World Economic Trends

The Spring Report in 2012

- Global Economy Sees Tension Continuing over European Sovereign Debt Crisis -

(Summary)

June 2012
Cabinet Office
Government of Japan

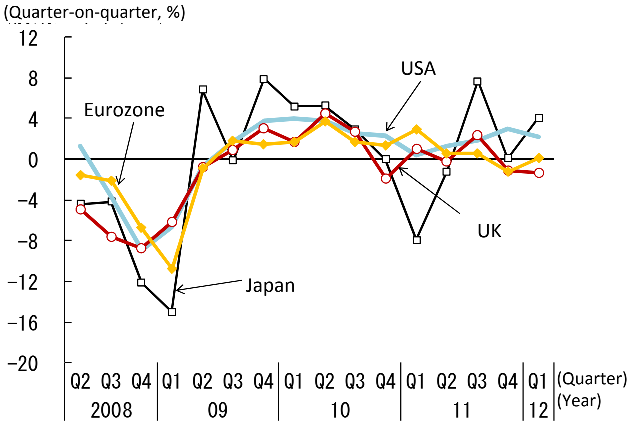
Purpose

- World economic growth has decelerated since 2011. Tension over the European sovereign debt crisis has been continuing.
  - Europe: The real GDP growth rates in fourth quarter 2011 in the Eurozone fell below 0 for the first time since the global financial crisis. Demand has slumped due to the European sovereign debt crisis, exerting downward pressure on the real economy.
  - Asia: The pace of economic expansion/recovery has slowed down. Exports decelerated due to the weak demand of the Eurozone toward late 2011.
  - USA: As an increase in employment and a consumption rebound are seen, the economy is recovering moderately.
- This “World Economic Trends” analyzes the European sovereign debt crisis and its impact on the global economy, delves into present conditions and structural problems of each national and regional economy, and considers future forecasts.

- The pace of the global economic recovery has slowed down since mid-2011 (Fig. 1).
  - Developed countries: The paces of recovery are mixed. Europe is shaken by the sovereign debt crisis, while the United States posts a moderate recovery. (Fig. 2).
  - Emerging countries: The pace of expansion/recovery has slowed down. The factors behind the slowdown are decelerating exports to Europe, and slowing consumption and investment under monetary tightening. (Fig. 3)

Fig. 1 Real GDP Growth Rates of Major Countries

(1) Developed Countries



(2) Emerging Countries

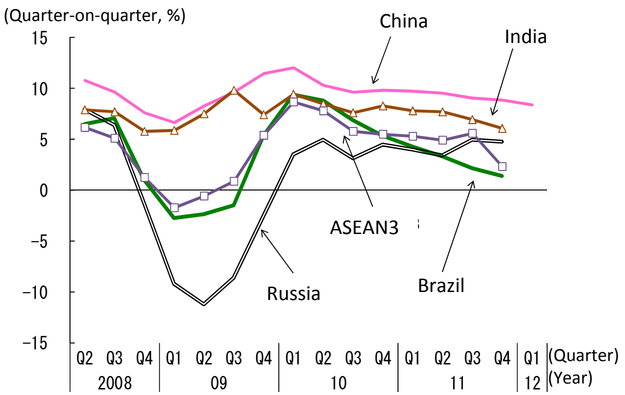
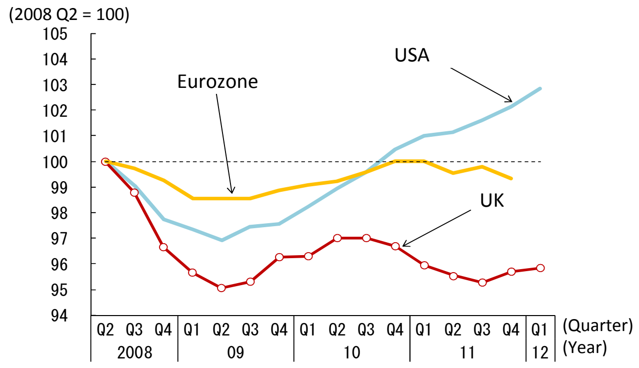


Fig. 2 Household Sector in Developed Countries

(1) Private Consumption



(2) Unemployment Rate

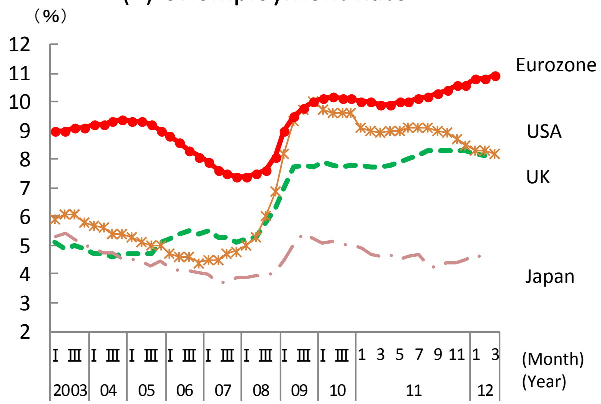
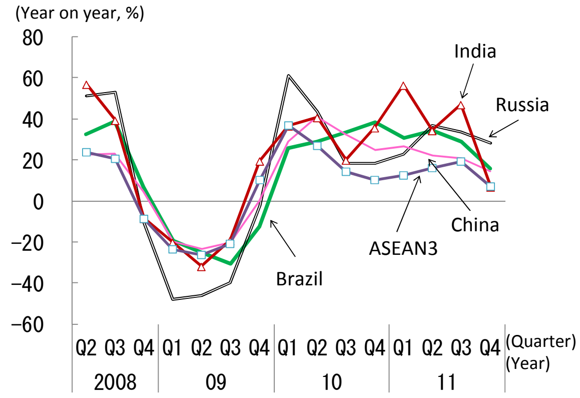
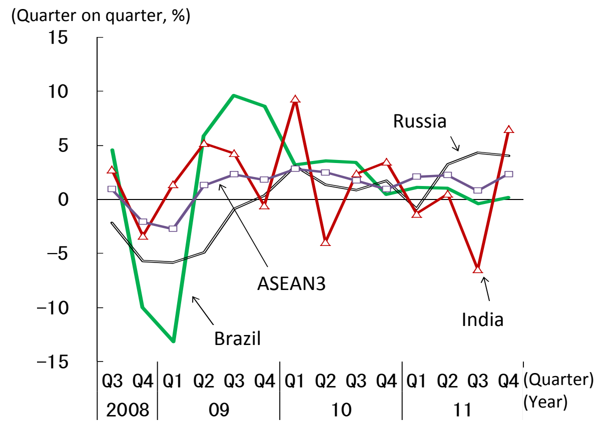


Fig. 3 Trends of Emerging Countries

(1) Exports



(2) Investment



- The funding condition for Eurozone banks deteriorated rapidly toward the second half of 2011. They toughened their stance on lending, squeezing credit both internally and externally. As for externally, they reduced credit to Central and Eastern Europe, Asia and Latin America. (Figs. 4-6)
- Eurozone banks' credit squeeze might have exerted less impact on Asia and Latin America, which depend rather little on external borrowings, than on Central and Eastern Europe, in which the presence of Eurozone banks is particularly great. As demand for borrowings slumped amid the deteriorating fundraising environment, it is uncertain how the credit squeeze has affected the real economy. (Figs. 7-8)

Fig. 4 Worldwide Net Cash Flow to Mutual Funds

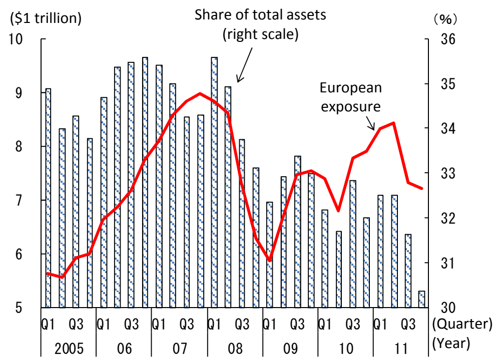
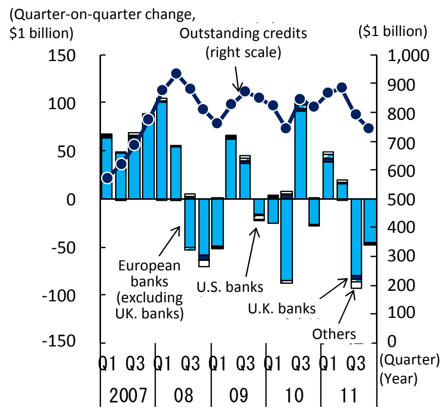


Fig. 6 Changes in Claims to Central/Eastern Europe, Asia and Latin America

(1) Central/Eastern Europe



(2) Asia

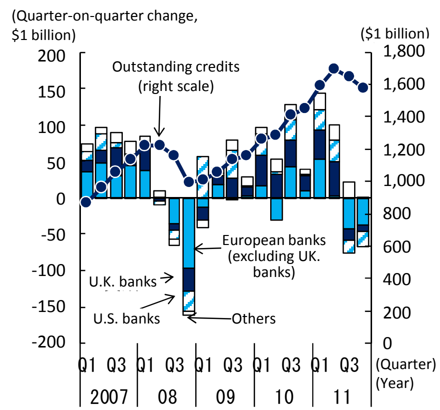


Fig. 7 Claims from Eurozone Banks (Ratio to credits from domestic banks)

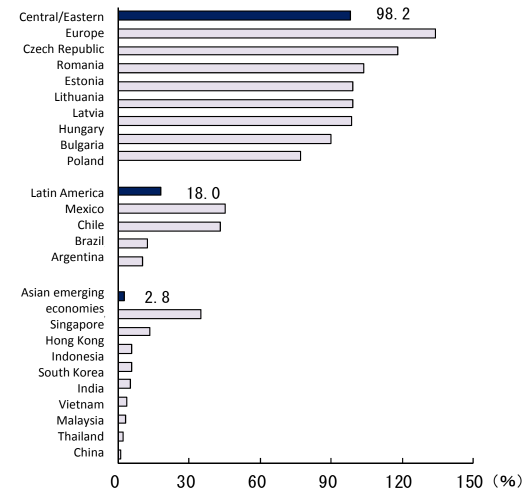
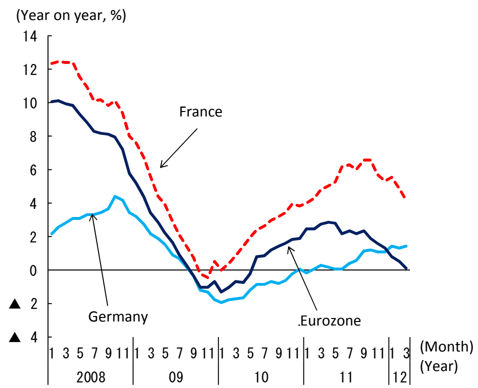


Fig. 5 Eurozone Banks' Internal Lending



(3) Latin America

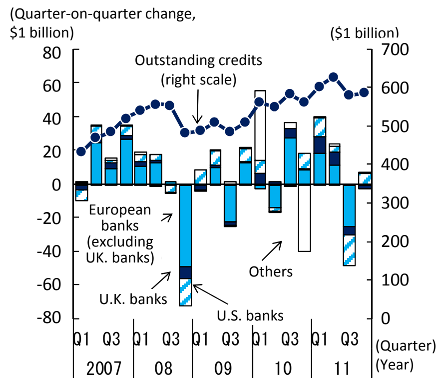
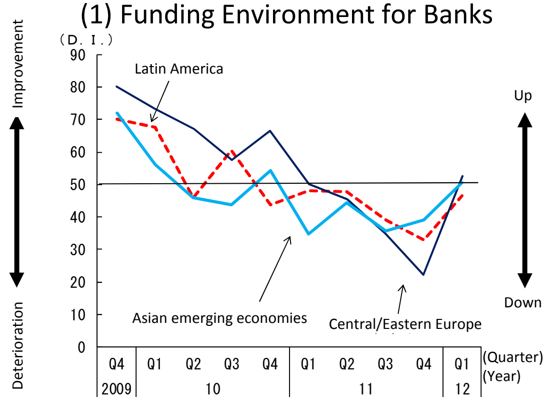
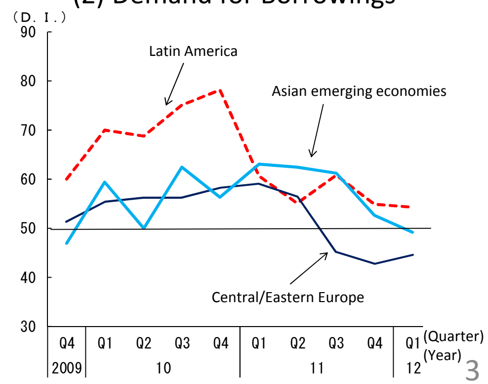


Fig. 8 Financial Environment in Central/Eastern Europe, Asia and Latin America

(1) Funding Environment for Banks



(2) Demand for Borrowings



- China and other Asian countries, which account for a large share of total exports to the Eurozone, posted export drops mainly due to the slump in the domestic demand of the Eurozone , particularly in the second half of 2011, dragging down economic growth in Asian countries that depend heavily on exports. (Figs. 9-10)
- Exports other than mineral fuels declined. Drops in exports such as electrical products contributed to overall export decreases in China and South Korea. (Figs. 11-12)

Fig. 9 Shares of Exports to Eurozone

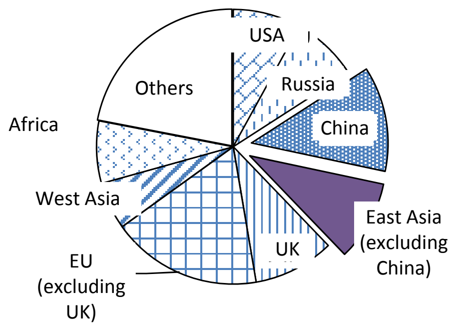


Fig. 10 Exports to Europe by Country/Region (on a euro value basis)

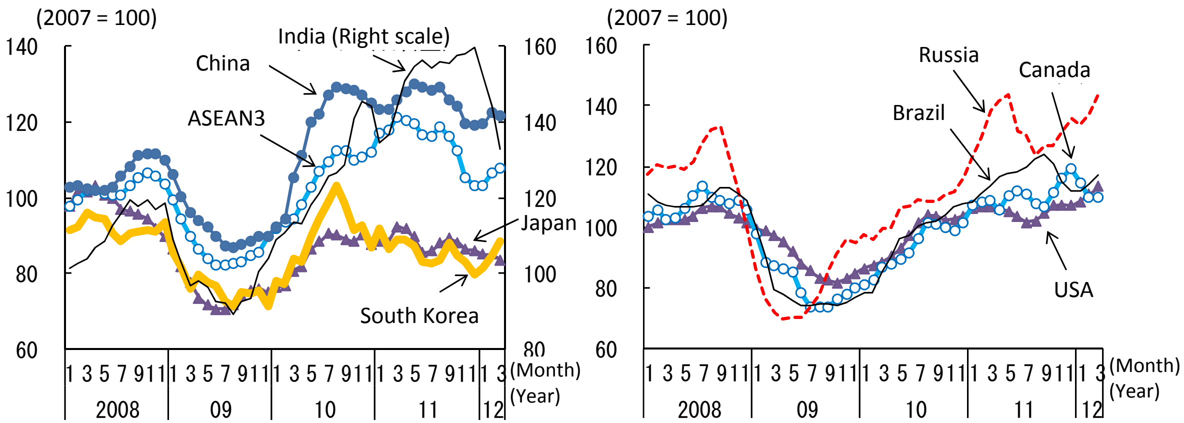


Fig. 11 Exports to Eurozone by Product Category
(on a euro value basis)

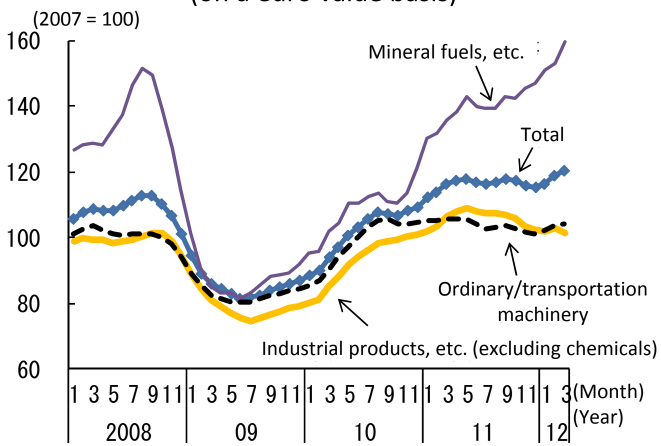


Fig. 12 Exports from China and South Korea to Eurozone