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CESifo World Economic Survey

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February 2013

World Economic Climate

World economic climate improves

Economic Expectations

Economic expectations predominantly positive

Inflation

Price increase expected to slow down

Currencies

Moderate rise of US dollar expected

Interest Rates

Slightly higher long-term interest rates expected

Special Topic

SMEs and their importance to the economy

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

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CESifo

February
2013

Ifo World Economic Survey

Regions

- World Economy: Economic climate indicator increases across all regions
- Western Europe: Economic expectations upgraded significantly
- North America: Economic climate improves slightly
- Eastern Europe: Economic climate remains subdued
- CIS: Economic expectations brighten somewhat
- Asia: Economic climate indicator rises sharply
- Oceania: Expectations clearly more positive
- Latin America: Recovery continues
- Near East: Favourable economic climate persists
- 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 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 *January 2013*, *1,169* economic experts in *124* countries were polled.

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

Methodology and evaluation technique

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

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

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

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

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

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

WORLD ECONOMIC CLIMATE IMPROVES

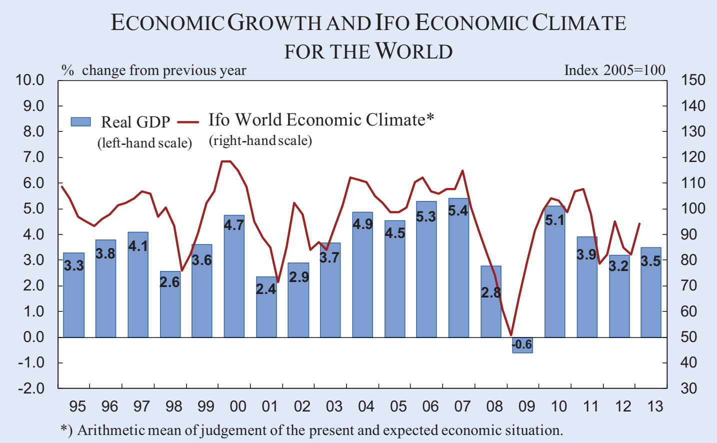
The Ifo World Economic Climate Indicator started to rise again in the first quarter of the year. The upturn was due to more favourable assessments of the current economic situation, and particularly to sharply upwardly revised expectations (see Figures 1 and 2). The indicator, presently at 94.1, is once again approaching its long-term average of 96.0 (1997–2012). After stagnating for the past six months, the global economy is picking up (see Box 1).

Economic climate indicator increases across all regions

After last quarter's decrease in the economic climate indicator in almost all regions, the economic climate brightened worldwide this quarter, with a significant improvement seen in some regions. The World Economic Climate indicator is now nearly as high as in the second quarter of last year and has almost reached its long-term average. The increase in the indicator was mainly driven by significantly more positive assessments of the six-month economic outlook, while assessments of the current economic situation improved only slightly.

The sharpest rise in the economic climate indicator was seen in *Asia*, where the indicator is now once again higher than its long-term average. Both assessments of the current economic situation, and especially expectations, have brightened considerably. This was mainly due to a sharp increase in the indicator in *China*. In *North America* the rise in the economic climate indicator was primarily driven by improved assessments of the current economic situation. Despite the improvement, the current economic situation is not yet completely satisfactory in this region. It also remains unfavourable in *Western Europe*. Assessments of the six-month economic outlook, on the other hand, were significantly more positive, which led to a moderate overall improvement in the economic climate. In the euro crisis countries there are no major changes in the assessments of the current economic situation compared to last quarter's survey. In *Greece, Italy, Portugal, Spain* and *Cyprus* WES experts continue to describe the current economic situation as ailing. As far as the economic outlook is concerned, an overall improvement is expected in the *euro area* over the next six months with the exception of *Cyprus, Finland, Portugal* and *Spain*, where the expectations of WES experts are slightly better, but remain negative. In *Eastern Europe* the outlook for the first half of 2013 brightened up a little, although expectations are still pessimistic, but assessments of the current economic situation remain unfavourable. In *Latin America*, the economic climate

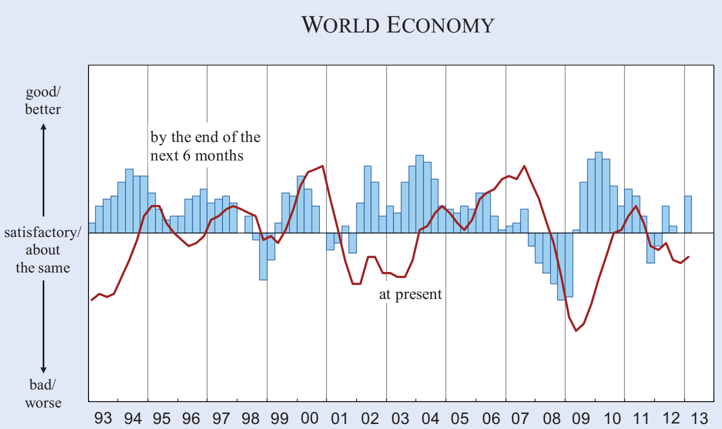
Figure 1



*) Arithmetic mean of judgement of the present and expected economic situation.

Sources: IMF, World Economic Outlook October 2012 - Update January; Ifo World Economic Survey (WES) I/2013.

Figure 2



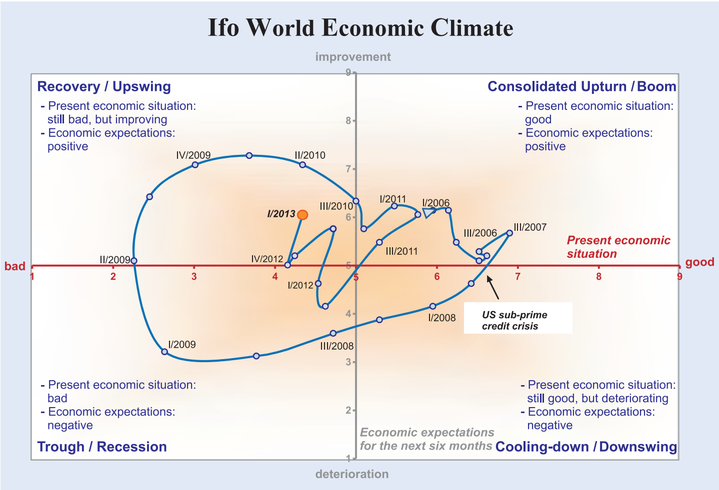
Source: Ifo World Economic Survey (WES) I/2013.

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 January survey, the Ifo indicator for the world economic climate rose after two successive decreases. The increase in the indicator was mainly driven by significantly more positive assessments of the six-month economic outlook, while assessments of the current economic situation improved only slightly. The indicator is now located in the middle of the "recovery" quadrant and is clearly pointing upwards with regard to future economic development. After six months of stagnation, the prospects for the world economy seem to be brightening.



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

improved slightly due to more positive expectations. The current economic situation remains satisfactory.

World average inflation estimates for 2013 are 3.3%, following an estimated inflation rate of 3.6% for 2012. WES experts on average expect short-term interest rates to remain largely unchanged over the next six months, but believe that long-term interest rates are set to increase slightly. On worldwide average, economic experts expect moderate growth in the value of the *US dollar* over the next six months.

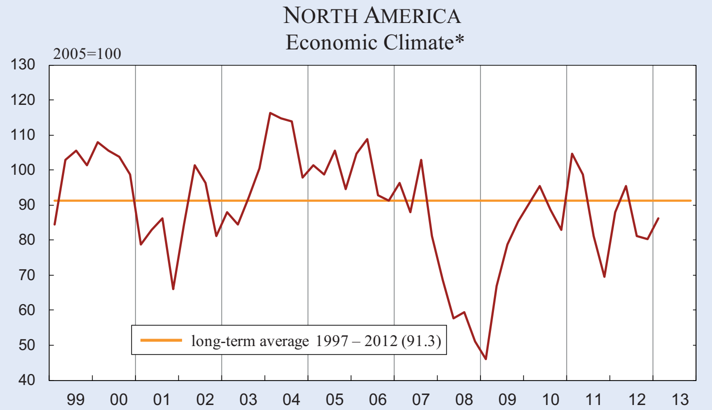
In the light of these results, the world economy should not slip into a recession during the forecasting period. However, nearly all of the key advanced and emerging economies are likely to experience a period of economic weakness in early 2013, before world economic expansion accelerates slightly over the course of the year. In many emerging economies economic stimuli measures that are either in the pipeline, or have already been implemented, will help the economy to recover further via higher capital expenditure. Moreover, disposable income is expected to continue to rise sharply in these countries, which should give an additional boost to private consumption. Advanced economies also look set to post slightly higher growth rates. This will mainly be due to a less contractive fiscal policy in the *euro area* and more buoyant domestic demand in the *USA* after the effects of the fiscal policy damper at the beginning of 2013 wear off. However, in spite of all this, the consolidation efforts required on the part of the private and public sector in nearly all advanced economies should lead to less dynamic growth than in most previous recoveries.

Western Europe: Economic expectations upgraded significantly

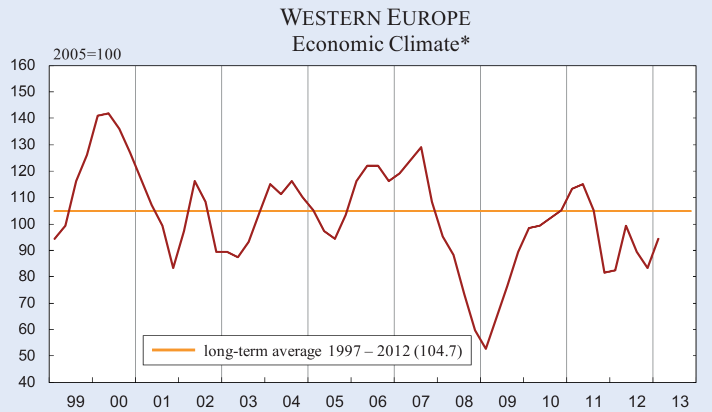
The economic climate indicator for *Western Europe* has started to rise again, however, at 94.3 it still remains below its long-term average of 104.7 (see Figure 3). The rise was due to considerably more positive expectations for the next six months. In contrast, assessments of the present economic situation were slightly downgraded and remain in unfavourable territory (see Figure 4). The same pattern emerged in the *euro area* (see Box 2). Here, the indicator moved up to 95.1 (long-term average: 108.0, 1997–2012).

With regard to the current economic situation no major improvements were reported by WES experts throughout the *euro area*. In *Greece, Italy, Spain, Portugal* and *Cyprus* they continued to describe the present economic situation as very fragile (see Figures 5a and 5b). In *Slovenia*, the economic situation worsened compared to last quarter's survey and is now also judged as very weak by the WES experts. In all of these countries WES experts reported a strongly constrained supply of bank credit to firms (see Table 1). In

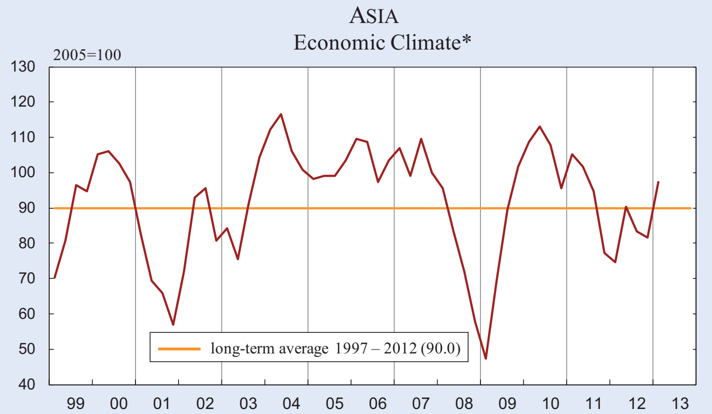
Figure 3



*) Arithmetic mean of judgement about the present and expected economic situation.
Source: Ifo World Economic Survey (WES) I/2013.



*) Arithmetic mean of judgement about the present and expected economic situation.
Source: Ifo World Economic Survey (WES) I/2013.



*) Arithmetic mean of judgement about the present and expected economic situation.
Source: Ifo World Economic Survey (WES) I/2013.

Belgium, France, Ireland, Luxembourg and the *Netherlands* the economic situation is only marginally better than in the first group of "crisis countries". However, economic expectations were upgraded considerably in all euro countries compared to the previous survey. In *Belgium, France, Greece, Ireland, Luxembourg* and the *Netherlands* the expectations point to a positive outlook. By contrast, WES experts in *Cyprus, Portugal, Slovenia* and *Spain* nevertheless remain cautious and do not expect the economic situation to improve within the next six months. In *Austria, Finland* and *Slovakia*, assessments of the current economic situation are slightly below the satisfactory level. The WES experts in these countries do not expect the situation to improve in the next six months. *Germany* and *Estonia* are the only countries in which a favourable economic climate prevails. However, while economic expectations were upgraded considerably compared to the previous survey in *Germany*, economic experts in *Estonia* were somewhat less positive about the outlook there.

Outside the *euro area* the economic climate remains far friendlier. WES experts in *Norway* once again gave the country not only the region's best rating, but also the highest possible value on the WES scale. This highly favourable economic situation is expected to hold in the next six months. In *Switzerland* and *Monaco* and – to a somewhat lesser degree – *Iceland* a fully satisfactory present economic situation prevails and economic expectations in these countries were further upgraded. By comparison, WES experts in *Denmark, Sweden* and the *United Kingdom* reported an unfavourable current economic situation, but economic expectations have also been upgraded considerably in these countries.

North America: Economic climate improves slightly

The economic climate indicator in *North America* started to rise again and has reached 86.2 (previous quarter: 80.3), but still remains below its long-term average of 91.3 (1997–2012). The rise was mainly

Box 2

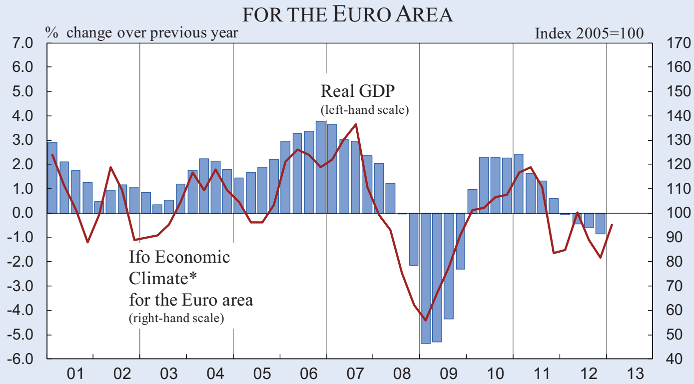
World Economic Survey (WES) and GDP Growth in the Euro Area

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 January results are based on the responses of 281 experts. As a rule, the trend of the Ifo Economic Climate Indicator correlates closely with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo Economic Climate Indicator for the *euro area* rose in the first quarter of 2013 after two successive decreases. Assessments of the current economic situation deteriorated slightly. Assessments of the six-month economic outlook, on the other hand, were largely positive and are now at the highest level for nearly two years. A silver lining to the current economic situation is emerging.

Compared to last quarter's survey there are no major changes to assessments of the current economic situation in the euro crisis countries. In *Greece, Italy, Portugal, Spain* and *Cyprus* WES experts continue to describe the current economic situation as ailing. The situation in *Belgium, France, Ireland, Luxembourg* and the *Netherlands* is reportedly little better. WES experts in *Austria* and *Finland* assessed the current economic situation as "unfavourable". *Germany* and *Estonia* are the only countries in which the current economic situation was positively assessed by survey participants. In all euro member states apart from *Estonia*, the six-month economic outlook brightened significantly. An overall improvement is expected throughout the *euro area* over the next six months with the exception of *Cyprus, Finland, Portugal* and *Spain*, where the expectations of WES experts improved slightly, but remain negative.

ECONOMIC GROWTH AND IFO ECONOMIC CLIMATE FOR THE EURO AREA



*) Arithmetic mean of judgement of the present and expected economic situation.

Sources: Eurostat, Ifo World Economic Survey (WES) I/2013.

driven by more positive assessments of the present economic situation. However, the economic outlook also improved somewhat over the previous survey (see Figures 3 and 4). Despite the improvement, in the *United States*, assessments of the present economic situation have not yet reached a satisfactory level. This is mainly due to capital expenditure, which has not recovered and remains subdued. However, WES experts have become more optimistic for the next six months and expect an improvement in the *US* economy (see Figure 6). In *Canada*, WES experts' assessments of the present economic situation are less positive than in the previous survey and fell slightly below the satisfactory level. However, the economic outlook remains positive.

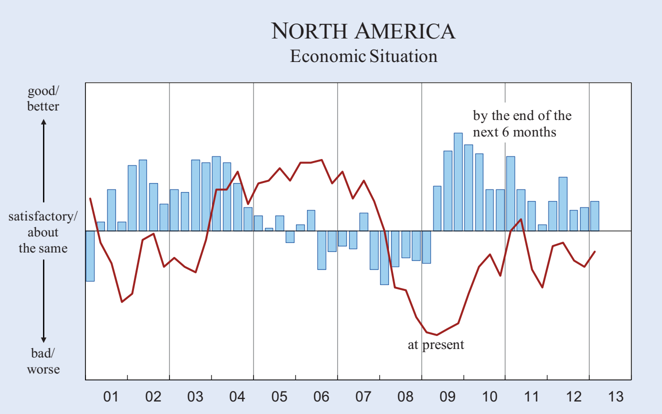
Eastern Europe: Economic climate remains subdued

While the economic climate indicator rose in all major regions of the world, albeit in some cases only slightly, there were no changes for the better in *Eastern Europe*. Here, the indicator remained at the same low level of 62.0 as in the previous quarter (long-term average 1997–2012: 85.4). The current economic situation was again rated unfavourably. Economic expectations, albeit some marginal improvements, do not signal any major changes for the better in the months ahead (see Figures 4 and 7).

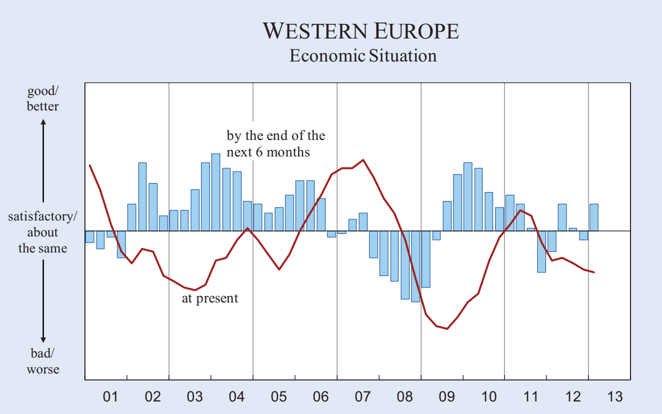
The relatively best economic performance at present in this region was still reported from *Latvia* and *Lithuania*, to an even higher degree than in the previous survey. WES experts there assessed the current economic situation as favourable. Only capital expenditures in *Lithuania* are regarded as weak at present. However, within the next six months they are expected to rebound, along with strong exports. Overall, WES experts are fairly confident about the economic outlook in both countries. In *Bulgaria*, the *Czech Republic* and *Poland* the present economic situation remains unfavourable, and to an even greater degree in the *Czech Republic* and *Poland* than three months ago. For the next six months WES experts do not expect any major improvement in economic performance in *Bulgaria* and the *Czech Republic*, although the export sector in the *Czech Republic* is expected to strengthen over the course of the next six months. In *Poland*, economic development is expected to slow further. In *Hungary*

Figure 4

Selected Regions



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



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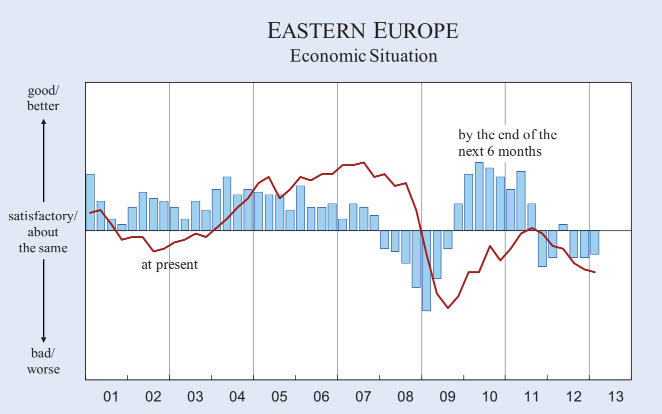

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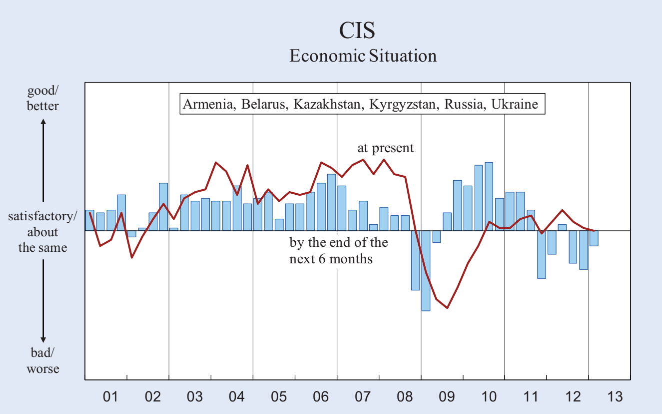

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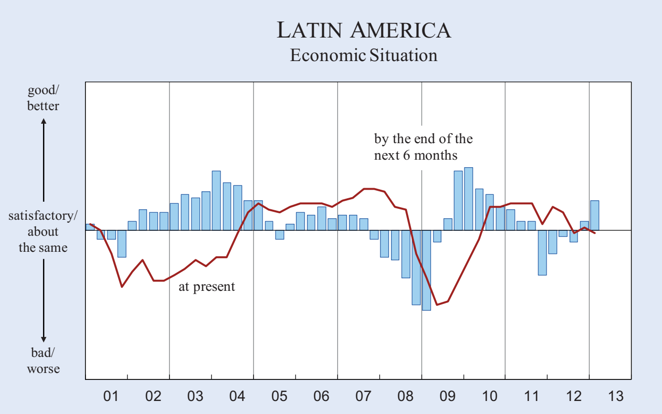

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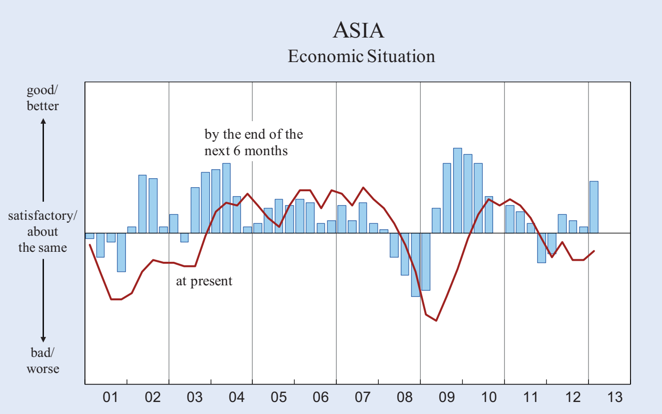


Source: Ifo World Economic Survey (WES) I/2013.

and *Romania* WES experts reported a weak economic situation. In both countries, economic expectations deteriorated compared to the previous survey and do not point to any substantial improvement within the next six months.

In *Eastern European* countries outside the EU, the present economic situation obviously showed some improvement over the previous survey, but is still rated as unfavourable in *Albania* and *Serbia*, and even more so in *Bosnia and Herzegovina* and *Croatia*. As far as future economic developments are concerned, WES experts in *Albania, Bosnia and Herzegovina*, as well as in *Croatia* are even more cautious than in the previous survey. The economic outlook for the next half year only cleared up slightly in *Serbia*. In *Macedonia* and *Montenegro* a satisfying economic situation prevails, according to the experts surveyed. While the situation is expected to remain at its current good level in *Macedonia* in the months ahead, economic experts surveyed in *Montenegro* anticipate a worsening of their economy.

CIS: Economic expectations brighten somewhat

The economic climate indicator for the *CIS* countries covered by WES (*Russia, Belarus, Ukraine, Kazakhstan, Kyrgyzstan* and *Armenia*) rose – as it did in most other main regions – thanks to more positive expectations. In most of the region's countries the present situation remains at a satisfactory level. Economic expectations brightened somewhat, but experts remain cautious (see Figure 4).

With regard to the present economic situation, in *Belarus, Kazakhstan* and *Russia*, no major changes were reported versus the last survey. In *Kazakhstan*, and to a lesser degree in *Belarus, Russia*, and *Georgia*[1], a favourable situation still prevails. The six-month outlook was mainly upwardly revised by WES experts in *Russia*, who are now positive concerning developments in the near future. In *Georgia* and *Kazakhstan* the favourable present economic situation is also expected to prevail over the next six months. By contrast, the economic experts surveyed in *Belarus* tended to express caution. In *Armenia*, the economic situation deteriorated compared to last year's survey. The situation is regarded as weak in the country, as well as in *Kyrgyzstan* and the *Ukraine*. Only WES experts in *Kyrgyzstan* expect to see any economic improvement over the next six months. In *Armenia* and the *Ukraine* the situation is expected to remain subdued.

Asia: Economic climate indicator rises sharply

The economic climate indicator in *Asia* rose strongly due to more positive assessments of the present economic situation, and particularly of economic expectations for the next six months. The indicator now stands at 97.4, and taking it above its long-term average of 90.0 (1997–2012).

Malaysia, Indonesia and the *Philippines* are currently among the best performing economies in the region, according to WES experts. In all of these countries a highly favourable economic climate prevails. The present economic situation is rated as very good, and is expected to remain so in the course of the next six months. More specifically, the export sector in the *Philippines* is anticipated to rebound in the next half year. In *Bangladesh, Sri Lanka* and *Thailand* the economic experts surveyed attested to a favourable present economic situation. Only capital expenditure in *Bangladesh* is regarded as weak. In all of these countries a positive economic outlook persists, particularly in *Bangladesh* thanks to growth in the export sector. The strongest improvement over the survey last year took place in *China* and *Hong Kong*. Appraisals of both the present economic situation and expectations for the next six months were upgraded considerably. The economic experts surveyed in both countries revised their assessments of the economic situation from unfavourable last year, to satisfactory. Economic developments are expected to remain on an upward trend in both countries for the next six months, while strong exports are expected to give a special boost to *Hong Kong's* economy. In *Papua New Guinea* and *Singapore* WES experts reported a satisfactory current economic situation, but were only positive about the outlook in *Singapore*. In *Papua New Guinea*, on the other hand, the situation looks set to worsen somewhat, according to WES experts' assessments. In *India, South Korea* and *Vietnam* the present economic situation is still regarded as unfavourable, despite a slight upwards revision in *South Korea* and *Vietnam* versus the previous survey. While WES experts in *South Korea* and *Vietnam* do not foresee any substan-

[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.

tial improvement in their economies in the coming six months, the situation in *India* does look set to improve a little. In *Japan*, the current economic situation deteriorated significantly versus last quarter's survey and is described as weak. The same is true of *Pakistan* and *Taiwan*. However, in all of these countries the economic outlook is remarkably more positive than last quarter's survey.

Oceania: Expectations clearly more positive

After its downswing last quarter, the economic climate indicator in *Oceania* has started to rise again. While assessments of the current economic situation worsened slightly, the economic expectations clearly became more positive. In *Australia*, the overall economy is regarded as favourable, despite some slight downwards adjustments compared to the previous survey. At present, capital expenditure is mainly performing well. In the next six months, the favourable situation is expected to persist, and export volumes are expected to rise. In *New Zealand*, the assessments of the present economic situation remain below the satisfactory level. With regard to future economic developments in the next six months, however, WES experts were slightly more positive.

Latin America: Recovery continues

In *Latin America*, the rise of the economic climate indicator that started in the fourth quarter of 2012 continued. Assessments of the present economic situation remain satisfactory on average, despite some slight downwards revision versus the previous survey. As far as the economic outlook for the next six months is concerned, WES experts were more positive (see Figures 4 and 9).

In *Chile, Peru* and *Uruguay* WES experts reported a highly favourable present economic situation, which has improved since the last survey. The economic situation also improved strongly in *Paraguay* compared to last quarter's survey and is now regarded as favourable. This also applies to *Bolivia* and *Colombia*, despite some downwards revision of the assessments compared to last year's survey. For the next six months, the economic experts surveyed in all of these countries remain positive with regard to future economic developments in their countries, except for *Chile* and *Colombia*. The WES experts in these countries take a more sceptical view of the economic developments ahead. In *Costa Rica, Ecuador, Mexico* and *Panama* a satisfactory current economic situation prevails. In most of these countries the situation is expected to remain at this good level. *Ecuador* is the only country in which WES experts have become more pessimistic regarding future economic developments. The present economic situation deteriorated in *Brazil* and once again fell below the satisfactory level. While private consumption is currently performing strongly, capital expenditure, which is desperately needed, is weak. However, WES experts anticipate some economic improvement in the next six months, including increases in capital expenditure. In *Guatemala* and *Argentina* the current economic situation has been assessed as unfavourable. While private consumption is at a satisfactory level at the moment, capital expenditure is considered to be weak. In *Argentina*, in particular, the investment climate for foreign investors at present is assessed as unfavourable, with particularly heavy legal and administrative restrictions for foreign firms and high inflation. Within the next six months WES experts also anticipate political instability to increase (see Tables 2 and 3). Nevertheless, for the next six months, WES experts in both countries expect some economic improvements in their economies. In *Cuba*, the *Dominican Republic, El Salvador, Trinidad and Tobago*, as well as in *Venezuela* the economic experts surveyed reported weak current economic performance. In *El Salvador* and *Venezuela* in particular the economic situation deteriorated versus last year's survey, while the economic outlook in *Cuba* and *Venezuela* promises no major improvements to current weak levels. However, WES experts in the *Dominican Republic*, *El Salvador* and *Trinidad and Tobago* did express greater confidence regarding developments over the next six months and expect the situation to improve slightly.

Near East: Favourable economic climate persists

In the *Near East* the favourable economic climate continues to persist, and the climate is in even better shape than in the previous surveys (see Figure 10). On the back of considerably upgraded assessments of both the present economic situation and expectations, the economic climate indicator rose to its highest level since late 2011. However, the recent developments in *Syria* surely contrast strongly with those of the region as a whole.

Box 3

Is France the next crisis country in Europe?[1]

Rating agencies have recently expressed concerns regarding the sustainability of French public debt. If France were to lose the faith of private investors, the country would pose a major threat to the stability of the euro area. We compare the current economic situation in France to that of Germany and Italy, and assess how serious the current situation actually is.

Despite the recent downgrade, French credit ratings are still excellent, particularly when compared to those of Italy (see Table below). Moreover, the yield on a 10-year government bond is 2.1%, and hence nearly as low as that of a German bund. The premium paid on credit default swaps is also relatively moderate, suggesting that private investors do not perceive any serious risk of a sovereign default within the next 10 years.

However, the sound economic situation in 1999 – the year when the euro area's single currency was introduced – and the record low borrowing costs seen during the decade that followed, have presumably led to developments that are not sustainable. When compared to Germany in particular, the French economy appears to have lost ground on several fronts. Firstly, France's public finances are in dire straits. From today's perspective it appears unrealistic that the French government will be able to cut the high public deficit of 4.5% relative to GDP in 2012 to 3% by the end of 2013, and to 0% in 2017, as was mutually agreed with the EU. One reason for this probable failure is that, despite its robust population growth, France's potential economic growth rate is a mere 0.9%. Another reason is that the growth forecasts of the French government seem overly optimistic in the light of the current slowdown in global economic activity. Moreover, the high primary deficit (government net borrowing excluding interest payments) indicates that the French public sector needs substantial adjustment in order to stabilize rising public debt levels (90% relative to GDP by the end of 2012). Both Germany and Italy are running large primary surpluses. In addition, among the three biggest euro area economies France boasts the largest increase in public debt since 1999, which is primarily due to an expansion in government expenditure. Germany, on the other hand, has lowered its expenditure significantly thanks to structural reforms.

Secondly, the French business sector's lack of competitiveness is a possible reason for sluggish growth in GDP. Domestic prices (measured by the GDP deflator), for example, have increased by 26% since 1999, and hence nearly as strongly as those in Italy, and more than twice as strongly as those in Germany. As a result, France, like Italy, lost about 40% of its share in global trade between 1999 and 2012. And while its current account position showed a surplus of 2.6% relative to GDP in 1999, the French economy now relies on the inflow of foreign capital to finance its current account deficit of 2.2%. Net foreign liabilities increased to 16% by the end of 2012. Moreover, the latest competitiveness ranking of the World Economic Forum shows that France is far less attractive to international investors than Germany. While Germany jumped from position 25 in 1999 to 6 in 2012 as a result of structural reforms, France virtually stagnated.

Thirdly, and finally, far-reaching reforms are required in the French labour market. The nationwide minimum wage is high by international comparison (60% of the median wage according to OECD), employment protection is complicated, and deviations from industry-wide multi-employer agreements are hardly possible. Moreover, unit labour costs have increased strongly since 1999. Taken together, these features of the French labour market have prevented the unemployment rate from falling below 8% in the past, even during economic booms, and have contributed to very high youth unemployment. On a brighter note, the need to reform the public pension systems appears less urgent than in Germany thanks to France's high birth rates and robust population growth. By the year 2030 the old-age dependency ratio will be 39% (number of people aged 65+ as a percentage of the labour force), and will therefore be much lower than in Germany.

To sum up, France is still considered a "safe haven" by private investors. Key economic indicators, however, point to unsustainable developments that will require reform efforts in the labour market and public finances in the near future. Should the French government prove reluctant to undertake these measures, investors may lose their faith in the sustainability of French public debt. Given that France needs to finance its current deficit and has to roll over old debt as high as 9% of GDP in 2013, this might drive up borrowing costs substantially. Moreover, higher borrowing costs would make it even more difficult for the French government to meet its deficit targets, and may ultimately lead to a decline in the creditworthiness of the European Stability Mechanism since France is its second biggest contributor.

[1] This box builds on "Exkurs: Ist Frankreich das nächste Krisenland in Europa?" which appeared in "ifo Konjunkturprognose 2012/2013: Eurokrise verzögert Aufschwung", ifo Schnelldienst, December 2012, 65(24): 15-65.

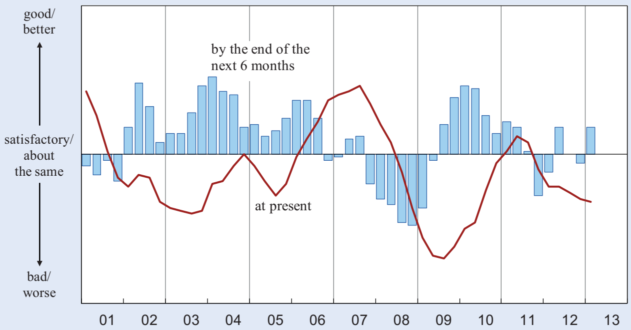
Demography and Growth	**France**	**Germany**	**Italy**
Potential GDP 2012-2014 (change in % per year)	0.9	1.5	-0.4
Population 2012-2014 (change in % per year)	0.5	0.1	0.4
Old-Age Dependency Ratio 2030 (2010)	39 (26)	47 (31)	41 (31)
Financial Markets			
Creditrating (S&P/Moody`s/Fitch) November 2012	AA+/Aa1/AAA	AAA/Aaa/AAA	BBB+/Baa2/A-
10-Year Government Bond Yield (in %) November 2012	2.1	1.4	4.9
Credit Default Swaps (Premium/Basispoints) November 2012	127.7	66.4	302.6
Public Refinancing Operations 2013 (in Bill. Euro/ in % of GDP)	191/9.1	186/6.8	232/14.2
Public Finances			
Government Net Lending (+) / Borrowing (-) 2012 (in % of GDP)	-4.5	-0.2	-2.8
Primary Balance 2012 (in % of GDP)	-1.9	2.3	2.6
Gross Government Debt 2012 (in % of GDP)	90.0	81.7	126.5
Gross Government Debt (change since 1999 in perc. pts.)	31.1	20.4	13.5
Government Expenditures 2012 (in % of GDP)	56.4	45.2	50.9
Government Expenditures (change since 1999 in perc. pts.)	3.8	-3.0	3.0
Competitiveness			
Current Account Position 2012 (in % of GDP)	-2.2	5.7	-1.2
Current Account Position (change since 1999 in perc. pts.)	-4.8	7.0	-2.2
Net Foreign Assets 2011 (in % of GDP)	-15.9	32.6	-20.6
Net Foreign Assets (change since 1999 in perc. pts.)	-7.9	28.1	-15.6
Share in Global Trade 2012 (in %)	3.2	7.8	2.7
Share in Global Trade (change since 1999 in perc. pts.)	-2.5	-1.8	-1.5
GDP Deflator (change since 1999 in %)	26.1	12.1	30.8
World Economic Forum Ranking 2012-2013 (1999-2000)	21 (23)	6 (25)	42 (35)
Labor Market			
Total Unemployment Rate 2012	10.4	5.5	10.6
Youth Unemployment Rate May 2012	21.8	8.1	33.9
Unit Labor Costs (change since 1999 in %)	29.0	9.5	35.6

Sources: AMECO, Datastream, Eurostat, ILO, World Economic Forum, calculations of Ifo Institute.

Figure 5

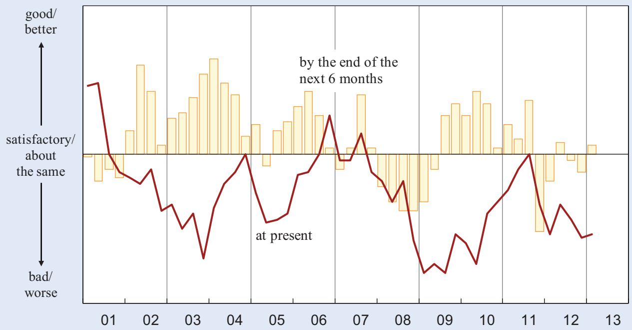
EUROPEAN UNION

EUROPEAN UNION (15)
Economic Situation



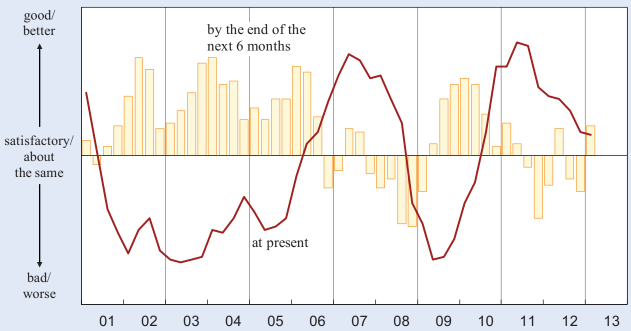
Source: Ifo World Economic Survey (WES) I/2013.

FRANCE
Economic Situation



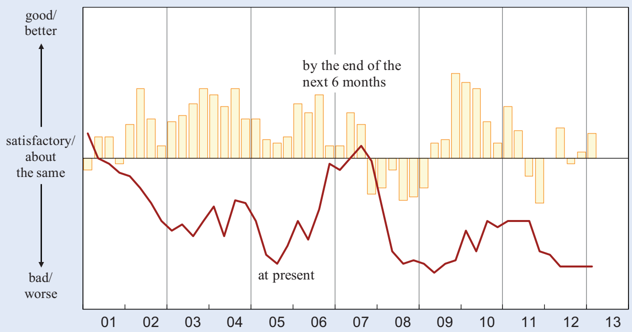
Source: Ifo World Economic Survey (WES) I/2013.

GERMANY
Economic Situation



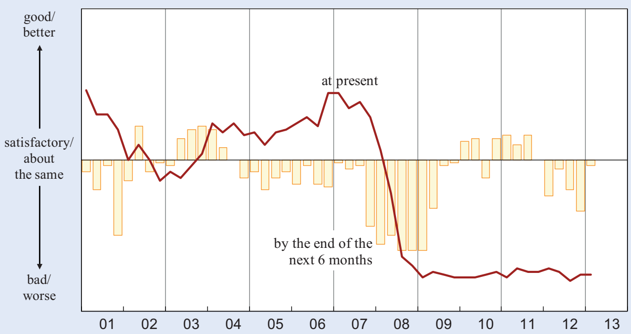
Source: Ifo World Economic Survey (WES) I/2013.

ITALY
Economic Situation



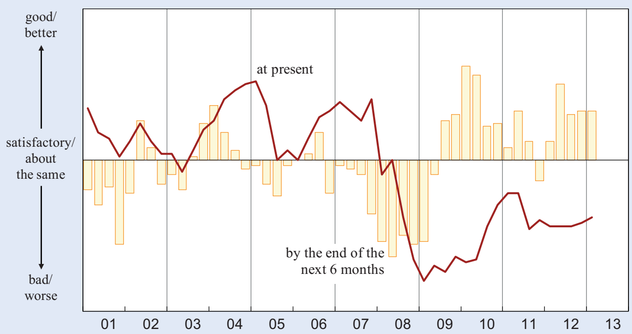
Source: Ifo World Economic Survey (WES) I/2013.

SPAIN
Economic Situation



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

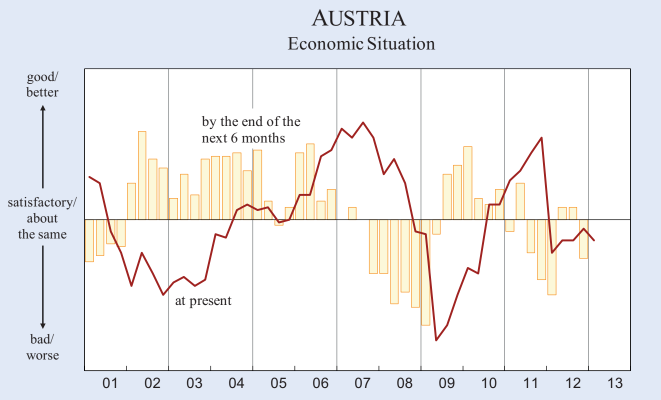
UNITED KINGDOM
Economic Situation



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

Figure 5b

EUROPEAN UNION



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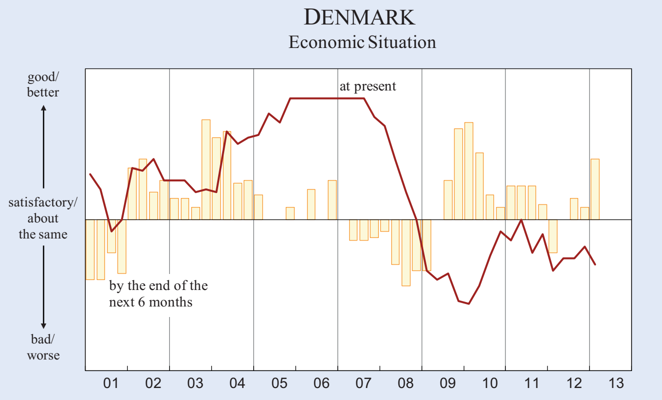

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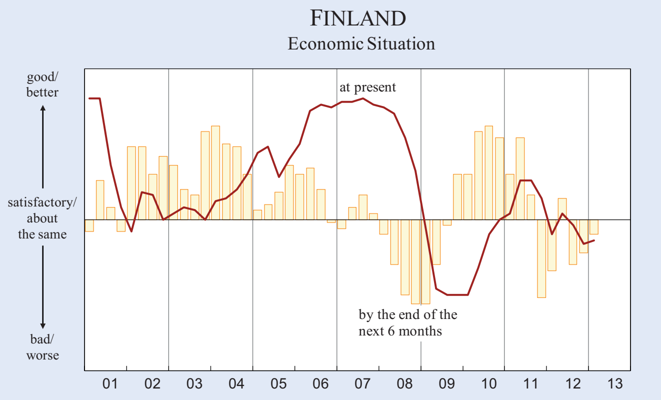

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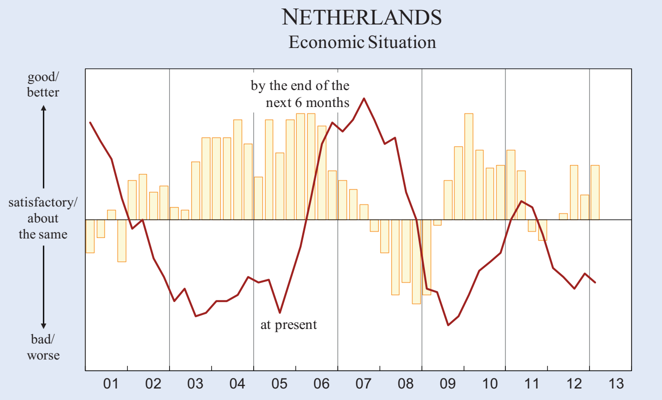

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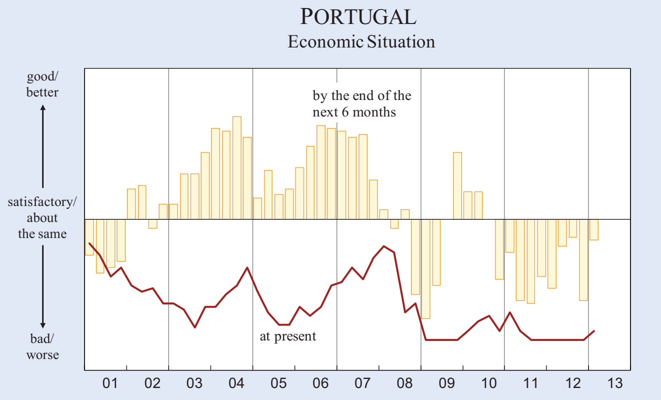

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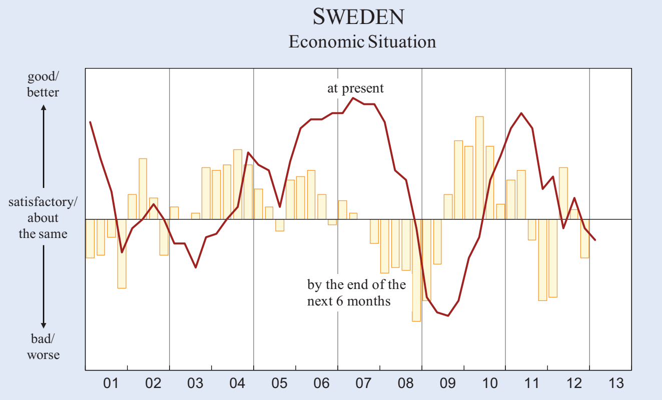
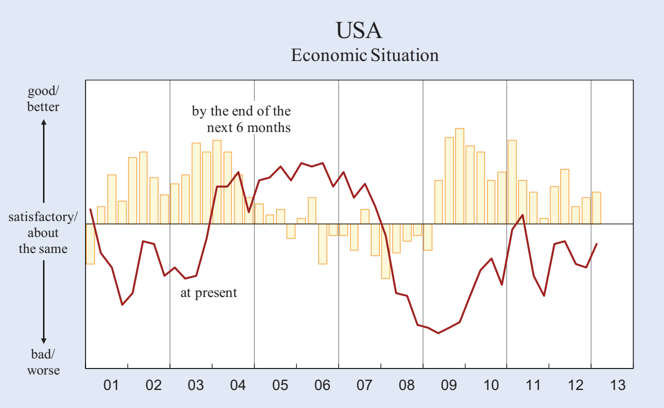


Source: Ifo World Economic Survey (WES) I/2013.

Figure 6

NORTH AMERICA, OCEANIA AND CIS



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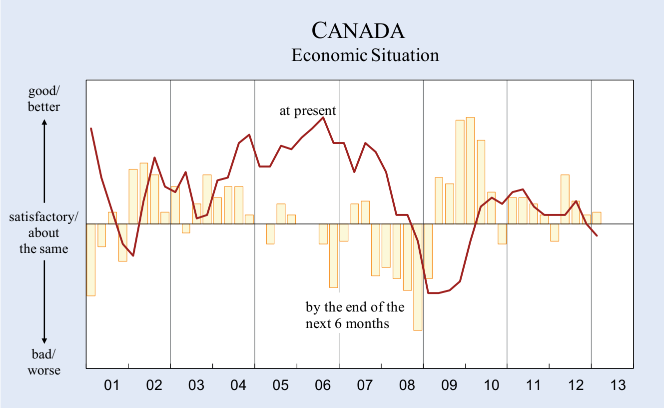

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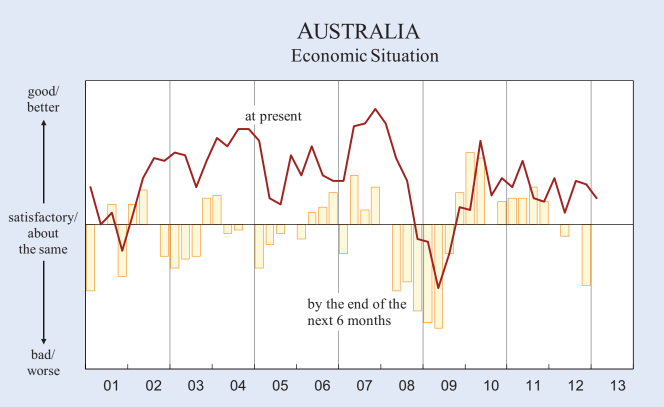

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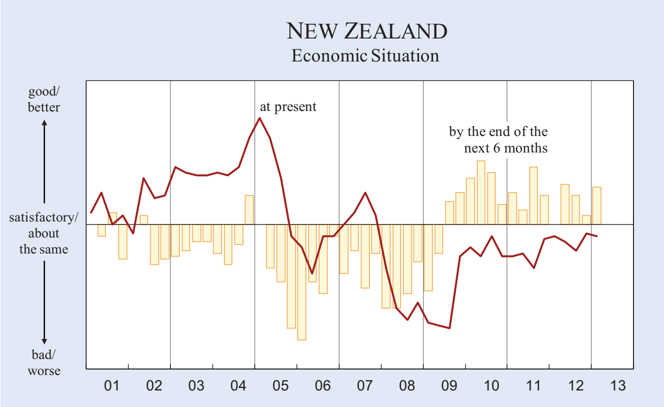

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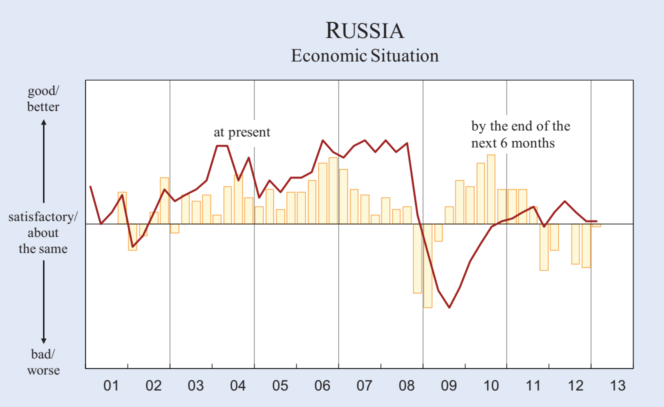

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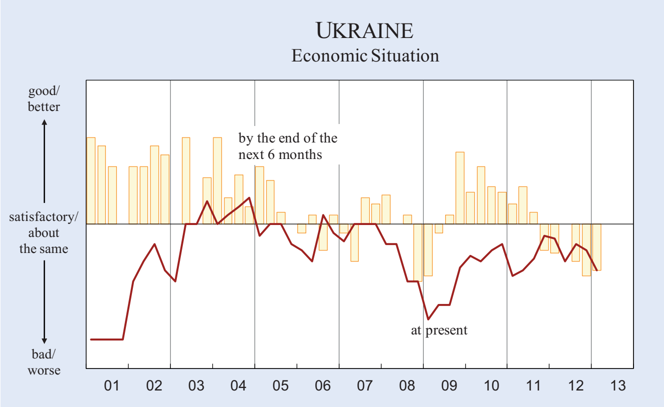
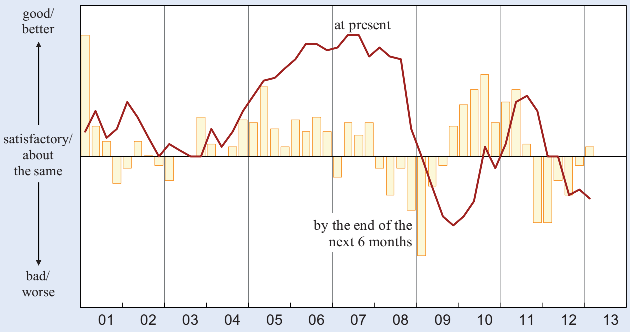


Source: Ifo World Economic Survey (WES) I/2013.

Figure 7

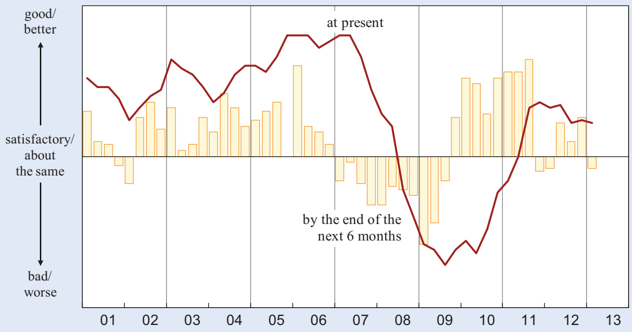
EASTERN EUROPE

CZECH REPUBLIC
Economic Situation



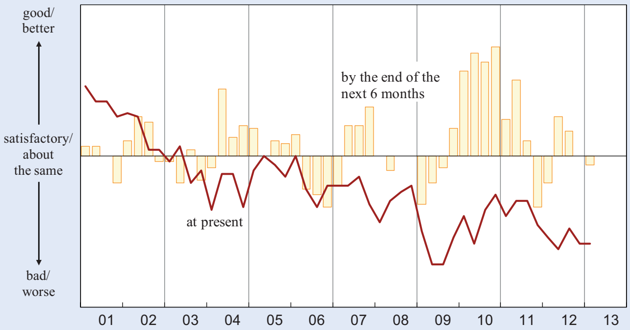
Source: Ifo World Economic Survey (WES) I/2013.

ESTONIA
Economic Situation



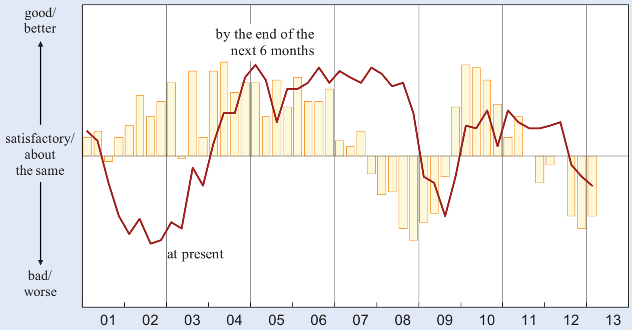
Source: Ifo World Economic Survey (WES) I/2013.

HUNGARY
Economic Situation



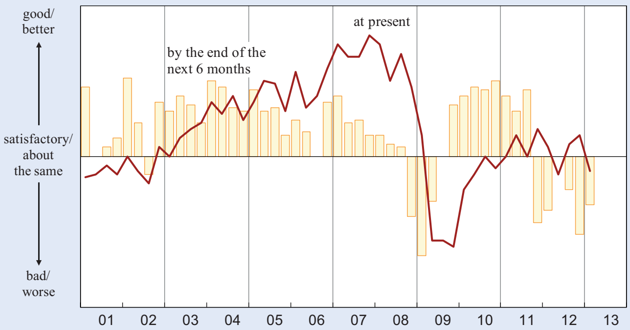
Source: Ifo World Economic Survey (WES) I/2013.

POLAND
Economic Situation



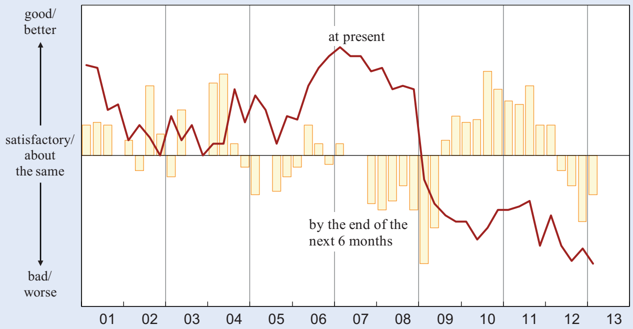
Source: Ifo World Economic Survey (WES) I/2013.

SLOVAK REPUBLIC
Economic Situation



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

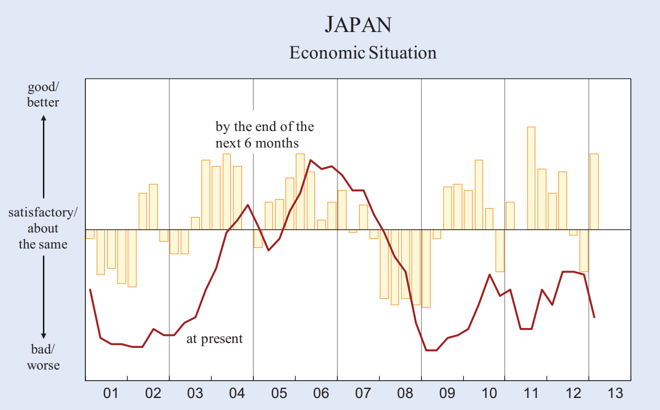
SLOVENIA
Economic Situation



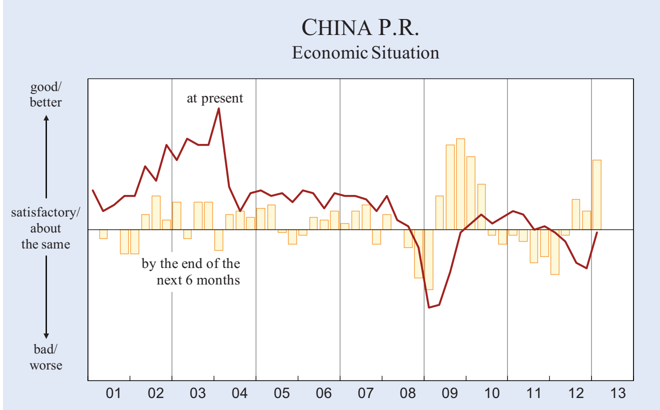
Source: Ifo World Economic Survey (WES) I/2013.

Figure 8

ASIA



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



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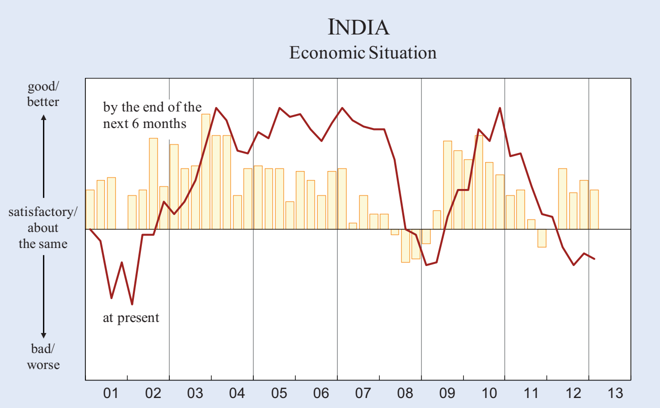

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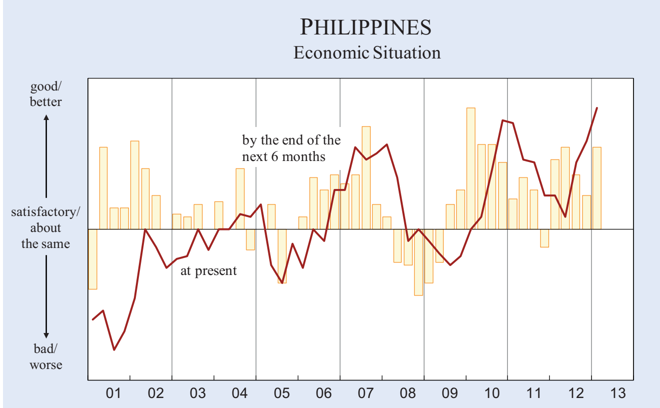

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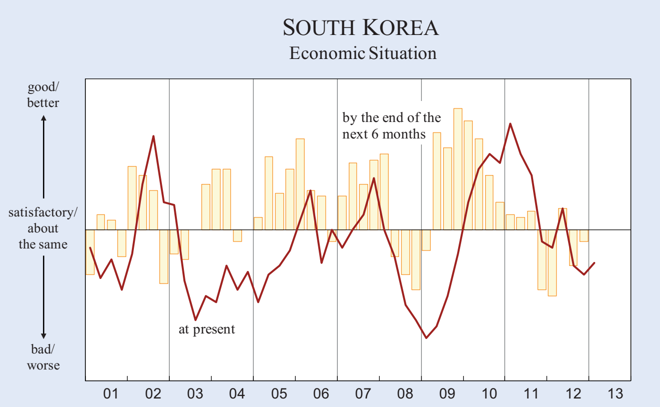

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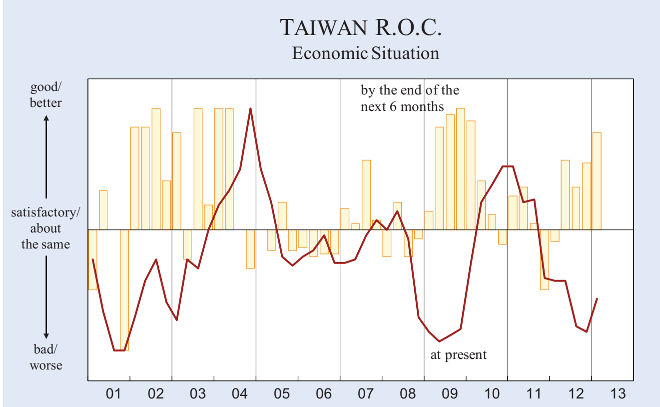
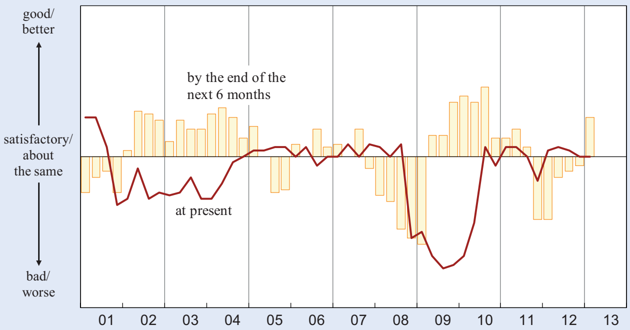


Source: Ifo World Economic Survey (WES) I/2013.

Figure 9

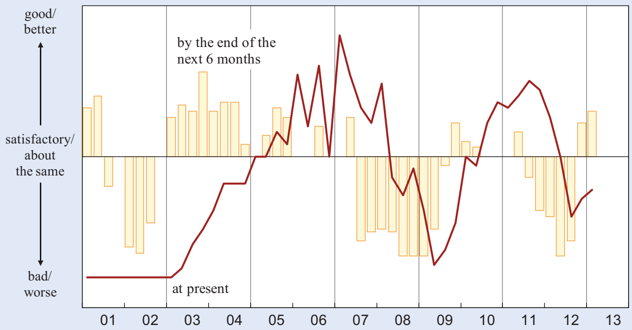
Latin America

MEXICO
Economic Situation



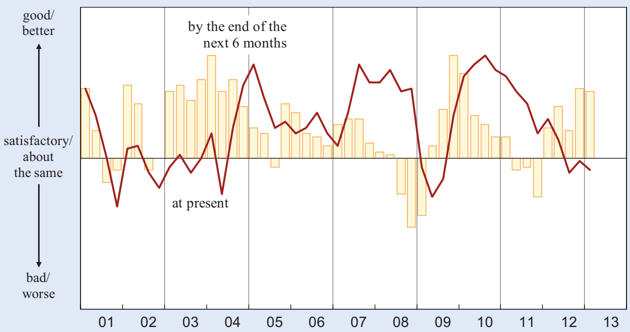
Source: Ifo World Economic Survey (WES) I/2013.

ARGENTINA
Economic Situation



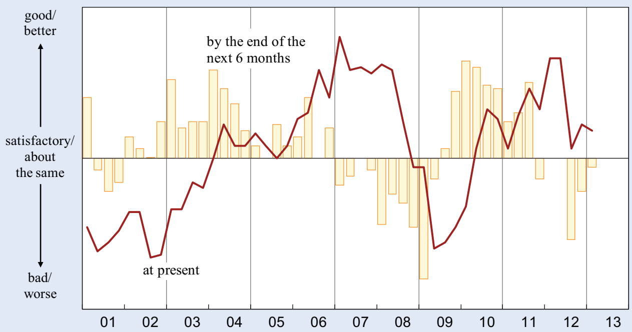
Source: Ifo World Economic Survey (WES) I/2013.

BRAZIL
Economic Situation



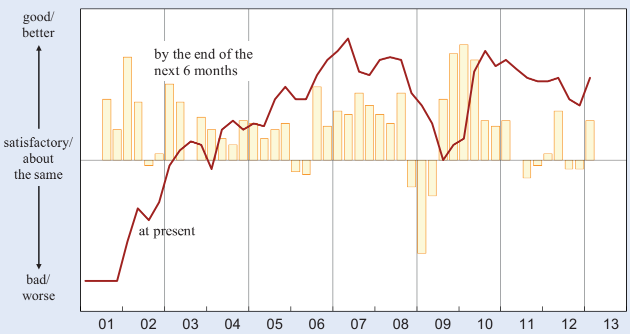
Source: Ifo World Economic Survey (WES) I/2013.

COLOMBIA
Economic Situation



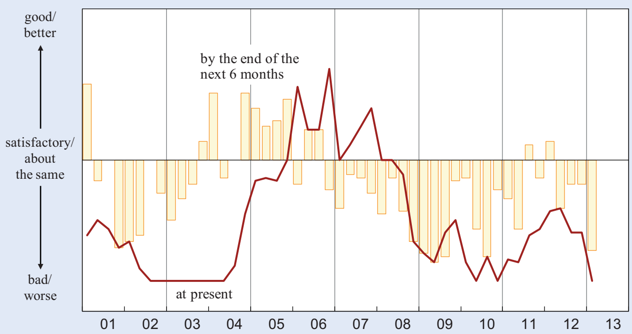
Source: Ifo World Economic Survey (WES) I/2013.

PERU
Economic Situation



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

VENEZUELA
Economic Situation

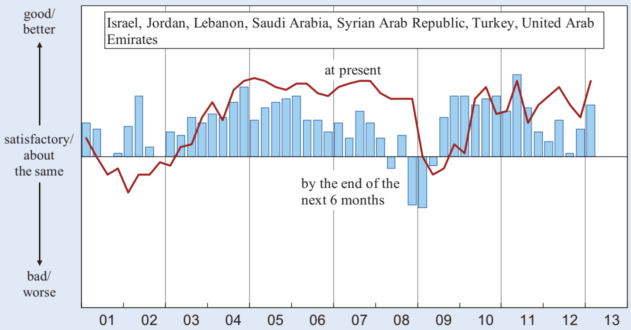


Source: Ifo World Economic Survey (WES) I/2013.

Figure 10

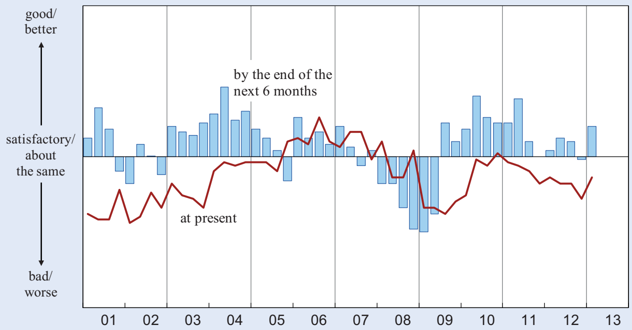
Near East and Africa

NEAR EAST
Economic Situation



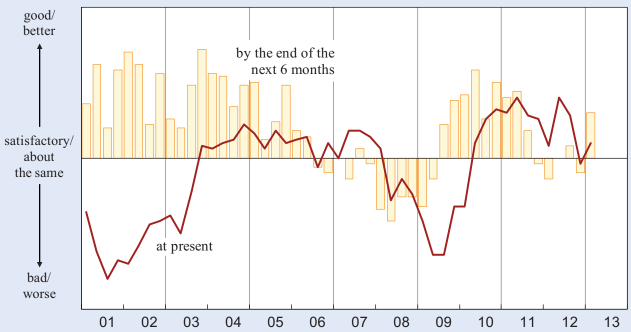
Source: Ifo World Economic Survey (WES) I/2013.

AFRICA
Economic Situation



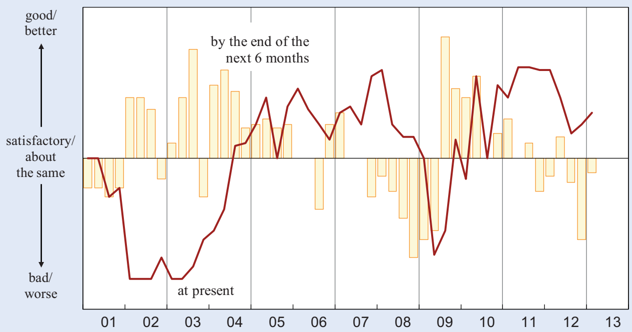
Source: Ifo World Economic Survey (WES) I/2013.

TURKEY
Economic Situation



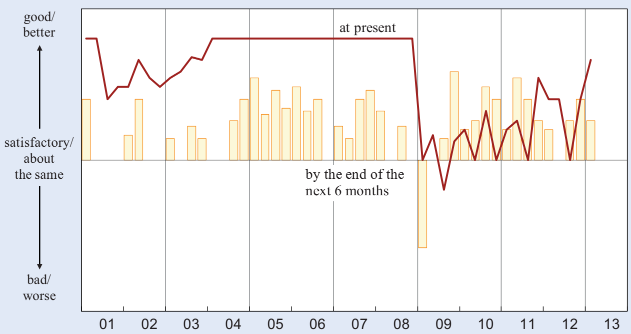
Source: Ifo World Economic Survey (WES) I/2013.

ISRAEL
Economic Situation



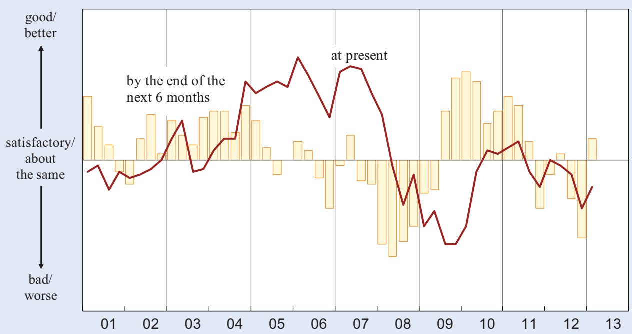
Source: Ifo World Economic Survey (WES) I/2013.

UNITED ARAB EMIRATES
Economic Situation



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

SOUTH AFRICA
Economic Situation



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

In *Israel, Saudi Arabia* and the *United Arab Emirates* the favourable present economic situation even improved compared to the previous survey. As far as the economic outlook is concerned, WES experts in *Saudi Arabia* and the *United Arab Emirates* remain fairly confident. Only the economic experts surveyed in *Israel* are somewhat cautious concerning future economic developments. In neighbouring *Syria* no improvement over the previous survey was reported and the economic situation continues to be weak with no positive signs for the next six months. In *Lebanon* WES experts reported a deterioration of the current economic situation, which is now considered as unfavourable. No major changes are anticipated in the next half year. By contrast, a satisfactory current economic situation was reported by WES experts in *Turkey* and *Jordan*. The economic expectations for the next six months are considerably more positive in both countries. In *Turkey* the upturn in the export sector is mainly forecast 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*.

In the *Northern African* countries of *Algeria, Libya* and *Morocco* assessments of the present economic situation improved compared to the previous survey and are now considered as satisfactory. This upward trend is expected to continue in the next six months in these countries. In *Egypt*, no changes for the better were reported by WES experts. In *Tunisia*, the situation even deteriorated compared to the previous survey. An unfavourable present economic situation prevails in both countries. In *Egypt*, current tensions are not expected to abate in the near future. WES experts do not expect the situation in *Tunisia* to improve in the months ahead either.

The economic climate indicator in *South Africa* rose strongly due to more positive assessments of both the present economic situation and even more so of economic expectations. However, the present economic situation has not yet reached a satisfactory level. By contrast, as far as future economic developments over

Table 1

Supply of bank credit to firms, extent of constraint	
Not constrained	
Canada	8.3
Peru	7.9
New Zealand	7.7
Colombia	7.5
Hong Kong	7.5
Paraguay	7.3
Pakistan	7.2
Taiwan	7.1
Australia	7.0
Indonesia	7.0
Norway	7.0
Philippines	7.0
Moderately constrained	
Japan	6.8
South Africa	6.8
Czech Republic	6.7
Sweden	6.7
Switzerland	6.7
Germany	6.6
South Korea	6.6
Lithuania	6.5
Malaysia	6.5
Uruguay	6.5
Finland	6.3
Mauritius	6.3
Namibia	6.3
Chile	6.2
Slovakia	6.2
Brazil	6.1
Israel	6.1
Latvia	6.1
Turkey	6.1
United States	6.1
Austria	6.0
Bulgaria	6.0
Mexico	6.0
Guatemala	5.8
India	5.8
Bosnia and Herzegovina	5.7
Sri Lanka	5.7
Argentina	5.4
Russia	5.4
France	5.3
Kazakhstan	5.3
Croatia	5.0
Poland	5.0
Thailand	5.0
Ukraine	5.0
United Arab Emirates	5.0
Zambia	5.0
China	4.7
Denmark	4.6
Netherlands	4.5
Nigeria	4.5
Belgium	4.3
Bangladesh	4.2
Egypt	4.2
Sierra Leone	4.2
Kenya	4.0
Strongly constrained	
Italy	3.1
United Kingdom	3.0
Hungary	2.8
Madagascar	2.6
Albania	2.3
Slovenia	2.3
Zimbabwe	2.3
Portugal	2.0
Ireland	1.7
Romania	1.6
Spain	1.3
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) I/2013.

the next six months are concerned, WES experts have clearly become more optimistic for the *South African* economy (see Figure 10). In *Congo Dem. Republic, Congo-Brazzaville, Ghana, Kenya, Lesotho, Liberia, Mauritius, Namibia, Sierra Leone* as well as *Zambia* WES experts view the present economic situation as favourable. In all of these countries, WES experts retained their positive view of future economic developments over the next six months. In *Angola, Benin, Ethiopia, Gabon, Ivory Coast, Malawi, Mauritania, Nigeria, Senegal* and *Tanzania*, WES experts assessed the current economic situation as satisfactory and expect it to stabilize at its current good level in the months ahead. Moreover, in *Angola, Benin* and *Nigeria* export volumes in the next six months are most likely to increase and to have some positive impact on the general economic situation. In *Burkina Faso, Burundi, Comoros, Madagascar, Niger, Sudan, Swaziland, Togo, Uganda* and *Zimbabwe* the current economic situation is seen as unfavourable. In *Sudan*, the economic instability caused by the Southern Sudanese secession is being compounded by a high inflation environment. Within the next six months, no substantial economic improvement is expected in *Burkina Faso, Burundi, Sudan, Swaziland, Togo* and *Zimbabwe*. By contrast, economic experts in *Comoros* and *Uganda* anticipate a slight upturn. In *Niger* and *Zimbabwe* WES experts have a rather cautious view of future economic development. In both *Niger* and *Mauritania*, the experts surveyed fear some negative spillover from the political instability of neighbouring *Mali*.

Price increase expected to slow down in 2013

General trends

On a worldwide average, the WES experts' inflation forecast for the year 2013 is lower than the price increase experienced in 2012 (3.3% compared to 3.6%; see Table 4). This tendency is widespread, with the exceptions of *North America, Asia*, the *Near East* and *Africa* where practically no change in the inflation rate is expected, and *Latin America*, where inflation is expected to pick up.

Price trends by countries

On average for the ***euro area***, the expected inflation rate in 2013 will be 2.1% after 2.4% reported for 2012. Within the *euro area* the lowest inflation rates in 2013 are expected particularly in the "crisis countries" *Greece* (1.3%), *Ireland* (1.6%) as well as *Portugal* and *Cyprus* (both 1.8%). Above the average of the *euro area* lie the expected inflation rates again particularly in *Estonia* (3.8%) and *Slovakia* (2.7%).

In ***Western Europe*** outside the *euro area* the two extremes of the presumable price development continue to be also in 2013 *Switzerland* (0.3%) on the one side and the *United Kingdom* (2.6%) on the other side.

In ***Eastern Europe*** the inflation rate forecast for 2013 is with 3.3% significantly lower than the rate reported for 2012 (3.9%). In *Serbia* inflation expectations for this year remained the highest in the region but point nevertheless to some success in fighting inflation (6.4% compared to reported 11.0% in 2012). Also in *Hungary* some slowdown of the inflation rate is expected (4.5% compared with 5.7% in 2012). The lowest inflation in the region will prevail in 2013 in the euro countries *Slovenia* (2.5%) and *Slovakia* (2.7%) as well as in *Latvia* (2.5%), *Poland* (2.6%) and the *Czech Republic* (2.8%).

In ***North America,*** the 2013 inflation forecast for the *United States* stands at 2.2% while for *Canada* it is at 1.9% and thus remains unchanged from the outcome in 2012.

In ***Asia*** inflation expectations for 2013 also remained at the same level as realized in the previous year (3.3%). According to WES experts by far the highest inflation rates in the region will once again prevail in *Pakistan* (11.1%). In *Sri Lanka* (8.8%), *Bangladesh* (8.0%) and *Vietnam* (7.5%) the expected inflation in 2013 will also be significantly higher than in the regional average. In *China* inflation expectations for 2013 increased somewhat (from a reported 2.9% in 2012 to 3.7% in 2013), but remained clearly below the high level of 2011 (5.6%) which had caused the Chinese Central Bank to switch to a more restrictive course of monetary policy. In *South Korea* the expected inflation rate in 2013 will also be higher than in 2012 (3.1% compared to reported 2.7% in 2012). Hardly any slowdown in the rise of inflation is expected in *India* (7.6% compared with 8.0% in 2012). In *Indonesia*, another high inflation country, the 2013 inflation rate is even expected to rise somewhat (6.3% compared to 5.6% in 2012). In *Taiwan* the traditionally moderate inflation climate will continue to prevail in 2013 (1.6%). In *Japan* the expected price trend in 2013 will amount to only 0.3% which would be significantly less than the 2% target inflation aimed for by the newly elected government.

In ***Oceania*** inflation expectations for 2013 are somewhat higher than the rate seen in 2012 (2.7% compared to 2.3% in 2012). This is exclusively due to *Australia*, where the inflation outlook for 2013 deteriorated from 2.4% in 2012 to 2.9% at present; in *New Zealand* price expectations for this year are even slightly lower than last year's estimated inflation (1.7% compared with 1.8%).

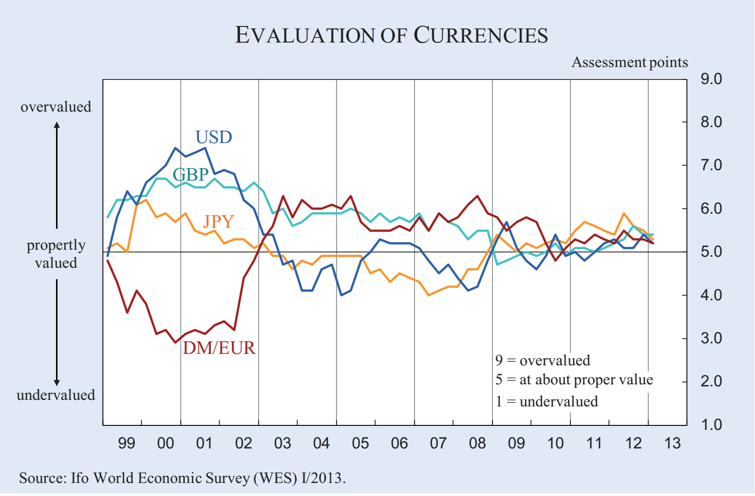
Latin America is – apart from *Oceania* – the only region where inflation expectations for this year are higher than the 2012 inflation rate (7.7% compared to 7.0% in 2012). Countries with the worst inflation outlook in the region are still *Argentina* (27.2%), and to an even greater degree *Venezuela* (34.7%). At the other end of the scale, countries with inflation rates significantly below the regional average will once again include *Peru* and *El Salvador* (both 2.7%), *Chile* (2.8%) and *Colombia* (2.9%). In *Brazil*, the largest country in the region, an inflation rate of 5.6% is expected for 2013, which would be almost identical with the 2012 inflation rate.

Inflation expectations for 2013 also declined somewhat from the 2012 inflation level in ***CIS*** countries (from 8.4% to 7.8%). The inflation rate in the *Ukraine* (5.5%) will once again be lower than the regional average. In *Kazakhstan* inflation rate is expected to hit 6.9% in 2013, making it somewhat higher than in 2012 (5.9%). The 2013 inflation rate will also be below the regional average according to WES experts in *Russia* (7.1%). Inflation rates in *Belarus*, on the other hand, will remain above the regional average in 2013 (19.0%).

In the ***Near East*** the overall figures are strongly distorted by figures for *Iran* and *Syria*. For that reason the results for these two countries are featured in Table 4, but are not used to calculate the aggregated result for the *Near East*. Bearing this restriction in mind, inflation expectations in this region for 2013 were almost unchanged from actual inflation in the previous year (4.5% respectively 4.3%). Within the *Near East* inflation expectations remained rather subdued in the *United Arab Emirates* (2.2%) and *Israel* (2.0%). In *Saudi Arabia* the 2013 inflation rate will amount to 5.3%, almost the same figure as in 2012. In *Turkey* inflation in 2013 is expected to slow down somewhat (from 8.1% in 2012 to 6.6% in 2013).

Price trends in ***Africa*** are still very heterogeneous. Relatively low inflation rates for 2013 are expected in *Morocco* (2.1%), *Burkina Faso* (2.6%), *Congo-Brazzaville Rep.* (2.5%) and *Gabon* (3.1%). The 2013 inflation expectations for the majority of countries covered in the survey like *Tunisia* (4.2%), *Ivory Coast* (5.0%), *Congo Dem. Republic, Mauritania* and *Benin* (in all three cases 5.6%), *South Africa* (5.9%), *Namibia* (6.2%) and *Algeria* (6.6%) lie in a medium inflation bracket. High inflation rates of 10+% will continue to predominate in 2013, particularly in *Sudan* (36.5%), *Burundi* (23.0%) and *Malawi* (20.0%).

Figure 11



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

Moderate rise of US dollar expected

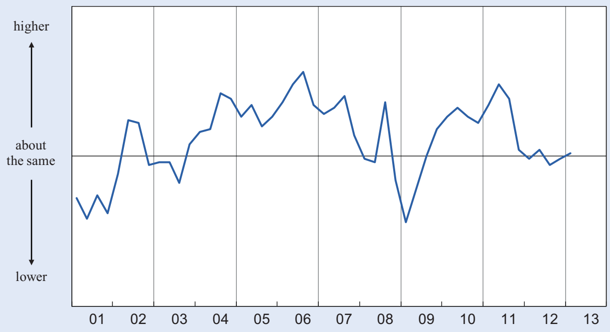
On a worldwide scale the four world currencies *US dollar, euro,* the *British pound* and the *yen* continue to be close to their fundamentally appropriate values, according to WES experts' assessments. More than in previous surveys this now also applies to the yen, which for a long time was regarded as overvalued (see Figure 11).

However, major differences in currency evaluation remain by country: WES experts regard their own currency as generally

Figure 12

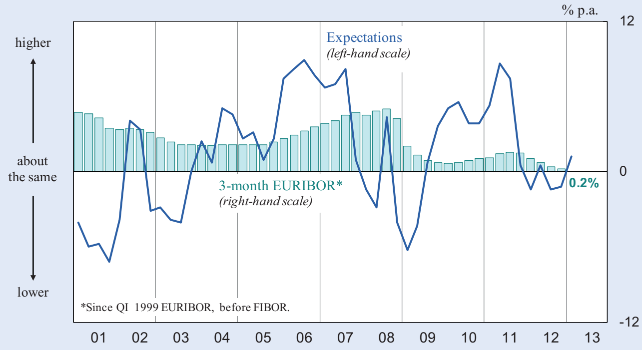
Actual short-term interest rates and expected trend for the next 6 months (quarterly data)

All countries



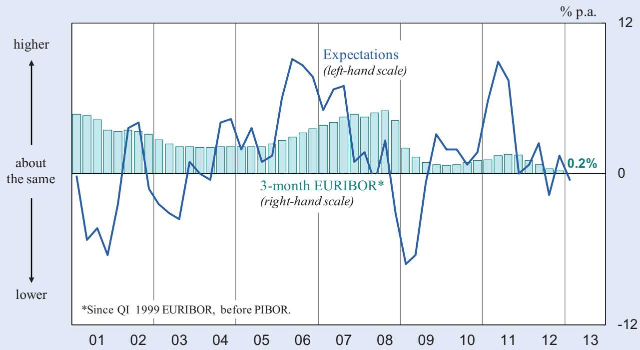
Source: Ifo World Economic Survey (WES) I/2013.

Germany



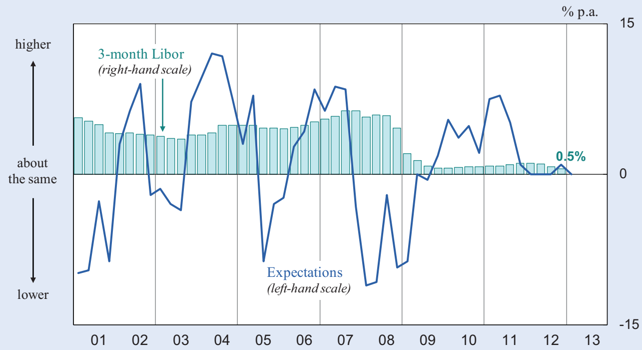
Source: Ifo World Economic Survey (WES) I/2013, Deutsche Bundesbank.

France



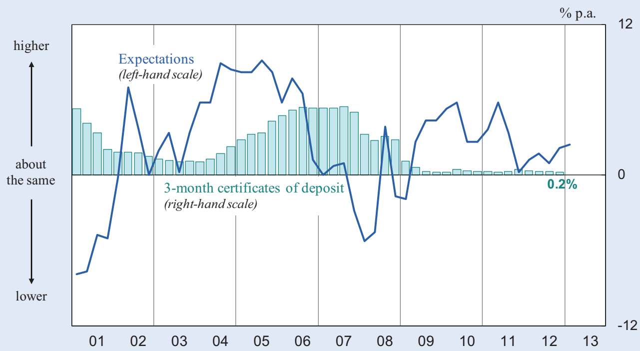
Source: Ifo World Economic Survey (WES) I/2013, OECD.

United Kingdom



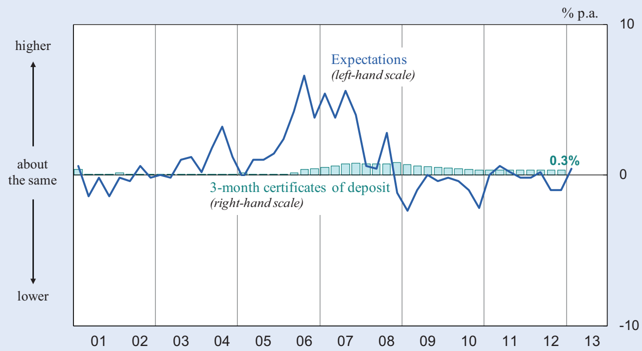
Source: Ifo World Economic Survey (WES) I/2013, OECD.

United States



Source: Ifo World Economic Survey (WES) I/2013, Federal Reserve Board, US.

Japan



Source: Ifo World Economic Survey (WES) I/2013, OECD.

overvalued in *Belarus,* the *Ukraine, Israel, Egypt, Angola, Burundi, Comoros, Lesotho, Argentina, Mexico, Paraguay, Uruguay* and *Venezuela*. At the other end of the scale, experts assessed their own currencies as generally **undervalued** in some *Eastern European* countries like *Bosnia and Herzegovina, Czech Republic, Latvia* and *Macedonia*, in two *CIS* countries (*Russia* and *Kyrgyzstan*), in some *Asian* countries (*China, India, Bangladesh, Pakistan, Sri Lanka and Taiwan*), in two *Near East* countries (*Saudi Arabia* and the *United Arab Emirates*), in some African countries (*Morocco, Benin, Sierra Leone* and *Zambia*), as well as in some *Latin American* countries (*Brazil, Bolivia* and the *Dominican Republic*).

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 a slight increase in the value of the *US dollar* over the course of the next six months on worldwide average. However, this average masks diverging trends: an expected **weakening** of the *US dollar* in *Australia*, some *Eastern European* countries (*Bosnia and Herzegovina* and *Latvia*), several *Asian* countries (*China, Hong Kong,* the *Philippines, Sri Lanka, Taiwan* and *Thailand*), in *Israel*, in a few *African* countries (*Comoros, Lesotho* and *Namibia*) and in some *Latin American* countries like *Paraguay* and *Peru*. These results contrast with the **increase** in the value of the *US dollar* expected particularly in *Argentina* and *Venezuela*, as well as in some *CIS* countries (the *Ukraine, Armenia* and *Belarus*) and in the majority of *African* countries.

Slightly higher long-term interest rates expected

On a worldwide scale, short-term interest rates are expected to remain largely stable over the course of the next six months. After an extended downturn since early 2011, long-term interest rates, on the other hand, are expected to rise somewhat in the months ahead (see Figure 12). However, some interesting differences exist by country: in the *euro area* the high long-term interest rates in "crisis-countries" hit particularly hard by the financial crisis like *Greece, Ireland, Italy, Spain* and *Portugal* are expected to shrink further. In *Western Europe* outside the *euro area* some remarkable differences can be detected. In *Sweden* short-term interest rates are expected to sink further, whereas long-term interest rates should pick-

Table 2

Legal and administrative restrictions for foreign firms	
Absent	
Sweden	8.3
Hong Kong	7.5
Switzerland	7.3
Finland	7.2
New Zealand	7.2
Austria	7.0
Chile	7.0
Lithuania	7.0
Rather low	
United Kingdom	6.9
Uruguay	6.8
Germany	6.7
Madagascar	6.6
Netherlands	6.6
Norway	6.6
Peru	6.6
Latvia	6.4
Denmark	6.3
Ireland	6.3
Mauritius	6.3
Spain	6.2
Mexico	6.0
Portugal	6.0
Australia	5.9
Czech Republic	5.9
Kazakhstan	5.9
Slovakia	5.9
United States	5.9
Poland	5.8
Namibia	5.7
South Korea	5.7
United Arab Emirates	5.7
Zambia	5.7
Bulgaria	5.6
Belgium	5.5
Malaysia	5.5
Turkey	5.5
Canada	5.4
Japan	5.4
Slovenia	5.4
Brazil	5.3
Colombia	5.3
Hungary	5.3
South Africa	5.2
Albania	5.0
Pakistan	5.0
Sierra Leone	5.0
Greece	4.7
Italy	4.6
France	4.5
Kenya	4.5
Nigeria	4.5
Paraguay	4.4
Bosnia and Herzegovina	4.3
India	4.3
Bangladesh	4.2
Guatemala	4.2
Israel	4.0
Rather high	
Romania	3.9
Philippines	3.7
Sri Lanka	3.7
Thailand	3.7
China	3.6
Taiwan	3.5
Bolivia	3.4
Indonesia	3.0
Croatia	2.7
Egypt	2.6
Russia	2.6
Argentina	1.8
Zimbabwe	1.7
Ukraine	1.0

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) I/2013.

up over the coming months. In *Norway*, on the other hand, both short- and long-term interest rates will rise over the course of the next six months according to the WES experts interviewed. This pattern – increase at the short and long end of the interest rate scale – also characterizes the situation in the *USA* according to the survey. In *Australia*, on the other hand, short-term interest rates will – according to WES experts – continue to sink in the months ahead, whereas long-term interest rates are seen as almost near the end of their downward trend. This pattern – a further decline of short-term rates, but the stabilization of long-term interest rates at the current level, or even a moderate increase – is also typical for most *Eastern European* countries. However, in contrast to the *Eastern European* average, both short- and long-term-interest rates in *Poland* are expected to decline further over the next six months. In *Russia*, short-term interest rates will be more or less stable whereas long-term interest rates are expected to decline somewhat during the first half of 2013, following the average pattern for *CIS* countries. In *Latin America* interest rates – both short- and long-term – will increase in the months ahead in *Chile, Argentina* and *Uruguay*, whereas they will remain more or less stable in *Brazil* and *Mexico* and will decline in *Colombia*. The situation in *India* differs from the prevailing pattern of stable short-term and rising long-term interest rates in *Asia* in that the central bank recently cut the policy rate by 25 basis points for the first time since April 2012 and WES experts expect a further decline of both short- and long-term interest rates over the course of the next six months. In *China* WES experts expect stable short-term and sinking long-term interest rates during the first half of 2013.

Summary of the supply of bank credit to firms

For the first time on the WES questionnaire a question was added on the extent to which firms in individual countries are currently constrained by insufficient access to bank credit due to bank-specific factors (such as a bank's health or banking regulation). As shown in Table 1, the majority of WES experts reported a moderate constraint on firms in their country of residence due to a lack of access to bank credit. The negative impact of insufficient bank credits was only regarded as a strong constraint on firms in a small group of countries (twelve in total). These countries include the euro crisis countries *Greece, Ireland, Portugal, Spain* and *Italy*, as well as the *United Kingdom* and some *Eastern European* countries like *Hungary, Albania, Slovenia* and *Romania*. Interestingly, only *European* and two *African* countries are in the group of financially "strongly constrained" countries.

ICC Special Question: SMEs and their importance to the economy

The official definition of small and medium-sized enterprises (SMEs) varies from country to country. Most frequently an SME is limited to a maximum of 250 employees. However, some countries set the limit at 200 employees, while the United States, for example, considers SMEs to include firms with fewer than 500 employees.[2] According to the EU definition of

[2] OECD (2012): Glossary of statistical terms: small and medium sized enterprises (SMEs), http://stats.oecd.org/glossary/detail.asp?ID=3123 (accessed 21 December 2012).

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

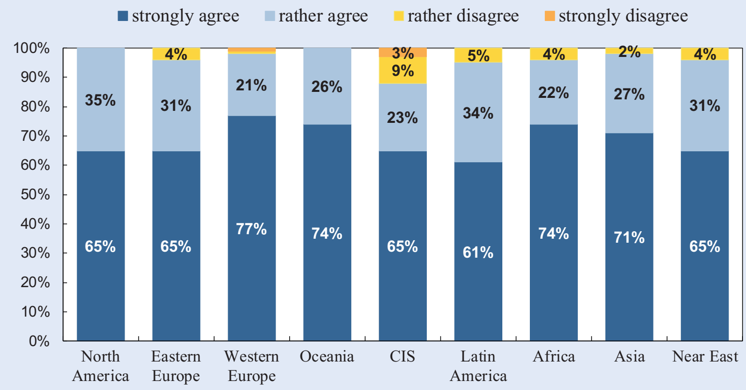
Climate due to	Change for the next six months *	
	Deterioration	**Improvement**
Legal/administrative restrictions to invest and/or to repatriate profits	Ukraine	Croatia, Greece, Mauritius, Portugal
Political stability	Albania, Argentina, Bangladesh, Bulgaria	China, Greece, Israel, Kenya, Lithuania, Sierra Leone, South Korea

* 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) I/2013.

Figure 13

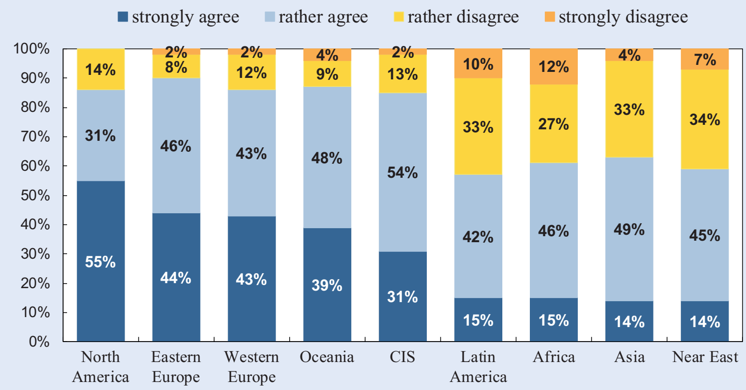
A substantial and healthy SME sector is essential for a sound national economy



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

Figure 14

Access to bank credits for small- and medium-sized enterprises (SMEs) was negatively affected by the worldwide financial crisis starting in 2008



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

SMEs, the number of employees may not exceed 250 for a medium-sized company. The EU describes a company with between 10 and 50 employees as small, and a company with less than 10 employees as a micro enterprise. In addition to the number of employees, either the *turnover* or the *balance sheet* is also observed and should not exceed € 50 million, respectively € 43 million for SMEs. The importance of SMEs is obvious as they constitute the overwhelming majority of companies. In Europe, for example, SMEs account for 99% of total business: "They provide two out of three of the private sector jobs and contribute to more than half of the total value-added created by businesses in the EU. Moreover, SMEs are the true back-bone of the European economy, being primarily responsible for wealth and economic growth, next to their key role in innovation and R&D"[3]. So, not surprisingly nearly all of the WES experts surveyed in *Western Europe* see a substantial and healthy SME sector as essential for the national economy (see Figure 13). There is a broad and general consensus across all regions regarding the importance of SMEs to the economy.

In the second part of the question WES experts were asked *if access to bank credit for small- and medium-sized enterprises was negatively affected by the worldwide financial crisis*. According to the economic experts surveyed, this was the case primarily in *North America, Eastern and Western Europe, Oceania* and *CIS* (see Figure 14). In *Asia, Latin America, Africa* and *Near East* SMEs experienced some difficulties in obtaining bank credit according to WES experts, although this problem does not seem by any means as pronounced as in the countries directly impacted by the financial crisis. Moreover, as demonstrated in Table 1, the short supply of bank credit mainly in European countries is not only limited to SMEs, but is generally heavily constraining the entire economy at present, particularly in *Italy, United Kingdom, Hungary, Albania, Slovenia, Portugal, Ireland, Romania, Spain* and *Greece*.

[3] European Commission (2012): Fact and figures about the EU's Small and Medium Enterprise (SME), http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index_en.htm (accessed 21 December 2012).

Table 4 **Inflation rate expectations for 2013 (based on WES QI/2013 and WES QIV/2012)**

Region	QI/2013	QIV/2012	Region	QI/2013	QIV/2012
Average of countries *	**3.3**	**3.6**	**North America**	**2.1**	**2.2**
High-income countries	2.2	2.3	Canada	1.9	1.9
Middle-income countries	6.6	7.2	United States	2.2	2.2
Upper-middle	6.3	7.1			
Lower-middle	7.4	7.7	**Oceania**	**2.7**	**2.3**
Low-income countries	7.5	8.7	Australia	2.9	2.4
EU 27 countries	2.2	2.5	New Zealand	1.7	1.8
EU countries (old members) [a)]	2.1	2.4			
EU countries (new members) [b)]	3.2	3.8	**Latin America**	**7.7**	**7.0**
Euro area [c)]	2.1	2.4	Argentina	27.2	24.5
			Bolivia	5.4	5.1
Western Europe	**2.0**	**2.3**	Brazil	5.6	5.5
Austria	2.3	2.3	Chile	2.8	3.3
Belgium	2.0	2.7	Colombia	2.9	3.1
Cyprus	1.8	3.0	Costa Rica	(6.0)	(5.0)
Denmark	2.2	2.3	Cuba	(4.0)	---
Finland	2.4	2.8	Dominican Republic	5.0	3.3
France	1.7	2.0	Ecuador	4.7	4.8
Germany	2.0	2.2	El Salvador	2.7	4.8
Greece	1.3	2.0	Guatemala	4.1	4.6
Iceland	(4.1)	(5.4)	Mexico	4.1	4.5
Ireland	1.6	1.9	Panama	(6.5)	(6.0)
Italy	2.5	2.9	Paraguay	5.7	4.6
Luxembourg	1.9	2.4	Peru	2.7	3.4
Monaco	2.0	2.0	Trinidad and Tobago	(10.0)	(11.0)
Netherlands	2.3	2.2	Uruguay	8.1	8.1
Norway	1.9	1.6	Venezuela	34.7	23.9
Portugal	1.8	2.9			
Spain	2.3	2.8	**Near East [e)]**	**4.5**	**4.3**
Sweden	0.9	1.4	Iran	---	(32.0)
Switzerland	0.3	0.1	Israel	2.0	2.8
United Kingdom	2.6	2.6	Jordan	4.8	---
			Lebanon	6.0	(7.0)
Eastern Europe	**3.3**	**3.9**	Saudi Arabia	5.3	(5.5)
Albania	3.4	3.2	Syrian Arab Republic	(50.0)	(20.0)
Bosnia and Herzegovina	3.6	3.2	Turkey	6.6	8.1
Bulgaria	3.3	4.1	United Arab Emirates	2.2	2.4
Croatia	3.4	3.4			
Czech Republic	2.8	3.0	**Africa**	**7.8**	**7.8**
Estonia	3.8	3.8	**Northern Africa**	**7.0**	**6.1**
Hungary	4.5	5.7	Algeria	6.6	5.8
Latvia	2.5	2.8	Egypt	12.0	10.3
Lithuania	3.1	3.2	Libya	(10.0)	---
Macedonia	(3.5)	---	Morocco	2.1	(1.9)
Montenegro	(4.0)	(4.0)	Tunisia	4.2	5.7
Poland	2.6	3.5	**Sub-Saharan Africa**	**8.3**	**9.0**
Romania	4.6	4.4	Angola	(9.7)	---
Serbia	6.4	11.0	Benin	5.6	5.2
Slovakia	2.7	3.6	Burkina Faso	(2.6)	3.3
Slovenia	2.5	2.4	Burundi	23.0	18.5
			Comoros	5.0	6.5
CIS	**7.8**	**8.4**	Congo Dem. Rep.	5.6	7.7
Armenia	6.8	5.5	Congo-Brazzaville Rep.	(2.5)	---
Belarus	(19.0)	21.5	Ethiopia	(15.0)	(25.0)
Georgia [d)]	(4.0)	---	Gabon	(3.1)	(4.6)
Kazakhstan	6.9	5.9	Ghana	(10.0)	---
Kyrgyzstan	9.0	8.0	Ivory Coast	(5.0)	(3.5)
Russia	7.1	7.7	Kenya	5.0	9.7
Ukraine	5.5	5.2	Lesotho	6.3	5.5
			Liberia	7.1	7.9
Asia	**3.3**	**3.3**	Madagascar	7.3	7.9
Bangladesh	8.0	10.4	Malawi	(20.0)	(30.0)
China	3.7	2.9	Mauritania	5.6	7.1
Hong Kong	3.8	3.7	Mauritius	4.3	5.1
India	7.6	8.0	Namibia	6.2	6.1
Indonesia	6.3	5.6	Niger	4.0	3.3
Japan	0.3	0.1	Nigeria	10.6	11.6
Malaysia	3.3	3.2	Sierra Leone	10.9	12.0
Pakistan	11.1	12.1	South Africa	5.9	5.6
Papua New Guinea	(6.0)	(6.0)	Sudan	36.5	40.3
Philippines	3.5	3.9	Swaziland	6.2	6.4
Singapore	3.0	(3.0)	Tanzania	(11.0)	---
South Korea	3.1	2.7	Togo	(3.0)	(3.0)
Sri Lanka	8.8	9.4	Uganda	(5.0)	(17.0)
Taiwan	1.6	2.1	Zambia	7.9	7.4
Thailand	3.2	3.5	Zimbabwe	3.8	4.4
Vietnam	7.5	9.2			

* 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. – [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. – [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. – [e)] Aggregates without Iran and Syrian Arab Republic.

Source: Ifo World Economic Survey (WES) I/2013 and IV/2012.

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