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CESifo World Economic Survey May 2014

CESifo World Economic Survey

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CESifo WORLD ECONOMIC SURVEY

VOLUME 13, No. 2

MAY 2014

WORLD ECONOMIC CLIMATE

World economic climate weakens,
but remains at a high level

ECONOMIC EXPECTATIONS

Optimistic economic expectations

INFLATION

Moderate inflation expectations

CURRENCIES

US dollar expected to rise

INTEREST RATES

Stable interest rates expected

SPECIAL TOPIC

Effects of large-scale government
bond purchases by central banks

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Regions

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- Western Europe: Recovery continues but lack of momentum
- North America: Economic climate indicator on 8-year high
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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 2014*, 1,134 economic experts in 121 countries were polled.

Methodology and evaluation technique

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

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

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

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

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

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

WORLD ECONOMIC CLIMATE WEAKENS, BUT REMAINS AT A HIGH LEVEL

The Ifo Index for the world economy fell slightly in the second quarter. Assessments of the current economic situation remain satisfactory. The six-month economic outlook clouded over slightly, but remains friendly overall (see Figures 1 and 2). At 102.3, the indicator still stands well above its long-term average of 95.5 (1998–2013). WES experts expect world economic growth of 2.5 percent this year. They forecast growth rates of 1.6 percent for Europe and 2.5 percent for North America. In Latin America and Asia, by contrast, respective growth rates of 2.3 percent and 3.7 percent will be lower than the high figures seen in the recent past. The world economy continues to follow an upward trend, but is showing little momentum (see Box 1).

years has been lifted, with Republicans and Democrats reaching key compromises in late 2013. Fiscal policy in the euro area is no longer expected to be overly restrictive this year. Current developments in the capital markets of emerging economies pose a threat to the world economy. Although exchange rates have now stabilised after January's depreciations, individual events such as, for example, the Russia-Ukraine conflict, could trigger further capital outflows and currency depreciation in the future. The unexpectedly steep decline in price pressures in the euro area poses a further threat to the economy. Such surprisingly weak price pressures mean that the real burden of old debts are higher than expected.

Uneven recovery across regions

World production grew strongly in the first few months of 2014. The impetus particularly came from advanced economies, which have gained momentum over the course of the past year. The USA and United Kingdom are experiencing an upturn and the economy in the euro area is slowly recovering from recession. A number of emerging economies, however, have been battling with capital outflows and currency depreciations since mid-2013. Monetary policy in the advanced economies remains expansive, with base rates at zero percent or just above. The US Fed has announced that it will keep interest rates low, despite the steep fall in the unemployment rate; and the ECB lowered its main refinancing rate to 0.25 percent in November. Fiscal policy in the advanced economies will also remain restrictive in 2014, albeit to a lesser degree than in 2013. In the US the fiscal policy blockade that constituted a major threat in recent

Figure 1

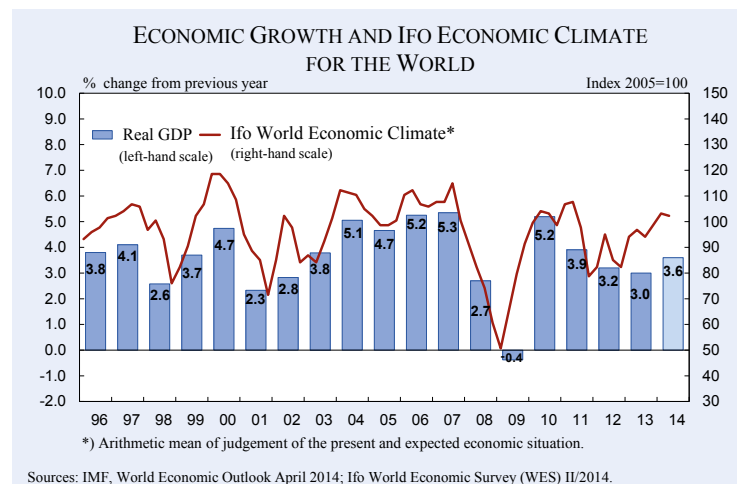
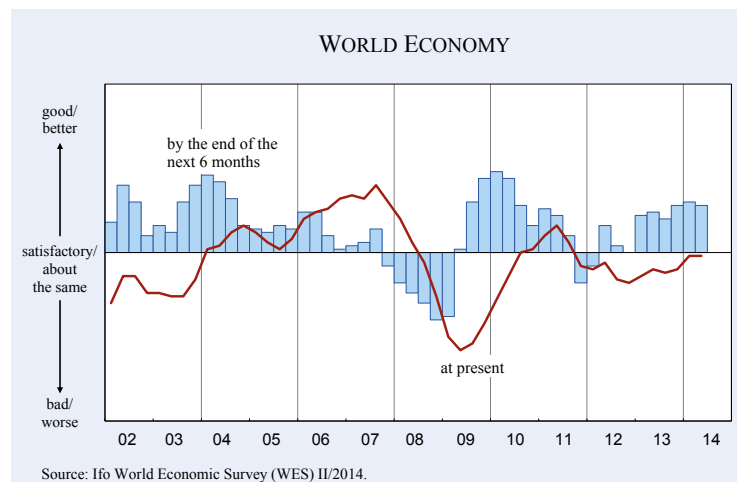


Figure 2

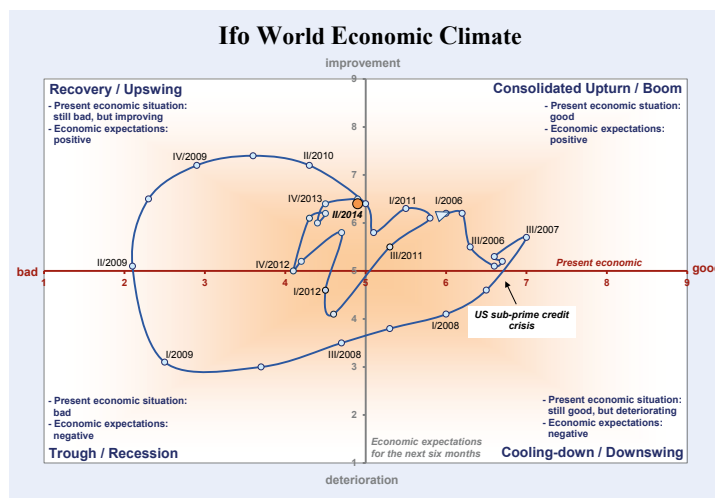


Box 1

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 economy barely moved. While assessments of the current economic situation remain satisfactory, economic expectations for the next six months deteriorated marginally, but remain optimistic on the whole. The indicator shows a slight downwards movement in the “recovery” quadrant. The recovery of the world economy continues, but less dynamically.



Source: Ifo World Economic Survey (WES) II/2014.

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).

The *euro area* is nevertheless a long way off deflation, or a falling price level that is perceived by companies and households as an ongoing process.

The stabilisation of the world economic climate masks differing trends: while the countries of *Europe* and *North America* in particular have found their feet again, the pace of growth in the emerging economies of *Asia* and *Latin America* seems to be slowing down. The Ifo index for *North America* rose by 5.0 points, primarily due to improved expectations. In *Europe* the 1.9 point rise in the index was not so marked. *Germany* and *United Kingdom* continue to stand out thanks to its very strong economic situation. In most of the other countries in *Europe*, assessments of the current economic situa-

tion remain subdued. More positive assessments of the economic situation were crucial in *Europe*, while expectations deteriorated slightly. In *Asia* (7.9 point decline in the indicator), *Latin America* (-4.6) and the *CIS-states* (-8.3) both components of the economic climate clouded over.

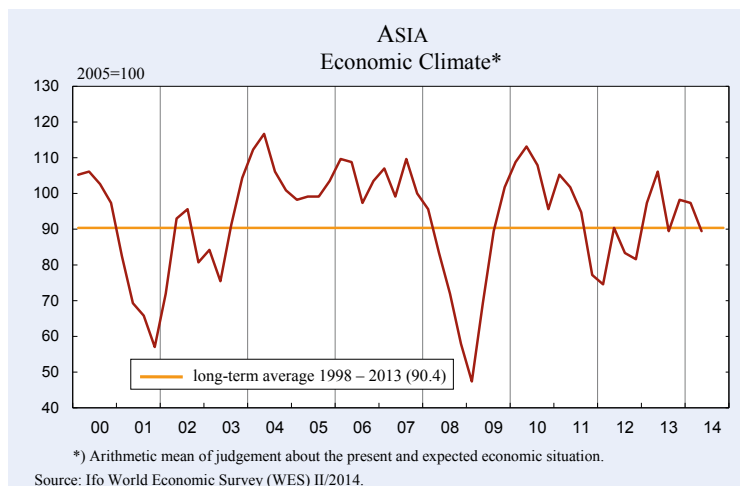
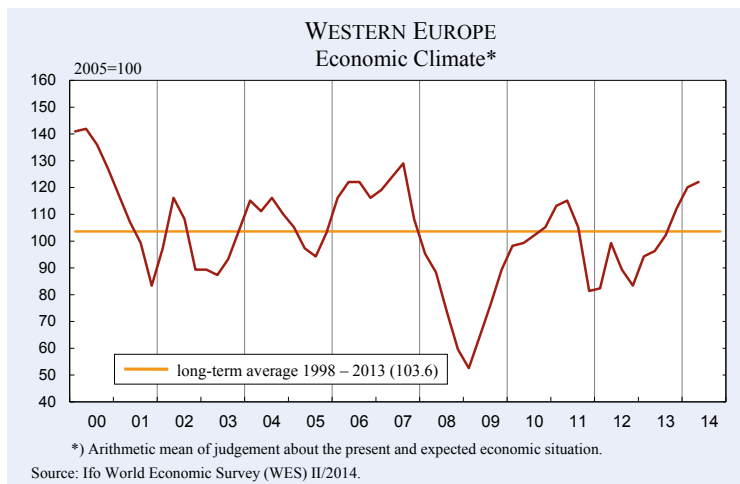
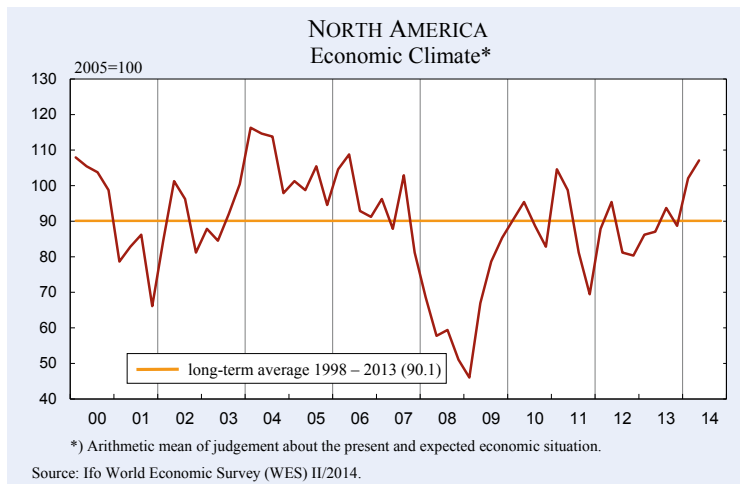
Given the WES results, world production will expand at around the same pace as in the second half of 2013. The upturn will even gain impetus somewhat in the *United States*. Growing consumer and corporate confidence suggest that the *euro area's* economy is expected to recover further. The burden of debt costs on companies and households will decrease, asset prices will rise once again in most countries and labour markets will stabilise. The dynamics of demand, however, will remain subdued, as targeted improvements in the balance sheets of banks and companies, and in the net asset position of households, have not yet been achieved; and the difficult situation in the labour market will continue to curb private consumption. Production increases in emerging economies are not expected to be quite as high as in recent years.

Finally, the crisis in the *Ukraine* left a clear mark on survey results for *Russia* and the *Ukraine*. In *Russia* expectations for the next six months clouded over considerably. Experts in *Russia* forecast economic growth of just 0.8 percent for the entire year. The *Ukraine's* economy is expected to contract by 2.5 percent. The crisis in the *Ukraine* is one of the main threats to the world economy.

Western Europe: Recovery continues but lack of momentum

The economic climate indicator for *Western Europe* improved further, although it rose only slightly from 120.1

Figure 3



to 122.1. The new value is the best result reached in nearly seven years (long-term average 103.6 between 1998 and 2013; see Figure 3). However, the survey also indicates some slowing momentum as economic expectations were slightly downgraded, but remained on the positive side. Assessments of the present economic situ-

ation improved again, reaching the satisfactory level for the first time in nearly three years (see Figure 4). A similar pattern applies to the *euro area*, where the indicator lies at 123.0, which represents a small increase of about three index points compared to the previous survey, and is clearly above the 15-year long-term average of 106.8 (1998-2013). The present economic situation was no longer assessed negatively by WES experts and the economic outlook remains as positive as in the previous survey.

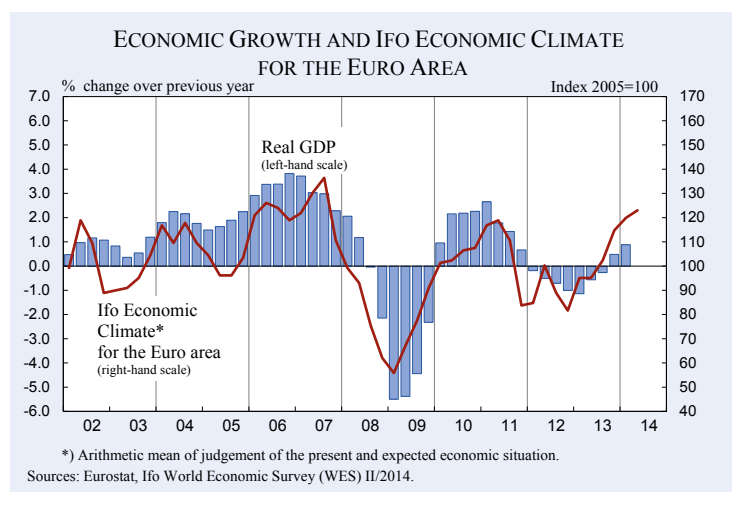
The economic development remains heterogeneous from country to country: despite some slight improvement, economic sentiment is still rated as subdued in *France, Greece, Italy* and *Portugal* (see Figures 5a and 5b). In *Cyprus, Spain* and especially in *Ireland*, the present economic situation got worse compared to last quarter's survey. All of these countries still suffer from high unemployment and public deficits. Insufficient demand, however, was also cited as an important economic problem at present by the economic experts surveyed (see Table 1). In the *Netherlands* and *Finland* appraisals of the present economic situation were upwardly revised on balance compared to the survey at the beginning of 2014, but on the whole their economies are still considered as weak by WES experts. In *Slovenia*, the economic situation remained unchanged at a low level. In *Austria*, appraisals of the present economic situation were scaled back and economic experts were once again dissatisfied. So, while in those countries the current economic situation is below the neutral level, which means not satisfactory, economic expectations in these countries remain in far friendlier territory and point to improvements in the next six months. The present economic situation in *Belgium, Luxembourg* and *Slovakia* finally reached the

Box 2

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

The Ifo World Economic Climate for the 18 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 289 experts. As a rule, the trend in the Ifo Economic Climate indicator correlates closely with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo Index for the economic climate in the euro area rose from 119.9 points to 123.0 points in the second quarter, reaching its highest level since the end of 2007. The economic recovery is expected to take shape more clearly in the months ahead. According to the experts surveyed, economic growth will total 1.3 percent this year. Estimates range from -4.9 percent for *Cyprus* to 2.8 percent for *Latvia*. The rise in the Ifo indicator is due to less unfavourable assessments of the current economic situation. The economic outlook for the next six months remains good. *Germany* continues to stand out thanks to its very strong economic situation. In most other euro area countries, by contrast, assessments of the current economic situation remain subdued. Among the countries afflicted by the euro crisis, WES experts reported a deterioration in the current economic situation in *Ireland*. In *Greece*, *Italy*, *Portugal* and *Spain* no notable improvement was seen in the currently weak economic situation. High unemployment, public budget deficits and weak demand continue to plague these countries. Economic expectations nevertheless signal an improvement over the next six months in the euro area as a whole.



satisfactory level in the second quarter, according to WES experts. In *Estonia* and *Latvia* assessments of the present economic situation were slightly downgraded, but remain positive. The best ratings in the euro area were received by *Germany*, where the already previously positive economic situation improved further. In all of the countries presently performing well, economic expectations were downgraded somewhat, but remain in positive territory. This is not true for *Latvia*, where experts turned cautious with regard to future economic developments. For *Slovakia*, by contrast, the economic outlook is far more optimistic and is on its highest level seen for many years.

franc was mentioned, and, although it was not cited as a very urgent problem, a lack of skilled labour, which is also considered of some importance in *Germany*.

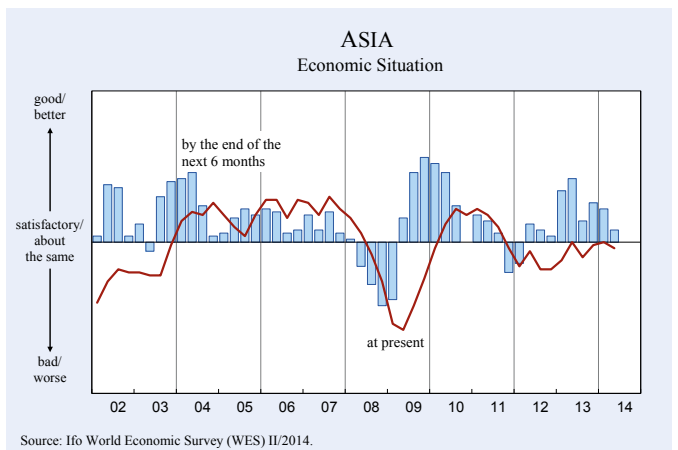
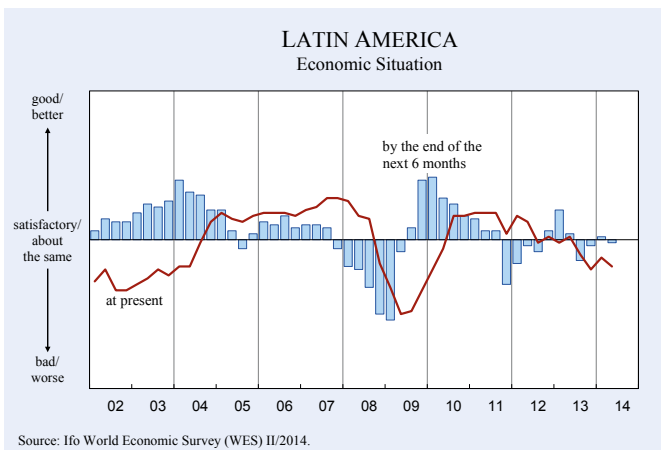
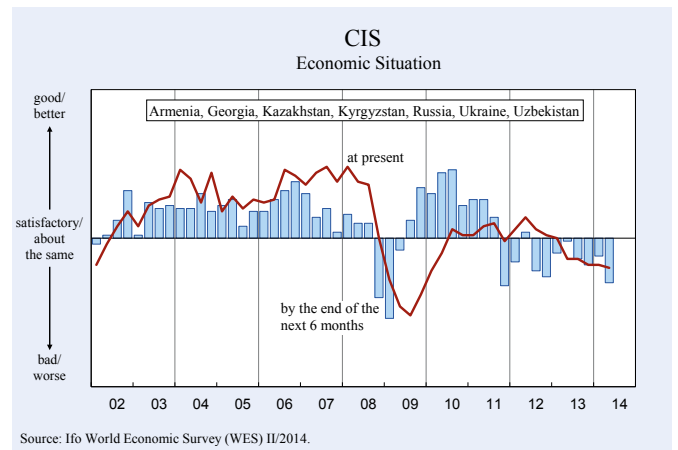
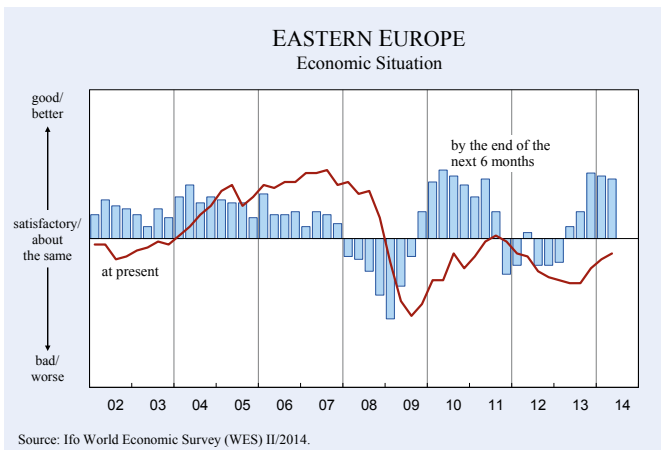
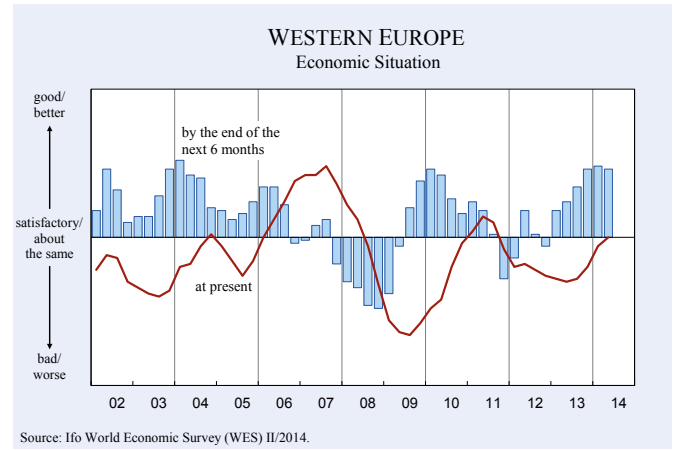
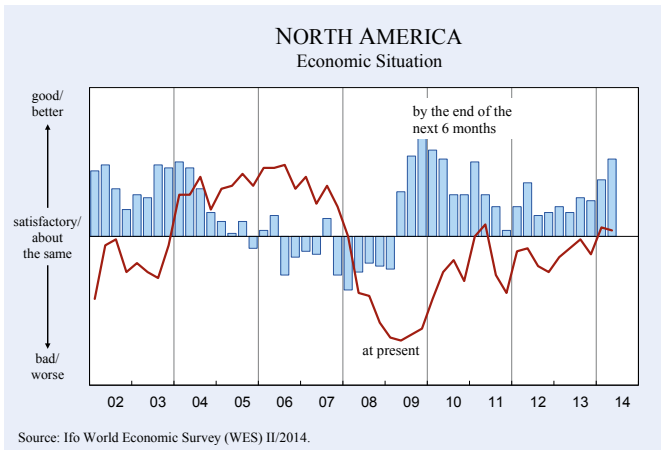
North America: Economic climate indicator on 8-year high

The economic climate index for *North America* reached its highest level since mid-2006 at 107.1 and stands clearly above its long-term average of 90.1 (1998-2013). While the present economic situation was assessed as less satisfactory, the economic expectations are again

Outside the euro area the general economic situation appears friendlier, although not to the same extent in all countries. While in *Switzerland* and the *United Kingdom* the present economic situation reached the most positive value since more than six years, in *Norway* and *Sweden* the share of positive voices regarding the present economic situation declined somewhat. In *Denmark*, assessments of the present economic situation deteriorated compared to the previous survey and now appear to be unfavourable. With regard to future economic developments, the economic experts surveyed in all these countries remain fairly confident, despite some downward revisions in most of the countries. An exception to this rule is *Norway*, where a more cautious view prevailed once again among WES experts. Here, less economic impetus is expected from capital expenditure in the next six months. The most important economic problems that the countries are struggling with at present are very different: while in *Norway* a lack of international competitiveness was cited as the most urgent problem, this was identified as weak demand in *Denmark*, as unemployment in *Sweden* and as public deficits in the *United Kingdom*. In *Switzerland* the overvalued *Swiss*

Figure 4

SELECTED REGIONS



more positive than they were three months ago (see Figures 3 and 4). The positive economic sentiment in the region results in particular from *Canada*. Here, assessments of both the present economic situation and, to an even greater extent, economic expectations are clearly more positive than three months ago. More specifically, the export sector is expected to expand strongly in the next six months. WES experts stated a lack of skilled labour and of international competitiveness as *Canada's* most important economic problems. By contrast, in *Canada's* neighbour, the *United States*, the still high unemployment rate, as well as public deficits and a lack of confidence in the government's economic policy are currently seen as the most urgent economic problems. The economic climate in the *US* brightened again, although less markedly than in the previous survey. The present economic situation clouded over slightly, but remains satisfactory on the whole. The economic outlook for the next six months improved further and is following its upward trend (see Figure 6).

Eastern Europe: Economic climate largely stabilising

In *Eastern Europe* the economic climate indicator once again rose only slightly to 91.5 (previous survey 90.7), due to less negative assessments of the present economic situation. Economic expectations were marginally downgraded, but remain largely in positive territory (see Figures 4 and 7). The region's most important eco-

nomie problems were identified as unemployment, insufficient demand and a lack of confidence in government's economic policy.

The best rating for assessments of the present economic situation in this region was once again received by *Lithuania*. The newly reached level is also the highest one seen in the country for about six years. By contrast, economic expectations for the next six months were downgraded somewhat, but remain positive on the whole. *Estonia*, *Latvia* and *Slovakia*, those countries belonging to the euro currency system, assessed the present economic situation as satisfactory. This was also the case for the *Czech Republic*. With regard to economic expectations, WES experts are less positive in the *Czech Republic*, *Estonia* and *Latvia* compared to three months ago. Despite this downwards revision the economic outlook remains bright in *Estonia* and the *Czech Republic*, thanks to an expected increase in exports over the next six months in the latter country. In *Latvia*, by contrast, future economic developments are now contemplated with caution. In *Poland*, WES experts rated the present economic situation as somewhat less satisfactory. However, economic expectations remain optimistic and point to economic improvements in the next six months. In *Bulgaria*, *Hungary* and *Romania* assessments of the present economic situation remain in unfavourable territory, despite some slight upwards revision compared to the previous survey. While the situation looks set to improve somewhat in the coming months in *Bulgaria* and *Hungary*, WES experts in *Romania* don't

Table 1 Ranks of the three most important economic problems

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

Source: Ifo World Economic Survey (WES) II/2014.

expect major changes for the better. In *Romania*, capital shortage is increasingly gaining importance as an economic problem. In *Croatia* no changes for the better were recorded. Indeed, all of the economic experts surveyed unanimously attested to their country's poor economic situation for the seventh time in succession. Economic expectations remain unchanged at neutral levels, which do not signal an easing of the country's currently difficult economy.

In nearly all of the *Eastern European* countries outside the EU, assessments of the present economic situation improved somewhat compared to the previous survey. However, despite this upward trend they remain in unfavourable territory in *Albania* and *Bosnia and Herzegovina*. In *Serbia* the situation deteriorated again and is considered to be weak. In all of these countries no major improvements in their economies are expected in the next six months. In *Kosovo* and *Macedonia* a satisfactory economic situation prevails at present, in the opinion of the experts surveyed. In the latter two countries the current moderate performance is likely to continue in the months ahead.

CIS: Ukraine crisis leaves a clear mark

The Ifo indicator for the CIS countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan, Uzbekistan* and *Armenia*) fell strongly and reached its lowest point for about five years. The 8.3 point decrease in the economic climate marks the sharpest fall amongst all regions. While assessments of the present situation deteriorated only slightly, the decline in the economic outlook was very pronounced and points to a further deterioration in the next six months (see Figure 4). The most important economic problems faced by the CIS countries at present are "lack of international competitiveness", "capital shortage" and "weak demand". The Ukraine conflict therefore poses important economic risks for the whole region.

In *Russia*, appraisals of the present economic situation remain unfavourable. Capital expenditure is once again considered as weak at present, while private consumption is performing satisfactorily. As far as future economic developments in the months ahead are concerned, WES experts strongly downgraded their expectations. The economic outlook has become very bleak. The survey results reflect the current political conflict with the *Ukraine*. Here, the present economic situation was also reported as unfavourable, but economic expectations for

the next six months turned positive. The financial loan of about 17 billion US dollar approved by the IMF and the willingness of the government to take the necessary structural reforms should help to alleviate the economic crisis. In *Georgia*¹, *Kazakhstan* and *Uzbekistan* a satisfactory present economic situation prevails and is expected to persist for the next six months. *Kazakhstan* is one of the few countries worldwide, in which inflation currently poses a major economic problem, which was probably caused largely by the preceding strong devaluation of the tenge. In *Kyrgyzstan* and *Armenia* the appraisals of the economic situation are again at an unfavourable level, as in previous surveys. Economic expectations are more negative than three months ago in both countries, and don't signal substantial improvements in the next six months.

Asia: Drop in the economic climate indicator

In *Asia*, the economic climate indicator has fallen back below its long-time average (1998-2013: 90.4) to 89.5. While the appraisals of the present economic situation were downgraded only slightly, the economic outlook for the next six months is far less positive than in the previous quarter (see Figures 3, 4 and 8). A lack of skilled labour and of confidence in the government's economic policy were cited as the region's most important economic problems. High public deficits, especially in *Japan*, also seem to be problematic.

The most marked downwards revision of both the present economic situation and economic expectations took place in *China* and *Japan*. In *China* economic sentiment returned to unfavourable territory. Private consumption in particular is assessed to be weak at present. For the first time in this country a shortage of skilled labour was cited as the single most important economic problem. In previous surveys economic problems such as inflation or not convincing economic policy were ranked as more important. With regard to the next six months, WES experts turned more cautious and expect the economy only to stabilise, but not to expand. In *Japan*, the deterioration in the present economic situation in this quarter was already anticipated in the previous survey. For the next six months, WES experts expect the downward trend to continue, as economic expectations turned clearly into negative territory. The recent increase in the consumption tax from 5% to 8% will probably hamper

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.

private consumption in the next six months, according to economic experts surveyed. As in past WES surveys, the most important economic problem remains high public deficits. By far the highest rating in the region was again received by the *Philippines*, where nearly all of the economic experts surveyed attested to a good present economic situation. With regard to the next six months, expectations were downgraded somewhat and tend to point to an economic stabilisation at current good levels. Positive assessments of the present economic situation of *Hong Kong*, *Indonesia* and *Sri Lanka* also lie above the region's average. In all of these countries the economic expectations for the next six months remain in positive territory, although in *Indonesia* they are somewhat less positive than three months ago. In *Vietnam*, WES experts finally rated the present economic situation far more positively than in January. This is in line with their expectations, which have been following an upward trend since the end of 2013. In *Malaysia* and *Singapore* the present economic situation was rated as satisfactory, as in the previous survey. However, as far as the next six months are concerned, WES experts have turned rather cautious and are somewhat sceptical regarding future economic developments in their countries. In *Bangladesh*, *India* and *South Korea*, no major changes for the better were recorded and the economic situation at present was still assessed as unfavourable. In *Taiwan*, the economic situation – although somewhat better compared to the previous surveys – nevertheless remains below the satisfactory-line on the whole. The economic outlook at least remains confident in these countries, which points to some recovery in the next six months. In *Thailand* assessments of the present economic situation continued to deteriorate further and bear witness to current economic and political tensions. With regard to the next six months, WES experts do not expect major changes for the better in their country. A lack of confidence in the government's economic policy is clearly ranked as the country's top economic problem. In *Pakistan* current economic performance was again reported to be weak. With economic expectations reaching the highest level since a very long time, the situation does look set to finally improve a little.

Oceania: Growth in New Zealand stronger than in Australia

In *Oceania* the economic climate indicator started to rise again and reached 108.9 points (previous survey 107.1), due to slightly more positive assessments of both components. While there was no much movement in the

indicator in *Australia*, the increase was particularly pronounced for *New Zealand*. The latest WES results for these countries are in line with experts' estimated GDP growth rates for 2014, which at a rate of 3.4% will be stronger for *New Zealand* than for *Australia* at 2.7%. In *New Zealand*, the economy is performing very well at present, mainly driven by a booming construction sector, and is likely to continue on this upward trend. The single most important economic problem was cited as a lack of skilled labour. By contrast, *Australia* currently suffers most from a "lack of international competitiveness", "unemployment" and "insufficient demand". Assessments of the present economic situation barely changed, remaining on a satisfactory level. For the next six months, the economy is expected to stabilise at its current good levels, supported by strengthening exports.

Latin America: Economic climate deteriorates again

The Ifo Index for the economic climate in *Latin America* fell again, after having brightened somewhat in the previous quarter. Assessments of both the present economic situation and economic expectations clouded over (see Figures 4 and 9). The present economic situation is now in an unfavourable territory and is not expected to change for the better in the months ahead. The climate indicator dropped to 81.4 (previous survey 86.0), which is far below its long-term average (1998-2013: 91.3). As in previous surveys, a lack of international competitiveness, as well as low confidence in the government's economic policy are considered to be the most important economic problems of this region. *Argentina*, *Venezuela* and *Uruguay* also suffer from a high inflation rate.

The most marked downward revisions in the economic climate took place in *Brazil*. WES experts' appraisals attested to a weak economic performance at present. As in previous surveys, capital expenditure in particular is considered to be weak. The economic outlook for the next six months deteriorated further. More experts than in the previous survey were pessimistic with regard to future economic developments. Besides an increasingly inflation rate, WES experts are concerned about high costs of energy and the risk of electricity shortage this year. They also stressed the poor quality of infrastructure and high bureaucracy as important economic burdens. In *Mexico*, the second most economically important country in this region, the economic climate indicator also declined. Assessments of the present eco-

Figure 5a

EUROPEAN UNION

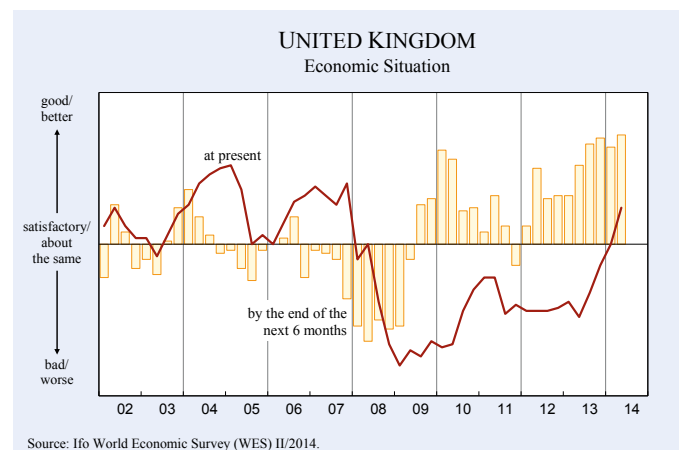
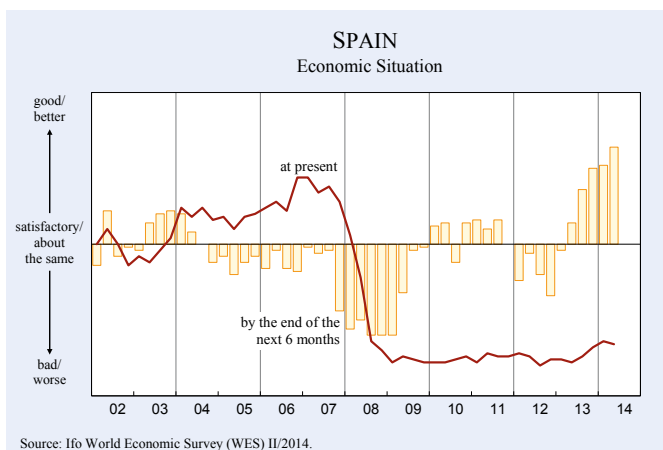
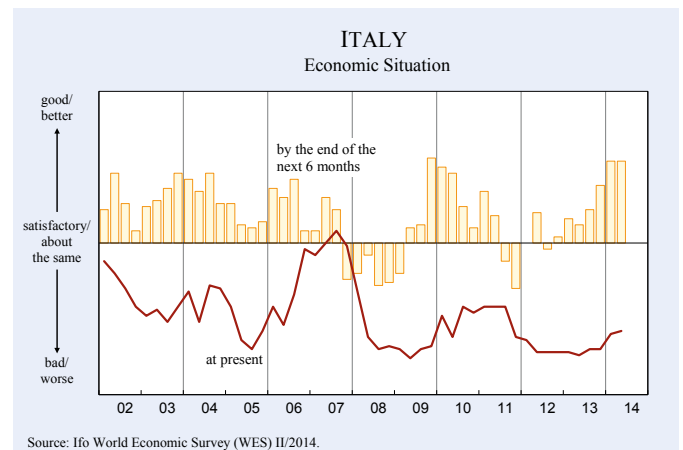
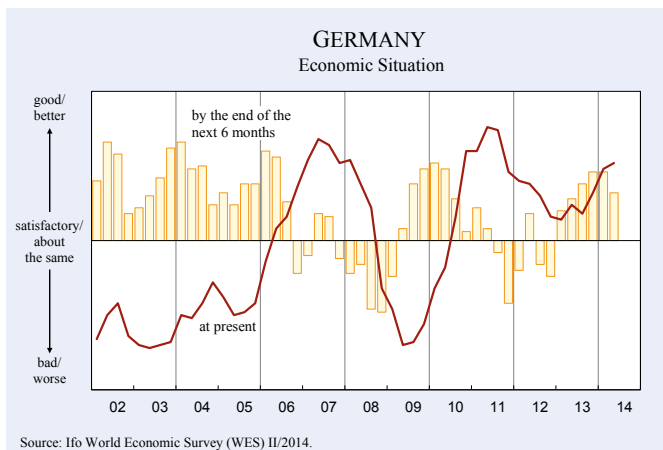
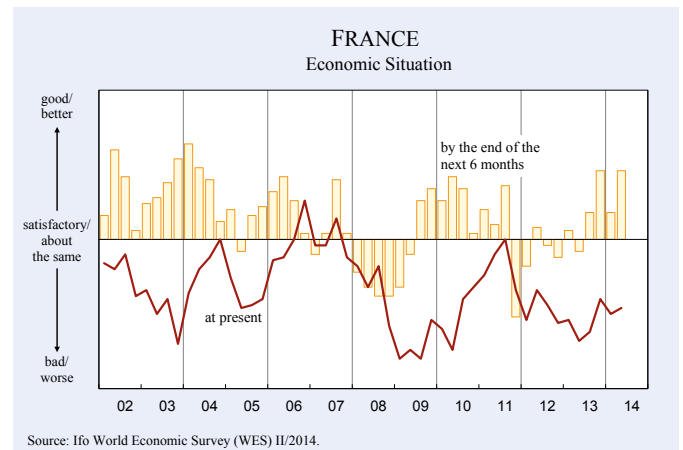
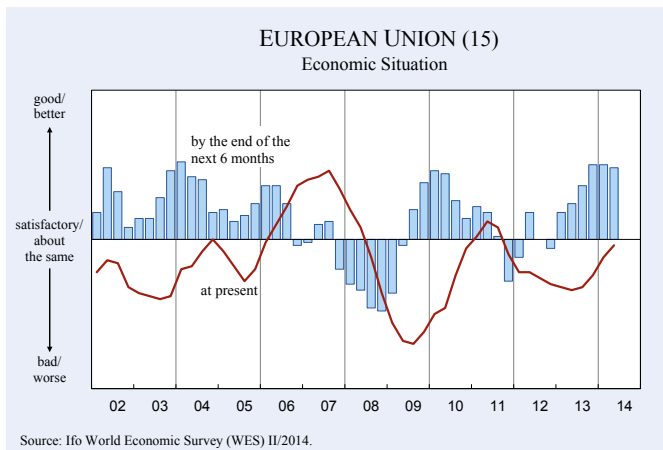


Figure 5b

EUROPEAN UNION

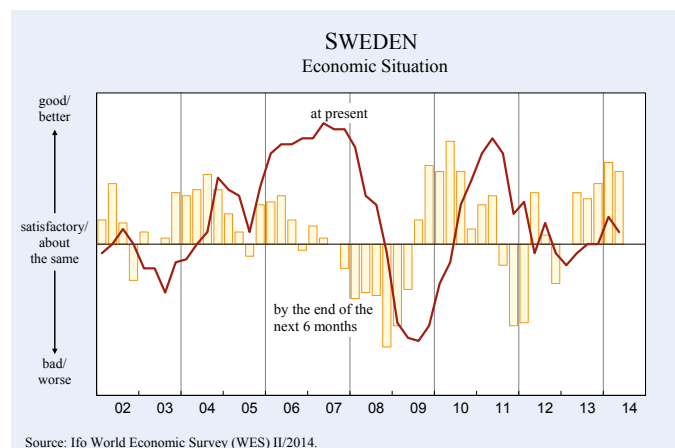
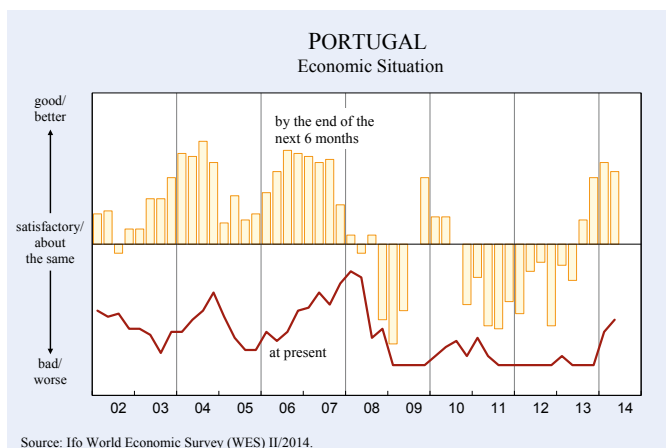
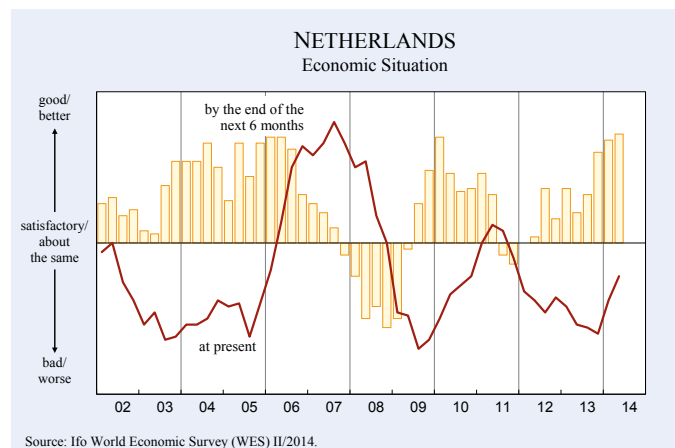
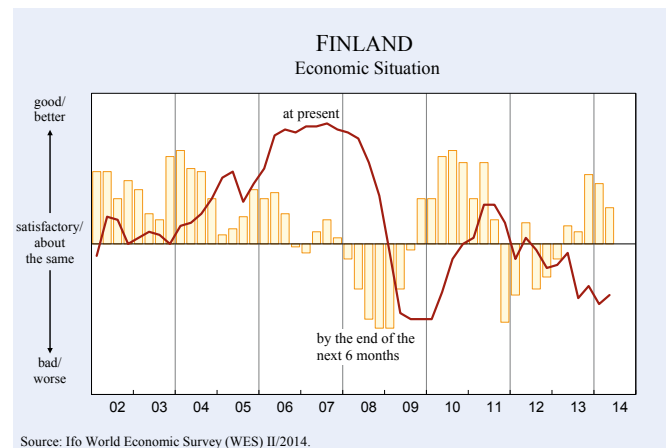
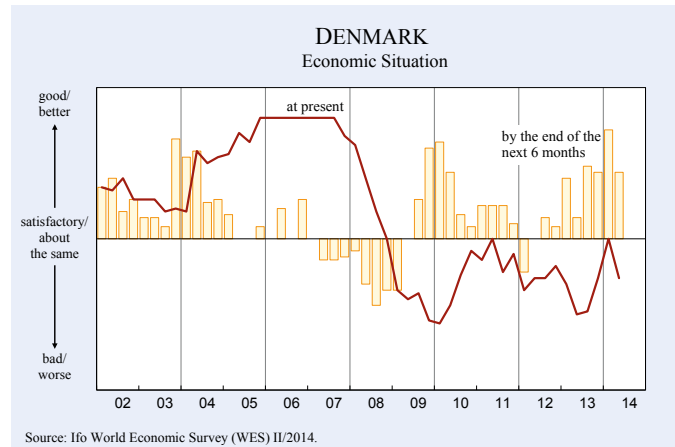
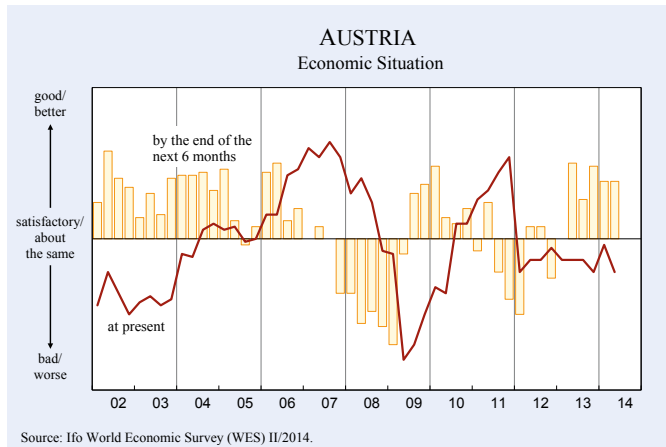


Figure 6

NORTH AMERICA, OCEANIA AND CIS

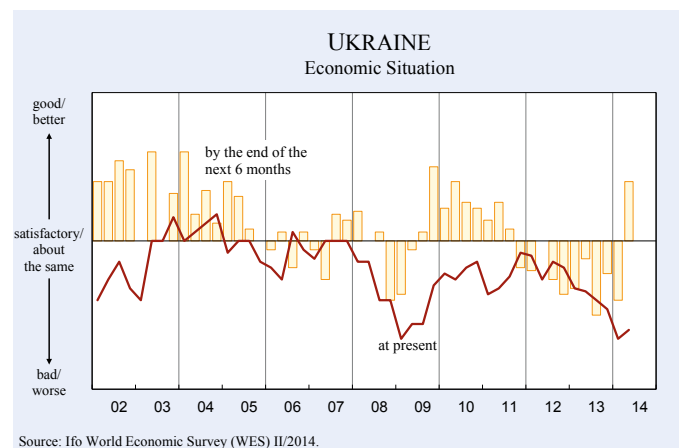
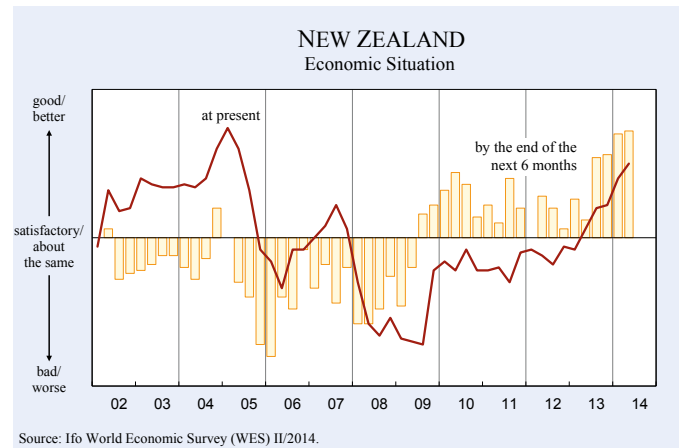
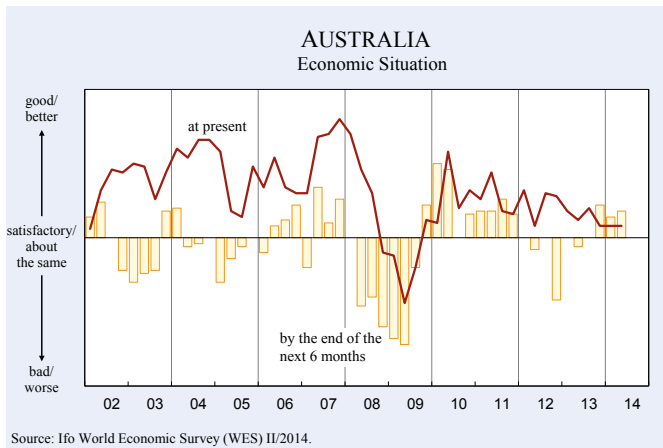
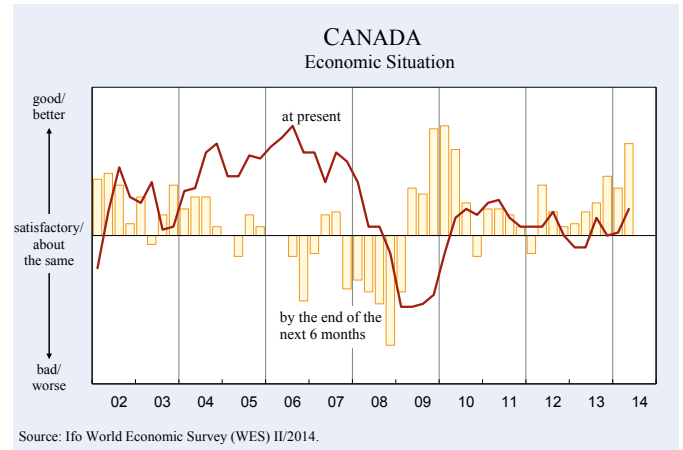
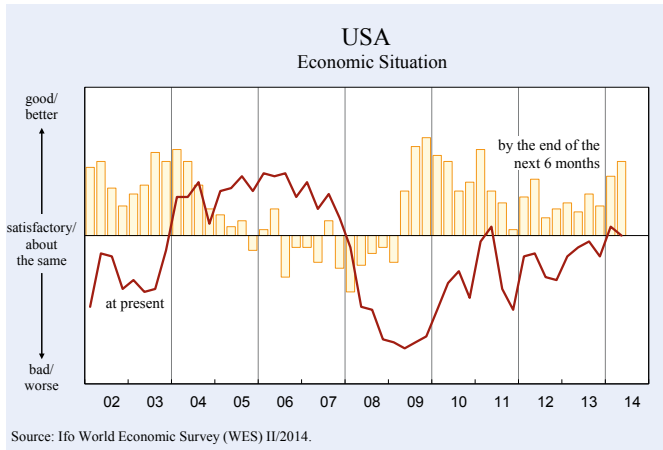


Figure 7

EASTERN EUROPE

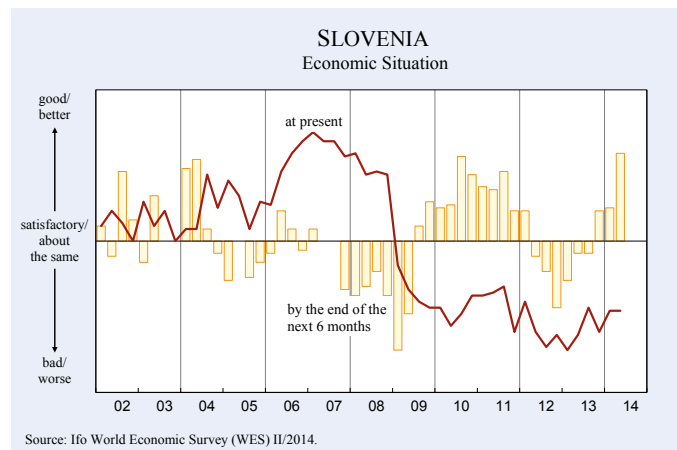
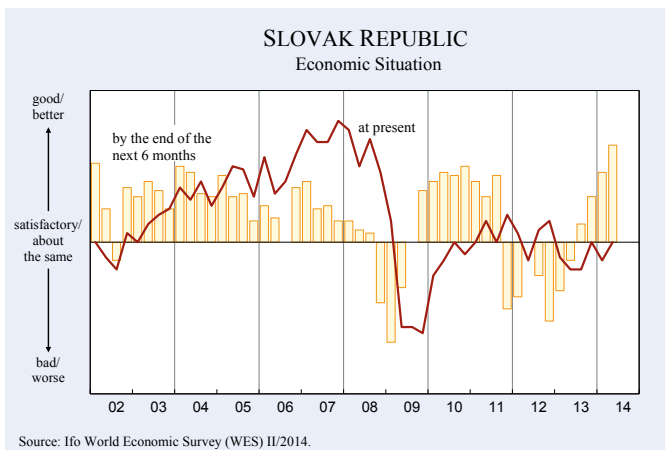
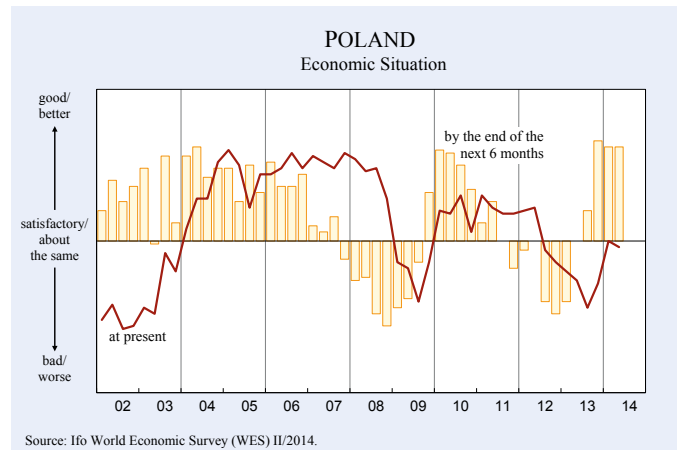
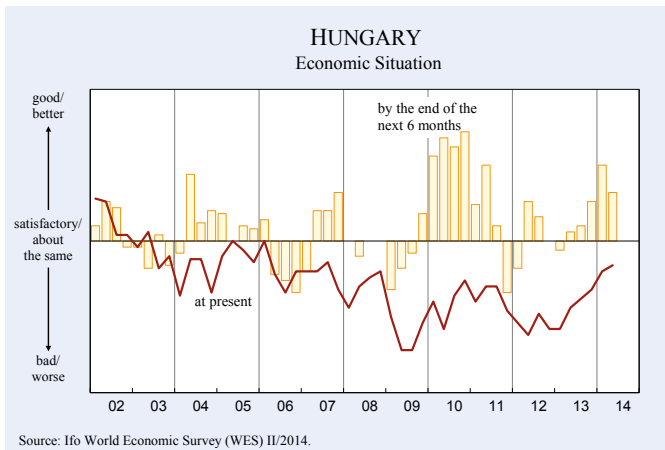
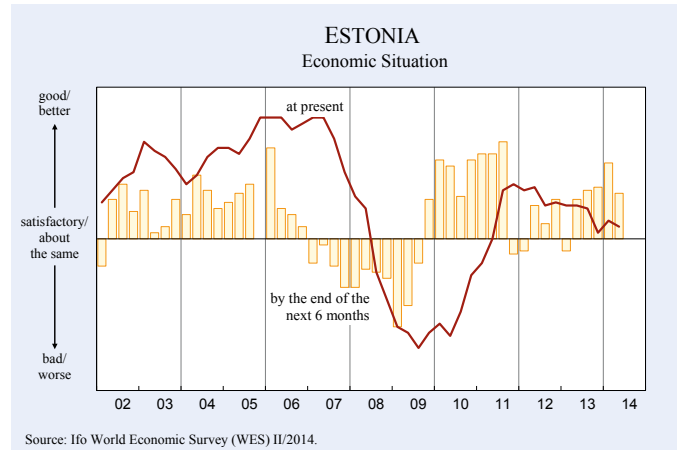
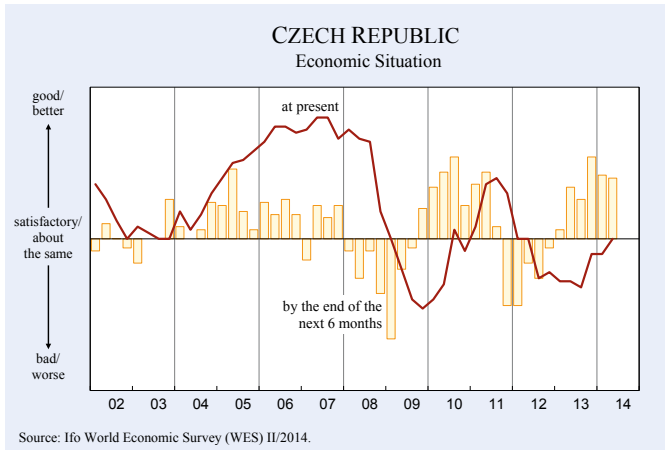


Figure 8

ASIA

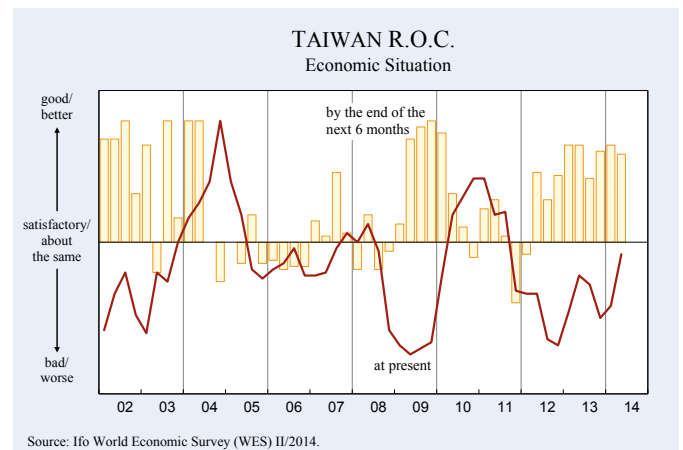
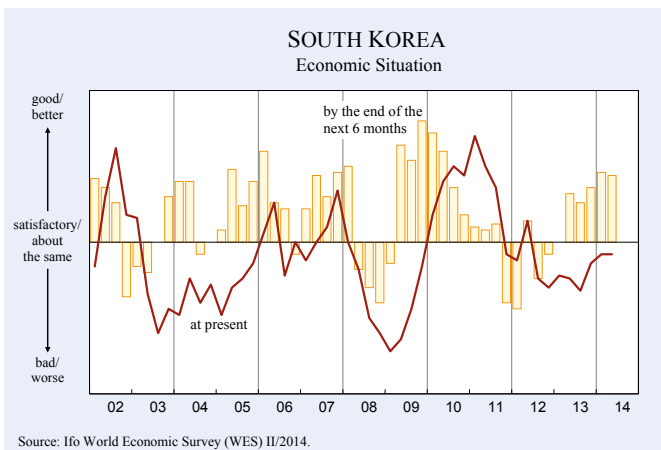
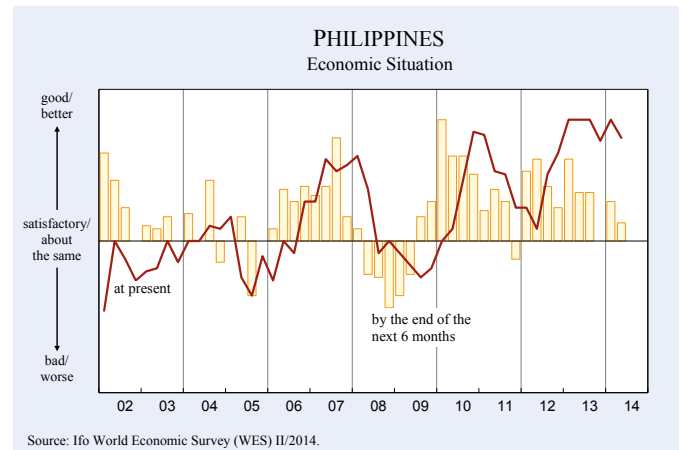
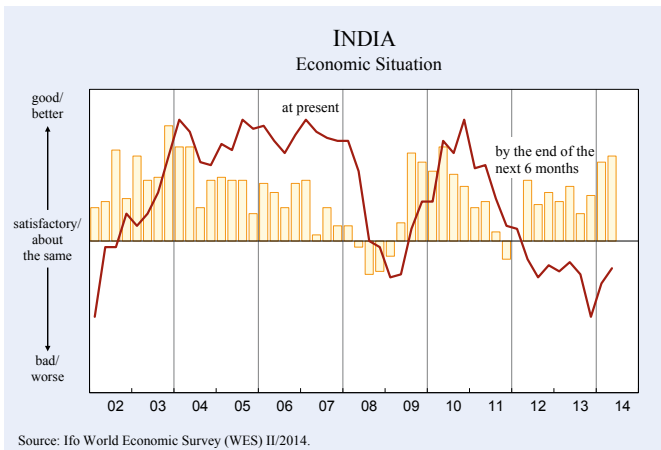
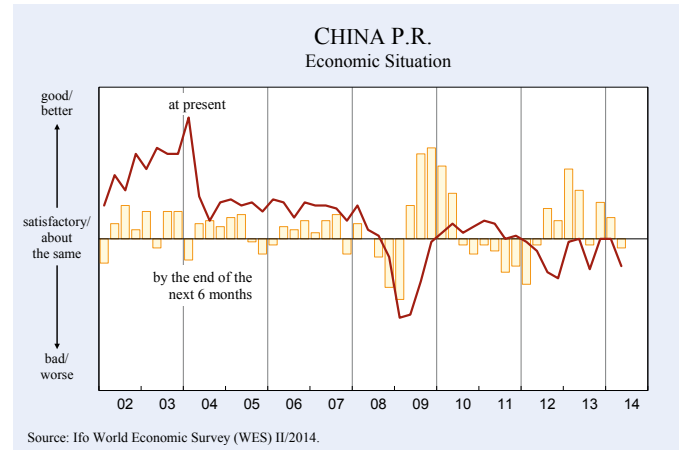
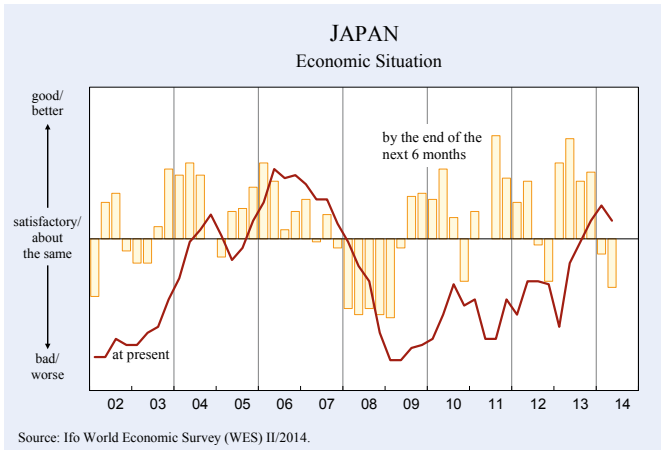


Figure 9

LATIN AMERICA

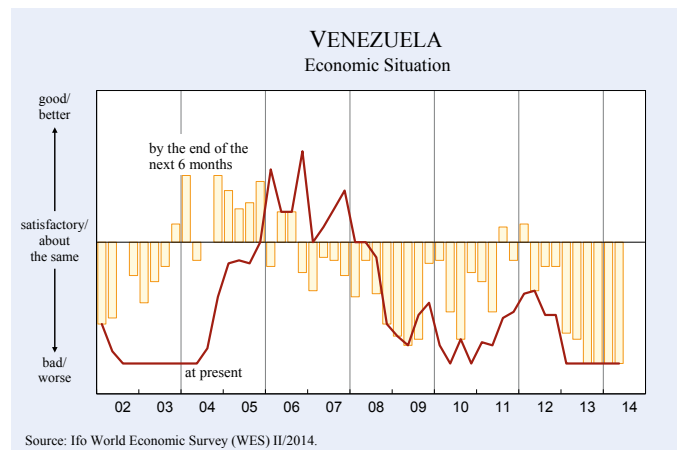
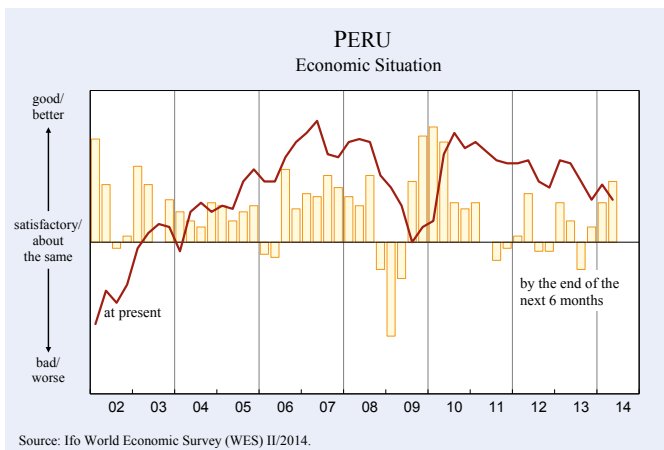
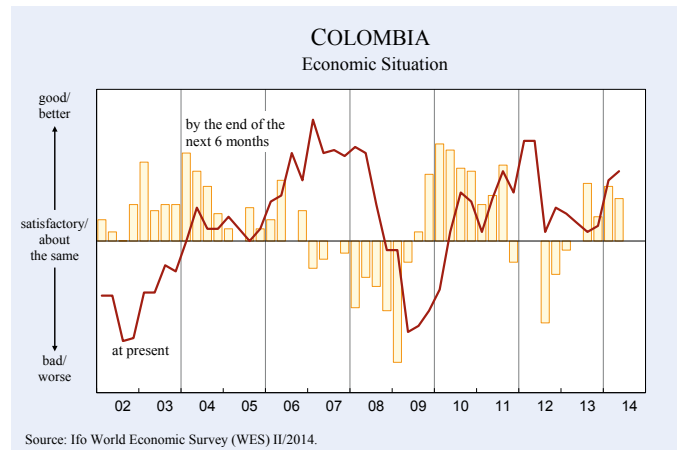
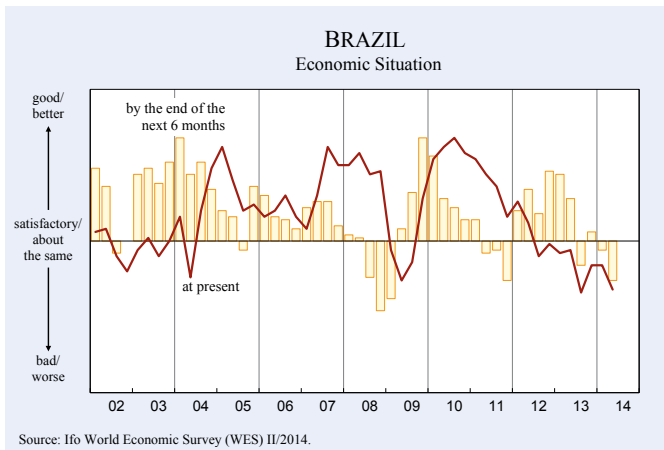
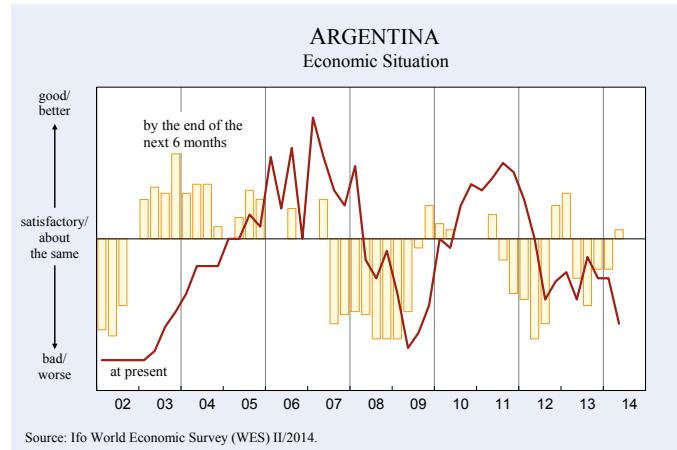
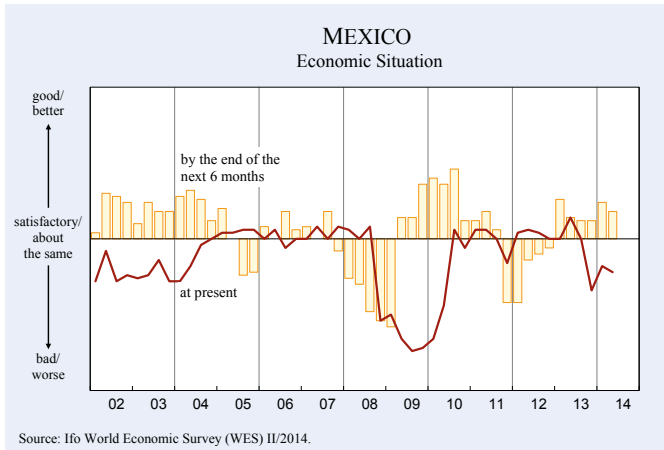
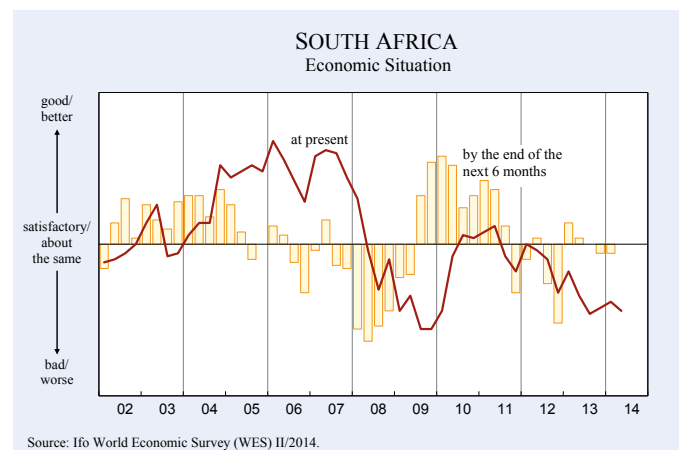
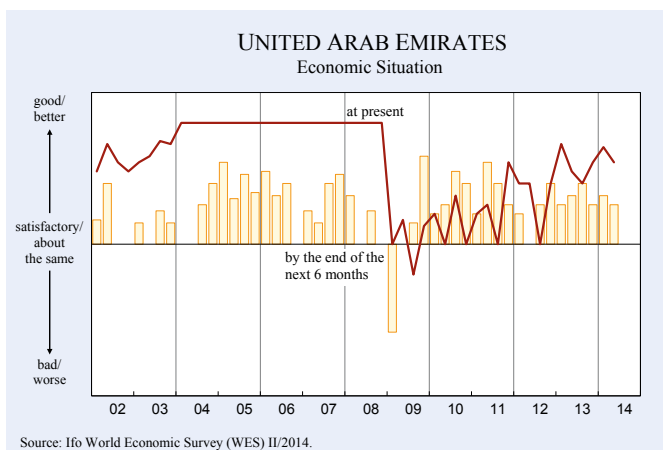
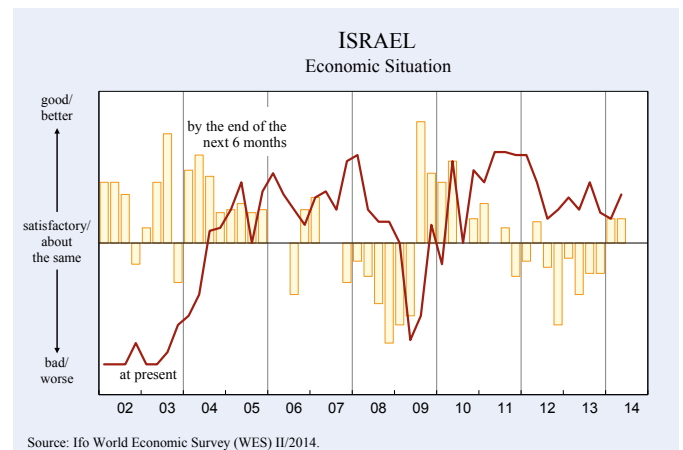
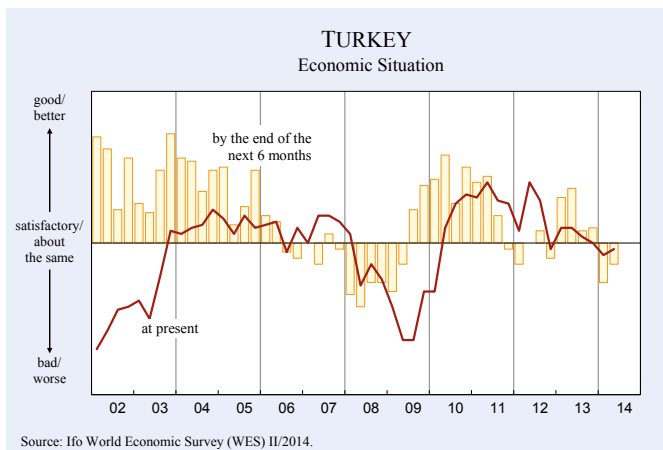
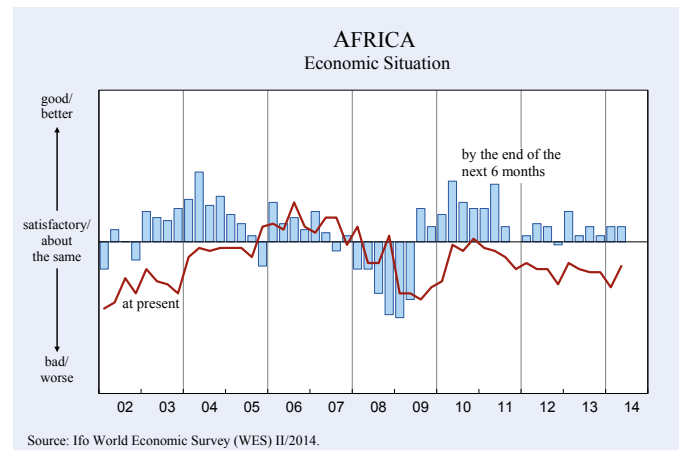
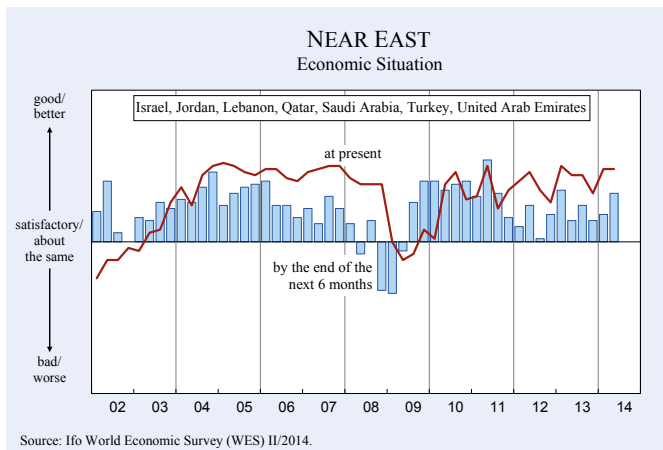


Figure 10

NEAR EAST AND AFRICA



economic situation are more unfavourable. Economic expectations were downgraded somewhat, but remain positive on the whole. There was once again no positive news from *Argentina* and *Venezuela* and their economies remain weak, according to WES experts. No substantial improvement is expected within the next six months. In *Venezuela* the situation is even expected to deteriorate further. Survey participants in both countries warned of rapidly rising inflation in the months ahead, and expect devaluation in their currencies to continue. In *El Salvador* WES experts continued to report a weak current economic performance. Economic expectations by the end of the next six months turned positive and signal some improvement in economic performance in the months ahead. In *Cuba*, the *Dominican Republic*, *Guatemala*, *Panama* and *Trinidad and Tobago* WES experts see the economic condition of the economy as satisfactory and expect it to remain so in the coming six months. In *Bolivia*, *Colombia*, *Costa Rica* and *Uruguay*, the present economic situation was rated as favourable, and to an even higher degree than three months ago. In all of these countries the today's good economic situation is expected to persist, except for in *Uruguay*. The current weakness of Brazil and Argentina will certainly have some negative impact as *Uruguay* is strongly linked with its neighbours through trade. The present economic situation in *Chile*, *Ecuador*, *Paraguay* and *Peru* was assessed less positively than in the previous survey, but remains good on the whole. While in *Paraguay* and *Peru* the favourable economic conditions are likely to persist, WES experts in *Chile* and *Ecuador* remain cautious about developments in the next six months.

Near East: Further economic improvement

In the *Near East* the economic climate indicator continued its rise to 99.8, which is clearly above its 15-year long-term average of 86.5. While the assessments of the present economic situation remained favourable, the economic outlook is clearly more optimistic than three months ago (see Figure 10). The region's most important economic problems are high unemployment and at the same time a lack of skilled labour. In *Saudi Arabia*, the current economic situation was assessed as favourable again, as is the case for *Qatar*, the *United Arab Emirates* and *Israel*. In the latter, country experts' appraisals are far more positive than three months ago. By contrast, in the *United Arab Emirates*, WES experts regarded the current economic situation somewhat less favourably than in the previous survey.

In all of these countries current favourable economic conditions are likely to persist in the next six months. In *Jordan* and *Lebanon* the economy is performing satisfactorily at present, according to WES experts. The economic outlook in both countries remains friendly. In *Turkey*, the economic climate improved again, after having clouded over in the first quarter. Both the present economic situation and economic expectations recovered slightly, but still have not yet returned to positive territory. The economic outlook therefore remains cautious. Private consumption in particular is expected to decrease in the months ahead. According to WES experts, the country is struggling with a capital shortage and foreign debts.

Africa: Economic recovery, but no unified economic trend

Countries in *Africa* display a highly differentiated pattern as far as the economic climate is concerned. Thus, an aggregated climate index for the countries surveyed by WES on this continent makes little sense, and the following analysis will focus on specific economic trends in the individual countries of *Northern* and *Sub-Saharan Africa*. Nevertheless, both parts of *Africa* have the following most frequently mentioned economic problems in common, albeit to differing degrees of importance: "unemployment", "lack of international competitiveness" and "lack of confidence in government's economic policy". In addition, *Burundi*, *Malawi* and *Sudan*, are also suffering from a high inflation rate. WES experts in *Nigeria*, *Morocco*, *South Africa* and *Zimbabwe* cited corruption as another major obstacle. *Sub-Saharan Africa* will be the fastest growing region in the world with an expected real GDP growth rate of 4.2% this year. The expected expansion for *Northern Africa* will be less pronounced with 3.0%.

The economic climate for *Northern Africa*, which includes *Algeria*, *Egypt*, *Morocco* and *Tunisia*, remained nearly unchanged compared to the previous survey. However, observing the underlying components various different trends emerge: while assessments of the present economic situation improved again, economic expectations, in turn, were downgraded somewhat. In *Algeria*, the present situation was assessed as satisfactory again. For this quarter, WES experts in *Morocco* have also become more positive with regard to the present state of their economy. In both countries, a stabilisation in the current satisfactory economic conditions is expected. In *Egypt* and *Tunisia* the current economic

Table 2 Inflation rate expectations for 2014 (based on WES QII/2014 and WES QI/2014)

Region	QII/2014	QI/2014	Region	QII/2014	QI/2014
Average of countries *	3.2	3.3	Latin America	10.8	10.6
High-income countries	2.0	2.1	Argentina	36.2	29.8
Middle-income countries	7.3	7.2	Bolivia	6.7	6.6
Upper-middle	7.3	7.1	Brazil	6.4	6.0
Lower-middle	7.1	7.4	Chile	3.5	2.9
Low-income countries	6.6	6.0	Colombia	2.9	2.5
EU 28 countries	1.4	1.6	Costa Rica	(5.0)	(5.0)
EU countries (old members) ^{a)}	1.3	1.6	Cuba	(3.5)	(3.0)
EU countries (new members) ^{b)}	1.7	2.0	Dominican Republic	4.5	4.8
Euro area ^{c)}	1.2	1.5	Ecuador	3.5	3.0
Western Europe	1.3	1.6	El Salvador	1.6	2.2
Austria	1.8	1.9	Guatemala	4.5	4.8
Belgium	1.2	1.4	Mexico	4.1	4.4
Cyprus	-0.3	0.0	Panama	(5.6)	(6.5)
Denmark	1.2	1.3	Paraguay	5.4	4.8
Finland	1.5	1.6	Peru	3.2	2.9
France	1.2	1.2	Trinidad and Tobago	(6.5)	(3.0)
Germany	1.5	1.8	Uruguay	8.4	8.0
Greece	-0.1	-0.4	Venezuela	55.6	62.0
Ireland	0.7	1.1	CIS	8.6	6.8
Italy	0.9	1.4	Armenia	7.0	8.3
Luxembourg	1.3	1.5	Georgia ^{d)}	(5.0)	---
Monaco	1.3	1.5	Kazakhstan	8.6	6.1
Netherlands	1.5	1.8	Kyrgyzstan	7.0	4.5
Norway	2.3	2.3	Russia	7.7	6.8
Portugal	0.9	1.0	Ukraine	12.4	5.8
Spain	0.9	1.3	Uzbekistan	(12.6)	(15.4)
Sweden	0.8	1.0	Near East	4.4	4.1
Switzerland	0.3	0.4	Israel	2.1	2.5
United Kingdom	2.2	2.4	Jordan	4.6	5.6
Eastern Europe	1.7	2.0	Lebanon	(6.0)	5.5
Albania	2.3	2.7	Qatar	(4.9)	---
Bosnia and Herzegovina	1.8	2.0	Saudi Arabia	3.4	3.2
Bulgaria	1.2	2.2	Turkey	8.2	8.2
Croatia	1.3	2.4	United Arab Emirates	3.0	2.3
Czech Republic	1.4	1.7	Africa	6.8	7.5
Estonia	1.9	2.4	Northern Africa	5.6	6.0
Hungary	1.9	2.4	Algeria	3.3	3.8
Kosovo	1.5	1.8	Egypt	12.1	11.9
Latvia	2.1	2.6	Morocco	2.2	(2.5)
Lithuania	1.4	2.0	Tunisia	5.4	5.9
Macedonia	2.0	2.8	Sub-Saharan Africa	7.5	8.6
Poland	1.6	1.7	Angola	(7.9)	(8.5)
Romania	3.4	3.1	Benin	2.9	3.4
Serbia	3.5	4.2	Burundi	(24.0)	(23.0)
Slovakia	1.2	1.5	Cape Verde	2.4	---
Slovenia	1.2	1.7	Comoros	(3.0)	3.8
North America	1.8	1.9	Congo Dem. Rep.	2.1	1.2
Canada	1.7	1.6	Congo-Brazzaville Rep.	3.4	2.9
United States	1.9	2.0	Ethiopia	(12.0)	(11.0)
Oceania	2.7	2.4	Gabon	(2.8)	(3.2)
Australia	2.8	2.5	Gambia	5.4	5.8
New Zealand	2.2	2.2	Ivory Coast	2.9	(5.2)
Asia	3.4	3.6	Kenya	7.2	8.1
Bangladesh	7.1	7.0	Lesotho	6.2	5.5
China	3.0	3.3	Liberia	(8.0)	8.1
Hong Kong	3.7	4.5	Madagascar	7.0	7.1
India	6.9	7.7	Malawi	(15.0)	(28.0)
Indonesia	5.5	6.5	Mauritania	6.5	6.5
Japan	1.8	1.5	Mauritius	4.3	3.8
Malaysia	3.8	3.8	Namibia	6.1	5.5
Pakistan	9.9	12.3	Niger	(2.5)	2.8
Philippines	3.9	4.0	Nigeria	8.1	11.0
Singapore	(3.0)	(3.2)	Sierra Leone	8.8	9.8
South Korea	2.6	2.6	South Africa	6.3	6.0
Sri Lanka	7.9	8.2	Sudan	37.3	39.0
Taiwan	1.4	1.4	Swaziland	6.4	(6.2)
Thailand	2.8	2.8	Tanzania	10.8	---
Vietnam	5.9	5.1	Togo	2.8	2.8
			Uganda	5.8	---
			Zambia	8.1	7.7
			Zimbabwe	1.8	3.1

* 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. - ^{a)} Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. - ^{b)} Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria, Romania, Croatia. - ^{c)} Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia. - ^{d)} Georgia, which is not member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

Source: Ifo World Economic Survey (WES) II/2014 and I/2014.

situation was also assessed as unfavourable, despite some slight – in *Tunisia* even stronger – easing of recent tensions was being observed. The economic outlook in both countries is less positive than three months ago and signals no substantial improvement in the next six months.

The economic climate indicator for *South Africa* remains unchanged at a low level. The present economic situation deteriorated compared to the previous survey and was once again assessed as unfavourable. Economic expectations remain neutral, and WES experts do not expect the situation to improve over the next six months (see Figure 10). In *Angola, Ethiopia, Gabon, Gambia, Liberia, Malawi* and *Senegal* the current economic situation did not change compared to the previous survey and was again assessed as satisfactory. In all of these countries, current economic performance is expected to remain good. In *Comoros, Nigeria* and *Togo*, the present economic situation turned from an “unfavourable” to a “satisfactory” territory, in WES experts’ view. These recent positive developments are expected to continue in the months ahead. In *Congo Dem. Republic, Kenya, Lesotho* and *Zambia*, assessments of the present economic situation were slightly downgraded compared to the survey at the beginning of 2014, but nevertheless remain at a satisfactory level on the whole. WES experts in *Tanzania* and *Uganda* also expressed satisfaction with regard to the current economic situation in their countries. Economic expectations have cooled down. Nevertheless, the economic outlook points to a stabilisation at its current good levels in the majority of these countries, according to the economic experts surveyed. An exception to this rule is *Zambia*, where WES experts

replaced their cautious view of future economic developments with a pessimistic one. In *Mauritius* and *Namibia*, appraisals of the present economic situation are more positive than three months ago. In turn, economic expectations were downgraded somewhat, but remain positive on the whole. The best economic situation in the region prevails at present in *Benin, Congo-Brazzaville, Ivory Coast, Mauritania* and *Sierra Leone*, according to the experts surveyed. The present favourable economy is forecast to last for at least the next six months in all of these countries, except for *Mauritania*. Here, the experts surveyed have become cautious regarding short-term future economic performance. In *Burundi, Niger* and *Zimbabwe* no changes for the better were reported and the situation remains weak. In all of these countries the situation is expected to deteriorate further over the next six months. In *Madagascar, Sudan* and *Swaziland* the economic situation is still assessed as unfavourable, despite some improvements compared to the previous survey. In *Cape Verde*, a newly observed country in WES, the economy was also rated as suboptimal. While WES experts forecast some improvement for *Madagascar, Swaziland* and *Cape Verde* in the months ahead, they remain cautious for *Sudan*.

Moderate inflation expectations

On worldwide average, the WES experts’ inflation forecast for this year is now slightly lower than at the beginning of 2014 (3.2% compared with 3.3%; see Table 2).

On average for the *euro area* the presumable inflation rate will be 1.2% in 2014 compared with 1.5% expected at the beginning of this year and 1.9% one year ago. Over the course of 2013 inflation expectations were continuously revised downwards. This trend appears to be continuing in 2014. The expected inflation rate now lies clearly below the ECB target of slightly below 2.0%. Within the *euro area* the lowest inflation rates in 2014 are again expected in the “crisis countries”, *Cyprus* (-0.3%), *Greece* (-0.1%), *Ireland* (0.7%), as well as in *Portugal* and *Italy* (both 0.9%). The expected inflation rates lie above the *euro area* average in *Latvia* (2.1%), *Estonia* (1.9%) and also *Austria* (1.8%).

Figure 11

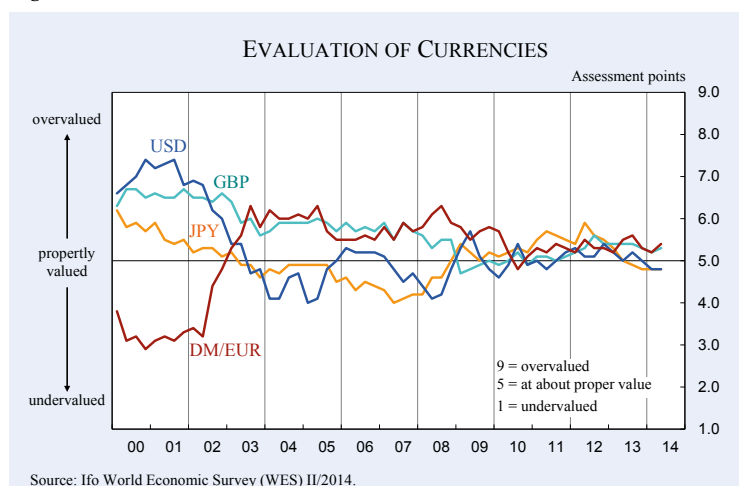


Figure 12

EXPECTED TREND FOR THE NEXT 6 MONTHS
FOR SHORT- AND LONG-TERM INTEREST RATES

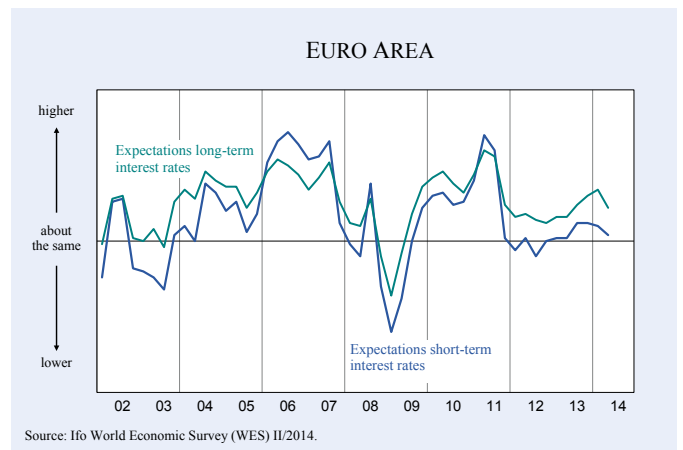
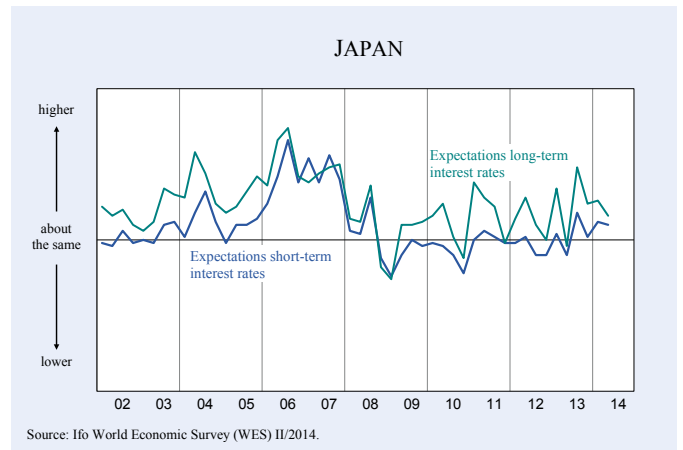
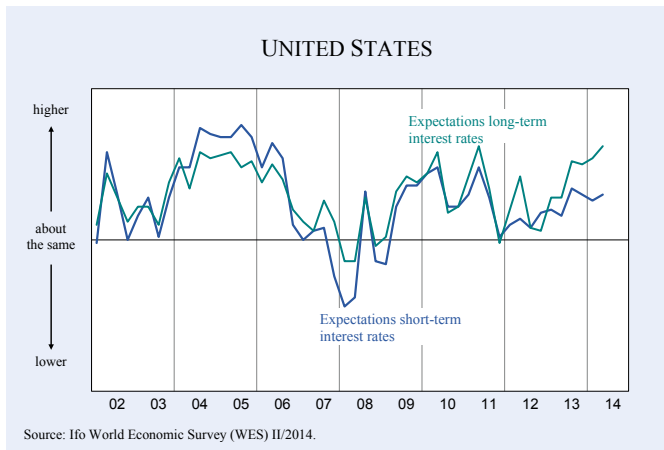
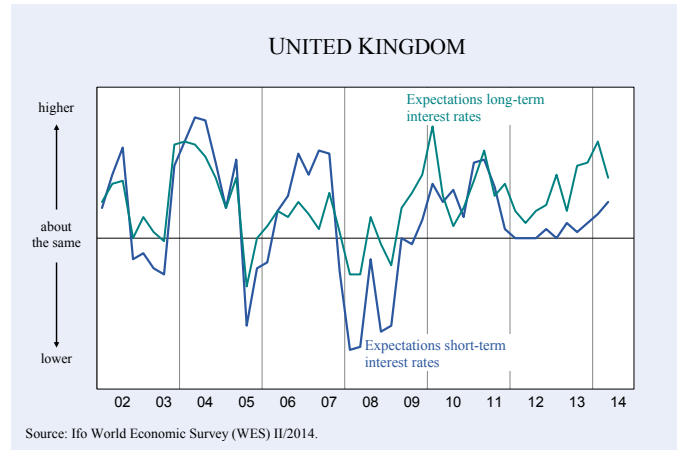
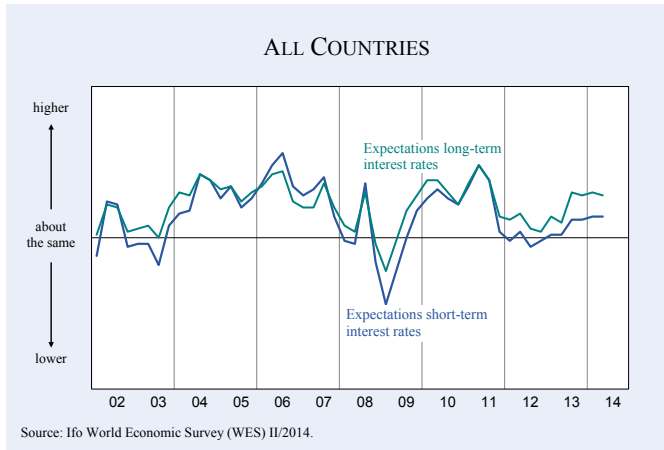


Table 3 Expected Growth of Real Gross Domestic Product (GDP) in 2014 and 2013 (based on WES QII/2014 and QII/2013)

Region	QII/2014	QII/2013	Region	QII/2014	QII/2013
Average of countries *	2.5	2.2	North America	2.5	2.0
High-income countries	2.2	1.4	Canada	2.3	1.8
Middle-income countries	3.7	4.2	United States	2.6	2.0
Upper-middle	3.1	3.9			
Lower-middle	4.8	5.2	Oceania	2.8	2.8
Low-income countries	5.9	5.8	Australia	2.7	2.8
EU 28 countries	1.6	0.4	New Zealand	3.4	2.4
EU countries (old members) ^{a)}	1.5	0.3			
EU countries (new members) ^{b)}	2.1	0.9	Latin America	2.3	3.4
Euro area ^{c)}	1.3	0.2	Argentina	0.1	2.7
			Bolivia	6.0	4.0
Western Europe	1.5	0.4	Brazil	1.7	2.8
Austria	1.5	0.9	Chile	3.4	4.9
Belgium	1.4	0.3	Colombia	4.4	4.0
Cyprus	-4.9	(-8.0)	Costa Rica	(4.2)	(4.0)
Denmark	1.4	0.8	Cuba	(2.2)	(3.5)
Finland	0.6	0.4	Dominican Republic	4.3	2.7
France	1.0	0.1	Ecuador	3.9	4.2
Germany	1.7	0.9	El Salvador	1.7	1.7
Greece	0.1	-4.0	Guatemala	3.4	3.4
Ireland	1.9	0.9	Mexico	2.7	3.4
Italy	0.6	-0.6	Paraguay	4.9	10.6
Luxembourg	(2.5)	0.9	Peru	5.1	6.2
Monaco	1.8	1.7	Trinidad and Tobago	2.0	0.0
Netherlands	1.2	0.0	Uruguay	3.2	3.4
Norway	2.5	2.5	Venezuela	-1.3	1.2
Portugal	1.1	-1.4			
Spain	1.0	-1.1	CIS	1.1	2.8
Sweden	2.3	1.3	Armenia	2.5	4.9
Switzerland	2.0	1.2	Georgia ^{d)}	(5.5)	5.8
United Kingdom	2.7	0.8	Kazakhstan	5.6	5.0
			Kyrgyzstan	5.0	5.5
Eastern Europe	2.1	0.9	Russia	0.8	2.7
Albania	1.6	1.3	Ukraine	-2.5	1.7
Bosnia and Herzegovina	1.5	1.1	Uzbekistan	(8.0)	(8.5)
Bulgaria	1.5	1.1			
Croatia	-0.1	-0.7	Africa	3.8	4.0
Czech Republic	1.7	0.1	Northern Africa	3.0	3.4
Estonia	2.5	3.0	Algeria	3.6	4.5
Hungary	1.8	0.2	Egypt	1.8	2.4
Kosovo	3.5	---	Morocco	3.5	3.5
Latvia	2.8	3.7	Tunisia	2.9	3.2
Lithuania	3.4	3.5	Sub-Saharan Africa	4.2	4.3
Macedonia	3.7	1.7	Angola	(5.9)	(7.1)
Poland	2.9	1.4	Benin	5.4	5.3
Romania	1.9	1.0	Burundi	(-1.0)	6.0
Serbia	2.0	2.1	Cape Verde	2.3	---
Slovakia	2.2	1.2	Comoros	(2.0)	(2.5)
Slovenia	0.6	-1.2	Congo Dem. Rep.	9.1	8.0
			Congo-Brazzaville Rep.	5.7	(4.0)
Near East	3.9	3.7	Ethiopia	(8.0)	---
Israel	3.4	2.9	Gabon	(5.8)	(5.4)
Jordan	3.0	---	Gambia	4.1	---
Lebanon	2.5	(2.5)	Ivory Coast	7.0	---
Qatar	(4.4)	(4.7)	Kenya	5.2	5.7
Saudi Arabia	(3.6)	3.8	Lesotho	3.4	3.3
Turkey	3.0	3.6	Liberia	(6.0)	8.0
United Arab Emirates	4.9	4.0	Madagascar	3.0	2.5
			Malawi	(6.1)	4.3
Asia	3.7	3.7	Mauritania	5.3	5.5
Bangladesh	6.2	6.1	Mauritius	3.8	3.7
China	7.2	7.7	Namibia	4.4	4.6
Hong Kong	3.3	3.3	Niger	(3.0)	-0.8
India	5.7	5.8	Nigeria	5.0	6.0
Indonesia	5.5	6.4	Senegal	(4.9)	(4.0)
Japan	1.3	1.6	Sierra Leone	9.2	6.6
Malaysia	4.0	5.2	South Africa	2.5	2.6
Pakistan	3.7	3.3	Sudan	2.1	2.9
Philippines	6.6	6.1	Swaziland	1.3	1.6
Singapore	(4.0)	(2.0)	Tanzania	6.6	---
South Korea	3.7	2.6	Togo	5.8	(5.0)
Sri Lanka	6.4	6.1	Uganda	6.0	(5.5)
Taiwan	3.1	3.6	Zambia	6.6	6.9
Thailand	2.6	5.1	Zimbabwe	2.5	4.5
Vietnam	5.4	4.8			

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. - () The data in brackets result from few responses. - ^{a)} Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. - ^{b)} Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria, Romania, Croatia. - ^{c)} Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia. - ^{d)} Georgia, which is not member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

Source: Ifo World Economic Survey (WES) II/2014 and II/2013.

In **Western Europe** outside the *euro area* the two extremes of the presumable price development continue to be *Switzerland* (0.3%) on the one side and the *United Kingdom* (2.2%) and *Norway* (2.3%) on the other.

In **Eastern Europe** the inflation rate forecast for 2014 of 1.7% is lower than expected at the beginning of the year (2.0%). Even more pronounced is the slowdown in inflation expectations compared with last year's estimates (2.6% in early 2013). WES experts expect the lowest price increases in 2014 in *Slovakia*, *Slovenia* and *Bulgaria* (in each case 1.2%), as well as in *Croatia* (1.3%). Inflation in the region is once again expected to be highest in *Serbia* (3.5%), where the new estimate nevertheless signals some improvement on the inflation front (4.2% in the beginning of 2014 versus an estimated 5.5% for the same period of the previous year).

In **North America**, the 2014 inflation forecast hardly changed over the past three months (1.8% compared to 1.9%, at the beginning of the year). The 2014 inflation rate in *Canada* will again be slightly lower than in the *USA* (1.7% compared to 1.9%).

In **Asia** inflation expectations for 2014 have declined somewhat since the beginning of this year (from 3.6% to 3.4%) and now correspond exactly to the reported inflation rate in 2013. In *Japan* inflation expectations for 2014 increased to 1.8%, from an estimated 1.5% at the beginning of the year. The stronger than originally expected increase might have been caused by the VAT hike from 5 to 8% and the significant rise in import prices following a weak yen. Inflation expectations have also picked up somewhat since the beginning of 2014 in *Vietnam* and *Bangladesh*. In all other *Asian* countries covered in the survey inflation expectations remained unchanged over the past three months or even decreased somewhat, e.g. in *China* (from 3.3% to 3.0%) or in *India* (from 7.7% to 6.9%).

In **Oceania** inflation expectations for 2014 were somewhat higher than at the beginning of the year (2.7% compared to 2.4%). This upward revision of inflation expectations results exclusively from replies of WES experts for *Australia*. In *New Zealand* the inflation outlook for this year remained unchanged at 2.2%.

In **Latin America** inflation expectations for 2014 also picked up somewhat this quarter (from 10.6% to 10.8%). However, this was not a general trend, but was mainly due to further deterioration in the inflation outlook for

Argentina (from 29.8% to 36.2%). The inflation outlook also deteriorated in some other *Latin American* countries, including in *Brazil* (from 6.0% to 6.4%) and *Chile* (from 2.9% to an expected 3.5%). By contrast, inflation expectations for 2014 have declined since the beginning of this year in *Mexico* (from 4.4% to 4.1%) and in the hyperinflation country *Venezuela* (from 62.0% to 55.6%).

In **CIS** countries inflation expectations for 2014 clearly picked up (from 6.8% to 8.6%). The expected rise in prices in the *Ukraine* is particularly pronounced (12.4% after 5.8% at the beginning of the year). Inflation expectations also rose significantly in *Russia*, *Kazakhstan* and *Kyrgyzstan* (see Table 2).

In the **Near East** inflation expectations for 2014 are now slightly higher than in early 2014 (4.4% after 4.1%). The increase was mainly caused by the *United Arab Emirates* (3.0% after 2.3%).

In **Africa** price trends remain very heterogeneous. Generally, inflation will tend to slow down somewhat in 2014, from an expected 7.5% to 6.8% in *Northern Africa* and from 8.6% to 7.5% in *Sub-Saharan Africa*.

US dollar expected to rise

Whereas the *euro* and the *UK pound* are seen as overvalued, the *US dollar* and the *Japanese yen* appear undervalued to WES experts (see Figure 11).

By country major differences in currency evaluation remain: WES experts assessed their own currency as generally undervalued in the *United States*, in *Australia* and – after the preceding devaluation – in *Kazakhstan*. By contrast, WES experts regard their own currency as generally overvalued in *Switzerland*, in most *euro* countries, in *Serbia*, *Indonesia*, *Pakistan* and in *Egypt*.

The answers to a supplementary survey question on likely trends in the *US dollar* in the next six months, regardless of how currencies are assessed from a fundamental point of view, signal that the value of the *US dollar* is expected to rise over the course of the coming six months on worldwide average.

On the other hand, a weakening of the *US dollar* is expected in the *Philippines*, *Malaysia*, *India*, *Namibia*, and to a slightly lesser degree also in *China*.

Stable interest rates expected

On a worldwide scale, *short- and long-term interest rates* are expected to remain more or less stable over the course of the next six months. The rise in interest rates is only expected to continue in a few countries, and particularly in the *US, New Zealand, Brazil, Taiwan, Hong Kong, the Philippines and Russia*. Declines in *short- and long-term interest rates, by contrast, are expected* in the next six months in *India, Lithuania, Chile, the Ukraine* and a few *African* countries like *Zimbabwe and Sierra Leone*.

Economic growth expected to pick up in 2014

Each year in the second quarter survey, WES experts are asked to give a quantitative forecast of GDP² growth in the current year. For 2014 world economic growth is expected to reach 2.5% after an expected 2.2% in 2013 (see Table 3).

The strongest growth rate – of close to 4% – is expected in *Asia, the Near East and Africa*, although growth is still almost a full percentage point below pre-crisis levels in all three regions. In *Oceania* economic growth in 2014 will retain its momentum and reach 2.8%, according to WES experts. However, this growth rate is still slightly below the pre-crisis growth trend of just over three percent. In *North America* growth in 2014 will reach the world average (2.5%) and will therefore come close to its pre-crisis growth trend. *Western Europe* will again be one of the less dynamic economic regions in the world this year. However, compared to growth expectations reported in early 2013, the outlook has become much brighter (1.5% compared to 0.4%). Growth will also pick up this year in *Eastern Europe*, although the expected increase of 2.1% is a long way off the average 4% in the pre-period 1995 to 2007. WES experts expect weak growth of just 1.1% to prevail this year in the *CIS* area. Expected growth in 2014 will be very weak in *Russia* in particular, reaching just 0.8%. In the *Ukraine* WES experts expect a GDP contraction by about 2.5% this year; an estimate that may even be too optimistic if political unrest does not come to an end

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.

soon. In *Latin America* growth in 2014 will be with about 2% less buoyant than it was in previous upswings of the world economy. In *Brazil* in particular expected growth in 2014 of 1.7% is clearly below former trend growth (in the period 1995 to 2007) of about 3%. Economic development in *Argentina* (0.1%) and *Venezuela* (-1.3%) is likely to stagnate or even fall into a recession this year.

Special Question: Effects of large-scale government bond purchases by central banks

In response to the financial and economic crisis of 2007/08, major central banks in advanced economies have adopted unconventional monetary policies given the sluggish recovery and policy rates already reaching the zero lower bound. A highly debated unconventional measure consists of central banks massively buying government bonds in secondary markets. Examples of large-scale government bond purchasing programmes are given by the Federal Reserve, the Bank of England, the Bank of Japan, and the ECB. The IMF distinguishes between two different objectives that such unconventional policy measures can contribute to.³ On the one hand, increasing demand for government bonds can be aimed at lowering long-term yields and therefore easing monetary policy conditions, despite the zero lower bound. On the other hand, bond purchasing programmes can be targeted to resolve financial market distortions and to ensure a proper monetary policy transmission mechanism (as in the case of the ECB's OMT programme). Overall, the effects of bond-buying programmes on the real economy are rather uncertain, since these effects materialize over a longer horizon and are hard to disentangle from other influencing factors.⁴ This quarter's WES special question asked the economic experts to evaluate given statements on the possible effects of central banks' large-scale government bond purchases (LSGP). Experts could indicate whether they (dis-)agree with a given opinion on a four-point scale ("strongly agree", "rather agree", "rather disagree", "strongly disagree"). The statements were referring to effects of LSGPs broadly in the areas of monetary and fiscal policy, overall economic policy, and financial markets. In particular, the list of statements reads as follows:

³ See IMF (2013), "Unconventional Monetary Policies – Recent Experience and Prospects", Executive Summary, April 18, 2013.

⁴ See, for instance, Williams, J.C. (2014), "Monetary Policy at the Zero Lower bound: Putting Theory into Practice", Hutchins Center on Fiscal & Monetary Policy, Brookings Institution, January 16, 2014.

Table 4 Balancing statistics* on the effects of large-scale government bond purchases by central banks

	“In general, large-scale government bond purchases are likely to...”								
	combat deflationary spirals	lead to high inflation in the medium-term	reduce public and private sector funding costs	reduce fiscal discipline in the medium-term	allow more time for structural reforms	lead to a loss of central bank independence from fiscal policy	trigger asset price bubbles in the medium-term	prevent short-term irrational overshooting in the fin. market	trigger large capital flows into emerging markets
(No. of responses)	Monetary Policy		Fiscal Policy		Economic Policy		Financial Markets		
Western Europe (266)	28	-7	43	28	41	28	63	-11	29
Eastern Europe (134)	31	13	40	49	34	29	34	-18	31
CIS (50)	33	48	21	34	12	23	42	15	18
North America (36)	48	-25	42	29	45	-42	56	-10	7
Asia (133)	44	33	34	61	24	40	68	5	40
Latin America (129)	51	21	37	30	53	20	27	19	51
Near East (29)	70	45	46	40	83	-24	54	34	-7
Oceania (20)	33	15	37	59	68	-64	56	-92	81
Africa (122)	42	-10	37	-13	37	7	16	33	38
Consensus	42	15	37	35	44	2	46	-3	32
Disagreement	13	25	7	22	22	37	17	38	25

* The table reports balancing statistics that represent the difference in the shares of respondents agreeing with the respective statement and those who disagree. Results at the regional level are obtained by weighting the experts’ opinion according to the country-specific exports and imports as a share of total world trade. Negative entries are marked red, whereas the highest value for each statement is marked green. Consensus is measured by the mean of regional balances. Disagreement is the standard deviation of regional balance statistics.

Source: Ifo World Economic Survey (WES) II/2014.

“In general, large-scale government bond purchases are likely to...

- ...be an effective policy tool to combat deflationary spirals.
- ...lead to high inflation in the medium-term due to excess central bank money.
- ...reduce public and private sector funding costs.
- ...reduce fiscal discipline in the medium-term.
- ...allow more time to introduce structural reforms.
- ...lead to a loss of central bank independence from fiscal policy.
- ...trigger asset price bubbles in the medium-term.
- ...prevent short-term irrational overshooting in the financial market.
- ...trigger large capital flows into emerging markets, which may probably reverse quickly once the programmes terminate.”

Each potential short-term effect of LSGPs was contrasted with a potential medium-term effect as discussed by the general public, such as the trade-off between fighting deflationary spirals in the short-term and the possibility of high inflation in the medium-term due to excess central bank money.

Results of the WES special question across regions are shown in Table 4. The answers are presented as balance statistics, which reflect the difference in the shares of respondents agreeing with a given statement and those who disagree.⁵ Concerning the effect of LSGPs in the field of *monetary policy*, respondents worldwide agree that such programmes help to combat deflationary spirals, with the largest approval for this statement in the *Near East* and *Latin America*. By contrast, there is a high level of dissent among experts concerning the statement that LSGPs might lead to high inflation in the medium-term. While *CIS* countries and the *Near East* in particular do not expect excess central bank money to be sterilised on time to prevent high inflation, notably respondents in *North America* mostly disagree with the statement.

In the field of *fiscal policy*, economic experts in all regions agree on the effectiveness of LSGPs in reducing public and private sector funding costs. At the same time, the majority of experts (notably in *Asia* and *Oceania*) believe that government bond purchases

⁵ Since the categories on the higher and lower end of the response scale were less selected, the two statements on agreement or disagreement (“strongly”/“rather”) were summarized without weighting in one category each.

reduce fiscal discipline in the medium-term. Only experts in *Africa* do not agree on balance with this statement.

As far as **overall economic policy is concerned**, experts worldwide agree that LSGPs allow more time for structural reforms. However, there is a high level of disagreement about whether such programmes lead to a loss of central bank independence from fiscal policy, as indicated by the standard deviation of regional balance statistics (reported in the final row of Table 4). Whereas experts in *Asia* and *Europe* in particular agree with this statement, experts in *Oceania* and *North America* strongly object.

Given the effect of LSGPs on **financial markets**, experts worldwide generally agree that such programmes might lead to asset price bubbles in the medium-term. This statement received the highest consensus among respondents, as indicated by the average approval rate across regions. By contrast, there is a high level of dissent concerning the effectiveness of LSGPs in preventing short-term irrational overshooting in the financial market, with the majority of experts in *Oceania*, *Europe*, and *North America* disagreeing. Moreover, this statement was the only one that received a negative consensus value. Finally, experts were asked to assess a statement referring to potential spillovers of domestic LSGPs to emerging markets. Most experts agree that such measures might lead to large capital flows into emerging economies, which may probably reverse quickly once the programmes terminate. Interestingly, the lowest approval rate for this statement is found in the *Near East* and *North America*, probably because these economies were barely affected by changes in capital flows in recent years.

Two main messages can be derived from Table 4. First, economic experts worldwide seem to broadly agree on the short-term effects of LSGPs. The majority of experts hold the opinion that massive government bond purchases help to fight deflationary spirals, reduce public and private funding costs and allow more time to introduce structural reforms. One exception is the effectiveness of LSGPs in preventing short-term overshooting in financial markets, with advanced economies generally disagreeing with this opinion. Second, medium-term effects are generally more uncertain than short-term effects, as reflected by a higher disagreement among respondents on a given statement. The greatest degree of uncertainty pertains to the credibility of monetary policy, emphasizing the importance for central banks of clearly communicating their unconventional monetary

policy strategies. Survey results also indicate challenges for future exit strategies from unconventional measures such as LSGPs, given that experts across regions disagree on the effect on emerging markets capital flows and, given the high degree of consensus that such programmes trigger asset price bubbles in the medium-term.

Table 5 shows the balance statistics for selected countries. Experts' opinions in economies whose central banks introduced LSGPs mainly to ease monetary policy conditions at the zero lower bound (*United States*, *Japan*, and *United Kingdom*) are rather heterogeneous, but with a high consensus on the risk of asset price bubbles in the medium-term. Respondents in the *United States* object the most to the given statements, notably concerning high inflation and a loss of central bank independence as a result of LSGPs. In *euro area core* countries, the majority of experts also agree that LSGPs lead to asset price bubbles in the medium-term. Interestingly, experts in core countries generally do not agree that LSGPs prevent short-term irrational overshooting in the financial market, although financial market tension was a major reason for the ECB to introduce large-scale government bond purchases.⁶ However, results strongly differ for the periphery of the euro area (*Greece*, *Ireland*, *Italy*, *Portugal*, and *Spain*). Here, experts agree on balance that LSGPs help to overcome financial market overreactions, accompanied with a strong approval rating for the easing of public and private sector funding costs. Finally, within the BRICS countries, LSGPs are widely considered to trigger large and reversible capital flows to emerging markets, notably in *Brazil*, *India* and *South Africa*, as well as in *Turkey*. This mirrors the financial turbulences these countries have faced since the Federal Reserve announced the possible reduction of its bond-buying programme in May 2013 and the actual reduction (“tapering”) in January 2014.⁷ Country-specific heterogeneity on this issue might also reflect a challenge concerning recent calls to coordinate monetary policies, like that made by emerging economies' leaders on the occasion of this year's G20 meeting in Sydney.⁸

⁶ See, for instance, the introductory statement to the ECB's Governing Council press conference in September 2012 by Mario Draghi, available at: <http://www.ecb.europa.eu/press/pressconf/2012/html/is120906.en.html>.

⁷ As shown by results of the special question in the Ifo WES I/2014, the majority of experts in these countries also expected large portfolio-investment outflows due to Quantitative Easing tapering in the US. See Plenk, J., Nerb, G., Wohlrabe, K. and Kleemann, M., “CESifo World Economic Survey February 2014”, *CESifo World Economic Survey* 13 (1), 2014, 1-26.

⁸ Recent literature documents sizeable spillovers from unconventional monetary policies in advanced economies to emerging markets. See, for instance, Mohan, R. and M. Kapur (2014), “Monetary Policy Coordination and the Role of Central Banks”, *IMF Working Paper* No. 14/70.

Table 5 Balancing statistics* on the effects of large-scale government bond purchases by central banks in selected countries and regions

	"In general, large-scale government bond purchases are likely to..."									
		combat deflationary spirals	lead to high inflation in the medium-term	reduce public and private sector funding costs	reduce fiscal discipline in the medium-term	allow more time for structural reforms	lead to a loss of central bank independence from fiscal policy	trigger asset price bubbles in the medium-term	prevent short-term irrational overshooting in the fin. market	trigger large capital flows into emerging markets
(No. of responses)	Monetary Policy	Fiscal Policy		Economic Policy		Financial Markets				
United States (23)	39	-22	39	30	39	-39	57	-4	-4	
Japan (30)	60	33	40	67	7	67	53	0	45	
United Kingdom (9)	40	-40	40	0	56	11	78	-78	56	
Euro area (core) ¹ (171)	20	3	31	35	35	38	63	-7	28	
GIIPS ² (84)	54	-26	58	14	52	5	53	15	36	
Brazil (29)	47	33	29	27	57	0	31	41	57	
Russia (33)	31	45	9	33	0	15	44	3	9	
India (13)	54	69	9	38	85	-8	69	8	54	
China (11)	50	40	33	64	17	45	82	-9	33	
South Africa (25)	28	12	28	60	12	20	68	-25	76	
Turkey (17)	63	29	65	41	29	-13	53	29	76	

* The table reports balancing statistics that represent the difference in the shares of respondents agreeing with the respective statement and those who disagree. Results at the regional level are obtained by weighting the experts' opinion according to the country-specific exports and imports as a share of total world trade. Negative entries are marked red, whereas the highest value for each country or region is marked green.

¹ Euro area without GIIPS (Greece, Ireland, Italy, Portugal, Spain) ² Greece, Ireland, Italy, Portugal, Spain

Source: Ifo World Economic Survey (WES) II/2014.

