

CESifo WORLD ECONOMIC SURVEY

VOLUME 7, No. 1

FEBRUARY 2008

WORLD ECONOMIC CLIMATE

World Economic Climate deteriorates further

ECONOMIC EXPECTATIONS

Assessments of the current economic situation and economic expectations downgraded

INFLATION

Higher inflation expected in 2008

INTEREST RATES

Decline expected

CURRENCIES

US dollar and Japanese yen remain undervalued

SPECIAL TOPIC

Internet governance

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


www.cesifo.de/wes

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

For further information apply to:

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

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

CESifo World Economic Survey ISSN 1613-6012
A quarterly publication on the world economic climate
Publisher and distributor: Ifo Institute for Economic Research
Poschingerstr. 5, D-81679 Munich, Germany
Telephone ++49 89 9224-0, Telefax ++49 89 9224-1463, e-mail ifo@ifo.de

Annual subscription rate: € 40.00

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

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

Ifo World Economic Survey

Regions

- World economy: Economic climate deteriorates
- Western Europe: Economic cooling
- North America: Index strongly deteriorates
- Eastern Europe: Stable economy
- CIS: Economic climate improves
- Asia: Diverging economic trends
- Oceania: Economy softens
- Latin America: Economic expectations downgraded
- Near East: Economic climate remains stable
- Africa: Business confidence damped in South Africa

Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide about current economic developments in the respective country. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In January 2008 some 1,004 economic experts in 90 countries were polled.

WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris and receives financial support from the European Commission.

Methodology and evaluation technique

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

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

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

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

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

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

WORLD ECONOMIC CLIMATE DETERIORATES

The Ifo World Economic Climate Index deteriorated further (see Figure 1) and fell below its long-term average (1992–2007: 96.8) from 99.3 in October 2007 (1995=100) to 90.4 in January 2008. Both the assessments of the present economic situation as well as economic expectations for the next six months have been revised downward, on a global average (see Figure 2).

World economy is in a cyclical down-swing

The latest WES survey results indicate that the world economy is in a cyclical down-swing phase. The index of the present economic situation slipped for the second time in succession, after having reached a six-year high in the third quarter of 2007. The economic outlook for the coming six months also deteriorated pointing to an economic cooling. The cyclical contraction was strongly aggravated by the US sub-prime credit crisis, which spilled over particularly to Europe and some countries in Asia, particularly Japan. The economic climate index fell in all three main economic regions – North America, Western Europe and Asia (see Figure 3). The strongest decline, as expected, was in the United States and Western Europe, particularly in the UK and Switzerland. The smallest decline of the sentiment indicator was recorded in Asia, with the exception of Japan.

The business-cycle clock illustrates the cyclical movements of the business sentiments (see Box 1). The economic climate index had approached a cooling-down phase already by the

end of 2006. In the first half of 2007, however, business sentiments picked up again. But summer 2007 the US mortgage crisis caused a sharp decline in global business sentiments. In autumn 2007 the economic climate index entered the cooling-down area of the business clock and in January 2008 it fell further. According to the surveyed economists, the negative effect of the US financial market crisis will last into the first half of 2008, in particular in North America and Western Europe. However, in the majority of affected countries WES experts expect that the negative impact of the US sub-prime credit crisis will be concentrated on the first

Figure 1

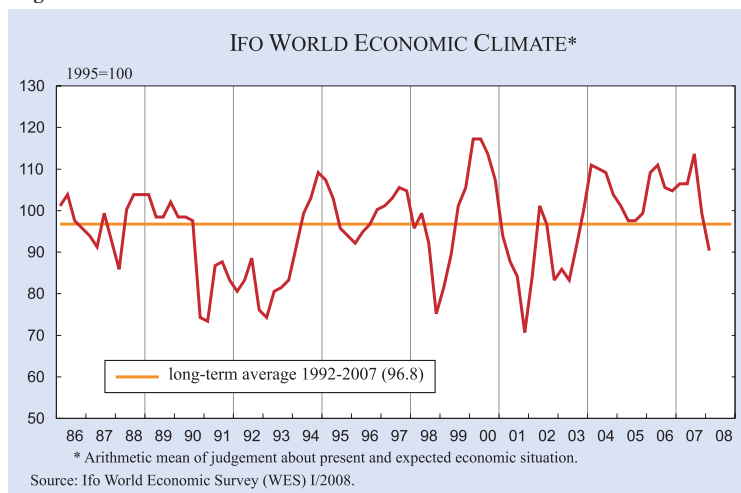
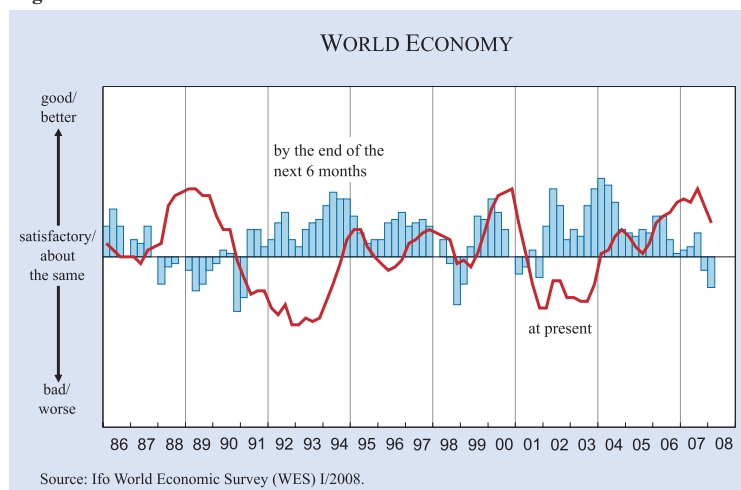


Figure 2



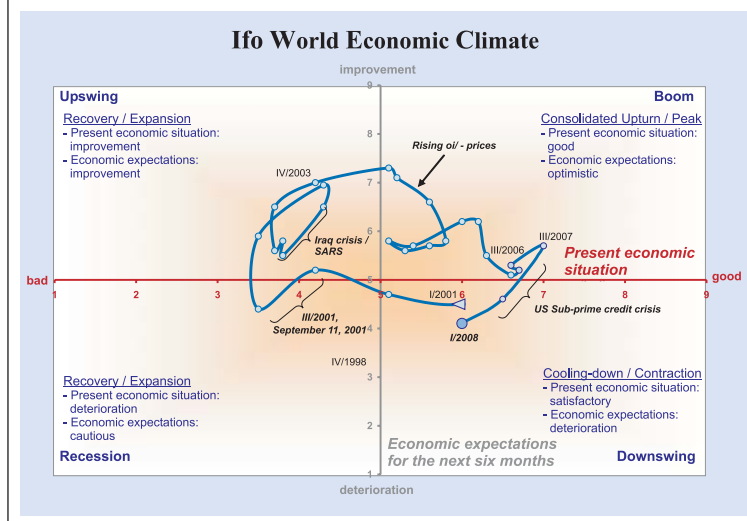
Box 1

Ifo Economic Clock and the World Economic Climate

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

The economic climate index had approached a cooling-down phase already by the end of 2006. In the first half of 2007, however, business sentiments picked up again. But the summer 2007 US mortgage crisis caused a sharp decline in global business sentiments. In autumn 2007 the economic climate index entered the cooling-down area of the business clock and in January 2008 it fell further.

The Ifo World Economic Climate is the arithmetic mean of the assessments of the current situation and economic expectations for the next six months. The correlation of the two climate components can be illustrated in a four-quadrant diagram ("Ifo Konjunkturuhr"). The assessments on the present economic situation are positioned along the abscissa, the responses on the economic expectations on the ordinate. The diagram is divided into four quadrants, defining the four phases of the world business cycle. For example, should the assessments of the interviewed experts on the present situation be negative, but the expectations became positive, the world business cycle is in an upswing phase (top left quadrant).



half of the year and subside in the second half of 2008.

Western Europe: Economic cooling

The overall economic climate indicator deteriorated in January in *Western European* countries. Both components of the economic climate index – assessments of the present economic situation and economic expectations for the next six months – have been revised downward. According to the panel's forecast, the economic expansion will slow in the first half of 2008 (see Figure 3 and 4 and Box 2).

The economic climate index declined in all euro area countries. Both the assessments of the present economic situation and economic expectations have been revised downward. The strongest decline of the economic climate index was recorded in January in *Ireland, Luxembourg, Spain, France* and the *Netherlands*. In *Germany* the overall index declined only

slightly, due to more cautious economic expectations, while the assessments of the present economic situation remained highly favourable. Also in most other countries in the euro area the assessments of the current economic situation are still positive. Only in *France* and *Italy* did these assessments fall further below the satisfactory level. The second component of the economic climate index – the economic expectations for the next six months – has been revised downward in all countries of the euro area, except *Italy* and *Austria*.

Outside the euro area the economic climate also cooled off strongly. In particular in the *UK* and *Switzerland* – two countries where the financial sector represents a relatively large share of the overall economy – the economic climate index deteriorated sharply. In the *United Kingdom* the assessments of the present economic situation even fell below the satisfactory mark. The economic climate cooled also in *Sweden* and *Norway*, and to a lesser degree in *Denmark*. In the *United Kingdom, Switzerland* and *Sweden* the economic slowdown is expected to spill over to capital expenditures and private consumption in the coming six months.

North America: Economic climate index strongly deteriorates

The economic climate indicator in *North America* strongly weakened in January, both due to worsened economic expectations for the next six months and a more pessimistic assessment of the present economic situation (see Figure 3 and Figure 6).

In the *United States* the economic climate has again strongly deteriorated over the previous survey. The assessments of the present economic situation slipped below the satisfactory mark. The economic expectations have also been strongly downgraded and point to further economic deterioration in the

Expected Impact of the US Sub-prime Crisis on the Financial Sector

In a special question the WES experts were asked this time to what extent the US Sub-prime Credit Crises will affect the country's financial sector in the first half of 2008 and the second half of the year. By far the strongest impact is seen, as expected, in the *United States*, primarily in the first half of the year. In *Western Europe* the largest negative impacts is expected by WES experts in the *United Kingdom* followed by *Switzerland*, *Ireland* and *Germany*. In all four cases the main impact is expected to be in the first half of the year with a clear tendency to soften in the second half of the year. In *Central and Eastern Europe* the expected impact is in all countries seen as relatively small. In *CIS countries* only in *Kazakhstan* and in *Latin America* only in *Mexico* some negative impact is expected in 2008. The same holds true for *Oceania* – both *Australia* and *New Zealand*. Also in *Asia* the impact appears to be limited and to be restricted here mainly to *Japan*, *Thailand* and *South Korea*.

The Negative Effect of the US Sub-prime Credit Crisis on the Country's Financial Sector in the First and in the Second Half of 2008

Country	I/2008	II/2008	Country	I/2008	II/2007
Western Europe			CIS		
Austria	4.6	3.7	Kazakhstan	5.6	4.7
Belgium	4.7	2.9	Russia	3.9	3.9
Denmark	3.9	3.7	Ukraine	4.3	3.9
Finland	2.6	2.7	Latin America		
France	4.2	3.6	Argentina	3.6	3.6
Germany	6.2	4.0	Brazil	3.7	3.7
Greece	2.8	3.2	Chile	3.9	2.9
Ireland	6.5	5.8	Colombia	3.5	5.3
Italy	3.3	3.9	Ecuador	2.8	3.2
Netherlands	4.1	3.6	Mexico	5.5	5.8
Norway	3.6	2.4	Paraguay	2.3	3.3
Portugal	5.2	3.9	Peru	3.0	3.2
Spain	4.8	4.2	Venezuela	2.4	3.6
Sweden	3.9	3.6	Asia		
Switzerland	6.9	4.0	Bangladesh	4.5	4.0
United Kingdom	7.1	5.8	China	3.4	2.6
North America			Hong Kong	3.9	3.3
Canada	5.9	3.9	India	3.8	3.8
United States	7.7	5.5	Indonesia	2.3	2.6
Central and Eastern Europe			Japan	5.5	4.1
Albania	2.0	2.7	Malaysia	2.8	3.3
Bulgaria	3.3	3.8	Pakistan	3.0	3.3
Croatia	3.6	3.6	Philippines	4.2	4.2
Czech Republic	3.2	2.8	South Korea	5.0	3.5
Hungary	4.1	3.9	Sri Lanka	4.0	3.0
Latvia	2.7	4.0	Taiwan	4.1	3.9
Lithuania	4.1	3.6	Thailand	5.4	4.8
Poland	2.9	3.8	Vietnam	3.5	2.5
Romania	5.0	5.0	Near East and Africa		
Serbia-Montenegro	4.4	3.3	Israel	3.0	2.7
Slovakia	2.3	2.5	Turkey	4.8	4.9
Slovenia	3.4	3.2	United Arab Emirates	2.2	2.2
Oceania			South Africa	3.1	2.6
Australia	5.0	5.0			
New Zealand	5.3	4.0			

* Only countries with more than 3 responses have been included into the analysis.

WES scale: very strong (9) – practically not (1).

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

next six months. The risk of recession remains high in the *US*. The surveyed economists forecast that capital expenditures and private consumption will weaken strongly in the coming months. The export sector, however, remains buoyant in the *US*, according to WES experts.

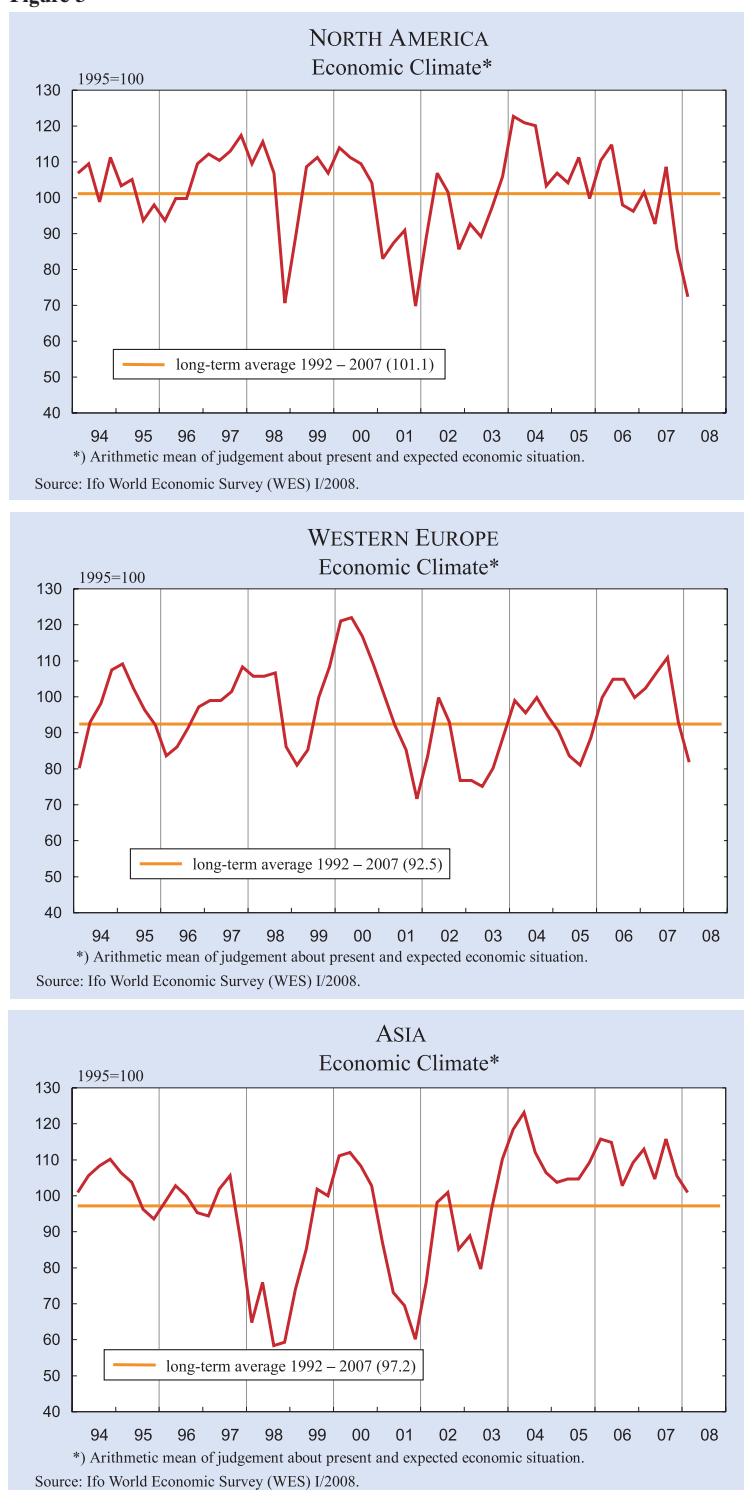
In *Canada* the present economic situation is assessed as less favourable than in the preceding October 2007 survey, although still having very high marks on the WES scale. The economic outlook for the coming six months remains cautious. Also in *Canada* capital

investment and private consumption are expected to weaken strongly in the next six months.

Central and Eastern Europe: Stable economy

The favourable economic climate remained almost unchanged in *Central and Eastern Europe* (see Figure 4). Although, the economic expectations have been somewhat downgraded, on average, the assessments of the present economic situation remained at a very favourable level (see Figure 8).

Figure 3



In all countries of the European Union, except *Bulgaria*, the economic climate index deteriorated in January. In *Bulgaria* both assessments of the present economic situation and economic expectations have been revised slightly upwards; the present economy is now assessed with very high marks on the WES scale. Economic expectations point to further strengthening in 2008. An highly favourable eco-

nomic situation prevails also in the *Czech Republic, Lithuania, Estonia, Poland* and *Slovakia*, according to surveyed economists. In contrast, the WES experts assessed the economy as very weak again in *Hungary*. Within the EU, beside *Bulgaria* only in *Slovakia* are the economic expectations pointing to an economic upturn in the first half of 2008. In *Latvia* the present economic situation is assessed as satisfactory, but is expected to worsen strongly in the course of the next six months. An economic cooling is also forecast for *Romania* and *Slovenia*, countries with top ranking from by WES experts regarding the climate for foreign direct investments (see Table 2).

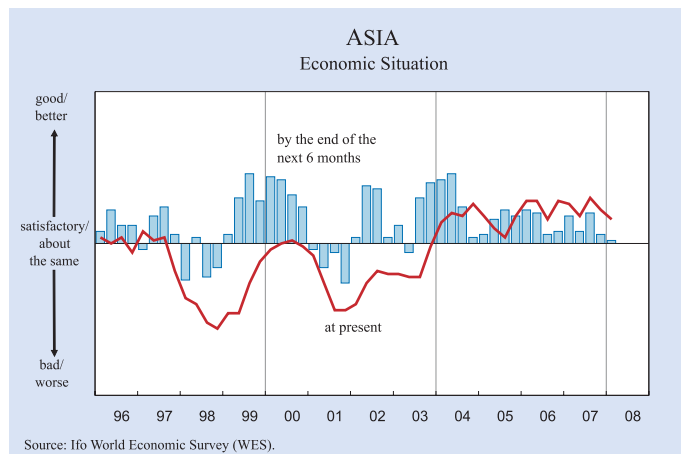
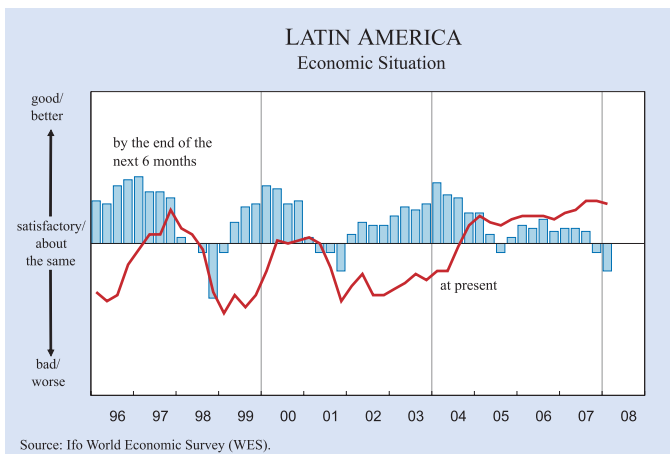
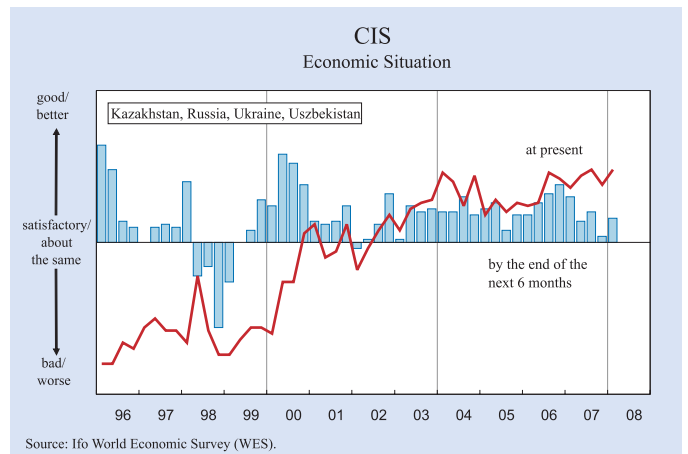
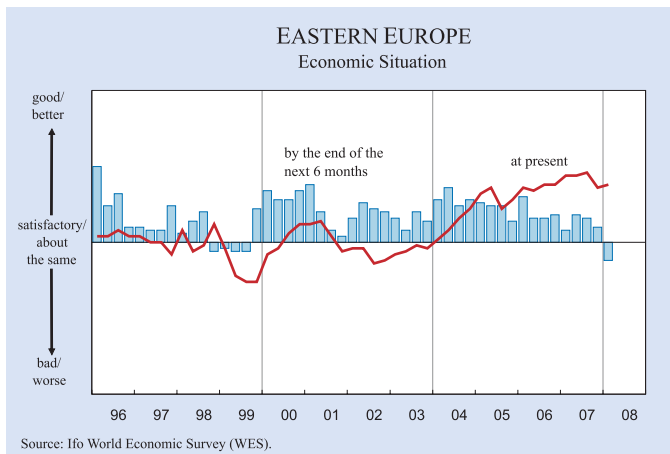
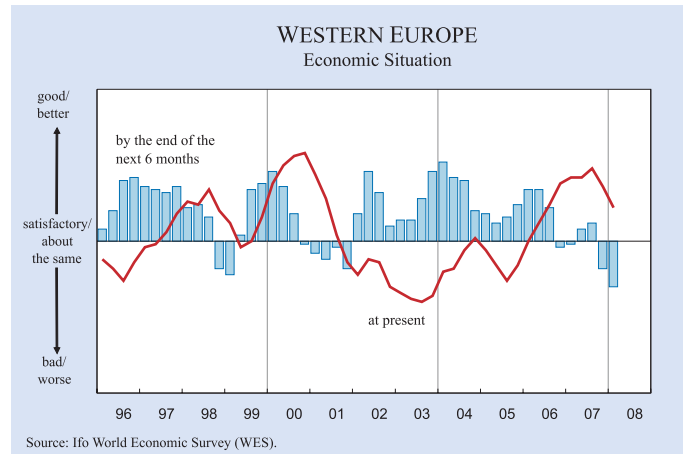
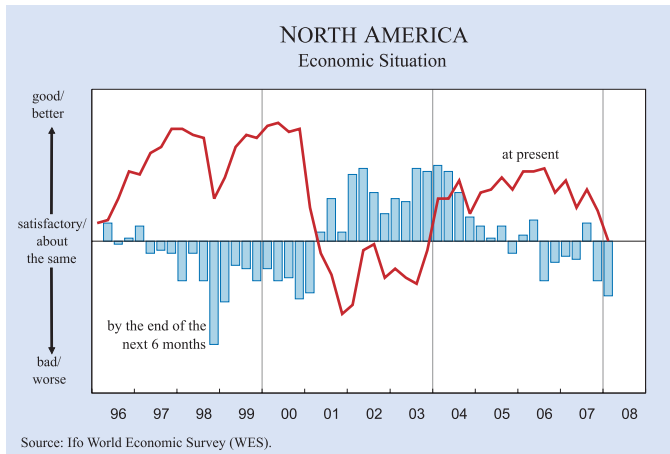
Outside the EU, the economic climate improved in *Albania* and *Serbia* in January, according to the WES results. Both assessments of the present economic situation and economic expectations are positive. The surveyed economists forecast growth of capital expenditures and a strengthening of the export sector in the first half of 2008. In *Croatia*, the present economic situation is also assessed as favourable, but the economic expectations have weakened somewhat. Particularly private consumption is expected to deteriorate in the next six months; the export sector, however, to strengthen.

CIS: Economic climate improves

The overall economic climate index for the CIS countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan* and *Uzbekistan*) improved somewhat in January compared to the October 2007 survey.

Figure 4

SELECTED REGIONS

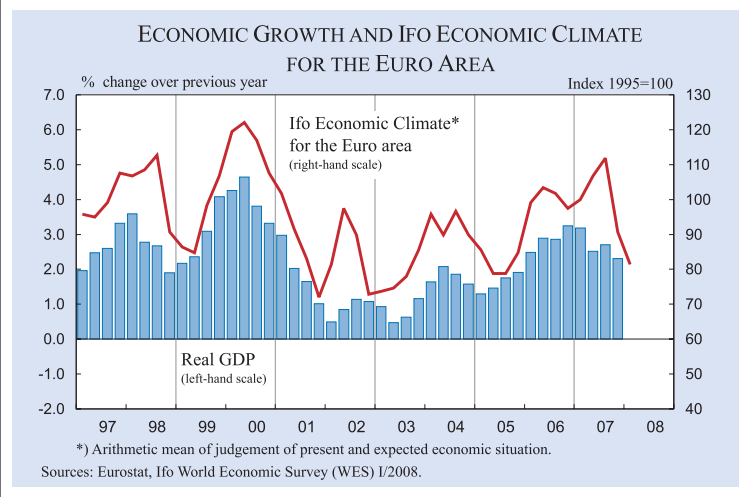


Box 2**World Economic Survey (WES) and GDP Growth in the Euro Area**

The Ifo World Economic Climate for the 13 member countries of the euro area (excluding Cyprus and Malta) is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The January results are based on the responses of 238 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo Economic Climate in the euro area has clearly worsened again in the first quarter of 2008, falling to its lowest level since mid-2005. The decline in the Ifo indicator was the result of both less positive assessments of the current economic situation as well as less favourable economic expectations for the coming six months.

The economic climate worsened in the first quarter of 2008 in all countries of the euro area. Especially in *Belgium, Spain, Ireland, Austria, Italy* and *Greece*, the WES experts anticipate a clear cooling off of the economy in the coming months. Also in *Finland, Germany, the Netherlands* and *Slovenia*, optimism has weakened, although the current economic situation is still assessed very positively in these countries. In *Italy* and *France*, however, both the assessments of the current situation as well as the economic outlook are negative for the first half of 2008. In *Portugal* the current economic situation continues to be assessed unfavourably.



The assessments of the present economic situation and economic expectations have been up-graded somewhat in *Russia*. The overall economy is described as strong. The economic forecasts for the next six months point to a stable economic development in the next six months, with further strengthening of capital expenditures, private consumption and exports. Also in *Kazakhstan* the economic climate index has improved somewhat over the previous quarter's survey. The present economic performance is assessed as satisfactory here as well; the economic prospects for the next six months have been up-graded. The economic climate index has deteriorated in the *Ukraine*. The present economic situation is seen as below the satisfactory level by the majority of surveyed economists. The economic expectations relating to the economic development in the next six months are, however, generally positive. The sur-

veyed economists in *Kyrgyzstan* and *Uzbekistan* foresee that the economy will stabilize at the present satisfactory level in the first half of 2008.

Asia: Diverging economic trends

The economic climate in *Asia* deteriorated again somewhat in January (see Figure 3). Both the assessments of the present economic performance and economic expectations for the next six months have been downgraded somewhat, on average, for the region (see Figure 8). However, in contrast to *North America* and *Western Europe* (see Figure 3) the economic climate index in *Asia* has not fallen below its long-term average and there are diverging economic trends in the region.

The economic climate index fell strongly in *Japan*. Particularly the economic expectations for the coming six months have been very strongly downgraded to the lowest level in the region. The surveyed economists expect capital expenditures and private consumption to fall markedly in

2008 and also exports to slowdown as the global economy loses steam. Also in *Taiwan* the economic climate deteriorated in January, according to WES experts. While the present economic situation is still assessed as satisfactory, economic expectations have been downgraded and point to an economic slowdown in the next six months. As still below the satisfactory level the economic situation was assessed by the surveyed economists in *Thailand*. Also economic expectations have again been downgraded and are now less optimistic than in the second half of 2007. In *Pakistan* and *Sri Lanka* the economic climate considerably cooled in the wake of political instability. In *Pakistan* the surveyed economists forecast a decline of capital expenditures and private consumption as well as exports in the first half of 2008.

In the other Asian economies the economic climate remains favourable, or has even improved in the beginning of 2008. The highest marks for the present economic performance were given by the surveyed economists in *India, Hong Kong* and the *Philippines*. Also in *Vietnam* and *Malaysia* the present economic situation was assessed as highly favourable. In all these countries the surveyed economists are fairly confident that the economy will remain stable in the first half of 2008. In *Vietnam* they even foresee further economic strengthening. In *Hong Kong* and the *Philippines*, however, the export sector is expected to weaken somewhat. Also in *China* export growth is expected to weaken in the next six months. The overall economic performance in *China* is assessed as satisfactory and stable. In *South Korea, Indonesia* and *Bangladesh* the surveyed economists also describe the present business conditions as satisfactory and forecast further economic strengthening.

Oceania: Economy softens

According to the January survey results, the economy has softened in *Australia* and *New Zealand*. In *Australia* the present economic situation was assessed with the highest marks on the WES scale in the October 2007 survey. In the January survey the assessments remained highly favourable, although to a lesser degree than in the preceding survey. The economic outlook for the coming six months, although downgraded, is pointing to a stable economy in the first half of 2008. In *New Zealand*, in contrast, the present economic performance has again strongly deteriorated, according to WES experts. The assessments of the present economic situation again fell below the satisfactory mark. The economic prospects for the next six months have also been strongly downgraded and are now pointing to an economic deterioration in 2008. The surveyed economists forecast that particularly the export sector will weaken further and that the private consumption will fall in the next six months.

Latin America: Economic expectations downgraded

The economic climate index for *Latin America* deteriorated in January. However, the assessments of the present economic situation remained above the satisfactory level, on average, for all countries

surveyed in the region. But the outlook for the coming six months has deteriorated and points to an economic slowing in the first half of 2008 (see Figure 9).

The economic climate deteriorated in several *Latin American* economies. A particular pronounced deterioration was recorded in January in *Chile, Venezuela, Ecuador* and *Mexico*. In all these countries the economic expectations slipped into negative territory. Particularly capital expenditures and private consumption are expected to decline in the next six months. However, the overall present economic situation, although somewhat downgraded, is described as satisfactory in *Chile, Mexico* and *Venezuela*. In *Ecuador*, in contrast, the assessments of the present economic situation strongly deteriorated and have fallen below the satisfactory level. Pessimistic economic expectations prevail also in *Argentina, Colombia* and *El Salvador*. The present economic situation, however, is assessed as very favourable in all three economies by the WES experts. In the other Latin American countries surveyed by WES – *Brazil, Bolivia, Costa Rica, Guatemala, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay* – the economic climate remained stable or has even improved. The present economic situation has been described as favourable in all these economies. The outlook for the first half of 2008 promises economic stabilization. In *Peru, Uruguay* and *Paraguay* the surveyed economists expect even further economic strengthening and dynamic exports in the next six months.

Near East: Economic climate remains stable

The economic climate in the countries surveyed in the *Near East* region deteriorated only slightly (see Figure 10). The economic climate remained stable at a highly favourable level in the *United Arab Emirates, Saudi Arabia, Bahrain, Kuwait* and *Jordan*. However, the economic climate index strongly deteriorated again in *Iran* and *Turkey*. Also in *Israel*, the economic prospects for the next six months remained cautious, with capital expenditures, private consumption and exports forecast to weaken. The country's present economic situation, however, has again been assessed again as very good. Also in *Turkey* an economic slowdown is foreseen in the first half of 2008. The export sector, however, will not be negatively affected, according to the WES experts.

Table 1

Inflation Rate Expectations for 2008 and 2007
(based on WES QI/2008 and QIV/2007)

Region	QI/2008	QIV/2007	Region	QI/2008	QIV/2007
Average of 90 countries *	3.6	3.2	Latin America	7.1	6.1
<i>World Bank classification:</i>			Argentina	19.6	15.9
High-income countries	2.6	2.3	Bolivia	13.6	10.8
Middle-income countries	7.0	6.1	Brazil	4.5	4.2
Upper-middle	7.1	6.2	Chile	5.5	5.5
Lower-middle	6.8	5.9	Colombia	4.7	5.4
Low-income countries	6.8	n.a.	Costa-Rica	9.0	9.0
EU 27 countries	2.8	2.4	Ecuador	4.6	3.7
EU countries (old members) ^{a)}	2.5	2.2	El Salvador	4.8	4.0
EU countries (new members) ^{b)}	5.1	4.4	Guatemala	8.2	6.6
Euro area ^{c)}	2.5	2.1	Mexico	4.7	4.0
Western Europe	2.5	2.1	Panama	5.0	4.0
Austria	2.4	2.0	Paraguay	8.3	7.5
Belgium	2.7	1.8	Peru	3.3	2.7
Cyprus	3.3	2.5	Trinidad and Tobago	9.0	9.0
Denmark	2.4	2.0	Uruguay	6.5	8.8
Finland	2.9	2.6	Venezuela	24.5	17.6
France	2.1	1.6	Asia	2.9	2.4
Germany	2.3	2.1	Bangladesh	8.0	8.0
Greece	3.6	2.9	China	4.8	4.2
Iceland	-	-	Hong Kong	3.7	2.0
Ireland	4.0	4.0	India	4.8	5.0
Italy	2.4	1.9	Indonesia	6.1	6.2
Luxembourg	2.6	2.5	Japan	0.8	0.4
Malta	2.0	2.5	Malaysia	3.7	3.1
Netherlands	2.3	1.8	Pakistan	8.8	8.0
Norway	2.3	1.4	Philippines	4.0	3.2
Portugal	2.3	2.4	Singapore	1.0	1.2
Spain	3.7	3.0	South Korea	3.2	3.0
Sweden	2.9	2.2	Sri Lanka	18.0	17.5
Switzerland	1.5	0.9	Taiwan	2.2	1.9
United Kingdom	2.6	2.6	Thailand	3.5	2.3
Eastern Europe	5.1	4.4	Vietnam	10.4	7.0
Albania	4.4	4.8	Near East	7.9	7.8
Bulgaria	8.4	9.3	Bahrain	3.0	-
Croatia	4.0	2.6	Iran	20.0	17.9
Czech Republic	4.9	3.0	Israel	2.7	2.5
Estonia	6.8	6.0	Jordan	8.5	6.2
Hungary	6.3	7.4	Kuwait	8.5	5.5
Latvia	10.7	11.1	Saudi Arabia	4.0	4.3
Lithuania	6.4	5.3	Turkey	8.2	7.5
Poland	3.8	2.5	United Arab Emirate	9.0	9.8
Romania	5.5	5.0	Africa*	n.a.	n.a.
Serbia	7.9	9.0	Algeria	4.0	4.0
Slovakia	2.7	2.3	Kenya	15.0	-
Slovenia	4.2	3.5	Mauritius	8.0	9.5
CIS	11.5	10.1	Nigeria	9.2	9.5
Kazakhstan	12.5	9.6	South Africa	7.0	6.5
Russia	10.7	9.6	Tunisia	5.0	2.9
Ukraine	14.8	12.6	Zimbabwe	<i>Hyperinflation</i>	
Uzbekistan	17.9	18.8	Oceania	3.4	2.9
North America	2.7	2.7	Australia	3.5	2.9
Canada	2.2	2.4	New Zealand	3.0	2.9
United States	2.9	2.8			

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade (without Zimbabwe).

^{a)} Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom – ^{b)} Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1, May 2004), Bulgaria and Romania (from 1. January 2007) – ^{c)} Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Slovenia.

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

Figure 5a

EUROPEAN UNION

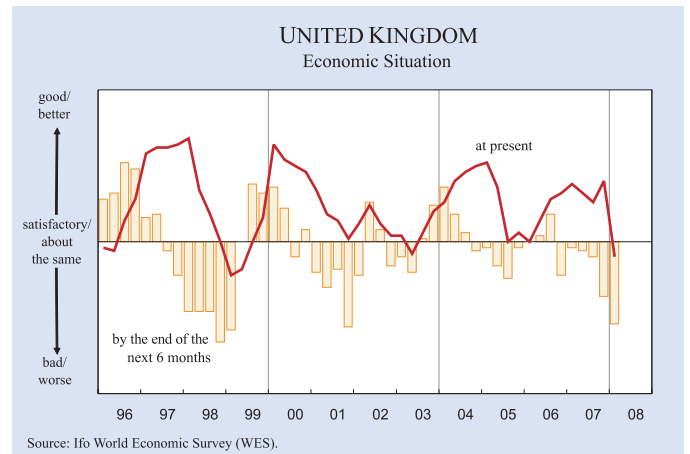
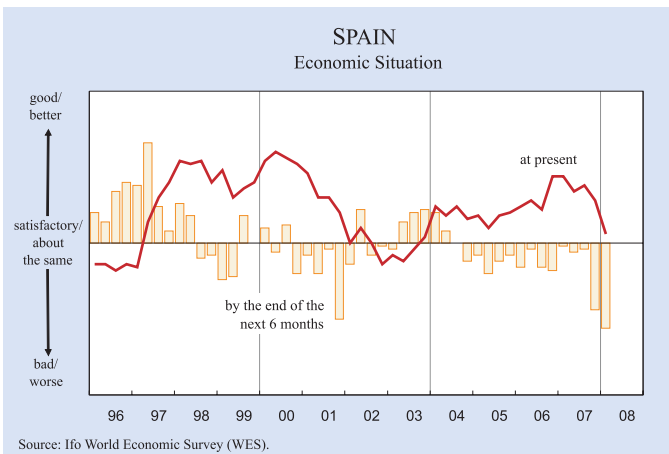
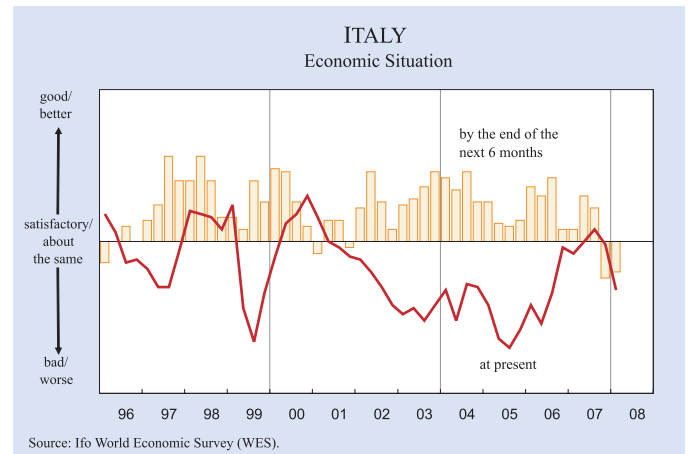
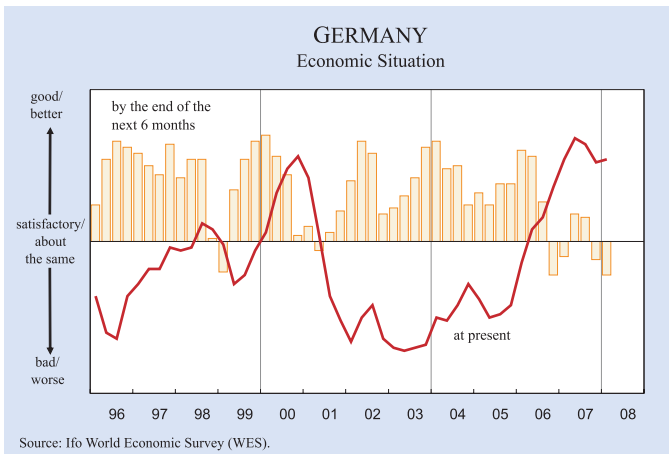
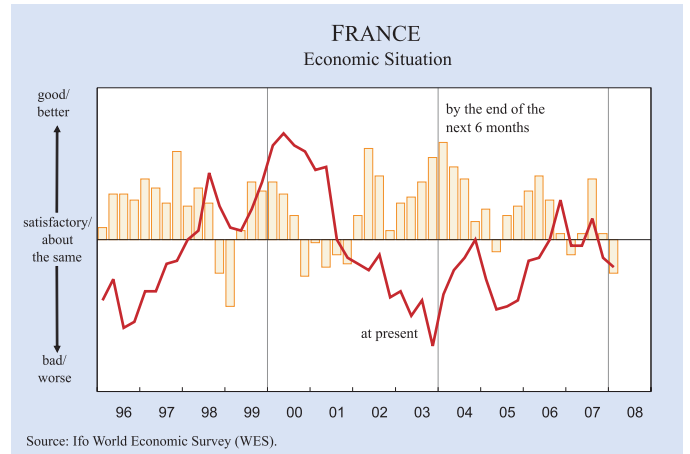
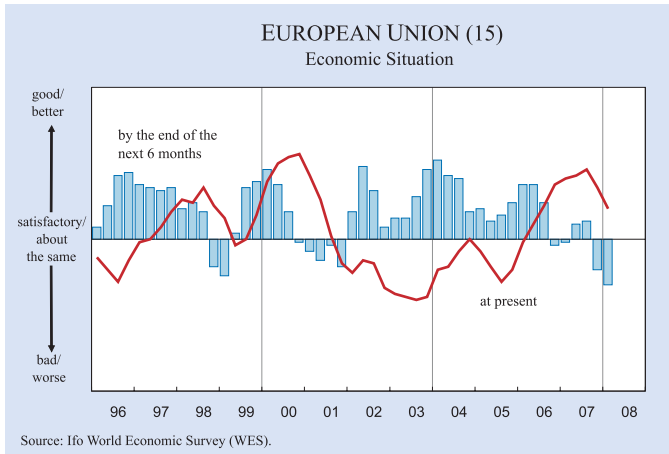


Figure 5b

EUROPEAN UNION

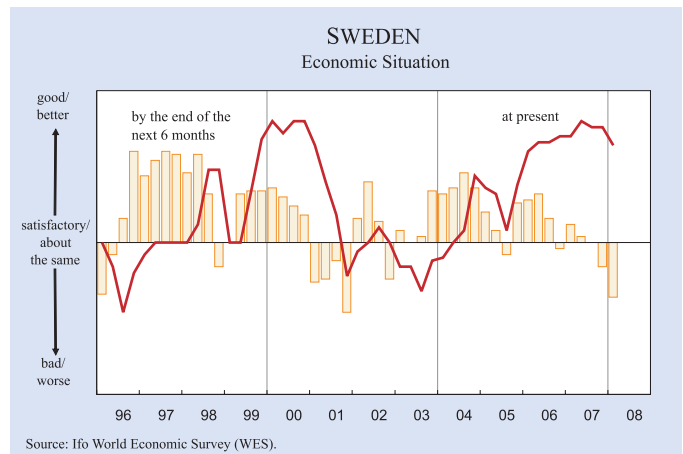
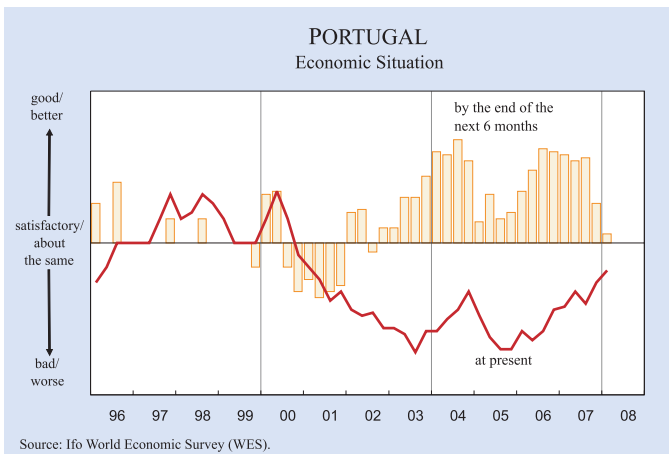
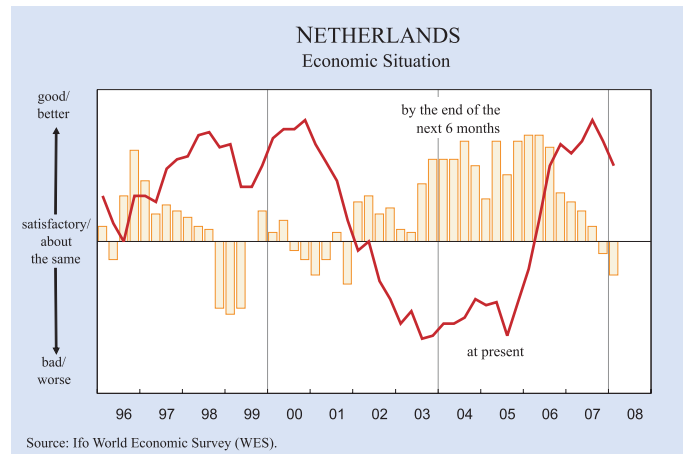
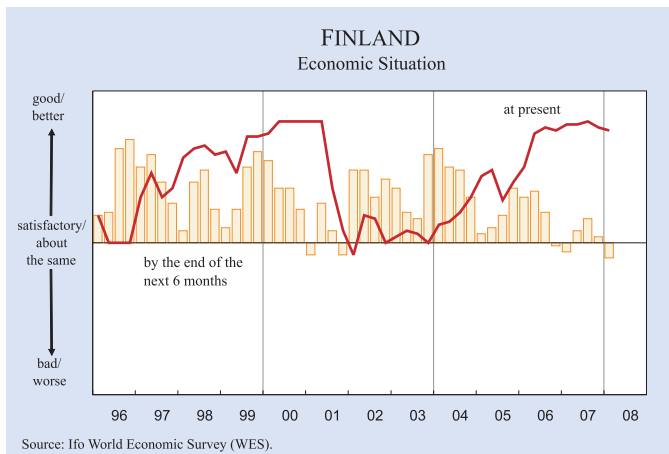
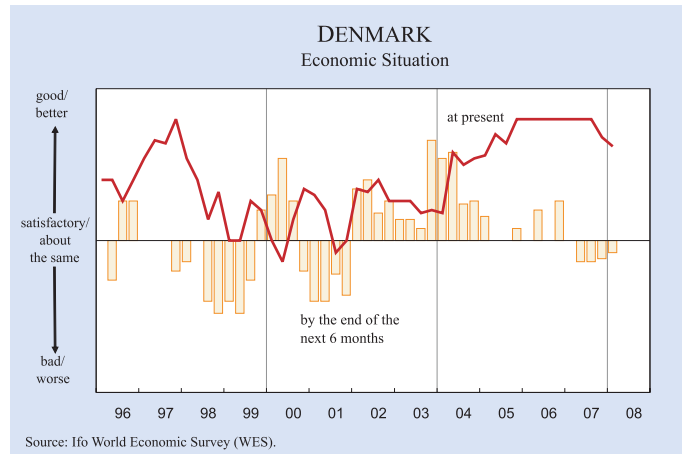
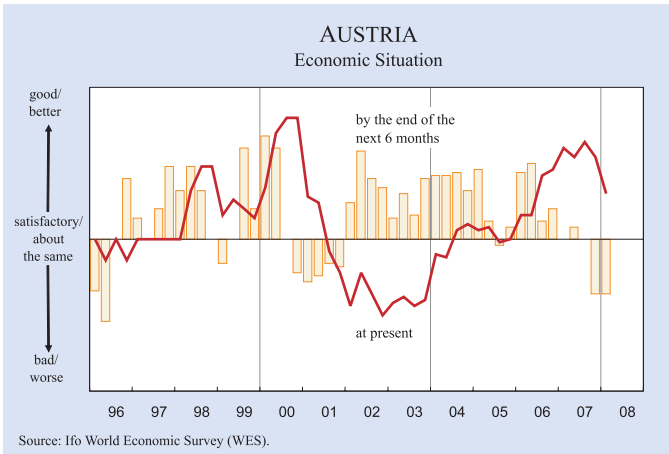


Figure 6

NORTH AMERICA, OCEANIA AND CIS

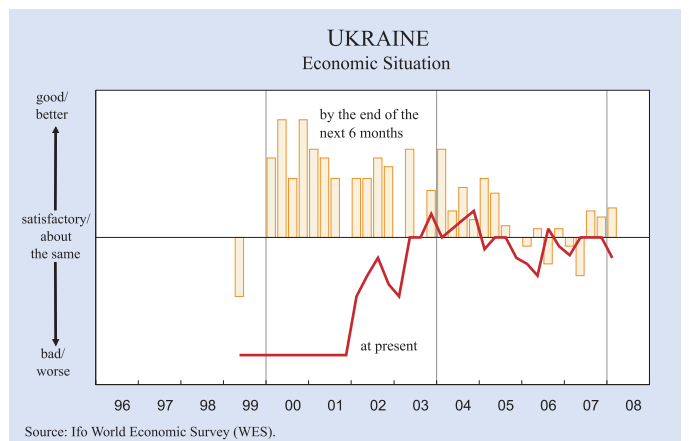
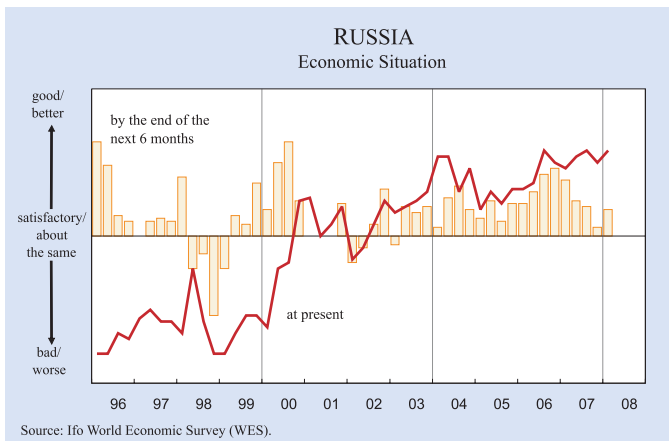
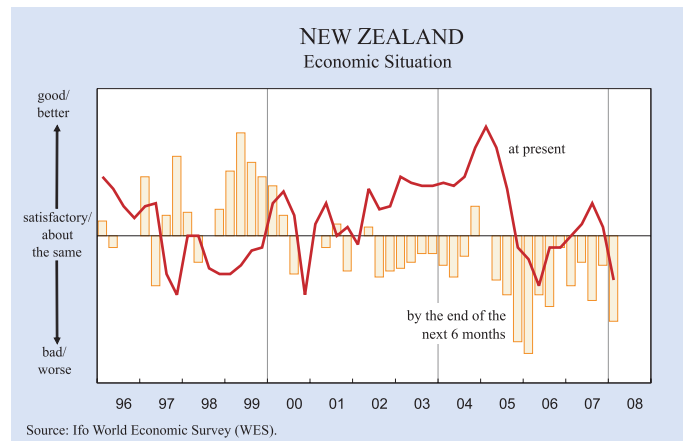
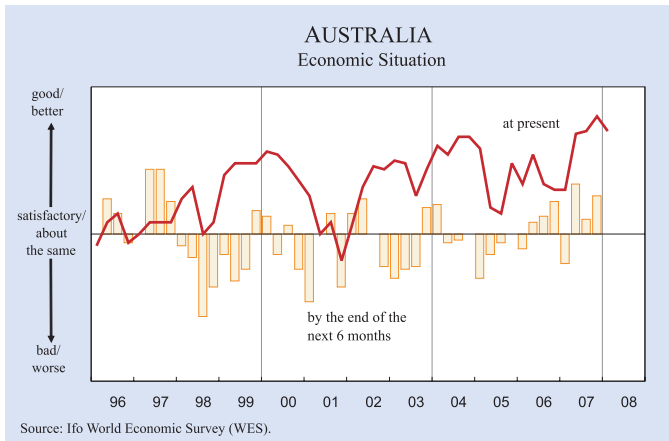
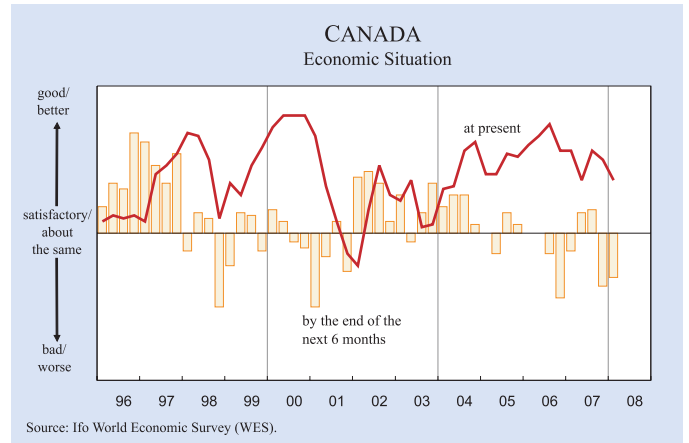
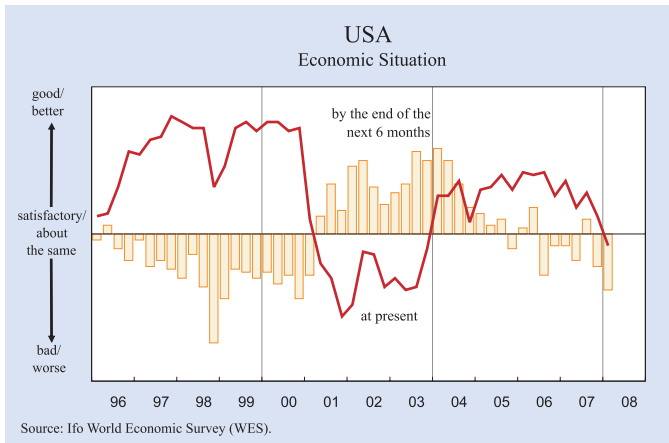


Figure 7

EASTERN EUROPE

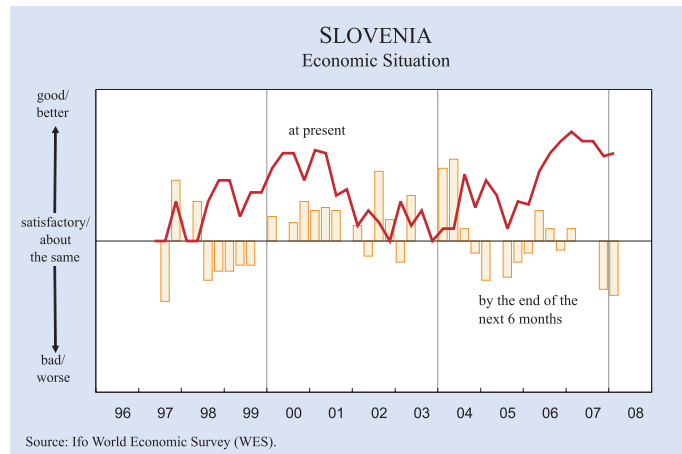
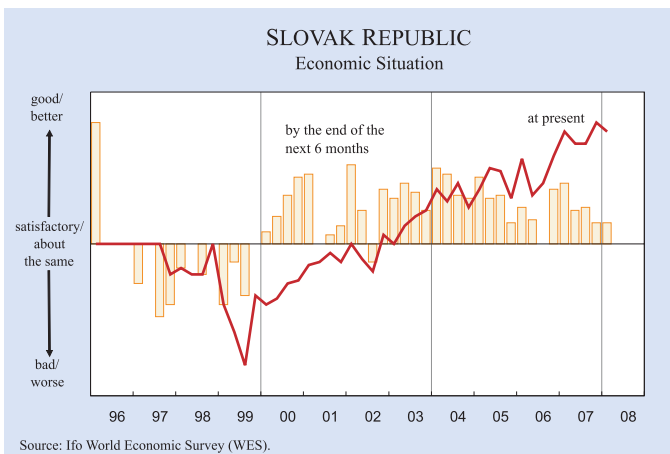
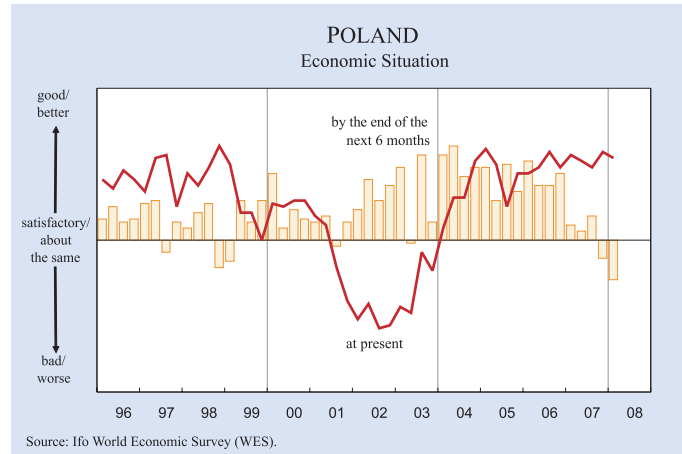
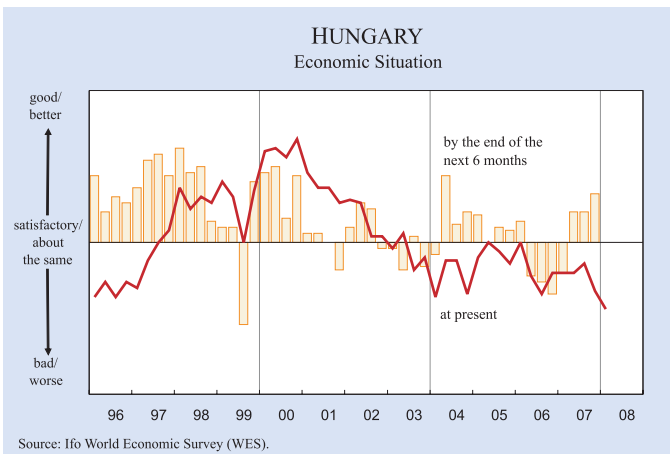
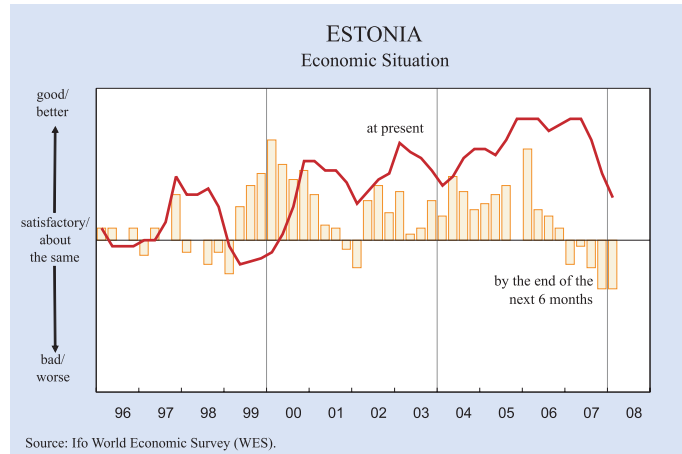
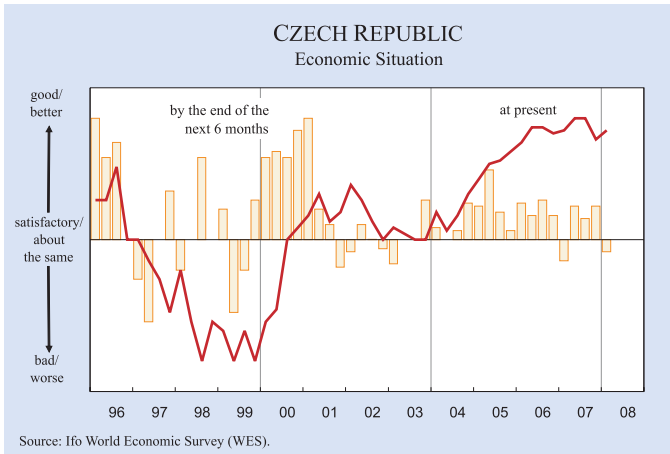


Figure 8

ASIA

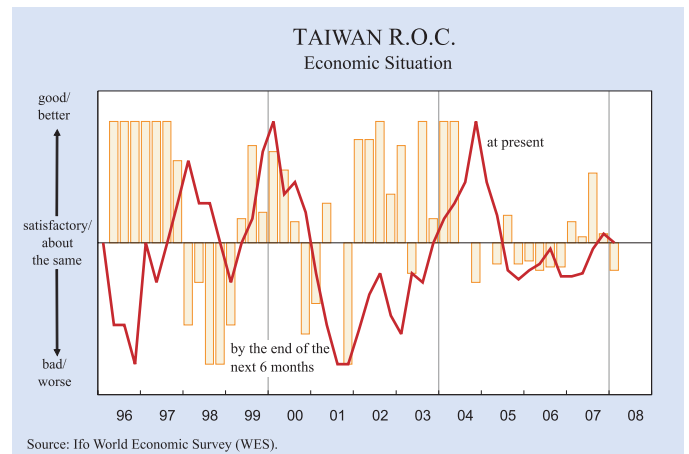
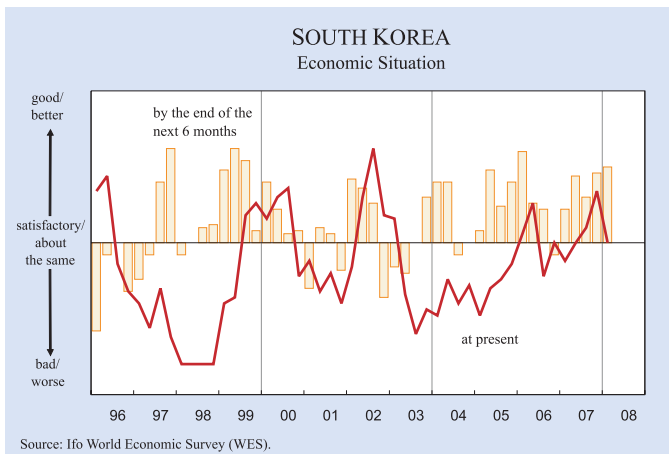
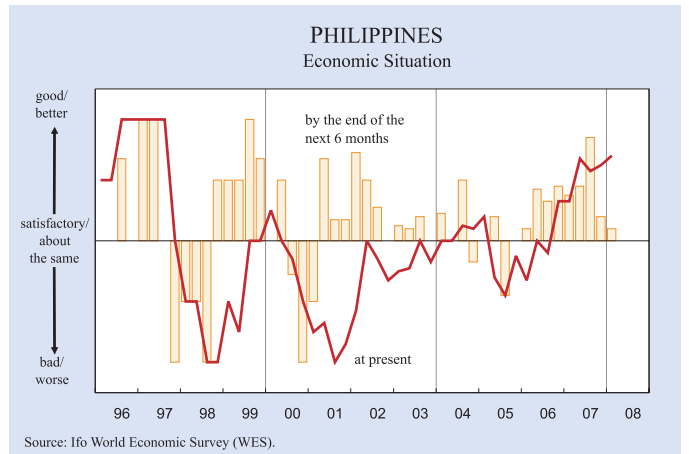
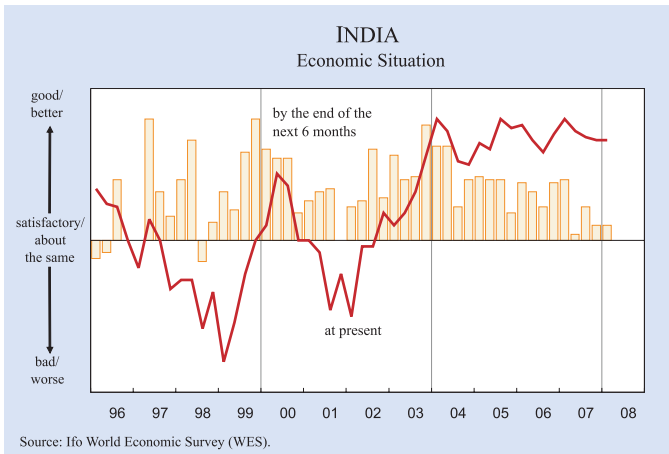
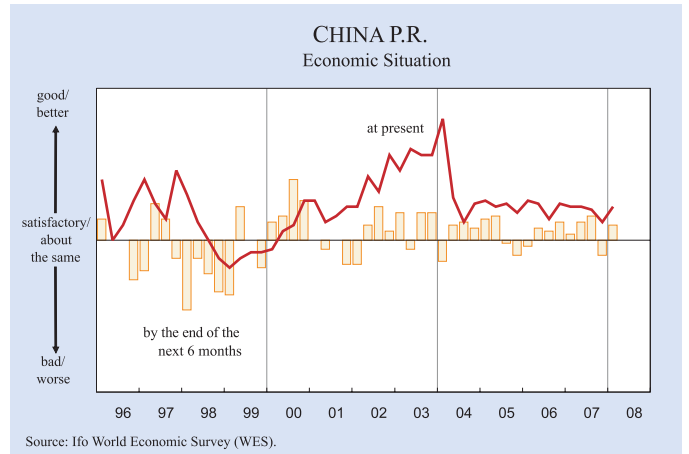
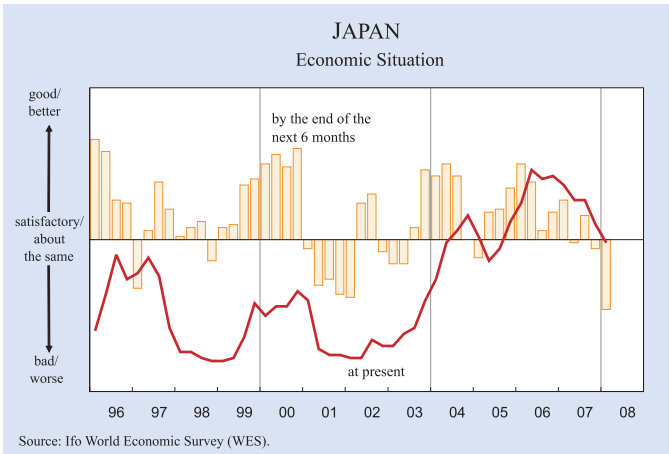


Figure 9

LATIN AMERICA

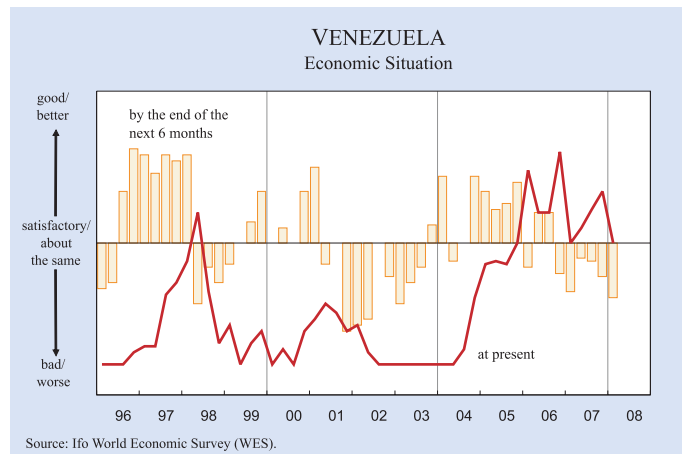
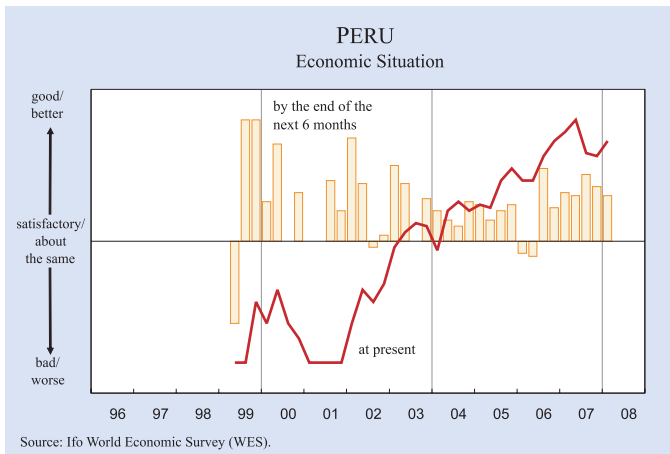
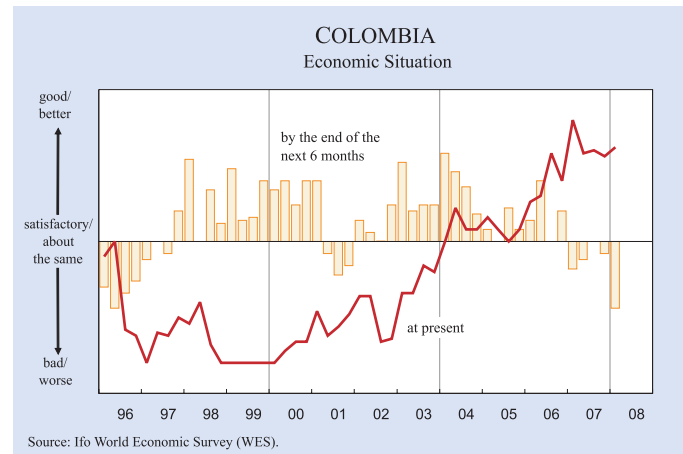
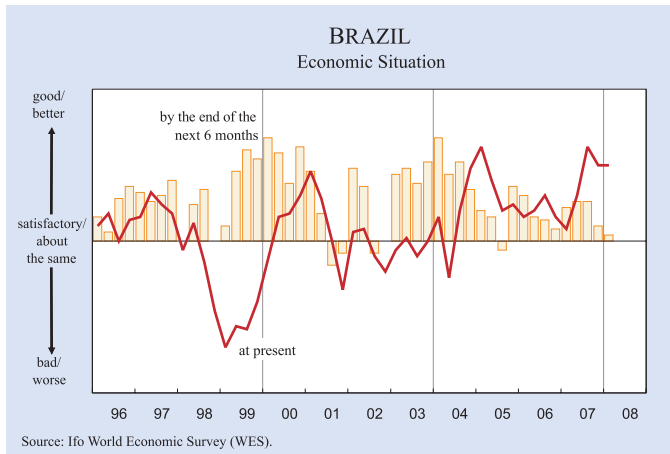
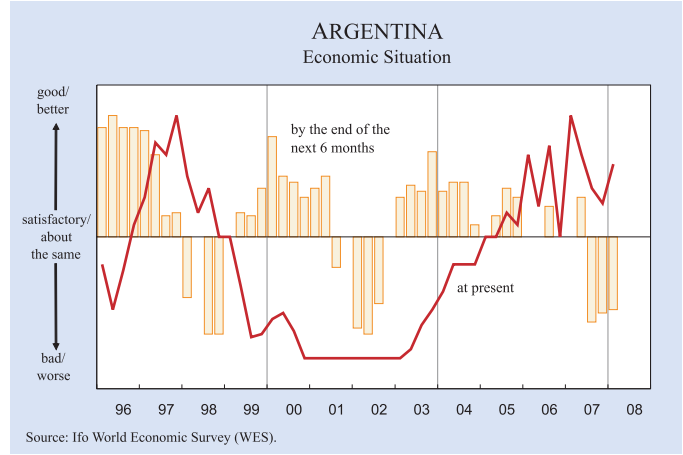
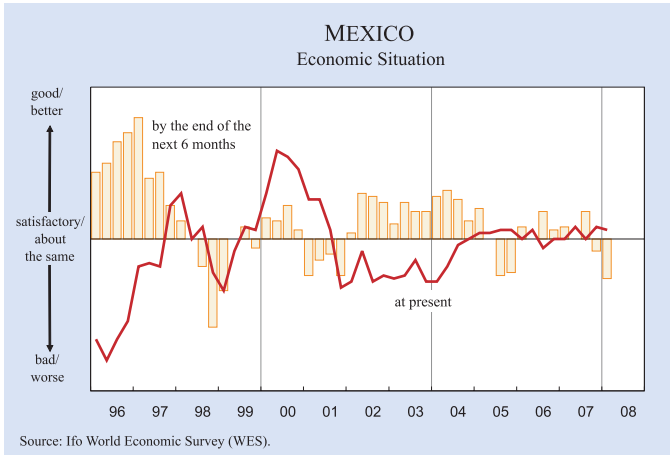


Figure 10

NEAR EAST AND AFRICA

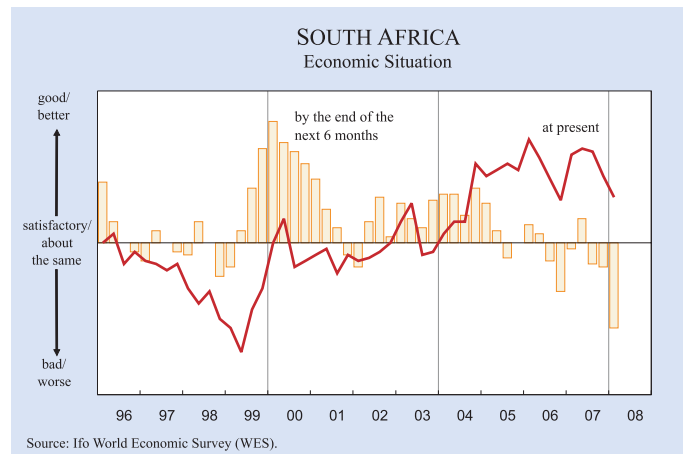
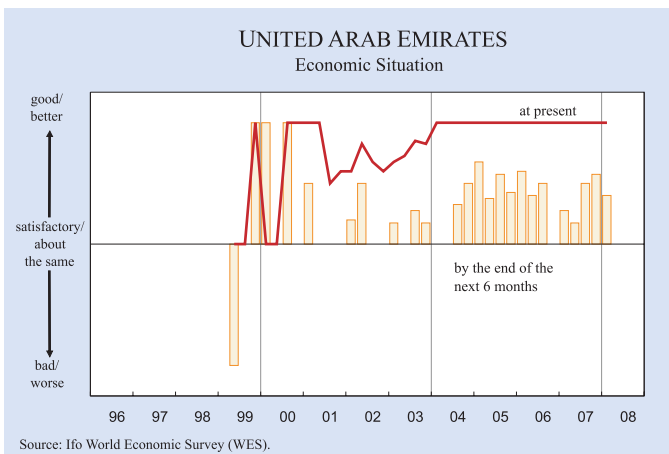
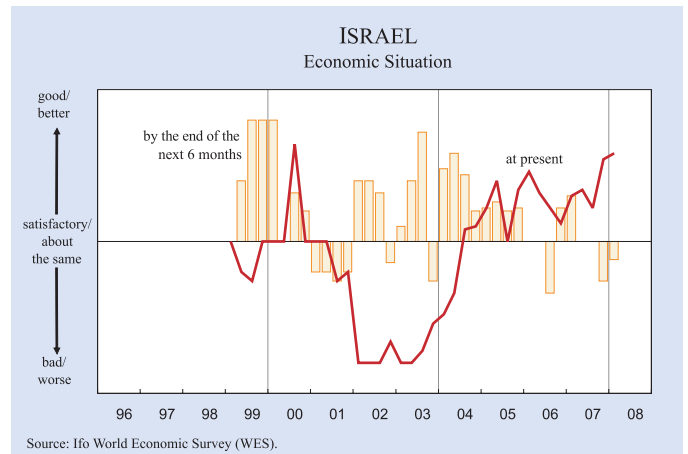
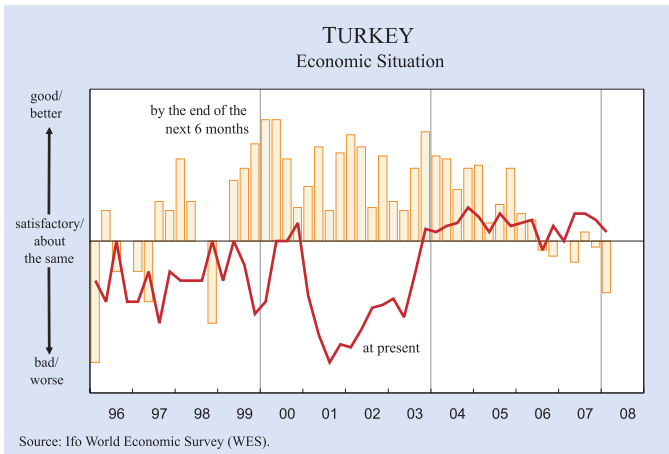
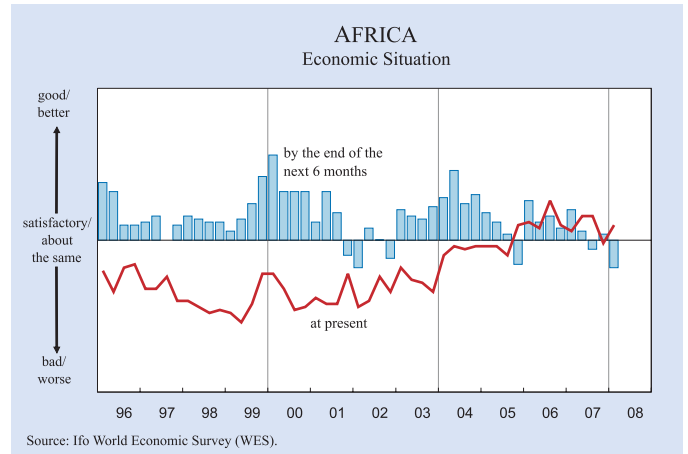
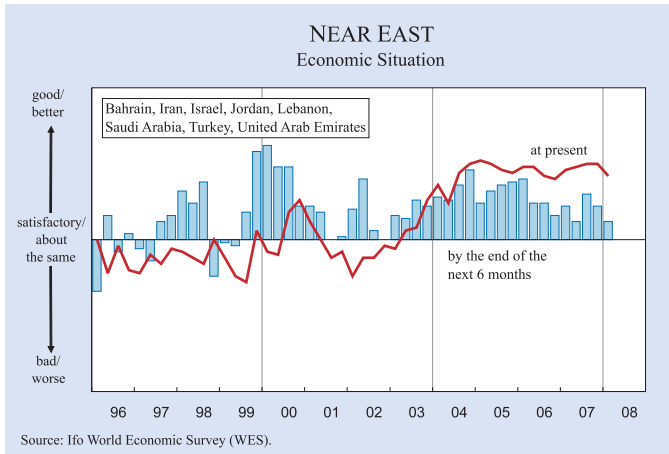


Table 2
Legal and Administrative Restrictions
for Foreign Firms

Absent	
Finland	8.1
Sweden	7.5
Austria	7.5
Romania	7.3
Ireland	7.3
Hungary	7.3
United Kingdom	7.1
Spain	7.0
Latvia	7.0
Rather Low	
Denmark	6.8
Chile	6.7
United Arab Emirates	6.6
Netherlands	6.6
Portugal	6.5
New Zealand	6.5
Switzerland	6.4
Paraguay	6.3
Belgium	6.3
Canada	6.2
Slovenia	6.1
Serbia-Montenegro	6.1
Poland	6.1
Peru	6.1
Norway	6.1
Hong Kong	6.1
Japan	6.0
United States	5.9
Germany	5.9
Bulgaria	5.9
Albania	5.7
Pakistan	5.6
Kazakhstan	5.6
Australia	5.6
Turkey	5.5
India	5.5
Colombia	5.4
Brazil	5.3
Greece	5.2
France	5.2
Slovakia	5.0
Mexico	5.0
Kyrgystan	5.0
Israel	5.0
Czech Republic	5.0
Bolivia	5.0
Bangladesh	5.0
Malaysia	4.7
Lithuania	4.5
Taiwan	4.4
Philippines	4.2
Sri Lanka	4.0
South Africa	4.0
Russia	4.0
Rather High	
South Korea	3.9
Ecuador	3.8
Argentina	3.8
Thailand	3.7
China	3.5
Croatia	3.3
Italy	3.2
Vietnam	3.0
Ukraine	2.7
Venezuela	2.3
Indonesia	2.1

* Only countries with more than 3 responses have been included into the analysis

WES scale: 9 - absent, 5 - low, 1 - high.

Source: Ifo World Economic Survey I/2008.

Africa: Business confidence damped in South Africa

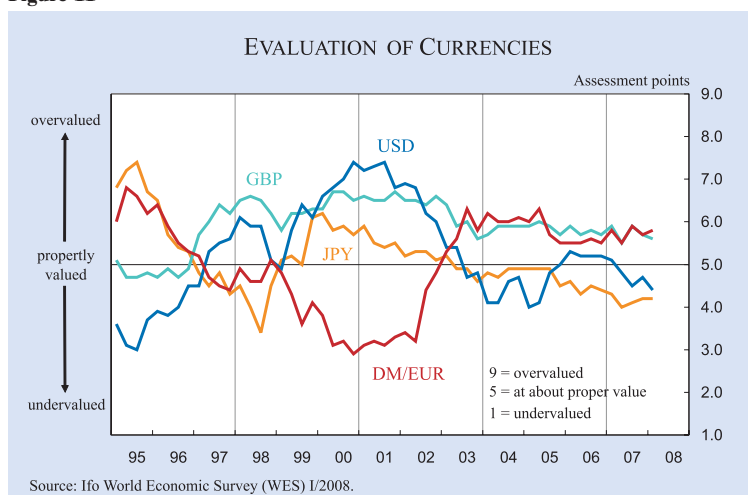
In *South Africa* the economic climate deteriorated very strongly. Both the assessments of the current economic situation and economic expectations for the next six months have been strongly revised downward, although the country's present economic performance is still seen as good by the majority of surveyed economists. Particularly private consumption is foreseen to weaken markedly in 2008. In *Nigeria* the present economic situation is assessed as below the satisfactory level. In *Algeria*, *Mauritius*, *Tanzania* and *Tunisia* the present economy is performing at a satisfactory level, according to economists surveyed in these countries. The outlook for the next six months points to a stable economic development. In *Zimbabwe* disastrous circumstances continue to prevail.

Inflation: Higher inflation in 2008 expected

For the average of 2008, WES experts expect 3.6 percent inflation on world-wide scale (see Table 1); this is significantly higher than the 2007 inflation figure (3.2 percent). The expected pickup of inflation appears to be widespread in the world economy, with the exceptions of *North America*, where inflation in 2008 is expected to remain unchanged at 2.7 percent and the *Near East* where the expected 2008 inflation rate of about 8 percent is practically unchanged from last year. In the other regions of the world the range of the expected increase in the 2008 inflation rate lies between 0.4 percentage points in Western Europe (2.5 percent compared to 2.1 percent in 2007) and 1.4 percentage points in *CIS* countries (11.5 percent compared to 10.1 percent in 2007). In *Asia* inflation is expected to pick up from 2.4 percent in 2007 to 2.9 percent in 2008, in *Eastern Europe* from 4.4 percent to 5.1 percent in 2008 and in *Latin America* from 6.1 percent to 7.1 percent.

In the *euro area* the inflation outlook for 2008 worsened markedly from 2.1 percent to 2.5 percent in 2008 which would be clearly above the ECB's target of "slightly below 2.0 percent". The highest inflation rates in the euro area in 2008 are expected in *Slovenia* (4.2 percent) – one of the newcomers to the euro area – followed by *Ireland* (4.0 percent), *Spain* (3.7 percent), *Greece* (3.6 percent) and *Cyprus* (3.3 percent). The relatively best price performance is expected in 2008 in *Malta* (2.0 percent) and *France*

Figure 11



(2.1 percent). Other traditional low inflation countries in the euro area like *Germany* and the *Netherlands* are both expected to experience both an inflation rate of 2.3 percent in 2008.

In *Western Europe* outside the euro area, expectations for inflation in 2008 are – as in previous years – particularly low in *Switzerland* (1.5 percent) which, however, would be significantly higher than in 2007 (0.9 percent). In the two other former low inflation countries *Sweden* and *Norway*, inflation is expected to pick up even more in 2008 (in *Norway* from 1.4 percent in 2007 to an expected 2.3 percent in 2008 and in *Sweden* from 2.2 percent to an expected 2.9 percent). In the *United Kingdom* the inflation outlook for 2008 remains the same as the last year’s reported inflation (2.6 percent).

In the *United States* inflation expectations for 2008 are only a tick higher (2.9 percent) than inflation in 2007 (2.8 percent) and declined somewhat in *Canada* (from 2.4 percent in 2007 to 2.2 percent in 2008).

In *Asia* consumer price inflation in 2008 is expected to reach 2.9 percent. The lowest inflation rates in 2008 will continue to prevail in *Japan* (0.8 percent after 0.4 percent in 2007) and in *Singapore* (1.0 percent after 1.2 percent in 2007). Moderate though somewhat higher inflation rates continue to characterize *Taiwan* (2.2 percent after 1.9 percent in 2007). The relatively highest inflation expectations for 2008 prevail again in *Sri Lanka* (18 percent) and *Pakistan* (8.8 percent). In *Vietnam* and *Bangladesh* the inflation expectations for 2008 remain well above the *Asian* average (10.4 percent respectively 8.0 percent). In *China* the 2008 inflation outlook is above

the previous year’s inflation (4.8 percent compared with 4.2 percent in 2007).

In *Central and Eastern Europe* inflation in 2008 is seen at 5.1 percent which is somewhat higher than the rate reported for 2007 (4.4 percent). The highest rate of inflation this year is expected in *Latvia* (10.7 percent). Also in *Serbia* inflation will remain relatively high (7.9 percent); compared with the inflation rate in 2007 (9.0 percent) this is nonetheless a modest improvement. Also in *Bulgaria* (8.4 percent) and *Estonia* (6.8 percent) inflation expectations remain clearly above the average of the region. The lowest rate of inflation is seen in 2008 in *Slovakia* (2.7 percent) and in *Poland* (3.8 percent).

In the *CIS* countries inflation in 2008 will probably surpass the 10 percent-mark (11.5 percent after 10.1 percent in 2007). This upward trend is mainly influenced by an expected increase of the inflation rate in *Kazakhstan* (from 9.6 percent to 12.5 percent in 2008). Also in *Russia* and the *Ukraine* this year’s inflation rate is expected to be somewhat higher than in 2007 (10.7 percent compared with 9.6 percent in 2007 in *Russia* and 14.8 percent compared with 12.6 percent in the *Ukraine*). In *Uzbekistan* the inflation rate in 2008 is expected to remain close to 18 percent.

Also in *Central and Latin America* 2008 inflation expectations are higher than the reported inflation in 2007 (7.1 percent compared with 6.1 percent in 2007). However, this was caused mainly by a few countries – particularly *Venezuela* (24.5 percent) and *Argentina* (19.6 percent) – and is not a widespread phenomenon in this region. In most of the other countries in the region the 2008 inflation outlook is only slightly higher than the 2007 inflation outcome (*Brazil*: 4.5 percent compared with a reported 4.2 percent in 2007; *Chile*: 5.5 percent compared with 5.5 percent in 2007; *Mexico*: 4.7 percent compared with 4.0 percent in 2007).

In the *Near East* the inflation outlook for 2008 is practically the same as last year’s inflation (7.9 percent compared with 7.8 percent). The highest inflation forecasts for 2008 came from *Iran* (20.0 percent).

Figure 12

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

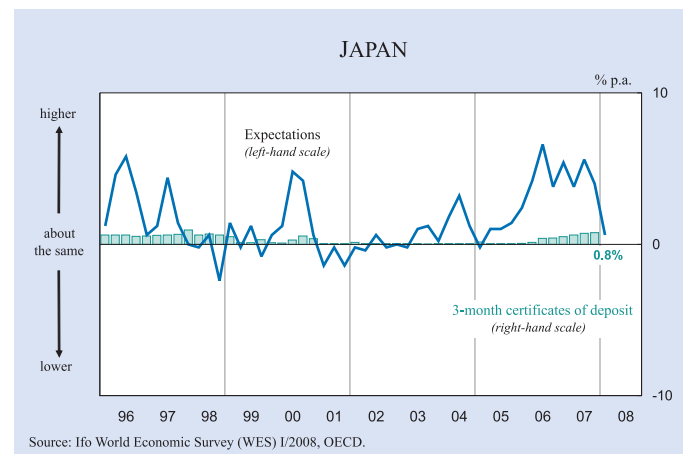
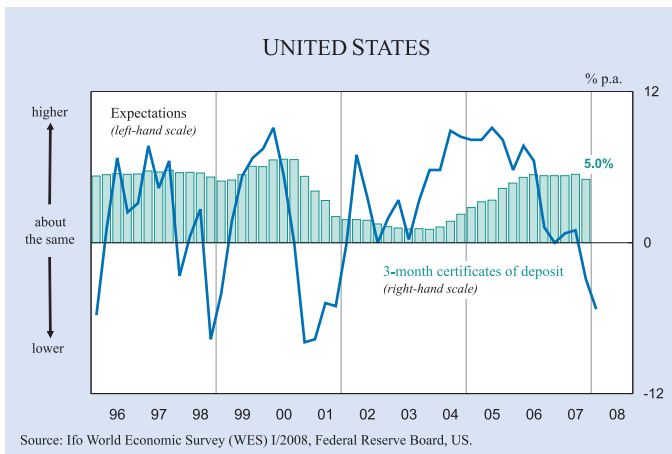
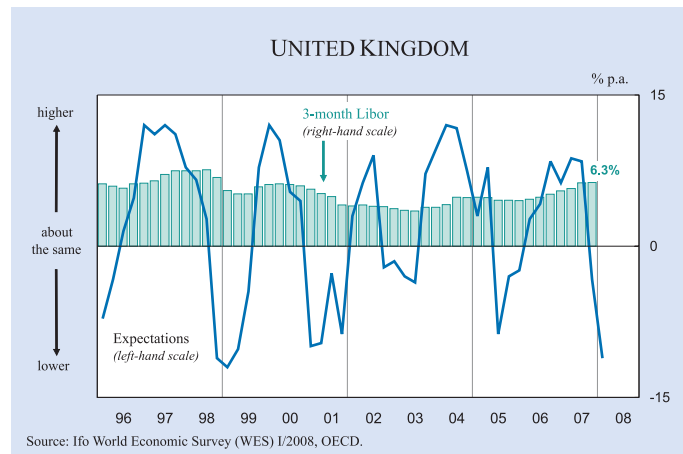
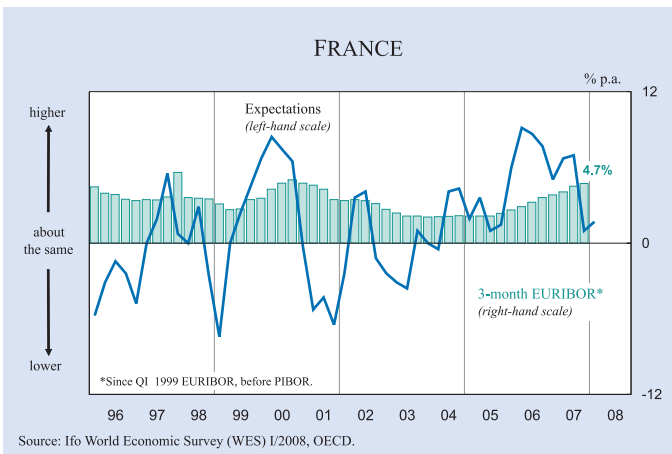
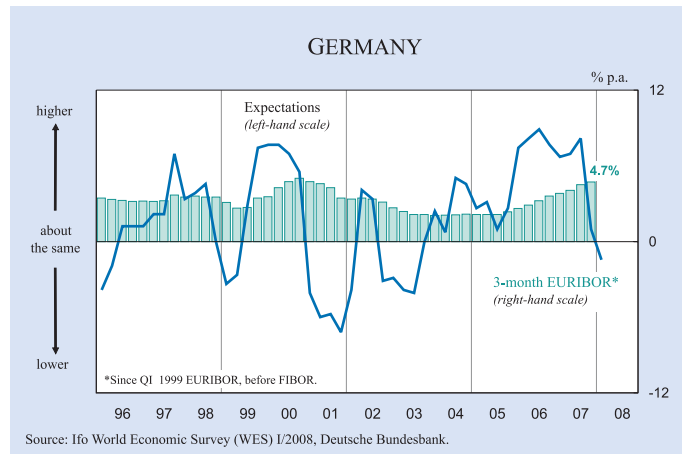
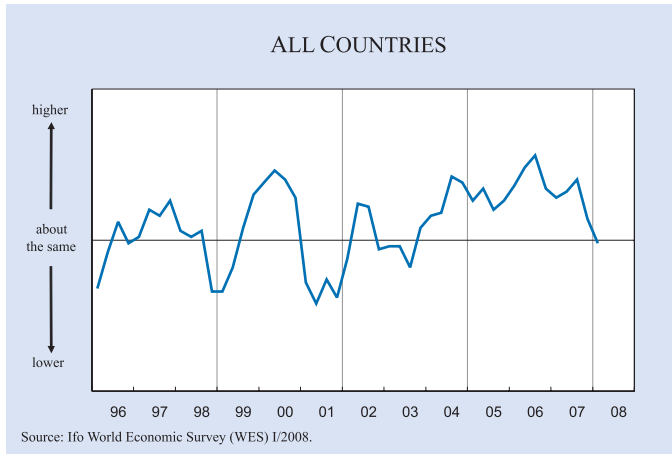


Table 3
Assessment of the Following Factors Influencing the Climate for Foreign Investors
For the Next 6 Months

Climate due to	Change for the next 6 months *	
	Deterioration	Improvement
Legal/administrative restrictions to invest and/or to repatriate profits	Ecuador Venezuela	Poland Taiwan Romania South Korea
Political stability	Bolivia Ecuador Venezuela	South Korea Kyrgistan Taiwan
In those countries, not mentioned in the table the climate for foreign investors is expected to remain unchanged during the next 6 months (only countries were included in the evaluation that had three or more participants in the WES I/2008). Criteria for selection of countries: Deterioration: WES grade between 1 and 3.5 Improvement: WES grade between 6.5 and 9		

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

cent). But also in the *United Arab Emirates, Kuwait, Jordan* and *Turkey* 2008 inflation is expected to lie between 8 percent and 9 percent. By far the lowest inflation rates in the region will prevail again in *Israel* (2.7 percent after 2.5 percent in 2007) and *Saudi Arabia* (4.0 percent after 4.3 percent in 2007).

In *Oceania* an inflation rate of 3.4 percent is expected for 2008; this is somewhat higher than the inflation figure reported for last year (2.9 percent). In *New Zealand* inflation in 2008 is expected to remain at about 3 percent.

By far the highest inflation rate in the world is expected also this year in *Zimbabwe* (above 2000 percent). In other *African* countries no clear inflation trend can be observed: In *South Africa* 2007 expected inflation at 7.0 percent is somewhat higher than last year's figure (6.5 percent). Also in *Tunisia* inflation is expected to pick up somewhat, from 2.9 percent to 5.0 percent, whereas inflation is expected to decline marginally in *Nigeria* (from 9.5 percent in 2007 to expected 9.2 percent in 2008).

US Dollar and Japanese yen remain undervalued

A majority of WES experts regard the *US dollar* as undervalued. This holds true also for the *Japanese yen*. On the other hand, both the *British pound* and the *euro* were assessed again as overvalued by WES experts (see Figure 11).

Also this time a supplementary survey question was asked on the likely development of the *US dollar* in

the next 6 months, regardless of how the currencies have been assessed from a fundamental point of view. According to the survey response, on balance a continuation of the declining tendency of the value of the dollar is expected in the course of the next six months in *Western Europe*, in *Eastern Europe* (with the exception of *Romania*), in *Asia* (here particularly in *China, Malaysia, Singapore, Thailand, Taiwan* and *India*) and also in *Russia* and *Kazakhstan*.

Exceptions from the general trend of a weakening *US dollar* are again mainly *Latin American* countries as well as in *Africa* and in the *Near East* where the *US dollar* is expected to gain in value. Also in *Canada* and *Oceania* (both in *Australia* and *New Zealand*) a moderate upward trend is seen for the *US dollar* in the course of the next six months.

Interest rates: Decline expected

For the first time since the third quarter of 2003 a (small) majority of WES experts expect interest rates to decline in the course of the next six months. Long-term interest rates are not expected to rise in coming months but to stabilize at the current level (see Figure 12).

A similar picture as in the world-wide average also characterizes the *euro area*: A decline of short-term interest rates and a stabilization of long-term rates is expected.

In *Europe* outside the *euro area* a pronounced further decline of short-term interest rates and a more moderate decline of long-term interest rates is expected in the *United Kingdom*. In *Denmark* and *Sweden* the picture is similar to the one in the euro area: expected cuts in short-term interest rates in the coming six months and more or less stable long-term interest rates. On the other hand in *Norway* interest rates are expected to increase further, though at a slower rate than in the recent past.

In the *USA* the period of aggressive cuts of short-term interest rates is expected to continue in the coming six months. To a somewhat lesser degree also

in *Canada* interest rates are expected to decline in the course of the next six months.

In *Eastern Europe* the upward trend of short and long-term interest rates is expected to continue in the coming months, with the exception of *Hungary*, where both long and short-term interest rates are expected to decline further in the next six months.

Also in *CIS* countries, particularly in *Russia*, the upward trend of interest rates will continue in the first half of 2008 according to WES experts' view.

In *Latin America* more or less stable short-term and also long-term interest rates are expected in the coming six months. However, there are strong differences between countries: In *Chile* the upward trend of long-term interest rates appears to have come to an end and the increase of short-term interest rates will slow down in coming months. In *Brazil* the long lasting downward trend of interest rates is approaching its end according to WES experts' view. In *Argentina* short-term interest rates are expected to be hiked further in the next six months and also long-term interest rates are expected to increase further.

In *Asia* the upward trend of interest rates will according to WES experts, will slow down further in the next six months. The situation in the individual countries is not uniform, however: In *India*, the *Philippines* and *Hong Kong* interest rates are expected to decline in coming months. On the other hand, further increases of short-term rates are expected in *China*, *Taiwan* and *South Korea*. More or less stable interest rates are expected to prevail in *Japan*, *Singapore*, *Thailand* and *Malaysia*.

ICC special question: Internet governance

The special question asked in the January poll dealt with the role of the Internet in economic activity and what the impact on the national economies would be if the Internet were completely shut down for a day worldwide. The special question also dealt with the issue: Who should develop the policies that affect the functioning of the Internet – a global multi-stakeholder forum or governments?

In almost all regions of the world the surveyed economists stated that if the Internet were completely shut down for a day world-wide it would lead to a major impact on countries' economic activity or even to huge and lasting damage to businesses (see Figure 13). The share of economists who stated that business would incur major losses and costly damage to the information infrastructure was particularly

Figure 13

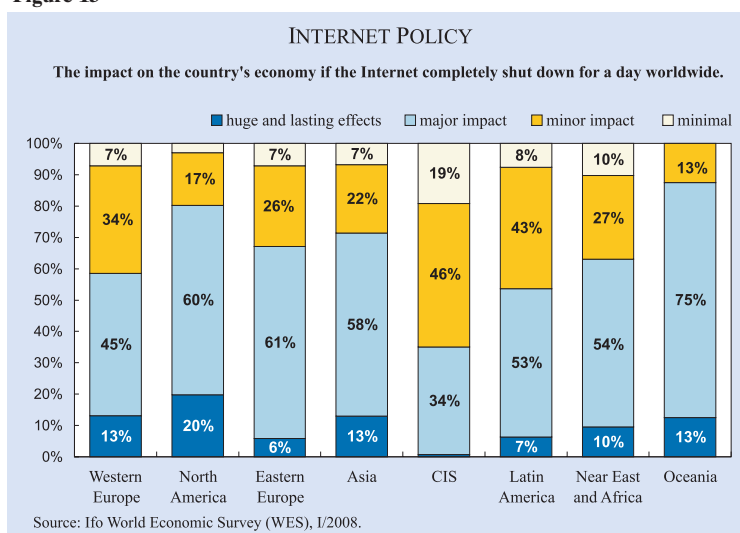
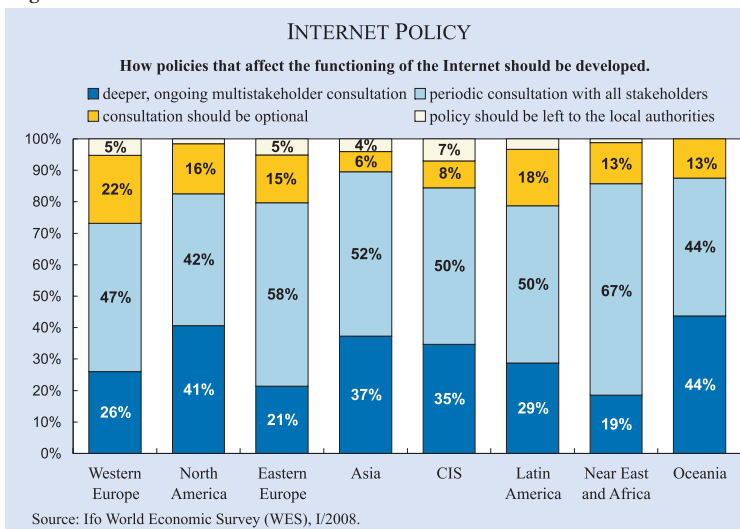


Figure 14



high in the *US, Western Europe*, in particular in *Denmark, Finland, Sweden* and *Switzerland* and in several *Asian* countries (*Japan, Taiwan, Thailand, India* and *Pakistan*). In the *CIS* countries covered by WES (*Russia, Ukraine, Kyrgyzstan, Kazakhstan*), in contrast, the majority of surveyed economists stated that a day-long shut down of the Internet would lead to short-term delays but that the economy would not be considerably damaged.

Relating to the question of whether policies that affect the functioning of the Internet should be developed with the input of all stakeholders – businesses, governments, civil society and technical experts – the surveyed economists agree that a multi-stakeholder consultation is required (see Figure 14).

The **EEAG** Report

on the European Economy

2008



EUROPE IN A GLOBALISED WORLD

ECONOMIC OUTLOOK

THE FALLING DOLLAR

GLOBALISATION AND JOBS

GLOBALISATION AND INDUSTRIAL POLICY

GLOBAL WARMING



Online information services of the CESifo Group, Munich



The Ifo Newsletter is a free service of the Ifo Institute and is sent by e-mail every month. It informs you (in German) about new research results, important publications, selected events, personal news, upcoming dates and many more items from the Ifo Institute.

If you wish to subscribe to the Ifo Newsletter, please e-mail us at: newsletter@ifo.de.



CESifo publishes about 20 working papers monthly with research results of its worldwide academic network. The CESifo Newsletter presents selected working papers (in English) in an easily understandable style with the goal of making its research output accessible to a broader public.

If you wish to subscribe to the CESifo Newsletter, please e-mail us at: saavedra@cesifo.de.

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

You can also request these services by fax:

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

Please include me in your mailing list for:

- Ifo Newsletter CESifo Newsletter Ifo Press Releases

Name:

Institution:

Street:

City:

Telephone:

Fax:

E-mail:



Additional CESifo Journals

