

# CESifo WORLD ECONOMIC SURVEY

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## WORLD ECONOMIC CLIMATE

World Economic Climate approaching a cooling-down phase

## ECONOMIC EXPECTATIONS

Current economic situation remains above satisfactory, economic expectations have weakened somewhat

## INFLATION

Inflation outlook remains benign

## INTEREST RATES

Fewer WES experts expect rising interest rates

## CURRENCIES

Euro still overvalued

## SPECIAL TOPIC

Growth will not lead to more employment in the majority of countries, according to WES experts



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## Ifo World Economic Survey

### Regions

- World economy: Soft-landing is likely
- Western Europe: Satisfactory economic performance
- North America: US economy cools down
- Eastern Europe: Expanding markets
- CIS: Economic climate remains favourable
- Asia: Towards an economic soft-landing
- Oceania: Boom continues
- Latin America: Economic rebound
- Near East: Economic climate still highly favourable
- Africa: South Africa remains on a sound stabilization course

## Notes

The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organizations worldwide about current economic developments in the respective country. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. In October 2004 some 1,145 economic experts in 90 countries were polled.

WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris and receives financial support from the European Commission.

## Methodology and evaluation technique

The survey questionnaire focuses on qualitative information: on assessment of a country's general economic situation and expectations regarding important economic indicators. It has proved to be a useful tool, since economic changes are revealed earlier than by traditional 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. 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 share of the specific country's exports and imports in total world trade.

*CES – Center for Economic Studies* – is an institute within the department of economics of Ludwig-Maximilians-University. Its research concentrates on public finance, aspects of the economy, but also includes many diverging fields of economics.

*Ifo Institute for Economic Research* ist one of the largest economic research institutes in Germany with 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 organizations are published (in English).

# WORLD ECONOMIC CLIMATE INDEX: SOFT-LANDING IS LIKELY

In October 2004 the World Economic Climate deteriorated for the third time in succession since January (see Figure 1). The climate indicator is at 103.8 (after 109.2 in July; 1995=100), still higher than its long-term average (1990–2003: 93.0). Similar to the April and July survey, only the economic outlook has again been slightly downgraded, whereas the assessments of the current economic situation have further improved (see Figure 2).

## World economy: Current economic situation remains above satisfactory

According to the October results, the current economic situation continued to improve. But, as eco-

nomonic expectations – the second component of the economic climate index – have again been downgraded, the overall economic climate deteriorated somewhat (see Figure 1). Over the past two years, the world economy has grown strongly. But a mixture of problems – sharp currency fluctuations, interest rate hikes and increasing energy costs, war activities in the Middle East and the gaping US current account deficit – have led to uncertainty about how strong and durable the world economic growth will prove to be. All these factors have hurt the expansion in the US, the world's biggest economy, where both the assessment of the current economic situation as well as economic expectations strongly deteriorated. In contrast, in Western

Europe and in Asia only economic expectations for the coming six month have been slightly downgraded, reflecting the global uncertainty. However, the assessments of the current economic situation continued to improve, on the world average, as the economic recovery remained on track in the two other biggest economies – Japan and Germany. For a global, medium-term forecast a look at the Ifo Business Clock showing the development of the two components of the economic climate index over the last six years visualizes the trend (see Box 1). In October 2004 the economic climate index remained in the top-right quadrant, indicating that the current economic situation improved and is judged above satisfactory. But economic expectations here already started to deteriorate, indicating that world economy is approaching a regular cooling-down phase of a growth-cycle.

Figure 1

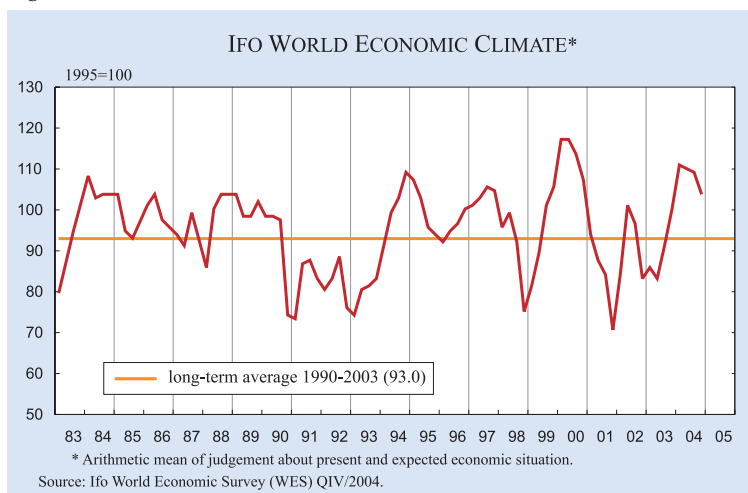
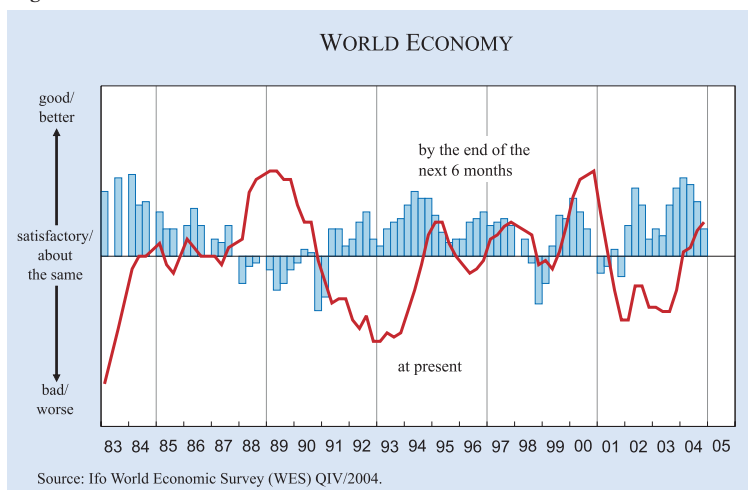


Figure 2

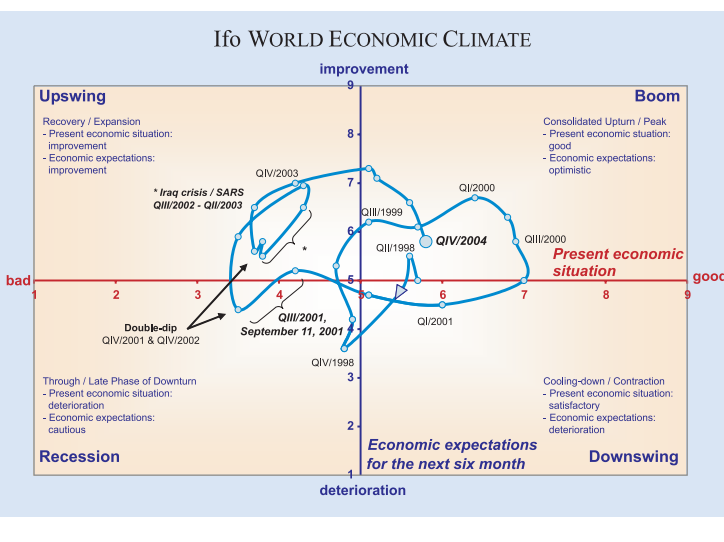


**Box 1**  
**Ifo Economic Clock and the World Economic Climate**

By the end of 1999 and in the first half of 2000 the world economy was in a state of a consolidated upturn. But already by the end of 2000 a cooling-down phase had set in. In the third quarter of 2001 the business cycle movement was in the offing of an upswing, but the terrorist attacks in New York in September 2001 caused a sharp deviation from the regular cyclical path. Already in January and April 2002 the overall indicator bounced back, mainly driven by optimistic expectations. However, the initial improvement of the indicator was not long-lasting, and in July 2002, the world economic index slipped into a so called “double dip” (see Figure 1 and Box 2). This renewed, strong setback of the economic climate was mostly aggravated by the escalation of the Iraq crisis. With the end of the main war activities in Iraq, the economic expectations clearly brightened. The strong pace of recovery that started in the second half of 2003 gained more momentum in the first half of 2004. According to the October 2004 survey, the economic expectations already started to deteriorate, indicating that world economy is approaching a regular cooling-down phase.

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 Konjunkturuhr”)<sup>1</sup>. 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). The business cycle typically goes clockwise in a circle; expectations leading assessments of the present situation.

<sup>1</sup> The Ifo world business cycle clock is based on the concept of the Ifo Business Cycle Watch, which presents data from the Ifo Business Survey in a four-quadrant diagram. The Ifo Business Cycle Watch was first published in Spring 1993. See W. Leibfritz, W. Nierhaus, *Westdeutsche Wirtschaft: Wie tief ist die Rezession?* in: *ifo Schnelldienst*, 46/7, 1993, pp.12ff.



**Western Europe: Satisfactory economic performance**

The overall economic climate indicator slipped slightly in October (see Figure 3), as economic expectations for the next six months have been downgraded but remained optimistic in almost all Western European countries. The panel’s assessments of the current economic situation have fol-

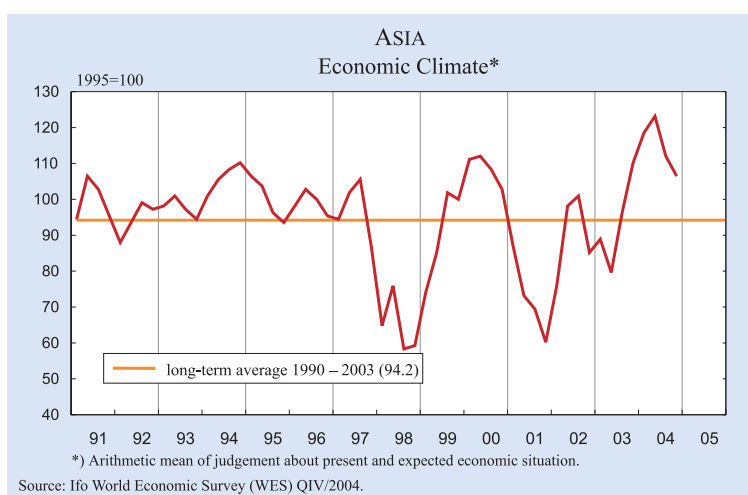
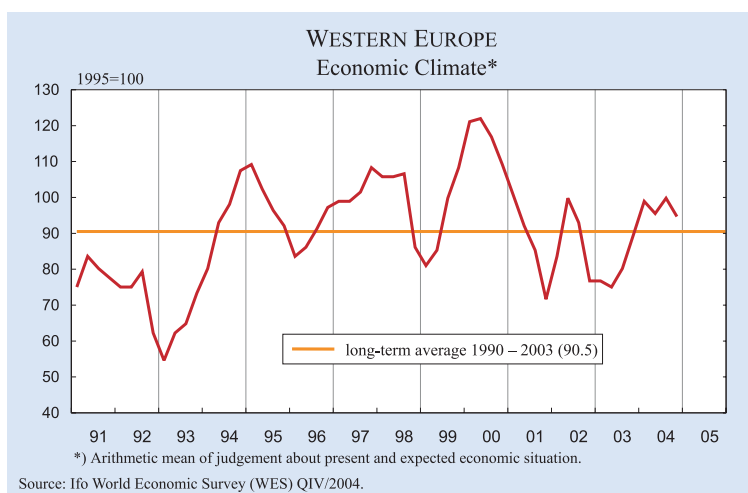
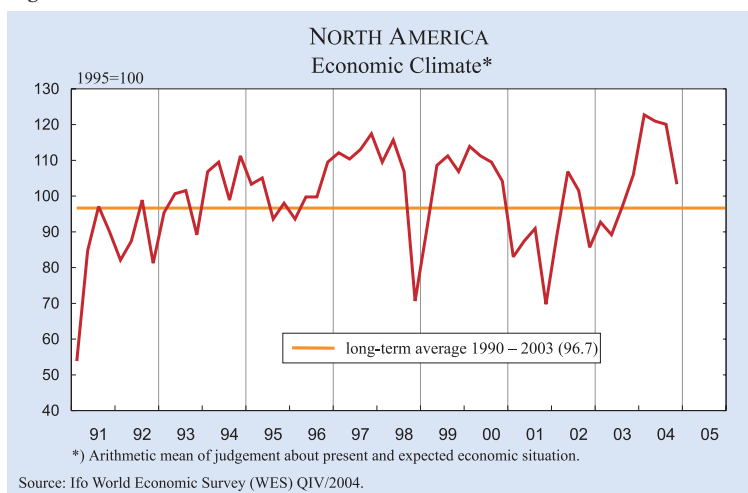
lowed a positive trend since July 2003 and have now reached the satisfactory level (see Figure 4).

The lowest marks for the current situation were given by WES correspondents again in *the Netherlands, Portugal, Germany* and *Italy*, whereas, in the other countries in the euro area the present economic performance was assessed as satisfactory. However, in *Portugal, Italy* and *Germany* the assessments of the current economic situation have considerably improved since the July survey and are steadily approaching the satisfactory level. But higher oil prices are raising companies’ costs and the stronger euro is making exports more difficult. Thus, WES experts expect a slow-down of the strong export growth in the coming six months, particularly in *Germany* and *Italy*. The best marks for the current economic performance in the euro area were given by experts surveyed in *Ireland* and *Finland*. The near-term prospects, though slightly downgraded, generally remained positive in all Western European countries, except *Spain* and *Greece*, where both capital expenditures and private consumption are expected to slow down (see Figure 7a/b and Box 2).

The economic climate in the Nordic countries outside the euro area (*Denmark, Sweden, Norway* and *Iceland*) continued to improve. Also in the *United Kingdom* the current economic

situation has been assessed as highly satisfactory by WES experts though expectations for the next six months became more cautious. In *Switzerland* the economic recovery has gained momentum, according to the October survey: the assessments of the current economic state have surpassed the satisfactory threshold. The economic outlook for the coming six months, though slightly downgraded, still points to a continuing improvement.

**Figure 3**



In Western Europe, *unemployment*, *public deficits* and *insufficient demand* are regarded as the crucial economic problems at present. While unemployment plagues all economies of the region except Denmark, Ireland and the United Kingdom, *public deficits* were frequently noted by WES experts in France, Greece, Italy and Portugal and to a lesser

degree also in Germany, where *insufficient demand* was regarded to be a more important impediment to economic growth.

### North America: US economy cools down

According to the latest survey results, the economic climate indicator in North America deteriorated strongly in October (see Figures 3).

In the U.S. both components – assessment of the current economic situation as well as the economic situation – have been downgraded, reflecting that business confidence has weakened. However, the current economic situation is still regarded as above satisfactory by the majority of experts polled by WES. *Public deficits* rank as the economic problem number one at present.

In contrast, in *Canada*, the economic climate remains highly favourable. The assessments of the current economic situation again improved. Economic expectations, though slightly downgraded here as well, point to stabilization on the current favourable level. *Lack of skilled labour* was seen by surveyed experts to be the most important problem in the economy of Canada.

### Eastern Europe: Expanding markets

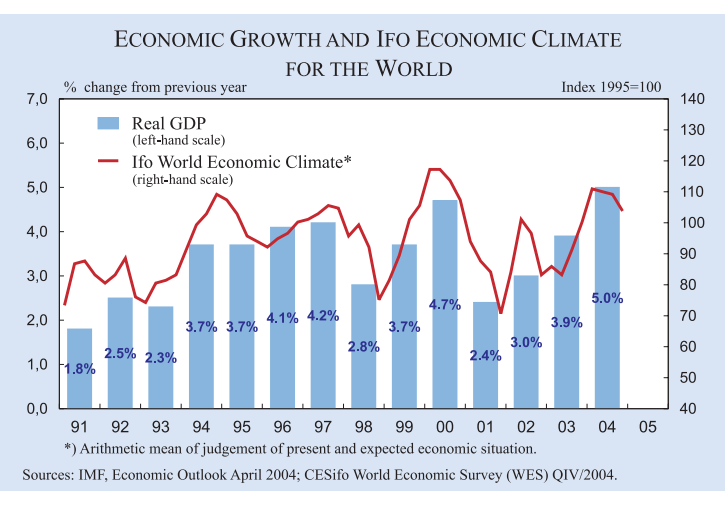
Since the beginning of 2000 the markets in Eastern Europe have been on a recovery course (see Figure 4). This positive trend continued also in 2004. Business sentiments in the region were almost untouched by the world-wide economic slow-down and remained very positive, according to the October WES results. The overall economic climate stabilized at a satisfactory level, with the assessments of the current economic

## Box 2

### World Economic Survey (WES) and GDP Growth in the World Economy

The Ifo World Economic Climate is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the coming six months. The October results are based on the responses of 1,145 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend measured in annual growth rates of real GDP (see Figure).

According to the latest results of the Ifo World Economic Survey, the unusually robust expansion of the world economy will flag somewhat. The expectations for the coming six months have again weakened to some extent, but the appraisals of the current situation have once more improved. These results are characteristic for the late phase of a cyclical upswing. At 103.8 (1995=100), the Ifo indicator for the world economic climate is lower than in the July survey but still clearly above its long-term average (1990–2003: 93.0). Especially the only moderate weakening in economic expectations and the further improvement in the assessments of the current situation still point to a positive development of the world economy in the first half of 2005 despite a weakened dynamic.



situation continuing to improve and economic expectations for the coming six months pointing upward (see Figure 8).

The assessments of the present economic situation in all new EU countries – *Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia* and *Slovakia* – rated above the satisfactory level in October, except for *Hungary*, where the present economic situation has been assessed below the satisfactory level. The forecasts for the coming six months are positive throughout. The strongest economies in the region, according to WES experts, are the Baltic States (*Estonia, Latvia* and *Lithuania*), *Poland* and *Slovakia*.

In the other Eastern European countries, economic trends observed in October strongly differ. In *Bosnia Herzegovina* and *Serbia-Montenegro* the overall economic climate is still cloudy, but the near-term

prospects here improved. In the other countries of the region, *Bulgaria, Romania, Albania* and *Croatia* the overall economic trend points to an ongoing recovery. The present economic performance is rated above “satisfactory” by the WES panel, and the outlook for the next six months raises hopes for a continuation of the economic revival.

The export sector is expected to stimulate economic growth in all Eastern European countries without exception, but also imports are forecast to continue to grow strongly. Private consumption will continue to expand in coming months, particularly in *Poland, Slovakia, Romania, Latvia* and *Bulgaria*.

*Public deficits* and *unemployment* became the fundamental problems in the majority of countries of Eastern Europe. Public deficits were regarded as a particularly important problem in the *Czech Republic, Hungary* and *Poland*. Only in *Estonia* does *lack of skilled labour* and *international competitiveness*

continue to be ranked first. *Government's economic policy* seems to be trustworthy in all Eastern European countries, except in *Serbia* and *Montenegro, Albania, Bosnia-Herzegovina* and *Croatia*.

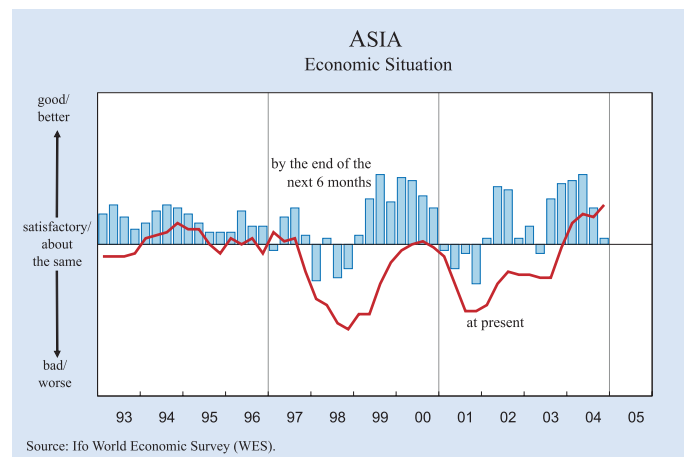
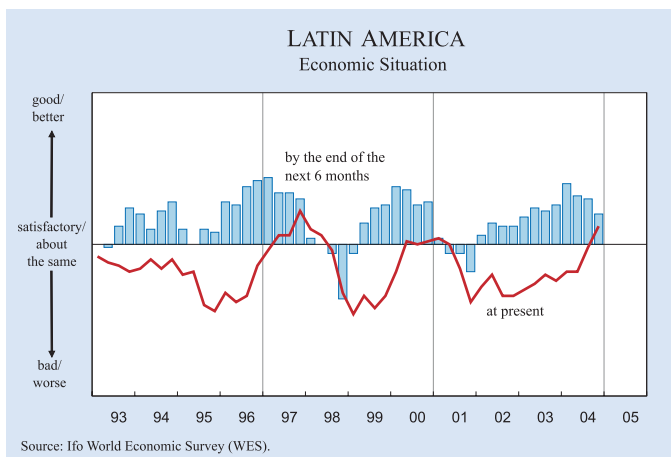
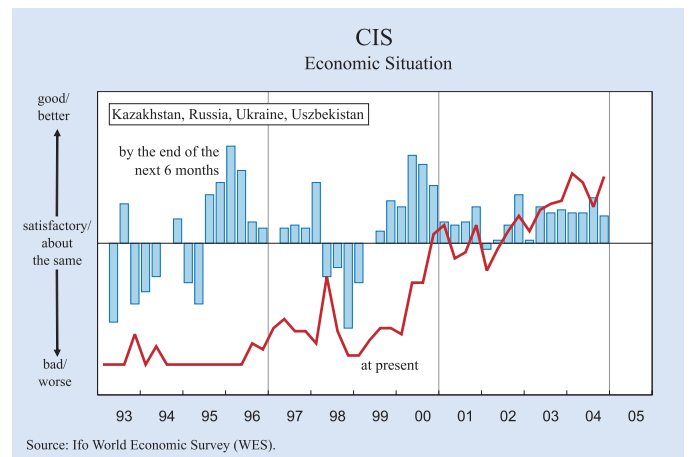
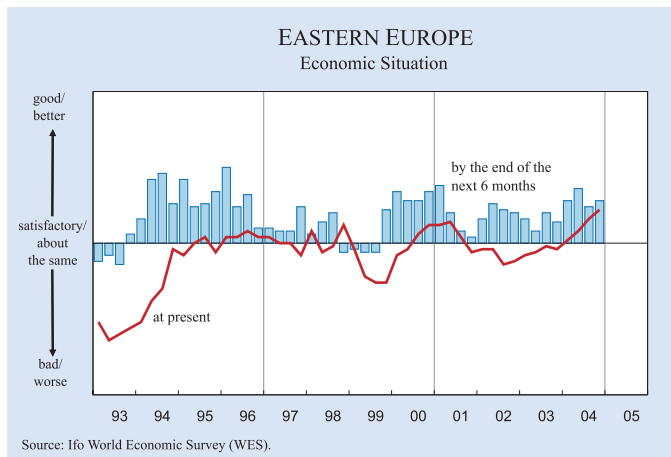
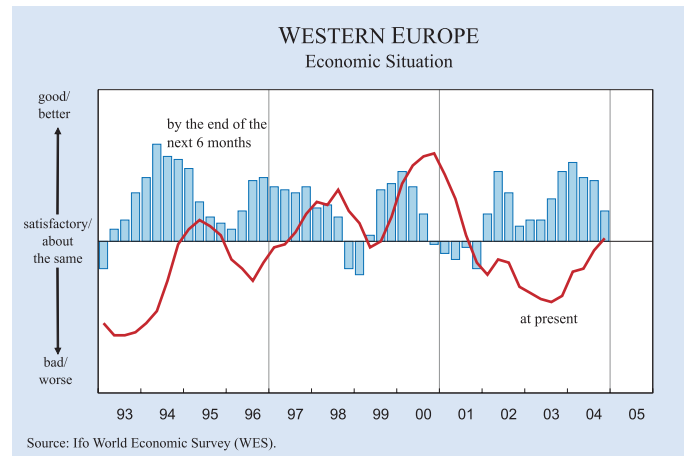
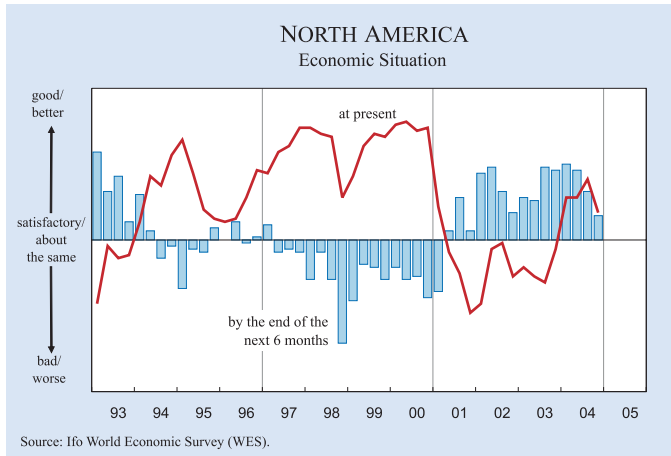
### CIS: Economic climate unchanged favourable

The economic climate in *Russia* remained favourable, according to the recent WES results. The present economic situation was judged above satisfactory and somewhat better than in the preceding July survey. Economic expectations have been slightly downgraded but remain positive. High oil and other commodity prices are fueling economic growth for countries of the CIS region. But despite growing consumption and improving living standards, macroeconomic vulnerabilities remain. A stronger commitment to reforms, especially improving the business environment, is needed to sustain the high economic growth rates.



Figure 4

SELECTED REGIONS

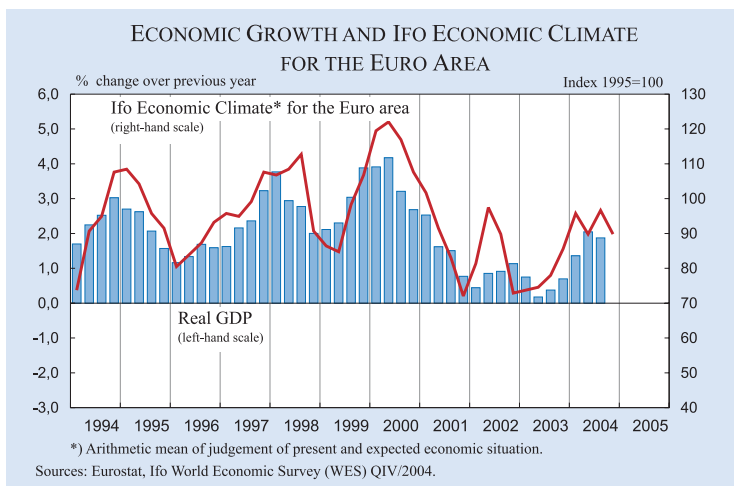


**Box 3**  
**World Economic Survey (WES) and GDP Growth in the Euro Area**

The Ifo World Economic Climate for the 12 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 coming six months. The October results are based on the responses of 335 experts. As a rule, the trend of the Ifo Economic Climate indicator correlates well with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The latest Ifo World Economic Survey indicates that the economic climate in the euro area has worsened slightly in the fourth quarter vis-à-vis the third quarter: The expectations regarding the economic development over the coming six months were less positive than in the previous survey; however, the assessments of the current economic situation have improved slightly. These results indicate that the economic recovery will continue in a weakened form in the first half of 2005.

Within the euro area the current economic situation was again favourably assessed particularly in Ireland, and Finland. The worst appraisals from the surveyed experts again came from the Netherlands, Portugal, Italy and Germany; in all four cases, however, a further improvement in the economy is expected over the coming six months, although the export prospects were appraised less favourably than three months ago. Only in Greece and Spain do the WES experts see a weakening in the economy in the coming six months; in both of these countries, prices have risen at a faster pace than the average for the euro area, which has affected their price competitiveness.



Positive signals have been also reported from the *Ukraine*. The present economic situation has been described by WES experts as satisfactory; the prospects for the coming six month have been here slightly downgraded too but remain bright. Capital expenditures and private consumption are expected to weaken somewhat in the coming months, but trade activity – both exports and imports – is expected to revive. Experts in *Kazakhstan* also gave very positive marks for the country's present economic performance. The current situation is judged at a highly favourable level and is expected to improve further in the course of the next six months. Exports are likely to remain the main driving force. But the favorable general economic outlook also includes corporate activity outside the oil sector as well as private consumption.

WES experts in Russia and Kazakhstan emphasized as economic problem the *lack of international competitiveness* of the domestic industry and in the case of Kazakhstan also a lack of skilled labour. Certain prior-

ity was also attached to *capital shortage* in Russia and generally *lack of confidence in government's economic policy*. In the *Ukraine*, *lack of confidence in government's economic policy* and *inflation* remained the most important economic problems.

**Asia: Towards an economic soft-landing**

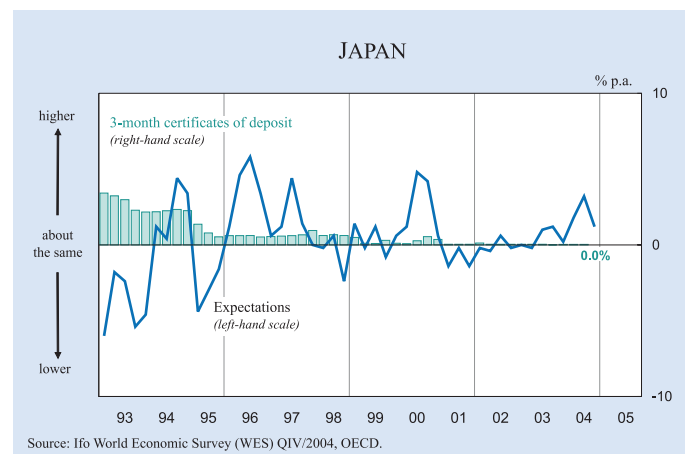
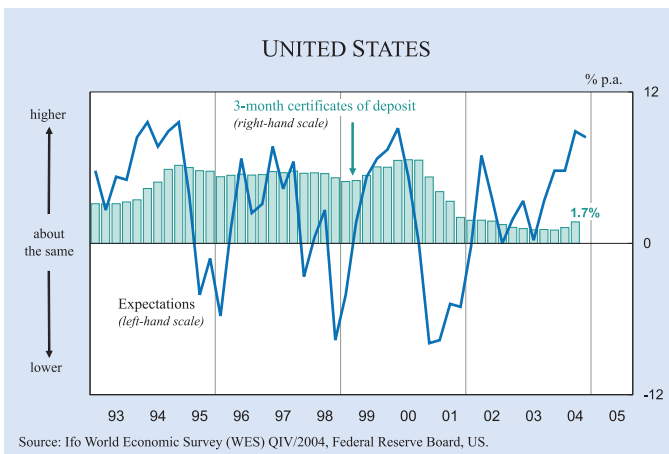
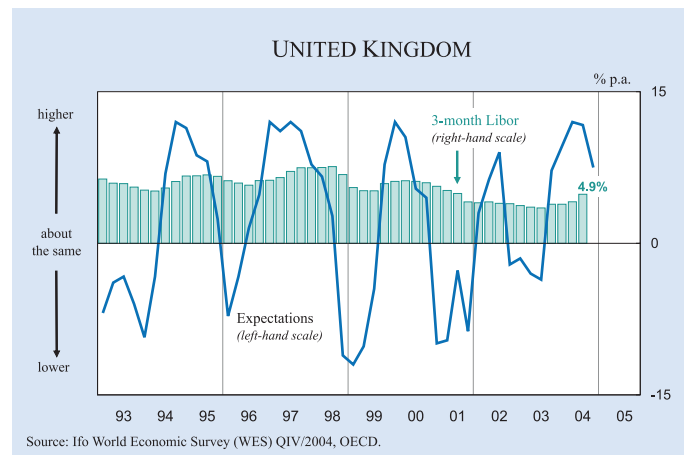
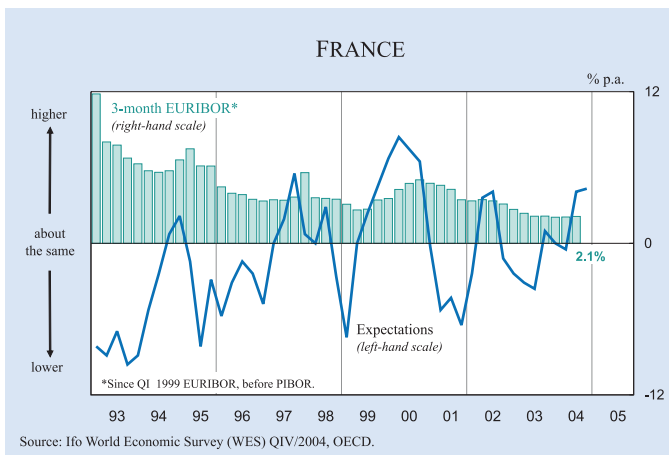
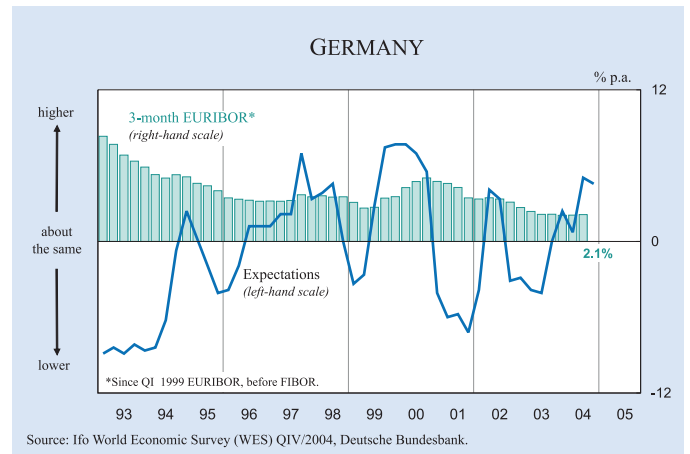
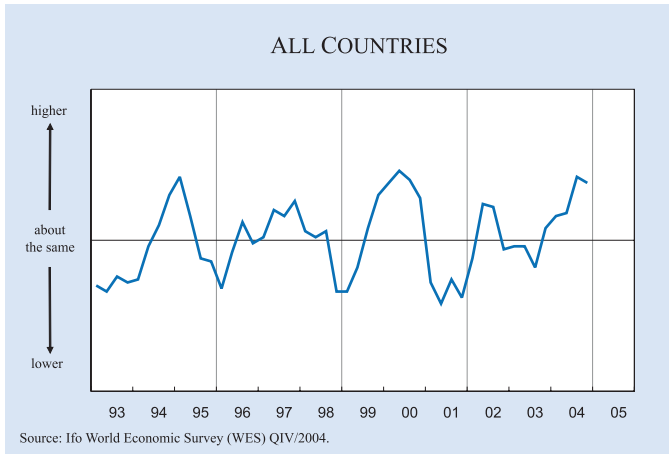
In October, the economic climate index in Asia slightly deteriorated for the second time in succession (see Figure 3). However, the current situation continued to improve on average of the Asian countries surveyed by WES. This data constellation points to an only moderate slowdown of economic growth in the next six months.

*China* will again record a healthy growth this year, but a moderate slowdown is expected at the beginning of 2005. *Japan*, the world's second biggest economy, has reached a highly favourable level after almost ten years of

economic stagnation, according to WES experts, and is expected to strengthen further. *Japan's* corporate investments have also recovered and are expected to stabilize further. In *India*, the overall economic situation was assessed above satisfactory though slightly downgraded compared to the July results. The outlook for the coming six months is generally positive and implies further growth of corporate activity and private consumption. After years of economic stagnation, the economy in *Hong Kong* has been gaining strength in 2004. Though economic expectations are cautious, as in the region in general, the present economic situation has stabilized at a favourable level since January of this year. Particularly private consumption is foreseen to expand. Also strongly growing foreign trade is giving an important boost for the economy of *Hong Kong* and is expected to strengthen further in the near term not only in *Hong Kong* but also in the majority of economies in East and Southeast Asia, in particular in *India, Pakistan, China, Vietnam, the Philippines* and *Sri Lanka*.

**Figure 5**

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



In *Malaysia* and *Thailand* the assessments of the present economic situation slightly deteriorated. While in *Malaysia* economic expectations remained at a high level, they turned cautious in *Thailand*. Also in *Indonesia* the assessment of the current economic situation slightly deteriorated and remains below the satisfactory level, according to WES experts. However, the economic expectations for the beginning of 2005 are optimistic. In *South Korea* the marks for the current economic situation, though slightly improved, have also not yet reached the “satisfactory” level.

In Asia, as in the world in general, *unemployment* has become the most important economic problem. It was ranked as the number one economic problem in China, Pakistan and Sri Lanka, and experts regarded it as second important in Indonesia. There is also an increasing number of countries where experts have reported raising *lack of confidence in government's economic policy*, in particular in Hong Kong, Indonesia, Korea and the Philippines. In India and Japan experts particularly emphasized increasing *public deficits*. In Singapore great importance was given to *insufficient demand* that is considered to be weak also in Japan and Korea.

#### **Oceania: Boom continues**

According to the October survey the assessments of the present economic situation in *Australia* further improved, after already having reached an all-time high in July. The forecast for the next six months points to further stabilization at the current high level. The rise in oil prices has not hit *Australia's* economy too hard, as the country is over 70 percent self-sufficient in oil, an exporter of natural gas and also an exporter of an alternative energy source – coal. Furthermore, the stability of the *Australian* economy, buoyant market conditions and the absence of major shocks as well as Japan's economic rebound, *Australia's* biggest export market, as well as the still strongly growing Chinese markets remain supportive factors. This also holds true for the *New Zealand* economy, where both assessments of the current economic situation as well as economic expectations have been considerably upgraded.

#### **Latin America: Economic rebound**

According to the latest WES results Latin American countries have recovered from the financial crisis

and the longer period of stagnancy, social turbulences and civil conflicts. The assessments of the present economic situation continue to improve and here reached the highest level since 1997, while economic expectations point to further economic stabilization in the coming six months (see Figure 4). Strong growth in imports and exports is expected to further support recovery in Latin America. Private consumption and capital expenditures have reached the satisfactory level, and are expected to strengthen further in the coming six months.

Except for *Costa Rica* and *Panama*, where the assessments of the present economic situation deteriorated somewhat below the satisfactory level, all countries have contributed to the improvement of the economic climate in the region. *Chile* topped the list of expanding economies. The present economic situation is regarded as highly satisfactory and experts are confident that the country's economy will grow further in the coming months. Rising exports that helped the economy to expand will further strengthen, according to WES experts. In the two major regional economies, *Brazil* and *Mexico*, WES experts also reported an improvement of the current economic situation. Economic expectations for the coming six months, though slightly downgraded, remained very optimistic. Also the economy in *Peru* has experienced sustained growth over the year that is expected to continue into 2005, with the export sector providing further impetus to economic growth. The assessments of the present economic situation of *Uruguay*, *Colombia*, *Ecuador*, *El Salvador* and *Paraguay* also ranged in the “satisfactory” area (see Figure 10). *Venezuela's* economic performance has also become noticeably better, with assessments of the present economic situation approaching the satisfactory level and economic expectations for the first half of 2005 being highly optimistic. Also in *Bolivia*, the overall economic climate index shows a positive trend. However, the present economic situation is still assessed far below the satisfactory level.

In almost all Latin American countries *unemployment* is seen to be the single most important problem the economies are facing today. But also *foreign debts* are seen as a very important economic problem, according to WES experts, in Argentina, Bolivia, Panama, Peru and Uruguay. *Lack of confidence in government's economic policy* has been named by experts in Ecuador, Mexico and Venezuela, but is no topic in Brazil and Chile, indicating that government enjoys public confidence.

Venezuela, the fifth-largest oil producer in the world, has been historically a society of great inequality. While a minority enjoys a high standard of living, the vast majority still lives in poverty. It is not surprising that *lack of confidence in government's economic policy* still ranks as the problem number one in the country, followed by *unemployment*. In Argentina *foreign debts* and *unemployment* are the two major economic problems, according to WES experts. Official statistics indicate that income distribution has become more unequal, the middle class is in decline and poverty is still expanding.

### **Near East: Economic climate remains highly favourable**

The economic climate in the Near East region further improved and continues to be highly favourable unexceptionally in all countries covered by WES. The assessments of the current economic situation are considerably above the satisfactory level, and the near-term prospects are very optimistic (see Figure 11).

The highest marks of business confidence were given by experts surveyed in the *United Arab Emirates*, *Saudi Arabia* and *Kuwait*, followed by *Jordan*, *Iran* and *Lebanon*. The prospects for further economic stabilization are, except in *Iran*, very bright. The export-oriented economies are expected to benefit further from high crude oil prices.

*Turkey*, according to the October WES results, remains on a solid stabilization course. Surveyed economists see potential for further growth and stabilization for 2005, since the country has implemented far-reaching macroeconomic and structural reforms. In *Turkey*, high *government deficits* and *foreign debt levels* that led to high real interest rates are regarded to be the most important economic problems, after the still very high *unemployment* rates in the populous country. The economic recovery in *Israel* has also continued, according to the October survey. The rise in exports and imports indicates that *Israel's* economy is expected to expand further, despite expectations of a moderate slowdown in the coming months.

### **Africa: Still facing strong challenges to achieve sustained growth**

In Africa, diverging economic trends dominate the economic landscape. While some countries are in dan-

ger of increasingly becoming victims of the HIV epidemic, famine, environmental deterioration and armed conflicts that have a negative impact on foreign aid and investment inflow, production and exports of domestic products, *South Africa* remains on a sound stabilization course and is one of the very view bright points in the economic landscape of the region (see Figure 11). Thus, an aggregated climate index for countries surveyed by WES on the continent makes little sense, and the following analysis will focus on particular economic trends in individual countries.

In *South Africa* a remarkable transformation in the structure of the economy has been witnessed over the past decade. A natural resource based economy has given way to a more modern economy, in which higher value added manufacturing and service are expanding. Nevertheless, the economy continues to benefit from the increasing global demand for raw materials, and the export sector is expected to strengthen further in the coming months. The present economic situation in October was assessed even more than in the preceding July survey, as above satisfactory. Private consumption and capital expenditures are foreseen to remain strong. However, *unemployment* still ranks as the most important problem in South Africa, paradoxically followed by the *lack of skilled labour*.

*Egypt's* economy, which faced a major crisis in the first half of the year, has weakened again, according to WES experts, as the assessments of the present economic situation reflect deterioration in business sentiments. However, economic expectations remained optimistic also in October. In *Algeria* the present economic situation also received very low marks by surveyed experts, though expectations for the coming six months point to some improvement. In the other North African countries – *Morocco* and *Tunisia* – experts surveyed by WES assessed the present economic performance as satisfactory. A positive picture was also drawn by economists in *Tanzania*. In contrast, in *Kenya* and *Nigeria* the current economic situation was rated as below the satisfactory level and no major changes are foreseen for the coming six months. In *Kenya* and *Nigeria* the problems of *public deficits*, *foreign debts* and *lack of confidence in government's economic policy* were seen to be the greatest impediments to economic rebound.

### **Inflation outlook remains benign**

On average, 2.9 percent increase in consumer prices is now expected for the world economy in 2004 (see

Table 1). In the July survey this estimate was slightly higher (3.0 percent). Thus, experts worldwide do not see the danger that higher oil prices will lead to more inflation in coming months. On the contrary, the somewhat less optimistic outlook for the development of the world economy in 2005 has obviously also dampened price expectations.

In the euro area, inflation outlook for 2004 remained unchanged compared to the July survey (2.0 percent). *Spain* and *Greece* are again the countries with the presumably highest inflation rates in 2004 (3.2 percent compared to 3.1 percent in the WES survey of July 2004). *Finland* still marks the lower end of the expected inflation spectrum in the euro area, though the new estimate for 2004 is slightly higher than the one according to the July survey (1.0 percent compared to 0.8 percent in July). In Western Euro outside the euro area lower inflation estimates for this year prevail only in *Norway* (0.6 percent) and in *Switzerland* (0.9 percent).

In the *United States* the inflation forecast for 2004 has been revised slightly downward (2.5 percent compared with 2.6 percent in July). Thus, the US inflation outlook is now exactly at the mark that the Federal Reserve (FED) considers still acceptable.

A further upward revision of inflation expectations characterizes Asian countries (2.6 percent compared to 2.3 percent in July and 1.6 percent at the beginning of the year). This increase of the Asian average is to a large extent again due to China, where inflation is expected to stand at 4.8 percent in 2004 after an expected rise of 4.1 percent in July and only 2.0 percent at the beginning of the year. But also in *India*, *Indonesia* and *Vietnam* the 2004 inflation outlook has been revised upwards since July and now in all three cases stands at about 7.0 percent, which is about a full percentage point higher than in the previous survey. In contrast, in Japan prices will remain almost stable (0.2 percent expected increase in 2004) and are expected to decline marginally in *Hong Kong* (-0.2 percent).

In Central and Eastern Europe the inflation outlook for 2004 remained practically unchanged (5.1 percent compared to 5.0 percent). Worth mentioning are the downward revision of the 2004 inflation in *Croatia* (from 2.6 percent to 2.1 percent) and the upward revision in *Latvia* (from 5.5 percent to 7.3 percent) and in *Serbia and Montenegro* (from 9.2 percent to 10.3 percent).

In the CIS countries inflation in 2004 is now seen at 10.8 percent compared to 10.2 percent in July. In Russia and in Ukraine inflation in 2004 will slightly surpass the 10 percent mark according to WES experts (11.2 percent in Russia and 11.5 percent in *Ukraine*) whereas the inflation outlook in *Kazakhstan* remained significantly brighter (6.6 percent compared with 6.5 percent in the July survey).

In Central and Latin America inflation has slowed down somewhat since the July survey (in 2004 inflation forecast now 5.8 percent compared with 6.8 percent in July). The slowdown was most pronounced in *Argentina* where the 2004 inflation is now seen at 6.0 percent compared with 9.3 percent in the July survey. In *Brazil* the 2004 inflation outlook changed only marginally (from 7.2 percent to 7.1 percent). The highest inflation rate in this region still persists in *Venezuela*, but also here there are signs that inflation is coming down somewhat (22.0 percent according to the latest survey compared with 27.0 percent in the July survey).

Also in Africa the inflation outlook for 2004 is brighter than three months ago (11.4 percent compared with 14.1 percent in July). This slowdown is not only due to a decline of the still persisting hyperinflation in *Zimbabwe* (300 percent compared with 400 percent in the previous survey) but also in *South Africa* the inflation estimate for 2004 declined from 4.7 percent in the July survey to now 3.9 percent and in *Egypt* from 9.3 percent to now 5.0 percent.

In the Near East the inflation outlook for 2004 has not changed much (expected inflation in 2004 is now 6.2 percent compared with 6.4 percent in the July survey). Whereas the expected 2004 inflation rate increased somewhat in the *United Arab Emirates* (from 3.8 percent in July to 4.6 percent in October) it declined in Lebanon from 4.5 percent to 3.5 percent, in Iran from 17.5 percent to 16.7 percent and in *Turkey* from 11.6 percent to 11.1 percent (see Table 2).

### **Euro remains overvalued**

The *euro* was still seen by most WES experts as somewhat overvalued. Given the sharp rise of the euro vis-à-vis the *US dollar* in recent weeks the degree of perceived over-valuation probably has increased further. In a similar way also the *British pound* is regarded as overvalued. On the other hand, according to WES experts, the *US dollar* remains

Table 1

**Expected Inflation Rate on Average of 2004  
(based on WES QIV/2004 and QIII/2004)**

Region	QIV/2004	QIII/2004	Region	QIV/2004	QIII/2004
<b>Average of 90 countries</b>	<b>2.9</b>	<b>3.0</b>	<b>Central a. Latin America</b>	<b>5.8</b>	<b>6.8</b>
<i>World Bank classification:</i>			Argentina	6.0	9.3
High-income countries	1.9	1.9	Bolivia	4.4	3.9
Middle-income countries	5.5	5.7	Brazil	7.1	7.2
Upper-middle	4.5	5.0	Chile	2.0	2.4
Lower-middle	6.3	6.1	Colombia	5.7	5.8
Low-income countries	11.2	12.1	Costa Rica	12.3	11.2
EU countries (old members)	2.0	2.0	Ecuador	3.7	3.9
EU countries (new members) <sup>1</sup>	4.7	4.5	El Salvador	4.3	3.3
Euro area <sup>2</sup>	2.0	2.0	Mexico	4.8	4.3
Asian Pacific Rim <sup>3</sup>	3.1	2.7	Panama	1.6	1.4
Arabian OPEC countries <sup>4</sup>	5.2	5.3	Paraguay	7.0	7.4
<b>Western Europe</b>	<b>1.9</b>	<b>2.0</b>	Peru	3.7	4.0
Austria	2.1	2.1	Trinidad and Tobago	4.0	-
Belgium	1.9	1.8	Uruguay	9.7	9.8
Cyprus	2.1	2.0	Venezuela	22.0	27.0
Denmark	1.7	1.8	<b>Asia</b>	<b>2.6</b>	<b>2.3</b>
Finland	1.0	0.8	Bangladesh	5.5	-
France	2.1	2.1	China P.R.	4.8	4.1
Germany	1.8	1.7	Hong Kong	-0.2	0.3
Greece	3.2	3.1	India	7.0	5.7
Iceland	3.0	3.2	Indonesia	7.1	6.6
Ireland	2.6	2.2	Japan	0.2	0.3
Italy	2.3	2.5	Korea	3.9	3.5
Luxembourg	2.1	2.0	Malaysia	2.8	1.9
Netherlands	1.5	1.8	Pakistan	6.8	5.4
Norway	0.6	1.3	Philippines	5.5	4.5
Portugal	2.5	2.6	Singapore	1.7	1.5
Spain	3.2	3.1	Sri Lanka	8.0	9.2
Sweden	1.3	1.3	Taiwan	2.1	1.3
Switzerland	0.9	1.0	Thailand	2.9	2.5
United Kingdom	2.0	2.2	Vietnam	7.1	5.8
<b>Central a. Eastern Europe</b>	<b>5.1</b>	<b>5.0</b>	<b>Near East</b>	<b>6.2</b>	<b>6.4</b>
Albania	3.8	3.8	Bahrain	-	1.5
Bosnia Herzegovina	1.0	1.0	Iran	16.7	17.5
Bulgaria	4.9	4.9	Israel	2.2	2.3
Croatia	2.1	2.6	Jordan	3.3	2.6
Czech Republic	3.1	3.0	Lebanon	3.5	4.5
Estonia	3.6	3.3	Saudi Arabia	1.3	1.5
Hungary	6.6	6.5	Turkey	11.1	11.6
Latvia	7.3	5.5	United Arab Emirates	4.6	3.8
Lithuania	1.7	1.6	<b>Africa</b>	<b>11.4</b>	<b>14.1</b>
Poland	4.0	3.8	Algeria	3.8	4.6
Romania	9.6	9.7	Egypt	5.0	9.3
Serbia a. Montenegro	10.3	9.2	Kenya	8.1	8.8
Slovenia	3.7	3.6	Mauritius	6.5	5.0
Slovakia	7.6	7.4	Morocco	3.0	1.9
<b>CIS</b>	<b>10.8</b>	<b>10.2</b>	Nigeria	17.9	17.7
Kazakhstan	6.6	6.5	South Africa	3.9	4.7
Russia	11.2	10.3	Tanzania	5.0	-
Ukraine	11.5	9.4	Tunisia	2.5	2.7
<b>North America</b>	<b>2.4</b>	<b>2.5</b>	Zimbabwe	300.0	400.0
Canada	2.3	2.0	<b>Oceania</b>	<b>2.8</b>	<b>2.6</b>
USA	2.5	2.6	Australia	2.9	2.6
			New Zealand	2.4	2.5

\* Within each country group the results are weighted according to the share of the specific country's exports and imports in the total world trade.

<sup>1</sup> Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia (from 1. May 2004)  
<sup>2</sup> EU countries without Denmark, Sweden, United Kingdom. – <sup>3</sup> Australia, China P.R., Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore Taiwan, Thailand, Vietnam. – <sup>4</sup> Algeria, Iran, Kuwait, Saudi Arabia, Qatar, United Arab Emirates.

Source: Ifo World Economic Survey (WES), QIV/2004.

somewhat undervalued and the *Japanese yen* appears to have approached its equilibrium range according to WES experts (see Figure 6). This overall pattern of currency assessments characterizes most countries. Noticeable exceptions are again Australia, several Asian countries like China, Indonesia, Pakistan, the Philippines, but also Latin American countries like Argentina and Bolivia as well as CIS countries like Kazakhstan and some Eastern European countries like Latvia and Lithuania where the own currency is regarded as generally undervalued. On the other hand, the own currency was again generally seen overvalued in Turkey, Sri Lanka, Nigeria, Venezuela and to a lesser degree also in Hungary.

According to the responses to the supplementary survey question on the development of currencies, the *US dollar* is expected – despite the huge US current account deficit – to increase slightly vis-à-vis most currencies in the course of the next six months. In the case of the *US dollar / euro* exchange rate one explanation for the expected relative strengthening of the *US dollar* might be the fact that interest rates in the USA will increase in coming months somewhat more than in the Euro area and economic growth in the USA will remain despite some slowing down more buoyant than in the Euro area. Exceptions from this general trend of a somewhat stronger US dollar are mainly some Asian countries like Taiwan, China and the Republic of Korea, where the *US dollar* is expected to lose in value against these countries' currencies; this trend of a weakening *US dollar* exchange rate also prevail Canada, Australia, Norway, Peru and Latvia.

### Interest rates: Fewer WES experts expect rising rates

Less often than in the previous survey, **short-term interest rates** are expected to rise in the course of the next six months. The dampened growth and inflation outlook for the world economy in 2005 makes it obviously less necessary as thought some months ago to hike interest rates. This trend is clearly visible in the Euro area but also prevails in the majority of the other countries covered by WES, also in the *USA* though there expect-

tations of interest rate hikes are still significantly more pronounced than in the Euro area. Some exceptions from this general trend towards a dampened increase of interest rates are *Canada, Australia, Estonia, Chile, Brazil, Indonesia, Hong Kong, Singapore, Taiwan, the Philippines, Thailand* as well as *Saudi Arabia* and *Egypt* where more often than in the previous survey the respective central bank is expected to hike interest rates in the course of the next six months.

Parallel to the slowing down of the rising trend of short-term interest rates, also **capital market interest rates** are expected to rise less strongly than thought some months ago. Exceptions from this general trend are *Sweden, Norway, the Czech Republic, Latvia, Chile, Taiwan, Singapore, the Philippines*, and as in the case of short-term interest rates, also *Egypt* where the trend towards higher long term interest will accelerate somewhat in the coming six months.

### Medium-term growth outlook remains positive

Despite the expected slowdown of world economic growth in the next six months the medium-term growth outlook for the next 3 to 5 years is somewhat brighter than at the same time last year (3.1 percent compared to 2.9 percent). This trend characterizes all big regions of the world and is most pronounced in *CIS* countries like *Kazakhstan, Russia* and *Ukraine* where the expected medium growth rate jumped to 6.1 percent from 4.9 percent last year. At least one percentage point above the overall average of about 3 percent annual growth is also re-reported Asia (here particularly *China, India, Vietnam* and *Singapore*), Central and Eastern Europe (here particularly

Figure 6

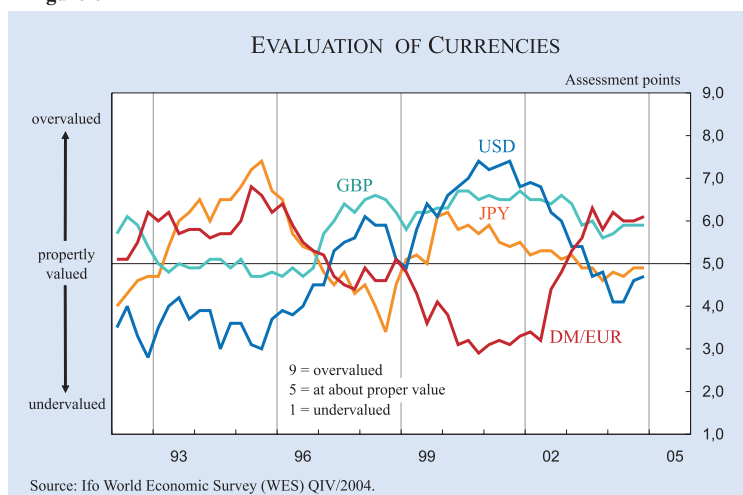




Figure 7a

# EUROPEAN UNION

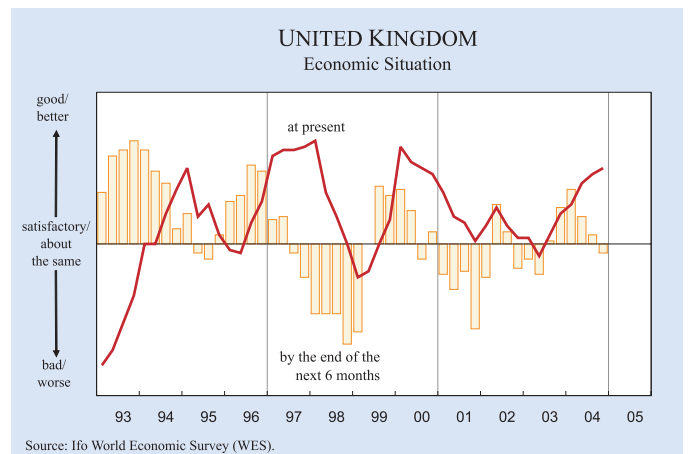
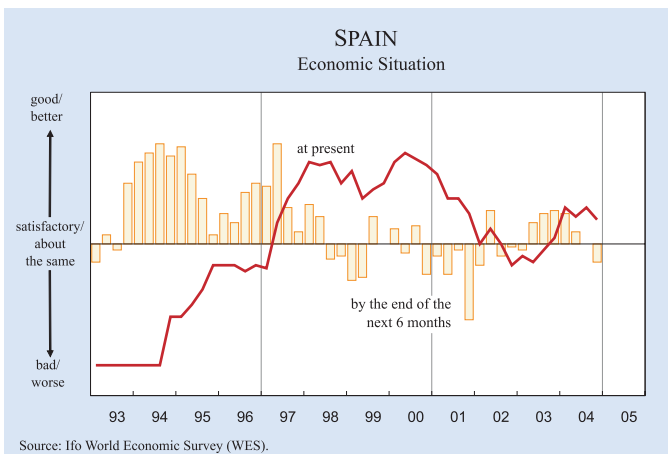
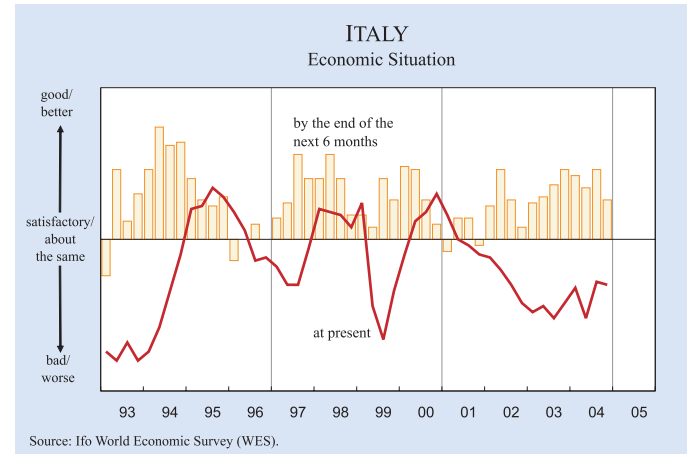
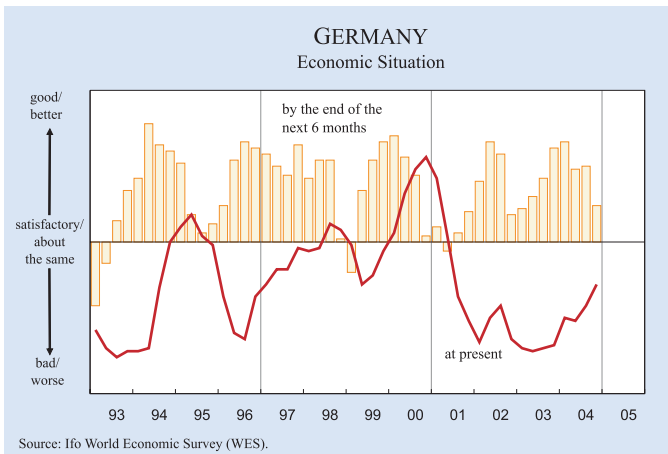
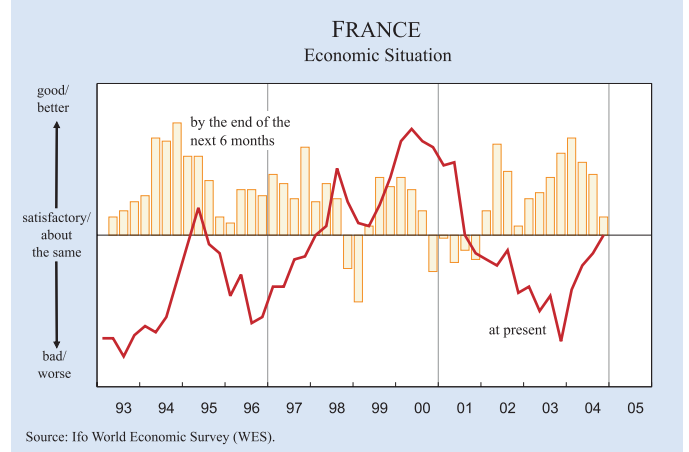
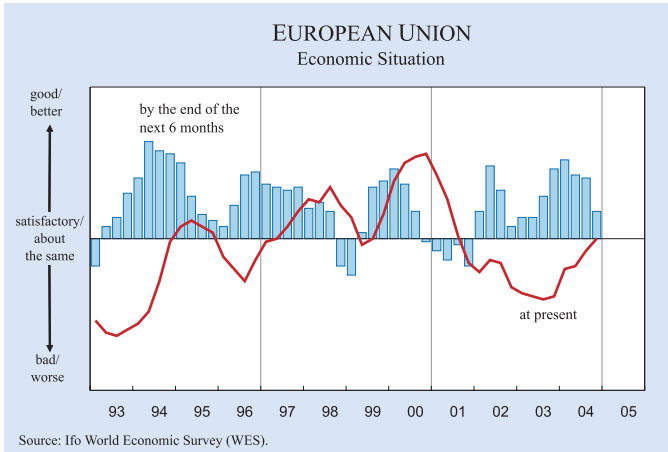


Figure 7b

EUROPEAN UNION

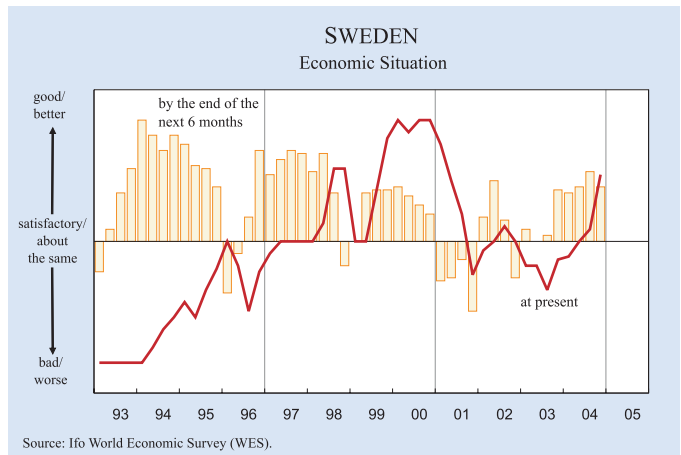
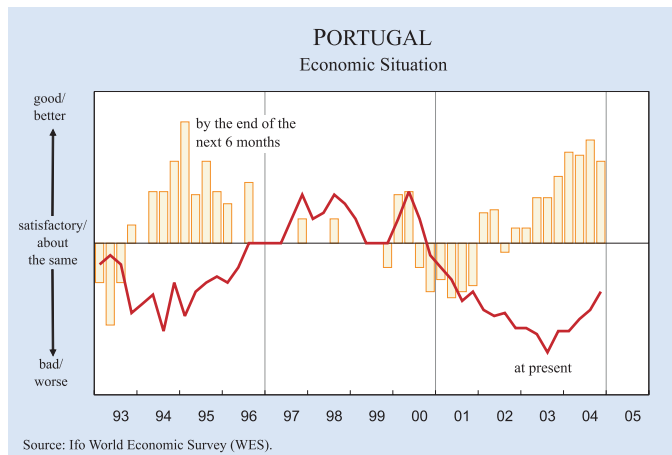
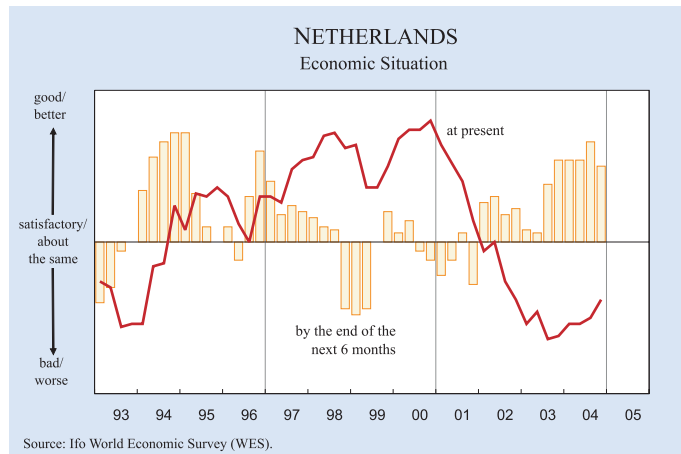
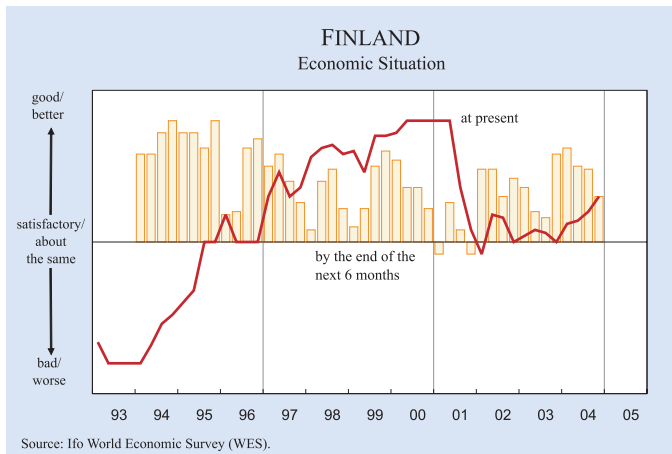
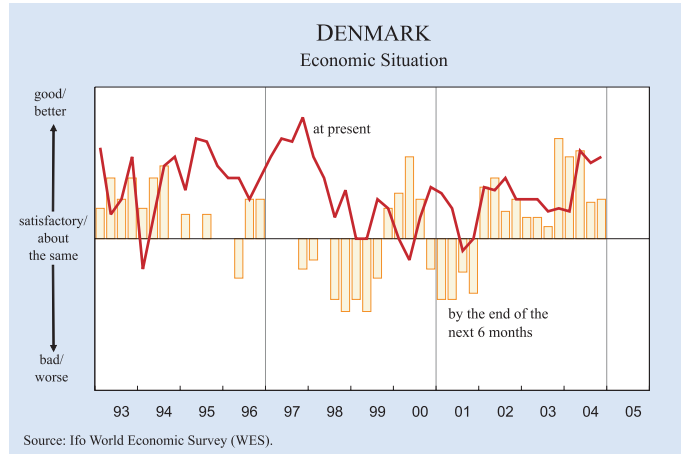
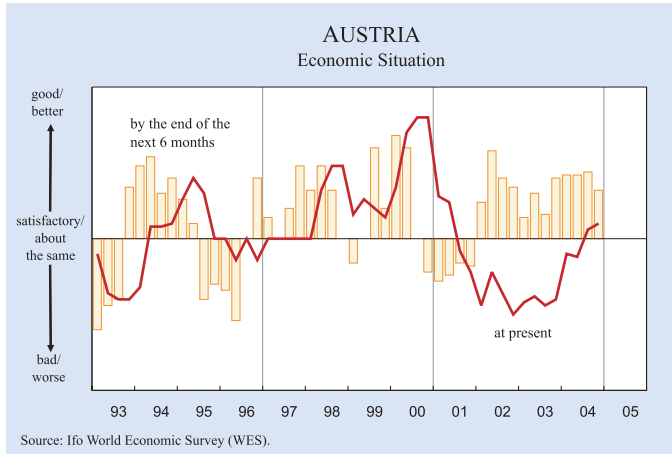


Figure 8

EASTERN EUROPE

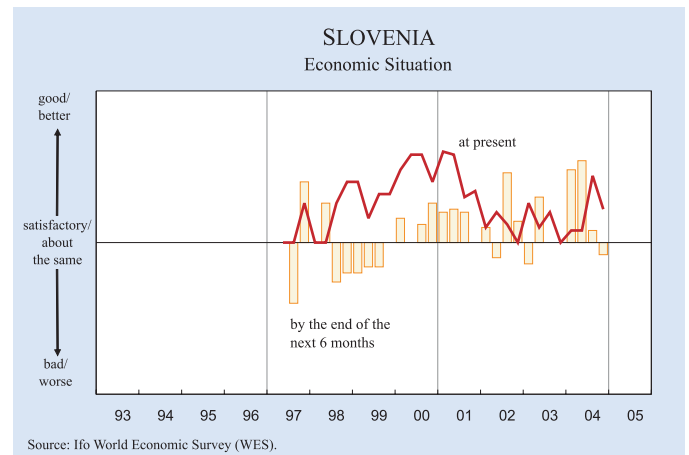
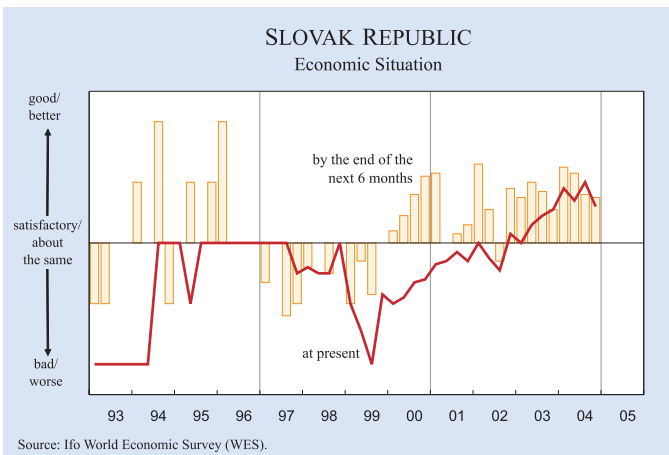
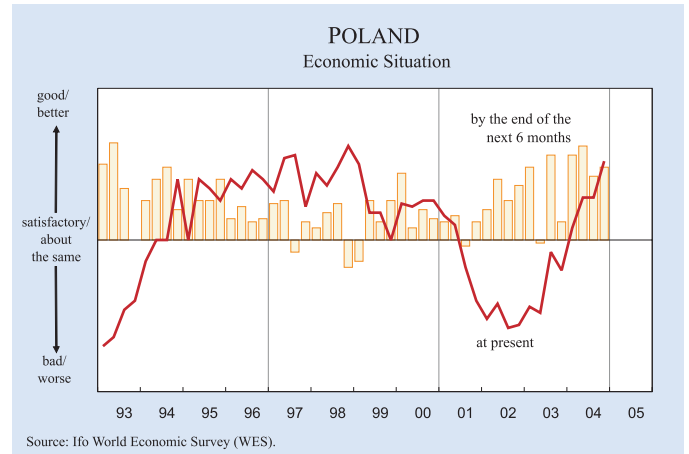
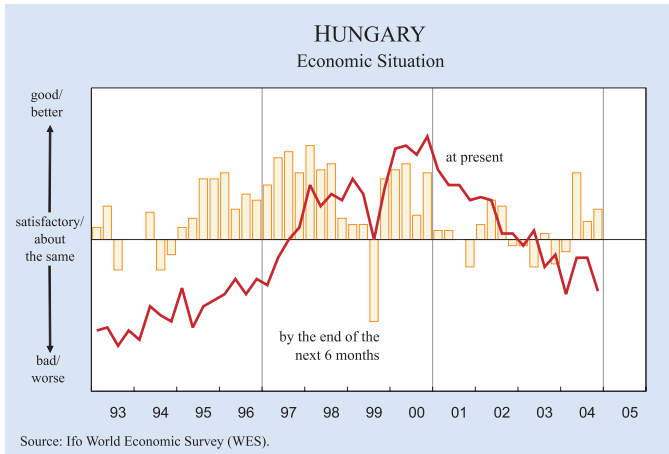
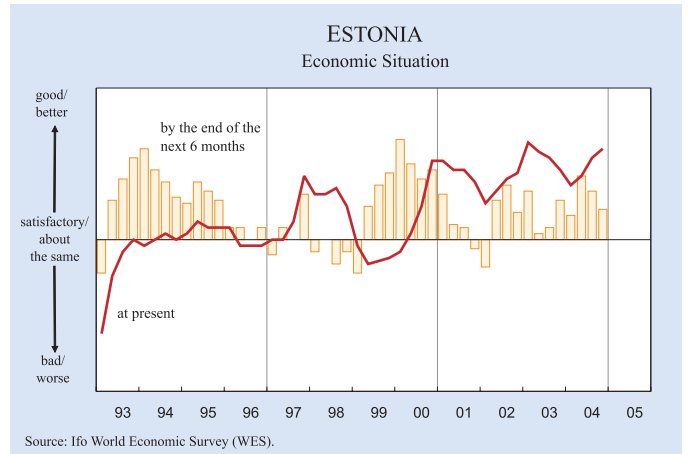
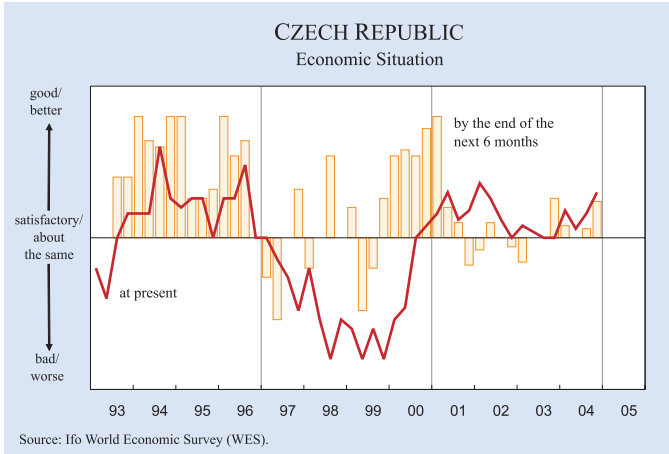


Figure 9

ASIA

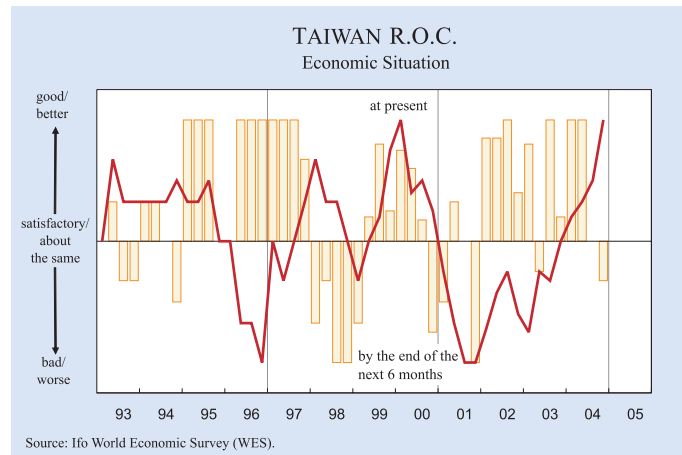
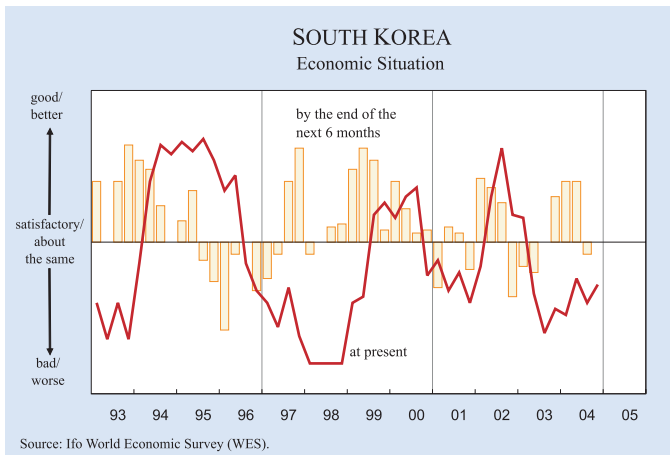
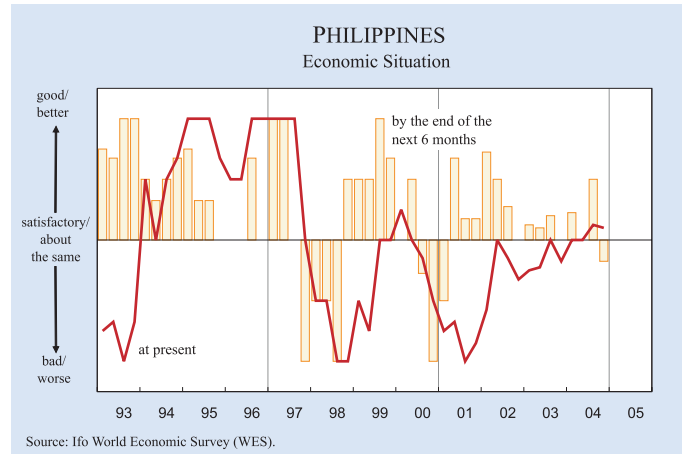
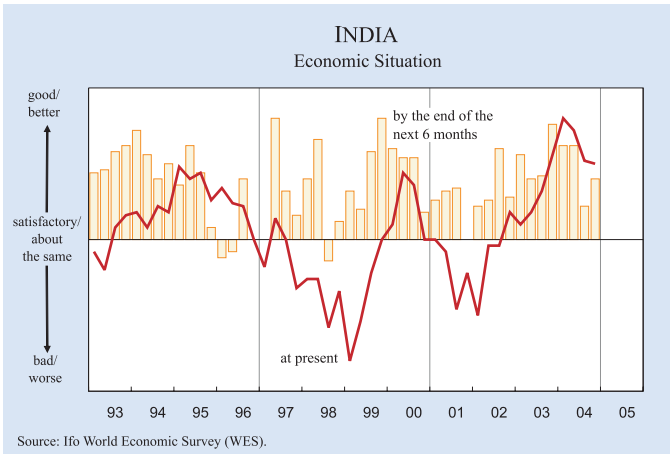
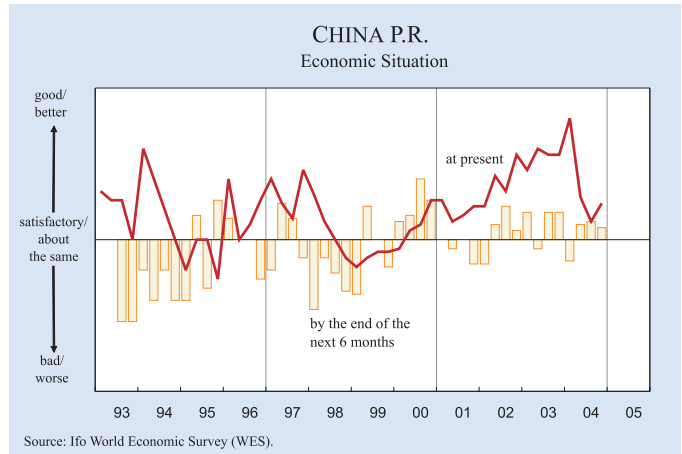
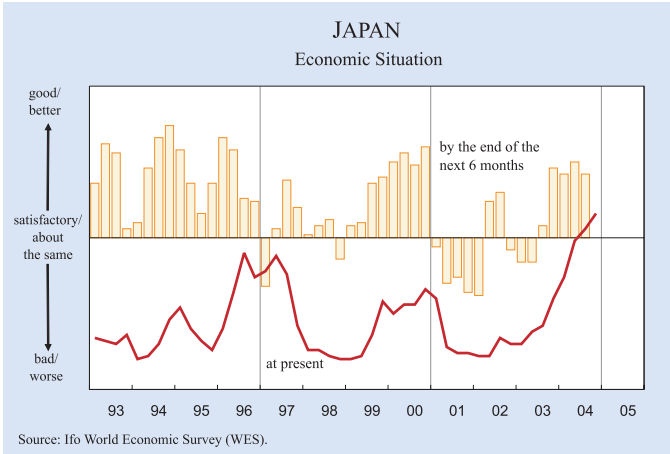


Figure 10

LATIN AMERICA

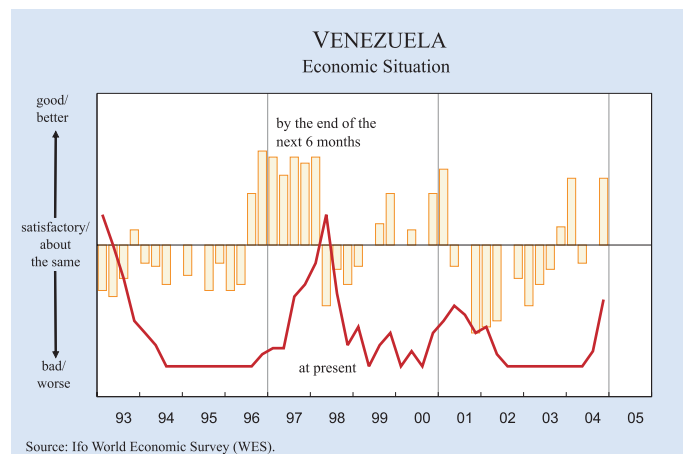
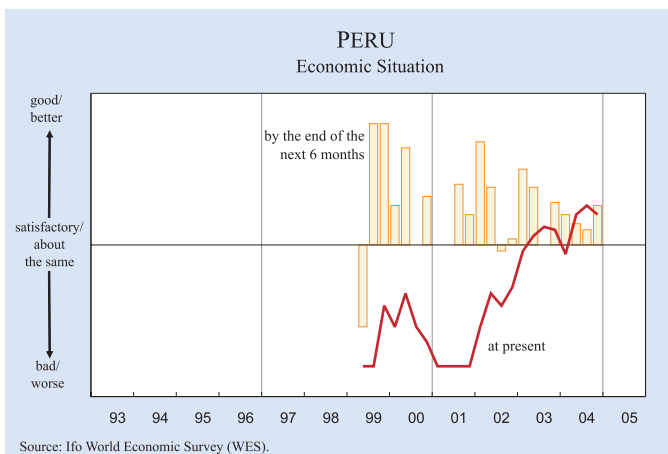
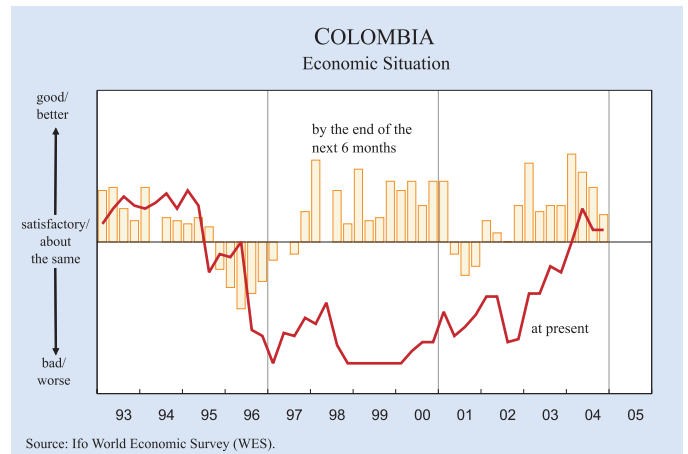
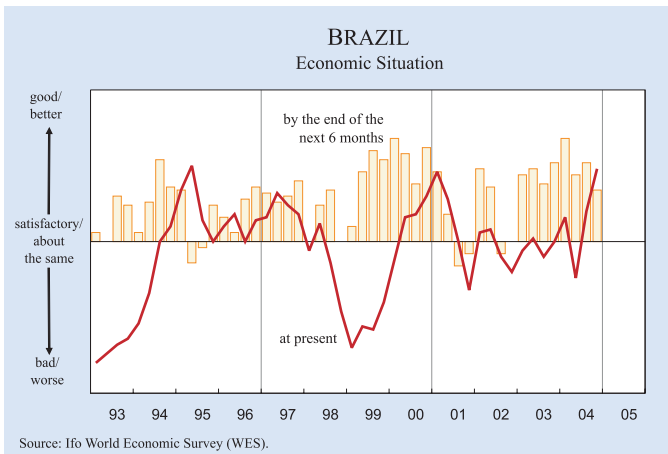
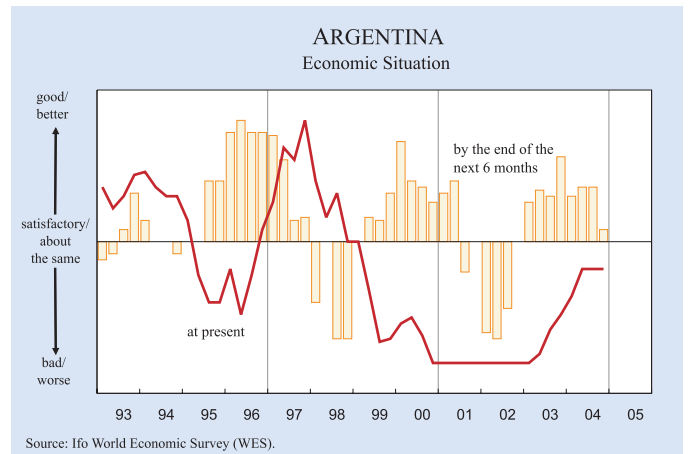
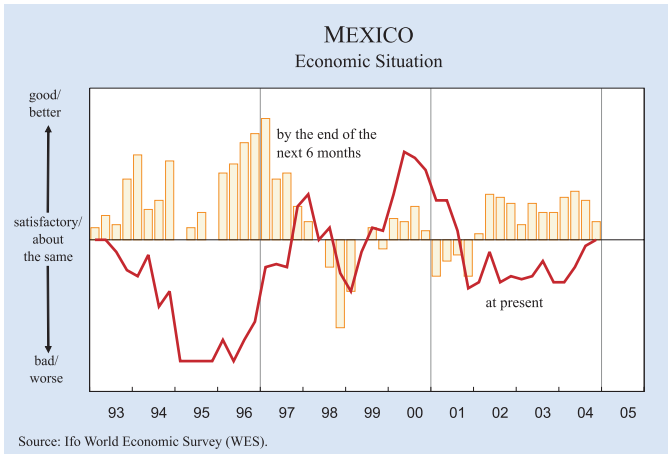


Figure 11

## NEAR EAST AND AFRICA

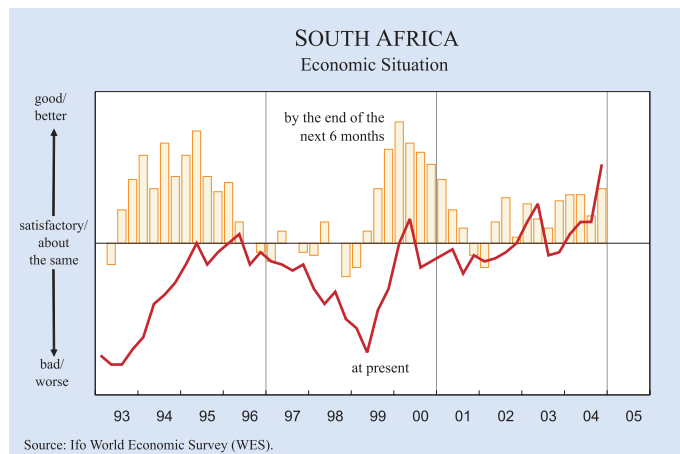
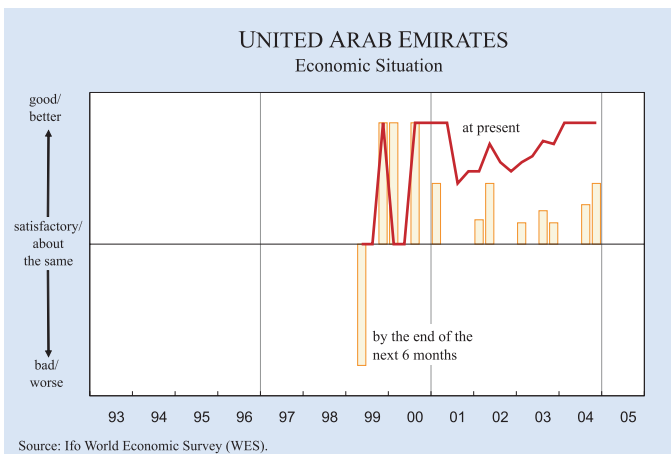
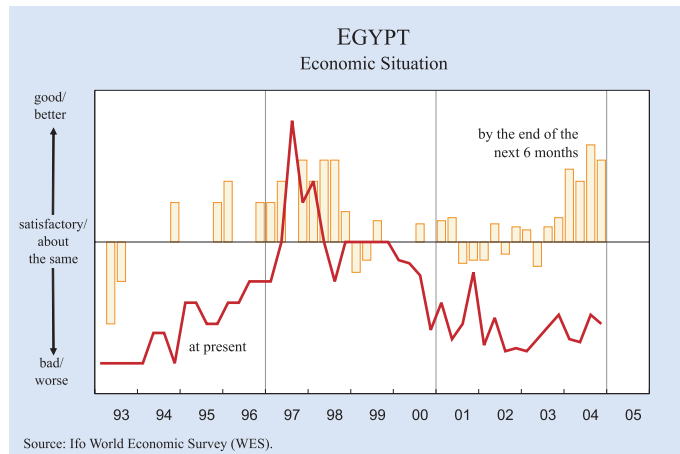
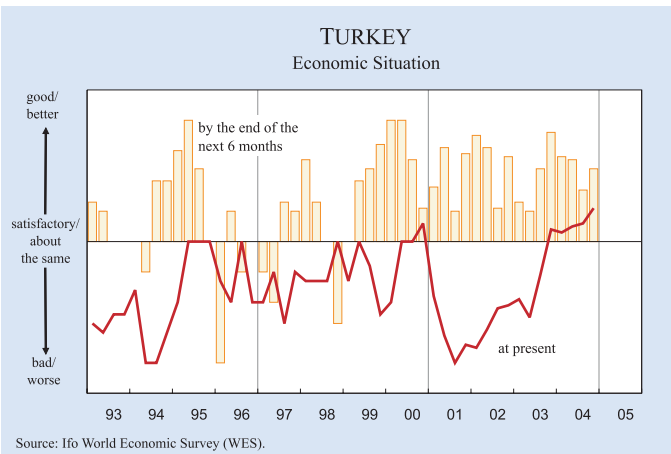
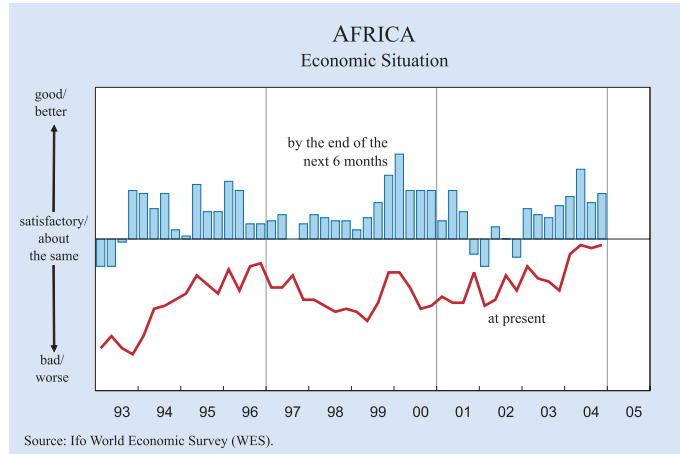
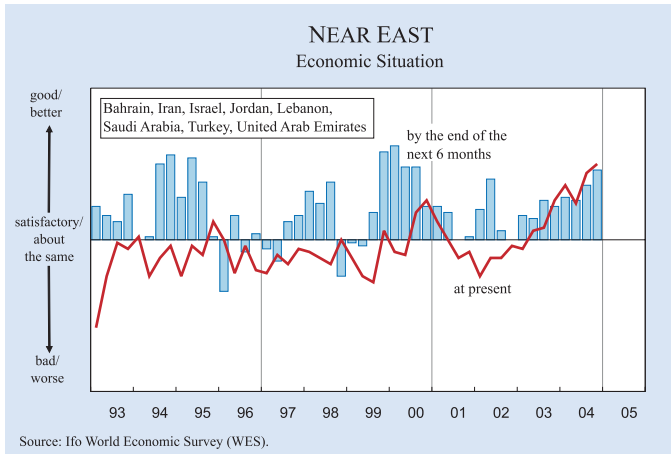


Table 2

**Expected Average Annual Growth Rates of Real Gross Domestic Product (GDP)  
Over the Next 3 to 5 Years\***  
(based on WES QIV/2004 and QIV/2003)

	WES QIV/2004	WES QIV/2003		WES QIV/2004	WES QIV/2003
<b>Average of 90 Countries</b>	<b>3.1</b>	<b>2.9</b>	<b>Latin America</b>	<b>3.6</b>	2.5
			Argentina	3.7	3.3
			Bolivia	2.6	1.6
<b>Western Europe</b>	<b>2.2</b>	<b>2.0</b>	Brazil	3.7	3.2
Austria	2.1	1.5	Chile	5.0	4.2
Belgium	1.7	1.5	Colombia	3.8	2.9
Cyprus	3.8	3.8	Costa Rica	3.2	3.7
Denmark	2.3	1.9	Ecuador	3.7	3.0
Finland	3.2	2.9	El Salvador	2.6	2.6
France	2.4	1.9	Mexico	3.3	2.4
Germany	1.6	1.6	Panama	3.8	1.5
Greece	3.3	3.8	Paraguay	2.8	3.0
Iceland	3.8	4.3	Peru	3.8	3.5
Ireland	4.6	3.4	Trinidad and Tobago	6.0	
Italy	1.4	1.6	Uruguay	5.6	3.8
Luxembourg	3.8	1.5	Venezuela	3.3	-1.9
Netherlands	1.7	1.5			
Norway	3.5	2.6	<b>Africa</b>	<b>4.2</b>	<b>3.6</b>
Portugal	2.4	1.2	Algeria	6.3	4.9
Spain	3.2	3.1	Egypt	3.8	3.1
Sweden	2.9	2.3	Côte d'Ivoire	6.0	-
Switzerland	1.5	1.3	Kenya	0.6	0.8
United Kingdom	3.0	2.6	Mauritius	3.8	3.8
			Morocco	3.8	1.9
<b>North America</b>	<b>3.2</b>	<b>3.1</b>	Nigeria	5.5	3.8
Canada	3.5	2.8	South Africa	3.6	3.5
United States	3.2	3.1	Tanzania	6.0	7.0
			Tunisia	3.8	6.0
<b>Oceania</b>	<b>3.5</b>	<b>3.4</b>	Zimbabwe	-4.0	-3.0
Australia	3.5	3.6			
New Zealand	3.5	2.9	<b>Eastern Europe</b>	<b>4.0</b>	<b>3.4</b>
			Albania	4.6	4.2
<b>CIS</b>	<b>6.1</b>	<b>4.9</b>	Bosnia Herzegovina	3.8	3.8
Kazakhstan	8.1	5.0	Bulgaria	4.3	3.7
Russia	6.0	4.8	Croatia	3.3	4.2
Ukraine	5.7	6.2	Czech Republic	3.6	2.9
			Estonia	4.6	4.3
<b>Asia</b>	<b>4.0</b>	<b>3.8</b>	Hungary	3.6	3.4
Bangladesh	4.6	5.5	Latvia	6.0	5.9
China	7.2	6.8	Lithuania	6.0	5.3
Hong Kong	4.2	3.3	Poland	4.0	2.8
India	6.2	5.9	Romania	4.9	3.5
Indonesia	4.1	3.7	Slovenia	3.5	3.8
Japan	2.1	1.3	Slovakia	4.1	3.9
Korea Rep.	3.3	3.8	Serbia and Montenegro	5.0	2.5
Malaysia	4.7	4.3			
Nepal	3.8	-	<b>Near East</b>	<b>4.9</b>	<b>4.1</b>
Pakistan	5.3	4.0	Iran	3.2	6.8
Philippines	4.3	3.4	Israel	3.8	1.5
Singapore	5.9	3.0	Jordan	5.7	3.8
Sri Lanka	4.9	4.6	Kuwait	5.5	-
Taiwan	3.8	2.9	Lebanon	3.8	-
Thailand	4.6	5.2	Saudi Arabia	5.2	4.3
Vietnam	6.8	6.7	Turkey	5.3	4.5
			United Arab Emirates	5.8	4.1

\* Within each country group or region, the country results are weighted according to the share of the specific country's exports and imports in total world trade.

Source: Ifo World Economic Survey (WES), QIV/2004.

Latvia and Lithuania), the Near East (here particularly Jordan, Kuwait, Saudi Arabia, Turkey and the United Arab Emirates) and also Africa (here particularly Nigeria and Algeria). Close to the overall average of roughly 3 percent medium-term growth per

year was determined for North America (both the USA and Canada), Oceania (both Australia and New Zealand) as well as Central and Latin America (here above average particularly Chile and Uruguay). Medium-term growth in Western Europe is still seen

by WES experts significantly below the worldwide average, though it is expected to be slightly higher than in the WES survey one year ago (2.2 percent compared with 2.0 percent in October 2003). Within Western Europe the strongest medium-term growth is again seen in Ireland (4.6 percent p.a.) and in Norway (3.5 percent p.a.). Germany, Italy, Belgium, the Netherlands and Switzerland belong to the group of slow growing countries with an annual growth rate of roughly 1.5 percent in the medium-term (see Table 2).

### ICC Special Question: Worldwide Unemployment: Coping with Jobless Growth

In the October WES survey, unemployment once again ranked as the economic problem number one worldwide. According to the United Nations International Labour Organization (ILO)<sup>1</sup>, global unemployment rose in 2003 to a record level of over 185 million, or over 6 percent of the labour force. The slow pace of the upturn in the industrialized economies, the Severe Acute Respiratory Syndrome (SARS) and armed conflicts had a negative impact on employment during the first half of 2003. The hope for more employment was based on economic recovery. Though the majority of regions experienced solid economic growth in 2004, this positive economic trend was only associated with a meager increase in the number of employed persons. This phenomenon is called *jobless growth*. Jobless growth occurs when labour productivity increases faster than economic growth, as companies try to increase their efficiency in order to maintain competitiveness, and when the industrial structure focuses more on capital and technology than on labour. The special question asked in October focused on unemployment and the prospects for 2005 given economic growth expectations worldwide.

Measuring unemployment is a tricky affair. The unemployment rate is defined as the proportion of people in the labour force

<sup>1</sup> International Labour Office, Geneva: "Global Employment Trends – Annual jobs report", released on January 22, 2004: [www.ilo.org/public/english/employment/strat/global.htm](http://www.ilo.org/public/english/employment/strat/global.htm).

who are actively seeking work. The unemployment figures indicate how many are registered as not working and seeking employment. But there are also those who are not registered as unemployed who have become discouraged over time from actively looking for work or registering as unemployed or who have retired before the official retirement age but would still like to work and also those who work only few hours a week for payment even if they wish to work full time. In the world's wealthiest nations, aspects such as unemployment benefits can also alter statistics, since they give an incentive to register as unemployed. On the other hand, if there are few or no benefits, people may not register as unemployed at all. Therefore, methods of measuring unemployment may be inaccurate as these methods do not take into account various factors. Thus, experts surveyed by WES were asked to indicate the official unemployment rate in their country and to estimate the effective unemployment rate. In all regions (see Figure 12 and Table 3), except Oceania, the unemployment seems to be underestimated by the official statistics (employment office records or labour force surveys). There were only a few countries (Croatia, Czech Republic, Lithuania, Malaysia, Ireland and Denmark) where the effective unemployment rate was estimated to be below the official unemployment rate by the majority of WES experts.

The effective unemployment rate was estimated much higher than the official figures, surpassing the 20 percent mark in some African countries (Egypt, South Africa, Kenya and Nigeria), in Latin America (Bolivia, Colombia, Ecuador, Venezuela) and in Albania. Despite solid GDP growth rates, many countries in Asia (see Table 2) have very high unem-

Figure 12

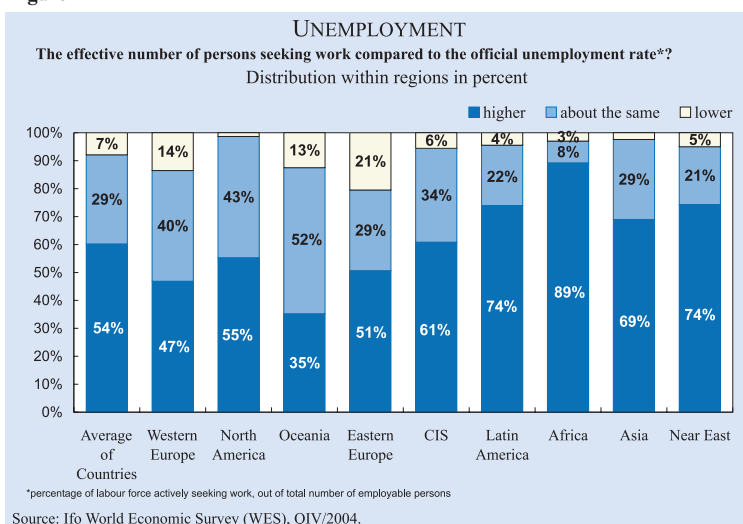




Table 3

**Unemployment Rates**  
(Percentage of labour force actively seeking work, out of the total number of employable persons)

Region	WES, October 2004			ILO Total unemployment in 2003	Region	WES, October 2004			ILO Total unemployment in 2003
	<i>n</i>	Unemployment rate in 2004*				<i>n</i>	Unemployment rate in 2004*		
<b>Western Europe</b>	423	7.1	- 7.9		<b>Latin America</b>	115	12.0	- 17.8	
Austria	50	5.2	- 7.0	240,100 b	Argentina	9	15.6	- 18.4	1,583,600 a
Belgium	19	9.8	- 11.4	538,100 b	Bolivia	4	13.2	- 22.0	-
Denmark	11	6.0	- 5.8	170,600 b	Brazil	24	12.0	- 14.3	7,785,100 a
Finland	27	8.5	- 9.6	289,000 b	Chile	11	9.4	- 10.0	453,060 a
France	21	9.8	- 10.4	2,640,400 a	Colombia	9	13.4	- 21.5	2,878,110 a
Germany	64	10.4	- 12.3	4,207,000 b	Costa Rica	4	6.5	- 8.2	117,191 a
Greece	15	9.6	- 11.8	420,100 a	Ecuador	6	11.0	- 25.8	461,090 a
Ireland	22	4.5	- 4.3	172,410 b	Mexico	13	4.2	- 12.5	882,500 a
Italy	38	8.2	- 8.0	2,096,000 a	Panama	3	15.0	- 19.7	170,351 a
Netherlands	21	5.8	- 7.1	355,000 a	Paraguay	4	14.4	- 12.1	272,600 a
Norway	9	4.3	- 4.6	107,000 a	Peru	12	12.0	- 18.0	385,999 a
Portugal	18	6.3	- 6.5	342,300 a	Uruguay	4	13.6	- 14.1	211,300 a
Spain	35	10.6	- 11.2	2,127,300 a	Venezuela	9	15.8	- 34.6	1,822,600 a
Sweden	28	5.9	- 7.7	217,000 a					
Switzerland	18	3.8	- 4.4	145,687 b	<b>Africa</b>	58	-	-	
United Kingdom	23	4.2	- 5.0	1,414,000 a	Egypt	3	10.0	- 25.0	1,783,000 a
					Kenya	5	27.5	- 37.5	-
<b>North America</b>	52	6.4	- 7.2		Nigeria	5	28.5	- 53.5	-
Canada	13	7.2	- 8.1	1,300,900 a	South Africa	26	30.0	- 37.0	4,910,000 a
United States	39	5.5	- 6.2	8,774,000 a	Zimbabwe	11	64.0	- 70.0	-
<b>Oceania</b>	19	5.1	- 5.8		<b>Asia</b>	166	6.3	- 10.0	
Australia	11	5.8	- 6.8	631,300	China	16	4.5	- 11.9	7,700,000 b
New Zealand	8	4.4	- 4.8	93,900 a	Hong Kong	10	6.9	- 7.5	277,600 a
					India	10	6.7	- 10.3	41,389,000 b
<b>Eastern Europe</b>	157	12.9	- 14.3		Indonesia	12	10.4	- 22.1	9,132,100 a
Albania	10	15.6	- 29.4	166,000 a	Japan	33	4.9	- 6.0	3,500,000 a
Bulgaria	19	13.1	- 15.3	449,100 a	Korea Rep.	14	3.6	- 6.3	777,000 a
Croatia	8	17.7	- 15.8	255,740 a	Malaysia	11	3.3	- 3.1	34,820 b
Czech Republic	14	9.6	- 8.7	542,000 b	Pakistan	16	7.9	- 15.2	3,506,000 a
Estonia	3	9.7	- 12.2	66,200 a	Philippines	11	11.4	- 19.5	3,269,000 a
Hungary	12	5.8	- 7.4	244,500 a	Singapore	3	4.5	- 4.5	116,395 a
Latvia	5	8.6	- 9.4	90,550 b	Sri Lanka	3	8.1	- 11.5	700,400 a
Lithuania	7	10.0	- 9.3	158,800 b	Taiwan	3	4.8	- 5.9	503,000 a
Poland	36	19.5	- 19.0	3,329,000 a	Thailand	10	3.5	- 4.9	543,700 a
Romania	12	7.7	- 8.4	658,900 b	Vietnam	11	7.5	- 11.9	949,000 a
Slovenia	11	6.5	- 7.9	63,000 a					
Slowakia	13	15.5	- 15.2	443,400 b	<b>Near East</b>	44	8.9	- 13.4	
Serbia a. Montenegro	6	28.8	- 28.0	1,018,974 b	Iran	4	13.0	- 24.0	1,687,355 b
					Israel	8	10.6	- 16.5	279,900 a
<b>CIS</b>	35	8.9	- 12.4		Saudi Arabia	3	9.8	- 9.5	326,646 a
Kazakhstan	11	8.3	- 14.7	672,100 a	Turkey	18	10.7	- 16.0	2,493,000 a
Russia	13	8.2	- 9.1	1,309,000 b	United Arab Emirates	6	0.3	- 1.0	41,000 a
Ukraine	11	10.1	- 13.3	2,059,500 a					

\* The first figure characterizes the official unemployment rate and the second figure the effective rate, as estimated by WES experts.  
n – number of responding experts

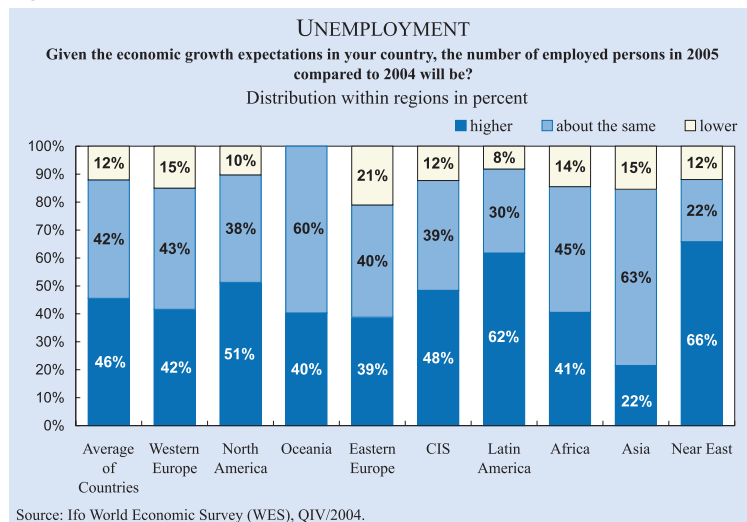
a - Labour force survey  
b - Employment office records

Source: Ifo World Economic Survey (WES), QIV/2004;  
ILO - International Labour Organization: Yearbook of Labour Statistics 2003-2001 .

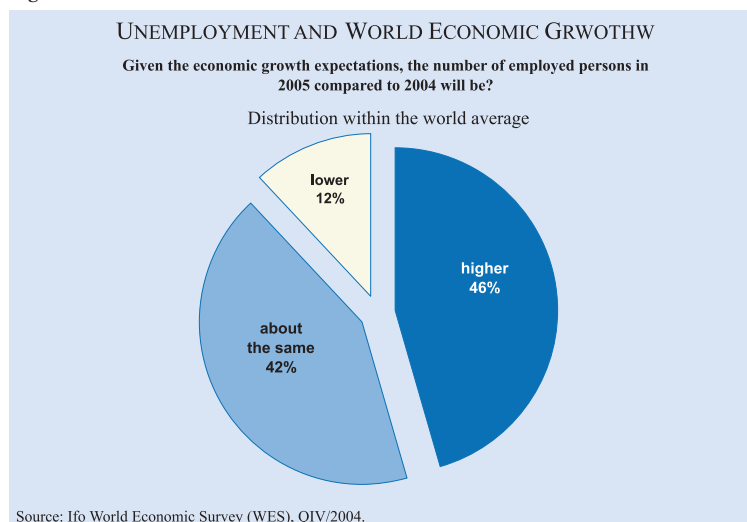
ployment rates, according to WES experts, so for example Indonesia (10.4 percent to 22.1 percent), the Philippines (11.4 percent to 19.5 percent), Pakistan (7.9 percent to 15.2 percent) and India (6.7 percent to 10.3 percent). However, in Africa and some Asian countries data on direct unemployment hardly exist,

but problems of massive underemployment and poverty persist in these low-income regions. Employment in transition economies is generally a fuzzy concept and may be divided into two sectors: the „formal“ sector, which includes employment in public and private enterprises and the traditional or

**Figure 13a**



**Figure 13b**



„informal“ sector which includes self-employment and employment in family-type enterprises (not to be confused with underground or illegal economy). In many low to middle income countries, a large proportion of the labour force is employed in the informal sector and may not be counting as “unemployed”, though they belong to the “working poor”, as this sector is often characterized by inequality, income insecurity and vulnerability.

But also in the European Union, unemployment increased in 2003 to an average of 11.3 percent of the workforce according to ILO, with Germany (10.4 percent to 12.3 percent), France (9.8 percent to 10.4 percent), Spain (10.6 percent to 11.2 percent), Greece (9.6 percent to 11.8 percent) and Belgium (9.8 percent to 11.4 percent) having unemployment rates at double-digit levels (see Table 3). In North

America, unemployment was estimated to be between 5.5 percent and 6.2 percent in the United States and between 7.2 percent and 8.1 percent in Canada. In the transition economies of Eastern and Central Europe, unemployment rates though declining are above the 10 percent level in the majority of countries of the region. The highest share of unemployed persons in the labour force was reported from Serbia and Montenegro (at about 28 percent) and Albania (15.6 percent to 29.4 percent). The lowest rates of unemployment were reported in Slovenia (6.5 percent to 7.9 percent) and Hungary (5.8 percent to 7.4 percent). In Russia the unemployment rate was estimated to be between 8.2 percent and 9.1 percent. The lowest unemployment rates worldwide (below 5 percent) were reported from United Arab Emirates, Malaysia, Ireland, Switzerland, Singapore, Norway, New Zealand and Thailand (see Table 3).

According to the latest results, WES experts are divided concerning the question of whether the global employment picture

will brighten in 2005. 46 percent of experts surveyed worldwide think that the number of employed persons in 2005 will be higher compared to 2004 (see Figure 13a and Table 4). However, 54 percent of experts feel that the expected economic growth would not have any significant impact on employment – in other words, it would basically be a jobless recovery. This poses a problem particularly for countries with strongly growing populations. In the Near East (66 percent) and in Latin America (62 percent) experts are optimistic that economic recovery will also help to improve the employment situation in the countries (except Panama and Paraguay) of the region (see Figure 13b). Experts in Kazakhstan, India, Pakistan, Norway, Philippines, Turkey, Malaysia, Ukraine, Vietnam, New Zealand and Brazil are particularly optimistic that economic

Table 4

## Number of Employed Persons in 2005 Compared to 2004

Region	n	higher	about the same	lower		n	higher	about the same	lower
<b>Average of 90 Countries</b>	<b>1.066</b>	<b>46%</b>	<b>42%</b>	<b>12%</b>	<b>CIS</b>	<b>35</b>	<b>62%</b>	<b>30%</b>	<b>8%</b>
<b>Western Europe</b>	<b>421</b>	<b>42%</b>	<b>43%</b>	<b>15%</b>	Kazakhstan	11	91%	9%	0%
Austria	50	34%	62%	4%	Russia	13	31%	54%	15%
Belgium	19	37%	53%	11%	Ukraine	11	64%	27%	9%
Denmark	11	45%	45%	9%	<b>Asia</b>	<b>165</b>	<b>48%</b>	<b>39%</b>	<b>12%</b>
Finland	27	33%	52%	15%	China	16	44%	44%	13%
France	21	38%	48%	14%	Hong Kong	10	60%	10%	30%
Germany	64	28%	50%	22%	India	10	90%	10%	0%
Greece	15	27%	40%	33%	Indonesia	12	50%	33%	17%
Ireland	22	45%	50%	5%	Japan	33	33%	55%	12%
Italy	37	49%	30%	22%	Korea Rep.	14	57%	7%	36%
Netherlands	21	43%	33%	24%	Malaysia	11	64%	36%	0%
Norway	9	78%	11%	11%	Pakistan	15	80%	7%	13%
Portugal	17	41%	53%	6%	Philippines	11	73%	18%	9%
Spain	35	43%	43%	14%	Thailand	10	30%	70%	0%
Sweden	28	46%	39%	14%	Vietnam	11	64%	27%	9%
Switzerland	18	39%	33%	28%	<b>Latin America</b>	<b>115</b>	<b>41%</b>	<b>45%</b>	<b>14%</b>
United Kingdom	23	39%	52%	9%	Argentina	9	22%	56%	22%
<b>North America</b>	<b>52</b>	<b>51%</b>	<b>38%</b>	<b>10%</b>	Bolivia	4	25%	75%	0%
Canada	13	54%	31%	15%	Brazil	24	63%	17%	21%
United States	39	49%	46%	5%	Chile	11	27%	64%	9%
<b>Oceania</b>	<b>19</b>	<b>40%</b>	<b>60%</b>	<b>0%</b>	Colombia	9	56%	33%	11%
Australia	11	18%	82%	0%	Costa Rica	4	50%	25%	25%
New Zealand	8	63%	38%	0%	Ecuador	6	17%	67%	17%
<b>Eastern Europe</b>	<b>157</b>	<b>39%</b>	<b>40%</b>	<b>21%</b>	Mexico	13	54%	46%	0%
Albania	10	30%	60%	10%	Paraguay	4	25%	25%	50%
Bulgaria	19	47%	32%	21%	Peru	12	58%	42%	0%
Croatia	8	38%	50%	13%	Uruguay	4	75%	25%	0%
Czech Republic	14	29%	50%	21%	Venezuela	9	56%	44%	0%
Hungary	12	50%	33%	17%	<b>Africa</b>	<b>58</b>	<b>22%</b>	<b>63%</b>	<b>15%</b>
Latvia	5	40%	40%	20%	Kenya	5	20%	80%	0%
Lithuania	7	43%	14%	43%	Nigeria	5	40%	40%	20%
Poland	36	47%	33%	19%	South Africa	26	38%	50%	12%
Romania	12	33%	33%	33%	Zimbabwe	11	9%	45%	45%
Slovenia	11	18%	55%	27%	<b>Near East</b>	<b>44</b>	<b>66%</b>	<b>22%</b>	<b>12%</b>
Slovakia	13	46%	38%	15%	Iran	4	75%	0%	25%
Serbia a. Montenegro	6	50%	50%	0%	Israel	8	38%	50%	13%
					Turkey	18	67%	28%	6%
					United Arab Emirates	6	50%	33%	17%

\* Only countries with more than 3 participants were included into the analysis.

n - Number of responding experts

Source: Ifo World Economic Survey (WES), QIV/2004.

growth will create more employment opportunities. Foreign investment, stronger domestic demand, trade growth and reforms are some factors that contributed to the improvement of the labour market situation in these economies. However, the majority of experts surveyed by WES in Asia (78 percent), Oceania (60 percent), Eastern Europe (61 percent), Western Europe (58 percent) and Africa (59 per-

cent) think that despite the pickup in economic growth, the unemployment figures will remain unchanged or even increase in 2005. The high labour force growth rates which some economies are unable to absorb, the deficits in the quality of public institutions and the high incidence of poverty in some economies are threats for real improvements in the labour markets according to the ILO. In the USA

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49 percent of experts expect an improvement of the labour market, and 51 percent think that despite a pick up in GDP growth, job creation will remain sluggish in 2005. Japan has recovered from its long-lasting crisis, but only 33 percent of WES experts foresee an improvement of the employment situation; the majority of WES experts (77 percent) are not expecting any changes for the better or even further employment losses (see Table 4).

Summarizing the results, in only 26 of 73 countries included in the analysis, WES experts expect that economic growth will help to create more jobs. In the other 47 countries, the majority of surveyed economists don't think that economic expansion in their countries will considerably contribute to more employment opportunities.



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