

Chapter 2, Section 3. Asian Economies ~ India: Slow Pace of Expansion ~

- Internal demand played a main role in expansion, but India's high inflation rate and financial tightening are having effects on consumption and investment. (Figures 80 & 81)
 - Prices: Inflation was high at over 9%, which was far above the government target of 4.0 – 4.5%. This was in an environment of strong internal demand and higher raw material prices, along with supply restriction due to deficient infrastructure, etc.
 - Monetary Policy: Interest rates raised 5 times in 2011.
 - Production: Growth declined in 2011. Affected by financial tightening, capital goods production registered negative growth in July-Sept. 2011.
- Ongoing Current Account Surplus (Fig. 82):
 - Tertiary industries are growing fast, and the services revenues surplus is growing, but there is an ongoing trade deficit, partly due to lagging development of secondary industries.
 - This is financed by capital inflows, but there is a declining trend of securities investments which are short term inflows, so caution is needed (Fig. 83). Also, capital inflow regulations and infrastructure deficiencies are factors blocking direct investment in India. Also, the rupee weakened (Fig. 84), which increased the foreign debt burden and boosted import prices, which could bring domestic inflation pressures.

Fig. 80 Number of Automobiles Sold

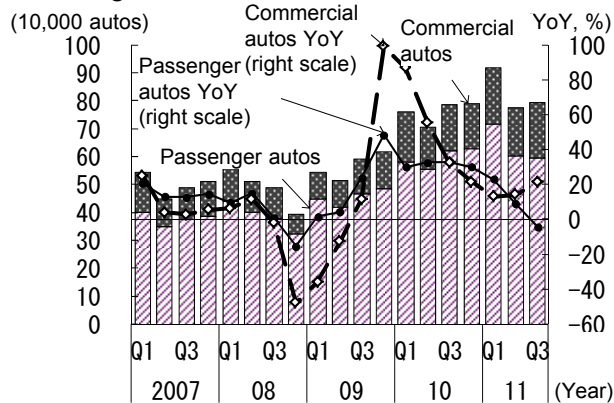


Fig. 81 Capital Goods Production

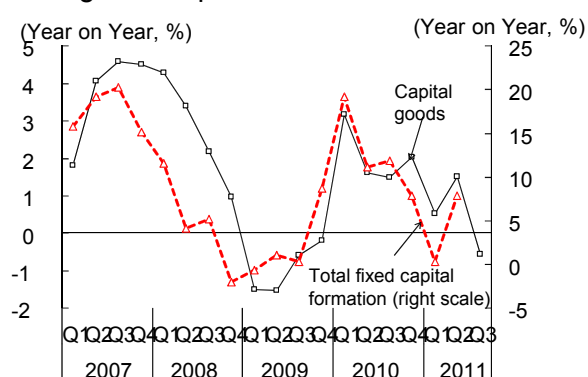
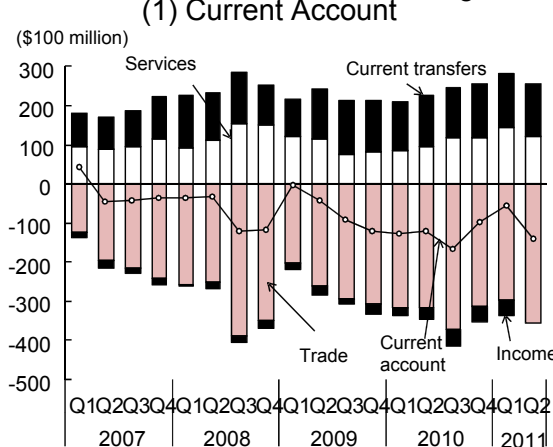


Fig. 82 Current Account



(2) Services Balance Breakdown

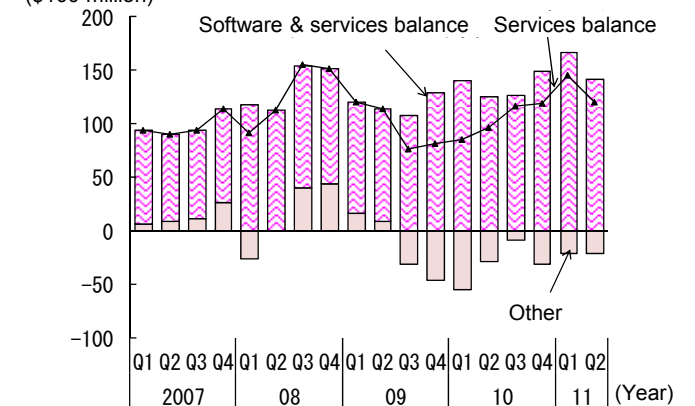


Fig. 83 Foreign Investment Inflows

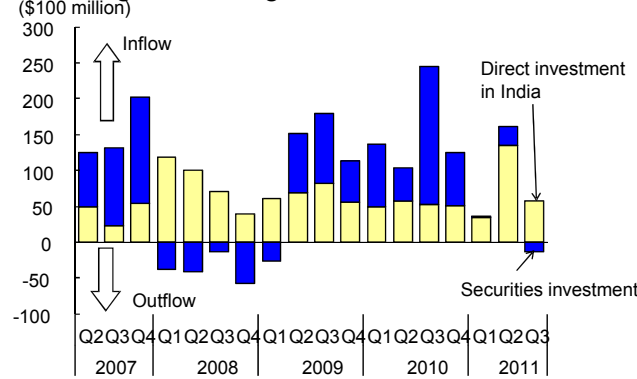
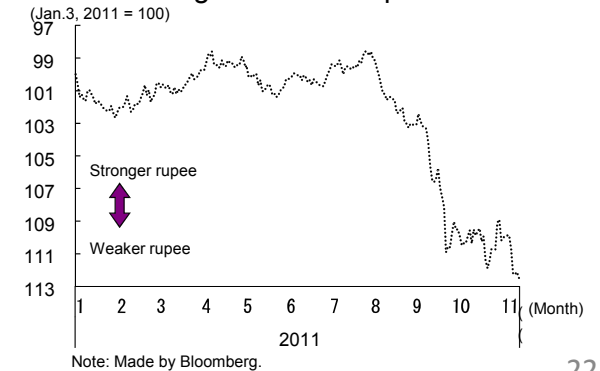


Fig. 84 India Rupee



Chapter 2, Section 3. Asian Economies ~ Other Asia: Generally Slow Recovery Pace / Unique Growth in Indonesia ~

- In Korea, Taiwan and the ASEAN region, in 2011, exports to Europe and USA stagnated, reducing real economic growth rates.
 - Exports to Europe and USA decreased from Malaysia, with downward trends in Taiwan and Singapore. (Fig. 85)
- Indonesia: After the global financial crisis, other ASEAN countries experienced negative growth in 2009. But Indonesia maintained positive growth; it grew by roughly 5% from 2001 to 2010.
 - Characteristics: 1) Largest population in ASEAN and has population bonus (Fig. 86), 2) Middle class increasing (Fig. 87), 3) Rich natural resources.
 - Driven by internal demand, including consumption. Unemployment rates peaked in 2005, and continue to fall. Along with income growth, there is growth in expenditures for consumption of automobiles, etc. (Fig. 88).
 - Current account & capital balance are both in surplus. Benefitted from higher international product prices, and has surplus in goods balance. Strong trends resulting from inflow of short term funds such as securities investment, due to larger spreads vs. Europe and U.S. interest rates (Fig. 89).

Fig. 85 Export Trends (Contributions by Major Countries & Regions)

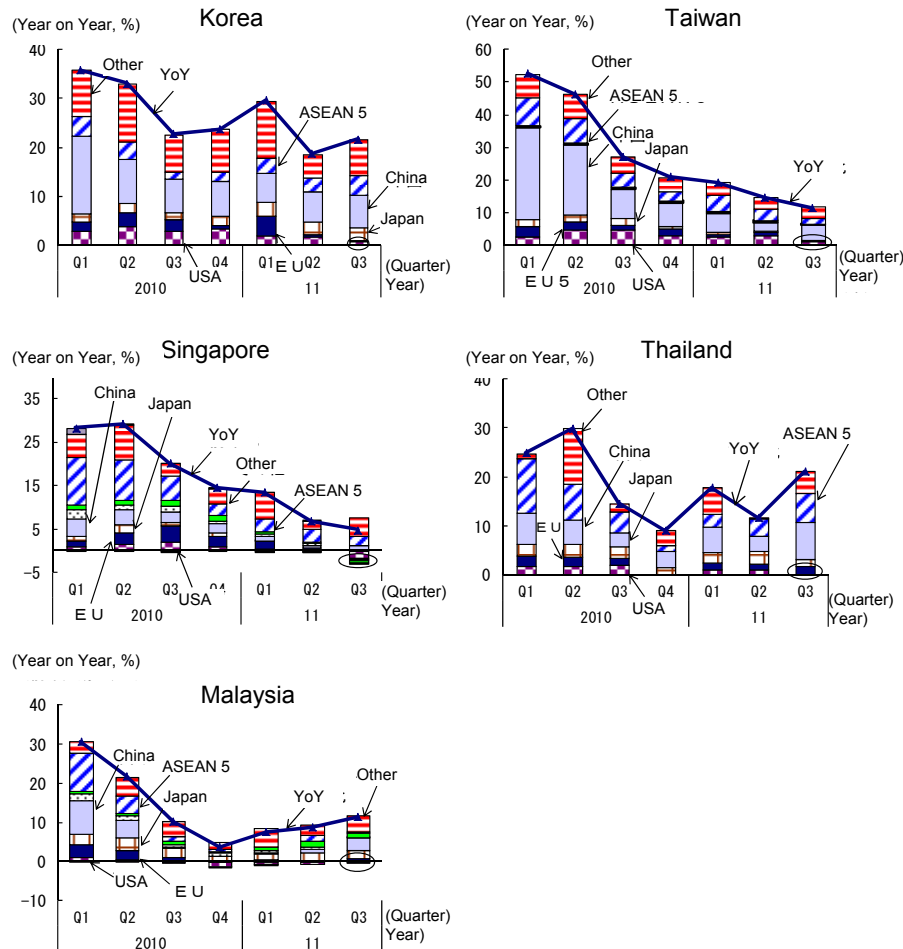


Fig. 86 Indonesia's Population by Age (Moderate-range Estimate)

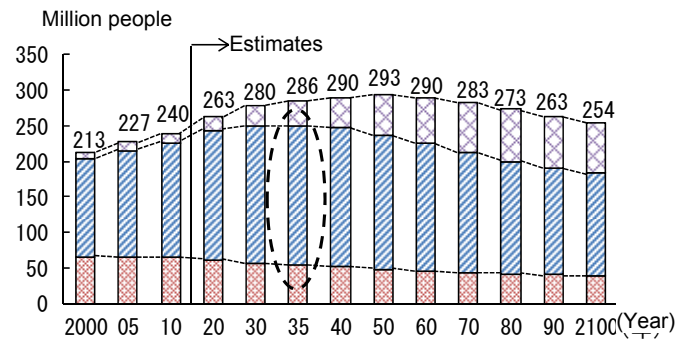


Fig. 87 Real Disposable Income Distribution

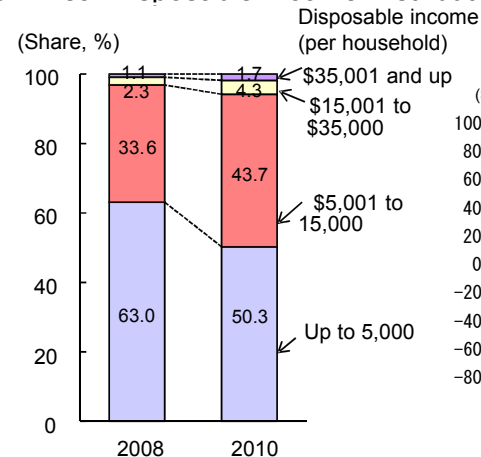


Fig. 88 No. of Auto Sales in Indonesia

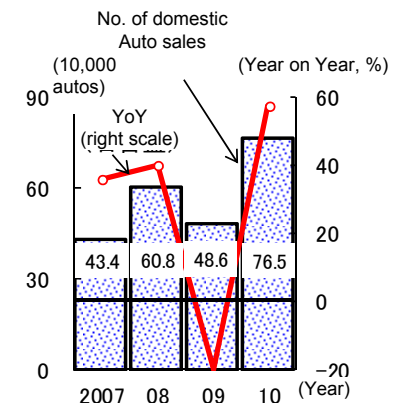
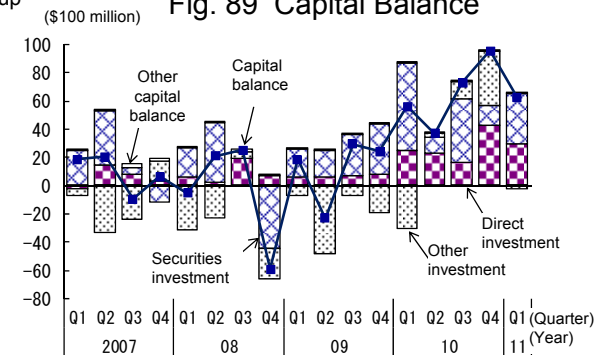


Fig. 89 Capital Balance



- Global Economy: Weak recovery continues.

- Forecast: Real economic growth rate for all 2012 is expected to be around 3% year on year (market rate basis).
- Risk: Downward tendency.
 - Downward risk: Europe's sovereign debt crisis become more severe
 - (1) Negative effects on real economy due to credit contraction
 - (2) Decrease in exports of U.S. and Asian emerging market countries
 - In addition to the above, possibility of downward pressure due to developed countries' fiscal contraction, and possibility of greater uncertainty regarding policy continuation in anticipation of U.S. and French elections in 2012.

- Europe: Very slow pickup continues.

- Forecast: The pace of pickup is expected to be very slow (international agency forecasts are roughly appropriate, at 0 to 2% growth rate in 2012).
- Risk: Still has a downward tendency, especially with more severe sovereign debt crisis as a cause of large downward risk.
 - Downward Risks: (1) Uncertainties about Europe's economy overall due to more severe sovereign debt crisis, and worse corporate and consumer sentiment, (2) Financial system uncertainties grow again due to more severe sovereign debt crisis, (3) Rise in long term interest rates due to fiscal deficit expansion, (4) Economic recession due to excessive fiscal reconstruction, (5) Decrease in exports due to slowdown of USA & Asian economies, (6) Employment conditions worse than forecast

● USA: Stuck in a Slow Recovery.

- Forecast: Real economic growth rate for all 2012 is likely to be about 2% year on year. There were also similar forecasts by International agencies, etc.
 - Continued solid growth of capital investment is expected, but lagging employment recovery is expected, so consumption will grow slowly. Also, government expenditures are expected to continue making a negative contribution.
- Risks: There are less downward risks than six months earlier, but there is a downward tendency
 - Downward Risks: (1) Financial & capital market turmoil due to Europe's sovereign debt crisis, (2) Lagging employment recovery, (3) Further fall in housing prices, (4) Effects of contractionary fiscal policy, (5) Slower growth of emerging markets

● Asia: Expansion or recovery trends will continue, but caution is required regarding financial and capital market movements and changes in exports to Europe and USA.

- Forecast: Internal demand will continue to be firm, and with continuing expansion trend (China about 9% in 2012, India 7% to 9% growth rate are forecasts by international agencies, which appear roughly appropriate).
- Risk: Downward tendency.
 - Downward Risks: (1) Higher real estate prices in China and effects on internal demand from stronger tightening in response, (2) Weak exports due to stagnation of European and U.S. economic recoveries, (3) Financial and capital market trends, (4) Acceleration of inflation, (5) Thailand flood damage effects on production activities, etc.