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CESifo World Economic Survey

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World Economic Climate

World economic climate continues to brighten

Economic Expectations

Economic expectations remain optimistic

Inflation

Inflation expectations remain moderate

Currencies

US dollar expected to rise

Interest Rates

Long-term interest rates likely to rise

Special Topic

Effects of tapering in the US
on the world economy

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Notes

The World Economic Survey (WES) assesses worldwide economic trends by polling transnational as well as national organisations worldwide on current economic developments in their respective countries. Its results offer a rapid, up-to-date assessment of the economic situation prevailing around the world. In *January 2014, 1,121* economic experts in *121* countries were polled.

Methodology and evaluation technique

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

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

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

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

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

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

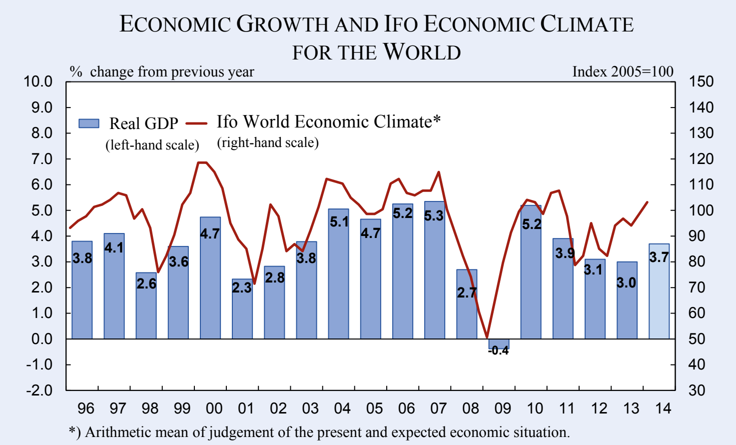
World Economic Climate continues to brighten

The Ifo Indicator for the world economic climate continued to rise. Assessments of the current economic situation were more positive than three months ago. The six-month economic outlook remains bright (see Figures 1 and 2). At 103.2, the indicator now stands well above its long-term average of 95.5 (1998–2013). The upswing in the world economy is expected to gain momentum in the months ahead (see Box 1). Caution, however, must be exercised in interpreting these assessments since they do not reflect the turbulence seen in the currency markets of emerging economies since the end of January.

Global economy gains momentum, but risks remain

The pace of the world economy picked up slightly in the second half of last year. World trade increased somewhat more sharply than at the beginning of 2013. For the first time in four years the industrialised countries were the driving force behind the acceleration in global economic expansion. Further progress in debt reduction was seen in the private sectors in the *USA* and the *United Kingdom* and was accompanied by highly expansive monetary policy. Fiscal policy was also less restrictive in *Europe*, and uncertainty regarding the integrity of monetary union diminished slightly. Key emerging economies, in the meantime, performed relatively weakly by historical standards. Among other factors this was due to an expected gradual tightening of monetary policy in the *US*. *Turkey, India, Indonesia, Brazil* and *South Africa* in particular suffered high outflows of foreign capital, which had a clearly negative impact on the refinancing conditions for their private and public sectors and placed their currencies under huge depreciation pressure. In several emerging economies, however, there were also structural reasons for the weakening, which became increasingly apparent by the end of last year.

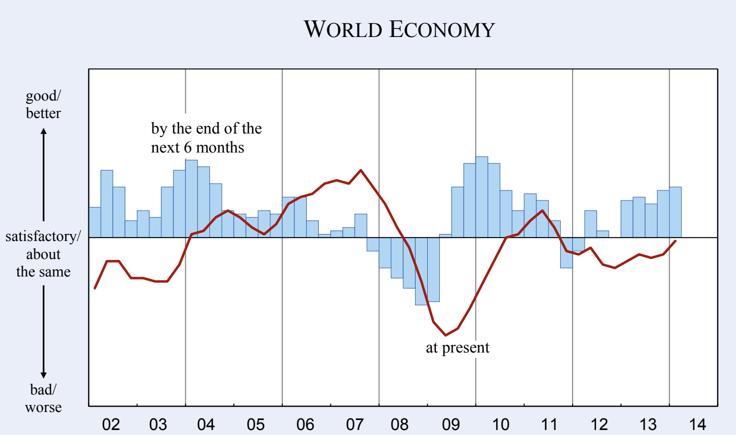
Figure 1



*) Arithmetic mean of judgement of the present and expected economic situation.

Sources: IMF, World Economic Outlook October - Update January 2014; Ifo World Economic Survey (WES) I/2014.

Figure 2



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

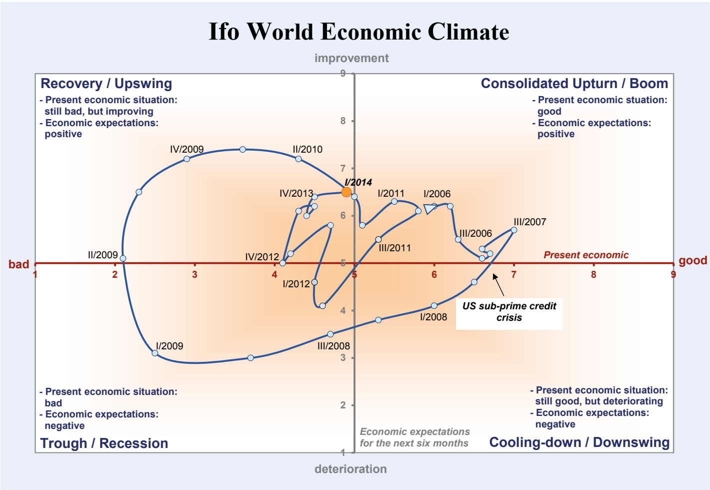
The two main drivers of the increase in the world economic climate were *North America* and *Europe*. In *North America,* WES experts both in *Canada* and in the *USA* expect the economic situation to brighten, and in the latter case, despite the (announced) tapering of the Federal Reserve Bank's expansive monetary policy. In *Europe* the climate indicator rose for the fifth time in succession. As in the last quarter, *Germany*, where the very positive economic situation continued to improve, received the best assessment. In the crisis countries – *Greece, Italy, Portugal, Spain* and *Cyprus* – by contrast, the current situation barely changed compared to the

Box 1

Ifo Economic Clock and the Ifo World Economic Climate

A glance at the Ifo Economic Clock showing the development of the two components of the economic climate index over the last six years can provide a useful overview of the global, medium-term forecast. The business cycle typically proceeds clockwise in a circular fashion, with expectations leading assessments of the present situation.

According to the January survey, the Ifo indicator for the world economic climate rose for the second time in a row. In contrast to the previous survey, it was primarily the assessments of the current economic situation that improved in this survey, whereas economic expectations remained almost stable. The indicator shows a sideward movement from the “recovery” towards the “upturn” quadrant. The world economy is expected to gain momentum in the months ahead. However, downside risks may emerge, as recent currency market volatilities in emerging markets have not yet been covered by survey results.



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

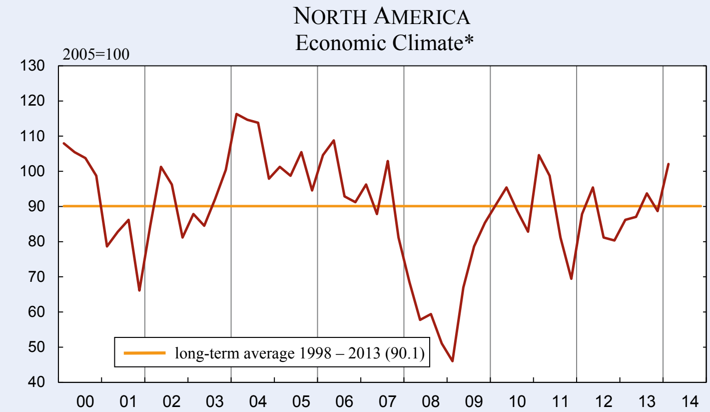
The Ifo World Economic Climate is the arithmetic mean of the assessments of the current situation and economic expectations for the next six months. The correlation of the two climate components can be illustrated in a four-quadrant diagram (“Ifo Business Cycle Clock”). The assessments on the present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

last quarter and remains at a crisis level. Nevertheless expectations for the next six months remain high in almost all *European* countries. In *Latin America*, the economic climate rose somewhat, due to both a slightly better assessment of the current situation and an optimistic outlook. However, the survey results are mainly driven by *Colombia* and *Mexico*, whereas the outlook remains pessimistic in *Argentina, Brazil* and *Chile*. In *Asia* the economic climate remained almost stable compared to last quarter. The WES experts assessed the current situation slightly more favorably, whereas they were somewhat less optimistic concerning the economic outlook. The same pattern emerged for *China* and especially for *Japan*, where optimism evaporated. Perhaps experts may harbor some concerns that the effectiveness of the expansive fiscal and monetary policy (“Abenomics”) has reached its limits.

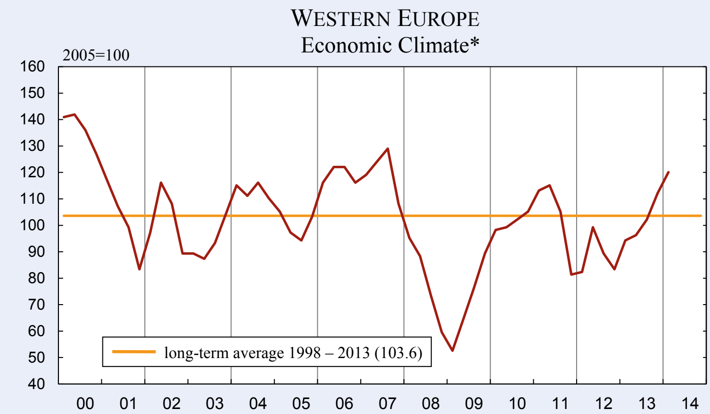
Global economic expansion will gradually pick up speed over the forecast period. Producer and consumer confidence has improved in all key regions. In contrast to the last five years, the driving forces behind the economic acceleration are not the emerging countries, but the advanced economies, in which an improvement in the asset position of private households and continued expansive monetary policy are boosting the recovery. Moreover, the stance of fiscal policy in a number of countries should also be less contractive. The available WES survey results point to slightly faster world economic growth in 2014 compared to 2013. Nevertheless some significant risks to the outlook remain. Currently these risks include the depreciation of currencies in the emerging markets in particular, and the subsequent increase in the key interest rate of some central banks. A potential consequence is a capital reallocation, whose economic effects remain open.

In the WES special question on the anticipated impact of the tightening of US monetary policy (tapering), experts worldwide expect an increase in long-term interest rates in their home countries. The dampening effect on the economy, however, is expected to be limited. *Euro area* countries in particular expect tapering to have only a moderate effect on short-term capital flows from abroad, the EUR/USD exchange rate and GDP growth. The experts surveyed in emerging economies, by contrast, expect their domestic currencies to devalue, coupled with a drop in foreign capital flows. Overall, however, *BRICs* and the group of emerging economies also expect only moderately negative growth effects. Contrary to widespread concerns, countries on the periphery of the euro area expect to be less impacted on balance by tapering than those in the core.

Figure 3



*) Arithmetic mean of judgement about the present and expected economic situation.
Source: Ifo World Economic Survey (WES) I/2014.



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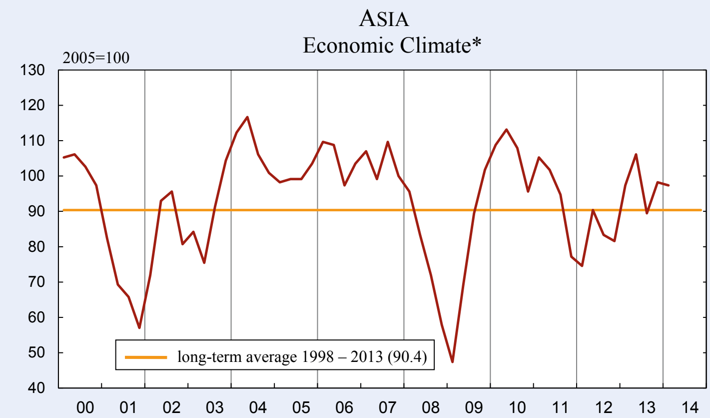


*) Arithmetic mean of judgement about the present and expected economic situation.
Source: Ifo World Economic Survey (WES) I/2014.

Western Europe: Economic climate indicator reaches its highest level since end-2007

The economic climate indicator for *Western Europe* improved again and, at 120.1, it reached its highest point since the beginning of the crisis over six years ago (long-term average 103.6 between 1998 and 2013; see Figure 3). The strong rise was mainly driven by more positive assessments of the present economic situation. However, all in all, the current situation is not yet seen as satisfactory (see Figure 4). The experts' economic expectations remain optimistic and point to a continuation of the underlying recovery. A similar pattern applies to the *euro area*, where the indicator lies at 119.9, which represents an increase of about five index points compared to the previous survey, and which is clearly above the 15-year long-term average of 106.8 (1998-2013). While the economic outlook remains as positive as in the previous survey, the present economic situation was assessed less negatively by WES experts than in 2013. Thus, despite some slight improvement, economic sentiment is still rated as subdued in *Cyprus, Italy, Portugal* and *Spain* (see Figures 5a and 5b). In *Greece*, no improvements were recorded and WES experts again unanimously attested to a weak present situation. In these countries, the economic experts surveyed reported difficult financing conditions for companies (see Table 1). In *Ireland*, the *Netherlands* and *Slovenia* appraisals of the present economic situation were upwardly revised on balance compared to the survey in October 2013; but the situation in the countries mentioned above is still considered weak. In *Finland* and *France* more WES experts were negative about the current state of their economies. In *Slovakia* and *Luxembourg,* the economic experts surveyed also changed their assessments of the present economic situation from satisfactory to unfavourable. In *Belgium*, by contrast, the economic situation continued to improve, according to WES experts, but has not yet reached a satisfactory level. In *Austria*, economic experts again started to assess the present economic situation better than last year and are now

Box 2

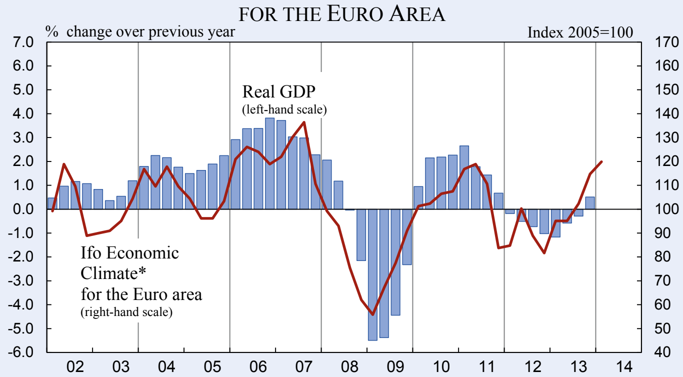
World Economic Survey (WES) and GDP Growth in the Euro Area

The Ifo World Economic Climate for the 18 member countries of the euro area is the arithmetic mean of the assessments of the general economic situation and the expectations for the economic situation in the next six months. The January results are based on the responses of 294 experts. As a rule, the trend in the Ifo Economic Climate indicator correlates closely with the actual business-cycle trend for the euro area – measured in annual growth rates of real GDP (see Figure).

The Ifo Indicator for the economic climate in the *euro area* continued to rise. The improvement was mainly due to far less unfavourable assessments of the current economic situation. The economic outlook for the next six months remains unchanged at the highest level for around three years. The economic recovery should become more marked in the months ahead.

Germany, where the very positive economic situation continued to improve, received the best assessment. More economic experts were also positive about the current economic situation in *Austria*. *Latvia*, which introduced the euro as a currency at the beginning of the year, and *Estonia* are also among the few countries in the euro area where the current economic situation is deemed satisfactory overall. The present economic situation in *Greece, Italy, Portugal, Spain* and *Cyprus*, by contrast, barely changed compared to the last quarter and remains at a crisis level. In *Belgium, Ireland* and the *Netherlands* the economic situation improved somewhat compared to last quarter, according to WES experts, but remains "unfavourable" as in *Finland* and *France*. Expectations for the next six months remain at a high level in almost all euro area countries apart from *Greece* and *France*, where the experts surveyed were less positive than three months ago. *Cyprus* is the only country in which experts expect the economic situation to deteriorate further.

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) I/2014.

nearly satisfied with it. *Latvia*, which introduced the euro currency at the beginning of this year, and *Estonia* are among the few countries in the *euro area*, where present economic performance was again regarded as satisfactory. The best ratings in the *euro area* were received by *Germany*, where the already previously positive economic situation improved further.

Economic expectations remain optimistic in most of the *euro area* countries. Expectations have only been slightly downwardly revised in *Austria, Finland, France, Greece* and *Ireland*, but are positive on the whole. In *Cyprus*, however, WES experts expect the situation to deteriorate further in the next six months.

Outside the *euro area* assessments of both the present economic situation and economic expectations are clearly more positive than in the previous survey. In *Denmark, Monaco, Sweden* and the *United Kingdom* current economic performance is assessed as satisfactory at the very least, while in *Iceland, Norway* and *Switzerland* it is regarded as good. However, in the *United Kingdom* some economic bottlenecks like weak capital expenditure and strongly constrained bank credit to firms have been identified by WES experts. With regard to the near-term economic outlook the experts surveyed in all these countries expressed greater confidence. In *Norway,* in particular, optimism returned, despite expectations of little economic impetus from private consumption in the next six months.

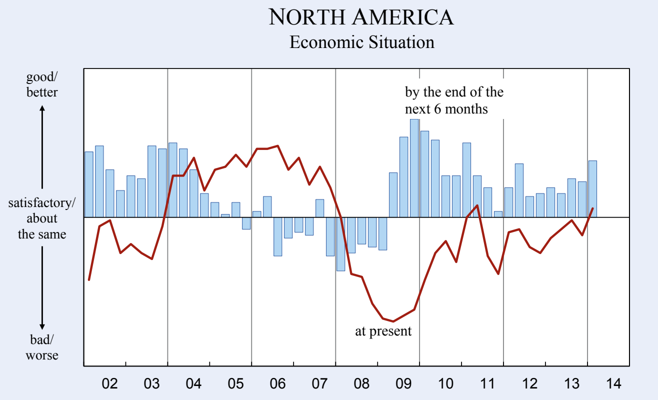
North America: Economic climate indicator takes off

The economic climate indicator in *North America* started to rise again, after having fallen temporarily at the end of 2013. At 102.1, the indicator reached its highest level since early 2011 and is located well above its long-term average of 90.1 (1998–2013). Both components of the economic climate – namely the present economic situation and economic expectations – are far more positive than they were three months ago (see Figures 3 and 4).

In the *United States* the economic climate brightened again after clouding over slightly last quarter. Assessments of the present economic situation reached

Figure 4

Selected Regions



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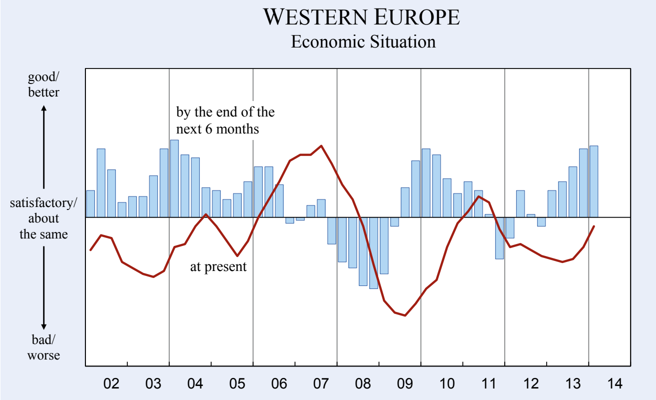

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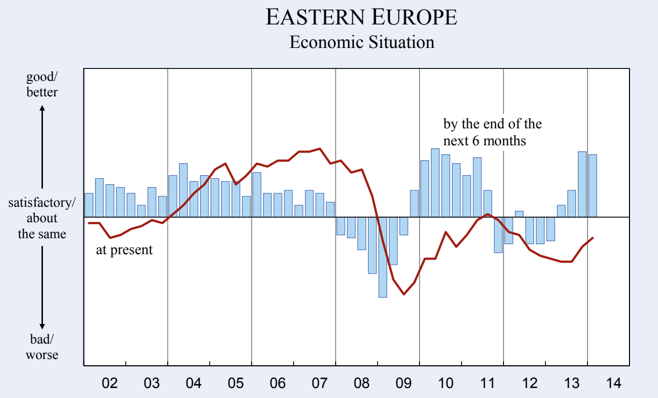

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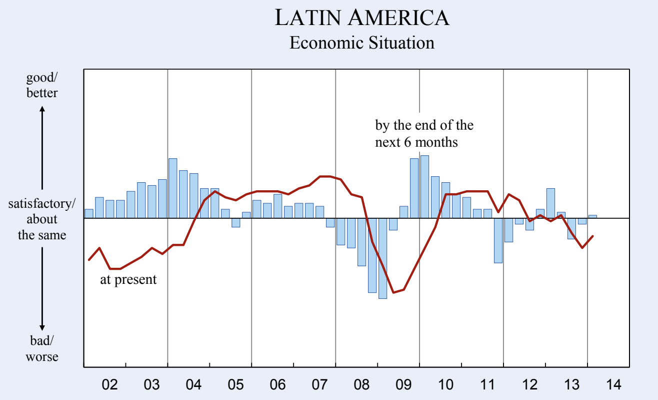

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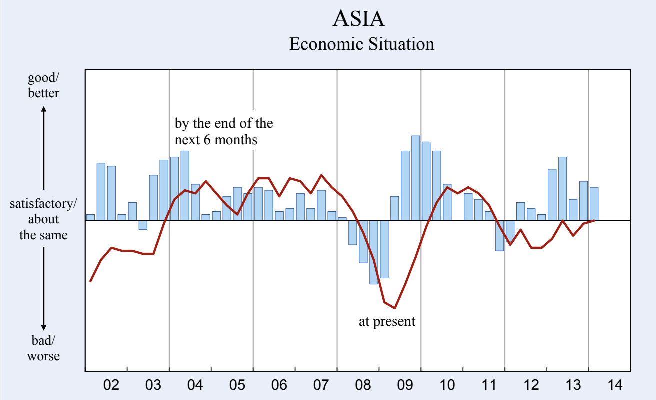


Source: Ifo World Economic Survey (WES) I/2014.

a satisfactory level for the first time for about three years. With economic expectations upwardly revised once again, it is likely that the economic recovery will finally gain momentum (see Figure 6). In *Canada*, a satisfactory present economic situation prevails and due to confident economic expectations, economic performance is likely to improve further in the next six months. Here, in particular, WES experts see no constraint on bank credit for firms (see Table 1).

Eastern Europe:
Economic climate improves only moderately

In *Eastern Europe* the economic climate indicator rose only slightly to 90.7 (previous survey 89.1), due to less negative assessments of the present economic situation. Economic expectations remain in largely positive territory on the whole and signal further improvements in the economic performance in the next six months (see Figures 4 and 7).

The best rating in the region was once again received by *Lithuania*, even if assessments of the current economic state were less positive than three months ago. By contrast, economic expectations for the next six months have been upgraded somewhat and are highly optimistic with regard to future economic developments. Exports in particular are forecast to expand strongly in the months ahead. In *Poland*, WES experts changed their sceptical view to a positive one and rated the present economic situation as satisfactory. Economic expectations remain optimistic and point to a continuing upward trend over the next six months. Exports are also expected to pick up in *Poland* in the short-term. In *Bulgaria,* the *Czech Republic* and *Hungary* assessments of the present economic situation remain in unfavourable territory, despite some slight upwards revision in *Bulgaria* and *Hungary*. With regard to future economic developments, WES experts in both of the latter countries are considerably more positive than they were three months ago. In the *Czech Republic*, the economic outlook clouded over slightly, but remains positive on the whole. In *Croatia* no changes for the better were recorded. Indeed, all of the economic experts surveyed unanimously attested to their country's poor economic situation for the sixth time in succession. Economic expectations are less positive than three months ago, and signal merely gradual improvements in the six months ahead. In *Romania*, the present economic situation was reported to be unfavourable again. The economic outlook turned from positive to negative and does not point to any improvements in economic performance in the next six months.

In *Eastern European* countries *outside the EU*, the present economic situation became even more difficult than in the previous survey. This is true for *Albania, Macedonia* and *Serbia*, where the present economic situation was observed to be weak. Economic expectations in these countries are also less positive than three months ago. In *Bosnia and Herzegovina*, no improvement in the currently weak economic situation was reported. With regard to future economic expectations, the experts surveyed expressed greater scepticism than in the last survey and still do not see any substantial economic improvement over the next six months. In *Kosovo*, a newly observed country in WES, the present economic situation was rated as weak by the experts surveyed. However, consulting the six-month economic outlook, the situation is likely to improve somewhat.

CIS: Economic climate remains subdued

The economic climate indicator for the *CIS* countries covered by WES (*Russia, Ukraine, Kazakhstan, Kyrgyzstan, Uzbekistan* and *Armenia*) rose only slightly. At 70.4 (previous survey 67.9) the indicator remains far below its long-term average of 87.4 (1998–2013). While assessments of the present situation remain in unfavourable territory, economic expectations were slightly upwardly revised. Nevertheless, the economic perspectives are foggy on balance and don't point to any improvement over the next six months (see Figure 4).

In *Russia*, appraisals of the present economic situation remain unfavourable. Capital expenditure is once again mainly considered weak at present, while private consumption is performing satisfactorily. As far as future economic developments in the months ahead are concerned, WES experts upwardly revised their expectations, however caution determines the outlook. With regard to the climate for foreign investors, *Russian* WES participants attested to very high legal and administrative restrictions for foreign firms seeking to invest in *Russia* and to repatriate profits. This is also the case for the *Ukraine,* where political instability is expected to continue and to further negatively affect the investment climate. The economic climate also deteriorated further in the *Ukraine*. Assessments of both the present economic situation and economic expectations are more negative than in the previous survey and attest to a subdued economic performance, which is expected to persist in the next six months. In *Kyrgyzstan* and *Armenia* the appraisals of the economic situation are – like in the previous survey – at an unfavourable level. In both countries, economic expectations cleared up somewhat. However, *Kyrgyzstan* is the only country in which an improvement in economic performance is expected in the next six months. By contrast, WES experts in *Armenia* remain cautious on the whole, despite the observed upwards revision. *Kazakhstan* and *Uzbekistan* are the only countries in which a satisfactory present economic situation prevails and is expected to persist for the next six months.

Asia: Economic climate unchanged

In *Asia*, the economic climate indicator did not show much movement and remains nearly unchanged at 97.4 (previous quarter: 98.2), which is above its long-time average of 90.4 (1998–2013). On balance, the present economic situation in the region was once again assessed as satisfactory. The economic outlook is slightly less positive than three months ago, but still points to further improvement in economic performance in the next six months (see Figures 3, 4 and 8).

In *China*, *Indonesia* and *Singapore* the economic situation did not change compared to the previous survey and remains satisfactory in the opinion of WES experts. In *Japan* and *Sri Lanka* more economic experts than in the previous survey rated the economic situation as good. Appraisals of the present economic sentiment also improved in *Malaysia* and turned from negative to positive. As far as the next six months are concerned, economic experts surveyed in all of the above mentioned countries retain their current positive view, except for *Japan*. Here, more WES experts turned sceptical about future economic developments. One reason for their scepticism is certainly the intended increase in the consumption tax from its current level of 5% to 8% in April 2014, which will probably slow private consumption, at least temporarily. By far the highest rating in the region was received by the *Philippines*, where all of the economic experts surveyed unanimously attested to a good present economic situation. The majority also expects a further improvement in currently good economic performance in the next six months. In *Hong Kong*, the present economic situation was assessed as favourable, despite some slight downwards revision compared to the survey in October. The economic expectations were downgraded even more strongly; on balance, however, they point to an economic stabilisation at present good levels. Some strengthening is also likely in the export sector. In *South Korea* and *Vietnam* the appraisals of the current economic situation are slightly less negative than in the previous survey. For the next six months, especially in *Vietnam*, WES experts have become more confident and expect some economic improvements in their respective countries. In *India*, although some slight improvements compared to the previous survey are visible, the present economic situation was again rated as subdued. Economic expectations remain on an upward trend and some easing of the currently weak economic situation seems likely in the months ahead. The strongest downwards revision of the present economic situation compared to the previous survey took place in *Bangladesh*. Here the assessments moved into unfavourable territory. However, the currently weak economic performance will probably be short-lived, as experts' economic outlook for the next six months is on the positive side. In *Thailand* assessments of the present economic situation continued to deteriorate further and bear witness to current political tensions. With regard to the next six months, WES experts do not expect major changes for the better in their country. In *Pakistan* and *Taiwan* current economic performance was again reported to be weak. While WES experts in *Pakistan* do not foresee any substantial improvement in their economy in the next six months, the situation in *Taiwan* does look set to improve a little.

Oceania: New Zealand clearly outpaces Australia

In *Oceania* the economic climate indicator fell slightly to 107.1 (previous survey 108.0), due to slightly less positive economic expectations. Assessments of the present economic situation barely changed, remaining on a satisfactory level. This particularly applies to *Australia*, where there were no changes with regard to the current satisfactory economic performance. Optimism concerning future economic developments faded somewhat, but remains positive on the whole. Some weakening, however, is still expected in capital expenditure. Exports, on the other hand, look set to strengthen within the next six months, which will help to reduce the trade deficit. The economic climate indicator in *New Zealand* continued its upwards trend and reached the almost historical highs last seen in 1994. Assessments of both the present economic situation and economic expectations are highly positive and suggest favourable economic conditions in the months ahead.

Latin America: Economic climate improves, but remains at a low level

The economic climate indicator in *Latin America* improved due to upwardly revised assessments of both the present economic situation and economic expectations (see Figures 4 and 9). On average in the region the present economic situation was assessed as unfavourable and is expected to remain so for the next six months. The indicator rose to 86.0 (previous survey 79.6), however this is well below its long-term average (1998–2013: 91.3).

In *Brazil*, no changes for the better were recorded and the present economic situation remains unfavourable, according to WES experts. Capital expenditure is considered to be particularly weak at present. The economic outlook for the next six months remains clouded, as more experts than in the previous survey expressed caution with regard to future economic developments. In *Mexico*, the second most economically important country in this region, the economic climate brightened slightly. Assessments of the present economic situation, although improved, remain in unfavourable territory. Economic expectations were upwardly revised and signal that the situation will continue to improve further in the next six months. There is no positive news from *Argentina* again and the economy remains weak, particularly in terms of capital expenditure. No substantial improvement is expected within the next six months. Survey participants warned of rising inflation in the months ahead, and expect peso devaluation to continue. By far the weakest economic conditions prevail in *Venezuela*. Here all of the economic experts surveyed unanimously attested to the current difficult economic situation and expect further deterioration over the next six months. Besides an inflation rate of about 62%, which is expected to increase further, the investment climate will continue to deteriorate due to increasing political instability and further administrative restrictions on foreign firms (see Tables 2, 3 and 4). In *Cuba*, the *Dominican Republic, El Salvador* and *Trinidad and Tobago* WES experts also reported a weak current economic performance. The economic experts surveyed only expect the situation to improve somewhat over the next six months in the *Dominican Republic*. In all of the other countries mentioned above there are no signs of any improvement in economic conditions over the next six months. In *Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru* and *Uruguay*, the present economic situation was rated as favourable, and thus far friendlier than in the other *Latin American* countries cited. However, as far as WES experts' future economic expectations are concerned, there are diverging trends in these countries: while in *Bolivia, Colombia, Paraguay* and *Peru* the current good economic conditions are expected to persist, experts in *Chile, Ecuador* and *Uruguay* remain sceptical with regard to the next six months. In *Costa Rica, Guatemala* and *Panama* a satisfactory present economic situation prevails, and is expected to stabilise at current good levels in all three countries.

Near East: Economic climate indicator on the rise again

In the *Near East* the economic climate indicator started to rise again from 87.7 to 94.8, which is above the 15-year long-term average of 86.5. Assessments of both economic climate components are more positive than three months ago. The current economic situation in particular brightened compared to the previous survey and is regarded as favourable (see Figure 10). This is mainly true for *Saudi Arabia, Qatar* and the *United Arab Emirates*. Here, the current economic situation is regarded as very good and is likely to persist in the next six months. In *Israel, Jordan* and *Lebanon* the economy is performing satisfactorily at present, according to WES experts. The economic outlook in *Israel* and *Lebanon* is friendlier once again and the caution seen last quarter was replaced by optimism for the next six months. In *Jordan* the economic experts surveyed also remain positive, despite a slight downwards revision of their expectations compared to three months ago. In *Turkey*, the economic climate clouded over somewhat and the present economic situation is no longer seen as satisfactory. Economic expectations have been downgraded considerably and signal scepticism with regard to short-term economic developments.

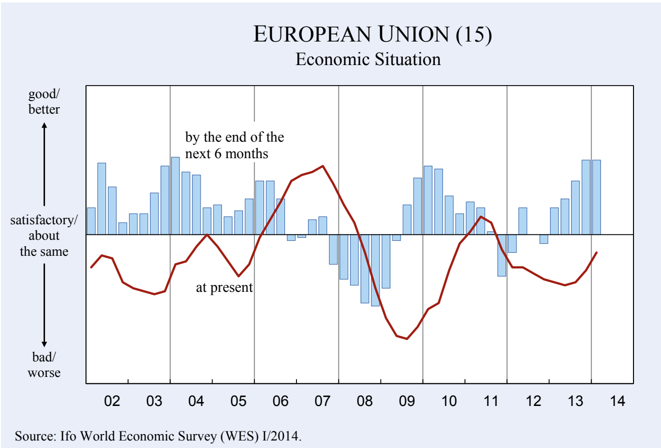
Africa: No unified economic trend

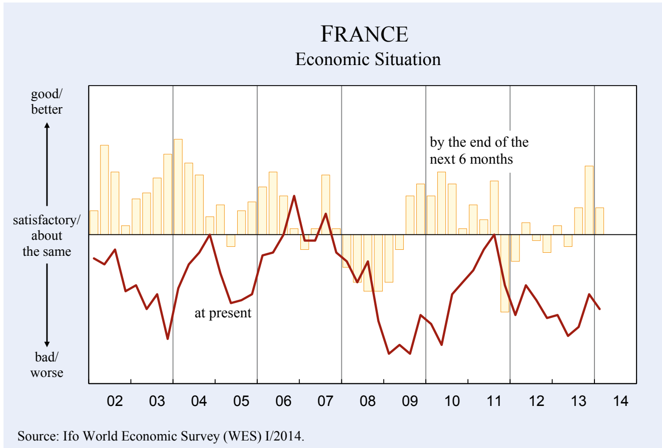
Countries in *Africa* display a highly differentiated pattern as far as the economic climate is concerned. Thus, an aggregated climate index for the countries surveyed by WES on this continent makes little sense, and the following analysis will focus on specific economic trends in the individual countries of *Northern* and *Sub-Saharan Africa*.

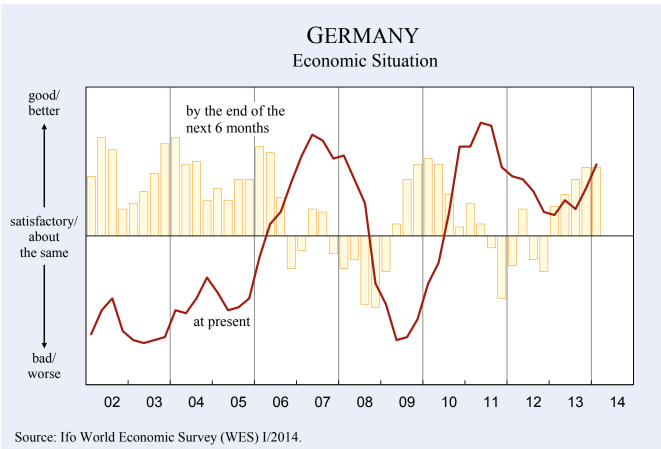
The economic climate in the *Northern African* countries covered by WES remains unchanged. However, observing the underlying components various different trends

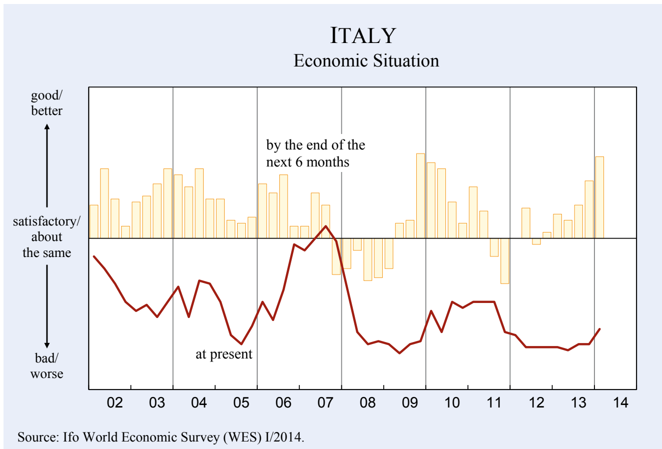
Figure 5a

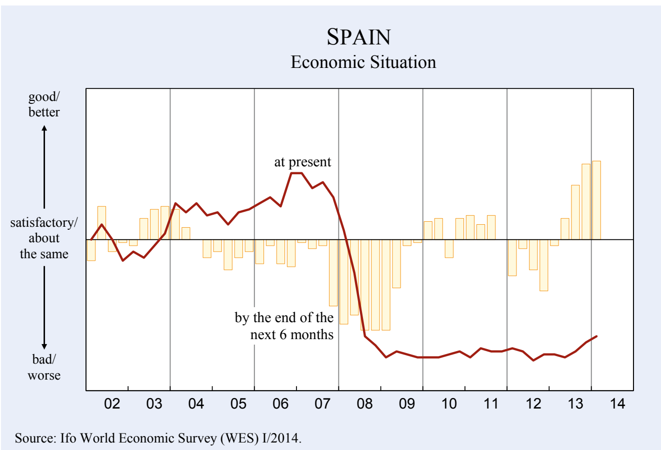
European Union











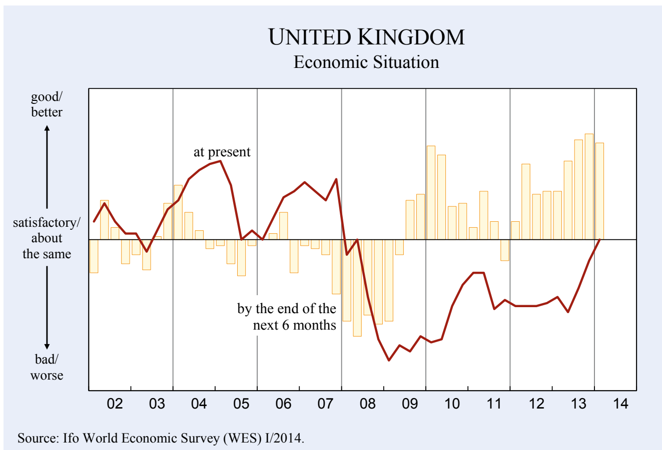
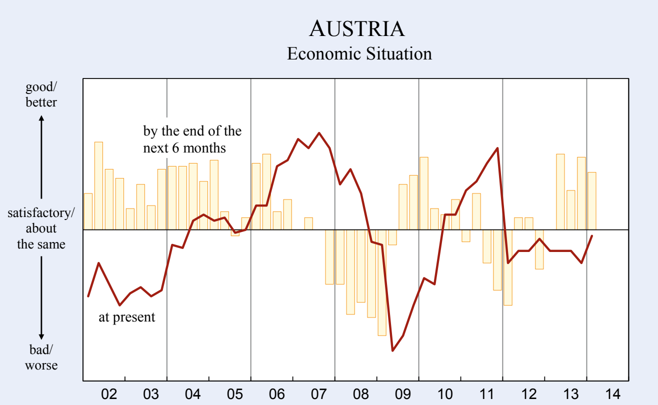
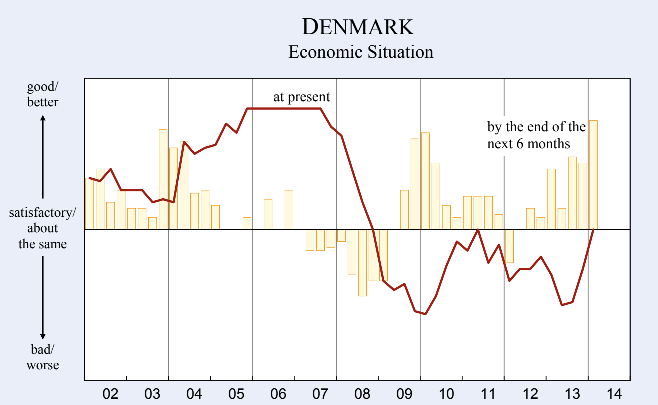


Figure 5b

European Union



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



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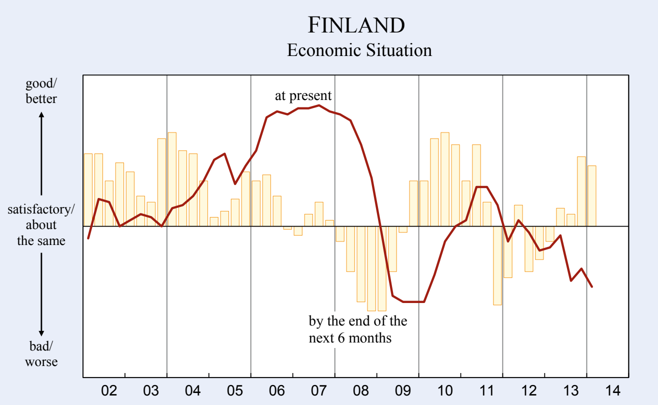

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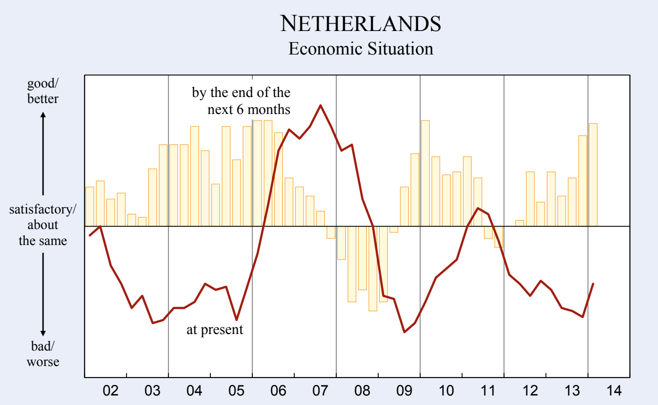

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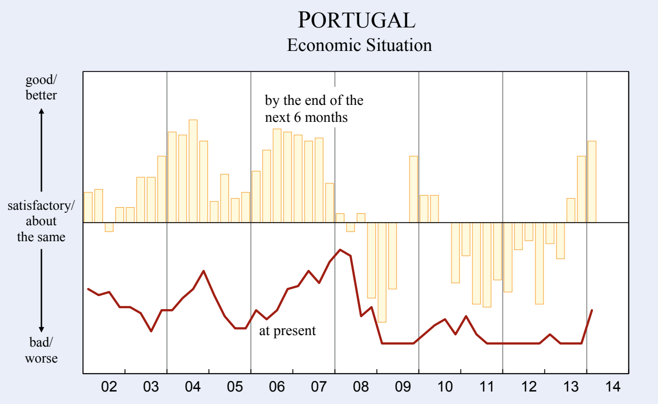

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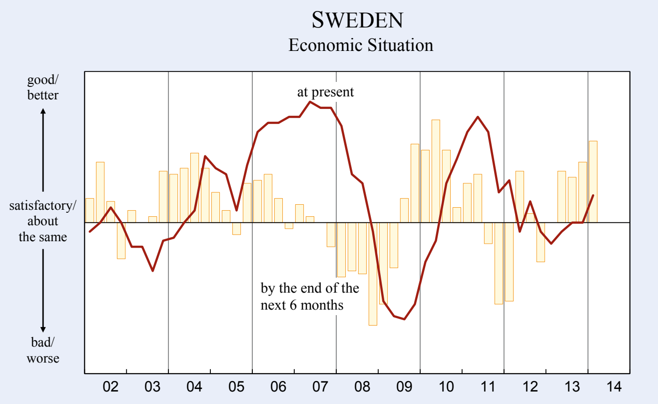
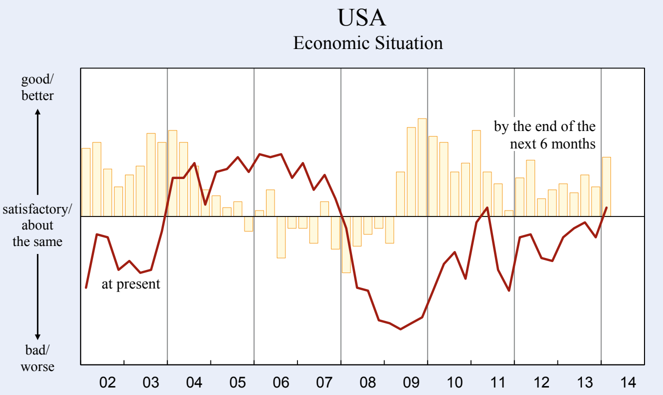


Source: Ifo World Economic Survey (WES) I/2014.

Figure 6

North America, Oceania and CIS



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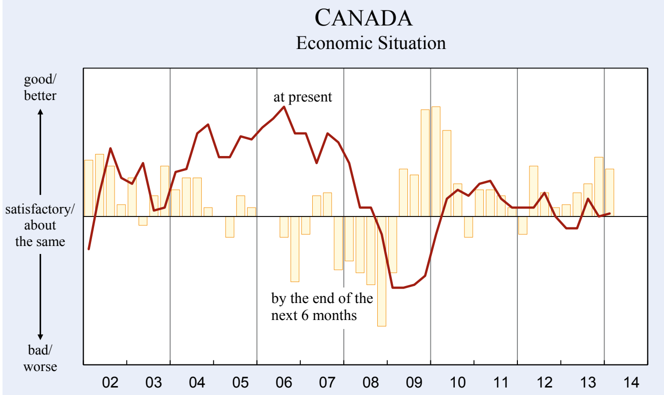

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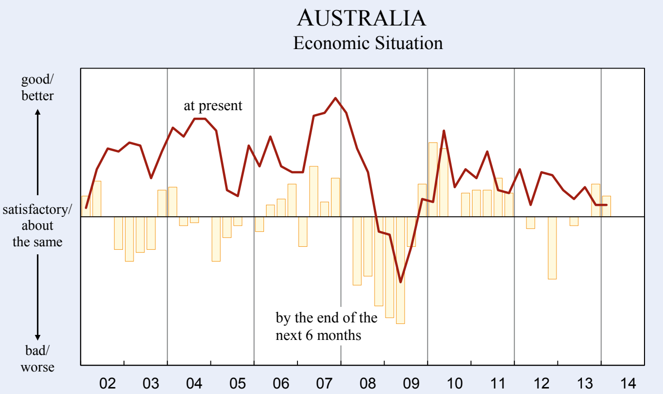

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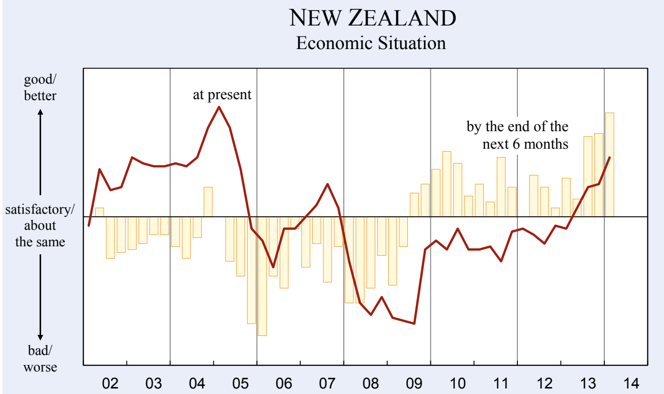

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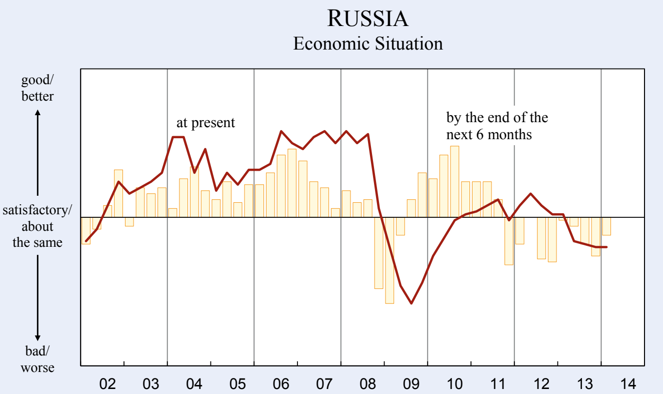
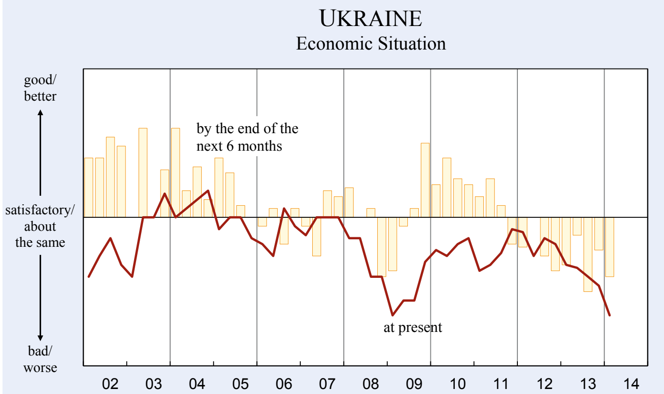


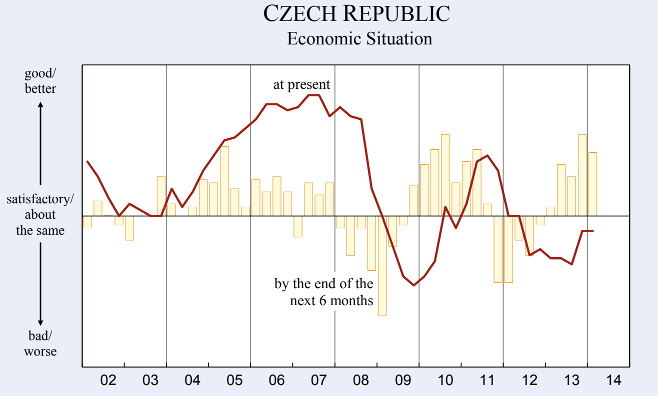
Source: Ifo World Economic Survey (WES) I/2014.



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

Figure 7

Eastern Europe



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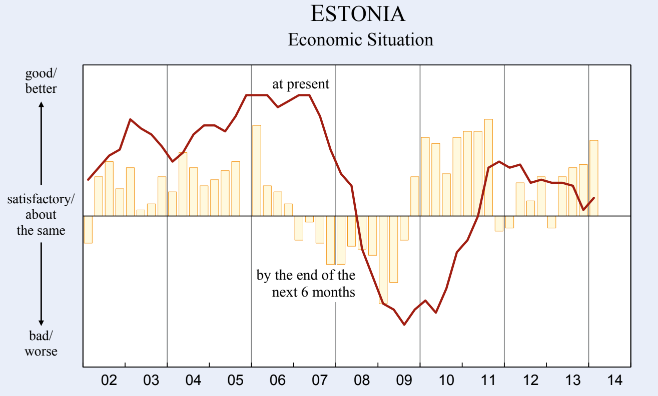

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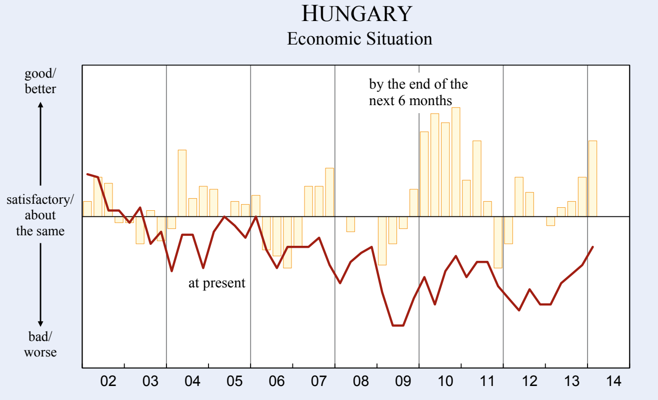

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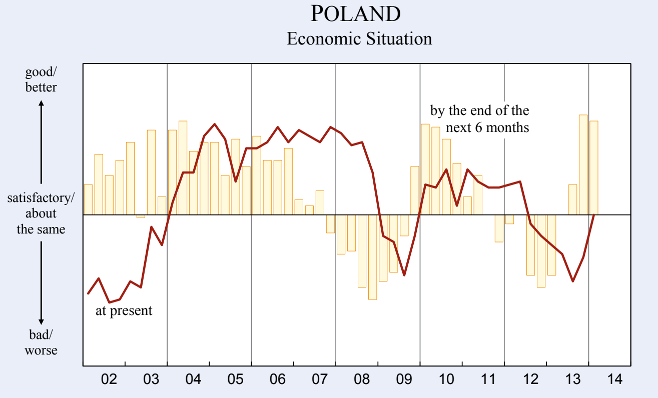

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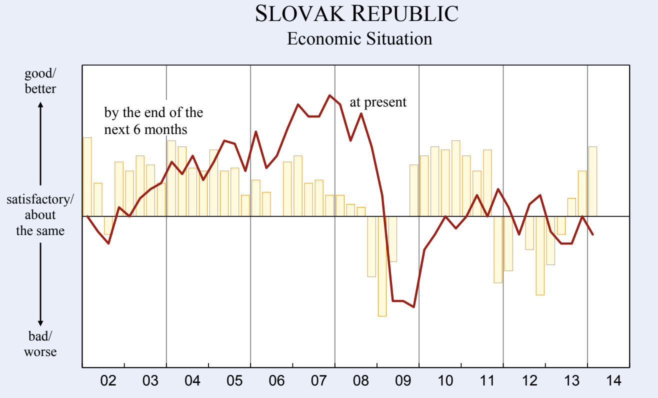

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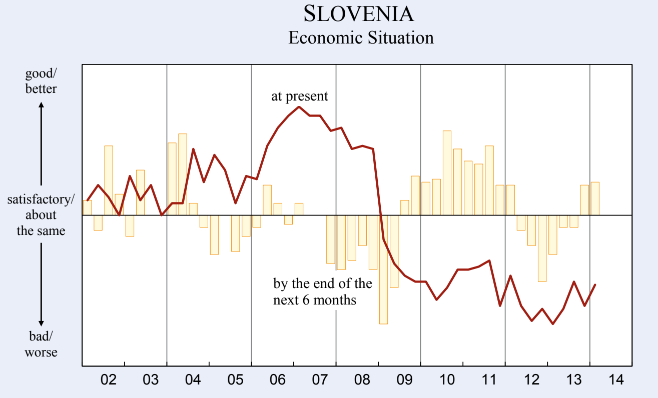
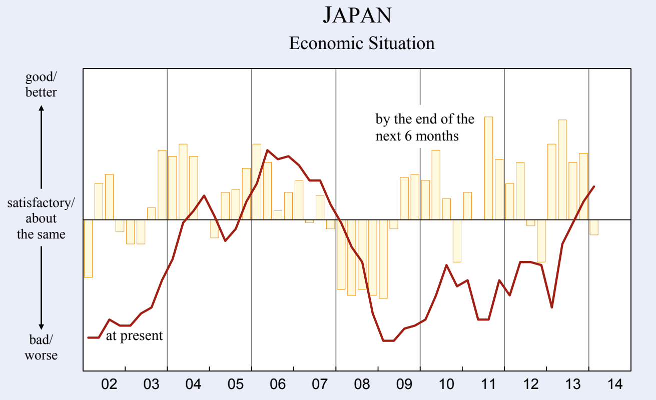


Source: Ifo World Economic Survey (WES) I/2014.

Figure 8

ASIA



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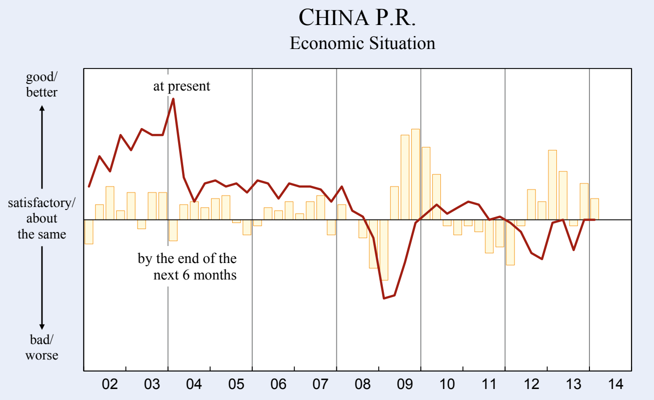

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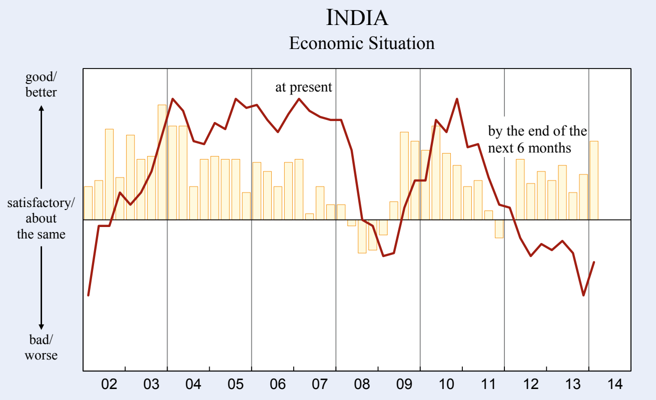

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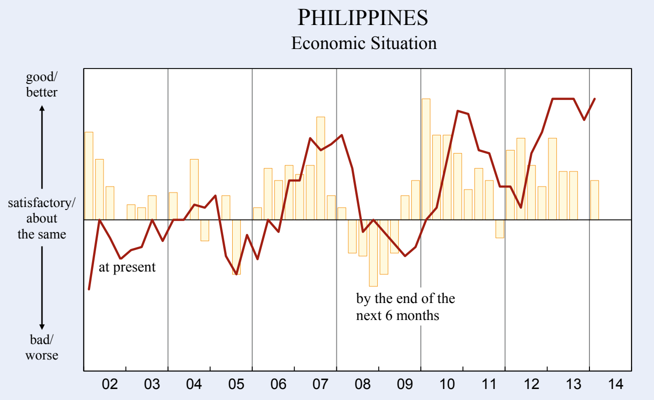

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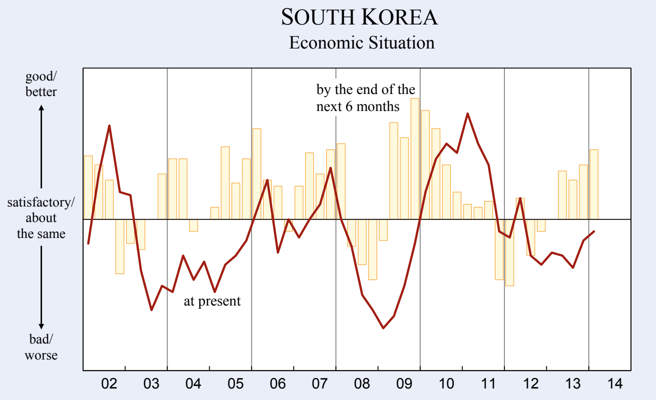

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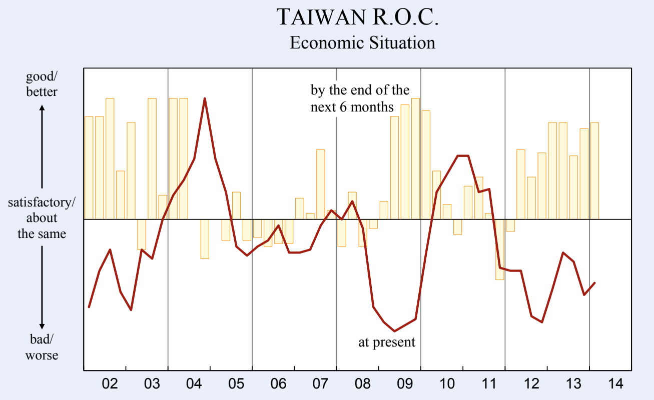
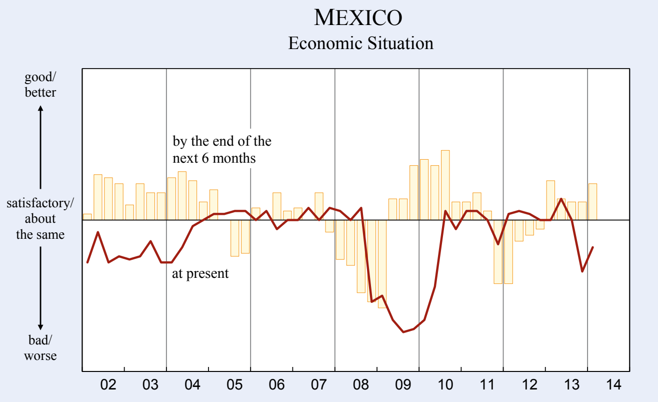


Source: Ifo World Economic Survey (WES) I/2014.

Figure 9

Latin America



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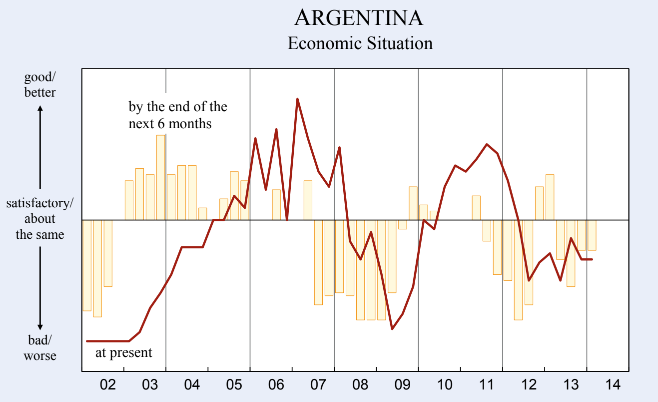

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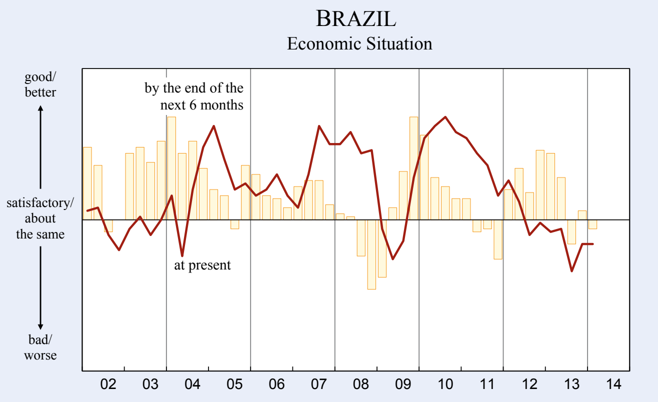

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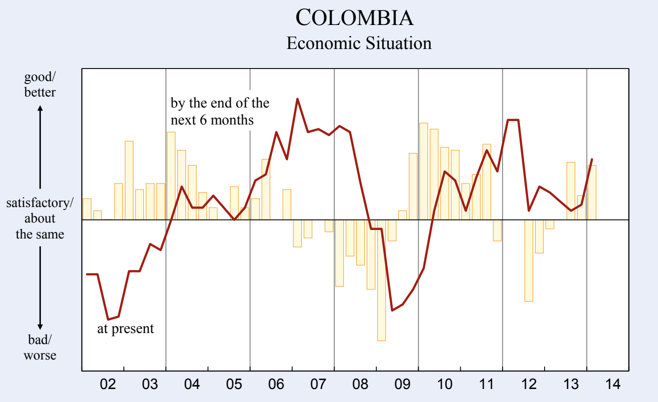

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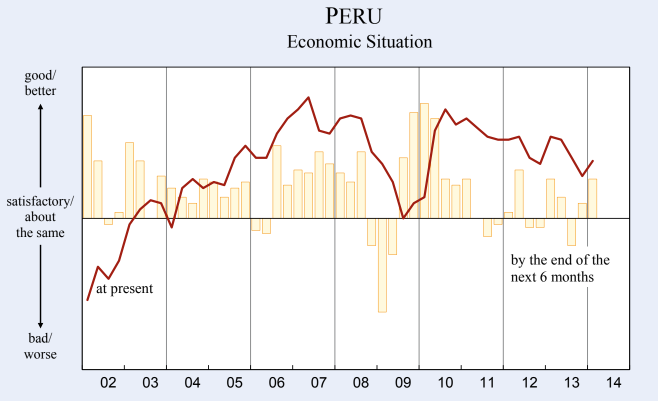

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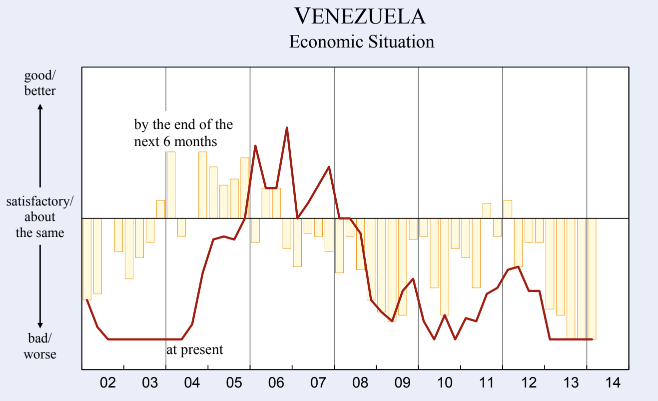
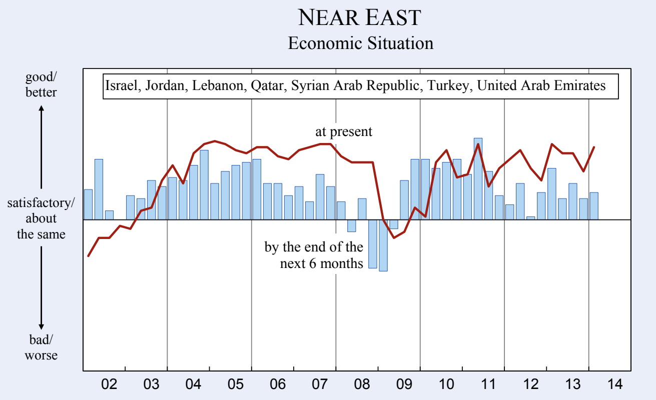


Source: Ifo World Economic Survey (WES) I/2014.

Figure 10

Near East and Africa



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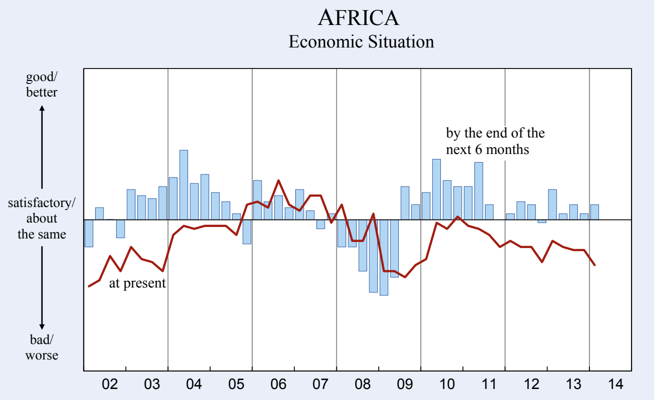

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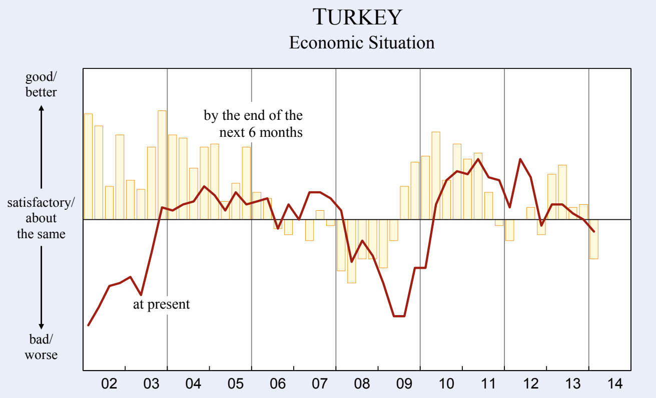

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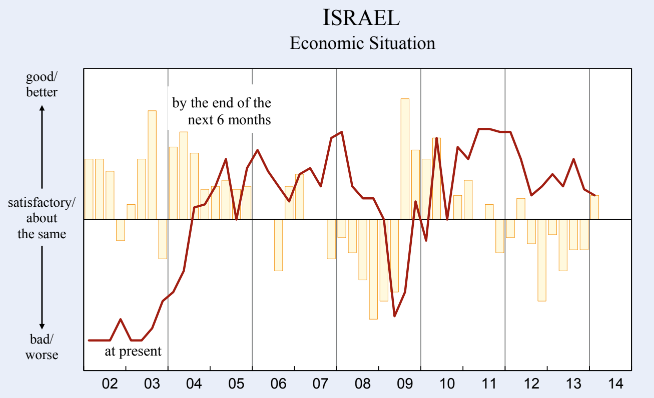

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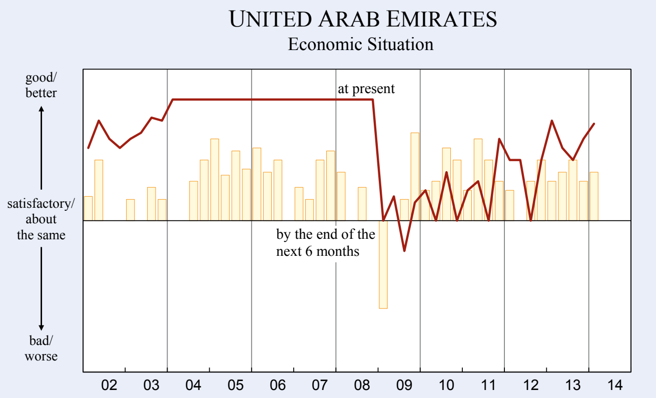

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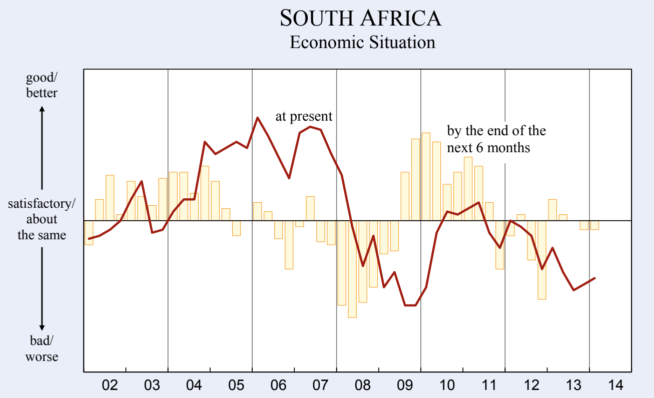


Source: Ifo World Economic Survey (WES) I/2014.

Table 1

Supply of bank credit to firms, extent of constraint	
Not constrained	
Canada	8.3
Chile	8.2
Japan	8.0
Malaysia	7.7
Paraguay	7.7
Peru	7.7
Philippines	7.7
Thailand	7.7
Australia	7.5
Colombia	7.4
Hong Kong	7.4
Namibia	7.4
Taiwan	7.4
Brazil	7.2
Croatia	7.2
Sweden	7.2
New Zealand	7.0
Pakistan	7.0
Switzerland	7.0
Moderately constrained	
United States	6.8
Germany	6.7
Turkey	6.6
Argentina	6.3
Czech Republic	6.3
Lesotho	6.3
South Africa	6.3
South Korea	6.3
Slovakia	6.2
Kosovo	6.1
Lithuania	6.1
Finland	6.0
Egypt	5.9
France	5.9
Bulgaria	5.8
Kenya	5.8
United Arab Emirates	5.8
Zambia	5.8
Austria	5.7
Sri Lanka	5.7
Uruguay	5.7
Mexico	5.6
Belgium	5.4
India	5.3
Albania	5.0
Bosnia and Herzegovina	5.0
Kazakhstan	5.0
Latvia	5.0
Venezuela	5.0
Russian Federation	4.9
Poland	4.8
Denmark	4.6
China	4.4
Nigeria	4.3
Ukraine	4.3
Netherlands	4.2
Strongly constrained	
Hungary	3.8
United Kingdom	3.7
Portugal	2.8
Italy	2.7
Spain	2.6
Togo	2.6
Slovenia	2.1
Romania	1.9
Zimbabwe	1.6
Greece	1.0

Only countries with more than four responses were included in the analysis.
WES scale: 9 – not-, **5** – moderately-, **1** – strongly constrained
Source: Ifo World Economic Survey (WES) I/2014.

emerge: while assessments of the present economic situation deteriorated further, economic expectations, in turn, are more positive than three months ago. The present economic situation was only assessed as satisfactory in *Algeria*. In *Libya* and *Morocco* positive economic sentiment faded away and the current situation is considered weak. In *Egypt* and *Tunisia* no easing of current economic tensions was recorded. Some improvement at least, however, is expected over the next six months, as expectations remain, despite some downwards revision in *Egypt,* positive overall in all of the *Northern African* countries observed.

The economic climate indicator in *South Africa* remains nearly unchanged at a low level. The present economic situation was once again assessed as unfavourable. Economic expectations remain neutral, and WES experts do not expect the situation to improve over the next six months (see Figure 10). In *Angola, Congo-Brazzaville, Ethiopia, Ghana, Lesotho, Malawi, Mauritania, Rwanda* and *Senegal* the current economic situation did not change compared to the previous survey and was again assessed as satisfactory. In most of these countries, current economic performance is expected to remain good, except for in *Angola*, where WES experts expressed greater caution. In the *Ivory Coast, Liberia* and *Mauritius*, assessments of the present economic situation were slightly downgraded compared to the survey in October 2013, but nevertheless remain at a satisfactory level on the whole. WES experts in *Gabon* and *Gambia* also expressed satisfaction with regard to the current economic situation in their countries. The economy will stabilise at its current good levels or improve further over the next six months in all of these countries, according to the economic experts surveyed. In *Benin, Congo Dem. Republic, Ghana* and *Namibia* more WES experts than in the previous survey attested to a favourable economic situation, which is expected to prevail for the next six months. In *Kenya*, the economic situation seems to have improved compared to the previous survey and WES experts changed their sceptical assessments to positive ones. Economic expectations are somewhat less positive, but on the whole signal stabilisation at current satisfactory levels. In *Sierra Leone*, a favourable economic situation continues to prevail. However, the economic experts surveyed expressed greater caution about future economic developments and expect some deterioration in the months ahead. In *Zambia*, appraisals of the present economic situation were less favourable than three months ago. The six-month economic outlook is somewhat brighter than in the previous survey, but still remains cautious. In

Nigeria, the economic climate worsened compared to last year. Assessments of the present economic situation changed from satisfactory to unfavourable. With regard to future economic developments, the experts surveyed remain cautious. Legal and administrative restrictions for foreign investors seem high at present, and political instability is increasingly expected to detract further from the climate for foreign investors (see Tables 2 and 3). In *Sudan* and *Togo* some improvement compared to the previous survey was recorded, but the situation in those economies still remains unfavourable on the whole. The six-month economic outlook remains overcast in both countries, despite some slight upwards revision versus last October's survey. In *Burundi, Comoros, Madagascar, Niger, Swaziland* and *Zimbabwe* no changes for the better were reported and the situation remains weak. In most of the countries the situation is forecast to remain subdued over the next six months. Only WES experts in *Comoros* and *Madagascar* expect an improvement in their economies during this period.

Table 2

Legal and administrative restrictions for foreign firms	
Absent	
Uruguay	9.0
Chile	7.8
Denmark	7.7
Sweden	7.7
Finland	7.5
Namibia	7.4
Sudan	7.4
Peru	7.1
Lithuania	7.0
Rather low	
Netherlands	6.8
Kosovo	6.7
Germany	6.6
Hong Kong	6.6
Switzerland	6.4
Portugal	6.3
Austria	6.2
Colombia	6.2
Turkey	6.2
United States	6.2
Slovenia	6.1
New Zealand	6.0
Latvia	5.9
Poland	5.9
Romania	5.9
Slovakia	5.9
Israel	5.8
Spain	5.8
United Kingdom	5.8
Australia	5.7
Brazil	5.5
Belgium	5.4
Bulgaria	5.4
Canada	5.4
Pakistan	5.4
Kenya	5.3
Mexico	5.3
Czech Republic	5.0
Greece	5.0
Kazakhstan	5.0
Lesotho	5.0
Paraguay	5.0
Togo	5.0
South Africa	4.8
France	4.7
Japan	4.7
Zambia	4.7
South Korea	4.6
Hungary	4.5
Thailand	4.5
Malaysia	4.3
Sri Lanka	4.3
Albania	4.2
Croatia	4.2
Rather high	
India	3.9
Italy	3.7
Bosnia and Herzegovina	3.4
Taiwan	3.4
United Arab Emirates	3.4
China	3.2
Nigeria	3.0
Philippines	3.0
Russian Federation	2.7
Venezuela	2.3
Egypt	1.4
Argentina	1.3
Ukraine	1.0
Zimbabwe	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) I/2014.

Inflation expectations remain moderate

General trends

On a worldwide average, the WES experts' inflation forecast for the year 2014 of 3.3% is only slightly higher than the inflation rate reported for 2013 (3.2%; see Table 4). Compared with the estimate at the beginning of last year, the overall figure is unchanged (3.3%). However, the pattern of expected inflation trends by world regions is quite different this year: while the assumed inflation rate for 2014 is lower than expected at the beginning of 2013 in *Western and Eastern Europe, North America, Oceania, CIS, Near East* and *Africa*, the reverse is true for *Asia* and *Latin America*.

Price trends by countries

On average the assumed inflation rate in 2014 for the ***euro area*** will be 1.5%, after an expected 2.1% at the beginning of last year. Inflation expectations were continuously revised downwards over the course of 2013. It remains to be seen whether this will also be the case in 2014. Within the *euro area* the lowest inflation rates in 2014 are again expected in the "crisis countries" of *Greece* (-0.4%), *Cyprus* (0.0%), *Portugal* (1.0%) and *Ireland* (1.1%). The expected inflation rates lie above the *euro area* average in *Latvia* (2.6%), *Estonia* (2.4%) and to a lesser degree in *Austria* (1.9%), *Germany* and the *Netherlands* (in each case 1.8%).

In ***Western Europe*** outside the *euro area* the two extremes of assumed price developments continue to be *Switzerland* (0.4%) on the one side, and the *United Kingdom* (2.4%) and *Norway* (2.3%) on the other, although the differences between these two extremes have become smaller.

In ***Eastern Europe*** the inflation rate forecast for 2014 of 2.0% is significantly lower than that expected at the beginning of 2013 (3.3%). This tendency towards smaller price increases can be observed in nearly all countries in the region. According to WES experts, the lowest price increase in 2014 will be seen in *Poland* and the *Czech Republic* (in both cases 1.7%). The highest inflation expectations in the region should again come from *Serbia* (4.2%); but experts nevertheless signal some improvement on the inflation front (2013: 6.0%).

In ***North America***, the 2014 inflation forecast stands at 1.9%, which corresponds exactly to the reported inflation rate for 2013. The 2014 inflation rate in the *USA* will again be somewhat higher than in *Canada* (2.0% compared to 1.6%).

In ***Asia*** inflation expectations for 2014 increased somewhat (from 3.4% in 2013 to 3.6%). This was mainly due to higher inflation expectations in *Japan* (1.5% in 2014 after 0.6% in 2013), *Hong Kong* (4.5% in 2014 after 3.6% in 2013) and the *Philippines* (4.0% in 2014 after 3.1% in 2013). On the other hand, inflation expectations for 2014 were lower than the reported inflation rate for 2013, particularly in *Vietnam* (5.1% after 6.2%) and *Indonesia* (6.5% after 8.3%). In most other *Asian* countries inflation expectations differed only marginally from those reported a year previously, or were even slightly lower: 3.3% versus 3.4% in 2013 in *China*, 2.6% versus 2.5% in *South Korea*, and 2.8% versus 3.2% in *Thailand*. The lowest inflation expectations for 2014 in the region came again from *Taiwan* (1.4%) and *Japan* (1.5%), where aggressive monetary policy aimed at fighting deflation and stimulating growth is showing some success, although the 2% medium term inflation target of the new government will still not be reached this year.

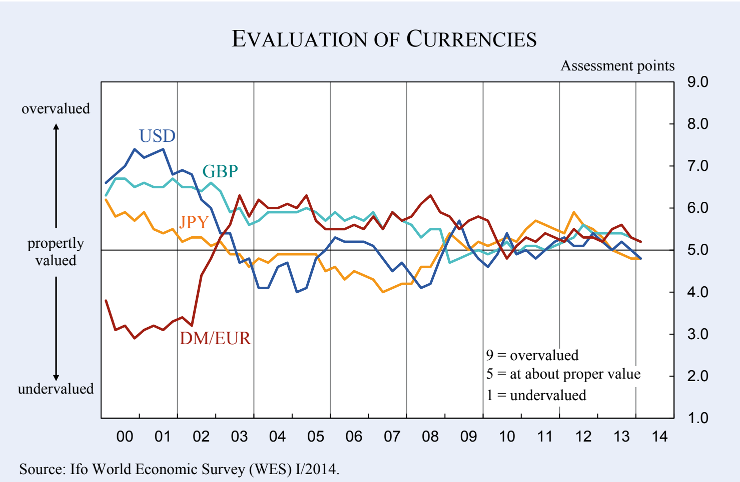
In ***Oceania*** inflation expectations for 2014 remain unchanged at the 2013 rate of 2.4%, with 2.5% in *Australia* and 2.2% in *New Zealand*.

In ***Latin America*** inflation expectations for 2014 picked up (from 9.2% in 2013 to 10.6% in 2014). However, this was mainly due to an even worse inflation outlook in *Venezuela* (from 47.0% in 2013 to 62.0% in 2014). However, the inflation outlook in other *Latin American* countries also deteriorated somewhat, as in *Brazil* (from 5.8% to an expected 6.0% in 2014), and *Mexico* (from 3.9% to an expected 4.4% in 2014).

In ***CIS*** countries inflation expectations for 2014 correspond more or less to the inflation rate reported for 2013 (6.8%). The inflation rate in 2014 will be lower than the regional average, particularly in *Kyrgyzstan* (4.5%), the *Ukraine* (5.8%) and *Kazakhstan* (6.1%). The expected inflation rate in *Russia* is identical to the regional average, which means a small success on the inflation front (6.8% after 7.1% reported for 2013). In *Uzbekistan*, on the other hand, the inflation rate will remain at 15.4% in 2014 and thus clearly above the regional average.

In the ***Near East*** inflation expectations for 2014 are marginally higher than the rate reported for 2013 (4.1% after 3.9%). The increase was mainly caused by *Turkey* (8.2% after 7.6% in 2013) and the *United Arab Emirates* (2.3% after 1.6% last year).

Figure 11

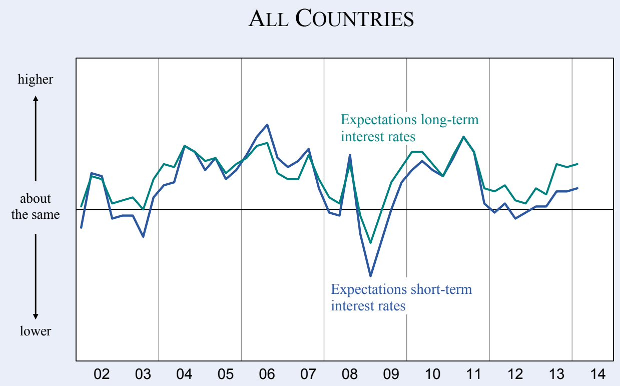


Source: Ifo World Economic Survey (WES) I/2014.

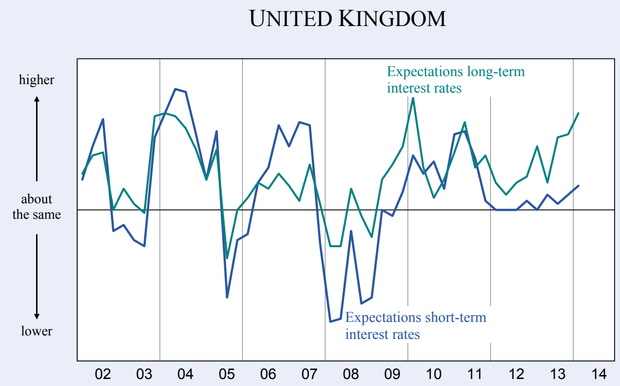
In ***Africa*** price trends remain very heterogeneous. Relatively low inflation rates (below 4%) for 2014 are expected again in the *Congo Dem. Republic* (1.2%), *Morocco* (2.5%), *Togo* and *Niger* (both 2.8%), *Congo-Brazzaville Rep.* (2.9%), *Zimbabwe* (3.1%), *Gabon* (3.2%), *Benin* (3.4%) and *Algeria* (3.8%). The 2014 inflation expectations for the majority of countries covered in the survey like *Tunisia* (5.9%), *Gambia* (5.8%),

Figure 12

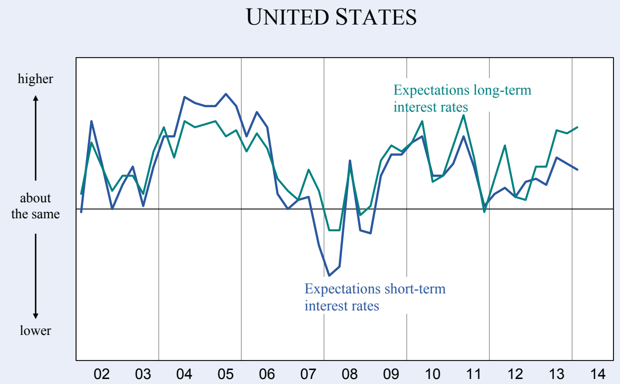
EXPECTED TREND FOR THE NEXT 6 MONTHS FOR SHORT- AND LONG-TERM INTEREST RATES



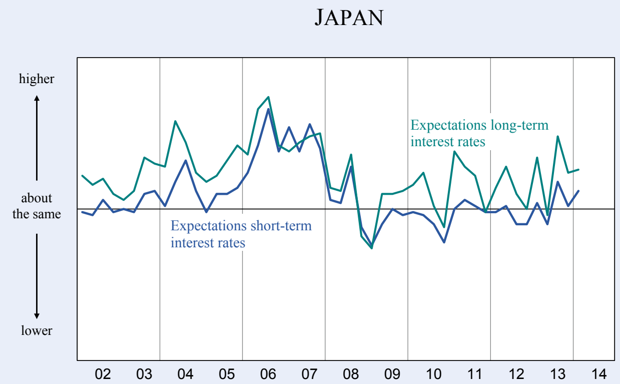
Source: Ifo World Economic Survey (WES) I/2014.



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

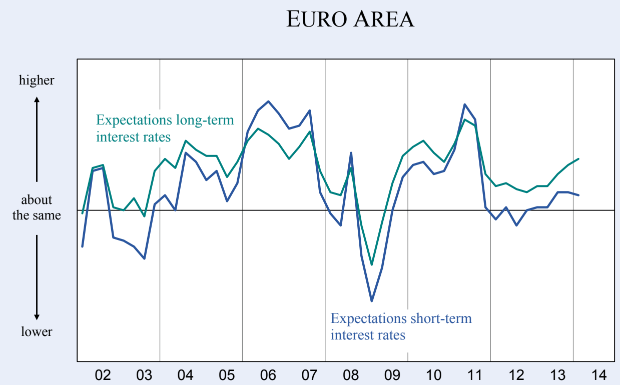


Source: Ifo World Economic Survey (WES) I/2014.



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

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



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

Lesotho (5.5%), *Kenya* (8.1%), *Mauritania* (6.5%), *South Africa* (6.0%) and *Zambia* (7.7%) are in a medium inflation bracket (between 4 and 9%). High inflation rates of over 9% will continue to predominate in 2014, particularly in *Sudan* (39.0%), *Malawi* (28.0%) as well as in *Burundi* (23.0%). To a lesser degree *Nigeria* (11.0%), *Egypt* (11.9%), *Sierra Leone* (9.8%) and *Ghana* (12.0%) belong to the high inflation countries in *Africa*.

US dollar expected to rise

On a worldwide scale the four key currencies *US dollar, euro, UK pound* and *yen* are currently – according to WES experts – not far from their equilibrium level. While the *UK pound* and the *euro* are seen as slightly overvalued, the *US dollar* and the *Japanese yen* appear to experts to be slightly undervalued (see Figure 11).

However, major differences in currency evaluation remain by country: WES experts assessed their own currencies as generally **undervalued** in *Australia,* some *Eastern European* countries like the *Czech Republic, Bosnia and Herzegovina, Hungary* as well as in *Romania*. An undervaluation of the domestic currency was also reported again in some *Asian* countries like *India, Indonesia, Thailand* and *China* (here, however, not with regard to the *Japanese yen*), in *Turkey* and some countries in *Africa* like *Kenya, Ivory Coast, Sudan, Lesotho* and *Sierra Leone*. By contrast, experts regard their own currency as generally **overvalued** in *Pakistan* and *Vietnam, Argentina, Brazil, Cuba, Uruguay, New Zealand* and in the *Ukraine*. In the *euro area* almost all member countries regard the *euro* as overvalued vis-à-vis the *yen* and in many cases vis-à-vis the *US dollar* too.

The answers to a supplementary survey question on the likely development of the *US dollar* in the next six months, regardless of how currencies are assessed from a fundamental point of view, signal that its value is set to rise on worldwide average more than in the preceding survey. By contrast, a weakening of the *US dollar* is expected again in several *Asian* countries (*China, Indonesia, Malaysia* and *South Korea*), and to a lesser degree in *Mexico*.

WES experts continue to expect an increase in long-term interest rates in the next six months

On a worldwide scale, short-term interest rates are expected to remain more or less stable, or increase only marginally, over the course of the next six months. The upward trend in long-term interest rates is expected to continue, but rather sluggishly. It will be most pronounced in the *United States of America*, where the "tapering" process is expected to continue.

Exceptions from this general upward trend, or countries where the expected trend in interest rates in the next six months is pointing downwards, are *Sri Lanka, Bangladesh, Chile,* some *Eastern European* countries like *Bulgaria, Romania, Serbia, Lithuania,* as well as *Armenia*. A decline in long-term interest rates is also ex-

Table 3

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	Venezuela	China, Croatia, Greece, Peru, Sudan
Political stability	Belgium, Bosnia and Herzegovina, Israel, New Zealand, Nigeria, Romania, Ukraine, Venezuela	Albania, China, Egypt, India

* For the countries that are not mentioned in the table, no major changes relating to the climate for foreign investors are expected during the next six months. Only countries with more than four responses were included in the analysis.

Criteria for selection of countries: Deterioration: WES grade between **1.0** and **3.5**
Improvement: WES grade between **6.0** and **9.0**

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

pected in some euro crisis countries like *Greece, Spain* and *Portugal,* as well as in *Cyprus* and *Slovenia*, where WES experts see chances for a further reduction in spreads vis-à-vis the *euro area* average.

However, it has to be stressed that sudden changes in the market environment can lead to changes in the expected movements of interest rates. So in the recent past, significant interest rate hikes in some emerging countries took place, which were obviously not planned previously and show that national central banks increase their policy interest rates often independently from fundamental considerations at short notice in order to defend their currency in the midst of foreign capital flight to "safe haven" countries, particularly in the US (see the results of the WES special question on the "tapering" of the US Central Bank).

Supply of bank credit to firms improving

Given the problems experienced by firms in some countries concerning access to bank credit, a specific question was added last year on a bi-annual term (January and July) to the regular WES questionnaire. WES experts are asked to assess to what extent the supply of bank credit 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) to "strongly constrained" (1) (see Table 1). The latest results to this question are compared with the preceding results in July 2013.

As a general conclusion it can be stated that the credit availability situation has improved significantly, although it is still far from fully satisfactory. More countries than last year now belong to the category "Not constrained". Countries in this group of "climbers", i.e. from "moderately credit constrained" to "not constrained" include *Malaysia, Thailand, Taiwan, Brazil, Croatia,* and *Sweden*. The top country in this list with a perfect supply of credit remains *Canada*.

Fortunately, the group of countries where companies appear to be strongly constrained by the supply of credit shrank, with *China, Albania* and *Ukraine* moving from the category "strongly constrained" to "moderately constrained".

The group of countries where companies face severe problems with the supply of credit consists exclusively of *European* countries in this survey, with the exception of two *African* countries, namely *Zimbabwe* and *Togo*. The group comprises of the euro crisis countries *Greece, Slovenia, Spain, Italy* and *Portugal* and two *Eastern European* countries (*Romania* and *Hungary*), as well as the *United Kingdom*.

Effects of tapering in the US on the world economy

In US monetary policy the term "tapering" describes the reduction of the US Federal Reserve's bond-buying programme known as quantitative easing (QE). The programme was designed to stimulate the US economy and to support financial market performance in recent years. Based on improving business-cycle conditions, US Fed Chairman Ben Bernanke first indicated that the central bank may start to taper its bond-buying program of 85 billion US dollars per month in May 2013. Bernanke surprised investors globally, and his "tapering talk" led to financial turmoil as a result. Upheavals were particularly pronounced in emerging markets, which have witnessed substantial capital inflows in recent years – a trend that would probably be mitigated or even reversed by QE tapering.

In view of considerable market disruption and somewhat weaker macroeconomic conditions, the Fed waited until mid-December 2013 to actually taper its quantitative easing policy by 10 billion US dollars per month, to 75 billion US dollars. Finally, on its next regular meeting on 29 January 2014 the US Fed announced that it would reduce QE by another 10 billion US dollars per month to 65 billion US dollars. Extrapolating this pace, the bond-buying program looks set to reach zero by the end of this year. However, additional tapering depends on the continuous improvements of US macroeconomic fundamentals, and particularly on increasing job gains.

Equally as uncertain as the pace of the QE tapering is its effect on capital flows and global macroeconomic performance. The phase-out of QE is perceived as a substantial risk, especially for emerging markets. To predict its impact on individual countries, previous financial market reactions following Bernanke's "tapering talk" in May 2013 can be assessed. The economists Barry Eichengreen and Poonam Gupta, for example, study differentials in emerging market responses from April to July 2013.[1] According to their research, those emerging

[1] See Eichengreen, B and Gupta, P (2013), "Tapering Talk: The Impact of Expectations of Reduced Federal Reserve Security Purchases on Emerging Markets", World Bank Working Paper.

Table 4 Inflation rate expectations for 2014 and 2013 (based on WES QI/2014 and WES QIV/2013)

Region	QI/2014	QIV/2013	Region	QI/2014	QIV/2013
Average of countries *	**3.3**	**3.2**	**Latin America**	**10.6**	**9.2**
High-income countries	2.1	2.1	Argentina	29.8	26.0
Middle-income countries	7.2	6.9	Bolivia	6.6	5.9
Upper-middle	7.1	6.6	Brazil	6.0	5.8
Lower-middle	7.4	7.5	Chile	2.9	2.6
Low-income countries	6.0	6.6	Colombia	2.5	2.7
EU 28 countries	1.6	1.9	Costa Rica	(5.0)	5.4
EU countries (old members) [a)]	1.6	1.8	Cuba	(3.0)	(2.5)
EU countries (new members) [b)]	2.0	2.1	Dominican Republic	4.8	5.0
Euro area [c)]	1.5	1.7	Ecuador	3.0	3.6
			El Salvador	2.2	1.5
Western Europe	**1.6**	**1.8**	Guatemala	4.8	4.8
Austria	1.9	2.1	Mexico	4.4	3.9
Belgium	1.4	1.3	Panama	(6.5)	(6.0)
Cyprus	0.0	0.7	Paraguay	4.8	4.7
Denmark	1.3	1.2	Peru	2.9	2.9
Finland	1.6	1.8	Trinidad and Tobago	(3.0)	---
France	1.2	1.2	Uruguay	8.0	8.6
Germany	1.8	1.8	Venezuela	62.0	47.0
Greece	-0.4	-0.1			
Iceland	(3.6)	---	**CIS**	**6.8**	**6.9**
Ireland	1.1	1.0	Armenia	8.3	8.0
Italy	1.4	1.7	Kazakhstan	6.1	6.6
Luxembourg	1.5	1.9	Kyrgyzstan	4.5	(5.0)
Monaco	1.5	1.8	Russia	6.8	7.1
Netherlands	1.8	2.4	Ukraine	5.8	5.4
Norway	2.3	2.6	Uzbekistan	(15.4)	(13.2)
Portugal	1.0	1.1			
Spain	1.3	1.9	**Near East**	**4.1**	**3.9**
Sweden	1.0	0.9	Israel	2.5	2.4
Switzerland	0.4	0.3	Jordan	5.6	---
United Kingdom	2.4	3.0	Lebanon	5.5	(7.0)
			Saudi Arabia	3.2	---
Eastern Europe	**2.0**	**2.2**	Turkey	8.2	7.6
Albania	2.7	3.0	United Arab Emirates	2.3	1.6
Bosnia and Herzegovina	2.0	1.8			
Bulgaria	2.2	2.6	**Africa**	**7.5**	**7.8**
Croatia	2.4	2.6	**Northern Africa**	**6.0**	**6.5**
Czech Republic	1.7	1.8	Algeria	3.8	5.0
Estonia	2.4	3.3	Egypt	11.9	10.9
Hungary	2.4	2.4	Libya	(6.3)	(4.0)
Kosovo	1.8	---	Morocco	(2.5)	(3.0)
Latvia	2.6	1.9	Tunisia	5.9	7.5
Lithuania	2.0	1.8	**Sub-Saharan Africa**	**8.6**	**8.7**
Macedonia	2.8	3.0	Angola	(8.5)	(9.0)
Poland	1.7	1.7	Benin	3.4	3.7
Romania	3.1	3.8	Burundi	(23.0)	(20.0)
Serbia	4.2	6.0	Comoros	3.8	4.7
Slovakia	1.5	1.8	Congo Dem. Rep.	1.2	1.4
Slovenia	1.7	2.1	Congo-Brazzaville Rep.	2.9	3.4
			Ethiopia	(11.0)	(10.0)
North America	**1.9**	**1.9**	Gabon	(3.2)	(3.2)
Canada	1.6	1.5	Gambia	5.8	---
United States	2.0	2.0	Ghana	(12.0)	(11.0)
			Ivory Coast	(5.2)	(3.0)
Oceania	**2.4**	**2.4**	Kenya	8.1	7.8
Australia	2.5	2.5	Lesotho	5.5	6.2
New Zealand	2.2	1.6	Liberia	8.1	7.6
			Madagascar	7.1	7.6
Asia	**3.6**	**3.4**	Malawi	(28.0)	(18.0)
Bangladesh	7.0	8.0	Mauritania	6.5	6.5
China	3.3	3.4	Mauritius	3.8	3.6
Hong Kong	4.5	3.6	Namibia	5.5	6.3
India	7.7	7.1	Niger	2.8	2.9
Indonesia	6.5	8.3	Nigeria	11.0	9.9
Japan	1.5	0.6	Rwanda	(5.0)	---
Malaysia	3.8	3.6	Sierra Leone	9.8	9.8
Pakistan	12.3	12.1	South Africa	6.0	6.3
Philippines	4.0	3.1	Sudan	39.0	43.8
Singapore	(3.2)	(3.0)	Swaziland	(6.2)	6.6
South Korea	2.6	2.5	Togo	2.8	(2.7)
Sri Lanka	8.2	8.5	Zambia	7.7	8.0
Taiwan	1.4	1.3	Zimbabwe	3.1	2.7
Thailand	2.8	3.2			
Vietnam	5.1	6.2			

* 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, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: Ifo World Economic Survey (WES) I/2014 and IV/2013.

Figure 13 **Expected effects of a less expansionary monetary policy in the US ("tapering") on following components**

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

markets that had better developed financial markets and that allowed the largest appreciation of their real exchange rates and the largest increase in their current account deficits during the quantitative easing episode (2009-2012) experienced the sharpest currency depreciation, reserve losses, and stock-market declines. Interestingly, measures of policy fundamentals and economic performance (such as a country's budget deficit, public debt, level of reserves, and rate of GDP growth) did not seem to provide any better insulation against the impact of tapering.

In order to provide a complementary assessment of the expected differential in the impact of US tapering across countries, this survey studies WES experts' expectations by means of the following special question: "How would a less expansionary monetary policy in the US ("tapering") affect the following components in this country?"[2] Respondents were asked to assess the effects on their jurisdictions in terms of four components: GDP, long-term interest rates, exchange rates, and portfolio investments by foreigners.

The results reveal substantial differences across countries. The regional distribution of the overall impact assessment on GDP is summarised in Figure 13a.[3] Although a less expansionary US monetary policy should primarily hit the US itself, less respondents expect domestic GDP to decrease in *North America* compared to those in *Latin America*, where the strongest impact is predicted. In the rest of the world effects are also expected to be negative, but somewhat weaker. However, for *Oceania* slightly more experts on balance predict an increase rather than a decrease in GDP. This pattern may well be driven by the regions' dependency on the export of raw materials, and thus on the global business cycle. More specifically, as a pre-condition for any "tapering", demand in the US has to pick up – and any such uptick historically tend to mark a turning point in the global business cycle.

[2] The survey was conducted during the 2– 27 of January, right between the first and the second actual reduction of the bond-buying program. Thus, experts' predictions of the Fed's tapering pace should be roughly in line with the one currently observed.

[3] Regional averages are based on weights representing a country's relative importance for world trade.

Guided by economic theory, one would expect the interest rate arbitrage induced by higher US rates to lead to a corresponding adjustment in the rest of the world. According to the interest rate parity concept, this adjustment would either be seen in a depreciation of the foreign currency vis-à-vis the US dollar, an increase in foreign interest rates, or a mixture of the two. However, since the adjustment is conducted via capital flows, cross-border restrictions on the mobility of capital cushion the effects. Consequently, experts in *China* report particularly low impact assessments; and given their weight in the region, the Chinese responses significantly shape the aggregate ones for *Asia*.

Figure 13d presents the results for the long-term interest rates. Here, the vast majority of respondents in the advanced economies of *North America, Western Europe* and *Oceania* expect rates to increase. However, for the emerging economies a smaller majority of experts predict a decrease in long-term interest rates. By contrast, more of the adjustment is expected to take place via depreciation against the US dollar in emerging economies (see Figure 13b). Again, the currencies of those countries that heavily rely on the export of raw materials (*Oceania*, *Near East* and *Africa*) are expected to depreciate less, or even to appreciate against the US dollar.
Finally, Figure 13c reports assessments for portfolio investments by foreigners. Outside the US such investments are expected to decrease in response to higher US interest rates. As in the previous charts, a particularly large number of experts predict capital outflows in *Latin America*. Moreover, the biggest portfolio adjustments are generally expected to be seen in emerging economies.

In addition to emerging economies, the press also reported concerns over the impact of US tapering on the countries in the periphery of the *euro area*. Unreported results for these countries, however, show that experts in the periphery are barely concerned about adverse effects. By contrast, fewer respondents than in the core expected a euro depreciation or capital outflows in the periphery. This may be justified by a changing global risk assessment that moves away from the *euro area,* but focuses more on the emerging markets.

Overall, the survey results confirm that experts worldwide expect long-term interest rates to increase and economic activity (GDP) to be dampened by the tapering of the US quantitative easing policy. For the advanced economies, interest rates rather than exchange rates are expected to adjust. In the emerging economies a more incomplete interest rate pass-through is predicted, while exchange rates are expected to adjust on a broad basis. Within the BRIC countries, *Brazil, Russia* and *India* may face higher adjustment costs, while *China* seems to be rather insulated (see Table 5). However, the overall effects are still assessed as only moderate throughout.

Table 5

Balancing statistics* on effects of US tapering in selected countries or regions

	GDP	Exchange rate depreciation (vis-à-vis US $)	Portfolio investments by foreigners	Long-term interest rates
United States	-33.3%	0.0%	25.0%	83.3%
Euro area	-14.4%	-18.0%	-1.6%	65.4%
Brazil	-50.0%	53.3%	-51.7%	56.7%
Russia	-13.9%	33.3%	-27.8%	20.0%
India	0.0%	42.9%	-14.3%	14.3%
China	0.0%	-8.3%	-7.7%	15.4%
Turkey	-25.0%	12.5%	-41.2%	56.3%

* The table reports balancing statistics. This represents the difference in the shares of respondents expecting the respective component to increase and those who expect a decrease.
Source: Ifo World Economic Survey (WES) I/2014.

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