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CESifo WORLD ECONOMIC SURVEY

VOLUME 13, No. 4

NOVEMBER 2014

WORLD ECONOMIC CLIMATE

World economic climate deteriorates

ECONOMIC EXPECTATIONS

Economic expectations less positive

INFLATION

Inflation expectations remain low

CURRENCIES

US dollar expected to rise

INTEREST RATES

Interest rates look set to remain stable

SPECIAL TOPIC

Impact of the Transatlantic
Trade and Investment Partnership
on partners and third parties

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Ifo World Economic Survey

Regions

- World Economy: Economic climate clouds over across all regions
- Western Europe: Economic climate index falls sharply
- North America: Economic expectations decline
- Eastern Europe: Economic climate cools down
- CIS: Economic sanctions take their toll
- Asia: China and Japan slow down again
- Oceania: Expectations linger at low levels
- Latin America: Economic climate remains subdued
- Near East: Economic situation remains favourable, but outlook clouds over somewhat
- Africa: No unified economic trend

Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organisations worldwide on current economic developments in their respective countries. Its results offer a rapid, up-to-date assessment of the economic situation prevailing around the world. In *October 2014*, 1,108 economic experts in 120 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.

Ifo WORLD ECONOMIC CLIMATE DETERIORATES

The Ifo Index for the world economy fell to 95.0 points from 105.0 points in the previous quarter, reaching its lowest level since the third quarter of 2013. The indicator is now slightly below its long-term average of 95.5 points. Assessments of the current economic situation deteriorated only marginally. Economic expectations, however, were strongly downwardly revised (see Figures 1 and 2). The upswing in the world economy is suffering a setback (see Box 1).

Economic climate clouds over across all regions

World production continued to expand at a moderate pace in mid-2014. The upturn continued in the USA and United Kingdom, but contrary to expectations at the beginning of this year, a recovery did not take hold in the euro area. Economic activity is heterogeneous in the emerging economies, with China losing pace slightly. Fairly weak world economic expansion was reflected in slow growth in world trade during the first half of 2014. Monetary policy orientation in the advanced economies started to differ in 2014 in line with the different business cycle situations: in the USA the main refinancing rate still remains close to zero percent, but it will be raised in early 2015 if the economic recovery continues. The European Central Bank (ECB), by contrast, dropped its main refinancing rate to 0.05 percent in September and its deposit rate to -0.2 percent. The implementation of targeted, longer-term refinancing operations and the purchasing programmes for covered bonds and asset-backed securities will provide little stimulus for the euro area's economy.

The economic climate clouded over in all regions. Despite falling to 101.3 points, the Ifo Index for North America remains way above its 15

year average of 90.1 points (see Figure 3). In the USA the current situation improved further, but although the outlook remains positive, it is less favourable than last quarter. In Asia, the index remains only slightly above the long-term average at 93.9 points. Japan and China in particular are sending out weak curbing signals. In Europe and the CIS states there was a very marked decline in the economic climate. While the Ifo Index for Europe is only slightly below the average value, the CIS states together with Latin America are bringing up the rear: the economic climate in both regions is now as overclouded as it was five years ago. The unsolved crisis in the Ukraine had its effects on the survey results. In the Ukraine and Russia both assessments of the current situation and the outlook for the upcoming months worsened.

Figure 1

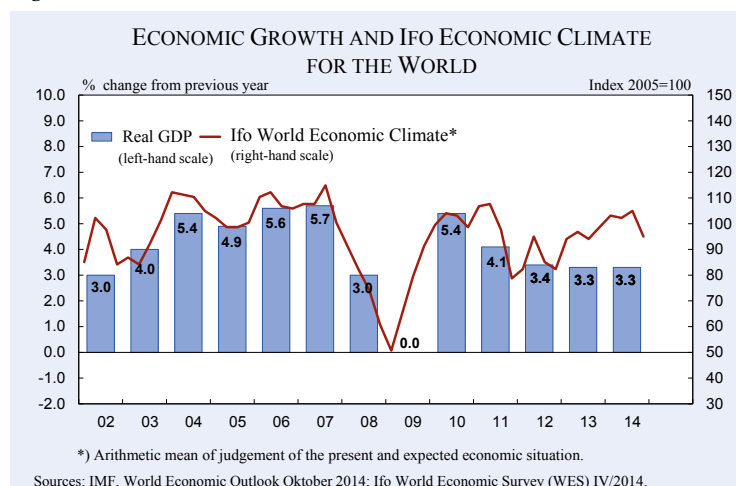
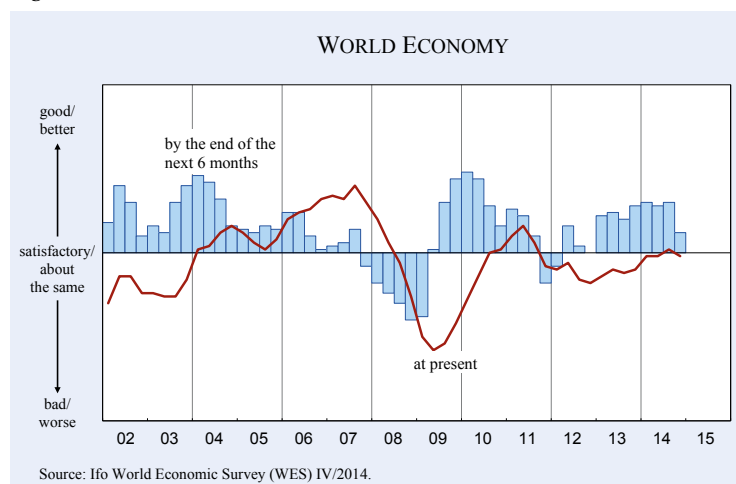


Figure 2

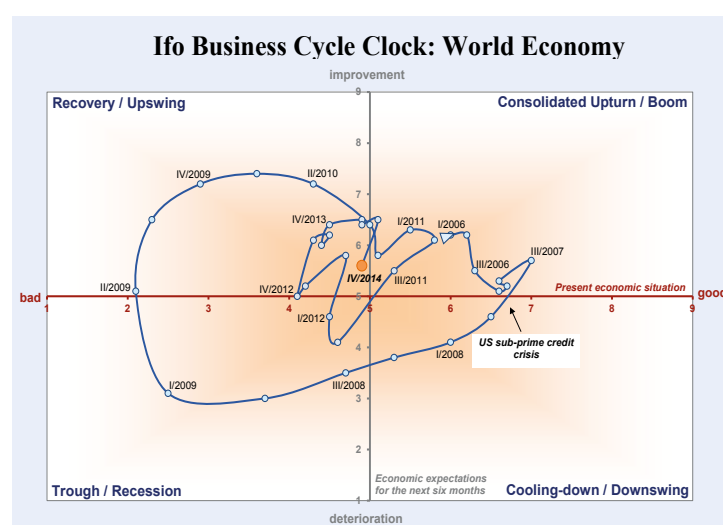


Box 1

Ifo Business Cycle Clock for the World Economy

A glance at the Ifo Business Cycle Clock, showing the development of the two components of the economic climate index over the last 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 October survey, the Ifo indicator for the world economy deteriorated considerably. While assessments of the current economic situation clouded over only slightly, economic expectations for the next six months were strongly downwardly revised. After having reached the consolidated upturn quadrant in the third quarter, the indicator fell back to the recovery-quadrant in the fourth quarter 2014. The upswing in the world economy looks like it is facing a setback.



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

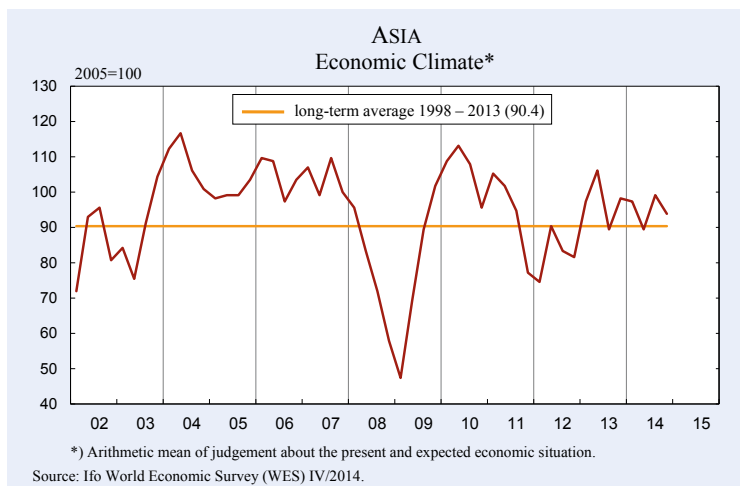
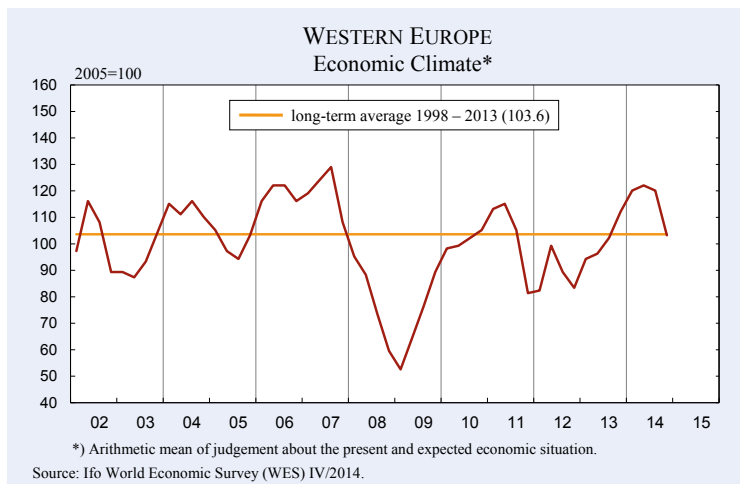
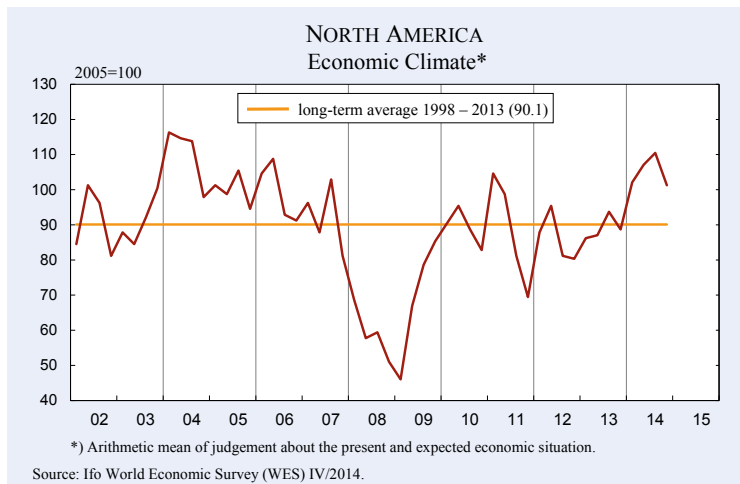
The pace of world economic expansion will remain moderate in the upcoming months. The upturn in the USA will continue. It will be supported in particular by monetary and fiscal policy, a gradual recovery in the labour market and the lower debt levels of private households.

Economic impetus in the *euro area* will remain weak. There are no signs of the long-awaited recovery yet, and forecasts have been gradually downwardly adjusted accordingly. Since the world economy is only slowly gaining pace, no major impulses are expected from exports. The conflict involving *Russia* has further clouded over the economic outlook and will weigh on corporate investment activity. Companies are also still targeting higher equity ratios; while private households are trying to improve their asset positions. This will dampen demand – although to a declining degree – until the end of 2015. There are, however, a number of supportive factors: fiscal policy is expected to be far less restrictive than in previous years, and structural

	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	1		1		2.5	3	3
Insufficient demand	1	1			3		2		2	
Unemployment		2.5	2		2		3	1	1	
Inflation										
Lack of international competitiveness				2	1	2.5		2.5		1
Trade barriers to exports										
Lack of skilled labour						2.5	1	2.5		
Public deficits	2.5	2.5	1	3						
Capital shortage										2

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

Figure 3



deficits will fall more slowly. Asset prices are rising again in many countries and labour markets are stabilising, while exports are benefitting from the lower euro exchange rate.

economic expectations were downgraded considerably. While the present economic situation was assessed as unsatisfactory this quarter, economic expectations remain on the positive side (see Figure 4). A similar pattern applies to the *euro area*, where the indicator

In those emerging economies that export commodities the outlook remains bleak, since commodity prices are barely expected to rise due to the moderate increase in world industrial production. The growth rate will remain high in *China*, although rates are expected to decline gradually. Yet, there is the risk of a sudden slump, especially in the real-estate sector, which is particularly important in *China*, and which has been heated in recent years by excessively high credit expansion.

The risks to the world economy are significant. This is due to the problems in *China's* real-estate market, but also *Russia's* conflict with the West. The weaker price dynamic in the *euro area* also points to risks. The surprisingly low inflation rate means that the real burden of old debts is higher than expected. The real financing costs of households and companies will also rise if the nominal interest rates do not fall in line with inflation due to the zero interest cap that has already been reached in the *euro area*. For the *euro area* overall, however, no deflation scenario is to be reckoned with at present, as long as there are no signs that mid to long-term inflation expectations are taking off.

Western Europe: Economic climate index falls sharply

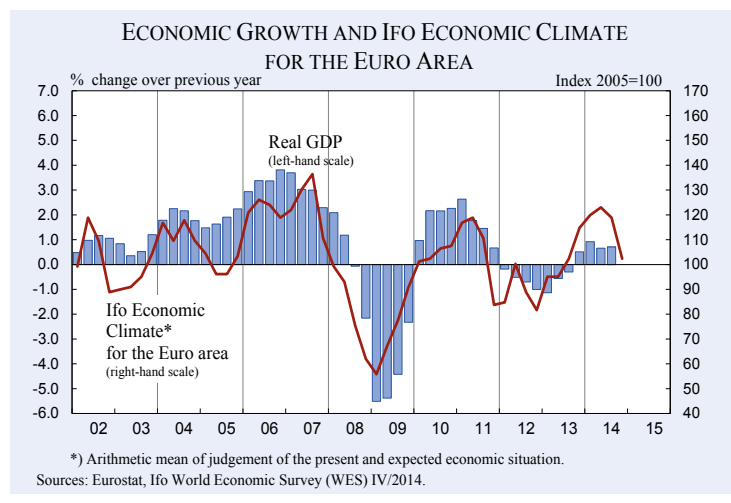
The economic climate index for *Western Europe* fell further to 103.2, from 120.1 in the previous quarter. This latest value now stands slightly below its 15-year-average of 103.6 (see Figure 3). Assessments of both, the present economic situation and

Box 2

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

The Ifo Economic Climate for the 18 member countries of the euro area is the arithmetic mean of assessments of the general economic situation and the economic expectations for the next six months. The October results are based on responses from 288 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 fell from 118.9 points to 102.3 points in the fourth quarter, dropping to its lowest level since the third quarter of 2013. It is now below its long-term average. Assessments of both the current economic situation and of the six-month economic outlook deteriorated significantly. High unemployment, weak demand and public sector deficits continue to head the list of the most pressing economic problems. At present, there is no end to the economic weakness in sight. In nearly all euro area countries the economic situation deteriorated versus last quarter, according to the experts surveyed. In Germany, above all, experts see the current economic situation far less positively than in recent quarters. The figures on the current economic situation also fell in Italy and France. Spain and Portugal are the only countries sending out better signals: assessments of the current economic situation reached their highest level in almost six years, but still remain highly unfavourable. Optimism about economic developments in the next six months diminished nearly everywhere. Portugal and Slovenia were the only countries in which economic expectations improved compared to the last survey. Inflation expectations for 2014 were downwardly revised once again. Accordingly, WES experts expect short-term interest rates to remain unchanged over the next six months.



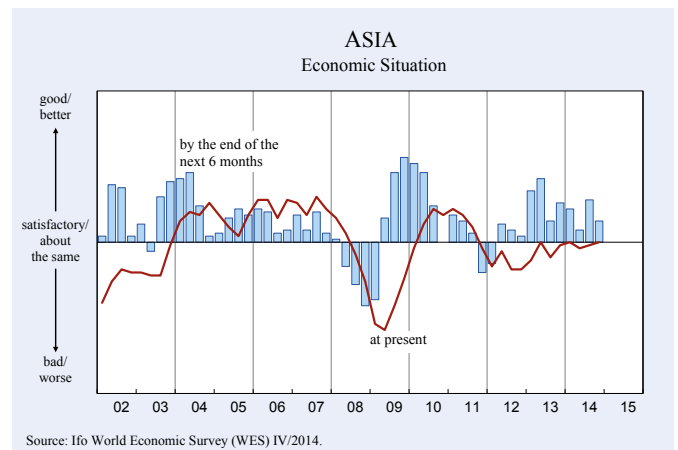
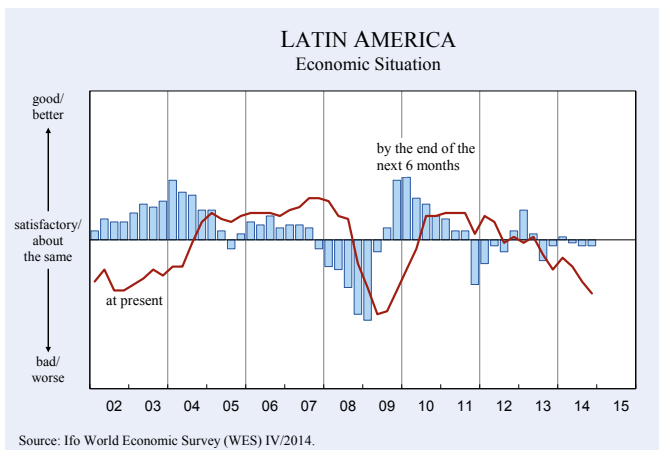
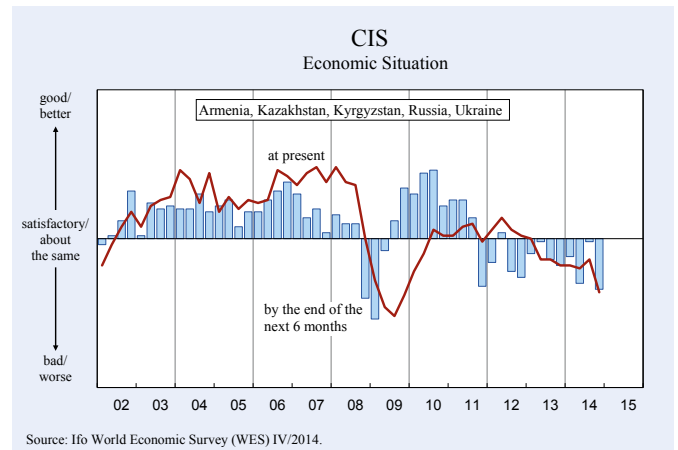
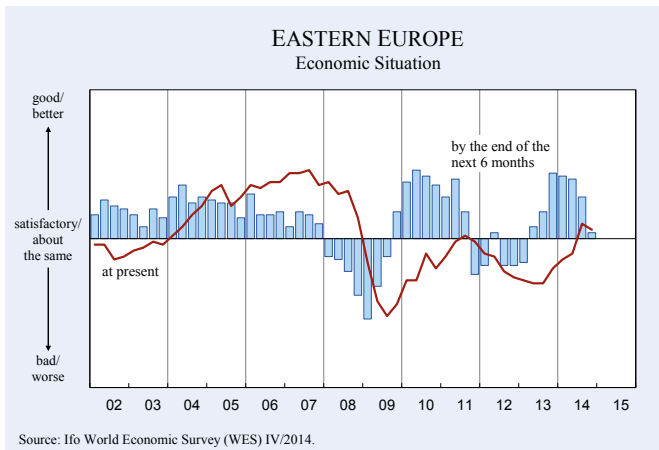
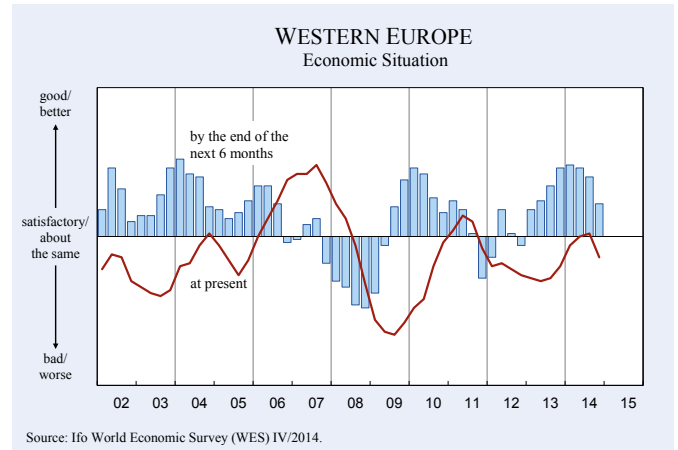
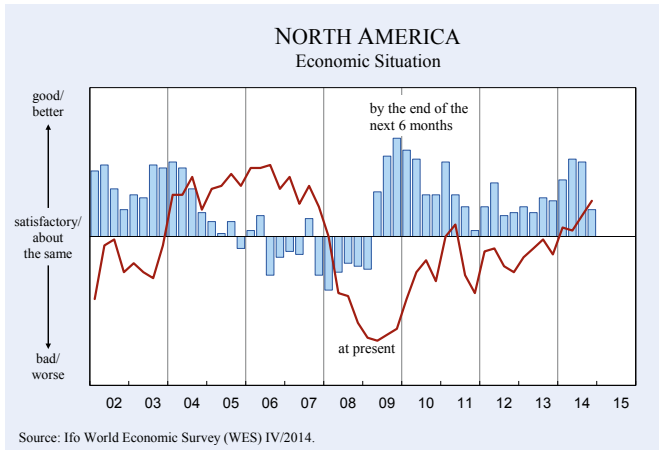
dropped and stands now at 102.3 below its long-term average of 106.8. Appraisals of the present economic situation are more negative than three months ago and economic expectations are less optimistic than in the previous survey. Insufficient demand, unemployment and public deficits are the current most important economic problems in Europe (see Table 1).

In France, Ireland, Italy and Finland, the present economic situation was assessed more negatively than

three months ago. In Spain, Portugal, Greece and Cyprus, the present economic state remains weak, too, even although assessments there are somewhat less negative than three months ago. Optimism regarding future economic developments in most of these countries is waning, except for in Portugal, where more WES experts than last quarter are confident (see Figures 5a and 5b). In Austria, Belgium and the Netherlands, WES experts are more unsatisfied with current economic performance compared to the third quarter. In Austria and Belgium capital expenditure, in particular, is considered to be weak at present, while the Netherlands is suffering from weak private consumption. The six month economic outlook clouded over somewhat in all of these three countries. However, while economic expectations remain positive on the whole in Belgium and the Netherlands, Austria's experts have become sceptical with regard to economic prospects in months ahead. In Slovenia, according to WES experts' opinion, the economic situation remained unchanged at a low level. Economic expectations were revised upwards and are fairly optimistic for the next six months in this country. In Estonia, positive changes were recorded and the present economic situation reaches a satisfactory territory again. The economies of Luxembourg, Latvia and Slovakia are performing satisfactorily once again at present, according to WES experts. However, as far as the six month economic outlook is concerned, optimism waned significantly in all of these observed countries. In Latvia and Luxembourg in particular the pessimistic voices dominated. The best economic performance at present in the euro area was attested to Germany, as in previous surveys. However, there were also sharp downward adjustments here in assessments of both the

Figure 4

SELECTED REGIONS



present economic situation and the six-month economic outlook. WES experts expect dwindling impetus from exports in the months ahead.

Outside the *euro area* the general economic situation appears friendlier, although in most countries downwards adjustments – particularly in economic expectations – were visible. Despite this slight deterioration, the present economic situation in *Sweden*, *Switzerland* and the *United Kingdom* remains favourable on the whole. Private consumption is performing well at present mainly in *Sweden*. In these three countries, the economic outlook is less positive than three months ago. In *Norway*, the present economic situation returned to the good level seen in the second quarter. In turn, economic expectations were downgraded considerably, and are now signalling stabilization rather than economic expansion. In *Monaco* the current economic situation was rated as satisfactory again and is expected to remain so over the next six months. In *Denmark*, assessments of the present economic situation shifted into slightly unsatisfactory territory, and as far as economic developments in the next six months are concerned, WES experts are also less optimistic than previous quarter.

North America: Economic expectations decline

After having reached its highest level in nearly ten years in the last quarter, the economic climate index fell again to 101.3 index-points in this survey, but remains well above its 15-year average of 90.1. The deterioration in the economic climate was mainly driven by strongly waning optimism in the six-month economic outlook. Assessments of the present economic situation, by contrast, were rated more positively (see Figures 3 and 4). This pattern holds particularly true for the *US*. Here, the same economic problems were identified as in the survey in April. This time, however, the high unemployment rate ranks only second in the list of the most urgent problems, and not top as in previous surveys. This is followed by lack of confidence in the government's economic policy. High public deficits are currently seen as the most urgent economic problem. In *Canada*, the economic climate indicator also fell, mainly due to less favourable economic expectations. Assessments of the current economic situation remain satisfactory, despite some slight downwards revision compared to the survey in July. In *Canada*, a shortage of skilled labour seems to be an

important economic obstacle, according to WES experts.

Eastern Europe: Economic climate cools down

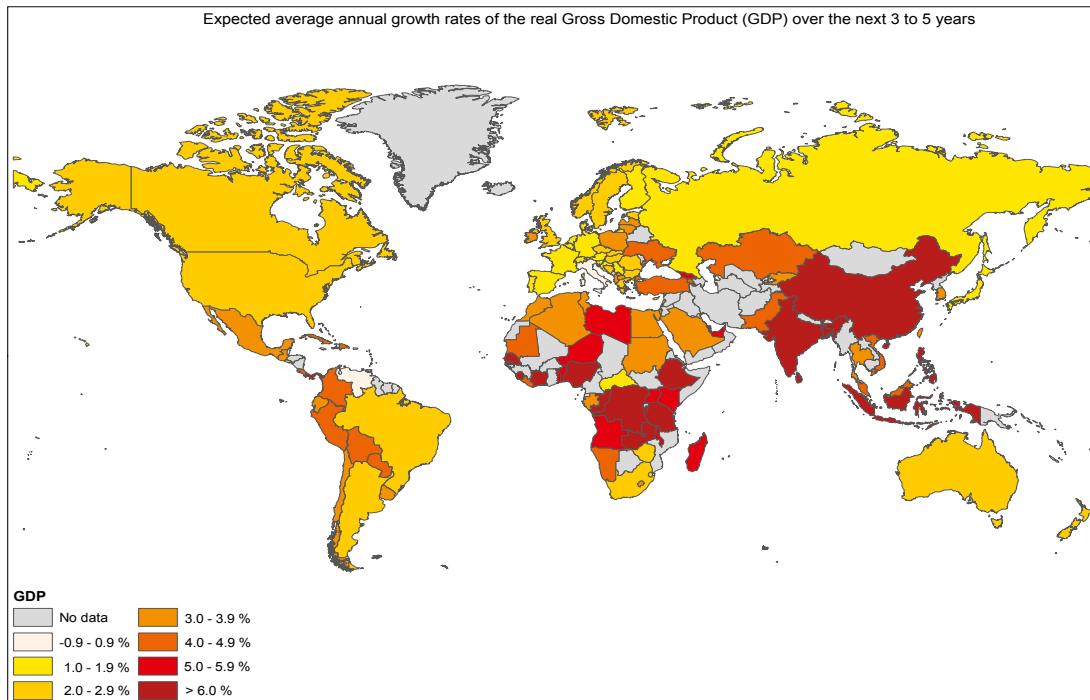
In *Eastern Europe* the economic climate index fell to 83.5 from 94.6 points in the previous survey. This marks the first decrease since early 2013. Assessments of both the present economic situation and, to an even greater degree, economic expectations are less positive than three months ago (see Figures 4 and 7). The region's most important economic problems were once again identified as unemployment, insufficient demand and a lack of confidence in the government's economic policy.

In the *Czech Republic* and *Poland*, experts' assessments of the current situation were slightly downwardly revised, but remain favourably on the whole. These two countries, together with *Lithuania* and *Slovakia*, received the best WES ratings on the present economic situation in this region. However, with regard to the economic developments in the months ahead, WES experts in these countries are less positive than in July. They particularly expect less impetus from exports. In *Hungary* and *Romania*, the economic situation improved versus the previous quarter and assessments in both countries reached satisfactory territory for the first time in over six years. In *Romania*, however, capital expenditure is again considered to be weak at present. Overall, *Romanian* experts expect the situation to stabilise at current satisfactory levels. In turn, economic sentiment in *Hungary* has weakened continuously since early 2014 and now signals scepticism for the next six months. In *Croatia* no changes for the better were recorded and the economic experts surveyed once again unanimously attested to their country's poor economic situation. Assessments of the current economic situation in *Bulgaria* have also deteriorated significantly over past quarters. In both countries, economic expectations do not signal an easing of both countries' currently difficult economic situation.

In *Kosovo* and *Macedonia*, two *Eastern European* countries *outside the EU*, the present economic situation was assessed as satisfactory and is expected to remain so for the next six months. In *Albania* and *Serbia*, the present economic situation deteriorated markedly versus the previous survey and is now considered to be unfavourable and weak respectively. There was no positive news from *Bosnia and Herzegovina*, where the

Box 3

Medium-term growth outlook remains stable



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

On average annual economic growth expectations of 2.7 percent in the next three to five years for all 120 countries included in the survey, remain nearly unchanged in comparison to an estimated 2.6 percent one year ago (see Table 2). However, while the medium-term growth rate was upwardly revised compared to the survey one year ago in *North America*, the *Near East* and *Africa*, an opposing trend was seen in *CIS countries*, *Latin America* and *Oceania*. In *Western and Eastern Europe* and *Asia* no major changes were recorded versus the survey one year ago. The growth rates of middle- and to an even greater degree, of low-income countries are generally higher than in high-income countries. The differences in the growth rates between advanced and developing countries seem to be starting to spread again.

The highest medium-term economic growth rates are expected in the *Near East* and *Africa*, with respectively 4.5 percent on average. In *Sub-Saharan Africa*, where most of the low-income countries are located, the economic catch-up is correspondingly high; and thus annual average growth rates are estimated to be 5.1 percent on average and a maximum of up to 7.5-10.0 percent (e.g. *Tanzania*, *Burundi*, *Congo Dem. Republic* and *Ethiopia*).

Average growth rates of 3.7 percent are also forecast for *Asia*. The fastest growing countries in *Asia* once again include *China*, although the medium-term outlook was slightly downwardly revised from 6.8 percent in 2013 to 6.4 percent in 2014. The mid-term economic prospects for *India*, *Indonesia* and *Sri Lanka* (over 6% p.a. each) brightened considerably compared to the previous year's survey.

In *Latin America* estimates of mid-term growth potential were again weaker than in previous surveys. This is specifically due

to lower estimated average annual growth rates for *Brazil* (2.2%), *Argentina* (2.5%), *Mexico* (3.1%) and *Chile* (3.3%). By country-comparison, *Brazil* is expected to experience relatively low average annual growth rates in the next three to five years, which are only expected to outstrip those of *Venezuela* (-0.1%) and *El Salvador* (1.7%). *Bolivia*, *Peru*, *Paraguay* and *Colombia* are expected to expand by annual growth rates of over 4 percent.

In *CIS* countries estimated average annual growth rate is also lower than one year ago (2.2% compared to 2.5% last year). WES experts downwardly revised their growth rate estimations, mainly for *Russia*, in the mid-term (1.5% versus 2.1% in 2013).

In the middle range of growth expectations stands *North America* with an estimated annual medium-term growth of 2.6 percent (previous year 2.3%). In this region the *USA* is expected to experience at 2.6 percent p.a. higher growth rate than in recent years. The growth dynamic is expected to lose impetus in *Oceania*, as experts' mid-term GDP forecasts are significantly lower than those of one year ago: 2.8 percent for *Australia* per annum (previous year: 3.6%) and 2.4 percent for *New Zealand* (versus 2.8% in 2013).

In *Western and Eastern Europe* aggregates of growth rates estimates remain widely stable and are only one tenth higher than a year ago (1.6%, respectively 2.5%). Among the euro area's crisis-afflicted countries – namely *Greece*, *Italy*, *Spain* and *Portugal* in particular – only *Italy* will fall below the *euro area's* average of 1.5 percent with an annual expected growth rate of 0.9 percent. *Ireland*, with an estimated annual 3.6 percent, will experience the highest growth rate in the *euro area* and will come close to its pre-crisis growth rates of over 4 percent.

current situation also remains weak. Economic sentiment for the next six months is only positive in *Albania* and *Serbia*; in *Bosnia and Herzegovina* no major improvements of current weak economic conditions are expected in the months ahead.

CIS: Economic sanctions take their toll

The economic climate indicator for *CIS* countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan, Uzbekistan* and *Armenia*) fell sharply to its lowest level since early 2009. Lower levels prevailed only at the height of the financial crisis and in the wake of the *Russian* crisis 1998. Assessments of both the present economic situation and expectations for the next six months deteriorated clearly and negative sentiment gained the upper hand (see Figure 4). This pattern was particularly dominant in *Russia* and the *Ukraine*. WES experts cited capital shortage as the most important current economic problem in both countries, as sanctions cut off *Russian* banks and firms from financial markets. The experts surveyed expect that sanctions on trade will lead to a decline in both export and import volumes and due to the resulting shortage of goods, inflation is likely to increase. In *Kyrgyzstan* no positive changes were reported and appraisals of the economic situation are once again at an unfavourable level. Economic expectations point to further deterioration in the months ahead. In *Armenia* and *Kazakhstan* a far friendlier present economic situation prevails than in the other *CIS* countries, although downwards adjustments are visible compared to the survey in July. With regard to future economic developments, experts' expectations for *Armenia* turned sceptical. WES experts in *Kazakhstan*, by contrast, retain their positive view on the whole. In *Georgia*¹ a satisfactory present economic situation prevails, which is expected to persist for the next six months.

Asia: China and Japan slow down again

With a decline of 5.2 index points the downturn of the economic climate index in *Asia* was less pronounced than in other regions: At 93.9 points, the indicator still stands slightly above its 15-year average of 90.4. While appraisals of the present economic situation improved marginally, the economic outlook for the next six months was less positive than in the previous quarter

(see Figures 3, 4 and 8). The most important economic problems faced by this region at present are a lack of confidence in the government's economic policy, poor international competitiveness and a shortage of skilled labour.

The most important countries in this region economically, namely *China* and *Japan*, were mainly responsible for the decline in the indicator. In *China*, the economic climate started to worsen again due to more negative assessments of both the present economic situation, and to an even greater degree, of economic expectations. On average, the present economic situation here is assessed as unfavourable, and capital expenditure is particularly weak at present. With regard to the next six months, WES experts turned more cautious and expect the economy to stabilise, but not to expand. In *Japan*, assessments of the present economic situation have continued to follow a downwards trend since the second quarter of 2014 and have now moved into unfavourable territory. After hitting a temporary high last quarter, economic expectations were clearly downwardly revised once again this quarter and optimism about the next six months evaporated in October. The country's most important economic problems are high public deficits and insufficient demand. WES experts in *Hong Kong, Indonesia, the Philippines* and *Singapore* assessed their respective present economic situations more favourably than three months ago. The economic outlook also brightened further in most of these countries. In *Hong Kong*, however, economic expectations are less positive than in July. The most marked improvement in the current situation, compared to the previous survey, took place in *India*, according to WES experts. Here, assessments of the present economic situation reached a satisfactory level for the first time in nearly three years. WES experts also remain highly optimistic about the next six months. Inflation is still seen as the most important economic problem at present, even although it was less pronounced this quarter than in recent years. WES experts in *Bangladesh* and *Sri Lanka* continued to grade the present state of their economies as good. As far as economic expectations are concerned, experts surveyed are somewhat less optimistic for *Bangladesh* than in July. In *Sri Lanka*, a stabilisation of current good economic conditions in the months ahead is likely. In *Malaysia, South Korea* and *Vietnam* the present economic situation was again rated as satisfactory, although to a somewhat lesser degree than in the previous quarter. The six-month economic outlook signals further improvements in the next half of this year, except for in *Malaysia*, where WES experts remain cautious and are somewhat scepti-

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

Figure 5a

EUROPEAN UNION

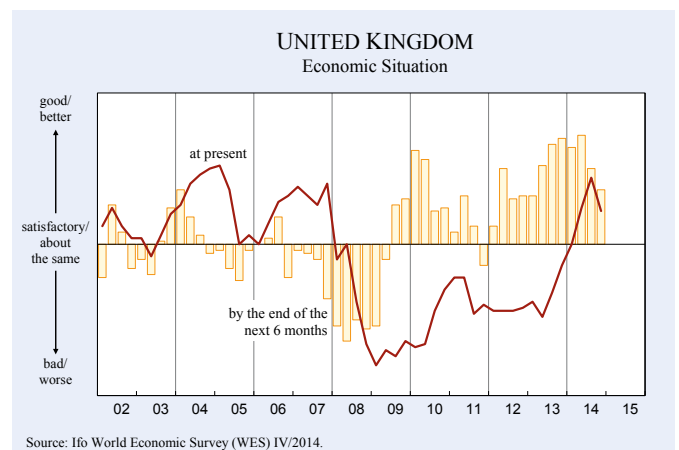
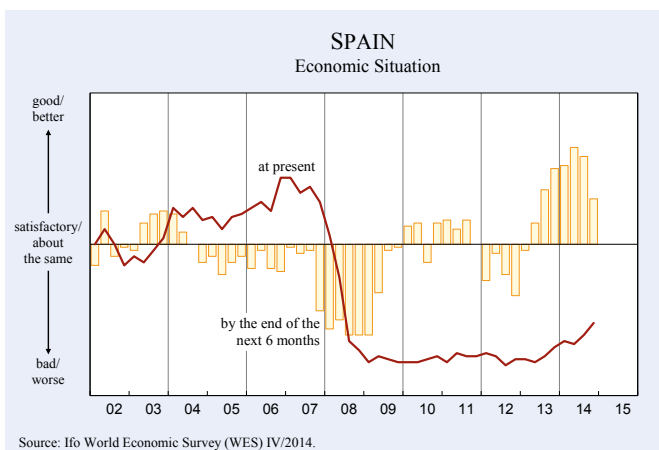
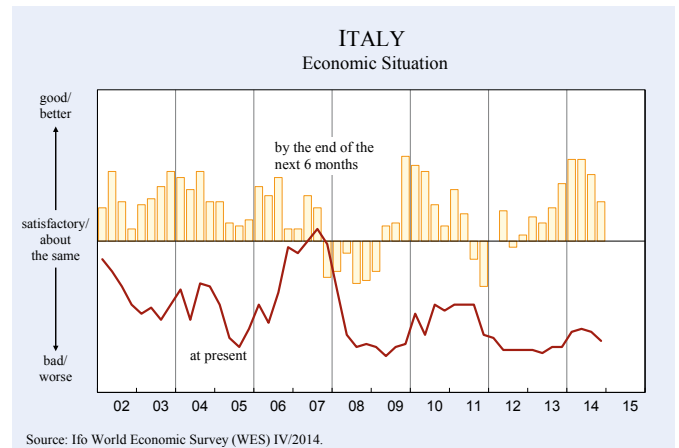
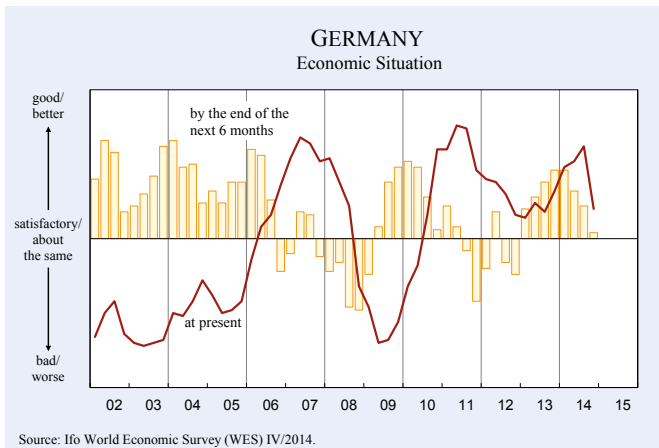
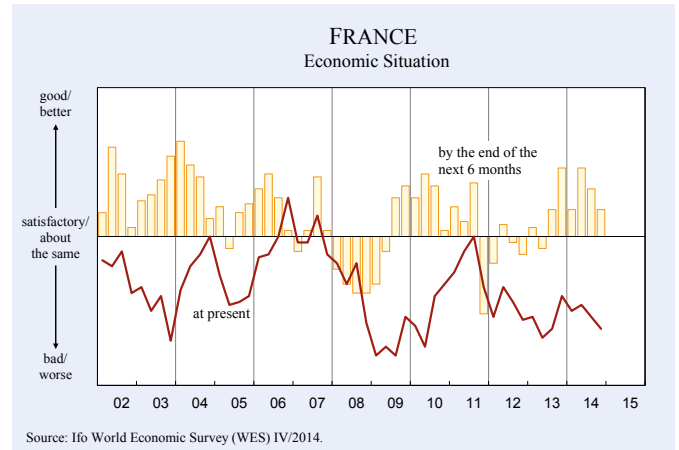
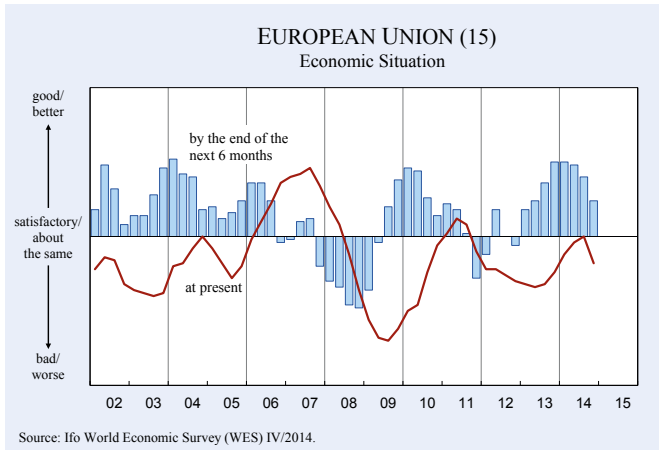


Figure 5b

EUROPEAN UNION

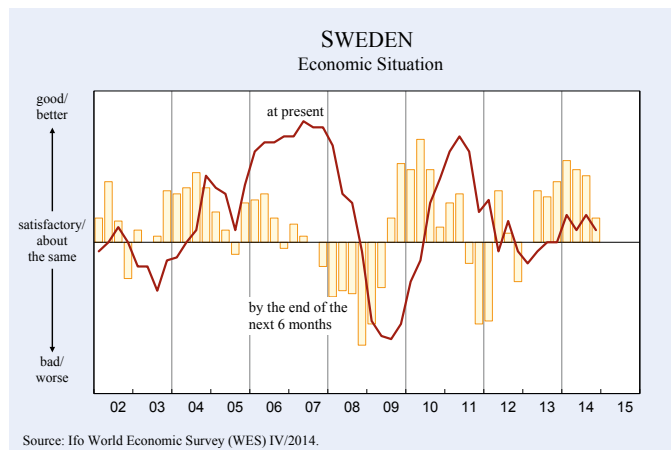
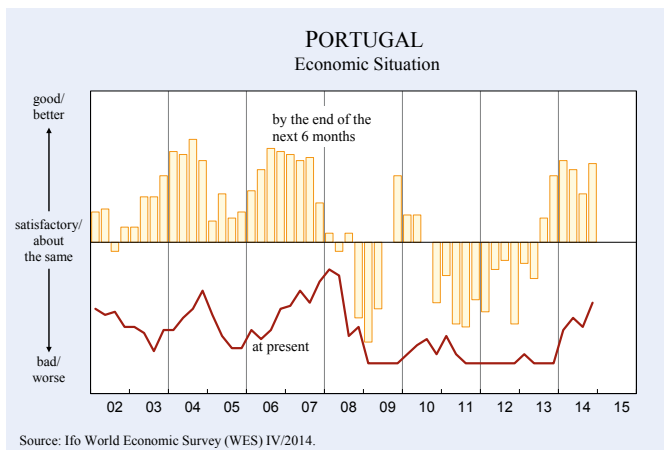
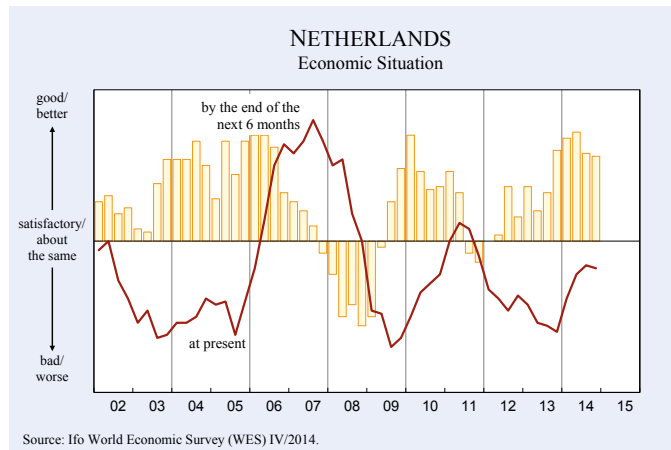
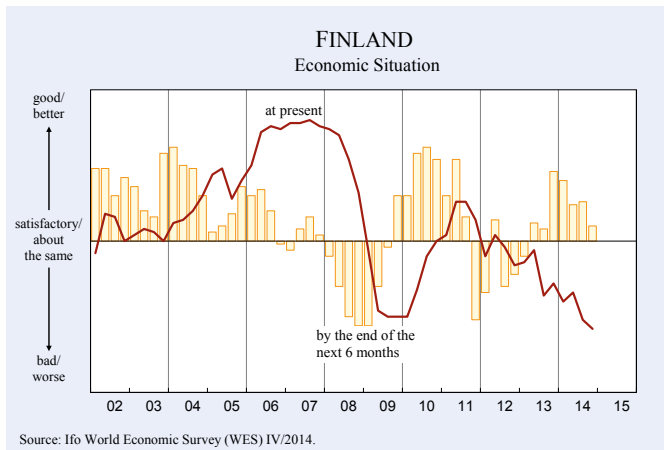
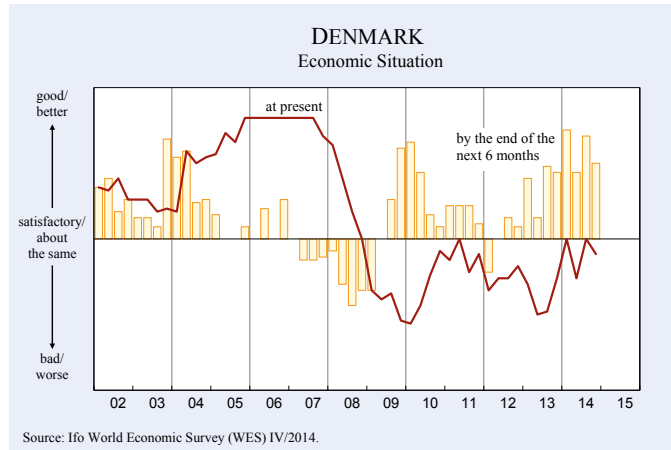
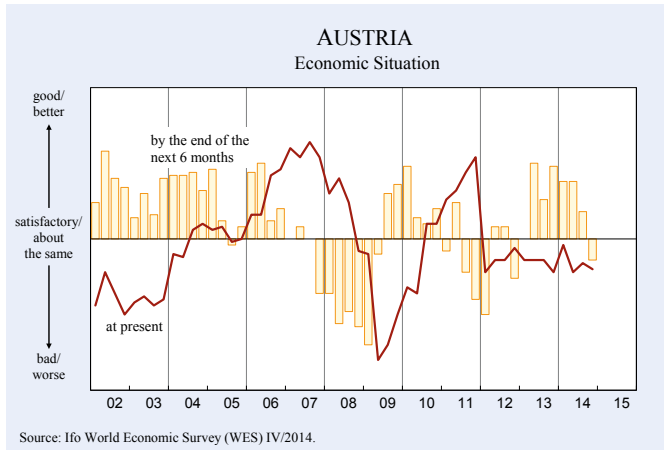


Figure 6

NORTH AMERICA, OCEANIA AND CIS

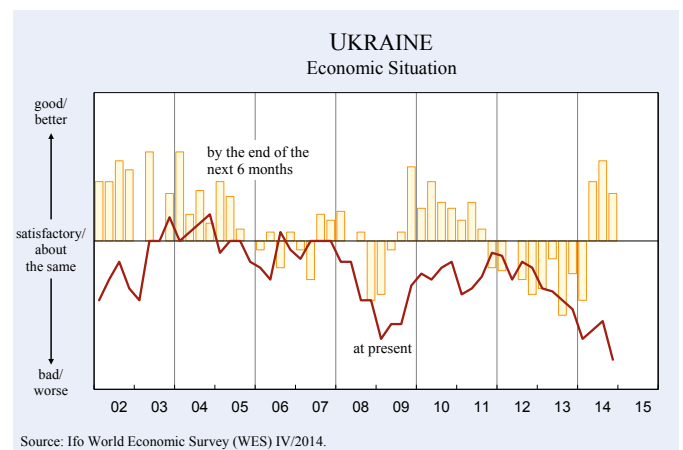
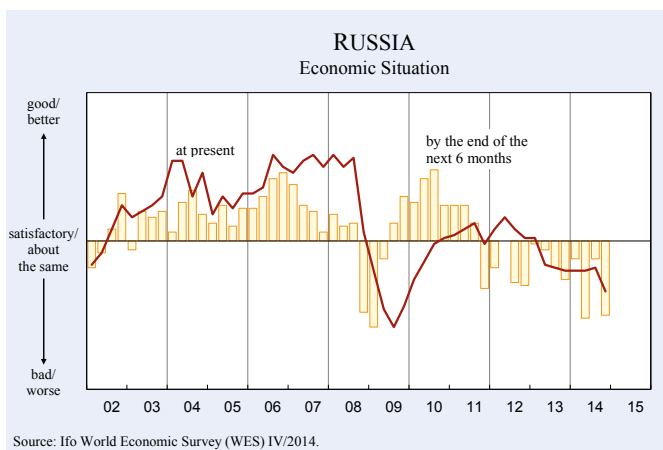
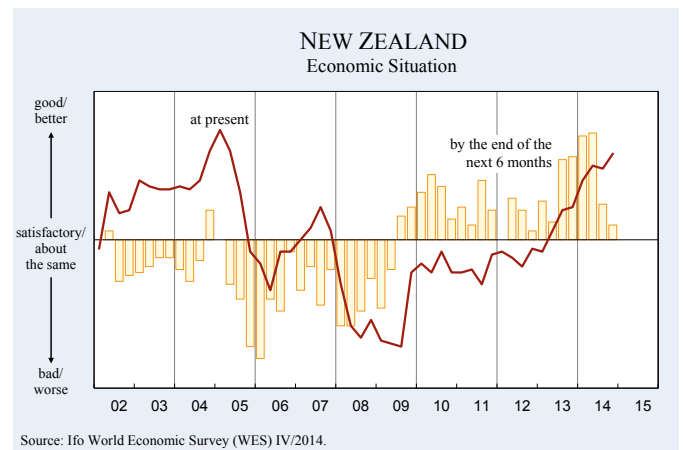
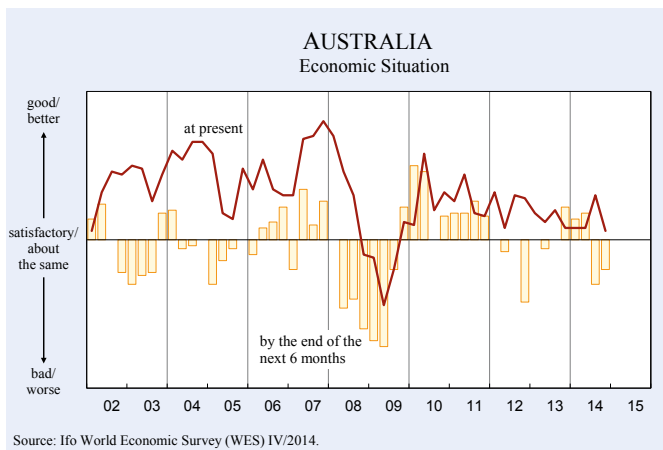
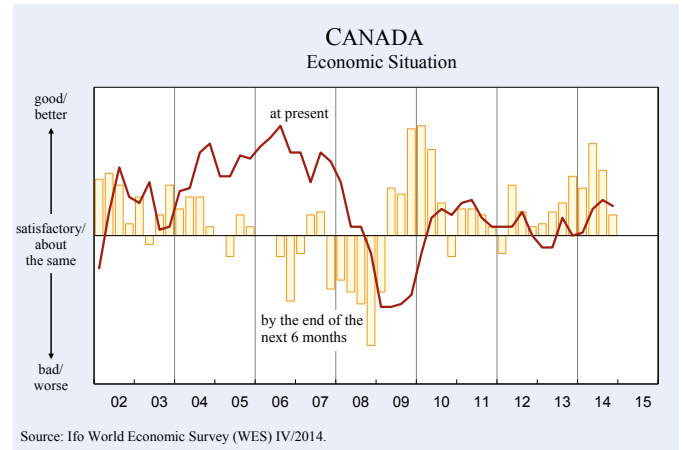
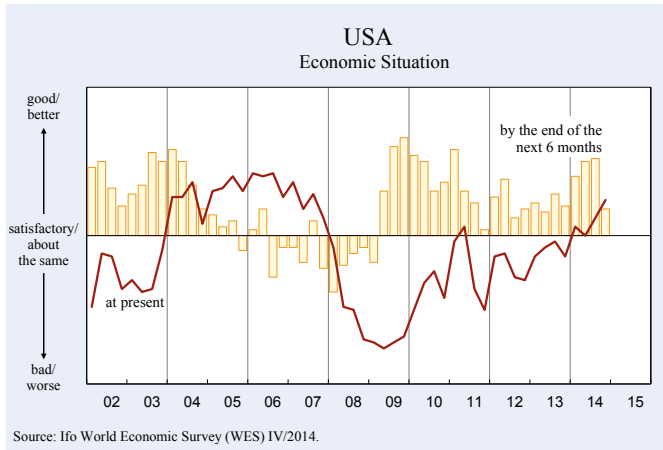


Figure 7

EASTERN EUROPE

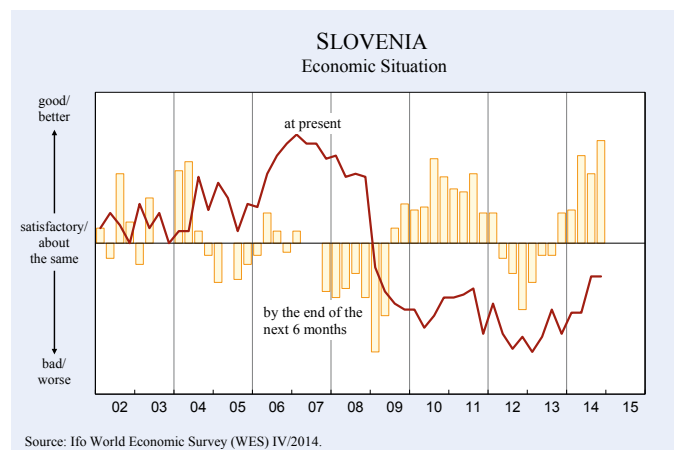
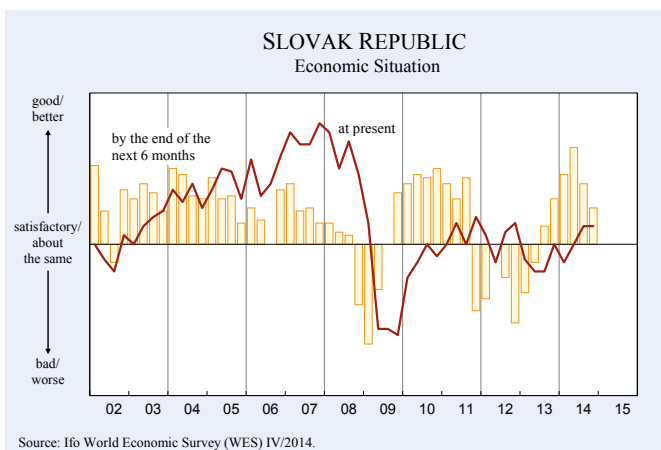
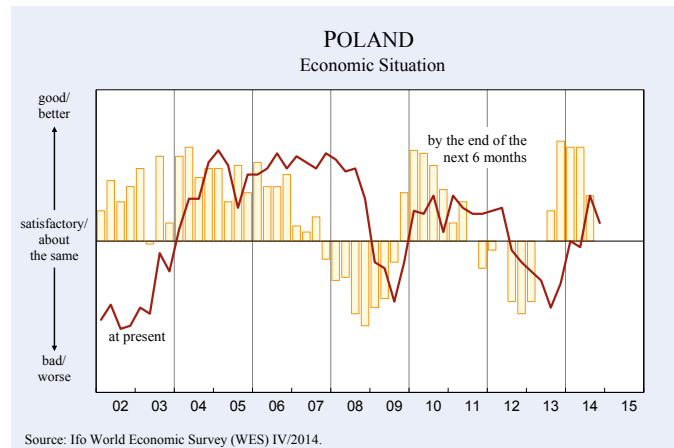
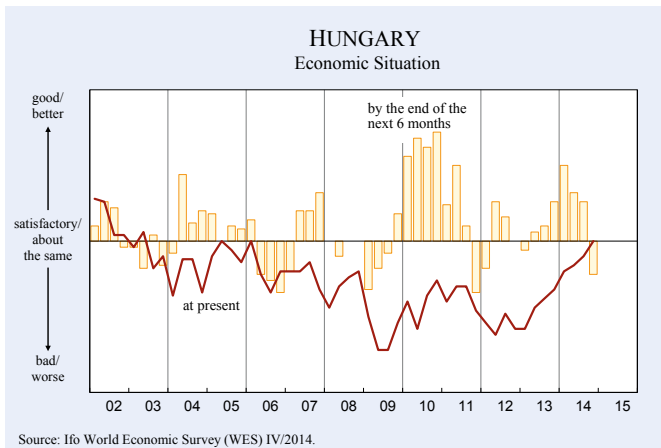
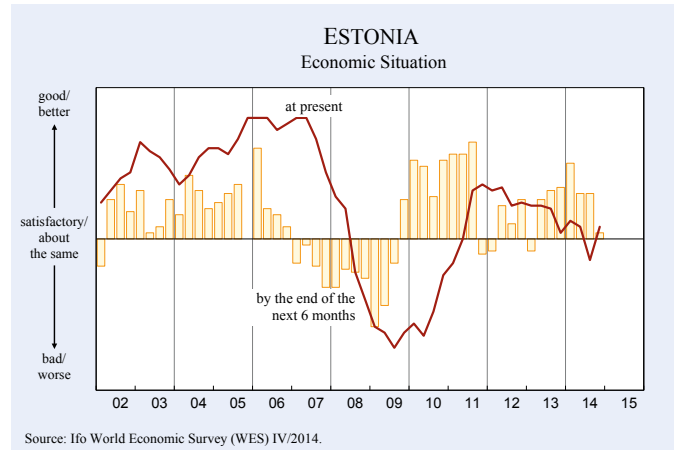
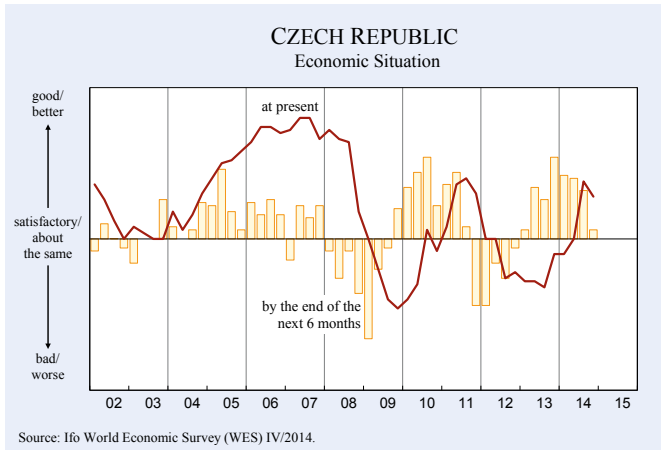


Figure 8

ASIA

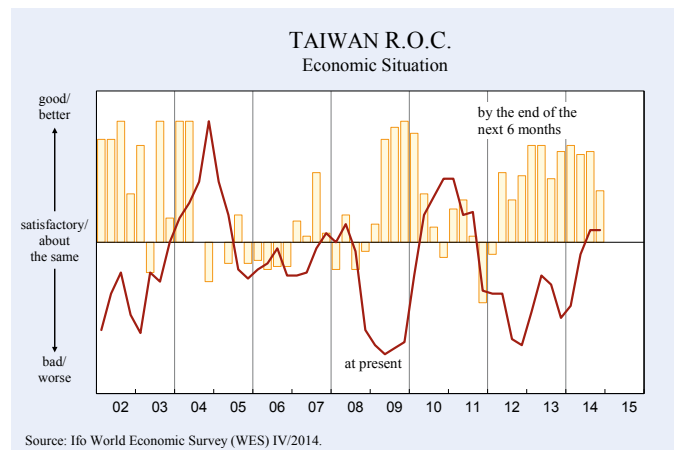
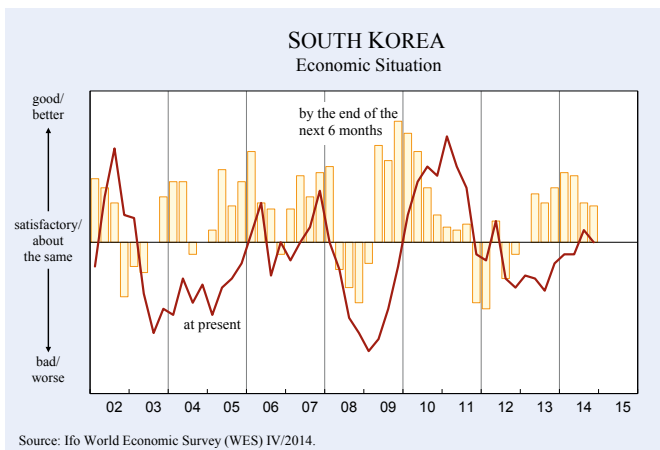
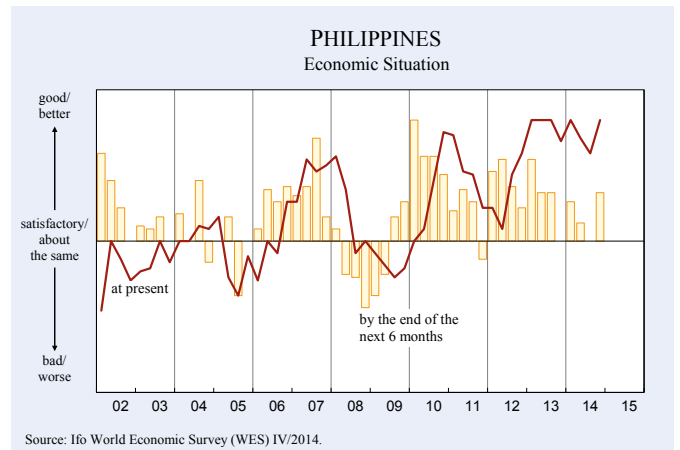
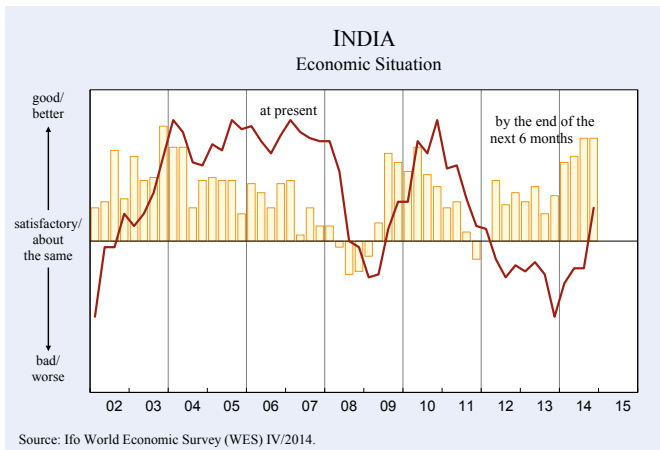
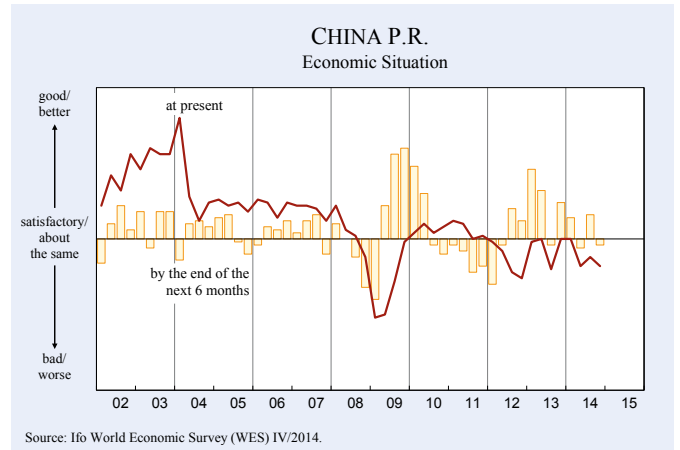
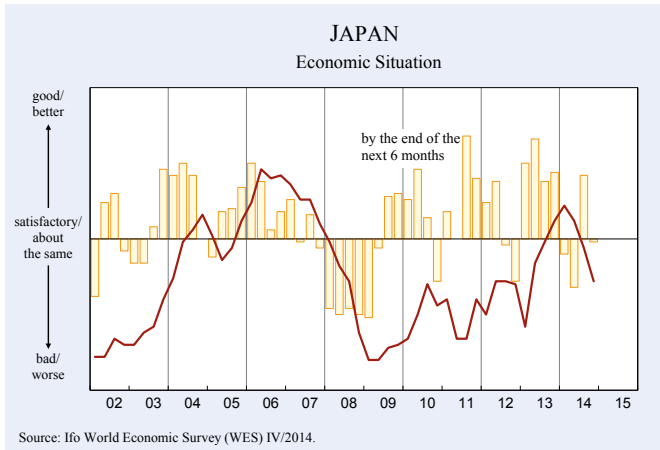


Figure 9

LATIN AMERICA

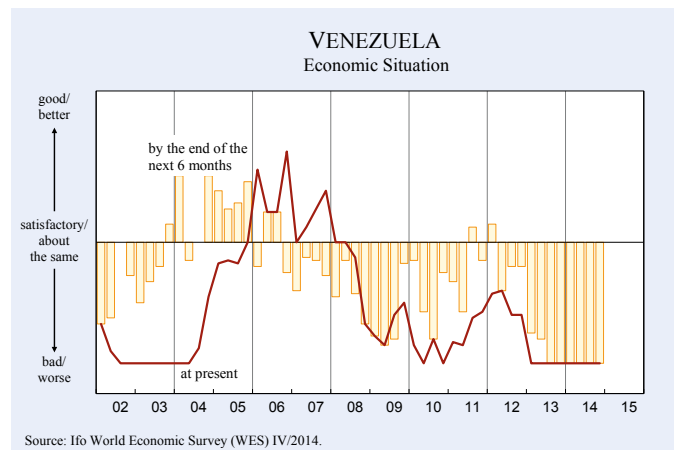
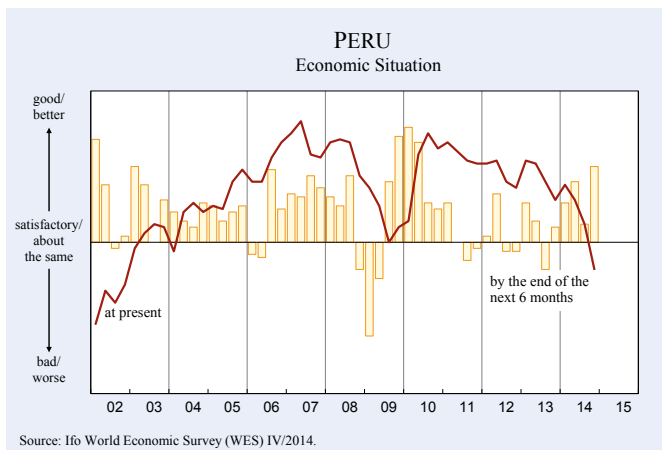
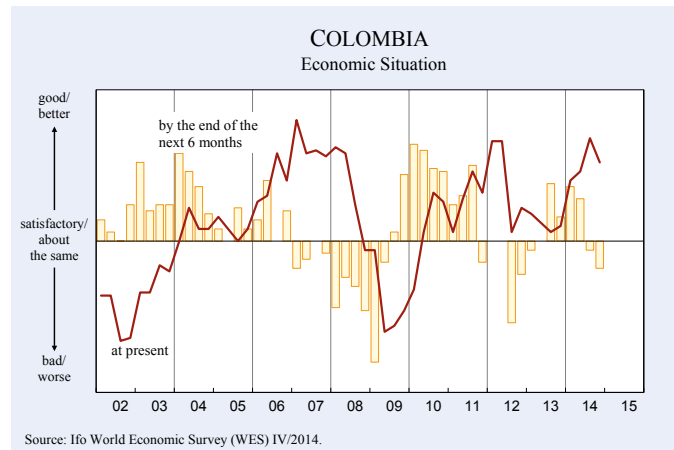
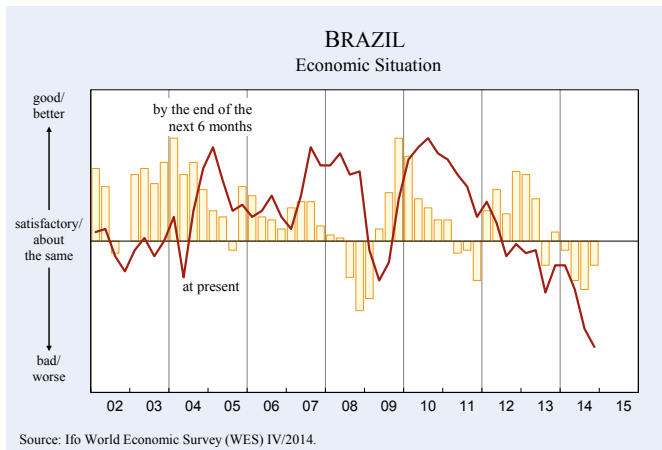
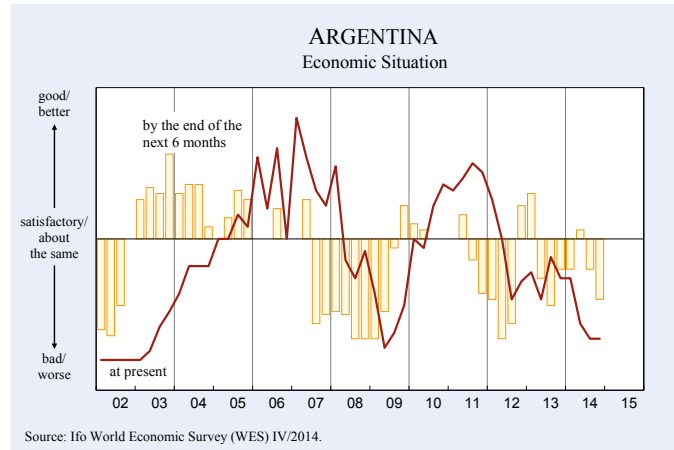
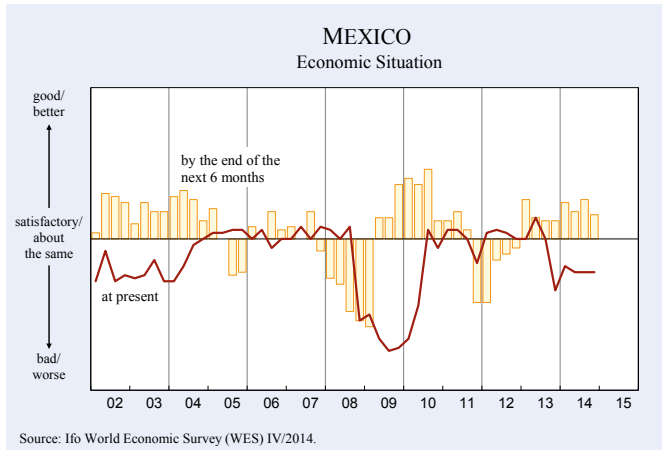
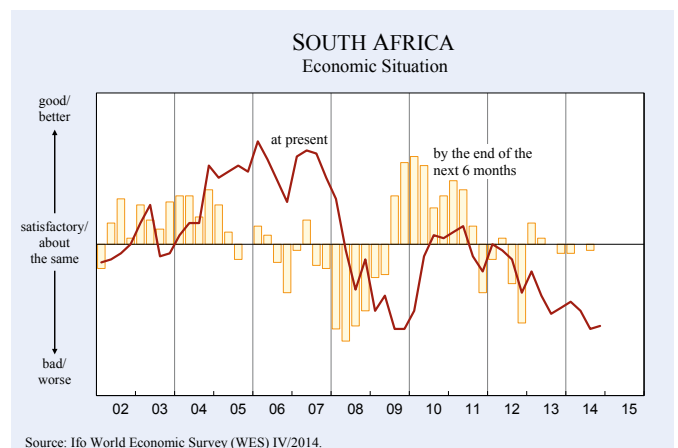
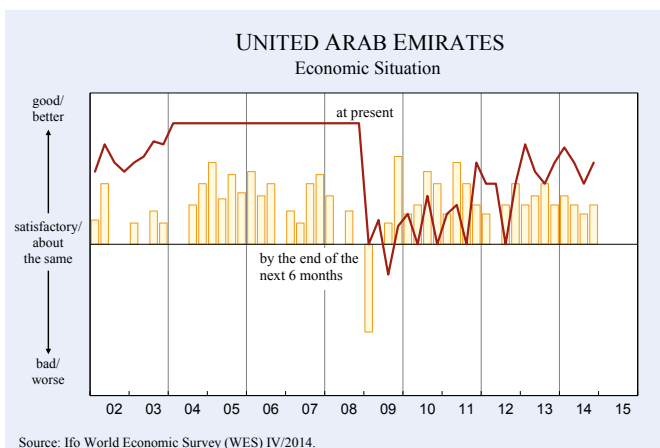
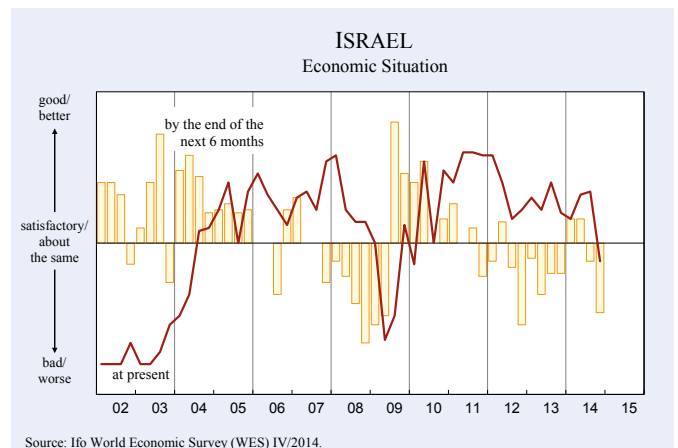
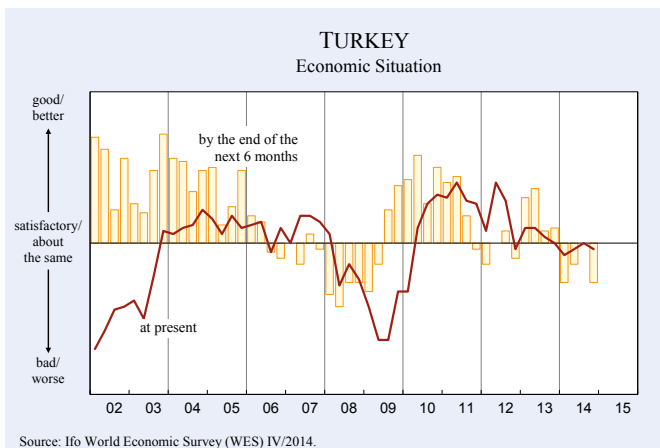
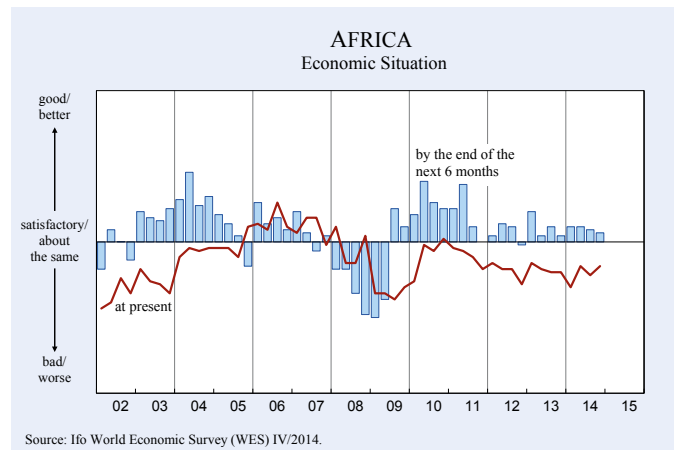
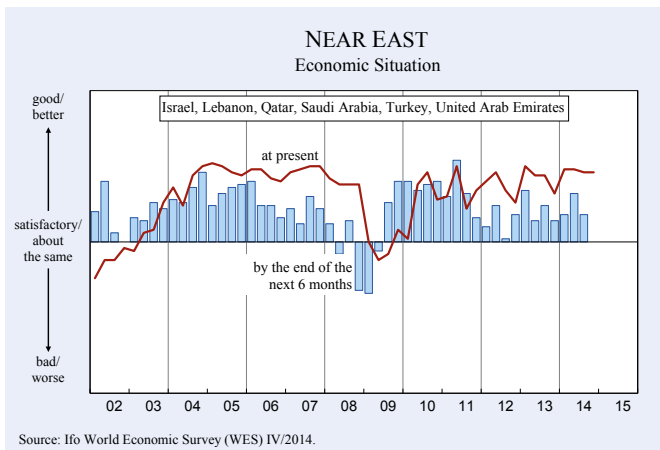


Figure 10

NEAR EAST AND AFRICA



cal regarding future economic developments in their country. For *Taiwan*, experts' appraisals of the current situation remain satisfactory. Economic expectations, however, are markedly less optimistic than three months ago. The economic climate in *Thailand* deteriorated again, due to more negative assessments of the present economic situation. Experts' economic expectations signal some recovery in the next six months. In *Pakistan* current economic performance deteriorated again. Economic expectations remained positive on the whole and point to some improvement in current weak economic conditions.

Oceania: Expectations linger at low levels

In *Oceania* the economic climate indicator fell further to 90.6 index points, from 96.1 in July (long-term average 100.7). Assessments of the present economic situation were less positive than three months ago. Economic expectations brightened up slightly, but continue to signal scepticism on average. This pattern was particularly true for *Australia*. Here, a lack of international competitiveness, unemployment and insufficient demand were identified as the most important economic problems at present. By contrast, *New Zealand* is largely suffering from a shortage of skilled labour. According to WES experts, the economy continues to perform very well at present. However, economic expectations were once again less positive than in the previous survey.

Latin America: Economic climate remains subdued

The economic climate index for *Latin America* fell further to 72.4 points, although this quarter the decline of 3.6 index points was not as pronounced as in the previous survey. The new value marks the deepest point since the end of 2009 and is well below its long-term average (1998-2013: 91.3). While assessments of the present economic situation once again worsened, the six-month economic outlook remains constant, indicating no major changes in the months ahead (see Figures 4 and 9). Low confidence in the government's economic policy, which ranks top this time, followed by a lack of international competitiveness were cited as the most urgent economic problems in this region. *Argentina*, *Venezuela* and *Uruguay* also suffer from a high inflation rate.

In *Brazil*, the downturn in assessments of the current situation continued, falling to its lowest point in over 15 years. Capital expenditure in particular is considered to be weak at present. When the WES survey ended, the outcome of the presidential elections was still open and left some question marks in WES experts' economic expectations. However, it became clear that Dilma Rousseff's economic policy is meeting with little approval in the country, as WES experts cited this out to be the most important economic obstacle. With her winning of the second term, a change in economic policy is unlikely and this is expected to cast further clouds over the economic outlook. Although the downward trend in assessments of the current situation that started at the end of last year ground to a halt in *Argentina*, confidence remains at its lowest level since in late-2009. By contrast, the economic outlook for the next six months deteriorated further, with more experts expressing caution about future economic developments. There was no positive news from *Venezuela* or *El Salvador* and their economies remain weak, according to WES experts. In both countries, economic expectations point to no easing of current difficult economic conditions. In *Venezuela*, the situation is even expected to deteriorate further with survey participants warning of rapidly rising inflation in the months ahead. *Venezuela* tops the ranking with an annual inflation rate of over 60 percent at present among all countries covered by WES. In *Mexico*, the second most economically important country in this region, the economic situation was assessed as unfavourable again. Here, insufficient demand poses the most important problem to the economy. Economic expectations are less positive than three months ago and don't indicate any major improvements for the next six months. The strongest downwards adjustments in experts' assessments of current situation took place in *Chile*, *Guatemala* and *Peru* with levels declining into unfavourable territory. However, recent trends in experts' expectations send different signals for each country. The situation in *Chile* may have bottomed out, as the economic outlook is once again positive for the first time in three years. In *Guatemala*, the trend in falling expectations continues, while WES experts clearly upwardly revised the six-month economic outlook for *Peru*. In *Costa Rica*, *Cuba*, the *Dominican Republic*, *Ecuador*, *Panama*, *Trinidad and Tobago* and *Uruguay*, WES experts see the economic conditions of their economies as satisfactory and expect them to remain so in most of these countries over the next six months. An exception to this rule is *Ecuador* and *Uruguay*, where WES experts are more sceptical about developments over the next six months.

Bolivia and *Colombia*, which in this survey are also joined by *Paraguay*, are among the region's best performing economies, where the economic situation strongly improved compared to the previous survey. According to WES experts, an economic stabilisation at current good levels is likely for *Bolivia* and *Paraguay*. For *Colombia* a turning point may be on the horizon, as negative assessments of the economic outlook now prevail.

Near East: Economic situation remains favourable, but outlook clouds over somewhat

In the *Near East* the economic climate indicator continued to decline from 94.1 to 87.7 points, which is only slightly above its 15-year average of 86.5. While assessments of the present economic situation remain favourable on the whole, the economic outlook continued to cloud over slightly (see Figure 10). As in previous surveys, a lack of skilled labour was ranked as the most important economic problem, but was very strongly pronounced in this quarter. In *Lebanon*, *Qatar* and *Saudi Arabia* no changes to the previous survey were recorded and the current economic situation remains favourable. This also applies to the *United Arab Emirates*, where the appraisals were even more positive than in the previous survey. Economic expectations in all these four countries remain on the positive side. The most marked downward adjustments took place in *Israel*: here the economic situation returned to unfavourable territory for the first time in nearly four years. Economic expectations were further downwardly revised and also indicate an economic deterioration in the months ahead. After having temporarily improved in July, the economic climate in *Turkey* deteriorated again. Assessments of the present economic situation fell short of the satisfactory-line. The economic outlook deteriorated considerably and experts expect the economic conditions to worsen in the months ahead. *Turkey* is one of the few countries in the world, where WES experts see inflation as the most urgent economic problem at present.

Africa: No unified economic trend

Countries in *Africa* display a highly differentiated pattern as far as the economic climate is concerned. Thus, an aggregated climate index for the countries surveyed by WES on this continent makes little sense, and the following analysis will focus on specific economic

trends in the individual countries of *Northern* and *Sub-Saharan Africa*. Nevertheless, "unemployment" and "shortage of skilled labour" were cited as the most frequently mentioned economic problems in both parts of *Africa*. In *Northern African* countries a lack of international competitiveness was also cited as a key problem, while in *Sub-Saharan* economies "lack of confidence in government's economic policy" ranks high.

The economic climate for *Northern Africa*, which includes *Algeria*, *Egypt*, *Libya*, *Morocco* and *Tunisia*, improved slightly due to more positive assessments of both the present economic situation, and economic expectations. In *Algeria*, no changes were recorded and the present situation was assessed as satisfactory and likely to remain so for the next six months. In *Morocco*, experts' assessments improved compared to the previous survey and the situation is now observed to be satisfactory again. The six-month economic outlook, however, remains cautious. WES experts in *Libya* and *Tunisia* reported a weak current situation in their respective economies. While some economic improvement within the next six months for *Libya* is expected, there are no indications of major changes for the better in *Tunisia*, according to the experts surveyed. In *Egypt*, there were sharp upwards revisions to both the current economic situation and expectations. The situation nevertheless remains unfavourable on the whole. In turn, economic expectations for *Egypt* reached their most optimistic point in a long time. Economic performance consequently looks set to improve in the months ahead.

The economic climate indicator for *South Africa* remains nearly unchanged at a low level. The present economic situation was once again assessed as unfavourable. Economic expectations are only marginally more positive than in the previous survey and signal no major improvements over the next six months (see Figure 10). In *Angola*, *Ethiopia*, *Malawi*, *Nigeria*, *Senegal* and *Tanzania* the current economic situation did not change compared to the previous survey and was again assessed as satisfactory. In most of these countries, current economic performance is expected to remain good, except for in *Angola*, where WES experts expressed greater caution. In *Benin*, *Congo Dem. Republic*, *Mauritania*, *Sierra Leone* and *Uganda*, WES experts were less positive than in the previous survey, but assessments of the present economic situation nevertheless remain satisfactory and good respectively on the whole. In all of these countries the economic experts surveyed retained their positive view of future economic developments over the next six months, except for in

Sierra Leone. In the latter country, negative sentiments regarding the six-month economic outlook dominated, probably due to the Ebola virus outbreak in recent months and the negative impact it is likely to have on the economy. In *Congo-Brazzaville*, *Ivory Coast*, *Kenya* and *Namibia*, a favourable economic situation continues to prevail, to an even greater extent than in the previous survey, according to WES experts. While the economic outlook for *Kenya* continued to brighten up, experts' economic expectations for *Congo-Brazzaville* and *Ivory Coast* are less positive than three months ago. For *Namibia*, the gradually downward revisions of economic expectations – starting in early-2014 – continued, taking them into negative territory this quarter. The current economic situation in *Mauritius* returned to a satisfactory level and is expected to remain unchanged in the months ahead, in the opinion of WES experts. For *Zambia*, assessments of the current situation remain satisfactory, as in previous surveys. However, the six-month economic outlook is dominated by caution. In *Lesotho* and *Togo*, appraisals of the current economic situation turned unfavourable and economic performance in these countries is likely to remain subdued in the months ahead. In *Madagascar* and *Swaziland* the situation remains unfavourable, despite the slight upwards revisions observed in *Madagascar*. Economic expectations turned positive for *Swaziland*. For *Madagascar*, WES experts remain fairly confident with regard to future economic developments. In *Burundi*, *Cabo Verde*, *Central African Republic*, *Comoros*, *Gabon*, *Liberia*, *Niger*, *Sudan* and *Zimbabwe* the situation is assessed as weak, and in most of these countries even more pronouncedly so than three months ago. While WES experts forecast an

improvement for *Cabo Verde* in the months ahead, they remain cautious about the other countries cited above.

Low inflation expectations persist

On a worldwide average, WES experts' inflation forecast for the year 2014 remained unchanged at 3.2% (see Table 3).

For the **euro area** the inflation rate in 2014 was estimated at 0.9% on average, and thus even lower than expected three months ago (1.1%). The inflation rate for 2014 falls clearly short of the ECB inflation target (slightly below 2.0%). However, WES experts don't expect that this low inflation rate will constitute a new trend that entails the risk of leading to a deflationary process. The medium-term inflation expectations (next 3 to 5 years) are at 1.6%, which is not far off the inflation target range of the ECB.

Within the **euro area** the lowest inflation rates in 2014 are again expected in the "crisis countries" of *Greece* (-0.5%), *Cyprus* (-0.7%), *Portugal* (0.2%), as well as in *Italy* (0.4%), *Ireland* and *Slovenia* (both 0.7%). The medium term price expectations in these countries are only slightly lower than in the "non-crisis" countries. In **Western Europe** outside the **euro area** the span of inflation expectations for 2014 ranges from 0.1% in *Switzerland* to 2.0% in the *United Kingdom* (see Table 3). Whereas the expected *UK* inflation rate for 2014 is relatively close to the expected medium-term rate (2.0% compared with 2.4%), the gap is more pronounced in *Switzerland* (0.1% compared to 0.9% in the medium term).

A current low-inflation trend is also visible for **Eastern Europe**. The expected 2014 inflation rate stands at 1.1%, down from 2.0% at the beginning of the year. The currently very low inflation scenario will not constitute a new trend according to WES experts. With regard to the next 3 to 5 years an annual inflation rate of 2.2% is expected. The lowest price increases in the region will be seen in 2014 according to WES experts in the euro currency country *Estonia* (0.4%) and in *Poland* (0.6%). On the other hand, inflation will also be highest in the region this year in *Serbia*, despite some down-

Figure 11

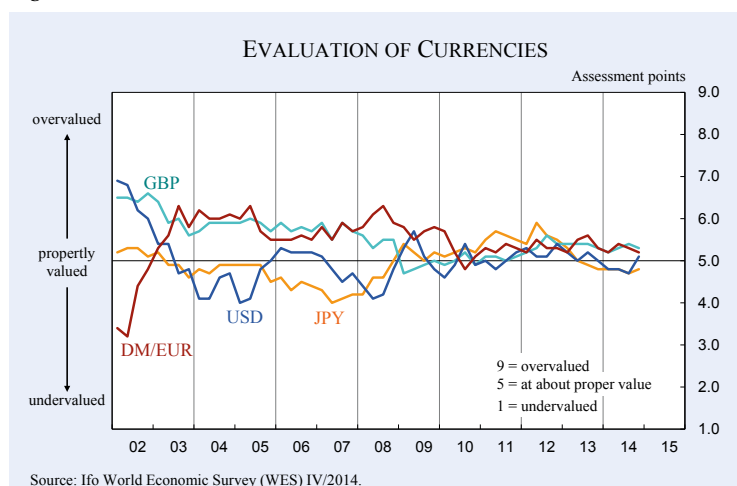


Figure 12

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

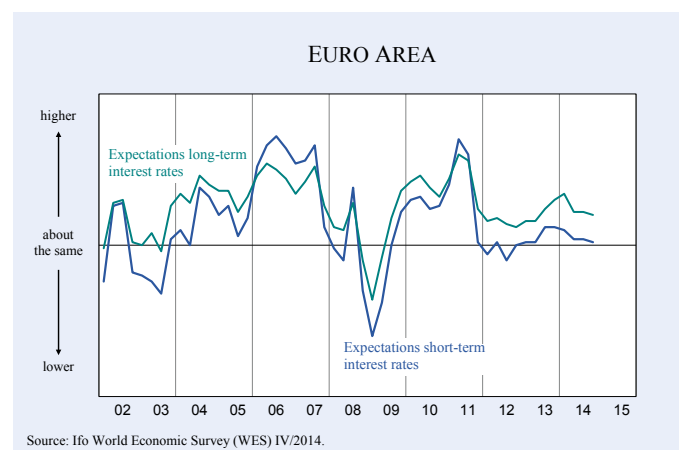
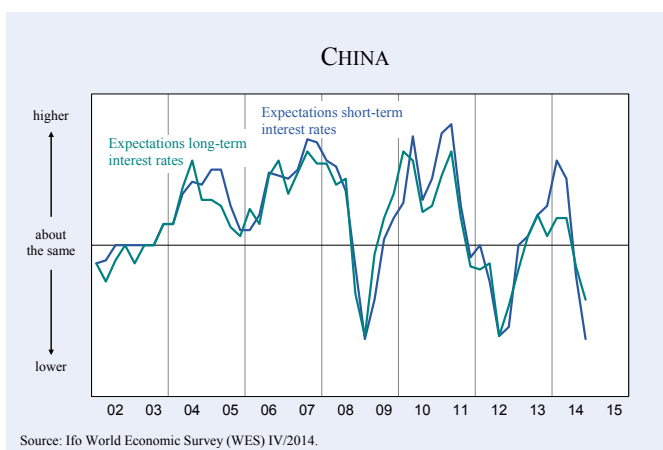
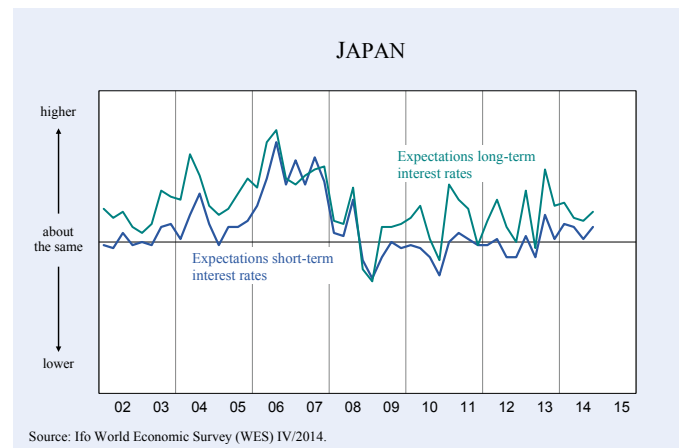
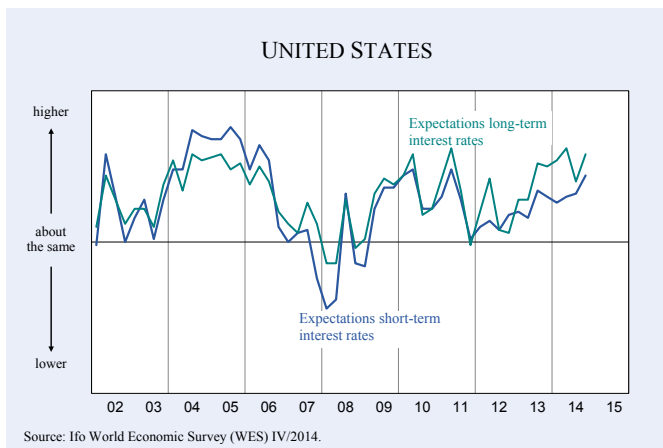
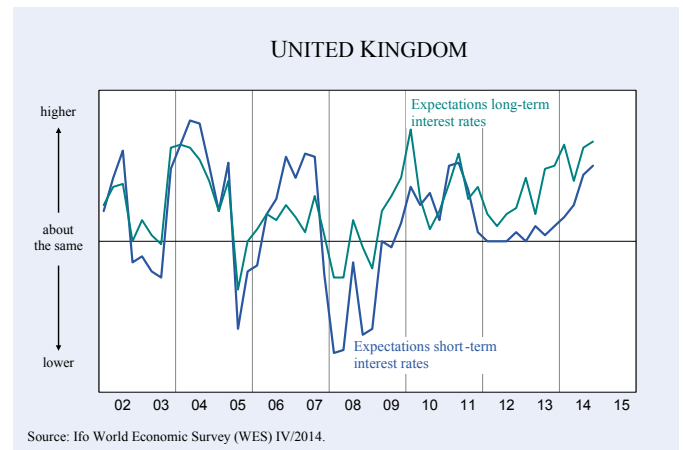
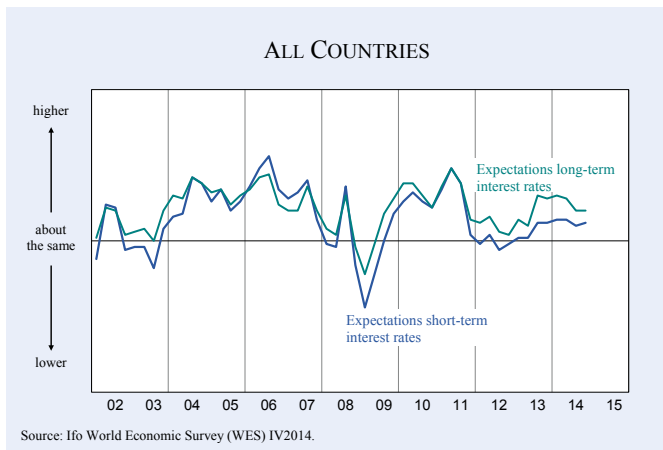


Table 2 Expected average annual growth rates of real Gross Domestic Product (GDP) over the next 3 to 5 years (based on WES QIV/2014 and QIV/2013)

Region	QIV/2014	QIV/2013	Region	QIV/2014	QIV/2013
Average of countries *	2.7	2.6	North America	2.6	2.3
High-income countries	2.2	2.2	Canada	2.3	2.7
Middle-income countries	4.3	4.0	United States	2.6	2.2
Upper-middle	3.5	3.6			
Lower-middle	5.8	4.8	Oceania	2.8	3.5
Low-income countries	6.4	4.6	Australia	2.8	3.6
EU 28 countries	1.7	1.6	New Zealand	2.4	2.8
EU countries (old members) ^{a)}	1.6	1.4			
EU countries (new members) ^{b)}	2.5	2.4	Latin America	2.9	3.2
Euro area ^{c)}	1.5	1.3	Argentina	2.5	2.6
			Bolivia	4.8	3.8
Western Europe	1.6	1.5	Brazil	2.2	2.6
Austria	1.2	1.2	Chile	3.3	3.8
Belgium	1.2	1.3	Colombia	4.4	3.9
Cyprus	1.3	0.0	Costa Rica	(4.2)	2.7
Denmark	1.7	1.3	Cuba	(4.0)	(3.8)
Finland	1.5	1.5	Dominican Republic	4.8	2.7
France	1.4	1.3	Ecuador	3.8	4.1
Germany	1.6	1.4	El Salvador	1.7	0.5
Greece	2.0	1.2	Guatemala	3.6	3.8
Ireland	3.6	1.7	Mexico	3.1	3.4
Italy	0.9	1.2	Panama	(6.0)	(6.5)
Luxembourg	2.1	1.5	Paraguay	4.5	4.0
Monaco	1.7	2.7	Peru	4.7	5.0
Netherlands	1.7	1.3	Trinidad and Tobago	(3.0)	---
Norway	2.5	2.7	Uruguay	3.1	3.8
Portugal	1.5	1.0	Venezuela	-0.1	1.4
Spain	1.9	1.0			
Sweden	2.1	2.0	Near East	4.5	3.8
Switzerland	1.7	1.4	Israel	3.0	3.8
United Kingdom	2.2	2.3	Lebanon	1.8	2.7
			Qatar	(7.0)	(3.8)
Eastern Europe	2.5	2.4	Saudi Arabia	(3.5)	---
Albania	3.0	2.1	Turkey	4.3	4.1
Bosnia and Herzegovina	2.8	1.5	United Arab Emirates	5.5	3.8
Bulgaria	2.1	1.9			
Croatia	1.6	1.5	Africa	4.5	3.6
Czech Republic	2.2	2.3	Northern Africa	3.5	3.4
Estonia	2.9	3.8	Algeria	3.3	3.6
Hungary	2.1	1.5	Egypt	3.6	3.3
Kosovo	3.3	---	Libya	(5.0)	(7.0)
Latvia	3.0	2.9	Morocco	3.8	(3.8)
Lithuania	3.5	3.8	Tunisia	3.5	2.9
Macedonia	3.8	3.8	Sub-Saharan Africa	5.1	3.7
Poland	3.0	3.3	Angola	(5.5)	(7.0)
Romania	2.2	2.1	Benin	5.5	5.5
Serbia	1.7	3.0	Burundi	(8.0)	0.0
Slovakia	2.5	2.5	Cabo Verde	2.2	---
Slovenia	1.7	0.5	Central African Republic	(1.5)	
			Comoros	(2.0)	3.8
CIS	2.2	2.5	Congo Dem. Rep.	8.9	8.0
Armenia	4.0	3.8	Congo-Brazzaville Rep.	7.3	3.8
Georgia ^{d)}	(5.0)	3.8	Ethiopia	(10.0)	(8.0)
Kazakhstan	4.4	4.9	Gabon	(3.5)	(3.8)
Kyrgyzstan	3.5	(6.0)	Ivory Coast	7.6	(8.0)
Russia	1.5	2.1	Kenya	5.3	4.5
Ukraine	4.2	1.5	Lesotho	3.1	3.8
Uzbekistan	---	(7.5)	Liberia	4.0	7.9
			Madagascar	5.3	3.2
Asia	3.7	3.7	Malawi	(5.0)	(5.0)
Bangladesh	6.8	3.8	Mauritania	4.5	3.8
China	6.4	6.8	Mauritius	4.3	3.8
Hong Kong	3.3	3.7	Namibia	4.8	3.8
India	6.8	5.6	Niger	5.0	2.7
Indonesia	6.0	5.6	Nigeria	7.0	3.3
Japan	1.0	1.4	Senegal	(6.0)	(3.8)
Malaysia	4.2	3.4	Sierra Leone	7.3	9.4
Pakistan	4.1	2.9	South Africa	2.7	3.2
Philippines	6.1	6.3	Sudan	3.3	1.4
South Korea	3.0	3.4	Swaziland	1.9	1.5
Sri Lanka	6.1	4.9	Tanzania	7.5	---
Taiwan	3.2	3.1	Togo	5.8	(3.8)
Thailand	3.9	3.5	Uganda	5.9	6.3
Vietnam	4.8	5.3	Zambia	6.4	6.6
			Zimbabwe	2.7	3.0

* 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) IV/2014 and IV/2013.

ward revision (2.5% compared with 5.8% in the preceding survey). The medium-term inflation expectations in *Eastern Europe* range from 1.7% in *Slovenia* to 3.7% in *Serbia* and amount to 2.2% on average.

In **North America**, the 2014 inflation forecast slowed down marginally (from 2.1% to now 1.9%) and is both very close to the target inflation rate of the respective central banks in the *USA* and *Canada*. The gap between short-term and medium-term price expectations in the *US* is much narrower than in *Europe*.

In **Asia** inflation expectations for 2014 remained unchanged at 3.5%. However, by country there were once again some pronounced changes: In *China* the expected inflation rate for 2014 declined somewhat (from 3.1% to 2.7%) raising hopes of a more expansive monetary policy, as also reflected in lower interest rate expectations. This tendency can be seen in *India* too, although the expected 2014 price increase remains – despite the small decline – rather high (6.8%). In *Japan* inflation expectations for 2014 appeared to stabilise above 2%. This is mainly due to the hike of VAT in spring, but also reflects some success enjoyed by the new government's efforts to end the long deflationary period that the country has gone through. Inflation expectations for 2014 also increased in some other *Asian* countries: from 6.3% to 7% in *Indonesia* and from 5.9% to 6.8% in *Vietnam*. Taking a longer view (next 3 to 5 years), the inflation outlook is slightly lower than the expected 2014 inflation rate (3.5% compared with 3.3%). In countries like *India* and *Indonesia* in particular, WES experts expect lower inflation dynamics than in 2014.

In **Oceania** inflation expectations for 2014 remained unchanged at 2.6%, with somewhat stronger inflation in *Australia* (2.7%) than in *New Zealand* (1.8%). As in the *United States*, the medium-term annual inflation is seen as only slightly higher than the likely rate in 2014 (2.9% compared with 2.6%).

In **Latin America** high inflation expectations for 2014 did not change much (10.8% after 10.6% in July). Compared with medium-term expectations, the current inflation level is about 2.6 percentage points higher (10.8% vs. 8.2%). In *Brazil*, the largest economy in the region, inflation expectations remained at 6.5%, and thus stayed significantly higher than expected in the medium-term (5.3%). This gap may cause the Brazilian Central Bank to hike interest rates again, despite the ongoing weakness in the real economy. This conclusion can be drawn from the expected rise in short-term inter-

est rates over the next six months. In *Chile* and *Mexico* inflation expectations for 2014 stood in each case at 4.3%, only slightly higher than in the preceding survey. Taking a longer view, the current inflation rates are also moderately higher than those expected in the course of the next 3 to 5 years. The lowest inflation rates in 2014 continue to be expected in *Peru* (2.8%) and *Colombia* (3.1%), where current inflation rates are close to those expected in the medium term. The main problem countries with regard to inflation remain *Venezuela* (65.2%) and *Argentina* (39.7%). In both countries, some improvement is expected in the medium term, but the expected annual inflation rates of 19.4% in *Argentina* and 49.3% in *Venezuela* for the next 3 to 5 years are still very high.

In **CIS** countries inflation expectations for 2014 increased significantly, mainly in *Russia* (from 7.5% to 8.8%) where the effects of the imposed sanctions are increasingly making themselves felt. In *Kyrgyzstan* inflation expectations for 2014 also shot up (from 5.5% to 9.5%). The highest rate of inflation in the region is still expected in the *Ukraine*, despite a slight decline (from 18.0% to 16.6%). In the medium-term an annual inflation rate of 7.6% for the region appears the most likely outcome according to WES experts.

In the **Near East** inflation expectations for 2014 remained almost unchanged at 4.5%. The highest rate of inflation in the region is still expected in *Turkey* (9.0% after 8.6% in the preceding survey) and the lowest one in *Israel* (1.8% after 1.6%). The medium-term price expectation is identical to the inflation rate expected in 2014.

In **Africa** price trends for 2014 are close to 7%, but remain very heterogeneous by countries. The expected inflation rate in the economically most important country in the region, *South Africa*, is close to the overall average at 6.5%. According to the latest survey, the lowest inflation rates in 2014 will prevail in *Cabo Verde* (1.7%), *Zimbabwe* (1.9%), *Ivory Coast* (2.2%), *Congo Democratic Republic* (2.5%), *Algeria* (2.8%), *Togo* (2.9%) and *Benin* (3.0%). In *Sierra Leone* the 2014 price expectation went up from 8.3% in the preceding survey to 11.3% this quarter; the Ebola crisis might have caused part of the expected increase here. The highest inflation expectations in the region are again prevailing in *Sudan* (42%). The medium-term inflation expectations in the region are very close to the current trends (6.9% compared with 6.7%). Only in high inflation countries like *Sudan*, *Malawi* and *Burundi* is some slowdown in inflation expected in the medium-term.

Table 3 Inflation rate expectations for 2014 and on average for the next 3 to 5 years

Region	2014	next 3 to 5 years	Region	2014	next 3 to 5 years
Average of countries *	3.2	3.2	Latin America	10.8	8.2
High-income countries	2.0	2.4	Argentina	39.7	19.4
Middle-income countries	7.4	6.1	Bolivia	6.1	6.0
Upper-middle	7.2	6.0	Brazil	6.5	5.3
Lower-middle	7.8	6.3	Chile	4.3	3.8
Low-income countries	6.5	6.3	Colombia	3.1	3.1
EU 28 countries	1.0	1.8	Costa Rica	(5.8)	(5.0)
EU countries (old members) ^{a)}	1.0	1.7	Cuba	(3.0)	(3.0)
EU countries (new members) ^{b)}	1.1	2.2	Dominican Republic	4.3	4.0
Euro area ^{c)}	0.9	1.6	Ecuador	4.1	4.0
Western Europe	1.0	1.7	El Salvador	2.4	3.5
Austria	1.7	1.8	Guatemala	4.0	4.5
Belgium	0.7	1.5	Mexico	4.3	4.1
Cyprus	-0.7	1.3	Panama	(4.0)	(3.5)
Denmark	0.8	1.5	Paraguay	4.8	4.9
Finland	1.1	1.6	Peru	2.8	2.8
France	0.8	1.4	Trinidad and Tobago	(7.0)	(12.0)
Germany	1.2	1.8	Uruguay	8.7	7.6
Greece	-0.5	1.5	Venezuela	65.2	49.3
Ireland	0.7	1.4	CIS	9.7	7.6
Italy	0.4	1.5	Armenia	7.0	11.0
Luxembourg	1.0	1.9	Georgia ^{d)}	(4.0)	(5.5)
Monaco	1.5	1.3	Kazakhstan	8.0	7.2
Netherlands	1.2	1.8	Kyrgyzstan	9.5	7.5
Norway	1.5	2.3	Russia	8.8	7.3
Portugal	0.2	0.9	Ukraine	16.6	9.6
Spain	0.5	1.6	Near East	4.5	4.5
Sweden	0.5	1.7	Israel	1.8	2.4
Switzerland	0.1	0.9	Lebanon	3.3	4.5
United Kingdom	2.0	2.4	Qatar	(3.8)	---
Eastern Europe	1.1	2.2	Saudi Arabia	(3.0)	(2.5)
Albania	1.8	2.7	Turkey	9.0	7.5
Bosnia and Herzegovina	1.7	1.8	United Arab Emirates	3.7	4.7
Bulgaria	1.1	2.6	Africa	6.9	6.7
Croatia	1.0	2.1	Northern Africa	5.8	5.9
Czech Republic	1.0	1.9	Algeria	2.8	3.8
Estonia	0.4	2.4	Egypt	12.5	11.0
Hungary	1.1	2.9	Libya	(5.0)	(5.0)
Kosovo	0.9	1.8	Morocco	2.5	3.1
Latvia	1.9	2.9	Tunisia	5.7	5.7
Lithuania	0.9	2.2	Sub-Saharan Africa	7.7	7.2
Macedonia	1.3	2.5	Angola	(7.0)	(6.5)
Poland	0.6	2.0	Benin	3.0	3.5
Romania	3.1	2.2	Burundi	(25.0)	(10.0)
Serbia	2.5	3.7	Cabo Verde	1.7	2.4
Slovakia	1.0	2.2	Central African Republic	(7.5)	(3.5)
Slovenia	0.7	1.7	Comoros	(5.0)	(5.0)
North America	1.9	2.4	Congo Dem. Rep.	2.5	3.6
Canada	2.0	2.2	Congo-Brazzaville Rep.	(2.9)	(3.0)
United States	1.9	2.4	Ethiopia	(9.0)	---
Oceania	2.6	2.9	Gabon	(3.0)	(2.8)
Australia	2.7	3.0	Ivory Coast	2.2	2.5
New Zealand	1.8	2.3	Kenya	7.4	7.3
Asia	3.5	3.3	Lesotho	6.2	6.2
Bangladesh	7.3	6.8	Liberia	9.5	7.5
China	2.7	3.3	Madagascar	7.2	(6.0)
Hong Kong	3.9	4.0	Malawi	(20.0)	(14.0)
India	6.8	5.3	Mauritania	5.7	6.0
Indonesia	7.0	5.3	Mauritius	3.6	3.5
Japan	2.4	1.7	Namibia	5.8	5.6
Malaysia	3.5	3.7	Niger	3.3	3.1
Pakistan	9.9	10.4	Nigeria	8.7	8.2
Philippines	4.3	4.4	Senegal	(-0.5)	(1.4)
Singapore	(3.0)	(3.0)	Sierra Leone	11.3	7.6
South Korea	2.1	2.3	South Africa	6.5	6.0
Sri Lanka	6.7	6.6	Sudan	42.0	34.3
Taiwan	1.6	1.7	Swaziland	6.4	6.6
Thailand	2.1	2.8	Tanzania	7.0	7.3
Vietnam	6.8	6.3	Togo	2.9	3.3
			Uganda	4.3	5.0
			Zambia	8.2	7.8
			Zimbabwe	1.9	3.4

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. - () 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) IV/2014.

US dollar expected to rise

The four leading currencies (*US dollar, euro, yen* and the *British pound*) are assessed to be very close to their appropriate value on a worldwide scale (see Figure 11).

However, by country major differences in currency evaluation remain: WES experts assessed their own currency as generally undervalued in some *Eastern European* countries (*Bulgaria, Czech Republic* and *Latvia*), as well as in the *CIS* country *Kazakhstan*, in *India*, in the *Dominican Republic* and in some *African* countries (particularly *Congo Democratic Republic* and *Algeria*).

In the *USA* the *euro* and the *British pound* continue to be seen as slightly overvalued, whereas the *Japanese yen* is considered as somewhat undervalued. In *Canada* the *euro*, the *British pound* and the *yen* are also seen as overvalued, however, the *US dollar* vis-à-vis the *Canadian dollar* is perceived to be undervalued.

The answers to the 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 even more widely than in the preceding surveys that the value of the *US dollar* is expected to rise over the course of the next six months on worldwide average. The only exceptions to this trend are *Norway, China, India, Indonesia* and a few *African* countries like *Morocco* and *Mauritania*, where the *US dollar* is expected to weaken in the months ahead.

Interest rates expected to remain low

On a worldwide scale, *short and long-term interest rates* are expected to increase only marginally in the course of the next six months. The expected increase in interest rates looks set to be more pronounced than the overall average in the *United States of America* in particular, and to a lesser degree also in *Oceania* (both *Australia* and *New Zealand*) and the *CIS countries* (particularly *Russia*). In the *euro area* short-term interest rates are expected to remain at their low level and long-term interest rates are expected to increase only very moderately in the course of the next six months. Short and long-term interest rates will also remain largely unchanged in *Asia* in the coming months. In some *Asian* countries, and particularly in *China, India, South Korea* and *Indonesia*, interest rates are expected to decline in the short term. In *Taiwan, Hong Kong* and the *Philippines*, by contrast, a slight increase in interest

rates appears likely in the months ahead, according to WES experts. In *Eastern Europe* both short and long term interest rates are expected to decline, particularly in *Poland*. In the *USA* and in *Oceania* – both in *Australia* and *New Zealand* – a higher share of WES experts than in the previous survey expect both long- and short-term interest rates to increase in the next six months. An interest rate hike is also expected in *Russia* and *Brazil*; in these two countries the main motivation for the increase is to stop any further weakening of the currency associated with increases in domestic prices.

Special question on the impact of the planned EU-US Transatlantic Trade and Investment Partnership

In 2013 the EU and the USA officially launched negotiations on a comprehensive Transatlantic Trade and Investment Partnership (TTIP) aimed at fostering trade and investment across the Atlantic. TTIP is the largest free trade agreement (FTA) initiative among a number of regional trade negotiations that have recently started across the world.² In 2012, the two regions accounted for over 45% of global GDP in current dollars and for 30% of international trade (exports and imports of goods and services) in the world. In addition to eliminating customs duties, TTIP aims to harmonize rules and standards for traded manufactured and agricultural goods, and for services as far as possible. There are many cases in which both the EU and the USA have imposed legitimate regulations on national industries, but those rules often differ across the two regions and force enterprises to adjust their production methods as they attempt to serve the different markets. Such trade restricting rules are referred to as non-tariff barriers (NTB). The size of the proposed trade liberalization suggests that an elimination of customs duties and NTBs could have strong effects for EU member states, the USA, third countries, and the world trading system. Several trade policy studies have been accomplished that quantify potential economic effects based on observations of successfully completed previous FTA negotiations (ex-ante analyses).³ The main results of the most recent quantitative analysis by Felbermayr, Heid, Larch and Yalcin (2014) are presented in Table 4.

² The EU is additionally negotiating FTAs with, for example, Japan, ASEAN, Canada and further countries. The USA is also negotiating new FTAs with further countries and the Trans-Pacific Partnership (TPP) has a high priority. Consult the WTO's regional trade agreement database for a detailed FTA listing: http://www.wto.org/english/tratop_e/region_e/region_e.htm.

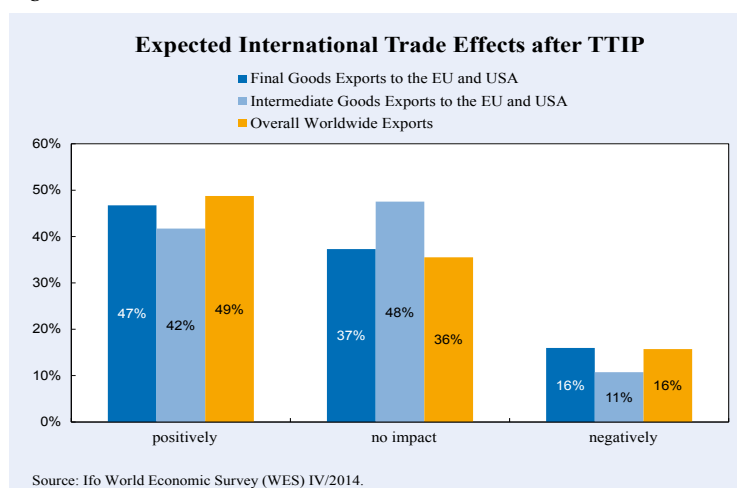
³ Several studies have evaluated TTIP including Francois, Manchin, Norberg, Pindyuk and Tomberger (2013), Fontagné, Gourdon and Jean (2013), and several studies by Felbermayr et al. (2012, 2013, 2014).

Table 4 Expected Welfare Effects of a Comprehensive TTIP

EU Average	3.94%
USA	4.89%
Non-TTIP Average	-0.92%
World Average	1.58%

Source: Felbermayr, Heid, Larch and Yalcin (2014).

Figure 13



Accordingly, TTIP will increase real income in the USA by 4.9% in the long run, if tariffs and NTBs are reduced on average by the same amount as in existing FTAs across the world. EU28 member countries can expect their real income to increase by 3.9% on average. Importantly, most of the studies also predict that a number of countries will suffer negative real income effects. One main reason for negative economic effects originates in *trade diversion* effects between TTIP and non-TTIP countries. American and European companies will be able to increase sales in the US or Europe due to decreasing trade costs and become more competitive, while companies in countries not included in the TTIP will potentially lose competitiveness and hence market shares in the EU and the USA. The extent of the negative trade diversion effect depends on how strongly a non-TTIP country is integrated into the EU or USA via trade. Countries like Turkey, Switzerland, or Norway, which are well integrated into the European economy via a customs union or the European Free Trade Association respectively, are predicted to experience negative effects. Similarly, in North-America members of the North American Free Trade Agreement (NAFTA) can expect negative economic effects due to trade diversion effects. Table 4 illustrates that, on average, non-TTIP countries may experience a drop in real income by

around 0.9%. However, overall average real income across the world is predicted to increase after TTIP by 1.6% due to stronger *trade creation* effects.

Ex-ante analyses are based on registry data. Generally, they do not account for the future expectations of affected countries or firms. In order to fill this void, this quarter's WES asked economic experts three special questions about TTIP: whether a successful implementation of TTIP will have an effect (1) on a country's final goods exports to the EU and US, (2) on intermediate goods export such as copper or machinery parts, and (3) on overall worldwide exports. The main aim of the survey was to find out whether the trade creation and trade diversion effects are also expected by experts and how they differ across countries.

Figure 13 presents the share of expert appraisals across all countries for the latter three questions. For each question experts could choose between three possible appraisals ranging from "positively" and "no impact" to "negatively". Almost half of the experts expect TTIP to have a positive impact on final goods exports to the EU and US, or to the world. Interestingly, 42% of experts expect trade in intermediated goods to increase as well, but a larger share of respondents (48%) expects no change in existing trade patterns. Only 16% of all individuals surveyed expect TTIP to reduce international final goods trade with the EU, the US, and the world; while 11% confirm this negative expectation for intermediate goods trade. A first conclusion from these numbers is that positive welfare effects are primarily expected from trade creation in final goods, and to a lesser extent from intermediate goods trade along global value chains. More importantly, the share of experts who predict a negative effect of TTIP on their countries' exports is substantially smaller than that with positive expectations. These findings are in line with the results of the empirical studies cited above and summarised in Table 4.

Figure 14 presents expert appraisals across countries with three different income levels (high, middle, and low income countries). For all three questions the share

of experts with positive expectations after a successful TTIP is the highest in high income countries, ranging between 50% and 59% of all respondents within the income group. Trade diversion effects in high income countries due to predicted higher competition will be less severe than in middle and low income countries. On the other hand, negative expectations are highest among experts from middle income countries, ranging between 12% and 19% across the three questions. Finally, in both middle and low income countries, experts expect TTIP to have a stronger negative effect on their countries' international trade with the world. The results point to a significantly higher expected negative competition effect after TTIP in middle and low income countries arising from trade diversion effects.

In a specific group of countries the debate over TTIP is particularly controversial. These are countries that already show a deeper economic integration either with the EU, like the EFTA members and Turkey (EU Customs Union), or with the USA, like Canada and Mexico within the NAFTA. Empirical evaluation studies predict that after TTIP, the resulting cost advantages for US and EU enterprises may potentially hurt those countries by reducing respective bilateral trade. In the case of Turkey a further particularity fosters the potential disadvantage for Turkish firms. As a member of the European Customs Union, Turkey has to open its market up to any third party with whom the EU signs an FTA. However, Turkish firms do not gain the same liberalized market access to the third party's country, since Turkey is not a member of the EU. Figure 15 summarises the expert assessments for the EFTA, NAFTA members and Turkey. Clearly, the share of experts who expect a positive effect from TTIP for final goods, intermediate goods trade to the US and EU or trade with the world is significantly lower compared to the average assessment of all experts. Indeed, 39% percent of the experts surveyed expect TTIP to have a negative effect on final goods exports from their country to the US or EU, while only 16% of

Figure 14

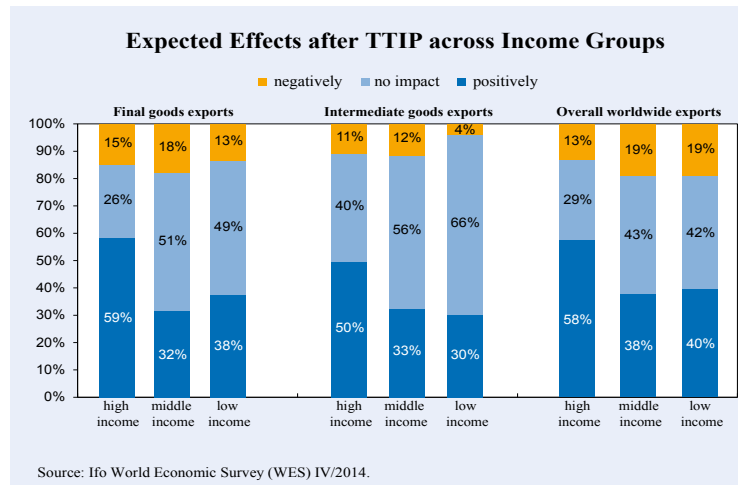
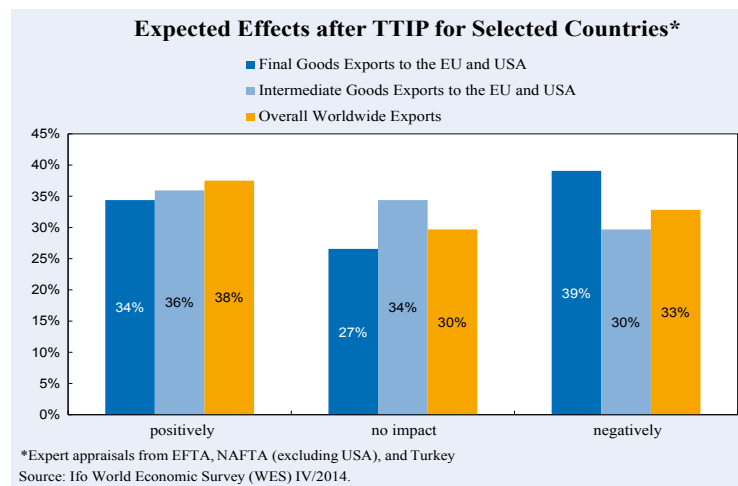


Figure 15



all experts express negative expectations (cf. Figure 13). The share of experts with negative expectations concerning intermediate goods trade and global trade also turns out to be relatively high.

In short, the special survey on how TTIP will affect trade patterns in the home countries of participating experts reveals that, on average, transatlantic trade liberalization is expected to influence most countries positively. Experts from high income countries expect relative higher trade creation effects than those from middle and low income economies. Expected positive trade effects after TTIP turn out to be lower overall in intermediate goods trade. In middle and low income countries negative trade effects with the world are significantly higher if compared with average expectations across all countries. Finally, countries with deeply integrated economies with the EU and USA, such as NAFTA or EFTA members, expect less strong positive effects from a suc-

cessful TTIP; and, experts implicitly anticipate significantly higher negative effects on their exports compared to expectations across all countries. This last finding explains why countries like Canada are eager to accomplish an FTA with the EU. It also explains why countries like Turkey are putting increasing political pressure on the USA and the EU to find a solution to asymmetric agreement effects. The survey emphasizes that TTIP is expected to increase welfare across countries on average. However, it is important to include some non-TTIP countries in the liberalization process to prevent excessively large trade diversion effects, which may materialize in above-average negative income effects.