CESifo World Economic Survey

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August 2016

World Economic Climate

World Economic Climate suffers setback

Economic Expectations

Economic expectations downwardly revised

Inflation

Inflation to remain low in most countries

Currencies

US dollar expected to rise further

Interest Rates

Interest rates expected to remain low

Special Topic

Economic decision-makers' expectations of climate policy

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For further information please contact
Mrs. Ikonomou-Baumann (umfragedaten@ifo.de)

Authors of this publication:

Johanna Garnitz, e-mail garnitz@ifo.de
(Ifo Center for Business Cycle Analysis and Surveys)

Dr. Gernot Nerb, e-mail nerb@ifo.de
(Ifo Center for Industrial Organisation and New Technologies)

Dorine Boumans, Ph.D., e-mail boumans@ifo.de
(Ifo Center for Business Cycle Analysis and Surveys)

Dr. Julian Dieler and Niko Jaakkola, DPhil
(Ifo Center for Energy, Climate and Exhaustible Resources)

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Editor: Dr. Gernot Nerb, e-mail nerb@ifo.de

CESifo

Ifo World Economic Survey

August 2016

Regions

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- Western Europe: Economic climate deteriorates markedly
- North America: Economic recovery takes a break
- Eastern Europe: Economic climate brightens
- CIS: Economic expectations improve further
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- Oceania: Economic climate clouds over slightly
- Latin America: Climate improves at a low level
- Near East: Feeling the effects of a weak oil price
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Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational and 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 *July 2016, 1,086* economic experts in *115* countries were polled.

Methodology and evaluation technique

The survey questionnaire focuses on qualitative information: assessments of a country's general economic situation and expectations regarding key economic indicators. It has proven a useful tool, since it reveals economic changes earlier than conventional business statistics.
The individual replies are combined for each country without weighting. The grading procedure consists in giving a grade of 9 to positive replies (+), a grade of 5 to indifferent replies (=) and a grade of 1 to negative (-) replies. Overall grades within the range of 5 to 9 indicate that positive answers prevail or that a majority expects trends to increase, whereas grades within the range of 1 to 5 reveal predominantly negative replies or expectations of decreasing trends.
The survey results are published as aggregated data. The aggregation procedure is based on country classifications. Within each country group or region, the country results are weighted according to the individual country's exports and imports as a share of total world trade.

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

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

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

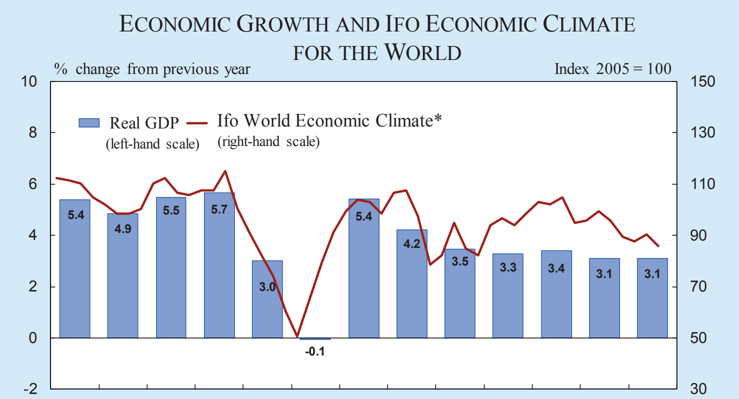
Ifo World Economic Climate Suffers Setback

The Ifo Index for the world economy fell by 4.5 index points to 86.0 in the third quarter, dipping to its lowest level in over three years at ten index points below its long-term average. These results contrast with the improvement seen last quarter. Experts' assessments of the current economic situation remain unfavourable, while their economic expectations are far more negative than last quarter (see Figures 1 and 2). Sentiment in the world economy is subdued (see Box 1).

Weak performance in key regions

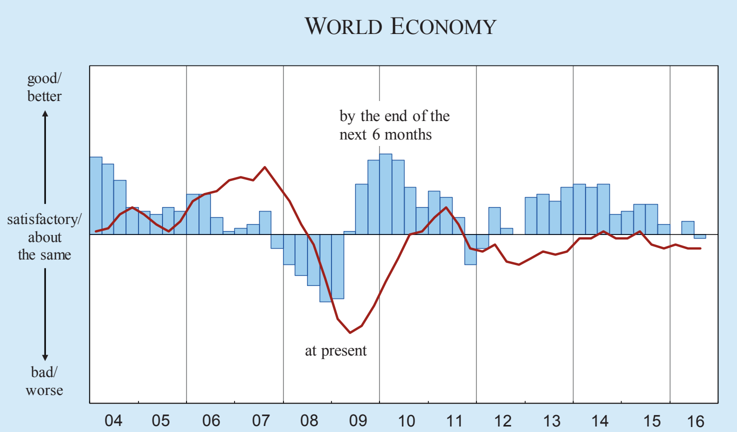
World economic growth slowed down in recent months, as important emerging markets did not escape the impact of a slow-moving economic climate. In *China* the economic climate cooled further than expected and there are no signs of any cyclical upswing. This also influenced the economies in east-Asia, as their trade is strongly dependent upon *China*. In addition, failing demand from *China* negatively influenced the price of raw materials, with negative effects for exporting countries. *Russia* and *Brazil* have been in an economic recession for over a year. Geopolitical tensions in the *Near East*, disagreements between the European countries on how to deal with the refugee crisis and the UK's unexpected vote to leave the EU, are currently putting a strain on economic sentiment in the advanced economies. The *USA* is nevertheless still experiencing an economic upswing, even although it is currently taking a breather, according to the latest WES results. The output gap is closing and there is almost full employment. By contrast, the economic recovery in the *euro area* is clearly less dynamic and resurgent. One important reason for this is the problem of the European Banking sector, which has not been addressed in many member states. Similarly, many structural problems have not been resolved such as, for example, the flexibility of the labour market and growing competition in many product markets, as well as the energy sector. As a result, aggregate production in the *euro area* is clearly below its potential. Economic expansion also remains tempered in *Japan*.

Figure 1



*) Arithmetic mean of judgement of the present and expected economic situation.
Sources: IMF, World Economic Outlook Update July 2016; Ifo World Economic Survey (WES) III/2016.

Figure 2



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

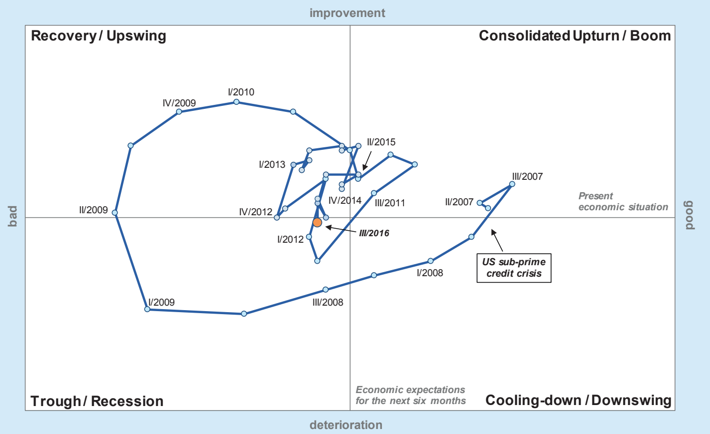
Box 1

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 July survey, the Ifo Indicator for the World Economy fell slightly. While assessments of the current economic situation remain unfavourable, expectations clouded over somewhat. As a result, the indicator showed a downward movement in the recovery quadrant towards the trough/recession quadrant. It remains to be seen whether the recovery is temporarily on hold or whether the downswing will solidify.

IFO BUSINESS CYCLE CLOCK: WORLD ECONOMY



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

Monetary policy in the major advanced economies remains expansive. Yet the directions taken by the individual central banks, which were previously aligned, are now diverging. The Fed, for example, has signalled its willingness to continue moderately tightening its interest rate policy after the first hike in December 2015. Until now the FED had refrained from such steps as the labour market did not seem stable enough and the risks to the world economy had increased. Like the US Fed, the Bank of England wanted to start tightening its monetary policy. However, in view of the recent outcome of the Brexit referendum, it has now decided against this policy, and has lowered interest rates instead in a bid to ease its monetary policy. The European Central Bank and the Bank of Japan have increased expansion of their monetary policy. Both central banks have signalled the need to maintain expansive monetary policy in the year ahead, or even to ease it further. This heterogeneity in their policies is reflected in the performance of the currencies of major advanced economies. The euro and the yen depreciated against the US dollar at the end of 2014 and retained these listings over the course of 2015. At the beginning of 2016, however, the yen and the euro were re-evaluated, as it became clear that the central banks of the US and UK slowed down their policy of monetary normalisation. Fiscal policy is expected to appear neutral in major advanced economies over the next two years. In *Japan,* a new stimulus programme was launched, and the government decided to postpone its plans for a VAT increase to 2019. This reduced the intensity of the originally planned fiscal consolidation of *Japan's* public budget. In the *euro area*, the member countries agreed on a new interpretation of the stability and growth pact by the European Commission in 2015, which led to the postponement of the originally planned restrictive fiscal impulses.

A key risk for the global economy is the process of Britain's pending exit from the EU. The results of the special question presented in this issue (see Box 3) and the outcome of various business and consumer surveys show that the uncertainty of a looming Brexit is expected to have negative consequences for the British economy. The EU15 countries (with or without UK) are also likely to experience negative consequences. The first effects in the UK are already visible – declining business investments and sterling's sharp fall against the US dollar and the euro. In addition, future economic uncertainty also persists regarding economic developments in *China*. Previous stimulating measures did not eliminate the misallocation that exists in many economic sectors.

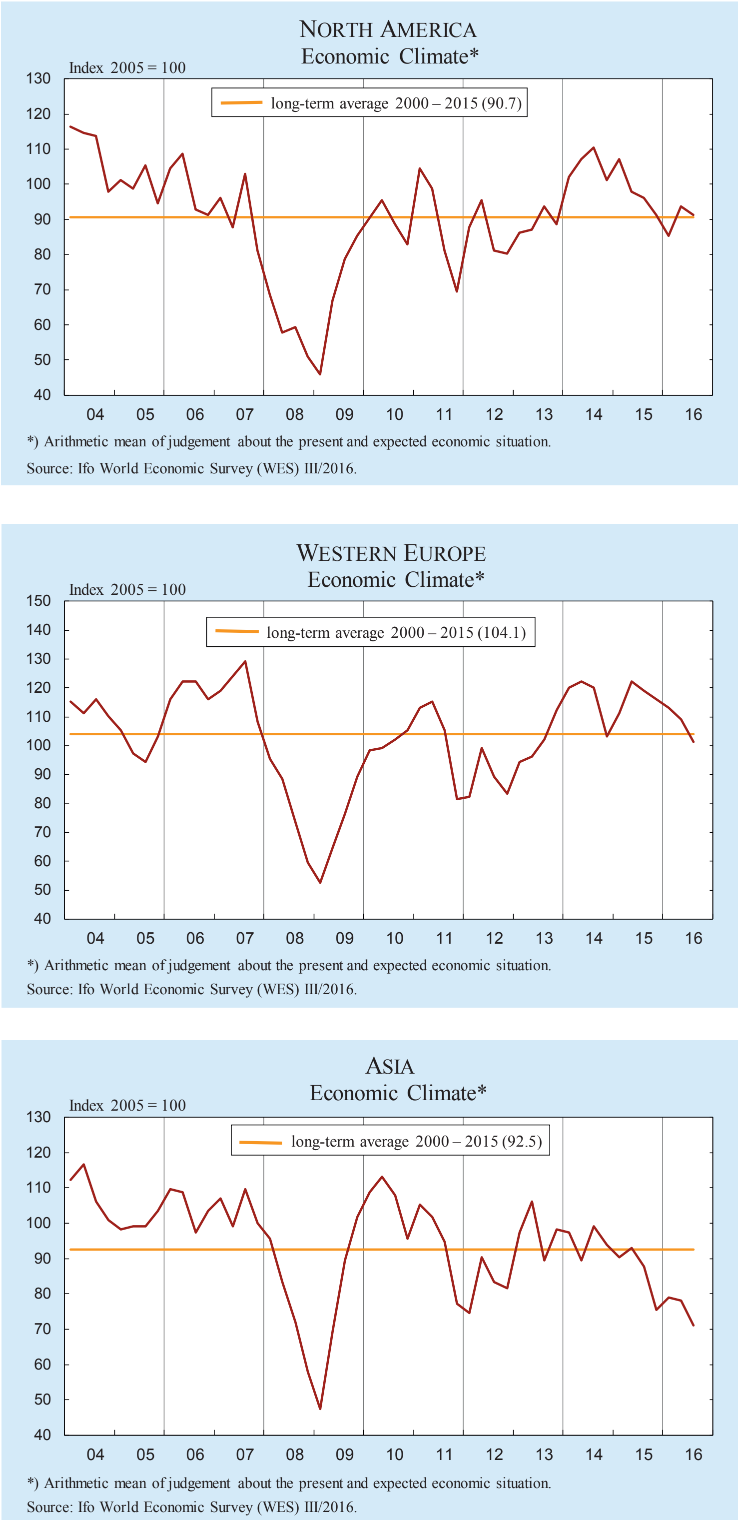
Sorely-needed structural changes have merely been postponed instead.

Western Europe: Economic climate deteriorates markedly

The economic climate index for *Western Europe* continued to decline from 109.2 in April to 101.2, and lies now below its long-term average of 104.1 (2000-2015, see Figure 3). While assessments of the present economic situation were slightly more positive than three months ago, economic expectations, in turn, clouded over (see Figure 4). In the *euro area* the downturn in the climate was not as pronounced as in *Western Europe*. The indicator fell by only 1.1 index points to 111.6, which is still above its 16-year average of 106.5. Satisfaction with the present economic situation was assessed as similar to the levels seen in *Western Europe*. Economic expectations, by contrast, were less downwardly revised and remain positive on the whole.

According to the latest WES survey, *Greece* and *Portugal* are the worst performers in the *euro area* at the moment, closely followed by *Finland* (see Figure 5b). Also in *Italy*, the majority of experts surveyed again rated the present economic situation as very weak. The economic outlook is less positive than three months ago in all countries, and only signals a modest improvement in *Finland*. In *Greece* and *Italy* no major changes for the better are expected in the months ahead; while experts in *Portugal* even expect the situation to deteriorate further. In all of these countries, WES experts continue to report strongly constrained access to bank credit on the part of companies (see Table 4). In addition, experts in *Greece* and *Italy* reported high legal or administrative restrictions on foreign firms investing in the respective country (see Table 1). The current economic situation improved in *Austria, France* and *Spain*, but experts' assessments still have not reached the satisfactory line (see Figure 5a). Economic expectations were considerably downwardly revised for *France*, and

Figure 3



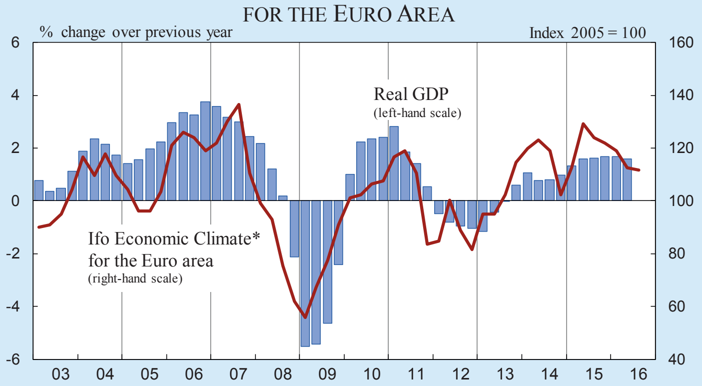
Box 2

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 July results are based on responses from 316 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 this quarter, although the deterioration was only marginal. The Ifo Index for the Economic Climate in the Euro Area fell to 111.6 points in the third quarter from 112.7 points in the second quarter, but nevertheless remains way above its long-term average. The deterioration in the economic climate was entirely due to less positive assessments of the economic outlook. The current economic situation, by contrast, improved. The economic recovery in the *euro area* continued this quarter, but lacked impetus. Assessments of the current economic situation were once again most positive in *Germany* and *Ireland*, with *Austria, Belgium, Estonia, Latvia, Lithuania,* the *Netherlands, Slovakia* and *Slovenia* occupying mid-range positions. Assessments of the current economic situation primarily improved in *Austria* and *Lithuania*. In *Greece* and *Portugal*, by contrast, WES experts reported a further deterioration in the already unfavourable economic situation. Despite a slight improvement, assessments of the economic situation were also predominantly negative in *Finland, France, Italy* and *Spain*. The six-month economic outlook continued to cloud over in the majority of countries, but remains positive on balance. The only countries where WES experts expressed scepticism about the economic outlook were *France, Greece, Latvia* and *Portugal*. In *Spain*, by contrast, sentiment among experts was more positive once again. For 2016 experts expect an inflation rate of 0.7 percent in the *euro area*. In the mid-term (2021) inflation expectations remained at 1.8 percent this quarter.

ECONOMIC GROWTH AND IFO ECONOMIC CLIMATE FOR THE EURO AREA



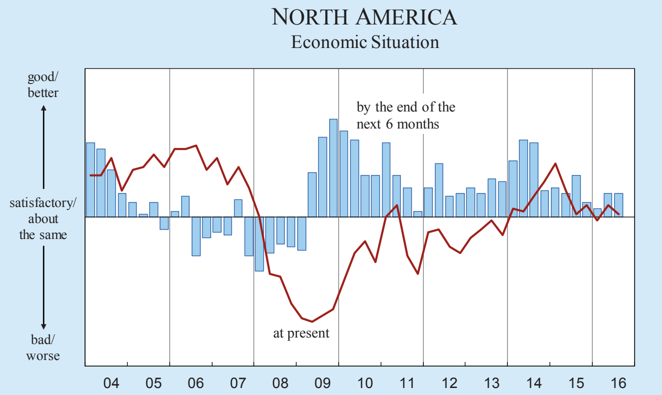
*) Arithmetic mean of judgement of the present and expected economic situation.
Sources: Eurostat, Ifo World Economic Survey (WES) III/2016.

slightly for *Austria*. By contrast, for *Spain*, experts turned more positive regarding the next six months. Nevertheless, no major improvements to the present situation are expected in these three countries in the months ahead. 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 *Luxembourg*. This group of countries are also joined by *Lithuania* this time, where the present economic situation improved considerably compared to the survey in April. Economic expectations for *Ireland* and *Luxembourg* signal a continuation of current good conditions. For *Lithuania*, experts are less optimistic regarding the economic outlook than three months ago, while for *Germany* the six-month economic outlook clouded over slightly. The economies of *Belgium, Cyprus, Estonia, Latvia,* the *Netherlands, Slovakia* and *Slovenia* continued to perform satisfactorily and in nearly all of these countries to an even higher degree than in the previous survey. Economic expectations were downwardly revised in all of these countries, except for *Latvia* and *Slovenia*. The economic outlook nevertheless remains positive for all of these countries. Experts only remain sceptical for *Latvia,* where they expect the situation to deteriorate in the months ahead.

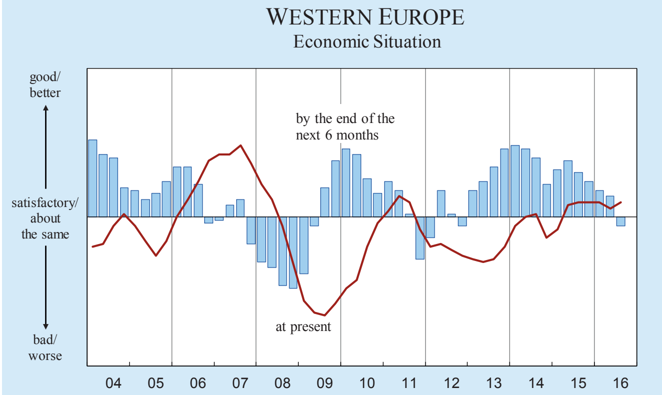
The economic climate in nearly all of the countries outside the *euro area* deteriorated, with the *United Kingdom* leading the downturn in the wake of the Brexit vote. Assessments of both the present economic situation, and to an even greater degree of economic expectations, were considerably downwardly revised by the experts surveyed (see Figure 5a). The present economic situation is now regarded as unfavourable, and is expected to deteriorate further in the months ahead. Experts fear, that legal or administrative restrictions on foreign firms investing in the *United Kingdom* will be higher in the course of coming months (see Table 2). Box 3 shows which countries, apart from the *UK,* will be affected by a Brexit this year and in the next three to five years. The economic climate also deteriorated in *Denmark* and *Switzerland*, although negative developments were not nearly as pronounced as in the *UK*. While assessments of the present economic situation returned to satisfactory levels in both countries, economic expectations are far less positive, and even signal a deterioration in the

Figure 4

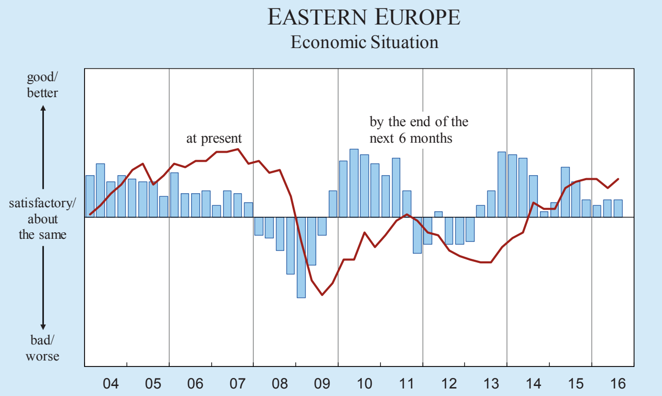
SELECTED REGIONS



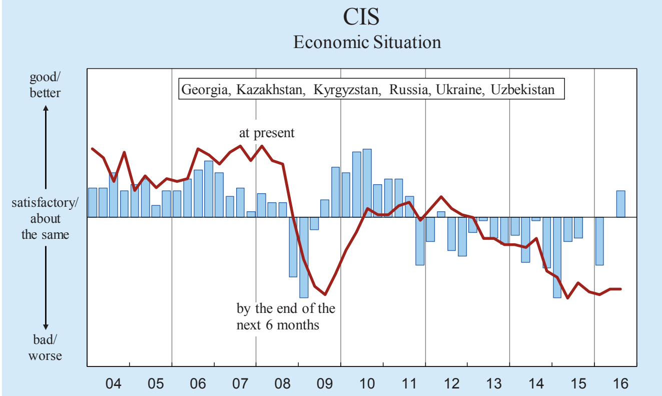
Source: Ifo World Economic Survey (WES) III/2016.



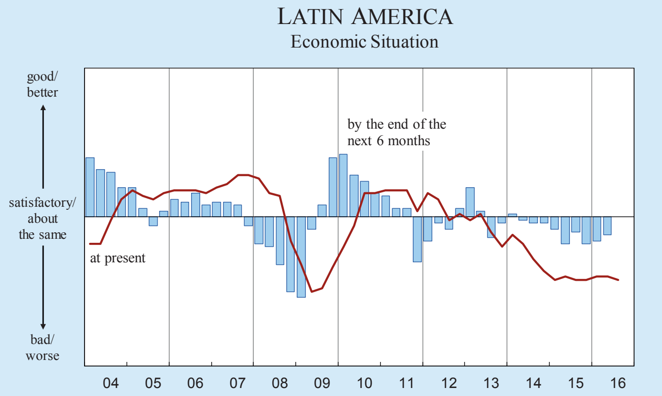
Source: Ifo World Economic Survey (WES) III/2016.



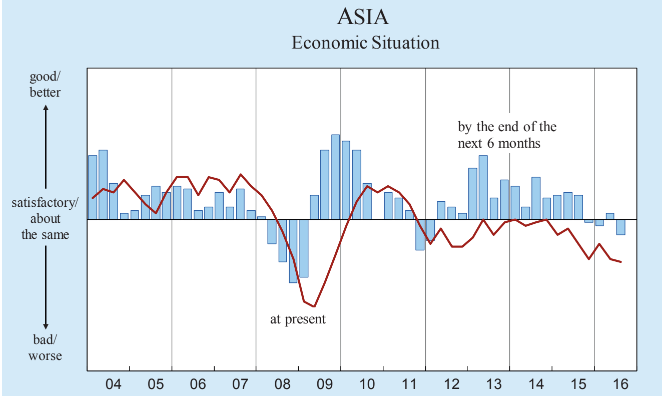
Source: Ifo World Economic Survey (WES) III/2016.



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



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



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

Box 3

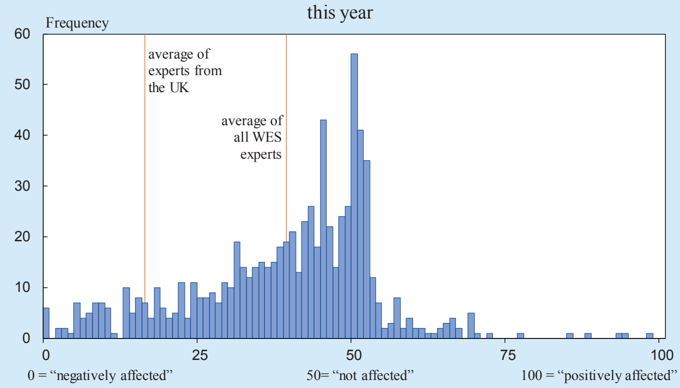
Brexit Remains Primarily a European Problem

On June 23rd, after 33 years of being a member of the European Union (EU), the *United Kingdom (UK)* voted to leave the EU, with 52% in favour of leaving and a voter turnout of 71.8%. Over the past month, the short-term economic impact has become clearer for *Britain*: The pound has fallen against the euro and the dollar, the stock market (FTSE 250) is down and, according to *The Economist,* there are signals that the real economy is slowing down as well.[1] The vote to leave the EU also adds to uncertainty in the rest of the world, especially in those countries trading with the UK and the EU. As long as there is no clarity over the Brexit process, this uncertainty will prevail. This, in turn, is influencing the financial markets and making the long-term economic impact of a Brexit hard to predict. A study by the Ifo Institute analyses three different scenarios where Britain's trade policy differs in the extent of its isolation. These scenarios predict that GDP will turn out to be between 0.6% and 3% lower (after 15 years) than if the UK had remained in the EU.[2] In the light of a Brexit, the IMF revised the global outlook for 2016/2017 in its World Economic Outlook (WEO) downwards by 0.1 percentage points, although economic performance was better than expected in the first quarter of 2016.[3] This projection was made based on the most optimistic view of how negotiations will go between the EU and the UK.

Most studies that analyse the economic effects of a Brexit draw conclusions for the UK or the EU. To provide a more global view on the effects of a Brexit, WES featured special questions on this issue. In April, in the run-up to the Brexit referendum, the majority of WES participants stated their opposition to the UK exiting the EU, with 86.6% of them responding negatively to the question: "Are you in favour of the UK leaving the EU?"

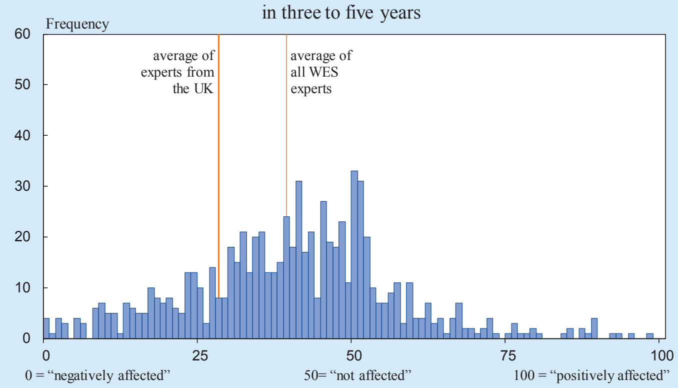
To assess the sentiment of economic experts around the world on the economic impact of a Brexit, this quarter's online questionnaire asked WES experts to consider the short and medium-term effects of a Brexit on their own economy. To indicate the short-term effects, WES experts were asked the question: "Will your country be affected by Britain's exit from the European Union (Brexit)?" To assess the mid-term effects, they were asked to answer the same question for the next three to five years. They could indicate their expectations of the short and medium term economic effects of a Brexit on a Visual Analogue Scale (VAS). This continuous scale ranges from 0 to 100. 0 meaning negatively affected, 50 unaffected and 100 positively affected. 762 answers from 112 countries were obtained. As this question was only asked online and was not part of the paper questionnaire, which was distributed before the British referendum, the number of participants who answered this Brexit question is slightly lower than for the survey on a whole.

WES Experts Assessments of the Effects of a Brexit on their Economy
this year



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

WES Experts Assessments of the Effects of a Brexit on their Economy
in three to five years



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

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1 The Economist, 'The Economic Impact of Brexit: Straws in the Wind', The Economist, July 2016 <http://www.economist.com/news/britain/21702225-forget-financial-markets-evidence-mounting-real-economy-suffering> [accessed 19 July 2016].

2 Gabriel Felbermayr and Rahel Aichele, 'CESifo Group Munich - Costs and Benefits of Britain's Exit from the European Union', 2015 <http://www.cesifo-group.de/ifoHome/research/Projects/Archive/Projects_AH/2015/proj_AH_brexit_uk.html> [accessed 22 July 2016].

3 IMF, 'IMF Cuts Global Growth Forecasts on Brexit, Warns of Risks to Outlook', 2016 <http://www.imf.org/en/News/Articles/2016/07/18/18/11/NA07192016%20IMF%20Cuts%20Global%20Growth%20Forecasts%20on%20Brexit%20Warns%20of%20Risks%20to%20Outlook> [accessed 20 July 2016].

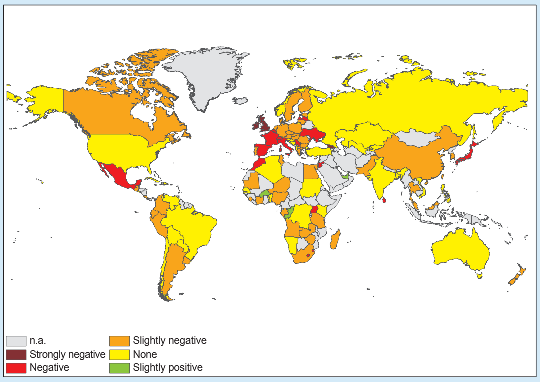
WES experts in the UK fear that their economy in the short term will be severely affected by a Brexit (with an average of 16.2). For the medium term – three to five years – they have adjusted their expectations to an average of 28. This is indeed lower than the average of all WES experts worldwide. The Figures on the left show the histogram of all the WES experts worldwide. On average, WES experts expect a Brexit to have a modestly negative influence on the economy of their respective countries both this year (38.9), as well as over the next three to five years (39.9). In general, as the distribution of the responses shows, most experts expect their country to be not affected or to be negatively affected by a Brexit this year. In the medium term, however, a larger number of experts responded in a slightly more positive manner.

Country specific expectations are represented in the Figures below. Splitting the sample into different regions, it shows that the regions of *North America*, *Near East,* and *CIS* expect to be unaffected by a Brexit both in the short and the medium term. For this question a special group of Commonwealth countries was included in the analysis. Experts from Commonwealth countries (without the UK) expect a slightly negative impact in the short (42) and medium term (41). Unlike the above mentioned regions, the EU expects considerable negative effects in the short term (31.6) and also fears for the medium-term impact. The EU14 (EU 15 without the UK) in particular expect to be negatively affected both in the short term (31.2) and in the medium term (34.7). This is also reflected in the economic climate of the EU15 countries, which deteriorated slightly in this survey. The new member states of the EU, by contrast, are slightly more positive in the short term (38.7), but follow the expectations of the old member states in the medium term (34.4).

Following the country classification of the IMF's World Economic Outlook, advanced economies, according to WES experts, are expected to be more negatively affected by a Brexit (36.1) than emerging (42.0) and least developed countries (44.0). In the medium term, however, the least developed countries turn slightly more pessimistic (40.7). The largest negative effects for both short and medium term effects are indicated for, unsurprisingly, the *United Kingdom,* but also for *Ireland, Trinidad and Tobago, Sri Lanka, Georgia* and *Hong Kong.* These countries have close relations with the UK, not only in terms of trade, but also politically.

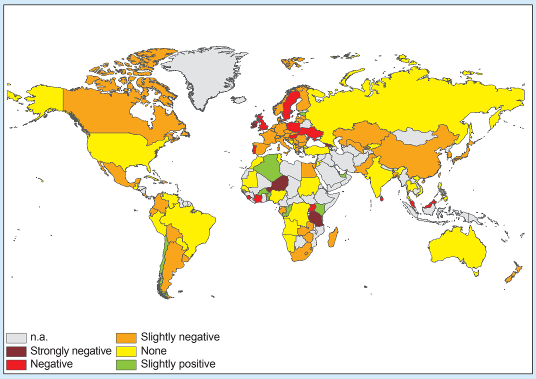
To sum up, the mid-term effects of a Brexit will depend on how the negotiations with the EU and other potential trading partners go. As long as there is uncertainty over the trade relations between UK and EU, it might also be difficult for the UK to sign trade agreements with other countries. The results of the Brexit question in this quarter's WES show that, on average, none of the WES experts expect their country to benefit from a Brexit. While the short term effects might be felt particularly by high income countries like members of the EU, in the medium term these effects may also be felt by lesser developed economies.

WILL YOUR COUNTRY BE AFFECTED BY BRITAIN'S EXIT FROM THE EUROPEAN UNION: THIS YEAR?



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

WILL YOUR COUNTRY BE AFFECTED BY BRITAIN'S EXIT FROM THE EUROPEAN UNION: IN THE NEXT THREE TO FIVE YEARS?



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

Table 1
Legal and administrative restrictions for foreign firms

Absent	
Denmark	8.2
Ireland	8.2
Sweden	7.9
Finland	7.7
Paraguay	7.7
Uruguay	7.7
Bulgaria	7.2
Lithuania	7.0
Rather low	
Germany	6.8
Belgium	6.7
Chile	6.7
Czech Republic	6.3
Netherlands	6.3
Turkey	6.3
Switzerland	6.0
Mexico	5.9
Argentina	5.8
Australia	5.8
Japan	5.7
Zambia	5.7
Norway	5.6
Peru	5.6
Austria	5.5
Colombia	5.5
France	5.5
Slovakia	5.5
Togo	5.5
United States	5.5
Croatia	5.4
Spain	5.4
South Korea	5.3
United Kingdom	5.3
Poland	5.2
Portugal	5.2
Bangladesh	5.0
Canada	5.0
Hungary	5.0
Kenya	5.0
Kosovo	5.0
Latvia	5.0
New Zealand	5.0
Philippines	5.0
Romania	5.0
Cabo Verde	4.6
Pakistan	4.6
Slovenia	4.5
South Africa	4.5
China	4.4
Taiwan	4.2
Brazil	4.1
India	4.1
Rather high	
Thailand	3.7
Guatemala	3.4
Kazakhstan	3.4
Lesotho	3.4
Nigeria	3.4
Bolivia	3.0
Greece	3.0
Italy	2.8
Russian Federation	2.8
Ecuador	2.6
Zimbabwe	1.9
Egypt	1.6
Venezuela	1.0

Only countries with more than four responses were included in the analysis. **WES scale: 9** – absent, **5** – low, **1** – high .

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

case of *Switzerland* over the next six months. Most *Swedish* WES experts continue to assess the present economic situation in their country as good. As far as developments over the next six months are concerned, experts again expressed slightly less confidence than at the beginning of this year. They nevertheless expect current good economic conditions to continue to prevail. Coming from a very low level, the climate indicator for *Norway* improved considerably. WES experts now rate the present economic situation as satisfactory. Economic expectations also continued to brighten and once again moved into positive territory. In *Monaco*, a favourable present economic situation continues to prevail, as well as a positive economic outlook.

North America: Economic recovery takes a break

After improving in the second quarter, the economic climate indicator for *North America* fell this quarter to 91.2, and now lies only slightly above its long-term average of 90.7. The deterioration was entirely due to downwardly revised assessments of the present economic situation. Economic expectations remain as positive as they were three months ago (see Figures 3 and 4). This pattern reflects economic developments both for the *United States* and *Canada,* but at different levels. The present economic situation only remains satisfactory for the *United States*, while for *Canada* assessments dipped below the satisfaction mark (see Figure 6). In both countries, capital expenditure in particular was regarded as weak. By contrast, credit constraints seem to be absent in *Canada,* according to the experts surveyed (see Table 4). As far as the six-month economic outlook is concerned, WES experts are optimistic about *Canada*, and positive about the *United States*.

Eastern Europe: Economic climate brightens

Eastern Europe is one of the few regions, where the economic climate index rose this quarter. It improved from 92.2 index points to 94.6 and lies above its long-term average (86.6 in the period 2000–2015). Assessments of the present economic situation are more favourable and the economic outlook is equally as positive as in April (see Figures 4 and 7). According to WES experts, the region that strongly represents new EU member countries, seems to have been less affected by a Brexit in the short-term than the older EU member countries respectively and than *Western Europe* as a whole (see Box 3).

The region's best performing economy currently remains the *Czech Republic*, with assessments of both the present economic situation and economic expectations improving compared to April's survey. The current economic situation was regarded as highly favourable. WES experts also see no constraint on the supply of bank credit to firms (see Table 4). Current good economic conditions are likely to prevail in the months ahead. Amongst the *Eastern European* countries that belong to the *euro area* (*Baltic* States, *Slovakia* and *Slovenia*) *Lithuania* and *Slovakia* posted the best current economic performance and their 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 remain as sceptical as in April about the six-month outlook. In *Poland,* experts regarded the present economic situation more favourably than they did three months ago. Economic expectations, by contrast, deteriorated and are less positive than in April. According to WES experts, present economic conditions in *Bulgaria* improved versus the previous quarter to reach a satisfactory level. Economic expectations were downwardly revised, but nevertheless point to some improvements in the next six months. The present economic situation in *Romania* continued to deteriorate, according to the experts surveyed, but remains at a satisfactory level on balance. The economic outlook is as positive as it was in April. Experts assessed the current economic situation in *Croatia* and *Hungary* as unfavourable, although in the case of *Croatia* some improvements were visible compared to the previous survey. Economic expectations were upwardly revised for *Hungary* and experts changed their view from sceptical to positive. The economic outlook for *Croatia* remains fairly confident.

The economic situation for *Eastern European* countries outside the EU – *Bosnia and Herzegovina* and *Macedonia* – remained unfavourable and the economic conditions are not expected to change positively in the months ahead. The situation in *Albania* and *Serbia* improved compared to the survey in April and turned satisfactory in both countries once again. The current good economic situation is expected to last for the next six months. For *Kosovo,* WES experts again rated the current situation as favourable and are fairly confident about the economic outlook.

CIS: Economic expectations improve further

The economic climate indicator for the *CIS* countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan* and *Uzbekistan*) continued to rise from 62.9 to 70.4 index points. The long-term average of the *CIS* climate indicator lies at 87.8 points. The improvement resulted from upwardly revised positive economic expectations. Assessments of the present economic situation remain weak (see Figure 4). This pattern also reflects the situation in *Russia*. The present economic situation remains subdued, but the six-month economic outlook turned positive for the first time in over three years. Credit restrictions for firms remain high, although some slight easing is visible compared to the previous results of this survey question. WES experts also stated that legal and administrative restrictions on foreign firms remain high (see Tables 1 and 4). The overall economic situation in the *Ukraine* remains unfavourable. Economic expectations are more optimistic, and 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* and *Georgia*[1] the current economic situation is far more positive than in the region as a whole. Current good economic conditions are expected to persist in both countries for the next six months.

Asia: Economic outlook turns turbulent

The economic climate indicator for *Asia* dropped from 78.1 to 71.1 index points in this quarter and remains below its long term average of 92.5. While the assessments of the present economic situation deteriorated only marginally, economic expectations, by contrast, are considerably more negative than three months ago (see Figure 4).

In *China,* an unfavourable economic climate still prevails, mainly due to more negative assessments of economic expectations. In addition, capital expenditure is, like in the previous survey, reported to be weak at present. Experts also see strong constraints on the supply of bank credit to firms (see Table 4). In *Japan* the

[1] Georgia, which is not a member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

economic climate brightened slightly. This was reflected in assessments of both the present and the future economic situation. Nevertheless, the current economy is still regarded as weak, with no major improvements expected in the months ahead. Mainly private consumption is assessed as weak, and is expected to remain so for the next six months. Japan's Prime Minister therefore decided to postpone the increase in consumption tax to October 2019 and to announce a new economic package to stimulate the economy. In *Hong Kong, Malaysia* and *South Korea* the present economic situation was assessed as more unfavourable than three months ago. The situation in *Taiwan* also remains weak, despite some slight improvement compared to the previous survey. In *Hong Kong* capital expenditure is mainly considered to be weak, but experts expect it to improve over the next six months. Private consumption, on the other hand, is currently assessed as satisfactory, but is likely to fall in the months ahead. *Malaysian* experts remain very cautious about developments over the next six months. WES experts in *South Korea* expect the economy to remain at its current weak level in the next six months and expect shrinking exports, as two of its main export markets either face an economic slowdown (China) or political instability (Britain)[2]. Out of these countries, the economic outlook only remains positive for *Taiwan*. In *India* and the *Philippines* a favourable economic situation continues to prevail, and WES experts are fairly confident about economic developments over the next six months. Both countries expect improvements in the climate for foreign investors due to more favourable legal and administrative regulations (see Table 2). In *Bangladesh*, assessments of the present economic situation were less favourable than three months ago. The economic outlook, however, remains fairly confident. In *Indonesia* and *Vietnam* the current satisfactory economic situation is likely to prevail for the next six months. The present economic situation in *Pakistan, Sri Lanka* and *Thailand* was again rated as unfavourable, despite some visible improvements compared to the survey in April. Economic expectations only point to further improvements for *Thailand* and *Pakistan*. For *Sri Lanka*, WES experts turned sceptical regarding the six-month economic outlook.

Oceania: Economic climate clouds over slightly

After improving sharply in the second quarter, the indicator for *Oceania* fell slightly from 87.0 to 84.2, which remains way below its long-term average of 100.0 points. In *Australia* this was exclusively due to considerably downwardly revised economic expectations, which point to a deterioration in the months ahead (see Figure 6). By contrast, the current situation in *Australia* improved from an unfavourable to a satisfactory level. Experts in *New Zealand* also assessed the present economic situation more favourably than three months ago. However, as far as the six month outlook is concerned, they remain as cautious as in April.

Latin America: Climate improves at a low level

The climate indicator for *Latin America* continued to improve at a low level. It now stands at 71.5 index points, versus 67.0 in the previous quarter and remains far below its long-term average (2000-2015: 90.1). While assessments of the present economic situation remain weak, economic expectations continued to improve slightly (see Figures 4 and 9).

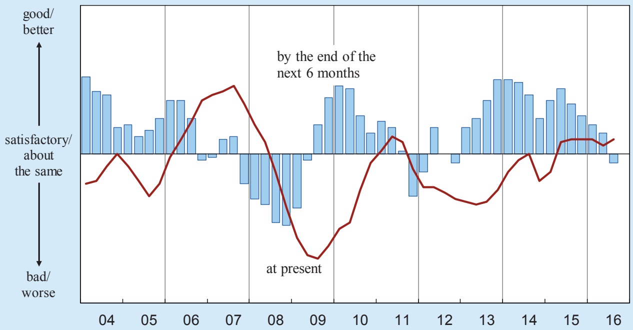
In *Brazil*, some improvements were observed compared to previous surveys. The present economic situation, however, remains fairly weak. Economic expectations, by contrast, were considerably upwardly revised, and for the first time in over two years, positive voices gained the upper hand. This may be a signal, that *Brazil* has bottomed out and a turnaround is close. The investment climate for foreign investors should also improve in the months ahead, as political instability and legal and administrative restrictions to invest start to wane (see Table 2). The economic climate for *Mexico* deteriorated, due to more negative assessments of both, the present economic situation and economic expectations. The current weak economic situation is expected to deteriorate further in the months ahead. The current economic situation in *Argentina* was again assessed as weak. But the experts surveyed expressed greater optimism about the six-month economic outlook, meaning that an upturn in the months ahead therefore still looks likely. In *Chile* and *El Salvador*, the present economic situation improved at a weak level. 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 *Uruguay*, the present economic situation deteriorated further and assessments sank to their lowest levels in over ten years. Despite some brightening in the economic outlook, WES experts don't expect major changes for the better in the next six months. There was no positive news from

[2] http://www.economist.com/news/finance-and-economics/21701533-impact-17-billion-pick-me-up-likely-be-short-lived-faltering

Figure 5a

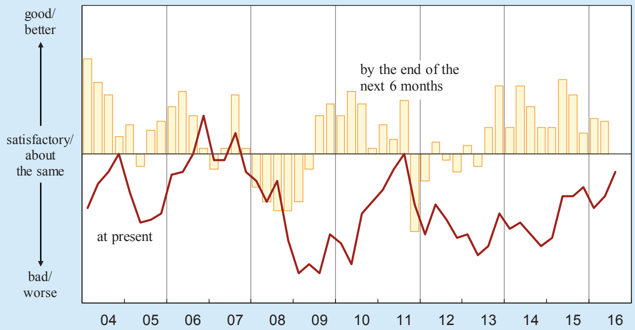
European Union

EUROPEAN UNION (15)
Economic Situation



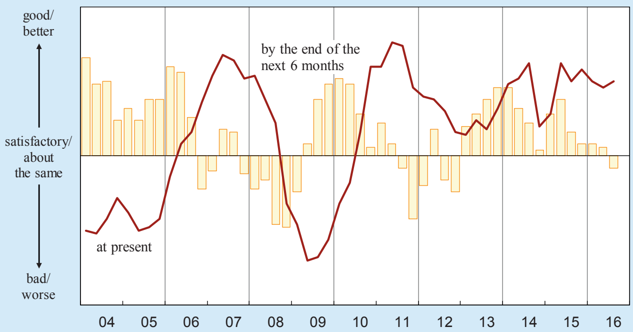
Source: Ifo World Economic Survey (WES) III/2016.

FRANCE
Economic Situation



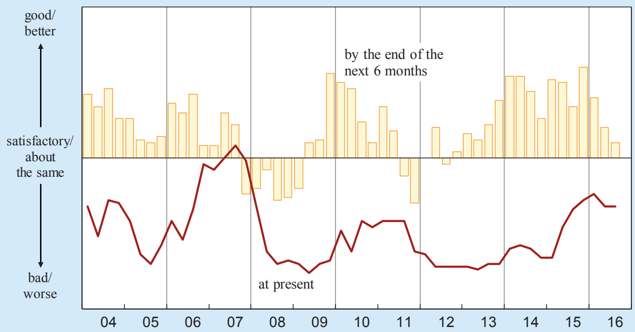
Source: Ifo World Economic Survey (WES) III/2016.

GERMANY
Economic Situation



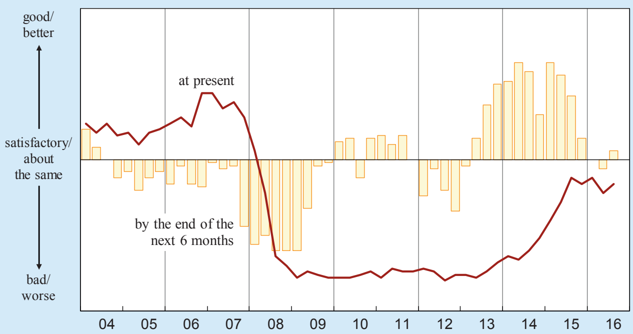
Source: Ifo World Economic Survey (WES) III/2016.

ITALY
Economic Situation



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

SPAIN
Economic Situation



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

UNITED KINGDOM
Economic Situation

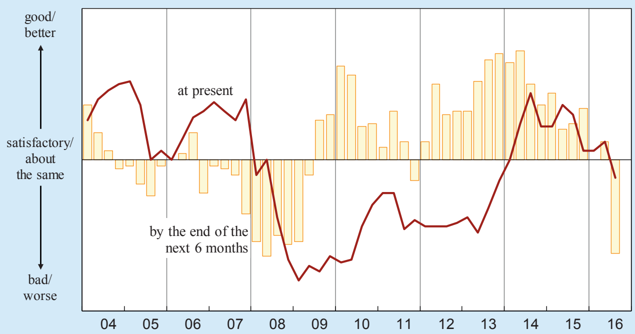


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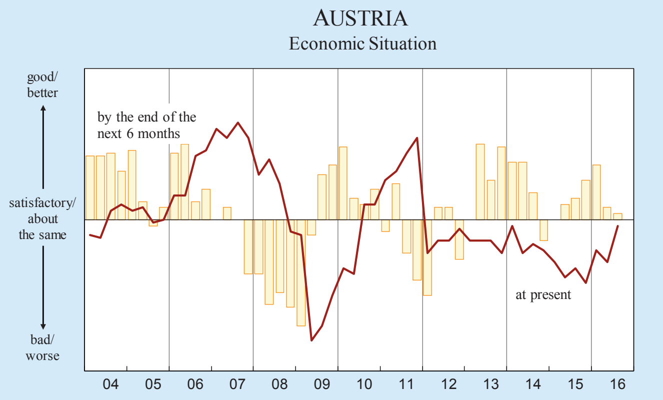
Figure 5b

European Union



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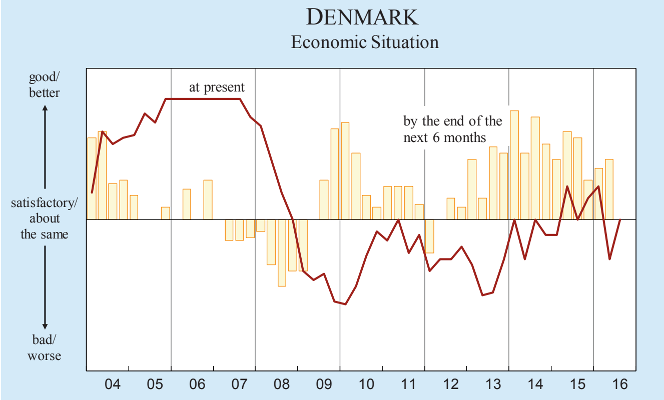

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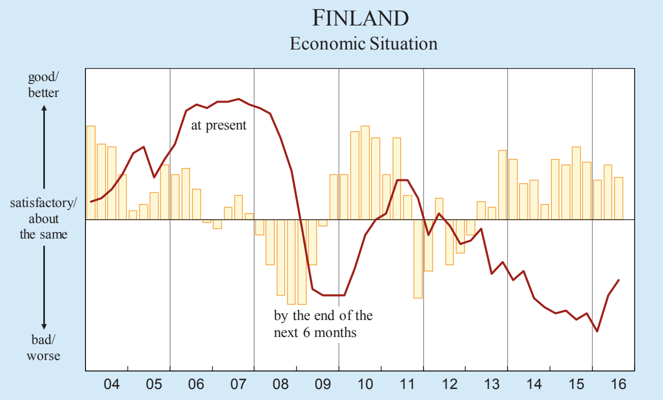

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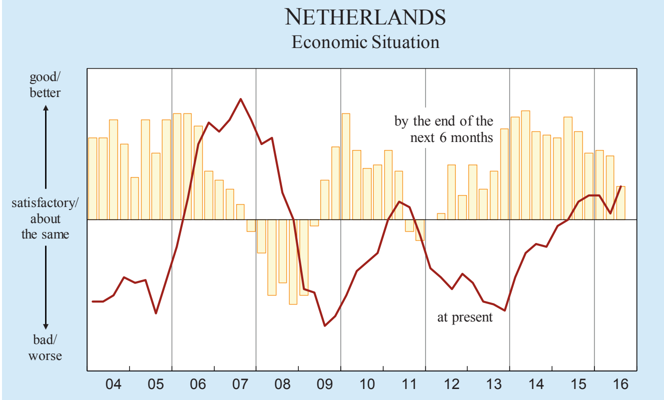

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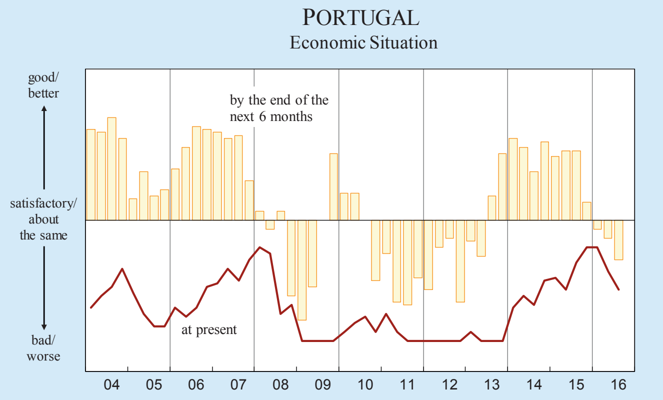

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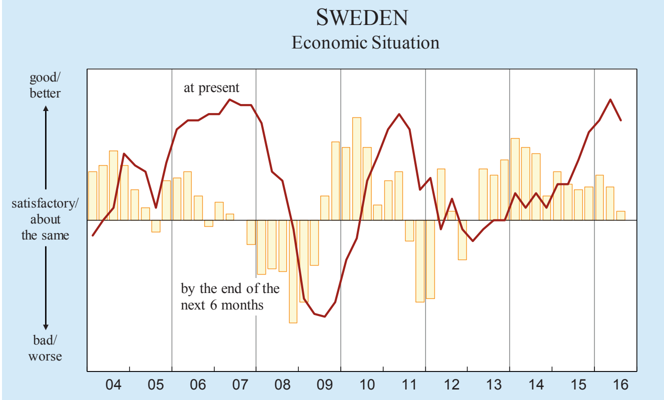
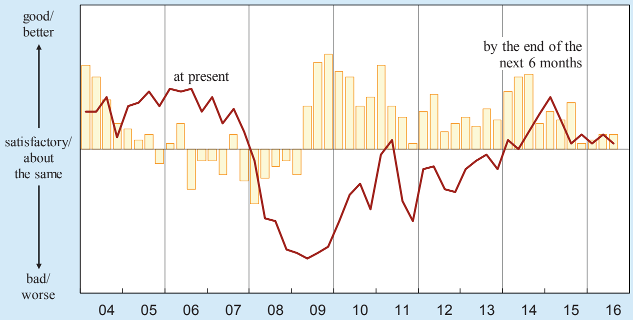


Source: Ifo World Economic Survey (WES) III/2016.

Figure 6

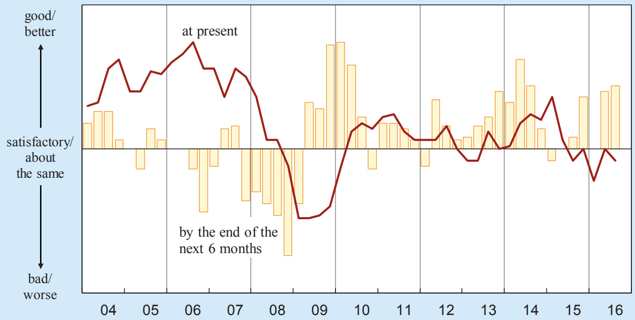
North America, Oceania and CIS

USA
Economic Situation



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

CANADA
Economic Situation



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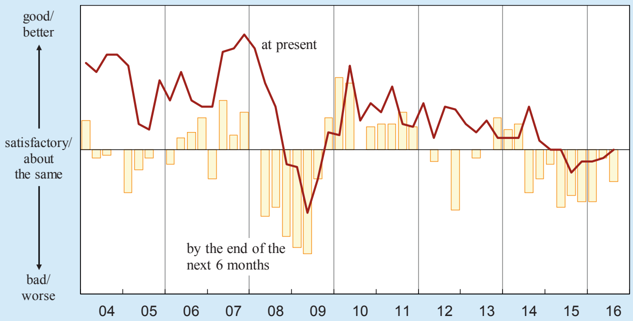
AUSTRALIA
Economic Situation



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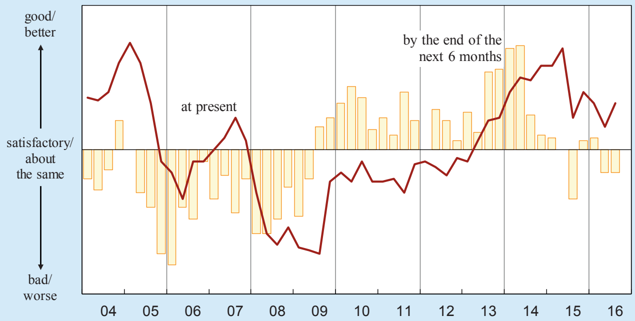
NEW ZEALAND
Economic Situation



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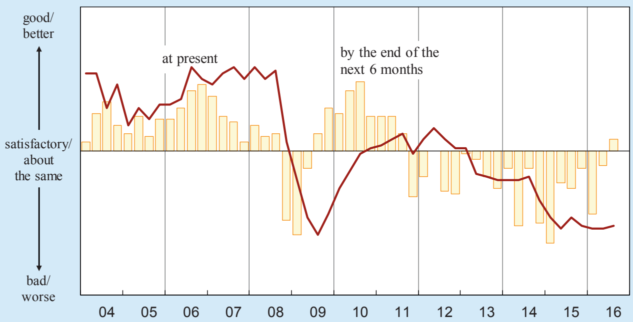
RUSSIA
Economic Situation



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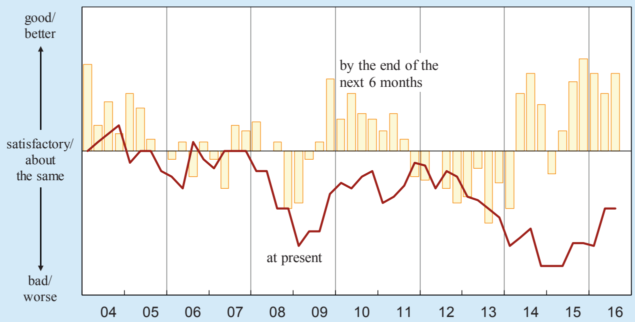
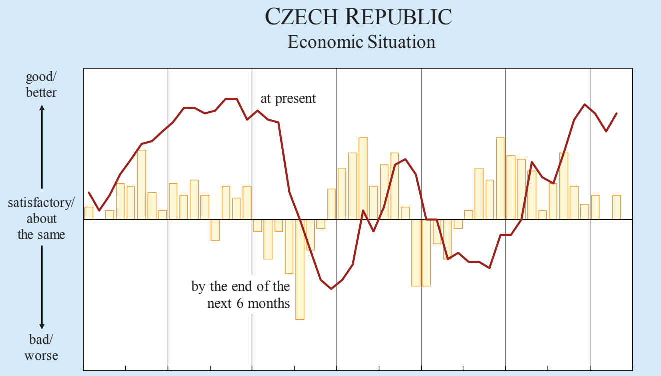
UKRAINE
Economic Situation



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

Figure 7

Eastern Europe



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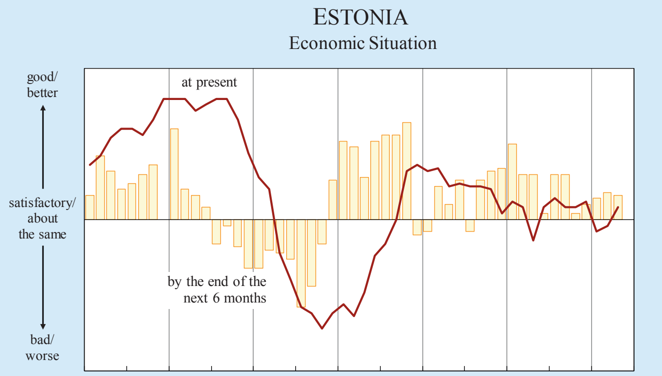

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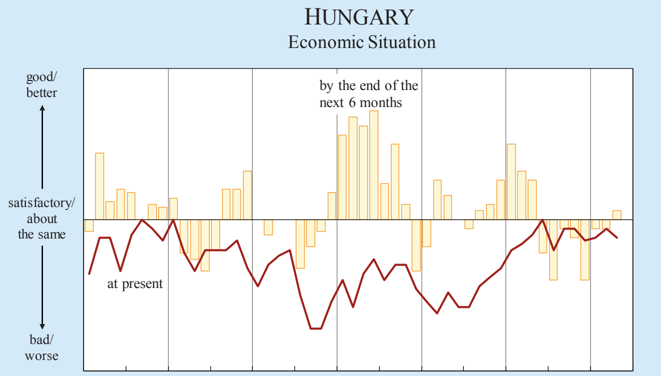

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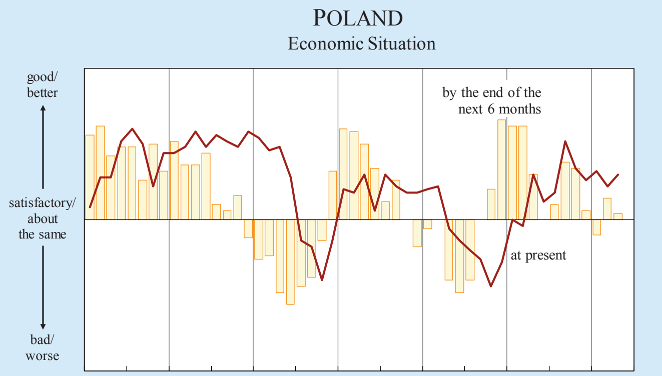

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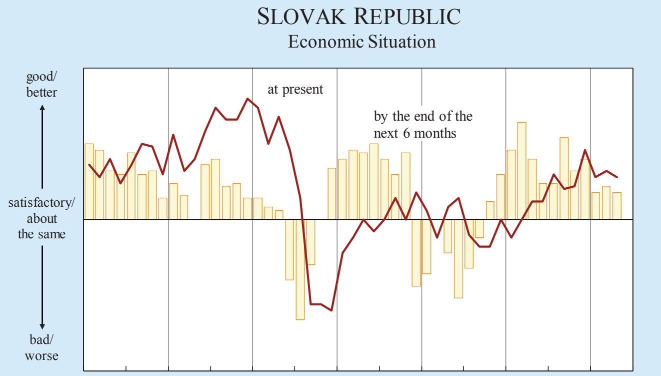

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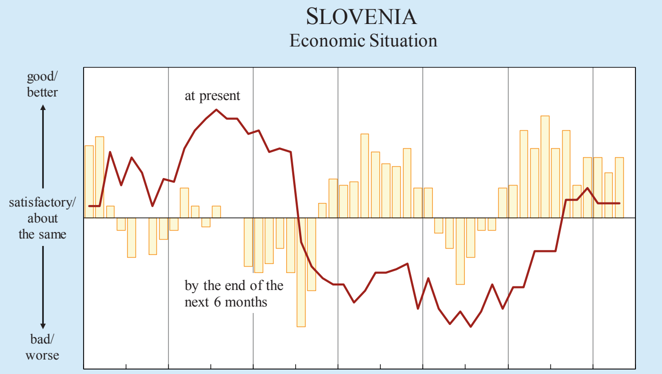
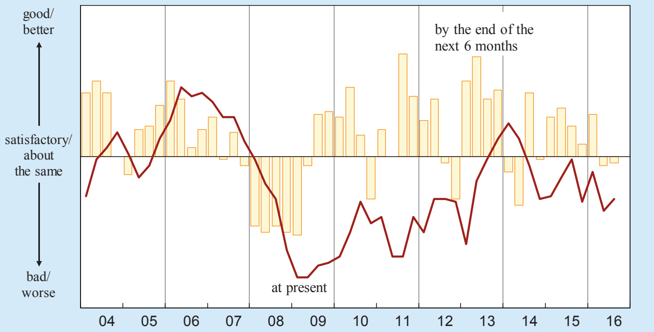


Source: Ifo World Economic Survey (WES) III/2016.

Figure 8

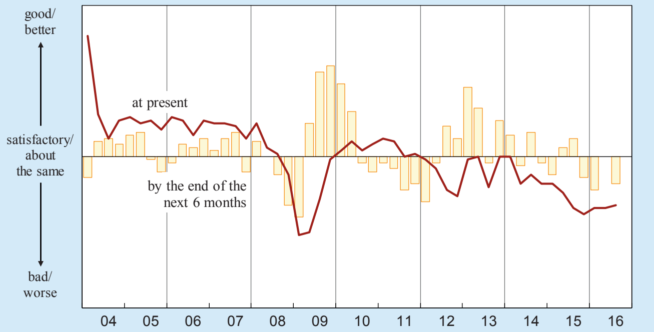
Asia

JAPAN
Economic Situation



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

CHINA P.R.
Economic Situation



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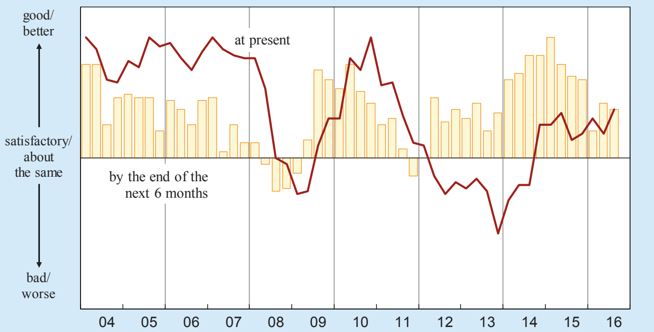
INDIA
Economic Situation



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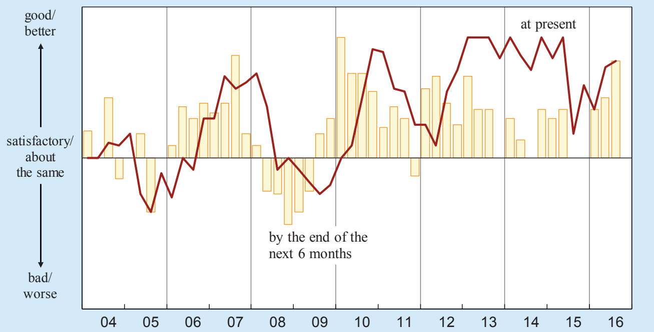
PHILIPPINES
Economic Situation



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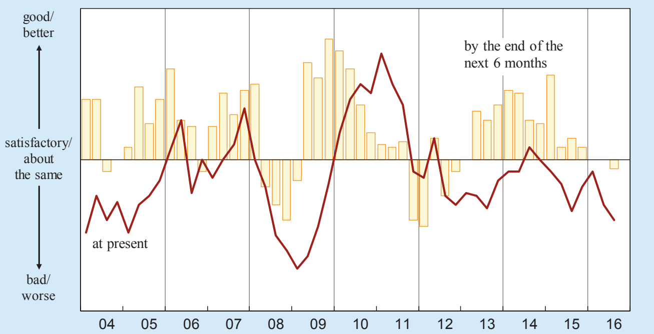
SOUTH KOREA
Economic Situation



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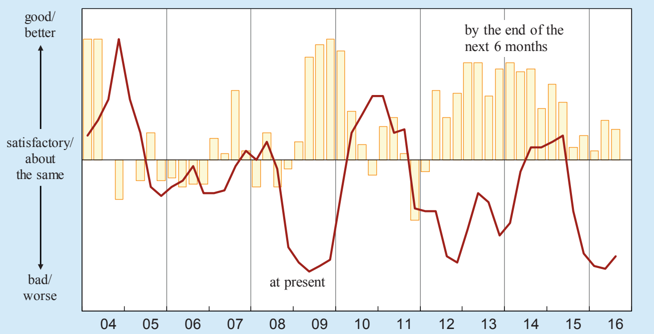
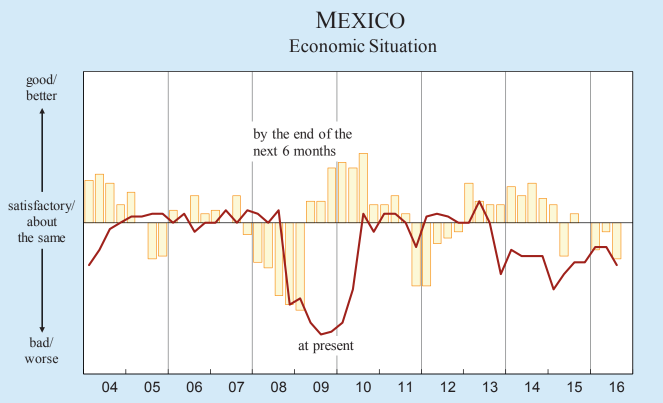
TAIWAN R.O.C.
Economic Situation



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

Figure 9

Latin America



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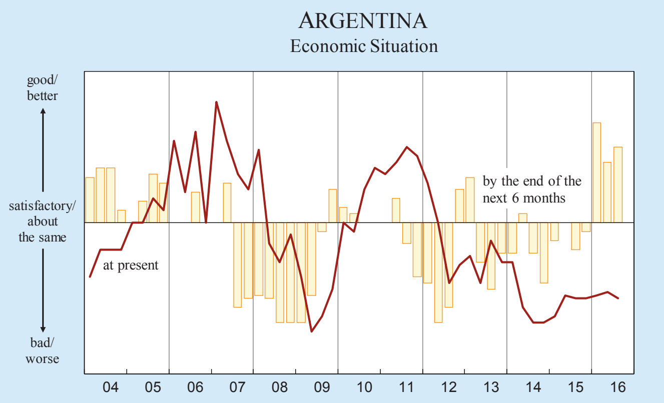

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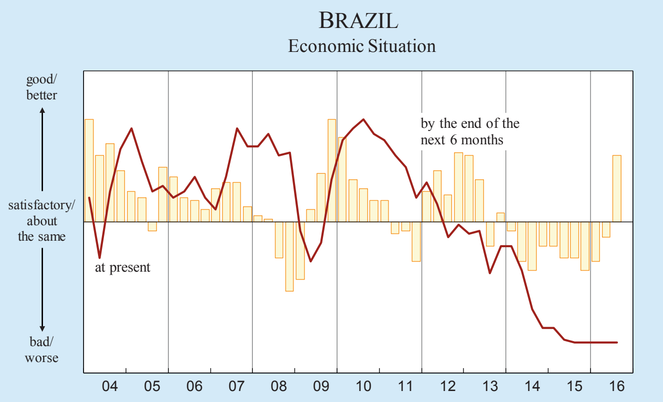

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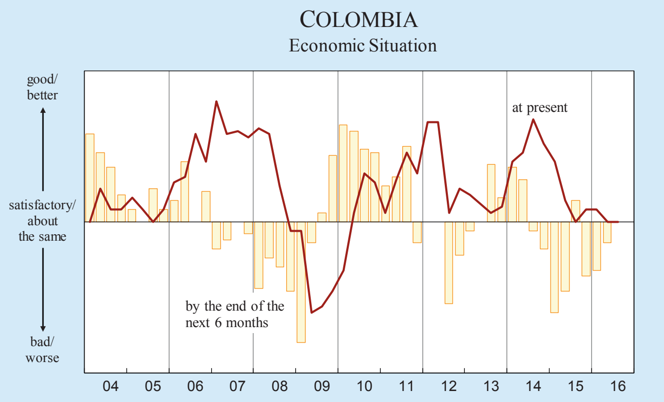

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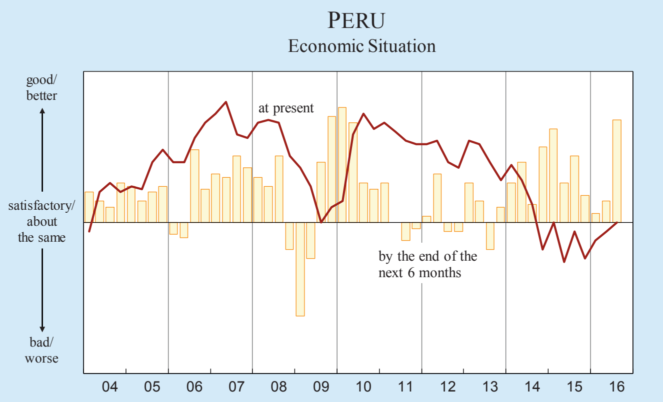

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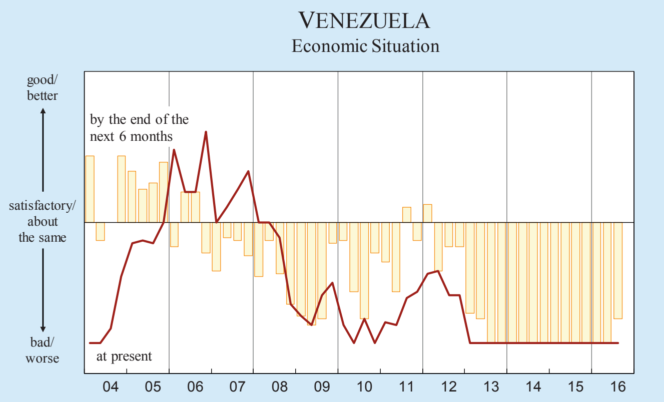
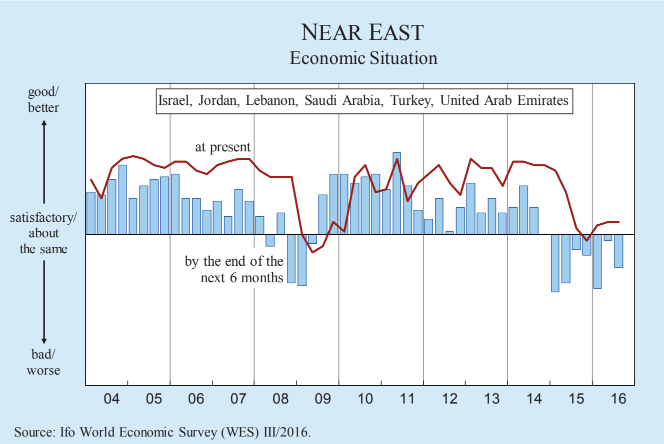
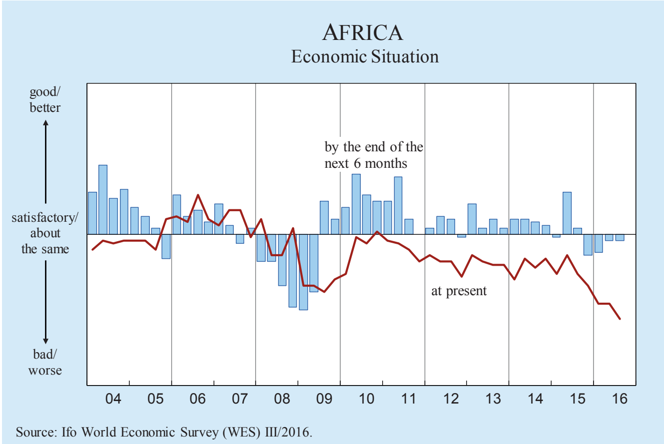


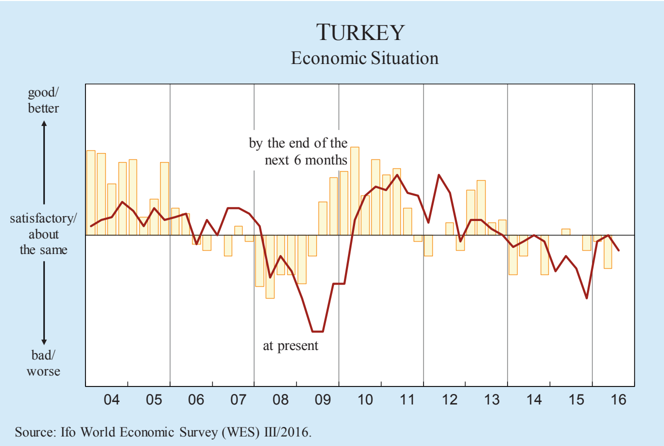
Source: Ifo World Economic Survey (WES) III/2016.

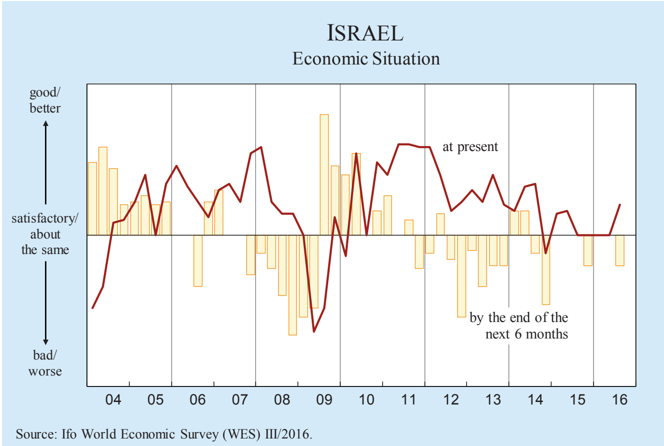
Figure 10

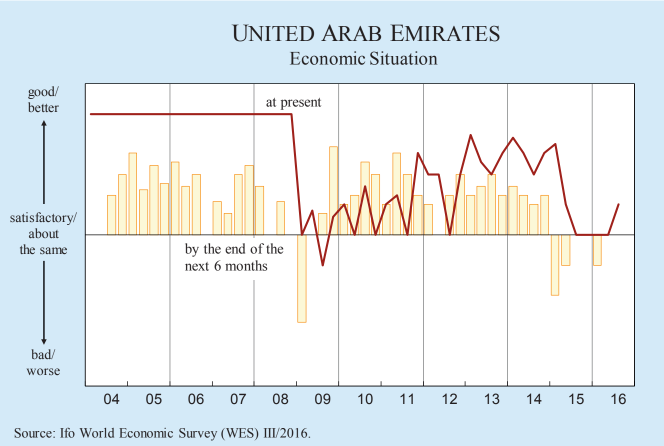
Near East and Africa

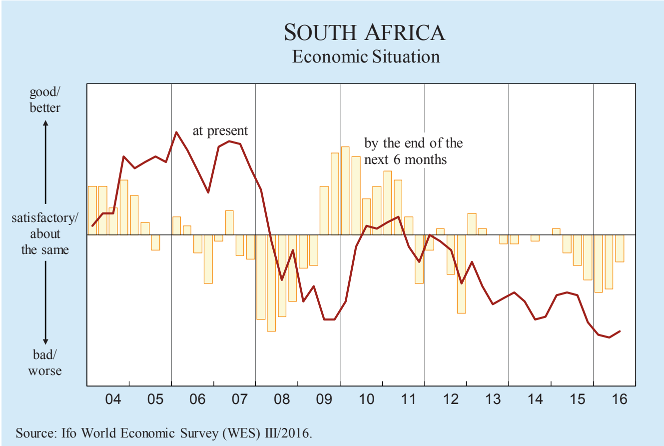












Venezuela either, and WES experts once again unanimously gave the present economic situation the lowest rating on the WES scale. The country is facing a steep recession. Currency depreciation is likely to continue in the months ahead, accompanied by a rising and stubborn inflation rate. As in the previous survey, experts even expressed fears of hyperinflation (see Table 3). As for the next six months, WES experts still expect the situation and the climate for foreign investors to deteriorate further, as political instability and legal or administrative restrictions to invest are likely to increase (see Table 2). In *Cuba, Ecuador* and *Trinidad and Tobago* the current situation was once again assessed as weak. In *Cuba*, the economic situation is expected to remain weak over the next six months, and in *Ecuador* and *Trinidad and Tobago* it will deteriorate even further. In *Peru* and *Paraguay*, appraisals of the present economic situation improved and are now seen as satisfactory. The economic outlook was considerably upwardly revised in both countries and some further improvements in the months ahead are likely, including a more positive investment climate (see Table 2). In *Guatemala* the previous favourable economic situation clouded over and was deemed unfavourable this quarter. The six-month economic outlook also turned sceptical. The economies of *Bolivia, Colombia, Costa Rica* and the *Dominican Republic* 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 *Bolivia* fears 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: Feeling the effects of a weak oil price

After having improved in the second quarter, the economic climate indicator for the *Near East* dropped again from 72.7 to 66.3 index points, which is far below its long-term average of 87.6 points. While assessments of the present economic situation remained unchanged satisfactory, the economic outlook was downwardly revised. This signals that WES experts are cautious about the months ahead. There is also no major change expected in demand or capital expenditure.

In *Israel, Lebanon, Jordan* and the *United Arab Emirates* a satisfactory to favourable economic climate continued to prevail, and the economic outlook of the experts surveyed indicates a stabilisation at this level. Only experts in *Israel* expressed greater caution about future economic developments, but, like *Lebanon, Israel* reports a present good level of private consumption, which is likely to persist in the months ahead. WES experts assessed the present economic situation in *Saudi Arabia* as satisfactory, but expressed pessimism regarding the economic outlook. This could be related to the prolonging of a weak oil price. WES experts also do not expect any change in trade volume. In *Turkey,* experts' assessment of the present situation was slightly downwardly revised, and the economic outlook even improved somewhat. This led to an increase in its economic climate. It remains to be seen, if this trend persists in the next survey, when more information on the current political turmoil and its full effects on the economy will be included in the responses by WES experts. Against this background, WES experts indicated that current political instability might affect foreign investment. However, as already mentioned, the actual WES survey was launched at the beginning of July, and most experts responded before the failed coup (16 July), so its possible effects could not, or at least not fully, be taken into account for economic assessments in *Turkey.* The highest inflation expectations in the *Near East* were nevertheless reported for *Turkey* this quarter (see Table 3).

Africa: Economic climate continues to deteriorate

After a small upturn in the last quarter, the economic climate indicator in *Africa* continued to fall from 74.1 points in April to 69.1 in the present survey. This is far below its long time average of 95.5. The downturn is mainly due to the deterioration of the present economic situation, which is reported to be weak. WES experts do not expect major changes over the next six months. This is reflected in both parts of the continent – *Northern* and *Sub-Saharan Africa*.

In *Northern Africa*, in particular, the economic climate deteriorated compared to the previous survey. It is worth pointing out that all country experts in this part of *Africa* – *Algeria, Egypt, Morocco* and *Tunisia* – consider the present economic situation to be weaker than three months ago. In *Egypt* in particular, the current situation is assessed as poor, and WES experts are also pessimistic about the six-month economic outlook. Moreover, experts reported rather high legal and administrative restrictions on foreign firms and inflation in this year will be relatively high (see Tables 1 and 3). WES experts downwardly revised their economic outlook for *Morocco* significantly and are now cautious about eco-

Table 2

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

Climate due to	Change for the next six months * Deterioration	Improvement
Legal/administrative restrictions to invest and/or to repatriate profits	Ecuador, United Kingdom, Venezuela	Argentina, Brazil, Chile, India, Nigeria, Paraguay, Peru, Philippines, Romania
Political stability	Bulgaria, China, Ecuador, Hungary, Italy, Kenya, Poland, South Africa, Venezuela, Zimbabwe	Brazil, Cabo Verde, Croatia, Paraguay, Peru, Spain, Togo, United Kingdom, Zambia

* For the countries that are not mentioned in the table, no major changes relating to the climate for foreign investors are expected during the next six months. Only countries with more than four responses were included in the analysis.
Criteria for selection of countries:
Deterioration: WES grade between **1.0** and **3.5**
Improvement: WES grade between **6.0** and **9.0**

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

nomic developments over the next six months. No major improvements to current weakness are expected for *Algeria* and *Tunisia* either.

The economic conditions for the two biggest economies in *Sub-Saharan Africa – South Africa* and *Nigeria* – remain poor. *South Africa* showed a slight improvement versus the last survey, but economic expectations remain cautious. WES experts expect the climate for foreign investors to deteriorate due to political instability (see Table 2). *Nigeria's* situation remains unchanged, with economic expectations pointing towards a stabilization at current weak levels. In addition, WES experts report rather high legal and administrative restrictions on foreign firms and heavy constraints on the supply of bank credit to firms (see Tables 1 and 4). For *Ivory Coast* and *Senegal* the WES experts report a very good present economic situation and experts in these two countries are also optimistic about the short-term future. *Gambia,* which previously belonged to the former group of countries, dropped to join the category of countries with a satisfactory economic situation this quarter, including *Benin, Burkina Faso, Cabo Verde, Kenya, Mauritius, Namibia* and *Tanzania*. For *Burkina Faso, Gambia, Kenya, Namibia,* and *Tanzania* expectations are positive and point to economic stabilisation at this satisfactory level at the very least. For *Benin* and *Cabo Verde* WES experts even expressed optimism about the outlook. The situation in *Congo Democratic Republic, Sierra Leone* and *Togo* was rated as unfavourable. *Sierra Leone* is the only country in which WES experts see some improvements in economic conditions in the months ahead. For *Togo* no major improvements are expected and the situation may even deteriorate in *Congo* in the months ahead. In *Angola, Burundi, Comoros, Congo-Brazzaville Rep., Gabon, Lesotho, Madagascar, Mauritania, Niger, Sudan, Swaziland, Uganda, Zambia,* and *Zimbabwe* the present economic situation was assessed as weak. WES experts only forecast an improvement for *Mauritania, Niger, Swaziland* and *Uganda*. In the other countries like, for example, *Angola, Burundi, Congo-Brazzaville, Zambia* and *Zimbabwe* the situation is likely to remain subdued, or even to deteriorate further.

Inflation to remain low in most countries

On a worldwide average, the WES experts' inflation forecast for 2016 picked up from 3.7% according to the survey in April to 4.2% this quarter. However, this increase was mainly caused by significantly higher inflation expectations in *Latin America*, particularly in *Venezuela* (see Table 3).

Unlike the world average, the inflation forecast for 2016 in the ***euro area*** was revised down further from 1.0% at the beginning of the year, and 0.8% in the April survey to 0.7% this quarter. The medium-term inflation expectations (year 2021) remained unchanged at 1.8%, signalling again that WES experts expect a "normalisation" of inflation in the medium-term. Within the *euro area* the lowest inflation rates in 2016 are again expected in two "crisis countries" *Cyprus* (-1.3%) and *Greece* (-0.3%). Inflation expectations above the overall average of 0.7% prevail again in *Belgium* (1.8%) and in *Austria* (1.2%).

In ***Western Europe*** outside the *euro area* the span of inflation expectations for 2016 ranges from -0.5% in *Switzerland* to 2.5% in *Norway*. In the *United Kingdom* – after the Brexit-vote – the inflation outlook for 2016 went up to 1.1%, versus 0.8% in the preceding survey. The medium term inflation outlook was also somewhat higher than last quarter (2.3% versus 2.1%).

In ***Eastern Europe*** the expected inflation rate for 2016 was also slightly lower than in the previous two surveys (0.6% against 0.8% in April and 1.2% in January). The lowest inflation rate in the region will prevail this year, according to WES experts, in *Croatia* (0.1%), as well as in *Slovakia* and *Macedonia* (0.2% each). The inflation

Table 3

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

Region	2016	2021	Region	2016	2021
Average of countries *	**4.2**	**2.8**	**Latin America**	**37.8**	**5.0**
High-income countries	1.4	2.2	Argentina	38.6	10.1
Middle-income countries	10.1	4.9	Bolivia	4.8	6.5
Upper-middle	11.1	4.4	Brazil	7.8	4.9
Lower-middle	6.5	5.9	Chile	3.8	3.1
Low-income countries	5.1	6.4	Colombia	6.8	3.9
EU 28 countries	0.7	1.9	Costa Rica	(1.0)	(5.0)
EU countries (old members) [a)]	0.7	1.8	Cuba	(4.0)	(5.0)
EU countries (new members) [b)]	0.6	2.4	Dominican Republic	(3.0)	(4.0)
Euro area [c)]	0.7	1.8	Ecuador	2.9	4.2
			El Salvador	1.6	2.2
Western Europe	**0.7**	**1.8**	Guatemala	4.3	4.7
Austria	1.2	2.1	Mexico	3.9	3.4
Belgium	1.8	1.7	Paraguay	4.4	4.2
Cyprus	– 1.3	1.5	Peru	3.3	2.8
Denmark	0.5	1.4	Trinidad and Tobago	(9.0)	–
Finland	0.5	1.6	Uruguay	10.0	8.3
France	0.4	1.4	Venezuela	728.0	26.7
Germany	0.6	1.7			
Greece	– 0.3	1.8	**North America**	**1.7**	**2.4**
Ireland	0.5	1.7	Canada	1.7	2.2
Italy	0.4	1.9	United States	1.7	2.5
Luxembourg	0.3	1.8			
Monaco	1.3	3.0	**Oceania**	**1.7**	**2.5**
Netherlands	0.6	1.8	Australia	1.7	2.5
Norway	2.5	2.3	New Zealand	1.2	2.1
Portugal	0.7	1.7			
Spain	0.4	2.1	**Near East**	**4.5**	**3.9**
Sweden	1.1	2.1	Israel	1.4	2.6
Switzerland	– 0.5	1.1	Jordan	(2.9)	(3.0)
United Kingdom	1.1	2.3	Lebanon	(3.0)	(4.0)
			Saudi Arabia	(4.5)	(3.0)
Eastern Europe	**0.6**	**2.4**	Turkey	8.1	5.9
Albania	1.7	2.6	United Arab Emirates	3.2	3.8
Bosnia and Herzegovina	1.0	6.0			
Bulgaria	0.5	1.8	**Africa**	**8.4**	**7.3**
Croatia	0.1	1.8	**Northern Africa**	**6.9**	**5.5**
Czech Republic	0.9	2.2	Algeria	5.8	5.5
Estonia	0.6	2.5	Egypt	12.9	8.3
Hungary	1.2	2.7	Morocco	2.0	2.5
Kosovo	0.4	1.5	Tunisia	4.4	4.4
Latvia	1.2	3.6	**Sub-Saharan Africa**	**9.3**	**8.3**
Lithuania	1.1	2.2	Angola	(35.0)	(15.0)
Macedonia	0.2	2.0	Benin	1.9	2.3
Poland	0.0	2.2	Burkina Faso	(3.0)	(2.0)
Romania	1.0	2.6	Burundi	(50.0)	(6.5)
Serbia	(2.0)	(2.0)	Cabo Verde	1.6	2.6
Slovakia	0.2	2.6	Comoros	(2.0)	(5.0)
Slovenia	0.6	2.1	Congo Dem. Rep.	6.8	14.7
			Congo-Brazzaville Rep.	2.6	3.8
CIS	**9.4**	**5.8**	Gabon	(3.8)	(2.6)
Georgia [d)]	(5.0)	(3.0)	Gambia	(6.3)	(5.0)
Kazakhstan	12.1	6.1	Ivory Coast	2.2	2.8
Kyrgyzstan	4.0	4.5	Kenya	6.6	7.2
Russia	8.2	5.1	Lesotho	7.1	5.6
Ukraine	13.3	7.0	Madagascar	7.1	7.8
Uzbekistan	10.0	(20.0)	Mauritania	7.0	8.3
			Mauritius	2.4	3.3
Asia	**2.4**	**3.0**	Namibia	6.6	8.3
Bangladesh	6.2	6.4	Niger	(2.0)	(3.0)
China	2.2	3.3	Nigeria	14.8	12.9
Hong Kong	2.7	3.0	Senegal	(2.0)	(1.9)
India	5.7	4.9	Sierra Leone	9.8	6.3
Indonesia	(4.5)	(4.0)	South Africa	6.6	5.7
Japan	0.2	1.2	Sudan	24.0	18.3
Malaysia	4.0	3.8	Swaziland	5.6	6.0
Pakistan	6.0	8.9	Tanzania	(9.5)	7.5
Philippines	1.9	3.7	Togo	1.9	2.4
South Korea	1.3	2.2	Uganda	5.5	5.0
Sri Lanka	6.7	5.7	Zambia	19.0	8.4
Taiwan	1.1	1.5	Zimbabwe	1.0	3.1
Thailand	1.2	2.9			
Vietnam	5.4	5.5			

* Within each country group or region the country results are weighted according to the share of the specific country's exports and imports in the total world trade. – ( ) The data in brackets result from few responses. – [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. – [d)] Georgia, which is not member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

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

rate in 2016 will lie above the regional average in *Serbia* (2.0%) and *Albania* (1.7%). As in *Western Europe,* the inflation rate, which is still currently very low, is seen as a transitory phenomenon; in the course of the next five years inflation in this region is expected to move to a historically more "normal" level (2021: 2.4%).

In ***North America***, the 2016 inflation forecast is exactly the same as at the beginning of the year at 1.7%, and slightly lower than according to the preceding survey in April (1.8%). The mid-term inflation outlook (2021) stands at 2.4%.

In ***Asia*** inflation expectations for 2016 were somewhat higher than in the previous survey (2.4% versus 2.1%). However, this is not a widespread phenomenon, but due to the fact that this time *Vietnam,* with a relatively high inflation estimate of 5.4%, was covered in the survey. This was the main reason why the medium-term inflation outlook for the region also increased somewhat (from 2.6% to 3.0%). By country the 2016 inflation outlook was downwardly revised in *China* from 2.9% to 2.2%, in *South Korea* from 1.7% to 1.3%, in the *Philippines* from 2.7% to 1.9% and in *Japan* from 0.3% to 0.2%. On the other hand, upward revisions of the expected inflation rate in 2016 were reported from *Pakistan* (from 5.5% to 6.0%), *India* (from 5.4% to 5.7%) and *Thailand* (from 1.0% to 1.2%).

In ***Oceania*** inflation expectations for 2016 were slightly lower than in the preceding survey (1.7% compared with 1.9%). This decline was exclusively due to *Australia*, where in 2016 consumer prices are expected to rise by only 1.7% after a forecast 2.1% in the April survey. In *New Zealand,* by contrast, inflation expectations for 2016 increased somewhat, but are still fairly low at 1.2%.

In ***Latin America*** inflation expectations for 2016 soared from 26.4% to 37.8% this year. This was almost entirely due to developments in the hyper-inflation country *Venezuela,* where current inflation expectations stand at 728% compared to 361% in the previous survey. To a lesser degree, inflation expectations for the current year also increased in *Argentina* (from 32.9% to 38.6%). In *Brazil*, the largest economy in the region, inflation expectations for 2016 remained largely unchanged (7.8% after 8.1%). In the medium-term, an inflation rate of 5.0% is expected in the average of the region, which is somewhat lower than in the preceding survey (6.1%). In ***CIS*** countries inflation expectations for 2016 moderated somewhat (9.4% versus 11.0% in the April survey).

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

Not constrained	
Czech Republic	8.2
Canada	7.7
Peru	7.7
Taiwan	7.6
Uruguay	7.5
Finland	7.4
Japan	7.4
Slovakia	7.4
South Africa	7.4
Switzerland	7.4
Belgium	7.3
Norway	7.3
New Zealand	7.2
Sweden	7.2
Moderately constrained	
Germany	6.9
South Korea	6.8
United States	6.8
United Kingdom	6.7
Colombia	6.6
Australia	6.5
France	6.4
Croatia	6.3
Latvia	6.3
Paraguay	6.3
Chile	6.1
Netherlands	6.1
Poland	6.1
Turkey	6.1
Romania	5.9
Denmark	5.8
Bolivia	5.7
Kenya	5.7
Lesotho	5.7
Lithuania	5.7
Pakistan	5.4
Mexico	5.3
Austria	5.0
Egypt	5.0
Brazil	4.8
Spain	4.8
Bulgaria	4.7
Cabo Verde	4.6
Hungary	4.4
Argentina	4.3
Slovenia	4.0
Strongly constrained	
Russian Federation	3.9
China	3.7
India	3.7
Bangladesh	3.4
Italy	3.2
Portugal	2.9
Zimbabwe	2.8
Kazakhstan	2.6
Nigeria	2.6
Togo	2.5
Zambia	2.3
Venezuela	1.8
Greece	1.5
Only countries with more than four responses were included in the analysis. **WES scale: 9** – not-, **5** – moderately-, **1** – strongly constrained	

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

This was mainly due to an expected further easing of the inflation rate in *Russia* (8.2% after expected 9.8% in April and 11.4% at the beginning of the year).

In the ***Near East*** the inflation outlook for 2016 remained unchanged at 4.5%. For 2016, the highest rate of inflation in the region is still expected in *Turkey* (8.1%) and the lowest in *Israel* (1.4 %).

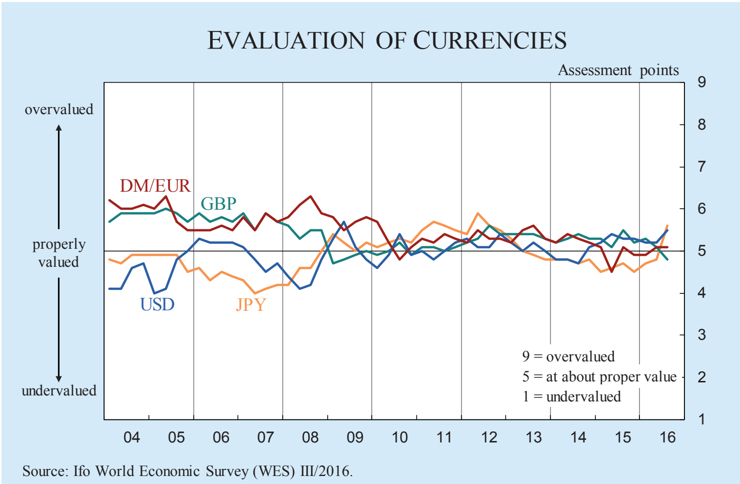
In ***Africa*** inflation expectations for 2016 picked up further, from 7.6% at the beginning of the year and 8.0% in the April survey to 8.4% this quarter. The medium-term inflation outlook also went up (from 6.7% to 7.3%). However, like in preceding surveys, the picture from country to country remains very heterogeneous. The expected 2016 inflation rate in *South Africa* of 6.6% is again somewhat lower than the average rate for the *African* continent. The lowest inflation rates in 2016 will prevail in *Zimbabwe* (1.0%), *Cabo Verde* (1.6%), *Benin* and *Togo* (1.9% respectively), *Morocco* (2.0%) and *Mauritius* (2.4%). The highest inflation expectations in the region are reported from WES experts in *Burundi* (50%), *Angola* (35%) and *Sudan* (24%).

US Dollar expected to rise further

The *Japanese yen* and the *US dollar* were assessed by WES experts as slightly overvalued on worldwide average, unlike the *British pound,* which was deemed undervalued for the first time in over six years. The course of the *euro* remains largely in line with fundamental considerations, according to WES experts (Figure 11).

However, there are again huge differences by country in the respective currency evaluation: In the *Ukraine*, in *Bosnia and Herzegovina, Sri Lanka, Algeria, Togo* as well as in *Uruguay,* WES experts assessed their own currency as generally overvalued. This judgement was also delivered for the *Swiss franc,* with the exception of its exchange rate with the *Japanese yen*. WES experts in *Malaysia, Hong Kong, Nigeria, Madagascar, Sierra Leone, Benin,* the *Sudan* and *Guatemala,* by contrast, assessed their own currency as generally undervalued vis-à-vis the world's four leading world currencies: the *US dollar, euro, British pound* and *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 again that the value of the *US dollar* is expected to rise over the course of the next six months on worldwide average. Some of the few exceptions to this trend are *Namibia, Colombia* and *Mexico,* where a weakening of the *US dollar* is expected in the months ahead.

Figure 11



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

Interest rates expected to remain low

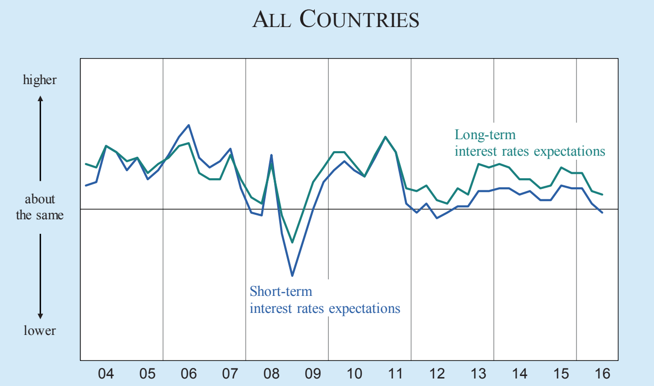
On a worldwide scale, short-term interest rates are expected to decline slightly further and long-term rates to increase only very moderately over the next six months. In contrast to these overall tendencies, interest rates in the *USA* are still expected to rise in the months ahead, although to a lesser degree than originally forecasted by WES experts. An increase in interest rates is also expected over the next six months in the *Czech Republic,* in *Poland*, in *Mexico, Paraguay, Peru* and *Venezuela,* as well as in some *African* countries like *South Africa, Sierra Leone, Nigeria, Namibia, Lesotho, Swaziland* and *Kenya*. On the other hand, short-term interest rates in the months ahead are expected to fall, particularly in many *Asian* countries like *India, Japan, Taiwan, Thailand* and *South Korea*. Expectations of declining interest rates in the short term also prevail in countries like *Australia* and *New Zealand, Lithuania*, the *Ukraine, Russia, Turkey, Argentina* and *Brazil.*

Supply of bank credit to firms not improved

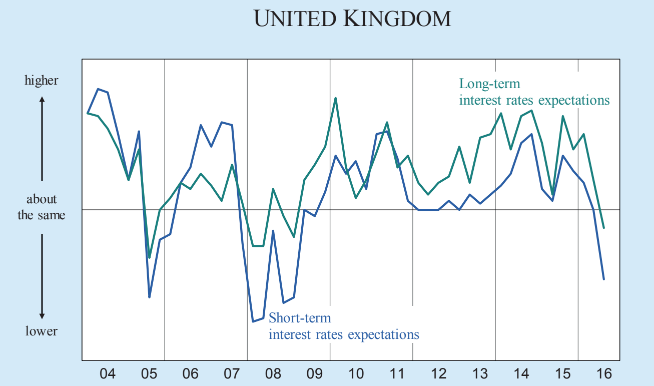
Given the problems faced by firms in some countries concerning access to bank credit, a specific question was added to the regular questionnaire in 2013 on a bi-annual term (January and July) to the regular

Figure 12

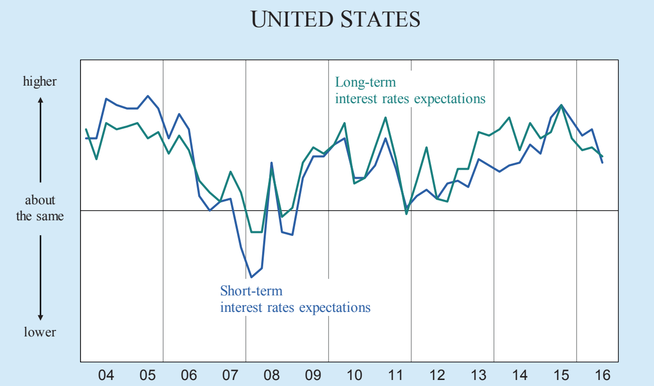
EXPECTED TREND FOR THE NEXT 6 MONTHS FOR SHORT- AND LONG-TERM INTEREST RATES



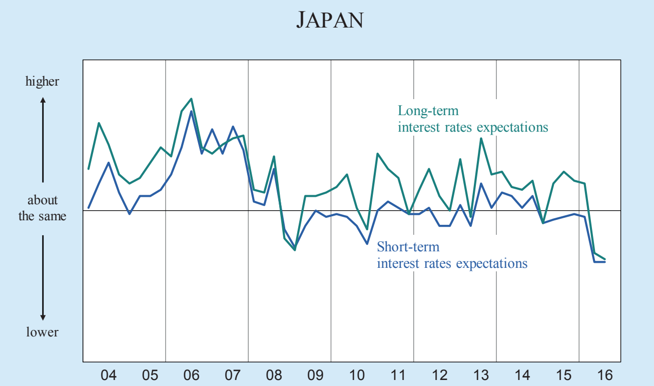
Source: Ifo World Economic Survey (WES) III/2016.



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

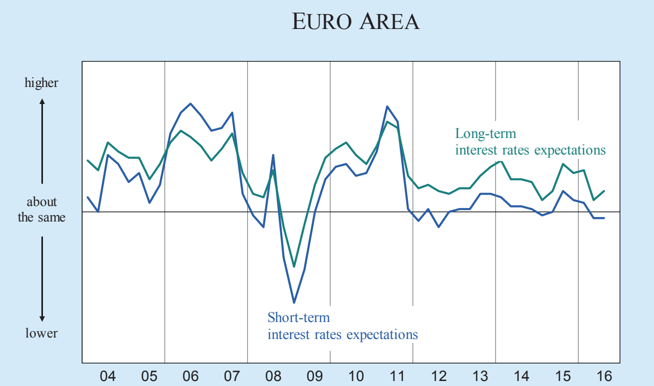


Source: Ifo World Economic Survey (WES) III/2016.



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

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



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

questionnaire. WES experts are asked to assess to what extent the supply of bank credits to firms in the country they are reporting for, is constrained by bank-specific factors (e.g. banks' health or banking regulation). The scale ranges from "not constrained" (9), to "moderately constrained" (5) and "strongly constrained" (1) (see Table 4).

The group of countries with a high degree of credit constraints includes – according to WES experts – three euro countries (*Greece, Portugal* and *Italy*). The latter two countries have returned to this group after managing to leave it about one year ago. *Russia, China* and *India* have been members of the group of countries where the supply of bank credit to firms is assessed as "strongly constrained" from the very outset. Other members of this problem group are *Bangladesh, Zimbabwe, Kazakhstan, Nigeria, Togo, Zambia* and *Venezuela*.

The top category "not credit constrained" has featured countries like *Canada, Japan, Switzerland* and *Peru* from the outset, but now also includes ten other countries, namely *Taiwan, Uruguay, Finland, Czech Republic, Slovakia, South Africa, Belgium, Norway, New Zealand* and *Sweden*.

Germany, together with *South Korea* and the *United States,* heads the largest group of countries where the supply of bank credit to firms is regarded by WES experts as "moderately constrained".

In general terms, credit availability has shown no further signs of improvement recently, but the credit situation for companies is significantly better than it was some years ago. Nevertheless, it remains a negative spot of the world economy that in a significant group of countries, including "heavy weights" like *Russia* and *China*, credit restrictions still pose a major problem for firms.

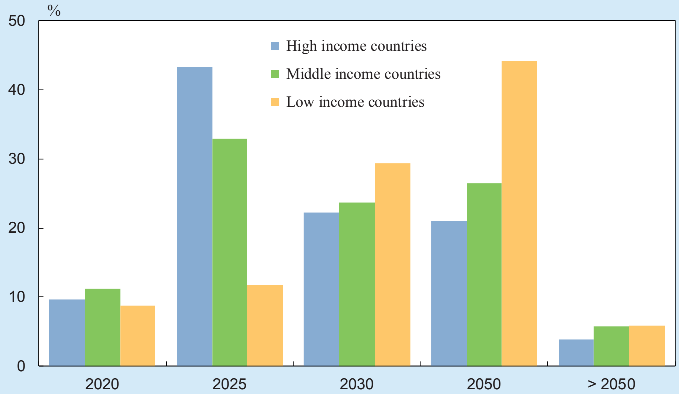
Economic decision-makers' expectations of climate policy

Last December, in Paris, 180 countries agreed to ambitious goals to curtail the extent of climate change. Limiting the increase in global mean temperature to less than two degrees requires major reductions of greenhouse gases for the indefinite future. To be credible, domestic greenhouse gas policies must have persistent political support. This support must then translate into appropriate decisions taken by economic actors. This quarter's special questions probed the WES experts' views on the importance of climate policies to the public and to economic decisionmakers in their countries.

The first question asked WES participants to rank five policy topics according to their importance to public opinion. The specific wording was: "*How important are the following issues for your country, according to public opinion? Please rank*[3] *in order of priority.*" The issues were: *Promoting economic growth*, *Improving public goods (e.g. healthcare, education)*, *Local environmental issues (e.g. air or water quality)*, *Limiting climate change*, and *Inequality of income/wealth*. WES experts think that, according to public opinion, promotion of economic growth is the most important policy issue, with an average ranking of 1.8. The second most important issue is local public goods (rank: 2.3), closely followed by economic inequality (rank: 2.7). Local environmental issues are ranked fourth (rank: 3.6), and limiting climate change is perceived as least important (rank: 4.1). Thus, according to WES experts, domestic audiences do not seem to give climate policy a high priority.
For the second question, participants were asked to put themselves in the position of economic actors, and to assess how various factors would affect investment decisions. The precise wording was: "*Think of someone in your country considering long-lasting capital investment (e.g. factories, infrastructure). How important are*

Figure 13

WHEN DO EXPERTS EXPECT CLIMATE POLICIES TO START REDUCING EMMISSIONS IN THEIR COUNTRIES?



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

[3] The ranks to be assigned go from 1 (= most important) to 5 (= least important).

the following factors to the investment decision?" The factors included: *Interest rates*, *Political stability and institutions*, *Future climate policy*, *Impacts of climate change*, and *Changes in global trade*. WES experts were remarkably united in regarding political stability and institutions as the most important factor in investment decisions, with an average rank of 1.9. Changes in global trade (rank: 2.4) and interest rates (rank: 2.6) effectively shared the second position. Again, climate considerations were ranked last, with future climate policy (rank: 3.6) seen as more important than the impact of climate change itself (rank: 4.1).

Overall, WES experts seem to believe that the expectations of future climate policy to rank relatively low in the priorities of both society in general and economic decision-makers. The priority given to political stability, trade and inequality may have been positively biased by the close proximity of the vote to the Brexit referendum. Nevertheless, this result may raise questions over the credibility of climate policies.

Finally, to get an impression of the expert's expectations about the timing of future climate policy, the third question asked: "*When do you expect your country's climate policies to result in significant emission reductions? (please state a year)*". Despite the experts seeing global environmental issues as having a low priority in the public debate and with respect to investment decisions, nearly 50% of them predicted that climate policies would lead to substantial emission reductions by 2025 or earlier. Over 70% expect effective climate policies to be in place by 2030. Experts from high-income countries expect earlier carbon reductions than those from low-income countries, in line with the pledges made in Paris (see Figure 13). Interestingly, experts affiliated to firms and banks – institutions most familiar with evaluating and making real investments – tended to expect emissions reductions to kick in relatively early.

In conclusion, experts do not perceive society in general or economic actors to rank climate change very high on their list of concerns; they do, however, expect climate policy to have a substantial impact on emissions in roughly 10 years. Whether this will be in time to meet the ambitious Paris goals is questionable. WES experts nevertheless believe that action will be taken to tackle this difficult public good issue.

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