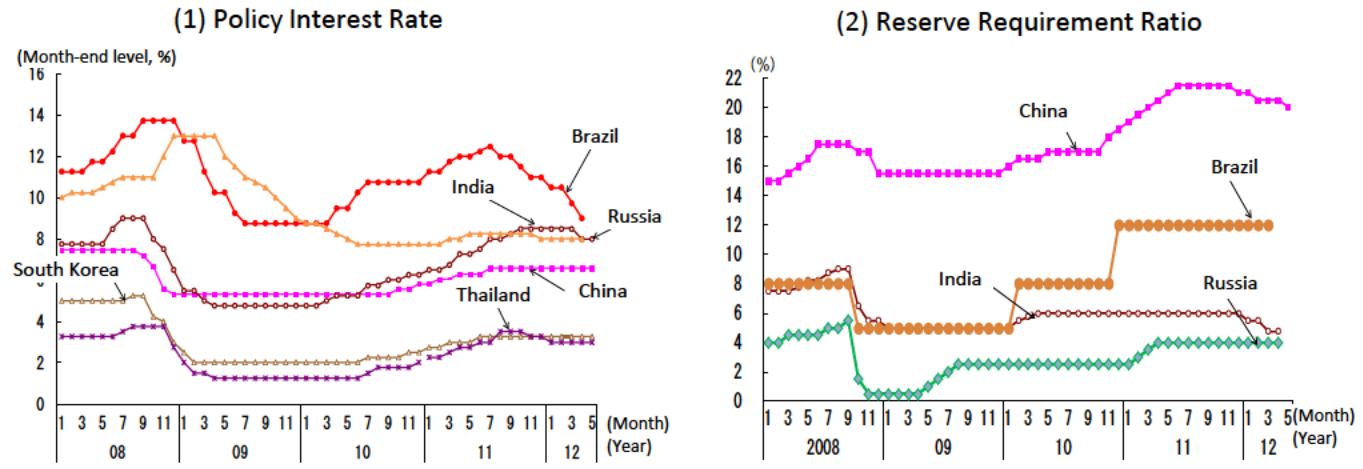


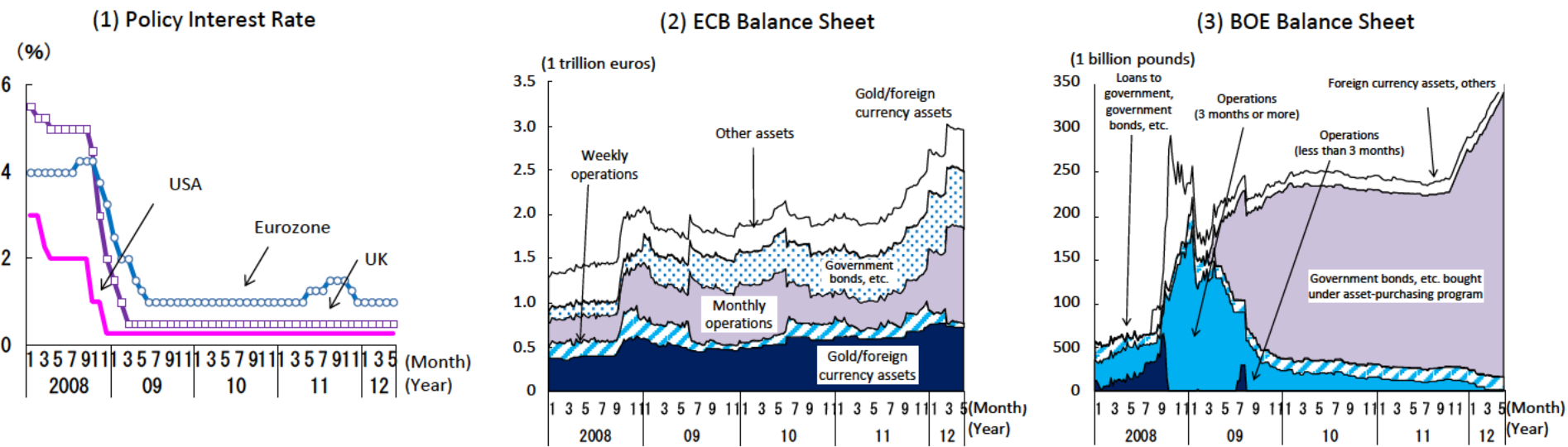
**Chapter 1. Global Economy Sees Tension Continuing over European Sovereign Debt Crisis ~ Impact of European Sovereign Debt Crisis on Global Economy: Monetary Policy ~**

- Emerging countries: Monetary tightening since mid-2010 shifted to easing in mid-2011 (Fig. 13)
- Developed countries: Monetary easing has continued. The European Central Bank and the Bank of England have enhanced unconventional monetary policy measures, expanding their balance sheets. (Fig. 14)

**Fig. 13 Monetary Policy Trends in Emerging Countries**



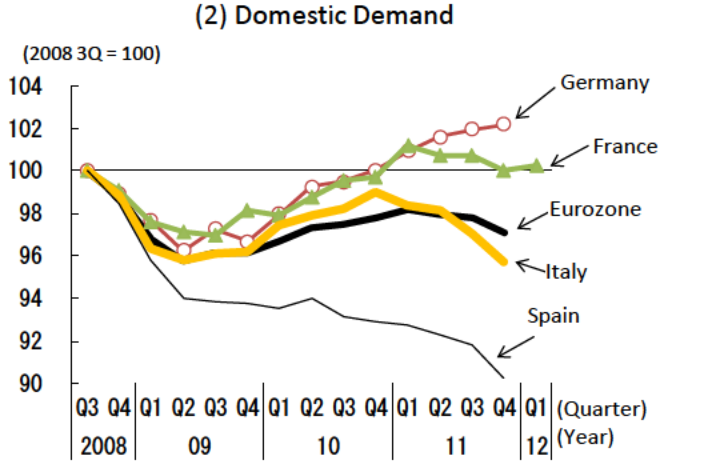
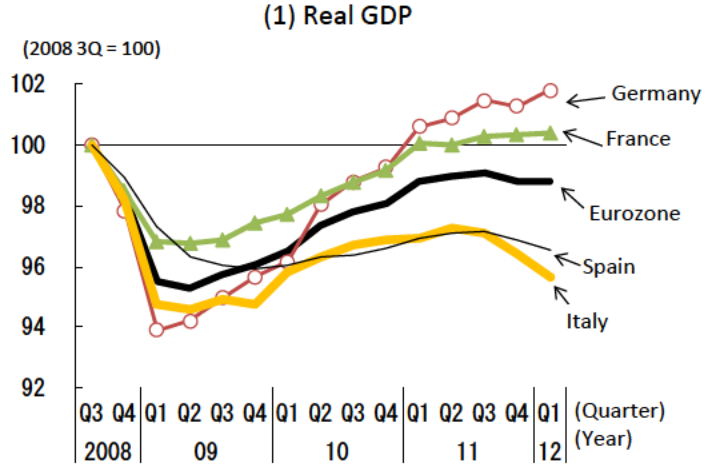
**Fig. 14 Monetary Policy Trends in Developed Countries**



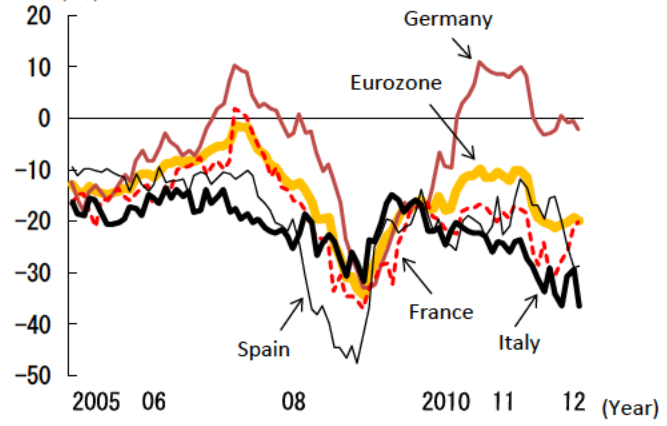
**Chapter 2, Section 1. European Economies ~ Slumping Domestic Demand and Slowing Exports ~**

- The Eurozone in the fourth quarter 2011 posted the first economic contraction since the global financial crisis. In the first quarter 2012, economic growth was very weak. (Figs. 15-17)
- While Germany sees robust domestic and foreign demand, France, Italy and Spain see slumping domestic demand.
- Reflecting slumping domestic demand in Eurozone countries, the Eurozone's internal and external exports show opposite trends. (Fig. 18)

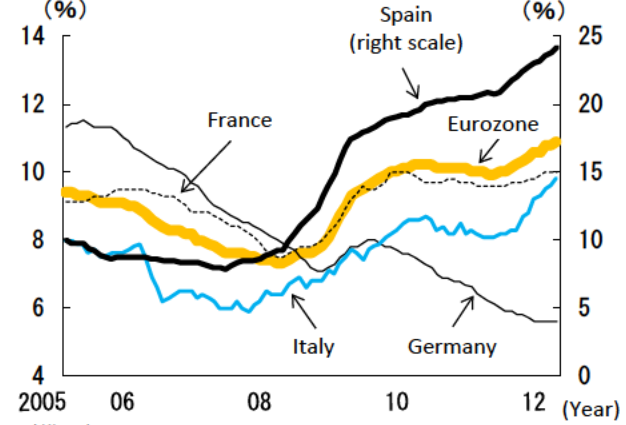
**Fig. 15 GDP and Domestic Demand in Major Eurozone Countries**



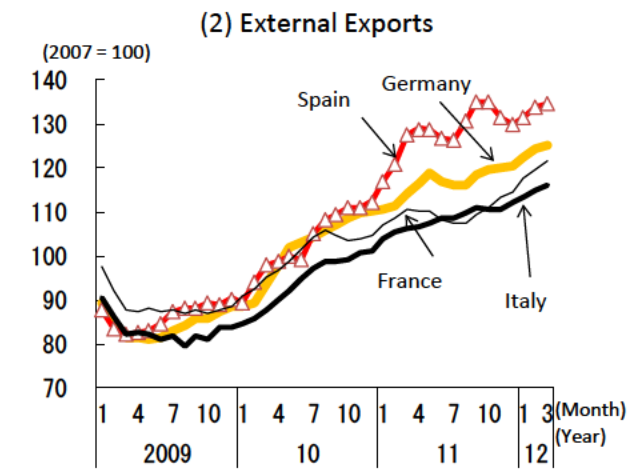
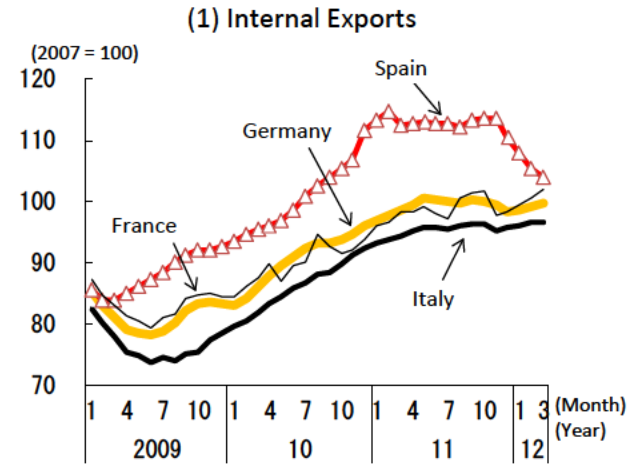
**Fig. 16 Consumer Confidence in Major Eurozone Countries**



**Fig. 17 Unemployment Rates in Major Eurozone Countries**



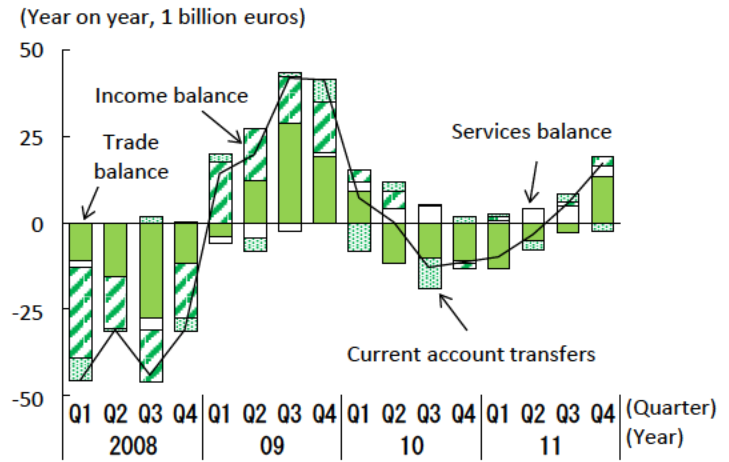
**Fig. 18 Major Eurozone Countries' Exports**



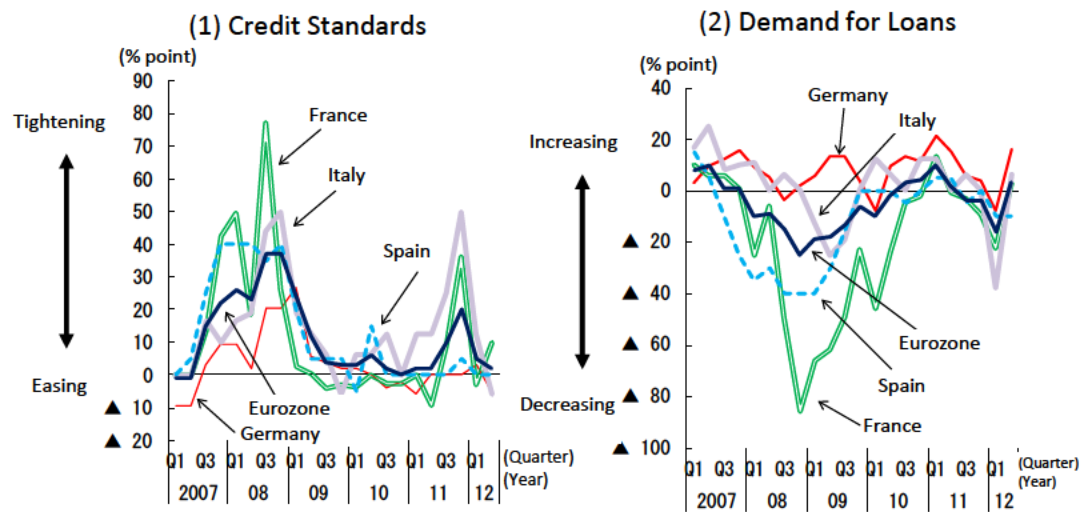
**Chapter 2, Section 1. European Economies ~ Narrowing Current Account Imbalances on Weak Imports and Impact of Sovereign Debt Crisis on Eurozone ~**

- Current account balance: Generally seems to be improving. (Fig. 19)
  - However, improvements in South European countries are attributable primarily to an import plunge amid slumping domestic demand. Imbalances are leading to a contradicted equilibrium. (Fig. 20)
- Impact on internal finance: The fundraising environment has deteriorated with fundraising costs rising particularly in South European countries. (Fig. 21-22)

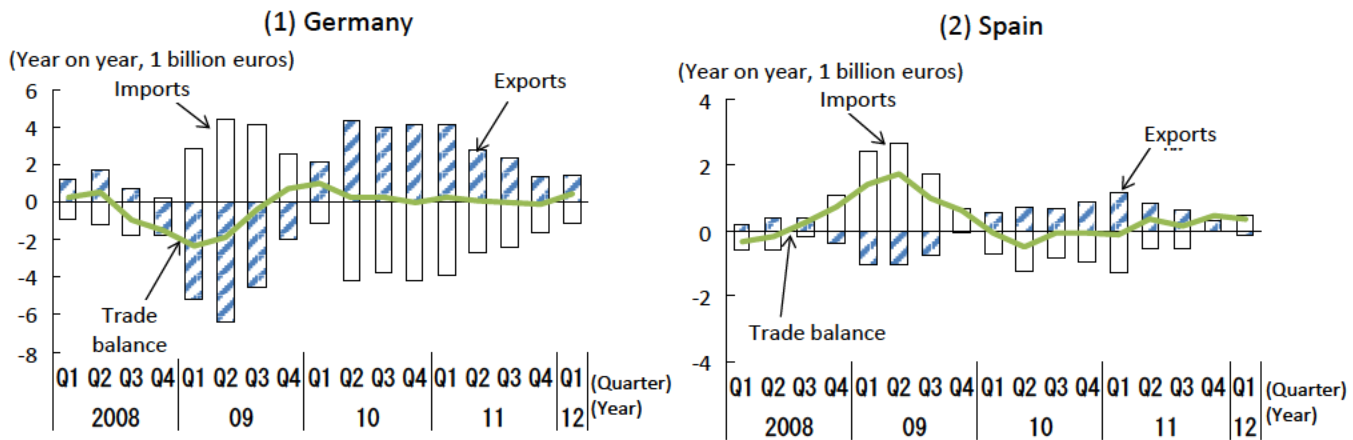
**Fig. 19 Eurozone Current Account Balance**



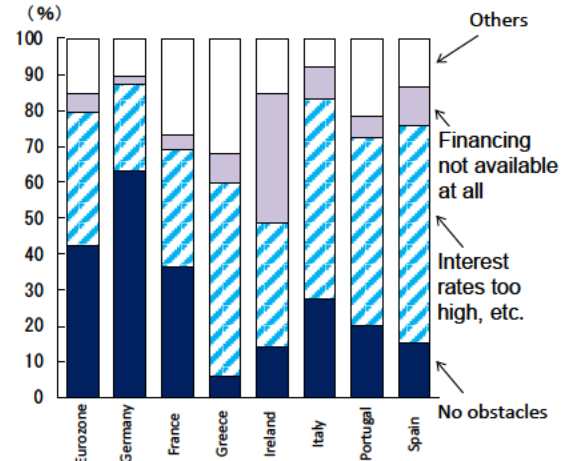
**Fig. 21 Eurozone Banks' Lending Terms and Corporate Demand for Borrowings**



**Fig. 20 German and Spanish Trade Balances**



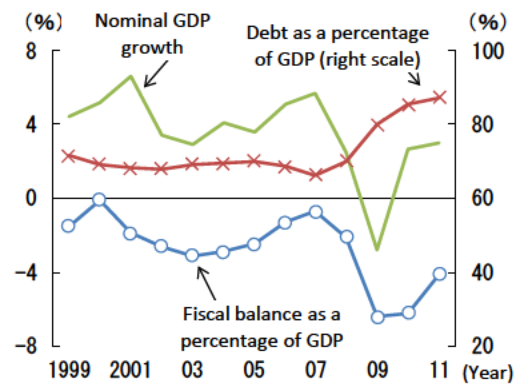
**Fig. 22 Factors Limiting Access to External Financing**



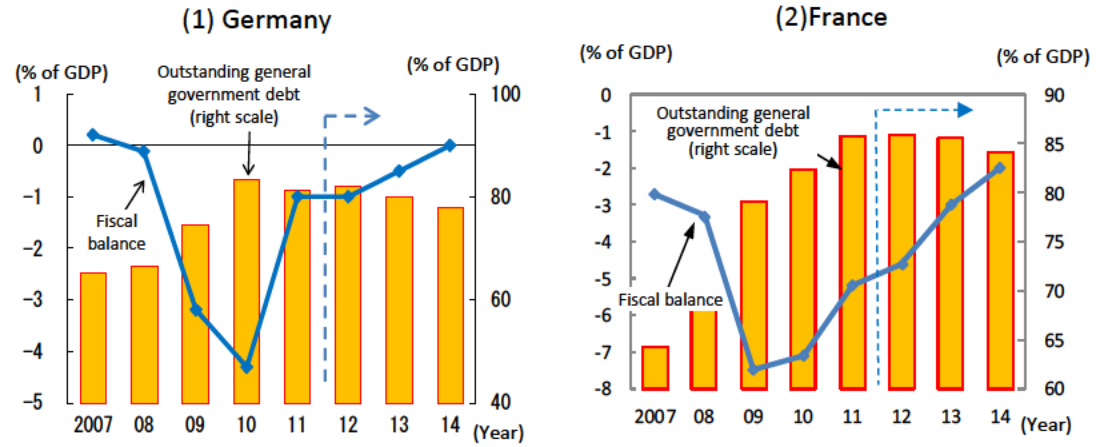
**Chapter 2, Section 1. European Economies ~ Fiscal Consolidation Conditions and Efforts ~**

- Fiscal deficits for the entire Eurozone have declined. However, most of the countries in the Eurozone have fallen short of achieving fiscal consolidation targets. Some countries' moves to lower numerical targets have triggered market fears. (Figs. 23-24)
- The entire EU has enhanced surveillance and incorporated budget-balancing rules into domestic law in each member country by revising the Stability and Growth Pact and establishing the Fiscal Compact.
- Germany's fiscal deficit is within a standard under the Stability and Growth Pact. France is expected to maintain its fiscal consolidation target even under the new president. Italy and Spain, though implementing their fiscal consolidation measures, have extended deadlines for achieving fiscal targets due to their economic slump, leaving their future course uncertain. (Fig. 25)

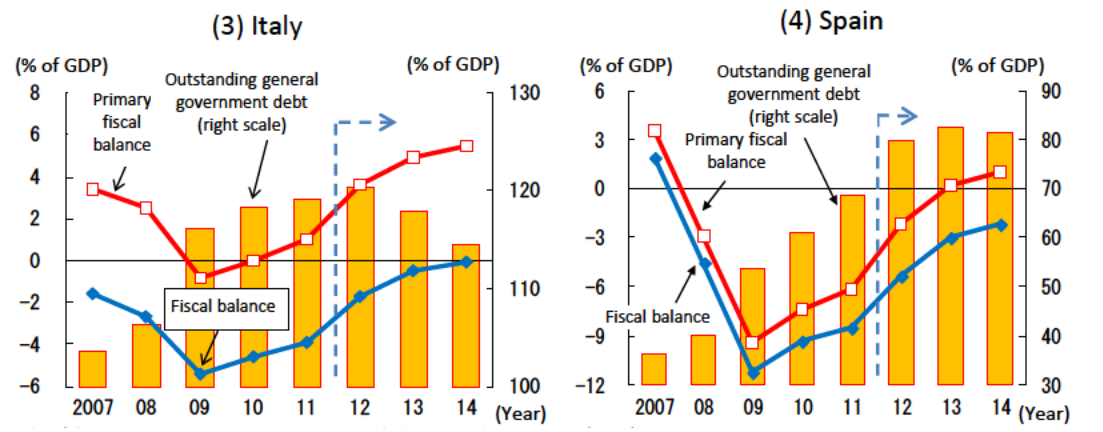
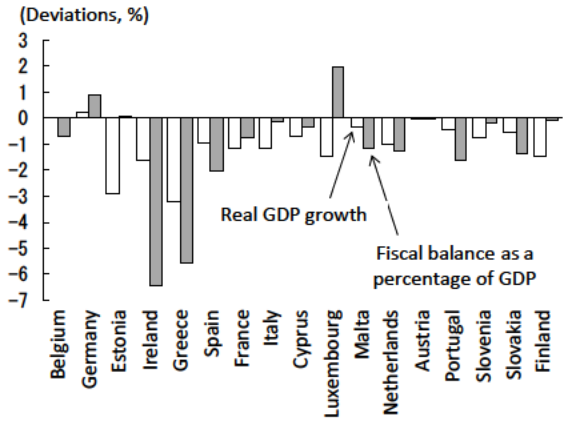
**Fig. 23 Eurozone Fiscal Conditions**



**Fig. 25 Country-by-Country Conditions**



**Fig. 24 Deviations from Fiscal Consolidation Targets (2007-2011 average)**

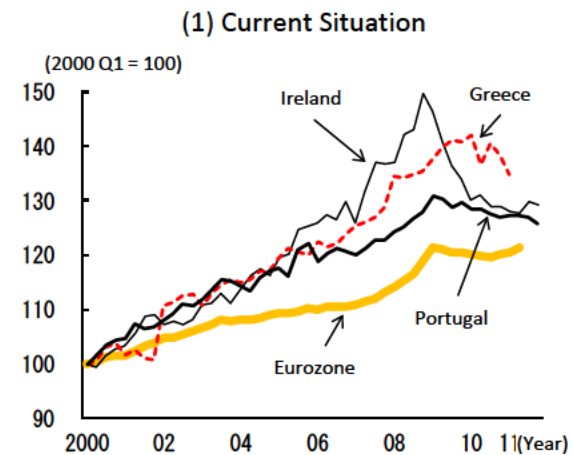




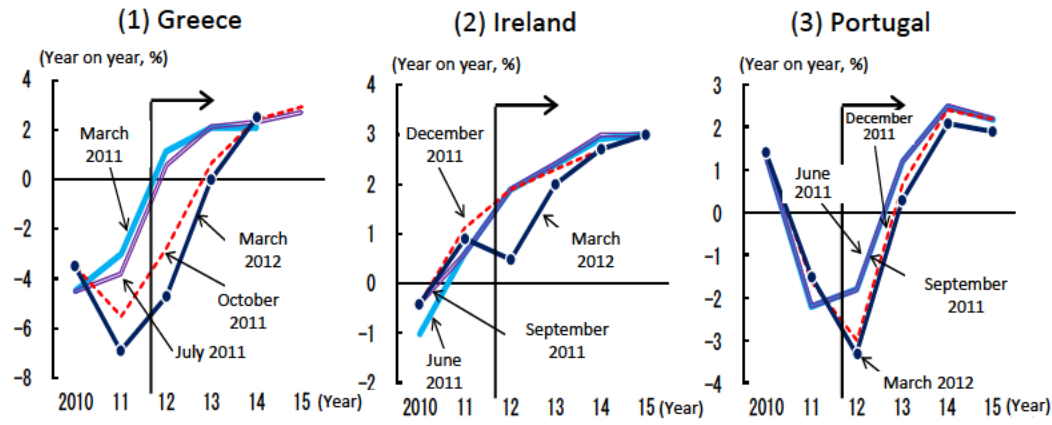
**Chapter 2, Section 1. European Economies ~ Fiscal Sustainability of Support Recipient Countries (Greece, Portugal and Ireland) ~**

- Amid a serious recession, Greece has failed to make planned progress in fiscal consolidation even under support from Eurozone and other countries. After some confusion, the second support package for Greece was decided in March 2012. However, market fears have been growing again amid political uncertainty. Portugal and Ireland have smoothly implemented fiscal consolidation and structural reforms.
- Risks include whether economic growth could be achieved as planned through structural reforms. Challenges include not only fiscal consolidation but also the improvement of competitiveness through a unit labor cost reduction depending on the rectification of the rigid labor market. (Figs. 26-28)

**Fig. 26 Unit Labor Costs in Greece, Portugal and Ireland**



**Fig. 27 Economic Forecasts**



**Fig. 28 Impact of Downward Deviation from Forecasts on Outstanding Debt**

