World Economic Trends
The Autumn Report in 2012
– Searching for a World Economy Stabilization Path –
(Summary)

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Cabinet Office
Government of Japan
Purpose

- Analyzing current conditions and outlooks in the world economy, which has been decelerating due to the European sovereign debt crisis since early 2012.
  - Europe: The economy has been weakening mainly due to reduction in domestic demand amid Government debt sustainability and fiscal austerity in Eurozone countries.
  - Asia: Economic expansion or recovery is decelerating or pausing. Some signs of stabilization have been seen recently.
  - USA: The economy continues to recover moderately.
- Verifying past achievements and problems regarding the common European currency (Euro), which has been questioned due to the European sovereign debt crisis.

Chapter 1. Trends in Each Country/Region
Section 1. Overview of Global Economy
Section 2. European Economies
Section 3. Asian Economies
Section 4. U.S. Economy

Chapter 2. Assessment and Problems of European Monetary Union
Section 1. Experiences in Euro Countries: Assessment of Euro Introduction
Section 2. Performance in Peripheral Non-Eurozone Countries: Comparison with Eurozone Countries
Section 3. Monetary System Experiences in Asia
Section 4. Conclusion
Chapter 1, Section 1. Overview of Global Economy ~ Global Economic Trends: The recovery remaining weak, deceleration spreading ~

- The global economic recovery slowed down from mid-2011 and remains weak, showing that deceleration is spreading. (Fig. 1)
  - External demand: Decelerating in both developed and emerging countries (Fig. 2)
  - Domestic demand: Emerging countries see generally weak investment despite relatively steady consumption (Fig. 3)
Most developed countries are reconstructing their public finance, which deteriorated due to the global financial crisis. The fiscal reconstruction efforts have exerted downward pressure on economic growth. (Fig. 4)

Since 2012, emerging countries like China have taken further monetary easing measures and implemented more economy-boosting measures, leading to signs of economic stabilization in some countries. (Figs. 5-8)

**Table 6 Major Economic Policies**

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy Measures</th>
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<tr>
<td>China</td>
<td>Since May: Accelerated implementation of important investment projects, etc. June: Implementation of incentives for consumption, including purchases of energy-saving electrical appliances (for 1 year)</td>
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<td>Europe</td>
<td>June: Decision on “Compact for growth and jobs” (120 billion euros) September: Announcement of details of a new government bond purchasing program October: Creation of the European Stability Mechanism</td>
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<tr>
<td>USA</td>
<td>September: Decision to implement additional monetary easing (QE 3)</td>
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The Eurozone economy has been weakening due to financial and capital market turmoil amid fiscal fears in South European and other countries, and sluggish private consumption and plunging investment under fiscal austerity and a severe employment situation. (Fig. 9)

In Germany, private consumption has been firm amid nominal wage growth and other factors. Its exports to the United States, China and other non-euro countries have been growing. But the corporate sector shows signs of weakness including slack operating surplus and sluggish orders. (Figs. 10 to 13)

Spain has seen a decline in consumption and fixed capital investment, and a rising unemployment rate due to a housing bubble burst and fiscal austerity. However, it may take advantage of the euro’s depreciation to boost exports to break through the slump. (Figs. 14-16)
The European Central Bank lowered its policy interest rate to a record low of 0.75% in July 2012 and announced a new government bond purchasing program with stricter conditions in September. (Fig. 17, Table 18)

The European Stability Mechanism (ESM) was created in October for fiscal support and capital injections through loans to banks. (Fig. 19)

October’s EU summit decided to aim to reach agreement on a regulation for a mechanism where the ECB will supervise all of the euro area banks (as part of the banking union) by early 2013. (Fig. 20)