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## Article

# CESifo World Economic Survey May 2015

CESifo World Economic Survey

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# CESifo WORLD ECONOMIC SURVEY

VOLUME 14, No. 2

MAY 2015

## WORLD ECONOMIC CLIMATE

World Economic Climate continues to brighten

## ECONOMIC EXPECTATIONS

Economic expectations slightly more positive

## INFLATION

Low inflation expectations, particularly in Europe

## CURRENCIES

US Dollar seen as overvalued, but expected to rise further

## INTEREST RATES

Divergent development in interest rates expected

## SPECIAL TOPIC

Impact of oil price decline on world economy

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## Ifo World Economic Survey

### Regions

- World Economy: Regaining momentum
- Western Europe: Clear upturn in the economy
- North America: Soft patch in economic activity
- Eastern Europe: Economic climate indicator rises sharply
- CIS: Few glimmers of hope as economic situation remains weak
- Asia: Economic dynamics lose impetus
- Oceania: Economic outlook turns gloomy
- Latin America: No economic recovery in sight
- Near East: Economic climate cools to six-year low
- Africa: Diverging economic trends

## Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organisations worldwide on current economic developments in their respective countries. Its results offer a rapid, up-to-date assessment of the economic situation prevailing around the world. In *April 2015*, 1,092 economic experts in 115 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 CONTINUES TO BRIGHTEN

The Ifo Index for the world economy rose to 99.5 points from 95.9 points last quarter. Both assessments of the current economic situation and the economic outlook improved (see Figures 1 and 2). WES experts forecast world economic growth of 2.3 percent this year. The world economy is slowly gaining impetus (see Box 1).

## World economy regains momentum

World production is expected to expand at a slightly faster pace over the next months. Impulses will come from the sharply lower crude oil price, which has almost halved since June 2014. The oil price drop was mainly driven by oil market specific causes and contributed to an economic upturn in advanced economies back at the end of 2014. In the major emerging economies, by contrast, the economic situation remains fairly weak overall. *China's* growth rate has been declining since mid-2014 as a result of falling real-estate prices. In *Brazil* production is stagnating overall, and *Russia* is currently in a recession. On the whole, monetary policy has become even more expansionary in recent months, while the gap between the monetary policies pursued by the major advanced economies has widened: The Bank of Japan extended its existing bond buying programme back in October and the ECB launched an extended programme in March. The central banks in several emerging economies have lowered their interest rates in recent months. The US Federal Bank, by contrast, is continuing to gradually tighten its monetary policy. It wound down its bond purchasing programme in 2014. The Fed is expected to increase the Federal Funds Rate in 2015. The growing divergence in

monetary policy orientation has meant that several currencies, including the euro and the yen, have depreciated significantly against the US dollar since mid-2014. Monetary policy worldwide is expected to remain markedly expansionary during the forecasting period. US interest rates will very probably only be raised in small steps, while the ECB will continue to implement its policy of quantitative easing until at least September 2016. Fiscal policy is expected to remain marginally restrictive in advanced economies in 2015 and 2016. In the *USA* and the *euro area* the fiscal policy stance measured by the structural budget deficit is more or less neutral. Although fiscal policy will remain restrictive in *Japan*

Figure 1

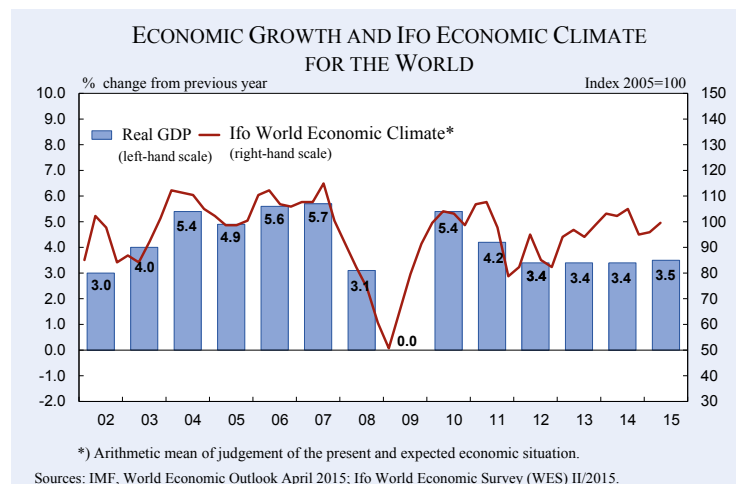


Figure 2

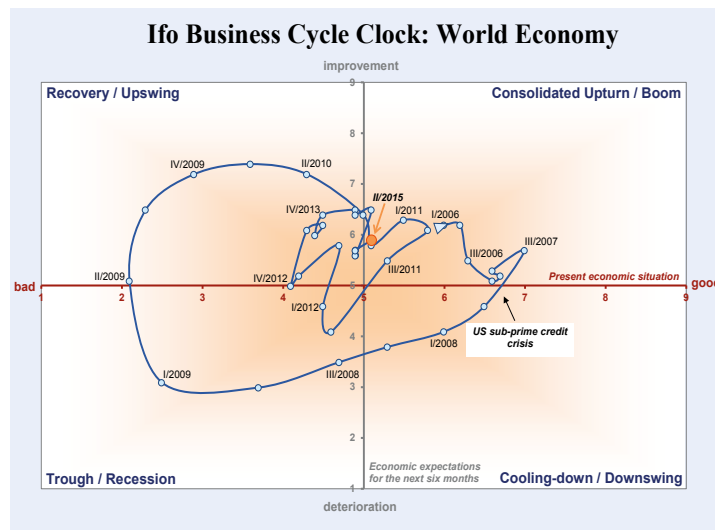


**Box 1**

**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 April survey, the Ifo Indicator for the World Economy improved slightly. Assessments of both the current economic situation and economic expectations were brighter than at the beginning of 2015. As a result, the indicator moved right in the “consolidated upturn”-quadrant. After last quarter’s standstill, the global economy is regaining some momentum.



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

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

in 2015, the contractive effects generated by it are expected to be smaller than last year. Many advanced economies have recently relaxed their fiscal policy stance as a result, because the interest burden on public budgets has fallen.

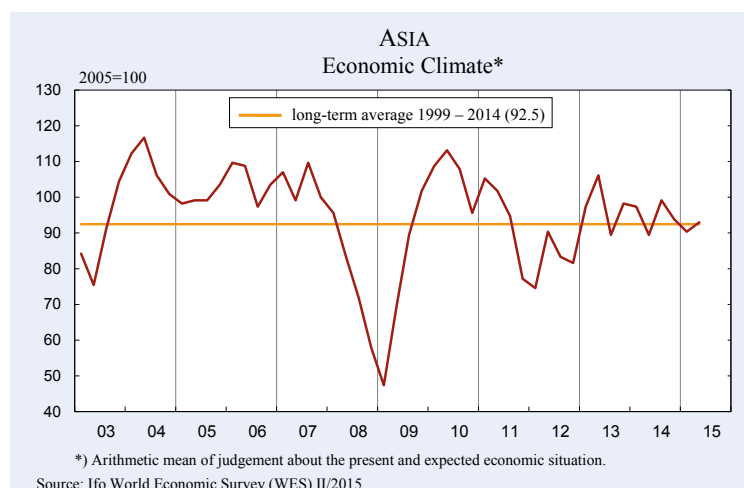
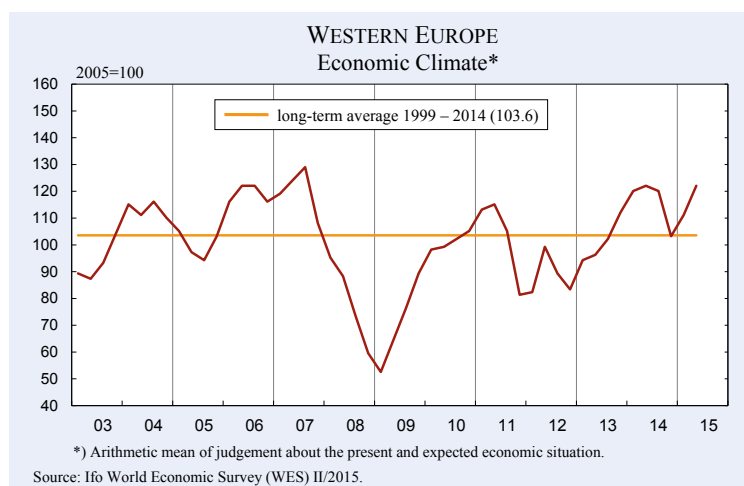
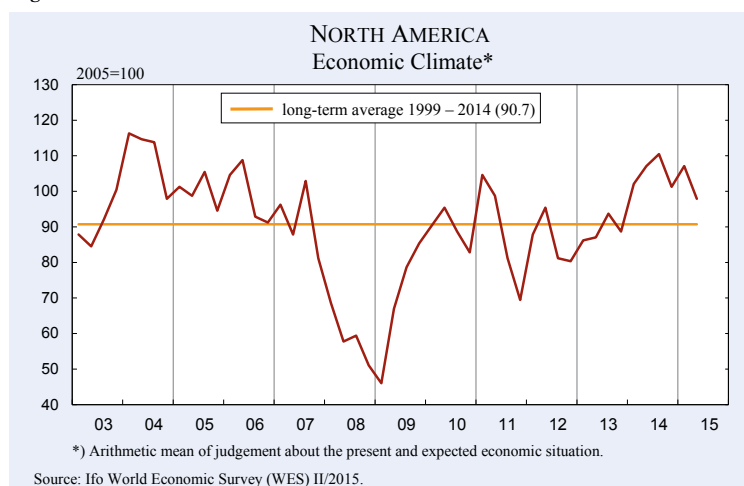
The small upward trend in the World Economic Climate was due to the significant improvement in the situation and expectations in *Europe*; and especially in *Eastern Europe*. In *Asia* the economic climate brightened slightly and the indicator returned to its long-term average. While the outlook brightened again in *China*, the current situation deteriorated somewhat. In *India* it was the other way round. In *North America*, the indicator fell by almost ten points, but remained way above its long-term

average. In the *CIS* states the economic climate recovered somewhat to reach 53.8 points, but remained well below its long-term average of 88.1 points. In the *Near East* and *Latin America* the indicator continued to decline, falling to its lowest level in almost six years. According to assessments by WES experts, economic growth in *Europe* (1.7 percent) and the *USA* (2.7 percent) will accelerate this year. The forecast growth rates for *Latin America* (1.3 percent) and *Asia* (3.6 percent), by contrast, are lower than last year’s figures. Experts expect *Russia* and the *Ukraine* to be hit by a deep recession.

Given the survey results and the current general conditions the world economy is expected to continue to pick up over the rest of this year. The oil price will support the world economy as a whole, as it will lead to a redistribution of income from oil-producing to oil-importing economies. In the latter a large share of national income will be spent on consumption or investment. In addition, the export business in *euro area* countries and in *Japan* will be stimulated by the drop in the exchange rate against the US dollar. Overall, the economy, especially in advanced economies,

is expected to gain impetus this year. Production in emerging countries will be stimulated with a time-lag by the economic upturn in advanced countries. Oil-importing countries stand to benefit from the sharp decrease in oil prices. However, this is not expected to lead to a strong upturn in economic activity in the average of all emerging countries. Countries with high commodity exports, especially in *Latin America*, have been suffering from the downturn in commodity prices. Domestic economic problems are also widespread. The *Chinese* economy, for instance, is currently suffering from a drop in real-estate prices. Dampening effects are expected to gain impetus in advanced economies later on in the forecasting period. Monetary policy in the *USA* and in the *United Kingdom* will be less expansive,

**Figure 3**



which will have a dampening effect on the domestic economies of both countries and is expected to trigger an increase in capital market interest rates in other countries due to the international interest system. The emerging economies will also be affected by this development.

There are a series of risks to world economic development over the forecasting period. The impact of the interest rate turnaround in the *USA* on asset prices in industrialised countries, as well as on capital flows in key emerging economies, remains uncertain. The economic situation in *China* also presents risks. The significant downturn in real-estate prices in *China* is placing a heavy burden on the financial sector, especially in view of the fact that *Chinese* companies and regional authorities have high debts. Conflicts between *Russia* and the *Ukraine* and in the Arab world could escalate at any time. In this scenario oil prices could rise fast, or uncertainty could grow in the financial markets. *Greece's* renewed financial problems also pose a serious threat to *Europe's* economy.

### Western Europe: Clear upturn in the economy

The economic climate index for *Western Europe* rose further to 122.1, from 111.2 at the beginning of 2015, making up for downturns seen in the past twelve months. The index clearly exceeded its long-term average of 103.6 (1999-2014, see Figure 3). There were substantial upwards revisions to assessments of the present economic situation, taking them into satisfactory territory this quarter. Economic expectations were also more positive (see Figure 4). A similar pattern was seen in the *euro area*, where the upturn was even more pronounced and resulted in the indicator reaching its highest value since the onset of the global financial crisis. At 129.2, the indicator is way above its 16-year average of 106.1 and is currently at an 8-year high. For the first time in over four years, the present economic situation in the *euro area* reached a satisfactory level once again, according to WES experts. Economic expectations for the next six months were

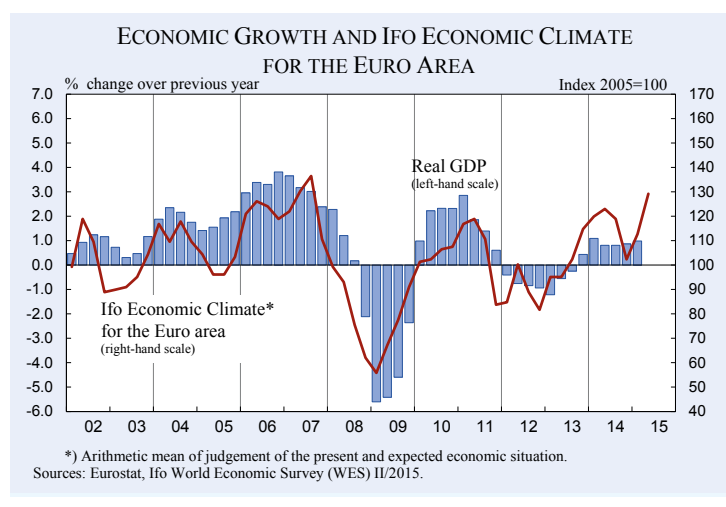


## Box 2

### 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 April results are based on responses from 298 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 sharply to 129.2 points in the second quarter of 2015 from 112.7 points last quarter. The index rose to a level last seen prior to the outbreak of the world financial crisis and significantly above its long-term average of 106.1 points. Both assessments of the current economic situation and the six-month economic outlook brightened considerably. According to the experts surveyed, economic growth will amount to 1.5 percent this year. The euro area's economy is experiencing a clear upturn. The main contribution to the favourable economic situation came from Germany. However, there were also gradual improvements in the other three large euro countries – France, Italy and Spain – where assessments nevertheless remained in the negative range. Assessments of the economic situation in Greece, Ireland, Austria and Portugal, by contrast, were more unfavourable than previously. In all other member states assessments remained positive on the whole, despite isolated downward revisions. The experts surveyed expressed growing optimism about the six-month economic outlook in most countries. Positive expectations only clouded over slightly in Finland, Italy and Spain. Scepticism on the part of experts in Greece reached levels last seen three years ago. Experts forecast an average inflation rate of 0.6 percent in the euro area in 2015. Consumer prices are only expected to fall in Greece and Cyprus. Mid-term (2020) inflation expectations for most euro countries are 2 percent.



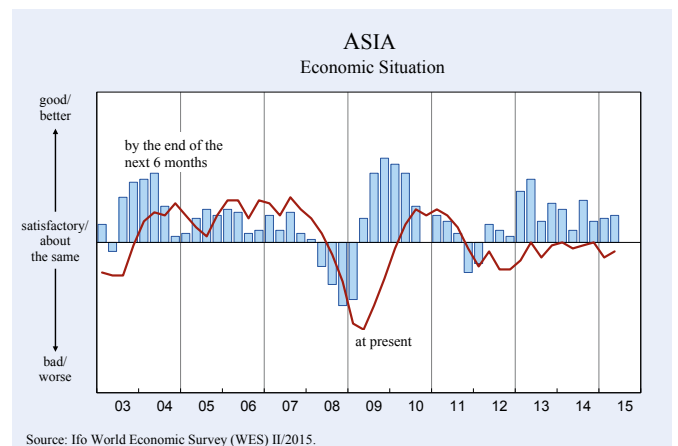
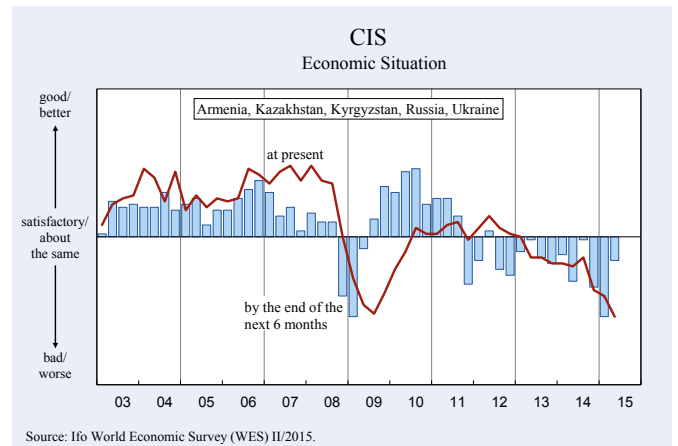
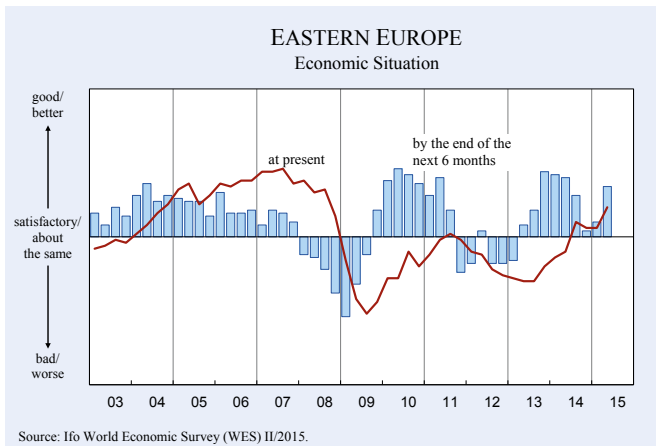
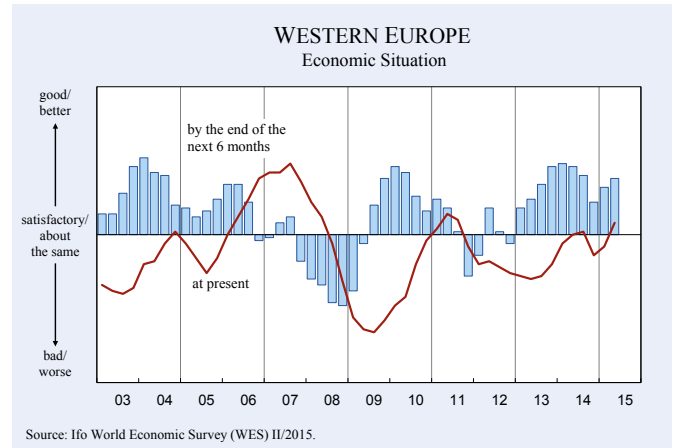
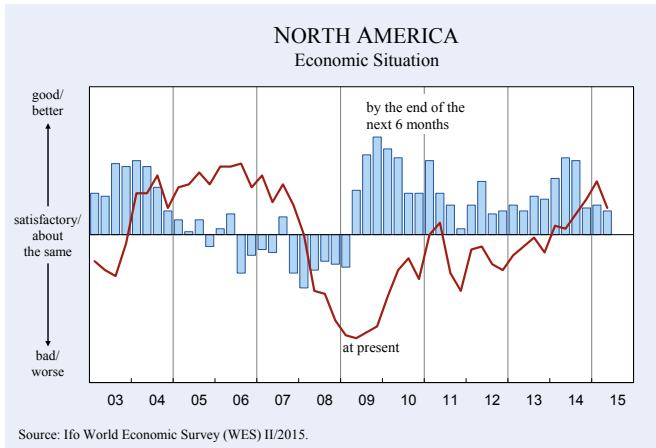
also clearly more optimistic than in previous surveys. Thanks to the falling euro exchange rate, stronger impulses from exports are expected. Most of the upbeat dynamic came from euro area heavyweight Germany. Here both components of the economic climate developed very positively. However, the present economic situation of the other three largest member countries, France, Italy and Spain, also continued to improve, although it remains far below a satisfactory level (see Figures 5a and 5b). As far as economic developments over the next six months are concerned, WES experts in France expressed far greater optimism. In Italy and

months. In Belgium, Luxembourg, Netherlands and Slovenia the economic climate improved thanks to a major upwards revision of assessments of the present economic situation, which turned “satisfactory”. Economic expectations in these countries were also more optimistic than in the previous survey. The economies of Estonia, Latvia and Slovakia continued to perform satisfactorily, albeit to a somewhat lesser degree than last quarter, according to WES experts. However, as far as the six-month economic outlook is concerned, opposing developments remain. While the economic situation in Estonia and Slovakia is expected to improve

Spain, optimistic expectations were scaled back slightly. All of these countries continued to face high unemployment and public deficits (see Table 1). In addition to these problems, Greece and Portugal are also burdened by foreign debt and capital shortages. In both countries, the present economic situation deteriorated compared to the previous survey, according to the experts surveyed. While WES experts for Portugal expect some improvements in the months ahead, experts in Greece expressed greater caution about the future. In Ireland, the satisfactory assessments of the present economic situation seen in the WES results for the first quarter were short-lived. The current economic situation deteriorated in the second quarter and once again fell below the satisfactory line. By contrast, expectations continue to signal that some improvements are likely over the next six months. The economic situation in Austria, Finland and Cyprus remained below the satisfactory line. Compared to the previous survey, the present situation got worse in Austria. Despite a slightly brightening in economic expectations, there are still no signs of any major improvements over the next six months. In Finland and Cyprus, on the other hand, WES experts remain optimistic about economic developments over the next six

**Figure 4**

**SELECTED REGIONS**



in the months ahead, caution continues to prevail among experts in *Latvia*. Behind *Germany*, the next best economic performance in the *euro area* was reported to be *Lithuania*, which introduced the euro currency at the beginning of 2015. Economic expectations brightened clearly and stand at a high level.

Outside the *euro area* the general economic situation appears friendlier than in the countries of the currency union. The strongest upwards revision in assessments of the current economic situation was seen in *Denmark*, where assessments moved above the satisfactory marker for the first time in over seven years. WES experts also expressed optimism about the six-month economic outlook. In *Monaco*, *Norway*, *Sweden* and the *United Kingdom* the present economic situation was again assessed as favourable. However, with regard to the next six months, WES experts in these countries are less positive than in the previous survey. In *Norway*, experts remain sceptical and expect the situation to cloud over in the coming months. The strongest downwards revision was seen in *Switzerland*, where assessments of the present economic situation also fell below the satisfactory line. Economic expectations reached their most pessimistic value in over three years. Experts pointed out that the strong foreign exchange rate is inhibiting the export sector and undermining international competitiveness. With an estimated average inflation rate of -0.7 for 2015, deflationary trends also pose a threat to the economy.

#### North America: Soft patch in economic activity

The economic climate indicator for *North America* fell from 107.1 in the first quarter of 2015 to 97.9 this quarter, but nevertheless remains above its 16-year average of 90.7. The decline in the climate indicator was mainly driven by less favourable assessments of the present economic situation. Economic expectations were only slightly less positive than in January (see Figures 3 and 4). This pattern holds particularly true for the *US*, where the problem of high unemployment, which ranked top in previous surveys, faded into the background. Instead, WES experts cited public deficits and a lack of confidence in the government's economic policy as the most urgent issues at the moment. In addition to "public deficits" WES experts in *Canada* cited "insufficient demand" as one of the most important economic problems at present. The low oil price may also negatively impact *Canada's* economy (see Figure 14). Assessments of the present economic situation worsened considerably compared to the survey in January, but remain "satisfactory" on the whole. Over the next six months, the economy is expected to stabilize at its current level, rather than to expand.

#### Eastern Europe: Economic climate indicator rises sharply

In *Eastern Europe* the economic climate index rose strongly to 101.0 from 85.9 index points in the previous survey, reaching its highest level in nearly eight years.

**Table 1** Ranks of the three most important economic problems

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

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

Assessments of both the present economic situation and economic expectations improved substantially (see Figures 4 and 7). The region's most important economic problems were once again identified as unemployment and a lack of confidence in the government's economic policy. But a lack of skilled labour and capital shortages were also cited as important economic obstacles (see Table 1).

Strong positive dynamics in the region's economic climate came especially from the *Czech Republic* and *Poland*. In both countries, the climate components – the present economic situation and economic expectations – are considerably more favourably than in January. The *Eastern European* countries that belong to the *euro area* (*Baltic States*, *Slovakia* and *Slovenia*) are also performing very well at present, and also boast a positive economic outlook. *Latvia* is an exception to this rule, as WES experts there remain sceptical with regard to economic developments in the months ahead. Despite some slight improvements compared to the survey at the beginning of 2015, the economic situation in *Hungary* and *Bulgaria* remained below the satisfactory line, according to experts surveyed. In *Romania* the economic situation is also unfavourable. While survey participants in *Hungary* and *Romania* expressed little confidence in their respective government's economic policy, WES experts in *Bulgaria* regard insufficient demand as the most important economic obstacle at present. *Bulgarian* and *Romanian* experts are clearly more optimistic about the next six months. In *Hungary*, economic sentiment brightened strongly and there are no signals of any further deterioration in economic conditions in the months ahead. In *Croatia* no major changes for the better were recorded: The present economic situation remains weak, according to the economic experts surveyed. In turn, economic expectations continued to brighten somewhat and signal some easing of currently weak economic conditions in the months ahead.

In *Albania* and *Kosovo*, 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. There was no positive news from *Bosnia and Herzegovina* concerning the current economic situation, which is still weak and is expected to remain so in the months ahead. In *Macedonia* and *Serbia*, the present economic situation deteriorated compared to January's survey and was assessed as unfavourable. In terms of economic developments over the next six months, divergent trends emerged in the respective country: while WES experts in *Macedonia* expect

the situation to deteriorate further, they expressed greater confidence and expect some positive changes in *Serbia*.

### **CIS: Few glimmers of hope as economic situation remains weak**

The economic climate indicator for the *CIS* countries covered by WES (*Russia*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan*, *Uzbekistan* and *Armenia*) recovered slightly from 43.9 to 53.8, but still remains far below its long-time average of 88.1. Assessments of the present economic situation deteriorated further, reaching their worst level in over six years. By contrast, economic expectations recovered slightly, although negative voices continued to prevail (see Figure 4). This pattern was particularly true for *Russia*, too. The most important economic problems faced by the country at present are “lack of international competitiveness”, “inflation” and “lack of confidence in government's economic policy”. But other factors like corruption, sanctions, low oil prices and capital flight were also cited as important obstacles to the economy. No positive news has been reported from the *Ukraine* either: all of the economic experts surveyed unanimously attested to their country's poor economic situation for the third time in succession. Economic expectations were upgraded compared to the previous survey, but no major improvements are expected within the next six months. For both countries – *Russia* and the *Ukraine* – WES experts expect a steep recession in 2015 (see Table 3). In *Kyrgyzstan* no positive changes were reported and appraisals of the economic situation were once again unfavourable. In *Kazakhstan*, assessments of the economic situation moved from satisfactory into unfavourable territory. In *Armenia*, the situation continued to deteriorate further. In all of these countries, economic expectations point to no substantial improvements in the months ahead and the situation is likely to remain unfavourable, according to WES experts.

### **Asia: Economic dynamics lose impetus**

The upturn in the economic climate index in *Asia* was only marginal and less than 3 index points. At 93.0 points, the indicator now once again lies around its long-term average of 92.5. Appraisals of both the present economic situation and economic expectations were slightly upgraded (see Figures 3, 4 and 8). A lack of skilled labour and missing confidence in the government's eco-

economic policy were again cited as the region's most important economic problems (see Table 1).

In *China*, the economic situation deteriorated further and was again assessed as unfavourable. Here, capital expenditure in particular was considered as weak. With regard to the next six months, WES experts turned more positive again, but still expect the economy to stabilise, rather than to expand. For *Japan*, some improvements compared to the previous survey were visible. Despite these upward corrections, assessments of the current economic situation were still unfavourable. The country's most important economic problems remained high public deficits and insufficient demand. On a brighter note, WES experts expressed more confidence in the six-month economic outlook than in January. The most pronounced positive upwards revisions in assessments of the present economic situation took place in *Bangladesh*, *Hong Kong* and *Indonesia*. But WES experts in *India* also rated the situation more favourably than in January. Economic expectations were slightly less positive than three months ago for *Bangladesh*, *India* and *Indonesia*. By contrast, WES experts in *Hong Kong* are no longer sceptical about the six-month economic outlook and their assessments turned positive. The best WES rating of the current economic situation in the region was once again received by the *Philippines*. In *Malaysia*, *Singapore*, *Sri Lanka*, *Taiwan* and *Vietnam* the present economic situation remained satisfactory. In most of these countries, the situation is also expected to remain at current good levels in the months ahead. An exception to this rule is *Malaysia*, where WES experts remained cautious about the six-month economic outlook. In *South Korea*, assessments of the present economic situation continued to deteriorate. Economic expectations for the next six months clearly clouded over and point to no substantial improvements in the months ahead. Economic performance remained weak for *Pakistan* and *Thailand*, despite visible improvements compared to January's survey. Economic expectations for the next six months remain fairly confident, signalling the chance of further improvements in the months ahead.

#### **Oceania: Economic outlook turns gloomy**

In *Oceania* the economic climate indicator tumbled by eleven index points to 80.5 (long-term average 101.6). While assessments of the present economic situation improved only marginally, economic expectations were clearly downgraded. This pattern was particularly true

for *Australia*. Here, the present economic situation remains in satisfactory territory. In turn, economic expectations are now dominated by pessimism. A lack of confidence in the government's economic policy, 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, a lack of international competitiveness and trade barriers to exports. According to WES experts, the economy is continuing to perform strongly at present, receiving the highest rating in about ten years. However, economic expectations were once again less positive than in the previous survey.

#### **Latin America: No economic recovery in sight**

The economic climate index for *Latin America* continued to decline for the fifth time in succession to 64.3 points, from 67.9 points in the previous quarter. The indicator now stands 26.7 index points below its long-term average (1999-2014: 91.0). While assessments of the present economic situation were somewhat less negative, the six-month economic outlook continued to deteriorate (see Figures 4 and 9). Low confidence in the government's economic policy, 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, while *Brazil*, *Mexico* and *Guatemala* are burdened by corruption

In *Brazil*, the economic climate indicator continued to fall. Assessments of the current situation, capital expenditure and private consumption remain fairly weak. WES experts are cautious about the six-month economic outlook and do not expect the situation to improve significantly. Recent corruption scandals weighed on economic sentiment. The only glimmer of hope was the export sector, which is expected to strengthen in the course of the next six months. In 2015 *Brazil* will experience negative growth of 0.9%, predicted WES experts (see Table 3). The present economic situation in *Mexico* and *Argentina* also remains unfavourable, despite some slight improvements compared to the survey in January. Although economic expectations for *Argentina* continued to brighten, on the whole there are no signs of major improvements in the months ahead. For *Mexico*, the economic outlook turned clearly negative. In *Venezuela* and *El Salvador* the present economic situation remains weak, according to WES experts. In *Venezuela*, the economic situation is expected to deteriorate further, as the

**Figure 5a**

## EUROPEAN UNION

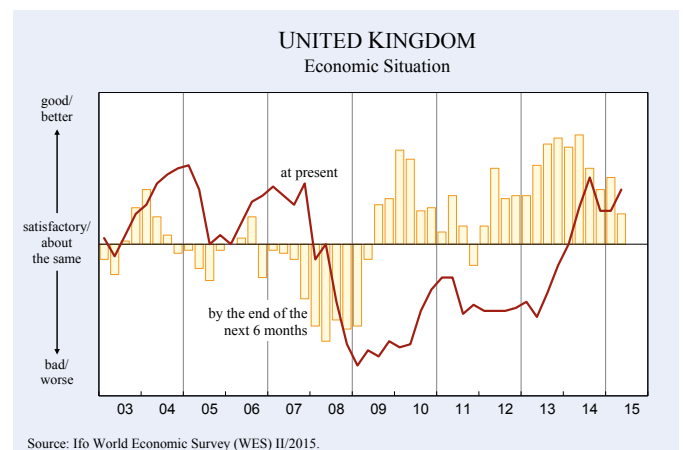
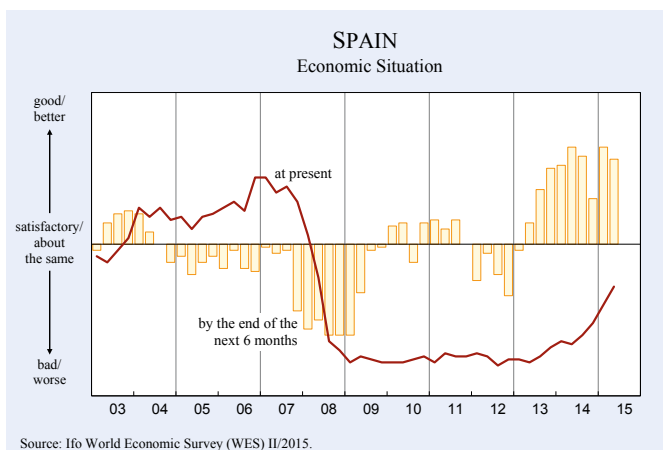
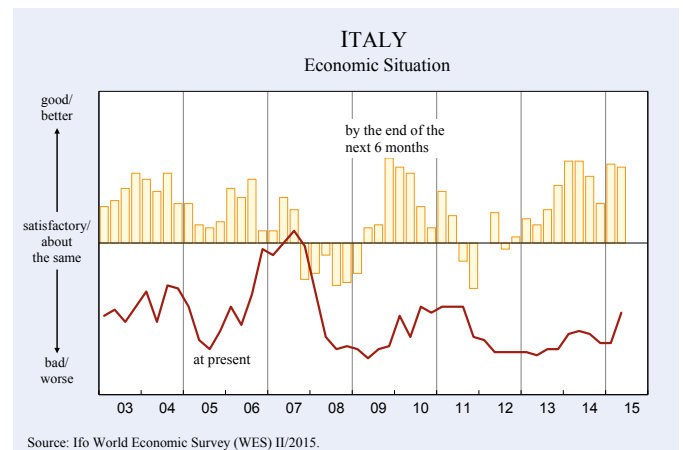
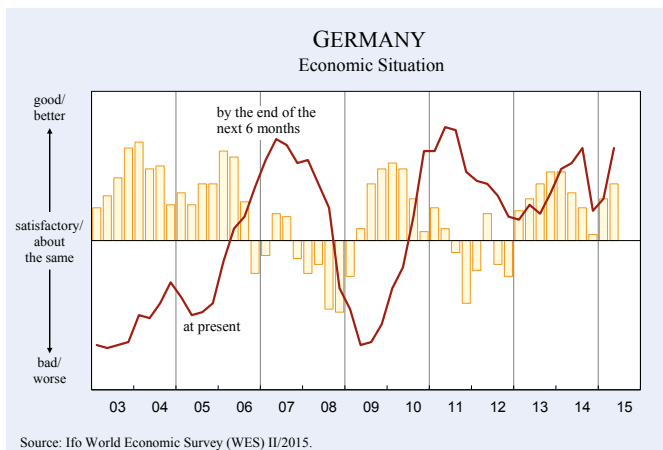
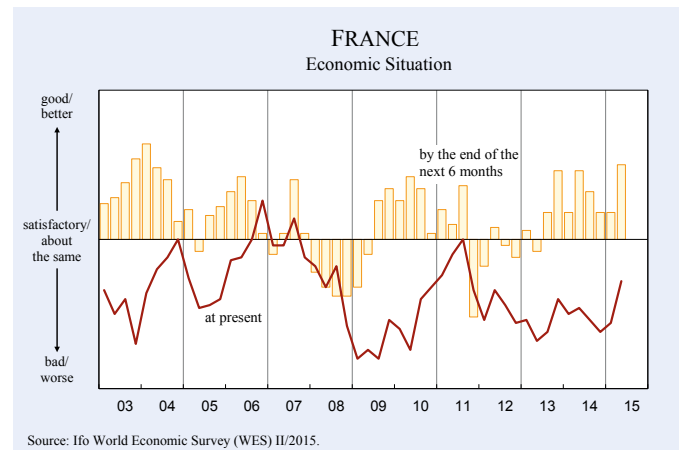
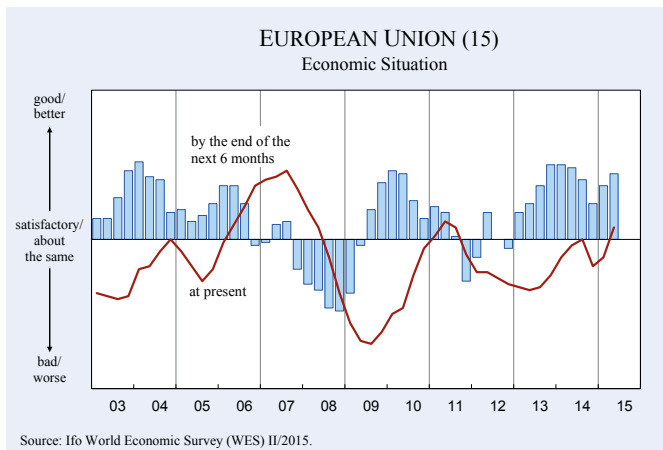
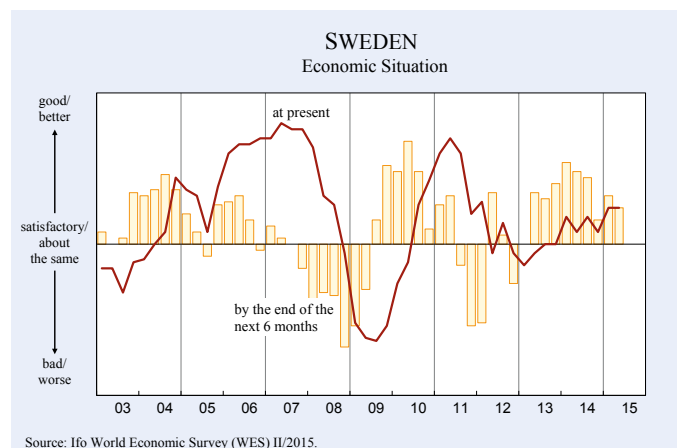
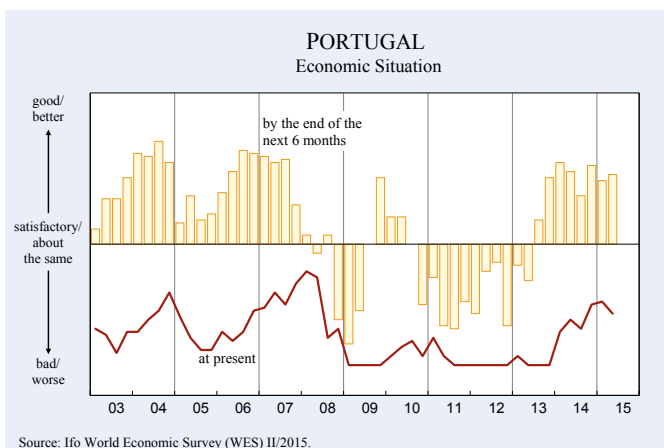
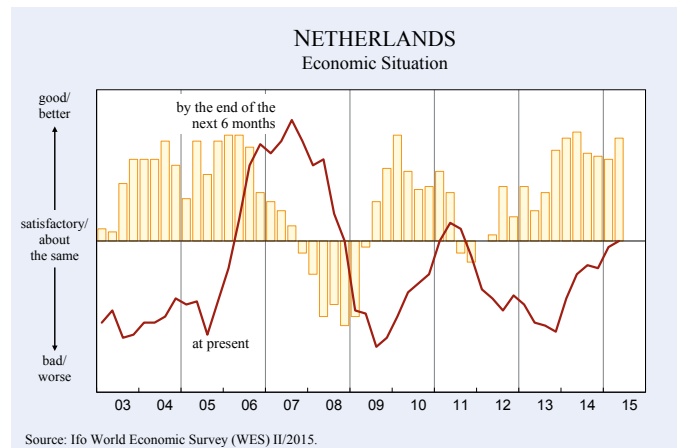
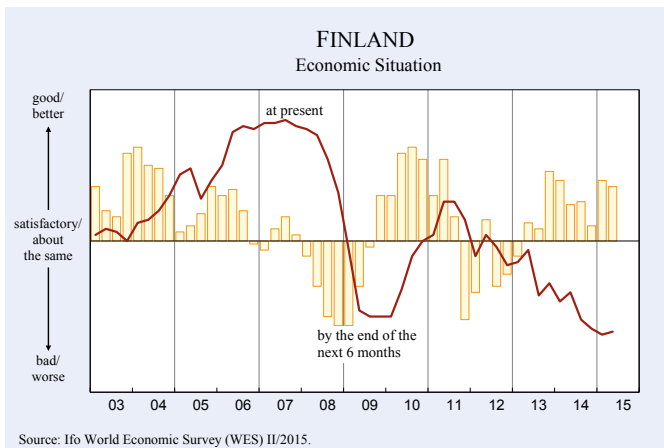
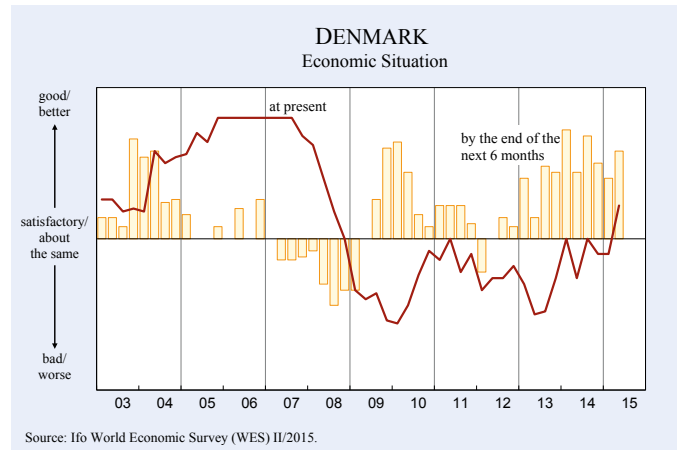
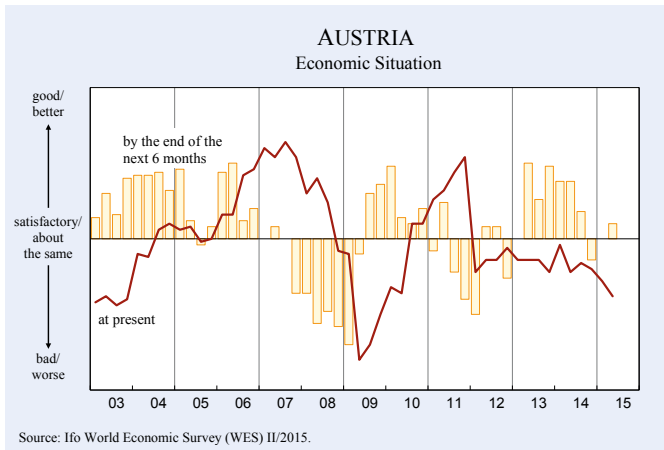


Figure 5b

# EUROPEAN UNION



**Figure 6**

## NORTH AMERICA, OCEANIA AND CIS

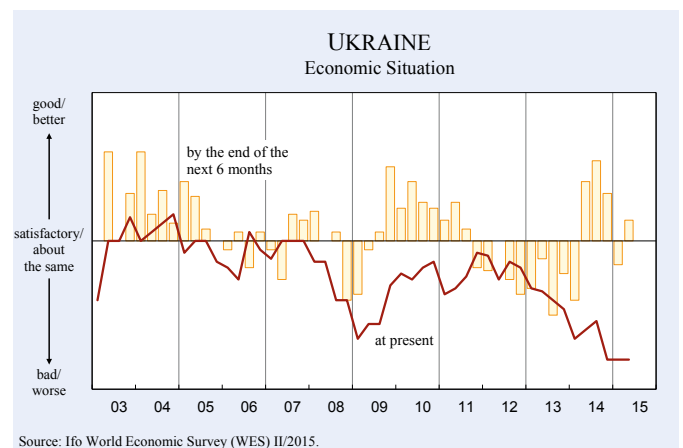
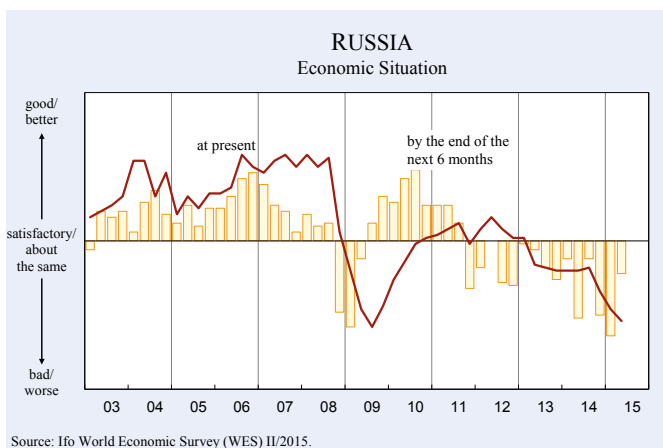
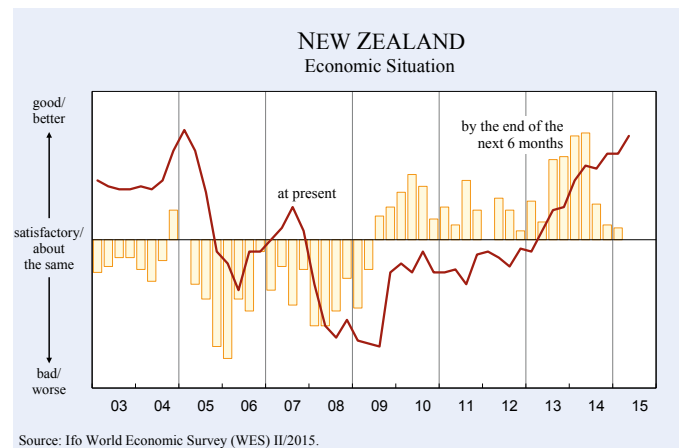
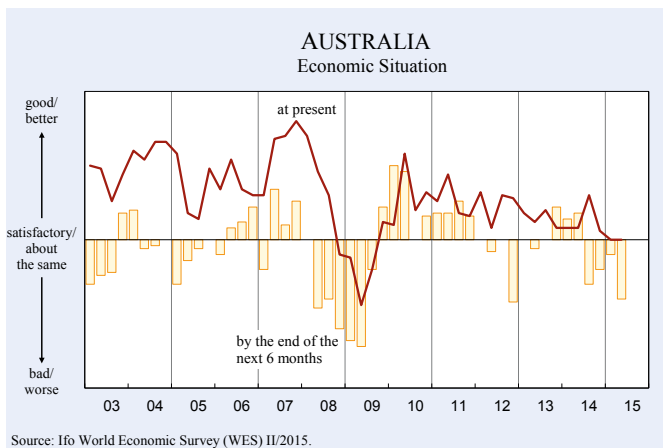
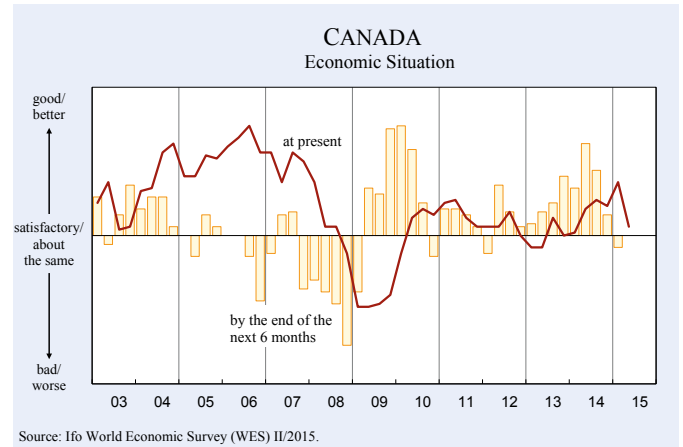
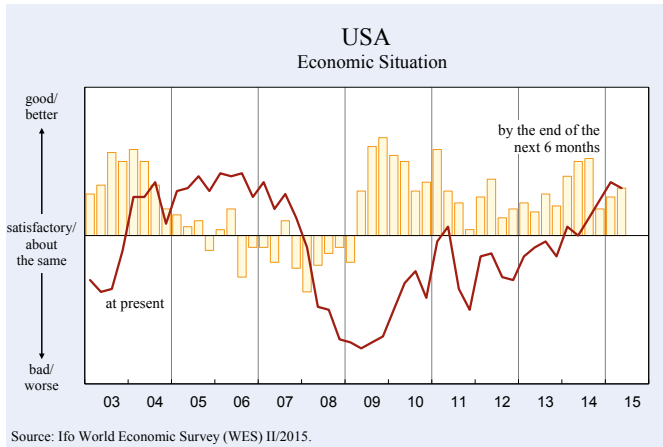
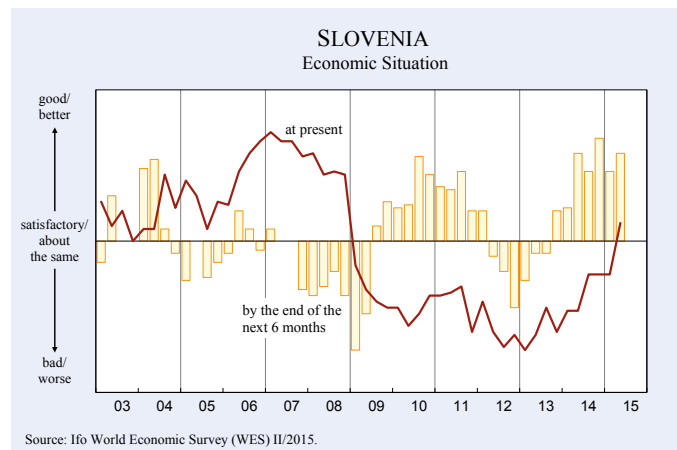
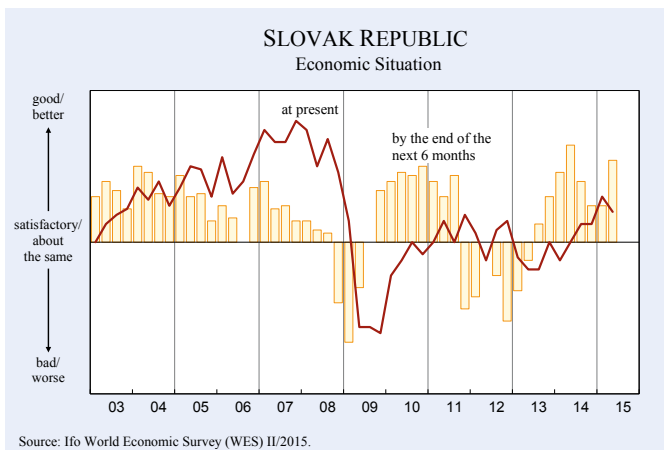
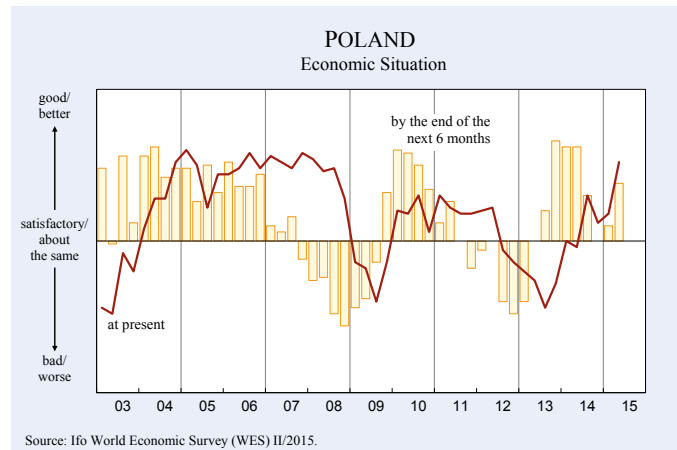
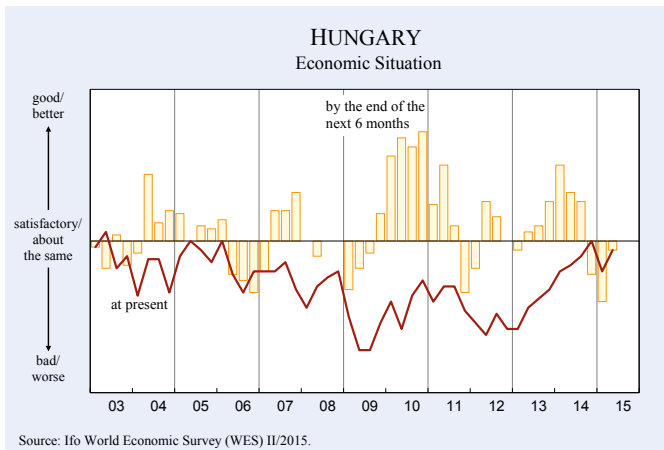
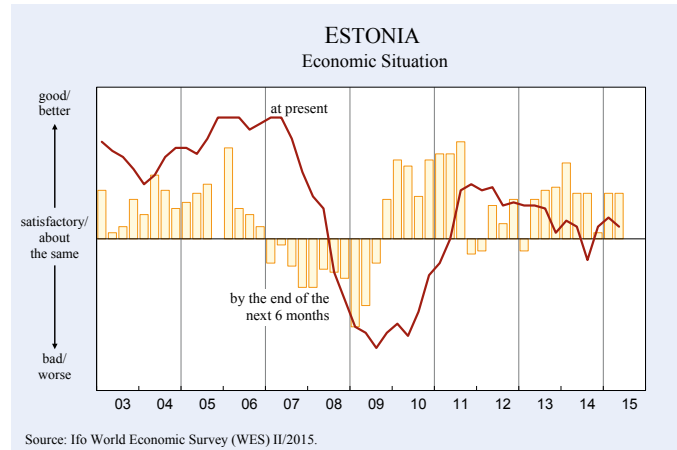
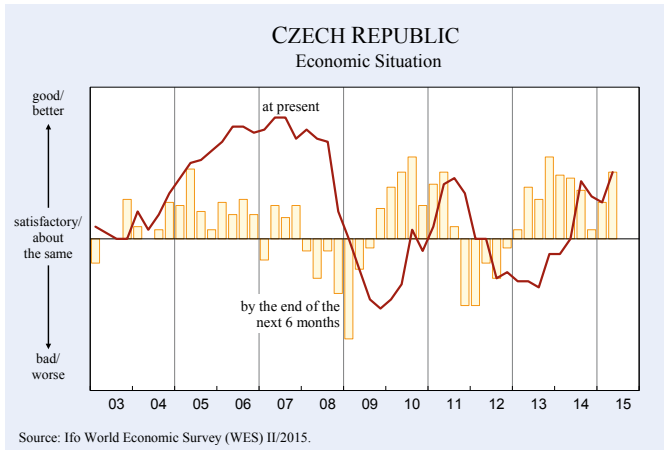




Figure 7

# EASTERN EUROPE



**Figure 8**

**ASIA**

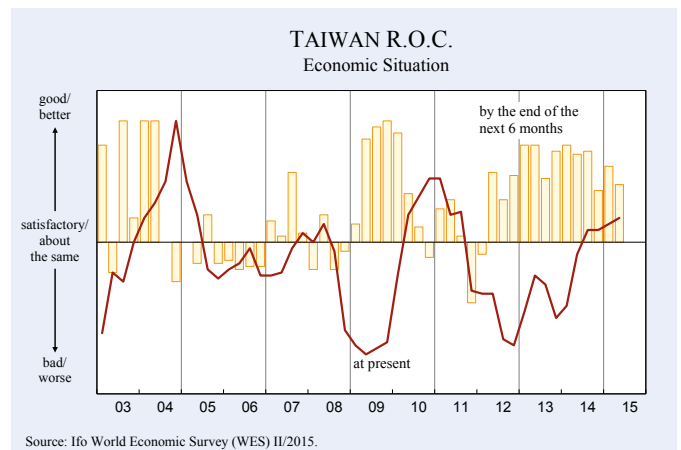
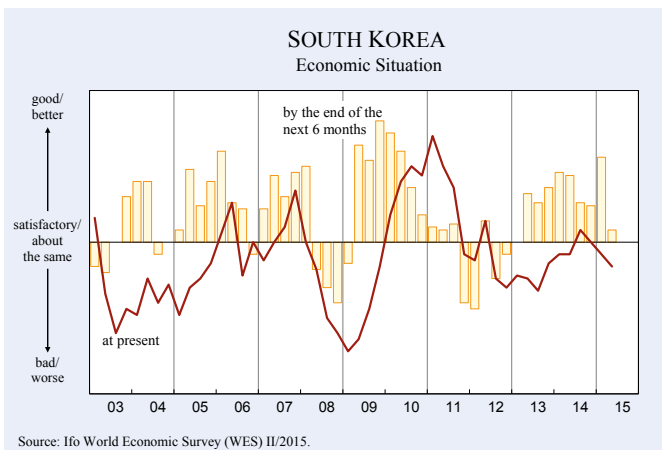
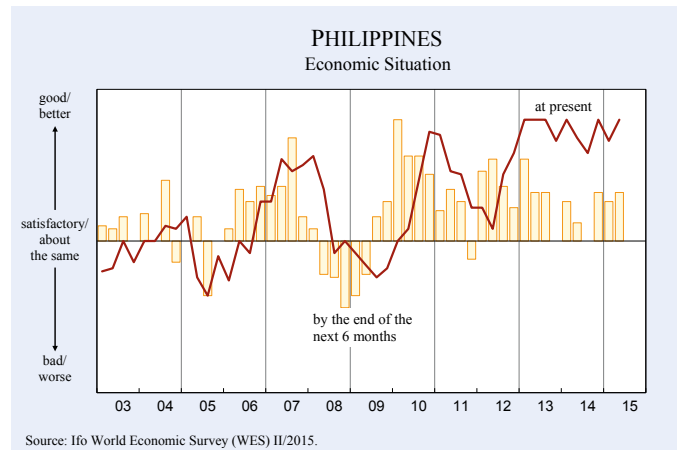
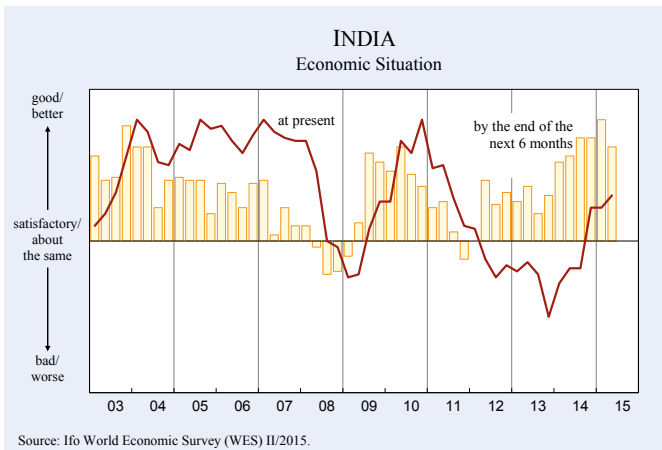
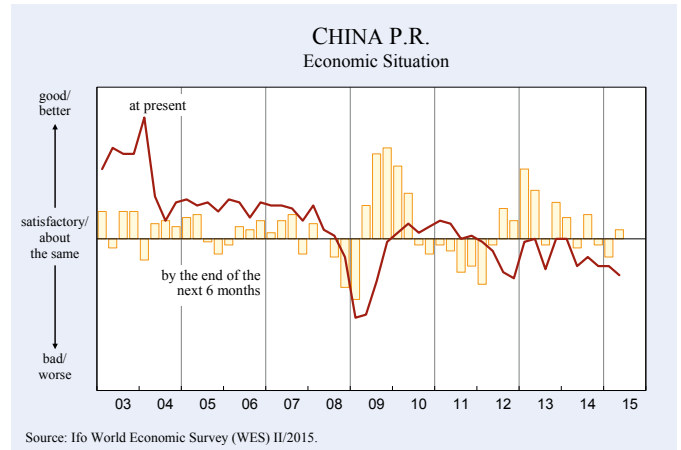
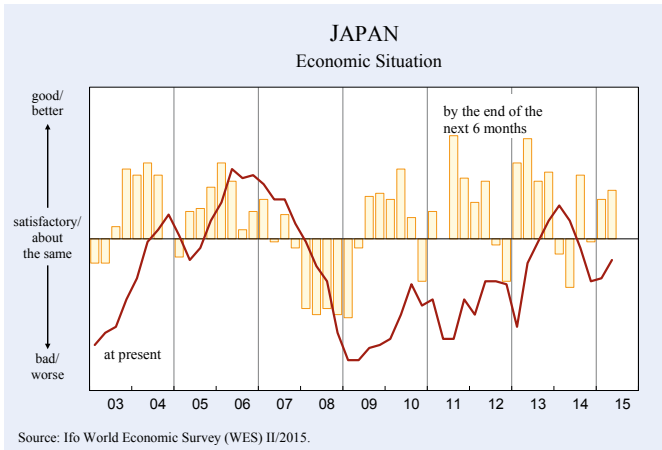
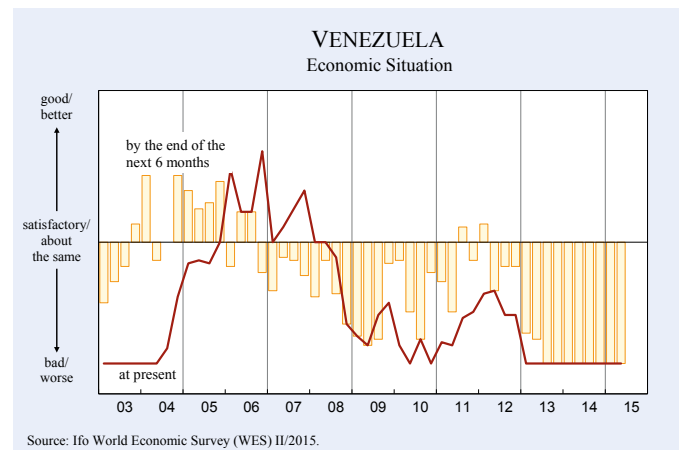
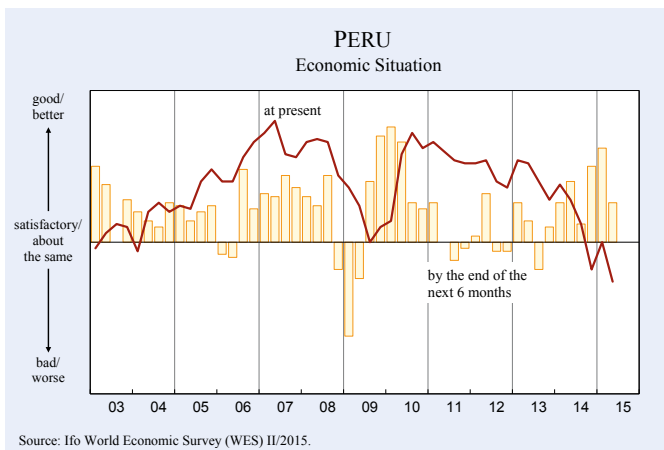
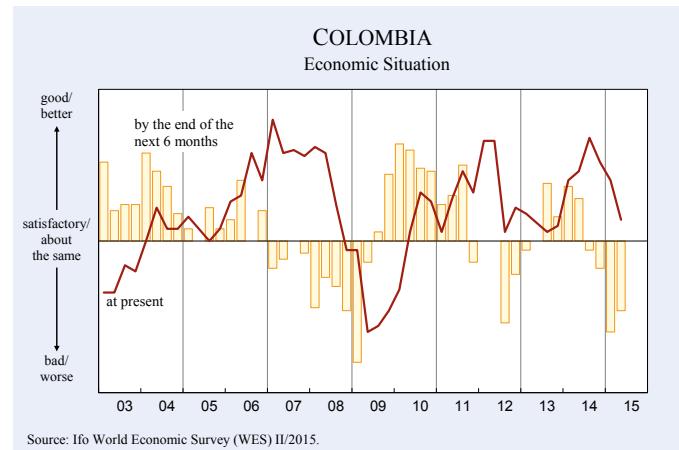
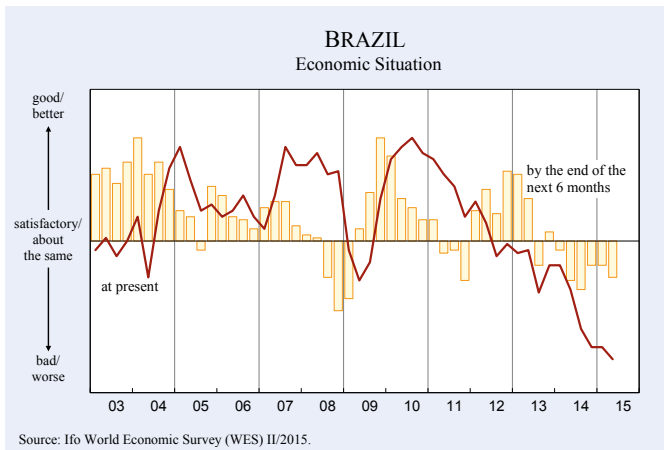
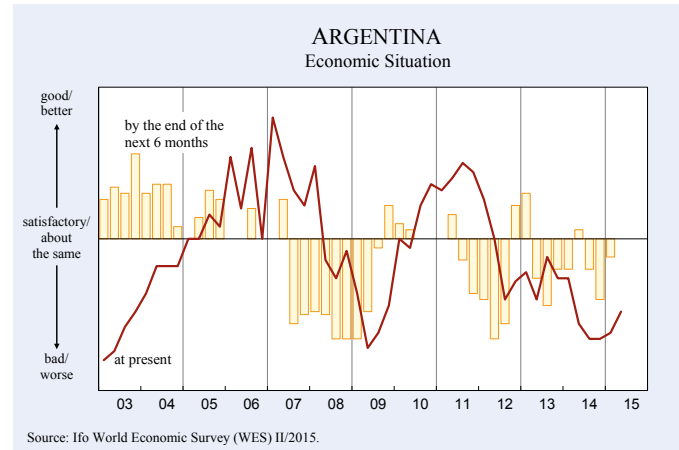
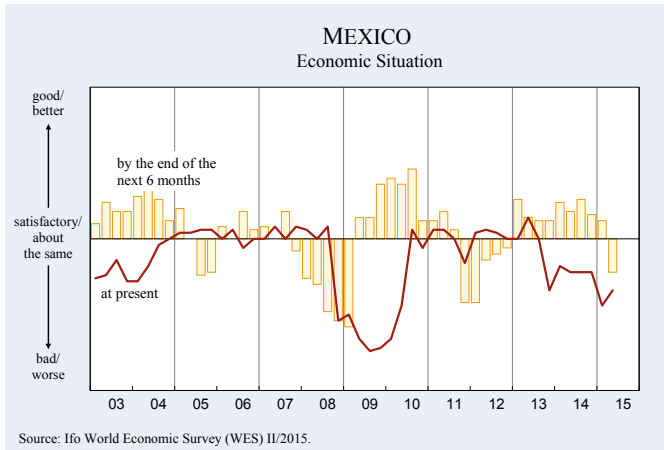


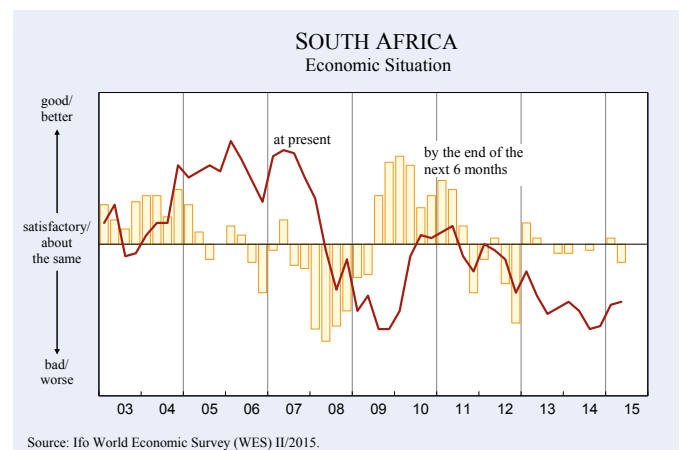
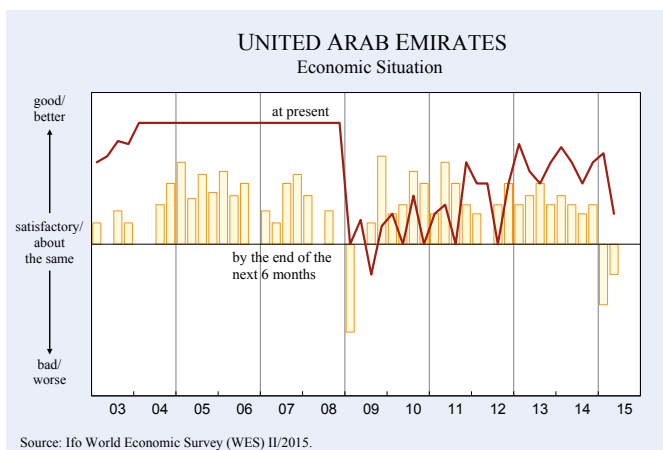
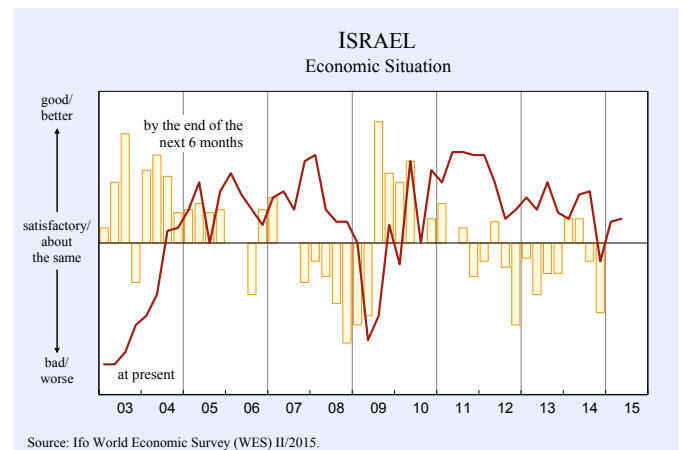
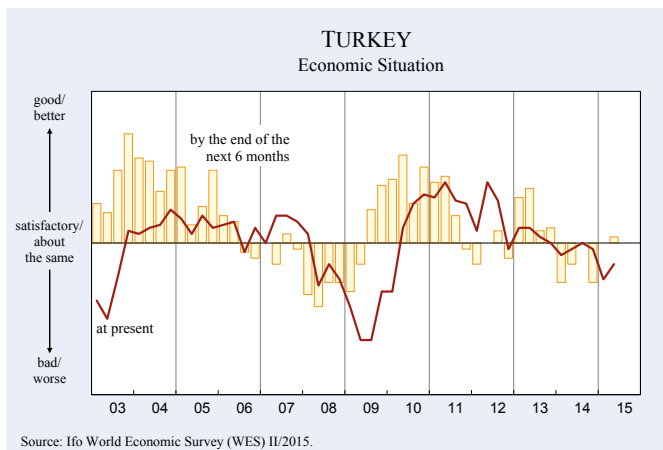
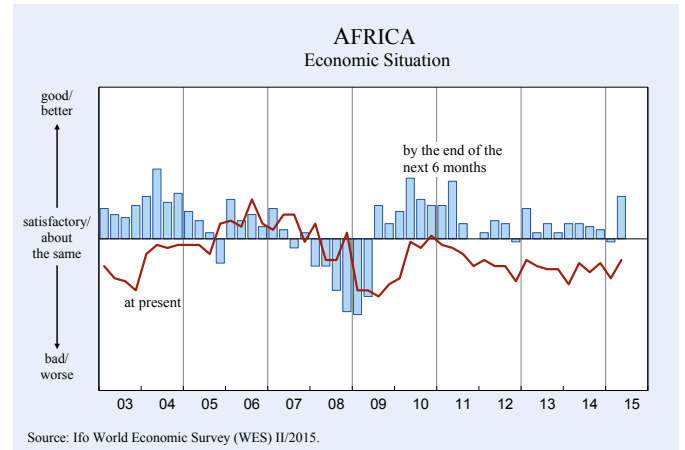
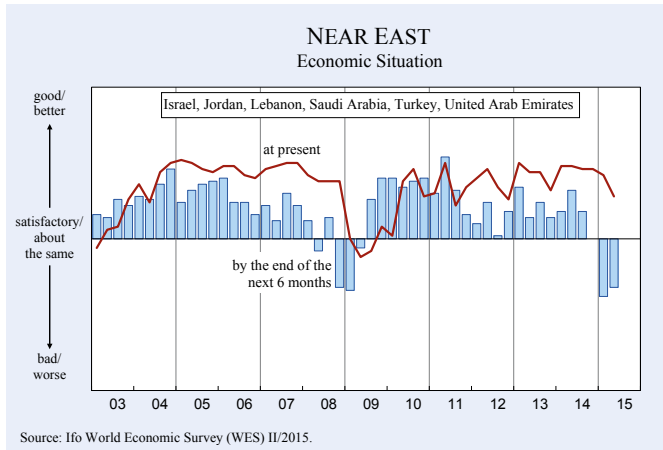
Figure 9

LATIN AMERICA



**Figure 10**

## NEAR EAST AND AFRICA



country struggles with lower revenues from the oil sector due to low oil prices. Currency depreciation is likely to continue in the months ahead, accompanied by an increasingly high stubborn inflation rate. In this survey, experts even expressed fear of hyperinflation and a steep recession (see Tables 2 and 3). Economic expectations were downgraded in *El Salvador*, but still remain positive for the months ahead. The strongest downward revision in appraisals of the present economic situation took place for *Ecuador*, which received its worst grading in five years. As far as the economic outlook is concerned, pessimism continued to dominate. The economic climate for *Peru* deteriorated considerably, with the present economic situation receiving predominantly negative appraisals. Economic expectations are also considerably less favourable than in January. Assessments of the economic situation for *Chile* are markedly less negative than in January. The situation seems to have bottomed out, as economic expectations continued to improve and reached their most optimistic point in almost four years. The current economic situations in *Bolivia* and *Colombia* were far less favourably assessed than in January. Negative voices continue to predominate in terms of the economic outlook and the situation in both countries is likely to continue to deteriorate in the months ahead. The situation in *Costa Rica*, the *Dominican Republic*, *Paraguay* and *Uruguay* barely changed and these economies continue to perform satisfactorily, according to WES experts. However in *Guatemala*, the experts surveyed stated that capital expenditure is particularly weak at present. In all of these countries, the current good situation is likely to consolidate in the months ahead; except for in *Uruguay*, where WES experts remain sceptical about the six-month outlook.

#### **Near East: Economic climate cools to six-year low**

The decline in the economic climate indicator for the *Near East* was less pronounced than in the previous survey, but nevertheless resulted in the lowest value seen in six years (69.9, long-term average: 87.8). The present economic situation was assessed less favourably than in previous surveys and the economic outlook remains over-clouded (see Figure 10). Unemployment was ranked as the most important economic problem, followed by public deficits. 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 remain pessimistic

and expect the situation to deteriorate in the months ahead. In *Lebanon* and *Jordan* WES experts continued to report good present economic conditions and expect them to prevail in the months ahead. The present economic situation in *Turkey* recovered slightly, but negative voices retained the upper hand on the whole. Capital expenditure is considered to be the economy's main weakness at present. Economic expectations continued to improve, but nevertheless do not signal major changes for the better in the months ahead.

#### **Africa: Diverging economic trends**

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*. "Unemployment" was nevertheless cited as the most frequently encountered economic problem in both parts of *Africa*. In *Northern African* countries, a lack of skilled labour was also cited as a key problem, while in *Sub-Saharan* economies a lack of confidence in the government's economic policy and poor international competitiveness rank high.

The economic climate for *Northern Africa*, which includes *Algeria*, *Egypt*, *Morocco* and *Tunisia*, improved strongly due to more positive assessments of both the present economic situation and the economic outlook. In all of these countries, appraisals of the current economic situation brightened considerably compared to January's survey. While for *Algeria* and *Morocco* the present economic situation was assessed as satisfactory, it remained unfavourable in *Egypt* and *Tunisia*, despite the visible improvements. Economic expectations were strongly upwardly revised for *Algeria* and *Egypt*, and signal further progress in economic recovery in the course of the next six months. Assessments of the economic outlook for *Morocco* and *Tunisia* were slightly less positive than three months ago.

The economic climate indicator for *South Africa* deteriorated again, due to significantly downwardly revised economic expectations, which signal scepticism for the next six months. The present economic situation was once again assessed as unfavourable (see Figure 10). In *Benin*, *Congo Democratic Republic*, *Ethiopia*, *Gambia*, *Kenya*, *Malawi*, *Mauritania*, *Mauritius* and *Senegal* the current economic situation was assessed as satisfactory.

**Table 2 Inflation rate expectations for 2015 and in 5 years (2020)**

Region	2015	2020	Region	2015	2020
<b>Average of countries *</b>	<b>3.0</b>	<b>3.0</b>	<b>Latin America</b>	<b>13.0</b>	<b>5.5</b>
High-income countries	1.6	2.4	Argentina	30.2	9.6
Middle-income countries	7.7	14.8	Bolivia	5.5	7.8
Upper-middle	8.0	19.7	Brazil	7.9	4.9
Lower-middle	7.3	5.7	Chile	3.9	3.1
Low-income countries	5.7	6.3	Colombia	3.7	3.2
EU 28 countries	0.6	2.0	Costa Rica	(4.6)	(5.5)
EU countries (old members) <sup>a)</sup>	0.6	2.0	Dominican Republic	2.8	4.0
EU countries (new members) <sup>b)</sup>	0.7	2.3	Ecuador	4.3	3.0
Euro area <sup>c)</sup>	0.6	2.0	El Salvador	1.0	2.8
			Guatemala	3.3	4.1
<b>Western Europe</b>	<b>0.6</b>	<b>2.0</b>	Mexico	4.0	3.7
Austria	1.2	2.2	Paraguay	4.3	4.3
Belgium	0.3	1.8	Peru	2.9	2.4
Cyprus	-0.2	2.0	Trinidad and Tobago	4.0	9.0
Denmark	1.0	2.1	Uruguay	8.0	7.0
Finland	0.7	2.0	Venezuela	106.6	60.0
France	0.2	1.9			
Germany	0.7	2.0	<b>North America</b>	<b>1.4</b>	<b>2.4</b>
Greece	-0.6	1.9	Canada	1.5	2.3
Ireland	0.6	2.2	United States	1.4	2.4
Italy	0.4	1.9			
Luxembourg	0.9	1.9	<b>Oceania</b>	<b>1.9</b>	<b>2.8</b>
Monaco	1.0	1.8	Australia	2.0	2.9
Netherlands	1.1	1.9	New Zealand	1.3	2.3
Norway	2.1	2.3			
Portugal	0.2	1.6	<b>Near East</b>	<b>4.1</b>	<b>4.2</b>
Spain	0.3	2.2	Israel	1.2	2.5
Sweden	0.4	2.4	Jordan	(3.0)	(6.0)
Switzerland	-0.7	0.7	Lebanon	3.0	4.5
United Kingdom	0.7	2.2	Saudi Arabia	(3.0)	(3.0)
			Turkey	8.0	6.3
			United Arab Emirates	3.6	4.4
<b>Eastern Europe</b>	<b>0.8</b>	<b>2.4</b>			
Albania	2.3	(3.0)	<b>Africa</b>	<b>7.0</b>	<b>6.3</b>
Bosnia and Herzegovina	0.4	2.7	<b>Northern Africa</b>	<b>6.3</b>	<b>5.2</b>
Bulgaria	0.5	3.0	Algeria	4.7	4.2
Croatia	0.7	2.1	Egypt	12.0	8.7
Czech Republic	0.7	2.0	Morocco	2.3	2.8
Estonia	0.7	2.8	Tunisia	4.9	4.0
Hungary	1.0	3.0	<b>Sub-Saharan Africa</b>	<b>7.5</b>	<b>6.9</b>
Kosovo	0.9	1.8	Angola	(7.9)	(8.0)
Latvia	1.5	2.9	Benin	2.5	3.5
Lithuania	0.5	2.3	Burundi	(28.0)	(6.5)
Macedonia	-0.3	1.8	Cabo Verde	1.4	2.6
Poland	0.2	2.1	Congo Dem. Rep.	1.6	8.1
Romania	2.3	2.1	Congo-Brazzaville Rep.	2.7	2.9
Serbia	(5.0)	(4.0)	Ethiopia	(9.0)	(15.0)
Slovakia	0.6	2.5	Gabon	(5.0)	(3.5)
Slovenia	0.4	2.5	Gambia	(9.0)	(6.0)
			Ivory Coast	3.4	3.3
<b>CIS</b>	<b>15.0</b>	<b>6.3</b>	Kenya	6.4	6.5
Armenia	8.0	18.0	Lesotho	4.7	5.0
Kazakhstan	7.3	4.8	Liberia	(8.0)	(5.0)
Kyrgyzstan	10.5	6.5	Madagascar	7.3	6.9
Russia	15.0	6.4	Malawi	(25.0)	12.0
Ukraine	23.7	7.2	Mauritania	7.5	5.1
			Mauritius	3.9	4.4
<b>Asia</b>	<b>2.7</b>	<b>3.1</b>	Namibia	4.4	6.0
Bangladesh	6.5	6.9	Niger	2.7	3.1
China	2.2	3.0	Nigeria	10.8	9.0
Hong Kong	3.6	3.8	Senegal	(1.4)	(1.3)
India	5.8	4.7	Sierra Leone	8.2	5.7
Indonesia	5.7	4.7	South Africa	5.4	5.9
Japan	0.7	1.4	Sudan	32.5	20.0
Malaysia	4.0	3.9	Swaziland	5.6	6.8
Pakistan	7.6	7.6	Tanzania	(9.0)	(7.0)
Philippines	2.9	4.5	Togo	2.1	3.5
Singapore	(1.0)	(2.0)	Uganda	3.8	4.0
South Korea	1.6	2.7	Zambia	8.2	7.3
Sri Lanka	5.8	5.5	Zimbabwe	0.8	3.3
Taiwan	0.7	1.6			
Thailand	1.5	2.6			
Vietnam	6.6	6.8			

\* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. – ( ) The data in brackets result from few responses. –<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) II/2015.

In all of these countries, current economic performance is expected to remain good, despite some occasional, slight downwards revisions of expectations. In *Congo-Brazzaville* and *Ivory Coast* a favourable economic situation continued to prevail, including a positive economic outlook. In *Namibia* and *Uganda* there was a marked deterioration in the economic climate. Despite downward revisions, the present economic situation remained favourable on the whole and the economic outlook was positive. Major positive changes were recorded for *Lesotho*, *Nigeria* and *Sierra Leone*. In the opinion of WES experts, the current economic situation in *Lesotho* and *Sierra Leone* returned to a satisfactory level and is expected to improve further in the months ahead. In *Nigeria*, assessments remained slightly below the satisfactory-line. But with strongly upgraded economic expectations, the situation is likely to improve further in the next six months and appraisals are expected to turn positive soon. In *Cabo Verde*, *Madagascar*, *Niger*, *Sudan*, *Swaziland*, *Togo* and *Zambia* the economic situation remains unfavourable. WES experts only expect some improvements in the months ahead for *Madagascar* and *Swaziland*. In all other countries, they remain sceptical with regard to future economic developments. In *Burundi*, *Gabon*, *Liberia* and *Zimbabwe* the situation was once again assessed as weak. This time *Angola* also joined this group of countries with current weak economic conditions. WES experts continued to forecast an improvement for *Liberia* in the months ahead. In the other countries the situation is likely to remain subdued or even to deteriorate further (*Angola* and *Zimbabwe*).

### Inflation expectations remain low, particularly in Europe

On a worldwide average, the WES experts' inflation forecast for the year 2015 is slightly lower than reported at the beginning of the year (3.0% compared with 3.1%).

On average the inflation rate in 2015 for the *euro area* is estimated at 0.6% and thus still far below the ECB inflation target (slightly below 2.0%). However, WES experts don't expect inflation to remain at this extremely low rate for long. The medium-term inflation expectations (for 2020) stand at 2.0% and thus even

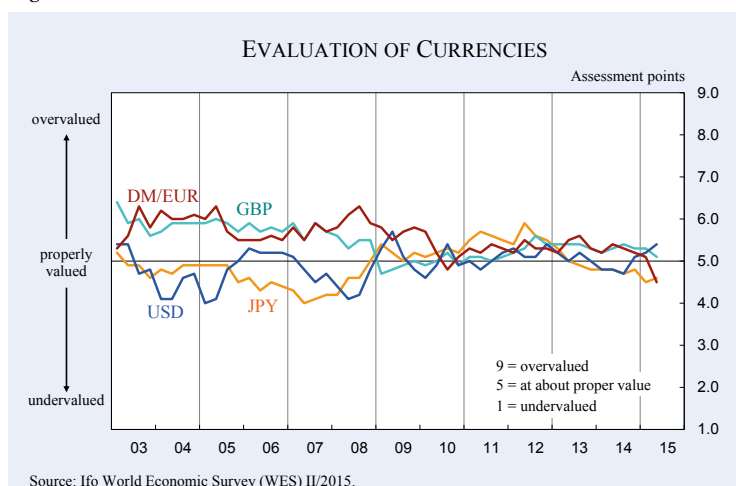
somewhat higher than according to the preceding survey in January 2015, signalling a likely normalization on the price front in the medium-term (see Table 2).

Within the *euro area* the lowest inflation rates in 2015 are again expected in two "crisis countries", *Cyprus* (-0.2%) and *Greece* (-0.6%). Inflation expectations also remained below the overall price increase in *France* and *Portugal* (0.2% respectively), *Spain* (0.3%), *Italy* and *Slovenia* (0.4% respectively) and *Lithuania* (0.5%). Inflation expectations that are slightly higher than the overall average prevail mainly in *Latvia* (1.5%), *Austria* (1.2%) and the *Netherlands* (1.1%).

In *Western Europe outside the euro area* the span of inflation expectations for 2015 ranges from -0.7% in *Switzerland* to 2.1% in *Norway* (see Table 2).

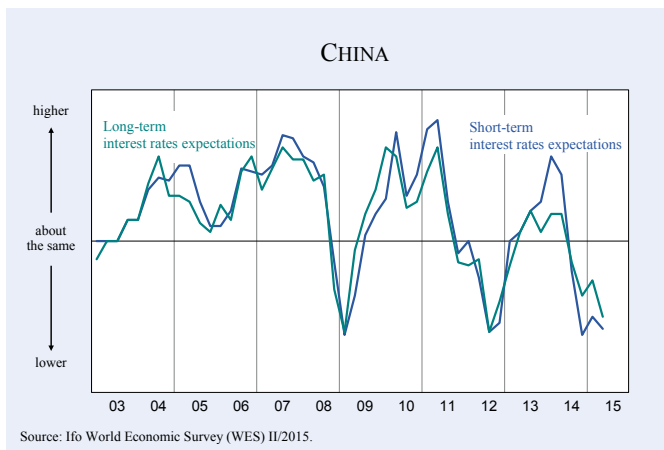
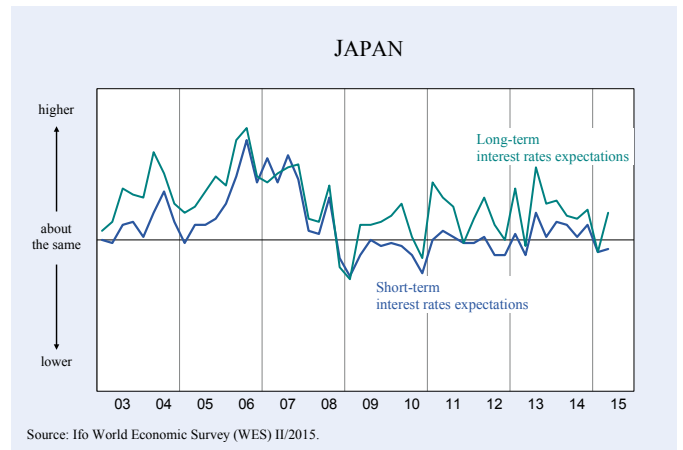
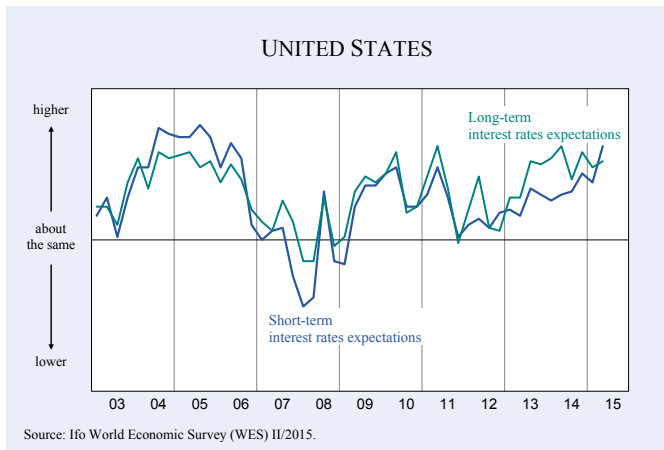
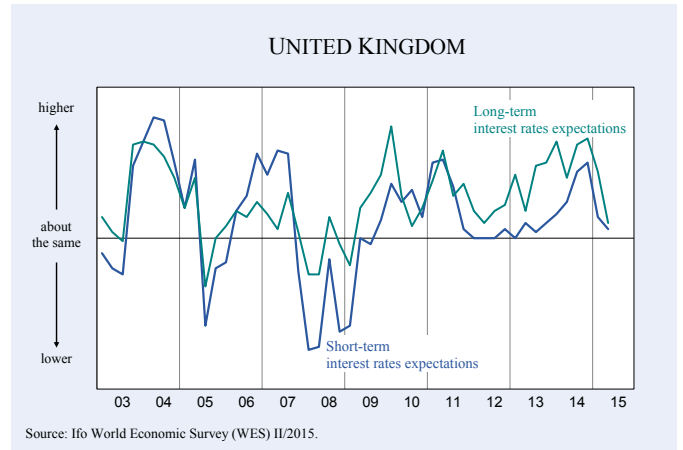
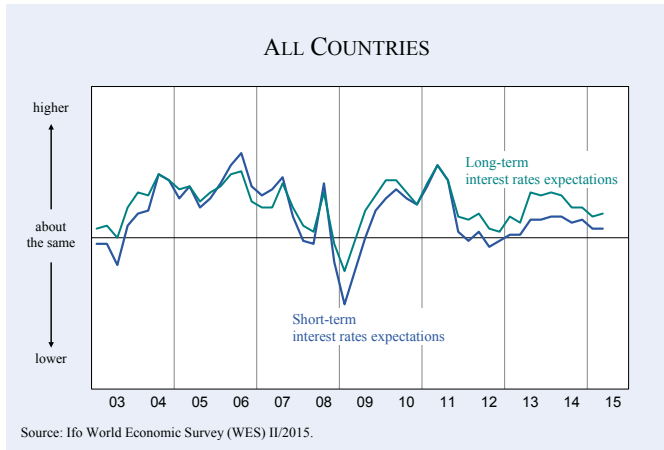
A low-inflation trend will also persist in *Eastern Europe*. The expected 2015 inflation rate stands at 0.8% and is thus even marginally lower than expected at the beginning of the year (1.2%). Like in *Western Europe* the currently very low inflation rate is seen as a transitory phenomenon; in five years inflation is expected to move again to more "normal" levels (2020: 2.4%). According to WES experts, the lowest price increases in the region in 2015 will be seen in *Poland* (0.2%) and *Bosnia-Herzegovina* (0.4%), and even more pronouncedly in *Macedonia*, where a decline in prices is expected (-0.3%). On the other hand, inflation will remain highest in the region again in *Serbia* (5.0%) and *Albania* (2.3%). The medium-term inflation expectations in *Eastern Europe* range from 1.8% in *Macedonia* and *Kosovo* to 4.0% in *Serbia* and 3.0% respectively in *Hungary* and *Albania*.

Figure 11



**Figure 12**

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





**Table 3 Expected Growth of Real Gross Domestic Product (GDP) in 2015 and 2014 (based on WES QII/2015 and QII/2014)**

Region	QII/2015	QII/2014	Region	QII/2015	QII/2014
<b>Average of countries *</b>	<b>2.3</b>	<b>2.5</b>	<b>Latin America</b>	<b>1.3</b>	<b>2.3</b>
High-income countries	1.9	2.2	Argentina	-0.6	0.1
Middle-income countries	3.5	3.7	Bolivia	4.7	6.0
Upper-middle	2.6	3.1	Brazil	-0.9	1.7
Lower-middle	5.3	4.8	Chile	2.8	3.4
Low-income countries	5.8	5.9	Colombia	3.4	4.4
EU 28 countries	1.7	1.6	Dominican Republic	4.5	4.3
EU countries (old members) <sup>a)</sup>	1.6	1.5	Ecuador	3.0	3.9
EU countries (new members) <sup>b)</sup>	2.5	2.1	El Salvador	2.2	1.7
Euro area <sup>c)</sup>	1.5	1.3	Guatemala	4.0	3.4
			Mexico	2.7	2.7
<b>Western Europe</b>	<b>1.6</b>	<b>1.5</b>	Paraguay	4.0	4.9
Austria	0.9	1.5	Peru	3.2	5.1
Belgium	1.1	1.4	Trinidad and Tobago	(0.5)	2.0
Cyprus	-0.2	-4.9	Uruguay	2.8	3.2
Denmark	1.7	1.4	Venezuela	-4.2	-1.3
Finland	0.5	0.6			
France	0.9	1.0	<b>North America</b>	<b>2.5</b>	<b>2.5</b>
Germany	1.7	1.7	Canada	2.0	2.3
Greece	0.8	0.1	United States	2.7	2.6
Ireland	3.4	1.9			
Italy	0.6	0.6	<b>Oceania</b>	<b>2.0</b>	<b>2.8</b>
Luxembourg	2.8	(2.5)	Australia	1.8	2.7
Monaco	4.0	1.8	New Zealand	2.9	3.4
Netherlands	1.7	1.2			
Norway	1.8	2.5	<b>Near East</b>	<b>3.3</b>	<b>3.9</b>
Portugal	1.6	1.1	Israel	2.8	3.4
Spain	2.2	1.0	Jordan	(1.0)	3.0
Sweden	2.5	2.3	Lebanon	2.8	2.5
Switzerland	0.8	2.0	Saudi Arabia	(2.5)	(3.6)
United Kingdom	2.6	2.7	Turkey	3.5	3.0
			United Arab Emirates	4.0	4.9
<b>Eastern Europe</b>	<b>2.4</b>	<b>2.1</b>			
Albania	2.8	1.6	<b>Africa</b>	<b>3.8</b>	<b>3.8</b>
Bosnia and Herzegovina	1.9	1.5	<b>Northern Africa</b>	<b>3.5</b>	<b>3.0</b>
Bulgaria	1.4	1.5	Algeria	2.9	3.6
Croatia	0.4	-0.1	Egypt	3.9	1.8
Czech Republic	2.2	1.7	Morocco	4.3	3.5
Estonia	2.6	2.5	Tunisia	3.3	2.9
Hungary	2.3	1.8	<b>Sub-Saharan Africa</b>	<b>4.0</b>	<b>4.2</b>
Kosovo	3.3	3.5	Angola	(2.8)	(5.9)
Latvia	2.0	2.8	Benin	6.2	5.4
Lithuania	2.5	3.4	Burundi	(0.0)	(-1.0)
Macedonia	3.5	3.7	Cabo Verde	1.9	2.3
Poland	3.1	2.9	Congo Dem. Rep.	9.1	9.1
Romania	2.4	1.9	Congo-Brazzaville Rep.	5.8	5.7
Serbia	(0.0)	2.0	Ethiopia	(8.0)	(8.0)
Slovakia	2.9	2.2	Gabon	(2.5)	(5.8)
Slovenia	2.2	0.6	Gambia	(4.6)	4.1
			Ivory Coast	8.5	7.0
<b>Asia</b>	<b>3.6</b>	<b>3.7</b>	Kenya	5.5	5.2
Bangladesh	6.0	6.2	Lesotho	3.7	3.4
China	6.8	7.2	Liberia	(-1.0)	(6.0)
Hong Kong	2.8	3.3	Madagascar	4.8	3.0
India	7.4	5.7	Malawi	(4.0)	(6.1)
Indonesia	5.5	5.5	Mauritania	4.8	5.3
Japan	1.2	1.3	Mauritius	4.4	3.8
Malaysia	4.0	4.0	Namibia	4.9	4.4
Pakistan	4.2	3.7	Niger	3.5	(3.0)
Philippines	6.3	6.6	Nigeria	4.4	5.0
Singapore	(2.8)	(4.0)	Senegal	(5.4)	(4.9)
South Korea	3.0	3.7	Sierra Leone	4.6	9.2
Sri Lanka	6.2	6.4	South Africa	2.0	2.5
Taiwan	3.6	3.1	Sudan	2.3	2.1
Thailand	2.9	2.6	Swaziland	2.9	1.3
Vietnam	5.4	5.4	Tanzania	(7.0)	6.6
			Togo	5.9	5.8
<b>CIS</b>	<b>-2.5</b>	<b>1.1</b>	Uganda	6.2	6.0
Armenia	2.5	2.5	Zambia	5.8	6.6
Kazakhstan	2.2	5.6	Zimbabwe	0.8	2.5
Kyrgyzstan	3.0	5.0			
Russia	-2.9	0.8			
Ukraine	-4.9	-2.5			

\* 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) II/2015 and II/2014.

In **North America**, the latest inflation forecast for 2015 slowed down from 1.7 at the beginning of the year to 1.4% this quarter. However, the medium-term inflation outlook (in 2020) edged upwards (from 2.2% to 2.4%), signalling that deflation appears to be no threat in the medium-term according to WES experts.

In **Asia** inflation expectations for 2015 came down from 3.0% reported at the beginning of the year to 2.7% this quarter. The medium-term inflation rate remained unchanged at 3.1%. Some pronounced differences exist by country: in *China* the expected inflation rate for 2015 is lower than seen at the beginning of the year (2.2% after 2.4%). In *India*, on the other hand, the expected 2015 price increase is somewhat higher than according to the preceding survey (5.8% compared to 5.6%). In *Japan* inflation expectations for 2015 now stand at 0.7% and are thus somewhat lower than according to the survey in January (1.1%) and well below the 2% increase targeted by the Bank of Japan. This level will not be reached in the mid-term either, say WES experts (2020: 1.4%). They expect the highest inflation rates in the region in 2015 to prevail in *Pakistan* (7.6%), with the lowest rates seen in *Japan* and *Taiwan* (0.7%).

In **Oceania** inflation expectations for 2015 stand at 1.9% and are thus lower than at the beginning of the year (2.3%). However, the medium-term annual inflation was upwardly revised somewhat (from 2.6% to 2.8%).

In **Latin America** inflation is expected to remain high (2015: 13.0%). However, this figure is heavily influenced by the two high inflation countries *Venezuela* (106.6%) and *Argentina* (30.2%). On the other hand, the 2015 inflation outlook in many other countries in the region remains relatively moderate, particularly in the *Dominican Republic* (2.8%) and *Peru* (2.9%). In *Brazil*, the largest economy in the region, inflation expectations for 2015 increased from 6.7% at the beginning of the year to 7.9%, which is significantly higher than the rate expected in the medium-term (4.9%). The relatively poor current inflation outlook may cause the Brazilian Central Bank to continue hiking interest rates, despite the ongoing weakness in the real economy. This conclusion can be drawn from the expected further rise in short-term interest rates in the course of the next six months.

In **CIS** countries inflation expectations for 2015 increased further in recent months and now stand at 15%. The highest rate of inflation in the region is still expected in the *Ukraine* (23.7%). In the medium-term WES experts see potential for a slight decrease in the average

value of inflation for *CIS* countries (6.3%), which would be somewhat lower than the figure cited in the January survey (8.8%).

In the **Near East** inflation expectations for 2015 remained close to 4%, a figure which also characterized the medium-term inflation outlook. The highest rate of inflation in the region was still expected in *Turkey* (8.0% in 2015 and 6.3% in 2020) and the lowest one in *Israel* (1.2% in 2015 and 2.5% in 2020).

In **Africa** the inflation outlook for 2015 was slightly downwardly revised down versus January's survey (from 7.6% to 7.0%). This conclusion also refers to the medium-term outlook, which declined from 6.9% to 6.3%. As in preceding surveys, the picture remains very heterogeneous by country. The expected 2015 inflation rate in the biggest economy in the region, *South Africa*, ranks well below the overall average at 5.4%. According to the new survey, the lowest inflation rates in 2015 will also prevail in *Zimbabwe* (0.8%), *Cabo Verde* (1.4%), *Congo Democratic Republic* (1.6%), *Togo* (2.1%), *Morocco* (2.3%) and *Benin* (2.5%). The highest inflation expectations in the region were again reported by WES experts in *Sudan* (32.5%).

#### **US Dollar seen as overvalued, but expected to rise further**

The *US dollar* was seen as overvalued by more WES experts than in the previous survey, The *euro* and the *Japanese yen*, on the other hand, was perceived as undervalued. The course of the *British pound*, by contrast, was seen by WES experts as in line with fundamental considerations (see Figure 11).

By country major differences remain in currency evaluation: in *Switzerland*, the *United States*, *Australia*, *New Zealand*, *South Korea*, *Pakistan*, *Malaysia* as well as some *African* countries (*Lesotho*, *Mauritius*, *Zambia* and *Zimbabwe*) and in the two high inflation countries in *Latin America* (*Argentina* and *Venezuela*) WES experts assessed their own currency as generally overvalued. WES experts in the *Czech Republic* and *Poland*, *India*, *Togo* as well as in the *Dominican Republic*, by contrast, assessed their currency as generally undervalued vis-à-vis the four leading currencies, namely the *US dollar*, *euro*, *British pound* and *yen*.

The answers to the supplementary survey question on likely trends in the *US dollar* in the next six months, re-

regardless of how currencies are assessed from a fundamental point of view, signal again – although somewhat less markedly than in the preceding survey – that the value of the *US dollar* is expected to rise over the course of the next six months on worldwide average. Some of the few exceptions to this trend are *Indonesia*, *Nigeria* and *Ivory Coast*, where the *US dollar* is expected to weaken in the months ahead.

### **Divergent development in interest rates expected**

On a worldwide scale, short-term interest rates are expected to remain largely stable and long-term interest rates to increase only marginally over the next six months (see Figure 12). In a departure from this overall trend, a growing majority of WES experts in the *USA* expect the FED to hike rates in the next six months; while long-term interest rates are also forecast to climb later in the year. In *Australia*, *Russia*, as well as in some important *Asian* countries (*China*, *India*, *Korea Republic* and *Thailand*), by contrast, interest rates are expected to decline in the near future. In the *euro area* short-term interest rates are expected to remain stable for the next six months whereas long-term rates – according to WES experts – will increase somewhat, although not in the “crisis” countries *Greece*, *Cyprus* and *Portugal*, where the interest rate spreads are expected to shrink in the near future.

### **Uneven economic recovery reflected in GDP forecasts for 2015**

Each year in the second quarterly survey, WES experts are asked to give a quantitative forecast of GDP growth<sup>1</sup> in the current year. For 2015 world economic growth is expected to reach 2.3% after an expected 2.5% in 2014 (see Table 3).

The lower growth expectation in 2015 is due to a weaker outlook in *CIS* countries (-2.5% versus 1.1%), in *Latin America* (1.3% versus 2.3%), in *Oceania* (2.0% versus 2.8%) as well as in the *Near East* (3.3% versus 3.9%) and to a smaller extent in *Asia* (3.6% versus 3.7%). On the

other hand, according to WES experts, the growth outlook for this year appears far brighter in *Eastern Europe* (2.4% compared with 2.1%) and slightly better in *Western Europe* (1.6% versus 1.5%). In *North America* (2.5%) and *Africa* (3.8%) growth estimates remain unchanged from last year.

By country, significantly stronger growth than last year’s survey is expected in *India* (7.4% compared with 5.7%), *Ireland* (3.4% versus 1.9%) and *Monaco* (4.0% versus 1.8%). In the “euro crisis” countries WES experts expect economic growth of 2.2% in *Spain*, 1.6% in *Portugal*, 0.8% in *Greece* and 0.6% in *Italy* in 2015, while *Cyprus* finally appears to be approaching the end of its decline in GDP (-0.2% versus -4.9%). On the other hand, this year’s growth outlook is much worse than last year’s according to WES experts particularly in *Russia* (-2.9% versus 0.8%) and the *Ukraine* (-4.9% versus -2.5%).

### **Public deficits currently seen as most important economic problem**

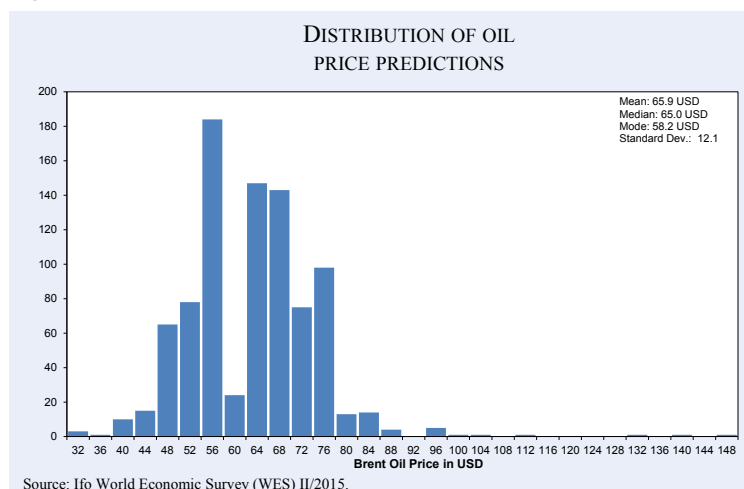
Twice a year WES experts are asked to cite the most important economic problems in the country where they are reporting. Whereas in October 2014 “insufficient demand” was cited on worldwide average as the single most important problem, this time “public deficits” moved to the top of the list. This change in the ranks of the most important problems reflects the gradual recovery in the world economy putting the focus once again on structural issues like public deficits, good governance and competitiveness, instead of a demand shortage in the Keynesian style. In contrast to the overall results, “unemployment” is still regarded as the single most important problem in *Western and Eastern Europe*, the *Near East* and *Africa*. On the other hand “lack of confidence in governments economic policy” ranks top of important economic problems in *Latin America*, *Oceania* and *Asia* (see Table 1).

### **Special question: The impact of the oil price decline on the world economy**

Beginning in mid-2014 the world experienced a massive decline in oil prices. The price of a barrel Brent oil nearly halved from about 110 USD to its present level of around 60 USD. To appraise the impact of this shock on the world economy, we asked WES participants three special questions. Firstly, experts indicated their assumptions about the future path of oil prices: “What is

<sup>1</sup> Country economic growth rate is the GDP in constant prices. Within each country group or region, as well as for the world GDP forecast, the country results are weighted according to the share of the specific country’s exports and imports in total world trade. These global GDP growth rates are different from world GDP growth that is calculated using purchasing power parities as country specific weights, as applied by IMF forecasts. Thus, world economic growth calculated by the Ifo method, which is also applied by the World Bank, is, as a rule, somewhat lower than the corresponding figures by the IMF.

**Figure 13**



your forecast for the oil price (Brent, per barrel) by the end of 2015?” We obtained 885 answers from all over the world. The histogram of oil price forecasts is shown in Figure 13.

On average, the experts expect a modest increase in the oil price to 65.9 USD. Almost all respondents expect the oil price to remain well below 110 USD, the value observed until mid-2014. Notably, there seems to be substantial disagreement among experts, and the standard deviation in the forecasts amounts to 12.1. Whereas only few experts expect the price to remain around 60 USD, 529 respondents (59.8 %) predict rising oil prices, and 356 respondents (40.2 %) predict stagnation or a further decline. Among the latter, the average oil price is 55.4 USD, and for the former the mean oil price is estimated at around 73.0 USD.

Secondly, experts were asked whether the drop in oil prices has boosted or cut GDP growth rates: “Please indicate whether you expect the decline in oil prices to have a net effect on GDP growth...” We obtained 863 answers, from 114 countries among which 43 are high-income economies, 56 middle-income economies, and 15 low-income economies. For the majority of countries (73.7 %) the experts indicate that the oil price drop had a positive effect on GDP growth. Splitting the sample into different income groups, we find that 86.0 % of the high-income countries, 71.4 % of the middle-income countries, and 60.0 % of the low-income countries are affected positively.

We also asked respondents to give a quantitative assessment: “...and by how many percentage points your respective forecasts (eds: for GDP growth) are higher or

lower due to the oil price decline”<sup>2</sup> The country-specific median is depicted in Figure 14<sup>2</sup>. The largest positive effects are indicated for a number of oil-importing *African* countries. Among the high-income countries *Spain*, *Hong-Kong*, and *Israel* appear to profit most in terms of GDP growth. The majority of *Western European* countries are in the group indicating an effect between 0.2 and 0.5pps, whereas the *Eastern European* countries seem to profit somewhat less from the oil price drop. By contrast, many *Latin American* countries,

*Canada*, as well as the oil-exporting *African* countries expect to suffer GDP losses. The largest negative effects can be expected for the *OPEC* countries and *Russia*. It is worth noting that the oil price drop seems to have only slightly positively impacted the world economy as a whole; with the average effect quantified as just 0.1pps. Modest gains in the majority of countries seem to be largely offset by significant losses for oil-exporters.

Thirdly, participants assessed the effects of the oil price decline on their inflation forecasts for this year. In almost all countries (84.2 %) the experts surveyed predicted a non-negligible dampening effect on inflation. Exceptions are those countries (e.g. *Venezuela* or *Russia*) that suffer from very high inflation, or even hyperinflation, where the oil price drop is expected to negatively impact the situation by compressing budgets. In the *euro area* the effects on inflation are, in general, expected to be negative. While the estimated median effect on inflation is -0.4 pps in *France*, *Germany*, *Spain*, and the *United Kingdom*, a somewhat lower impact of -0.2 pps is indicated for *Greece*, *Ireland*, *Italy*, and *Portugal*. Outside the euro area, inflation in the *United States* is expected to be 0.5 pps lower due to the drop in oil prices.

<sup>2</sup> To make the analysis robust to extreme observations, we discard answers that are more than three times the interquartile range away from the country-specific median.

Figure 14

