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ifo WORLD ECONOMIC SURVEY

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2017

May
Vol. 16

World Economic Climate

ifo World Economic Climate Improves Markedly

Advanced Economies

Advanced Economies keep their Momentum

Emerging and Developing Economies

Emerging and Developing Economies show Signs of a Cautious Recovery

Special Topic

The WES Special Question: The Economic Effects of Populism



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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 *April 2017*, 1,118 economic experts in 120 countries were polled.

METHODOLOGY AND EVALUATION TECHNIQUE

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

The qualitative questions in the World Economic Survey have three possible categories: "good / better / higher" (+) for a positive assessment resp. improvement, "satisfactory / about the same / no change" (=) for a neutral assessment, and "bad / worse / lower" (-) for a negative assessment resp. deterioration; For the time t for each qualitative question and for each country the respective percentage shares (+), (=) and (-) are calculated. The balance is the difference between (+)- and (-)-shares. As a result, the balance ranges from -100 points and +100 points. The mid-range lies at 0 points and is reached if the share of positive and negative answers is equal.

The economic climate is a mean of the balances of the present economic situation and the economic expectations.

The survey results are published as aggregated data. For aggregating the country results to country groups or regions, the weighting factors are calculated using the gross domestic product based on purchasing-power-parity of each country.

ifo World Economic Climate Improves Markedly

The ifo World Economic Climate improved markedly in the second quarter of 2017, with the indicator rising from 2.6 points to 13.0 points. Experts' assessments of the current economic situation were considerably more positive, marking their sharpest increase since January 2013. Economic expectations also improved. The world economy showed a further recovery in the second quarter (see figures 1 and 2).

The ifo World Economic Climate improved in nearly all regions of the world. The main drivers remained the advanced economies, and especially the European Union. Both assessments of the current economic situation and expectations continued to follow an upwards trend in most countries. In Latin America assessments of the economic situation remained largely poor, but expectations brightened markedly. There was also a significant improvement in the developments and outlook for emerging and developing economies. Africa and the Middle East were the only regions in which the economic climate deteriorated. The outlook for Turkey also remained overcast. Average short and long-term interest rates worldwide are expected to rise over the next six months (see figure 5). The US dollar is expected to strengthen further over the next six months, but more moderately than previously.

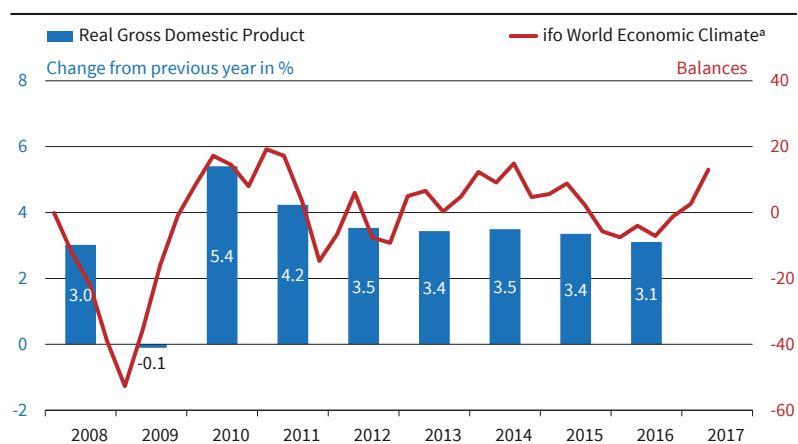
ADVANCED ECONOMIES KEEP THEIR MOMENTUM

The global economy continued on its track of recovery, as economic sentiment continued to brighten in the second quarter of 2017. The ifo Economic climate remained positive for the **Euro Area and G7** and a favourable economic climate expanded to the **Other Advanced Economies**.

The **Euro Area** kept its momentum and the best economic climate currently pre-

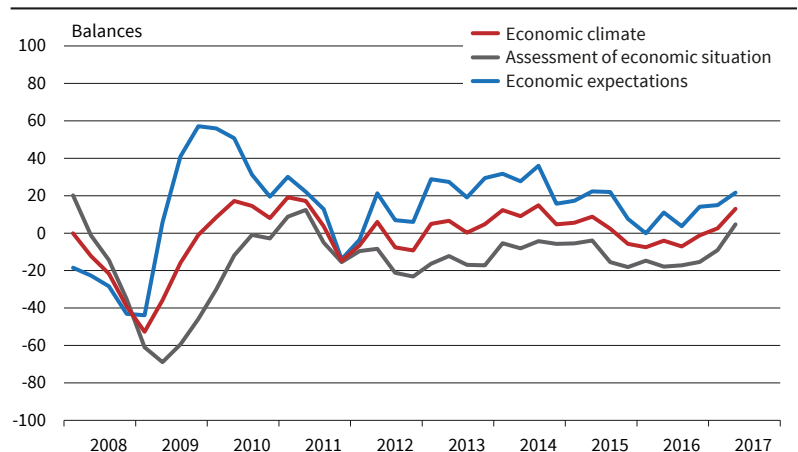
vails in the **Netherlands, Lithuania, Slovenia, Slovakia, Ireland, Austria** and **Belgium** (see box 1). **Ireland** will again be the fastest growing economy in the region with an estimated growth rate of 4.1 percent for 2017 (see table 2). Improvements in economic sentiment were strongest for **Portugal** and its economic climate indicator turned positive as both present situation and outlook were assessed more favourable (see figure 7). This is also reflected in the GDP forecast for 2017, as Portuguese experts forecast a 1.7 percent growth rate for 2017 (see table 2). In contrast, in **France, Italy** and **Greece** there are still no signs of a sustainable recovery. Although the economic climate improved in Greece and

Figure 1
Economic Growth and ifo Economic Climate for the World



^a Geometric mean of judgement of the present and expected economic situation. Sources: International Monetary Fund; ifo World Economic Survey (WES) II/2017. © ifo Institute

Figure 2
ifo World Economic Climate



Source: ifo World Economic Survey (WES) II/2017. © ifo Institute

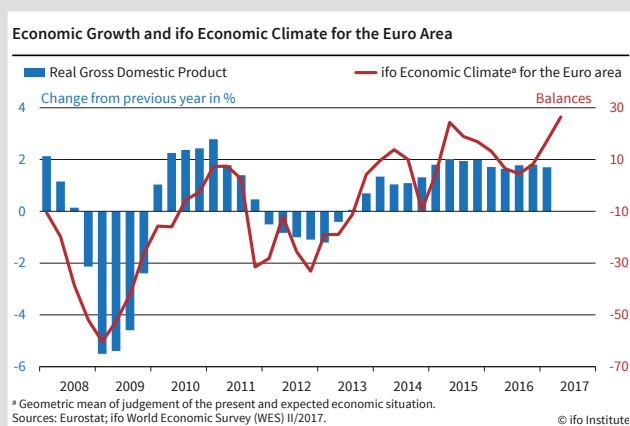
WORLD ECONOMIC SURVEY (WES) AND GDP GROWTH IN THE EURO AREA

The *ifo Economic Climate* of all 19 member countries of the euro area is the geometric mean of assessments of the general economic situation and the economic expectations for the next six months. The April results are based on responses from 340 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 Economic Climate* Area in the euro area improved markedly in the second quarter. The indicator rose from 17.2 balance points to 26.4 points, reaching its highest level since the onset of the global financial crisis in the late summer of 2007. Assessments of the current economic situation in particular were more favourable than last quarter. The six-month economic outlook also improved and economic growth looks set to accelerate noticeably in the first half of 2017.

Among the euro area's large economies, the best economic climate currently prevails in The Netherlands, Germany, Austria and Belgium. Compared to last quarter, improvements were particularly marked in Spain, The Netherlands, Belgium, Austria and Finland. In France and Italy, by contrast, there are still no signs of a sustainable recovery.

Experts upwardly revised their inflation expectations for this year to 1.6 percent, versus 1.3 percent last quarter. A growing majority of experts accordingly expects an increase in short and long-term interest rates over the next six months. Over half of survey participants agreed that the major economic problems are currently rising income inequality, a shortfall of innovative ideas and a lack of confidence in economic policy. Only a few experts cited export restrictions and the poor credibility of the European Central Bank's monetary policy as problems.



Italy due to advances in the current economic situation and economic outlook, it remains unfavourable. As political uncertainty increases in France¹, economic experts assess the economic situation as unfavourable, and they do not expect improvements in the coming six months.

¹ This quarters survey was conducted before the second round of presidential elections.

In the European Union as whole, WES-experts upwardly revised their inflation expectations for this year to 1.8 percent, from 1.5 percent last quarter (see table 1). A growing majority of experts accordingly expects an increase in short and long-term interest rates over the next six months (see figure 5). Over half of survey participants agreed that the major economic problems are currently rising income inequality, a shortfall of skilled labour and a lack of confidence in economic policy. Experts in France, Italy and Greece in addition agreed that political instability is an insistent economic problem for their countries at the moment. Only a few experts cited export restrictions and the poor credibility of the European Central Bank's monetary policy as problems (see table 3).

Fortheremaining **G7** countries, in both **Japan** and the **United States** economic climates slightly weakened, which however remained satisfactory (see figures 7.2 and 7.3). US experts consider the US dollar to be at its proper value vis-à-vis the euro and the yen, however they regard the British pound to be undervalued compared to the dollar. Trust in the policy of the Fed seems very high, as very few cited the lack of credibility of central bank policy as a problem. Both short and long term interest rates are expected to rise in the coming months. More than 80% of the US experts agreed that inadequate infrastructure and widening income inequality are currently hindering the US economy. In contrast, more than 70% of the experts in Japan indicated that insufficient demand is currently the most pressing economic problem.

Strong improvements are seen for the **United Kingdom** (see figure 7.3), as the present economic situation brightened. This resulted in a positive economic climate of 4.7 points, after having been in negative figures since the Brexit referendum. Nevertheless its economic outlook remained subdued. More than half of the WES experts indicated that inadequate infrastructure and offering an unfavourable climate for foreign investors are the economic problems facing the UK at the moment. Experts continue to see the British pound as undervalued vis-à-vis the US dollar, euro and yen, and expect a further rise of inflation. For 2017, inflation is expected to increase to 2.7% compared to 2.3% in the previous quarter. Also the expected inflation in five years was upwardly revised to 2.8% (see table 1).

The brightened economic sentiment in the European Union also extended to the **other advanced economies** (see figure 7). **Switzerland, Norway** and **Sweden** had a remarkable increase in their economic climate indicator, with very good assessments of their present economic situation as well as a positive outlook for the next 6 months. In Switzerland, experts assess the Swiss franc as undervalued vis-à-vis the euro, British pound and Japanese yen. A favourable economic climate continued in **Denmark, Israel** and the **Czech Republic**. The experts for these three countries report that a lack of skilled labour is hindering the economy. In contrast, in **Hong Kong** the economic climate remains at a low level, and there is no confidence in government's economic policy.

Table 1

Inflation Rate Expectations for 2017 and in 5 Years (2022)

Aggregate*/Country	2017	2022	Country	2017	2022
Average of countries	9.0	3.5	Bulgaria	1.7	2.4
EU 28 countries	1.8	2.3	Cabo Verde	1.6	2.2
Euro area a)	1.6	2.1	Chile	2.9	3.1
Advanced Economies	1.8	2.3	China	2.3	3.0
Australia	2.0	2.7	Colombia	4.5	3.6
Austria	2.0	2.2	Croatia	1.4	2.1
Belgium	2.2	2.1	Dem. Rep. of the Congo	40.0	16.7
Canada	2.0	2.5	Ecuador	1.3	2.7
Czech Republic	2.2	2.1	Egypt	25.5	10.0
Denmark	1.1	1.8	El Salvador	2.7	3.7
Estonia	2.5	2.7	Georgia	5.6	4.0
Finland	1.2	2.0	Guatemala	4.5	4.3
France	1.3	2.0	Hungary	2.5	3.1
Germany	1.7	2.0	India	5.3	4.2
Greece	1.0	1.7	Kazakhstan	8.0	5.6
Hong Kong	2.1	2.5	Kenya	9.0	7.6
Ireland	1.0	2.0	Kosovo	1.7	3.4
Israel	1.2	2.3	Lesotho	6.0	5.8
Italy	1.3	2.2	Malaysia	3.7	4.3
Japan	0.6	1.4	Mexico	5.0	3.7
Latvia	2.1	2.8	Morocco	2.3	2.6
Lithuania	2.4	2.1	Namibia	7.8	7.9
Netherlands	1.5	1.9	Nigeria	16.3	13.3
New Zealand	1.9	2.1	Pakistan	5.8	7.1
Norway	2.4	2.7	Paraguay	4.3	4.4
Portugal	1.4	2.0	Peru	3.5	2.6
Republic of Korea	1.9	2.4	Philippines	3.4	4.3
Slovakia	1.5	2.8	Poland	2.1	2.6
Slovenia	1.9	3.1	Romania	1.9	3.0
Spain	2.0	2.2	Russian Federation	5.6	5.0
Sweden	1.7	2.6	South Africa	6.3	6.3
Switzerland	0.4	1.2	Sri Lanka	7.1	5.1
Taiwan	1.4	1.5	Sudan	21.0	17.5
United Kingdom	2.7	2.8	Thailand	1.9	2.7
United States	2.3	2.6	Togo	1.9	2.7
Emerging market and developing economies	14.6	4.4	Tunisia	4.8	4.9
Argentina	24.9	8.5	Turkey	9.8	7.8
Bangladesh	5.4	5.3	Ukraine	11.3	7.1
Bolivia	5.9	7.2	Uruguay	7.7	7.3
Bosnia and Herzegovina	1.4	2.8	Venezuela	---	---
Brazil	4.5	4.2	Zambia	7.0	5.4
			Zimbabwe	3.8	7.6

* To calculate aggregates, country weights are based on gross domestic product based on purchasing-power-parity (PPP) in international dollars (database IMF's World Economic Outlook). – a) Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: ifo World Economic Survey (WES) II/2017.

EMERGING AND DEVELOPING ECONOMIES SHOW SIGNS OF A CAUTIOUS RECOVERY

The economic climate indicator for emerging markets and developing economies turned positive again (with +6.5 points), after being in negative territory since the second quarter of 2013. Although this signals a cautious recovery, WES experts indicate that the main economic problems of these countries are corruption, increasing income inequality and a lack of innovation (see table 3).

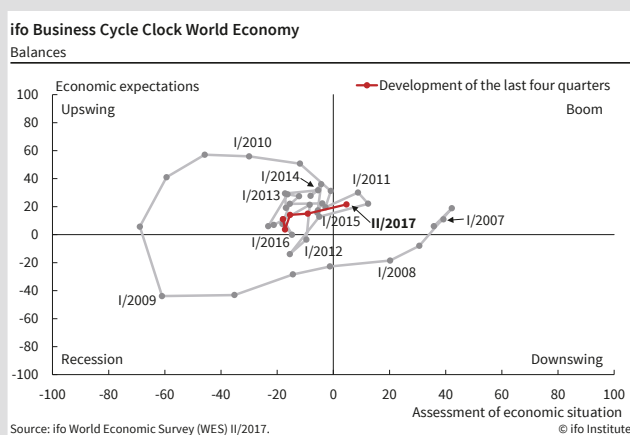
The economic climate in the main emerging markets (**Brazil, Russia, India** and **China**) together

improved considerably. Assessments of the economic situation improved, albeit remaining negative. The economic outlook, however, turned very optimistic. In **India** the economic climate indicator soared by more than 45 balance points. Both the present economic situation and 6-month outlook were very well assessed, and experts judge private consumption to be recovering. Nevertheless, the quantitative GDP forecast for 2017 (7.0 %) is slightly lower than what the experts expected for 2016 (7.4%) (see table 2). Experts were in agreement that inadequate infrastructure is, next to widening income inequality and corruption, the

IFO BUSINESS CYCLE CLOCK FOR THE WORLD ECONOMY

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

According to the April survey, the ifo indicator for the world economy improved markedly. Experts' assessments of the current economic situation were considerably more positive and the economic expectations also improved. As a result, for the first time since 2011 the indicator showed a rightward movement into the boom quadrant. It remains to be seen whether this development will solidify, as the indicator is still close to the center of the clock.



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 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 current economic situation be assessed as negative but expectations as positive, the world business cycle is in an upswing phase (top left quadrant).

most pressing economic problems facing India at the moment. Trust in government's economic policy seems to return, as few experts indicate this as a problem.

According to the Chinese experts, lack of innovative ideas and inefficient debt management are the economic problems that **China** is facing at the moment. Nevertheless, the present economic situation was assessed as favourable, as it reached its highest value since 2011. Similar to the previous survey, the short and long term interest rates are expected to rise, and inflation expectations have only been marginally revised. Economic sentiment in **Russia** saw no considerable change compared to the previous survey. The economic outlook was slightly downwardly revised; however, the economic climate remained around the same level (-3.9 on balance) as previous survey. In **Brazil** the economic climate recovered somewhat albeit at a low level. Although economic expectations for the coming six months continued to improve, the present situa-

tion was assessed as very unfavourable. The Brazilian real was assessed as being overvalued compared to the other main currencies. GDP growth for 2017 was upwardly revised to 0.6 for 2017 (compared to -3.6 in 2016). In terms of economic problems, WES experts agreed unanimously that for Brazil corruption and insufficient demand are the most pressing problems.

The main driver behind the improvement in **other emerging markets** is the uptake in **emerging and developing Asia**. With a climate indicator that climbed by 25.9 balance points to 23.1, it is the only emerging markets region where its experts judge the economic situation as favourable. **Emerging and developing Europe**, as well as the **Commonwealth of Independent States** saw small improvements and continued to have a satisfactory economic climate. The uptake of the economic climate from the previous survey failed to continue in the **Middle East and North Africa** and in **Sub-Saharan Africa**.

The **ASEAN-5** countries also saw a remarkable rise in the economic climate indicator (see figure 6.2), from 4.2 in the first quarter to 38.8 balance points in the second quarter of 2017. Experts in **Indonesia** and **Thailand** evaluated the present economic situation as satisfactory in the present survey. This brightened economic sentiment in Thailand was also reflected in the GDP forecast for 2017, which improved to 3.4% (compared to 2.6% in 2016) (see table 2). An increasing majority of the experts expect an increase in the inflation rate in the coming six months. This is also reflected in the quantitative inflation rate expectations for 2017, as it was upwardly revised to 1.9%. As Thailand's most important economic problem, WES experts highlighted inadequate infrastructure. Economic sentiment in the **Philippines**, although still favourable, declined slightly. In **Pakistan**, economic sentiment declined somewhat, as the present economic situation was less favourably assessed as in the previous survey. WES experts foresee a worsening of the trade balance as imports are continuing to rise, but exports are expected to fall considerably. At the same time all major currencies are undervalued to the Pakistani rupee. WES experts agreed unanimously that the lack of innovative ideas is the most important economic problem at the moment.

The climate indicator of **emerging and developing Europe** taken together did not show much change in the economic sentiment (see figure 6.1). The most important economic problems of the region as identified by the surveyed experts were the lack of confidence in government's economic policies and a lack of innovation. The economic climate at 21.4 balance points was best assessed in **Poland**, where the economic outlook brightened considerably. A decreasing number of experts were convinced that the short and long term interest rates were going to rise in the next six months and quantitative inflation expectations were revised to 2.1%, compared to 1.5% in the previous survey. Besides a lack of innovation, 90% of the experts indicated that lack of confidence in government's eco-

Table 2

Expected Growth of Real Gross Domestic Product (GDP) in 2017 and 2016 (Based on WES QII/2017 and QII/2016)

Aggregate*/Country	QII/2017	QII/2016	Country	QII/2017	QII/2016
Average of countries	3.3	2.9	Bulgaria	3.1	2.1
EU 28 countries	1.9	1.8	Cabo Verde	3.8	2.2
Euro area a)	1.7	1.6	Chile	1.7	1.6
Advanced Economies	2.0	1.8	China	6.0	6.2
Australia	2.5	2.3	Colombia	2.1	2.6
Austria	1.8	1.4	Croatia	2.8	1.5
Belgium	1.5	1.2	Dem. Rep. of the Congo	2.5	7.4
Canada	2.3	1.7	Ecuador	0.4	-0.5
Czech Republic	2.6	2.5	Egypt	3.6	3.7
Denmark	1.8	1.3	El Salvador	1.9	1.8
Estonia	1.7	2.2	Georgia	4.2	--
Finland	1.7	0.8	Guatemala	3.2	3.8
France	1.4	1.3	Hungary	2.7	2.1
Germany	1.6	1.6	India	7.0	7.4
Greece	0.7	-0.6	Kazakhstan	1.9	0.7
Hong Kong	2.3	1.8	Kenya	5.5	5.7
Ireland	4.1	5.0	Kosovo	3.9	3.4
Israel	2.8	2.6	Lesotho	3.2	3.0
Italy	1.0	1.0	Malaysia	2.4	3.0
Japan	1.1	0.6	Mexico	1.7	2.3
Latvia	2.4	2.4	Morocco	3.9	3.0
Lithuania	2.7	2.9	Namibia	1.8	4.4
Netherlands	1.9	1.8	Nigeria	1.8	3.4
New Zealand	2.4	2.4	Pakistan	4.8	4.3
Norway	1.3	1.4	Paraguay	3.9	3.2
Portugal	1.7	1.4	Peru	2.7	3.5
Republic of Korea	2.5	2.5	Philippines	6.6	5.9
Slovakia	3.2	3.0	Poland	3.1	3.6
Slovenia	2.9	1.8	Romania	3.9	3.2
Spain	2.8	2.4	Russian Federation	1.0	-1.1
Sweden	2.4	3.0	South Africa	0.9	0.8
Switzerland	1.5	1.0	Sri Lanka	5.2	5.3
Taiwan	2.0	1.5	Sudan	4.3	2.6
United Kingdom	1.6	1.8	Taiwan	3.4	2.6
United States	2.3	2.3	Togo	5.2	5.4
Emerging market and developing economies			Tunisia	2.4	1.7
Argentina	2.2	-0.8	Turkey	3.1	3.5
Bangladesh	7.0	6.6	Ukraine	2.7	0.7
Bolivia	4.2	4.5	Uruguay	2.3	0.9
Bosnia and Herzegovina	2.7	2.0	Venezuela	-4.9	-14.6
Brazil	0.6	-3.6	Zambia	3.7	3.3
			Zimbabwe	1.9	0.3

* To calculate aggregates, country weights are based on gross domestic product based on purchasing-power-parity (PPP) in international dollars (database IMF's World Economic Outlook). – a) Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Spain, Slovenia, Slovakia.

Source: ifo World Economic Survey (WES) II/2017.

conomic policy was a pressing issue. In **Bulgaria, Croatia, Hungary** and **Romania**, a favourable economic climate prevails, although Romania and Hungary saw a worsening, as economic expectations clouded over. In Romania all experts stated that corruption, inadequate infrastructure, lack of international competitiveness and not enough skilled labour are currently hindering the Romanian economy. In **Turkey**, economic growth is forecast to be less than the previous year with 3.1% (see table 2). This is reflected in the continuing negative economic climate. Prices are expected to further increase as inflation is set at 9.8% (see table 1).

A weak economic sentiment continued in **Latin America** (see figure 6.2). The present situation did not show any improvement and stayed at a low of -60 points. Economic outlook, however, is more optimistic. The most important economic problems in this region are, as stated by the WES experts, inadequate infrastructure and corruption (see table 3). Experts in **Paraguay**, in addition, indicated that there is a capital shortage hindering their economy to perform even better. In Paraguay the economic situation is assessed as very favourable as it improved by 37.5 to 50 points. Experts expect the trade balance to pick up, as exports

Table 3

Economic Problems Ranked by World Importance

	World	Advanced Economies	Emerging and Developing Economies	EU	Developing Asia	Latin America	CIS	MENA	Sub-Saharan Africa
Widening income inequality	72.3	68.6	75.3	55.5	80.1	72.7	71.7	62.0	88.7
Lack of innovation	60.3	40.7	75.9	51.7	71.5	80.3	89.9	82.8	66.7
Lack of skilled labour	60.3	52.9	66.2	53.7	64.8	56.2	67.2	91.5	85.1
Inadequate Infrastructure	59.1	56.3	61.4	49.5	54.7	81.9	84.4	24.8	86.5
Lack of confidence in government's econ. policy	57.9	61.1	55.4	52.9	39.9	73.0	79.0	76.6	89.4
Corruption	55.0	26.3	78.6	35.0	76.3	88.5	91.0	76.0	96.0
Legal and administrative barriers to business	52.0	38.4	62.9	42.5	58.3	63.5	79.8	79.1	79.2
Lack of international competitiveness	51.0	43.3	57.1	39.2	45.0	79.9	78.6	78.9	63.5
Insufficient demand	45.8	36.1	53.6	34.3	41.8	75.6	84.8	66.9	67.9
Inefficient debt management	40.2	25.1	52.5	23.1	59.7	42.5	21.0	54.3	65.5
Unfavourable climate for foreign investors	36.6	20.4	49.5	33.5	43.7	43.0	59.6	73.9	79.3
Political instability	35.4	35.4	35.5	39.9	21.9	60.7	18.3	65.1	79.3
Trade barriers to exports	34.4	25.6	41.4	11.8	49.8	32.4	41.7	18.5	37.2
Capital shortage	28.8	11.2	42.8	27.9	27.4	46.8	76.7	74.0	83.6
Lack of credible central bank policy	20.6	11.8	27.9	12.1	31.6	14.5	25.7	17.1	46.7

*Based on percentages of experts indicating their country is facing this problem at the moment. Highlighted problems are the top 3 most important economic problems for each region.

Source: ifo World Economic Survey (WES) II/2017.

are expected to increase. This is accompanied by an expected GDP growth of 3.9%, an increase of 0.7% compared to 2016 (see table 2). In **Uruguay**, economic growth is forecast by the WES experts at 2.3% for 2017 this is an increase of 1.4% compared to previous year (see table 2). This is accompanied by an improvement of the qualitative assessment of the present economic situation. Although less so than in the previous survey, all major currencies were assessed by the WES experts as undervalued vis-à-vis the Uruguayan peso. There was a big drop in the economic climate in **Peru**, as assessments of the present economic situation deteriorated and experts do not foresee any improvements in the coming six months. **Mexico's** economic climate improved, albeit at a low level. Next to corruption, a current problem that Mexico's economy is facing at the moment is lack of innovation.

The economies of the **Commonwealth of Independent States** recovered slightly, being slightly positive on the balance scale (see figure 6.2). This is the first time the WES experts have assessed the economic climate as satisfactory since 2012. Especially the economic climate in **Ukraine** was assessed as more favourable compared to the last survey. With a rise of 25.7, it now stands at 21.1 on the balance scale. Both components were assessed more favourably; however it is the economic outlook that brightened considerably. WES experts indicated that corruption, insufficient demand and administrative barriers for business are still hindering economic growth. GDP

growth for 2017 is forecasted at 2.7% a considerable increase from 2016 (0.7%) (see table 2).

Africa and the Middle East were the only regions in which the economic climate deteriorated. Experts in the **Middle East and North Africa** assessed the current economic situation at a similarly negative level as in the previous survey, although they were more negative in their economic outlook (see figure 6.2). More than 90% of the WES experts indicated that there is a lack of skilled labour; however this is not the only problem facing this area (see table 3). **Tunisia's** economic climate deteriorated further, with experts expecting a further worsening in the future. Corruption and lack of trust in government's economic policy is stated as the biggest problem. The economic climate indicator in **Sub-Saharan Africa** moved slightly downwards and stayed negative on balance at -33.3 (see figure 6.2). While assessments of the present economic situation remained at the same negative level, economic expectations after an optimistic period of four quarters turned negative this time. Economic constraints are especially clear for **South Africa**. There is no confidence in the economic policy of the current government and all experts agree that the country is facing problems of corruption and political instability. This has led to an unfavourable climate for foreign investors. Both short and long term interest rates are expected to rise in the coming six months. GDP growth for 2017 is forecast at a low of 0.9%, further signalling a very poor economic climate.

Table 4

Increase of Populism in the last 5 Years*

	World	EU/G7	Other advanced economies	CIS	Developing Asia	Developing Europe	Latin America	MENA	Sub-Saharan Africa
Decreased significantly	2.0	0.5	1.6	4.1	1.6	2.2	8.5	4.4	1.9
Decreased moderately	8.2	4.5	28.7	17.8	12.7	18.3	18.6	21.7	9.6
Unchanged	25.9	17.2	47.5	35.6	30.2	38.7	28.7	43.5	45.2
Increased moderately	36.5	43.3	22.1	21.9	41.3	40.9	26.4	21.7	20.2
Increased significantly	27.2	34.6	1.6	20.6	14.3	2.2	17.8	8.7	23.1

*Distribution of experts in percentages.

Source: ifo World Economic Survey (WES) II/2017.

**THE WES SPECIAL QUESTION:
THE ECONOMIC EFFECTS OF POPULISM**

Populism in various forms is present across countries and regions. The recent resurgence of populism in Europe and in the United States has sparked increasing attention in the media but also by political scientists and economists. The main underlying idea of populist rhetoric in representative democracies focuses on the dichotomy between the people and the ruling elite: Kaltwasser and Taggart suggest that populism can be defined as “a thin-centred ideology that considers society to be separated into two homogenous and antagonistic groups: ‘the pure people’ and ‘the corrupt elite’, and argues that politics should be an expression of the *volonté generale* (general will) of the people.”² Who these people or ‘*volonté generale*’ and the elite are, can differ from region to region. In Europe populism might

be associated with more right-wing politics; in Latin America on the other hand populist politics are associated more with the left.

A recent report by the European Economic Advisory Group (EEAG) defines the populist economic agenda as “characterised by short termism, the denial of intertemporal budget constraints, the failure to evaluate the pros and cons of different policy options as well as trade-offs between them”.³ Focusing on Europe, they characterise populist economic policy as expansionary, emphasising the benefits of more public spending or lower taxes. Globalisation and international trade is pictured by populist parties as a process in which large portions of the domestic population lose out.

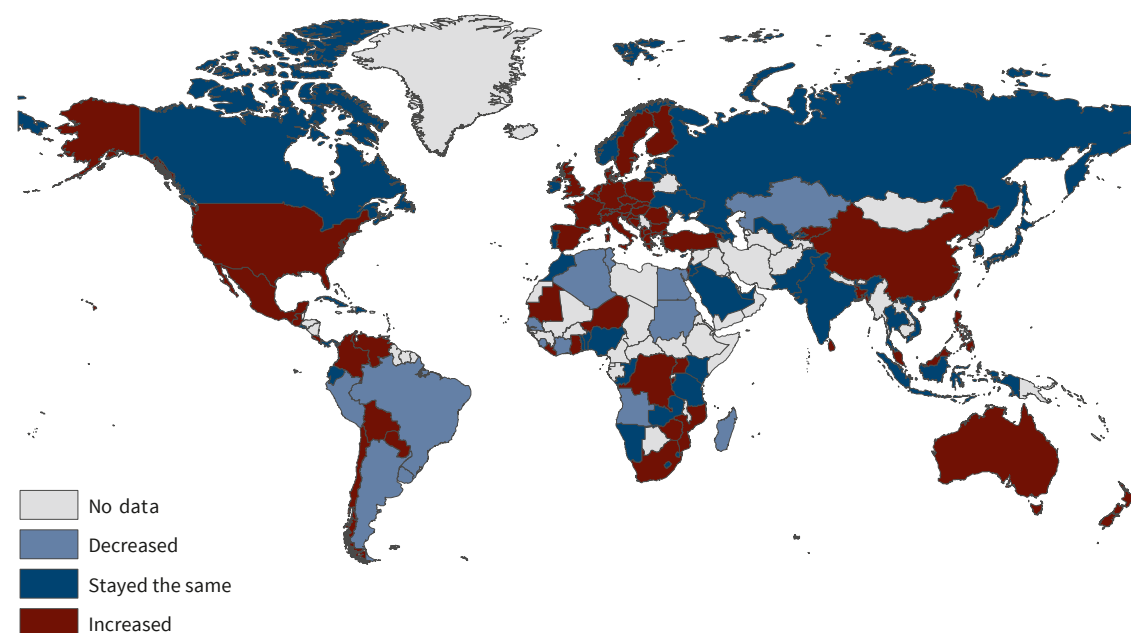
To expand this picture to include a worldwide view, the special question in this quarter’s WES focuses on the role of populism in economic policy making. More

² Kaltwasser, C. R. and P. Taggart (2016), “Dealing with Populists in Government: A Framework for Analysis,” *Democratization* 23, 201–20.

³ EEAG Report on the European Economy 2017, Chapter 2: Economic Policy and the Rise of Populism – It’s Not So Simple”, 2017, 50-66. www.ifo.de/w/WVBzMVL7

Figure 3

Change of Populism in the last 5 Years

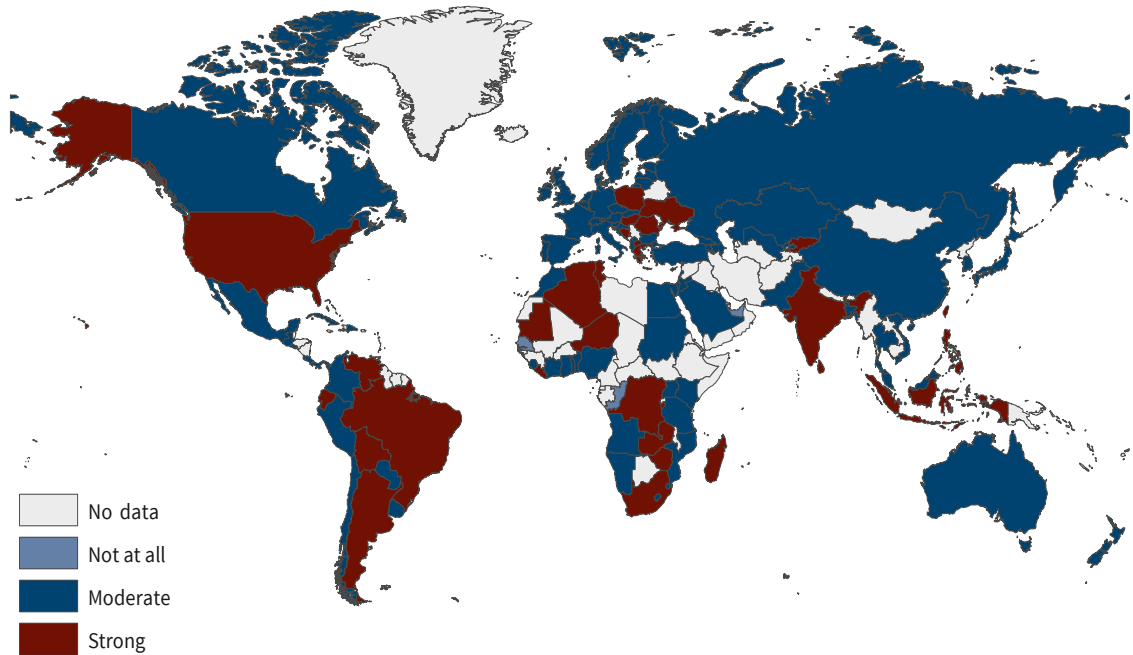


Source: ifo World Economic Survey (WES) II/2017.

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Figure 4

Influence of Populism on Economic Policy Making



Source: ifo World Economic Survey (WES) II/2017.

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specifically, experts were first asked if the role of populism has changed in the last five years. The possible answer categories ranged from ‘decreased significantly’ to ‘increased significantly’. Responses included 986 economic experts from 120 countries. A clear majority of WES experts indicated that there was indeed an increase of populism in their country (see table 4). And a closer look at the different regions shows that in particular the EU and/or G7 countries saw a significant increase in the last 5 years.

Second, experts were asked to assess whether populism in some way influences economic policy making. The world maps below show the averages of each country on the answers of whether populism increased

and whether populism influences economic policy making. As the maps show, there is an increase of populism; however, its influence on economic policy making is in general assessed as more moderate. In Europe one of the exceptions is Greece, where the experts identified a strong influence on economic policy making. The current and second cabinet of Alexis Tsipras, of the more left wing party – Syriza, is in a coalition with the more right wing and anti-austerity party Independent Greeks. In Latin America and in some countries in Africa, experts assessed that the role of populism has decreased moderately or stayed the same. For example, in Argentina and Brazil, according to the WES experts, the influence of populism has decreased

Table 5

The Effects of Populism on economic Policy Making

Regions	Euro area and/or G7	Other advanced economies	CIS	Developing Asia	Developing Europe	Latin America	MENA	Sub-Saharan Africa
More limits on migration	61.0	63.9	29.2	19.4	48.9	11.9	33.3	18.3
Increase in short-term spending	49.9	35.6	51.4	57.1	72.6	68.2	47.6	56.2
Increase of re-distributive policies	47.1	48.7	51.4	49.2	74.0	68.0	68.2	51.9
Restriction of trade	33.8	22.9	31.9	29.0	17.0	39.8	40.9	27.6
Tax cuts	26.6	28.0	12.7	33.3	40.6	18.9	28.6	23.8
Restructuring the economy	24.9	23.7	41.7	57.1	46.8	49.2	55.0	47.1

Source: ifo World Economic Survey (WES) II/2017.

slightly; however, it does have a strong effect on economic policy making.

The third question relates to the potential effects of populism. Experts were asked to indicate out of a list of six possible economic outcomes the ones applicable to their country. As table 5 shows, an increase of short term spending and an increase of redistributive policies are among the main effects of populism in all regions. On the other hand, a limit on migration is clearly a European-oriented outcome. This is clearly the case for the Netherlands, where more than 90% of the experts indicated restricting migration as an effect. Considerably fewer experts indicated any of the other options. For the emerging and developing markets (excluding the euro area and/or G7 and other advanced economies), 40 to 50% of the experts indicated that the economy has been restructured due to the influence of populism in economic policy making. This corresponds with what the experts indicated for India. In Argentina and the United States, more than 70% of the WES experts cited restriction on trade as an effect. This might not be surprising for the US, with the Trump presidency looking into renegotiating trade agreements. In Greece, more than 70% of the experts indicated that an increase of redistributive policies was among the effects of populism on economic policy making. Asia is the only region where experts judged tax cuts to be an effect of populism in economic policy making.

To conclude, populism is present in many regions around the world but its economic effects differ. A more in-depth analysis is needed to draw conclusions on what populism means exactly for economic policy making in different countries. This brief assessment shows, however, that in some regions of the world populism is actually decreasing. In some other cases, especially in Europe, experts indicated that populism has increased in the last 5 years; its effect on economic policy up to now has only been moderate. Based on the assessments of the WES experts, in general the effects of populism are increasing short-term spending and re-distributive policies.

Figure 5

Expected Trend for the next 6 Months for Short- and Long-term Interest Rates



Source: ifo World Economic Survey (WES) II/2017.

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Figure 6.1

Selected Aggregates

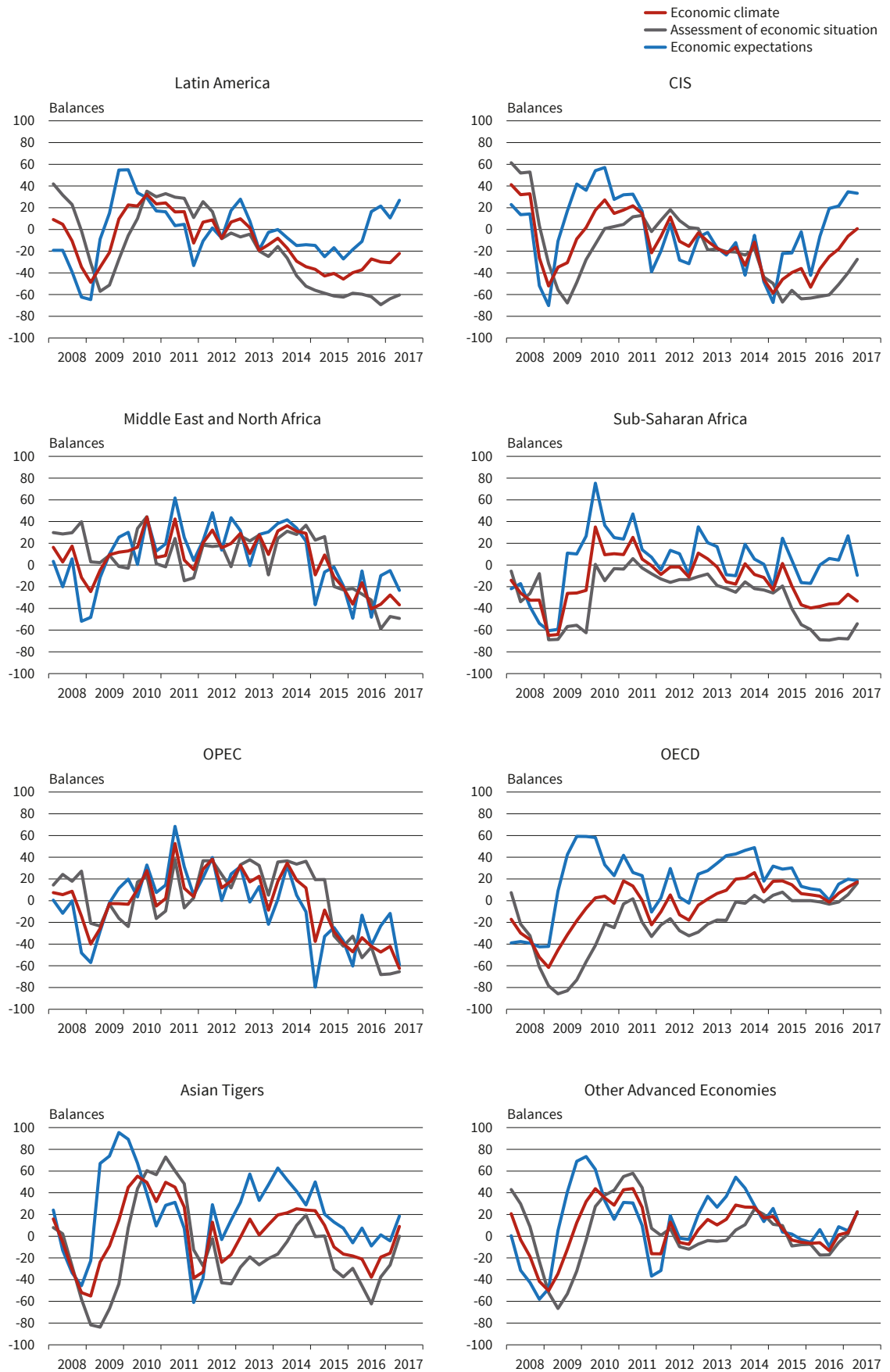


Source: ifo World Economic Survey (WES) II/2017.

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Figure 6.2

Selected Aggregates

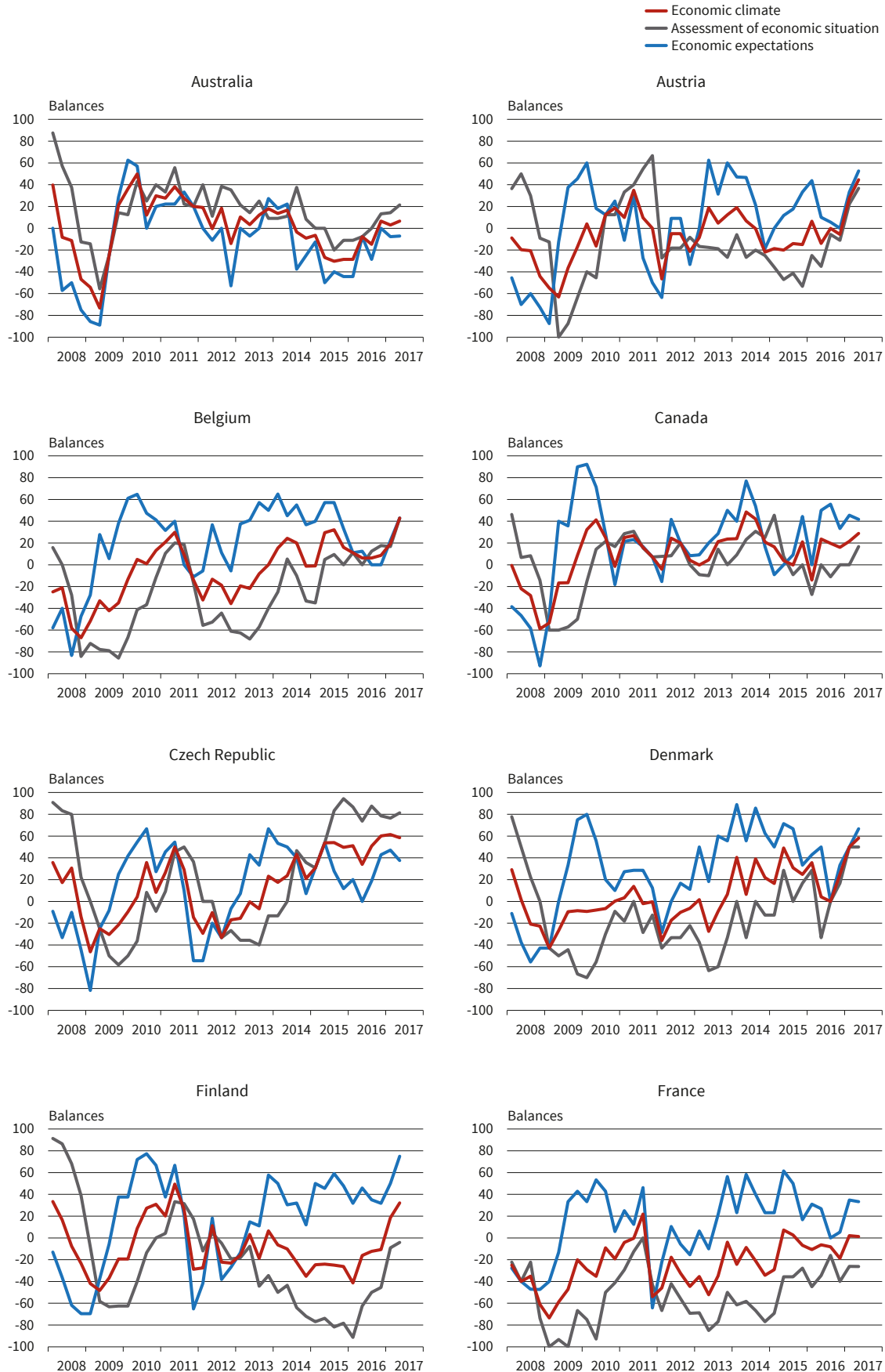


Source: ifo World Economic Survey (WES) II/2017.

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Figure 7.1

Advanced Economies

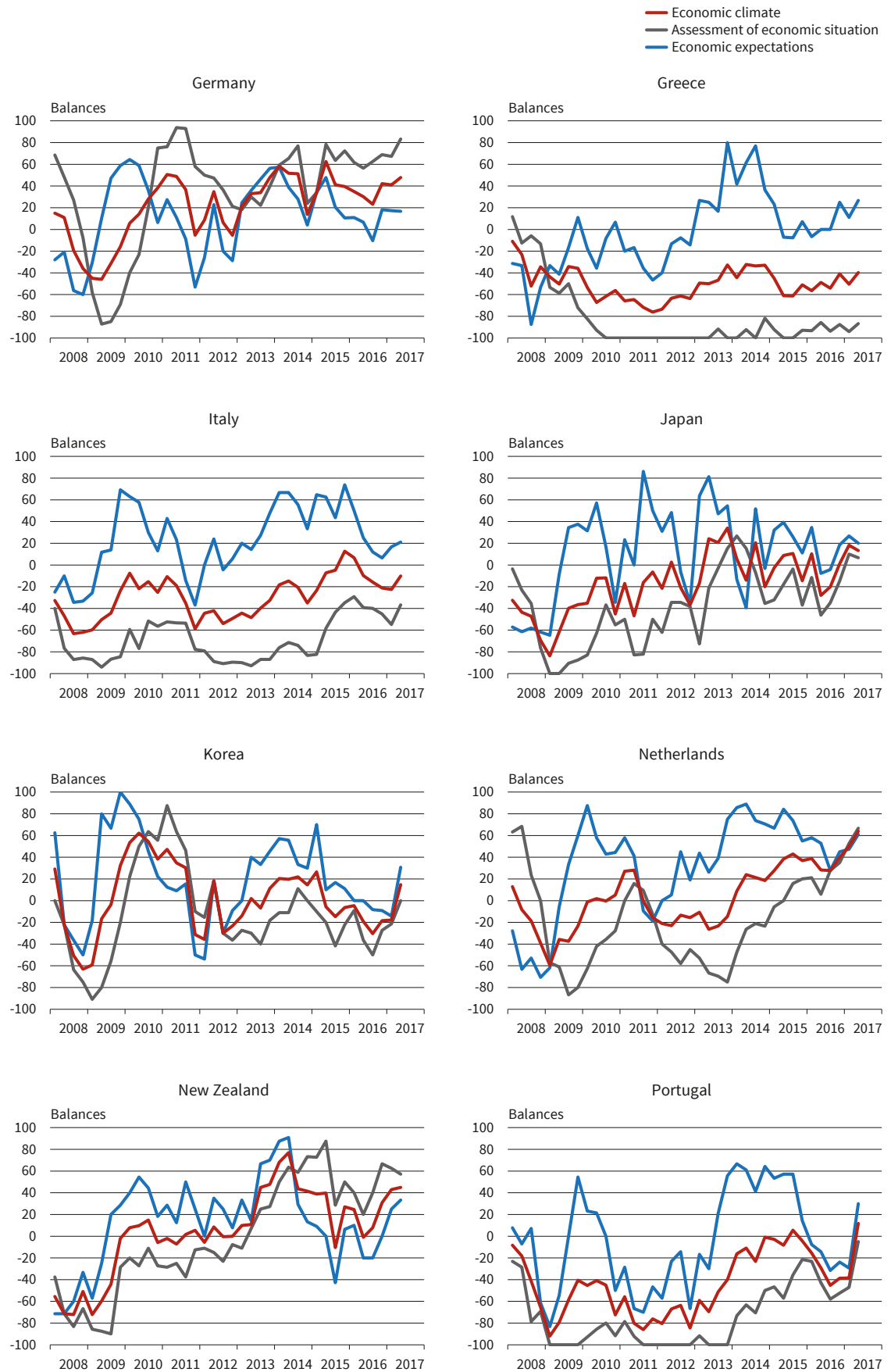


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Figure 7.2

Advanced Economies

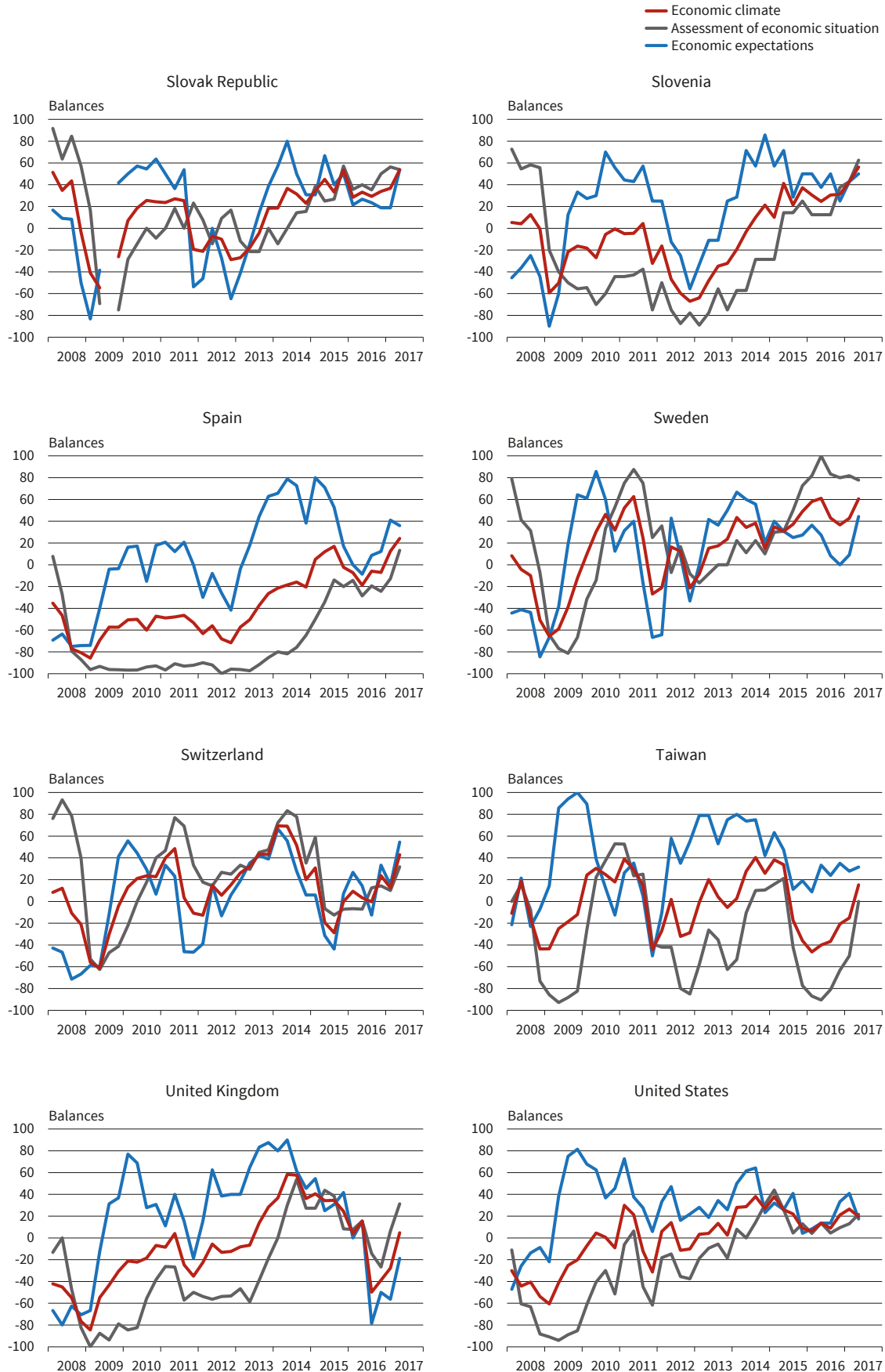


Source: ifo World Economic Survey (WES) II/2017.

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Figure 7.3

Advanced Economies

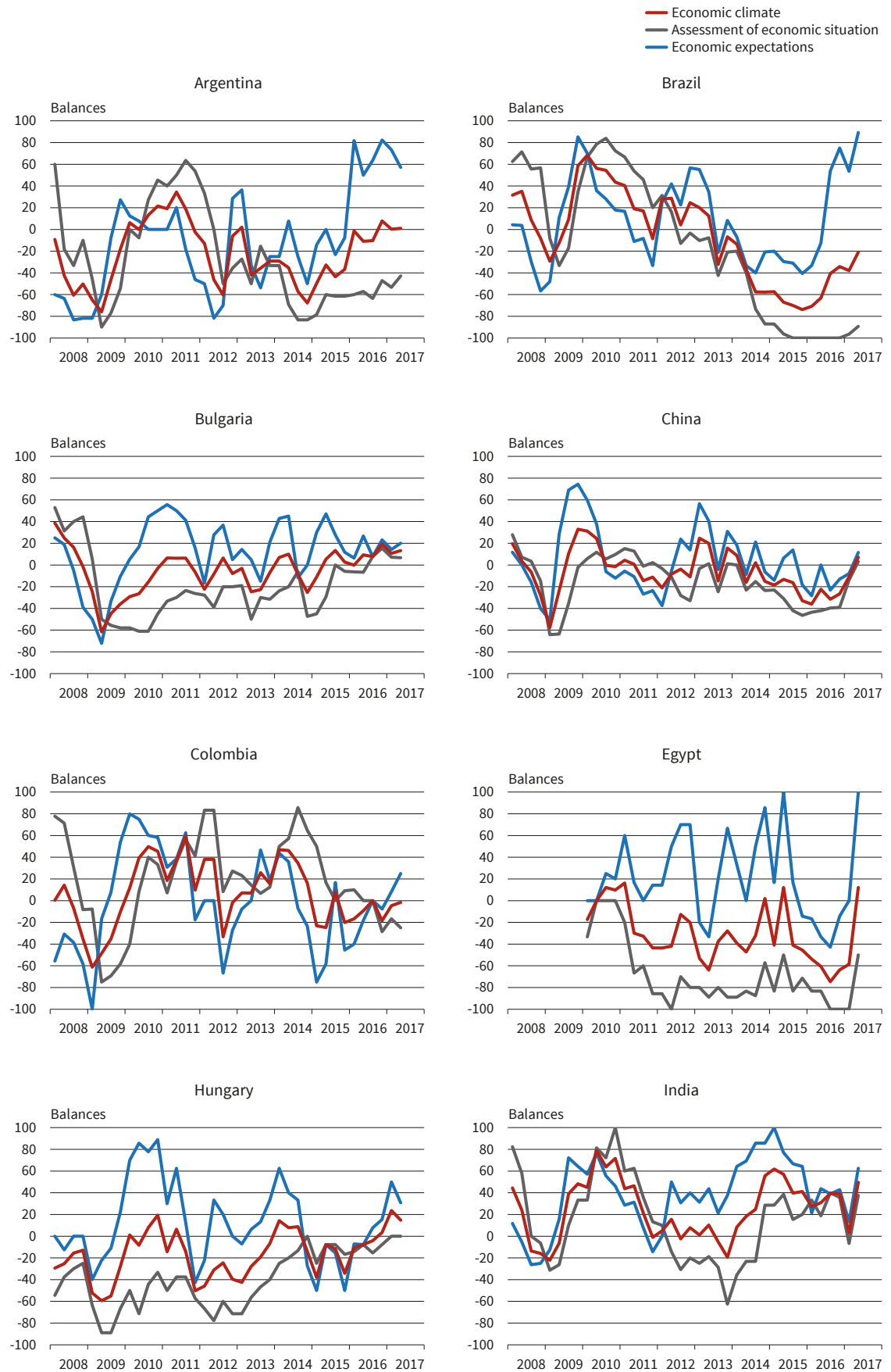


Source: ifo World Economic Survey (WES) II/2017.

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Figure 8.1

Emerging Markets and Developing Economies



Source: ifo World Economic Survey (WES) II/2017.

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Figure 8.2

Emerging Markets and Developing Economies

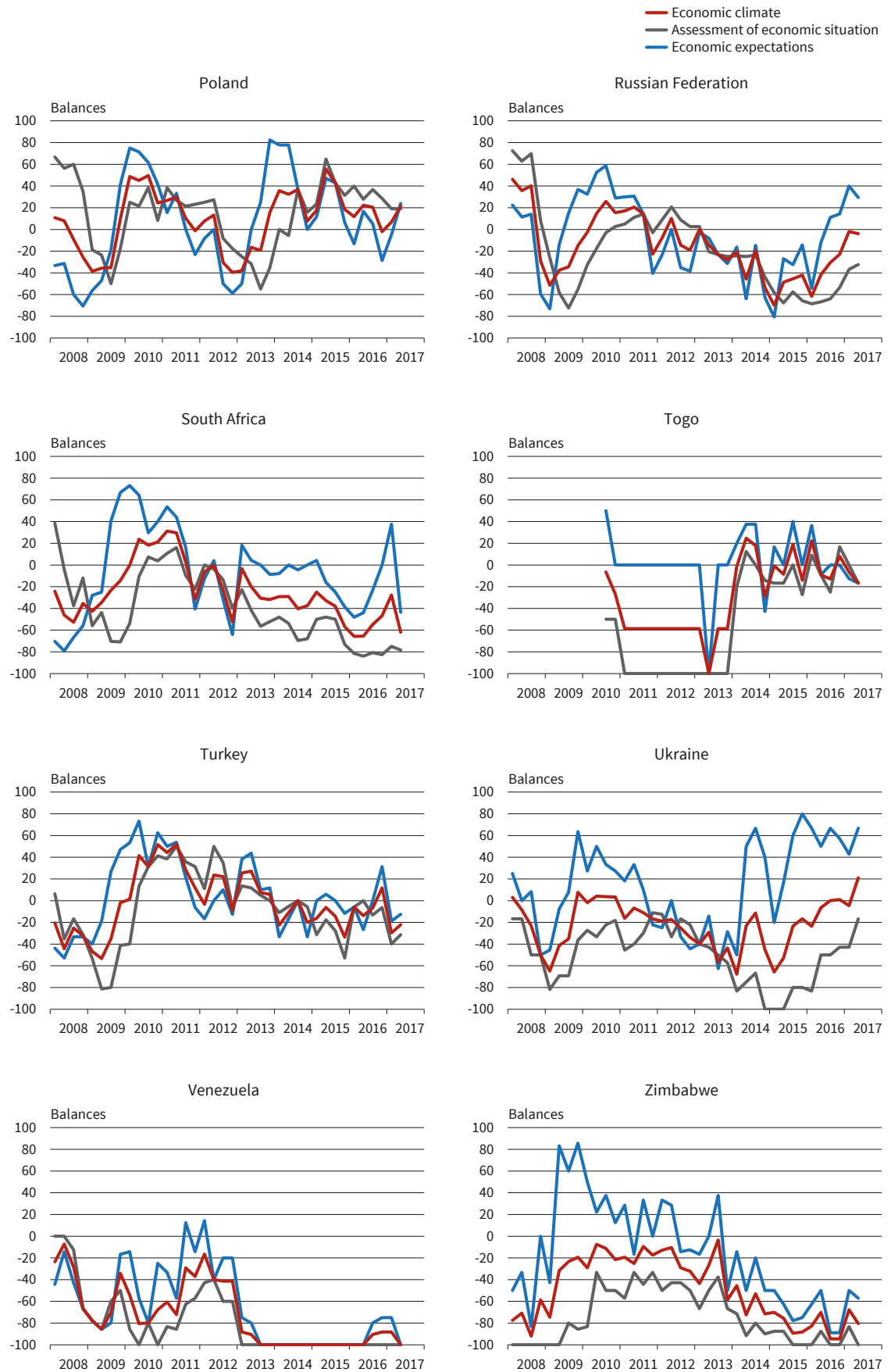


Source: ifo World Economic Survey (WES) II/2017.

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Figure 8.3

Emerging Markets and Developing Economies



Source: ifo World Economic Survey (WES) II/2017.

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