

WORLD ECONOMIC SURVEY

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide on current economic developments in their respective countries. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris and receives financial support from the European Commission. In April 2003 some 1,040 economic experts in 88 countries were polled.

World Economic Climate remains too cool

In April 2003 the world economic climate deteriorated slightly (see Figure 1). At 83.2 (1995=100) it was even lower than in the previous survey (85.9) and significantly below its long-term average (1982–2002: 94.1). Both the assessment of the current economic situation and the expectations for the next six months worsened compared to the January survey, indicating that uncertainty concerning the future course of the world economy persists.

However, the interpretation of the recent results must take into consideration that the April survey spans the outbreak of the US invasion in Iraq and the rapid collapse of the Iraqi regime. More than half of our panel's responses came in before April 15, that is during the main military operations or shortly thereafter when geopolitical uncertainty was still high. In this first group, the world economic climate was significantly lower than in the January survey (80.5 compared to 85.9). In the second group of responses, which were submitted after April 15, the overall climate indicator stood at 86.8, resulting in the above total average of 83.2. However, to provide an overview of the entire month of April, the following analysis is based on responses of the entire panel.

The economic climate in the second half of the year will greatly depend on the progress

of conflict resolution in the Near East and whether the spread of SARS can be stopped.

United States: Economic climate improves slightly

In the *United States*, panel members assessed the current economic situation as weak but remained optimistic on the outlook, in particular regarding capital expenditures and private consumption (see Figure 2).

Western Europe: Economic climate roughly unchanged

Economic performance in April weakened a bit compared to the January survey. Economic expectations remained positive, pointing to a moderate improvement (see Figure 3).

The most recent data suggest that present economic performance in the majority of countries in the euro area remains weak, with *Ireland* and *Finland* being positive exceptions. *Germany* continued to demonstrate weakness. Given Germany's close trade ties to its neighbors, *The Netherlands* and *Italy*, followed by *Austria* and *Belgium* also show low levels of economic activity at the moment. The near-term prospects remained generally stable in

Figure 1

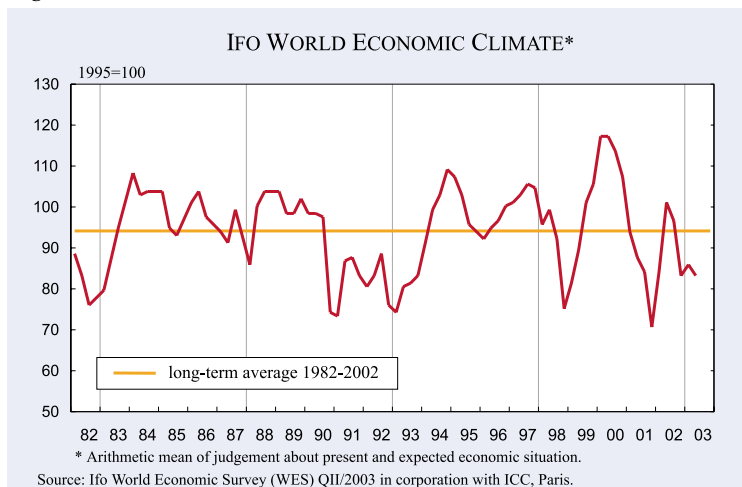
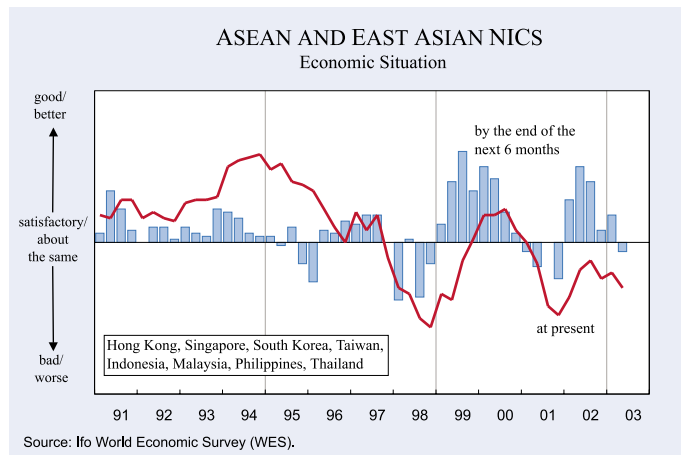
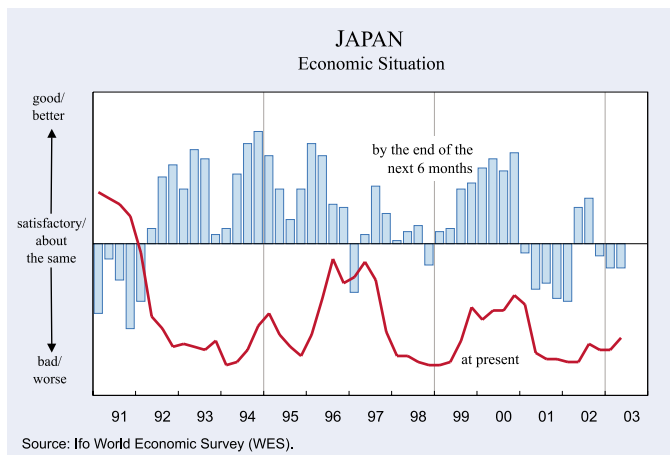
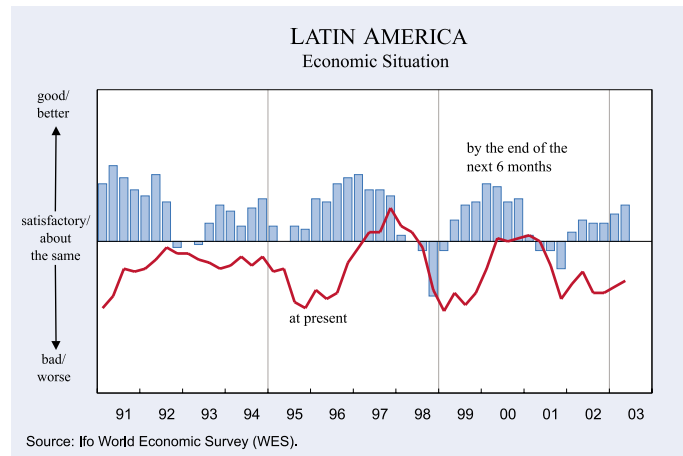
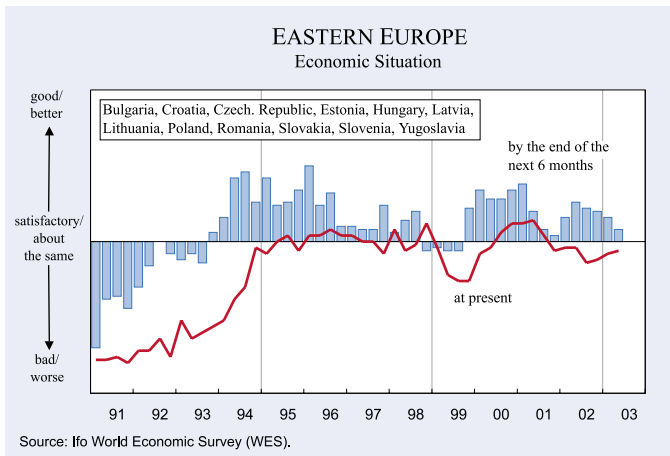
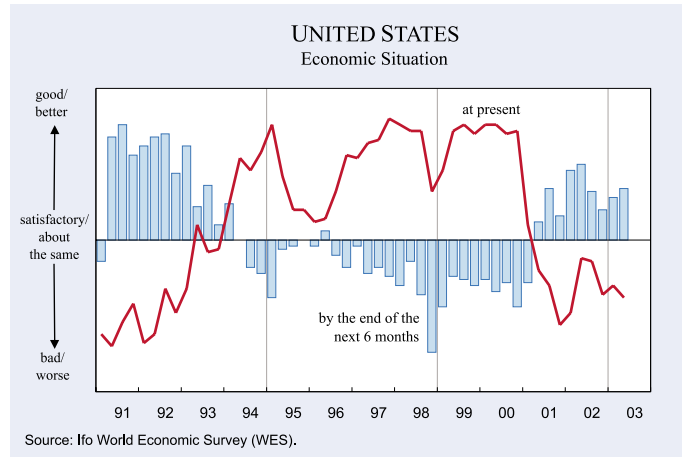
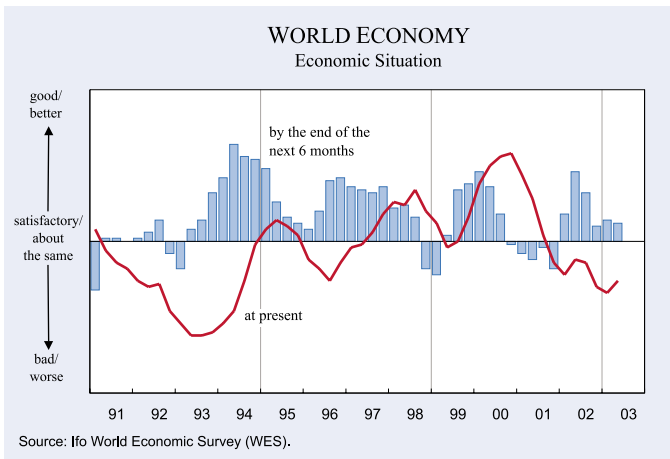


Figure 2



almost all of these countries, pointing to an improvement in the second half of 2003. In *Portugal* and *France*, WES experts reported a deterioration of the present economic situation, but expect a reversal of the negative trend in the course of the next six months. Among other countries of the euro area, *Finland's* and *Ireland's* present economic performance was assessed as satisfactory. The short-term expectations remained optimistic in *Finland*, whereas they became cautious in *Ireland*. According to the panel members, the economy of *Spain* will continue to perform satisfactorily. The assessments of the *Greek* economy are close to satisfactory, but the prospects for the coming months are below the euro area's average.

Among the non-euro countries, *Denmark* appears to be faring significantly better economically than all the other European countries, with a bright outlook for the next six months. In the *United Kingdom* the current economic situation deteriorated slightly, though remaining close to the satisfactory level. The outlook for the second half of 2003 dimmed somewhat, which might be attributable to the continued deterioration of the business and consumer sectors. In *Norway* the assessment of the current economic situation dipped from "good" in January to below "satisfactory" in April accompanied by lower forecasts for private consumption and investment. The lowest assessments of the present economic situation among this group of countries was reported for *Switzerland*, although the situation should improve in the coming six months, as investment, private consumption and exports are expected to pick up.

Eastern Europe: Economic climate remains satisfactory

The economic climate in Eastern Europe has not changed much since the beginning of 2002, with the assessment of the present economic situation remaining satisfactory and the expectations for the next six months remaining moderately positive (see Figure 2).

The most positive assessments concerning the present economic situation were reported for the Baltic States (especially *Estonia* and *Lithuania*, and to a lesser degree *Latvia*). The outlook for the

second half of 2002 suggests stabilisation of these economies at the current "good" level.

In *Slovenia*, *Slovakia*, *Romania* and *Yugoslavia* the present economic situation was also assessed as "satisfactory" with prospects for future developments becoming highly positive. To a lesser degree this holds also true for *Bulgaria*, where the overall economic climate improved slightly. In contrast, the economic outlook for the *Czech* economy appears to be clouded; growth of capital expenditures, private consumption and exports is expected to slow down in the course of the next six months. However, the present economic performance is still judged to be above the "satisfactory" level. Not so in *Poland*, where current economic performance remained significantly below "satisfactory"; the short-term forecast is also cautious.

Latin America: Economic climate just temperate

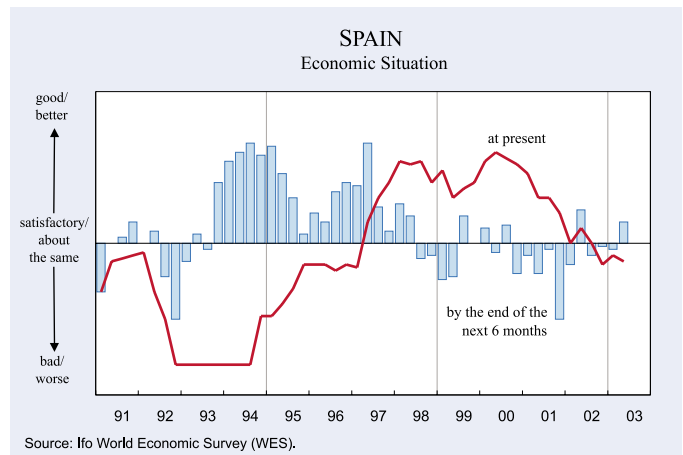
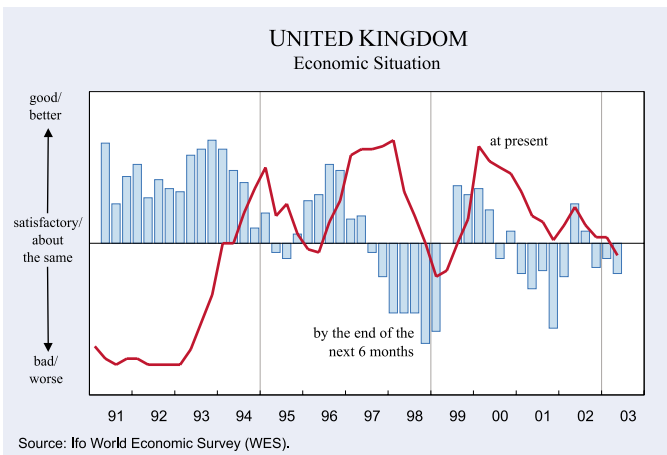
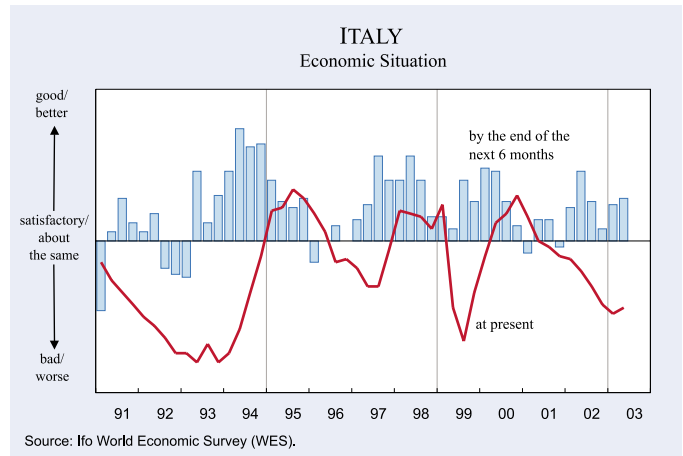
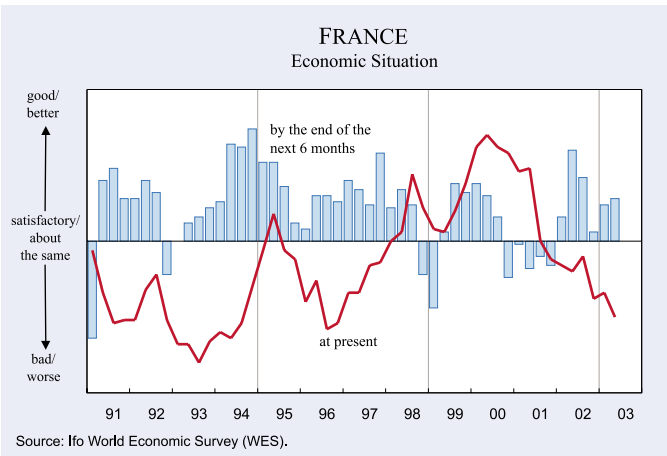
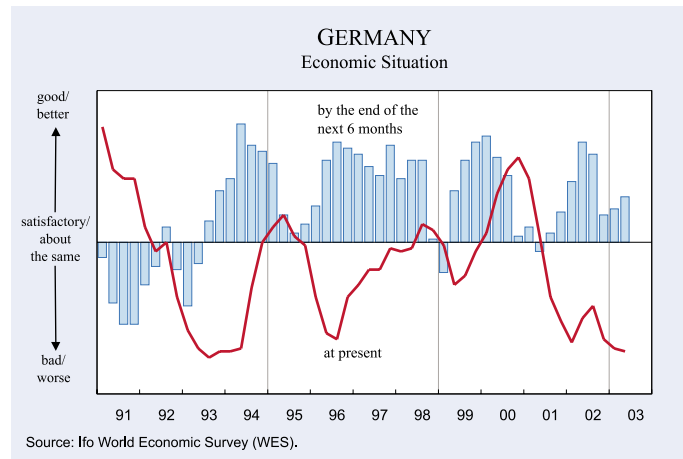
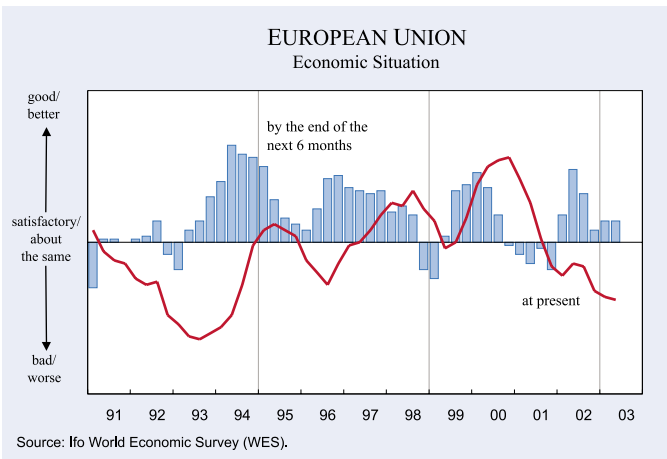
According to the recent survey, both the assessment of the current economic situation and the expectations for economic developments during the next six months improved slightly in Latin America compared to the January poll. However, the vast majority of WES experts polled in this region judged the present economic situation of their respective countries to be below the "satisfactory" level (see Figure 2).

Positive assessments concerning present economic performance came from *Peru*, *Chile* and *Brazil*. The panel's forecast for the coming six months is also very optimistic. Growth of domestic demand in all three countries is expected to become more dynamic. Fixed investment and exports are also expected to strengthen in the second half of the year.

In *Colombia*, *Mexico*, *Panama*, *Paraguay* and *Uruguay*, the assessment of the current economic fell below "satisfactory". But stronger economic growth is forecast for the coming months. Similarly in *Argentina*, an acceleration of economic activity is thought likely.

Less encouraging is the present economic situation in *Bolivia*, *Costa Rica* and *Ecuador*. The short-term expectations also point to further deterioration. *Venezuela* again received low grades for its present

Figure 3



economic situation. No significant change for the better is expected in the next six months.

Japan: Economic Climate still chilly

According to WES experts, the economic climate in *Japan* was still chilly in April, which is reflected in the low level of the assessment of the present economic situation and no significant change for the better in the six-months expectations. At that, there was really no change compared to a year ago: assessments of private consumption and investment were unchanged. The expected export volume by the end of the next six months was still below par. Dollar, euro and pound sterling are considered slightly overvalued against the yen.

ASEAN and East Asian NIEs: Economic climate deteriorated

In the April survey, most Asian countries experienced a strong deterioration of the economic climate indicator. The outbreak of SARS had a generally negative effect. The present economic situation remained almost unchanged, judged slightly below satisfactory. The economic expectations for the next six months deteriorated, pointing to no or rather negative changes in the course of the next six months (see Figure 2).

In *Hong Kong*, severely affected by SARS, the present economic situation was rated poor and there was no sign of a fast recovery. Also the current economic trends in *Singapore* did not follow the optimistic expectations of the previous survey and remained unsatisfactory.

In *Malaysia*, the overall economy is performing satisfactorily, with potential for further improvement according to WES experts. In contrast, WES correspondents in *Thailand* expect the overall economy, especially the consumer sector to weaken. Capital expenditures will remain buoyant in the coming months, however. No major changes were reported from the *Philippines*, where, since the same period last year, the economic situation has stabilised close to the satisfactory level.

According to WES experts, the present economic situation in *Taiwan* and *Indonesia* improved since January, although remaining slightly below the

satisfactory level, with cautious expectations concerning the economic development in the next months.

The economic situation of *South Korea*, which had been rated as more than satisfactory in January, deteriorated significantly in April to a level below satisfactory. Both private and corporate investment declined compared to the same time last year. No reversal of this negative trend is expected to occur in the next six months.

Inflation outlook for 2003 unchanged at 3.2%

World-wide consumer price inflation is expected to be 3.2% in 2003, identical to the estimate of the January survey. In the euro area, the 2003 inflation rate is now seen as slightly lower than at the beginning of the year (2.1% compared with 2.2% in the January survey). There appears to be a tendency for inflation to be slowing down a bit in countries with above euro-area average price increases, so for example in *Ireland* from 4.9% (January survey) to 4.7%, in *Spain* from 3.4% to 3.3% and in the *Netherlands* from 2.7% to 2.5%. The country with the presumably lowest inflation in the euro area will again be *Germany* with an unchanged 1.3% expected.

According to the latest WES results, 2003 inflation figures in the *United States*, at 2.3%, are marginally higher than in the January survey (2.2%) but remain well within the range regarded as normal by the US Fed (around 2.5%).

Asia continues to show by far the highest degree of price stability (1.4% compared to 1.5% in January 2003). Deflationary trends still prevail in *Japan* (-0.5% in 2003 compared with -0.8% in 2002) and *Hong Kong* (-1.1% in 2003 compared with -2.1% in 2002) though to a somewhat lesser degree than last year. The inflation outlook in *Taiwan* for 2003 is as low as inflation in 2002 (0.7%), and the danger of deflation is still not completely averted.

The inflation outlook for *Central and Eastern Europe* has decreased further (4.3% according to the April 2003 survey compared with 4.7% in the January survey and 5.3% in 2002). The only countries in this bloc still having very high inflation rates are *Yugoslavia* (9.2% expected this year compared with 17.3% last year) and *Romania* (13.6%

compared with 21.2% last year), but also here a moderate slowing down of inflation rates is expected.

In Central and Latin America expected inflation is now somewhat higher than in the January survey (10.7% compared with expected 9.6% in the January survey). But even if this slightly stronger inflation trend should materialize the price increase will be lower than in 2002 (12.5%). Only a few countries, particularly Venezuela, are moving against this trend. In Venezuela inflation in 2003 is now expected to be 51.1% after an expected 45.0% at the beginning of the year and 34.5% in 2002.

Interest rates: Little scope for further rate cuts

The phase of falling **short-term interest rates** is not yet over but is nearing its end. In *North America* – in Canada even more pronounced than in the U.S. – more WES experts than in the January survey expect short-term rates to pick up slowly in the course of the next six months. In *Western and Eastern Europe* the downward trend of short-term interest rates is still intact and expected to continue in coming months. In Western Europe even more experts than in the January survey expect short-term rates to decline further. Participants from the euro area consider a further monetary easing by the European Central Bank likely. This opinion is particularly shared by WES experts in Portugal, Belgium and Germany. In *Latin America* the trend of rising short-term interest rates is leveling off. Only in some Latin American countries like Mexico, Colombia, Costa Rica and Paraguay is a further rise of rates expected. In Brazil and Argentina interest rates will remain stable or even decline somewhat.

Long-term bond rates are seen to increase marginally in the course of the next six months. This worldwide trend also characterizes Western Europe. A stronger upward trend of long-term rates is expected again in North America and in some Latin American countries like Venezuela and Uruguay as well as in some Asian countries like the Philippines, Hong Kong and Vietnam. On the other hand, a continued downward trend of long-term interest rates will prevail, according to WES experts, in most Eastern European and some Asian countries like Thailand.

Exchange rates: Euro considered to be overvalued

The euro is still regarded to be overvalued. As the exchange rate of the euro has continued to rise since April, the perceived overvaluation has probably even grown in past weeks. The British pound sterling is also judged to be overvalued though somewhat less than in the previous survey. The US dollar appears to be only slightly higher than justified by fundamentals. The current level of the Japanese yen is assessed as more or less appropriate with a small bias toward an undervaluation.

The perceived overvaluation of the euro is a widespread phenomenon. The US dollar is still seen as overvalued against own currencies in Canada, Hong Kong, Singapore, Costa Rica, Cyprus and Estonia. The Argentinian and Venezuelan currencies appear to be overvalued. On the other hand, WES experts from some Eastern European countries like Estonia and from some Latin American countries like Brazil, Chile, Colombia and Costa Rica consider the currencies of their own countries to be undervalued.

In addition to the general assessment, WES experts have again been asked about the likely trend of the US dollar exchange rate in the next six months. On the average for all 88 countries included, the US dollar is still predicted to remain unchanged. However, there are big differences by region or country: In Canada and Australia the US dollar is expected to devalue further. On the other hand, in Western Europe the devaluation trend of the dollar is seen as leveling off in coming months. In the majority of Latin American countries and Eastern European countries, the dollar is expected to gain in strength, even though in some of these countries it is regarded as overvalued.

Overall economic growth in 2003 about 2.1%

On average of all 88 countries included in the survey, real gross domestic product (GDP in constant prices) is expected to be 2.1% higher in 2003 than in 2002. Growth in Central and Eastern Europe (3.2%), in Asia (3.1%) and in Oceania (3.1%) will be well above average. Growth in Western Europe (1.3%) and Central and Latin America (1.5%) lags behind the world average. In Venezuela, WES experts expect a negative growth rate (– 13.1%).

**“Unemployment” and “Insufficient demand”:
The major problems around the world**

Unemployment remained the most important economic problem around the world. Closely related to unemployment is the problem of *insufficient demand* which ranks second. This was particularly pronounced in Hong Kong, aggravated by the SARS outbreak. In Japan and Singapore *insufficient demand* is probably more related to the general weakness of the economy. Among Asian countries the problem of *unemployment* has most notably strained the economies of Japan, Indonesia, and Taiwan. *Lack of confidence in government's economic policy* was assessed by the panel to be the problem number one in Indonesia, Japan, South Korea, Taiwan and ranked second in Hong Kong, Pakistan and the Philippines. In Malaysia *lack of international competitiveness* is seen to be the most important problem of the economy.

In Latin America *capital shortage* ranks second behind *unemployment*, while *lack of confidence in government economic policy*, which was one of the top economic problems in the October 2002 poll, now ranks lower. In almost all Latin American countries *unemployment* is seen to be the most important problem.

In Western Europe, *insufficient demand* is regarded as the crucial factor hindering economic recovery. It ranked first in Austria, Belgium, the Netherlands and Switzerland, and it ranked second in Germany, Italy and Spain. The second most frequently noted problem was *unemployment*, particularly, in Finland, France, Germany, Greece and Spain. Of all European countries only Denmark reported a *lack of skilled labour*, and also regarded this as the most important problem.

Lack of *international competitiveness*, *capital shortage* and *unemployment* are the fundamental problems in countries of Eastern Europe. Only in Estonia did lack of skilled labour rank first. *Government's economic policy* seems to be trustworthy in all Eastern European countries, except in Latvia and to a lesser degree Yugoslavia.