

CESifo WORLD ECONOMIC SURVEY

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WORLD ECONOMIC CLIMATE

World Economy brightens slightly

ECONOMIC EXPECTATIONS

Economic expectations pick up,
but remain subdued

INFLATION

Inflation pressure continues to soften

CURRENCIES

Yen still seen as overvalued

INTEREST RATES

Central banks will continue to ease policy

SPECIAL TOPIC

Impact on the world economy
should the Eurozone collapse



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Ifo World Economic Survey

Regions

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Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organisations worldwide on current economic developments in their respective countries. Its results offer a rapid, up-to-date assessment of the economic situation prevailing around the world. In January 2012, 1,129 economic experts in 120 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: assessments of a country's general economic situation and expectations regarding key economic indicators. It has proved to be a useful tool, since it reveals economic changes earlier than conventional 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. Overall 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 individual country's exports and imports as a share of total world trade.

CES – Center for Economic Studies – is an institute within the department of economics of Ludwig Maximilian University, Munich. Its research, which focuses on public finance, covers many diverse areas of economics.

The *Ifo Institute* is one of the largest economic research institutes in Germany and has 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 organisations are published.

WORLD ECONOMY BRIGHTENS SLIGHTLY

The Ifo World Economic Climate Indicator showed a slight upturn in the first quarter of 2012 after two successive decreases, but at 82.4 it remains significantly below its long-term average (1996-2011: 96.7). The improvement was entirely driven by a slightly more optimistic six-month outlook. Appraisals of the current situation, on the other hand, were poorer than in last quarter's survey (see Figures 1 and 2). The survey results confirm that the situation of the world economy remains difficult, despite first signs of stabilisation. This is also illustrated by the business-cycle clock (see Box 1).

World: Regional shift

The development of the Ifo Economic Climate Indicator was, however, different in the world's various economic regions. In *North America*, and especially in the *USA*, a clear improvement in the current situation was seen by the experts surveyed. The economic six-month outlook is noticeably more positive than it was three months ago. The private sector added new jobs, bringing the unemployment rate in January down to a near-three year low. However, the January figures also saw an upward revision of the *US* population, by 1.5 million, which, in turn, dragged down the labour force participation rate – the percentage of people who are either working or looking for a job – from 64% to 63.7%, which is its lowest level since 1983. Long-term unemployment – people who have been out of work for more than 27 weeks – account for 42.5% of the jobless population, a proportion that is only slightly lower than the 43.1% level reached last August. So there can be no talk of a clear turnaround in the *US* labour market. Consumer

confidence nevertheless recovered slightly and it seems that the *US* faces a sustainable recovery, although not a strong upswing.

The economic climate in *Asia* points to an economic slowdown. Significantly poorer appraisals of the current situation pushed the climate indicator further below its long-term average. The cooling in *China* continued, with the surveyed experts expressing greater reserve regarding the current situation and the economic outlook for the near future. This cooling is also reflected in *China's* official GDP data, although the easing of inflationary pressure represents a positive factor in this respect. The economic climate in *India* did not deteriorate any further, but

Figure 1

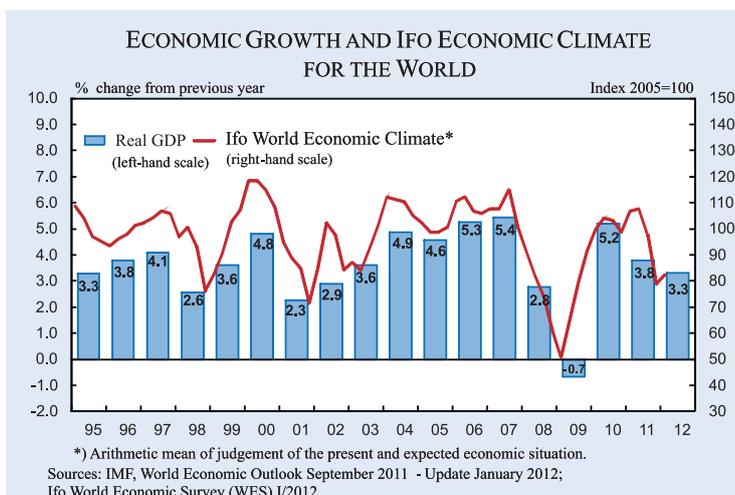
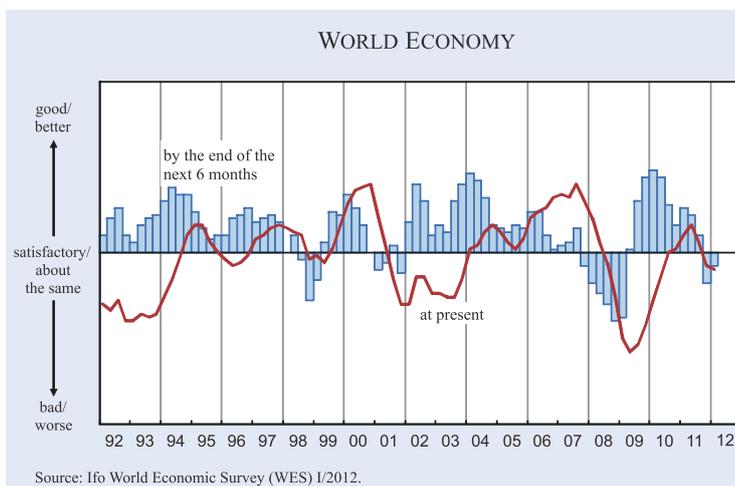


Figure 2

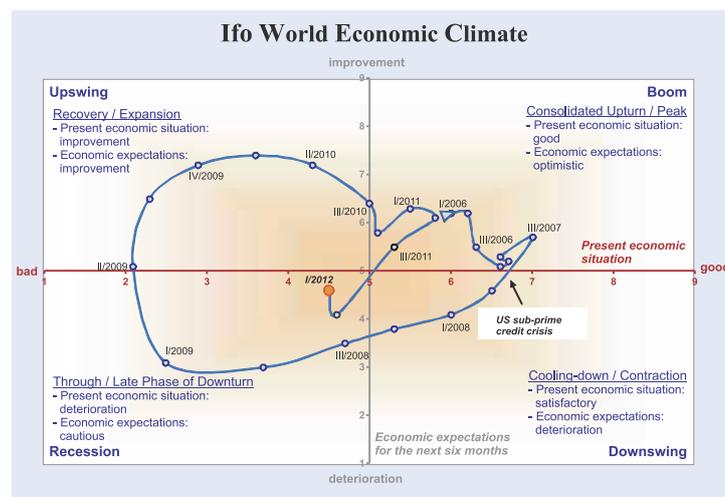


Box 1

Ifo Economic Clock and the Ifo World Economic Climate

A glance at the Ifo Economic Clock showing the development of the two components of the economic climate index over the last six years can provide a useful overview of the global, medium-term forecast. The business cycle typically proceeds clockwise in a circular fashion with expectations leading assessments of the present situation.

According to the January survey, the Ifo indicator for the world economic climate showed a slight upturn. While assessments of the current economic situation continued to deteriorate slightly, economic expectations for the next six months brightened somewhat compared to the fourth quarter of 2011, but continued to signal scepticism. The indicator remains in the “recession” quadrant, but is nevertheless showing the first signs of stabilisation.



Source: Ifo World Economic Survey (WES) I/2012.

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 Business Cycle Clock”). 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).

remains fairly subdued. This view was supported by the latest official GDP data, which confirm that *India's* economy is in a cyclical slowdown. The economic climate also softened somewhat in *Indonesia*, but the current situation is still assessed favourably by WES experts and the latest GDP figures were very positive. Indeed, GDP growth expanded by 6.5% in the fourth-quarter of 2011, a level last seen prior to the 1990s *Asian* crisis. *Indonesia's* annual growth rate in 2011 was also 6.5%, the economy's strongest performance since 1996. Financial markets once again seem more confidence about the development of *Asia* and of the emerging markets in general. Emerging market currencies increased in value very strongly at the beginning of 2012, showing strong capital inflows. This was reflected in extraordinary rises in the *Mexican peso*, the *Russian ruble*, the *Brazilian real*, the *Indian rupee* and the *Turkish lira* at the beginning of the year.

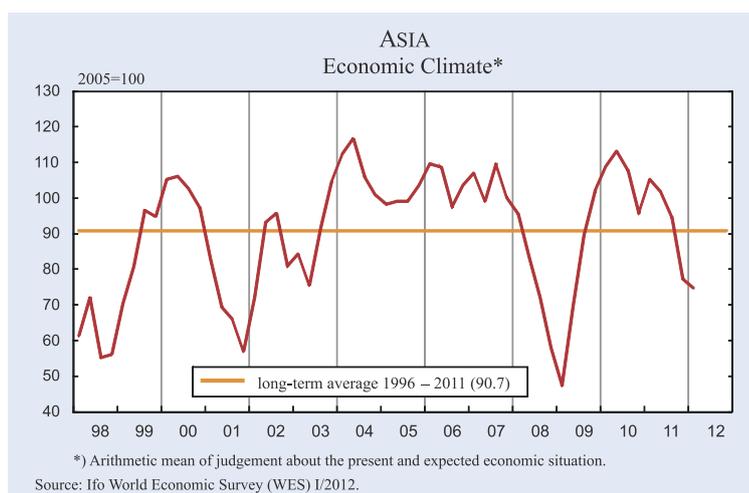
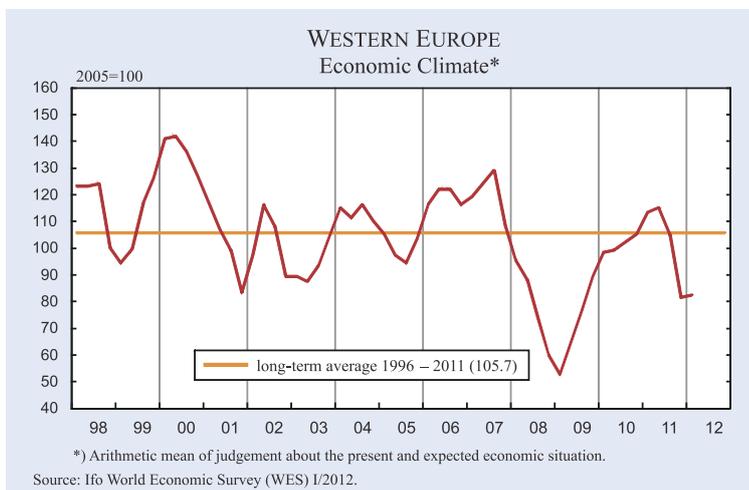
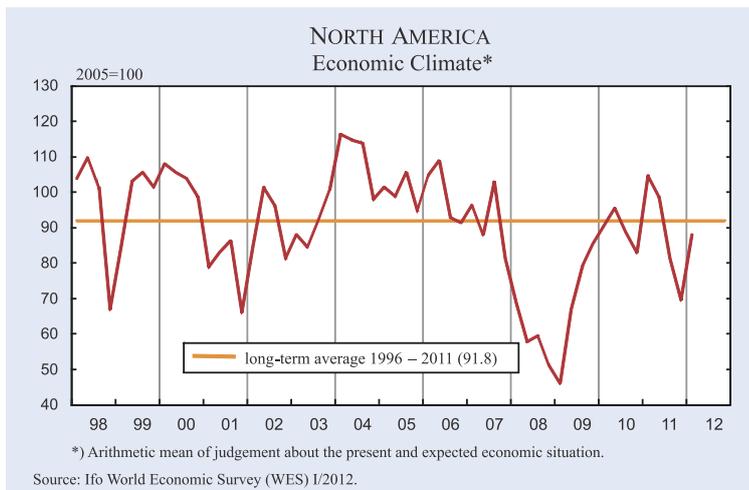
Overall, it seems that the global growth pattern is changing slightly: a recovery seems to be gathering strength in the *US*, while growth is cooling in many emerging economies. Above all, however, a solution has yet to be found to the *euro* crisis, which could still negatively impact the global economy.

Western Europe: Economic climate remains bleak

The economic climate indicator for *Western Europe* barely moved up and remained at 82.2, which is considerably below its long-term average of 105.7 in the period 1996–2011 (see Figure 3). While assessments of the present economic situation deteriorated somewhat versus the previous survey, the economic outlook for the next six months is slightly less negative, but remains cautious (see Figure 4). The same pattern applies to the *euro area* (see Box 2). The indi-

The Economic Climate in *Western Europe* changed very little. While the current economic situation deteriorated further compared to the last quarter of 2011, the six-month outlook brightened slightly, but nevertheless continued to signal scepticism. The *euro* crisis remains a hotspot which could affect growth elsewhere. In early December the ECB announced that it would extend the duration of its funding to European banks to three years. Banks immediately applied for nearly €500 billion from the Long-Term Refinancing Operation (LTRO). A second LTRO, which many expect to be twice as large, will be launched by the ECB at the end of February. This policy lowers the immediate risk of a credit crunch in various countries. However, banks still needed to raise fresh capital to reach a higher threshold target for core tier one capital of 9 percent. So bank behavior, and especially reluctant bank lending, could hurt the real economy, while sovereign insolvencies continue to cast a long shadow over economic activity.

Figure 3



cator for the *euro area* remained at virtually the same low level of the preceding survey, and well below its long-term average.

According to WES experts, *Germany* and *Estonia* were the only two countries where the current economic situation was assessed as “good” once again,

(see Figures 5a and 7). Private consumption in particular is currently the main driving force behind *Germany’s* economy. In *Finland, Luxembourg, Malta* and *Slovakia* the present economic situation is rated as “satisfactory”. In all of these countries economic expectations were slightly upwardly revised compared to the previous survey. They nevertheless remain cautious in *Germany* and *Estonia*, and pessimistic in *Finland* and *Slovakia*. In *Luxembourg* and *Malta*, on the other hand, the economic outlook is assessed as relatively positive. Economic sentiment in the remaining countries of the *euro area* tends to be negative. In *Austria*, and also to a lesser extent in the *Netherlands*, ratings of the present economic situation have deteriorated significantly since the survey in October 2011, and the situation is now seen as unfavourable in both countries. WES experts in *Belgium* and *Slovakia* rated the present economic situation of their countries as weak, while no major changes are anticipated over the next six months in the *Netherlands* and *Belgium*. In *Austria*, WES experts even forecast a deterioration in future economic development. In *Slovakia*, on the other hand, some improvement is expected within the next six months. The survey results of *France, Ireland* and *Italy* do not indicate any greater easing of the present economic situation. Assessments of this situation are also regarded as very weak and are expected to remain so for the

next six months in *France* and *Italy*. Only WES experts in *Ireland* expect to see some improvement over the course of the next six months, although they expressed less optimism than in the previous survey. The situation in the remaining troubled countries of the *euro zone* – *Greece, Portugal* and *Spain* – has hardly changed for the better and, according to WES

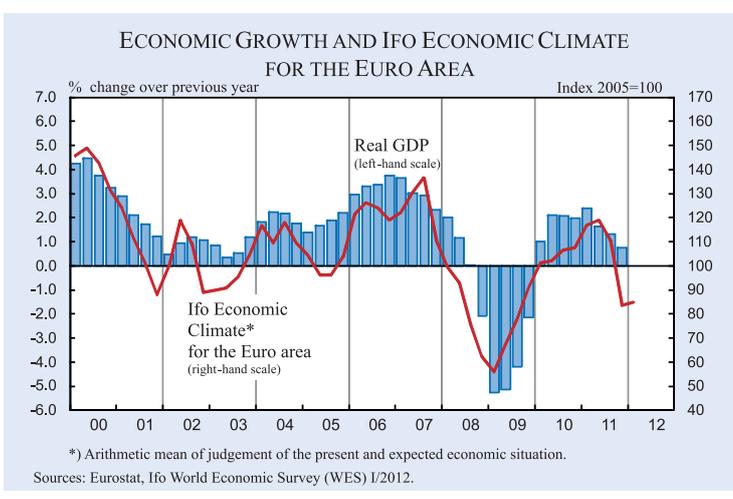
Box 2

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

The Ifo World Economic Climate for the 17 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 288 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 Indicator for the euro area rose slightly in the first quarter of 2012 after two successive decreases, but nevertheless remains significantly below its long-term average. Appraisals of the current economic situation continued to deteriorate. The only positive trend was seen in the six-month outlook, which brightened somewhat compared to the fourth quarter of 2011. It is too early to speak of any general recovery in the euro area.

The overall current economic situation is assessed as “good” in just two countries: *Germany* and *Estonia*, while in *Finland* and *Slovakia* it is deemed “satisfactory”. In most other euro countries the current economic situation deteriorated further compared to last quarter’s survey. It is now assessed as unfavourable and/or weak in countries like *Austria*, the *Netherlands*, *Belgium*, *Ireland*, *France* and *Italy*, for example. In *Greece*, *Portugal* and *Spain*, now joined by *Cyprus*, survey participants gave the current economic situation the worst appraisals on the WES scale. The economic six-month outlook in the euro area improved again slightly compared to the last quarter of 2011, but nevertheless remains predominantly negative. *Ireland*, *Luxembourg* and *Slovenia* were the only countries for which positive expectations were reported.



experts, it remains very weak. *Greece* and *Portugal* again received the lowest rating on the WES scale. In all three countries the economic expectations remain in negative territory and even signal further deterioration. WES participants in *Spain* and *Portugal* are even slightly more pessimistic than they were at the end of 2011. In *Cyprus*, the economic situation also deteriorated compared to the previous survey, with the economic experts surveyed giving it the lowest rating on the WES scale. As far as the six-month outlook is concerned, WES experts also remain pessimistic about future economic development in *Cyprus*.

especially applies to the *United States*: according to WES experts, the present economic situation improved somewhat and is now rated as unfavourable, versus “very weak” in the previous survey. Expectations were also significantly upgraded and reached more positive ground (see Figure 6), while capital expenditure and private consumption are expected to strengthen somewhat over the next six months. These survey results in the *US* are in line with recent positive data on the *US* economy: the unemployment rate decreased in January to 8.3 %. In *Canada*, the economic climate deteriorated slightly due to more

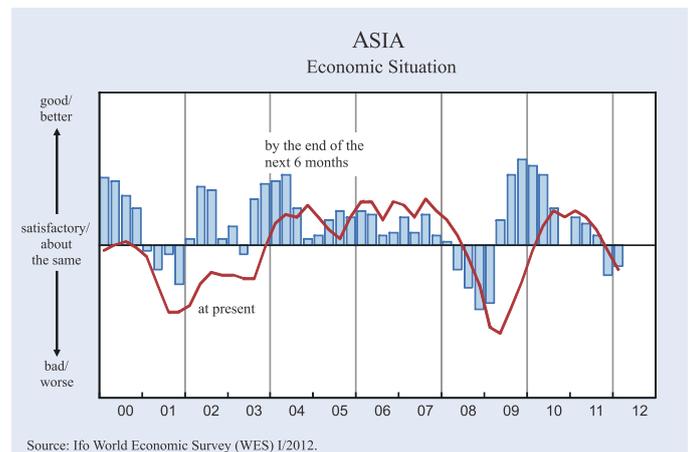
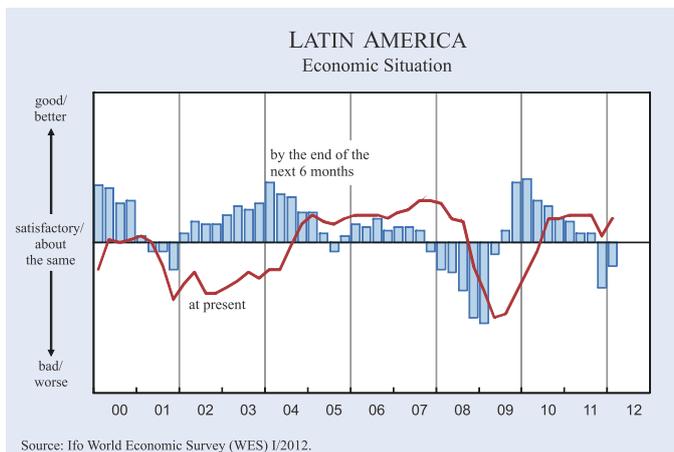
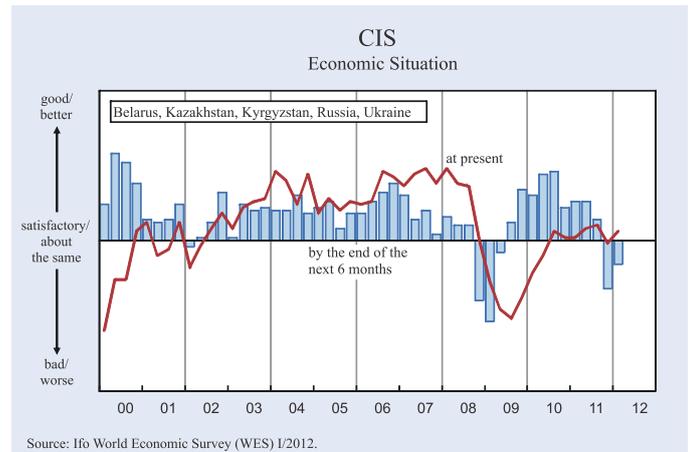
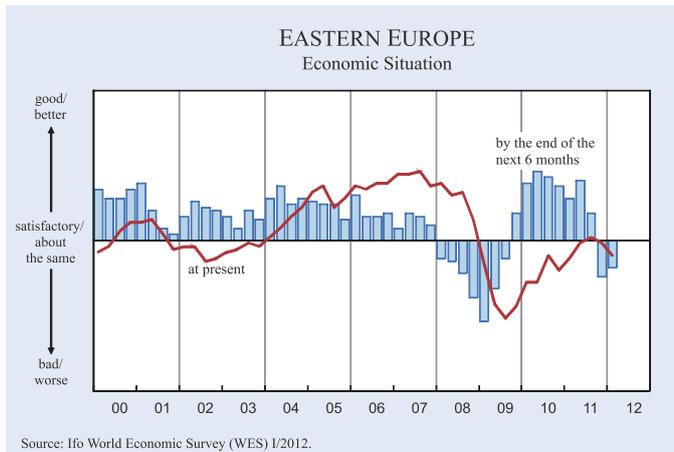
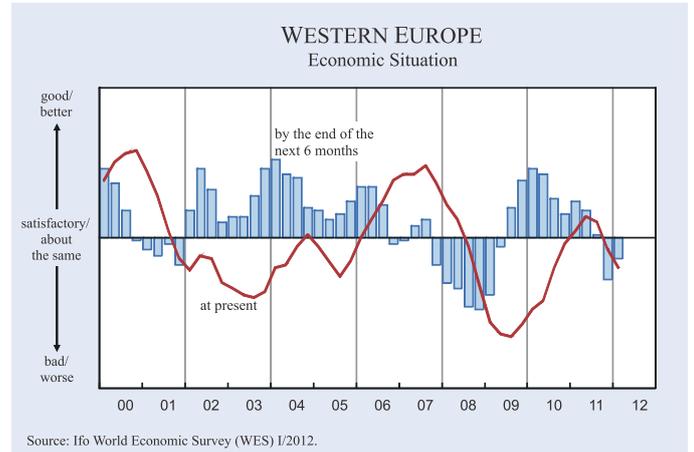
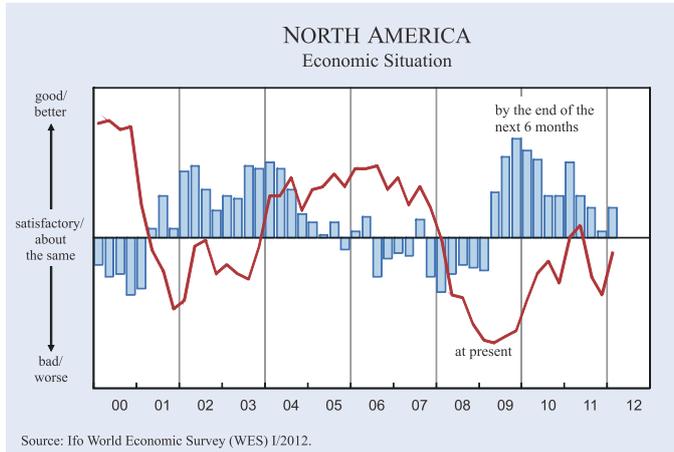
Outside the euro area the economic situation is currently favourable in *Norway*, and to a slightly lesser degree, in *Switzerland* and *Sweden* too. However, economic expectations for the next six months have become negative in *Norway* and remain pessimistic in *Switzerland* and *Sweden*. In the latter two countries capital expenditure and private consumption are expected to slow. In *Denmark*, *Monaco* and the *United Kingdom* the assessments of the present economic situation were downgraded somewhat, and are now regarded as weak. WES experts in these countries see no room for any improvement in economic development over the next six months.

North America: Economic climate indicator rises strongly

The economic climate indicator in *North America* has risen significantly and, at 87.9, it is once again approaching its long-term average (of 91.8 in the period 1996–2011; see Figure 3). Assessments of both the present situation and, to a lesser extent, economic expectations for the next six months were upgraded considerably (see Figure 4). This pattern

Figure 4

SELECTED REGIONS



Box 3

Diverse Financing Conditions in the Euro Area

One way for banks to attain a higher equity ratio is to reduce the asset side of their balance sheet, which eventually limits the credit supply to the private sector. Business surveys are showing the first signs of a credit crunch in several economies in the euro area. Within the framework of SAFE ("Survey on the access to finance of SMEs in the Euro area"), which is conducted by the ECB and the European Commission in all countries twice a year, firms provide statements concerning the factors that are relevant for the availability of bank loans. As in the Ifo business climate, one question is related to the willingness of banks to provide loans during the last 6 months.¹ In the most recent survey up to 50 percent of all firms in the periphery countries reported deterioration in the willingness to lend, whereas the credit crunch indicator in countries such as Germany or Finland was just above 10 percent (see Figure 1).

Other signals of a shortage in the loan supply of banks can be found in the relatively high increase of loan interest rates in the periphery countries in recent months (see Figure 2). The general increase in the interest rates for new issued loans across all countries can be explained by the two increases of the prime rate in April and July 2011 by the ECB. However, the increases of the loan interest rates in the periphery countries were up to five times higher. This observation, together with the declining volumes of outstanding loans, suggests the existence of a credit crunch.

Figure 1 CREDIT CONSTRAINT INDICATORS FOR THE EURO AREA

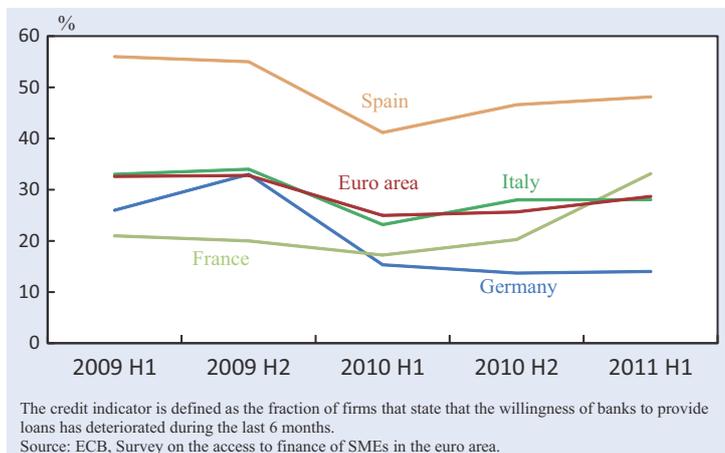
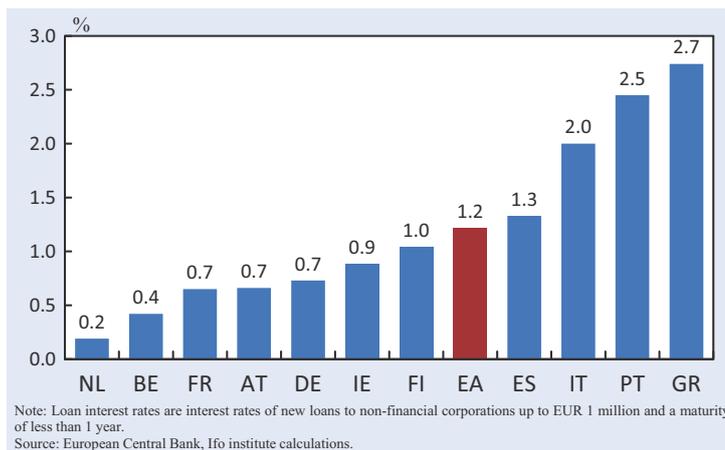


Figure 2 INCREASE OF LOAN INTEREST RATES BETWEEN JAN. 2010 AND DEC. 2011



¹ To be precise, in the Ifo survey firms are asked to state how they perceive the current willingness of banks to provide loans. The possible answers are "accommodating", "normal" and "restrictive". In the ECB survey firms are asked about the change in the willingness of banks to provide loans during the last 6 months. Here the answers are as follows: "increased", "unchanged" and "decreased". To compare the results of the Ifo survey and ECB survey one needs to account for this difference.

² The number of participating firms varies between roughly 5,300 and 8,300 firms for the whole euro area. For the largest economies (Germany, France, Italy and Spain) the data are available since the first half of 2009. The data for the other seven economies (Belgium, Ireland, Greece, Netherlands, Austria, Portugal and Finland) are only available since the most recent wave of data collection which took place from April to September 2011.

negative economic expectations, but the present economic situation remains satisfactory.

Eastern Europe: Subdued economic climate remains unchanged

The economic climate indicator in *Eastern Europe* remains at a low level and while economic expectations improved somewhat versus the previous survey, WES experts remain cautious about future economic development. The present economic situation deteriorated and is now seen as less favourable (see Figures 4 and 7).

In *Poland*, on the other hand, the present economic situation remains favourable. According to WES experts it is also satisfactory in the *Czech Republic* and *Lithuania*. While the economic experts surveyed in *Poland* and *Lithuania* expect their national economies to stabilize at their current good levels in the next six months, survey participants in the *Czech Republic* are pessimistic about future economic development. Private consumption in particular is expected to weaken significantly. In *Bulgaria*, *Latvia* and *Romania* the current situation is regarded as unfavourable and is expected to remain so over the next six months. In *Hungary*, the present economic situation deteriorated compared to the previous survey and is now regarded as very weak. Economic expectations have improved somewhat, but they still remain negative.

The economic situation in the region outside the *EU* has been assessed as weak in *Albania* and even more so in *Bosnia*

and Herzegovina, Croatia and Serbia. WES experts in all of these countries do not expect their economic performance to improve over the next six months. In *Albania*, they even expect the situation to deteriorate further. On a brighter note, the export sector in *Bosnia and Herzegovina* and *Serbia* growth is expected to grow.

CIS: Economic climate recovers slightly

The economic climate indicator for the *CIS* countries covered by WES (*Russia*, *Belarus*, *Ukraine*, *Kazakhstan* and *Kyrgyzstan*) improved somewhat due to more positive assessments of both the present situation and economic expectations. The present economic situation in the region as a whole is now regarded as “satisfactory”. The economic experts surveyed positively revised their view of the economic outlook for the next half year from a pessimistic to a cautious view (see Figure 4).

In *Russia*, assessments of the present economic situation were upgraded somewhat and still stand at a satisfactory level. Expectations for the next six months were also revised significantly upwards, but remain in negative territory. WES experts in *Russia* remain cautious regarding future economic development (see Figure 6). With regard to the climate for foreign investors, *Russian* WES participants attested to very high legal and administrative restrictions for foreign firms seeking to invest in *Russia* and to repatriate profits (see Table 2). In *Kazakhstan* the present economic situation is regarded as favourable, while it is seen as “satisfactory” in *Belarus* and *Georgia*¹. Economic expectations improved somewhat over the previous survey and are now positive. *Kazakhstan’s* export sector in particular is expected to strengthen somewhat. According to the economic experts surveyed, the present economic situation in *Kyrgyzstan* and the *Ukraine* remains unfavourable. The economic expectations for the next six months in *Kyrgyzstan* have been revised upwards by WES experts and are now more positive. The WES panel in the *Ukraine*, on the other hand, remains cautious regarding future economic development.

¹ Georgia, which is not a member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

Asia: Economic cooling continues

The economic climate indicator in *Asia* continued to fall, although the decrease was only slight. At 74.6 the indicator moved further away from its long-term average (1996–2011: 90.7). While assessments of the present economic situation have been downgraded somewhat – reaching an unfavourable level – economic expectations, in turn, have improved slightly, but remain cautious (see Figures 3, 4 and 8).

The present economic situation improved considerably compared to the October 2011 survey, particularly in *Bangladesh*, and is now rated as good. The economic outlook for the next six months, on the other hand, has been downwardly revised by the economic experts surveyed, who have become fairly cautious regarding future economic development. Exports are nevertheless expected to increase over the next six months. In *Hong Kong* and the *Philippines*, and as well, despite some downwards revision, in *Indonesia* and *Sri Lanka*, a favourable current situation prevails. WES experts in the *Philippines* are fairly confident about the next six months and, to a somewhat lesser extent, the same picture emerges in *Indonesia* and *Sri Lanka*. In *Hong Kong*, however, survey participants are quite pessimistic and expect a deterioration in overall economic performance, as well as a decrease in capital expenditure, private consumption and the export sector. In *China*, *India* and *Malaysia* assessments of the present economic situation were slightly downgraded, but remain on a satisfactory level. Out of these three countries, only the *Indian* experts are no longer negative regarding future economic development; especially in terms of the export sector, which is expected to strengthen further. *China’s* economy, on the other hand, is losing momentum and WES experts remain cautious about the future. The economic experts surveyed in *Malaysia* even forecast a deterioration over the next six months. In both countries capital expenditure and exports in particular are expected to weaken considerably over the next half year. In *South Korea* and *Thailand*, WES experts rated the current economic situation as unfavourable and remained pessimistic about the six-month outlook in *South Korea*. In contrast, the economic outlook for the next six months in *Thailand* has been revised considerably upwards and is now quite optimistic according to WES experts. Capital expenditure and private consumption in particular are expected to strengthen strongly. The economic experts surveyed in *Japan*, *Taiwan* and

Vietnam judged the present economic situation in their respective country as weak. In *Japan*, WES experts remain positive about economic development over the next six months, despite some downward revision versus the previous survey. However, the export sector is expected to weaken somewhat over the next six months due to risks of a sustained overvaluation of the yen. In *Taiwan* and *Vietnam*, WES experts see no room for improvement in the next six months. In *Pakistan* and *Singapore* the current economic situation deteriorated considerably versus the previous survey and was assessed with the lowest rating on the WES scale. In both countries the economic experts surveyed do not anticipate any improvement in the coming six months and they even expect the situation to deteriorate in *Pakistan*.

Oceania: Favourable economic climate persists

In *Oceania* the economic climate indicator barely moved up. While assessments of the present economic situation improved somewhat over the previous survey – remaining at a favourable level – economic expectations deteriorated somewhat, but remain positive. This is especially true for *Australia* (see Figure 6). The current economic situation improved in comparison to the October 2011 survey and is assessed as good. The economic outlook for the coming six months has been revised downwards, but still remains positive. The WES experts in *New Zealand* continue to assess the present economic situation as unfavourable and expect it to remain so in the next half year.

Latin America: Economic climate friendlier

In *Latin America* the economic climate indicator started to rise again. Assessments of both the present situation and economic expectations have been upgraded significantly (see Figures 4 and 9), and the region's current economic situation is now regarded as favourable. The economic outlook for the next six months remains cautious, despite some upwards revision.

In *Chile*, *Colombia*, *Ecuador*, *Panama*, *Peru* and *Uruguay* assessments of the present economic situation were upgraded versus the previous survey and the economies of these countries reportedly performed very strongly. The survey results with regard to the economic expectations for the next six months

point to an economic stabilization at current levels in *Colombia*, *Ecuador*, *Panama* and *Peru*. WES experts in *Uruguay*, on the other hand, remain rather cautious, while survey participants in *Chile* are pessimistic about future economic development. In *Argentina* and *Brazil*, private consumption is currently the main driving force. In both countries, as well as in *Guatemala*, a favourable economic situation prevails, with a significant improvement seen in *Guatemala* versus the previous survey. WES experts in the country are highly optimistic about its six-month outlook. Economic expectations for the next half year in *Brazil* are also positive. The situation in *Argentina*, however, is rather different: the economic experts surveyed remain pessimistic and expect both private consumption and capital expenditure to fall. In *Costa Rica*, the *Dominican Republic*, *El Salvador*, *Mexico* and *Paraguay* the present economic state was assessed as satisfactory. While no major changes are expected in *Costa Rica* and *El Salvador* over the next six months, WES experts in the *Dominican Republic*, *Mexico* and *Paraguay* anticipate economic development in these countries to worsen. In *Paraguay* and *Mexico*, political stability is also expected to deteriorate in the next six months (see Table 3). In *Bolivia*, the current economic situation is still assessed as unfavourable and the economic experts surveyed remain cautious about the country's economic development. In *Cuba*, *Trinidad and Tobago* and *Venezuela* the present economic situation is still regarded as weak, as in previous surveys, and is expected to remain so for the next six months. *Venezuela* is an exception to this rule, as its economic performance is expected to improve.

Near East: Positive economic climate remains unchanged

In the *Near East* the economic climate indicator still stands at a favourable level. While assessments of the present economic situation improved somewhat compared to the previous survey – and remained at a high level – economic expectations deteriorated somewhat, but remained positive (see Figure 10).

In *Israel*, *Saudi Arabia* and the *United Arab Emirates* the present economic situation remains highly favourable. Although economic expectations for the next six months in the *United Arab Emirates* and in *Saudi Arabia* have been revised downwards, they remain in moderate positive territory. In *Saudi Arabia*, export is expected to expand very strongly.

Figure 5a

EUROPEAN UNION

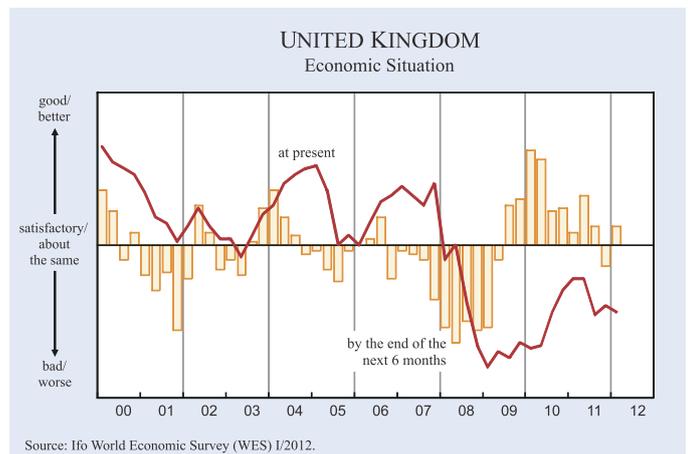
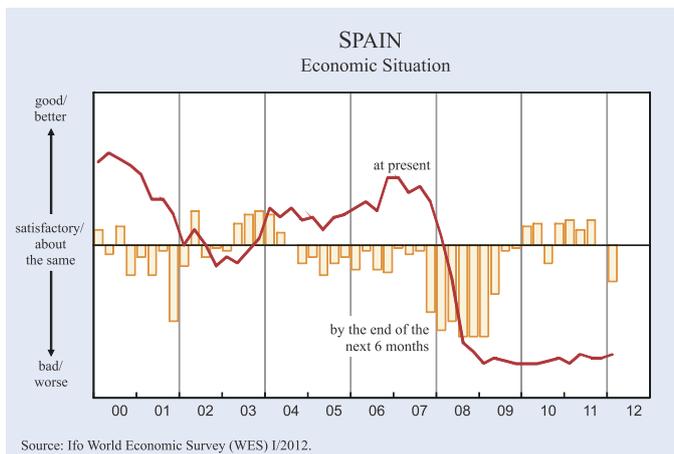
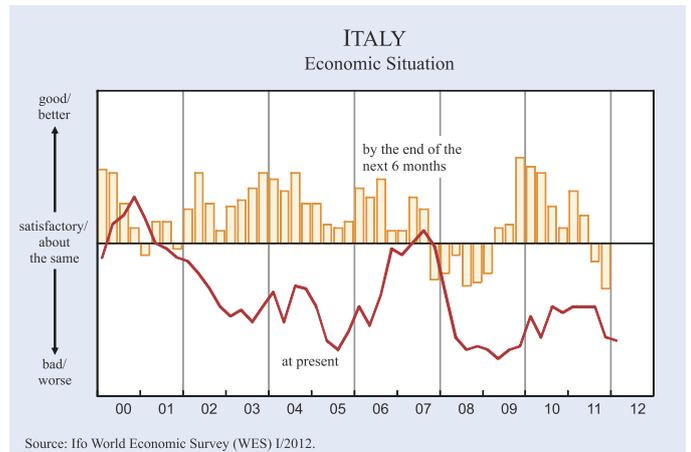
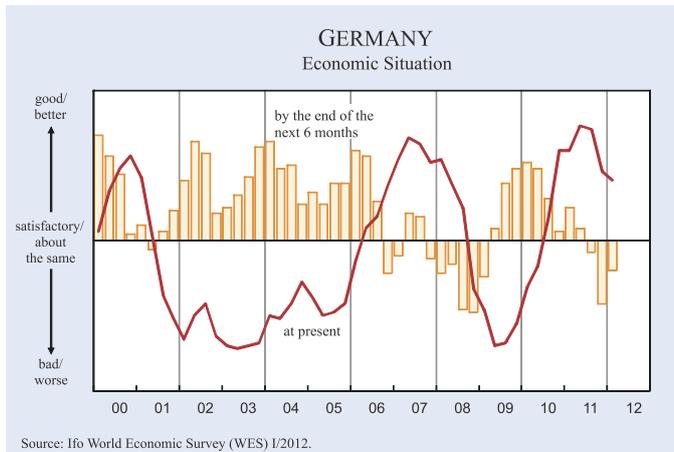
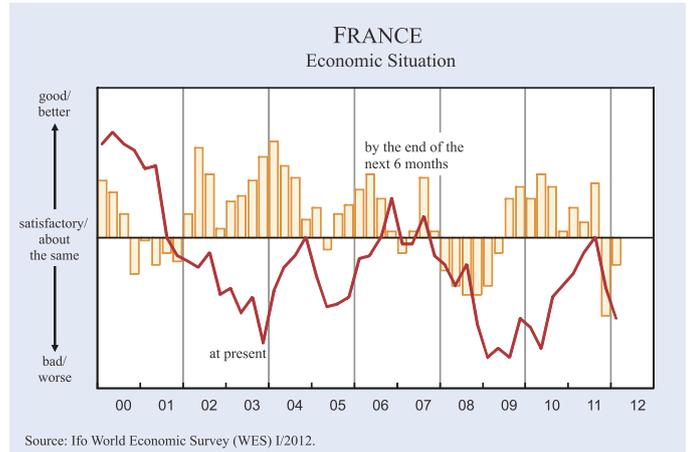
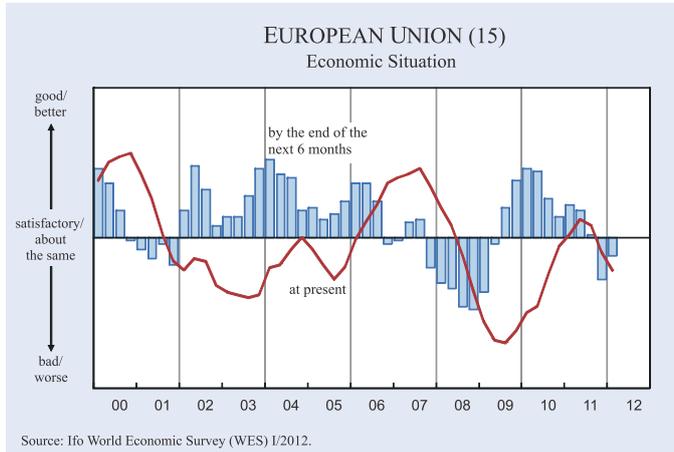


Figure 5b

EUROPEAN UNION

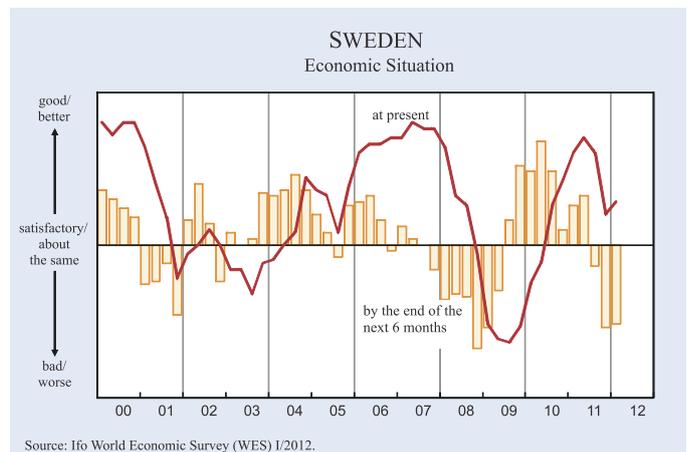
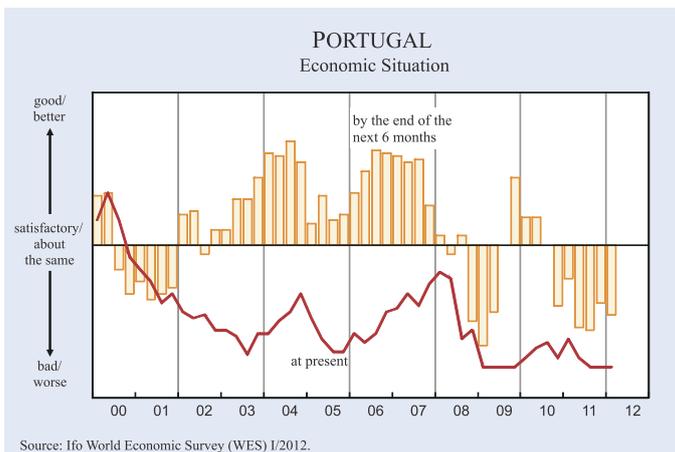
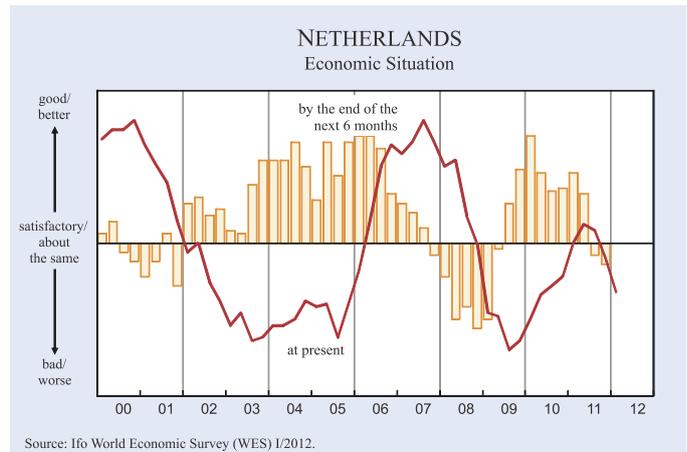
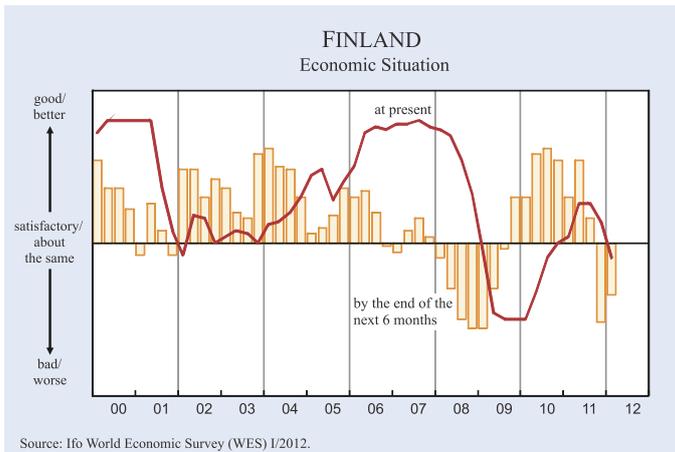
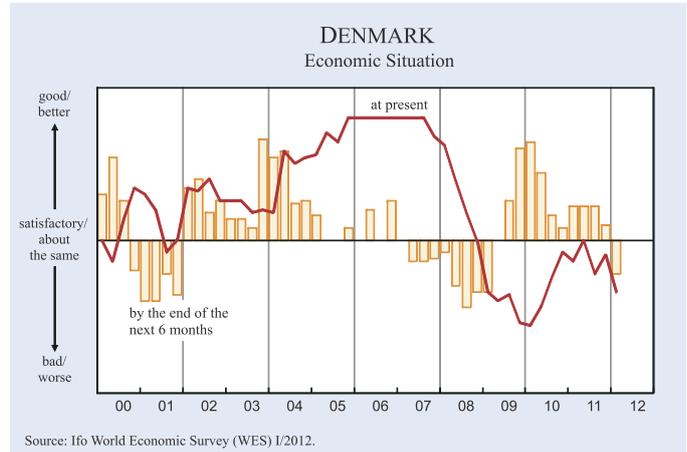
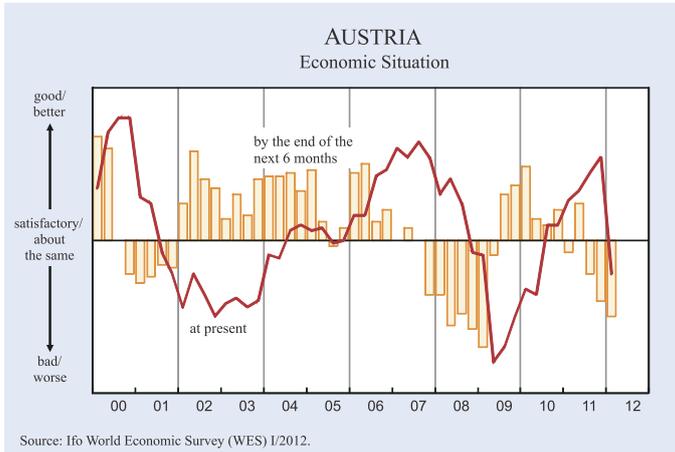


Figure 6

NORTH AMERICA, OCEANIA AND CIS

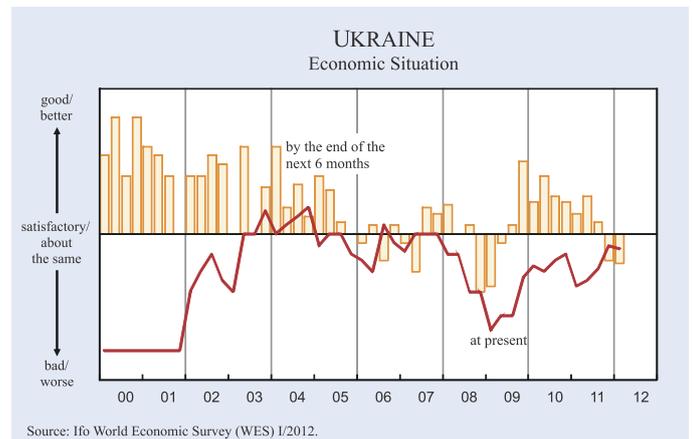
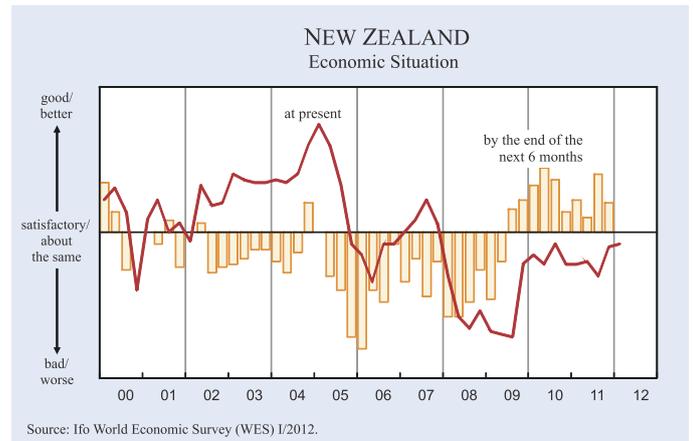
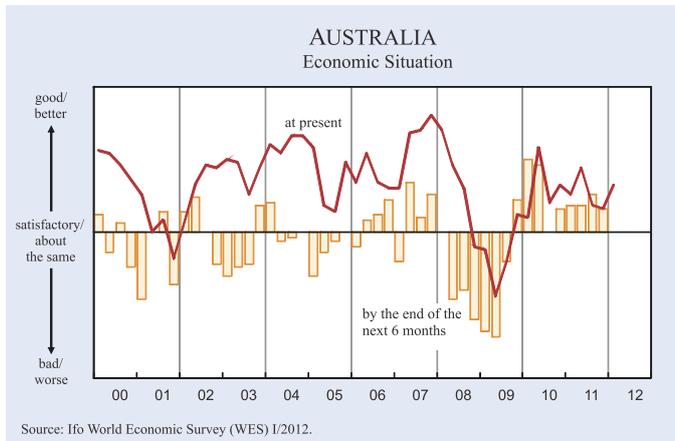
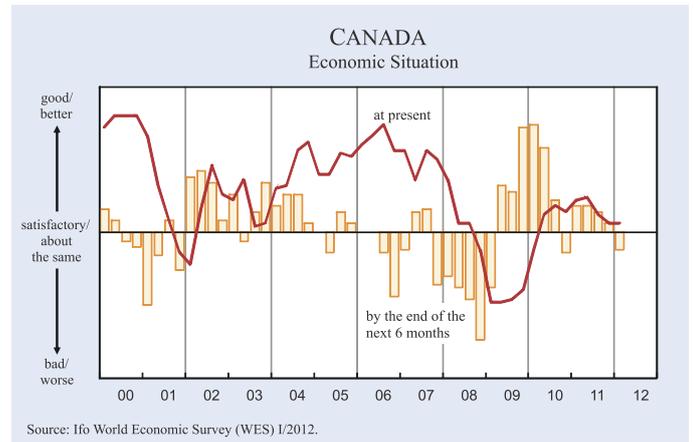
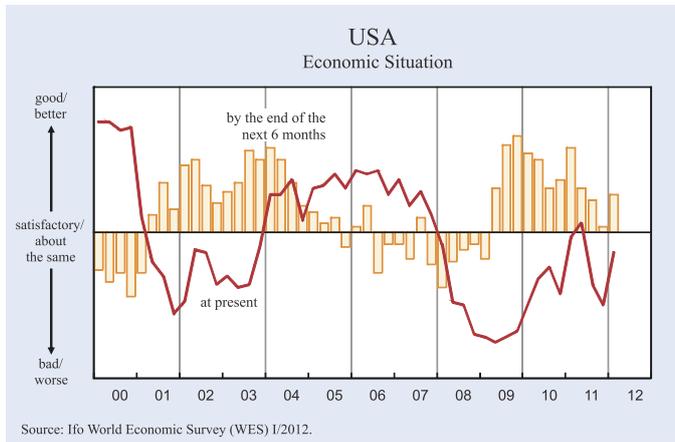


Figure 7

EASTERN EUROPE

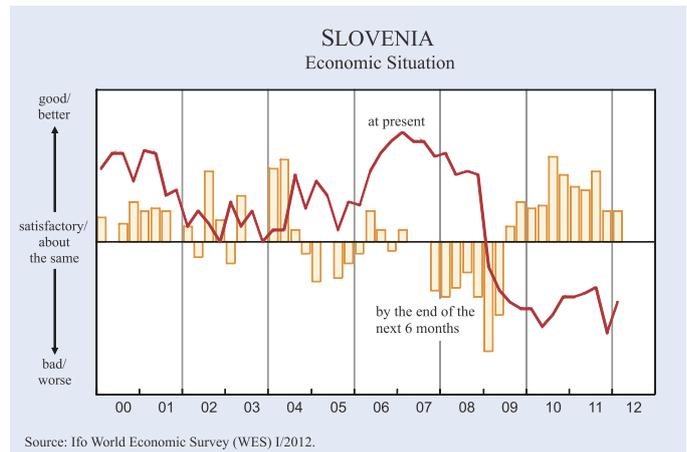
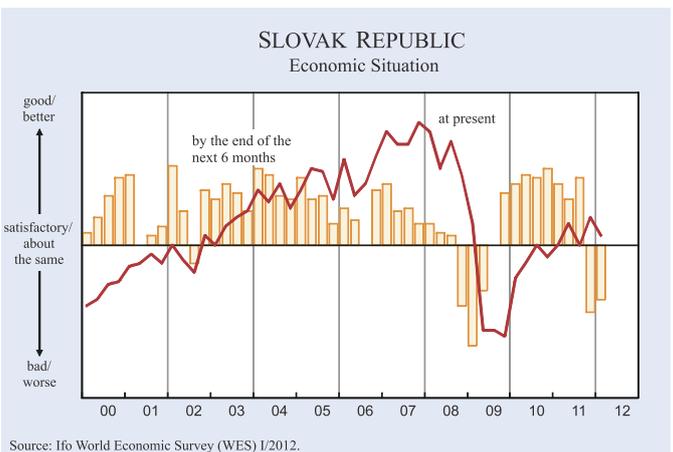
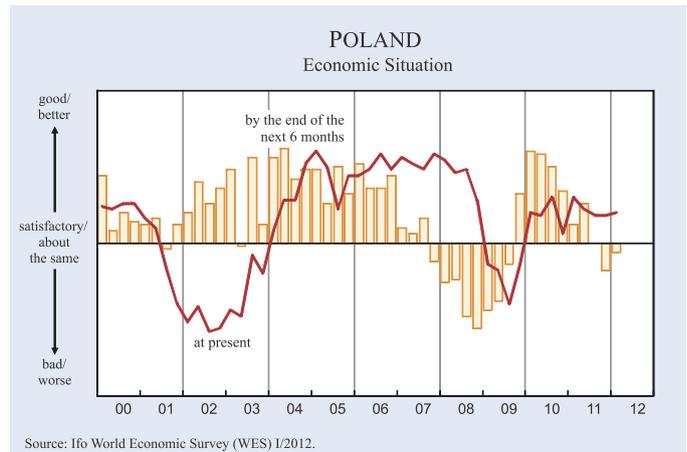
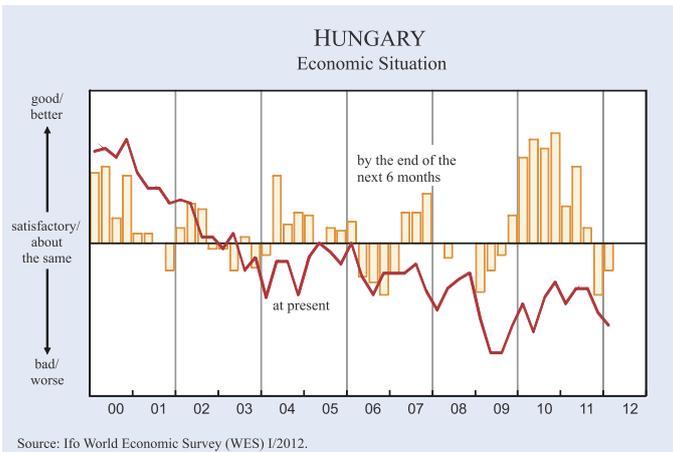
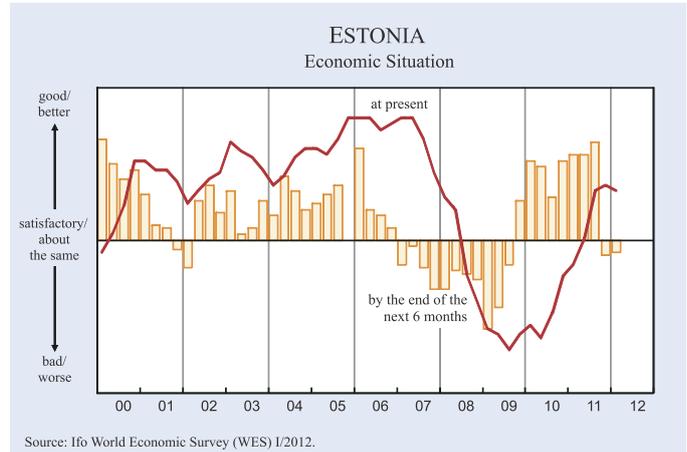
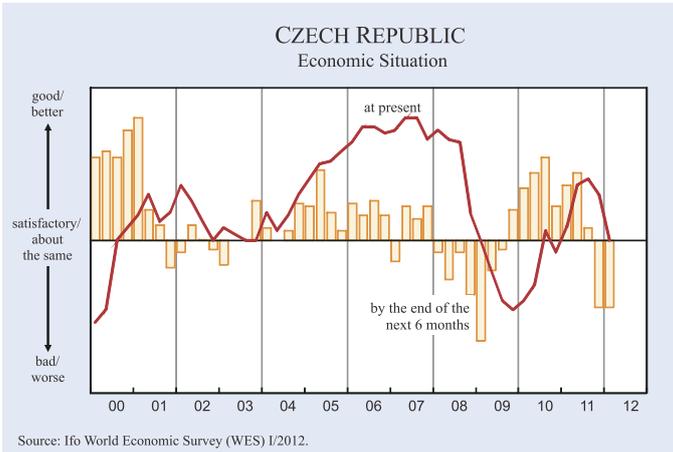


Figure 8

ASIA

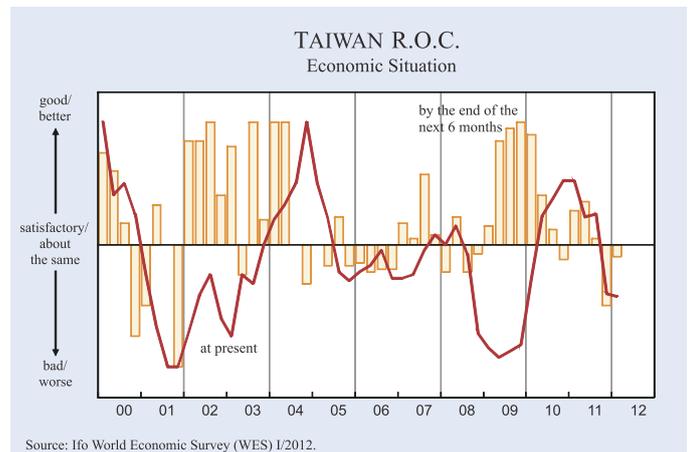
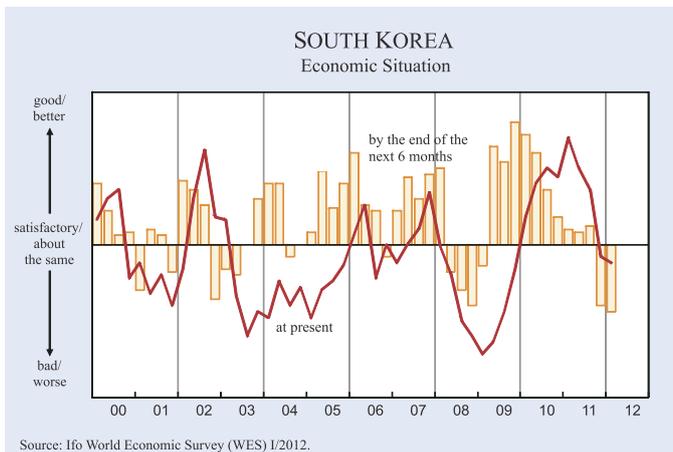
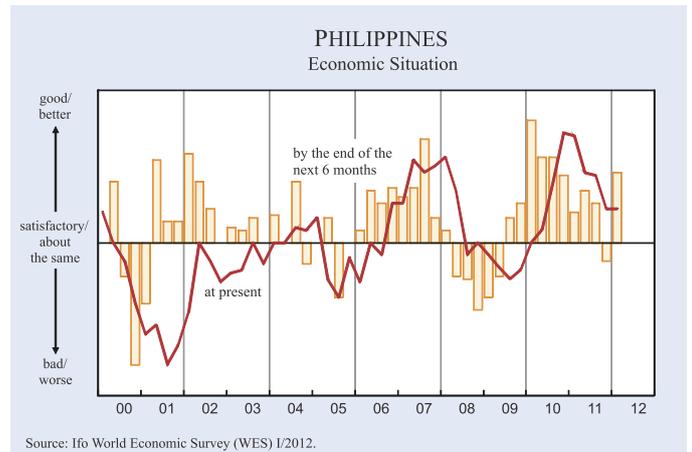
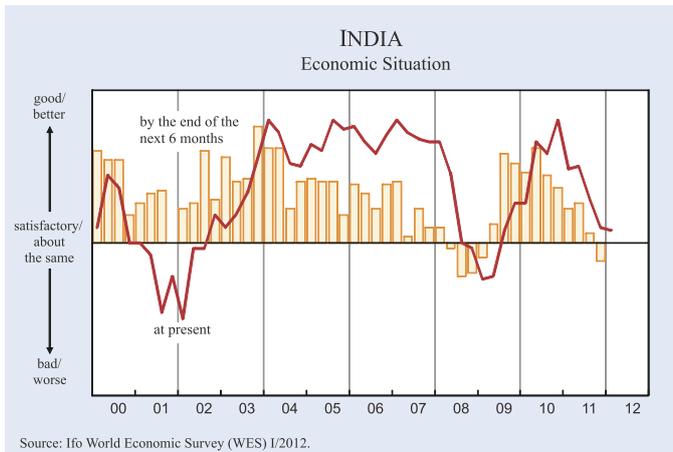
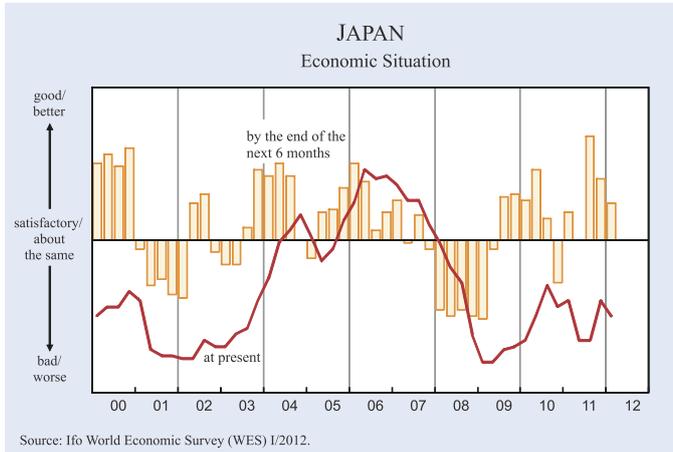


Figure 9

LATIN AMERICA

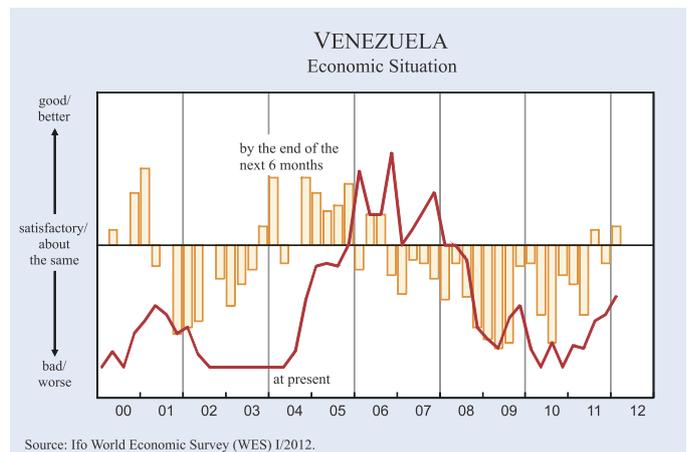
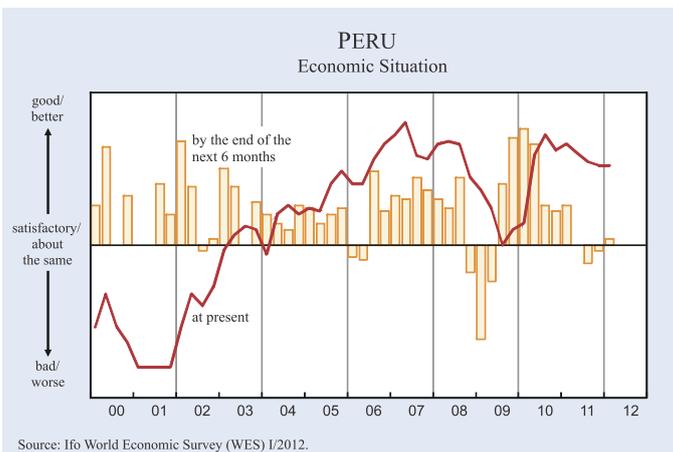
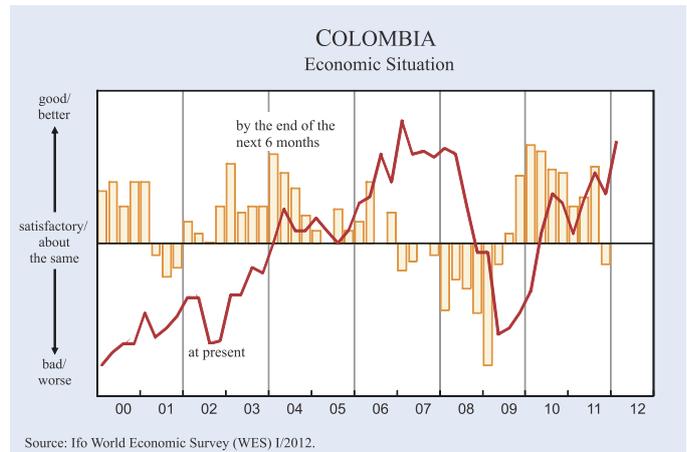
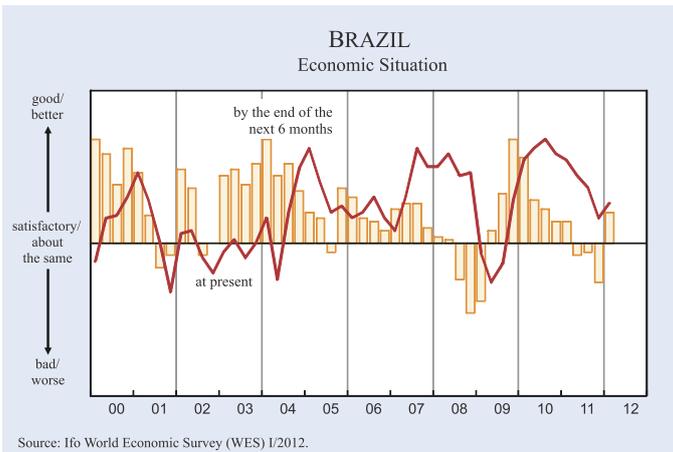
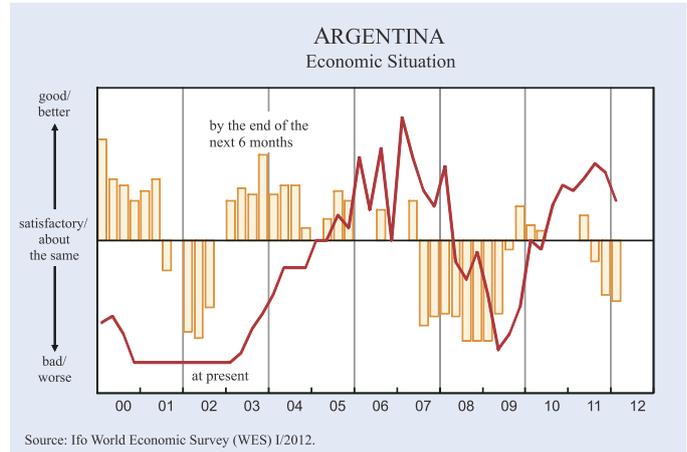
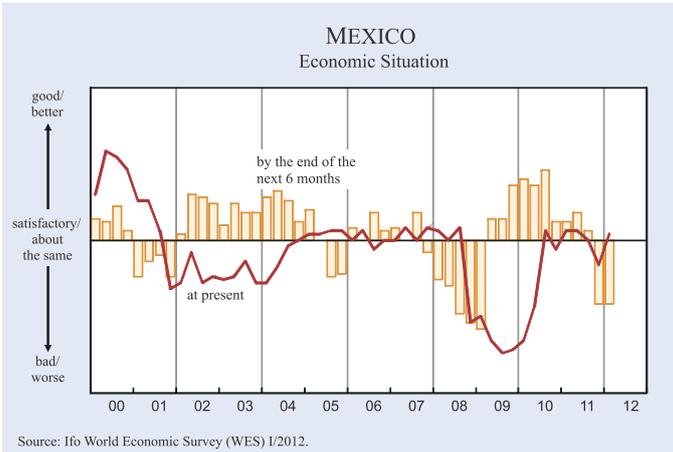
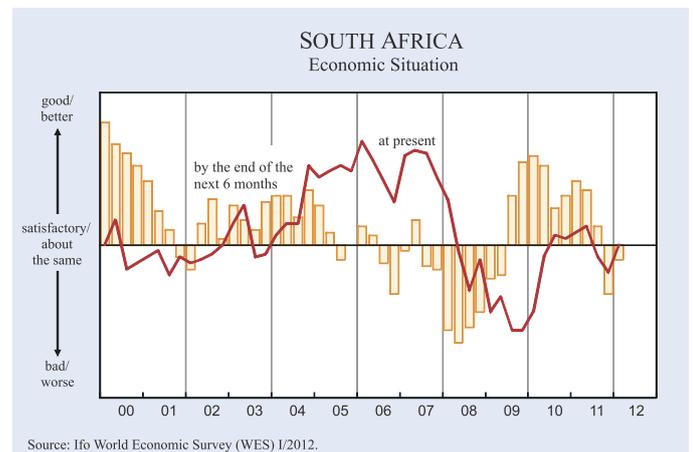
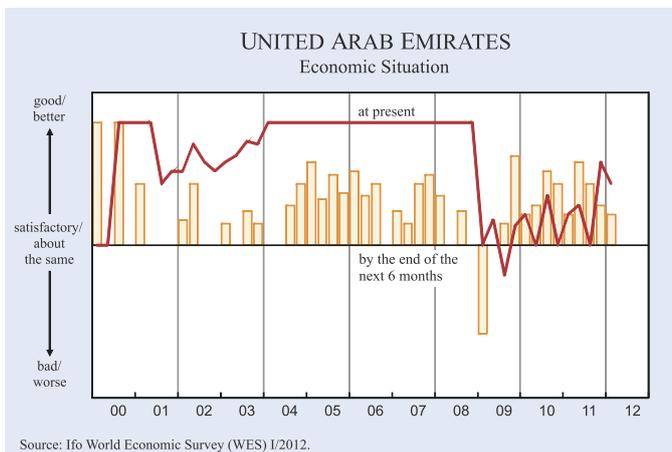
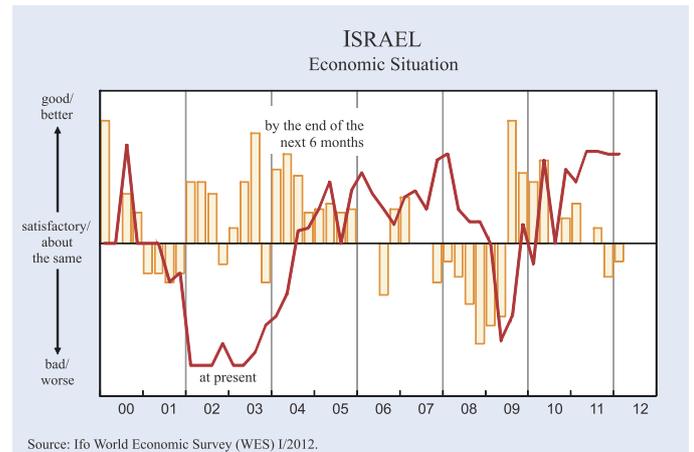
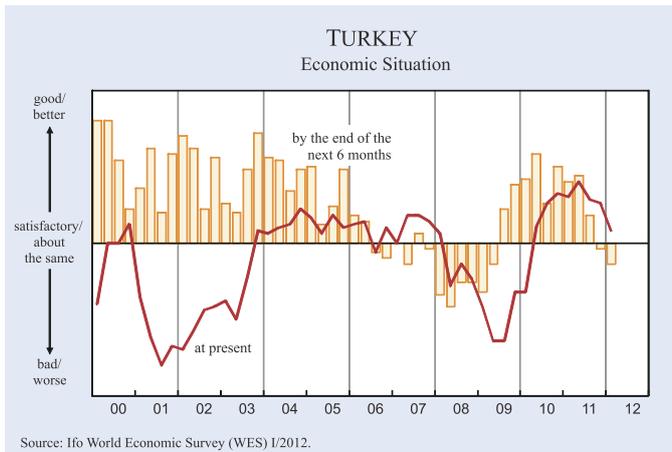
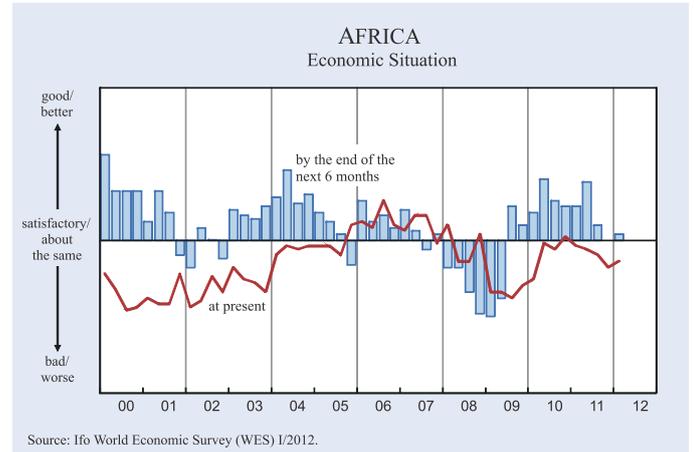
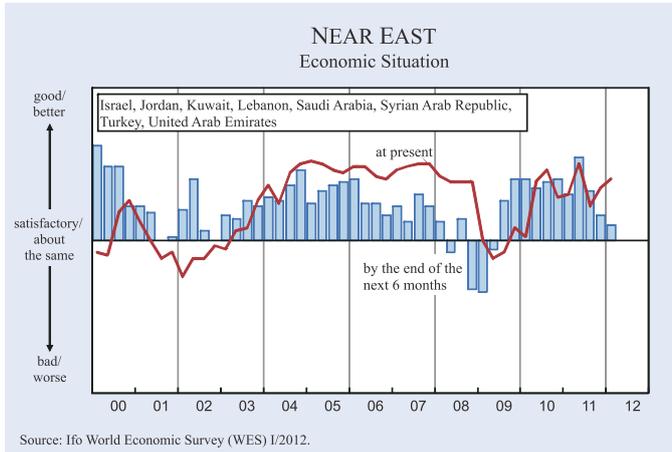


Figure 10

NEAR EAST AND AFRICA



Experts in *Israel*, on the other hand, remain cautious about economic development over the next six months. The economic situation in *Kuwait* has not changed and is still regarded as satisfactory, with no major changes anticipated over the next six months. The *Turkish* economy has weakened for three consecutive quarters and the present economic situation is now judged as satisfactory following a favourable appraisal in the previous survey. WES experts have become rather cautious about the six-month outlook. In *Jordan*, *Lebanon* and the *Syrian Arab Republic* a weak economic performance was reported and WES experts in *Jordan* foresee no substantial improvement in economic performance over the next six months. In *Syria*, where political instability continues, the economic situation is expected to continue to deteriorate. In *Lebanon*, on the other hand, the economic experts surveyed expect the overall economy to improve in the next six months, along with private consumption and capital expenditure.

Africa: No unified economic trend

Countries in *Africa* display a highly differentiated pattern as far as the economic climate is concerned. Thus, an aggregated climate index for the countries surveyed by WES on this continent still makes little sense, and the following analysis will focus on particular economic trends in individual countries of *Northern* and *Sub-Saharan Africa*.

The current economic situation in the *Northern African* countries *Egypt* and *Tunisia* is again assessed as weak. The economic outlook in *Egypt* remains at the same positive level as in the previous survey. The export sector in particular is expected to expand strongly. Economic expectations in *Tunisia* were downgraded considerably from the levels reported in the previous survey, but remain positive. The country's private consumption is expected to strengthen somewhat over the next six months. In *Algeria*, assessments of both the present economic situation and economic expectations have been revised considerably upwards and the present economic situation is now considered as "good" by WES experts. They are also fairly confident about the six-month outlook with regard to economic development in *Algeria*. In sharp contrast, the economic climate in *Morocco* deteriorated significantly. The economic situation is now assessed as weak and is expected to remain so for the next six months.

The economic climate in *South Africa* improved again. Assessments of the present economic situation, and economic expectations above all, have been upgraded somewhat (see Figure 10), with the present situation now regarded as "satisfactory". However, WES experts expressed scepticism about the six-month outlook. In *Ghana*, *Rwanda*, *Zambia* and *Congo-Brazzaville*, the present economic situation is again assessed as highly favourable in most countries, and to an even higher degree than in the October 2011 survey. Economic expectations, however, have been downwardly revised in nearly all of these countries, but still remain positive. In *Ivory Coast*, *Lesotho*, *Liberia*, *Namibia* and *Sierra Leone* a favourable economic situation prevails, according to the WES experts. Except for *Lesotho*, WES experts in all these countries are somewhat more optimistic about the six-month outlook for future economic development, capital expenditure, private consumption and exports. The economic situation in *Burkina Faso*, *Chad*, *Comoros*, *Djibouti*, *Gabon*, *Mauritius* and *Senegal* remained stable or improved slightly compared to the previous survey, and was considered "satisfactory". No major changes are anticipated in *Burkina Faso*, *Chad* and *Gabon* over the next six months. While some improvements in the economy, including probable export sector growth, are expected in *Comoros* and *Djibouti*, WES experts in *Mauritius* and *Senegal* are cautious about the development of these countries over the next six months. The present situation in *Benin*, *Congo Dem. Republic*, *Niger* and *Nigeria* is assessed as unfavourable. In the *Congo Dem. Republic* and *Nigeria* in particular assessments have been downgraded considerably. In *Benin* and *Nigeria* no further improvement of the economic situation is expected over the next six months. In *Niger* and *Congo Democratic Republic*, on the other hand, WES experts expressed greater confidence in the six-month economic outlook of these countries, and expect capital expenditure in particular to expand strongly during this period.

In *Kenya*, *Madagascar*, *Mauritania*, *Sudan* and *Zimbabwe* the economic experts surveyed see the present economic situation as weak. WES experts also expect the economies of *Sudan* and *Mauritania* to deteriorate somewhat over the next six months. Survey participants in *Sudan* highlighted that the country's economy is still suffering from the secession shock. In all of the other countries named above the economic experts surveyed were more positive about the next six months and some improvement is expected.

Table 1

Inflation Rate Expectations for 2012 and 2011
(based on WES Q1/2012 and QIV/2011)

Region	Q1/2012	QIV/2011	Region	Q1/2012	QIV/2011
Average of countries *	3.5	4.0	North America	2.4	2.7
High-income countries	2.4	2.8	Canada	2.1	2.5
Middle-income countries	7.0	7.9	United States	2.5	2.7
Upper-middle	6.6	7.4	Oceania	2.8	3.3
Lower-middle	8.1	9.2	Australia	2.8	3.3
Low-income countries	10.4	10.8	New Zealand	2.3	3.4
EU 27 countries	2.5	2.8	Latin America	7.4	7.6
EU countries (old members) ^{a)}	2.4	2.7	Argentina	23.1	24.2
EU countries (new members) ^{b)}	3.6	3.5	Bolivia	7.3	8.1
Euro area ^{c)}	2.3	2.5	Brazil	5.5	6.4
Western Europe	2.3	2.6	Chile	3.8	3.8
Austria	2.4	2.8	Colombia	3.7	3.5
Belgium	2.5	3.0	Costa Rica	(6.0)	(6.0)
Cyprus	2.9	3.1	Cuba	2.5	(1.4)
Denmark	2.2	2.4	Dominican Republic	5.5	8.2
Finland	2.6	3.2	Ecuador	5.3	4.7
France	1.9	2.1	El Salvador	5.5	4.2
Germany	2.1	2.4	Guatemala	5.9	7.1
Greece	2.3	2.8	Mexico	4.4	4.4
Ireland	1.8	1.9	Panama	(4.5)	(4.5)
Italy	2.7	2.4	Paraguay	4.7	6.9
Luxembourg	2.5	(3.3)	Peru	3.6	3.4
Malta	(2.5)	---	Uruguay	8.0	7.7
Monaco	2.0	2.3	Venezuela	30.1	27.4
Netherlands	2.2	2.1	Near East	4.7	7.1
Norway	2.0	1.8	Iran	---	(25.0)
Portugal	3.0	2.8	Israel	2.7	3.0
Spain	2.1	2.7	Jordan	3.6	(4.6)
Sweden	1.7	2.5	Kuwait	4.0	(4.5)
Switzerland	0.3	0.6	Lebanon	6.5	5.0
United Kingdom	3.3	4.5	Saudi Arabia	4.6	4.9
Eastern Europe	3.6	3.6	Syrian Arab Republic	---	(10.0)
Albania	3.3	3.6	Turkey	8.6	7.3
Bosnia and Herzegovina	(3.0)	---	United Arab Emirates	2.4	1.9
Bulgaria	3.9	4.5	Africa	7.6	7.9
Croatia	2.1	2.4	Northern Africa	5.1	7.1
Czech Republic	2.8	2.0	Algeria	3.5	4.3
Estonia	4.5	4.9	Egypt	11.8	13.4
Hungary	4.8	4.2	Morocco	2.3	2.8
Latvia	3.7	4.4	Tunisia	4.3	4.8
Lithuania	4.0	4.5	Sub-Saharan Africa	9.2	8.4
Poland	3.9	4.0	Benin	3.9	4.0
Romania	3.6	4.2	Burkina Faso	(2.0)	(2.4)
Serbia	6.8	9.0	Burundi	11.7	(11.0)
Slovakia	3.0	3.6	Chad	(7.0)	---
Slovenia	2.4	1.9	Comoros	(5.0)	(5.0)
CIS	8.9	10.0	Congo Dem. Rep.	13.9	18.7
Belarus	(20.0)	(20.0)	Congo-Brazzaville Rep.	3.0	3.1
Georgia ^{x)}	(7.8)	---	Djibouti	(5.0)	5.3
Kazakhstan	7.9	8.7	Gabon	(5.7)	(7.5)
Kyrgyzstan	15.0	14.7	Ghana	(8.9)	(8.5)
Russia	7.8	8.8	Ivory Coast	4.0	3.9
Ukraine	8.9	10.5	Kenya	15.4	17.1
Uzbekistan	---	(14.6)	Lesotho	5.2	5.4
Asia	3.6	4.1	Liberia	7.3	5.8
Bangladesh	8.9	9.4	Madagascar	9.7	9.6
China	3.9	5.6	Malawi	12.5	9.7
Hong Kong	4.3	5.9	Mauritania	8.3	7.8
India	7.3	8.4	Mauritius	5.6	5.7
Indonesia	5.4	5.0	Namibia	5.9	5.6
Japan	0.0	0.0	Niger	3.2	3.3
Malaysia	4.3	3.8	Nigeria	14.3	10.9
Pakistan	12.6	14.0	Rwanda	7.7	7.8
Philippines	4.3	4.6	Sierra Leone	13.9	14.7
Singapore	(3.0)	(4.5)	South Africa	6.3	5.3
South Korea	3.8	4.3	Sudan	25.3	21.8
Sri Lanka	8.3	8.8	Swaziland	6.7	8.0
Taiwan	1.5	1.6	Togo	(3.0)	(2.0)
Thailand	3.4	4.0	Uganda	(25.0)	---
Vietnam	14.9	20.8	Zambia	7.6	8.9
			Zimbabwe	5.3	4.3

* 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. - () The data in brackets result from few responses. ^{x)} Georgia, which is not member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

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

Source: Ifo World Economic Survey (WES) I/2012 and IV/2011.

By far the lowest rating on the WES scale was given to the remaining *Sub-Saharan* countries of *Burundi*, *Malawi*, *Swaziland*, *Togo* and *Uganda*, where the present situation is regarded as very poor. Moreover, no improvement in economic performance is expected in *Burundi*, *Swaziland* and *Togo* over the next six months, and WES experts in *Uganda* and *Malawi* even forecast a deterioration in the situation.

Inflation pressure to ease further

General trends

WES experts forecast a worldwide average annual inflation rate of 3.5% for 2012 – half a percentage point less than in 2011 (see Table 1). Responses to a survey question focusing on expected trends in consumer prices over the next six months signal further easing of the upward inflation trend, which set in during the second half of 2011.

Price trends by regions and countries

On average for the *euro area*, the expected inflation rate will be 2.3%, versus 2.5% in 2011. Within the *euro area*, the lowest inflation rates in 2012 are expected to be seen in *Ireland* and *France* (1.8% and 1.9% respectively). Predicted inflation rates are notably higher than the *euro area* average in *Estonia* (4.5%), *Portugal* (3.0%), *Cyprus* (2.9%) and *Italy* (2.7%), mainly due to hikes in consumption taxes.

In *Western Europe* the two extremes of presumed price development in 2012 outside the *euro area* are in *Switzerland* (0.3%) and the *United Kingdom* (3.3%) once again, which in the case of the *UK* nevertheless constitutes an improvement (4.5% in 2011).

In *Eastern Europe* the inflation rate in 2012 is expected to be the same as in 2011 (3.6%). The region's highest inflation expectations are in *Serbia* (6.8%), followed by *Hungary* (4.8%). According to WES experts' expectations, *Croatia* (2.1%), *Slovenia* (2.4%) and the *Czech Republic* (2.8%) will see the region's lowest inflation rates on 2012.

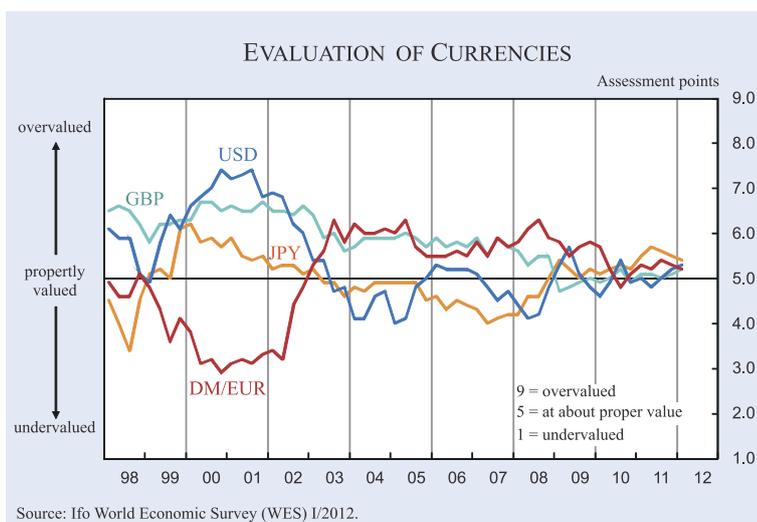
In *North America*, the 2012 inflation forecast for the *United States* stands at 2.5% (after an inflation outcome of 2.7% in 2011) and at 2.1% for *Canada* (after 2.5% in 2011).

Table 2

Legal and Administrative Restrictions for Foreign Firms	
Absent	
Sweden	8.1
Denmark	7.9
Finland	7.7
Austria	7.2
Netherlands	7.2
Chile	7.0
Mauritius	7.0
Rather low	
Germany	6.7
Norway	6.7
Portugal	6.7
Cyprus	6.6
Ireland	6.6
Peru	6.6
Sierra Leone	6.6
Hong Kong	6.5
Slovenia	6.5
United Kingdom	6.5
Uruguay	6.5
Latvia	6.3
New Zealand	6.3
Spain	6.3
Switzerland	6.3
Slovakia	6.2
Czech Republic	6.1
Israel	6.1
Belgium	5.9
Bulgaria	5.9
Canada	5.9
Hungary	5.9
South Korea	5.9
Turkey	5.9
India	5.8
France	5.7
Kazakhstan	5.7
Philippines	5.7
Serbia	5.7
Albania	5.6
Egypt	5.6
Japan	5.6
Paraguay	5.6
United States	5.5
Australia	5.4
Poland	5.4
Colombia	5.3
Guatemala	5.0
Italy	5.0
Mexico	5.0
Nigeria	5.0
Thailand	5.0
Brazil	4.6
Croatia	4.6
Sri Lanka	4.5
South Africa	4.4
Taiwan	4.4
Kenya	4.3
Romania	4.3
Congo Dem. Rep.	4.2
Greece	4.2
Rather high	
China	3.8
Pakistan	3.8
Malaysia	3.7
Bolivia	3.0
Indonesia	3.0
Sudan	3.0
Russian Federation	2.7
Argentina	2.3
Zimbabwe	1.7
Ukraine	1.6
Venezuela	1.6
Ecuador	1.5

Only countries with more than four responses were included in the analysis. WES scale: 9 - absent, 5 - low, 1 - high
Source: Ifo World Economic Survey (WES) I/2012.

Figure 11



In *Asia* inflation expectations for 2012 of 3.6% are significantly lower than the reported CPI rate for 2011 (4.1%). According to WES experts by far the highest inflation rates in the region will prevail again in *Vietnam* (14.9% after a reported 20.8% in 2011) and in *Pakistan* (12.6% after a reported 14.0% in 2011). In *China* inflation expectations for 2012 point to a price increase of 3.9%, which would be significantly lower than the reported price hike in the previous year (5.6%). The expected slowdown in the inflation rate in *India* is less pronounced (7.3% after a reported 8.4% in 2011). In *Taiwan* the traditionally moderate inflation climate will continue to prevail in 2012 (1.5% after 1.6% in 2011). In *Japan* the deflationary process seems to have halted, but the price trend will remain flat (in 2012 as in 2011: 0%).

In *Oceania* – both in *Australia* and *New Zealand* – inflation expectations for 2012 dropped significantly

from last year's rates (from 3.3 % to 2.8% respectively from 3.4% to 2.3% in the case of *New Zealand*).

In *Latin America* inflation expectations for 2012 stand at 7.4% and thus differ only marginally from the reported inflation rate in 2011 (7.6%). The countries with the worst inflation outlook in the region remain *Venezuela*, where the 2012 inflation rate is expected to be even higher than in 2011 (30.1% compared to 27.4%), and *Argentina* (23.1% following

24.2% in 2011). At the other end of the scale, the countries with inflation rates below the regional average will again be *Peru* (3.6% after 3.4% in 2011), *Colombia* (3.7% after 3.5 in 2011), *Chile* (unchanged 3.8%) and *Brazil*, where the expected inflation rate for 2012 of 5.5% is also somewhat lower than the reported rate for 2011 (6.4%).

In *CIS* countries inflation expectations for 2012 declined only marginally from their traditionally high rates (8.9% after a reported rate of 10.0% in 2011). The expected inflation rate for 2012 is slightly lower than the regional average in *Kazakhstan* (7.9% after 8.7% in 2011), in *Russia* (7.8% after a reported 8.8% in 2011) and in the *Ukraine* (8.9% compared with 10.5% in 2011). The inflation expectations in *Belarus* (20.0%) and in *Kyrgyzstan* (15.0%) once again significantly exceed the regional average.

Table 3

Assessment of the Following Factors Influencing the Climate for Foreign Investors in the Next Six Months

Climate due to	Change for the next six months *	
	Deterioration	Improvement
Legal/administrative restrictions to invest and/or to repatriate profits		China, Congo Dem. Rep., Croatia, Greece, Mauritius, Serbia, Slovenia
Political stability	Congo Dem. Rep., Ecuador, Israel, Kenya, Mexico, Pakistan, Paraguay, Romania, Sierra Leone, Sudan, Zimbabwe	Colombia, Slovenia

* For the countries that are not mentioned in the table, no major changes relating to the climate for foreign investors are expected during the next six months. Only countries with more than four responses were included in the analysis.

Criteria for selection of countries: Deterioration: WES grade between 1.0 and 3.5
Improvement: WES grade between 6.0 and 9.0

Source: Ifo World Economic Survey (WES) I/2012.

In the *Near East* the decline in the expected regional inflation rate in 2012 is biased by the fact that no responses from WES experts in the region's two high inflation countries (*Iran* and *Syria*) were submitted in this survey. In a country by country comparison the inflation outlook deteriorated somewhat in *Turkey* (8.6% after a reported 7.3% in 2011), in *Lebanon* (6.5% after a reported 5.0% in 2011) and also – on a much lower level – in the *United Arab Emirates* (2.4% after a reported

1.9% in 2011). On a brighter note, the inflation outlook improved somewhat in *Israel* (2.7% after 3.0%), *Jordan* (3.6% after 4.6%), *Kuwait* (4.0% after 4.5%) and *Saudi Arabia* (4.6% after 4.9%).

In *Africa* price trends are still very heterogeneous. Relatively low inflation rates for 2012 are expected again in *Morocco* (2.3%), *Congo-Brazzaville Rep.* (3.0%) and *Niger* (3.2%). *Ivory Coast* (4.0%), *Benin* (3.9%), *Algeria* (3.5%), *Tunisia* (4.3%), *Namibia* (5.9%) and *South Africa* (6.3%) will also probably come under a medium inflation bracket in 2012. High inflation rates of 10% or more will also predominate in 2012 according to WES experts, particularly in *Sudan* (25.3%), *Uganda* (25.0%), *Kenya* (15.4%), *Sierra Leone* (13.9%), *Congo Dem. Rep.* (13.9%) and *Egypt* (11.8%).

Yen still seen as overvalued

On a world-wide scale the exchange rates of three of the four currencies that constitute the Special Drawing Rights of the IMF – namely the *US dollar*, the *UK pound* and the *euro* – appear to be close to their fundamentally appropriate values. Only the *Japanese yen* is again regarded by the majority of WES experts as overvalued (see Figure 11).

There are, however, major differences in currency evaluation between countries: WES experts again regard their own currency as generally **overvalued** in *Japan*, as well as in *Switzerland* and *New Zealand* (in both cases not, however, compared to the *yen*), in *Israel* (not compared to the *euro*), *Argentina*, *Colombia* and *Uruguay*. On the other hand, experts assessed their own currencies as generally **undervalued** in *China*, *Pakistan*, *Taiwan* (not, however, compared to the *US dollar*), *South Korea* and *Kazakhstan* (not compared to the *British pound*), *Canada* (not against the *euro*), the *Dominican Republic*, *Poland* and the *Czech Republic* as well as in the *euro area* as a whole (with the exceptions of *Greece* and *Spain*).

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 of view, signal that the a world-wide average value of the *US dollar* is expected to rise somewhat over the next six months. However, this average masks diverging trends: the *US dollar* is expected to

weaken in some *Asian* countries (specifically *China*, *India*, *Malaysia*, the *Philippines* and *South Korea*), in *Kazakhstan*, *Colombia* and *Peru* as well as in *Algeria*, *Lesotho*, *Liberia* and *Rwanda*. These results contrast with an expected **increase** in the value of the *US dollar* particularly in *Switzerland*, in the *euro area* as a whole, and in *Western European* countries outside the *euro area* (with the exception of the *UK*, however, where the exchange rate is expected to be stable), *Eastern European* countries (with the exceptions of *Poland* and *Hungary*), *New Zealand*, *Vietnam*, *Sri Lanka*, *Pakistan* and *Bangladesh*, in the *CIS* countries (with the exception of *Kazakhstan* and *Kyrgyzstan*), in *Israel* as well as in most *African* countries including *South Africa* (but not *Algeria*, *Lesotho*, *Liberia*, *Rwanda* and *Zambia*).

WES experts expect stable or slightly falling short-term interest rates over the next six months

The tightening bias in the previous surveys, which started to level off in the October 2011 survey, has been replaced by an expected easing in the bias of monetary policy. Whereas short-term interest rates are expected to remain stable or even decline further over the next six months, an increase in the more market-driven, long-term interest rates is expected again (see Figure 12).

A decline in short-term interest rates is particularly expected in *Australia*, *Malaysia*, the *Philippines*, *Taiwan*, *Israel*, *Brazil*, *Peru* and *Paraguay* as well as *Mauritius* and *Namibia*.

ICC Special Question: Impact on the world economy should the Eurozone collapse

Since the outbreak of the financial and economic crisis the loss of confidence of the financial markets in some countries of the *Eurozone*, reflected in the steadily increasing risk-premia of some government bonds, has led to a deep-rooted *euro* debt crisis. Some countries in the *Eurozone* are finding it increasingly difficult to finance their national budgets as a result. The *euro* debt crisis has to be resolved soon, as the stakes for the world economy are very high should the European Monetary Union collapse.

Figure 12

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

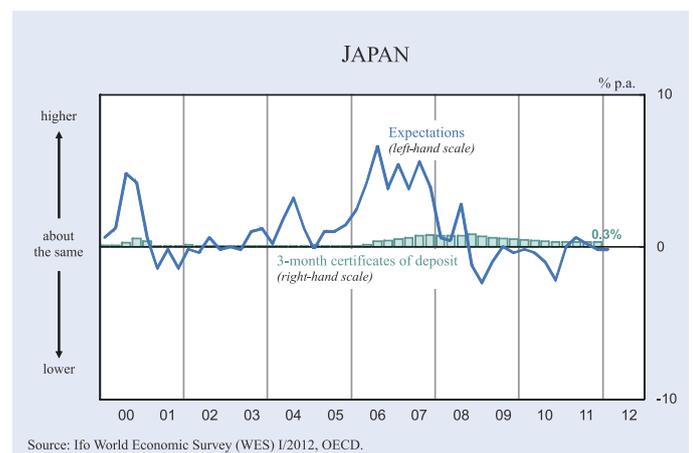
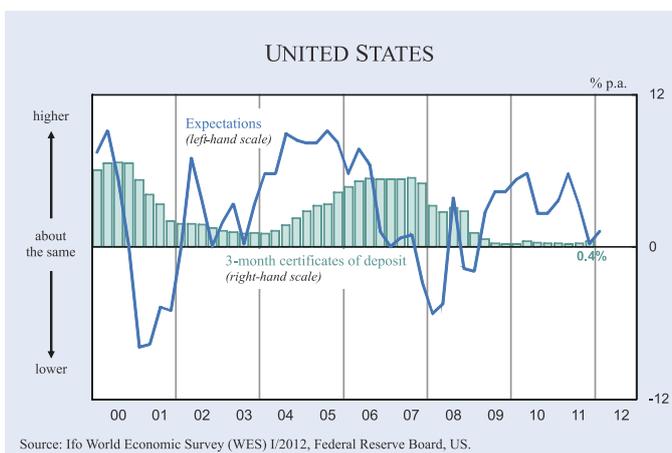
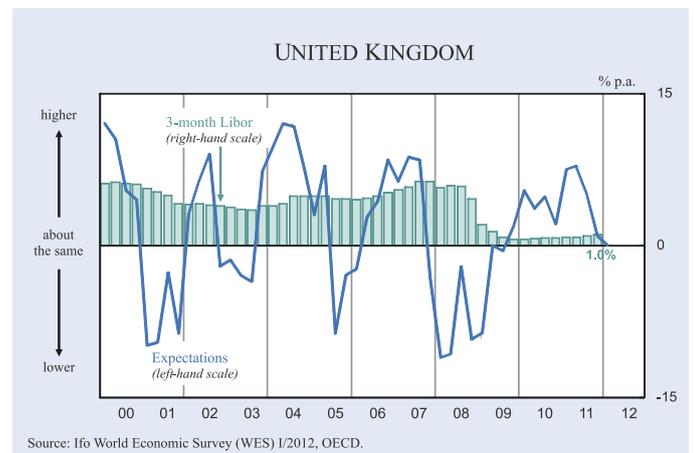
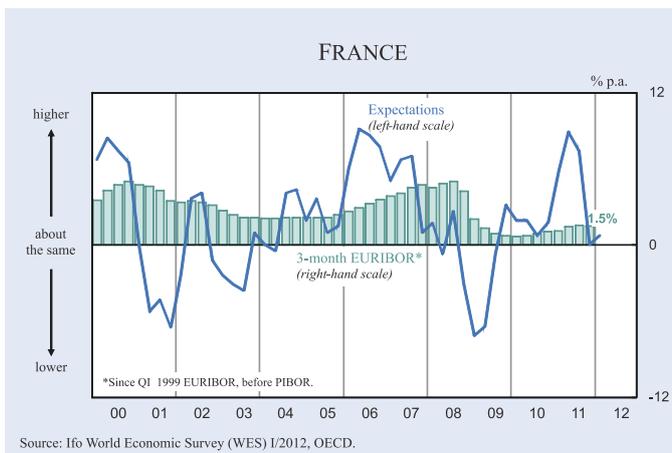
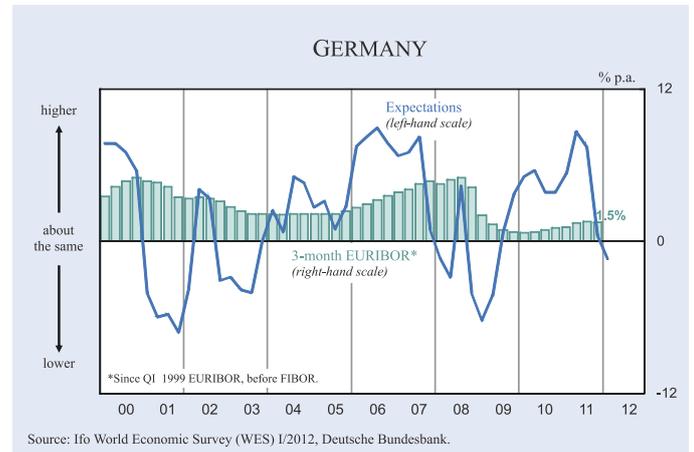
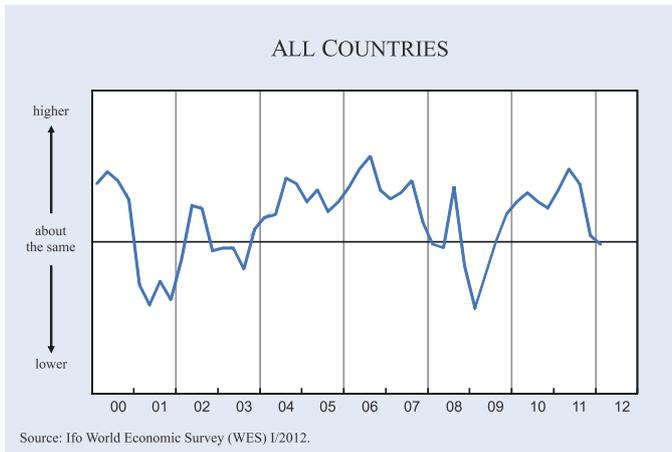


Figure 13

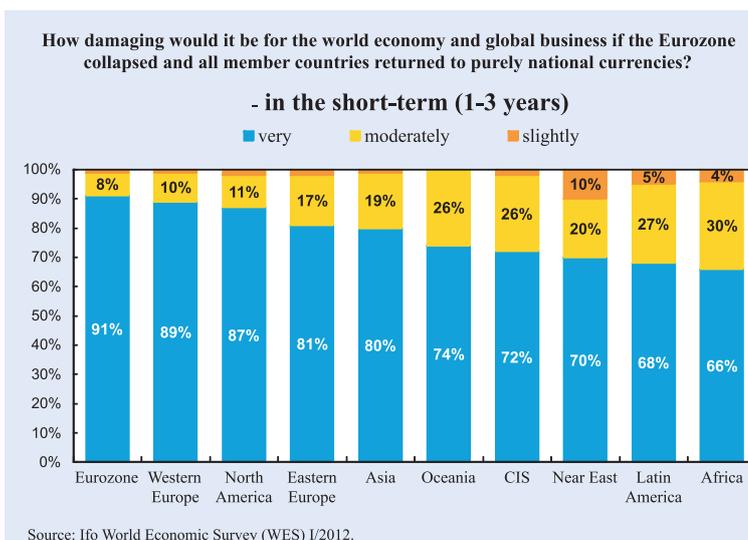
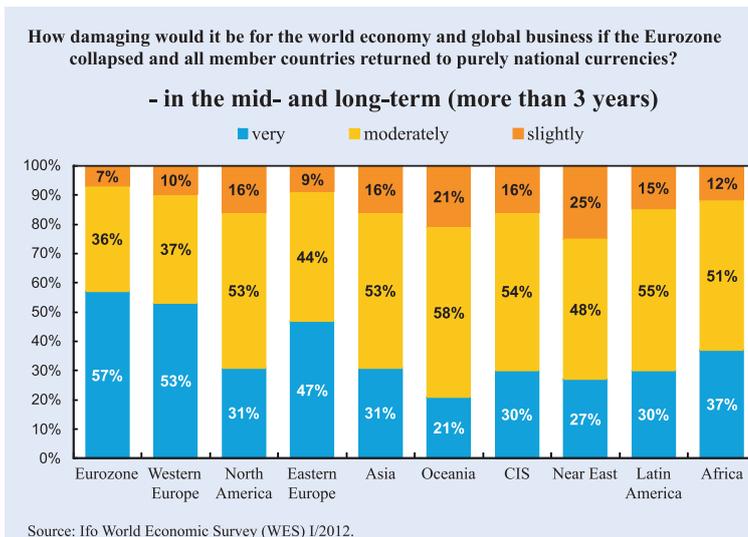


Figure 14



This quarter’s ICC special question asked the economic experts surveyed about their opinion on the possible damage to the world economy and global business if the *Eurozone* were to collapse and all member countries were to return to purely national currencies. The question was divided into two time considerations: the short-term and the mid- to long-term consequences. The vast majority of the surveyed participants in all regions see the danger of significantly damage to the world economy in the short-term (1 to 3 years) and global business if the *Eurozone* were to collapse. The share of responses suggesting that this would be “very damaging” ranges from 66% in *Africa* up to about 90% in *Western Europe* and the *Eurozone* (see Figure 13). Only a small percentage (0-10%) of the surveyed experts in all regions think that it would have only

slightly damaging effects on the world economy if the *euro* member countries were to return to their national currencies. For mid- to long-term considerations (more than three years), the response pattern shifts somewhat to less dramatic consequences (see Figure 14). Only the majority of WES experts surveyed in the *Eurozone* (57%), *Western Europe* (53%) and *Eastern Europe* (47%) would still expect very high damage to the world economy. In all other regions the share of voices signalling only moderately damaging effects is somewhat higher than that of “very damaging” effects. The share of survey participants who think that the damage to global business in case of a *Eurozone* collapse would be slight in the long-term is particularly high in the *Near East* with 25%, followed by *Oceania* (21%).

In short, the vast majority of the experts surveyed would expect a collapse of the *Eurozone* to be very damaging to the world economy in the short-term. In the mid- to long-term, the expected consequences for the world economy are not perceived to be quite as grave, but

there is still a widespread consensus that politics should do everything in its power to prevent such a scenario from occurring.