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IFO WORLD ECONOMIC SURVEY

World Economic Climate

WORLD ECONOMIC CLIMATE
SOARED IN APRIL

Economic Expectations

ECONOMIC EXPECTATIONS PICKED UP
FURTHER

Inflation

INFLATION IN 2002 EXPECTED TO BE ONLY
SLIGHTLY LOWER THAN IN 2001

Interest Rates

SHORT- AND LONG-TERM INTEREST RATES
EXPECTED TO RISE

Currencies

EURO EXPECTED TO STRENGTHEN

Special Topic

STRONGER CORPORATE GOVERNANCE
REQUESTED

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Ifo World Economic Survey

Highlights

- Current situation of world economy improved for the first time since the end of 2000
- Economic expectations for next six months picked up further
- Inflation in 2002 probably only slightly lower than in 2001
- Short- and long-term interest rates expected to rise
- The US dollar expected to keep its value on a world-wide scale
- However, with regard to the euro the dollar is expected to weaken

IMPROVED WORLD ECONOMIC CLIMATE

In April the world economic climate indicator continued the upward trend that set in at the beginning of the year, after having declined from mid-2000 to the end of 2001. At 104.7 (1995=100) the world economic climate is now higher than its long-term average (1989-2001), though it is still well below the past boom level reached in the second half of 1999 (117.2; 1995=100).

The improvement of the overall climate indicator is still mainly driven by optimistic expectations for the next six months. However, the assessments of the current economic situation also showed signs of improvement for the first time since the fourth quarter of 2000. This data constellation is now similar to that of mid-1999, i.e. shortly before world economic growth gained momentum. In contrast, however, this time there appears to be no danger of the "IT and dot.com exuberance" which led to the emergence of an asset bubble in the new economy sector, which burst in 2001.

Currently the economic situation in the capital expenditure sector of the world economy is still depressed but will pick up according to the WES experts' view in the course of the next six months. Private consumption will also strengthen somewhat in the months to come, though growth will be relatively weaker as recovery here starts from a somewhat higher level.

This pattern appears to be normal for an economic recovery in its early stage. Thus, the data provided by

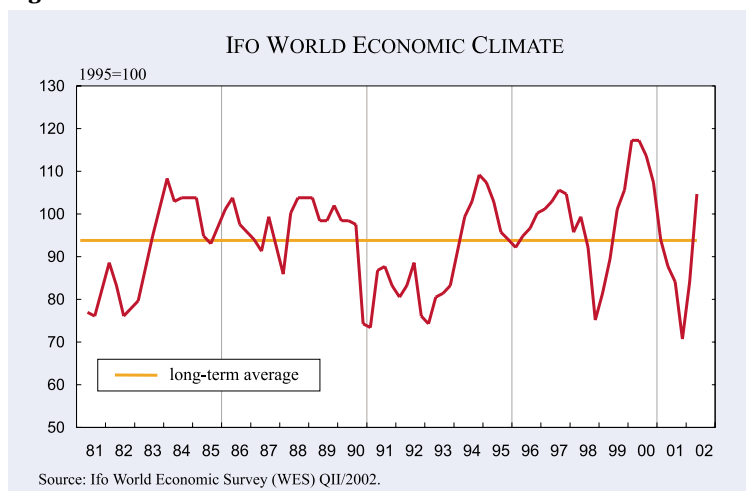
the new Ifo World Economic Survey point to a self-enforcing economic upswing of the world economy with business investment starting to stimulate economic growth in the second half of the year which again will strengthen private consumption via more jobs created by increasing capital expenditures. The risk of a double dip, i.e. a renewed strong setback of the world economic climate after the restocking process will have run out of steam, appears relatively small in the light of the new survey data.

World economy: Strong rebound of climate indicator

After having reached an all-time low in October 2001, the overall indicator bounced back in January 2002 and continued its upturn in April (see Fig. 1).

The improvement of the indicator resulted both from more positive assessments of the current economic situation as well as brighter expectations for the coming six months. These results suggest that a solid upturn is in the offing. In most countries it is expected that in the course of the next half year the recovery in the hard-hit capital expenditure sector will be more pronounced than in private consumption, which proved to be resilient during the past recession in most countries with some exceptions, such as Germany.

Figure 1

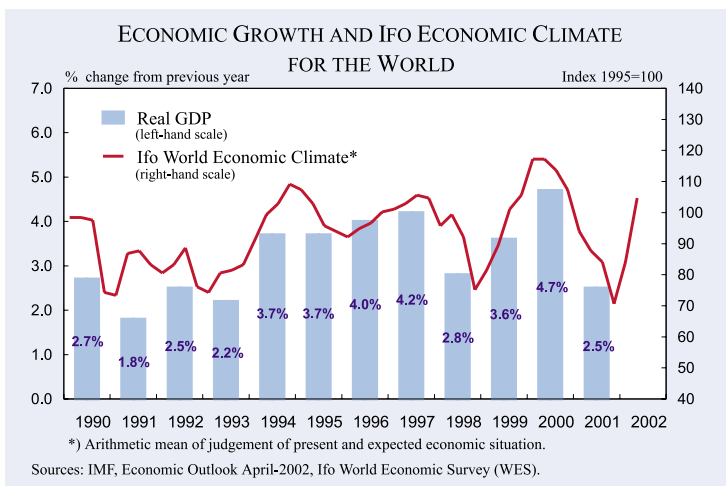


Asia: after strong increase, economic climate now slightly higher than in Western Europe

According to the new survey, both the assessments of the current economic situation as well as the expectations for the development in the next six months improved strongly. The overall economic climate indicator in Asia now matches the world average, after having shown a subdued performance since mid-2000. The most optimistic

Box 1:**Ifo World Economic Survey (WES) and growth in the world economy**

The Ifo World Economic Climate indicator closely tracks the growth of the world economy (see Figure). Since July 2000 the indicator has continuously fallen – parallel with the strong downturn in the world economy; in October 2001, in the wake of the terror attacks in the US, it reached the lowest level since its introduction at the beginning of 1981. Now, the Ifo World Economic Climate indicator has risen clearly for the second month in succession. The current level of the World Economic Climate, in April 2002, is again above the long-year average. The improvement in the indicator is not only the result of confident six-month expectations, as in January, but for the first time since the end of 2000 also due to a more favourable appraisal of the current economic situation. The pronounced weakness of the world economy has thus been overcome. Since the beginning of 2002, world economic output has grown, boosted by monetary policy that is expansionary almost everywhere. Additional strong stimulus is also coming from fiscal policy in the US and other industrial countries. The development of the Ifo World Economic Climate indicates that after the lowest increase in output in the past 10 years (+ 2.5%), we can again expect strong economic growth this year.



responses – both with regard to the current as well as the expected situation – came from China. In India, too, clear signs of economic improvement can be seen: The current economic situation is now regarded as almost satisfactory after having been in negative territory for quite a while, and expectations signal that the recovery process will continue in coming months. An even stronger recovery than in India characterises the economic picture of the Republic of Korea, Taiwan, Malaysia and the Philippines. Somewhat less advanced but clearly recognisable is the economic recovery in Singapore and Thailand. Japan, Hong-Kong and Indonesia are lagging behind the upward trend in Asia, though expectations here, too, point to some economic improvement in coming months (see Fig. 2, 3 and 7).

Western Europe: Increased hopes for a sound economic recovery gaining momentum in the course of the next six months

The assessment of the current situation in most Western European economies clearly improved, with the exception of Greece and also Italy. Expectations for the next six months continued to brighten relative-

ly strongly in almost all European countries included in the survey.

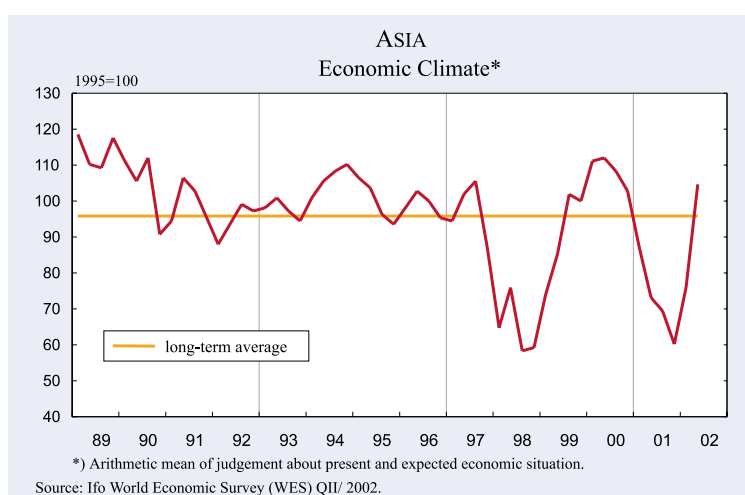
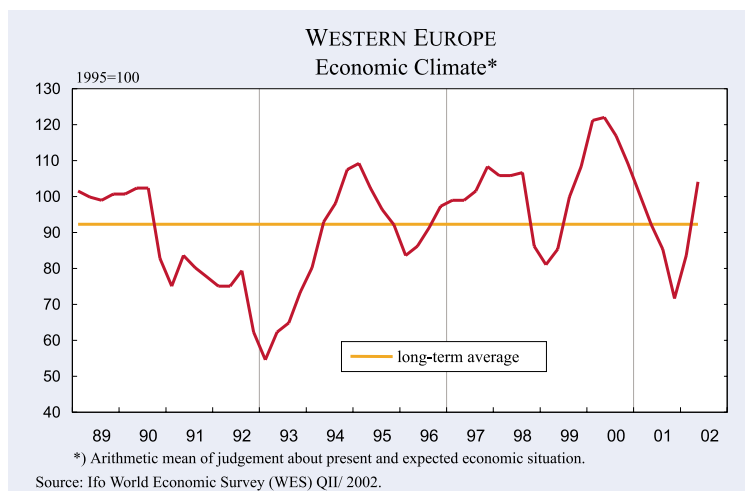
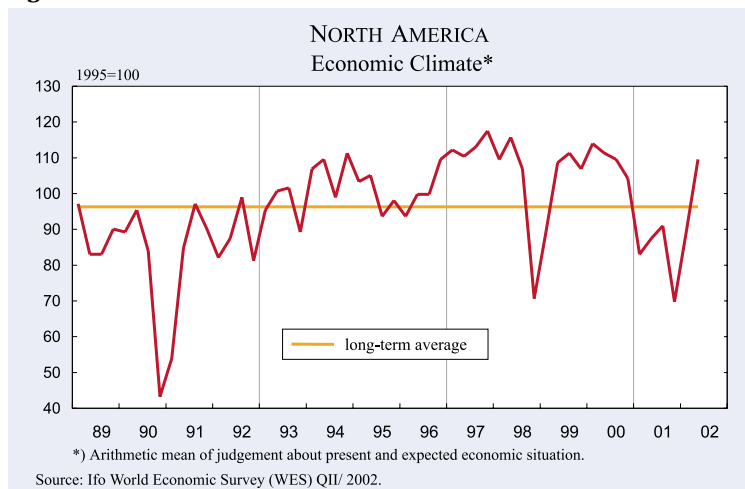
Whereas in Germany – as in most other countries – expectations are relatively buoyant, the grades given for the current situation by WES correspondents were still the lowest. On the other hand, economic assessments remained better than the European average particularly in Norway and Denmark. The outlook for the next six months continued to improve for capital expenditures which suffered strongly during the past 12 months. Private consumption, which is still very weak in some countries like Germany, is also expected to pick up in the near future (see Fig. 2, 3, 5a and 5b).

Eastern Europe and CIS: Economic climate remains robust

The assessments of the current economic situation improved somewhat and again reached the “satisfactory” level after having slipped slightly below it in the January survey. Optimism in the expectations for the next six months increased further, though not as much as in most other regions. The current economic situation continues to be more positive than average, particularly in Latvia, Estonia, Hungary and the Czech Republic. On the other hand, in Yugoslavia, Bosnia-Herzegovina, Bulgaria, Poland and Croatia the current situation remained clearly below the “satisfactory” level, though the expectations improved further and point to some recovery in the course of the next six months.

In Russia both the current economic situation and the economic outlook for the next six months improved signalling a more or less satisfactory state of the economy. A rather positive economic performance continues to characterise Kazakhstan. Positive signals come from the Ukraine where for the first time the current economic situation was regarded as satisfactory and expectations for the next six months signal a continuation of the recovery (see Fig. 3 and 6).

Figure 2



United States: Economic recovery takes shape

The current economic situation in the US continued to improve and is now not far from having reached a satisfactory level. Expectations for the next six months, which had shot up in the previous survey, made slight gains. This data constellation still supports our view that the US economy will pull out

first from the cyclical trough, with capital expenditures picking up in coming months and private consumption remaining buoyant. Imports are expected to pick up in coming months at a stronger pace than exports, with the consequence that the trade balance will deteriorate further. An even more positive picture of the current and future economic trends exists in Canada, where in contrast to the US exports are expected to grow faster than imports, which will have a positive impact on the trade balance (see Fig. 2 and 3).

Latin America: Current economic situation unsatisfactory but increasing signs of improvement

Spill-over effects of the US recovery are beginning to be seen particularly in Brazil and Mexico. Relatively positive is the economic climate also in Chile. By far the most negative assessments concerning the current economic situation came again from Argentina, hit by the currency and banking crisis, followed by Uruguay, Paraguay and also Venezuela (see Fig. 3).

Oceania: More signs of recovery in Australia and New Zealand

The current economic situation improved particularly in New Zealand but also in Australia where the recovery process had already set in at the end of last year. Expectations for the next six months point to further recovery in both countries.

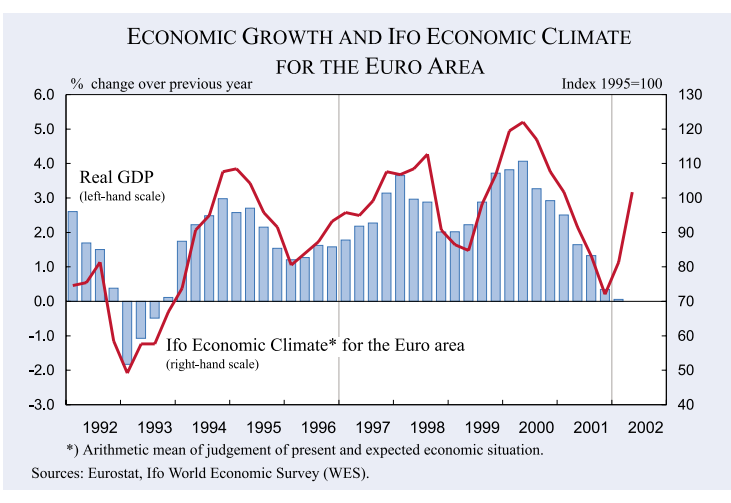
Trade barriers to exports are still regarded as a serious problem in both countries.

Africa: Only weak signs of economic stabilisation

In most African countries the economic situation remained in negative territory according to the

Box 2:
Ifo World Economic Survey (WES) and growth in the euro area

The Ifo World Economic Climate for the 12 member countries of the euro zone 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 April results are based on the responses of 270 experts. The trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro zone – measured in annual growth rates of real GDP (see Figure). As a result the indicator has good prognostic qualities. In April 2002, the climate indicator reached a level that was clearly above the mean for the years 1989 to 2001. For the first time since the end of 2000, the assessments of the current economic situation have also improved. Thus, the European development exhibits a pattern similar to that of the US economy a quarter ago. The trough of the business cycle in the euro zone – measured in terms of seasonally adjusted real GDP – can be dated to the fourth quarter of 2001. The Ifo Economic Climate indicates that after slight growth in the first quarter of 2002, an acceleration of the economic expansion can be expected from the second quarter on.



WES experts' assessments. However, expectations for the next six months improved somewhat. In South Africa and Ghana this positive trend is more pronounced than in the other countries of this continent. In other African countries in the WES panel (Kenya, Nigeria), the economic situation remains well below a satisfactory level, and hardly any improvement is expected in the next six months. By far the worst economic situation is still reported from Zimbabwe where the outlook also remained very bleak.

Near East: Disparity of economic trends widens

Whereas the United Arab Emirates, Saudi Arabia and Bahrain continue to assess the economic situation of their countries as good and expect further improvement in coming months, countries like Israel, Turkey and Iran are suffering from recession. However, the outlook for the next six months has improved, also in those countries where the current situation is poor.

Interest rates: Increase expected in the course of the next six months

For the first time since the end of 2000, a majority of WES experts expect an increase of both short-term and long-term interest rates in the course of the next six months. This view is particularly pronounced in North America and Oceania (Australia and New Zealand). Also in Western Europe the expected trend of interest rates is now pointing up – in the United Kingdom, Sweden and Denmark somewhat more than in the euro area. On the other hand, in Asia the prevailing view is that of stable interest rates in coming months, with the exception of the Republic of Korea, Hong Kong, Singapore and Vietnam where an increase of interest rates appears likely. The same holds true for Latin America, where only in a few cases – like Bolivia, Costa Rica, Parag-

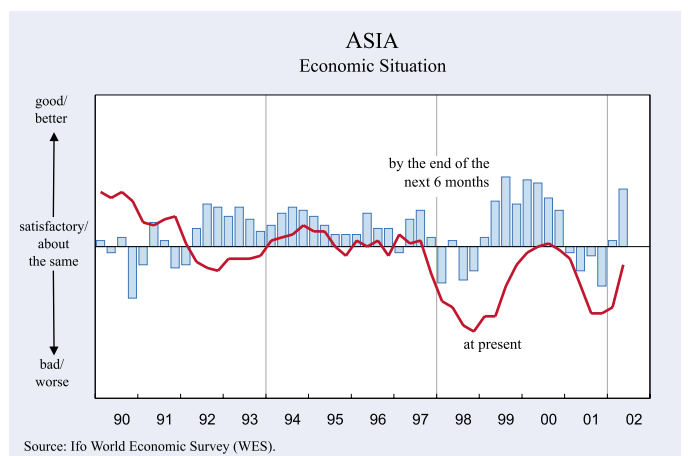
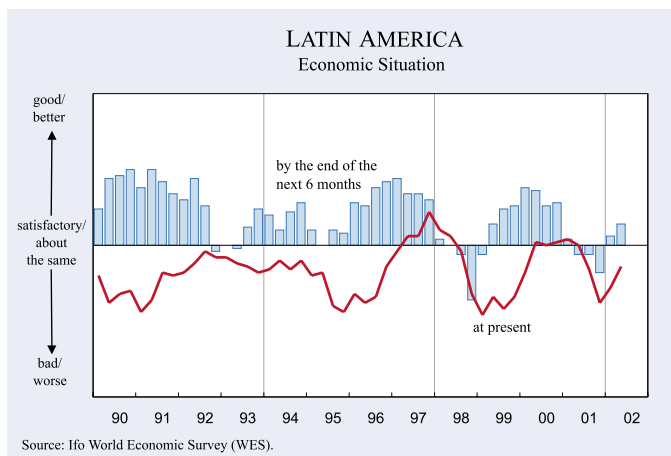
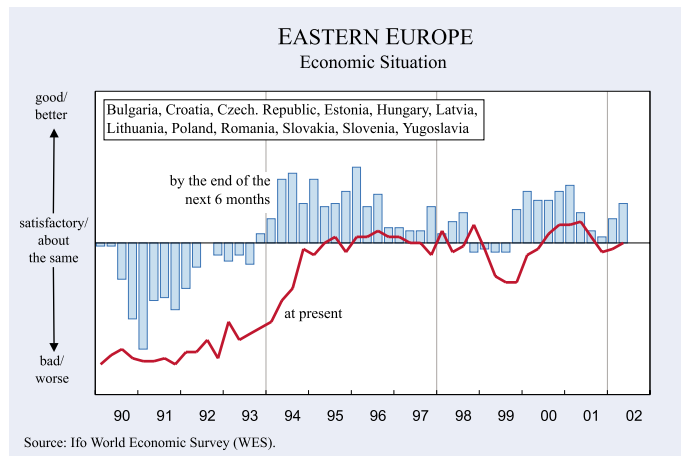
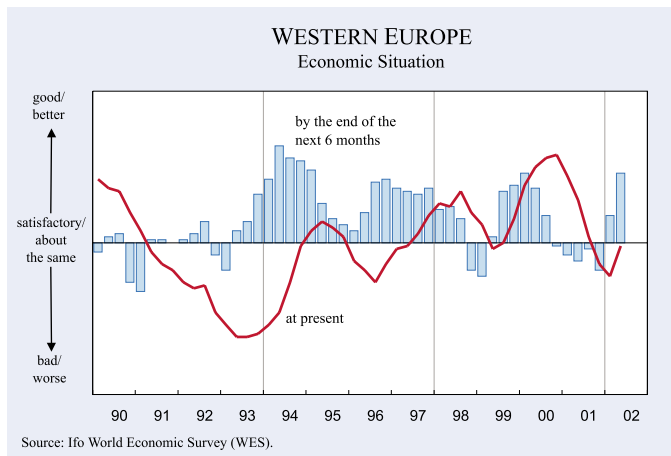
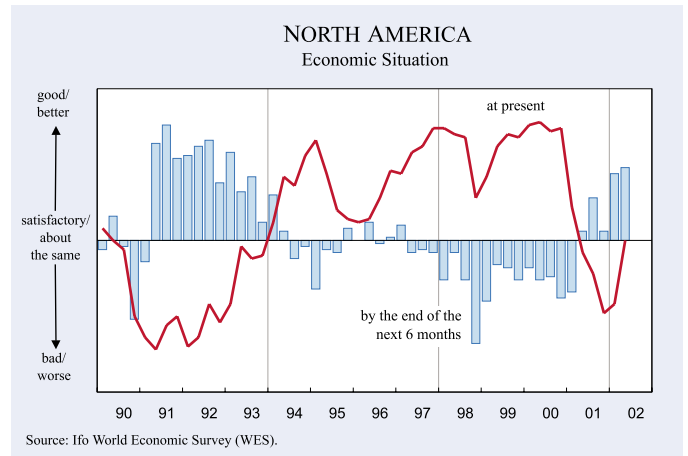
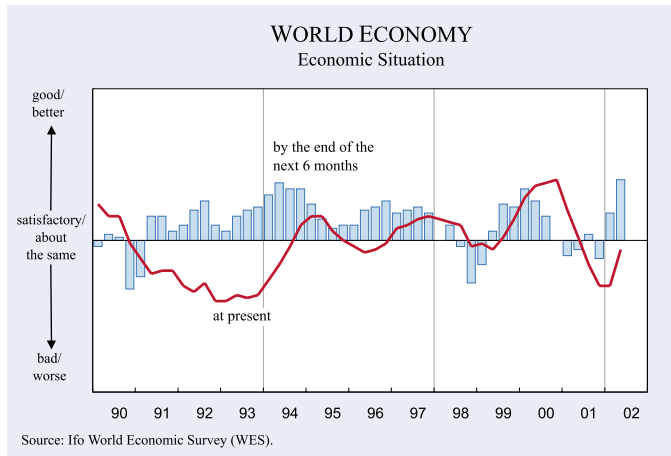
uguay, Uruguay and Venezuela – higher interest rates are expected. Also in the Near East interest rates are seen as remaining more or less stable in coming months, with the exception of Israel and the United Arab Emirates where interest rates are expected to rise. In contrast, interest rates are expected to decline further in most Eastern European and CIS countries.

World currencies start moving to a more stable equilibrium

On average of the 90 countries polled, the US dollar and British pound sterling are judged to be overvalued, the euro undervalued and the yen as having reached an appropriate level after its depreciation at the end of last year. This overall scenario has changed only a negligibly since the January survey. In Western Europe, North America, Australia/New Zealand and Asia this view is the predominant one. In contrast, WES experts in Eastern Europe, the CIS states, the Near East and Africa feel that the US dollar as

Figure 3

SELECTED REGIONS



Box 3:**Interest Rates: A new tightening cycle has begun**

In April, expectations clearly switched to rising short-term interest rates. In North America sentiments indicate a spectacular swing from nearly neutral to highly probable rate hikes in the course of the next six months. The Canadian Central Bank has already started to raise its overnight funding rate by a first step of 25 basis points to 2.25 percent due to signs of a strong recovery. Further increases are on the agenda. In the United States the Federal Reserve will follow suit and take back the last of eleven rate cuts seen in the past year, provided enough encouraging economic data are released. Further hikes are on the agenda. Oceania also displays this significant change in trend. Australia's as well as New Zealand's reserve banks meanwhile joined the first central banks to tighten monetary policy. In Western Europe an upward trend is also expected, but to a somewhat lesser extent. The same is true for the euro area. Among the non-euro members, Sweden and Denmark, the likelihood for rate hikes is almost as great as in North America. The Swedish Central Bank was the first of the advanced economies to raise rates. The Bank of England's likelihood of tightening its monetary policy in the coming months ranges between that of the euro area and that of North America.

In Asia expectations remain at neutral levels except in South Korea. The Bank of Korea raised its overnight call rate by 25 basis points to 4.25 percent due to a broad economic recovery. Hong Kong, Malaysia and Singapore are likely to follow, whereas China is seen as remaining on hold. Increasing trade flows throughout Asia will help Japanese exports to rebound and thus improve prospects in Japan. In any case, the Bank of Japan is expected to maintain its zero interest-rate policy in coming months.

In Latin America expectations differ broadly from country to country. Mexico is seen as standing pat, although its economy is on track to recover. In Brazil, the largest economy of the continent, as well as Bolivia and Colombia, rate cuts are still likely. The same applies to Chile, but to a lesser degree. Countries that are expected to raise rates are: crises-ridden Argentina, Costa Rica, El Salvador, Paraguay and Uruguay.

Eastern Europe is the region where the downward trend in interest rates will continue in coming months, particularly in Poland. There a sluggish economy has to cope with high interest rates that were cut back to presently 9.50 percent. The likelihood of further rate cuts is undisputed. Hungary is also expected to reduce its deposit rate of currently 8.50 percent to much lower levels, as inflation rates are slowing. No changes are seen in the Czech Republic with respect to low interest rate levels. In Russia rates should remain on hold for the next six months, although high oil exports fuel the economy and double-digit-inflation has to be fought.

Though rate hikes in many regions of the world are in the pipeline, long-term interest rates are expected to increase only moderately. The reason is subdued inflation expectations. This scenario is observed particularly in Canada, Australia, New Zealand, Euroland, Korea and Singapore. In the United States, however, a significant long-term interest rate rise is expected, partly inflation-driven. Assessments with regard to Great Britain are similar to that in the United States, but to a somewhat lesser degree.

In recovering Asia, interest rates, short- and long-term, and inflation will show equally neutral levels in coming months – except in Korea and Singapore as noted above. As for Japan, expectations of an increase in long-term rates are slightly lower than in the previous survey, although its economy might escape the deflationary cycle in the near future. Eastern Europe overall is another region showing a downward trend according to continued short-term rate cuts and reduced inflation rates. In Russia, inflation is expected to slow and so are long-term rates, albeit from very high levels. Assessments as to South America again vary broadly. Fortunately, no long-term interest rate rise is seen in the important economies of Mexico and Brazil. Argentina, meanwhile, has reached extraordinarily high rates so that a further rise is hardly expected. Countries showing a strong upward trend are in particular Costa Rica, Guatemala and Paraguay. In South Africa and Zimbabwe, in contrast to Africa overall, only slight rises are predicted.

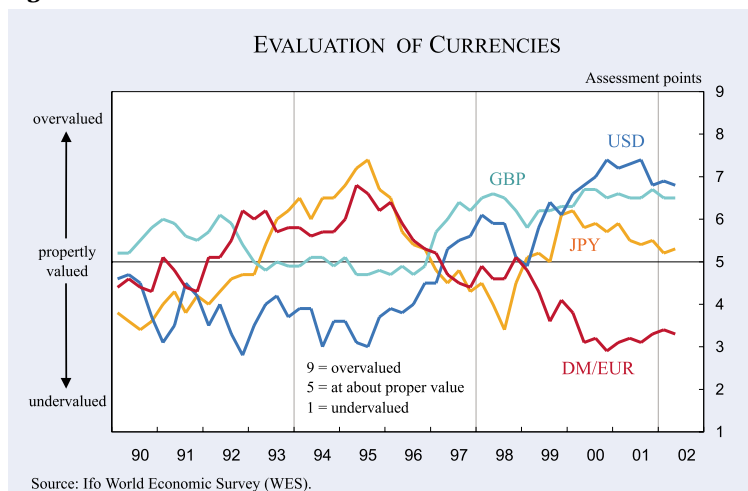
well as the pound sterling is close to “fair value” against their local currencies. The euro's undervaluation is seen to a lesser extent. In Latin America, the US dollar is even judged underval-

ued against local currencies in Mexico, Costa Rica, Uruguay, Columbia and Venezuela.

Independent of these different assessments of the current situation, the US dollar is predicted to remain unchanged or even seen as rising by the end of the next six months. This applies to all regions of the world except for Western Europe and Canada. The majority of Western European experts expect the dollar to weaken against the euro during coming months. That means, conversely, that they are bullish on the euro. Recently the European currency has nudged up against the dollar. If this trend continues, it will be likely that the assessed undervaluation of the euro will be corrected to some extent. However, these gains are probably not strong enough to reach parity to the dollar in the near term. In the April survey, Canadian experts switched to the view that their neighbour's currency is likely to weaken against the Canadian dollar.

In Japan, experts clearly expect the US dollar to strengthen against the yen. This expectation confirms the WES forecast of an export-led improvement of the economic situation in Japan. At present the yen has been pushed higher against the dollar, but Japan's government is said to want to curb possible gains to spur the economy. Other regions where the dollar is predicted to rise against local currencies are the CIS states, South America, Africa, the Near East and also Eastern Europe to a somewhat lesser extent (see Fig. 4).

Figure 4



Overall Economic Growth in 2002 about 2.1%

On average of all 90 countries included in the survey, real gross domestic product (GDP at constant prices) in 2002 is expected to be 2.1% higher than in 2001. Well above average will remain the growth in the CIS countries (4.1%) as well as in Central and Eastern Europe (3.1%) and Oceania, i.e. Australia and New Zealand (3.1%). Somewhat stronger economic growth than the overall average is expected in North America (2.3%), Near East (2.5%), Asia (2.6%) and Africa (2.9%). Western Europe lags behind with an expected growth of 1.7% in 2002 and Latin America – mainly due to the crisis in Argentina – with an expected rate of only 0.7% (see Table 1).

Inflation will slow in 2002, though less than originally expected

On a world-wide scale consumer price inflation in 2002 is now seen to be 3.4% compared with an expected 3.2% in the January survey. Despite this slightly less favourable outlook, the inflation rate will still be lower on a world-wide scale than in 2001 (3.6%).

In the Euro area the inflation rate in 2002 is now seen to reach 2.3% in 2002 after an expected 2.1% in January. The European inflation figures are slightly lower than the ones expected in the US (2.5% after an expected 2.2% at the beginning of the year). However, the US figures are still within the range regarded as normal by the US Fed (around 2.5%) whereas the European Central

Bank (ECB) has set its – possibly too strict – price target at 2% at the most. Asia will show again the highest degree of price stability and this to an even stronger degree than expected at the beginning of the year (1.2% compared to 1.5% in the January survey). The Asian data are again pointing to the danger that inflation close to the zero line may – in some countries of the region – lead to a contracted deflationary process as demonstrated by the case of Japan (expected 2002 price change: – 0.7%) and

Hong Kong (– 1.6%). China and Taiwan continue to show both a very low inflation rate of 1.2% and 1.1%, respectively. The inflation outlook in Eastern Europe has not changed since the beginning of the year (6.7%); it has gone up in Latin America (from 11.4% to 13.7%) mainly due to the sharp rise of inflation in Argentina (82.5%) and Venezuela (24.3%). A rising price trend remains widespread in Africa though particularly pronounced again in Zimbabwe where inflation is now expected to reach about 125% in 2002.

Unemployment: Top economic problem throughout the world

Unemployment is still the top-ranked concern, on average, of all surveyed countries. It ranks as the number one problem in Western and Eastern Europe, Asia, Latin America, Africa and in the Near East and ranks second in North America and in Australia/New Zealand. *Insufficient economic demand* also remains high on the agenda of economic concerns (ranked second on average), especially in North America, Asia, Western Europe and in Latin America. *Lack of international competitiveness* rose to the third position (ranked fourth in the January survey), being an issue particularly in Western and Eastern Europe, the CIS states, Latin America and surprisingly in North America. *Lack of confidence in government economic policy* moved down to rank 4, on the average. *Public deficits* (ranked fifth on average) are seen as a major problem only in regions like Eastern Europe, Latin America and the Near East, but not in advanced economies, despite daily discussions in the media. *Inflation* concerns are still of minor con-

cern (ranked 8th out of 10), but growing in North America and Australia/New Zealand.

As a special case, CIS countries mentioned capital shortage as their top economic problem. The lack of international competitiveness is also still high on the list of problems in this region. And in Australia/New Zealand trade barriers to exports take priority over all other issues, while trade barriers rank next to last, on average, in all other regions.

In addition, some WES experts expressed concern for countries facing national elections and thus possible political change (see Table 2).

Table 1

**Expected Inflation Rate for 2002^{*)} [a]
and Expected Growth of Real GDP in 2002^{*)} [b] (WES April 2002)**

	a	b		a	b
AVERAGE of 90 COUNTRIES	3.4	2.1	OCEANIA	3.1	3.1
31 High-income countries	1.8	1.7	Australia	3.2	3.2
48 Middle-income countries	9.5	2.7	New Zealand	2.6	2.8
21 Upper-middle	9.5	2.4	CENTRAL & EASTERN EUROPE	6.7	3.1
27 Lower-middle	9.4	3.5	Bosnia-Herzegovina	2.0	5.3
11 Low-income countries	5.2	6.0	Bulgaria	8.2	3.3
High-income OECD countries	2.0	1.7	Croatia	3.8	3.4
Middle-income OECD countries	7.7	3.0	Czech Rep.	4.1	3.1
Middle-income oil exporters ¹	9.4	1.9	Estonia	4.5	4.3
EU countries	2.3	1.7	Hungary	6.3	3.7
EURO-Land ²	2.3	1.6	Latvia	2.9	5.8
Mediterranean (non-EU) countries ³	14.9	2.7	Lithuania	2.2	4.5
ASEAN and East Asian NICs ⁴	1.8	2.9	Poland	3.8	1.6
Asian Pacific Rim ⁵	1.8	3.7	Romania	23.7	4.0
Arabian OPEC countries ⁶	3.6	3.0	Slovakia	5.3	3.5
WESTERN EUROPE	2.3	1.7	Slovenia	6.9	3.3
Austria	1.8	1.7	Yugoslavia	17.5	4.7
Belgium	2.2	1.3	CIS	16.0	4.1
Cyprus	2.8	3.5	Kazakhstan	6.5	8.0
Denmark	2.2	2.5	Russia	18.2	3.5
Finland	1.9	1.8	Ukraine	7.5	5.0
France	2.0	1.6	CENTRAL & LATIN AMERICA	13.7	0.7
Germany	1.8	1.1	Argentina	82.5	-10.1
Greece	3.2	3.6	Bolivia	6.9	2.8
Ireland	4.1	3.2	Brazil	5.9	2.6
Italy	2.5	1.6	Chile	3.4	3.5
Luxembourg	2.5	4.0	Colombia	7.6	1.9
Malta	2.5	3.0	Costa Rica	10.0	1.1
Netherlands	3.5	1.8	Ecuador	15.8	3.5
Norway	2.2	2.1	El Salvador	2.5	2.5
Portugal	3.4	1.5	Guatemala	7.0	-1.0
Spain	2.8	2.4	Mexico	5.2	1.5
Sweden	2.5	1.7	Panama	1.5	0.9
Switzerland	1.0	1.2	Paraguay	11.0	0.8
United Kingdom	2.3	2.0	Peru	2.3	3.5
NORTH AMERICA	2.4	2.3	Trinidad and Tobago	-	3.0
Canada	2.1	2.1	Uruguay	8.5	-2.8
United States	2.5	2.3	Venezuela	24.3	-0.8

Please turn over

- 1 Algeria, Indonesia, Iran, Saudi Arabia, Venezuela.
- 2 EU countries without Denmark, Sweden, United Kingdom.
- 3 Algeria, Bosnia-Herzegovina, Croatia, Cyprus, Egypt, Israel, Lebanon, Malta, Morocco, Slovenia, Tunisia, Turkey, Yugoslavia.
- 4 Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, Vietnam.
- 5 Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam.
- 6 Algeria, Iran, Kuwait, Saudi Arabia, United Arab Emirates.

*) Compared to average of previous year.

Table 1 (continued)

**Expected Inflation Rate for 2002^{*)} [a]
and Expected Growth of Real GDP in 2002^{*)} [b] (WES April 2002)**

	a	b		a	b
ASIA	1.2	2.6	NEAR EAST	11.4	2.5
Bangladesh	2.0	5.0	Bahrain	2.7	4.5
China P.R.	1.2	7.1	Iran	14.1	5.0
Hong Kong	-1.6	0.4	Israel	3.7	1.3
India	4.1	5.2	Jordan	2.5	4.7
Indonesia	10.6	3.6	Kuwait	2.3	2.2
Japan	-0.7	-0.5	Lebanon	2.6	1.2
Korea	3.6	4.7	Saudi Arabia	0.9	2.4
Malaysia	2.6	3.7	Turkey	41.9	2.2
Pakistan	5.0	3.0	United Arab Emirates	2.5	3.1
Philippines	5.2	3.9			
Singapore	1.0	3.7	AFRICA	11.5	2.9
Sri Lanka	12.7	3.3	Algeria	3.5	3.0
Taiwan R.O.C.	1.1	2.2	Egypt	6.2	3.1
Thailand	1.9	2.4	Ghana	12.5	4.8
Vietnam	3.9	6.4	Kenya	9.4	0.8
			Mauritius	5.0	4.5
			Morocco	1.8	5.0
			Nigeria	19.8	2.0
			South Africa	8.3	2.2
			Tunisia	2.9	4.7
			Zimbabwe	124.8	-8.1

*) Compared to average of previous year.

Source: Ifo World Economic Survey (WES) QII/2002.

Table 2

Ranking of the Most Important Economic Problems 1)2)

Problem	Average of all countries	Western Europe	North America	Australia/New Zealand	Eastern Europe	CIS	Latin America	Africa	Asia	Near East
Unemployment	<u>1</u> =	<u>1</u> =	2 =	2 =	<u>1</u> =	10 =	<u>1</u> =	<u>1</u> =	<u>1</u> =	<u>1</u> =
Insufficient demand	2 =	<u>2</u> =	<u>1</u> =	7 -	6 =	5 =	<u>2</u> =	9 =	<u>1</u> =	<u>5</u> -
Lack of international competitiveness	3 =	<u>2</u> =	3 +	6 =	3 =	2 =	<u>2</u> =	5 +	5 =	<u>5</u> =
Lack of confidence in government's economic policy	4 =	<u>5</u> =	6 -	9 =	5 =	<u>6</u> =	5 =	6 -	3 =	3 =
Public deficits	5 =	<u>5</u> =	4 =	10 =	2 =	8 =	<u>2</u> +	4 =	4 =	2 +
Lack of skilled labour	6 =	4 =	8 =	4 +	9 =	9 =	8 =	3 =	6 =	7 =
Capital shortage	7 =	9 =	7 =	3 =	4 =	<u>1</u> =	6 =	2 =	7 =	4 =
Inflation	8 =	7 =	<u>8</u> +	8 +	8 =	<u>6</u> =	9 =	7 =	9 =	9 =
Trade barriers to exports	9 =	8 +	5 =	<u>1</u> =	<u>9</u> =	4 =	10 =	10 =	8 =	10 =
Foreign debts	10 =	10 =	<u>8</u> =	5 =	7 =	3 =	7 =	8 =	10 =	8 =

Explanations:

1) Underlined figures: equal assessment of the WES participants

2) Change in ranking compared to previous survey:

= : unchanged (+- one point)

+ : more important (2 or 3 places higher)

++ : more important (4 and more places higher)

- : less important (2 or 3 places lower)

-- : less important (4 or more places lower)

Source: Ifo World Economic Survey (WES) QII/2002.

Box 4:**Business Cycle: An investment-led recovery ahead?**

The overall climate indicator for the world economy soared in April. Expectations for the next six months rose for the second time and assessments of the current situation began to improve. These results suggest that a solid upturn is underway.

Regarding the current situation in the United States, WES experts see consumer spending, the economy's bulwark in the past, improving compared to the January survey. However, expectations for coming months are somewhat less optimistic than they were at the beginning of the year. Initial weak improvements of capital expenditures at present indicate a pickup of manufacturing activity in the near term, after the breakdown in the past year. Striking are the expectations on capital spending by the end of the next six months. They show a major increase. This fuels hopes that an economic turnaround is ahead, led by the investment cycle. Once the recovery gains pace, import volumes are expected to increase significantly while export growth will lag behind. As a result the trade balance will deteriorate further.

Asia's high-tech economies, Taiwan, Malaysia, Singapore and South Korea, correspondingly expect high growth rates in export volumes during the next six months. These countries' imports are largely used for export production. To meet the growing external demand they are anticipating a surge in domestic capital expenditures. Increasing industrial production and employment will then trigger off private consumption. Thus, their recovery will be broadly based. Less tech-oriented countries in that region, such as the Philippines or Indonesia, are expected to follow. As for Japan, growth momentum is seen solely as export-led. Traditionally, Japanese companies have sold throughout Asia and to the United States, where high import growth is on the horizon. Japanese capital and consumer spending as well as imports are expected to stabilise around neutral levels. Japan may at last get out of the doldrums in the near term. In China, improvements are also mainly led by better export prospects.

Western Europe as a whole is displaying a more balanced pattern. Capital expenditures as well as private consumption (to a slightly lesser extent) indicate a pickup by the end of the next six months. Import and export volumes are expected to rise at a similar pace. In the euro area the same scenario is observed. The striking exception is Germany, the largest economy in the euro region. Expected growth of German consumer spending remains even weaker than that of capital spending. Consequently, Germany's recovery will strongly depend on rising exports. External demand is likely to come from traditional export markets such as the United States and Western and Eastern Europe. Moreover, the Baltic and the CIS states are heavy importers. The United Kingdom also displays a pattern differing from that of Western Europe at large. There, economic growth is predicted to shift from consumer spending to business investment, stimulating manufacturing activity in the near term.

In Eastern Europe, private consumption as well as capital expenditures are expected to gain momentum in coming months. In Poland, Latvia and Lithuania, consumer spending is likely to increase more than investment spending. In contrast, the Hungarian recovery is seen to be more investment- and export-led, as the economy is enjoying high consumer spending. The CIS states' economies are mainly driven by improving private consumption, which is largely met by growing imports, as mentioned above.

Latin American economies will obviously be bolstered by spill-over effects of the recovery in North America. Correspondingly, overall export expectations are high, particularly in Mexico, Brazil, Chile and Peru. External demand is expected to bolster corporate investment in these countries. Increasing manufacturing activity and job creation will advance private consumption and thus broaden the upturn. Argentina, coping with its most severe economic and financial crisis, is not expected to get out of the doldrums by the end of the next six months. The only bright spot there are expected improvements on the export side as a result of an extraordinarily large depreciation of the peso.

Africa and the Near East hope to join the synchronised global recovery to some degree. At present WES experts see near-term improvements mainly based on optimistic expectations for external demand, e. g. in Algeria, Egypt, South Africa, Turkey and Iran. Oil exporters like Bahrain, the United Arab Emirates and Saudi Arabia already enjoy good economic conditions.

Figure 5a

EUROPEAN UNION

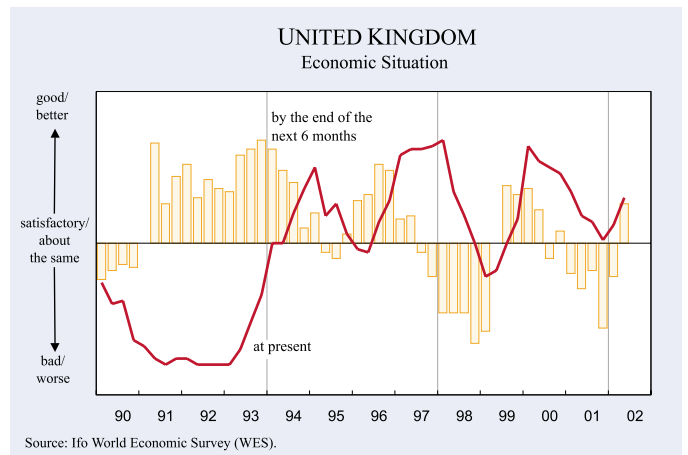
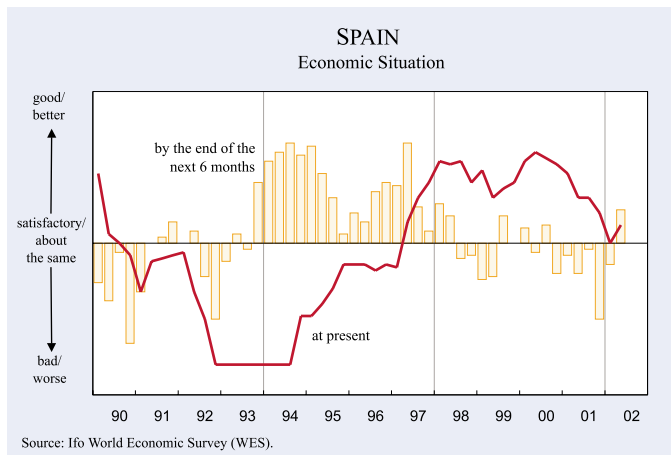
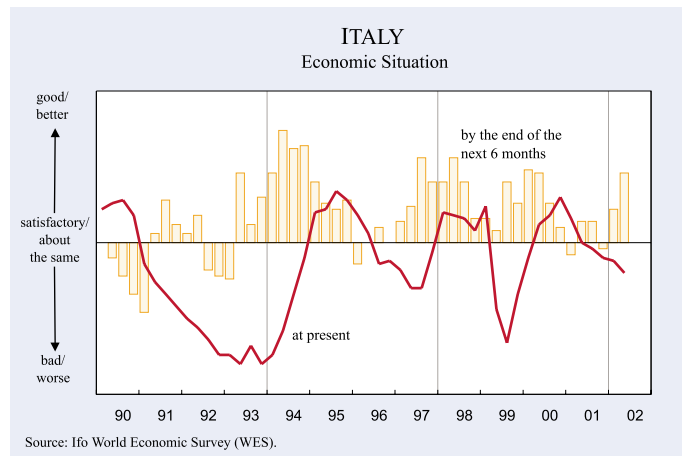
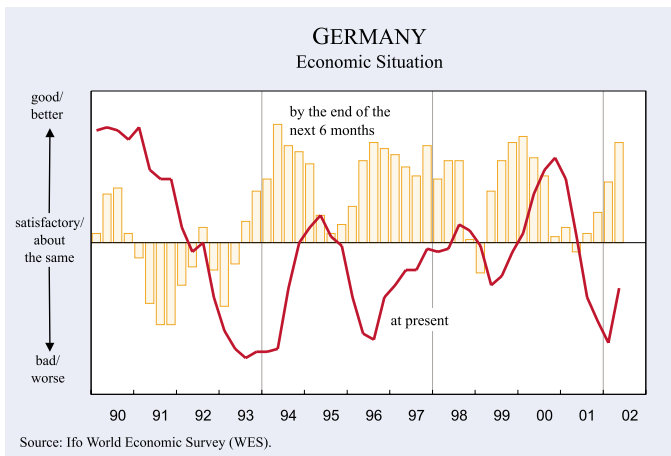
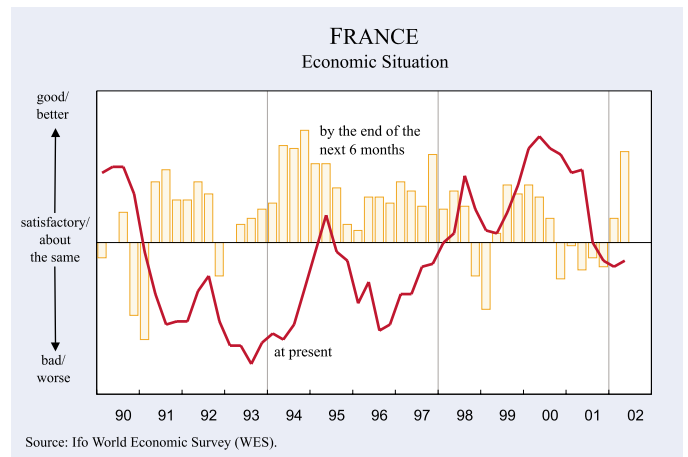
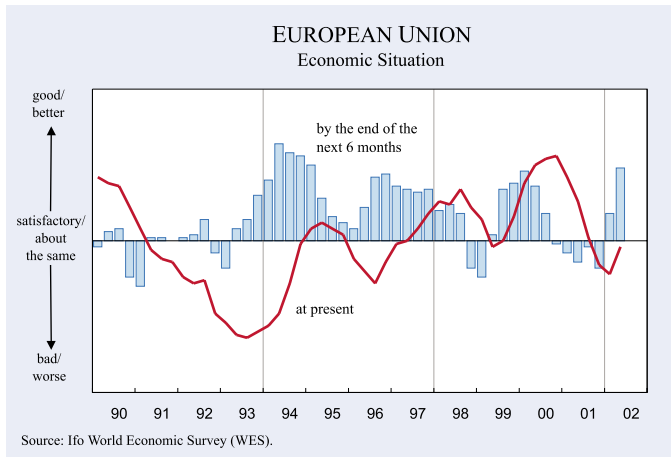


Figure 5b

EUROPEAN UNION

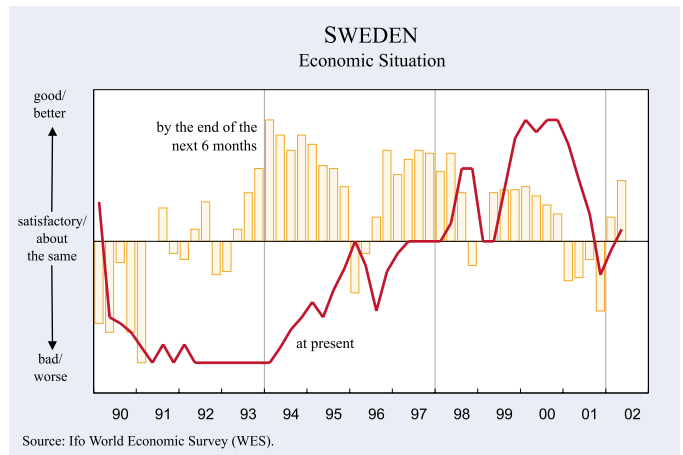
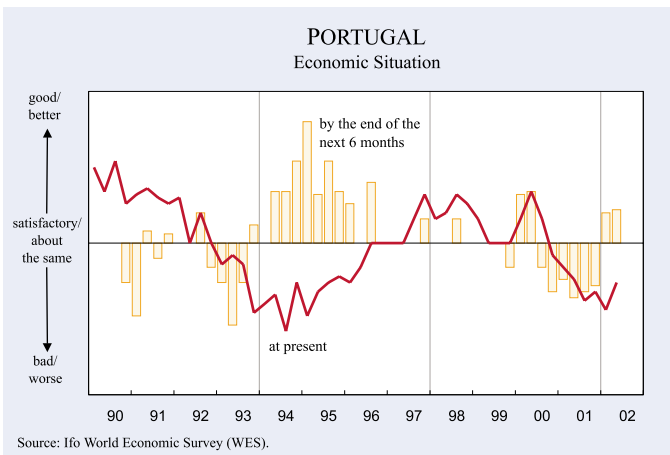
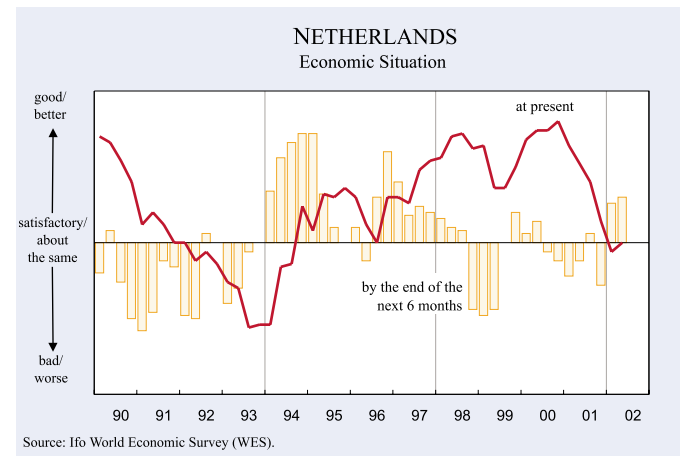
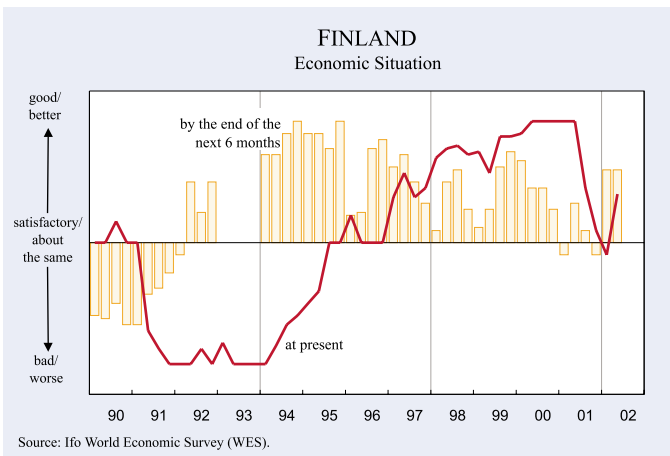
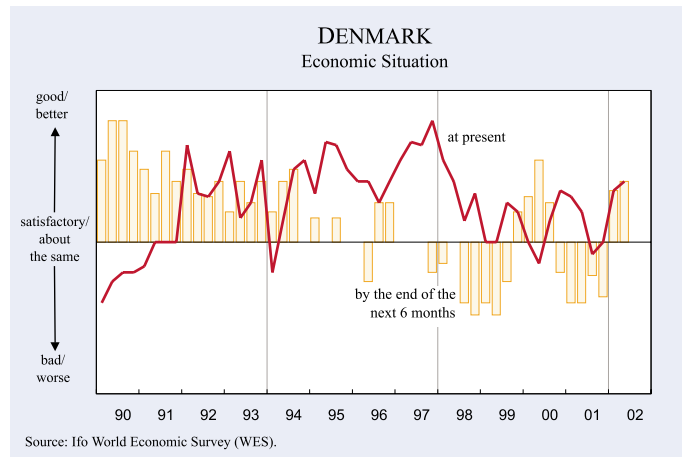
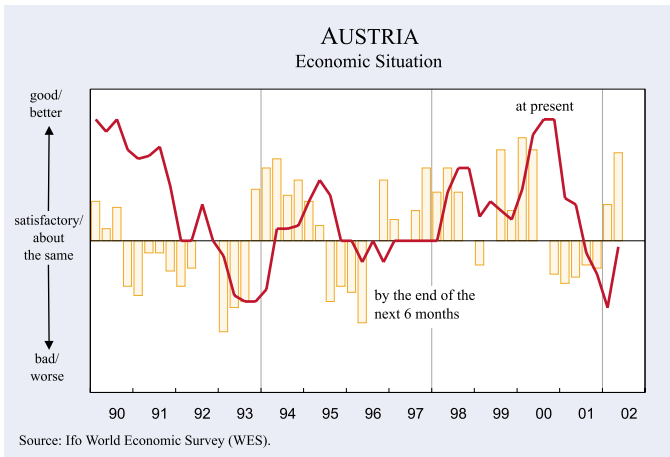


Figure 6

EASTERN EUROPE

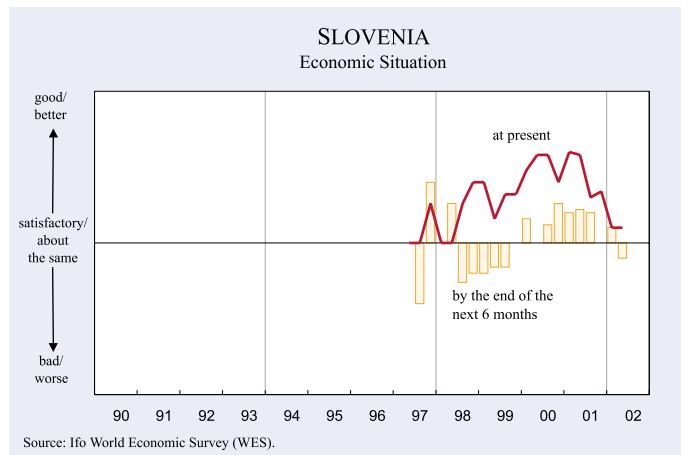
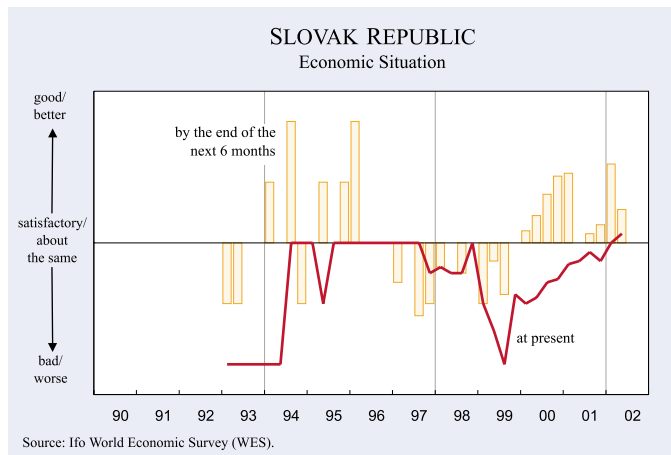
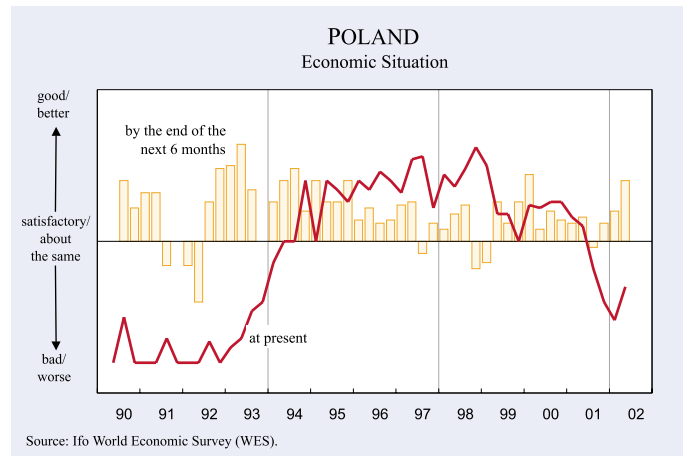
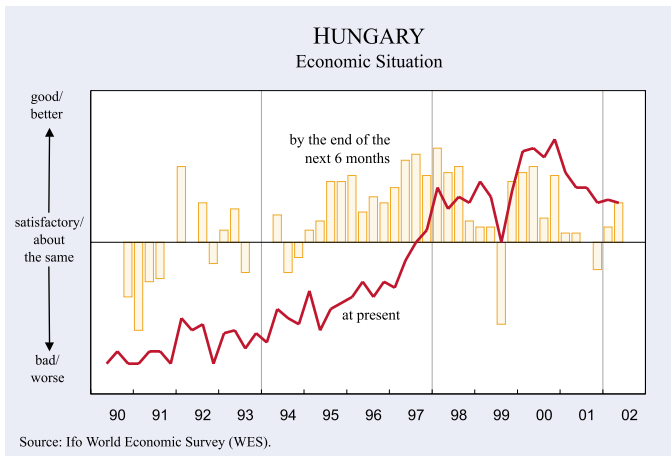
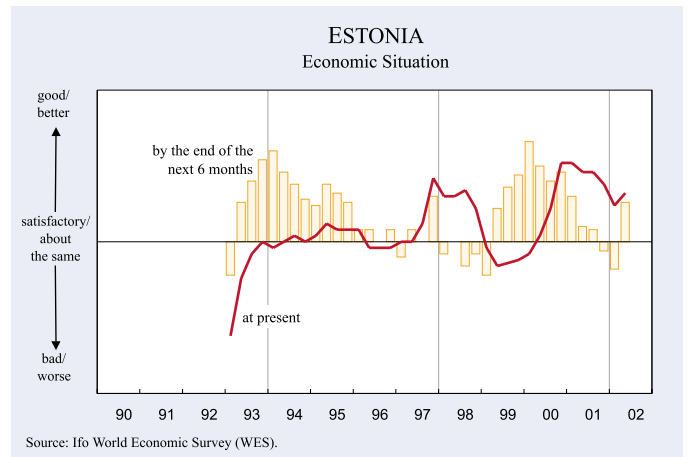
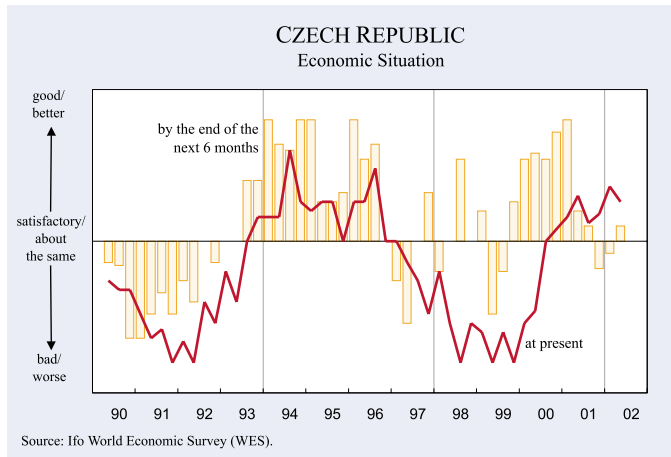
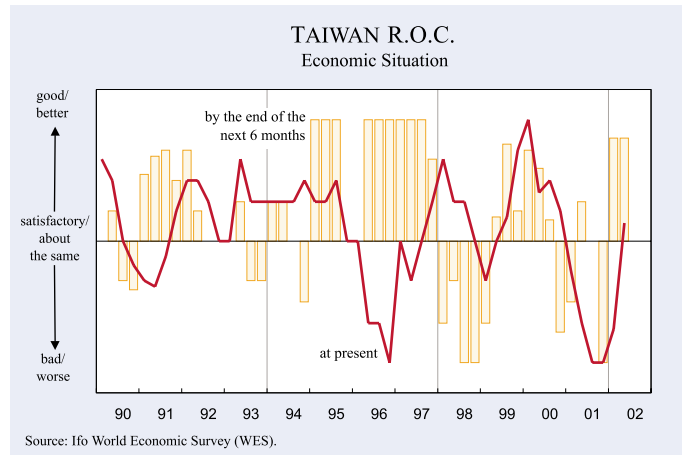
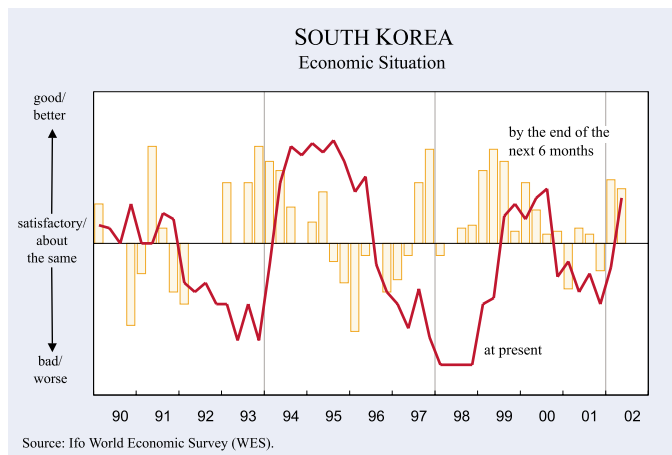
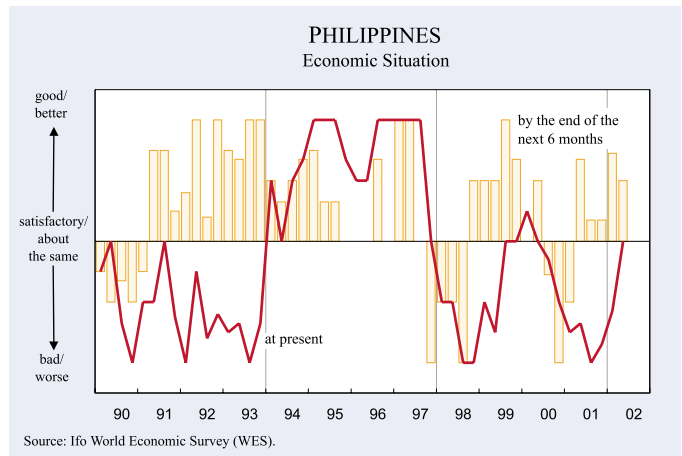
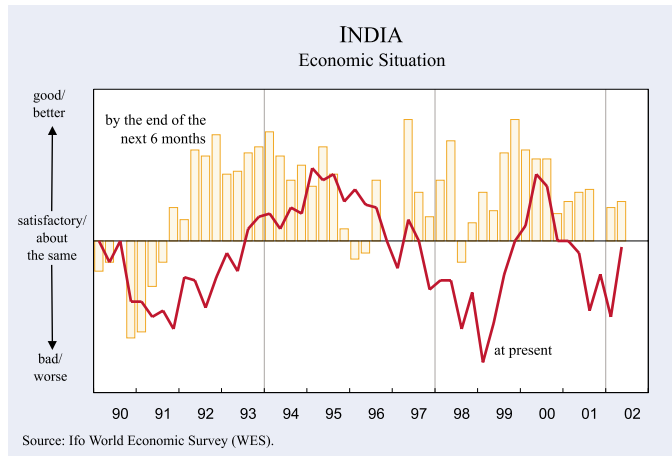
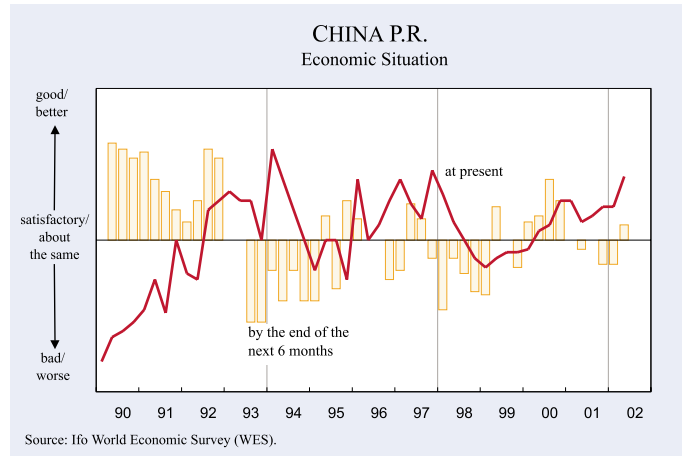
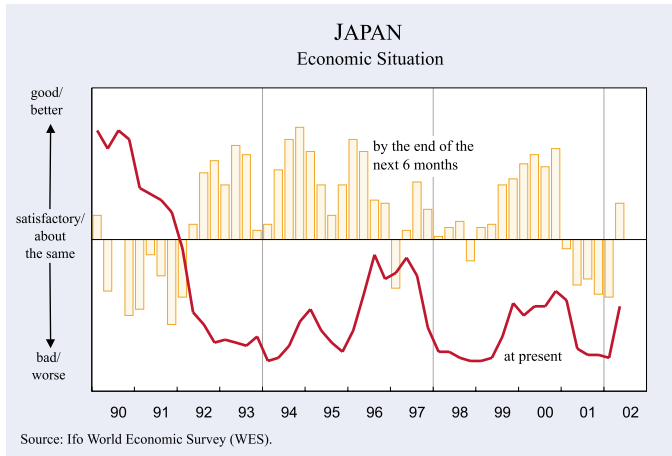


Figure 7

ASIA



**Special Topic:
Global requirement of international accounting principles –
The aftermath of the Enron scandal**

In co-operation with the International Chamber of Commerce a set of questions was posed to WES experts concerning accountancy standards and their implementation.

Half of the experts surveyed expressed the view that a worldwide acceptance of a uniform set of accounting principles is very important in a globalised economy. Another 46 percent ranked this issue as important. These high percentages obviously reflect the Enron affair. Enron, one of the largest US energy traders, filed for bankruptcy last December as a result of bungled accounting.

Enron – formerly a star of the US stock market – exaggerated profits and hid losses. It still unsettles the financial world that neither the auditors, the bankers, the equity analysts nor credit-rating agencies alerted anyone, although America's accounting standards (US GAAP) are said to be the most efficient and transparent in the world. Against this background experts in North America attach significantly more importance to this topic than their counterparts in European countries. Classification of the countries according to their income level indicates that middle-income countries stress this issue more than high-income countries and much more than low-income countries (see Table 3).

After the Enron experience, most of the polled experts claim that both the accounting standards and their implementation need to be more rigor-

ous. This is true for all regions except for Western Europe. Half of the interviewed Europeans are satisfied with their accounting standards. They feel that only the implementation needs to be improved. This difference in opinion might be linked to the fact that the International Accounting

Table 3
Global Requirement of International Accounting Principles – The aftermath of the Enron scandal (Share of answers in %)

	Average of all countries	Western Europe	North America	Oceania	Eastern Europe	CIS	Latin America	Africa	Asia	Near East	High-income countries	Middle-income countries	Low-income countries
a) In today's globalized economy would the worldwide acceptance of a uniform set of accountancy principles be in creating better and more easily comparable standards of financial reporting?													
"very important"	51%	46%	59%	42%	43%	62%	60%	60%	49%	73%	52%	55%	33%
"important"	46%	50%	38%	58%	53%	38%	40%	40%	50%	27%	45%	44%	62%
"unimportant"	3%	4%	3%	0%	4%	0%	0%	0%	1%	0%	3%	1%	5%
b) Which of the following statements most closely corresponds to your views:													
"Both accountancy standards and their implementation needs to be improved"	54%	48%	58%	62%	49%	59%	49%	52%	60%	65%	54%	58%	58%
"The standards themselves are satisfactory, but implementation needs to be improved"	41%	47%	35%	38%	45%	41%	49%	45%	37%	31%	41%	38%	41%
"Neither the standards nor their implementation needs to be changed"	5%	5%	7%	0%	6%	0%	2%	3%	3%	4%	5%	4%	1%
c) Please choose which of the following would contribute most effectively to improved financial reporting:													
"Stronger regulation"	25%	30%	25%	1%	24%	27%	30%	21%	18%	21%	25%	24%	26%
"Stronger corporate governance, including disclosure"	75%	70%	75%	99%	76%	73%	70%	79%	82%	79%	75%	76%	74%

Source: Ifo World Economic Survey (WES) QII/2002.

Standard (IAS) is intended to be obligatory in Europe beginning in 2005.

An overwhelming majority of the interviewed experts consider stronger corporate governance as the most effective way to improve financial reporting. Main items of such self-regulation are effective management control by the supervisory board, transparency, fairness and no major strategic modifications to core businesses without prior approval. Investors increasingly prefer companies with a high corporate governance ranking. Consequently, sanctions happen via share prices. Nevertheless, if push comes to shove, these codes are likely to be a toothless paper tiger. In this context it is a moderate 25 percent of participants that favour stronger regulations. However, in Latin America significantly more experts than on average favour legal actions. The lack of confidence in self-control is not at all surprising in a crisis-ridden region like the South American continent, with Argentina presently going through a severe financial and economic crisis.

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The Economics of Organisation and Corporate Governance Structures	25–26 Oct. 2002	Munich
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