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**Article**

## CESifo World Economic Survey November 2006

CESifo World Economic Survey

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# CESifo WORLD ECONOMIC SURVEY

VOLUME 5, No. 4

NOVEMBER 2006

## WORLD ECONOMIC CLIMATE

Soft-landing is likely

## ECONOMIC EXPECTATIONS

Assessments of the current economic situation continue to improve, economic expectations somewhat downgraded

## INFLATION

Expectations: Only moderate further increase

## INTEREST RATES

Upward trend is slowing down

## CURRENCIES

Japanese yen still seen as somewhat undervalued

## SPECIAL TOPIC

The suspension of the WTO trade negotiations



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## Ifo World Economic Survey

### Regions

- World economy: Present economic situation continues to improve
- Western Europe: Forecasts of economic slowing
- North America: US economy cools at a slower pace
- Eastern Europe: Economic climate remains satisfactory
- CIS: Highly favourable economic climate
- Asia: Economic climate improves
- Oceania: Economy remains in good health
- Latin America: Economic stabilization continues
- Near East: Economic climate cools somewhat
- Africa: Economic climate deteriorates

## Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide about current economic developments in the respective country. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In October 2006 1,060 economic experts in 89 countries were polled.

WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris and receives financial support from the European Commission.

## Methodology and evaluation technique

The survey questionnaire focuses on qualitative information: on assessment of a country's general economic situation and expectations regarding important economic indicators. It has proved to be a useful tool, since economic changes are revealed earlier than by traditional business statistics.

The individual replies are combined for each country without weighting. The "grading" procedure consists in giving a grade of 9 to positive replies (+), a grade of 5 to indifferent replies (=) and a grade of 1 to negative (-) replies. Grades within the range of 5 to 9 indicate that positive answers prevail or that a majority expects trends to increase, whereas grades within the range of 1 to 5 reveal predominantly negative replies or expectations of decreasing trends.

The survey results are published as aggregated data. The aggregation procedure is based on country classifications. Within each country group or region, the country results are weighted according to the share of the specific country's exports and imports in total world trade.

*CES – Center for Economic Studies* – is an institute within the department of economics of Ludwig-Maximilians-University. Its research concentrates on public finance, aspects of the economy, but also includes many diverging fields of economics.

*Ifo Institute for Economic Research* ist one of the largest economic research institutes in Germany with a three-fold orientation: to conduct economic research, to offer advice to economic policy-makers and to provide services for the research and business communities. The Ifo Institute is internationally renowned for its business surveys.

*CESifo* is the name under which the international service products and research results of both organizations are published.

# WORLD ECONOMIC CLIMATE INDEX: SOFT-LANDING IS LIKELY

In October 2006 the World Economic Climate deteriorated somewhat for the second time in succession (see Figure 1). The climate indicator now stands at 104.7 (after 105.6 in July: 1995=100), which is still considerably above its long-term average (1990–2005: 94.3). Similar to the July survey, only the economic outlook has again been slightly downgraded, whereas the assessments of the current economic situation have further improved (see Figure 2).

## World economy: Present economic situation continues to improve

According to the October results, the index of the current economic situation continued to improve and is approaching an all-time high that was reached six years ago, at the end of 2000. But, as economic expectations – the second component of the economic climate index – have been again downgraded, the overall economic climate deteriorated somewhat (see Figure 2). This data constellation is typical for the late phase of a consolidated upswing (see Box 1).

The data mainly reflect the business sentiments in the USA, Germany, China and Japan – countries that account for more than 30 percent of the total world trade. In both Asian countries the economic climate improved somewhat over the July survey, with its two components – present economic situation and expectations – pointing upward. Particularly China's economic weight in the world economy is strongly increasing and has almost reached the weight of Germany, measured by the share of imports and exports in total world trade. The economic climate index has risen somewhat also in the US. However, while the present economic situation deteriorated somewhat, according to the surveyed experts, the economic expectations for the coming six months have been upgraded, pointing to an only moderate downturn in coming months and not to a recession. A com-

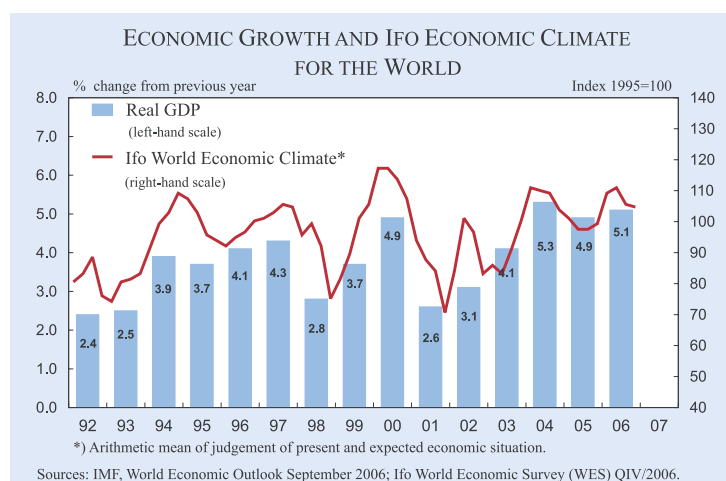
pletely different picture arises in Germany. Here the assessments of the present economic situation are approaching the all-time high of 2000. However, given the VAT (value added tax) rise from 16 percent to 19 percent in 2007, the outlook signals some economic cooling in the next six months.

For a global, medium-term forecast a look at the Ifo Business Clock showing the development of the two components of the economic climate index over the last six years visualizes the trend (see Box 1). In the second half of 2006 the economic climate index started to approach a regular contraction phase. However, as the economic environment remains favourable, with strong Asian economies, moderate inflation rates and stabilizing or even shrinking interest rates, an economic soft landing appears likely.

## Western Europe: Forecasts of economic slowing

The overall economic climate indicator slipped slightly in October (see Figure 3), due to less optimistic economic expectations for the next six months in the majority of the Western European countries, while the panel's assessments of the current economic situation have followed a positive trend since July 2005 and are now approaching an all-time high of 2000 (see Figure 4 and Box 2).

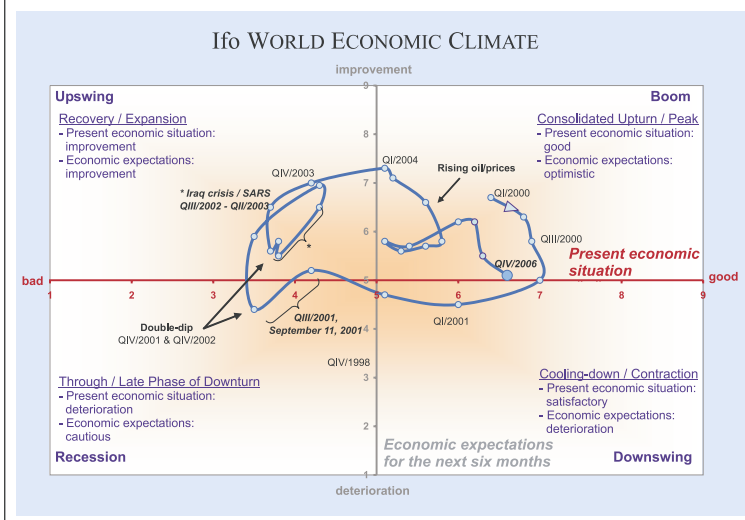
Figure 1



**Box 1**  
**Ifo Economic Clock and the World Economic Climate**

For a global, medium-term forecast a look at the Ifo Business Clock showing the development of the two components of the economic climate index over the last six years visualizes the trend (see Figure). The Ifo indicator for the world economic climate weakened slightly in the fourth quarter of 2006. The decline was again solely due to less confident expectations for the next six months. In contrast, the assessments of the current economic situation have improved for the fifth time in succession, reaching a six-year high. This data constellation indicates that the expected slowing of world economic growth will only involve a moderate cooling phase of the economic cycle in the next six months and an economic soft landing appears likely.

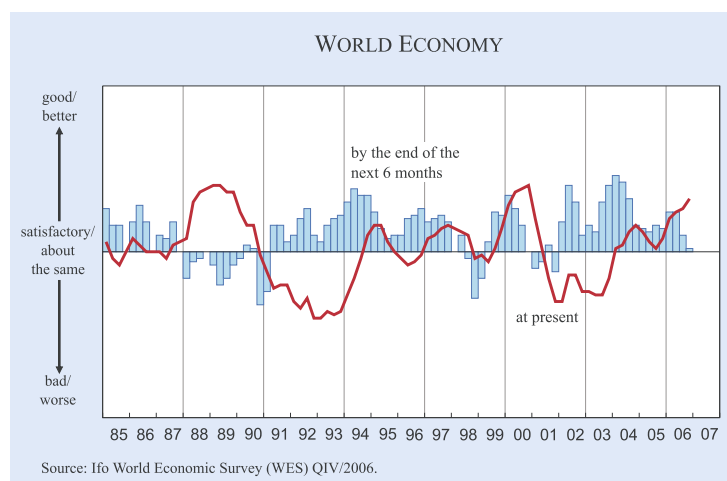
The Ifo World Economic Climate is the arithmetic mean of the assessments of the current situation and economic expectations for the next six months. The correlation of the two climate components can be illustrated in a four-quadrant diagram ("Ifo Konjunkturuhr"). The assessments on the present economic situation are positioned along the abscissa, the responses on the economic expectations on the ordinate. The diagram is divided into four quadrants, defining the four phases of the world business cycle. For example, should the assessments of the interviewed experts on the present situation be negative, but the expectations became positive, the world business cycle is in an upswing phase (top left quadrant). The business cycle typically goes clockwise in a circle; expectations leading assessments of the present situation.



The assessments of the present economic situation improved in almost all countries of the euro area, except *Finland*, where they already had reached a very favourable level in July 2006 and *Greece*, where the present economic situation has stabilized at a satisfactory level, according to the surveyed experts.

and the outlook for the first half of 2007 promises further strengthening of the economy. In both countries, the surveyed economists stated that *lack of skilled labour* is the most important economic problem at present. It ranks second, after *unemployment*, also in *Sweden*, where the present economic situation is also assessed at the very favourable level.

**Figure 2**



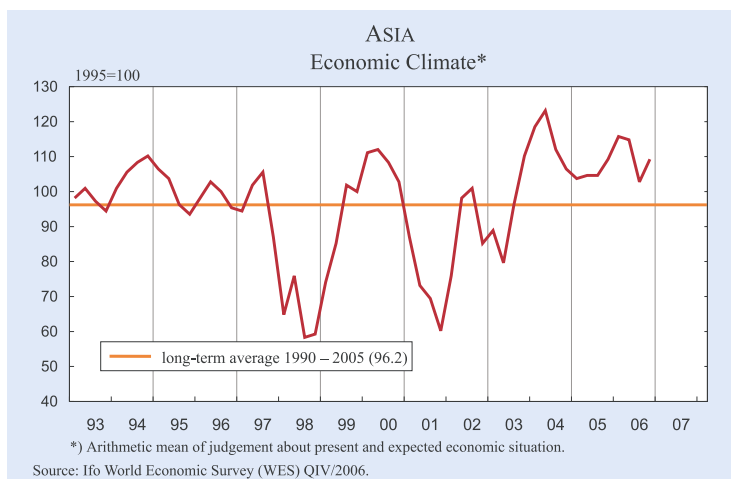
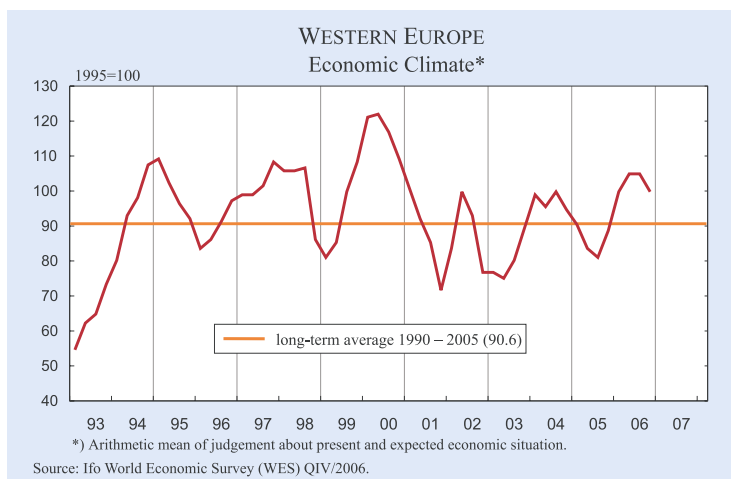
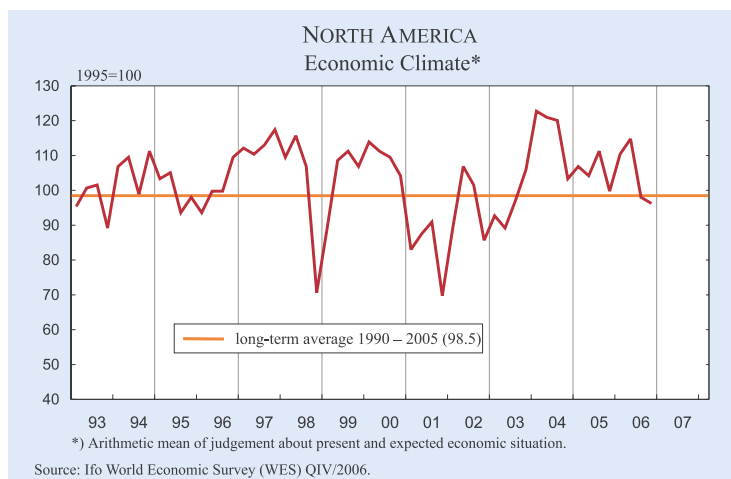
Source: Ifo World Economic Survey (WES) QIV/2006.

The highest marks for the current situation were given by WES correspondents in *Ireland, Finland, the Netherlands, Austria, Spain, Belgium* and *Germany*. While in the other countries of the euro area the present economic performance was assessed close or above the satisfactory level, it remained unfavorable in *Portugal* (see Figure 5a/b). However, in *Portugal* the economic expectations for the first half of 2007 are highly optimistic. *Austria* and *Greece* were the only countries in the euro area, where the outlook for the coming six months has brightened over the July survey. In all the other countries of the euro area the economic expectations have been downgraded particularly in *Germany, Ireland, Italy* and the *Netherlands*.

In the Nordic countries outside the euro area – *Denmark* and *Norway* – the economic climate remains highly favourable. The present economic situation has been assessed with the highest possible marks on the WES scale and the outlook for the first half of 2007 promises further strengthening of the economy. In both countries, the surveyed economists stated that *lack of skilled labour* is the most important economic problem at present. It ranks second, after *unemployment*, also in *Sweden*, where the present economic situation is also assessed at the very favourable level. The economic expectations point to further stabilization. Not so in the *United Kingdom*, where the surveyed economists forecast deterioration in the coming six months from the currently favourable level. A similar forecast has been given by the surveyed experts in *Switzerland*.

Along with *unemployment, lack of international competitiveness* ranks as an important economic problem in the majority of the Western European countries,

Figure 3



particularly in *Italy, Portugal, Belgium, Sweden* and the *UK*.

#### North America: US economy cools at a slower pace

According to the latest survey results, the economic climate indicator in North America deteriorated only

slightly in the October survey (see Figures 3). In the *US* the decline was particularly due to less favourable assessments of the present economic situation, while the economic expectations for the next six months are still slightly negative but have been upgraded somewhat. The oil prices have declined, inflation remains stable and fewer WES experts expect rising interest rates. This data constellation points to a soft landing of the *US* economy and eases the fears of stagflation somewhat. However, the WES experts again reported the *public deficits* to be the most important economic problem in present.

Also in *Canada* the business sentiment continued to cool, although at a stronger pace than in the *US*. Both components of the climate index – present economic situation and economic expectations – have been strongly downgraded. However, the present economic performance is still assessed with very high marks and *lack of skilled labour* seems to pose one of the most important impediments to further economic growth.

#### Eastern Europe: Economic climate remains satisfactory

Since the beginning of 2005 the markets in Eastern Europe have been on a stabilization course (see Figure 4). This positive trend continued also in 2006. Business sentiments in the region remained very positive, according to the October WES results. The

overall economic climate stabilized at a satisfactory level, with both the assessments of the current economic situation and economic expectations for the coming six months remaining favourable (see Figure 8). However, the countries of the region seem to be exposed to a variety of economic problems: *Public deficits, lack of confidence in government's economic policy* and *unemployment* have been named most

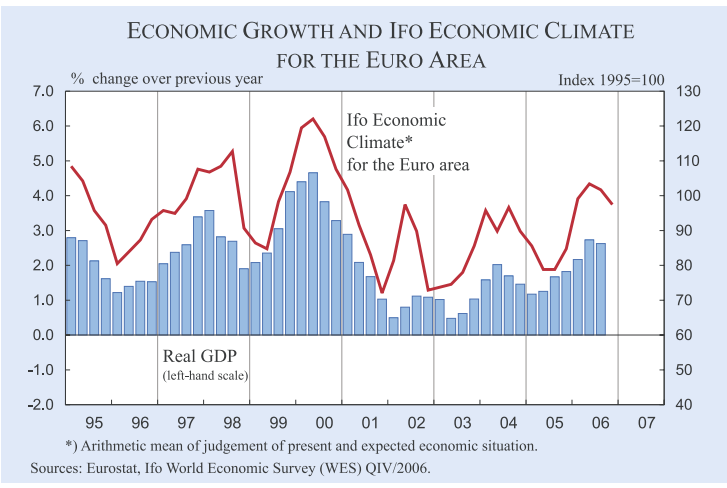
## Box 2

### 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 258 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo indicator for the economic climate in the euro area weakened again slightly in the fourth quarter of 2006. As in the previous quarter, this decline was solely the result of less optimistic expectations for the coming six months. The assessments of the current economic situation have improved further and are now at a five-year high. The latest survey results indicate a continuation of the economic recovery, which will however weaken during the first half of 2007.

The appraisals of the current economic situation improved over the July survey in most euro countries. Above the euro-area average were Ireland, Finland, the Netherlands, Austria, Spain, Belgium and Germany. Only in Portugal was the general economic situation assessed as poor. Whereas the six-month outlook again worsened in the majority of the euro countries, the surveyed experts in Austria and Greece were somewhat more optimistic than in the third quarter. An economic slowdown is expected by the WES experts in the first half of 2007 especially in Germany, Belgium and Spain.



often by the surveyed economists as important economic problems at present.

Among the EU countries, the assessments of the present economic situation improved in *Estonia*, *Hungary*, *Latvia*, *Slovenia* and *Slovakia* and deteriorated somewhat in the *Czech Republic*, *Lithuania* and *Poland*. However, the present economic situation is assessed as above the satisfactory level in almost all these countries, except *Hungary*. Here, *public deficits* and related to it *lack of confidence in governments' economic policy* have been named as the most important economic problems the country is facing at present. In the Baltic countries – *Estonia*, *Latvia* and *Lithuania* – the experts named *lack of skilled labour* as the biggest impediment to stronger economic growth. While in *Poland* and *Slovakia* *unemployment* is regarded to be the most important economic problem, according to the panel's view. In the majority of the Eastern European EU countries the economic

expectations remained almost unchanged positive and have been downgraded only slightly in the *Czech Republic*, *Estonia* and *Slovenia*, while they become strongly pessimistic in *Hungary*.

In the other Eastern European countries, economic trends observed in October are different. The present economic performance has been assessed more positively than in the July survey in *Albania*, *Bulgaria* and *Croatia*. While in *Bulgaria* the economic expectations point to further economic strengthening in the coming six months, the majority of surveyed economists in *Albania* and *Croatia* forecast economic stabilization at the current favourable level. In *Romania* the assessments of the present economic situation have deteriorated somewhat since the previous quarter, but remained above the satisfactory level and the economic outlook continued to be optimistic. *Serbia* and *Montenegro* are now separated, as *Montenegro* proclaimed its independence in June 2006. As no separate economic data (particularly imports and exports that are

used in WES for weighing) are so far available, the two countries are again reported together. The assessments of the present economic situation improved somewhat, on average, for the two countries, but remained below the satisfactory level. However, the surveyed economists are confident with regard to some economic rebound in the region.

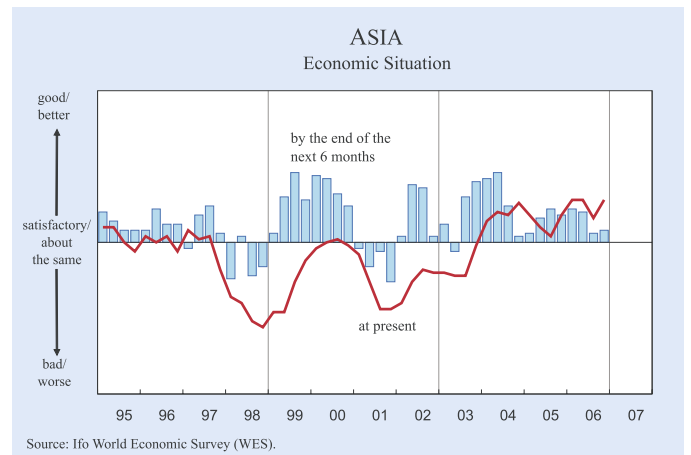
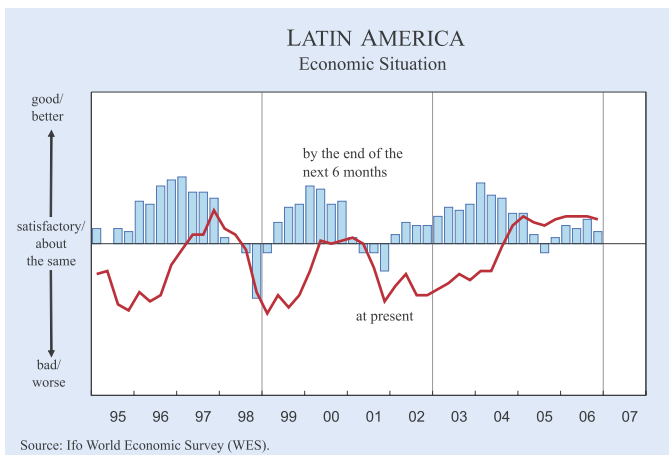
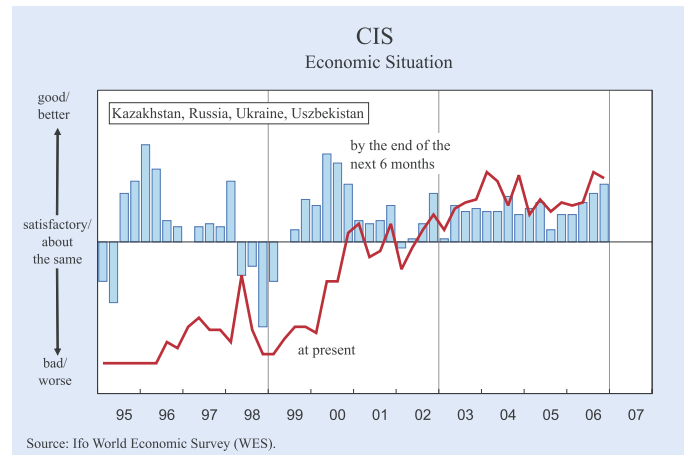
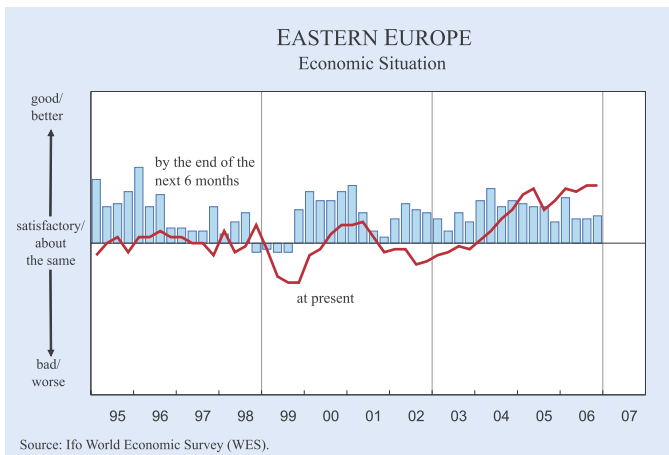
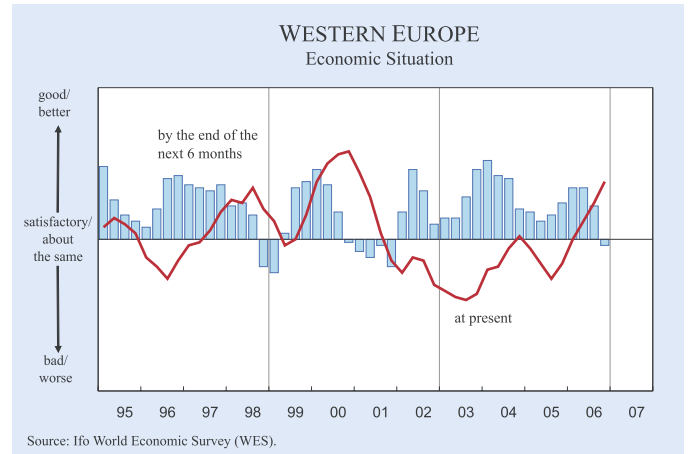
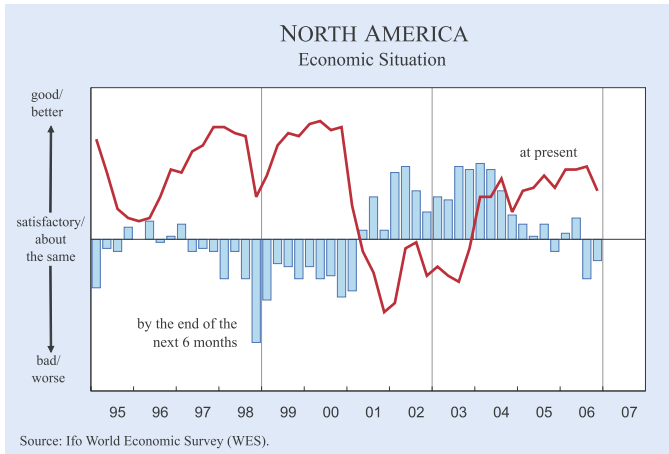
### CIS: Highly favourable economic climate

The economic climate remained highly favourable in the CIS countries covered by WES (*Russia*, *Kazakhstan* and *Ukraine*) in October. This holds true particularly for *Russia* and *Kazakhstan*, where the present economic performance is assessed with highly favourable marks and economic expectations promise further economic strengthening in the first half of 2007 (see Figure 6). In the *Ukraine* the assessments of the present economic state have not yet reached the satisfactory level. The country's sluggish economy results in



Figure 4

## SELECTED REGIONS



a *lack of confidence in the government's economic policy*, according to WES experts. However, the outlook for the coming six months has brightened somewhat. In all three surveyed CIS countries the WES experts emphasized *lack of international competitiveness* as one of the most important economic problems of the region. In *Kazakhstan*, *lack of skilled labour* and *inflation* have been also regarded as problematic.

### **Asia: Economic climate improves**

In October, the economic climate index in Asia improved, after it had deteriorated for two times in succession in April and July this year (see Figure 3). The improvement resulted from both more favourable assessments of the present economic situation and upgraded economic expectations for the coming six months.

The above pattern could be also observed in six economies of the region, including the main economies – *Japan*, *China* and *India* – as well as *Malaysia*, the *Philippines* and *Thailand*. The overall economic situation is assessed as very favourable in all these countries, except *Thailand*, where the assessments have not yet reached the satisfactory level. The forecasts for the next six months are very optimistic in all countries named above, except for *Malaysia*, where the surveyed economists still expect economic cooling. Along with *Thailand*, the present economic performance was assessed as below the satisfactory level only in *Taiwan* and *Indonesia*. However, while in *Indonesia*, similarly to *Thailand*, the economic expectations are very positive, in *Taiwan* – Asia's sixth-largest economy – the surveyed economists expect further economic deterioration. WES experts also forecast slowing exports that may hurt the economy, which is already strained by low consumer spending and corruption accusations against President Chen Shui-bian. *Lack of confidence in the government's economic policy* has become a problem in *Taiwan* and a considerable number of other countries in the region, so in the *Philippines*, *Thailand*, *Indonesia* and *Sri Lanka*. The expectations for the next six months have been downgraded somewhat also in *Bangladesh*, and to a stronger degree in *South Korea* and *Singapore*. However, in *Singapore* and *Bangladesh*, the present economic performance is assessed as very positive, and in *South Korea* as satisfactory. The assessments of the present economic situation were almost unchanged positive in *Vietnam* and *Pakistan*. In both countries the panel's forecasts for the next six months

remained highly optimistic. In *Hong Kong* the assessments of the present economic situation improved over the previous July survey and are now clearly above the satisfactory level. The economic expectations, however, remained cautious. In *Sri Lanka* the present economic situation is expected to stabilize at the current satisfactory level.

While the rest of the world is struggling to remain competitive with Asian products, there are several countries in the region where the surveyed economists have also reported *lack of international competitiveness* as one of the most important economic problems. Among them are *Taiwan*, *Indonesia*, *Pakistan*, the *Philippines* and *Malaysia*. Less worried about *their international competitiveness* are the three biggest economies of the region – *China* and *India* – but also *Japan*, which is rather a “high production-costs country”. While in *China*, *unemployment* still ranks as the most important economic problem, in the other two economies the economists gave *public deficits* the highest priority.

### **Oceania: Economy remains in good health**

In *Australia*, the economic expectations for the coming six months have again improved somewhat. The assessments of the present economic situation continued to deteriorate slightly, but remained above the satisfactory level. As a result, the arithmetic mean of the two components – the economic climate index – has even improved somewhat over the previous survey of July 2006. *Inflation* has increasingly become an important economic problem. As a result *Australia's* central bank raised its benchmark interest rate to the highest level in almost six years.

In *New Zealand*, the economic climate index improved for the second time in succession, since the beginning of 2005. Although the marks of the present economic situation remained slightly below the satisfactory level, the economic expectations have been strongly upgraded, suggesting that the trough of the recent recession has been overcome and economic rebound is underway. In both economies the surveyed economists stated the *lack of skilled labour* to be the most important economic problem at present.

### **Latin America: Economic stabilization continues**

The economic climate in Latin America continued to stabilize at a favourable level in October. The present

economic situation is again assessed above the satisfactory level, on average for all countries surveyed in the region. The outlook for the coming six months, although slightly downgraded, points to an economic stabilization (see Figure 9). However, *unemployment* is still regarded as the most important economic problem in the majority of countries on the continent; *lack of international competitiveness* ranks second.

The present economic situation has been assessed as positive in almost all countries of the region, except in *Ecuador* and *Paraguay*. While in *Paraguay* the economic outlook for the next six months points to an improvement, in *Ecuador* the panel's forecasts have been downgraded and point to further economic cooling. In *Mexico*, both components of the economic climate index remained positive in October. The overall pattern indicates that the satisfactory economic performance will stabilize on its present level in the course of the next six months. In July, *Mexico* experienced some electoral turbulence because the second-place candidate Andres Manuel Lopez Obrador was challenging the results in court. However, in October the surveyed economists indicated that there is no *lack of confidence* in President's Felipe Calderon economic policy. Instead the *lack of international competitiveness* and *unemployment* are the most important economic problems. In the other two biggest economies of the region – *Argentina* and *Brazil* – both the assessments of the present economic situation as well as economic expectations deteriorated. However, the present economic performance is still assessed as satisfactory and expectations point to economic stabilization in the first half of 2007.

The present economic situation has again been assessed as highly favourable in *Chile*, although to a lesser degree as in the previous July survey. However the economic expectations point to economic stabilization in the coming six months. Similar pattern of business sentiments was observed in October in *Colombia*. In both countries *unemployment* ranks as economic problem number one. Highly favourable current economic performance was reported by the surveyed economists in *Peru*. The economic expectations for the next six months, although slightly downgraded, remained highly optimistic. Very positive assessments of the present economic state, which have even improved over the previous July survey, have been reported by the surveyed economists in *Uruguay*, *Guatemala*, *Trinidad* and *Tobago*, *El Salvador* and *Costa Rica*. In all these

countries the economic expectations point either to an improvement or to economic stabilization in the first half of 2007. In contrast, the surveyed economists in *Venezuela* expect deterioration of the buoyant economy in the coming six months. The surveyed experts reported a strong *lack of confidence in government's economic policy*, which seems to burden also the economies of *Paraguay*, *Bolivia* and *Ecuador*. In *Bolivia*, the present economic situation was assessed as satisfactory, but the panel's forecast has become less optimistic than in the July survey.

### **Near East: Economic climate cools somewhat**

The economic climate continues to be highly favourable in the majority of the Near East countries. However, both the assessments of the present economic situation and economic expectations have been slightly downgraded over the preceding July survey (see Figure 10). This picture was particularly prevalent in *Lebanon*, reflecting the impact of the Israel-Hezbollah conflict on the country's economy.

The economic climate cooled somewhat in the two major oil-exporting countries, *Saudi Arabia* and *United Arab Emirates*. However, the present economic situation is still assessed as favourable. The outlook suggests stable economic development in the coming six months. In the other oil-exporting countries – *Kuwait*, *Jordan* and *Bahrain* – the economic climate index improved. Both the present economic situation as well as economic expectations have been assessed at a very high level by the surveyed experts. Not so in *Iran*, where the current economic performance is regarded as satisfactory, but the economics forecasts for the next six months continue to point to deterioration. Here the surveyed economists reported that *inflation* is increasingly becoming an economic problem. In *Turkey* the business sentiments have cooled in 2006. However, the present economic situation is assessed as above the satisfactory level, and economic expectations point to stabilization in the course of the first half of 2007. In *Israel*, surveyed economists forecast economic revival in the next six months. Both capital expenditures as well as private consumption are expected to rebound in 2007. Although the assessments of the present economic situation have been downgraded somewhat, they are still in positive territory. In the majority of the surveyed countries in the region, *unemployment* ranks as the most important economic problem at present.

## Africa: Economic climate deteriorates

An aggregate climate index for Africa makes little sense, due to the diversity of economic trends on the continent and due to the fact that only eight African countries have been surveyed by WES in October.

The economic climate index deteriorated in October particularly in *South Africa* (see Figure 10), which has been enjoying its longest economic expansion. Both the assessments of the present economic situation as well as economic expectations have been strongly downgraded by the surveyed economists. *South Africa's* AIDS epidemic, high *unemployment of low-skilled workers* and at the same time *lack of skilled labour* continue to be the most persistent economic problems in the country. The economic climate deteriorated in the majority of the surveyed countries in the region, so in the North African countries of *Morocco*, *Egypt* and *Tunisia*, but also in *Nigeria* and *Mauritius*. However, while in *Morocco* and *Tunisia* the surveyed experts assessed the present economic situation as satisfactory and expect economic stabilization in the near-term future, in *Egypt* and *Nigeria* the assessments of the present economic state have fallen again below the satisfactory level, but according to the poll's forecast the economies will rebound in 2007. In *Egypt* the surveyed economists continue to count on the export sector. In *Algeria*, the business climate remained favourable. Not so in *Zimbabwe*, where since almost a decade the economic situation remains unbelievably bad, with no turnaround in sight.

## 2006: Rise in expected inflation slows down

The upward revision of inflation expectations for 2006 continued in October though at a more moderate rate than in the previous two quarters. For the average of 2006 WES experts expect now for this year on a worldwide scale 3.6 percent inflation compared with 3.5 percent in the July 2006 survey and 3.1 percent in the April 2006 survey (see Table 1). The upward revisions were most pronounced in *Central and Latin America* (from 4.9 percent in July to 5.7 percent in October) and to a lesser degree also in *Oceania* (from 3.1 percent to 3.4 percent), whereas the 2006 inflation outlook remained unchanged in *Western Europe* at 2.2 percent and even declined slightly in *North America* (from 3.1 percent to now 2.9 percent) and *Asia* (from 2.9 percent to 2.8 percent).

In the euro area the inflation outlook for 2006 remained unchanged from the July survey (2.2 percent) and is relatively close to the ECB's target of "slightly below 2.0 percent". The highest inflation rates in the euro area in 2006 are still seen in *Spain* (3.6 percent) and in *Greece* (3.4 percent); in *Greece* expectations remained at least stable and declined slightly in *Spain*. Differently in *Ireland*, that also belongs to the group of high inflation countries within the euro area, the inflation expectations rose from 3.4 percent in July to now 4.1 percent. In contrast, inflation expectations declined in *Austria* from 2.2 percent in July to 1.7 percent and mark now here – together with *Finland* and the *Netherlands* – the bottom of the 2006 inflation expectations in the euro area. In *France* 2006 inflation is seen at 1.9 percent, which is marginally lower than in the previous survey (2.0 percent). In *Germany* 2006 inflation expectations remained unchanged at the 2.0 percent level.

In Western Europe outside the euro area, expectations for inflation in 2006 continue to be particularly low in *Switzerland* (1.3 unchanged from the previous survey) and to a lesser degree also in *Sweden* and *Norway* (in both countries 1.8 percent which is slightly higher than in the July survey). In the *United Kingdom* the inflation outlook for 2006 deteriorated further to now 2.5 percent from 2.4 percent in July and 2.2 percent in April.

In North America, inflation expectation slowed down marginally from 3.2 percent to 3.1 percent in the *United States* and somewhat more in *Canada* (from 2.5 percent to 2.2 percent).

In Asia consumer price inflation in 2006 is expected now at 2.8 percent which is slightly lower than in the previous survey (2.9 percent). The lowest inflation rates in 2006 will continue to prevail in *Japan* (0.7 percent unchanged from the previous survey and 0.4 percent at the beginning of the year). Moderate inflation rates continue to characterize *Taiwan* (1.4 percent down from 1.9 percent in the previous survey). In *Singapore*, another traditionally low inflation country in the region, expectations for 2006 came down significantly (from 2.4 percent according to the July survey to now 1.8 percent). The relatively highest inflation expectations for 2006 prevail again in *Sri Lanka* (13.3 percent), *Indonesia* (9.6 percent) and *Pakistan* (8.8 percent). Also in *Vietnam* (7.3 percent) and in *Bangladesh* (7.5 percent) inflation expectations for 2006 stayed well above the average in Asia. In *China* the 2006 inflation outlook remained unchanged at 2.3 percent.

Figure 5a

# EUROPEAN UNION

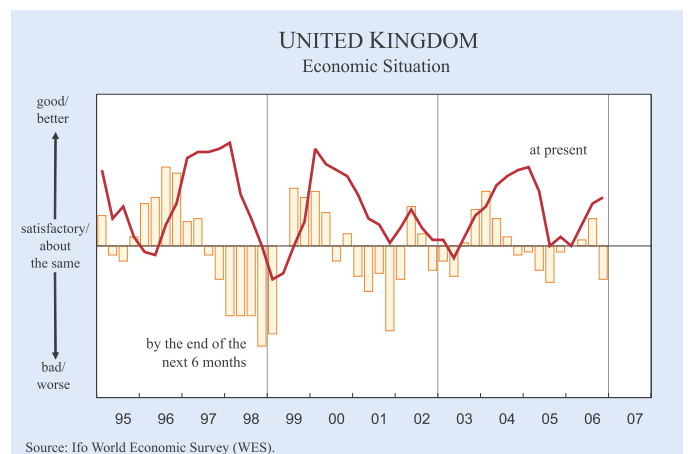
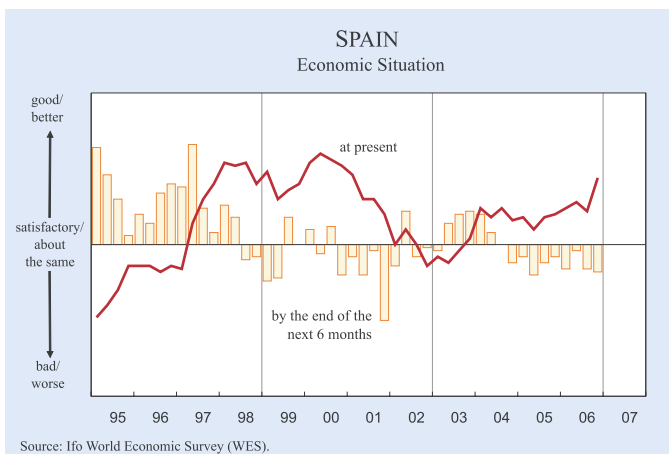
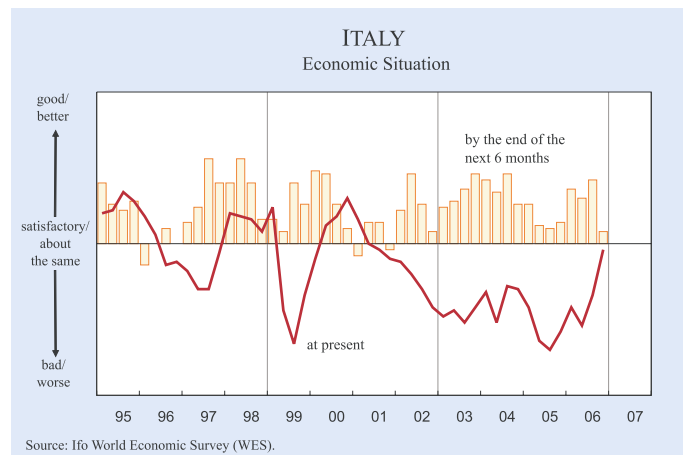
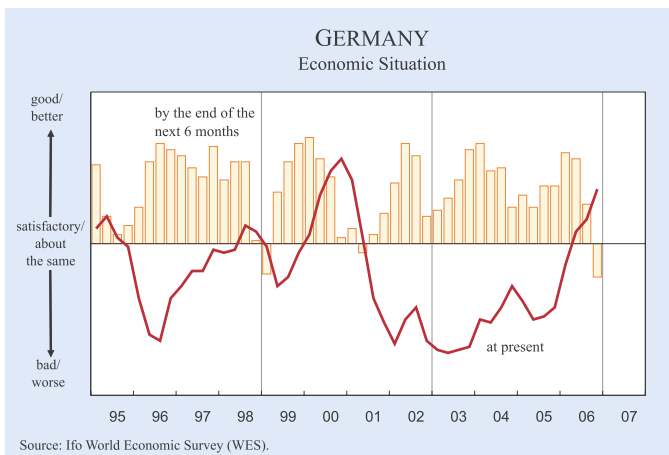
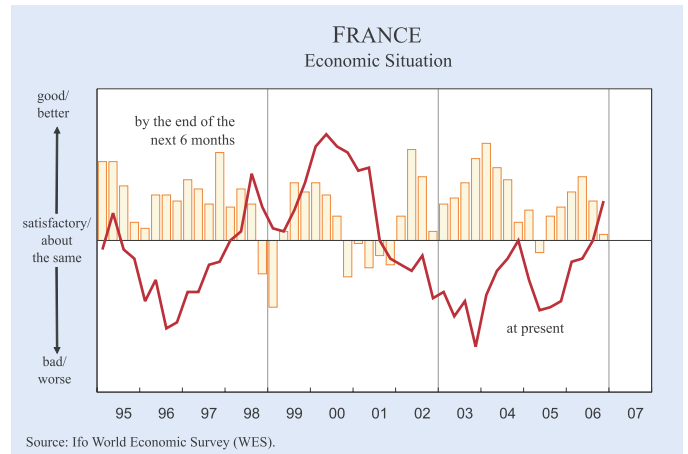
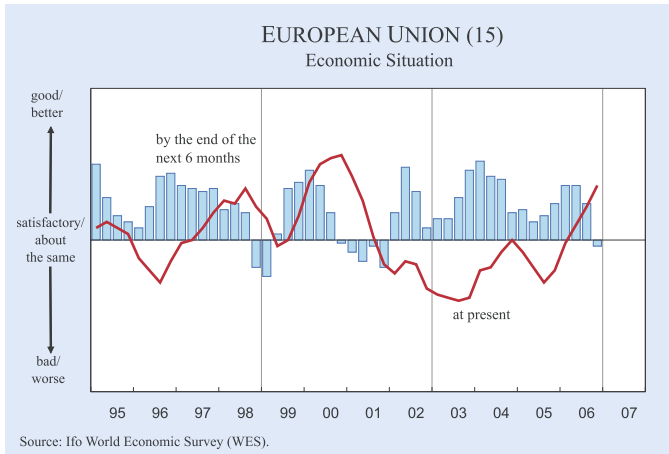


Figure 5b

# EUROPEAN UNION

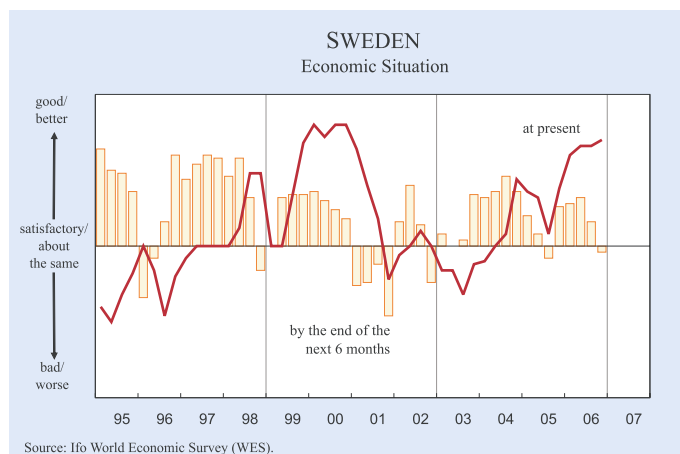
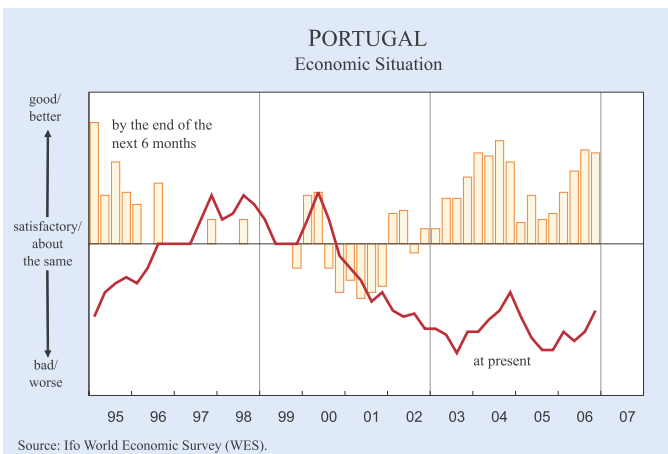
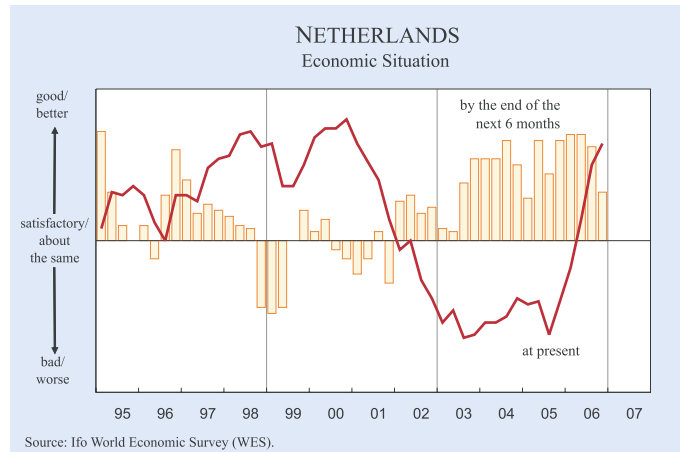
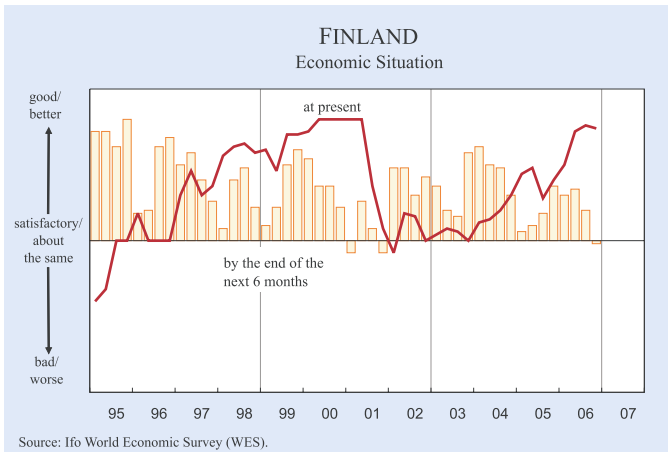
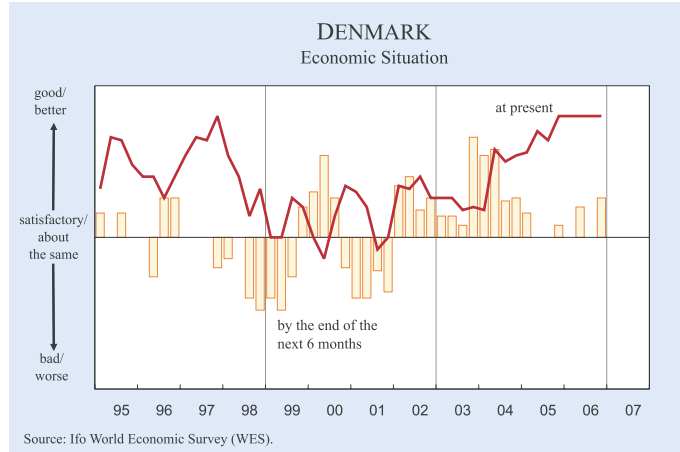
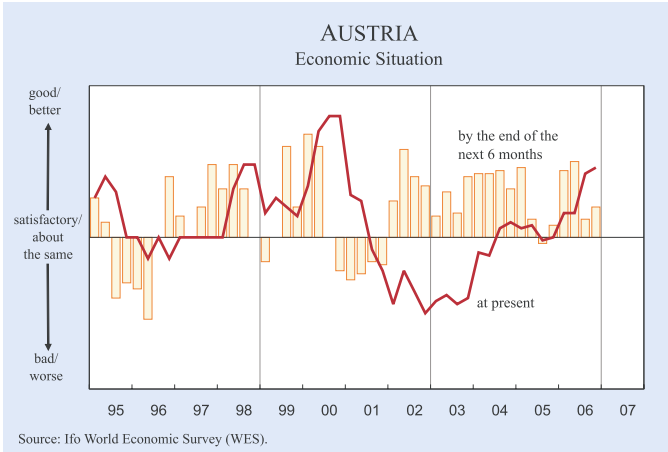


Figure 6

# NORTH AMERICA, OCEANIA AND CIS

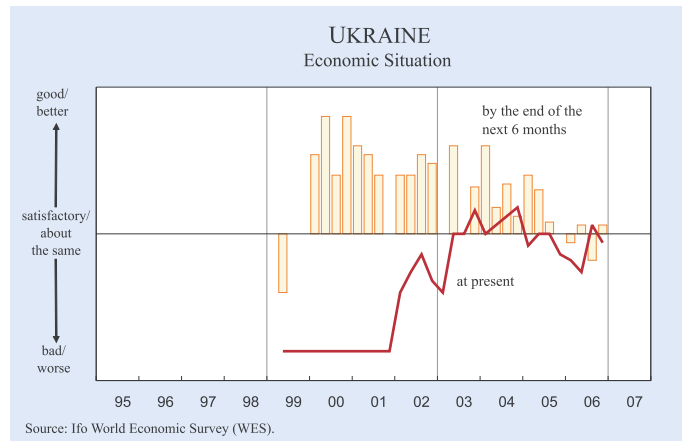
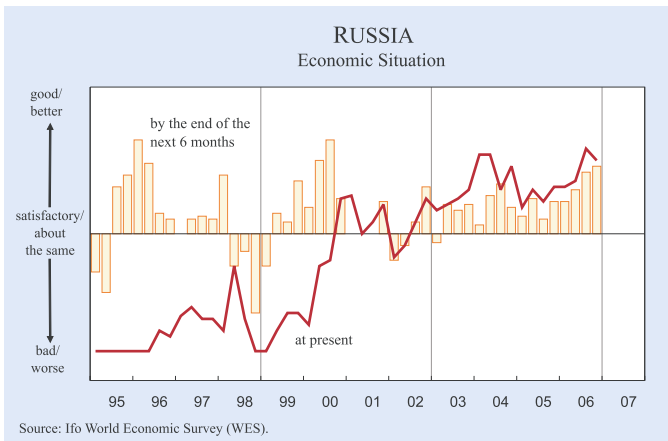
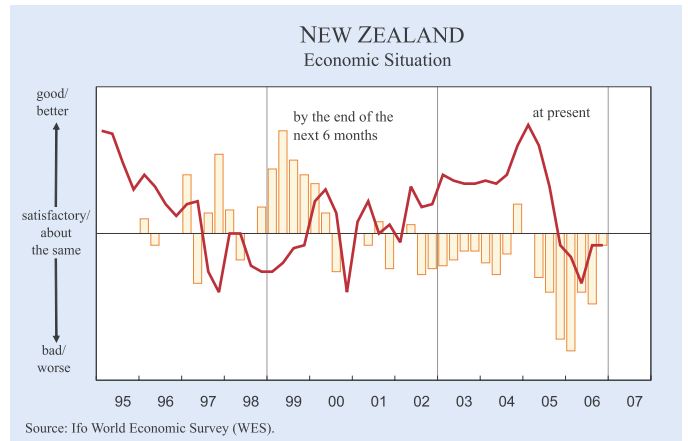
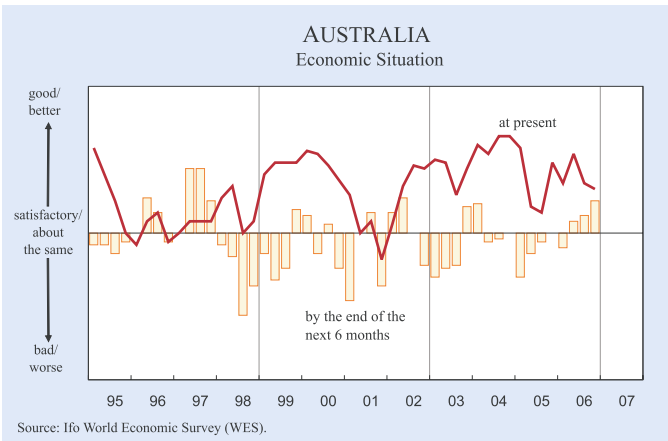
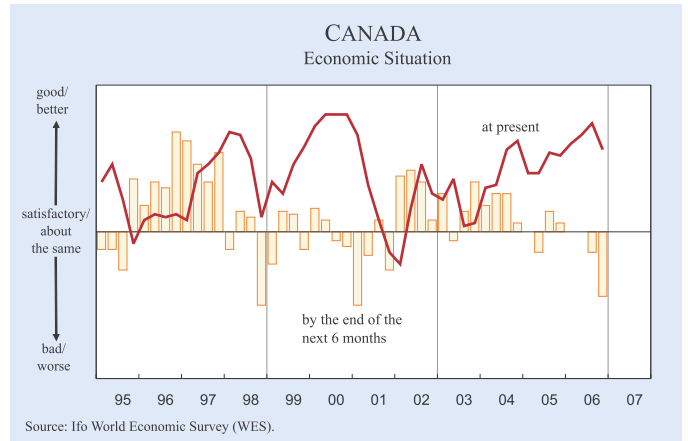
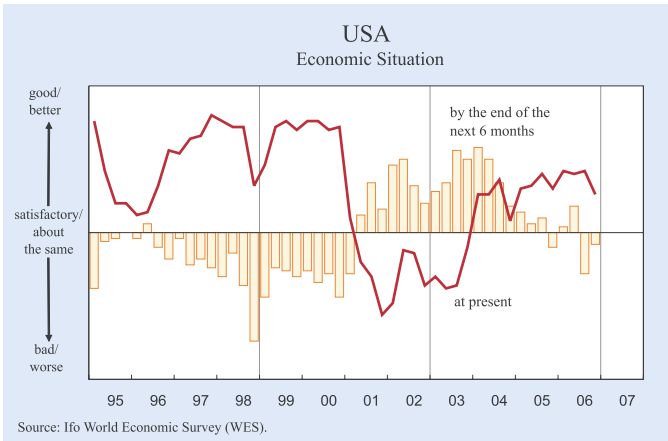
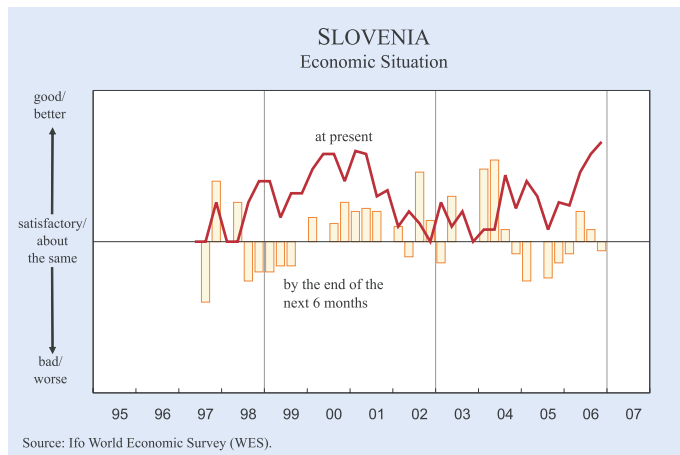
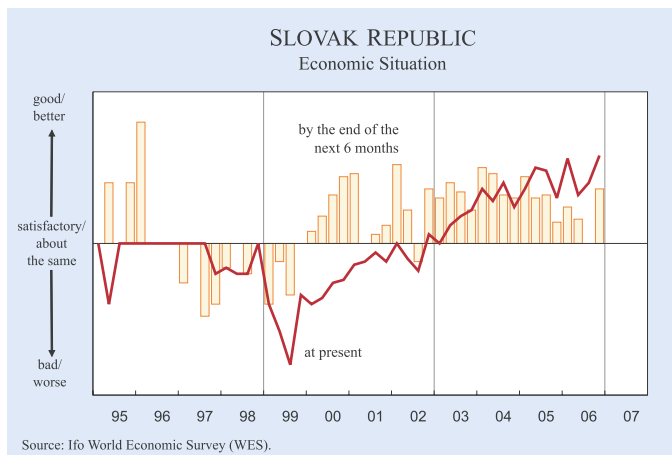
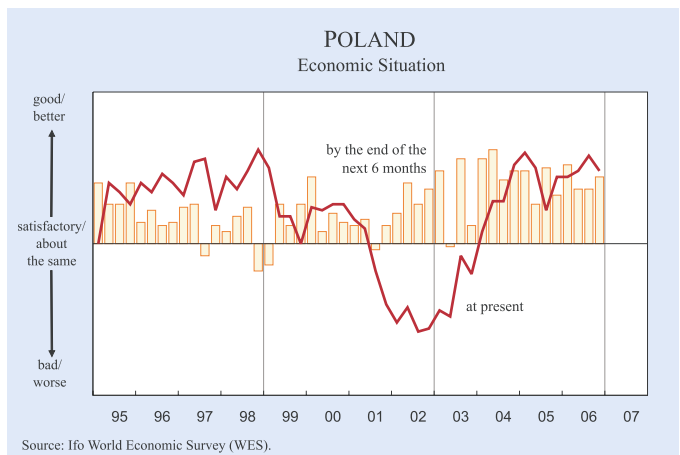
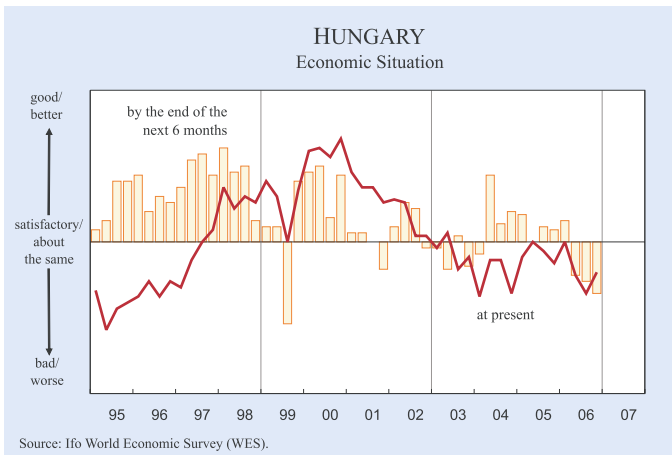
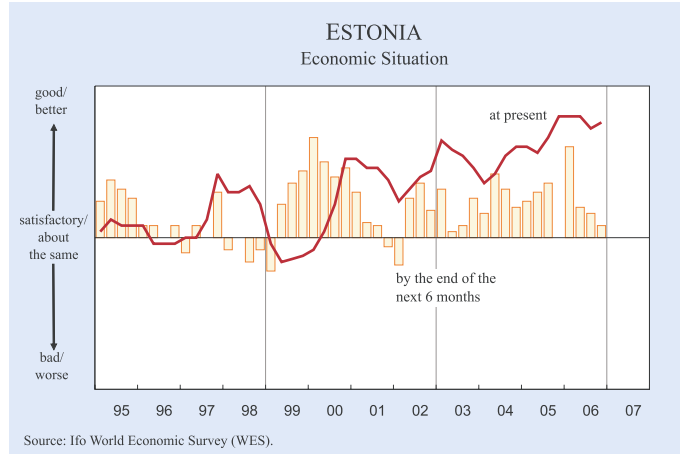
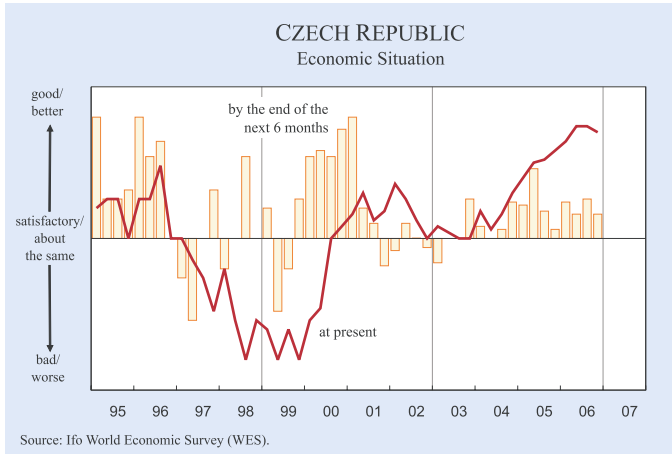


Figure 7

# EASTERN EUROPE





**Figure 8**

**ASIA**

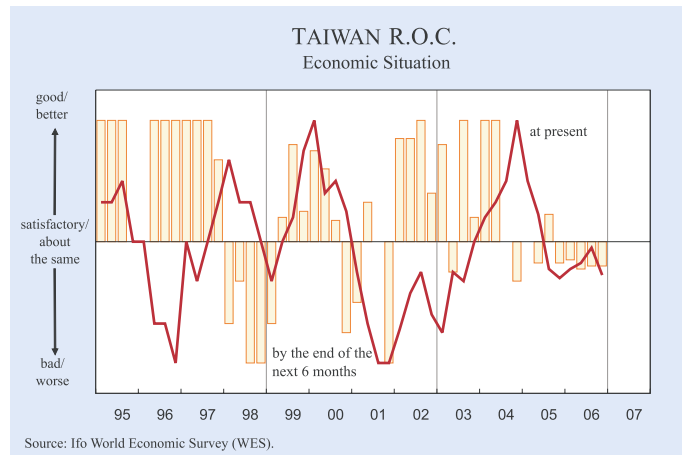
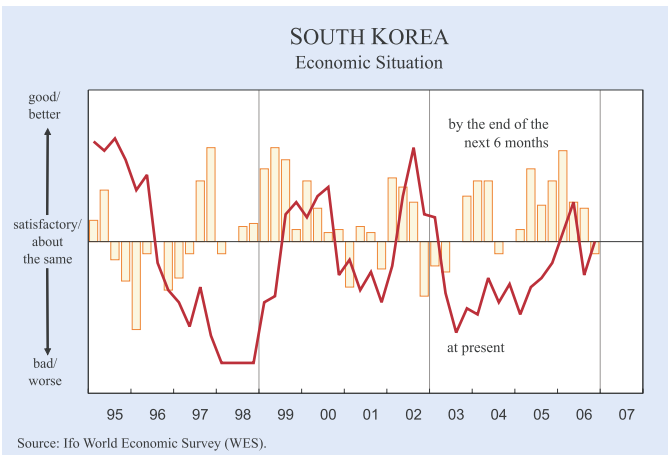
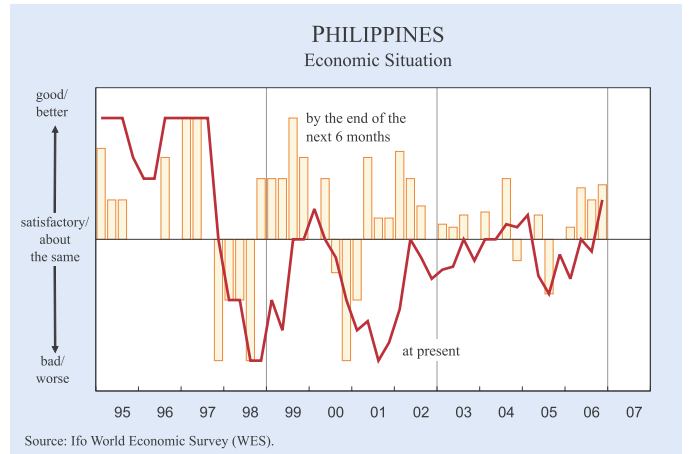
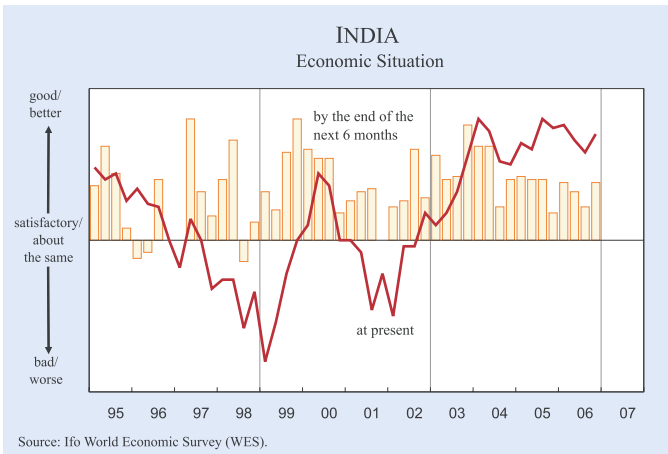
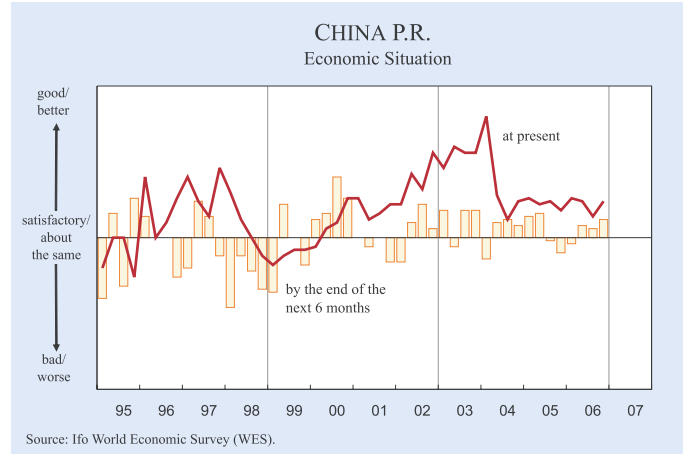
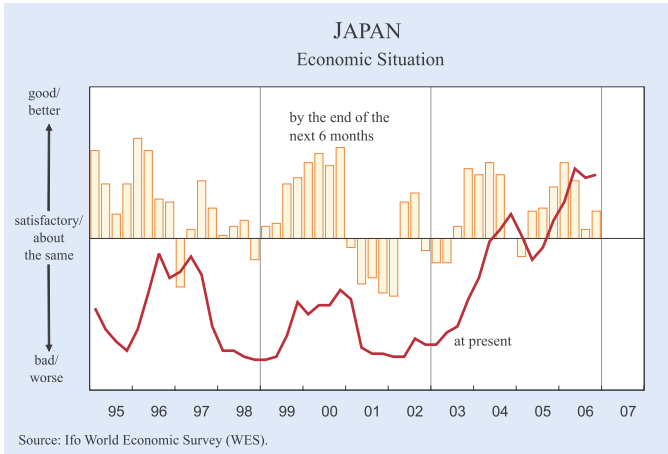


Figure 9

# LATIN AMERICA

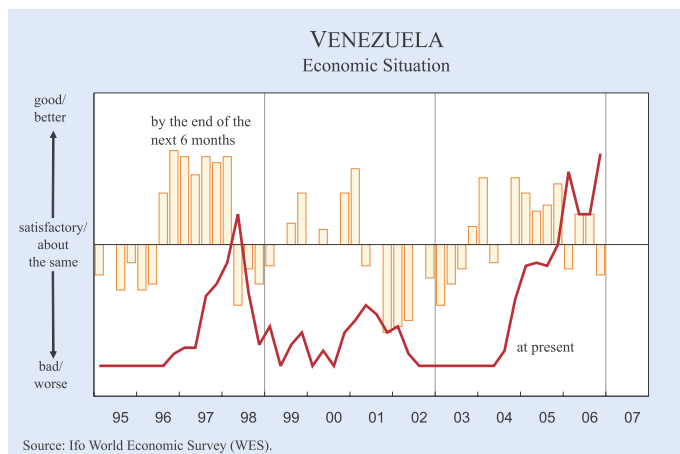
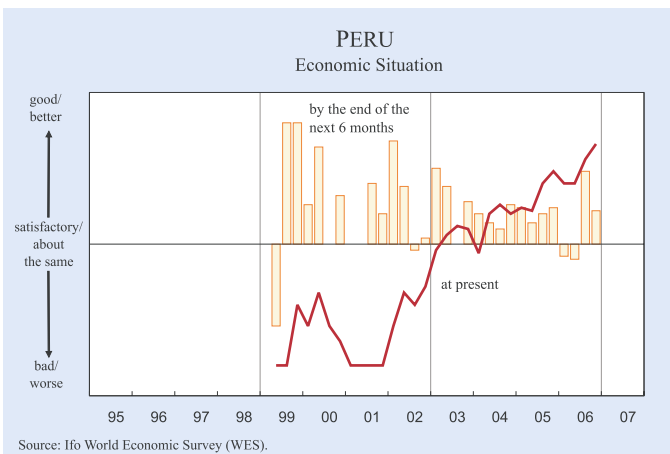
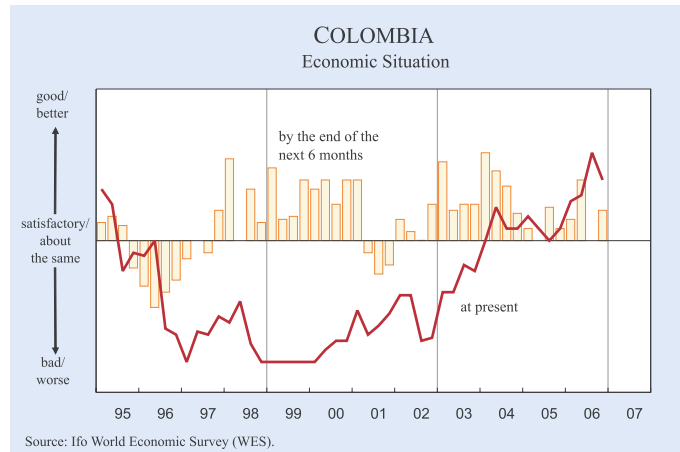
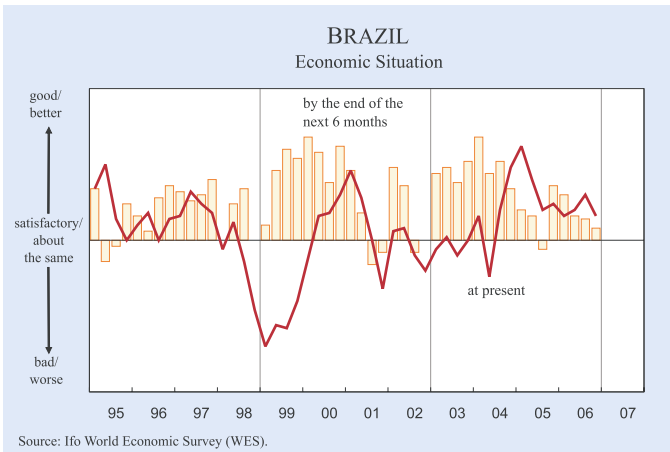
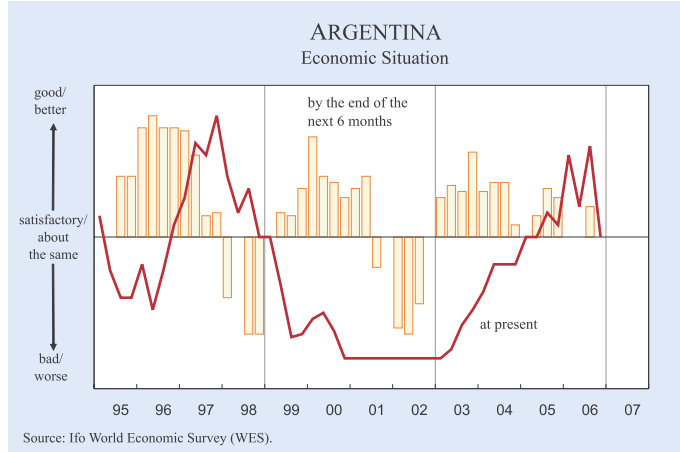
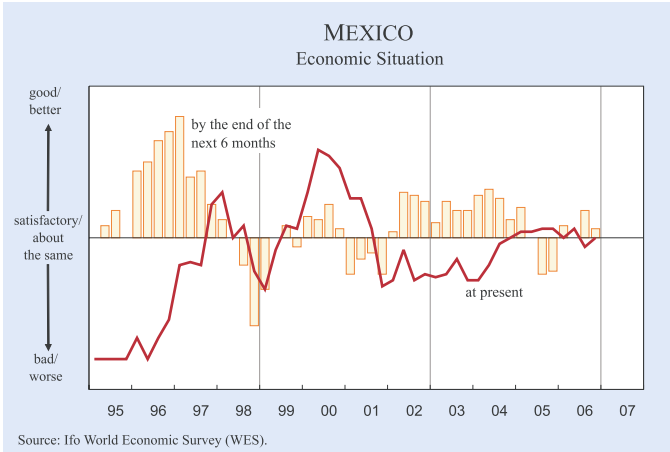


Figure 10

## NEAR EAST AND AFRICA

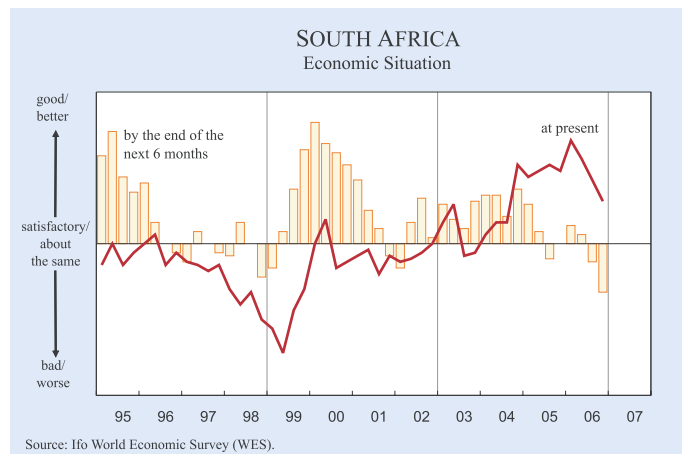
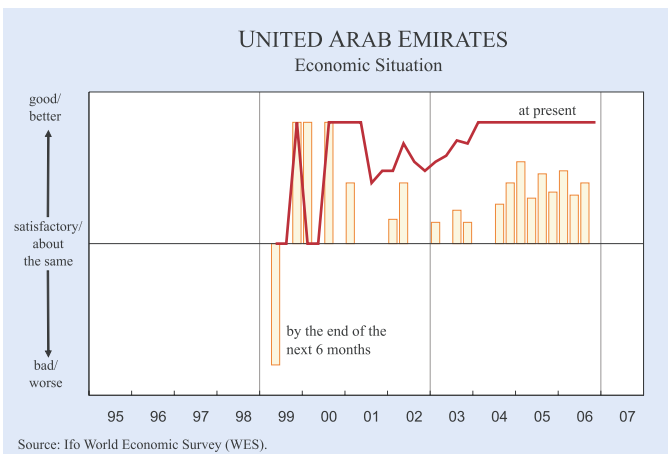
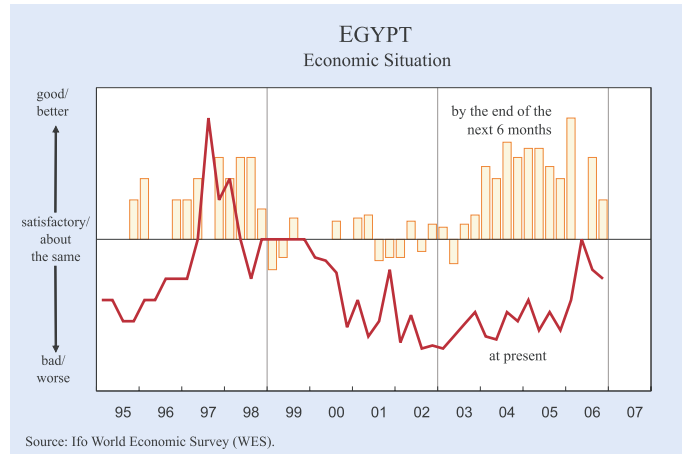
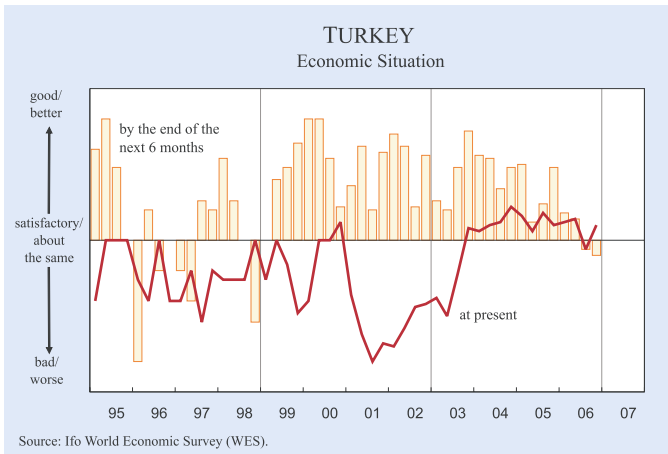
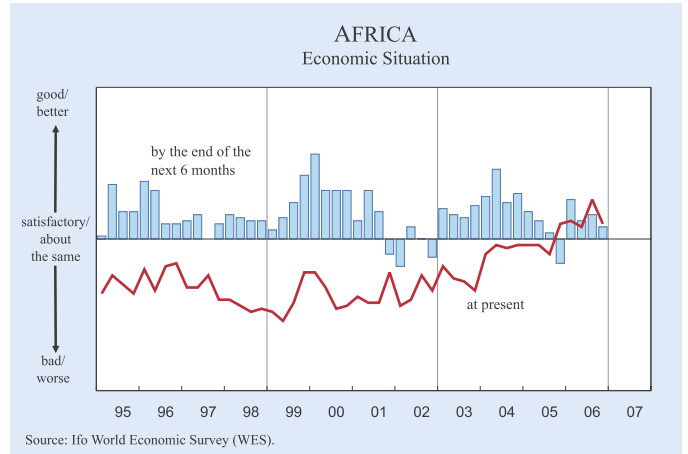
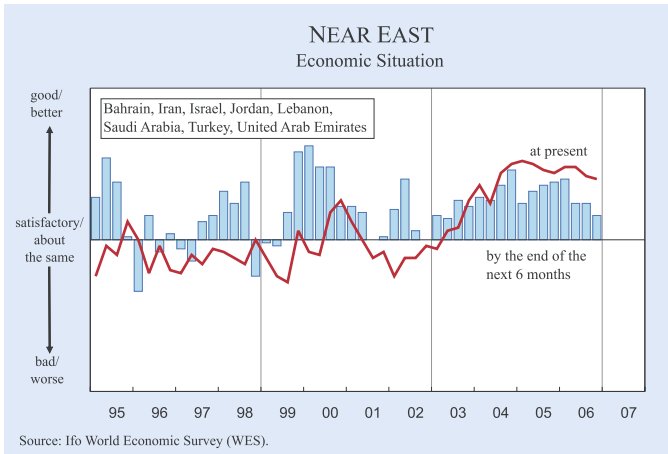


Table 1

**Inflation Rate Expectations for 2006**  
(based on WES QIV/2006 and QIII/2006)

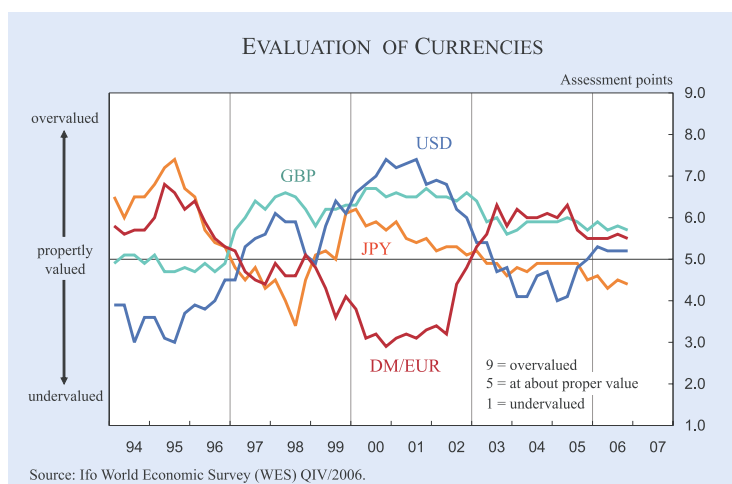
Region	QIV/2006	QIII/2006	Region	QIV/2006	QIII/2006
<b>Average of countries</b>	<b>3.6</b>	<b>3.5</b>	<b>Central a. Latin America</b>	<b>5.7</b>	<b>4.9</b>
<i>World Bank classification:</i>			Argentina	12.0	11.3
High-income countries	2.3	2.3	Bolivia	5.2	4.6
Middle-income countries	6.0	5.8	Brazil	3.8	4.2
Upper-middle	6.2	5.6	Chile	3.4	3.8
Lower-middle	5.6	6.2	Colombia	4.6	5.0
Low-income countries	19.7	20.2	Costa Rica	11.0	11.8
EU countries (old members)	2.2	2.2	Ecuador	4.1	3.6
EU countries (new members) <sup>1</sup>	3.6	3.4	El Salvador	3.9	4.0
Euro area <sup>2</sup>	2.2	2.2	Guatemala	5.9	7.4
Asian Pacific Rim <sup>3</sup>	3.2	3.5	Mexico	4.4	3.5
<b>Western Europe</b>	<b>2.2</b>	<b>2.2</b>	Panama	2.0	2.3
Austria	1.7	2.2	Paraguay	8.7	8.9
Belgium	2.1	2.3	Peru	2.1	2.6
Cyprus	3.3	3.1	Uruguay	6.5	6.4
Denmark	2.4	2.4	Venezuela	14.9	12.9
Finland	1.7	1.5	<b>Asia</b>	<b>2.8</b>	<b>2.9</b>
France	1.9	2.0	Bangladesh	7.5	7.6
Germany	2.0	2.0	China P.R.	2.3	2.3
Greece	3.4	3.4	Hong Kong	2.2	2.5
Iceland	7.0	-	India	5.4	5.6
Ireland	4.1	3.4	Indonesia	9.6	10.0
Italy	2.2	2.3	Japan	0.7	0.7
Luxembourg	2.8	2.8	Korea	2.9	3.3
Malta	2.8	3.0	Malaysia	3.7	3.7
Netherlands	1.7	1.5	Pakistan	8.8	8.0
Norway	1.8	1.7	Philippines	6.2	6.8
Portugal	2.5	2.6	Singapore	1.8	2.4
Spain	3.6	3.7	Sri Lanka	13.3	13.5
Sweden	1.8	1.6	Taiwan	1.4	1.9
Switzerland	1.3	1.3	Thailand	4.5	5.5
United Kingdom	2.5	2.4	Vietnam	7.3	7.6
<b>Central a. Eastern Europe</b>	<b>4.0</b>	<b>3.9</b>	<b>Near East</b>	<b>6.0</b>	<b>6.3</b>
Albania	3.8	4.7	Bahrain	6.0	4.2
Bosnia Herzegovina	-	3.0	Iran	13.0	15.0
Bulgaria	5.8	7.0	Israel	2.2	2.8
Croatia	3.4	3.0	Jordan	3.8	4.3
Czech Republic	2.9	2.9	Lebanon	2.7	3.0
Estonia	4.5	3.9	Kuwait	4.0	2.8
Hungary	5.1	4.4	Saudi Arabia	0.9	1.0
Latvia	6.6	6.6	Turkey	10.2	10.0
Lithuania	3.1	2.9	United Arab Emirates	6.9	6.1
Poland	2.0	2.7	<b>Africa</b>	<b>n.a.</b>	<b>n.a.</b>
Romania	6.2	6.6	Algeria	4.3	4.0
Serbia a. Montenegro	10.4	11.6	Egypt	7.7	8.6
Slovenia	2.5	2.2	Kenya	-	10.5
Slovakia	4.1	4.4	Mauritius	8.0	7.0
<b>CIS</b>	<b>9.8</b>	<b>10.0</b>	Morocco	3.3	2.6
Kazakhstan	8.2	8.4	Nigeria	13.2	14.5
Russia	9.7	9.9	South Africa	5.2	5.0
Ukraine	10.9	11.3	Tunisia	3.9	3.0
Uzbekistan		12.0	Zimbabwe	1100.0	1100.0
<b>North America</b>	<b>2.9</b>	<b>3.1</b>	<b>Oceania</b>	<b>3.4</b>	<b>3.1</b>
Canada	2.2	2.5	Australia	3.3	3.0
USA	3.1	3.2	New Zealand	3.8	3.4

\* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade.

<sup>1</sup> Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1. May 2004) – <sup>2</sup> EU countries without Denmark, Sweden, United Kingdom. – <sup>3</sup> Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam.

Source: Ifo World Economic Survey (WES), QIV/2006 and QIII/2006.

**Figure 11**



In Central and Eastern Europe inflation in 2006 is now seen at 4.0 percent, which is slightly higher than in the previous survey and more than half a percentage point higher than in the spring survey (3.4 percent). The relatively highest rate of inflation will still prevail in *Serbia and Montenegro* despite the fact that expectations have continued to be revised downward somewhat (10.4 percent after 11.6 percent in July and 12.7 percent in April). Also in *Romania, Latvia* and *Bulgaria* inflation expectations of around 6 percent are clearly above the average in the region. The lowest rate of this year's inflation is seen in *Poland* (2.0 percent), a figure which is clearly below the July forecast of 2.7 percent and even somewhat lower than in *Slovenia* (2.5 percent), which had been the country with the lowest inflation rate in this region.

In the CIS countries inflation outlook in 2006 will remain around 10 percent, according to the WES experts. In *Russia* the trend of a moderate downward revision of inflation expectations has continued (9.7 percent after 9.9 percent in July and 10.2 percent in April). The relatively best inflation performance in the region will prevail also this year again in *Kazakhstan* (8.2 percent), though this figure is still more than twice the world average of inflation.

In Central and Latin America 2006 inflation expectations have been revised upward more than in the other regions of the world (from 4.9 percent in July to 5.7 percent in October). However, this was caused mainly by a few countries and is not a widespread phenomenon in this region. The upward revisions refer mainly to *Argentina* (12.0 percent compared to previously 11.3 percent), *Venezuela* (from 12.9 percent to now 14.9 percent) and *Mexico* from 3.5 percent to now 4.4 percent). On the other hand, infla-

tion expectations for 2006 were corrected downward somewhat in *Brazil* (from 4.2 percent to now 3.8 percent), *Chile* (from 3.8 percent to 3.4 percent) and *Peru* (from 2.6 percent to 2.1 percent).

In the Near East the inflation outlook softened somewhat (from 6.3 percent to 6.0 percent). This is mainly due to *Israel* where the inflation expectations for 2006 declined from 2.8 percent in the July survey to now 2.2 percent. Also in *Iran* inflation expectations came down somewhat, but at 13.0 percent are still the highest in the region. By far

the lowest inflation rate in the region will prevail again in *Saudi Arabia* (0.9 percent after 1.0 percent).

In Oceania an inflation rate of 3.4 percent is now expected for 2006; this is somewhat higher than the inflation figure expected in the previous survey (3.1 percent). An upward revision was observable both in *New Zealand* (3.8 percent after 3.4 percent in July) and in *Australia* (3.3 percent after 3.0 percent).

#### Japanese Yen still seen as somewhat undervalued

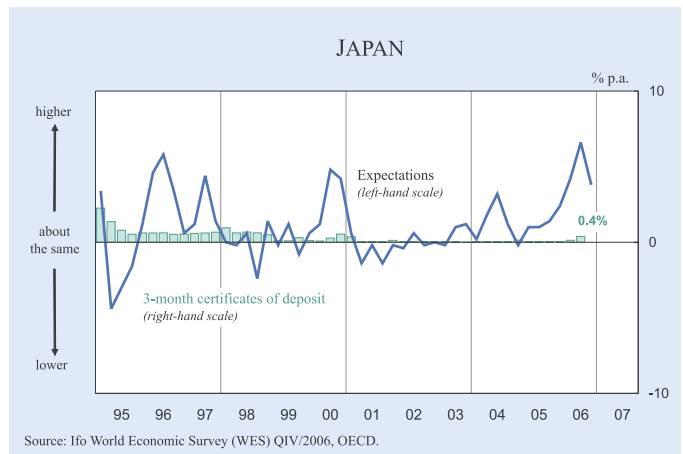
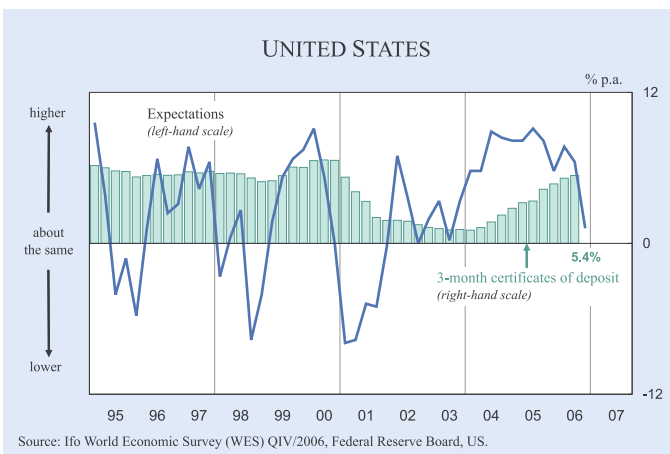
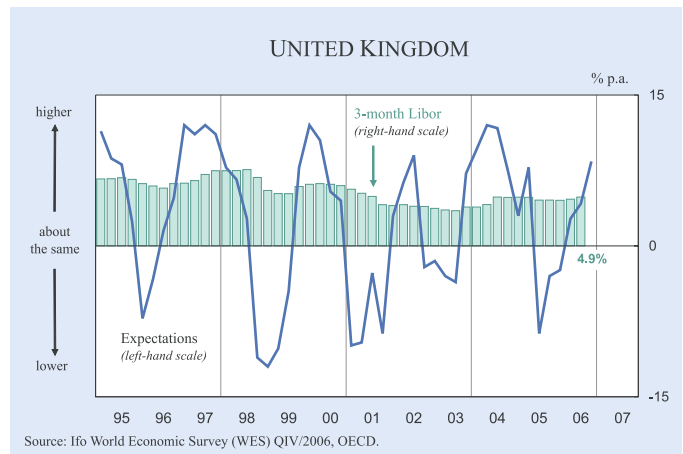
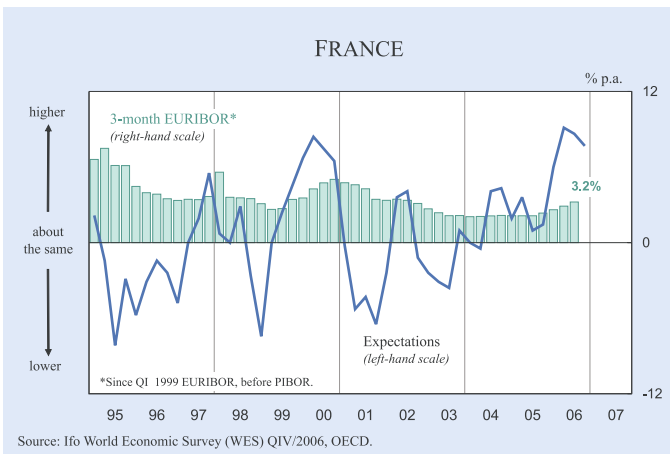
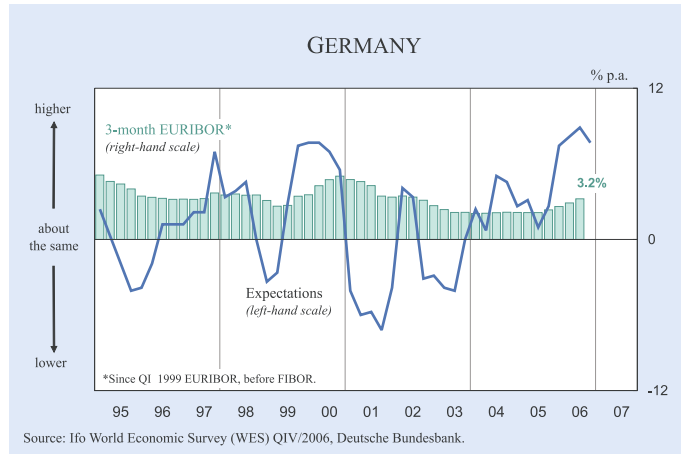
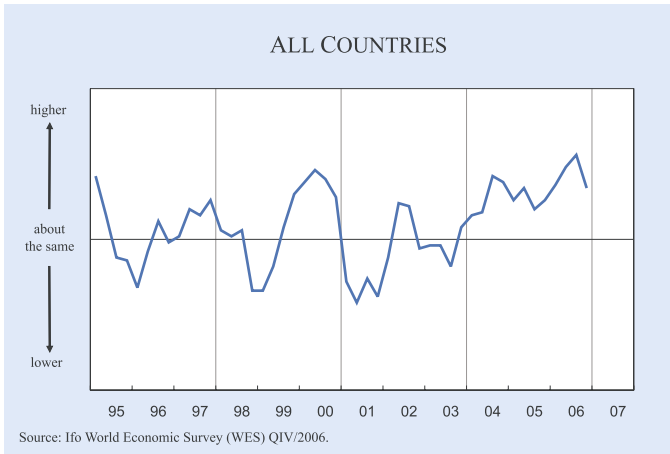
Like in the previous three surveys the *Japanese yen* was regarded as somewhat undervalued. On the other hand the *US dollar* continued to appear more or less adequately assessed according to WES experts and the *British pound* and also the *euro* slightly overvalued.

As the actual movement of exchange rates may significantly differ from the one based on fundamental assessments of currencies, a supplementary survey question was again asked on the likely development of the *US dollar* in the next six months. According to answers to this question, on balance, a moderately declining tendency of the value of the *US dollar* in relation to other currencies is expected in the course of the next six months. This is particularly the case in Western Europe, in *Asia* (particularly in *China, the Philippines, Malaysia* and *Taiwan*) and also in *Russia*.

Exceptions from the general trend of a weakening *US dollar* are again mainly Latin American countries as well as *South Africa, Israel* and *Turkey* where the *US dollar* is expected to gain in value. Also in *Canada*, in contrast to the previous three surveys, a moderate upward trend is seen for the *US dollar* in

**Figure 12**

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



the course of the next six months. Also in several Eastern European countries the *US dollar* is expected to rise vis-à-vis the countries' currencies, so in *Serbia* and *Montenegro*, as well as in *Poland*, *Hungary*, *Latvia* and *Lithuania*. In contrast, in *Estonia*, *Czech Republic* and *Slovakia* WES experts expect some weakening of the US dollar in the course of the next six months.

### **Interest rates: upward trend is slowing down**

The upward trend of short- and long-term interest rates is expected to slow down in the coming six months on a worldwide scale (see Figure 12).

In the euro area somewhat fewer WES experts than in the previous survey expect that short-term and long-term interest rates will increase further in coming months. However, the upward trend of interest rates appears here to be still intact.

Also in Western Europe outside the euro area both types of interest rates are expected to increase further, though at a somewhat slower rate than previously expected (so in *Denmark*, *United Kingdom*, *Switzerland* and *Sweden*); only in *Norway* no softening of the upward trend is expected.

In North America the upward trend of short- and long-term interest rates is expected to come to a halt in the *USA* and even will be replaced by declining rates in the coming six months in *Canada*.

In Eastern Europe the upward trend of short-term interest rates is expected to slow down in coming months and will remain unchanged or even strengthen somewhat with regard to long term interest rates.

In CIS countries, particularly in *Russia*, the trend of shrinking interest rates will continue in coming months according to WES experts' appraisals.

In Latin America, in contrast to the previous survey, declining short- and also long-term interest rates characterize the new trend. However, this trend is not uniform: In *Argentina* as well as in *Colombia*, though to a lesser degree than expected in the previous surveys, but also in *Ecuador*, *Costa Rica* and *Venezuela* interest rates are expected to increase further. In *Brazil* and *Mexico* expectations of declining interest rates still prevail.

In *Asia* the upward trend of interest rates will slow down in the next six months and even come to a halt in *South Korea* and the *Philippines*, according to WES experts'. Only in *China* is the upward trend of interest rates, particularly short-term interest rates, expected to become even somewhat steeper.

### **Medium-term growth outlook remains positive**

Despite the expected temporary slowdown of world economic growth in the next six months, the medium-term growth outlook for the next 3 to 5 years is somewhat brighter than at the same time last year (3.3 percent compared to 3.0 percent last year).

Stronger than last year and almost one percentage point above the overall average is the expected medium-term growth in *Asia* (4.1 percent compared with 3.9 percent last year), particularly high in *China*, *India* and *Vietnam*. Also in *Latin America* the medium-term growth outlook has improved (4.0 percent compared to 3.4 percent last year).

Medium-term growth in Western Europe is still seen by WES experts as significantly below the world average, though it is expected to be slightly higher than in the WES survey one year ago (2.3 percent compared with 2.0 percent in October 2005). Within Western Europe the strongest medium-term growth is again seen in *Ireland* (4.6 percent), in *Sweden* (3.4 percent), in *Norway* (3.3 percent) and in *Spain* (3.2 percent). *Germany*, *Italy*, *Belgium*, *Portugal* and *Switzerland* belong to the group of slow growing countries with an expected annual growth rate between 1.5 and 2.0 percent in the medium-term (see Table 2).

In contrast to the generally stronger growth trend, a downward revision of medium-term growth expectations is reported from WES experts in the Near East (4.9 percent compared with 5.7 percent last year). Also in Central and Eastern Europe the medium-term growth outlook of 3.6 percent is somewhat less pronounced than in the past, but is still stronger than in the overall average; particularly in *Hungary* and *Poland* the expected medium-growth rate is now approaching the more moderate one of Western Europe.

No change in the medium-term growth expectations characterize North America, which is expected to grow in the next 3 to 5 years at 3.3 percent, which would equal exactly the world average and would be one percentage point higher than in Western

Table 2

**GDP**  
**Expected Average Annual Growth Rates of Real Gross Domestic Product**  
**Over the Next 3 to 5 Years\***  
**(based on WES QIV/2006 and QIV/2005)**

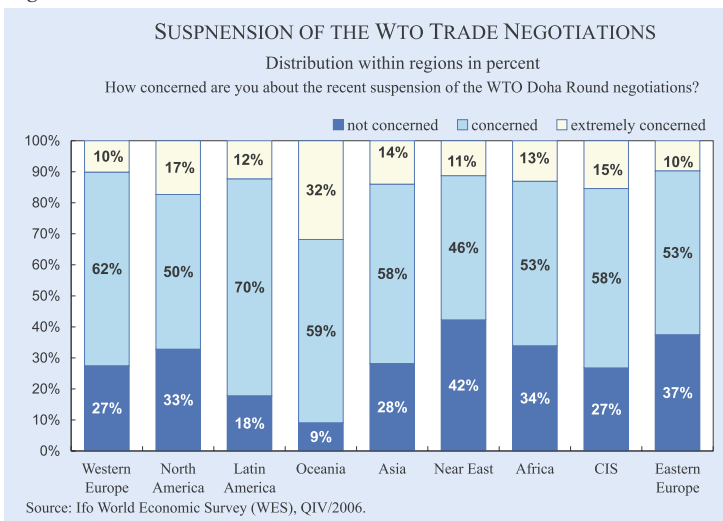
Region	WES QIV/2006	WES QIV/2005	Region	WES QIV/2006	WES QIV/2005
<b>Average of Countries</b>	<b>3.3</b>	<b>3.0</b>	<b>Latin America</b>	<b>4.0</b>	<b>3.4</b>
<b>Western Europe</b>	<b>2.3</b>	<b>2.0</b>	Argentina	5.2	3.8
Austria	2.4	1.7	Bolivia	5.2	3.8
Belgium	1.8	1.4	Brazil	3.5	3.7
Cyprus	3.8	1.5	Chile	4.8	4.8
Denmark	3.4	3.0	Colombia	4.3	3.0
Finland	3.4	3.5	Costa Rica	3.8	3.8
France	2.0	2.0	Ecuador	3.3	3.8
Germany	1.7	1.5	El Salvador	2.6	1.5
Greece	3.6	3.8	Mexico	3.6	3.0
Iceland	3.8	3.8	Panama	5.5	3.0
Ireland	4.6	3.9	Paraguay	3.8	3.3
Italy	1.8	1.1	Peru	4.7	4.6
Luxembourg	3.8	3.8	Trinidad and Tobago	8.0	7.0
Netherlands	2.4	2.0	Uruguay	5.0	3.8
Norway	3.3	3.5	Venezuela	4.5	2.3
Portugal	1.5	1.4	<b>Africa</b>	<b>4.4</b>	<b>3.3</b>
Spain	3.2	3.3	Algeria	5.8	-
Sweden	3.4	2.5	Egypt	3.8	3.2
Switzerland	1.5	1.5	Mauritius	3.8	3.8
United Kingdom	3.0	2.6	Morocco	4.6	-
<b>North America</b>	<b>3.3</b>	<b>3.3</b>	Nigeria	5.2	3.8
Canada	3.8	3.3	South Africa	3.8	3.8
United States	3.2	3.2	Tanzania	-	-
<b>Oceania</b>	<b>3.6</b>	<b>3.6</b>	Tunisia	3.8	3.8
Australia	3.8	3.8	Zimbabwe	-2.5	-4.0
New Zealand	2.7	3.0	<b>Central and Eastern</b>		
<b>CIS</b>	<b>5.8</b>	<b>5.3</b>	<b>Europe</b>	<b>3.6</b>	<b>3.8</b>
Kazakhstan	8.2	7.9	Albania	4.8	5.4
Russia	5.9	5.4	Bosnia Herzegovina	-	6.0
Ukraine	4.4	3.8	Bulgaria	5.8	4.2
<b>Asia</b>	<b>4.1</b>	<b>3.9</b>	Croatia	3.8	3.8
Bangladesh	6.9	3.8	Czech Republic	4.2	3.8
China	8.0	7.8	Estonia	8.0	6.5
Hong Kong	4.3	4.7	Hungary	2.5	3.5
India	7.9	7.2	Latvia	6.8	6.3
Indonesia	5.5	5.2	Lithuania	5.4	5.6
Japan	1.9	1.6	Poland	2.1	2.7
Korea Rep.	3.8	4.1	Romania	4.8	4.8
Malaysia	4.3	4.1	Slovenia	3.8	3.8
Nepal	3.8	3.8	Slovakia	4.0	5.0
Pakistan	5.6	6.1	Serbia and Montenegro	4.8	4.3
Philippines	4.9	4.0	<b>Near East</b>	<b>4.9</b>	<b>5.7</b>
Singapore	4.9	3.8	Iran	4.5	3.2
Sri Lanka	5.0	5.5	Israel	3.8	3.8
Taiwan	3.3	3.1	Jordan	5.3	6.3
Thailand	4.3	5.1	Kuwait	3.8	3.8
Vietnam	7.5	7.3	Lebanon	1.5	3.8
			Saudi Arabia	5.4	9.6
			Turkey	4.6	4.7
			United Arab Emirates	6.4	7.4

\* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade.

Source: Ifo World Economic Survey (WES), QIV/2006 and QIV/2005



**Figure 13**



Europe. Within North America the growth outlook is somewhat stronger in *Canada* (3.8 percent) than in the *USA* (3.2 percent).

Also in Oceania the actual medium-term growth expectations of 3.6 percent are exactly the same as reported last year. In *Australia* the expected growth is higher than in *New Zealand* (3.8 percent compared with 2.4 percent).

### Special Question: Suspension of the WTO trade negotiations

The official WTO website states: “*The Doha Development Agenda negotiations are to be suspended because gaps between key players remain too wide.*” Achieving global agreement was a challenging task in light of diverging regional interests. The negotiations failed and have been suspended without any new timetable for completing the Doha Round. The special question in this survey aimed at pointing out the impact of the suspension of the international trade negotiations in different regions. Economic experts in over 80 countries were asked to assess the potential sources of concern in terms of importance to their countries. Major possible impacts of the negotiation breakdown are: loss of export opportunities, rise in protectionism, increase in trade disputes and bilateral agreements.

The vast majority of surveyed economists (more than 70 percent) are concerned or extremely concerned about the failure of the international trade negotiations (see Figure 13). This share was particularly high

among Latin American experts in general and *Brazilian* economists in particular, but also in *New Zealand* and *Australia*, several economies in Asia (*Taiwan, China, South Korea, India* and *Pakistan*) and Eastern Europe (*Ukraine, Romania, Lithuania* and *Poland*), in *South Africa* and *Turkey*, but also in some Western European countries outside the EU (*Sweden, United Kingdom* and *Switzerland*) and inside the EU (*Germany, Italy, Finland* and *Greece*).

The impacts of the suspension of the WTO negotiations vary across countries and regions (see

Table 3). Immediately following the breakdown of negotiations, several countries and regions started to work on their bilateral trade relationships. More bilateral agreements along with a rise in protectionism are expected by the surveyed economists in Asia and Latin America. A rise in protectionism was emphasized most often in the majority of Western European countries, as well as in the *US* and *Canada* and the Near East, particularly *Turkey* and the *United Arab Emirates*. In Central and Eastern Europe, as well as in *Kazakhstan* and the *Ukraine* loss of export opportunities was named as the most important source of concern. The same holds true for *Australia* and *New Zealand, Israel* and *South Africa*.

The breakdown in international trade talks is likely to increase dispute settlement cases. However, in only few countries (*Vietnam, Philippines, Denmark, Portugal, Bolivia, Slovakia, Latvia* and *Ukraine*) are WES experts apprehensive about more trade disputes being brought to the WTO following the suspension of the Doha trade talks.

Free trade has the potential to enhance export opportunities, to stimulate economic growth and to create employment. Its opposite – protectionism – not only has the potential to isolate countries from trade and foreign investment, but as a rule it also involves increased state management which often is not efficient from an economic point of view. Summarizing the WES results, the international trade system will face a period of rising protectionism and consequently loss of export opportunities all over the world. The prospects for global economic growth, particularly in the least developed countries, have become clouded.

**Table 3**

**The Suspension of the WTO Trade Negotiations and Importance of its Consequences across Countries**

Region	N	Loss of export opportunities	Rise in protectionism	Increase in trade disputes	More bilateral agreements	Region	N	Loss of export opportunities	Rise in protectionism	Increase in trade disputes	More bilateral agreements
<b>Western Europe</b>	<b>305</b>	<b>4.6</b>	<b>6.1</b>	<b>4.4</b>	<b>4.3</b>	<b>Eastern Europe</b>	<b>130</b>	<b>5.6</b>	<b>5.3</b>	<b>4.4</b>	<b>4.7</b>
Austria	10	4.4	3.9	3.9	3.9	Albania	9	4.2	3.0	2.0	4.0
Belgium	20	5.0	6.5	3.2	5.0	Bulgaria	13	4.5	7.5	5.6	4.4
Denmark	6	5.0	8.0	6.0	6.0	Croatia	8	6.0	5.0	5.0	5.0
Finland	25	4.1	7.3	4.0	3.6	Czech Republic	12	5.0	5.9	3.2	5.0
France	23	5.5	6.3	5.8	5.3	Hungary	10	6.3	5.0	3.7	5.0
Germany	46	3.8	6.0	4.0	5.0	Latvia	6	7.7	5.0	6.3	3.7
Greece	16	4.1	5.0	5.0	3.3	Lithuania	6	4.2	5.8	5.0	3.4
Ireland	6	7.0	7.0	1.0	2.3	Poland	31	6.6	5.9	4.6	4.5
Italy	29	5.0	5.3	4.5	4.2	Romania	11	5.4	5.0	3.4	4.6
Netherlands	15	4.1	5.9	4.6	3.7	Serbia-Montenegro	4	6.3	6.3	6.3	7.7
Norway	10	2.7	5.6	5.0	4.0	Slovakia	9	5.0	4.2	6.6	5.8
Portugal	15	3.3	5.0	6.7	2.7	Slovenia	11	6.3	5.0	1.7	3.7
Spain	27	5.6	6.0	3.6	4.2	<b>Asia</b>	<b>142</b>	<b>5.5</b>	<b>6.2</b>	<b>4.6</b>	<b>6.3</b>
Sweden	23	5.2	6.9	4.8	4.0	Bangladesh	4	5.0	6.3	6.3	7.7
Switzerland	16	5.6	7.5	4.1	6.7	China	13	3.2	7.5	5.0	3.9
United Kingdom	18	3.4	6.1	3.7	4.7	Hong Kong	11	4.3	8.3	5.7	7.0
<b>North America</b>	<b>121</b>	<b>5.5</b>	<b>7.1</b>	<b>5.1</b>	<b>4.5</b>	India	11	6.2	4.2	3.0	4.6
Canada	12	5.5	7.5	5.0	6.0	Indonesia	10	5.6	7.3	3.9	6.7
United States	31	5.4	6.6	5.2	3.0	Japan	30	5.0	5.6	5.0	6.7
<b>CIS</b>	<b>47</b>	<b>6.7</b>	<b>5.1</b>	<b>5.2</b>	<b>4.9</b>	Malaysia	8	4.0	5.0	2.0	5.8
Kazakhstan	21	7.2	3.5	5.0	4.6	Pakistan	10	8.5	4.5	4.0	7.5
Russia	16	5.0	6.1	4.3	3.9	Philippines	6	7.0	9.0	6.0	7.0
Ukraine	10	7.8	5.8	6.2	6.2	South Korea	9	5.6	5.0	5.6	7.3
<b>Near East</b>	<b>36</b>	<b>5.2</b>	<b>6.4</b>	<b>4.3</b>	<b>5.5</b>	Sri Lanka	4	7.0	7.0	1.0	1.0
Israel	6	7.7	5.0	3.7	3.7	Taiwan	11	4.6	6.2	4.6	7.0
Jordan	4	7.7	9.0	6.3	6.0	Thailand	12	5.9	5.9	5.0	7.2
Turkey	16	5.6	6.7	5.6	5.9	<b>Latin America</b>	<b>78</b>	<b>5.5</b>	<b>6.2</b>	<b>4.4</b>	<b>6.2</b>
United Arab Emirates	7	2.3	6.3	5.0	5.0	Bolivia	5	8.0	7.0	6.0	6.0
<b>Africa</b>	<b>37</b>	<b>5.0</b>	<b>5.6</b>	<b>3.6</b>	<b>6.1</b>	Brazil	17	6.8	8.0	5.5	7.5
South Africa	24	6.9	5.8	3.9	5.4	Chile	15	4.3	5.7	4.7	3.7
Zimbabwe	10	7.0	6.0	4.0	4.0	Colombia	8	6.6	5.0	3.0	9.0
<b>Oceania</b>	<b>22</b>	<b>7.0</b>	<b>6.0</b>	<b>4.0</b>	<b>5.5</b>	Ecuador	4	4.0	5.0	3.0	7.0
Australia	11	6.8	6.3	4.1	6.3	Mexico	12	5.4	5.9	5.0	4.6
New Zealand	11	7.2	5.7	3.8	4.6	Paraguay	5	7.0	6.0	4.0	3.0
						Peru	9	4.4	6.3	5.0	5.7

\* Only countries with more than 3 responses have been included into the analysis  
**WES scale:** 9 - most important; 5 - important; 1 - not so important. N - Number of questionnaires  
 Source: Ifo World Economic Survey QIV/2006



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