The Euro area economy has been picking up, although its pace has slowed down. Economic situations in the Euro area vary across countries (Fig. 1). Since the April-June quarter 2014, Germany has lost growth momentum, while Italy continued negative growth. Spain has maintained positive growth as its exports have increased thanks to improved price competitiveness gained through labor market reforms (Figs. 2 and 3).

In response to the risk of prolonged low inflation, the European Central Bank has implemented monetary easing. A matter of concern is the negative growth of bank lending on a year-on-year basis (Fig. 4). Furthermore, reform to make the labor market more flexible is a challenge for achieving sustained growth.

The impact of economic sanctions against Russia on exports has been limited (Fig. 5). Rather, the impact of economic sanctions against Russia deteriorated business confidence on investment, which is a larger cause for concern (Fig. 6).
Chapter 2, Section 2. Chinese Economy – Promoting Structural Reform –

China achieved double-digit economic growth over decades (Fig. 1). As the high growth depended on exports and investment, overinvestment and excess credit emerged as structural problems. While exports slackened after the global financial crisis, China implemented large-scale economic stimulus measures and monetary easing to achieve economic recovery depending on public and private investment. As a result, overinvestment and excess credit deteriorated further (Figs. 2 and 3).

The Xi Jinping administration, inaugurated in 2013, has proceeded with structural reforms (to eliminate excess production, capacity and credit), implementing policy management giving priority to the quality of growth. The structural reform policy has been a factor behind slower economic growth. The administration emphasizes that China has entered “the new normal” of slower growth under such policy.

If structural reform is delayed, however, a hard-landing risk may emerge on an increase in nonperforming loans. Although growth deceleration under structural reform may affect domestic and overseas economic conditions, structural reform will be indispensable for stable growth of not only China but also the world economy.

Fig. 1 Real Economic Growth Rate and Growth Breakdown by Demand

2000-2011 average growth rate: 10.2%

Real economic growth
Investment
Net exports
Consumption

Fig. 2 Investment Efficiency Deterioration (Marginal capital coefficient)

Investment efficiency decline
Investment efficiency rise

Fig. 3 Excess Credit (Total social financing outstanding)

(Trillion yuan)
(Percentage of nominal GDP, %)

Loans other than financial institution lending (trust loan, entrusted loan, etc.)
Total social financing outstanding (percentage of nominal GDP)
Financial institution lending

(Notes)
1. Source: The People’s Bank of China
2. Total social financing outstanding is estimated by the accumulation since 2002.
3. Nominal GDP for September 2014 is annualized (estimated)
Economic policy emphasizes stable employment and prices. Employment has increased on progress toward a service-oriented economy (Figs. 4 and 5). Prices have been stable as food prices have restored their stability (Fig. 6).

The government plans to maintain economic growth (growth target of mid-7% in 2014) between the minimum growth for maintaining and securing employment and the maximum growth for refraining from accelerating price hikes. The government plans to implement targeted economic measures to maintain and support stable growth only if downside pressure arises on the economy (Table 7).

**Fig. 4 Employment Elasticity**

(*Employment growth resulting from 1% GDP growth*)

**Fig. 5 Tertiary Industry’s Contribution to Growth and Employment**

**Table 7 Targeted Economic Measures (2014)**

1. Sources: National Bureau of Statistics of China, Ministry of Human Resources and Social Security
2. Employment elasticity = Number of newly employed people / real GDP growth
3. A figure for 2014 covers the January-September total.

1. Front-loading infrastructure investment
2. Supporting housing purchases
3. Easing housing loan regulations (easing loan regulations for second houses)
4. Targeted monetary easing