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CESifo WORLD ECONOMIC SURVEY

VOLUME 15, No. 2

MAY 2016

WORLD ECONOMIC CLIMATE

World Economic Climate
brightens slightly

ECONOMIC EXPECTATIONS

Economic expectations upwardly revised

INFLATION

Inflation expectations continue to pick up

CURRENCIES

US dollar expected to rise further

INTEREST RATES

Interest rate trends set to diverge

SPECIAL TOPIC

Immigration policies

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Regions

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- Western Europe: Economic recovery looks set to slow
- North America: Economic climate signals ongoing recovery
- Eastern Europe: Economic climate clouds over slightly
- CIS: Economic expectations improve considerably
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- Africa: Economic climate brightens slightly

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 2016* 1,078 economic experts in 116 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 BRIGHTENS SLIGHTLY

The world economic climate improved slightly this quarter. The Ifo Index for the world economy rose from 87.8 points to 90.5 points, thus approaching its long-term average of 96.0 points. Although assessments of the current economic situation deteriorated marginally, economic expectations were more positive than last quarter (see Figures 1 and 2). Experts expect the world economy to grow by 2.0 percent in 2016; so its recovery remains moderate (see Box 1).

significant economic risks and is accompanied by a decline in foreign trade's importance to *China*, as well as weaker demand for commodities. Combined with strong growth in the oil supply, this led to sharp falls in oil prices at the end of last year. The drop in commodity prices partly reflected weaker demand worldwide. At the same time, it boosted economic activity in most advanced economies by increasing real income and lowering production costs. The overall effect on global demand for goods is expected to be positive, despite revenue losses in the major commodity exporting, emerging economies, since a large share of lost revenues was not spent on consumer or capital goods prior to the price slump,

Economic climate improves

The downward trend in the economic climate indicator ground to a halt in nearly all regions. In *North America* the trend towards a recovery was particularly marked, with the indicator once again rising above its long-term average. In *Asia* the indicator stabilised at a low level, while it dropped in *Europe*, but remained above its long-term average. In all other regions, however, and especially in *Latin America* and the *CIS* states, the indicator remains below its long-term average, despite improvements.

At the beginning of 2016 it became clear that the world economy had cooled down markedly in the preceding months. This bad news led to significant valuation losses on stock markets worldwide in January and February, as well as triggering a significant upturn in the perception of risk. This was largely due to rapid structural change in *China*. For several years now the *Chinese* economy has been moving away from growth mainly driven by investments in industry and exports to growth that is more based on consumption and services. This shrinking process entails

Figure 1

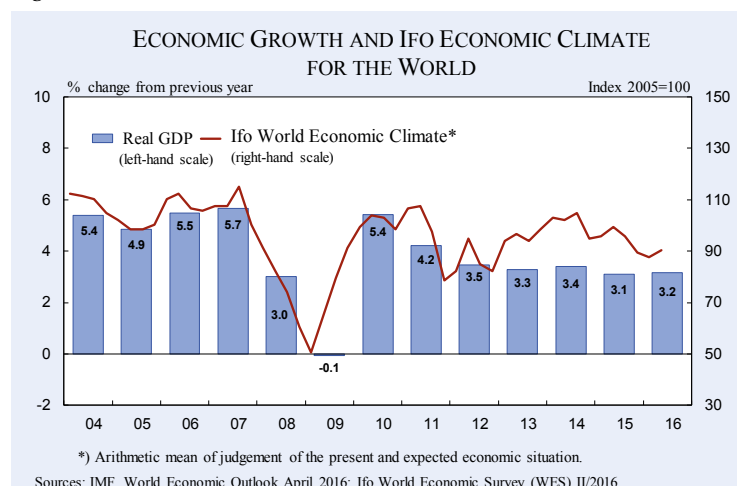
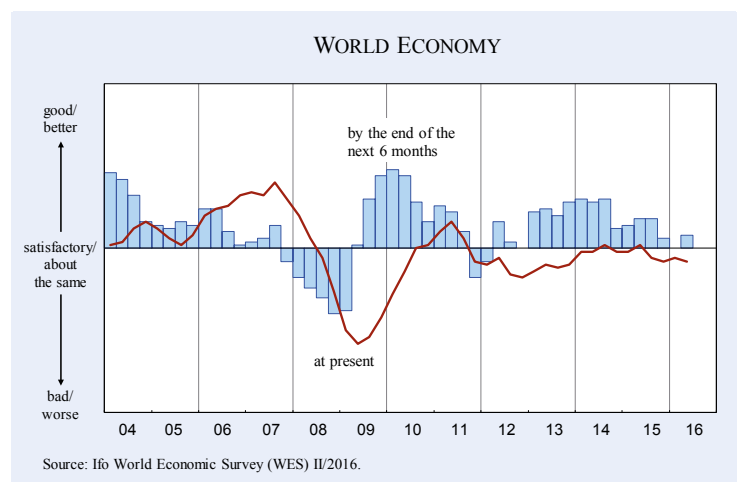


Figure 2

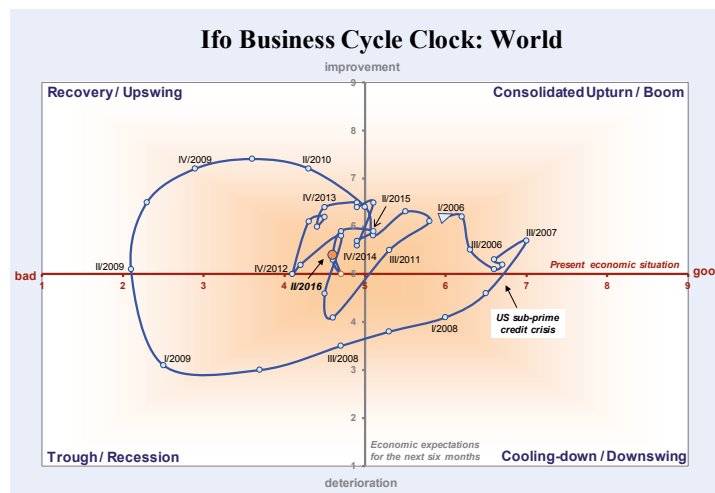


Box 1

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 started to rise again. While assessments of the current economic situation deteriorated marginally, expectations brightened somewhat. As a result, the indicator showed an upward movement in the recovery quadrant. It remains to be seen whether the turnaround in the recovery will solidify.



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

but was set aside as savings. The gloomier economic outlook and decline in oil prices led to a further slow-down in the global price dynamic. This prompted recourse to additional, unconventional fiscal policy measures in the *euro area* and *Japan*, which aimed to further stimulate economic activity. In the *United Kingdom* and the *USA* central banks are more cautious about their announced policy turnaround. While the Bank of England is expected to leave its base rate unchanged during the forecasting period, two further interest rate increases are expected in the *USA* this year.

Since government debt ratios are high in almost all advanced economies and policies are often restricted by budgetary rules, fiscal policy stimulus for economic activity will be limited. The fiscal policy orientation in the

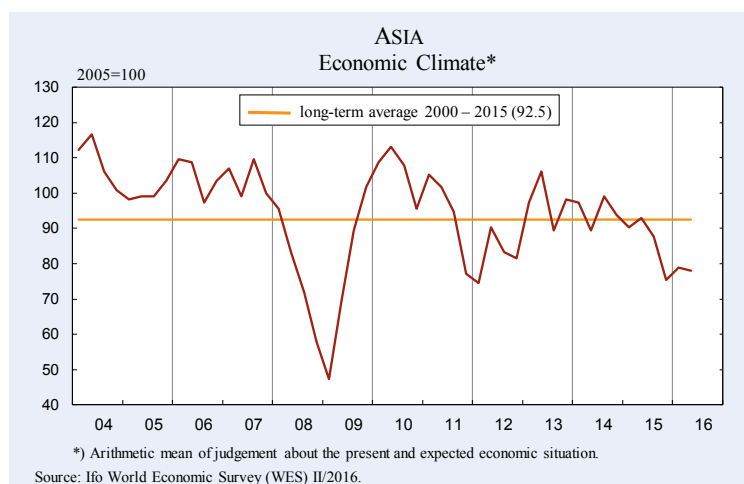
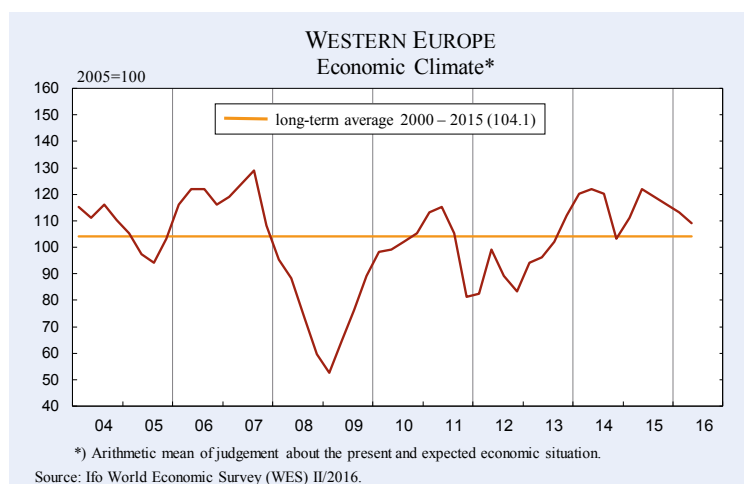
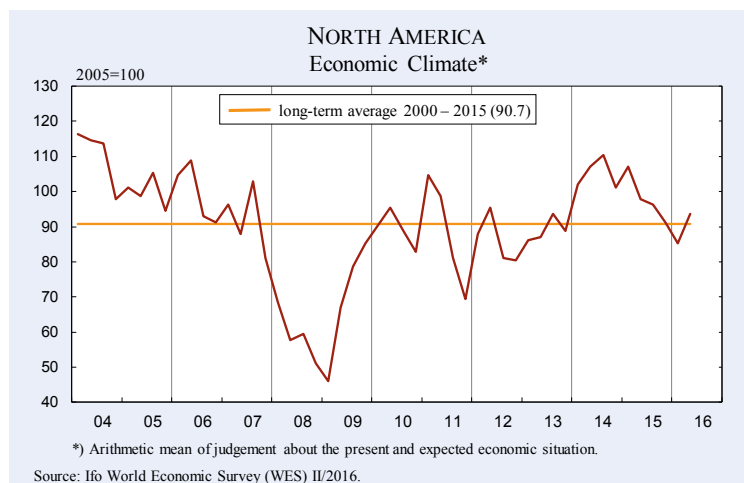
USA is more or less neutral and only slightly expansive in the *euro area*. In the *United Kingdom* and *Japan* fiscal policy is expected to remain restrictive. *China's* government is currently providing the greatest fiscal policy stimulus worldwide. Many commodity exporting emerging economies, by contrast, will be forced to take tough consolidation measures. In the meantime there are growing signs that international economic activity will not weaken any further in the first half of 2016.

In advanced economies in particular the dynamic has already gained momentum slightly. Production growth, by contrast, will remain moderate on the whole. US monetary policy will gradually become less expansive, with the strong US dollar curbing international demand. In the *euro area* last year's stimulus provided by the strong depreciation of the euro will disappear. This is in line with the current survey. The WES experts surveyed believe that both short and long-term interest rates will rise over the next six months in the *USA*, and expect them to remain largely stable in *Europe*. In *Asia*, and especially in *China*, *Japan* and *India*, experts expect interest rates to drop.

The *Chinese* economy will continue to struggle with structural change, as well as the high indebtedness of several state-owned manufacturers. In *Japan* production will increase again, as the drop seen at the end of last year was mainly due to temporary factors. It has become clear, however, that its economic policy ("Abenomics") implemented with high expectations has failed to trigger any self-sustaining upturn. All in all, world production will expand this year at around the same moderate pace as last year. Growth in world trade is also expected to be weak over the next few months.

Although the financial markets have calmed down since mid-February, the risks underlying their unrest have not

Figure 3



dissipated. On the one hand, it is still possible that structural change in *China* will affect the whole country's economy to a greater extent than in the past. Inflation, on the other hand, which has already risen clearly in the *USA*, could increase more rapidly than predicted in this forecast, obliging central banks to make swift interest

rate increases. This may cause turbulence in financial markets, and especially in emerging economies. Finally, *Europe's* economy faces significant political risks. Forces in favour of reversing the political and economic integration achieved in the European Union to date have been gathering power for several years. There is a possibility that the *United Kingdom* may vote to exit the European Union in June. Moreover, it is difficult to estimate the implications that a Brexit may have for trade and financial flows within the EU.

Western Europe: Economic recovery looks set to slow

The economic climate index for *Western Europe* continued to decline by four index points to 109.2 in April, but remains above its long-term average of 104.1 (2000-2015, see Figure 3). Assessments of both the present economic situation and economic expectations were slightly less positive than three months ago (see Figure 4). In the *euro area* economic expectations were downgraded to an even greater degree by WES experts. As a result, the economic climate indicator for the *euro area* fell by 6.2 index points to 112.7, but still stands above its 16-year average of 106.5.

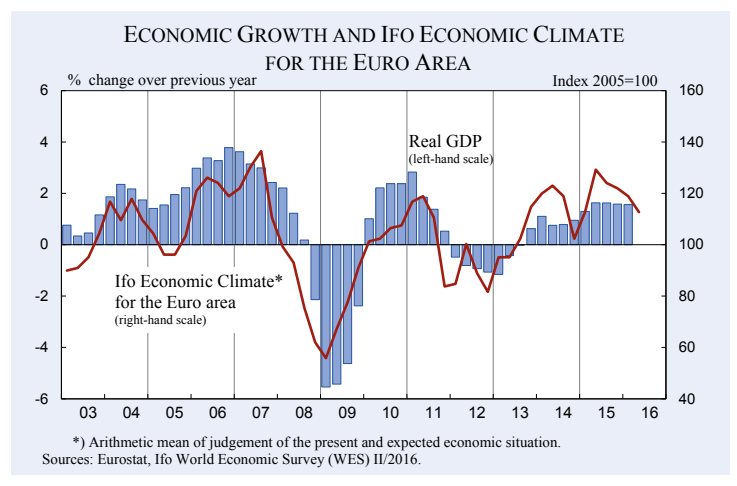
According to the latest WES survey, *Greece* and *Finland* are the worst performers in the *euro area* at the moment. Although some slight improvements are visible compared to the survey at the beginning of this year, the majority of experts surveyed still rated the present economic

situation in both countries as very weak (see Figure 5b). The economic outlook is slightly brighter, but only signals a modest improvement in *Finland*. In *Greece*, no major changes for the better are expected in the months ahead. The qualitative assessments for *Greece* are in line with the quantitative growth rate forecast for 2016,

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 320 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).

Economic sentiment in the *euro area* weakened. The Ifo Index for the economic climate in the *euro area* continued to fall, declining from 118.9 points to 112.7 points in the second quarter. The index nevertheless remains above its long-term average. The economic climate deteriorated due to both less favourable assessments of the current economic situation and slightly more sceptical business expectations. According to the survey results, economic growth will reach 1.6 percent this year. There are still no signs of a sweeping economic recovery in the *euro area*. Assessments of the current economic situation were most positive in *Germany* and *Ireland*, although to a marginally lesser degree than last quarter's survey. The least favourable situation was reported in *Greece* and *Finland*, despite a slight improvement on last quarter's results. *Belgium*, the *Netherlands*, *Latvia* and *Lithuania* occupy mid-range positions with a slight dip seen in assessments for each of the respective countries. The satisfactory economic situation in *Estonia*, *Slovenia* and *Slovakia* remained almost unchanged. Among countries in the lower third of the group, assessments of the current economic situation deteriorated in *Italy*, *Portugal*, *Spain* and *Austria*. Despite a slight improvement in *France*, assessments of its economic situation were also predominantly negative. The six-month economic outlook is slightly less positive in most countries than last quarter. WES experts remain pessimistic about *Greece*, *Portugal*, *Spain*, and also expressed pessimism about *Latvia* this quarter. The dynamic of the economic upswing will therefore remain moderate. For 2016 experts expect the inflation rate to increase to 0.8 percent in the *euro area*. In the mid-term (2021) inflation expectations of 1.8 percent are marginally lower than last quarter (1.9 percent).



which will result in a decline of 0.6 percent according to WES experts' estimation (see Table 2). After the slight recovery observed in January for *Austria*, *Italy*, *Portugal* and *Spain*, the economic situation deteriorated once again this quarter. The current economic situation was rated as subdued and economic improvements over the next six months are only expected for *Austria* and *Italy*. In turn, WES experts remain sceptical with regard to future economic developments in *Spain* and *Portugal*. In all of these countries unemployment still poses one of

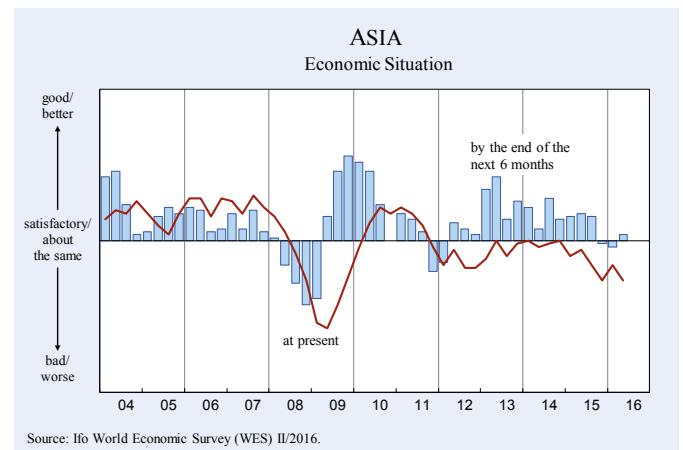
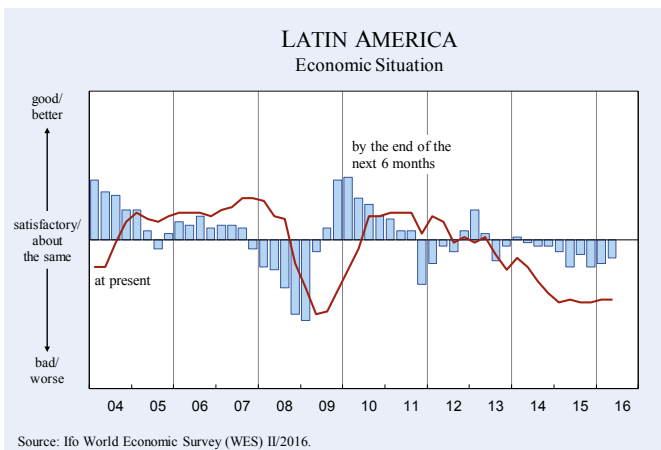
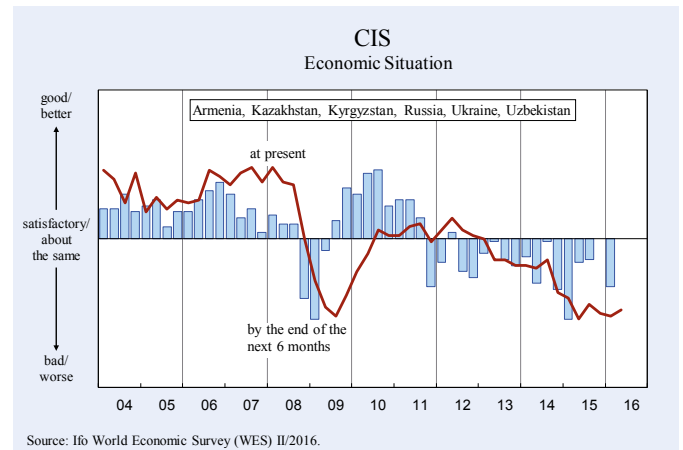
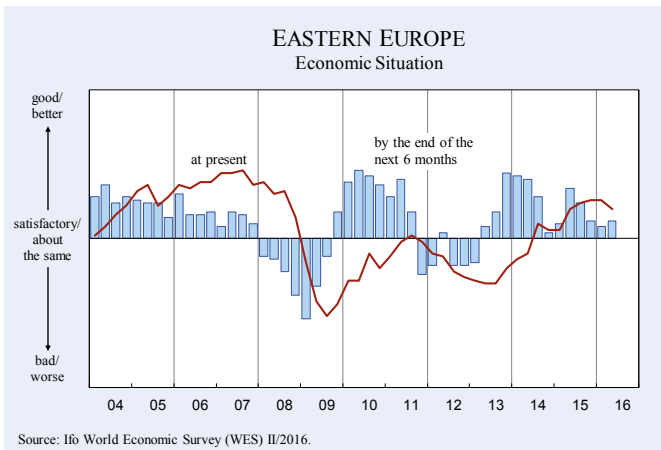
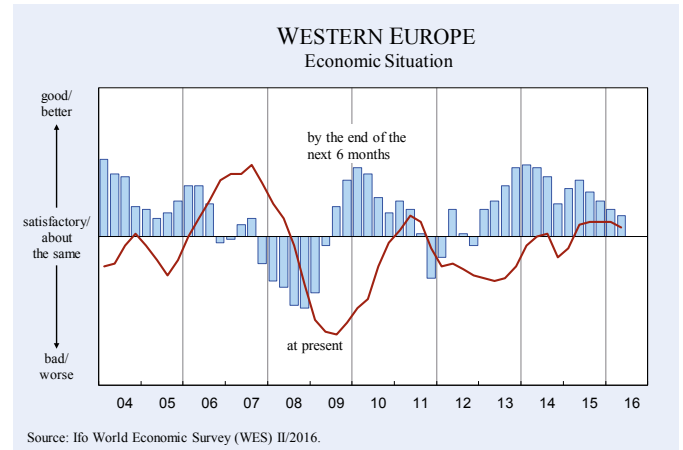
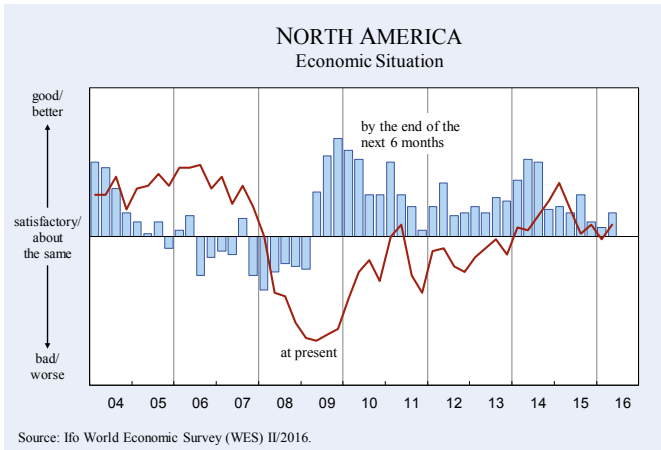
the most important economic problems. The economic situation in *France* also remains subdued, although WES experts revised their assessments slightly upwards. In terms of the six-month economic outlook, the experts surveyed are as positive as they were in January. The best performing economies in the *euro area* remain *Germany*, *Ireland* and *Luxembourg*, according to WES experts, despite some slight downward correction in assessments of the present economic situation in the case of *Germany* and *Ireland*. Experts for *Malta* also rated the situation there as "good" this quarter. Economic expectations are less optimistic than last quarter, but signal a continuation of current good conditions in all these countries on the whole. In terms of the GDP growth forecast, *Ireland* will be the fastest growing economy in the region with an estimated growth rate of 5.0 percent for 2016 (see Table 2). The economies of *Belgium*, *Estonia*, *Latvia*, *Lithuania*, *Netherlands*, *Slovenia* and *Slovakia*, continued to perform satisfactorily, despite a slight downward correction compared to the previous survey in the case of *Belgium*, *Netherlands*, *Latvia* and *Lithuania*. Economic expectations for *Belgium*, *Estonia* and *Slovakia* only improved marginally. For the *Netherlands*, *Lithuania* and *Slovenia* WES experts are less optimistic than three months ago as far as future economic develop-

ments are concerned. For *Latvia*, they turned sceptical and expect the situation to deteriorate in the months ahead. In *Cyprus*, the present economic situation improved, according to the experts surveyed. It is now assessed as satisfactory with a positive economic outlook.

The economic climate in countries outside the *euro area* improved, except for in *Denmark* and *Switzerland*. In *Denmark* the present economic situation deteriorated significantly and is now seen as unfavourable. Economic

Figure 4

SELECTED REGIONS



expectations, in turn, continue to signal confidence in the next six months. In *Switzerland*, the present economic situation remained below the satisfactory line. Economic expectations are less positive than three months ago. All *Swedish* WES experts unanimously assessed the present economic situation in their country as good. As far as developments over the next six months are concerned, experts expressed slightly less confidence than in January. They nevertheless expect a continuation of current good economic conditions. In *Monaco* the present economic situation was assessed as favourable, while in the *United Kingdom* it was satisfactory. In both countries a positive economic outlook continues to prevail. In *Norway* WES experts still rated the present economic situation as unfavourable. Economic expectations brightened somewhat this quarter, but experts remain cautious about the next six months.

North America:

Economic climate signals ongoing recovery

The economic climate indicator for *North America* started to rise again to 93.7 and thus above its long-term average of 90.7. Assessments of both the present economic situation and economic expectations are more positive than three months ago (see Figures 3 and 4). In *Canada* in particular economic conditions improved strongly. The present economic situation turned satisfactory once again. The six-month economic outlook also brightened considerably. According to WES experts, the most important economic problems faced by

the country at the moment are a lack of international competitiveness and high public deficits. The latter is also the most urgent issue in the *United States* (see Table 1). In this country, WES results also point to a moderate recovery, as both sub-indicators – the present economic situation and economic expectations – are slightly more positive than three months ago. This is in line with the moderate GDP growth forecast for 2016 of 2.3 percent (see Table 2).

Eastern Europe:

Economic climate clouds over slightly

Together with *Western Europe* *Eastern Europe* is one of the few regions, where the economic climate index fell in this quarter. It declined marginally from 93.0 index points to 92.2. Despite the deterioration, the indicator for *Eastern Europe* still lies above its long-term average (86.6 in the period 2000–2015), similar to *Western Europe* and *North America*. While assessments of the present economic situation are less favourable, economic expectations are slightly more positive than previous quarter (see Figures 4 and 7). The region's most important economic problems were identified as a lack of confidence in the government's economic policy, a lack of skilled labour and corruption (see Table 1).

The region's best performing economy currently remains the *Czech Republic*, despite the fact that experts again scaled back both assessments of the present economic situation and economic expectations this quarter.

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	1.5	2	2.5	2.5	1.5	2		3	1	3.5
Insufficient demand	1.5	3			3	1	1			2
Unemployment		1						1		
Inflation										
Lack of international competitiveness	2.5		2.5		1.5	3				
Trade barriers to exports										
Lack of skilled labour									2	
Public deficits	2.5		1	2.5			3			
Capital shortage							2			3.5
Corruption				1				2	3	1

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

Amongst the *Eastern European* countries that belong to the *euro area* (*Baltic States*, *Slovakia* and *Slovenia*) *Lithuania* and *Slovakia* showed the best current economic performance and the present economic situation was again deemed favourable. In *Estonia*, *Latvia* and *Slovenia*, WES experts assessed the present economic situation as satisfactory. The economic outlook remains positive in all those countries, except for in *Latvia*, where WES experts again turned more sceptical about the six-month outlook. After having improved in January, appraisals of the current economic situation deteriorated again in *Poland* and *Romania*. The present economic situation was nevertheless deemed favourable on the whole. Economic expectations were upwardly revised in both countries and point to some improvements in the next six months. The estimated growth rate of Gross Domestic Product for *Poland* (3.6%) and *Romania* (3.2%) is also forecast to be one of the highest in the region (2.8%, see Table 2). Assessments of the current economic situation in *Bulgaria* and *Hungary* remained below the satisfactory line. *Bulgaria's* economic prospects brightened somewhat and signal some improvements in the months ahead; in turn, for *Hungary* WES experts remain sceptical regarding future economic developments. After having considerably improved in January, the present economic situation in *Croatia* clouded over again slightly. But assessments remain close to their highest level in seven years, which is nevertheless still unfavourable on the whole. Economic expectations, however, continue to point to further improvements in the months ahead.

The economic situation for the *Eastern European* countries outside the EU – *Bosnia and Herzegovina* and *Macedonia* – remained unfavourable. This was also the case for *Serbia*, despite some improvements compared to the survey in January. In *Albania* assessments of the present economic situation turned unfavourable once again. WES experts only expect minor economic improvements in *Serbia* in the months ahead. In all other countries, the situation is expected to remain subdued over the next six months. *Kosovo* is the only country outside the EU, where the situation was rated as favourable and the economic outlook remains fairly confident.

CIS: Economic expectations improve considerably

The economic climate indicator for the *CIS* countries covered by WES (*Russia*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan* and *Uzbekistan*) started to rise again from 48.0 to 62.9 index points. Despite this strong improve-

ment, the indicator still lies far below its long-term average of 87.8 points. While assessments of the present economic situation improved only slightly, economic expectations, by contrast, were upgraded considerably (see Figure 4). This pattern also reflects the situation in *Russia*. The present economic situation remains weak, but the six-month economic outlook is less pessimistic than last quarter. The country will experience a negative growth rate of 1.1 percent, which also drags down the regional average (-0.4 percent, see Table 2). Like all *CIS* countries, the most important economic problem faced by the country at present is corruption. However, a lack of confidence in the government's economic policy and insufficient demand also pose major problems for *Russia* and other countries in this region (see Table 1). The economic situation in the *Ukraine* continued to improve and reached its most positive level in nearly three years. The overall economic situation nevertheless remains unfavourable. Economic expectations are slightly less optimistic, but continue to signal some potential easing of the currently difficult economic conditions. The present economic situation in *Kazakhstan* and *Kyrgyzstan* was assessed as unfavourable. While economic expectations for *Kazakhstan* point to some improvements in the months ahead, WES experts remain sceptical about the six-month economic outlook for *Kyrgyzstan*. In *Uzbekistan* the current economic situation is far more positive than in the region as a whole. However, the current satisfactory economic conditions are not expected to persist over the next six months, but will cloud over somewhat.

Asia: Situation stabilises at a low level

The economic climate indicator for *Asia* fell marginally from 78.9 to 78.1 index points this quarter and remains far below its long-term average of 92.5. While assessments of the present economic situation deteriorated, economic expectations, by contrast, were slightly upwardly revised (see Figures 3, 4 and 8). Insufficient demand and a lack of confidence in the government's economic policy were cited as the region's most important economic problems (see Table 1). The region's average GDP growth forecast for 2016 of 2.9 percent marks a considerable slowdown compared to the survey one year ago, where WES experts expected a growth rate of 3.6 percent for 2015 (see Table 2).

In *China*, the economic situation did not change and was still assessed as unfavourable. Capital expenditure in particular was reported to be weak. The six-month eco-

economic outlook brightened considerably, but there are still no signs of any major improvements in the months ahead. After brightening in the first quarter, the economic climate for *Japan* clouded over again, due to downwardly revised assessments of both the present economic situation and economic expectations. The current situation was assessed more unfavourably. WES experts also turned sceptical regarding the next six months. The pending decision of Japan's Prime Minister over whether to raise the consumption tax to 10% in April 2017 has been postponed until end-May. In *Hong Kong* and *South Korea* the present economic situation continued to deteriorate and is now seen as unfavourable. This is also the case for *Malaysia* and *Pakistan*, even if some improvement compared to the previous survey was visible in these countries. Economic expectations in most countries brightened somewhat, especially in *Hong Kong*. Nevertheless, the six-month economic outlook remains subdued for *Hong Kong*, *Malaysia* and *South Korea* and is only positive for *Pakistan*. In *Taiwan*, the GDP growth forecast of 1.5% for 2016 is – alongside that of *Japan* (0.6%) – by far one of the lowest rates estimated by WES experts in *Asia* this year (see Table 2). Thus, not surprisingly, the lowest ratings on the WES scale for the present economic situation were received by *Taiwan*. Appraisals for *Sri Lanka* and *Thailand* are only slightly better. However, as far as the next six months are concerned, a gradual recovery is likely as economic expectations in all these countries remain on the positive side, even if this is less pronounced than in the previous survey in the case of *Thailand*. In the remaining *Asian* countries, economic performance is far more positive than the regional average. In *India*, *Indonesia* and *Singapore* a satisfactory economic situation currently prevails, which is likely to persist in the months ahead. In *Bangladesh* and the *Philippines* the present economic situation was assessed more favourably than in January's survey. The economic outlook in both countries remains fairly positive too.

Oceania:

Economic climate indicator on the rise again

In *Oceania* the economic climate indicator rose by about ten index points to 87.0, which nevertheless remains way below its long-term average of 100.0 points. As far as growth expectations are concerned, the region will experience a slightly higher growth rate in 2016 than that expected a year ago (2.3% vs. 2.0%, see Table 2). However, while this means an acceleration of economic growth in the case of *Australia*, it turns out to be a decel-

eration for *New Zealand*. This is also reflected by the economic climate in the respective countries. According to WES experts, the present situation in *Australia* did not change compared to the survey at the beginning of this year: assessments of the present economic situation remained below the satisfactory-level. By contrast, economic expectations were considerably upwardly revised, but still signal caution on the whole (see Figure 6). A lack of confidence in the government's economic policy was identified as the most important economic problem at present. *New Zealand* is largely suffering from a lack of international competitiveness. Assessments of the present economic situation continued to deteriorate further and are less favourable than six months ago. As far as economic expectations are concerned, they were remarkably downwardly revised and now signal scepticism.

Latin America: Economic climate remains subdued

The climate indicator for *Latin America* continued to improve at a low level. It now stands at 67.0 index points, versus 65.2 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 are still subdued (see Figures 4 and 9). Corruption, followed by low confidence in the government's economic policy and public deficits, were cited as the most urgent economic problems in this region. *Argentina*, *Venezuela* and *Uruguay* are also suffering from a high inflation rate. Besides the *CIS* states, *Latin America* is one of the few regions, where the GDP growth rate will be negative in 2016 (see Table 2).

In *Brazil*, some slight changes for the better were observed compared to the January survey. The present economic situation, however, remains weak. By contrast, economic expectations were upwardly revised, but remain dominated by negative voices. WES experts expect the economy to shrink by 3.6 percent in 2016 (see Table 2). In *Mexico* the present economic situation remained below the satisfactory-line. In turn, economic expectations are less negative than three months ago. The six-month economic outlook nevertheless remains sceptical. The current economic situation in *Argentina* was again assessed as weak. The experts surveyed also expressed less optimism about the six-month economic outlook, but an upturn in the months ahead therefore looks still likely. In *Chile*, the present economic situation deteriorated again compared to last quarter's sur-

Figure 5a

EUROPEAN UNION

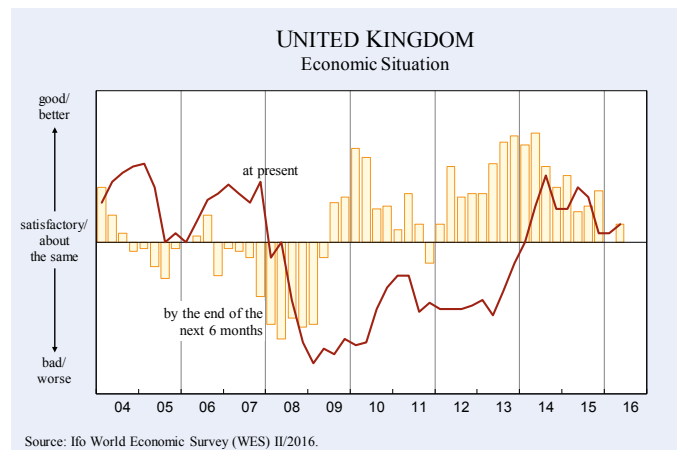
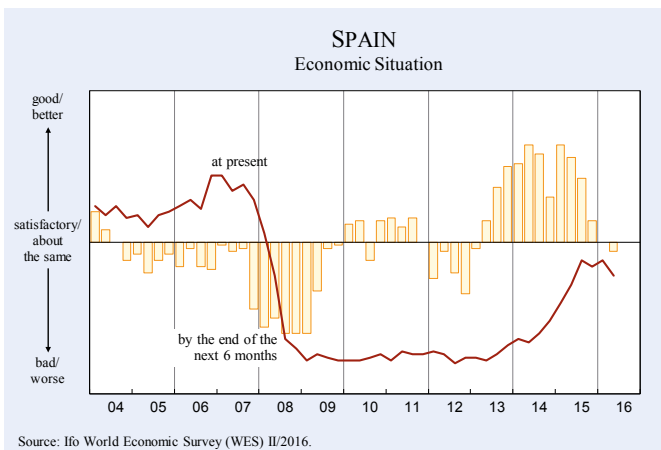
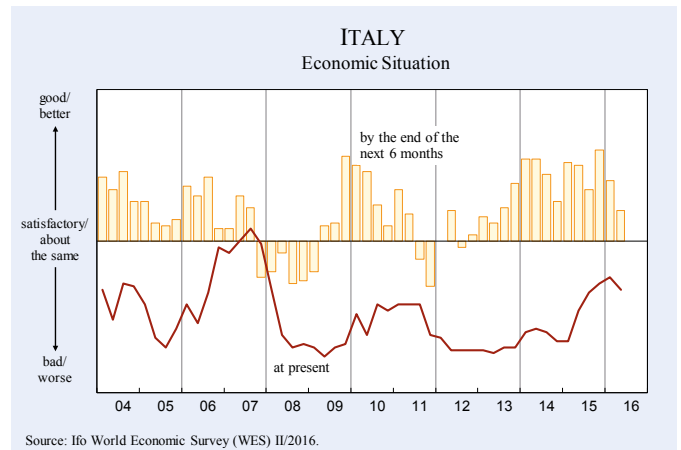
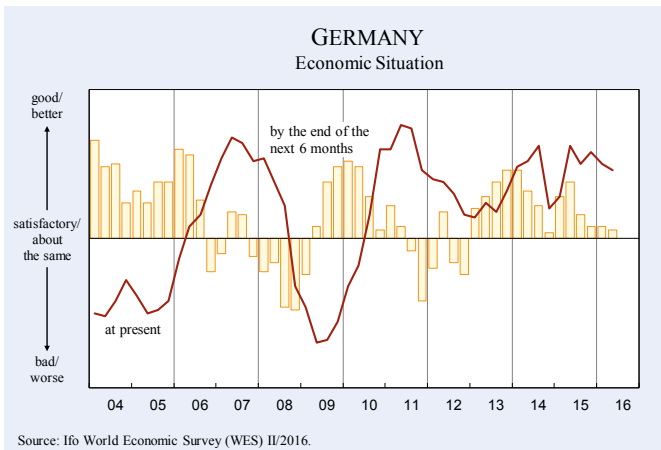
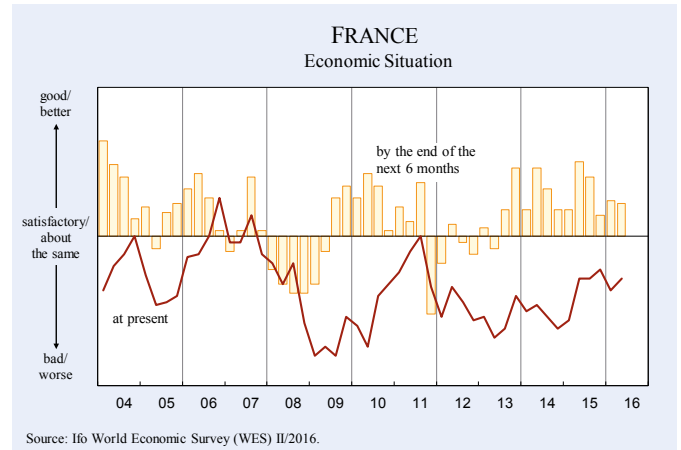
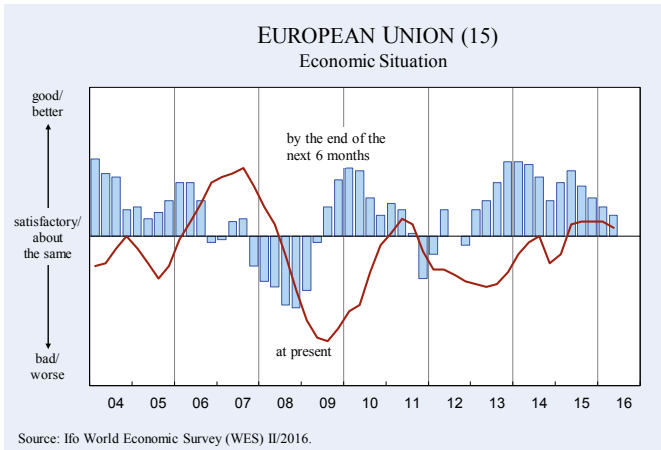


Figure 5b

EUROPEAN UNION

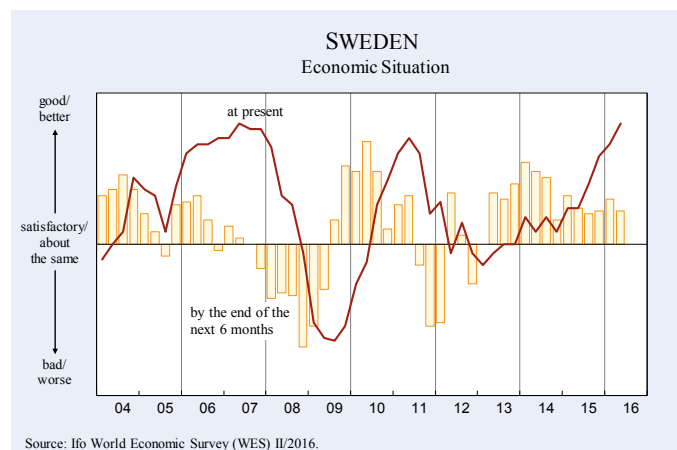
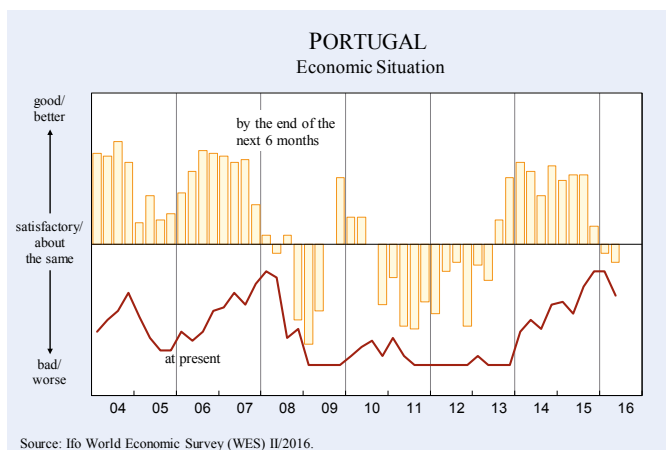
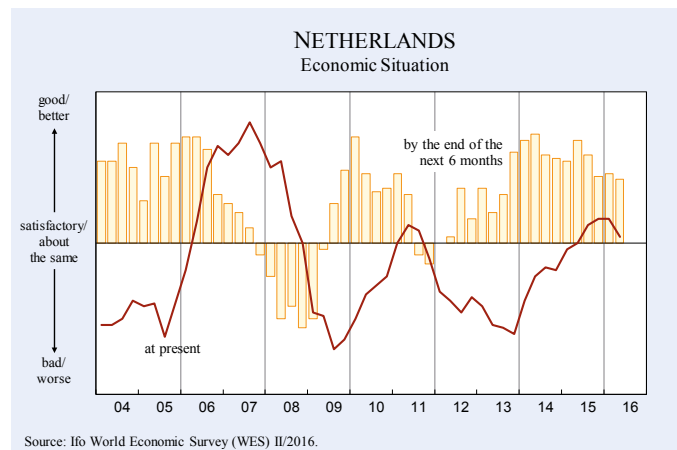
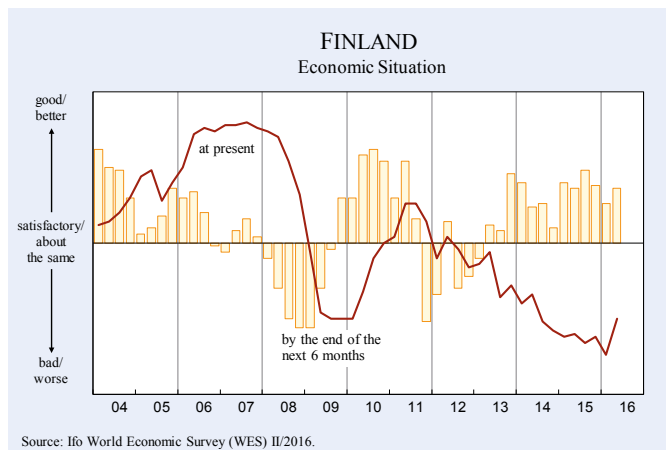
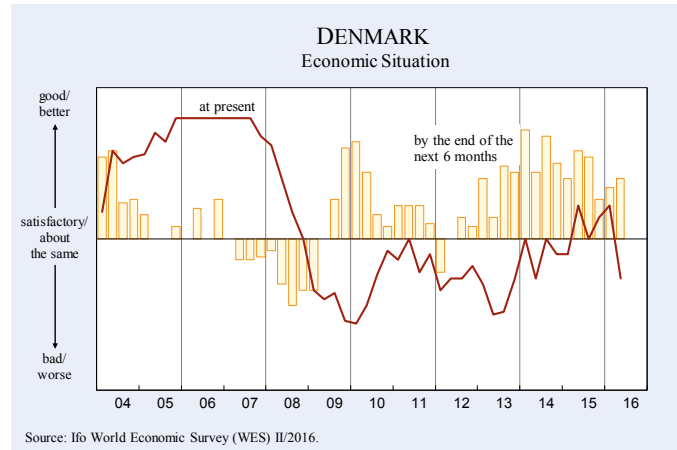
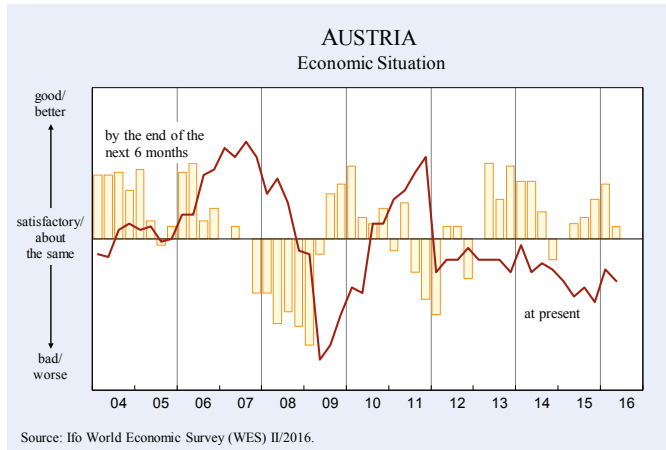


Figure 6

NORTH AMERICA, OCEANIA AND CIS

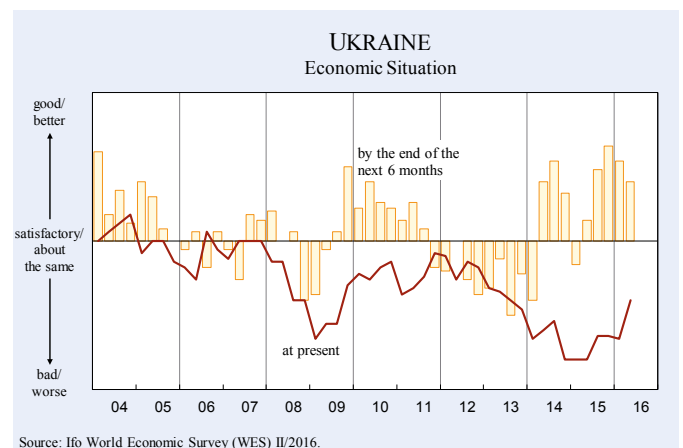
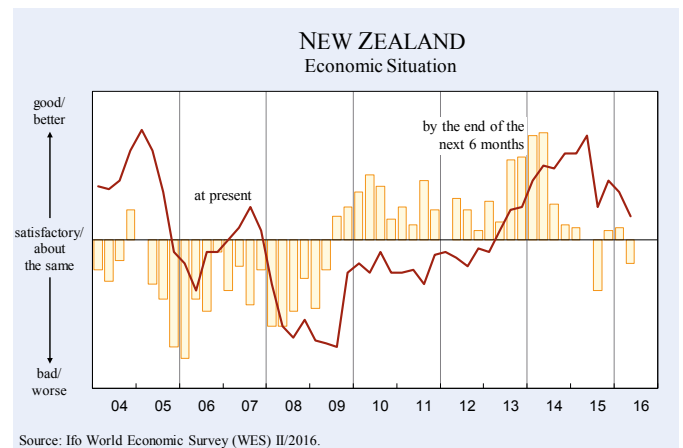
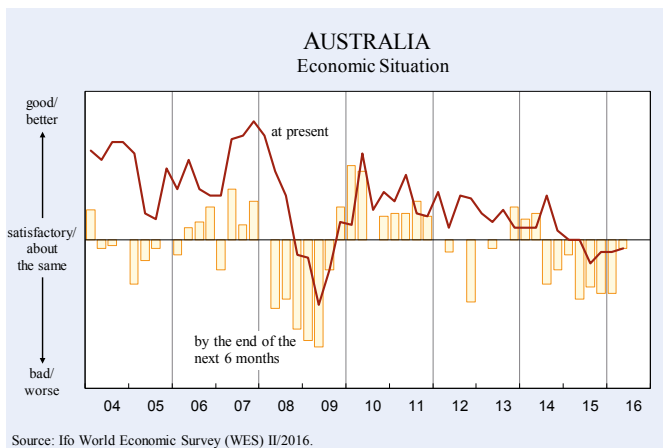
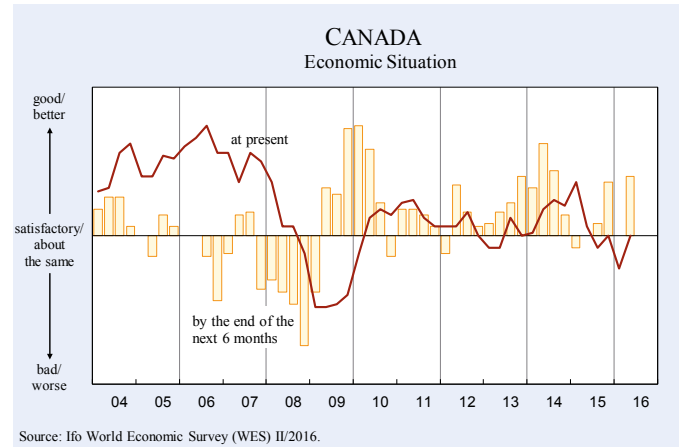
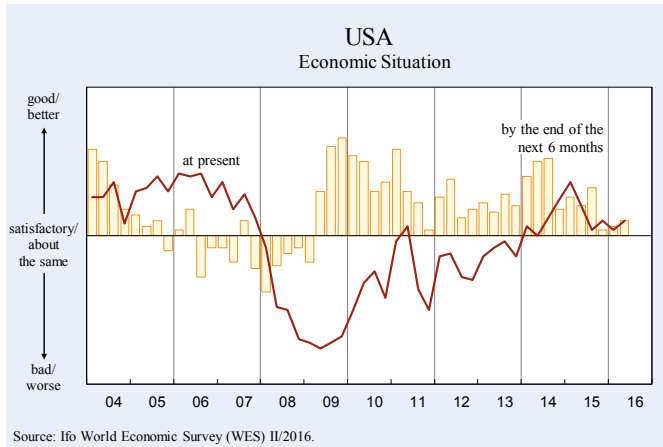


Figure 7

EASTERN EUROPE

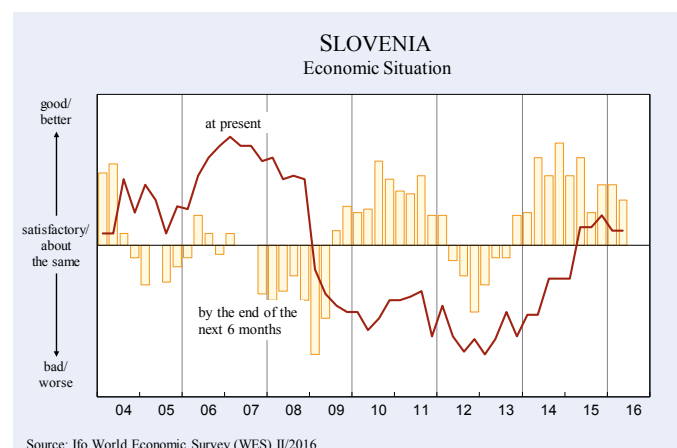
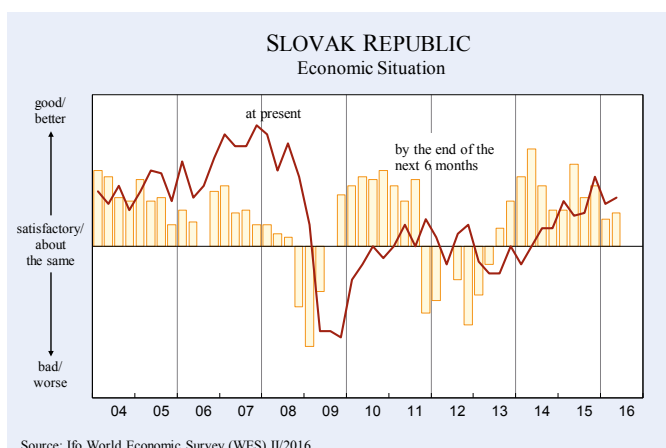
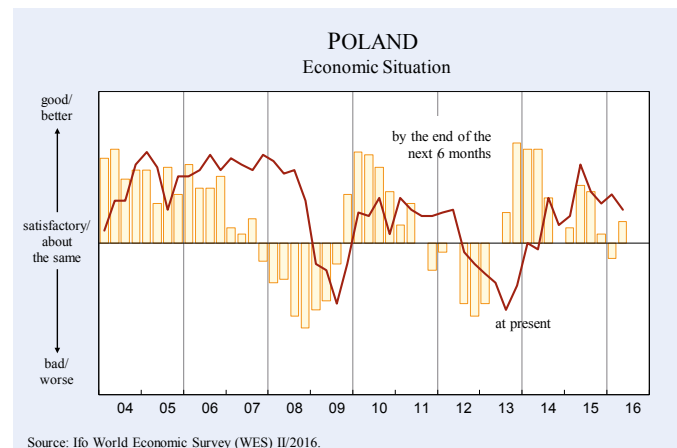
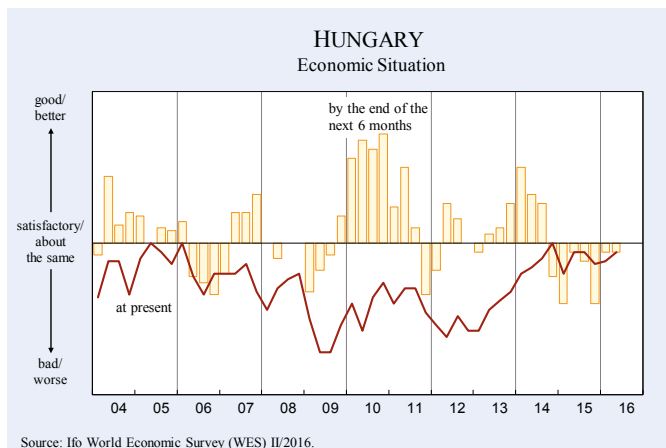
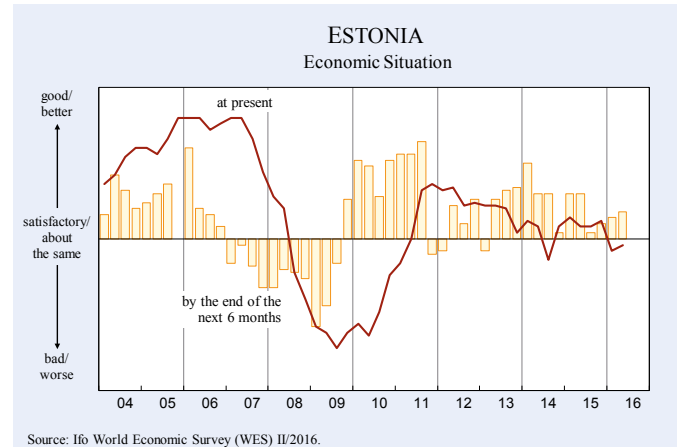
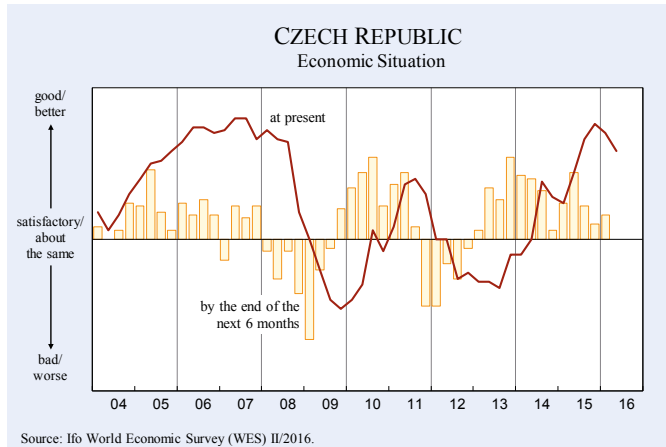


Figure 8

ASIA

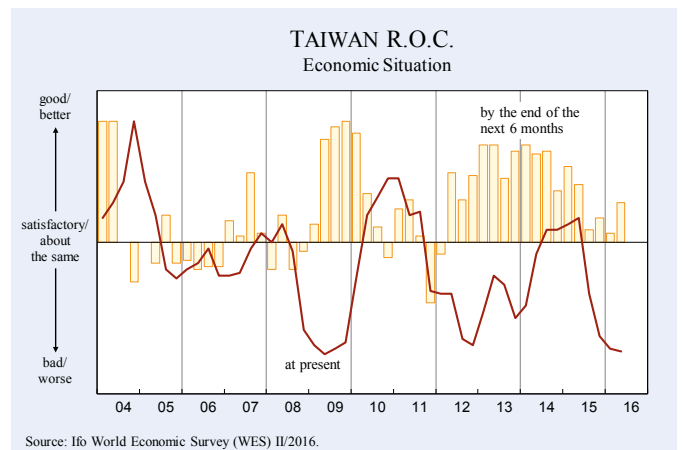
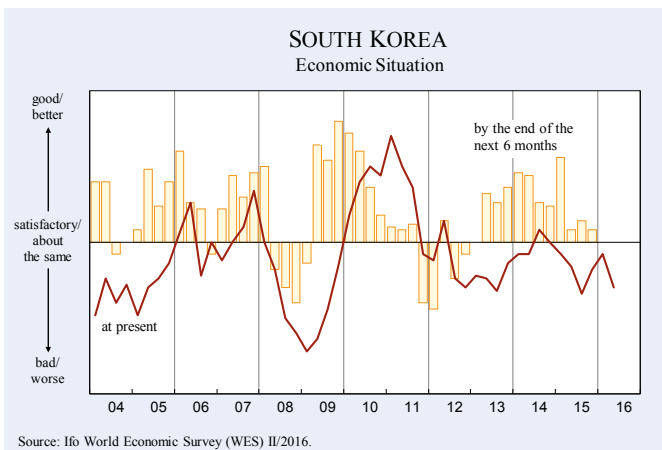
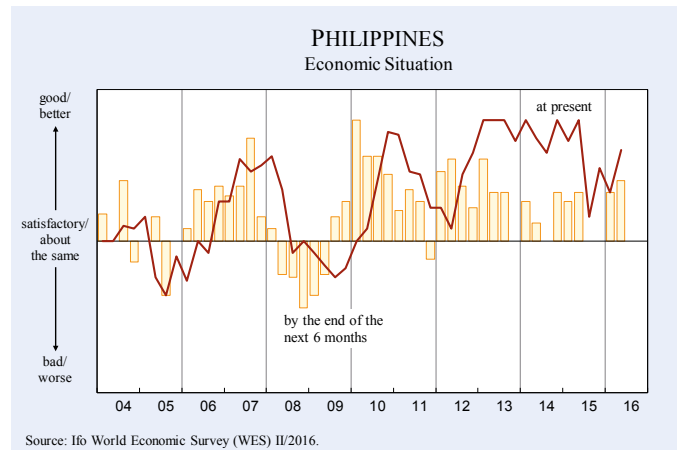
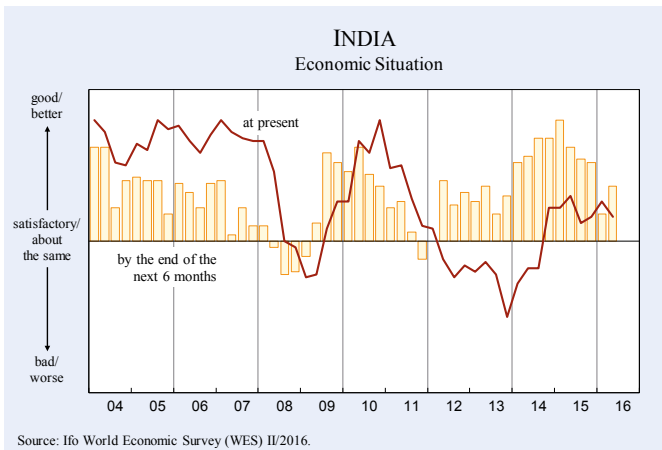
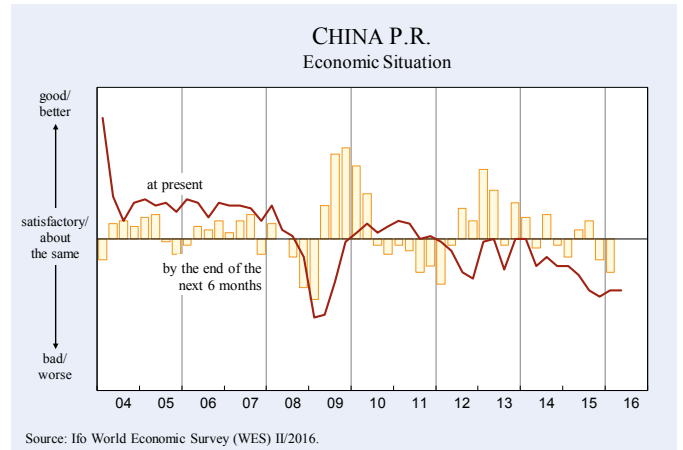
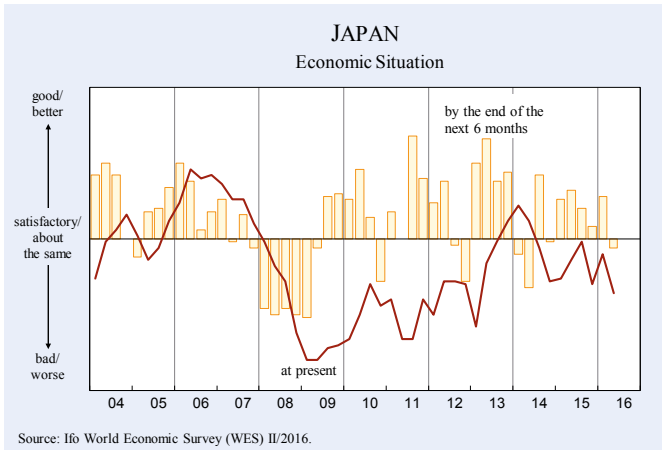


Figure 9

LATIN AMERICA

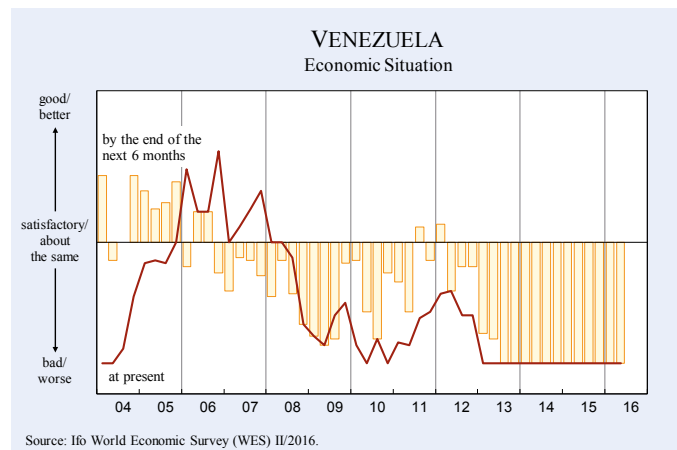
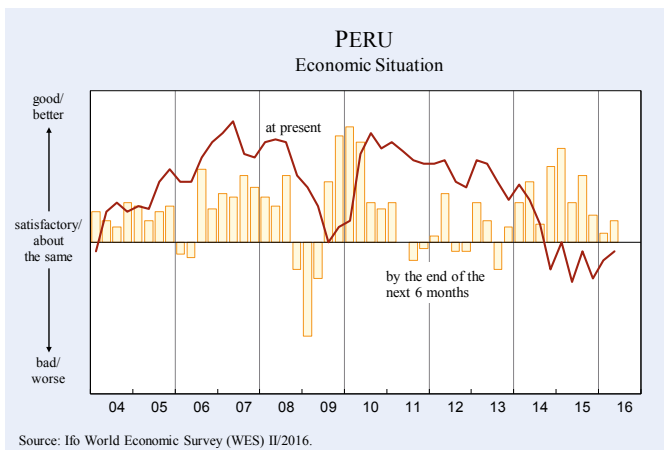
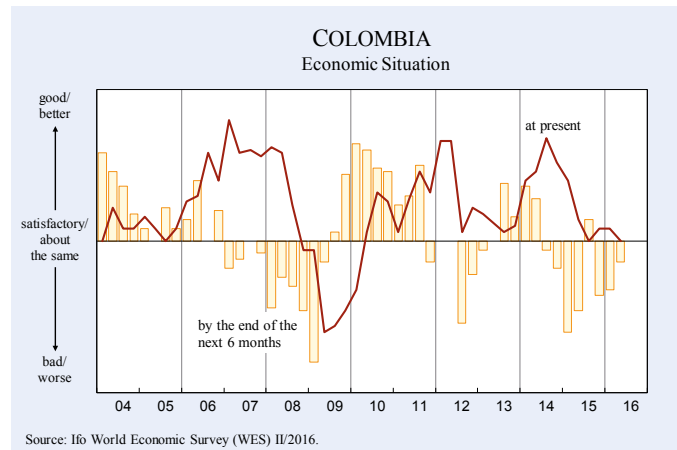
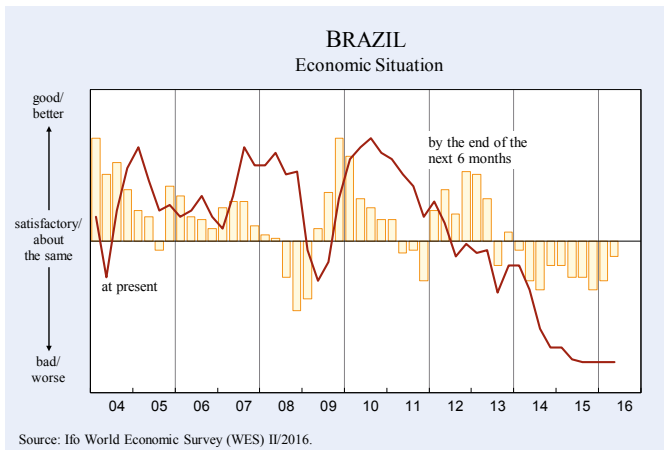
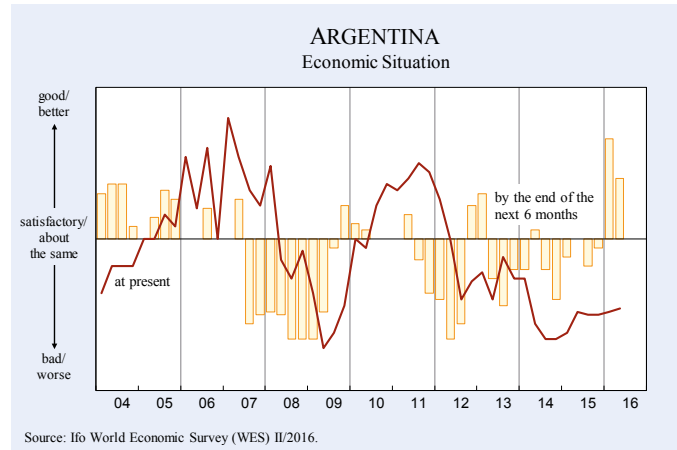
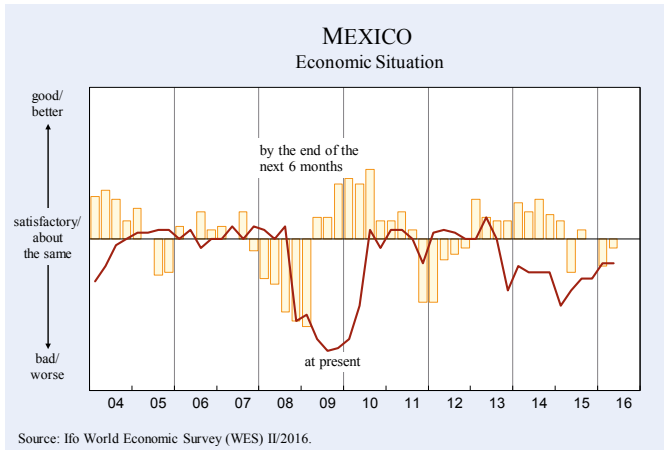
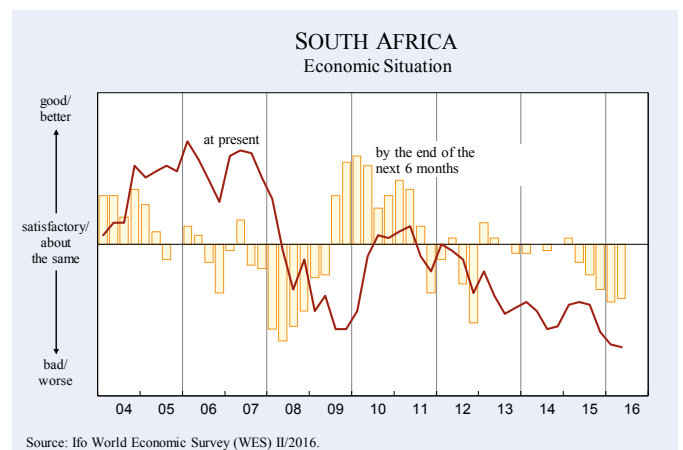
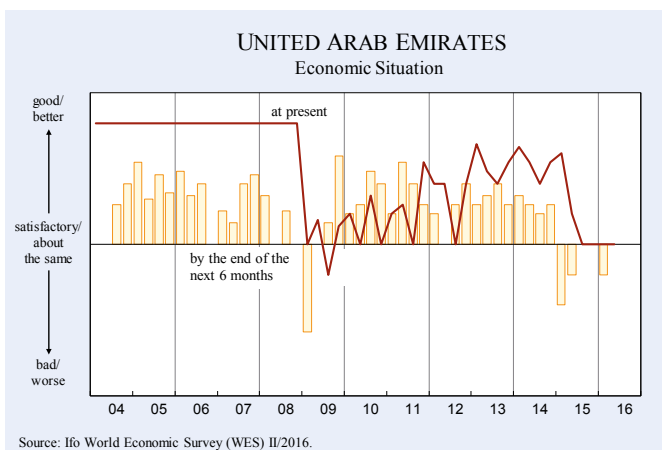
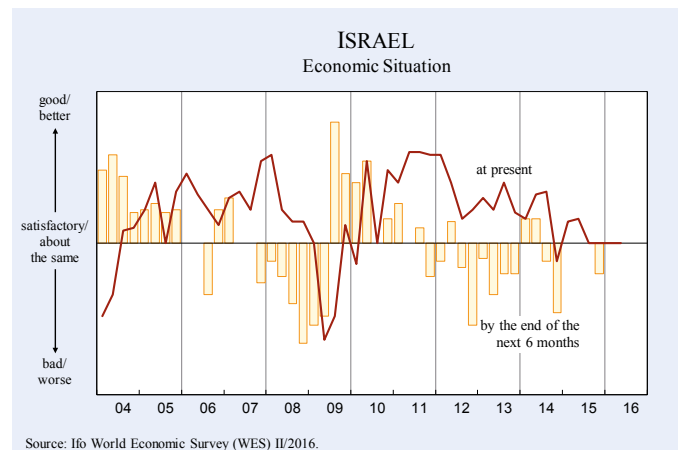
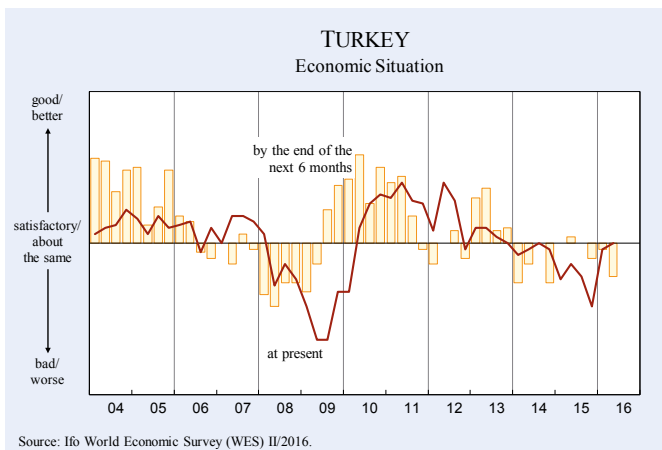
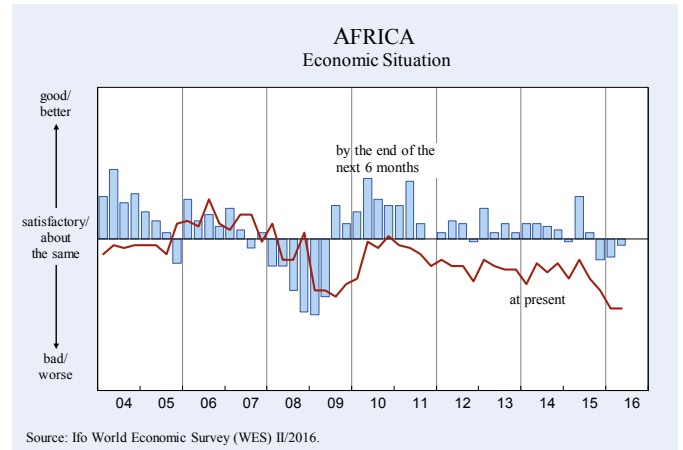
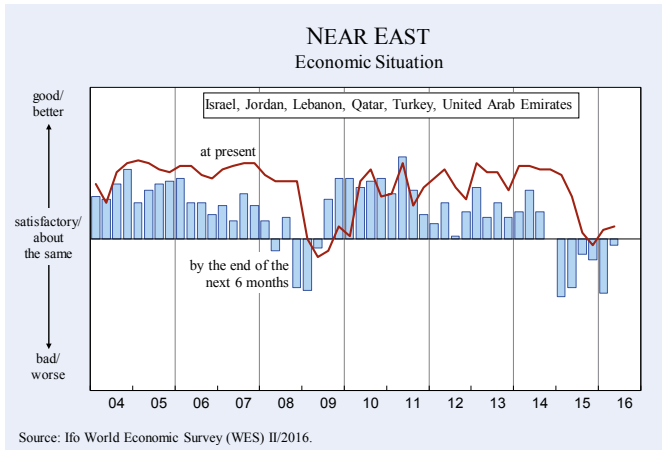


Figure 10

NEAR EAST AND AFRICA



vey and assessments sank to the worst appraisals on the WES scale. After having improved in January's survey, economic expectations are again more negative this quarter and signal scepticism for the next six months. 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*. Both countries are joined by *Paraguay*, where the previous satisfactory situation turned unfavourable this quarter. Economic expectations were upwardly revised in all three countries, but only *Paraguay* and *Peru* can expect some economic improvements in the months ahead. For *Uruguay*, WES experts remained sceptical regarding the six-month economic outlook. In *Ecuador*, *El Salvador* and *Trinidad and Tobago* the current situation was once again assessed as weak. These countries were joined by *Cuba*, where appraisals deteriorated visibly compared to three months ago. In *Cuba*, the economic situation is expected to remain weak over the next six months, and in *Ecuador*, *El Salvador* and *Trinidad and Tobago* it will deteriorate even 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, which will result in a GDP decline of an estimated 14.6 percent, according to WES experts (see Table 2). 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*, the *Dominican Republic* and *Guatemala* 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. As far as the economic outlook is concerned, only *Guatemala* is expected to prove resilient to current weakness in the region over the next six months. In all other countries WES experts fear a downturn in economic activity in the short term.

Near East: Some signs of economic recovery

The economic climate indicator for the *Near East*, after a period of decline, returned to the same value as seen in the first quarter last year (72.7). While the economic climate remains under its long-term average (87.6), this increase indicates a slight improvement. Respondents perceived the current economic situation as satisfactory, but remain cautious regarding the six-month economic

outlook. There was a slight improvement in the assessment of the current economic situation compared to the January survey. In addition, economic expectations also brightened up somewhat, but signal no major improvements in economic conditions in the months ahead. According to WES experts, insufficient demand and capital shortage are the most important problems that the *Near East* is facing at present. In *Israel*, *Lebanon* and *United Arab Emirates* no major changes vis-à-vis the previous survey were recorded. In these three countries, the economic situation remains satisfactory and the economic outlook is positive. WES experts for *Jordan* and *Qatar* expressed similar sentiments. They report a good present economic situation and an optimistic outlook for the six months ahead. WES experts in *Turkey* indicate a slight improvement in the current economic situation, but are more cautious about the economic outlook. Unemployment and foreign debt are seen as the most pressing issues faced by the country at the moment. For *Turkey* annual growth in GDP of over 3.5% is needed to keep unemployment under control. With current estimated GDP growth of 3.5%, this might hang in the balance (see Table 2). In addition, a large proportion of *Turkey's* foreign debt is in dollars, and the *Turkish lira* has weakened and is expected to depreciate further, increasing foreign debt¹. It remains open as to whether the closer relationship between the EU and Turkey will help Turkish exports.

Africa: Economic climate brightens slightly

In *Africa* the economic climate improved slightly from 70.1 points in January to 74.1 in the present survey. This small improvement may signal a first step towards a more positive economic climate, even if it remains far below its long-term average (2000-2015: 95.5). Although WES experts' assessments of the current economic situation remain similar to the previous survey and thus unfavourable, the six-month economic outlook is slightly less negative. It remains to be seen if this small step leads towards a brighter economic climate. What is certain is that the GDP growth rate for 2016 is estimated to be significantly lower (2.9%) compared to the previous year's forecast (3.8%, see Table 2).

In *Northern Africa* the overall assessment of the present economic situation remains weak. By contrast, the economic outlook is more diverse. It ranges from 'cautious'

¹ <http://www.economist.com/news/special-report/21689874-turkey-performing-well-below-its-potential-erdoganomics>

Table 2 Expected Growth of Real Gross Domestic Product (GDP) in 2016 and 2015
(based on WES QII/2016 and QII/2015)

Region	QII/2016	QII/2015	Region	QII/2016	QII/2015
Average of countries *	2.0	2.3	Latin America	-0.2	1.3
High-income countries	1.7	1.9	Argentina	-0.8	-0.6
Middle-income countries	3.3	3.5	Bolivia	4.5	4.7
Upper-middle	2.2	2.6	Brazil	-3.6	-0.9
Lower-middle	5.3	5.3	Chile	1.6	2.8
Low-income countries	5.3	5.8	Colombia	2.6	3.4
EU 28 countries	1.8	1.7	Costa Rica	(4.2)	---
EU countries (old members) ^{a)}	1.6	1.6	Cuba	(3.0)	---
EU countries (new members) ^{b)}	2.8	2.5	Dominican Republic	5.5	4.5
Euro area ^{c)}	1.6	1.5	Ecuador	-0.5	3.0
Western Europe	1.6	1.6	El Salvador	1.8	2.2
Austria	1.4	0.9	Guatemala	3.8	4.0
Belgium	1.2	1.1	Mexico	2.3	2.7
Cyprus	2.0	-0.2	Paraguay	3.2	4.0
Denmark	1.3	1.7	Peru	3.5	3.2
Finland	0.8	0.5	Trinidad and Tobago	(-2.0)	(0.5)
France	1.3	0.9	Uruguay	0.9	2.8
Germany	1.6	1.7	Venezuela	-14.6	-4.2
Greece	-0.6	0.8	North America	2.1	2.5
Ireland	5.0	3.4	Canada	1.7	2.0
Italy	1.0	0.6	United States	2.3	2.7
Luxembourg	3.4	2.8	Oceania	2.3	2.0
Malta	(3.5)	---	Australia	2.3	1.8
Monaco	4.8	4.0	New Zealand	2.4	2.9
Netherlands	1.8	1.7	Near East	3.9	3.3
Norway	1.4	1.8	Israel	2.6	2.8
Portugal	1.4	1.6	Jordan	(3.5)	(1.0)
Spain	2.4	2.2	Lebanon	(1.5)	2.8
Sweden	3.0	2.5	Qatar	(4.9)	---
Switzerland	1.0	0.8	Turkey	3.5	3.5
United Kingdom	1.8	2.6	United Arab Emirates	4.3	4.0
Eastern Europe	2.8	2.4	Africa	2.9	3.8
Albania	(2.8)	2.8	Northern Africa	2.8	3.5
Bosnia and Herzegovina	2.0	1.9	Algeria	2.3	2.9
Bulgaria	2.1	1.4	Egypt	3.7	3.9
Croatia	1.5	0.4	Morocco	3.0	4.3
Czech Republic	2.5	2.2	Tunisia	1.7	3.3
Estonia	2.2	2.6	Sub-Saharan Africa	3.0	4.0
Hungary	2.1	2.3	Angola	(1.8)	(2.8)
Kosovo	3.4	3.3	Benin	5.8	6.2
Latvia	2.4	2.0	Burundi	(-5.0)	(0.0)
Lithuania	2.9	2.5	Cabo Verde	2.2	1.9
Macedonia	3.3	3.5	Congo Dem. Rep.	7.4	9.1
Poland	3.6	3.1	Congo-Brazzaville Rep.	5.3	5.8
Romania	3.2	2.4	Ethiopia	---	(8.0)
Serbia	1.7	(0.0)	Gabon	(3.5)	(2.5)
Slovakia	3.0	2.9	Gambia	2.6	(4.6)
Slovenia	1.8	2.2	Ivory Coast	(8.0)	8.5
Asia	2.9	3.6	Kenya	5.7	5.5
Bangladesh	6.6	6.0	Lesotho	3.0	3.7
China	6.2	6.8	Liberia	2.3	(-1.0)
Hong Kong	1.8	2.8	Madagascar	3.8	4.8
India	7.4	7.4	Malawi	(5.0)	(4.0)
Indonesia	5.1	5.5	Mauritania	2.5	4.8
Japan	0.6	1.2	Mauritius	3.6	4.4
Malaysia	3.0	4.0	Namibia	4.4	4.9
Pakistan	4.3	4.2	Niger	(1.0)	3.5
Philippines	5.9	6.3	Nigeria	3.4	4.4
Singapore	(2.0)	(2.8)	Senegal	(6.6)	(5.4)
South Korea	2.5	3.0	Sierra Leone	4.5	4.6
Sri Lanka	5.3	6.2	South Africa	0.8	2.0
Taiwan	1.5	3.6	Sudan	2.6	2.3
Thailand	2.6	2.9	Swaziland	1.7	2.9
CIS	-0.4	-2.5	Tanzania	(7.5)	(7.0)
Kazakhstan	0.7	2.2	Togo	5.4	5.9
Kyrgyzstan	2.5	3.0	Uganda	5.3	6.2
Russia	-1.1	-2.9	Zambia	3.3	5.8
Ukraine	0.7	-4.9	Zimbabwe	0.3	0.8
Uzbekistan	(3.0)	---			

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

Source: Ifo World Economic Survey (WES) II/2016 and II/2015.

for *Egypt* and *Algeria* to ‘fairly confident’ for *Morocco* and *Tunisia*. The economic climate indicator for *Sub-Saharan Africa* increased somewhat, but remains low. Similar to *Northern Africa*, economic expectations were upgraded, pointing towards economic stabilisation. WES experts reporting for *South Africa* assessed the current economic situation as weak once again and remain pessimistic about the economic outlook. Corruption, a lack of confidence in the government’s economic policy and unemployment are listed as the main economic problems facing *South Africa* at the moment. Inflation, which is around 7%, reached its highest level for years this quarter (see Table 3). In addition, *South Africa* is also facing a severe draught, which has a negative impact on the economy. In *Benin*, *Central African Republic*, *Congo Democratic Republic*, *Congo-Brazzaville Republic*, *Malawi*, *Mauritania*, *Mauritius*, *Namibia* and *Tanzania* the present economic situation was assessed as satisfactory, and is expected to remain so in most of these countries. Exceptions to this rule are *Congo Democratic Republic*, *Namibia* and *Mauritania*, where WES experts remain pessimistic regarding economic developments in the next six months. According to experts in *Gambia*, *Ivory Coast* and *Senegal*, the current economic situation remains good and is expected to remain so over the next six months. In *Senegal*, the export sector will pick up in the months ahead. In *Cabo Verde*, *Kenya*, *Lesotho*, *Sierra Leone*, *Sudan*, *Togo* and *Uganda* the economic situation remains unfavourable. While WES experts expect the situation to improve gradually over the next six months in *Cabo Verde*, *Kenya*, *Sierra Leone* and *Uganda*, they turned sceptical regarding the six-month economic outlook for *Lesotho*, *Sudan* and *Togo*. The groups of countries that were given a weak economic assessment include also *Angola*, *Burundi*, *Gabon*, *Liberia*, *Madagascar*, *Niger*, *Nigeria*, *Swaziland*, *Zambia* and *Zimbabwe*. As in previous surveys, economic activity is projected to remain relatively weak in this group too in the months ahead. WES experts only turned positive regarding their six-month economic outlook for *Madagascar*, *Niger* and *Swaziland*.

2016: Inflation expectations pick up further

On a worldwide average, WES experts’ inflation forecast for the

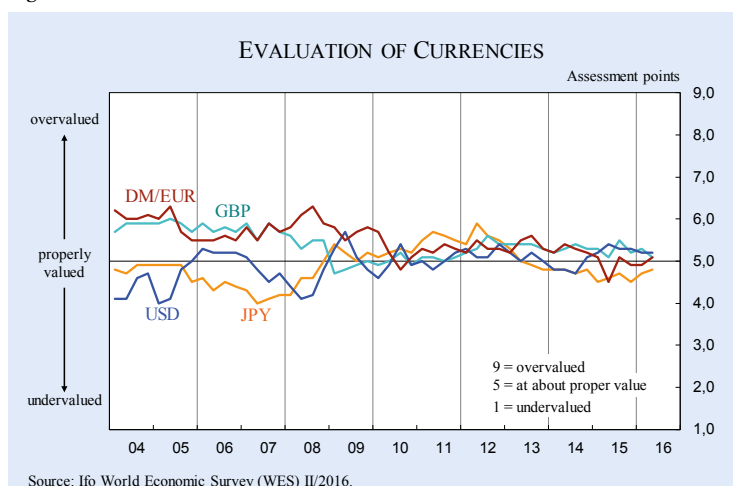
year 2016 picked up from 3.2% according to January’s survey to 3.7%. This increase is mainly influenced by significantly higher inflation expectations in *Latin America*, and particularly in *Venezuela* (see Table 3).

In contrast to the world average, the inflation forecast for 2016 in the *euro area* was downwardly revised from 1.0% in the preceding survey to 0.8%. Thus, the gap between the ECB inflation target rate (close to 2.0%) and the actual one in 2016 is likely to be somewhat bigger than expected at the beginning of the year. The mid-term inflation expectations (year 2021) are almost unchanged (1.8% compared with 1.9% in the preceding survey). Within the *euro area* the lowest inflation rates in 2016 are again expected in the two “crisis countries” *Cyprus* (-0.8%) and *Greece* (0.0%). Inflation expectations above the overall average of 0.8% again prevail mainly in *Belgium* (1.7%), as well as in *Austria* (1.3%).

In *Western Europe* outside the euro area the span of inflation expectations for 2016 reaches from -0.6% in *Switzerland* to 2.6% in *Norway*. In the *United Kingdom* the inflation outlook for 2016 does not differ from the euro average (0.8%; see Table 3).

A slightly lower inflation rate for 2016 was also expected in *Eastern Europe* than at the beginning of the year (0.8% compared to 1.2%). The inflation rate will lie above the average of the region in *Serbia* (3.3%) and *Albania* (1.8 %) in 2016. In *Bosnia and Herzegovina* (1.6%) as well as in *Latvia* and *Lithuania* (1.2% each) the 2016 inflation rate is also expected to significantly surpass the average in the region. As in *Western Europe* the currently still very low inflation rate is seen as a transitory phenomenon; over the course of the next five years

Figure 11



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

Figure 12

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

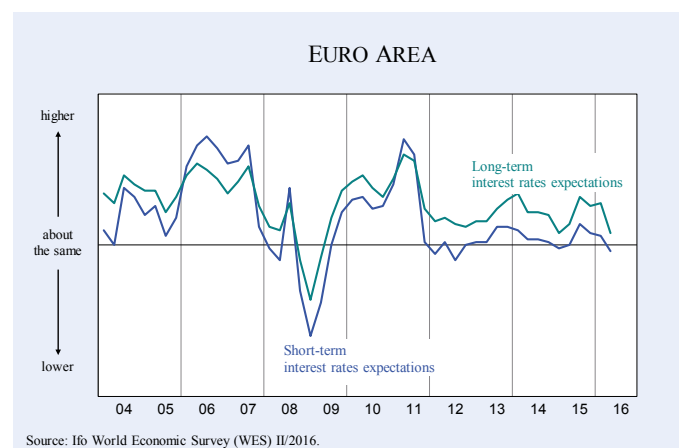
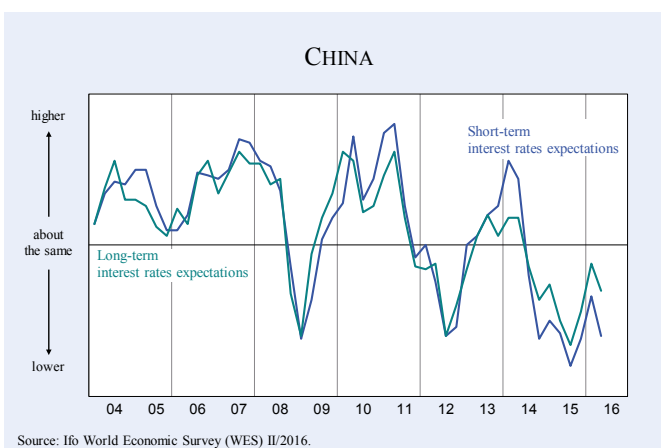
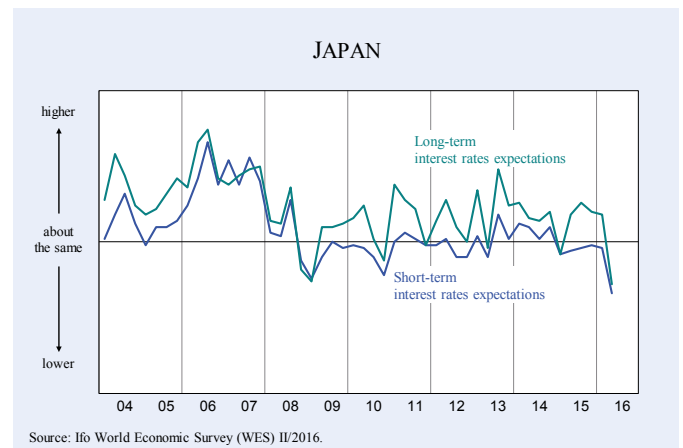
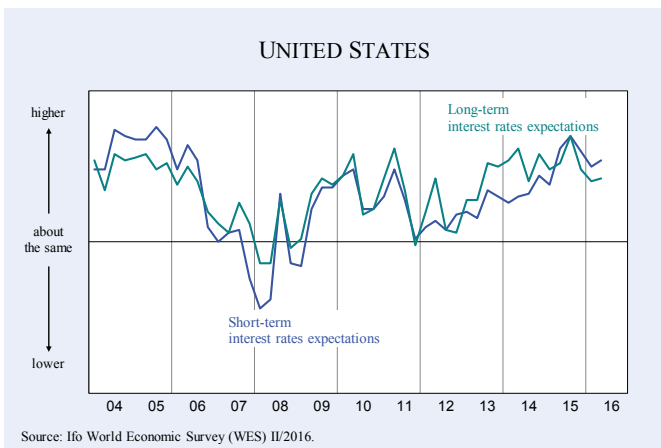
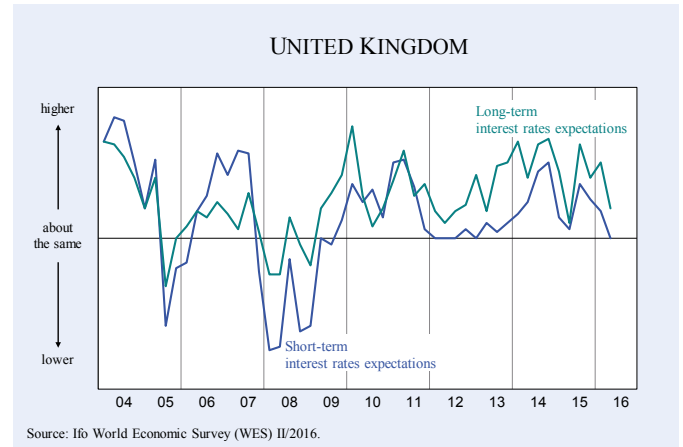
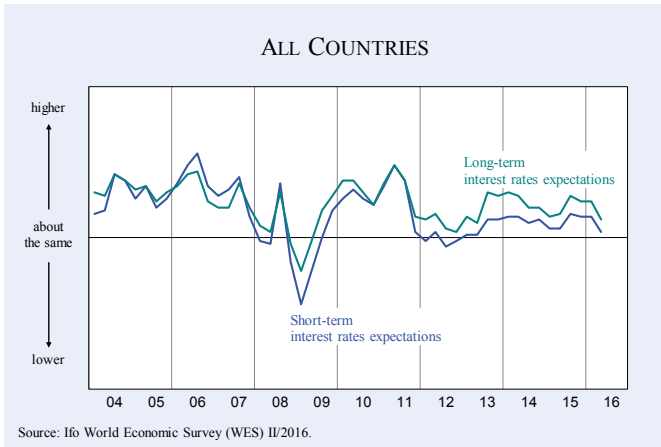


Table 3 Inflation rate expectations for 2016 and in 5 years (2021)

Region	2016	2021	Region	2016	2021
Average of countries *	3.7	2.9	Latin America	26.4	6.1
High-income countries	3.3	2.5	Argentina	32.9	8.2
Middle-income countries	5.3	4.6	Bolivia	5.1	5.3
Upper-middle	4.5	4.3	Brazil	8.1	4.9
Lower-middle	6.9	5.4	Chile	3.9	2.9
Low-income countries	5.6	5.8	Colombia	6.0	3.4
EU 28 countries	0.8	1.9	Costa Rica	(3.0)	(4.0)
EU countries (old members) ^{a)}	0.8	1.8	Cuba	(3.0)	(4.0)
EU countries (new members) ^{b)}	0.7	2.5	Dominican Republic	2.1	4.5
Euro area ^{c)}	0.8	1.8	Ecuador	3.4	4.1
Western Europe	0.8	1.8	El Salvador	2.0	3.4
Austria	1.3	2.0	Guatemala	4.0	4.7
Belgium	1.7	1.9	Mexico	3.6	4.0
Cyprus	-0.8	1.8	Paraguay	4.4	4.4
Denmark	0.8	1.7	Peru	4.0	3.0
Finland	0.5	1.6	Trinidad and Tobago	(10.0)	(7.0)
France	0.5	1.8	Uruguay	10.0	8.7
Germany	0.6	1.7	Venezuela	360.9	41.1
Greece	0.0	2.0	North America	1.8	2.6
Ireland	0.8	1.8	Canada	1.8	2.2
Italy	0.5	1.9	United States	1.9	2.7
Luxembourg	0.7	1.8	Oceania	1.9	2.7
Malta	(1.5)	(2.5)	Australia	2.1	2.8
Monaco	1.4	2.5	New Zealand	0.9	2.2
Netherlands	1.0	1.8	Near East	4.5	4.4
Norway	2.6	2.6	Israel	0.9	2.4
Portugal	0.8	1.7	Jordan	(2.5)	3.0
Spain	0.4	1.7	Lebanon	3.5	4.0
Sweden	1.0	2.3	Qatar	(2.3)	2.0
Switzerland	-0.6	1.1	Turkey	8.1	6.5
United Kingdom	0.8	2.1	United Arab Emirates	3.8	4.3
Eastern Europe	0.8	2.5	Africa	8.0	6.7
Albania	(1.8)	(3.0)	Northern Africa	6.8	5.4
Bosnia and Herzegovina	1.6	3.7	Algeria	5.6	4.8
Bulgaria	1.0	2.5	Egypt	13.3	9.2
Croatia	0.1	2.0	Morocco	1.6	2.1
Czech Republic	1.0	2.2	Tunisia	4.0	4.3
Estonia	0.9	2.4	Sub-Saharan Africa	8.6	7.4
Hungary	1.0	2.6	Angola	(24.0)	(15.0)
Kosovo	1.3	1.7	Benin	1.7	2.7
Latvia	1.2	2.2	Burundi	(45.0)	(6.5)
Lithuania	1.2	2.4	Cabo Verde	1.5	3.0
Macedonia	0.3	2.2	Congo Dem. Rep.	4.0	7.0
Poland	0.4	2.5	Congo-Brazzaville Rep.	(3.0)	(7.0)
Romania	1.2	2.5	Gabon	(3.5)	(2.5)
Serbia	3.3	4.0	Gambia	7.3	14.0
Slovakia	0.5	2.7	Ivory Coast	2.8	3.1
Slovenia	0.3	2.4	Kenya	6.8	6.5
CIS	11.0	8.4	Lesotho	6.6	5.2
Kazakhstan	10.4	6.3	Liberia	8.8	9.0
Kyrgyzstan	4.0	5.5	Madagascar	8.1	8.0
Russia	9.8	9.4	Malawi	(20.0)	(15.0)
Ukraine	14.9	6.3	Mauritania	7.5	(12.0)
Uzbekistan	(22.0)	---	Mauritius	2.0	2.8
Asia	2.1	2.6	Namibia	5.8	5.0
Bangladesh	6.3	5.6	Niger	(2.0)	(3.0)
China	2.9	3.4	Nigeria	12.5	10.4
Hong Kong	2.7	3.2	Senegal	(2.0)	(1.9)
India	5.4	4.4	Sierra Leone	10.0	6.9
Indonesia	4.4	3.8	South Africa	6.9	5.8
Japan	0.3	1.3	Sudan	21.8	20.5
Malaysia	4.0	4.2	Swaziland	6.3	6.3
Pakistan	5.5	7.6	Tanzania	(9.0)	(7.0)
Philippines	2.7	4.0	Togo	2.1	2.9
Singapore	(0.0)	(1.0)	Uganda	6.1	5.0
South Korea	1.7	2.3	Zambia	18.8	7.4
Sri Lanka	4.8	4.3	Zimbabwe	0.4	2.8
Taiwan	1.0	1.4			
Thailand	1.0	3.0			

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

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

inflation in this region is expected to move to a historically more “normal” level (2021: 2.5%).

In **North America**, the 2016 inflation forecast of 1.8% is a tick higher than at the beginning of the year (1.7%) and clearly surpasses the inflation rate reported for 2015 (1.3%). The medium-term inflation outlook (2021) was also revised upwards somewhat from 2.4% to 2.6%.

In **Asia** – as in **Europe** – inflation expectations for 2016 have declined slightly since the beginning of the year (from 2.3% to now 2.1%). The medium-term inflation rate is also slightly lower (2.6% compared with 2.9%). The downward revisions of the 2016 inflation forecasts were most pronounced in *Thailand* (from 1.6% to 1.0%), *Japan* (from 0.6% to 0.3%) and *Sri Lanka* (from 7.0% to 4.8%). On the other hand, inflation expectations for 2016 are somewhat higher than at the beginning of the year in *China* (2.9% versus 2.0%) and *South Korea* (1.7% versus 1.4%).

In **Oceania** inflation expectations for 2016 are slightly higher than at the beginning of the year (1.9% versus 1.8%). This is entirely due to an upward revision of inflation expectations in *Australia* (from 1.9% to 2.1%), whereas in *New Zealand* the opposite was true (from 1.4% to 0.9%). The medium-term inflation outlook (2021) remained unchanged at 2.7% with 2.8% in *Australia* and 2.2% in *New Zealand*.

In **Latin America** inflation expectations for 2016 rose significantly (from 16.9% according to the January survey to now 26.4%). This was almost entirely due to the development in the hyperinflation country *Venezuela*, where current inflation expectations stand at around 361% compared with 216% at the beginning of the year. In *Argentina* the change in government is not yet reflected in a decline in the inflation rate; on the contrary, inflation expectations for the current year were even revised somewhat upwards (from 30.2% to 32.9%). In *Brazil*, the largest economy in the region, inflation expectations for 2016 shrunk slightly (from 8.5% to 8.1%) and were clearly lower than the reported inflation rate in 2015 (9.4%). In the medium-term a further decline in the *Brazilian* inflation rate is expected (4.9%).

In **CIS** countries inflation expectations for 2016 moderated somewhat compared with expectations at the beginning of this year (11.0% versus 11.6%). This was mainly due to an expected improvement on the inflation-front in *Russia* (9.8% versus 11.4% at the beginning of the year).

In the **Near East** the new inflation outlook for 2016 of 4.5% did not differ much from the rate forecast at the beginning of the year (4.4%). The highest inflation rate in the region is still expected for 2016 in *Turkey* (8.1%) and the lowest in *Israel* (0.9%).

In **Africa** inflation expectations for 2016 continued to rise from 7.6% at the beginning of the year to 8.0%. For 2015 an inflation rate of 6.8% was reported. The mid-term inflation outlook remained almost unchanged (6.7%). However, as in preceding surveys, the picture remains very heterogeneous from country to country: the expected 2016 inflation rate in *South Africa* is again somewhat lower than the average figure for the continent (6.9%) and only slightly higher than at the beginning of the year (6.5%). The lowest inflation rates in 2016 will prevail in *Zimbabwe* (0.4%), *Cabo Verde* (1.5%), *Morocco* (1.6%), *Benin* (1.7%), *Mauritius* (2.0%) and *Togo* (2.1%). The highest inflation expectations in the region are reported by WES experts in *Burundi* (45.0%), *Angola* (24.0%), *Sudan* (21.8%) and *Malawi* (20.0%).

US dollar expected to rise further

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

However, there are major differences in respective currency evaluations by country: in *New Zealand*, and to a somewhat lesser degree in *Australia*, the *Ukraine*, *Pakistan*, *Sri Lanka*, *Egypt*, the *Democratic Republic of Congo*, as well as in some other *African* countries like *Angola*, *Burundi* and *Zambia*, WES experts assessed their own currency as generally overvalued. This judgement was also given for the currencies in *Brazil* and *Uruguay*. On the other hand, WES experts in *Malaysia*, *Thailand*, *Madagascar* and *Sierra Leone*, the *Sudan* and *Chile* assessed their own currency as generally undervalued vis-à-vis the world’s four leading currencies the *US dollar*, the *euro*, the *British pound* and the *yen*.

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

The few exceptions to this development include the *United Kingdom, Canada, Kazakhstan, Indonesia* and *Malaysia*, as well as *Namibia*, where a weakening of the *US dollar* is expected in coming months.

Diverging interest rate trends expected

On a worldwide scale, short-term interest rates are expected to remain almost unchanged and long-term rates to increase only very moderately in the course of the next six months. However, this overall result disguises significant differences by country: in *North America* – particularly in the *USA*, but also in *Canada* – a growing majority of experts expect a further rate hike in the short term. Short-term interest rates, by contrast, are expected to fall in the months ahead, particularly in many *Asian* countries (*India, China, Indonesia, Japan, Malaysia, Bangladesh, Taiwan, Thailand* and *South Korea*), but also in countries like *Bulgaria, Serbia, Hungary, Croatia, the Ukraine, Russia, New Zealand, Turkey, Morocco, Uganda, Argentina*, as well as in *Brazil* where high inflation prevented the central bank from cutting the prime rate until recently.

Economic growth in 2016: Moderate recovery

Each year in the second quarter survey, WES experts are asked to give a quantitative forecast of GDP² growth in the current year. World economic growth is expected to reach 2.0% in 2016 after an estimated 2.3% in 2015 (see Table 2).

The modest growth expectation for economic growth in 2016 is a common phenomenon in almost all regions in the world. Exceptions from this overall trend are again *CIS* countries, where negative growth will continue in 2016, even although the expected decline will be significantly softer than in 2015 (-0.4% against -2.5%). *Latin America* will also face a recession (-0.2%) in 2016, although with huge differences in the growth performance between countries. In *Asia, North America* and *Africa* the expected economic growth rate in 2016 is somewhat lower than a year ago, but will remain in a healthy range

² Country economic growth rate is the GDP in constant prices. Within each country group or region, as well as for the world GDP forecast, the country results are weighted according to the share of the specific country's exports and imports in total world trade. These global GDP growth rates are different from the world GDP growth that is calculated using purchasing power parities as country specific weights, as applied by the IMF forecasts. Thus, world economic growth calculated by the Ifo method, which is also applied by the World Bank, is somewhat lower than the corresponding figures by the IMF as a rule.

between 2 and 3 percent at all events according to WES experts. In *Eastern Europe* the growth outlook for this year is somewhat brighter than last year (2.8% compared with 2.4%). In *Western Europe* the growth outlook is unchanged from last year's forecast (1.6%). The strongest growth in all regions is expected in the *Near East* (3.9% after an estimated 3.3% last year).

By country, the strongest growth in 2016 is expected in some *Asian* countries, particularly in *India* (7.4%), *Bangladesh* (6.6%), *China* (6.2%), the *Philippines* (5.9%), *Sri Lanka* (5.3%) and *Indonesia* (5.1%). On the other hand, the current economic weakness in *Latin America* is mostly pronounced in *Venezuela* (-14.6%) and *Brazil* (-3.6%). In *Argentina*, growth will remain negative (-0.8%) in 2016, but other WES indicators point to a recovery in the second half of the year. In *Western Europe* the economic recovery is still lacking momentum, but apart from *Greece* all countries in this region are expected to manage a positive growth rate this year (1.6% on average). In the *CIS* area the recession is expected to come to an end, but the recovery will be very modest. On annual average, growth in *Russia* will remain negative, although significantly less pronounced than in 2015 (-1.1% compared with -2.9%).

Lack of confidence in the government's economic policy and insufficient demand currently seen as most important economic problems

Twice a year, in April and October, WES experts are asked to cite the most important economic problems in the country that they are reporting for. Similar to the October survey "*Lack of confidence in government's economic policy*" and "*Insufficient demand*" once again topped the list worldwide. However, there are significant differences concerning the priority of problems by region and country. In *Western Europe* and in *Africa* the most urgent problem is still seen as the high *unemployment rate*. In *North America* "*Public deficits*" is ranking on top of the list of problems. In *Latin America* and *CIS* countries "*Corruption*" is cited as the most urgent problem, while "*Insufficient demand*" takes this role in *Asia* and the *Near East* (see Table 1).

Immigration policies

Immigration policies towards different kinds of immigrant groups are currently being debated in many countries. The most frequently discussed immigrant groups

are mainly high- and low-skilled economic migrants, as well as refugees. Debate has focused on immigration policies in the European Union towards refugees since last year in the light of the huge influx of refugees into some European Union member countries. However, the issue of economic migrants, and especially of highly-skilled economic immigrants, is an ongoing topic due to the demographic changes that arise in an ageing population leading to shortages of (skilled) workers in many European and other industrial countries. In this quarter's special question the WES experts were therefore asked for their opinion on how they expect immigration policies in their country to change towards highly-skilled economic migrants, low-skilled economic migrants and refugees in the next five years. The precise wording of the question was: "What do you expect will happen in your country, regarding immigration policies towards the following groups during the next 5 years?: highly-skilled economic migrants; low-skilled economic migrants and refugees" The possible answers concerning immigration policies were: "More open", "No changes" and "More restrictive".

Some of the results are illustrated in the following Figures 13 and 14: Figure 13 shows the share of experts who answered the WES special question on how they expect the immigration policies to be changed in their country with "more restrictive" towards highly-skilled economic migrants, low-skilled economic migrants and refugees in the next five years. The results are presented for 16 states of the European Union, as well as for the *United States, Australia, New Zealand* and *Canada*, which represent the major non-European destination countries for international migrants. In each country at least 10 experts answered the corresponding survey question. The figures present countries in a descending order according to the share of experts expecting more restrictive policies towards low-skilled immigrants (Figure 13) and the share of experts expecting more open policies towards highly-skilled immigrants (Figure 14).

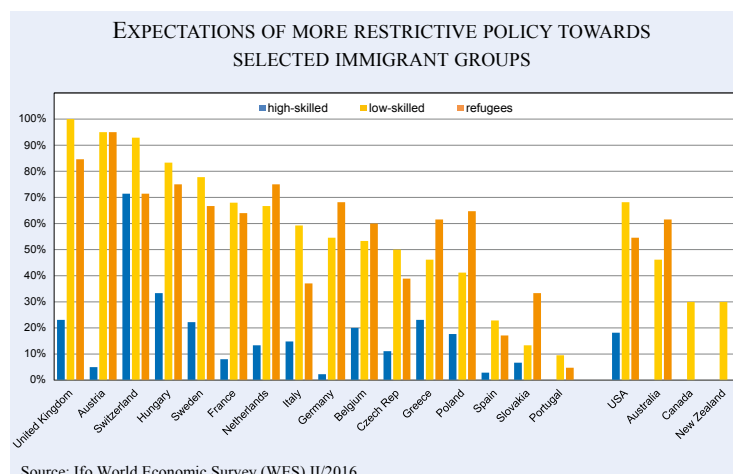
A majority of experts expects immigration policies towards low-skilled immigrants in the European countries shown in Figure 13 to become more restrictive in the future. In the *United Kingdom, Austria, Switzerland, Hungary, Sweden, France, Netherlands, Italy, Germany, Belgium, Czech Rep, Greece, Poland, Spain, Slovakia, Portugal, USA, Australia, Canada* and *New Zealand*,

Sweden, France, the Netherlands, Italy, Germany and *Belgium* over 50% of the experts surveyed expect the immigration policies towards low-skilled migrants to be more restrictive within the next five years, with the *United Kingdom* (100%), *Austria* (95%) and *Switzerland* (93%) having the highest expectations of a more restrictive policy. On the other hand, the majority of the experts expect immigration policies towards low-skilled economic migrants in *Greece, Poland, Spain, Slovakia* and *Portugal* to remain unchanged, or even to become more open in the future. For the major non-European immigration countries (*Australia, Canada, New Zealand* and the *United States*) a majority of experts only expects policies to become more restrictive towards low-skilled immigrants (68%) in the *United States*. As far as *Australia, Canada* and *New Zealand* are concerned, only less than 50% of the experts are of this opinion, meaning that the majority expects no changes, or a more open policy.

Looking at the expectations of the experts surveyed regarding more restrictive policies towards the immigrant group "refugees", one can see that the expectations are very similar to the policy changes expected towards low-skilled migrants. In the majority of the countries under consideration, over 50% of the experts surveyed expect immigration policies to be more restrictive towards refugees in the future. The majority of the experts only expect policies towards refugees to stay the same or be more open in *Czech Republic, Italy, Slovakia, Spain, Portugal, Canada* and *New Zealand*.

For the third group of immigrants – highly-skilled economic migrants – the picture is very different from that for the aforementioned immigrant groups. Policies are

Figure 13



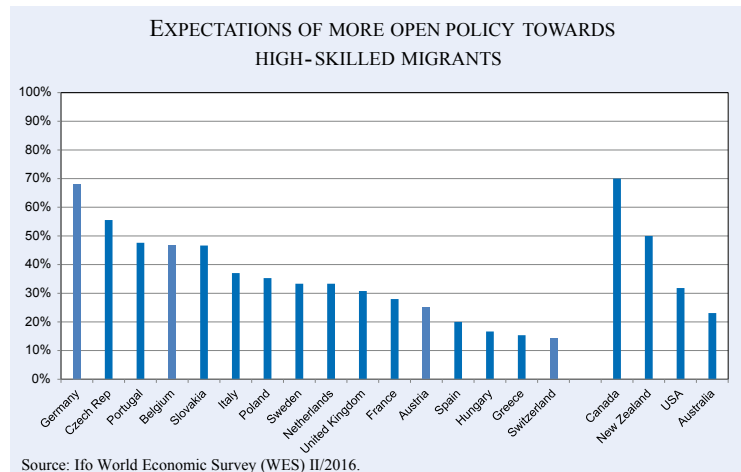
only expected to be more restrictive (71%) towards highly-skilled economic migrants in *Switzerland*. In all other countries the expectations of a more restrictive policy are below 30%.

Many experts, on the other hand, expect more open policies towards highly-skilled economic migrants in the future (Figure 14). At the same time, the shares of experts expecting more open policies towards low-skilled migrants was below 10% in all of the countries considered. What is more, only few experts expect more open policies towards refugees in the future. Only in *Spain* and *Portugal*, countries that have not been affected much by the recent inflow of asylum seekers to Europe, the share of experts expecting more open policies towards refugees is higher, 35% and 57%, respectively.

Focusing on expectations of more open policies for highly-skilled migrants, Figure 14 shows that a considerable share of experts expects more open policies towards highly-skilled immigrants in many countries. More open policies concerning highly-skilled migrants are expected most frequently among experts in *Canada* (70%), *Germany* (68%) and the *Czech Republic* (56%). In the remaining countries, only 20-50% of experts expect a more open policy. In line with numbers from Figure 13, *Switzerland* is the country where the lowest share of experts (14%) expects more open policies towards highly-skilled economic migrants.

To sum up, expectations of more restrictive policies towards low-skilled immigrants and refugees are quite frequent among respondents in many countries. On the other hand, respondents often expect governments to pursue more open policies towards high-skilled immigrants in the future. Thus, many experts seem to expect more skill-selective immigration policies. However, expectations of more restrictive policies towards low-skilled immigrants are more frequent than those concerning more open policies towards the highly-skilled.

Figure 14



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