CESifo, a joint initiative of the University of Munich's Center for Economic Studies and the Ifo Institute for Economic Research

CESifo World Economic Survey

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February 2011

World Economic Climate

World Economic Climate brightens

Economic Expectations

Economic expectations again predominantly positive

Inflation

Inflation picks up

Currencies

Euro and yen continue to be seen as somewhat overvalued

Interest Rates

Short- and long-term interest rates expected to rise

Special Topic

Currency wars and protectionism

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CESifo

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Ifo World Economic Survey

Regions

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- Western Europe: Economic expectations upgraded
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- Eastern Europe: Lack of momentum
- CIS: Moderate economic climate
- Asia: Economic climate considerably better
- Oceania: Positive outlook despite natural disasters
- Latin America: Positive economic climate prevails
- Near East: Favourable economic climate persists
- Africa: No clear economic trend

The survey is jointly conducted by the Ifo Institute and the Paris-based International Chamber of Commerce (ICC).

Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide on current economic developments in their respective countries. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In *January 2011, 1,117* economic experts in *119* 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: assessments of a country's general economic situation and expectations regarding important economic indicators. It has proved to be a useful tool, since it reveals economic changes earlier than conventional 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. Overall 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-Maximilian University, Munich. Its research, concentrating on public finance, includes many diverse areas of economics.

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

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

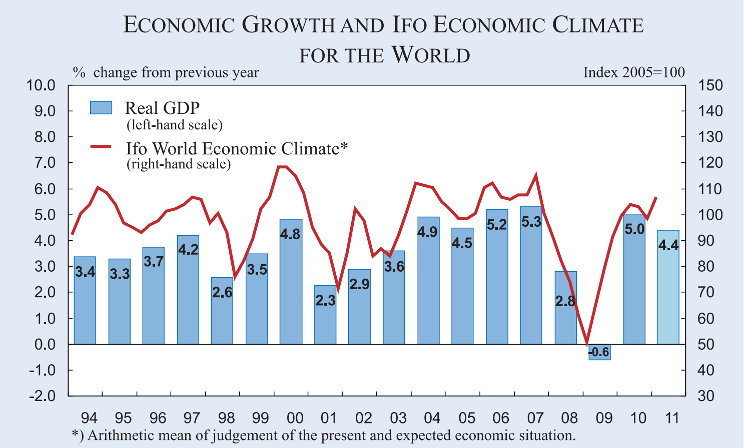
World Economic Climate Brightens

The Ifo World Economic Climate has improved in the first quarter of 2011. After a slight decline in the autumn of 2010 the indicator has now jumped to its highest level since the end of 2007 (see Figure 1). With a value of currently 106.8, the indicator is now clearly above its long-term average (1995–2010: 96.9). The rise in the world economic climate indicator is the result of more favourable assessments of both the current situation as well as the six-month outlook (see Figure 2). The results indicate that world economic activity, after a slight dampening at the end of last year, is picking up again. This is also shown by the business-cycle clock (see Box 1). Behind the scenes the growth pattern has gradually shifted, though.

Growth pattern changes, inflation concerns mount

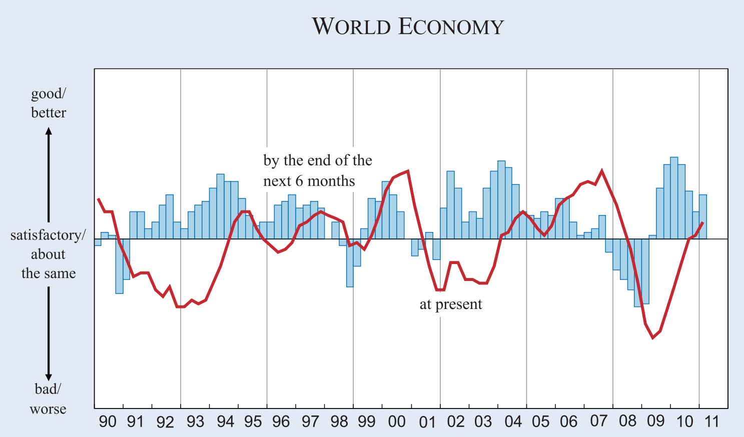
The driving forces behind the rise of the world economic indicator changed and moved partially away from the *BRIC* countries (the famous acronym for *Brazil, Russia, India* and *China*). The world economic climate indicator has risen sharply in *North America* to reach its highest level since the end of 2007. Also in *Western Europe* the climate improved somewhat, after a weakening in the second half year, but not as significantly as in *North America* (see Figure 3). Within the *euro zone* the climate brightened, pointing to slightly fading concerns about the debt crisis. In *Asia* the indicator has risen but remains below the level of the third quarter of 2010. Moreover, a very interesting pattern is visible in *Asia*. In *China* – a main growth engine in the region so far – the indicator has risen only slightly. In *India* the climate has even worsened. Thus, this time the improved economic climate in *Asia* is attributable mainly other countries like *Indonesia, Hong Kong* and *Japan*. If this were the beginning of a more broad-based growth pattern in *Asia*, it would be a step towards more sustainable growth in that region. In *Latin America* the World Economic Climate remains unchanged in the first quarter of 2011, though the indicator decreased very slightly in *Brazil* and also in *Argentina*. In *Russia* – the fourth member of *BRIC* – the economic climate remained fairly much the same.

Figure 1



*) Arithmetic mean of judgement of the present and expected economic situation.
Sources: IMF, World Economic Outlook October - Update January; Ifo World Economic Survey (WES) I/2011.

Figure 2



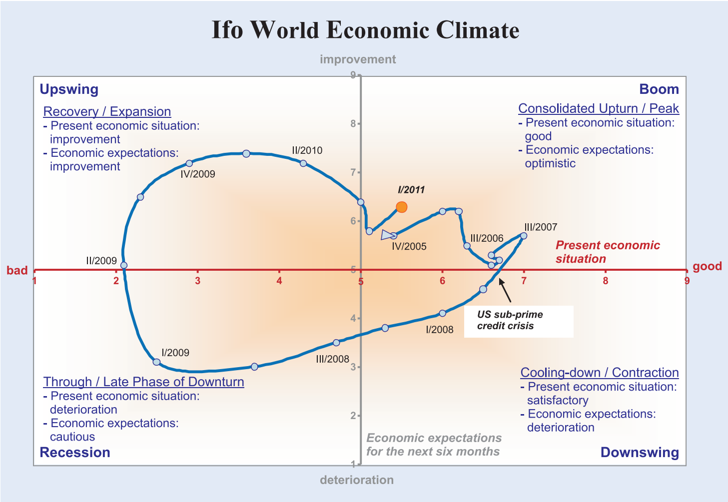
Source: Ifo World Economic Survey (WES) I/2011.

Box 1

Ifo Economic Clock and the Ifo World Economic Climate

For a global, medium-term forecast a look at the Ifo Economic Clock that shows the development of the two components of the economic climate index over the last six years visualizes the trend. The business cycle typically proceeds clockwise in a circular fashion with the expectations leading assessments of the present situation.

After the slight decline in the fourth quarter of 2010, the Ifo indicator for the world economic climate has risen markedly. The rise in the world economic climate indicator is the result of more favourable assessments of both the current situation as well as the six-month outlook. The results indicate that world economic activity, after a slight dampening at the end of last year, is picking up again. The new value of the indicator is now positioned more clearly than after the preceding survey in the "consolidated upturn" quadrant.



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).

All in all the Ifo World Economic Climate in the first quarter 2011 points to a growth pattern distributed more broadly regionally than in the previous year. The dependency of the world economy on the *BRIC* countries has slightly faded.

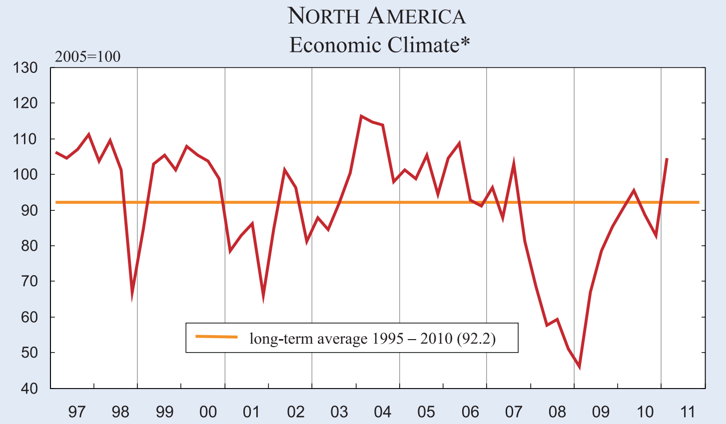
In nearly all countries, the price expectations moved upwards, though. This was especially marked in *Asia*, above all in *China* and *Vietnam*. In *North America* and *Western Europe*, an increase in prices of 2.0 percent is anticipated for 2011, after forecasts of 1.6 percent and 1.8 percent respectively for 2010. On average for the world, a price increase of 3.4 percent is expected for 2011, in comparison to 3.1 percent for the previous year. World-wide the prices are mostly driven by oil and other commodities like copper, partly reflecting stronger growth prospects of the world economy. In addition food prices, especially sugar and cereals, are rising sharply. Also prices for spices, especially important in *India* and some other parts of *Asia*, have surged. These price hikes are partly driven by one-time effects like bad weather, though.

Political riots in the *Maghreb* countries and *Egypt* as well as possible further political instabilities in the *Arabic* world are on the political agenda. The economic effects of these developments are minor at the moment. The contribution of *Tunisia* and *Egypt* to world trade is not large. Some worries remain over the situation at the Suez Canal, which is an important waterway for oil from the *Middle East* and container shipping from *China*. However, the main economic risk might be a change in the mood of global investors regarding their risk perception of emerging economies in general. Inflation worries and uncertainty about the political stability could be a bad mixture in the eyes of global investors. A strong change in the risk assessments could trigger a change in the direction of capital flows. At the moment it seems that international investors are mostly remaining "faithful" to emerging economies, though.

Western Europe: Economic expectations upgraded

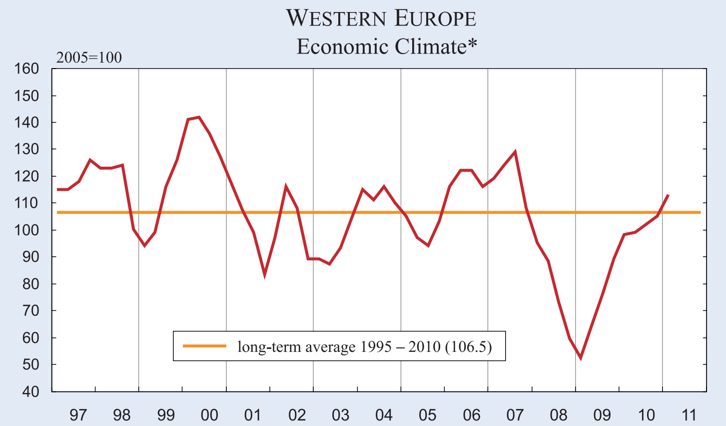
The economic climate indicator for *Western Europe* rose further in January 2011 (see Figure 3). In comparison to the previous survey in October, this time not only the assessments of the present situation but also the economic expectations for the next six months both improved (see Figure 4).

Figure 3



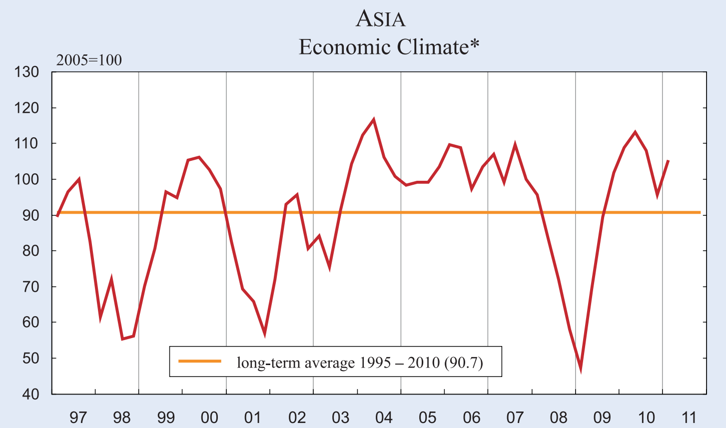
*) Arithmetic mean of judgement about the present and expected economic situation.

Source: Ifo World Economic Survey (WES) I/2011.



*) Arithmetic mean of judgement about the present and expected economic situation.

Source: Ifo World Economic Survey (WES) I/2011.



*) Arithmetic mean of judgement about the present and expected economic situation.

Source: Ifo World Economic Survey (WES) I/2011.

The same pattern of economic climate applies to the *euro* countries (see Box 2). However, huge differences still prevail within the *euro zone*. While *Germany* appears to be very close to a self-sustaining upswing after the economic crisis in 2009, the peripheral countries are still struggling with huge economic problems. According to the latest WES results, the current economic situation is judged as good in *Germany* and *Austria* and as satisfactory in *Belgium, Finland, Luxembourg, Netherlands* and *Slovakia*. In most of these countries the expectations for the coming six months remain fairly confident though in *Austria* and *Luxembourg* WES experts have become somewhat cautious on the economic development in coming months. In *France, Italy, Slovenia* and also *Estonia*, the new *euro* currency country, the present situation improved somewhat but is still regarded as not yet satisfactory. The same applies to *Cyprus*, where the assessments of the present situation deteriorated considerably over the survey in October. Here the close economic links to *Greece* probably had a negative impact. However, the expectations for the next six months in all these countries are positive. In contrast, for the peripheral countries of the *euro zone* – *Greece, Ireland, Portugal* and *Spain* – WES experts assess the present situation as still very bad. *Greece* and *Spain* even received the lowest marks on the WES scale. In all these countries both capital expenditures and private consumption are not only currently assessed as strongly weak but are expected to remain subdued in coming months. In contrast to *Greece* and *Portugal* the WES experts in *Ireland* are fairly confident regarding the economic situation in the next six months; particularly the export sector is expected to strengthen in coming months.

Outside the *euro area*, a favourable economic climate still prevails in *Norway, Sweden* and *Switzerland*. In these countries both the assessments of the present situation and the expectations for the next six months improved further. Especially in *Norway* the assessments of the current economic situation have been upgraded considerably and are

Box 2

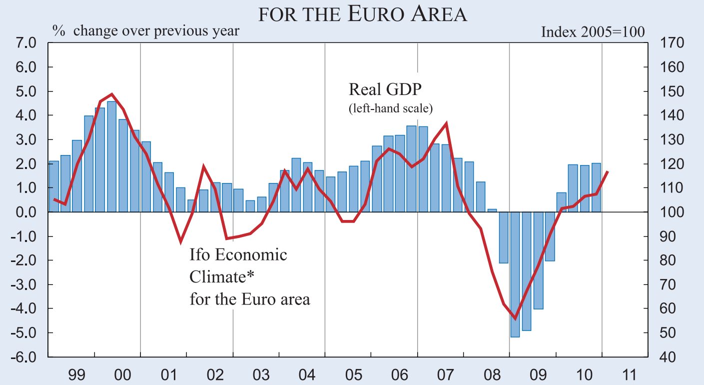
World Economic Survey (WES) and GDP Growth in the Euro Area

The Ifo World Economic Climate for the 17 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 283 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* has risen clearly in the first quarter, surpassing its long-term average for the first time since the end of 2007. Especially the current economic situation, but also the expectations for the coming six months have been assessed more favourably than in the fourth quarter of 2010. These results indicate that the economic upswing will continue in the coming half year for the *euro area* on the whole, with however considerable differences among the individual member states.

The current economic situation is assessed as very favourable in *Germany* and *Austria*. In *Belgium*, *Slovakia*, *Finland*, the *Netherlands* and *Luxembourg* the situation is satisfactory. The economic situation in *France*, *Italy* and *Estonia* improved somewhat in comparison to the previous quarter but still remains unfavourable, in the opinion of the WES experts. In the peripheral *euro* countries of *Greece*, *Ireland*, *Spain* and *Portugal*, the economic experts continue to assess the current economic situation as very weak. The expectations for the coming six months in the *euro area* are confident on the whole. Only in *Greece* and *Portugal* do the experts foresee a further worsening of the economic situation.

ECONOMIC GROWTH AND IFO ECONOMIC CLIMATE FOR THE EURO AREA



*) Arithmetic mean of judgement of the present and expected economic situation.

Sources: Eurostat, Ifo World Economic Survey (WES) I/2011.

North America: Economic climate improves considerably

The economic climate indicator in *North America* rose for the first time since May 2010 and climbed above its long-term average (see Figure 3). Both the present situation and economic expectations considerably improved (see Figure 4). In the *United States* the assessments of the present economic situation markedly brightened up and are now considered as satisfactory (see Figure 6). The economic expectations have been also upgraded and the surveyed experts are now fairly optimistic for the next six months. Exports, capital expenditures and private consumption are expected to strengthen. These results indicate that the recovery in the *US* has gained momentum and a "double-dip", i.e. a renewed economic downturn, appears rather unlikely according to the WES experts.

In *Canada*, the economic experts continue to assess the current situation as favourable, even to a higher degree over the previous survey. The economic expectations have been considerably revised upwards and are now seen as positive for the next six months.

now seen as very good. In contrast, in *Denmark* the present economic situation has been downgraded by the WES experts and is now assessed as unfavourable. Although in the *United Kingdom* the judgements on the present economic situation have been upgraded slightly, they still remain unfavourable. In *Iceland* the present situation is assessed again with the lowest marks on the WES scale. The economic expectations for the next six months remain positive in *Denmark*, the *United Kingdom* and *Iceland*, although to a lesser degree in the *UK* and *Iceland* over the previous survey.

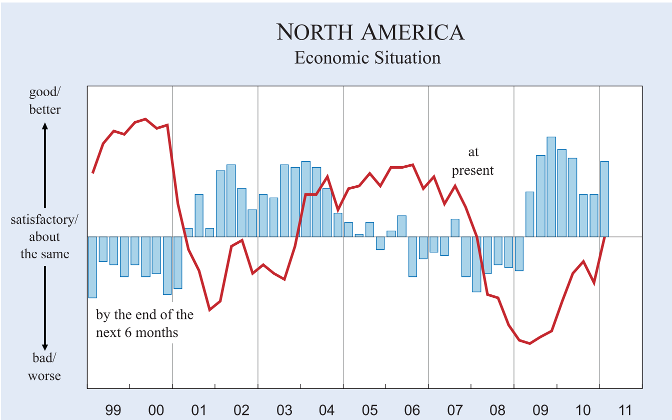
Central and Eastern Europe: Lack of momentum

The economic climate indicator in *Central and Eastern Europe* has not changed over the previous survey. While the present situation improved somewhat, the economic expectations have been downgraded in return (see Figure 4 and Figure 7). The economic recovery in many countries of this region still remains subdued.

Amongst the *EU* member countries in the region the relatively best economic performance is again

Figure 4

Selected Regions



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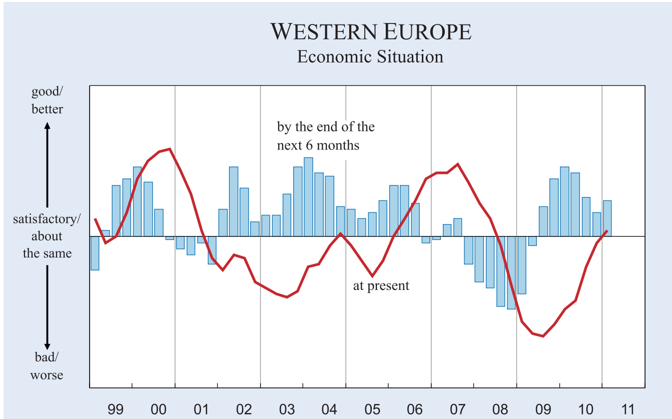
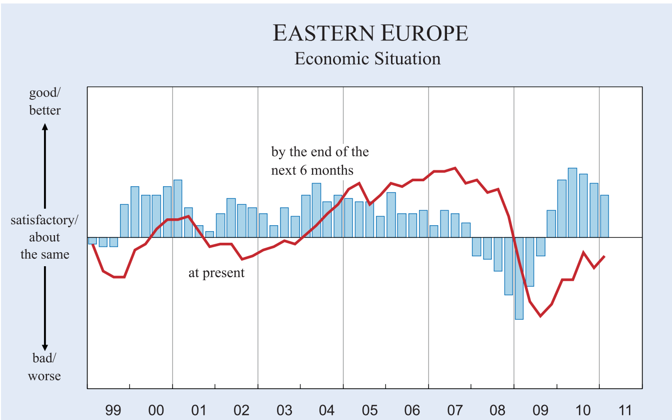


Source: Ifo World Economic Survey (WES) I/2011.



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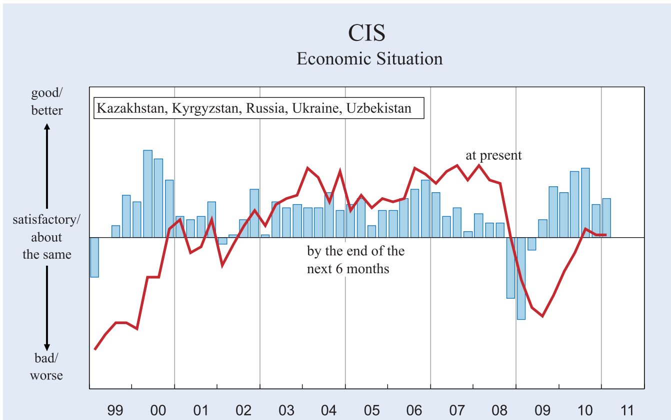

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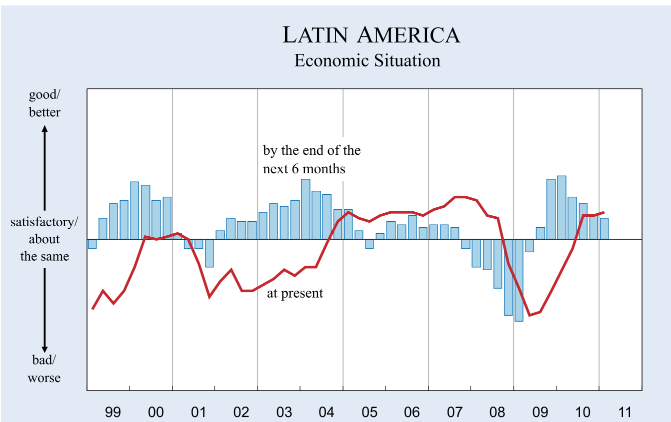

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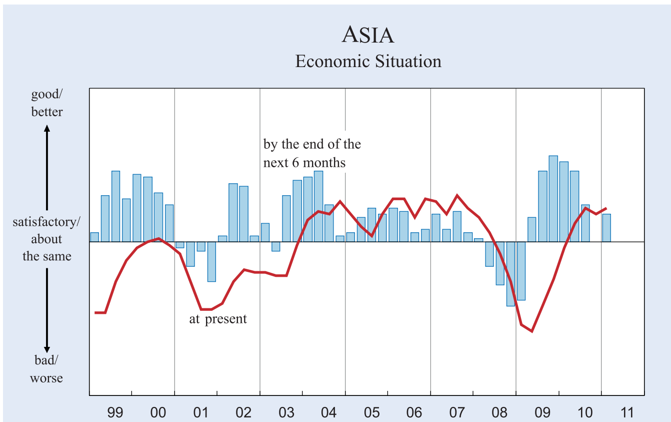


Source: Ifo World Economic Survey (WES) I/2011.

reported from WES experts in *Poland* and the *Czech Republic*. The current economic situation has been assessed as satisfactory again, even to a higher degree than in the October survey. The expectations for the next six months for both countries are positive, although in *Poland* to a considerably lesser degree over the survey last year. In contrast, in *Bulgaria, Hungary, Latvia* and *Lithuania* the assessments of the present economic situation still remain weak according to the WES experts. The outlook for the coming six months has been revised slightly downwards by the economic experts in *Latvia* and *Lithuania*, and even considerably so in *Hungary* but remains in positive territory in all these countries. In *Romania* the present economic situation improved somewhat, but is still assessed as very bad. However, some further recovery is expected in the course of the first half of 2011.

In the *non-EU* countries of the region (*Albania, Croatia* and *Serbia*) the economic climate indicator declined somewhat in *Albania* and *Serbia*, but rose slightly in *Croatia*. The assessments of the present situation in *Croatia* and *Serbia* still remain unchanged at very low levels. Still the economic expectations for the coming six months in *Croatia* and *Serbia* remain positive, although in *Serbia* the WES experts downgraded their expectations considerably. According to WES experts' expectations capital expenditures and private consumption will stay subdued in *Serbia* but pick up somewhat in *Croatia*. In *Albania* where the economic situation deteriorated considerably in past months and is now seen as unfavourable, the economic outlook improved somewhat and remains positive.

CIS: Moderate economic climate

The overall economic climate index for *CIS* countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan* and *Uzbekistan*) remains nearly unchanged in comparison to the previous survey. The WES experts in this region assessed the present situation as satisfactory and remain optimistic regarding the economic expectations for the next half of the year (see Figure 4).

This pattern particularly applies to *Russia*. The assessments of the present economic situation improved marginally and are still on the "satisfactory" level. The expectations for the next six months are unchanged over the previous survey and remain positive (see Figure 6). Capital expenditures, private consumption and the export sector are expected to strengthen further in the course of the next six months. Also the WES experts in *Georgia* assess the present economic situation as satisfactory and retain their positive economic outlook for the coming six months. According to WES experts, the current economic situation in *Kazakhstan* is regarded as favourable, although to a lesser degree than in the previous survey. In contrast, the expectations for the coming six months have been upgraded somewhat and are now fairly confident. In *Uzbekistan* both assessments on the present situation and expectations for the next six months have been upgraded. Now a favourable climate prevails with an optimistic economic outlook for the next half of the year. This is not the case in *Kyrgyzstan* and the *Ukraine*: In both countries the economic climate remains unfavourable and will only marginally improve in the coming six months in the *Ukraine*; in *Kyrgyzstan* according to WES experts there is no sign of recovery in coming six months.

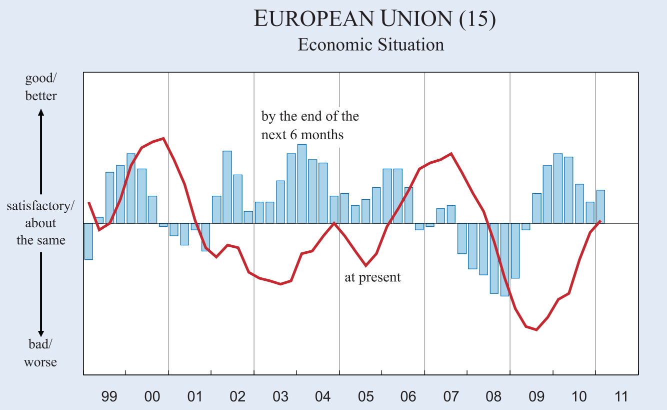
Asia: Economic climate considerably better

In *Asia* the economic climate indicator rose again after two succeeding periods of deterioration mainly caused by an improvement of economic expectations in the majority of all surveyed *Asian* countries. But also the assessments of the current economic situation picked up somewhat (see Figures 3, 4 and 8).

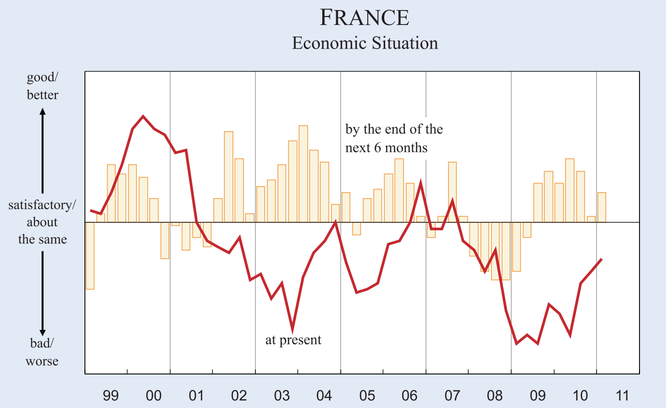
The current state of the economy is assessed as highly favourable in *South Korea, Singapore* and the *Philippines*. Especially in *South Korea* these assessments have been upgraded over the previous survey. The economic outlook for the coming six months remains positive in all these countries, although in *South Korea* and the *Philippines* to a lesser degree than in the previous survey. A very good economic situation – according to WES experts – prevails also in *India, Taiwan* and *Thailand*. The economic expectations for the next half of the year are still seen as positive, except in *Thailand* where the WES experts have now a more cautious view on the economic future. In *Bangladesh, Hong Kong, Malaysia* and *Sri Lanka* the present economic situation is assessed as favourable according to the latest WES results. The economic outlook for the coming six months has been upgraded, even considerably in *Hong Kong*, and is now forecasted as fairly confident in all these countries. On the other hand, in *Vietnam* the assess-

Figure 5a

European Union



Source: Ifo World Economic Survey (WES) I/2011.



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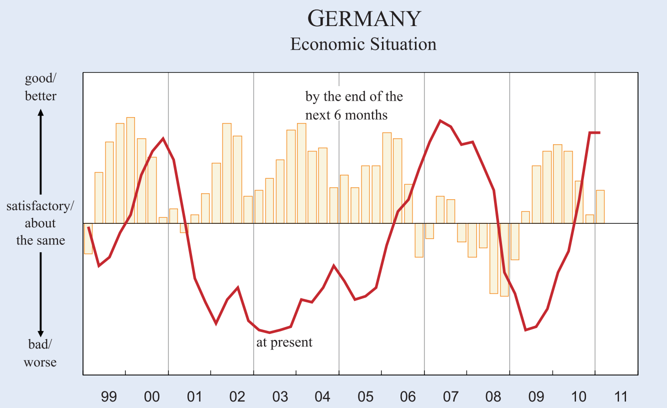

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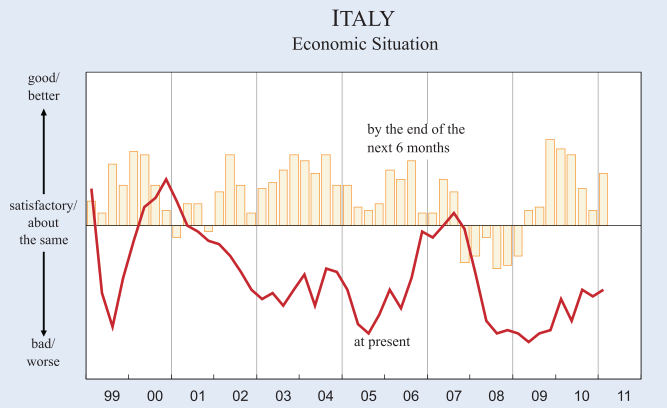

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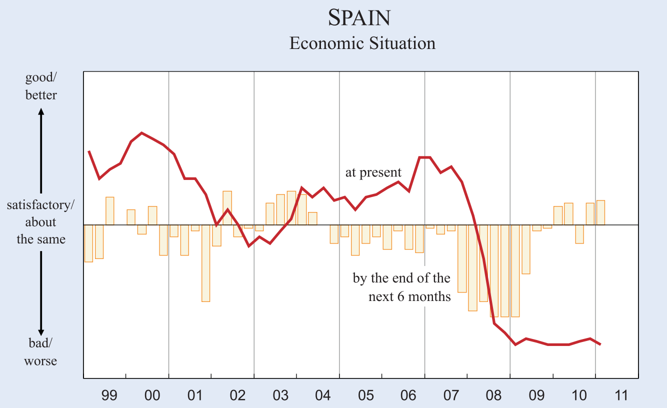

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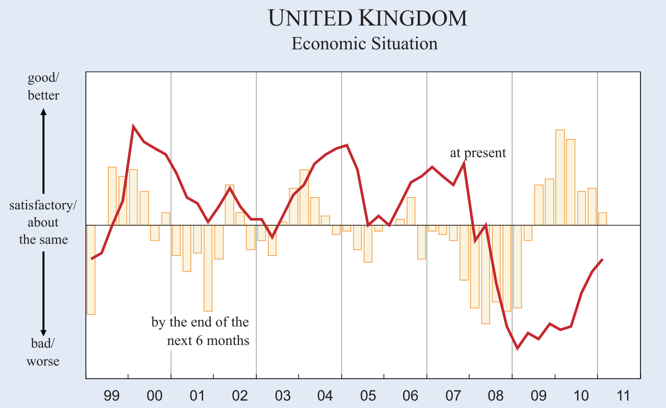

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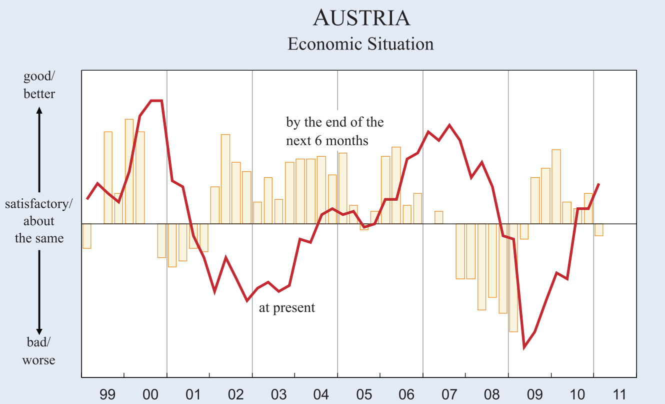
Figure 5b

European Union



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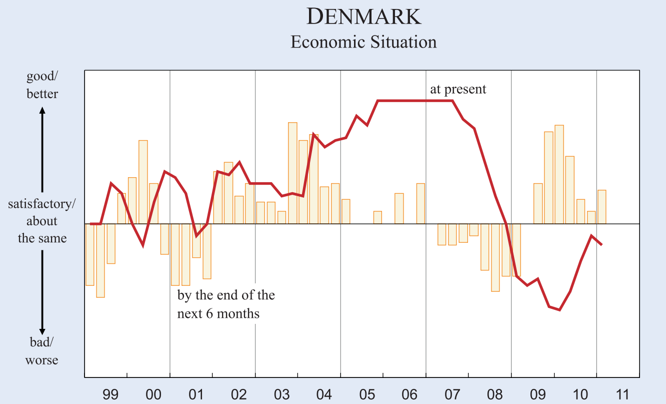

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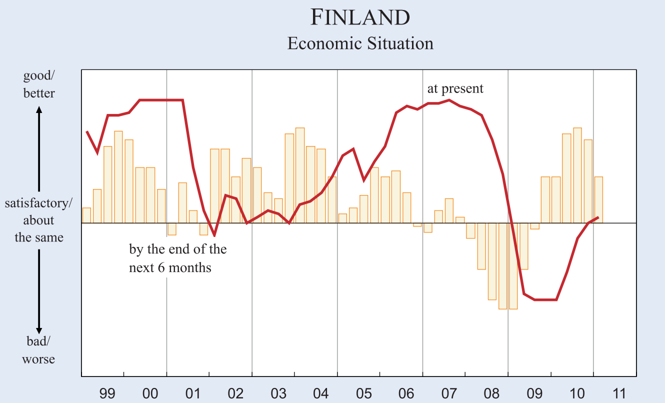

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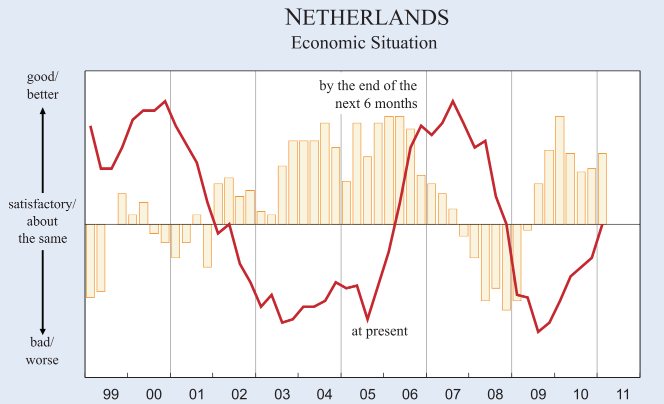

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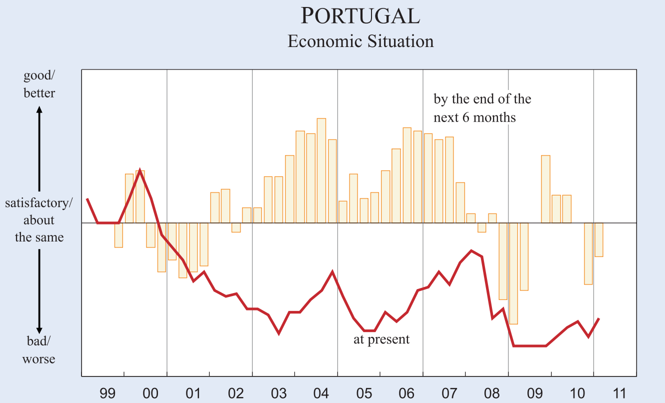

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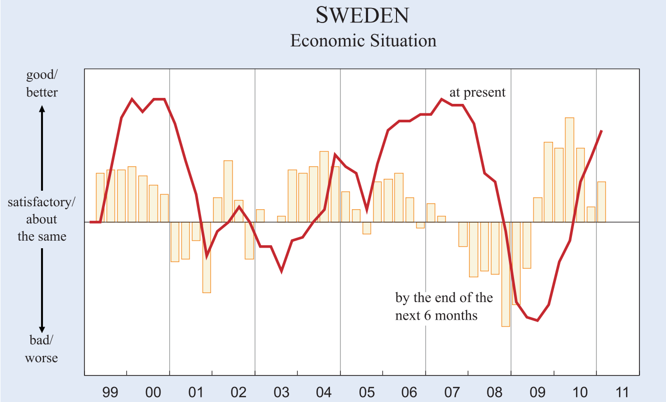
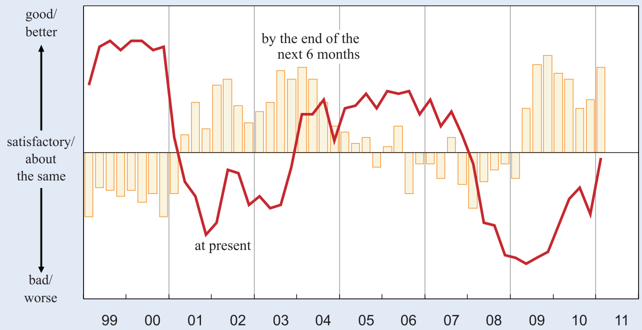


Source: Ifo World Economic Survey (WES) I/2011.

Figure 6

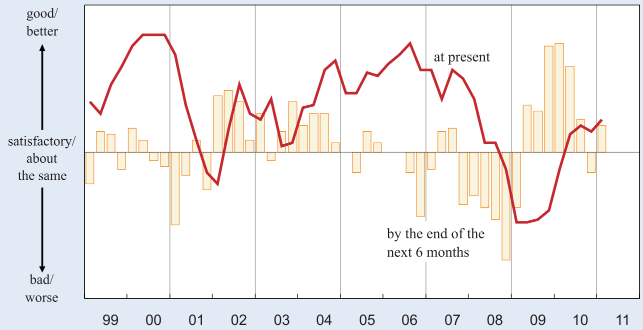
North America, Oceania and CIS

USA
Economic Situation



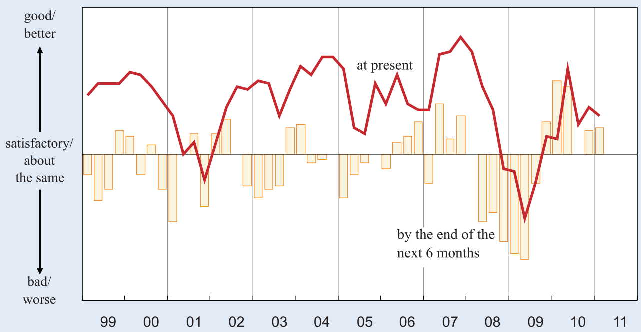
Source: Ifo World Economic Survey (WES) I/2011.

Canada
Economic Situation



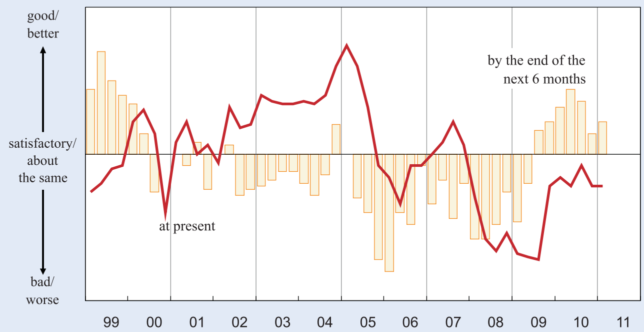
Source: Ifo World Economic Survey (WES) I/2011.

Australia
Economic Situation



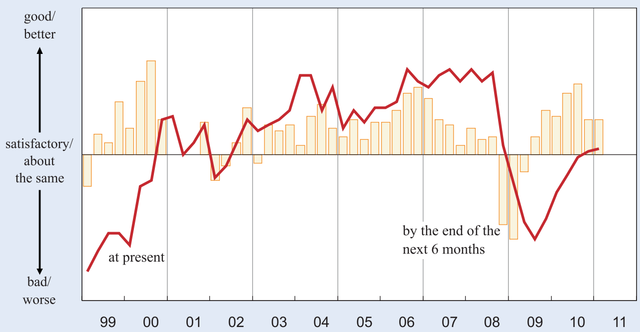
Source: Ifo World Economic Survey (WES) I/2011.

New Zealand
Economic Situation



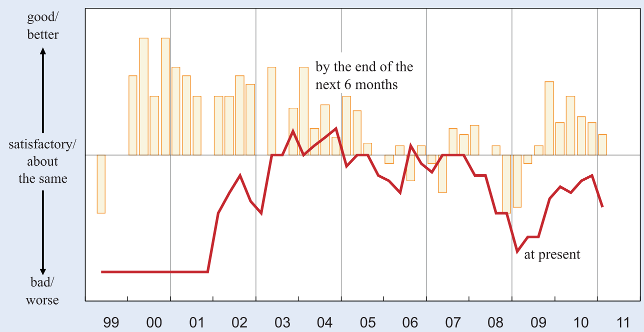
Source: Ifo World Economic Survey (WES) I/2011.

Russia
Economic Situation



Source: Ifo World Economic Survey (WES) I/2011.

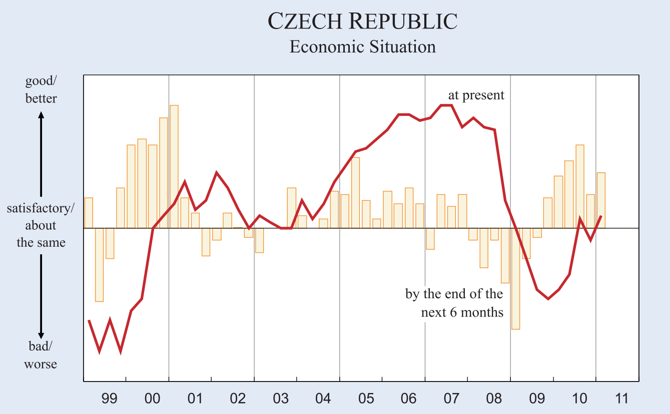
Ukraine
Economic Situation



Source: Ifo World Economic Survey (WES) I/2011.

Figure 7

Eastern Europe



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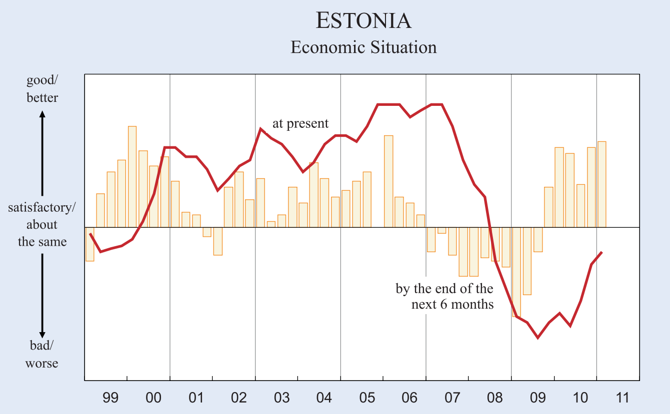

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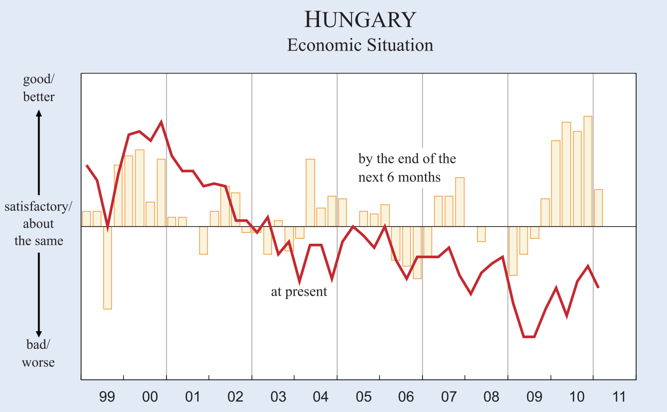
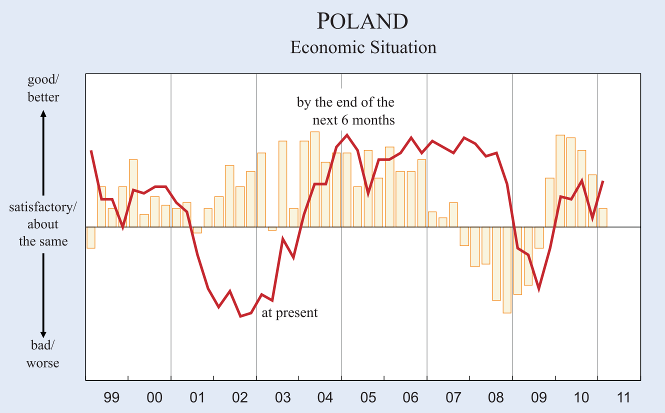


Source: Ifo World Economic Survey (WES) I/2011.



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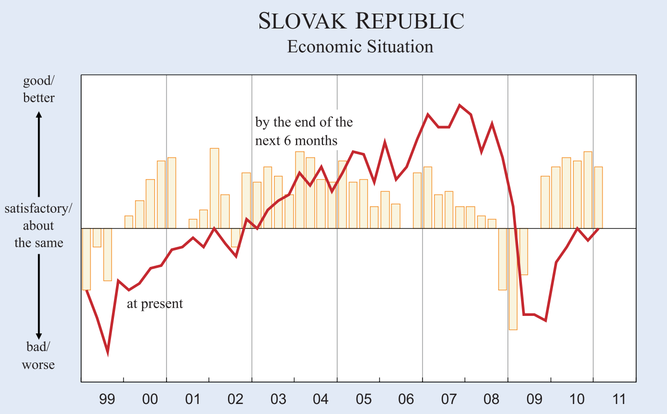

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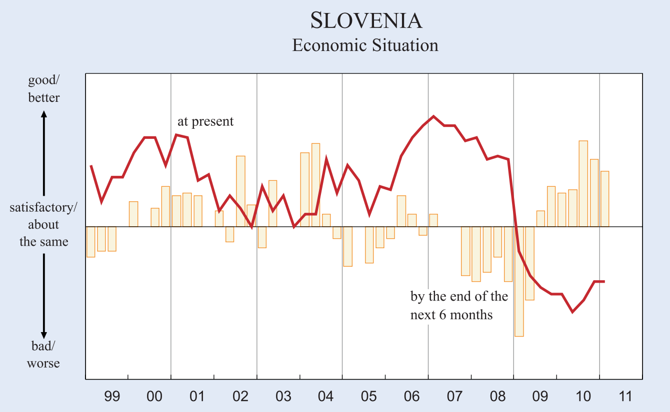
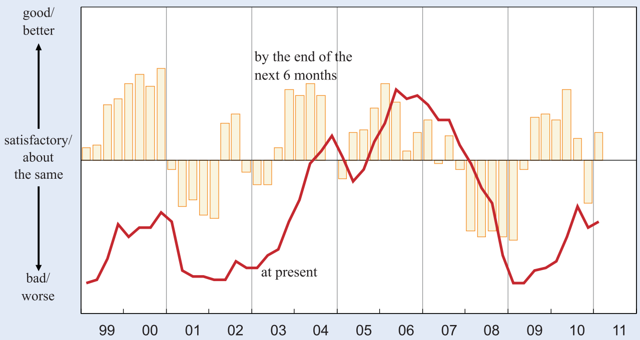


Source: Ifo World Economic Survey (WES) I/2011.

Figure 8

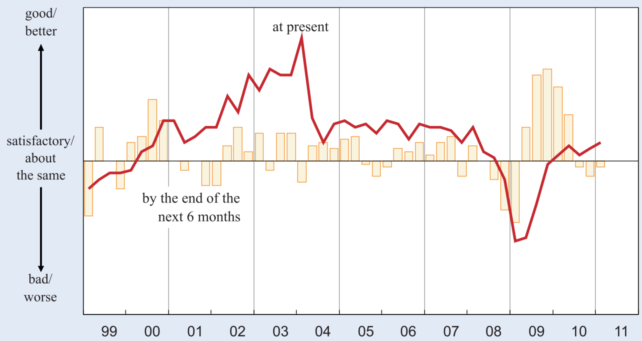
Asia

Japan
Economic Situation



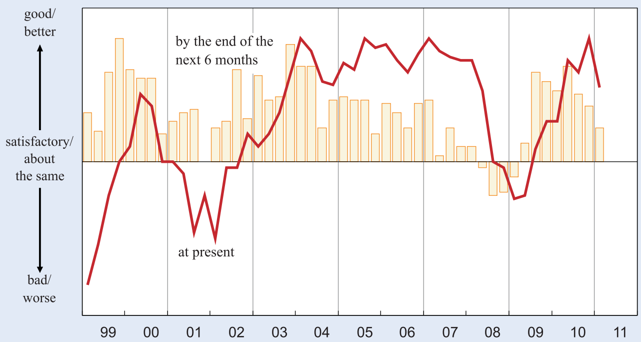
Source: Ifo World Economic Survey (WES) I/2011.

China P.R.
Economic Situation



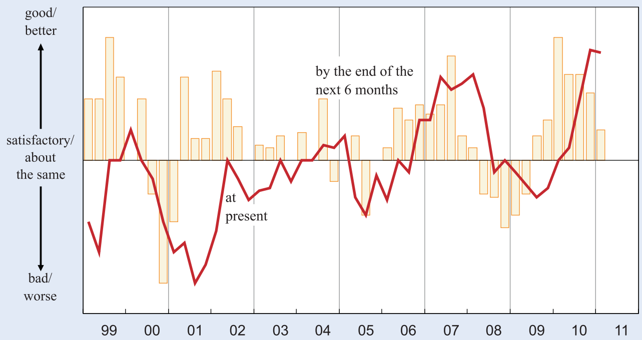
Source: Ifo World Economic Survey (WES) I/2011.

India
Economic Situation



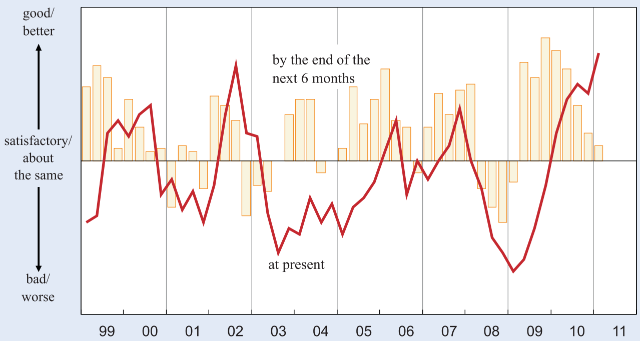
Source: Ifo World Economic Survey (WES) I/2011.

Philippines
Economic Situation



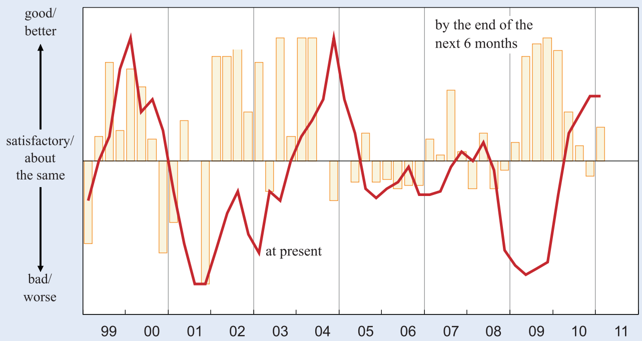
Source: Ifo World Economic Survey (WES) I/2011.

South Korea
Economic Situation



Source: Ifo World Economic Survey (WES) I/2011.

Taiwan R.O.C.
Economic Situation

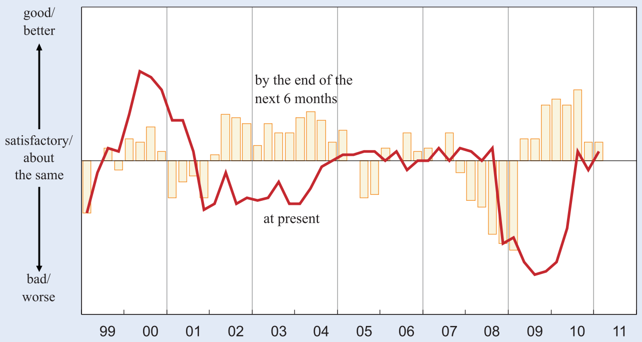


Source: Ifo World Economic Survey (WES) I/2011.

Figure 9

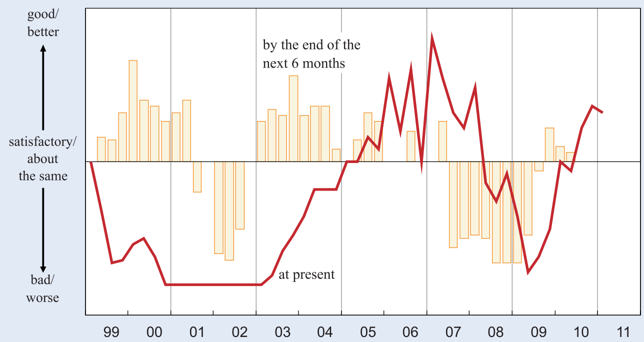
Latin America

MEXICO
Economic Situation



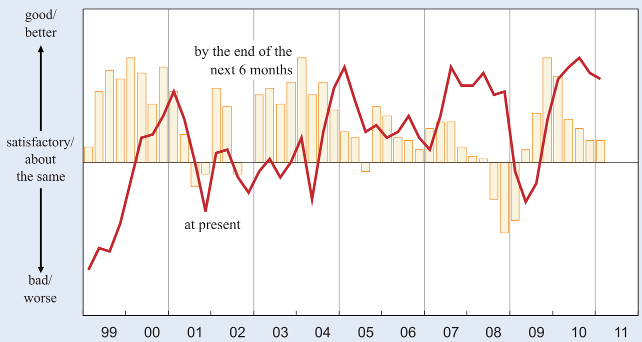
Source: Ifo World Economic Survey (WES) I/2011.

ARGENTINA
Economic Situation



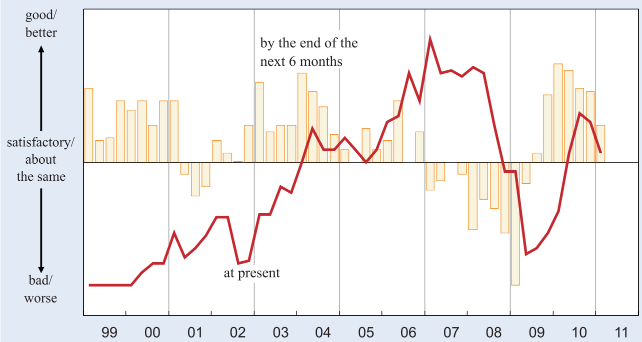
Source: Ifo World Economic Survey (WES) I/2011.

BRAZIL
Economic Situation



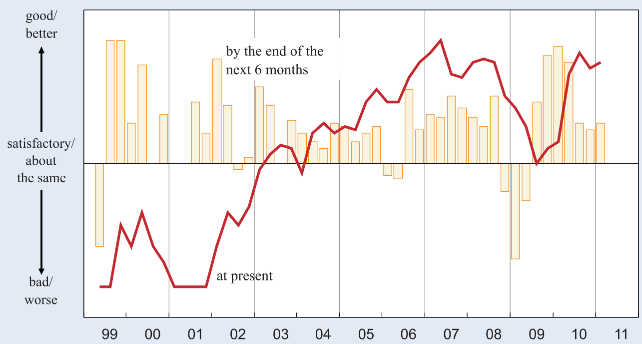
Source: Ifo World Economic Survey (WES) I/2011.

COLOMBIA
Economic Situation



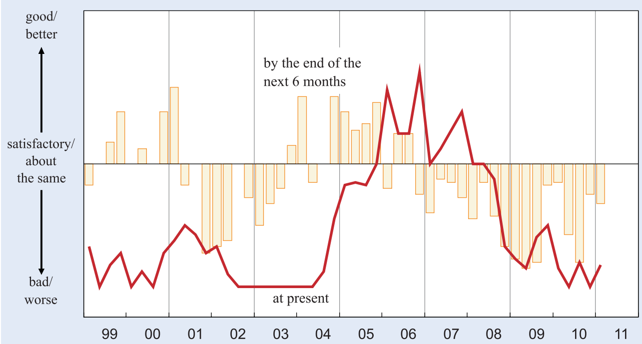
Source: Ifo World Economic Survey (WES) I/2011.

PERU
Economic Situation



Source: Ifo World Economic Survey (WES) I/2011.

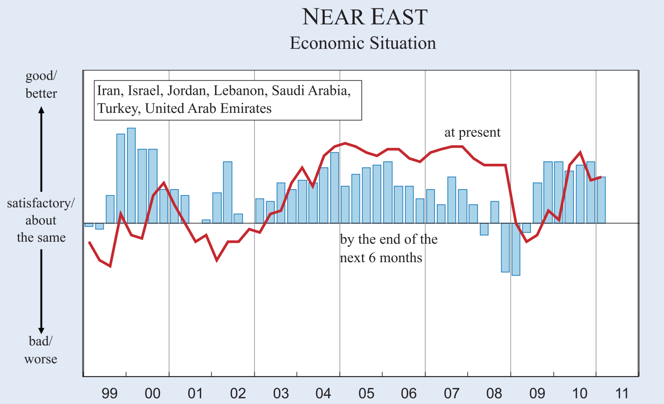
VENEZUELA
Economic Situation



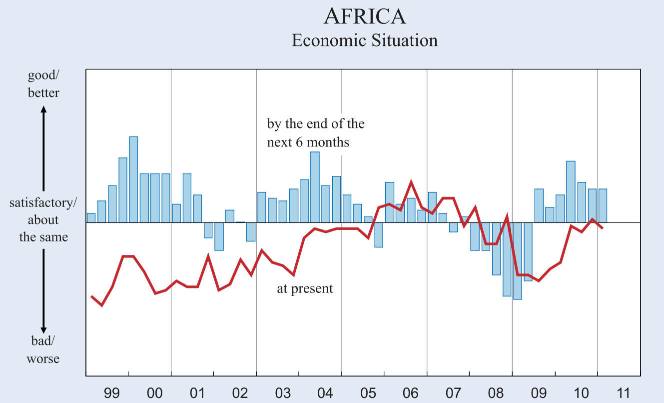
Source: Ifo World Economic Survey (WES) I/2011.

Figure 10

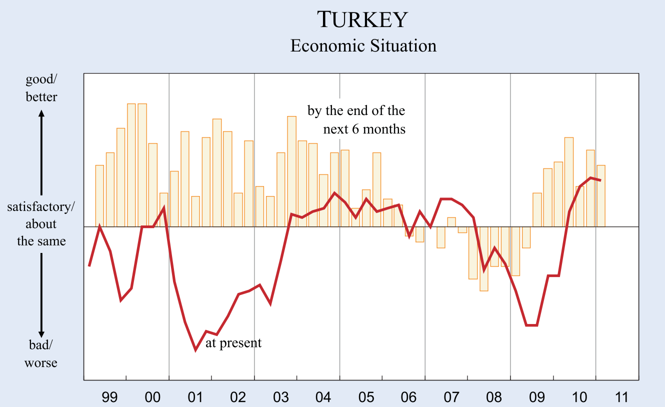
Near East and Africa



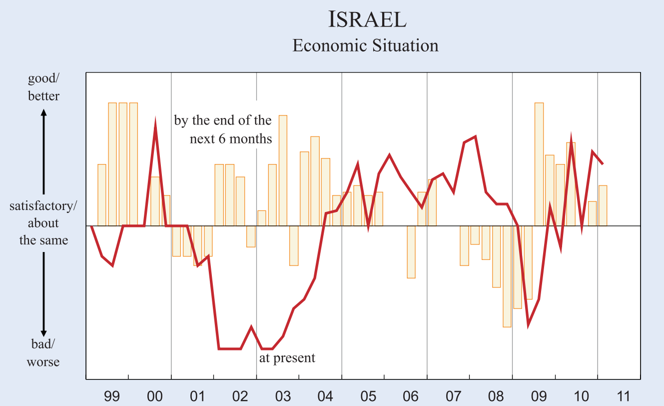
Source: Ifo World Economic Survey (WES) I/2011.



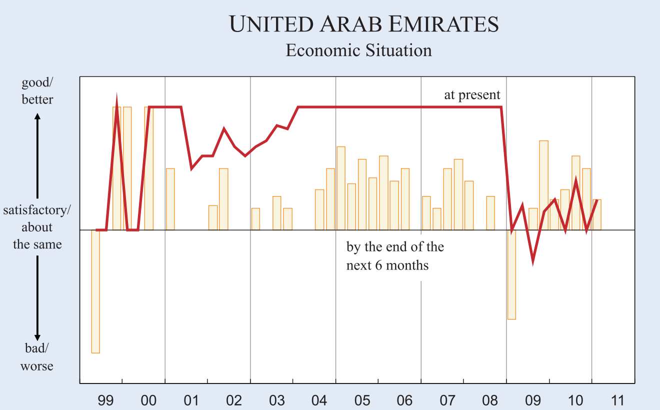
Source: Ifo World Economic Survey (WES) I/2011.



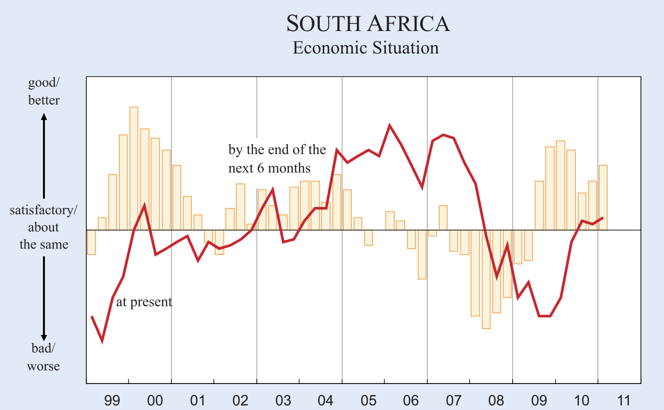
Source: Ifo World Economic Survey (WES) I/2011.



Source: Ifo World Economic Survey (WES) I/2011.



Source: Ifo World Economic Survey (WES) I/2011.



Source: Ifo World Economic Survey (WES) I/2011.

ments of the present situation have been downgraded remarkably but are still at a “satisfactory” level and WES experts retain a fairly confident view for the coming six months. In *China*, the region’s largest economy, the assessments of the present situation have been upgraded marginally. Overall, the present situation is still judged as favourable. The economic outlook for the next six months improved somewhat but is still cautious. The increase of exports and capital expenditures is expected to slow down in coming months and also private consumption will grow only moderately in the course of the next six months. The economic climate of the region’s second largest economy, *Japan*, improved somewhat due to considerably more positive expectations for the next six months. Particularly capital expenditures and the export sector are foreseen to strengthen somewhat in the next six months. In contrast the present situation is still regarded as weak, albeit the assessments improved marginally over the previous survey. In *Pakistan* the present situation is still assessed as very bad, even though the assessments improved somewhat over the previous survey. For the course of the next six months the WES experts see no signs of a recovery.

Oceania: Positive outlook despite natural disasters

The economic climate index for *Australia* fell marginally in January (see Figure 6). In this context, the assessments of the present situation deteriorated somewhat, but it is still judged as favourable. On the other hand, the expectations for the next six months remain positive despite the recent natural disasters: *Australia’s* economy was hit by serious flooding of the east coast in January. Destruction and crop failure are the consequences. To finance the reconstruction measures, the government is considering a flood levy.

In *New Zealand* the present economic performance has again been assessed as unfavourable. In contrast, the expectations for the next six months improved somewhat and are positive. Private consumption and the export sector are expected to strengthen in the next six months.

Latin America: Positive economic climate prevails

In *Latin America* the economic climate indicator remains at a favourable level (see Figure 4). While the present situation improved somewhat, the economic expectations have been downgraded marginally but are still in positive territory (see Figure 9).

In *Chile, Panama, Paraguay, Peru* and *Uruguay* a highly favourable present situation prevails, even to a higher degree than in the survey polled last year in October. The economic expectations have also been upgraded and remain positive. Especially the economic outlook for *Chile* and *Uruguay* is highly optimistic as capital expenditures, private consumption and the export sector are expected to strengthen further during the next half of the year according to the WES experts. In *Brazil* and *Argentina* the surveyed economists still assessed the present economic situation as very good, although to a marginally lesser degree than in the previous survey. The forecasts for the next six months remained stable and are pointing to an economic stabilization at a high activity level. In *Mexico, Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador* and *Trinidad and Tobago* WES experts rated the economic situation as “satisfactory”. In all these countries both assessments of the present situation and expectations have been upgraded or remained unchanged, except in *Bolivia* and *Colombia* where they have been downgraded considerably. Particularly in *Bolivia* the surveyed economists expect an economic cooling in the next six months. Especially private consumption is forecasted here to weaken strongly in the course of the next half year. In contrast, in *Colombia* (despite the downward revision), in the *Dominican Republic* as well as in *Trinidad and Tobago* the economic expectations for the next six months remain positive according to the WES experts; in *Costa Rica, Ecuador* and *Mexico* no further improvement but a stable economic development is expected in the first half of 2011. In *El Salvador* and *Guatemala* the economic experts upgraded their assessments of the present situation which, however, is still regarded as unfavourable. For the coming six months the WES experts expect for both countries some improvement of the economic situation. Especially a strengthening of the export sector is foreseen. The current economic situation in *Cuba* has been assessed as weak. For the coming six months no improvement is expected. *Venezuela’s* present economic situation has again been rated with very low marks on the WES scale. The WES experts even expect a continued deterioration in the coming six months, as private consumption, capital expenditures and exports are foreseen to weaken further.

Near East: Favourable economic climate persists

The economic climate in the *Near East* deteriorated slightly in January due to less positive expectations for the next six months (see Figure 10). However, a favourable economic climate in nearly all countries of this region still prevails. In *Saudi Arabia* and *Lebanon* the WES experts assess the present situation as highly favourable. While in *Lebanon* the assessments improved considerably over the survey in autumn last year, they remain unchanged in *Saudi Arabia*. The expectations for the coming six months continue to be very optimistic in *Saudi Arabia*. In contrast, the surveyed economic experts in *Lebanon* forecast a deterioration of the economic situation. While in *Syria* and the *United Arabian Emirates* the assessments of the present situation have been upgraded, they have been revised slightly downwards by the WES experts in *Israel* and *Turkey*; nevertheless a favourable economic situation still prevails in these countries and will stay there despite some downward revisions of the expectations for the next six months. In *Bahrain* and *Kuwait* the economy is performing at a satisfactory level and is expected to strengthen further in the next half of the year. The current economic situation in *Iran* and *Jordan* has been assessed with the lowest mark on the WES scale. The WES experts in these two countries even expect further deterioration of the economic situation in the course of the next six months.

Africa: No clear economic trend

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

The current economic situation in the *Northern African* countries *Algeria, Morocco* and also *Tunisia* has been assessed as satisfactory. The economic expectations point to further economic strengthening in *Algeria* and to an economic stabilization in *Morocco*. In contrast, in *Tunisia* the surveyed economists forecast deterioration regarding the overall economy affecting capital expenditures, private consumption as well as the export sector as a consequence of political turmoil. In *Egypt* the assessments of the current economic situation deteriorated somewhat and are now judged as unfavourable. The outlook for the coming six months is rather confident according to the WES experts. However, the survey was polled before the political turbulences from *Tunisia* spilled over into *Egypt*, and for this reason the results must be treated with caution. What is clear according to WES experts in *Tunisia* and *Egypt* is that political uncertainty will have a negative impact on the climate for foreign investors in their countries (see Table 1).

The economic situation continued to improve in *South Africa* (see Figure 10). The assessments of the present economic situation have been slightly upgraded and the overall economic situation is still seen as satisfactory. The expectations for the next six months have been revised upwards and remain fairly confident. In *Congo-Brazzaville, Djibouti, Ghana, Malawi, Rwanda, Tanzania, Uganda* and *Zambia* a favourable economic climate still prevails. The assessments of the present economic situation have been reported again as good. The expectations for the next half of the year in all these countries remain fairly confident, except in *Tanzania*, where an economic cooling in the coming six months is expected.

Table 1

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

Climate due to	Change for the next six months* Deterioration	Improvement
Legal/administrative restrictions to invest and/or to repatriate profits	Bolivia	Brazil, China, Greece, Kazakhstan, Kenya, Philippines, Sierra Leone, Turkey, Uruguay
Political stability	Argentina, Bolivia, Bulgaria, Congo Dem. Rep., Egypt, Guatemala, Lesotho, Pakistan, Peru, Serbia, Sudan, Tunisia, Zambia, Zimbabwe	Ireland, Kazakhstan, Kenya, Namibia, Rwanda, Sierra Leone, Uruguay

* For the countries that are not mentioned in the table, no major changes relating to the climate for foreign investors are expected during the next six months. Only countries with more than four responses were included in the analysis.

Criteria for selection of countries:
Deterioration: WES grade between **1.0** and **3.5**
Improvement: WES grade between **6.0** and **9.0**

Source: Ifo World Economic Survey (WES) I/2011.

In *Congo Dem. Republic, Mauritius, Namibia* and *Sierra Leone* the economic situation is regarded as favourable according to the WES experts. The economic outlook for the next six months in all these countries is positive, although to a lesser degree than in the survey in October. In *Burundi, Gabon, Kenya, Liberia, Mauritania* and *Niger* the WES experts assessed the present economic performance as satisfactory. In the course of the next six months the surveyed economic experts in *Gabon, Liberia* and *Niger* expect further strengthening of the economy, particularly in the export sector. In contrast, the economic expectations for the coming six months in *Burundi, Kenya* and *Mauritania* point to no further improvement but to an economic stabilization at current levels. In *Benin, Lesotho, Nigeria, Senegal* and *Sudan* the present situation is assessed as unfavourable. At least the WES experts in *Nigeria* and *Senegal* expect an improvement by the end of the next six months. In contrast, the surveyed experts in *Benin, Lesotho* and *Sudan* see no room for any improvement in the coming six months. In *Sudan* they even expect an economic cooling, which will probably be caused by the recent developments regarding the Southern Sudanese independence referendum. More than 99 percent of South Sudanese have voted for the secession from the north. As the south holds the most oilfields, but the north owns the pipelines, refineries and the harbour, both regions are economical dependent on each other. The secession of the south will have considerable consequences on the further economic development of the *Sudan* on the whole. The present economic situation in *Comoros, Ivory Coast* and *Zimbabwe* has been rated as "bad" by the surveyed economic experts. At least in *Comoros* and *Zimbabwe* an improvement is expected by the end of the next half of the year. In the *Ivory Coast*, in contrast, the WES experts even anticipate a further economic deterioration in the next six months with weakening of capital expenditures, private consumption and exports. The recent cacao export ban shows that the political conflict which resulted from the presidential election is still going on and could have more impact on the economy of the *Ivory Coast* during the next months. The remaining *Sub-Saharan* countries *Madagascar, Swaziland* and *Togo* have been assessed by the surveyed economic experts with very low marks on the WES scale, *Swaziland* and *Togo* even with the lowest. The WES experts expect no improvement in the coming months in these two countries. Only in *Madagascar* is a bettering of the economic situation in the next six months anticipated.

Table 2

Legal and Administrative Restrictions for Foreign Firms

Absent	
Austria	8.1
Finland	8.0
Uruguay	7.9
Latvia	7.7
Denmark	7.4
Netherlands	7.4
Cyprus	7.3
Portugal	7.3
Paraguay	7.0
Rather low	
Switzerland	6.9
Spain	6.8
Sierra Leone	6.7
Belgium	6.5
Czech Republic	6.5
France	6.4
Germany	6.4
Israel	6.3
Norway	6.3
Rwanda	6.3
United States	6.3
Chile	6.2
New Zealand	6.1
Peru	6.1
Sweden	6.1
United Kingdom	6.1
Zambia	6.1
South Korea	6.0
Bulgaria	5.9
Japan	5.9
Poland	5.9
Slovenia	5.9
Benin	5.8
Ireland	5.8
Tunisia	5.8
Congo Dem. Rep.	5.7
Australia	5.4
Kazakhstan	5.4
Nigeria	5.4
Slovakia	5.4
Brazil	5.3
Canada	5.3
India	5.3
Mexico	5.3
South Africa	5.1
Colombia	5.0
Hungary	5.0
Kenya	5.0
Mauritius	5.0
Namibia	5.0
Romania	5.0
Serbia	5.0
Turkey	5.0
China	4.7
Italy	4.6
Philippines	4.5
Guatemala	4.2
Lesotho	4.2
Pakistan	4.2
Taiwan	4.2
Indonesia	4.1
Rather high	
Greece	3.9
Argentina	3.8
Thailand	3.8
Croatia	3.3
Russian Federation	3.0
Ukraine	2.8
Sudan	2.7
Zimbabwe	2.7
Ecuador	2.2
Bolivia	1.8
Venezuela	1.7

Only countries with more than four responses were included in the analysis.
WES scale: 9 – absent, **5** – low, **1** – high.

Source: Ifo World Economic Survey (WES) I/2011.

Inflation picks up

General trends

The WES results signal a moderate pick up of inflation on a worldwide scale. On a world average, WES experts forecast for 2011 an annual inflation rate of 3.4 percent compared with a reported 3.1 percent in 2010 (see Table 3). The upward trend of inflation is apparent in nearly all countries, but is particularly pronounced in *Asia* (3.6 percent in 2011 after reported 2.9 percent in 2010). Both in *North America* as well as in *Western Europe* an inflation rate of 2.0 percent is forecasted for 2011, coming from 1.6 and 1.8 percent respectively in 2010. Though the expected 2011 inflation rate of 2.0 percent still appears moderate, it signals nevertheless that the, until recently, widespread worry of a deflationary process is no longer realistic. In *Oceania* and also in *Eastern Europe* some central banks started already in 2010 to curb incipient inflationary trends by hiking interest rates but could not prevent that inflation in 2011 will be somewhat higher than in 2010 (3.3 percent in *Oceania* and 3.4 percent in *Eastern Europe* compared with 3.1 percent and 3.2 percent respectively in 2010). In the high inflation regions *Latin America* and *Africa* at least no acceleration of inflation is expected in 2011 (7.9 percent after 8.0 percent and 7.3 percent after 7.6 percent respectively); however, in *CIS* countries the already high 2010 inflation rate will be even surpassed somewhat in 2011 (9.6 percent compared with 9.4 percent in 2010).

Price trends by regions and countries

The *United Kingdom* (3.5 percent) also this year will probably lie above the expected ***Western European*** inflation rate of 2.0 percent in 2011. On average for the *euro area* the expected inflation rate is 1.9 percent in 2011 and thus is close to the medium term inflation objective of the ECB. In *Ireland* where the economy is still suffering from the severe recession caused by the burst of the real estate bubble and the huge problems in the banking sector, consumer prices are expected to continue to pick up very moderately (0.9 percent) in 2011. In *Greece* the increase of taxes and charges as part of the fiscal consolidation program will lead also in 2011 to a relatively high inflation rate of 3.8 percent (after 4.6 percent in 2010), despite widespread cuts in salaries and a general recessionary trend in the country. In *Iceland* – a country particularly hard hit by the financial crisis – this period of strongly rising prices due to VAT increases appears to be over (2.0 percent CPI increase expected in 2011 after 5.0 percent in 2010). By far the lowest inflation rate (0.8 percent in 2011) is again expected in *Switzerland*, where a strong appreciation of the *franc* appears to counterbalance inflationary pressures coming from the outside, mainly from prices for raw materials (including oil) and agricultural products.

In ***Eastern Europe*** inflation expectations remain contained in the majority of the countries in the region. Some exceptions from this overall trend are *Serbia* (10.3 percent) and *Romania* (5.5 percent) where also in 2011 inflation will remain far above the average of the region. The lowest inflation in 2011 will prevail according to the WES experts' expectations in *Slovenia* (2.0 percent), *Croatia* (2.1 percent) and *Czech Republic* (2.2 percent).

In ***North America***, particularly in the *United States* it has not been that long ago that deflation was seen as a more imminent danger than inflation. The latest WES data signal that the probabilities have changed: The traditional image of an economic recovery associated with increasing inflation will be the more likely outcome in 2011 than deflation. The new inflation forecast for the *United States* stands at 2.0 percent compared with a reported 1.5 percent in 2010. A similar picture characterizes *Canada*: Here the 2011 inflation rate is also seen at 2.0 percent compared with a reported 1.8 percent in 2010.

In ***Asia*** the jump of 2011 inflation expectations to 3.6 percent from a reported 2010 inflation of 2.9 percent is mainly due to the rise of inflation expectations in *China* (from a reported 3.7 percent in 2010 to an expected 4.8 percent in 2011), *Hong Kong* (from 2.9 percent to 4.3 percent) and *Vietnam* (from 7.8 percent to 11.3 percent). Also in most other *Asian* countries the 2011 inflation rate will be higher than the one last year but the increase will be less pronounced than in the first three examples.

In ***Oceania***, particularly in *Australia*, some preemptive interest rate hikes have helped to contain inflation expectations at 3.3 percent for 2011, despite a strong economic upswing, particularly in the primary goods sector. Also in *New Zealand* a moderate pick-up of inflation is expected in 2011 (from 2.8 percent in 2010 to 3.1 percent in 2011).

In ***Latin America*** an acceleration of inflation in 2011 is mainly restricted to *Argentina* (from 24.8 percent

Table 3

Inflation Rate Expectations for 2011
(based on WES QI/2011 and QIV/2010)

Region	QI/2011	QIV/2010	Region	QI/2011	QIV/2010
Average of countries*	**3.4**	**3.1**	**North America**	**2.0**	**1.6**
High-income countries	2.3	1.9	Canada	2.0	1.8
Middle-income countries	7.5	7.1	United States	2.0	1.5
Upper-middle	7.5	7.2			
Lower-middle	7.4	6.9	**Latin America**	**7.9**	**8.0**
Low-income countries	7.8	7.6	Argentina	27.1	24.8
EU 27 countries	2.2	2.0	Bolivia	8.4	3.3
EU countries (old members)[a]	2.1	1.8	Brazil	5.5	4.9
EU countries (new members)[b]	3.3	3.1	Chile	3.6	3.2
Euro area[c]	1.9	1.6	Colombia	3.4	3.0
			Costa-Rica	6.0	5.5
Western Europe	**2.0**	**1.8**	Cuba	3.0	–
Austria	2.2	1.8	Dominican Republic	5.5	5.0
Belgium	2.3	2.2	Ecuador	3.7	3.6
Cyprus	2.5	2.7	El Salvador	2.2	1.5
Denmark	2.2	2.1	Guatemala	6.1	5.6
Finland	2.3	1.8	Mexico	4.3	4.5
France	1.6	1.8	Panama	2.5	3.5
Germany	1.9	1.3	Paraguay	6.7	4.7
Greece	3.8	4.6	Peru	2.7	2.5
Iceland	2.0	5.0	Trinidad and Tobago	15.0	13.0
Ireland	0.9	0.9	Uruguay	6.8	7.0
Italy	1.9	1.5	Venezuela	30.0	31.6
Luxembourg	2.4	2.2			
Netherlands	1.7	1.3	**Near East**	**5.6**	**5.2**
Norway	2.0	2.2	Bahrain	3.0	–
Portugal	1.9	1.1	Iran	15.0	10.0
Spain	2.4	1.6	Israel	2.9	2.7
Sweden	2.0	1.4	Jordan	4.0	3.0
Switzerland	0.8	1.0	Kuwait	5.0	–
United Kingdom	3.5	3.2	Lebanon	5.0	4.8
			Saudi Arabia	5.3	6.0
Eastern Europe	**3.4**	**3.2**	Syrian Arab Republic	7.3	8.0
Albania	4.1	3.9	Turkey	6.3	8.1
Bulgaria	4.5	3.2	United Arab Emirates	2.7	2.0
Croatia	2.1	1.8			
Czech Republic	2.2	2.0			
Estonia	3.2	2.8	**Africa**	**7.3**	**7.6**
Hungary	4.2	4.4	**Northern Africa**	**6.4**	**–**
Latvia	2.7	2.1	Algeria	5.1	5.4
Lithuania	3.1	1.8	Egypt	12.8	12.8
Poland	3.3	2.8	Morocco	2.6	2.0
Romania	5.5	7.1	Tunisia	4.1	3.9
Serbia	10.3	8.0	**Sub-Saharan Africa**	**7.9**	**–**
Slovakia	2.7	1.6	Benin	3.4	3.3
Slovenia	2.0	1.9	Burundi	10.3	8.1
			Comoros	3.5	2.6
CIS	**9.6**	**9.4**	Congo Dem. Rep.	9.3	14.4
Georgia	9.5	–	Congo-Brazzavill Rep.	4.8	3.3
Kazakhstan	8.0	7.5	Djibouti	3.5	3.0
Kyrgyzstan	18.3	14.0	Gabon	3.5	3.6
Russia	9.1	8.5	Ghana	9.8	12.0
Ukraine	11.2	13.7	Ivory Coast	3.9	2.3
Uzbekistan	17.0	16.0	Kenya	6.8	5.3
			Lesotho	5.9	4.2
Asia	**3.6**	**2.9**	Liberia	6.1	6.4
Bangladesh	7.3	6.8	Madagascar	8.9	9.3
China	4.8	3.7	Malawi	7.5	7.6
Hong Kong	4.3	2.9	Mauritania	10.0	5.5
India	8.5	7.9	Mauritius	4.9	2.5
Indonesia	6.7	6.1	Namibia	5.1	–
Japan	– 0.1	– 0.5	Niger	2.4	1.6
Malaysia	4.0	2.6	Nigeria	12.8	12.4
Pakistan	14.9	15.5	Rwanda	7.3	6.1
Philippines	4.2	4.1	Senegal	1.4	–
Singapore	3.0	2.5	Sierra Leone	13.7	15.2
South Korea	3.3	3.5	South Africa	4.6	4.8
Sri Lanka	8.5	7.5	Sudan	17.6	15.0
Taiwan	2.0	1.4	Swaziland	4.9	4.1
Thailand	3.5	3.1	Tanzania	5.0	–
Vietnam	11.3	7.8	Togo	4.0	1.3
			Uganda	4.0	–
Oceania	**3.3**	**3.1**	Zambia	7.5	7.9
Australia	3.3	3.2	Zimbabwe	5.4	4.5
New Zealand	3.1	2.8			

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. – [a] Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. – [b] Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria and Romania. – [c] Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: Ifo World Economic Survey (WES) I/2011 and IV/2010.

to 27.1 percent in 2011), *Bolivia* (from 3.3 percent to 8.4 percent), *Paraguay* (from 4.7 percent to 6.7 percent) and *Trinidad and Tobago* (from 13.0 percent to 15.0 percent). In the other countries in the region a stable or even somewhat lower inflation rate than in the previous year is expected for 2011 by the WES experts. Summing up, the average inflation rate in 2011 in *Latin America* will be 7.9 percent which is almost unchanged from the reported rate in 2010.

Also in ***CIS*** countries inflation expectations for 2011 differ only slightly from the reported inflation figures in 2010 (9.6 percent compared to 9.4 percent in 2010). The marginally higher inflation figure for 2011 results mainly from an expected increase of the inflation rate in *Kyrgyzstan* (18.3 percent compared to reported 14.0 percent in 2010). In *Russia* and in *Kazakhstan* the expected 2011 inflation rate is in each case about half a percentage point higher than in the previous year (in *Russia* 9.1 percent compared to 8.5 percent in 2010 and in *Kazakhstan* 8.0 percent compared to 7.5 percent).

In the ***Near East*** the expected pickup of inflation (5.6 percent after 5.2 percent in 2010) is mainly due to an expected sharp rise of inflation in *Iran* whereas in other countries of the region inflation, according to WES experts' forecast, will remain stable or even decline somewhat, so e.g. in *Turkey* from a reported 8.1 percent in 2010 to an expected 6.1 percent in 2011 and in *Saudi Arabia* from 6.0 percent in 2010 to 5.3 percent in 2011.

In ***Africa*** the expected inflation rate for 2011 remains almost unchanged from the one reported in the previous year (7.3 percent compared with 7.6 percent in 2010). However, price trends in *Africa* are still very heterogenous. Relatively low inflation rates for 2011 are expected in *Senegal* (1.4 percent), *Niger* (2.4 percent) and *Morocco* (2.6 percent). In a medium inflation bracket are *Benin* (3.4 percent), *Comoros* (3.5 percent), *Djibouti* (3.5 percent), *Gabon* (3.5 percent), *Ivory Coast* (3.9 percent), *South Africa* (4.6 percent) and *Swaziland* (4.9 percent). High inflation rates of 10 percent or more will predominate in 2011 particularly in *Nigeria* (12.8 percent), *Egypt* (12.8 percent), *Sierra Leone* (13.7 percent) and *Sudan* (17.6 percent).

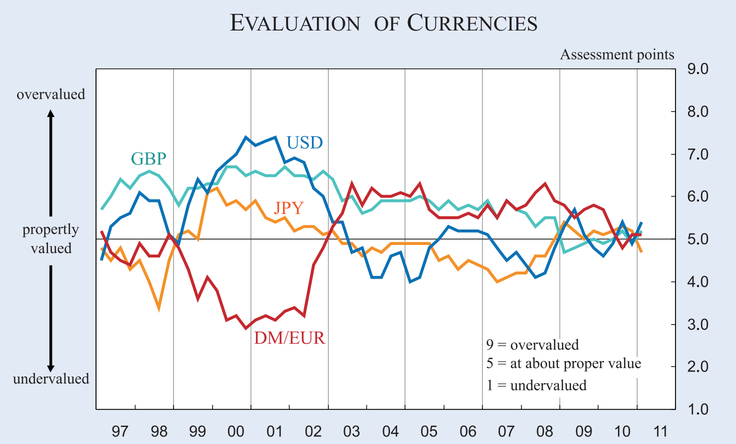
Euro and yen continue to be seen as somewhat overvalued

On a world-wide scale the exchange rates of the four currencies that constitute the Special Drawing Rights of the IMF – *US dollar, euro, British pound* and *yen* – are seen as close to their fundamentally appropriate values. Only the *Japanese yen* and the *euro* are regarded by the majority of WES experts as somewhat overvalued.

However by country there are big differences in currency evaluations: WES experts regard their own currency as generally **overvalued** in *Switzerland*, in some *Asian* countries like *Japan, Indonesia, Thailand, Sri Lanka* and *Vietnam* as well as in some *African* countries like *Ivory Coast, Comoros, Lesotho* and – to a lesser degree – also in *South Africa, Namibia, Swaziland* and *Sudan*. On the other hand, experts assessed their own currencies as generally **undervalued** particularly in *China* but also in other *Asian* countries (*Hong Kong,* the *Philippines, South Korea* and *Bangladesh*) as well as in the majority of *CIS* countries (*Russia, Kazakhstan* and *Ukraine*), in a few *African* countries (*Nigeria, Algeria, Madagascar, Sierra Leone* and *Tanzania*) as well as in *Bolivia* and *Paraguay* in *Latin America*.

The answers to a supplementary survey question on the likely development of the *US dollar* in the next six months, regardless of how currencies are

Figure 11



Source: Ifo World Economic Survey (WES) I/2011.

assessed from a fundamental point of view, signal on a world-wide average a stabilization of the *US dollar* at current rates in coming months. However, behind this average are diverging trends: An expected **weakening** of the *US dollar* is expected particularly in some *Asian* countries (above all in *China, Malaysia*, the *Philippines, Singapore, South Korea, Sri Lanka* and *Taiwan*) as well as in some *Eastern European* countries (particularly *Czech Republic* and *Poland*) and in some *CIS* countries like *Russia* and *Kazakhstan* as well as in *Canada* and *Bolivia*.

These results contrast with an expected **increase** in the value of the *US dollar* in *Oceania* (both *Australia* and *New Zealand*), in the *Near East* (particularly *Lebanon, Syrian Arab Republic, Turkey* and *Kuwait*) and in almost all *African* countries covered in the survey.

In *Western Europe* as well as in *Latin America* the value of the *US dollar* in six months from now is seen by the vast majority of WES experts as roughly **unchanged** or marginally higher.

Short- and long-term interest rates expected to rise

The number of WES experts expecting some tightening of monetary policy in the course of the next six months has increased sharply, both with regard to short- and long-term interest rates (see Figure 12). This result is probably caused by the growing belief that the upward trend of the world economy will continue and a double dip can be avoided as well as of the pick-up of inflation expectations in the vast majority of countries covered in this survey.

Somewhat more WES experts expect an increase of the more market-driven long-term interest rates than of short-term interest rates, which depend mainly on the decisions of central banks. The tendency of rising interest rates is a world-wide trend with only few exceptions and is particularly pronounced in *Sweden,*

Box 3

Portfolio inflows, exchange rate appreciation and foreign exchange market interventions in emerging market economies

With the global recovery international capital flows regained momentum. In particular emerging market economies in *Latin America* and *South East Asia* have attracted huge amounts of portfolio investments, which mainly consist of stocks, bonds and money market instruments. From the point of view of these countries, one of the major causes is the ultra expansionary monetary policy of the US Federal Reserve, which is flooding the global economy with cheap money seeking promising investment opportunities. Since in contrast to direct investment portfolio investments are predominantly of speculative short-term nature, the countries fear the emergence of local asset price bubbles and the appreciation of their currencies. The counter measures undertaken by the emerging markets' central banks touched off a heated discussion on the existence of a currency war, i.e. a situation in which countries compete against each other in order to achieve a relatively low exchange rate for their currency.

In those *Latin American* countries that officially declared they would let their currency float (*Brazil, Chile, Colombia* and *Mexico*), the inflows of portfolio investments accumulated to 110 billion *US dollars* between the first quarter of 2009, the peak of the global recession, and the second quarter of 2010. In order to counteract the upward pressure on the external value of the local currencies, the central banks intervened in the foreign exchange markets and bought foreign reserves amounting to 86 billion *US dollars*. Yet, their currencies appreciated on average by 21 percent vis-à-vis the *US dollars*. Not surprisingly, the majority of WES experts from the region currently assess their currencies as being overvalued against the *US dollar*.

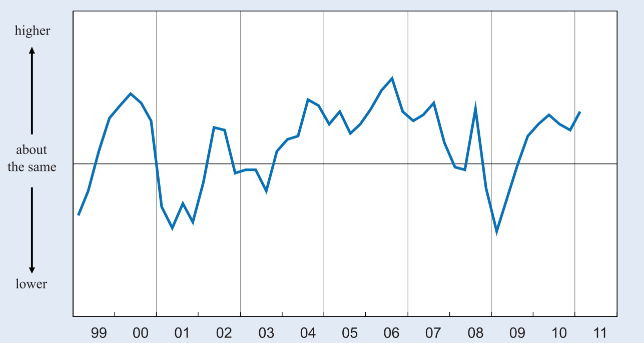
The picture in currency-floating *South East Asia* (*South Korea, Indonesia, Malaysia,* the *Philippines, Singapore, Taiwan* and *Thailand*) is quite similar, with the intervention activity of the central banks being even more vigorous. While the inflows of portfolio investment, which amounted to 130 billion *US dollars* over the period Q1 2009 to Q2 2010, only slightly exceeded those to *Latin America*, the accumulation of foreign reserves, at 220 billion *US dollars,* was almost three times as high. As a result, their currencies only appreciated on average by 15 percent against the *US dollar*, leading WES experts to consider these currencies currently at their proper value.

Absent any foreign exchange market interventions, the currencies of the emerging market economies would have clearly appreciated far more. Thus, what is called a currency war should be seen as an attempt to preserve rather than to improve their international competitiveness. All of these countries are small open economies in which a large share of domestic production is determined from abroad.

Figure 12

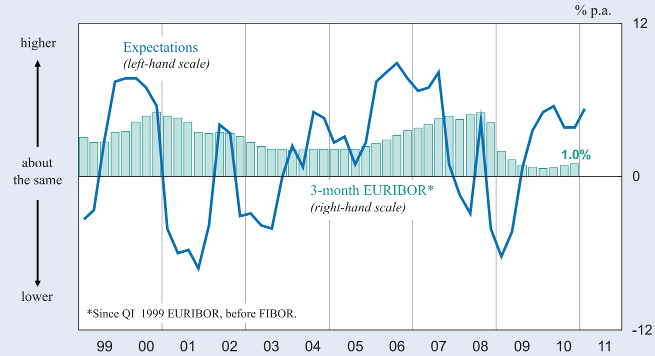
Actual short-term interest rates and expected trend for the next 6 months (quarterly data)

All Countries



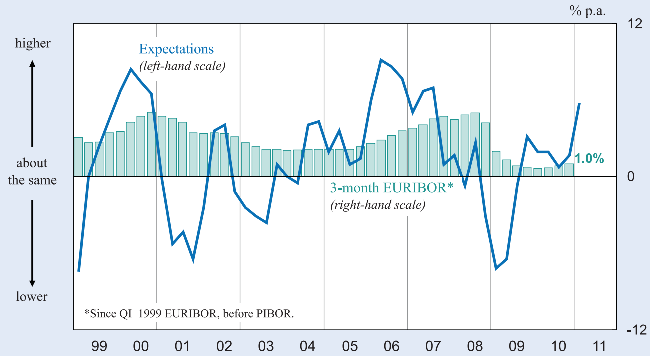
Source: Ifo World Economic Survey (WES) I/2011.

Germany



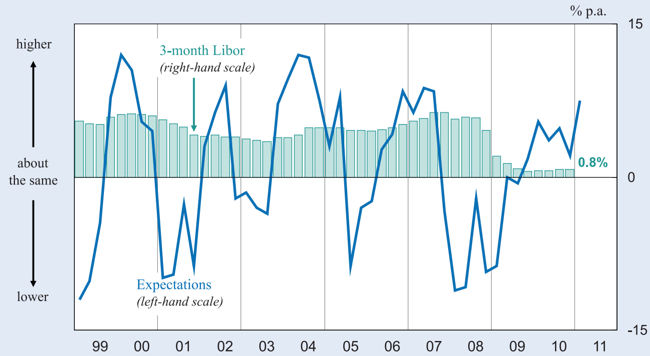
Source: Ifo World Economic Survey (WES) I/2011, Deutsche Bundesbank.

France



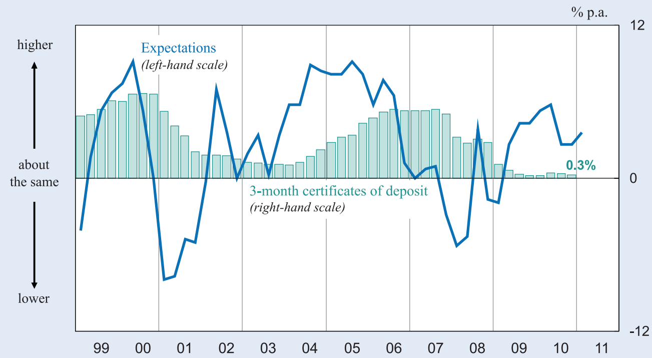
Source: Ifo World Economic Survey (WES) I/2011, OECD.

United Kingdom



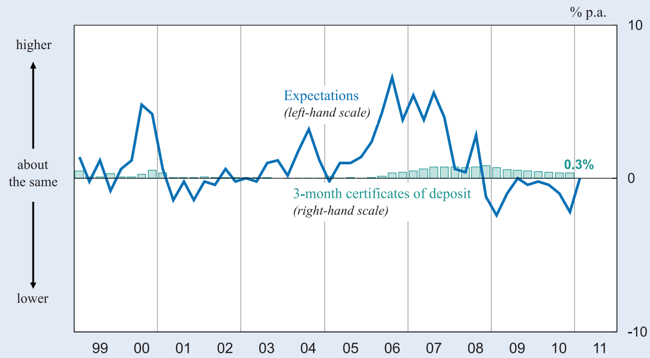
Source: Ifo World Economic Survey (WES) I/2011, OECD.

United States



Source: Ifo World Economic Survey (WES) I/2011, Federal Reserve Board, US.

Japan



Source: Ifo World Economic Survey (WES) I/2011, OECD.

Norway and *Australia*. Stable interest rates in the next six months are forecasted for *Turkey, Singapore* and the majority of *African* countries, including *South Africa*.

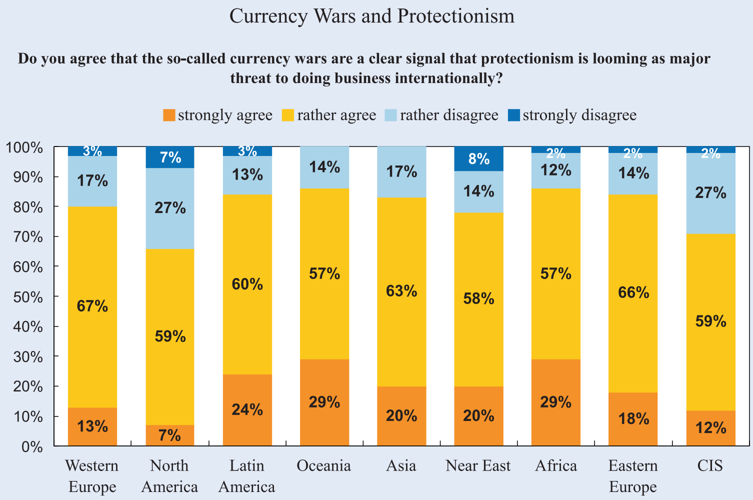
ICC Special Question: Currency wars and protectionism

Since last autumn, in particular politicians in newly developing countries have warned of currency wars. The reasons have been the widely practised monetary policy of quantitative easing, currency intervention and capital controls. Countries had to react to augmented and unrequested capital inflows and to the appreciation of their currencies (see Box 3). In this context some economies formed capital and trade barriers as taxes on capital inflows or considered tariff protection against countries with undervalued currencies. In light of this development some economists have been increasingly worried about trade wars. This survey's special question focused on currency wars and protectionism as a threat for international business. The WES experts were asked whether they think that the so-called currency wars are a clear signal that protectionism is looming as a major threat to doing business internationally.

The majority of economists surveyed worldwide agrees and thinks that currency wars are a signal of looming protectionist measures (see Figure 13). More than three quarters of the surveyed economists in nearly all regions (*Western Europe, Latin America, Oceania, Asia, Near East, Africa* and *Eastern Europe*) more or less strongly agree that the issue raised in the question, is real. The diversity of replies to the special question is striking in *Latin America: Brazil, Colombia, Chile* and *Mexico* together amounted to 92 percent agreement (33 percent *strongly* and 59 percent *rather* agreement). In comparison, the WES experts of the remaining *Latin American* countries reached 78 percent agreement (17 percent agreed strongly, 61 percent agreed rather). This makes clear how differently the economies within the regions are affected by the development as to their currencies (see Box 3). In *Oceania* and *Africa* the share of economists who *strongly* agree is particularly high with 29 percent in each case. In *North America* and the *CIS* countries in contrast, the share of WES experts who *strongly* agree is rather low at 7 percent and 12 percent respectively. In these two regions also about one third of the WES experts either rather or strongly disagree with the assumption. In total, the share of dissenting votes, i.e. those that *strongly* disagree that currency wars are a signal of looming protectionism, is almost negligible in all regions, in *Asia* and *Oceania* even 0 percent. Exceptions are the *Near East* and *North America* where this share amounted to 8 and 7 percent respectively.

Summing up, at least two thirds of the surveyed WES experts in all regions strongly or rather agree that the so-called currency wars are a clear signal that protectionism is looming as a major threat to doing business internationally.

Figure 13



Source: Ifo World Economic Survey (WES) I/2011.

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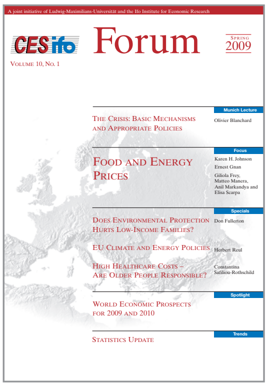
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