World Economic Trends
The Second Report in 2008

ーGlobal Financial Crisis and World Economic Outlookー

（Summary）

〈Contents〉

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Cabinet Office

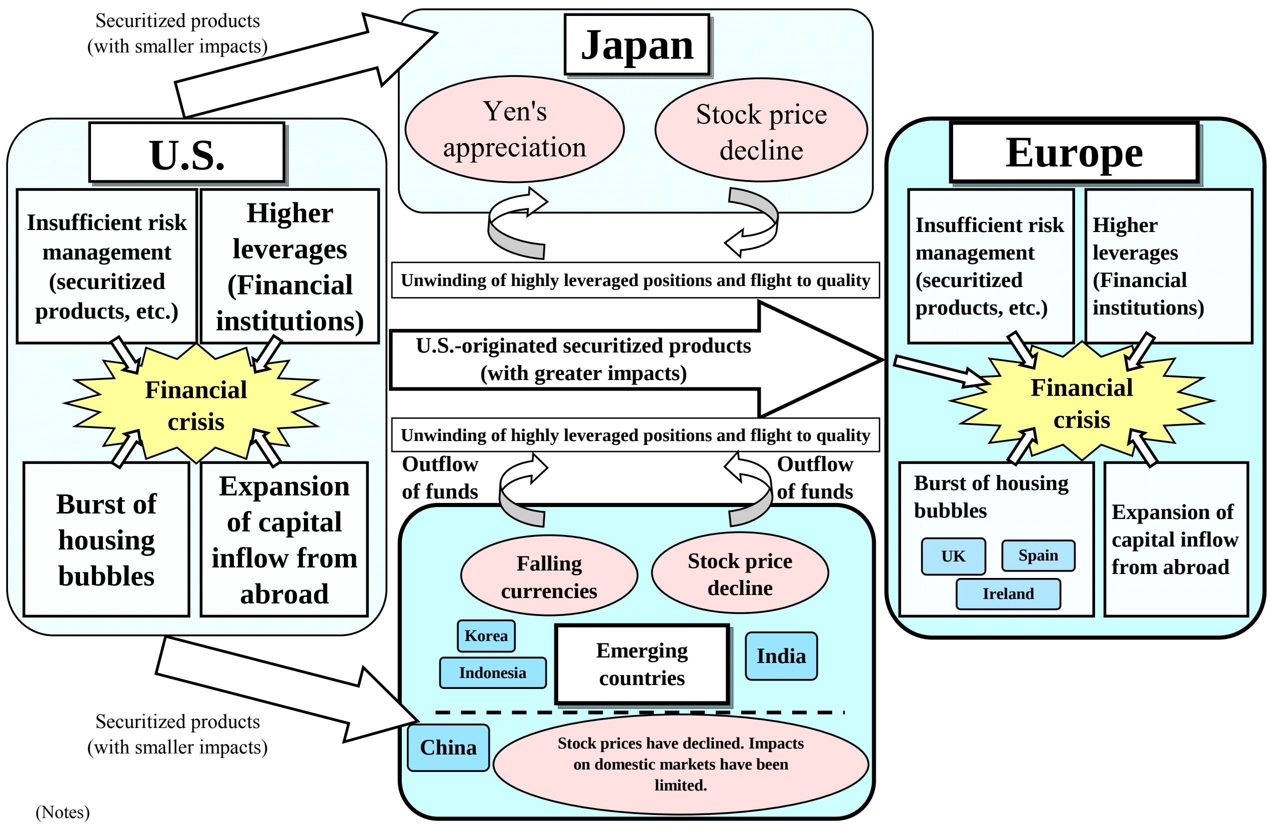
Government of Japan

Chapter 1 Outbreak and Expansion of Global Financial Crisis

1. Outbreak of Global Financial Crisis and Policy Responses

- The failure of a large U.S. investment bank on September 15, 2008, triggered a “global financial crisis” (see Table 1-1-4). Doubts have remained about the soundness of financial institutions in the U.S. and Europe, and financial markets have become dysfunctional.
- The crisis in Europe is attributable not only to the impact of U.S. crisis but also to European problems, including higher leverage ratios than in the U.S. and the burst of housing bubbles (see Figure 1-1-13).
- While any direct impact from U.S.-triggered crisis on emerging countries has been limited, their stock prices and currencies have declined due to the “flight to quality” and unwinding of leveraged positions in U.S. and European financial institutions.
- The current global financial crisis, though still smaller than the Great Depression both in real and financial aspects, has featured (i) a worldwide crisis, (ii) fast contagion and (iii) complication with securitization (see Figure 1-1-18).
- In response to the outbreak of the financial crisis, countries over the world have promptly implemented various measures to contain the crisis (see Table 1-1-20). While it is important for governments to inject capital into financial institutions and also to buy up their troubled assets in order to remove them from the balance sheets of these institutions, only capital injections have so far made progress.
- Crisis responses have caused the balance sheets of central banks to rapidly expand. This problem, coupled with fears of a rapid increase in budget deficits, could undermine confidence in currencies (see Figure 1-1-28). Therefore, fiscal consolidation plans as an “exit strategy” must be indicated.

Figure 1-1-13 Mechanism of Global Financial Crisis Contagion



(Notes)
1. Only primary impacts are illustrated.
2. Impacts throughout real economies are omitted.

Figure 1-1-18 Comparison of Financial Crisis Scales

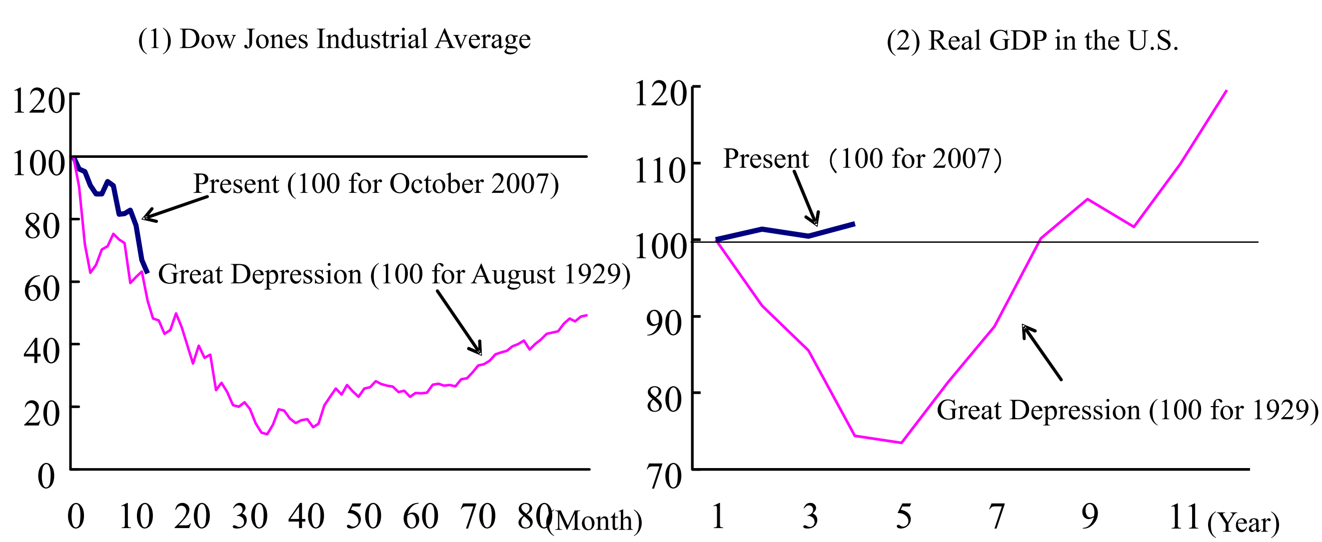


Table 1-1-20 European and U.S. Responses to Financial Crisis

<table>
<tr><th></th><th>1. Capital injection</th><th>2. Purchases of troubled assets</th><th>3. Liquidity provision</th><th>4. Government guarantee</th><th>5. Deposit protection</th><th>6. Others</th></tr>
<tr><td>U.S.</td><td>Under the Emergency Economic Stabilization Act, a total of $250 billion (about 25 trillion yen) in capital injections was announced.

※ In addition, the government announced $40 billion in capital injection into major insurance company AIG under the same act on November 10, 2008.</td><td>Based on the Emergency Economic Stabilization Act, implementation of asset purchases was announced.

※On November 12, 2008, Treasury Secretary Paulson said the government would give priority to capital injections and refrain from purchasing troubled assets for the immediate future.</td><td>The Fed created a facility for directly purchasing CP and that for lending to CP-buying financial institutions.

The Fed created a facility for lending to holders of ABS securities backed by consumer and SME loans.</td><td>The Emergency Economic Stabilization Act provides for an insurance program for nonperforming assets at financial institutions.

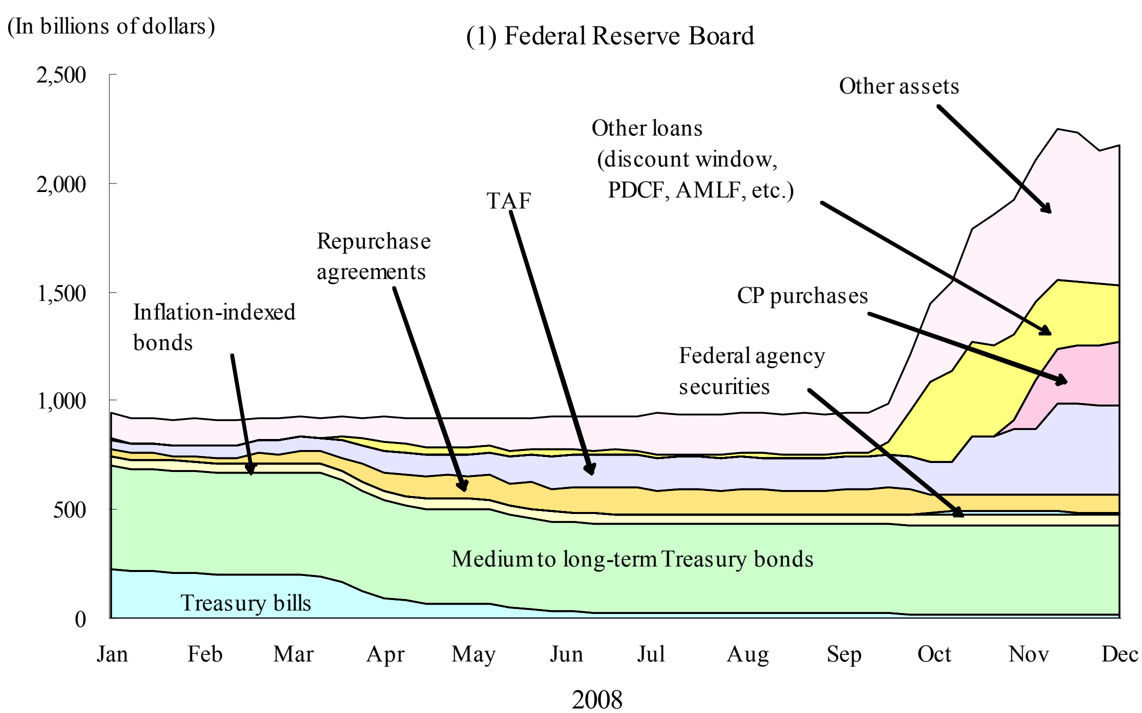
The government offered guarantees for newly issued debt by financial institutions.</td><td>The deposit insurance limit was raised from $100,000 (some 9.3 million yen) to $250,000 (some 23 million yen).</td><td>The Fed created a program for purchasing GSE debt and GSE-guaranteed mortgage-backed securities.</td></tr>
<tr><td>Germany</td><td>The Financial Market Stabilization Act secured 80 billion euros (some 9.5 trillion yen) in capital injection.

Bayerische Landesbank, Commerzbank, Hypo Real Estate, etc. applied for capital injections.</td><td>Purchases of troubled assets would be possible as necessary.</td><td rowspan="3">Central banks implemented coordinated actions to expand their provision of dollar liquidity.</td><td>The government offered 400 billion euros (some 47 trillion yen) in government guarantees on interbank loans.</td><td>The government offered full protection of deposits.
Protection had been limited to 20,000 euros (some 2.36 million yen).</td><td rowspan="3">Central banks lowered interest rates in a coordinated manner.

Fiscal expansion was offered to support economic activities.</td></tr>
<tr><td>France</td><td>The government announced up to 40 billion euros (some 4.7 trillion yen) in capital injections.
The government announced a total of 10.5 billion euros (some trillion) in capital injections into six major financial institutions.</td><td>—</td><td>Up to 320 billion euros (some 38 trillion yen) was offered in guarantees on interbank loans.</td><td>No change.
Protection is limited to 70,000 euros (some 8.3 million yen).</td></tr>
<tr><td>UK</td><td>The government offered up to 50 billion pounds (some 6.8 trillion yen) in capital injections.

The government announced a total of 37 billion pounds (some 5 trillion yen) in capital injections into three major financial institutions.</td><td>—</td><td>The government offered 250 billion pounds (some 34 trillion yen) in guarantees on new debt issues by financial institutions.</td><td>The deposit protection limit was raised from 35,000 pounds (some 4.8 million yen) to 50,000 pounds (some 6.8 million yen).</td></tr>
</table>

Figure 1-1-28 Central Bank Balance Sheet



(Note) Flow of Funds, Federal Reserve Board

2. Background of Global Financial Crisis

(1) Macroeconomic Background

The macroeconomic background was that growing capital inflows into the U.S. and European financial markets, under widening global imbalance, coupled with globally low interest rates, prompted excessive risk taking by financial institutions. Capital inflows into the U.S. from emerging and other foreign countries were invested primarily in the bond market, which prevented U.S. long-term interest rates from rising despite monetary tightening, and provided fuel for excessive risk-taking of financial institutions (see Figure 1-2-5).

(2) Factors Attributable to Financial Institutions

Fundamental factors behind the crisis have originated from the following problems:

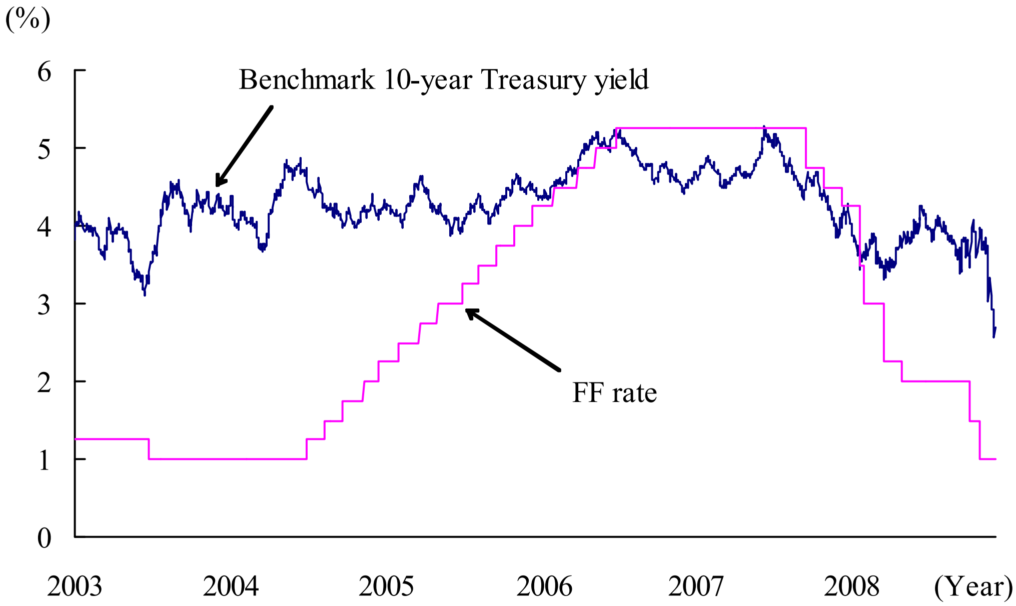
(i) Financial institutions' inadequate risk management (securitized products, off-balance entities, risk management systems, incentive structures)

(ii) Business models featuring dependence on short-term borrowings and highly leveraged investment (see Figure 1-2-8)

(iii) Rating agencies' underestimation of risks (rating methods, conflicts of interest and excessive dependence on ratings)

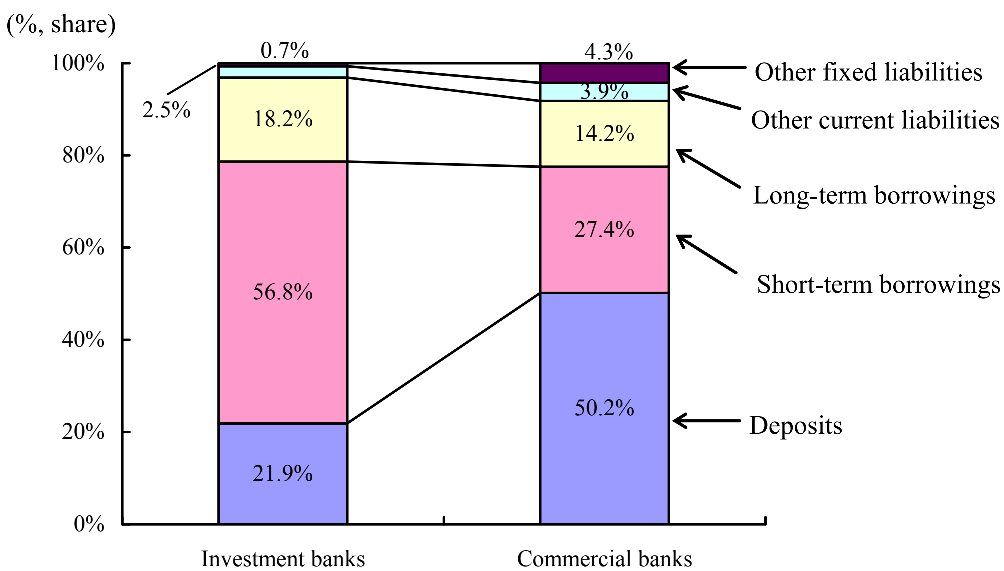
Financial regulators and supervisors fell short of keeping up with new financial products and financial innovations, and hence failed to take sufficient measures.

Figure 1-2-5 Changes in FF Rate and Benchmark 10-Year Treasury Yield



(Note) Based on data from Bloomberg.

Figure 1-2-8 Breakdown of Investment and Commercial Bank Liabilities

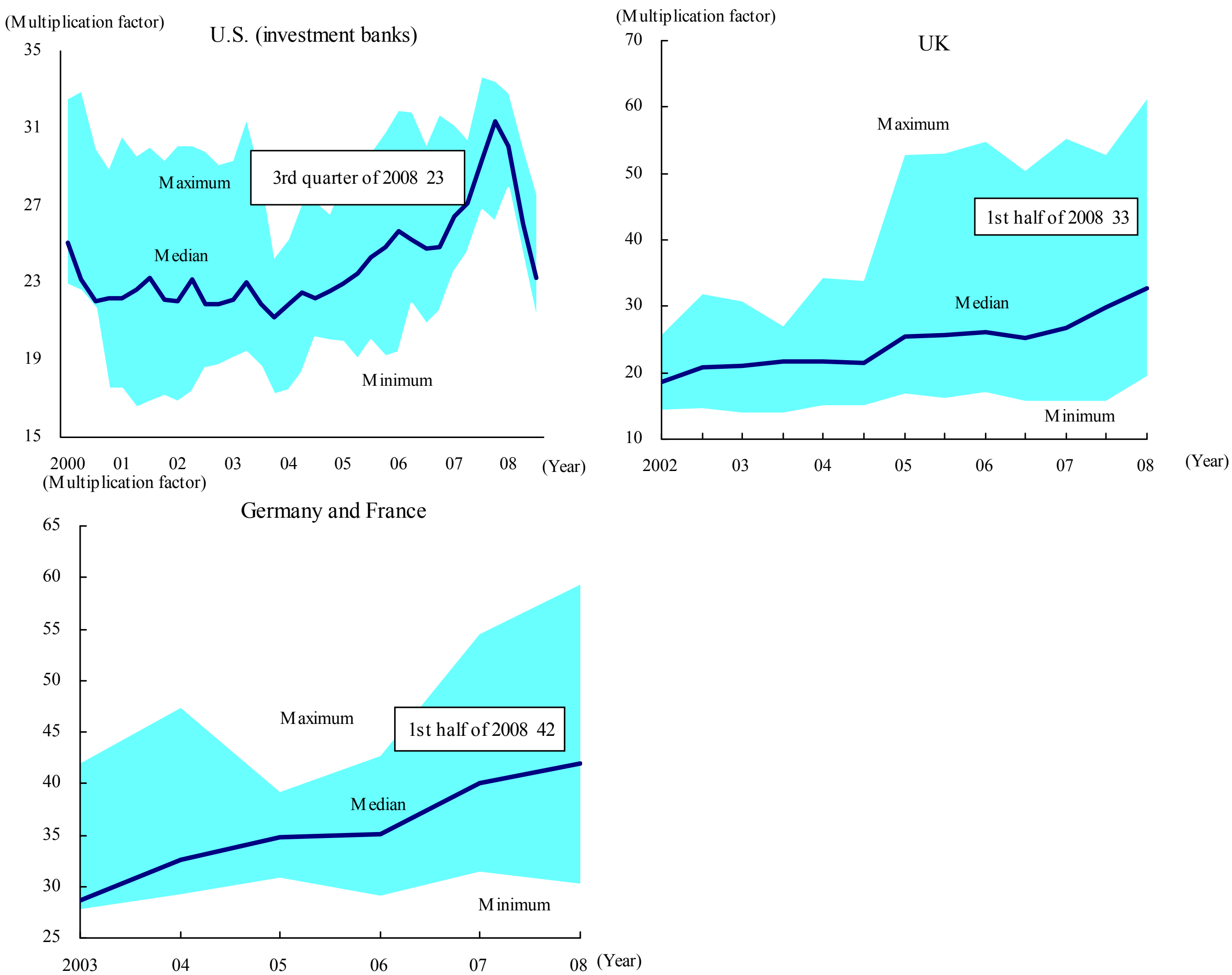


(Notes)
1. Based on data from Bloomberg.
2. Investment banks are Goldman Sachs, Morgan Stanley, Merrill Lynch and Lehman Brothers.
   Commercial banks are Citigroup, Bank of America, JP Morgan, Wachovia and Wells Fargo.
3. Data at end of 2007.

3. Unwinding of Highly Leveraged Positions and Its Impact

- The unwinding of highly leveraged positions is required for normalization of financial markets. But the unwinding of leveraged positions could bring about a “vicious circle” for the financial side and the real economy.
- The U.S. and European financial institutions have substantially expanded leveraged positions since 2003 (see Figure 1-3-1). In order to lower leverage ratios back to the levels of 2003, European banks need to reduce total assets substantially (see Table 1-3-4). Banks must cut assets by some 37% in the UK, 36% in Germany and 17% in France.

Figure 1-3-1 Changes in Leverage Ratios at Major European and U.S. Financial Institutions



(Notes)
1. Based on data from Bloomberg.
2. The leverage ratio is computed by dividing total assets by equity (excluding shares held by minor shareholders). For the U.S., quarterly data is used (covering a period to the third quarter of 2008). For the UK, semi-annual data is used (covering a period to the first half of 2008). For Germany and France, annual data is used (including latest available data for 2008).
3. U.S. investment banks are Goldman Sachs, Morgan Stanley, Merrill Lynch and Lehman Brothers.
4. U.S. commercial banks are Citigroup, Bank of America, JP Morgan, Wachovia and Wells Fargo.
5. The UK covers HSBC, RBS, Barclays, Lloyds TSB, HBOS (from 2002) and Standard Chartered.
6. Germany covers Deutsche Bank (until the third quarter of 2008), Commerzbank and Dresdner Bank (until 2007, with figures for 2008 indicating values at the end of 2007. France covers BNP Paribas, Société Générale, and Crédit Agricole (from 2004).

Table 1-3-4 Impact of Lowering Leverage Ratios

	U.S. ($100 million)		UK (100 million pounds)	Germany (100 million euros)	France (100 million euros)
	Investment banks	Commercial banks			
Total assets (2008)	35,450	75,199	73,070	31,761	43,579
(1) Without capital injection					
Required reduction	-5,551	1,037	-27,320	-11,485	-7,279
Rate of reduction (%)	-15.7	1.4	-37.4	-36.2	-16.7
(2) With capital injection					
Required reduction	458	16,078	-19,341		
Rate of reduction (%)	1.3	21.4	-26.5		
(Note) Amount of capital injection	300	1,100	370		

(Notes)
1. Based on data from Bloomberg.
2. The required reduction means a total asset reduction required to cut the latest leverage ratio back to the level at the end of 2003. A negative figure means a required reduction and a positive figure indicates a room to increase total assets.
3. Financial institutions covered here are the same as in Figure 1-3-1.

4. Toward Prevention of Financial Crises

- The financial summit declaration of November 2008 specified decisions on five principles and an action plan for preventing a financial crisis from recurring.
- Regulatory reform is one of the key challenges. The U.S. must fundamentally reform its financial regulatory system, which covers both federal and state governments and is complicated and multi-layered due to historical developments since the Civil War and the 1930s (see Table 1-4-2).
- “Better regulations” should be adopted in the future to ensure adequate risk management without impeding new financial innovations and to develop a market environment that has an appropriate balance between freedom and discipline.

Table 1-4-2 U.S. Financial Institution Regulatory System

		Participation		Federal authorities						State authorities
		FRS	FDIC	FRB	FDIC	OCC	OTS	NCUA	SEC	
Banks	Federal-chartered banks	★	★		○	●				
	State-chartered banks	☆	★	◎	○					●
			☆		◎					●
										●
S&Ls	Federal-chartered		★		○		●			
	State-chartered		☆		○		◎			●
										●
Credit unions	Federal-chartered							●		
	State-chartered									●
Bank holding companies (including financial holding companies)				◎						●
S&L holding companies							◎			●
Insurance companies										●
Securities companies									●	

★ = Mandatory participation
☆ = Participation
● = License-issuing agencies (securities firms are registered) and primary regulatory authorities
◎ = Primary regulatory authority
○ = Inspection authority for the federal deposit insurer

(Notes)
1. Sources: U.S. Department of Treasury; Federal Reserve Bank of New York; “Outline of U.S. Financial System Reform Act,” Hideki Nonoguchi and Yoko Takeda (Monthly Research Report, Bank of Japan January 2000); etc.
2. Deposit insurance for non-FDIC state-chartered banks and S&Ls is provided by state deposit insurance funds.
3. Deposit insurance is provided by the National Credit Share Insurance Fund for federal-chartered credit unions and by state deposit insurance funds for state-chartered credit unions.

Reference

Table 1-1-4 Chronology of Global Financial Crisis Outbreak and Expansion, and Policy Responses

	Date		Developments
	2007	From start	U.S. mortgage firms begin to fail
		Aug. 1	IKB Deutsche Industriebank's acceptance of support from Kreditanstalt fur Wiederaufbau is announced
Finacial Market Turmoil		Aug. 9	French bank BNP Paribas freezes withdrawals from investment funds under its control
			The U.S. Fed and the ECB conduct emergency liquidity provision
		Sept. 14	A run takes place on major UK mortgage lender Northern Rock Bank (temporary nationalized on Feb. 17, 2008)
		Dec. 12	Five central banks, including Fed and ECB, take new liquidity provision measures
		Dec.-Jan.	Share prices of monoline insurers (MBIA and Ambac) plunge on debt rating cuts
	2008	March 11	Five central banks, including Fed and ECB, expand liquidity provision measures
		March 16	Major U.S. investment bank JP Morgan Chase acquires its rival Bear Stearns
			The U.S. Fed introduces the Primary Dealer Credit Facility
		July 13	The U.S. government and Fed announce measures to support two GSEs (Fannie Mae and Freddie Mac)
		July 30	The Housing and Economic Recovery Act (in response to the GSE problem) is signed into law
		Sept. 7	The U.S. government announces measures to bail out GSEs
Financial Crisis		Sept. 15	Major U.S. investment bank Lehman Brothers files for bankruptcy
			The Bank of America, known as a major U.S. commercial bank, buys major U.S. investment bank Merrill Lynch
		Sept. 16	The U.S. Fed provides loans to major U.S. Insurer AIG
		Sept. 18	Six central banks including, Fed, ECB and BOJ, announce liquidity provision measures
		Sept. 19	The U.S. government announces a financial stabilization plan including purchases of nonperforming assets
		Sept. 21	The U.S. Fed approves conversion of investment banks Goldman Sachs and Morgan Stanley into bank holding companies
		Sept. 22	The G-7 announces a statement on global financial market turmoil
		Sept. 25	JP Morgan Chase announces its acquisition of banking operations from U.S. S&L Washington Mutual
		Sept. 29	The U.S. House votes down an emergency economic stabilization bill
			The UK government nationalizes medium-sized bank Bradford and Bingley
			Belgium, Luxembourg and the Netherlands inject public funds into Belgian-Dutch bank Fortis
		Sept. 30	France, Belgium and Luxembourg inject public funds into French-Belgian bank Dexia
		Oct. 3	The U.S. Emergency Economic Stabilization Act is signed into law
		Oct. 5	The German government announces a plan to protect all domestic personal deposits
		Oct. 6	The Iceland government declares an emergency and creates a law to put private banks under government control
			The U.S. Fed announces a plan to start paying interest on required and excess reserves
		Oct. 7	The U.S. Fed announces introduction of a facility to purchase commercial paper
		Oct. 8	The UK government announces banking sector support measures
			Six banks cut interest rates in a coordinated manner
		Oct. 10	The G-7 announces a plan of action
		Oct. 12	Euro area leaders announce their action plan at their summit
			The U.S. Fed approves major U.S. commercial bank Wells Fargo's acquisition of U.S. bank Wachovia
		Oct. 13	The UK announces injection of 27 billion pounds (some 5 trillion yen) into three banks
			Five central banks, including Fed, ECB and BOJ, announce more liquidity-enhancing measures
		Oct. 14	The U.S. announces capital injections into banks and other measures to implement the G-7 action plan
		Oct. 17	The German government establishes a financial market stabilization law.
		Oct. 20	The French government announces 10.5 billion euros (1.2 trillion yen) in capital injections into six major banks
		Oct. 21	Germany's second-largest state bank Bayerische Landesbank files for the first public capital injection
		Oct. 29	The European Commission gives financial support measures including expanded special loans to EU members
			The IMF and Fed announce measures to secure dollar liquidity in emerging countries
			The U.S. Fed signs currency swap agreements with the central banks of Korea, Brazil, Singapore and Mexico
		Oct. 30	The German government gives capital injection into Hypo Real Estate under the financial stabilization fund

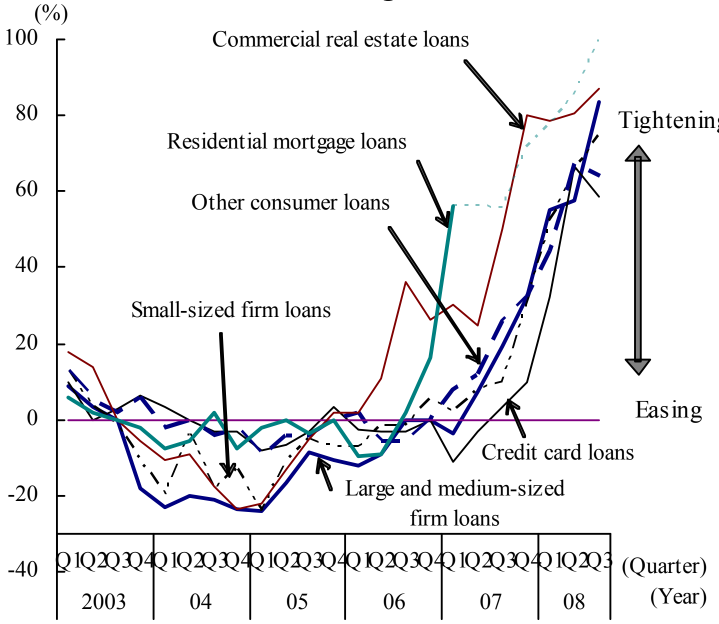
Nov. 3	German Commerzbank files for a governmental capital injection
	The Korean government announces a 14 trillion won (some 900 billion yen) economic stimulus package
Nov. 5	The German government announces a 50 billion euro (about 5.9 trillion yen) economic stimulus package
	The IMF approves $16.4 billion (about 46 billion yen) in loans to Ukraine (Later, it approves loans to Hungary, Iceland and Pakistan)
Nov. 9	The Chinese government announces a 4 trillion yuan (about 54 trillion yen) economic stimulus package
Nov. 10	The U.S. government announces expanded support for AIG
Nov. 15	A declaration was announced at a summit on financial markets and the world economy
Nov. 23	The U.S. government unveils support (capital injection and guarantees on assets) for Citigroup
Nov. 24	The UK government announces a 20 billion pound (some 2.7 trillion yen) economic stimulus package
Nov. 25	The U.S. Fed announces a new financial stabilization package of up to $800 billion (some 74 trillion yen)
Nov. 26	The European Commission announces a 200 billion euro (some 24 trillion yen) economic stimulus plan
Dec. 4	The French government announces a 26 billion euro (some 3 trillion) economic stimulus package

Chapter 2 Simultaneous Recession in Developed Countries and World Economic Outlook

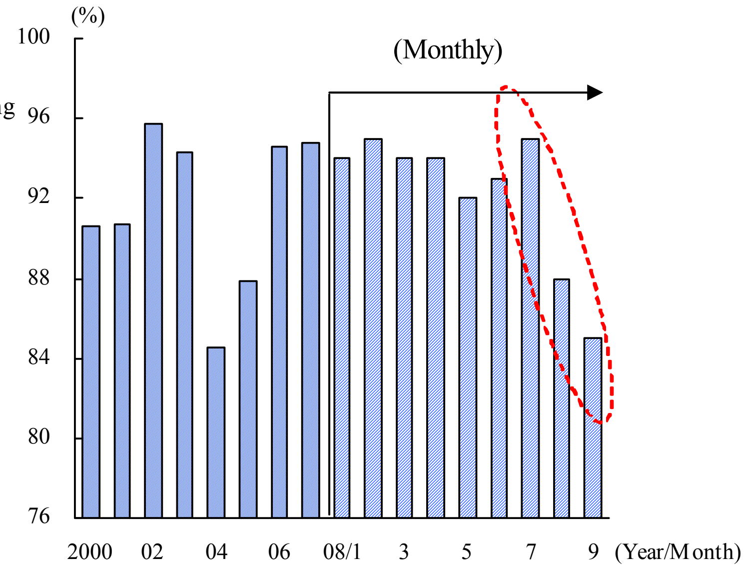
1. U.S. Economy in Recession

- The U.S. economy entered a recession in December 2007. While domestic demand including private consumption has been slack, overseas demand has supported the U.S. economy. It now depends primarily on overseas demand.
- The following are four key points regarding the U.S. economic outlook:
  - (i) Impacts of the financial crisis exerts on the real economy through financial institutions' lending operation: Financial institutions' have a tighter attitude on lending to households and corporations (see Figure 2-1-3, Column Figure 3)
  - (ii) Housing market adjustment: While the home purchase environment has improved due to housing price drops, financial institutions have tightened their attitude on mortgage loans. An increase in mortgage foreclosures has resulted in oversupply (see Column Figure 1).
  - (iii) Employment deterioration: Employment has been deteriorating so fast that it could become as serious as the situation during the S&L crisis (in the early 1990s) (see Figure 2-1-16).
  - (iv) Household balance sheet adjustment: The ratio of outstanding household liabilities to disposable income has become double the average of the 1980s. Growing debt burdens could dampen private consumption further (see Figure 2-1-22).
- U.S. Economic Outlook and Risk Factors
  - (1) The U.S. economy will contract in 2009. If the financial crisis ends within 2009, the U.S. economy may begin to recover moderately at the end of the year.
  - (2) However, the following downside risks are far likelier. In such case, recovery may remain sluggish in 2010. An L-shaped recovery is anticipated.
    - (i) A vicious circle of the financial crisis and deterioration of the real economy
    - (ii) Risk of deflation (see Figure 2-1-28), etc.

Figure 2-1-3 Financial Institutions' Attitudes on Lending

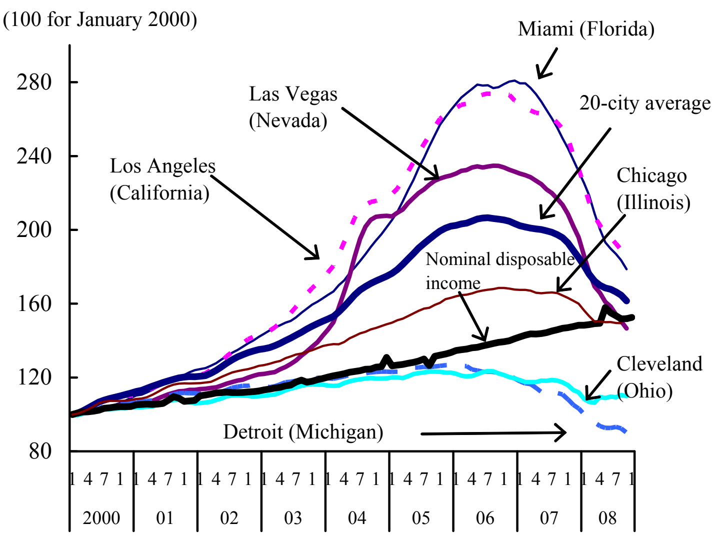


Column Figure 3 Loan Users' Share of New Auto Sales



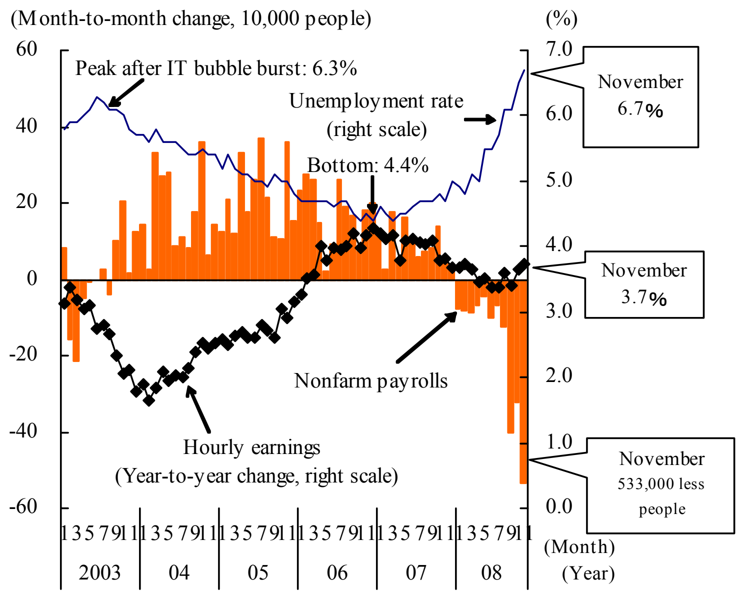
(Note) Based on data from the Federal Reserve Board

Column Figure 1 Changes in Region-by-Region S&P/Case-Shiller Home-Price Index and Nominal Disposable Income



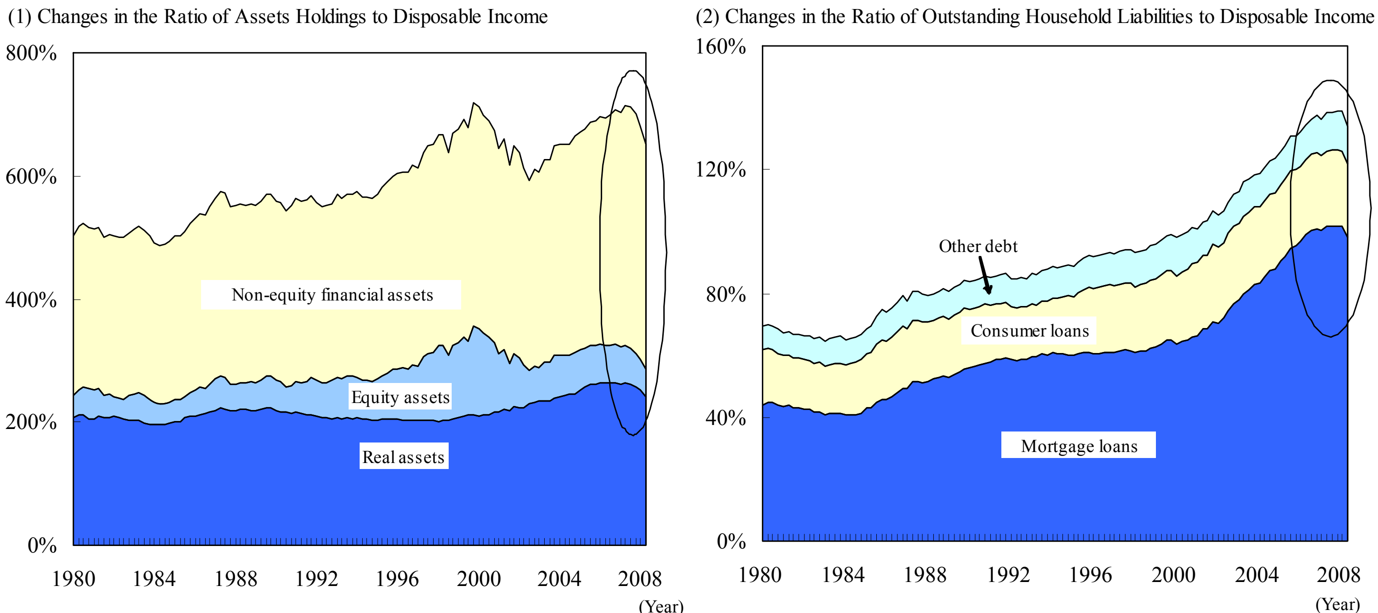
(Note) Based on data from S&P and the U.S. Department of Commerce.

Figure 2-1-16 Changes in Employment, Unemployment Rate and Earnings



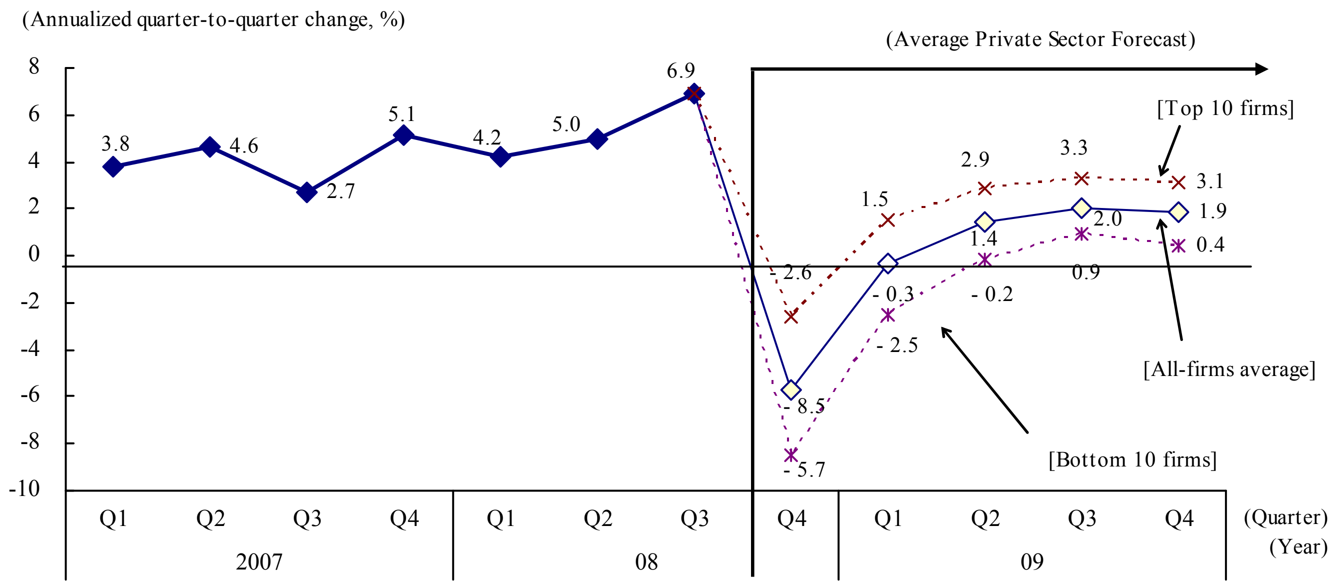
(Note) Based on data from the U.S. Department of Labor.

Figure 2-1-22 Household Balance Sheet



(Note) Based on data from the Federal Reserve.

Figure 2-1-28 Blue Chip CPI Forecast



(Note) Based on "Blue Chip Economic Indicators" (December 10 issue)

2. European Economy in Recession

- The euro area has been in recession since the autumn of 2007. Factors of the recession are (i) the burst of housing bubbles (see Figure 2-2-2), (ii) decline in private consumption and (iii) slowdown in export.
- Along with the EU expansion since 2004, foreign direct investment has increased in new EU member countries (see Figure 2-2-14). European financial institutions boosted overseas lending, and securitization made progress (see Figure 2-2-8).
- Euro Area Economic Outlook and Risk Factors
  (1) The euro area economy will contract in 2009. If the financial crisis ends within 2009, the euro area economy may begin to recover moderately at the end of the year.
  (2) However, the outlook involves larger risks, such as those below, more than upside risks:
    (i) Prolongation and deterioration of the financial crisis
    (ii) Stagnation of exports due to a delay in global economic recovery, etc.
- UK Economic Outlook and Risk Factors
  (1) The impacts of the burst of the housing bubble (see Figure 2-2-24) and the financial crisis in the UK have been greater than those in the euro area. The UK recession may be deeper and longer. Any moderate economic recovery may not come until 2010.
  (2) The UK has the same downside risks as the euro area. In addition, there is some risk that it will plunge into deflation (see Figure 2-2-33).

Figure 2-2-2 Changes in Housing Price and Nominal Wage Growth

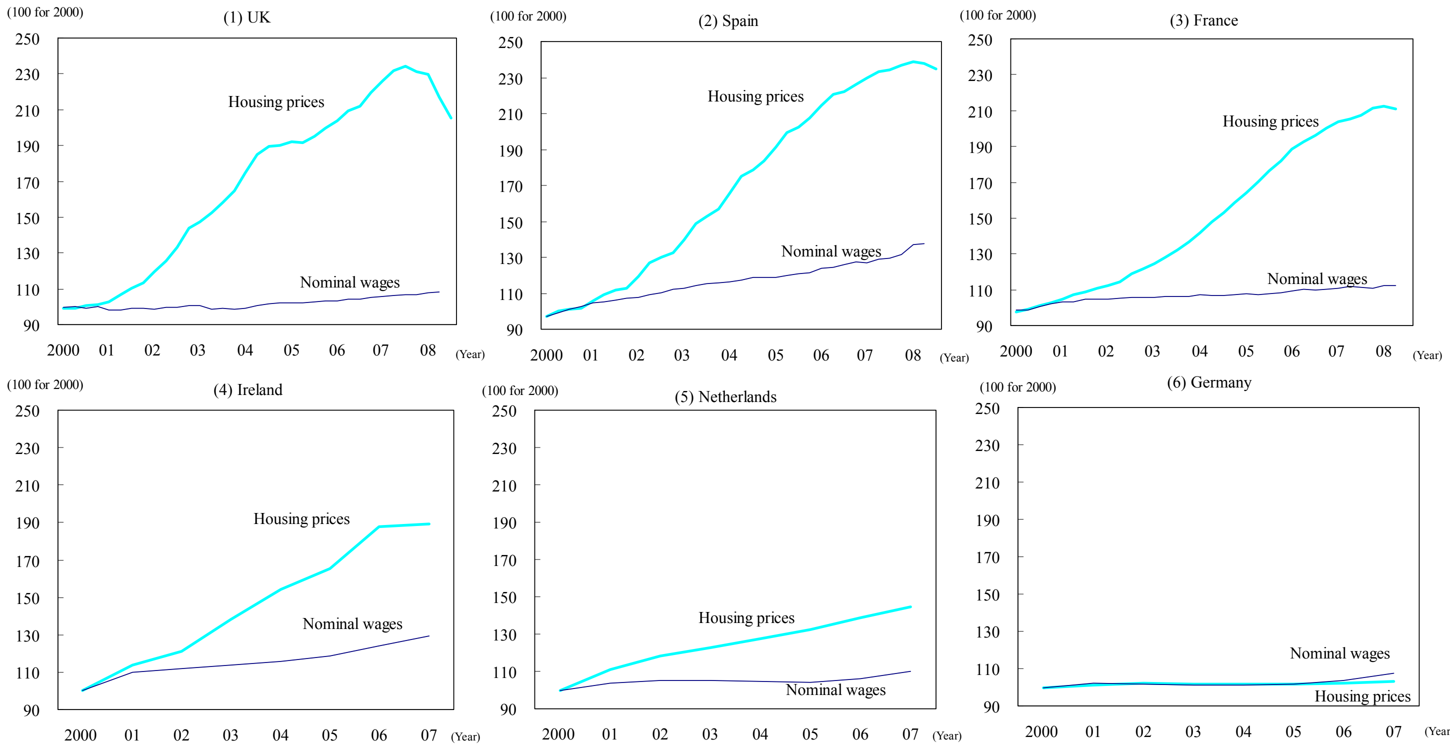


Figure 2-2-8 Securitization Trend in Europe

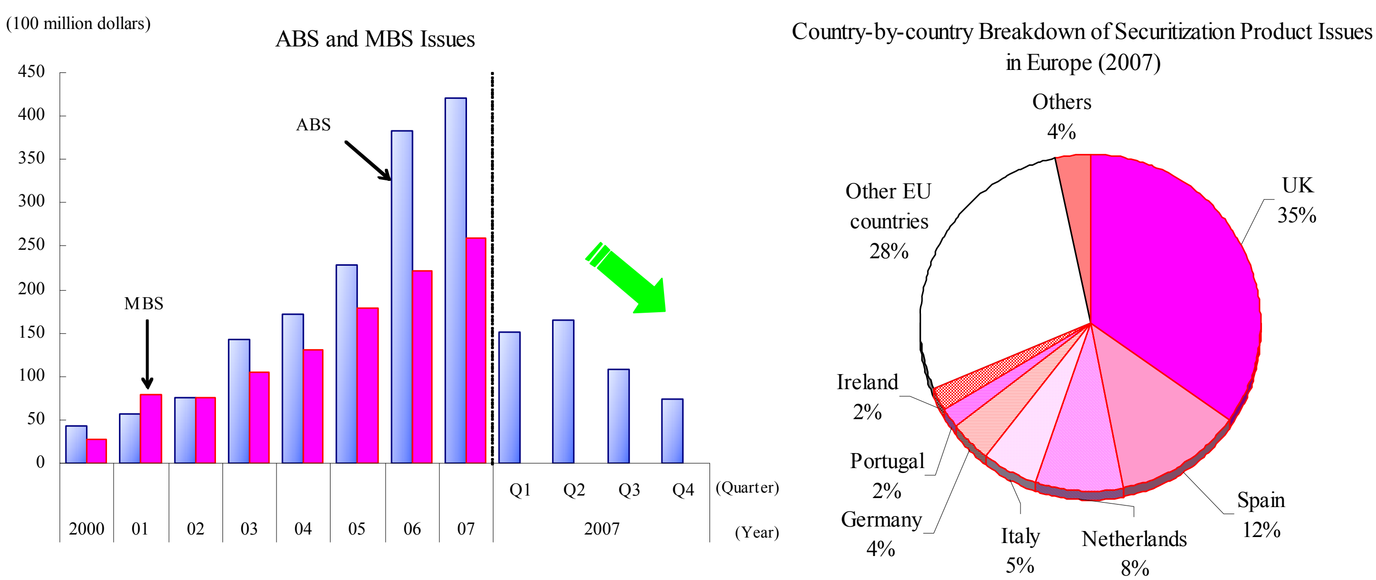


Figure 2-2-14 Direct Investment Flow into New EU Countries

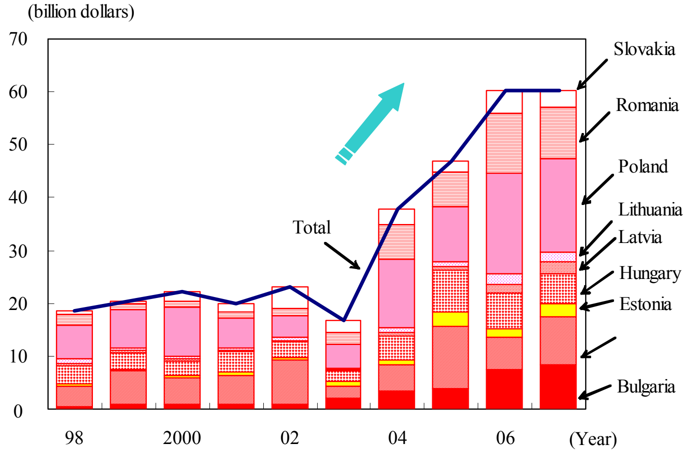


Figure 2-2-24 Housing Price and Nominal GDP Growth

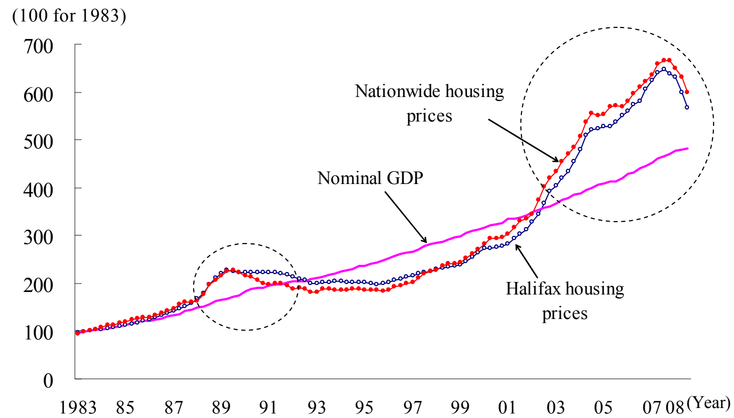
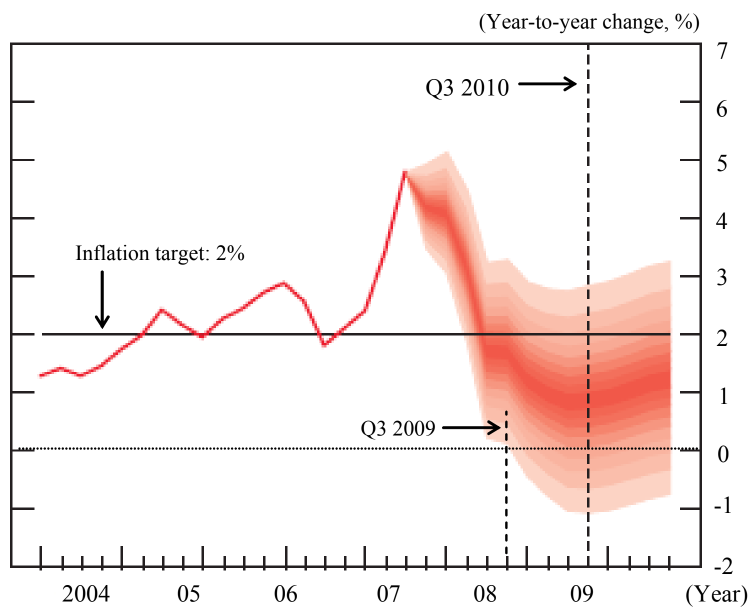


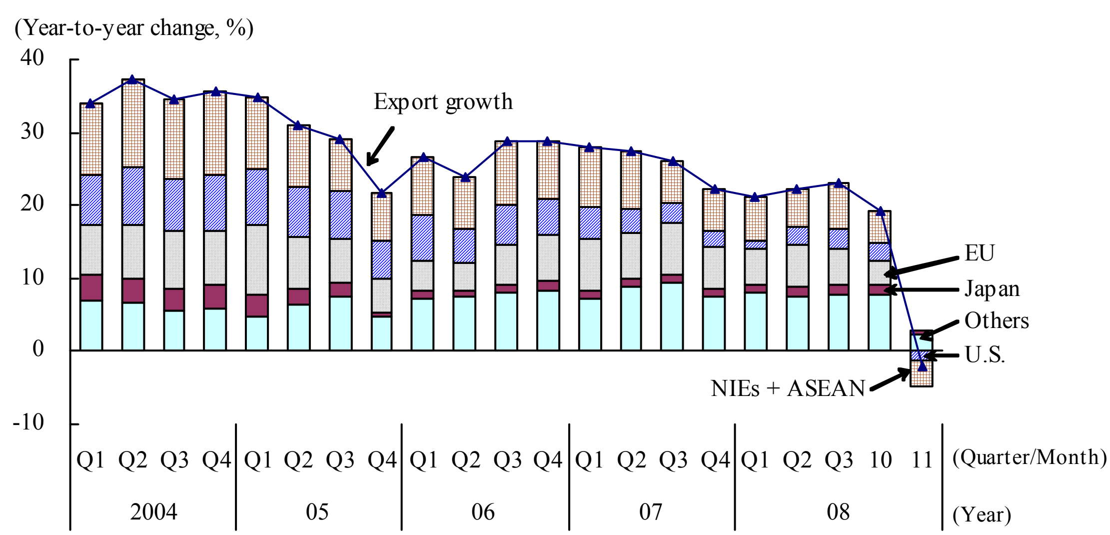
Figure 2-2-23 BOE CPI Inflation Projection



3. Asian Economy Slowing Down

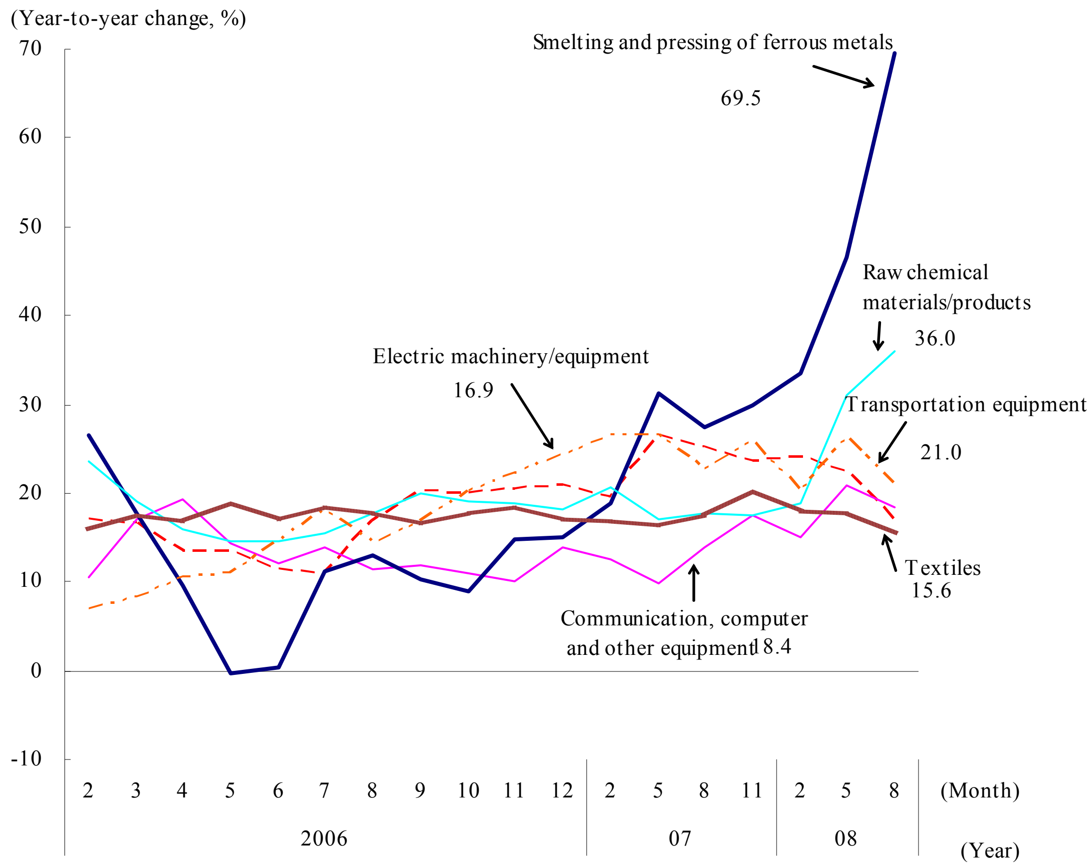
- China's economic growth decelerated to the single digit level after five years of double-digit growth. Investment, which accounts for 40% of GDP, is facing with the problems of decelerating real estate investment and industrial overcapacity.
- Chinese Economic Outlook and Risk Factors
  (1) Although exports will inevitably slow down due to the U.S. and European recessions (see Figure 2-3-5), China's economic growth will avoid substantial deceleration owing to the strength of firm private consumption and fiscal expansion. Economic growth in 2009 is expected at 8% or higher.
  (2) However, there are some downside risks. If exports decelerate at a faster rate than expected, industrial overcapacity and employment problems may arise (see Figure 2-3-11).
- The other Asian economies also have been slowing down. NIEs and ASEAN countries depend heavily on exports and will slow down further due to the U.S. and European recessions (see Figure 2-3-16). Recovery may come in 2010 as the world economy rebounds.

Figure 2-3-5 China: Trend and Region-by-Region Breakdown of Exports



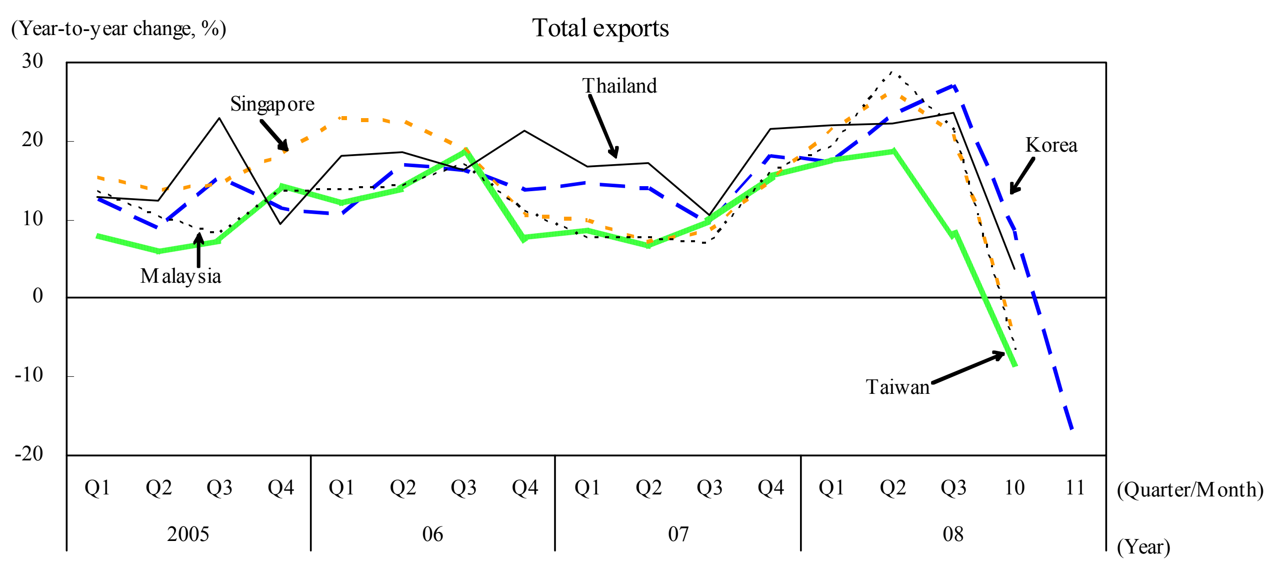
(Note) Based on data from China Customs

Figure 2-3-11 China: Trend of Inventories (broken down by major industry)



(Notes)
1. Based on data from the National Bureau of Statistics of China.
2. Figures represent year-to-year growth rates in August 2008.

Figure 2-3-16 Trend of Exports by NIEs and ASEAN Countries



(Notes)
1. Based on data from national or regional statistics.
2. Rates of growth in U.S. dollar-denominated exports

4. World Economic Outlook and Risks

- World economic growth in 2009 is forecasted to decelerate to around 1% (see Tables 2-4-3 and 2-4-4). If the recessions in the U.S. and Europe and the slowdown in Asia deepen and lengthen further, the world may plunge into a simultaneous global recession.
- Present situation's differences with past global recessions (after the first and second oil crises)
  (1) There are now fast-growing emerging countries such as BRICs. But their share of the world economy is still small. It may be difficult for emerging countries to make up for economic growth declines in the U.S., Europe and Japan and maintain or expand the growth of the entire world (see Figure 2-4-2).
  (2) There is now a financial crisis. Any recession accompanied by banking system turmoil could be more serious and longer. (The IMF has estimated that an average 7.6 quarters would be required to overcome such recession.)
- Consumption, particularly that of the U.S., led the world economic recovery (see Figure 2-4-1) in the past global recessions. At present, however, no early recovery in U.S. consumption can be expected. The engine for global economic recovery will continue to be insufficient.

Table 2-4-3 International Institutions' Economic Outlook for Major Countries and Regions

Real Economic Growth

<World Economy> (Year-to-year change, %)

International Institutions	2006 (Results)	2007 (Results)	2008 (Estimates)	Outlook for 2009: 2008 I (Previous)	Outlook for 2009: 2008 II (Present)
IMF (based on exchange market rates)	3.9	3.7	2.6	(2.6) ↘	**1.1**
IMF (based on purchasing power parity)	5.1	5.0	3.7	(3.8) ↘	**2.2**
European Commission	5.0	5.0	3.7	(3.6) ↘	**2.3**

<Country-by-Country Growth ((*) : Average forecast of 3 organizations)> (Year-to-year change, %)

	Country/region	2006 (Results)	2007 (Results)	2008 (Estimates)	Outlook for 2009: 2008 I (Previous)	Outlook for 2009: 2008 II (Present)
U.S.		2.8	2.0	1.4	(0.8) ↘	-0.7
Asia	Korea (*)	5.1	5.0	4.2	(4.9) ↘	2.9
Asia	China (*)	11.4	11.9	9.7	(9.3) ↘	8.2
Asia	ASEAN 5 (*)	5.7	6.3	5.4	(6.0) ↘	4.2
Europe	Europe 4 (*)	2.6	2.4	0.9	(1.2) ↘	-0.6
Europe	Euro area	2.9	2.6	1.1	(1.4) ↘	-0.3
(Reference) Japan		2.4	2.1	0.5	(1.4) ↘	-0.2

(Notes)

1. The international institutions are the IMF (November 6, 2008), the OECD (November 24, 2008) and the European Commission (November 3, 2008).
2. ASEAN 5: Indonesia, Malaysia, the Philippines, Thailand and Vietnam
   Europe 4: Germany, France, Italy and the UK
3. Results and estimates for each country are simple averages of data from the three international institutions.
   However, data for Korea are from the OECD and European Commission, those for China from the IMF and European Commission, and those for ASEAN 5 from the IMF. Europe 4 data are the four countries' data weighted by nominal GDP in 2007 (simple averages of respective data from these institutions).

Table 2-4-4 Private Institutions' Economic Outlook for Major Countries and Regions

Real Economic Growth

(Year-to-year change, %)

	Country/region	1998-2007 (Results for Past 10 years)	2006 (Results)	2007 (Results)	2008 (Estimates)	Outlook for 2009: 2008 I (Previous)	Outlook for 2009: 2008 II (Present)
World Economy (32 countries/region)		3.5	4.1	3.9	2.5	(3.1) ↘	**0.6**
Americas	U.S.	2.9	2.8	2.0	1.3	(2.0) ↘	-1.0
	Canada	3.3	3.1	2.7	0.6	(2.3) ↘	-0.1
	Mexico	3.3	4.9	3.2	1.7	(3.5) ↘	0.3
	Brazil	2.8	3.8	5.4	5.1	(4.2) ↘	2.5
Asia, Oceania	Northeast Asia	7.8	9.6	9.8	7.6	(7.8) ↘	5.8
	China	9.5	11.6	11.9	9.5	(9.3) ↘	7.8
	ASEAN	3.7	5.9	6.3	4.8	(5.5) ↘	3.4
	India	7.0	9.8	9.3	7.2	(7.7) ↘	6.7
	Australia	3.6	2.5	4.4	2.6	(2.9) ↘	1.3
Europe	Europe 4	2.1	2.6	2.3	0.8	(1.7) ↘	-0.8
	Euro area	2.2	3.0	2.6	1.0	(1.7) ↘	-0.6
	Russia	5.7	7.4	8.1	6.9	(6.2) ↘	3.9
(Reference) Japan		1.2	2.0	2.4	0.3	(1.6) ↘	-1.0

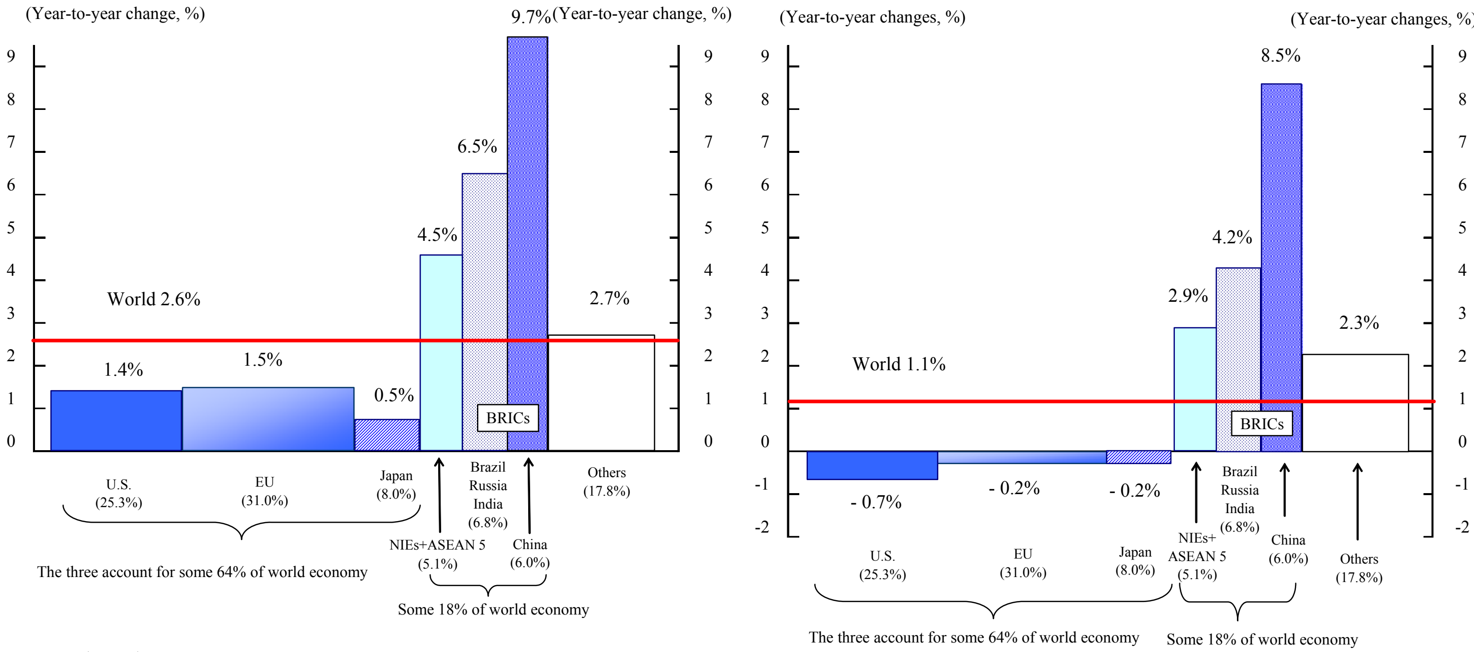
(Notes)

1. Results for countries other than Japan are from their respective statistics. The outlook indicates averages of the private institutions' forecasts (published in the October-December quarter of 2008). Private institutions: Blue Chip (48 firms for 2008-2009), Economist Intelligence Unit, Oxford Economics, JP Morgan, Bank of Tokyo-Mitsubishi UFJ, Nomura Securities, Mitsubishi Research Institute, Mizuho Research Institute, Japan Center for International Finance. The results for Japan were published by the Cabinet Office's Department of National Accounts (in December 2008) and the outlook is from the "ESP Forecast" survey (December 2008) by the Economic Planning Association.
2. The world economy (32 countries/region) covers North and Latin Americas (four countries), Asia and Oceania (10 countries and Taiwan) and Europe (17 countries). Northeast Asia covers China, Korea, Taiwan and Hong Kong. ASEAN covers Singapore, Indonesia, Thailand, Malaysia and the Philippines. Europe 4 covers Germany, France, Italy and the UK. The euro area covers 15 member countries (as of January 1, 2008).
3. Each world economy figure is a total of the 32 economies' real economic growth rates weighted by nominal GDP (in 2007) (on a foreign exchange market rate basis). Figures for Northeast Asia, ASEAN and Europe 4 were calculated in the same way. Nominal GDP weights are the 32 economies' shares of their total nominal GDP.

Figure 2-4-2 IMF's Economic Growth Outlook and Impact on World Economy

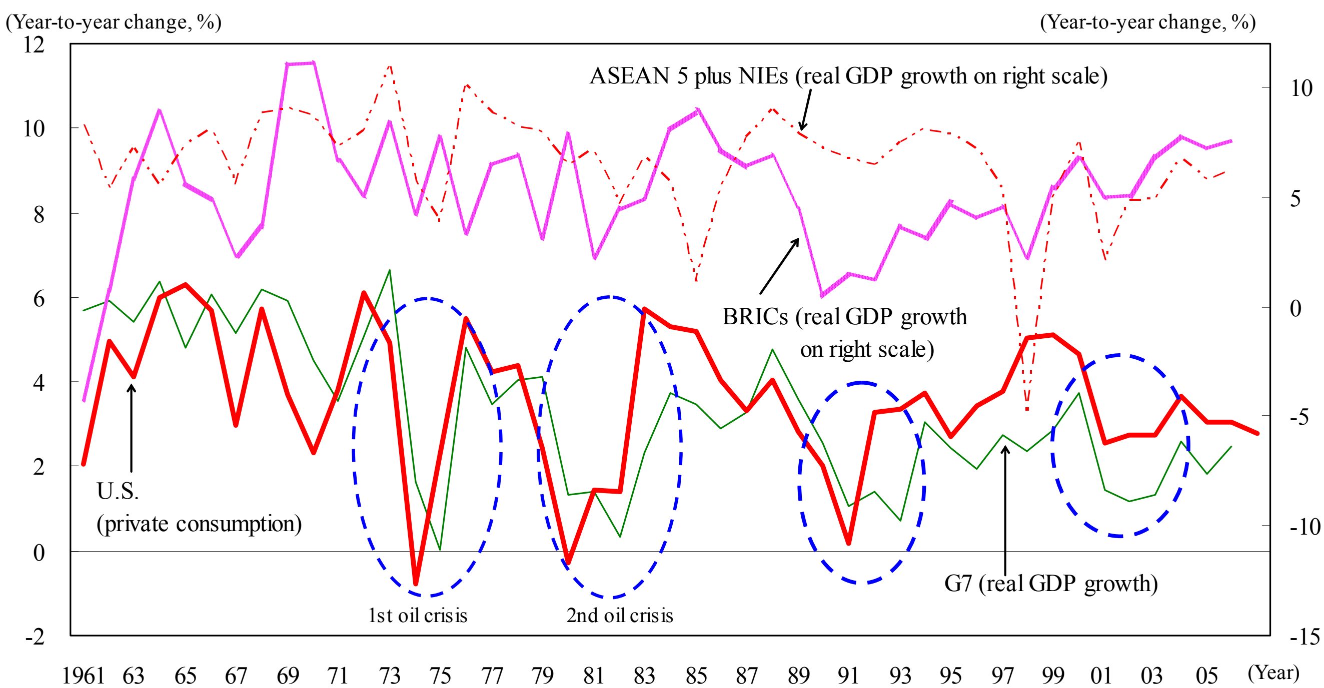
(1) Real Economic Growth Estimates for 2008

(2) Real Economic Growth Estimates for 2009



(Notes)
1. Based on data from the IMF's "World Economic Outlook Database, October 2008" and "World Economic Outlook; Update, November 2008."
2. The horizontal axis indicates countries' and country groups' shares of nominal world GDP (percentage shares in parentheses, based on foreign exchange market rates in 2007). Areas for countries and country groups can be interpreted as representing their impacts on the world economy.
3. Projected real economic growths of Brazil, Russia and India are weighted averages based on their respective shares of nominal world GDP (percentage based on foreign exchange market rates in 2007) in 2007.
4. "Others" include about 140 countries such as Middle Eastern, African, South American and CIS nations (other than Russia)

Figure 2-4-1 U.S. Private Consumption Led Recovery from Global Recessions



※This report is based on data made available by December 5 (Friday).