

Plenk, Johanna; Nerb, Gernot; Wohlrabe, Klaus; Wollmershäuser, Timo

**Article**

## CESifo World Economic Survey August 2013

CESifo World Economic Survey

**Provided in Cooperation with:**

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

*Suggested Citation:* Plenk, Johanna; Nerb, Gernot; Wohlrabe, Klaus; Wollmershäuser, Timo (2013) : CESifo World Economic Survey August 2013, CESifo World Economic Survey, ISSN 2190-720X, ifo Institut - Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 12, Iss. 3, pp. 1-25

This Version is available at:

<https://hdl.handle.net/10419/169558>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# CESifo WORLD ECONOMIC SURVEY

VOLUME 12, No. 3

AUGUST 2013

## WORLD ECONOMIC CLIMATE

World economic climate clouds over slightly

## ECONOMIC EXPECTATIONS

Economic expectations remain positive

## INFLATION

Different price trends

## CURRENCIES

US dollar expected to rise

## INTEREST RATES

Long-term interest rates likely to rise

## SPECIAL TOPIC

Tax administration and tax competition  
between countries

With the support of



All time series presented in this document  
plus additional series for about 80 countries  
may be ordered from the Ifo Institute.  
For further information please contact  
Mrs. Stallhofer ([stallhofer@ifo.de](mailto:stallhofer@ifo.de))

Authors of this publication:

Johanna Plenk, e-mail [plenk@ifo.de](mailto:plenk@ifo.de)  
(Responsible for statistical processing and analysis)

Dr. Gernot Nerb, e-mail [nerb@ifo.de](mailto:nerb@ifo.de)  
(Industrial Organisation and New Technologies)

Dr. Klaus Wohlrabe, e-mail [wohlrabe@ifo.de](mailto:wohlrabe@ifo.de)  
(Deputy Head of Business Cycle Analysis and Surveys)

Prof. Dr. Timo Wollmershäuser, e-mail [wollmershaeuser@ifo.de](mailto:wollmershaeuser@ifo.de)  
(Senior Economist, Coordinator of the Research Group Monetary Macroeconomics)



CESifo World Economic Survey ISSN 1613-6012

A quarterly publication on the world economic climate

Publisher and distributor: Ifo Institute, Poschingerstr. 5, D-81679 Munich, Germany

Telephone ++49 89 9224-0, Telefax ++49 89 9224-1463, e-mail [ifo@ifo.de](mailto:ifo@ifo.de)

Annual subscription rate: €40.00

Single subscription rate: €10.00

Shipping not included

Editor: Dr. Gernot Nerb, e-mail [nerb@ifo.de](mailto:nerb@ifo.de)

Reproduction permitted only if source is stated and copy is sent to the Ifo Institute

## Regions

- World Economy: Heterogeneous development across continents
- Western Europe: Economic climate improves
- North America: Economic recovery gains momentum
- Eastern Europe: Economic climate index climbs further
- CIS: Economic climate indicator falls further
- Asia: Economic climate indicator's rise ends abruptly
- Oceania: Economic climate brightens
- Latin America: Economic climate indicator drops sharply
- Near East: Economic climate remains friendly
- Africa: No unified economic trend

## Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organisations worldwide on current economic developments in their respective countries. Its results offer a rapid, up-to-date assessment of the economic situation prevailing around the world. In *July 2013*, 1,180 economic experts in 123 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 CLOUDS OVER SLIGHTLY

The Ifo World Economic Climate Indicator fell slightly in the third quarter. Both the present economic situation and economic expectations deteriorated somewhat compared to the previous survey. Assessments of the present situation remain unfavourable. All in all economic expectations are positive (see Figures 1 and 2). The indicator fell to its level of the first quarter 2013, 94.1, which is slightly below its long-term average of 96.0 (1997–2012). The recovery in the world economy is not really making any headway (see Box 1). Nevertheless, the signs of a stabilization of the world economy remain valid. Across different economic regions the sentiments developed heterogeneously.

China and India, where both indicators dropped clearly. Due to economic policy actions, the WES experts from Japan assessed the current situation more favourably again and are still optimistic about upcoming developments. The second largest drop in the economic climate was reported for Latin America. The indicators for both current assessments and expectations fell. After one year of positive results the outlook turned slightly negative again. Brazil has been the focus of negative reports in recent months and this is reflected in the survey results. The assessment of the current situation fell to its lowest level for over 10 years. There is no country in Latin America where both components have risen this quarter. In all other main economic regions the econom-

## Heterogeneous development across continents

Since the end of 2012 the world economy has stabilized at a relatively low level. As a result, world industrial production and world trade hardly lost any impetus in the first half of 2013, after a steady drop in their growth rates over the previous two years. The stabilization was primarily due to relatively robust economic developments in the USA, Japan and the key emerging economies, which offset the recession in the euro area. The pace of world growth should pick up moderately in the months ahead. Similar indications are also provided by numerous other early indicators and sentiment indicators besides the World Economic Survey.

In Asia we observed the largest drop in the economic climate, in contrast to the largest increase in the previous quarter. The experts surveyed were less satisfied with the current situation. Moreover, optimism regarding the future outlook was clearly dampened. These results were mainly driven by developments in

Figure 1

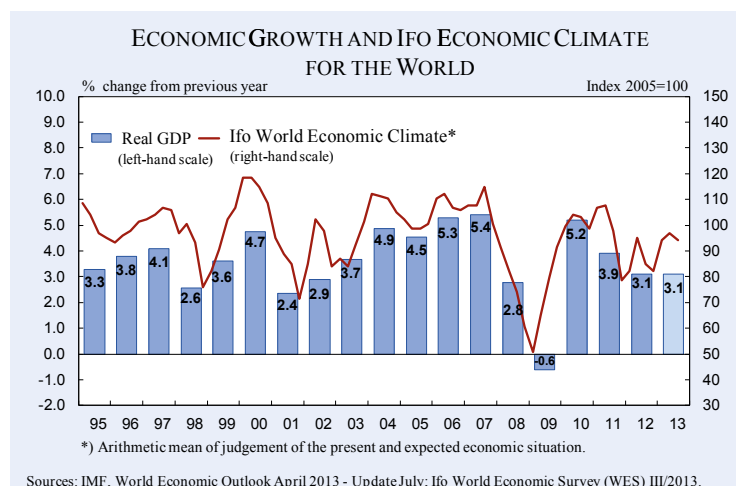
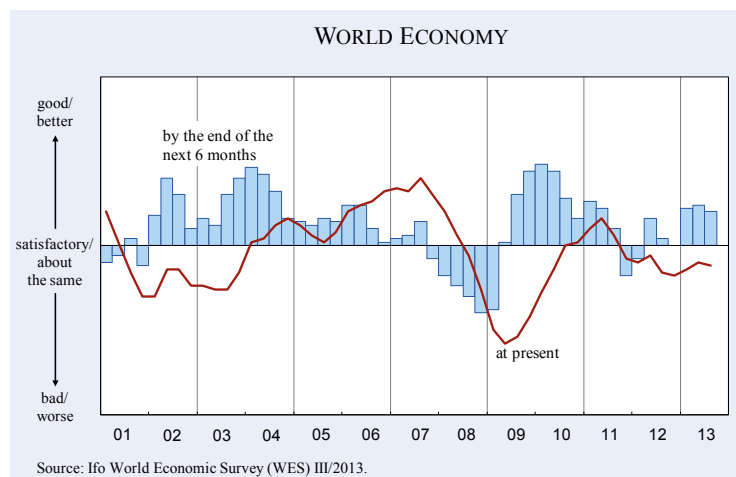


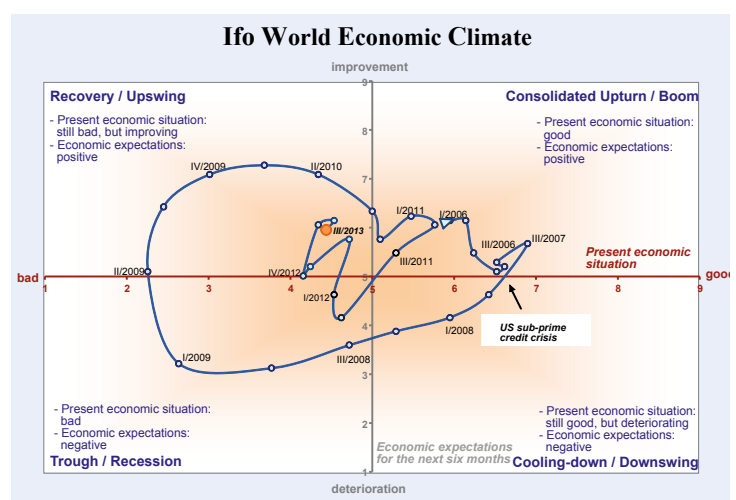
Figure 2



**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 July survey, the Ifo indicator for the world economic climate fell slightly. Both assessments of the current economic situation and the six-month economic outlook deteriorated somewhat. The indicator showed a slight downwards movement in the “recovery” quadrant. The recovery in the world economy is not really making any headway.



Source: Ifo World Economic Survey (WES) III/2013.

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).

ic climate improved. In *Europe* and the *euro area* this trend was mainly driven by a more optimistic outlook for future developments. Although the assessment of the current situation also improved, it is still assessed as “bad” in many countries, including *France*, *Spain*, *Portugal* or *Italy*. It will be interesting to see whether this optimism is reflected in actual economic outcomes. In *North America* the surveyed experts are increasingly confident about future developments. Furthermore, they are more satisfied with their current situation, which all points to a continued recovery in this region. The economic climate indicator rose in both *Africa* and the *Near East*. This was mainly due to a more optimistic outlook.

The price increase expected for 2013 remains unchanged versus the last quarter at 3.2%. While WES experts expect short-term interest rates to remain largely stable on average over the next six months, a higher number of them expect long-term interest rates to rise.

On worldwide average, economic experts expect to see moderate value growth in the *US dollar* over the next six months.

It remains to be seen in future surveys whether the deterioration of the economic climate in *Asia* and *Latin America* is a temporary phenomenon, and if countries from these areas remain on a growth path.

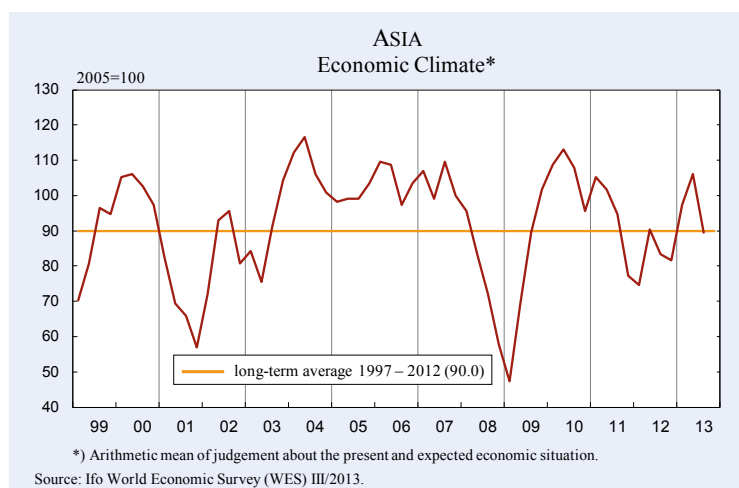
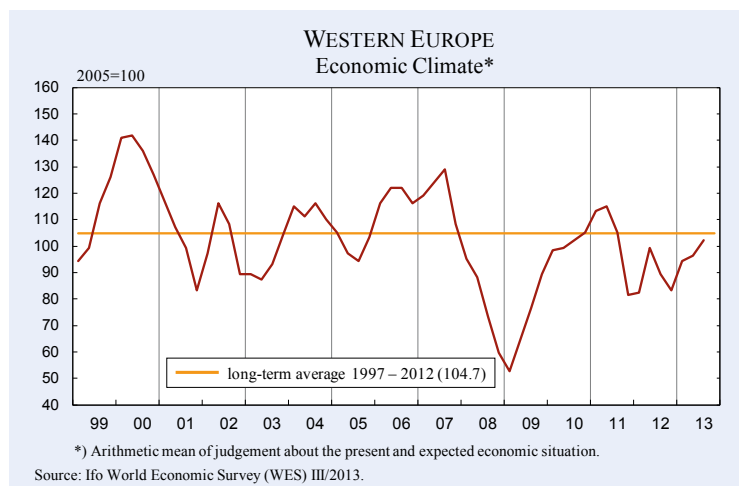
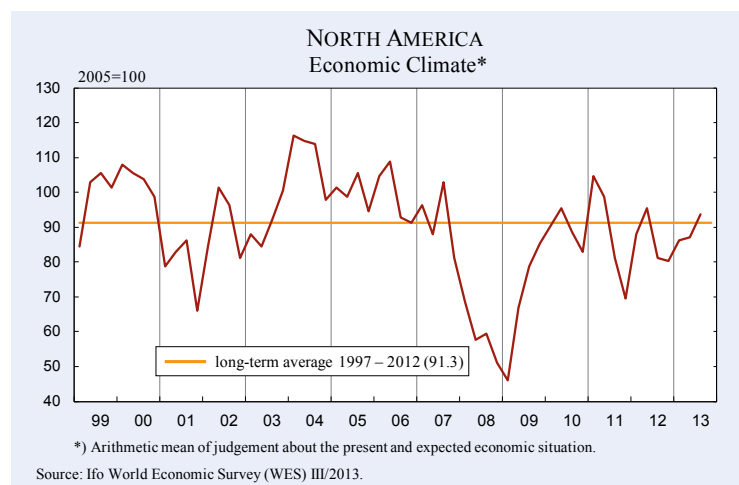
Despite the small decrease in the World Economic Climate, the results point to a moderate upturn in the world economy over the next six months. Insofar as a standard scenario materializes, i.e. no serious unexpected crisis emerges, the pace of the world economy should pick up over the rest of the present and the upcoming year. That said, no sharp acceleration is expected. The restructuring of the crisis-afflicted member states of the *euro area*, as well as the necessary debt reduction, is expected to curb growth in the most advanced economies. All in all, world gross domestic product should increase to a moderate positive growth rate this year and a higher one next year.

The same holds for the world trade.

**Western Europe: Economic climate improves**

The economic climate index for *Western Europe* improved somewhat to 102.2 in July, and is approaching its long-term average of 104.7 between 1997 and 2012 (see Figure 3). While the present economic situation was once again assessed as unfavourable, the economic outlook for the next six months is slightly more positive than in the previous survey (see Figure 4). The same pattern applies for the *euro area*, where the indicator lies at 102.3, or somewhat more below its long-term average of 108.0 (1997–2012). Even although assessments of the present economic situation improved somewhat compared to the previous survey, economic sentiment remains subdued in the majority of *euro area* countries. This particularly applies to the crisis

Figure 3



countries of *Cyprus, Greece, Italy, Portugal and Spain* (see Figures 5a and 5b). In *Belgium, France, Ireland, Netherlands and Slovenia* WES experts also regard the present economic situation as weak, despite some slight – in the case of *Ireland* even strong – upwards

revision compared to the survey in April. With regard to the economic expectations for the next six months, some improvement is expected in nearly all of these above mentioned countries. However, coming from very low levels, the recovery will progress only step by step. Experts in *Cyprus*, on the other hand, expect the situation to deteriorate further. The majority of WES experts in *Greece, Netherlands, Portugal and Spain* expect the trade balance in their countries to improve, as exports outpace imports. Some negative impact could have the strongly constrained supply of bank credit to firms, which has been observed in the *euro* crisis countries of *Italy, Ireland, Portugal, Spain, Greece* as well as in *Slovenia* (see Table 1).

In *Austria, Luxembourg* and *Slovakia* the present economic situation did not change compared to the previous survey and remains under the satisfactory line. With regard to future economic developments, WES experts in *Luxembourg* and *Slovakia* have become more positive, while the economic outlook in *Austria* deteriorated somewhat compared to the previous survey, but remains positive on the whole. The major downwards revision took place in *Finland*. Here, WES experts changed their unfavourable assessments of the present economic situation and took a very sceptical view. No major economic improvements to the current weak situation are expected over the next six months. *Germany* and *Estonia* are the only countries in the *euro area* in which a positive economic climate continues to prevail. In both countries the economic experts surveyed report a favourable present economic situation, despite a slight downwards revision compared to the previous survey. Expectations, in turn, are now more positive than three months ago and point to a continuation of the presently good economic performance in both countries.



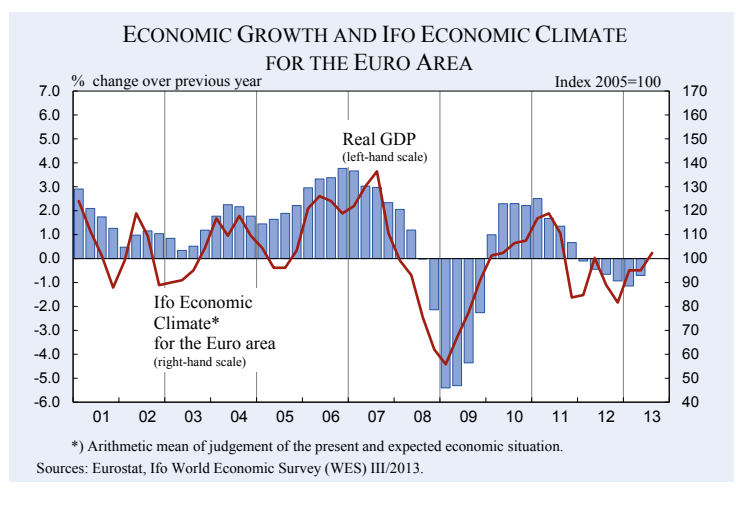
## Box 2

### 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 July results are based on the responses of 307 experts. As a rule, the trend in 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 Indicator for the economic climate in the *euro area* improved, but remains below its long-term average value. The current economic situation in the *euro area* brightened only slightly and remains at a low level overall. Expectations for the next six months, on the other hand, were significantly more positive than last quarter. An economic stabilization in the *euro area* seems to be emerging.

The current economic situation improved compared to the second quarter in most *euro area* countries, but remains “poor” in the opinion of experts surveyed in *France, Greece, Italy, Portugal, Spain* and *Cyprus*. By comparison, assessments of the current economic situation in *Belgium, Ireland, Finland, the Netherlands* and *Slovenia* are slightly better. In *Austria* and *Slovakia* assessments of the current economic situation are below the satisfactory mark. *Germany* and *Estonia* are the only countries in which economic experts reported a satisfactory to good economic situation. Expectations for the next six months continued to improve for the majority of *euro area* countries. The experts surveyed in nearly all *euro area* countries were positive about the six-month economic outlook. *Slovenia* and *Cyprus* are the only countries in which the experts surveyed expect the economic situation to continue to deteriorate.



Outside the *euro area*, in *Norway* and *Switzerland*, the economic climate is far friendlier. While in *Norway* assessments of both the present economic situation and expectations deteriorated somewhat, they were upwardly revised in *Switzerland*. Despite these different developments, in both countries a highly favourable economic situation still prevails along with a positive six-month economic outlook. In *Iceland, Monaco* and *Sweden* the present economic situation was assessed as satisfactory and is expected to remain so for the next six months. In *Denmark* and the *United Kingdom* the economic situation is again regarded as unfavourable, despite some slight improvement compared to the survey in April. For the next six months, the experts surveyed have become far more positive and expect some

improvements in future economic developments.

### North America: Economic recovery gains momentum

In July, the economic climate indicator in *North America* continued its rise, with renewed impetus after its side-movement three months ago. At 93.7 the economic climate index surpassed its long-term average of 91.3 (1997–2012). Assessments of both components of the economic climate, namely the present situation and expectations, are more positive than they were three months ago (see Figures 3 and 4).

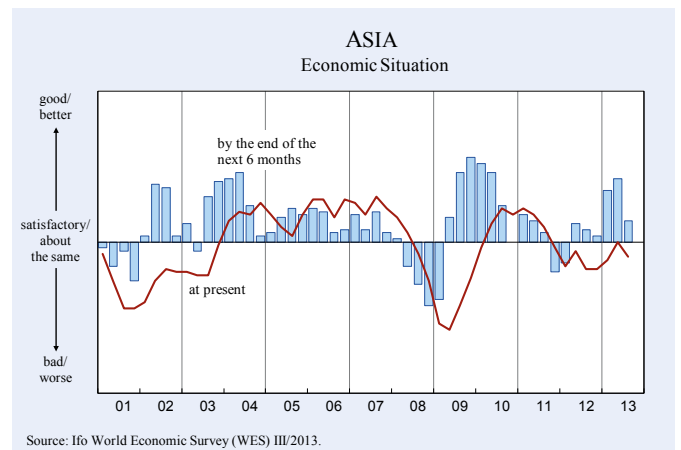
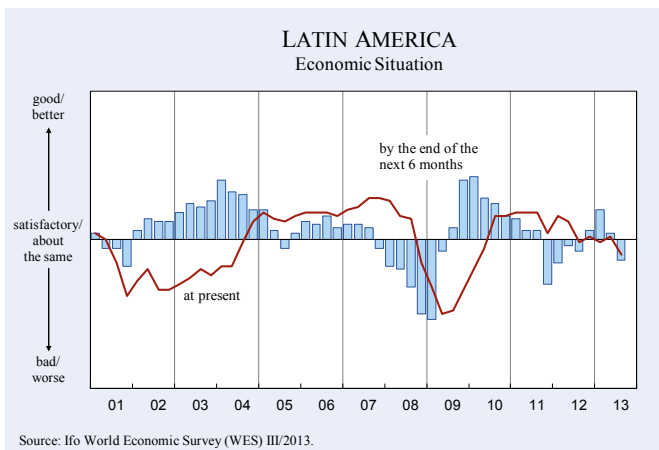
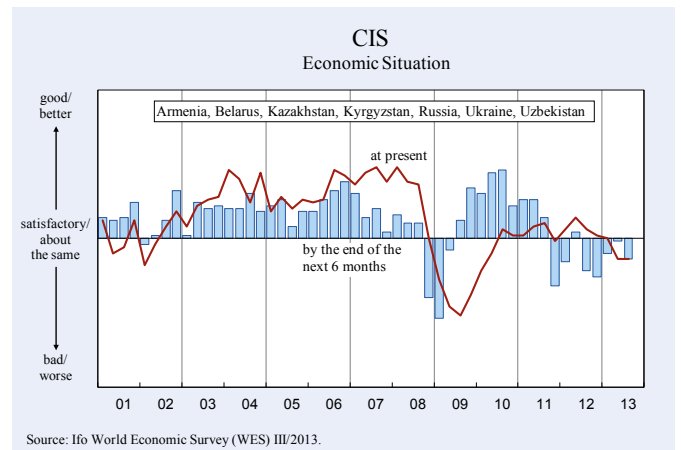
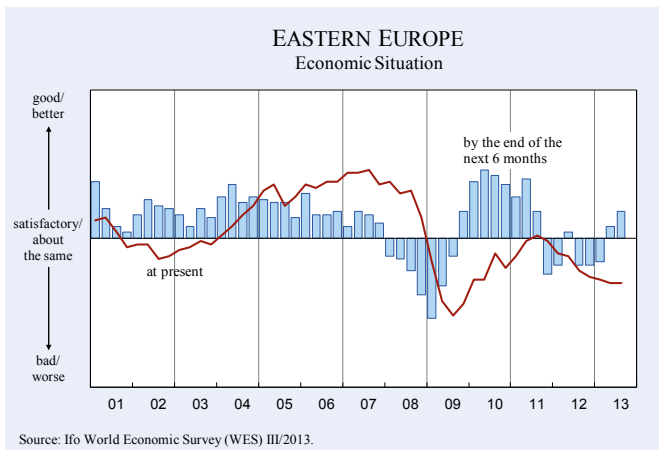
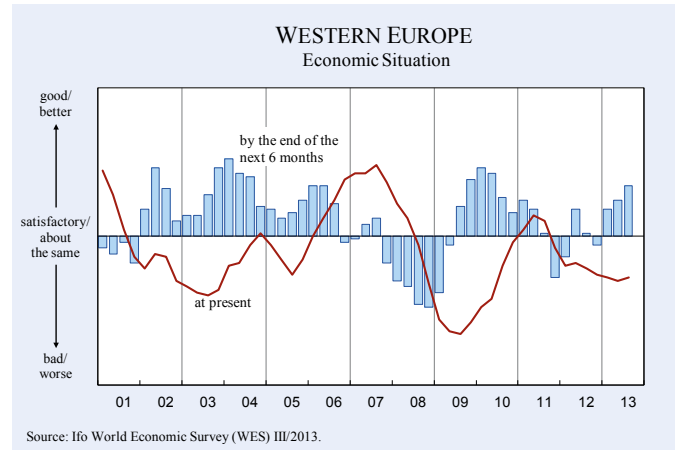
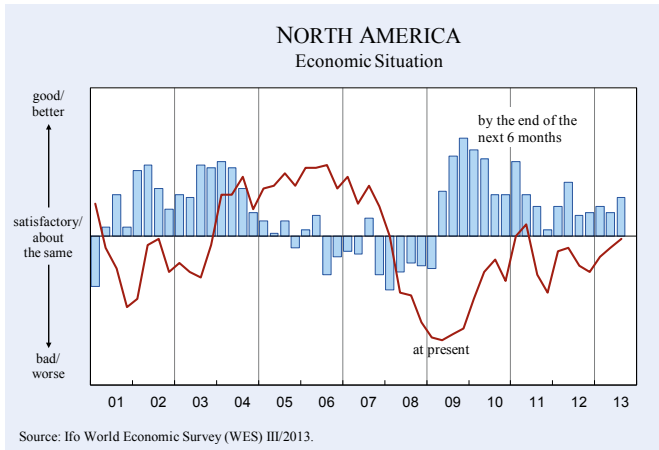
In the *United States*, assessments of the present economic situation nearly reached the satisfactory level, thanks to the improvement over the previous survey. Economic expectations for the next six months were also clearly upwardly revised and point to further improvements in economic performance (see Figure 6). Thus, the recovery in the *US* seems to be gaining ground. In *Canada*, appraisals of the current economic situation improved sharply over the previous survey and are observed as favourable. The economic prospects are slightly more positive than three months ago and point to a further improvement in economic performance over the next six months.

### Eastern Europe: Economic climate index climbs further

In *Eastern Europe* the economic climate indicator continues its rise which started in early 2013. The rise in the indicator was primary the result of brighter economic expectations. Assessments of the present economic situation, in turn, remained stable at an unfavourable level (see Figures 4 and 7). At 74.8 (preceding survey: 70.8) the index is still located well below its long-term average of 85.4 (1997–2012).

Figure 4

SELECTED REGIONS



*Latvia* and *Lithuania* are also currently among the region's top performers. In both countries the present economic situation is rated as favourable, and to an even higher degree than in the previous survey. For the six-month economic outlook WES experts remain fairly confident in these countries. In *Bulgaria* and *Romania* the current situation – despite some improvement – was described by economic experts all in all as unfavourable. In both countries, capital expenditure and private consumption are performing weakly at present. With regard to future economic developments over the next six months, WES experts in *Bulgaria* have become cautious, while expectations in *Romania* brightened compared to the previous survey and point to a slight economic improvement. In the *Czech Republic* and *Poland* more respondents than in the previous survey see the current economic situation as weak. In *Hungary* WES experts also assess the situation as unfavourable on average. In all of these countries, a slight improvement is expected within the next six months, including a strengthened export sector in *Hungary* and *Poland*. In *Croatia*, the new member of the European Union since July, no changes for the better were recorded: indeed, all of the economic experts surveyed unanimously attested to a bad economic situation for their country for the fourth time in succession. They expect their economy to remain at its current low level for the next six months.

In *Eastern European* countries outside the EU, assessments of the present economic situation remained stable at their low levels. In *Albania*, *Macedonia* as well as even unanimously in *Bosnia and Herzegovina* and *Serbia*, WES experts assessed the current economy as weak. The economic outlook for the next half year only brightened up slightly in *Albania*. In all other countries, the economic expectations are clouded and don't point to any substantial economic improvement over the next six months.

#### **CIS: Economic climate indicator falls further**

The economic climate indicator for the *CIS* countries covered by WES (*Russia*, *Belarus*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan*, *Uzbekistan* and *Armenia*) fell due to a less favourable economic outlook, which is now on the cautious side. Assessments of the present economic situation remain unchanged and are again seen as unfavourable (see Figure 4).

In *Russia*, assessments of both the present economic situation and, to an even greater degree economic expect-

tations, deteriorated compared to the previous survey. Here, the economic situation is rated as unfavourable. Capital expenditure in particular is considered weak, while private consumption is performing satisfactorily. With regard to the six-month economic outlook, WES experts have become sceptical. In the *Ukraine* and *Kyrgyzstan* the current economic situation was again assessed as unfavourable. In the *Ukraine*, economic expectations have been downgraded sharply: the majority of WES experts expect their economy to deteriorate further by the end of the next six months. In contrast, in *Kyrgyzstan*, some improvement of the economic situation is likely, according to the economic experts surveyed. In *Belarus*, *Georgia*<sup>1</sup>, *Kazakhstan* and *Uzbekistan* a satisfactory present economic situation prevails, which is expected to persist for the next six months. In *Armenia*, assessments of the present economic situation turned from satisfactory to unfavourable, according to WES experts. No major changes for the better are expected for the next six months.

#### **Asia: Economic climate indicator's rise ends abruptly**

The economic climate indicator in *Asia* started to fall back to its long-time average of 90.0 (1997–2012). After reaching its highest value since late 2010 at 106.1 in April, the downturn to 89.5 is very pronounced. The decrease in the indicator was mainly driven by significantly less positive assessments of the six-month economic outlook. Assessments of the current economic situation also deteriorated, but only slightly.

The downturn in the *Asian* economic climate was mainly the result of cooler economic sentiment in *China*. However, WES experts also curbed their expectations in *Thailand*, *Taiwan* and *Indonesia*, and to a lesser extent in *India* and *South Korea*. The appraisals of the present economic situation in these countries have also been downgraded compared to the previous survey and are seen as unfavourable. The exception to this rule is *Indonesia*, where despite the downwards revision, the present economic situation still stands at a satisfactory level overall. In *China*, WES experts reported the supply of bank credit to firms as strongly constraint. In addition, legal and administrative restrictions for foreign firms seem to be rather high at present (see Tables 1 and 2). According to the economic experts surveyed,

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

other *Asian* economies like *Thailand*, *Sri Lanka* and *Indonesia* are affected by a bad investment climate for foreign firms. In *Japan*, the situation improved compared to the previous quarter, and WES experts on average see the overall economy as satisfactory. Economic expectations have been revised somewhat downwards; however, as they reached an optimistic level in the previous survey, they are still in highly positive territory. Exports in *Japan* in particular are likely to strengthen further over the next six months. In *Bangladesh*, *Hong Kong*, *Malaysia*, *Singapore* and the *Philippines* a satisfactory to favourable economic situation prevails. The economic expectations of WES experts in all of these countries point to an economic stabilization of the current good levels in the respective countries. In *Sri Lanka* and *Vietnam* the economic experts surveyed reported an unfavourable economic situation at present, and expect no change over the next six months. In *Pakistan* and *Papua New Guinea* current economic performance was reported to be weak. While WES experts in *Papua New Guinea* do not foresee any substantial improvement in their economy in the six months ahead, the situation in *Pakistan* does look set to improve a little.

### **Oceania: Economic climate brightens**

In *Oceania*, assessments of both the present economic situation and expectations are more positive and led to a slight increase in the economic climate indicator. At 103.4 the indicator exceeded its long-term average (100.9, 1997–2012). However, no clear trend has emerged yet and the indicator has seen volatile fluctuations since early 2012. In *Australia* and *New Zealand* a favourable present economic situation persists. In *Australia*, the today's favourable situation is expected to last for the next six months. Some weakening, however, is expected in capital expenditure. Exports, in turn, will strengthen further. In *New Zealand*, the six-month economic outlook brightened up considerably and WES experts expressed confidence with regard to future economic developments.

### **Latin America: Economic climate indicator drops sharply**

Besides *Asia*, *Latin America* is the second major region where the economic climate deteriorated considerably. The indicator continued to fall and stands far below its long-term average at 79.6 (1997–2012: 92.7). Both evaluations of the present economic situation and economic

expectations decreased and are no longer positive for the region on average (see Figures 4 and 9).

The downward trend in the region was particularly pronounced in *Brazil* and *Chile*. In both countries assessments of the respective indicators were downgraded considerably. In *Brazil*, the current economic situation has become difficult, according to WES experts. Capital expenditure in particular is considered as weak at present. With regard to future economic developments in the months ahead, the economic experts surveyed in *Brazil* changed their view from positive to sceptical. Due to the expected reduction in exports, the trade balance will deteriorate further, according to the opinion of WES experts. In *Chile*, the downward trend in the evaluation of the present economic situation continued, but is perceived on balance as favourable. In turn, economic expectations are now clearly negative and WES experts are pessimistic about economic performance in the near future.

In *Paraguay* and *Peru*, and to a lesser extent in *Uruguay*, *Ecuador* and *Bolivia* a favourable economic situation currently prevails. However, with regard to the six-month outlook for economic activity, there are diverging trends in the countries: while WES experts in *Paraguay* and *Bolivia* expect an economic stabilization at the current level, the economic experts surveyed in *Ecuador*, *Peru* and *Uruguay* expressed caution. In *Colombia*, *Mexico* and *Panama* a satisfactory present economic situation was reported by economic experts. In *Colombia*, economic expectations were upgraded considerably and point to further expansion. In *Mexico* and *Panama* the majority of respondents indicate that they expect economic developments to stabilise within the next six months. In *Argentina*, assessments of the present economic situation improved somewhat compared to the previous survey. However, in view of economic expectations, present economic tension cannot be expected to dissipate within the next six months. WES experts assessed the investment climate as particularly unfavourable, especially given fairly tough legal and administrative restrictions for foreign firms, and expect it to deteriorate further over the next six months. They also expressed concern that political instability will increase in the months ahead (see Tables 2 and 3). In *Guatemala*, the present economic situation worsened and is now assessed as unfavourable. No improvement in the economic development is expected over the next six months. In *Costa Rica*, the *Dominican Republic*, *El Salvador*, *Trinidad and Tobago*, as well as in *Venezuela* the economic experts surveyed again reported weak

**Box 3**

**Global Liquidity Conditions**

This box examines the provision of liquidity by the central banks of the euro area, the United Kingdom, and the United States of America in recent times.<sup>1</sup> Overall, the results show that the Bank of England and the Federal Reserve System have poured liquidity into their domestic financial sectors while the European Central Bank (ECB) has kept the expansion of the monetary base at a relatively moderate pace over the last five years.

In fact, since mid-2012 the amount of high-powered money provided by the ECB through open market operations and its outright asset purchase programmes – the Securities Markets Programme and two rounds of the Covered Bond Purchase Programme – has fallen; from July 2012 to 11 June 2013, the monetary base declined from 1775 billion euros to 1295 billion euros. Most importantly, a dramatic fall of 336 billion euros has been noted since 15 January 2013, reflecting banks’ ability to make early repayments of funds raised in the first and second three-year refinancing operations since the end of January and February, respectively (see Figure, top panel). Indeed, the total nominal value outstanding of longer-term refinancing operations has decreased by 308 billion euros since then.

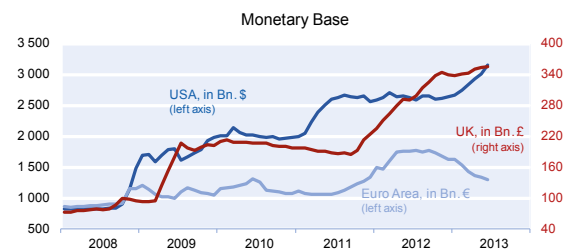
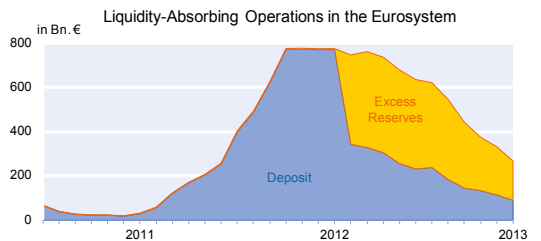
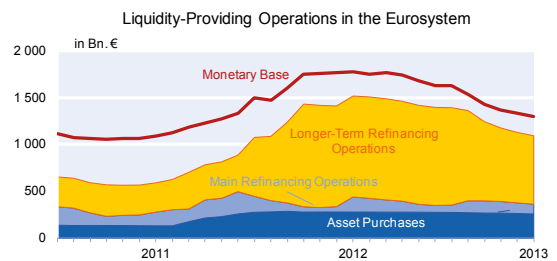
With the ECB conducting its refinancing operations with full allotment, the main reason for the reduction in the monetary base of the euro area likely stems from the demand for liquidity, rather than banks being short of eligible collateral. This is suggested by the fact that emergency loans provided by the national central banks – the Emergency Liquidity Assistance (ELA), for which banks can post collateral of lower quality than is accepted by the ECB for its refinancing operations – also declined in Greece and Ireland by 50 billion euros to 24 billion euros between January and May.

At the same time, commercial banks reduced their excess liquidity holdings. Since January the total nominal value outstanding of the deposit facility has decreased by 116 billion euros; excess reserves dropped by approximately 222 billion euros (see Figure, middle panel). In sum, the shortfall in demand and the reduction of excess liquidity has led to a significant decrease in the monetary base in the euro area over the last year.

<sup>1</sup> This box is a slightly modified, English translation of Box 2.1 in K. Carstensen, W. Nierhaus, T. O. Berg, C. Breuer, C. Grimme, S. Henzel, A. Hristov, N. Hristov, M. Kleemann, W. Meister, J. Plenk, L. Salzmann, K. Wohlrabe, A. Wolf, T. Wollmershäuser, and P. Zorn (2013). “Ifo Economic Forecast 2013/2014: Favourable Perspectives for the German Economy”.

While liquidity conditions in the euro area are determined solely by demand for base money due to the ECB’s fixed rate full allotment policy, the Bank of England and the Federal Reserve System poured additional liquidity into the financial sector via government bond purchases (quantitative easing). That is, commercial banks in the UK and USA received base money irrespective of their actual liquidity requirements by selling government bonds to their central bank. As a result, the monetary base in the UK and the USA increased from June 2008 to June 2013 by 352% and 282%, respectively. In contrast, high-powered money in the euro area increased by only 47% over the same period (see Figure, bottom panel).

**Global Liquidity Conditions**



Sources: ECB; Bank of England; Federal Reserve.

current economic performance. In most of these countries WES experts expect the situation to deteriorate further. In contrast, economic experts surveyed in the *Dominican Republic*, are somewhat more confident about the six-month economic outlook.

**Near East: Economic climate remains friendly**

In the *Near East* the economic climate remains favourable, and even more expressed than in the previous survey (see Figure 10). The indicator rose to 95.5 and

Figure 5a

EUROPEAN UNION

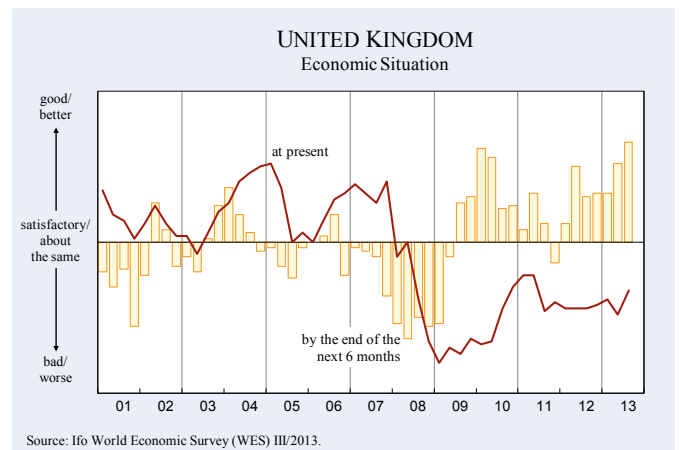
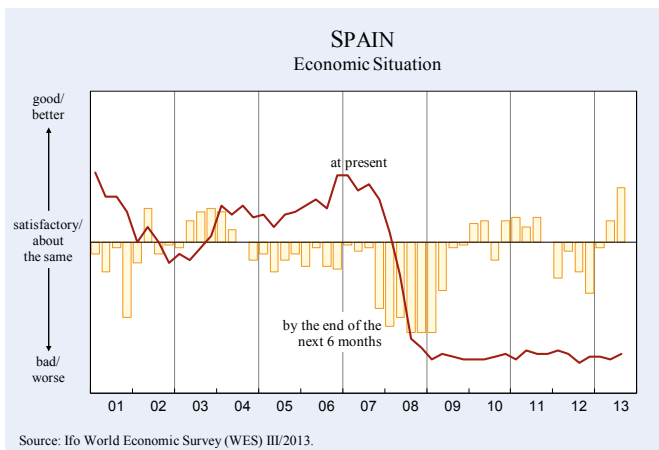
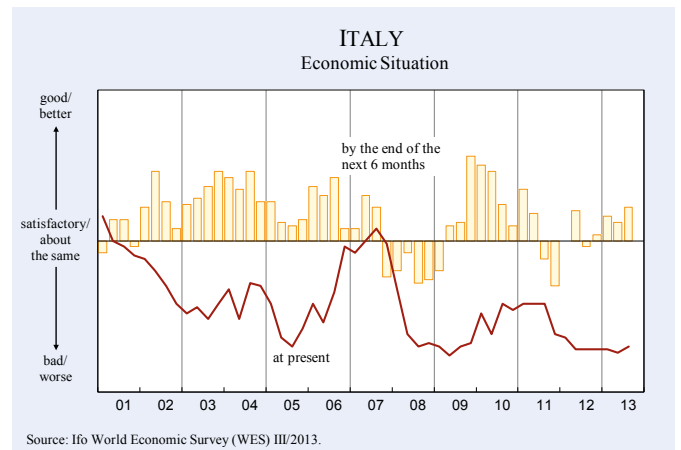
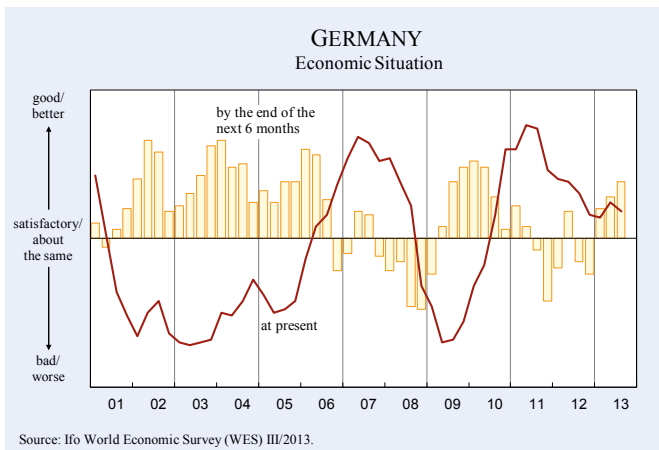
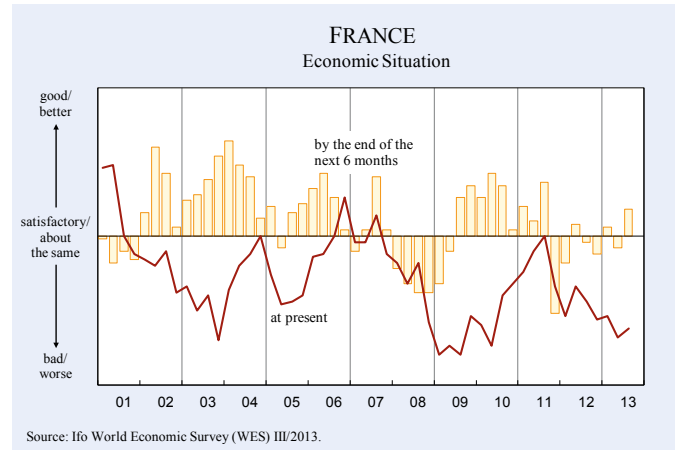
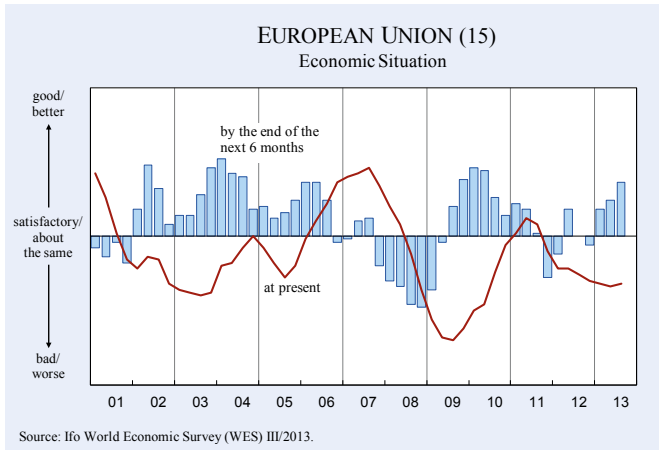


Figure 5b

EUROPEAN UNION

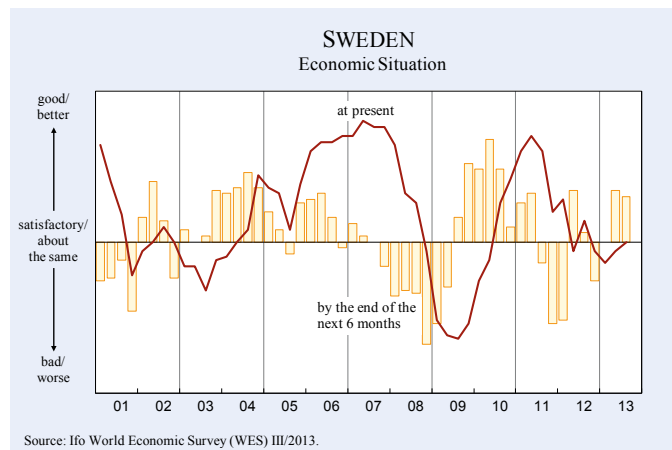
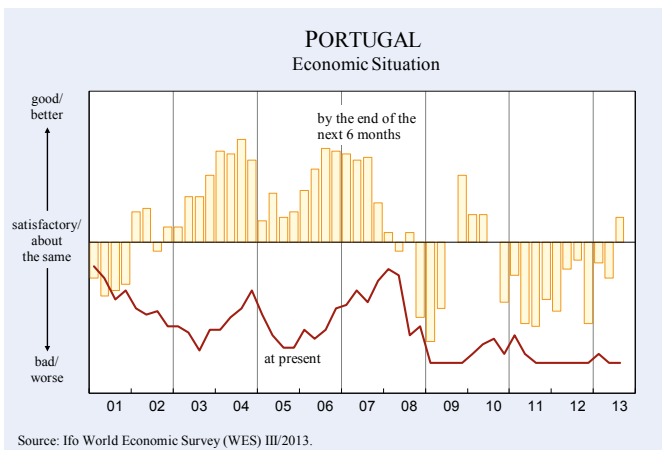
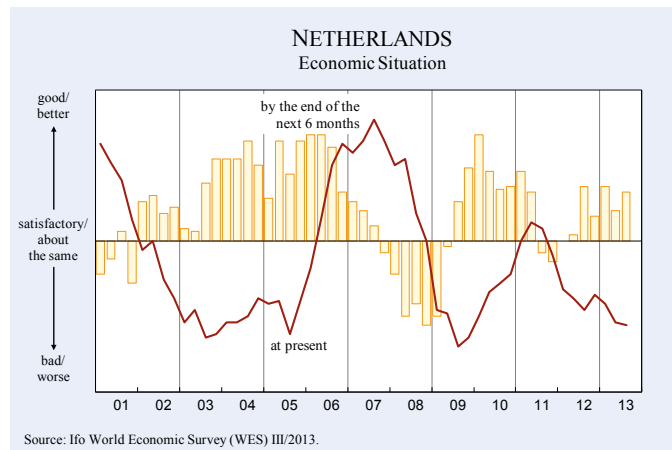
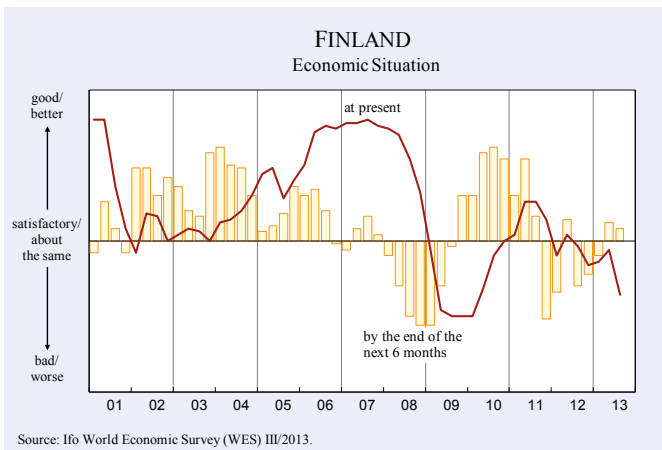
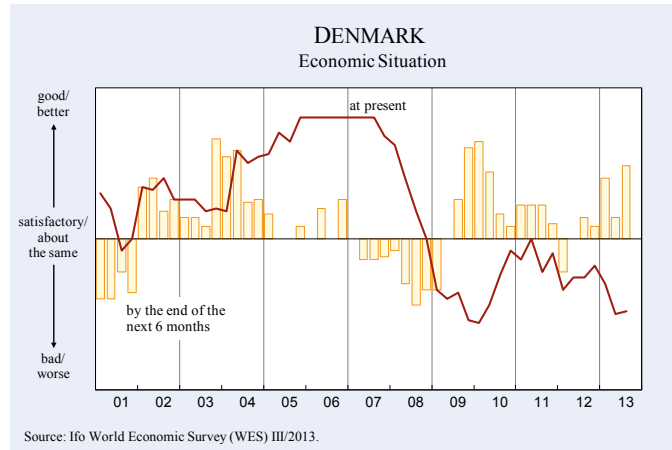
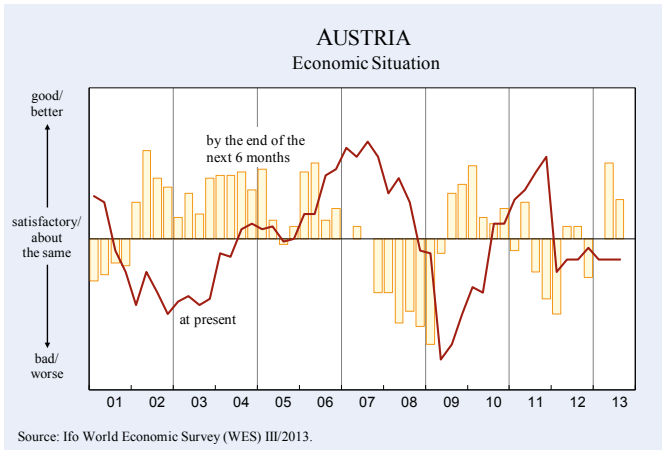


Figure 6

## NORTH AMERICA, OCEANIA AND CIS

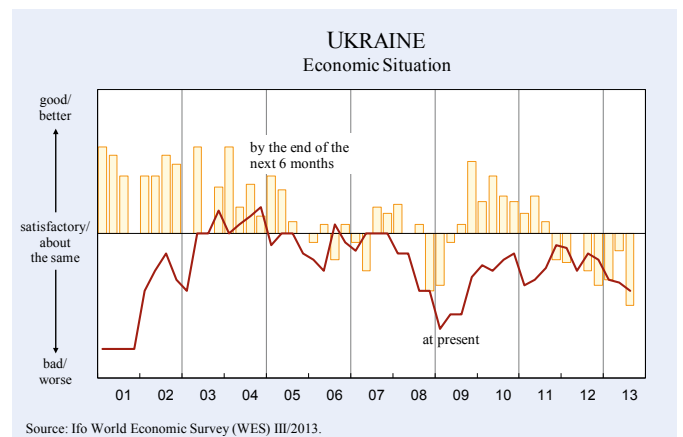
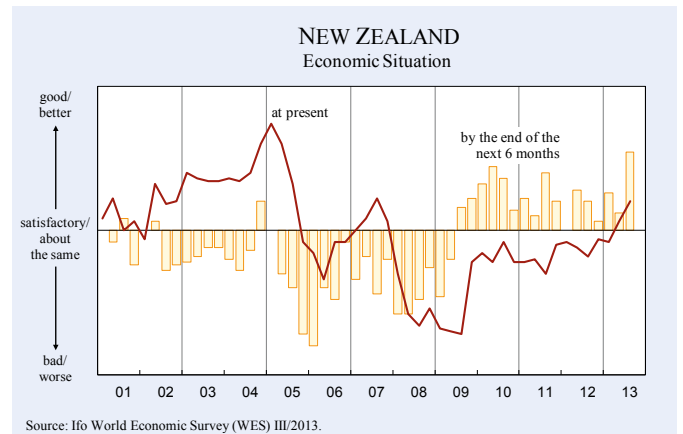
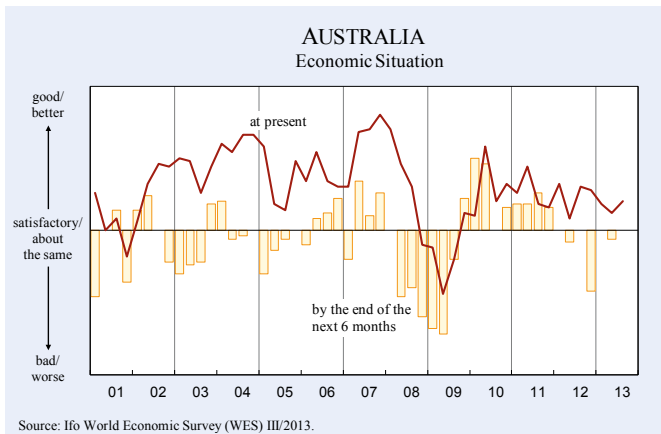
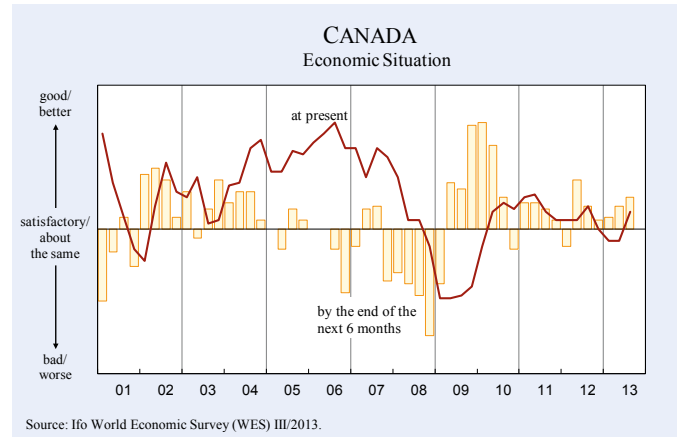
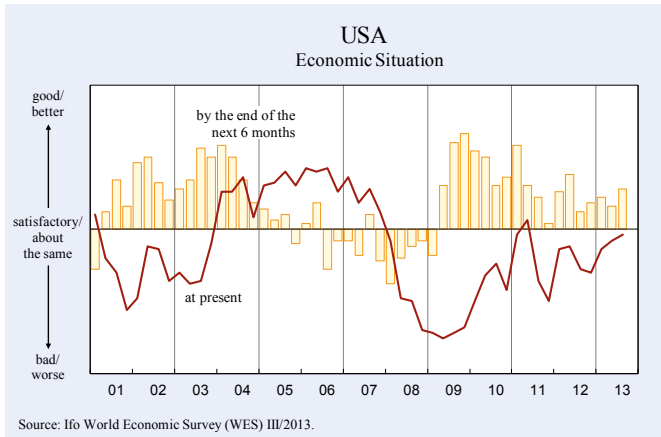




Figure 7

EASTERN EUROPE

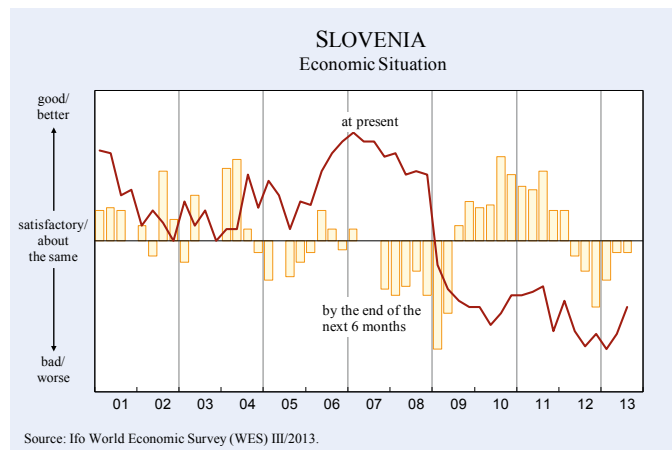
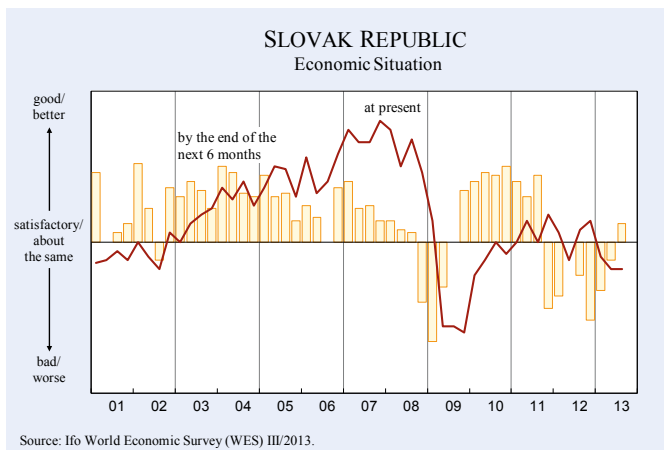
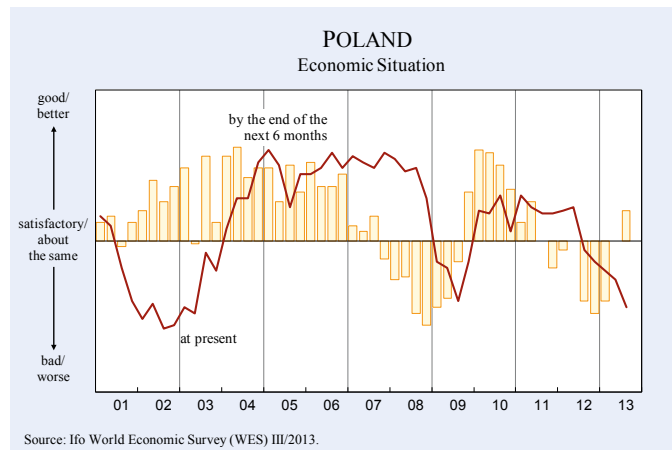
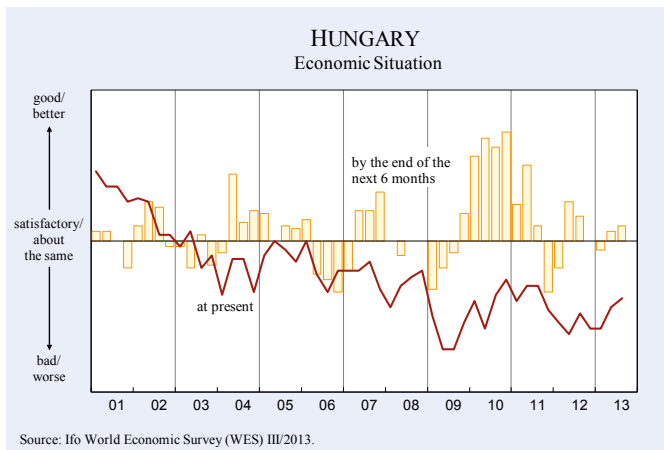
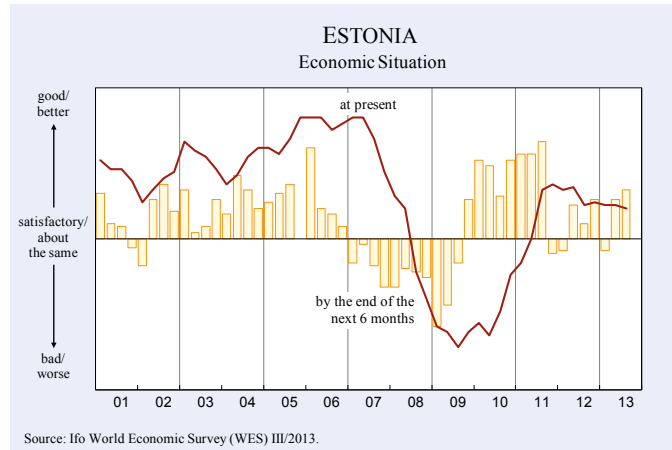
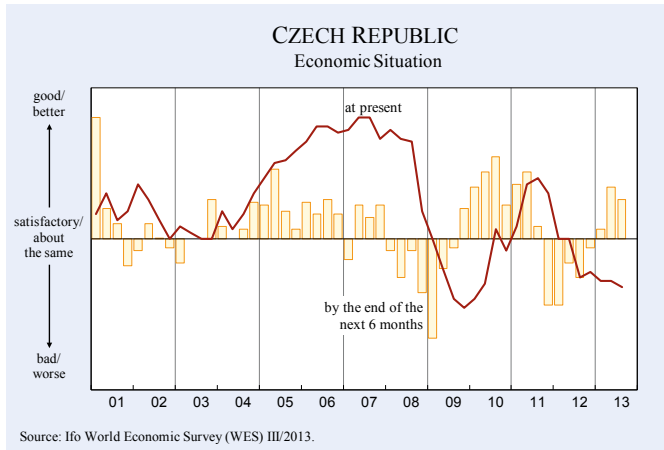


Figure 8

ASIA

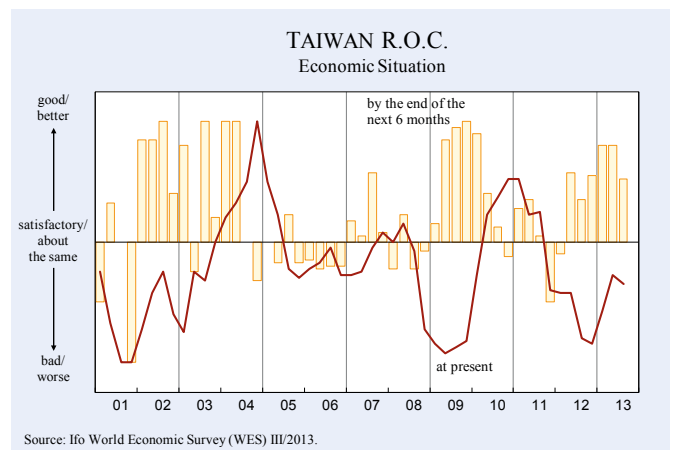
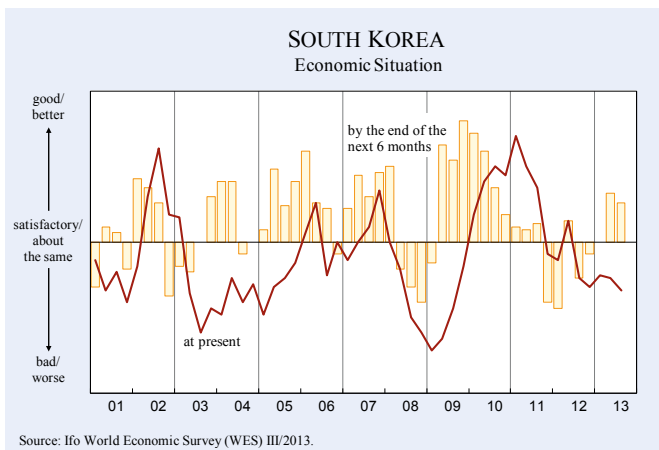
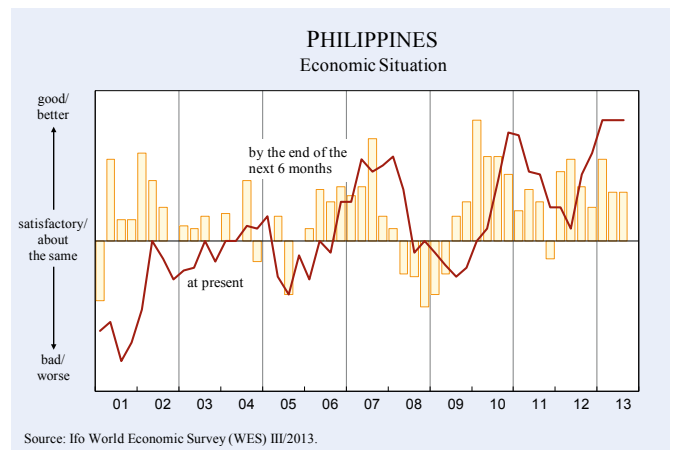
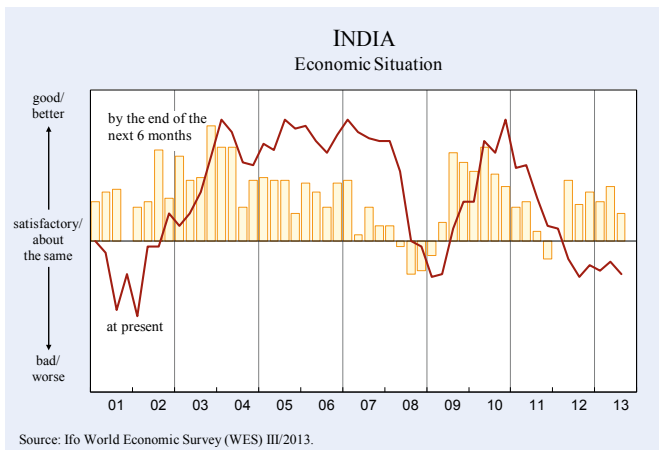
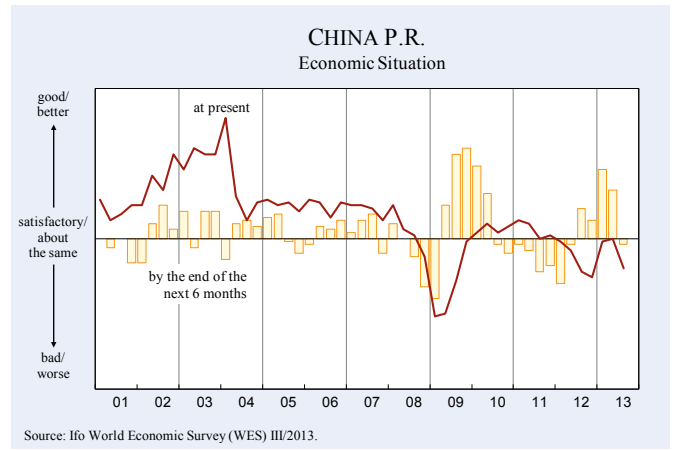
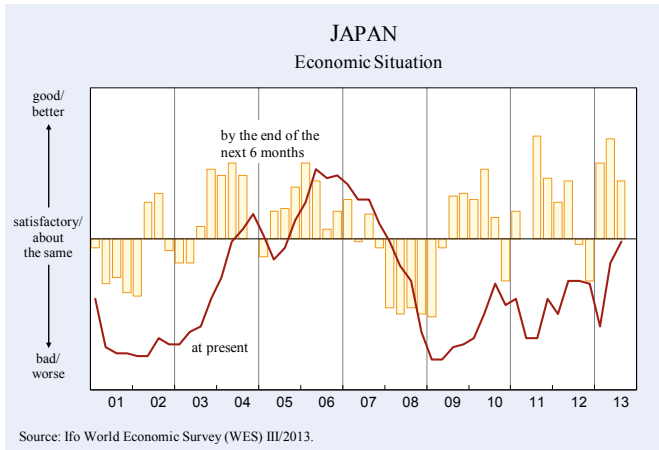


Figure 9

# LATIN AMERICA

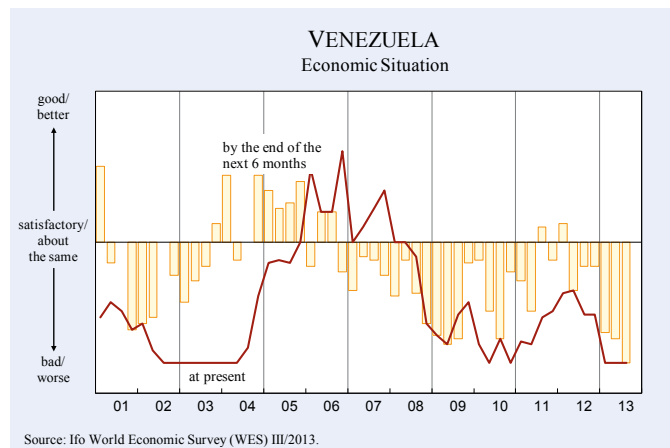
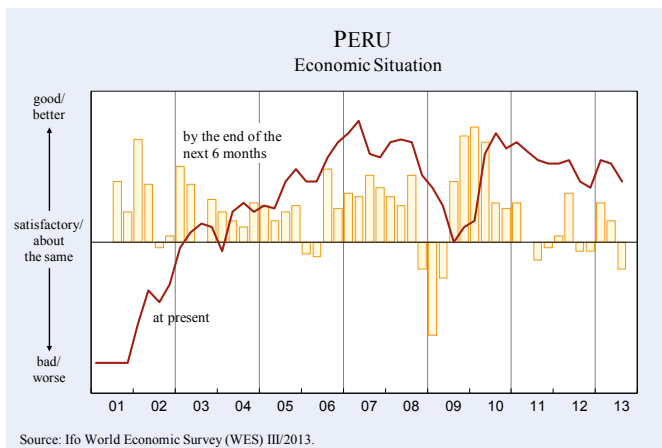
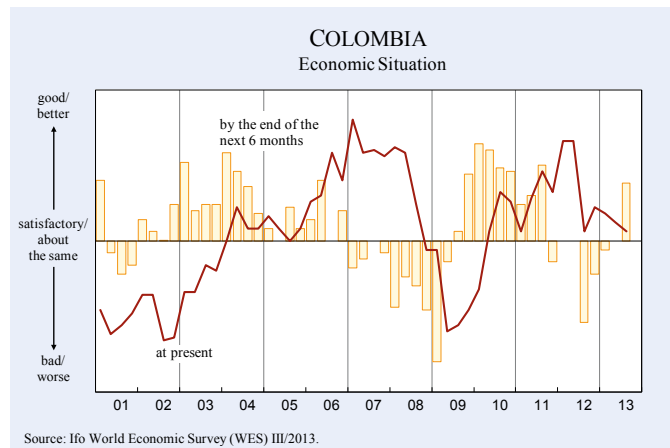
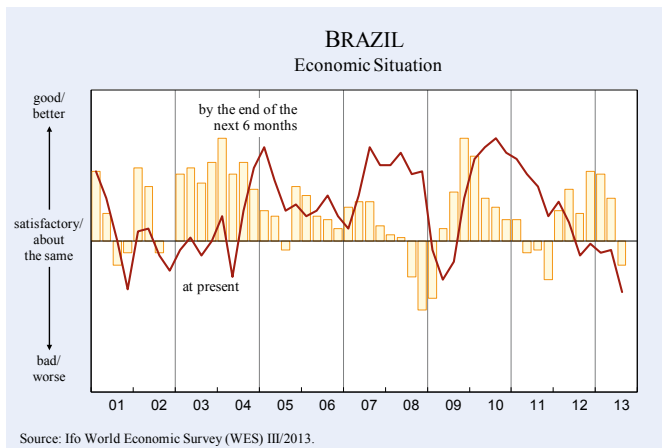
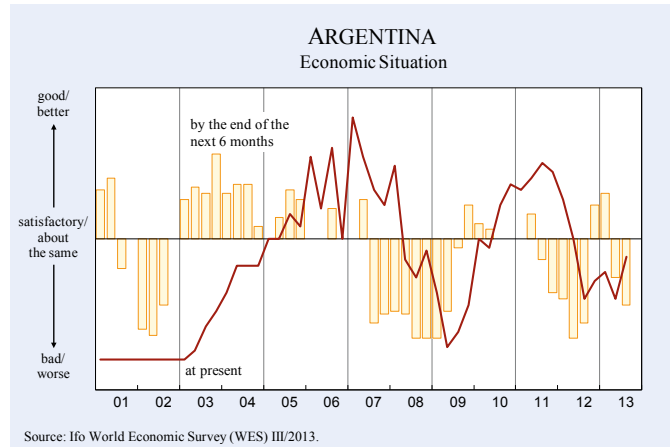
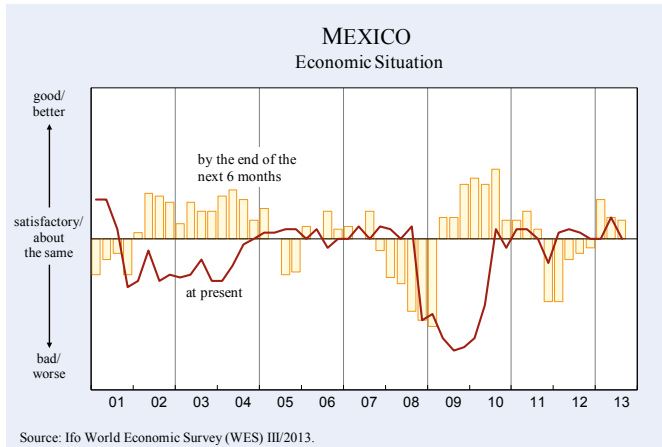
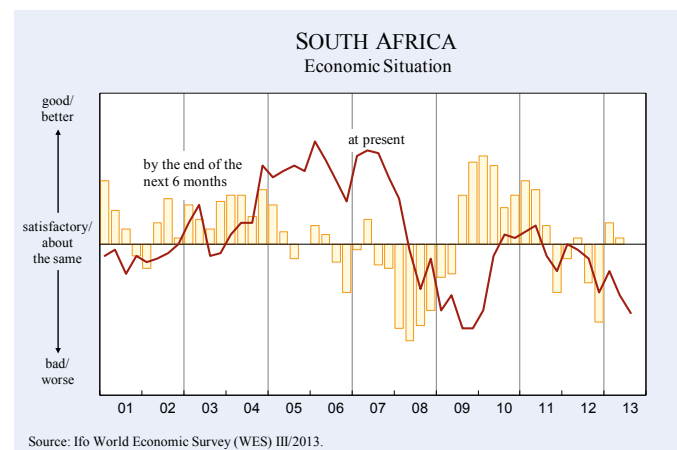
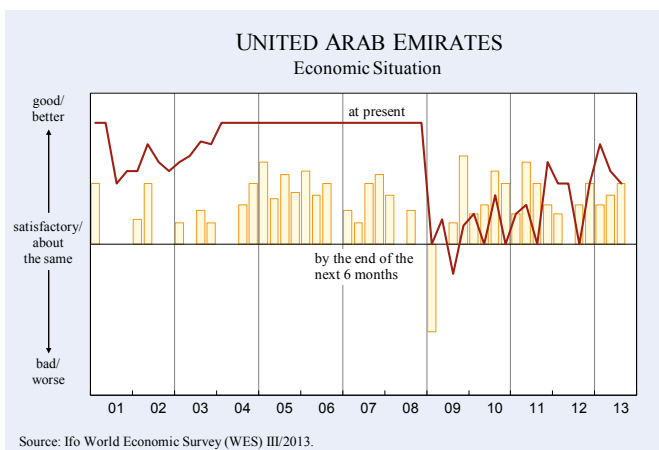
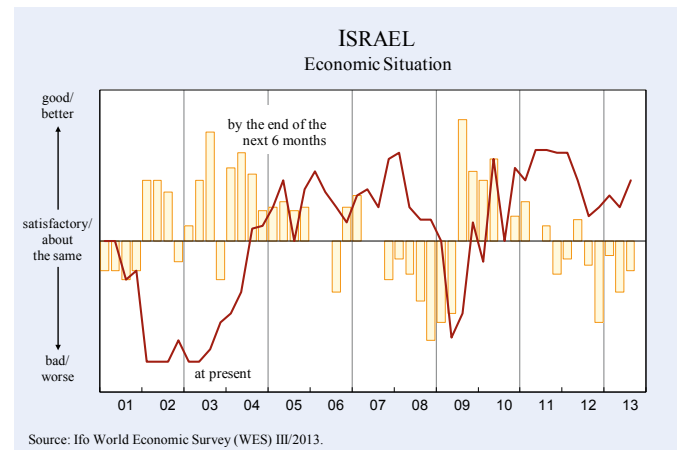
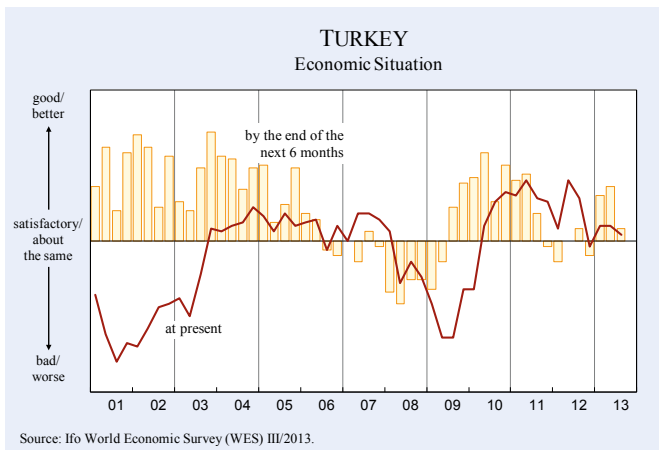
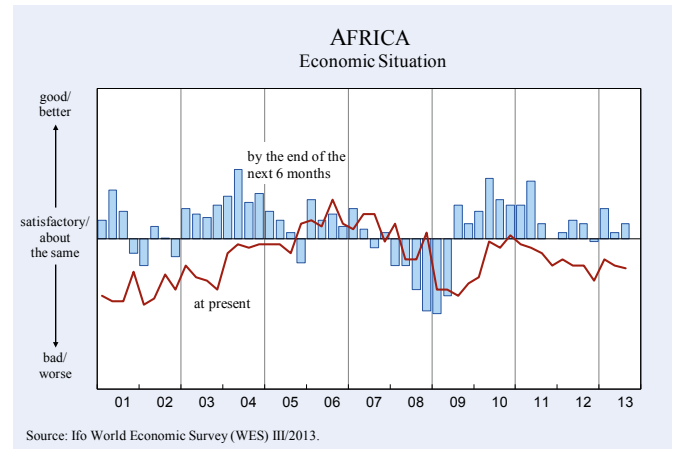
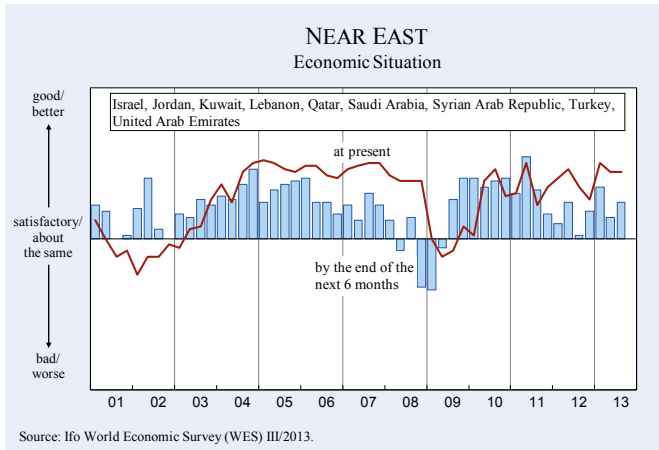


Figure 10

## NEAR EAST AND AFRICA



is located above its long-term average of 84.9 (1997–2012). In the majority of the countries in this region, including *Israel*, *Jordan*, *Qatar*, *Saudi Arabia* and the *United Arab Emirates*, a favourable economic situation prevails. In all of these countries the favourable economic conditions are likely to persist, except in *Israel*, where WES experts remain cautious with regard to future economic developments. In *Kuwait*, *Lebanon* and *Turkey*, the current economic situation was rated as satisfactory. The economic expectations for the next six months have indeed been scaled back, but remain in positive territory on the whole. In *Syria* economic performance was reported to be weak and is not expected to improve substantially over the next six months, as the civil war and the crisis look set to continue.

#### **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*.

The economic climate in the *Northern African* countries covered by WES improved in comparison to the previous survey. In *Egypt* and *Tunisia*, however, the present economic situation is still rated as weak. The economic expectations of the experts surveyed remain cautious and don't signal any major improvements over the next six months. In *Algeria*, *Libya* and *Morocco* the present economic situation is considered as satisfactory and the current good situation is likely to prevail for the next six months, according to WES experts.

The economic climate indicator in *South Africa* deteriorated further. More experts than in the previous survey rated the present economic situation as unfavourable. Economic expectations were also downgraded, and WES experts do not expect the situation to improve over the next six months (see Figure 10). In *Chad*, *Congo Dem. Republic*, *Ivory Coast*, *Lesotho* and *Sierra Leone* WES experts view the present economic situation as favourable, and to an even higher degree than in the previous survey. In all of these countries, WES experts retained their positive view of future economic developments over the next six months. In *Zambia*, assessments of the economic situation were downgraded

somewhat compared to April, but nevertheless remain good. In turn, the economic outlook is far less positive than in the previous survey and WES experts expect a deterioration of economic activity by the end of the next six months. In *Angola*, *Benin*, *Congo-Brazzaville*, *Ethiopia*, *Ghana*, *Kenya*, *Liberia*, *Mauritania*, *Namibia*, *Nigeria* and *Senegal*, WES experts assessed the current economic situation as satisfactory and expect it to stabilize at its present good level in the months ahead.

In *Comoros*, *Mauritius*, *Niger* and *Sudan*, the present economic situation worsened compared to the previous survey and is rated as weak by economic experts surveyed. No substantial economic improvement is expected in *Mauritius* and *Sudan* within the next six months. WES experts in *Comoros* and *Niger*, on the other hand, anticipate a slight upturn. In *Burundi*, *Madagascar*, *Swaziland*, *Togo* and *Zimbabwe* a weak economic performance was again reported by WES experts, despite a slight improvement compared to the survey in April. Except for *Burundi* and *Madagascar*, the six-month economic outlook is far more positive than in the previous survey and points to some improvement with regard to future economic developments. In contrast, in *Burundi* and *Madagascar* the economic situation is expected to remain subdued over the next six months.

#### **Different price trends**

##### *General trends*

On a world-wide average, the WES experts' inflation forecast for the year 2013 remained unchanged at 3.2% in July (see Table 4). The downward trend in inflation expectations is particularly pronounced in *Western* and *Eastern Europe*. Inflation expectations in *Latin America*, on the other hand, continued to pick up.

##### *Price trends by countries*

The average inflation rate for the *euro area* in 2013 is forecast to be 1.7%, according to WES experts, after 1.9% expected in April and 2.1% at the beginning of the year. Within the *euro area* the lowest inflation rates in 2013 are again expected in the "crisis countries" of *Greece* (0.1%), *Ireland* (1.4%), *Portugal* (1.4%) and *Cyprus* (1.0%). *Euro area* countries expected to have above average inflation rates again include *Estonia* (3.3%), *Slovakia* and *Slovenia* (both 2.1%).

In **Western Europe** outside the *euro area* the two extremes of the presumable development of prices continue to be *Switzerland* (0.2%) on the one hand, and the *United Kingdom* (2.7%) on the other.

In **Eastern Europe** the inflation rate forecast for 2013 of 2.4% is significantly lower than that reported at the beginning of the year (3.3%). This tendency can be observed in all countries in the region. The lowest price increase will be seen, according to WES experts, in *Poland* (1.5%), while the highest increase is expected in *Serbia* (9.8%).

In **North America**, the 2013 inflation forecast stands at 1.9%, with 2.0% in the *United States* and 1.5% for *Canada*.

In **Asia** inflation expectations for 2013 increased slightly (from 3.1% to 3.2%). This was mainly due to higher inflation expectations in *Indonesia* (from 6.3% to 7.7%), *Singapore* (from 3.0% to 3.5%) and *Hong Kong* (from 3.4% to 3.7%). In most other *Asian* countries inflation expectations were revised slightly downwards, namely in *China* (from 3.4% to 3.1%), *South Korea* (from 2.8% to 2.2%), *Taiwan* (from 1.7% to 1.5%) and *Thailand* (from 3.4% to 3.2%). According to WES experts by far the highest inflation rates in the region will continue to prevail in *Pakistan* (9.6%). In *Sri Lanka* (9.1%), *Indonesia* (7.7%), *Bangladesh* (7.6%), *India* (7.0%) and *Vietnam* (6.7%) the expected inflation rate in 2013 will again be significantly higher than the regional average. In *Japan*, despite very aggressive monetary policy aimed at fighting deflation and stimulating growth, the inflation outlook for 2013 remained at 0.4%, and thus still well below the 2% inflation target set by the newly elected government.

In **Oceania** inflation expectations for 2013 declined somewhat from 2.5% to 2.4%. In *Australia* they fell from 2.6% to 2.5% and in *New Zealand* they were unchanged (1.7%).

In **Latin America** inflation expectations for this year picked up further from 7.7% at the beginning of the year and 7.9% in the April survey up to 8.5% in July. The countries with the worst inflation outlook in the region are still *Argentina* (27.0%) and to an even greater degree *Venezuela* (38.3%). On the other hand, countries with inflation rates significantly below the regional average again look set to include *El Salvador* (1.8%), *Chile* (2.4%), *Colombia* (2.8%) and *Peru* (2.6%). In *Brazil*, the largest country in the region, an inflation rate of 6.2%

**Table 1**

Supply of bank credit to firms, extent of constraint	
<b>Not constrained</b>	
Canada	8.4
Guatemala	8.2
Australia	8.0
Hong Kong	7.9
Chile	7.8
Japan	7.8
Paraguay	7.5
Colombia	7.4
Namibia	7.4
Philippines	7.4
New Zealand	7.3
Switzerland	7.1
Germany	7.0
Peru	7.0
<b>Moderately constrained</b>	
Czech Republic	6.9
Brazil	6.8
Pakistan	6.8
Lithuania	6.7
Uruguay	6.7
Taiwan	6.5
Thailand	6.5
Austria	6.3
Bosnia and Herzegovina	6.3
Mexico	6.2
South Africa	6.2
United States	6.2
Malaysia	6.1
Slovakia	6.1
Sweden	6.1
Israel	6.0
Turkey	6.0
France	5.9
Bolivia	5.8
Zambia	5.8
Argentina	5.6
Croatia	5.6
India	5.6
Sri Lanka	5.5
South Korea	5.4
Finland	5.3
Bulgaria	5.2
Denmark	5.0
Indonesia	5.0
Kazakhstan	5.0
Kenya	5.0
Latvia	5.0
Madagascar	5.0
Russian Federation	4.9
Poland	4.8
Belgium	4.6
Congo Dem. Rep.	4.2
Nigeria	4.2
Serbia	4.2
Netherlands	4.1
Egypt	4.0
<b>Strongly constrained</b>	
Hungary	3.9
China	3.3
Albania	3.2
United Kingdom	3.2
Ukraine	3.0
Italy	2.8
Ireland	2.7
Portugal	2.3
Romania	2.0
Zimbabwe	2.0
Spain	1.7
Slovenia	1.4
Greece	1.0

Only countries with more than four responses were included in the analysis.

WES scale: 9 – not-, 5 – moderately-, 1 – strongly constrained  
Source: Ifo World Economic Survey (WES) III/2013.

**Table 2**

Legal and administrative restrictions for foreign firms	
Absent	
Sweden	8.3
Finland	7.2
Chile	7.0
Peru	7.0
Rather low	
Turkey	6.8
Ireland	6.7
Lithuania	6.7
Denmark	6.6
Germany	6.5
Uruguay	6.5
Netherlands	6.4
Slovakia	6.4
Mexico	6.2
Switzerland	6.2
Czech Republic	6.1
Australia	6.0
Poland	6.0
Paraguay	5.9
United States	5.9
Guatemala	5.8
Philippines	5.8
New Zealand	5.7
Portugal	5.7
United Kingdom	5.7
Canada	5.6
Latvia	5.6
Austria	5.5
Colombia	5.5
Spain	5.5
South Korea	5.4
Belgium	5.2
Bulgaria	5.2
Congo Dem. Rep.	5.0
Hong Kong	5.0
Japan	5.0
Kazakhstan	5.0
Kenya	5.0
Madagascar	5.0
Namibia	5.0
Nigeria	5.0
Romania	5.0
Serbia	5.0
Slovenia	5.0
Greece	4.7
Hungary	4.7
India	4.7
South Africa	4.7
Pakistan	4.6
France	4.4
Malaysia	4.4
Brazil	4.3
Taiwan	4.3
Zambia	4.2
Italy	4.1
Israel	4.0
Rather high	
Croatia	3.9
Albania	3.7
China	3.7
Sri Lanka	3.5
Thailand	3.5
Egypt	3.0
Russian Federation	2.5
Bolivia	2.3
Bosnia and Herzegovina	2.3
Ukraine	2.0
Indonesia	1.7
Zimbabwe	1.5
Argentina	1.3

Only countries with more than four responses were included in the analysis. **WES scale:** 9 - absent, 5 - low, 1 - high  
Source: Ifo World Economic Survey (WES) III/2013.

is now expected for 2013, which is somewhat higher than forecast at the beginning of the year (5.6%) and in April (5.9%).

In *CIS* countries inflation expectations for 2013 increased somewhat and now stand at 8.1% (versus 8.0% in April). The inflation rate will be lower than the regional average in the *Ukraine* (4.7%). Close to the regional average is the expected inflation rate in *Russia* (7.6% after a forecast 7.1% in April) and in *Kazakhstan* (6.6% after a forecast 7.1% in April). The inflation rate in *Uzbekistan* (16.5%), on the other hand, looks set to remain above the regional average in 2013.

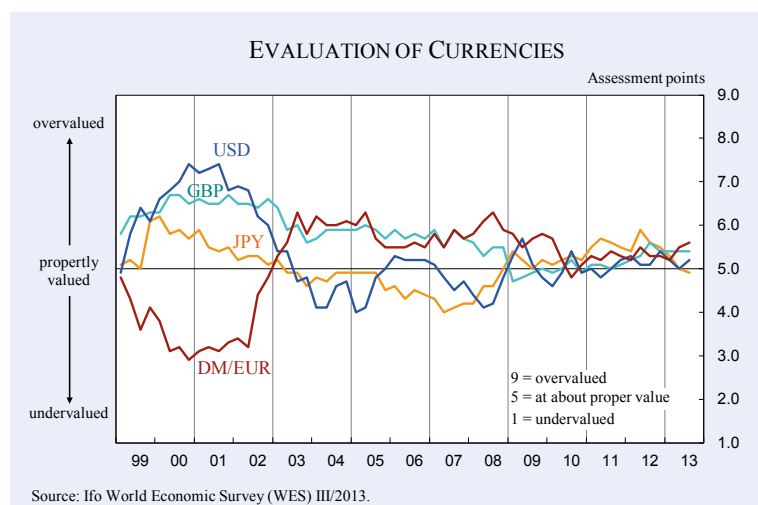
In the *Near East* inflation expectations for 2013 remained unchanged at 4.3%. Within the region, inflation expectations continue to be rather subdued in the *United Arab Emirates* (2.2%) and *Israel* (2.1%). In *Saudi Arabia* the 2013 inflation rate will – according to WES experts – amount to 4.3%, which would be somewhat lower than the inflation estimates of the last two quarters (5.3%). In *Turkey* inflation expectations for 2013 were significantly upwardly revised (from 6.8% in April to 7.6% in July).

In *Africa* price trends remain very heterogeneous. Relatively low inflation rates (below 4%) for 2013 are expected again in *Congo Dem. Republic* (2.7%), *Congo-Brazzaville Rep.* and *Morocco* (both 3.0%). The inflation expectations for 2013 for the majority of countries covered in the survey like *Benin* (4.0%), *Algeria* (4.2%), *Tunisia* (5.2%), *Lesotho* (5.9%), *Namibia* (6.2%), *South Africa* (6.2%), *Kenya* (6.6), *Swaziland* (6.7%) and *Mauritania* (7.0%) lie in a medium inflation bracket (between 4 and 9%). High inflation rates of 10% or more should also continue to predominate in 2013, particularly in the *Sudan* (38.8%), *Malawi* (30.0%) as well as *Burundi* (21.0%). To a lesser degree, *Nigeria* (10.4%), *Egypt* (10.5%) and *Sierra Leone* (10.8%) also belong to the high inflation countries in *Africa*.

### US Dollar expected to rise

On a world-wide scale the *US dollar* and the *yen* are seen by WES experts – like in the preceding survey – as very close to their fundamentally appropriate values, whereas the *euro* and the *British pound* continue to be judged as **overvalued** (see Figure 11). However, big differences in currency evaluation remain by country: WES experts assessed their own currencies as generally **undervalued** in the *United States of America*, in *Russia*, in some *Eastern European* countries like *Czech Republic*,

**Figure 11**



On the other hand, the *US dollar* is expected to weaken – to a lesser degree than in the preceding survey – in the *Asian* countries of *China* and the *Republic Korea*, some *Eastern European* countries like *Hungary*, *Latvia* as well as *Poland*, in a few *African* countries (*Swaziland*, the *Comoros* and *Liberia*), and in *Latin America* only in *Bolivia*.

**More WES experts expect an increase in long-term interest rates over the next six months**

On a worldwide scale, short-term interest rates are no longer expected to shrink further, but are now seen as on the verge of a moderate uptick over the next six months. The expected upward trend in long-term interest rates has even gained momentum. Most pronounced is the upward trend of interest rate expectations – for long-term, but also for short-term interest rates – in the *United States* and in *Brazil*.

The few exceptions, where the expected trend of interest rates in the coming six months is pointing downwards are some *Asian* countries like *India*, *Sri Lanka* and *Vietnam*, some *Eastern European* countries like *Slovakia*, *Hungary* and *Poland*, as well as *Sierra Leone* in *Africa* and finally *Australia*, although the trend only applies to short-term rates in the latter.

Stable short and long-term interest rates are expected in the second half of the year in *CIS* countries, with the exception of *Kazakhstan*, where both types of interest rates are expected to increase in the months ahead.

*Hungary* and *Poland*, and in some countries in *Africa* like *Nigeria* and *Sierra Leone*. An **undervaluation** of the domestic currency was also reported again in some *Asian* countries like *India* and the *Philippines*, but also for the first time in a long while in *Japan*.

By contrast, experts regard their own currency as generally **overvalued** in *Malaysia*, *Kenya*, some *Latin American* countries like *Venezuela*, *Argentina* and *Uruguay*, as well as in *Serbia* and in *Armenia*.

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 – to an even greater degree than the preceding survey – an increase in the value of the *US dollar* over the next six months on a worldwide average, particularly in *Latin America*, the *euro area* and *Australia*.

**Table 3**  
Assessment of the following factors influencing the climate for foreign investors in the next six months

Climate due to	Change for the next six months *	
	Deterioration	Improvement
Legal/administrative restrictions to invest and/or to repatriate profits	Argentina, Zambia	Croatia, Greece, Mexico, Zimbabwe
Political stability	Argentina, Hong Kong, Madagascar, Nigeria, Thailand, Ukraine, Zambia	Albania, Australia, Ireland, Paraguay, Uruguay

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

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

Source: Ifo World Economic Survey (WES) III/2013.



Table 4

## Inflation rate expectations for 2013 (based on WES QIII/2013 and WES QII/2013)

Region	QIII/2013	QII/2013	Region	QIII/2013	QII/2013
<b>Average of countries *</b>	<b>3.2</b>	<b>3.2</b>	<b>Latin America</b>	<b>8.5</b>	<b>7.9</b>
High-income countries	2.1	2.1	Argentina	27.0	26.5
Middle-income countries	6.8	6.6	Bolivia	5.0	5.8
Upper-middle	6.5	6.3	Brazil	6.2	5.9
Lower-middle	7.3	7.4	Chile	2.4	2.6
Low-income countries	6.5	6.9	Colombia	2.8	2.6
EU 28 countries	1.8	2.1	Costa Rica	5.9	(6.0)
EU countries (old members) <sup>a)</sup>	1.8	2.0	Cuba	---	(3.0)
EU countries (new members) <sup>b)</sup>	2.2	2.5	Dominican Republic	5.6	5.4
Euro area <sup>c)</sup>	1.7	1.9	Ecuador	4.3	4.2
<b>Western Europe</b>	<b>1.7</b>	<b>1.9</b>	El Salvador	1.8	2.5
Austria	2.1	2.3	Guatemala	5.4	4.8
Belgium	1.4	1.5	Mexico	4.4	4.1
Cyprus	1.0	(1.0)	Panama	(5.0)	(5.0)
Denmark	1.3	1.6	Paraguay	4.5	4.4
Finland	2.0	2.1	Peru	2.6	2.9
France	1.1	1.5	Trinidad and Tobago	(7.0)	(6.0)
Germany	1.8	2.0	Uruguay	8.0	8.1
Greece	0.1	0.8	Venezuela	38.3	33.0
Iceland	(3.5)	(4.2)	<b>CIS</b>	<b>8.1</b>	<b>8.0</b>
Ireland	1.4	1.2	Armenia	7.8	6.4
Italy	1.8	2.1	Belarus	(18.0)	(18.0)
Luxembourg	1.5	1.9	Georgia <sup>d)</sup>	(1.5)	3.8
Monaco	2.3	2.0	Kazakhstan	6.6	7.1
Netherlands	2.3	2.5	Kyrgyzstan	9.0	9.0
Norway	1.6	2.2	Russia	7.6	7.1
Portugal	1.4	1.5	Ukraine	4.7	5.6
Spain	2.0	2.3	Uzbekistan	(16.5)	(18.6)
Sweden	0.9	0.9	<b>Near East</b>	<b>4.3</b>	<b>4.3</b>
Switzerland	0.2	0.4	Israel	2.1	2.4
United Kingdom	2.7	2.8	Jordan	(7.4)	(7.0)
<b>Eastern Europe</b>	<b>2.4</b>	<b>2.6</b>	Kuwait	(3.5)	---
Albania	3.0	3.0	Lebanon	(6.8)	---
Bosnia and Herzegovina	2.2	2.6	Qatar	(3.5)	(3.0)
Bulgaria	2.7	3.2	Saudi Arabia	4.3	5.3
Croatia	2.8	3.1	Turkey	7.6	6.8
Czech Republic	1.8	2.0	United Arab Emirates	2.2	2.2
Estonia	3.3	3.5	<b>Africa</b>	<b>7.5</b>	<b>7.5</b>
Hungary	2.6	3.2	<b>Northern Africa</b>	<b>5.7</b>	<b>6.0</b>
Latvia	2.5	2.0	Algeria	(4.2)	4.0
Lithuania	2.4	2.8	Egypt	10.5	12.6
Macedonia	2.5	2.8	Libya	(6.0)	(7.0)
Poland	1.5	1.8	Morocco	(3.0)	2.4
Romania	4.3	4.1	Tunisia	5.2	6.0
Serbia	9.8	5.5	<b>Sub-Saharan Africa</b>	<b>8.7</b>	<b>8.5</b>
Slovakia	2.1	2.5	Angola	(9.0)	(9.5)
Slovenia	2.1	2.0	Benin	4.0	4.2
<b>North America</b>	<b>1.9</b>	<b>2.0</b>	Burundi	21.0	21.5
Canada	1.5	1.7	Chad	(5.2)	---
United States	2.0	2.1	Comoros	3.3	(3.0)
<b>Oceania</b>	<b>2.4</b>	<b>2.5</b>	Congo Dem. Rep.	2.7	3.8
Australia	2.5	2.6	Congo-Brazzaville Rep.	(3.0)	3.4
New Zealand	1.7	1.7	Ethiopia	8.0	(12.0)
<b>Asia</b>	<b>3.2</b>	<b>3.1</b>	Ghana	(11.0)	(9.0)
Bangladesh	7.6	8.8	Kenya	6.6	6.6
China	3.1	3.4	Lesotho	5.9	6.4
Hong Kong	3.7	3.4	Liberia	7.7	7.2
India	7.0	7.1	Madagascar	8.1	8.1
Indonesia	7.7	6.3	Malawi	(30.0)	24.0
Japan	0.4	0.4	Mauritania	7.0	6.8
Malaysia	2.9	2.6	Mauritius	4.5	4.4
Pakistan	9.6	10.4	Namibia	6.2	6.2
Papua New Guinea	(6.0)	(6.0)	Niger	2.5	3.7
Philippines	3.3	3.4	Nigeria	10.4	11.5
Singapore	3.5	(3.0)	Senegal	(1.5)	---
South Korea	2.2	2.8	Sierra Leone	10.8	10.3
Sri Lanka	9.1	10.0	South Africa	6.2	5.9
Taiwan	1.5	1.7	Sudan	38.8	31.7
Thailand	3.2	3.4	Swaziland	6.7	6.1
Vietnam	6.7	7.5	Togo	(3.0)	(3.0)
			Zambia	8.2	7.3
			Zimbabwe	3.6	4.2

\* 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, Croatia. -<sup>c)</sup> Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia. -<sup>d)</sup> Georgia, which is not member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

Source: Ifo World Economic Survey (WES) III/2013 and II/2013.

Figure 12

EXPECTED TREND FOR THE NEXT 6 MONTHS  
FOR SHORT- AND LONG-TERM INTEREST RATES

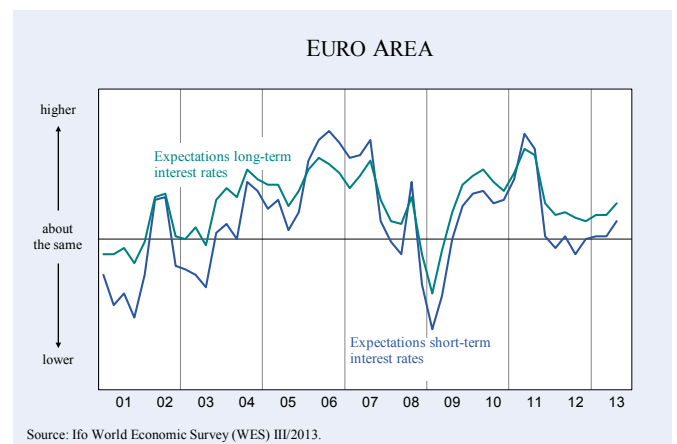
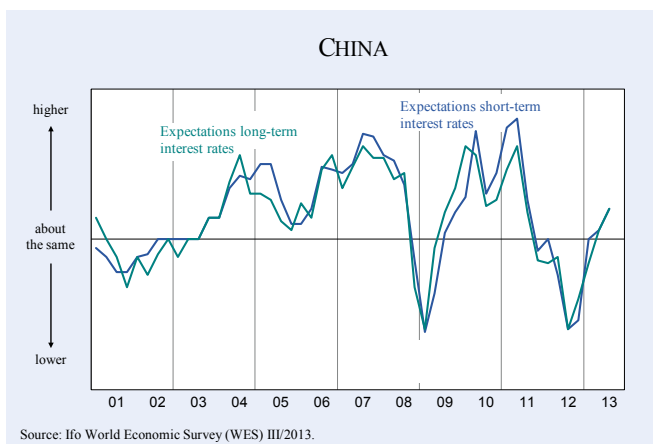
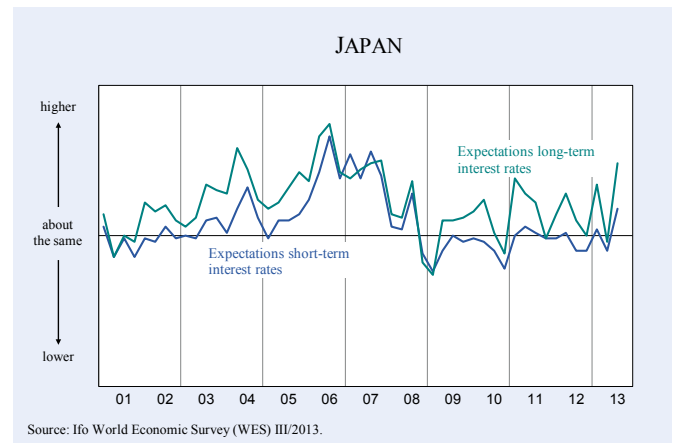
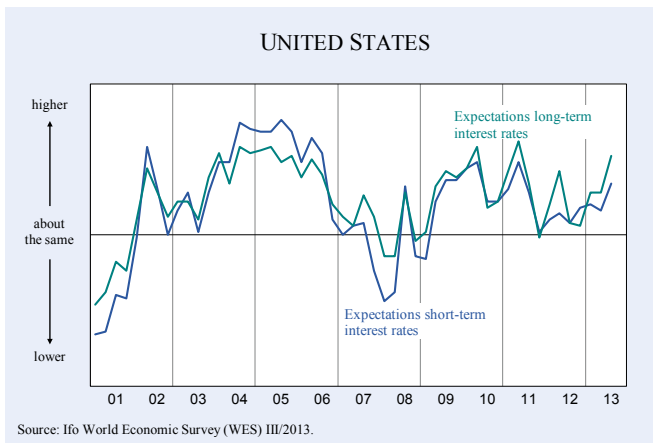
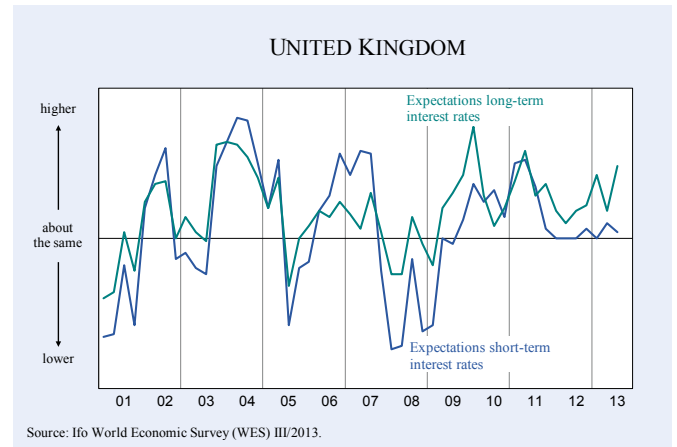
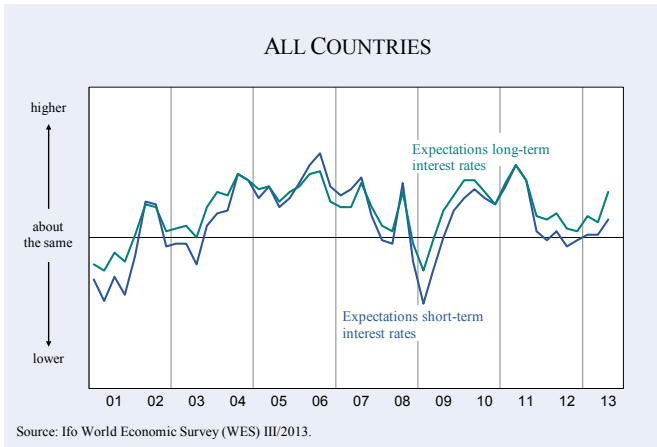
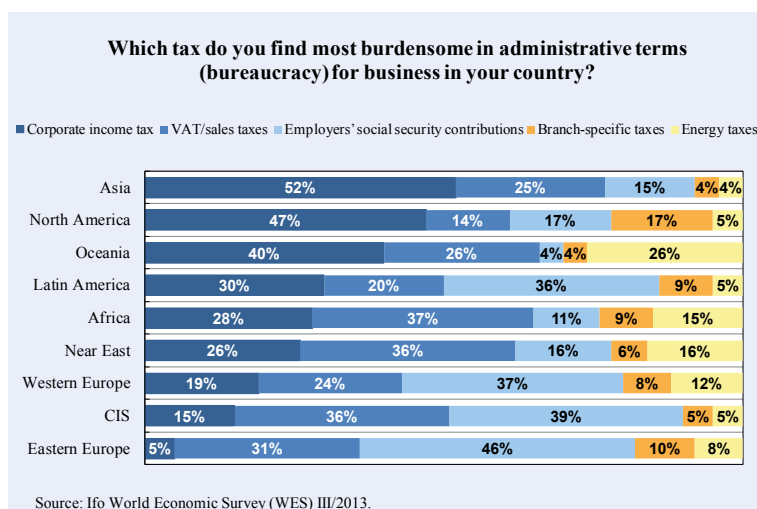


Figure 13



### Supply of bank credit to firms

Given the problems experienced by firms in some countries concerning access to bank credit, a specific question has been added to the regular WES questionnaire. WES experts were asked to assess to what extent the supply of bank credit to firms in the country they are reporting for is constrained by bank specific factors (e.g. banks' health or banking regulation). The scale ranges from "not constrained" (9), to "moderately constrained" (5) to "strongly constrained" (1) (see Table 1).

Countries with a high degree of credit constraints comprise – according to WES experts – the "euro crisis countries", *Greece, Spain, Slovenia* and also – though to a slightly lesser degree – *Portugal, Ireland* and *Italy*. The *Netherlands* and *Belgium* belong to the group of countries where bank credit to firms appears to be "moderately" constrained. Outside the *euro area* a "strong constraint" is reported for *Zimbabwe* and *Romania*. A more than "moderate" constraint was seen by WES experts in the *Ukraine, China, the United Kingdom, Albania* and *Hungary*.

On the other hand, the top group of countries where WES experts see no constraint on bank credits for firms comprises of *Canada, Guatemala,*

*Australia, Hong Kong, Chile, Japan, Paraguay, Colombia, Namibia, the Philippines, New Zealand, Switzerland, Germany* and *Peru*.

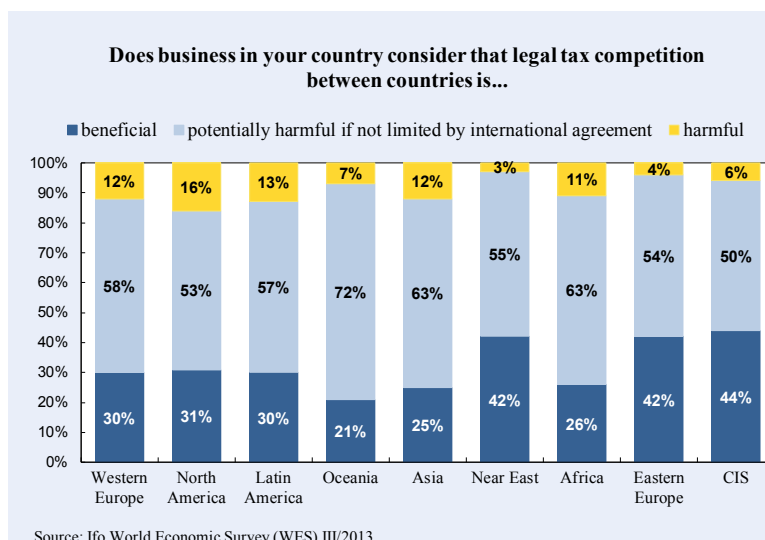
### ICC Special Question: Tax administration and tax competition between countries

In recent months the practices of globally operating companies to avoid taxes within the legally possible framework of existing laws and regulations have been the focus of public discussion. At its

past summit, the G8 countries agreed to fight together against tax evasion and to take action against aggressive tax avoidance by international companies. This quarter's ICC special question asked the economic experts surveyed how tax administration affects businesses in their countries, and for their views on legal tax competition between countries.

For economic experts in *Asia, North America* and *Oceania* the corporate income tax is clearly seen as very burdensome in administrative terms (see Figure 13). In contrast, in the countries of *Eastern and Western Europe, CIS* and *Latin America*, social security contributions are seen from a bureaucratic point of view as an even greater burden. In *Africa*, and also in *Near East*, VAT/sales taxes were rated as most burdensome

Figure 14



---

in its administration. Branch-specific and energy taxes in all observed regions generally seem to be less problematic with regard to tax administration. However, it must be remembered that the tax structures and tax systems differ from country to country and are not fully comparable.

With regard to legal tax competition between countries, the majority of all economic experts surveyed deem this to be harmful if not limited by international agreement (see Figure 14). However, there are also voices, who claim that international legal tax competition is beneficial. This opinion is particularly prevalent in *CIS*, *Near East* and *Eastern European* countries (here in *Bulgaria*, *Czech Republic* and *Lithuania*). Economic experts surveyed in the *United Kingdom*, *Ireland* and *Switzerland* also cited the beneficial impact of tax competition in their countries. Of course, as “tax havens” these countries benefit from different international tax regulations and the tax planning and tax optimization of international firms in a possible legal frame. However, in the light of fair tax distribution, there should be an increased effort worldwide to create international standards to guarantee that countries receive the tax revenues that are due to them.