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CESifo World Economic Survey

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CESifo WORLD ECONOMIC SURVEY

VOLUME 15, No. 1

FEBRUARY 2016



WORLD ECONOMIC CLIMATE

World economic climate continues to cloud over

ECONOMIC EXPECTATIONS

Economic expectations less positive

INFLATION

Inflation set to edge upwards

CURRENCIES

US dollar will gain strength

INTEREST RATES

Expectations of interest rate increase remain moderate

SPECIAL TOPIC

The impact of terrorism on the world economy

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Regions

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Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organisations worldwide on current economic developments in their respective countries. Its results offer a rapid, up-to-date assessment of the economic situation prevailing around the world. In *January 2016*, 1,085 economic experts in 120 countries were polled.

Methodology and evaluation technique

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

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

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

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

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

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

WORLD ECONOMIC CLIMATE CONTINUES TO CLOUD OVER

The Ifo Index for the world economy dropped from 89.6 points to 87.8 points this quarter, drifting further from its long-term average (96.0 points). While assessments of the current economic situation brightened marginally, expectations were less positive than last quarter (see Figures 1 and 2). The sharp decline in oil prices seems to be having no positive economic impact on the global economy overall and the growth dynamic remains weak (see Box 1).

Economic climate deteriorates nearly everywhere

The economic climate deteriorated in all regions, except Oceania, Asia and Latin America. In Oceania the climate index stabilised at a low level, and in Asia and Latin America it edged upwards. The indicator is now below its long-term average in all regions, with the exception of Europe. The climate in the CIS states and the Near East clouded over, mainly due to poorer economic expectations. In Europe WES experts are slightly less positive about future economic developments than in October 2015. In North America and Africa, by contrast, the slightly less favourable economic situation led to a deterioration in the economic climate.

The world economy continues to grow, but only at a moderate rate. In Russia economic sanctions resulting from the conflict with the West are compounding the negative effect of low oil prices, while fiscal policy in Brazil is clearly curbing its economy. Both countries slipped into a deep recession back in the first half of 2015 and have not recovered since. The growth dynamic in China is gradually losing impetus. In the advanced economies growth in overall economic output slowed

somewhat in the second half of 2015. The economic situation nevertheless remains underpinned by cheap commodity prices almost across the board. However, this masks highly heterogeneous patterns of economic development in individual countries. The USA and the United Kingdom, for instance, are experiencing a moderate economic upturn. Monetary policy in the major advanced economies remains very expansive, despite steady divergence since the beginning of 2014. In view of far more moderate economic dynamics and the insufficient increase in prices, the European Central Bank and the Bank of Japan both massively expanded their bond buying programmes during this period. Both central banks have also signalled their willingness to leave

Figure 1

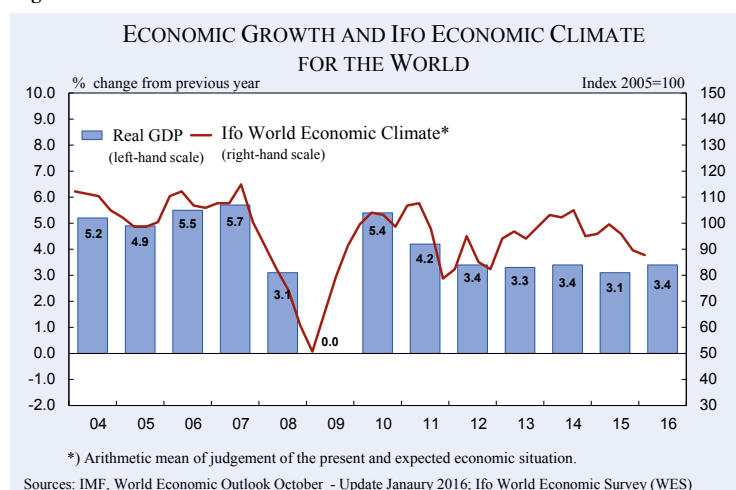
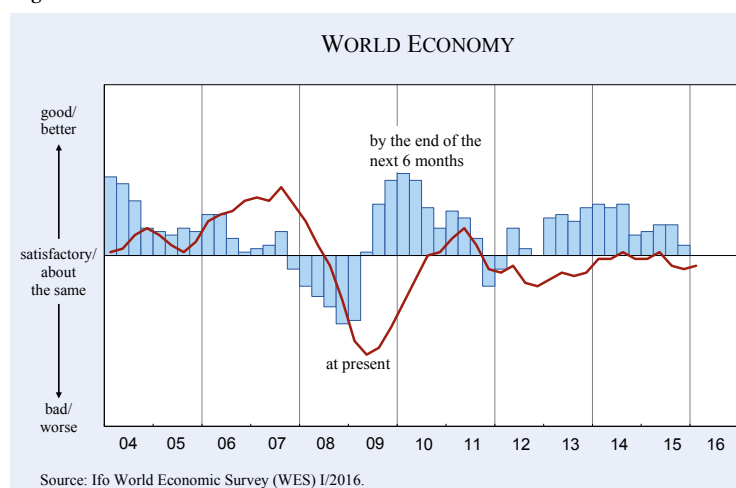


Figure 2

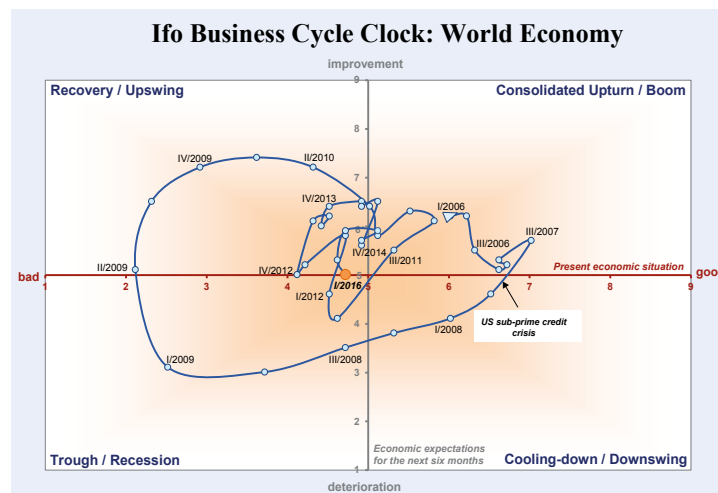


Box 1

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 fell slightly. While assessments of the current economic situation were less negative, expectations dropped further. As a result, the indicator edged downwards and now lies between the recovery and trough quadrant. It remains to be seen where the indicator will head to next.



Source: Ifo World Economic Survey (WES) I/2016.

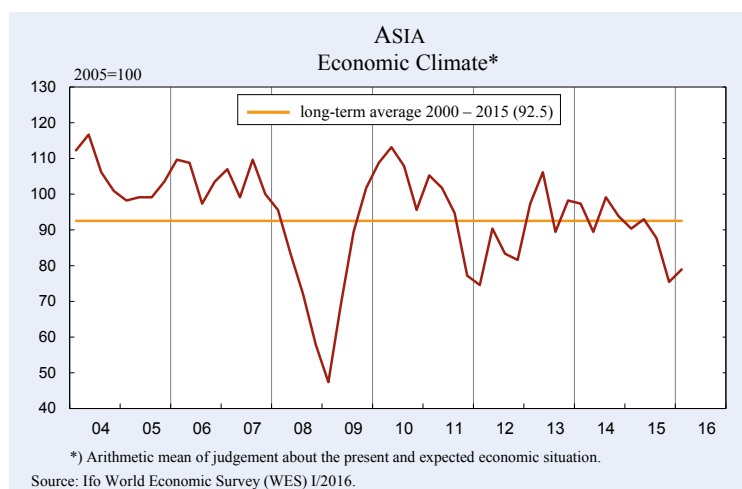
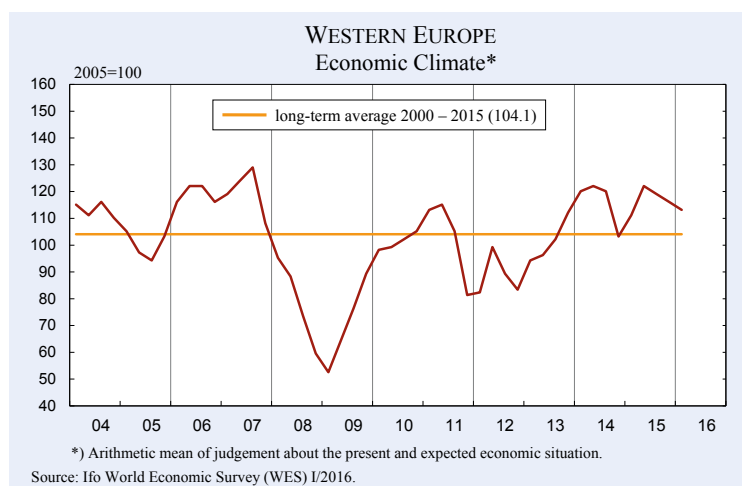
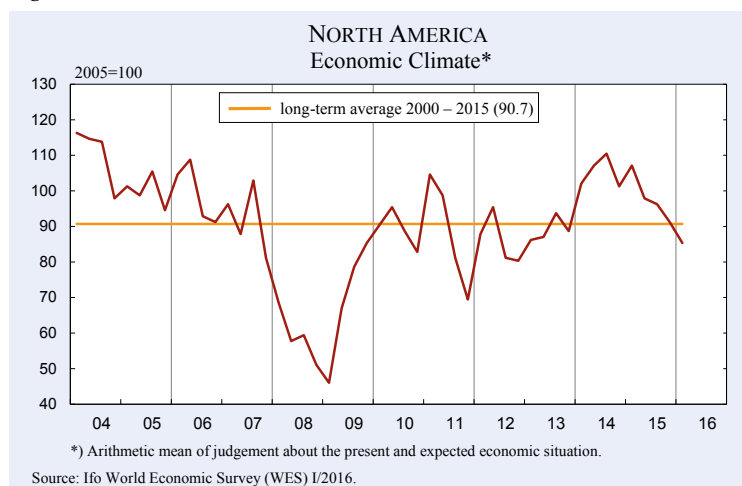
The Ifo World Economic Climate is the arithmetic mean of the assessments of the current situation and economic expectations for the next six months. The correlation of the two climate components can be illustrated in a four-quadrant diagram ("Ifo Business Cycle Clock"). The assessments on the present 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).

base interest rates at their current level of zero until at least 2017. By contrast, the US central bank (the Fed) successively scaled back its bond purchasing programme, winding it up completely in December 2014. The Fed's Federal Open Market Committee made its first interest rate increase since the outbreak of the financial crisis in December 2015. An interest rate turnaround also looks set to take place in the *United Kingdom* this year. This monetary policy divergence has triggered major exchange rate fluctuations since the beginning of last year. The *euro* and the *Japanese yen* depreciated massively in 2015, while the reverse trend was seen in the *US dollar* and the *British pound*. The degree of expansiveness in monetary policy has also developed in very different ways in emerging economies since the beginning of the year. The central banks of many *Asian*

countries have used the leeway created by moderate inflation to implement interest rate cuts. In *Brazil*, by contrast, monetary policy is clearly restrictive to offset the high depreciatory pressure on domestic currencies. A successive easing in fiscal policy has been seen in most advanced economies over the past two years, with the sharp drop in government bond rates considerably easing the burden on government budgets. The economic situation of the major advanced economies will also be influenced by nominal exchange rate developments over the forecasting period. Export growth in the *USA* is expected to remain curbed by the strengthening of the dollar, as opposed to demand for goods and services from the *euro area* and *Japan*, which is expected to rise at a faster rate due to the depreciation of the *euro* and the *yen*. Aggregate economic output in the *USA* will nevertheless expand more strongly than in the *euro area* and *Japan* in 2016. In the *euro area* numerous structural problems will continue to weaken economic development, despite the fact that the resulting burdens will gradually decrease due to reforms implemented in many cases in the banking sector, as well as in

the labour and goods market. Monetary policy will also remain very expansive. The pace of growth in the emerging economies will change very little in 2016. Although *Brazil* and *Russia* are expected to pull out of recession over the course of 2016 and the low oil price will create positive impulses in *China*, *India* and many *East Asian* economies, the latter will be largely offset by negative forces and will prevent any significant economic upturn. The trend towards a slowdown in economic growth in *China* is therefore expected to continue. Moreover, the rise in long-term interest rates in the *USA*, albeit slow, could lead to a growing deterioration of financial conditions for emerging economies. Real gross domestic product in emerging economies will nevertheless increase at almost twice the pace as that of advanced economies in the forecasting period. Political tensions

Figure 3



nario oil prices could also surge, since many countries in the *Near East* are among the world's largest oil producers. There are also risks related to the expected gradual tightening of monetary policy in the *USA*. The Fed can therefore be expected to exercise great caution in implementing further rate hikes over the year 2016. Nevertheless, such increases would strengthen the relative attractiveness of the *USA* as an investment location and would involve portfolio restructuring at the expense of other regions. In an extreme case scenario this may lead to renewed capital outflows from the emerging countries, which could, in turn, lead to strong financial market turbulence; or even to exchange rate crises.

Western Europe: Economic recovery looks set to slow

The economic climate index for *Western Europe* continued to decline from 116.1 last year to 113.2 in January, but remains above its long-term average of 104.1 (2000-2015, see Figure 3). While the present economic situation continues to be seen as satisfactory, the economic outlook again appears slightly less positive than three months ago (see Figure 4). In the *euro area* assessments of both the present economic situation and economic expectations were downgraded slightly by WES experts. As a result, the economic climate indicator for the *euro area* fell from 122.0 to 118.9, but still stands above its 16-year average of 106.5.

in the *Near East* and the unclear interests of the parties involved in the various conflicts represent a major risk to world economic development in 2016. An escalation in the conflicts in the *Near East* could unsettle consumers, producers and investors across the world and thus considerably curb economic development. In such a sce-

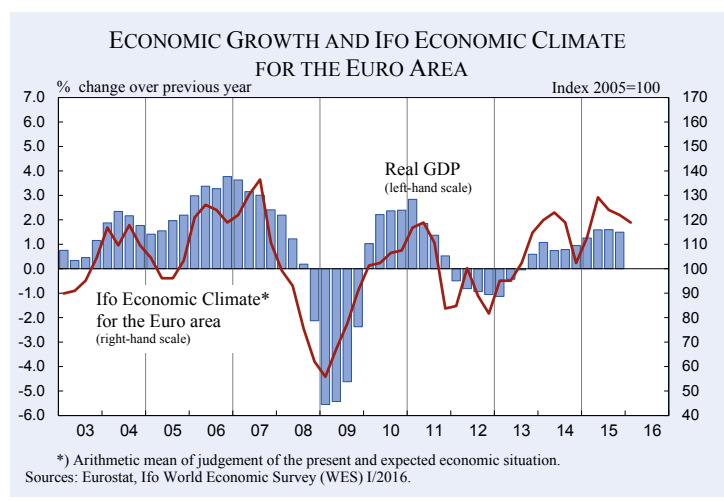
According to the latest WES survey, *Greece* and *Finland*, closely followed by *Cyprus*, are the countries with the worst performance in the *euro area* at the moment. The majority of experts surveyed rated the present economic situation in these countries as very weak. The economic outlook for *Finland* is again less positive than

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 310 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 declined by another three index points in the first quarter of 2016. It dropped to 118.9 points, but still remains significantly above its long-term average. Assessments of the current economic situation were only slightly less favourable than in the previous quarters, and positive expectations also clouded over somewhat. The recovery in the euro area economy is only expected to continue at a slow pace. Assessments of the current economic situation were most negative in *Greece* and *Finland*, but the current economic situation also remains strained in *France*, *Italy* and *Cyprus*. The situation was only slightly better in *Spain*, *Portugal* and *Austria*, but assessments for *Austria* were far less negative than last quarter. The sharpest recovery was seen in *Ireland*, where survey participants assessed the current economic situation as very good. In *Germany* the economic situation is considered to be good, although assessments were somewhat less favourable than last quarter. In all other euro countries WES experts deemed the current economic situation to be satisfactory. The six-month economic outlook remains positive nearly everywhere. Economic expectations brightened in *Austria*, *France*, the *Netherlands*, *Estonia* and *Latvia*. In the other countries the outlook remains either unchanged, or is somewhat less positive. WES experts were only slightly pessimistic about *Greece*, *Portugal* and *Spain*. For 2016 experts expect the average inflation rate to increase to 1.0 percent in the euro area. In the mid-term (2021) average inflation expectations will remain unchanged at 1.9 percent.

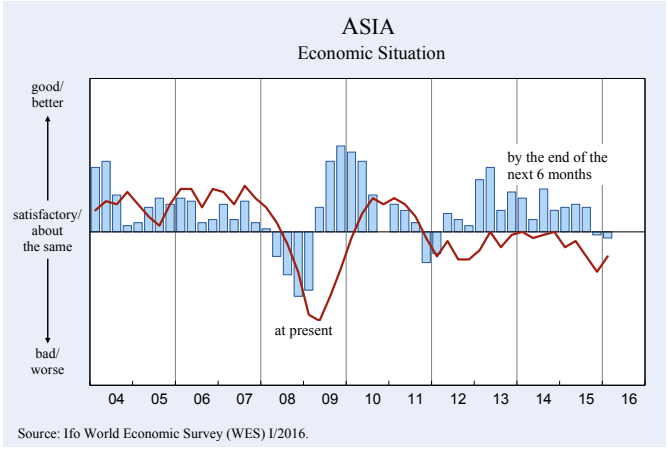
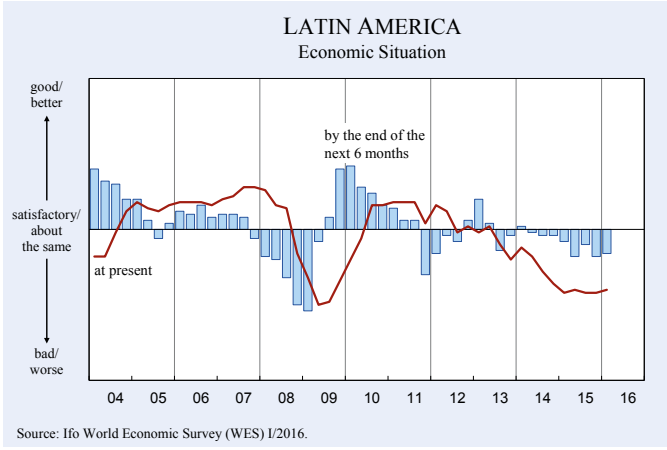
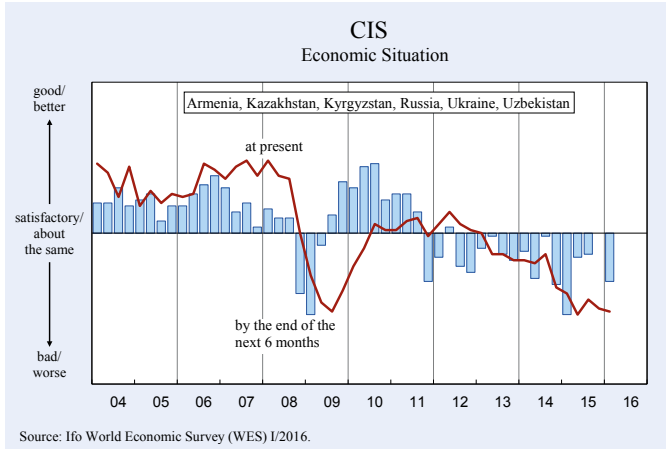
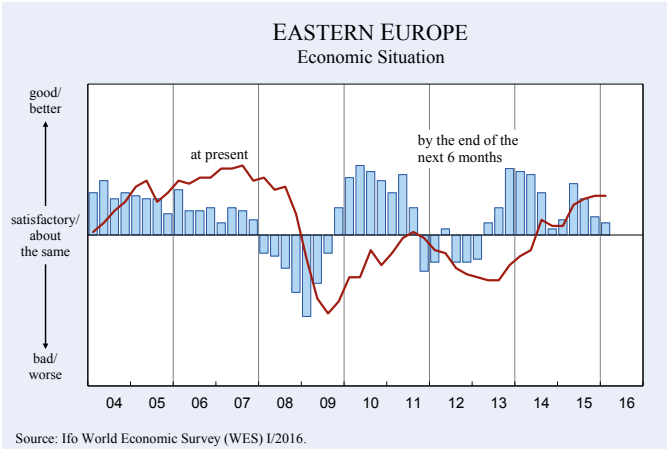
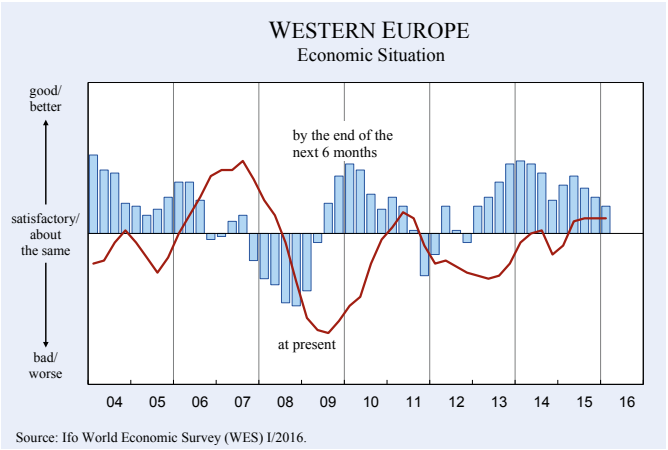
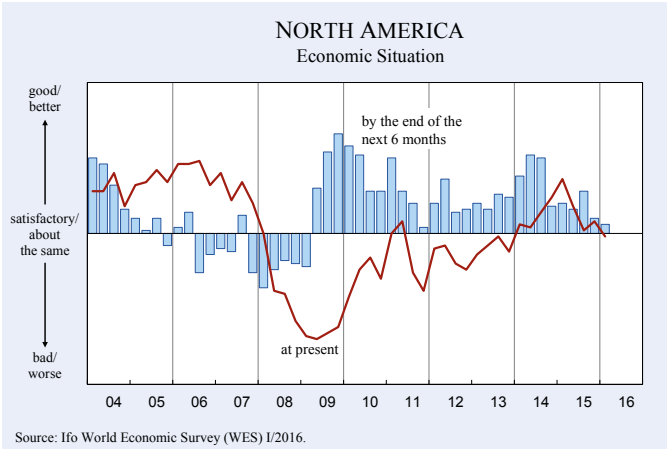


in previous surveys. While the weak situation in *Cyprus* is expected to improve somewhat in the next six months, WES experts again expressed scepticism over *Greece*. The economic situation in *France* and *Italy* remains subdued. The cautious assessment for *France* was even more pronounced than last quarter. The situation in *Portugal* and *Spain* remained unfavourable. The current economic situation in *Austria* improved considerably compared to last year's survey, but remains below the satisfactory-line. In terms of the six-month economic

outlook, the experts surveyed turned more positive for *Austria* and *France*, but expressed less optimism about *Italy*. They also downwardly revised their economic expectations for *Portugal* and *Spain* significantly and don't expect any major improvements in the months ahead in either country. The most pronounced improvements in the present economic situation were attributed to *Ireland* and *Luxembourg*. In both countries, WES experts rated the present economic situation as very good. In *Ireland*, private consumption seems to be the main driver of robust developments at present, while WES experts deemed capital expenditure to be weak. In their opinion, *Ireland* is also the country with the most positive investment climate, as there are presently no legal and administrative restrictions for foreign firms (see Table 1). In *Lithuania*, the present economic situation also improved and was rated as good. However, economic expectations in all of the above mentioned countries were downwardly revised. Despite these corrections, WES experts remain optimistic about the next six months for *Ireland* and *Lithuania*, as exports are expected to expand over the coming months. The six-month economic outlook for *Luxembourg* is slightly less positive than three months ago. The present economic situation remains good for *Germany* too, despite some slight downward revision compared to the previous survey. The economic outlook remains as positive as in last year's survey and signals stabilisation at its current favourable level. The economies of *Belgium*, *Latvia*, *Malta*, *Slovakia* and *Slovenia* continued to perform satisfactorily, despite a slight downward correction in the case of *Slovakia* and *Slovenia*. As far as the next six months are concerned, economic expectations were only scaled back for *Belgium* and *Slovakia*. The economies of all of the countries mentioned above are nevertheless expected to im-

Figure 4

SELECTED REGIONS



prove further in the months ahead. The situation in *Estonia* deteriorated compared to the survey in October and is no longer seen as satisfactory. Capital expenditure in particular is considered to be weak at present. WES experts' economic expectations, however, remain in positive territory and point to some improvements in the months ahead.

Outside the *euro area* the general economic situation appears friendlier than in the countries of the currency union. In most countries including *Denmark* and the *United Kingdom* the present economic situation was assessed as satisfactory at the very least. In *Sweden* the present economic situation improved compared to last quarter's survey and was rated as very good. In *Monaco*, a favourable present economic situation continues to prevail. The economic outlook for *Denmark* and *Sweden* remains fairly promising. As far as the six-month economic outlook is concerned, WES experts were less positive for *Monaco* and the *United Kingdom* than three months ago. The economic climate for *Norway* continued to deteriorate due to more negative assessments of the present economic situation. The economic outlook remains bleak. Besides *Norway*, assessments of the present economic situation in *Switzerland* also remain below the satisfactory line. Economic expectations for *Switzerland*, by contrast, are far more positive than six months ago.

North America: Canada dampens regional economic climate

The economic climate indicator for *North America* continued to decline, dipping below its long-term average of 90.7 this quarter to 85.4. The decline in the climate indicator was driven by less positive assessments of both the present economic situation and economic expectations (see Figures 3 and 4). The deterioration in the regional economic climate was mainly reflected in far more unfavourable economic conditions in *Canada*. The worldwide commodity price slump, including the fall in oil prices, also had a negative impact. The present economic situation was no longer deemed as satisfactory. Economic expectations are far less positive than three months ago and signal no substantial improvements to economic developments in the months ahead. The economic climate for the *US* deteriorated only marginally due to less positive assessments of the present economic situation. By contrast, the economic outlook brightened slightly.

Eastern Europe: Economic climate continues to deteriorate

In *Eastern Europe* the economic climate index continued to fall, but less sharply than last quarter. It declined from 94.6 index points to 93.0. Together with *Western Europe*, this is the only region where the indicator currently lies above its long-term average (86.6 in the period 2000–2015). Assessments of the present economic situation remained at a favourable level, while economic expectations are again slightly less positive than three months ago (see Figures 4 and 7).

The region's best performing economy currently remains the *Czech Republic*, despite the fact that experts scaled back their assessments of the present economic situation slightly this quarter. In *Poland* and *Romania*, appraisals of the current economic situation improved slightly compared to the survey in October and are once again deemed favourable. Economic expectations were only upwardly revised for the *Czech Republic*, where WES experts expect the situation to improve further in the short term. Economic expectations for *Poland* and *Romania*, by contrast, are less positive and point more towards an economic stabilisation. Amongst the *Eastern European* countries that belong to the *euro area* (*Baltic States*, *Slovakia* and *Slovenia*) the *Lithuania* achieved the best current economic performance: assessments of the present economic situation strongly improved and are now deemed favourable. However, WES experts are slightly less optimistic about the six-month economic outlook than last quarter. The present economic situation in *Latvia* was again assessed as satisfactory. The six-month economic outlook is more positive than three months ago. In *Estonia*, *Slovakia* and *Slovenia* assessments of the present economic situation were downwardly revised by WES experts. However, appraisals remain in favourable territory for *Slovakia* and *Slovenia*, while the situation turned unfavourable for *Estonia*. As far as short-term developments are concerned, WES experts in all of these countries remain positive, despite some downward corrections in the case of *Slovakia*. Assessments of the current economic situation in *Bulgaria* and *Hungary* remain below the satisfactory line. *Hungary's* economic prospects brightened considerably; but no major improvements are expected in either country within the next six months. In *Croatia*, assessments of the present economic situation improved considerably, rising to their highest level in seven years. The current situation nevertheless remains unfavourable on the whole.

However, economic expectations point to further improvements in the months ahead.

The economic situation for the *Eastern European* countries outside the EU – *Albania*, *Macedonia* and *Serbia* – remained unchanged. While WES experts saw the present economic situation in *Albania* as satisfactory, they deemed it unfavourable in *Macedonia* and *Serbia*. In *Albania*, current good economic conditions are likely to persist in the months ahead. In *Serbia*, the economic situation looks set to improve in the next six months. By contrast, WES experts in *Macedonia* remain sceptical with regard to future economic developments. In *Bosnia and Herzegovina* and *Kosovo* assessments of both the present economic situation and economic expectations deteriorated considerably compared to last year's survey. The situation weakened significantly for *Bosnia and Herzegovina*. In *Kosovo* the situation was still rated as satisfactory despite the downward correction. WES experts are less positive about their six-month economic outlook in both countries.

CIS: Economic climate indicator dips again sharply

The economic climate indicator for the *CIS* countries covered by WES (*Russia*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan*, *Uzbekistan* and *Armenia*) fell again strongly. After recovering gradually from early 2015 onwards, the indicator dropped again from 62.1 to 48.0 this quarter, and thus lies far below its long-term average of 87.8 points. While assessments of the present economic situation deteriorated only slightly, economic expectations, by contrast, were downgraded considerably (see Figure 4). This pattern also reflects the situation for *Russia*. The present economic situation remains weak and the six-month economic outlook is dominated by greater pessimism than last quarter. In the *Ukraine*, no major changes in the current, economic situation were recorded, which remains very weak. Economic expectations are slightly less optimistic, but continue to signal some potential easing of the currently difficult economic conditions. In *Kazakhstan* the situation was assessed more unfavourably than in the previous survey. Economic expectations were also considerably downwardly revised and turned pessimistic. In *Armenia*, *Kyrgyzstan* and *Uzbekistan* the current economic situation is far more positive than in the region as a whole. The present, satisfactory economic conditions are expected to continue to prevail in all three countries, except for *Armenia*, where WES experts remain sceptical about the six-month economic outlook.

Asia: Economy recovers, but remains weak

The economic climate indicator for *Asia* started to rise again from 75.4 to 78.9 index points this quarter. However, the increase was only marginally and the indicator remains far below its long-term average of 92.5. The economic climate brightened due to less negative assessments of the present economic situation. Economic expectations, by contrast, were slightly downwardly revised (see Figures 3, 4 and 8).

In *China*, the economic situation improved slightly, but was still assessed as unfavourable. Capital expenditure in particular was reported to be weak. As far as the next six months are concerned, WES experts once again expressed greater scepticism. The economic climate for *Japan* brightened somewhat, due to upwardly revised assessments of both the present economic situation and economic expectations. Despite these improvements, the current situation remains unfavourable on the whole. The economic outlook, however, is more confident and economic conditions look set to improve in the months ahead. The current economic situation improved in *Thailand*, and to an even greater extent in *Malaysia*. However, WES experts in both countries still considered the respective economic conditions to be weak. The economic outlook brightened considerably in both countries, however, signalling different trends: while *Malaysian* experts retained their cautious view of the next six months, survey participants were clearly more optimistic about *Thailand's* economic outlook. In *Taiwan* the downturn in assessments of the present economic situation gained impetus compared to the previous survey. WES experts consider the situation as very weak and do not expect any substantial improvements in the next six months. Although assessments of the present economic situation were slightly upgraded in *Pakistan* and *South Korea* compared to the October survey, they remain subdued on the whole. Economic expectations were only downgraded for *South Korea* and signal no major improvements in the months ahead. By contrast, some easing of current unfavourable conditions is likely in *Pakistan*. In *Singapore* and *Vietnam* a satisfactory economic situation currently prevails, which is likely to persist in the months ahead. In the *Philippines* and *Sri Lanka* the present economic situation was assessed less favourably than in last year's survey. While the experts surveyed are considerably more confident about the six-month economic outlook for the *Philippines*, they are less positive about *Sri Lanka*. The most pronounced upward revisions in assessments of the present economic situation took place in *Indonesia*,

where WES experts rated the situation as favourable. They remain highly optimistic about economic expectations. In *Bangladesh* and *India*, the present economic situation improved compared to the survey in October, according to WES experts. However, while the experts surveyed turned more optimistic for *Bangladesh* as far as the six-month outlook is concerned, they are considerably less positive for *India*. In *Hong Kong* the present economic situation remained satisfactory. However, economic expectations were further downwardly revised and WES experts turned very pessimistic about the economic outlook.

Oceania: Situation stabilises at a low level

After having improved slightly at the end of 2015, the indicator stabilised at 76.9 index points, which remains way below its long-term average of 100.0. According to WES experts, the situation in *Australia* did not change compared to the survey last year: assessments of the present economic situation remained below the satisfactory-level and the economic outlook is still dominated by pessimism (see Figure 6). In *New Zealand*, the present economic situation was assessed slightly less favourable. Economic expectations improved marginally. The current good situation is likely to persist for the next six months.

Latin America: Economic climate remains subdued

The climate indicator for *Latin America* started to improve at a low level. It now stands at 65.2 index points, versus 63.3 in the previous quarter, and remains far below its long-term average (2000-2015: 90.1). Assessments of both the present economic situation and economic expectations improved slightly, but remained subdued (see Figures 4 and 9).

In *Brazil*, no major changes for the better were observed compared to the October survey. The present economic situation remains fairly weak. Economic expectations were slightly upwardly revised, but the outlook is still bleak on the whole. In *Mexico* the present economic situation improved compared to the previous survey, but still remains below the satisfactory-line. WES experts continued to revise their economic expectations downwards and turned sceptical regarding the six-month economic outlook. The current economic situation in *Argentina* was again assessed as weak. However, the

experts surveyed expressed far more optimism about the six-month economic outlook. An upturn in the months ahead therefore looks likely. The climate for foreign investors also looks set to improve, as political instability and legal and administrative restrictions to invest or to repatriate profits decrease, according to WES experts (see Tables 1 and 2). In *Chile*, the present economic situation deteriorated strongly compared to last quarter's survey and assessments plunged to their most negative value in nearly 17 years. Economic expectations were slightly upwardly revised, but do not point to substantial improvements in the months ahead. In *Peru* and *Uruguay*, appraisals of the present economic situation remained below the satisfactory-line, despite some slight improvements compared to the previous survey in the case of *Peru*. In terms of the six-month economic outlook, experts are somewhat less pessimistic for *Uruguay*. The majority of experts nevertheless expect the situation to deteriorate further. For *Peru*, experts scaled back their expectations slightly and don't expect any major improvements in the months ahead. In *Ecuador* and *El Salvador* the current situation was once again assessed as unfavourable. These countries were joined by *Trinidad and Tobago*, where appraisals deteriorated visibly compared to three months ago. In all of these three countries, the economic situation is expected to remain weak over the next six months, or even to deteriorate further. There was no positive news from *Venezuela* either, and WES experts once again unanimously gave the present economic situation and economic expectations the lowest rating on the WES scale. The country is facing a steep recession, and struggling with lower revenues from the oil sector due to low oil prices. Currency depreciation is likely to continue in the months ahead, accompanied by a rising and stubborn inflation rate. As in the previous survey, experts even expressed fears of hyperinflation (see Table 3). The economies of *Bolivia*, *Colombia*, *Costa Rica*, *Cuba*, *Dominican Republic*, *Guatemala* and *Paraguay* are currently proving largely robust compared to the region as a whole. In all of these countries the experts surveyed attested to a satisfactory present economic situation. However, WES experts in most of those countries considered capital expenditure to be weak. Economic expectations were upwardly revised across the board, but signalled different directions: while the economies of *Costa Rica*, *Cuba*, the *Dominican Republic*, *Guatemala* and *Paraguay* are expected to prove resilient to current weakness in the region over the next six months, WES experts fear a downturn in economic activity for *Bolivia* and *Colombia*.

Figure 5a

EUROPEAN UNION

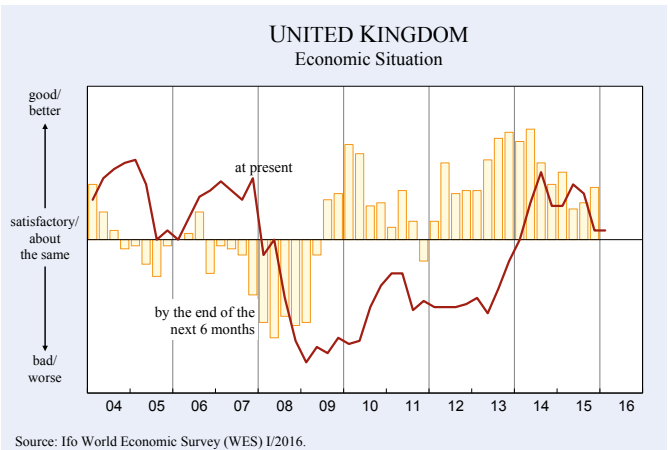
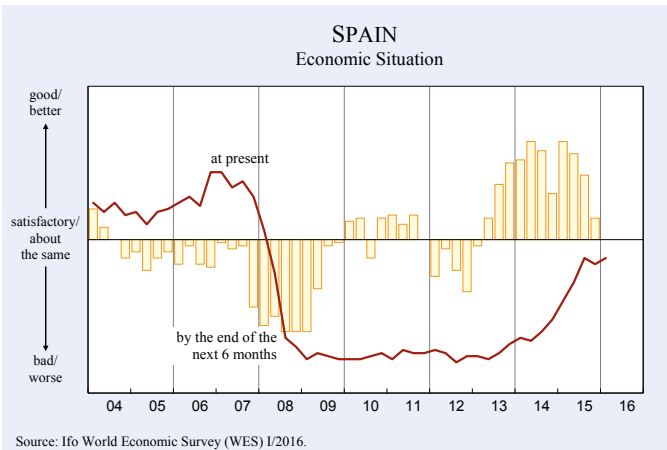
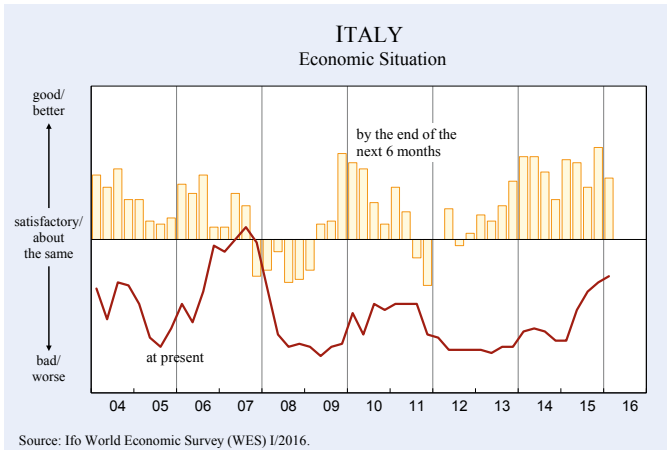
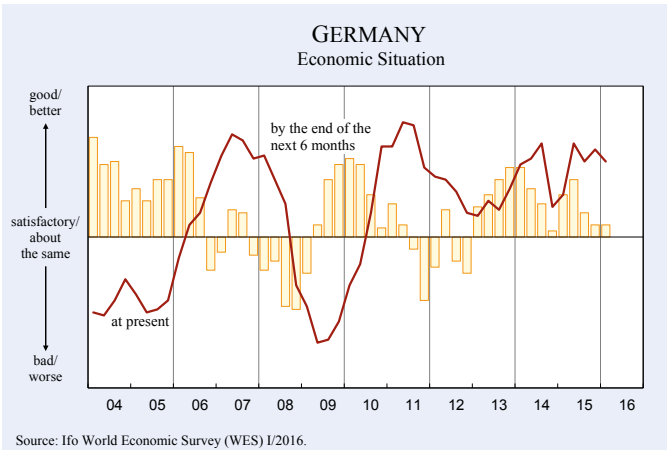
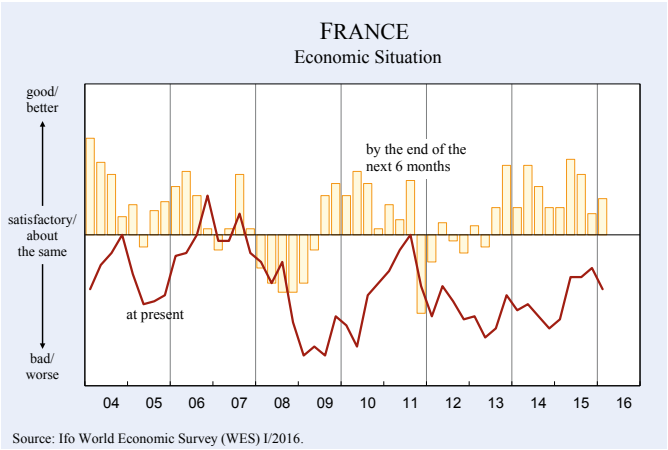
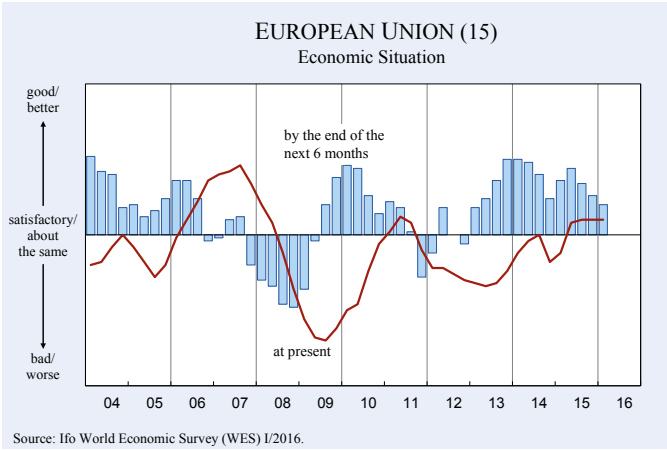


Figure 5b

EUROPEAN UNION

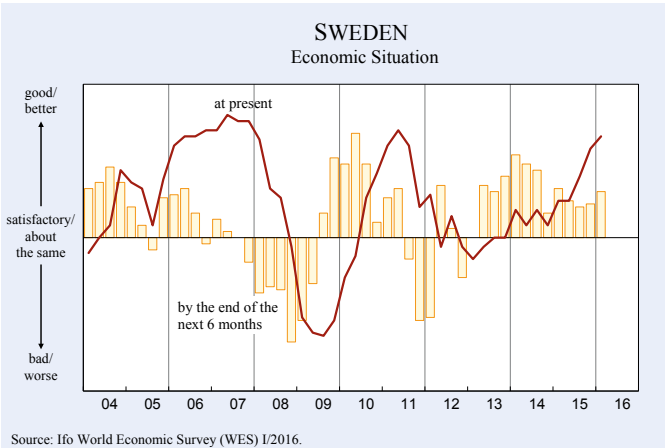
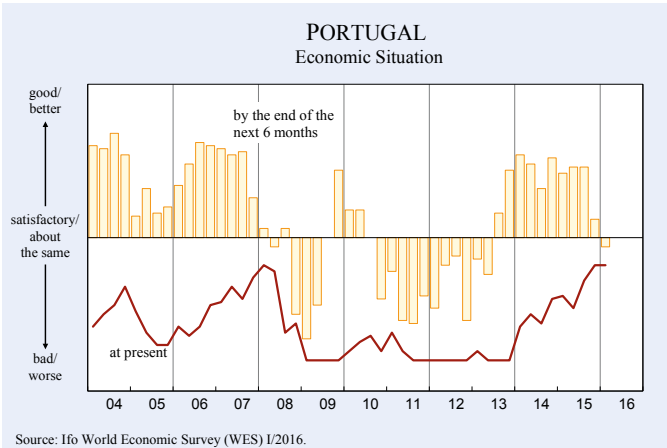
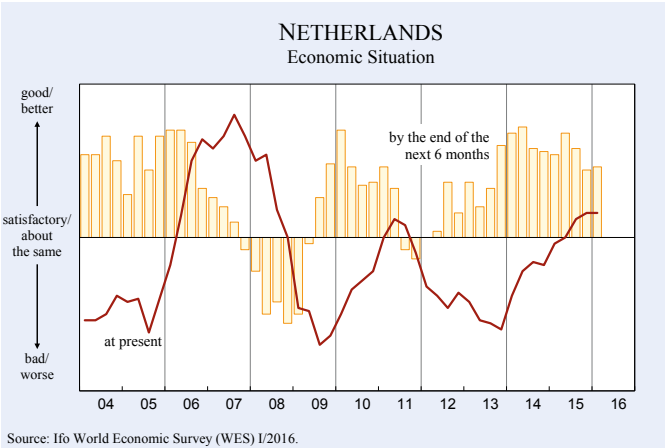
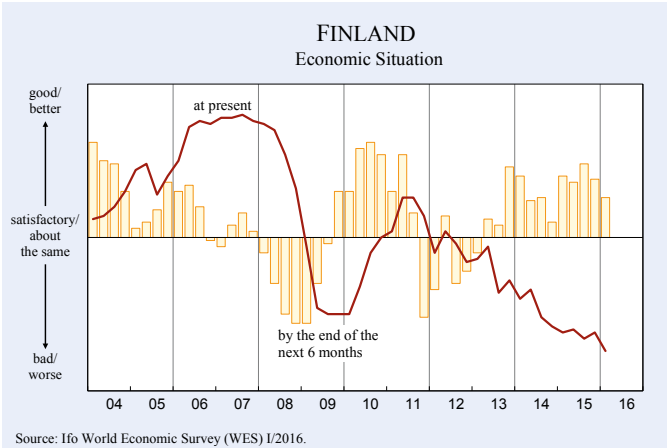
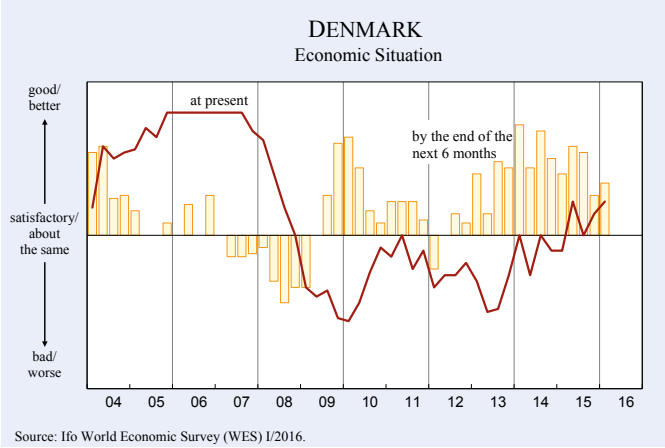
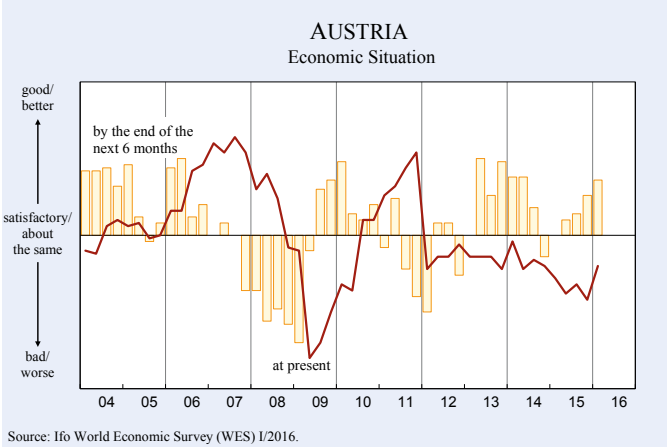


Figure 6

NORTH AMERICA, OCEANIA AND CIS

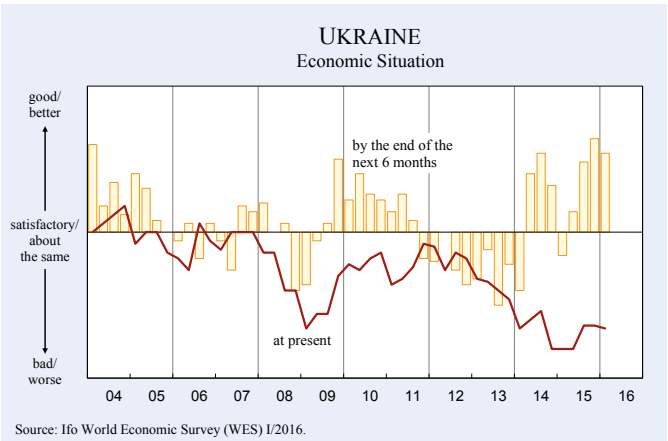
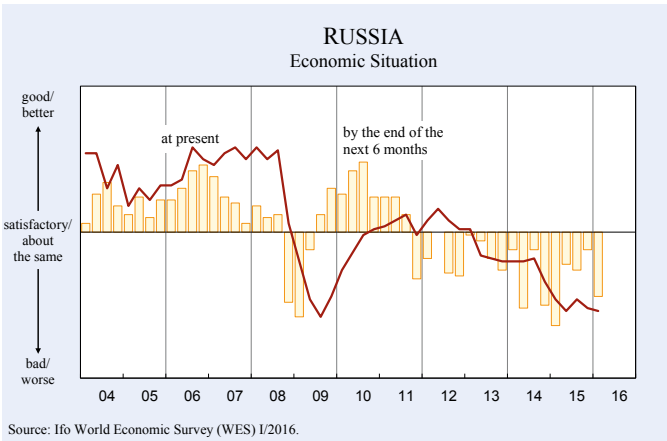
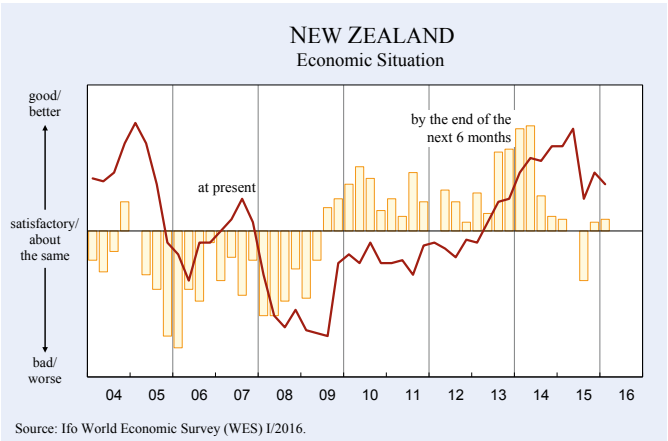
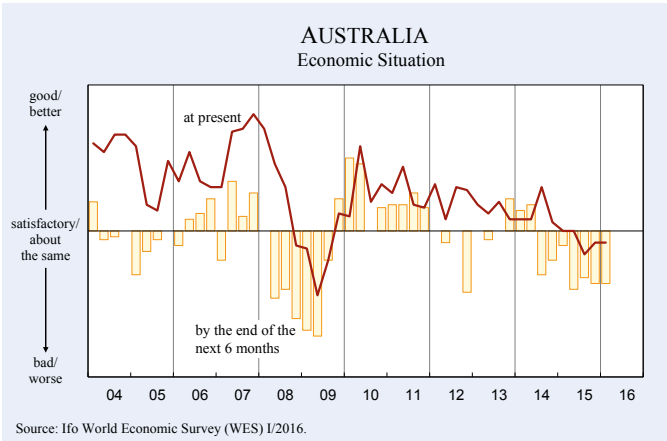
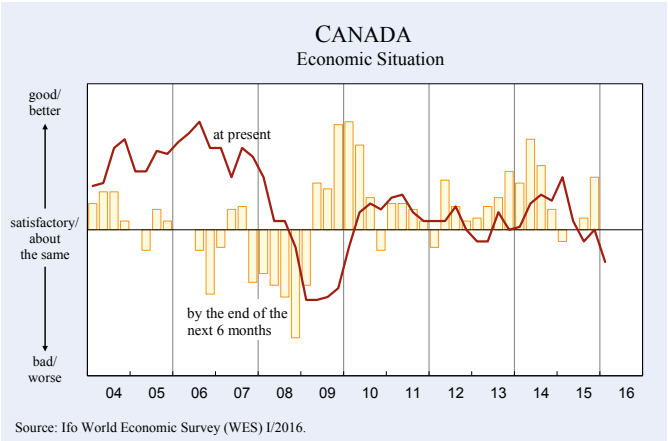
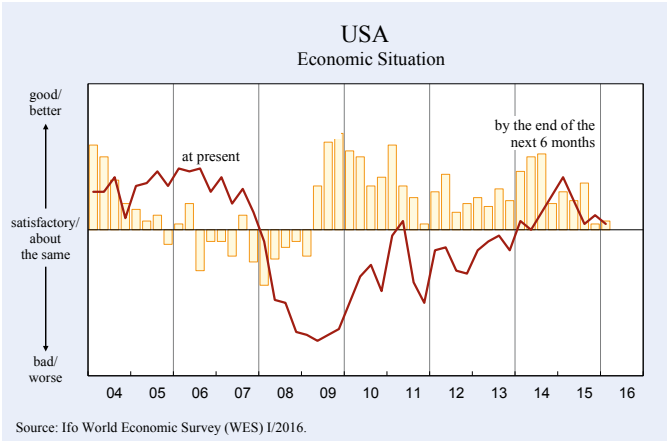


Figure 7

EASTERN EUROPE

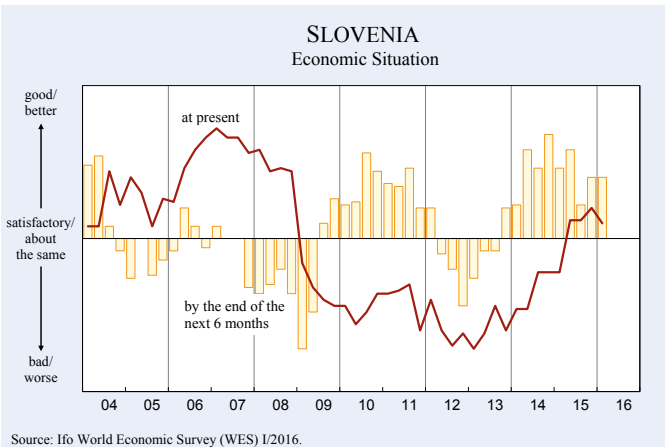
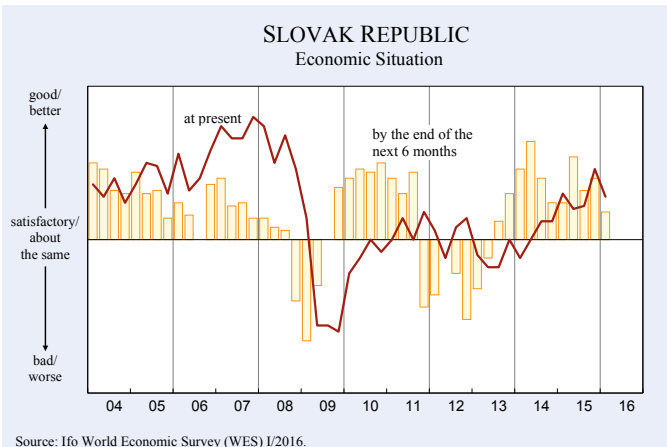
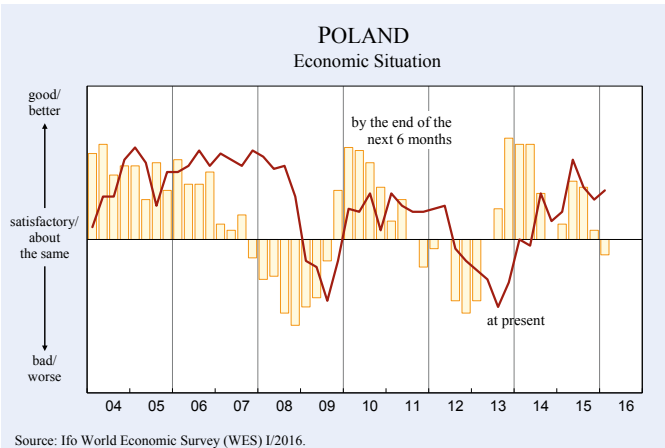
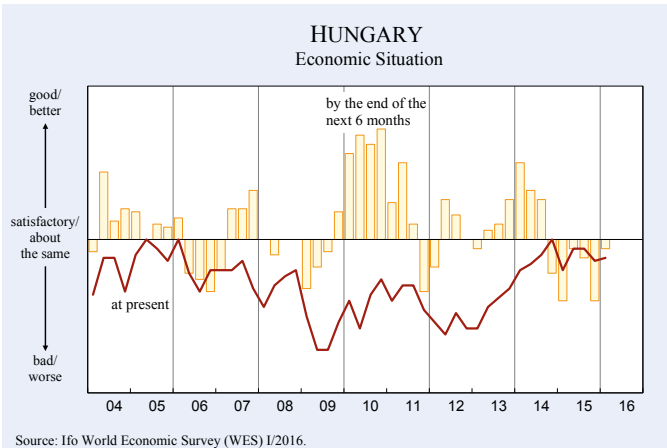
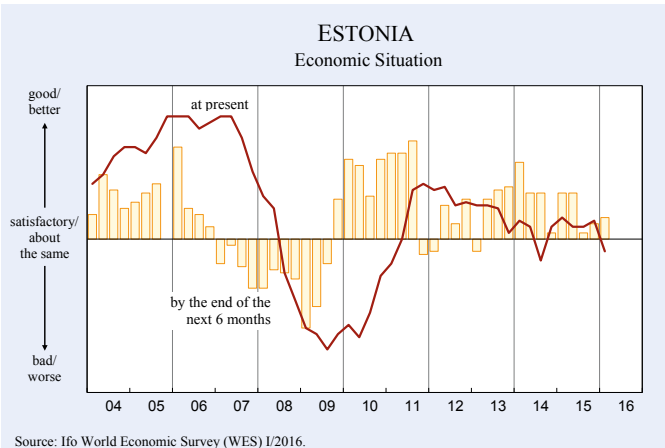
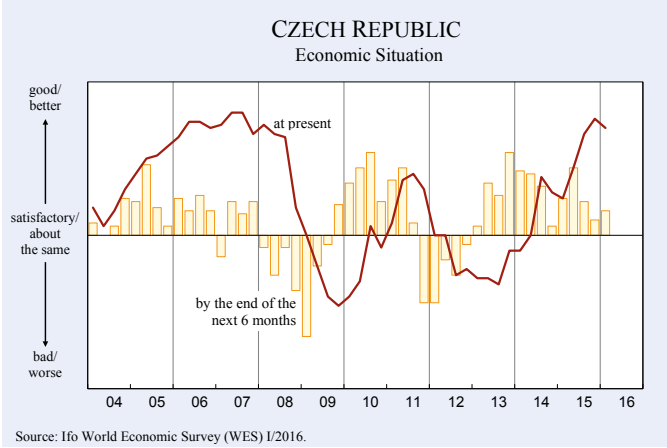


Figure 8

ASIA

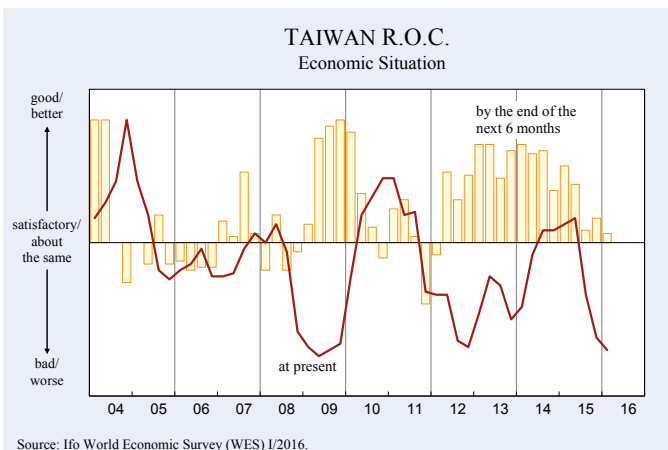
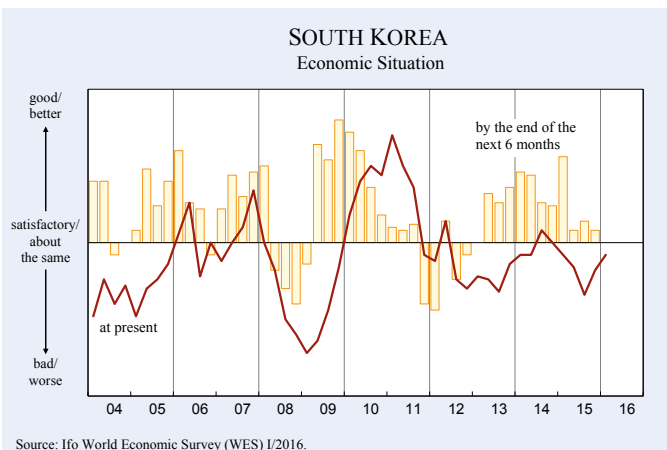
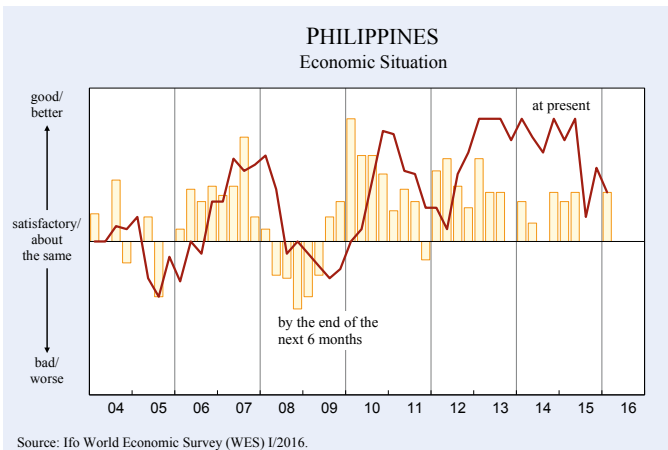
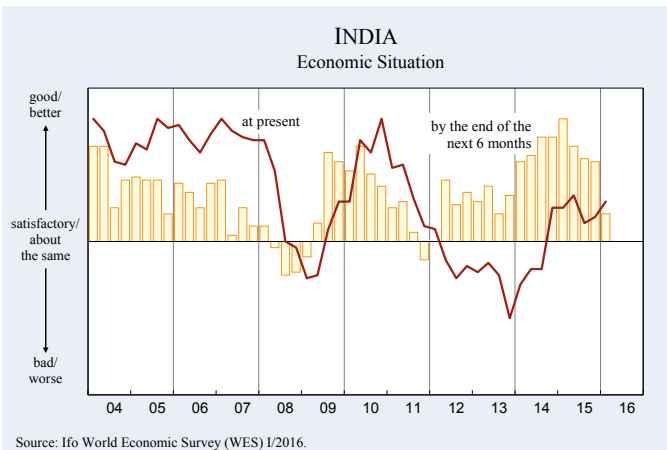
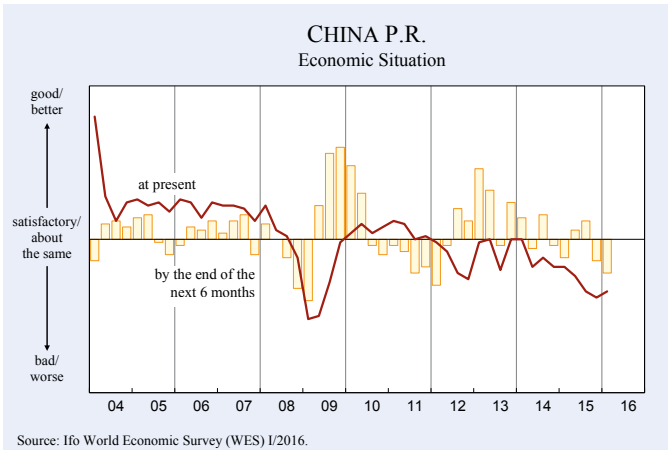
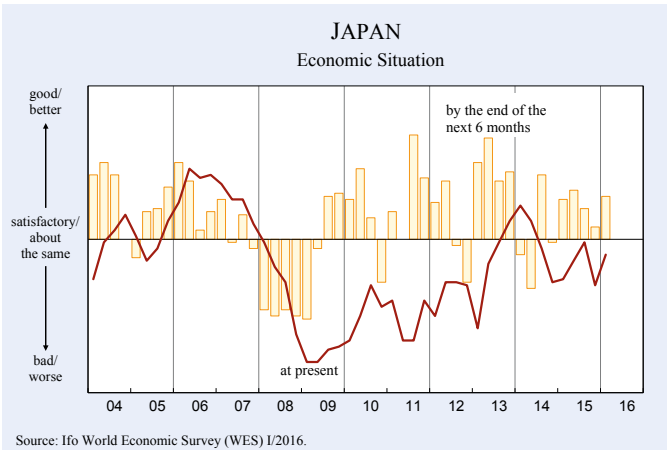


Figure 9

LATIN AMERICA

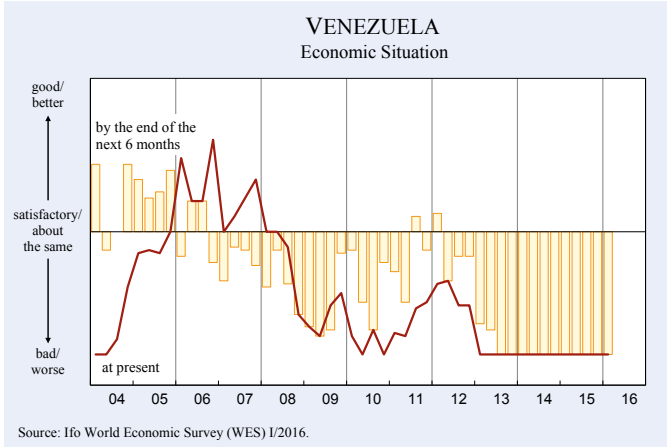
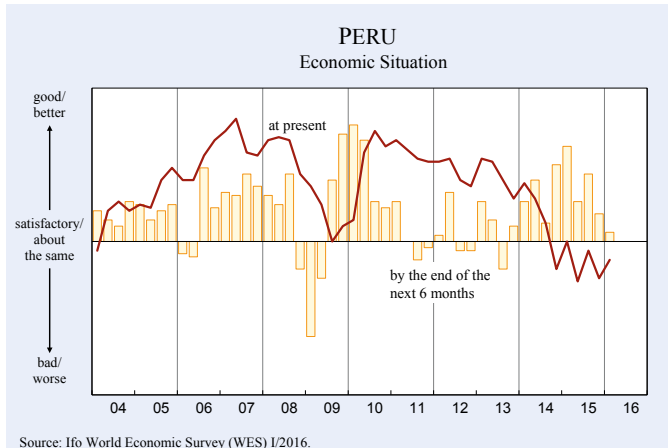
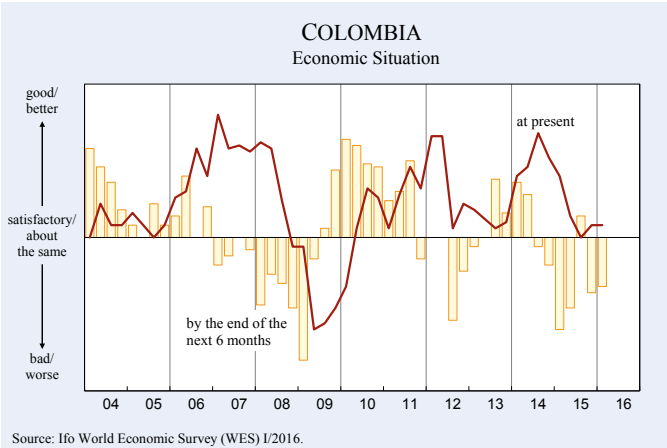
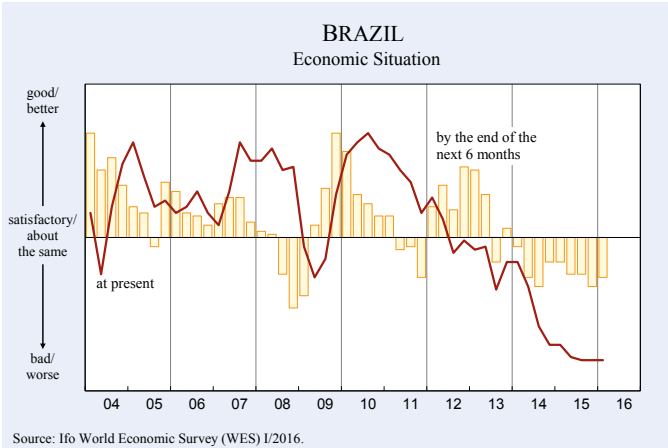
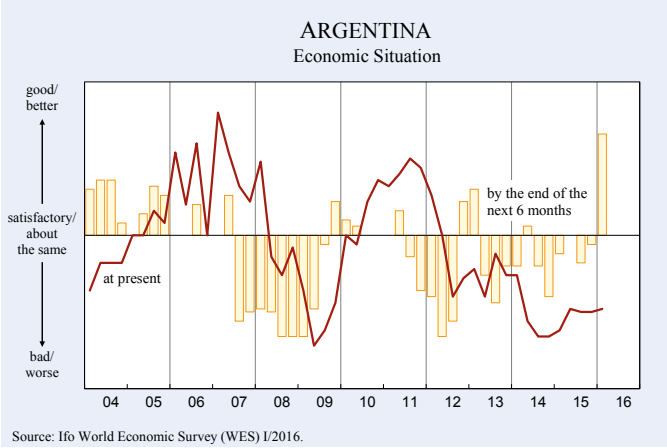
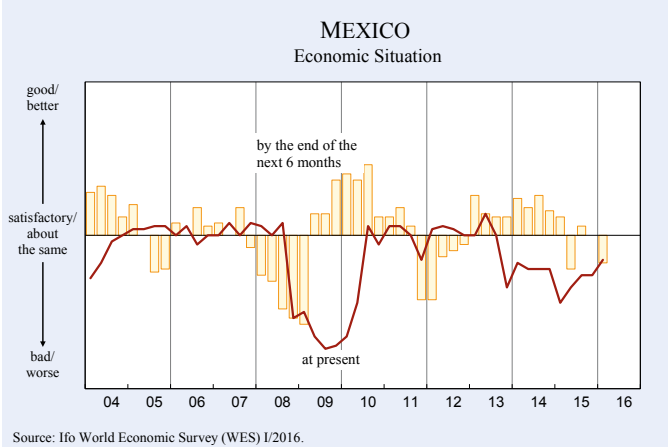
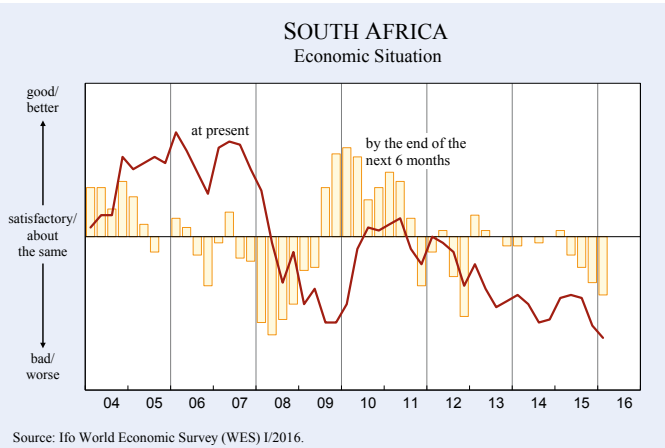
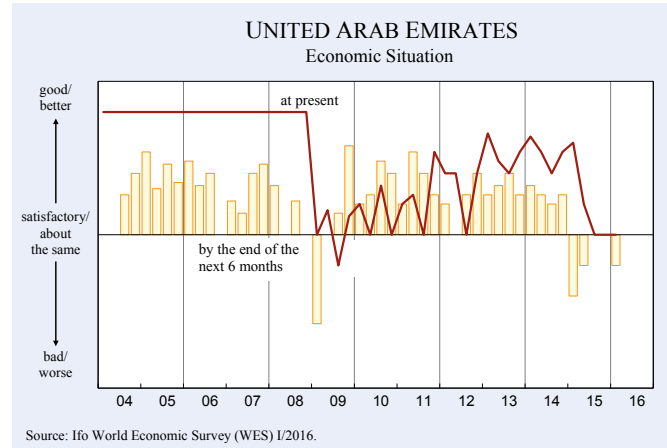
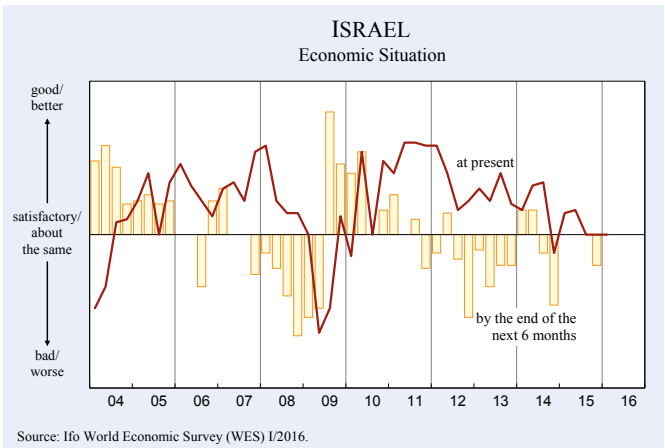
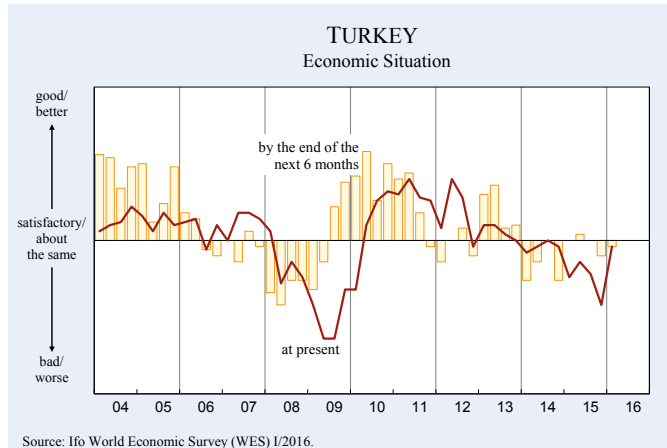
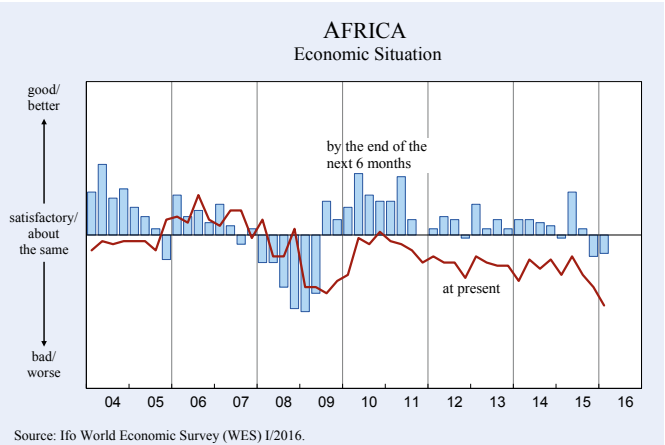
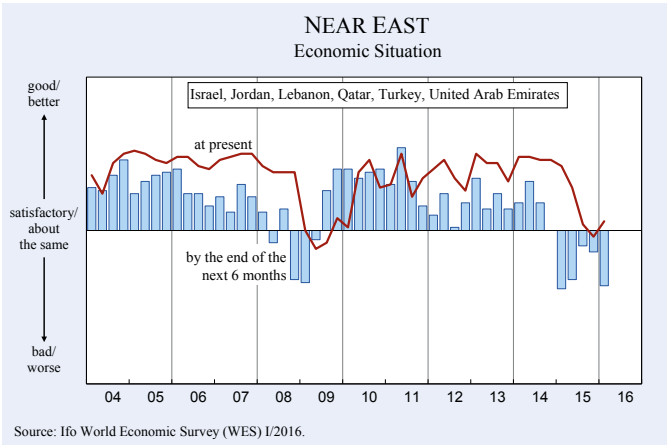


Figure 10

NEAR EAST AND AFRICA



Near East: Economic climate continues to cool

The economic climate indicator for the *Near East* continued to fall, from 64.9 in October to 60.6 in January, and thus remained clearly below its long-term average of 87.6 points. While the present economic situation improved compared to the previous survey, economic expectations are clearly more pessimistic than three months ago (see Figure 10). In *Israel*, *Qatar* and the *United Arab Emirates* no major changes compared to the previous survey were recorded. In all of these countries WES experts continue to assess the present economic situation as satisfactory. However, in terms of economic developments in the next six months, experts only remain positive with regard to *Israel*. WES experts in the *United Arab Emirates* turned sceptical and the situation in *Qatar* is also likely to worsen in the months ahead. After deteriorating in October 2015, the economic situation in *Lebanon* and *Turkey* improved again, is now seen as satisfactory and is expected to remain so in the months ahead. The situation for *Jordan* and *Saudi Arabia* was also rated as good. However, the six month economic outlook is only positive for *Jordan*. WES experts in *Saudi Arabia* turned sceptical regarding developments over the next six months.

Africa: Economic climate clouds over again

The economic climate indicator for *Africa* plunged even further below its long-term average. Assessments of the present economic situation continued to deteriorate. The six-month economic outlook remained cautious, reflecting developments in both parts of the continent – *Northern* and *Sub-Saharan Africa*.

In all *Northern African* countries, the present economic situation deteriorated strongly compared to last quarter's survey and was assessed as weak in *Algeria*, *Libya*, *Egypt* and *Tunisia*, and as unfavourable in *Morocco*. The six-month economic outlook only turned positive for *Tunisia*. In *Algeria* the current weak economic situation is expected to last for the next six months, while in other countries it will deteriorate even further.

The economic climate indicator for *South Africa* continued to decline due to more negative assessments of both the present situation and economic expectations (see Figure 10). The economic climate there is deeply undercooled and reached a historically low level. WES experts stated that political instability is likely to increase in the months ahead, which will hamper the cli-

mate for foreign investors (see Table 2). In *Benin*, the *Congo*, *Ethiopia*, *Gambia*, *Kenya*, *Mauritania*, *Mauritius*, *Senegal* and *Tanzania* the current economic situation remained satisfactory, despite some downward correction in the case of the *Congo*. In all of these countries, current economic performance is expected to remain as good as it is at present, except for in *Mauritania*, where WES experts turned sceptical about the six-month economic outlook. In *Ivory Coast* a favourable economic situation continued to prevail. In terms of the next six months, experts upwardly revised their expectations and forecast a further improvement in the economy. Major positive changes were recorded for *Cabo Verde*, *Congo Democratic Republic* and *Togo*. In the opinion of WES experts, the respective economic situation in these countries returned to a satisfactory level and is expected to stabilise in the months ahead. An exception to this trend is the *Congo Democratic Republic*, where scepticism continues to dominate the economic outlook. In *Namibia*, assessments of the present economic situation were less favourable than three months ago. Experts' economic expectations improved somewhat compared to last quarter's survey, but remain pessimistic regarding the next six months on the whole. The respective current economic situations of *Lesotho*, *Madagascar*, *Nigeria* and *Uganda* continued to deteriorate and were again rated as negative on balance in all cases. The current unfavourable economic conditions are likely to last, or even to deteriorate further in the next six months in all these countries. The situation in *Sierra Leone* and *Sudan* was rated as unfavourable, again. While WES experts see some improvements in economic conditions for *Sierra Leone* in the months ahead, they remain cautious for the *Sudan*, despite some visible upwards revisions of economic expectations in this country. In *Angola*, *Burundi*, *Comoros*, *Liberia*, *Malawi*, *Niger*, *Swaziland* and *Zimbabwe* the situation was once again assessed as weak. This time *Zambia* also joined the group of countries with current weak economic conditions. WES experts only forecast an improvement for *Liberia* in the short term. In the other countries the situation is likely to remain subdued, or even to deteriorate further.

2016: Inflation expected to rise slightly

On a worldwide average, the WES experts' inflation forecast for the year 2016 is slightly higher than the inflation rate reported for 2015 (3.2% compared with 3.0%).

For the **euro area** the inflation rate in 2016 is estimated to be 1.0% after a reported 0.6% for 2015. Thus, the gap between the ECB inflation target rate (lower, but close to 2.0%) and the actual rate is likely to shrink somewhat in 2016. This process is expected to continue in the years ahead. The medium-term inflation expectation (year 2021) stands unchanged from the preceding survey at 1.9%. Within the *euro area* the lowest inflation rates in 2016 are again expected in the two “crisis countries” *Cyprus* (0.3%) and *Greece* (0%), but unlike last year no further absolute decline of prices is foreseen in these two countries. Inflation expectations somewhat higher than the overall average of 1.0% mainly prevail in *Belgium* (1.5%) and *Austria* (1.4%).

In **Western Europe** outside the *euro area* the span of inflation expectations for 2016 reaches from -0.3% in *Switzerland* to 2.2% in *Norway*. In the *United Kingdom* the inflation outlook for 2016 does not differ from the euro average (1.0%; see Table 3).

In **Eastern Europe** the expected upturn in the inflation rate will be slightly stronger than in *Western Europe* (from 0.6% to 1.2% in 2016). The inflation rate will also exceed the regional average in 2016 in *Serbia* (4.0%) and *Albania* (1.7%). In *Latvia* and *Lithuania* the 2016 inflation rate is also expected to surpass the regional average by climbing to 1.8% respectively. As in *Western Europe* present very low inflation rates in the region are seen as a transitory phenomenon; and in the course of the next five years inflation is expected to return to historically more “normal” levels (2021: 2.5%).

In **North America**, the inflation rate forecast for 2016 of 1.7% is significantly higher than the inflation rate reported for 2015 (1.3%). In the *United States* the expected inflation rate of 1.7% is also approaching the US Fed’s target of 2.0%. The medium-term inflation outlook (2021) in the *US* remained at 2.5%.

In **Asia** inflation expectations for 2016 differ from the overall global pattern and signal a slowdown (from 2.6% in 2015 to 2.3%). The medium-term inflation rate is also expected to decline somewhat (from 3.1% to 2.9%). The deceleration of inflation in 2016 will be most pronounced in *Malaysia* (from 5.3% to 3.7%), *Indonesia* (from 6.0% to 4.7%) and *Hong Kong* (from 3.7% to 2.6%), but there will also be marked slowdowns in *Pakistan* (from 6.7% to 5.8%), in *South Korea* (from 1.8% to 1.4%), *China* (from 2.3% to 2.0%) and *Vietnam* (from 4.0% to 3.8%). Inflation in 2016, on the other hand, is expected to increase somewhat in a series of

Table 1
Legal and administrative restrictions for foreign firms

Absent	
Ireland	8.2
Kosovo	7.9
Finland	7.5
Denmark	7.3
Portugal	7.3
Uruguay	7.3
Germany	7.0
Lithuania	7.0
Norway	7.0
Rather low	
Netherlands	6.8
Paraguay	6.8
Sweden	6.8
Peru	6.7
Latvia	6.5
Togo	6.5
United Kingdom	6.5
Slovakia	6.4
Turkey	6.4
Australia	6.3
Bulgaria	6.3
Croatia	6.3
Switzerland	6.3
United States	6.2
Czech Republic	6.1
Slovenia	6.0
Belgium	5.9
Austria	5.8
Colombia	5.8
Hong Kong	5.8
Mexico	5.8
Cabo Verde	5.7
Zambia	5.7
Spain	5.6
Chile	5.5
Canada	5.4
New Zealand	5.4
France	5.3
Argentina	5.0
Guatemala	5.0
Kazakhstan	5.0
Romania	5.0
Italy	4.7
Japan	4.7
Poland	4.7
Lesotho	4.6
Hungary	4.4
Kenya	4.4
Brazil	4.3
South Africa	4.3
South Korea	4.3
India	4.2
Pakistan	4.1
Taiwan	4.1
Rather high	
Nigeria	3.4
Russian Federation	3.4
Sri Lanka	3.4
Malaysia	3.3
China	2.7
Greece	2.6
Thailand	2.5
Ukraine	2.3
Ecuador	1.8
Egypt	1.7
Zimbabwe	1.5

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/2016.

other *Asian* countries like, for example, *Sri Lanka* (from 5.0% in 2015 to 7.0%), *Thailand* (from 0.5% to 1.6%), *Taiwan* (from 0.1% to 0.9%), the *Philippines* (from 1.7% to 2.5%) and *India* (from 5.1% to 5.6%). The expected inflation rate in 2016 will slightly surpass that forecast for 2015 in *Japan* too, but will remain far below the target rate of the Bank of Japan (2.0%) at an expected 0.6%.

In *Oceania* inflation expectations for 2016 stand unchanged from last year's inflation rate of 1.8%, with 1.9% in *Australia* and 1.4% in *New Zealand*. The medium-term inflation outlook (2021) increased somewhat (from 2.5% to 2.7%) in both *Australia* and *New Zealand*.

In *Latin America* inflation expectations for 2016 of 16.9% are somewhat higher than the inflation rate reported for 2015 (14.3%). This upward trend was again most pronounced in *Venezuela* (216.1% following 152.2% in 2015). In *Argentina* the change in government has not yet led to an expected moderation of inflation. On the contrary, inflation is expected to accelerate even further from 27.3% in 2015 to 30.2% in 2016. However, the medium term inflation outlook improved slightly (from 8.2% to 7.2%). In *Brazil*, the largest economy in the region, inflation expectations for 2016 shrunk when compared with the 2015 inflation rate (8.5% against 9.4%), but remained significantly higher than the country's long-term average (6.2%).

In *CIS* countries inflation expectations for 2016 moderated somewhat (11.6% compared with 15.5% in 2015). This was mainly due to an expected improvement on the inflation-front in the crisis country *Ukraine* (14.7% after a reported 38.4% in 2015). Some moderation of its high inflation rate is also expected in *Russia* (11.4% com-

pared with 13.6% in 2015). In *Kazakhstan*, on the other hand, inflation expectations for 2016 of 11.0% were up from the 2015 inflation figure (7.6%).

In the *Near East* the inflation outlook for 2016 did not differ much from the outcome in 2015 (4.4% compared with 5.1%). The highest rate of inflation in the region is still expected for 2016 in *Turkey* (8.3%) and the lowest in *Israel* (1.8%).

In *Africa* inflation expectations for 2016 were somewhat higher than the reported 2015 inflation rate (7.6% compared with 6.8%). The medium-term inflation outlook remained unchanged (6.5%). However, as in preceding surveys, the picture remains very heterogeneous from country to country. The expected 2016 inflation rate in *South Africa* of 6.5% continues to lie below the overall average for the continent. The lowest inflation rates in 2016 will prevail in *Zimbabwe* (0.1%), *Cabo Verde* (1.9%), *Congo Democratic Republic*, *Morocco* and *Togo* (each 2.3%) and *Swaziland* (2.5%). The highest inflation expectations in the region are reported by WES experts in *Burundi* (42.0%), *Libya* (31.3%) and *Sudan* (26.5%).

US dollar will gain strength

The course of the main world currencies: the *US dollar*, the *British pound*, the *Japanese yen* and the *euro* are now largely in line with fundamental considerations, according to WES experts (see Figure 11).

Major differences in currency evaluation by country remain: in *Australia*, *Croatia*, *Hungary*, *Ukraine*, *Hong Kong*, *Pakistan*, *Taiwan*, *Egypt*, *Uganda*, *Argentina*, *Paraguay* and *Uruguay*, WES experts assessed their own currency as generally overvalued. *China* dropped out of this group of countries because the currency relation of *yuan* and *euro* was seen as balanced this quarter, whereas the *yuan* is still seen as overvalued, particularly with regard to the *US dollar*. By contrast, WES experts in *Norway*, the *Czech Republic*, *Slovakia*, *Monaco*, *Turkey*, a series of *African* countries like *Benin*, *Kenya*, *Lesotho*, *Madagascar*,

Figure 11

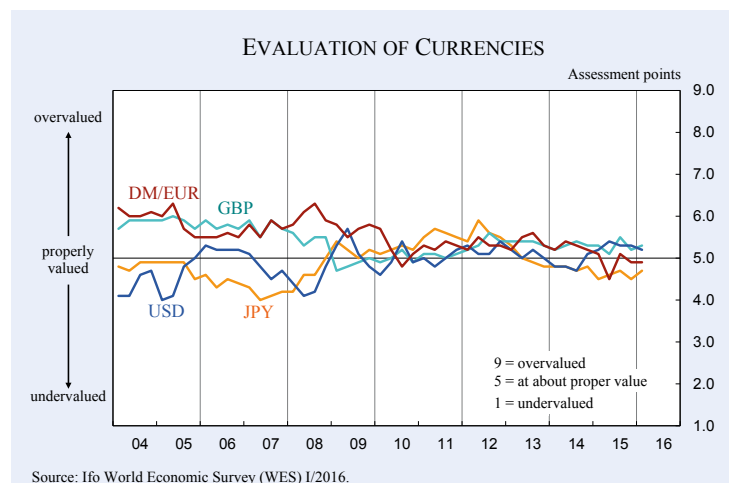
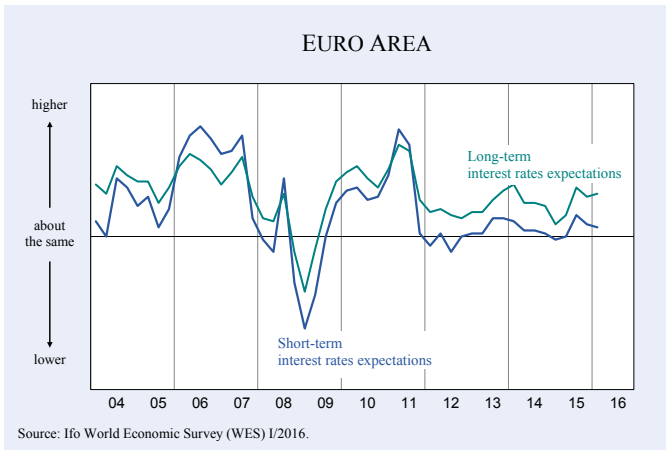
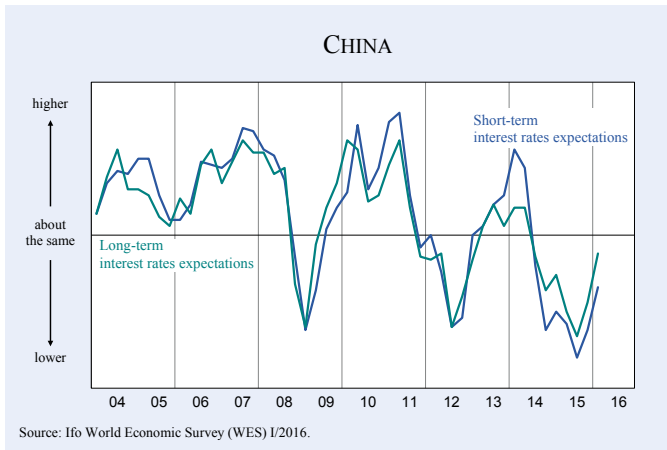
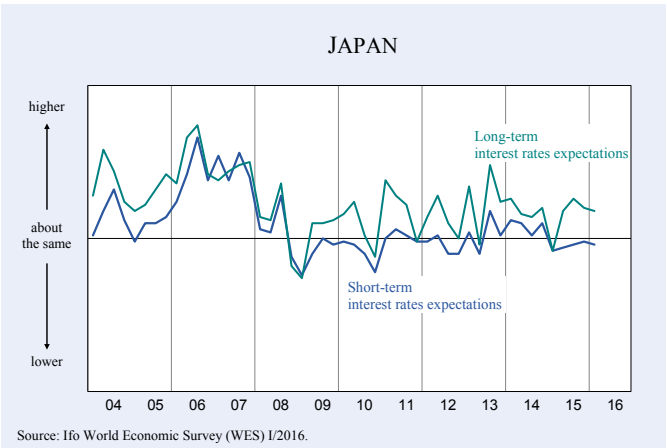
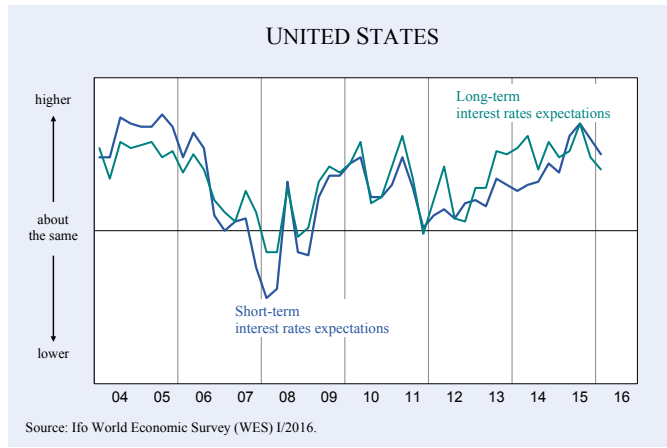
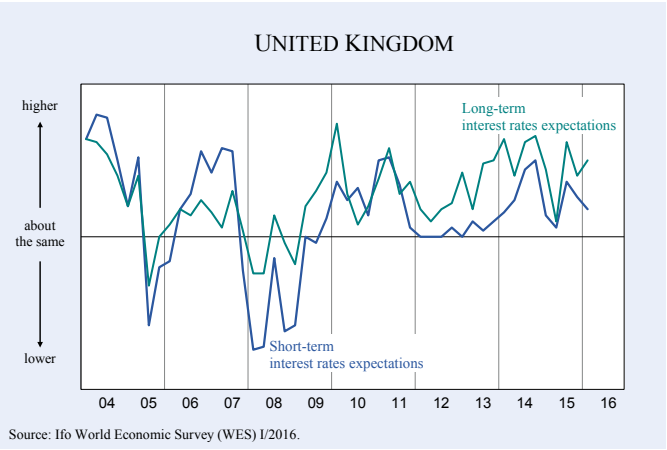
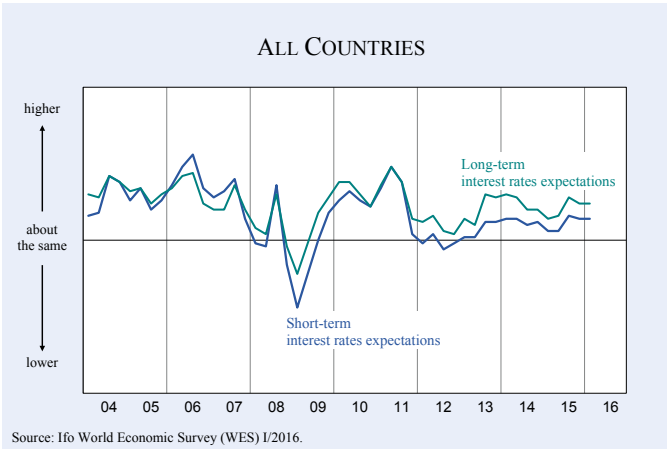


Figure 12

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



Nigeria, Sierra Leone, South Africa, as well as *Zambia* assessed their own currency as generally undervalued vis-à-vis the world's four leading currencies (the *US dollar, euro, British pound* and *yen*). In *Japan*, though to a lesser degree than in the preceding survey, the domestic currency was also seen as somewhat undervalued.

The answers to the supplementary survey question on likely trends in the *US dollar* in the next six months, regardless of how currencies are assessed from a fundamental point of view, signal that the value of the *US dollar* is expected to rise to greater extent than in the preceding survey over the next six months on worldwide average. A few exceptions to this trend include *Indonesia, Bangladesh* and *Algeria*, where a weakening of the *US dollar* is expected in the months ahead.

Expectations of interest rate increase remain moderate

On a worldwide scale, short-term and even more long-term interest rates are expected to increase somewhat over the next six months. In the *USA*, after the first interest hike by the FED in almost 10 years, the share of WES experts expecting a further increase in short-term interest rates in the next six months declined somewhat. This also holds true for long-term interest rates. In the case of *Australia*, where the currency was generally assessed as overvalued, further cuts in short-term interest rates and also a decline of capital market rates is expected. Short-term interest rates are also expected to decline in *Russia* over the next six months; however, this will probably be accompanied by an increase in long-term interest rates. In *China, Taiwan, India* and *Indonesia* a

further decline in short-term interest rates is expected by WES experts. Unlike in *Russia*, this will be associated in all four cases with shrinking or at least stable capital market rates. The picture is similar in *Argentina*, where short- and long- term interest rates are expected to decline in the near future. An explanation for expected sinking capital market rates in the case of *Argentina* is probably the belief that the new, more market-oriented government could succeed in both stimulating the economy and reducing the high current rate of inflation in the mid-term. In *Brazil* inflation remains high and will – according to WES experts – also prevent the central bank from cutting interest rates over the next six months, despite the recession that *Brazil's* real economy is experiencing.

Supply of bank credit to firms continues to improve

In view of the problems of firms experienced 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 the extent to which the supply of bank credit to the firms in the country they are reporting for is constrained by bank-specific factors (e.g. bank health or banking regulation). The scale ranges from “not constrained” (9), to “moderately constrained” (5) and “strongly constrained” (1) (see Table 4).

According to WES experts, the group of countries with a high degree of credit constraints features three euro countries: *Greece, Portugal* and *Italy*. Whereas *Greece* belonged to this group of countries with problems in the supply of bank credit from the outset, *Italy* and *Portugal*

Table 2
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	Poland, Zimbabwe	Argentina, China, Kosovo, Nigeria, Peru, Togo, Ukraine
Political stability	Bulgaria, Ecuador, Hong Kong, Lesotho, Malaysia, Philippines, Poland, South Africa, Spain, Taiwan, Zimbabwe	Argentina, Cabo Verde, Nigeria, Peru, Ukraine
* 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/2016.

Table 3

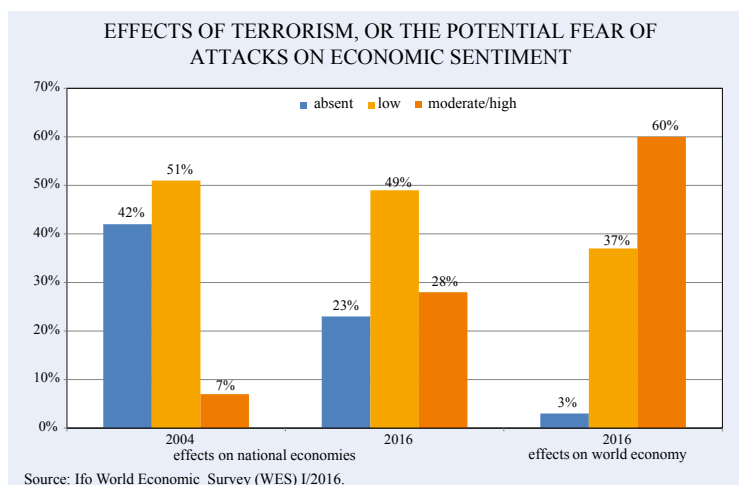
Inflation rate expectations for 2016 and in 5 years (2021)

Region	2016	2021	Region	2016	2021
Average of countries *	3.2	3.0	Latin America	16.9	6.0
High-income countries	2.7	2.5	Argentina	30.2	7.2
Middle-income countries	5.2	4.8	Bolivia	5.1	6.1
Upper-middle	4.6	4.3	Brazil	8.5	5.4
Lower-middle	6.2	5.6	Chile	3.9	2.9
Low-income countries	5.6	5.4	Colombia	5.2	3.6
EU 28 countries	1.0	2.0	Costa Rica	(3.5)	(4.0)
EU countries (old members) ^{a)}	1.0	1.9	Cuba	(3.0)	(5.0)
EU countries (new members) ^{b)}	1.2	2.5	Dominican Republic	(3.0)	(4.0)
Euro area ^{c)}	1.0	1.9	Ecuador	3.4	4.0
Western Europe	1.0	1.8	El Salvador	1.9	3.1
Austria	1.4	2.1	Guatemala	3.5	4.8
Belgium	1.5	1.9	Mexico	3.6	3.8
Cyprus	0.3	2.0	Paraguay	4.6	4.3
Denmark	0.9	1.5	Peru	3.8	2.6
Finland	0.7	1.6	Trinidad and Tobago	(12.0)	(12.0)
France	0.8	1.6	Uruguay	9.3	7.3
Germany	1.0	1.8	Venezuela	216.1	33.9
Greece	0.0	2.0	North America	1.7	2.4
Ireland	0.8	1.9	Canada	1.9	2.2
Italy	0.8	2.0	United States	1.7	2.5
Luxembourg	1.1	2.0	Oceania	1.8	2.7
Malta	(1.5)	(2.5)	Australia	1.9	2.8
Monaco	1.5	2.0	New Zealand	1.4	2.1
Netherlands	1.0	1.8	Near East	4.4	3.9
Norway	2.2	2.2	Israel	1.8	2.8
Portugal	1.0	1.8	Jordan	(2.9)	(3.5)
Spain	0.9	1.9	Lebanon	(3.0)	(6.0)
Sweden	1.0	1.9	Qatar	(1.5)	(2.0)
Switzerland	-0.3	1.1	Saudi Arabia	(3.0)	(3.0)
United Kingdom	1.0	2.2	Turkey	8.3	7.2
Eastern Europe	1.2	2.5	United Arab Emirates	4.4	3.5
Albania	1.7	2.3	Africa	7.6	6.5
Bosnia and Herzegovina	1.4	3.8	Northern Africa	6.8	5.4
Bulgaria	1.1	2.4	Algeria	6.5	5.0
Croatia	0.8	2.1	Egypt	11.9	8.5
Czech Republic	1.2	2.7	Libya	31.3	15.0
Estonia	1.1	2.0	Morocco	2.3	3.0
Hungary	1.6	2.7	Tunisia	4.8	4.4
Kosovo	0.7	1.7	Sub-Saharan Africa	8.1	7.1
Latvia	1.8	2.7	Angola	(15.0)	(10.0)
Lithuania	1.8	2.9	Benin	3.0	3.0
Macedonia	0.5	2.2	Burundi	(42.0)	(6.5)
Poland	0.8	2.3	Cabo Verde	1.9	2.9
Romania	1.5	2.1	Comoros	(3.0)	(5.0)
Serbia	4.0	3.5	Congo Dem. Rep.	2.3	3.5
Slovakia	0.9	2.9	Congo-Brazzaville Rep.	(3.0)	(5.0)
Slovenia	1.2	2.2	Ethiopia	(14.0)	-
CIS	11.6	8.8	Gambia	(6.7)	(5.5)
Armenia	(14.0)	(15.0)	Ivory Coast	2.9	3.0
Kazakhstan	11.0	6.5	Kenya	6.6	6.2
Kyrgyzstan	(8.0)	(5.0)	Lesotho	6.8	6.4
Russia	11.4	9.6	Liberia	(8.0)	(5.0)
Ukraine	14.7	6.2	Madagascar	8.0	8.6
Uzbekistan	(7.5)	-	Malawi	(23.0)	(15.0)
Asia	2.3	2.9	Mauritania	6.5	7.3
Bangladesh	6.1	5.6	Mauritius	2.8	3.5
China	2.0	2.9	Namibia	4.9	6.0
Hong Kong	2.6	2.8	Niger	(2.0)	(2.5)
India	5.6	4.6	Nigeria	10.2	9.0
Indonesia	4.7	4.5	Senegal	(1.8)	(1.6)
Japan	0.6	1.2	Sierra Leone	9.1	6.5
Malaysia	3.7	4.0	South Africa	6.5	6.5
Pakistan	5.8	6.9	Sudan	26.5	16.0
Philippines	2.5	4.0	Swaziland	2.5	3.3
Singapore	1.0	2.0	Tanzania	9.0	8.0
South Korea	1.4	2.3	Togo	2.3	2.8
Sri Lanka	7.0	5.7	Uganda	8.7	5.3
Taiwan	0.9	1.4	Zambia	21.9	10.3
Thailand	1.6	2.6	Zimbabwe	0.1	3.3
Vietnam	3.8	7.0			

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. - () The data in brackets result from few responses. - ^{a)} Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. - ^{b)} Czech Rep., Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia, Bulgaria, Romania, Croatia. - ^{c)} Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: Ifo World Economic Survey (WES) I/2016.

Figure 13



left this problem-group in mid-2015, but have now returned to it. *China*, by contrast, was able to leave this group and joined the large group of countries with only a moderately constrained bank credit supply. The *Russian Federation* still belongs to the group of countries where the supply of bank credit to firms is assessed as “strongly constrained”.

The top category “not credit constrained” had grown in size almost continuously since 2013, but shrank this quarter from 22 to 19 compared to the previous survey, with countries like *Chile*, *Pakistan* and *Paraguay* dropping out of this category and now belonging to the group of countries with a moderately constrained supply of bank credit to firms.

As a general conclusion, the credit availability situation is tending towards normalisation in the majority of countries, but there is a significant group of countries, including *Greece* and the *Ukraine* in particular, where credit restrictions still pose a great problem to firms. Important oil producing countries like *Russia*, *Kazakhstan* and *Nigeria* also belong to this group due to the sharp decline in oil prices.

The impact of terrorism on the world economy

While death, injury and capital destruction are the most visible effects of a terrorist attack, fear and the more indirect effects of terror can be harmful to the economy in the longer term.¹ Terrorist attacks incite fear, insecurity

and intimidation; all three can undermine consumer and investor confidence in the medium term. In addition, economic productivity may be hindered due to the rising transaction costs of increased security measures, higher insurance premiums and the increased costs of counter terrorism regulations.² These factors are likely to affect national economies, as well as the world economy.

In the light of the recent terrorist attacks, this quarter’s special question asked WES experts for their opinion on how the fear of terrorist attacks

will influence the world and national economies respectively. The precise wording of the question was: *how do you assess the effects of terrorism, or the potential fear of attacks, on economic sentiment for the world economy and your country respectively?* The majority of WES experts (60%) expect that the fear of terrorism will have a moderate to high impact on the world economy (see Figure 13). By contrast, the majority of experts surveyed assessed the impact of potential terrorist attacks on economic sentiment within their own countries as low on average (49%). Only 28% expect terrorism to have a moderate to high impact on their national economies. However, the comparison of these results with data collected in the WES survey in January 2004 in the aftermath of several terrorist attacks (for example 9/11 in the *United States*, *Djerba* in *Tunisia*, *Bali* and *Jakarta* in *Indonesia* or *Istanbul* in *Turkey*) shows a shift in the responses. Although the wording of the 2004 question is not identical to that of the special question in 2016, the results can nevertheless be used for the purposes of comparison. The question stated: *fears of terrorist attacks have affected business prospects for 2004 in my country*, and there were four possible responses: not at all, slightly, severely and very severely. The categories severely and very severely were matched together, enabling a better comparison with the respective categories of ‘moderate/high’ in 2016. In 2004 only 7% of participants stated that fears of terrorist attacks had severely affected business prospects for their respective country. This share compared with the latest result of 28% shows an increase in the fear that terrorism could negatively impact the economy. However, it may also be an

¹ See Brück, T. and B.-A. Wickström (2004): “The Economic Consequences of Terror: A Brief Survey”, Working Paper. School of Social Sciences and Cultural Studies, University of Sussex – Falmer.

² See Johnston, R. B. and Oana M. Nedelescu (2006): “The impact of terrorism on financial markets”, *Journal of Financial Crime*, Vol. 13 Iss: 1, pp.7 – 25.

indication that the perception of recent terrorist attacks is still more present in people's minds, as the question was asked just two months after the terrorist attack in *France* and other series of attacks in several countries that attracted a great deal of media attention.

When taking a closer look at *France*, the results show that among all other European countries, *France* has the highest share of respondents (65%) who fear that terrorism has a moderate to high impact on their national economy. In the light of the recent severe attacks, these results are not surprising. In addition, *France*, together with other countries that face a higher terrorism threat or countries that were recently targeted by terror attacks like *Egypt*, *Turkey*, *Israel*, *Kenya* and *Tunisia* for example, expects its national economy to be more affected than the world economy.

A statistical test, performed to test whether experts' assessments of the impact of the fear of terrorism on their respective economies had already influenced their six-month economic expectations, was not significant.³ This means that the fear of terrorism is not currently influencing experts' assessments of economic sentiment in the short-term. These findings are in line with recent research conducted by the Ifo Institute, in which terrorist attacks were not observed to have any remarkable effects on several economic indicators like gross domestic product, interest rates, producer- and consumer sentiment, exchange rates and domestic share prices.⁴ This may signal that the psychological fear of attacks is far more firmly anchored in the minds of individuals than it is reflected in the perception of economic sentiment.

To conclude, recent figures do show that assessments of the effects of terrorism on national economic sentiment are more negative than in 2004 at the moment. In general, terrorism is perceived to have a higher impact on the world economy than on national economies, with the exception of those countries that were recently targeted by terrorist attacks. It remains to be seen whether and how the negative impact of terrorism will be observed in the real economy.

³ The model included data of the Global Terrorism Index from the Institute of Economics and Peace to measure to which extent a country is currently affected by terrorism. <http://economicsandpeace.org/wp-content/uploads/2015/11/Global-Terrorism-Index-2015.pdf>

⁴ see Wollmershäuser et al. (2015): „Ifo Konjunkturprognose 2015-2017: Verhaltener Aufschwung setzt sich fort“, ifo Schnelldienst 68 (24): p. 28.

Table 4
Supply of bank credit to firms,
extent of constraint

Not constrained	
Guatemala	9.0
Kosovo	9.0
Colombia	8.2
Philippines	8.2
Australia	8.0
Canada	7.9
Czech Republic	7.9
Germany	7.7
Switzerland	7.7
Sweden	7.5
Finland	7.4
Hong Kong	7.4
New Zealand	7.4
Sri Lanka	7.4
Taiwan	7.4
Peru	7.3
Slovakia	7.3
Japan	7.2
Turkey	7.1
Moderately constrained	
Chile	6.7
South Korea	6.5
Thailand	6.5
United States	6.5
France	6.4
Norway	6.3
Pakistan	6.3
Paraguay	6.3
United Kingdom	6.3
Uruguay	6.3
Denmark	6.1
Malaysia	6.1
Netherlands	6.1
Croatia	6.0
South Africa	6.0
Belgium	5.9
Latvia	5.9
Lesotho	5.9
Brazil	5.8
Bulgaria	5.8
Lithuania	5.7
Mexico	5.6
Kenya	5.5
Argentina	5.4
India	5.3
Spain	5.2
Austria	5.0
Poland	5.0
Hungary	4.7
Romania	4.6
Slovenia	4.5
China	4.4
Egypt	4.3
Zambia	4.3
Ireland	4.2
Strongly constrained	
Cabo Verde	3.9
Italy	3.9
Kazakhstan	3.7
Togo	3.5
Ecuador	3.4
Nigeria	3.4
Russian Federation	3.4
Portugal	3.2
Zimbabwe	2.5
Ukraine	1.7
Greece	1.6

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/2016.

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