

CESifo WORLD ECONOMIC SURVEY

VOLUME 7, No. 2

MAY 2008

The Results of the 100th Poll

WORLD ECONOMIC CLIMATE

World Economic Climate deteriorates further

ECONOMIC EXPECTATIONS

Assessments of the current economic situation and economic expectations downgraded

INFLATION

Higher inflation expected in 2008

INTEREST RATES

Decline of interest rates expected

CURRENCIES

US dollar remains undervalued

SPECIAL TOPIC

Doha Round of trade negotiations



International Chamber of Commerce
The world business organization

With the support of

All time series presented in this document
plus additional series for about 80 countries
may be ordered from the Ifo Institute.
For further information please contact
Mrs. Stallhofer (stallhofer@ifo.de)

For further information apply to:

Anna Stangl, e-mail stangl@ifo.de
(Responsible for statistical processing and analysis)

Dr. Gernot Nerb, e-mail nerb@ifo.de
(Head of Industry Branch Research)

CESifo World Economic Survey ISSN 1613-6012

A quarterly publication on the world economic climate

Publisher and distributor: Ifo Institute for Economic Research

Poschingerstr. 5, D-81679 Munich, Germany

Telephone ++49 89 9224-0, Telefax ++49 89 9224-1463, e-mail ifo@ifo.de

Annual subscription rate: € 40.00

Editor: Dr. Gernot Nerb, e-mail nerb@ifo.de

Reproduction permitted only if source is stated and copy is sent to the Ifo Institute

Ifo World Economic Survey

Regions

- World economy: Economic climate index falls
- Western Europe: Economic weakening
- North America: Economic climate continues to worsen
- Eastern Europe: Economic performance remains stable
- CIS: Favourable economic climate prevails
- Asia: Economic climate index deteriorates
- Oceania: Economy cools further
- Latin America: Diverging economic trends
- Near East: Economic climate index softens
- Africa: Economic downturn in South Africa

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 2008, 1,002 economic experts in 92 countries were polled.

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

Methodology and evaluation technique

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

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

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

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

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

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

WORLD ECONOMIC CLIMATE INDEX FALLS

The Ifo World Economic Climate Index fell again in April 2008 to a level below its long-term average (1992–2007: 96.8), reaching at 81.4 (1995=100) a six-year low. Both the assessments of the present economic situation as well as economic expectations for the next six months deteriorated further, on a global average (see Figure 2).

World economy cools

The latest WES survey results confirm that business sentiments world-wide are cooling. The index of the present economic situation slipped for the third time in succession. However, on the world average, the present economic situation is still assessed as above the satisfactory level. The economic outlook for the coming six months also continued to deteriorate. The cyclical contraction was intensified by the US sub-prime credit crisis, which spilled over particularly to Europe and to some Asian countries. As result, the economic climate index fell again in all three main economic regions – North America, Western Europe and Asia (see Figure 3). The strongest decline, however, was in the United States, where the economic climate index fell to the lowest level since 1991. A pronounced decline was also recorded in Western Europe, where a six-year low was reached. The smallest decline of the sentiment indicator was again recorded in Asia, although more pronounced in Japan, South Korea and Hong Kong.

The business-cycle clock illustrates the present cyclical movements of the business sentiments (see Box 1). It shows the strong decline of the economic climate index in summer 2007 caused by the US mortgage crisis. In autumn 2007 the economic climate index entered the cooling-down area of the business clock and in January 2008 it fell further. In April 2008 it continued the unfavourable path and is approaching the cyclical trough area. The financial crisis that induced the economic downswing in 2007 is aggravated by inflation that has become the most important economic problem world-wide.

Figure 1

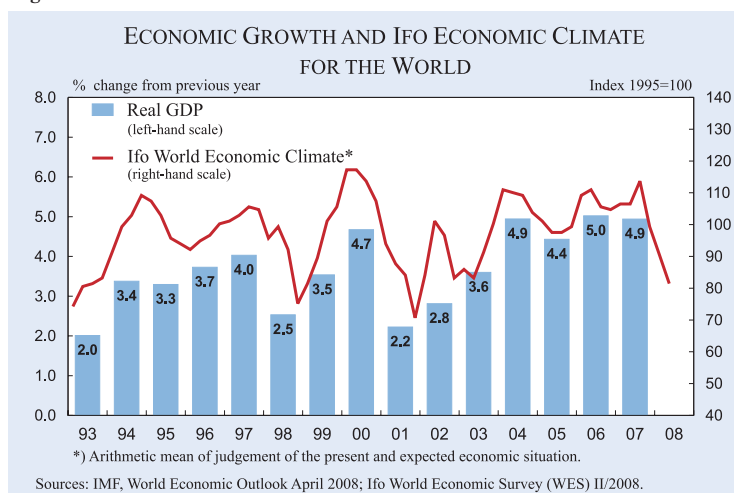
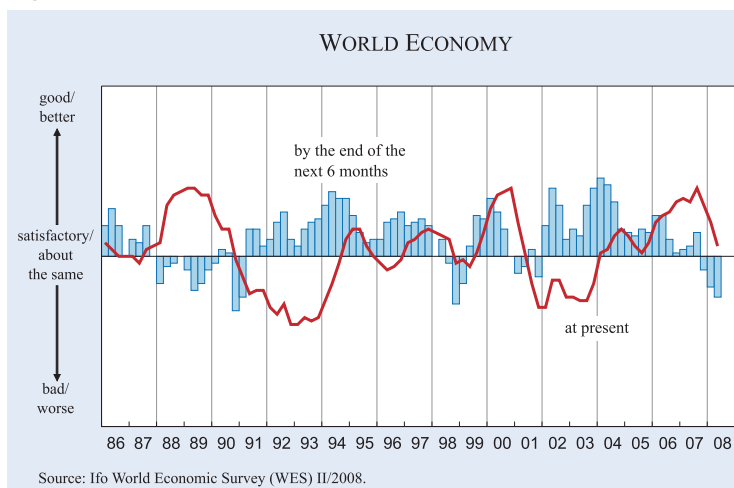


Figure 2



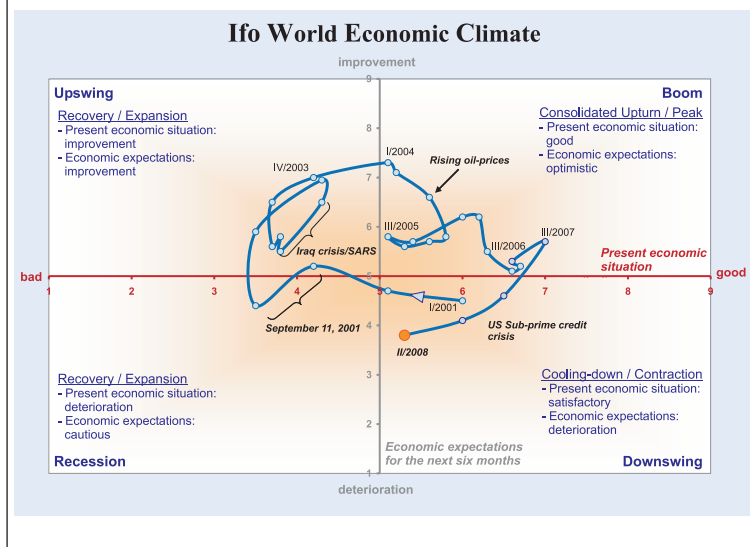
Box 1

Ifo Economic Clock and the World Economic Climate

For a global, medium-term forecast a look at the Ifo Economic Clock showing the development of the two components of the economic climate index over the last seven years visualizes the trend. The business cycle typically goes clockwise in a circle; expectations leading assessments of the present situation.

In autumn 2007 the economic climate index entered the cooling-down area of the business clock and in January 2008 it fell further. In April 2008 it continued the unfavourable path and is approaching the cyclical trough area. The decline is mainly due to more unfavourable assessments of the current economic situation, but also the expectations for the coming six months have again been revised downwards.

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).



Inflation: The currently most important economic problem

Whereas at the same time last year the lack of skilled labour was seen as the most urgent problem on a world wide scale, it is this time clearly inflation, followed at some distance by lack of skilled labour and at rank three lack of confidence in governments' economic policies.

According to regions and countries there are some differences in this order: In *North America* public deficits lead the scale followed with equal importance by inflation and insufficient demand. In *Oceania* the lack of skilled labour remains the most pressing problem by far. In *CIS* countries and also in *Latin America* inflation is also the single most important problem but followed very closely by lack of international competitiveness. In *Asia* lack of confidence in governments' economic policy is ranked second after inflation; a lack of skilled labour is here

not amongst the three most important problems. In *Western and Eastern Europe, Africa* and the *Near East* – as for the overall world average – the single most important problem is inflation followed by the lack of skilled labour.

Western Europe: Economic weakening

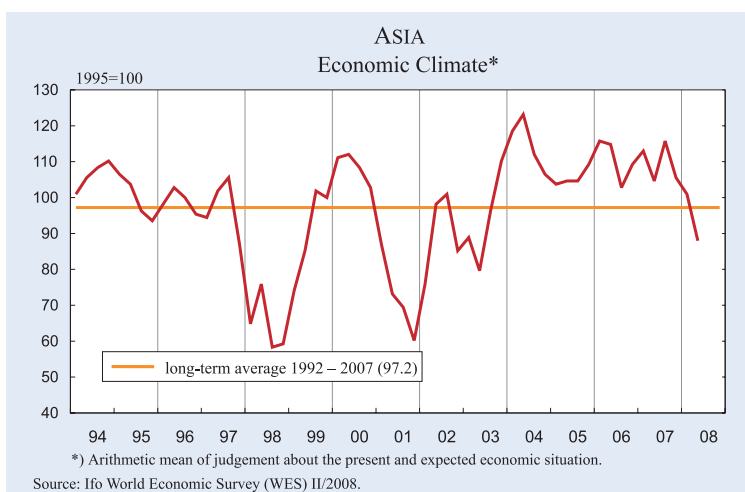
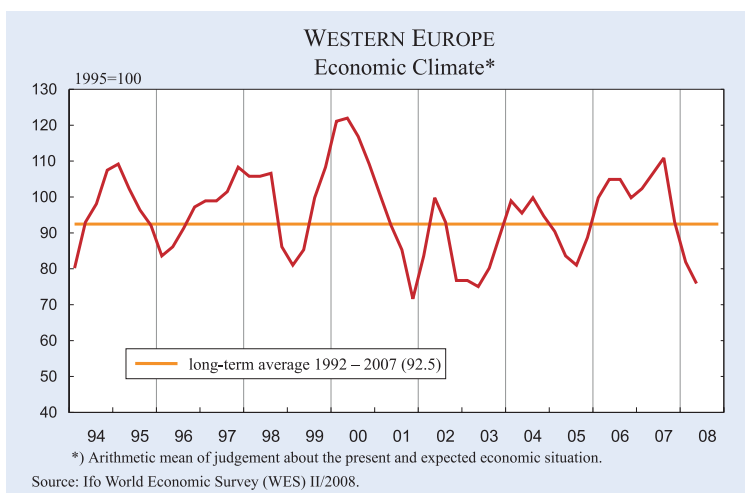
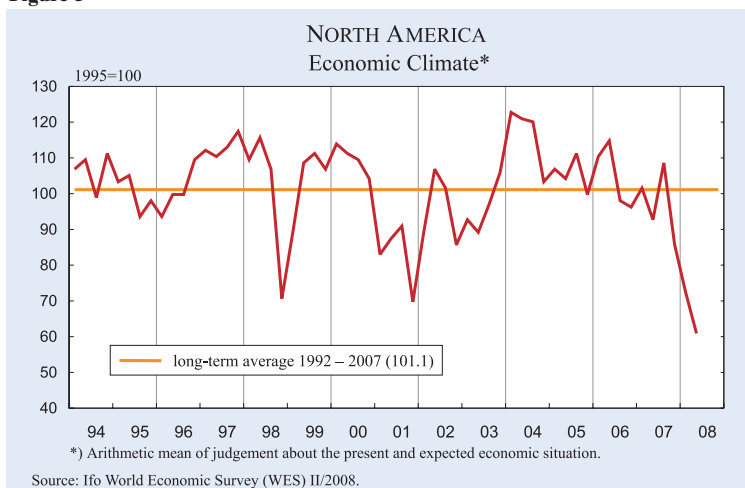
The overall economic climate indicator deteriorated again in April in the *Western European* countries, due to less favourable assessments of the present economic situation. The economic expectations for the next six months continue to point to further economic weakening in the next six months, although they have not deteriorated further (see Figure 3 and 4 and Box 2).

The economic climate index declined in all *euro area* countries. The assessments of the present economic situation have been revised downward particularly in *Spain, Italy, Germany*

and *France*. However, in *Germany* the present economic performance is still regarded as above the satisfactory level, while in the other countries – *Spain, Italy* and *France* – the present economic situation has strongly deteriorated, according to WES experts, and is regarded as bad. Also in *Greece* and *Portugal* the present economic situation is still rated below the satisfactory level. In contrast, in *Austria, Netherlands* and *Ireland* the economic performance has even strengthened somewhat over the previous quarter, according to the surveyed economists. It is also regarded as highly favourable in *Finland* and *Slovenia* and as "satisfactory" in *Belgium*. Nevertheless, in all countries of the euro area the surveyed economists forecast some economic slowing in the next six months.

Outside the *euro area* the economic climate cooled off strongly in the Nordic countries: *Sweden, Norway* and *Denmark*. However, the present state of the economy is still regarded as strong, although less

Figure 3



favourable than in the previous survey. In the *UK* and *Switzerland*, in contrast, the economic climate index has not further deteriorated. In both countries, the assessments of the present economic situation have been up-graded over the previous quarter. In the *UK* the surveyed economists assess the present economic state as “satisfactory” and in *Switzerland* as

expected to weaken strongly in the next six months.

Central and Eastern Europe: Economic performance remains stable

The favourable economic climate cooled only slightly in *Central and Eastern Europe* (see Figure 4). The

“good”. However, the economic expectations have been strongly downgraded here as well and point to an economic deterioration in the next six months.

North America: Economic climate continues to worsen

The economic climate indicator in *North America* again strongly deteriorated in April (see Figure 3), due to a more pessimistic assessment of the present economic situation (Figure 6). The economic expectations for the next six months have not worsened further. However, the surveyed economists continue to forecast an economic slowing in the course of 2008.

In the *United States* the economic climate fell to its lowest level since 1991. The assessments of the present economic situation lie clearly below the satisfactory mark. The economic expectations remain pessimistic, pointing to a pronounced economic weakening in 2008 with negative repercussions on capital expenditures and private consumption in the coming months. Given the weak US dollar, the export sector, however, remains buoyant in the *US*, according to WES experts.

Also in *Canada* the present economic situation is assessed as less favourable than in the preceding survey. The economic outlook for the coming six months remains cautious. In *Canada* capital investment and exports are

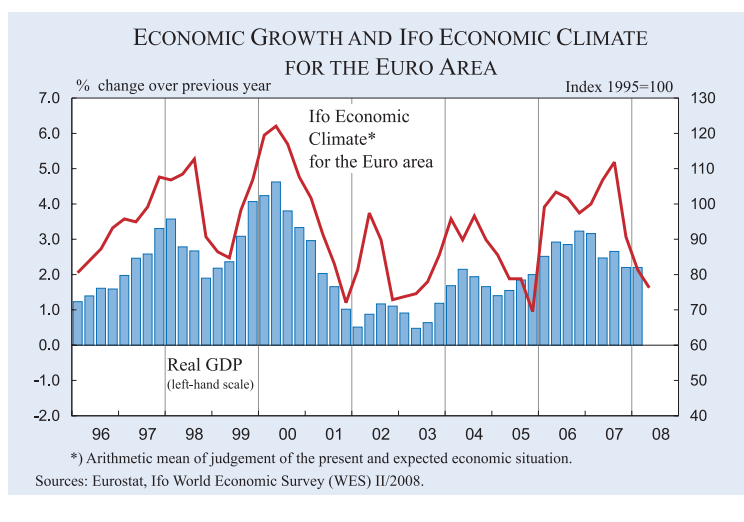
Box 2

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

The Ifo World Economic Climate for the 15 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 254 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo Economic Climate in the euro area has worsened again in the second quarter of 2008 for the third time in succession, falling to its lowest level in five years. The decline in the Ifo indicator is the sole result of less positive assessments of the current economic situation. The economic expectations for the coming six months, although still in negative territory, have not worsened further.

The economic climate has become cloudier in the second quarter of 2008 in all countries of the euro area. In *Italy, France, Portugal* and *Spain*, the current economic situation has been assessed particularly negatively, but in the majority of euro countries, the appraisals of the current economic situation remain in positive territory. In the coming six months, the slowing of economic activity will continue in all the countries of the euro area, in the opinion of the WES experts.



assessments of the present economic situation remained almost unchanged and are still at a favourable level. On average for the Central and Eastern European countries, the economic expectations have been downgraded only slightly, (see Figure 8).

The present economic situation is regarded as very favourable in the *Czech Republic, Poland, Estonia* and *Lithuania*. However, the surveyed economists expect an economic cooling in the next six months in all these countries. In contrast, further economic strengthening is forecast by WES experts in *Bulgaria, Romania* and *Slovakia*. The only EU countries in the region where the present economic performance is regarded as below the satisfactory level and is expected to weaken further are *Hungary* and *Latvia*. High inflation and related to it weak confidence in the government's economic policy have become the most important economic problems in these two countries.

In the countries outside the *European Union* the economic climate continues to be moderate. In *Albania, Croatia* and *Serbia* the surveyed economists assessed their country's economic situation as "satisfactory". They expect a stable economic development, with further strengthening of the export sector in the course of 2008. The surveyed economists stressed the lack of international competitiveness as an important economic problem in these countries.

CIS: Favourable economic climate prevails

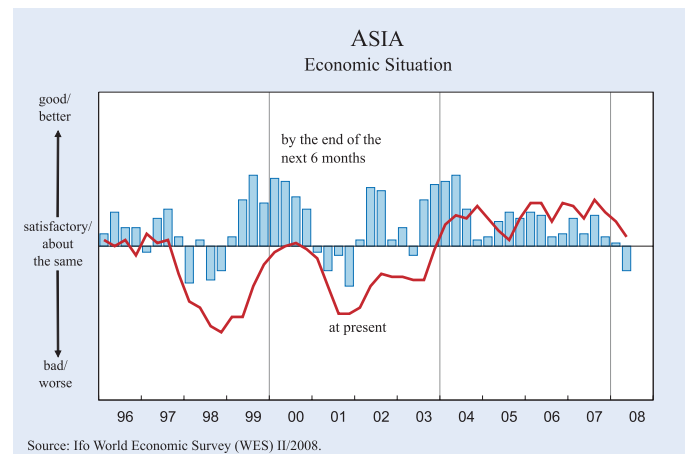
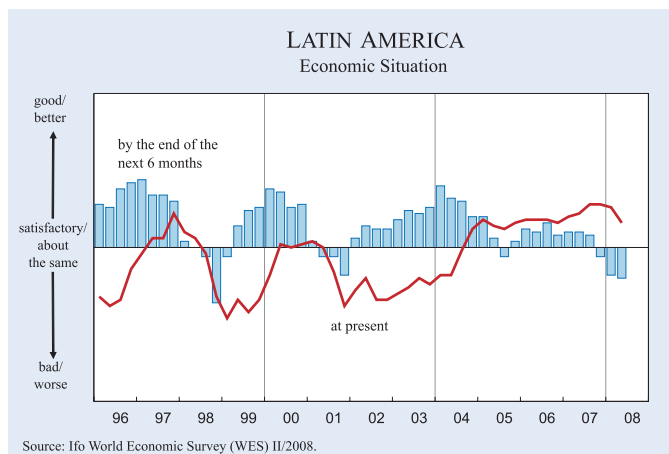
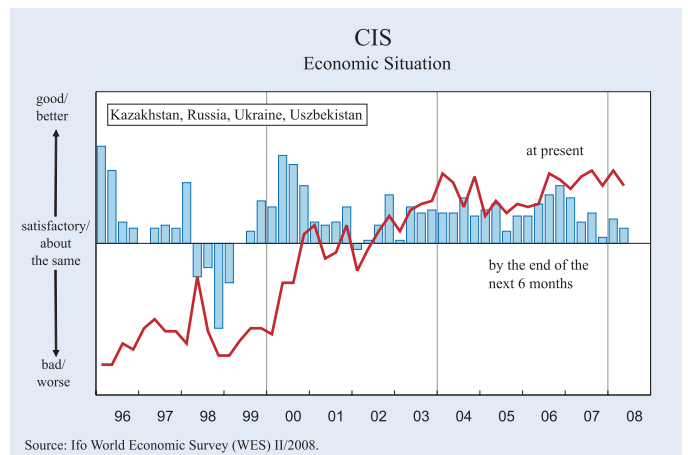
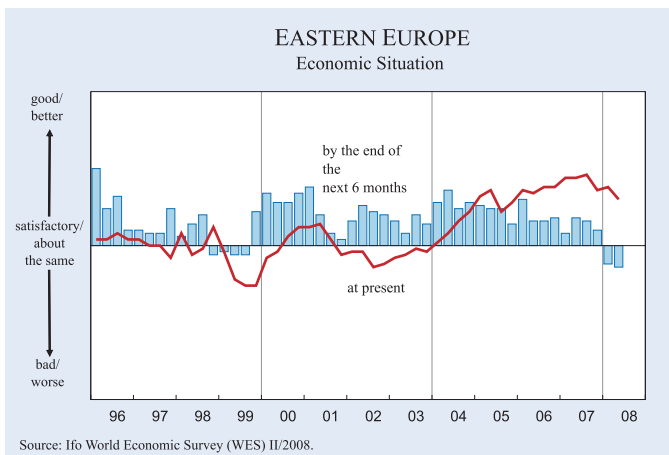
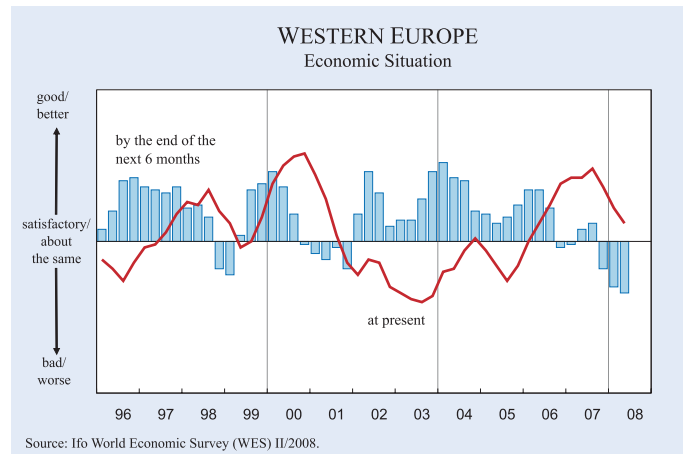
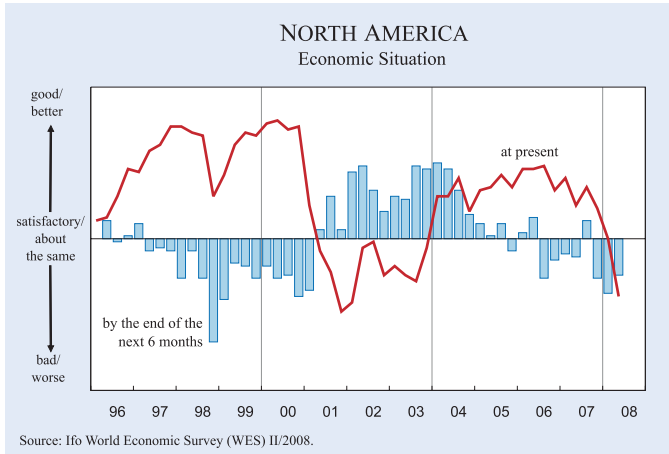
The overall economic climate index for the CIS countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan* and *Uzbekistan*) remained stable at a favourable level in April.

In *Russia*, the assessments of the present economic situation and economic expectations have been down graded only slightly (see Figure 6). The economic forecasts for the next six months

point to a stable economic development in 2008, with further strengthening of capital expenditures, private consumption and exports. But the surveyed economist stressed lack of skilled labour and weak international competitiveness of goods produced in *Russia* as serious impediments to a sustained economic growth. Also in *Kazakhstan* the economic climate index remained stable at a high level. The present economic performance is assessed as satisfactory here as well; the economic expectations for the next six months have even been up-graded somewhat. In the *Ukraine*, in contrast, the economic climate remains rather unfavourable, according to the surveyed economists. The present economic situation is again seen as below the satisfactory level. The surveyed economists do not expect any substantial change in the course of the next six months, except for the export sector where further growth is foreseen. In the *Central Asian* countries covered by WES – *Kyrgyzstan* and *Uzbekistan* – the surveyed economists described the overall economic performance

Figure 4

SELECTED REGIONS



differently. While in *Uzbekistan* the present economy is regarded as satisfactory and is foreseen to stabilize further in 2008, the economists in *Kyrgyzstan* described the present economic situation as below the satisfactory level. In *Kyrgyzstan*, in the presence of high inflation, further weakening of the trend of capital expenditures, private consumption as well as exports is expected in the next six months.

Asia: Economic climate index deteriorates

The economic climate in *Asia* deteriorated further in April and has fallen below its long-term average (see Figure 3). Both the assessments of the present economic performance and the economic expectations for the next six months have been downgraded, on average, for the region (see Figure 8).

The economic climate index fell in almost all countries of the region. However, there was a group of countries in the *Asian* region where the economic climate remained generally favourable. The present economic situation was rated as satisfactory or even better in *China, Taiwan, Vietnam, Singapore, Indonesia* and *Bangladesh*. In all these countries the surveyed economists also remained fairly confident with regard to future economic development. In *China*, the region's biggest economy, capital expenditure and private consumption are expected to stabilize at the current level during the next six months. However, export growth is forecast to slow down markedly. Also here, WES experts emphasised that inflation is the main downside factor.

A particularly pronounced decline of the economic climate index was recorded in *Japan* and *South Korea*. In both countries the surveyed economists rated the present economic performance as below the satisfactory level. The prospects relating to the economic development in the next six months were particularly negative in *Japan*, with capital expenditures, private consumption and exports forecast to deteriorate strongly. An economic slowdown is also forecast by the surveyed economists in *Hong Kong*, although the present economic situation was rated as good there as well. Inflation was listed as the most urgent economic problem at present. An unfavourable economic climate also prevails in *Pakistan* and *Sri Lanka*. However, while in *Sri Lanka* the export sector is expected to recover in the near term, WES experts expect further deterioration in *Pakistan*. In *India, Malaysia* and the *Philippines* the

economic climate index also fell in April compared to the first quarter survey. However, in all three countries, the present economic performance is still rated as good, although less favourable than in the previous survey. But the economic expectations have become cautious, pointing to an economic cooling in the next six months. In *Thailand* the present state of the economy was rated as below the satisfactory level. However, WES experts expect an economic improvement in 2008, particularly relating to the growth of capital expenditures.

Oceania: Economy cools further

According to the January survey results, the economy has deteriorated very strongly in *Australia* and *New Zealand* (see Figure 6). In *Australia* the present economic situation was assessed very positively in 2007 and in January 2008. In the April survey the assessments of the economic state have been downgraded very strongly in *Australia*. Also the economic outlook for the coming six months strongly deteriorated, pointing to an economic slow down in 2008. Capital expenditures and private consumption are expected to weaken in the next six months. High inflation has become one of the most pressing economic problems, according to WES experts. Also in *New Zealand* the present economic performance has again strongly deteriorated, according to WES experts. The assessments of the present economic situation further deteriorated. The economic prospects for the next six months continue to be pessimistic, pointing to further deterioration in 2008. Also in *New Zealand* the growth trend of capital expenditures and private consumption is expected to weaken in the next six months, while the export sector remains the driving engine of the economy.

Latin America: Diverging economic trends

The economic climate index deteriorated also in *Latin America* as a whole in April. However, there are diverging economic trends in the region (see Figure 9).

The present economic performance remains strong, according to WES experts, in *Brazil, Paraguay, Peru* and *Uruguay*, although particularly in *Brazil* the surveyed economists expect the export sector to weaken in the next six months. A stable economy is also expected in *El Salvador* and *Panama*. In *Chile* and

Colombia the present economic situation has again been described as favourable. The economic expectations, however, strongly deteriorated, pointing to further economic cooling in the next six months. In both countries capital expenditures and private consumption are forecast to weaken considerably. The export sector, in contrast, remains buoyant, according to WES experts. Particularly in *Chile*, inflation is posing strong downside risk to the country's economy. Also in *Mexico*, *Costa Rica* and *Guatemala* the economic prospects have become clouded. Although the present economic situation in all three countries is rated as "satisfactory" in April, an economic deterioration is forecast for 2008. Particularly the *Mexican* economy, which is strongly coupled to the *US* market, will be affected by a demand drop in the *US* market. The surveyed economists expect considerable weakening of the export sector in the near-term future. The economic climate deteriorated strongly also in *Venezuela*. The surveyed economists forecast further declines in capital expenditures in the next months. Lack of confidence in government's economic policy ranks as the country's most important economic problem at present. By far the strongest drop of business confidence in the region was reported by WES experts in *Argentina*, *Bolivia* and *Ecuador*. These were the only countries in the region where the assessments of the present economic situation slipped below the satisfactory level. The economic expectations have been also further down graded and have become clearly pessimistic. In *Bolivia* and *Ecuador* the surveyed economists stressed the lack of confidence in government's economic policy. In *Argentina*, inflation hinders economic recovery. Capital expenditures and private consumption are forecast to drop significantly in the next six months.

Near East: Economic climate index softens

The economic climate in the countries surveyed in the *Near East* region deteriorated slightly (see Figure 10), due to more cautious economic expectations. This pattern applies to several countries of the region, among them the *United Arab Emirates* and *Saudi Arabia*. However, the present economic situation is still rated with very high marks on the WES scale. The overall economy is in a stable state, according to WES experts. This also applies to *Kuwait* and *Jordan*. In contrast, the economic climate index strongly deteriorated again in *Israel*, *Turkey* and *Lebanon*, although the three

countries differ in the origin and the pattern of the economic downswing. In *Lebanon*, armed conflicts continue to destabilize the country's economic recovery. In *Turkey* the economic climate has deteriorated strongly in 2008. The present economic situation was rated in April as below satisfactory. The economic expectations point to further deterioration in the course of 2008. Also in *Israel* the surveyed economists forecast a decline in growth of capital expenditures, private consumption and exports in 2008. However, the present economic performance is here rated as good, although less favourable than in 2007.

Africa: Economic downturn in South Africa

The economic climate index continued to deteriorate in *South Africa* (see Figure 10). Both the assessments of the current economic situation and economic expectations for the next six months have been strongly downgraded again. The present economic situation, which for more than four years was rated with very favourable marks on the WES scale, slipped in April 2008 below the satisfactory level. The economic expectations point to further deterioration in 2008. The overall economic climate index is at the lowest level in almost a decade. Inflation, lack of skilled labour and unemployment were named as the country's most pressing economic problems by the surveyed economists. As below satisfactory, although somewhat better than in the previous survey, was how the economic situation was rated in *Kenya*. However, the economic expectations have now turned positive in this country. The further path of economic recovery mainly depends on the overcoming of the political crisis that followed the disputed presidential vote. Also in *Zimbabwe*, presidential elections have brought no relief to the disastrous circumstances prevailing in the country. The WES experts still have almost no hope that a turn around will come in the near-term future. In *Tunisia* and *Egypt* the surveyed economist also expect further economic deterioration. Only the export sector appears to be promising. The same applies to *Nigeria*, where the experts rated the present economic situation below the satisfactory level too, but were fairly confident relating economic strengthening in the next six months. A stable economic performance is expected by WES experts in *Morocco*, *Algeria*, *Tanzania* and *Mauritius*. Particularly in *Morocco*, the capital expenditures, private consumption and the export sector are expected to strengthen

Table 1

Inflation Rate Expectations for 2008
(based on WES QII/2008 and QI/2008)

Region	QII/2008	QI/2008	Region	QII/2008	QI/2008
Average of 90 countries	4.2	3.6	Latin America	7.9	7.1
<i>World Bank classification:</i>			Argentina	24.4	19.6
High-income countries	3.2	2.6	Bolivia	16.0	13.6
Middle-income countries	7.7	7.0	Brazil	4.8	4.5
Upper-middle	7.8	7.1	Chile	5.5	5.5
Lower-middle	7.5	6.8	Colombia	5.7	4.7
Low-income countries	8.4	6.8	Costa-Rica	12.0	9.0
EU 27 countries	3.2	2.8	Ecuador	6.0	4.6
EU countries (old members) ^{a)}	2.9	2.5	El Salvador	5.1	4.8
EU countries (new members) ^{b)}	5.7	5.1	Guatemala	8.5	8.2
Euro area ^{c)}	2.9	2.5	Mexico	4.4	4.7
Western Europe	2.9	2.5	Panama	6.0	5.0
Austria	2.9	2.4	Paraguay	8.3	8.3
Belgium	3.3	2.7	Peru	3.4	3.3
Cyprus	4.5	3.3	Trinidad and Tobago	12.0	9.0
Denmark	3.1	2.4	Uruguay	7.4	6.5
Finland	3.3	2.9	Venezuela	27.0	24.5
France	2.7	2.1	Asia	3.9	2.9
Germany	2.7	2.3	Bangladesh	9.3	8.0
Greece	3.7	3.6	China	6.4	4.8
Iceland	8.0	-	Hong Kong	4.6	3.7
Ireland	4.1	4.0	India	6.5	4.8
Italy	3.0	2.4	Indonesia	7.0	6.1
Luxembourg	3.0	2.6	Japan	1.0	0.8
Malta	3.0	2.0	Malaysia	3.4	3.7
Netherlands	2.5	2.3	Pakistan	10.5	8.8
Norway	2.8	2.3	Philippines	5.5	4.0
Portugal	2.6	2.3	Singapore	3.0	1.0
Spain	4.0	3.7	South Korea	4.0	3.2
Sweden	3.0	2.9	Sri Lanka	17.5	18.0
Switzerland	1.8	1.5	Taiwan	2.9	2.2
United Kingdom	3.0	2.6	Thailand	4.7	3.5
Eastern Europe	5.8	5.1	Vietnam	15.0	10.4
Albania	4.1	4.4	Near East	9.3	7.9
Bulgaria	9.6	8.4	Bahrain	-	3.0
Croatia	4.6	4.0	Iran	18.0	20.0
Czech Republic	5.6	4.9	Israel	2.7	2.7
Estonia	7.1	6.8	Jordan	5.7	8.5
Hungary	6.3	6.3	Kuwait	8.3	8.5
Latvia	13.7	10.7	Saudi Arabia	7.6	4.0
Lithuania	8.1	6.4	Turkey	9.3	8.2
Poland	4.4	3.8	United Arab Emirate	11.5	9.0
Romania	7.2	5.5	Africa *	n.a.	n.a.
Serbia	9.3	7.9	Algeria	3.8	4.0
Slovakia	3.4	2.7	Kenya	13.8	15.0
Slovenia	5.1	4.2	Mauritius	9.0	8.0
CIS	11.9	11.5	Nigeria	8.6	9.2
Kazakhstan	10.7	12.5	South Africa	9.0	7.0
Kyrgyzstan	18.0	-	Tunisia	5.3	5.0
Russia	11.5	10.7	Zimbabwe	<i>Hyperinflation</i>	
Ukraine	15.4	14.8	Oceania	3.4	3.4
Uzbekistan	12.1	17.9	Australia	3.4	3.5
North America	3.2	2.7	New Zealand	3.3	3.0
Canada	2.1	2.2			
United States	3.5	2.9			

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 (without Zimbabwe).

^{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 (from 1, May 2004), Bulgaria and Romania (from 1. January 2007) – ^{c)} Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Slovenia.

Source: Ifo World Economic Survey (WES) II/2008 and I/2008.

Figure 5a

EUROPEAN UNION

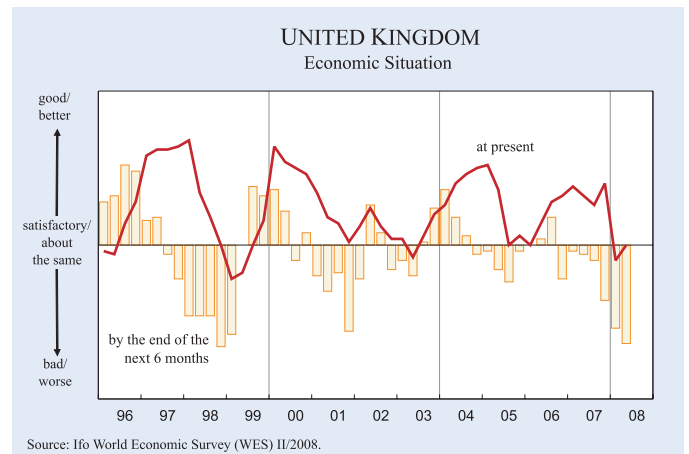
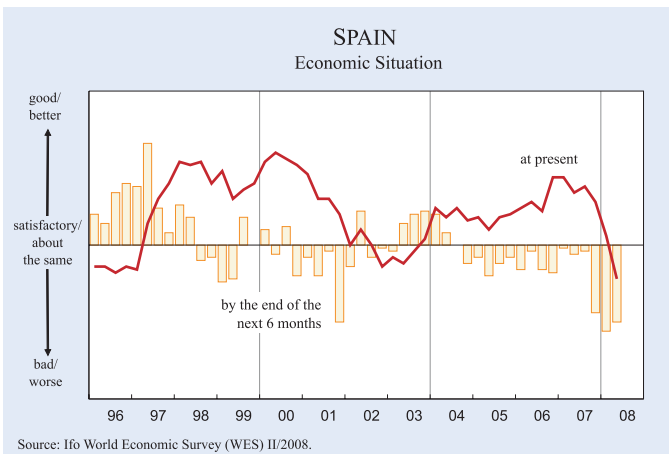
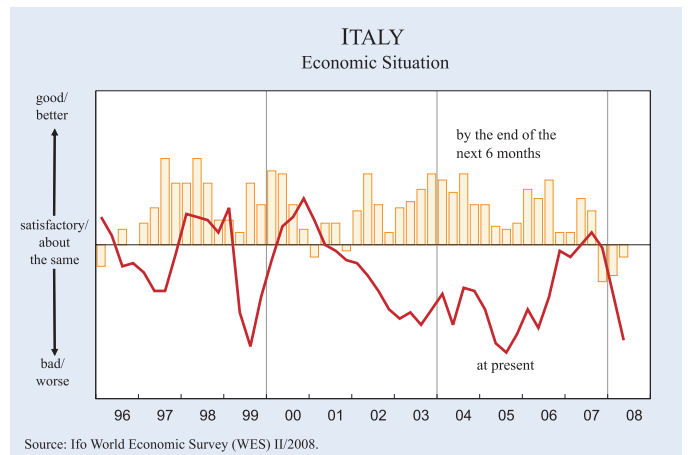
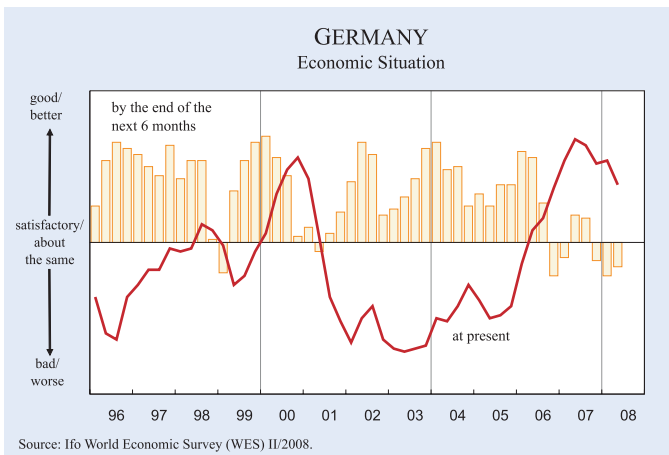
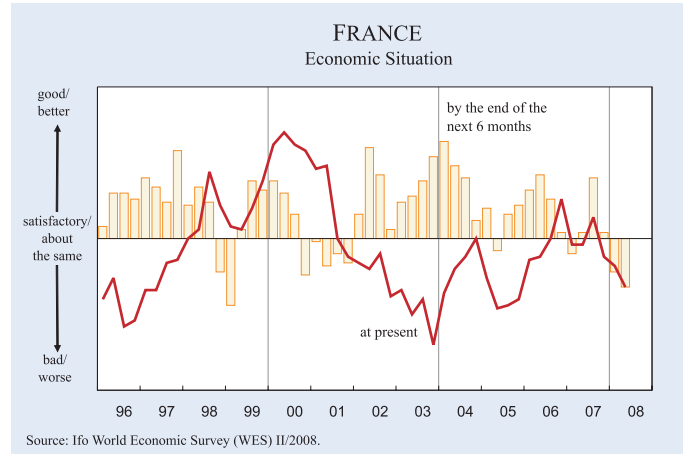
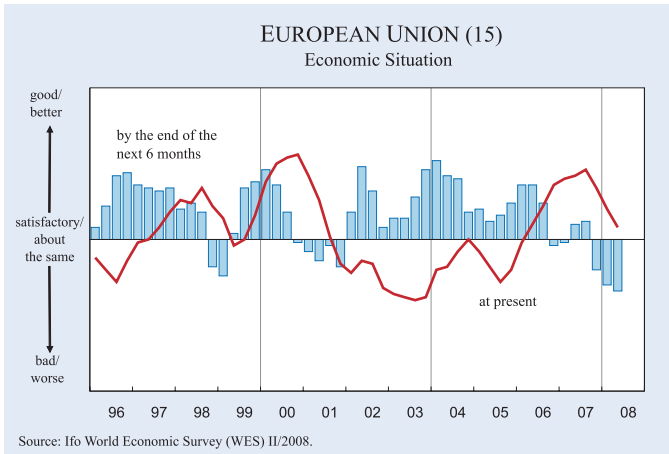


Figure 5b

EUROPEAN UNION

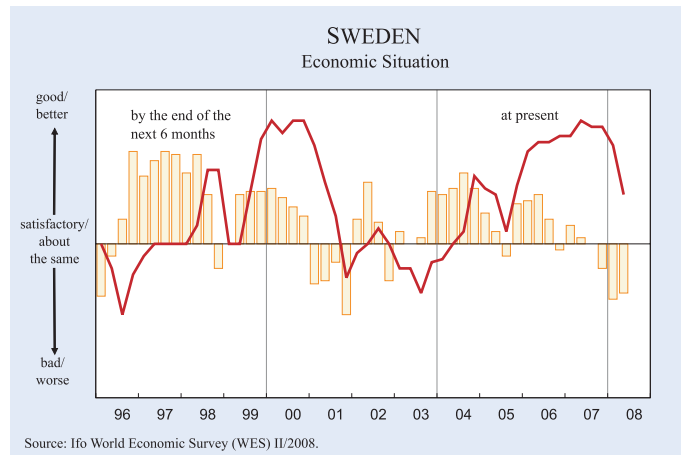
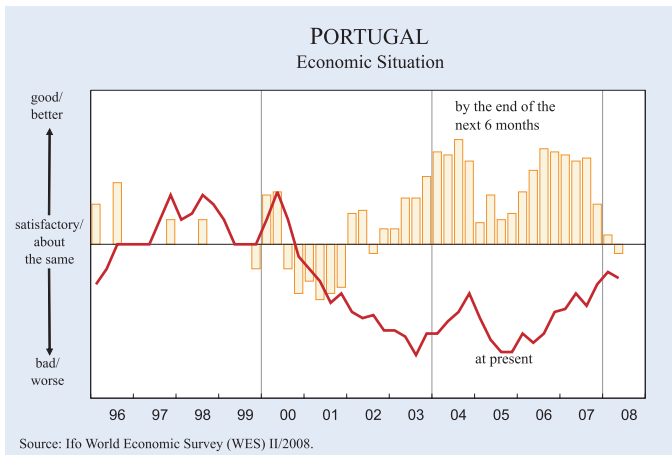
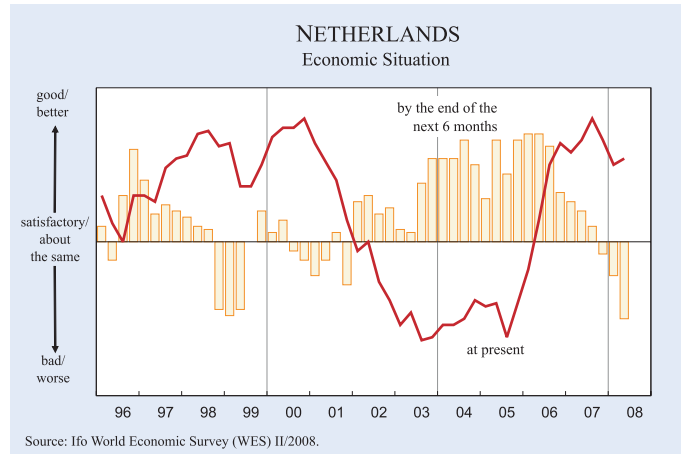
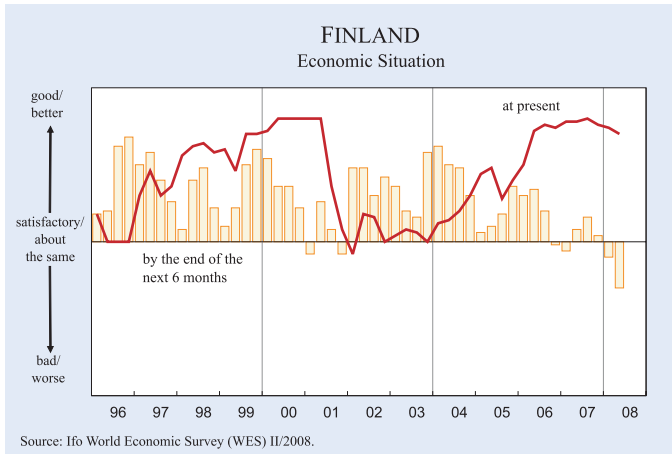
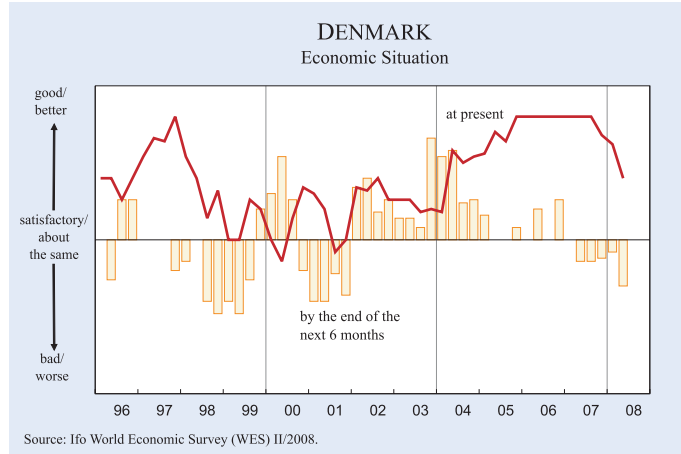
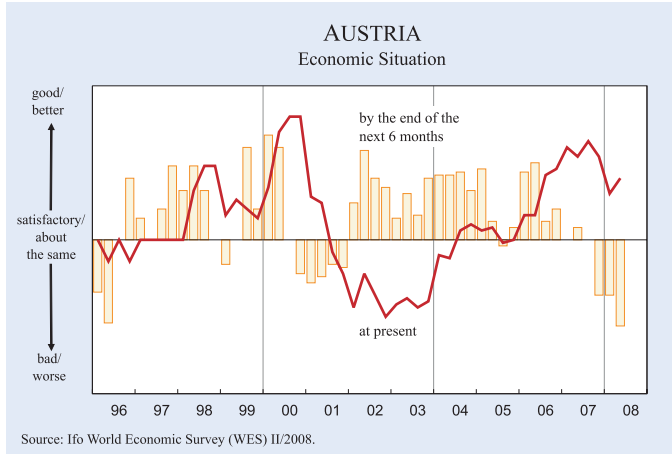


Figure 6

NORTH AMERICA, OCEANIA AND CIS

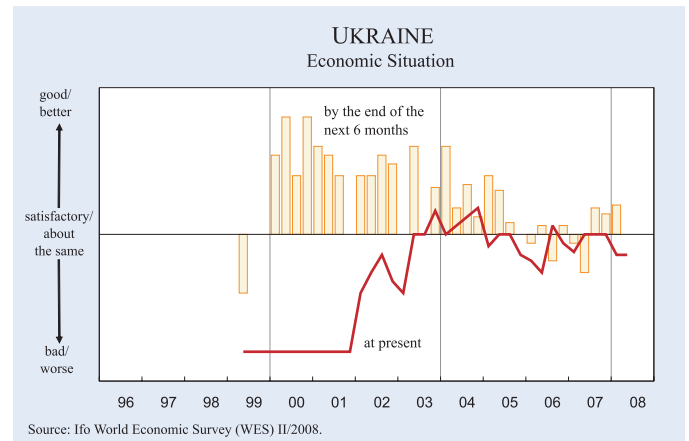
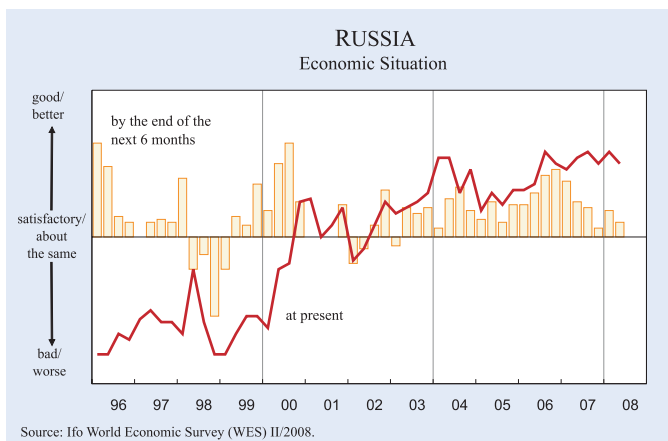
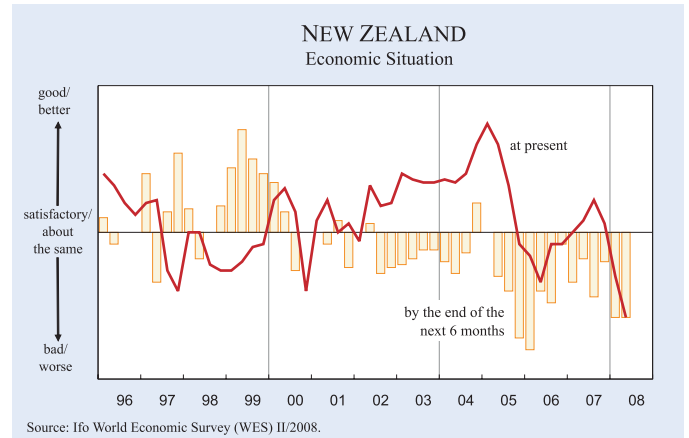
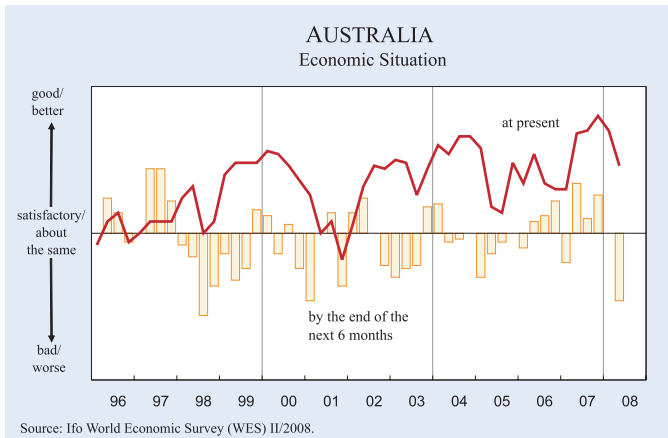
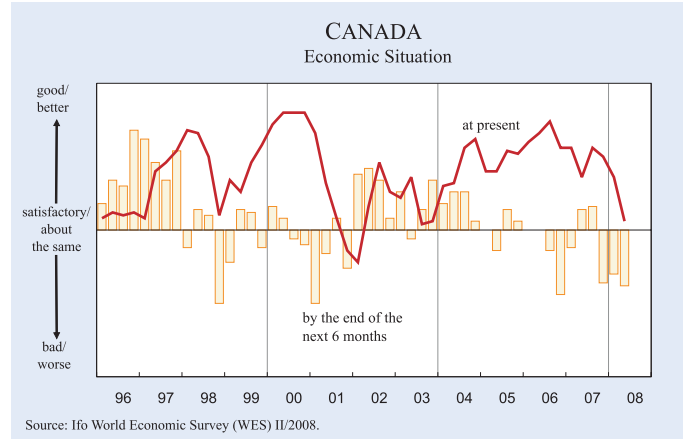
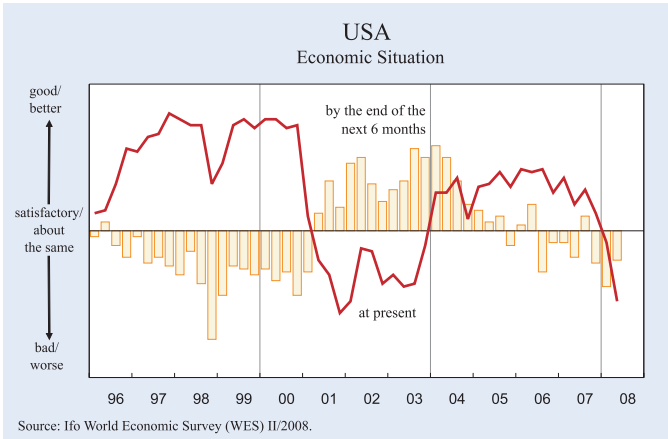


Figure 7

EASTERN EUROPE

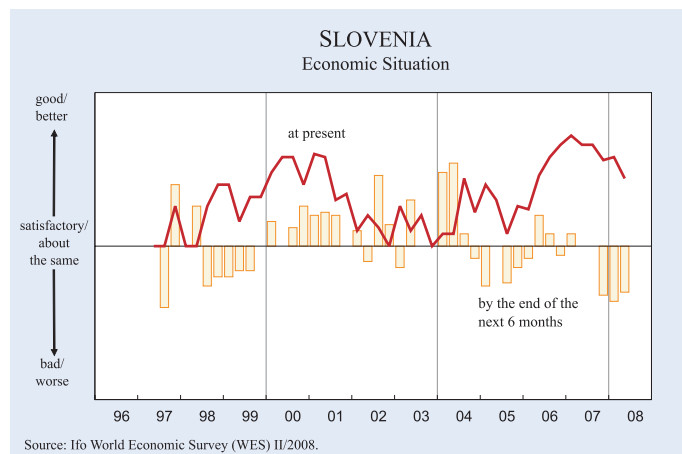
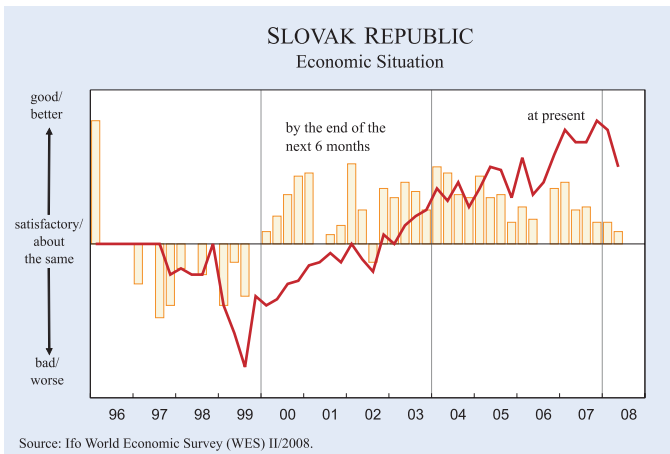
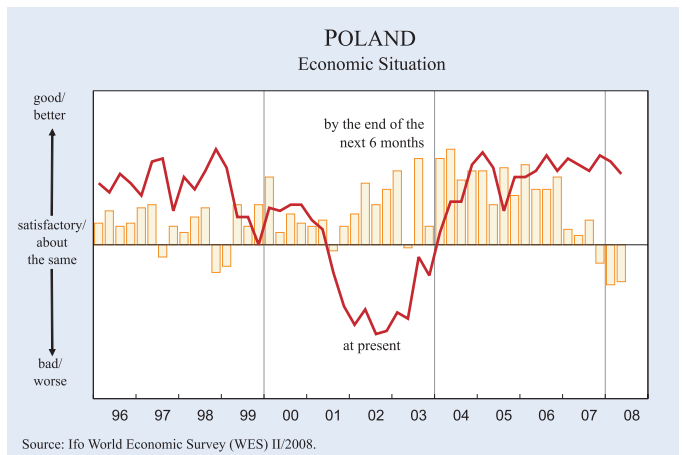
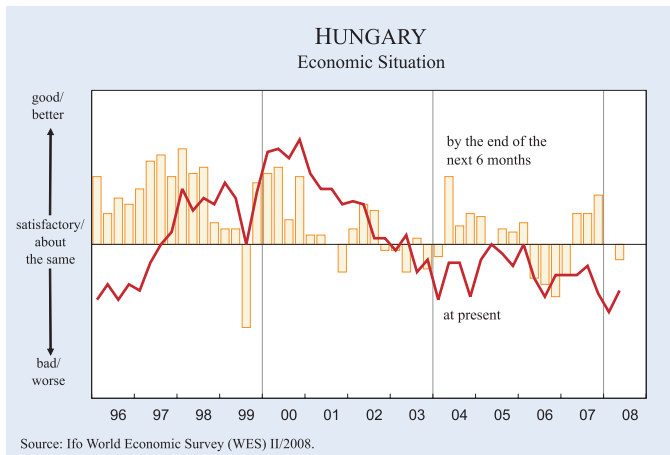
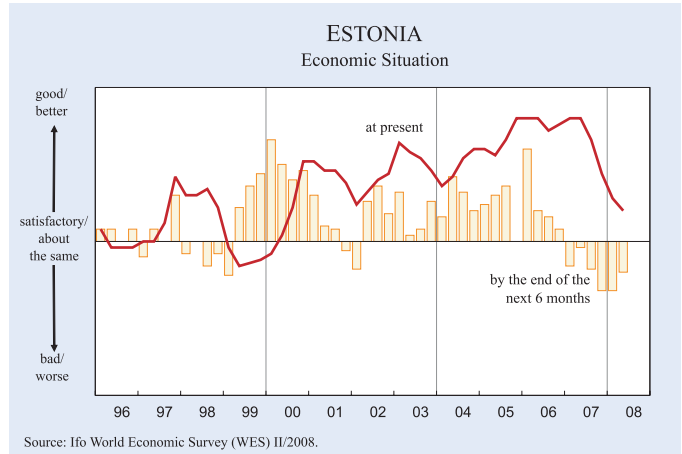
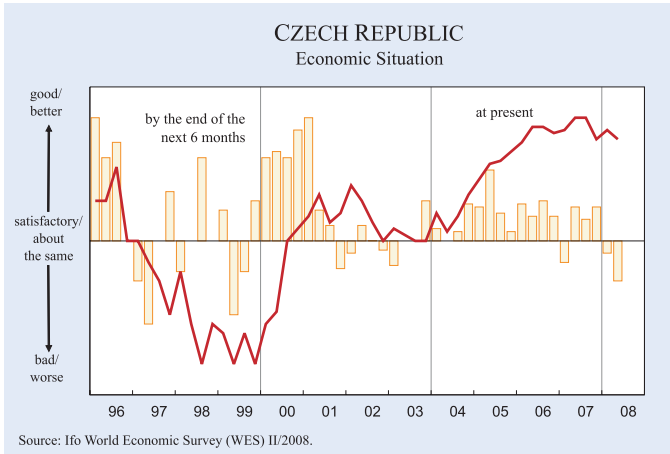


Figure 8

ASIA

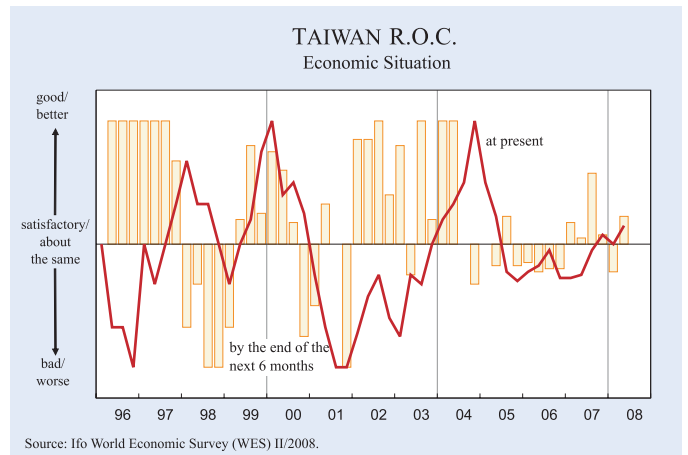
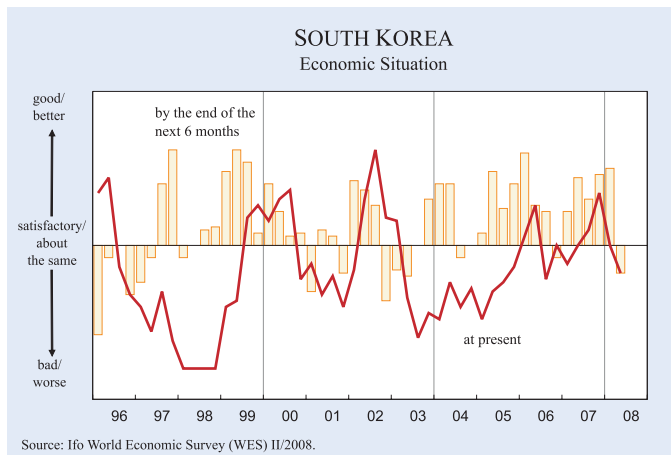
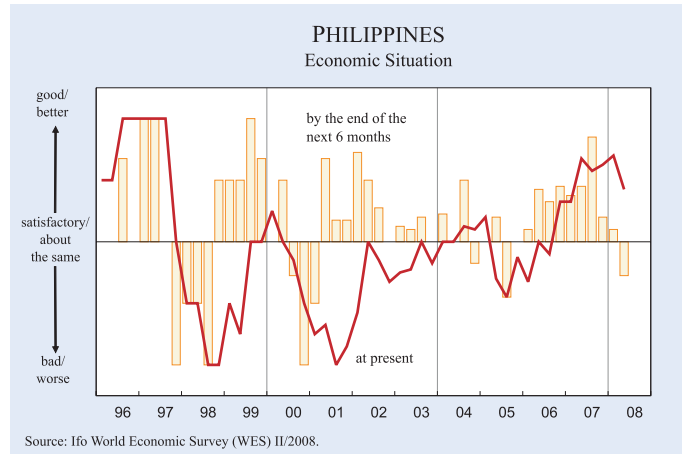
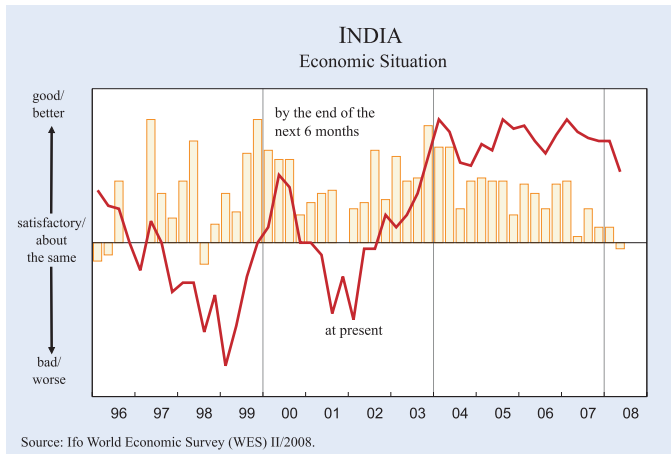
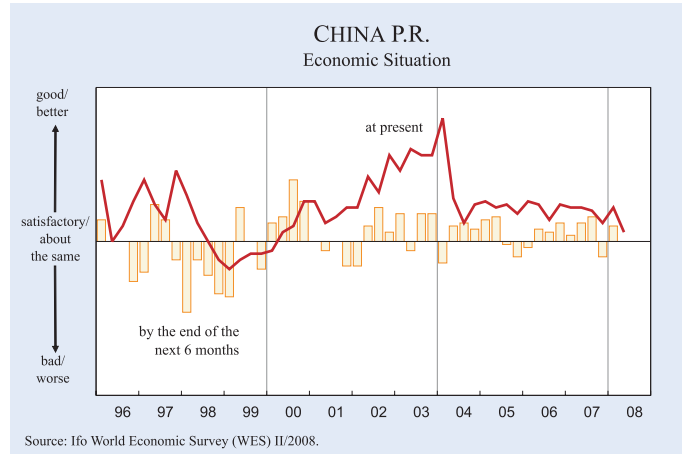
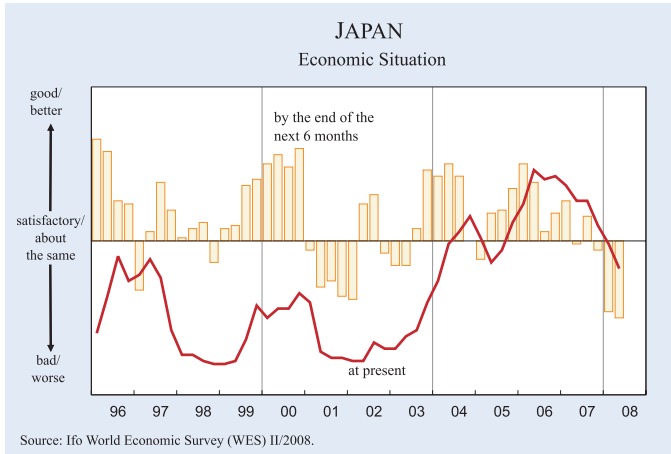


Figure 9

LATIN AMERICA

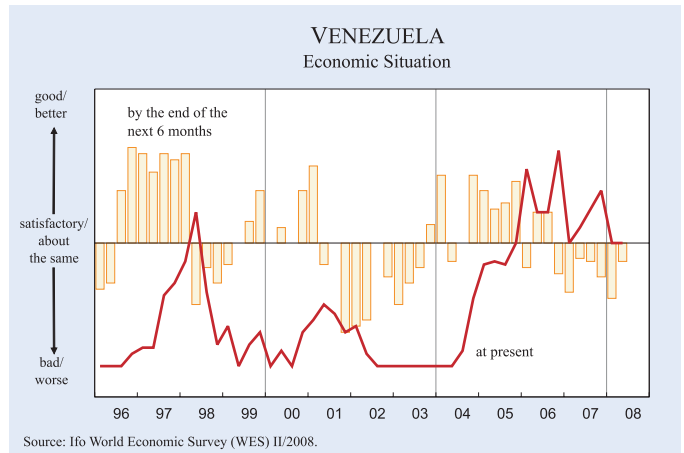
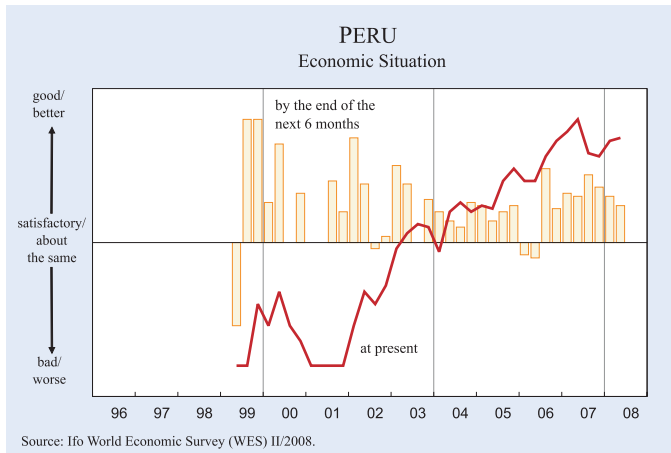
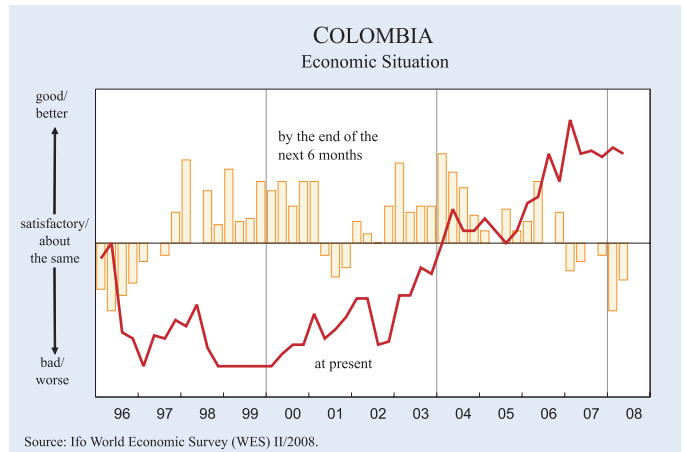
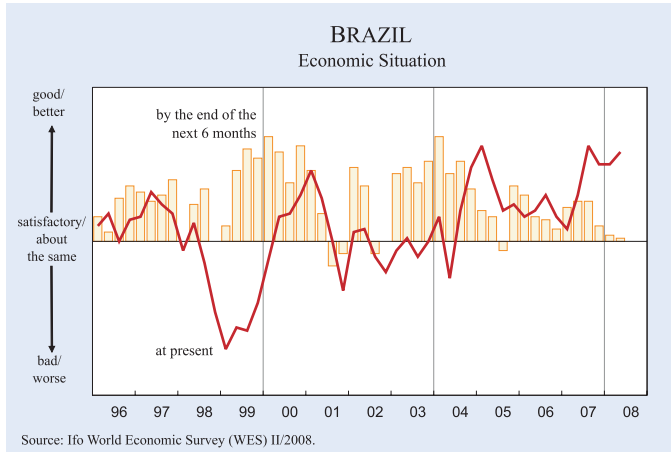
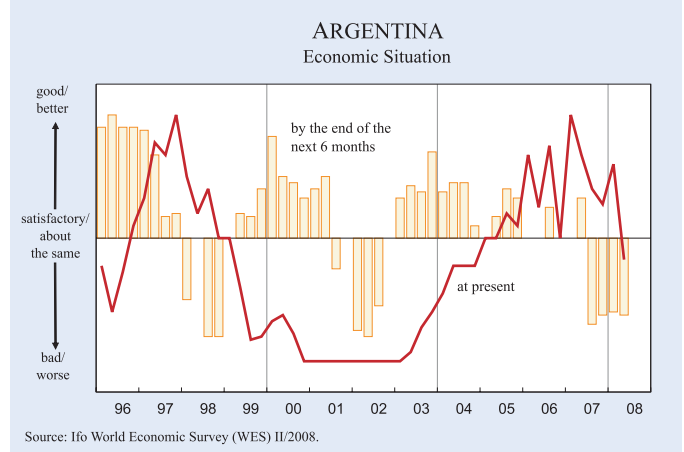
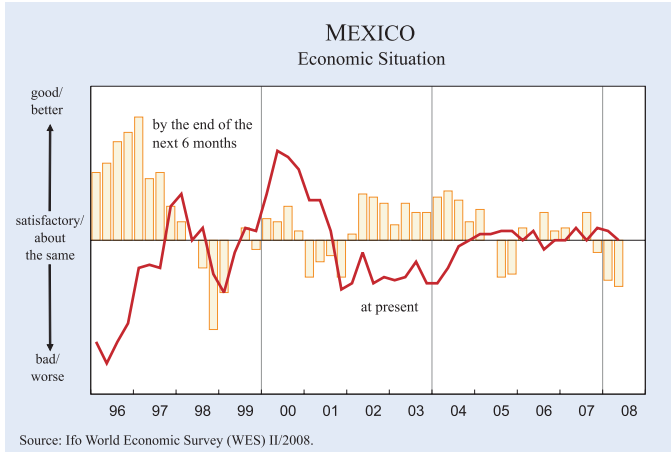
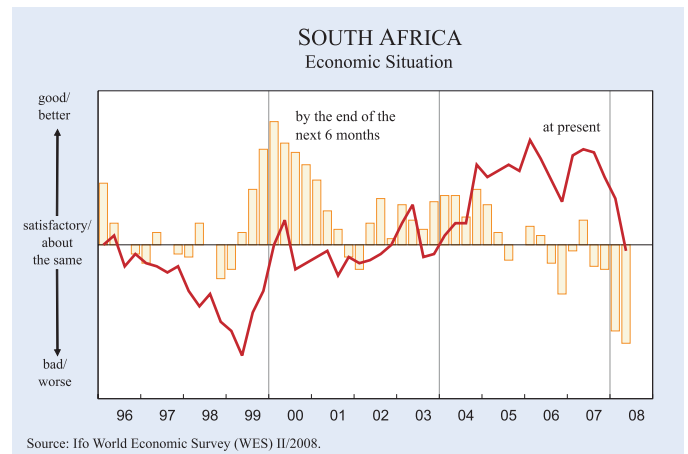
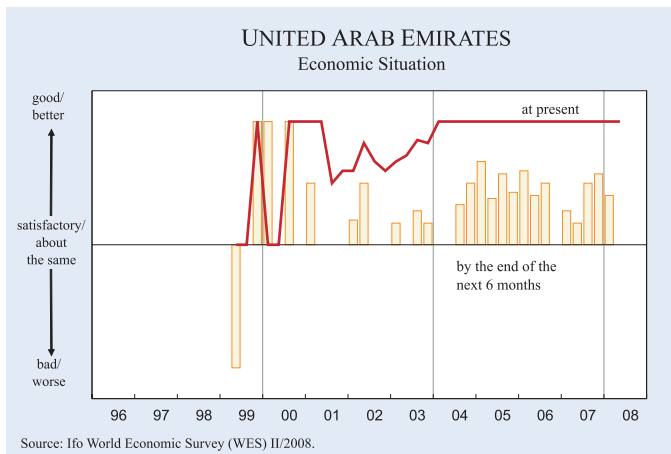
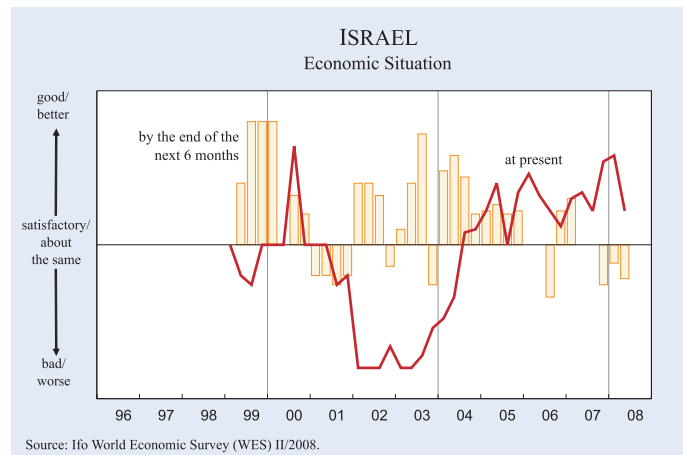
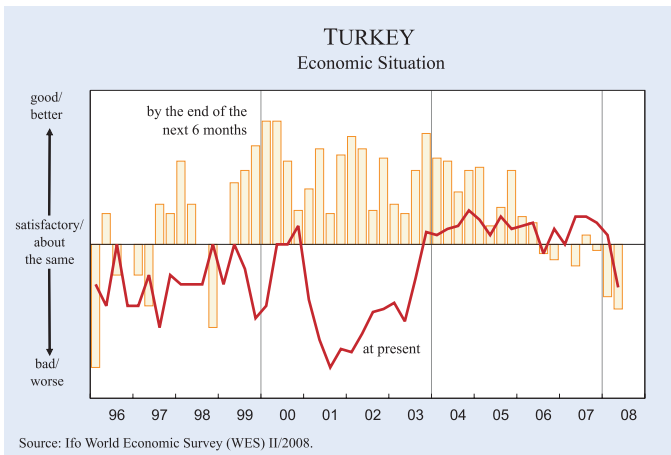
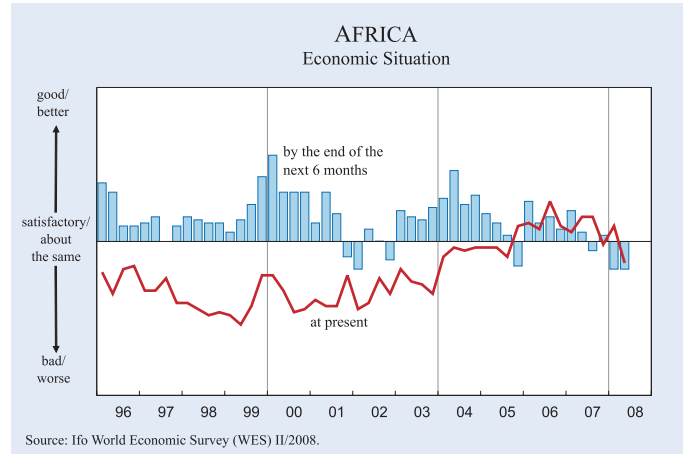
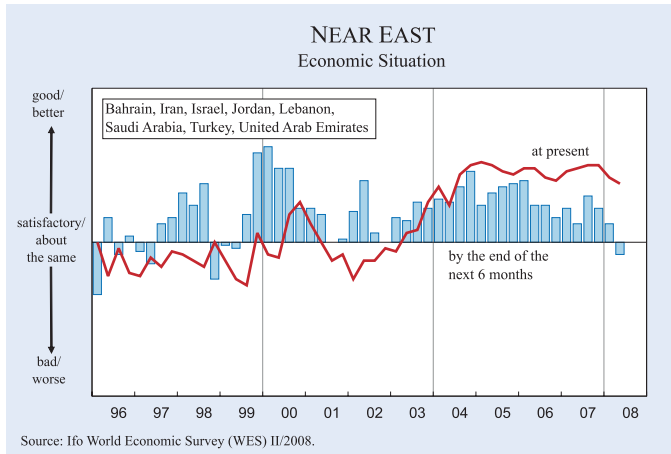


Figure 10

NEAR EAST AND AFRICA



en further in the next six months. Although high unemployment continues to prevail in the country, lack of skilled labour was named as one of the most important impediments to stronger economic growth.

Inflation in 2008: Further pick-up expected

For the average of 2008, WES experts expect on a worldwide scale an inflation rate of 4.2 percent (see Table 1); this is significantly higher than the 2007 inflation figure (3.2 percent) and the expected rate reported at the beginning of this year (3.6 percent). Inflation ranks amongst WES participants as the single most important problem facing the world economy at present. The expected acceleration of inflation is a world-wide phenomenon, with only *Oceania* as a region in the world where inflation expectations have not increased since the beginning of the year (unchanged at 3.4 percent). Inflation expectations for 2008 picked up particularly in *Asia* (from 2.9 in January 2008 to now 3.9 percent) and in the *Near East* (from 7.9 percent to now 9.3 percent).

In the *euro area* the inflation outlook for 2008 has worsened further and stands now at 2.9 percent, which is almost half a percentage point higher than at the beginning of the year and is well above the European Central Bank's narrow target of slightly below 2.0 percent. The highest inflation rates in the euro area in 2008 are expected again in *Slovenia* (5.1 percent) followed by *Cyprus* (4.5 percent) – two newcomers to the euro area – *Ireland* (4.1 percent), *Spain* (4.0 percent) and *Greece* (3.7 percent). The relatively best price performance in 2008 is expected in the *Netherlands* (2.5 percent), *Portugal* (2.6 percent) as well as *France* and *Germany* (both 2.7 percent).

In *Western Europe* outside the euro area, expectations for inflation in 2008 are – as in previous years – particularly low in *Switzerland* (1.8 percent). In the two other former low inflation countries *Sweden* and *Norway*, inflation is expected to more or less match the European average of close to 3 percent; the same holds true for the *United Kingdom*.

In the *United States* inflation expectations for 2008 jumped from 2.9 percent at the beginning of the year to 3.5 percent. On the other hand, in *Canada* the inflation outlook for this year remains moderate (2.1 percent).

In *Asia* consumer price inflation in 2008 is expected to reach 3.9 percent, a full percentage point higher than expected at the beginning of the year. The biggest jump of price expectations between the first and the second trimester happened in *China* (from 4.8 percent to now 6.4 percent), *India* (from 4.8 percent to 6.5 percent), *Vietnam* (from 10.4 percent to 15 percent) and *Pakistan* (from 8.8 percent to 10.5 percent). The lowest inflation rates in 2008 will continue to prevail in *Japan* (1.0 percent), in *Taiwan* (2.9 percent) and in *Singapore* (3.0 percent).

In *Central and Eastern Europe* inflation in 2008 is seen at 5.8 percent, which is significantly higher than the rate reported for 2007 (4.4 percent) and the one expected for 2008 at the beginning of the year (5.1 percent). The highest rate of inflation is expected again in *Latvia* (13.7 percent). Also in *Bulgaria* (9.6 percent) and *Serbia* (9.3 percent) inflation will remain relatively high. In *Lithuania* (8.1 percent), *Romania* (7.2 percent) and *Estonia* (7.1 percent) inflation expectations remain clearly above the average of the region. The relatively lowest rates of inflation will prevail in 2008, according to WES experts, in *Slovakia* (3.4 percent), *Poland* (4.4 percent) and *Croatia* (4.6 percent).

In the CIS countries inflation in 2008 will be clearly above the 10-percent-mark (11.9 percent). However, there is no uniform tendency of the expected inflation trends. In *Kazakhstan* and in *Uzbekistan* inflation expectations have slowed down somewhat since the beginning of the year (from 12.5 percent to now 10.7 percent in *Kazakhstan* and in *Uzbekistan* from 17.9 to 12.1 percent). On the other hand inflation expectations have been rising since the beginning of the year in *Russia* (from 10.7 to 11.5 percent) and in the *Ukraine* (from 14.8 to 15.4 percent).

Also in *Latin America* 2008 inflation expectations are on the rise (from 7.1 percent in January to now 7.9 percent). This was mainly caused by a few countries like *Argentina* (from 19.6 to 24.4 percent), *Venezuela* (from 24.5 to 27.0 percent) and *Costa Rica* (from 9.0 to 12.0 percent). In most of the other countries in the region the 2008 inflation outlook for 2008 remained unchanged, as in *Chile* (5.5 percent) and *Paraguay* (8.3 percent), or increased only marginally as in *Peru* (from 3.3 to 3.4 percent) and *Brazil* (from 4.5 to 4.8 percent). In *Mexico* inflation expectations for 2008 were revised slightly downwards (from 4.7 to 4.4 percent).

In the *Near East* the inflation outlook for 2008 worsened considerably (from 7.9 at the beginning of the year to now 9.3 percent). However, this is mainly due to *Saudi Arabia* (7.6 after 4.0 percent), the *United Arab Emirates* (11.5 after 9.0 percent) and *Turkey* (9.3 after 8.2 percent). On the other hand, inflation expectations were revised somewhat downwards in *Iran* (from 20.0 to 18.0 percent) and *Jordan* (from 8.5 to 5.7 percent) and remained practically unchanged in *Israel* (2.7 percent) and *Kuwait* (8.3 percent).

In Oceania inflation expectations for 2008 have not changed since the beginning of the year (3.4 percent). In *Australia* inflation expectations were lowered slightly (from 3.5 to 3.4 percent) and in *New Zealand* they were revised moderately upwards (from 3.0 to 3.3 percent).

In *Africa* an average figure does not make much sense due to the hyperinflation in *Zimbabwe*. In other *African* countries no clear inflation trend can be observed: In *South Africa* 2008 inflation expectations shot up from 7.0 at the beginning of the year to now 9.0 percent, whereas they increased only moderately in *Tunisia* (from 5.0 to 5.3 percent). In some countries inflation expectations have slowed down somewhat since the beginning of the year, so in *Kenya* (from 15.0 to 13.8 percent), in *Nigeria* (from 9.2 to 8.6 percent) and in *Algeria* (from 4.0 to 3.8 percent).

Currencies: US dollar undervalued

A growing majority of WES experts regard the *US dollar* as undervalued. The *Japanese yen* was assessed by fewer WES experts than in the previous surveys as undervalued. The *euro* appears, more than in the previous surveys, as clearly overvalued. The *British pound* after having lost in value for quite some time is now seen by WES experts as only slightly overvalued (see Figure 11).

The supplementary survey question on the likely development of the *US dollar* in the next 6 months, regardless of how currencies have been assessed from a fundamental

point of view, brought no surprise. On balance, a continuation of the declining tendency of the value of the dollar is expected in the course of the next six months. A strengthening of the own currency vis-à-vis the *US dollar* is expected particularly in *China, South Korea, Vietnam, Malaysia, Singapore, Thailand, Taiwan* and *India*. Also in most CIS countries, with the exception of the *Ukraine*, as well as in *Australia* the *US dollar* is expected to continue to lose in value. To a lesser degree this is also true in *Western* and *Eastern Europe* (here with the exception of *Romania*). Exceptions from the general trend of a weakening *US dollar* are mainly *Switzerland, Canada, New Zealand, Ukraine, Argentina, Chile, South Africa, Tunisia, Indonesia, Pakistan, Israel* and *Turkey* where the *US dollar* is expected to strengthen somewhat in coming months.

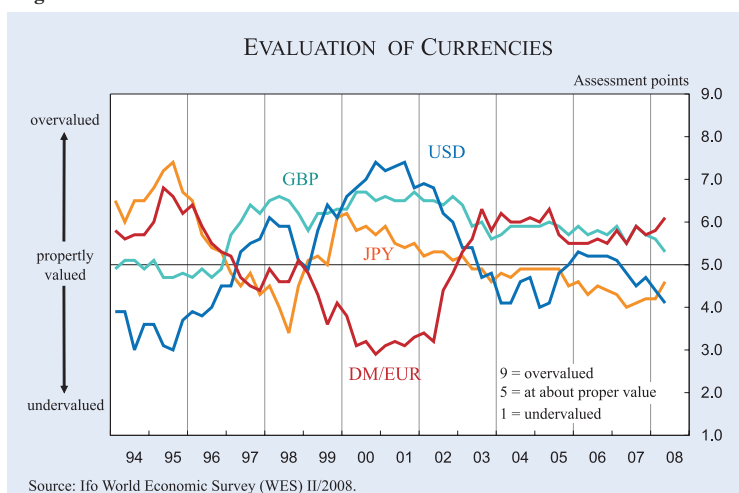
Interest rates: Further decline expected

On balance more WES experts than in the previous survey expect interest rates to decline in the course of the next six months. **Long-term interest rates** are seen to stabilize at current levels.

Roughly the same picture as the world-wide average also characterizes the *euro area*: expected decline of **short-term interest rates** and only marginal increase of long-term interest rates (see Figure 12).

In *Europe* outside the *euro area* a pronounced further decline of short-term interest rates and also a decline of long-term interest rates is expected in the

Figure 11



Source: Ifo World Economic Survey (WES) II/2008.

Figure 12

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

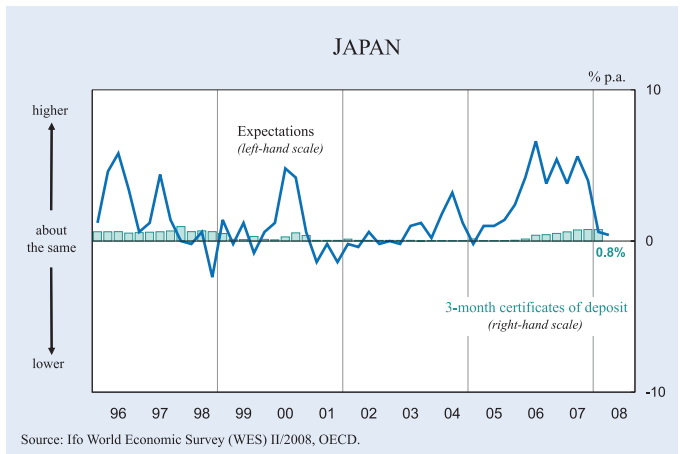
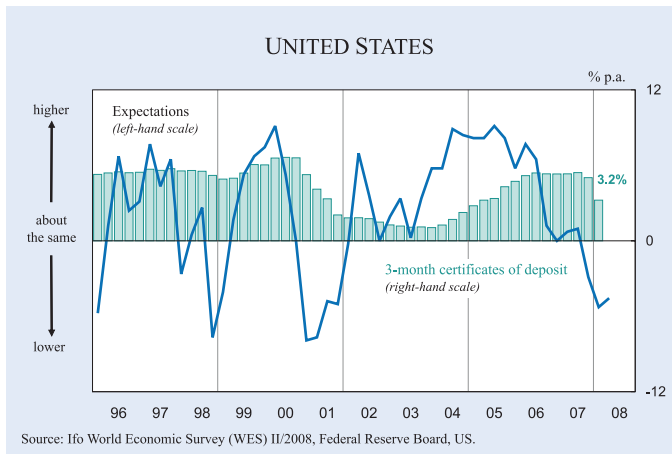
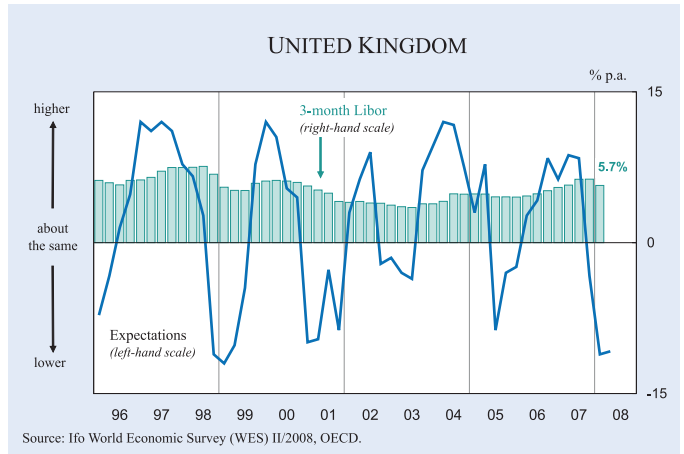
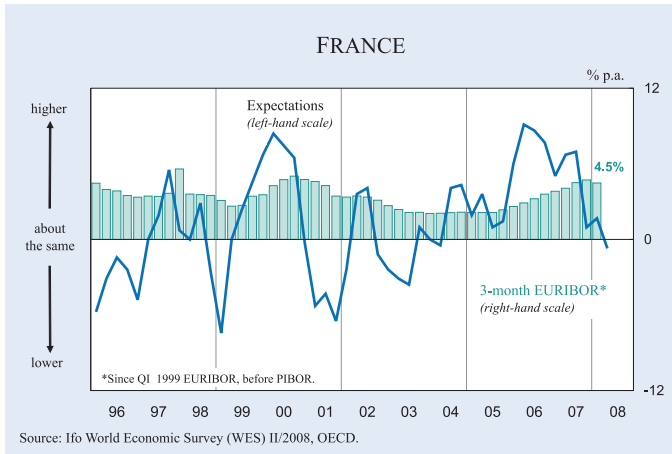
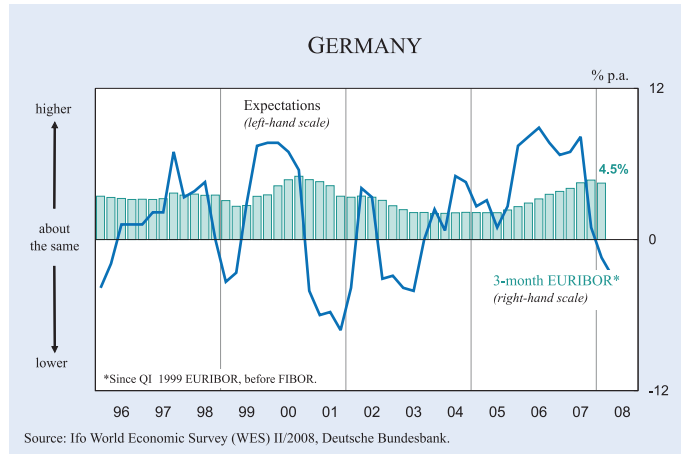
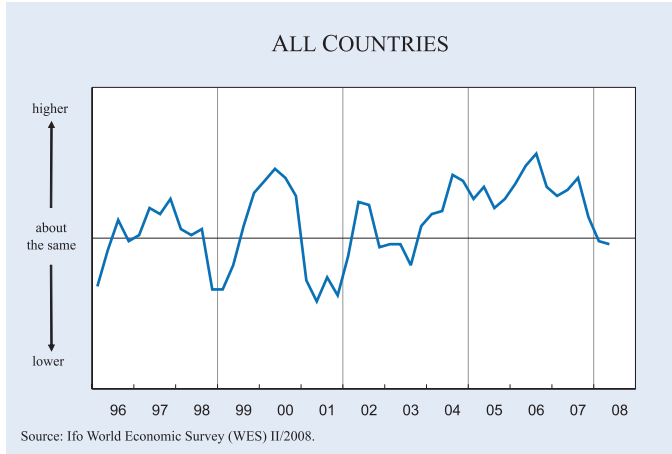


Table 2

Expected Growth of Real Gross Domestic Product (GDP) in 2008 and 2007
(based on WES QII/2008 and QII/2007)

Region	QII/2008	QII/2007	Region	QII/2008	QII/2007
Average of countries	3.0	3.5	Central a. Latin America	3.9	4.5
<i>World Bank classification:</i>			Argentina	6.6	6.8
High-income countries	2.4	2.8	Bolivia	4.0	4.3
Middle-income countries	5.1	5.4	Brazil	4.7	3.9
Upper-middle	4.7	5.3	Chile	4.4	4.8
Lower-middle	5.8	5.6	Colombia	5.3	5.5
Low-income countries	7.2	7.0	Costa Rica	4.3	5.3
EU 27 countries	2.0	2.8	Ecuador	2.9	3.3
EU countries (old members) ^{a)}	1.7	2.5	El Salvador	3.0	3.5
EU countries (new members) ^{b)}	4.8	5.4	Guatemala	4.7	3.5
Euro area ^{c)}	1.8	2.5	Mexico	2.4	3.5
Asian Pacific Rim ^{d)}	5.1	5.0	Panama	10.0	6.9
			Paraguay	5.9	4.3
			Peru	7.2	7.0
Western Europe	1.8	2.5	Trinidad and Tobago	5.0	7.0
Austria	2.0	2.7	Uruguay	6.4	5.3
Belgium	1.7	2.5	Venezuela	6.0	7.3
Cyprus	5.5	3.8			
Denmark	1.7	2.5	Asia	4.4	4.5
Finland	2.6	3.0	Bangladesh	6.3	6.4
France	1.6	2.1	China P.R.	9.6	9.4
Germany	1.7	2.2	Hong Kong	4.1	5.4
Greece	3.5	3.6	India	8.5	8.3
Iceland	1.5	2.0	Indonesia	6.2	6.1
Ireland	2.4	4.7	Japan	1.4	1.9
Italy	0.6	2.0	Korea	4.7	4.5
Luxembourg	3.8	4.4	Malaysia	5.4	5.5
Malta	3.5	3.5	Pakistan	5.5	6.7
Netherlands	2.2	2.7	Philippines	5.7	5.7
Norway	2.5	3.2	Singapore	6.0	-
Portugal	1.8	1.7	Sri Lanka	5.3	7.8
Spain	2.3	3.3	Taiwan	4.3	3.8
Sweden	1.9	3.5	Thailand	4.9	4.1
Switzerland	2.0	2.1	Vietnam	8.8	7.3
United Kingdom	1.7	2.8			
			Near East	5.7	5.3
Central a. Eastern Europe	4.8	5.4	Bahrain	-	3.5
Albania	5.9	5.0	Iran	5.0	4.8
Bulgaria	5.4	6.0	Israel	3.2	4.8
Croatia	4.0	4.2	Jordan	6.0	7.3
Czech Republic	5.0	5.4	Kuwait	6.0	4.0
Estonia	4.5	9.2	Lebanon	2.5	3.0
Hungary	2.1	2.9	Saudi Arabia	5.0	3.5
Latvia	6.1	8.8	Turkey	4.9	4.9
Lithuania	6.6	6.6	United Arab Emirates	9.4	8.5
Poland	5.2	5.8			
Romania	5.5	6.3	Africa	n.a.	n.a.
Serbia	5.8	5.5	Algeria	5.0	5.0
Slovenia	4.1	4.5	Egypt	8.0	6.0
Slovakia	7.0	8.2	Kenya	3.2	5.5
			Mauritius	5.0	5.0
CIS	6.7	6.6	Morocco	5.8	5.5
Kazakhstan	6.8	9.7	Nigeria	6.5	6.0
Kyrgyzstan	5.6	4.8	South Africa	3.6	4.8
Russia	6.9	6.6	Tunisia	6.3	5.3
Ukraine	5.2	5.4	Zimbabwe	-12.8	-6.1
North America	1.7	2.5	Oceania	3.0	3.1
Canada	1.9	2.5	Australia	3.3	3.2
USA	1.7	2.4	New Zealand	1.6	2.3

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.

^{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 (from 1. May 2004), Bulgaria and Romania (from 1. January 2007) – ^{c)} Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Slovenia (from 1. January 2007) – ^{d)} Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore Taiwan, Thailand, Vietnam.

Source: Ifo World Economic Survey (WES) II/2008 and II/2007.

United Kingdom and to a lesser degree also in *Sweden*. In *Denmark*, in contrast, both types of interest rates are expected to rise somewhat in the course of the next six months. Also in *Norway* interest rates are expected to increase further, though at a slower rate than in the recent past.

In the *USA* the period of aggressive cuts of short-term interest rates is expected to be followed by a somewhat slower pace of the downward trend of both types of interest rates. In *Canada* a clear downward trend of interest rates will persist according to WES experts also the course of the next six months.

In *Eastern Europe* the upward trend of short and long-term interest rates is expected to continue in coming months, with the exception of *Slovakia*, where renewed cuts of the policy rate are expected in the second half of the year. In *Hungary*, for the first time since the end of 2006 an increase of interest rates (both short and long) is foreseen by WES experts.

Also in *CIS* countries, particularly in *Russia*, the upward trend of interest rates will continue in coming months according to WES experts' view.

In *Latin America* more WES experts than in the previous surveys since the end of 2004 expect short- and long-term interest rates to increase in coming six months. However, there are strong differences between countries: In *Chile* more or less stable interest rates are expected in coming months after they had increased in 2007. In *Brazil* the long-lasting downward trend of interest rates has come to an end and has been replaced by an increase of short-term and to a lesser degree also long-term interest rates. Also in *Argentina* and *Venezuela* short-term interest rates are expected to be hiked further in the next six months and also long-term interest rates are seen as increasing further.

In *Asia* the upward trend of interest rates, according to WES experts' views, will slow down further in the next six months and come almost to a standstill. The situation in the individual countries is not uniform, however: Further increases of short-term rates are expected in *China*, *Taiwan* and for the first time in years also in *India*, *Indonesia* and the *Philippines*. More or less stable interest rates are expected to prevail in *Japan* and *South Korea*. In

Table 3

The Impact of a Successful Doha Round of Trade Negotiations on the Global Economy

Very positive and noticeable impact	
Hong Kong	8.0
Uruguay	7.5
Romania	7.3
Australia	7.3
China	7.0
Rather positive impact	
Norway	6.8
Paraguay	6.6
United Arab Emirates	6.6
Lithuania	6.6
Bolivia	6.5
Malaysia	6.5
Philippines	6.4
Chile	6.4
Denmark	6.3
Serbia-Montenegro	6.3
Hungary	6.3
Colombia	6.3
Peru	6.3
Taiwan	6.3
Italy	6.3
United Kingdom	6.2
Sweden	6.2
Brazil	6.2
South Korea	6.1
Thailand	6.1
Bulgaria	6.1
Kyrgyzstan	6.0
Belgium	6.0
South Africa	6.0
Greece	5.9
Portugal	5.9
India	5.9
Finland	5.9
Spain	5.9
Switzerland	5.8
Venezuela	5.7
Ecuador	5.7
Albania	5.7
Indonesia	5.7
United States	5.7
Turkey	5.6
Russia	5.6
Mexico	5.5
Japan	5.5
Zimbabwe	5.4
Slovenia	5.4
Germany	5.4
Croatia	5.3
New Zealand	5.3
Ireland	5.3
Austria	5.2
Slovakia	5.2
Canada	5.2
Netherlands	5.1
Argentina	5.0
Czech Republic	5.0
France	5.0
Pakistan	4.8
Poland	4.8
Israel	4.7
Rather small impact	
Latvia	3.9
Saudi Arabia	3.0

Only countries with more than 3 responses have been included into the analysis.
WES scale: 9 – Very positive and noticeable impact; 7 – Positive impact; 3 – Rather small impact; 1 – No impact on the global economy.

Source: Ifo World Economic Survey II/2008.

Singapore, Malaysia, Thailand and Hong Kong interest rates are expected to decline in coming months.

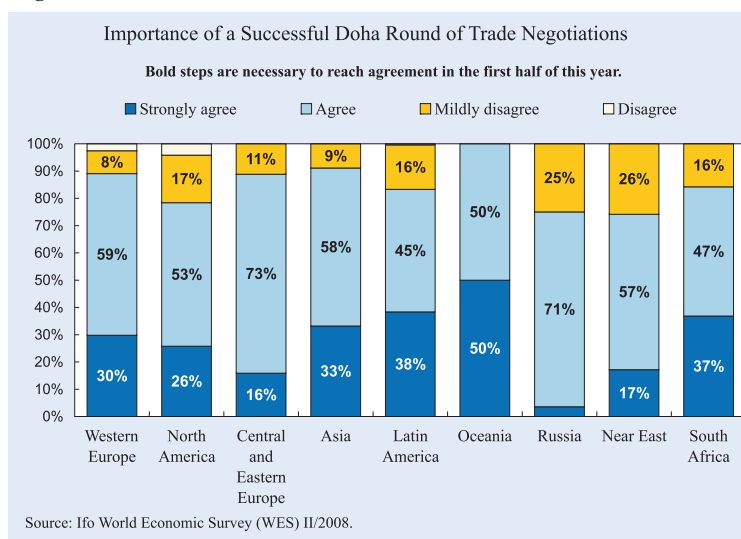
Weaker growth expected in 2008 than at the same time last year for 2007

In a worldwide average, economic growth¹ is expected to reach 3.0 percent this year (see Table 2), which would be markedly lower than the figure expected by WES experts a year ago (3.5 percent). Lower growth rates than at the same time last year are expected mainly in *North America* (1.7 compared to 2.5 percent in May 2007), in *Western Europe* (1.8 compared to 2.5 percent), in *Central and Eastern Europe* (4.8 compared to 5.4 percent), *Central and Latin America* (3.9 compared to 4.5 percent). In contrast, roughly unchanged growth perspectives are seen by WES experts in *CIS countries* (6.7 compared to 6.6 percent) as well as in *Asia* (4.4 compared to 4.5 percent) and in *Oceania* (3.0 compared to 3.1 percent). Even a stronger growth performance than last year is expected for the *Near East* (5.7 compared to 5.3 percent), however, only in the oil producing countries like the *United Arab Emirates* (9.4 compared to 8.5 percent), *Saudi Arabia* (5.0 compared to 3.5 percent) and *Kuwait* (6.0 compared to 4.0 percent). In most other countries in the region covered by WES (*Israel, Jordan and Lebanon*) lower growth rates than last year are expected for 2008. Both in *Turkey* and *Iran* roughly an unchanged growth rate of about 5 percent is expected also for 2008.

ICC special question: Doha Round of trade negotiations

The Doha Development Agenda negotiations failed and have been suspended without any new timetable because of wide gaps between key players. The special question in this survey aimed at pointing out the likely impact of a successfully concluded Doha Round on

Figure 13



the global economy. It has been frequently said that the Doha Round of trade negotiations has not been concluded due to a lack of political will. Economic experts in over 80 countries were also asked whether they expect leaders of the G8 nations and major emerging economies to take bold steps to reach an agreement in the first half of this year.

In the vast majority of countries (see Table 3) the surveyed economists stated that a successfully concluded Doha Round will have a positive or even very positive and noticeable impact (*Hong Kong, Uruguay, Romania, Australia, China*) on the global economy.

At the G8 Hokkaido Toyako Summit in July world leaders will discuss the world economy, environmental concerns, African development and other issues. The surveyed WES experts were asked whether a successful conclusion of the Doha Round should be made to one of the pressing issues. The vast majority of surveyed WES experts polled in over 80 countries agree that the G8 leaders should make it a priority that the trade negotiations make a considerable progress towards a successful conclusion in 2008 (see Figure 13). The share of experts who strongly recommend that the leaders of the G8 nations and major emerging economies take bold steps to reach an agreement in the first half of this year is particularly high in *Oceania* (*Australia and New Zealand*), *Latin America* and *Asia*. These results show that the surveyed WES experts emphasize the potential of an improved market access to promote economic development and poverty alleviation particularly in regions with emerging and developing economies.

¹ 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.

Online information services of the CESifo Group, Munich



The Ifo Newsletter is a free service of the Ifo Institute and is sent by e-mail every month. It informs you (in German) about new research results, important publications, selected events, personal news, upcoming dates and many more items from the Ifo Institute. If you wish to subscribe to the Ifo Newsletter, please e-mail us at: newsletter@ifo.de.



CESifo publishes about 20 working papers monthly with research results of its worldwide academic network. The CESifo Newsletter presents selected working papers (in English) in an easily understandable style with the goal of making its research output accessible to a broader public. If you wish to subscribe to the CESifo Newsletter, please e-mail us at: saavedra@cesifo.de.

If you wish to receive our current press releases, please e-mail us at: presseabteilung@ifo.de.

You can also request these services by fax:

Ifo Institute for Economic Research, fax: (089) 9224-1267

Please include me in your mailing list for:

- Ifo Newsletter CESifo Newsletter Ifo Press Releases

Name:
Institution:
Street:
City:
Telephone:
Fax:
E-mail:



Additional CESifo Journals

