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

Volume 10, No. 2

May 2011

30 years of
Ifo's World Economic Survey

## World Economic Climate

World Economic Climate improves

## Economic Expectations

Economic expectations slightly downgraded, but still positive

## Inflation

Inflation picks up

## Currencies

Yen continues to be seen as overvalued

## Interest Rates

Short- and long-term interest rates expected to rise

## Special Topic

The G20's role in reducing global economic imbalances, combating corruption and promoting economic growth worldwide

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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
Single subscription rate: €10.00
Shipping not included

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May
2011

# Ifo World Economic Survey

## Regions

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- Western Europe: Further improvement of the current economic situation
- North America: Economic climate deteriorates
- Eastern Europe: Signs of growing momentum
- CIS: Moderate economic climate
- Asia: Favourable economic climate persists
- Oceania: Australia clearly outpaces New Zealand
- Latin America: Some economic cooling
- Near East: Economic climate improves further
- 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 organisations 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 *April 2011, 1,107* economic experts in *120* 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 organisations are published.

# World Economic Climate Improves

*The Ifo World Economic Climate continued to improve, albeit slightly, in April 2011 (see Figure 1). The climate indicator rose to 107.7, after 106.8 in January, and is still clearly above its long-term average (1995–2010: 96.9). The improvement resulted solely from more positive assessments of the present economic situation. The economic expectations, in contrast, are less optimistic than in the previous quarter, but still remain positive (see Figure 2). The results indicate that the upturn of the world economy will continue in the coming months but will be somewhat more bumpy than in the recent past. This is also illustrated by the business-cycle clock (see Box 1).*

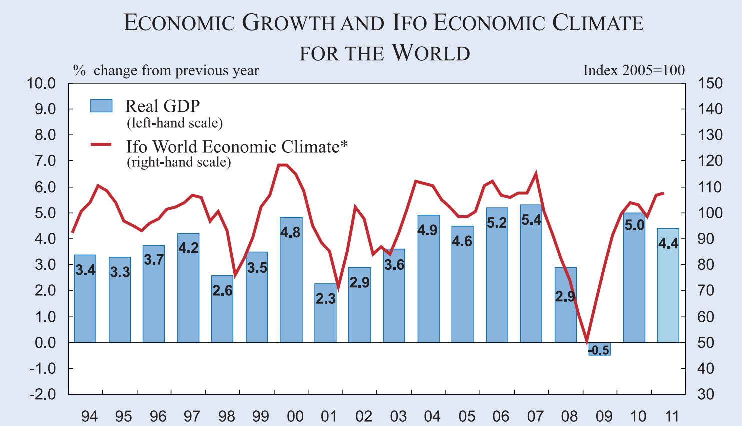
mate, the risks should not be ignored. The downward risks for a positive development have gained weight in recent months. First, the high oil price reflects strong global demand only partly. There is a risk premium reflecting tensions about the supply side of oil. Second, inflation pressure resulting from higher food and commodity prices could further increase. Especially in emerging economies this could trigger an even stronger tightening of monetary policy. This might be necessary anyway, because some emerging countries face the risk of overheating. This is particularly true for *China, Turkey* and for some countries in *Latin America.* In *Western Europe* the crisis with-

**World Economy: Downward risks overshadow positive economic world climate**

The improvement of the World Economic Climate mainly results from *Western Europe.* Here the economic climate indicator rose due to more positive assessments of the current economic situation. The expectations for the coming six months weakened, however, but remain at a "confident" level. The economic climate indicator in *North America* and in *Asia* fell somewhat following the strong increase in both regions in January. Whereas in *North America* only the six-month expectations weakened, the decline in the indicator in *Asia* was due both to less favourable assessments of the current economic situation and also less positive expectations. Especially in *Japan*, the assessments of the current situation were clearly less positive.

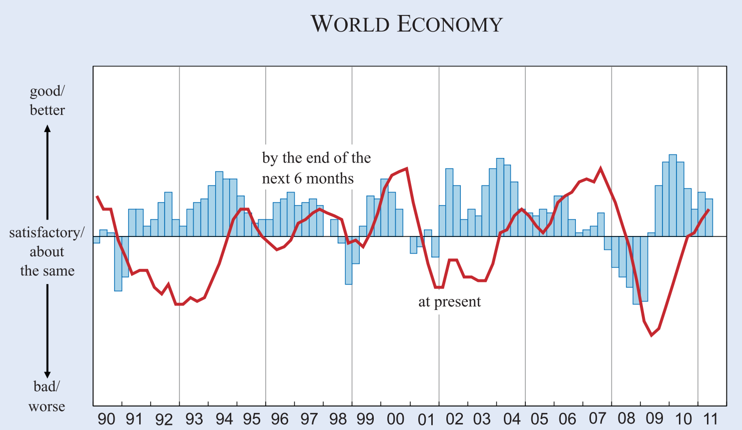
The upswing of the world economy continues. In spite of the brighter world economic cli-

**Figure 1**




*) Arithmetic mean of judgement of the present and expected economic situation.
Sources: IMF, World Economic Outlook April; Ifo World Economic Survey (WES) II/2011.

**Figure 2**



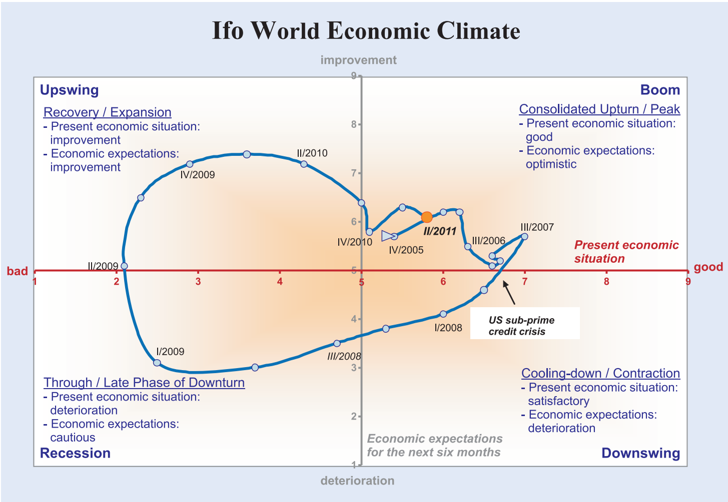

Source: Ifo World Economic Survey (WES) II/2011.

**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.*

The Ifo indicator for the world economic climate has slightly brightened further. The improvement results from more positive assessments of the current economic situation. The expectations for the coming six months weakened somewhat, however, but are still confident. The survey results indicate the upswing of the world economy continues although at a somewhat weaker pace.




The Ifo World Economic Climate is the arithmetic mean of the assessments of the current situation and economic expectations for the next six months. The correlation of the two climate components can be illustrated in a four-quadrant diagram ("Ifo Business Cycle Clock"). 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).

in the *euro zone* is ongoing. Furthermore, the problem of exchange rates and risks through excessive international capital movements looms. One recent example are fears of some *Brazilian* WES experts that their strong currency could lead to a loss of competitiveness or even a process of deindustrialization. In contrast, there could be a better than expected development in the *United States*. The *US* is suffering from a sluggish recovery on the labour market. Companies have increased productivity, and are still reluctant to hire additional staff. Long-term unemployment has become a serious problem. Especially these labour-market problems are responsible for the moderate growth pace in the *United States*. Nevertheless the large discrepancy between high productivity growth and reluctant hiring is not sustainable and will lead to a larger rebound in employment. In sum, the Ifo World Economic Climate at the moment points to a stable but somewhat slower upswing. If negative risks do not materialize, this could be a sustainable track for the world economy.

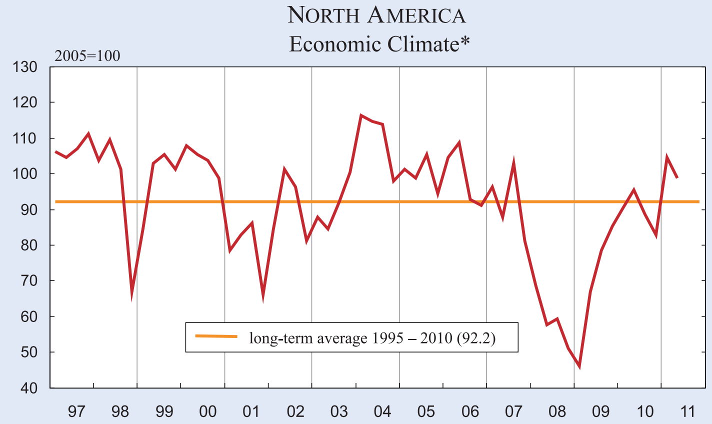
## Western Europe: Further improvement of the current economic situation

The economic climate indicator for *Western Europe* improved further in April 2011 (see Figure 3). The improvement resulted from more positive assessments of the present situation, while the economic expectations for the next six months have been downgraded somewhat (see Figure 4).

The same economic-climate pattern applies to the *euro* countries (see Box 2). The *euro zone* is still marked by extreme differences. On the one hand, the *GIPS* states – *Greece, Ireland, Portugal* and *Spain* – (see Box 4) are still struggling with huge economic problems, primarily public deficits, foreign debts and unemployment; on the other hand, in *Germany, Austria* and *Finland* a highly favourable economic climate still prevails (see Figures 5a and 5b).

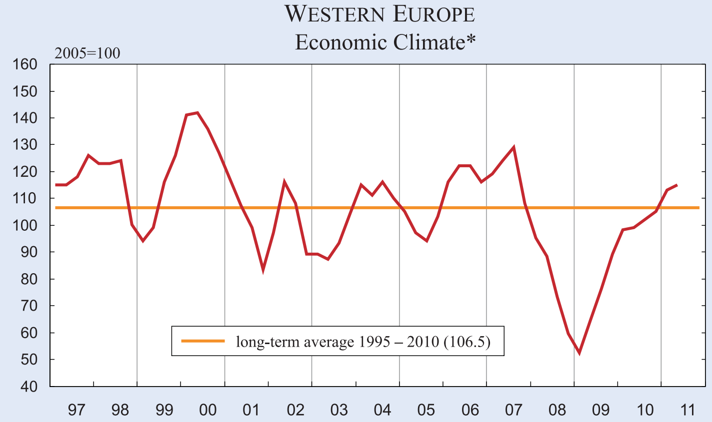
According to the latest WES results, the current economic situation is judged as good in *Germany, Austria* and *Finland*. In all these countries the assessments have been upgraded over the previous survey, and considerably so in *Germany* and *Finland*. Economic expectations for the next half of the year remain fairly confident in these three countries, though in *Germany* to a lesser degree than in January. In *Finland*, the WES experts expect a further strengthening of capital expenditures, private consumption and the export sector in the course of the next six months. In *Belgium*, the *Netherlands* and *Slovakia*, the present economic situation is regarded

**Figure 3**



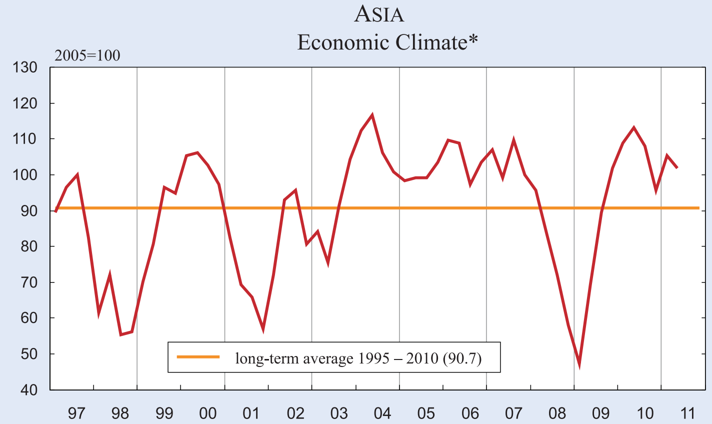

*) Arithmetic mean of judgement about the present and expected economic situation.

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




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

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




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

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

as favourable, according to the surveyed economic experts. The economic outlook for the next six months remains positive, although in the *Netherlands* and *Slovakia* to a lesser degree than in the previous survey. "Satisfactory" marks were given to the present situation in *Cyprus, France, Luxembourg, Malta* and *Estonia*, the new *euro* currency country. The assessments have been upgraded somewhat in *France* and *Estonia*, and, even considerably, in *Cyprus*. The expectations for the next six months in most of these countries are positive; especially the WES experts in *Estonia* expect capital expenditures, private consumption and the export sector to strengthen further. In contrast, in *Cyprus* WES experts have become somewhat cautious on the economic development in coming months. In *Italy* and *Slovenia* the present economic situation has hardly changed, according to the WES experts and is still assessed as poor. However, the outlook for the coming six months is quite positive. In particular the export sector in *Slovenia* is expected to rebound. For the remaining countries of the *euro zone – Greece, Ireland, Portugal* and *Spain* – WES experts continue to assess the present situation as very poor. *Greece* and *Portugal* even received the lowest marks on the WES scale. While the WES experts in *Portugal* remain very pessimistic and the *Greece*' experts cautious, in *Spain* and *Ireland* they are somewhat more positive regarding the economic situation in the next six 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 remain fairly confident. In *Denmark* and in *Monaco*, the assessments of the present economic situation are satisfactory, according to the WES experts, who also see room for further improvement in the coming months. Especially the export sector in *Denmark* is expected to grow. In the *United Kingdom* and in *Iceland* the judgements on the present economic situation remain unchanged, at an unfavourable level. However, the economic

**Box 2**

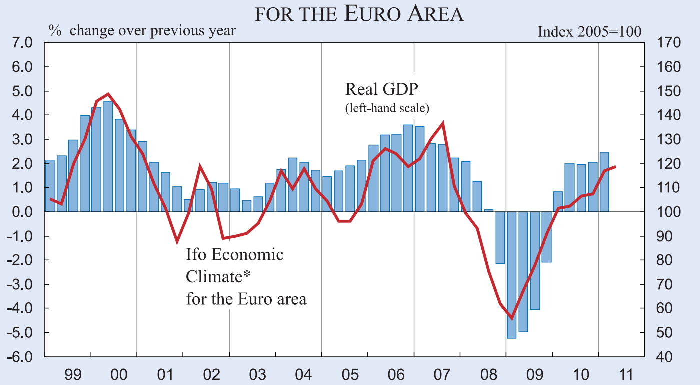
**World Economic Survey (WES) and GDP Growth in the Euro Area**

*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 April results are based on the responses of 286 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).*

The Ifo indicator for the economic climate in the *euro area* rose in the second quarter and is now clearly above its long-term average. The assessments of the current economic situation were clearly more positive than in the first quarter of the year. The expectations for the coming six months weakened, however, but remain confident on the whole. The survey results indicate that the economic upswing in the *euro area* will continue but with considerable differences in the individual member countries.

The current economic situation in *Germany* is excellent; it is good in *Austria* and *Finland*; and is still seen as favourable in *Belgium*, the *Netherlands* and *Slovakia*. In *France*, *Estonia* and *Cyprus*, the current economic situation is now seen by the WES experts as satisfactory – this marks a considerable improvement over the previous survey. The economic situation remains unfavourable in *Italy*. In the *GIPS* states – *Greece*, *Ireland*, *Portugal* and *Spain* – the surveyed economists still assess the current economic situation as weak. The expectations for the coming six months in the *euro area* are somewhat less confident vis-à-vis the previous survey but are still largely in positive territory. In *Greece* and above all in *Portugal*, the expectations for the coming six months signal a further worsening.

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) II/2011.

expectations for the next six months in both countries remain positive. They even have been considerably upgraded in the *United Kingdom,* where also the export sector is expected to pick up further.

### North America: Economic climate deteriorates

The economic climate indicator in *North America* declined somewhat after the strong rise in January (see Figure 3), but still remains well above its long-term average of 92.2 in the period 1995–2010. While the present situation improved somewhat, the economic expectations have been downgraded considerably but remain in positive territory (see Figure 4). In the *United States* the assessments of the present economic situation have been upgraded somewhat and the current situation is still considered as satisfactory (see Figure 6). In contrast, the economic expectations have been downgraded considerably, but still remain fairly positive for the next six months. The most important economic problems the *United States* is facing at present are public deficits and unemployment. In *Canada* both the present situation and the economic expectations hardly changed and remain at a favourable level.

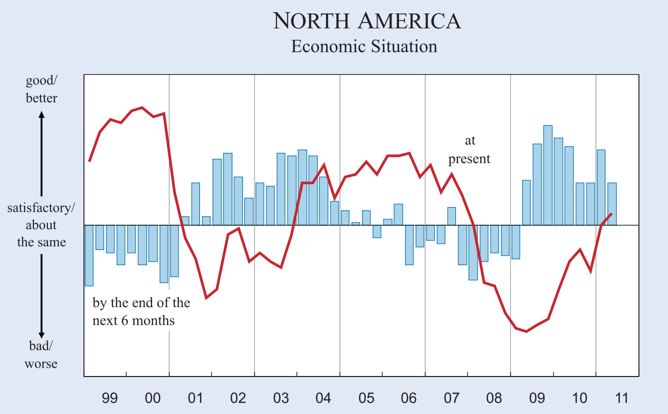
### Eastern Europe: Signs of growing momentum

The economic climate indicator in *Eastern Europe* rose clearly after two quarters of less dynamic development. The rise of the indicator is attributable to the more favourable assessments of both the present situation as well as the economic outlook (see Figures 4 and 7). In this region the WES experts expect a moderate growth of 2.8 percent in 2011 (see Table 1). These results on the whole indicate that the recovery in this region could gain momentum in the course of the year.

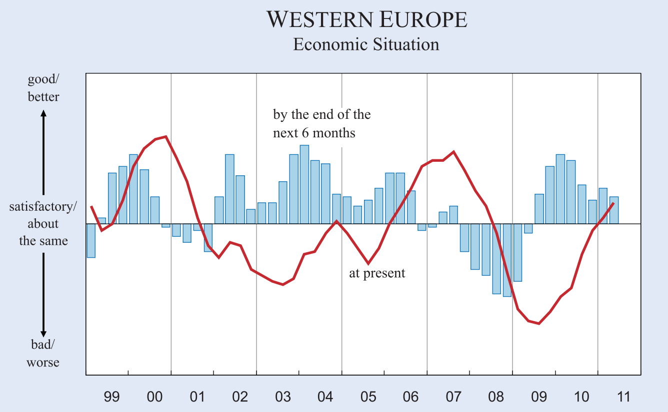
In *Poland* and the *Czech Republic* a favourable economic situation continues to prevail, according to the WES experts. In *Lithuania* the assessments have been upgraded considerably and are now also seen at a satisfactory level. The expectations for the next six months in all these countries remain positive; especially capital expenditures and the export sector are expected to strengthen further in the next half of

**Figure 4**

# SELECTED REGIONS




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

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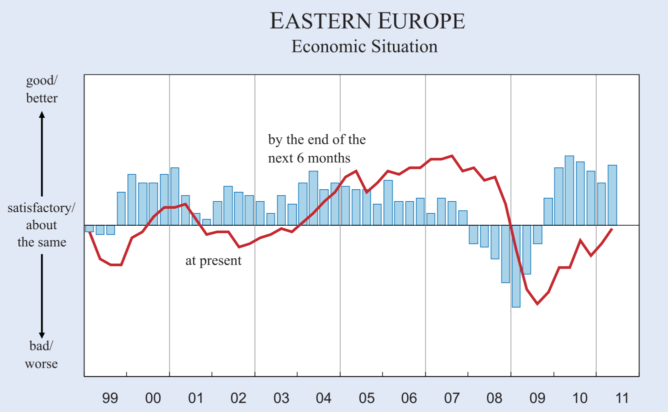
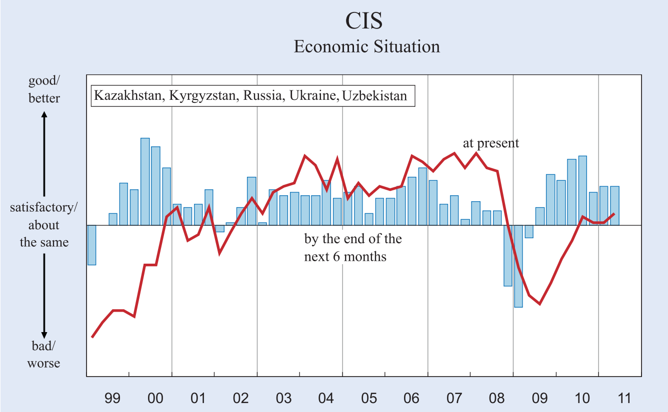



Source: Ifo World Economic Survey (WES) II/2011.

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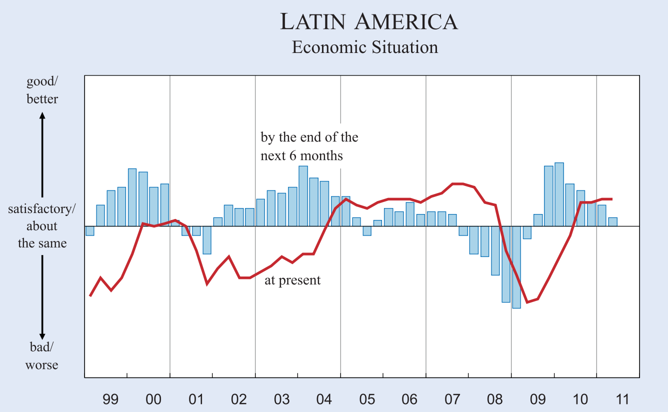


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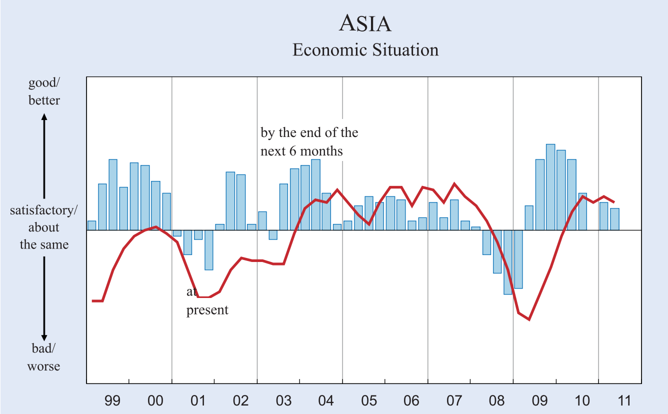



Source: Ifo World Economic Survey (WES) II/2011.

**Box 3**

**Most Important Economic Problems**

This is a summary of results of the bi-annual question about current main economic problems in the individual countries.

On a ***world-wide*** scale *public deficits* are now considered as the single most important problem. This is followed by *inflation* and in 3rd place by *unemployment*, which was considered as the main problem in the previous two years.

In ***Western Europe*** the same pattern of problems prevails as in the world average, i.e. *public deficits* followed by *inflation* and *unemployment*.

Also in ***North America*** *public deficits* are seen by WES experts as the number one problem, but are followed here directly by *unemployment* and then by *foreign debts*.

***Latin America*** suffers according to WES experts mainly from *a lack of international competitiveness*, followed by the *inflation* problem and a *lack of confidence in government's economic policy*.

In ***Oceania*** – and here particularly in ***Australia*** – *lack of skilled labour* is seen as the single most important problem followed by the *lack of confidence in government's economic policy* and as equally important *lack of international competitiveness* and *inflation.*

In ***Asia*** *inflation* ranks on top of the list of problems followed by *lack of confidence in government's economic policy* and the experienced *lack of skilled labour.*

In the ***Near East*** *insufficient demand* (probably outside the oil sector and focused largely on the construction sector) is seen as a main problem followed by *inflation* and *unemployment*.

***Africa*** is the only main region where *unemployment* still leads the list of problems, followed by *lack of international competitiveness* and *lack of skilled labour.*

***Eastern Europe*** – like *Western Europe* – suffers mainly from the consequences of high *public deficits* followed by *unemployment* and *lack of confidence in government's economic policy.*

In ***CIS*** countries – as in *Latin America* – the *lack of international competitiveness* ranks at the top of the listed problems followed with equal importance by *inflation* and *lack of confidence in government's economic policy*.

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

| | World | Western Europe | North America | Latin America | Oceania (Australia) | Asia | Near East | Africa | Eastern Europe | CIS |
|---|---|---|---|---|---|---|---|---|---|---|
| Lack of confidence in government's econ. policy | | | | 3 | 2 | 2 | | | 3 | 2.5 |
| Insufficient demand | | | | | | | 1 | | | |
| Unemployment | 3 | 3 | 2 | | | | 3 | 1 | 2 | |
| Inflation | 2 | 2 | | 2 | 3.5 | 1 | 2 | | | 2.5 |
| Lack of international competitiveness | | | | 1 | 3.5 | | | 2 | | 1 |
| Lack of skilled labor | | | | | 1 | 3 | | 3 | | |
| Public deficits | 1 | 1 | 1 | | | | | | 1 | |
| Foreign debts | | | 3 | | | | | | | |

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

the year. In *Bulgaria, Hungary* and *Latvia* the present situation is still regarded as unfavourable, although the assessments have been upgraded somewhat over the previous survey. However, the outlook for the coming six months remains in positive territory in all these countries, and also the export sector is expected to strengthen further according to the surveyed economic experts. In the remaining *EU* country of this region, *Romania*, the present situation is still assessed as very weak in spite of some improvement over the previous survey. However, some further recovery is anticipated in the course of the next six months.

The economic situation in the region outside the *EU* was upgraded somewhat but is still assessed as weak. The present economic situation in *Albania* is regarded as unfavourable, in *Croatia* and *Serbia* as very poor by the WES experts. Both countries, *Croatia* and *Serbia*, are currently suffering from high unemployment. However, the economic expectations for the next half of the year remain positive in all three countries. In *Montenegro* the surveyed economic experts assess the present economic situation as satisfactory and retain their positive economic outlook for the coming six months.

**CIS: Moderate economic climate**

The economic climate indicator for *CIS* countries covered by WES *(Russia, Ukraine, Kazakhstan, Kyrgyzstan* and *Uzbekistan)* has hardly changed over the previous survey. While the present situation improved somewhat, reaching a satisfactory level, the economic expectations for the next six months remain in positive territory (see Figure 4).

This pattern applies particularly to *Russia*. The assessments of the present economic situation improved marginally and are still at the "satisfactory" level. The expectations for the next six months remain positive (see Figure 6). The WES experts in *Kazakhstan* and *Uzbekistan* assess the present economic situation as favourable. The outlook for the coming six months remains bright in these two countries. Mainly in *Kazakhstan* some further strengthening of the export sector is foreseen by the WES experts. A relatively poor present economic performance is still reported from the WES experts in the *Ukraine* and in *Kyrgyzstan*. In both countries capital expenditures and private consumption are currently assessed as very weak. In *Kyrgyzstan*, macroeconomic development is expected to remain subdued in the coming months. Along with "public deficits", also "inflation" is among the most important economic problems the country is facing at present. The WES experts in *Georgia*[1] assess the present economic situation again as satisfactory and retain their positive economic outlook for the coming six months.

**Asia: Favourable economic climate persists**

In *Asia* the economic climate indicator slipped somewhat from its high level. Both the present economic situation and the economic expectations have been similarly downgraded somewhat. Nevertheless, the climate indicator still stands clearly above its long-term average (1995–2010: 90.7) and a favourable economic climate continues to prevail (see Figures 3, 4 and 8).

In April 2011 the economic situation was assessed as particularly favourable in *Hong Kong, India, Indonesia, Singapore* and *South Korea.* In all these countries, with the exception of *South Korea,* the assessments have been upgraded over the previous survey. The economic outlook for the coming six months remains positive, although in *South Korea* and *Indonesia* to a lesser degree than earlier this year. Especially the export sector is expected to strengthen further in the course of the second half of the year in all these countries. The present economic situation was rated as good in *Malaysia*, the *Philippines, Sri Lanka* and *Thailand*, and, at least as satisfactory in *Bangladesh, China* and *Taiwan*. In nearly all these countries the economic expectations for the next six months remain positive, however in *Sri Lanka, Bangladesh* and *Malaysia* to a considerably lesser degree than in the previous survey. In *China* the economic experts have an even more cautious view on the future economic development. The economic expectations have been downgraded somewhat since the beginning of the year. Accordingly, the WES experts expect capital expenditures to weaken somewhat in the next six months. Also no substantial further pick-up in private consumption and the export sector is foreseen in the next half of the year. The majority of the surveyed *Chinese* WES experts expects that within the next six months, the trade surplus will decrease; almost one in ten even assumes a trade deficit. Aside from this, the most important economic problem *China* is facing at present, according to WES experts is inflation, as in most *Asian* countries. In *Vietnam* the assessments of the present situation have again been downgraded considerably and are now seen as unfavourable. Also the expectations for the next six months have been downgraded markedly. The economic climate of the region's second largest economy, *Japan*, deteriorated considerably due to the damage that the earthquake and

[1] Georgia, which is not member of the Commonwealth of Independent States, is included in this region for reasons of geography and similarities in economic structures.

tsunami caused. The present economic situation is assessed as very bad, accompanied with very weak capital expenditures and private consumption. In the course of the next six months, the situation is expected to remain about the same. However, according to some WES experts in *Japan*, recovery efforts will likely create an increase in demand, especially social infrastructure investments, and will temporarily help boost the *Japanese* economy. Nevertheless, negative aspects should be considered as well: due to rolling blackouts, electric power shortages could negatively affect industrial production and also consumer spending. In addition, the fear of radiation from damaged nuclear power plants is likely to have a major effect on the economic sentiment, according to the comment of one *Japanese* WES expert. As *Japan's* most important economic problems the economic experts selected "public deficits" and "lack of confidence in government's economic policy". In *Pakistan* the present situation is still assessed as very poor and has even deteriorated further over the previous survey. However, the expectations for the coming six months have been upgraded considerably and are somewhat more positive.

**Oceania: Australia clearly outpaces New Zealand**

The economic climate indicator for *Australia* rose somewhat in April due to more positive assessments of the current economic situation, which is judged as favourable (see Figure 6). The expectations for the next six months remain in positive territory. According to the WES experts, the most important economic problems in *Australia* at present are "lack of skilled labour" and "lack of confidence in government's economic policy". In contrast, *New Zealand* is struggling with public debts, foreign debts and insufficient current demand. Capital expenditures and private consumption are assessed as very weak and will not strengthen further in the next six months. Accordingly, the overall economy is still assessed as unfavourable. However, in the course of the next six months the economic experts expect some improvement, as the export sector will strengthen further.

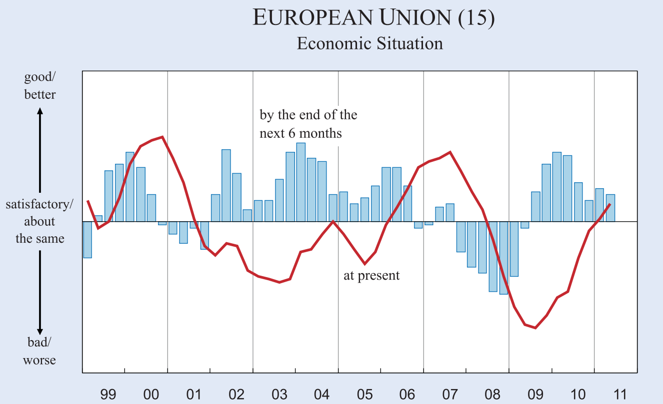
**Latin America: Some economic cooling**

In *Latin America* the economic climate indicator deteriorated somewhat. While assessments of the present situation remained at a favourable level, the economic expectations have been downgraded somewhat but are still in positive territory (see Figures 4 and 9).

The present economic performance remains strong, according to WES experts, particularly in *Chile, Paraguay, Peru* and *Uruguay*, although to a lesser degree than in the previous survey. *Chile* is the exception where the assessments have been further upgraded somewhat. On the other hand, the economic expectations in all these countries have been revised considerably downwards, but still remain positive. In *Argentina* and *Colombia* both assessments of the present situation and the economic outlook have been upgraded somewhat and therefore the overall economic climate improved again and remains favourable. Mainly the export sector is expected to pick up further in the next half of the year. In contrast, the economic climate in *Brazil* cooled somewhat as both components have been downgraded markedly. However, the present economic situation is still described by WES experts as favourable mainly due to strong private consumption. The economic expectations deteriorated somewhat and are now pointing to an economic stabilization at the current level. As in nearly all *Latin American* countries, in *Brazil* inflation is considered the most important economic problem by WES experts. In *Mexico, Costa Rica*, the *Dominican Republic, Ecuador, El Salvador* and *Panama*, the surveyed experts rate the economic situation as "satisfactory". While in nearly all these countries the assessments of the present situation remained unchanged, the situation improved in *El Salvador* but deteriorated somewhat in *Panama*. The economic outlook for the coming six months remains positive, albeit some downward revisions over the previous survey are obvious. In all these countries, inflation seems to be not the most important problem currently, but rather unemployment in *Mexico* and *El Salvador,* lack of skilled labour in *Panama*, public deficits in *Costa Rica* and *Dominican Republic* as well as lack of confidence in government's economic policy in *Ecuador*. In *Bolivia, Guatemala* and *Trinidad and Tobago,* the present economic situation worsened over the previous survey and is now regarded as unfavourable by the surveyed economic experts. In *Bolivia* and *Trinidad and Tobago* WES experts foresee no further improvement of the economic performance in the course of the next six months, as capital expenditures and private consumption will remain weak. In addition, inflation is currently challenging both countries. In contrast, *Guatemala* is mainly struggling with a lack of inter-

**Figure 5a**

# European Union

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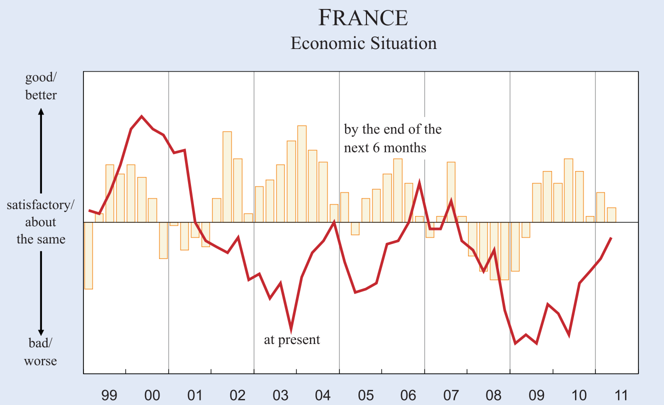


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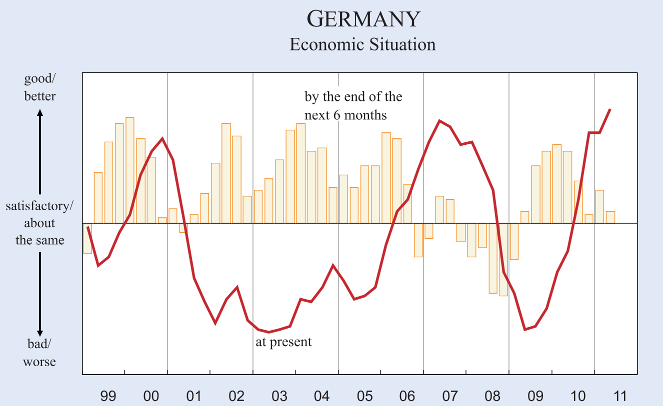


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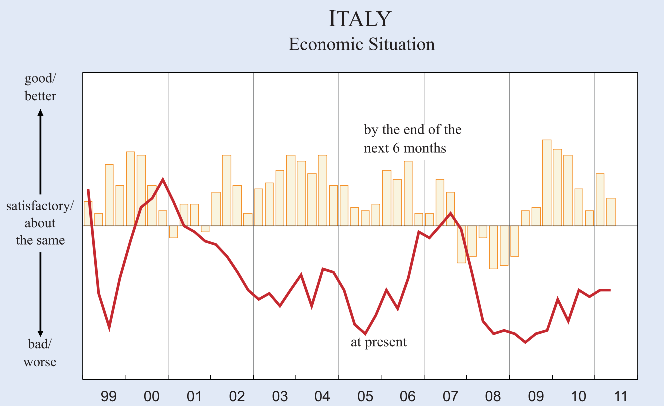


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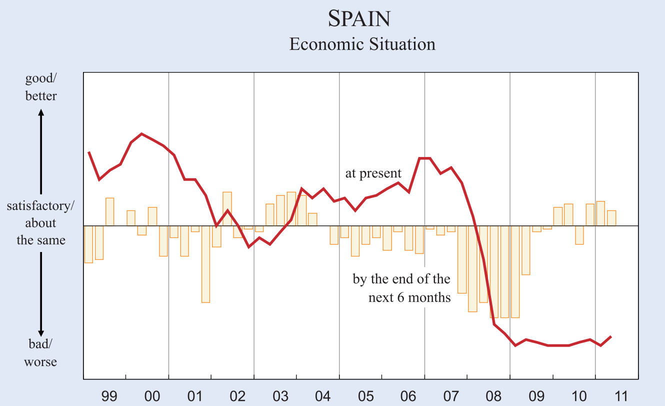


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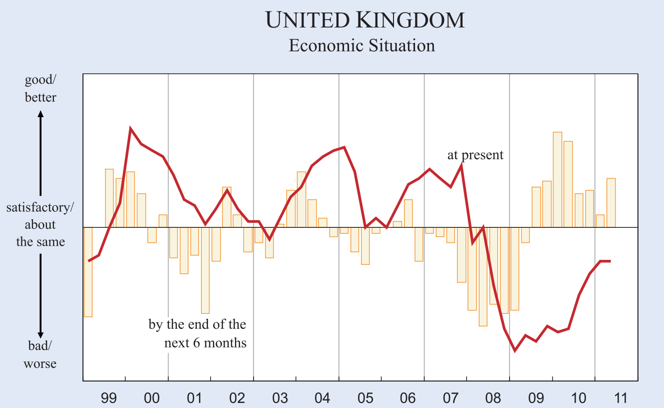
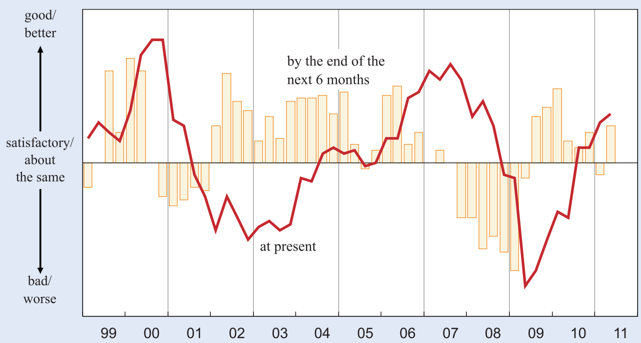



Source: Ifo World Economic Survey (WES) II/2011.

## Figure 5b

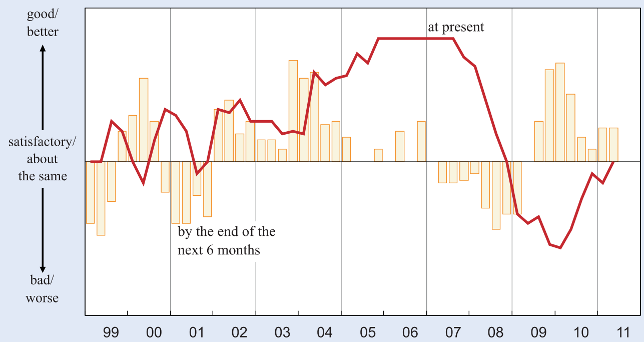
# European Union

AUSTRIA
Economic Situation



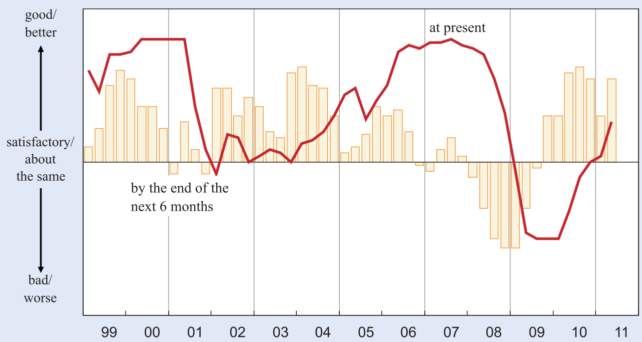

Source: Ifo World Economic Survey (WES) II/2011.

DENMARK
Economic Situation



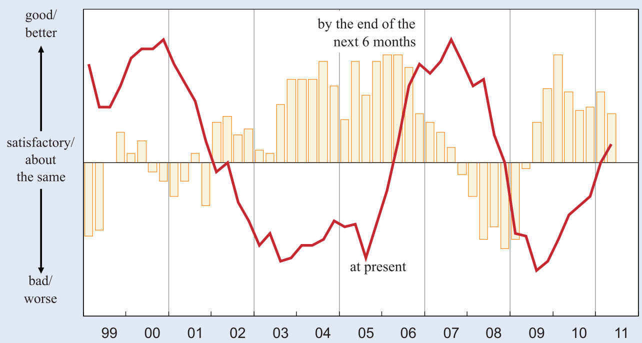

Source: Ifo World Economic Survey (WES) II/2011.

FINLAND
Economic Situation



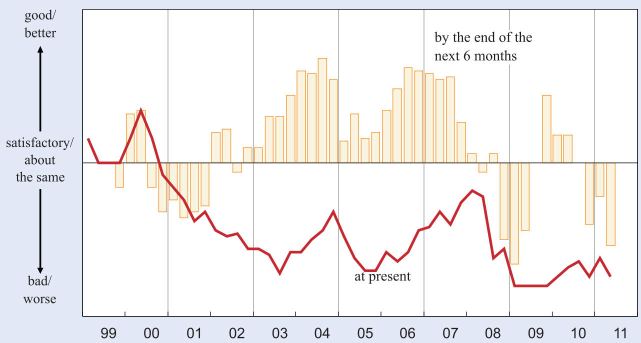

Source: Ifo World Economic Survey (WES) II/2011.

NETHERLANDS
Economic Situation



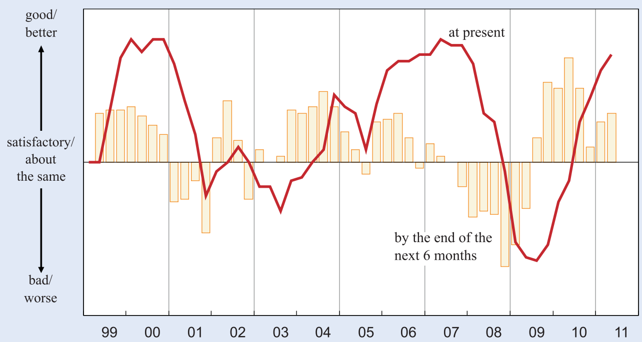

Source: Ifo World Economic Survey (WES) II/2011.

PORTUGAL
Economic Situation




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

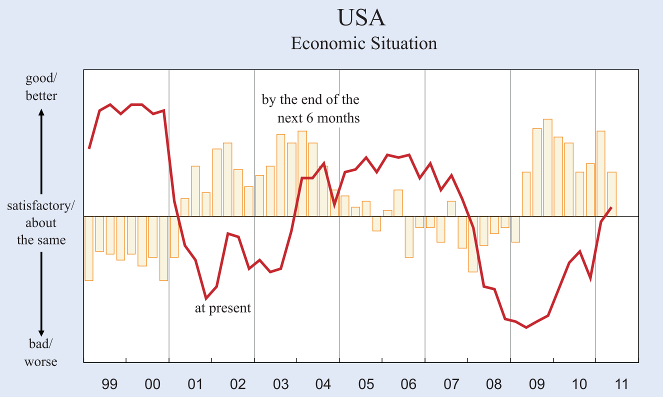
SWEDEN
Economic Situation




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

**Figure 6**

# North America, Oceania and CIS

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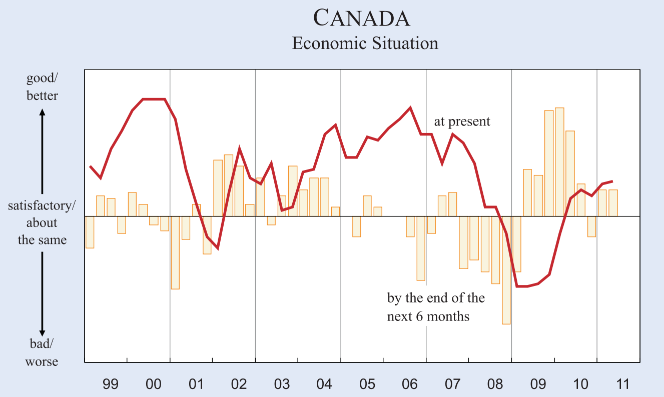


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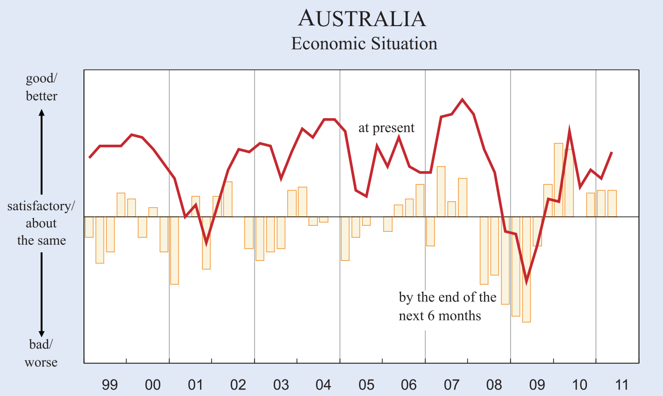


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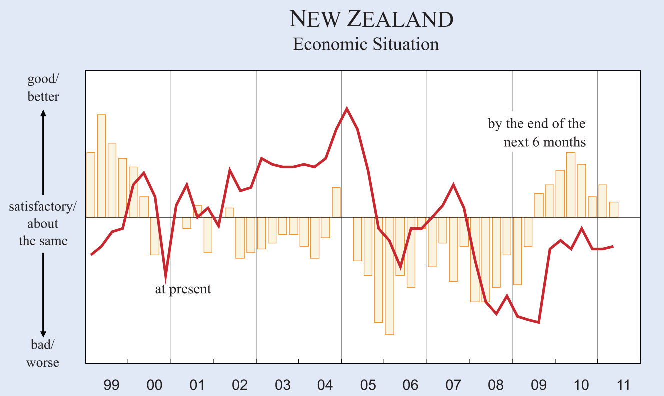


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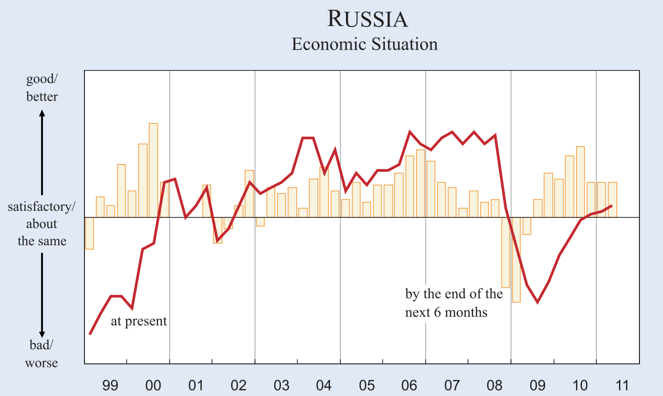


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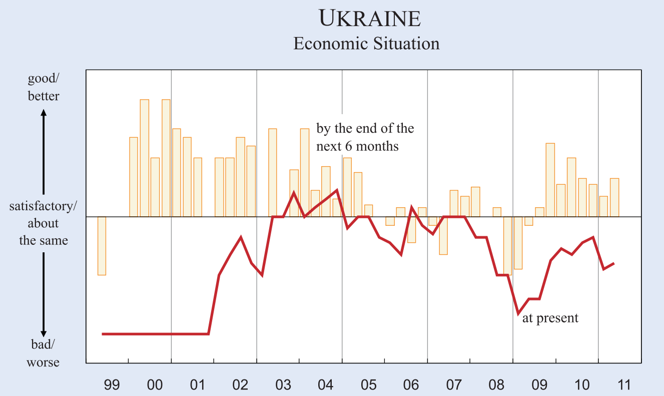
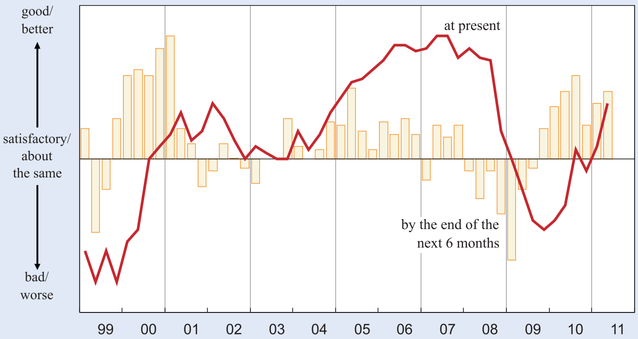



Source: Ifo World Economic Survey (WES) II/2011.

## Figure 7

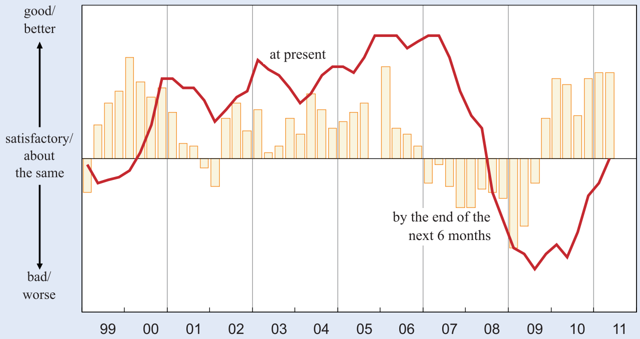
# Eastern Europe

CZECH REPUBLIC
Economic Situation



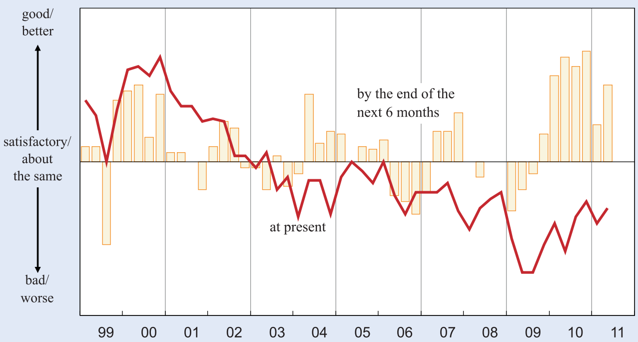

Source: Ifo World Economic Survey (WES) II/2011.

ESTONIA
Economic Situation



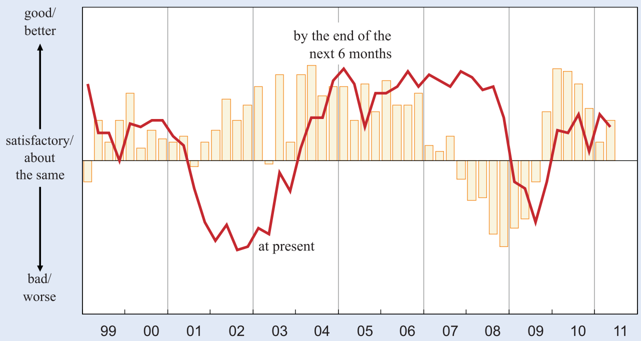

Source: Ifo World Economic Survey (WES) II/2011.

HUNGARY
Economic Situation



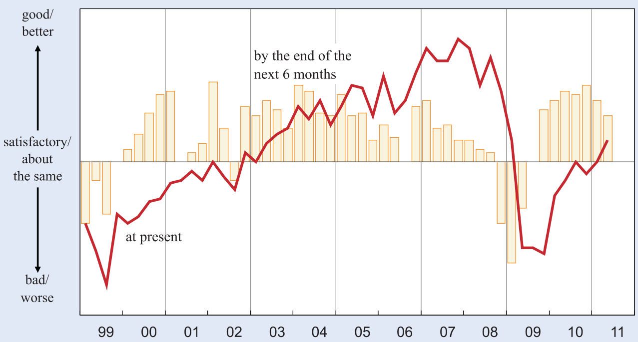

Source: Ifo World Economic Survey (WES) II/2011.

POLAND
Economic Situation




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

SLOVAK REPUBLIC
Economic Situation

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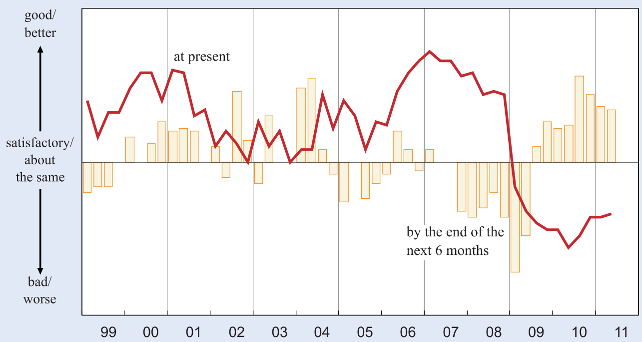
SLOVENIA
Economic Situation

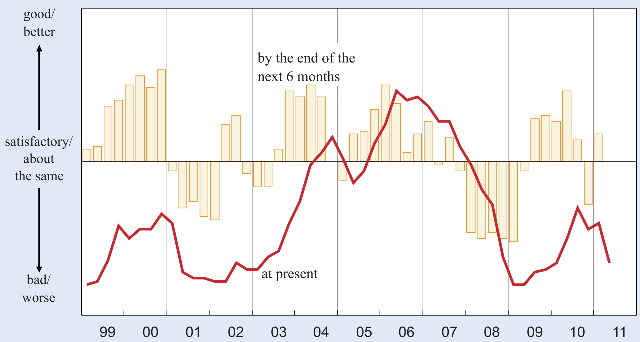



Source: Ifo World Economic Survey (WES) II/2011.

## Figure 8

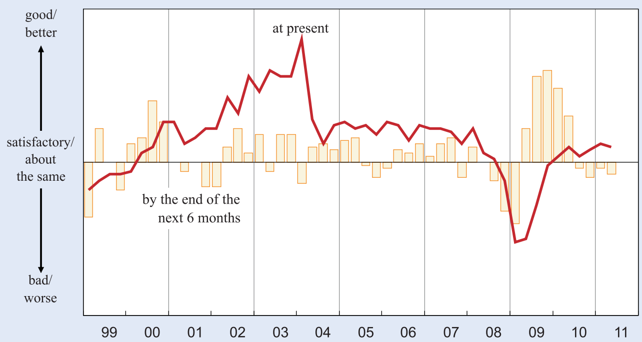
# ASIA

### JAPAN
Economic Situation




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

### CHINA P.R.
Economic Situation

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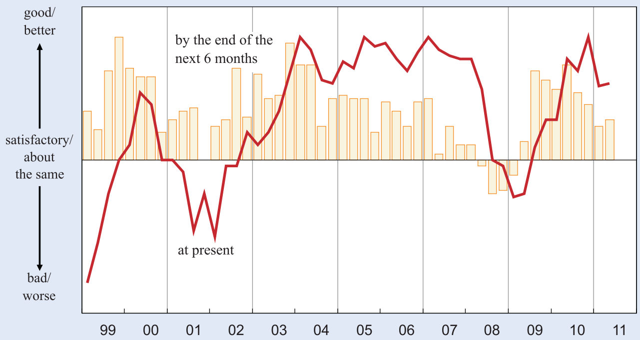
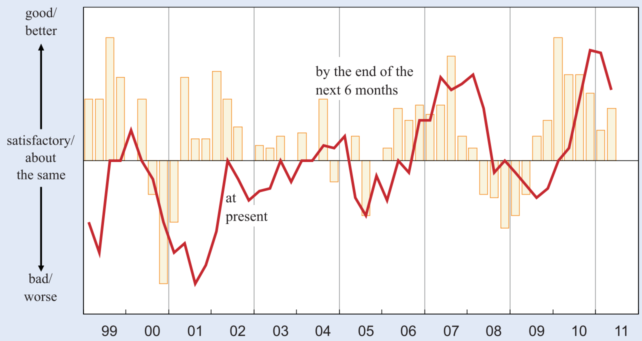
### INDIA
Economic Situation




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

### PHILIPPINES
Economic Situation

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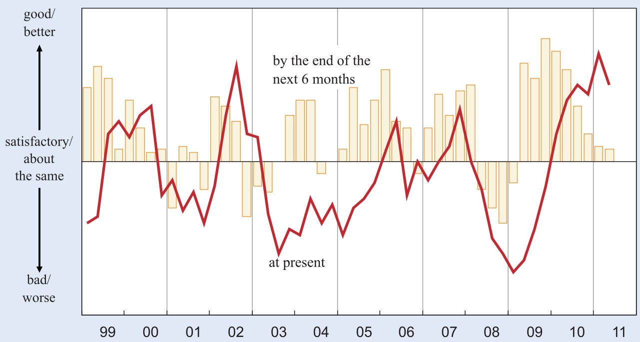
### SOUTH KOREA
Economic Situation




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

### TAIWAN R.O.C.
Economic Situation

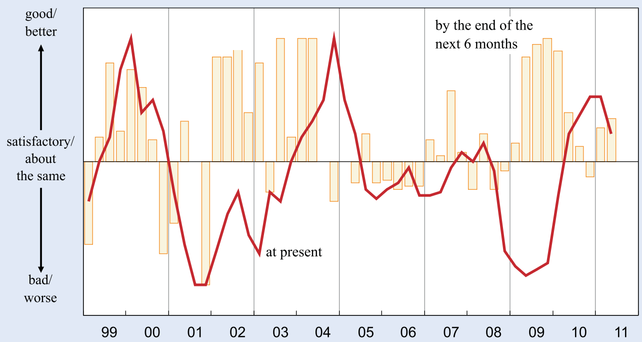



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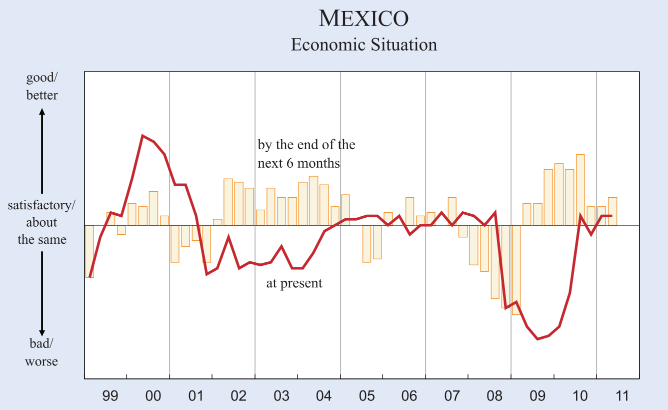
**Figure 9**

# Latin America

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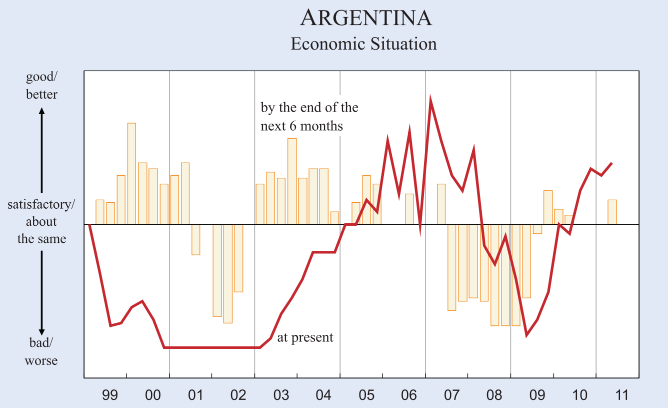


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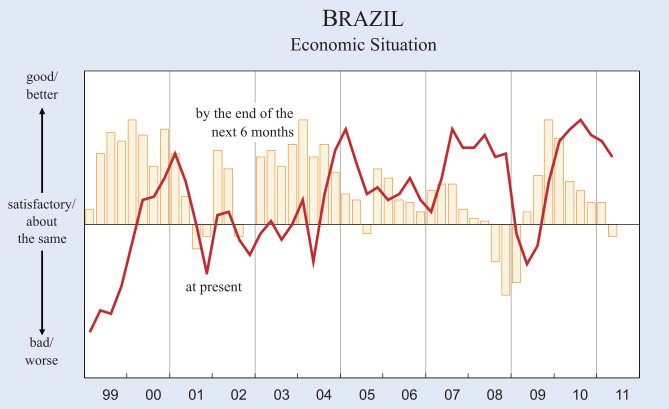


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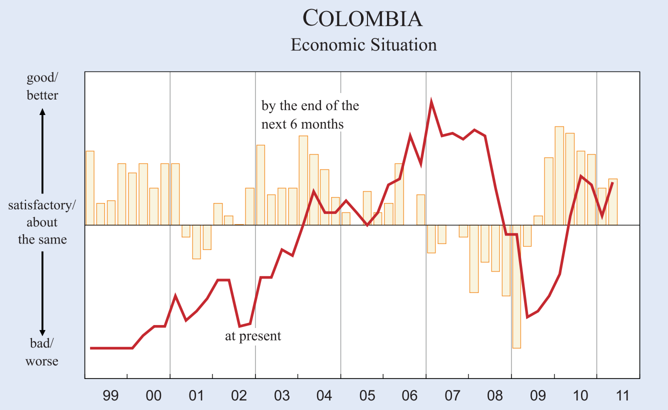


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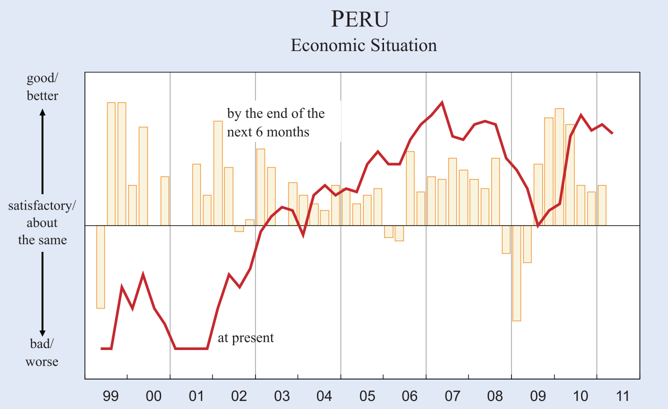


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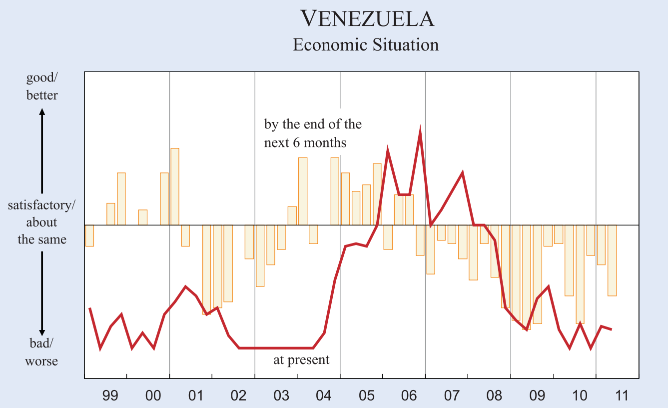
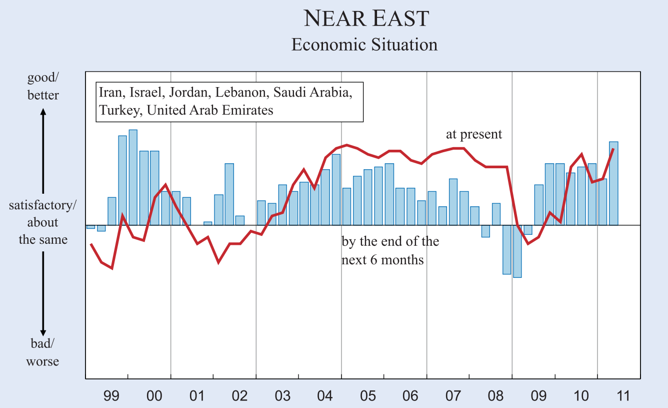



Source: Ifo World Economic Survey (WES) II/2011.

## Figure 10

# NEAR EAST AND AFRICA



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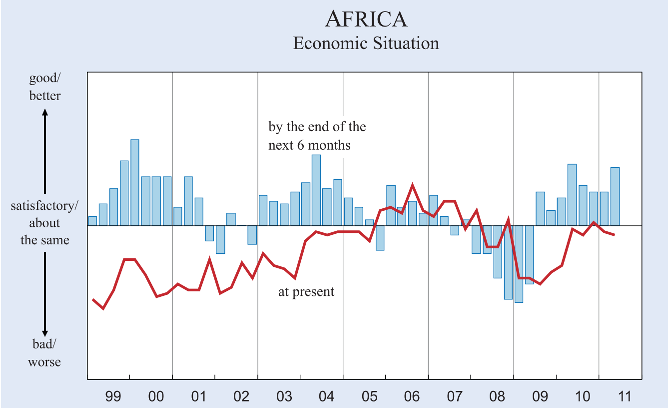

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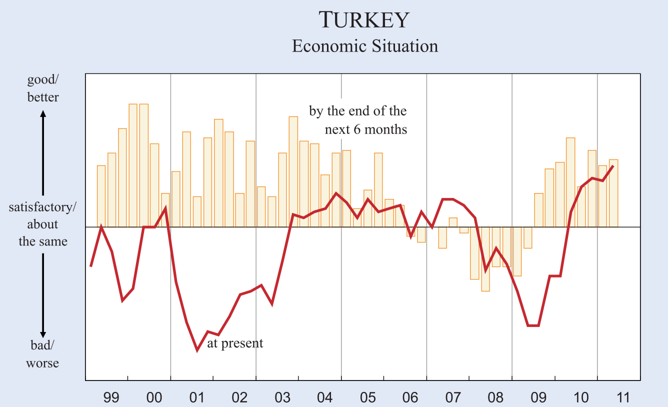

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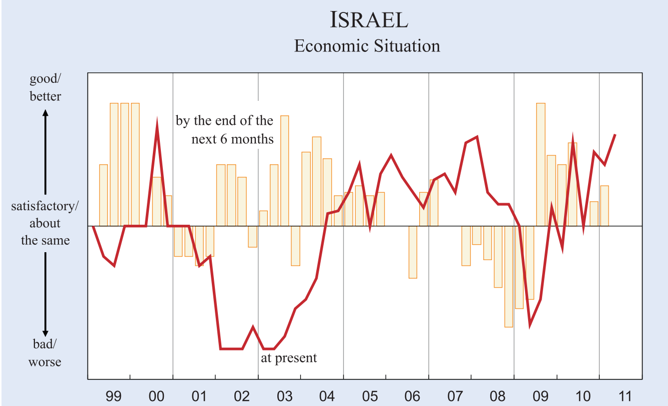

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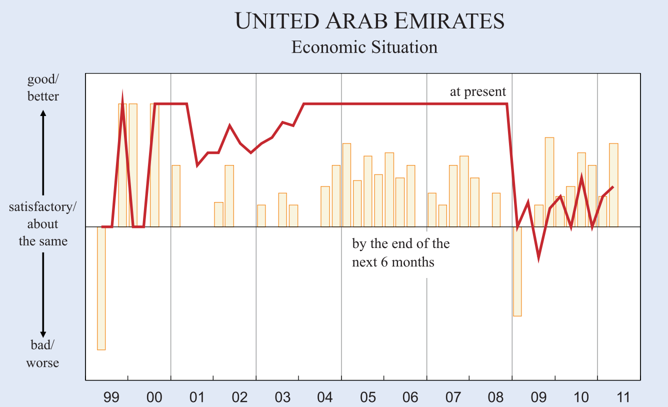

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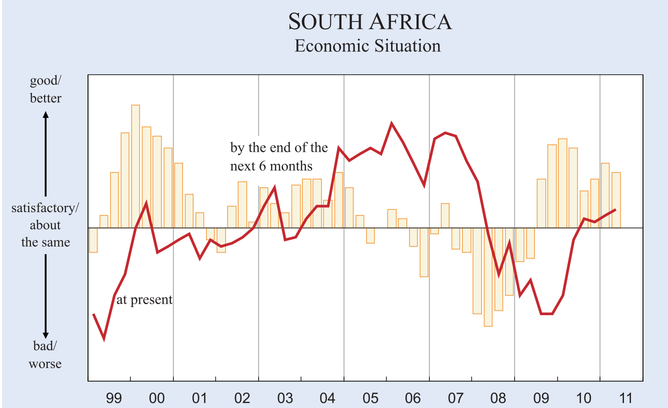


Source: Ifo World Economic Survey (WES) II/2011.

national competitiveness, but at least the economic expectations are somewhat more positive. In *Cuba* the current economic situation continues to be assessed as weak. However, the economic expectations have been upgraded somewhat and are in positive territory. In contrast, no signs of recovery can be observed in *Venezuela*. This country's present economic situation has again been assessed as very poor with no sign of improvement in the next half year. Besides a high inflation rate, *Venezuela* is particularly facing a lack of confidence in government's economic policy as the most important economic problem at present.

### Near East: Economic climate improves further

The economic climate indicator in the *Near East* rose considerably in April due to more favourable assessments of both the current situation as well as the six-month outlook (see Figure 10). In *Israel, Kuwait* and *Saudi Arabia* the present economic situation is assessed as highly favourable. The expectations for the coming six months remain optimistic in *Kuwait* and *Saudi Arabia* and are at least positive in *Israel*, despite considerably downward revision. Also in *Turkey* and in the *United Arab Emirates* the present situation improved somewhat and remains favourable according to the WES experts. The economic outlook for the next six months continues to be fairly confident in both countries. In contrast, the current economic situation in *Lebanon* and the *Syrian Arab Republic* deteriorated considerably; however, the assessments are still at a "satisfactory" level. While the WES experts in *Syria* anticipate no major changes in the next six months, the surveyed economic experts in *Lebanon* assume further deterioration of the overall economy, capital expenditures, private consumption and the export sector; they regard "insufficient demand" as the most important economic problem at present. In *Jordan* no substantial improvement of the economic performance has been observed over the previous survey in January. The WES experts still assess the current economic situation as very poor and continue to expect further deterioration in the course of the next six months.

### Africa: No clear economic trend

The countries of the *African* region display a very differing pattern concerning the economic climate. Thus, an aggregated climate index for the countries surveyed by WES on this 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 *Egypt, Morocco* and *Tunisia* has considerably worsened over the previous survey in January and is now assessed as poor. The political turmoil has not yet come to an end. The most important economic problem these countries are facing at present is unemployment, according to the WES experts. The expectations for the next six months have been upgraded in *Morocco* and – even considerably – in *Tunisia*, so they now stand in positive territory. However, in *Egypt*, the WES experts are less optimistic than in January, but nevertheless some improvement is expected in the course of the next six months. In *Algeria* the present situation has been revised markedly upwards and is now considered as favourable by the surveyed economic experts. The economic outlook for the coming six months remains optimistic; especially the export sector is expected to strengthen further. As the most important economic problems, the WES experts named a lack of international competitiveness as well as unemployment.

A favourable economic climate still prevails in *South Africa* (see Figure 10). The assessments of the present economic situation have been upgraded somewhat and are now regarded as favourable. However, the economic expectations have been revised downwards but still remain fairly confident. This country's most important economic problems are unemployment and lack of skilled labour, as in nearly all *African* countries, according to the WES experts.

In *Congo-Brazzaville Rep., Liberia, Rwanda, Sierra Leone* and *Zambia* the present economic situation is assessed as good. Especially in *Zambia* and *Liberia* the assessments have been considerably upgraded. In all these countries the outlook for the coming six months remains positive, and in *Liberia* it is even optimistic. In addition to the prevailing most important economic problems of the *African* countries – unemployment and lack of skilled labour – *Sierra Leone* is suffering from a high inflation rate, which is around 14 percent.

In *Congo Dem. Republic, Kenya, Mauritius, Namibia, Niger* and *Nigeria* the economic situation is regarded as favourable according to the WES experts. In nearly all these countries the assessments have been upgraded somewhat over the previous survey, and even considerably in *Niger* and *Nigeria*. The economic outlook for the next half year remains positive in all these countries. Except in *Kenya* the WES experts have become somewhat more cautious regarding future economic development. In *Niger*, the lack of international competitiveness is considered the most important economic problem by WES experts.

In *Benin, Gabon, Ghana, Lesotho, Malawi, Senegal* and *Uganda* the economic situation is regarded as "satisfactory" and is expected to continue to be so in the coming six months. However, in *Uganda* the economic expectations have been downgraded considerably and economic performance is expected to deteriorate in the coming six months. The high inflation rate and insufficient demand confront *Uganda*, according to the surveyed economic experts. For all other countries, a lack of international competitiveness is one of the most important economic problems.

The present situation is assessed as unfavourable or even poor in *Zimbabwe, Burundi, Comoros, Sudan* and *Tanzania*. Only the WES experts in *Burundi* expect an improvement by the end of the next six months. The surveyed economic experts in all other countries see no room for improvement in the coming six months; in *Tanzania* and in *Sudan* they even expect further deterioration of the economic performance. In *Sudan* uncertainty regarding the future development most likely results from the secession of Southern Sudan, as a consequence of the referendum held in January 2011. The secession will become effective on 9 July 2011. Moreover, the country is struggling with the highest inflation rate in the *African* region of around 20 percent, according to the WES experts' reports.

The remaining *Sub-Saharan* countries *Burkina Faso, Ivory Coast, Madagascar, Mauritania, Swaziland* and *Togo* have been assessed by the surveyed economic experts with very low marks on the WES scale. The present situation is regarded as very poor. In the next six months the WES experts foresee no improvement of the economic performance. At least in *Ivory Coast* a bettering of the economic situation in the next six months is anticipated as the political conflict which resulted from the presidential election seems to have been resolved.

**Expected growth of real gross domestic product (GDP) in 2011**

*General trends*

Each year in the second quarter survey, WES experts are asked to give a quantitative forecast of GDP[2] growth in the current year.

For 2011 world economic growth is expected to reach 3.2 percent. Thus, compared with the forecast given by WES experts one year ago, the figure is half a percentage higher (see Table 1). It is interesting to note that – apart from the absolute level of growth – this year's forecasts especially for *Eastern Europe* and the *Near East* but also to a somewhat lesser degree for *Latin America, CIS* countries, *Africa* and *Western Europe* are higher than last year, whereas in *Asia* and *North America* this year's growth estimates are slightly lower than at the same time last year. In *Australia* the two estimates are exactly the same. This is an indication that this year's worldwide growth outlook is more balanced with regard to the large regions in the world.

*2011 economic growth outlook by countries*

Growth engines in 2011 – according to WES experts – will again be *China* (though with 8.6% the outlook is slightly lower than in 2010 with 9.0%) and *India* (8.2% almost unchanged from last year's estimate) but also some *Latin American* "growth stars" like *Peru* (6.6%), *Argentina* (6.3%), *Uruguay* (6.0%) and *Chile* (5.6%). *Brazil* continues to be among the group of countries growing faster than the world average, but with an expected 4.4% growth in 2011 *Brazil* is no longer in the top group of fast growing economies in *Latin America*. The countries with strong economic growth in 2011 – according to the WES experts – are *Turkey* (6.4%), *Hong Kong* (6.4%) and alongside *China* and *India* some other *Asian* countries like *Sri Lanka* (7.2%) and *Vietnam* (5.6%) as well as several *African* countries like *Congo-Brazzaville Rep.* (8.0%), *Liberia* (7.8%) and *Nigeria* (7.1%).

[2] Country economic growth rate is 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. Thus, world economic growth calculated by the Ifo method, which is also applied by the World Bank, is as a rule somewhat lower than the corresponding figures by the IMF.

Table 1

**Expected Growth of Real Gross Domestic Product (GDP) in 2011 and 2010**

(based on WES QII/2011 and QII/2010)

| Region | QII/2011 | QII/2010 | Region | QII/2011 | QII/2010 |
|---|---|---|---|---|---|
| **Average of countries*** | **3.2** | **2.7** | **North America** | **2.7** | **2.8** |
| High-income countries | 2.6 | 2.2 | Canada | 2.9 | 3.0 |
| Middle-income countries | 5.1 | 4.1 | United States | 2.7 | 2.7 |
| Upper-middle | 4.5 | 3.3 | | | |
| Lower-middle | 6.0 | 5.4 | **Latin America** | **4.3** | **3.4** |
| Low-income countries | 5.7 | 4.3 | Argentina | 6.3 | 3.9 |
| EU 27 countries | 2.0 | 1.3 | Bolivia | 3.7 | 4.0 |
| EU countries (old members)[a] | 1.9 | 1.3 | Brazil | 4.4 | 5.4 |
| EU countries (new members)[b] | 2.9 | 1.4 | Chile | 5.6 | 4.1 |
| Euro area[c] | 1.9 | 1.3 | Colombia | 4.7 | 2.5 |
| | | | Costa Rica | (4.0) | (3.0) |
| **Western Europe** | **1.9** | **1.3** | Cuba | (4.0) | – |
| Austria | 2.0 | 1.3 | Dominican Republic | (4.0) | (4.5) |
| Belgium | 2.1 | 1.4 | Ecuador | 4.2 | 2.4 |
| Cyprus | 1.7 | 0.3 | El Salvador | 2.0 | (0.5) |
| Denmark | 2.1 | 1.6 | Guatemala | 3.0 | 1.7 |
| Finland | 3.5 | 1.8 | Mexico | 3.9 | 3.3 |
| France | 1.7 | 1.5 | Panama | – | (3.8) |
| Germany | 2.6 | 1.6 | Paraguay | 5.1 | 7.0 |
| Greece | – 2.9 | – 1.5 | Peru | 6.6 | 5.2 |
| Iceland | (2.0) | – 0.7 | Trinidad and Tobago | 1.8 | 1.3 |
| Ireland | 1.0 | 0.4 | Uruguay | 6.0 | 4.7 |
| Italy | 1.3 | 0.9 | Venezuela | 1.7 | – 2.3 |
| Luxembourg | (3.0) | 1.9 | | | |
| Malta | (2.5) | (1.0) | **Near East** | **4.8** | **3.2** |
| Monaco | (1.5) | – | Iran | – | (2.0) |
| Netherlands | 1.8 | 1.4 | Israel | 3.6 | 3.6 |
| Norway | 3.0 | 3.1 | Jordan | (4.0) | – |
| Portugal | – 0.9 | 0.5 | Kuwait | (3.5) | (3.4) |
| Spain | 0.9 | – 0.3 | Lebanon | (5.0) | 6.5 |
| Sweden | 4.2 | 2.5 | Saudi Arabia | 4.8 | 2.9 |
| Switzerland | 2.4 | 1.5 | Syrian Arab Republic | (4.0) | (1.0) |
| United Kingdom | 1.6 | 1.4 | Turkey | 6.4 | 4.1 |
| | | | United Arab Emirates | 4.0 | 2.9 |
| **Eastern Europe** | **2.8** | **1.4** | | | |
| Albania | 3.6 | – | **Africa** | **4.2** | **3.5** |
| Bulgaria | 2.4 | – 0.1 | **Northern Africa** | **3.6** | **n.a.** |
| Croatia | 1.2 | 0.3 | Algeria | 5.2 | 4.4 |
| Czech Republic | 2.3 | 1.3 | Egypt | 2.1 | 5.0 |
| Estonia | 4.6 | – 0.1 | Morocco | 4.1 | 5.2 |
| Hungary | 2.2 | 0.3 | Tunisia | 2.3 | 4.0 |
| Latvia | 2.8 | – 1.3 | **Sub-Saharan Africa** | **4.6** | **n.a.** |
| Lithuania | 3.7 | 0.1 | Benin | 3.6 | 4.1 |
| Montenegro | (2.3) | – | Burundi | 4.3 | – |
| Poland | 3.9 | 2.6 | Comoros | 2.8 | 4.4 |
| Romania | 1.3 | 0.7 | Congo Dem. Rep. | 5.9 | 5.6 |
| Serbia | 2.4 | 1.5 | Congo-Brazzaville Rep. | 8.0 | 9.8 |
| Slovakia | 3.9 | 2.6 | Djibouti | – | 5.1 |
| Slovenia | 2.2 | 1.0 | Gabon | (5.6) | 3.1 |
| | | | Ghana | (6.0) | – |
| **CIS** | **4.4** | **3.6** | Ivory Coast | (0.5) | 3.1 |
| Georgia[x] | (5.0) | – | Kenya | 5.0 | 5.0 |
| Kazakhstan | 5.9 | 3.2 | Lesotho | 3.5 | 2.8 |
| Kyrgyzstan | 3.3 | 4.9 | Liberia | 7.8 | 6.7 |
| Russia | 4.1 | 3.7 | Madagascar | 3.0 | 2.0 |
| Ukraine | 4.4 | 2.8 | Malawi | (6.0) | – |
| Uzbekistan | (9.0) | 8.1 | Mauritania | 4.3 | 3.5 |
| | | | Mauritius | 4.5 | 4.0 |
| **Asia** | **4.4** | **4.6** | Namibia | 4.2 | – |
| Bangladesh | 6.7 | (6.2) | Niger | 5.0 | 3.3 |
| China | 8.6 | 9.0 | Nigeria | 7.1 | (1.0) |
| Hong Kong | 6.4 | 4.6 | Rwanda | 5.7 | 6.6 |
| India | 8.2 | 8.1 | Senegal | (4.5) | – |
| Indonesia | 6.6 | 5.5 | Sierra Leone | 5.2 | 4.5 |
| Japan | 0.1 | 1.3 | South Africa | 3.3 | 2.8 |
| Malaysia | 5.8 | 2.6 | Sudan | 4.1 | 7.5 |
| Pakistan | 3.0 | 3.8 | Swaziland | – 0.8 | 2.6 |
| Philippines | 5.3 | 6.2 | Tanzania | 6.0 | (6.0) |
| Singapore | (5.0) | 5.1 | Togo | (3.0) | – |
| South Korea | 4.6 | 4.5 | Uganda | (6.4) | – |
| Sri Lanka | 7.2 | 5.5 | Zambia | 6.3 | 6.1 |
| Taiwan | 4.7 | 4.8 | Zimbabwe | 6.1 | 5.0 |
| Thailand | 4.2 | 3.7 | | | |
| Vietnam | 5.6 | 6.7 | | | |
| | | | | | |
| **Oceania** | **3.1** | **3.1** | | | |
| Australia | 3.3 | 3.3 | | | |
| New Zealand | 1.3 | 1.7 | | | |

* 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. – ( ) The data in brackets result from few responses. – [x] Georgia, which is not member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure. – [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) II/2011 and II/2010.

Table 2

**Inflation Rate Expectations for 2011**
(based on WES QII/2011 and QI/2011)

| Region | QII/2011 | QI/2011 | Region | QII/2011 | QI/2011 |
|---|---|---|---|---|---|
| **Average of countries*** | **3.8** | **3.4** | **North America** | **2.5** | **2.0** |
| High-income countries | 2.7 | 2.3 | Canada | 2.4 | 2.0 |
| Middle-income countries | 7.3 | 7.5 | United States | 2.5 | 2.0 |
| Upper-middle | 7.3 | 7.5 | | | |
| Lower-middle | 7.3 | 7.4 | **Latin America** | **7.9** | **7.9** |
| Low-income countries | 9.7 | 7.8 | Argentina | 27.1 | 27.1 |
| EU 27 countries | 2.8 | 2.2 | Bolivia | 11.8 | 8.4 |
| EU countries (old members)[a] | 2.7 | 2.1 | Brazil | 6.2 | 5.5 |
| EU countries (new members)[b] | 3.7 | 3.3 | Chile | 4.5 | 3.6 |
| Euro area[c] | 2.5 | 1.9 | Colombia | 3.4 | 3.4 |
| | | | Costa Rica | (6.0) | 6.0 |
| **Western Europe** | **2.6** | **2.0** | Cuba | (4.0) | (3.0) |
| Austria | 2.6 | 2.2 | Dominican Republic | (6.0) | (5.5) |
| Belgium | 3.1 | 2.3 | Ecuador | 3.8 | 3.7 |
| Cyprus | 2.7 | 2.5 | El Salvador | 3.7 | 2.2 |
| Denmark | 2.8 | 2.2 | Guatemala | 6.6 | 6.1 |
| Finland | 3.2 | 2.3 | Mexico | 4.6 | 4.3 |
| France | 2.1 | 1.6 | Panama | (6.0) | (2.5) |
| Germany | 2.3 | 1.9 | Paraguay | 8.6 | 6.7 |
| Greece | 3.5 | 3.8 | Peru | 3.4 | 2.7 |
| Iceland | 2.8 | 2.0 | Trinidad and Tobago | 14.0 | (15.0) |
| Ireland | 1.9 | 0.9 | Uruguay | 7.9 | 6.8 |
| Italy | 2.3 | 1.9 | Venezuela | 27.9 | 30.0 |
| Luxembourg | (3.3) | (2.4) | | | |
| Malta | (3.0) | – | **Near East** | **4.3** | **5.6** |
| Monaco | (2.0) | – | Bahrain | – | (3.0) |
| Netherlands | 2.2 | 1.7 | Iran | – | (15.0) |
| Norway | 2.2 | 2.0 | Israel | 3.4 | 2.9 |
| Portugal | 2.9 | 1.9 | Jordan | (5.5) | (4.0) |
| Spain | 3.0 | 2.4 | Kuwait | (5.5) | (5.0) |
| Sweden | 2.6 | 2.0 | Lebanon | (5.5) | (5.0) |
| Switzerland | 1.0 | 0.8 | Saudi Arabia | 3.9 | 5.3 |
| United Kingdom | 4.3 | 3.5 | Syrian Arab Republic | (6.5) | 7.3 |
| | | | Turkey | 6.6 | 6.3 |
| **Eastern Europe** | **3.7** | **3.4** | United Arab Emirates | 2.9 | 2.7 |
| Albania | 4.2 | 4.1 | | | |
| Bulgaria | 5.1 | 4.5 | **Africa** | **7.5** | **7.3** |
| Croatia | 2.6 | 2.1 | **Northern Africa** | **6.7** | **6.4** |
| Czech Republic | 2.2 | 2.2 | Algeria | 4.5 | 5.1 |
| Estonia | 4.2 | 3.2 | Egypt | 14.7 | 12.8 |
| Hungary | 4.2 | 4.2 | Morocco | 3.1 | 2.6 |
| Latvia | 4.3 | 2.7 | Tunisia | 4.5 | 4.1 |
| Lithuania | 3.6 | 3.1 | **Sub-Saharan Africa** | **8.0** | **7.9** |
| Montenegro | (1.0) | – | Benin | 3.0 | 3.4 |
| Poland | 3.9 | 3.3 | Burkina Faso | (4.0) | – |
| Romania | 5.5 | 5.5 | Burundi | 9.0 | 10.3 |
| Serbia | 8.9 | 10.3 | Comoros | (5.4) | 3.5 |
| Slovakia | 3.6 | 2.7 | Congo Dem. Rep. | 13.0 | 9.3 |
| Slovenia | 2.3 | 2.0 | Congo-Brazzaville Rep. | 3.3 | 4.8 |
| | | | Djibouti | – | (3.5) |
| **CIS** | **10.0** | **9.6** | Gabon | (4.7) | (3.5) |
| Georgia[x] | (13.0) | (9.5) | Ghana | (9.0) | 9.8 |
| Kazakhstan | 8.9 | 8.0 | Ivory Coast | (7.0) | 3.9 |
| Kyrgyzstan | 19.3 | 18.3 | Kenya | 11.4 | 6.8 |
| Russia | 9.7 | 9.1 | Lesotho | 5.5 | 5.9 |
| Ukraine | 11.7 | 11.2 | Liberia | 8.4 | 6.1 |
| Uzbekistan | (14.7) | (17.0) | Madagascar | 9.2 | 8.9 |
| | | | Malawi | (10.0) | (7.5) |
| **Asia** | **3.9** | **3.6** | Mauritania | 7.5 | (10.0) |
| Bangladesh | 9.4 | 7.3 | Mauritius | 6.2 | 4.9 |
| China | 4.9 | 4.8 | Namibia | 5.2 | 5.1 |
| Hong Kong | 4.6 | 4.3 | Niger | 2.3 | 2.4 |
| India | 8.0 | 8.5 | Nigeria | 11.6 | 12.8 |
| Indonesia | 6.4 | 6.7 | Rwanda | 7.7 | 7.3 |
| Japan | 0.3 | – 0.1 | Senegal | – | 1.4 |
| Malaysia | 3.3 | 4.0 | Sierra Leone | 14.1 | 13.7 |
| Pakistan | 17.1 | 14.9 | South Africa | 5.1 | 4.6 |
| Philippines | 4.5 | 4.2 | Sudan | 19.6 | 17.6 |
| Singapore | (4.0) | (3.0) | Swaziland | 6.7 | 4.9 |
| South Korea | 4.5 | 3.3 | Tanzania | 9.0 | 5.0 |
| Sri Lanka | 8.5 | 8.5 | Togo | (2.1) | (4.0) |
| Taiwan | 2.2 | 2.0 | Uganda | 8.3 | (4.0) |
| Thailand | 3.9 | 3.5 | Zambia | 9.4 | 7.5 |
| Vietnam | 12.5 | 11.3 | Zimbabwe | 5.8 | 5.4 |
| | | | | | |
| **Oceania** | **3.3** | **3.3** | | | |
| Australia | 3.3 | 3.3 | | | |
| New Zealand | 3.5 | 3.1 | | | |

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. – ( ) The data in brackets result from few responses. – [x] Georgia, which is not member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure. – [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) II/2011 and I/2011.

The few countries in *Western Europe* where growth is close or even above potential in 2011 include *Sweden* (4.2%), *Finland* (3.5%), *Norway* (3.0%) and also *Germany* (2.6%). In *Eastern Europe* the countries that will be able to resume their previous growth performance include particularly *Estonia* (4.6%), *Slovakia* (3.9%) and *Poland* (3.9%).

On the other hand, economic stagnation is expected in 2011 in *Japan* mainly due to the three disasters this country has undergone (earthquake, tsunami and nuclear radiation). Countries hit by financial crisis and in the midst of a restructuring process include *Greece* (growth outlook for 2011: – 2.9%) as well as *Portugal* (– 0.9%) and also *Ireland* which at least – according to WES experts – will be able to engineer a small positive growth rate of 1.0% in 2011. But apart from these countries most affected within the *euro area* by the sovereign debt crisis, also other countries like *Spain* (0.9%) and *Italy* (1.3%) will experience growth well below their potential in 2011 again.

**Inflation picks up**

*General trends*

The WES results signal a further pick up of inflation expectations on a worldwide scale. On a world average, WES experts forecast, for 2011, an annual inflation rate of 3.8% compared with a reported 3.4% at the beginning of the year (see Table 2). The upward trend of inflation expectations from January to April 2011 is apparent in almost all countries, but this time is particularly pronounced in *Western Europe* (2.6% after 2.0% in January 2011) and *North America* (2.5% after 2.0%). In some other parts of the world, the expected inflation rates for 2011 are still significantly higher than in *Western Europe* or *North America,* but the rise of inflation expectations since the beginning of the year is less pronounced, so in the *CIS* area (from 9.6% to 10.0%), in *Asia* (from 3.6 to 3.9%), in *Eastern Europe* (from 3.4% to 3.7%) and in *Africa* (from 7.3% to 7.5%). In *Australia* inflation expectations for 2011 remain unchanged at 3.3% and in the *Near East,* mainly thanks to *Saudi Arabia,* inflation expectations for 2011 even declined somewhat since the beginning of the year (from 5.6% to 4.3%).

*Price trends by regions and countries*

Well above the expected ***Western European*** inflation rate of 2.6% in 2011 is the inflation rate in the *United Kingdom* where it is likely to reach this year 4.3%, according to WES experts. On average for the *euro area*, the expected inflation rate will be 2.5% in 2011 and thus clearly above the medium-term inflation objective of the ECB. In *Ireland*, where the economy is 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 more moderately than for the *euro-area* average in 2011, but nevertheless will be significantly stronger than foreseen some months ago (1.9% after 0.9% in the January survey). In *Greece* the increase of taxes and charges as part of the fiscal consolidation programme will lead, also in 2011, to a relatively high inflation rate of 3.5%, which is nevertheless somewhat lower than expected at the beginning of the year (3.8%). By far the lowest inflation rate (1.0% in 2011) is again expected in *Switzerland*, where a strong appreciation of the *Swiss franc* appears to be counterbalancing inflationary pressures coming from the outside, mainly from prices for raw materials (including oil) and agricultural products.

In ***Eastern Europe*** inflation expectations picked up only moderately in the course of the previous three months. In *Serbia* inflation expectations (8.9%) even declined somewhat but remain the highest in the region followed by *Romania* (5.5%) and *Bulgaria* (5.1%). The lowest inflation in 2011 will prevail, according to the WES experts' expectations, in the *Czech Republic* (2.2%), in *Slovenia* (2.3%) and in *Croatia* (2.6%).

In ***North America***, the new inflation forecast for the *United States* stands at 2.5% compared with an expected 2.0% at the beginning of the year. A similar picture characterises *Canada*: Here the 2011 inflation rate is foreseen at 2.4% compared with an expected 2.0% in the January survey.

In ***Asia***, after the jump at the beginning of the year, inflation expectations for 2011 increased only moderately from 3.6% to 3.9%. By far the highest inflation rates in the region prevail in *Pakistan* (17.1%) and in *Vietnam* (12.5%). In *China* inflation expectations for 2011 stabilised slightly below 5%. In *India* the inflation outlook improved somewhat, but with an expected 8.0% in 2011 inflation is expected to remain high. The moderate inflation typical for *Taiwan* is expected to continue also in 2011 (2.2%). In *Japan* the deflationary process is viewed to have come to an end, but the expected price increase in 2011 is negligible (0.3%).

In ***Oceania***, particularly in *Australia*, some pre-emptive interest rate hikes associated with a currency appreciation have obviously helped to contain inflation expectations at 3.3% for 2011.

In ***Latin America*** inflation expectations for 2011 remain at 7.9%. The countries with the worst inflation outlook are still *Venezuela* (27.9%) and *Argentina* (27.1%). The countries with below-average inflation in 2011 will presumably again be *Peru* (3.4%), *Colombia* (3.4%), *Chile* (4.5%) and *Mexico* (4.6%). In *Brazil*, despite several interest hikes, and an appreciation of the currency as well as measures to deter speculative foreign capital inflows, inflation expectations increased further and now amount to 6.2% for 2011.

Also in ***CIS*** countries inflation expectations for 2011 stabilised at a high level, here of around 10%. The relatively best inflation performance is seen in 2011 by WES experts in *Kazakhstan*, though an expected rate of 8.9% is still far from satisfactory. However, compared with this figure the inflation outlook in *Russia* is somewhat (9.7%) and in *Kyrgyzstan* by far worse (19.3%).

In the ***Near East*** the lower inflation expectations than at the beginning of the year are mainly due to the improved inflation outlook in *Saudi Arabia* (3.9% instead of 5.3% expected at the beginning of the year). In the *United Arab Emirates* and in *Israel* inflation is expected to remain moderate in 2011 (2.9% and 3.4% respectively). In *Turkey* the expected price increase in 2011 at 6.6% is significantly lower than in previous years but according to Western standards still rather high.

In ***Africa*** the expected inflation rate for 2011 remains close to the figure observed last year (7.5% compared with 7.6% in 2010). However, price trends in *Africa* are still very heterogeneous. Relatively low inflation rates for 2011 are again expected in *Niger* (2.3%), *Benin* (3.0%) and also *Morocco* (3.1%) In a medium inflation bracket are *Algeria* (4.5%), *Tunisia* (4.5%), *South Africa* (5.1), *Namibia* (5.2%) and *Swaziland* (6.7%). High inflation rates of 10% or more will predominate in 2011 according to WES experts particularly in *Kenya* (11.4%), *Nigeria* (11.6%), *Congo Dem. Rep.* (13.0%), *Sierra Leone* (14.1%), *Egypt* (14.7%) and *Sudan* (19.6%).

**Yen continues to be seen as somewhat overvalued**

On a world-wide scale the exchange rates of three of the four currencies that constitute the Special Drawing Rights of the IMF – namely the *US dollar,* the *euro*, and the *UK pound* – appear to be close to their fundamentally appropriate values. Only the *Japanese yen* is regarded by the majority of WES experts as overvalued (see Figure 11).

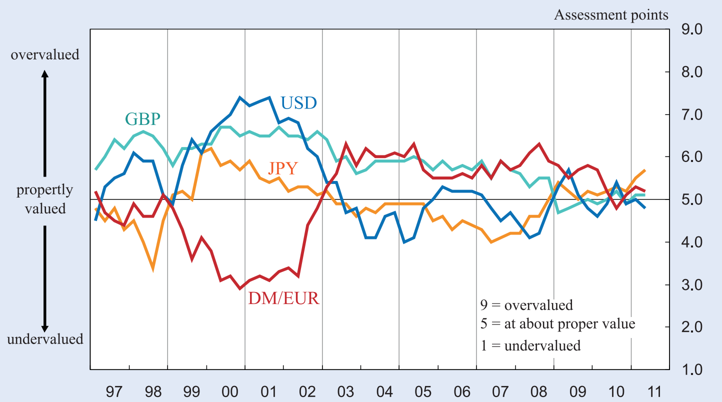
However, by country there are big differences in currency evaluations: WES experts regard their own currency as generally **overvalued** in *Australia* and *New Zealand, Switzerland,* in some *Asian* countries like *Vietnam* and *Sri Lanka* as well as in some *African* countries like *Ivory Coast,* the *Comoros, Lesotho* as well as *South Africa, Namibia* and *Uganda*.

On the other hand, experts assessed their own currencies as generally **undervalued** particularly again in *China* but also in *Bangladesh* as well as in some *CIS* countries like *Russia* and the *Ukraine*, in some *Near East* countries like *Turkey, Syrian Arab Republic* and *Lebanon*, in a few *African* countries like *Nigeria, Burundi, Sierra Leone* and *Tanzania* and also in some *Latin American* countries like *Argentina, Mexico* and *Venezuela*.

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

**Figure 11**

EVALUATION OF CURRENCIES




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

**Box 4**

**Current Developments in the *GIPS* Countries (*Greece, Ireland, Portugal* and *Spain*)**

In early 2010, growing concerns about the sustainability of the public finances of the so called *GIPS* countries (*Greece, Ireland, Portugal* and *Spain*) led to a series of sharp increases in the risk premia on their government bonds and triggered a severe sovereign debt crisis in these countries. The loss in confidence was by no means solely due to the high public deficits and the corresponding rapidly growing sovereign debt during 2009. It also reflected the rather subdued mid-term prospects for the four economies, in turn, resulting from several structural problems accumulated over the decade prior to the financial crisis: Since the adoption of the *euro* the *GIPS* had experienced a substantial loss in competitiveness leading to rising current account deficits and an increasingly worrying level of external indebtedness. Beyond these common structural factors each of these economies had to cope with its own country-specific difficulties as well. Among the most significant of them were the extraordinarily high level of public debt in *Greece* built up in the decade prior to the outbreak of the financial crisis, the consequences of the speculative bubble burst in the *Spanish* and *Irish* mortgage markets and the chronically low productivity growth in *Portugal* since the creation of the currency union. Furthermore, all *GIPS* countries except *Ireland* were characterised by rather rigid labour and goods markets.

As a reaction to the tensions on the *European* sovereign bond markets, the *GIPS* economies announced or were advised by international institutions to announce stringent fiscal consolidation plans and initiated a series of painful reforms in labour and goods markets aimed at regaining competitiveness. In what follows we briefly asses the effects of the first steps undertaken on public finances, competitiveness and the current account.

**Public Finances:** In 2010 the *GIPS* economies undertook enormous budget cuts in order to restore the sustainability of their public finances. Despite the extraordinary effort, in several cases they were unable to meet the specified revenue and expenditure targets.[1] Unfavourable gaps on the public expenditure side emerged in *Portugal* and *Ireland* while *Greece* fell short of the planned revenue level (see Figure 12, 1). These deviations were largely attributable to the fiscal consolidation strategies itself, which led to a faster than expected shrinking in *Greece* and *Ireland*, and substantially decelerated growth in *Portugal*. The funds needed for rescuing the *Irish* banking system also contributed significantly to the unfavourable development of *Ireland's* government expenditure. All in all, it is still very uncertain whether the *GIPS* countries' public finances are already evolving along a sustainable path.

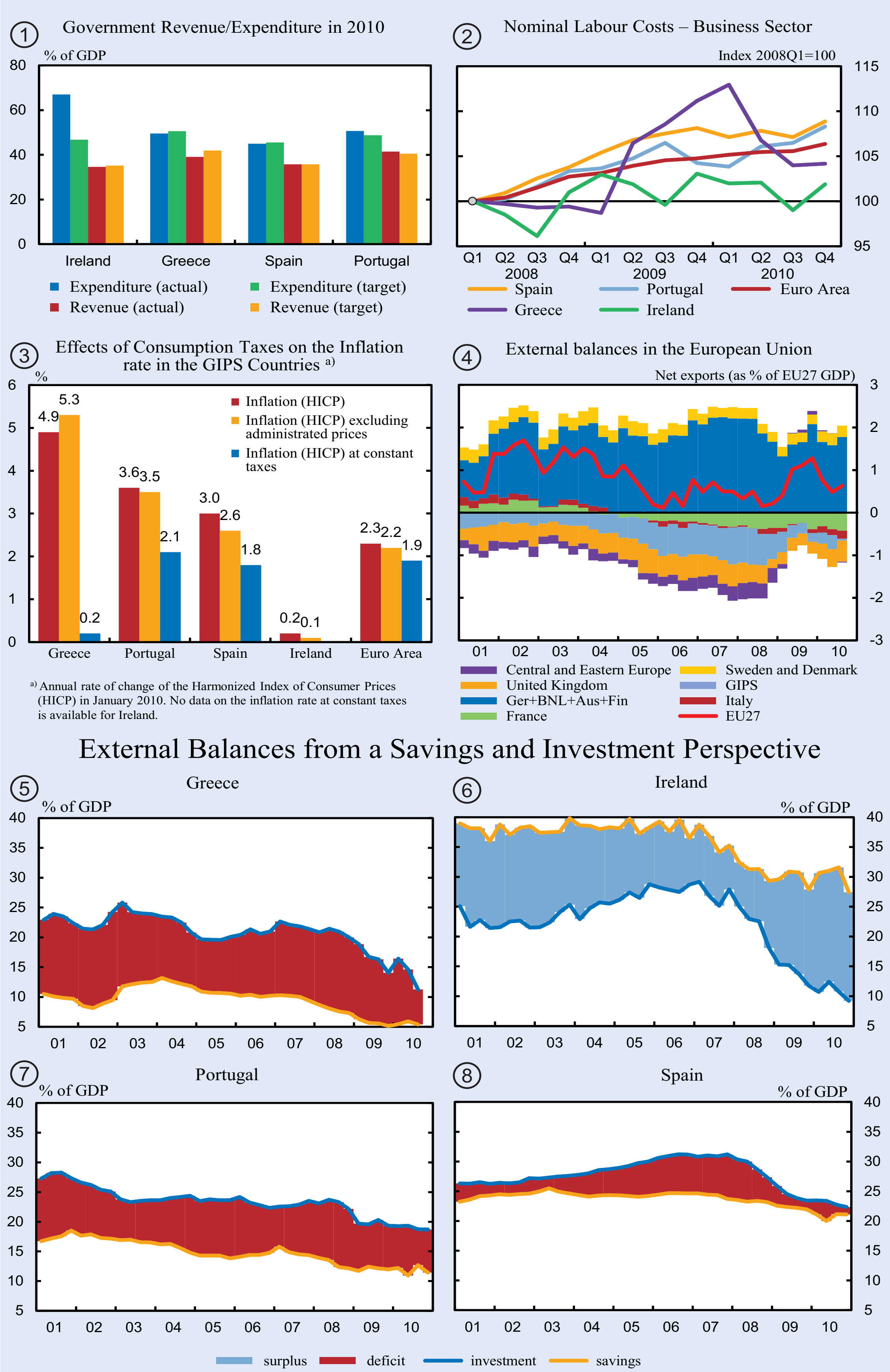
**Competitiveness:** Slightly more positive are the recent developments related to the international competitiveness of the *GIPS* economies. As Figure 12, 3 reveals, the inflation rate obtained after subtracting two purely temporary effects – the increases in indirect taxes and administrated prices – is substantially below the *euro-zone* average in *Greece* and *Ireland* and about average in *Spain* and *Portugal.* The recent development of nominal labour costs has also been advantageous for three of the *GIPS* countries (see Figure 12, 2). Since the beginning of 2010 labour costs in *Greece* and to a lesser extent in *Spain* have been growing more slowly than in the *euro zone* as a whole. The average increase of *Ireland's* labour costs over the period 2008–2010 was also lower than that in the currency union. Only in *Portugal* do wages still tend to increase faster than in the *euro area*. However, this is most likely due to the purely temporary effects of the recent reforms in the social security system.

**Current Account:** In contrast to most other *European* countries, where current account deficits/surpluses started to widen again after the peak of the financial crisis, the *GIPS* countries have been able to maintain the tendency towards further reductions of the large external deficits they have built up in the decade prior to the crisis (see Figure 12, 4). So far, the current account improvement has been mainly attributable to a significant slowdown in imports, in turn, reflecting the substantial weakening in domestic investment expenditure. This is confirmed by Figures 12, 5 through 12, 8. It views the external balance from a financial-flows perspective and depicts the gross saving rate and the gross investment rate, both as a percentage of GDP for the *GIPS* countries. The difference between domestic savings and domestic investment equals the current account balance (net capital inflow/outflow). As can be seen, in most of the countries the corrections are largely achieved through a reduction in domestic investment activity. The only exception is *Portugal*, where neither the gross saving rate nor the gross investment rate appears to exhibit a clear upward or downward tendency.

In sum, despite the more or less favourable developments of the competitiveness and the current accounts of the *GIPS* economies, the major downside risk of public finances still being unsustainable continues to weigh on these countries' medium term prospects.

[1] Targets according to the "Stability and Growth Programmes (or Updates)" published under:
http://ec.europa.eu/economy_finance/sgp/convergence/programmes/2009-10_en.htm
Greece – 15.01.2010; Ireland – 09.12.2009; Portugal – 29.03.2010; Spain – 01.02.2010

## Figure 12

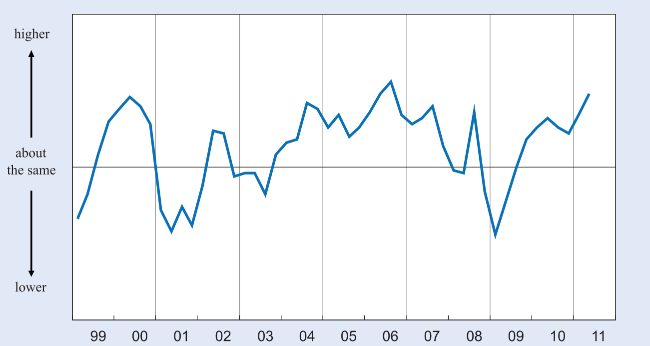



Source: Eurostat; Joint Economic Forecast, Spring 2011; EEAG Report 2011; own calculations.

**Figure 13**

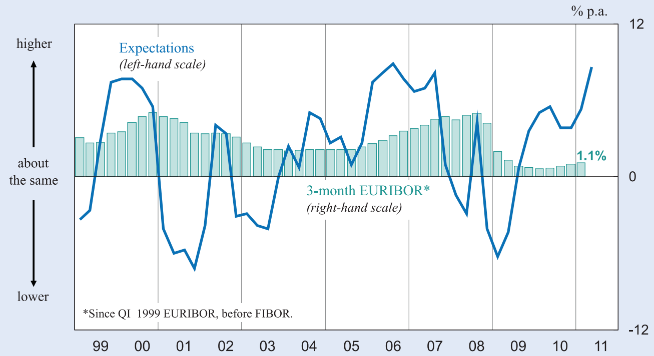
## Actual short-term interest rates and expected trend for the next 6 months (quarterly data)

### All Countries



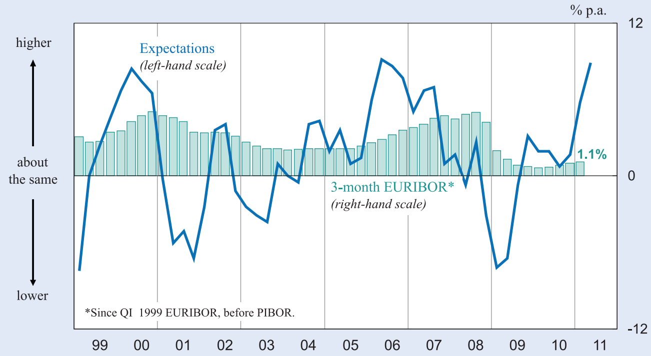

Source: Ifo World Economic Survey (WES) II/2011.

### Germany



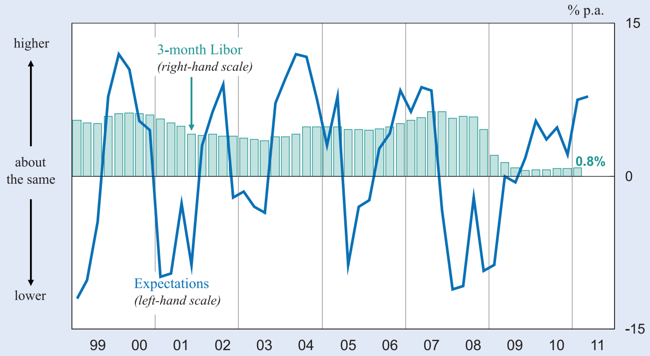

Source: Ifo World Economic Survey (WES) II/2011, Deutsche Bundesbank.

### France



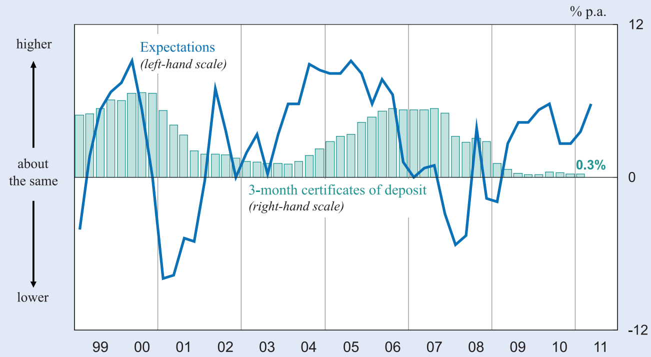

Source: Ifo World Economic Survey (WES) II/2011, OECD.

### United Kingdom



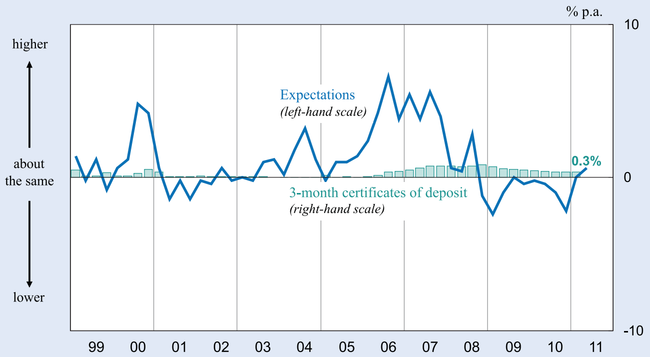

Source: Ifo World Economic Survey (WES) II/2011, OECD.

### United States




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

### Japan




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

six months, regardless of how currencies are assessed from a fundamental point of view, signal on a world-wide average a stabilisation 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 (particularly *China, Malaysia,* the *Philippines* and *Taiwan*) as well as in some *CIS* countries *(Russia* and *Kazakhstan)* and in some *Latin American* countries *(Bolivia, Brazil, Colombia, Guatemala, Paraguay* and *Uruguay).*

These results contrast with an expected **increase** of the value of the *US dollar* in *Switzerland*, *New Zealand,* in some *Eastern European* countries like *Albania* and *Lithuania* as well as and in many *African* countries like *South Africa, Sudan, Egypt, Tunisia, Morocco, Burundi, Liberia, Congo Dem. Rep., Nigeria, Sierra Leone, Tanzania* and *Uganda*.

In *Western Europe* as well as in *Latin America* the value of the *US dollar* six months from now continues to be 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 a tightening of monetary policy in the course of the next six months has continued to increase sharply (see Figure 13). This result is in line with the pick-up of inflation expectations in the vast majority of countries covered in this survey.

On a world-wide average the share of WES experts that expect an increase of long- term and short-term interest rates is equally large. However, particularly in the *United States* more WES experts expect an increase of long-term interest rates in coming months than of short-term rates. This probably reflects the view that with the likely end of quantitative easing in the *US* after June 2011, i.e. purchasing of government bonds by the Fed, long-term interest rates will tend to increase faster than in past months. On the other hand, in countries like *Australia* and *China* or also in some *Eastern European* countries like *Poland* and *Czech Republic* where Central Banks had started already some time ago with tightening monetary policy, the expected further increase of long-term interest rates is less pronounced. This may reflect the view that the previous hike of short-term interest rates here may have some dampening effect on economic growth and the medium term inflation outlook.

The tendency of rising interest rates is a world-wide trend with only few exceptions. The few exceptions where stable or even slightly declining interest rates are expected in the course of the next six months are *Albania, Croatia, Hungary, Romania, Malaysia* and also some *African* countries like *Lesotho, Benin,* the *Comoros, Congo Dem. Rep., Congo-Brazzaville Rep., Liberia, Mauritania, Niger* and the former hyperinflation country *Zimbabwe*.

## ICC Special Question: The G20's role in reducing global economic imbalances, combating corruption and promoting economic growth worldwide

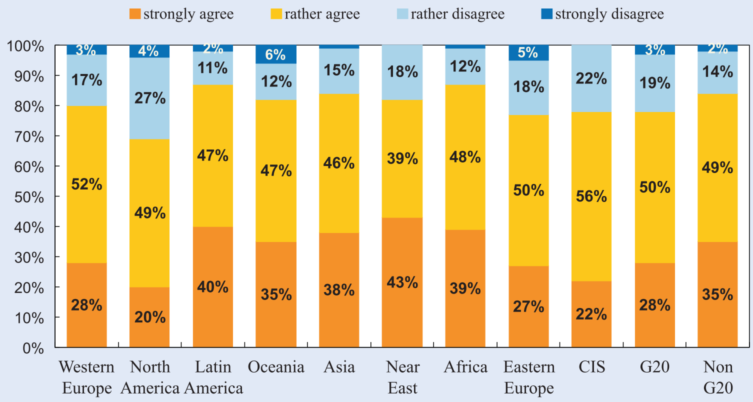
This quarter's ICC special question asked the surveyed economic experts whether the business community should urge the G20 forum to play a stronger leadership role to reduce global economic imbalances, combat corruption, and promote economic growth worldwide.

The Group of Twenty (G20) consists of a group of finance ministers and central bank governors from 19 countries *(Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom* and the *United States)* and the *European Union.* Also representatives from the IMF, World Bank, International Monetary and Financial Committee, as well as the Development Committee of the IMF and World Bank regularly participate in G20 meetings. The mission of the group is to discuss measures to promote the financial stability of the world and to achieve sustainable economic growth and development. In the G20 meeting on 18–19 February 2011 in Paris the topic of global economic imbalances, which are considered as one of the causes of the debt crisis, were discussed. As a result, the G20 came to an agreement on how imbalances can be discovered and identified as the most relevant indicators *public and private debt, fiscal deficits, private savings rate* and the *trade balance* in due consideration of exchange rates, fiscal as well as monetary policies. At the last meeting on 14–15 April 2011 in Washington, the first step was further completed as the G20 agreed on indicative guidelines to assess these indicators. In the focus will be the G20 countries which contribute at least 5 per-

**Figure 14**

**Should business be urging the G20 forum to play a stronger leadership role**

- to reduce global economic imbalances?

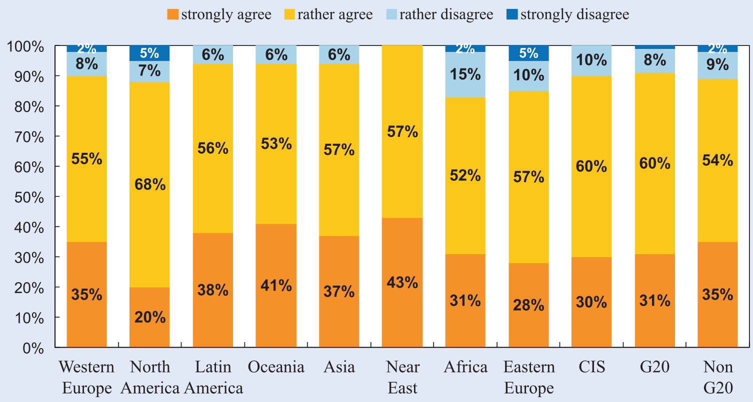



Source: Ifo World Economic Survey (WES) II/2011.

**Figure 15**

**Should business be urging the G20 forum to play a stronger leadership role**

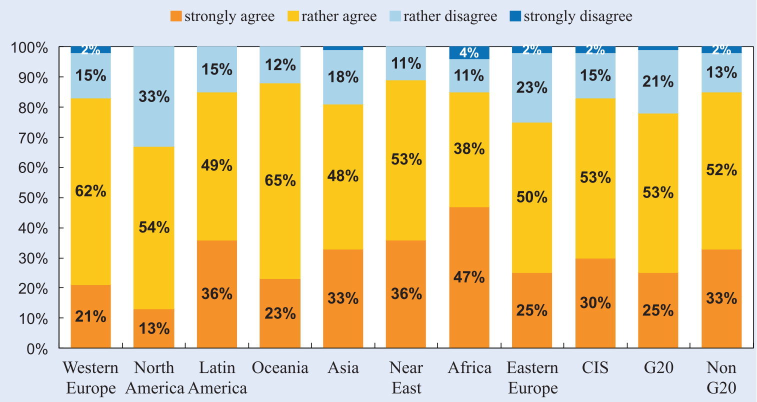
- to promote regulatory convergence?




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

**Figure 16**

Can the G20's engagement with the private sector to strenghten corporate efforts in combating corruption help contribute to greater economic growth?




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

cent to the total G20 output. Consequently, the *United States, China, Japan, Germany, United Kingdom, France* and *India* are expected to receive careful examination by the IMF.

In the first part of this quarter's special question the WES experts were asked whether they agree that business should urge the G20 forum to play a stronger leadership role **to reduce global economic imbalances.** The majority of economists surveyed worldwide agrees. However, the share of agreement in *North America* – about two thirds – is somewhat lower than in all other regions, where at least 75 percent agree (see Figure 14). The share of proponents of this idea, especially the share who *strongly* agree, is 6 percent higher within the non-G20 countries than within the G20 countries. This pattern does not apply to the second part of the special question, where the WES experts were asked if business should urge the G20 forum to play a stronger leadership role **to promote regulatory convergence.** About 90 percent of the surveyed economic experts of both G20 and non-G20 member countries agreed with this statement, on average, albeit there was some shifting within the categories "strongly" and "rather" agreement (see Figure 15). Broken down according to regions, an 83 percent majority of the WES experts agrees with this statement. In the last special question the WES experts were asked whether they agree that the G20's engagement with the private sector to strengthen corporate efforts in combating corruption helps contribute to greater economic growth. At least three quarters of the surveyed economists in nearly all regions *(Western Europe, Latin America, Oceania, Asia, Near East, Africa* and *Eastern Europe)* "strongly" or "rather" agree with this (see Figure 16). In contrast, in *North America,* one third of the WES experts disagree with the statement. Within the non-G20 countries the share of agreement, especially "strongly" agreement, is 7 percent higher than within the G20 countries.

Summing up, at least two thirds of the surveyed WES experts in all regions "strongly" or at least "rather" agree that the G20 should play a stronger role in reducing global economic imbalances, combating corruption and promoting economic growth.

# Ifo World Economic Survey

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