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CESifo World Economic Survey

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November 2011

World Economic Climate

World Economic Climate deteriorates further

Economic Expectations

Economic expectations further weakened

Inflation

Inflation pressure expected to soften

Currencies

Yen and euro are still seen as somewhat overvalued

Interest Rates

Hardly any further increase of interest rates expected

Special Topic

New generic top-level domains

With the support of International Chamber of Commerce
The world business organization

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CESifo

November
2011

Ifo World Economic Survey

Regions

- World Economy: Slowdown in all major economic regions
- Western Europe: Bleak economic climate
- North America: Economic climate clouded
- Eastern Europe: Expectations considerably less positive
- CIS: Economic climate sharply deteriorated
- Asia: Economic cooling
- Oceania: Favourable economic climate persists
- Latin America: Economic climate considerably deteriorated
- Near East: Unchanged positive economic climate
- Africa: No unified 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 *October 2011, 1,119* 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

The *Ifo Institute* 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.

IFO WORLD ECONOMIC CLIMATE DETERIORATES FURTHER

The Ifo World Economic Climate has worsened further in the fourth quarter (see Figures 1 and 2). The World Economic Climate indicator fell to 78.7, after 97.7 in July, and is now significantly below its long-term average (1995-2010: 96.9). The deterioration was due to less favourable assessments of the current situation and even more so to the downgraded expectations for the next six months. The results confirm the downswing of the world economy. This is also illustrated by the business-cycle clock (see Box 1).

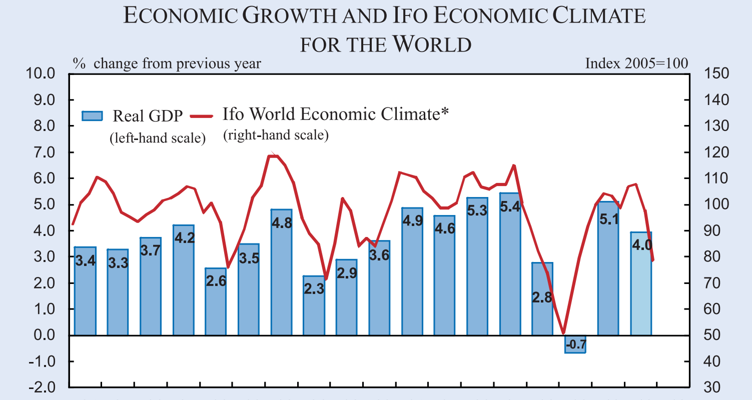
Slowdown in all major economic regions

The Economic Climate Indicator has fallen in all major economic regions. This underlines the worries about the future course of the global economy. There is no decoupling of regions at the moment. However, the slowdown especially in *China* reflects still a healthy development. In contrast to this, the situation in *America* and *Europe* is comparably unhealthy. In many countries, economic policy, especially monetary policy, has already reacted. Mario Draghi, the new head of the European Central Bank, in his first interest rate setting council meeting announced an interest rate cut. Although the ECB is committed to maintain price stability, it underlined a weak economic outlook as the reason for the 25 basis points cut. Thus the ECB assumes that in addition to a vanishing basis effect from energy prices, growth in the coming months will be weak enough for inflationary pressure to ease.

However, the ECB is not the first mover. *Australia* – where the economy partly reflects the economic situation in *China* – has recently cut interest rates for the first time since the financial crisis. Central banks in some emerging countries have also lowered interest rates. For example, *Brazil, Turkey* and *Indonesia* have all cut interest rates in recent weeks in anticipation of a global slowdown.

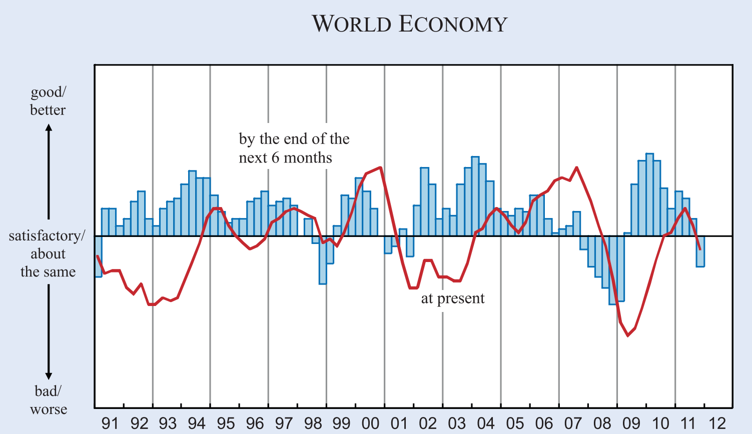
The inflation estimate of the WES experts for all of 2011 remains at 4.0% on a global average. However, some commodity prices have already fallen. Especially *Latin America* has experienced a weak development of commodity prices. Prices of copper, an export mainstay of *Chile* and *Peru*, the world's

Figure 1



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

Figure 2



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

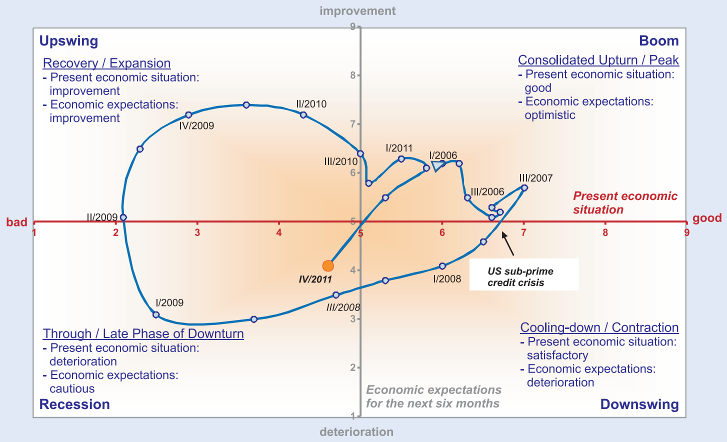
Box 1

Ifo Economic Clock and the Ifo World Economic Climate

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

According to the October survey the Ifo indicator for the world economic climate clearly declined further. The deterioration was due to less favourable assessments of the current situation and even more so to the downgraded expectations for the next six months. The indicator has now moved directly from the "boom" into the "recession" quadrant. This development confirms the difficult situation of the world economy.

Ifo World Economic Climate



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

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).

largest and second largest producers, respectively, have fallen recently. Soya, which accounts for a quarter of *Argentine* exports, is also cheaper now. This explains to some extent the worsening of the economic climate in that region.

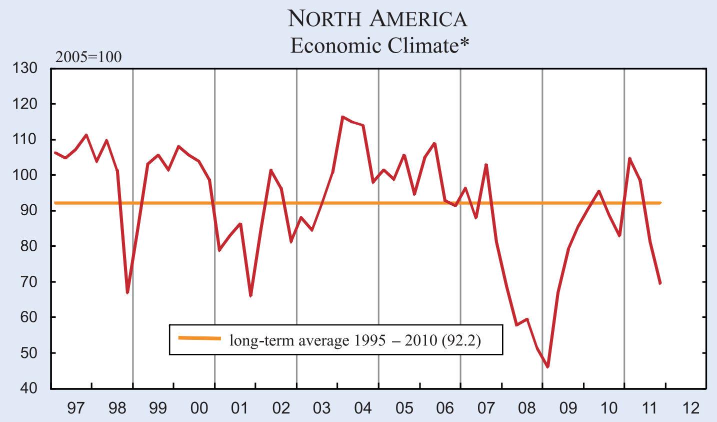
Overall, the global economy is heading into a downturn. The World Trade Organization (WTO) has revised downwards its estimate of growth in global goods trade in 2011 to 5.8% from an already cautious forecast of 6.5%. The Ifo Word Economic Climate points to a weak development of the global economy also in the near future.

Western Europe: Bleak economic climate

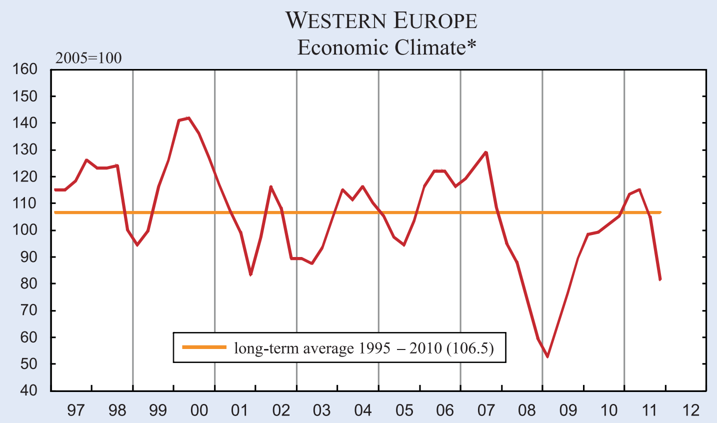
The economic climate indicator for *Western Europe* deteriorated further, falling considerably below its long-term average of 106.5 in the period 1995–2010 (see Figure 3). The indicator now stands at 81.4 with a decline of the assessments of both the present economic situation and even more of the economic outlook for the next six months (see Figure 4). This is also true for the *euro area* (see Box 2). Here the indicator lost even more ground compared to the previous survey and now stands at 83.7, well below its long-term average of 109.9 (1995–2010). Also in the *euro area* both the present economic situation and the economic expectations have been downgraded and attest a gloomy economic climate. The most important economic problems the countries in the *euro area*, as well as in *Western Europe*, are facing at present are "public deficits", "lack of confidence in government's economic policy" and "unemployment" (see Table 1).

In *Germany, Austria* and *Estonia* the current economic situation is again judged as good, according to the WES experts (see Figures 5a and 5b). However, while the assessments in *Austria* and *Estonia* have been upgraded over the previous survey, they have deteriorated considerably in *Germany*. The economic expectations for the next six months have been downgraded remarkably in all these countries and are now rather pessimistic in *Germany* and *Austria*, and cautious in *Estonia*. The economic experts in *Finland, Slovakia*, the *Netherlands* and *Luxembourg* rated the present economic situation as "satisfactory". The expectations for the next six months in all these countries are significantly less positive than in the previous survey and are now pessimistic on the whole. In *Belgium* the assessments of the present economic situation have been downgraded remarkably and the situation is now rated as unfavourable. The six-month outlook in this country is also less positive and is approaching negative territory. The economic situation in *France* has increasingly deteriorated and is now seen as weak, according to the WES experts. In particular

Figure 3



*) Arithmetic mean of judgement about the present and expected economic situation.
Source: Ifo World Economic Survey (WES) IV/2011.



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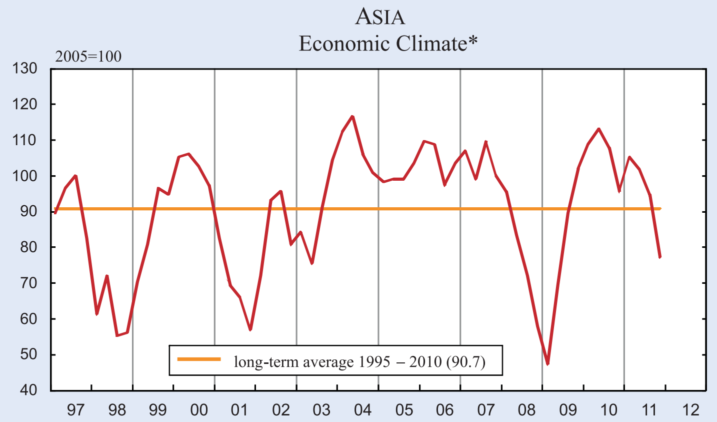
Source: Ifo World Economic Survey (WES) IV/2011.



*) Arithmetic mean of judgement about the present and expected economic situation.
Source: Ifo World Economic Survey (WES) IV/2011.

the economic expectations for the coming half year have been strongly downgraded and are now highly pessimistic. In *Slovenia* the present economic situation has deteriorated remarkably over the previous survey and is assessed as very weak. The economic outlook for the next six months remains positive, although to a considerably lesser degree than earlier this year. In *Cyprus, Ireland* and *Italy* the WES experts rated the present economic situation as very poor. While the assessments have been downgraded in *Cyprus* and *Italy* over the previous survey, they are somewhat more positive in *Ireland*. The same applies to the economic expectations: Whereas WES experts in *Cyprus* and *Italy* have become more cautious regarding future economic development, the surveyed experts in *Ireland* upgraded their expectations for the coming six months significantly and are now optimistic. In particular private consumption and the export sector is expected to strengthen further. It seems that *Ireland*, one of the first *euro* countries in trouble, is on a good path to resolve the crisis successfully. The situation for the remaining troubled countries of the *euro zone* – *Greece, Portugal* and *Spain* – has not changed. The WES experts continue to assess the present situation as very weak. *Greece* and *Portugal* again received the lowest mark on the WES scale. In both countries the surveyed economic experts remain pessimistic regarding the economic development in the next half year. Private consumption and capital expenditures are expected to remain subdued. In contrast, the export sector in *Greece* is expected to strengthen somewhat. In *Spain*, WES experts see no room for improvement for the coming six months.

Outside the *euro area*, despite some downward revision, again a favourable present economic situation prevails in *Norway, Monaco, Switzerland* and *Sweden*. The economic expectations for the next six months have been revised somewhat downwards in all these countries, but remain positive in *Norway* and *Monaco*. In contrast, in *Switzerland* and *Sweden* WES experts are rather pessimistic

Box 2

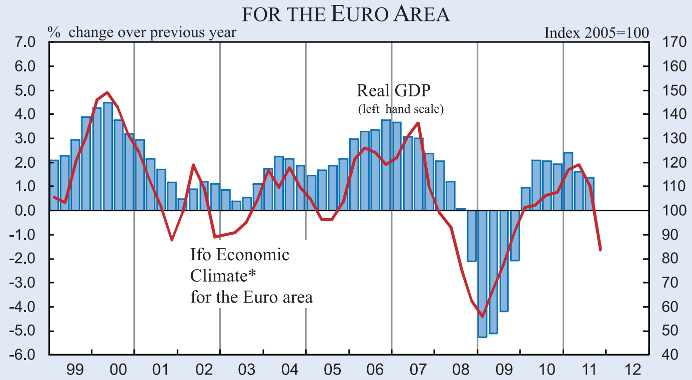
World Economic Survey (WES) and GDP Growth in the Euro Area.

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 October results are based on the responses of 273 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo Economic Climate Indicator for the *euro area* has fallen further in the fourth quarter, and is now significantly below its long-term average. Both the assessments of the current situation and the expectations for the next six months worsened considerably over the third quarter of 2011. The results suggest that the economic weakening in the *euro area* will continue.

Although the current economic situation in the *euro area* has worsened, in *Austria, Germany* and *Estonia* it is seen on the whole as "good"; in *Finland* and *Slovakia* it is still rated as at least "satisfactory". In *Greece, Portugal* and *Spain*, the current economic situation again received the lowest ratings on the WES assessment scale. In *France, Ireland* and *Italy* the current economic situation is also regarded as weak. The economic outlook for the next six months in the *euro area* has been evaluated predominantly negatively. Only in *Ireland* is the economic situation expected to improve – albeit starting from a very low level.

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) IV/2011.

regarding future economic development. In *Switzerland*, the overvalued *Swiss franc* is one of the most important economic problems and negatively affects exports, according to the WES experts. In *Denmark*, the assessments of the present economic situation have been upgraded somewhat, but are still seen as unfavourable. The economic outlook has been revised downwards, but remains in positive territory. In the *United Kingdom*, WES experts again assess the present economic situation as weak. For the coming six months they have a more cautious view on future economic development. The surveyed economic experts considered insufficient demand as one of the most important problems at present of the *United Kingdom*.

North America: Economic climate clouded

The economic climate indicator in *North America* declined further and at 69.5 is now clearly below its long-term average of 92.2 in the period 1995–2010 (see Figure 3). The assessments of both the present situation and the economic expectations for the next six months have been similarly downgraded (see Figure 4). This pattern especially applies to the *United States*. The present economic situation is now rated as very weak according to the WES experts. Also the expectations have been downgraded, but they remain in positive territory (see Figure 6). The most important economic problems the *US* is facing at present, according to WES experts, are "lack of confidence in the economic policies of their own country", "unemployment" and "public deficits". Also private consumption and capital expenditures are still assessed as weak by the surveyed economists and are expected to remain so in the next six months. In *Canada*, a somewhat more favourable economic climate prevails, despite some downwards revision: the present economic situation is rated as satisfactory and the economic outlook remains positive.

Table 1: Ranks of the Three Most Important Economic Problems

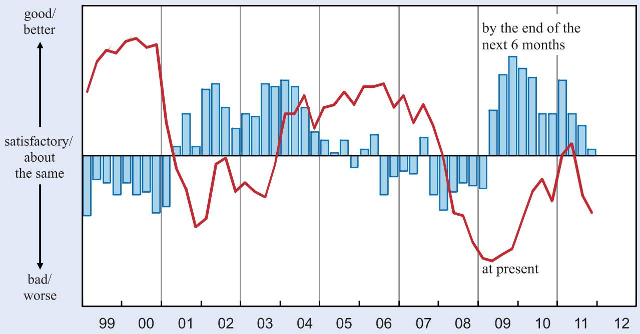
	World	Western Europe	North America	Latin America	Oceania	Asia	Near East	Africa	Eastern Europe	CIS
Lack of confidence in government's econ. policy	1	2	2	3	2	1.5		3	3	2
Insufficient demand										
Unemployment	3	3	1				1	1	2	
Inflation						1.5				3
Lack of international competitiveness				1	1	3	3	2		1
Lack of skilled labor				2	3					
Public deficits	2	1	3				2		1	
Foreign debts										

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

Figure 4

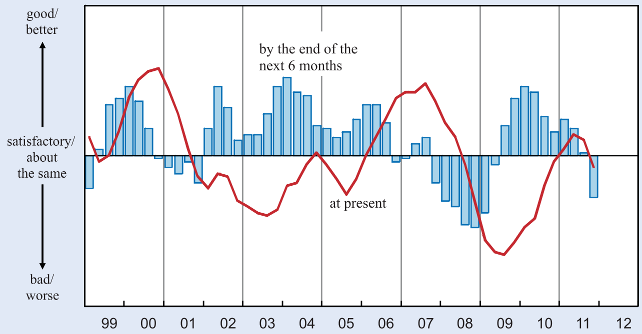
Selected Regions

North America
Economic Situation



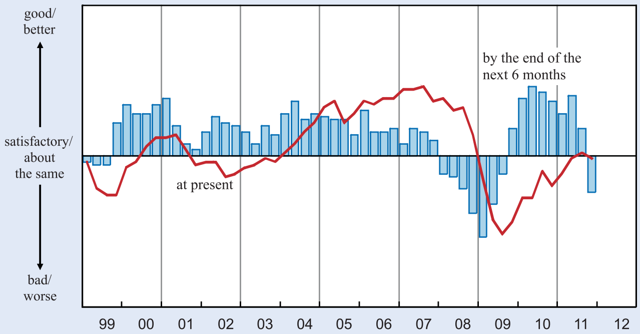
Source: Ifo World Economic Survey (WES) IV/2011.

Western Europe
Economic Situation



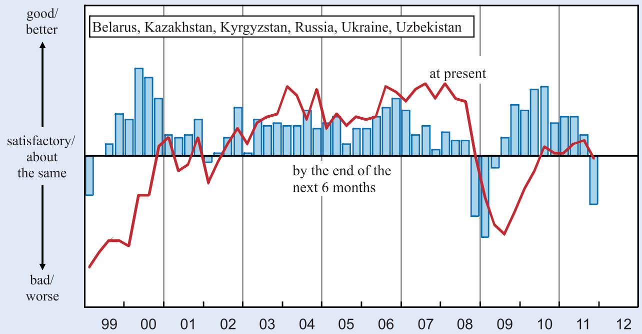
Source: Ifo World Economic Survey (WES) IV/2011.

Eastern Europe
Economic Situation



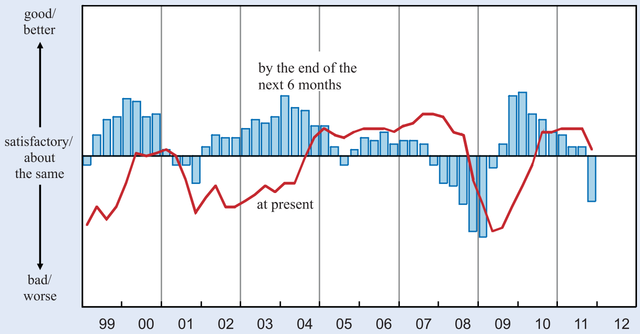
Source: Ifo World Economic Survey (WES) IV/2011.

CIS
Economic Situation



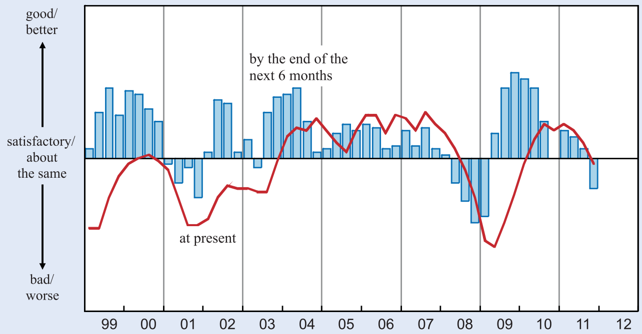
Source: Ifo World Economic Survey (WES) IV/2011.

Latin America
Economic Situation



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

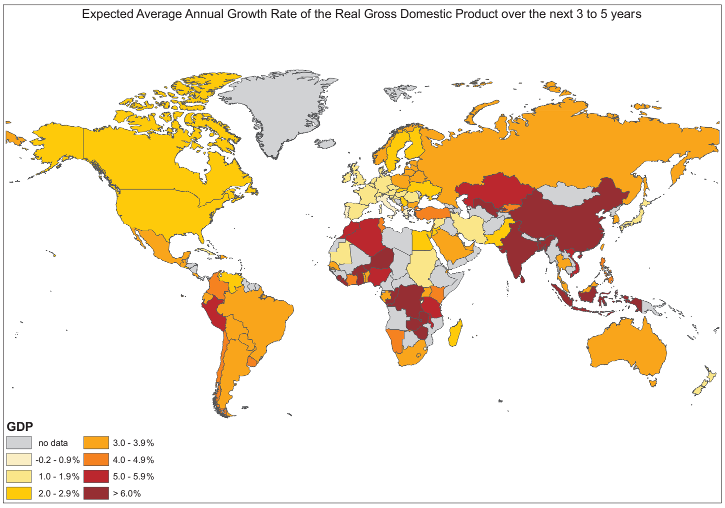
Asia
Economic Situation



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

Box 3

Medium Term Growth Outlook Slightly Downwards Revised.



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

On average for all 119 countries included in the survey, an annual economic growth of 2.7 percent is expected in the next three to five years, compared to a comparable estimate of 2.9 percent one year ago (see Table 2). In general, in nearly all countries the medium-term growth rate, a question asked once a year, has been revised slightly downwards in comparison to the survey one year ago.

The highest medium-term economic growth rates are expected in *Africa* with 4.3% and *Asia* with about 3.9%. Within *Africa* the strongest economic growth in the medium term will take place, amongst others, according to WES experts, in *Sierra Leone* (9.1%), *Rwanda* (7.3%), *Liberia* (7.0%) and *Zimbabwe* (6.6%). In *Asia*, it is expected that *India* will pass *China* with an average annual growth rate of 7.6%, whereas *China* will have also strong average growth rates of 7.4% in the next three to five years. *Sri Lanka* (6.7%), *Bangladesh* and *Indonesia* (in both cases 6.2%) will also show a considerably above-average growth performance.

Above the worldwide growth average are also *CIS* countries (3.7%; here particularly *Uzbekistan* with 8.5% and *Kazakhstan* with 5.3%), *Australia* (3.6%) and the *Near East* with 3.6% (here particularly *Turkey* with 4.7%, *Saudi Arabia* and *Israel* with each 3.8%). Moderate growth rates of 3.5% on average are also expected in *Latin America*. Above the regions' average are particularly *Peru* (5.1%), *Chile* (4.1%), *Colombia* and *Uruguay* (each 4.0%), *Argentina* (3.9%) as well as *Brazil* (3.8%).

In the middle range of growth regions stands *Eastern Europe* with an estimated medium-term growth outlook of 2.5%. Particularly in *Lithuania* the WES experts revised their medium term growth outlook upwards compared to one year ago and now expect 3.9%. In *Albania, Estonia* and *Poland* unchanged average growth rates of 3.8% are expected in the next three to five years. Included in the middle range remains also *North America*, despite some downwards revisions compared to one year ago (from 2.6% to 2.2%). In the *US* average growth rates of 2.0%, after 2.4% in the previous year, are expected by the surveyed economic experts and in *Canada* 2.8% (in 2010: 3.4%).

At the bottom of the growth spectrum is *Western Europe* (on average 1.5%, after 1.8% in the previous year). Within this region especially the Scandinavian countries expect above-average growth performance: *Norway* (3.5%), *Sweden* (2.5%) and *Finland* (2.1%). *Ireland* appears – according to WES experts – to be on the way to overcome gradually the recent economic crisis and reach, for the average of the next three to five years, an annual growth of 1.9%. In contrast, WES experts in *Spain* expect only medium-term growth rates of 1.1% and in *Italy* of 0.7%. In *Greece* and *Portugal* according to WES experts stagnation in the next three to five years (-0.2% and 0.0% growth per year respectively) appears to be the most likely outcome.

Eastern Europe: Expectations considerably less positive

The economic climate indicator in *Eastern Europe* deteriorated further, due to more negative economic expectations for the next half year. For this region, the WES experts are rather cautious regarding the future economic development. The present economic situation also deteriorated over the previous survey but is still regarded as satisfactory (see Figures 4 and 7). The most important economic problems for this region are, besides "public deficits", a "high unemployment rate" and "lack of confidence in government's economic policy".

The present economic situation in the *Czech Republic* and *Poland* has again been assessed as favourable by the surveyed economic experts. The economic expectations for the next six months have been downgraded remarkably in both countries and are now pessimistic in the *Czech Republic* and rather cautious in *Poland*. In *Latvia* and *Lithuania* the assessments of the present economic situation are seen as "satisfactory". The economic expectations for the next six months in *Lithuania* have been downgraded considerably over the previous survey by the WES experts, but they still remain in positive territory. In contrast, the surveyed economic experts in *Latvia* are more cautious regarding the economic performance in the next half year. In *Bulgaria* and *Romania* the present situation is again regarded as unfavourable. For the coming six months no major changes are anticipated. At least in both countries private consumption is expected to improve

Table 2

Expected Average Annual Growth Rates of Real Gross Domestic Product (GDP) over the Next 3 to 5 Years* (based on WES QIV/2011 and QIV/2010)

Region	QIV/2011	QIV/2010	Region	QIV/2011	QIV/2010
Average of Countries	**2.7**	**2.9**	**North America**	**2.2**	**2.6**
High-income countries	2.2	2.4	Canada	2.8	3.4
Middle-income countries	4.4	4.7	United States	2.0	2.4
Upper-middle	3.9	4.0			
Lower-middle	5.6	5.9	**Latin America**	**3.5**	**3.5**
Low-income countries	5.6	5.9	Argentina	3.9	3.8
EU 27 countries	1.6	1.9	Bolivia	3.4	3.5
EU countries (old members)[a)]	1.5	1.8	Brazil	3.8	4.6
EU countries (new members)[b)]	2.5	3.0	Chile	4.1	4.6
Euro area[c)]	1.4	1.8	Colombia	4.0	4.2
			Costa Rica	(3.8)	(3.8)
Western Europe	**1.5**	**1.8**	Cuba	(1.5)	---
Austria	1.8	1.8	Dominican Republic	3.8	(3.8)
Belgium	1.5	1.8	Ecuador	3.1	2.8
Cyprus	1.2	3.0	El Salvador	2.4	2.1
Denmark	1.5	1.6	Guatemala	3.4	3.3
Finland	2.1	2.8	Mexico	3.2	3.0
France	1.5	1.5	Panama	---	(3.8)
Germany	1.5	2.0	Paraguay	3.4	4.2
Greece	-0.2	0.6	Peru	5.1	6.5
Ireland	1.9	1.9	Trinidad and Tobago	2.9	(3.8)
Italy	0.7	1.6	Uruguay	4.0	4.7
Luxembourg	3.8	2.7	Venezuela	2.2	0.1
Monaco	2.7	---			
Netherlands	1.3	1.5	**Near East**	**3.6**	**3.6**
Norway	3.5	3.3	Iran	(1.5)	(1.5)
Portugal	0.0	0.9	Israel	3.8	5.0
Spain	1.1	1.3	Jordan	2.7	(3.8)
Sweden	2.5	3.5	Kuwait	(3.8)	---
Switzerland	1.5	1.9	Lebanon	3.0	4.2
United Kingdom	1.8	1.7	Saudi Arabia	3.8	3.8
			Syrian Arab Republic	(1.5)	(3.8)
Eastern Europe	**2.5**	**3.0**	Turkey	4.7	5.2
Albania	3.8	3.8	United Arab Emirates	3.5	2.7
Bulgaria	3.2	3.1			
Croatia	1.9	1.8	**Africa**	**4.3**	**4.7**
Czech Republic	1.6	2.3	**Northern Africa**	**4.5**	**n. a.**
Estonia	3.8	(3.8)	Algeria	5.0	5.0
Hungary	1.6	2.5	Egypt	2.9	5.4
Latvia	3.3	2.6	Morocco	5.4	4.4
Lithuania	3.9	3.3	Tunisia	4.9	4.2
Poland	3.8	3.8	**Sub-Saharan Africa**	**4.2**	**n. a.**
Romania	1.8	1.9	Benin	3.4	5.0
Serbia	2.7	2.7	Burkina Faso	(7.0)	---
Slovakia	2.8	3.8	Burundi	0.0	2.0
Slovenia	1.7	2.8	Comoros	(1.5)	2.7
			Congo Dem. Rep.	6.1	5.4
CIS	**3.7**	**3.8**	Congo-Brazzaville Rep.	6.2	11.3
Belarus	(3.8)	---	Djibouti	(3.8)	(1.5)
Kazakhstan	5.3	4.7	Gabon	(3.8)	(1.5)
Kyrgyzstan	4.5	3.3	Ghana	(8.5)	(5.9)
Russia	3.5	3.8	Ivory Coast	4.8	4.4
Ukraine	2.8	2.8	Kenya	4.3	5.7
Uzbekistan	(8.5)	(7.0)	Lesotho	3.4	2.7
			Liberia	7.0	9.2
Asia	**3.9**	**4.3**	Madagascar	2.9	2.9
Bangladesh	6.2	6.6	Malawi	5.2	7.1
China	7.4	7.8	Mauritania	1.2	3.0
Hong Kong	4.2	3.8	Mauritius	3.9	3.8
India	7.6	7.4	Namibia	4.3	---
Indonesia	6.2	5.6	Niger	6.3	4.7
Japan	1.4	1.5	Nigeria	5.1	5.6
Malaysia	3.7	7.0	Rwanda	7.3	6.3
Pakistan	2.3	3.1	Senegal	(3.8)	3.8
Philippines	4.3	5.0	Sierra Leone	9.1	4.5
Singapore	(3.8)	3.8	South Africa	3.5	3.7
South Korea	3.6	4.2	Sudan	1.8	3.9
Sri Lanka	6.7	5.3	Swaziland	0.0	2.7
Taiwan	3.8	4.1	Tanzania	5.9	---
Thailand	3.8	4.7	Togo	(3.8)	0.8
Vietnam	5.3	7.0	Uganda	(3.8)	6.4
			Zambia	6.3	6.6
Oceania	**3.3**	**3.6**	Zimbabwe	6.6	4.6
Australia	3.6	3.8			
New Zealand	1.9	2.3			

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. – ( ) The data in brackets result from few responses. – [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, 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) IV/2011 and IV/2010.

somewhat in the course of the next six months. While in *Bulgaria* "insufficient demand" is considered to be the most important economic problem, in *Romania* it is "capital shortage". In *Hungary* the WES experts rated the current economic situation as weak. The economic expectations have been downgraded remarkably and the surveyed economic experts even expect a worsening of the economic situation during the next six months.

The economic situation in the region outside the *EU* has again been assessed as unfavourable in *Albania* and as very weak in *Croatia* and *Serbia*. For the coming half year, the WES experts in all these countries are less positive than in the previous survey and do not expect any improvement of the economic performance. In *Serbia*, they even expect deterioration.

CIS: Economic climate sharply deteriorated

The economic climate indicator for *CIS* countries covered by WES (*Russia, Belarus, Ukraine, Kazakhstan, Kyrgyzstan* and *Uzbekistan*) deteriorated considerably due to significantly more sceptical economic expectations. The assessments of the present situation also deteriorated somewhat but retain at a satisfactory level (see Figure 4). The most important economic problems of the *CIS* region at present are "lack of international competitiveness", "lack of confidence in the government's economic policy", as well as a "high inflation rate", according to the surveyed economic experts.

In *Russia*, the assessments of the present economic situation have been downgraded somewhat but still stand at a satisfactory level. The expectations for the next six months have been revised considerably downwards and are now pessimistic (see Figure 6). In *Belarus* and *Uzbekistan* the present economic situation is regarded as satisfactory. For the next half year the WES experts in *Uzbekistan* expect no major changes; in contrast in *Belarus* they expect some worsening of the economic performance. In *Kazakhstan* the present economic situation is regarded as favourable, despite some downward revision over the previous survey. The economic expectations for the next six months are rather cautious. In *Kyrgyzstan* both the present economic situation and economic expectations improved somewhat over the previous survey, but the economic sentiment is still clouded. The current situation is regarded as unfavourable and will remain so in the coming six months, according to the WES experts. In the *Ukraine*, the present economic situation improved somewhat but is still seen as unfavourable by the surveyed economic experts. For the next six months the WES panel is rather cautious regarding future economic development.

Asia: Economic cooling

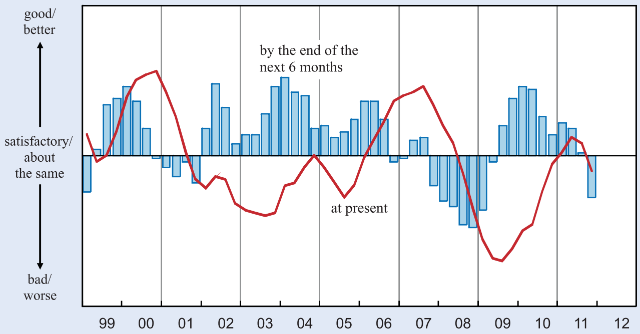
The economic climate indicator in *Asia* dropped further and at 77.2 has fallen below its long-term average (1995–2010: 90.7). Both the present economic situation, and in particular the economic expectations, have been downgraded noticeably (see Figures 3, 4 and 8). The most important economic problems at present for this region are "high inflation", "lack of confidence in government's economic policy" and "lack of international competitiveness".

In *Indonesia* and *Sri Lanka*, WES experts rated the current economic situation as very good. In particular in *Indonesia* the assessments have been upgraded considerably over the previous survey. The economic expectations for the next six months in both countries remain positive. The assessments of the present economic situation in *Hong Kong*, the *Philippines, Bangladesh, Malaysia* and *India* still stand at a favourable level, although they have been revised downwards somewhat in most of the countries. While WES experts in *Bangladesh* retain their positive outlook for the coming six months, they are rather cautious in *India* and the *Philippines* and even pessimistic in *Malaysia* and *Hong Kong*. In *Hong Kong*, all surveyed economic experts uniformly anticipate a worsening of the economic situation. In *China, Singapore* and *South Korea* the economic situation has been assessed as satisfactory. While WES experts in *China* retain their caution regarding the development in the next six months, the surveyed economic experts in *Singapore* and *South Korea* are rather pessimistic. In *Thailand*, the present economic situation is regarded as unfavourable. For the next six months, no major changes are anticipated. In *Japan*, the present economic situation, though improved somewhat over the previous survey, is still assessed as weak. The region's second largest economy has not yet overcome the consequences of the earthquake disaster. However, the economic expectations for the next half year are fairly confident and reconstruction demand as well as other capital expenditures will help to boost the economy, according to the WES experts. In *Taiwan*, both the assessments of the eco-

Figure 5a

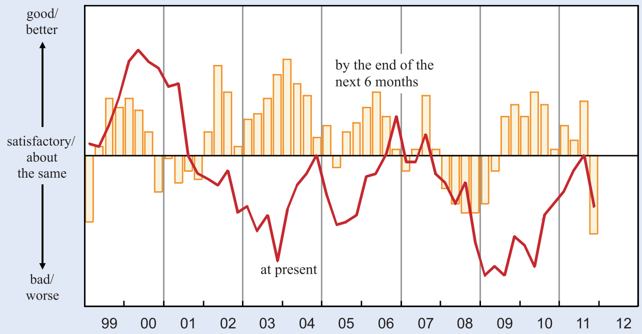
EUROPEAN UNION

EUROPEAN UNION (15)
Economic Situation



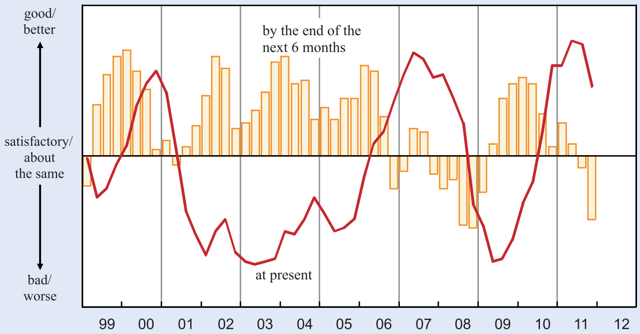
Source: Ifo World Economic Survey (WES) IV/2011.

FRANCE
Economic Situation



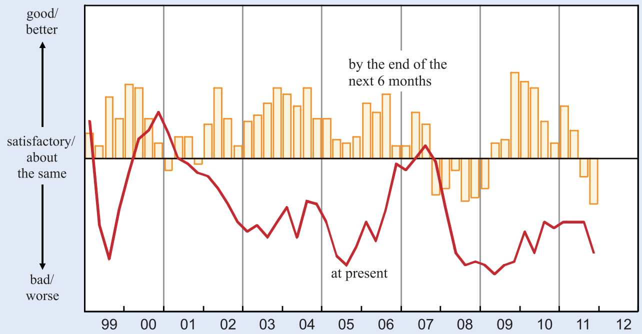
Source: Ifo World Economic Survey (WES) IV/2011.

GERMANY
Economic Situation



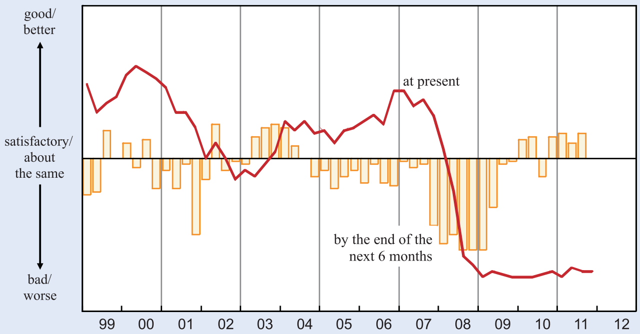
Source: Ifo World Economic Survey (WES) IV/2011.

ITALY
Economic Situation



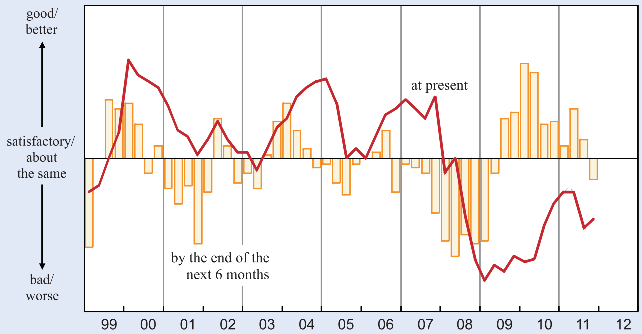
Source: Ifo World Economic Survey (WES) IV/2011.

SPAIN
Economic Situation



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

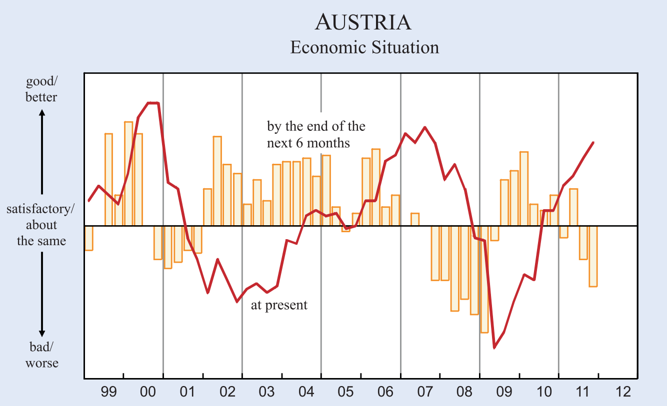
UNITED KINGDOM
Economic Situation



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

Figure 5b

EUROPEAN UNION



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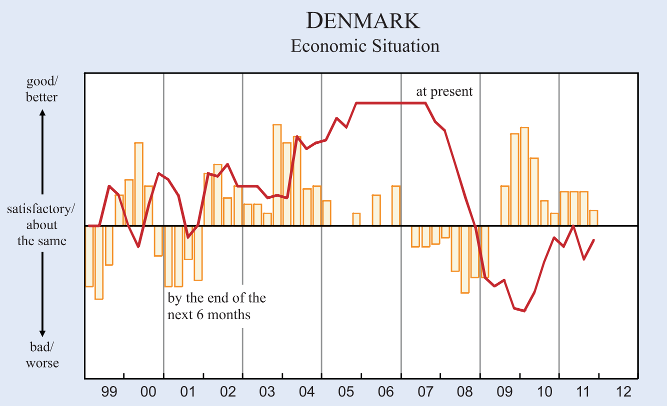

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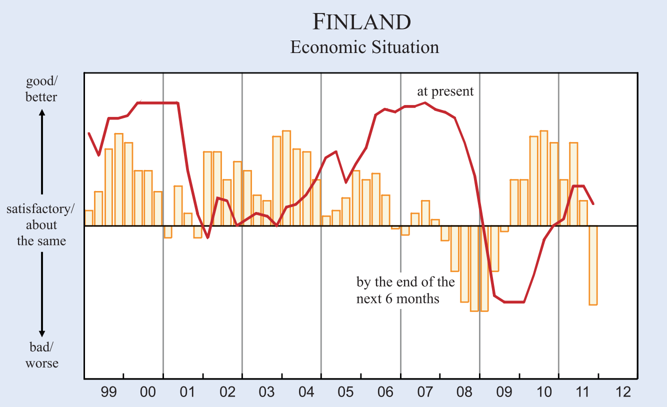

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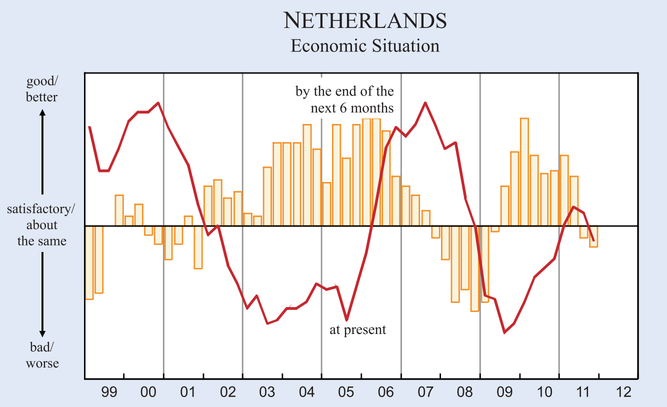

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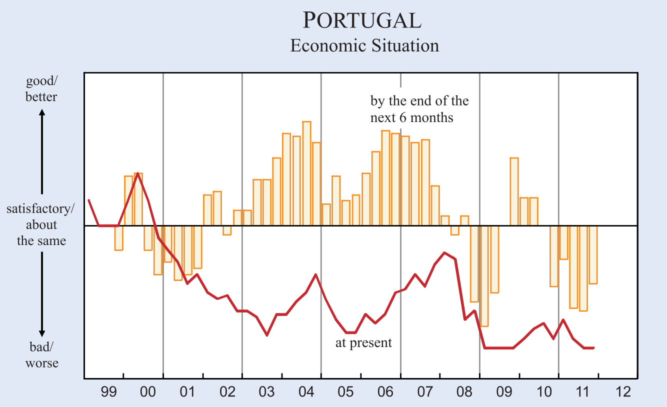

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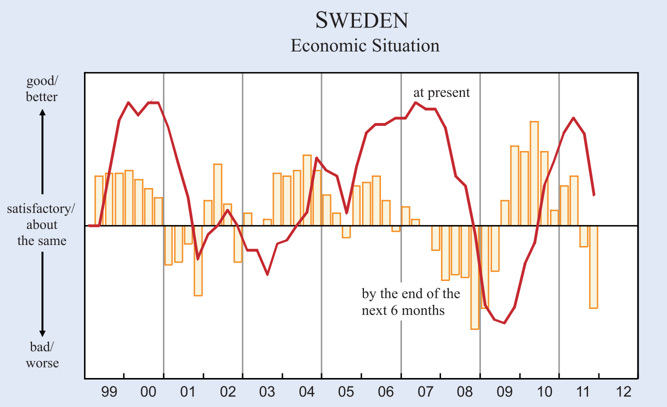
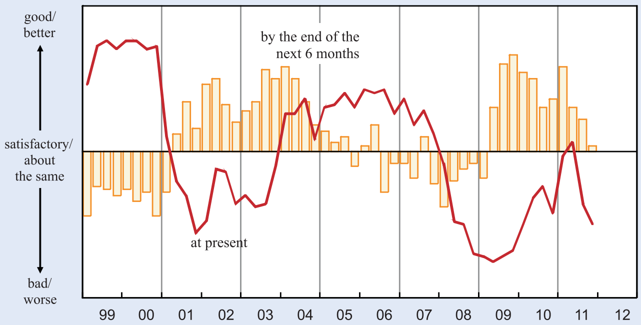


Source: Ifo World Economic Survey (WES) IV/2011.

Figure 6

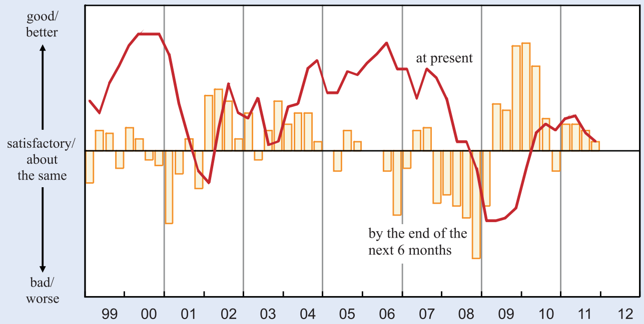
North America, Oceania and CIS

USA
Economic Situation



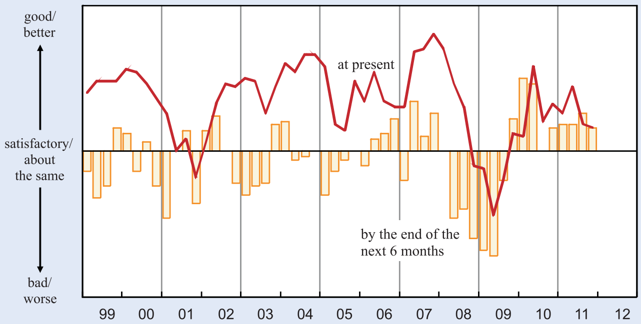
Source: Ifo World Economic Survey (WES) IV/2011.

CANADA
Economic Situation



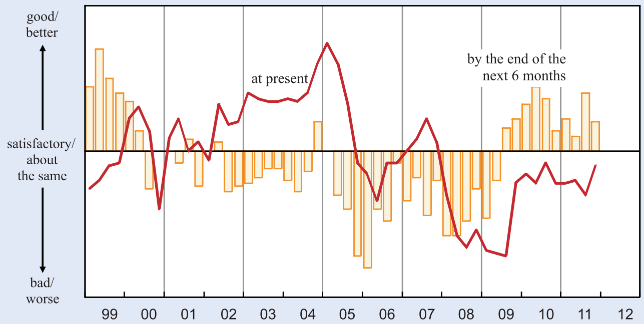
Source: Ifo World Economic Survey (WES) IV/2011.

AUSTRALIA
Economic Situation



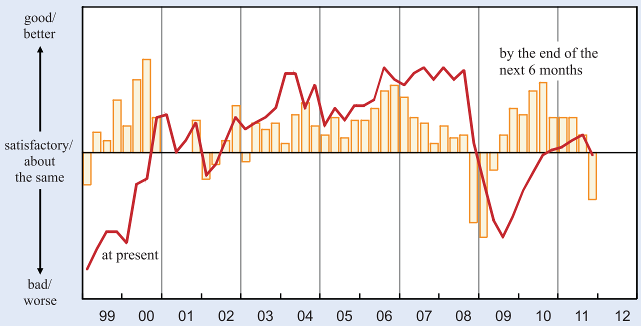
Source: Ifo World Economic Survey (WES) IV/2011.

NEW ZEALAND
Economic Situation



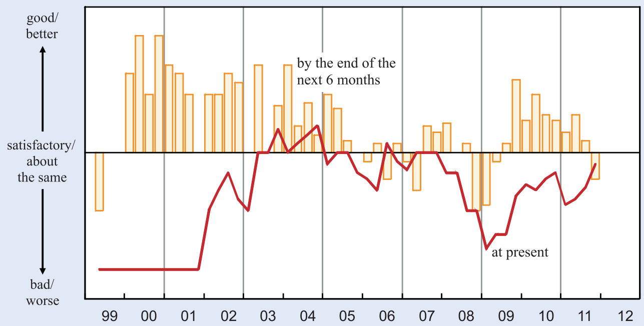
Source: Ifo World Economic Survey (WES) IV/2011.

RUSSIA
Economic Situation



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

UKRAINE
Economic Situation

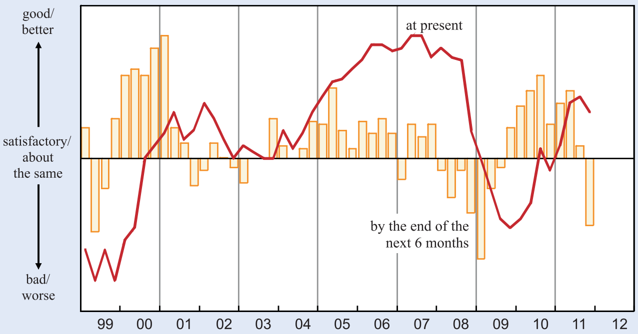


Source: Ifo World Economic Survey (WES) IV/2011.

Figure 7

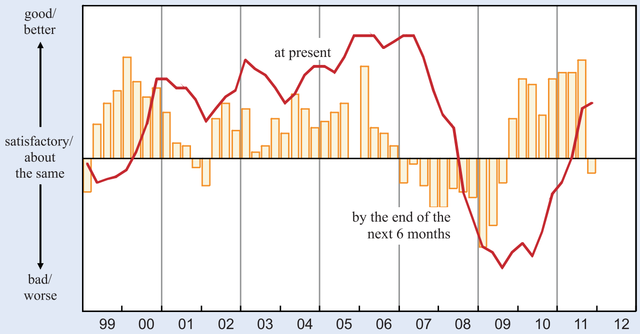
Eastern Europe

Czech Republic
Economic Situation



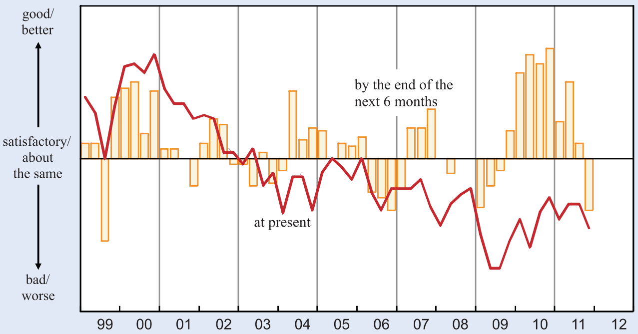
Source: Ifo World Economic Survey (WES) IV/2011.

Estonia
Economic Situation



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

Hungary
Economic Situation



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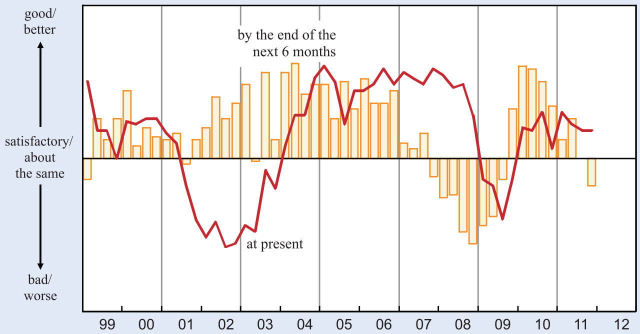
Poland
Economic Situation



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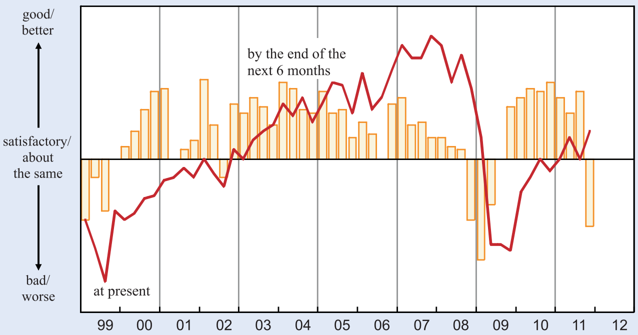
Slovak Republic
Economic Situation



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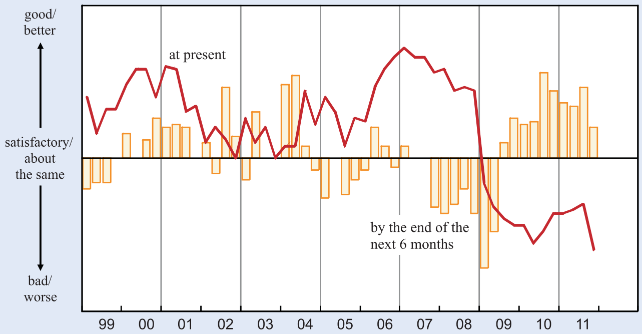
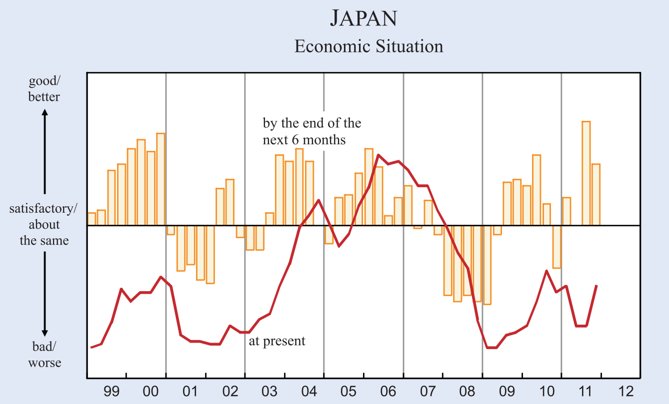
Slovenia
Economic Situation



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

Figure 8

ASIA



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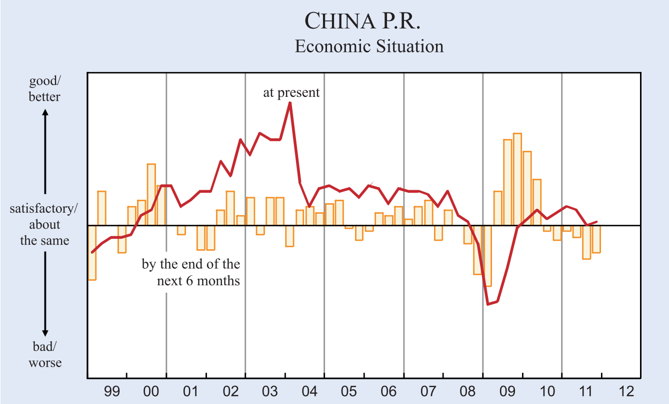

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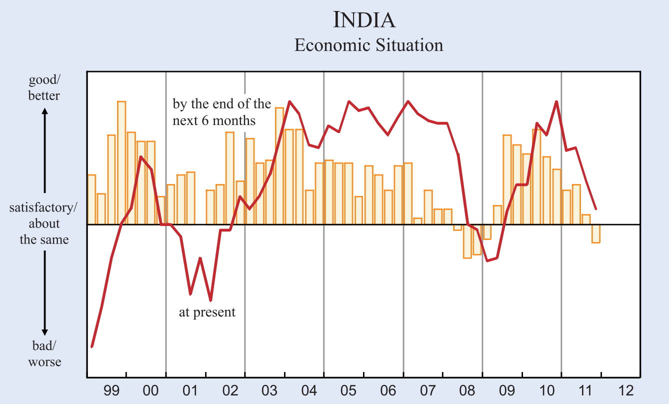

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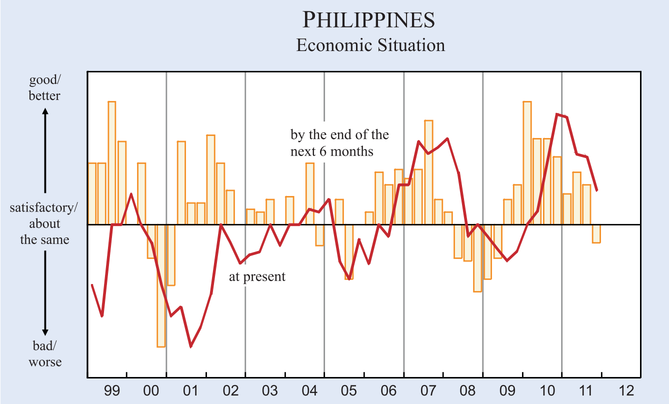

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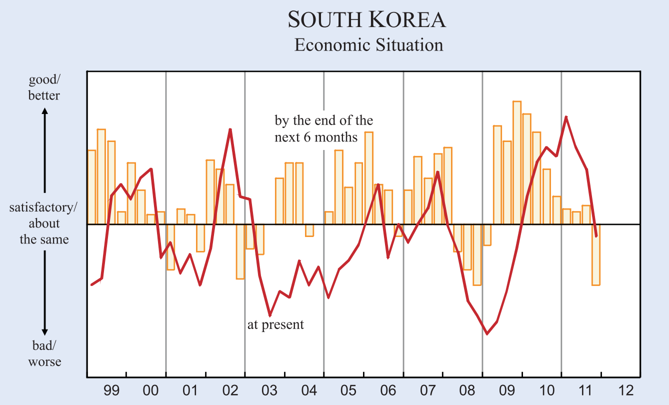

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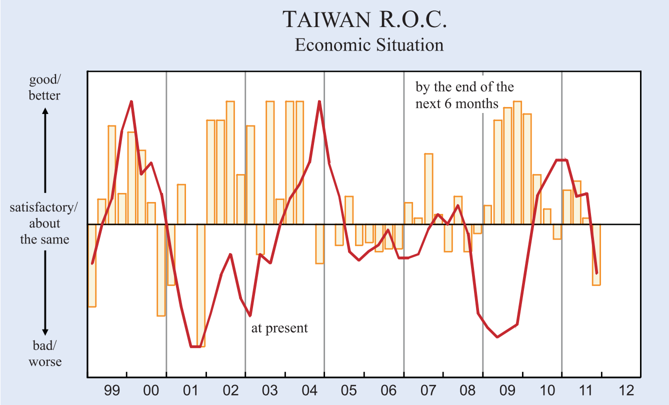
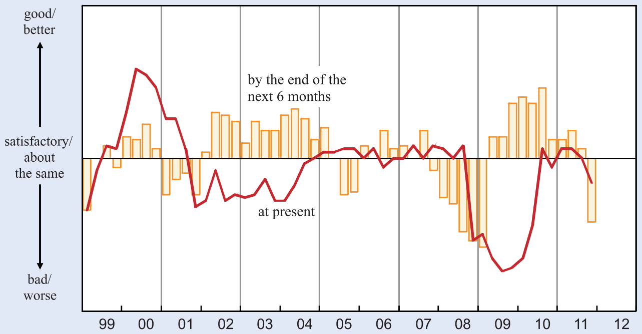


Source: Ifo World Economic Survey (WES) IV/2011.

Figure 9

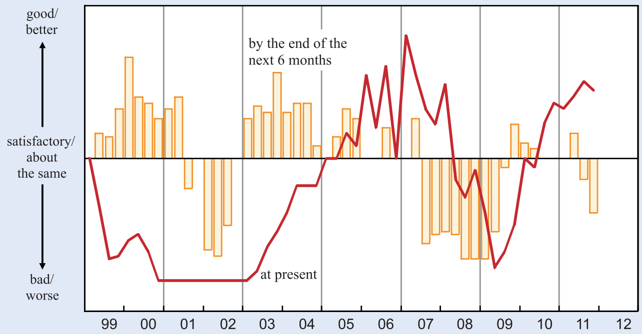
Latin America

MEXICO
Economic Situation



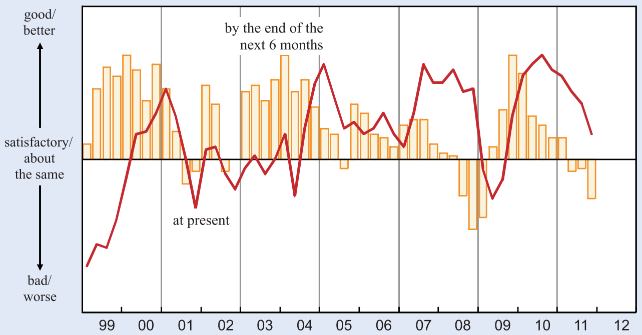
Source: Ifo World Economic Survey (WES) IV/2011.

ARGENTINA
Economic Situation



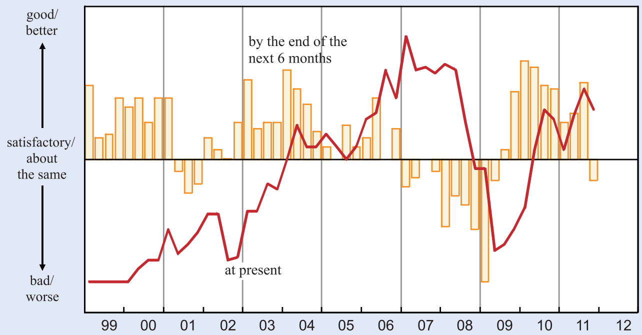
Source: Ifo World Economic Survey (WES) IV/2011.

BRAZIL
Economic Situation



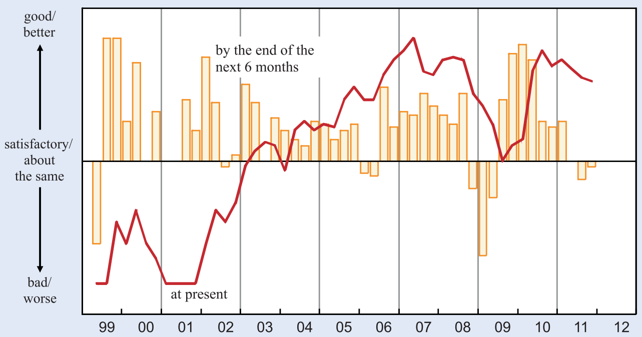
Source: Ifo World Economic Survey (WES) IV/2011.

COLOMBIA
Economic Situation



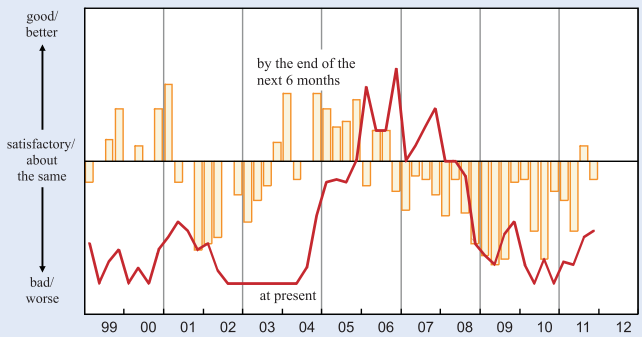
Source: Ifo World Economic Survey (WES) IV/2011.

PERU
Economic Situation



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

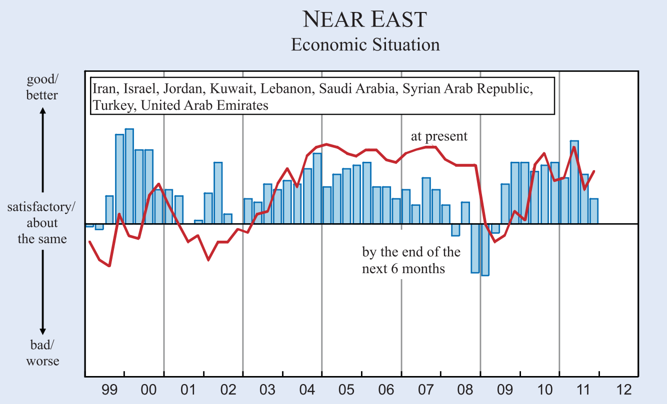
VENEZUELA
Economic Situation



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

Figure 10

Near East and Africa



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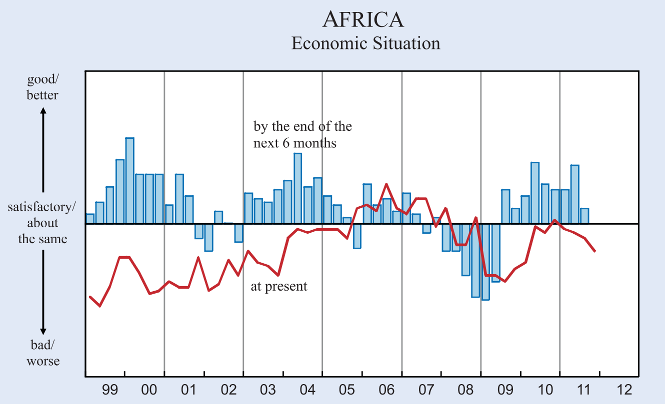

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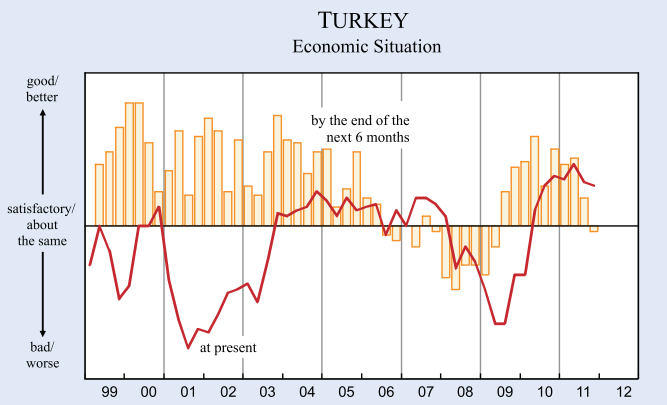

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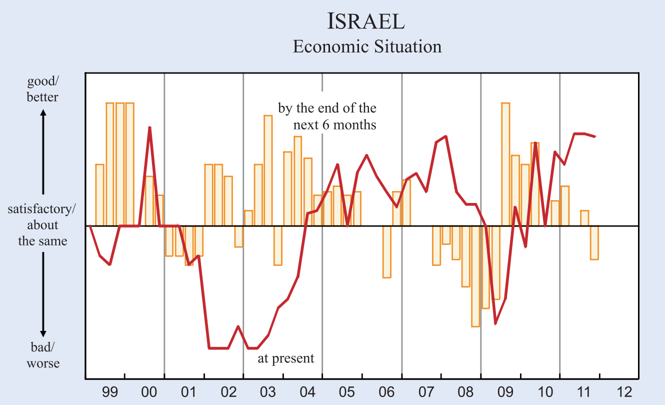

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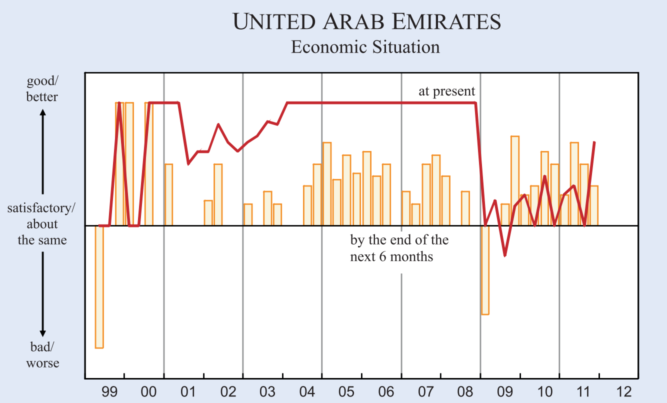

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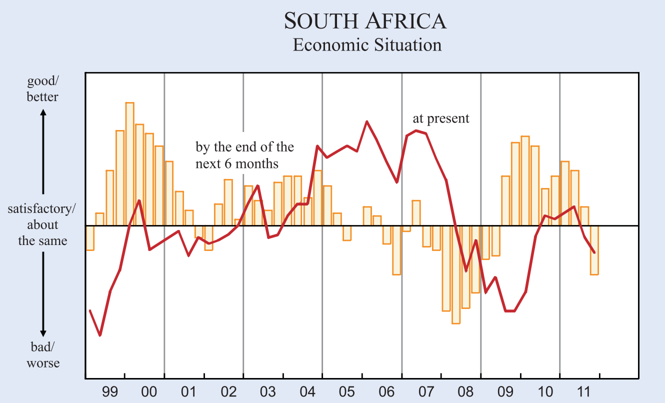


Source: Ifo World Economic Survey (WES) IV/2011.

nomic situation and the economic outlook for the coming half year deteriorated significantly in comparison to the survey in July. The current situation is now regarded as weak, and for the next six months a further worsening of the economy in *Taiwan* is expected. In *Pakistan* and *Vietnam* the present situation is assessed as weak. For the coming six months WES experts in both countries see no room for improvement.

Oceania: Favourable economic climate persists

In *Oceania* the economic climate indicator deteriorated only marginally, even though only due to less positive expectations. The present economic situation remained at a favourable level for the region as a whole. This is especially true for *Australia* (see Figure 6). The current economic situation remains nearly unchanged and is again assessed as favourable. The economic outlook for the coming six months has been revised downwards somewhat but still remains positive. As *Australia's* most important economic problems, WES experts highlighted "lack of confidence in government's economic policy", "lack of international competitiveness" as well as "lack of skilled labour". In *New Zealand* the present economic situation has again been assessed as unfavourable despite some upwards revisions. The economic expectations have been downgraded somewhat over the previous survey but still stand in positive territory. The surveyed experts considered "foreign debts", "public deficits" and "insufficient demand" as the most important problems in *New Zealand* at present.

Latin America: Economic climate considerably deteriorated

In *Latin America* the economic climate indicator deteriorated considerably due to less positive assessments of both the present situation but in particular of the economic expectations (see Figures 4 and 9). For the region, the current economic situation is regarded as satisfactory. In contrast, the economic outlook for the next six months is rather cautious. Considered to be the most important economic problem of this region at present is "lack of international competitiveness". *Argentina* and *Venezuela* in addition are suffering from a high inflation rate.

In *Argentina, Chile, Paraguay, Peru* and *Uruguay* a highly favourable present economic situation still prevails, although to a lesser degree than in July. The economic expectations have been revised considerably downwards in most of these countries and are now rather cautious and in *Argentina* and *Chile* even pessimistic regarding future economic development. In *Brazil, Ecuador* and *Paraguay* a favourable current economic situation is assessed by WES experts. For the coming six months, in *Paraguay* no major changes are anticipated; in contrast, in *Brazil* and *Ecuador* the surveyed economic experts are rather cautious with regard to the economic development of their countries in the next six months. In *Costa Rica*, the *Dominican Republic* and *Panama*, the surveyed experts rated the present economic situation again as "satisfactory". For the next six months no major changes are expected. In *Bolivia, El Salvador* and *Mexico* the current economic situation is assessed as unfavourable, according to the WES experts. The economic expectations deteriorated remarkably in comparison to the previous survey and now contain more negative assessments. In *Cuba, Guatemala, Trinidad and Tobago* and *Venezuela* the present economic situation is again regarded as weak. For the next six months, some improvement is expected in *Guatemala* and *Trinidad and Tobago*. In contrast, WES experts in *Cuba* and *Venezuela* expect a deterioration of the overall economic situation.

Near East: Unchanged positive economic climate

In the *Near East* the economic climate indicator declined only marginally, and a favourable economic climate still prevails. While the assessments of the present economic situation improved somewhat over the previous survey – retaining its high level – the economic expectations in turn deteriorated somewhat but remained positive (see Figure 10). The most important economic problems in the *Near East* at present are "unemployment", "public deficits" and "lack of international competitiveness". In *Israel, Saudi Arabia* and the *United Arab Emirates* a highly favourable present economic situation predominates. While WES experts in *Saudi Arabia* and the *United Arab Emirates* have a fairly confident view regarding future economic development, the surveyed experts in *Israel* have become more cautious in comparison to the previous survey. In *Turkey* a favourable present economic situation still prevails and is expected to remain so in the course of the next six months. In particular the export sector is foreseen to strengthen further in the next half year. In *Kuwait* and *Lebanon* the current economic situation has been assessed as satisfactory by the surveyed economic experts. For the coming six months no major changes in both countries are anticipated. In *Iran*, *Jordan* and the *Syrian Arab Republic* a very weak economic performance has been reported. Within the next six months WES experts in *Iran* and *Syria* foresee no substantial improvement regarding the economic performance. At least in *Jordan* the surveyed economic experts expect a bettering of the overall economy in the next six months.

Africa: No unified 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*. Nevertheless, both parts of *Africa* have in common the following most frequently mentioned economic problems: "unemployment", "lack of international competitiveness" as well as "lack of confidence in government's economic policy". In addition, *Tunisia*, *Burundi, Comoros, Gabon, Kenya, Sierra Leone, Sudan, Tanzania* and *Uganda* in particular are also suffering from a high inflation rate.

The current economic situation in the *Northern African* countries *Egypt* and *Tunisia* is again assessed as weak, even to a lesser degree than in the survey in July. The economic outlook in *Egypt* has been revised upwards and WES experts are somewhat more positive than in the previous survey. The economic expectations in *Tunisia* remain optimistic. In *Morocco* and *Algeria* the present economic situation has been assessed as satisfactory. While WES experts in *Algeria* have become more cautious regarding future economic development, the surveyed economic experts in *Morocco* retain their positive economic outlook.

The economic climate in *South Africa* deteriorated further. Both the assessments of the present economic situation but mainly the economic expectations have been downgraded considerably (see Figure 10). The present situation is now regarded as unfavourable and the economic outlook for the next half year remains rather pessimistic. In *Ghana, Rwanda, Zambia* and *Congo-Brazzaville*, the present economic situation is assessed as highly favourable, even to a higher degree than in the survey in July. Also, the economic expectations have been revised upwards in all these countries and remain confident. Especially the export sector in *Ghana, Rwanda* and *Zambia* is expected to strengthen somewhat. In *Congo Dem. Republic, Namibia* and *Nigeria* a favourable economic situation prevails, according to the WES experts. In *Namibia* and *Nigeria* the economic expectations for the next six months have been upgraded somewhat and are optimistic. In contrast, in *Congo Dem. Republic* WES experts have a more cautious view on future economic development. In *Comoros, Gabon, Ivory Coast, Malawi, Senegal* and *Tanzania* the surveyed economic experts rated the present economic situation as "satisfactory". Within the next six months no major changes are anticipated in *Comoros, Gabon* and *Malawi*. In the *Ivory Coast* and *Tanzania* some improvement of the overall economy is expected. In contrast, in *Senegal* the economic expectations have become more negative.

The present situation in *Lesotho, Mauritius, Sierra Leone* and *Zimbabwe* is assessed as unfavourable. In nearly all of these countries no further improvement of the economic situation is expected within the next six months, except for *Lesotho*, where WES experts have become somewhat more positive regarding the future economic development. In *Benin, Kenya, Madagascar, Mauritania* and *Sudan* the surveyed economic experts consider the present economic situation as weak. In almost all countries no substantial improvement of the economy over the coming six months is expected. In *Sudan* even a deterioration of the economic situation is anticipated. WES experts, all located in the northern part of the country, reported that the Southern Sudanese secession negatively affected the economy of *Sudan*.

The remaining *Sub-Saharan* countries *Burkina Faso, Burundi, Swaziland, Togo* and *Uganda* have been assessed by the surveyed economic experts with the lowest marks on the WES scale. The present situation is regarded as very poor. In the next six months in *Burkina Faso, Togo* and *Uganda* no improvement of the economic performance is expected. The WES experts in *Burundi* and *Swaziland* even forecast deterioration.

Inflation pressure expected to soften

General trends

On a world-wide average, WES experts continue to forecast for 2011 an annual inflation rate of 4.0% (see Table 3). An expected slowdown of the inflation trend is signalled by the results of another survey question that focuses on the expected tendency of consumer prices in the coming six months. Here the percentage of WES experts expecting further price increases in the coming six months has shrunk considerably.

Price trends by regions and countries

On average for the ***euro area***, the expected inflation rate will be 2.5% in 2011, which is only marginally lower than seen in the previous survey in July (2.6%) and lies again clearly above the medium-term inflation objective of the ECB. However, the results of the additional question on the inflation tendency in coming six months points – more than in the world average – to a deceleration of consumer price inflation. Within the *euro area* the lowest inflation rates in 2011 are expected in *Slovenia* and *Ireland* (in each case 1.9%), as well as in the *Netherlands* and in *France* (in each case 2.1%). The expected inflation rates are above the average of the *euro area* particularly in *Estonia* (4.9%), *Finland* (3.2%), *Cyprus* (3.1%) and *Belgium* (3.0%).

In ***Western Europe*** outside the *euro area* the two extremes of the presumable price development in 2011 are again *Switzerland* (0.6%), on the one side, and the *United Kingdom* (4.5%), on the other.

In ***Eastern Europe*** inflation expectations have been reduced slightly compared with the previous survey but are still significantly higher than in *Western Europe* (3.6% compared to 2.6%). In *Serbia* inflation expectations (9.0%) remain the highest in the region followed by *Bulgaria* and *Lithuania* (in each case 4.5%). The lowest inflation in 2011 will prevail, according to the WES experts' expectations, in the *Czech Republic* (2.0%) and in *Croatia* (2.4%).

In ***North America***, the 2011 inflation forecast for the *United States* stands at 2.7% and for *Canada* at 2.5%. In the course of the next six months inflation is expected to slow down markedly in *Canada* and stabilise in the *USA*.

In ***Asia*** inflation expectations for 2011 remain at 4.1%. By far the highest inflation rates in the region prevail again in *Vietnam* (20.8%) and in *Pakistan* (14.0%). In *China* inflation expectations for 2011 point to an increase of 5.6%. Within the coming six months a clear slowdown of the inflation trend is expected. Also in *India*, where this year's inflation rate will reach 8.4%, prices are expected to rise less strongly in the course of the coming six months. In *Taiwan* the traditionally moderate inflation climate will prevail also in 2011 (1.6%) and in the coming six months. In *Japan* the deflationary process seems to have been overcome (2011: 0%) and a marginal price increase is expected in the course of the coming six months.

In ***Oceania*** – both in *Australia* and *New Zealand* – inflation expectations for 2011 remain slightly above 3%.

In ***Latin America*** inflation expectations for 2011 stand at 7.6%. The countries with the worst inflation outlook are still *Venezuela* (27.4%) and *Argentina* (24.2%). On the other side, the countries with below-average inflation in 2011 will again be *Peru* (3.4%), *Colombia* (3.5%) and *Chile* (3.8%). In *Brazil* the expected inflation rate for 2011 at 6.4% is somewhat below the *Latin American* average.

In ***CIS*** countries inflation expectations for 2011 have stabilised at a high level of 10%. Slightly lower than this average rate is the expected inflation performance in *Kazakhstan* (8.7%) and also in *Russia* (8.8%), where the inflation outlook has improved since the previous survey in July, when a rate of 9.5% was expected for 2011.

In the ***Near East*** the inflation outlook for 2011 deteriorated further from 6.4% to 7.1%. The worsening of the inflation outlook is mainly due to *Iran*, where the inflation forecast for 2011 increased from 20.0% in the July survey to now 25.0%. In the *United Arab Emirates* as well as in *Israel* inflation is expected to remain moderate in 2011 (1.9% and 3.0% respectively). In *Turkey* the expected price increase in 2011 of 7.3% is somewhat higher than the average of the region.

In ***Africa*** price trends are still very heterogeneous. Relatively low inflation rates for 2011 are expected in *Morocco* (2.8%), *Congo-Brazzaville Rep.* (3.1%) and *Niger* (3.3%). In a medium inflation bracket lie *Ivory Coast* (3.9%), *Benin* (4.0%), *Algeria* (4.3%),

Table 3

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

Region	QIV/2011	QIII/2011	Region	QIV/2011	QIII/2011
Average of countries *	**4.0**	**4.0**	**North America**	**2.7**	**2.6**
High-income countries	2.8	2.9	Canada	2.5	2.6
Middle-income countries	7.9	7.5	United States	2.7	2.6
Upper-middle	7.4	7.6			
Lower-middle	9.2	7.3	**Latin America**	**7.6**	**7.4**
Low-income countries	10.8	9.9	Argentina	24.2	27.2
EU 27 countries	2.8	2.9	Bolivia	8.1	9.7
EU countries (old members) [a]	2.7	2.8	Brazil	6.4	6.1
EU countries (new members) [b]	3.5	3.7	Chile	3.8	4.0
Euro area [c]	2.5	2.6	Colombia	3.5	3.6
			Costa Rica	(6.0)	(7.0)
Western Europe	**2.6**	**2.7**	Cuba	(1.4)	(4.0)
Austria	2.8	2.8	Dominican Republic	8.2	(8.0)
Belgium	3.0	3.3	Ecuador	4.7	4.1
Cyprus	3.1	2.9	El Salvador	4.2	4.4
Denmark	2.4	2.9	Guatemala	7.1	6.4
Finland	3.2	3.3	Mexico	4.4	4.3
France	2.1	2.2	Panama	(4.5)	5.0
Germany	2.4	2.4	Paraguay	6.9	8.0
Greece	2.8	3.4	Peru	3.4	3.1
Ireland	1.9	2.3	Trinidad and Tobago	8.0	(10.0)
Italy	2.4	2.5	Uruguay	7.7	8.2
Luxembourg	(3.3)	3.1	Venezuela	27.4	29.3
Monaco	2.3	(2.0)			
Netherlands	2.1	2.3	**Near East**	**7.1**	**6.4**
Norway	1.8	2.1	Bahrain	---	(3.0)
Portugal	2.8	3.3	Iran	(25.0)	(20.0)
Spain	2.7	2.8	Israel	3.0	3.2
Sweden	2.5	2.6	Jordan	(4.6)	---
Switzerland	0.6	1.0	Kuwait	(4.5)	(4.5)
United Kingdom	4.5	4.4	Lebanon	5.0	(6.0)
			Saudi Arabia	4.9	6.3
Eastern Europe	**3.6**	**3.8**	Syrian Arab Republic	(10.0)	---
Albania	3.6	4.2	Turkey	7.3	7.1
Bulgaria	4.5	4.5	United Arab Emirates	1.9	3.0
Croatia	2.4	2.5			
Czech Republic	2.0	2.1	**Africa**	**7.9**	**7.0**
Estonia	4.9	4.6	**Northern Africa**	**7.1**	**5.5**
Hungary	4.2	4.1	Algeria	4.3	4.4
Latvia	4.4	5.2	Egypt	13.4	11.7
Lithuania	4.5	3.8	Morocco	2.8	2.1
Poland	4.0	4.2	Tunisia	4.8	4.8
Romania	4.2	5.3	**Sub-Saharan Africa**	**8.4**	**8.0**
Serbia	9.0	9.6	Benin	4.0	2.5
Slovakia	3.6	4.0	Burkina Faso	(2.4)	(2.0)
Slovenia	1.9	2.1	Burundi	(11.0)	12.1
			Comoros	(5.0)	3.8
CIS	**10.0**	**9.8**	Congo Dem. Rep.	18.7	16.1
Belarus	(20.0)	---	Congo-Brazzaville Rep.	3.1	2.7
Kazakhstan	8.7	8.7	Djibouti	5.3	---
Kyrgyzstan	14.7	15.7	Gabon	(7.5)	(5.0)
Russia	8.8	9.5	Ghana	(8.5)	---
Ukraine	10.5	12.5	Ivory Coast	3.9	5.0
Uzbekistan	(14.6)	---	Kenya	17.1	15.3
			Lesotho	5.4	4.7
Asia	**4.1**	**4.1**	Liberia	5.8	7.8
Bangladesh	9.4	9.1	Madagascar	9.6	9.2
China	5.6	5.5	Malawi	9.7	(9.0)
Hong Kong	5.9	5.1	Mauritania	7.8	8.5
India	8.4	8.0	Mauritius	5.7	5.9
Indonesia	5.0	6.3	Namibia	5.6	5.4
Japan	0.0	0.4	Niger	3.3	3.7
Malaysia	3.8	3.6	Nigeria	10.9	12.0
Pakistan	14.0	14.9	Rwanda	7.8	5.0
Philippines	4.6	4.9	Senegal	(3.5)	---
Singapore	(4.5)	4.3	Sierra Leone	14.7	14.7
South Korea	4.3	4.3	South Africa	5.3	5.3
Sri Lanka	8.8	8.5	Sudan	21.8	19.2
Taiwan	1.6	2.0	Swaziland	8.0	6.8
Thailand	4.0	3.9	Tanzania	9.0	(6.0)
Vietnam	20.8	16.3	Togo	(2.0)	(2.0)
			Uganda	---	12.0
Oceania	**3.3**	**3.3**	Zambia	8.9	9.8
Australia	3.3	3.3	Zimbabwe	4.3	5.0
New Zealand	3.4	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. – [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, 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) IV/2011 and III/2011.

Tunisia (4.8%), *South Africa* (5.3%) and *Namibia* (5.6%). High inflation rates of 10% or more will predominate in 2011 according to WES experts particularly in *Sudan* (21.8%), *Congo Dem. Rep.* (18.7%), *Kenya* (17.1%), *Sierra Leone* (14.7%) and *Egypt* (13.4%).

Yen and euro still seen as somewhat overvalued

On a world-wide scale the exchange rates of two of the four currencies that constitute the Special Drawing Rights of the IMF – namely the *US dollar* and the *UK pound* – appear to be close to their fundamentally appropriate values. The other two lead currencies – particularly the *Japanese yen* but also the *euro* – are regarded by the majority of WES experts as somewhat overvalued (see Figure 11).

By countries there are big differences in currency evaluations: WES experts regard their own currency as generally **overvalued** in *Japan, Switzerland* (not however compared to the *yen*), *Chile* and *Peru*, *Serbia, Sri Lanka* and *Egypt.* On the other hand, experts assessed their own currencies as generally undervalued particularly again in *China* but also in *India, South Korea* as well as *Bangladesh, Lebanon, Russia, Kazakhstan, Canada, Kenya, Namibia* as well as *Ecuador* and *El Salvador*, two countries which have tied their currency to the *US dollar*. 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 assessed from a fundamental point of view, signal on a world-wide average a stable value of the *US dollar* in the course of the coming six months.
However, behind this average are diverging trends: an expected **weakening** of the *US dollar* is expected particularly in some *Asian* countries (particularly *China, Indonesia, Malaysia, Taiwan* and the *Philippines*), in *Canada* as well as in *Namibia*, *Peru* and *Bolivia*. These results contrast with an expected **increase** of the value of the *US dollar* in *Switzerland, New Zealand, Vietnam* and *Bangladesh*, in some *Eastern European* countries like *Albania, Serbia* and *Latvia*, in the *CIS* countries, in *Israel* as well as in most *African* countries including *South Africa* (but not *Namibia*). In *Western Europe* 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.

WES experts hardly expect an increase of short-term interest rates in the coming six months

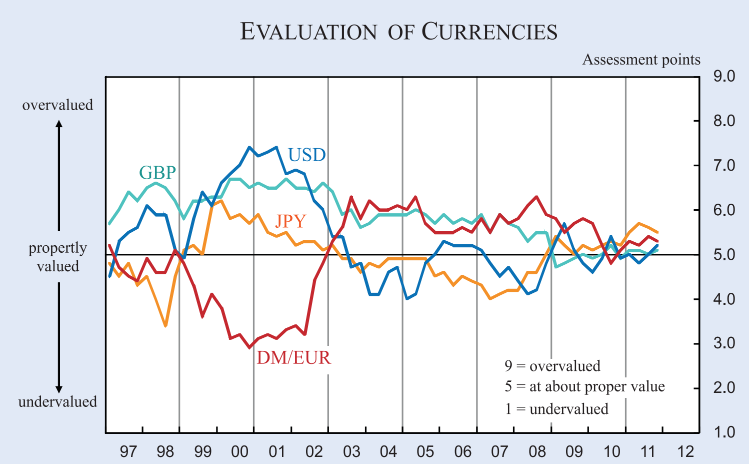
The number of WES experts expecting a tightening of monetary policy by raising short-term interest rates in the course of the next six months has continued to decrease and has reached the lowest level in two years (see Figure 12). This result is in line with the expected slowdown of inflation in the course of coming six months and the growing fears of a cyclical slowdown of the world economy.

A decline of interest rates is particularly expected in *Australia, Indonesia, China, Israel, Brazil, Peru* as well as in the *Democratic Republic Congo, Zambia* and *Sudan*.

ICC Special Question: New generic top-level domains

In June 2011, the Internet Corporation for Assigned Names and Numbers (ICANN) approved a programme to allow companies, organisations and communities to apply to operate an Internet domain name ending – called generic top-level domain – that corresponds to words or phrases, including an organisation's name or brand. This means that companies,

Figure 11

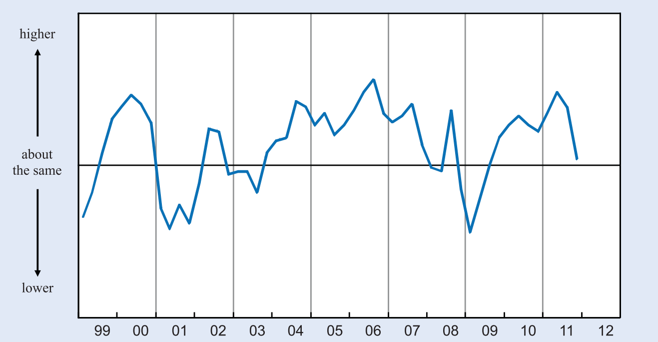


Source: Ifo World Economic Survey (WES) IV/2011.

Figure 12

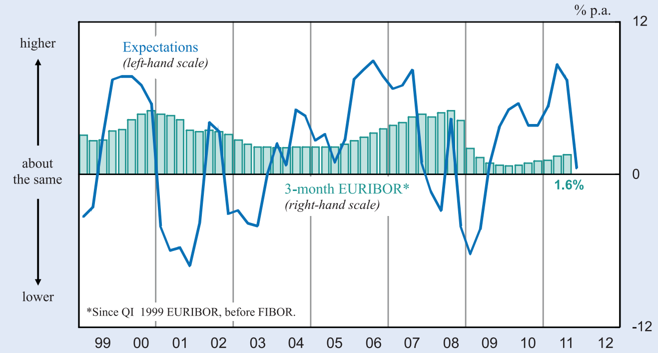
Actual short-term interest rates and expected trend for the next 6 months (quarterly data)

All Countries



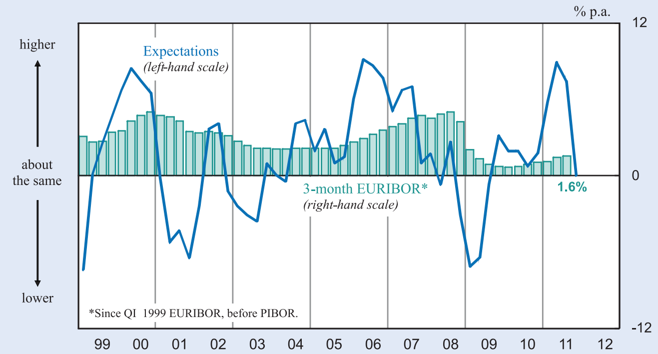
Source: Ifo World Economic Survey (WES) IV/2011.

Germany



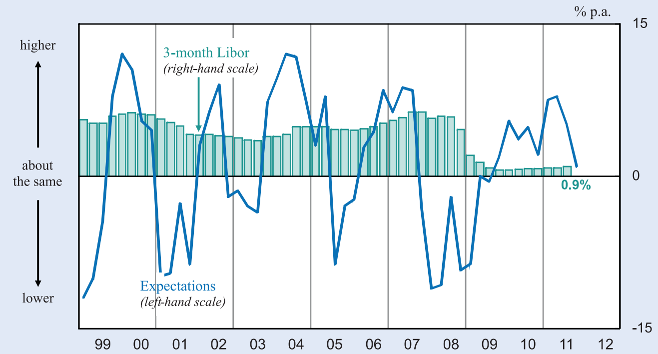
Source: Ifo World Economic Survey (WES) IV/2011, Deutsche Bundesbank.

France



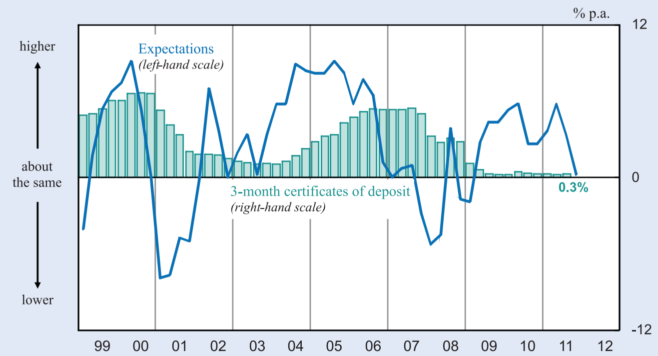
Source: Ifo World Economic Survey (WES) IV/2011, OECD.

United Kingdom



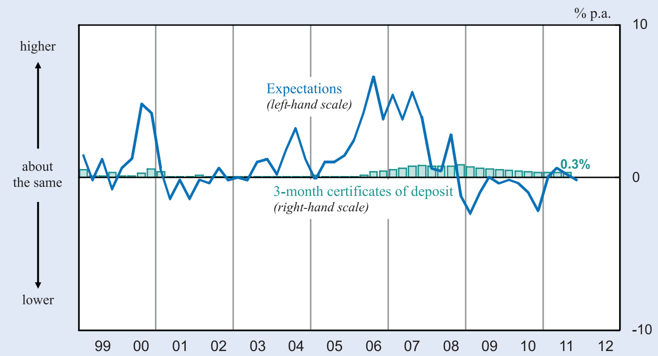
Source: Ifo World Economic Survey (WES) IV/2011, OECD.

United States



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

Japan



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

Box 4

The Greek Debt Haircut and the Euro Area Banking System

At the end of the euro zone summit on 26 October 2011 in Brussels, European political leaders announced that private creditors of Greek government debt will take a voluntary 50% write-down on the value of their holdings. The haircut is part of a wide range of measures proposed to reduce Greece's debt to GDP ratio to 120% by 2020 and expected to be finalized by the start of 2012. The voluntary agreement does not require the payout of billions of euros in credit default swaps (CDS), instruments designed to insure government debt against non-payment. In this box we investigate the direct consequences of the Greek debt haircut on the stability of the banking system in the euro area. Any indirect or second-round effects, e.g. through contagion and financial market distress, are not considered.

The Greek government debt reached €354 billion by mid-2011, with the largest part (€282 billion) in marketable government bonds.[1] These government bonds are predominantly held by foreign creditors (€183 billion), while Greek banks have a much smaller amount in their portfolios (€52 billion). According to the EU-wide stress tests of the European Banking Authority (EBA), non-Greek euro area banks hold Greek government bonds of €32 billion in value. A large part of these holdings (€30 billion) is held in the banking book, while a negligible amount of €2 billion is included in the trading book. The remaining €151 billion of foreign creditor holdings are spread across the European Central Bank (ECB), private insurance companies and other financial institutions.

The amount of Greek government bonds included in the trading book of non-Greek euro area banks is of minor importance when assessing the consequences of the Greek debt haircut on the banks' balance sheets, not only because it is so small in size. The trading book only includes securities that are actively traded on the market and thus valued by market performance. Given that a 10-year Greek government bond traded at approximately 30% of its par value by the end of September, the required write-downs have already been taken. Consequently, we concentrate on the effects of a 50% debt reduction on those Greek governments bonds that are included in the banking book and thus valued at par.

The voluntary agreement to slash Greek government debt by 50% requires that private banks take a write-down of similar size on the value of their holdings in the banking book. According to the stress tests performed by the EBA, Greek banks have government bonds of €47.2 billion in value in their banking books and thus are faced with a huge loss of €23.6 billion.[2] Cyprian banks are required to write-down the value of their holdings by €2.9 billion. For both Greek and Cyprian banks, such large losses lead to a reduction in their Core Tier 1 Ratios (CT1R)[3] by 10 and 5 percentage points, respectively. Without additional capital, e.g. through the extended European Financial Stability Facility (EFSF), both banking systems would be insolvent.

For private banks in the remaining euro area countries, the consequences are much less severe. Among the other 15 countries, Belgium banks are faced with the largest drop in their capital ratios (only 0.7 percentage points though), while German banks have to deal with a negligible reduction of 0.2 percentage points in size. On average, the capital ratios of non-Greek/Cyprian banks fall by 0.14 percentage points only. Given that the average capital ratio is 7.6% and thus much larger than the ratios required by the regulatory authorities (Basel II: 4% and Basel III: 6%, from 2015 on), the Greek debt haircut is not a direct threat to the stability of the euro area banking system.

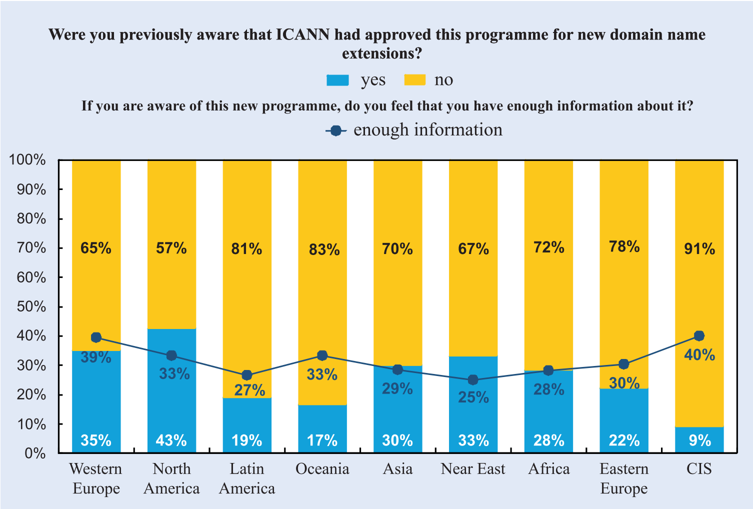
Even though these figures do not suggest that there is a need for non-Greek/Cyprian banks to attract additional capital in order to stabilize their capital ratios after a Greek debt haircut, the European officials also announced on 26 October 2011 that banks in the euro area are required to build up a temporary capital buffer and maintain Core Tier 1 Ratios of at least 9% by the end of June 2012. Around €106 billion is needed to reach this target, set by the EBA. This measure is part of a broader package aimed at avoiding distress in euro area government bond markets that might arise from contagion in the banking system.

[1] The data on the composition of Greek government debt come from the Greek Ministry of Finance, the Financial Monitor of the International Monetary Fund (IMF), and the European Banking Authority (EBA), respectively.
[2] All the calculations in this box were performed by the Forschungsgruppe Gemeinschaftsdiagnose, Herbst 2011.
[3] The Core Tier 1 Ratio (CT1R) is the relation between Core Tier 1 (CT1) capital, which includes equity capital and disclosed reserves, and a bank's risk-weighted assets.

instead of having their brand or name before the ".com", could apply for a domain name extension that ends with their own brand name – effectively staking out their own piece of the Internet and allowing for a greater choice of possible domain names. This quarter's ICC special question asked the surveyed economic experts about their opinion of this programme for new generic top-level domains.

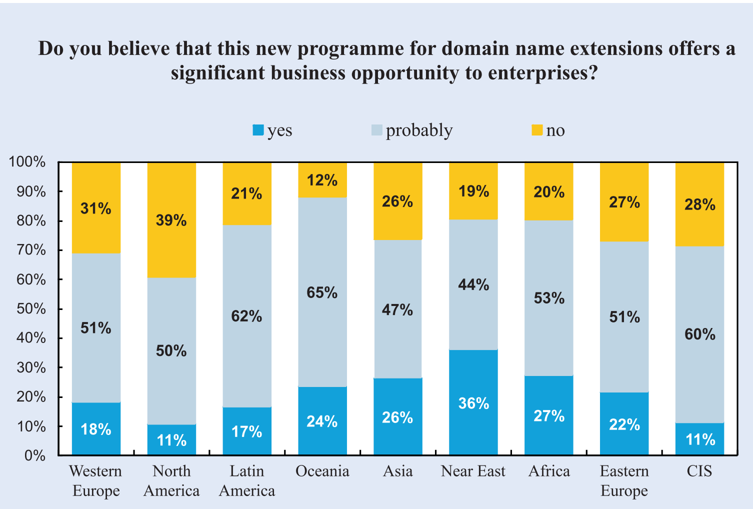
In the first part of the special question the WES experts were asked whether they were previously aware that ICANN had approved this programme for new domain name extensions. The majority of the surveyed participants never heard of this programme (see Figure 13). Apart from this, in *North America*, especially in the *United States*, nearly half of the interviewed experts was aware of this increase of new generic top-level domains. In *Western Europe* and *Near East* at least one third was aware of this programme for new domain name extensions. In the second part of the question the interviewed experts who have knowledge of this programme were asked whether they feel well informed about it. Only about 40% of the surveyed experts in *Western Europe* and *CIS* countries feel that they have enough information about it. In all other regions, the share of respondents who feel informed amounts to about one third; in *Latin America, Near East* and *Africa* only about one quarter. In the last part of the question the surveyed experts were asked whether they think that this new programme for new generic top-level domains offers a significant business opportunity to enter-

Figure 13



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

Figure 14



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

prises. The majority of the surveyed experts in all regions thinks that the programme will have a positive impact – at least probably – on the business of enterprises (see Figure 14). The share of agreement is particularly high in the *Near East* with 36%, followed by 27% of the *African* and 26% of the *Asian* experts, who believe in significant business opportunity due to the domain name extensions. Dissenting voices were mainly reported in *North America* and *Western Europe*, where 39% or 31% of the respondents, respectively, see no business opportunities.

In summary, the majority of the surveyed experts was not aware that ICANN had approved a programme for new domain name extension. Among the respondents who had knowledge of this programme, only 25% to 40% of the surveyed experts in all regions feel well informed about it. Finally, the majority of the surveyed experts in all regions believes that the programme will have significant – or at least likely – business opportunities to enterprises.

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