

World Economic Trends

The Autumn Report in 2012

– Searching for a World Economy Stabilization Path –
(Summary)

December 2012
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

- 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)

Fig. 1 Real GDP Growth Rates in Major Countries

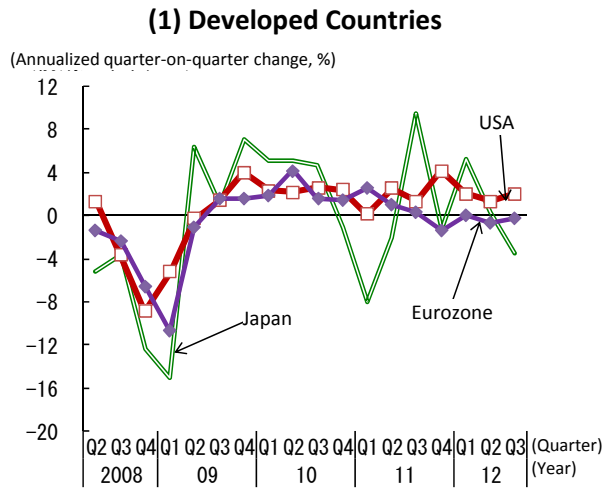


Fig. 2 Export Trends in Major Countries

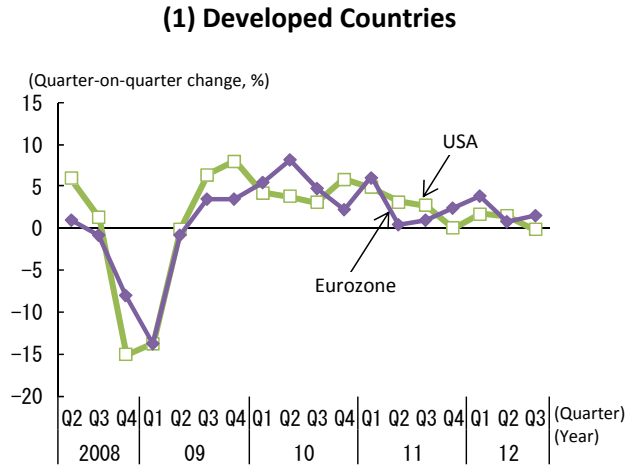
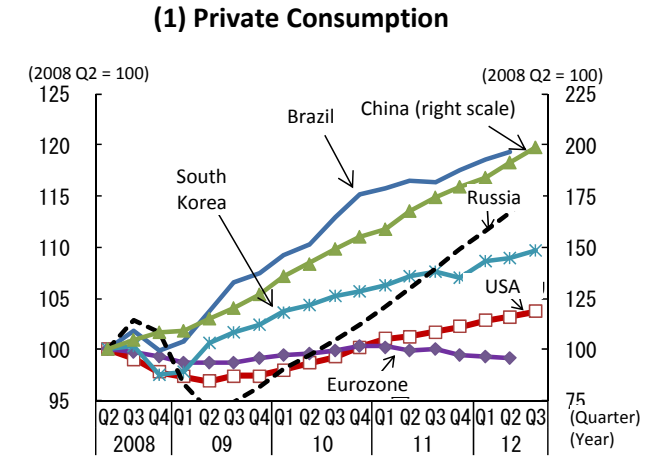
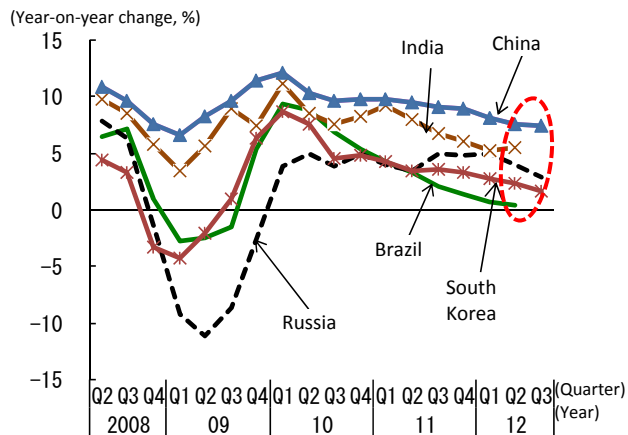


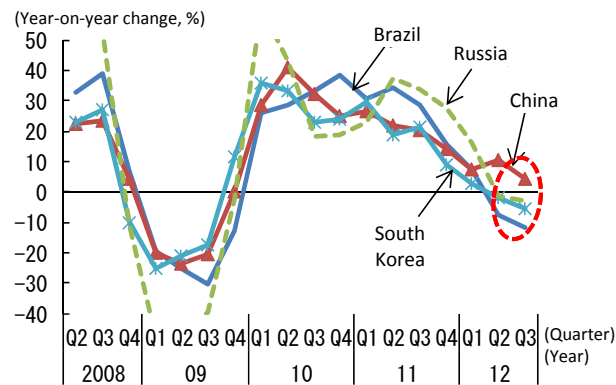
Fig. 3 Domestic Demand Trends in Major Countries



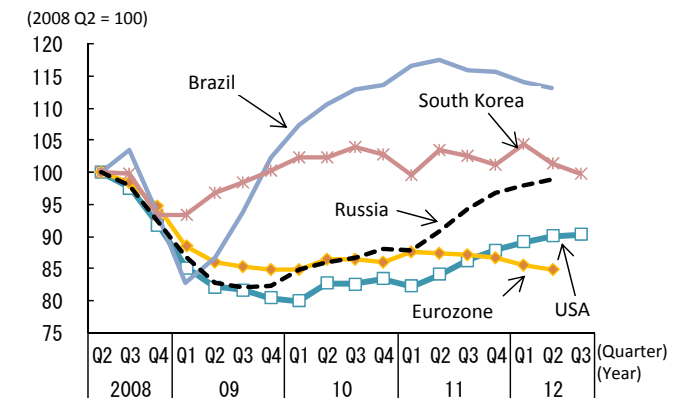
(2) Emerging Countries, etc.



(2) Emerging Countries, etc.

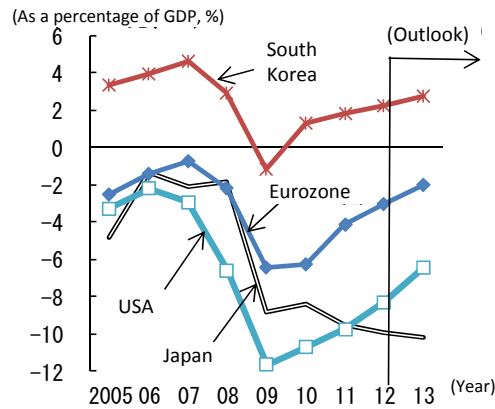


(2) Fixed Asset Investment



- 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)

Fig. 4 General Government Budget Balance in Major Developed Countries (as a percentage of GDP)



(2) Major Asian Countries and Other Emerging Countries

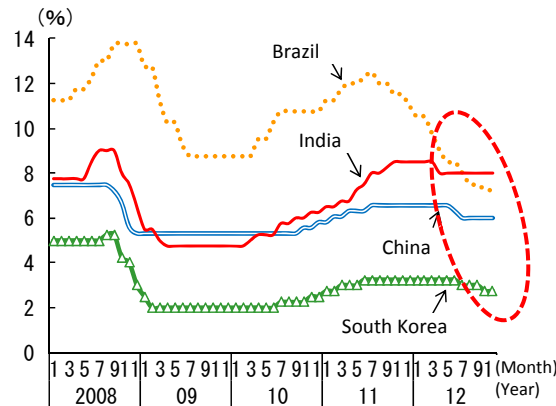


Fig. 7 Stock Price Indexes in Major Countries

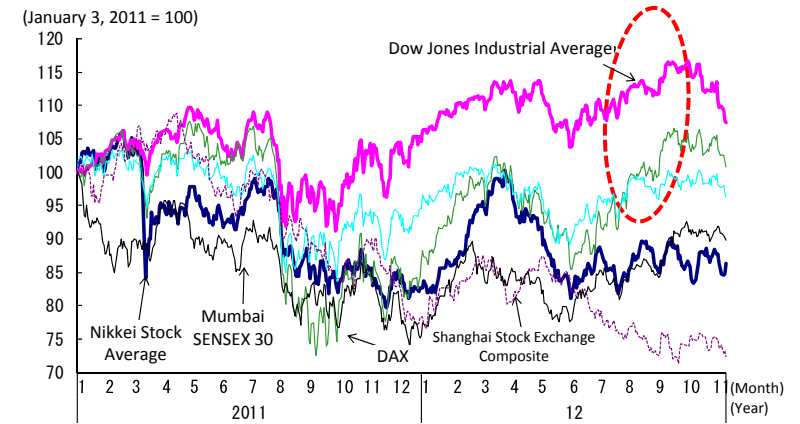


Fig. 5 Policy Interest Rates in Major Countries (1) Developed Countries

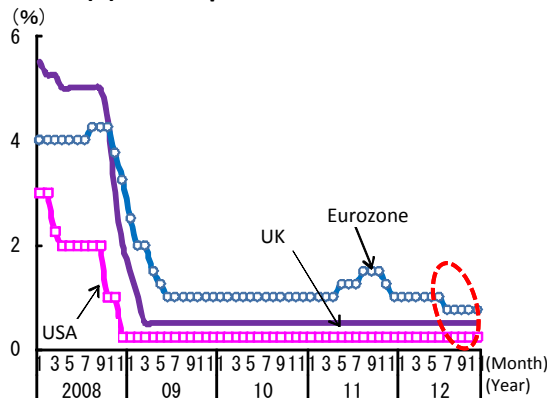
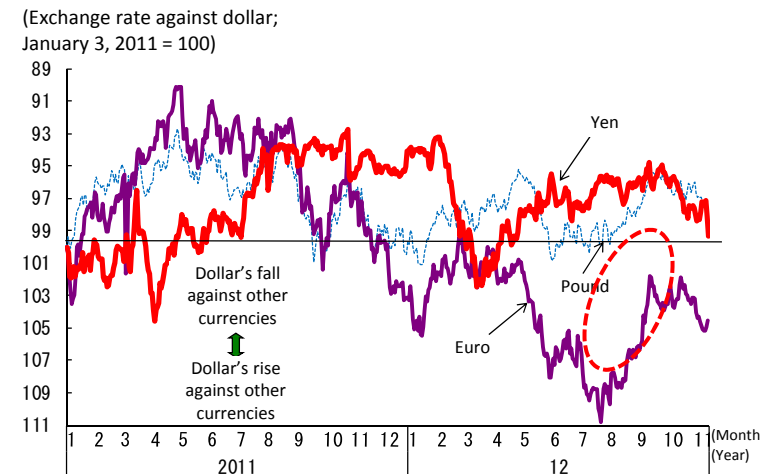


Table 6 Major Economic Policies

China	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)
Europe	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
USA	September: Decision to implement additional monetary easing (QE 3)

Fig. 8 Foreign Exchange Rates in Developed Countries



- 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)

Fig. 9 Real GDP in Major Eurozone Countries

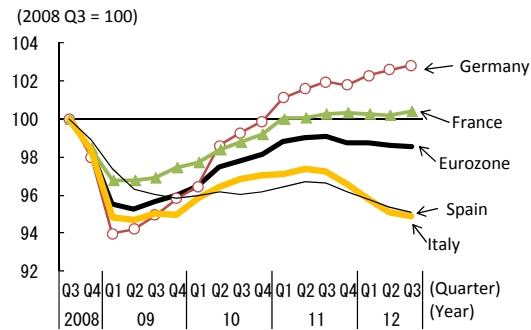


Fig. 11 German Export Trends

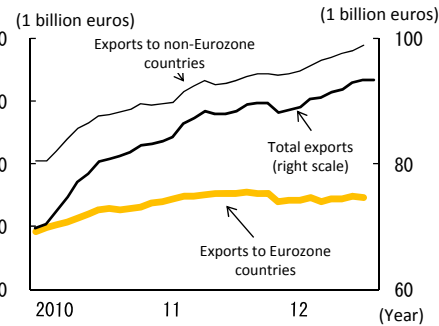


Fig. 13 German Manufacturing Industry Order

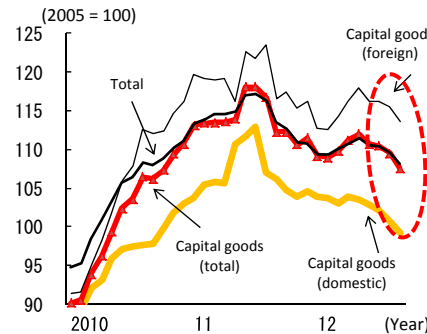


Fig. 15 Spanish Employment

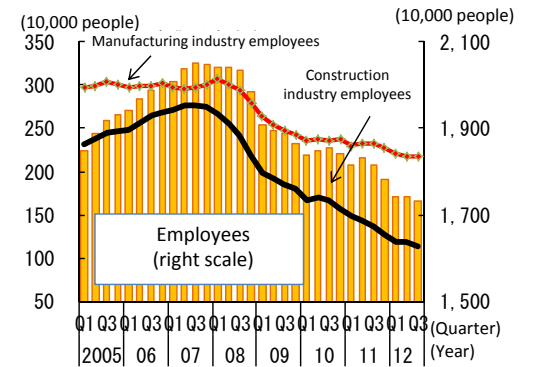


Fig. 10 German Nominal Wage by Industry

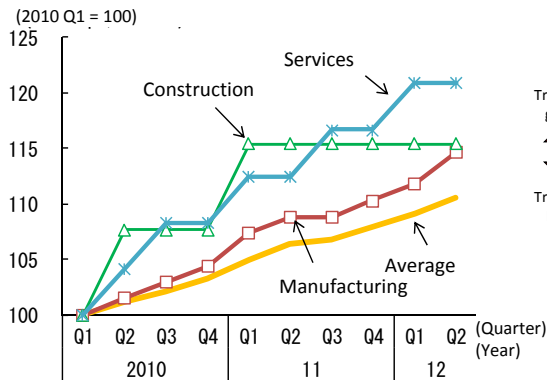


Fig. 12 German Operating Surplus and Gains/Losses

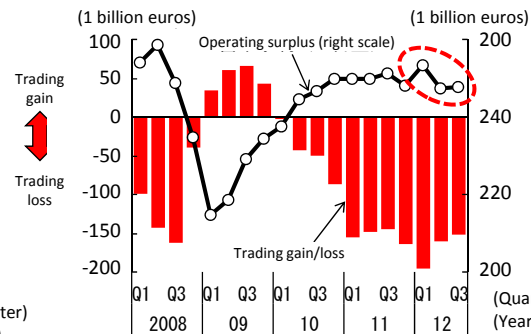


Fig. 14 Spanish Fixed Capital Asset Investment

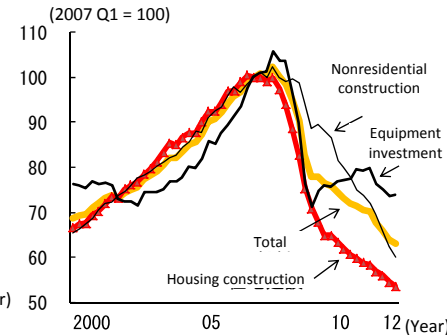


Fig. 16 Spanish Export Trends (on volume basis)



- 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)

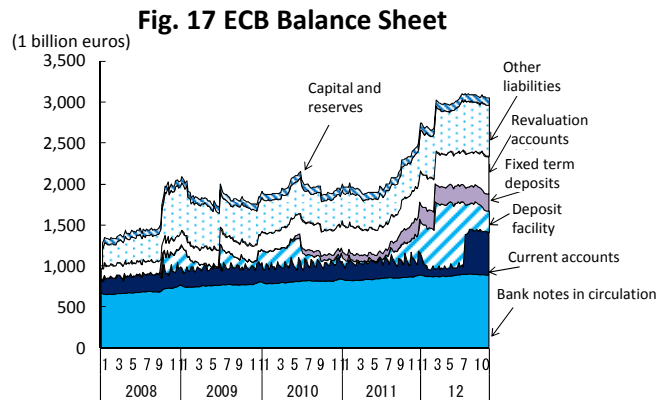


Fig. 19 New Lending Capacity under EFSF/ESM Programs

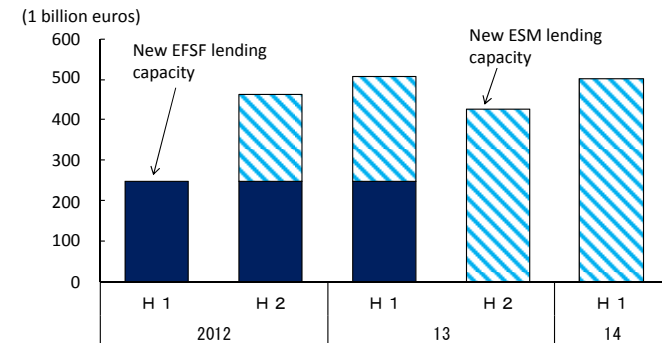


Table 18 Comparison between Securities Market Programme (SMP) and Outright Monetary Transactions (OMT)

	SMP	OMT
Objective	Addressing the malfunctioning of the securities market and restoring appropriate monetary policy transmission	Safeguarding appropriate monetary policy transmission and effects on real economies
Implementation conditions	No explicit condition	Compliance with conditions under the EFSF/ESM programs and monetary policy needs are necessary conditions
Suspension conditions	No explicit condition	Purchases shall be suspended if their objectives are achieved or conditions fail to be satisfied.
Ceiling	No explicit ceiling is imposed. Actual purchases total some 200 billion euros.	No explicit ceiling
Target	No explicit target	Government securities maturing in one to three years
Subordination order	Government securities purchased under the SMP have been effectively treated as subordinate to those held by the private sector.	Government securities purchased under the OMT and those held by the private sector will be treated equally.
Sterilization	To be implemented	To be implemented

Fig. 20 Overview of Single Supervisory Mechanism

