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Article

CESifo World Economic Survey November 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 November 2013, CESifo World Economic Survey, ISSN 2190-720X, ifo Institut - Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 12, Iss. 4, pp. 1-27

This Version is available at:
https://hdl.handle.net/10419/169559

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CESifo World Economic Survey

Volume 12, No. 4

November 2013

World Economic Climate

World economic climate brightens

Economic Expectations

Economic expectations clearly more optimistic

Inflation

Inflation expectations unchanged

Currencies

US dollar expected to rise

Interest Rates

Long-term interest rates likely to rise

Special Topic

The multilateral trading system

With the support of International Chamber of Commerce
The world business organization

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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
Annual subscription rate: €40.00
Single subscription rate: €10.00
Shipping not included

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CESifo
Ifo World Economic Survey
November 2013

Regions

- World Economy: Uneven developments across continents
- Western Europe: Economic climate improves further
- North America: Uncertainty overclouds economic climate
- Eastern Europe: Economic climate indicator rises sharply
- CIS: Economic climate indicator hits four-year low
- Asia: Economic climate indicator picks up again
- Oceania: Economic climate brightens further
- Latin America: Economic climate remains subdued
- Near East: Economic climate clouds over slightly
- Africa: No unified economic trend

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

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 2013, 1,091* economic experts in *120* 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 Brightens

After dropping slightly in the last quarter, the Ifo Indicator for the world economic climate rose again. While assessments of the current economic situation were only fractionally more positive, the six-month economic outlook, by contrast, was clearly more optimistic (see Figures 1 and 2). At 98.6, the indicator slightly exceeded its long-term average of 96.0 (1997–2012). The world economy is edging closer towards a recovery in little steps (see Box 1). As in the previous quarter, the development of the economic climate differs across continents.

Uneven developments across continents

The world economy picked up in the first half year of 2013. Production primarily expanded more rapidly in the advanced economies, while the pace of growth in emerging economies, by contrast, barely picked up at all. Growing confidence on the part of companies in most countries suggests that the economic recovery will continue in the second half of the year.

After its sharp drop in the third quarter, the economic climate indicator in *Asia* rose again and is now above its 15 year average. The current economic situation in the region is assessed as satisfactory. Expectations of future economic developments are considerably more positive. *China*, in particular, saw a return of confidence in the economy. This also holds for *Japan*, where the current situation in particular was assessed more positively compared to the last quarter. The economic climate also rose in *Europe*, primarily due to far more positive economic expectations for the next six months. The current economic situation also improved compared to last quarter, but experts' assessments remain unfavorable on the whole. However, the strong result is primarily due to reports from *Germany,* the economically most important country in *Europe*. The divide between the Northern and Southern economies of the *euro area* has widened. The current economic situation in *Greece*, *Italy, Portugal, Spain* and *Cyprus* barely changed compared to last quarter and remains at a crisis level in these countries. However, economic expectations for the next six months signal some improvement ahead in almost all crisis-afflicted countries, helping the economic climate indicator in these countries to rise. In *North America*, on the other hand, the economic climate indicator fell slightly. Assessments of the current economic situation in particular were more negative than three months ago. The "government shutdown" in the *USA*, which took place in the period of the survey, was a constraining factor. Despite a small decrease, however, expectations for the next six months

Figure 1

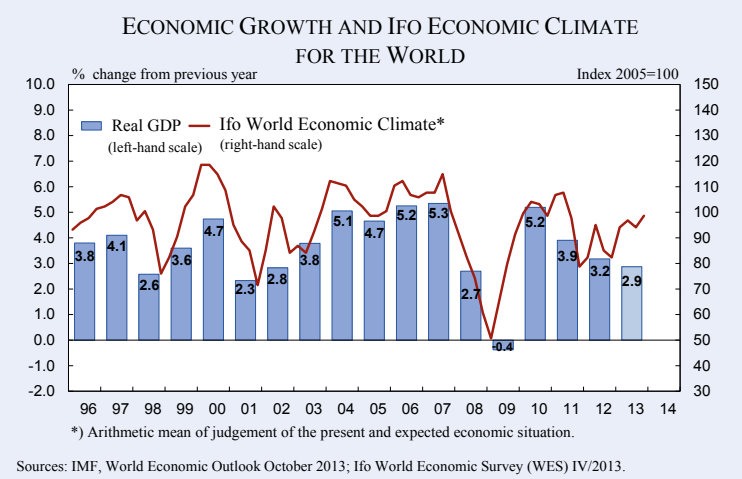
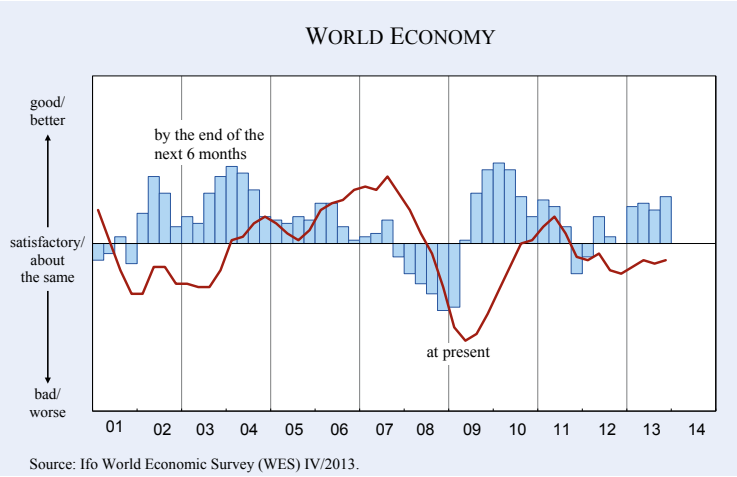


Figure 2

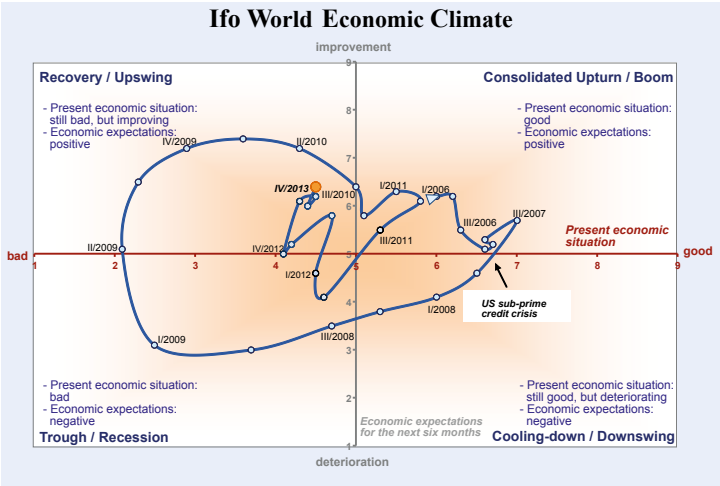


Box 1

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 rose slightly. Assessments of the current economic situation improved, as did economic expectations to an even greater extent. The indicator showed a small upwards movement in the "recovery" quadrant. The world economy is recovering step by step.



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

are still on an upward trend. In *Latin America*, the economic climate remained unchanged. A more optimistic outlook was offset by less positive assessments of the current situation.

Although economic activity in advanced economies remains constrained by structural problems, there have been signs of a recovery since the beginning of the year. The *US* economy has coped very well with cuts to the public budget. *Japan's* new government has succeeded in clearly stimulating the country's economy with its highly expansionary economic policy. Finally, production in the *euro area* recently increased for the first time in 18 months. In emerging economies the growth dynamic remains strong overall, but has slowed down considerably recently. The lack of sound institutions is proving a growing constraint. This is particularly true of the large emerging economies of *Brazil, Russia, India* and *China*. Weaker growth in *China*, an economy that has heavily influenced the pace of world economic growth over the last decade, is of the greatest importance in this respect.

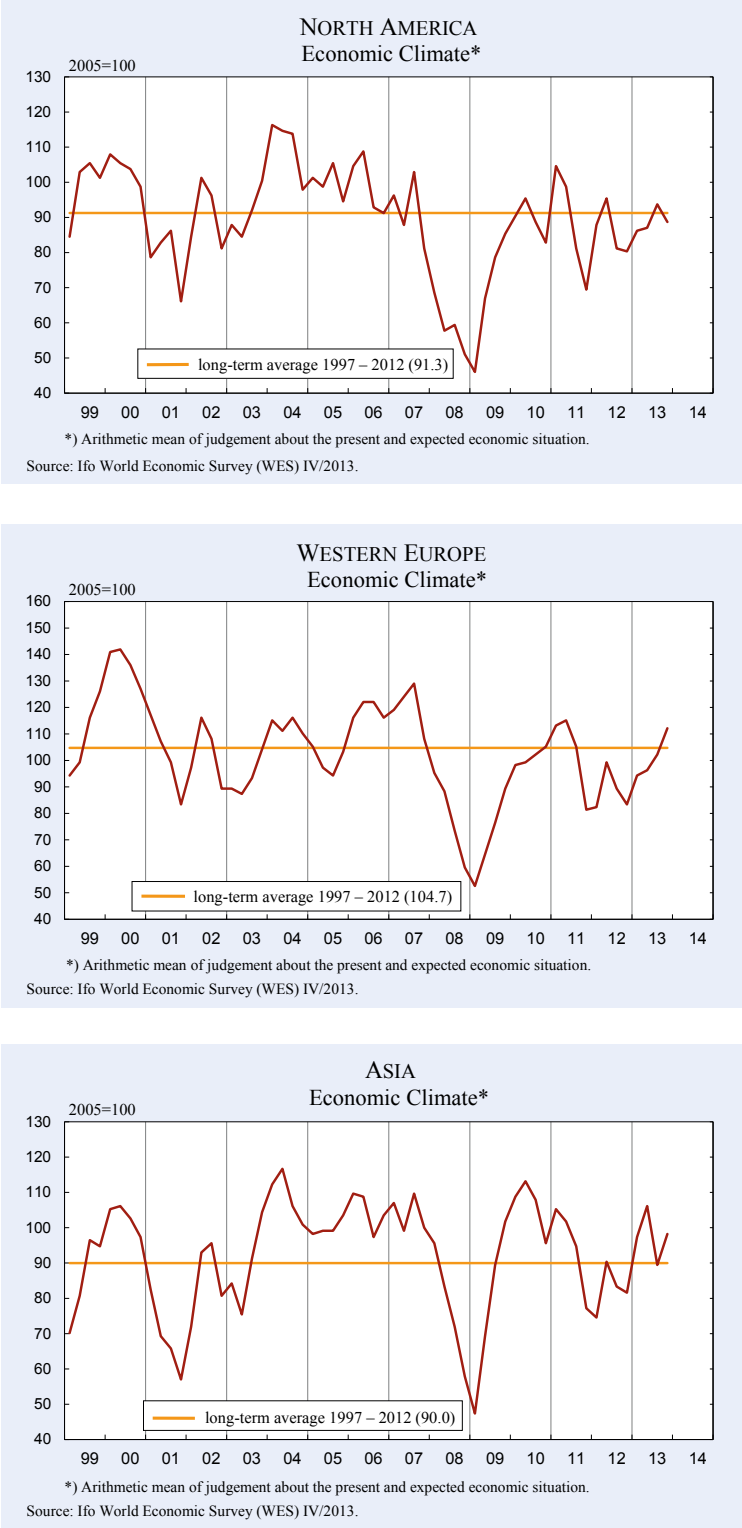
Table 1

Ranks of the three most important economic problems

	World	Western Europe	North America	Latin America	Oceania	Asia	Near East	Africa	Eastern Europe	CIS
Lack of confidence in government's econ. policy	1		3	2		1			3	2
Insufficient demand	3.5	3			2				1.5	
Unemployment	3.5	1	2		3		2.5	1	1.5	
Lack of international competitiveness				1	1			2		1
Lack of skilled labour				3		3	1	3		3
Public deficits	2	2	1			2				
Capital shortage							2.5			

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

Figure 3



The WES results suggest that the slightly faster pace of world economic growth in the first half of 2013 will probably be sustained in the second half of the year, as well as in 2014. The improvement seen in sentiment also has fundamental roots: some of the factors constraining economic activity since the financial crisis are slowly becoming less significant. The economic environment does pose some risks for the outlook. Should the budget problems in the *USA* return and not be solved in the first quarter of 2014, a severe recession in the *USA* with serious implications for the world economy may result.

Western Europe: Economic climate improves further

The economic climate indicator for *Western Europe* improved by another ten index points to 112.2 in October, thus exceeding its long-term average of 104.7 between 1997 and 2012 (see Figure 3). Assessments of both the present economic situation and economic expectations were more positive than in the previous quarter. The current economic situation nevertheless remains below the satisfactory-line. The economic outlook for the next six months, on the other hand, reached its most optimistic point since early 2010 (see Figure 4). The same pattern applies to the *euro area*, where the indicator lies at 114.7, or about six index points above its 15-year long-term average of 108.0. The strong rise in the indicator mainly resulted from economic expectations, which have been strongly upwardly revised in nearly all euro member countries. Although assessments of the present economic situation continued to improve compared to the previous surveys, economic sentiment nevertheless remains subdued in the majority of *euro area* countries. This particularly applies to the crisis-afflicted countries of *Cyprus, Greece, Italy, Portugal* and *Spain* (see Figures 5a and 5b). In *Ireland*, the present economic situation deteriorated again in October, after having improved slightly in July. According to WES experts, high unemployment currently constitutes the most serious economic problem in these countries, fol-

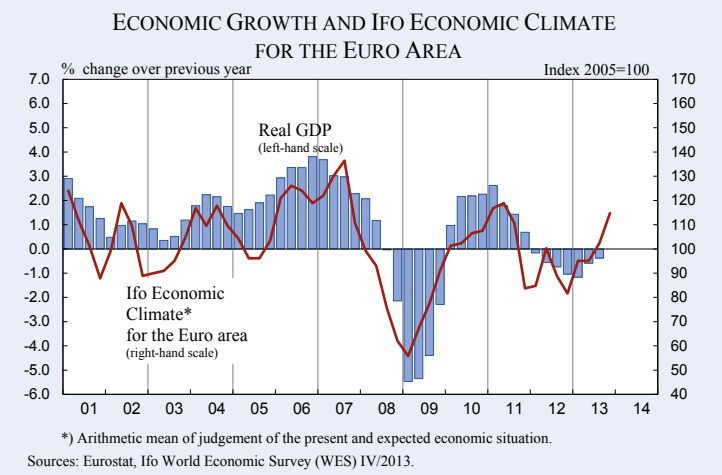
Box 2

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 285 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* continued to rise this quarter, exceeding its long-term average for the first time since the end of 2011. Although the current economic situation in the *euro area* brightened slightly, assessments remain unfavourable. High unemployment, public budget deficits and weak demand continue to plague several countries. The economic outlook for the next six months, on the other hand, is considerably more optimistic than three months ago. Expectations are at their highest level in almost three years. However, the strong result is primarily due to reports from *Germany*, which is tremendously important as the biggest country in the *euro area*.

The current economic situation in *Greece, Italy, Portugal, Spain* and *Cyprus* barely changed compared to the last quarter and remains at a crisis level in these countries. In *Ireland, Slovenia* and the *Netherlands* the situation deteriorated somewhat, according to the experts surveyed. Although assessments of the economy for *Belgium, Finland* and *France* brightened slightly compared to last quarter, they nevertheless bear witness to a weak economic situation. Assessments of the current economic situation are also below the "satisfactory" mark in *Austria. Germany* – where the situation continued to improve – and *Estonia* remain the only countries in which economic experts reported a satisfactory to good economic situation. Expectations for the next six months continued to improve for all *euro area* countries with the exception of *Belgium* and *Luxembourg. Cyprus* was the only country in which economic expectations remain negative, despite some improvement. Experts expressed greater confidence in the mid-term economic perspectives in the *euro area* for the next 3-5 years than during the same period last year.



*) Arithmetic mean of judgement of the present and expected economic situation.
Sources: Eurostat, Ifo World Economic Survey (WES) IV/2013.

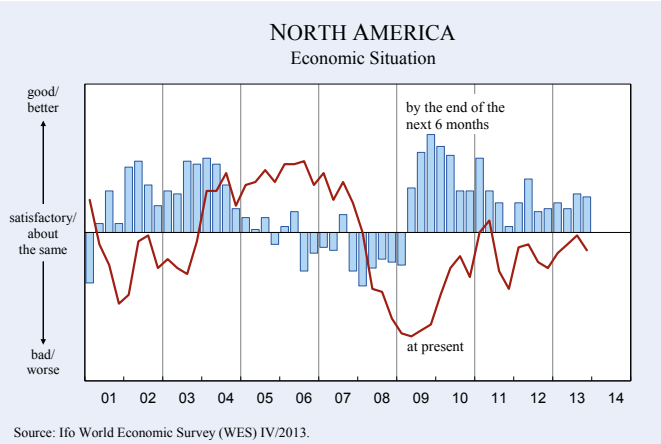
lowed by high public deficits. *Greece* and *Cyprus* are also suffering from insufficient demand at the moment (see Table 1). While WES experts in *Belgium, Finland* and *France* regard the present economic situation in their countries as less negative than in the previous survey, the current economic situation in the *Netherlands* and *Slovenia* deteriorated further: all in all, the situation in the countries mentioned above is still seen as weak. In *France*, high unemployment is the most urgent economic problem. The *Netherlands* and *Finland,* on the other hand, are facing insufficient demand, while in *Slovenia* a lack of confidence in the government's economic policy constitutes the most urgent problem. In *Austria*, assessments of the present economic situation remain unfavourable, while in *Slovakia* they moved into satisfactory territory. WES experts in *Luxembourg, Malta* and *Estonia* also regard economic performance as satisfactory at present. The economic experts surveyed gave *Germany* the best rating in the *euro area* where the already previously positive economic situation improved further. The performance of capital expenditure also improved versus the WES survey in July and reached a satisfactory level. Generally, no urgent economic problems were identified in *Germany*, except for a "lack of skilled labour", which was ranked of middling importance.

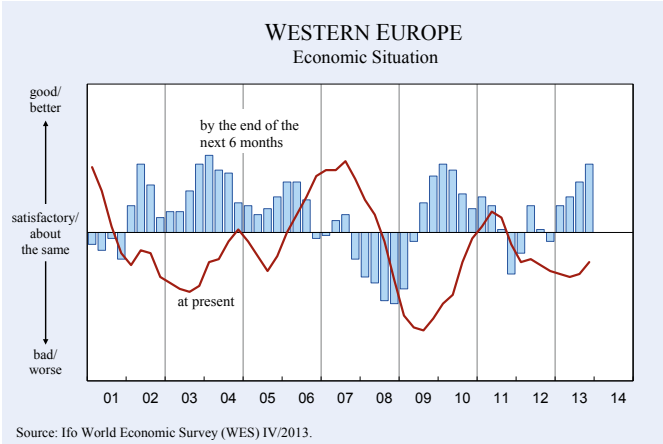
Economic expectations were strongly upwardly revised in all *euro area* countries – except for in *Belgium* and *Luxembourg*, where WES experts are less optimistic than in the previous quarter. Nevertheless, the broad majority of all economic experts surveyed are convinced that future economic performance will improve over the next six months in all euro member countries. These are the most clear optimistic expectations that WES has seen in the *euro area* for over three years.

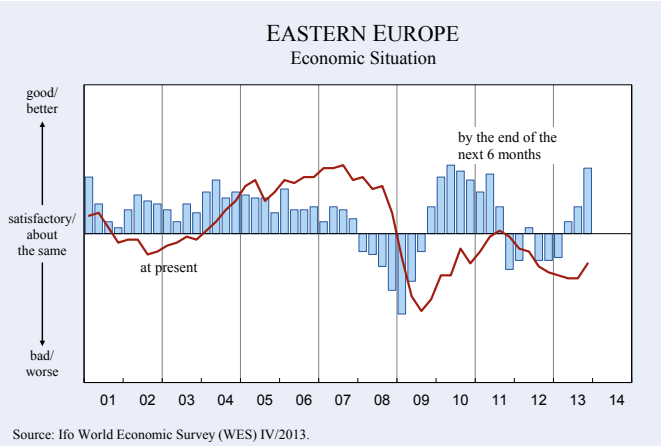
Outside the *euro area* economic developments remain heterogeneous. In *Sweden, Switzerland* and *Monaco* no major changes have been observed and the present economic situation remains more or less favourable and the economic outlook positive. In *Denmark* and the *United*

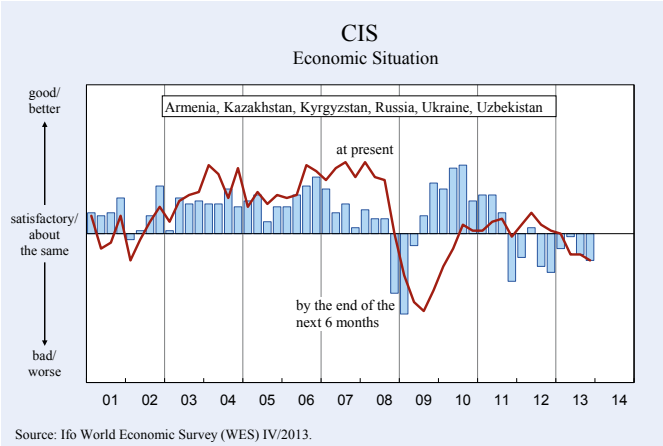
Figure 4

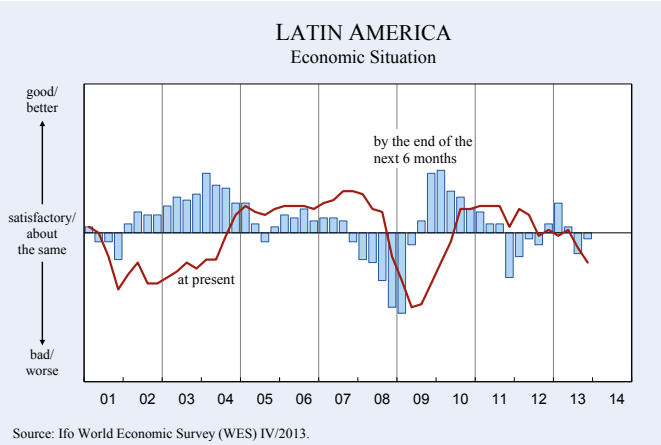
Selected Regions

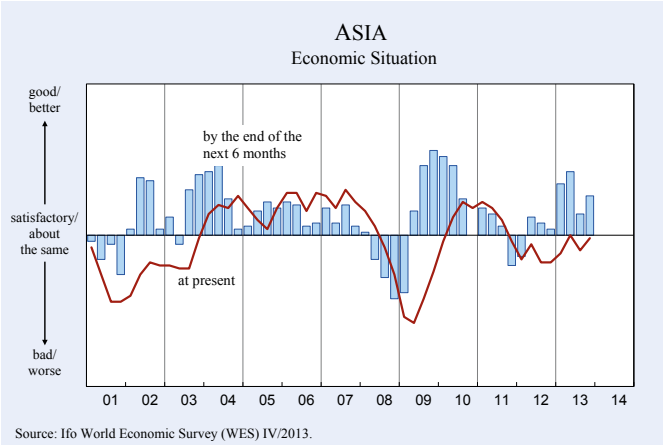












Kingdom assessments of the current economic situation improved compared to the July survey, but remain unfavourable overall. In *Denmark*, in particular, private consumption is currently considered weak, while insufficient demand ranks as the most important economic problem at present. In turn, WES experts in the *United Kingdom* reported capital expenditure to be mainly weak and see public deficits as the most urgent problem for their economy. In *Norway,* the decreasing trend in assessments of both the present economic situation and expectations continued. However, while the present economic situation remains favourable, economic expectations turned clearly negative and signal further deterioration in the six months ahead. A lack of international competitiveness is hampering *Norway's* economy.

North America: Uncertainty overclouds economic climate

The rise in the economic climate indicator in *North America* ground to a halt this quarter. The index fell again – to 88.7, which is below its long-term average of 91.3 (1997–2012). While economic expectations remain fairly confident, assessments of the present economic situation are less positive than they were three months ago (see Figures 3 and 4).

In the *United States* assessments of both the present economic situation and economic expectations have been downgraded somewhat compared to the previous survey. The government shutdown, which fell into the WES October survey period, left its mark. WES experts cited the most important economic problems as "public deficits", "lack of confidence in government's economic policy" and "unemployment". Despite the slight downward revision, the economic outlook still remains positive (see Figure 6). In *Canada*, appraisals of the current economic situation deteriorated somewhat, but remain at a satisfactory level. The economic prospects continued to follow an upward trend and signal further improvements in the six months ahead. *Canadian* experts cited a shortage of skilled labour as the most urgent problem for their economy at the moment.

Eastern Europe: Economic climate indicator rises sharply

In *Eastern Europe* the economic climate indicator continued to rise, and even saw a sharp increase in this survey period. The indicator climbed about 15 index points to 89.1, which is slightly above its 15-year average 85.4 (1997-2012). The rise in the indicator was primary the result of brighter economic expectations. Assessments of the present economic situation also improved, but less strongly, and remain in unfavourable territory (see Figures 4 and 7). As the region's most important economic problems, WES experts highlighted insufficient demand and unemployment, followed by a lack of confidence in the government's economic policy.

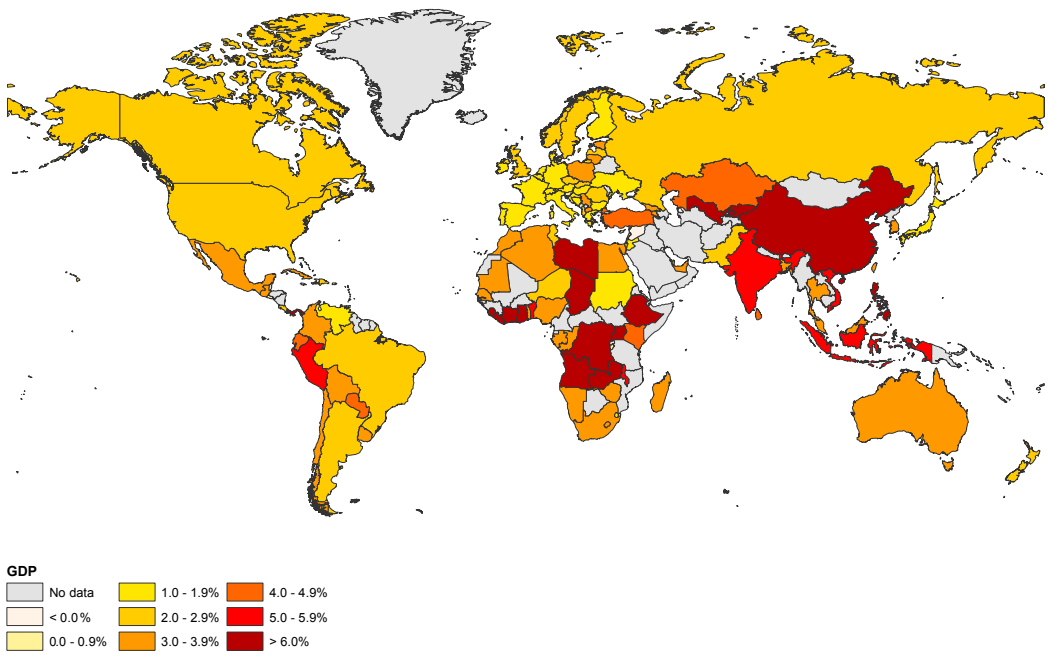
In *Lithuania* the present economic situation improved further and is rated as good. Economic expectations are again more optimistic and point to a continuing upward trend in the six months ahead. The economic climate in *Latvia* fell slightly due to less positive assessments of both the present economic situation and expectations. However, a satisfactory overall situation still prevails with a further positive outlook. In January 2014, *Latvia* will introduce the euro currency. WES experts in this country cited a lack of international competitiveness as the most important economic problem at present. In *Bulgaria, Hungary, Poland* and *Romania* the current situation was described by economic experts as unfavourable. In the *Czech Republic*, the present economic situation was assessed as somewhat better than three months ago, but the economic performance still has not reached a satisfactory level according to WES experts. In all of these countries, capital expenditure and private consumption are performing weakly at present. Overall, WES experts expressed greater confidence in the six-month economic outlook of these countries, and expect the export sector in particular to expand strongly during this period. In *Croatia*, a new member of the European Union since July, no changes for the better were recorded: indeed, all of the economic experts surveyed again unanimously attested to their country's poor economic situation for the fifth time in succession. On the upside, economic expectations turned positive, which points to some economic improvement in the six months ahead.

In *Eastern European* countries outside the EU, the economic climate also improved due to a far more positive economic outlook compared to July's survey. Assessments of the present economic situation, however, remained weak. This is true for *Albania*, *Bosnia and Herzegovina*, as well as for *Serbia* – despite some upward revisions in the latter country. In *Macedonia,* the current economic situation was rated as satisfactory. However, WES experts are now fairly confident with regard to the next six months and expect the situation in all countries to improve. Survey respondents only re-

Box 3

Medium-term growth outlook remains stable

Expected average annual growth rates of the real Gross Domestic Product (GDP) over the next 3 to 5 years



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

On average annual economic growth expectations[1] of 2.6 percent in the next three to five years for all 120 countries included in the survey, remain nearly unchanged in comparison to an estimated 2.5 percent one year ago (see Table 2). However, while the medium-term growth rate has been revised upwards compared to the survey one year ago in *Western and Eastern Europe* and in *Asia*, an opposing trend was seen in *CIS* countries, *Latin America* and *Africa*. In *North America, Oceania* and the *Near East* there were no major changes recorded versus the survey one year ago. Generally, the growth rates of middle- and low-income countries are again higher than in high-income countries, but the differences in the growth rates between advanced and developing countries is not as strongly pronounced as in previous surveys.

The highest medium-term economic growth rates are expected in the *Near East* with 3.8% and *Asia* with about 3.7% on average; but average growth rates of 3.6% are also forecast in *Africa*. The fastest growing countries in *Asia* once again include *China* (stable at estimated 6.8% p.a.), *Vietnam* (5.3% versus 4.7%), *Indonesia* (5.6%), *Philippines* (with estimated 6.3% considerably stronger than 4.4% one year ago) and *India*, whose annual growth rate has been downgraded from 6.4% in 2012 to 5.6% at present. In *Africa* the annual average growth rate will lie between 6.0% and 10.0% in *Libya, Angola, Chad, Congo Dem. Rep., Ethiopia, Ghana, Ivory Coast, Liberia, Sierra Leone, Uganda* and *Zambia*.

In *Latin America* middle-term growth potential is less strongly estimated than in previous surveys. This is specifically due lower estimated average annual growth rates in *Brazil* (2.6%), *Argentina* (2.6%), *Colombia* (3.9%) and *Chile* (3.8). Only a few countries in this region such as *Mexico* (3.4%), *Peru* (5.0%), *Uruguay* and *Guatemala* (both 3.8%) are expected to follow the growth rates seen in recent years.

In *CIS* countries the estimated average annual growth rate is also far lower than one year ago (2.5% compared to 3.4% last year). In *Russia* (2.1% vs. 3.2%) and the *Ukraine* (1.5% vs. 2.6%) WES experts downwardly revised their growth rate estimations in the mid-term.

In *North America* and *Oceania* aggregates of growth rates estimations remain widely stable at 2.3%, respectively 3.5% compared to one year ago. In *Canada* (2.7% vs. 2.4%) and *New Zealand* (2.8% vs. 1.9%), however, higher growth rates than one year ago are expected.

In the middle range of growth expectations stands *Eastern Europe* with an estimated annual medium-term growth of 2.4%. Above the region's average at around 2.9% up to 3.8% are the annual medium-term growth rates expectations of *Estonia, Latvia, Lithuania, Poland* and *Serbia*, according to WES experts. Experts' estimated expansion rates in the *Czech Republic* (2.3%) and *Romania* (2.1%) are considerably more positive than one year ago.

In *Western Europe,* experts expressed greater confidence in mid-term economic perspectives for the next 3-5 years than during the same period last year (on average 1.5%, after 1.1%). In the *euro area's* crisis-afflicted countries – namely *Greece, Italy, Spain* and *Portugal* in particular – a (more) positive growth rate is likely. Outside the *euro area,* and especially in the *United Kingdom,* a stronger output (2.3% vs. 1.4% one year ago) is expected.

[1] Country economic growth rate is the GDP in constant prices. Within each country group or region, as well as for the world GDP forecast, the country results are weighted according to the specific country's exports and imports as a share of total world trade. These global GDP growth rates are different from the world GDP growth that is calculated using purchasing power parities as country specific weights, as applied by the IMF forecasts. Thus, world economic growth calculated by the Ifo method, which is also applied by the World Bank, tends to be somewhat lower than the corresponding figures released by the IMF as a rule.

main cautious in *Bosnia and Herzegovina* and do not see any substantial economic improvement over the next six months.

CIS: Economic climate indicator hits four-year low

The economic climate indicator for the *CIS* countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan, Uzbekistan* and *Armenia*) continued to fall for the third time in a row. Both components of the economic climate – the present situation and economic expectations – declined equally and were more unfavourable than in the previous survey (see Figure 4). The economic climate indicator for *CIS* fell to its lowest level since end-2009. As in previous surveys, the region's most serious economic problems are a lack of international competitiveness and little confidence in the economic policy of governments. Corruption also seems to be a key economic problem in this region, particularly in *Russia* and *Armenia*.

In *Russia*, the downward trend in assessments of both the present economic situation and, to an even greater degree, economic expectations, continued. The economic situation is, in the opinion of WES experts, unfavourable. Capital expenditure is mainly considered as weak at present, while private consumption is performing satisfactorily. As far as future economic developments in the months ahead are concerned, WES experts expressed even more caution than in the previous survey. In the *Ukraine* and *Armenia* the appraisals of the economic situation are – like in the previous survey – at an unfavourable level. In both countries, the economic experts surveyed expect their economies to deteriorate further in the six months ahead. In *Georgia*[1] and *Kyrgyzstan* the present economic situation is also rated as weak with no indications that the situation will change for the better in the next six months, according to WES experts. *Kazakhstan* and *Uzbekistan* are the only countries in which a satisfactory present economic situation prevails, and it is expected to persist for the next six months.

Asia: Economic climate indicator picks up again

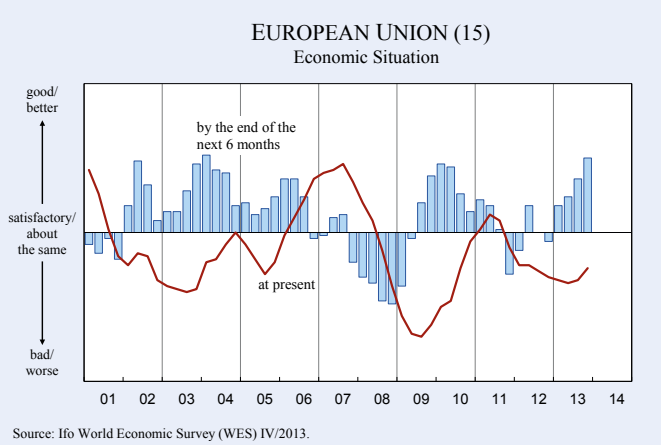
After the strong downturn in July, the economic climate indicator in *Asia* bounced back up to 98.2, exceeding its long-time average of 90.0 (1997–2012). Assessments of the present economic situation recovered and reached the satisfactory-mark once again. The economic outlook is also more positive, compared to the previous quarter and points to further improvements of economic performance in the next six months (see Figures 3, 4 and 8). Lack of confidence in government's economic policy was cited as the region's most important economic problem, closely followed by public deficits. Shortage of skilled labour is ranking way down on the list of current problems.

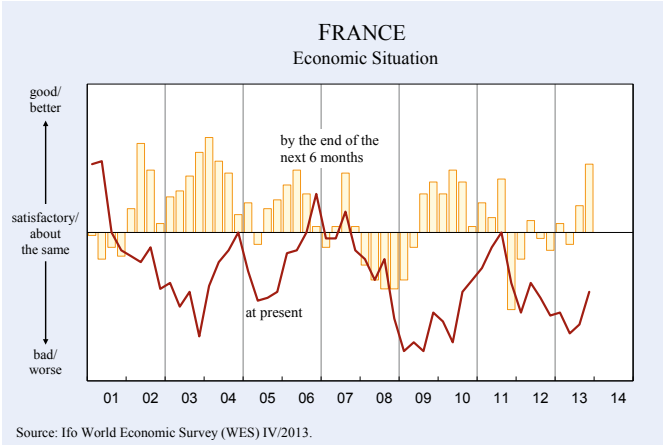
In *China*, *Japan* and *Sri Lanka* WES experts' appraisals of the current economic situation have been upwardly revised compared to the July survey and reported a satisfactory economy. In *Japan,* public deficits are ranked as the most important economic problem by far. Governments' plans to raise the consumption tax from its current level of 5% to 8% in April 2014 should help to reduce debts. However, they will also lead to accelerated consumption prior to the plan's implementation and to uncertainty about future economic developments. The undervalued *yen* will help to strengthen exports further in the next six months. Economic expectations in all of these countries picked up compared to the survey in July – especially in *China* – and WES experts have an optimistic view of economic activity. In *Singapore* and *Indonesia* no major changes have been recorded and a satisfactory economic situation prevails, which is expected to stabilise at the current good levels in the next half year. In *Bangladesh*, *Hong Kong* and the *Philippines*, the majority of experts surveyed reported a good economic situation at present. While private consumption is the main driving force in these countries at the moment, capital expenditure in *Bangladesh* is considered as weak. The inflation rate is seen as the country's most important economic problem at present and should be among the highest in the region by the end of this year at an estimated 8%. With regard to the economic outlook for the next six months, WES experts in all of these countries retain their positive view. In the *Philippines,* however, they are somewhat less positive than three months ago. The strongest downwards revision in the economic climate compared to the previous survey took place in *Malaysia*. Here assessments of both the present economic situation and economic expectations moved into unfavourable territory. This country's most urgent economic problems at present are a "lack of skilled labour" and "public deficits", according to the experts surveyed. In *South Korea*, *Thailand* and *Vietnam* an unfavourable economic situation still prevails, despite some slight upwards revision versus the survey in July in

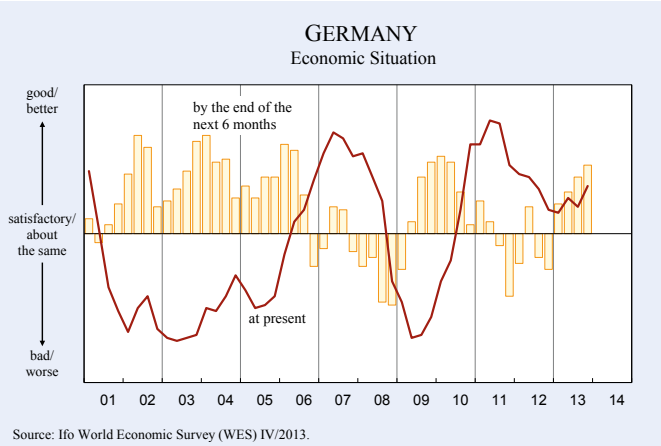
[1] Georgia, which is not a member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

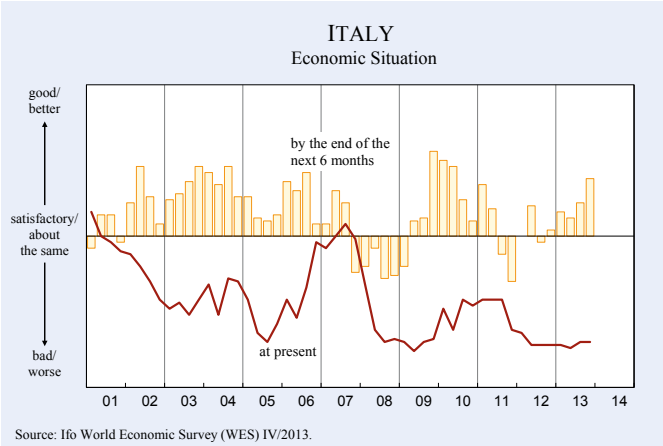
Figure 5a

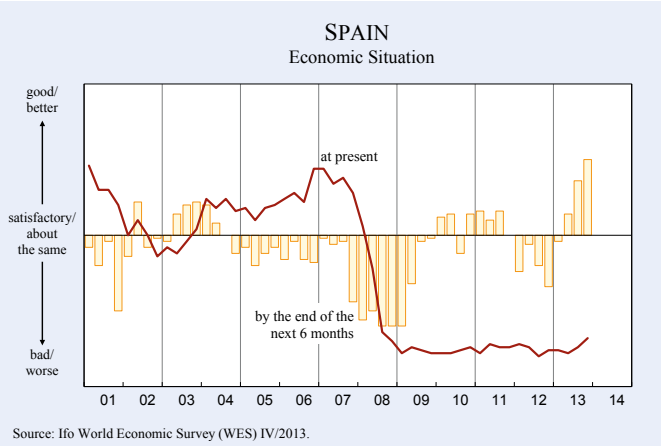
European Union











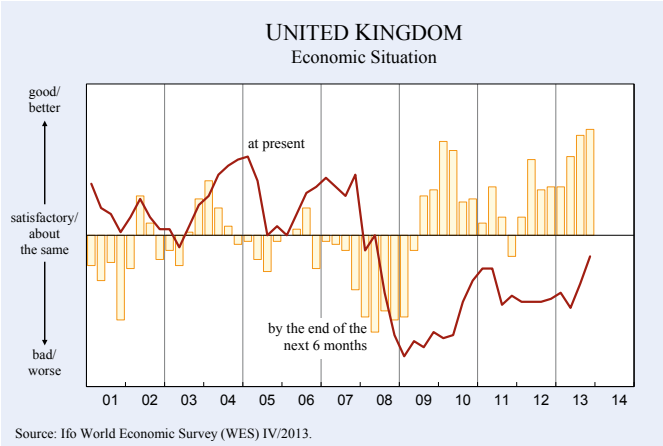
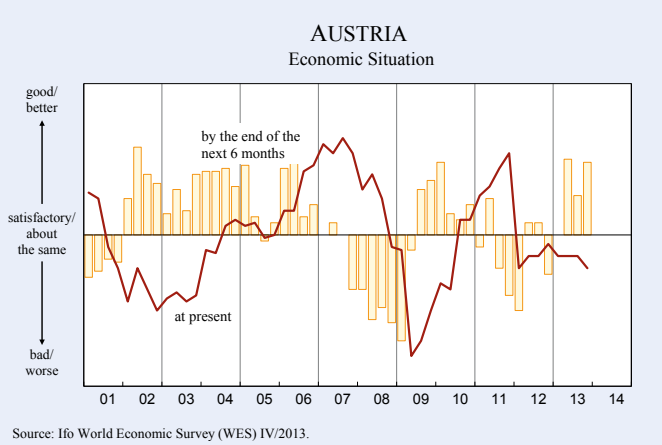
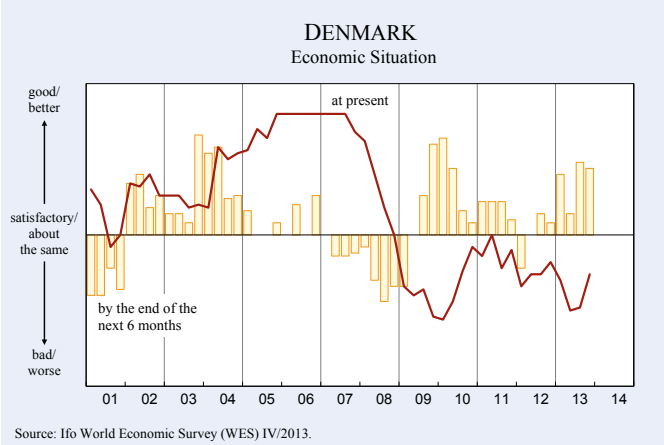
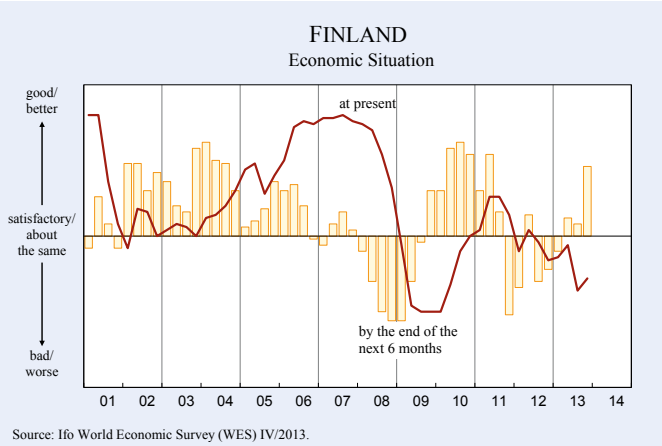


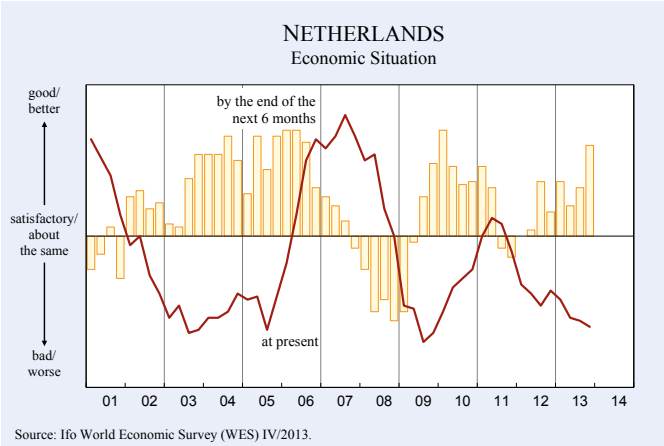
Figure 5b

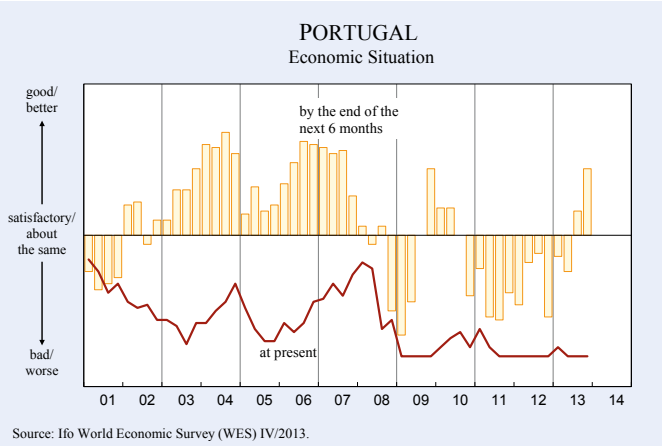
European Union











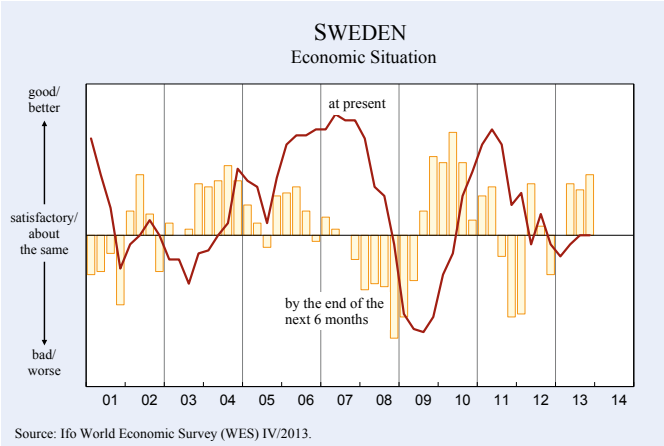
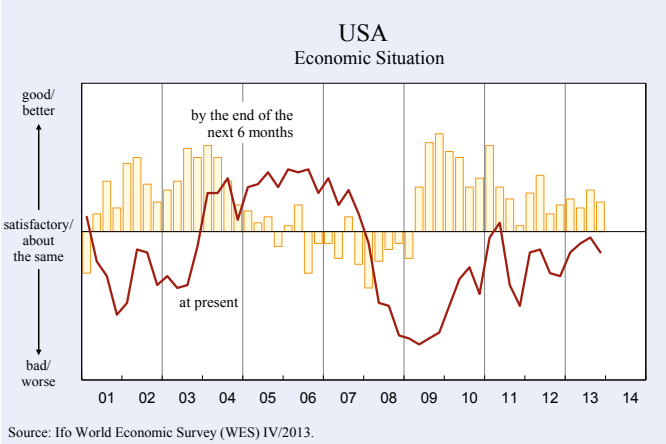
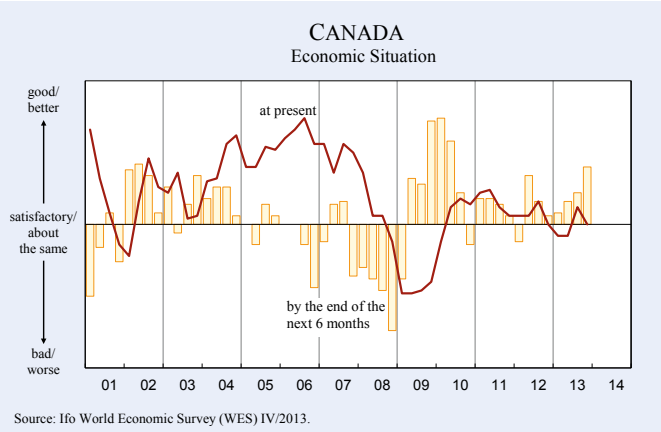
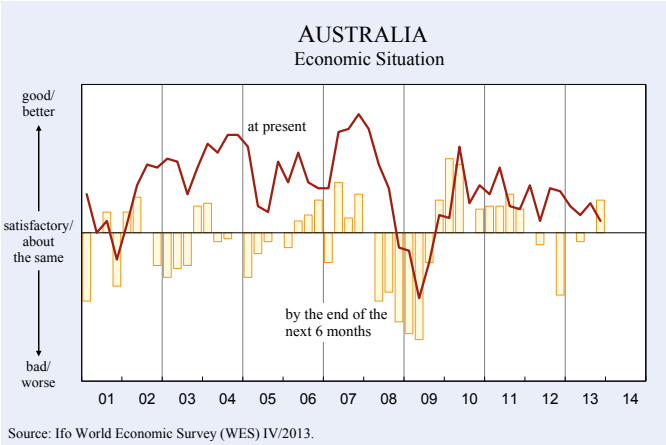


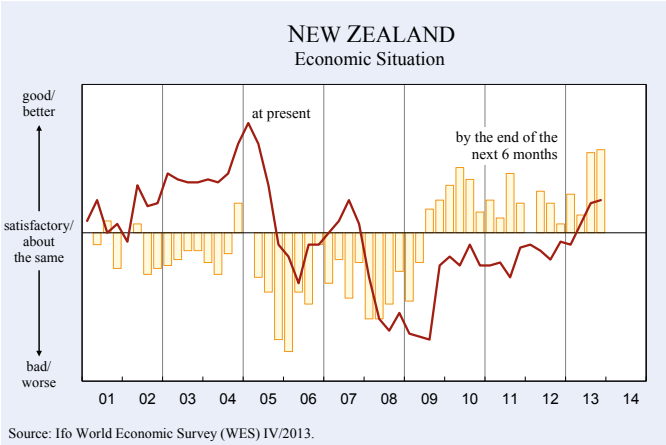
Figure 6

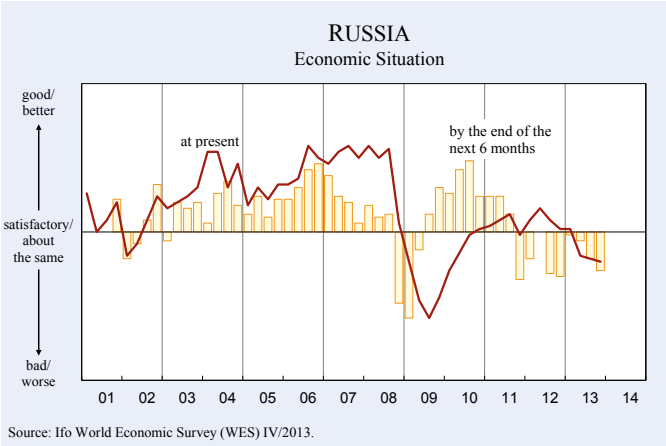
North America, Oceania and CIS











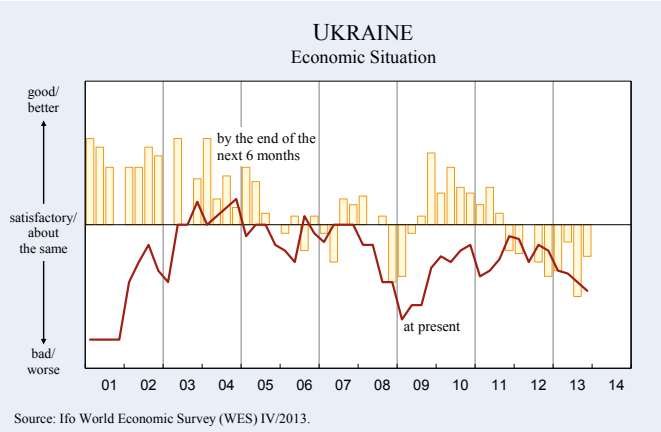
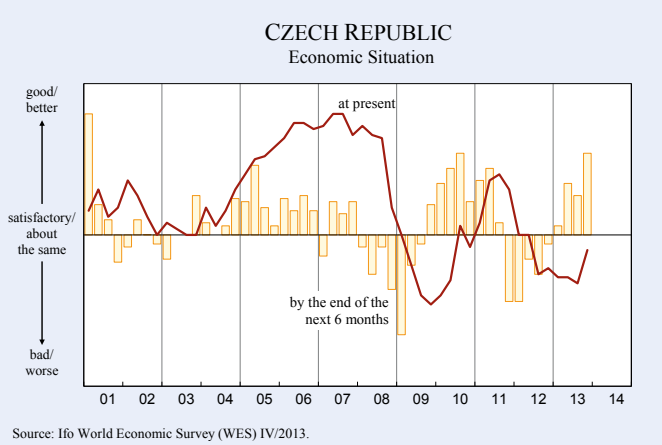
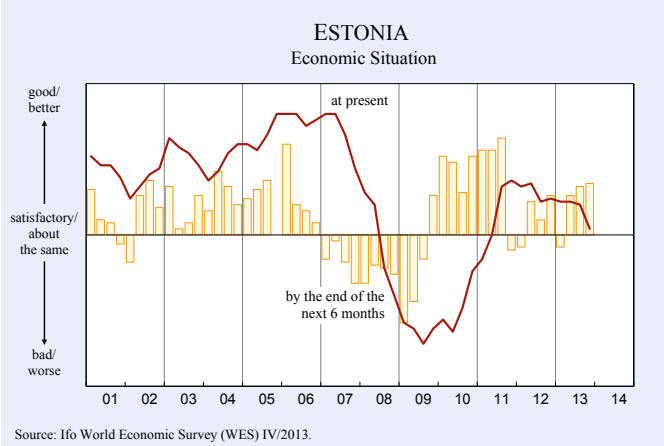
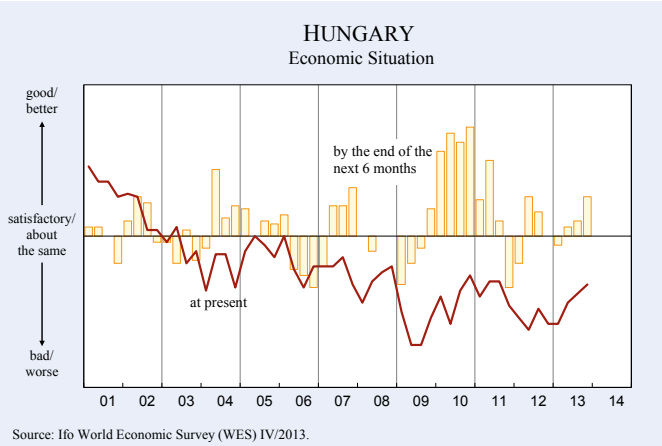


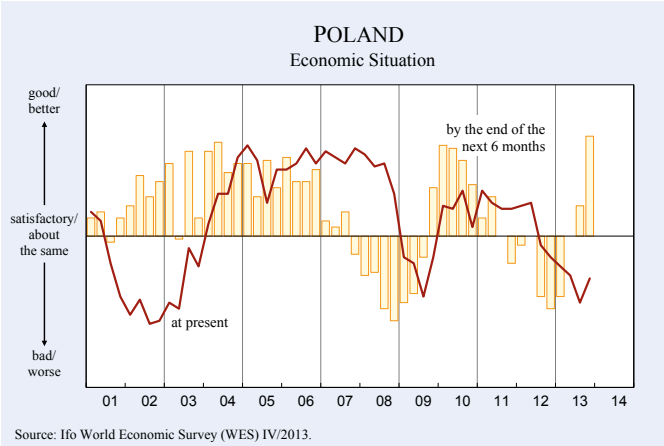
Figure 7

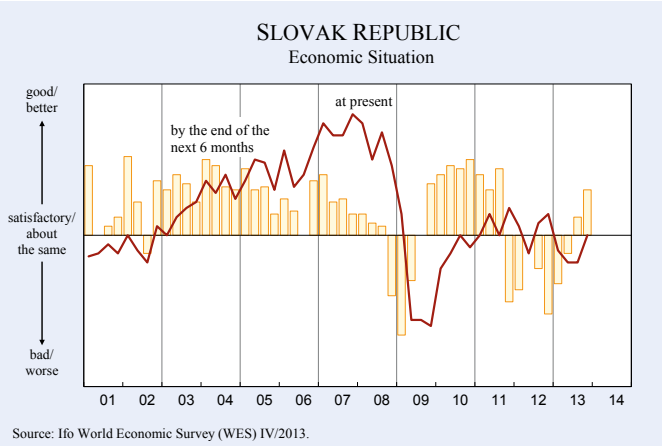
Eastern Europe











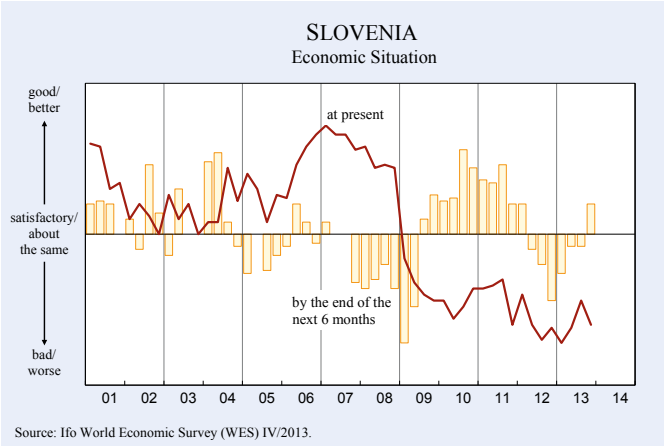
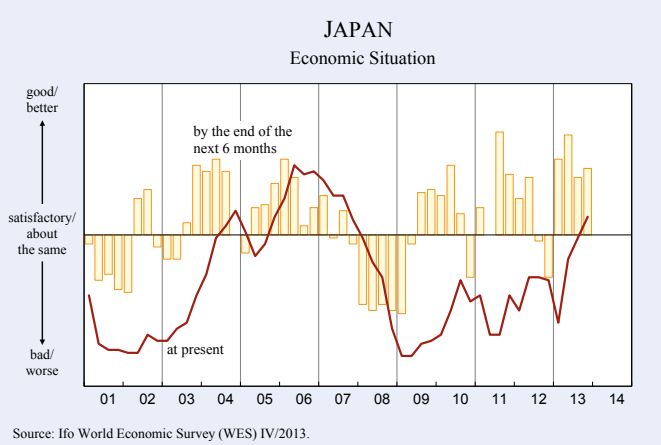
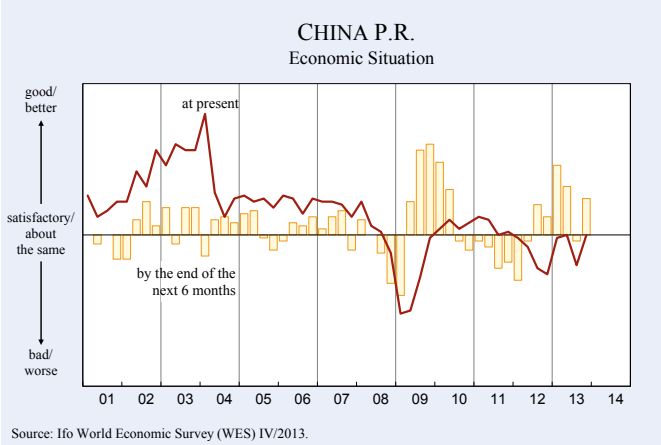
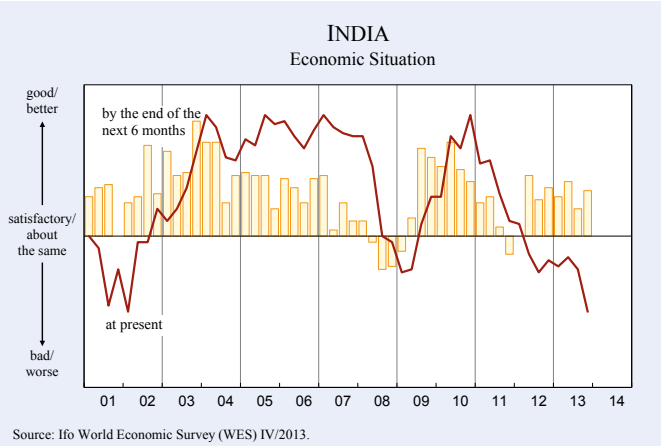


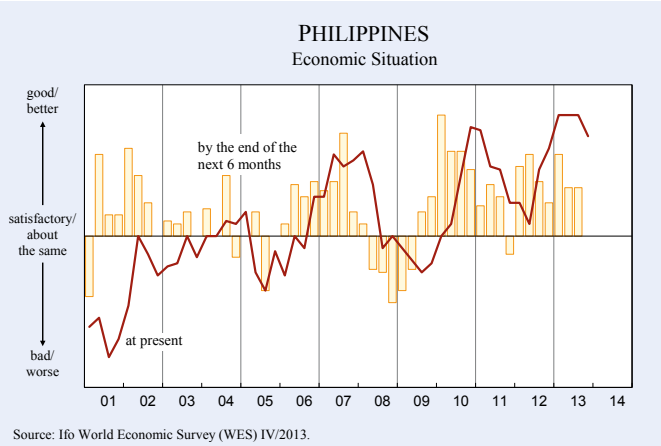
Figure 8

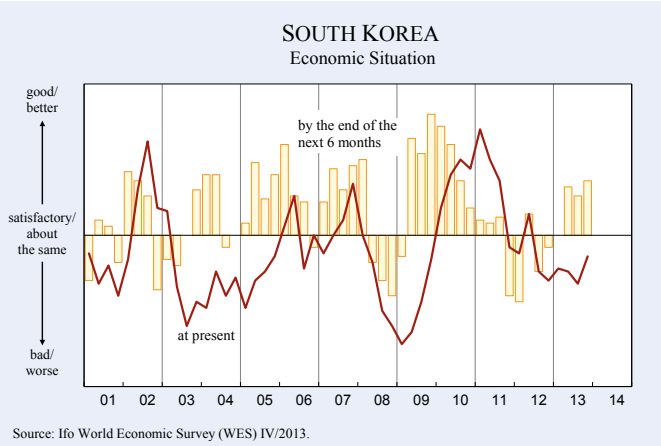
Asia











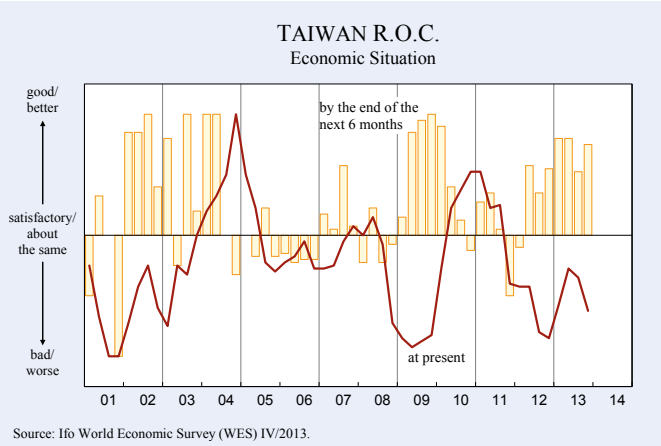
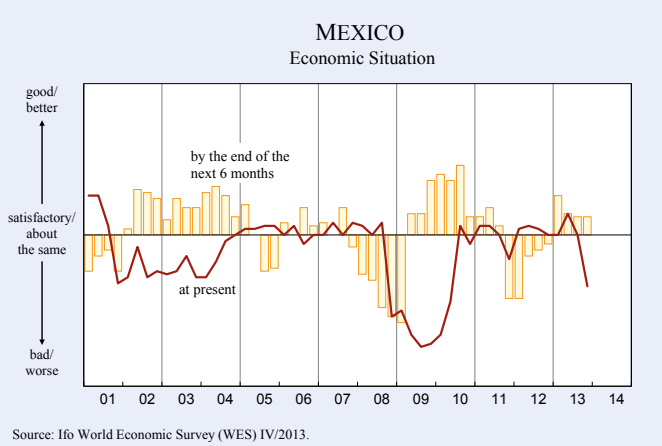
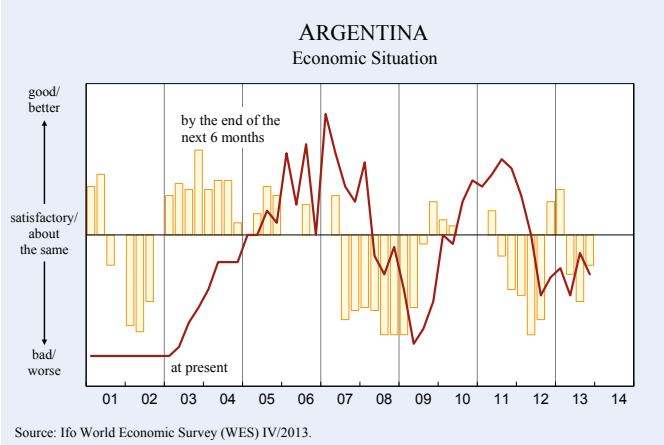
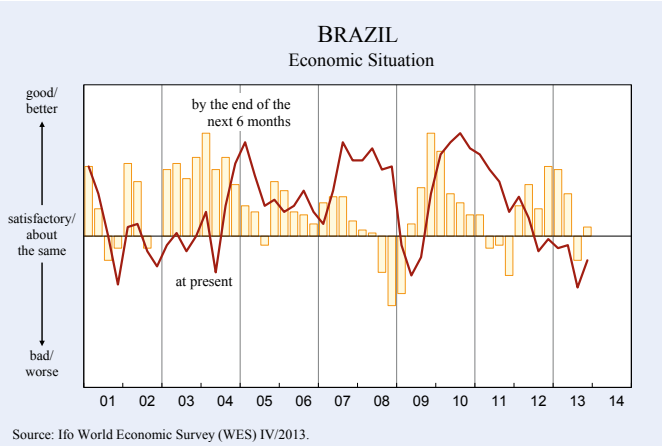


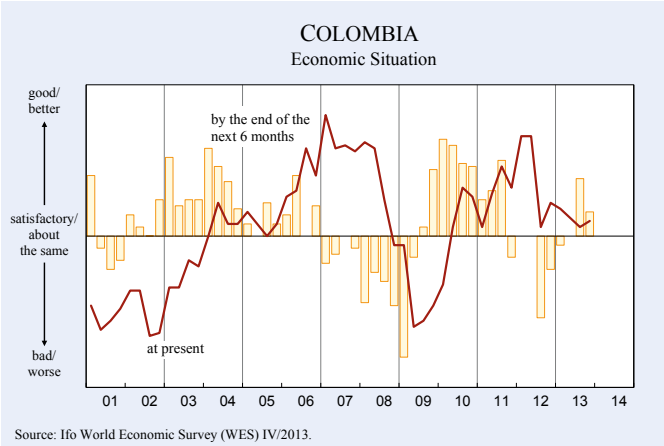
Figure 9

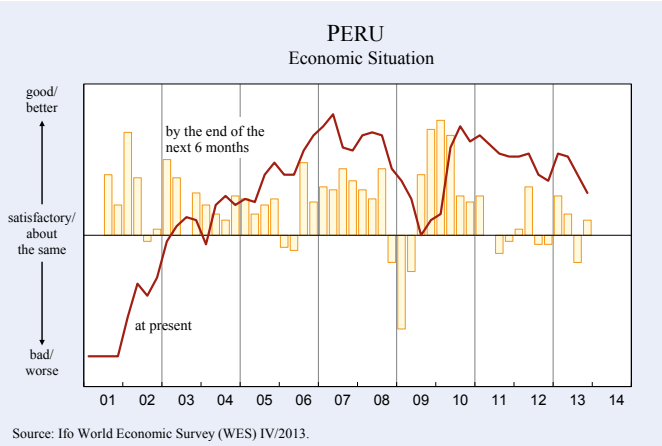
Latin America











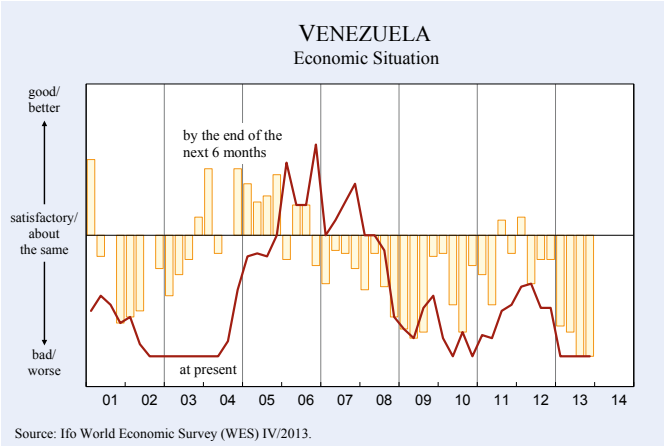
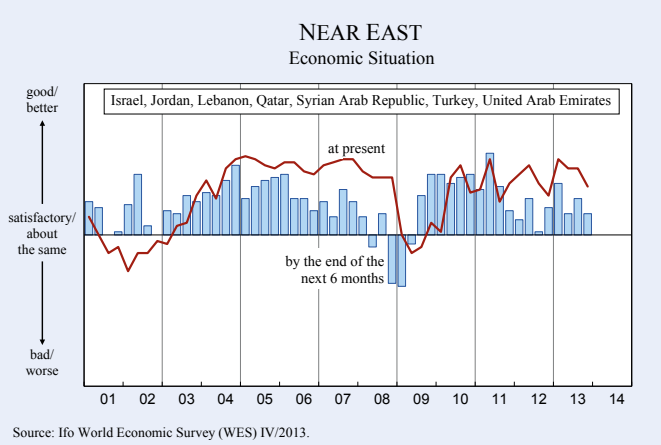
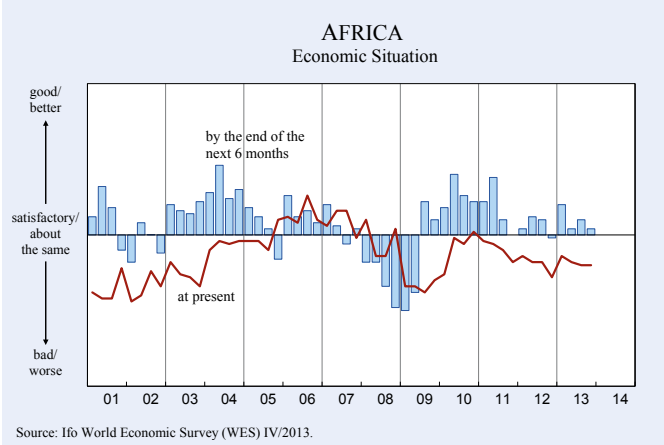
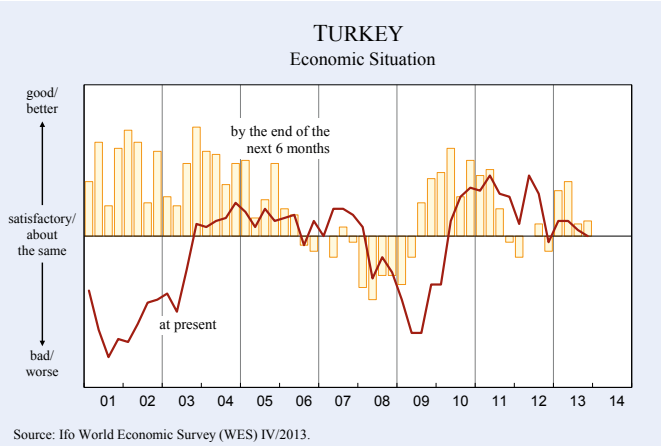


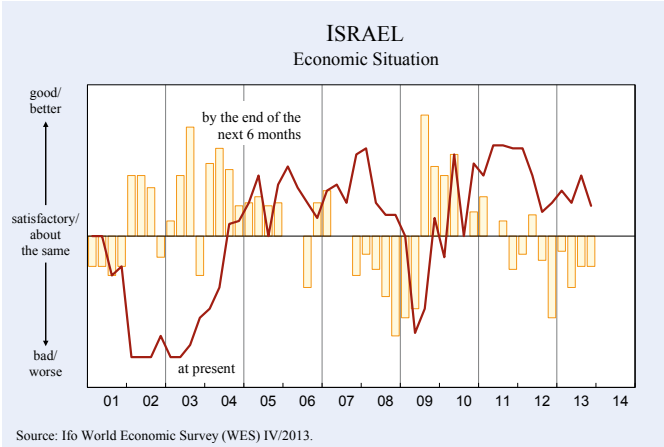
Figure 10

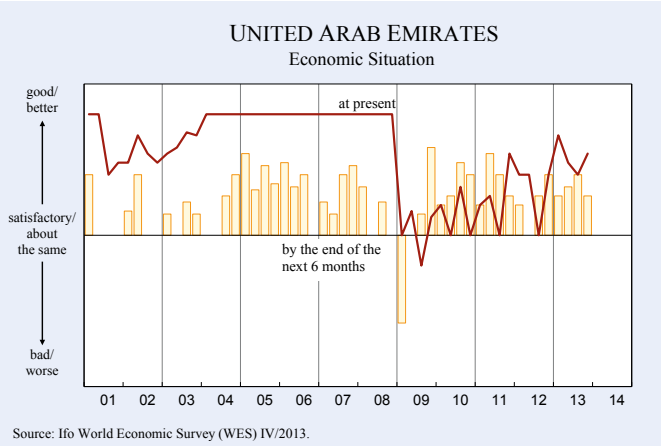
Near East and Africa

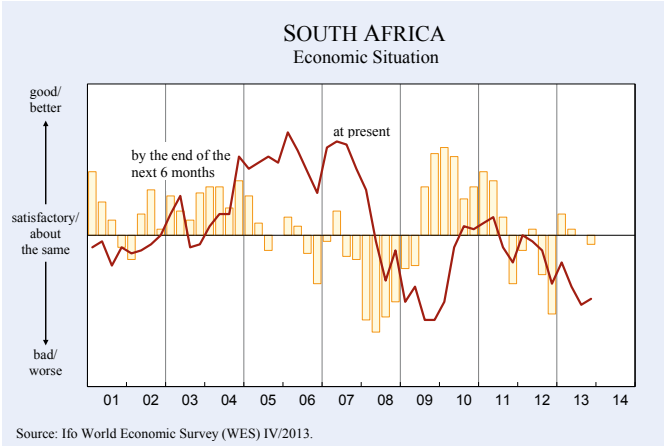












South Korea. In *Thailand* and *South Korea* the situation is expected to improve within the next six months, while in *Vietnam* the current weak economic performance is likely to persist in the opinion of the experts surveyed. In *India* and *Taiwan* assessments of the present economic situation continued to deteriorate further and bear witness to the weak state of the economy. *India* is mainly suffering from inflation at present, while the economic experts surveyed in *Taiwan* stated a lack of confidence in the government's economic policy as the most important economic problem. As far as economic developments over the next six months are concerned, more WES experts than in the previous survey expect a slight improvement. In *Pakistan*, appraisals of the economic situation deteriorated further. For the next six months WES experts have become more cautious and no longer believe in a substantial improvement in the six months ahead.

Oceania: Economic climate brightens further

In *Oceania* the economic climate indicator rose to 108.0 (previous survey 103.4), but only due to more positive economic expectations. In turn, assessments of the present economic situation deteriorated somewhat. This pattern particularly applies to *Australia*: the present economic situation was assessed less positively than last quarter, but remains satisfactory on the whole. Overall, economic expectations are considerably friendlier than three months ago. Some weakening, however, is expected in capital expenditure. WES experts highlighted insufficient demand and lacking international competitiveness as *Australia's* most important economic problems. The latter are also seen as problematic in *New Zealand*, which also suffers from a lack of skilled labour. Apart from that, there was not much movement in the economic climate indicator in this country: the present economic situation was again assessed as favourable and the economic outlook as positive.

Latin America: Economic climate remains subdued

The economic climate indicator in *Latin America* has not changed compared to the previous survey. While the present situation deteriorated somewhat, economic expectations were upgraded (see Figures 4 and 9). As a result, the indicator remains stable at 79.6, which – however – is far below its long-term average (1997–2012: 92.7). A lack of international competitiveness, as well as low confidence in the government's economic policy are considered to be the most important economic problems of this region at present. *Argentina, Venezuela* and *Uruguay* also suffer from a high inflation rate.

In *Brazil*, appraisals of the present economic situation, although slightly better than the previous survey, still remain below the satisfactory level. Capital expenditure is again considered as particularly weak at present. The economic outlook is slightly more positive than three months ago, however it does not signal any major changes for the better in the six months ahead. In *Mexico*, the second most economically important country in this region, the present economic situation deteriorated significantly, according to WES experts, and was assessed as unfavourable this quarter. There is no positive news from *Argentina* either and the economy remains weak, particularly in terms of capital expenditure. No substantial improvement is expected in either country within the next six months. In *Argentina*, survey participants warned of a rising inflation rate in the months ahead, and expect peso devaluation to continue. In *Venezuela, El Salvador, Guatemala, Costa Rica* and the *Dominican Republic* WES experts reported a weak current economic performance. In *Venezuela, Costa Rica* and *Guatemala* the majority of experts surveyed do not see any improvement in economic conditions over the next six months, while in *El Salvador* and the *Dominican Republic* the economic outlook is positive. In *Bolivia, Chile* and *Ecuador*, the present economic situation was rated far friendlier than in the other *Latin American* countries mentioned above. In *Paraguay, Peru* and *Uruguay* the situation was also assessed as favourable, despite some slight downwards revision versus the previous survey by survey participants. However, as far as WES experts' future economic expectations are concerned, there are diverging trends in these countries: while in *Bolivia, Paraguay* and *Peru* the current good economic conditions are expected to persist, *Chile, Ecuador* and *Uruguay* are on the verge of an expected deterioration over the next six months. In *Colombia, Cuba* and *Panama* a satisfactory present economic situation prevails, and is expected to stabilise at these current good levels in all three countries.

Near East: Economic climate clouds over slightly

In the *Near East* the economic climate indicator dropped from 95.5 to 87.7, but still stands above its long-term average of 84.9 (1997–2012). Assessments of both the current economic situation and economic expectations are less favourable than three months ago (see Figure 10).

Box 4

Forward guidance as a monetary policy tool at the zero lower bound

Most central banks in industrialized countries have lowered their interest rates to levels close to zero in response to the economic downturn and the deflationary pressures that resulted from the world financial crisis and the euro crisis. In order to further increase the expansionary stance of their policy they successively introduced a wide range of unconventional measures, such as voluminous bond-buying programmes, the provision of long-term refinancing credits with maturities up to three years and full allotment, and a significant relaxation of the collateral requirements for central bank credit. As an additional tool, almost all central banks have introduced some form of forward guidance about future interest rate policy into their communication. This box offers a brief review of the main features of forward guidance.

A very loose form of communication is the so-called open-ended forward guidance. Central banks indicate that policy rates will remain at the current low level for an indefinite time. During the current financial crisis the US Federal Reserve was the first central bank to introduce such guidance. As of 16 December 2008 it regularly announced that "weak economic conditions" were "likely to warrant exceptionally low levels of the federal funds rate for some time", which was changed to "an extended period" on 18 March 2009. More than 4 years later, on 4 July 2013, the European Central Bank followed the US example and augmented its introductory statement to the monthly press conference by indicating that "the Governing Council expects the key ECB interest rates to remain at present or lower levels for an extended period of time." Since the scope for interpretation of the duration of "some time" or "an extended period" was large and effectively did not bind central bankers' future actions in any way, the effectiveness of open-ended guidance is low. Market expectations about future policy rates (as measured by the fed funds futures or the EURIBOR futures) do not seem to have reacted in response to the change in central bank communications in the US or in the euro area.

On 21 April 2009 the Bank of Canada and the Swedish Riksbank pioneered so-called time-contingent forward guidance by providing an explicit commitment to a date by which the policy rate was expected to reach its current low level. On 9 August 2011 the US Federal Reserve also switched from open-ended statements to time-contingent statements. While these central banks initially offered guidance about one and a half years into the future, the US Federal Reserve committed to the current policy rate for about three years into the future from 25 January 2012 onwards. While a central bank's commitment to an explicit date per se provides more information to the public than open-ended formulations, and thus should increase the impact of its communication, central banks thereby give up their flexibility to increase policy rates earlier than announced in the event of unexpected positive information about state of the economy. In order to preserve this flexibility, time-contingent statements were made conditional to the outlook for economic conditions, and in particular to inflation on the date on which the governing board of the central bank issued the forward guidance. Notwithstanding this conditionality, in all cases the release of the time-contingent statements had an immediate effect on market expectations about future policy rates. In the US, for example, expectations about the fed funds rate two years ahead remained at about 0.25% from August 2011 until May 2013, thereby indicating that markets largely believed in the announcement of the US Federal Reserve that it would not raise its policy rate before the specified date.

A final form of state-contingent forward guidance was introduced by the US Federal Reserve on 12 December 2012. Instead of specifying a date, the central bank defined the economic conditions that would put an end to the current unusually accommodative policy. Specifically, the US Federal Reserve announced: "that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored." On 1 August 2013 the Bank of England also announced its intention not to raise its policy rate at least until the unemployment rate has fallen to a threshold of 7%. The main advantage of such state-contingent guidance over time-contingent guidance is its embedded conditionality. Whenever the state of the economy improves faster than originally expected, the central bank may decide to raise interest rates earlier without breaking any commitment to a specific date. Moreover, it provides the public with important information about the reaction function of the central bank, thereby increasing the all too important transparency of the decision-making process.

Nevertheless, the overall situation is rated as good in the majority of the countries in this region like *Israel, Jordan, Qatar* and the *United Arab Emirates*. In *Turkey*, the situation remains satisfactory, according to WES experts. They regard unemployment and capital shortage as the country's most urgent economic problems at present. In all previously mentioned countries the economic outlook remains positive, except for in *Israel*, where WES experts once again expressed caution with regard to future economic developments. In *Lebanon* and *Syria*, economic performance was reported to be weak and is not expected to improve substantially over the next six months.

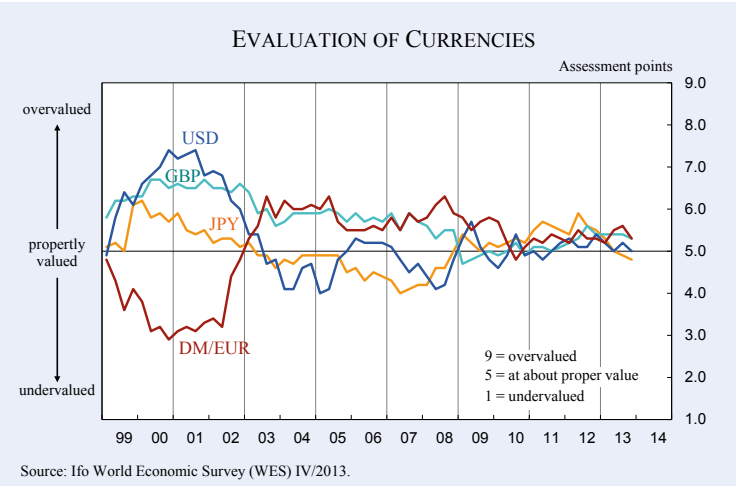
Africa: No unified economic trend

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: namely "unemployment" and "lack of international competitiveness". In *Northern African* countries a shortage of skilled labour was also cited as a key problem, while in *Sub-Saharan* economies "lack of confidence in government's economic policy" ranks high. In addition, *Burundi, Kenya, Malawi* and *Sudan*, are also suffering from a high inflation rate. WES experts in *Nigeria* and *Comoros* cited corruption as another major obstacle.

The economic climate in the *Northern African* countries covered by WES barely changed this quarter. As in the previous survey, the present economic situation in *Algeria, Libya* and *Morocco* is considered as satisfactory and the current good situation is likely to prevail for the next six months, according to WES experts. In *Egypt* and *Tunisia,* however, the present economic situation was rated as weak once again. WES experts in *Egypt* at least have become more positive with regard to future economic developments and expect the situation to improve in the six months ahead. In *Tunisia*, in turn, the economic expectations of the experts surveyed remain cautious and don't signal any major improvements over the next six months.

The economic climate indicator in *South Africa* remains at a low level. The present economic situation was once again assessed as unfavourable. Economic expectations were downgraded, and WES experts do not expect the situation to improve over the next six months (see Figure 10). In *Angola, Benin, Congo-Brazzaville, Ethiopia, Ghana, Malawi, Mauritania, Nigeria* and *Senegal* the current economic situation did not change compared to the previous survey and was again assessed as satisfactory. In most of these countries, current economic performance is expected to remain good, except for in *Angola* and *Nigeria*, where WES experts expressed greater caution. In *Congo Dem. Republic, Lesotho* and *Namibia* WES experts were somewhat less positive than in the previous survey, but assessments of the present economic situation nevertheless remain satisfactory to good on the whole. In all three countries, the majority of economic experts surveyed retained their positive view of future economic developments over the next six months. In *Mauritius*, the current economic situation improved strongly compared to the previous survey and is no longer regarded as weak. The six-month economic outlook also turned positive. In *Chad, Ivory Coast, Liberia, Sierra Leone* and *Zambia*, the current economic situation remains strong. Economic expectations point to a stabilization at the current good levels, except for in *Zambia*, where WES experts – despite some upwards revision – remain cautious with regard to future economic developments. In

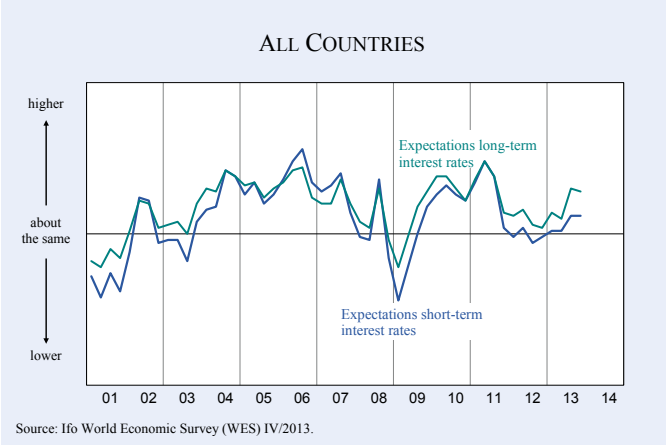
Figure 11

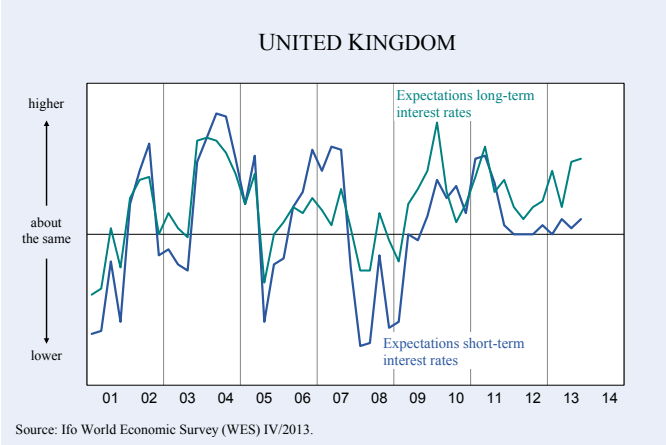


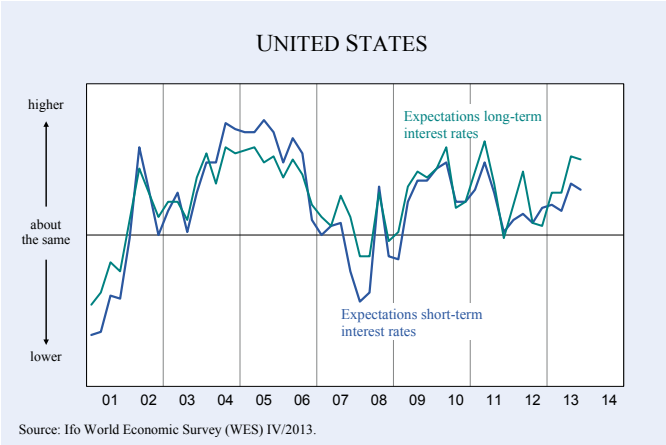
Source: Ifo World Economic Survey (WES) IV/2013.

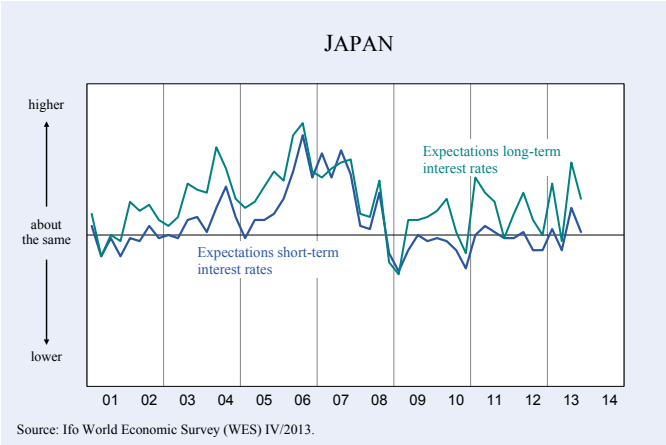
Figure 12

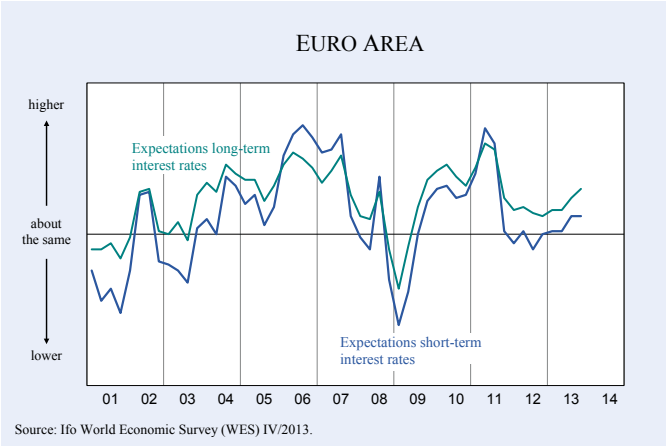
Expected trend for the next 6 months for short- and long-term interest rates











Kenya, the economic climate deteriorated due to the strong downwards revision of both climate components. The present economic situation is now regarded as unfavourable and economic expectations are less optimistic than they were three months ago. In *Burundi, Comoros, Gabon, Madagascar, Niger, Sudan, Swaziland, Togo, Uganda* and *Zimbabwe* no changes for the better were reported and the situation remains weak. In most of the countries the situation is forecast to remain subdued over the next six months. Only WES experts in *Comoros, Swaziland* and *Uganda* expect an improvement in their economies during this period.

Inflation expectations unchanged

General trends

On a world-wide average, the WES experts' inflation forecast for the year 2013 has now stabilised at 3.2% (see Table 1). Thus, the average inflation rate for 2013 is most likely to be a tick lower than expected at the beginning of the year (3.3%). Compared with the estimate in the previous survey, inflation expectations continued to pick up in *Latin America* (from 8.5% to now 9.2%) whereas they slowed down slightly in most other regions.

Price trends by countries

The average forecast inflation rate for the *euro area* in 2013 will be 1.7%, according to WES experts, after an expected 2.1% at the beginning of the year. Within the *euro area* the lowest inflation rates in 2013 are again expected in the crisis-afflicted countries of *Greece* (-0.1%), *Ireland* (1.0%), as well as in *Portugal* and *Cyprus* (1.1% respectively 0.7%). The expected inflation rates lie above the *euro area* average in *Estonia* (3.3%) in particular, and to a lower degree in the *Netherlands* (2.4%) and *Slovenia* (2.1%).

In ***Western Europe*** outside the *euro area* the two extremes of the presumable development of prices continue to be *Switzerland* (0.3%) at one end of the scale and the *United Kingdom* (3.0%) at the other.

In ***Eastern Europe*** the inflation rate forecast for 2013 of 2.2% 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. According to WES experts, the lowest price increase will be seen in *Poland* (1.7%), and the highest in *Serbia* (6.0%), which nevertheless signals some improvement on the inflation front.

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

In ***Asia*** inflation expectations for 2013 increased slightly (from 3.2% to 3.4% at present). This was mainly due to higher inflation expectations in *Indonesia* (from 7.7% to 8.3% this quarter), *Pakistan* (from 9.6% to 12.1%) and *Malaysia* (from 2.9% to 3.6% at present). By contrast, inflation expectations for 2013 were revised downwards in *Sri Lanka* (from 9.1% to 8.5%) and *Vietnam* (from 6.7% to 6.2%) in particular. Inflation expectations have changed only marginally during the past three months in most other *Asian* countries like *China* (3.4% after 3.1%), *South Korea* (2.5% after 2.2%) and *Hong Kong* (3.6% after 3.7%), or remained unchanged as in *Thailand* (3.2%). The lowest inflation rates in the region were again reported in *Taiwan* (1.3%) and *Japan* (0.6%), where aggressive monetary policy aimed at fighting deflation and stimulating growth has proven moderately successful, although the new government's 2% inflation target in the medium-term is still a long way off.

In ***Oceania*** inflation expectations for 2013 remained unchanged at 2.4%, with 2.5% in *Australia* and 1.6% in *New Zealand*.

In ***Latin America*** inflation expectations for this year picked up further (from 8.5% to now 9.2%). This, however, was mainly due to the even poorer inflation outlook in *Venezuela* (increase from 38.3% to 47.0% at present). In most other *Latin American* countries the inflation outlook remained unchanged or even improved somewhat as in *Brazil* (from 6.2% to 5.8% at present) and *Mexico* (from 4.4% to 3.9%).

In ***CIS*** countries inflation expectations for 2013 declined further and currently stand at 6.9% (after 8.1% in July). The inflation rate in the *Ukraine* in particular (5.4%) will be lower than the regional average. The expected inflation rate in *Russia* is close to the regional average (7.1% after an expected 7.6% in July) and in *Kazakhstan* (unchanged 6.6%). However, *Uzbekistan* (13.2%) will remain above regional average inflation rates in 2013.

Table 2 **Expected average annual growth rates of real Gross Domestic Product (GDP) over the next 3 to 5 years (based on WES QIV/2013 and QIV/2012)**

Region	QIV/2013	QIV/2012	Region	QIV/2013	QIV/2012
Average of countries *	**2.6**	**2.5**	**North America**	**2.3**	**2.3**
High-income countries	2.2	1.9	Canada	2.7	2.4
Middle-income countries	4.0	4.2	United States	2.2	2.3
Upper-middle	3.6	3.8			
Lower-middle	4.8	5.2	**Oceania**	**3.5**	**3.4**
Low-income countries	4.6	5.8	Australia	3.6	3.6
EU 28 countries	1.6	1.2	New Zealand	2.8	1.9
EU countries (old members)[a)]	1.4	1.1			
EU countries (new members)[b)]	2.4	2.2	**Latin America**	**3.2**	**3.6**
Euro area[c)]	1.3	1.0	Argentina	2.6	3.3
			Bolivia	3.8	4.1
Western Europe	**1.5**	**1.1**	Brazil	2.6	3.7
Austria	1.2	1.1	Chile	3.8	4.2
Belgium	1.3	1.0	Colombia	3.9	4.3
Cyprus	0.0	0.8	Costa Rica	2.7	(3.8)
Denmark	1.3	1.6	Cuba	(3.8)	---
Finland	1.5	1.5	Dominican Republic	2.7	4.7
France	1.3	0.9	Ecuador	4.1	3.8
Germany	1.4	1.3	El Salvador	0.5	1.5
Greece	1.2	0.0	Guatemala	3.8	3.3
Ireland	1.7	1.1	Mexico	3.4	3.4
Italy	1.2	0.8	Panama	(6.5)	---
Luxembourg	1.5	1.9	Paraguay	4.0	4.5
Malta	(3.5)	(1.5)	Peru	5.0	5.2
Monaco	2.7	1.5	Uruguay	3.8	3.5
Netherlands	1.3	1.1	Venezuela	1.4	3.1
Norway	2.7	2.6			
Portugal	1.0	-0.2	**Near East**	**3.8**	**3.9**
Spain	1.0	0.1	Israel	3.8	3.7
Sweden	2.0	2.1	Jordan	(1.5)	---
Switzerland	1.4	1.5	Lebanon	2.7	5.2
United Kingdom	2.3	1.4	Qatar	(3.8)	(5.5)
			Syrian Arab Republic	(-1.5)	(-1.5)
Eastern Europe	**2.4**	**2.2**	Turkey	4.1	4.1
Albania	2.1	2.5	United Arab Emirates	3.8	4.7
Bosnia and Herzegovina	1.5	1.7			
Bulgaria	1.9	2.1	**Africa**	**3.6**	**4.0**
Croatia	1.5	1.6	**Northern Africa**	**3.4**	**3.6**
Czech Republic	2.3	1.7	Algeria	3.6	3.8
Estonia	3.8	3.8	Egypt	3.3	3.3
Hungary	1.5	1.2	Libya	(7.0)	(6.0)
Latvia	2.9	3.9	Morocco	(3.8)	(3.8)
Lithuania	3.8	3.9	Tunisia	2.9	3.4
Macedonia	3.8	---	**Sub-Saharan Africa**	**3.7**	**4.3**
Poland	3.3	3.3	Angola	(7.0)	(6.0)
Romania	2.1	1.4	Benin	5.5	3.8
Serbia	3.0	3.2	Burundi	0.0	1.9
Slovakia	2.5	2.6	Chad	(6.0)	(7.5)
Slovenia	0.5	0.4	Comoros	3.8	1.5
			Congo Dem. Rep.	8.0	7.4
CIS	**2.5**	**3.4**	Congo-Brazzaville Rep.	3.8	---
Armenia	3.8	3.7	Ethiopia	(8.0)	(6.0)
Georgia[d)]	3.8	---	Gabon	(3.8)	(3.8)
Kazakhstan	4.9	5.1	Ghana	(7.0)	(7.0)
Kyrgyzstan	(6.0)	3.0	Ivory Coast	(8.0)	(6.0)
Russia	2.1	3.2	Kenya	4.5	4.7
Ukraine	1.5	2.6	Lesotho	3.8	3.8
Uzbekistan	(7.5)	(6.5)	Liberia	7.9	9.0
			Madagascar	3.2	2.1
Asia	**3.7**	**3.5**	Malawi	(5.0)	(6.0)
Bangladesh	3.8	6.7	Mauritania	3.8	3.8
China	6.8	6.8	Mauritius	3.8	4.2
Hong Kong	3.7	3.8	Namibia	3.8	3.8
India	5.6	6.4	Niger	2.7	6.8
Indonesia	5.6	5.8	Nigeria	3.3	5.2
Japan	1.4	1.0	Senegal	(3.8)	(3.8)
Malaysia	3.4	3.6	Sierra Leone	9.4	13.1
Pakistan	2.9	3.2	South Africa	3.2	3.5
Philippines	6.3	4.4	Sudan	1.4	2.7
Singapore	(3.8)	(1.5)	Swaziland	1.5	0.0
South Korea	3.4	3.7	Togo	(3.8)	(3.8)
Sri Lanka	4.9	6.3	Uganda	6.3	(3.8)
Taiwan	3.1	3.1	Zambia	6.6	6.7
Thailand	3.5	3.9	Zimbabwe	3.0	5.6
Vietnam	5.3	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. – [a)] Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. – [b)] Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria, Romania, Croatia. – [c)] Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia. – [d)] 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) IV/2013 and IV/2012.

In the ***Near East*** inflation expectations for 2013 declined somewhat (from 4.3% to 3.9%). This was mainly caused by the *United Arab Emirates* where for an average an inflation rate of just 1.6% is expected in 2013, after 2.2% in July. In *Turkey* the expected 2013 inflation rate remained unchanged at 7.6% and increased slightly in *Israel* (from 2.1% to 2.4%).

In ***Africa*** price trends remain very heterogeneous. Relatively low inflation rates (below 4%) for 2013 are expected again in the *Congo Dem. Republic* (1.4%), *Togo* and *Zimbabwe* (both 2.7%), *Niger* (2.9%), *Ivory Coast* and *Morocco* (both 3.0%), *Gabon* (3.2%), *Congo-Brazzaville Rep.* (3.4%), as well as in *Benin* (3.7%). The 2013 inflation expectations lie in a medium inflation bracket (between 4 and 9%) for the majority of countries covered in the survey like *Algeria* (5.0%), *Lesotho* (6.2%), *Namibia* and *South Africa* (both 6.3%), *Mauritania* (6.5%), *Swaziland* (6.6%), *Tunisia* (7.5%), *Kenya* (7.8%). High inflation rates of over 9% will continue to predominate in 2013, particularly in *Sudan* (43.8%), *Malawi* (18.0%) as well as *Burundi* (20.0%); and to a lesser degree in *Nigeria* (9.9%), *Egypt* (10.9%), *Sierra Leone* (9.8%), *Ethiopia* (10.0%) and *Ghana* (11.0%), which are among the high inflation countries in *Africa*.

US Dollar expected to rise

On a world-wide scale WES experts see the *US dollar* – as in the preceding survey – as very close to its fundamentally appropriate value, while the *Japanese yen* is judged as somewhat **undervalued** and the *euro* and the *British pound* are still considered as **overvalued** (see Figure 11).

However, major differences in currency evaluation persist from country to country: WES experts assessed their own currencies as generally undervalued in the *United States* and *Australia* – but not with regard to the *yen* in both countries –, in some *Eastern European* countries like *Bosnia and Herzegovina,* as well as in *Romania*, and in some countries in *Africa* like *South Africa, Zambia, Lesotho, Mauritius* and *Sierra Leone*. Some *Asian* countries like *China* and *India* again reported an undervaluation of the own currency, as did *Japan* with regard to the *US dollar* and the *euro*. By contrast, experts regard their own currency as generally overvalued in the *Asian* countries of *Malaysia, Indonesia* and *South Korea,* in some *Northern African* countries like *Egypt* and *Tunisia*, in the *Latin American* countries of *Argentina* and *Uruguay,* as well as in the *Ukraine*. In the *euro area*, and particularly in *France, Finland* and *Slovenia, experts* assess the *euro* as overvalued vis-à-vis the *US dollar*, the *yen* and the *British pound*.

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 on a worldwide rise in the average value of the *US dollar* in the course of the coming six months, particularly in *Latin America*, *CIS* countries and *Oceania*. On the other hand, an expected weakening in the *US dollar* is expected again in several *Asian* countries (*China, Malaysia*, the *Philippines* and *South Korea*), in some *Eastern European* countries like *Poland* and *Latvia,* as well as in a few *African* countries (*Namibia, Niger, Swaziland* and the *Comoros*).

WES experts continue to expect an increase in long-term interest rates in the six months ahead

On a worldwide scale, short-term interest rates are expected to rise in the course of the next six months. The expected up-tick in the case of long-term interest rates is more pronounced, although this trend has softened slightly compared to the preceding survey.

The expected upward trend in short and long-term interest rates is most marked in *North America*, both in the *United States* and in *Canada*. The exceptions, where the expected trend in interest rates in the coming six months is pointing downwards are to be found in *Vietnam*, among the *Eastern European* countries of *Albania, Romania,* as well as in *Bulgaria* and *Hungary* – however, in the latter two cases only with regard to short-term interest rates. Declining interest rates are also expected in the *Russian Federation* and in the *Ukraine*, as well as in some countries in *Africa* like *Egypt, Congo-Brazzaville Rep., Niger* and *Sierra Leone* and in *Latin America Chile*.

ICC Special Question: The multilateral trading system

On December 3-6, delegates will meet at the World Trade Organization's (WTO) ministerial meetings in Bali, Indonesia. Hopes are high that the deadlock that has frustrated progress in multilateral trade liberaliza-

tion during the last years can be broken. One important Bali deliverable concerns trade facilitation, which the WTO defines as the "simplification and harmonization of international trade procedures" where trade procedures are the "activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade". Examples relate to the administration of trade policy, the collection of customs duties, safety and security controls at the border and conformity checks. These entry procedures at the border are regularly cited as important obstacles to trade. Overcoming them involves costs, which medium-sized firms find particularly hard to shoulder. These costs keep foreign firms out of the domestic market and therefore effectively protect domestic firms from international competition. From a macroeconomic point of view, such border charges are extremely costly because they constitute pure waste. Unlike import tariffs, they do not raise any money for governments, but simply oblige firms to use resources without improving product characteristics.

Economic experts have been asked whether they would agree that governments should conclude an agreement on trade facilitation to simplify customs procedures. Unsurprisingly, at least 94% of all respondents in every region agree or strongly agree (see Figure 13). Consent is particularly pronounced in *North America*, where 100% of respondents desire customs process simplifications. Consent is lower in the *Near East, Eastern Europe* or the *CIS* countries. These differences may reflect the fact that these countries are specialized in goods for which trade facilitation will not bring substantial gains. This is true for commodities such as agricultural products, steel, lumber etc.

One important element in breaking the Doha deadlock may be to reduce the scope of WTO deals to make them less ambitious. To date, the WTO has employed the so called single undertaking principle: "nothing is agreed until everything is agreed", whereby the package has been defined in a framework agreement in 2004. The problem with this strategy is that issues of relatively low economic importance (such as in the area of agriculture) or concerns of some, and possibly just a few, countries can uphold the entire liberalization process. Allowing plurilateral and sectoral approaches would offer additional flexibility and breathe new life into the negotiations. The alternative, which is quickly gaining impetus, is that groups of countries press forward with their own liberalizing agenda within the context of preferential trade agreements, rather than under the umbrella of the WTO.

When asked whether governments should agree to employ alternative, pragmatic negotiating approaches to

Figure 13

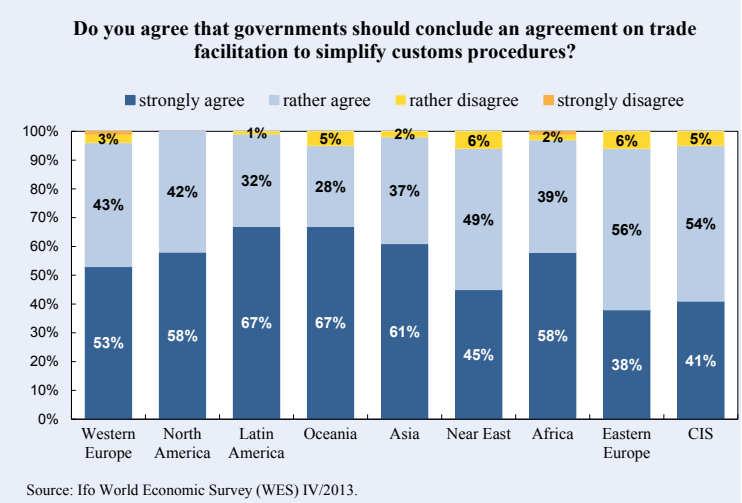
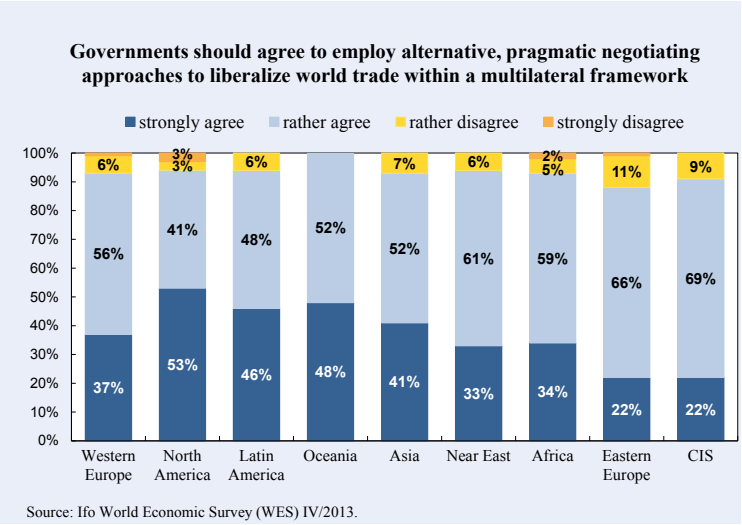


Figure 14



liberalizing world trade within a multilateral framework, respondents mostly agreed. Consensus was strongest in *North America*, where 53% of respondents strongly agreed (see Figure 14). This may reflect the wide-spread opinion in the *US* that single countries or items should not uphold overall progress. Consensus was lower in the *Near East, Africa, Eastern Europe* and the *CIS* countries. Interestingly, a very large majority of over 90% of respondents from regions that have blocked progress at the WTO to date (like *Brazil* or *China*), agreed or strongly agreed.

Table 3 **Inflation rate expectations for 2013 (based on WES QIV/2013 and WES QIII/2013)**

Region	QIV/2013	QIII/2013	Region	QIV/2013	QIII/2013
Average of countries *	**3.2**	**3.2**	**Latin America**	**9.2**	**8.5**
High-income countries	2.1	2.1	Argentina	26.0	27.0
Middle-income countries	6.9	6.8	Bolivia	5.9	5.0
Upper-middle	6.6	6.5	Brazil	5.8	6.2
Lower-middle	7.5	7.3	Chile	2.6	2.4
Low-income countries	6.6	6.5	Colombia	2.7	2.8
EU 28 countries	1.9	1.8	Costa Rica	5.4	5.9
EU countries (old members) [a)]	1.8	1.8	Cuba	(2.5)	---
EU countries (new members) [b)]	2.1	2.2	Dominican Republic	5.0	5.6
Euro area [c)]	1.7	1.7	Ecuador	3.6	4.3
			El Salvador	1.5	1.8
Western Europe	**1.8**	**1.7**	Guatemala	4.8	5.4
Austria	2.1	2.1	Mexico	3.9	4.4
Belgium	1.3	1.4	Panama	(6.0)	(5.0)
Cyprus	0.7	1.0	Paraguay	4.7	4.5
Denmark	1.2	1.3	Peru	2.9	2.6
Finland	1.8	2.0	Uruguay	8.6	8.0
France	1.2	1.1	Venezuela	47.0	38.3
Germany	1.8	1.8			
Greece	-0.1	0.1	**CIS**	**6.9**	**8.1**
Ireland	1.0	1.4	Armenia	8.0	7.8
Italy	1.7	1.8	Belarus	---	(18.0)
Luxembourg	1.9	1.5	Georgia [d)]	1.7	(1.5)
Malta	(2.2)	---	Kazakhstan	6.6	6.6
Monaco	1.8	2.3	Kyrgyzstan	(5.0)	9.0
Netherlands	2.4	2.3	Russia	7.1	7.6
Norway	2.6	1.6	Ukraine	5.4	4.7
Portugal	1.1	1.4	Uzbekistan	(13.2)	(16.5)
Spain	1.9	2.0			
Sweden	0.9	0.9	**Near East**	**3.9**	**4.3**
Switzerland	0.3	0.2	Israel	2.4	2.1
United Kingdom	3.0	2.7	Jordan	---	(7.4)
			Lebanon	(7.0)	(6.8)
Eastern Europe	**2.2**	**2.4**	Qatar	(3.5)	(3.5)
Albania	3.0	3.0	Saudi Arabia	---	4.3
Bosnia and Herzegovina	1.8	2.2	Syrian Arab. Republic	(50.0)	---
Bulgaria	2.6	2.7	Turkey	7.6	7.6
Croatia	2.6	2.8	United Arab Emirates	1.6	2.2
Czech Republic	1.8	1.8			
Estonia	3.3	3.3	**Africa**	**7.8**	**7.5**
Hungary	2.4	2.6	**Northern Africa**	**6.5**	**5.7**
Latvia	1.9	2.5	Algeria	5.0	(4.2)
Lithuania	1.8	2.4	Egypt	10.9	10.5
Macedonia	3.0	2.5	Libya	(4.0)	(6.0)
Poland	1.7	1.5	Morocco	(3.0)	(3.0)
Romania	3.8	4.3	Tunisia	7.5	5.2
Serbia	6.0	9.8	**Sub-Saharan Africa**	**8.7**	**8.7**
Slovakia	1.8	2.1	Angola	(9.0)	(9.0)
Slovenia	2.1	2.1	Benin	3.7	4.0
			Burundi	(20.0)	21.0
North America	**1.9**	**1.9**	Chad	(5.2)	(5.2)
Canada	1.5	1.5	Comoros	4.7	3.3
United States	2.0	2.0	Congo Dem. Rep.	1.4	2.7
			Congo-Brazzaville Rep.	3.4	(3.0)
Oceania	**2.4**	**2.4**	Ethiopia	(10.0)	8.0
Australia	2.5	2.5	Gabon	(3.2)	---
New Zealand	1.6	1.7	Ghana	(11.0)	(11.0)
			Ivory Coast	(3.0)	---
Asia	**3.4**	**3.2**	Kenya	7.8	6.6
Bangladesh	8.0	7.6	Lesotho	6.2	5.9
China	3.4	3.1	Liberia	7.6	7.7
Hong Kong	3.6	3.7	Madagascar	7.6	8.1
India	7.1	7.0	Malawi	(18.0)	(30.0)
Indonesia	8.3	7.7	Mauritania	6.5	7.0
Japan	0.6	0.4	Mauritius	3.6	4.5
Malaysia	3.6	2.9	Namibia	6.3	6.2
Pakistan	12.1	9.6	Niger	2.9	2.5
Philippines	3.1	3.3	Nigeria	9.9	10.4
Singapore	(3.0)	3.5	Sierra Leone	9.8	10.8
South Korea	2.5	2.2	South Africa	6.3	6.2
Sri Lanka	8.5	9.1	Sudan	43.8	38.8
Taiwan	1.3	1.5	Swaziland	6.6	6.7
Thailand	3.2	3.2	Togo	(2.7)	(3.0)
Vietnam	6.2	6.7	Uganda	6.4	---
			Zambia	8.0	8.2
			Zimbabwe	2.7	3.6

* 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. – [a)] Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. – [b)] Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria, Romania, Croatia. – [c)] Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia. – [d)] 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) IV/2013 and III/2013.

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