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CESifo WORLD ECONOMIC SURVEY

VOLUME 15, No. 4

NOVEMBER 2016



WORLD ECONOMIC CLIMATE

World Economic Climate brightens again

ECONOMIC EXPECTATIONS

Economic expectations turn positive

INFLATION

Inflation to remain low in most countries

CURRENCIES

US dollar expected to rise further

INTEREST RATES

Interest rates expected to rise

SPECIAL TOPIC

Public debt management

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Regions

- World Economy: Recovery in advanced economies slightly stronger
- Western Europe: Economic climate improves again
- North America: Economic recovery continues
- Eastern Europe: Economic climate stabilises
- CIS: Economic climate improves further
- Asia: Economic climate starts to brighten up again
- Oceania: Economic climate indicator rises sharply
- Latin America: Economic climate indicator falls again
- Near East: Low oil prices start to take their toll
- Africa: Economic climate remains subdued but expectations improve

Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organisations worldwide on current economic developments in their respective countries. Its results offer a rapid, up-to-date assessment of the economic situation prevailing around the world. In October 2016, 1,071 economic experts in 113 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 BRIGHTENS AGAIN

The Ifo Index for the world economy improved, rising 4.5 index points to 90.5 points in the fourth quarter and returning to the level seen in the second quarter. Despite this improvement, the figure remains around six index points below its long-term average. Experts' assessments of the current economic situation remained unfavourable, with no change since the second quarter. Expectations brightened somewhat and the world economy seems to be swinging back on track for a moderate recovery (see Figures 1, 2 and Box 1). The biggest risks, according to experts, are a further slowdown in economic growth in China and the problems in the EU (see Box 3).

ceding the financial crisis. After a weak first half of the year, production in the US is starting to pick up again, while recovery in the euro area continued in recent months at a consistent pace. In Japan, new stimulus programs should help boost the economy, even if the yen's considerable appreciation is having a dampening effect. In China, production in the second quarter was considerably higher than it had been in the previous three months, partly due to the more expansive economic measures. In Russia and Brazil, both of which had been going through a recession, the economic situation is improving somewhat, which may be partly due to the rise in export revenues resulting from the increase in com-

Recovery in advanced economies slightly stronger

The economic climate improved in all regions with the exception of Eastern Europe and Latin America. In Western Europe and North America the climate value is three to five index points above its long-term average. In advanced economies the recovery is slightly stronger than in less-developed economies. Despite an overall improvement, the Ifo Indicator for Asia, Latin America, the CIS states, the Near East and Africa is still far below its long-term average. In Oceania the indicator reached its average value. In almost all regions expectations were also more optimistic.

After a very subdued first half of the year, the global economy has regained momentum in recent months. In the developed countries, production should now start picking up again, while the emerging economies are stabilising. Overall, however, the global dynamic is still weaker than it was in the years pre-

Figure 1

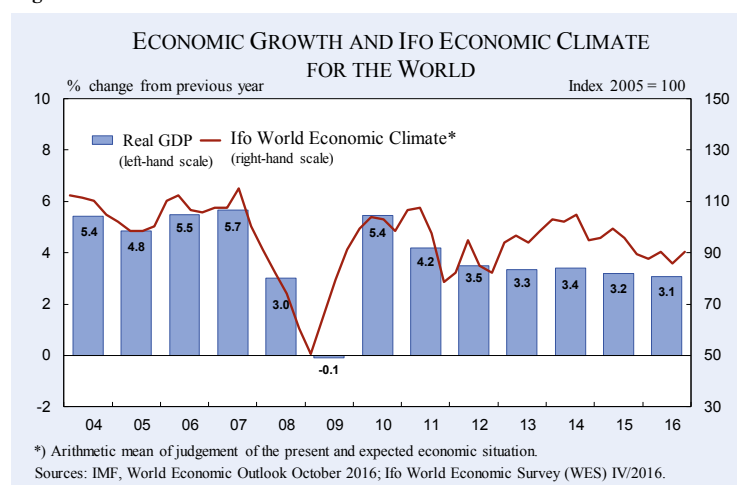
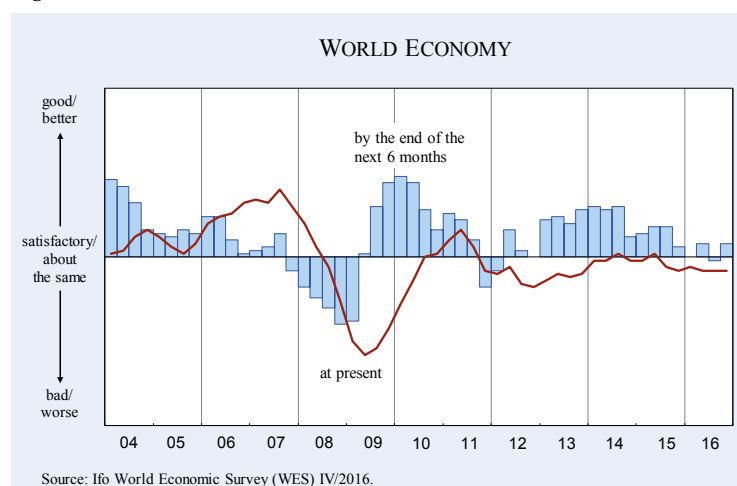


Figure 2

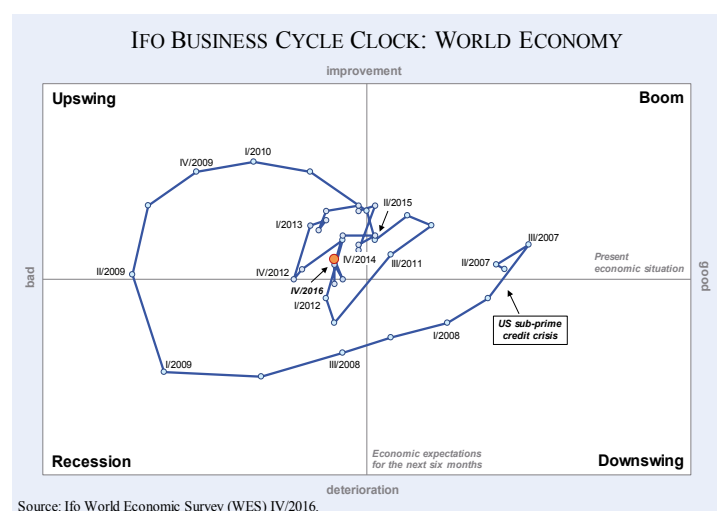


Box 1

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 October survey, the Ifo Indicator for the World Economy started to improve again. While assessments of the current economic situation remained unfavourable, expectations brightened. As a result, the indicator showed an upwards movement back into the upswing quadrant. The world economy seems to be swinging back on track towards a moderate recovery.



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).

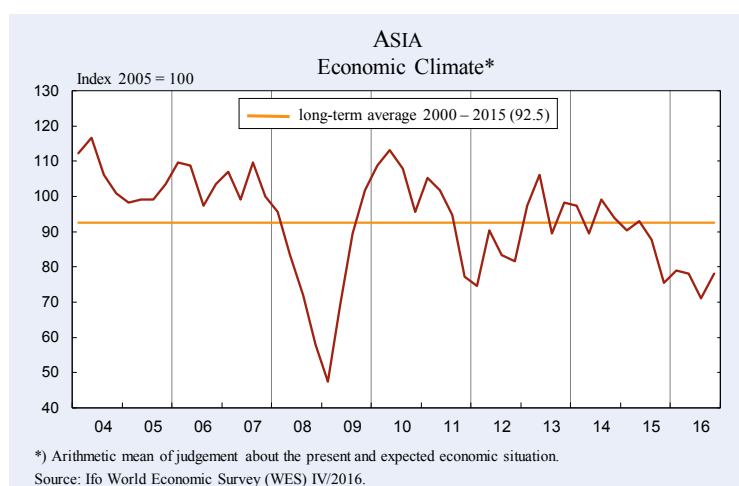
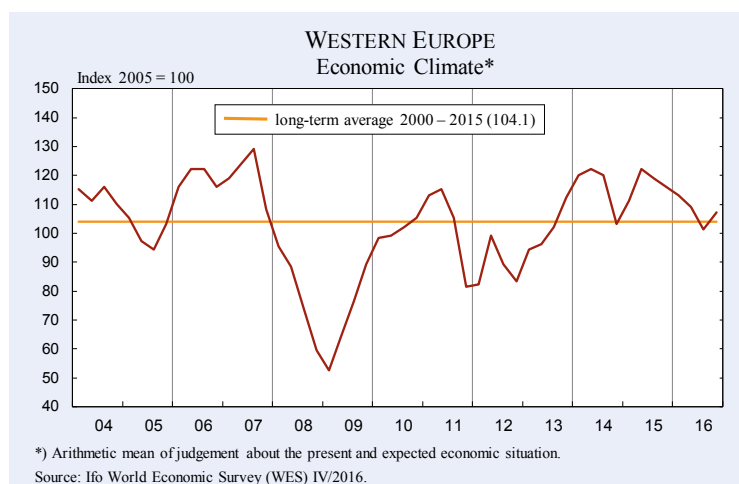
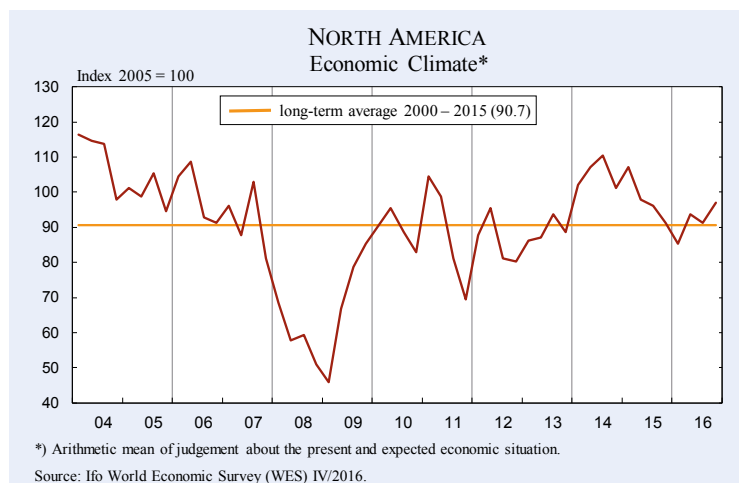
modity prices seen since the beginning of the year. Monetary policy in the major currency regions has been markedly expansionary for some time. The current fiscal policies in many regions are expected to have a supportive effect on the economic cycle. Growth in the developed countries is expected to slow down somewhat in the forthcoming quarters. Private consumption should remain the primary driver of global economic expansion. Marked increases in employment are expected in the *US*, *Japan*, and the *euro area* – although productivity growth is expected to remain low, meaning that wages will only pick up at a moderate pace. In addition, the purchasing power gains that resulting from the low oil prices are tapering off, which is likely to hinder growth in private consumption. Given the increased capacity utilization and the ageing of the capital stock, there should be a gradual rise in demand for capital goods. Financing conditions are likely to remain favourable over the course of the next two years. However, exports to emerging countries will be weakened by these countries' more subdued growth prospects, which

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

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

Figure 3



mented fiscal measures are stimulating domestic production, the risk of an economic downturn in the long run has increased. In the *EU*, the uncertainty resulting from the problems in the *Italian* and *Portuguese* banking sectors and the conflicts in the eastern Mediterranean countries could dampen consumption and investment. Above all, however, the consequences of the Brexit decision are presenting the biggest risk. Since the exit process is likely to be drawn out and complicated when it comes to the extent to which the single market will remain open to the *UK* in the future, the *UK* – and to a lesser extent, the rest of the *EU* – could face a long period of investment restraint. A further disintegration of the global economy could slow economic growth, especially since uncertainty over the future institutional and regulatory framework would noticeably dampen companies' propensity to invest.

Western Europe: Economic climate improves again

The economic climate index for *Western Europe* started to rise again from 101.2 to 107.2, and surpassed its long-term average of 104.1 again (2000–2015, see Figure 3). This marks the first increase in the indicator since mid-2015. While assessments of the present economic situation were slightly less positive than three months ago, economic expectations turned positive again (see Figure 4). In the *euro area* a similar pattern prevails, with the climate indicator rising from 111.6 to 116.8, which is above its 16-year average of

106.5. Satisfaction with the present economic situation continued to prevail. Economic expectations clearly brightened up.

According to the latest WES survey, *Germany*, *Lithuania*, *Ireland*, *Luxembourg* and *Slovakia* are

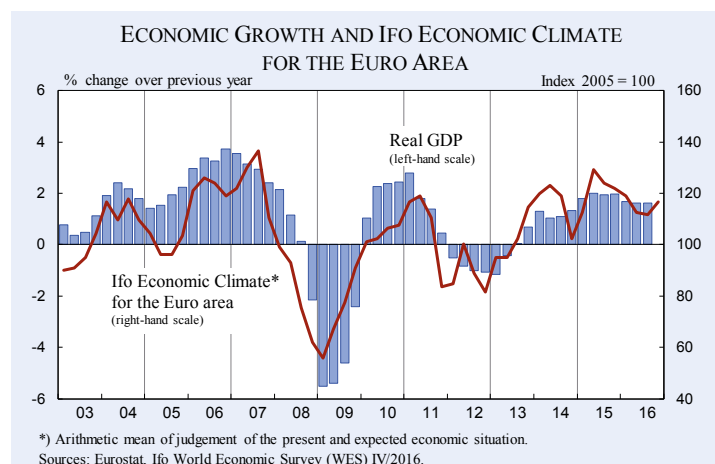
in turn will weaken investment. In the *UK*, the Brexit decision is expected to have a negative impact on investment.

There are still major risks for the global economy (see also Box 3). For one, although *China's* recently imple-

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 October results are based on responses from 321 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* improved this quarter, but to markedly different degrees across member states. The Ifo index for the economic climate in the *euro area* rose from 111.6 points to 116.8 points in the fourth quarter. The current economic situation remains unchanged and the improved economic climate was entirely due to more positive expectations. The economic recovery in the *euro area* is expected to continue at a sluggish pace. The six-month economic outlook brightened almost everywhere, with the exception of a few countries, and points to an economic upturn over the next six months. Even experts in *Greece* are slightly more positive. Only experts in *France*, *Latvia* and *Portugal* remain sceptical about future economic developments. Experts continued to assess the economic situation most positively in *Germany*. Assessments of the already favourable situation also improved in *Belgium*, *Estonia*, the *Netherlands*, *Slovakia* and *Slovenia*. In *Austria*, *Luxemburg*, *Latvia* and *Lithuania*, by contrast, participants assessed the current economic situation as slightly less favourable than last quarter. In *France*, *Italy* and *Spain* assessments of the unfavourable economic situation continued to deteriorate. The majority of assessments also remained negative for *Finland*, *Greece* and *Portugal*, despite a slight improvement in these countries. The growth outlook for the *euro area* for the next three to five years remained unchanged at an annual rate of 1.7 percent from the survey conducted at the end of 2015. For 2016 experts expect an inflation rate of 0.7 percent. The medium-term inflation expectations for 2021 rose from 1.8 percent to 1.9 percent..

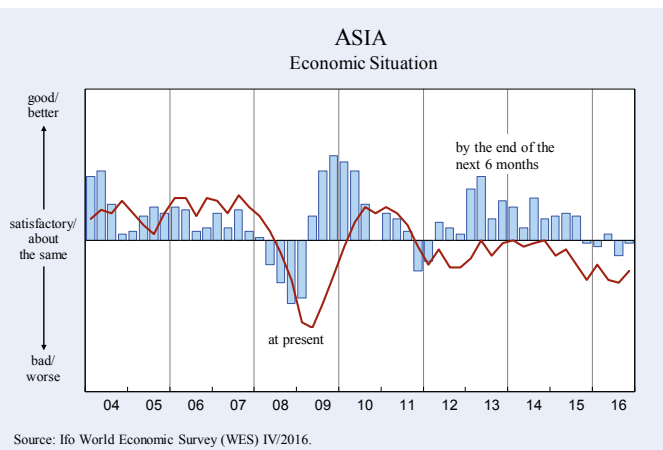
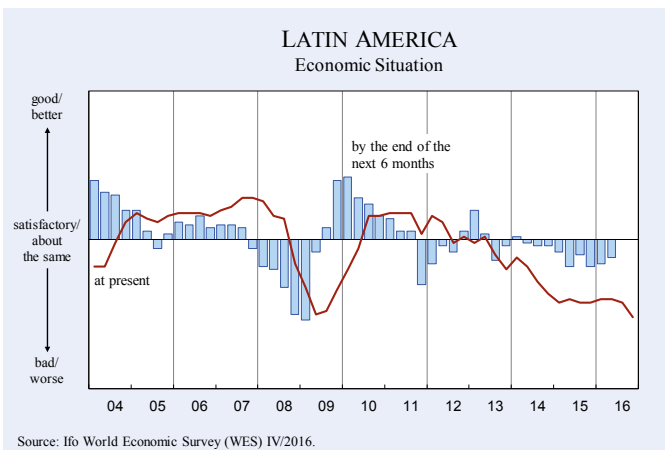
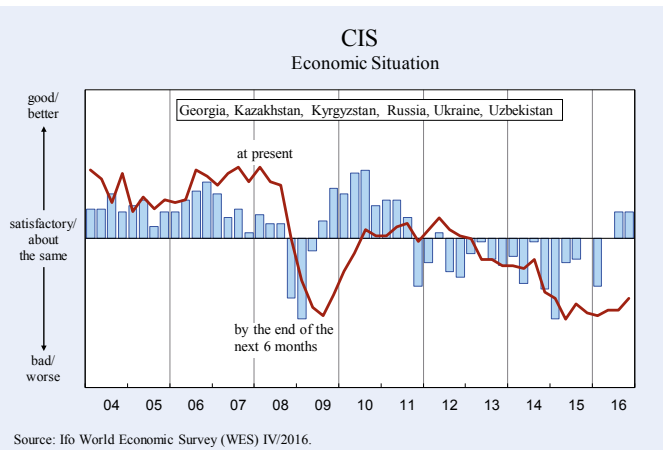
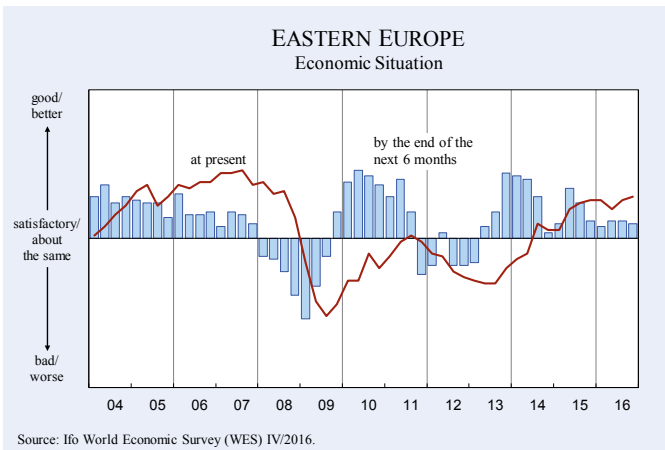
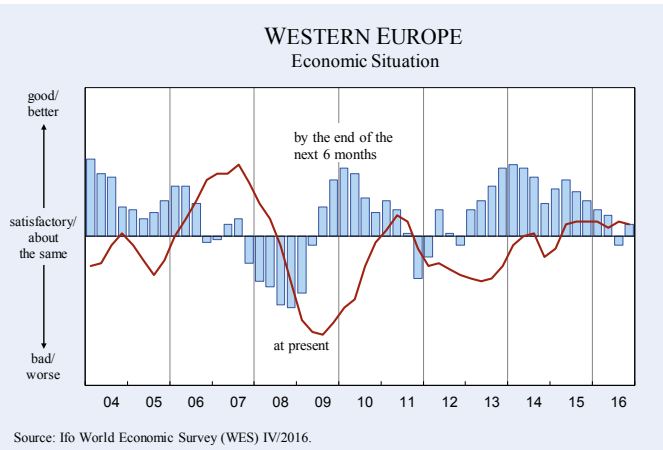
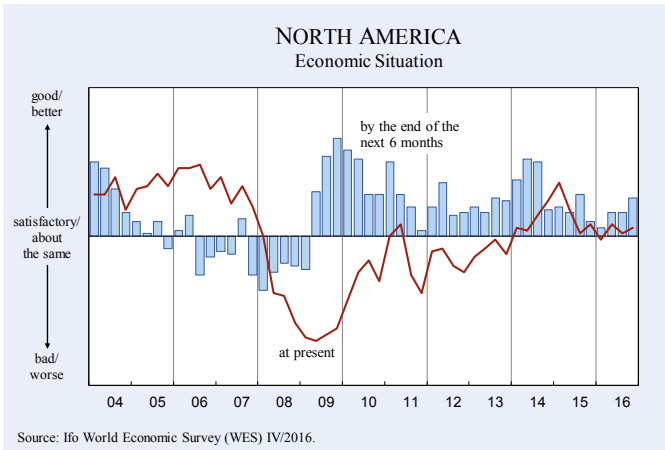


among the best economic performers in the *euro area* at the moment. Assessments of the present economic situation were even upgraded compared to the survey in July for *Germany*, and to an even greater extent for *Slovakia*. This group is closely followed by *Slovenia* and the *Netherlands*, where an improvement was also visible compared to three months ago. In nearly all of these countries, WES experts revised their economic expectations upwardly, experts in *Germany* in particular changed their sceptical view regarding the next six

months into a positive one. *Slovenia* is the only country in this group where economic expectations are less positive than three months ago. The mid-range position, where a satisfactory present economic situation currently prevails, is occupied by *Belgium*, *Cyprus*, *Estonia* and *Latvia*. The six-month economic outlook remains positive in most of these countries. For *Estonia*, in particular, experts turned more confident regarding developments in the months ahead. In turn, economic expectations for *Latvia* continued to cloud over and signal deterioration in the months ahead. The current economic situation deteriorated in *Austria* and *Spain*, and experts' assessments remain below the satisfactory line (see Figure 5a). No major improvements in the present situation are expected in these three countries in the months ahead. In *Greece* and *Portugal* the present economic situation improved slightly, but both countries are still considered very poor performers in the *euro area*. Looking forward to the next six months, there is a glimmer of hope for *Greece*, as economic expectations clearly turned positive this quarter – reaching their highest level in nearly two years. By contrast, experts in *Portugal* remain sceptical about the six-month outlook. In *Finland*, *France* and *Italy*, the majority of experts surveyed also rated the present economic situation as very weak (see Figure 5a). In *France* in particular more experts than three months ago rated the situation as poor. As in previous surveys, all of these countries suffer from high unemployment. In *France*, a lack of confidence in the government's economic policy is also currently posing an important economic problem. The economic outlook barely changed, and only signals a modest improvement for *Finland*. In *France* and *Italy* no major changes for the better are expected in the months ahead.

Figure 4

SELECTED REGIONS



The economic climate in most of the countries outside the *euro area* improved again thanks to strongly upwardly revised economic expectations. The only country not to follow this pattern was *Sweden*, where the six-month economic outlook is slightly less positive than it was three months ago. However, by observing the individual levels and not only the direction, the survey results leave scope for different interpretations. In *Denmark, Monaco, Norway* and *Switzerland* a satisfactory present economic situation prevails and is expected to continue to do so in the months ahead. In *Sweden*, WES experts even rated the present situation as favourable. As far as developments over the next six months are concerned, *Swedish* experts continue to express less confidence than at the beginning of this year. In the *United Kingdom*, the current situation deteriorated according to WES experts and is regarded as weak. The most pressing issue at the moment is the lack of confidence in the government's economic policy. One expert stated that it is a difficult time to predict the *British* economy's performance due to post-Brexit uncertainties: 'The general view is that the *UK* went into Brexit with a very strong domestic demand and low unemployment. A Brexit need not change that, but political response might. So, current anti-business views of politics have hit business confidence more than Brexit itself, arguably.' Overall, WES experts remain pessimistic with regard to developments over the next six months, even if exports do look set rise, notably thanks to the weak *British* pound.

North America: Economic recovery continues

After a slight setback in the third quarter, the economic climate indicator for *North America* recovered to 97.1, from 91.2 in the previous quarter, and lies above its long-term average of 90.7. The improvement was mainly due to more optimistic economic expectations. Assessments of the present economic situation were also more positive (see Figures 3 and 4). This pattern particularly reflects economic developments for the *United States*. The most important economic problem facing the country at present is a lack of confidence in the government's economic policy. Most *US* experts fear a negative economic impact on their economy if Donald Trump were to win the presidential election. Should Hillary Clinton become the next president, they see a less negative economic impact (see Box 3). For *Canada*, only assessments for the present economic situation improved and turned satisfactory again. The economic outlook, by contrast, is slightly less optimistic

than last quarter (see Figure 6). In both countries, capital expenditure in particular was regarded as weak. WES experts see high public deficits, a shortage of skilled labour and a lack of international competitiveness as the most important economic problems in *Canada* at the moment.

Eastern Europe: Economic climate stabilises

In *Eastern Europe* there were hardly any changes recorded. Assessments of the present economic situation remain favourable and the economic outlook is just as positive as in the previous two quarters (see Figures 4 and 7). The economic climate therefore remains at 94.6 index points and lies above its long-term average (86.6 in the period 2000–2015). The region's most important economic problems were identified as a lack of skilled labour, a lack of confidence in the government's economic policy and corruption (see Table 1).

The region's best performing economy currently remains the *Czech Republic*, even if the present economic situation was assessed slightly less favourably than in July. By contrast, economic expectations have been upwardly revised and continue to point to further improvements in the next six months. Amongst the *Eastern European* countries that belong to the *euro area* (*Baltic States, Slovakia* and *Slovenia*) experts in *Lithuania* and *Slovakia* posted the best current economic performance and its present economic situation was again deemed favourable. The present economic situation also brightened in *Slovenia*. In *Estonia* and *Latvia* WES experts assessed the present economic situation as satisfactory. The economic outlook remains positive in all of these countries, except for in *Latvia*, where WES experts turned more sceptical about the six-month outlook. In *Romania*, the present economic situation clearly brightened, according to WES experts who deemed it as favourable this quarter. The six-month outlook points to an economic stabilisation at current favourable levels. In *Poland*, assessments of the present economic situation were downwardly revised, as were economic expectations to an even greater extent. However, while the current situation still remains favourable, WES experts expressed scepticism regarding economic expectations. In their opinion, present economic conditions in *Bulgaria* continued to improve. The current satisfactory situation is likely to persist in the months ahead. Experts assessed the current economic situation in *Croatia* and *Hungary* as unfavourable, although some improvements were visible compared to the previous survey. Economic expect-

Box 3**What are the economic or political risks facing the world economy at the moment?**

The highest risks for the world economy, according to the WES experts, are currently the slowdown of the Chinese economy and the fragile situation of the European Union. The election of Donald Trump as president of the USA comes close in third position (see Table below). By contrast, the election of Hillary Clinton is assessed as not having a negative effect on the global economy. These are the results of a special question in the WES on-line questionnaire on the economic or political risks facing countries around the world. 763 WES experts from 113 countries responded to a question asking if they could indicate the impact of the following situations: slowdown of the Chinese economy, Donald Trump as American president, Hillary Clinton as American president, the fragile EU situation, the threat of terrorist attacks and the emerging market crisis, on a scale ranging from highly negative, negative, no impact, to a positive or highly positive impact. In the analysis, the responses listed above were transferred to values of -100, -50, 0, +50 and +100 to obtain a more intuitive scale of the differences in the assessment of these risks.

When looking at the different regional aggregates it becomes clear that not all country experts assessed these risks in the same manner. The economic slowdown of China, the biggest risk for the world economy, is regionally a particularly high risk for *Asia* and *Oceania*. Experts in *Eastern Europe* and *Africa*, on the other hand, do not expect the impact of a less fast-growing China to be that severe for their countries. The current fragile situation in the European Union is unsurprisingly assessed most negatively by *Western and Eastern Europe* experts. An emerging markets crisis, reflected by currency depreciation and persistent weakness in commodity prices, was assessed as having a high impact in those regions with a high share of emerging markets, such as *Latin America*, *CIS* or *Africa*. However, the experts surveyed for *Oceania*, which has economic ties to emerging markets, also rated this risk as second most negative influentially. Experts in *Western and Eastern Europe* expect an emerging market crisis in their regions to have a minor negative impact. Terrorist attacks are particularly feared as having a negative impact in *North America*, *CIS* and *Africa*.

Looking at the American presidential elections, nearly all experts surveyed assessed the scenario of Donald Trump being elected as president of the USA as having a negative impact on their respective economy. However, Hillary Clinton is not a very popular candidate either. In *North America*, WES experts are most sceptical regarding Clinton's influence on the economy. Experts in *CIS* and the *Near East* also expect Clinton's election to have a slightly negative influence on the economy. By contrast, WES experts in *Latin America*, *Africa* and *Oceania* see the most positive economic effects on their economies should Clinton be elected.

Taking stock of the different risks, experts in *Oceania* (*Australia* and *New Zealand*) see the highest negative impacts on their economies from these risks combined. The region with the lowest impact assessment of these risks taken together is Eastern Europe.

Assessments by WES experts of the impact of the following situations on their country's economy*

Economic or political risks	Slowdown of the economy in China	Trump as American President	Clinton as American President	Problems in the EU	Threat of terrorist attacks	Emerging markets crisis
World	-56.5	-42.8	5.9	-50.5	-32.6	-40.0
North America	-45.9	-51.0	-17.2	-37.9	-43.1	-42.5
Asia	-74.7	-39.2	7.7	-45.4	-32.8	-42.0
Latin America	-40.8	-62.4	29.4	-33.6	-13.5	-63.8
Western Europe	-50.4	-44.2	10.6	-66.8	-31.7	-29.6
Eastern Europe	-34.2	-33.5	10.7	-61.3	-21.5	-27.7
Near East	-40.8	-31.4	-2.7	-33.5	-30.7	-40.7
CIS	-46.9	-13.1	-12.3	-33.9	-41.5	-59.9
Africa	-35.2	-30.6	20.0	-45.4	-40.2	-59.5
Oceania	-88.2	-56.9	16.2	-40.1	-23.9	-68.1

Colour scale: -100 high negative impact, -50 negative impact, 0 no impact, +50 positive impact, +100 high positive impact.

*The individual country responses were aggregated to regions. Within each country group, the results are weighted according to the specific country's exports and imports as a share of total world trade.

Source: Ifo World Economic Survey IV/2016.

tations were strongly upwardly revised for *Croatia* and point to further improvements in the months ahead. For *Hungary*, no substantial changes for the better are expected in the short-term future.

The economic situation for *Eastern European* countries outside the EU – *Bosnia and Herzegovina* and *Macedonia* – remained unfavourable. In *Serbia*, the present situation also deteriorated and is now assessed as weak. The six-month economic outlook, by contrast, was assessed positively by WES experts for *Bosnia and Herzegovina* and *Serbia*, where they expect the situation to improve. In *Macedonia* economic conditions are not expected to change positively in the months ahead. The situation in *Albania* remained satisfactory, where the current favourable economic situation is expected to last for the next six months. WES experts in *Kosovo* assessed the current situation more favourably than three months ago and also remain fairly confident about the economic outlook.

CIS: Economic climate improves further

The economic climate indicator for the *CIS* countries covered by WES (*Russia*, *Ukraine*, *Kazakhstan*, *Kyrgyzstan* and *Uzbekistan*) continued to rise from 70.4 to 73.7 index points. The long-term average of the *CIS* climate indicator lies at 87.8 points. The improvement was entirely due to less negative assessments of the present economic situation. Economic expectations remain as positive as in July (see Figure 4). In *Russia*, the present economic situation remains subdued, despite some slight improvements recently. The six-month economic outlook continued to brighten and signals further improvements over the next six months. The overall economic situation in the *Ukraine* remains unfavourable. Economic expectations are less optimistic than previous quarter, but continue to signal some potential easing of currently difficult economic conditions. The present economic situation in *Kazakhstan* and *Kyrgyzstan* was again assessed as unfavourable, even if some slight improvement compared to three months ago was visible in *Kazakhstan*. While the economic outlook for *Kazakhstan* continued to brighten and points to further improvements in the months ahead, WES experts for *Kyrgyzstan* remain as sceptical about the six-month economic outlook as in July. In *Uzbekistan* the current economic situation is far more positive than in the region as a whole. The current favourable economic conditions are expected to persist for the next six months.

Asia: Economic climate starts to brighten up again

In *Asia*, the economic climate indicator recovered slightly to 78.1 index points. This is the same level as seen in the second quarter, but still below its long term average of 92.5 index points (2000–2015). Assessments of the present economic situation improved or stayed the same for almost all *Asian* countries. Economic expectations were also upwardly revised. A lack of international competitiveness, insufficient demand and a lack of confidence in government's economic policy were cited as the region's most important economic problems (see Table 1). The biggest risk for *Asian* economies, according to WES experts, is the slowdown of the *Chinese* economy (see Box 3).

In *China* the economic situation remained unfavourable, as it has been for the past two years, and WES experts expect economic activity to remain subdued over the next six months. Consistent with the reorientation towards a more consumer and services oriented economy, domestic consumption was assessed as stable. In *Hong Kong* and *Taiwan*, economies closely linked to *China*, the economic situation also remains weak, despite some slight improvement compared to the previous survey. Insufficient demand was cited as one of the most pressing economic problems faced by these countries at the moment. *Taiwan* is the only country of this group in which experts expect to see some easing of current weak economic conditions in the months ahead. In *Hong Kong*, the situation is likely to deteriorate further. WES experts in *Vietnam* assess the current economic situation as poor and are pessimistic about the next six months. In *Japan*, *Malaysia*, *South Korea* and *Thailand* the present economic situation improved compared to the previous survey, but remains at an unfavourable level. Experts expect that the situation will only improve for *Japan* and *Thailand* with more stable investment and private consumption. For *South Korea* and *Malaysia* they remain sceptical regarding developments over the next six months. The current situation in *Indonesia*, *Pakistan*, *Singapore*, and *Sri Lanka* improved slightly compared to the previous survey and is reported to be satisfactory. In all of these countries, WES experts are also positive about the economic outlook. The present situation in *Bangladesh*, *India* and the *Philippines* was assessed as favourable to good. Further improvements are expected in the months ahead, as investment and consumption are both expected to pick up.

Figure 5a

EUROPEAN UNION

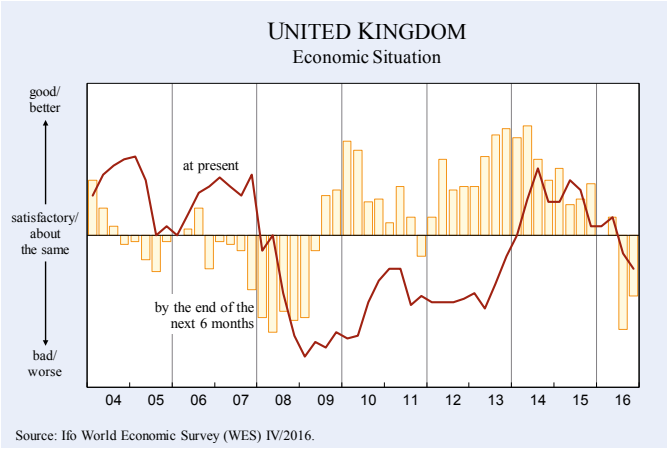
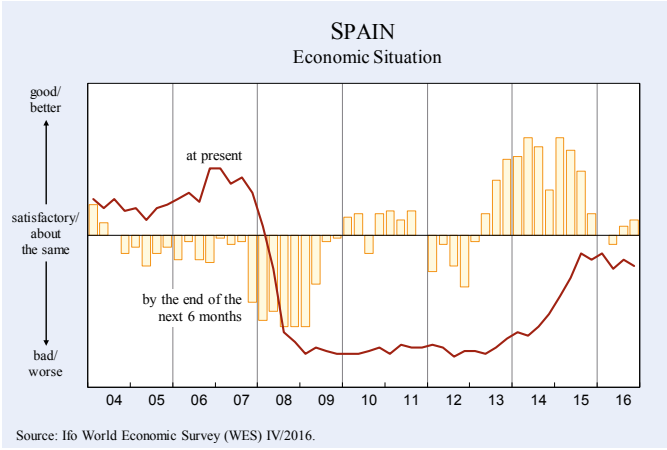
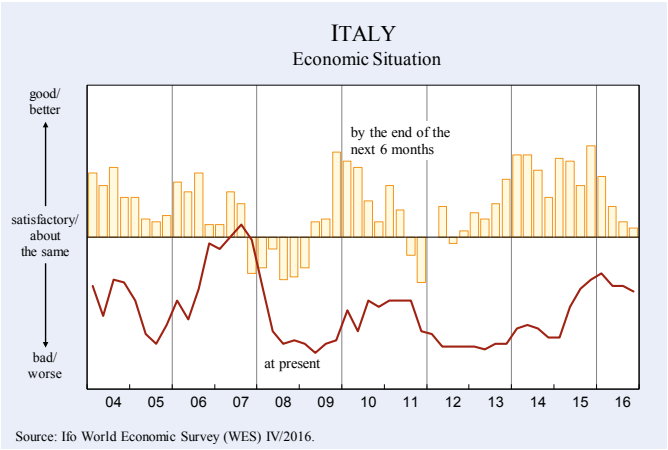
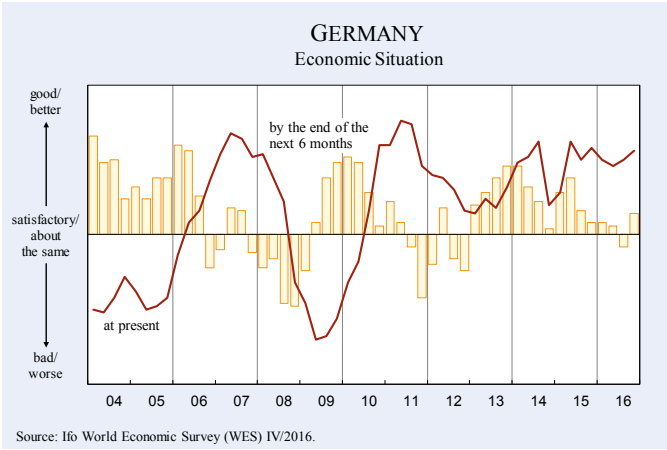
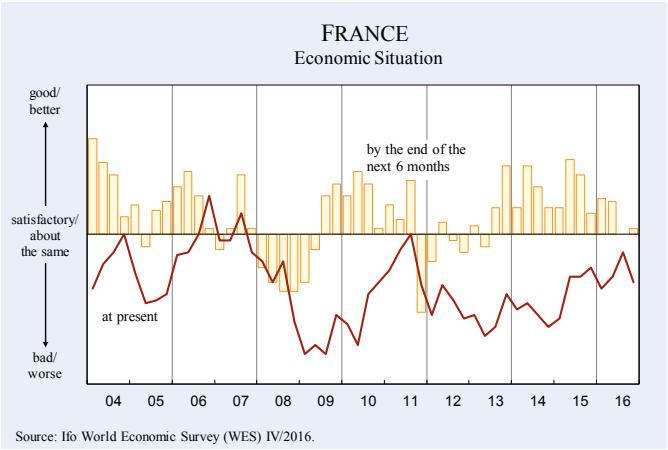
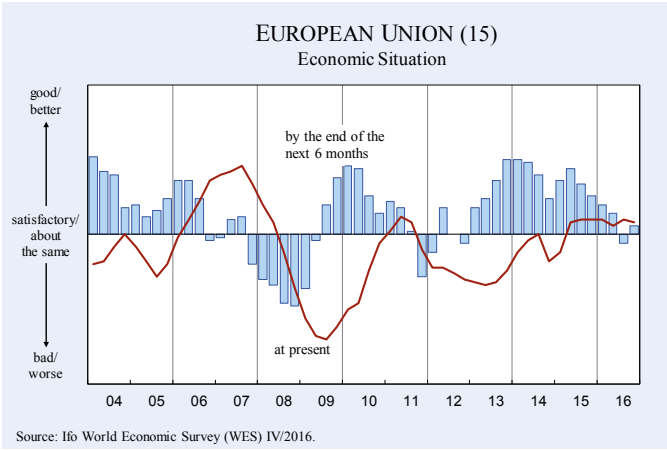


Figure 5b

EUROPEAN UNION

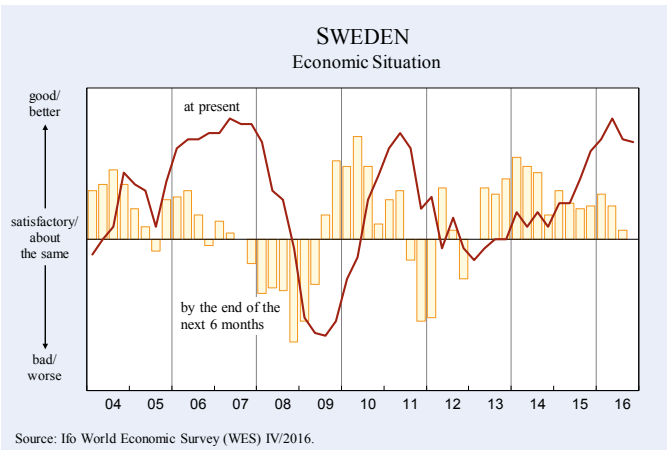
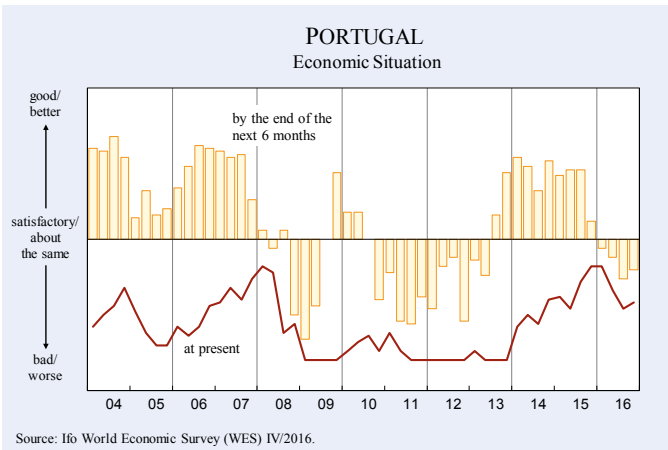
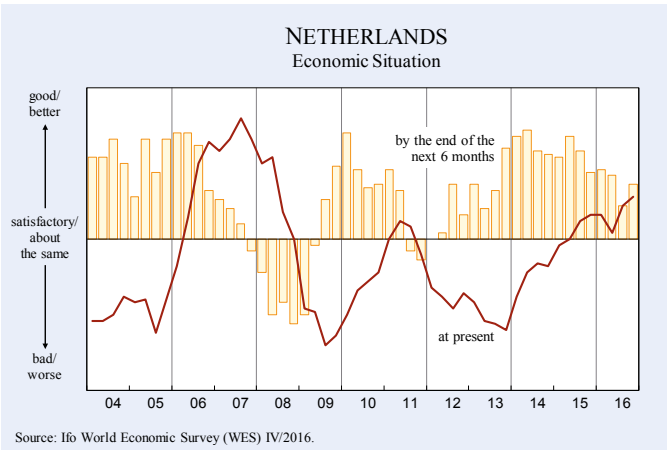
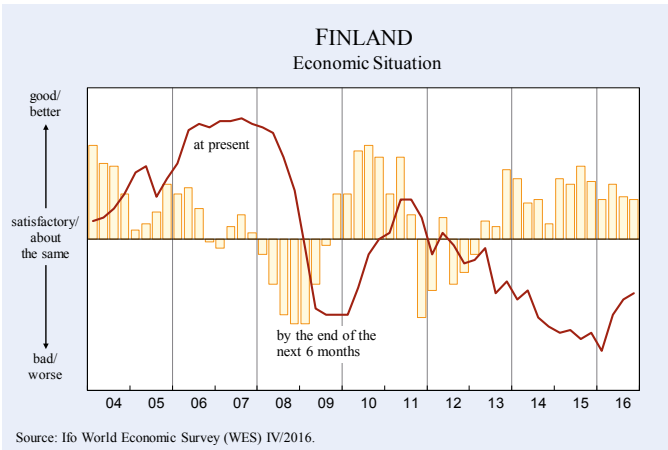
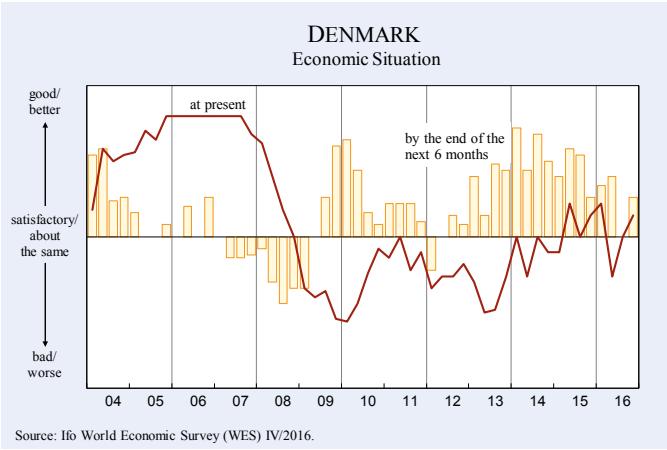
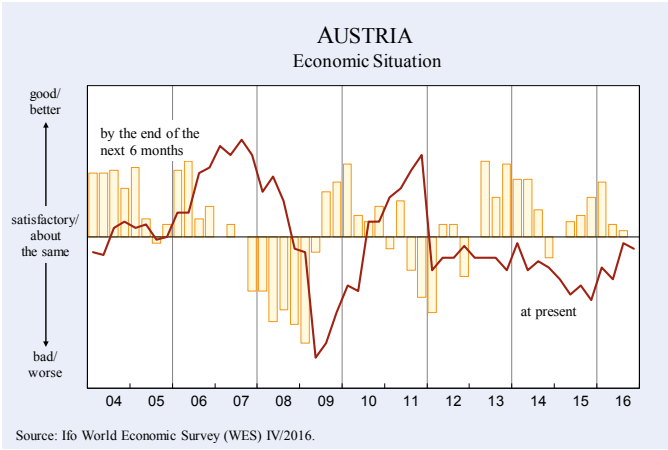


Figure 6

NORTH AMERICA, OCEANIA AND CIS

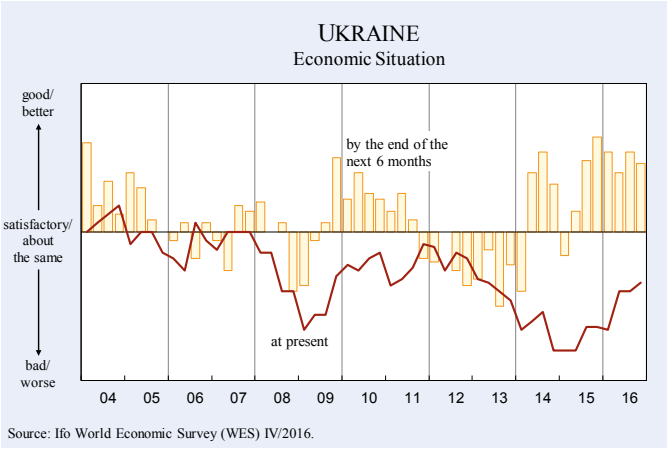
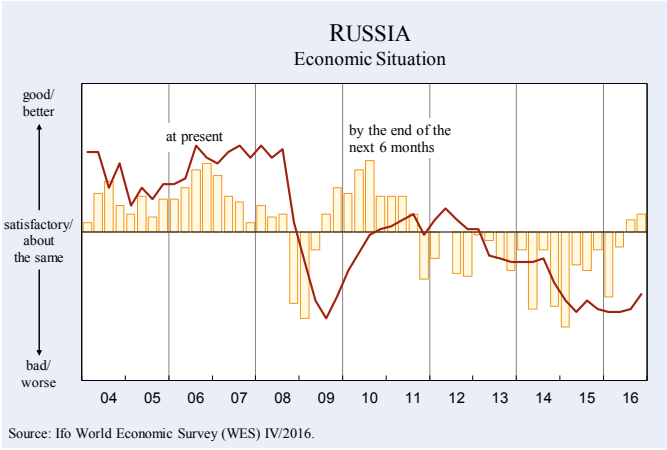
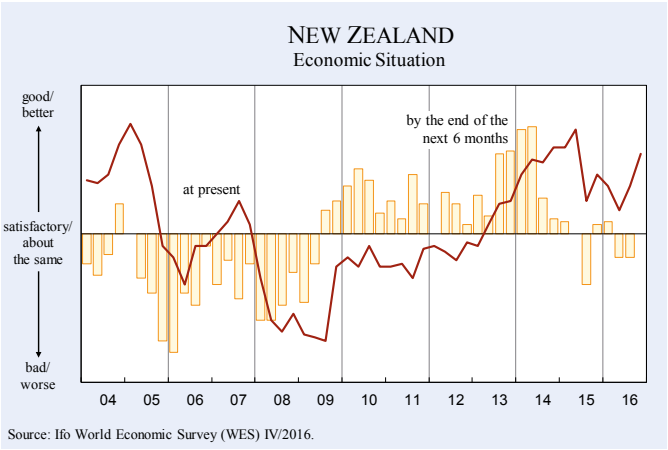
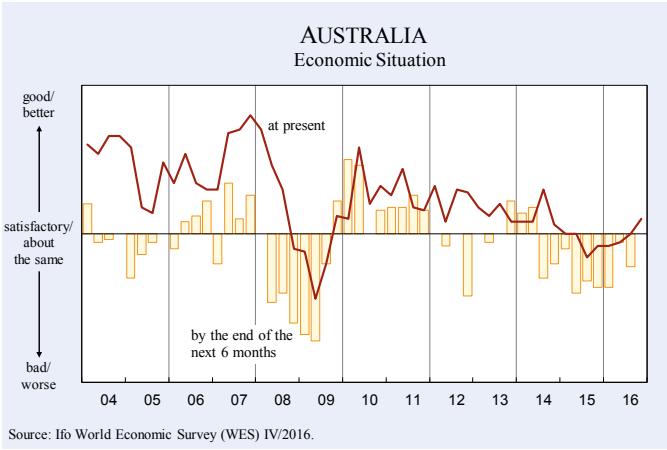
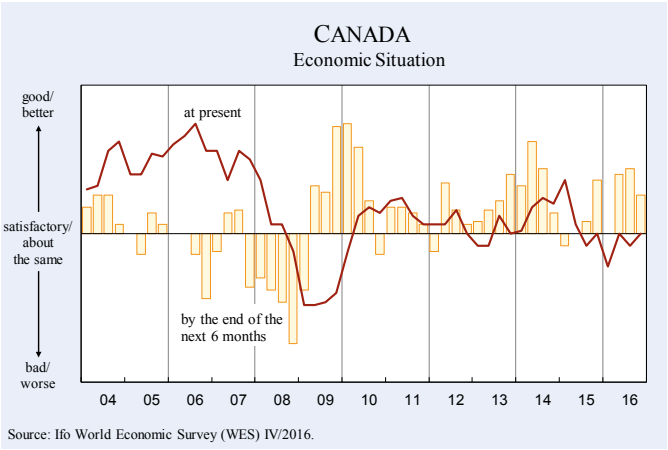
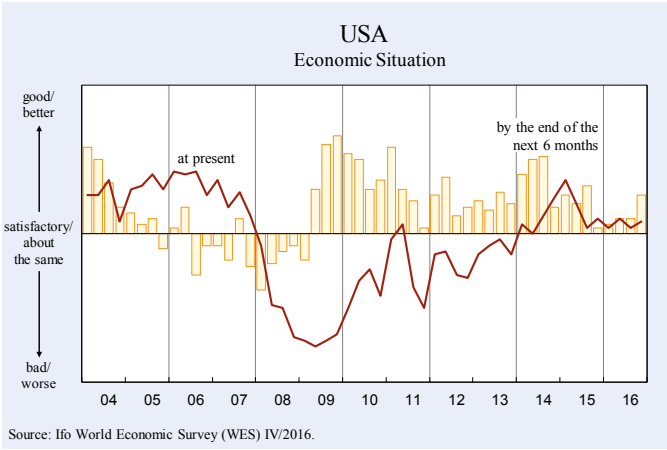


Figure 7

EASTERN EUROPE

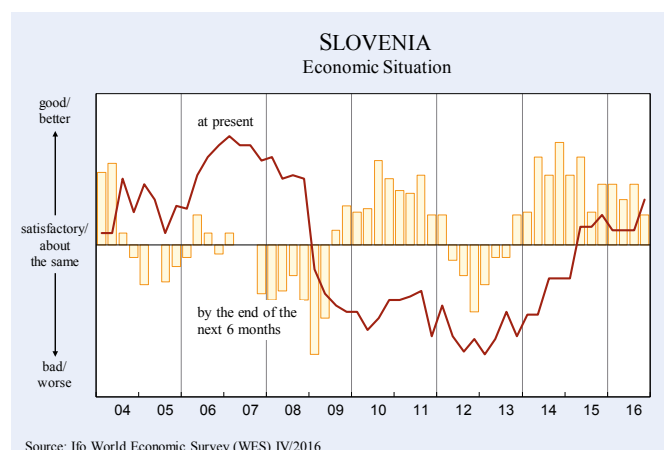
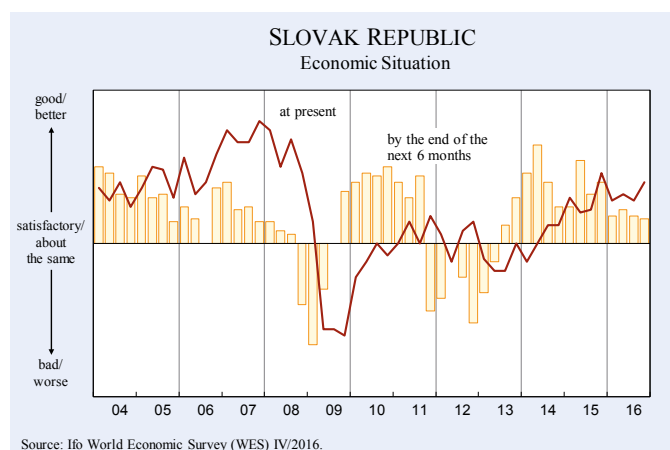
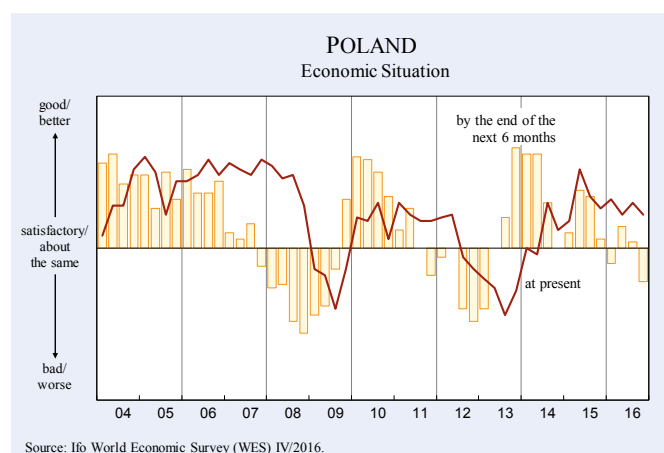
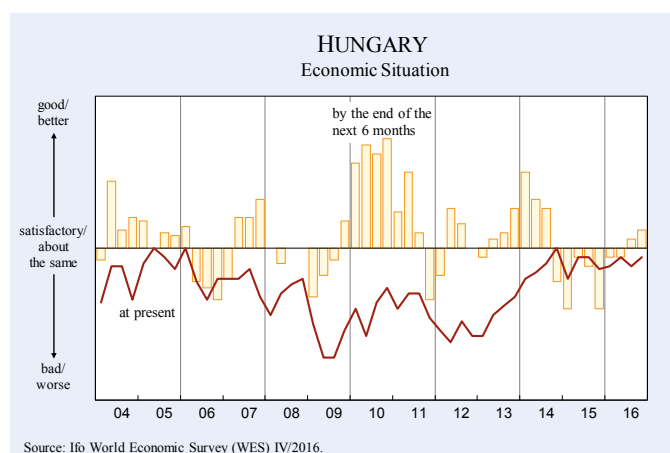
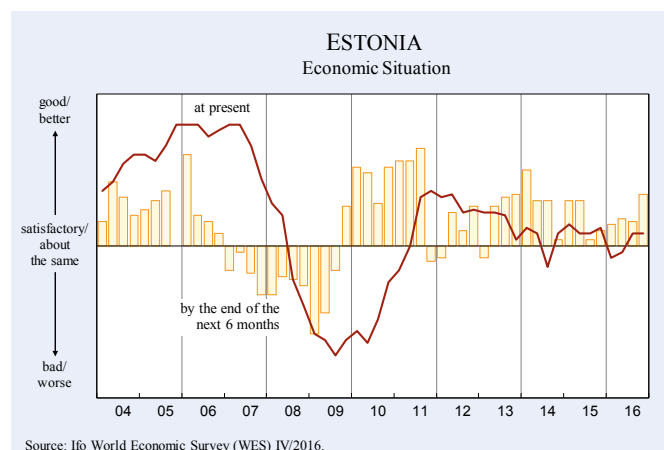
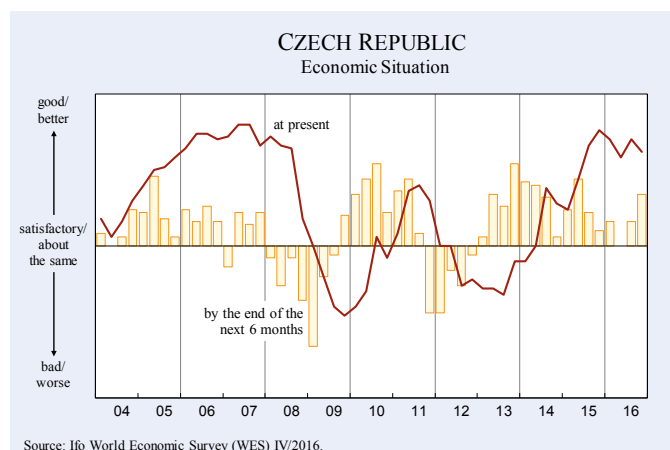


Figure 8

ASIA

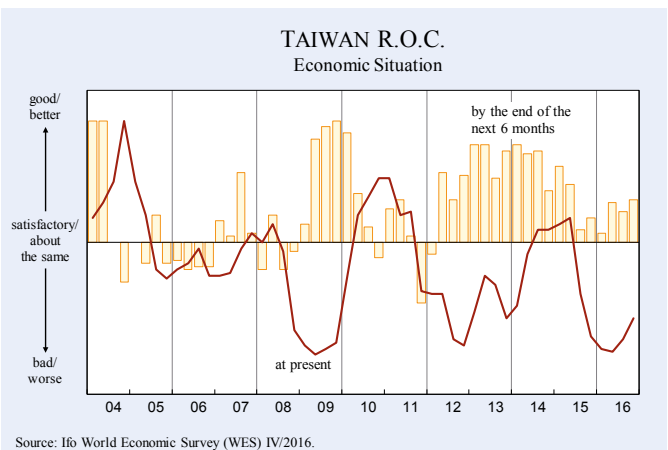
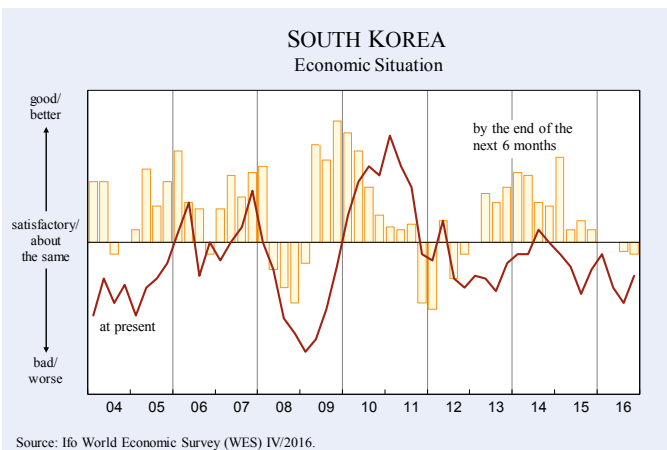
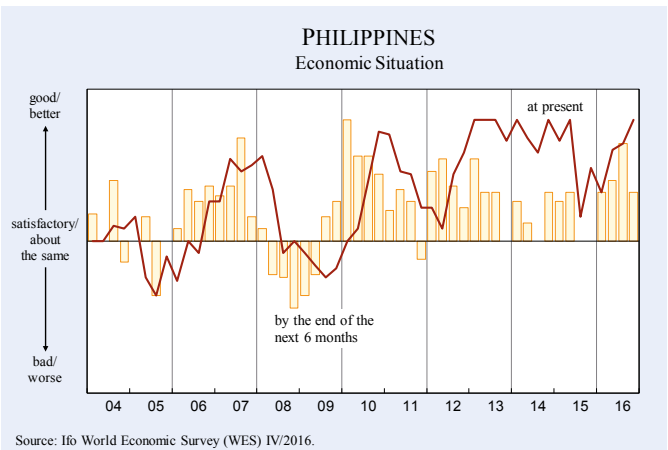
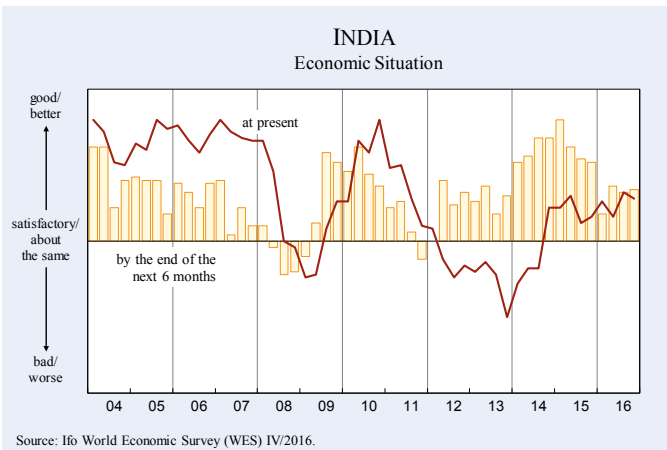
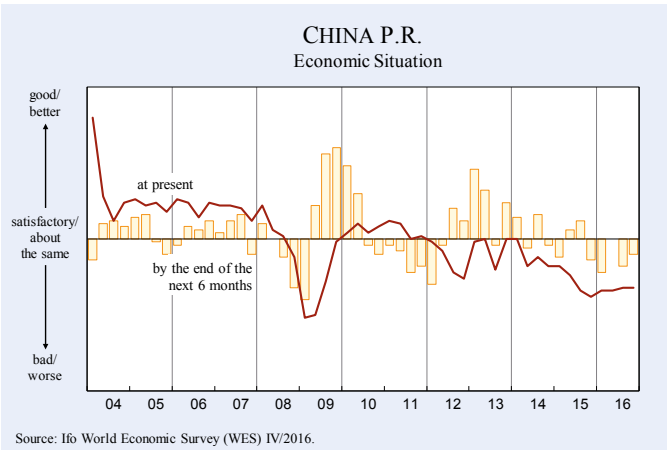
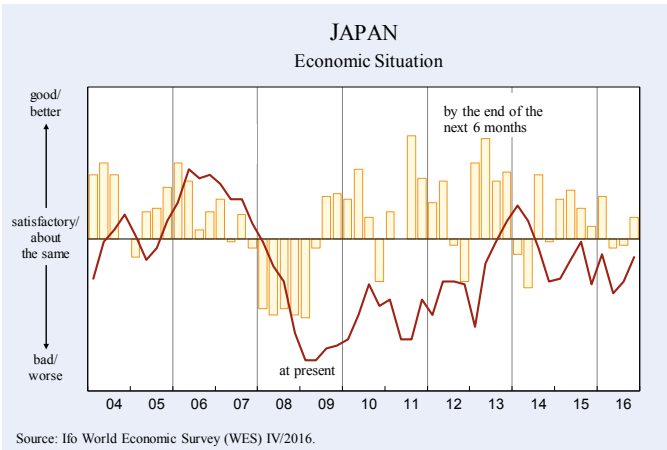


Figure 9

LATIN AMERICA

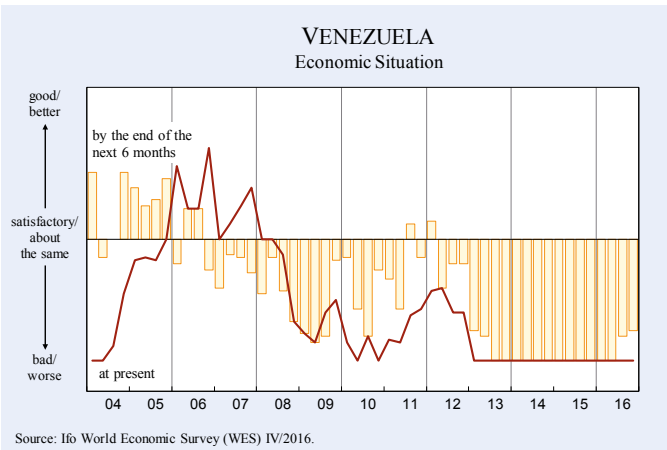
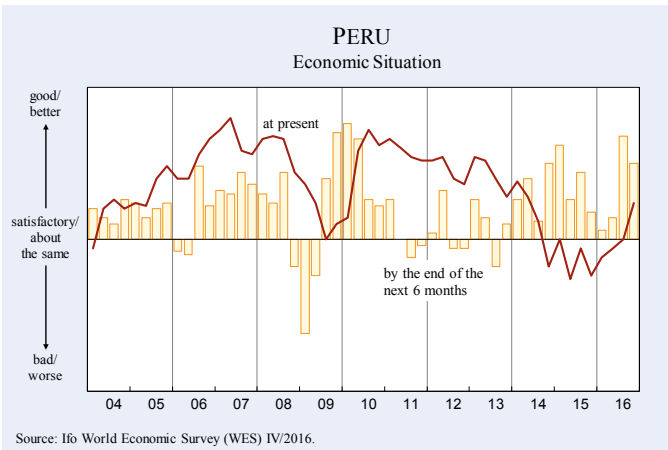
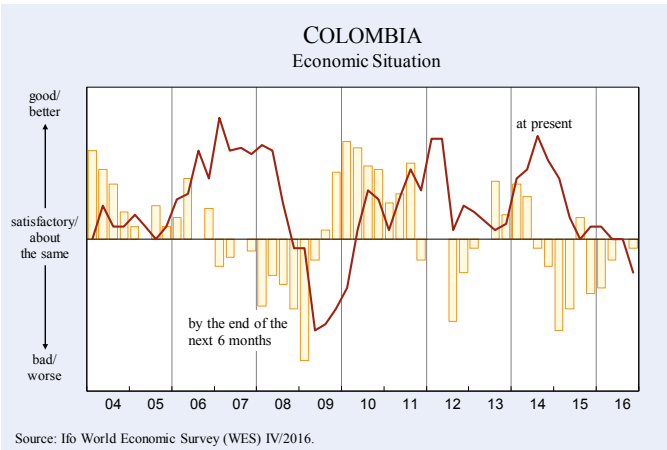
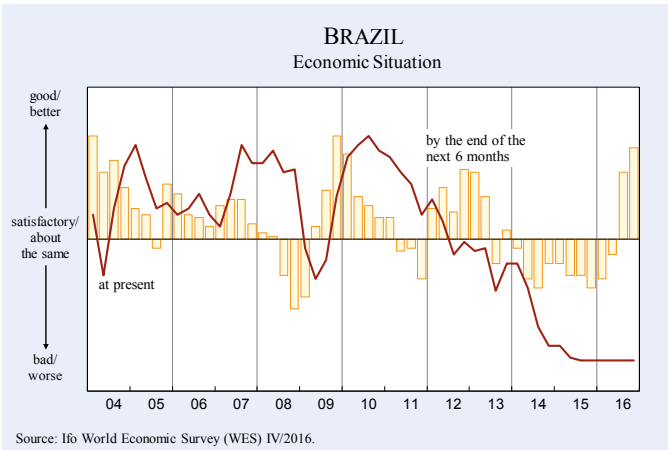
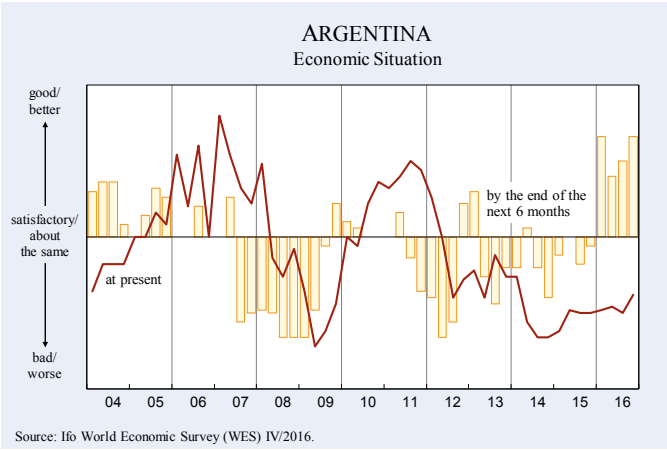
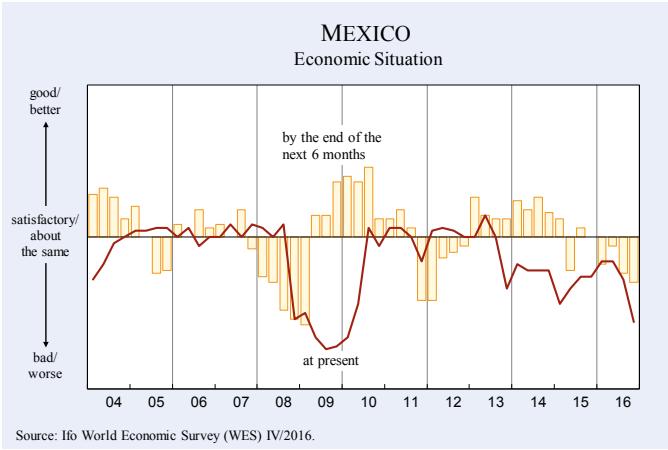
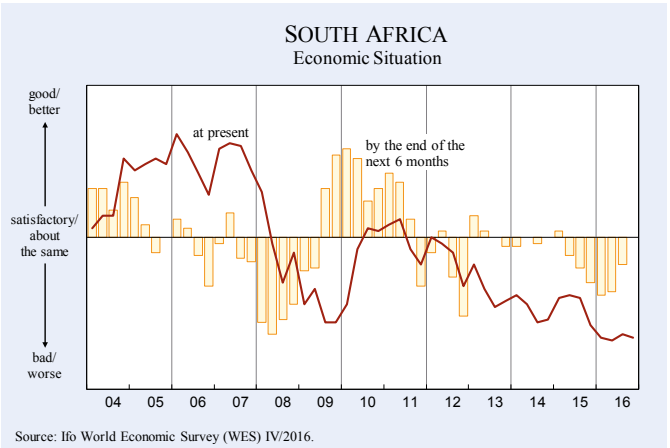
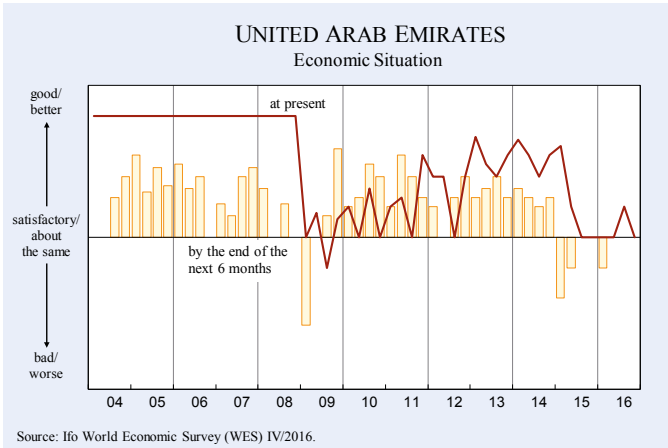
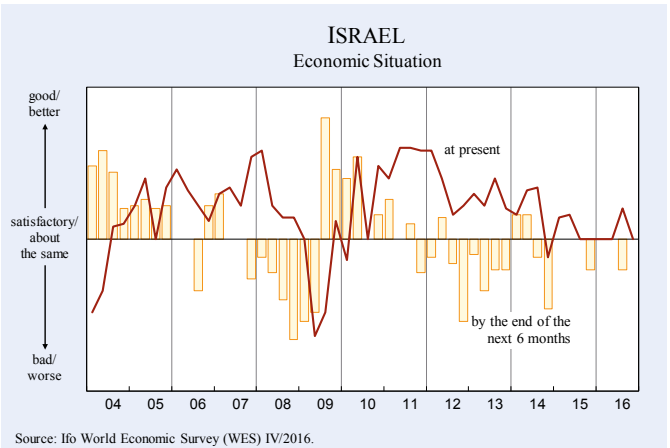
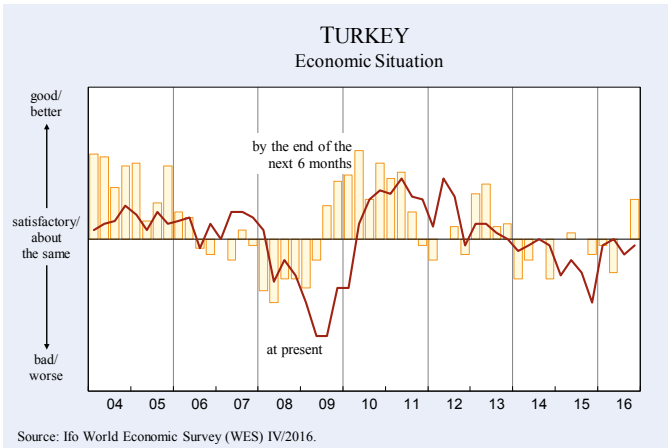
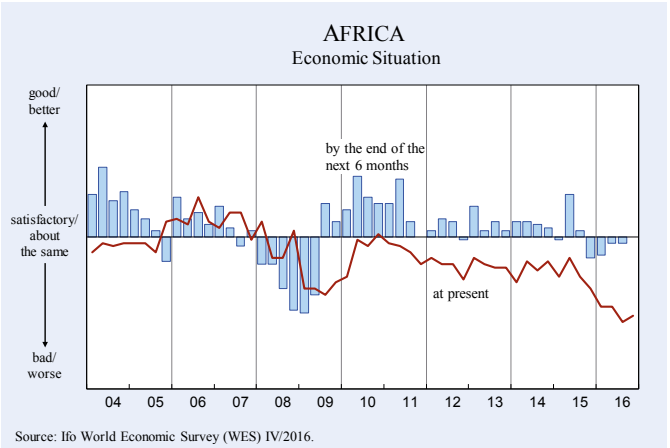
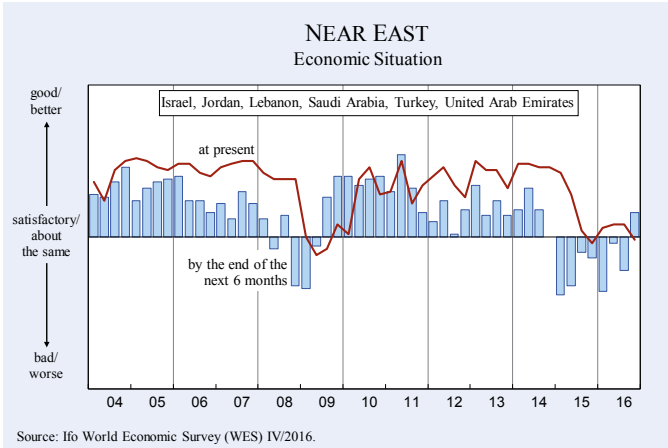


Figure 10

NEAR EAST AND AFRICA



Oceania: Economic climate indicator rises sharply

In *Oceania* the economic climate indicator rose by 15.6 index points to 99.8, which comes close to its long-term average of 100.0 points. Assessments of both the present economic situation as well as economic expectations were upwardly revised. WES experts rated the overall present economic situation in *Australia* as satisfactory, and in *New Zealand* as very good (see Figure 6). In both countries, one of the most pressing economic problems is the lack of international competitiveness. Experts in *New Zealand* also cited a shortage of skilled labour as a current important economic constraint on the economy. With regard to the next six months, WES experts in both countries turned more positive and expect the situation to stabilise at current levels.

Latin America: Economic climate indicator falls again

The climate indicator for *Latin America* started to fall again, dropping from 71.5 to 67.0 index points, which marks the level of the second quarter. The value remains far below its long-term average (2000–2015: 90.1). While assessments of the present economic situation continued to deteriorate, economic expectations stabilised at neutral levels (see Figures 4 and 9). Corruption, followed by public deficits and low confidence in the government's economic policy, were cited as the most pressing economic problems in this region. *Argentina*, *Venezuela* and *Uruguay* are also suffering from a high inflation rate (see Table 3).

In *Brazil*, some improvements were observed compared to previous surveys. The present economic situation, however, remains fairly weak. Economic expectations, by contrast, continued to improve and with optimism surging to a six-year high. This may be a signal, that the economy in *Brazil* has bottomed out and that a turnaround is nigh. But the current problems of excessive red tape, political transition, heavy dependency on commodity prices and a high unemployment rate still weigh on the economy, according to WES experts. The economic climate for *Mexico* continued to deteriorate, reaching its most negative level in over seven years. Assessments of both the present economic situation and economic expectations are considerably more negative than in the preceding two surveys. As a result, the current weak economic situation is expected to deteriorate further in the months ahead. The current economic situation in *Argentina* was assessed as weak once again. On

a brighter note, the experts surveyed continued to express greater optimism about the six-month economic outlook, meaning that a short-term upturn seems likely. In *Ecuador*, *El Salvador*, *Trinidad and Tobago* and *Venezuela* the present economic situation remains weak, and in *Chile* it even deteriorated compared to the previous survey. As far as the six-month outlook is concerned, WES experts remain sceptical and don't expect major improvements in either country in the short-term. In *Venezuela* the recession is likely to deepen further and is not expected to be overcome in the mid-term, as WES experts forecast an average annual year-on-year GDP contraction of 9.4 percent in the next three to five years (see Table 2). In the short-term, currency depreciation is likely to continue, accompanied by a rising and stubborn inflation rate. As in the previous survey, experts even expressed fears of hyperinflation (see Table 3). In *Colombia*, the present economic situation deteriorated and assessments sank to their lowest levels in over six years. WES experts turned sceptical about the six-month economic outlook for this country. The economic situation in *Uruguay* remains unfavourable, despite some slight improvements compared to the survey in July. Despite a further brightening of the economic outlook, WES experts don't expect any major changes for the better in the next six months. The economies of *Bolivia*, *Costa Rica*, the *Dominican Republic*, *Paraguay*, *Peru* 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 experts in *Bolivia* and the *Dominican Republic* fear a downturn in economic activity in the short term. All other countries are expected to prove resilient to current weakness in the region over the next six months.

Near East: Low oil prices start to take their toll

The economic climate indicator recovered slightly after its decline in the previous survey. It now lies at 76.3 index points, its highest value since the beginning of 2015, but nevertheless below its long term average of 87.6 points. A shortage of capital was reported as the most persistent economic problem of the region, probably due to the weak oil price. While the assessment of the present economic situation was slightly downwardly revised, the economic outlook turned slightly positive. It remains to be seen whether this trend will catch on in the next survey.

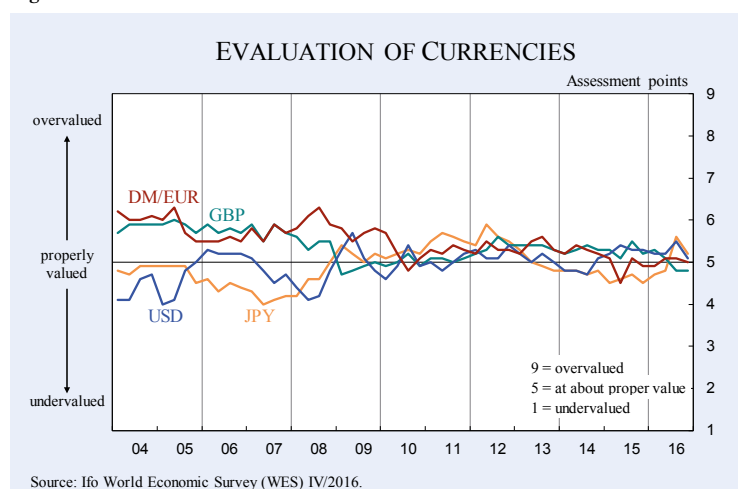
Table 2 Expected average annual growth rates of real Gross Domestic Product (GDP) over the next 3 to 5 years (based on WES QIV/2016 and QIV/2015)

Region	QIV/2016	QIV/2015	Region	QIV/2016	QIV/2015
Average of countries *	2.4	2.5	North America	2.1	2.5
High-income countries	1.9	2.0	Canada	2.1	2.0
Middle-income countries	3.8	4.4	United States	2.1	2.6
Upper-middle	2.8	3.3			
Lower-middle	5.6	6.0	Oceania	2.5	2.3
Low-income countries	5.0	6.4	Australia	2.5	2.4
EU 28 countries	1.8	1.9	New Zealand	2.5	2.3
EU countries (old members) ^{a)}	1.6	1.7			
EU countries (new members) ^{b)}	2.8	2.7	Latin America	2.2	2.4
Euro area ^{c)}	1.7	1.7	Argentina	3.0	3.0
			Bolivia	4.0	3.8
Western Europe	1.6	1.7	Brazil	2.4	1.7
Austria	1.5	1.3	Chile	3.2	3.0
Belgium	1.7	1.7	Colombia	3.2	3.7
Cyprus	2.5	2.0	Costa Rica	(4.0)	(4.0)
Denmark	1.4	1.6	Dominican Republic	(4.0)	(4.0)
Finland	1.3	1.2	Ecuador	1.1	1.8
France	1.3	1.5	El Salvador	1.8	2.3
Germany	1.6	1.6	Guatemala	3.4	3.8
Greece	1.6	1.7	Mexico	2.6	3.1
Ireland	3.6	3.7	Paraguay	3.8	3.8
Italy	1.1	1.3	Peru	4.2	3.6
Luxembourg	3.3	3.3	Trinidad and Tobago	-0.8	1.3
Monaco	4.5	3.8	Uruguay	2.5	2.5
Netherlands	1.6	2.0	Venezuela	-9.4	-2.4
Norway	2.4	2.1			
Portugal	1.4	1.7	Near East	4.1	3.8
Spain	2.2	2.4	Iran	(4.0)	---
Sweden	2.1	2.2	Israel	3.0	2.5
Switzerland	1.5	1.6	Lebanon	3.0	(0.8)
United Kingdom	1.5	2.1	Turkey	4.1	3.9
			United Arab Emirates	4.5	4.3
Eastern Europe	2.8	2.7			
Albania	3.7	(2.5)	Africa	3.3	4.1
Bosnia and Herzegovina	2.0	2.5	Northern Africa	3.4	3.8
Bulgaria	2.6	2.0	Algeria	2.7	3.5
Croatia	2.7	2.5	Egypt	4.3	4.7
Czech Republic	2.5	2.4	Morocco	3.7	3.8
Estonia	3.7	2.7	Tunisia	3.0	2.3
Hungary	2.0	2.1	Sub-Saharan Africa	3.3	4.4
Kosovo	4.3	3.7	Angola	(3.0)	(4.0)
Latvia	2.3	2.3	Benin	(7.0)	5.8
Lithuania	3.0	3.1	Burkina Faso	(5.0)	---
Macedonia	(3.0)	3.0	Burundi	(2.0)	(3.0)
Poland	3.1	3.2	Cabo Verde	3.8	3.3
Romania	3.7	2.2	Comoros	(2.0)	(3.0)
Serbia	3.3	(2.0)	Congo Dem. Rep.	4.4	9.0
Slovakia	3.2	3.0	Congo-Brazzaville Rep.	4.3	6.9
Slovenia	2.6	2.4	Gambia	(6.5)	(6.0)
			Ivory Coast	8.0	8.2
CIS	1.9	1.9	Kenya	6.7	5.4
Kazakhstan	2.7	3.2	Lesotho	3.2	3.7
Kyrgyzstan	4.0	(4.0)	Liberia	---	(6.0)
Russia	1.4	1.1	Madagascar	4.6	4.4
Ukraine	3.8	5.2	Malawi	(4.0)	(5.0)
Uzbekistan	(2.0)	---	Mauritania	3.3	4.5
			Mauritius	3.5	4.5
Asia	3.2	3.6	Namibia	3.2	4.8
Bangladesh	6.9	6.4	Niger	(1.0)	(2.0)
China	6.1	6.0	Nigeria	2.4	4.9
Hong Kong	2.0	2.6	Senegal	(7.1)	(6.5)
India	7.1	7.4	Sierra Leone	5.2	11.5
Indonesia	5.3	(6.0)	South Africa	2.1	2.2
Japan	0.9	1.2	Sudan	3.5	3.3
Malaysia	3.1	2.5	Swaziland	2.3	(1.4)
Pakistan	5.3	4.7	Tanzania	6.5	8.0
Philippines	6.0	5.6	Togo	5.7	5.7
Singapore	(2.0)	---	Uganda	5.8	(5.5)
South Korea	2.2	2.7	Zambia	4.9	4.5
Sri Lanka	5.4	6.0	Zimbabwe	1.3	1.3
Taiwan	1.7	2.6			
Thailand	3.1	3.7			
Vietnam	6.5	5.3			

* 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) IV/2016 and IV/2015.

Figure 11



In all *Near East* countries the present economic situation is reported as satisfactory again and the economic outlook is positive. Only WES experts in *Israel* and the *United Arab Emirates* reported a slightly less positive present situation compared to the last survey. Experts have a fairly confident economic outlook for *Turkey* and expect private consumption to improve at the end of the next six months. However, due to uncertainty after the failed coup and tensions in the region, The Economist reported a 32.7% decline in tourism revenue.¹ On a similar note, WES experts report that capital shortage is hindering the economy at the moment. In *Israel*, with unemployment falling², WES experts report that the country lacks skilled labour. At the same time, exports are expected to pick up.

Africa: Economic climate remains subdued but expectations improve

In *Africa* a small recovery is visible, with the economic climate indicator rising from 69.1 points in July to 73.1 in the present survey. This slight upturn is due to improvements in both the economic situation and the economic outlook in *Northern Africa*. Although better than the previous survey, these assessments are still below the corresponding figures for *Sub-Saharan Africa*, where the weak present economic situation and expectations for the next six months remained unchanged from the previous survey. Unemployment, corruption and a

lack of confidence in government's economic policy were cited as the most frequent economic problems in both parts of *Africa*.

In *Egypt* and *Morocco* the present economic situation remains very poor. Economic expectations, however, have been considerably upwardly revised. While the experts in *Egypt* do not expect any changes in the next six months, the experts in *Morocco* are fairly confident about economic developments in the next six months. In *Tunisia* the poor economic situation reported last quarter did not

change this survey; however, experts are positive about the economic outlook. This might be due to an expected upturn in capital expenditures. Experts in *Algeria* were also less negative than in the previous survey about the current economic situation. However, as far as the six-month economic outlook is concerned, *Algeria* is the only country in *Northern Africa* where experts expressed pessimism about the economic outlook.

In *Sub-Saharan Africa*, WES experts reported a very good economic situation for *Ivory Coast* and *Senegal*, including a very optimistic economic outlook. The IMF reports that the decline in the oil price in particular, as well as ongoing infrastructure investment and private consumption, is supporting the positive economic situation in these countries.³ In *Sierra Leone*, the economic situation improved and is reported as favourable. However, as far as the six-month economic outlook is concerned, experts are less positive, but still expect a stabilisation at the present good levels. Experts in *Benin*, *Burkina Faso*, *Gambia*, *Malawi*, *Mauritania*, *Mauritius*, *Tanzania*, *Togo* and *Uganda* are currently satisfied with their respective economic situation, and believe that it will remain at this level in the next six months. The only exceptions are *Benin* and *Uganda*, where WES experts have a fairly confident economic outlook, and *Gambia*, where they expect an economic deterioration in the next six months. For the *Congo Democratic Republic*, *Cabo Verde* and *Kenya*, an unfavourable economic situation is reported. In the *Congo Democratic Republic* the situation is expected to worsen in the short-term future. Experts reported a lack of confidence in the government's economic policy as a key problem. Experts in

¹ The Economist 2016 <http://country.eiu.com/article.aspx?articleid=1124771296&Country=Turkey&topic=Economy&subtopic=Forecast&subsubtopic=External+sector&u=1&pid=1194749303&oid=1194749303&uid=1>

² The Economist 2016 <http://country.eiu.com/article.aspx?articleid=974468081&Country=Israel&topic=Economy&subtopic=Forecast&subsubtopic=Economic+growth&u=1&pid=854675869&oid=854675869&uid=1>

³ IMF 2016 <https://www.imf.org/external/pubs/ft/reo/2016/afr/eng/pdf/sreo0416.pdf>

Figure 12

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

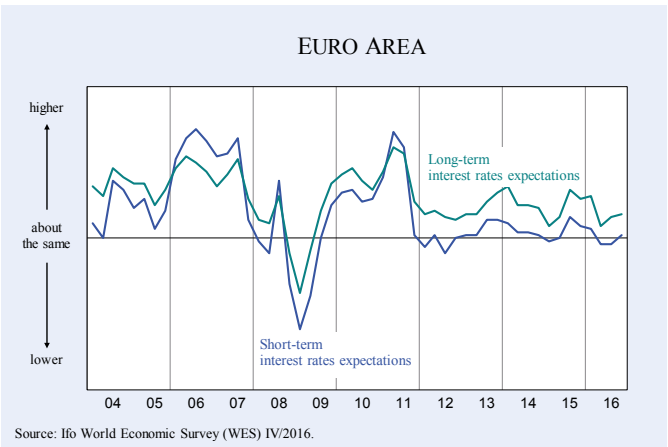
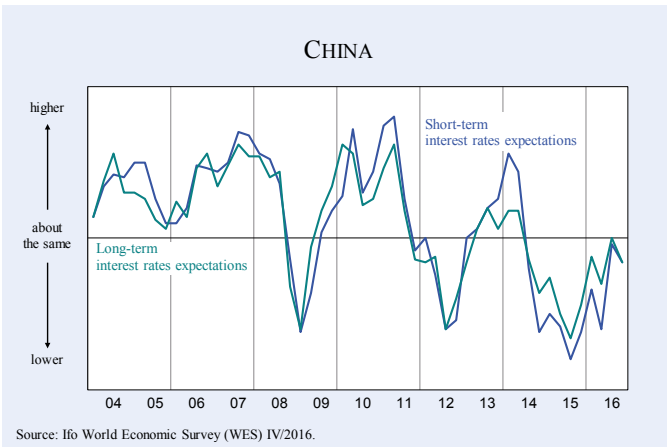
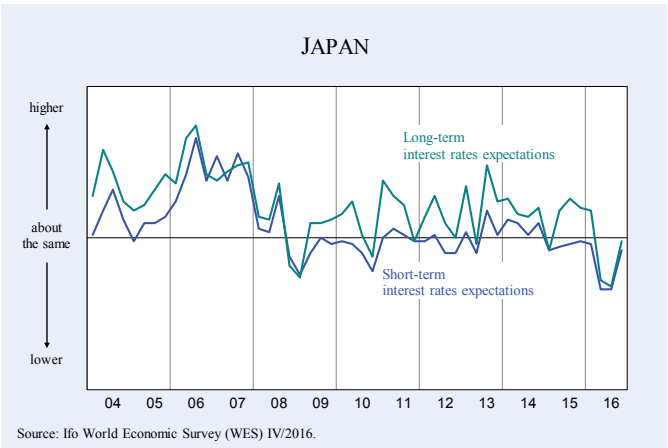
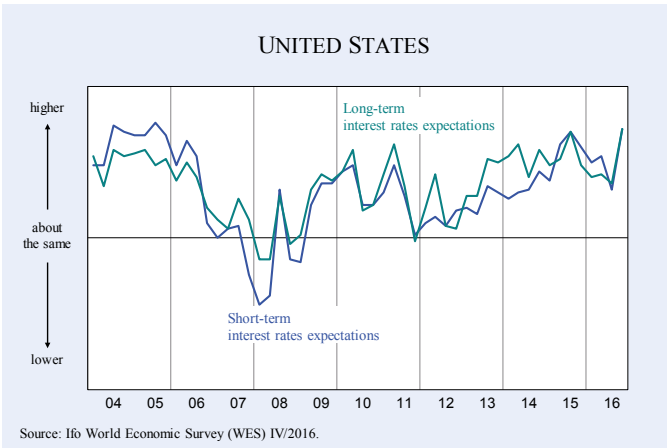
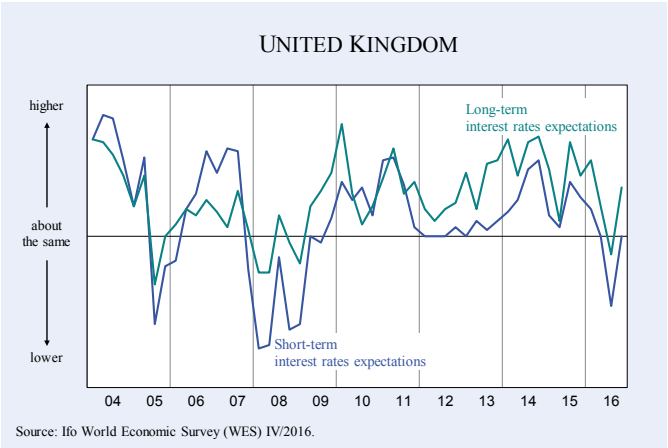
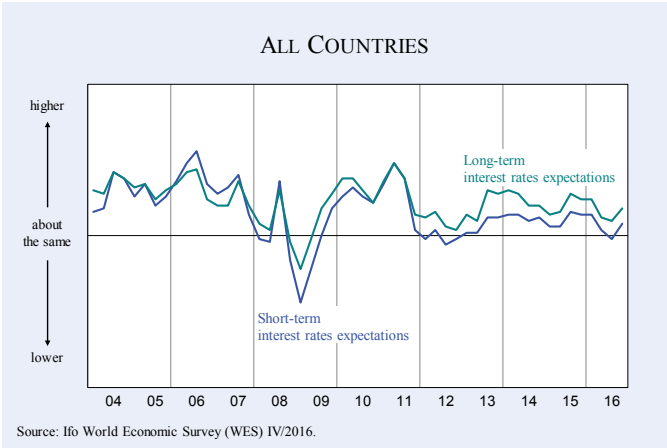


Table 3 Inflation rate expectations for 2016 and in 5 years (2021)

Region	2016	2021	Region	2016	2021
Average of countries *	4.4	2.8	Latin America	42.6	4.3
High-income countries	1.3	2.1	Argentina	39.1	9.3
Middle-income countries	11.0	5.1	Bolivia	4.7	6.0
Upper-middle	12.3	4.6	Brazil	7.2	4.7
Lower-middle	6.7	6.1	Chile	3.6	3.0
Low-income countries	4.9	5.2	Colombia	6.9	3.8
EU 28 countries	0.7	1.9	Costa Rica	(1.0)	(3.5)
EU countries (old members) ^{a)}	0.8	1.9	Dominican Republic	(2.0)	(4.0)
EU countries (new members) ^{b)}	0.5	2.3	Ecuador	1.8	3.3
Euro area ^{c)}	0.7	1.9	El Salvador	1.8	3.0
			Guatemala	4.6	4.9
Western Europe	0.8	1.9	Mexico	4.1	3.8
Austria	1.0	2.0	Paraguay	4.0	4.8
Belgium	1.8	2.0	Peru	3.3	2.8
Cyprus	0.3	2.0	Trinidad and Tobago	(7.0)	(10.0)
Denmark	0.6	1.4	Uruguay	9.3	7.6
Finland	0.6	1.7	Venezuela	842.5	(...)
France	0.7	1.8			
Germany	0.7	1.8	North America	1.6	2.4
Greece	-0.4	1.6	Canada	1.8	2.5
Ireland	0.5	2.0	United States	1.6	2.4
Italy	0.4	1.9			
Luxembourg	0.8	1.7	CIS	8.7	6.5
Monaco	1.3	2.5	Kazakhstan	11.6	6.4
Netherlands	0.8	1.7	Kyrgyzstan	3.5	5.0
Norway	3.0	2.7	Russia	7.6	6.1
Portugal	0.8	1.6	Ukraine	10.2	7.9
Spain	0.3	1.8	Uzbekistan	(18.0)	(10.0)
Sweden	1.2	2.2			
Switzerland	-0.3	1.0	Near East	4.7	3.9
United Kingdom	1.0	2.3	Iran	(8.0)	(5.0)
			Israel	1.2	2.5
Eastern Europe	0.6	2.3	Lebanon	2.5	(4.0)
Albania	1.3	2.8	Turkey	8.1	5.8
Bosnia and Herzegovina	1.7	2.3	United Arab Emirates	2.5	2.8
Bulgaria	0.9	2.4			
Croatia	-0.3	2.2	Africa	8.5	7.1
Czech Republic	1.0	2.1	Northern Africa	7.5	6.0
Estonia	0.3	2.3	Algeria	6.3	5.5
Hungary	0.9	2.8	Egypt	14.3	9.9
Kosovo	0.5	1.7	Morocco	2.3	2.3
Latvia	0.9	2.6	Tunisia	4.6	3.8
Lithuania	1.2	2.3	Sub-Saharan Africa	9.1	7.7
Macedonia	(-0.5)	(2.0)	Angola	(40.0)	(15.0)
Poland	-0.1	2.0	Benin	2.7	2.9
Romania	0.8	2.4	Burkina Faso	(2.0)	(3.0)
Serbia	3.5	---	Burundi	(50.0)	(6.5)
Slovakia	0.0	2.9	Cabo Verde	1.5	2.3
Slovenia	0.4	1.6	Comoros	(2.0)	(5.0)
			Congo Dem. Rep.	6.9	7.9
Oceania	1.5	2.3	Congo-Brazzaville Rep.	2.9	4.3
Australia	1.5	2.3	Gambia	(5.2)	(5.0)
New Zealand	1.4	2.2	Ivory Coast	1.9	2.8
			Kenya	7.9	7.6
Asia	2.1	3.0	Lesotho	7.1	5.9
Bangladesh	5.9	5.4	Madagascar	7.5	7.6
China	1.9	3.5	Malawi	(23.0)	(15.0)
Hong Kong	2.4	2.8	Mauritania	6.0	8.0
India	5.6	4.6	Mauritius	1.4	3.0
Indonesia	4.0	4.3	Namibia	7.3	8.5
Japan	0.1	1.1	Niger	(2.0)	(3.0)
Malaysia	3.7	6.0	Nigeria	15.6	11.8
Pakistan	5.6	6.9	Senegal	(1.6)	(1.9)
Philippines	1.9	3.5	Sierra Leone	9.7	6.2
Singapore	(0.0)	(2.0)	South Africa	6.2	5.8
South Korea	1.5	2.3	Sudan	21.0	13.7
Sri Lanka	5.5	4.5	Swaziland	5.7	6.5
Taiwan	1.1	1.3	Tanzania	(9.0)	(7.0)
Thailand	1.2	2.8	Togo	2.3	2.6
Vietnam	7.0	8.5	Uganda	4.9	5.0
			Zambia	16.4	8.0
			Zimbabwe	0.6	4.3

* 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) IV/2016.

Kenya expect the current unfavourable situation to continue, while for *Cabo Verde* they have a more positive view of the months ahead, as they expect private demand as well as capital expenditure to pick up. In the remaining *Sub-Saharan* countries *Angola*, *Burundi*, *Comoros*, *Congo-Brazzaville*, *Lesotho*, *Madagascar*, *Namibia*, *Niger*, *Nigeria*, *South Africa*, *Sudan*, *Swaziland*, *Zambia* and *Zimbabwe* a poor economic situation was reported once again. Most of the experts surveyed, however, share the consensus that this situation is not going to worsen. With the exception of *Angola*, an oil-exporting country, *Burundi* and draught stricken *Zimbabwe*, experts expect a further deterioration in the next six months.

Inflation to remain low in most countries

On a worldwide average, the WES experts' inflation forecast for the year 2016 picked up from 4.2% according to the survey in July to 4.4% in this survey. However, this increase was again mainly caused by significantly higher inflation expectations in *Venezuela*. If *Venezuela* is excluded from the calculation, the expected price increase in 2016 would be at 2.2%, down from 2.4% in July.

In the **euro area** the inflation forecast for 2016 was unchanged at 0.7%. The medium-term inflation expectations (year 2021) increased slightly from 1.8% to 1.9%, which would still be in line with the medium-term inflation target of the ECB. Within the *euro area* prices are expected to decline further (-0.4%) only in *Greece*. In all other euro countries, including *Cyprus* this time too, a very moderate price increase is expected. Inflation expectations somewhat above the overall average of 0.7% prevailed again, mainly in *Belgium* (1.8%) and also in *Austria* (1.0%).

In **Western Europe** outside the *euro area*, inflation expectations for 2016 range from -0.3% in *Switzerland* to 3.0% in *Norway*. In the *United Kingdom* the inflation outlook for 2016 remained almost unchanged at 1.0%, after rising in the preceding survey in the context of the Brexit-vote. The medium-term inflation outlook also remained unchanged at 2.3% (see Table 3).

In **Eastern Europe** the expected inflation rate for 2016 was identical to the estimate according to the July survey (0.6%). According to WES experts, the lowest inflation rates in the region will prevail this year in *Croatia* (-0.3%), as well as in *Macedonia* (-0.5%) and *Slovakia*

(0%). The inflation rate will also lie above the regional average in 2016 in *Serbia* (3.5%), *Bosnia and Herzegovina* (1.7%) and *Albania* (1.3%). 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 inflation in this region is expected to move to 2.3% in 2021, which would be a little bit lower than expected in the July survey (2.4%).

In **North America**, the 2016 inflation forecast of 1.6% is marginally lower than according to the preceding survey in July (1.7%). The medium-term inflation outlook (2021) stands unchanged at 2.4%.

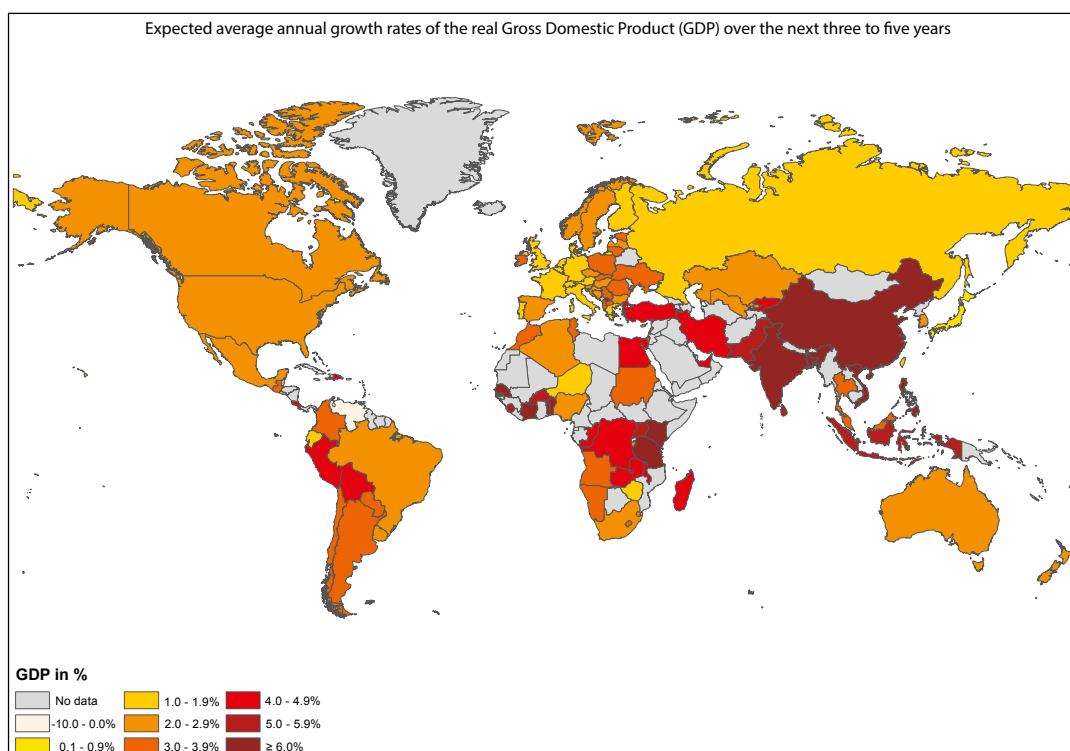
In **Asia** inflation expectations for 2016 were somewhat lower than in the previous survey (2.1% versus 2.4%). By country the 2016 inflation outlook was downwardly revised even further in *China* (from 2.2% to 1.9%), in *Japan* (from 0.2% to 0.1%) and in *India* (5.6% after 5.7%). Downward revisions of the expected inflation rate in 2016 were also reported from WES experts in *Sri Lanka* (5.5% after 6.7% in the preceding survey), *Hong Kong* (2.4% after 2.7%), *Indonesia* (4.0% after 4.5%), *Malaysia* (3.7% after 4.0%) and *Pakistan* (from 6.0% to 5.6%). On the other hand, upward revisions of the price increase in 2016 came from *South Korea* (from 1.3% to 1.5%) and *Vietnam* (from 5.4% to 7.0%). The 2016 inflation expectations remained unchanged in *Taiwan* (1.1%) and *Thailand* (1.2%).

In **Oceania** inflation expectations for 2016 continued to decline somewhat (from 1.7% to 1.5%). This expected decline affects both *Australia* and *New Zealand*.

In **Latin America** inflation expectations for 2016 continued to rise sharply from 37.8% to 42.6%. However, this was exclusively due to developments in the hyperinflation country *Venezuela* where current inflation expectations stand at 842.5%, versus 728% in the preceding survey. Excluding *Venezuela* from the calculation, the inflation outlook would be 7.0%. Inflation expectations by country for this year declined slightly in *Brazil* (from 7.8% to 7.2%) and *Ecuador* (from 2.9% to 1.8%). On the other hand, they increased somewhat in *Argentina* (from 38.6% to 39.1%), as well as in *Mexico* (from 3.9% to 4.1%). In the remaining countries in the region the inflation outlook remained largely unchanged. In the medium-term a regional average inflation rate of 4.3% is expected, which is somewhat lower than in the preceding survey (5.0%).

Box 4

Outlook for economic growth weakens somewhat



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

In the fourth quarter of each year WES experts are asked to assess mid-term economic growth in the country they are reporting on. On a worldwide scale they trimmed back expected average annual growth rates¹ over the next three to five years from 2.5% to 2.4% (see Table 2).

Strong downward growth revisions came from WES experts in *Asia* (from 3.6% to now 3.2%). In *China*, by contrast, the growth outlook improved somewhat (from 6.0% to 6.1%). The growth outlook was also downwardly revised to 3.3% in *Africa* compared with 4.1% reported last year. In *Northern African* countries all revisions pointed downwards, with the exception of *Tunisia*, where the outlook improved (from 2.3% to 3.0%). In the *United States* growth was also scaled back from 2.6% to 2.1%.

Only moderate downward revisions of the medium-term growth outlook were reported from *Western Europe* (1.6% compared with 1.7%), with the exception of the *United Kingdom* where revisions fell more strongly from 2.1% to 1.5%. In *Latin America* moderate downward revisions were also reported (2.2% compared with 2.4%), with the positive exceptions of *Brazil* (from 1.7% to now 2.4%) and *Peru* (4.2% compared to 3.6%). For *Venezuela*, in turn, the current recession is not likely to be overcome in the next three to five years, as WES experts forecast shrinking average annual rates of nearly 10 percent.

On the other hand, an upward revision of the medium-term growth outlook came from *Eastern Europe* (2.8% compared with 2.7% last year), with the strongest upward revisions seen for *Estonia* (from 2.7% to 3.7%) and *Romania* (3.7% compared to 2.2%). In *Oceania* (2.5% compared with 2.3%), *Canada* (2.1% compared with 2.0%) and the *Near East* (4.1% compared with 3.8%) medium-term growth will also be somewhat higher than was anticipated last year. In the latter region, and especially in *Israel*, a strong positive revision of growth (from 2.5% to 3.0%) was reported.

¹ The national economic growth rate is a country's 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 specific country's exports and imports as a share of 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, tends to be somewhat lower than the corresponding figures released by the IMF as a rule.

In **CIS** countries inflation expectations for 2016 moderated further (8.7% after 9.4% and 11.0% in the April survey). This trend was typical for almost all countries in the region; in *Russia* e.g. the inflation outlook for 2016 improved from 8.2% to now 7.6%.

In the **Near East** the inflation outlook for 2016 increased only slightly (from 4.5% to 4.7%). The highest inflation rate in the region is still expected for 2016 in *Turkey* (8.1%) and the lowest one in *Israel* (1.2 %).

In **Africa** inflation expectations for 2016 remained largely unchanged (8.5% after 8.4% in the preceding survey). There was also little change in the medium-term inflation outlook (7.1% versus 7.3%). However, as in preceding surveys, the picture remains very heterogeneous by countries: The expected 2016 inflation rate in *South Africa* of 6.2% is again somewhat lower than in the average for the African continent. The lowest inflation rates in 2016 will prevail in *Zimbabwe* (0.6%), *Cabo Verde* (1.5%), *Mauritius* (1.4%), the *Ivory Coast* (1.9%), in *Togo* and *Morocco* (2.3% respectively), and the highest inflation expectations in the region are reported from WES experts in *Burundi* (50.0%), *Angola* (40.0%) and *Sudan* (21.0%).

US Dollar expected to rise further

The course of the *US dollar*, the *euro* and the *Japanese yen* remain, according to WES experts, largely in line with fundamental considerations. Only the course of the *UK pound* – after the strong decline following the Brexit vote – now appears to be generally somewhat undervalued (see Figure 11).

However, by country there are again significant differences in the respective currency evaluations. In *Croatia*, *Hungary*, *Kyrgyzstan*, *Egypt*⁴, as well as in some other *African* countries like *Angola*, *Burundi* and *Kenya*, *Latin America* and particularly in *Uruguay*, *Argentina*, *Chile*, *Peru*, and *Brazil*, the domestic currency appears to be generally overvalued. WES experts in the *US* came to the same conclusion: in relation to the *yen*, the *euro* and the *British pound* the *US dollar* was regarded as overvalued. On the other hand, WES experts in *Sweden*, *Poland*, *Bosnia-Herzegovina*, the *Ukraine* and also in the *United Kingdom* assessed their own currency as generally undervalued vis-à-vis the other leading world currencies.

⁴ In the meantime the Egyptian Pound has been devaluated by almost one third.

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 again that the value of the *US dollar* is expected to rise over the next six months on worldwide average. Some of the few exceptions to this trend are *New Zealand*, *Hungary* and *Colombia*, where a weakening of the *US dollar* is expected in the months ahead.

Interest rates expected to rise

On a worldwide scale, short-term interest rates are expected to start **rising** in the course of the next six months. The already on-going increase of long-term interest rates is expected to become somewhat stronger in coming months. WES experts in the *US* in particular see higher interest rates over the course of the next six months. On the other hand, **sinking** short-term interest rates in the months ahead are expected again, particularly in many *Asian* countries like *India*, *China*, *Japan* and *Malaysia*. Expectations of declining interest rates in the short term also prevail in most *CIS* countries, including *Russia*, in *Australia* and *New Zealand*, in some *Latin American* countries like *Argentina* and *Brazil*, as well as in some *African* countries like *Mauritius*, *Uganda* and *Morocco*.

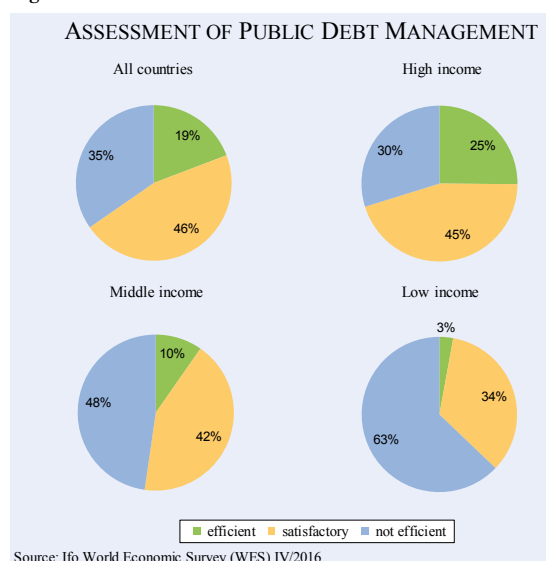
Public Debt Management

Sovereign debt crises characterised by debt restructurings and sovereign defaults have been a pervasive phenomenon through history.⁵ While public debt problems have been primarily encountered by emerging and developing countries, the recent European debt crisis has shown that industrialised countries are not immune to their governments' financing problems either. In addition, a sizeable number of governments in low-income countries receive financial support in the form of grants from international institutions such as the International Monetary Fund and the World Bank. At the same time, low oil prices mean that major oil-exporting countries have to find new strategies to finance their public expenditure.

In this environment, public debt management plays a vital role in contributing to sustainable debt structures.

⁵ See, among others, Reinhart, Carmen M. and Kenneth S. Rogoff (2009), *This time is different: eight centuries of financial folly*. Princeton, NJ: Princeton University Press.

Figure 13



The task of public debt management consists of raising the required amount of public funding at the lowest possible costs and with an acceptable degree of risk exposure (see IMF 2014).⁶ The amount of financial resources needed to finance the government budget net of interest payments on outstanding government debt – the primary budget deficit – is predetermined for public debt management. That is, public debt management does not directly influence the level of debt. Public debt managers, however, do determine the structure of public debt. In particular, their portfolio strategy determines the maturity structure, the currency composition and interest rate types (flexible or fixed) of public debt. In addition, they may influence the source of funds: Creditors may be domestic citizens or foreigners and they can also be private agents or official entities.

In this quarter's special question section, WES experts were asked for their assessment of public debt management in their home countries. Their answers provide fresh insights into the evaluation of public debt management in general, and the functioning of the domestic market for public debt in particular.

WES experts were asked to provide their opinion of the efficiency of public debt management. The precise wording of the question was: "How do you assess the public debt management of your country?" The possible answers were "efficient", "satisfactory" and "not efficient". On average experts consider public debt management in their country to be below satisfactory levels.

⁶ IMF (2014). Revised Guidelines for Public Debt Management, International Monetary Fund.

If we assign numbers to the answers such that the neutral answer "satisfactory"=0 and "efficient"=1 and "not efficient"=-1, the average across all responses amounts to -0.24. There is a marked difference between countries at different stage of development, with the assessment improving as the level of income rises.⁷ High-income countries' debt management is assessed as satisfactory (0.05), while scores reach their lowest levels in low-income countries (-0.57). Figure 13 shows the three categories as shares of total responses: when moving from high- to low-income countries, the share of experts considering public debt management as "efficient" decreases, while the share of those answering "not efficient" increases. If we differentiate into regional groups, public debt management is assessed most positively in *Western Europe*, whereas *Africa*, *North America* and the countries of the *Commonwealth of Independent States (CIS)* are attributed the least efficient policies.

Public debt management faces a number of risks. Most important are foreign currency risk (the risk that a devaluation of the exchange rate increases the value of debt expressed in domestic currency if debt is denoted in a foreign currency), interest rate risk (the risk that unfavourable developments in interest rates increase borrowing costs when contracts are based on variable interest rates or when the refinancing of maturing debt takes place at higher interest rates) and refinancing risk (the risk that the government is unable to refinance maturing debt). The task of public debt management consists of controlling those risks and evaluating their effect on borrowing costs to determine a cost-risk portfolio that accounts for a country's preferences.

WES experts were asked to assess the importance of these different kinds of risks in their country as "most important", "important" or "not so important". In the entire sample, refinancing risk is considered to be the most important risk faced by public debt management, followed by foreign currency risk and interest rate risk. This result, however, is driven by high-income countries. In middle- and low-income countries, foreign currency risk is ranked as most important. The importance of all three types of risk is considered to be negatively correlated with income levels: all three types of risk are attributed the highest importance in low-income countries and the lowest in high-income countries.

⁷ When we use income-groups we calculate the average in a two-step procedure: Firstly, we compute the country average as the simple arithmetic mean of the individual responses for the respective country. Secondly, we calculate the unweighted mean over those countries that belong to the income group under consideration. That is, in contrast to the standard WES procedure, we do not weight countries by their share in world trade. The reason behind this is that we want to draw a picture of public debt management of an average country independently of country sizes.

Domestic debt markets are an important source of financial funding for governments. A well-functioning domestic market for public debt helps to reduce the risks linked to public debt because it provides additional diversification opportunities. For domestic creditors it is easier and cheaper to buy sovereign bonds if they are traded on the domestic market. Domestic creditors, in turn, are a source of funds that reacts less to global market conditions and is less volatile and instable than external sources as a result. Data suggest that low-income countries might try to expand their base of domestic creditors. While in 2015 high-income countries relied mostly on domestic creditors (59%), low-income countries only sold 31% of their liabilities to domestic agents. Moreover, given government is the largest debtor in many emerging and developing countries, government dominates debt markets and may assume a crucial role in developing a functioning domestic debt market, which has positive spillovers for the private sector.

WES experts were asked the following question: “How do you assess the functioning of the domestic public debt market?” Possible answers were “good”, “satisfactory” or “bad, which were again attributed values from +1 to -1 respectively. In the entire sample, public debt markets are assessed to work below satisfactory levels (-0.12). Figure 14 depicts the distribution of unweighted individual answers. Public debt markets in high-income countries received the best assessment (+0.14), in low-income countries the worst (-0.43). That is an indication for a positive correlation between the functioning of the public debt market and the quality of public debt management: low-income countries received the least favourable assessment of both their domestic public debt market functioning and their public debt management. Public debt markets function best in *North America, Western Europe* and *Oceania*, whereas the worst assessment is attributed to countries in *African* and *CIS* countries.

Figure 14

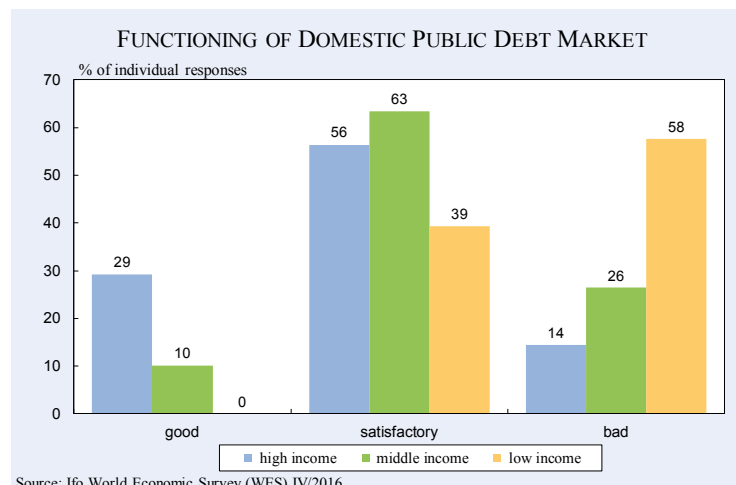
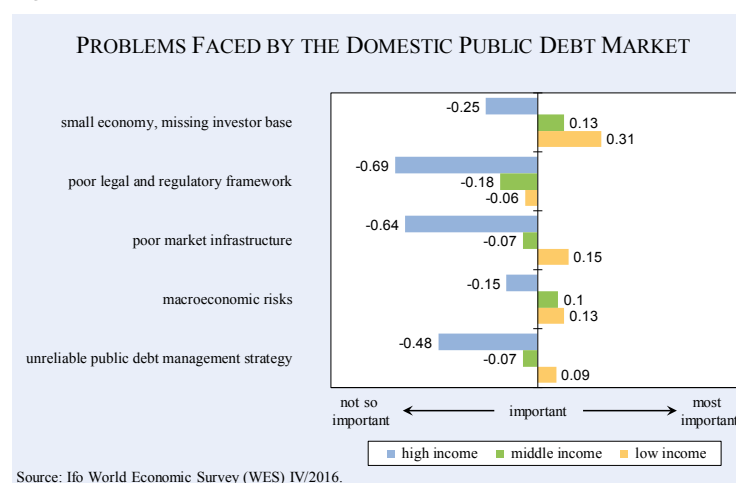


Figure 15



There are various reasons why domestic markets for public debt might be deficient. The economy might be small and an investor base missing, a poor legal and regulatory framework might be detrimental to investor confidence, market infrastructure in general might be poor, macroeconomic risks may prevail and an unreliable public debt management strategy could undermine confidence in government bonds. WES experts were asked to rank these problems as “most important”, “important” or “not so important”.

The survey results are shown in Figure 15. They suggest that macroeconomic risks and a small economy that lacks an investor base are considered to be the most important problems faced by domestic public debt markets. Poor legal and regulatory frameworks, in turn, are the least important problem among those listed. If we form country groups according to the level of income, two observations are striking: firstly, the assessment of

all individual categories worsens with a decreasing level of domestic income. Secondly, the ranking differs markedly between income groups: in high-income countries macroeconomic risks rank as the most important problem, while the sizes of the economy and the investor base are considered least important. In middle-income countries the ranking equals that of the entire survey. In low-income countries poor regulations and weak legal systems are also considered to be the least important impediments to public debt markets, while the limited size of the economies and a missing investor base are cited as the most important barriers.