

ECONOMIC SURVEY INTERNATIONAL

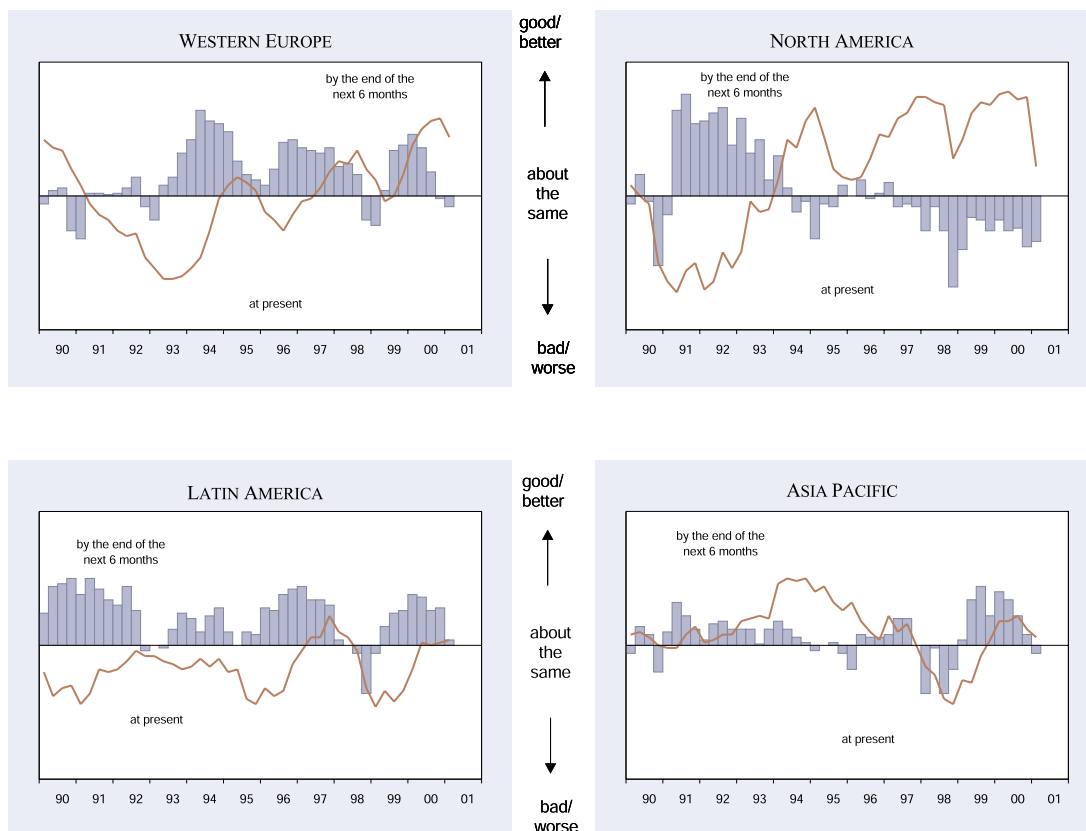
In its latest, the 71st Economic Survey International (ESI), the ifo Institute polled 717 economic experts in 78 countries in January 2001.

The world **economic climate** continued to cool off (from 107.4 in October 2000 to 94.0 in January 2001. It had peaked in April 2000, at 117.2 (1995=100). The fact that assessments of the current situation were more pessimistic than the business outlook for the next six months indicates that the slowdown of the world economy may be rather temporary. The steepest drop in the current assessment was displayed by North America, where expectations have already been rather poor for some time. In Western Europe the upswing is losing momentum. Both the assessments of the current situation and the business outlook have deteriorated. This despite the fact that in Germany and France, in particular, private consumption is expected to be boosted by cuts in

income taxes. This may be offset, however, by weaker consumption growth in Portugal, Spain, Switzerland and Sweden. In Asia, assessments of the current situation slipped further below the “satisfactory” level. This negative trend is expected to continue during the coming six months. The economic climate was relatively positive in Singapore, Hong Kong and China and most negative in the Philippines. In Latin America the current economic situation was assessed as slightly better than in the previous survey when this indicator hit the “satisfactory” level for the first time in more than two years. Expectations for the next half year, though lower, are still slightly positive.

There is a growing belief that **short-term interest rates** and long-term bond yields will decline during coming months. This trend is most pronounced in the United States where despite several cuts in key

Present and Expected Economic Situation



Source: ESI 71, 1/2001.

interest rates, the level of rates remains relatively high. A steep downward trend in interest rate expectations is also visible in the United Kingdom. Expectations of rate cuts in the euro area have been disappointed so far. In most of Latin America and in Eastern Europe, short-term interest rates seem to have peaked and are expected to decline in the next six months.

Inflation is expected to decline world-wide from the 3.6% average rate in 2000 to 3.3% in 2001. In the euro area, the expected inflation rate is moderately lower than in 2000 (2.4% vs. 2.5%), whereas it is expected to stay at 2.7% in the United States. In Eastern Europe expected inflation is around 8% in 2001 compared with 12% in 2000. In Latin America consumer prices are expected to rise by 7% which compares to 9% in 2000.

Despite some correction in **foreign exchange markets**, the euro is still seen to be undervalued against practically all currencies. Overvalued are the dollar, the pound sterling and the Japanese yen in the view of most experts. A downward correction of the dollar exchange rate is expected during the next six months, especially against the euro and the Canadian, Australian and New Zealand currencies. In Asia the dollar is likely to remain unchanged vis-à-vis most currencies. In Latin America, Eastern Europe and Africa the dollar is expected to appreciate in the course of the next six months.