

Nerb, Gernot; Stangl, Anna

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IFO WORLD ECONOMIC SURVEY

World Economic Climate

WORLD ECONOMIC CLIMATE
WORSENERD IN OCTOBER

Economic Expectations

ECONOMIC EXPECTATIONS DETERIORATED BUT
REMAINED POSITIVE

Inflation

INFLATION IN 2002 EXPECTED TO SLOW DOWN

Interest Rates

SHORT-TERM INTEREST RATES EXPECTED TO
SINK IN COMING MONTHS
LONG-TERM RATES WILL STABILIZE AT THE
CURRENT LOW LEVEL

Currencies

THE MAJOR WORLD CURRENCIES ARE CLOSE
TO AN EQUILIBRIUM SITUATION

Special Topic

WAYS TO RAISE STANDARDS ON CORPORATE
GOVERNANCE

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For further information please contact
Mrs. Stallhofer (stallhofer@ifo.de)

For further information apply to:

Anna Stangl, e-mail stangl@ifo.de
(Responsible for statistical processing and analysis)

Dr. Gernot Nerb, e-mail nerb@ifo.de
(Head of Business Surveys Department)

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Telephone ++49 89 9224-0, Telefax ++49 89 9224-1463, e-mail ifo@ifo.de

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Editor: Dr. Gernot Nerb, e-mail nerb@ifo.de

Additional contributions to this edition: Dr. Wolfgang Nierhaus

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Ifo World Economic Survey

Highlights

- The current situation of the world economy worsened significantly
- Economic expectations for the next six months also deteriorated but remained positive
- Inflation expectations for 2002 are even slightly lower than in the previous survey
- Short-term interest rates are expected to sink in coming months.
Long-term rates will stabilize at the current low level.
- The major world currencies are now much closer to an equilibrium situation than they were in the previous two years
- Corporate self-regulation is the most promising measure to raise standards of corporate governance

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

WORLD ECONOMY: WORLD ECONOMIC CLIMATE CLEARLY WORSENERD

In October the world economic climate continued to worsen, after having improved at the end of 2001 and in the first two quarters of 2002. At 86.8 (1995 = 100) the world economic climate is now significantly below its long-term average (93.9 in the period 1989 to 2001).

The deterioration of the overall climate indicator is mainly driven by the still declining expectations for the next six months. However, also the assessment of the current economic situation, the second component of the world economic climate, has weakened since July 2001. The delayed and fragile economic recovery must be seen in the context of increased geopolitical instability due to world-wide terrorism and particularly the looming Iraq crisis.

World economy: Strong setback of climate indicator

After an only small dip of the climate indicator in the July survey, the downturn accelerated in the period August to October. The strong turbulences in world capital markets and the political uncertainty caused by the looming Iraq crisis obviously had a strong negative impact on the world economic climate (see Figure 1).

The decline of the indicator resulted both from negative assessments of the current economic situ-

ation, for the first time this year, as well as from continued less optimistic expectations for the coming six months (see also Box 1).

The capital expenditure sector is still, performing worse than the consumption sector. According to the WES experts' outlook for the next six months, this gap will become smaller as corporate investment activities are likely to pick up somewhat more strongly than private consumption.

Asia: Deterioration of the economic climate due to less bright expectations for the next six months

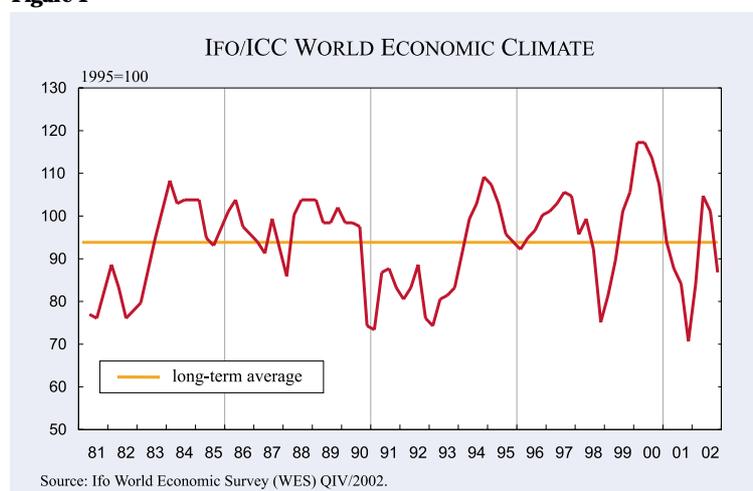
According to the new survey, the expectations for the economic development in the next six months deteriorated significantly, whereas the assessment of the current economic situation worsened only slightly. In contrast to the previous survey, the overall economic climate indicator for Asia is now somewhat below the world average.

Concerning the present economic situation, China remained in the leading position, followed this time by Vietnam and India, where optimistic expectations reported in the previous survey thus proved true and remain positive for the next six months as well. However, the expected future developments are in China not as positive as in the last survey and even

slightly below the world average. The Republic of Korea that had the most positive judgement of the current overall economic situation in the last quarter now seems to be on the downward trend. This is reflected both in the assessment of the present economic situation as well as in the expectations for the next six months, which dropped from a positive value last quarter to the lowest level in the Asian region.

Japan is still lagging on the downward trend. Its current economic situation failed to meet

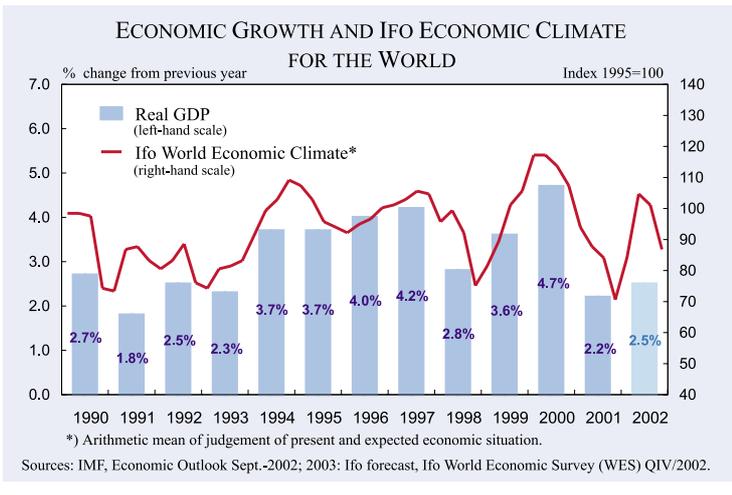
Figure 1



Box 1

Ifo/ICC World Economic Survey (WES) and Growth in the World Economy

The Ifo/ICC World Economic Climate indicator closely tracks the growth of the world economy. In October, the indicator clearly declined after already having weakened somewhat in the preceding survey. The most recent values for the economic climate are now below the long-term average (see Figure 1). The decline in the indicator as a whole is primarily due to the less confident six-month expectations, whereas the fall in the assessments of the current economic situation was not as pronounced. On the whole, the survey results still give no indication of an imminent economic recovery. A breakdown in country groups shows that the economic climate deteriorated particularly in Western Europe and to a lesser extent in North America and Asia. The latest WES results indicate that growth in Europe in the next six months will clearly lag behind the world average.



the expectations of the last quarter and is now rated even more below satisfactory. Also the short-term expectations point further deterioration.

Countries like Taiwan and to a slightly lesser degree also Thailand experienced a significant deterioration concerning the present economic situation, but more dynamic economic growth is seen ahead, although to a lesser degree than the last quarter. The economic recovery in Philippines slowed down in recent months, also the expectations for the next half year dropped and are now slightly below the Asian average. In Singapore the current economic situation improved and is expected to remain stable. Indonesia again showed a considerable weakness in economic performance, which is reflected in the lowest rang among the Asian region; the outlook for the next six months is also still clouded. In contrast Hong Kong's present situation slightly improved, albeit still at a highly unsatisfactory level. However, the expectations in Hong Kong are clearly positive (see Figures 2, 3 and 7).

Western Europe: Economic recovery stalled

The climate indicator in Western Europe (the combination of the assessment of the current economic situation with the expectations for the next six months)

is still moving downward, which is both due to more negative expectations for the coming months as well as due to an unsatisfactory assessment of the present economic performance.

In almost all Western European countries the current economic situation deteriorated, with Austria, France, Germany, Italy, the Netherlands and Switzerland characterized by a steeper downward trend and other countries like Belgium, Greece and Spain entering an "unsatisfactory" territory after having been in the positive zone before.

In contrast, the non-euro countries Denmark and Norway appear to be faring significantly better economically than the other European countries. Also in two other EU member countries not in the Eurozone – the United Kingdom and Sweden –

the current economic situation is judged as relatively positive though economic expectations for the next six months are worse than the Eurozone average.

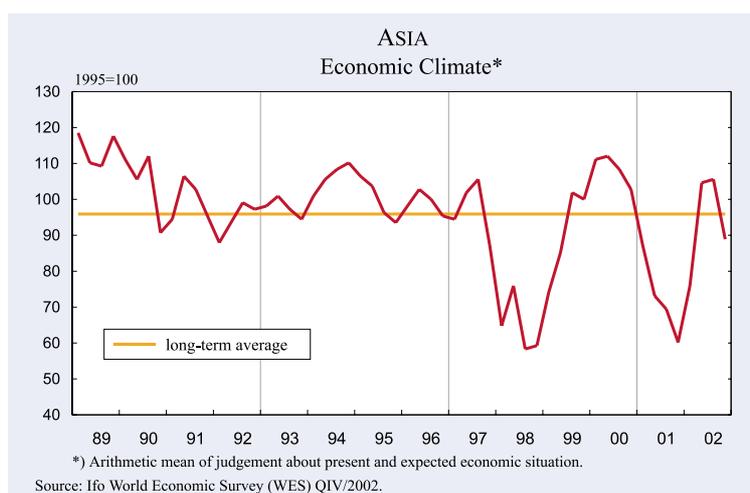
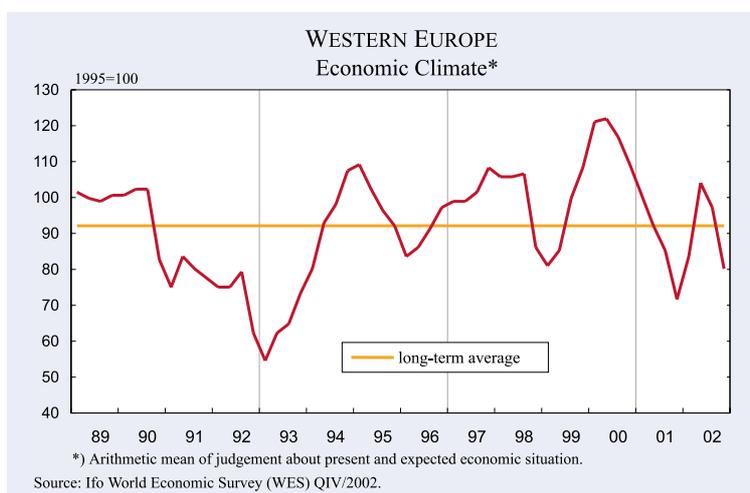
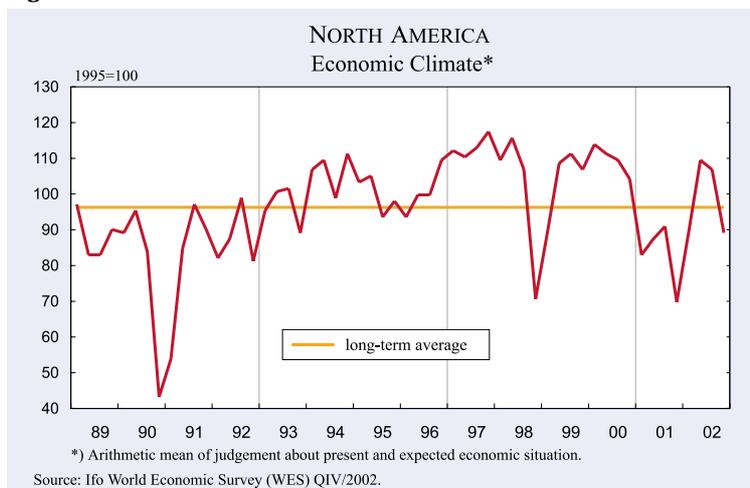
Among the countries with the single currency only Finland and Ireland assess the present economic performance as satisfactory or good, while this rating has deteriorated significantly in the other euro countries. However, the expectations albeit declining remained mostly positive in the Eurozone.

As in the previous survey, Germany again shows by far the lowest level in the assessment of capital expenditure and private consumption. With regard to the overall economic situation, Germany shares with Portugal, Luxembourg and the Netherlands the lowest rang amongst EU member countries. Nevertheless, WES correspondents also expect in these countries an economic recovery in the next six months, though at a slower pace than expected in the previous poll (see Figures 2, 3, 5a/b; see also Box 2).

Eastern Europe: Stabilization of economic climate continues

The assessments of the current economic situation improved compared to the last survey,

Figure 2



although still remaining slightly below satisfactory. On average, the optimism expressed in the last survey regarding the outlook for Eastern Europe remained mostly unchanged, moving the economic climate indicator to a slightly higher level than the last survey. The current economic situation continues to be rather good particularly in

my remains highly satisfactory with bright expectations for a further recovery in the course of the next six months. The picture for Ukraine is also characterized by a sound economic performance and optimistic expectations concerning future development.

the Baltic countries (Latvia, Estonia and Lithuania), but also in Slovenia, Hungary and Slovakia. In Slovakia both the assessment of the present situation as well as expectations for the further development improved considerably compared with the previous survey. The recovery in Croatia went on reaching an almost satisfactory level for the current economic situation. The expectations remained positive although to a lesser degree than before. According to the WES experts, the economic situation in the Czech Republic worsened somewhat but is still regarded as satisfactory, whereas the expectations for the further development now appear to be clouded. In Poland, Romania and Yugoslavia the present state of the economies remained clearly below the “satisfactory” level but is expected to brighten in the course of the next six months (see Figure 6).

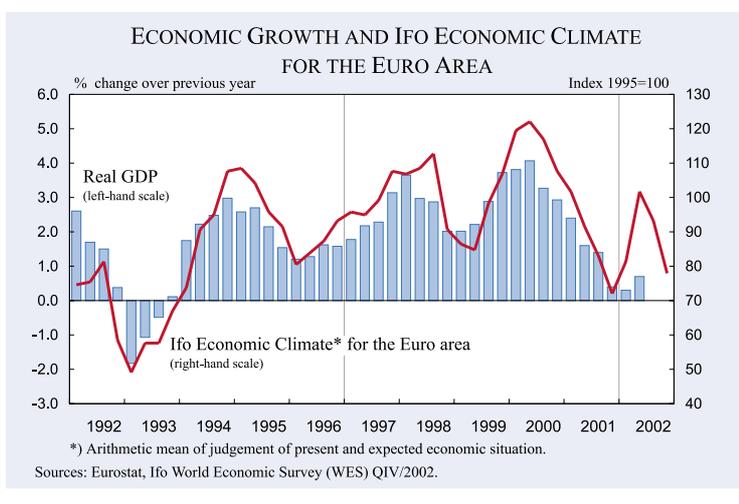
CIS: Economic improvement will continue

In Russia, the assessment of the current economic situation receded slightly, but still remains satisfactory. However, further improvement of the economic outlook for the next six months is expected by the WES experts, still reflecting a rather satisfactory and stable state of the economy. Positive signals also come from Kazakhstan where the economy

Box 2

Ifo/ICC World Economic Survey (WES) and GDP Growth in the Euro Area

The Ifo World Economic Climate for the 12 member countries of the euro area is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The October results are based on the responses of 272 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). In October 2002, the Ifo indicator for the economic climate in the euro area lost considerable ground in vis-à-vis the July survey. The distance to the economic trough of autumn last year after the terror assaults in the USA has clearly shrunk, and the indicator is considerably below the long-term average. However, the indicator is still far removed from the recession level of the early 1990s. The decline of the Ifo euro area indicator is equally attributable to a more unfavourable appraisal of the current economic situation and to less favourable expectations for the economy in six months. However, from the present standpoint, this trend may be a partial correction to the all-too-favourable assessments during the first half of 2002. The greatly weakened expectations, even though still slightly positive, give little indication of an economic recovery in the coming months.



North America: Further deterioration of the economic climate

The economic climate, which had constantly risen since the end of last year, experienced a setback. This fall is due both to a clearly negative assessment of the current economic situation and more cautious but still positive expectations for the future. The results of the latest survey clearly show that the recovery in the United States has lost momentum. This is mainly due to the still unsatisfactory level of the hard-hit capital expenditure, which, however, is expected to improve within the next six months. In contrast, consumer demand, which was buoyant in the past, is expected to slow down somewhat. The WES correspondents expect an increasing deficit in the trade balance, mainly caused by stagnating imports and decreasing exports.

A far better picture of the current economic situation was reported for Canada, though the assessment of the current economic situation was not quite as positive as in the previous survey. The

expectations for the coming six months worsened somewhat but still remained positive (see Figures 2 and 3).

Latin America: Current economic situation remains unsatisfactory

The economic climate indicator (the combination of the assessment of the current economic situation with the expectations for the next six months) stagnated at the unsatisfactory level of the previous survey. Brazil, Costa Rica and El Salvador currently show the relatively best economic performance, which is expected to continue in coming months. In Argentina the present economic performance improved slightly, though still being at a very low level. The expectations for the next six months remained unchanged, indicating that recovery from the severe currency and banking crisis is slow.

In Uruguay and Guatemala the current economic performance is rated poor and is not expected to improve in the near future. In Chile and Mexico the economic situation deteriorated. Though expectations for the next six months have come down somewhat, they are still positive. In contrast, WES experts in Ecuador and Paraguay not only rated the present economic performance as unsatisfactory but expected further deterioration in coming months.

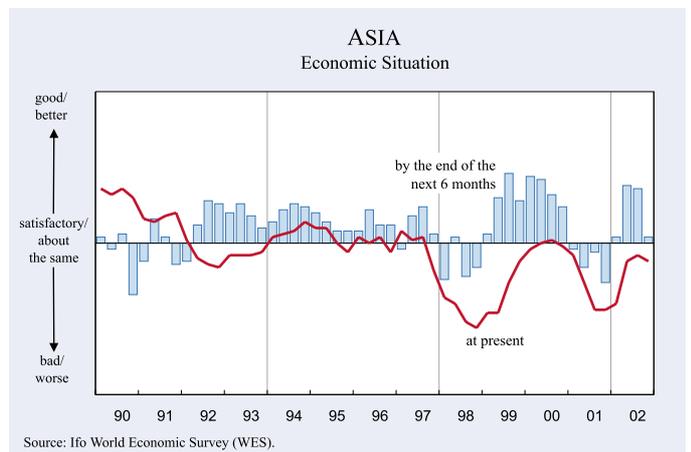
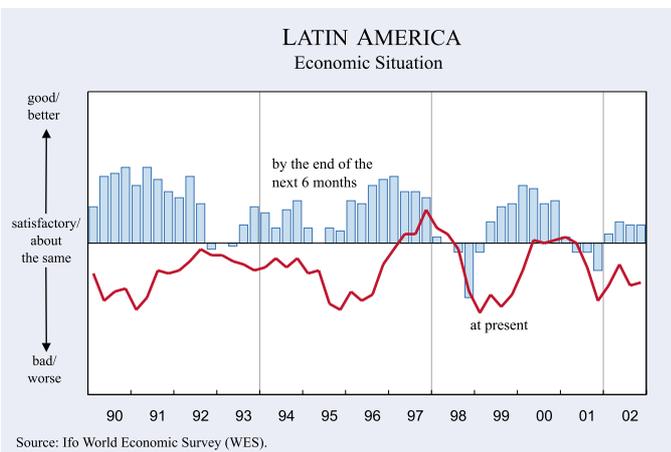
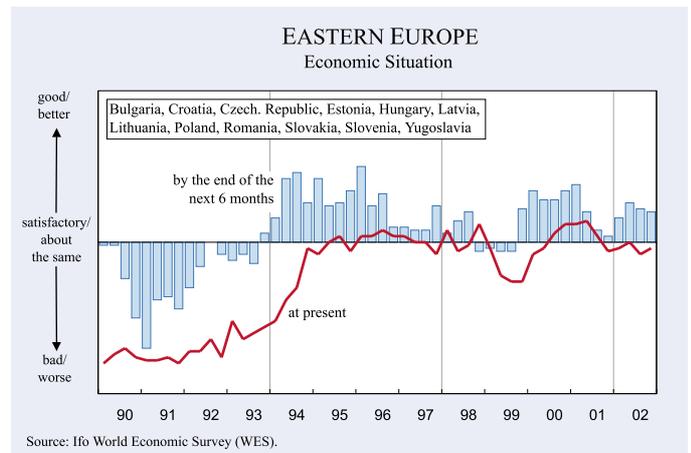
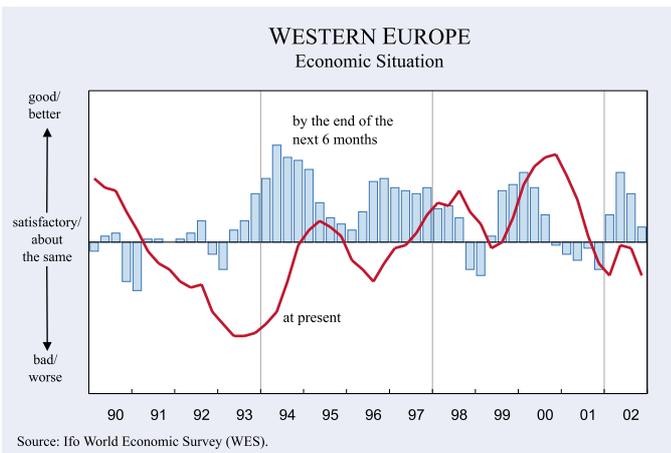
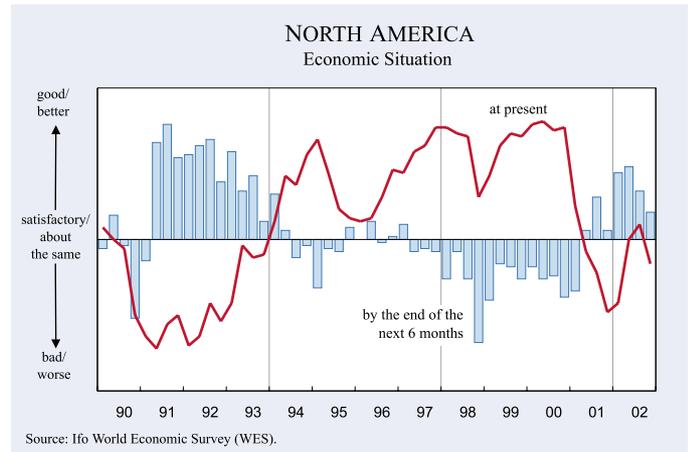
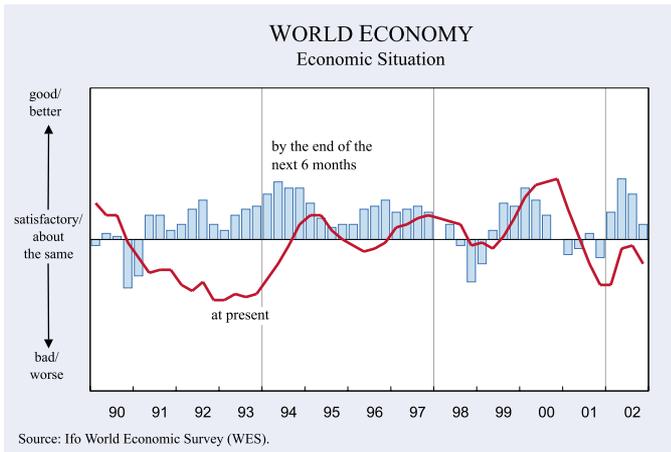
With regard to the outlook for the next six months, the average economic performance in Latin America is expected to improve slightly (see Figure 3).

Oceania: After a strong recovery, a slowdown expected

Australia's and New Zealand's upward trend, which had already set in at the end of last year, is expected to weaken out in coming months.

Figure 3

SELECTED REGIONS



According to WES correspondents, this is due to a more cautious outlook for private consumption, capital expenditures and exports.

Africa: After weak signs of economic stabilization threat of deterioration

Although the economic performance has slightly improved during recent months, the economic situation still remains in negative territory throughout most of the African continent. Only the economy of countries like Morocco and Ghana is regarded as satisfactory and as remaining so in coming months. The current economic situation in Mauritius and Tunisia are currently also regarded as satisfactory, but the expectations for the next six months are clouded. South Africa's economy is close to a satisfactory level and the prospects for the next six months point to a continuation or even a slight improvement of this trend.

The worst economic situation was again reported from Zimbabwe where the outlook also remained very bleak. The situation in Nigeria and Algeria is also very poor. Whereas in Egypt the economy has declined significantly, the outlook seems to have brightened a bit. Generally speaking, expectations for the African continent deteriorated slightly, though no major changes seem to lie ahead in the next half year.

Near East: Disparity of economic trends remains

The overall assessment of the current economic situation in the Near East improved slightly since the last survey, but has still not yet reached a satisfactory level. By far the best economic performance is shown by Jordan, followed by the United Arab Emirates; the outlook for the coming six months – like the average for the Near East – signals no major changes. The economy of Bahrain is continuing its upward trend, with expectations being clearly positive for the next six months. The current economic situation of the Saudi-Arabian economy has further improved, though in the course of the next six months a slowdown is expected. In contrast, Turkey's current situation remained at an unchanged low level. However, the expectations for Turkey are clearly positive. Israel continues to suffer from recession. An unsatisfactory current economic situation characterizes also Lebanon and

Iran, with no bettering ahead, according to the WES experts.

Interest rates: More participants expect short-term interest rates to decline

More experts than in the last survey expect short-term rates to fall in the coming months. A spectacular swing from formerly expected rate hikes to possible rate cuts can be observed in Hong Kong, Turkey and Western Europe (except Finland and Switzerland, where the upward trend is expected to continue). The downward trend of short-term interest rates is particularly pronounced in Eastern Europe with the exceptions of the Baltic states (Estonia, Lithuania and Latvia) as well as Hungary where the short-term rates are expected to rise in the coming months. In Russia and Kazakhstan no changes of interest rates are expected in the next six months, according to the WES experts. In Asian countries the prevailing view is that short-term interest rates will decline or remain unchanged in coming months. Exceptions are Malaysia, Vietnam and Republic Korea, where the interest rates are expected to rise somewhat. A downward trend of short-term interest rates with only a few exceptions prevails also in the Near East; only in Israel and the United Arab Emirates the WES experts expect an increase of short-term rates. In contrast, a continued upward trend of short-term interest rates is expected in Canada, Oceania and South Africa, as well as in most countries of Latin America, except Chile.

Long-term interest rates are expected to increase only marginally in the course of the next six months. In contrast, a somewhat more pronounced tendency of increasing long-term interest rates is expected particularly in North America, Australia and New Zealand as well as in Japan, Korea, Vietnam, Thailand and in most countries of Latin America (except Brazil and Argentina). In Western Europe only Denmark and Finland are likely to follow an upward trend of long-term interest rates, in other European countries, WES experts don't expect any significant changes in the coming months. Countries of Eastern Europe are mostly following the downward trend of long term rates. WES experts in Russia don't expect any changes of long-term interest rates in the next six months. A downward bias of capital market rates prevails in the Near East. However, Israel,

Lebanon and United Arab Emirates expect the long-term rates to increase in the coming months. According to the WES experts, no significant changes of long-term rates are expected in Africa.

World currencies continue moving toward a more stable equilibrium

On average of the 89 countries polled, the US dollar and British pound sterling are still judged to be overvalued, but the US dollar to a significantly less degree than in the previous surveys. On the other hand, the euro, which for a long time was assessed as undervalued, has reached an almost appropriate level. Such a level has already been reached by the Japanese yen, according to the WES experts (see Figure 4).

In Western Europe, Canada and Australia the US dollar is seen as overvalued against own currencies. WES experts in Eastern Europe and Russia consider the major world currencies close to “fair value” against their local currencies, except in Poland, Lithuania, Slovenia and Slovakia, where the experts rated the US dollar as clearly overvalued against own currencies. In Latin America, the US dollar as well as the euro and the yen are judged to be near the “fair value” as well. However, after strong devaluation, the currencies of Brazil, Chile and Bolivia now appear to be generally undervalued. In contrast, in Mexico, Guatemala, Costa Rica and to a slightly lesser degree Peru, the currencies are overvalued in relation to the major world currencies. In South Africa the domestic currency appears to be undervalued

vis-à-vis the major world currencies – Ghana reported similar results.

Independent of these different assessments of the current situation, the US dollar is still predicted to remain unchanged or even to rise by the end of the next six months. This applies again to all regions of the world except for Western Europe and some East European countries (Bulgaria and Lithuania), Canada, Brazil and Chile, Australia and New Zealand as well as some Asian countries like Hong Kong, Malaysia and Pakistan. In Japan, where in the previous survey experts had expected that the US dollar would strengthen against the yen, the outlook for the next six months now has changed in favour of a likely stabilization of the yen/US dollar cross-rates at the current level.

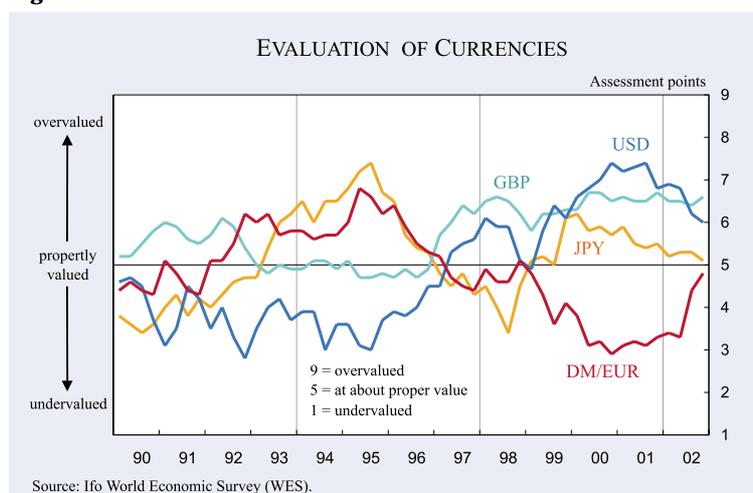
Inflation is expected to slow world-wide in 2002

On a world-wide scale consumer price inflation in the next six months is now seen to be 3.2% compared with an expected 3.3% in the July survey. According to this downward trend, the inflation rate is expected to be significantly lower on a world-wide scale than in 2001 (3.6% in October last year).

In Western Europe the October survey placed inflation rate expectations for 2002 at 2.2%. The European Central Bank (ECB) had set its price target at 2% at most, which – in light of the new figures – now seems to be achievable. However, disparity across European countries is quite big: about half of the countries within the Eurozone (namely Austria, Belgium, Finland, France, Luxembourg and Germany) are expected to meet or even fall below the 2% mark, whereas the remaining countries (Greece, Ireland, Italy, the Netherlands, Portugal and Spain) are almost all more than 1% above the set limit.

According to the new WES results, inflation figures for this year in the United States are slightly higher than the July estimations. However, at 2.2% the US inflation rate is still within the range regarded as normal by the US Fed (around

Figure 4



2.5%), whose priority lies equally on price stability and economic growth.

Asia continues to show by far the highest degree of price stability and this at the same level as before (1.1% compared to 1.6% in October 2002). Asian data again suggest that inflation close to the zero line may lead to a deflationary process in some countries of the region, which is the case in Japan (expected 2002 price change: - 0.8%) and Hong Kong (- 2.1%). Also, China and Taiwan seem to be in danger of entering this deflationary cycle, as inflation is now expected to be only 0.7% for 2002. The inflation outlook for Central and Eastern Europe has decreased since July from 5.9% to 5.3%. The only countries in this region that still have very high inflation rates are Yugoslavia (17.3%) and Romania (21.2%), though rates appear to coming down slowly.

Overall inflation is also expected to lessen in Central and Latin America, although some countries are moving against this trend and expect higher rates than before. The greatest changes have been recorded once again in Uruguay (from 20% in July to 26.6% in October) and in Paraguay (an expected rise in 2002 from 10.3% to 15%). In other Latin American countries inflation moderately increased compared to the July survey (Bolivia, Brazil, El Salvador, Venezuela) or remained around the same (Chile, Colombia, Costa Rica, Mexico and Panama). In Argentina, inflation is still very high, though it is now on a downward trend (62.3% expected in October compared to 87.5% in July).

The inflation outlook for Africa in general has not changed much since the last survey (11.9%), though there are big differences between the African states. The highest inflation rates are expected in Ghana (10.0%) and Nigeria (15.5%). A relatively high and increasing inflation rate is expected in South Africa (9.5% compared to 8.8% in July 2002). The situation in Zimbabwe has grown even worse as inflation expectations have now gone up to 135.8% (see Table 1, pp. 15 and 16).

World economic growth for the next 3 to 5 years seen somewhat stronger than expected at the same time last year (2.7% compared to 2.5%)

Compared with last years October survey the prospects for economic growth slightly improved

on a world average. Particularly in Asia (3.5% after 2.5% estimated in 2001), Oceania (3.5% after 3.3%) and North America (2.7% after 2.4%) there are brighter prospects concerning GDP growth for the next 3 to 5 years than prevailed in 2001 shortly after the terroristic attacks in New York and Washington. In Asia, countries like China, India and Vietnam with expected GDP growth rates of above 5.0% remain on the upward trend and in the leading position. But also Korea, Malaysia and Singapore expect higher growth rates than in 2001, amounting now to about 4.0%. GDP growth prospects in Japan are also expected to improve (from 0.2% to 0.9%), though still lagging behind other Asian countries. GDP growth rates significantly above the world average are expected in CIS (about 3.8%) countries, though the expectations have deteriorated here slightly since October 2001. Similar high growth prospects prevail in Eastern Europe, where expected medium-term GDP growth rates are seen of between 3.0% for Czech Republic and 5.6% for Estonia.

A deterioration of economic growth expectations was pronounced in Latin America: 2.3% compared with 3.0% annual growth according to the October 2001 survey. A particularly strong reduction of growth expectations was observed in Argentina (0.2% after 1.8%) and Venezuela (- 0.8% after 2.1%). To a lesser degree this downward correction of medium-term growth expectations can also be seen in Ecuador (3.5% after 4.4%) and Mexico (2.7% after 3.6%). Unchanged expectations of GDP growth can be observed in Brazil (2.9%).

In Western Europe GDP growth expectations for the next 3 to 5 years amount to 2.0% per year, which is clearly lower than the world average and even somewhat lower than at the same time last year. However, there are great differences between the European countries. In Ireland, Finland and Greece WES experts expect growth rates above 3.0%, whereas in Germany, Switzerland, Portugal and Iceland growth rates are below 2.0% (see Table 1 and Figure 8, pp.15 and 16).

Deterioration of GDP growth expectations for the next 3 to 5 years is also expected in the majority of Near East countries. In particular, Israel's expected annual growth rate deteriorated from 3.4% in October 2001 to 1.9 in October 2002. Similar deterioration can be observed in Saudi Arabia (from 2.4% to 1.5%).

Figure 5a

EUROPEAN UNION

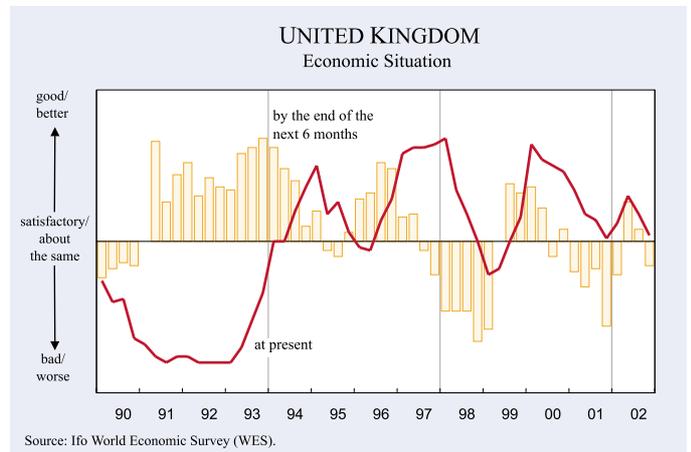
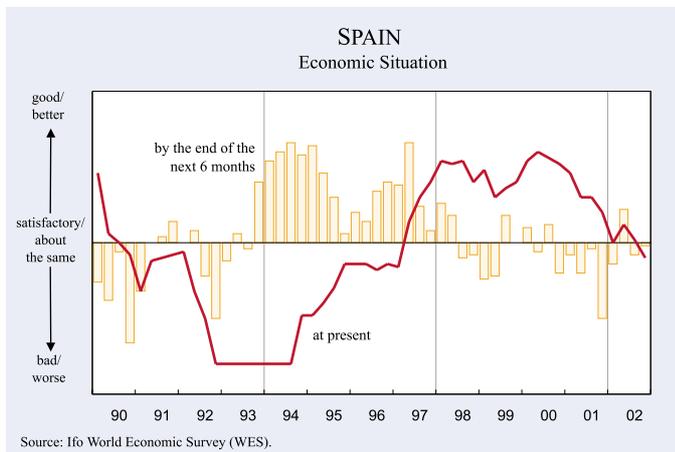
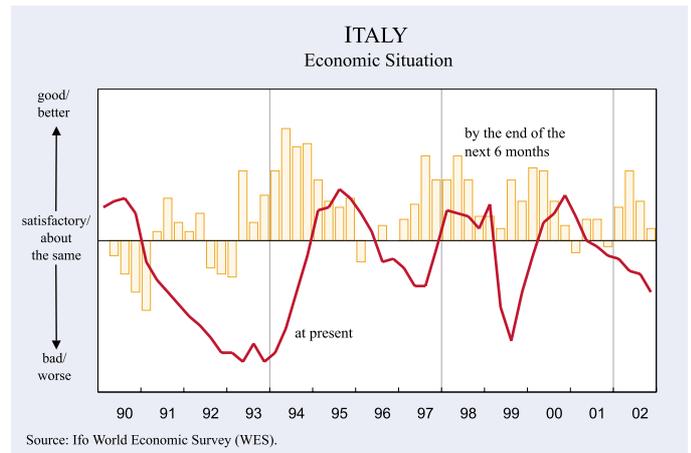
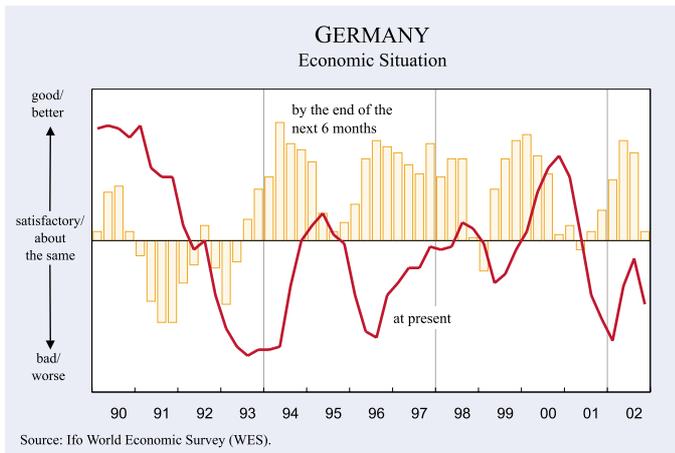
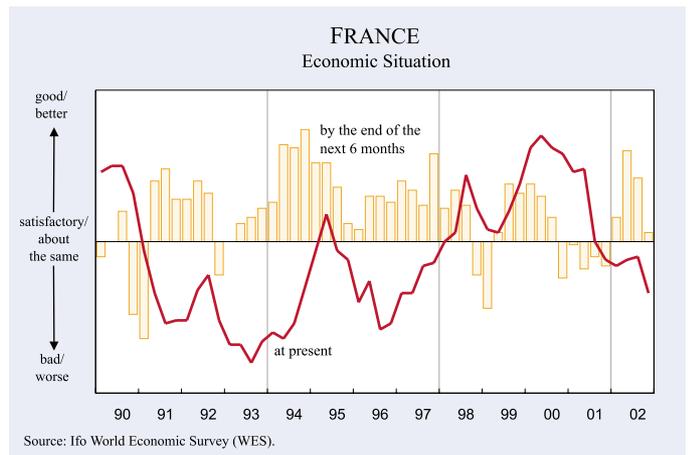
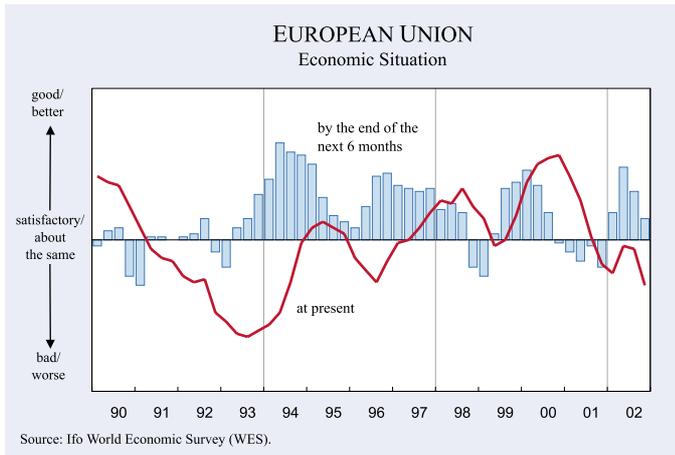


Figure 5b

EUROPEAN UNION

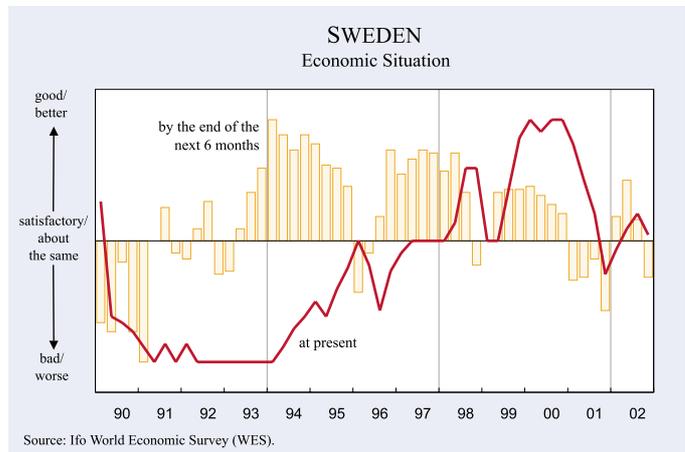
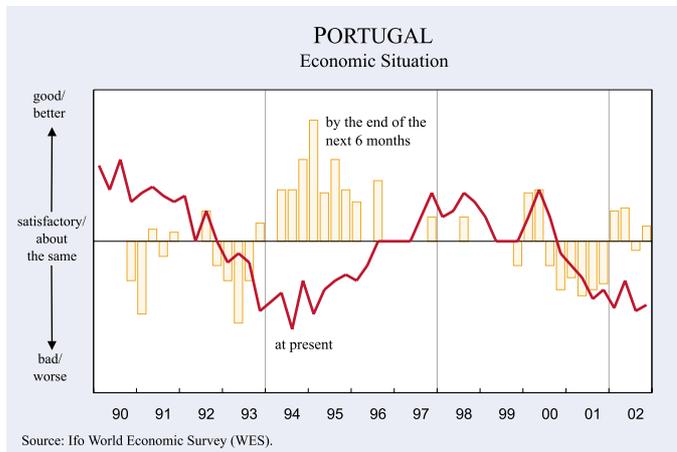
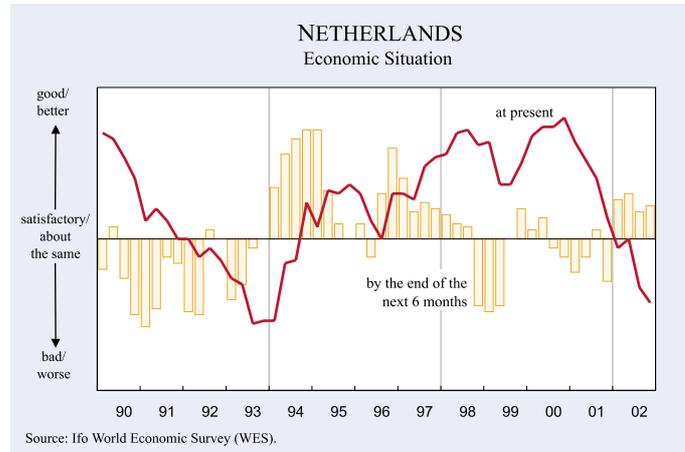
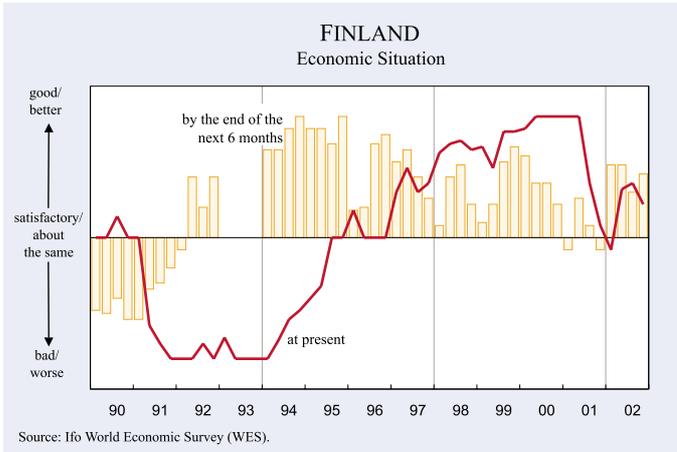
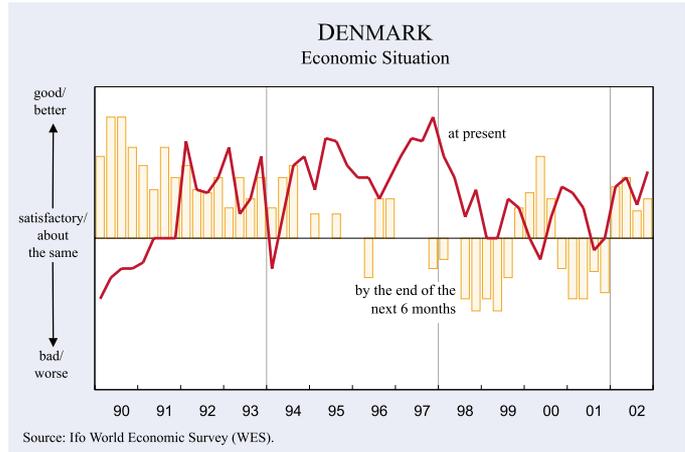
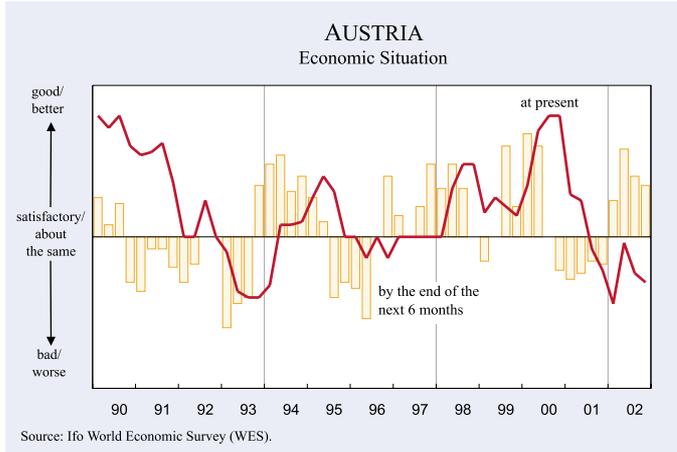


Figure 6

EASTERN EUROPE

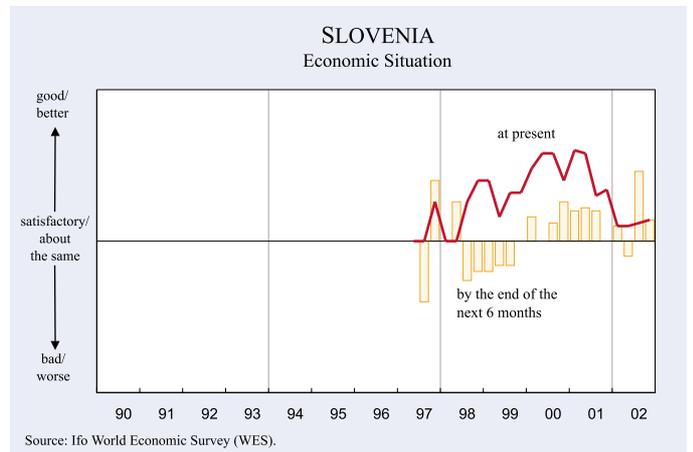
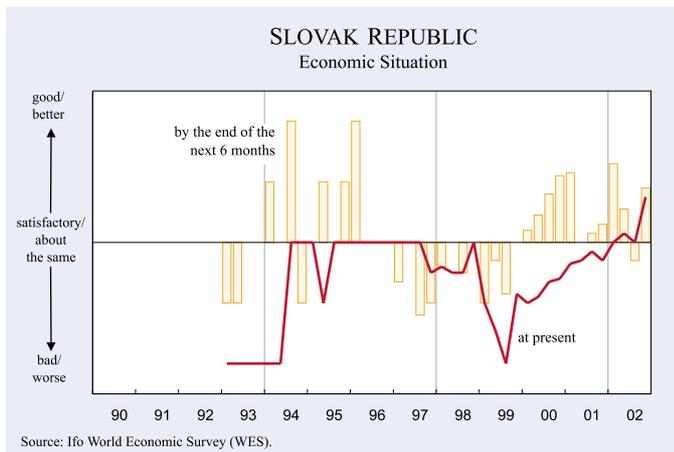
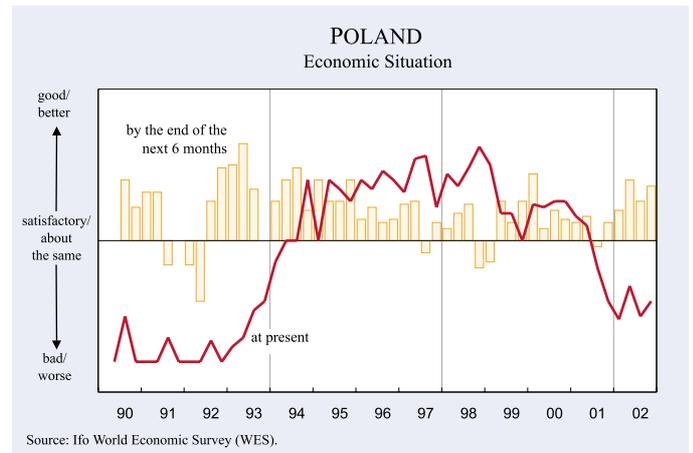
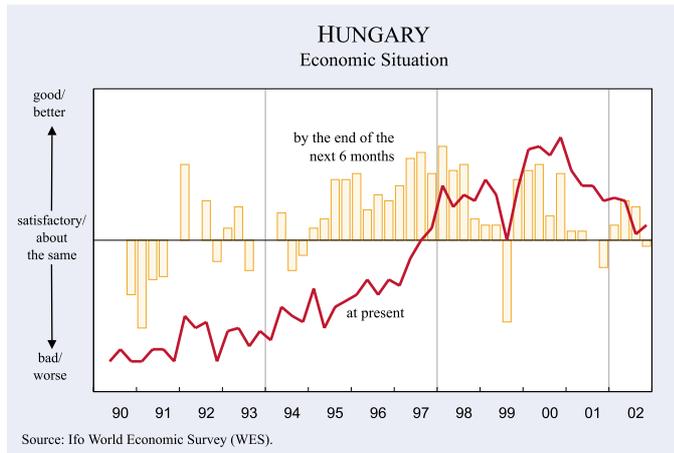
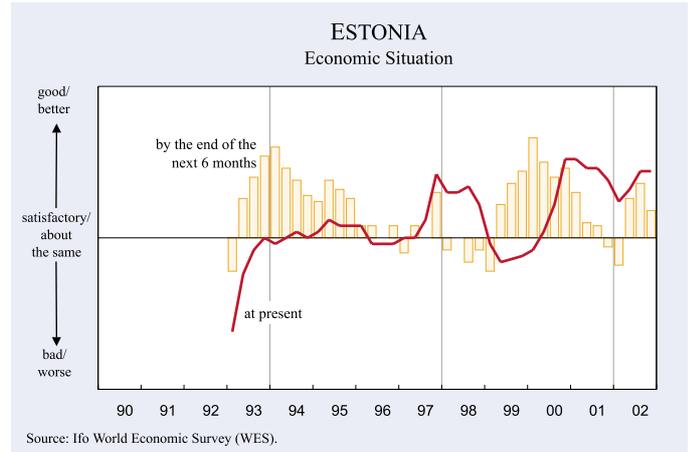
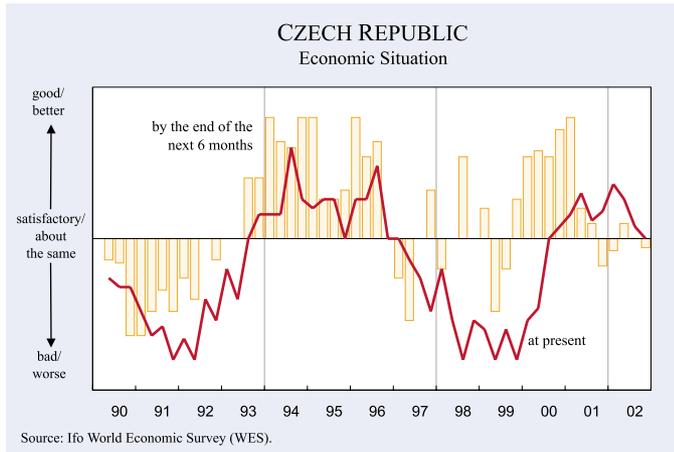


Figure 7

ASIA

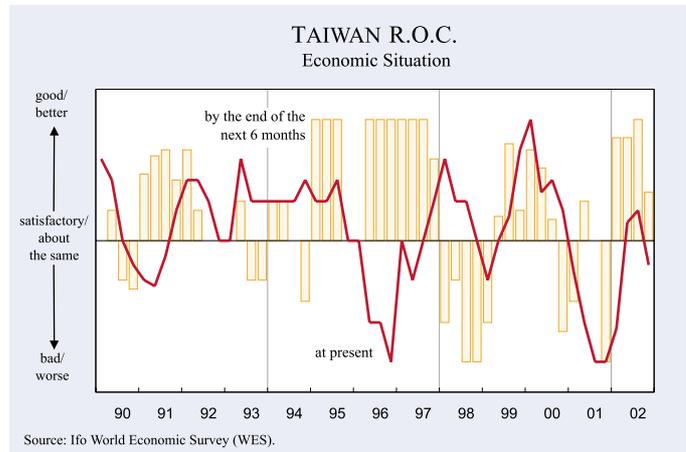
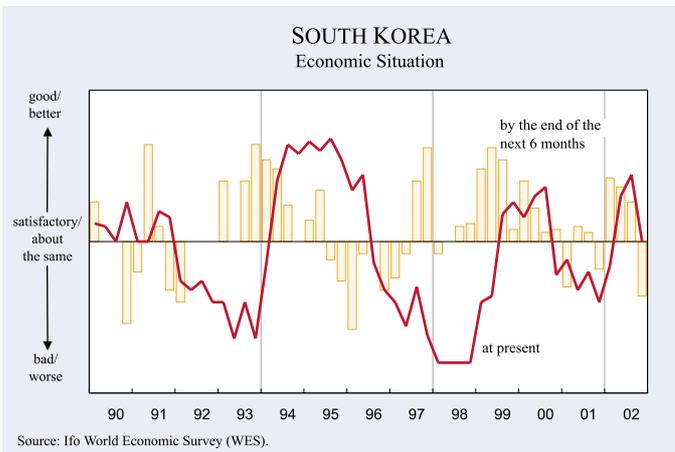
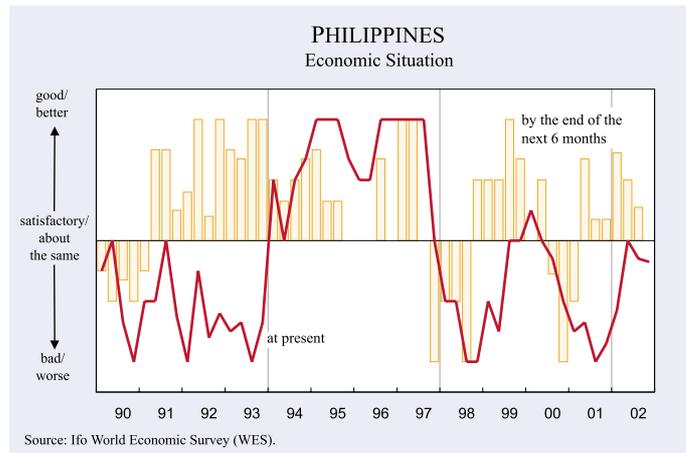
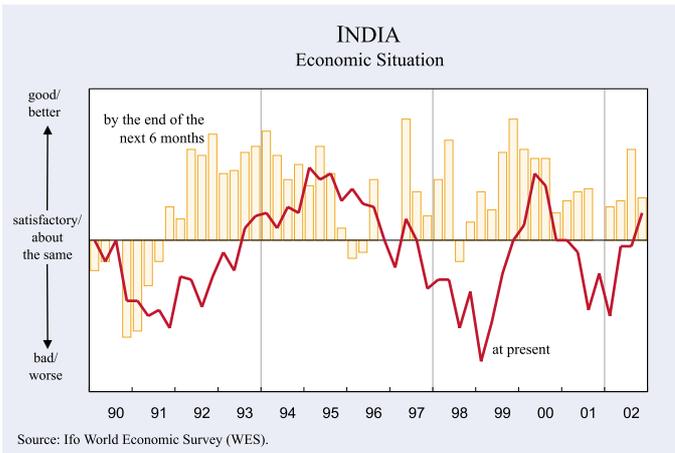
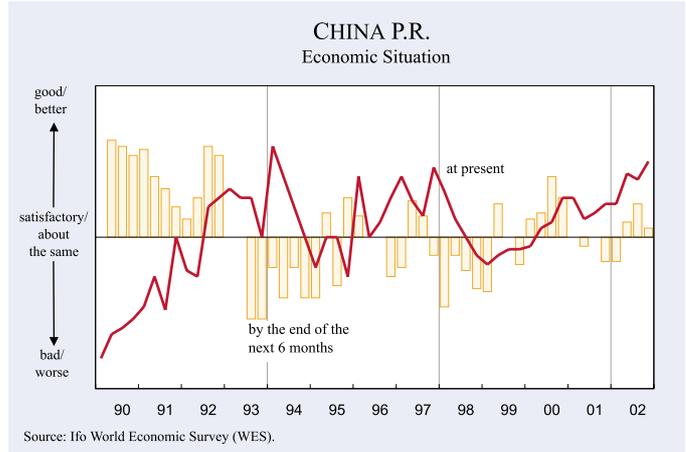
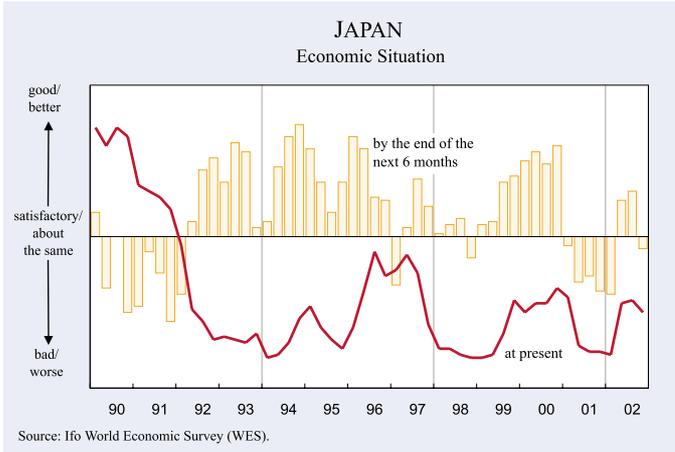


Table 1

Expected Inflation Rate for 2002^{*)}
and Expected Growth of Real GDP over the Next 3 to 5 Years in %
 (estimated in WES October 2001 and in WES October 2002)

	Inflation	GDP			Inflation	GDP	
		2001	2002			2001	2002
AVERAGE of 89 COUNTRIES	3.2	2.5	2.7	OCEANIA	3.1	3.3	3.5
30 High-income countries	1.7	2.1	2.2	Australia	3.2	3.5	3.5
48 Middle-income countries	8.6	3.3	3.4	New Zealand	2.6	2.5	3.3
23 Upper-middle	8.5	3.2	3.3	CENTRAL & EASTERN EUROPE	5.3	3.8	3.5
25 Lower-middle	8.9	3.4	3.6	Bosnia-Herzegovina	2.0	4.0	3.8
11 Low-income countries	4.4	5.7	5.8	Bulgaria	5.6	3.5	3.5
High-income OECD countries	1.9	2.1	2.1	Croatia	3.9	4.1	4.0
Middle-income OECD countries	6.6	3.5	3.7	Czech Rep.	2.6	3.2	3.0
Middle-income oil exporters ¹	11.9	2.4	1.7	Estonia	3.8	4.5	5.6
EU countries	2.2	2.2	2.0	Hungary	5.6	4.2	3.6
EURO-Land ²	2.2	2.2	2.0	Latvia	3.0	6.0	4.7
Mediterranean (non-EU) countries ³	13.9	3.8	3.3	Lithuania	0.6	4.0	4.3
ASEAN and East Asian NICs ⁴	1.8	2.5	3.6	Poland	2.3	3.6	3.4
Asian Pacific Rim ⁵	1.7	3.4	4.3	Romania	21.2	3.6	3.9
Arabian OPEC countries ⁶	4.7	3.3	3.1	Slovakia	4.8	4.0	3.8
WESTERN EUROPE	2.2	2.2	2.0	Slovenia	7.0	4.0	3.4
Austria	1.9	1.8	2.0	Yugoslavia	17.3	3.2	3.4
Belgium	1.7	2.1	2.1	CIS	14.4	4.5	3.8
Cyprus	3.3	-	3.8	Kazakhstan	7.0	4.0	4.5
Denmark	2.1	2.3	2.1	Russia	16.7	4.7	4.0
Finland	1.7	4.0	3.2	Ukraine	5.4	4.0	3.3
France	1.9	2.1	2.3	Usbekistan	-	-	1.5
Germany	1.5	2.2	1.5	CENTRAL & LATIN AMERICA	12.5	3.0	2.3
Greece	3.5	4.0	3.4	Argentina	62.3	1.8	0.2
Iceland	-	0.0	1.5	Bolivia	4.8	0.4	2.1
Ireland	4.6	2.9	3.5	Brazil	8.6	2.9	2.9
Italy	2.4	1.6	1.9	Chile	2.9	3.7	3.5
Luxembourg	2.0	-	1.5	Colombia	6.4	2.1	2.0
Netherlands	3.4	2.3	1.9	Costa Rica	10.3	2.3	2.6
Norway	3.4	2.2	1.7	Ecuador	11.4	4.4	3.5
Portugal	3.4	2.9	2.9	El Salvador	2.8	2.8	2.6
Spain	2.2	1.9	2.0	Guatemala	-	0.0	1.5
Sweden	0.8	1.6	1.5	Mexico	5.2	3.6	2.7
Switzerland	2.1	1.9	2.1	Panama	1.3	1.5	2.1
United Kingdom	2.2	2.4	2.7	Paraguay	15.0	1.5	1.0
NORTH AMERICA	2.3	3.0	3.3	Peru	2.5	3.4	3.0
Canada	2.2	2.2	2.5	Trinidad a. Tobago	-	-	3.8
United States				Uruguay	26.6	0.0	0.0
				Venezuela	34.5	2.1	-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, Saudia Arabia, United Arab Emirates.

*) Compared to average of previous year.

Lack of confidence in government's economic policy gained in importance

Growing mistrust in governments economic activities prevail around the world. In Latin America and Africa lack of confidence in government economic policy is close to ranking second next to unemployment, the top economic problem throughout the

world. Only in Eastern Europe, the Near East and Oceania was no growing lack of confidence in government economic policy observed.

Unemployment still ranks as the number one problem in Eastern Europe, Latin America, Africa and the Near East; it ranks second in Western Europe, closely followed by insufficient demand; and in

Table 1 (continued)

Expected Inflation Rate for 2002^{*)}
and Expected Growth of Real GDP over the Next 3 to 5 Years in %
 (estimated in WES October 2001 and in WES October 2002)

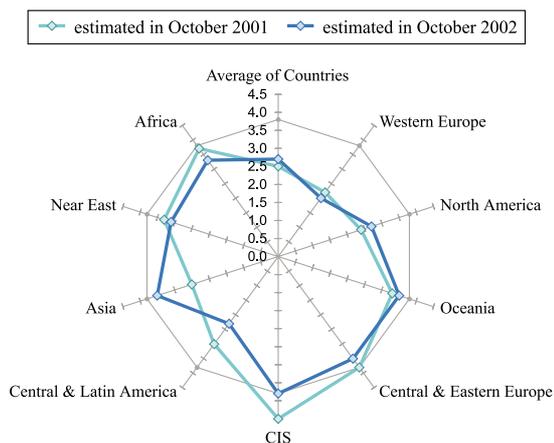
	Inflation	GDP			Inflation	GDP	
		2001	2002			2001	2002
ASIA	1.1	2.5	3.5	NEAR EAST	10.7	3.3	3.1
Bangladesh	3.0	4.0	3.8	Bahrain	1.5	4.0	3.8
China P.R.	0.7	6.6	6.8	Iran	22.5	4.0	3.7
Hong Kong	-2.1	2.6	2.5	Israel	6.1	3.4	1.9
India	4.7	4.9	5.3	Jordan	3.0	-	4.9
Indonesia	10.8	3.8	3.4	Lebanon	3.8	1.5	1.5
Japan	-0.8	0.2	0.9	Saudi Arabia	1.5	2.4	1.5
Korea	3.3	3.3	4.6	Turkey	37.9	3.4	4.2
Malaysia	2.1	3.0	4.5	United Arab Emirates	2.5	4.1	4.2
Pakistan	5.9	4.0	3.8				
Philippines	4.5	3.3	3.8	AFRICA	11.9	3.7	3.3
Singapore	1.0	1.7	4.3	Algeria	5.0	-	3.8
Sri Lanka	10.8	2.8	3.0	Egypt	3.5	4.4	3.5
Taiwan R.O.C.	0.7	1.4	2.4	Ghana	10.0	-	6.0
Thailand	1.5	1.6	3.5	Kenya	5.0	0.8	0.9
Vietnam	3.6	5.5	6.2	Mauritius	6.0	-	3.8
				Morocco	2.0	6.0	3.8
				Nigeria	15.5	2.8	4.3
				South Africa	9.5	3.4	3.4
				Tunisia	3.0	5.0	2.6
				Zimbabwe	135.8	-3.5	-4.5

*) Compared to average of previous year.

Source: Ifo Institute / World Economic Survey Q4/2002.

Figure 8

**EXPECTED GDP GROWTH FOR THE
NEXT 3 TO 5 YEARS¹⁾**



1) In %: based on the assessments in the Ifo World Economic Survey.

Source: Ifo World Economic Survey QIV/2002.

Oceania closely after trade barriers to exports. In CIS countries, in particular Russia, lack of international competitiveness is regarded as the crucial impediment facing the present. However, in Ukraine the lack of confidence in government activities is the problem number one accompanied by public deficit, probably related to the distrust in government.

In Eastern Europe, only in the Czech Republic, Estonia, Hungary and Latvia, that is to say in acceding countries to the EU, unemployment is not an important problem, according to WES experts. Quite the contrary, in Estonia for example, lack of skilled labour is regarded as the most important.

In the United States insufficient demand ranks number one, whereas lack of confidence in government economic activities has become significantly more important than it was in April 2002. In contrast, in Canada trade barriers to exports rank first and lack of international competitiveness second.

In the majority of countries of Latin America the problem of unemployment and lack of confidence in government economic policy are seen to be most important by the WES experts. However, this picture is heterogeneous throughout Latin America. In Brazil, for example, the public deficit and foreign debt are regarded as the most important problems faced by the country. In Chile, Colombia and Uruguay insufficient demand is close to ranking second after unemployment.

Table 2

Ranking of the Most Important Economic Problems

Problem	Average of all countries	Western Europe	North America	Australia/ New Zealand	Eastern Europe	CIS	Latin America	Africa	Asia	Near East
Lack of confidence in government's economic policy	4,9 =	4,3 =	4,5 ++	2,6 =	4,6 =	5,1 =	6,9 ++	6,0 ++	5,7 =	5,1 =
Insufficient demand	5,4 =	5,8 +	5,3 +	3,3 =	4,6 =	4,0 -	5,7 =	3,7 =	5,4 =	3,5 =
Unemployment	5,4 =	5,7 =	4,0 =	4,3 =	6,0 =	2,9 =	7,1 =	7,3 =	5,6 =	5,8 =
Inflation	2,6 =	2,8 =	2,0 =	2,8 =	3,4 =	2,6 --	3,8 =	4,7 =	2,2 =	3,8 =
Lack of international competitiveness	4,2 =	4,6 =	2,9 =	4,1 =	5,6 =	7,4 =	5,2 =	5,4 =	4,0 =	3,8 =
Trade barriers to exports	2,4 =	1,8 =	3,0 =	5,0 =	2,9 =	5,1 =	3,2 =	2,8 =	2,4 =	2,7 =
Lack of skilled labour	3,0 =	3,1 -	2,2 =	3,6 =	2,8 =	3,2 =	4,1 =	5,4 =	3,0 =	3,7 =
Public deficits	4,2 =	4,4 =	2,9 =	3,1 +	5,7 =	2,9 -	6,1 =	5,0 =	4,3 =	5,3 =
Foreign debts	2,4 =	1,8 =	2,6 =	4,1 =	4,1 =	5,1 -	4,7 =	4,1 =	2,0 =	3,3 =
Capital shortage	3,0 =	2,5 =	2,8 =	3,0 =	5,6 =	5,8 --	5,6 =	4,8 -	2,8 =	3,6 =

Explanations:

1) The two most important problems are in bold letters

3) Change in ranking compared to previous survey:

= : unchanged (+- one point)

+ : more important (more than one point)

++ : more important (more than one and a half point)

- : less important (less than one point)

-- : less important (less than one and a half point)

2) WES scale:

9: most important

5: quite important

1: not so important

Source: Ifo Institute / World Economic Survey Q4/2002.

In Asia, as in Latin America, the problems faced by countries differ from country to country. In China the most important problem is unemployment. In Japan, insufficient demand is close to ranking second after lack of confidence in governments economic policy. In India public deficits rank number one and mistrust in governments activities rank second. No severe problems, except insufficient demand, were reported in Singapore. In contrast, in Indonesia, all problems are rated very serious, except demand, inflation and export barriers (see Table 2).

Special Topic: Improving corporate governance worldwide

Following the special question that was added in April 2002 to the Ifo/ICC quarterly World Economic Survey focussing on assessments and possible modifications of world-wide accountancy principles, the October Survey investigated ways to improve standards of corporate governance. This topic is of special interest in connection with the Enron collapse in the United States and the shaken confidence in capital markets world-wide.

770 economic experts from 85 countries participated in this special survey.

For the methodology, evaluation technique, aggregation and country classification, please see the notes of the Ifo World Economic Survey.

The question dealt with the ways suggested by the WES experts to raise standards of corporate governance in order to avoid future mismanagement and to restore confidence in management, in accounting, in supervisory institutions, and finally in companies balance sheets and stock quotations. The following three alternatives were offered by the questionnaire:

- A The best way to raise standards of corporate governance is to rely on the pressure of **public opinion**, the power of the **market place**, and effective enforcement of **existing rules**.
- B The best way to raise standards of corporate governance is to rely on a combination of **self-regulation**

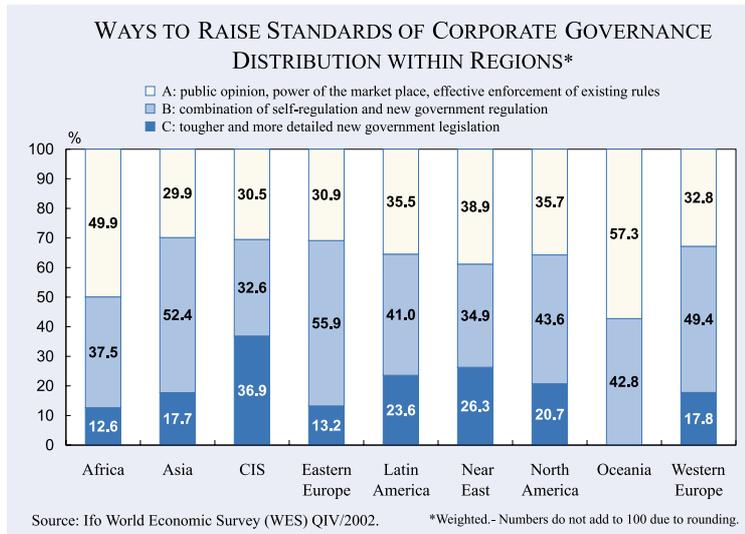
and new government regulations that contribute to greater accountability.

- C **Tougher and more detailed new government legislation** rather than self regulation is the best way to deter a minority of executives from dubious financial practices that bring business as a whole into disrepute.

On average for all countries about half of the experts (47.7%) answered that the alternative B would be the most appropriate way to improve standards of corporate governance. That is to say, the combination of *self-regulation* and *new government regulations* is most likely to provide a basis for regaining confidence in corporate government and to avoid the risks of negligent accounting. Alternative A, with a share of 33.5%, was a close second. That means, that reliance on institutions of *public opinion*, the *power of the market place*, and *effective enforcement of existing rules* are also regarded as powerful instruments of control. However, it is debatable whether averages across the world make any sense. After all, according to the opinions of several WES experts, it depends on the situation in a specific country, which way is the most promising. Relying upon public institutions can be an effective way if a country already has a developed accounting and economic law system, generally accepted standards of management and supervision as well as a strong and trustworthy governmental system. It is now necessary to improve confidence in institutions and markets and among participants by creating more discipline, higher morality standards and visibility of management processes. It was striking the fact, as some WES experts noted, that most of the scandals in industrial countries were actually exposed by private sector organizations, financial analysts and journalists. If, however, a country lacks an appropriate legal framework for upright management and accountancy, the most essential step is to create a tougher and more detailed government legislation prior to enforcing corporate self-regulations. For a country breakdown please see Table 3, where the absolute numbers for countries that participated in the October survey are listed.

Traditionally we also present numbers for regions and country groups, where the countries within regions and groups are weighted with their world trade share (see Figures 9 and 10).

Figure 9



Western Europe: Combination of self-regulation and new government regulations will contribute to greater accountability

A plurality (49.4%) of western European WES experts stated that the best way to raise standards of corporate governance is to rely on a combination of self-regulation and new government regulations (B). The second most frequently given answer was A, at 32.8%, that the pressure of public opinion, the power of market place and effective enforcement of existing rules would be an effective way of avoiding risks of balance-sheet manipulation. There were no essential differences between the European countries concerning the answers to this question, although in Austria and Denmark all three alternatives had an approximately equal

share of responses. The European figures therefore are very close to the world average.

Oceania: Overwhelming majority favours reliance on public opinion institutions

The prevailing opinion in Oceania (57.3%) was that the public institutions, the power of the market and an effective enforcement of already existing rules is the most appropriate way to improve accountability and management standards. No responses were given to

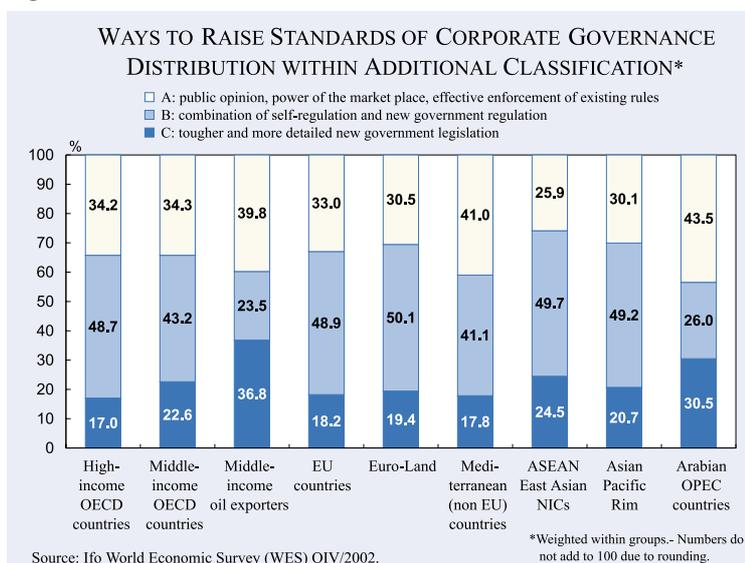
alternative C in Australia and New Zealand, suggesting that tougher government legislation is not regarded as necessary in these countries.

North America: Stronger self-regulation and detailed government legislation, supported by public opinion are the best ways of restoring trust in corporations

Against the background of the Enron, Worldcom and other scandals, WES experts in the United States clearly favour stronger self-regulation and new government regulations in combination with further enforcement of existing rules and more visibility of management processes that can be challenged by public institutions (alternatives B and A). Few participants (18.8%) stated that

tougher and new government legislation is necessary – not astonishing given the fact that linkages between the corporate sector and the government level prevented timely government intervention.

Figure 10



Near East: Collaboration of public institutions, corporations and government will contribute to greater accountability

WES experts in the Near East pointed out that success of changes depends on a move to

a more self-managed system of control in combination with new government regulation (B: 34.9%), whereas the pressure of public opinion and the power of market place are regarded as being the crucial factor in improving managerial behavior (alternative A: 38.9%).

Latin America: Diversity of opinion among the countries

As mentioned above, the right strategy strongly depends on the specific situation in the country. While in Argentina the prevailing opinion was that self-regulation in combination with new and tougher government regulations are necessary, the emphasis in Brazil and Mexico was set on enforcing the role of public institutions. In Peru simultaneous application of all three ways was suggested by WES experts.

Eastern Europe: Little support for tougher government legislation

Except for Croatia and Slovakia, WES participants in Eastern Europe did not regard tougher governmental intervention in managerial obligations as being necessary (alternative C got only 13.2%). The emphasis was placed on self-regulation and additional regulations as the most appropriate way to contribute to greater accountability (B). In Bulgaria, the Czech Republic and Poland, wide support was given to the pressure of public opinion and the power of the market place.

CIS: Collaboration of all actors is required

The opinions in Russia were mixed, with all three alternatives regarded as being important. A similar picture resulted in Kazakhstan and Ukraine. Enforcement of government legislation, self-control of corporations and access of information to public institutions, as well as power of market place will contribute to greater accountability.

Asia: Majority for combination of self-control and new government regulations

Especially in Hong Kong, Japan, Philippines and Vietnam alternative B was regarded as the most

appropriate way of improving confidence in companies numbers and markets. In contrast, in India and South Korea, experts who favour a tougher and more detailed new government legislation were as numerous as those with other opinions.

Africa: Public opinion and power of market will contribute to perpetuation of existing rules

The majority of African countries is not of the opinion that tougher government legislation is the right approach to more reliable accountancy (alternative C received only 12.6%). While in South Africa and Kenya combination of self-regulation, in addition to new government-regulations (B) should create better rules and more discipline for accountancy, in other African countries, especially in Zimbabwe, there is more trust in public opinion and the power of markets than in governmental regulations.



P.O.Box 86 04 60
D-81631 Munich
Tel.: xx49-89-92 24-0
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**International Spring Conference:
»Prospects for the European Economy«**

Thursday and Friday
20-21 March 2003
Palais am Festungsgraben
Berlin

Preliminary Programme

March 20, 2003

- 12:00 Cold buffet lunch
- 13:15 **Welcome and Introduction**
Hans-Werner Sinn, President,
Ifo Institute for Economic Research, Munich
- 13:30 **The World Economy with Special
Reference to the United States**
Flemming Larsen, IMF Europe, Paris
- 13:50 **The European Economy**
Hans-Werner Sinn
- 14:10 **The Outlook for Central and Eastern Europe**
Willem H. Buiter, EBRD, London
- 14:30 Discussion
- 15:00 Coffee break
- 15:30 **China and the Asian NIEs**
Markus Taube, University of Duisburg
- 15:50 **The Asset Price Bubble**
Jim O'Neill, Goldman Sachs, London
- 16:10 **Financial Stability**
Claudio Borio
Bank for International Settlements, Basel
- 16:30 Discussion
- 17:00 End of first day
- 19:00 Dinner
Dinner speech: **Dr. Alfred Tacke**,
State Secretary in the Federal Ministry of
Economics and Labour, Berlin, and
Personal Representative of Chancellor Schröder
for the preparation of the World Economic Summit

March 21, 2003

- 10:00 **Welcome and Introduction**
Hans-Günther Vieweg
Ifo Institute for Economic Research
- 10:10 **Prospects for the European
Manufacturing Industries**
Moderator:
Peter Marsh
Financial Times, London
- Steel Industry**
Tony Cockerill
University of Durham
- Chemicals**
Ralf Gronych
BASF, Ludwigshafen
- 11:00 Coffee break
- 11:30 **Capital goods**
Dough Dunn
ASML, Veldhoven
- ICT-Industry**
Ulrich Hofmann
IBM, Paris
- Automobiles**
To be announced
HSBC, London
- 13:00 **Summary and Conclusion**
Hans-Günther Vieweg
- 13:30 Hot buffet lunch
- 14:30 End of conference



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