

CESifo WORLD ECONOMIC SURVEY

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WORLD ECONOMIC CLIMATE

World Economic Climate continues to deteriorate

ECONOMIC EXPECTATIONS

Assessments of the current economic situation again downgraded, economic expectations remain negative

INFLATION

Sharp decline of inflation expectations

INTEREST RATES

Further decline expected

CURRENCIES

Main world currencies closer to the equilibrium level

SPECIAL TOPIC

International trade and protectionism



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Ifo World Economic Survey

Regions

- World economy: Global recession
- Western Europe: Further economic deterioration
- North America: Economic climate index falls further
- Eastern Europe: Economic cooling continues
- CIS: Economic situation deteriorates
- Asia: Economic climate deteriorates
- Oceania: Economic slowing
- Latin America: Economic weakening
- Near East: Economic climate cools moderately
- Africa: Economic downturn in South Africa

Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide about current economic developments in the respective country. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In January 2009, 1,035 economic experts in 92 countries were polled.

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

Methodology and evaluation technique

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

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

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

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

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

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

WORLD ECONOMIC CLIMATE CONTINUES TO DETERIORATE

The Ifo World Economic Climate Index fell again substantially in January 2009 (see Figure 1). The climate indicator stands at 50.1 (1995=100) at its historically lowest level since introduction of this survey in the early 1980s. Compared with the preceding survey results from October 2008, the climate indicator fell by 10 percentage points. The decline is exclusively the result of more unfavourable assessments of the current economic situation, while the expectations for the coming six months have not worsened further (see Figure 2). Even more downbeat than the overall economic outlook are the expectations for world trade in coming six months. The vast majority of WES experts expect that on a world-wide scale export and import volume will strongly decline in the coming six months.

World economy: Global recession

The world economic climate continued to deteriorate in January 2009 (see Figure 1). The assessments of the present economic situation fell further below the satisfactory level in January. In the majority of countries the present economic situation is now assessed as "bad". Although the economic expectations for the next six months have not been further downgraded, they remained clearly negative, on a global average. The cooling of the Ifo World Economic Climate again affected all major economic regions *North America, Western Europe and Asia*, as well as *Central and Eastern Europe, Russia, Latin America and Australia*. In the *US* both the assessments of the present economic situation and economic expectations have been further downgraded. In

Western Europe and Asia only the assessments of the present economic situation deteriorated. The economic expectations for the next six months have been slightly upgraded, although remaining clearly negative.

Overall, the data confirm a global recession. The business-cycle clock illustrates the movement of the economic climate indicator over the past years (see Box 1). At present, the economic climate index is in an area of the clock that marks a recessionary period. A positive aspect is that the economic expectations for the first half of 2009 have not further dete-

Figure 1

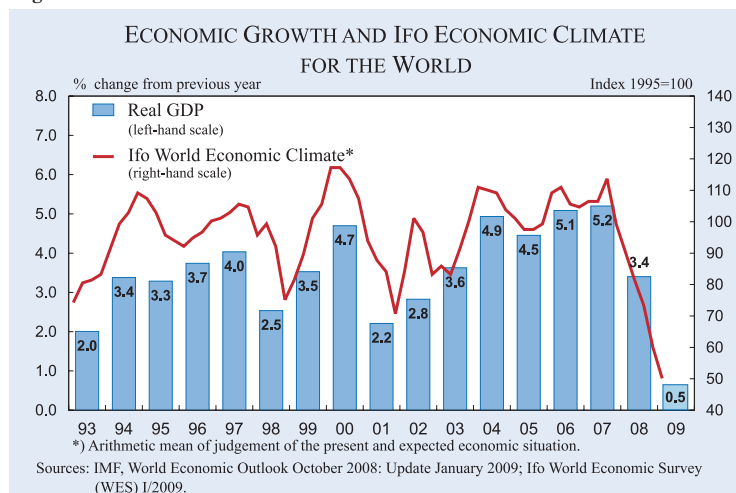
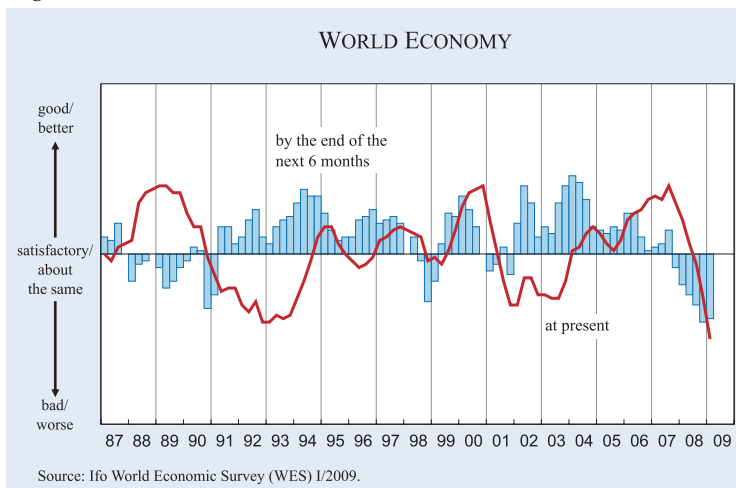


Figure 2

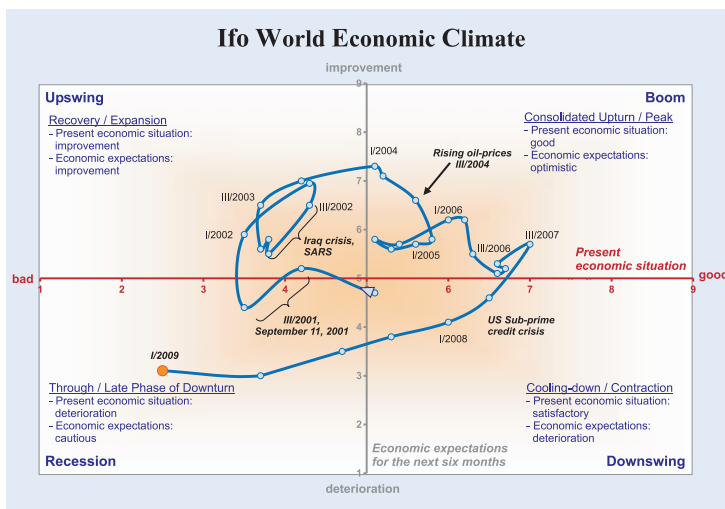


Box 1

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.

Overall, the data confirm a global recession. The strong decline of the economic climate index begun in summer 2007 caused by the US mortgage crisis. In autumn 2007 the economic climate index entered the cooling-down area of the business clock and it fell further in the first half of 2008. In the third quarter 2008 the economic climate index entered the cyclical trough area, as the assessments of the present economic situation slipped below the "satisfactory" mark, on a global average. At present, the economic climate index is in an area of the clock that marks a recessionary period. However, in the first quarter of 2009 only the assessments of the present economic situation worsened. The economic expectations for the first half of 2009 have not further deteriorated.



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).

riorated. Assuming a positive scenario, the multiple governmental economic programmes in the *US*, *Western Europe* and *Asia* will start to take effect in the course of 2009. In combination with low oil and energy prices, easing inflation and falling interest rates, economic confidence may begin to recover in the second half of 2009. However, the downward risk for the global economy remains the global drop of demand and the still unsolved crisis in the financial sector, as well as the growing fiscal debts all over in the world.

Western Europe: Further economic deterioration

The economic climate indicator for *Western Europe* further declined in January 2009 (see Figure 3). Particularly the assessments of the present economic

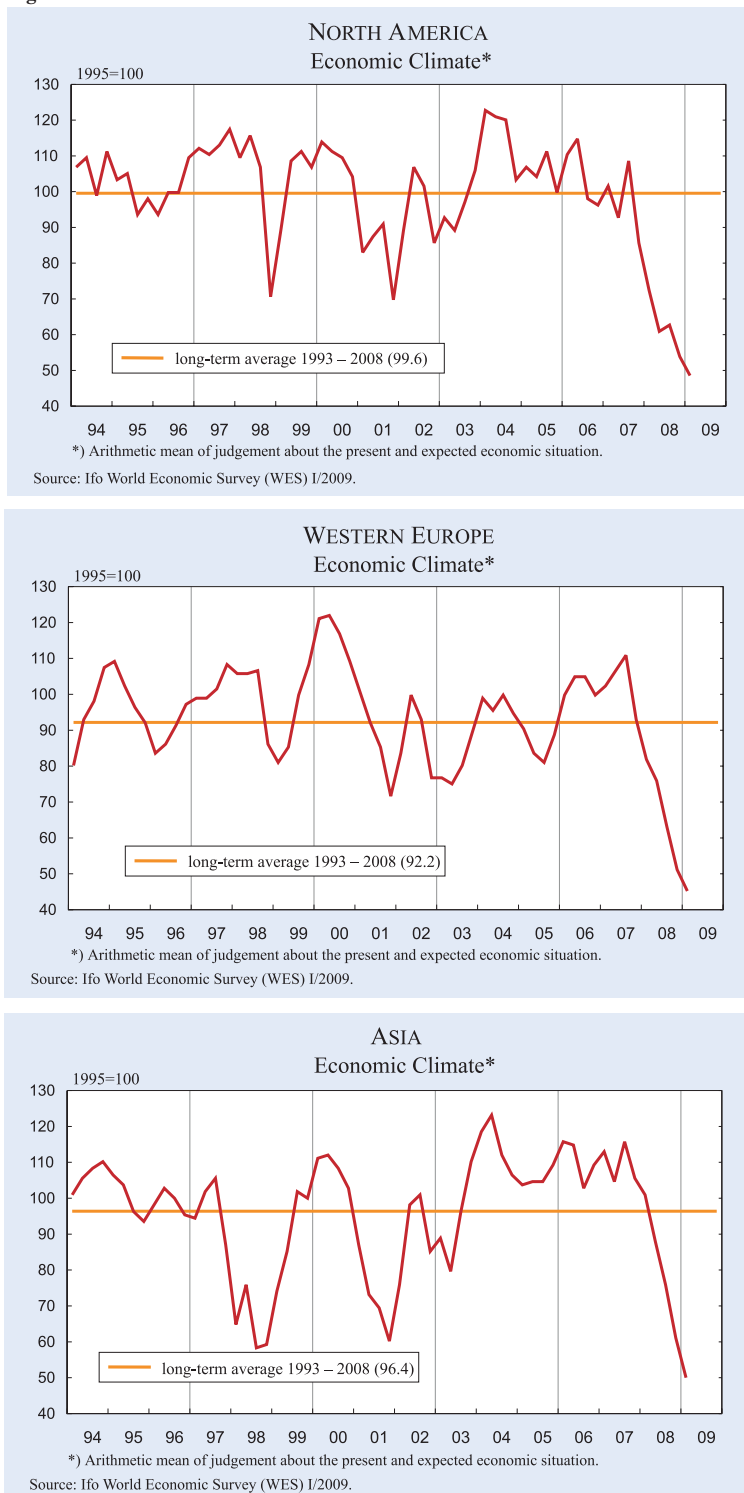
situation again strongly deteriorated. However, the economic expectations for the next six months have been slightly upgraded, although they remain generally negative (see Figure 4).

This pattern of economic confidence applies also to the *euro area*. The economic climate index declined again in the *euro area*, on average (see Box 2), but only due to the more negative assessment of the present economic situation, while the economic expectations for the first half of 2009 are not as negative as in the fourth quarter of 2008. In all countries of the *euro area*, except *Belgium*, the assessments of the present economic situation deteriorated in January 2009, particularly in the *Netherlands* and *Germany*, where they fell clearly below the satisfactory level. With the lowest marks on the WES scale the present economic situation was assessed in January in *Spain*, *Portugal*, *France*, *Ireland* and *Italy*. In *Finland* and *Austria* the assessments of the present economic situation are clearly above the *euro area* average. However, they also fell here

below the satisfactory level, in January. The economic climate deteriorated also in the two Central European *euro area* countries, *Slovenia* and *Slovakia*. Although, the present economic situation here is assessed close to a satisfactory level. In all countries of the *euro area* the surveyed economists expect further economic deterioration in 2009, with a pronounced decline of exports and imports, capital expenditure and private consumption

The economic climate index also declined in January outside the *euro area*. The assessments of the present economic situation deteriorated in *Denmark*, *Sweden* and *Switzerland* and fell clearly below the satisfactory level. Less favourable assessments of the present economic situation have been recorded also in *Norway*. However, *Norway* is the only country in *Western Europe*, where the present

Figure 3



economic performance is still regarded as positive by the surveyed economists. With the lowest marks on the WES scale, the present economic situation was assessed in January in the *United Kingdom* and in *Iceland*. Also outside the *euro area* the economic expectations remain negative, but have not deteriorated further.

Also in *Poland*, *Slovenia* and *Romania* the assessment of the present economic state slipped below the satisfactory level. In contrast, the present economic situation is still assessed as satisfactory in *Slovakia*, *Bulgaria* and the *Czech Republic*. The economic expectations for the next six months

North America: Economic climate index further deteriorates

The economic climate indicator in *North America* deteriorated further in January 2009 (see Figure 3). In the *US*, both the assessments of the present economic situation and economic expectations for the next six months have been downgraded again (Figure 6). However, the economic expectations are not as negative as in other economic regions, although economic confidence has not yet revived in the *US*. In *Canada*, in contrast, the economic expectations have been upgraded somewhat since the previous survey. But the present economic performance deteriorated further, according to WES experts.

Central and Eastern Europe: Economic cooling continues

The economic climate cooled further in *Central and Eastern Europe* (see Figure 4). The assessments of the present economic situation fell below the satisfactory level for the first time since 2004. Also the economic expectations for the next six months deteriorated further in January (see Figure 8).

The economic climate worsened in all *EU* countries of the region. The deterioration of the assessments of the present economic situation is particularly pronounced in the *Baltic countries* (*Estonia*, *Latvia* and *Lithuania*) and in *Hungary*.

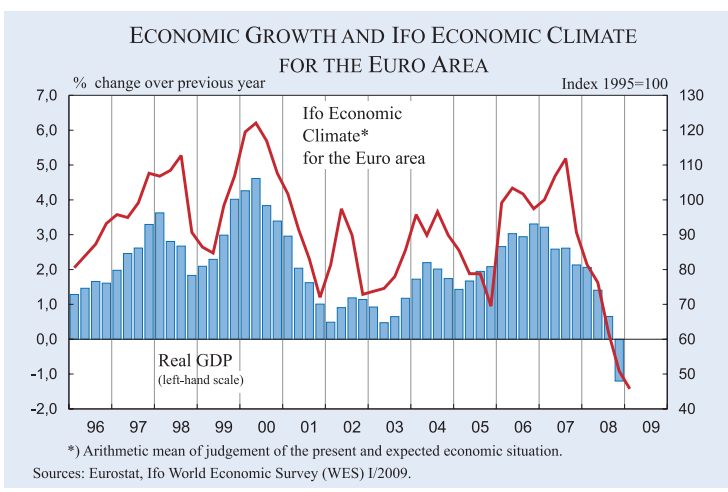
Box 2

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

The Ifo World Economic Climate for the 16 member countries of the euro area is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The January results are based on the responses of 268 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo Economic Climate in the *euro area* has worsened again in the first quarter of 2009 for the sixth time in succession. The decline in the Ifo indicator is solely the result of less favourable assessments of the current economic situation; the expectations for the coming six months improved somewhat but are still in strongly cloudy territory.

The economic climate indicator deteriorated in the first quarter of 2009 in all countries of the *euro area* and has now reached a historic low. The current economic situation worsened most markedly since the last survey in *Germany* and the *Netherlands*. But the most unfavourable assessments of the economic situation still come from *France, Ireland, Portugal, Spain* and *Italy*. The economic situation is clearly above the euro-area average especially in *Finland* and *Austria*, but also in the youngest euro member states, *Slovakia* and *Slovenia*. In the coming six months, in the opinion of the WES experts, the weakening of the economy will continue in the *euro area* albeit at a slower pace.



have become negative in unexceptional all new EU countries.

The economic climate also deteriorated outside the *EU*, so in *Croatia* and *Serbia*. Only in *Albania* did the surveyed economists regard the present economic situation as still satisfactory in January 2009.

CIS: Economic situation deteriorates

The overall economic climate index for *CIS* countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan* and *Uzbekistan*) dropped again in January. Both components of the economic climate index – the assessment of the present economic situation and economic expectations – have been strongly downgraded. The economic expectations for the

next six months are negative in all surveyed *CIS* countries.

The economic climate deteriorated further in *Russia*. The assessments of the present economic situation fell below the satisfactory level already in the fourth quarter of 2008. In the January 2009 survey they have been downgraded again. The economic expectations for the next six months remain negative. A pronounced decline of exports and imports is expected in the first half of 2009 in *Russia*. The plunge in oil prices, which fell by more than 50 percent over the last 12 months, has put pressure on *Russia's* economy as well as that of *Kazakhstan*. In the second half of 2008 the Russian central bank defended the exchange rate of the *ruble* by extensive spending from its international reserves. After a course of stepwise *ruble* devaluations in the second half of 2008, in January 2009 the Russian central bank allowed a 10 percent devaluation of the *ruble* and also set a new trading limit for the currency. However, inflation, which is easing globally, is esti-

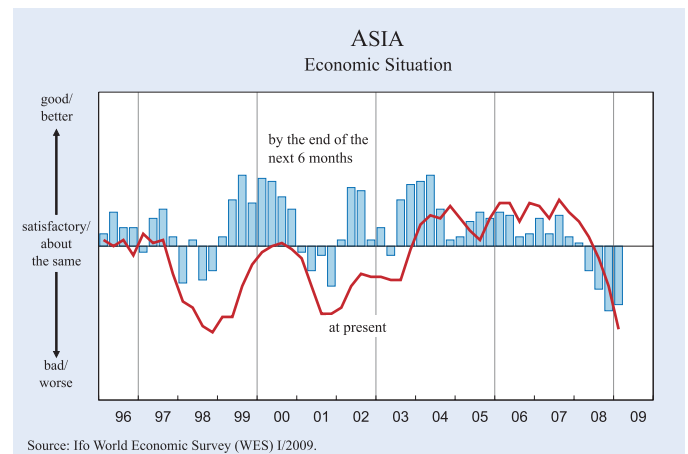
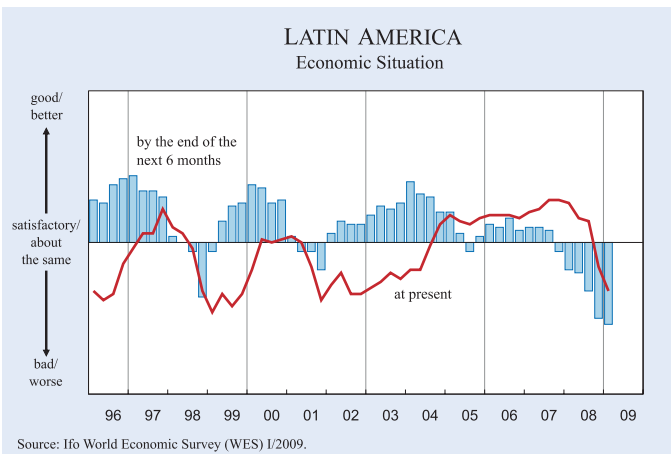
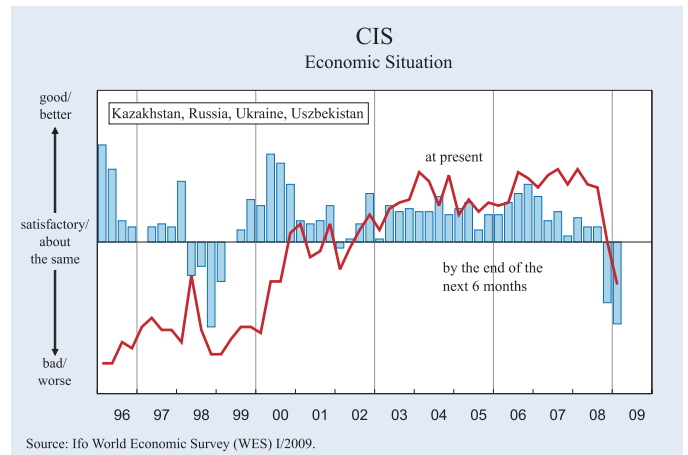
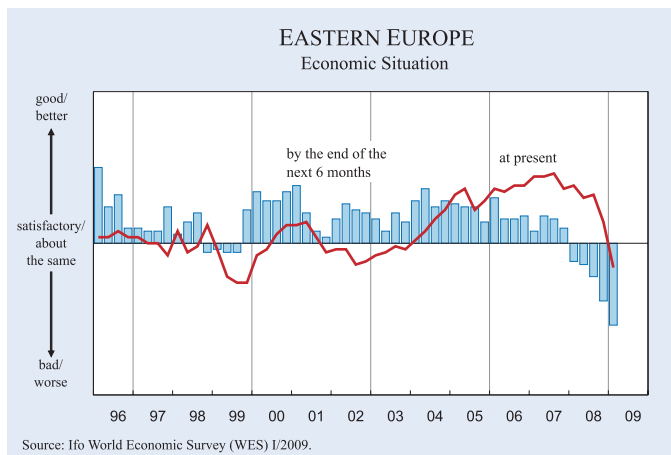
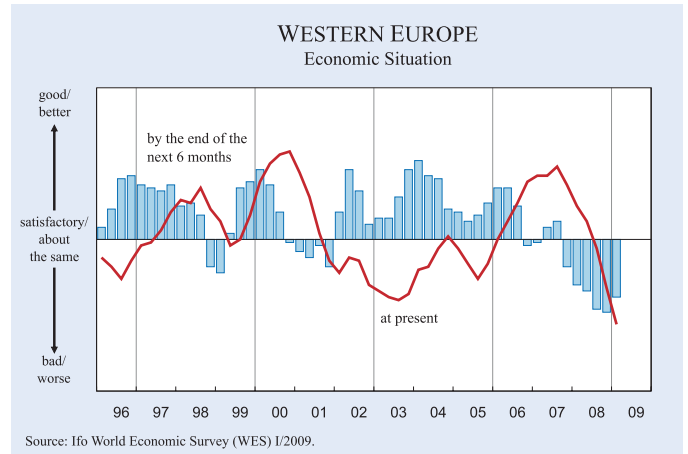
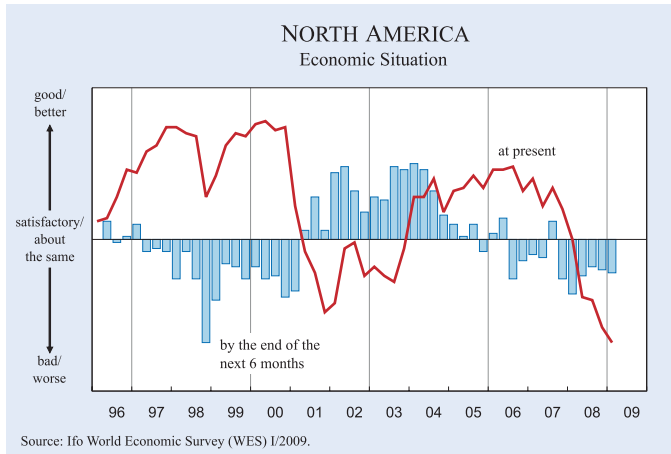
mated to amount up to 14 percent on average for 2009 and poses an important economic problem in *Russia*. High inflation expectations have also been reported for the *Ukraine* and *Kazakhstan*. In *Kazakhstan*, the assessments of the present economic state fell below the satisfactory level. In January, when the survey was conducted, the surveyed economists assessed the country currency, the *tenge*, as overvalued vis-à-vis the world currencies *US dollar, euro, UK pound* and the *Japanese yen*. However, in the first days of February, *Kazakhstan* devalued the *tenge* by about 18 percent.

Asia: Economic climate deteriorates

Also in *Asia* the economic climate has continued to deteriorate (see Figure 3). The decline of the economic climate index in January was due to less

Figure 4

SELECTED REGIONS



favourable assessments of the present economic situation. The economic expectations for the next six months have not deteriorated further and have even improved somewhat in a set of Asian countries (see Figure 8).

The economic climate index fell particularly strongly in *Vietnam* and *China*. In both countries the assessment of the present economic situation as well as economic expectations for the next six months have been strongly downgraded. A pronounced decline in the assessments of the present economic state has also been recorded in *Hong Kong*, *India*, *Malaysia*, *Singapore* and *Thailand*. However, the economic expectations for the next six months have been upgraded slightly in all these countries, although they remained generally negative. The economic expectations have also become somewhat brighter in *South Korea*, *Taiwan*, *Indonesia* and the *Philippines*. Particularly in *Taiwan*, and to a lesser degree in *South Korea* and *Indonesia*, the surveyed economists project a stable, though clearly reserved economic performance in the next six months. In *Indonesia*, the export sector, unlike the other countries of the region, is not expected to weaken in the first half of 2009. To compensate for the global drop in foreign demand the *Asian* region needs higher domestic consumption. But in the majority of *Asian* countries, except *Taiwan*, private consumption is expected to remain sluggish in the first half of the year. The economic climate deteriorated further in *Japan*. The present economic situation was assessed with the lowest marks of the WES scale in January. The economic expectations remain negative. Particularly the export sector is expected to weaken further in the next six months. With key interest rate already close to zero, the Bank of Japan can't offer much stimulus against the recession with traditional monetary policy but only with quantitative easing (expansionary open market policy). In *Pakistan*, the present economic situation was also assessed as weak, although no further deterioration is expected by the surveyed economists in the next six months. In *Sri Lanka* the present economic performance remains below the satisfactory level, according to WES experts, and suffers from the war activities. Further weakening is expected in the first half of 2009. In *Bangladesh*, in contrast, the surveyed economists have assessed the present economic state as satisfactory. They expect further strengthening in the coming six months, particularly in the export sector. This pattern may be

explained by the fact that the export basket of *Bangladesh* constitutes items for which the demand is inelastic, i.e. commodities which are basic necessities, such as garments, leather, fish and seafood.

Oceania: Economic slowing

In *Australia* and *New Zealand* economic growth continues to slow (see Figure 6). In *Australia*, in the fourth quarter 2008 the assessments of the present economic situation slipped below the satisfactory line for the first time since 2001. In January 2009 they did not further deteriorated. The economic expectations, however, point to further economic slowing in the next six months. Growth of capital expenditures and private consumption and also the export sector are expected to weaken strongly. But, inflation, which became an important economic problem in 2008 in *Australia*, is expected to ease in 2009, according to WES experts.

In *New Zealand*, the economic climate index deteriorated further in January. The present economic situation is assessed as far below the satisfactory level. The economic expectations for the next six months have been down-graded strongly and point to further economic deterioration in the first half of 2009.

Latin America: Economic weakening

The global economic weakening has also seized *Latin America*. The economic climate index fell in January 2009 in *Latin America* as a whole. However, diverging economic trends still predominate in the region (see Figure 9).

The present economic situation continues to be favourable, although to a lesser degree, in *Peru* and *Uruguay*, according to WES experts. Also in *Bolivia*, *El Salvador* and *Panama* the surveyed economists regard the present economic state as satisfactory. But, while in *Panama* the economic situation is expected to stabilize in the course of the next six months, economic deterioration is forecast in *Bolivia* and *El Salvador*. The assessments of the present economic situation fell somewhat below the satisfactory level after a five-year period of strong economic confidence in *Brazil* and *Chile*.

The economic expectations for the next six months have not been further downgraded in January 2009. However, they continue to point to economic weakening in the next six months. A pronounced economic deterioration is expected by the surveyed economists in *Columbia*, where the present economic situation is assessed as still satisfactory at present. As clearly below the satisfactory level the present economic situation has been assessed in *Argentina, Ecuador, Guatemala, Mexico, Paraguay* and *Venezuela*. In all these countries the near-term forecast points to further economic deterioration, with a pronounced decline in the export sector, private consumption and capital expenditures. An unfavourable economic situation prevails, according to WES experts, also in *Costa Rica*, although no further deterioration is expected for the first half of 2009.

Near East: Economic climate cools moderately

The economic climate continues to cool in several countries of the *Near East* (see Figure 10). However, in the majority of countries the present economic situation continues to be assessed as satisfactory, particularly in *Saudi Arabia* and the *United Arab Emirates*. As satisfactory, although less favourable than in the previous survey, is how the surveyed WES economists described the present economic situation in *Israel*. However, also here a pronounced economic deterioration is forecast for the first half of 2009. In *Lebanon*, the latest survey results show first signs of economic revival, although the economic environment remains very difficult for fostering an economic recovery in 2009. A highly unfavourable economic situation continues to prevail in *Iran*. In *Turkey*, the assessments of the present economic situation have again been strongly downgraded. The economic expectations for the next six months have become clearly negative. While in the last quarter 2008, the export sector was expected to rebound somewhat, the forecasts for the first half of 2009 point to a pronounced economic weakening.

Africa: Economic downturn in South Africa

The economic climate index deteriorated again in *South Africa* in January 2009 over the fourth quarter 2008 survey (see Figure 10). However, only the

assessments of the current economic situation have again deteriorated. The economic expectations for the next six months have again been upgraded somewhat, for the third time in succession. Although less negative than in the previous survey, the economic expectations continue to indicate that *South African* economy will continue to slow down in 2009. Capital expenditures, private consumption and the export sector are expected to weaken further in the next six months, according to WES experts.

An economic deterioration is also expected by the WES experts surveyed in the *North African* countries, *Morocco, Tunisia* and *Algeria*, as well as in *Nigeria* and *Mauritius*. In *Kenya*, in contrast, the surveyed economists expect a stable economic performance over the next six months.

No good news can be reported from *Zimbabwe*. Disastrous economic and political circumstances continue to prevail in the country and may worsen even further.

Sharp decline of inflation expectations

For the average of 2009 WES experts expect on a worldwide scale an inflation rate of 3.3 percent, which would be markedly lower than the rate experienced in 2008 (5.4 percent). Moreover, the additional question on the expected tendency of the inflation rate in the next six months clearly signals a declining trend in the course of the year. The disinflation trend is particularly pronounced in *Western Europe* (1.6 percent in 2009 compared to 3.5 percent in 2008) and in *North America* (1.4 percent compared to 3.5 percent in 2008) but also in *Asia* (2.9 after 5.7 percent in 2008). In the rest of the world the slowdown of inflation is muted: In *Oceania* from 4.1 percent to an expected 3.2 percent, in *Eastern Europe* from 6.2 to 4.1 percent, in *Latin America* from 9.8 to 8.7 percent, in the *Near East* from 12.8 to 9.6 percent and in the *CIS* countries from 14.5 to 14.0 percent.

In the *euro area* the lowest inflation rates in 2009 are expected in *Germany* (1.3 percent), *France* (1.4 percent), *Ireland* (1.4 percent), *Belgium* (1.5 percent) and *Luxembourg* (1.5 percent). Inflation rates above the upper limit of the ECB target of “below but close to 2 percent” are likely, according to WES experts, in *Slovenia* (2.6 per-

Table 1

Inflation Rate Expectations for 2008 and 2009
(based on WES QIV/2008 and QI/2009)

Region	QI/2009	QIV/2008	Region	QI/2009	QIV/2008
Average of 92 countries*	3.3	5.4	Latin America	8.7	9.8
<i>World Bank classification:</i>			Argentina	15.0	22.5
High-income countries	1.8	3.9	Bolivia	12.5	16.5
Middle-income countries	8.1	9.6	Brazil	5.0	6.1
Upper-middle	8.2	9.5	Chile	4.5	8.6
Lower-middle	7.9	9.8	Colombia	5.6	6.9
Low-income countries	7.4	12.5	Costa-Rica	11.0	–
			Ecuador	7.4	10.0
EU 27 countries	1.8	3.8	El Salvador	5.2	7.9
EU countries (old members) ^{a)}	1.6	3.5	Guatemala	7.2	12.0
EU countries (new members) ^{b)}	3.9	6.1	Mexico	6.1	5.8
Euro area ^{c)}	1.6	3.4	Panama	7.0	–
			Paraguay	7.5	8.4
Western Europe	1.6	3.5	Peru	4.1	5.6
Austria	1.8	3.5	Trinidad and Tobago	10.0	12.5
Belgium	1.5	4.5	Uruguay	8.3	8.1
Cyprus	3.0	4.1	Venezuela	32.5	30.5
Denmark	1.9	3.6			
Finland	1.9	3.9	Asia	2.9	5.7
France	1.4	3.0	Bangladesh	6.0	9.1
Germany	1.3	2.9	China	2.4	6.1
Greece	3.1	4.5	Hong Kong	3.1	4.9
Iceland	9.3	13.0	India	5.5	10.5
Ireland	1.4	4.6	Indonesia	6.8	12.0
Italy	2.0	3.5	Japan	0.0	1.8
Luxembourg	1.5	3.4	Malaysia	4.3	5.8
Malta	2.0	–	Pakistan	17.5	19.0
Netherlands	1.8	3.0	Philippines	6.9	9.5
Norway	1.9	3.0	Singapore	2.3	6.0
Portugal	1.6	2.8	South Korea	4.3	5.4
Spain	2.2	4.4	Sri Lanka	15.0	20.0
Sweden	1.5	3.7	Taiwan	0.7	3.9
Switzerland	1.2	2.3	Thailand	1.4	5.9
United Kingdom	1.3	4.3	Vietnam	8.5	24.5
Eastern Europe	4.1	6.2	Near East	9.6	12.8
Albania	3.6	4.0	Iran	33.5	28.5
Bulgaria	6.7	11.0	Israel	1.5	3.5
Croatia	3.9	5.7	Jordan	–	5.7
Czech Republic	3.0	6.0	Kuwait	5.0	9.0
Estonia	4.0	9.9	Lebanon	5.5	7.0
Hungary	3.9	6.2	Saudi Arabia	5.7	11.0
Latvia	6.9	13.0	Turkey	9.6	11.5
Lithuania	6.3	11.0	United Arab Emirate	7.8	14.0
Poland	3.0	4.4			
Romania	6.8	7.4	Africa *	n.a.	n.a.
Serbia	9.7	9.4	Algeria	3.8	5.0
Slovakia	3.6	4.2	Egypt	–	22.0
Slovenia	2.6	5.2	Kenya	13.0	19.0
			Mauritius	7.0	9.0
CIS	14.0	14.5	Morocco	3.5	4.5
Kazakhstan	8.7	11.0	Nigeria	8.0	10.0
Kyrgyzstan	17.5	25.0	South Africa	7.6	11.5
Russia	14.0	14.0	Tanzania	11.0	9.0
Ukraine	17.0	21.0	Tunisia	4.8	5.3
Uzbekistan	18.0	6.5	Zimbabwe	<i>Hyperinflation</i>	
North America	1.4	3.5	Oceania	3.2	4.1
Canada	1.3	2.5	Australia	3.2	4.1
United States	1.4	3.9	New Zealand	2.9	4.1

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 (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, Bulgaria and Romania – ^{c)} Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: Ifo World Economic Survey (WES) IV/2008 and I/2009.

Figure 5a

EUROPEAN UNION

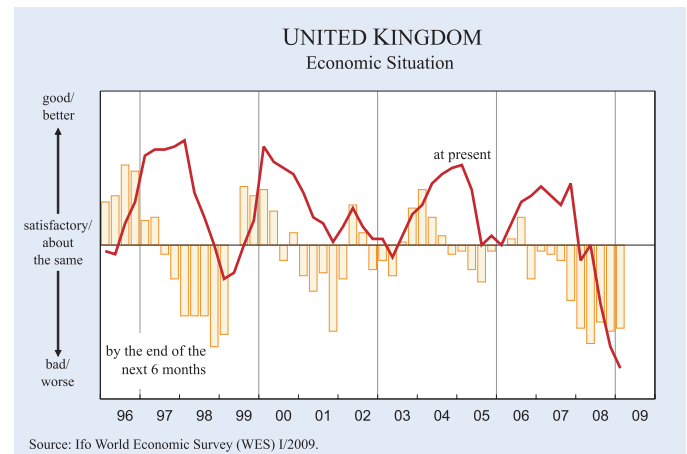
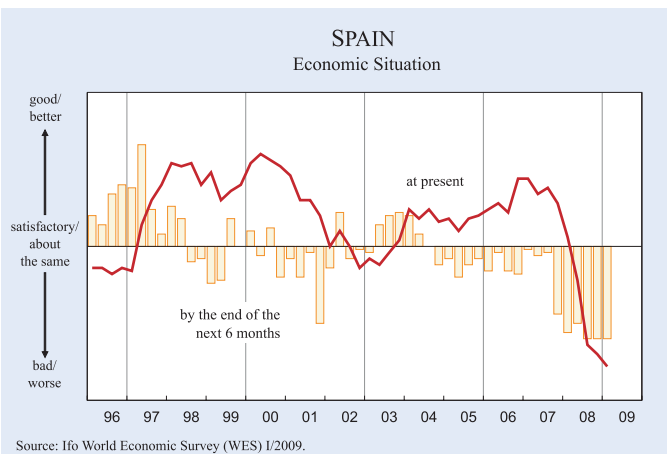
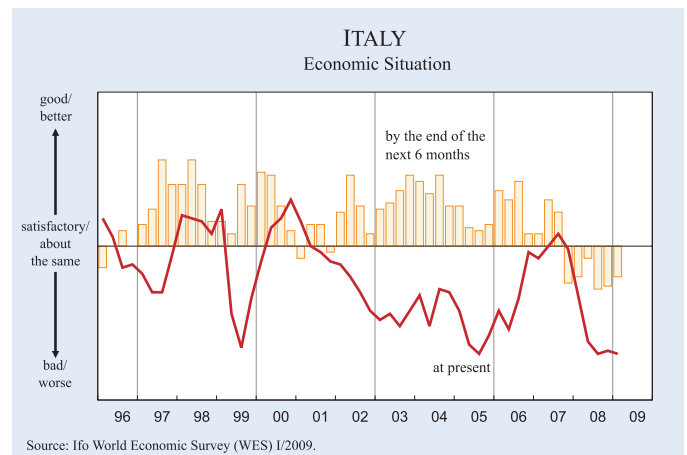
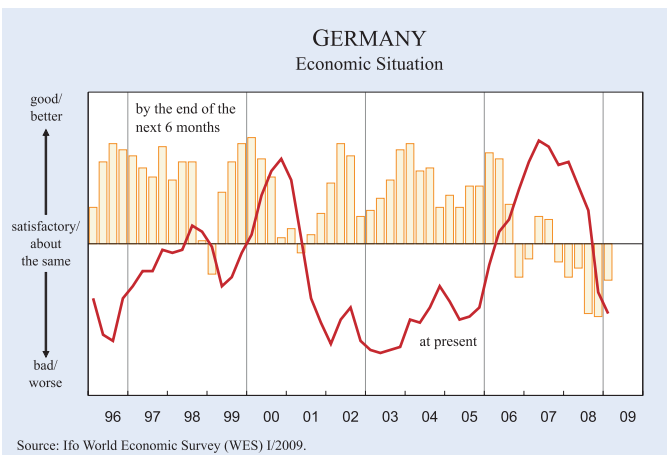
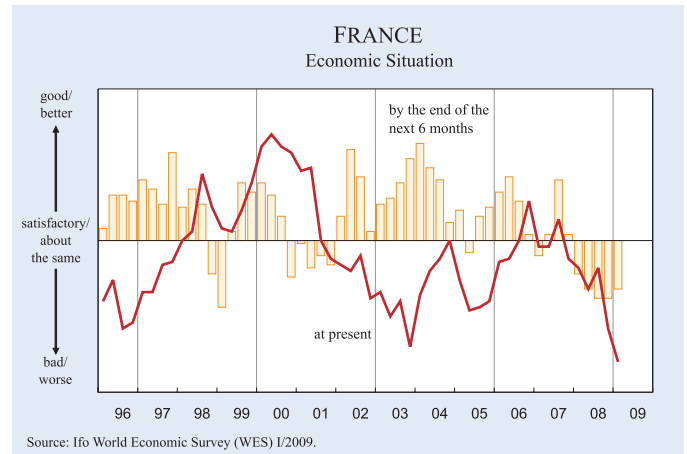
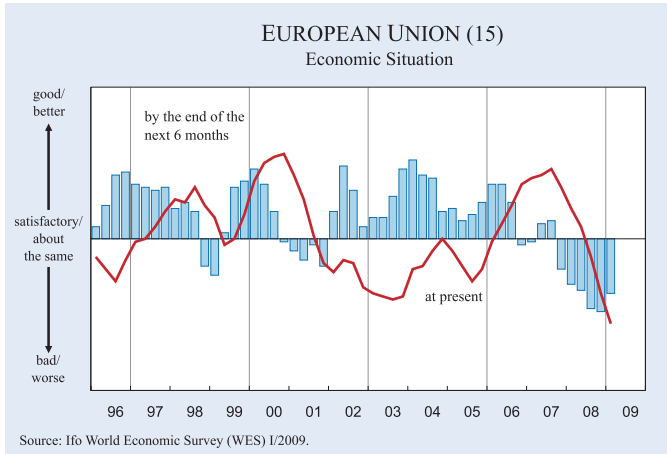


Figure 5b

EUROPEAN UNION

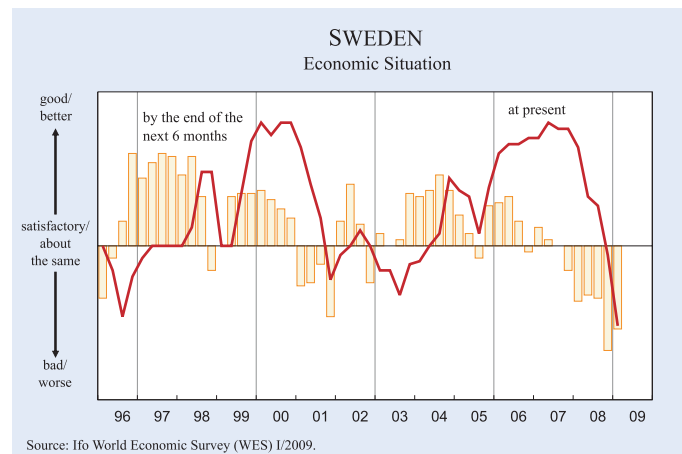
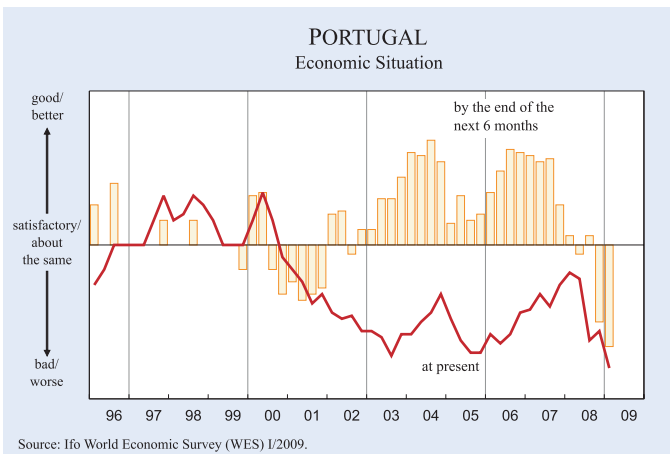
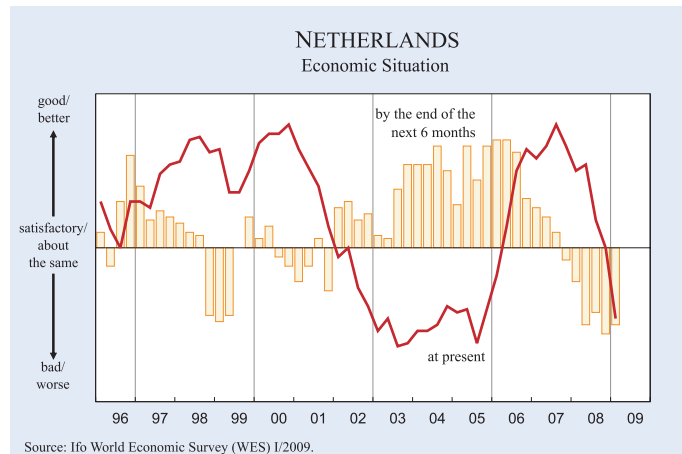
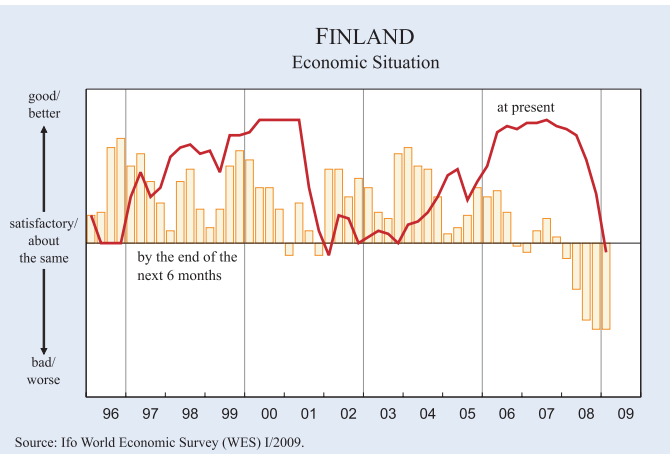
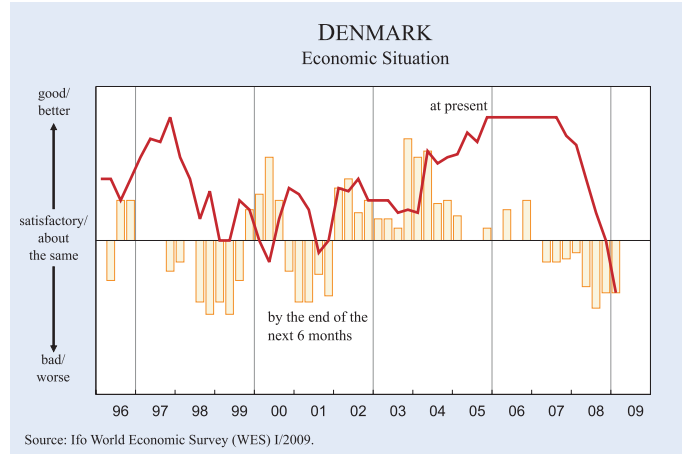
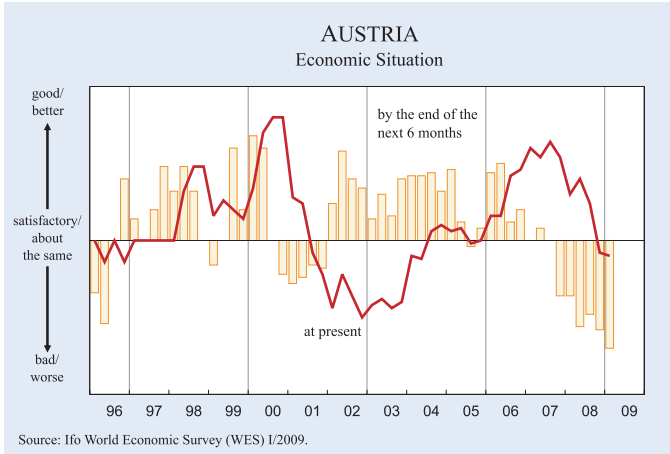


Figure 6

NORTH AMERICA, OCEANIA AND CIS

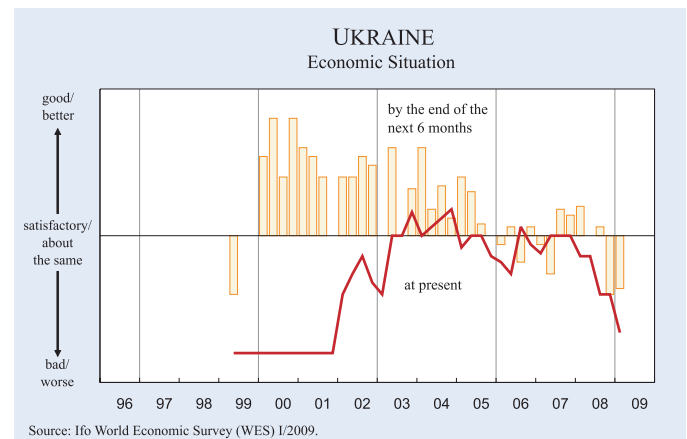
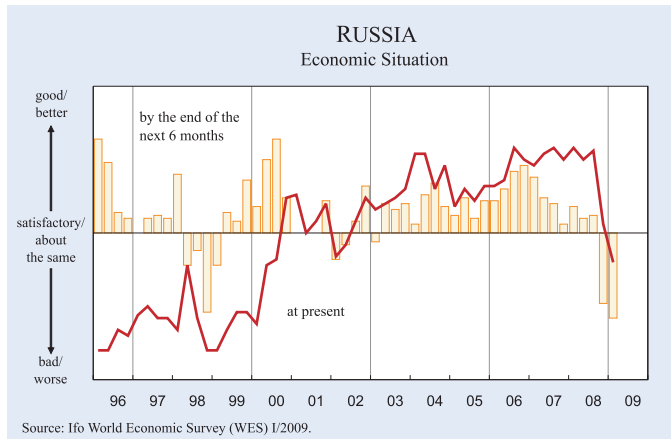
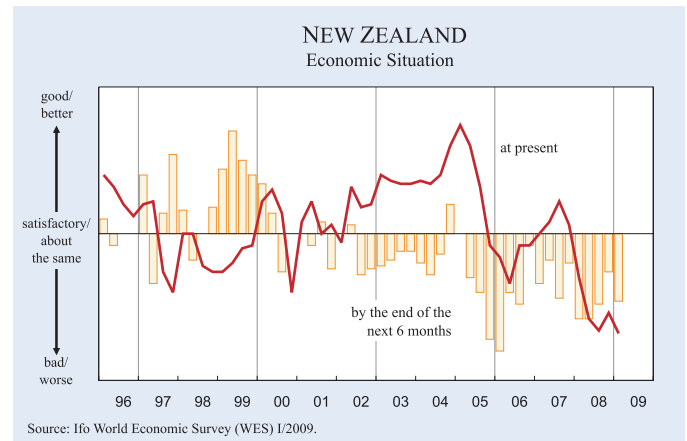
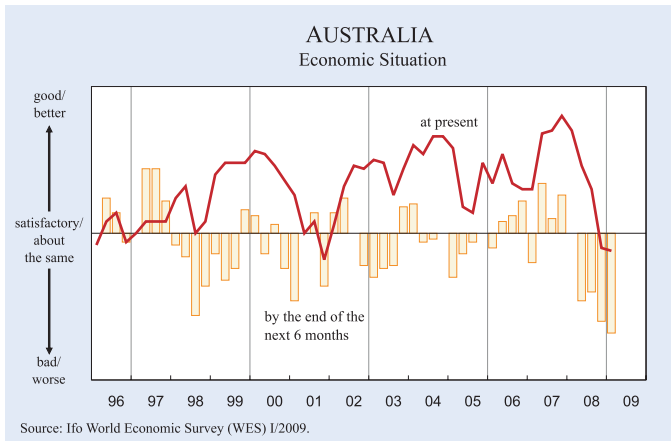
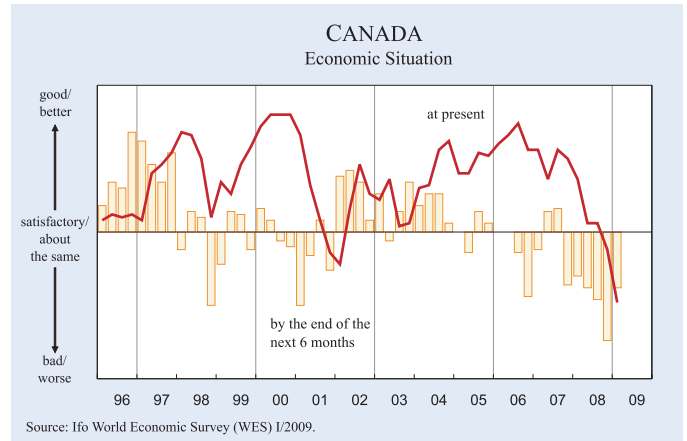
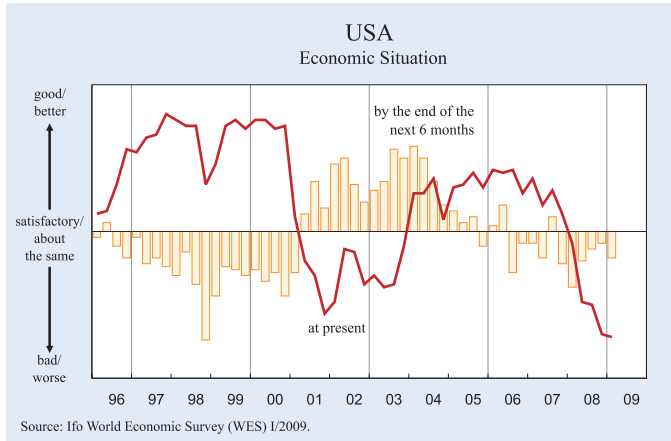


Figure 7

EASTERN EUROPE

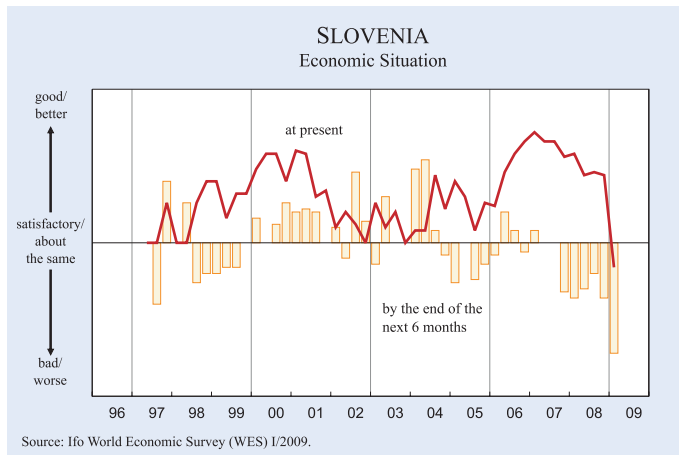
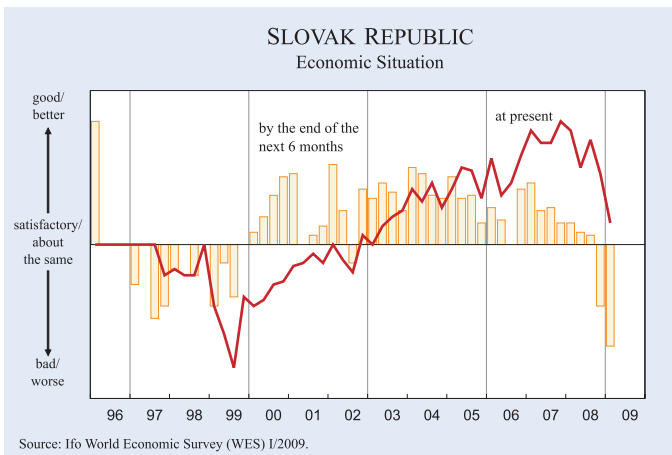
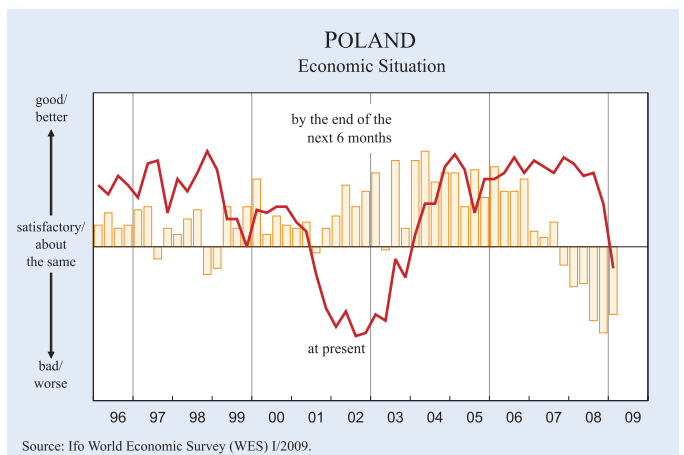
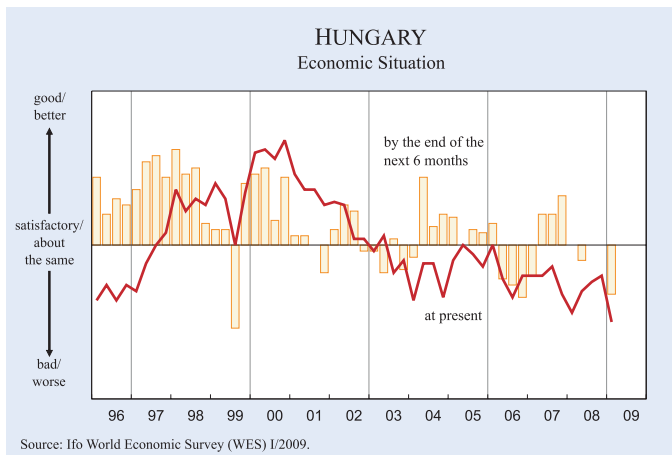
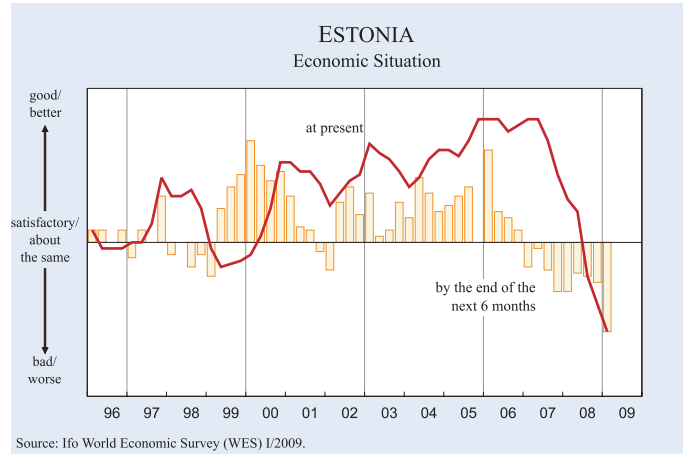
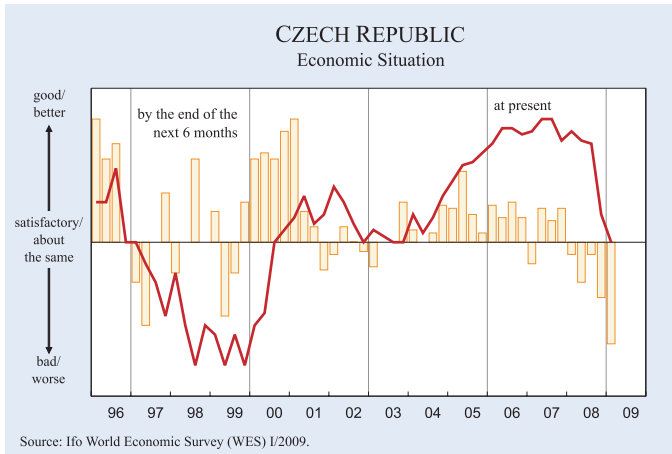


Figure 8

ASIA

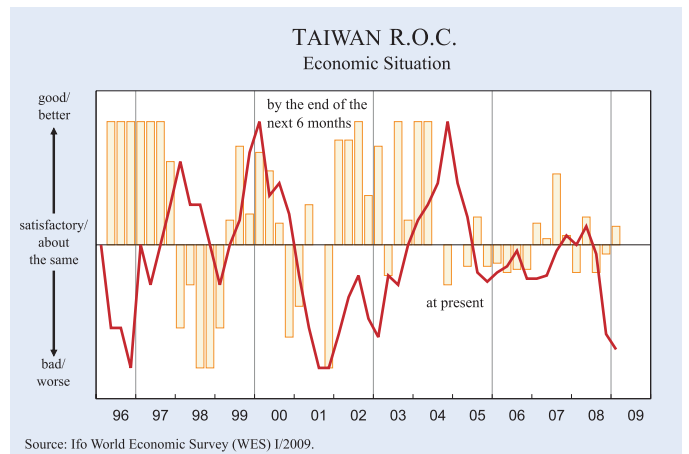
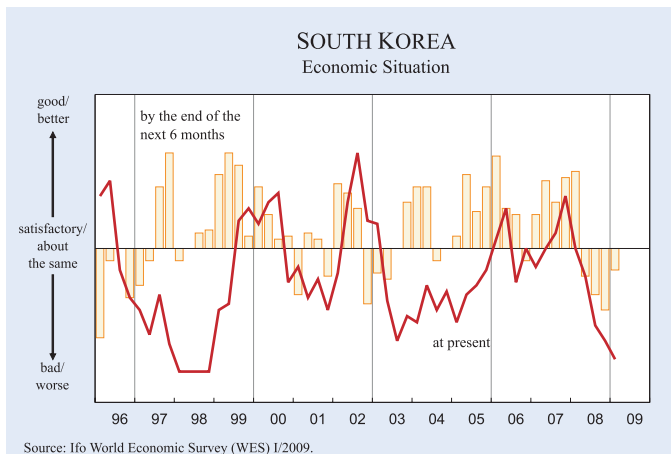
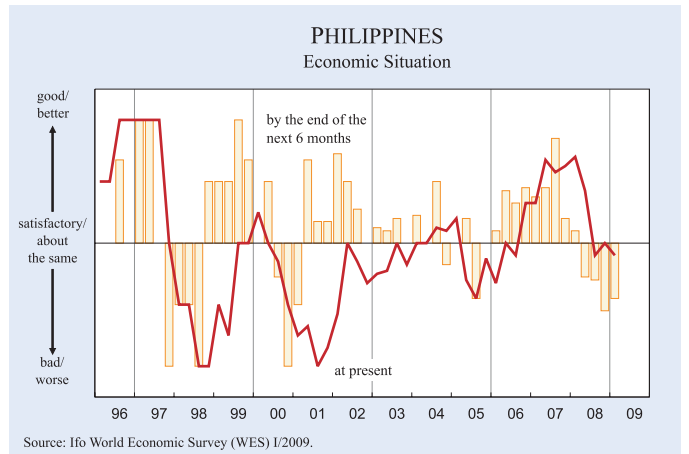
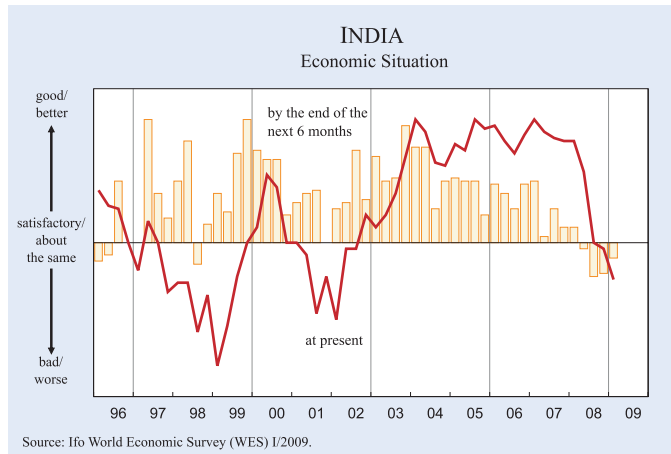
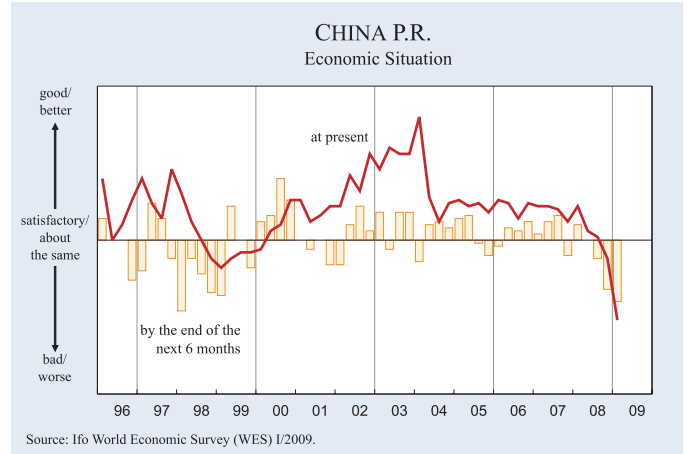
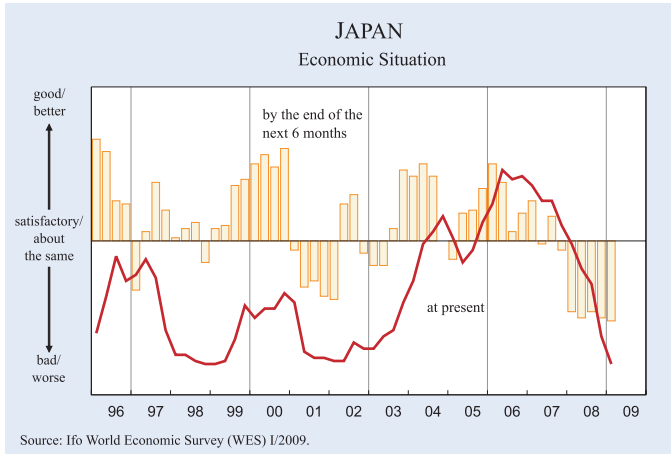


Figure 9

LATIN AMERICA

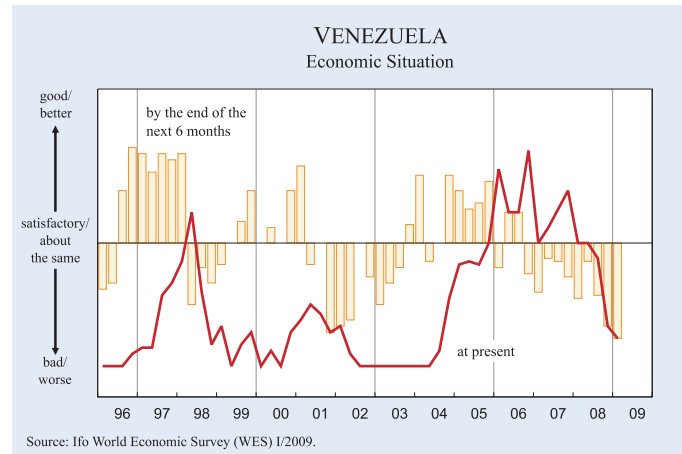
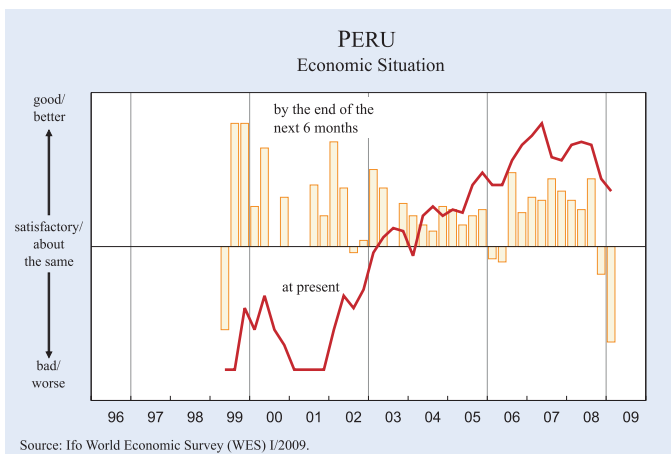
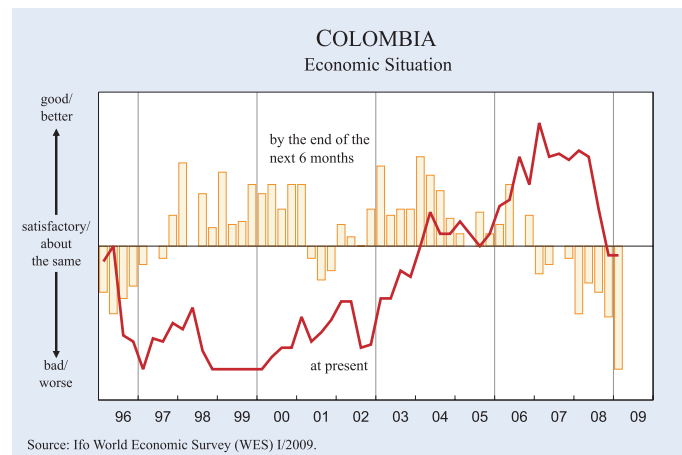
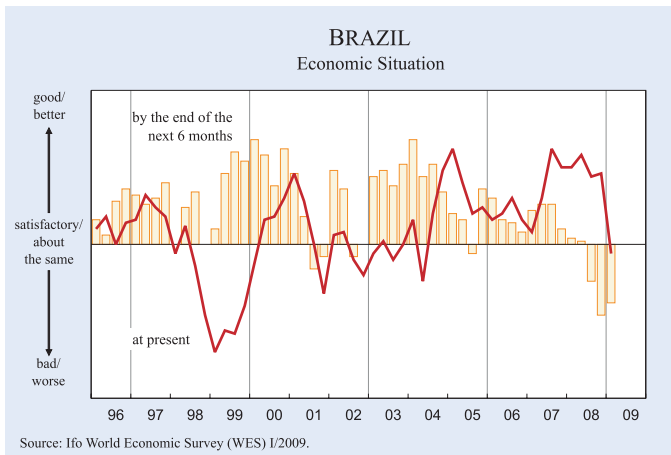
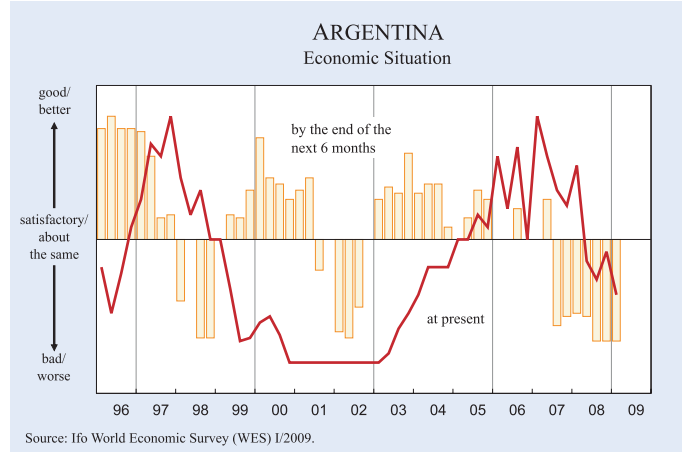
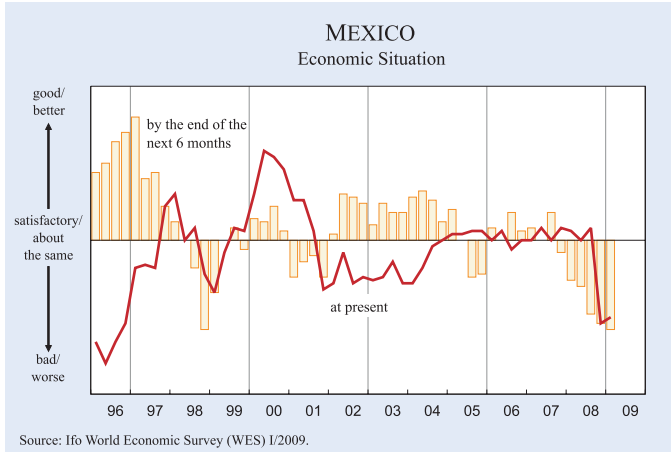
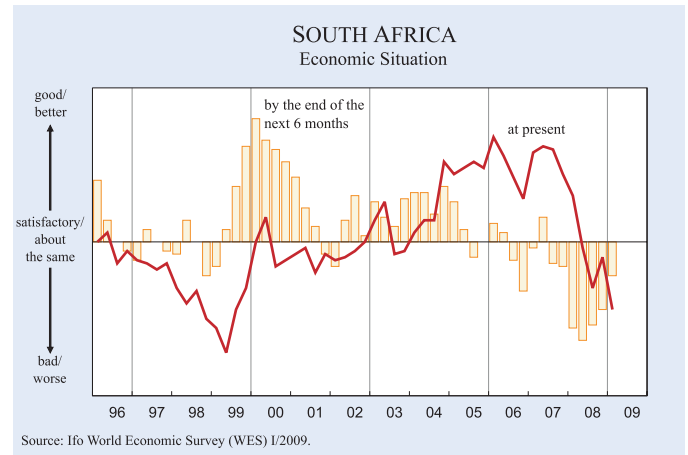
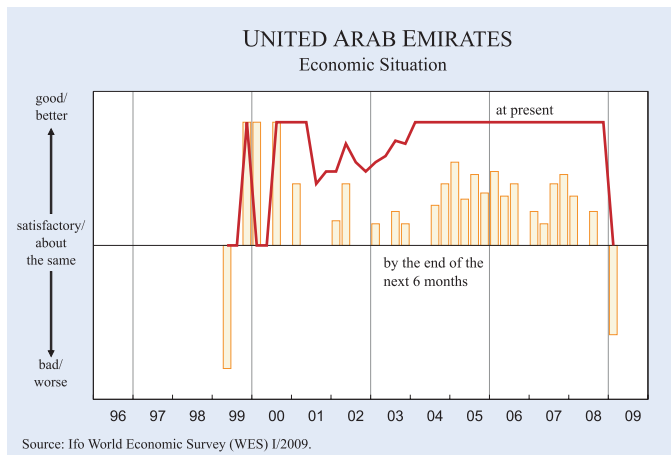
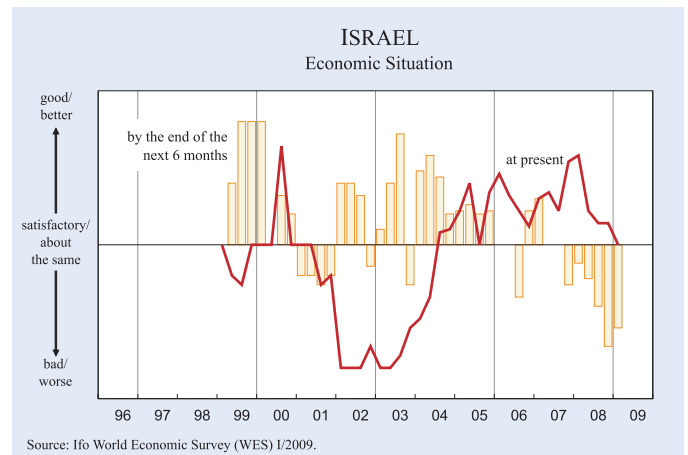
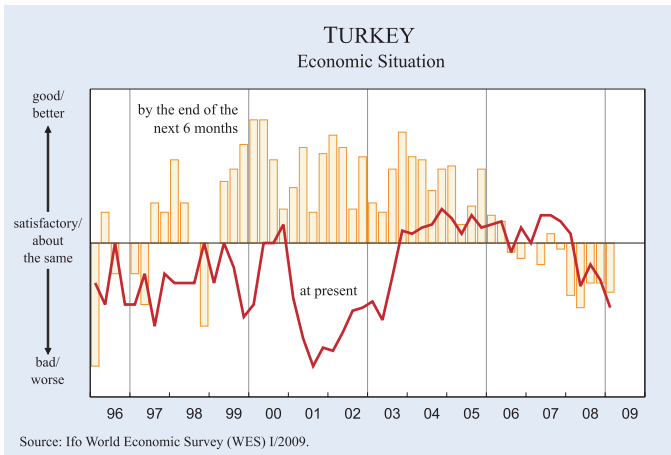
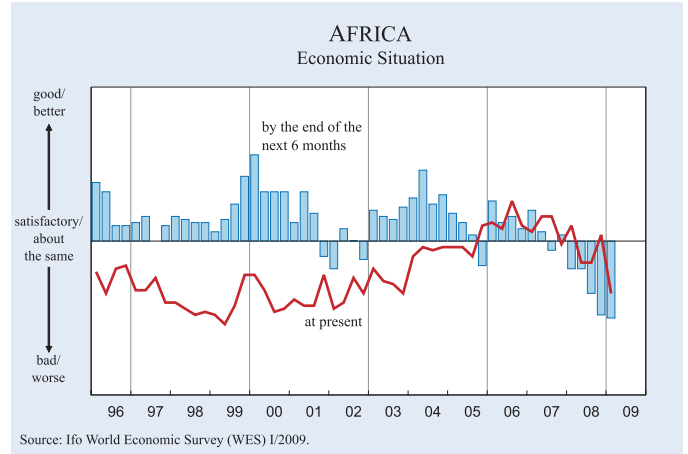
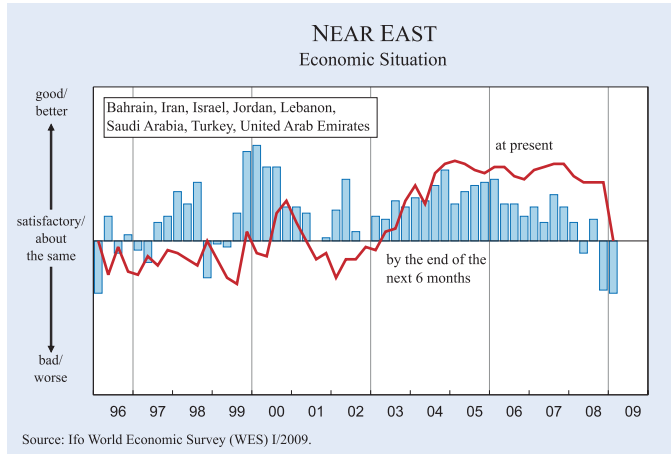


Figure 10

NEAR EAST AND AFRICA



cent), *Cyprus* (3.0 percent), *Greece* (3.1 percent) and *Slovakia* (3.6 percent).

In *Western Europe* outside the *euro area*, inflation expectations for 2009 are – as in previous years – particularly low in *Switzerland* (1.2 percent), but this time also in the *United Kingdom* (1.3 percent) and in *Sweden* (1.5 percent).

In the *United States* average inflation expectations 2009 have come down to a moderate 1.4 percent from almost 4 percent in 2008. A similar picture emerges out in *Canada*, where the 2009 inflation is expected not to exceed 1.3 percent, compared with an inflation rate of 2.5 percent in 2008.

In *Asia* consumer price inflation in 2009 will remain substantial despite the fact that its amount will almost halved compared with last year's figure (2.9 compared to 5.7 percent in 2008). A significant slowdown of inflation is expected in *China* (from 6.1 to expected 2.4 percent in 2009). In countries like *India* and *Vietnam*, the expected inflation rate in 2009 is still rather high (5.5 respectively 8.5 percent), despite sharply lower rates than in 2008. In *Japan* the very moderate price increase (1.8 percent) observed last year is expected to come to a standstill in 2009; also in *Taiwan* consumer prices in 2009 are expected to be rather flat (0.7 percent increase).

In *Central and Eastern Europe* inflation in 2009 is seen at around 4 percent, which would be one third lower than in 2008. The slowdown is particularly pronounced in the *Czech Republic* (3.0 compared to 6.0 percent in 2008) and in *Estonia* (4.0 after 9.9 percent in 2008).

In the *CIS* countries inflation in 2008 will remain amongst the highest in the world. In *Russia* inflation expectations for 2009 remained unchanged at last year's rate (14.0 percent). On the other hand, in *Kazakhstan* a moderate deceleration of price increase from 11.0 percent in 2008 to 8.7 percent in 2009 and in the *Ukraine* from 21.0 in 2008 to 17.0 percent in 2009 is expected.

Also in *Latin America* 2009 inflation expectations declined only slightly (from 9.8 percent in 2008 to an expected 8.7 percent in 2009). Despite some slowing down, inflation expectations for 2009 remained relatively high particularly in *Argentina* (15.0 percent) and *Bolivia* (12.5 percent). In

Venezuela not even a moderate slowdown from the high inflation in 2008 is expected; on the contrary, the outlook even worsened (32.5 compared to 30.5 percent in 2008).

In the *Near East* the inflation outlook for 2009 – similarly to *Latin America* – improved only rather moderately (from 12.8 in 2008 to an expected 9.6 percent in 2009). The main exception in the region where inflation expectations are low also compared with international standards is *Israel* (1.5 after 3.5 percent in 2008). On the other hand in *Iran* – as in *Venezuela* – the already extremely high inflation is expected to increase even further (from 28.5 in 2008 to 33.5 percent in 2009).

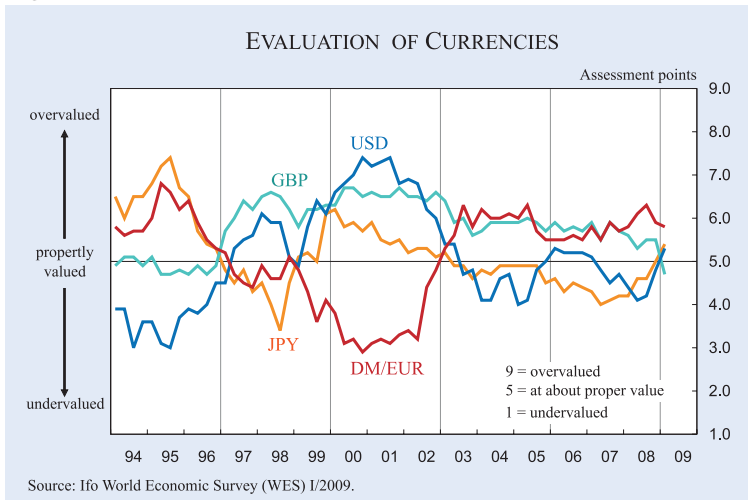
In *Oceania* inflation expectations for 2009 declined moderately from the 2008 level (3.2 after 4.1 percent in 2008), both in *Australia* and in *New Zealand*.

In *Africa* an average figure for the whole continent continues to make no sense due to the hyperinflation in *Zimbabwe*. In most other countries covered in the region inflation expectations declined from last year's level: in *South Africa* from 11.5 in 2008 to expected 7.6 percent in 2009, in *Nigeria* from 10.0 to 8.0 percent in 2009, in *Kenya* from 19.0 to 13.0 percent and in *Tunisia* from 5.3 to 4.8 percent in 2009.

Main world currencies closer to the equilibrium level

The *euro* is still assessed by WES experts as overvalued, however, to a lesser degree than in the previous surveys. The *Japanese yen* which since 2002 had been regarded by the majority of WES experts as undervalued is now – after the strong revaluation in recent months – even seen as slightly overvalued. In a similar way also the *US dollar* changed from “undervalued” in the perception of WES experts to now close to equilibrium, or only slightly overvalued. Obviously the shift of capital from emerging markets to the *US dollar* and *yen* contributed to the recovery of these currencies. In the case of the *British pound*, WES experts for the first time since 1997 regard this currency as no longer overvalued, but after the strong devaluation in past months now as even slightly undervalued.

Figure 11



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, signal on a world-wide average a rather stable development of the *US dollar* exchange rate in coming months: An expected slight upward tendency of the value of the *US dollar* in *Eastern Europe* and somewhat more pronounced in *CIS* countries as well as in *Latin America* and *Africa* contrasts with an expected moderate weakening in the value of the *US dollar* in *Asia* and *Western Europe*.

Interest rates: Further decline of rates expected

In view of the ongoing recessionary tendencies in the world economy accompanied by a slowdown of inflation, WES experts practically everywhere expect a decline of interest rates, both at the short and – to a lesser degree – at the long end. An even more pronounced decline in interest rate expectations is prevented by the fact that not only in *Japan* but now also in the *US*, the policy interest rate set by the central bank of the respective country is close to zero. In this case further monetary easing is possible mainly by an expansionary open-market policy, i.e. buying government or commercial bonds leading to a rise in the monetary base (see Figure 12).

The few exceptions where WES experts expect rising short- and long term interest rates in the course of the next six months are the *CIS* countries, especially *Russia* and the *Ukraine*, as well as some *Eastern*

European countries (*Croatia* and to a lesser degree also *Latvia*) and several countries in *Latin America* (*Argentina, Costa Rica, Guatemala, Paraguay* and *Venezuela*).

ICC Special Question: International trade and protectionism

In July 2008, the eight-year-long Doha Round of multilateral trade negotiations broke down in Geneva. At the same time, the financial crisis spread

all over the world, putting pressure on leaders to protect domestic jobs. However, subsidies injected into the national industries could lead to distortions in international trade and foster protectionism. The most prominent case is the fiscal stimulus package of the *US* that has become known under the slogan “Buy American”. It has generated waves of concern within the *US* and abroad that, if passed, it will encourage other countries to also implement protectionist measures. This is happening at a time when global trade is set to shrink for the first time since 1982, according to the latest WES results and also the IMF and World Bank figures.

The special question focused on the importance of international trade in overcoming the global recession. The vast majority of surveyed economists worldwide think that by successfully completing the Doha Round of multilateral trade negotiations, governments can take a significant step to help restore confidence in global markets and international cooperation, and create economic opportunities that will mitigate the impact of the financial crisis (see Figure 13). Only in *Russia, Austria, Ecuador, Venezuela, Slovenia* and *Hungary*, do the majority of experts not agree on that issue. In most countries the WES experts also stressed the importance of resisting protectionist measures as they would cause further damage to an already very weak global economy, according to their view (see Figure 14). The only exceptions were the *Ukraine* and *Venezuela*. The vast majority of surveyed economists agree that a practical measure that governments should take immedi-

Figure 12

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

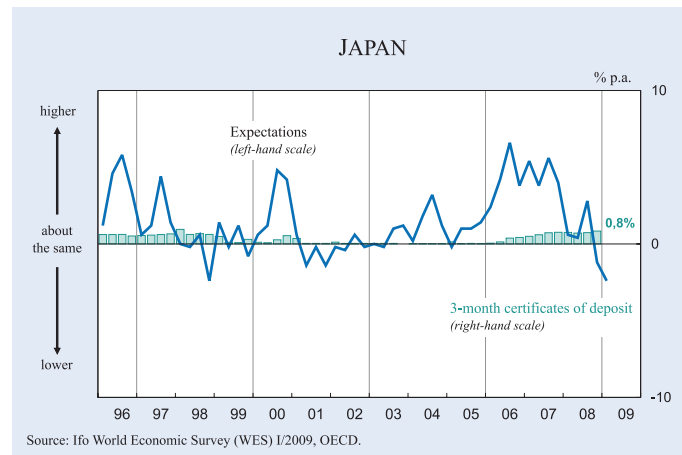
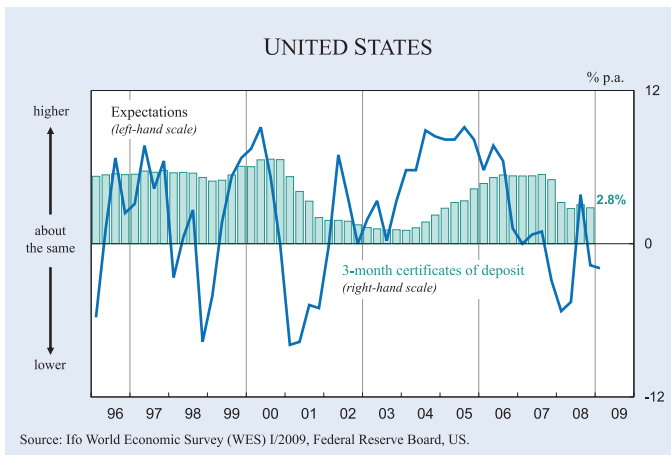
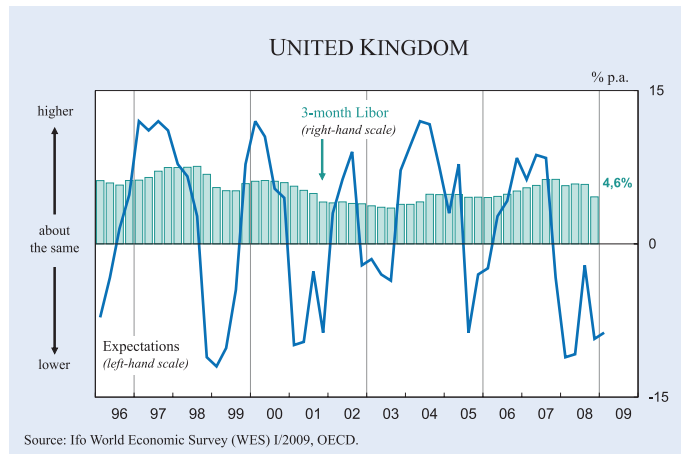
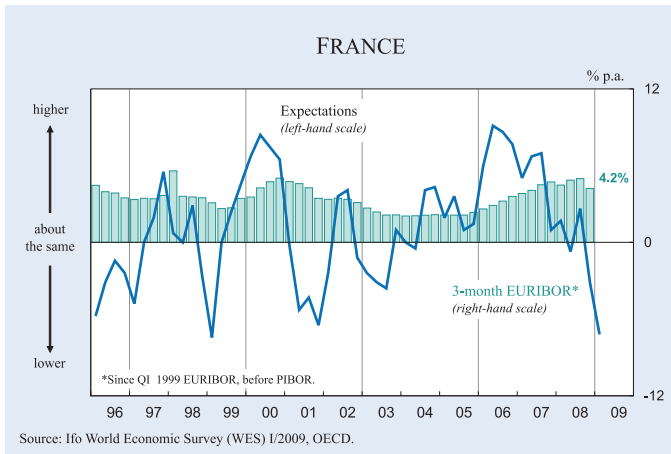
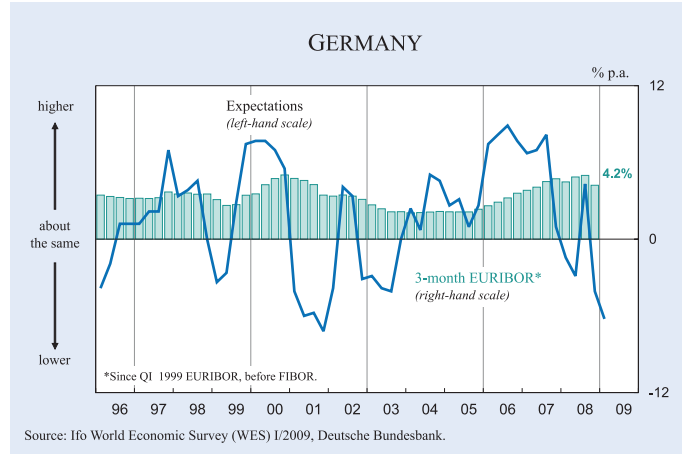
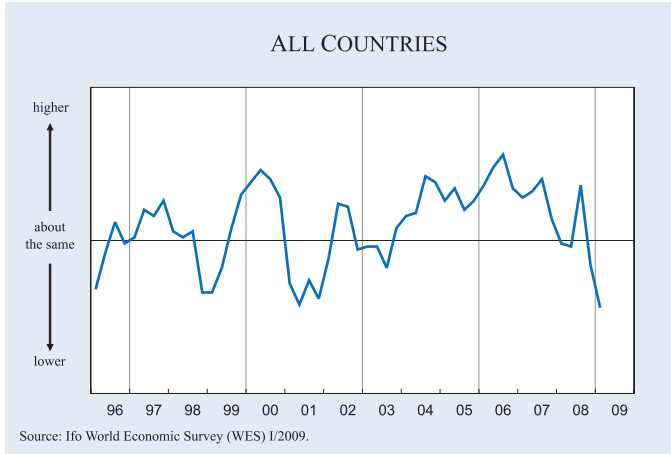
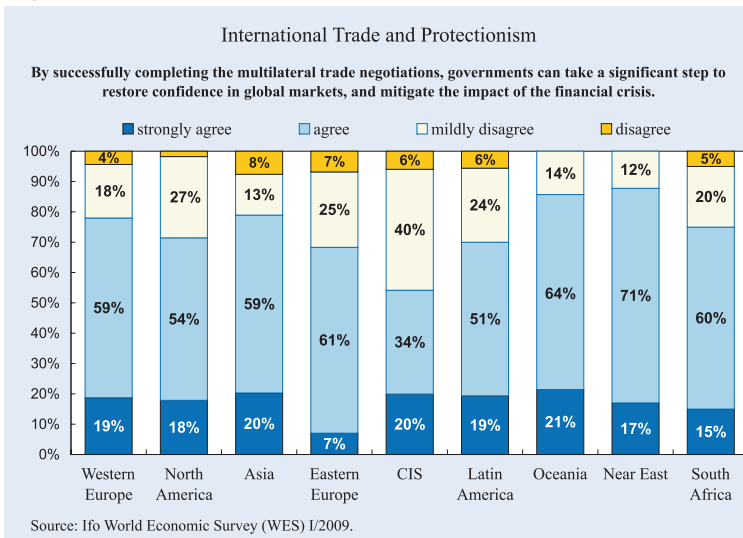


Figure 13



ately, in order to mitigate the impact of the financial crisis on the global economy and to get trade flowing again, is to expand the scope and scale of guarantees to exporters by official export credit insurance agencies (see Figure 15).

The survey results indicate that in the presence of the unprecedented global financial crisis and already shrinking international trade, the surveyed economists stress the downward risks that the potential rise in protectionist pressures within the countries can have on the global economy.

Figure 14

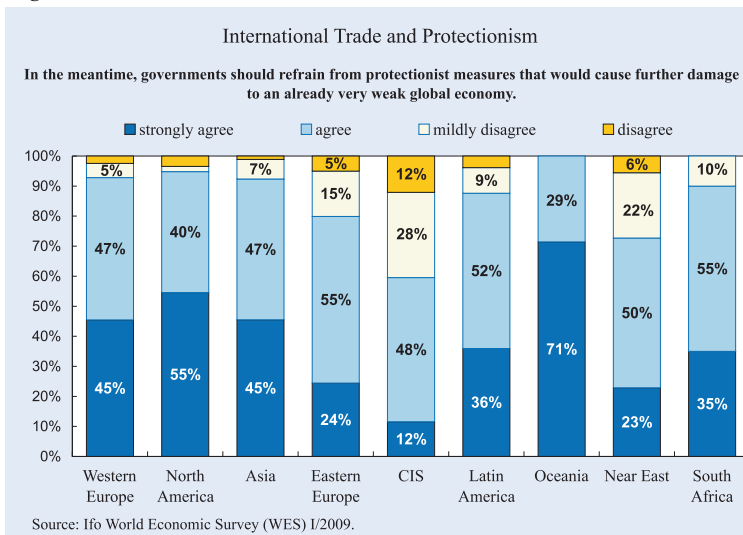
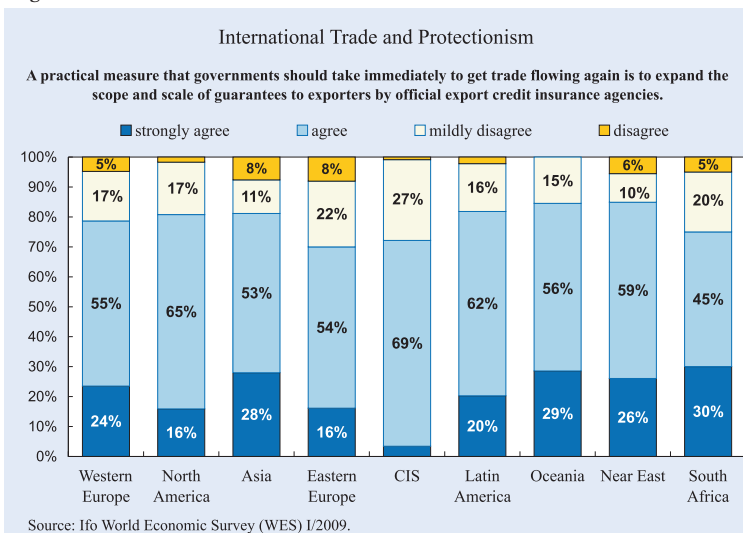


Figure 15



The **EEAG** Report

on the European Economy

2009



ECONOMIC OUTLOOK
THE FINANCIAL CRISIS
PRIVATE EQUITY
FRANCE



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