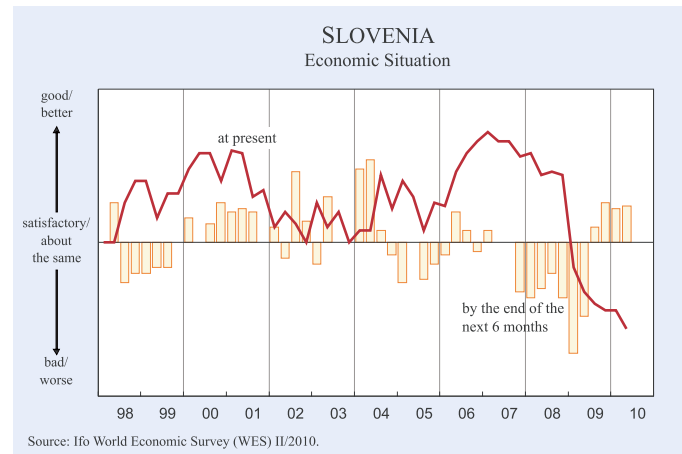
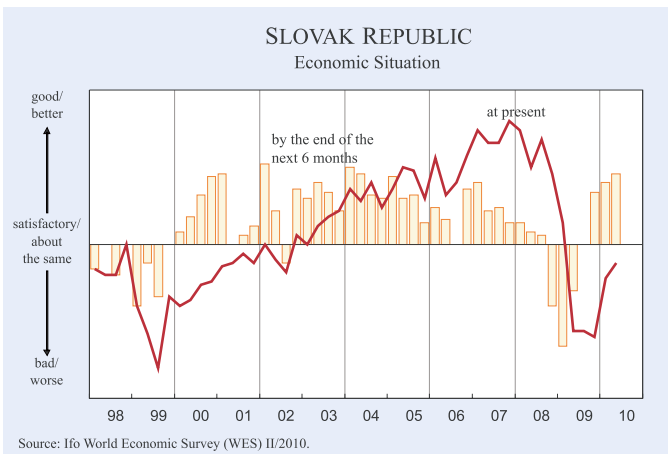
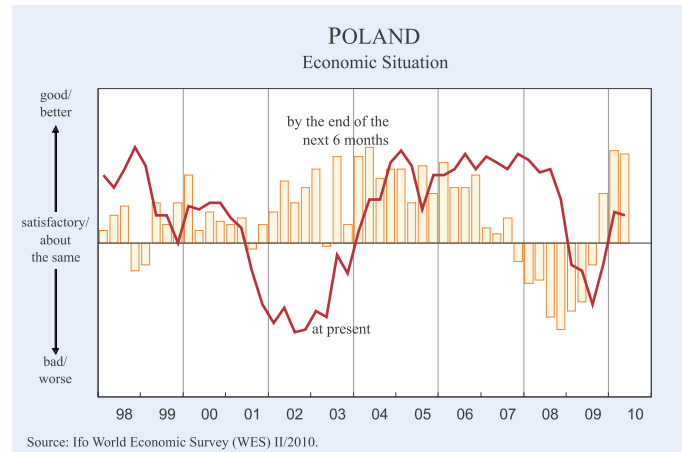
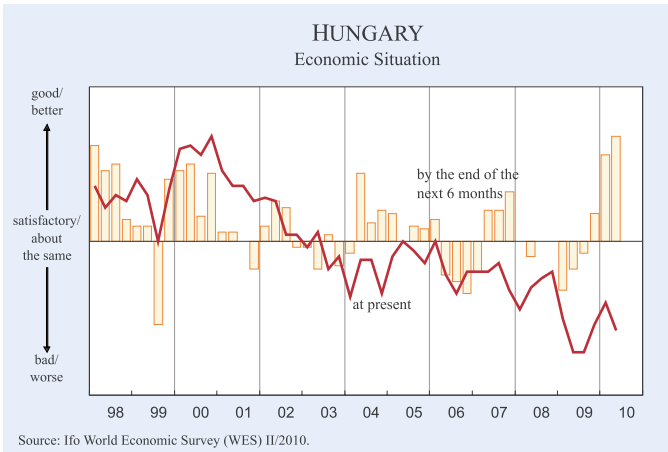
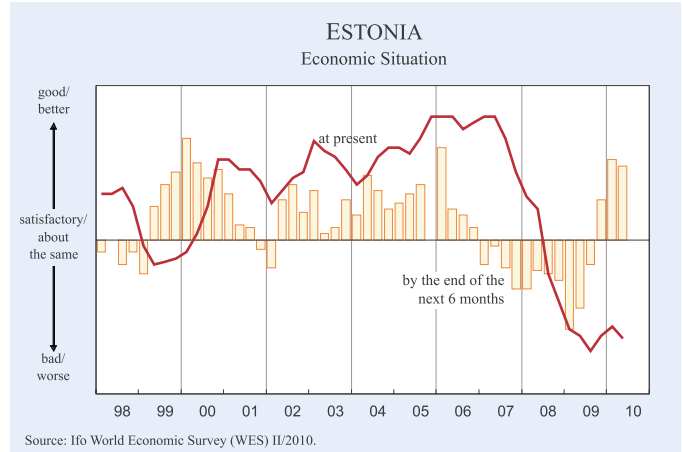
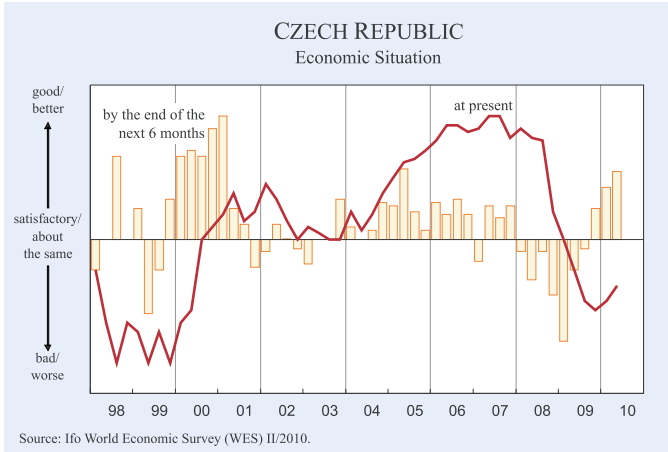


Figure 8

ASIA

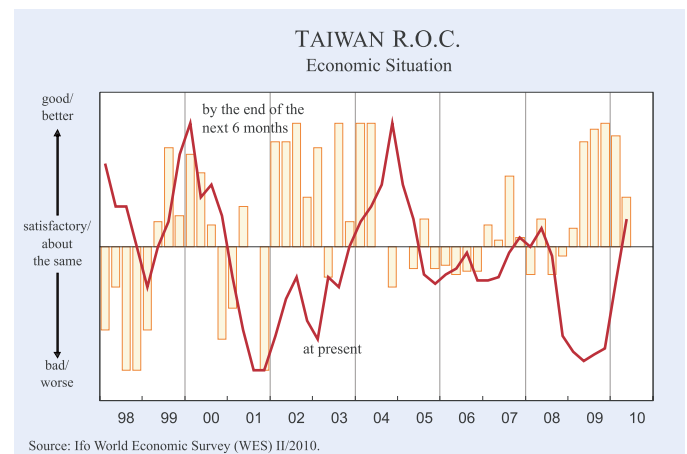
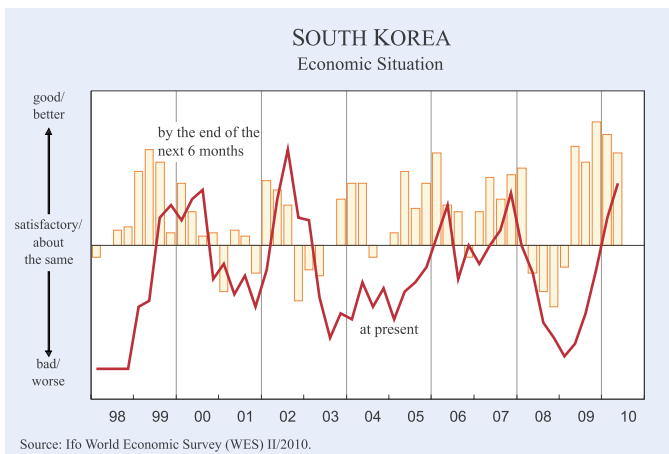
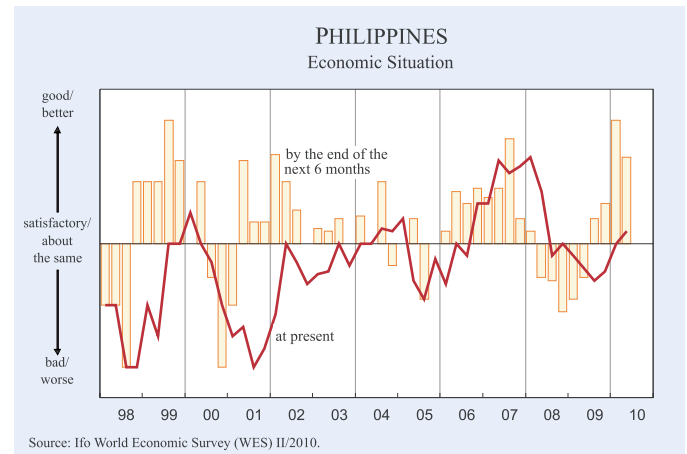
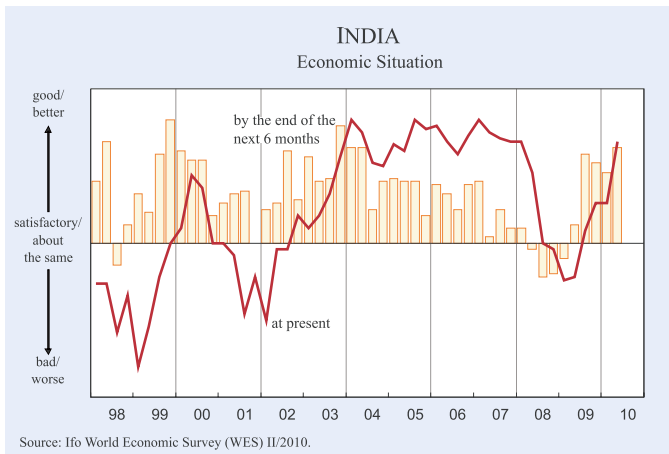
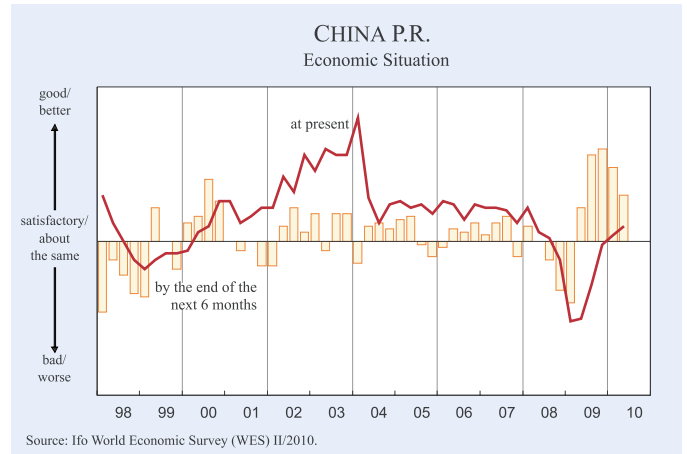
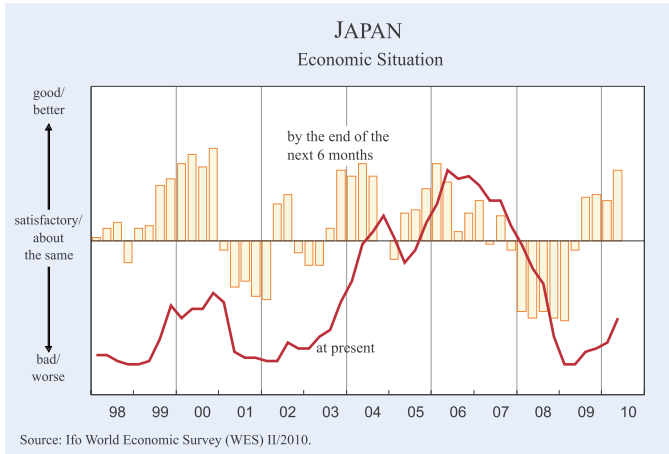


Figure 9

# LATIN AMERICA

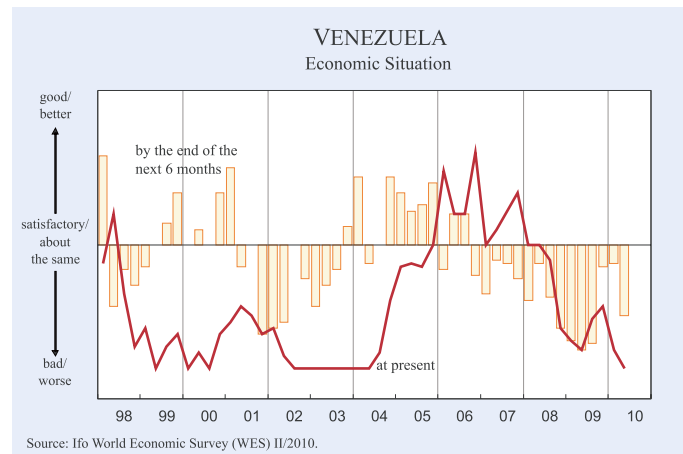
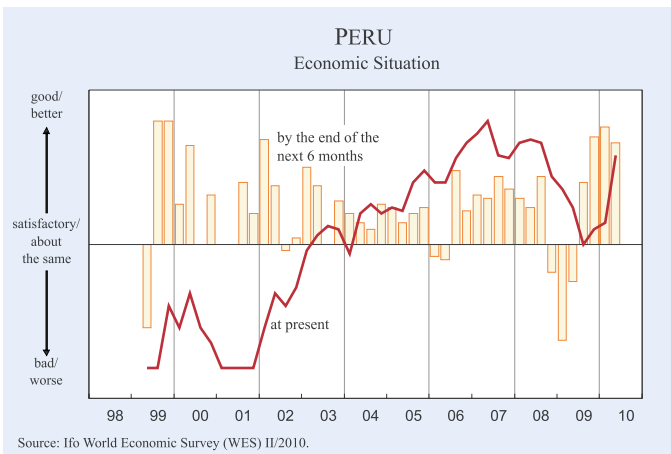
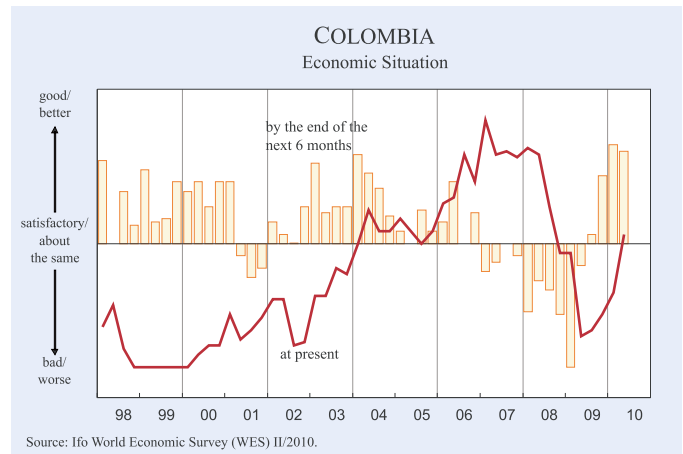
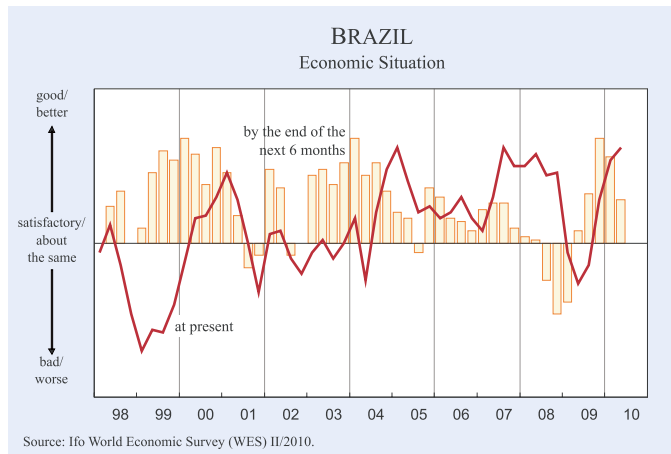
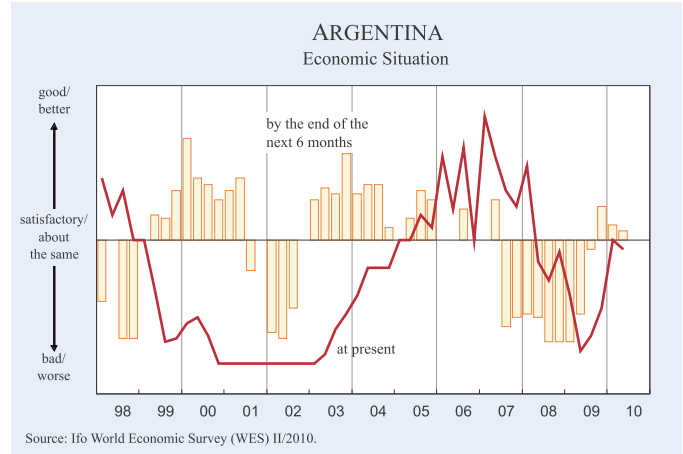
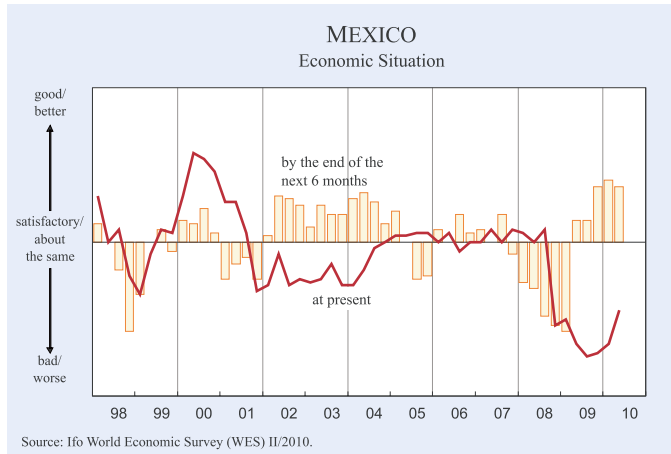
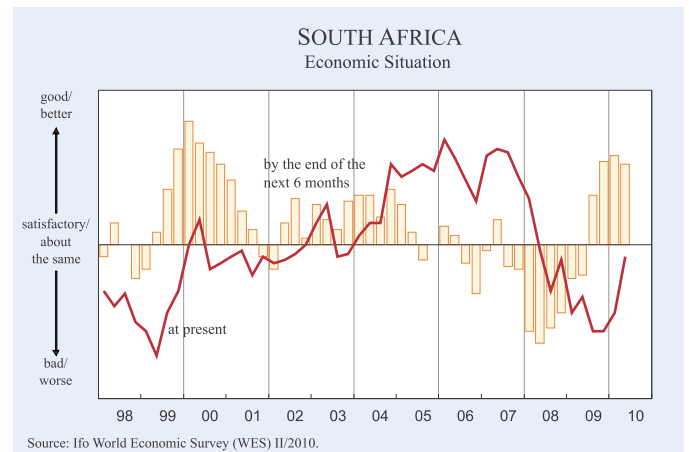
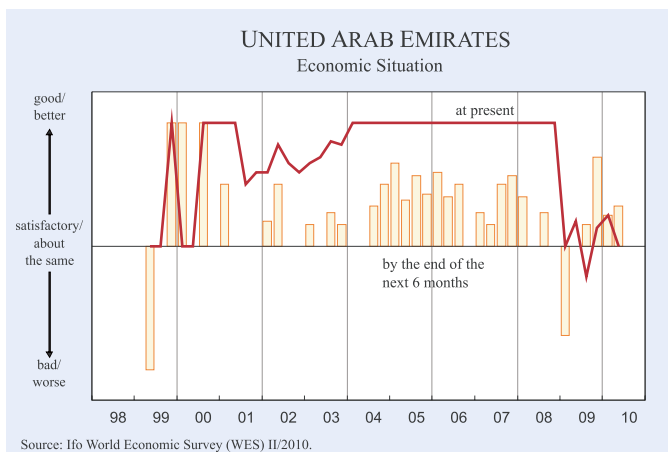
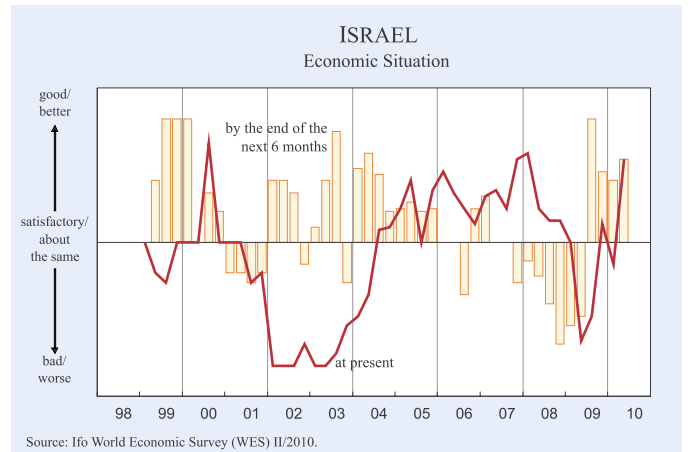
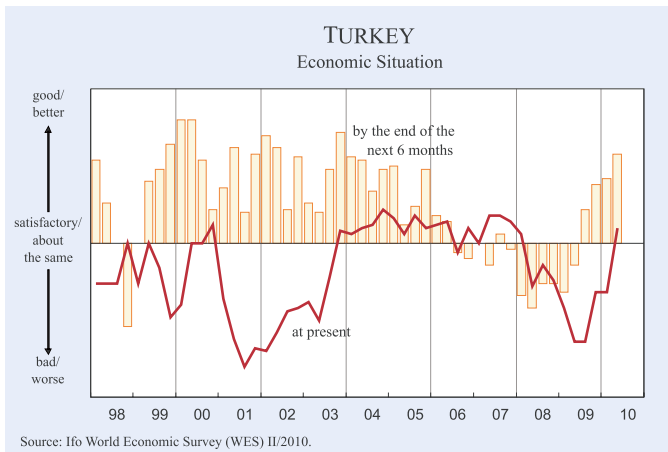
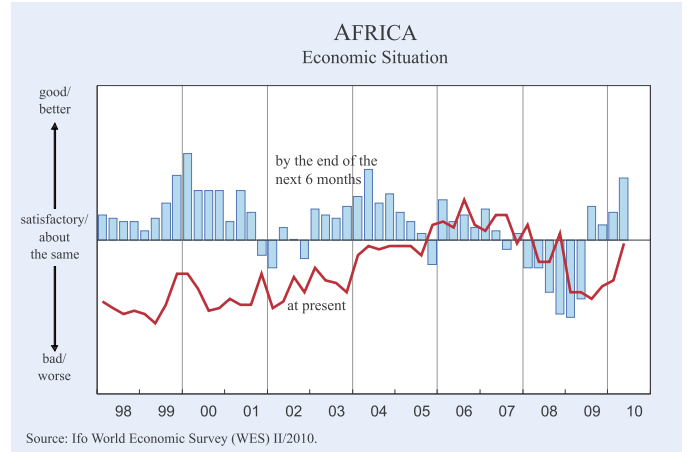
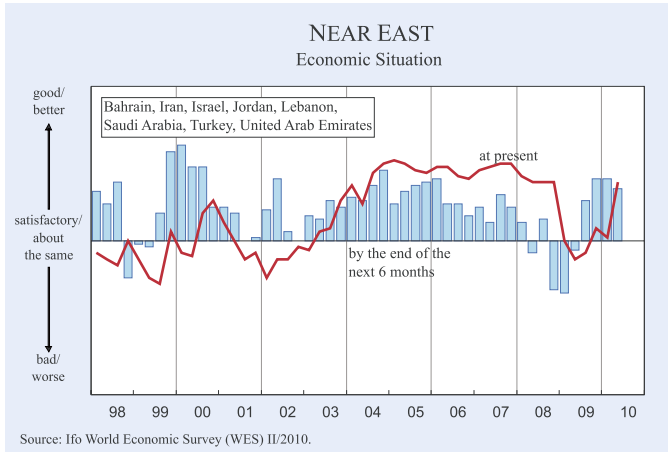


Figure 10

# NEAR EAST AND AFRICA



here further economic deterioration in 2010 and stressed lack of confidence in government's economic policy, public deficits and an inflation of more than 30 percent as some of the problems the country is facing at present.

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

The economic climate improved in April in most countries of the *Near East* region (see Figure 10). It is now regarded as particularly favourable in *Saudi Arabia* and also in *the United Arab Emirates*, where particularly Dubai experienced a strong real-estate crisis some months ago. In both countries capital expenditures, private consumption and exports are expected to strengthen further in the course of 2010. Also in *Lebanon* the assessments of the present economic situation improved further. The WES experts expect that the economic climate will stabilize at the current level in the next six months. In *Israel* the economy is also strongly recovering. The assessments of the present economic situation improved markedly compared to the January survey. Also the economic expectations, which were already quite optimistic at the beginning of the year, have been further upgraded. Private consumption, capital expenditures and the export sector are expected to strengthen in the course of the next six months. A pronounced improvement in the economic climate has been also reported by the WES experts surveyed in *Turkey*. Here the assessments of the present economic situation improved considerably over the January survey and have surpassed the "satisfactory" mark. The economic expectations have also been further upgraded. This positive trend set in already in mid-2009. Capital expenditures, private consumption and particularly the export sector are expected to strengthen further in the course of 2010.

#### **Africa: Economic climate improves in South Africa**

The countries of the *African region* display a very different pattern of 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 climate continues to improve in *South Africa* (see Figure 10). The assessments of the pre-

sent economic situation have been strongly upgraded compared to the January survey. The expectations for the next six months are highly optimistic and point to further strengthening of capital expenditures, and particularly private consumption and exports. The favourable economic climate is partly attributable to the Football World Cup which will take place in June and July 2010 and attract tourists and visitors to the country. However, despite investments in the infrastructure and tourism sector, unemployment is still posing one of the most important economic problems at present, according to WES experts.

A very favourable economic climate prevails, according to the surveyed economists, also in *Sierra Leone, Zambia, Rwanda, Kenya, Mauritius, Morocco* and *Benin*. Here the WES experts assessed the present economic situation as above satisfactory level, on average. The economic expectations for the next six months are also positive, pointing to a pick up of capital expenditures, private consumption and exports. However, as the surveyed economists stated, in some countries, among them *Sierra Leone, Rwanda, Zambia* and *Benin*, capital shortages are posing serious impediments to further economic growth. Also unemployment, particularly in *Kenya* and *Morocco*, continues to pose a serious economic problem.

A favourable economic climate prevails, according to the latest WES results, in *Tunisia, Sudan, Congo Democratic Republic, Tanzania, Nigeria* and also in *Lesotho*. Here the WES experts assessed the present economic situation as satisfactory, or as close to the satisfactory level. The economic expectations for the next six months in all these countries are positive, with capital expenditure, private consumption and the export sector forecast to strengthen somewhat in the course of 2010. However, in all these countries unemployment is posing a serious economic problem, according to WES experts. Also a lack of international competitiveness, and in *Lesotho, Congo Democratic Republic, Nigeria* and *Tanzania* public deficits and capital shortage were named as serious impediments to an economic revival in 2010.

A moderate economic climate, which is expected to stabilize in the course of the next six months prevails according to the WES experts surveyed in *Cote d'Ivoire, Congo-Brazzaville, Liberia, Djibouti* and *Egypt*. Only in *Cote d'Ivoire* do the surveyed economists expect capital expenditures, private consump-



tion and exports to weaken somewhat in the next six months. Insufficient demand, unemployment and foreign debts were named here to be the most important economic problems at present. In *Liberia* and *Egypt* also high inflation of more than 10 percent is burdening economic recovery, according to the surveyed economists.

As far below the satisfactory level is how the surveyed economists assess the present economic situation in *Mauritania* and *Comoros*. However, in both countries the WES experts are optimistic that the economy will continue to recover in the course of 2010. However, “lack of international competitiveness” and “unemployment” continue to pose serious economic problems. This also applies to *Algeria*, where the present economic situation is assessed as somewhat below the “satisfactory” mark in April. The economic expectations for the next six months of the surveyed economist are cautious. Although, capital expenditures are expected to stabilize at the current level and exports to pick up somewhat in the course of 2010. The WES experts stressed that lack of confidence in government’s economic policy, lack of international competitiveness and lack of skilled labour are the most important economic problems the country is facing at present.

No substantial improvement of the economic climate is expected by the surveyed economists in *Madagascar*, *Niger*, *Swaziland*, *Gabon* and *Senegal*. In all these countries the present economic situation is assessed as weak. Only in *Swaziland* and *Madagascar* do the WES experts expect private consumption to revive somewhat in 2010. The economic problems stressed by the surveyed economists differ across these countries. While in *Swaziland* unemployment, lack of confidence in government’s economic policy, public deficits and foreign debts, as well as capital shortage have been emphasized, unemployment has been named in *Niger* and primarily lack of international competitiveness in *Madagascar*.

In *Zimbabwe* the economic climate is gradually improving, according to the WES results. The present economic situation is still assessed as far below the satisfactory level but considerably better than during the last decade. The economic expectations for the next six months have been down-graded somewhat but continue to point to economic stabilization, particularly relating to private consumption and to exports. However, lack of confidence in gov-

ernment’s economic policy and a variety of other economic problems, among them capital shortage, continue to pose serious impediments to an economic recovery.

### **World economy: Growth is picking up again**

Following the sharp recession in the second half of 2008 and the first half of 2009 growth of world GDP<sup>1</sup> has picked up again and will – according to WES experts – reach a rate of 2.7 percent, on average for 2010 (see Table 1).

Economic growth in 2010 will be most pronounced in *Asia* (4.6 percent), particularly again in *China* (9.0 percent), but also in *India* (8.1 percent) and in *Vietnam* (6.7 percent) the growth momentum is clearly above the average of the region. On the other end of the scale is *Japan* with an expected growth rate of 1.3 percent, which nevertheless raises hopes that the recessionary phase has come to an end.

Relatively high figures for economic growth in 2010 are also expected for all *CIS* countries (3.6 percent), including *Russia* as the largest player in this region.

Also in *Africa* economic growth in 2010 will be quite remarkable according to WES experts (3.5 percent) and will be spread over the whole continent.

Better than in the world average is most likely also the economic performance in *Central and Latin America*. The highest GDP growth rates in 2010 are expected in *Brazil* (5.4 percent), in *Peru* (5.2 percent) and in *Uruguay* (4.7 percent). The other extreme is *Venezuela* with an expected decline of GDP of – 2.3 percent.

Somewhat above the world average will be GDP growth in 2010 also in the *Near East* according to WES estimates (3.2 percent). *Turkey* (4.1 percent) as well as *Israel* (3.6 percent) and *Lebanon* with even expected 6.5 percent belong in 2010 to the engines of growth in the region.

In *North America* growth in 2010 is expected to approximate about world average. In *Canada* the increase of real GDP in 2010 is expected to be slight-

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

Table 1

**Expected Growth of Real Gross Domestic Product (GDP) in 2010 and 2009**  
(based on WES QII/2010 and QII/2009)

Region	QII/2010	QII/2009	Region	QII/2010	QII/2009
<b>Average of countries*</b>	<b>2.7</b>	<b>-1.5</b>	<b>CIS</b>	<b>3.6</b>	<b>-2.8</b>
High-income countries	2.2	-2.1	Kazakhstan	3.2	-0.3
Middle-income countries	4.1	-0.3	Kyrgyzstan	4.9	1.5
Upper-middle	3.3	4.6	Russia	3.7	-3.1
Lower-middle	5.4	-1.3	Ukraine	2.8	-4.5
Low-income countries	4.3	1.7	Uzbekistan	8.1	-
EU 27 countries	1.3	-2.7	<b>Oceania</b>	<b>3.1</b>	<b>-0.2</b>
EU countries (old members) <sup>a)</sup>	1.3	-2.8	Australia	3.3	0.1
EU countries (new members) <sup>b)</sup>	1.4	-1.6	New Zealand	1.7	-1.5
Euro area <sup>c)</sup>	1.3	-2.8	<b>Central a. Latin America</b>	<b>3.4</b>	<b>-0.4</b>
<b>Western Europe</b>	<b>1.3</b>	<b>-2.7</b>	Argentina	3.9	-1.6
Austria	1.3	-1.6	Bolivia	4.0	3.0
Belgium	1.4	-2.0	Brazil	5.4	0.3
Cyprus	0.3	2.1	Chile	4.1	0.5
Denmark	1.6	-1.9	Colombia	2.5	1.1
Finland	1.8	-4.5	Costa Rica	3.0	0.5
France	1.5	-2.1	Dominican Republic	4.5	-
Germany	1.6	-3.6	Ecuador	2.4	1.1
Greece	-1.5	0.5	El Salvador	0.5	1.7
Iceland	-0.7	-10.0	Guatemala	1.7	1.0
Ireland	0.4	-6.2	Mexico	3.3	-1.8
Italy	0.9	-2.8	Panama	3.8	4.7
Luxembourg	1.9	-2.8	Paraguay	7.0	1.0
Malta	1.0	2.0	Peru	5.2	3.6
Netherlands	1.4	-2.6	Trinidad and Tobago	1.3	1.5
Norway	3.1	0.0	Uruguay	4.7	0.9
Portugal	0.5	-1.3	Venezuela	-2.3	0.2
Spain	-0.3	-2.0	<b>Near East</b>	<b>3.2</b>	<b>1.1</b>
Sweden	2.5	-3.2	Iran	2.0	5.0
Switzerland	1.5	-0.9	Iraq	5.5	-
United Kingdom	1.4	-2.8	Israel	3.6	-0.1
<b>Central a. Eastern Europe</b>	<b>1.4</b>	<b>-1.6</b>	Kuwait	3.4	-2.0
Albania	-	1.5	Lebanon	6.5	3.1
Bulgaria	-0.1	-0.3	Saudi Arabia	2.9	2.4
Croatia	0.3	-2.2	Syrian Arab Republic	1.0	-
Czech Republic	1.3	-0.9	Turkey	4.1	-1.3
Estonia	-0.1	-5.0	United Arab Emirates	2.9	1.7
Hungary	0.3	-5.2	<b>Africa</b>	<b>3.5</b>	<b>n.a.</b>
Latvia	-1.3	-9.3	Algeria	4.4	4.0
Lithuania	0.1	-9.3	Benin	4.1	-
Poland	2.6	1.1	Comoros	4.4	-
Romania	0.7	-0.3	Congo Dem. Rep.	5.6	-
Serbia	1.5	0.6	Congo-Brazzaville Rep.	9.8	-
Slovenia	2.6	-2.3	Djibouti	5.1	-
Slovakia	1.0	-1.5	Egypt	5.0	-
<b>North America</b>	<b>2.8</b>	<b>-1.2</b>	Gabon	3.1	-
Canada	3.0	-1.5	Ivory Coast	3.1	-
USA	2.7	-1.1	Kenya	5.0	-
<b>Asia</b>	<b>4.6</b>	<b>-0.7</b>	Lesotho	2.8	-
Bangladesh	6.2	5.3	Liberia	6.7	-
China P.R.	9.0	7.1	Madagascar	2.0	-
Hong Kong	4.6	-2.5	Mauritania	3.5	-
India	8.1	5.9	Mauritius	4.0	3.0
Indonesia	5.5	3.9	Morocco	5.2	4.0
Japan	1.3	-3.4	Niger	3.3	-
Korea	4.5	-1.7	Nigeria	1.0	3.5
Malaysia	2.6	0.7	Rwanda	6.6	-
Pakistan	3.8	3.0	Sierra Leone	4.5	-
Philippines	6.2	3.4	South Africa	2.8	0.6
Singapore	5.1	-1.8	Sudan	7.5	-
Sri Lanka	5.5	3.2	Swaziland	2.6	-
Taiwan	4.8	-3.5	Tanzania	6.0	-
Thailand	3.7	-2.6	Tunisia	4.0	2.5
Vietnam	6.7	4.6	Zambia	6.1	-
			Zimbabwe	5.0	0.5

\* 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) II/2010 and II/2009.

ly stronger than in the *USA* (3.0 percent compared with 2.7 percent in the *USA*).

In **Central and Eastern Europe** a moderate growth of 1.4 percent is expected by WES experts in 2010. Growth will presumably be above this average in *Poland* and *Slovenia* (in each case 2.6 percent). In the *Czech Republic* and in *Serbia* 2010 growth will equal about the average result for the region. At the low end of the scale will be *Latvia* where the decline of GDP in the course of a harsh stabilization program has not yet completely come to a halt (-1.3 percent); in *Bulgaria*, *Estonia*, *Lithuania*, *Croatia* and *Hungary* stagnation or at best a very marginal economic growth is expected in 2010.

**Western Europe** is the region the lowest growth in 2010 worldwide, according to WES experts (1.3 percent). Significantly higher than this average figure will be growth in 2010 only in *Norway* (3.1 percent) and *Sweden* (2.5 percent). Growth in the *euro area* will not differ from the *Western European* average figure (1.3 percent). The expected decline of GDP in *Greece* in the magnitude of -1.5 percent will probably be too optimistic given the acute financial problems of this country.

### **Slightly higher Inflation rate expected**

Inflation is expected to creep up again in 2010 though not yet causing serious problems in most cases. On average for 2010, WES experts expect an inflation rate of 3.1 percent (see Table 2) on a worldwide scale, which is slightly higher than the estimate at the beginning of the year (2.9 percent). A moderate pick-up of inflation in the course of 2010 can also be derived from the answers to the additional question on the expected tendency of inflation in the coming months.

The lowest rate of consumer price inflation will prevail in 2010 again in *Western Europe* (1.6 percent), followed by *North America* (2.1 percent), *Asia* (2.8 percent), *Oceania* (2.9 percent) and *Eastern Europe* (2.9 percent). In *Latin America* (8.9 percent), the *Near East* (5.9 percent) and *CIS* (9.1 percent), inflation will remain well above the world average.

Whereas in most regions of the world a pick-up of the inflationary trend is expected in the coming months, this is not the case in 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 somewhat, according to WES experts.

In **Western Europe**, *Ireland* in 2010 is likely to leave the deflationary phase which characterized 2009, following a tough stabilization program to correct for the huge imbalances which had piled up in the past years in public finances and in the current account. In most other European countries the expected price increases in 2010 will remain rather moderate. In the *euro area* the expected inflation rate of 1.5 percent in 2010 remains clearly below the medium term objective of the ECB.

Also in **Eastern Europe** – despite an expected moderate pickup of prices – the inflation outlook for 2010 remains rather contained (2.9 percent).

In **North America**, both in the *US* and in *Canada*, consumer price inflation is expected to stay in 2010 close to 2 percent and should thus not cause a problem for the two central banks.

In **Asia** it is again *Japan* where an end of price deflation is still not in sight. Apart from *Japan*, in other *Asian* countries the expected economic recovery is clearly linked with some pick-up of inflation, so in *China* (3.8 percent compared to expected 3.4 percent at the beginning of the year) and even more pronounced in *India* (8.3 percent compared with 6.1 percent expected three months ago).

In **Oceania**, both in *Australia* and *New Zealand*, economic recovery goes along with some increase of inflation expectations (from 2.6 percent in January to now 2.9 percent), which already caused the central bank in *Australia* to start tightening monetary policy.

In **Latin America** inflation expectations for 2010 jumped a full percentage point since the beginning of the year (from 7.9 percent to 8.9 percent). By far the highest inflation rates in the region are expected again in *Venezuela* (31.0 percent) and in *Argentina* (25.0 percent).

**CIS** countries are still characterized by a notoriously high inflation rate. At least inflation expectations came down somewhat from their heights at the

Table 2

**Inflation Rate Expectations for 2010**  
(based on WES Q1/2010 and QII/2010)

Region	QII/2010	QI/2010	Region	QII/2010	QI/2010
<b>Average of countries *</b>	<b>3.1</b>	<b>2.9</b>	<b>CIS</b>	<b>9.1</b>	<b>9.7</b>
High- income countries	1.8	1.7	Kazakhstan	7.8	7.4
Middle- income countries	7.0	6.6	Kyrgyzstan	10.0	8.0
Upper- middle	7.4	6.9	Russia	8.8	9.3
Lower- middle	6.4	6.0	Ukraine	11.7	13.0
Low- income countries	9.1	10.5	Uzbekistan	11.0	11.0
EU 27 countries	1.8	1.6	<b>Oceania</b>	<b>2.9</b>	<b>2.6</b>
EU countries (old members) <sup>a)</sup>	1.6	1.4	Australia	2.9	2.7
EU countries (new members) <sup>b)</sup>	2.8	2.7	New Zealand	2.6	2.0
Euro area <sup>c)</sup>	1.5	1.3	<b>Latin America</b>	<b>8.9</b>	<b>7.9</b>
<b>Western Europe</b>	<b>1.6</b>	<b>1.4</b>	Argentina	25.0	19.0
Austria	1.4	1.4	Bolivia	3.5	5.3
Belgium	1.8	1.4	Brazil	5.3	4.5
Cyprus	2.5	2.5	Chile	3.3	2.6
Denmark	1.9	1.7	Colombia	3.4	3.1
Finland	1.4	1.3	Costa- Rica	8.0	7.3
France	1.6	1.3	Dominican Republic	6.0	6.5
Germany	1.3	1.3	Ecuador	4.3	4.3
Greece	3.0	2.0	El Salvador	2.0	3.0
Iceland	5.7	5.0	Guatemala	5.9	4.5
Ireland	0.3	- 1.3	Mexico	5.6	5.5
Italy	1.5	1.4	Panama	3.5	2.5
Luxembourg	2.5	2.0	Paraguay	4.4	4.6
Malta	2.0	-	Peru	2.4	2.0
Netherlands	1.4	1.3	Trinidad and Tobago	8.0	7.0
Norway	2.1	2.3	Uruguay	6.7	6.1
Portugal	0.9	0.8	Venezuela	31.0	33.0
Spain	1.6	1.1	<b>Near East</b>	<b>5.9</b>	<b>6.2</b>
Sweden	1.7	1.4	Iran	15.0	20.0
Switzerland	1.1	1.0	Iraq	6.0	-
United Kingdom	2.8	2.4	Israel	2.5	3.1
<b>Eastern Europe</b>	<b>2.9</b>	<b>2.8</b>	Kuwait	4.5	4.5
Albania		3.5	Lebanon	3.8	6.0
Bulgaria	4.0	2.3	Saudi Arabia	4.3	4.0
Croatia	2.5	2.9	Syrian Arab Republic	6.0	7.0
Czech Republic	1.7	2.0	Turkey	8.4	6.6
Estonia	0.8	- 0.2	United Arab Emirate	2.6	3.2
Hungary	4.8	4.3	<b>Africa</b>	<b>6.8</b>	<b>7.5</b>
Latvia	1.4	2.0	Algeria	5.3	4.0
Lithuania	2.6	3.4	Benin	2.7	-
Poland	2.8	2.8	Comoros	5.0	-
Romania	4.1	3.9	Congo Dem. Rep.	22.0	-
Serbia	8.3	6.7	Congo- Brazzavill Rep.	4.1	-
Slovakia	1.5	1.9	Djibouti	4.0	-
Slovenia	1.5	1.9	Egypt	10.0	11.0
<b>North America</b>	<b>2.1</b>	<b>2.1</b>	Gabon	2.9	-
Canada	2.2	1.9	Ivory Coast	2.7	-
United States	2.1	2.2	Kenya	7.0	-
<b>Asia</b>	<b>2.8</b>	<b>2.5</b>	Lesotho	6.8	-
Bangladesh	9.0	7.6	Liberia	11.0	-
China	3.8	3.4	Madagascar	12.0	-
Hong Kong	2.8	2.9	Mauritania	4.5	-
India	8.3	6.1	Mauritius	3.5	3.1
Indonesia	5.3	4.5	Morocco	2.0	2.2
Japan	- 0.6	- 0.7	Niger	2.7	-
Malaysia	3.0	2.9	Nigeria	8.0	12.0
Pakistan	13.0	13.0	Rwanda	5.2	-
Philippines	4.4	4.4	Sierra Leone	14.0	-
Singapore	2.2	1.5	South Africa	6.0	6.1
South Korea	3.5	3.3	Sudan	13.0	-
Sri Lanka	8.3	8.2	Swaziland	17.0	7.3
Taiwan	1.5	1.2	Tanzania	9.0	9.0
Thailand	3.5	3.1	Tunisia	4.5	5.0
Vietnam	9.0	7.8	Zambia	10.0	-
			Zimbabwe	6.0	4.3

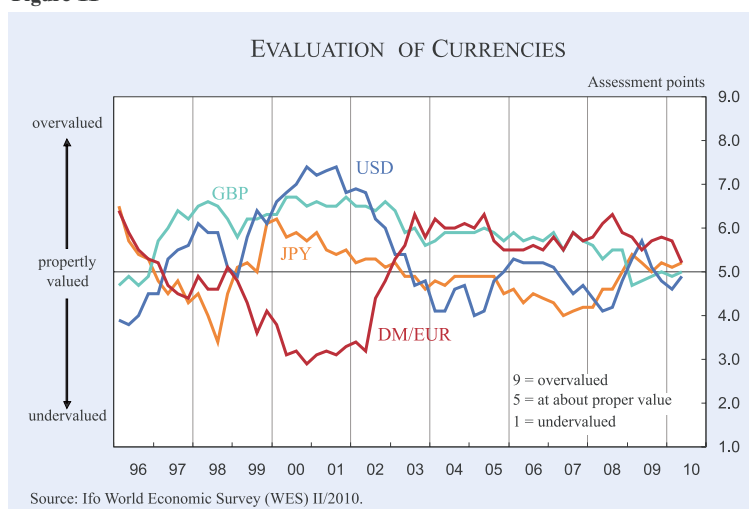
\* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade.

<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) II/2010 and I/2010.

beginning of the year (9.1 percent compared to 9.7 percent in January 2010). However, this downward revision of inflation expectations is restricted to the *Ukraine* (from 13.0 percent to now 11.7 percent) and *Russia* (from 9.3 percent to now 8.8 percent). In *Kazakhstan* (from 7.4 percent to 7.8 percent) and *Kyrgyzstan* (from 8.0 percent to 10.0 percent) inflation expectations increased somewhat since the beginning of the year and remained unchanged at a high level of 11 percent in *Uzbekistan*.

**Figure 11**



In the *Near East* the inflation outlook for 2010 stayed, as at the beginning of the year, at around 6 percent. Clearly below this average figure for the region is the expected price increase in *Israel* (2.5 percent) and *the United Arab Emirates* (2.6 percent). On the other hand, in *Turkey* inflation expectations for 2010 picked up from 6.6 percent in January to now 8.4 percent.

In *Africa* thanks to the enlargement of the WES sample a series of additional countries are now covered in the survey. As no time series for the "new" countries are available, only results for those countries that have been in the sample for many years are commented on: In *South Africa* inflation in 2010 is seen, as at the beginning of the year, at around 6 percent. An inflation rate of this magnitude is also expected in *Zimbabwe*, which in past years had experienced a hyper inflation. On average of all included African countries, inflation in 2010 is seen by WES experts at around 7 percent though there is a great variance in country specific rates with 22 percent in *Congo Dem. Republic* at the one end and *Morocco* with 2 percent at the other end.

### US dollar and euro closer to fair value

After the corrections in past months, i.e. a strengthening of the *US dollar* vis-à-vis the *euro*, WES experts worldwide hardly assess the *US dollar* any longer as undervalued (see Figure 11). In line with this development the euro was seen only by a small minority as still overvalued. The *Japanese yen* and the *British pound* continue to be close to their equilibrium values according to the interviewed WES experts.

The WES experts regard their own currency as somewhat *overvalued* in *Canada*, *New Zealand*, *South Africa*, *Thailand* and *Vietnam* as well as *Argentina*, *Peru* and *Uruguay*. On the other hand, experts assessed their own currencies as generally *undervalued* in some Asian countries, like *China* and *Malaysia*, in the *Near East*, here particularly in *the United Arab Emirates* and in *Lebanon* as well as in some African countries like *Algeria* and *Zambia*. Also in the *US* there is a slight majority of WES experts that assess their own currency as generally somewhat undervalued.

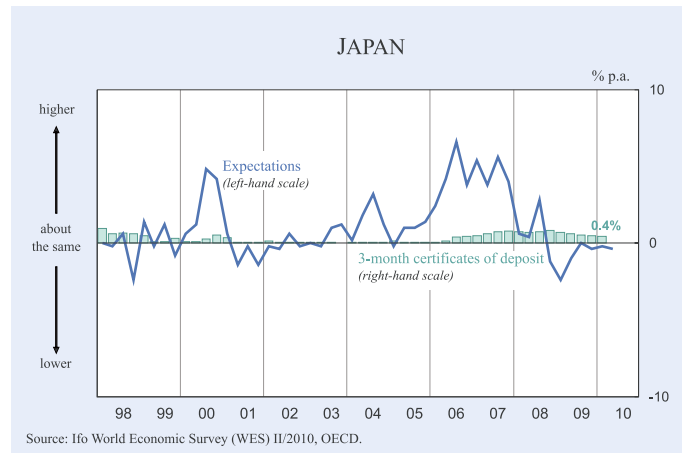
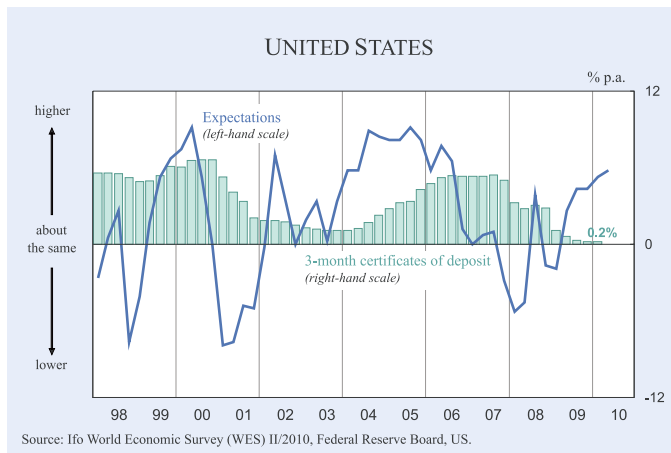
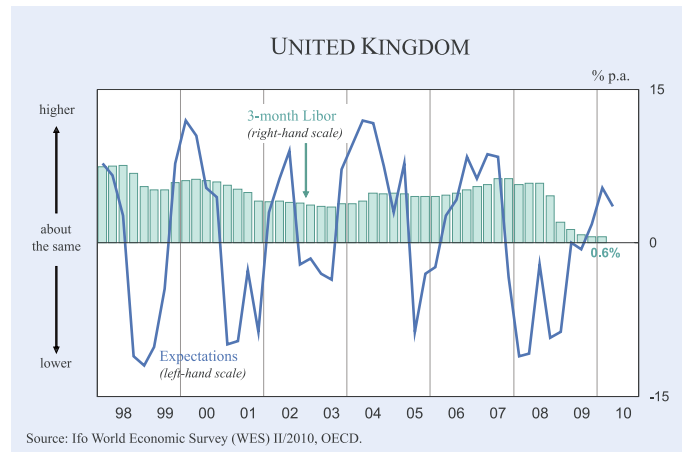
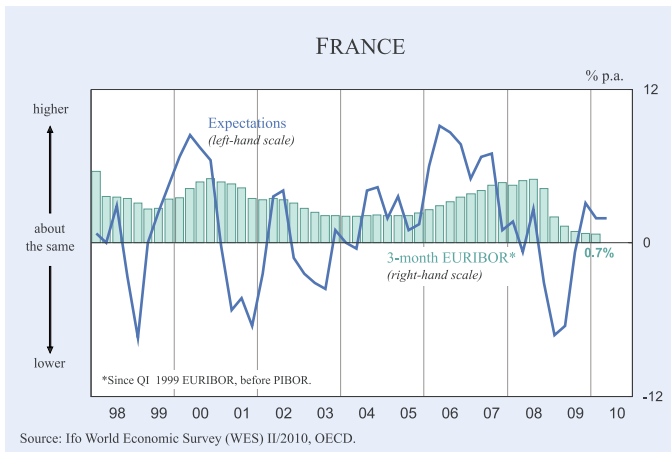
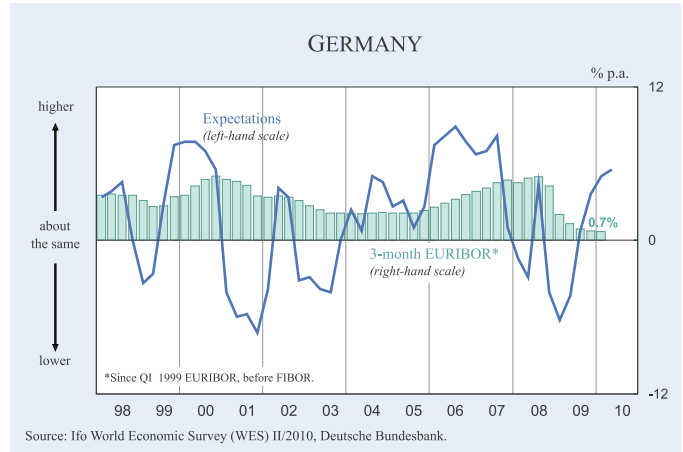
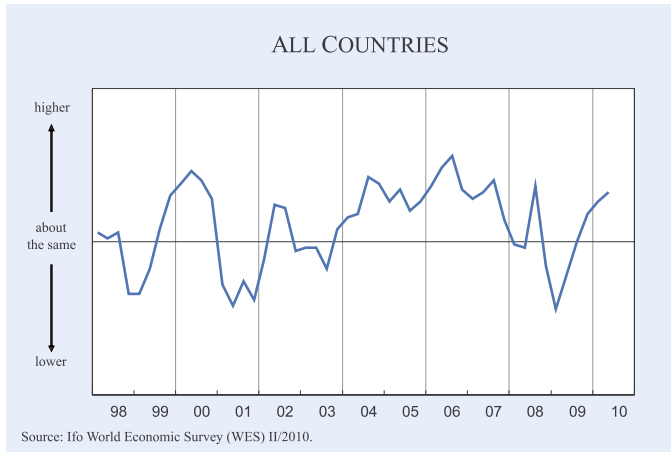
The answers to a supplementary survey question on the likely development of the *US dollar* in the next 6 months, regardless of how currencies are assessed from a fundamental point of view, signal on a world wide average a further increase in the value of the *US dollar* in coming months. However, behind this average are diverging trends: An expected *weakening* of the *US dollar* in *Norway* and *Sweden*, *Asia* (here particularly in *China*, *Malaysia*, *Taiwan* and the *Philippines*) and in some *CIS countries* (*Russia* and *Kazakhstan*) contrasts with an expected *increase* of the value of the *US dollar* in the *euro area*, in *the United Kingdom*, *New Zealand*, the *Near East*, *Pakistan*, *Latin America* (particularly in *Argentina* and *Venezuela*) and in some *Eastern European countries* (here particularly *Bulgaria*, *Czech Republic*, *Romania* and *Serbia*).

### Short term interest rates expected to rise

The number of WES experts expecting some tightening of monetary policy in the course of the next six

**Figure 12**

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





months has increased further (see Figure 12). This will lead to somewhat higher short term rates in the course of the next six months. An increase of long-term interest rates had already been expected in the preceding survey and did not increase further. Exceptions from an expected rise of interest rates are mainly some countries of the CIS area (the Russian Federation and Ukraine), the Near East and some countries in Eastern Europe (Hungary, Romania, Serbia and Croatia) as well as in Africa (Congo Democratic Republic, Kenya, Lesotho, Rwanda and Sudan) where the declining trend of interest rates is still intact.

### ICC Special Question: Impact of public debts and deficits on economic recovery

The special question referred this time to the expected impact of public debts and deficits, resulting from the economic stimulus packages implemented during the worldwide recession, on economic recovery.

Particularly in the *euro area* heavy government debts in Greece and some other countries have recently raised fears of government default, financial panic and euro weakness. Not surprisingly, in many countries of *Western and Eastern Europe* WES experts expected a great negative impact from public debts and deficits on economic recovery (see Figure 13). As a consequence, the 750 billion euro package approved by European finance ministers and the IMF aiming to contain a debt crisis in the euro area includes a commitment to fiscal consolidation.

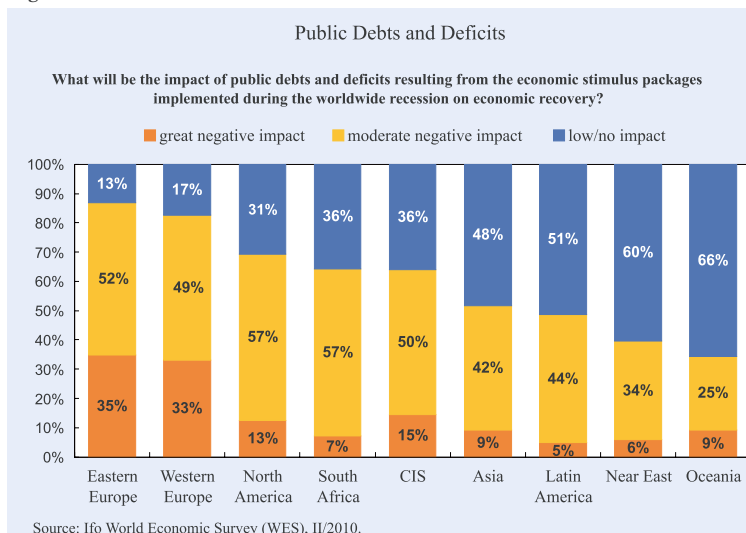
Furthermore, the EU and the IMF urged the member states to accelerate consolidation measures and restrict government overspending, in order to prevent spread of the *Greek* debt crisis to other *EU* countries.

In *North America* only about 13 percent of WES experts expects serious problems for economic recovery due to high public deficits and accumulated debts. However, a considerable share of almost 60 percent think that there will be a moderate negative impact on economic recovery, as public deficits will have to be scaled back, which is likely to dampen economic growth. Also in the *CIS* countries, particularly in the *Ukraine*, as well as in *South Africa* the vast majority of surveyed economists think that there will be a negative impact on economic recovery, although rather a moderate one.

In *Asia, Latin America, Oceania* and the *Near East* the majority of WES experts do not expect that the economic recovery will be seriously jeopardized by public debts and deficits. However, also in these regions some countries are more affected by the debt problem than other: In *Asia*, particularly *Japan, Hong Kong* and *Pakistan*, in *Latin America, Mexico* and *Venezuela*, in *Oceania, New Zealand*, and in the *Near East, Turkey*.

In summary, government's ballooning debts make sizable consolidation efforts urgently needed to secure a sustainable recovery. But, to master the budget problem in a way that is economically coherent and politically feasible remains, beyond doubt, a challenging task.

Figure 13





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