

CESifo WORLD ECONOMIC SURVEY

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WORLD ECONOMIC CLIMATE

World economic climate improves slightly

ECONOMIC EXPECTATIONS

Economic expectations remain positive

INFLATION

Price increases expected to slow down further

CURRENCIES

US dollar expected to rise moderately

INTEREST RATES

Only slight increase in long-term interest rates expected

SPECIAL TOPIC

World Trade Agenda initiative

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Regions

- World Economy: Overall increase with regional differences
- Western Europe: Economic recovery stalls
- North America: Economy recovers, but lacks dynamics
- Eastern Europe: Economic climate indicator rises from a low level
- CIS: Economic situation deteriorates slightly
- Asia: Economic climate indicator rises again sharply
- Oceania: Economic climate cools down
- Latin America: Economic expectations slow down
- Near East: Economic climate remains favourable
- Africa: No unified economic trend

Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organisations worldwide on current economic developments in their respective countries. Its results offer a rapid, up-to-date assessment of the economic situation prevailing around the world. In *April 2013*, 1,178 economic experts in 125 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 SLIGHTLY

The Ifo World Economic Climate Indicator continued to rise, albeit only moderately. Both the present economic situation and economic expectations improved somewhat compared to the previous survey. Assessments of the present situation, however, have not yet reached the satisfactory mark. Economic expectations, on the other hand, are on the positive side (see Figures 1 and 2). The indicator, presently at 96.8, is hovering around its long-term average of 96.0 (1997–2012). Although the recovery still lacks momentum, there are a growing number of signs that the world economy is stabilising (see Box 1). Development, however, differs from region to region.

Overall increase with regional differences

In early 2013 the world economy revived somewhat. The expectations of companies and consumers have improved since the end of last year and both industrial production and world trade have picked up in recent months. This is due in no small measure to the perception that there is a lower risk of the *euro area* breaking up thanks to ECB intervention. The banking and financial crisis in *Cyprus* does not seem to have fundamentally changed this perception. The conditions in the financial markets have improved significantly since last year. Tensions in the *euro area*, which mounted in the first six months of 2012 after a renewed intensification of the government debt crisis, eased considerably. Share prices in the advanced economies have risen sharply since mid-2012 and recently hit long-term highs in several countries. Burdens, however, remain. The private sector in several advanced economies is still struggling to align its debt levels resulting from the global financial crisis with the lower long-term revenue forecasts. The adjustment process is not yet complete and should continue to curb the economy, even if there are signs of

the burden easing in the *USA*. There was also no major improvement in the situation of national budgets in the advanced economies in the fourth year after the Great Recession. In view of mainly weak, and in some cases even deeply recessionary economic developments, progress in reducing national budgets has also been slow. Moreover, there are signs that austerity policy is being relaxed in some countries. In the *euro area* financial policy is expected to remain restrictive, although politicians have accepted the fact that they will miss budget deficit targets this year due to economic conditions.

The sharpest increase in the economic climate indicator was again observed for *Asia*. Thanks to much brighter assessments of the economic situation and expectations, the indicator for *Asia* reached its highest mark since the

Figure 1

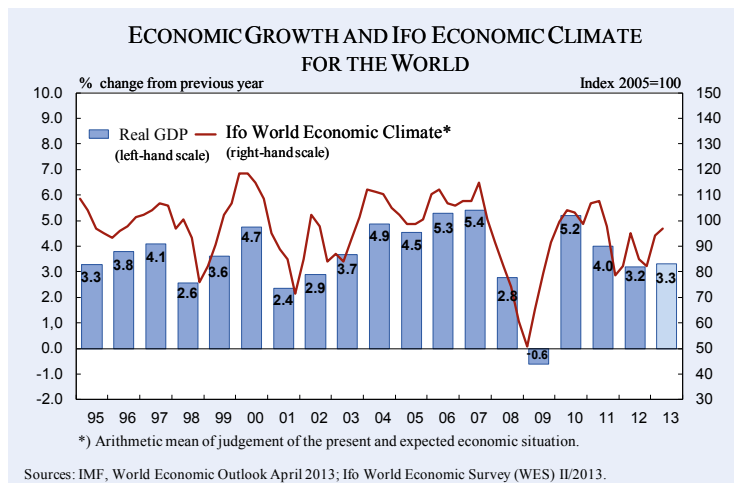
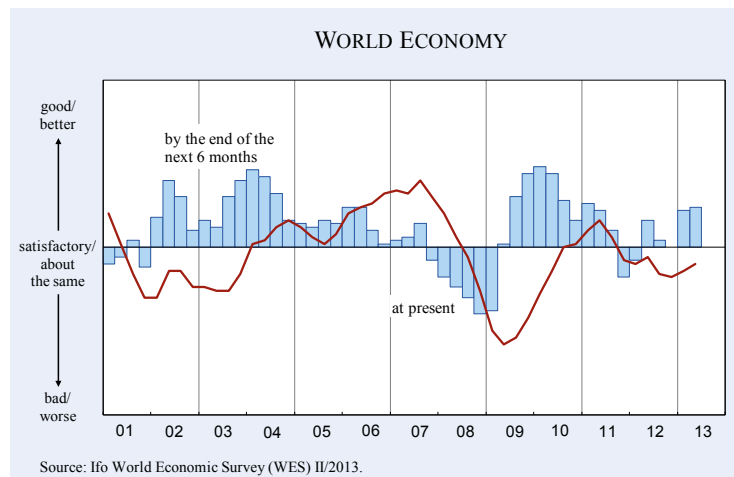


Figure 2

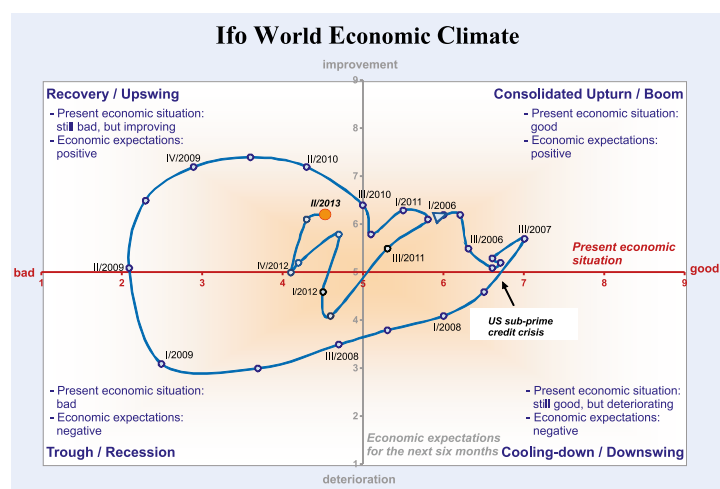


Box 1

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 April survey, the Ifo indicator for the world economic climate rose only slightly after its strong increase in the first quarter of 2013. The improvement resulted from both marginally brighter assessments of the present economic situation, as well as of the six-month economic outlook. The indicator showed a sideways movement in the “recovery” quadrant. There are a growing number of signs that the world economy is stabilizing.



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

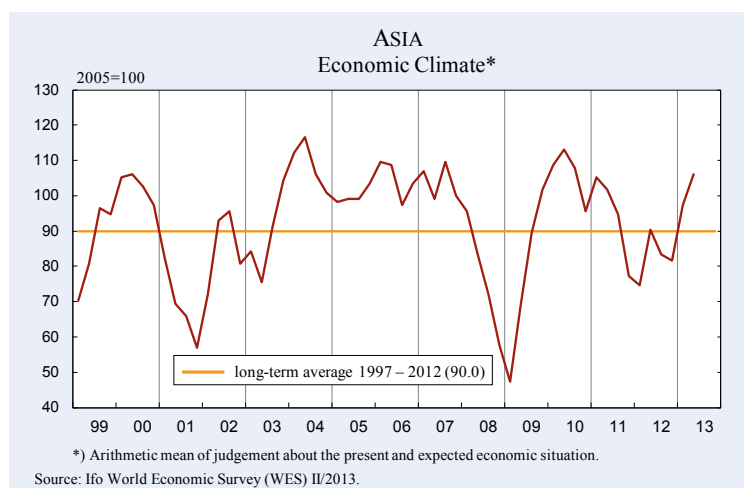
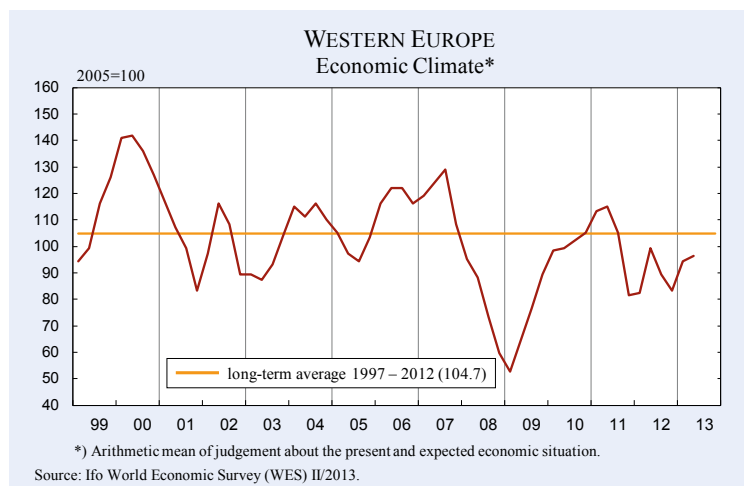
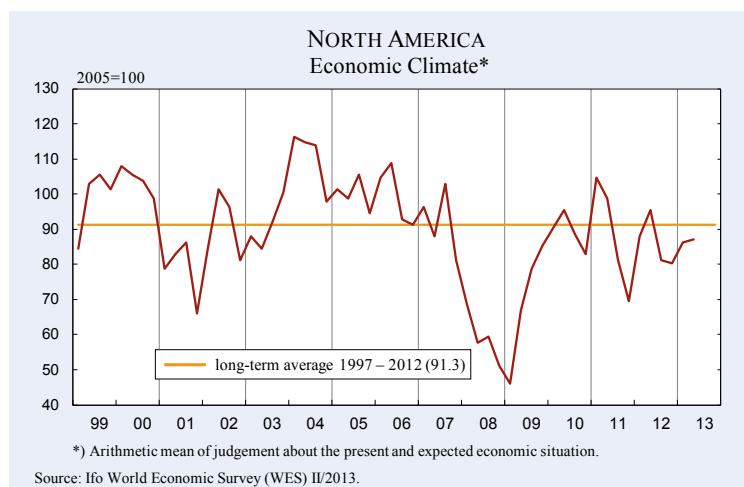
end of 2010. One of the main drivers was *Japan*, where WES experts expressed far greater confidence in the current economic situation of the country and are also very optimistic about future developments thanks to highly expansionary monetary policy combined with a weakening of the *Yen*. Only a slight increase in the economic climate indicator was reported for *Western Europe* and *North America*. Although the assessment of the current situation in *Western Europe* decreased, the experts surveyed are more optimistic about forthcoming developments. Assessments nevertheless differ considerably across the European countries. In most euro countries the situation deteriorated. In *Greece*, *Portugal* and *Cyprus* assessments are at the lowest level of the response scale, and they are only slightly better in *Italy* and *Spain*. The current economic situation in *Belgium*, *France*, *Ireland* and the *Netherlands* is also

very unfavorable. Assessments in *Finland*, *Austria* and *Slovakia* are somewhat better, but still remain below the “satisfactory” mark. An improvement in the economic climate was observed in *Estonia*, *Germany*, *Norway*, *Switzerland*, *Sweden*, and *United Kingdom*. A strong increase in the economic climate indicator was observed in *Eastern Europe*. Although the assessment of the current situation remained almost stable, the outlook hit its highest value for almost two years. In *Latin America* the economic climate clouded over and has now returned to its long-term average. Although WES experts are a little more satisfied with the current situation, their assessments of future economic developments deteriorated markedly. In *Africa* the economic climate fell below its long-term average. The experts surveyed are less satisfied with their current situation and the economic outlook was assessed considerably less optimistically. World average inflation estimates for 2013 fell somewhat from 3.3% to 3.2%. WES experts on average expect short-term interest rates to remain largely unchanged over the next six months, while long-term interest rates are expected to

increase slightly. On worldwide average, economic experts expect a moderate increase in the value of the *US dollar* over the next six months.

The results point to the fact that the world economy seems to be falling into step. There might be an increasing trend towards higher growth rates, although business cycle dynamics remain moderate. Monetary policy in advanced economies remains strongly expansionary. Central banks in the *USA* and *Japan* have announced plans to leave interest rates at their currently low level and to continue to implement quantitative easing measures until the economy stages a clear recovery. In Europe restricted fiscal policy in many countries is constraining any stronger upswing. In emerging countries business cycle dynamics look set to gain momentum.

Figure 3



Western Europe: Economic recovery stalls

After the sharp rise in the economic climate indicator for *Western Europe* in January, the index rose further in April, albeit only slightly. At 96.3 it still remains below its long-term average of 104.7 (see Figure 3). While the

present economic situation was once again assessed as unfavourable, the economic outlook for the next six months is slightly more positive than in the previous survey (see Figure 4). In the *euro area* economic sentiment remains weak. However, some improvement is expected over the next six months. On the whole, the indicator remains at an unchanged value of 95.1 and well below its long-term average of 108.0 (1997–2012). WES experts once again gave the crisis countries *Greece, Italy, Spain, Portugal* and *Cyprus* (see Figures 5a and 5b) by far the lowest ratings in the *euro area*. In comparison to the previous survey, the situation deteriorated in *Portugal, Italy* and *Spain*. A high unemployment rate, as well as high public deficits and foreign debts are identified as these countries' most important current economic problems (see Table 3). In *Italy*, WES experts regard the perceived lack of confidence in government economic policy as the key problem at the moment, ahead of foreign debt. In *Belgium, France, Ireland* and the *Netherlands* the already difficult economic situation deteriorated versus the previous quarter survey, and is now seen by WES experts as fairly weak. In *Slovenia*, the economic situation improved slightly, but nevertheless remains in unfavourable territory. In the *Netherlands* and *Belgium* insufficient demand was selected by WES experts as the biggest problem at present. In their opinion, *France* and *Ireland* are primarily suffering from high unemployment. Generally, some improvement is expected in the months ahead in most of the euro countries mentioned above.

In *Cyprus, Portugal, France* and *Slovenia*, on the other hand, economic expectations are subdued and do not signal major changes for the better within the next six months. The trade balance in *Greece, Ireland, Portugal* and *Spain* is expected to improve, as exports outpace imports, although this is mainly due to

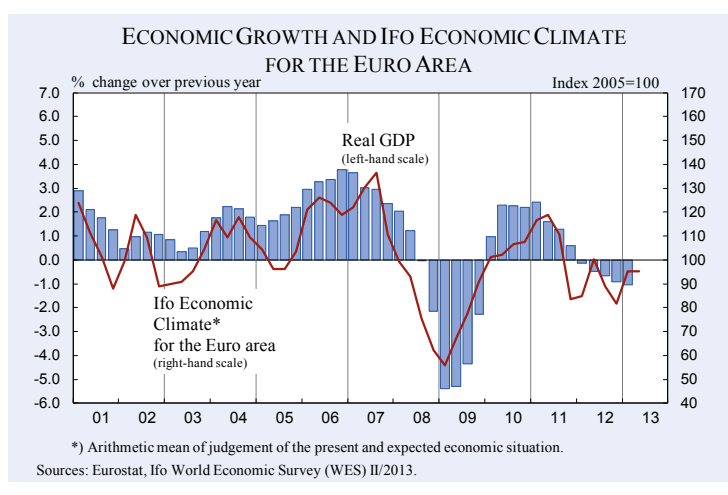
Box 2

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

The Ifo 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 April results are based on the responses of 317 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 Economic Climate Indicator for the euro area remains at a low level. Assessments of the current economic situation are slightly less favourable than in the last survey. Expectations for the six-month economic outlook improved only slightly. An economic recovery has not yet started.

Assessments of the current economic situation by WES experts in *Germany* and *Finland* are more positive than last quarter. In most other countries, however, the situation deteriorated. In *Greece*, *Portugal* and *Cyprus* assessments are at the lowest level of the response scale, and they are only slightly better in *Italy* and *Spain*. The current economic situation in *Belgium*, *France*, *Ireland* and the *Netherlands* is also very unfavourable. Assessments in *Finland*, *Austria* and *Slovakia* are somewhat better, but still remain below the “satisfactory” mark. *Germany* and *Estonia* are the only countries in which the experts surveyed describe the current economic situation as satisfactory. The expectations for the next six months are brighter in the majority of euro countries. In *France*, *Greece*, *Ireland*, *Italy*, the *Netherlands* and *Portugal*, however, they clouded over. Expectations nevertheless remain positive in most member countries. Experts only expect the economic situation to deteriorate in *France*, *Portugal* and *Cyprus*.



lower imports during the crisis. In *Austria*, *Finland* and *Luxembourg* the present economic situation – despite some improvement – still remains below the satisfactory level. Capital expenditure in these countries is mainly considered as inadequate at present. In *Slovakia*, the current economic situation is also assessed as unfavourable. WES experts in *Austria*, *Finland* and *Luxembourg* are far more positive about their six-month outlook than in the previous survey, except in *Slovakia*, where experts remain predominantly cautious about the future.

Germany and *Estonia* are the only countries in the euro area in which a positive economic climate continues to prevail. In both countries the economic experts sur-

veyed report a favourable present economic situation, and even note an improvement in *Germany* versus three months ago. The majority of WES experts also foresee further improvements in both countries' economic performance over the next six months.

Outside the euro area, in *Norway* and *Switzerland*, the economic climate is far friendlier. In both countries WES experts once again assess the present economic situation as highly favourable and are positive about the six-month economic outlook. In *Monaco* and *Iceland* – and to a somewhat lesser degree in *Sweden* – the present economic situation is satisfactory. The economic expectations in these countries remain in positive territory, despite some downwards revision versus the previous survey in *Monaco* and *Iceland*. By comparison, WES experts in *Sweden* are far more positive about further economic developments than they were according to the WES survey in January. In *Denmark* and the *United Kingdom* the economic situation worsened compared to the previous quarter and is regarded as unfavourable. In both countries insufficient demand is considered to be one of the most important problems at present. While no substantial improvement is expected in the

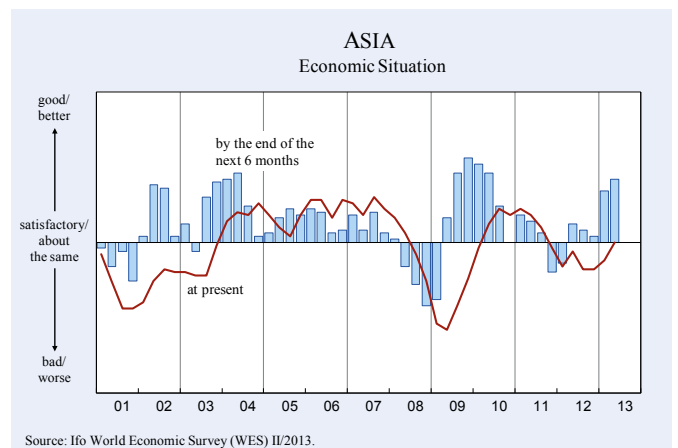
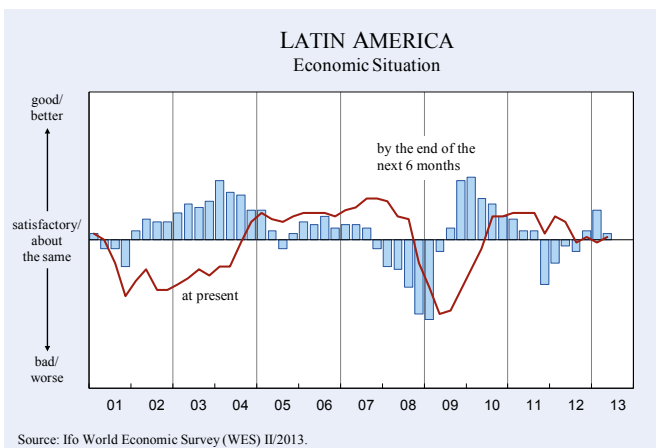
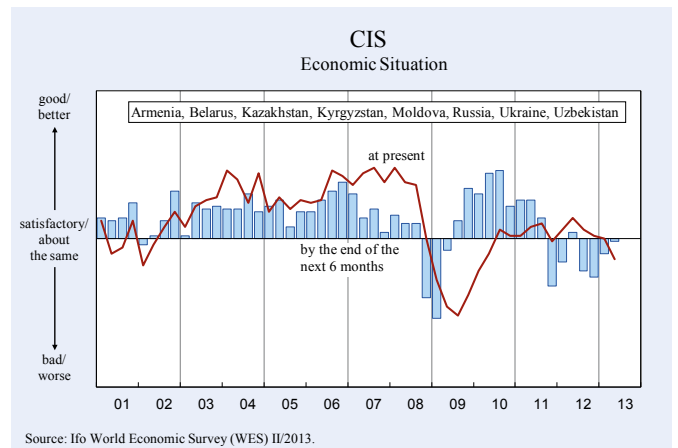
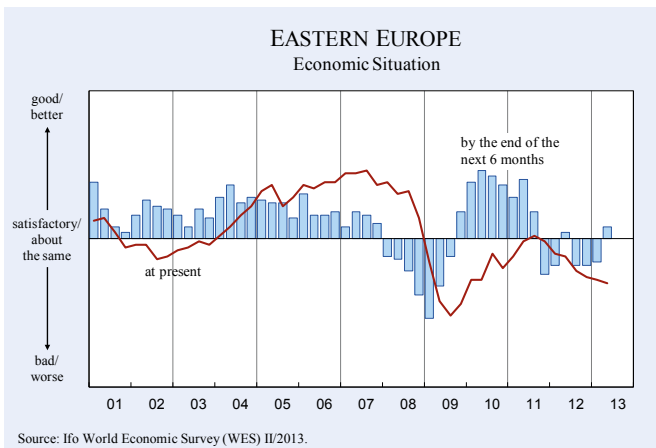
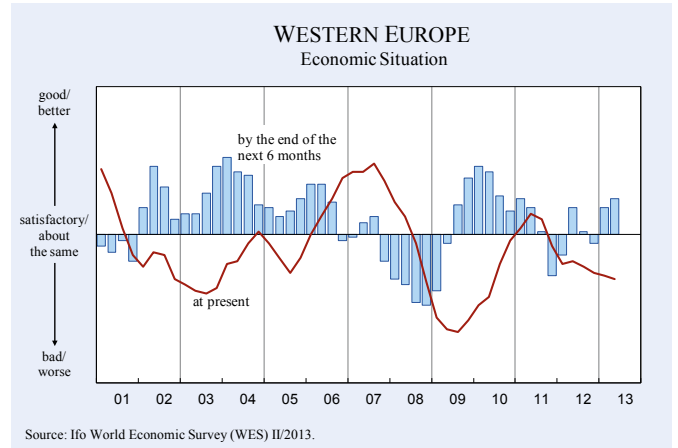
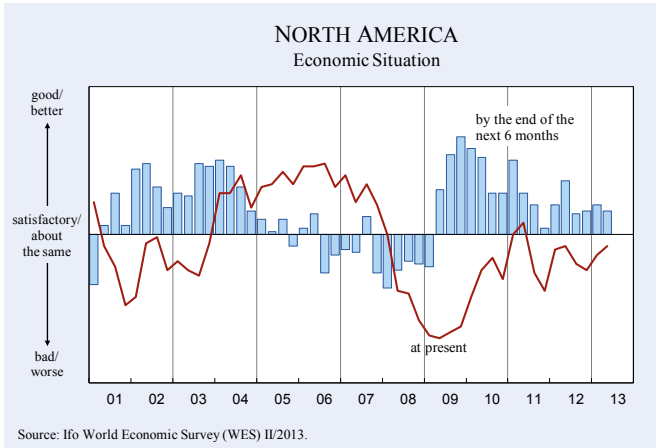
course of next half year in *Denmark*, WES experts in the *United Kingdom* expressed greater confidence with regard to future economic developments.

North America: Economy recovers, but lacks dynamics

The economic climate indicator in *North America* barely moved and is now at 87.0, compared to 86.2 in the previous quarter and a long-term average of 91.3 (1997–2012). The slight rise was driven by more positive assessments of the present economic situation. By contrast, the outlook for the next six months is somewhat less positive than it was three months ago (see Figures 3 and 4).

Figure 4

SELECTED REGIONS



Despite this improvement, the present economic situation in the *United States* is not yet seen as satisfying. According to WES experts, the most important economic problem faced by the *US* at present is primarily unemployment, followed by high public deficits. As far as the economic outlook is concerned, the experts surveyed are slightly less positive than in the January survey (see Figure 6). In *Canada*, WES experts' assessments of the present economic situation remain unchanged from the previous quarter and below the satisfactory level. Economic expectations, on the other hand, were upgraded somewhat and point to some improvement in economic performance. In *Canada*, a lack of skilled labour is one of the country's most important economic problems at present.

Eastern Europe: Economic climate indicator rises from a low level

After plunging to its lowest value since late 2009 in the preceding survey, the economic climate indicator in *Eastern Europe* started to rise again. Nevertheless, at 70.8 the indicator still remains far below its long-term average of 85.4 (1997–2012). While the current economic situation was again rated unfavourably, economic expectations are considerably more positive and signal some improvements over the next six months (see Figures 4 and 7). According to WES experts, the most important economic problems for this region are insufficient demand and unemployment.

The relatively strongest current economic performance in this region was reported from *Latvia* and *Lithuania* once again, although to a slightly lesser degree than in the previous survey. WES experts assessed the current economic situation as satisfactory in *Latvia* and as favourable in *Lithuania*. Only capital expenditure in *Lithuania* is currently regarded as weak. However, this is expected to rebound within the next six months, accompanied by an upturn in exports. Overall, WES experts are fairly confident about the economic outlook in both countries. In *Bulgaria*, the present economic situation deteriorated considerably compared to the previous survey and is regarded as unfavourable. WES experts in the *Czech Republic*, *Hungary*, *Poland* and *Romania* also reported an unsatisfactory current situation. For the next six months, the economic experts surveyed do not foresee any major improvements in these countries. Their pessimism in *Hungary* and *Romania* can partly be attributed to a lack of confidence in government economic policy. The *Czech Republic* was the only country

in which WES experts became more confident with regard to future economic developments in the next six months.

In *Eastern European* countries outside the EU, the present economic situation deteriorated compared to the survey in January and is rated as unfavourable in *Albania* and *Macedonia* and as weak in *Bosnia and Herzegovina*, *Croatia* and *Serbia*. The economic outlook for the next half year only brightened up slightly in *Macedonia*. However, in *Serbia* the WES experts' economic outlook also remains positive on the whole, despite some downwards revision of expectations. By contrast, the experts surveyed in *Bosnia and Herzegovina* anticipate a worsening of their economic situation in the next half year. In most countries in this region outside the EU, the most important problems at present are: unemployment, public deficits and lack of confidence in government economic policy.

CIS: Economic situation deteriorates slightly

The economic climate indicator for the *CIS* countries covered by WES (*Russia*, *Belarus*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan*, *Uzbekistan* and *Armenia*) fell due to less positive assessments of the present economic situation. Economic expectations, on the other hand, brightened again, although they still fell short of positive territory (see Figure 4). The region's most important economic problem is its lack of international competitiveness. In *Russia* and the *Ukraine*, corruption is also cited as a major economic problem at present.

In the majority of *CIS* countries a satisfactory economic situation prevails at present. This is the case for *Armenia*, *Belarus*, *Kazakhstan*, *Moldova* and *Uzbekistan*. In all of these countries the economic experts surveyed expect their national economies to stabilise at their current good levels in the next six months. In *Russia*, the economic climate deteriorated versus the previous survey due to considerably less positive assessments of the present economic situation, which is now regarded as unfavourable. The economic outlook for the next six months is also rather cautious. According to WES experts, a lack of confidence in government economic policy is one of the most important economic problems in this country. In *Georgia*¹, *Kyrgyzstan* and the *Ukraine* the current economic situation is rated as

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.

unfavourable. WES experts do not foresee any significant improvement in economic performance in these countries in the next six months.

Asia: Economic climate indicator rises again sharply

The economic climate indicator in *Asia* continued to rise, reaching its highest value since late 2010 at 106.1 (long-term average: 90.0, 1997–2012). Assessments of both the present economic situation and economic expectations continued to improve compared to the previous survey. While the economic situation on average for this region is only regarded as more or less satisfactory, survey participants were fairly confident about the economic outlook for the next six months.

The current top-performing economies in the region include *Hong Kong*, *Indonesia*, *Malaysia*, the *Philippines* and *Thailand*, according to WES experts. In all of these countries a highly favourable economic situation prevails. However, economic expectations deteriorated considerably in *Hong Kong* and the *Philippines*, although they remain positive on average. In all other countries the economic outlook was upwardly revised and WES experts are fairly confident about the next six months. The most common major problem of the above-mentioned countries is a lack of skilled labour, according to WES experts. In *China* and *Singapore* the present economic situation was rated as satisfactory, as in the previous survey. The prospects for the next six months are also considered as relatively bright. In *Bangladesh*, *South Korea* and *Sri Lanka*, the economic situation worsened compared to the previous survey and is rated as unfavourable. This assessment also applies to *India*, *Japan*, *Taiwan* and *Vietnam*, despite some upwards revision versus the survey in January. In all events, economic performance is expected to improve in most of these countries over the course of the next six months. Stronger exports are likely to boost the economy in *Japan* and *Taiwan*. Macroeconomic developments in *Bangladesh*, on the other hand, are expected to remain subdued in the months ahead, according to WES experts. In *Pakistan* and *Papua New Guinea* current economic performance was reported to be weak. While WES experts in *Papua New Guinea* do not foresee any substantial improvement in their economy in the six months ahead, the situation in *Pakistan* does look set to improve a little.

Oceania: Economic climate cools down

The rise in the economic climate indicator in *Oceania* in the first quarter of 2013 was only short-lived. In the second quarter the indicator started to fall again and, at 94.3, is currently below its long-term average of 100.9. In *Australia*, both components of the climate indicator, present economic situation and expectations, are less positive than three months ago. Despite the downwards revision, the current economic situation is still regarded as satisfactory. With regard to the economic outlook, WES experts expressed caution. The most important problems facing *Australia* at present are poor international competitiveness and a lack of confidence in the government's economic policy. In *New Zealand*, appraisals of the current economic situation improved somewhat and returned to a satisfactory level. Assessments of the economic outlook, on the other hand, were downgraded somewhat, but remain in positive territory. Here, a shortage of skilled labour, foreign debts and insufficient demand were selected by WES experts as the most pressing problems.

Latin America: Economic expectations slow down

After two successive periods of increases, the economic climate indicator in *Latin America* started to fall again. While the present economic situation improved somewhat over the previous survey – signalling a satisfactory economy at present – economic expectations lost some ground, but remain on the positive side (see Figures 4 and 9). The region's most important economic problem is lack of international competitiveness. *Argentina* and *Venezuela*, along with *Brazil* and *Uruguay* to a lesser degree, are suffering from inflation.

In *Chile* and *Peru* WES experts reported a highly favourable present economic situation. The economic situation also improved strongly in *Paraguay* and *Ecuador* compared to last quarter's survey and is now regarded as favourable. The economic outlook remains positive in most of these countries. In *Paraguay*, WES experts even expressed growing optimism with regard to developments over the next six months. *Chilean* economic experts, on the other hand, retain their cautious view of future economic performance over the next six months. In *Chile*, *Paraguay* and *Peru* a lack of skilled labour is seen as the most urgent economic problem. In *Bolivia*, *Colombia*, *Mexico* and *Uruguay* the present economic situation is good, according to WES experts. In *Costa Rica*, *Guatemala* and *Panama* the situation is assessed

Box 3**Do multilateral creditors have senior status in the euro crisis?**

*Prof. Frank Westermann, Ph.D. / Director of the Institute of Empirical Economic Research,
University of Osnabrück*

The preferred creditor status of multilateral creditors is often legally ambiguous. The International Monetary Fund (IMF), which has proven its seniority over the private sector in the financial crises of recent decades, for instance, is “De Jure” not senior. It awards its credit without corresponding clauses in its debt contracts or institutional by-laws.

“Preferred Creditor Status” or “Senior Status” means that the preferred creditors get their money back first, in cases of insolvency, or when only part of the credit can be repaid by the debtor. The subordinated creditor, or junior creditor, on the other hand, often receives no or only incomplete repayment of his claims. Financial analysts and rating agencies take this question very seriously, and consider the ranking of claims when assessing the risk of a country.

With various multilateral rescue-components, the rules of seniority are not entirely clear in the current euro crisis either. The EFSF, for instance, was initially planned to be *pari-pasu* with private creditors. The EFSF treaty, however, stipulates that it will be “at least” *pari-pasu*. Furthermore, the by-laws state that no other future creditor can be made senior to the EFSF. This leaves room for interpretation, particularly, as IMF loans were granted parallel to those of the EFSF.

The ESM, on the other hand, was conceived as a senior lender from the very beginning: “In all cases, in order to protect taxpayers’ money, and to send a clear signal to private creditors that their claims are subordinated to those of the official sector, an ESM loan will enjoy preferred creditor status, junior only to the IMF loan.” (Euro-Group, Oct. 28th, 2010). Nevertheless, a first exception has already been made to this rule, when Spanish banks were recapitalized without such seniority.

In the World Economic Survey, of April 2013, the Ifo Institute asks experts worldwide about their expectations regarding the seniority status of different components of the rescue umbrella. Overall, expectations regarding the seniority of multilateral loans can be said to be very high: 88% of the respondents see at least one component of the rescue umbrella as senior to private creditors.

There are, however, some differences in the details. 70% of respondents see the IMF as a preferred creditor. This is the highest share among all components of the rescue package. 65% of the respondents expect that bilateral loans (as part of the EFSM agreement), will have a preferred creditor status. Expectations regarding the EFSF and the EMS are substantially lower, scoring only 53% each. It is interesting that the latter, despite their differences in “de Jure” seniority, are judged almost identically by survey participants.

Part of the WES-question also covered the ECB and the national central banks of the Eurosystem. Overall, the expectations about seniority were somewhat lower in this case. The highest expectations were expressed with respect to the refinancing credit of the national central banks, which are partly collateralized with the government debt of their respective countries. 61% of respondents expect that the central banks will be able to enforce their status as a senior lender in case of insolvency. The share is somewhat smaller in case of TARGET2 claims, which are not explicitly collateralized. Here, only 42% of the respondents expect that the claims will have a preferred creditor status.

As far as debt-buybacks by the ECB are concerned, 39% of the respondents state that the bonds purchased in the SMP program will have preferred creditor status, while 45% expect such a status for the new OMT program. This comparison also reflects the discrepancy between “De Jure” and “De Facto” seniority. In the SMP program, the ECB formally insisted on its seniority status, and enforced this status in the Greek debt restructuring in early 2012. In the OMT program, which has not been used so far, the ECB has been announced to be *pari-pasu*. At the same time, however, it also reinforced its statement that it will not participate in any haircuts, thus leaving room for interpretation regarding the overall stance on seniority.

Differences also exist between the regions covered in the WES survey. Among the 260 participants from euro area countries considered on their own, 91% of all respondents see at least one component of the rescue package as senior. The largest difference among the sub-components exists regarding the seniority of the ESM, where 65% (rather than 53%) of respondents see a preferred creditor status.

A deeper disaggregation of the responses by region is limited by rather small sub-sample sizes. It is remarkable, however, that within Europe, the roughly 100 respondents from the largest net-debtor countries (Greece, Ireland, Italy, Portugal and Spain), there is a substantially lower expectation regarding the seniority of public rescue funds, compared to the 90 respondents from net-creditor countries (Germany, the Netherlands, Finland and Luxembourg). In the case of the ESM, 52% of respondents from the former group of countries expect seniority, while the corresponding share is 71% in the latter group. Similar differences in expectations between countries within the euro area exist with regard to the EFSF and the IMF. There is no such difference, however, with regard to loans by the ECB or the Eurosystem.

Figure 5a

EUROPEAN UNION

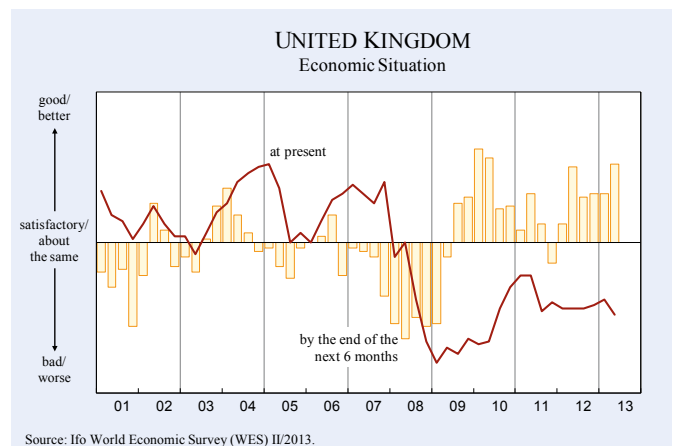
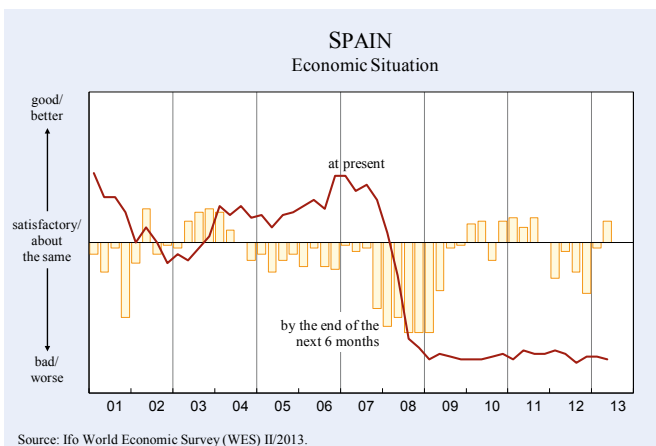
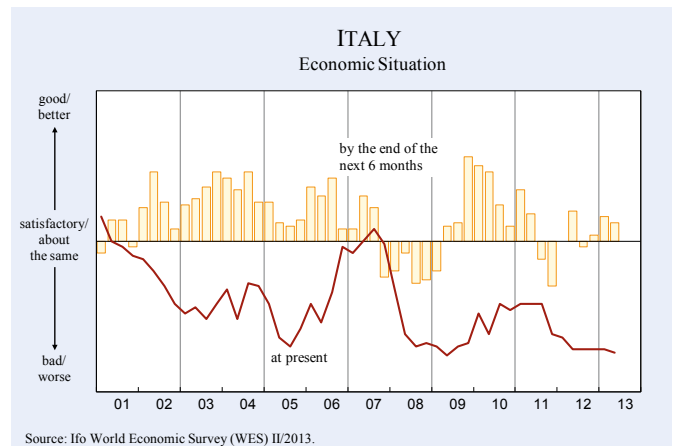
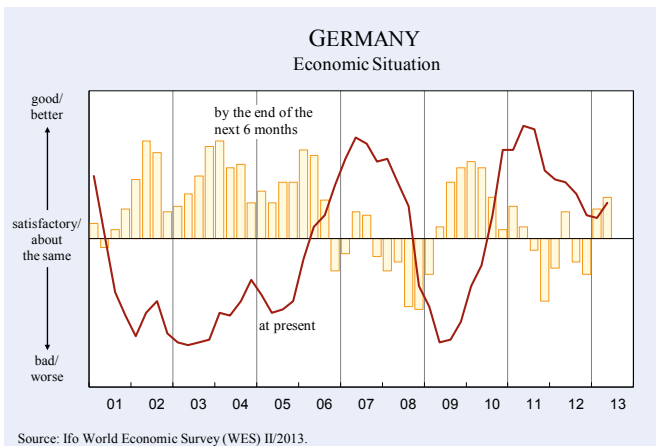
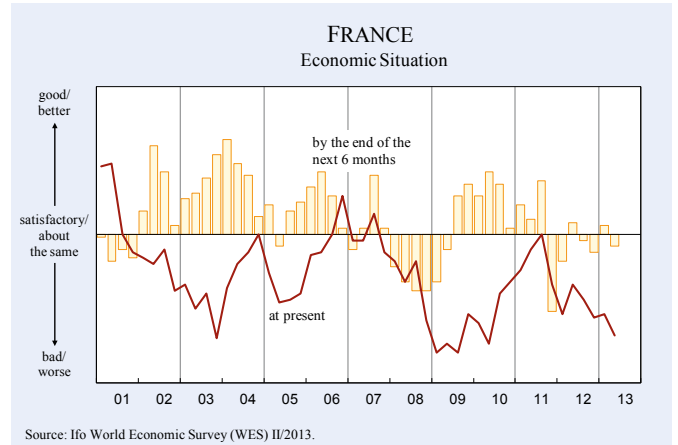
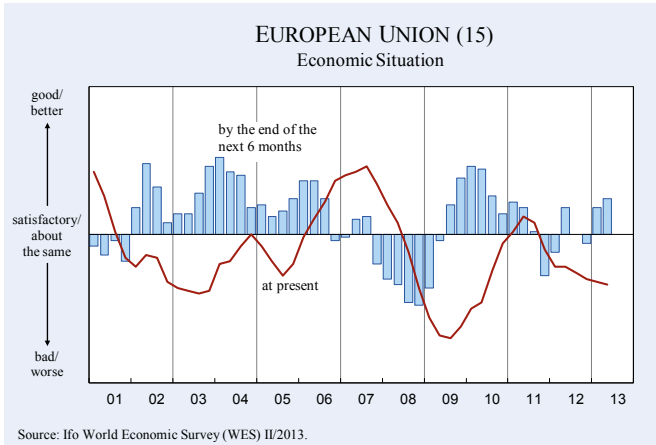


Figure 5b

EUROPEAN UNION

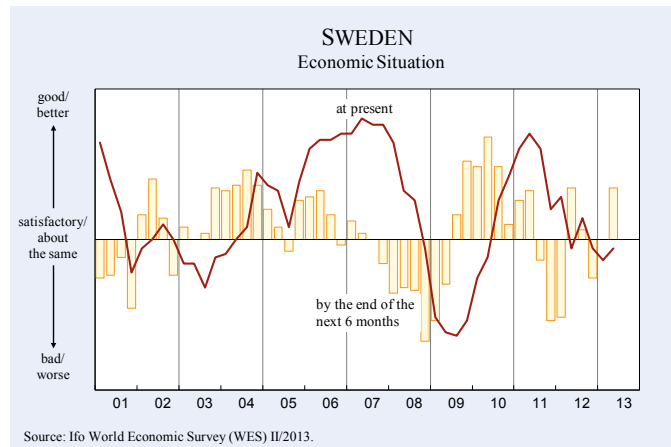
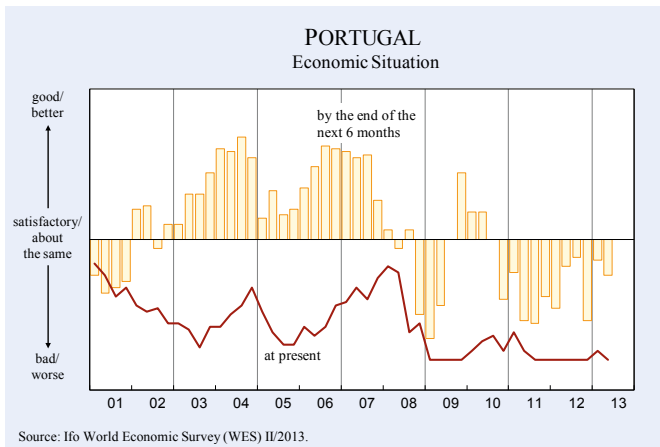
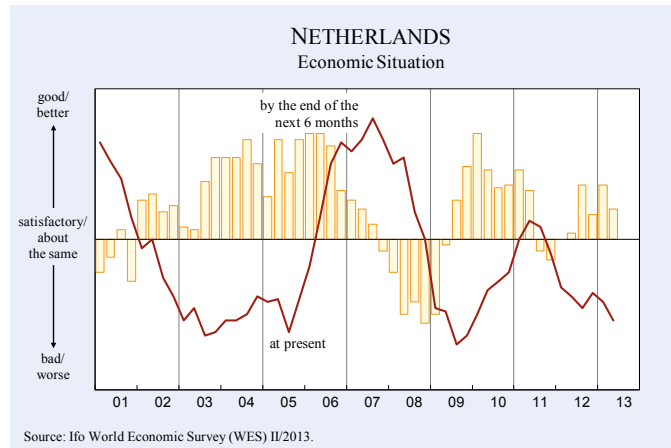
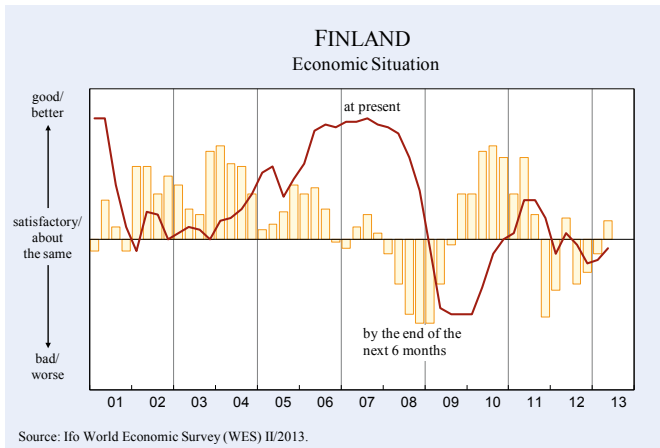
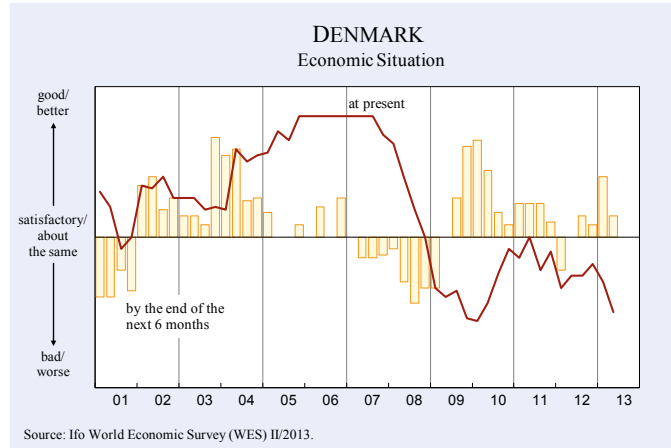
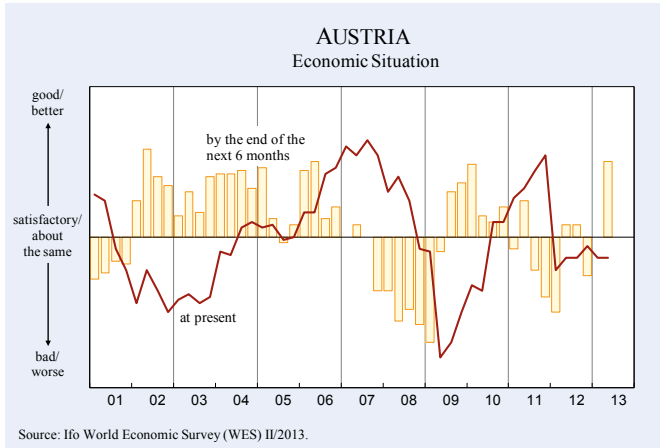


Figure 6

NORTH AMERICA, OCEANIA AND CIS

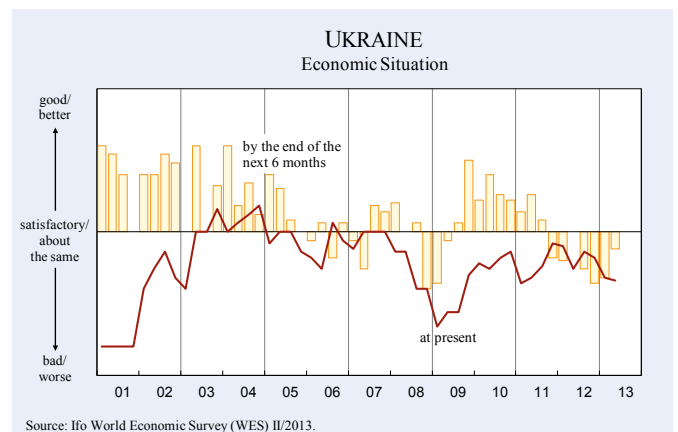
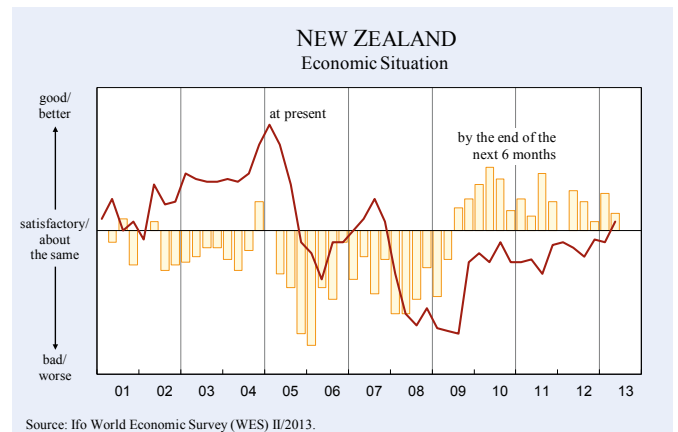
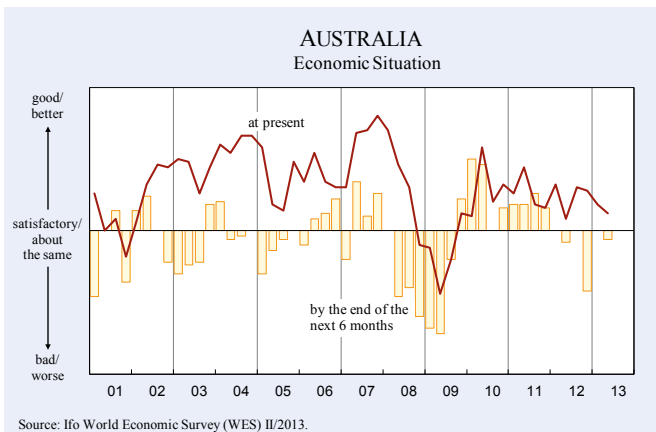
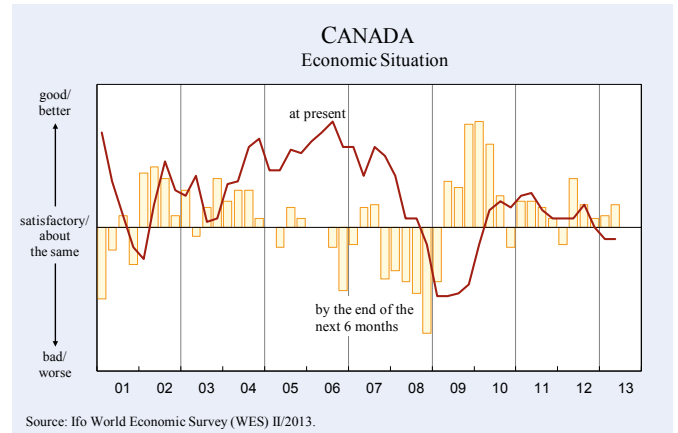
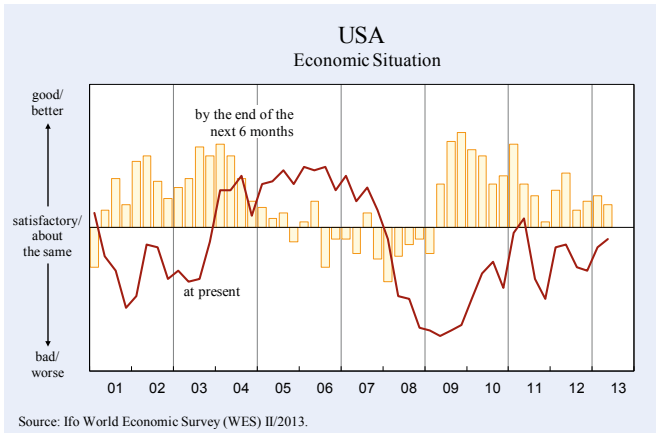


Figure 7

EASTERN EUROPE

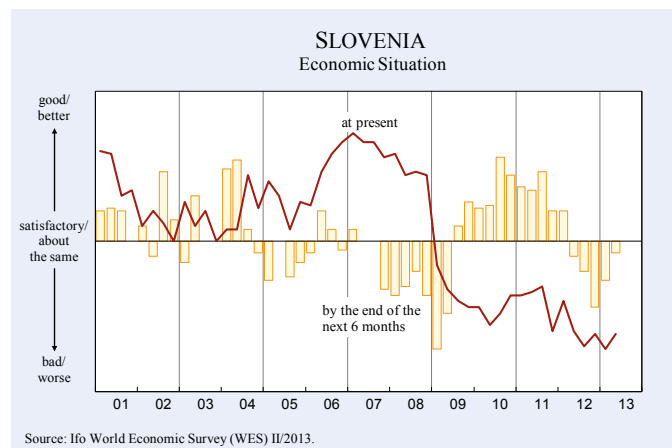
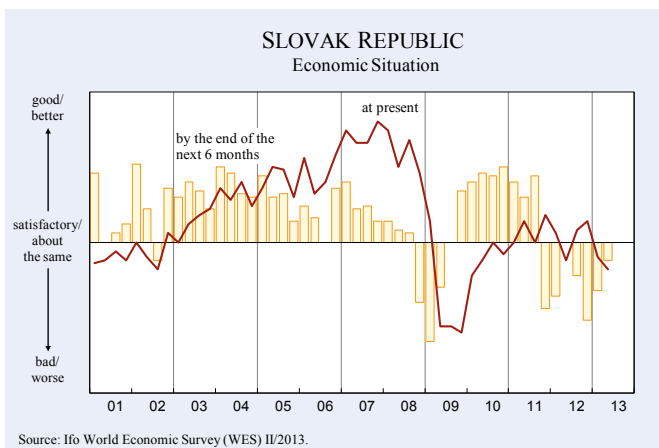
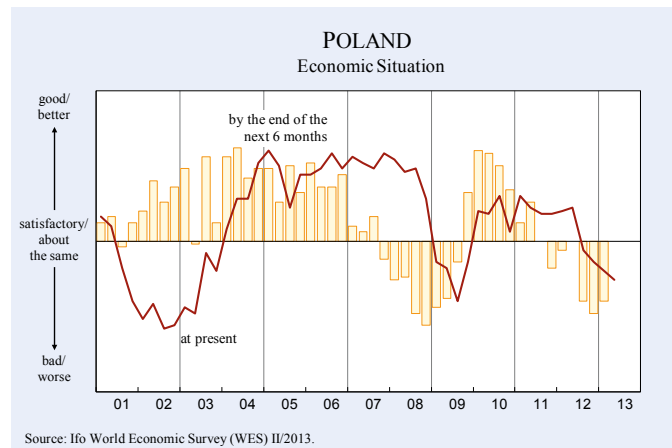
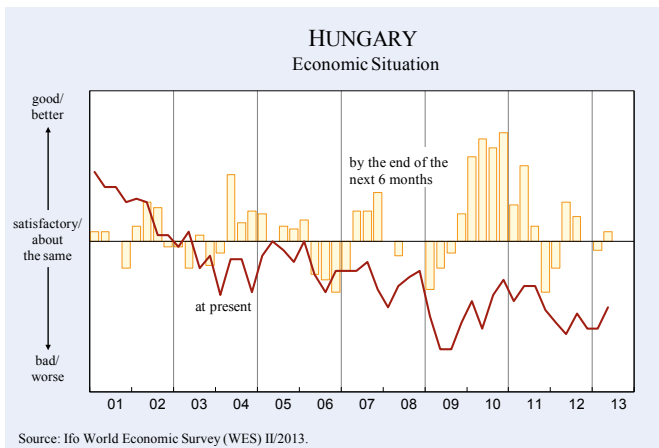
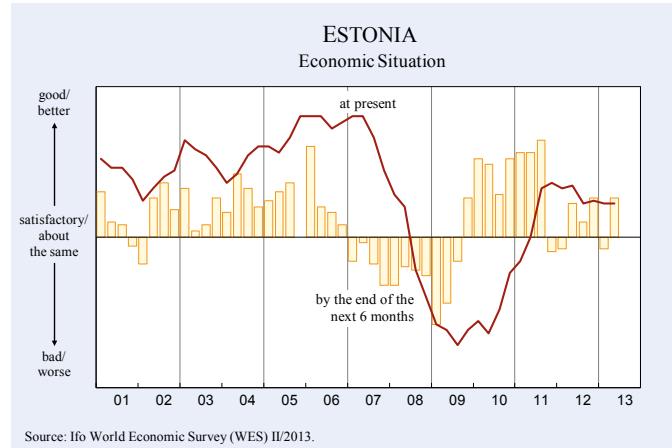
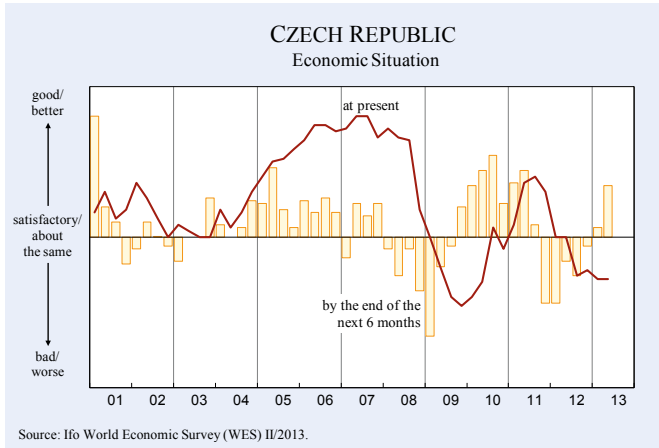


Figure 8

ASIA

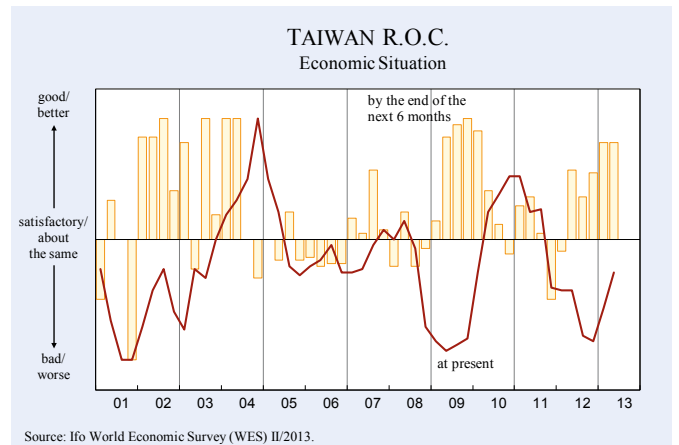
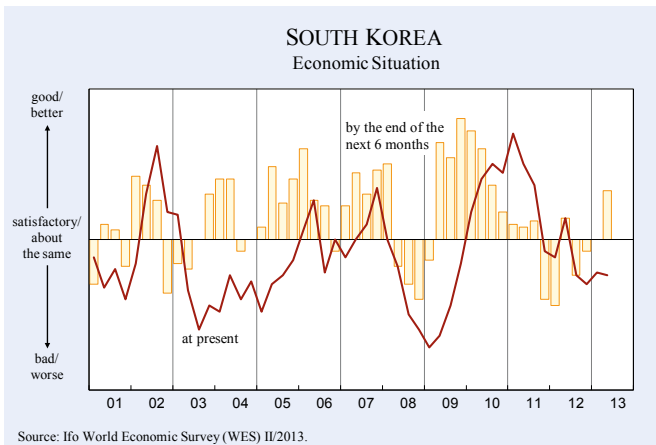
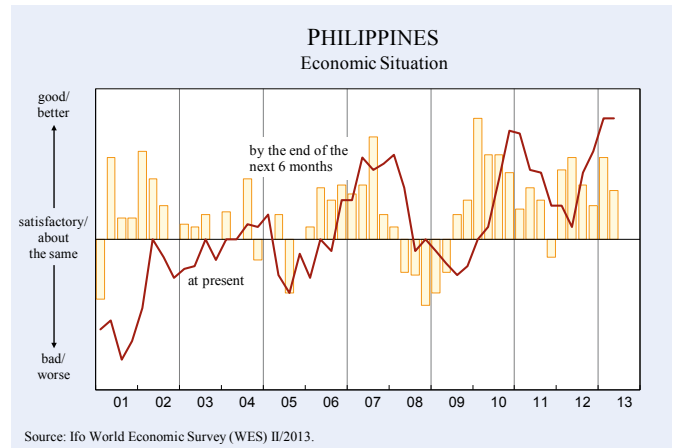
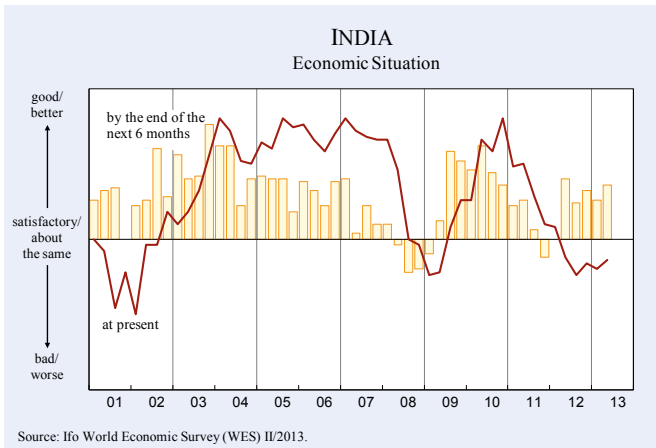
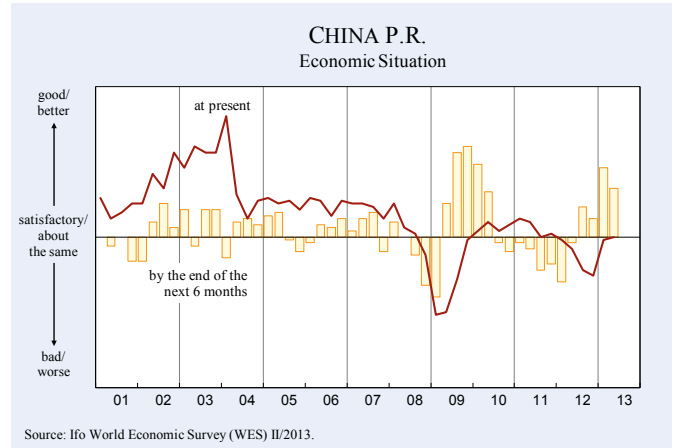
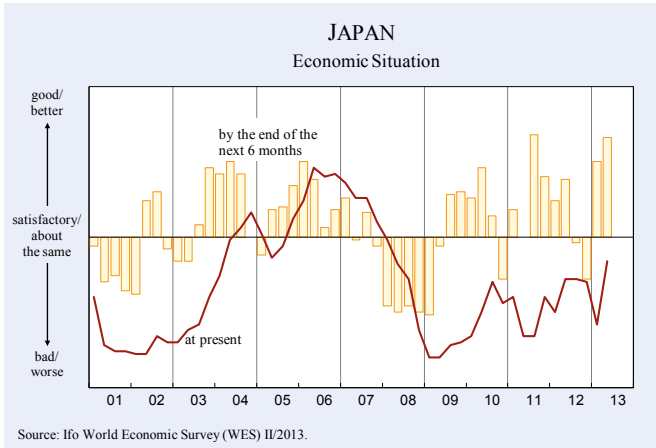


Figure 9

LATIN AMERICA

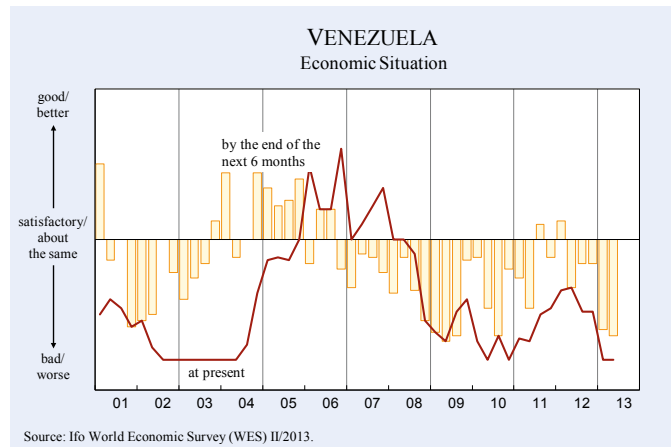
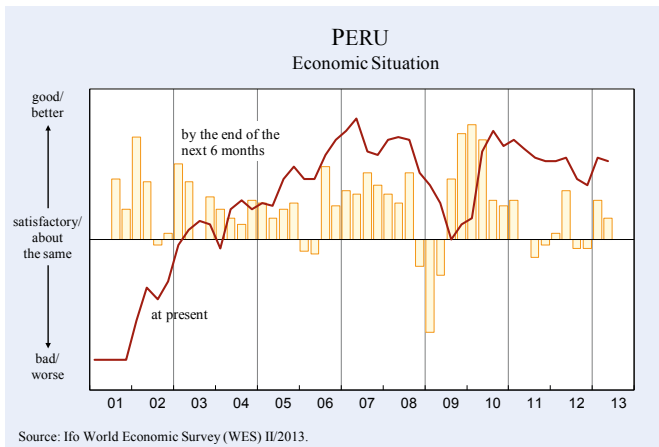
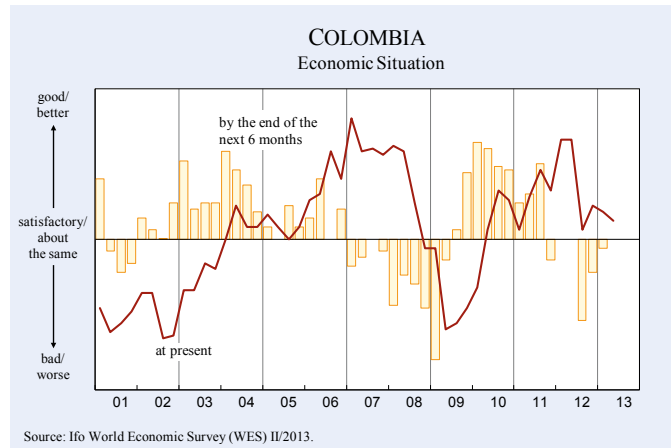
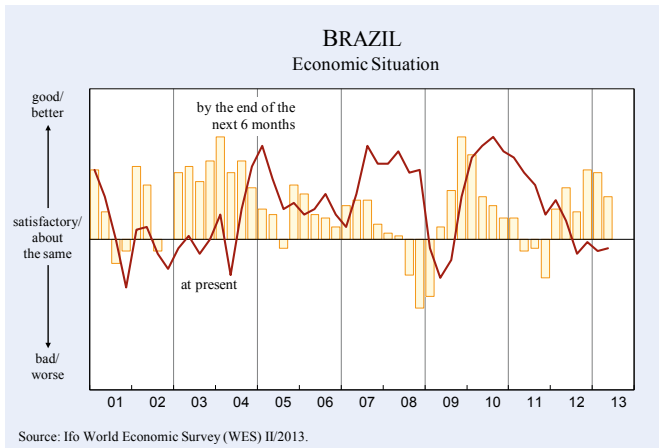
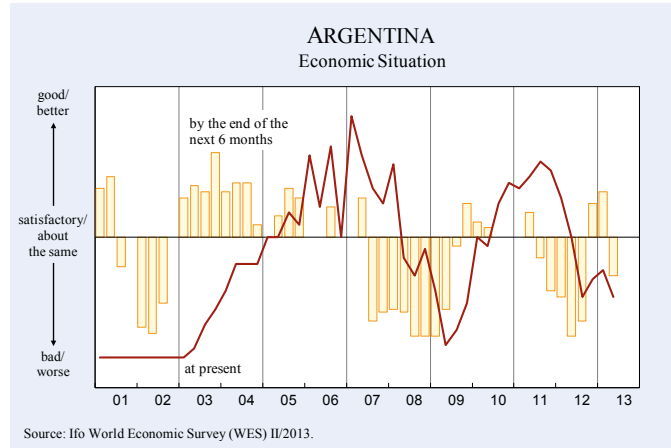
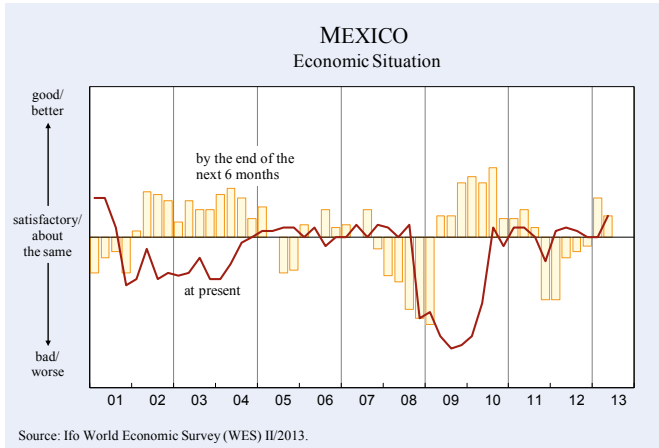


Figure 10

NEAR EAST AND AFRICA

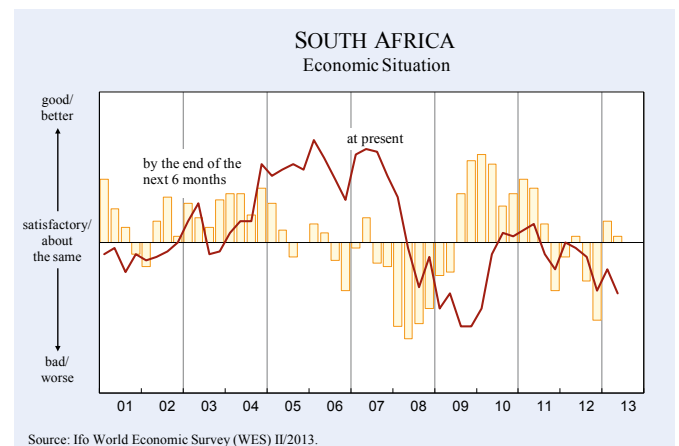
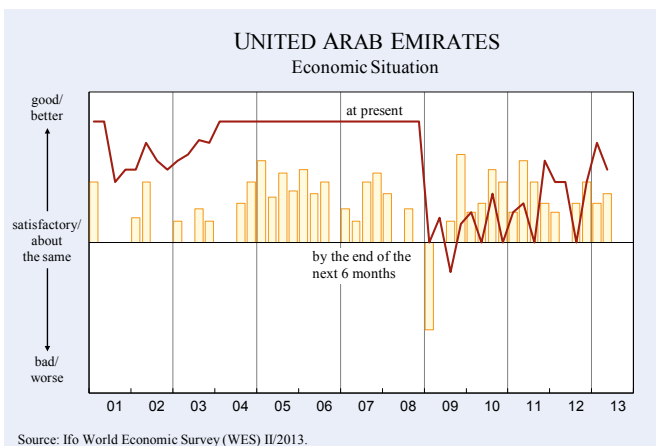
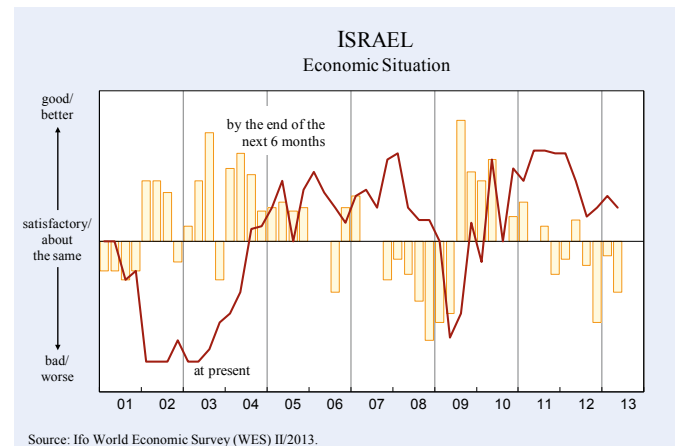
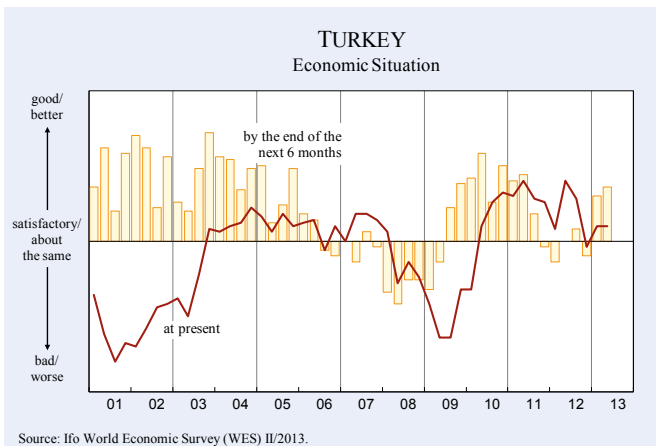
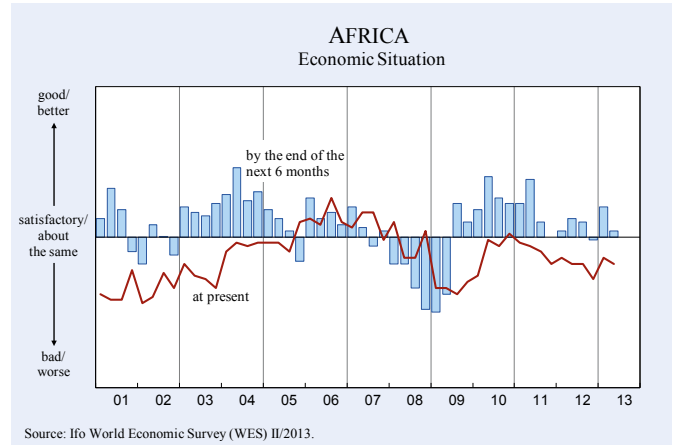
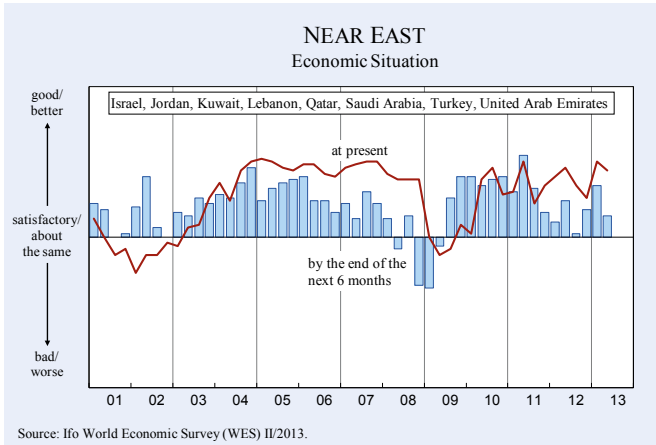


Table 1

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

Region	QII/2013	QI/2013	Region	QII/2013	QI/2013
Average of countries *	3.2	3.3	North America	2.0	2.1
High-income countries	2.1	2.2	Canada	1.7	1.9
Middle-income countries	6.6	6.6	United States	2.1	2.2
Upper-middle	6.3	6.3	Oceania	2.5	2.7
Lower-middle	7.4	7.4	Australia	2.6	2.9
Low-income countries	6.9	7.5	New Zealand	1.7	1.7
EU 27 countries	2.1	2.2	Latin America	7.9	7.7
EU countries (old members) ^{a)}	2.0	2.1	Argentina	26.5	27.2
EU countries (new members) ^{b)}	2.5	3.2	Bolivia	5.8	5.4
Euro area ^{c)}	1.9	2.1	Brazil	5.9	5.6
Western Europe	1.9	2.0	Chile	2.6	2.8
Austria	2.3	2.3	Colombia	2.6	2.9
Belgium	1.5	2.0	Costa Rica	(6.0)	(6.0)
Cyprus	(1.0)	1.8	Cuba	(3.0)	(4.0)
Denmark	1.6	2.2	Dominican Republic	5.4	5.0
Finland	2.1	2.4	Ecuador	4.2	4.7
France	1.5	1.7	El Salvador	2.5	2.7
Germany	2.0	2.0	Guatemala	4.8	4.1
Greece	0.8	1.3	Mexico	4.1	4.1
Iceland	(4.2)	(4.1)	Panama	(5.0)	(6.5)
Ireland	1.2	1.6	Paraguay	4.4	5.7
Italy	2.1	2.5	Peru	2.9	2.7
Luxembourg	1.9	1.9	Trinidad and Tobago	(6.0)	(10.0)
Monaco	2.0	2.0	Uruguay	8.1	8.1
Netherlands	2.5	2.3	Venezuela	33.0	34.7
Norway	2.2	1.9	CIS	8.0	7.8
Portugal	1.5	1.8	Armenia	6.4	6.8
Spain	2.3	2.3	Belarus	(18.0)	(19.0)
Sweden	0.9	0.9	Georgia ^{d)}	3.8	(4.0)
Switzerland	0.4	0.3	Kazakhstan	7.1	6.9
United Kingdom	2.8	2.6	Kyrgyzstan	9.0	9.0
Eastern Europe	2.6	3.3	Moldova	(12.5)	---
Albania	3.0	3.4	Russia	7.1	7.1
Bosnia and Herzegovina	2.6	3.6	Ukraine	5.6	5.5
Bulgaria	3.2	3.3	Uzbekistan	(18.6)	---
Croatia	3.1	3.4	Africa	7.5	7.8
Czech Republic	2.0	2.8	Northern Africa	6.0	7.0
Estonia	3.5	3.8	Algeria	4.0	6.6
Hungary	3.2	4.5	Egypt	12.6	12.0
Latvia	2.0	2.5	Libya	(7.0)	(10.0)
Lithuania	2.8	3.1	Morocco	2.4	2.1
Macedonia	2.8	(3.5)	Tunisia	6.0	4.2
Poland	1.8	2.6	Sub-Saharan Africa	8.5	8.3
Romania	4.1	4.6	Angola	(9.5)	(9.7)
Serbia	5.5	6.4	Benin	4.2	5.6
Slovakia	2.5	2.7	Burkina Faso	(2.0)	(2.6)
Slovenia	2.0	2.5	Burundi	21.5	23.0
Near East	4.3	4.5	Comoros	(3.0)	5.0
Israel	2.4	2.0	Congo Dem. Rep.	3.8	5.6
Jordan	(7.0)	4.8	Congo-Brazzaville Rep.	3.4	(2.5)
Lebanon	---	6.0	Ethiopia	(12.0)	(15.0)
Qatar	(3.0)	---	Gabon	(3.2)	(3.1)
Saudi Arabia	5.3	5.3	Ghana	(9.0)	(10.0)
Turkey	6.8	6.6	Kenya	6.6	5.0
United Arab Emirates	2.2	2.2	Lesotho	6.4	6.3
Asia	3.1	3.3	Liberia	7.2	7.1
Bangladesh	8.8	8.0	Madagascar	8.1	7.3
China	3.4	3.7	Malawi	24.0	(20.0)
Hong Kong	3.4	3.8	Mauritania	6.8	5.6
India	7.1	7.6	Mauritius	4.4	4.3
Indonesia	6.3	6.3	Namibia	6.2	6.2
Japan	0.4	0.3	Niger	3.7	4.0
Malaysia	2.6	3.3	Nigeria	11.5	10.6
Pakistan	10.4	11.1	Rwanda	(8.0)	---
Papua New Guinea	(6.0)	(6.0)	Sierra Leone	10.3	10.9
Philippines	3.4	3.5	South Africa	5.9	5.9
Singapore	(3.0)	3.0	Sudan	31.7	36.5
South Korea	2.8	3.1	Swaziland	6.1	6.2
Sri Lanka	10.0	8.8	Togo	(3.0)	(3.0)
Taiwan	1.7	1.6	Uganda	(5.0)	(5.0)
Thailand	3.4	3.2	Zambia	7.3	7.9
Vietnam	7.5	7.5	Zimbabwe	4.2	3.8

* 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, 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) II/2013 and I/2013.

as satisfactory. In all of these countries the situation is expected to remain at this good level over the next six months. *Uruguay* is an exception to this rule as WES experts there have become rather sceptical regarding future economic development over the next six months. Trade barriers to exports have been identified as a major current economic problem by WES experts. In *Brazil*, the situation compared to the previous survey did not change and was again assessed slightly below the satisfactory level. While private consumption is currently performing strongly, capital expenditure remains weak. However, WES experts anticipate some economic improvement in the next six months, including increases in capital expenditure. In *Argentina*, the economic climate worsened compared to the previous survey. Both assessments of the present economic situation and economic expectations were downgraded: The current situation is seen as weak and WES experts remain cautious about the six-month outlook. According to WES experts, the population is increasingly losing confidence in the economic policies of the government. In *Cuba*, the *Dominican Republic*, *El Salvador*, *Trinidad and Tobago*, as well as in *Venezuela* the economic experts surveyed again reported weak current economic performance. In all of these countries no major improvements from the current low levels of economic activity is anticipated in the next six months. In *Trinidad and Tobago* and *Venezuela* WES experts even expect the situation to deteriorate.

Near East: Economic climate remains favourable

In the *Near East* the economic climate remains favourable, despite some slight downwards revision of both components compared to the previous survey (see Figure 10). At 92.0 the indicator still remains at a high level and is located above its long-term average of 84.9 (1997–2012). Lack of skilled labour is the region's most important economic problem.

In *Qatar*, *Saudi Arabia* and the *United Arab Emirates* a highly favourable present economic situation prevails, which is expected to continue to do so over the next six months. In *Israel* and *Turkey*, the current economic situation was rated as favourable. As far as the economic outlook is concerned, WES experts in *Turkey* remain fairly confident, while in *Israel* they have become rather pessimistic. In *Jordan*, *Kuwait* and *Lebanon*, appraisals of the present economic situation are on a satisfactory level. Within the next six months the situation is expected to remain at its present good level in these countries.

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 cited economic problems in common: “unemployment”, “lack of confidence in government’s economic policy” as well as “lack of international competitiveness”. In addition, *Angola*, *Burundi*, *Malawi*, *Sierra Leone* and *Sudan* in particular are also suffering from a double digit inflation rate. WES experts in *Nigeria*, *Kenya* and *Mauritania* cited corruption as another key problem.

In the *Northern African* countries of *Algeria* and *Libya* the present economic situation did not change compared to the previous survey and is still considered as satisfactory. Economic expectations have been downwardly revised, but on the whole point to an economic stabilization within the next six months. In *Egypt*, *Morocco* and *Tunisia* the economic situation deteriorated compared to the previous survey and is rated as weak. While WES experts in *Morocco* and *Tunisia* do not expect the situation to improve, the economic experts surveyed in *Egypt* think that the situation will deteriorate further in the months ahead.

The economic climate indicator in *South Africa* deteriorated again due to less positive assessments of the present economic situation and poorer economic expectations. The present economic situation has been described as weak. No major improvements are expected by WES experts over the next six months (see Figure 10). In *Benin*, *Congo Dem. Republic*, *Ghana*, *Lesotho*, *Liberia*, *Namibia* as well as *Zambia* WES experts view the present economic situation as favourable, in most of the countries to an even higher degree than in the previous survey. In *Sierra Leone*, assessments of the economic situation were downgraded somewhat compared to January, but nevertheless remain favourable. In all of these countries, WES experts retained their positive view of future economic developments over the next six months. In *Angola*, *Burkina Faso*, *Comoros*, *Congo-Brazzaville*, *Ethiopia*, *Mauritius*, *Nigeria*, *Rwanda* and *Senegal*, WES experts assessed the current economic situation as satisfactory and expect it to stabilize at its present good level in the months ahead. In *Kenya*, appraisals of the present economic situation were down-

graded considerably versus the previous survey from a favourable to a less satisfied evaluation. In the next six months, in turn, WES experts expect the situation to improve again. In *Malawi, Mauritania, Niger, Sudan* and *Zimbabwe* the current economic situation is seen as unfavourable. Within the next six months, no substantial economic improvement is expected in *Mauritania, Niger* and *Zimbabwe*. Economic experts in *Malawi* and *Sudan*, on the other hand, anticipate a slight upturn. A weak economic performance was reported by WES experts in *Burundi, Gabon, Madagascar, Swaziland, Togo* and *Uganda*. In all of these countries the economic situation is expected to remain subdued over the next six months, except for *Uganda*, where WES experts are somewhat more positive with regard to short-term future economic developments.

Price increases expected to slow down further

General trends

On a worldwide average, the WES experts' inflation forecast for the year 2013 was slightly downwardly revised from 3.3% according to the January forecast to 3.2% (see Table 1). This downward tendency of inflation is widespread, with the only exceptions being *Latin America* and the *CIS* area, where inflation expectations have picked up moderately since the survey in January

Price trends by countries

WES experts predict that in the *euro area* the average inflation rate in 2013 will be 1.9%, versus the 2.1% fi-

gure expected at the beginning of the year. Within the *euro area* the lowest inflation rates in 2013 are again expected particularly in the "crisis countries" *Greece* (0.8%), *Ireland* (1.2%) as well as *Portugal* and *Cyprus* (1.5% respectively 1.0%). The expected inflation rates in *Estonia* (3.5%) and *Slovakia* (2.5%) lie above the average of the *euro area*.

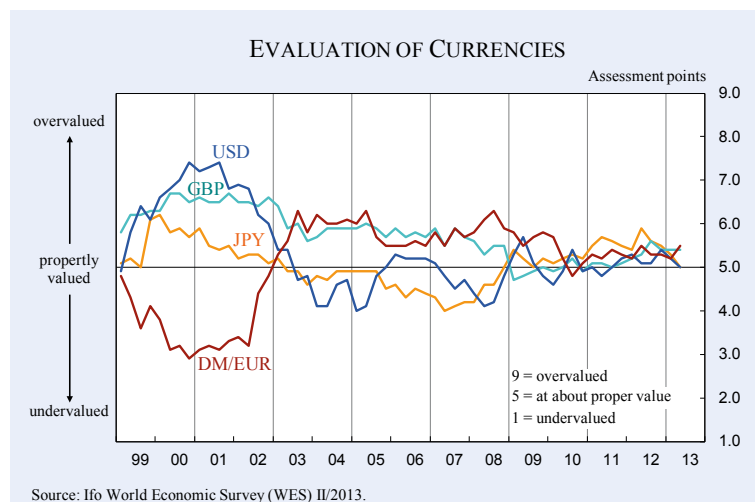
In *Western Europe* outside the *euro area* the two extremes of the presumable price development continue to be *Switzerland* (0.4%) on the one hand and the *United Kingdom* (2.8%) on the other; in both cases inflation expectations have been slightly upwardly revised since the previous survey.

In *Eastern Europe* the inflation rate forecast for 2013 of 2.6% is significantly lower than that reported at the beginning of the year (3.3%). This tendency can be observed in all of the countries in the region. WES experts expect the lowest price increase to be in *Poland* (1.8%), and the highest to be in *Serbia* (5.5%).

In *North America*, the 2013 inflation forecast stands at 2.0%, with 2.1% in the *United States* and 1.7% in *Canada*. Compared to the forecast from the beginning of the year this represents a slight decrease in both cases.

Inflation expectations for 2013 have also declined somewhat in *Asia* since the last survey in January (from 3.3% to 3.1%). According to WES experts, by far the highest inflation rates in the region will prevail again in *Pakistan* (10.4%). The expected inflation rate in 2013 in *Sri Lanka* (10.0%), *Bangladesh* (8.8%) and *Vietnam* (7.5%) will also be significantly higher than the regional average. In *China* inflation expectations for 2013 declined somewhat (from 3.7% in January to 3.4%). In *South Korea* inflation expectations have also been downwardly revised somewhat since the beginning of the year (from 3.1% to 2.8%). A moderate slowdown of the relatively high inflation rate is expected in *India* (7.1% compared with 7.6% in January 2013). In *Indonesia*, another high inflation country, WES experts confirmed their inflation estimate for 2013 as unchanged from the beginning of the year (6.3%). In *Taiwan* the traditionally moderate inflation

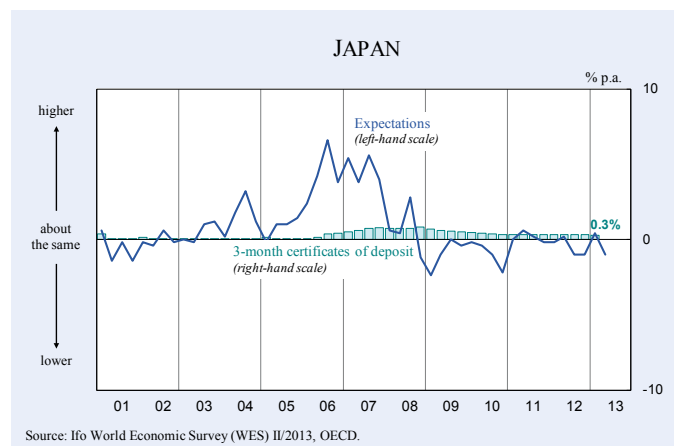
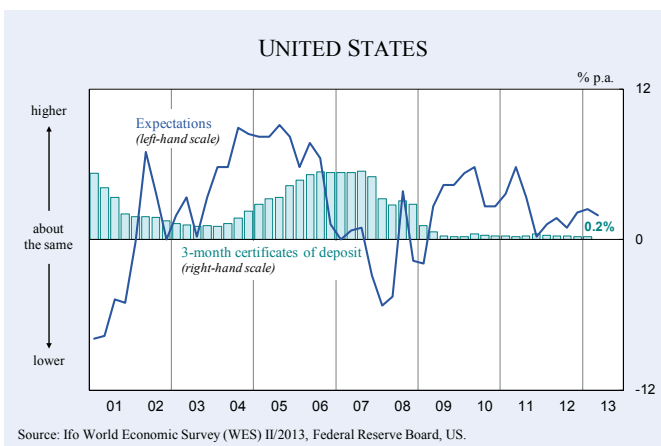
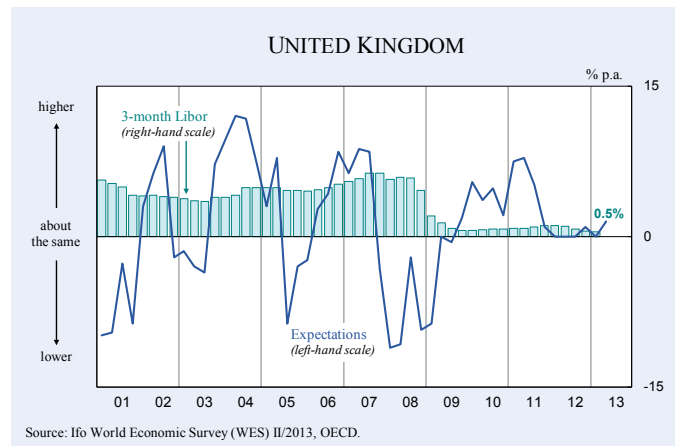
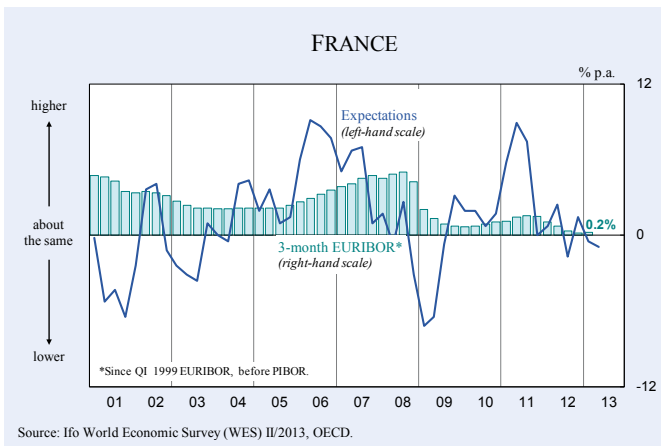
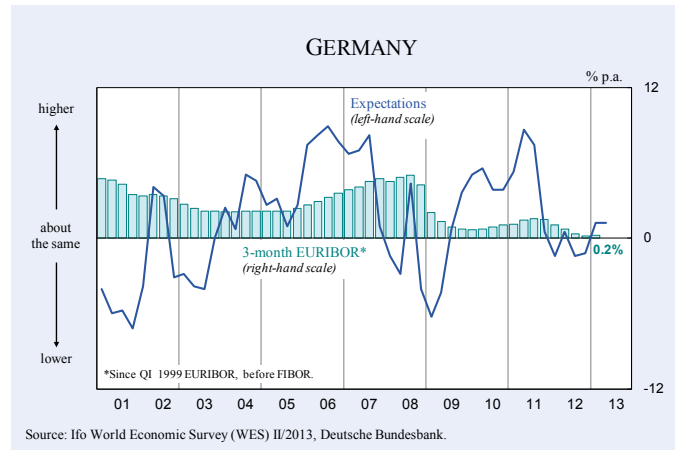
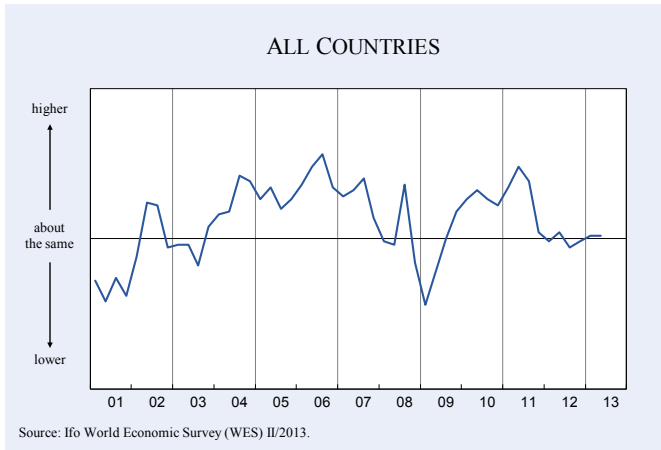
Figure 11



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

Figure 12

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



climate will continue to prevail in 2013 (1.7%). Despite the very aggressive monetary policy aimed at fighting deflation and stimulating growth, the inflation outlook for 2013 in *Japan* stands at 0.4%, which remains well below the 2% inflation target of the newly elected government.

In *Oceania* inflation expectations for 2013 declined somewhat in *Australia* (from 2.9% to 2.6%) and remained unchanged in *New Zealand* (1.7%).

Latin America is one of the two world-regions where inflation expectations for this year picked up somewhat (7.9% compared to 7.7%). Countries with the worst inflation outlook in the region remain *Argentina* (26.5%) and to an even greater extent *Venezuela* (33.0%). On the other hand, countries with inflation rates significantly below the regional average will again be *El Salvador* (2.5%), *Chile* and *Colombia* (both 2.6%) and *Peru* (2.9%). In *Brazil*, the largest country in the region, an inflation rate of 5.9% is expected for 2013, which is somewhat higher than expected at the beginning of the year (5.6%).

Inflation expectations for 2013 also picked up slightly in *CIS* countries and now stand at 8.0%. The inflation rates in the *Ukraine* (5.6%), *Russia* and in *Kazakhstan* (in both cases 7.1%) will also be lower than the regional average. On the other hand, the inflation rates in 2013 in *Belarus* and *Uzbekistan* (in each case almost 20%) will also remain above the regional average.

In the *Near East* inflation expectations for 2013 remained largely unchanged (4.3% versus 4.5% in the January survey). In the *United Arab Emirates* (2.2%) and *Israel* (2.4%) inflation expectations remain fairly subdued. In *Saudi Arabia* the 2013 inflation rate will – according to WES experts – reach 5.3%, and will thus remain unchanged from the 2012 figure. In *Turkey* inflation in 2013 is now expected to total 6.8%, which is only slightly higher than the January forecast (6.6%), but still significantly lower than the 2012 inflation rate (8.1%).

In *Africa* price trends remain very heterogeneous. Relatively low inflation rates (below 4%) for 2013 are expected in *Morocco* (2.4%), *Burkina Faso* (2.0%), *Gabon* (3.2%), *Congo-Brazzaville Rep* (3.4%) and *Congo Dem. Republic* (3.8%). In a medium inflation bracket (between 4 and 9%) lie the 2013 inflation expectations for the majority of countries covered in the survey like *Algeria* (4.0%), *Benin* (4.2%), *South Africa*

(5.9%), *Swaziland* (6.1%), *Namibia* (6.2%), *Lesotho* (6.4%), *Kenya* (6.6%) and *Mauritania* (6.8%). High inflation rates of 10% or more will also continue to predominate in 2013, particularly in *Sudan* (31.7%), *Burundi* (21.5%) and *Malawi* (24.0%), and to a lesser degree in *Egypt* (12.6%), *Nigeria* (11.5%) and *Sierra Leone* (10.3%).

US dollar expected to rise moderately

On a world-wide scale the *US dollar* and the *yen* are now seen by WES experts as very close to their fundamentally appropriate values, whereas the *euro* and the *British pound* appear to be somewhat overvalued (see Figure 11).

However, major differences in currency evaluation remain from country to country: WES experts regard their own currency as generally **overvalued** in *Australia*, *Argentina*, *Venezuela*, *Serbia*, as well as in *Bosnia and Herzegovina*. On the other hand, experts assessed their own currencies as generally **undervalued** in *Canada*, selected *Eastern European* countries like *Hungary* and *Poland*, in three *CIS* countries (*Russian Federation*, *Kazakhstan* and *Kyrgyzstan*), in some *Asian* countries (*China*, *India*, the *Philippines* and *Vietnam*), in selected *African* countries (*Egypt*, *Morocco*, *Benin*, *Kenya*, *Madagascar* and *Sierra Leone*) as well as in two *Latin American* countries (*Cuba* and *Dominican Republic*).

The answers to a supplementary survey question on the likely development of the *US dollar* over the next six months, regardless of how currencies are assessed from a fundamental point of view, signal that the *US dollar* is likely to rise somewhat on a worldwide average over the course of the next six months, particularly in *Latin American* countries like *Argentina* and *Venezuela*, as well as in all *CIS* countries covered in the survey. In *Japan* the current exchange rate vis-à-vis the *US dollar* appears appropriate. The *US dollar* is nevertheless expected to strengthen further against the *yen* due to the new expansionary monetary policy. The *US dollar*, on the other hand, is expected to weaken in *Australia*, *Sweden*, some *Eastern European* countries like *Hungary* as well as *Latvia* and the *Czech Republic*, several *Asian* countries (*China*, *Malaysia*, the *Philippines*, *South Korea* and *Thailand*), in a few *African* countries (*Kenya*, *Algeria*, *Senegal*, *Sierra Leone* and *Sudan*) as well as in some *Latin American* countries like *Paraguay*, *Peru* and *Mexico*.

Table 2

Expected Growth of Real Gross Domestic Product (GDP) in 2013 and 2012
(based on WES QII/2013 and QII/2012)

Region	QII/2013	QII/2012	Region	QII/2013	QII/2012
Average of countries *	2.2	2.3	North America	2.0	2.4
High-income countries	1.4	1.5	Canada	1.8	2.6
Middle-income countries	4.2	4.5	United States	2.0	2.3
Upper-middle	3.9	4.1			
Lower-middle	5.2	5.6	Oceania	2.8	2.9
Low-income countries	5.8	6.2	Australia	2.8	3.1
EU 27 countries	0.4	0.5	New Zealand	2.4	2.2
EU countries (old members) ^{a)}	0.3	0.3			
EU countries (new members) ^{b)}	0.9	1.5	Latin America	3.4	3.5
Euro area ^{c)}	0.2	0.3	Argentina	2.7	3.2
			Bolivia	4.0	4.3
Western Europe	0.4	0.4	Brazil	2.8	3.4
Austria	0.9	0.8	Chile	4.9	4.8
Belgium	0.3	0.4	Colombia	4.0	5.0
Cyprus	(-8.0)	-0.4	Costa Rica	(4.0)	(3.8)
Denmark	0.8	1.2	Cuba	(3.5)	(3.0)
Finland	0.4	0.9	Dominican Republic	2.7	4.6
France	0.1	0.9	Ecuador	4.2	4.7
Germany	0.9	1.1	El Salvador	1.7	2.1
Greece	-4.0	-4.3	Guatemala	3.4	3.1
Iceland	(1.9)	---	Mexico	3.4	3.1
Ireland	0.9	0.7	Panama	(7.0)	(8.0)
Italy	-0.6	-1.0	Paraguay	10.6	-0.3
Luxembourg	0.9	0.4	Peru	6.2	5.8
Monaco	1.7	2.3	Trinidad and Tobago	0.0	0.5
Netherlands	0.0	-0.2	Uruguay	3.4	4.2
Norway	2.5	2.0	Venezuela	1.2	3.1
Portugal	-1.4	-3.2			
Spain	-1.1	-0.8	CIS	2.8	4.0
Sweden	1.3	0.7	Armenia	4.9	---
Switzerland	1.2	1.0	Belarus	(2.0)	(4.0)
United Kingdom	0.8	0.8	Georgia ^{d)}	5.8	(5.0)
			Kazakhstan	5.0	5.6
Eastern Europe	0.9	1.5	Kyrgyzstan	5.5	4.0
Albania	1.3	1.8	Moldova	(3.0)	---
Bosnia and Herzegovina	1.1	1.3	Russia	2.7	3.8
Bulgaria	1.1	1.3	Ukraine	1.7	3.2
Croatia	-0.7	-0.7	Uzbekistan	(8.5)	(7.0)
Czech Republic	0.1	0.5			
Estonia	3.0	2.3	Africa	4.0	4.1
Hungary	0.2	0.4	Northern Africa	3.4	2.9
Latvia	3.7	2.6	Algeria	4.5	3.6
Lithuania	3.5	3.1	Egypt	2.4	1.9
Macedonia	1.7	---	Morocco	3.5	(2.9)
Poland	1.4	2.9	Libya	(17.0)	(50.0)
Romania	1.0	1.5	Tunisia	3.2	2.8
Serbia	2.1	0.3	Sub-Saharan Africa	4.3	4.9
Slovakia	1.2	1.7	Angola	(7.1)	---
Slovenia	-1.2	-0.4	Benin	5.3	3.4
			Burkina Faso	(8.0)	(8.0)
Near East	3.7	4.1	Burundi	6.0	3.4
Israel	2.9	3.0	Comoros	(2.5)	(2.5)
Kuwait	(3.2)	(5.0)	Congo Dem. Rep.	8.0	7.2
Lebanon	(2.5)	4.0	Congo-Brazzaville Rep.	(4.0)	5.0
Qatar	(4.7)	(7.0)	Gabon	(5.4)	(4.5)
Saudi Arabia	3.8	4.1	Ghana	(7.5)	8.9
Turkey	3.6	4.4	Kenya	5.7	4.3
United Arab Emirates	4.0	(3.0)	Lesotho	3.3	3.2
			Liberia	8.0	6.8
Asia	3.7	4.0	Madagascar	2.5	2.3
Bangladesh	6.1	6.6	Malawi	4.3	(5.0)
China	7.7	8.0	Mauritania	5.5	4.3
Hong Kong	3.3	3.3	Mauritius	3.7	3.7
India	5.8	7.1	Namibia	4.6	4.0
Indonesia	6.4	6.2	Niger	-0.8	7.6
Japan	1.6	1.8	Nigeria	6.0	7.2
Malaysia	5.2	4.0	Rwanda	(9.0)	(8.0)
Pakistan	3.3	3.4	Senegal	(4.0)	(3.8)
Papua New Guinea	(3.7)	---	Sierra Leone	6.6	26.9
Philippines	6.1	4.6	South Africa	2.6	3.1
Singapore	(2.0)	---	Sudan	2.9	4.8
South Korea	2.6	3.2	Swaziland	1.6	1.2
Sri Lanka	6.1	6.5	Togo	(5.0)	(4.1)
Taiwan	3.6	3.5	Uganda	(5.5)	---
Thailand	5.1	5.3	Zambia	6.9	5.8
Vietnam	4.8	4.3	Zimbabwe	4.5	7.6

* 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. --^{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) II/2013 and II/2012.

WES experts expect long-term interest rates to increase only very moderately in the six months ahead

On a worldwide scale, short-term interest rates are again expected to remain largely stable over the course of the next six months. Long-term interest rates, on the other hand, are still expected to rise, although to a lesser degree than in the January survey. This quarter's survey revealed some interesting differences from country to country: in the *euro area* the relatively high long-term interest rates in 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 *Norway* long-term interest rates are expected to remain stable, whereas short-term interest rates will increase over the course of the next six months, according to the WES experts interviewed. In *Sweden*, on the other hand, both short-term and long-term interest rates are expected to rise in the months ahead. According to the survey results, this pattern – namely of an increase at the short and long end of the interest rate scale – also characterises the situation in the *USA*. 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 stable. The disappointing cyclical recovery in most *Eastern European* countries probably led WES experts to expect that short- and – to a lesser degree – also long-term interest rates would decline over the next six months. In *Russia*, as in most *CIS* countries on aver-

age, short-term interest rates will remain more or less stable whereas long-term interest rates are now – unlike the survey in January – expected to increase somewhat in the near future. In *Latin America* interest rates – both short- and long-term – look set to increase. This new tendency will be particularly pronounced in *Brazil* and will bring to an end the downward trend in interest rates seen since mid-2011. Differently from the general trend of rising interest rates in this region, in *Colombia* and *Mexico* further cuts in short-term interest rates and stable long-term interest rates are expected. WES experts in *Venezuela* expect interest rates to remain at their current level.

In *Asia*, in contrast to the previous survey, the expected six-month trend in interest rates – both short- and long-term – is now pointing downwards, although only marginally. This new trend is mainly influenced by *Japan*, where in line with the government's strategy to fight aggressive deflation, the central bank has switched to a more expansionary course, which also implies lower interest rates both at the short- and long end of the scale. In *India* and *South Korea* short- and long-term interest rates are also expected to decline over the next six months. In *China*, on the other hand, the decline in interest rates appears to have come to an end and will be followed – according to WES experts – by a moderate increase in short- and long-term interest rates in the months ahead. This pattern of expected rising interest rates in coming months is even more pronounced in *Indonesia*, as well as in *Malaysia* and *Taiwan*.

Table 3 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	1.5		3	3	2	2		2	3	2
Insufficient demand	1.5	1				1	3		1	
Unemployment		3	1				2	1	2	
Inflation						3				
Lack of international competitiveness				1	1			3		1
Lack of skilled labour				2	3		1			3
Public deficits	3	2	2							

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

In *Africa*, more experts than in the previous survey expect both short- and long-term interest rates to pick up in the near future. There are only a few exceptional cases where short-term interest rates are expected to decline in the months ahead (*Sudan* and, to a lesser extent, *Kenya*, *Namibia* and *Angola*).

Moderate Growth of Real Gross Domestic Product (GDP) expected in 2013

General trends

Each year in the second quarterly survey, WES experts are asked to give a quantitative forecast of GDP² growth in the current year.

For 2013 world economic growth is expected to reach 2.2%, after an expected 2.3% in 2012 (see Table 2). The absolute difference between the growth estimates of the second quarter in 2012 and in 2013 is very pronounced in the *CIS* area and in *Eastern European* countries, whereas in the other regions the growth-difference is relatively small. Despite the stronger downward revision in other regions the lowest growth in 2013 is expected in *Western Europe* (0.4%), particularly in the *euro area*.

Economic growth outlook by country for 2013

Growth engines in 2013 – according to WES experts – will remain *China* (7.7%), *Indonesia* (6.4%), the *Philippines* (6.1%) and *India* (5.8), although growth expectations in the latter have fallen significantly from the 7-8% growth rates seen in past years. Some *Latin American* “growth stars” like *Peru* (6.2%) and *Chile* (4.9%) are also supporting worldwide growth. In *Africa* there are some remarkable growth-champions like *Congo Dem. Republic* (8.0%), *Liberia* (8.0%), *Ghana* (7.5%), *Zambia* (6.9%) and *Nigeria* (6.0%) in 2013. *Brazil* continues to belong to the

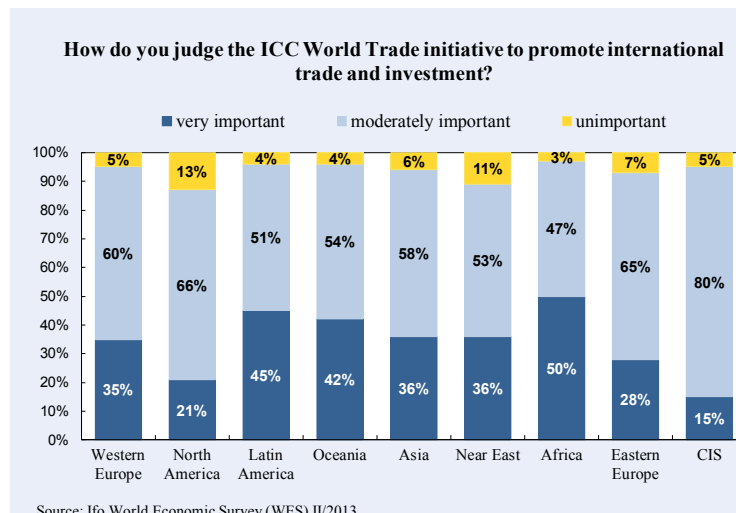
group of countries growing faster than the world average, but with an expected 2.8% growth rate in 2013, it is no longer in the top group of fast-growing economies in *Latin America*. Other countries with strong economic growth in 2012 – according to WES experts – include the *United Arab Emirates* (4.0%), *Turkey* (3.6%), *Hong Kong* (3.3%) and, alongside *China*, some other *Asian* countries like *Sri Lanka* (6.1%) and *Vietnam* (4.8%).

Countries like *Greece* (-4.0%), *Portugal* (-1.4%), *Spain* (-1.1%) and *Italy* (-0.6%), on the other hand, were hit severely by the financial crisis and are still in the midst of a restructuring process, so they will experience negative growth 2013. The economy in *France* and the *Netherlands* will also – according to WES experts – merely stagnate in 2013. A positive example that restructuring pays off – at least in the medium- and long-term – is *Ireland*, where the growth outlook for 2013 is positive, although still rather moderate (0.9%).

ICC Special Question: World Trade Agenda initiative

The ICC has launched the World Trade Agenda initiative to promote international trade and investment as a debt-free stimulus to increase global economic growth and job creation. More specifically, its aims are primarily to build on the progress already made and other “doable” elements in the stalled Doha Round of multilateral trade negotiations; and secondly, to advance trade and investment policy ‘beyond Doha’. This quarter’s ICC special question asked the economic experts surveyed how they judge this initiative and which of the principal

Figure 13



² 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.

elements of ICC's World Trade Agenda are the most important in their opinion.

Generally, a broad majority of WES experts across all regions agrees that the ICC World Trade initiative is important. While 50% of WES experts in *Africa* consider it a very important initiative, it is seen in other regions as moderately important. This opinion prevails especially in *CIS* countries with 80% of moderately important voices (see Figure 13). In *North America*, and there only in the *USA* but not in *Canada*, the share of WES experts who think the World Trade Agenda is an unimportant initiative is the highest among all other regions at 13%.


Among the principal elements, "Conclude a WTO agreement on trade facilitation to simplify customs procedures" was identified as the most important issue in all of the countries and regions surveyed (see Table 4). "Foster compatibility and complementarity between WTO rules and the rules of regional and preferential

trade agreements" was considered as the second most important issue by WES experts in *Latin America*, *Oceania*, *Near East* and *CIS*, whereas "Lower barriers to trade in environmental goods and services" is most important from the point of view of the economic experts in *Asia*. In *Western Europe*, *North America*, *Asia* and *CIS* countries the issue of "Reducing barriers to trade in information technology products and services" also received a high important ranking. Working towards a multilateral framework for international investment mainly seems to be essential for the economic experts surveyed in *Western Europe*, *Eastern Europe*, the *Near East* and *Africa*. The WES experts in *Eastern Europe*, *North America* and *Oceania* also selected "Liberalize trade in services through multilateral and sectoral negotiating approaches" as an important issue for the World Trade Agenda. According to the economic experts surveyed in *Latin America* and *Africa*, "new multilateral negotiating approaches better adapted to the 21st century" should be in the foreground of the initiative.

Table 4 Please assess the following principal elements of ICC's World Trade Agenda according to their importance – Aggregated to regions*										
	World	Western Europe	North America	Latin America	Oceania	Asia	Near East	Africa	Eastern Europe	CIS
Conclude a WTO agreement on trade facilitation to simplify customs procedures	6.6	6.5	6.2	7.1	6.8	6.6	7.3	7.3	6.4	6.8
Further reduce barriers to trade in information technology products and services by expanding product coverage of the WTO's Information Technology Agreement	6.3	6.1	6.3	6.6	6.4	6.4	6.1	6.7	6.1	6.3
Begin work towards a multilateral framework for international investment	6.1	6.1	5.7	6.5	5.5	6.0	6.6	7.1	6.2	5.7
Liberalize trade in services through multilateral and sectoral negotiating approaches	5.9	5.9	5.8	5.6	6.5	6.1	4.9	6.4	6.2	5.8
Lower barriers to trade in environmental goods and services	6.0	6.0	5.3	6.5	5.9	6.6	5.9	6.4	5.6	5.0
Foster compatibility and complementarity between WTO rules and the rules of regional and preferential trade agreements	6.0	5.9	5.1	6.9	6.6	6.0	6.7	6.5	6.0	6.4
Explore new multilateral negotiating approaches better adapted to the 21st. century	5.8	5.8	5.3	6.7	6.3	5.9	6.3	6.9	5.4	5.7

* 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. WES scale: 9 - very important, 5 – moderately important, 1 - unimportant. The three most important aspects are shaded.

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



To summarise, while concluding a WTO agreement on trade facilitation is recognised as potentially necessary in all regions, the priorities of other principal elements of the World Trade Agenda scatter variously depending on the region in question. Generally there is broad consensus as to the importance of the ICC World Trade initiative worldwide.

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