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CESifo World Economic Survey May 2012

CESifo World Economic Survey

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CESifo WORLD ECONOMIC SURVEY

VOLUME 11, No. 2

MAY 2012

WORLD ECONOMIC CLIMATE

World economic climate continues to brighten

ECONOMIC EXPECTATIONS

Economic expectations predominantly positive

INFLATION

Price trend remains largely unchanged

CURRENCIES

Both yen and euro seen as overvalued

INTEREST RATES

Long-term interest rates expected to pick up

SPECIAL TOPIC

Rio+20 – United Nations Conference on Sustainable Development

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Ifo World Economic Survey

Regions

- World Economy: Positive outlook almost across the board
- Western Europe: Economic expectations brighten
- North America: Economic climate indicator continues to rise
- Eastern Europe: More positive expectations
- CIS: Solid performance
- Asia: Economic climate indicator starts to rise again
- Oceania: Economic climate indicator drops
- Latin America: Economic climate friendlier
- Near East: Buoyant economic climate
- 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 2012, 1,101 economic experts in 121 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 proved to be a useful tool, since it reveals economic changes earlier than conventional business statistics.

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

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

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

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

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

WORLD ECONOMIC CLIMATE BRIGHTENS FURTHER

The Ifo World Economic Climate Indicator continued to rise and is now only slightly below its long-term average of 96.7 (1996-2011). The improvement was primarily driven by more positive expectations for the next six months. The current situation was also deemed somewhat friendlier than in last month's survey (see Figures 1 and 2). The results confirm a trend towards recovery in the world economy. The business-cycle clock also indicates an upswing (see Box 1).

Positive outlook almost across the board

The driving force behind the rise of the world economic indicator is primarily an increase in expectations for the coming six months in many countries. In *North America* the climate indicator climbed above its long-term average. Although the current economic situation has been assessed nearly constantly as "not satisfactory" since mid-2011, the WES experts reported a much more positive outlook for forthcoming economic development. The same picture emerges in *Western Europe* and the *euro area*, although the assessments differ significantly across countries. The indicator for *Asia* now equals almost its long-term average. It seems the decline of the economic climate indicator over the last four quarters has not only come to an end, but is succeeded by a new upward-tendency. As in the developing countries, this increase is mainly due to a more optimistic outlook, whereas the current situation was again assessed as less favourable in the economy's main growth drivers in *Asia, China* and *India*. In *Latin America* the World Economic Climate indicator rose slightly in the

second quarter of 2012, despite a sharp decrease in *Argentina*. In *Russia* the economic climate increased, after falling in the previous quarter.

The acute risks for the global economy decreased significantly in recent months. Confidence among business and consumers, which was knocked hard in the second half of 2011, has recovered in most regions since the beginning of 2012. The pace of world output has also picked up slightly in recent months, after clearly losing impetus during the second half of last year. The outlook for the global economy nevertheless remains clouded as the *European* debt crisis remains unresolved and continues to pose a major threat to the world

Figure 1

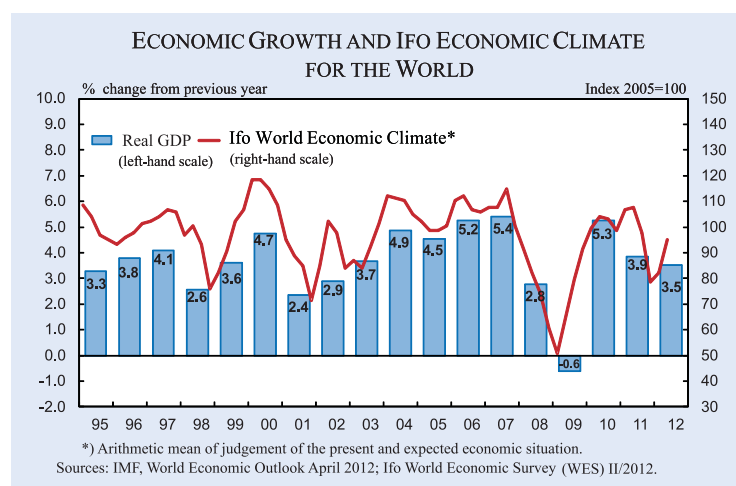
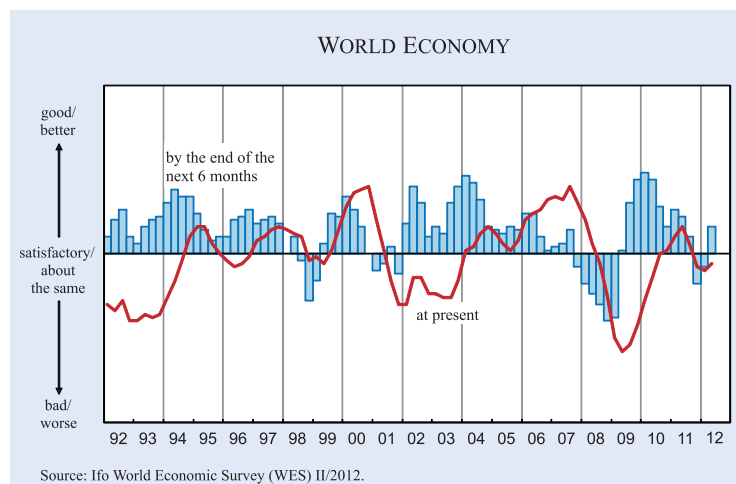


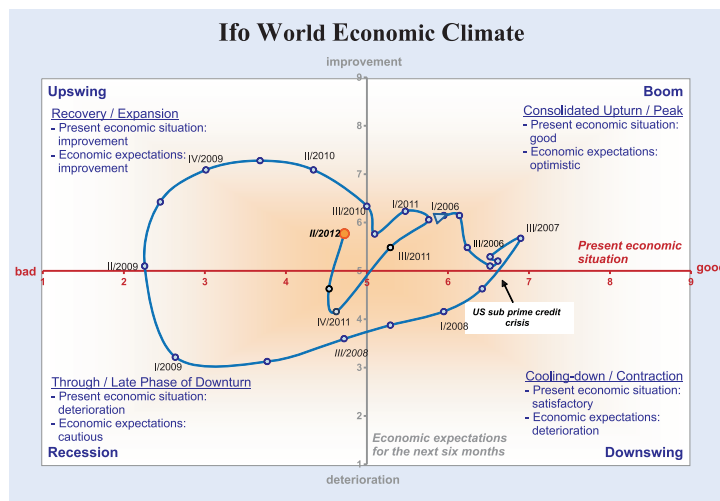
Figure 2



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 showed a considerable upturn. The assessments of both the current economic situation, and to a greater extent, the economic expectations for the next six months brightened compared to the first quarter of 2012. The indicator left the “recession” quadrant and turned into the “upswing” phase. The results confirm a trend towards recovery in the world economy.



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

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

economy. Recent developments in *Spain* and *Italy* will influence the growth path of the *euro area*. Financial policy in many of the world’s key advanced economies, and especially in several *euro area* countries, is expected to have a dampening effect. Moreover, private households and business in many economies are still attempting to reduce their debts. Additional negative factors have also come to bear recently like higher oil prices. Economic activity in emerging economies will remain constrained by weak growth in advanced economies over the forecasting period. Domestic forces for growth are only expected to gather strength again gradually.

Overall, the Ifo World Economic Climate in the second quarter 2012 points to a more optimistic growth outlook for the near future across all continents, although some individual countries might differ in this respect. It remains to be seen how fast this growing optimism will be reflected in the forthcoming hard economic figures.

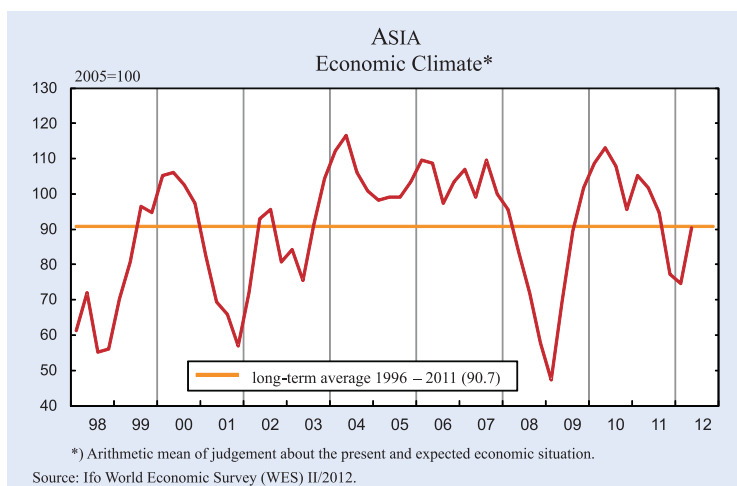
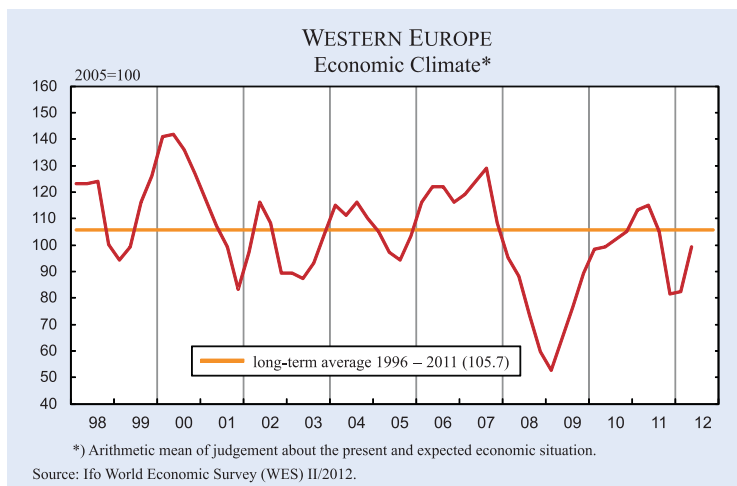
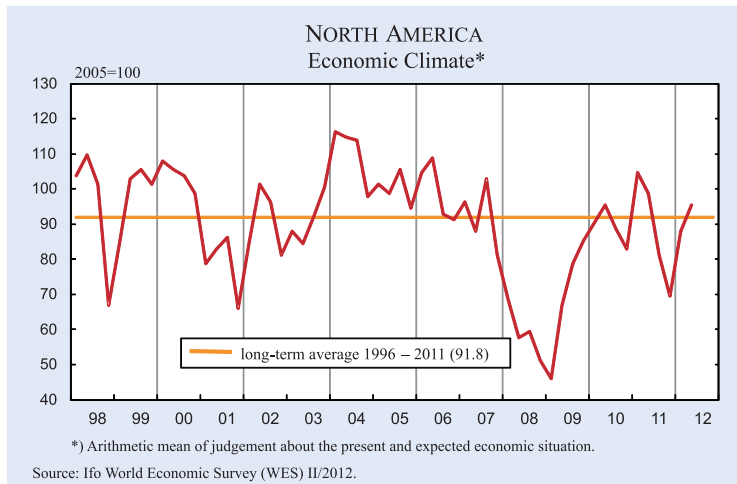
Western Europe: Economic expectations brighten

The economic climate indicator for *Western Europe* has risen strongly, and, at 99.3, it is once again approaching its long-term average (of 105.7 in the period 1996–2011; see Figure 3). While assessments of the present economic situation only improved slightly versus the previous survey, economic expectations for the next six months were remarkably upgraded and reached now positive territory (see Figure 4). The same pattern applies to the *euro area* (see Box 2). The indicator for the *euro area* moved up to 100.3 towards its long-term average of 109.0 (1996–2011), due to significantly more positive appraisals of expectations for the next six months. For *Western Europe* and the *euro area* as a whole, in 2012 GDP growth rates

of 0.4%, respectively 0.3%, are estimated by the surveyed economic experts. This year’s growth expectations are considerably lower than at the same time last year, where both aggregates were estimated at 1.9% in 2011, by WES experts.

Within the *euro area*, only the economies of *Germany*, *Estonia* and *Finland* are performing well, according to WES experts. While in *Germany* and *Estonia* the current economic situation is still rated as “good”, it is assessed as “satisfactory” in *Finland* (see Figures 5a and 7). The six-month outlook has also become more positive in all of these three coun-

Figure 3



tries. According to WES experts' estimation, growth in 2012 in *Germany* and *Estonia* is likely to expand with 1.1%, respectively 2.3%. As one of the most important economic problem WES experts in the latter two countries highlighted "lack of skilled labour". In contrast, other *euro* members are suffering mostly

from the high unemployment rate. In addition, public deficits and insufficient demand are also often cited as problems that the *euro area* is struggling with at present. Behind this background, economic sentiment in the remaining countries of the *euro area* tends to be negative. In *Slovakia*, the appraisals of the present economic situation deteriorated remarkably over the previous survey, and are now seen as unfavourable. The same rating – despite some upwards revision – was given to *Austria* by WES experts. However, in *Austria* some improvement is expected over the next six months. In contrast, no major changes are anticipated in *Slovakia*. In *Luxembourg*, the present economic situation deteriorated considerably compared to the survey in the beginning of the year and is now seen as weak. A low economic performance was also observed by the economic experts surveyed in *Belgium, France, Ireland, Slovenia* and the *Netherlands*. Out of these countries, negative growth rates are restricted to *Slovenia* and the *Netherlands* in 2012. For the next six months in most of these countries WES experts have become more positive regarding future economic development. The *Irish* experts, however, have a less positive view than in the previous survey. Nevertheless, capital expenditure, private consumption and the export sector are expected to rise somewhat in *Ireland* in the coming six months and GDP is also expected to grow with positive rates of 0.7% in 2012. In *Cyprus, Greece, Italy, Portugal* and

Spain the present economic situation was still reported as fragile by the surveyed experts. Capital expenditure and private consumption are subdued and are expected to remain so over the next six months. However, regarding future economic development in the next half year, WES experts in the respective

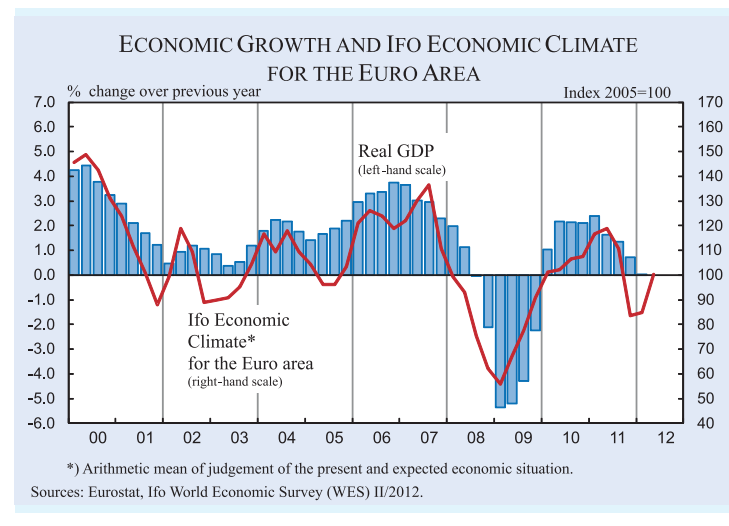
Box 2

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 April results are based on the responses of 279 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 more strongly in the second quarter of 2012 than in the previous quarter, but remains below its long-term average. While appraisals of the current situation brightened only slightly, the six-month outlook is significantly more positive than in the first quarter. However, the economic situation in the euro area is not homogenous.

In Germany and Estonia the current situation remains “good”, while in Finland it is deemed “satisfactory”. Although the current economic situation improved slightly in most euro countries compared to last quarter’s survey, in Austria, the Netherlands, Belgium, Ireland and France it was not even assessed as satisfactory. No positive developments were reported in Greece, Portugal, Italy, Spain or Cyprus. WES experts give the current economic situation in these countries the worst appraisals on the WES scale and expect a recession in 2012. Public deficits continue to create major problems in the entire euro area, as well as high unemployment in the euro crisis countries, according to the economic experts surveyed. The six-month economic outlook in the euro area improved significantly versus the previous quarter and is positive in most euro countries.



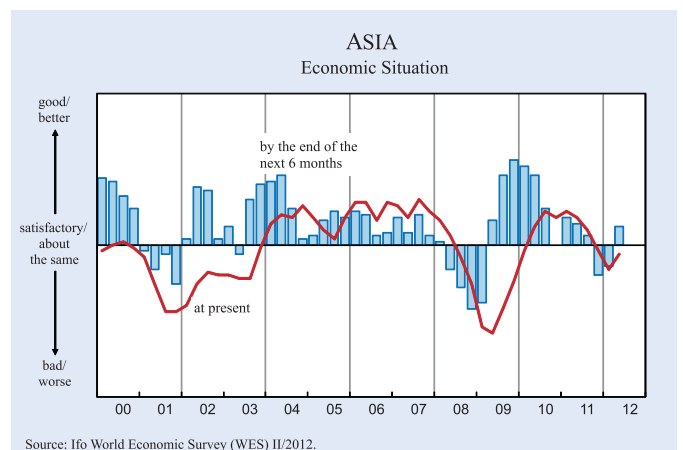
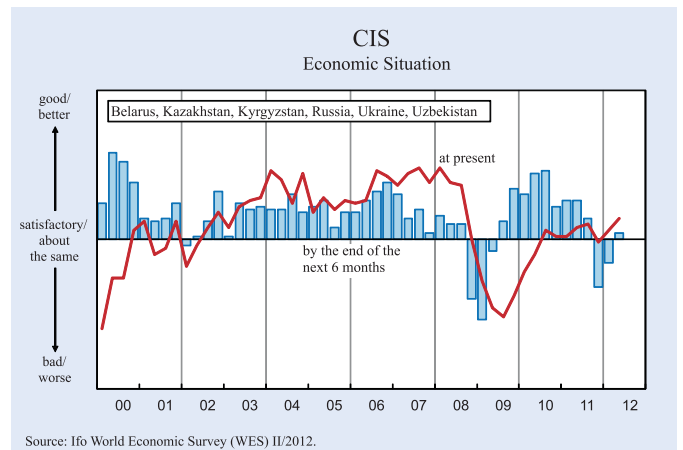
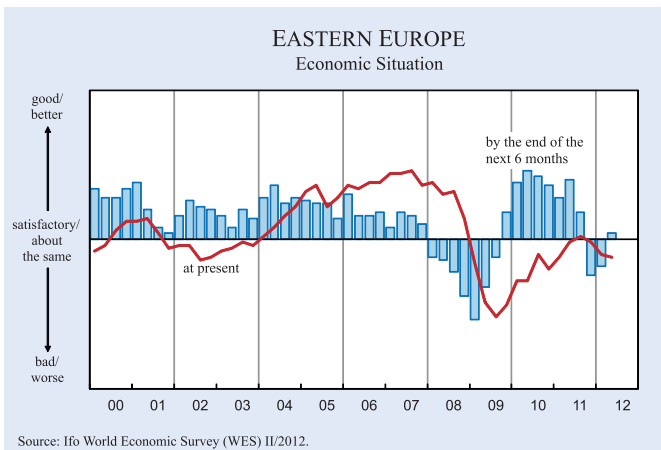
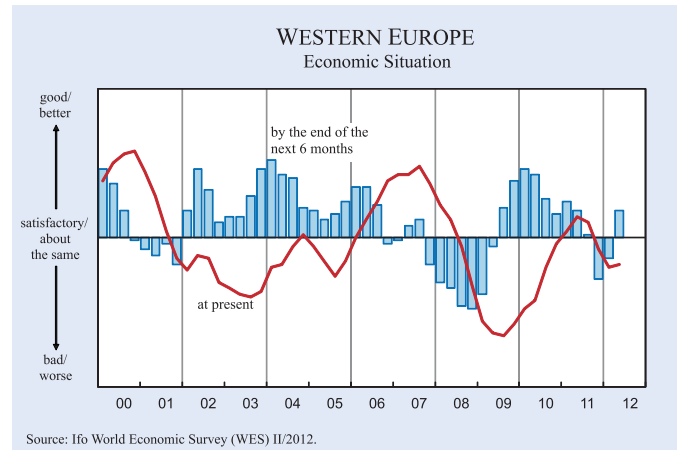
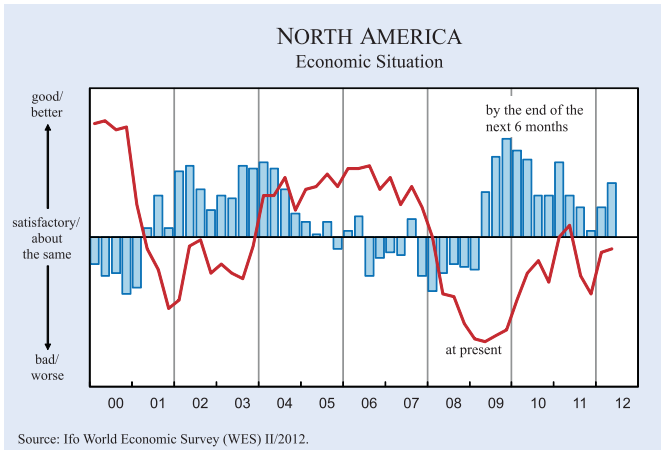
countries are less pessimistic compared to the previous survey, although they remain cautious. All of the latter named countries will experience negative GDP growth rates in 2012 according to WES experts’ estimations. Nevertheless, within the next six months in Greece and Portugal a rebound in the export sector is expected by the economic experts surveyed.

remain unfavourable. For the next six months, WES experts foresee no substantial improvement regarding economic performance, except for the export sector, which is expected to strengthen strongly within the next six months.

Outside the euro area, the most important economic problem was predominantly identified as a “lack of international competitiveness”. This was also the case in Norway, where the economic situation was unanimously given the highest possible marks on the WES rating scale by all surveyed experts. In Monaco, assessments of the present economic situation have also been strongly revised upwards and are now regarded as good. In both countries, WES experts have become fairly confident with regard to the next six months. Monaco and Norway will experience the highest GDP growth rates within Western Europe of 2.3%, respectively 2.0% in 2012, according to WES experts’ estimations. In Sweden, the appraisals of the present economic situation were downgraded considerably, but are still satisfactory, as they are in Switzerland. In both countries the economic expectations for the next six months were strongly upgraded and have reached positive ground. In the United Kingdom the present economic situation did not change over the survey in January and it is still assessed as weak. However, for the next six months the surveyed economic experts revised their expectations considerably upwards and are now optimistic. The export sector in particular is foreseen to pick up further. In Denmark the assessments of the present economic situation have been upgraded somewhat, but

Figure 4

SELECTED REGIONS



Box 3

Most Important Economic Problems

This is a summary of results of the bi-annual question on current main economic problems in the individual countries.

On a *worldwide* scale *public deficits* are now considered as the single most important problem. This is followed by *unemployment* and in 3rd place by *lack of confidence in government economic policy*, which was considered as the main problem at the end of last year.

In *Western Europe* *public deficits* are also seen by WES experts as the number one problem. The second place, which was *lacking confidence in government policy* at the end of 2011, has been replaced by *insufficient demand*. *Unemployment* is again ranked in third place.

In *North America* the same problems prevail as in *Western Europe*, but they are ranked differently: *unemployment* ranks top, followed by *public deficits* and then as equally important *insufficient demand* and *lack of confidence in government economic policy*.

According to WES experts, *Latin America* suffers mainly from a *lack of international competitiveness*, followed by *lack of skilled labour* and ranked third with less relevance *lack of confidence in government economic policy* and *inflation*.

In *Oceania* – and here particularly in *Australia* – *lack of international competitiveness* is seen as the single most important problem, followed by the *lack of skilled labour* and the missing *confidence in government economic policy*.

In *Asia* *lack of confidence in government economic policy* ranks top of the list of problems followed by *inflation* and equally as important, but less urgent, *public deficits* as well as *insufficient demand*.

In the *Near East* *shortage of skilled labour* is seen as a main problem followed by *inflation* and equally tied in third place *lacking confidence in government economic policy* and *public deficits*.

In *Africa*, as in previous years, *unemployment* still leads the list of problems, followed by *lack of international competitiveness* and *lack of skilled labour* tied with *lack of confidence in government economic policy* in third place.

Eastern Europe suffers mainly from the consequences of high *public deficits* followed by *unemployment* and *lack of confidence in government economic policy*.

In *CIS* countries a similar problem structure to that of *Latin America* and *Oceania* prevails: the *lack of international competitiveness* ranks at the top of the listed problems followed by *lack of skilled labour* and *lack of confidence in government economic policy*.

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

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

North America: Economic climate indicator continues to rise

The economic climate indicator in *North America* continues its rise and, at 95.4 is once again higher than its long-term average (of 91.8 in the period 1996–

2011; see Figure 3). Assessments of the present situation, and especially economic expectations, have been upgraded considerably (see Figure 4). This pattern particularly applies to the *United States*: according to WES experts, the present economic situation improved somewhat, but remains unfavourable. Unemploy-

ment and public deficits are the most important economic problems for the *US* at present, according to the WES experts. Lack of confidence in government's economic policy is also seen as an important problem. For the six-month outlook WES experts expressed greater confidence compared to the survey in January (see Figure 6). In *Canada*, the economic climate improved remarkably due to considerably more positive economic expectations. The current economic situation remains at the same satisfactory-level. The main problems of this country at present are "lack of international competitiveness" and "lack of skilled labour". For the next six months a strengthening of capital expenditure and exports is anticipated. The GDP growth estimates for 2012 in both *North American* countries are slightly lower than at the same time last year, but remain buoyant at 2.3% in the *US* and 2.6% in *Canada*.

Eastern Europe: More positive expectations

The economic climate indicator in *Eastern Europe* improved somewhat due to significantly more positive expectations. In turn, the present economic situation deteriorated marginally and is seen as unfavourable by the economic experts surveyed (see Figures 4 and 7). The most important problems in this region are predominantly "public deficits", "unemployment" and "lack of confidence in government's economic policy". WES experts in *Bulgaria*, *Czech Republic* and *Bosnia-Herzegovina* also increasingly highlighted "corruption" as problem. The 2012 economic growth outlook deteriorated visibly from an estimated 2.8% reported last year to an estimated 1.5%. WES experts have strongly downwardly revised their appraisals versus 2011 in *Albania*, *Bulgaria*, *Croatia* (here, GDP growth rate is expected to experience -0.7% in 2012), the *Czech Republic*, *Hungary* and *Serbia*.

The relatively best economic performance in this region has been reported from WES experts in *Poland*. The present economic situation is considered as buoyant and is expected to remain so in the coming six months. In the *Czech Republic*, *Latvia* and *Lithuania* the current economic situation is at least assessed as satisfactory. In *Latvia*, however, weak capital expenditure and private consumption, as well as capital shortage, were reported. However, *Latvian* experts expect the overall economy, capital expenditure and exports to improve somewhat in the course of the

next six months. In *Lithuania* and the *Czech Republic* the economic experts surveyed are now more positive regarding future economic performance than they were in the previous survey. However, while in *Lithuania* WES experts are now fairly confident regarding the coming six months, they remain rather cautious in the *Czech Republic*. The economic situation in *Bulgaria* and *Hungary* got worse over the previous survey and is now seen as unfavourable in *Bulgaria* – like in *Romania* – and as very weak in *Hungary*. However, in all of these three countries WES experts have become more positive regarding the economic expectations and expect a bettering of the situation within the coming six months. *Hungary's* export sector in particular is expected to rebound in the next six months, in the opinion of the experts surveyed. According to WES experts, the most important economic problem at the moment is "foreign debts" for *Hungary*, "insufficient demand" for *Bulgaria* and "capital shortage" for *Romania*.

The economic situation in the region outside the *EU* has been still assessed as weak in *Albania* and even more so in *Bosnia and Herzegovina*, *Croatia* and *Serbia*. WES experts in all of these countries do not expect any substantial improvement of their economies over the next six months. In both *Bosnia and Herzegovina* and *Serbia*, they even expect further deterioration. In contrast, a satisfactory performance has been observed in *Montenegro*, and it is expected to remain so in the coming six months.

CIS: Solid performance

The economic climate indicator for the *CIS* countries covered by WES (*Russia*, *Belarus*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan* and *Uzbekistan*) improved considerably due to more positive assessments of both present situation and economic expectations. The present economic situation in this region is now regarded as "favourable". The expectations were also significantly upgraded and reached positive territory (see Figure 4). The most important economic problems in most of the *CIS* countries are "lacking international competitiveness", "shortage of skilled workers" and "lack of confidence in the government's economic policy". The GDP growth pattern in the *CIS* countries for 2012 hardly differs from that for 2011: growth estimates of 4.0% in this region are expected by WES experts.

In *Russia*, assessments of the present economic situation were upgraded somewhat and are now regarded as favourable. According to the WES experts, private consumption in particular is currently the main driving force. Economic expectations were also considerably upwardly revised and reached positive ground (see Figure 6). In addition to the economic problems mentioned in the previous passage, *Russian* experts also named “corruption” as a prevailing problem. In *Kazakhstan* and *Uzbekistan* the present economic situation is rated as favourable. In both countries, WES experts expressed confidence concerning economic developments in the next six months. In *Belarus* and *Georgia*¹ the economic experts surveyed attested a satisfactory economic situation. For the next six months the interviewed experts expect their national economies to stabilize at their current good levels. However, in *Belarus* the high inflation rate (estimated at 20% for 2012, see Table 2) arises with problems. Only last year *Belarus* suffered from hyper-inflation. In *Kyrgyzstan* and the *Ukraine* an unfavourable economic performance was again reported by the economic experts surveyed. In both countries no major changes are anticipated over the next six months.

Asia: Economic climate indicator starts to rise again

The economic climate indicator in *Asia* started to rise again, after four successive decreases. At 90.4 the indicator is approaching its long-term average (1996–2011: 90.7) once again. As in nearly all regions, in *Asia* as a whole the assessments of both the present economic situation, and to a greater extent of economic expectations, have been upgraded significantly (see Figures 3, 4 and 8). The important economic problems faced by most countries in *Asia* at present are “lack of confidence in government’s economic policy” and “high inflation”. As far as estimated GDP growth rates are concerned, the aggregate in this region for 2012 of 4.0% is slightly lower than that estimated for 2011 one year ago, but remains strong.

In *China*, *Hong Kong* and *India*, a somewhat different picture of the components emerges than for the region as a whole: in these three countries the present economic situation clouded over somewhat compared to the previous survey and is now assessed as unfavourable in *China* and *India*. While in *China* private

consumption is mainly regarded as weak, this is the case for capital expenditure in *India*. In *Hong Kong*, the current economic situation is also regarded as less favourable than in the previous survey, but still as satisfactory. For the six-month outlook the surveyed experts in all these countries are remarkably more positive compared to January. In *China*, however, they still remain reserved – despite the upwards revision. Here, besides inflation, a lack of skilled labour also prevails, according to the WES experts. The present economic situation in *Bangladesh*, *Indonesia* and *Malaysia* is still rated as good – even to a higher degree than in the previous survey. For the next six months, only WES experts in *Bangladesh* have become somewhat more positive. In *Malaysia* and *Indonesia* the economic experts surveyed have a rather cautious view regarding future economic development. In *Indonesia* private consumption in particular is expected to slow, whereas the export sector is likely to expand somewhat by the end of the next six months. In the *Philippines*, *South Korea*, *Sri Lanka* and *Thailand* a satisfactory present economic situation prevails. The economies of *South Korea* and *Thailand* in particular gained strength compared to the previous survey in January. In *South Korea* and the *Philippines* private consumption is currently the main driving force. For the next six months the surveyed economic experts in all of these countries are fairly confident, except for the experts in *Sri Lanka*, whose expectations have become cautious. In *Japan* and *Vietnam* the current economic situation is assessed as unfavourable, despite some upwards revision versus the previous survey. In *Japan*, in addition to “lacking confidence in government’s economic policy” the surveyed economic experts also highlighted public deficits, insufficient demand, deflation and energy shortage as important economic problems at present. In this country, economic expectations have been upgraded somewhat, and WES experts are now fairly confident concerning future economic development. In contrast, the economic experts surveyed in *Vietnam* rather expect the situation to deteriorate. The situation in *Pakistan* and *Taiwan* has not changed compared to the previous survey. WES experts still assessed the present economic situation in their respective country as weak. While in *Pakistan* economic experts expect no signs of improvement within the next six months, experts in *Taiwan* expect some bettering of the general economic situation.

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

Figure 5a

EUROPEAN UNION

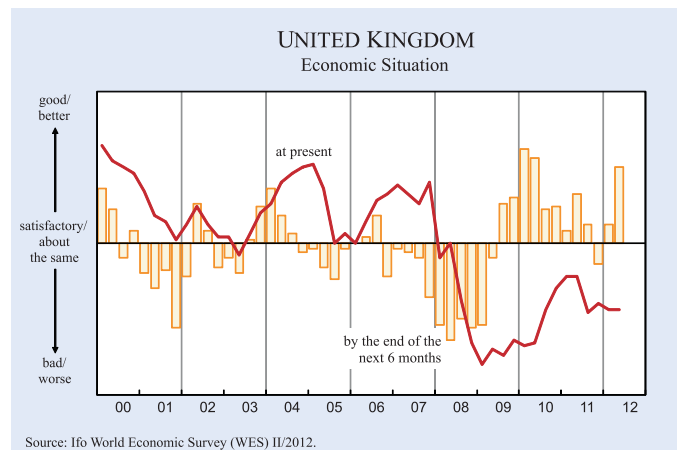
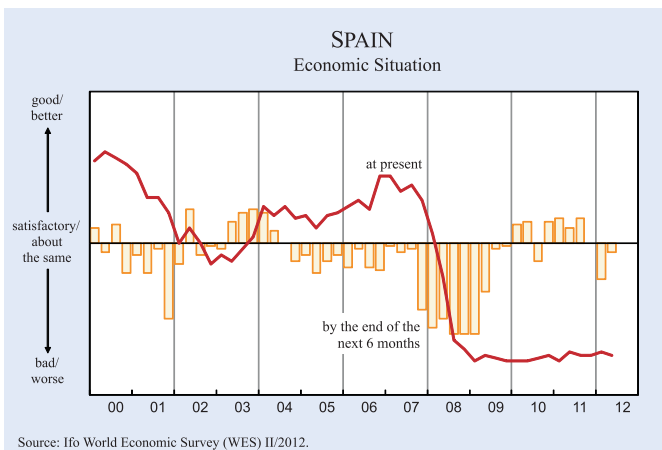
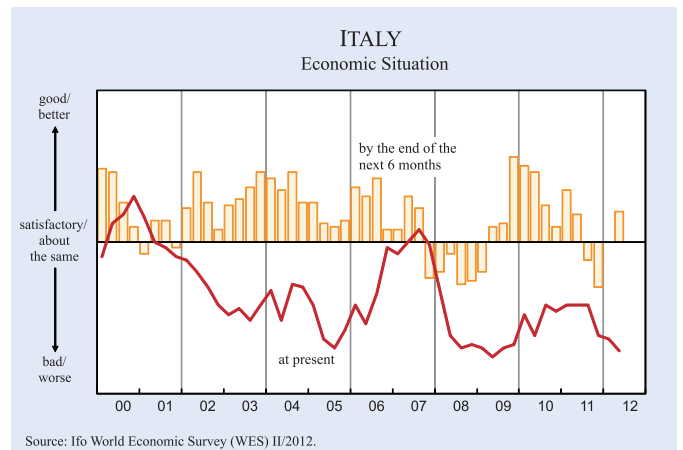
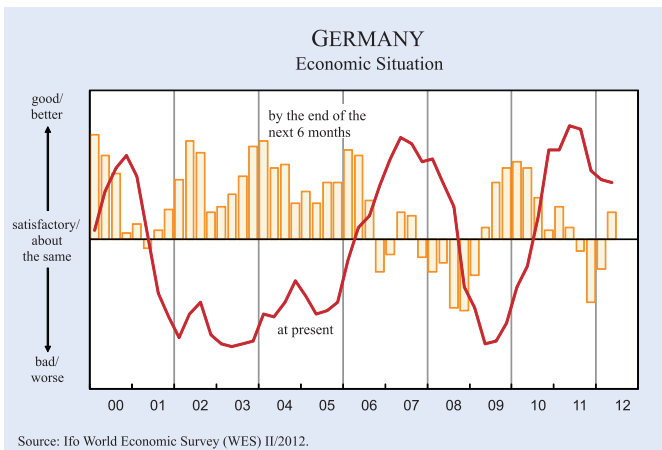
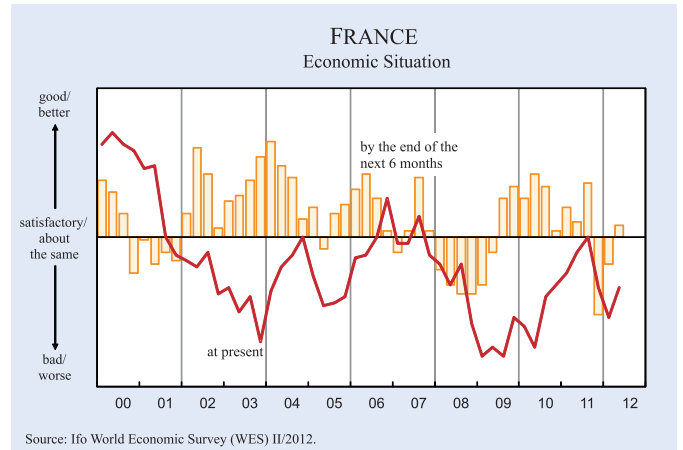
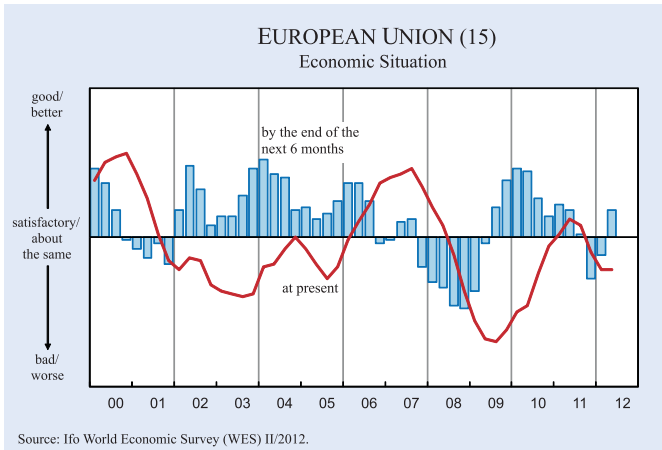


Figure 5b

EUROPEAN UNION

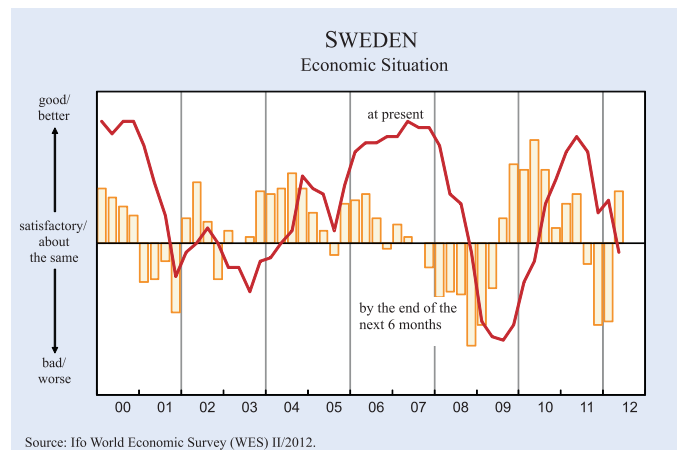
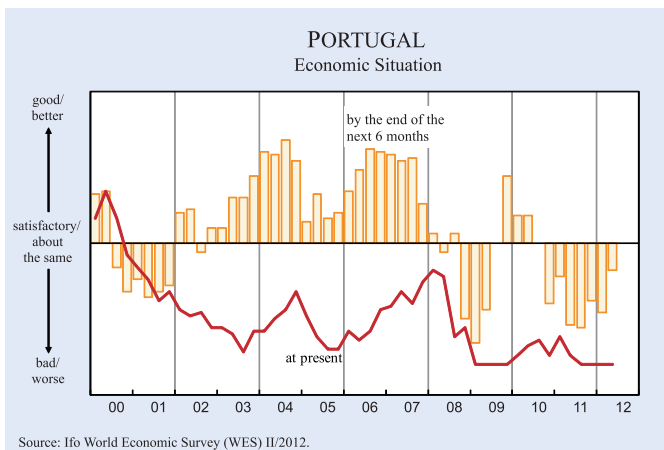
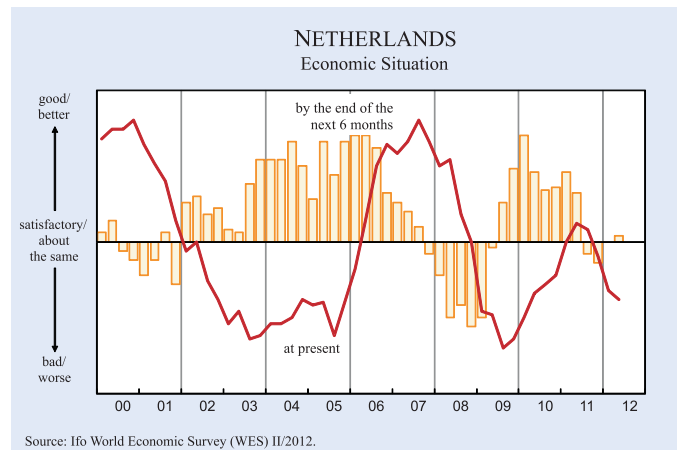
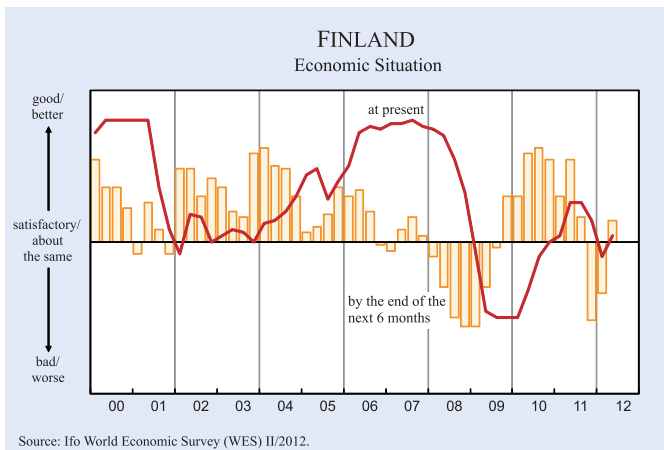
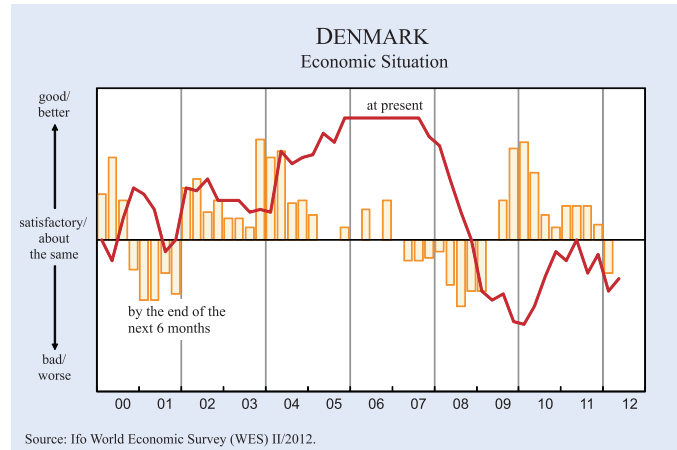
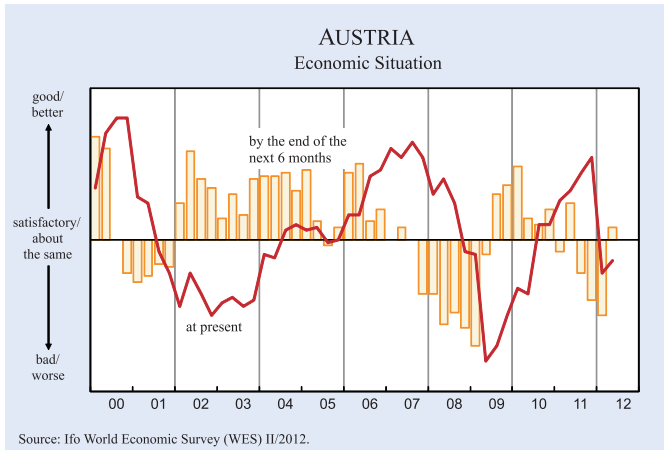


Figure 6

NORTH AMERICA, OCEANIA AND CIS

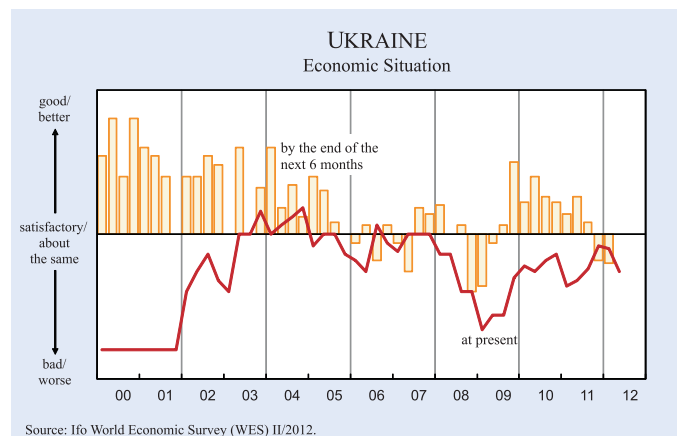
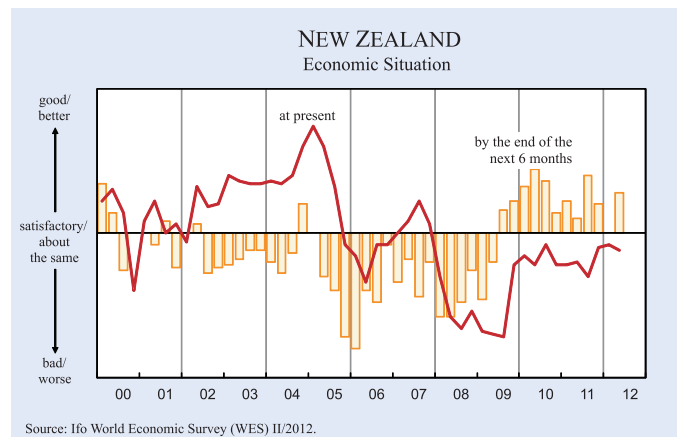
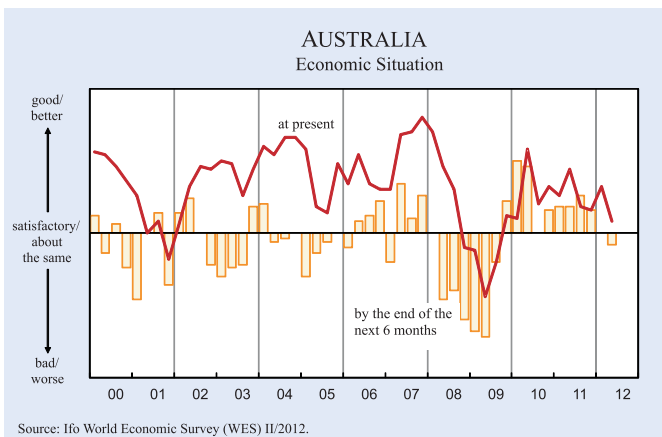
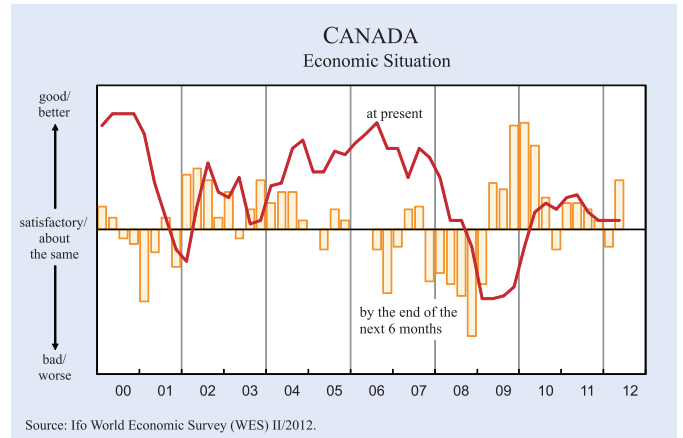
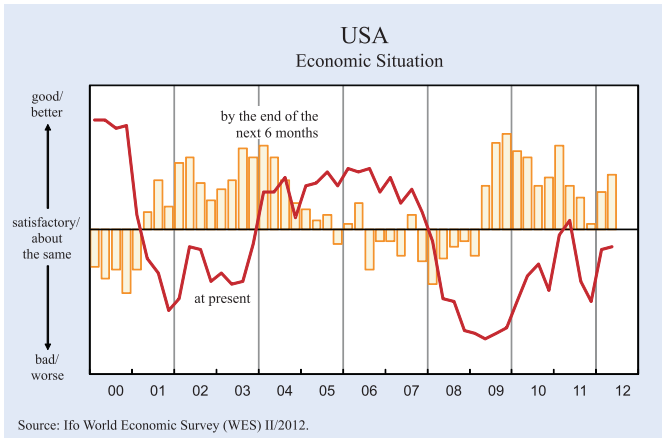


Figure 7

EASTERN EUROPE

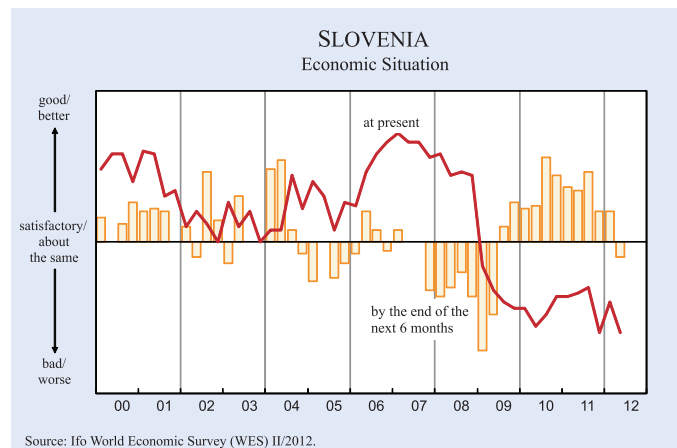
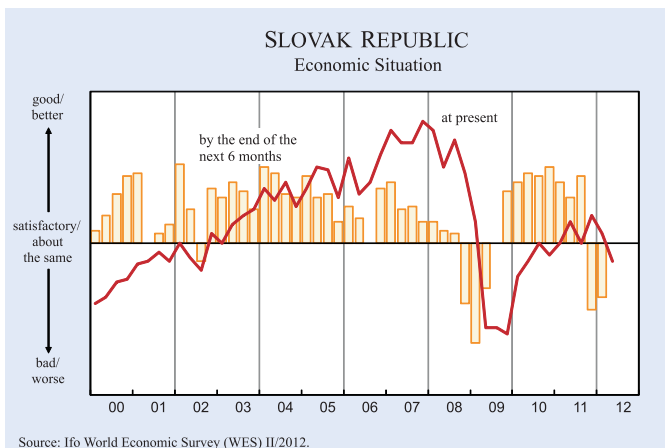
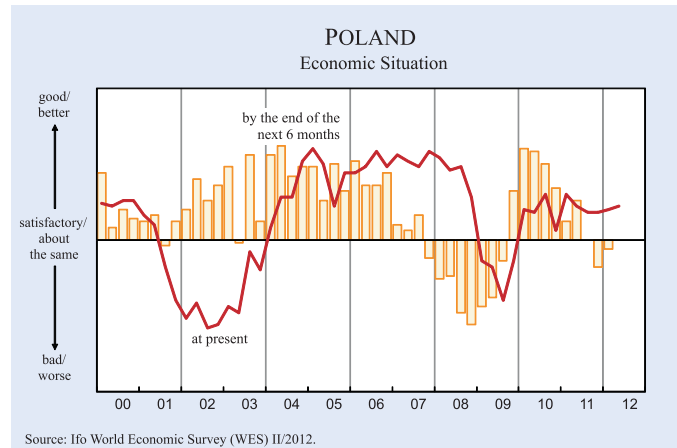
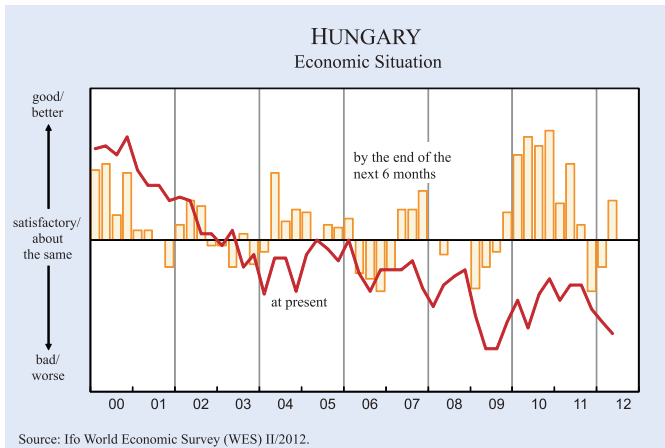
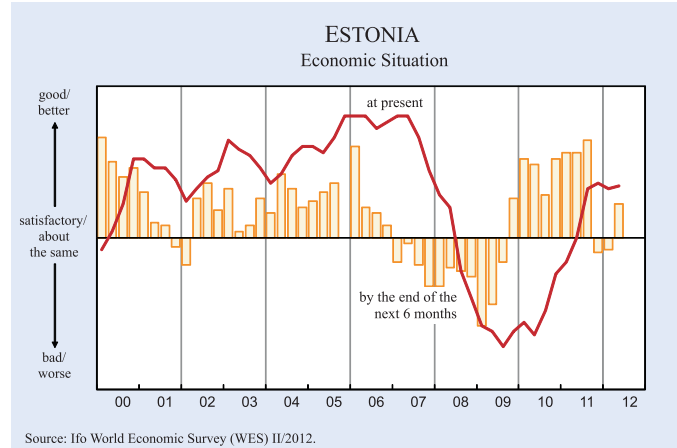
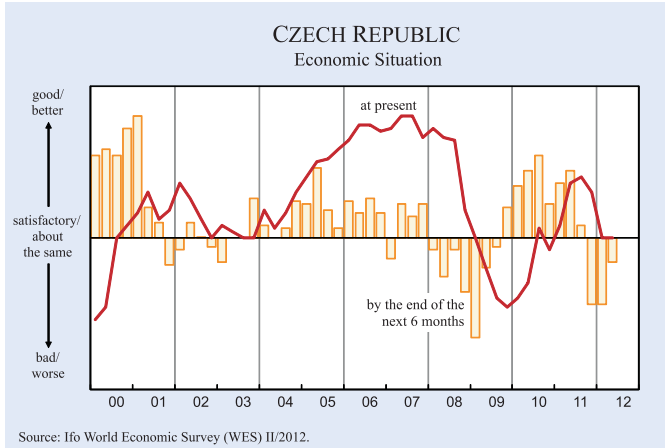


Figure 8

ASIA

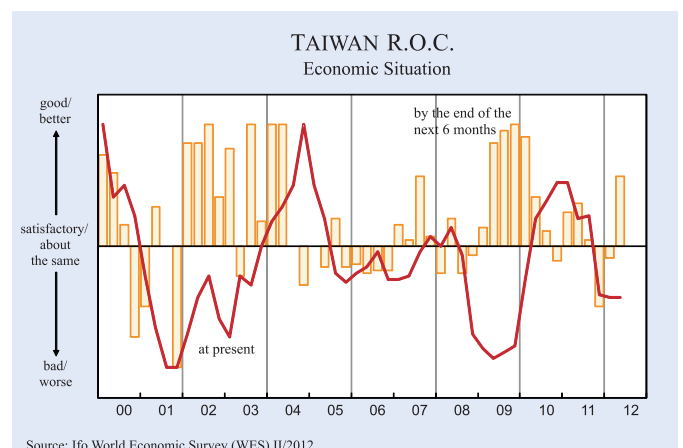
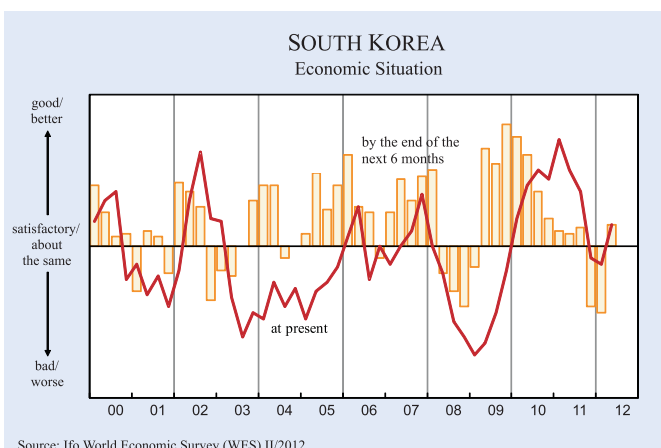
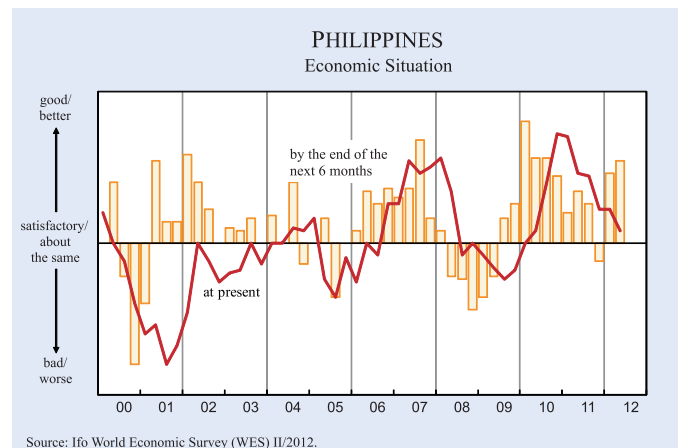
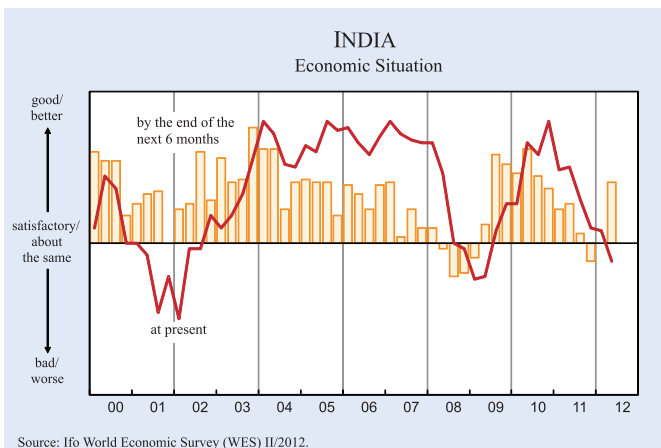
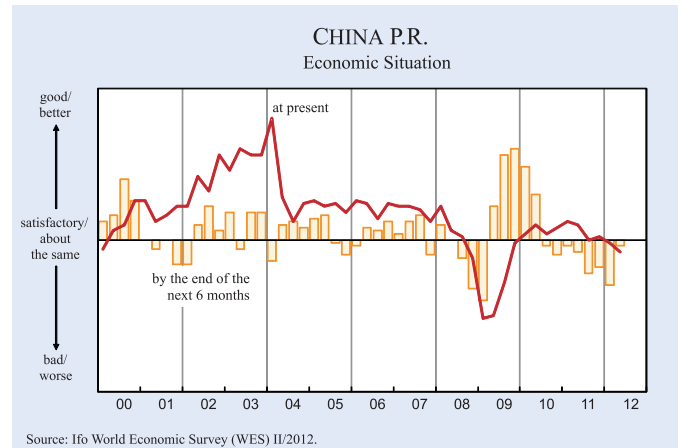
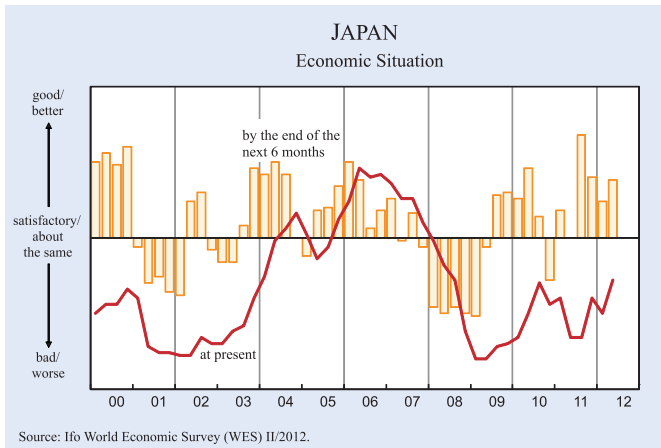


Figure 9

LATIN AMERICA

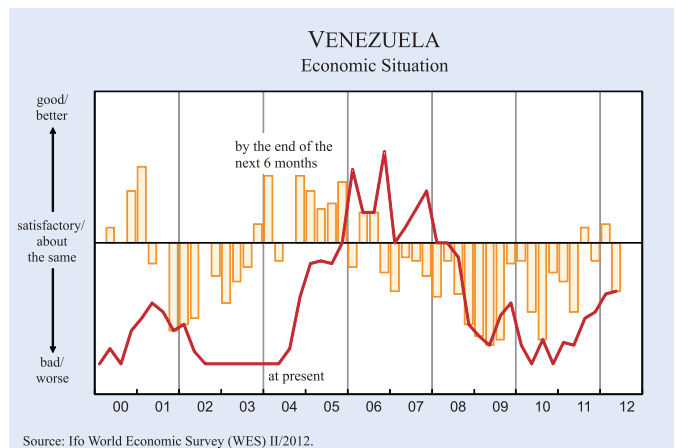
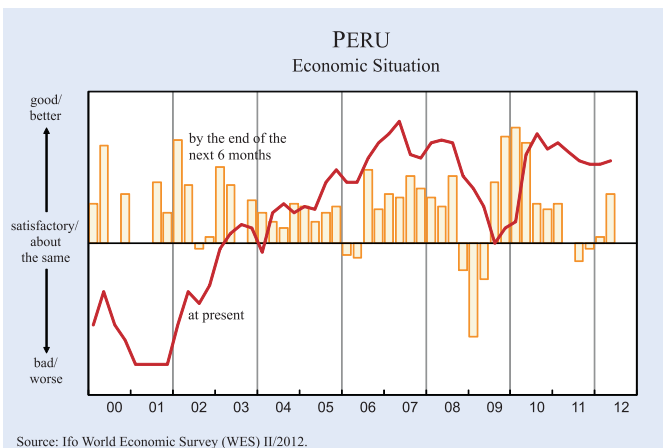
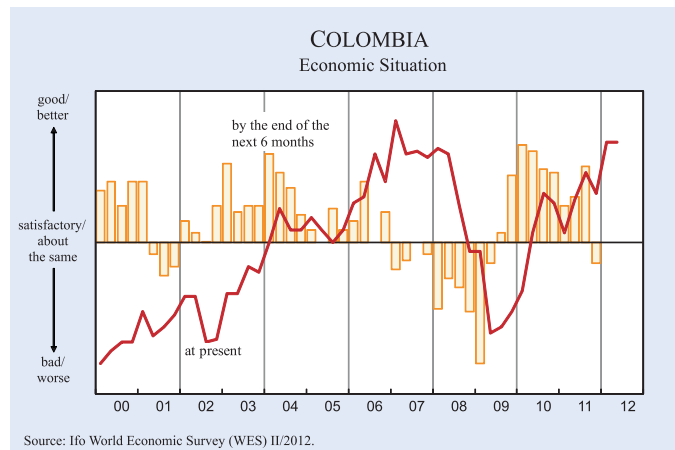
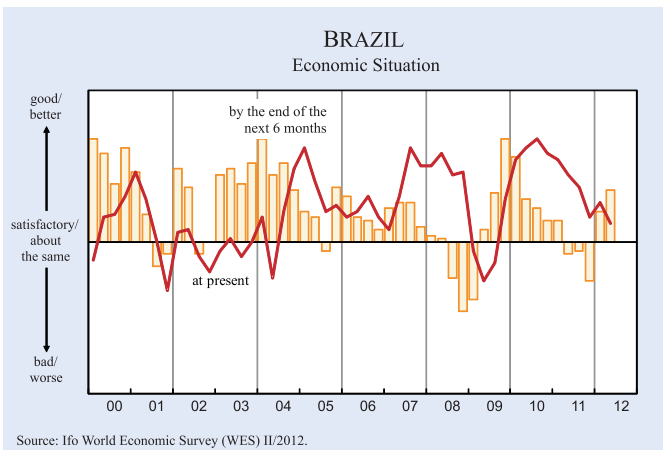
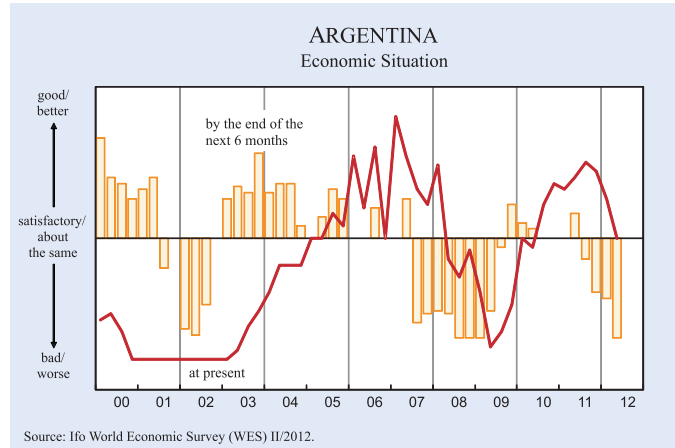
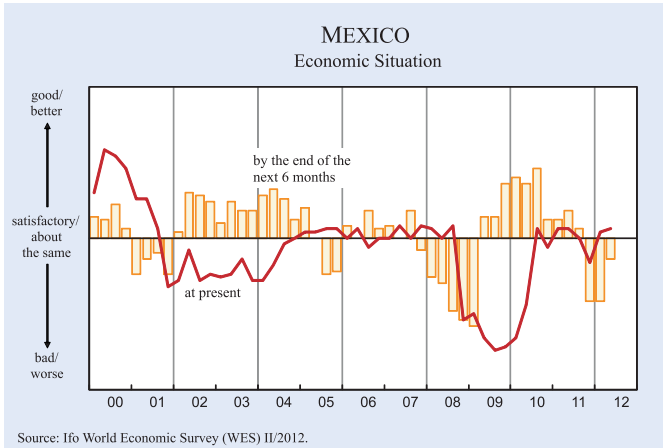
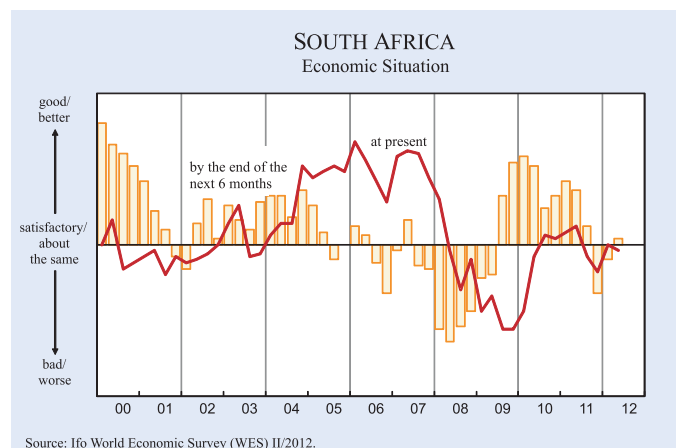
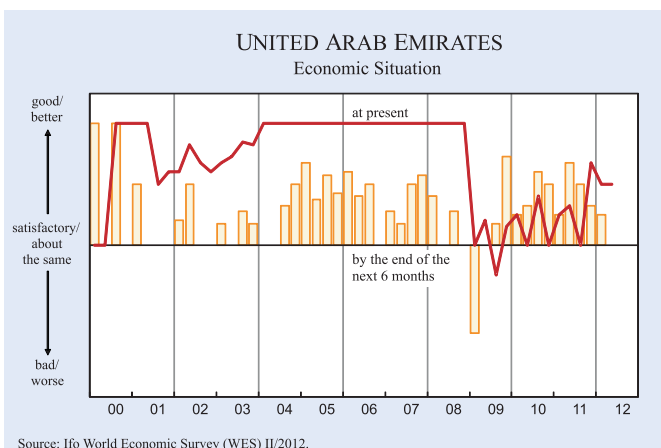
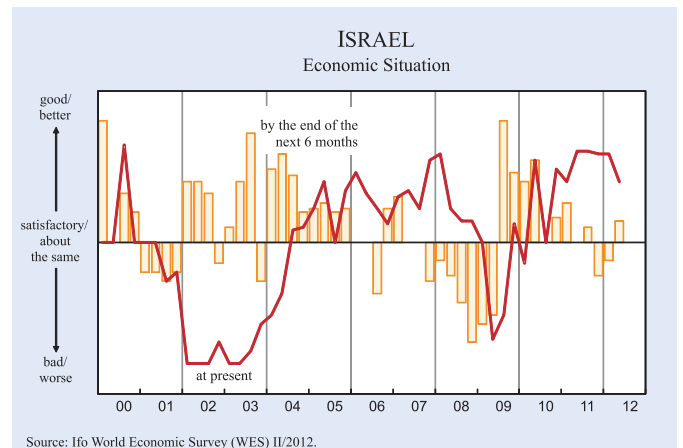
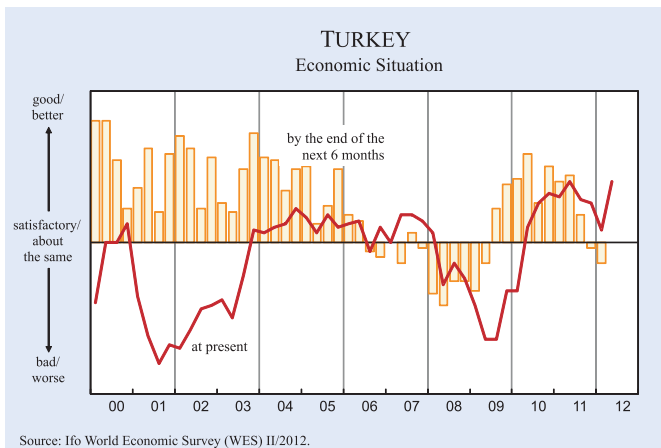
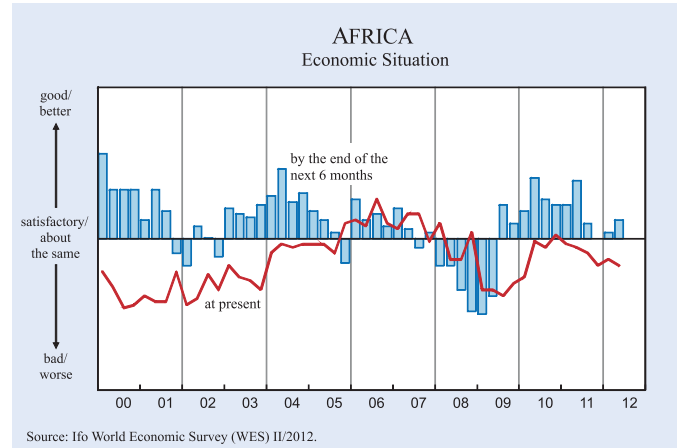
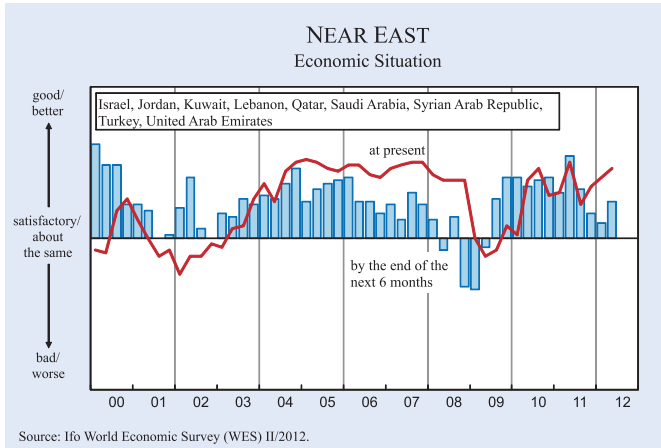


Figure 10

NEAR EAST AND AFRICA



Oceania: Economic climate indicator drops

Oceania is the only region in which the economic climate indicator has fallen in the second survey of this year. This was mainly due to a downgrading of assessments of the present economic situation, but also of the six-month outlook. However, despite the downwards revision, the economic situation has been rated as satisfactory and the economic experts surveyed expect it to remain so in the next half year. This is the case for *Australia* (see Figure 6). In 2012, economic expansion will remain at the same solid level (3.1%) as in 2011 (3.3%), according to WES experts' estimation of real gross domestic product. This country's most important economic problems are, according to WES experts, "lack of confidence in government's economic policy", "lacking international competitiveness" and "shortage of skilled workers". In *New Zealand*, besides "lack of international competitiveness", the focus of important problems lies more on foreign debts and insufficient demand. Thus, capital expenditure and private consumption are regarded as weak and WES experts continue to assess the present economic situation as unfavourable. For the next six months, they have become somewhat more positive and expect some improvement in future economic development, especially in terms of capital expenditure. Economic growth in *New Zealand* is estimated to be considerably stronger (2.2%) than in 2011.

Latin America: Economic climate friendlier

In *Latin America* the economic climate indicator continued to rise slightly. While the assessments of the present situation are marginally less positive, though remaining at a favourable level, economic expectations have been upgraded and point to a stabilization at current good levels over the next six months (see Figures 4 and 9). The region's most urgent economic problems are lack of international competitiveness, lack of skilled labour and lack of confidence in the government's economic policy. Inflation is not yet causing that much trouble in *Latin America*, with the exception of *Argentina* and *Venezuela*, which are suffering from high inflation, that has been in double digits for a long time. GDP growth in *Latin America* is expected to reach 3.5% this year, according to WES experts. Growth rates rank from 3.1% (*Mexico*), 3.2% (*Argentina*) and 3.4% (*Brazil*), up to 4.8% (*Chile*) and 5.8% (*Peru*).

Chile, Colombia, Ecuador, Panama, Peru and *Uruguay* belong to the group of buoyant economies. In all of these countries current economic performance is regarded as very good and is expected to remain on this upward trend over the next six months. In *Chile, Ecuador* and *Uruguay* in particular optimism has replaced the sceptical view that prevailed three months ago. However, in *Uruguay*, exports are expected to lose some dynamics. Against this background it is worth mentioning that existing trade barriers to export are considered the most important problem of this country by WES experts. Trade restrictions were imposed mainly by *Uruguay's* fellow Mercosur member *Argentina*. This latest development raises the question of whether protectionism has returned to this region (see box 4). The economic situation of *Brazil*, which is boosted extraordinarily by domestic demand, and of *Guatemala* was assessed as favourable by WES experts. For the next six months, the economic experts surveyed in both countries remain fairly confident. In *Argentina, Bolivia, Mexico*, the *Dominican Republic* and *Cuba* a satisfactory present economic state prevails. While WES experts in *Bolivia* and *Cuba* expect a stabilization at the current good levels of their economies, the economic experts surveyed in *Mexico* and the *Dominican Republic* anticipate both economic development and capital expenditure to worsen. In both countries unemployment is one of the most important problems at present. *Argentina's* economic situation is also forecast to deteriorate, with economic expectations downgraded considerably compared to the survey in January. Capital expenditure in particular is regarded as weak at present and is expected to remain subdued over the course of the next six months. In *El Salvador* the present economic situation deteriorated somewhat in comparison to the previous survey and is now seen as unfavourable. WES experts also reported weak capital expenditure. However, for the next six months some improvement in the overall economy is anticipated. In the remaining surveyed countries *Costa Rica, Trinidad and Tobago, Paraguay* and *Venezuela* economic activity has been assessed as weak. In nearly all of these countries WES experts are pessimistic concerning the next half year and expect the situation to deteriorate. Only in *Trinidad and Tobago* did the economic experts surveyed become more confident.

Near East: Buoyant economic climate

In the *Near East* the economic climate indicator has risen further and attests to a buoyant economic climate. Assessments of both the present economic situation, as well as economic expectations improved somewhat compared to the previous survey and remained at a high level (see Figure 10). With an estimated GDP growth rate in 2012 of 4.1% *Near East* will grow faster than the world average. The most important problem at present in this region is lack of skilled labour. Inflation is – like in *Asia* and parts of *Latin America* – also an important issue.

In *Israel, Qatar, Saudi Arabia, Turkey* and the *United Arab Emirates* the present economic situation has been assessed as highly favourable. In *Turkey* in particular the situation improved considerably over the previous survey. As far as future economic development is concerned, the economic experts surveyed in all these countries are positive. In addition, WES experts in *Turkey* anticipate a strengthening of the export sector in the months ahead. Apart from inflation, the surveyed economic experts in *Turkey* also see capital shortage and unemployment as important problems. In *Israel*, on the other hand, public deficits and lacking confidence in the government's economic policy are urgent problems. In *Kuwait* and *Lebanon* a satisfactory present economic situation has been reported. Private consumption is currently the main driving force. For both countries, WES experts expect their economies to gather further speed in the second half of the year. In *Jordan* and the *Syrian Arab Republic* weak economic performance was reported once again. In both countries no substantial improvement in economic performance is expected over the next six months, and in *Syria* WES experts anticipate a further worsening, due to continued political conflict and violence.

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 still makes little sense, and the following analysis will focus on particular economic trends in the individual countries of *Northern* and *Sub-Saharan Africa*. Nevertheless, both parts of *Africa* share the following most frequently mentioned economic problems: “unemployment”,

“lack of international competitiveness,” as well as “lack of skilled labour” and “lack of confidence in government's economic policy”. *Burundi, Congo Dem. Rep., Ethiopia, Kenya, Sierra Leone, Sudan* and *Tanzania* in particular are also suffering from double digit inflation rates.

The current economic situation in the *Northern African* countries of *Egypt* and *Tunisia* is still assessed as weak. The economic outlook in both countries has been strongly upwardly revised into more positive territory. In *Algeria, Libya* and *Morocco* assessments of the present economic situation are regarded as satisfactory. However, in *Algeria*, private consumption and capital expenditure are currently reported to be weak. For the next six months, WES experts in all these countries believe in a positive economic development.

The economic climate in *South Africa* is performing solidly. Assessments of the present economic situation still stand at a satisfactory level, despite a slight downwards revision compared to the previous survey. The expectations for the next six months are again in positive territory (see Figure 10). In *Congo Dem. Rep., Ghana, Ivory Coast, Lesotho, Liberia, Namibia, Mauritius, Sierra Leone* and *Zambia*, most assessments of the present economic situation have been upgraded and a favourable present economic situation prevails in all of these countries. Economic expectations remain fairly confident in the *Ivory Coast, Lesotho, Liberia, Namibia* and in *Congo Dem. Rep., Ghana, Mauritius, Sierra Leone* and *Zambia* at least positive – despite some downwards revision in individual countries. In *Comoros, Congo-Brazzaville, Ethiopia, Gabon* and *Rwanda* a satisfactory current economic situation has been assessed by WES experts. In all these countries the respective economies are expected to stabilize at their current satisfying levels, with the exception of *Ethiopia*, where some worsening of economic performance is anticipated. The present situation in *Kenya* and *Nigeria* is still assessed as unfavourable, despite some upwards revision compared to the previous survey. While in *Kenya* WES experts expect some deterioration in the overall economy along with capital expenditure and private consumption, the experts surveyed in *Nigeria* expressed greater confidence in the six-month economic outlook accompanied by stronger capital expenditure and exports. In *Benin, Madagascar, Mauritania, Niger, Sudan* and *Zimbabwe* the economic experts sur-

Table 1

Expected Growth of Real Gross Domestic Product (GDP) in 2012 and 2011
(based on WES QII/2012 and QII/2011)

Region	QII/2012	QII/2011	Region	QII/2012	QII/2011
Average of countries *	2.3	3.2	North America	2.4	2.7
High-income countries	1.5	2.6	Canada	2.6	2.9
Middle-income countries	4.5	5.1	United States	2.3	2.7
Upper-middle	4.1	4.5			
Lower-middle	5.6	6.0	Oceania	2.9	3.1
Low-income countries	6.2	5.7	Australia	3.1	3.3
EU 27 countries	0.5	2.0	New Zealand	2.2	1.3
EU countries (old members) ^{a)}	0.3	1.9			
EU countries (new members) ^{b)}	1.5	2.9	Latin America	3.5	4.3
Euro area ^{c)}	0.3	1.9	Argentina	3.2	6.3
			Bolivia	4.3	3.7
Western Europe	0.4	1.9	Brazil	3.4	4.4
Austria	0.8	2.0	Chile	4.8	5.6
Belgium	0.4	2.1	Colombia	5.0	4.7
Cyprus	-0.4	1.7	Costa Rica	(3.8)	(4.0)
Denmark	1.2	2.1	Cuba	(3.0)	(4.0)
Finland	0.9	3.5	Dominican Republic	4.6	(4.0)
France	0.9	1.7	Ecuador	4.7	4.2
Germany	1.1	2.6	El Salvador	2.1	2.0
Greece	-4.3	-2.9	Guatemala	3.1	3.0
Ireland	0.7	1.0	Mexico	3.1	3.9
Italy	-1.0	1.3	Panama	(8.0)	---
Luxembourg	0.4	(3.0)	Paraguay	-0.3	5.1
Monaco	2.3	(1.5)	Peru	5.8	6.6
Netherlands	-0.2	1.8	Trinidad and Tobago	0.5	1.8
Norway	2.0	3.0	Uruguay	4.2	6.0
Portugal	-3.2	-0.9	Venezuela	3.1	1.7
Spain	-0.8	0.9			
Sweden	0.7	4.2	Near East	4.1	4.8
Switzerland	1.0	2.4	Israel	3.0	3.6
United Kingdom	0.8	1.6	Jordan	(1.0)	(4.0)
			Kuwait	(5.0)	(3.5)
Eastern Europe	1.5	2.8	Lebanon	4.0	(5.0)
Albania	1.8	3.6	Qatar	(7.0)	---
Bosnia and Herzegovina	1.3	---	Saudi Arabia	4.1	4.8
Bulgaria	1.3	2.4	Syrian Arab Republic	(0.0)	(4.0)
Croatia	-0.7	1.2	Turkey	4.4	6.4
Czech Republic	0.5	2.3	United Arab Emirates	(3.0)	4.0
Estonia	2.3	4.6			
Hungary	0.4	2.2	Africa	4.1	4.2
Latvia	2.6	2.8	Northern Africa	2.9	3.6
Lithuania	3.1	3.7	Algeria	3.6	5.2
Montenegro	(0.2)	(2.3)	Egypt	1.9	2.1
Poland	2.9	3.9	Morocco	(2.9)	4.1
Romania	1.5	1.3	Libya	(50.0)	---
Serbia	0.3	2.4	Tunisia	2.8	2.3
Slovakia	1.7	3.9	Sub-Saharan Africa	4.9	4.6
Slovenia	-0.4	2.2	Benin	3.4	3.6
			Burkina Faso	(8.0)	---
CIS	4.0	4.4	Burundi	3.4	4.3
Belarus	(4.0)	---	Comoros	(2.5)	2.8
Georgia ³⁾	(5.0)	(5.0)	Congo Dem. Rep.	7.2	5.9
Kazakhstan	5.6	5.9	Congo-Brazzaville Rep.	5.0	8.0
Kyrgyzstan	4.0	3.3	Ethiopia	(10.0)	---
Russia	3.8	4.1	Gabon	(4.5)	(5.6)
Ukraine	3.2	4.4	Ghana	8.9	(6.0)
Uzbekistan	(7.0)	(9.0)	Ivory Coast	7.0	(0.5)
			Kenya	4.3	5.0
Asia	4.0	4.4	Lesotho	3.2	3.5
Bangladesh	6.6	6.7	Liberia	6.8	7.8
China	8.0	8.6	Madagascar	2.3	3.0
Hong Kong	3.3	6.4	Malawi	(5.0)	(6.0)
India	7.1	8.2	Mauritania	4.3	4.3
Indonesia	6.2	6.6	Mauritius	3.7	4.5
Japan	1.8	0.1	Namibia	4.0	4.2
Malaysia	4.0	5.8	Niger	7.6	5.0
Pakistan	3.4	3.0	Nigeria	7.2	7.1
Philippines	4.6	5.3	Rwanda	(8.0)	5.7
Singapore	---	(5.0)	Senegal	(3.8)	(4.5)
South Korea	3.2	4.6	Sierra Leone	26.9	5.2
Sri Lanka	6.5	7.2	South Africa	3.1	3.3
Taiwan	3.5	4.7	Sudan	4.8	4.1
Thailand	5.3	4.2	Swaziland	1.2	-0.8
Vietnam	4.3	5.6	Tanzania	(6.0)	6.0
			Togo	(4.1)	(3.0)
			Zambia	5.8	6.3
			Zimbabwe	7.6	6.1

* 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. ³⁾ 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.

^{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 and Romania
^{c)} Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

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

Table 2

Inflation Rate Expectations for 2012
(based on WES QII/2012 and QI/2012)

Region	QII/2012	QI/2012	Region	QII/2012	QI/2012
Average of countries *	3.6	3.5	North America	2.5	2.4
High-income countries	2.5	2.4	Canada	2.2	2.1
Middle-income countries	6.9	7.0	United States	2.6	2.5
Upper-middle	6.5	6.6			
Lower-middle	8.2	8.1	Oceania	2.7	2.8
Low-income countries	11.2	10.4	Australia	2.8	2.8
EU 27 countries	2.6	2.5	New Zealand	2.1	2.3
EU countries (old members) ^{a)}	2.5	2.4			
EU countries (new members) ^{b)}	3.6	3.6	Latin America	7.6	7.4
Euro area ^{c)}	2.4	2.3	Argentina	24.1	23.1
			Bolivia	6.5	7.3
Western Europe	2.4	2.3	Brazil	5.2	5.5
Austria	2.5	2.4	Chile	3.9	3.8
Belgium	3.1	2.5	Colombia	3.6	3.7
Cyprus	3.2	2.9	Costa Rica	(5.0)	(6.0)
Denmark	2.7	2.2	Cuba	(5.0)	2.5
Finland	2.7	2.6	Dominican Republic	6.0	5.5
France	2.2	1.9	Ecuador	5.7	5.3
Germany	2.3	2.1	El Salvador	5.1	5.5
Greece	2.0	2.3	Guatemala	6.0	5.9
Ireland	1.9	1.8	Mexico	4.2	4.4
Italy	2.9	2.7	Panama	(5.0)	(4.5)
Luxembourg	2.5	2.5	Paraguay	5.4	4.7
Monaco	2.1	2.0	Peru	3.4	3.6
Netherlands	2.2	2.2	Trinidad and Tobago	10.0	---
Norway	2.0	2.0	Uruguay	7.7	8.0
Portugal	3.1	3.0	Venezuela	30.6	30.1
Spain	1.8	2.1			
Sweden	1.4	1.7	Near East	5.5	4.7
Switzerland	0.3	0.3	Israel	3.0	2.7
United Kingdom	3.1	3.3	Jordan	(5.0)	3.6
			Kuwait	(5.0)	4.0
Eastern Europe	3.7	3.6	Lebanon	(6.0)	6.5
Albania	2.3	3.3	Qatar	(2.5)	---
Bosnia and Herzegovina	3.6	(3.0)	Saudi Arabia	(5.3)	4.6
Bulgaria	3.3	3.9	Turkey	8.8	8.6
Croatia	2.6	2.1	United Arab Emirates	(2.5)	2.4
Czech Republic	3.1	2.8			
Estonia	3.7	4.5	Africa	7.8	7.6
Hungary	5.2	4.8	Northern Africa	5.8	5.1
Latvia	4.4	3.7	Algeria	3.8	3.5
Lithuania	2.8	4.0	Egypt	11.5	11.8
Montenegro	(3.0)	---	Morocco	(2.5)	2.3
Poland	3.9	3.9	Libya	(5.0)	---
Romania	3.7	3.6	Tunisia	4.9	4.3
Serbia	9.1	6.8	Sub-Saharan Africa	9.2	9.2
Slovakia	3.0	3.0	Benin	4.3	3.9
Slovenia	2.2	2.4	Burkina Faso	(4.0)	(2.0)
			Burundi	14.0	11.7
CIS	8.9	8.9	Comoros	(6.0)	(5.0)
Belarus	(20.0)	(20.0)	Congo Dem. Rep.	12.4	13.9
Georgia ^{x)}	(6.0)	(7.8)	Congo-Brazzaville Rep.	2.5	3.0
Kazakhstan	6.5	7.9	Ethiopia	(25.0)	---
Kyrgyzstan	7.3	15.0	Gabon	(3.1)	(5.7)
Russia	7.6	7.8	Ghana	9.0	(8.9)
Ukraine	11.3	8.9	Ivory Coast	(3.0)	4.0
Uzbekistan	(12.7)	---	Kenya	15.2	15.4
			Lesotho	5.7	5.2
Asia	3.6	3.6	Liberia	8.4	7.3
Bangladesh	9.3	8.9	Madagascar	8.8	9.7
China	4.0	3.9	Malawi	(15.0)	12.5
Hong Kong	4.1	4.3	Mauritania	6.5	8.3
India	6.8	7.3	Mauritius	5.4	5.6
Indonesia	5.8	5.4	Namibia	6.9	5.9
Japan	0.1	0.0	Niger	2.5	3.2
Malaysia	3.8	4.3	Nigeria	12.0	14.3
Pakistan	13.4	12.6	Rwanda	(8.0)	7.7
Philippines	3.9	4.3	Senegal	(1.8)	---
Singapore	---	(3.0)	Sierra Leone	14.2	13.9
South Korea	3.9	3.8	South Africa	6.1	6.3
Sri Lanka	9.3	8.3	Sudan	23.8	25.3
Taiwan	2.0	1.5	Swaziland	6.8	6.7
Thailand	3.6	3.4	Tanzania	(18.0)	---
Vietnam	13.0	14.9	Togo	(3.1)	(3.0)
			Zambia	7.6	7.6
			Zimbabwe	5.3	5.3

* 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. ^{x)}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.

^{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.

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

veyed see the present economic situation as weak. Survey participants in *Sudan* highlighted that the country's economy is still suffering from the secession shock: ten months after the split, debates about boundaries and especially the question of who owns the oil-rich area, threatens to lead to a war. Thus, for the next six months, WES experts in *Sudan* expect a deterioration of their economy. In *Madagascar* and *Mauritania* the economic experts surveyed are also pessimistic regarding future economic development in the next half year. In contrast, some improvement are anticipated in *Benin*, *Niger*, and as well in *Zimbabwe*, where the export sector in particular is expected to strengthen somewhat. By far the lowest rating on the WES scale was given to the remaining *Sub-Saharan* countries of *Burkina Faso*, *Burundi*, *Madagascar*, *Malawi*, *Senegal*, *Swaziland*, *Tanzania* and *Togo*, where the present situation is regarded as very poor. Moreover, no improvement in economic performance is expected in *Tanzania* and *Togo* over the next six months, and WES experts in *Burkina Faso*, *Burundi* and *Madagascar* even forecast a deterioration in the situation. Only in *Malawi*, *Senegal* and *Swaziland* did the economic experts surveyed see some improvement in the next six months regarding future economic development.

Expected Growth of Real Gross Domestic Product (GDP) in 2012

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 2012 world economic growth is expected to reach 2.3%, after an expected 3.2% in 2011 (see Table 1). The absolute difference in both years' growth estimates is most pronounced in *Western* and *Eastern Europe* countries, whereas in the other regions the growth-difference is relatively small. This underlines the fact that the expected slower growth in 2012 is mainly a European phenomenon.

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 share of the specific country's exports and imports in 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, is as a rule somewhat lower than the corresponding figures by the IMF.

2012 economic growth outlook by country

Growth engines in 2012 – according to WES experts – will again be *China* (8.0%) and *India* (7.1%), but there are also some *Latin American* “growth stars” like *Peru* (5.8%) and *Chile* (4.8%). *Brazil* continues to belong to the group of countries growing faster than the world average, but with expected 3.4% growth in 2012 *Brazil* is no longer among the top group of fast-growing economies in *Latin America*. Other countries with strong economic growth in 2012 – according to WES experts – are *Turkey* (4.4%), *Hong Kong* (3.3%) and alongside *China* and *India* some other *Asian* countries like *Sri Lanka* (6.5%) and *Vietnam* (4.3%), as well as several *Sub-Saharan African* countries like *Ghana* (8.9%), *Ivory Coast* (7.0%), *Niger* (7.6%), *Nigeria* (7.2%), *Zimbabwe* (7.6%) and *Congo Dem. Republic* (7.2%).

On the other hand, countries hit by financial crisis and which are in the midst of a restructuring process include *Greece* (growth outlook for 2012: -4.3%) as well as *Portugal* (-3.2%) and *Ireland*, which at least – according to WES experts – will be able to engineer a small positive growth rate in 2012 (0.7%). However, apart from these countries most affected within the *euro area* by the sovereign debt crisis, other countries like *Spain* (-0.8%) and *Italy* (-1.0%) will also experience negative growth in 2012.

Price trend remains largely unchanged

General trends

On a world-wide average, the WES experts' inflation forecasts for the year 2012 remained practically unchanged (3.6% CPI increase compared with 3.5% in the January survey; see Table 2). This conclusion also holds true for all covered world regions (*Western* and *Eastern Europe*, *CIS*, *Asia*, *North America*, *Oceania*, *Latin America*, *Near East* and *Africa*). Inflation is not currently seen as the most important problem in any of these world regions.

Price trends by regions and countries

On average for the *euro area*, the expected inflation rate in 2012 will be 2.4% after 2.3% according to the previous survey. Within the *euro area* the lowest inflation rates in 2012 are expected in *Spain* (1.8%), *Ire-*

land (1.9%) and Greece (2.0%). The expected inflation rates lie above the *euro area* average again particularly in *Estonia* (3.7%), *Cyprus* (3.2%), *Portugal* (3.1%), *Slovakia* (3.0%) and *Italy* (2.9%), largely due to a hike in consumption taxes.

In **Western Europe** the two extremes of presumable price development in 2012 outside the *euro area* are *Switzerland* (0.3%) on the one hand and the *United Kingdom* (3.1%) on the other.

In **Eastern Europe** the inflation rate in 2012 is expected to be 3.7%, which would be only marginally higher than the rate expected at the beginning of the year and that experienced in 2011 (3.6%). In *Serbia* inflation expectations (9.1%) remain by far the highest in the region, followed again by *Hungary* (5.2%). The lowest inflation in 2012 will prevail, according to the WES experts' expectations, in *Albania* (2.3%), *Croatia* (2.6%) and *Lithuania* (2.8%).

In **North America**, the 2012 inflation forecast for the *United States* stands at 2.6% (after 2.5% at the beginning of the year and an inflation outcome of 2.7% in 2011) and for *Canada* at 2.2% (after 2.1% at the beginning of the year and 2.5% in 2011).

In **Asia** inflation expectations for 2012 remained unchanged at 3.6% and thus significantly below the reported CPI rate for 2011 (4.1%). According to WES experts, by far the highest inflation rates in the region will prevail again in *Pakistan* (13.4%) and *Vietnam* (13.0%). In *China* inflation expectations for 2012 stand at 4.0% and are thus marginally higher than at the beginning of the year (3.9%), but significantly lower than in 2011 (reported rate of 5.6%). Even less pronounced is the expected slowdown of the inflation rate in *India* (6.8% after 7.3% at the beginning of the year and a reported 8.4% in 2011). In *Taiwan* the traditionally moderate inflation climate will also prevail in 2012 (2.0%). In *Japan* the deflationary process seems to be overcome, but the price trend will remain flat (0.1%).

In **Oceania** inflation expectations for 2012 declined marginally from 2.8 to 2.7%, exclusively due to reduced inflation expectations in

New Zealand (2.1%, compared with 2.3% in the January survey). In *Australia* the 2012 inflation expectations remained unchanged at 2.8%.

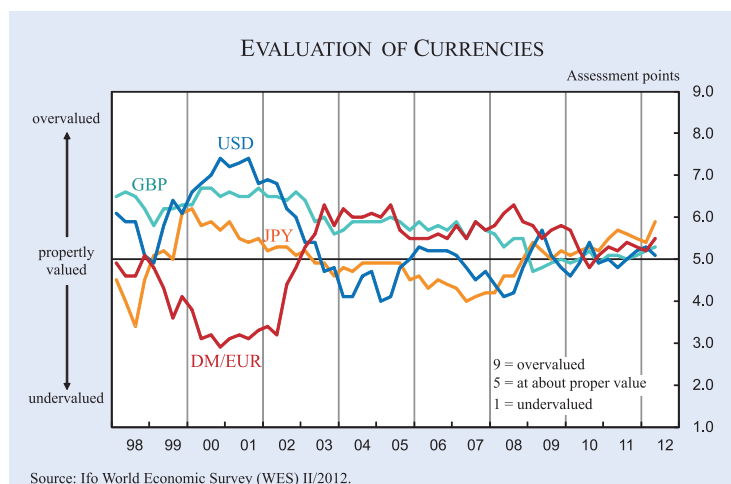
In **Latin America** inflation expectations for 2012 have increased marginally since January and now stand at 7.6%, which equals the reported inflation rate in 2011. The countries with the worst inflation outlook in the region are still *Venezuela* (30.6%) and *Argentina* (24.1%). On the other hand, the countries with inflation rates below the regional average will again be *Peru* (3.4%), *Colombia* (3.6%), *Chile* (3.9%), *Mexico* (4.2%), as well as *El Salvador* (5.1%) and *Brazil* (5.2%).

In **CIS** countries inflation expectations for 2012 remained unchanged at a high level (8.9%). Somewhat lower than in the regional average is the expected inflation rate for 2012 in *Kazakhstan* (6.5%), in *Kyrgyzstan* (7.3%) and *Russia* (7.6%). Significantly higher than the regional average are the 2012 inflation expectations in *Belarus* (20.0%), *Uzbekistan* (12.7%) and the *Ukraine* (11.3%).

In the **Near East** the inflation outlook for 2012 has worsen from 4.7% to 5.5%. In a country by country comparison the inflation outlook deteriorated slightly in *Turkey* (8.8%), *Saudi Arabia* (5.3%), *Jordan* and *Kuwait* (in both cases 5.0%). In the *United Arab Emirates* and *Israel* inflation expectations remained at a rather low level (2.5% respectively 3.0%).

In **Africa** price trends are still very heterogeneous. Relatively low inflation rates for 2012 are expected again in *Morocco*, *Congo-Brazzaville Rep.* and *Niger*

Figure 11



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

Box 4

Protectionism is back in South America?

Lia Valls Pereira / Brazil Economic Institute/Getulio Vargas Foundation

The reaction to the crisis of 2008 did not cause measures that signaled a significant increase of import barriers in most countries. From mid-2011, however, the issue of protectionism has joined the debate on the future of foreign trade policy. In the case of South American¹ countries we can distinguish three groups.

Nationalists and protectionists: Argentina, Bolivia, Ecuador and Venezuela. All these countries have carried out programs of nationalization of companies that were privatized in the 1990s. The last episodes were in Argentina, with the expropriation of 51% of the shares of oil company YPF, and in Bolivia with the nationalization of the Carrier of Electricity, in April of this year. In the field of trade, these countries have their import tariffs bound in the WTO, which limits the use of this instrument. So protectionism is exercised by the use of non-tariff barriers. Argentina should be particularly stressed in this respect. At the Council for Trade in Goods of the WTO on March 30 this year, the United States submitted a joint statement with 11 countries and the European Union, which has expressed concern about protectionist trade practices in Argentina. The government has a comprehensive system of administrative control of imports that requires assessment by different official bodies in order to obtain an import license. It is observed, however, that the deepening of trade protection measures coincided with the emergence of deficits in the current account for balance-of-payments (2010). That country has difficulty obtaining credit in the international market and its nationalization policies deter foreign investors away. Thus, protectionism has grown with the macroeconomic restrictions in the country; not only as an expression of “nationalism”.

Trade Liberalization: Chile, Colombia, and Peru. Since the late 1980s, Chile opted for a policy of trade liberalization. Its import tariff is the same for all products (6%). In addition, the country has a large number of

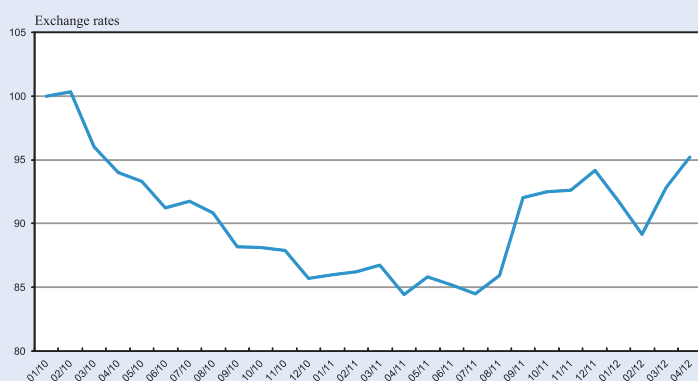
free trade agreements, which include the United States, the European Union and China. Peru has followed the same trajectory (average import tariff of 5.4%) and as of the 2000s it began signing agreements with the major economies, the same way as Chile. Colombia also opted for agreements to consolidate its international insertion strategy. The agreement with the United States is nearing final approval in Congress, while that with China is under negotiation, and has already been signed with the European Union. Therefore, there may be temporary measures of protection, but given the web of signed agreements, restrictions are greater.

Defense of industry, primarization of exports, and exchange: Brazil. The high commodity prices, increased direct investment (in 2011, Brazil was the largest recipient of foreign direct investment in Latin America, US\$ 66.7 billion, followed by Mexico with US\$ 19.4 billion) and high interest rates contributed to appreciate the Brazilian currency. The appreciation is recognized as one of the factors that led to the drop to 36% from 56% the share of manufactured products in the exports between 2006 and 2011. The government’s response was the releasing of three packages of measures for industrial policy and foreign trade since 2010. In the field of exports, those measures extend public funding to finance exports, remove taxes on the payroll of 15 sectors and propose incentives for innovation. In imports, the protectionist bias is identified from the following measures announced in late 2011/April 2012: charging a higher rate of indirect tax levied on imported vehicles than those produced domestically; elect new sectors benefited with preferential margins of up to 25% in government procurement; local content requirement for new investments in sectors such as automotive and telecommunications; and expedients to streamline trade defense investigations. In this sense, it increased the number of dumping investigations, especially Chinese products, and the country has filed a request for safeguards in the WTO in relation to imports

of wine. The country has also obtained a waiver to increase the tariff of up to 100 products that were on the list of the Common External Tariff of the Mercosur. In addition, the government announced its commitment to defend the Brazilian currency against new appreciations (see Figure). Brazil has not opted for “protectionist nationalism”, but some of the measures adopted indicate the elevation of non-tariff barriers in the country.

Paraguay and Uruguay are small economies with heavy reliance on foreign trade and, at the moment, are more concerned about the protectionist measures of their Mercosur partners, Argentina in particular.

REAL EXCHANGE RATE: BRAZILIAN CURRENCY/BASKET OF CURRENCIES*



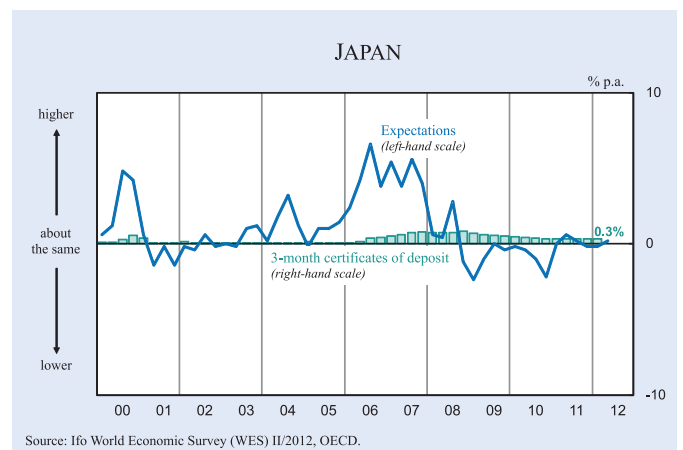
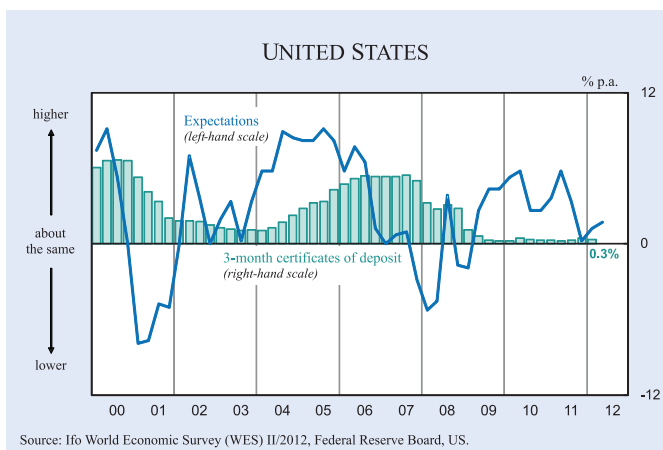
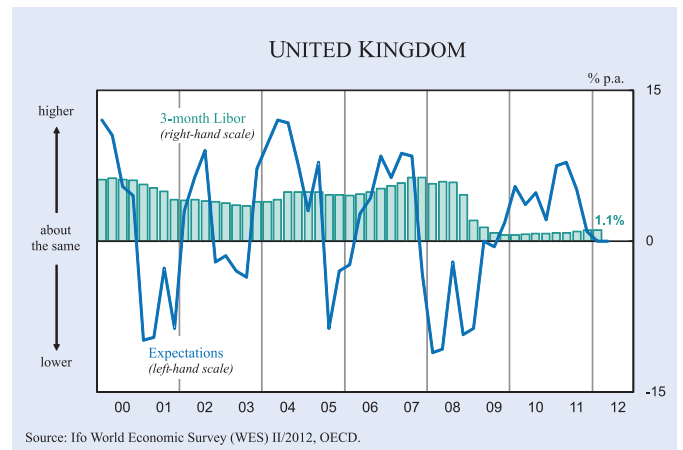
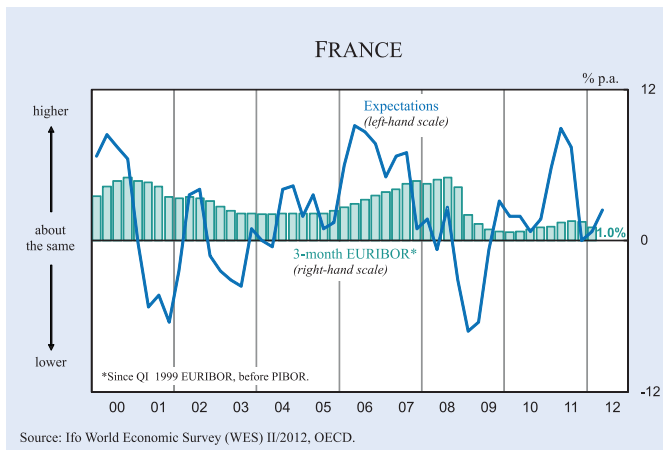
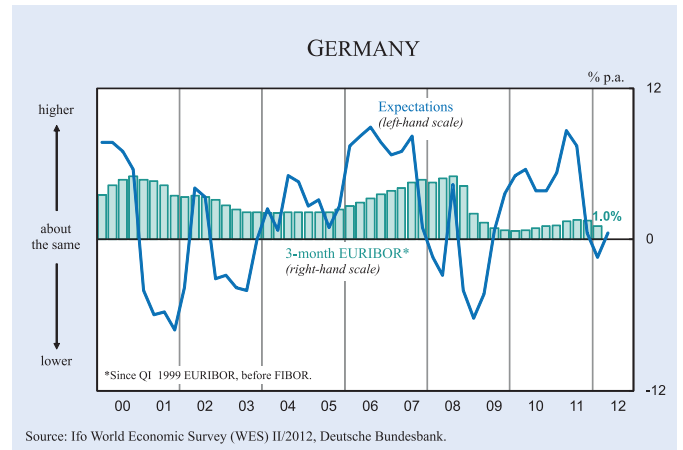
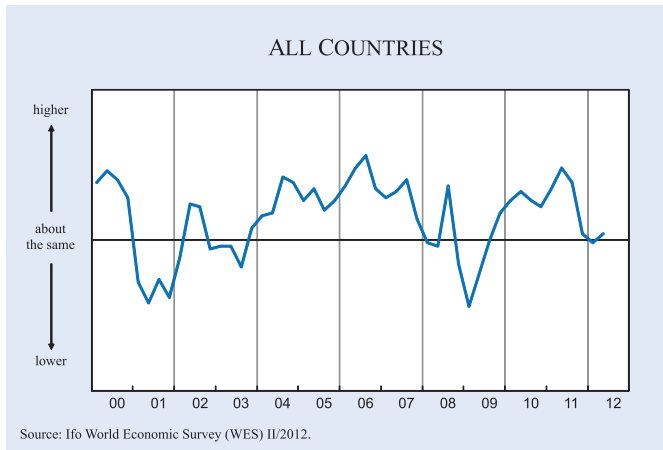
*) The basket is composed of the currencies of Brazil main partners: dollar, euro, yen, Argentine peso, renmimbi and the pound sterling. The currencies are weighted by the share of the sum of exports and imports of the country in Brazil total trade.

Source: Brazil Economic Institute/Getulio Vargas Foundation

¹Suriname, Guyana and French Guiana were not analyzed.

Figure 12

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



(in all three cases 2.5%). The medium inflation bracket includes the *Ivory Coast* (3.0%), *Algeria* (3.8%), *Benin* (4.3%), *Tunisia* (4.9%), *South Africa* (6.1%) and *Namibia* (6.9%). High inflation rates of 10% or more will predominate again particularly in *Sudan* (23.8%), *Kenya* (15.2%), *Sierra Leone* (14.2%), *Congo Dem. Rep.* (12.4%) and *Egypt* (11.5%).

Both yen and euro seen as overvalued

On a worldwide scale the exchange rates of two of the four currencies that constitute the Special Drawing Rights of the IMF – namely the *US dollar*, and the *UK pound* – appear to be close to their fundamentally appropriate values. The *Japanese yen* – and to a lesser degree – the *euro*, on the other hand, are regarded by WES experts as overvalued (see Figure 11).

Major differences in currency evaluation remain by country: WES experts regard their own currency as generally **overvalued** again in *Switzerland* (not, however, compared to the *yen*) and *Uruguay*, but this time also in *Indonesia*, *Vietnam*, *Pakistan*, *Egypt* and *South Africa*. On the other hand, experts assessed their own currencies as generally **undervalued** again in *China*, *Taiwan* and the *Dominican Republic*, but this time also in the *US*, *Hungary*, *Latvia* and *Turkey*.

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 rise in the value of the *US dollar* over the course of the coming six months on a worldwide average. However, behind this average are diverging trends: an expected **weakening** of the *US dollar* is expected in *Norway* and *Canada*, some *Asian* countries (particularly *China*, *India*, *Malaysia*, the *Philippines*, *Taiwan* and *South Korea*), *Peru* and *Niger*. These results contrast with an expected **increase** in the value of the *US dollar* in the *euro area*, as well as in the *Western European* countries outside the *euro area* (with the exception of *Norway*), the *Eastern European* countries (with the exceptions of *Hungary*, *Latvia*, *Romania* and *Slovakia*), *New Zealand*, in some *Asian* countries (*Japan*, *Vietnam*, *Thailand*, *Sri Lanka*, *Pakistan* and *Bangladesh*), in the *CIS* countries, in the *Near East* (particularly *Turkey*, *Saudi Arabia* and *Israel*), as well as in most *African* countries including *South Africa*, but not *Niger*.

Long-term interest rates expected to pick up

Whereas short-term interest rates are expected to remain largely stable over the course of the next six months, somewhat more WES experts than in the preceding survey expect an increase in the more market driven long-term interest rates (see Figure 12). The expected upward tendency of long-term interest rates is typical for most *euro* countries with the exception of *Portugal*, *Italy* and *Greece*, where the spreads are expected to shrink somewhat. Outside the *euro area* a rising trend in long-term interest rates in the course of next six months is also expected in *North America* (both *US* and *Canada*), *Oceania* (both *Australia* and *New Zealand*), as well as in *Asia* (with the exception of *China* and *India*, where a further decline in long-term interest rates is expected). Some softening of long-term interest rates over the next six months is the most likely outcome – according to WES experts – in the majority of countries in the *CIS* region, as well as in *Latin America*. In *Eastern Europe* and in the *Near East* stable, long-term interest rates are expected to prevail in coming months.

ICC Special Question: Rio+20 – United Nations Conference on Sustainable Development

Twenty years ago, a path-breaking UN summit in Rio de Janeiro called upon the world to foster economic growth and sustainable development in all countries to better address environmental degradation. Governments, business and civil society prepare to gather again in Rio (Rio+20) in June 2012 to assess the success over the past two decades of that time produced “Agenda 21”, a development and environmental action program. This quarter’s ICC special question asked the surveyed economic experts how they evaluate progress to date made towards sustainable development with respect to multilateral cooperation and business practices. In addition, WES experts specified what should be the main outcomes from Rio+20.

In the first part of this quarter’s special question the WES experts were asked to what extent they agree with the statement that there has been sufficient multilateral cooperation by governments on environmental issues over the past twenty years. The majority of the experts surveyed in all regions agreed with the statement, although only partially (see Figure 13). Only few respondents agreed fully: in *Africa* and *Eas-*

Figure 13

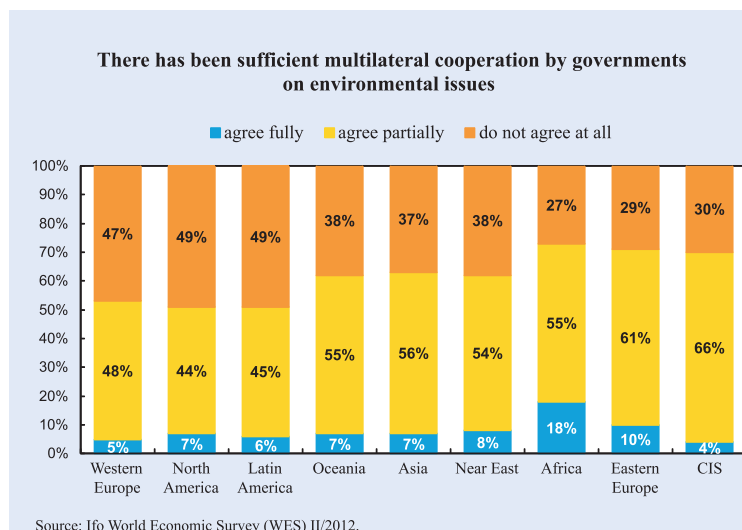
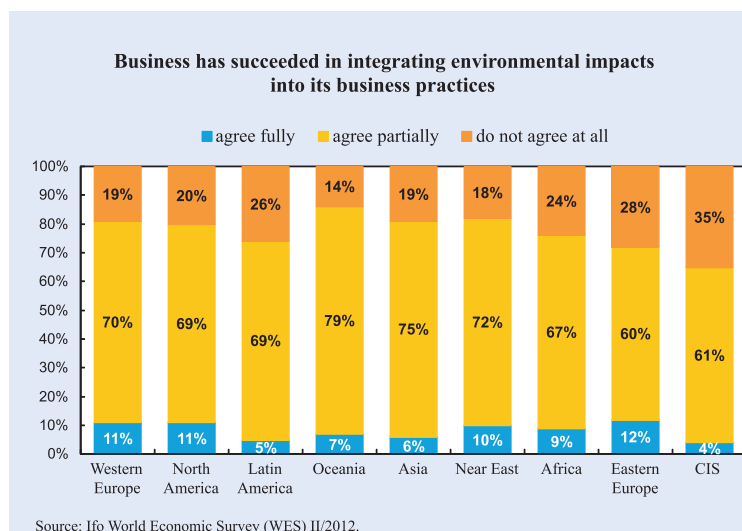


Figure 14



	World	Western Europe	North America	Latin America	Oceania	Asia	Near East	Africa	Eastern Europe	CIS
- enhanced multilateral environmental governance	6.8	7.0	6.1	6.9	6.3	7.1	7.3	7.4	5.9	6.0
- a greater role for the private sector in the decision-making process	5.9	5.5	6.0	6.3	7.1	6.1	6.7	6.2	5.3	5.6
- a better understanding of the conditions needed to foster a transition towards a green economy	7.2	7.0	7.2	7.4	7.6	7.2	8.1	7.5	6.8	7.4

* 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 –agree fully, 5 –agree partially, 1 – do not agree at all. The aspects with most agreement are shaded.

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

tern Europe this share only amounted to 18% and respectively 10%. In all other regions solely about 5-8% agreed fully on this statement.

To the question of whether business has succeeded in integrating environmental impacts into its business practices, a minimum of about two thirds of the economic experts in all regions agreed – at least partially

– with the statement (see Figure 14). However, in Eastern European and CIS countries 28% or more disagreed with this proposition. The extreme positions in Eastern Europe are eye-catching, because the share of both full agreement and disagreement are one of the highest within the different country categories. This is the result of high differences within the region. While in Slovenia, Slovakia, Croatia and Romania about the half of the respondents disagreed with the statement, it received full agreement from a large part of the respondents in Serbia and Bulgaria.

The main outcome from Rio+20 to promote sustainable development and alleviate poverty should be – according to the WES experts across all regions – “a better understanding of the conditions needed to foster a transition towards a green economy” (see Table 3). For the economic experts surveyed in Western Europe, Asia and Africa “enhanced multilateral environmental governance” also received a high priority. “A greater role for the private sector in the decision-making process” was not seen as important like the other two outcomes throughout all regions, except for Oceania, where it is ranked on the second place.

In summary, progress made towards sustainable development over the past two decades seems to have been more successful regarding business and its business practices. In contrast, the multilateral cooperation by governments on environmental issues could have been more intensive. Among the three stated main outcomes from Rio+20, the vast majority of the WES experts surveyed in all countries and regions gave priority to the topic of a better understanding of the conditions needed to foster a green economy.

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