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**Article**

## CESifo World Economic Survey November 2012

CESifo World Economic Survey

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# CESifo WORLD ECONOMIC SURVEY

VOLUME 11, No. 4

NOVEMBER 2012

## WORLD ECONOMIC CLIMATE

World economic climate  
remains overcast

## ECONOMIC EXPECTATIONS

Economic expectations less positive

## INFLATION

Slightly increased price expectations

## CURRENCIES

Rise of US dollar expected  
to slow down

## INTEREST RATES

Stable interest rates expected

## SPECIAL TOPIC

Anti-Corruption Clause



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## Ifo World Economic Survey

### Regions

- World Economy: Decline slows down
- Western Europe: Economic climate deteriorates further
- North America: Economic expectations improve slightly
- Eastern Europe: Economic climate remains subdued
- CIS: Economic expectations remain cautious
- Asia: Moderate economic slowdown continues
- Oceania: Expectations sharply downgraded
- Latin America: Positive signals
- Near East: Economic expectations more positive
- Africa: No unified economic trend

## Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational and national organisations worldwide on current economic developments in their respective countries. Its results offer a rapid, up-to-date assessment of the economic situation prevailing around the world. In October 2012, 1,156 economic experts in 124 countries were polled.

WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris.

## Methodology and evaluation technique

The survey questionnaire focuses on qualitative information: assessments of a country's general economic situation and expectations regarding key economic indicators. It has proven a useful tool, since it reveals economic changes earlier than conventional business statistics.

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

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

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

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

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

# WORLD ECONOMIC CLIMATE REMAINS OVERCAST

The Ifo World Economic Climate Indicator continued to fall in the fourth quarter, although only slightly. The decline was due to both less favourable assessments of the current economic situation and downwardly revised expectations for the six-month economic outlook (see Figures 1 and 2). Expressed in numbers, this translates into a decrease in the indicator from 85.1 to 82.4 (long-term average: 96.7 in 1996–2011). The world economy is currently treading water (see Box 1); and WES experts do not see any signs of change in the near future.

## Decline slows down

The deterioration seen in the Economic Climate across all major continents in the last quarter continued, but at a slower pace, with the exception of *Latin America*. WES experts from *South America* reported a slight improvement in the assessment of the current situation and a far more positive outlook for future economic developments. In *North America* the climate indicator dropped only slightly. Although the economic situation was assessed slightly more pessimistically, expectations brightened somewhat. The more positive outlook arose from a more optimistic view of the *United States'* economy. In *Canada*, by contrast, the values of both climate components were significantly less positive than previously. In *Western Europe* and the *euro area* both the assessment of the current situation and the expectations for the next six month declined again. In *Asia* survey participants expressed less optimism about the economic outlook and the current situation was assessed as fairly satisfactory across the board. The lateral movement in the survey results for *Asia* continues. WES experts in *China*, however, reported a more pessimistic view

both of the current situation and the six-month outlook. This was compensated for by developments in *India*, where WES experts were more optimistic. The majority of WES experts cited insufficient demand as the main economic problem at the moment. Differentiating by continents, public deficits were recognized as the main economic problem in *Europe*. In *North America*, persistent high unemployment is the greatest cause for concern among survey respondents. This also holds true for *Africa* and *Eastern Europe*. In *Asia* a lack of confidence in government economic policy was reported. Due to the more pessimistic view that currently prevails growth expectations over the next three to five years were trimmed back slightly on average over all countries compared to last year's survey.

Figure 1

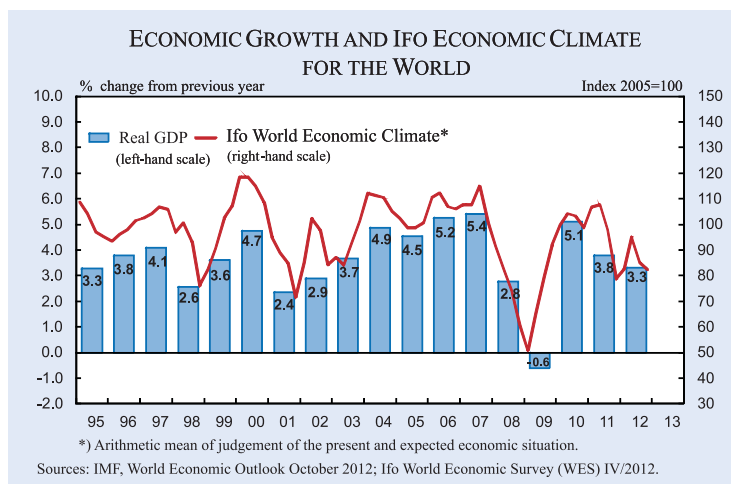
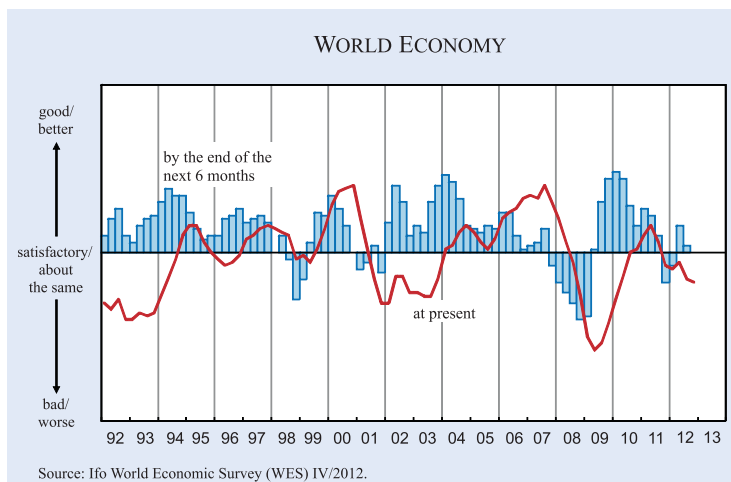


Figure 2

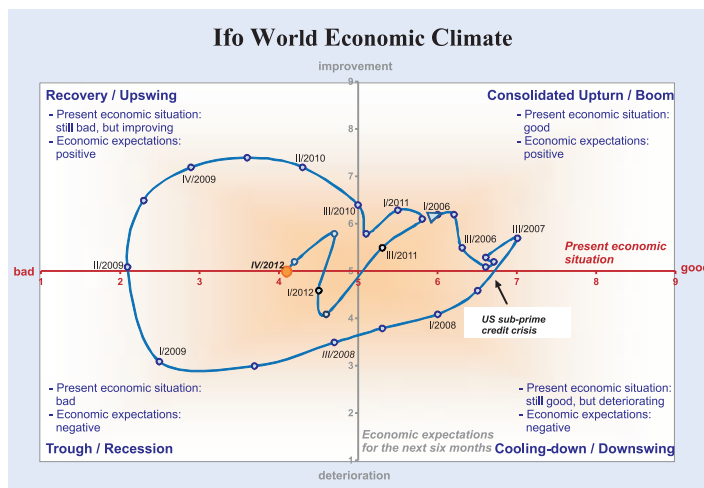


**Box 1**

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

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

According to the October survey, the Ifo indicator for the world economic climate edged only slightly further downwards. Assessments of the current economic situation deteriorated slightly compared to the third quarter of 2012, as did economic expectations for the next six months to an even greater degree. Overall, however, there was not much movement: the indicator is still located in the “recovery” quadrant and on the brink of the “recession” quadrant. The world economy is treading water.



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

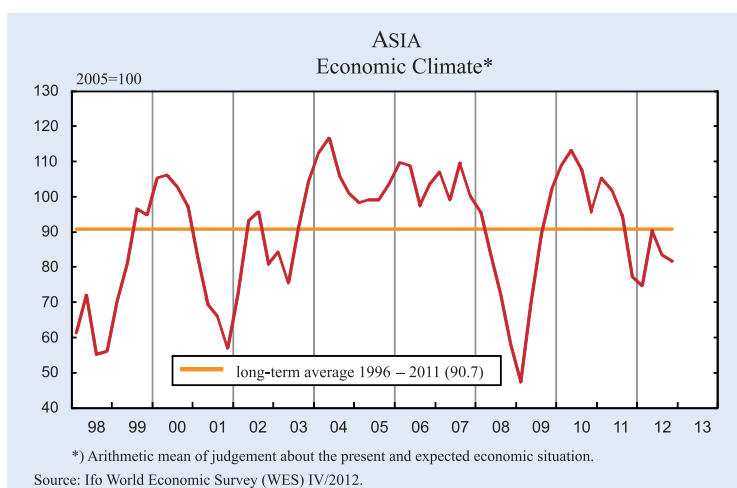
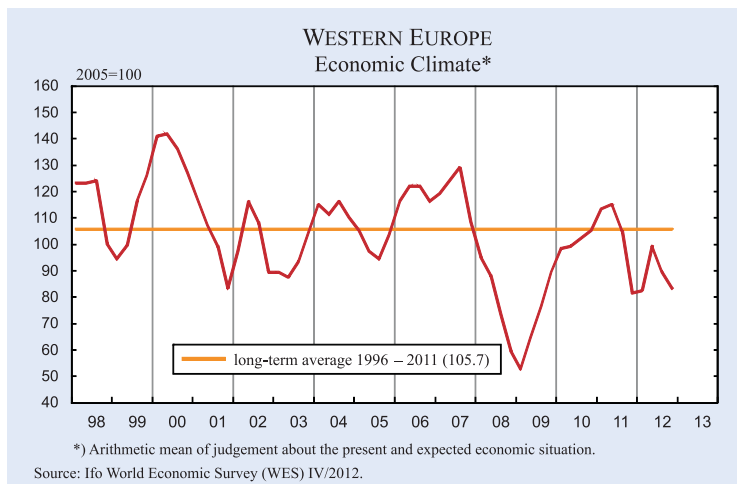
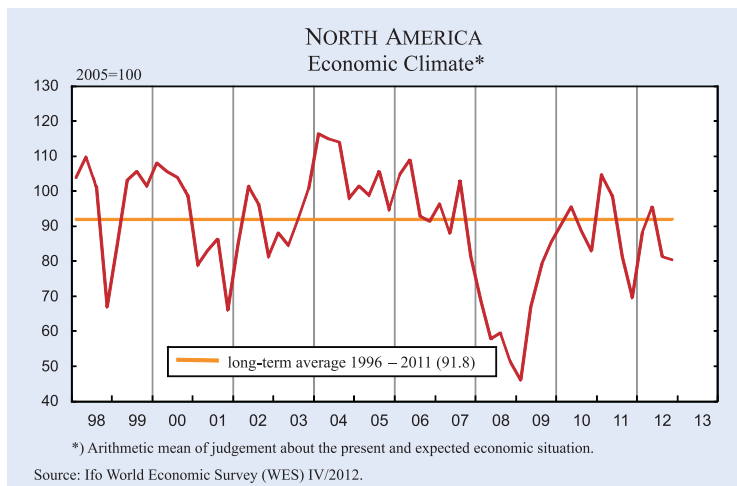
The Ifo World Economic Climate is the arithmetic mean of the assessments of the current situation and economic expectations for the next six months. The correlation of the two climate components can be illustrated in a four-quadrant diagram (“Ifo Business Cycle Clock”). The assessments on the present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

The world economy is going through a weak phase in late 2012. Economic activity has lost momentum nearly everywhere and the mood among companies and households has deteriorated further. A key factor in these developments since last year has been the debt and confidence crisis in the *euro area*. In addition, adjustment processes that have been taking place ever since the real-estate bubble burst in 2007 in the *USA* and in other advanced economies, have not yet been completed. The consequences of structural faults pre-dating the crisis are continuing to curb economic activity; and the longer it takes for a real recovery to occur, the more aware companies, households and governments become that the long-term growth and income perspectives are worse than previously imagined. A few months ago the central banks in the large, advanced economies reacted to the recent surge in pessimism in the financial markets and the deterioration in the economic outlook by announcing new government bond purchases, unlimited in this instance in the case of the ECB and the Fed. The mood in the financial markets initially brightened as a result. However, it is questionable whether monetary policy can succeed in reviving economic activity in this way. The ECB’s chances of sustainably improving the financing conditions for public and private debtors in the crisis countries will largely depend on whether economic policy can restore the confidence of financial investors, companies and households in the reform and consolidation efforts undertaken in the *euro area*. In this case fiscal policy will – as in

	World	Western Europe	North America	Latin America	Oceania	Asia	Near East	Africa	Eastern Europe	CIS
Lack of confidence in government's econ. policy	2.5		3	3		2		3	3	2
Insufficient demand	1	1.5			2.5	1			2	
Unemployment		3	1				1	1	1	
Inflation							2			
Lack of international competitiveness				1	1	3		2		1
Lack of skilled labour				2	2.5					
Public deficits	2.5	1.5	2				3			
Capital shortage										3

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

**Figure 3**



almost all other advanced economies – have a strong dampening effect. However, it nevertheless offers the perspective that the uncertainty currently crippling economic activity in the crisis countries will subside.

with include “public deficits”, “insufficient demand” and “unemployment”. While in *Western Europe* the first two factors are similarly ranked, in the *euro area* public deficits clearly ranks top of the list of problems, followed by insufficient demand (see Table 1).

Economic activity in the *euro area* should gradually stabilise. After a downturn this year, gross domestic product will do little more than stagnate next year. In the *USA* demand may be curbed by highly restrictive fiscal policy next year. However, recent news from the *USA* labour market was better than expected. Macroeconomic output in advanced economies should therefore only increase very slightly. In the emerging markets economic growth should accelerate somewhat next year. In the case of *China* in particular, it is safe to assume that the government will continue to follow its recent course, and will upscale the expansionary character of its policy until economic activity clearly starts to pick up again. Overall, the world economy will grow relatively slowly up until the end of 2013. World trade is expected to pick up only a little during this time.

### **Western Europe: Economic climate deteriorates further**

The economic climate indicator for *Western Europe* has fallen further, and at 83.4 it currently lies clearly below its long-term average of 105.7 (see Figure 3). Assessments of the present economic situation were downgraded; along with economic expectations for the next six months to an even greater extent (see Figure 4). The same pattern emerged in the *euro area* (see Box 2). Here, the indicator for the *euro area* moved down to 81.7 (long-term average: 109.0, 1996–2011). The most important economic problems that *Western Europe* and the *euro area* are currently struggling



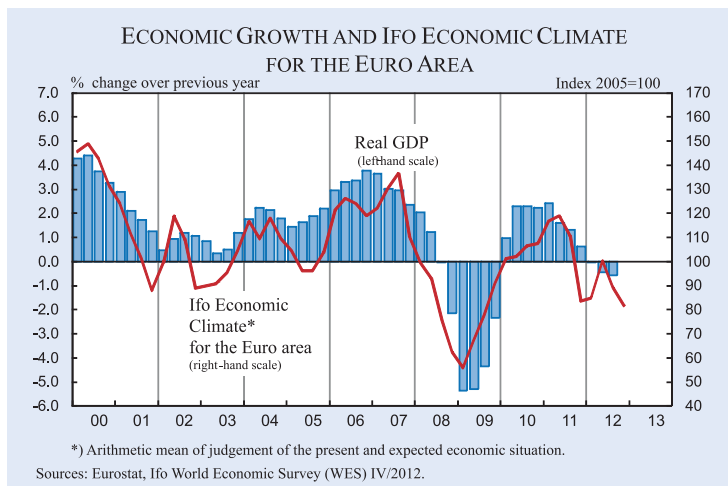
## Box 2

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

The Ifo World Economic Climate for the 17 member countries of the euro area is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the next six months. The October results are based on the responses of 270 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates closely with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo Economic Climate Indicator for the euro area continued to fall in the fourth quarter of 2012. While assessments of the current economic situation deteriorated only slightly, the six-month economic outlook was significantly more negative. Survey participants cited “public budget deficits” as the main reason for the difficult economic situation in the euro area. A lack of demand and high unemployment were ranked as the next most serious current economic problems in the region. There are no signs of an economic recovery on the horizon yet.

In Greece, Italy, Portugal, Spain and Cyprus assessments of the current economic situation remain at recession level. WES experts also continued to assess the situation in Belgium, France, Ireland, the Netherlands and Slovenia as unfavourable. In Germany the current economic situation was reportedly somewhat poorer than in the previous quarter, but remains satisfactory. The same can be said of Estonia and Slovakia. In Finland, on the other hand, assessments of the current economic situation veered from “satisfactory” to “unfavourable”. The six-months economic outlook continued to deteriorate in most member countries compared to last quarter, and participants do not expect the current economic situation to improve on balance. Ireland, the Netherlands and Estonia are the only countries where expectations for the next six months are positive.



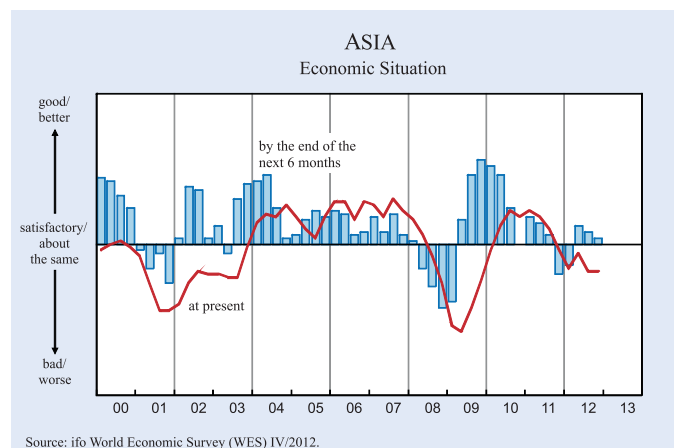
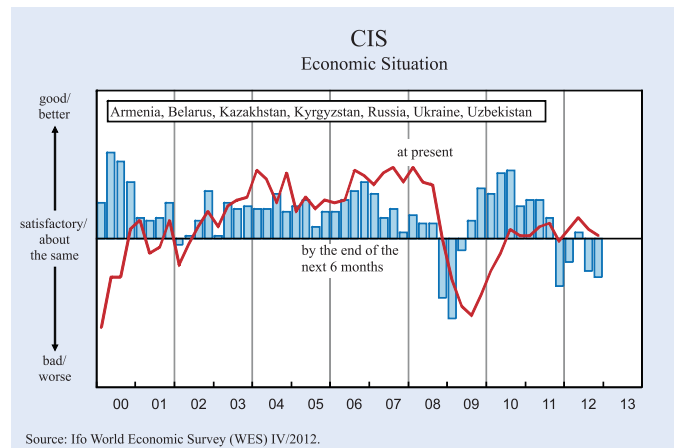
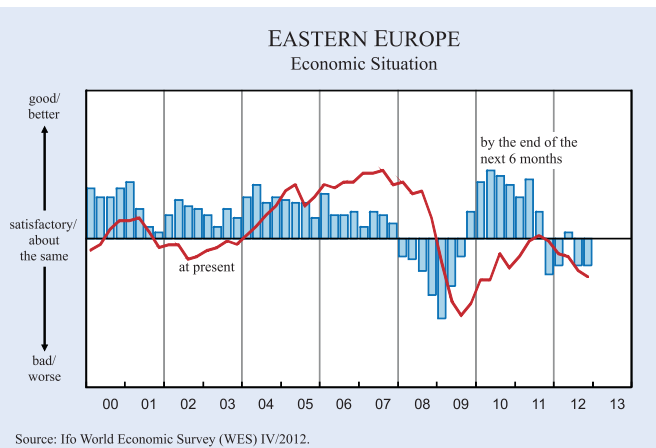
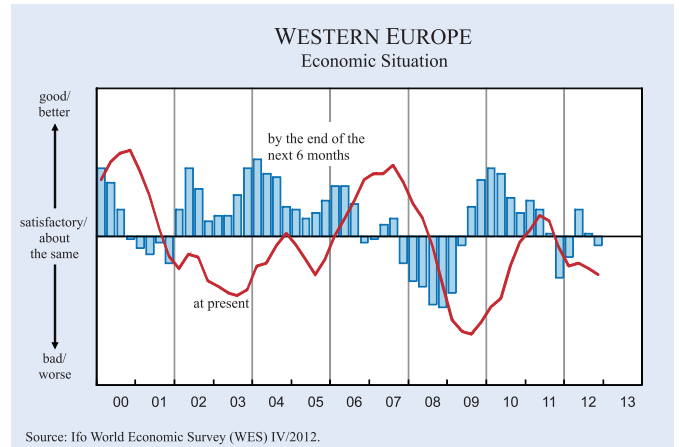
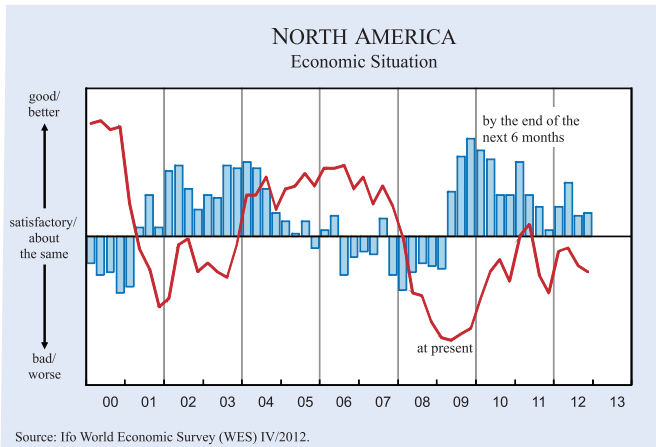
Public deficits are a particularly important issue for the euro crisis countries: WES experts in Greece, Italy, Portugal, Spain and Cyprus see them as one of the most important economic problems at present. In most of these countries high unemployment rates rank second. In Spain, however, which currently has an unemployment rate of over 25%, this issue ranks

the present economic situation deteriorated and is now seen as unfavourable by WES experts. In Austria, assessments of the current economic situation improved somewhat compared to the previous survey, but nevertheless remained below the satisfactory level. The economic outlook in both countries is characterised by caution. In Finland private consumption is

top of the list of problems. In all of these countries assessments of the current economic situation barely changed and were still described as fragile by economic experts (see Figures 5a and 5b). Economic expectations were also downgraded compared to the previous survey and point to a further deterioration in the current economic situation. WES experts in Italy, on the other hand, do not expect any aggravation of their national situation, but do not see any substantial improvement either. Nevertheless the trade volume of exports is expected to grow over the next six months in all of these countries, with the exception of Cyprus. In Belgium, France, Ireland, Luxembourg, the Netherlands and Slovenia a weak economic performance was reported by the experts surveyed. Unlike most other euro countries, Belgium and Luxembourg currently suffer most from a lack of international competitiveness. WES experts in Slovenia, on the other hand, distrust the government's economic policy. For the next six months, in Belgium, France, Luxembourg and Slovenia no substantial changes for the better are expected in terms of economic development. Economic expectations only remain in positive territory in the Netherlands and Ireland, despite some slight downward revision versus the previous survey. Experts in both countries anticipate a strengthening of the export sector within the next six months. In Finland,

**Figure 4**

**SELECTED REGIONS**



mainly expected to slow within the next six months. On a brighter note, *Germany, Estonia, Slovakia* and *Malta* reported a better economic performance than in the rest of the *euro area*. In these countries a favourable economic situation prevails, although to a somewhat lesser degree in *Germany* than in preceding surveys. As far as the six-month outlook is concerned, WES experts in *Germany*, and even more so in *Slovakia*, have become more pessimistic. WES experts in *Estonia* and *Malta*, on the other hand, remained positive about the next six months.

Outside the *euro area* the economic climate is much more friendly. WES experts gave *Norway* not only the region's best rating, but also the highest possible value on the WES scale. The highly favourable economic situation is expected to hold in the next six months. However, a favourable current situation also prevails in *Switzerland*. Economic expectations have been upgraded somewhat and once again moved into positive territory. In *Iceland* and *Monaco*, experts reported a satisfactory present economic situation and a positive outlook. In *Sweden*, WES experts downgraded their favourable assessments of the economic situation to less satisfactory this quarter. Their economic expectations are far less positive and they are now cautious with regard to future economic developments. In *Denmark* and the *United Kingdom* the present economic situation is still assessed as unfavourable, despite some upward revision versus the previous survey. However, for the next six months the economic situation is expected to improve somewhat in both countries.

#### **North America: Economic expectations improve slightly**

The economic climate indicator in *North America* fell slightly to 80.3 (previous quarter: 81.2). The downward movement was predominantly caused by significantly less favourable assessments of both the present situation and economic expectations by experts in *Canada* (see Figures 3, 4 and 6). Despite this downward revision, the present economic situation still stands at a satisfactory level. As for the next six months, WES experts retained their positive outlook. They considered the lack of international competitiveness as their most pressing current economic problem. Unlike in *Canada*, there were no major changes compared to the previous quarter survey in the *United States*. This is not surprising as the outcome of the

presidential election will impact and determine the country's future economic path. The present economic situation was still assessed as unfavourable. Only economic expectations for the next six months have been slightly upwardly revised and are somewhat more positive than in the previous survey. The most important economic problems faced by the US at present, according to WES experts, are "unemployment", "public deficits" and "lack of confidence in government's economic policy". The imminent fiscal cliff is a great threat not only to the US economy, but to the whole world economy.

#### **Eastern Europe: Economic climate remains subdued**

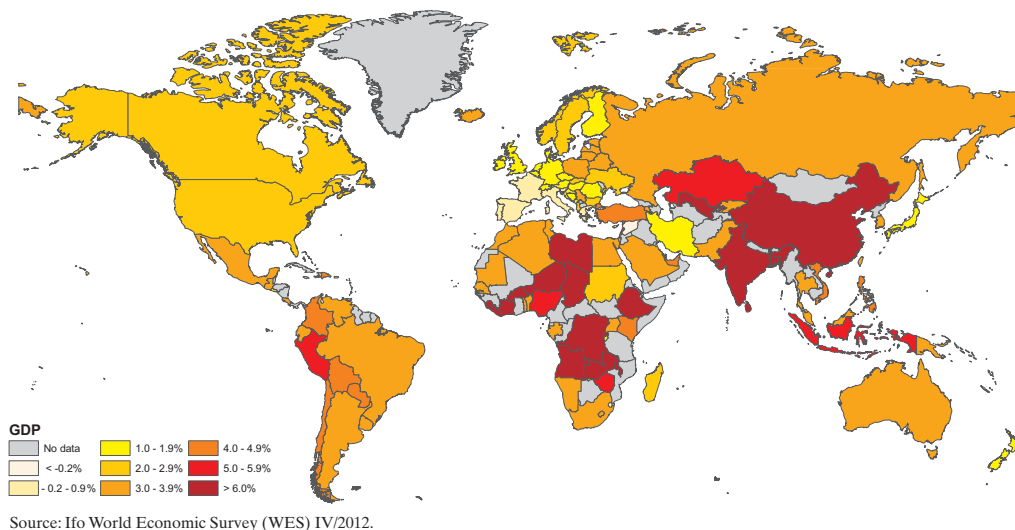
The economic climate indicator in *Eastern Europe* fell slightly due to more negative assessments of the current economic situation, which stand at an unfavourable level. Economic expectations did not deteriorate further, but remain cautious and do not point to an improvement in the coming months (see Figures 4 and 7). A high unemployment rate and insufficient demand are considered to be the most important economic problems of this region at present.

The relatively strongest economic performance at present in this region was again reported in *Latvia* and *Lithuania*. In both countries WES experts are satisfied with the prevailing present economic situation. With regard to economic developments over the next six months, the experts surveyed were more positive. WES experts also expect the export sector to rebound in the next half year. In *Bulgaria, Czech Republic* and *Poland* the present economic situation has been assessed as unfavourable. Capital expenditure and private consumption are also considered weak. For the next six months WES experts do not expect any major improvement in economic performance in *Bulgaria* and the *Czech Republic*. In *Poland*, they even expect the situation to deteriorate further. In the remaining EU member countries of *Eastern Europe, Hungary* and *Romania*, the current economic situation was perceived as weak. According to WES experts, things won't change for the better in the next six months. In both countries, people have no confidence in the government's economic policy. In *Hungary*, foreign debts are also an important problem at present.

In countries outside the EU, WES experts considered high unemployment and the "lack of international competitiveness" as the most important economic

**Box 3****Medium-Term Growth Outlook Slightly Downwards Revised**

Expected Average Annual Growth Rate of the Real Gross Domestic Product over the next 3 to 5 years



On average annual economic growth of 2.5 percent is expected in the next three to five years for all 124 countries included in the survey, compared to an estimated 2.7 percent one year ago (see Table 2). However, while in *Western* and *Eastern Europe*, in the *euro area*, in *CIS* countries, in *Asia* and in *Africa* the medium-term growth rate has clearly been revised downwards compared to the survey one year ago, this trend was less pronounced in *North* and *Latin America*, as well as in *Oceania*, where a slight upward movement was seen. In the *Near East*, by contrast, the medium-term growth outlook has been revised clearly upwards, compared to one year ago.

The highest medium-term economic growth rates are expected in *Africa* with 4.0% and the *Near East* with about 3.9% on average. This time *Asia* (3.5%) ranks below *Latin America* (3.6%), due to forecasts of considerably lower growth rates for the next three to five years compared to one year ago in its major countries of *China* (6.8% versus 7.4%), *Japan* (1.0% versus 1.4%) and *Hong Kong* (3.8% versus 4.2%). In *Africa* the annual average growth rate will lie between 6.0% and 9.0% in *Libya*, *Angola*, *Burkina Faso*, *Chad*, *Congo Dem. Rep.*, *Ethiopia*, *Ghana*, *Ivory Coast*, *Liberia*, *Malawi*, *Niger*, *Rwanda* and *Zambia*. In *Asia* the strongest economic growth in the medium-term (more than 5%) will take place, according to WES experts, in *Bangladesh*, *China*, *India*, *Indonesia* and *Sri Lanka*. In *Latin America* especially in *Peru* a high annual growth rate of 5.2% on average will prevail. In the *Near East* this is the case for *Lebanon* (5.2%) and *Qatar* (5.5%). However, moderate growth of over 3.7% is also expected in most of the remaining countries of this region like, for example, *Saudi Arabia*, *Turkey* and the *United Arab Emirates*.

The *CIS* countries should also boost growth above the average worldwide average levels (3.4%; here particularly *Uzbekistan* with 6.5% and *Kazakhstan* with 5.1%), *Australia* (3.6%) and vast parts of *Latin America* with 3.6% on average. Growth rates above the regional average figure at levels of between 4.1% and 4.5% will particularly be seen in *Paraguay*, *Colombia*, *Chile* and *Bolivia*, as well as *Brazil* with 3.7%. A solid number of *Asian* countries will experience moderate growth rates of between 3.1% and 4.7% in the next three to five years, including *Malaysia*, *Pakistan*, the *Philippines*, *South Korea*, *Taiwan*, *Thailand* and *Vietnam*.

In the middle range of growth expectations stands *Eastern Europe* with an estimated annual medium-term growth of 2.2%. Above the region's average at around 3.2% up to 3.9% are the annual medium-term growth rates expectations of *Estonia*, *Latvia*, *Lithuania*, *Poland* and *Serbia*, according to WES experts. A large revision to the downside was made by WES experts in *Slovenia*. After 1.7% a year ago, they now expect medium-term growth of just 0.4% p.a. Included in the middle range remains *North America* (2.3% after estimated 2.2% in the survey in 2011). In the *US* average growth rates of 2.3%, after 2.0% in the previous year, are expected by the economic experts surveyed, while a rate of 2.4% is expected in *Canada* (in 2011: 2.8%).

At the bottom of the growth spectrum is *Western Europe* (on average 1.1%, after 1.5% in the previous year), which is characterized by large national fluctuations. Within this region the Northern countries like *Norway* (2.6%), *Sweden* (2.1%) and *Denmark* (1.6%) in particular expect above-average growth performance, albeit at somewhat lower levels than in the 2011 survey. By contrast, WES experts in *Portugal*, *Greece* and *Spain* expect stagnation for the next three to five years (-0.2%, 0.0% and 0.1% growth per year respectively). In *Italy* and *France* a growth rate of about 0.8% p.a. appears to be the most likely outcome.

problems at present. In *Serbia* and *Bosnia and Herzegovina* capital shortage is currently also an important issue. Both countries, as well as *Croatia*, unanimously received the lowest rating on the WES scale from experts for their present economic situation. No substantial improvement is expected in the economies of these countries over the next six months. Although both assessments of the present economic situation and the expectations in *Albania* improved somewhat over the previous survey, they stand still on an unfavourable level. No major changes for the better are foreseen in the months ahead. The present economic situation only remains satisfactory in *Montenegro*. The economic experts surveyed here stay fairly confident about the six-month outlook.

#### **CIS: Economic expectations remain cautious**

The economic climate indicator for the *CIS* countries covered by WES (*Russia, Belarus, Ukraine, Kazakhstan, Kyrgyzstan, Uzbekistan* and *Armenia* for the first time in this survey) fell somewhat, due to equally downgraded assessments of both the present situation and economic expectations. Despite the downwards revision, the present situation remains on a satisfactory level. With regard to future economic developments, WES experts have become more sceptical (see Figure 4). Lack of international competitiveness is seen as the region's single most important problem, followed by a lack of confidence in government economic policy and, finally ranked third with less relevance, capital shortage.

In *Kazakhstan* a favourable situation prevails, while the present economic situation in *Armenia, Belarus, Russia* and *Uzbekistan* at least remains satisfactory, according to the experts surveyed. While they expressed caution regarding future economic development in the next six months in *Russia* and *Belarus*, the economic experts surveyed in *Kazakhstan, Armenia* and *Uzbekistan* are more optimistic. In the latter two countries the export volume is expected to increase in the months ahead. In the *Ukraine*, the present economic situation was again rated as unfavourable, and in *Kyrgyzstan* as weak. While economic expectations for the next six months in *Kyrgyzstan* were upgraded considerably and point to an improvement in economic performance, they have been revised downwards in the *Ukraine*, where WES experts expect a further deterioration of the economy. This country is mainly suffering from foreign debts and capital shortage at the moment.

#### **Asia: Moderate economic slowdown continues**

The economic climate in *Asia* deteriorated slightly due to less positive economic expectations for the next six months. Assessments of the present economic situation remain unchanged at an unfavourable level. The economic climate indicator now stands at 81.6 (previous quarter: 83.3) – clearly below its long-term average of 90.7 in the period of 1996–2011 (see Figures 3, 4 and 8). Insufficient demand was cited as the region's most important economic problem, closely followed by lack of confidence in government economic policy. "Lack of international competitiveness" follows some way further down the ranking.

The economies currently performing best in the region are those in *Indonesia* and the *Philippines*. A continuation of the currently positive situation is expected for the coming half year. In *China, Hong Kong, Japan, India, South Korea* and *Vietnam* an unfavourable present economic situation prevails, according to WES experts. In most of these countries the current level of private consumption and capital expenditure is regarded as weak. These sectors are only currently considered to be performing satisfactorily in *Hong Kong*. *India* stands out as suffering from an inflation rate that is much higher than the regional average. As in *Japan*, public deficits were also cited as another major economic problem in *India* at present. In *Japan*, the deterioration of the country's relationship with its trading partner *China* is also seen as problematic by the experts surveyed. In *Vietnam*, on the other hand, it is capital shortage that was cited as a key issue. The economic situation is expected to improve somewhat in *China, Hong Kong* and *India* over the next six months. However, WES experts in *Japan, South Korea* and *Vietnam* do not foresee any substantial improvement in their economies. In *Pakistan* and *Taiwan* the economic situation was once again described as weak. In *Pakistan*, high unemployment is a particularly important economic problem at present. While no major changes for the better are expected within the next six months, WES experts in *Taiwan* remain fairly confident with regard to future economic performance. The other *Asian* countries *Bangladesh, Malaysia, Papua New Guinea, Singapore, Sri Lanka* and *Thailand* are performing satisfactorily at present, and in most cases even better than in the previous survey. In nearly all of these countries WES experts expect the economic situation to stabilize at its present good levels. *Malaysia* is the only country in which WES experts remain cautious with regard to future economic developments.

Figure 5a

EUROPEAN UNION

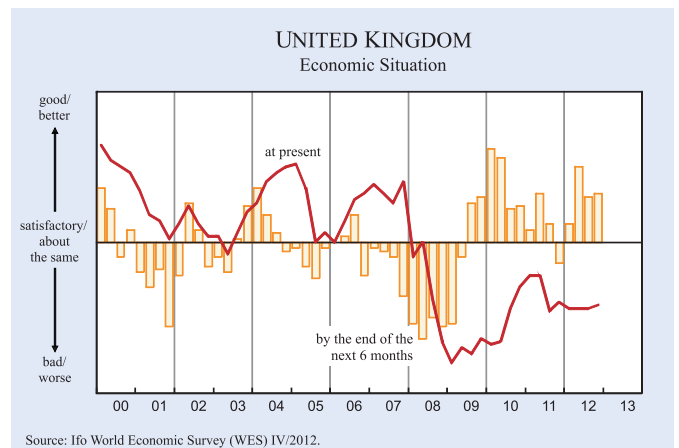
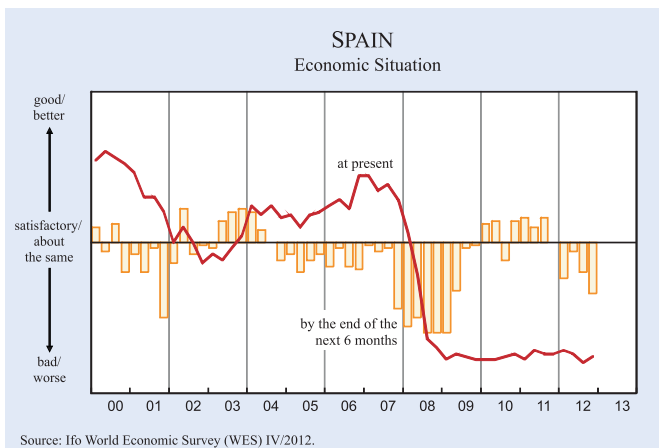
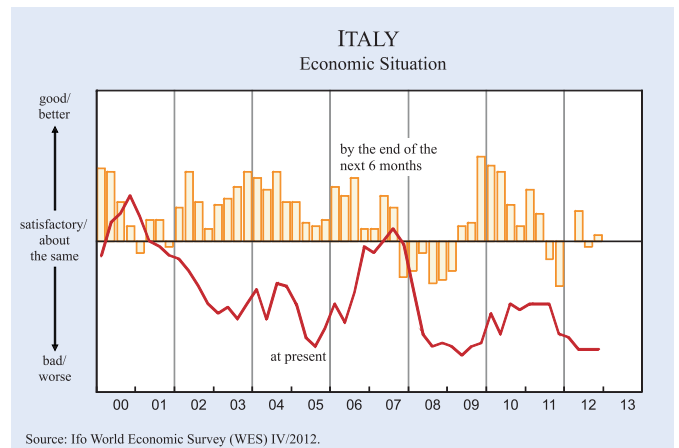
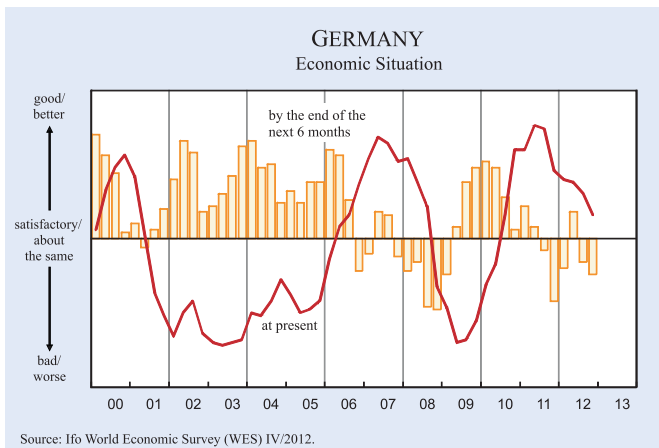
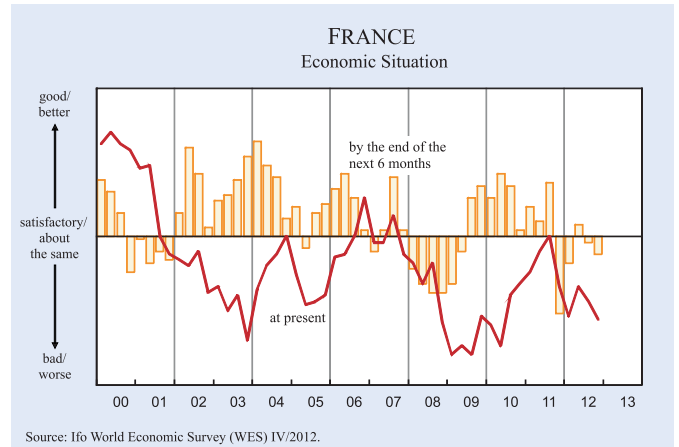
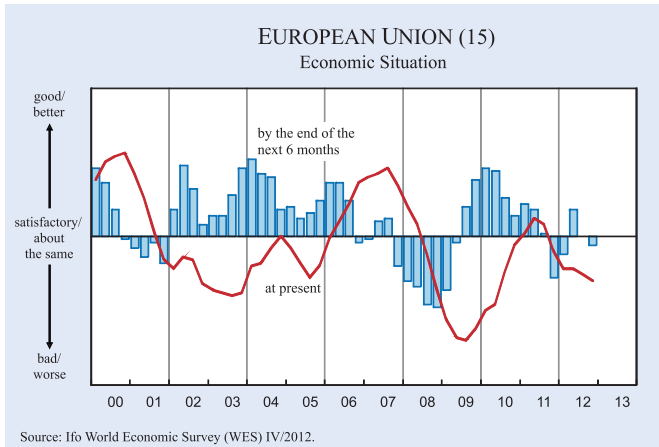
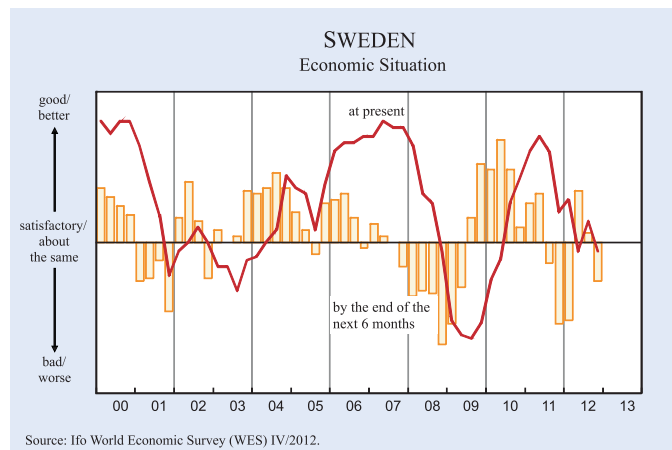
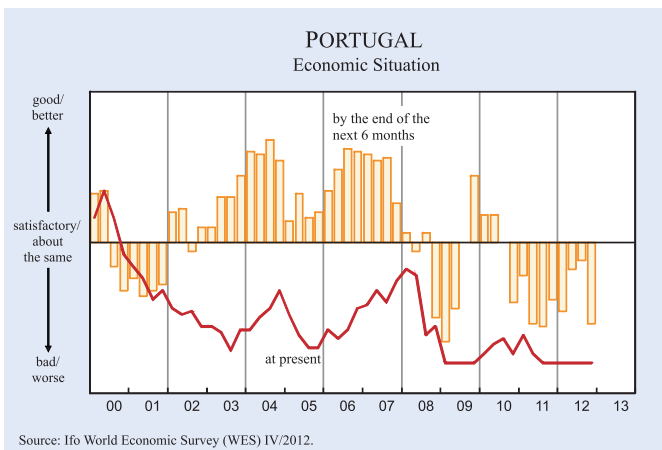
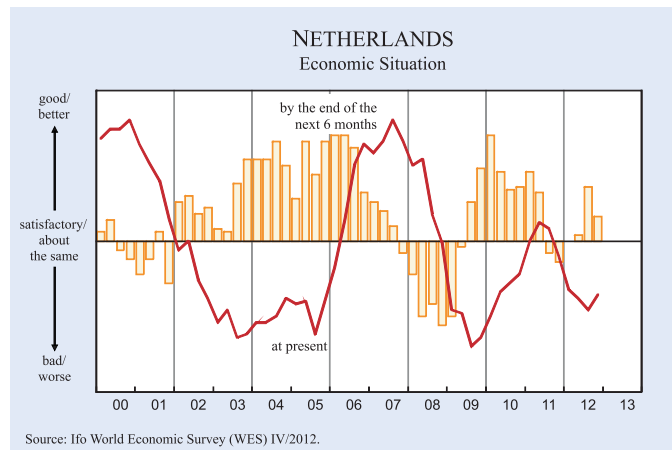
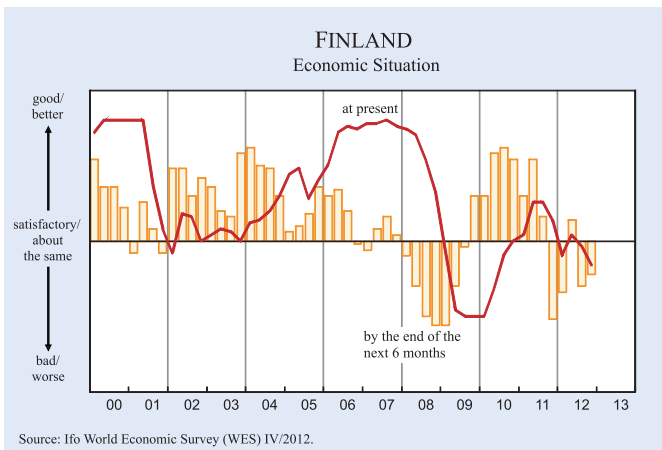
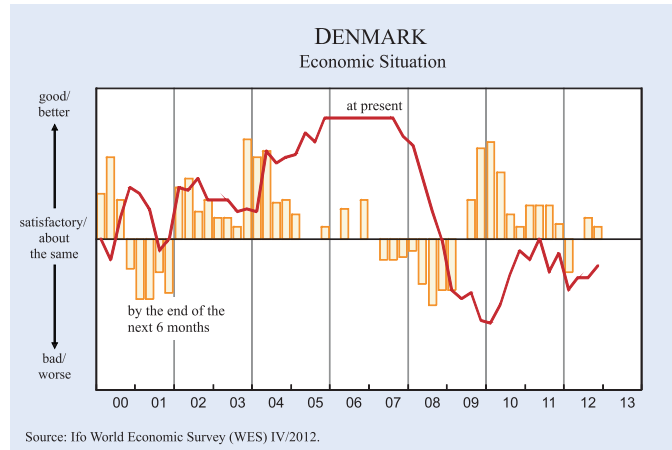
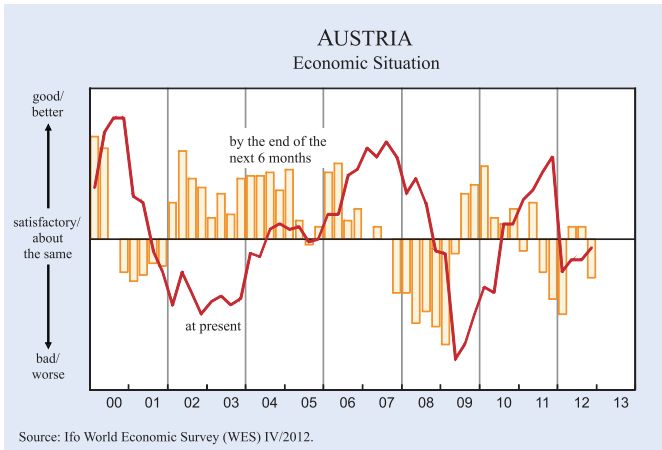


Figure 5b

EUROPEAN UNION



**Figure 6**

## NORTH AMERICA, OCEANIA AND CIS

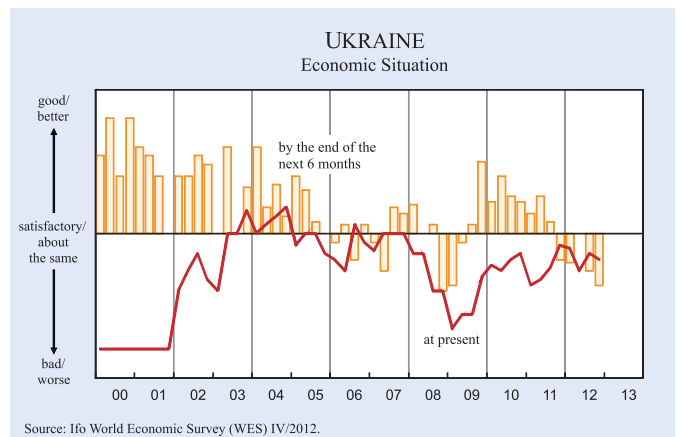
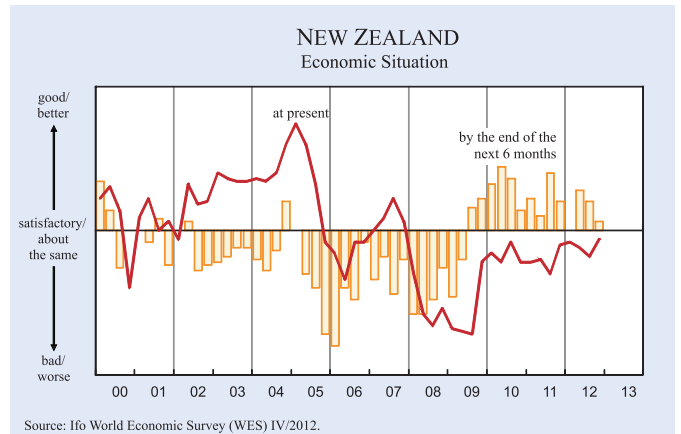
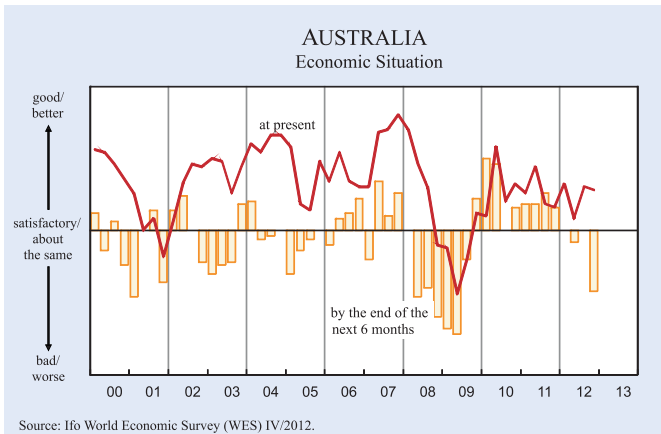
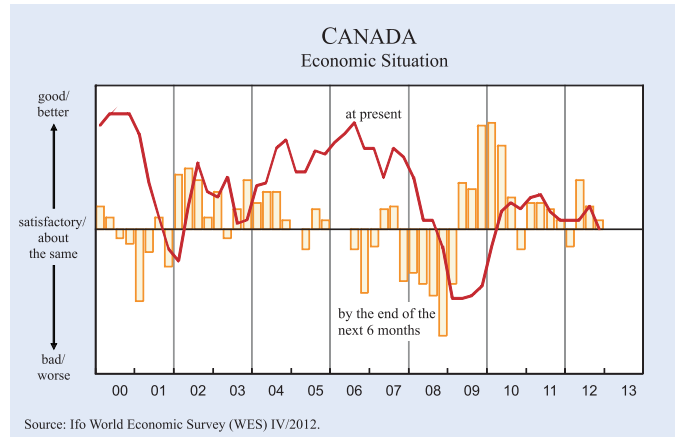
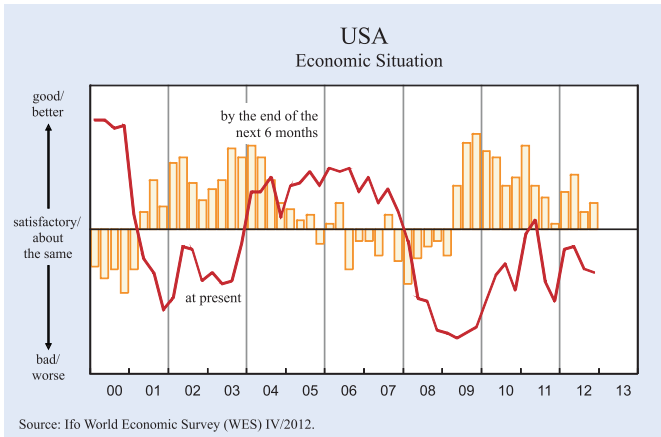




Figure 7

# EASTERN EUROPE

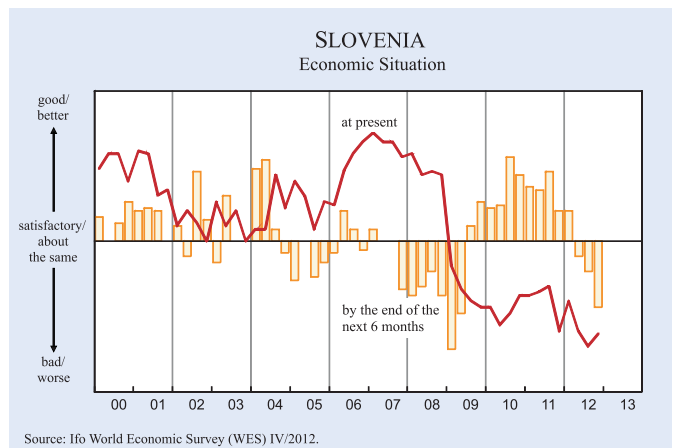
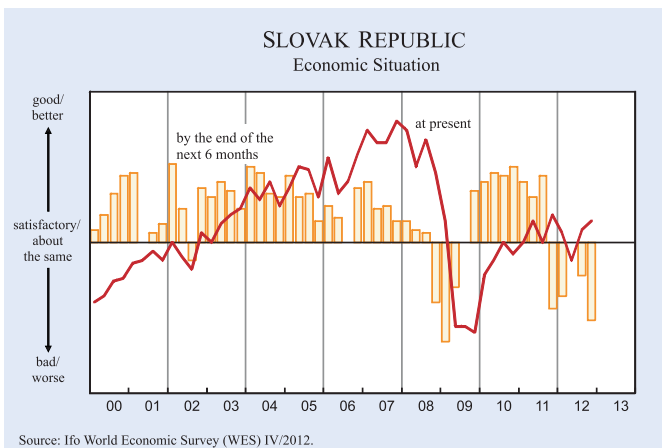
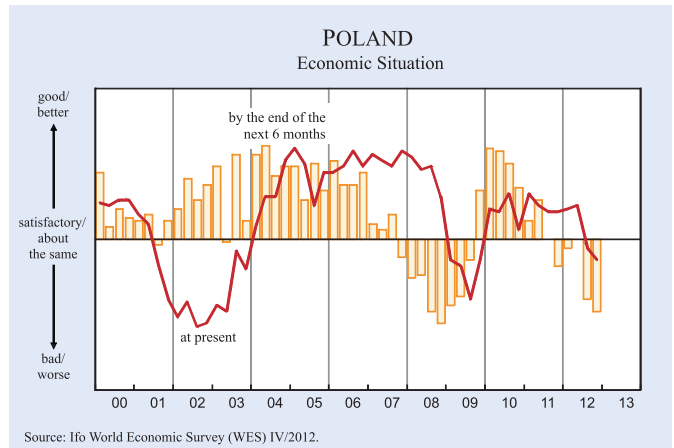
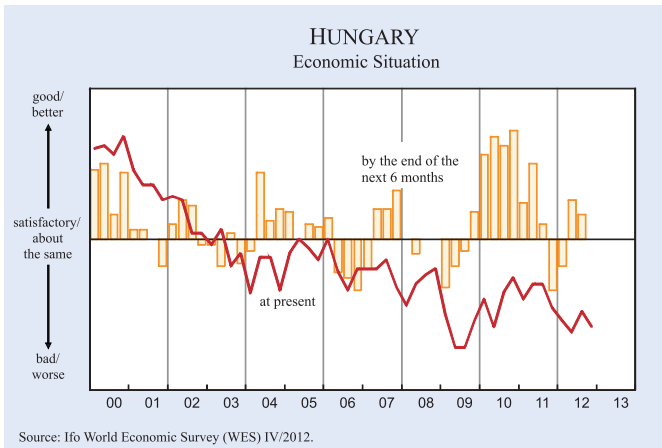
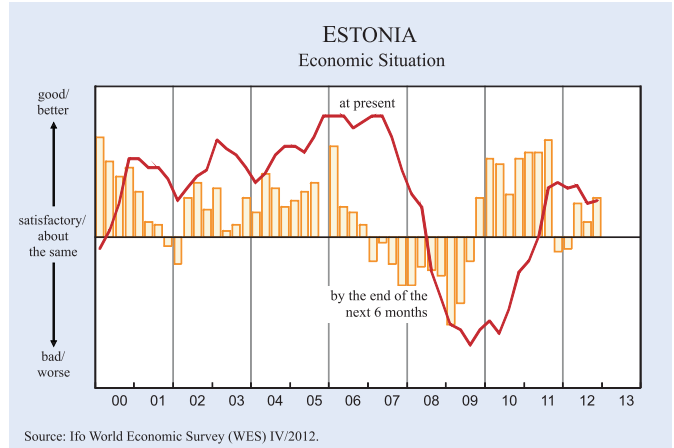
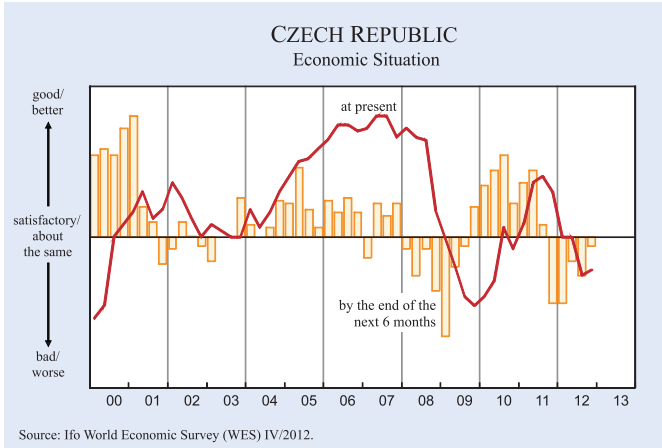


Figure 8

ASIA

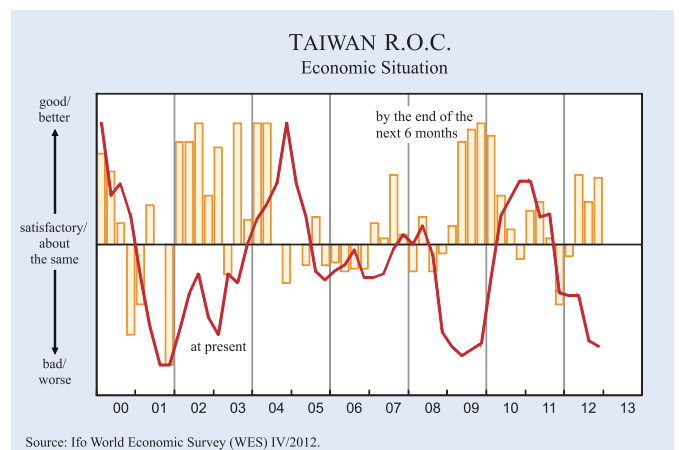
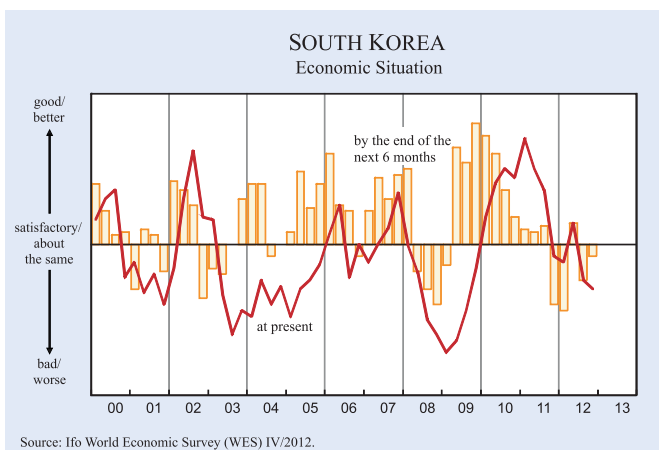
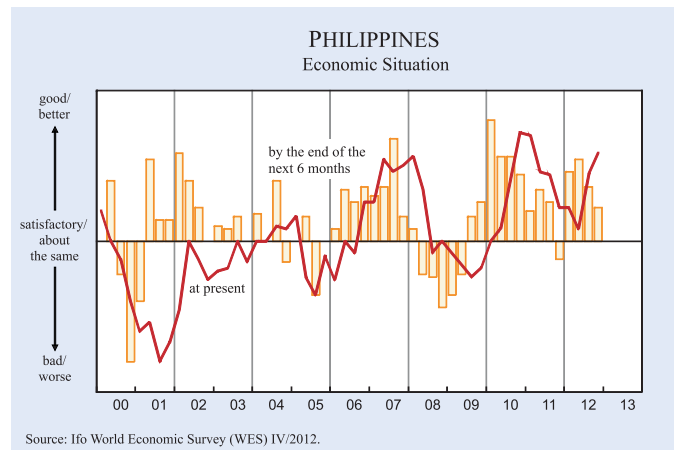
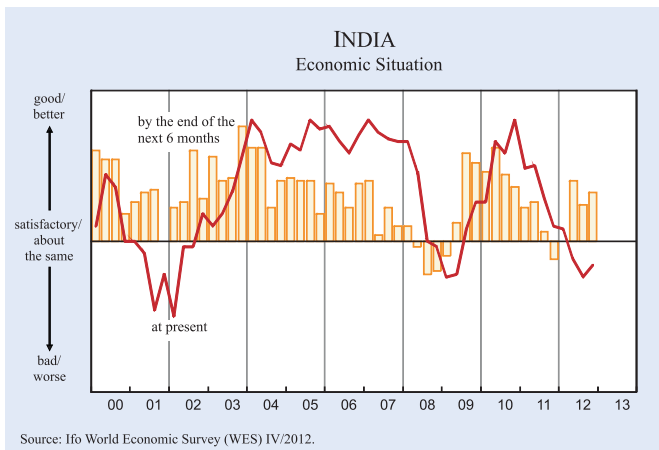
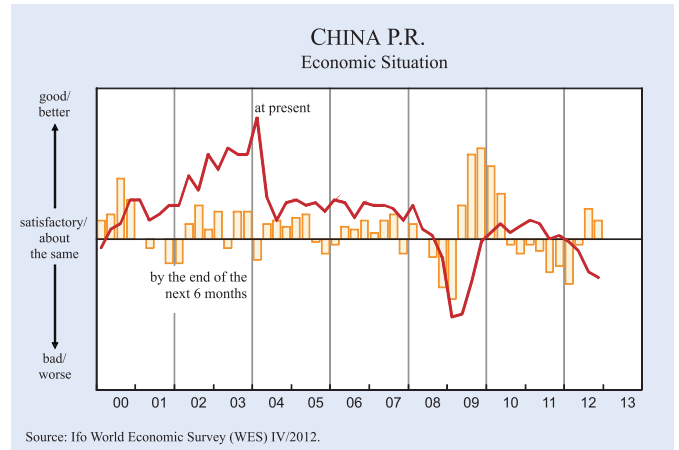
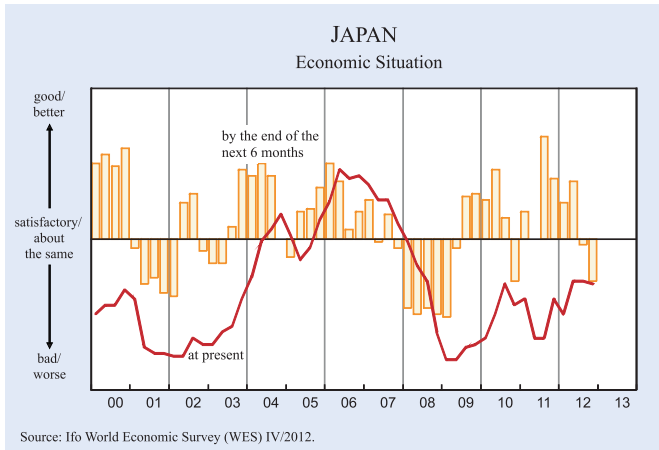


Figure 9

# LATIN AMERICA

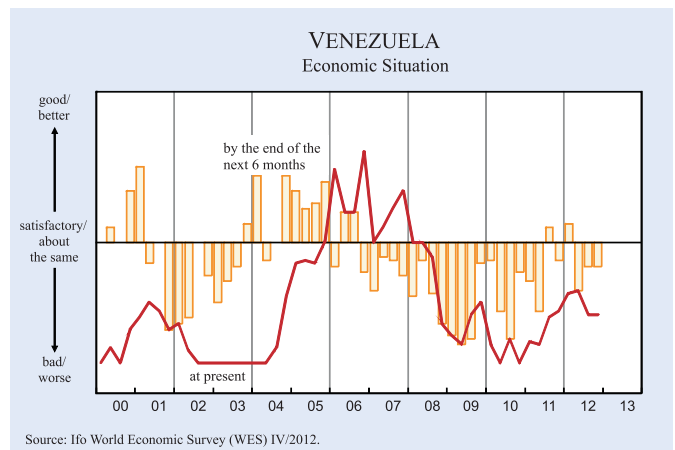
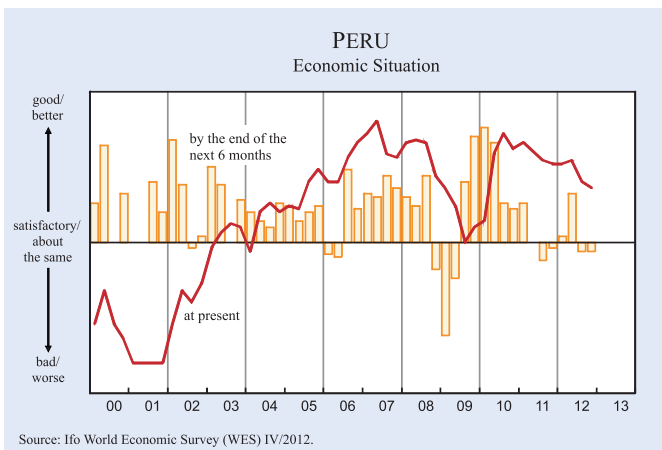
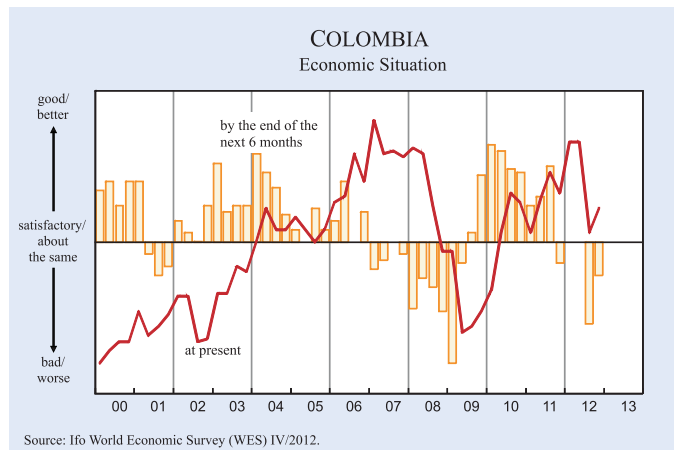
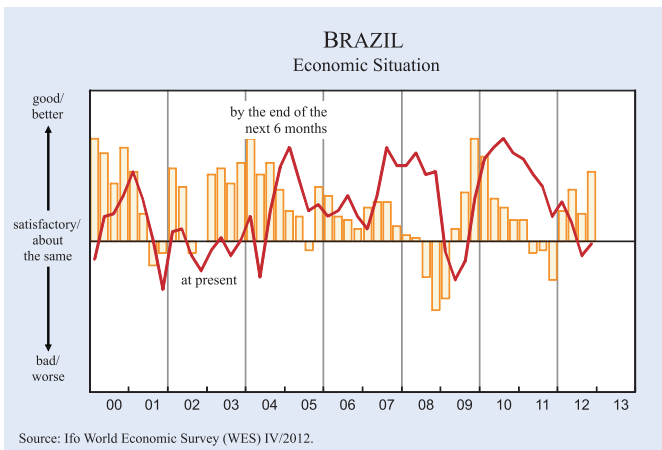
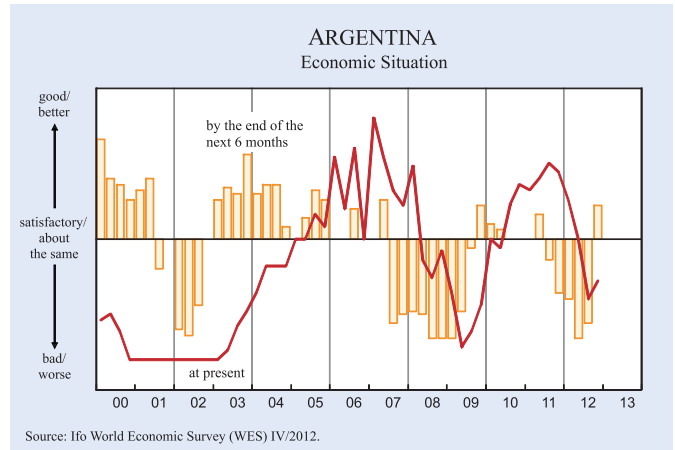
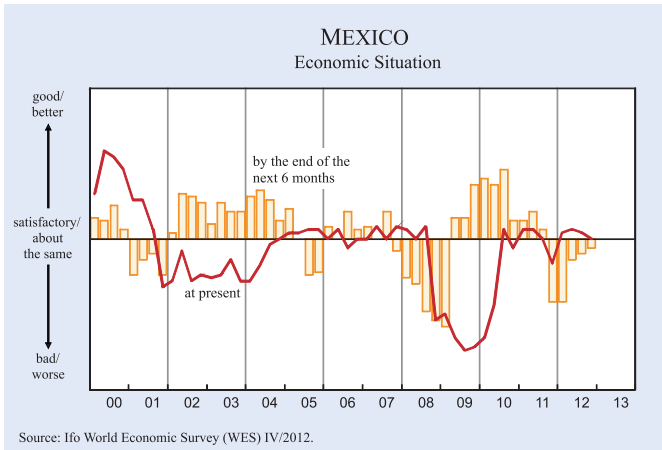
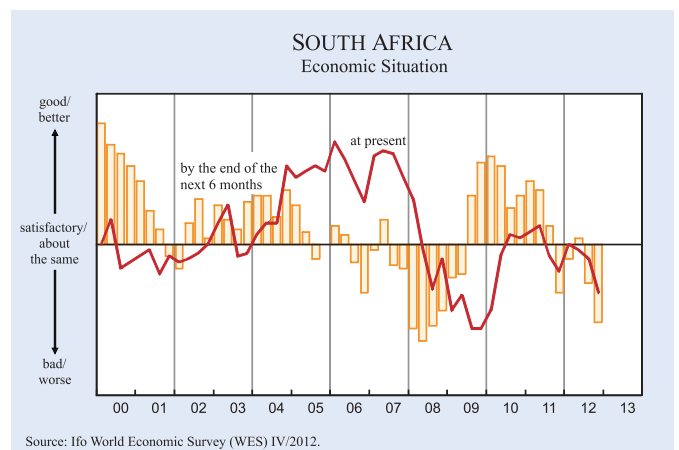
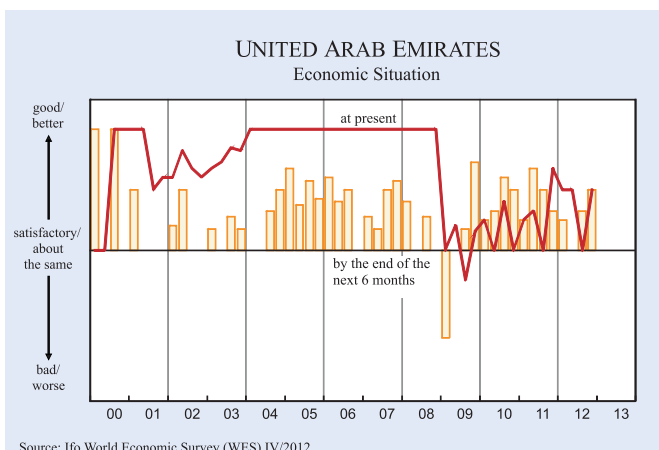
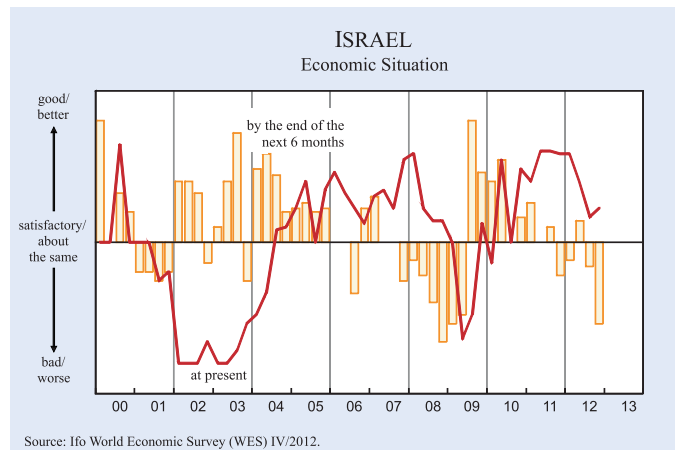
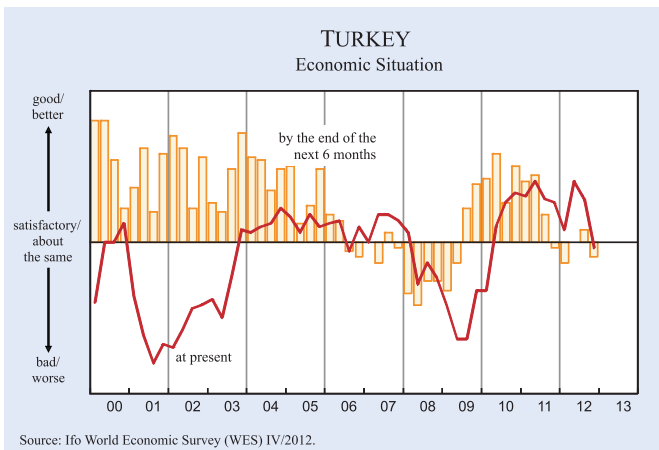
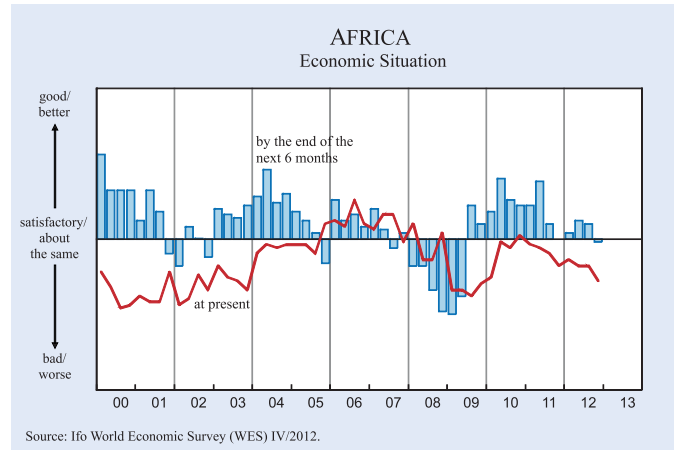
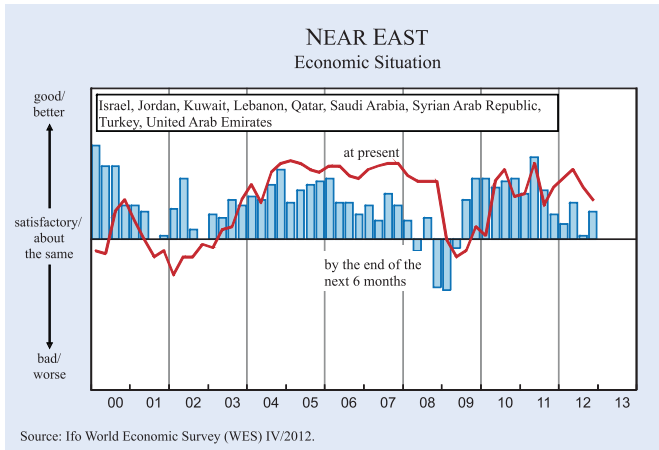


Figure 10

## NEAR EAST AND AFRICA



### **Oceania: Expectations sharply downgraded**

In *Oceania* the economic climate indicator has started to fall again, after rising briefly in the previous quarter. While assessments of the current economic situation remain at a favourable level, outlook expectations deteriorated considerably and dipped into negative territory. This pattern particularly applies to *Australia* (see Figure 6). The country's most important economic problems are currently a lack of international competitiveness, coupled with a skilled labor shortage that is tied to low confidence levels in government economic policy, according to WES experts. *New Zealand*, by contrast, is primarily suffering from insufficient demand and foreign debt, aggravated by its lack of competitiveness. Here, the assessments of the present economic situation have picked up somewhat, but still remain below the satisfactory level. The six-month outlook has been slightly revised downwards versus the previous survey, but nevertheless remains in positive territory. While capital expenditure looks set to strengthen slightly in the course of the next six months, exports are expected to slow somewhat.

### **Latin America: Positive signals**

*Latin America* is one of the few regions, in which the economic climate indicator rose in the fourth quarter. Assessments of the present situation improved compared to the previous survey, while economic expectations were upgraded to an even greater extent (see Figures 4 and 9). A satisfactory present economic situation prevails in most of the region's countries on balance, and is expected to stabilize at the current moderate level in the next six months. A lack of international competitiveness is considered to be the most important economic problem of this region at present. *Argentina* and *Venezuela* are also suffering from a high inflation rate.

The region's best performing economies include *Bolivia*, *Chile* and *Peru*. In all of these countries private consumption in particular is the driving force at present. The economic situation has also reportedly remained buoyant in *Colombia*, *Ecuador* and *Uruguay*, despite some downwards revision versus the previous survey in *Ecuador* and *Uruguay*. Economic expectations have been downgraded somewhat in most of these countries by the experts surveyed, who now tend towards caution, except for in *Bolivia*, where the

outlook remains positive. The present economic situation improved somewhat in *Brazil* and is again reaching the satisfactory level. However, WES experts still see capital expenditure as weak at present. The economic expectations for the next six months improved considerably compared to the previous survey and WES experts have become fairly confident with regard to future economic developments. An unchanged satisfactory current economic situation prevails in *Costa Rica*, *Guatemala*, *Mexico* and *Panama*. In most of these countries no major changes are anticipated in the next six months. *Guatemala* is the only country in which WES experts have become cautious regarding future economic developments. In *Argentina*, the *Dominican Republic*, *El Salvador*, *Paraguay*, *Trinidad and Tobago*, as well as in *Venezuela* WES experts reported weak economic performance. In *El Salvador* and *Paraguay* in particular the economic situation deteriorated versus July's survey. The economic outlook promises no major improvements to current weak levels. However, WES experts in *Argentina* and *Paraguay* did express greater confidence regarding developments over the next six months and expect the situation to improve slightly.

### **Near East: Economic expectations more positive**

In the *Near East* a favourable economic climate persists, despite some downwards revision of the assessments of the present economic situation, which was offset by upward revision of economic expectations (see Figure 10). Besides *Latin America*, the *Near East* is the only region in which the economic climate indicator rose. The most important economic problems in the *Near East* are currently "unemployment" and "inflation", which is particularly high in *Iran* and *Syria*.

In *Israel*, *Qatar*, *Saudi Arabia* and the *United Arab Emirates* a favourable present economic situation prevails in most of these countries to an even greater degree than in the previous survey. With regard to the economic outlook, WES experts in *Qatar*, *Saudi Arabia* and the *United Arab Emirates* are fairly confident. Only the economic experts surveyed in *Israel* have become more pessimistic and expect the situation to deteriorate. In *Lebanon* the current economic situation is considered as satisfactory and is expected to stabilize in the next six months at this level. In *Turkey*, assessments of the current economic situation have been revised strongly downwards versus the previous

survey, and are now slightly below the satisfactory level. Economic expectations for the next six months are also less positive and WES experts are now cautious about future economic developments. In *Syria* economic performance was once again reported to be weak and is not expected to improve substantially over the next six months, as political conflict and violence continues to ravage the country.

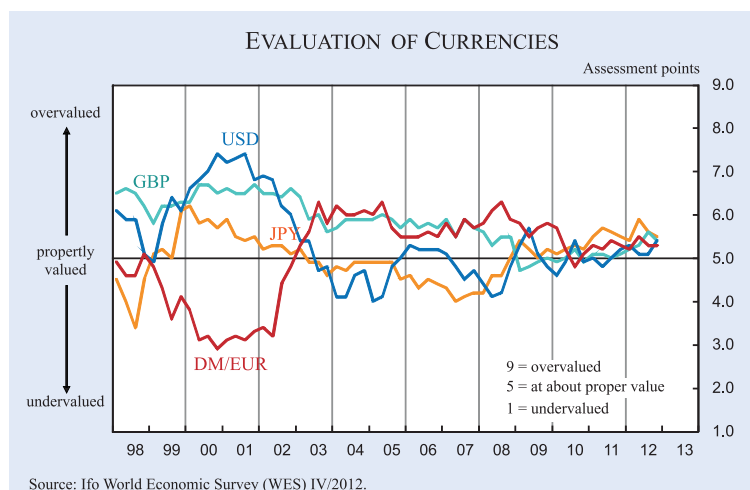
### Africa: No unified economic trend

Countries in Africa display a highly differentiated pattern as far as the economic climate is concerned. Thus, an aggregated climate index for the countries surveyed by WES on this continent makes little sense, and the following analysis will focus on specific economic trends in the individual countries of *Northern and Sub-Saharan Africa*. Nevertheless, both parts of *Africa* have the following most frequently mentioned economic problems in common: “unemployment”, “lack of international competitiveness” as well as “lack of confidence in government’s economic policy”. In addition, *Angola, Chad, Ethiopia, Nigeria, Sudan, and Uganda* in particular are also suffering from a high inflation rate. WES experts in *Nigeria* cited corruption as another major problem.

In the *Northern African* countries *Algeria, Egypt and Morocco* the assessments of the present economic situation deteriorated compared to the previous survey and are now observed as weak. While in *Algeria and Morocco* the economic situation is not expected to change for the better, the economic outlook at least remains positive in *Egypt*. In *Libya* the present economic situation has been assessed as satisfactory and is expected to remain so for the next six months. In *Tunisia*, the present economic situation remained unfavourable, despite some improvement versus the previous survey. However, the experts surveyed expect the economy to improve somewhat over the next six months.

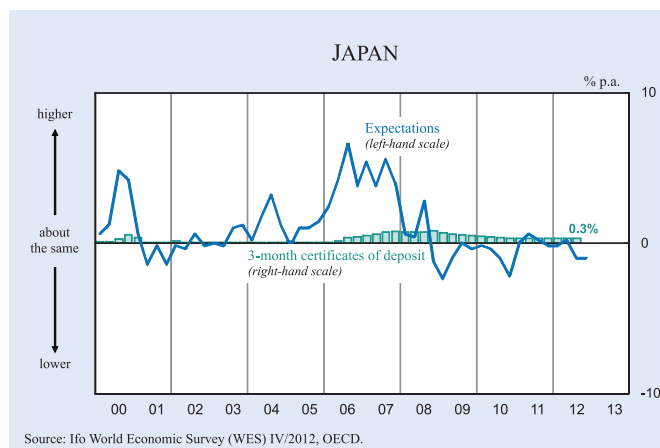
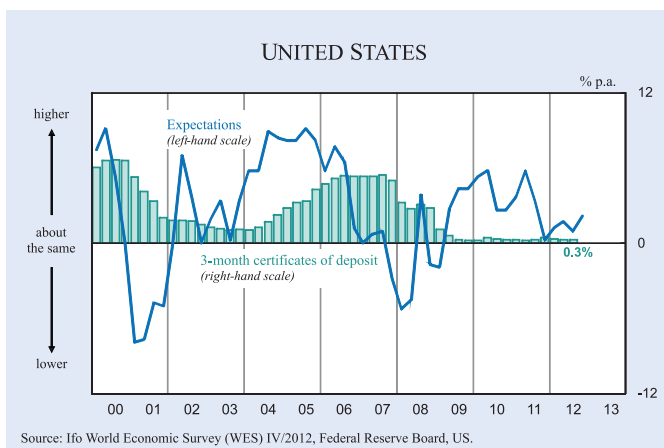
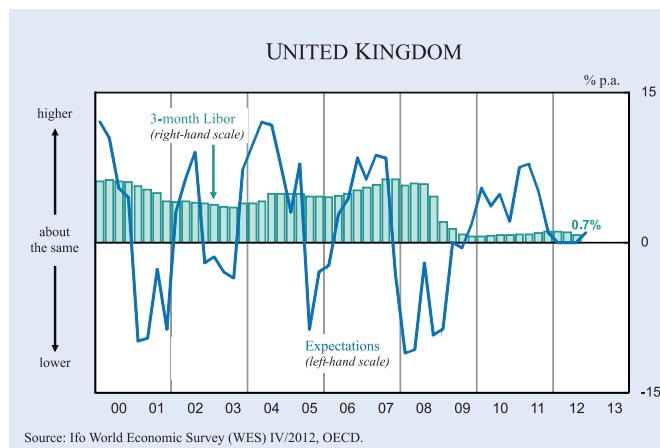
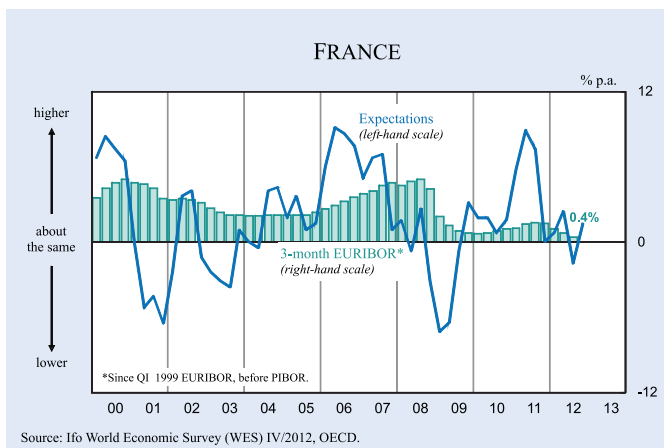
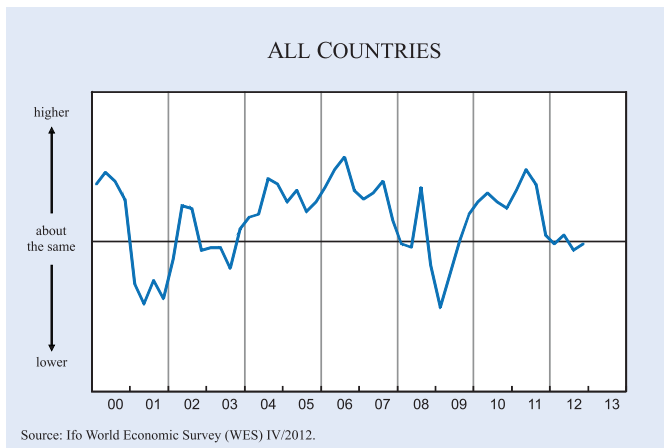
The economic climate in *South Africa* deteriorated strongly due to more negative assessments of both the present economic situation and economic expectations. The present economic situation is rated as unfavourable. As far as the six month outlook is concerned, WES experts expressed increasing pessimism (see Figure 10). In *Angola, Chad, Congo Dem. Republic, Ghana, Ivory Coast, Lesotho, Liberia, Namibia, Rwanda, Sierra Leone and Zambia* a good present economic situation was observed by the economic experts surveyed. In all of these countries, WES experts retained their positive view of future economic developments over the next six months. In *Benin, Ethiopia, Gabon, Malawi, Nigeria and Senegal*, WES experts assessed the current economic situation as satisfactory and expect it to stabilize at its current good level. In *Kenya, Mauritania, Mauritius and Zimbabwe* the current economic situation deteriorated compared to the survey in July and is now seen as unfavourable. WES experts gave the same rating to *Sudan, Burkina Faso and Madagascar*. While in *Kenya, Madagascar, Mauritania, Mauritius, Sudan and Zimbabwe* no substantial economic improvement is expected within the next six months, economic experts in *Burkina Faso* anticipate a slight upturn. By far the lowest rating on the WES scale was given to the remaining *Sub-Saharan* countries of *Burundi, Comoros, Niger, Swaziland, Togo and Uganda*, where the present situation is regarded as very weak. Moreover, no improvement in economic performance is expected in *Burundi, Togo and Uganda*. In *Comoros, Niger and Swaziland*, on the other hand, some positive changes of economic performance are seen as likely.

Figure 11



**Figure 12**

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



**Table 2** Expected Average Annual Growth Rates of Real Gross Domestic Product (GDP) over the Next 3 to 5 Years\* (based on WES QIV/2012 and QIV/2011)

Region	QIV/2012	QIV/2011	Region	QIV/2012	QIV/2011
<b>Average of countries *</b>	<b>2.5</b>	<b>2.7</b>	<b>North America</b>	<b>2.3</b>	<b>2.2</b>
High-income countries	1.9	2.2	Canada	2.4	2.8
Middle-income countries	4.2	4.4	United States	2.3	2.0
Upper-middle	3.8	3.9			
Lower-middle	5.2	5.6	<b>Oceania</b>	<b>3.4</b>	<b>3.3</b>
Low-income countries	5.8	5.6	Australia	3.6	3.6
EU 27 countries	1.2	1.6	New Zealand	1.9	1.9
EU countries (old members) <sup>a)</sup>	1.1	1.5			
EU countries (new members) <sup>d)</sup>	2.2	2.5	<b>Latin America</b>	<b>3.6</b>	<b>3.5</b>
Euro area <sup>c)</sup>	1.0	1.4	Argentina	3.3	3.9
			Bolivia	4.1	3.4
<b>Western Europe</b>	<b>1.1</b>	<b>1.5</b>	Brazil	3.7	3.8
Austria	1.1	1.8	Chile	4.2	4.1
Belgium	1.0	1.5	Colombia	4.3	4.0
Cyprus	0.8	1.2	Costa Rica	(3.8)	(3.8)
Denmark	1.6	1.5	Dominican Republic	4.7	3.8
Finland	1.5	2.1	Ecuador	3.8	3.1
France	0.9	1.5	El Salvador	1.5	2.4
Germany	1.3	1.5	Guatemala	3.3	3.4
Greece	0.0	-0.2	Mexico	3.4	3.2
Iceland	(3.8)	---	Paraguay	4.5	3.4
Ireland	1.1	1.9	Peru	5.2	5.1
Italy	0.8	0.7	Trinidad and Tobago	(1.5)	2.9
Luxembourg	1.9	3.8	Uruguay	3.5	4.0
Malta	(1.5)	---	Venezuela	3.1	2.2
Monaco	1.5	2.7			
Netherlands	1.1	1.3	<b>Near East</b>	<b>3.9</b>	<b>3.6</b>
Norway	2.6	3.5	Iran	(1.5)	(1.5)
Portugal	-0.2	0.0	Israel	3.7	3.8
Spain	0.1	1.1	Lebanon	5.2	3.0
Sweden	2.1	2.5	Qatar	(5.5)	---
Switzerland	1.5	1.5	Saudi Arabia	3.8	3.8
United Kingdom	1.4	1.8	Syrian Arab Republic	(-1.5)	(1.5)
			Turkey	4.1	4.7
<b>Eastern Europe</b>	<b>2.2</b>	<b>2.5</b>	United Arab Emirates	4.7	3.5
Albania	2.5	3.8			
Bosnia and Herzegovina	1.7	---	<b>Africa</b>	<b>4.0</b>	<b>4.3</b>
Bulgaria	2.1	3.2	<b>Northern Africa</b>	<b>3.6</b>	<b>4.5</b>
Croatia	1.6	1.9	Algeria	3.8	5.0
Czech Republic	1.7	1.6	Egypt	3.3	2.9
Estonia	3.8	3.8	Libya	(6.0)	---
Hungary	1.2	1.6	Morocco	(3.8)	5.4
Latvia	3.9	3.3	Tunisia	3.4	4.9
Lithuania	3.9	3.9	<b>Sub-Saharan Africa</b>	<b>4.3</b>	<b>4.2</b>
Montenegro	(1.5)	---	Angola	(6.0)	---
Poland	3.3	3.8	Benin	3.8	3.4
Romania	1.4	1.8	Burkina Faso	7.0	(7.0)
Serbia	3.2	2.7	Burundi	1.9	0.0
Slovakia	2.6	2.8	Chad	(7.5)	---
Slovenia	0.4	1.7	Comoros	1.5	(1.5)
			Congo Dem. Rep.	7.4	6.1
<b>CIS</b>	<b>3.4</b>	<b>3.7</b>	Congo-Brazzaville Rep.	---	6.2
Armenia	3.7	---	Ethiopia	(6.0)	---
Belarus	3.8	(3.8)	Gabon	(3.8)	(3.8)
Kazakhstan	5.1	5.3	Ghana	(7.0)	(8.5)
Kyrgyzstan	3.0	4.5	Ivory Coast	(6.0)	4.8
Russia	3.2	3.5	Kenya	4.7	4.3
Ukraine	2.6	2.8	Lesotho	3.8	3.4
Uzbekistan	(6.5)	(8.5)	Liberia	9.0	7.0
			Madagascar	2.1	2.9
<b>Asia</b>	<b>3.5</b>	<b>3.9</b>	Malawi	(6.0)	5.2
Bangladesh	6.7	6.2	Mauritania	3.8	1.2
China	6.8	7.4	Mauritius	4.2	3.9
Hong Kong	3.8	4.2	Namibia	3.8	4.3
India	6.4	7.6	Niger	6.8	6.3
Indonesia	5.8	6.2	Nigeria	5.2	5.1
Japan	1.0	1.4	Rwanda	(7.5)	7.3
Malaysia	3.6	3.7	Senegal	(3.8)	(3.8)
Pakistan	3.2	2.3	Sierra Leone	13.1	9.1
Papua New Guinea	(3.8)	---	South Africa	3.5	3.5
Philippines	4.4	4.3	Sudan	2.7	1.8
Singapore	(1.5)	(3.8)	Swaziland	0.0	0.0
South Korea	3.7	3.6	Tanzania	---	5.9
Sri Lanka	6.3	6.7	Togo	(3.8)	(3.8)
Taiwan	3.1	3.8	Uganda	(3.8)	(3.8)
Thailand	3.9	3.8	Zambia	6.7	6.3
Vietnam	4.7	5.3	Zimbabwe	5.6	6.6

\* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. - ( ) The data in brackets result from few responses. <sup>a)</sup> Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. - <sup>b)</sup> Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria, Romania. - <sup>c)</sup> Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

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



## Price expectations increase slightly

### General trends

On a world-wide average, the WES experts' inflation forecasts for the year 2012 have increased somewhat since the survey in July (from 3.4% to 3.6%; see Table 3). However, this slight increase only brings expectations back to the expected inflation rate expressed in the WES April survey. Moreover, this upward revision of inflation expectations is restricted to *Western and Eastern Europe* as well as *Oceania* and the *Near East*. In the other regions covered by WES, inflation expectations for 2012 remained unchanged (in *Asia*, *North America* and *Africa*) or even declined somewhat (in *Latin America* and in the *CIS* countries).

### Price trends by country

The average expected inflation rate for the *euro area* in 2012 will be 2.4%, versus 2.2% in the previous survey. Within the *euro area* the lowest inflation rates in 2012 are expected in *Ireland* (1.9%), as well as in *Greece* and *France* (both 2.0%). Expected inflation rates above the average of the *euro area* in *Estonia* (3.8%), *Slovakia* (3.6%), *Cyprus* (3.0%), *Italy* and *Portugal* (both 2.9%), as well as *Finland* and *Spain* (both 2.8%).

In *Western Europe* outside the *euro area* the two extremes of the presumable price development in 2012 remain *Switzerland* (0.1%) on the one hand and the *United Kingdom* (2.6%) on the other.

In *Eastern Europe* the inflation rate forecast for 2012 climbed slightly from 3.7% to 3.9%. In *Serbia* inflation expectations for this year remained by far the highest in the region (11.0%), followed by *Hungary* (5.7%). The lowest inflation in the region will prevail in 2012 in *Slovenia* (2.4%) followed by *Latvia* (2.8%).

In *North America*, the 2012 inflation forecast for the *United States* stands unchanged at 2.2% and at 1.9% for *Canada*.

In *Asia* inflation expectations for 2012 remained at 3.3%. According to WES experts by far the highest inflation rates in the region will again prevail in *Pakistan* (12.1%). In *Bangladesh* (10.4%) and *Vietnam* (9.2%) inflation in 2012 also looks set to be significantly higher than in the regional average. In *China* inflation expectations for 2012 declined to 2.9% and

are thus significantly lower than previous year (5.6%). In *South Korea* the expected inflation rate in 2012 did not decline further, but inflation this year will be significantly lower than last year (2.7% compared to 4.3%). No slowdown in the inflation rate is expected in *India*; on the contrary, inflation expectations for 2012 increased from 7.5% to 8.0%. In *Taiwan* the traditionally moderate inflation climate will continue to prevail in 2012 (2.1%). In *Japan* the price trend will remain flat (0.1%).

In *Oceania* inflation expectations for 2012 increased moderately from 2.1% to 2.3%. This is exclusively due to *Australia*, where the inflation outlook for the average of this year deteriorated somewhat from 2.1% in the July survey to 2.4%. In *New Zealand*, on the other hand, price expectations for this year remained unchanged at 1.8%.

In *Latin America* inflation expectations for 2012 continued to decrease slightly (to 7.0%). Those countries with the worst inflation outlook in the region remain *Argentina* (24.5%) and *Venezuela* (23.9%). At the other end of the scale, those countries with inflation rates below the regional average once again include: *Colombia* (3.1%), *Chile* (3.3%), and *Peru* (3.4%). In *Brazil*, the largest country in the region, an inflation rate of 5.5% is expected for 2012.

In *CIS* countries inflation expectations for 2012 continued to decline somewhat (to 8.4%). The inflation rate in the *Ukraine* (5.2%) will be lower than the regional average, which means a sharp downward revision of inflation forecasts earlier in the year. In *Kazakhstan* the 2012 inflation rate of 5.9% will also be significantly lower than the regional average. According to WES experts, inflation in *Russia* (7.7%) will only be slightly below the regional average. Inflation rates in *Belarus* (21.5%) and *Uzbekistan* (17.0%), on the other hand, will remain above the regional average.

In the *Near East* the expected regional inflation rate for 2012 increased from 4.8% to 8.5%. However, this is almost exclusively due to the fact that this time – contrary to the previous survey – expectations from the high inflation country *Iran* were received. Within the *Near East* inflation expectations remained – despite a slight increase – rather subdued in the *United Arab Emirates* (2.4%) and *Israel* (2.8%). In *Saudi Arabia* the 2012 inflation rate will amount to about 5.5%. Inflation in *Turkey* (8.1% after an expected

**Box 4**

**Are current account deficits in the crisis countries of the euro area decreasing?<sup>1</sup>**

High public deficit and debt ratios are not by any means the only risk factors affecting financial experts' assessment of the solvency and debt sustainability of the crisis countries in the euro area. Any government can ultimately tax the overall resources of an economy. Consequently, the aggregate asset position relative to the rest of the world is an important indicator of debt sustainability. Due to significant current account deficits, asset positions in crisis countries had been deteriorating for many years before the European debt crisis started in 2009. This raises the question: have these external imbalances returned to a more sustainable path in the wake of the European debt and confidence crisis?

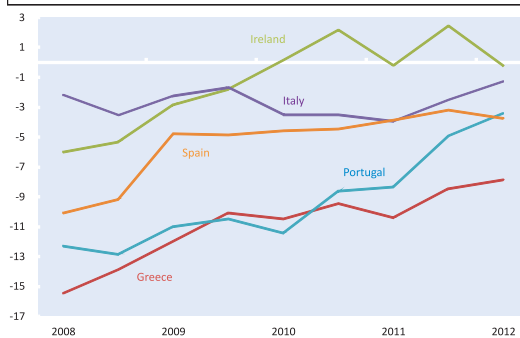
The current account deficits of the crisis countries (*Greece, Ireland, Portugal and Spain*) reached their peaks in 2008 – shortly before the crisis outbreak – while some reduction can be observed in subsequent years (see Figure below). Apart from *Ireland*, all of the countries are still running quite considerable deficits. However, *Ireland* already balanced its current account in 2010. This economy is a special case, since it built up a much less pronounced deficit in the pre-crisis period. In sharp contrast, *Greece* still faces a deficit of about 7% of GDP – even after years of deep recession. *Italy* is another special case, as deficits there were more moderate in the pre-crisis period, but did not decrease until recently.

However, it is questionable whether the observed reduction in the deficits is sustainable. Deficit reductions are driven by declines in domestic demand, which were followed by decreasing imports. Thus, if domestic firms fail to improve their competitiveness, current account deficits will start increasing, once domestic demand picks up again. Structural reforms are needed to ensure sufficient advances in competitiveness. First of all these countries have to increase competition and flexibility in their goods and labour markets, as well as to reduce prices and the costs of domestically produced goods and labour inputs (wages). This does not necessarily imply wage cuts in absolute terms, but relative to their trade partners and international competitors. As they do not have their own currency, these countries cannot rapidly improve their competitive position via a nominal devaluation of their domestic currency – especially not with respect to the other members of the European Currency Union, which account for the vast bulk of foreign trade for the crisis economies.

The competitiveness of an economy can be expressed by the real effective exchange rate, but this rate is hard to measure. The assessment of recent trends in competitiveness in the crisis countries largely depends on the economic concept applied. Measures based on the relative development of consumer prices indicate that competitiveness has increased only slightly. *Ireland* is a positive exemption here. In re-cent years consumer prices constitute a poor measure of competitiveness, however, since high public deficits induced tax hikes for consumption goods, as well as increasing administered prices. They kept inflation high in those countries that were most affected by the crisis.

The real effective exchange rate based on unit labor costs is less confounded by tax issues and draws a different picture. More precisely, it indicates that the adjustment process has already made considerable progress. Average unit labour costs for the overall economy – in terms of compensation per employee – have stagnated or even declined since the start of the crisis. While at the same time costs in the *euro area* as a whole increased moderately (see Figures beside). However, the declines in wage levels were mainly driven by the public sector. While this strengthens the outlook for public deficits, international competitiveness is more affected by wages in the manufacturing sector than in the public sector. Trends in unit labor costs in manufacturing suggest that there is less improvement than suggested by the measure for the overall economy. Recently, *Italy* and *Spain* even showed a compensation increase of 2% in a year on year comparison. This is about the growth rate measured for the *euro area* as a total. This means that the competitive position of this sector is not improving relative to that of its main trading partners. Consequently, the overall assessment of the crisis countries' progress on reducing their current account deficits is disappointing so far. Unambiguously, more time and effort are required to advance towards a more sustainable path. The crisis economies are still in need of more reform and structural change.

Current account balance relative to gross domestic product  
selected Euro Area economies 2008 -2012



Note: Greece, Ireland, Portugal and Spain: last available observation Q1 2012.  
Source: Eurostat, OECD, own calculations; half-year averages.

Compensation per employee in crisis economies and overall, 2007 – 2012,  
country specific scales



Note: Year on year changes in %.  
Source: Eurostat; Ifo staff estimates.

<sup>1</sup> A German translation of this analysis was published in "Gemeinschaftsdiagnose Herbst 2012", Ifo Schnelldienst, 65(20), 2012.

Table 3

**Inflation Rate Expectations for 2012  
(based on WES QIV/2012 and QIII/2012)**

Region	QIV/2012	QIII/2012	Region	QIV/2012	QIII/2012
<b>Average of countries *</b>	<b>3.6</b>	<b>3.4</b>	<b>North America</b>	<b>2.2</b>	<b>2.2</b>
High-income countries	2.3	2.2	Canada	1.9	1.9
Middle-income countries	7.2	6.7	United States	2.2	2.2
Upper-middle	7.1	6.3			
Lower-middle	7.7	7.7	<b>Oceania</b>	<b>2.3</b>	<b>2.1</b>
Low-income countries	8.7	8.8	Australia	2.4	2.1
EU 27 countries	2.5	2.4	New Zealand	1.8	1.8
EU countries (old members) <sup>a)</sup>	2.4	2.2			
EU countries (new members) <sup>b)</sup>	3.8	3.6	<b>Latin America</b>	<b>7.0</b>	<b>7.3</b>
Euro area <sup>c)</sup>	2.4	2.2	Argentina	24.5	23.7
<b>Western Europe</b>	<b>2.3</b>	<b>2.1</b>	Brazil	5.5	5.0
Austria	2.3	2.3	Chile	3.3	3.2
Belgium	2.7	2.4	Colombia	3.1	3.2
Cyprus	3.0	3.2	Costa Rica	(5.0)	(6.0)
Denmark	2.3	2.5	Cuba	---	(3.0)
Finland	2.8	2.6	Dominican Republic	3.3	5.0
France	2.0	1.9	Ecuador	4.8	5.1
Germany	2.2	2.1	El Salvador	4.8	4.1
Greece	2.0	1.8	Guatemala	4.6	4.9
Iceland	(5.4)	(5.4)	Mexico	4.5	4.4
Ireland	1.9	1.8	Panama	(6.0)	(8.5)
Italy	2.9	2.8	Paraguay	4.6	5.0
Luxembourg	2.4	2.5	Peru	3.4	3.3
Monaco	2.0	1.8	Trinidad and Tobago	(11.0)	---
Netherlands	2.2	2.0	Uruguay	8.1	8.1
Norway	1.6	1.7	Venezuela	23.9	27.9
Portugal	2.9	2.8			
Spain	2.8	2.0	<b>Near East</b>	<b>8.5</b>	<b>4.8</b>
Sweden	1.4	1.5	Iran	(32.0)	---
Switzerland	0.1	0.1	Israel	2.8	2.5
United Kingdom	2.6	2.8	Lebanon	(7.0)	(6.0)
			Qatar	2.0	(2.5)
<b>Eastern Europe</b>	<b>3.9</b>	<b>3.7</b>	Saudi Arabia	(5.5)	(5.4)
Albania	3.2	2.2	Syrian Arab Republic	(20.0)	---
Bosnia and Herzegovina	3.2	2.6	Turkey	8.1	8.5
Bulgaria	4.1	2.8	United Arab Emirates	2.4	1.3
Croatia	3.4	3.2			
Czech Republic	3.0	3.2	<b>Africa</b>	<b>7.8</b>	<b>7.8</b>
Estonia	3.8	3.7	<b>Northern Africa</b>	<b>6.1</b>	<b>6.4</b>
Hungary	5.7	5.3	Algeria	5.8	6.7
Latvia	2.8	3.5	Egypt	10.3	10.7
Lithuania	3.2	2.8	Libya	---	(12.0)
Montenegro	(4.0)	(3.0)	Morocco	(1.9)	(2.5)
Poland	3.5	3.8	Tunisia	5.7	4.9
Romania	4.4	3.6	<b>Sub-Saharan Africa</b>	<b>9.0</b>	<b>8.7</b>
Serbia	11.0	6.0	Benin	5.2	4.6
Slovakia	3.6	3.4	Burkina Faso	3.3	3.3
Slovenia	2.4	2.2	Burundi	18.5	14.3
			Chad	(7.5)	---
<b>CIS</b>	<b>8.4</b>	<b>8.6</b>	Comoros	6.5	(5.0)
Armenia	5.5	---	Congo Dem. Rep.	7.7	11.2
Belarus	21.5	(20.0)	Congo-Brazzaville Rep.	---	2.9
Kazakhstan	5.9	6.5	Ethiopia	(25.0)	(25.0)
Kyrgyzstan	8.0	7.7	Gabon	(4.6)	(3.8)
Russia	7.7	7.4	Ivory Coast	(3.5)	3.2
Ukraine	5.2	8.4	Kenya	9.7	11.4
Uzbekistan	(17.0)	(18.6)	Lesotho	5.5	6.0
			Liberia	7.9	(8.0)
<b>Asia</b>	<b>3.3</b>	<b>3.3</b>	Madagascar	7.9	8.5
Bangladesh	10.4	(9.0)	Malawi	(30.0)	(20.0)
China	2.9	3.2	Mauritania	7.1	6.3
Hong Kong	3.7	4.0	Mauritius	5.1	5.1
India	8.0	7.5	Namibia	6.1	6.1
Indonesia	5.6	5.2	Niger	3.3	3.1
Japan	0.1	0.2	Nigeria	11.6	12.6
Malaysia	3.2	3.3	Rwanda	(7.5)	(11.0)
Pakistan	12.1	12.9	Senegal	(1.5)	(2.5)
Papua New Guinea	(6.0)	(4.0)	Sierra Leone	12.0	12.9
Philippines	3.9	3.4	South Africa	5.6	5.6
Singapore	(3.0)	---	Sudan	40.3	29.3
South Korea	2.7	2.7	Swaziland	6.4	8.5
Sri Lanka	9.4	8.4	Togo	(3.0)	(3.0)
Taiwan	2.1	1.9	Uganda	(17.0)	---
Thailand	3.5	3.6	Zambia	7.4	7.7
Vietnam	9.2	9.8	Zimbabwe	4.4	4.7

\* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. - ( ) The data in brackets result from few responses. <sup>a)</sup> Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. - <sup>b)</sup> Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria, Romania. - <sup>c)</sup> Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

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

rate of 8.5% in the July survey) this year will be close to the regional average.

In *Africa* price trends remain very heterogeneous. Relatively low inflation rates for 2012 are expected again in *Morocco, Ivory Coast, Niger, Senegal* and *Togo* (in all cases not higher than 3.5%). In the medium inflation bracket are *Benin* (5.2%), *Tunisia* (5.7%), *South Africa* (5.6%), *Namibia* (6.1%), *Mauritania* (7.1%) and *Algeria* (5.8%). High inflation rates of 10% or more will continue to predominate particularly in *Sudan* (40.3%), *Ethiopia* (25.0%), *Malawi* (30.0%) and *Sierra Leone* (12.0%).

### Rise of US dollar expected to slow down

On a world-wide scale the four world currencies *US dollar, euro, the British pound* and the *yen* appear currently to be close to their fundamentally appropriate values, according to the WES experts' assessment (see Figure 11). Major differences in currency evaluation remain by country: WES experts regard their own currency as generally **overvalued** in *Switzerland* (not, however, compared to the *yen*), in *New Zealand*, in some *African* countries like *Egypt, Burundi* and *Comoros* and in a couple of countries in *Latin America* like *Argentina* and *Uruguay*. On the other hand, experts assessed their own currencies as generally **undervalued** in *Bangladesh, Saudi Arabia, the United Arab Emirates, Turkey, Sierra Leone, Brazil, Colombia, Mexico* and to a lower degree in *China*.

The answers to a supplementary survey question on the likely development of the *US dollar* in the next six months, regardless of how currencies are assessed from a fundamental point of view, signal that the *US dollar* is set to rise slightly on a world-wide average over the course of the next six months, although this increase will be less pronounced than in the previous surveys. Moreover, this average masks diverging trends: a weakening of the *US dollar* is expected in *India* and *Taiwan*, as well as *Peru*. These results contrast with an expected increase of the value of the *US dollar* particularly in some *Latin American* countries like *Argentina, Guatemala, Venezuela*, as well as in most *African* countries mainly with the exception of *Namibia*.

### WES experts expect stable short- and long-term interest rates for next six months

On a worldwide scale, short- and long-term interest rates are expected to remain largely stable over the course of the next six months (see Figure 12). According to survey participants, this is the most likely scenario not only in *Western Europe*, but also in *Latin America, Africa* and the *Near East*. It is worth mentioning that the spreads of long-term interest rates in some countries in the *euro area* hit particularly hard by the financial crisis like *Ireland* and *Italy* are expected to shrink. On the other hand, in other crisis countries like *Spain* and *Portugal* long-term interest rates are expected to increase further in the months ahead, although only slightly. In the *USA* long-term interest rates are seen as relatively stable due to the Fed's quantitative easing policy, whereas short-term rates might increase somewhat. In *Australia* a further cut in short-term interest rates is expected in the next six months, whereas long-term interest rates are seen as mainly stable. According to WES experts, this scenario also describes the interest rate scenario in *Eastern Europe*. In *CIS* countries, where the inflation rate is still relatively high, both short- and long-term interest rates are expected to increase in the coming months. In *Asia* WES experts expect interest rates – both short- and long-term – are to decline further over the next half year, particularly in *China* and *India*.

### ICC Special Question: Anti-Corruption Clause

In the bi-annual question on current main economic problems in the individual countries the economic experts surveyed stressed that corruption, which cannot be ticked in the selected categories at present, but which WES experts specified themselves in the free text field, is a major economic challenge for several countries in the world. The general definition of corruption of Transparency International is "(...) the abuse of entrusted power for private gain"<sup>1</sup>. The economic loss due to corruption is much larger than the personal benefits obtained and leads to economic inefficiency and hence to prosperity losses. According to the World Bank, corruption deters investment and hinders growth.<sup>2</sup> Reacting to growing pressure from

<sup>1</sup> Transparency International (2012): What we do, <http://www.transparency.org/whatwedo> (accessed 8 November 2012).

<sup>2</sup> The World Bank (2012): Costs & Consequences of Corruption, <http://go.worldbank.org/MSL2S19ZE0> (accessed 8 November 2012).

**Table 4 ICC Special Question: Please assess the following factors according to their importance in fighting corruption in your country?\***

Country / Region*	Factor	Transparency in government procurement	Promoting sectoral initiatives	Engaging the private sector in the review mechanism for the UN Convention against Corruption and the OECD Anti-Bribery Convention	Enhancing public-private partnerships on capacity-building and training	Encouraging the adoption of business codes of conduct with a specific focus on SMEs
<b>World</b>		<b>6.1</b>	<b>4.1</b>	<b>4.2</b>	<b>4.3</b>	<b>4.5</b>
<b>Western Europe</b>		<b>5.3</b>	<b>3.6</b>	<b>3.8</b>	<b>3.6</b>	<b>4.1</b>
Austria		5.9	5.0	4.5	4.1	3.7
Belgium		5.0	3.0	2.6	3.6	4.1
Denmark		1.6	2.1	1.6	1.6	1.6
Finland		4.7	3.3	2.7	3.3	3.3
France		5.4	3.2	3.9	2.8	3.9
Germany		5.0	3.2	3.6	2.9	4.1
Greece		8.4	5.3	5.7	4.7	5.3
Ireland		5.0	5.0	3.4	2.6	1.8
Italy		8.6	4.6	5.2	5.0	4.6
Netherlands		4.0	3.4	3.6	3.6	4.4
Norway		3.9	3.9	3.3	3.3	5.0
Portugal		7.2	5.0	4.6	4.6	4.6
Spain		7.3	5.2	5.0	6.2	5.3
Sweden		4.2	2.6	3.4	3.0	3.0
Switzerland		5.6	4.7	5.5	4.4	5.3
United Kingdom		3.5	2.5	3.2	3.2	3.2
<b>Eastern Europe / CIS</b>		<b>7.7 / 7.4</b>	<b>3.9 / 4.4</b>	<b>3.5 / 4.2</b>	<b>4.4 / 4.6</b>	<b>4.8 / 4.4</b>
Albania		6.8	5.9	3.2	5.4	5.0
Bosnia-Herzegovina		8.2	4.2	5.0	5.8	6.6
Bulgaria		7.9	3.7	3.9	5.7	6.3
Croatia		7.0	5.0	5.0	5.0	6.5
Czech Republic		8.6	3.7	3.2	3.2	4.6
Hungary		7.7	3.2	2.8	2.3	5.0
Kazakhstan		8.3	5.0	6.1	6.5	5.7
Latvia		7.7	5.0	3.7	4.3	5.0
Poland		6.7	3.5	3.0	5.3	3.9
Romania		9.0	5.0	5.7	5.7	5.7
Russia		7.6	4.2	4.1	4.1	4.1
Serbia		9.0	5.0	4.2	5.0	5.8
Slovakia		7.3	4.7	3.6	5.0	5.6
Slovenia		7.9	2.7	2.7	3.3	2.1
Ukraine		8.4	5.0	3.9	4.4	4.4
<b>North- / Latin America</b>		<b>5.3 / 8.0</b>	<b>3.3 / 4.9</b>	<b>3.2 / 5.4</b>	<b>3.7 / 5.9</b>	<b>3.5 / 6.0</b>
Argentina		8.7	4.4	4.7	3.0	4.4
Bolivia		7.4	5.0	4.2	4.2	6.0
Brazil		7.7	4.6	5.0	6.1	5.6
Canada		5.4	2.2	3.4	3.8	4.2
Chile		7.0	4.3	5.0	5.7	6.0
Colombia		8.3	4.6	5.4	5.7	6.5
Guatemala		8.2	4.2	5.8	5.0	5.0
Mexico		8.7	5.0	5.9	6.4	6.7
Paraguay		8.5	6.5	5.0	7.0	6.5
Peru		8.1	5.3	5.9	6.5	6.0
United States		5.3	3.5	3.1	3.7	3.4
Uruguay		7.0	3.0	5.0	5.5	4.5
Venezuela		5.8	6.6	5.8	5.8	4.2
<b>Asia / Oceania</b>		<b>6.6 / 4.7</b>	<b>5.0 / 3.2</b>	<b>4.7 / 3.5</b>	<b>4.9 / 4.1</b>	<b>4.9 / 4.0</b>
Australia		4.8	3.3	3.7	4.2	4.1
China		8.6	5.0	5.9	5.9	6.3
Hong Kong		6.1	5.7	3.7	5.0	3.9
India		8.1	5.3	5.0	5.3	5.0
Indonesia		8.3	5.0	5.7	6.3	7.0
Japan		4.8	4.0	3.4	3.1	3.8
Malaysia		7.5	4.5	4.5	5.5	5.0
New Zealand		4.7	2.5	2.2	3.8	3.5
Pakistan		8.0	5.3	5.0	6.0	6.0
Philippines		7.9	5.7	8.3	6.7	6.6
South Korea		5.4	4.6	4.2	4.2	5.0
Sri Lanka		9.0	5.6	6.7	8.4	6.7
Taiwan		7.0	5.8	5.2	5.8	5.8
Thailand		8.6	7.0	7.4	7.4	6.2
Vietnam		7.4	5.8	6.6	4.2	3.4
<b>Near East / Africa</b>		<b>6.6 / 8.3</b>	<b>4.6 / 4.8</b>	<b>5.8 / 5.4</b>	<b>5.4 / 5.2</b>	<b>5.9 / 5.2</b>
Congo Dem Rep		7.4	5.0	5.0	7.4	7.4
Egypt		8.2	5.8	6.2	6.6	7.0
Israel		6.1	5.6	3.9	5.6	5.6
Kenya		9.0	5.7	4.3	6.3	7.0
Mauritius		8.3	6.6	5.7	6.3	5.7
Namibia		8.2	5.8	5.8	5.0	6.6
Nigeria		8.5	7.0	6.5	6.5	6.0
South Africa		8.7	5.5	5.8	5.7	6.2
Tunisia		5.8	3.4	4.2	5.0	3.4
Turkey		6.3	4.5	5.0	4.7	5.5
Zambia		8.4	6.1	5.7	5.0	5.6
Zimbabwe		7.5	5.5	6.5	7.0	6.5

\* Within each region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. WES scale: 9 - most important, 5 - important, 1 - least important. Only countries with more than four responses are listed. More important aspects are shaded.

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

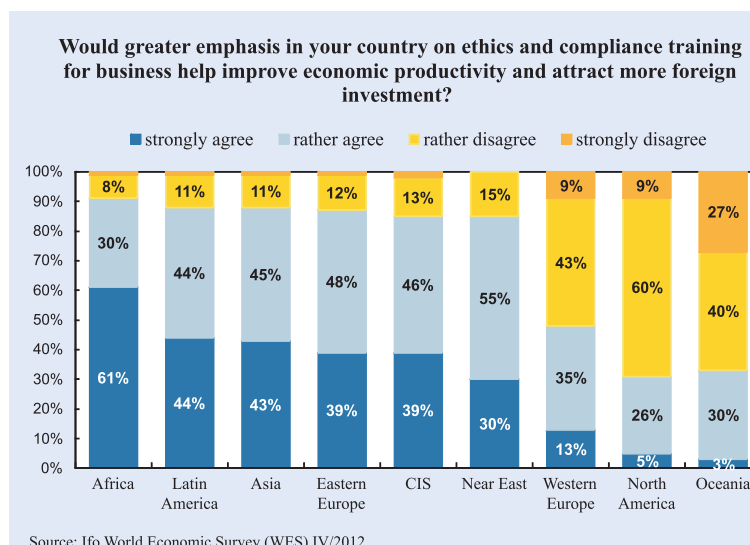
both governments and business to fight corruption, the ICC is launching its Anti-Corruption Clause and is developing ethics and compliance training programmes for business.

This quarter's ICC special question asked the economic experts surveyed whether they think that stronger emphasis on ethics and compliance training for business in their respective country can help improve economic productivity and attract more foreign investment. The response pattern differs strongly across the regions: WES experts in *Africa* in particular clearly strongly agree, and the broad majority (over 90%) thinks that ethics and compliance training for business would help improve economic productivity (see Figure 13). The consensus level was also high in *Latin America, Asia, Eastern Europe, CIS* and the *Near East* where it ranged from 85% up to 88%. By contrast, in *Western Europe, North America* and *Oceania* the majority of experts surveyed disagree with the statement and don't think that this kind of training could improve the economy and attract more foreign investment. Generally, the results seem to be consistent with the 2011 Corruption Perceptions Index (CPI)<sup>3</sup> developed by Transparency International. Although the CPI is based on the perception of corruption in the public sector, and not in private sector, there seems to be a correlation: the more a country is perceived as corrupt according to the CPI, the greater the consensus that ethics and compliance training for business would help improve the economy. As previously explained, this is the case in the majority of the countries in *Africa, Latin America, Asia, Eastern Europe* and *CIS*. Disagreement with this statement was highest in *Oceania* at 27%. *New Zealand* and *Australia* are ranked first and eighth respectively in the CPI country comparison and are thus considered as very clean with respect to corruption. This is also the case for *North America* with *Canada* (eleventh rank) and the *United States* (24th rank), as well as most *Western European* countries. There are, however, some exceptions to this trend: while corruption in the public

sector is barely perceived in the *Northern European* countries of *Denmark, Finland, Sweden* and *Norway* according to the CPI (ranks two to six), it is far more prevalent in *Italy* (69th rank) and *Greece* (80th).

In the second part of the question WES experts were asked which measures would be most important to fight corruption in their respective countries. "Transparency in government procurement" was identified as the most important factor for fighting corruption across all of the countries and regions surveyed (see Table 4). In addition, "Encouraging the adoption of business codes of conduct with a specific focus on SMEs" was rated as an important measure primarily in *Latin America*, but also in the *Near East, Asia, Eastern* and *Western Europe*. The remaining factors "Promoting sectoral initiatives", "Engaging the private sector in the review mechanism for the UN Convention against Corruption and the OECD Anti-Bribery Convention" and "Enhancing public-private partnerships on capacity-building and training" was deemed less important in the regions as a whole. Of course, by observing individual countries these factors have been brought to the fore according to the needs of the country. So "Promoting sectoral initiatives" as a measure against corruption was considered to be very important in *Paraguay, Venezuela, Thailand, Mauritius* and *Nigeria*. In turn, WES experts in the *Philippines, Sri Lanka, Thailand, Vietnam, Congo Dem. Rep., Egypt* and *Nigeria* plead for the private sector to engage in the review mechanism for named conventions. Finally, the economic experts surveyed in *Kazakhstan, Mexico, Paraguay, Peru, the Philippines, Sri Lanka,*

Figure 13



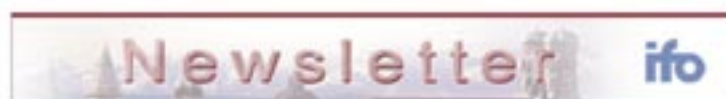
<sup>3</sup> Transparency International (2012): Corruption Perceptions Index 2011, <http://cpi.transparency.org/cpi2011/results> (accessed 8 November 2012).

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*Thailand, Congo Dem. Rep., Egypt, Nigeria and Zimbabwe* think that enhancing public-private partnerships in the areas of capacity-building and training is important for fighting corruption in their respective countries.

In summary, among the five stated factors, the vast majority of the WES experts surveyed in all countries and regions perceive “Transparency in government procurement” as the most important factor for fighting corruption. Special ethics and compliance training for business is considered beneficial to economic productivity and to greater foreign investment by the majority of WES experts in *Africa, Latin America, Asia, Eastern Europe, CIS* and the *Near East*. In the remaining regions – *Oceania, North America* and *Western Europe* – the majority of experts surveyed see no great advantage in fighting corruption in terms of economic performance and attracting foreign investors.

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