

Plenk, Johanna; Nerb, Gernot; Wohlrabe, Klaus; Berg, Tim Oliver

## Article

# CESifo World Economic Survey February 2015

CESifo World Economic Survey

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# CESifo WORLD ECONOMIC SURVEY

VOLUME 14, No. 1

FEBRUARY 2015

## WORLD ECONOMIC CLIMATE

World Economic Climate remains almost unchanged

## ECONOMIC EXPECTATIONS

Economic expectations barely improved

## INFLATION

Low inflation expectations

## CURRENCIES

US dollar expected to rise

## INTEREST RATES

Interest rates look set to remain stable

## SPECIAL TOPIC

Bank asset quality reviews, stress tests and their perception in terms of transparency and investor confidence

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Authors of this publication:

Johanna Plenk, e-mail [plenk@ifo.de](mailto:plenk@ifo.de)  
(Responsible for statistical processing and analysis)

Dr. Gernot Nerb, e-mail [nerb@ifo.de](mailto:nerb@ifo.de)  
(Industrial Organisation and New Technologies)

Dr. Klaus Wohlrabe, e-mail [wohlrabe@ifo.de](mailto:wohlrabe@ifo.de)  
(Head of Ifo surveys)

Dr. Tim Oliver Berg, e-mail [berg@ifo.de](mailto:berg@ifo.de)  
(Economist)



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Editor: Dr. Gernot Nerb, e-mail [nerb@ifo.de](mailto:nerb@ifo.de)  
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## Regions

- World Economy: World economy shows little dynamism, but significant regional differences
- Western Europe: Economic climate recovers slightly
- North America: Economic climate indicator on the rise again
- Eastern Europe: Present economic situation remains unchanged, economic expectations improve slightly
- CIS: Economic climate remains fairly subdued
- Asia: Climate indicator falls further
- Oceania: Economic climate barely changed
- Latin America: Economic climate continues to deteriorate
- Near East: Falling oil prices overshadow outlook
- 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 *January 2015*, 1,071 economic experts in 117 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 REMAINS ALMOST UNCHANGED

The Ifo Index for the world economy edged upwards to 95.9 points after tumbling to 95.0 points last quarter. The improvement in the world economic climate was entirely due to slightly more positive economic expectations. Assessments of the current economic situation remained at last quarter's level (see Figures 1 and 2). Overall, the world economy shows little dynamism (see Box 1), but there are significant regional differences.

## World economy shows little dynamism, but significant regional differences

The pace of world economic growth slowed markedly in mid-2014. Global industrial production increased by only half as much in the second and third quarters of 2014 as in the preceding winter period. This development relates mainly to a considerable slowdown in economic activity in the *euro area* and *Japan*, despite the robust growth rates in aggregate production in other advanced economies, especially in the *USA* and the *United Kingdom*. The slight acceleration in economic activity in the emerging economies over the past two quarters was not strong enough to offset the slowdown in the industrialised economies. Monetary policy in the major advanced economies remains very expansive. While central banks in the *US* and *United Kingdom* put a stop to their securities purchases and held out the prospect of initial base rate increases in 2015, their counterparts in the *euro area* and *Japan* loosened their monetary reins even further. The degree of monetary policy expansion seen in emerging economies was also mixed in recent months. Most central banks in these economies were forced to increase their base rates, several times in some cases, to counteract

high inflation rates or a depreciation of their domestic currency. *China's* central bank was the only institution to slightly step up its expansive monetary policy in recent months. Fiscal policy will be less restrictive in most of the major advanced economies, although to very different degrees. In the *euro area* in particular fiscal policy is hardly expected to have any further restrictive impact in 2014 or 2015, as the urgently needed consolidation efforts of the last three years have already triggered huge negative economic impulses in many places. In the majority of emerging economies fiscal policy will remain neutral at the very least. *India* and *China* are the only countries in which the economy will be boosted by public investment programmes in 2015.

Figure 1

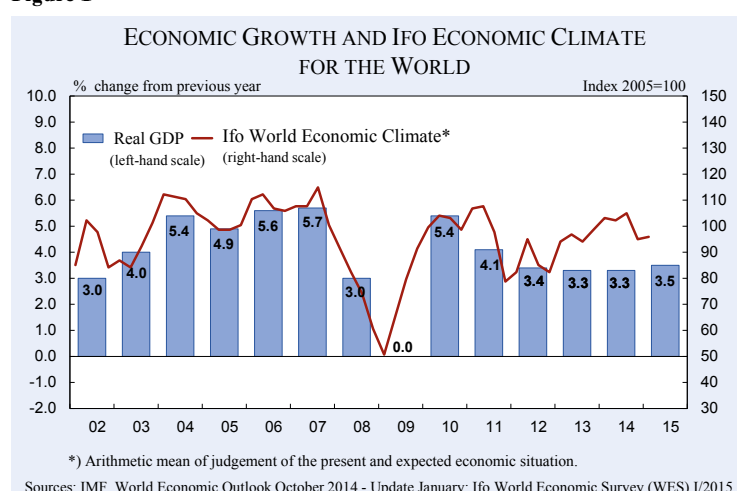
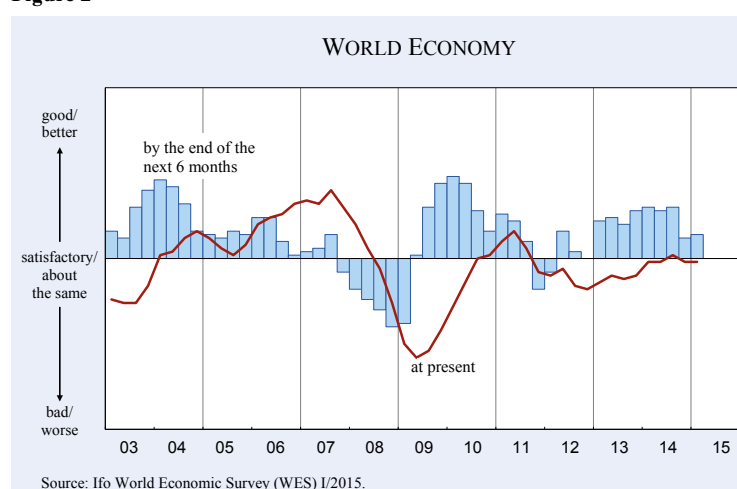


Figure 2

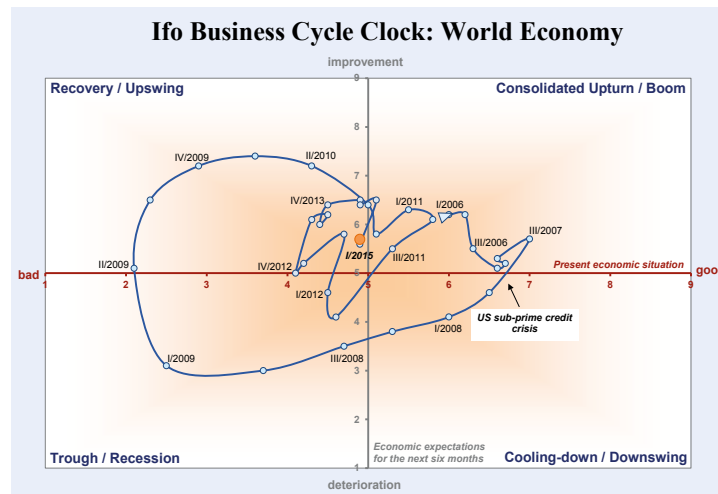


## Box 1

### 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 in recent 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 January survey, the Ifo Indicator for the World Economy barely changed. While assessments of the current economic situation remain unchanged compared to the survey at the end of 2014, economic expectations for the next six months brightened only marginally. As a result, the indicator is stuck in the recovery-quadrant. The recovery in the world economy is not really making any headway.



Source: Ifo World Economic Survey (WES) I/2015.

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)

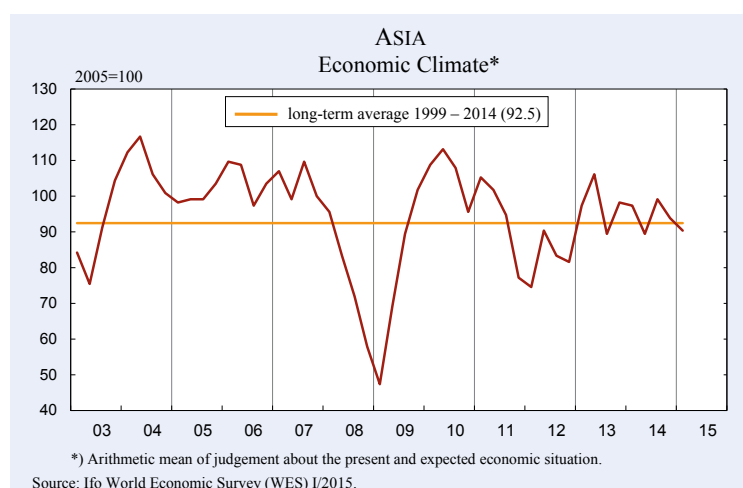
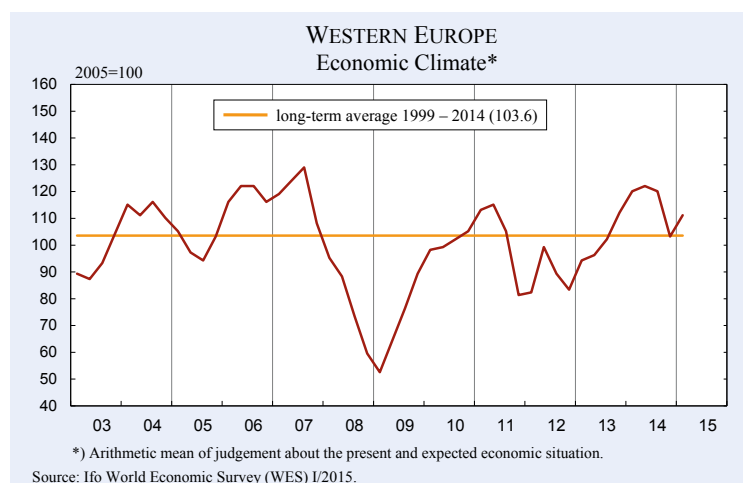
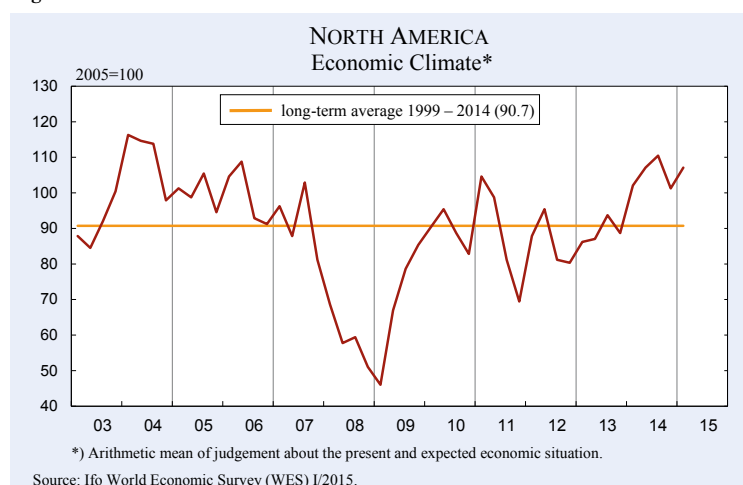
The economic climate developed differently across continents. The Ifo economic climate improved in *North America* and *Europe*. While the brightening was mainly due to assessments of the current economic situation in *North America*, the economic climate in *Europe* mainly improved thanks to more confident economic expectations. In all other regions the economic climate continued to deteriorate. In *Asia* the indicator only fell slightly below its long-term average. While *China's* economy continued to weaken slightly, in *India* the outlook, which was already very positive, improved further. The decline in the *Near East* was more marked, with WES experts in this region primarily expressing greater pessimism about developments over the next six months. The *CIS* states and *Latin America* continue to bring up the economic rear. The economic climate

indicator in both regions fell even further below its respective long-term averages. The crisis that recently flared up in the *Ukraine* has its effects on the survey results, with the economic outlook in *Russia* falling to its lowest level since 1992.

The global economy is expected to slowly gather momentum over the next quarters. In the *USA* and *United Kingdom* the recovery will continue at approximately the same pace as in recent quarters. In the *US* in particular, domestic demand will be boosted by the improved asset position of households and companies, a brightening in the labour and real-estate markets, expansive monetary policy and the diminishing restrictiveness of fiscal policy. These factors will ensure that the upturn continues. In *India* and several *Eastern Asian* emerging economies, aggregate production will also expand faster in 2015. The recent development in crude oil prices is expected to boost global economic developments this year. Despite geopolitical tensions in *Eastern Europe* and the *Middle East*, the price of a barrel of Brent has dropped by over 40% since June. This decline was mainly

supply-side driven by ramped up production in the *USA*; and to a limited degree demand-side driven by the cooling down in the world economy. Oil importers like the advanced economies, as well as *China*, *India* and *Eastern Asian* economies will be the main beneficiaries of lower oil prices. The numerous structural problems experienced by several large emerging economies (*Brazil* and *Argentina*), as well as key advanced economies, will act as a brake on the world economy. The banking sector remains undercapitalized in several *euro area* countries, the debt levels of private households and companies are still very high, international competitiveness is relatively low and product and labour markets remain fairly inflexible. In *France* and *Italy*, in particular, several urgently needed reforms have not yet been implemented. These countries are hardly expected

**Figure 3**



to grow in 2015, which, in turn, will significantly burden developments in the overall economic output of the currency union. In *Japan* the pace of growth in the year ahead is also expected to remain sluggish. On top of a recent drop in the real disposable income of private households, this sluggishness will primarily be due to

the shrinking potential labour supply, strong segmentation in the energy and services sectors, as well as an overregulation of labour and product markets. *China's* economy will probably experience a slight drop in growth rates in 2015.

The risks to the world economy are significant and have not changed much compared to the previous quarter. There are still problems in *China's* real-estate market, but also with respect to *Russia's* conflict with the West. The weaker price dynamic in the *euro area* also points to risks. Furthermore, the recent election in *Greece* seems to be triggering a new political debate and creating a new dynamic in how to deal with the still unresolved European debt crisis. Finally, experts have different opinions on how the latest ECB announcements to expand the asset purchase programme will affect the real economy.

### Western Europe: Economic climate recovers slightly

The economic climate index for *Western Europe* rose to 111.2, from 103.2 at the end of 2014, and surpassed its long-term average of 103.6 (1999-2014, see Figure 3). Assessments of both the present economic situation and economic expectations have been revised upwards markedly. While appraisals of the present economic situation once again remain in unsatisfactory territory, economic expectations are clearly more positive (see Figure 4). A similar pattern applies to the *euro area*, where the indicator at 112.7

surpassed its 16-year average of 106.1. Despite this significant brightening of both components of the economic climate, the present economic situation in the *euro area* remains below the satisfactory level, according to WES experts. However, economic expectations for the next six months are clearly more

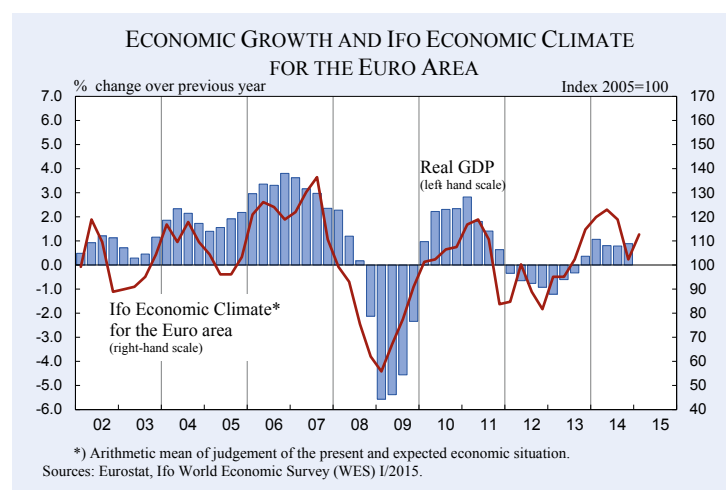


## Box 2

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

*The Ifo Economic Climate for the 19 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 January results are based on responses from 291 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 to 112.7 points in the first quarter from 102.3 points last quarter. It is now above its long-term average of 106.1 points. Assessments of both the current economic situation and of the six-month economic outlook brightened. There are signs of an economic recovery in the *euro area*. With the exception of *Greece* and *Finland*, the current economic situation improved, or at least remained unchanged, from the end of 2014 in all countries of the *euro area*. Despite this improvement, assessments of the current economic situation remain unfavourable in the majority of countries in the *euro area*, with the exception of *Germany*, the *Baltic* countries and *Slovakia*, where assessments are favourable. Experts were positive about the current economic situation in *Ireland* for the first time in over seven years. Optimism about economic developments over the next six months grew nearly everywhere. In *Greece*, *Portugal*, *Lithuania* and *Slovenia*, by contrast, economic expectations were slightly less positive compared to last quarter. Only experts in *Greece* expect prices to fall on annual average in 2015. Mid-term inflation expectations vary considerably from country to country and are consistently above 1%.



optimistic than in the previous survey. Thanks to the falling euro exchange rate, stronger impulses from exports are expected.

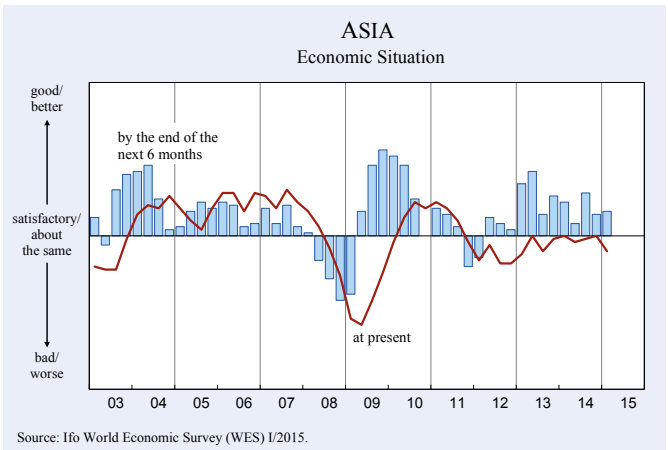
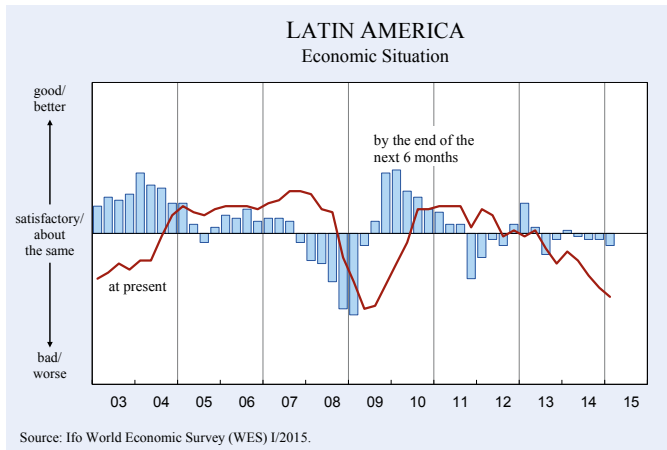
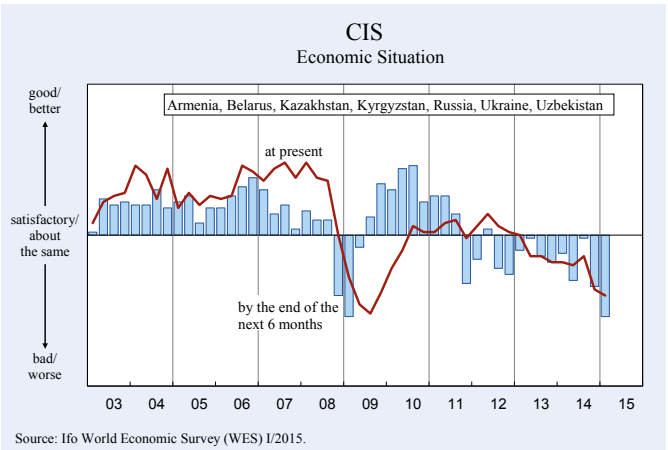
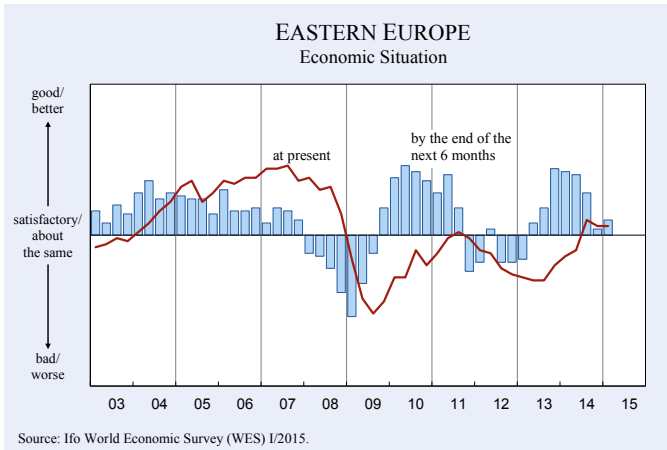
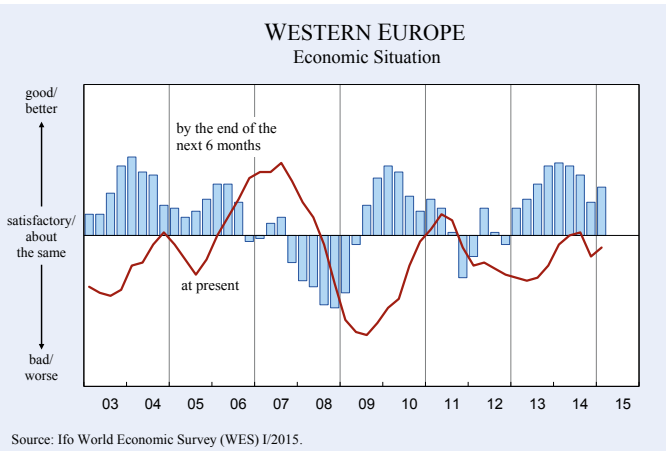
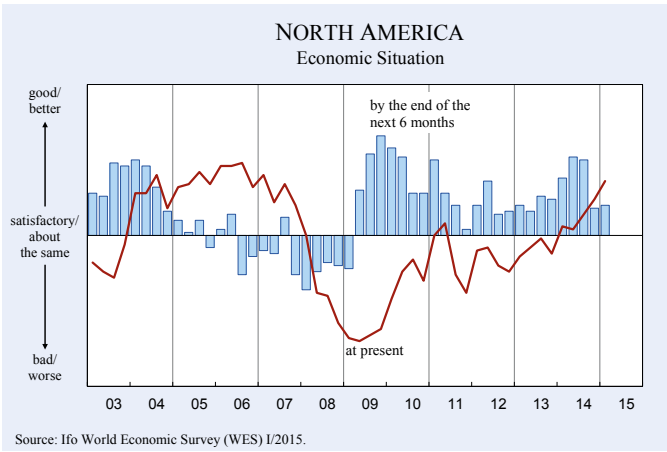
In *Greece* and *Finland*, the present economic situation was assessed more negatively than three months ago. In *Italy*, *France*, *Portugal*, *Spain* and *Cyprus*, the present economic state also remains weak, even although assessments in these countries are partly somewhat less negative than three months ago. In *Italy* and *Greece* in particular, firms have strongly constrained access to bank credit, according to WES experts. Nevertheless, in most of the countries optimism regarding future eco-

nomic developments, which was waning at the end of 2014, started to return. *Greece*, *Portugal* and *Cyprus* were exceptions to this rule. WES experts in these countries were less optimistic than three months ago (see Figures 5a and 5b). In *Austria* and *Belgium*, survey participants are more unsatisfied with current economic performance compared to the fourth quarter of last year. In *Austria*, capital expenditure is considered to be weak at present. A positive signal is that the six month economic outlook brightened somewhat in both countries and points to some improvements in their respective economies in the months ahead. The present economic situation in the *Netherlands* seems to have improved, as the number of negative reports from WES experts has fallen steadily and economic expectations for the next six months remain fairly confident. However, at present the country is still suffering from weak private consumption, say experts. In *Slovenia*, the economic situation once again remained unchanged at a low level. Here, WES experts again reported heavy credit constraints on companies. Survey participants' optimism regarding the next six months started to wane again, but still points to further improvements in the economy. In *Ireland*,

positive changes were recorded and the present economic situation returned to satisfactory territory for the first time in nearly seven years. The economies of *Luxembourg*, *Latvia* and *Estonia* continue to perform satisfactorily, according to WES experts. However, as far as the six month economic outlook is concerned, opposing developments emerged. While the economic situation in *Ireland*, *Estonia* and *Luxembourg* is expected to improve further in the months ahead, pessimism continues to prevail among experts in *Latvia*. The best economic performance at present in the *euro area* was attested to *Germany*, as in previous surveys. In this survey *Lithuania*, which introduced the *euro* currency at the

Figure 4

SELECTED REGIONS



beginning of 2015, and *Slovakia*, where the present economic situation received the most positive assessments for about six years, also rank close to the top. Economic expectations remain stable at a high level. WES experts in *Germany* have become more optimistic with regard to the six-month economic outlook, whereas those in *Lithuania* are somewhat less positive.

Outside the *euro area* the general economic situation appears friendlier, and more so in most of the countries in this area than at the end of 2014. The present economic situation in *Monaco*, *Sweden*, *Switzerland* and the *United Kingdom* was again assessed as favourable. In all of those countries, private consumption is performing well at present. The six-month economic outlook is again more positive and signals further improvements in the months ahead; except for in *Switzerland*, where the experts surveyed expect stabilisation, rather than economic expansion. The recent strong appreciation of the *Swiss franc* could be a threat to the economy. In *Norway*, assessments of the present economic situation were less positive than three months ago, and the economic expectations for the next six months in particular clouded over heavily. As a net oil exporter, the strong fall in oil prices appears to be the reason for the depressed economic outlook in *Norway* reported by WES experts. In *Denmark*, assessments of the present economic situation remain below a satisfactory level, and as far as economic developments in the next six months are concerned, WES experts were less optimistic than last quarter.

#### **North America:**

##### **Economic climate indicator on the rise again**

After having lost steam somewhat at the end of 2014, the economic climate indicator for *North America* started to rise again to 107.1 index points, from 101.3 last quarter (long-term average of 90.7). The increase in the climate indicator was mainly driven by more favourable assessments of the present economic situation. Economic expectations barely changed compared to the survey in October and remain positive (see Figures 3 and 4). In the *US*, the rise in the indicator was even more pronounced, with assessments of both the current economic situation and economic expectations significantly more positive. However, less impetus from exports is likely over the next six months. According to WES experts, credit constraints for *US* companies seem to be absent and thus financing conditions for firms are good. WES experts also see no

constraints on bank credit for firms in *Canada*. Unlike in the *US*, the economic climate indicator fell in *Canada*, albeit only marginally. While appraisals for the present economic situation improved strongly and are, on the whole, in favourable territory, economic expectations were downgraded sharply and WES experts have become sceptical about developments in the months ahead. One explanation for this scepticism could be falling oil prices, which may have a negative impact on the economy.

#### **Eastern Europe:**

##### **Present economic situation remains unchanged, economic expectations improve slightly**

In *Eastern Europe* the economic climate index rose slightly to 85.9 from 83.5 index points in the previous survey. While assessments of the present economic situation remain unchanged and satisfactory, economic expectations are marginally more positive than three months ago (see Figures 4 and 7).

The present economic situation in the *Czech Republic*, the *Baltic states* (*Estonia*, *Latvia*, *Lithuania*) and *Slovakia*, as well as in *Poland*, once again received favourable assessments by the experts surveyed. With the exception of the *Czech Republic*, appraisals were even upgraded compared to the survey at the end of 2014. With regard to the economic developments in the months ahead, WES experts in most of these countries were again more positive than in October. Experts in *Latvia*, on the other hand, were predominantly sceptical about the economic outlook; and for *Lithuania* WES experts expect economic stabilisation rather than expansion in the months ahead. In *Hungary* and *Romania*, the economic situation, which was given satisfactory appraisals in the previous survey for the first time in over six years, deteriorated again. In both countries, capital expenditure is considered to be weak at present and WES experts reported strongly constrained bank lending to firms. While *Romanian* experts are clearly more optimistic with regard to the next six months, economic sentiment for *Hungary* continued to weaken and the majority of experts surveyed expect a further worsening of economic conditions in the months ahead. 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* also remain unfavourable. However, economic expectations in both

countries clearly brightened up and signal some easing of current weak economic conditions in the months ahead.

In *Kosovo* and *Macedonia*, two *Eastern European* countries *outside the EU*, the present economic situation was again assessed as satisfactory and is expected to remain so for the next six months. In *Albania* and *Serbia*, the present economic situation remains unfavourable, despite some slight upwards revision for *Serbia* compared to the previous survey. There was no positive news from *Bosnia and Herzegovina* concerning the still weak current situation, but economic sentiment for the next six months turned positive on balance. In *Albania* and *Serbia* economic expectations were downwardly revised and no major improvement in current weak economic conditions in either country is expected in the months ahead.

#### **CIS: Economic climate remains fairly subdued**

The economic climate indicator for the *CIS* countries covered by WES (*Russia*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan*, *Uzbekistan* and *Armenia*) continued to fall and lies at 43.9, more than 40 index points below its long-time average of 88.1. Assessments of both the present economic situation and, to an even greater degree, expectations for the next six months, deteriorated clearly and negative sentiment continues to prevail (see Figure 4). The economic climate primarily deteriorated in *Russia* and the *Ukraine*. In both countries, WES experts rated the supply of bank credit to firms as strongly constrained and the legal and administrative restrictions on foreign firms seeking to invest remain relatively high (see Tables 1 and 2). This fairly poor economic performance is likely to last in both countries, as the majority of experts expect the situation to get worse in the months ahead. In *Kyrgyzstan* no positive changes were reported and appraisals of the economic situation are once again unfavourable. In *Armenia*, appraisals of the economic situation moved from satisfactory into unfavourable territory. In both countries, economic expectations point to further deterioration in the months ahead. In *Belarus*, *Kazakhstan* and *Uzbekistan* a far friendlier present economic situation prevails than in the other *CIS* countries, although downwards adjustments are visible in *Kazakhstan* compared to the survey in October. As far as future economic developments are concerned, WES experts are only optimistic for *Uzbekistan*, while they expressed scepticism for *Belarus* and *Kazakhstan*.

#### **Asia: Climate indicator falls further**

With a decline of 3.5 index points, the downturn in the economic climate index in *Asia* was less pronounced than in other regions: At 90.4 points, the indicator now lies slightly below its long-term average of 92.5. While appraisals of the present economic situation deteriorated and are now in unfavourable territory, the economic outlook for the next six months remains positive (see Figures 3, 4 and 8).

In *China*, the economic climate worsened again, albeit only slightly, due to more negative assessments of economic expectations. Appraisals of the present economic situation remain on average just as unfavourable as last quarter, and capital expenditure is particularly weak at present. The extent of the supply of bank credit to firms was assessed as strongly constrained. With regard to the next six months, WES experts turned more cautious and expect the economy to stabilise rather than to expand. For *Japan*, some improvements compared to the previous survey were visible. Even although there were no major changes in assessments of the current economic situation, which is still regarded as unfavourable, the economic outlook is far friendlier than three months ago. WES experts in *Bangladesh*, *Hong Kong*, *Indonesia* and *Singapore* revised their respective assessments of the present economic situation considerably downwards. Nevertheless, on balance, the current economic state was still assessed as satisfactory in all these countries. The same applies to *India*, *Malaysia*, *Sri Lanka*, *Taiwan* and *Vietnam*, where no major changes occurred in the present economic situation compared to the previous survey. With regard to the economic developments in months ahead, WES experts remain optimistic for *Bangladesh*, *Indonesia*, *Taiwan* and *Vietnam*, and at least positive for *Singapore* and *Sri Lanka*. In turn, for *Hong Kong* and *Malaysia* the economic outlook clouded over and WES experts expressed caution concerning the next six months. The best WES rating of the current economic situation in the region was again received by the *Philippines*. The economic situation is expected to remain good in the months ahead, even although there were some slight downward revisions visible compared to the survey at the end of 2014. In *South Korea*, assessments of the present economic situation deteriorated into unfavourable territory. However, this will probably only be short-lived, as economic expectations are clearly pointing upwards for the next six months. By far the worst economic performance in the region was again reported from WES experts for

*Pakistan* and *Thailand*. While the economic situation improved slightly for *Pakistan*, it got worse for *Thailand* compared to the survey in October. Overall, in both countries it was assessed as weak, but economic expectations for the next six months remain fairly confident, signalling the chance of some improvement ahead.

#### **Oceania: Economic climate barely changed**

In *Oceania* the economic climate recovered only slightly to 91.5 index points, from 90.6 in October 2014 (long-term average 101.6). While assessments of the present economic situation continued to deteriorate, economic expectations, by contrast, brightened further. This pattern was particularly true for *Australia*. Here, the present economic situation remains in satisfactory territory, despite the slight downwards revision compared to the survey in October. Economic expectations signal less scepticism than three months ago. The experts surveyed expect some strengthening in exports, while capital expenditure is likely to deteriorate in the six months ahead. Financial conditions for firms are exceptionally good at present, as WES experts reported no constraints on the supply of bank credit. In *New Zealand*, by contrast, the extent of bank credit constraints has increased continuously over the past two years and is now reported to be moderately constrained by WES experts. Overall, for *New Zealand* no major changes compared to the survey in October were recorded. According to WES experts, the economy continues to perform very well at present, and the economic outlook remains positive.

#### **Latin America:**

##### **Economic climate continues to deteriorate**

The economic climate index for *Latin America* continued to decline for the fourth time in succession to 67.9 points, from 72.4 in the previous quarter. The indicator now stands about 23 index points below its long-term average (1999-2014: 91.0). Assessments of both the present economic situation and the six-month economic outlook deteriorated, with negative sentiment gaining the upper hand (see Figures 4 and 9).

In *Brazil*, no changes were recorded versus the previous survey and assessments of the current situation remain at their lowest point in over 15 years. Capital expenditure is considered to be particularly weak at present. WES

experts also remain cautious about the six-month economic outlook and do not expect the situation to improve significantly. The strongest downward revision in appraisals of the present economic situation took place for *Mexico*, which received its worst grading in nearly five years. At least the economic outlook remains positive, signalling hope that the *Mexican* economy will receive delayed impulses from the robust business cycle in the *US*, its most important trade partner. In *Argentina*, assessments of the present economic situation remain subdued. Experts' economic expectations started to brighten up again, with fewer experts expressing caution about future economic developments. In *Venezuela* and *El Salvador* the present economic situation remains weak, according to WES experts, despite some slight easing in *El Salvador* versus the previous survey. In *Venezuela*, the economic situation is expected to deteriorate further, as the country struggles with less revenue from the oil sector due to tumbling oil prices. Currency depreciation is likely to continue in the months ahead, accompanied by an increasingly high stubborn double-digit inflation rate. By contrast, the experts surveyed in *El Salvador* are much more positive with regard to future economic developments in the months ahead and expect the situation to ease further. Assessments of the economic situation for *Chile* are less negative than in October. The situation seems to have bottomed out, as economic expectations continued to improve and are, on balance, positive for the second survey in succession. The current economic situation in *Bolivia*, *Colombia*, *Dominican Republic*, *Ecuador* and *Paraguay* is far more favourably than on regional average. However, as far as the next six months are concerned, WES experts in *Bolivia*, *Colombia* and *Ecuador* expressed greater caution than in previous surveys and expect the economic situation to deteriorate. For the *Dominican Republic* and *Paraguay*, by contrast, the economic conditions are expected to remain good. After having deteriorated at the end of 2014, the economic situation in *Guatemala* and *Peru* returned to satisfactory levels. The economies of *Costa Rica* and *Uruguay* received similarly favourable assessments and economic expectations were upgraded in all of these countries. However, while WES experts are very optimistic about the six-month economic outlook for *Peru*, they expect to see stabilisation at current good levels in *Costa Rica* and *Guatemala*, and remain somewhat sceptical about *Uruguay*.

Figure 5a

EUROPEAN UNION

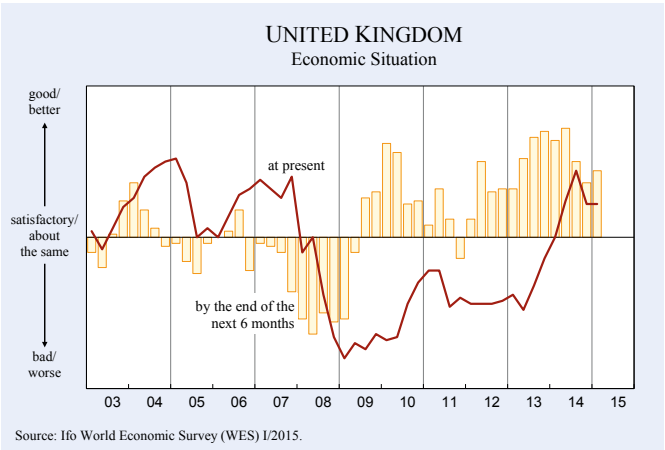
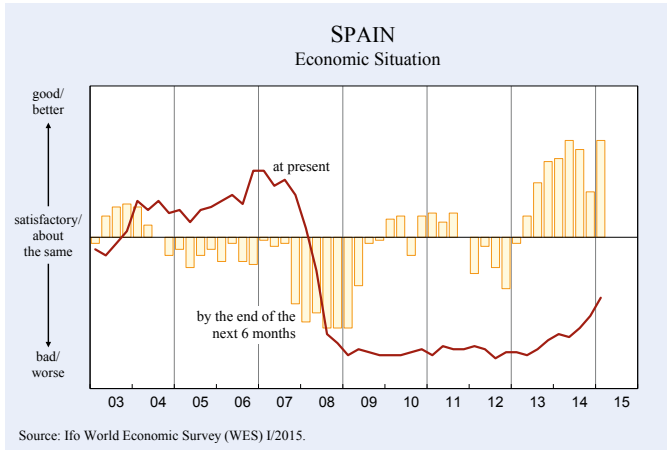
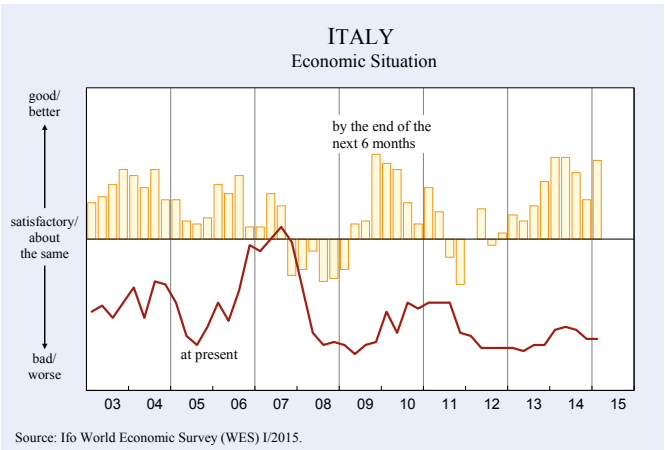
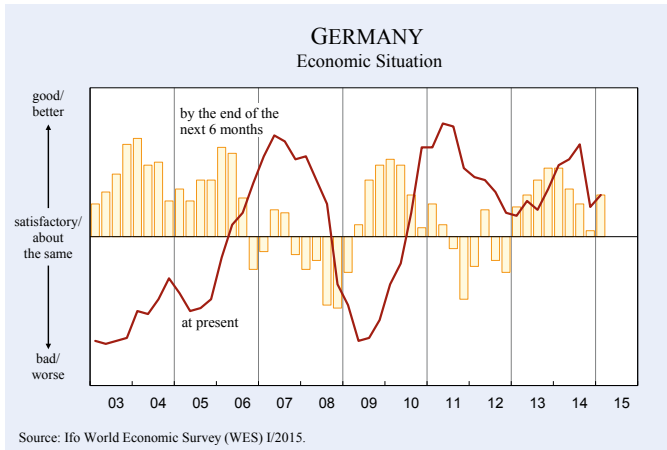
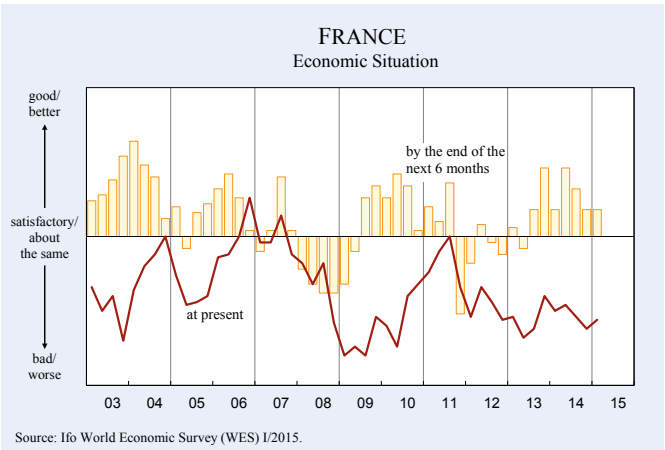
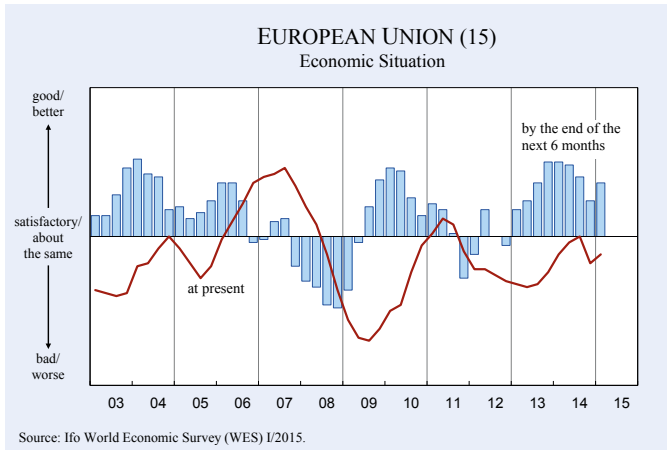
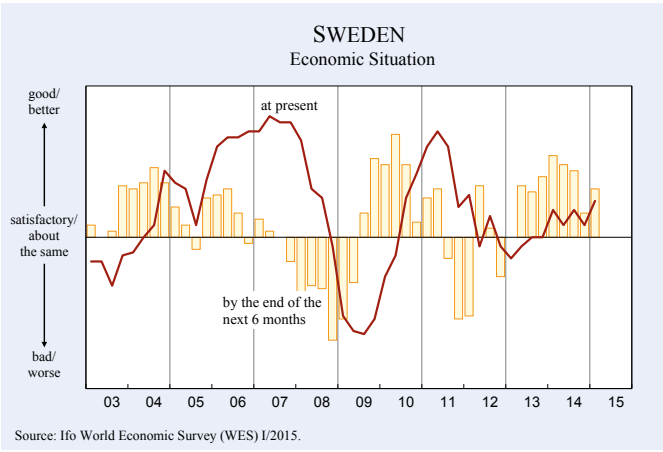
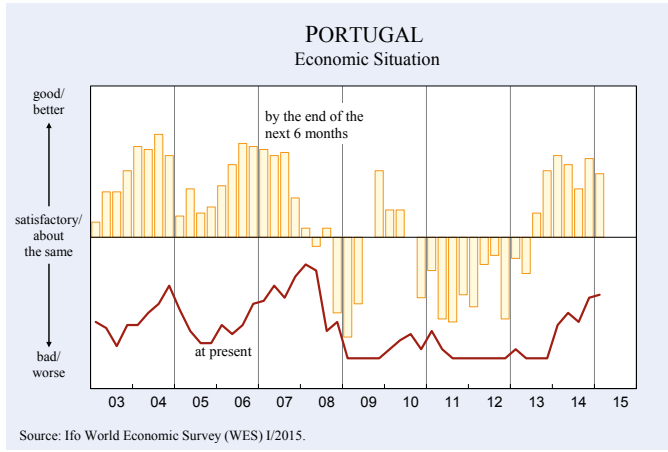
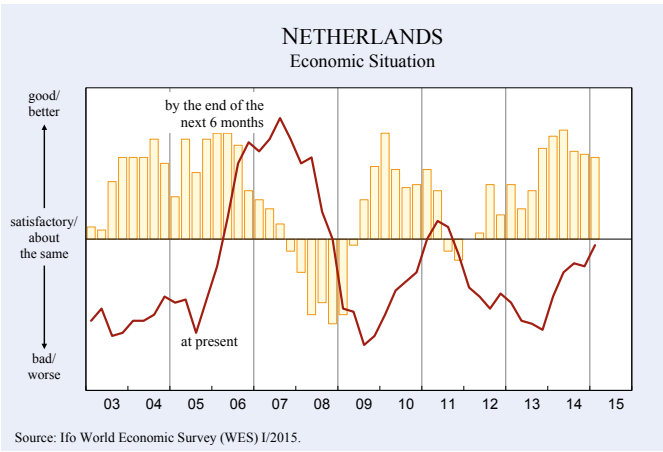
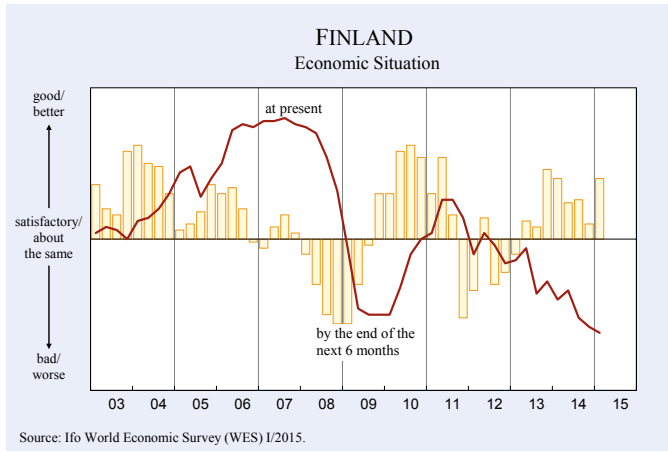
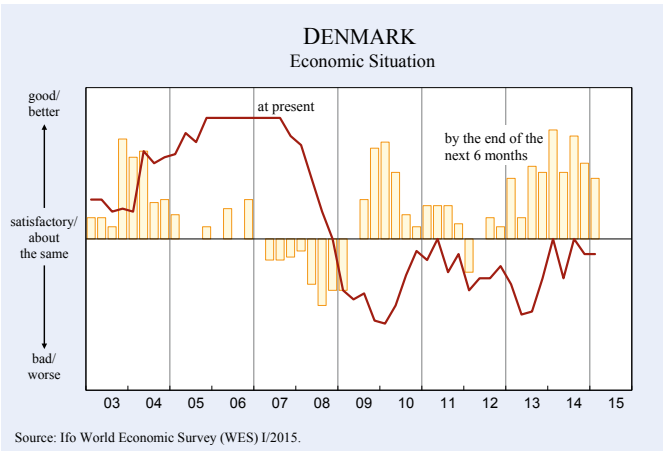
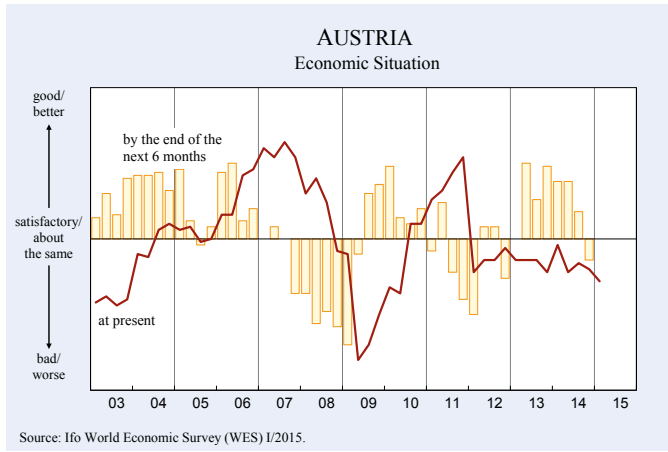


Figure 5b

EUROPEAN UNION





**Figure 6**

## NORTH AMERICA, OCEANIA AND CIS

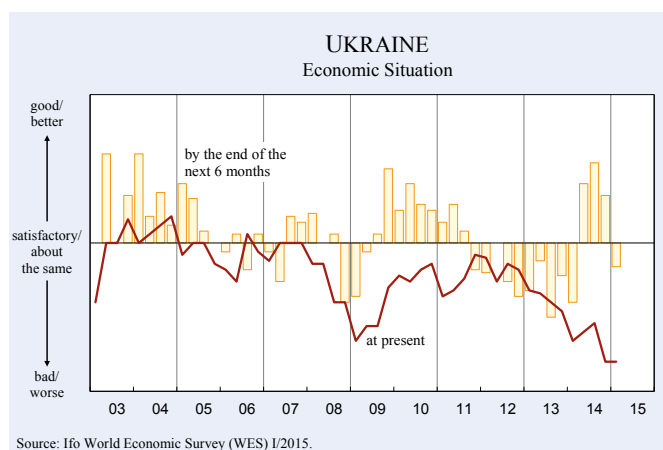
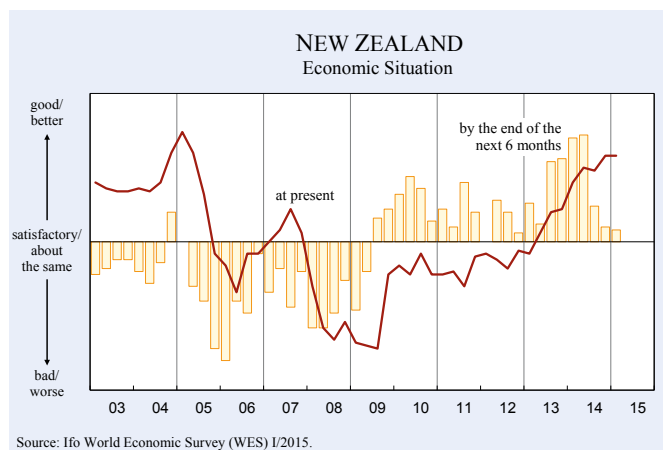
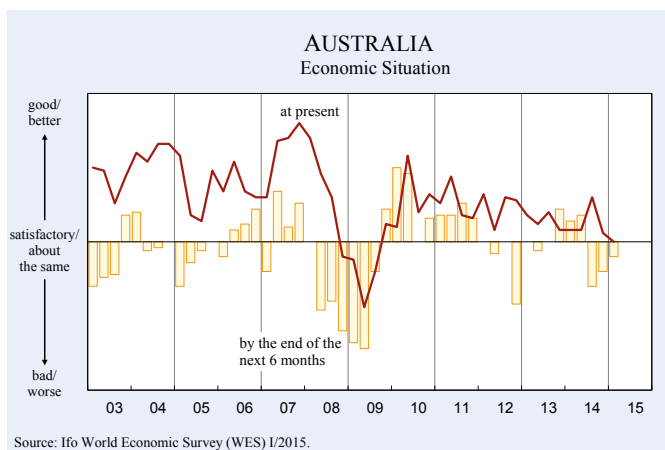
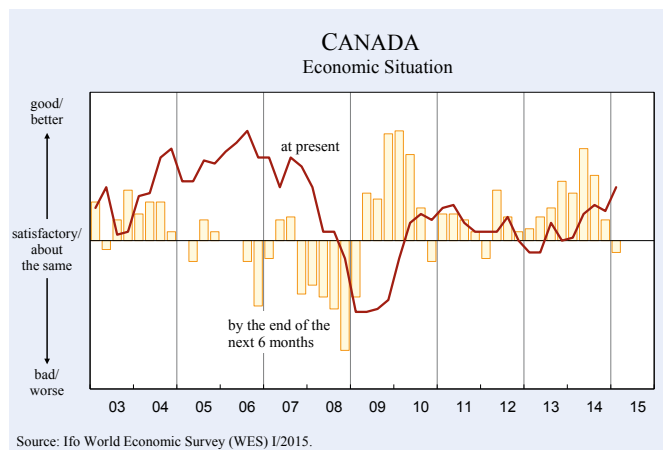
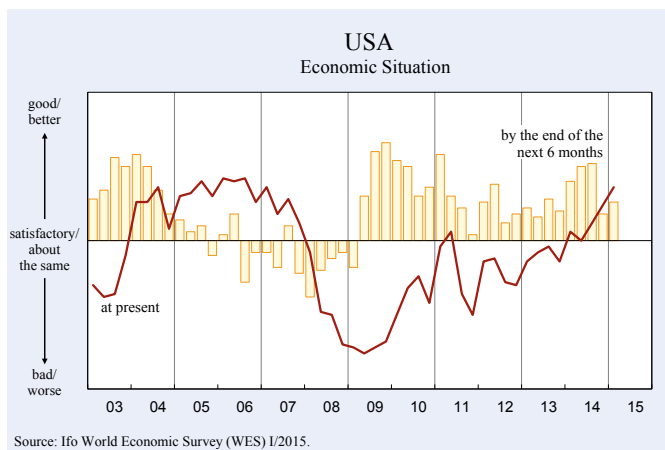




Figure 7

EASTERN EUROPE

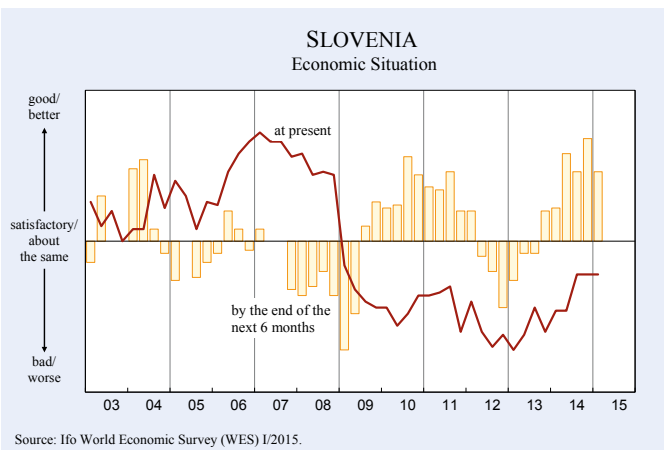
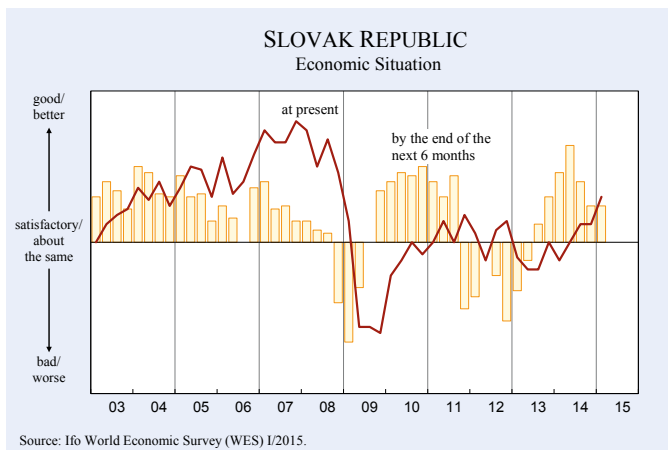
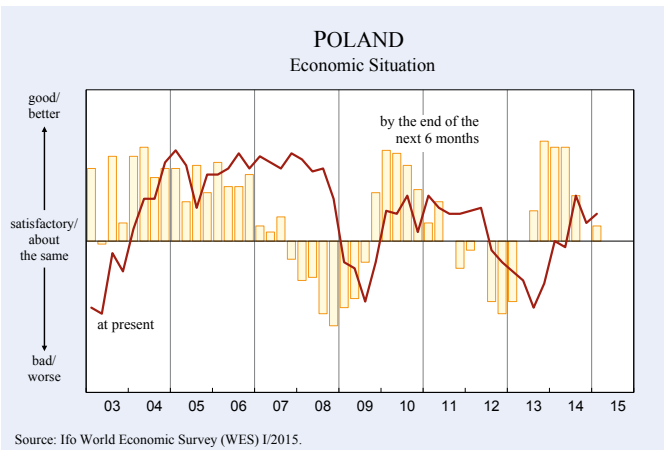
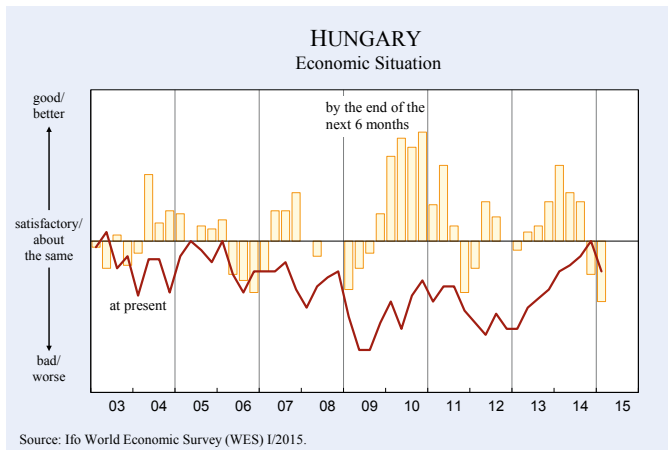
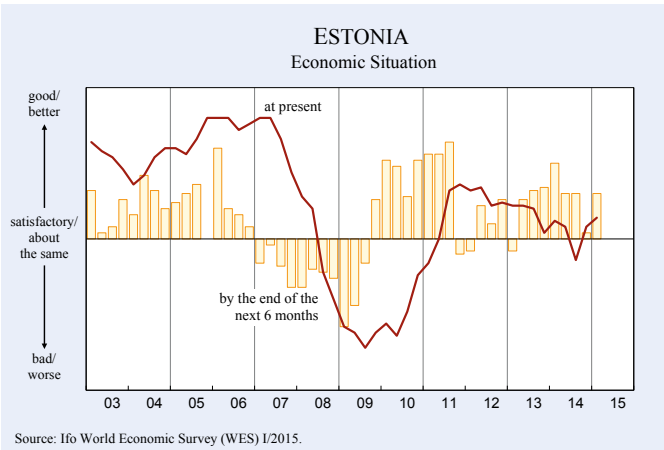
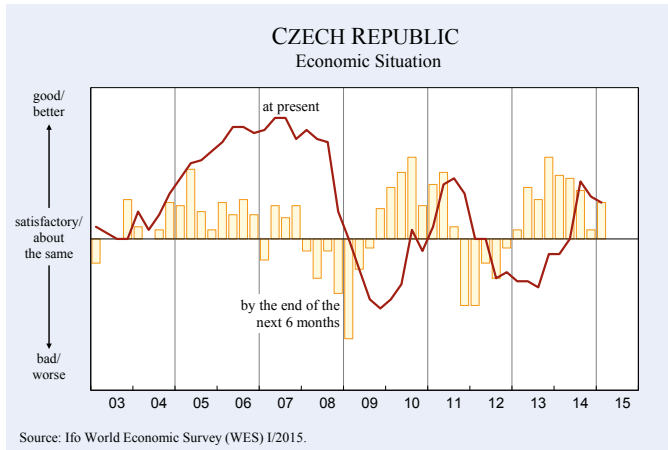


Figure 8

ASIA

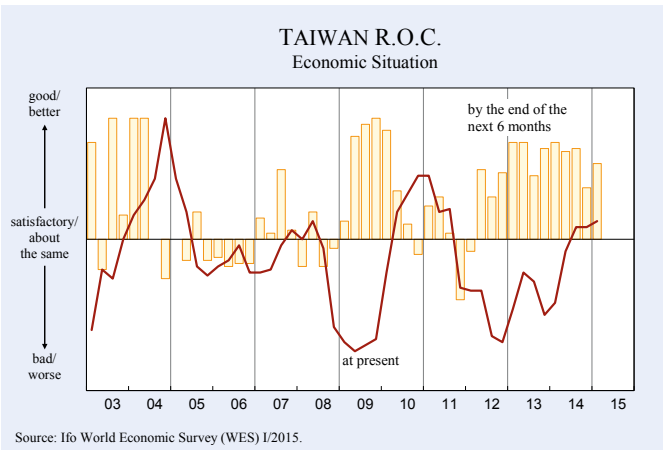
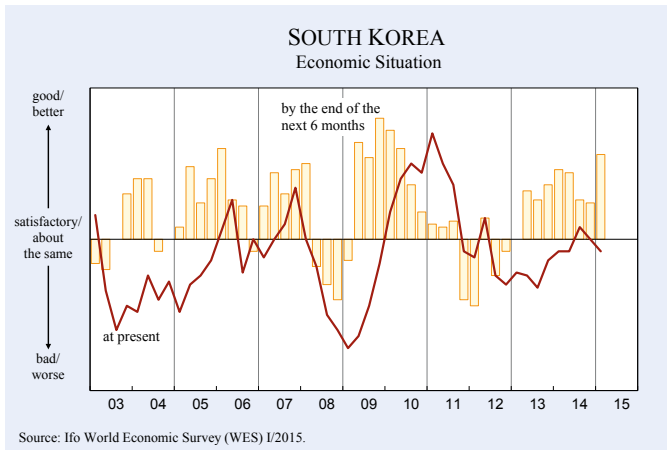
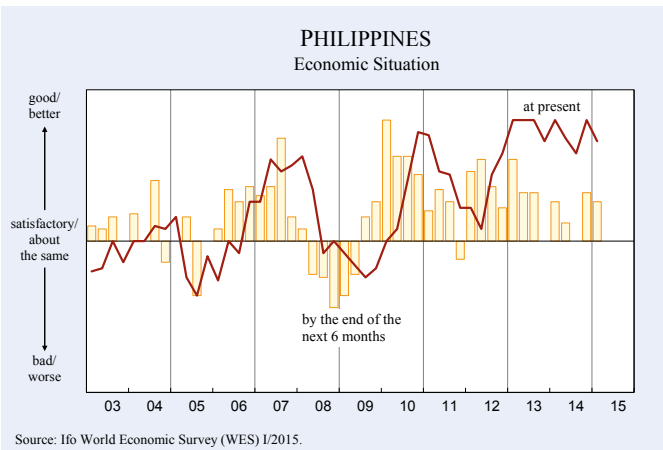
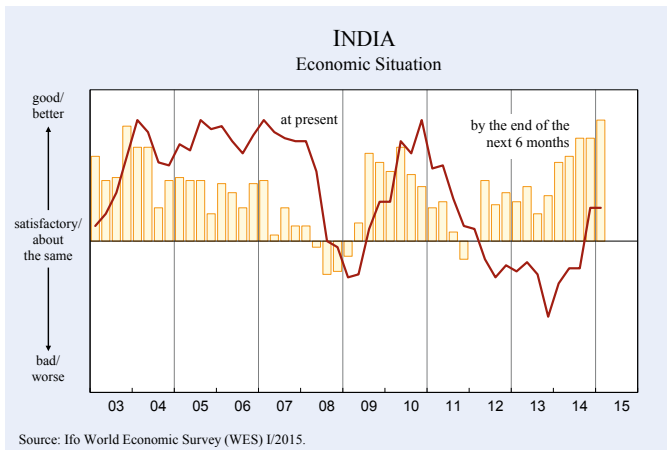
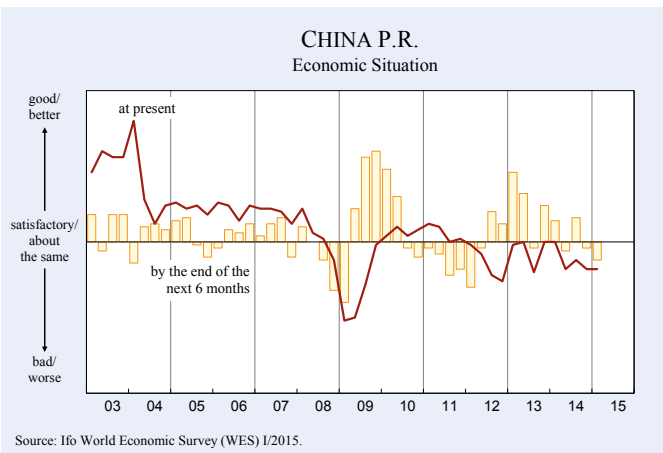
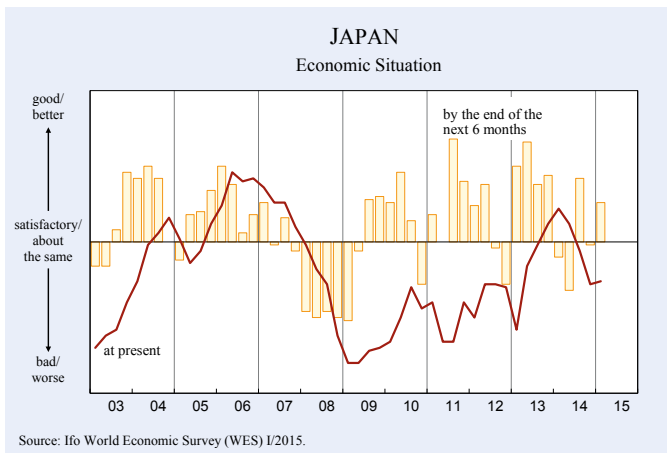


Figure 9

LATIN AMERICA

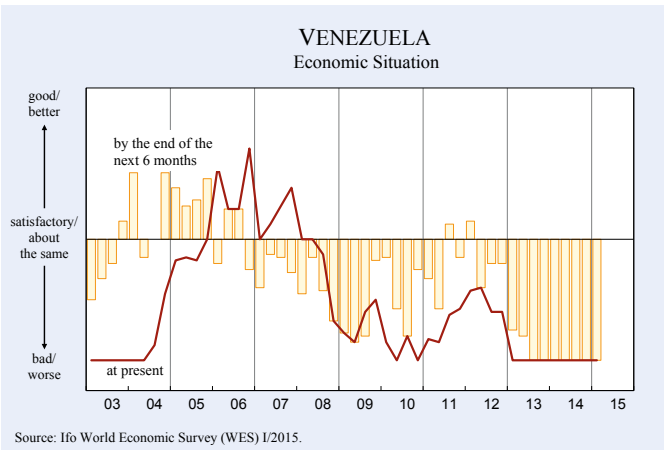
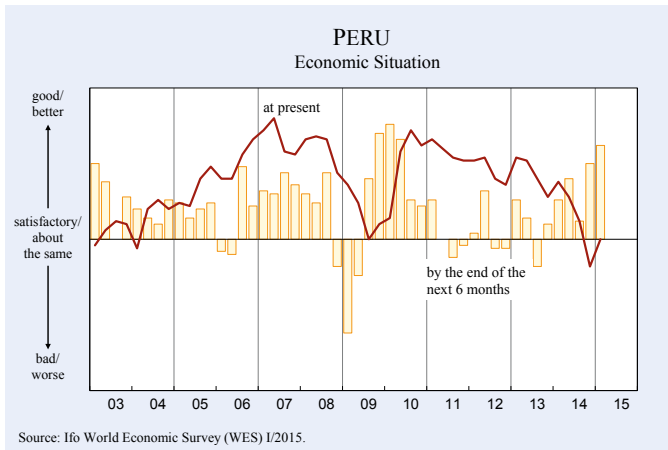
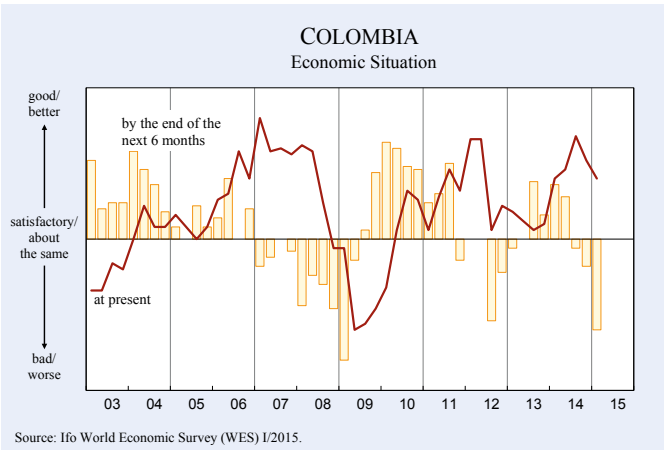
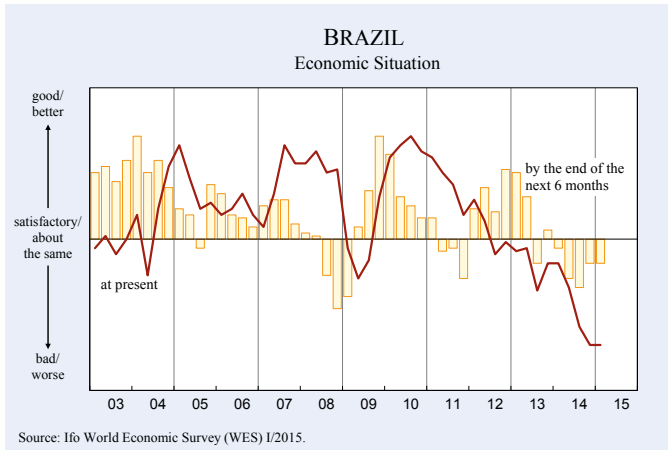
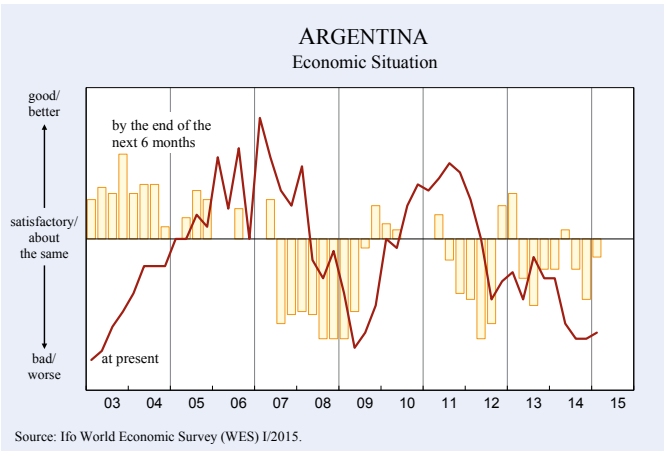
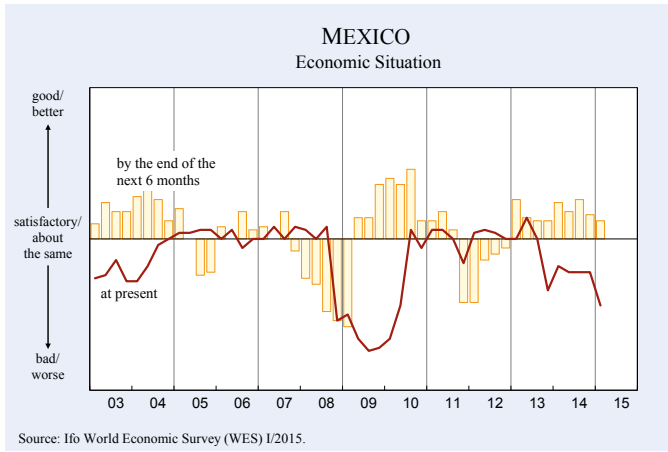


Figure 10

NEAR EAST AND AFRICA

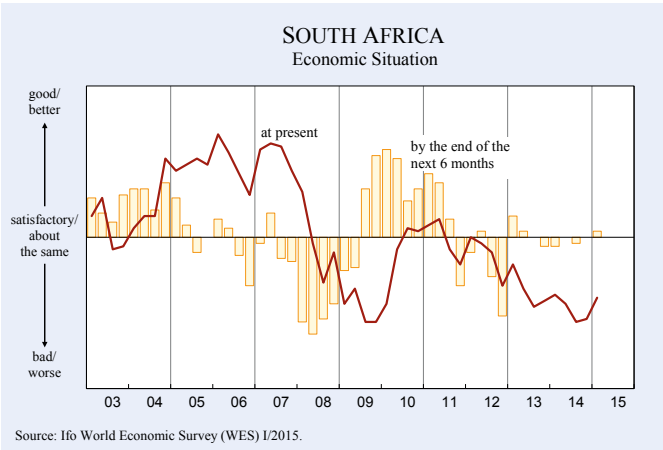
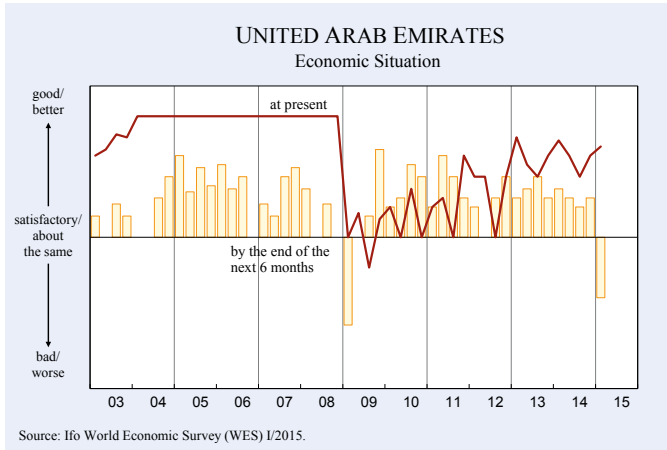
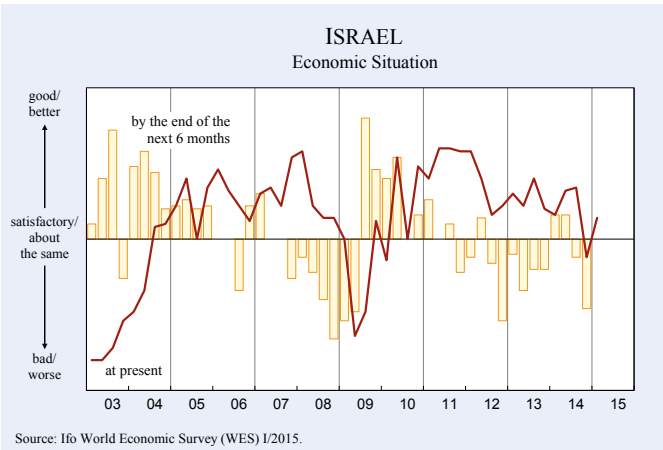
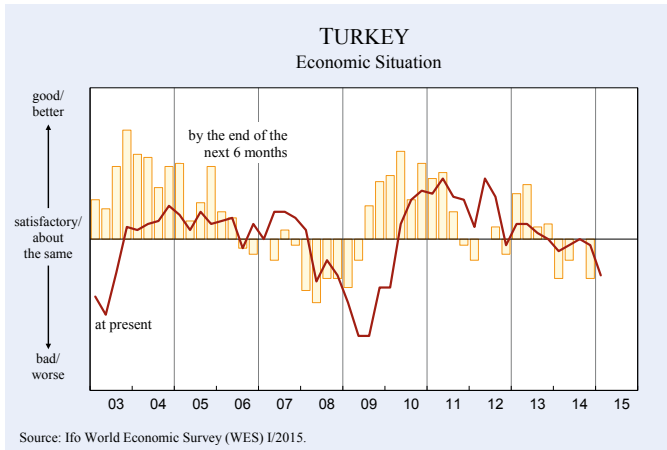
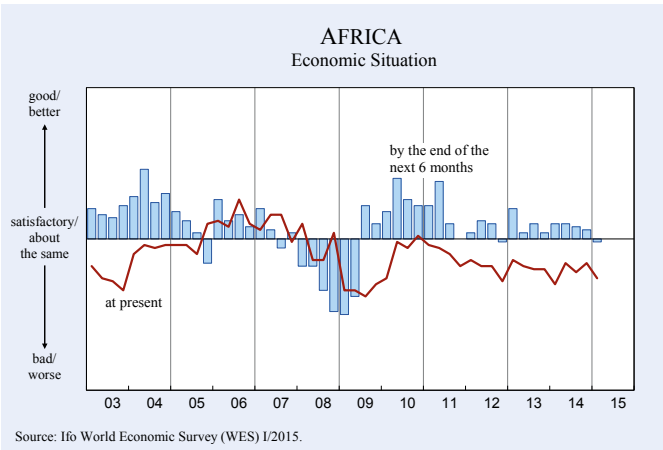
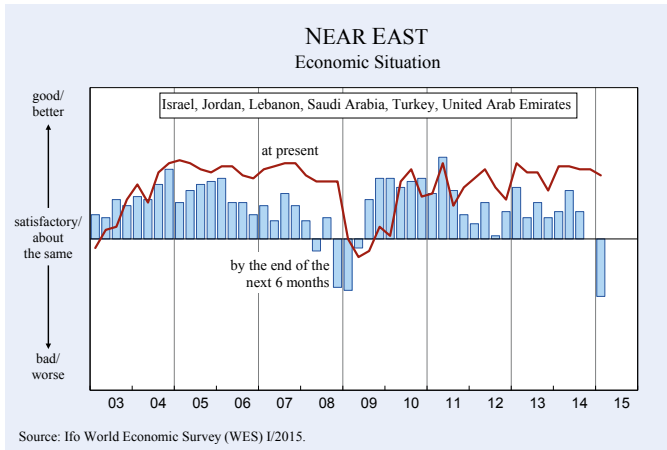


Table 1

Supply of bank credit to firms, extent of constraint	
<b>Not constrained</b>	
Canada	8.3
Peru	8.1
Australia	8.0
Taiwan	7.7
Finland	7.6
Chile	7.5
Paraguay	7.5
Guatemala	7.4
Germany	7.3
Colombia	7.2
Japan	7.2
Switzerland	7.1
United States	7.1
Philippines	7.0
<b>Moderately constrained</b>	
Brazil	6.9
Slovakia	6.8
Norway	6.6
South Korea	6.6
Sweden	6.6
New Zealand	6.5
Turkey	6.5
Mexico	6.4
Lithuania	6.3
Sri Lanka	6.3
Uruguay	6.3
Czech Republic	6.2
South Africa	6.2
Malaysia	6.1
Denmark	6.0
Latvia	6.0
Thailand	6.0
France	5.9
Belgium	5.8
Croatia	5.7
Pakistan	5.7
Austria	5.6
India	5.6
Kenya	5.4
Bulgaria	5.2
Cabo Verde	5.0
Egypt	5.0
Hong Kong	5.0
Israel	5.0
Kazakhstan	5.0
Poland	5.0
Togo	5.0
Argentina	4.7
Netherlands	4.6
United Kingdom	4.6
Lesotho	4.4
Spain	4.3
Tunisia	4.2
<b>Strongly constrained</b>	
Hungary	3.7
Italy	3.7
Morocco	3.4
Romania	3.3
Slovenia	3.3
China	3.2
Greece	3.2
Zimbabwe	3.0
Portugal	2.9
Russian Federation	2.8
Ukraine	2.6

Only countries with more than four responses were included in the analysis.

**WES scale:** 9 – not-, 5 – moderately-, 1 – strongly constrained

Source: Ifo World Economic Survey (WES) I/2015.

### Near East: Falling oil prices overshadow outlook

The fall in the economic climate indicator for the *Near East* was the most pronounced of all regions. The indicator dropped sharply from 87.7 to 72.7 points, far below its 16-year average of 87.8. While assessments of the present economic situation remain favourable on the whole, deteriorating only marginally versus the previous survey, the economic outlook clouded over significantly. Economic expectations dropped to their most pessimistic point in over six years (see Figure 10). The present economic situation for *United Arab Emirates* and *Saudi Arabia*, the main oil-exporting countries in this region, was assessed as favourable once again. However, as far as the next six months are concerned, WES experts turned pessimistic and expect the situation to deteriorate in the months ahead, with less impetus from exports. The present economic situation in *Turkey* continued to deteriorate, mainly due to capital expenditure, which is considered weak at present. Economic expectations improved clearly, compared to the survey in October, but nevertheless do not signal major changes for the better in the months ahead. After temporarily deteriorating at the end of 2014, the economic climate for *Israel* improved again. Assessments of the present economic situation were satisfactory and the economic outlook turned positive again. In *Lebanon* and *Jordan* WES experts report good present economic conditions and expect them to prevail in the months ahead.

### 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*.

The economic climate for *Northern Africa*, which includes *Algeria*, *Egypt*, *Libya*, *Morocco* and *Tunisia*, deteriorated markedly due to more negative assessments of the present economic situation. In all of these countries, negative appraisals of the current economic situation gained the upper hand and the situation was assessed as unfavourable, and even as weak in *Egypt*, *Libya* and *Tunisia*. Economic expectations were only upwardly revised for *Morocco* and *Tunisia*, and the current unfavourable situation in both countries is likely to

improve in the course of the next six months. In *Algeria*, *Egypt* and *Libya*, the economic outlook deteriorated compared to the survey in October and the current weak situation is expected to persist over the next six months.

The economic climate indicator for *South Africa* started to rise again, although it remains at a low level. Despite some improvements, 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*, *Benin*, *Burkina Faso*, *Mauritania*, *Mauritius*, *Nigeria* and *Senegal* 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 *Congo Dem. Republic* and *Kenya*, WES experts were less positive than in the previous survey, but assessments of the present economic situation nevertheless remain satisfactory on the whole. In both countries the economic experts surveyed expressed even more confidence regarding future economic developments over the next six months. In *Congo-Brazzaville*, *Ivory Coast*, *Namibia*, *Tanzania* and *Uganda* a favourable economic situation continues to prevail, and more markedly so than in the previous survey. In all of these countries the economic outlook remains positive, although there were considerable downwards revisions in economic expectations visible for *Ivory Coast* and *Tanzania*. In the opinion of WES experts, the current economic situation in *Comoros* returned to a satisfactory level and is expected to improve further in the months ahead. The most marked deterioration in the economic climate took place in *Nigeria* and *Zambia*. In both countries, negative assessments of both the present economic situation and economic expectations gained the upper hand, resulting in a weak present economic situation with a cloudy outlook. By contrast, the most marked improvements compared to the previous survey were reported for *Sudan*. Despite this, the present economic situation remains on balance below the satisfactory line. The gradual recovery is expected to continue, with the six-month economic outlook turning positive again. In *Sierra Leone*, appraisals of the current economic situation turned unfavourable and economic performance is likely to remain subdued in the months ahead. In *Lesotho*, *Madagascar* and *Togo* there were no major changes compared to the situation recorded at the end of 2014 and the economic situation remains

**Table 2**

Legal and administrative restrictions for foreign firms	
Absent	
Uruguay	8.3
Czech Republic	7.5
Denmark	7.5
Sweden	7.4
Finland	7.2
Netherlands	7.1
Colombia	7.0
Hong Kong	7.0
Peru	7.0
Rather low	
Portugal	6.9
Belgium	6.8
United Kingdom	6.8
Germany	6.6
Namibia	6.6
Chile	6.5
New Zealand	6.5
Slovakia	6.5
Poland	6.4
Lithuania	6.3
Turkey	6.3
Switzerland	6.2
Slovenia	6.1
Bulgaria	6.0
Mexico	5.9
Guatemala	5.8
Norway	5.8
Latvia	5.7
Togo	5.7
Austria	5.6
France	5.6
Greece	5.6
Malaysia	5.6
Romania	5.6
Spain	5.6
Australia	5.5
Canada	5.4
Paraguay	5.4
South Korea	5.4
United States	5.3
Cabo Verde	5.0
Croatia	5.0
Japan	5.0
Kazakhstan	5.0
Lesotho	5.0
Morocco	5.0
Tunisia	5.0
South Africa	4.8
Hungary	4.7
Brazil	4.6
Pakistan	4.6
Taiwan	4.6
Italy	4.3
Kenya	4.3
Philippines	4.3
Israel	4.2
Zambia	4.2
India	4.1
Rather high	
Thailand	3.7
China	3.2
Russian Federation	3.2
Sri Lanka	3.0
Ukraine	1.8
Egypt	1.7
Argentina	1.3
Zimbabwe	1.0

Only countries with more than four responses were included in the analysis. **WES scale: 9** - absent, **5** - low, **1** - high  
Source: Ifo World Economic Survey (WES) I/2015.

unfavourable. While WES experts turned (more) positive concerning the six month economic outlook for *Madagascar* and *Togo*, they remain sceptical for *Lesotho* and don't expect the situation to improve in the months ahead. The current economic situation in *Cabo Verde* and *Niger* was assessed less negatively than in October 2014. However, economic sentiment got worse compared to the previous survey and remains subdued. For *Swaziland*, no easing of unfavourable economic conditions materialised compared to the survey at the end of 2014. Within the next six months, some improvements could be likely, as the economic outlook remains optimistic. In *Burundi*, *Gabon*, *Liberia* and *Zimbabwe* the situation was again assessed as weak. WES experts only forecast an improvement for *Liberia* in the months ahead. In the other countries the situation is likely to deteriorate further.

### Low inflation expectations

On a worldwide average, WES experts' inflation forecast for the year 2015 is slightly lower than that reported for 2014 (3.1% versus 3.2%).

For the *euro area* the inflation rate in 2015 was estimated at 0.7% on average (see Table 4). The expected inflation rate for 2015 lies even further below the ECB inflation target (slightly below 2.0%) than was the case in 2014. However, WES experts don't expect this low inflation rate to persist for long. The medium-term inflation expectations (next 3 to 5 years) stand at 1.6% which is not far from the ECB's inflation target.

Within the *euro area* the lowest inflation rates in 2015 are again expected in some "crisis countries" like *Cyprus* (-0.6%) and *Greece* (-0.2%). Inflation expectations in *France* (0.4%), *Portugal*, *Italy* and *Spain* (0.5% respectively) are also below the overall price increase. Inflation expectations above the overall average prevail in *Latvia* (1.8%), *Austria* (1.5%), *Lithuania* (1.1%), in *Luxembourg*, the *Netherlands* and *Estonia* (1.0% respectively), as well as in *Germany* and *Slovakia* (both 0.9%).

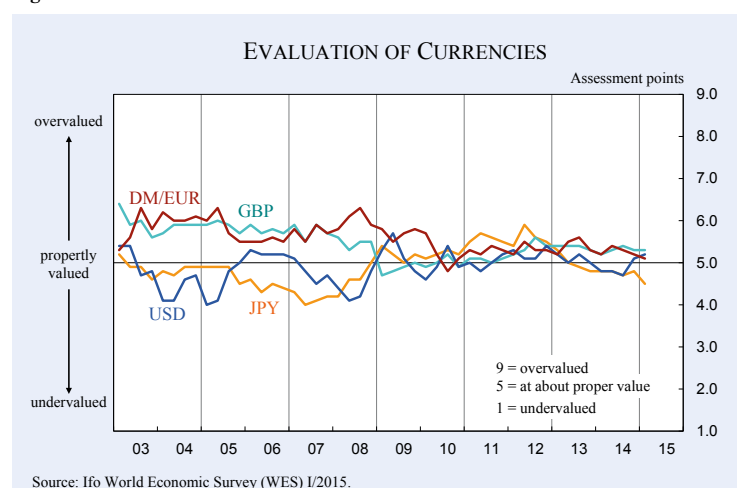
In *Western Europe* outside the *euro area* inflation expectations for 2015 range from 0.1% in *Switzerland* to 2.3% in *Norway* (see Table 4).

A low-inflation trend will continue in *Eastern Europe*. The expected 2015 inflation rate stands at 1.2%, and is thus only marginally higher than the inflation rate reported for 2014 (1.1%). As in *Western Europe* the currently very low inflation rate is seen as a transitory phenomenon; over the next 3 to 5 years the average inflation rate is expected to return to more "normal" levels of slightly above 2%. WES experts expect the lowest price increases in the region to be seen in 2015 in *Macedonia* (0.3%). By contrast, inflation will remain highest in the region in *Serbia* (3.0%). The medium-term inflation expectations in *Eastern Europe* range from 1.9% in *Slovenia* and *Czech Republic* to 3.3% in *Estonia*.

In *North America*, the latest inflation forecast slowed down marginally from a reported 1.9% in 2014 to 1.7% in 2015 and thus remains slightly below the target inflation rate of about 2% both in the *USA* and *Canada*. The gap between short-term and medium-term price expectations is much narrower in *North America* than in *Europe*, indicating that *North America* is clearly ahead of *Europe* in the cyclical recovery phase.

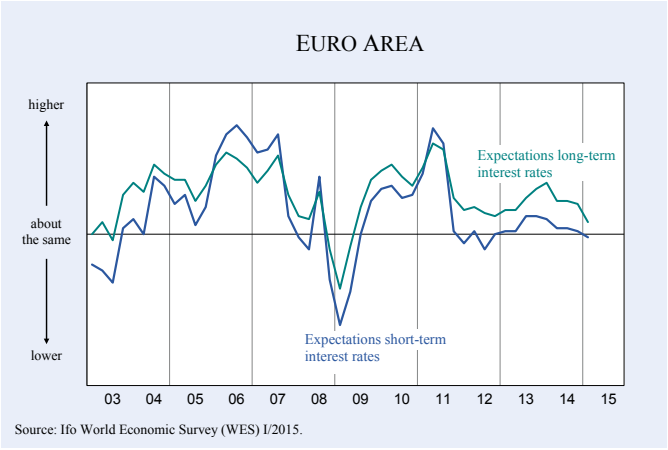
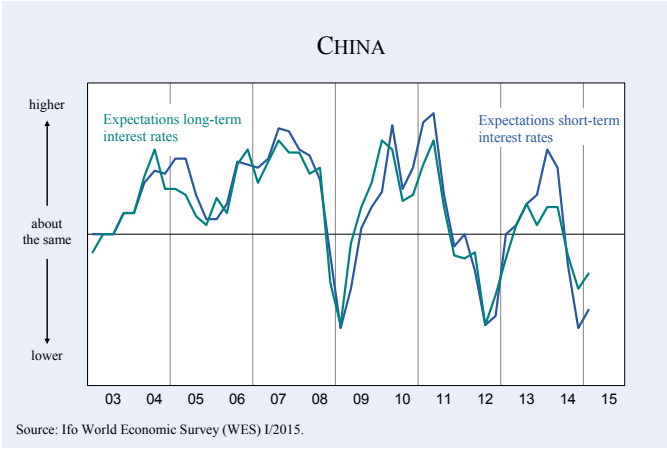
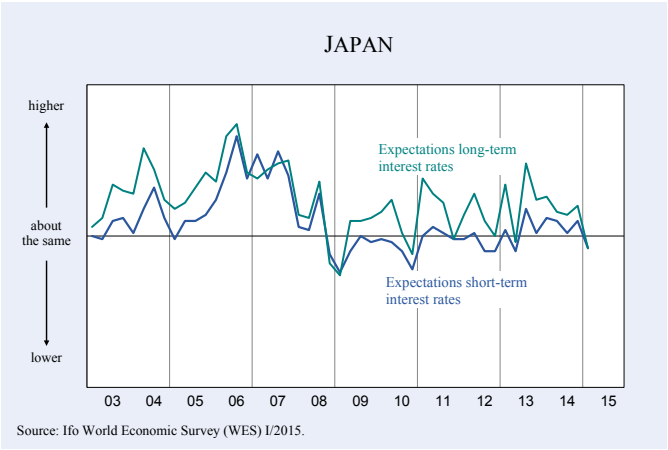
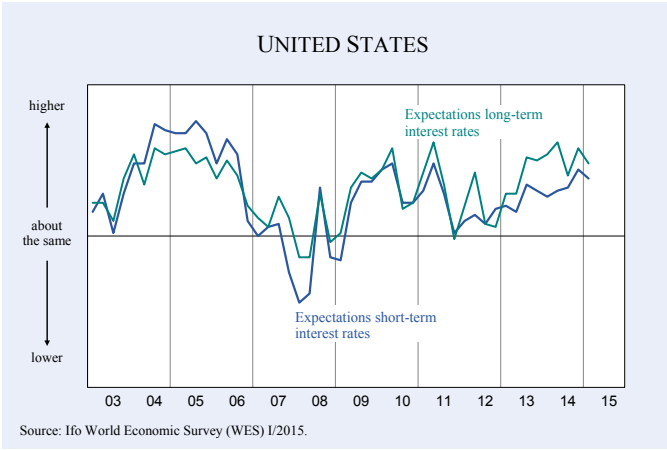
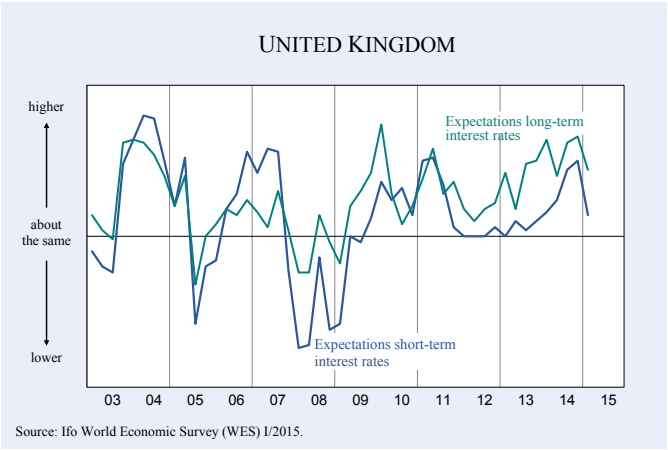
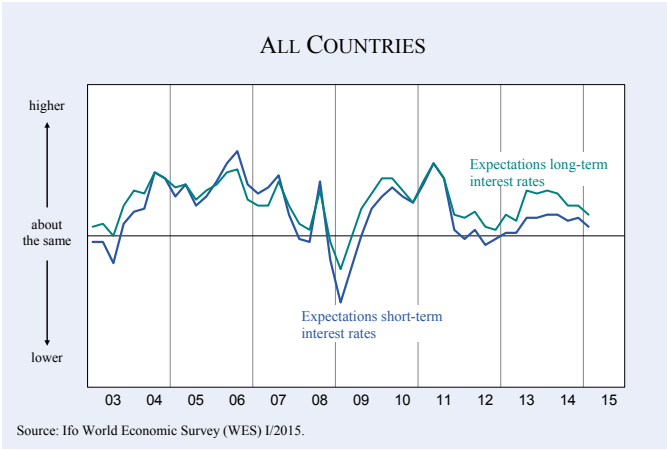
In *Asia* inflation expectations for 2015 slowed down from 3.5% reported for 2014 to 3.0%. In the medium-term an inflation rate of about 3.1% is expected in the *Asian* average, which is nearly identical with the rate expected for this year. By country there remain some pronounced changes: in *China* the expected inflation rate for 2015 is lower than the figure reported for 2014 (2.4% after 2.7%). In *India* the expected 2015 price increase is still

Figure 11



**Figure 12**

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





rather high (5.6%), although it is lower than in 2014 (6.8%). In *Japan* inflation expectations for 2015 fell back to 1.1% after a reported increase of 2.4% in 2014, which was largely influenced by a VAT hike. In some other *Asian* countries inflation expectations for 2015 also show some easing: to 5.4% after 7.0% in *Indonesia* and to 4.8% after 6.8% in *Vietnam* in 2014.

In *Oceania* inflation expectations for 2015 stand at 2.3% which is somewhat lower than the inflation rate reported for 2014 (2.6%). Like in *North America*, the medium-term annual inflation is forecast to be only slightly higher than the rate expected for 2015, signalling that the monetary adjustment process after the 2008/2009 recession is already very advanced

In *Latin America* inflation is expected to remain high in 2015 (10.8%). In the medium term (next 3 to 5 years) inflation is expected to slow down to 7%. In *Brazil*, the region's largest economy, inflation expectations increased slightly from 6.5% to 6.7% which is significantly higher than the rate expected in the medium-term (5.4%). This gap may cause the Brazilian Central Bank to continue hiking interest rates, despite the on-going weakness in the real economy. This conclusion can be drawn from the expected rise in short-term interest rates over the course of the next six months. Inflation expectations in 2015 for *Chile* and *Mexico* stand at 3.5% and 4.4% respectively, and thus in both cases significantly below the average of the region. The lowest inflation rates in 2015 continue to be expected in *El Salvador* (2.0%), *Peru* (2.7%) and *Colombia* (3.8%). The main problem countries with regard to inflation remain *Venezuela* (62.1%) and *Argentina* (35.7%). In both countries some improvement is expected in the medi-

um-term, but the expected annual inflation rates of 18.9% in *Argentina* and 36.2% in *Venezuela* in the next 3 to 5 years are still very high.

In *CIS* countries inflation expectations for 2015 increased further, mainly in *Russia* (from 8.8% to 13.8%), where the effects of the imposed sanctions are being increasingly strongly felt. The highest rate of inflation in the region is still expected in the *Ukraine* (18.9% after 16.6%). In the medium-term an annual inflation rate of 8.8% in the average of *CIS* countries appears the most likely scenario, according to WES experts.

In the *Near East* inflation expectations for 2015 were somewhat lower than the rate reported for 2014 (4.0% compared to 4.5%). The highest rate of inflation in the region is still expected in *Turkey* (7.8% after 9.0% in the preceding survey) and the lowest rate in *Israel* (1.3% after 1.8%).

In *Africa* inflation in 2015 is expected to be somewhat higher than in 2014 (7.6% compared to 6.9%), but remains highly heterogeneous from country to country. The expected inflation rate in the most important economy in the region, *South Africa*, is well below the overall average at 5.5%. According to the latest survey, the lowest inflation rates in 2015 will also prevail in *Benin* (1.1%), *Zimbabwe* (1.2%), *Congo Democratic Republic* (1.8%), *Togo* (2.3%) and *Cabo Verde* (2.5%). In *Sierra Leone*, hit hard by the Ebola crisis, 2015 price expectations remain well above the total average in the region at 10.5%. The highest inflation expectations in the region still prevail in *Sudan* (31.8%). The medium-term inflation expectations in the region of 6.9% are only slightly lower than the expected rate in 2015 (7.6%).

**Table 3**  
Assessment of the following factors influencing the climate for foreign investors in the next six months

Climate due to	Change for the next six months *	
	Deterioration	Improvement
Legal/administrative restrictions to invest and/or to repatriate profits		India, Lithuania, Morocco, Philippines, Sri Lanka, Thailand, Ukraine
Political stability	Lesotho, Mexico, Portugal, Russia, Spain	Egypt, Greece, India, Kazakhstan, Morocco, Sri Lanka, Sweden, Thailand, Tunisia, Ukraine, Zambia

\* For the countries that are not mentioned in the table, no major changes relating to the climate for foreign investors are expected during the next six months. Only countries with more than four responses were included in the analysis.

**Criteria for selection of countries:** Deterioration: WES grade between 1.0 and 3.5  
Improvement: WES grade between 6.0 and 9.0

Source: Ifo World Economic Survey (WES) I/2015.

## US dollar expected to rise

Three of the four leading currencies (*US dollar, euro* and the *British pound*) are assessed on a worldwide scale to be only slightly overvalued, the *Japanese yen* on the other hand is somewhat undervalued (Figure 11).

By country major differences in currency evaluation remain: in *Switzerland* and *Hungary* WES experts assessed their own currency as generally overvalued against the *US dollar*, the *euro* and the *British pound*, but not against the *Japanese yen*. According to WES experts, the currencies in the *Ukraine, Uzbekistan, Pakistan, Sri Lanka, Tunisia, Zambia, Argentina* and *Brazil* appear to be generally overvalued.

WES experts in the *United States*, by contrast, assess the *US dollar* as undervalued vis-à-vis the *euro* and the *British pound*, but overvalued against the *Japanese yen*. In *Canada, Japan* and *Poland* the *US dollar*, the *euro* and the *British pound* seem overvalued compared to their respective currency. Currencies in *India* and in some *African* countries like *Benin, Kenya, Madagascar, Niger* and *Sierra Leone* as well as in the *Dominican Republic* generally seem undervalued vis-à-vis the four leading currencies *US dollar, euro, British pound* and *yen*, according to reports by WES experts.

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 on an even more widespread basis than previously that the value of the *US dollar* is expected to rise over the course of the next six months on worldwide average. The rare exceptions to this trend are *Australia, Indonesia* and also *Poland*, where the *US dollar* is expected to weaken in the months ahead.

## Interest rates expected to remain low

On a worldwide scale, short-term interest rates are expected to remain largely stable and long-term interest rates to increase only marginally in the course of the next six months (see Figure 12). The expected increase in interest rates is expected to be more marked than the overall average in the *United States of America* in particular, and to a somewhat lesser degree in most *Latin American* countries. On the other hand, short-term interest rates are expected to decline over the next six months in two “euro crisis” countries (*Cyprus* and *Portugal*), in *Lithuania, Romania, Denmark, Switzer-*

*land, Norway*, as well as in several *Asian* countries like *India, China, South Korea, Malaysia, Pakistan* and in three *African* countries (*Cabo Verde, Morocco* and *Tanzania*).

## Supply of bank credit to firms continues to improve

Given the problems experienced by firms in some countries concerning access to bank credit, a specific question was added to the regular questionnaire in 2013 on a bi-annual basis (January and July). WES experts are asked to assess to what extent the supply of bank credit to firms in the country they are reporting for is constrained by bank-specific factors (e.g. banks’ health or banking regulation). The scale ranges from “not constrained” (9), to “moderately constrained” (5) to “strongly constrained” (1) (see Table 1).

Those countries with a high degree of credit constraints still include – according to WES experts – some “euro crisis countries” (*Portugal, Greece, Slovenia, Italy*), but recently also the *Russian Federation* and the *Ukraine*, which rank lowest on the list. Amongst the “euro crisis countries” still in this category, some improvement was seen in *Italy* (3.7 after 2.9 in July 2014), *Slovenia* (3.3 after 2.1) and *Greece* (3.2 after 2.2). *Spain* even managed to leave the “strongly constrained category” (4.3 after 3.3), whereas the credit situation in *Portugal* even worsened slightly (2.9 after 3.1). For the first time *China* belongs, according to this survey, to the group of countries where the supply of bank credit to firms is assessed as strongly constrained (3.2 after 4.0), reflecting the tightening of credit conditions under the new government. New in this group of “strongly constrained credit conditions” are also *Morocco* (3.4 after 5.0) and *Romania* (3.3 after 5.6). Credit constraints in *Hungary* and *Zimbabwe* remain at the same level as in the previous three surveys in this group.

The top category “not credit constrained” has featured countries like *Canada, Australia, Japan, Switzerland, Colombia, Peru* and *Paraguay* from the outset. But the number of countries belonging to this top category has grown over the past two years and now comprises 14 countries, including *Germany* and the *United States of America*.

As a general conclusion, it can be stated that the credit availability situation has improved further, although in many countries it is still far from fully satisfactory.

### Special Question on bank asset quality reviews, stress tests and their perception in terms of transparency and investor confidence

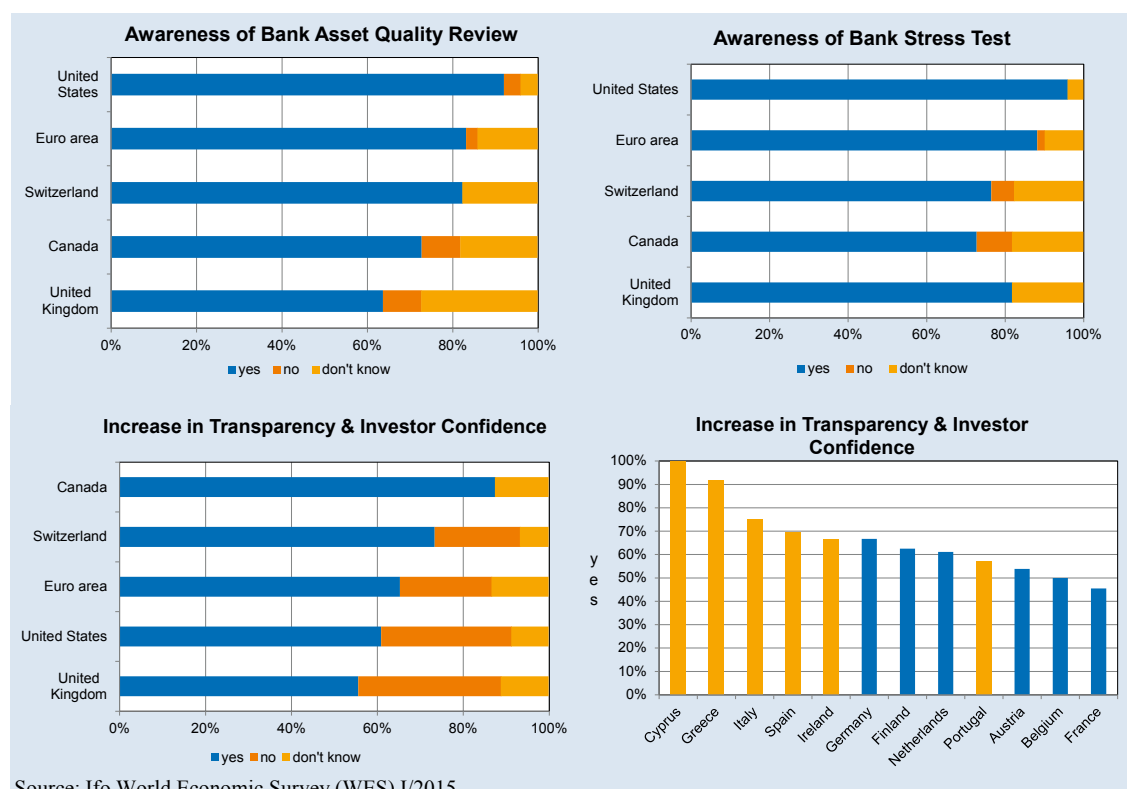
Between November 2013 and October 2014 the European Central Bank (ECB), together with national supervisors, conducted a comprehensive assessment of 130 system-relevant banks in the *euro area*, covering more than 80% of total assets. The completion of the comprehensive assessment was a prerequisite for the operational start of the Single Supervisory Mechanism (SSM) in November 2014. The financial health check concluded with a disclosure of the aggregate outcome and detailed information at the bank-level, together with recommendations for supervisory measures. The assessment consisted of two parts. The asset quality review (AQR) was an assessment of the accuracy of the carrying value of banks' assets as of 31 December 2013, and was the starting point for a stress test, which provided a forward looking examination of the resilience of banks' solvency to hypothetical scenarios. The results, which were made publicly accessible on 26 October 2014, showed that 25 banks failed the stress tests. Nine of the banks that failed are located in *Italy*, and most of the other problematic lenders are also in the European crisis countries.

The stated objectives of the ECB's comprehensive assessment were in particular to enhance transparency and to build confidence among stakeholders. But is this time really different? Exercises of that sort have been carried out in the past for the entire European Union (EU) by the European Banking Authority (EBA) with poor results. Banks that were declared healthy in stress tests failed soon afterwards, a fact that shook investors' confidence and exacerbated the *euro area* financial crisis.

In this quarter's WES, economic experts are asked for their opinion on recent bank AQRs and stress tests. More specifically, experts are first asked about their awareness of an AQR and/or stress test in the past 5 years in their country. If they have indeed heard of such measures, the experts are then asked whether the AQR and/or stress test increased transparency and investor confidence in their country. The possible answers are "yes", "no", and "don't know".<sup>1</sup> The survey hence shows if this time is really different, and if the ECB's comprehensive assessment indeed met its objectives.

<sup>1</sup> The questions in detail are: (a) "Have regulatory authorities in your country conducted a bank asset quality review in the past 5 years?" Answer: "yes", "no", "don't know". (b) "Have regulatory authorities in your country conducted a bank stress test in the past year?" Answer: "yes", "no", "don't know". If a) and/or b) is yes: (c) "In your opinion, have these measures increased transparency and investor confidence in your country?" Answer: "yes", "no", "don't know".

Figure 13



In Figure 13 (upper left panel) the experts' awareness of the bank AQR is shown for the *euro area* and for four other countries that conducted similar exercises over the past 5 years in comparison, namely the *United States* (US), *Switzerland*, *Canada*, and the *United Kingdom* (UK). The plot shows that about 83% of the *euro area* experts are aware of the ECB's bank AQR, while only a mere 2% are not. The share of experts aware of AQR in their country is slightly higher for the *US*, but smaller for the other countries, and particularly the *UK*. In Figure 13, upper right panel, the corresponding shares for the bank stress tests are shown. Except for *Switzerland*, the numbers are higher for all countries, suggesting that bank stress tests may be communicated better to the public than the AQRs. For the *euro area* the share of experts aware of the ECB's bank stress test is over 88%. Again only the *US* shows a higher number. All in all, the awareness of the ECB's bank AQR and stress test is high among *euro area* experts compared to other countries, which points to an effective communication strategy of the new single supervisory authority.

With respect to experts' opinion of the ability of the bank AQRs and stress tests to increase transparency and investor confidence, Figure 13 (lower left panel) reveals that the results differ considerably between countries. While experts in *Canada* are very positive (about 88% say "yes", not a single expert says "no"), experts in the *UK* are rather negative about the success of such exercises in their country (one third says "no"). For the *euro area* the outcome is also mixed. About 65% of the experts think that the ECB did a good job, while about 20% believe that it did not. Figure 13 (lower right panel) shows, however, that the experts' opinion varies significantly across the *euro area* member states. It turns out that experts in the European crisis countries (*Cyprus*, *Greece*, *Italy*, *Spain*, *Ireland*, and to a slightly lesser extent *Portugal*) are much more optimistic about the success of the comprehensive assessment than those in more stable countries like *Austria*, *Belgium* or in particular *France*. While only 45% of the *French* experts state that the AQR and stress test increased transparency and investor confidence, the shares for *Greece* and *Cyprus*, for instance, are about twice as high.<sup>2</sup>

In sum, this special survey on bank asset quality reviews and stress tests suggests that the ECB successfully attracted the experts' attention for their financial health

check. By international comparison the share of experts saying that these measures increased transparency and investor confidence is satisfactory. However, the variation across *euro area* member states is large, showing a systematic difference between crisis countries and more stable countries. This dispersion in experts' opinions suggests that the success of the ECB's comprehensive assessment is still uncertain and that the aggregate outcome for the *euro area* may be driven by overoptimistic experts in peripheral Europe.

<sup>2</sup> The 100%-share for Cyprus should not be overstated since the number of experts is only 2.

**Table 4 Inflation rate expectations for 2015 and on average for the next 3 to 5 years**

Region	2015	next 3 to 5 years	Region	2015	next 3 to 5 years
<b>Average of countries *</b>	<b>3.1</b>	<b>3.1</b>	<b>Latin America</b>	<b>10.8</b>	<b>7.0</b>
High-income countries	1.9	2.3	Argentina	35.7	18.9
Middle-income countries	7.3	5.7	Bolivia	6.1	6.8
Upper-middle	7.4	5.5	Brazil	6.7	5.4
Lower-middle	7.2	6.1	Chile	3.5	3.2
Low-income countries	5.9	6.3	Colombia	3.8	3.5
EU 28 countries	0.8	1.7	Costa Rica	(5.0)	(5.0)
EU countries (old members) <sup>a)</sup>	0.8	1.6	Dominican Republic	4.0	4.3
EU countries (new members) <sup>b)</sup>	1.1	2.1	Ecuador	4.3	3.8
Euro area <sup>c)</sup>	0.7	1.6	El Salvador	2.0	2.2
			Guatemala	3.7	4.2
<b>Western Europe</b>	<b>0.8</b>	<b>1.6</b>	Mexico	4.4	4.2
Austria	1.5	1.8	Paraguay	4.5	4.9
Belgium	0.4	1.4	Peru	2.7	2.7
Cyprus	-0.6	1.3	Trinidad and Tobago	(9.0)	(8.0)
Denmark	0.9	1.7	Uruguay	8.1	7.8
Finland	0.8	1.5	Venezuela	62.1	36.2
France	0.4	1.4			
Germany	0.9	1.7	<b>CIS</b>	<b>14.0</b>	<b>8.8</b>
Greece	-0.2	1.2	Armenia	11.5	8.0
Ireland	0.6	1.7	Belarus	(20.0)	(10.0)
Italy	0.5	1.4	Kazakhstan	7.6	7.0
Luxembourg	1.0	1.9	Kyrgyzstan	12.0	7.5
Monaco	0.8	1.3	Russia	13.8	8.7
Netherlands	1.0	1.6	Ukraine	18.9	9.9
Norway	2.3	2.3	Uzbekistan	9.8	9.0
Portugal	0.5	1.3			
Spain	0.5	1.6	<b>Near East</b>	<b>4.0</b>	<b>3.9</b>
Sweden	0.4	2.0	Israel	1.3	2.2
Switzerland	0.1	1.0	Jordan	(4.6)	(5.0)
United Kingdom	1.2	2.1	Lebanon	3.8	4.0
			Saudi Arabia	(3.0)	(3.0)
<b>Eastern Europe</b>	<b>1.2</b>	<b>2.1</b>	Turkey	7.8	6.7
Albania	(2.4)	(3.0)	United Arab Emirates	3.1	3.2
Bosnia and Herzegovina	1.4	2.0			
Bulgaria	0.9	2.0	<b>Africa</b>	<b>7.6</b>	<b>6.9</b>
Croatia	0.8	2.0	<b>Northern Africa</b>	<b>6.1</b>	<b>5.8</b>
Czech Republic	0.8	1.9	Algeria	4.7	4.2
Estonia	1.0	3.3	Egypt	11.7	11.3
Hungary	1.7	2.8	Libya	(25.0)	(30.0)
Kosovo	1.0	1.8	Morocco	1.9	2.3
Latvia	1.8	2.6	Tunisia	5.1	4.3
Lithuania	1.1	2.6			
Macedonia	0.3	2.2	<b>Sub-Saharan Africa</b>	<b>8.4</b>	<b>7.5</b>
Poland	0.9	1.9	Angola	(7.2)	(7.0)
Romania	2.5	2.3	Benin	1.1	2.8
Serbia	(3.0)	(3.0)	Burkina Faso	(5.0)	(6.0)
Slovakia	0.9	2.2	Burundi	(28.0)	(6.5)
Slovenia	0.7	1.9	Cabo Verde	2.5	2.6
			Comoros	(3.0)	(4.0)
<b>North America</b>	<b>1.7</b>	<b>2.2</b>	Congo Dem. Rep.	1.8	3.3
Canada	1.7	2.1	Congo-Brazzaville Rep.	2.7	2.8
United States	1.7	2.3	Gabon	(4.0)	(2.5)
			Ivory Coast	(3.0)	(5.0)
<b>Oceania</b>	<b>2.3</b>	<b>2.6</b>	Kenya	6.2	6.8
Australia	2.5	2.7	Lesotho	5.4	5.7
New Zealand	1.6	2.2	Liberia	(9.0)	(8.0)
			Madagascar	7.0	6.6
<b>Asia</b>	<b>3.0</b>	<b>3.1</b>	Mauritania	7.5	6.5
Bangladesh	6.7	7.6	Mauritius	3.3	3.7
China	2.4	3.2	Namibia	4.9	5.1
Hong Kong	3.9	4.1	Niger	2.8	3.5
India	5.6	4.8	Nigeria	13.5	11.1
Indonesia	5.4	5.0	Senegal	(1.4)	(1.3)
Japan	1.1	1.3	Sierra Leone	10.5	7.0
Malaysia	3.9	3.6	South Africa	5.5	5.7
Pakistan	8.3	8.2	Sudan	31.8	21.3
Philippines	4.1	4.2	Swaziland	(6.2)	(6.5)
Singapore	(3.0)	(3.0)	Tanzania	(9.0)	(7.0)
South Korea	2.0	2.4	Togo	2.3	2.8
Sri Lanka	6.4	6.4	Uganda	5.3	5.3
Taiwan	1.0	1.4	Zambia	8.7	7.5
Thailand	2.0	3.0	Zimbabwe	1.2	2.8
Vietnam	4.8	5.5			

\* 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. – <sup>a)</sup> Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. – <sup>b)</sup> Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria, Romania, Croatia. – <sup>c)</sup> Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: Ifo World Economic Survey (WES) I/2015.