

IFO WORLD ECONOMIC SURVEY

A light blue world map is visible in the background, centered behind the main text blocks.

World Economic Climate

WORLD ECONOMIC CLIMATE CONSIDERABLY
IMPROVED

Economic Expectations

ECONOMIC EXPECTATIONS FOR THE NEXT SIX
MONTHS ARE OPTIMISTIC, CURRENT ECONOMIC
SITUATION CLOSE TO SATISFACTORY

Inflation

INFLATION REMAINS MODERATE

Interest Rates

EXPECTED TURNAROUND IN INTEREST RATES

Currencies

EURO STILL SEEN AS OVERVALUED

Special Topic

SPAM AFFECTS PROSPECTS FOR LEGITIMATE
MARKETING

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Ifo World Economic Survey

Regions

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- Asia: Economic climate indicator rises
- Oceania: Boom continues
- Latin America: Disparity of economic trends
- Near East: Economic climate further improves
- Africa: Economic outlook brightens

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

Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide 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 October 2003 some 1,078 economic experts in 91 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 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.

Center for Economic Studies is an institute within the department of economics of Ludwig-Maximilians-University. Its research concentrates on public finance aspects of the economy, but also includes many diverging fields of economics.

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

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

WORLD ECONOMY: WORLD ECONOMIC CLIMATE IMPROVED CONSIDERABLE

In October 2003 the World Economic Climate has improved strongly. The overall climate indicator surpassed its long-term average (1982–2002: 94.1) and is now at 100.2 compared to 91.3 in the July survey. This strong improvement resulted from both more favourable assessment of the current economic situation as well as from highly positive expectations for the coming six months (see Figure 1).

World economy: Onset of a global economic recovery

The improvement of the economic climate index set in already by the end of April¹ this year after the end of the Saddam regime in Iraq. In July the positive trend of economic expectations gained more momentum, and finally in the October 2003 poll, the upward movement of the indicator became clearly pronounced (see Figure 2 and Box 1).

After three consecutive, positive survey results and now that the assessments of the current economic situation are beginning to follow positive economic expectations in almost all regions, the latest survey results can be interpreted as the onset of a global economic recovery.

Western Europe: Better economic climate

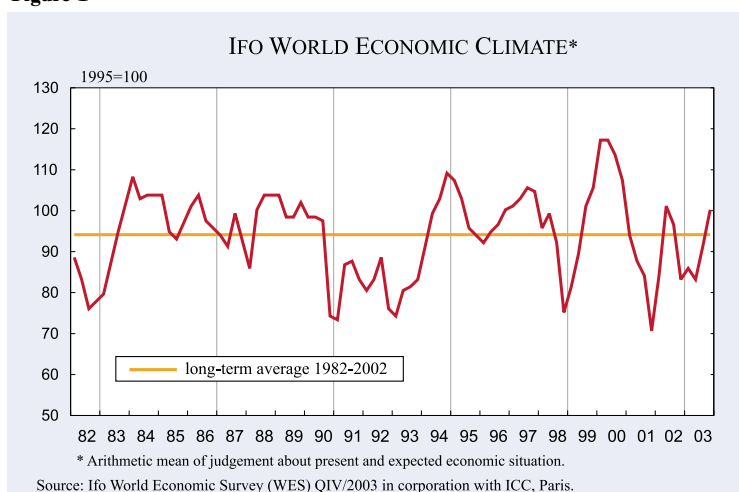
According to the recent survey results, both the assessment of the current economic situation and the expectations for economic development in the next six months point to an improvement of the economic climate in Western Europe (see Figures 3 and 4).

¹ A separate analysis of survey data that came before and after 15 April 2003 showed striking differences. In the first group, world economic climate was significantly lower than in the January survey (79.6 compared to 85.9). In the second group, i.e. responses submitted after April 15, the overall indicator stood at 86.8 and thus slightly higher than in January 2003 (85.9).

Although the economic climate improved, on average, in Western Europe in October, the vast majority of WES experts surveyed in this region judged the present economic situation of their countries to be below a “satisfactory” level. In particular, in *Belgium, Austria, Germany, Italy, Portugal, the Netherlands* and *Switzerland* the assessments of the present economic situation – though slightly more favourable than in the previous survey – remained in the negative territory. However, in all these countries the outlook for the first half of 2004 is very optimistic.

In Northern European countries, that is in *Denmark, Finland, Norway* and *Sweden*, and also in the *United Kingdom* and *Ireland*, the present economic situation was assessed as satisfactory. The panel’s forecast for the coming six months reflects a stabilization of the current positive state. But also in two Southern European countries – in *Greece* and *Spain* – the downturn of economic climate index that set in by the end of 2000 reversed before reaching negative territory in line with the general business sentiments in Europe (see Figure 7a/b and Box 2). The only exception to this positive trend was France, the second large economy of the region. The present economic performance worsened in October, according to French WES experts. But the prospects for the coming six months are very positive.

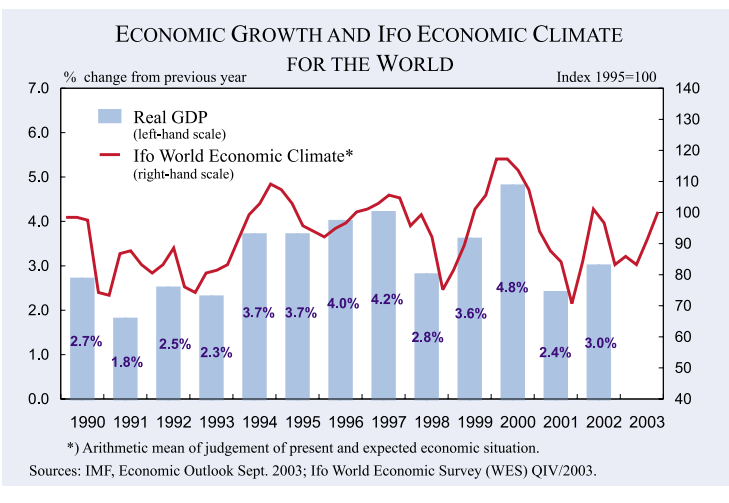
Figure 1



**Box 1:
World Economic Survey (WES) and Growth in the World Economy**

The World Economic Climate indicator closely tracks the growth of the world economy (see Figure). In October 2003 the indicator clearly improved again. Unlike the previous survey, the strengthening of the index was due both to more favourable expectations for the next six months as well as to assessments of the current economic situation. This lends weight to expectations that the economic upturn of the world economy will gain momentum.

The economic climate improved significantly in Asia and North America; the climate index in these areas is now above its long-term average. In North America this is entirely due to better assessments of the current situation while in Asia, particularly in Japan, India and South Korea, both components of the climate index are pointed upwards. Also in Western Europe the economic climate brightened noticeably, boosted by more favourable expectations, but the long-term average has not yet been reached.



sent economic condition, as well as the forecasts for corporate investment and export volume, were upgraded in October compared to the July results. However, since government spending helped boost the US economy, the *public deficit* is seen to be the main source of instability.

In *Canada* the overall economy slipped from a highly favourable to a satisfactory level, according to July results, which reflected a weakening of the US economy. In October, however, the economic climate index improved slightly, indicating that the previous economic dip is not expected to continue, according to the panel experts.

Eastern Europe: Business prospects point to further growth

North America: Economic upswing takes shape

In North America, in both *Canada* and the *United States*, the economic upswing gained momentum in the second half of 2003 (see Figures 3 and 4). In the US the impetus derived from private consumption, which is expected to grow further in the course of the coming months. Also the assessment of the pre-

According to the panel's responses, the current economic situation in Eastern Europe remained stable also in October. On average, the forecasts for the coming six months point to an economic stabilization in almost all countries of the region (see Figure 4 and 8).

The economic climate index of the ten EU accession countries – *Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia* and *Slovakia* – rated above the satisfactory level in October, on average. In particular, in the Baltic States (*Estonia, Latvia* and *Lithuania*) the assessments of the present economic situation remained at a highly satisfactory level, demonstrating considerable robustness over the past two years. WES experts are very optimistic concerning the further development of these economies. Also in the other

Figure 2

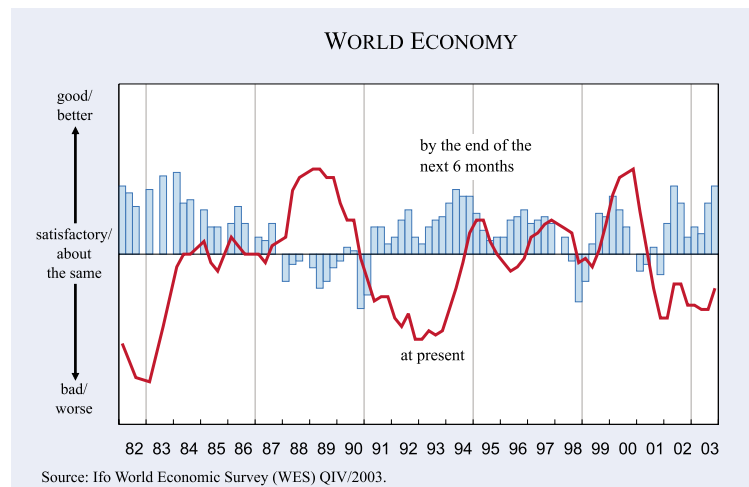
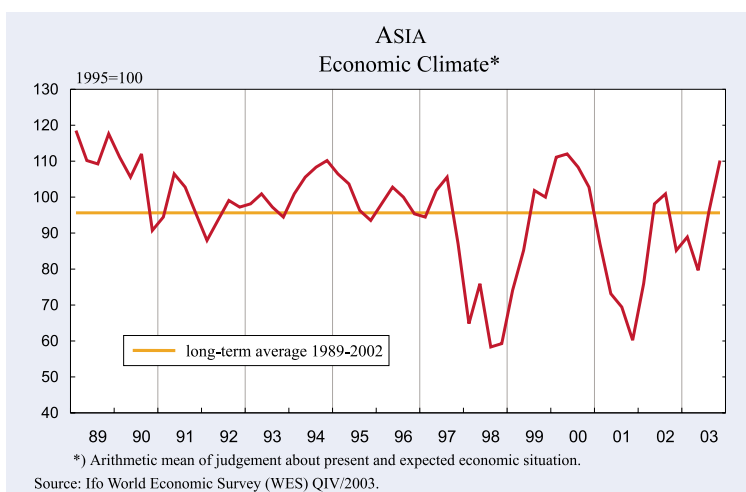
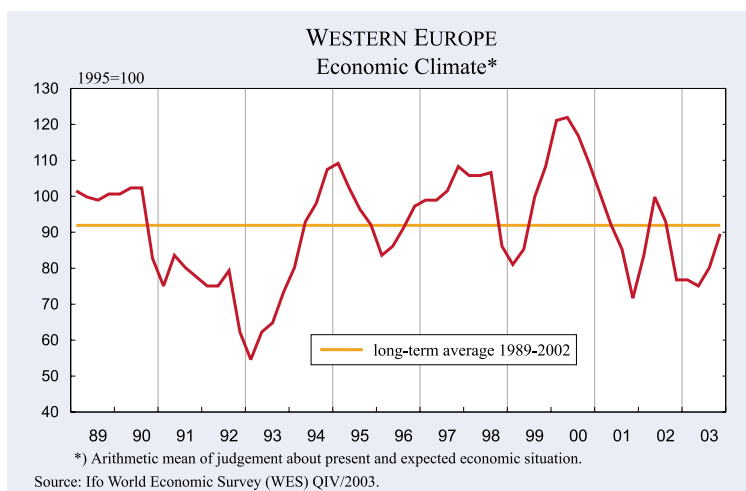
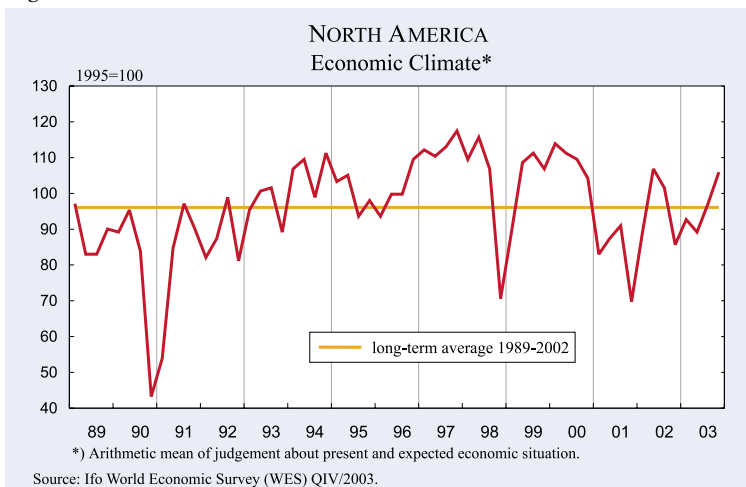


Figure 3



new EU members recent data suggest the stabilization of these economies at the current “good” level for the coming six months. The only exception is *Hungary*, where WES experts are less optimistic concerning the recovery of the economy in the coming months. In particular, a strong slump in private consumption is forecast for the next half year.

climate continued its stabilization course, in October. For already three years the economic situation is rated by WES experts to be on the satisfactory level. The economic outlook promises moderate improvement of the overall economic performance of the country. The export volume should remain stable in the coming six months. But in this

Also in *Poland* the recovery process is proceeding only sluggishly. However, to a stronger degree than in *Hungary*, WES experts here expect exports to grow in the coming months. In both countries *public deficits*, and probably related to this *lack of confidence in government's economic policy*, are regarded the most important impediments to economic recovery.

In *Croatia* the overall economic trend points to an upswing. Since the end of 1999 the assessments of the present economic situation have steadily improved, and, in the October survey, almost reached the satisfactory level. The outlook for the next six months points to a continuation of the economic revival. Also in *Bulgaria*, WES experts expect a stabilization of the economy at the current satisfactory level. In *Romania* and *Serbia* and *Montenegro*, the present economic performance is well below “satisfactory”, but the outlook for the coming six months points to an improvement. A much less encouraging economic situation still prevails in *Bosnia Herzegovina*, where the presently depressed economy is not expected to improve in the short run.

CIS: Favourable economic climate

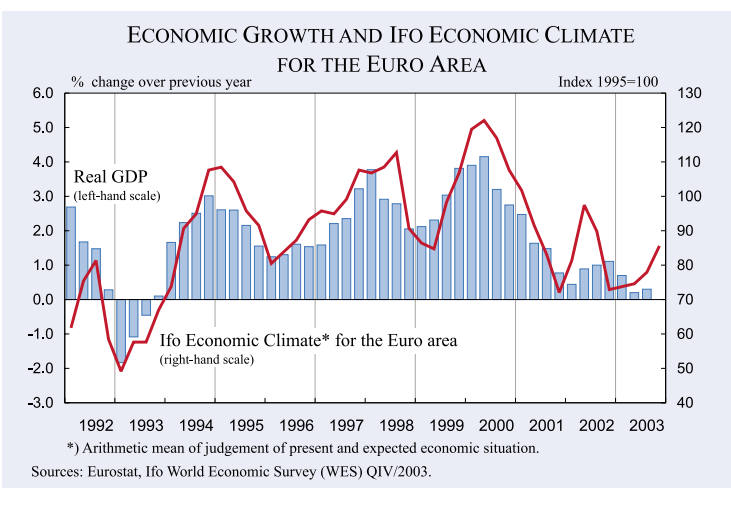
In *Russia*, the largest economy of the CIS region, the economic climate continued its stabilization course, in October. For already three years the economic situation is rated by WES experts to be on the satisfactory level. The economic outlook promises moderate improvement of the overall economic performance of the country. The export volume should remain stable in the coming six months. But in this

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

The Ifo World Economic Climate for the 12 member countries of the euro area is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The October results are based on the responses of 267 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo indicator for the economic climate in the euro area rose in October 2003 for the fourth time in succession. The improvement is again based on more optimistic expectations for the next six months. The worsening of the current situation has been halted. That the current situation was not judged more favourably than in the last survey was due to the downward trend in France and Finland that offset the slight increase in the other countries. In Finland, however, the expectations improved so much that the climate index rose here too. The overall positive trend fuels expectations for economic recovery in the euro area next year.

The economic climate was above the euro area average in Belgium, Austria, Finland, Greece and Spain and below average in Italy, the Netherlands and France. In Germany and Portugal, the climate index matched the euro area average.



context WES experts in *Russia* also emphasized the *lack of international competitiveness* of the domestic industry, which may prevent the export sector from depending less on the raw material market and becoming more dynamic. Though the major economic indicators in *Russia* point to further economic growth and stabilization, the recent crisis, caused by the attack on the Yukos Oil Company and the arrest of its chief executive Mikhail Khodorkovsky, created a stir in the Western press. Economists fear that the achieved dependability of the economy and a sustained private capital inflow to the country (only in October, Moody's confirmed the stability of Russia's investment rating) are threatened by the Yukos action, also accompanied by cabinet reshuffle (Prime Minister Mikhail Kasyanov already resigned from office). Further developments will show whether the Yukos affair will lead to a significant outflow of capital or be pos-

itively regarded as a new crack-down on corruption.

Georgia again showed considerable weakness in economic performance, as reflected in the low level of the assessments of the present economic situation. In the near-term no significant change to the better is expected. As the opposition has increased its efforts to bring down President Eduard Shevardnadze, who was reelected on November 2, the overall economic crisis will probably last until the political controversies are resolved.

In the *Ukraine* the present economic situation was assessed above "satisfactory" with prospects for future development becoming highly positive. Growth of domestic demand, but also corporate investments and the export sector are expected to be more dynamic in the coming months. With regard to the most important economic problems in the country, WES experts gave priority to *capital shortage, public deficits and lack of international competitiveness*.

Asia: Economic climate indicator rises

In the October survey the economic climate indicator in Asia reached the highest level compared to its long-term average among all WES regions (see Figure 3). The recovery process from the slowdown of 2001 began quite strongly already in 2002. The consecutive growth was interrupted by the geopolitical uncertainties relating to the conflict in Iraq, by the outbreak of SARS in Asia and by the economic weakness in Western countries. However, in July and October 2003, the economic climate index bounced back considerably, significantly surpassing its long-term average. Whereas the July pick-up was mostly attributed to the optimistic forecasts for the coming six months in all WES countries of the region, the October improvement is due to

Figure 4

SELECTED REGIONS

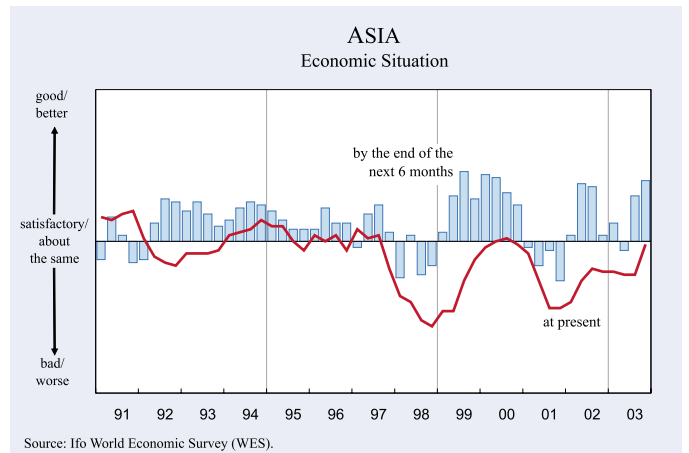
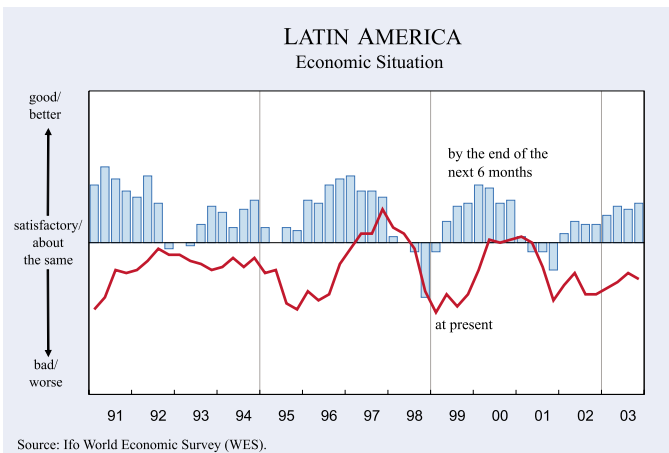
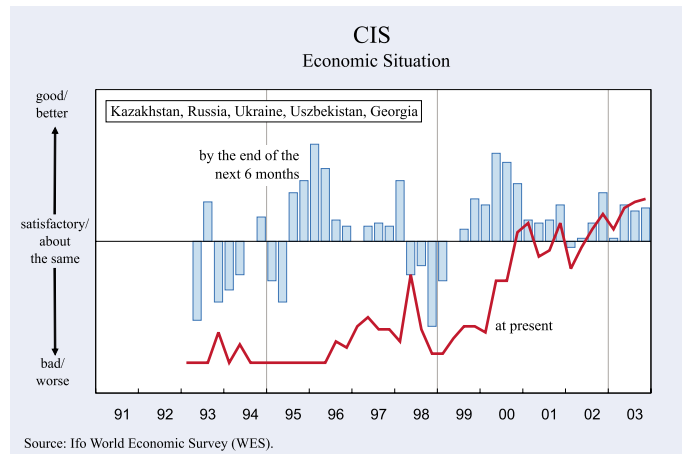
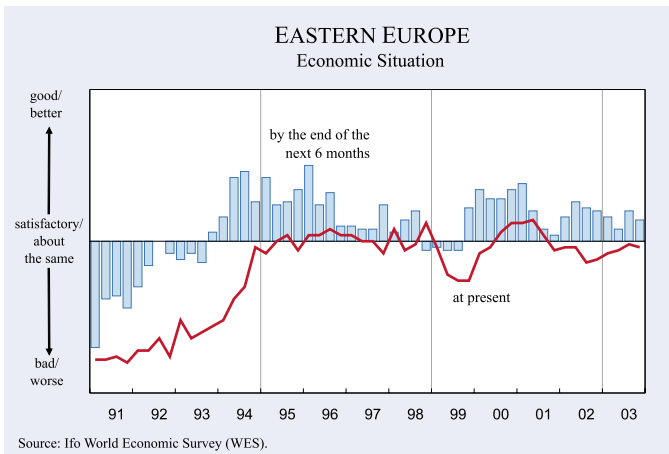
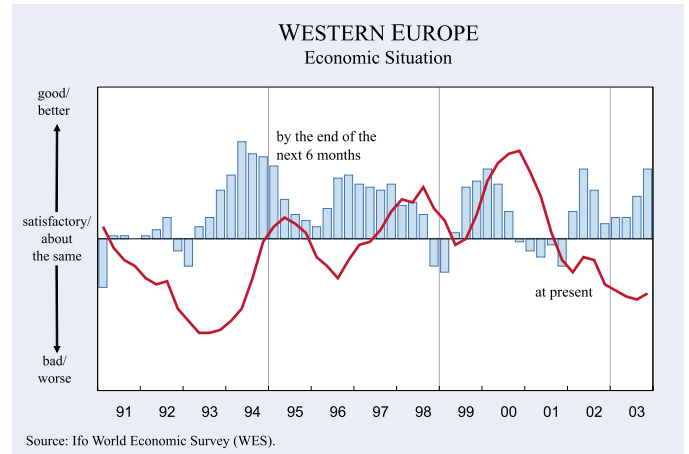
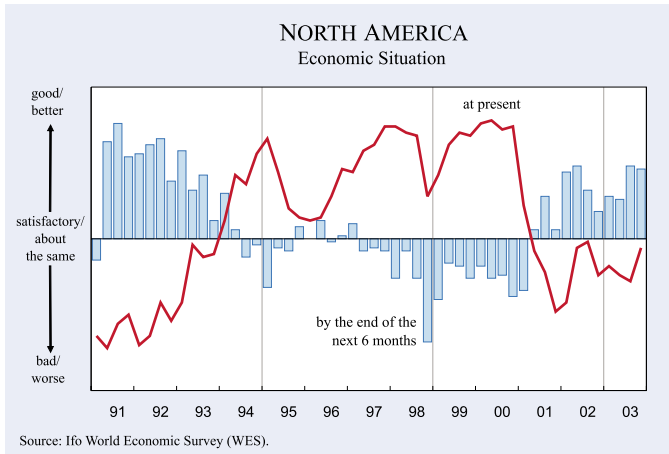


Table 1

Expected Inflation Rate 2003 (based on WES QIV/2003 and QIII/2003) *

Region	QIV/2003	QIII/2003	Region	QIV/2003	QIII/2003
Average of 91 countries	2.9	2.8	Central and Latin America	7.8	9.0
<i>World Bank classification:</i>			Argentina	9.9	16.9
High-income countries	1.7	1.6	Bolivia	5.2	6.0
Middle-income countries	6.3	6.9	Brazil	10.0	10.4
Upper-middle	4.8	6.5	Chile	2.9	3.1
Lower-middle	9.1	7.7	Colombia	7.0	7.1
Low-income countries	5.3	5.2	Costa Rica	10.5	10.7
EU countries (old members)	2.0	2.0	Ecuador	7.5	8.1
EU countries (new members) ¹	3.3	-	El Salvador	2.6	2.8
Euro area ²	1.9	1.9	Guatemala	10.0	-
Asian Pacific Rim ³	1.7	1.5	Mexico	4.3	4.4
Arabian OPEC countries ⁴	5.8	5.9	Panama	1.2	1.3
			Paraguay	8.3	15.0
			Peru	2.1	2.6
			Uruguay	12.0	18.0
			Venezuela	31.9	45.8
Western Europe	2.0	1.9	Asia	1.3	1.1
Austria	1.4	1.4	Bangladesh	4.0	4.4
Belgium	1.6	1.5	China P.R.	1.6	1.0
Cyprus	4.5	4.8	Hong Kong	-1.6	-1.6
Denmark	2.2	2.3	India	4.5	4.7
Finland	1.5	1.6	Indonesia	7.7	8.7
France	1.9	1.7	Japan	-0.4	-0.5
Germany	1.1	1.1	Korea	3.1	3.4
Greece	3.4	3.6	Malaysia	2.1	2.0
Iceland	2.2	2.0	Mongolia	4.5	1.9
Ireland	3.6	3.7	Pakistan	4.2	4.4
Italy	2.7	2.6	Philippines	3.8	4.5
Luxembourg	2.0	2.0	Singapore	1.1	1.0
Netherlands	2.2	2.4	Sri Lanka	8.3	11.1
Norway	2.4	2.1	Taiwan	0.7	0.1
Portugal	3.2	3.3	Thailand	2.2	2.1
Spain	3.0	2.9	Vietnam	3.8	3.7
Sweden	1.9	1.9			
Switzerland	0.7	0.7	Near East	7.8	8.7
United Kingdom	2.7	2.5	Bahrain	0.8	2.0
			Iran	16.5	17.7
			Israel	2.2	1.6
			Jordan	1.9	2.0
			Kuwait	-	2.5
			Lebanon	3.0	5.0
			Saudi Arabia	1.4	2.2
			Turkey	21.0	25.8
			United Arab Emirates	3.4	2.8
Central and Eastern Europe	4.2	4.3	Africa	16.9	17.4
Albania	4.6	5.2	Algeria	7.0	5.0
Bosnia Herzegovina	4.0	2.5	Egypt	10.2	4.6
Bulgaria	4.2	4.3	Kenya	7.0	8.5
Croatia	2.2	2.8	Mauritius	6.3	6.0
Czech Republic	1.3	1.6	Morocco	1.3	-
Estonia	2.8	3.3	Nigeria	14.5	15.0
Hungary	5.3	5.4	South Africa	6.3	7.3
Latvia	2.9	2.4	Tanzania	4.0	4.5
Lithuania	0.8	1.1	Tunisia	2.7	2.7
Poland	1.4	1.6	Zimbabwe	500.0	525.0
Romania	13.8	14.2			
Serbia a. Montenegro	9.0	8.9	Oceania	2.7	2.9
Slovenia	5.6	5.5	Australia	2.9	3.0
Slovakia	8.7	8.4	New Zealand	2.1	2.3
CIS	12.0	12.6			
Georgia	2.0	-			
Kazakhstan	10.6	-			
Russia	12.9	13.3			
Ukraine	6.2	5.8			
North America	2.2	2.1			
Canada	2.4	2.7			
USA	2.2	2.0			

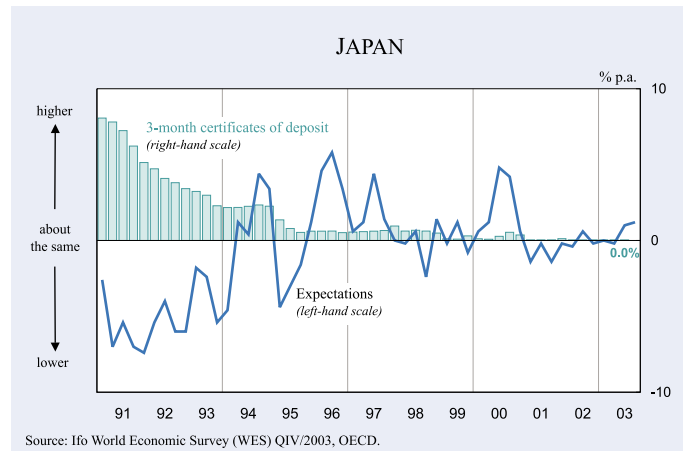
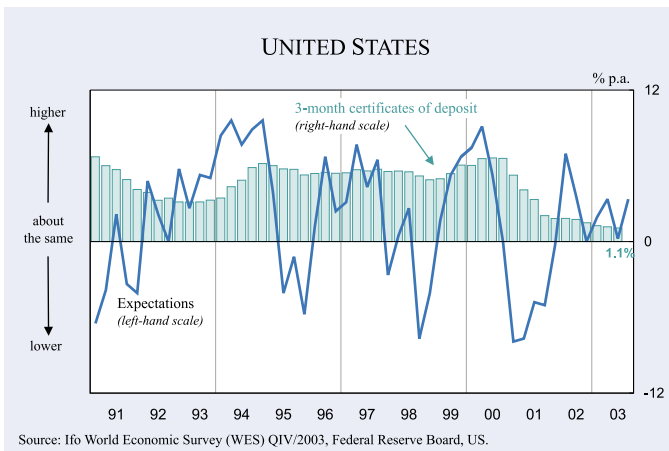
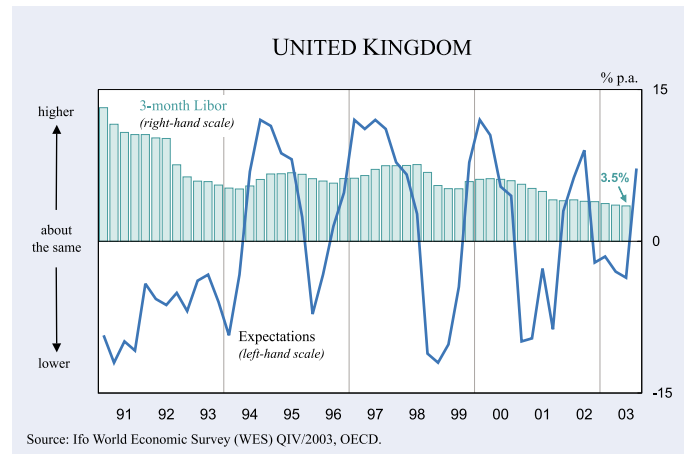
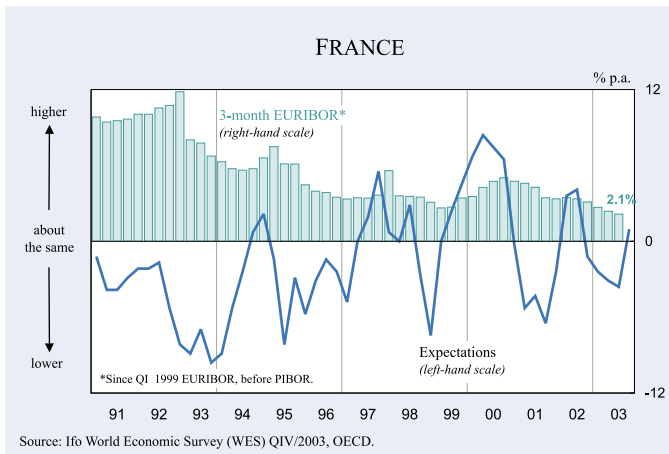
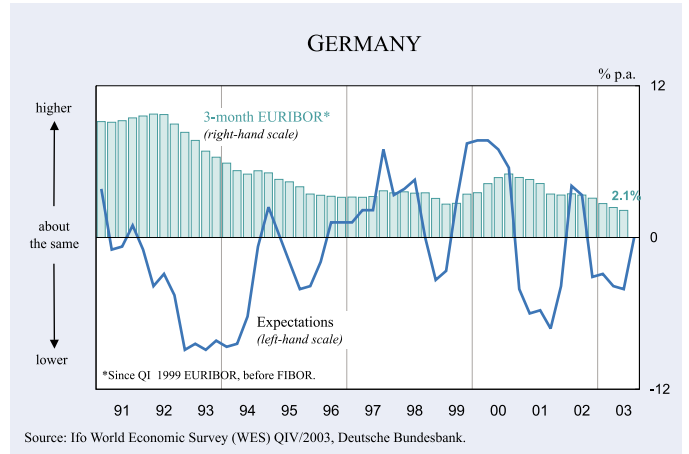
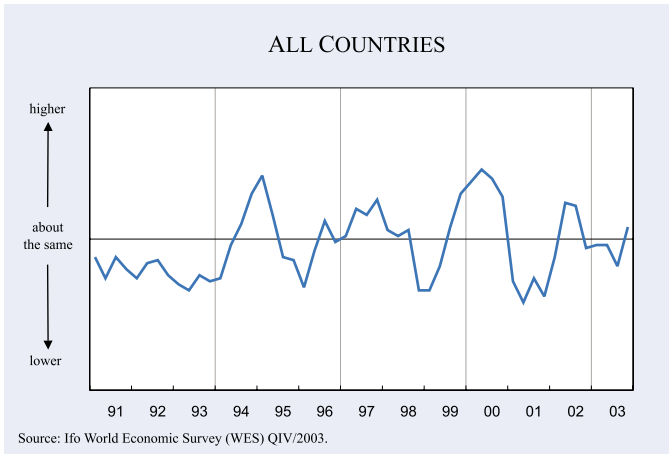
* Compared to average of previous year.

¹ Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1. May 2004)
² EU countries without Denmark, Sweden, United Kingdom. ³ Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore Taiwan, Thailand, Vietnam. ⁴ Algeria, Iran, Kuwait, Saudi Arabia, Qatar, United Arab Emirates.

Source: Ifo World Economic Survey (WES), QIV/2003.

Figure 5

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



both, positive assessments of the current economic situation as well as to positive prospects for the next six months (sees Figure 4).

In *India*, economic growth strengthened further compared to 2002. The macroeconomic stabilization and fiscal reforms, trade liberalization, industrial deregulation and privatization have led *India* to the forefront in term of business sentiments among Asian countries covered by WES. Improved performance was seen across all sub-sectors: capital expenditure and private consumption as well as exports. Thus, the foundations for further growth in the coming six months are seen to be good, and growth is approaching the Chinese level. However, *China* retains its central position as the driving force of the economic growth in the region. The economic climate remained highly favourable, also in October. Apart from further growth of the export sector, private consumption is expected to strengthen further. Close to follow concerning the overall economic climate is *Thailand*, where the economy posted a solid economic growth of 5.2 percent in 2002. The current economic situation was assessed by WES experts to be at a highly satisfactory level and is expected to improve further in the beginning of 2004. Also WES experts from *Vietnam* and *Malaysia* reported that the present economic situation as well as economic expectations remained at a high level, with capital expenditures, private consumption and the export sector set to grow in the course of the next six months. Though the assessments of the current economic situation in *Hong Kong* and *South Korea* have not yet reached a satisfactory level, the present economic development and thus the overall economic climate changed for the better, confirming the optimistic expectations of the previous surveys (see Figure 9). A similar picture is seen in *Japan*, where the recovery process from the recession gained momentum in the second half of 2003. The economic expectations for the next six months point to further improvement of the overall economy in the country, in particular in capital investment, private consumption and exports. The present economic situation in *Indonesia* is now judged as satisfactory, but the outlook for the next six months is still cautious, indicating that economic recovery is rather sluggish. In *Pakistan* and *Taiwan*, WES experts were

satisfied with the present overall economic performance. The prospects for further development are moderately positive.

Among Asian countries polled by WES, only experts in *Mongolia* assessed the current economic performance to be weak with no prospects for betterment in the coming six months.

Oceania: Boom continues

In 2003 the panel's responses for *Australia* and *New Zealand* suggested a slow-down of economic performance, starting from a relatively high level. In the July survey the economic climate index slipped marginally, probably reflecting the negative impact of global economic weakness on demand, exports and the capital expenditure sector of these countries. However, in the October poll the assessments of the current economic situation are notably positive in both countries of this region.

The business outlook in *Australia* for the first half of 2004 is optimistic. In particular the export sector is expected to recover, though the Australian dollar will probably continue to appreciate against the US dollar.

In *New Zealand* the economic expectations are still cautious. The export volume here is seen as decreasing in the course of the next six months. In this context WES experts stated that *trade barriers to exports* and *lack of international competitiveness* are the most important economic problems in *New Zealand* at present.

Figure 6

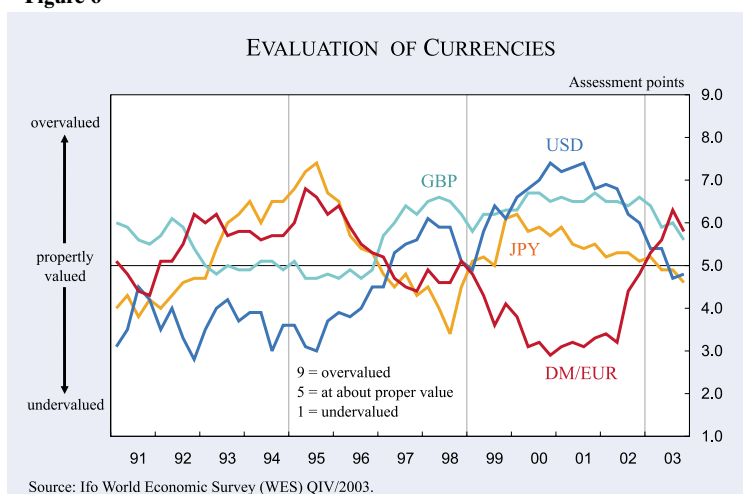


Figure 7a

EUROPEAN UNION

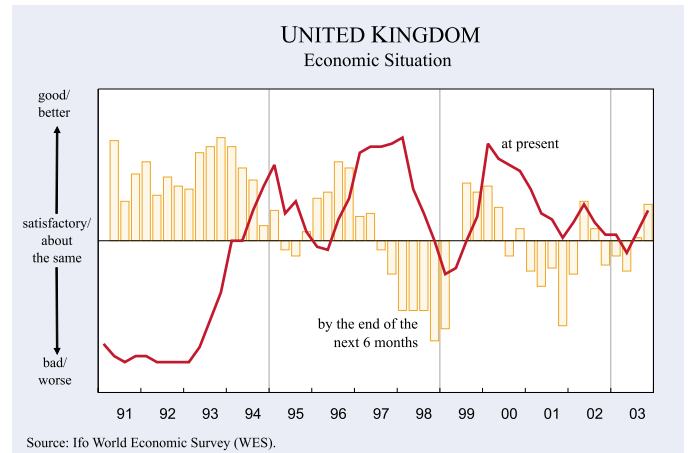
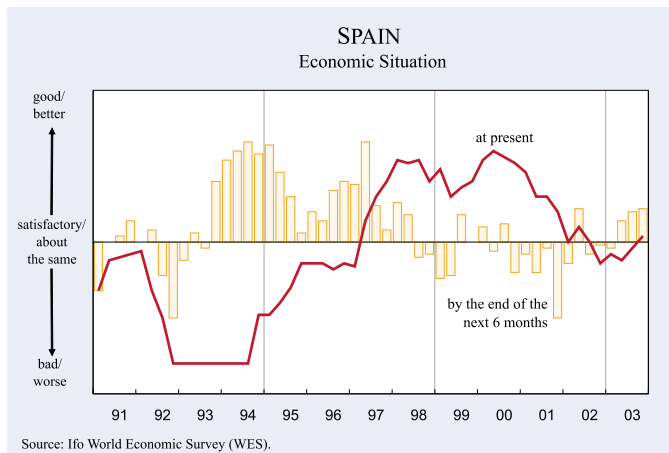
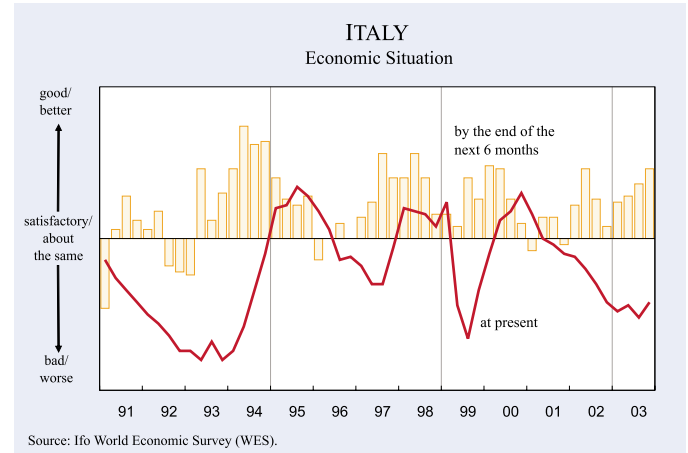
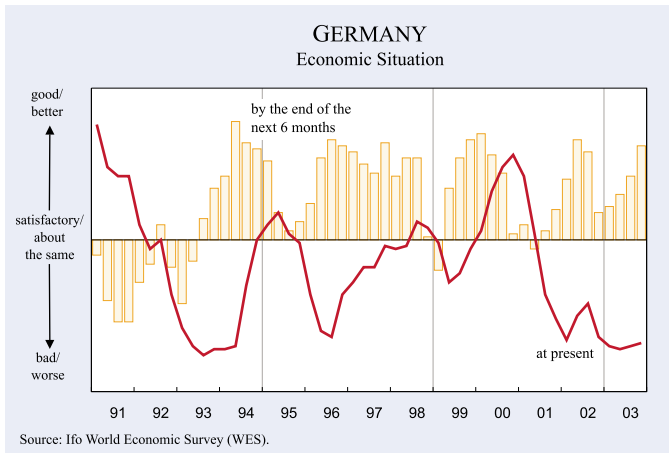
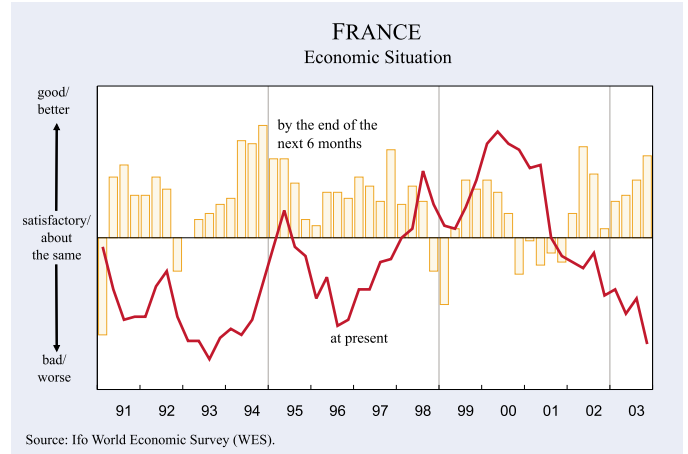
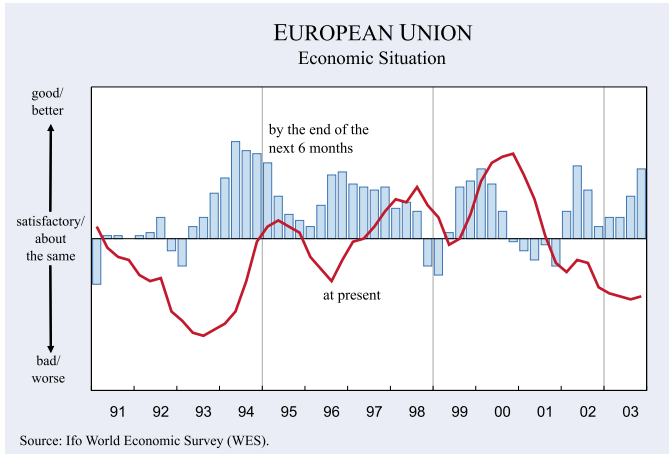


Figure 7b

EUROPEAN UNION

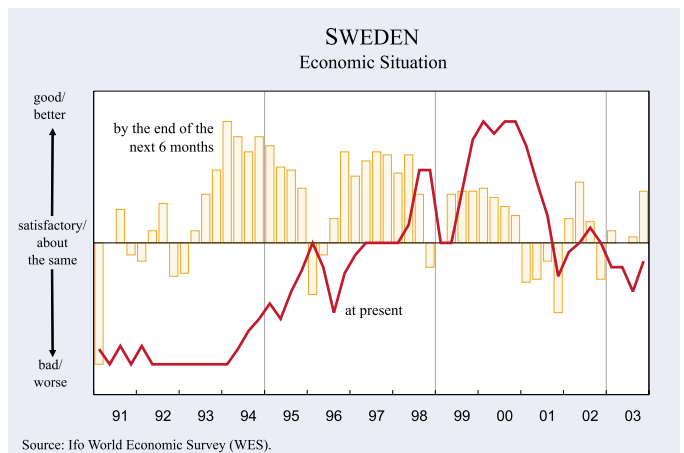
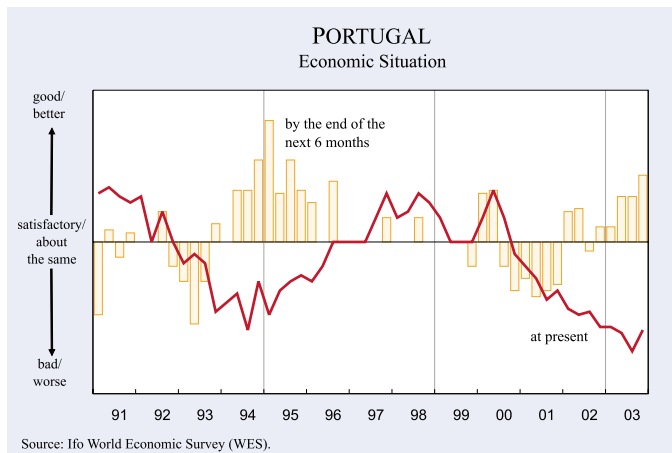
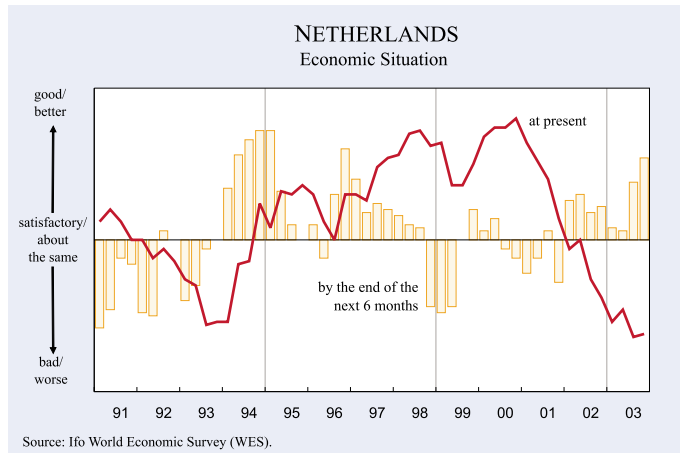
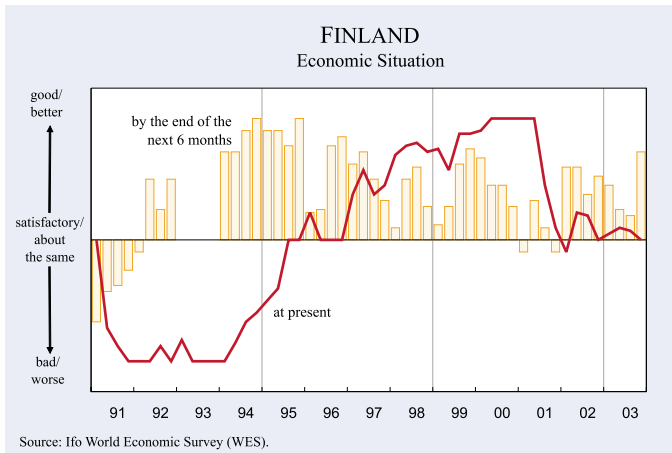
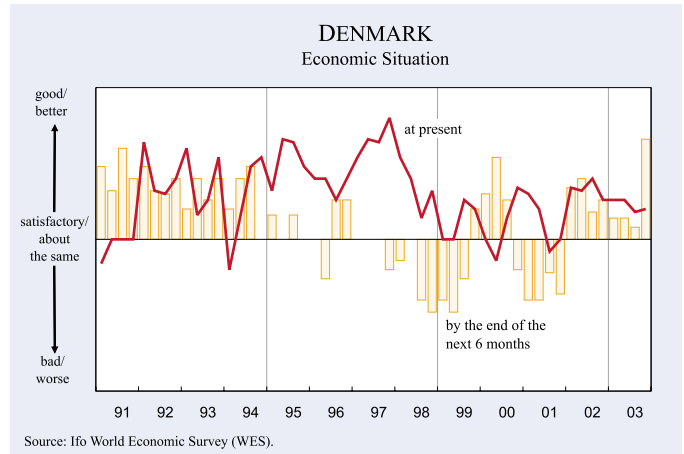
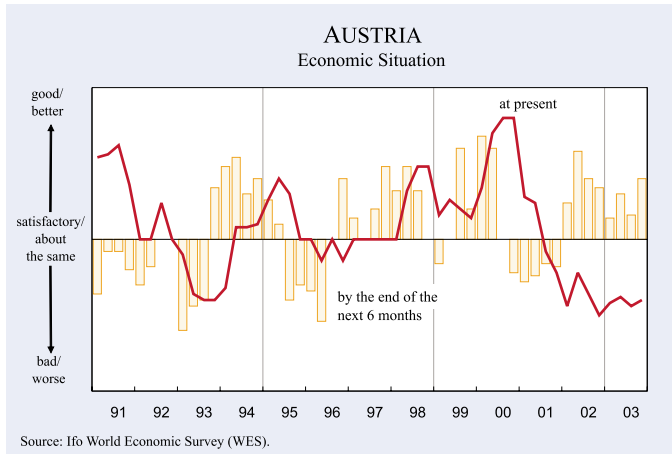


Figure 8

EASTERN EUROPE

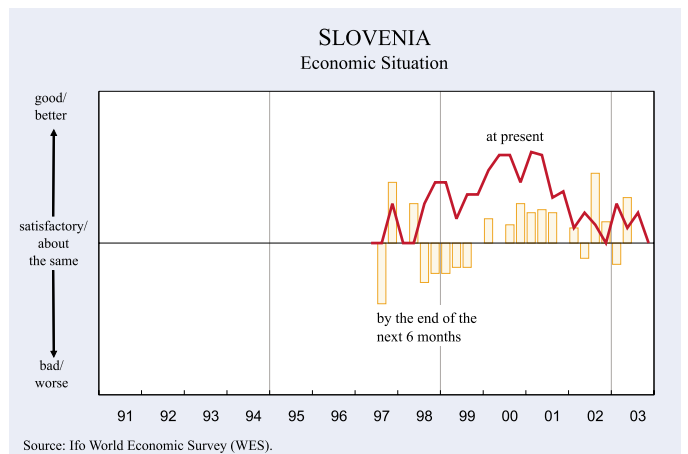
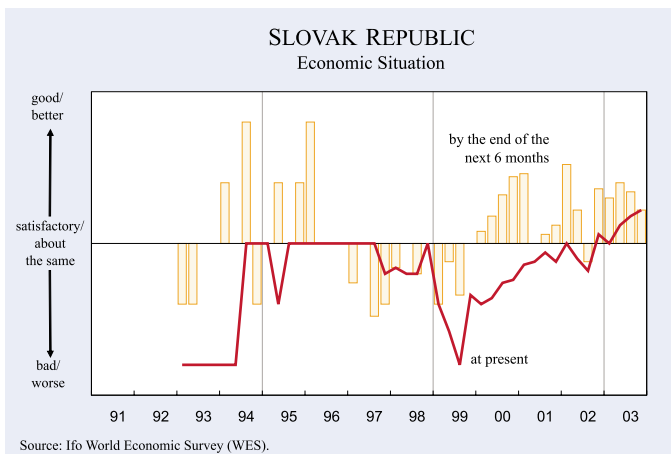
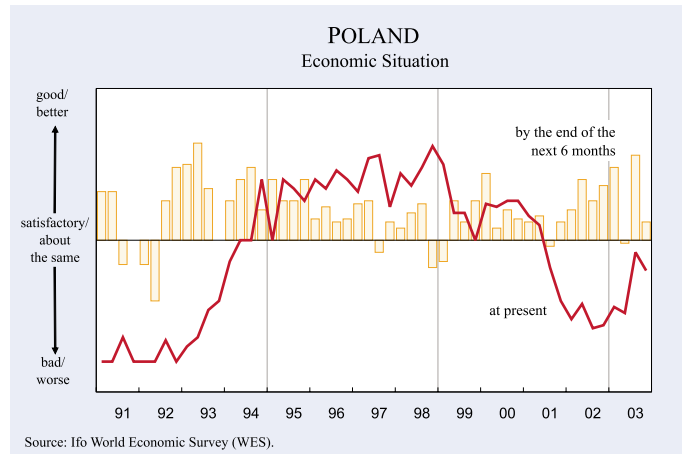
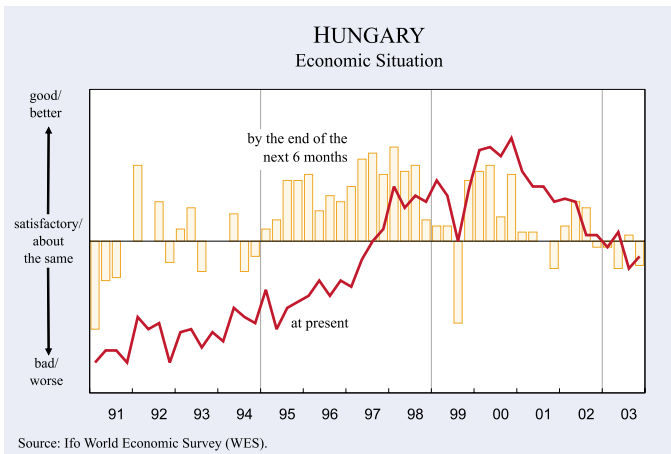
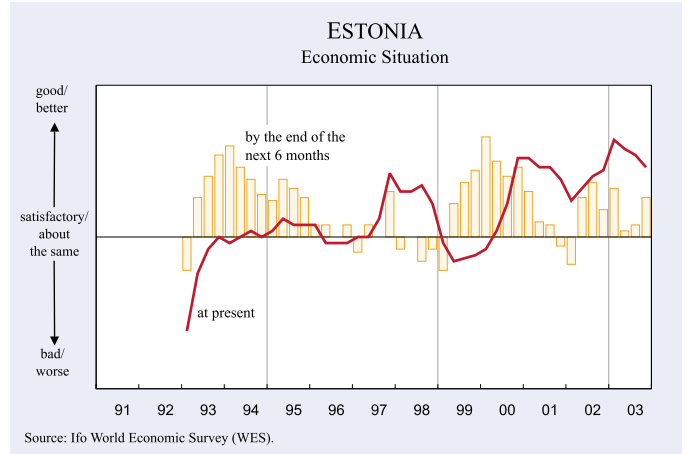
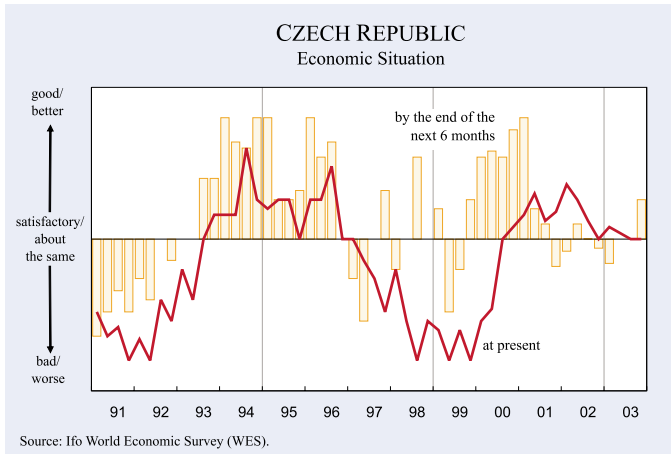


Figure 9

ASIA

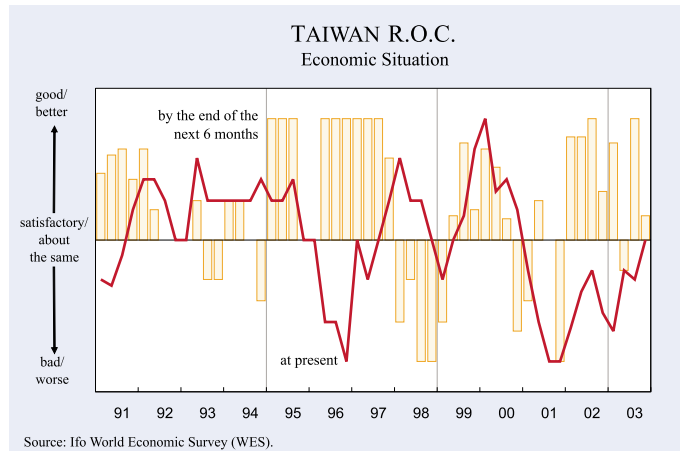
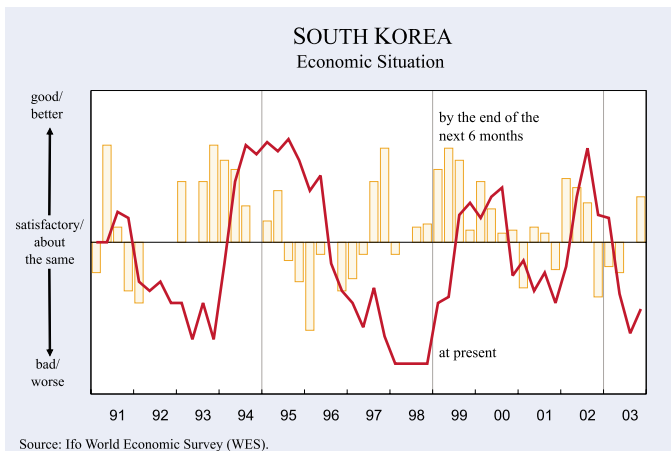
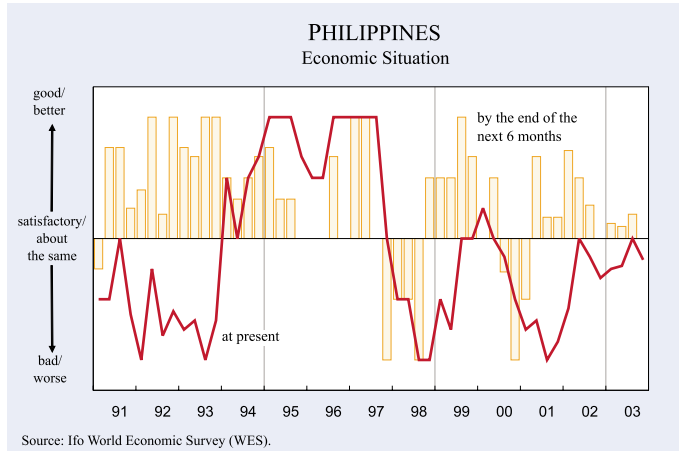
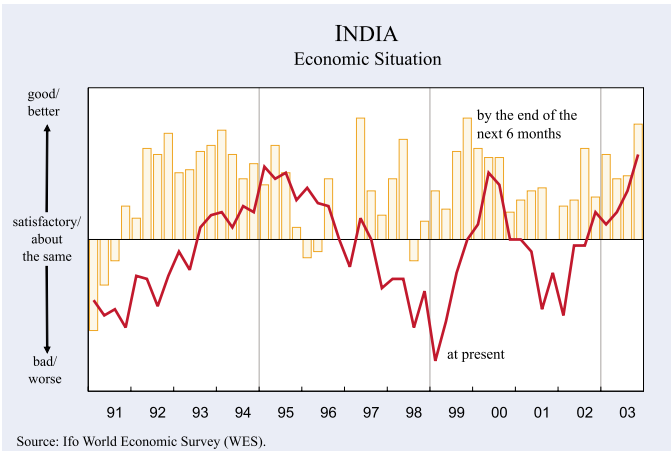
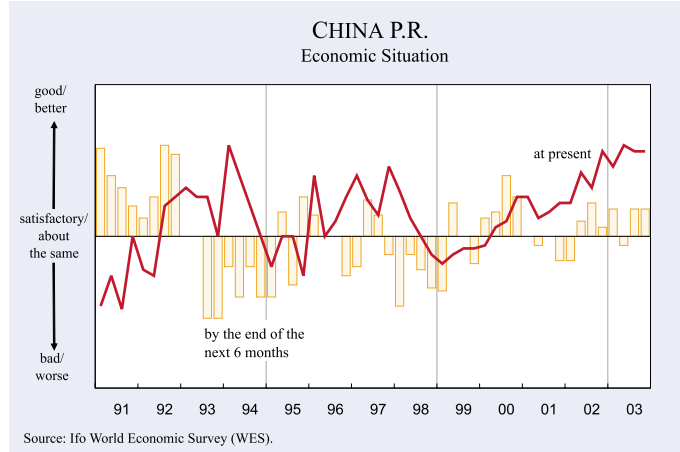
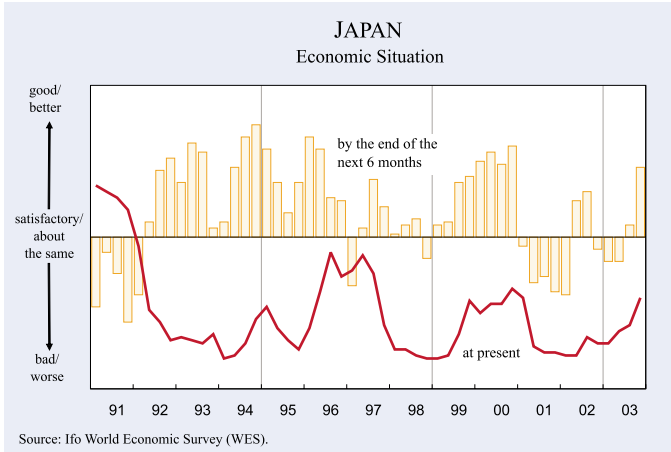


Figure 10

LATIN AMERICA

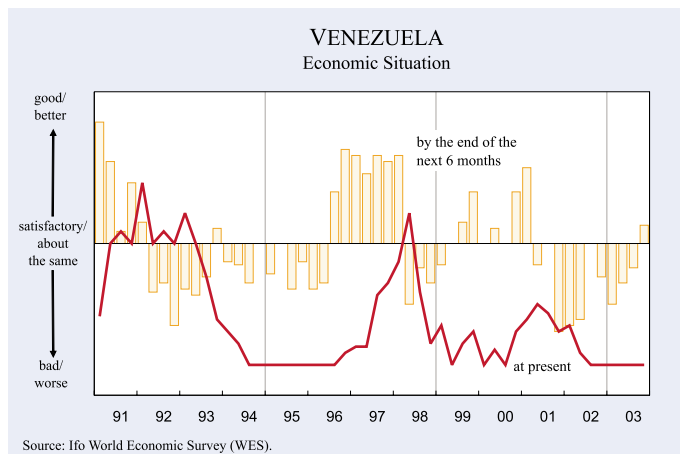
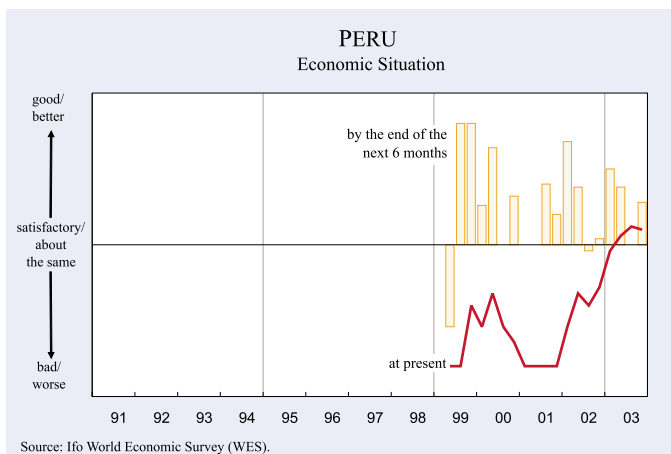
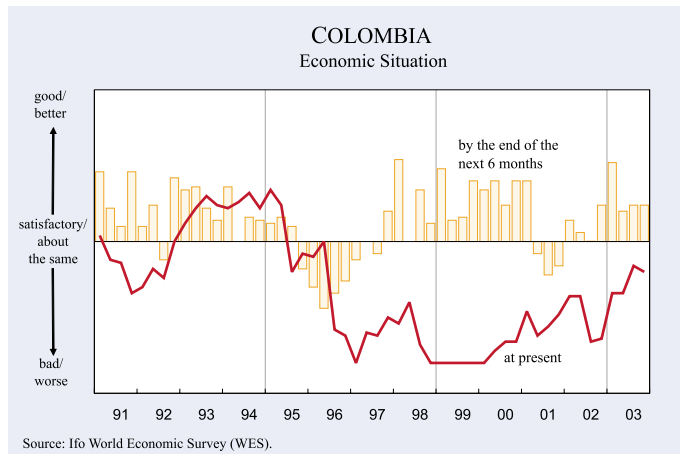
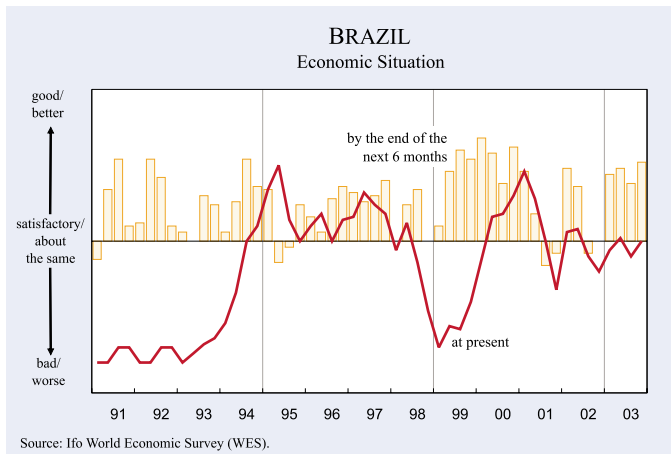
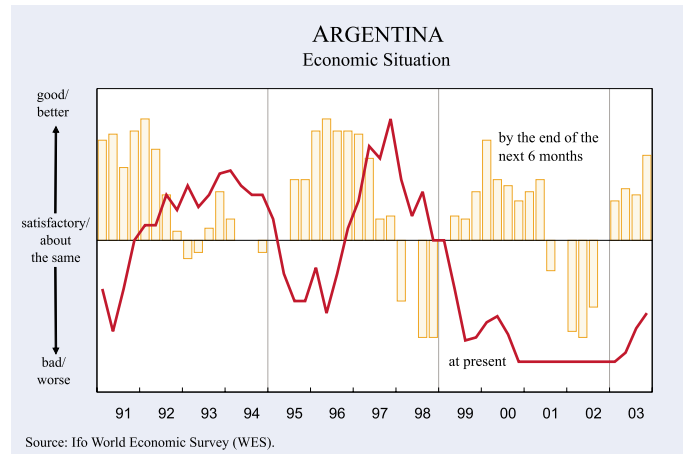
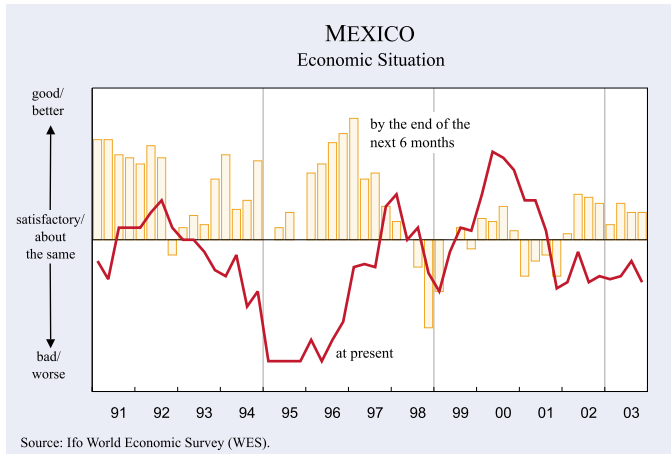


Figure 11

NEAR EAST AND AFRICA

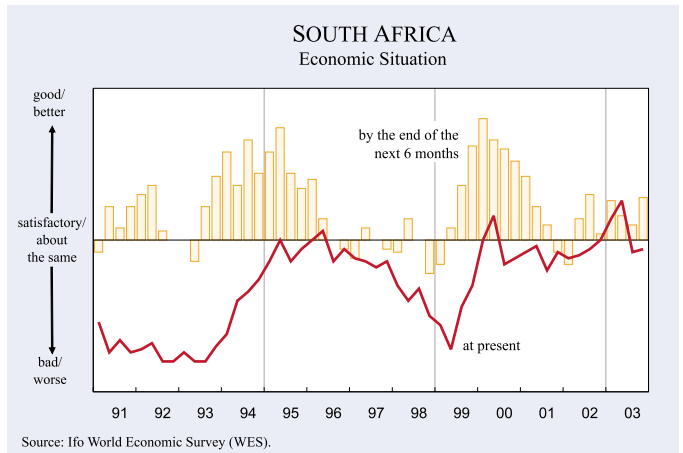
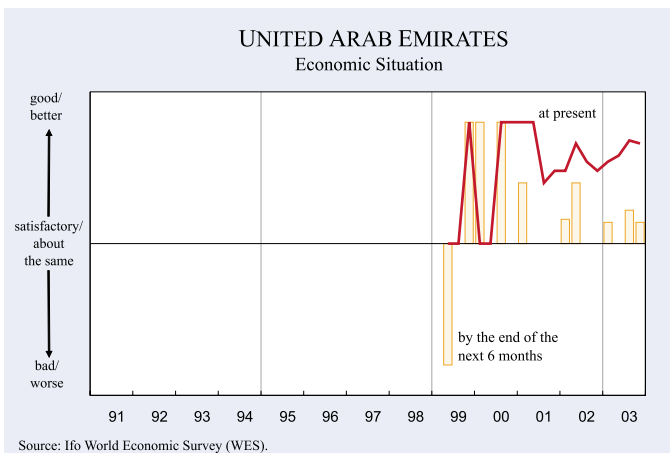
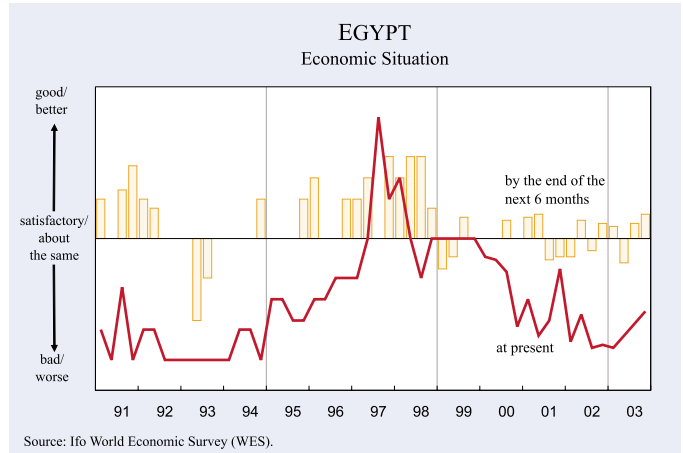
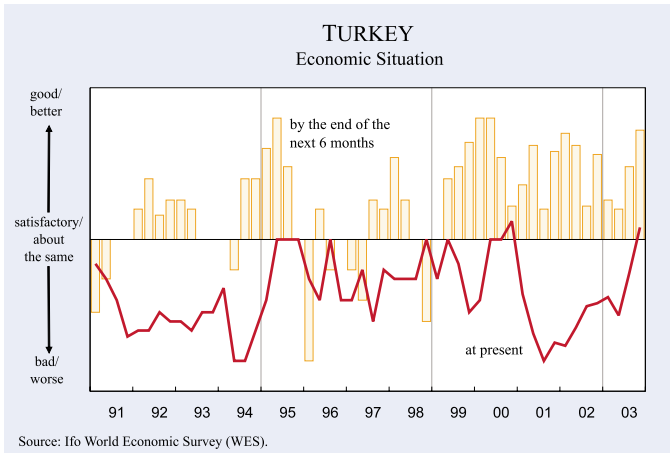
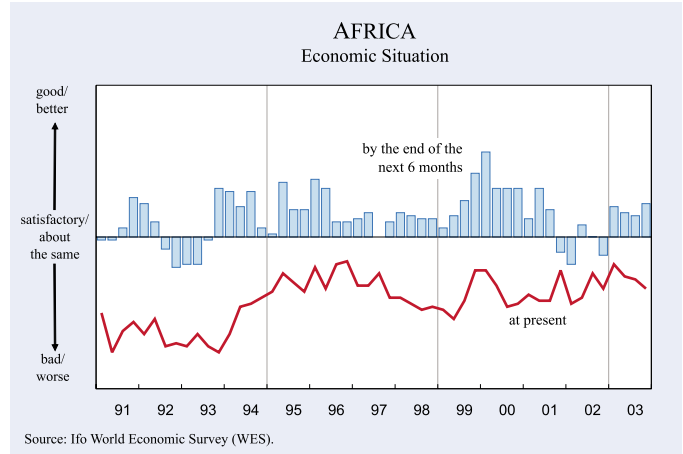
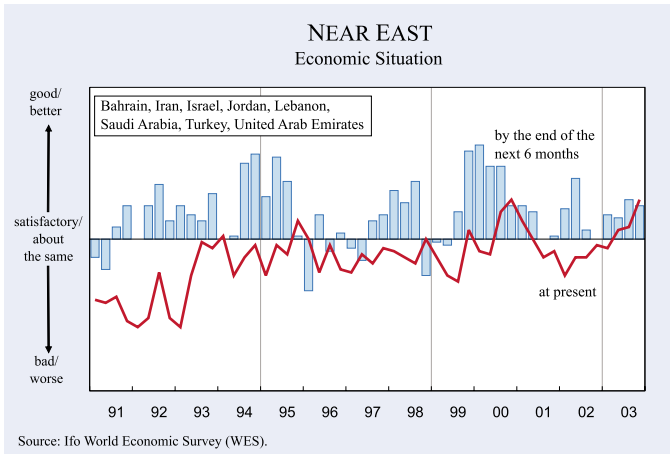


Table 2

**Expected Growth Rate of GDP in the next 3 to 5 years
(based on WES QIV/2003 and QIV/2002)**

Region	QIV/03	QIV/02	Region	QIV/03	QIV/02
Average of 91 countries	2.9	2.7	Asia	3.8	3.5
Western Europe	2.0	2.0	Bangladesh	5.5	3.8
Austria	1.5	2.0	China P.R.	6.8	6.8
Belgium	1.5	2.1	Hong Kong	3.3	2.5
Cyprus	3.8	3.8	India	5.9	5.3
Denmark	1.9	2.1	Indonesia	3.7	3.4
Finland	2.9	3.2	Japan	1.3	0.9
France	1.9	2.3	Korea	3.8	4.6
Germany	1.6	1.5	Malaysia	4.3	4.5
Greece	3.8	3.4	Mongolia	2.8	-
Iceland	4.3	1.5	Pakistan	4.0	3.8
Ireland	3.4	3.5	Philippines	3.4	3.8
Italy	1.6	1.9	Singapore	3.0	4.3
Luxembourg	1.5	1.5	Sri Lanka	4.6	3.0
Netherlands	1.5	1.9	Taiwan	2.9	2.4
Norway	2.6	2.8	Thailand	5.2	3.5
Portugal	1.2	1.7	Vietnam	6.7	6.2
Spain	3.1	2.9	Central a. Latin America	2.5	2.3
Sweden	2.3	2.0	Argentina	3.3	0.2
Switzerland	1.3	1.5	Bolivia	1.6	2.1
United Kingdom	2.6	2.1	Brazil	3.2	2.9
Central a. Eastern Europe	3.4	3.5	Chile	4.2	3.5
Albania	4.2	-	Colombia	2.9	2.0
Bosnia Herzegovina	3.8	3.8	Costa Rica	3.7	2.6
Bulgaria	3.7	3.5	Ecuador	3.0	3.5
Croatia	4.2	4.0	El Salvador	2.6	2.6
Czech Republic	2.9	3.0	Mexico	2.4	2.7
Estonia	4.3	5.6	Panama	1.5	2.1
Hungary	3.4	3.6	Paraguay	3.0	1.0
Latvia	5.9	4.7	Peru	3.5	3.0
Lithuania	5.3	4.3	Uruguay	3.8	0
Poland	2.8	3.4	Venezuela	-1.9	-0.8
Romania	3.5	3.9	Near East	4.1	3.1
Serbia a. Montenegro	2.5	3.4	Bahrain	3.8	3.8
Slovakia	3.9	3.8	Iran	6.8	3.7
Slovenia	3.8	3.4	Israel	1.5	1.9
CIS	4.9	3.8	Jordan	3.8	4.9
Georgia	3.8	-	Saudi Arabia	4.3	1.5
Kazakhstan	5.0	4.5	Turkey	4.5	4.2
Russia	4.8	4.0	United Arab Emirates	4.1	4.2
Ukraine	6.2	3.3	Africa	3.6	3.3
Uzbekistan	3.8	1.5	Algeria	4.9	3.8
North America	3.1	2.7	Egypt	3.1	3.5
Canada	2.8	3.3	Kenya	0.8	0.9
USA	3.1	2.5	Mauritius	3.8	3.8
Oceania	3.4	3.5	Morocco	1.9	3.8
Australia	3.6	3.5	Nigeria	3.8	4.3
New Zealand	2.9	3.3	South Africa	3.5	3.4
			Tanzania	7.0	-
			Tunisia	6.0	2.6
			Zimbabwe	-3.0	-4.5

Source: Ifo World Economic Survey (WES), QIV/2003.

Latin America: Disparity of economic trends

The assessments of the current economic situation of Latin American economies deteriorated slightly, on average. In contrast, the near-term expectations improved somewhat. Nevertheless, diverging economic trends were observed in the countries of the region polled by WES in October.

In *Brazil* the panel's responses in October reflect a continuation of economic stabilization. The prospects for the first half of 2004 are very positive. Forecasts for the private sector as well as capital expenditures and exports have risen further. During the first nine months of the administration of President Lula da Silva, the *Brazilian* economy has demonstrated a remarkable robustness. How-

ever, *unemployment* and *insufficient demand* remain the main problems the country is facing at present, whereas *inflation*, which was the second most important economic problem at the beginning of 2003, seems to have been brought under control by the government's stringent economic policy. Also for *Chile* and *Peru*, WES experts reported a moderate economic climate. Expectations point to further stabilization at the current "satisfactory" level, with higher forecasts for private consumption, capital expenditure and exports. To a lesser degree this holds true for the economic climate in *El Salvador*. In all these three countries, *unemployment* is listed as the major economic problem.

In *Argentina*, the recovery process continues, according to the recent survey results. The assessments of the current economic situation, though not having reached a satisfactory level, steadily improved during 2003. The prospects point to a continuation of this positive trend. A similar picture can be observed in *Colombia*. In *Costa Rica* WES experts generally expect the overall economy to stabilize at the current satisfactory level, though the expectations concerning the further development of private consumption and capital expenditures are cautious. Less favourable assessments concerning the present economic situation were given by WES experts in *Mexico*, *Paraguay*, *Panama* and *Uruguay*. However, the near term prospects are positive here too. In all these countries the private as well as corporate expenditures are expected to pick up strongly in the coming months. Also the export sector is forecast to strengthen, except in *Panama*, where WES experts expect a strong deterioration of export volumes in the coming months.

In the other countries of the region the overall economic situation is less encouraging. In *Ecuador*, the current economic situation was rated very poorly in October and is expected to worsen further in the course of the next months. *Venezuela* is recovering only sluggishly from the recent political crisis with a protracted general strike that has affected several industrial sectors. The assessments of the current economic situation are still rated very low, but for the first time in over two years the near-term expectations entered positive territory. The worst marks concerning the overall economic climate were given by WES experts in *Bolivia*. The political crisis was triggered by a controversy sur-

rounding the *Bolivian* petroleum industry, second largest in Latin America after *Venezuela's*. The violent conflict is expected to ease somewhat now that after *Bolivia's* new president, Carlos Mesa, has succeeded Gonzalo Sanchez de Lozada. However, since a *lack of confidence in government's economic policy* is ranked by the panel as the foremost economic problem the political and economic situation are far from stable at the present.

Near East: Economic climate improves further

The economic climate continues to be highly favourable, for countries covered by WES in the Near East region, on average. Both the assessments of the current economic situation as well as the near-term expectations are positive (see Figure 11).

The most noticeable change in business sentiments in October was recorded in *Turkey*. Economic activity strengthened considerably since the July poll, according to the panel's responses. The prospects for the next half year continue to be very bright. According to WES indicators, the economy has overcome the recession period and has been on a continuous recovery course for almost two years. Also in *Saudi Arabia* and in the *United Arab Emirates* the economic climate continues to be highly favourable. Similarly in *Iran* and *Bahrain*, WES participants reported that the prospects for the stabilization of economic conditions at the current satisfactory level will remain. Forecasts for capital expenditures, private consumption and exports are optimistic in both countries. A less favourable economic climate seems to prevail in *Jordan*, as the present economic situation is rated below satisfactory, though the expectations are positive. Not so in *Israel*, where experts see no reversal to the better in the short-run, except for the export sector. *Lack of confidence in government's economic policy* and *unemployment* were named as the biggest constraints to the country's economic development.

Africa: Economic outlook brightens

In almost all African countries covered by the survey the economic outlook for the coming months was brightened. The assessments of the current economic situation, however, remain mostly below the satisfactory level (see Figure 11).

In *South Africa* the economic climate became more favourable, as the current economic situation remains at the satisfactory level and the outlook for the next six months has become brighter. In particular the export sector is expected to strengthen, but also private spending is seen as increasing in the course of the next months. However, both *unemployment* and the *lack of skilled labor* rank as the most important economic problems in the country. Economic experts polled by WES additionally emphasized that AIDS is a great constraint to the economic development in the country and in Africa in general.

In *Egypt* the economic climate index continues to show signs of economic recovery. Though the current economic situation was still assessed far below the satisfactory level, the overall trend during 2003 points upward. Particularly positive expectations were expressed by WES experts concerning the development of the export sector. Among the most important economic problems priority was given to the *lack of confidence in government's economic policy, unemployment and inflation*. In *Morocco*, the current moderate economic climate is expected to continue in the coming months. A similarly good picture was drawn by WES experts in *Mauritius, Tanzania and Tunisia*. In contrast, in *Algeria and Nigeria* the current economic situation was rated as "poor", but in both countries experts are optimistic concerning the near-term prospects, in particular private consumption and corporate expenditures may provide more impetus to the economy. The economic climate in *Kenya* become rougher in October, as the assessments of the current economic situation remained unsatisfactory and the near-term expectations also turned negative. Catastrophic economic conditions still prevail in *Zimbabwe*. For more than six years WES experts have unanimously assessed the current economic situation to be at the lowest level. For the same time period, the economists surveyed by WES expect further deterioration. Lack of confidence in President's Mugabe government economic policy ranks as the foremost problem for the country; hyperinflation ranked second.

Inflation remains moderate

An average 2.9 percent increase in consumer prices is expected for the world economy in 2003, which is only insignificantly higher than in July

(2.8 percent) and much lower than the estimates at the beginning of the year and in Spring 2003 (in each case 3.2 percent). In the euro area inflation for 2003 is seen to be under the 2 percent mark (1.9 percent). The range of inflation estimates remains large, extending from 1.1 percent in Germany to 3.6 percent in Ireland. In Western Europe the lowest inflation rate will be in Switzerland at 0.7 percent, according to the WES experts.

In the United States a slightly higher inflation rate is expected than in the July survey (2.2 percent after 2.0 percent). Contributing factors are in particular the reviving economic activity in the US as well as the weakening of the dollar vis-à-vis important currencies such as the Japanese yen and the euro, which will lead to higher import prices. On the whole, however, the expected inflation rate in the US is clearly under the 2.5 percent mark that the Federal Reserve would still consider acceptable. Of all the surveyed country blocs, Asia displays the highest price stability. In comparison with the July survey an insignificantly higher inflation rate is expected now (1.3 percent instead of 1.1 percent). This slight increase of the Asian average in the October survey is largely because inflation in China is expected to stand at 1.6 percent instead of only at 1.0 percent in July. In Japan and Hong Kong a deflationary price trend continues but is weakening, particularly in Japan.

The inflation outlook for Central and Eastern Europe remained virtually unchanged (4.2 percent after 4.3 percent in July). The strongest price increases by far will be in Romania (13.8 percent), Serbia-Montenegro (9 percent) and Slovakia (8.7 percent).

In Central and Latin America the inflation trend continues to decrease, with an average of 7.8 percent now expected for 2003, after 9.0 percent in the July survey. The highest inflation rate persists in Venezuela, but the curve is flattening here too (31.9 percent after an expected 45.8 percent in July). In Africa – starting from a still high inflation level – a weakening in the rate of price increases is recognisable (16.9 percent after 17.4 percent in the July survey). However, the average for Africa is distorted by the persisting hyperinflation in Zimbabwe (300 percent); without Zimbabwe the average inflation rate for Africa would be ca. 7 percent. In South Africa, the inflation estimate for

2003 has declined from 7.3 percent in July to 6.3 percent.

Expected turnaround in interest rates

The present cycle of interest rate cuts has come to an end, according to the WES survey participants. In the course of the next six months, increasing **short-term interest rates** are expected for the first time since the July 2002 survey. Central-bank interest-rate hikes are seen as more likely in the US than in the euro area, where the majority of the experts anticipate that the European Central Bank will leave interest rates unchanged or only slightly increase them. In the United Kingdom and in Australia the interest-rate hikes expected by the WES participants have already occurred recently. In Western Europe outside the euro area, increasing interest rates are expected in Denmark and Switzerland. In Sweden the WES participants assume that interest rates will fall slightly and in Norway the central bank is expected to leave interest rates unchanged. In Eastern Europe most survey participants indicated that interest rates will continue to fall. Only in the Czech Republic, Estonia, Bulgaria and Croatia are slight interest-rate hikes expected in the coming months.

Also in the other WES regions, the short-term interest-rate trend is pointed downward, in the opinion of the WES experts, but not as strongly as in the July survey. In Latin America stable central-bank interest rates are expected, on average. This includes both the expectation of central-bank interest-rate cuts in Brazil and Uruguay as well as rising central-bank rates especially in Colombia and Venezuela. In Asia the WES experts see little need for rate changes by the central banks. Deviating from this general trend, interest rates are expected to increase in India and also in Indonesia and Thailand while in China for the first time since mid-1996 it is assumed that the central bank will raise interest rates slightly. In the Near East and also in Africa as a whole, especially in South Africa, the interest-rate trend continues to point downward (see Figure 5).

Parallel to the expected increase of short-term interest rates, an increasing trend is also reckoned with quite clearly for **capital market interest rates**. The only exceptions are Eastern Europe, Africa and the CIS countries including Russia, where a

further drop in long-term rates is expected. In Latin America slightly declining capital market rates are seen and slightly increasing capital market rates in Asia.

Euro still seen as overvalued

As already in the July survey the euro was assessed as overvalued, along with the British pound, on average for all 91 included countries. The US dollar and the yen were seen by the WES experts as undervalued. This overall assessment also holds for Western and Eastern Europe. In the United States as well, the exchange rates of the euro and the British pound are seen as overvalued and that of the yen as slightly undervalued. In Australia and also in Russia the experts' own currencies are regarded as overvalued vis-à-vis not only the dollar but also the euro, the British pound and the yen. The WES experts in South Africa see the rand still as undervalued, in general. In the Asian countries, on average, the exchange rate of the dollar is seen as appropriate, that of the euro as slightly overvalued and that of the yen as too low (Figure 6).

The responses to the supplementary survey question on the development of the US dollar exchange rate indicates no appreciable change in currency parities in the course of the next six months. This conclusion also holds for Western Europe. In Canada and Australia a further weakening of the US dollar is expected. In Eastern Europe as well as in Russia and the Near East, the WES experts see their own currencies weakening vis-à-vis the dollar over the next six months. The same applies to Latin America and Africa, where a lower valuation of the own currencies to the dollar is expected. In Asia the WES experts see a weakening dollar predominate, also in China, Japan, Taiwan and Thailand.

Medium-term growth outlook a little more positive

At the same time last year an average annual growth of GDP of 2.7 percent was expected for the next three to five years, but now this number has increased slightly to 2.9 percent. While the WES experts in Western Europe only expect a 2 percent expansion, the growth expectations in the CIS area have increased markedly (from 3.8 percent to

4.9 percent). Also in the United States the growth estimates increased perceptibly from 2.5 percent to 3.1 percent. In Asia the growth outlook is seen as generally more favourable than in Western Europe and also in the US: In Asia the expected average growth rate increased to 3.8 percent after 3.5 percent in October 2002. In Eastern Europe the expected growth rate remained at approximately 3.5 percent. In Latin America the growth chances have been estimated only slightly more positively than a year ago (2.5 percent after 2.3 percent), but in Argentina a clear acceleration is of 0.2 percent to 3.3 percent is foreseen. The expected growth rates in the Near East (4.1 percent after 3.1 percent) and in Africa (3.6 percent after 3.1 percent) continue to be relatively high (Table 2).

Special Question: Impact of spam on business

Spam is flooding the Internet with many copies of the spam messages. Most spam is commercial advertising, often for dubious products, get-rich-quick schemes, or quasi-legal services. In large numbers Internet users report that they trust e-mail less because of the growing volume of unsolicited messages. Increasing numbers fear that they or their recipients do not receive important e-mails because spam² filters might screen them out or e-mails just get lost in the overcrowded inboxes. Two biggest Internet Service Providers, AOL and MSN, both report they block about 70 spam e-mails per inbox per day. However, the figures for spam volume are difficult to determine. According to some estimates³, there are 15 billion spam messages sent out daily (with special software, spammers can generate millions of e-mails using combinations of letters and numbers, placed in front of, for example, the

² Spam is unsolicited commercial e-mail from a sender unknown to the recipient. Spam (Spiced Pork and Ham) is actually a tinned meat product of Hormel Foods. Use of the term "spam" was adopted as a result of a Monty Python skit. In this skit, a group in the background simply repeatedly offered: "spam, spam ...", drowning out other conversation. Hence, the analogy applied because unsolicited commercial e-mails are drowning out normal discourse on the Internet.

³ Fallows, D. (2003): "Spam. How it is hurting e-mail and degrading life on the Internet", Pew Internet & American Life Project, Washington DC.

@ifo.de portion of the address, until so many messages are generated that some match real e-mail accounts). Thus, Internet users see only "the tip of the iceberg", as most spam messages are diverted and never reach the inboxes of users.

The special question asked in the October poll focused on the impact of spam on business. The question was divided into three parts: The first asked whether *spam affects prospects for legitimate online marketing*. The second part dealt with the question of whether *legitimate marketing is likely to be constrained, as governments seek to legislate against harmful spam*. The third part assessed to what extent *spam is hampering business activities in general*.

1. How severely is spam affecting prospects for legitimate online marketing over the Internet?

Anti-spam activists argue that unsolicited commercial e-mail sent in bulk is spam, even if it comes from "legitimate" businesses. Industry fears that spam affects prospects for legitimate marketing on the Internet, as advertising messages might be filtered out or tend to be overseen among other unsolicited contents. Thus, the opinions on how to combat the problem and even on how spam should be defined are divided, because the same messages might be disturbing to some but not to others. On average of over 1,000 economic experts surveyed in over 90 countries only 5 percent said that spam does not affect prospects of legitimate marketing, 44 percent see legitimate marketing opportunities slightly affected, 40 percent severely and 11 percent very severely (see Figure 12). The figures vary

Figure 12

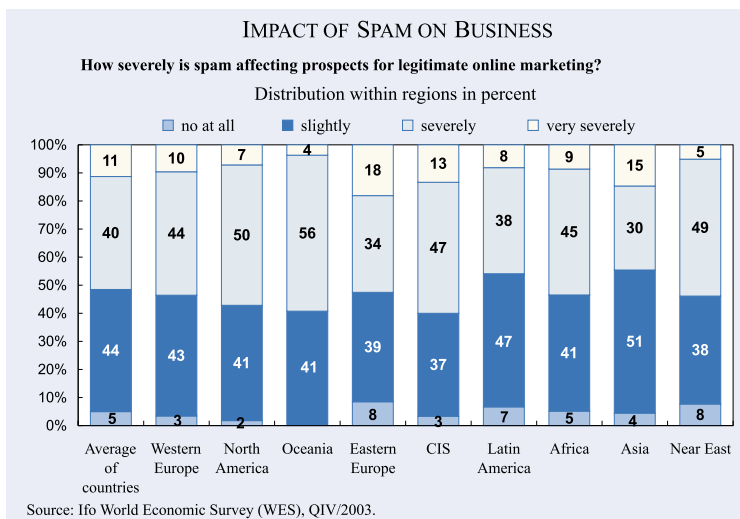
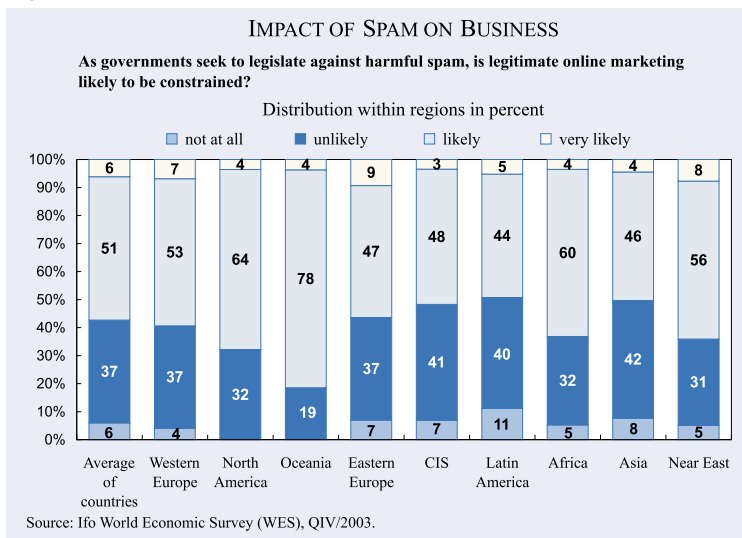


Figure 13



only marginally between the continents, but the share of those experts concerned about the detrimental effect of spam on online marketing is higher in North America (57 percent), Oceania (60 percent) and CIS (60 percent) countries greater than in the other regions. In Asia, fewer experts (45 percent) see legitimate online advertising severely threatened by the spam problem.

2. As governments seek to legislate against harmful spam, is legitimate online marketing likely to be constrained?

As spam is taking advantage of the cooperative nature of the Net, concerns among officials are growing. While the costs for the spam sender are minimal, the recipient pays money, in the form of disk space charges, connect time to transmit and receive junk e-mail and newsgroup postings and, last but not least, loss of time.

This surge has spurred calls for national legislation. There are two main systems of such legislation – “opt-in” and “opt-out” system. In an “opt-out” system, consumers’ approval to receive solicitations via e-mail is assumed unless they request otherwise. The “opt-out” option prevails most at present and makes legal action against spam difficult. In the “opt-in”-option companies would have to wait for consumers to request commercial e-mail before it could be sent. This was

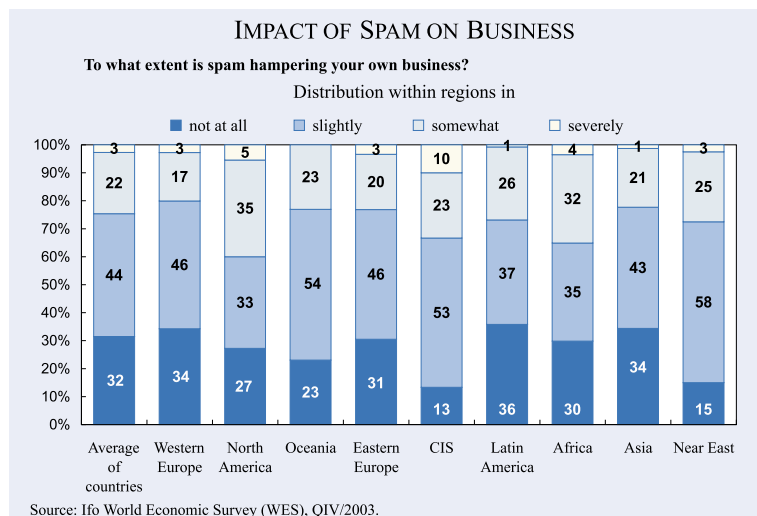
the system adopted by the European Union in 2002 that is meant to prevent spam, by legislating against it and by distinguish from legitimate marketing. However, the share of experts polled by WES who see legitimate online marketing likely or very likely to be constrained by legislation against spam amounts to over 50 percent, on the world average (see Figure 13). This opinion is particularly pronounced in Australia and New Zealand, where 22 of 27 economic experts surveyed in the region said that legislation against spam is like-

ly or very likely to constraint marketing via the Internet. In the other regions this share varies between 49 percent (in Latin America) and 64 percent (in North America, the Near East and Africa).

3. To what extent is spam hampering your own business?

The annoyance caused by spam is usually greater in personal e-mail accounts than in work e-mail accounts, as Internet service providers (AOL, Yahoo etc.) are most often attacked by spammers and companies use filters and other controls to protect their systems on a bigger scale. Nevertheless, the majority of WES participants worldwide see their own business somewhat (22 percent) or slightly (44 percent) hampered by unsolicited e-mail messages (see Figure 14). The

Figure 14



share of experts whose business is slightly or somewhat disturbed by spam is particularly pronounced in CIS countries (10 percent are severely affected, 23 percent somewhat and 53 percent slightly), in Oceania (23 percent somewhat and 54 percent slightly) and the Near East (3 percent are severely affected, 25 percent somewhat and 58 percent slightly). However, 32 percent on the world average see no negative impact from spam on their business at all. This means that those participants either do not receive spam or are not bothered by unsolicited e-mails.

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