Chapter 2 Trends in major countries and areas

Section 1 The United States

After the global economic crisis in 2008, the U.S. economy reached the bottom in June 2009[1], and has been moderately recovering as a whole since then. In 2012, while company activities stalled due to concerns of the global economy slow-down and uncertainty of domestic fiscal issues in some period, mostly gradual growth continued with robust consumer spending, growth of housing market and recovery trend in labor market. In 2013, after expiration of various tax reductions in the early year and implementation of budget sequestration in March, there has been no remarkable slowdown so far. However, as it has been possible that fiscal issues would be a burden to economic growth, much attention has been put on the economic trend.

In this section, the trend from 2012 to recent 2013 will be overlooked based on major economic indicators.

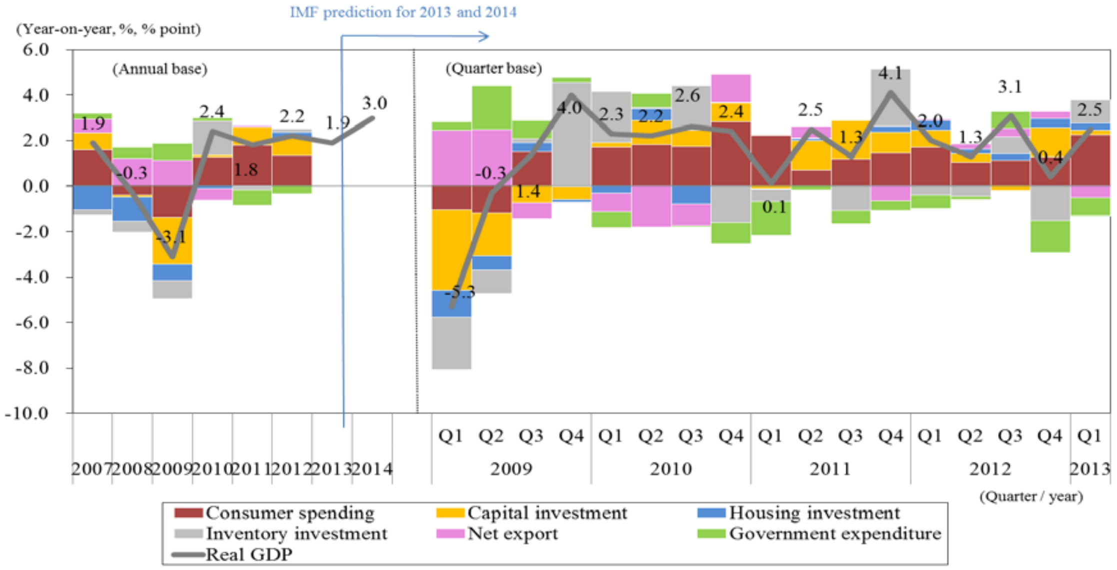
1. GDP

Real GDP growth rate in 2012 increased 2.2%from the previous year, surpassing the rate 1.8% in 2011. In the contribution to GDP growth by the demand-side components (Figure III-2-1-1), in addition to consumer spending that accounts for 70 % of GDP and capital investment of companies, housing investment has positively contributed for the first time since 2005, which clearly showed recovery in the housing market.

As a trend of each quarter, although GDP for the 4th quarter stalled at 0.4% quarter-on-quarter annualized change, it was caused by slow-down of inventory investment and a decrease in government expenditure including defense costs, and there was no sign of entering a huge recession because domestic economic activities were robust such as firm consumer spending, recovery of private capital investment and increase in housing investment. In the first quarter of 2013, the preliminary data was at 2.5% , which also indicated recovery.

[1] In September 2010, the National Bureau of Economic Research (NBER) declared that the recession in the United States from December in 2007 had ended in June 2009. The recession lasted 18 month and it was the longest period since after World War II.

Figure III-2-1-1 Changes in real GDP growth rate and contribution by demand-side components



Notes: After Seasonal adjustment. Preliminary data for Q1 in 2013.
Source: The Department of Commerce and *World Economic Outlook Update April 2013* (IMF)

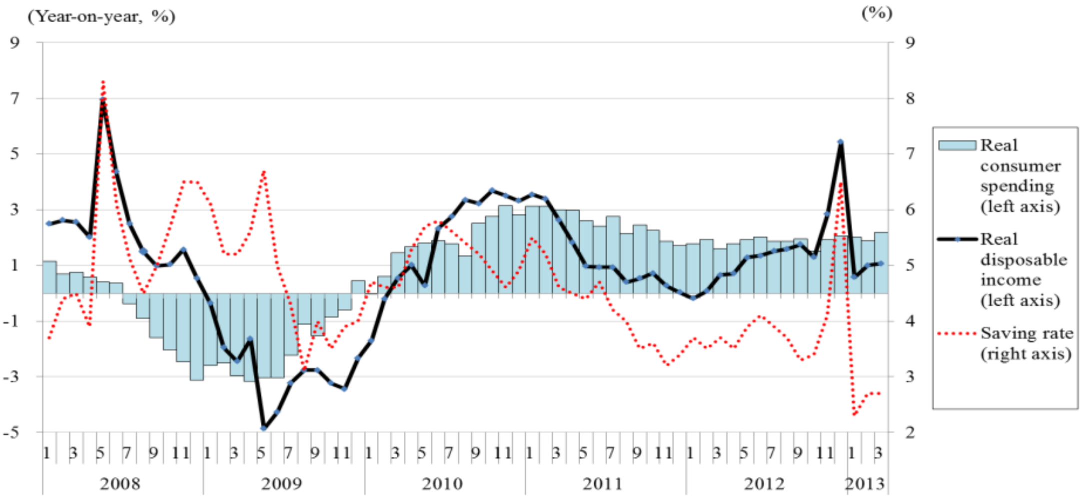
2. Consumer spending

Consumer spending in 2012 stayed strong, backed by gradual improvement in employment and income and the financial asset due to the effect of increased stock prices.

Individual income, which supported consumer spending, was totally in an increasing trend, and it increased especially in December before the expiration of income tax reduction and the increasing taxations including taxation on dividend, with many companies distributing dividend and paying bonus salary in a last-minute rush. In January 2013, although it slowed down because of increasing taxations and a reaction of front-loaded dividend and bonus salary, consumer spending has moved relatively firmly, being a leading force of GDP in the first quarter in 2013.

However, as retail sales growth in April it stayed at 0.1% compared to the previous month, and consumption sentiment would be suppressed potentially by the influence of automatic budget cuts, future trends would need to be observed (Figure III-2-1-2).

Figure III-2-1-2 Changes in real consumer spending, real disposable income (year-on-year) and saving rate in the United States



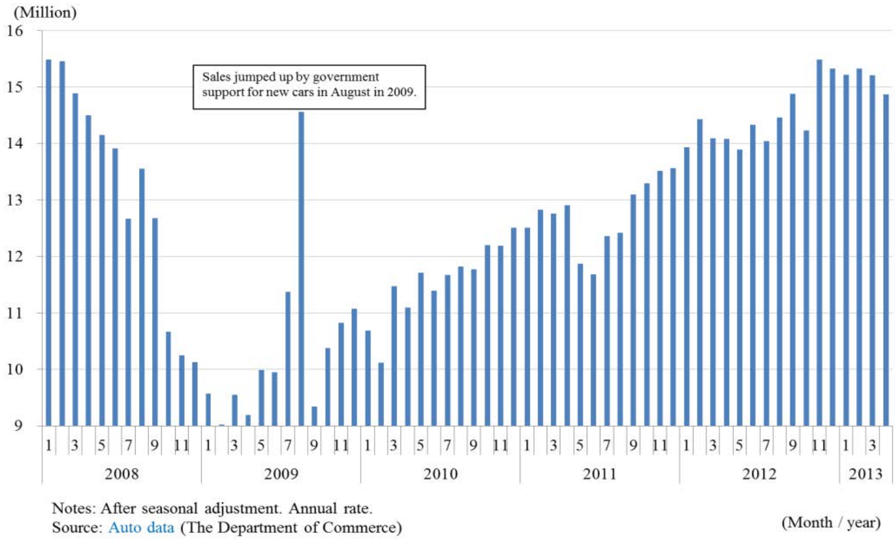
Notes: Real consumer spending and real disposable income is in year-on-year, and saving rate is month rate.
Source: The Department of Commerce and CEIC Database

3. Sales of new cars

According to the Department of Commerce, sales of new cars in the United States was 14.44 million through 2012, the highest number since 2008, when the global economic crisis occurred, and increased to 13.4% from the previous year, recording more than 10% increase in three years continuously.

Also, it remained higher than the mark able line of 15 million (calculated into annual rate) in five months straight from November 2012 to March 2013,and it was in a favorable trend backed by robust individual income and lowered interest of car loans[2] (Figure III-2-1-3).

Figure III-2-1-3 Changes in sales of new cars in the United States (calculated into annual rate)



Notes: After seasonal adjustment. Annual rate.
Source: Auto data (The Department of Commerce)

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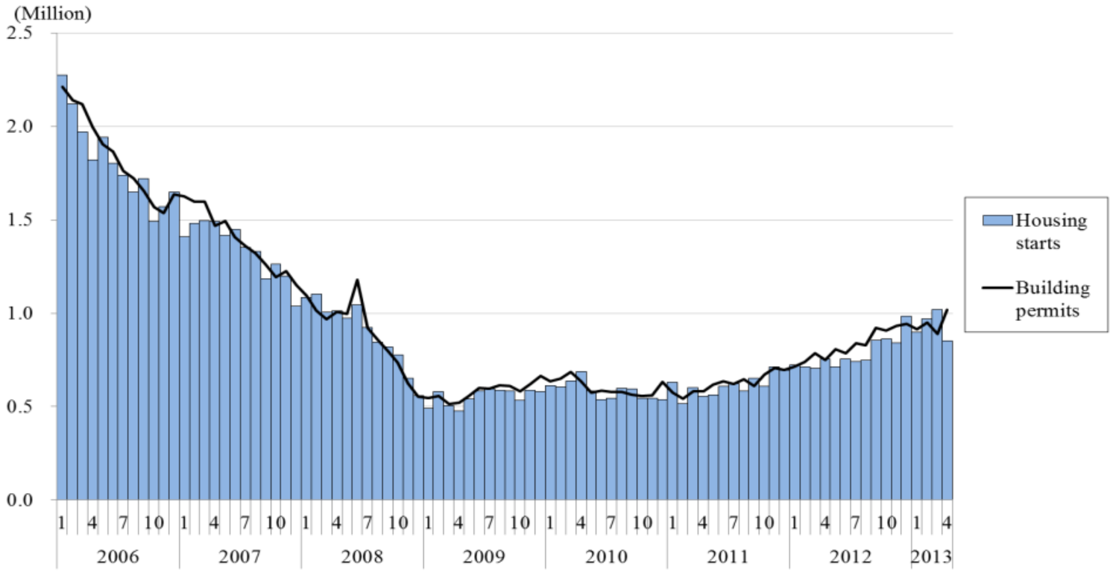
[2] According to the announcement of FRB (Board of Governors of the Federal Reserve System), 48-month new car loan interest of banks lowered from 7.77% in 2007 to 4.69% in February 2013.

4. Housing market

Housing prices had dropped significantly by the occurrence of the subprime mortgage problem in 2007 and had been in a long-term recession, but a sign of restoration came in 2012. Stable increase both in housing starts and building permits, which is an index for housing starts (Figure III-2-1-4), residential housing sales both of new and existing home sales moved firmly (Figure III-2-1-5). Especially from late 2012 up until the present, recovery speed has increased, and some index[3] started to reach the level before the global economic crisis. Case-Shiller Home Price Indices (20 cities) (Figure III-2-1-6) also increased in 13 months continuously from February 2012 to February 2013, and after that it turned positive year-on-year in June 2012, increasing rate expanded in nine months continuously until February 2013.

Housing market is thought to have reached to a turning point towards recovery in 2012, and housing investment contributed to GDP growth in 2012 for the first time in the previous seven years. Recently in 2013, robust improvement in housing market has continued.

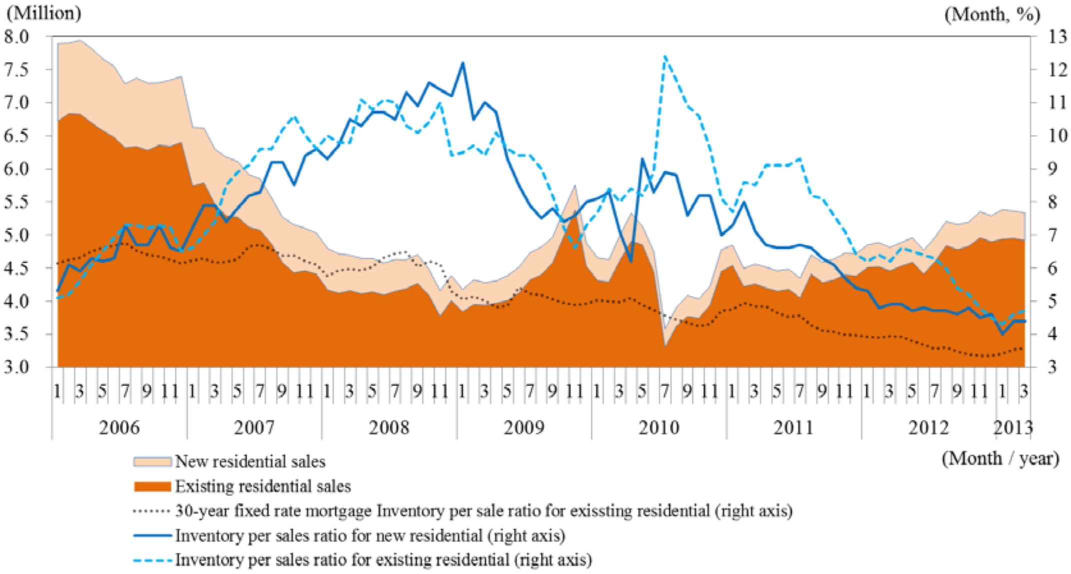
Figure III-2-1-4 Changes in housing starts and building permit in the United States



Notes: After Seasonal adjustment. Annual rate.
Source: The Department of Commerce and CEIC Database

[3] Housing starts in March 2013 and building permits in April both recorded more than one million (annual rate) for the first time in five years since June 2008.

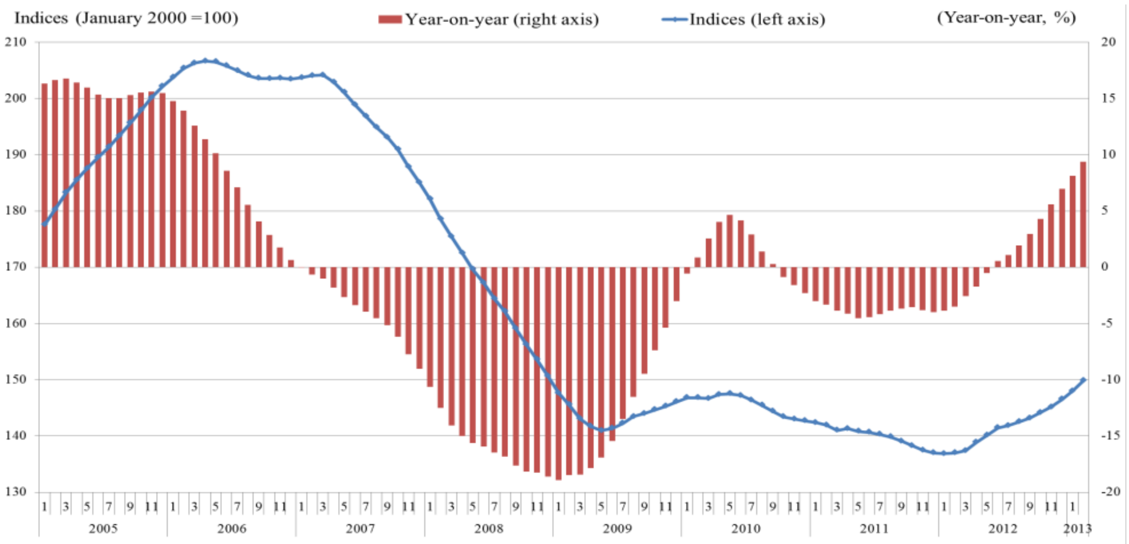
Figure III-2-1-5　Changes in new and existing residential sales and 30-year fixed rate mortgage in the United States



Notes: 1. After seasonal adjustment. Annual rate.
2. Inventory per sales ratio is an index that indicates how many months inventory lasts for current housing sales if additional supply was not added at the time.

Source: The Department of Commerce and CEIC Database

Figure III-2-1-6　Changes in Case-Shiller Home Price Indices in the United States



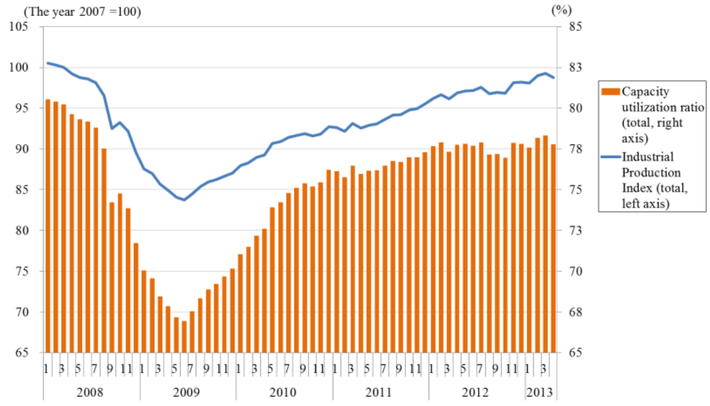
Notes: After seasonal adjustment.
Source: Standard & Poor's.

5. Company activities

The Industrial Production Index (total), which indicates production activities of companies, increased in a small range in general as it temporarily stalled from summer to the beginning of autumn in 2012 by concerns of the decelerated global economy and inferior transparency of domestic fiscal policies. Also, capacity utilization ratio stayed almost flat. In 2013, both the Industrial Production Index and capacity utilization ratio increased gradually, but they fell in April (Figure III-2-1-7).

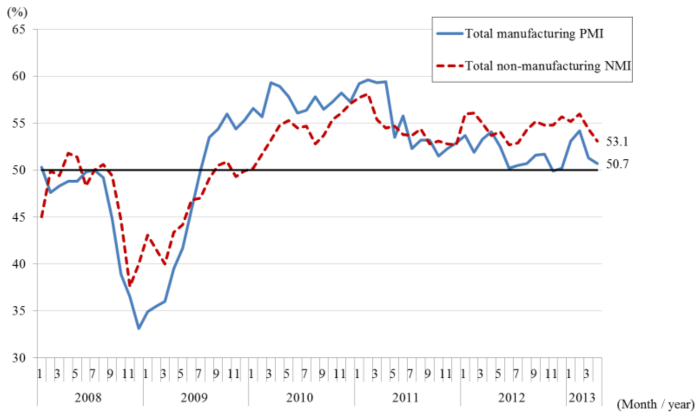
In addition, in ISM Index (Figure III-2-1-8), which indicates business sentiment of companies, Manufacturing Index in 2012 moved at a lower level than the previous year, deteriorated under 50, which is a diverging point between expansion and shrinkage of production activities, in November for the first time since July 2009. On the other hand, business sentiment in non-manufacturing sectors moved firmly surpassing 50 for 40 months continuously until April 2013. In 2013, both manufacturing and non-manufacturing sectors recently fell for two months straight in March and April, it can be said that companies have been cautious about future outlook with the background of the uncertainty around fiscal problems in the United States.

Figure III-2-1-7 Changes in the Industrial Production Index and capacity utilization ratio in the United States



Notes: After seasonal adjustment.
Source: FRB and CEIC Database.

Figure III-2-1-8 Changes in ISM Index in the United States



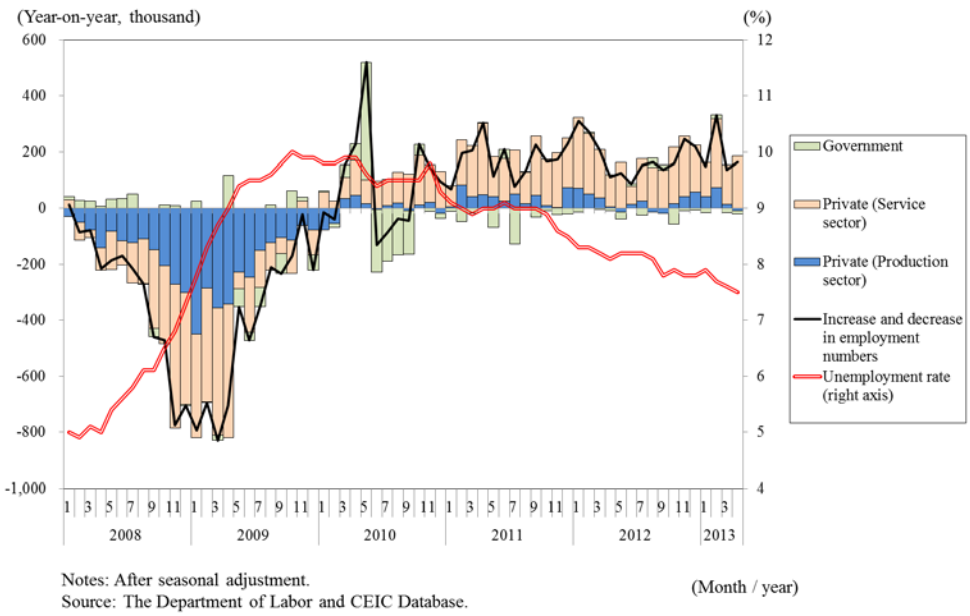
Notes:50.0 is the diverging point between expansion and shrinkage of production activities.
Source: Institute for Supply Management and CEIC Database.

6. Employment environment

Employment environment was in a gradual recovery trend in 2012. Trend in employment numbers in non-agricultural sectors increased to 2.19 million through 2012 (increasing 0.18 million per month[4]), and unemployment rate decreased from 8.3% in the early period of the year to 7.8% in December (Figure III-2-1-9). In 2013, the rate reached 7.5% in April, which was the lowest level since December in 2008, showing continuous recovery trend. According to the figure III-2-1-10, unemployment rate suddenly dropped from 2008 to 2009, and then, it had been in a gradual decreasing trend year by year.

However, although decreased employment was 8.67 million from 2008 to 2009, increase was only 6.10 million from 2010 to April 2013 (Figure III-2-1-11). Also, unemployment rate is still high compared to the period before the recession (about 5%). There is a thought that recent decreasing trend of unemployment rate was caused by low labor force participation rate[5] (Figure III-2-1-12), and thorough recovery of employment market would need more time[6].

Figure III-2-1-9 Changes in nonagricultural employment numbers (compared to the previous month) and unemployment rate



Notes: After seasonal adjustment.
Source: The Department of Labor and CEIC Database.

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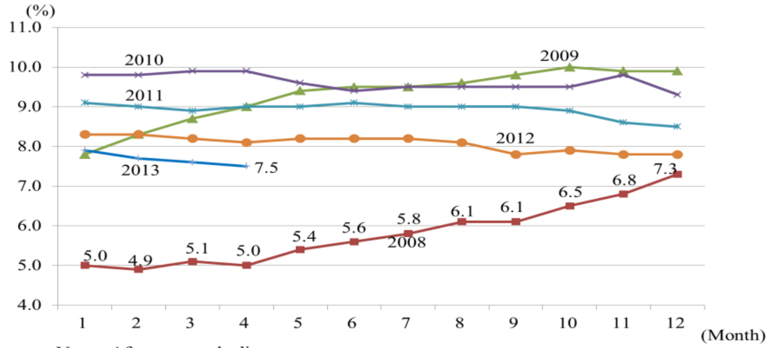
[4] Chairman Bernanke from FRB stated in a press conference after FOMC (the Federal Open Market Committee) in April, 2012, as a personal opinion, that 150-200,000 job growth a month was needed for the unemployment projection.

[5] Labor force participation rate is found by dividing labor force (employed and unemployed population) by civilian non-institutionalized population (people 16 years old or older, not in prison, military). It was 63.3% both in March and April 2013, recording the lowest level for the 34 years since May 1979, and there is an opinion that unemployment rate was estimated lower than the actual condition because people who gave up with job searching left the employment market.

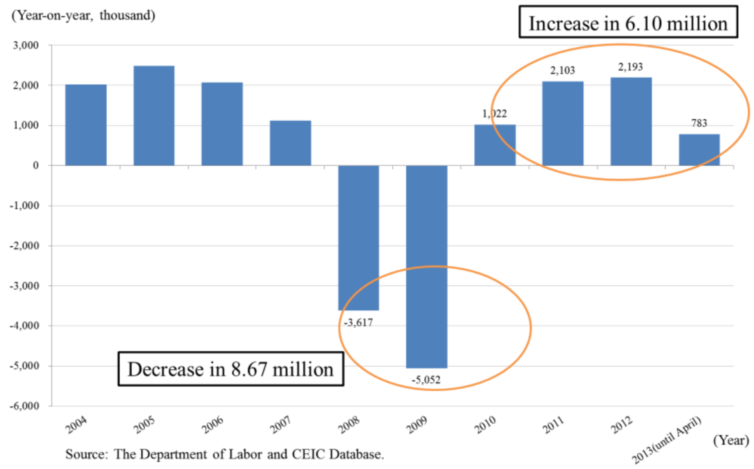
[6] FOMC on April 30 - May 1, 2013 reported, "the rate of long-duration unemployment and the share of workers employed part time for economic reasons declined somewhat in March, but these measures remained well above their pre-recession levels."

Figure III-2-1-10　Changes in unemployment rate in the United States



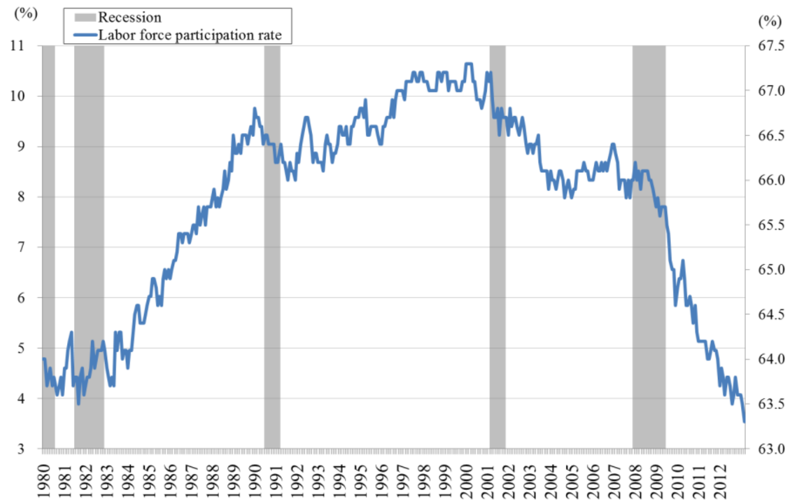
Notes: After seasonal adjustment.
Source: The Department of Labor.

Figure III-2-1-11　Changes in nonagricultural employment numbers (compared to the previous year)



Source: The Department of Labor and CEIC Database.

Figure III-2-1-12　Changes in labor force participation rate in the United States



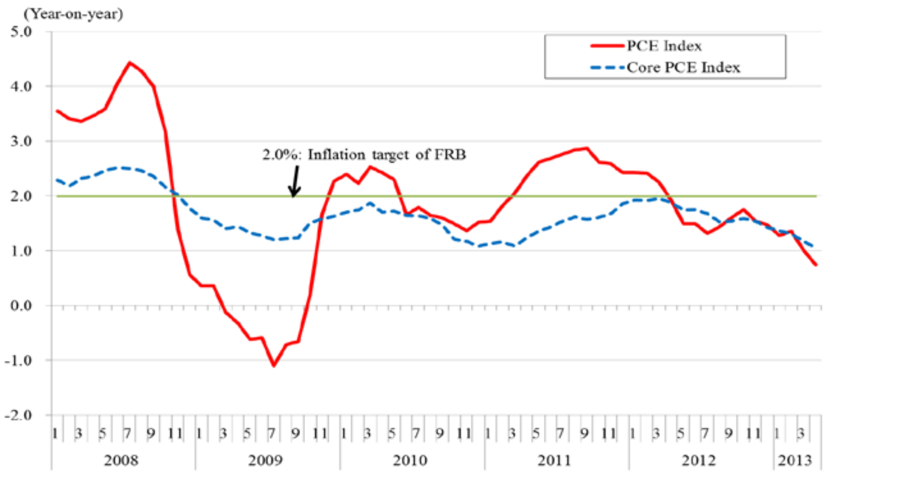
Source: The Department of Labor and CEIC Database.

7. Prices

In personal consumption expenditure price index ("PCE price index"), increasing rate, which had been high, calmed down after the autumn of 2011, and has seen a decrease in trend since late 2012. Also, increasing rate of core the PCE price index, without energy and food which changes widely, moved around 2% in 2012 compared to the previous year, which was a long-term inflation target of FRB (Federal Reserve Board), but it has been in a decreasing trend since the middle of the year. It has continued to decrease in 2013, and PCE price index recorded 0.7% year-on-year in April which was the lowest level for the previous three and half years, also with core PCE price index being 1.1% year-on-year, which was the lowest for two years (Figure III-2-1-13).

If improvement speed in the United States economy get slower, there would be a possibility for price increasing pressure to be low, and therefore, much attention would be needed on it.

Figure III-2-1-13 Changes in PCE price index (year-on-year) in the United States



Source: The Department of Commerce and CEIC Database.

8. Financial policies

FRB, acting against the global economic crisis, lowered target range for the federal funds rate ("FF interest") to 0.00-0.25% in December in 2008, and has still kept interest in this exceptionally low level.

Then, FOMC (the Federal Open Market Committee) in September 2012 refereed the economic condition, saying, "Without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook," and announced the additional monetary easing policy (so-called QE3).

In detail, they decided additional purchase of MBS (mortgage-backed securities) in the rate of 40 billion dollars per month. Also, they said "If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability," and adopted so-called "open-ended" purchase, in which period and total amount are not set, which is different from past asset purchase.

Moreover, they changed the period in which FF interest would be kept in 0.00-0.25% from "at least through late-2014" to "at least through mid-2015" extending their time axial policy.

Continuously in December 2012, they decided a purchase of long-term government bond as an "open-ended" purchase in the rate of 45 billion dollars per a month after the completion of Operation Twist[7], which had been continued since September 2011, in addition to MBS purchase in the rate of 40 billion dollars. Also, the reasonable period in which FF interest would be kept at the exceptionally low level (0.00-0.25%) was changed, from setting by period (at least through mid-2015) to setting a numerical level ("at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored").

FOMC, on April 30-May 1, suggested a possible change in asset purchasing speed, saying, "The Committee is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes.” As downturn risk is concerned because of austerity, reasonable financial policy is expected to be avoided.

9. Fiscal problems

In 2012, domestic fiscal problems strongly influenced economy, including the so-called "fiscal cliff," in which increase in taxation caused by expirations of measures such as various tax reductions at the end of the year[8], and tightened monetary in the beginning of 2013 caused by automatic budget cuts[9] occurred at the same time, and the sudden deterioration of market sentiment was worrying.

As a result of the presidential elections in November 2012, President Obama won again, and coordination toward clearing the "fiscal cliff" problem became a hot topic, but breakthrough was not found against the different opinions between the Democratic Party and the Republican Party under the "twisted congress[10]," the measure to avoid the fall from the “cliff” including temporary action (American Taxpayer Relief Act of 2012) managed to be agreed right after the beginning of 2013 (Figure III-2-1-14). Based on this, perpetuation of increased tax for wealthy people and reduced tax

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[7] The policy that encouraged long-term interest to be lowered without changing currency supply by purchasing 6-30 year government bonds and selling the same amount of bonds whose maturity was under 3 years.

[8] Tax reduction of income tax, inheritance tax (estate tax and gift tax), dividend and capital gain tax, which was pursued by former president Bush in 2001 and 2003. President Obama extended it as an economy policy in December 2010 to the end of 2012.

[9] Based on "the Budget Control Act of 2011" effects along with increased debt-ceiling, bipartisan committee was set and discussed on a policy to decrease the fiscal deficit by 120 billion dollars by November in the same year, but an agreement wasn’t reached. As a result, an automatic budget cut of 120 billion dollars for 10 years from January 2013 was pursued.

[10] As a result of the congressional election held on the same day of the presidential election in November, 2012, President Obama’s Democratic Party occupied a majority of the Senate and the Republican Party occupied a majority of the Legislative Assembly, which continued to consist of a "twisted congress" in which majorities in the Senate and the Legislative Assembly differ.

for other people and the start of automatic budget cuts was postponed for two months, and meanwhile, Congress was considering a drastic policy to reduce the fiscal deficit, but at last both parties did not reach an agreement, then automatic budget cuts actually pursued two months later, on March 1, 2013.

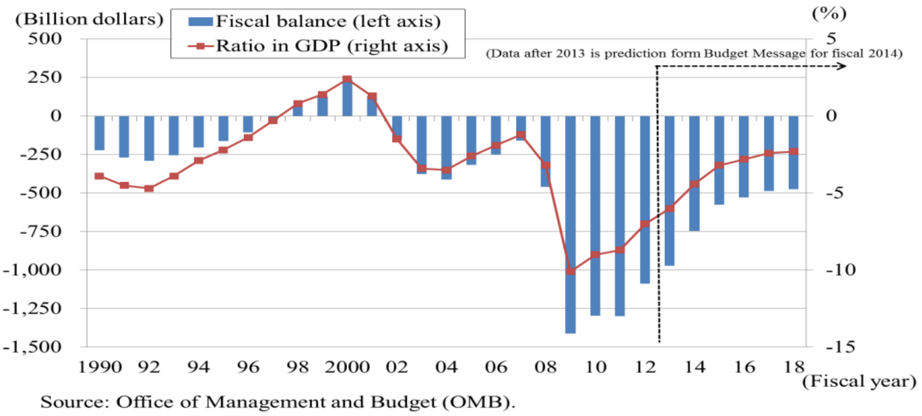
Figure III-2-1-14 Major items of the American Taxpayer Relief Act of 2012

Income related	Income tax rate will increase from current 35% to 39.6% for wealthy people with annual income over 400 thousand dollars (about 36 million yen) per person, or over 450 dollars (about 40.5 million yen) per family. Also, long-term capital gain and dividend tax rate will increase from 15% to 20%.
	Meanwhile, tax rate of estate tax and gift tax over five million dollars will increase from 35% to 40%.
	2% tax reduction of payroll tax (social insurance tax) will be abolished.
Expenditure related	The start of automatic budget cuts will be suspended for two months, and meanwhile, the Congress consider a fiscal reduction policy that is balanced, permanent and caring income.
	Unemployment benefit will be extended for one year.
	Cancellation of Medicare payment cuts will be suspended for one year.

Source: Various kinds of media.

Fiscal deficit in fiscal 2012 was 1.87 trillion dollars (7.0% of GDP) and surpassed one trillion dollars continuously four years from 2009 reflecting gradual economic recovery speed, but as a current situation according to the Budget Message the 2014 fiscal was submitted to Congress by President Obama in April 2013, the fiscal deficit outlook of the 2013 fiscal (October 2012 - September 2013) would be 973 billion dollars going under one trillion dollars for the first time since the 2008 fiscal. After the year, fiscal condition is estimated to improve gradually, becoming under 3% in the ratio to GDP after the 2016 fiscal (Figure III-2-1-15).

Figure III-2-1-15 Changes in fiscal balance to GDP ratio in the United States



Source: Office of Management and Budget (OMB).

Budget for the 2013 fiscal (October 2012 - September 2013), which was a temporary budget until March 27 2013 because of the confrontation between both parties, and they agreed in its extension until September, and then, Federal Government shutdown was avoided. Continuously, for the budget for the 2014 fiscal (October 2013 - September 2013) , Budget Message, usually shown in early February, delayed significantly and the whole part was sent in April, but the gap in the Upper house and the Lower house was huge[11], and negotiation was considered to be difficult.

Also in the increased debt-ceiling problem[12], the debt reached its limit at the end of December, and setting of a legal limit was suspended until May 18, and it was decided that a new limit of outstanding debt was to be set, however, the Republican Party as the Opposition insisted that a drastic policy to reduce expenditure was needed to raise the limit in the future, and therefore, it is not clear if the problem would be solved when they face it again after May.

In the financial market, there is a concern that the influence on the market by the expiration of income tax reduction in the beginning of 2013 and automatic budget cuts from March would appear after the second quarter, inferior transparency in fiscal problems including the increased debt-ceiling problem has been a burden to the economic recovery in the United States.

10. Future outlook and issues

Economy in the United States will seem to stay slow but steady, but the influence of the automatic budget cuts pursed on March 1, 2013 is a concern. IMF[13] reported, "the budget sequester, which went into effect March 1, is projected to subtract about 0.3 percentage point from GDP growth in 2013 if maintained until the end of this fiscal year (September 30, 2013) as assumed by the IMF staff. If the sequester continues into the next fiscal year, it could shave another 0.2 percentage point from GDP growth in 2013", and then the downside risks by austerity would be a concern.

Under the twisted congress, Obama’s administration's rapid fiscal operation is needed on various fiscal negotiations including the increased debt-ceiling, budget making for the 2014 fiscal and mid-long-term plans to reduce fiscal deficit.

Section 2 Europe

In the European economy in 2012, while the critical moment in financial markets had passed, expenditure cuts and increased tax for fiscal restoration and high unemployment rate worsened sentiment of companies and families in real economy and suppressed production activities and consumption behaviors. Moreover, not only in the European peripheral countries, which had heavy debt, in countries with relatively healthy fiscal condition including Germany, which was taking a leading role, a downward trend in production continued after autumn.

As economic recovery delayed more than initially expected, it has been acknowledged that not only the handling of financial and fiscal stability but also the economic growth and employment

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[11] In a comparison in the amount of reducing fiscal deficit for the future 10 years, Budget Message (1.8 trillion dollars), the Upper house (1.85 trillion dollars) and the lower house (4.6 trillion dollars) differed widely, and also in methods, Budget Message is expected to increase income by increased taxation for wealthy people, meanwhile the Upper and Lower house made a bill without any new tax increase, aiming balanced finance in later ten years, by thorough implementation of the health care reform (Obama Care) and abolition of tax relief and preferential treatments.

[12] In the United States, as the limit of outstanding federal government debt is ruled in a law, government should send in a bill and receive admission form Congress. If the ceiling did not increase, the Department of Treasury could not achieve capitalization by government bonds, and the federal government would default. Under the twisted congress, negotiation to increase the limit would be difficult.

[13] *WEO April 2013* (IMF).

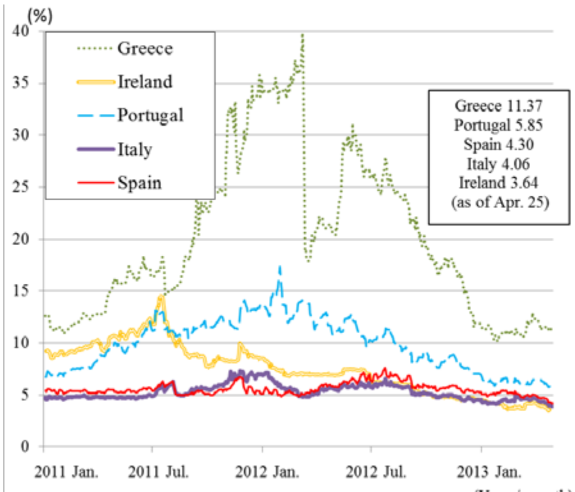
promotion are important in the euro area. In this section, economy and policies in the euro area are reviewed.

1. Trend in financial markets

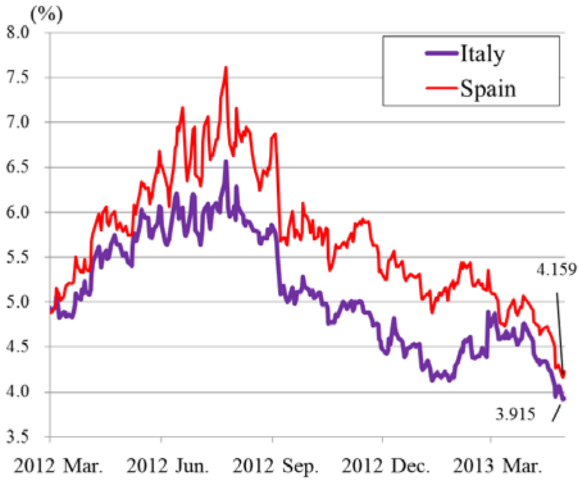
Triggered by the concerns of the Greek debt problem in autumn 2011, anxiety on the repayment ability of the government bonds extended for Italy, who had a huge outstanding government debt, and for Spain, where financial organizations had a large amount of non-performing loans caused by the housing bubble, in which banks tightened their lending, and the financial markets were strained. To handle this situation, authorities in the EU and the euro area, took actions one after another to thoroughly resolve the debt problems and to control the unsettled financial markets[14], and the strain in financial markets subsidized for the time being in spring 2012.

Figure III-2-2-1 Changes in long-term government bond yields of the European peripheral countries (left)

Figure III-2-2-1 Changes in long-term government bond yields of Italy and Spain (right)



Notes: Values on April 25. 10-year bond yield.
Source: Thomson Reuters Eikon.



Notes: Values on April 29. 10-year bond yield.
Source: Thomson Reuters Eikon.

However, from May to the middle of 2012, financial markets again have become strained triggered by the Greek fiscal problem and its possibility to leave the Eurozone as well as problems of Spanish banks. Influenced by downward revision of various countries' rating by credit rating agencies (Figure III-2-2-3), most of government bond yields in the European peripheral countries surged as Spanish 10-year bond yield marked the higher range of 7% in maximum, and Italy marked the higher range of 6% in maximum, and therefore, capitalization environment got even worse.

To break out of the vicious cycle between financial sectors and government finances in which financial deterioration of countries lowered the value of government bonds that banks had, which then worsened the financial condition of banks (Greece), on the other hand, huge problems of banks

[14] Long-term refinancing operations in a huge scale by ECB (the European Central Bank) (December 2011 and February 2012), agreement on the second rescue package for Greece (February 2012), recapitalization of banks (the target of Core Tire 1 capital to reach 9% by the end of June 2012), and strengthening of the financial assistance programs (agreement of the acceleration of the entry into the force of the ESM (European Stability Mechanism) (December 2011) and enhancement of the financial capacity of the IMF (December 2011, April 2012)).

increased the government bond yield and worsened the capitalization environment of the government (Ireland and Cyprus), the euro area agreed to strengthen economic frameworks including financial fields[15] and proceeded to develop the detail of the frameworks such as Single Supervisory Mechanism for banks. Also successive positive policies including the announcement of a new bond-buying mechanism (OMT, Outright Monetary Transactions) by ECB (European Central Bank) in September and the start of ESM (European Stability Mechanism) in October stabilized financial markets, and government bond yields calmed down (Figure III-2-2-1, Figure III-2-2-2). In addition, comprehensive economic index in the euro area, Economic Sentiment Indicator, continued to improve continuously for four months from November (Figure III-2-2-4).

Figure III-2-2-3 Changes in rating of highly-indebted countries in the euro area by the major three credit rating agencies (From March 2012 to March 2013)

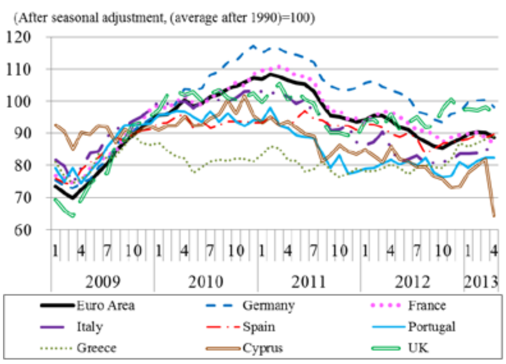
<Definitions for long-term credit rating (major 3 agencies)

Credit rate		S	M	F	Italy	Spain	Ireland	Portugal	Greece	Cyprus
High		AAA	Aaa	AAA						
		AA	Aa1, Aa2, Aa3	AA						
		A	A1, A2, A3	A	M F	S M F				
		BBB	Baa1, Baa2, Baa3,	BBB	S M F	S M F	S F			F
	Speculative	BB	Ba1, Ba2, Ba3,	BB			M	S M F		S M
	Speculative	B	B1, B2, B3,	B					S	F
	Speculative	CCC	Caa1, Caa2, Caa3,	CCC					S F	S M
	Speculative	CC	Ca, C	CC					M	
Low	Speculative			C						

Notes:
- Long-term bond rating by S: Standard & Poors, M: Moody's and F: Fitch.
- Comparison of three agencies' definition was made with references on their websites.
- Greece was to implement debt exchange on March 2012, and S&P evaluated its long-term credit rate as "selective default," but at the same time, announced to raise to CCC after debt exchange. Here, comparison (one year ago) data was on May 2, when it was raised to CCC.

Source: *Thomson Reuters Eikon*, Websites of Standard & Poors, Moody's and Fitch.

Figure III-2-2-4 Economic Sentiment Indicator (ESI) of countries in the euro area and the United Kingdom



Notes: Value of Ireland is not published.
Source: *Economic Sentiment Indicator (ESI)* (The European Committee), CEIC Database.

15 The European Council in June 2012.

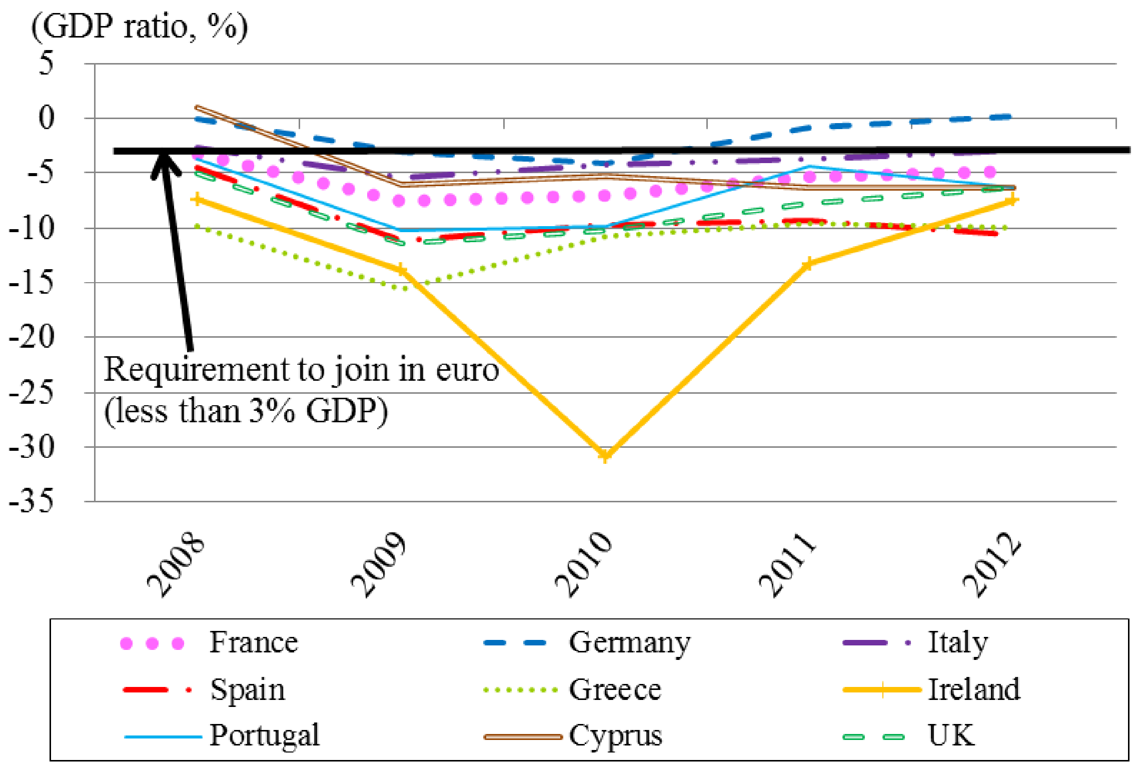
2. Trend in GDP

Many countries in the euro area have improved their fiscal condition from 2010 by the actions toward fiscal restoration (Figure III-2-2-5). On the other hand, demand has declined, and the economy has been suppressed along with prolonged deterioration of employment environment and bad transparency on the economic outlook.

Real GDP growth rate of the fourth quarter in the euro area marked -0.6% after seasonal adjustment compared to the previous quarter, recording continuous minus growth for five quarters. In each category of demand, domestic demand of consumer spending, government consumption and capital investment continued to decrease compared to the previous quarter, and net export outside the euro area, which had firmly extended since the second quarter in 2010, stayed at 0.1% in increase from the previous quarter because of decreased export and was not enough to push up GDP (Figure III-2-2-6). Real GDP growth rate through the year 2012 turned to decrease to -0.6% compared to the previous year.

For each country, GDP of Germany had been steady in 2012 but turned into minus growth in the fourth quarter by decreased export, and thorough major countries including France and Netherlands recorded minus growth. The peripheral countries such as Spain, Italy and Portugal, which have heavy debt, declined substantially since the middle of 2011 (Figure III-2-2-7, Figure III-2-2-8).

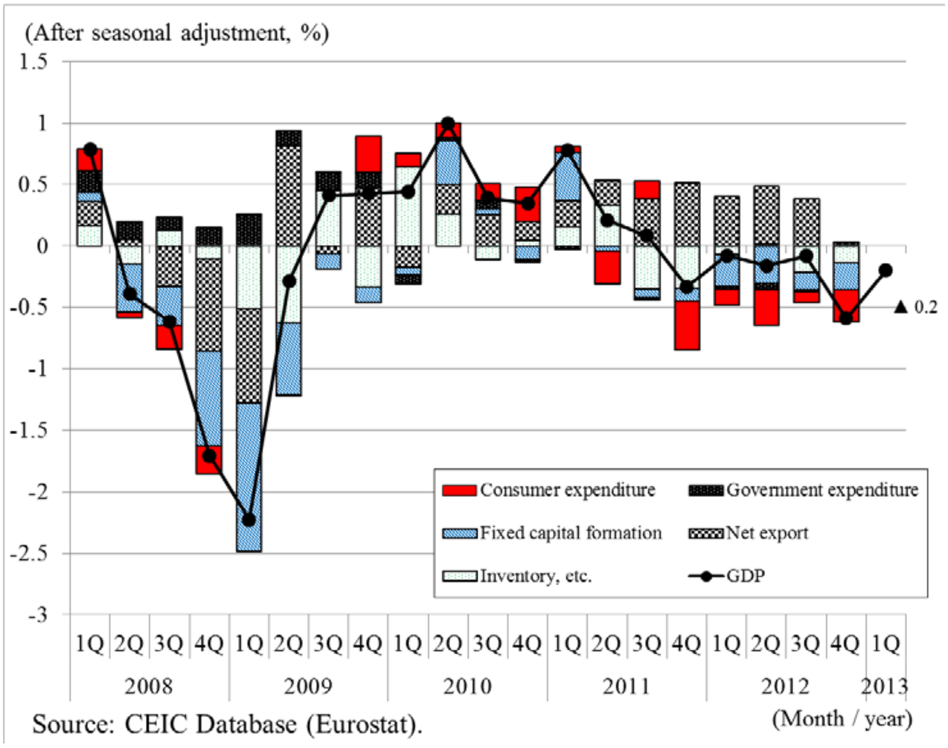
Figure III-2-2-5 Changes in fiscal balance of countries in the euro area



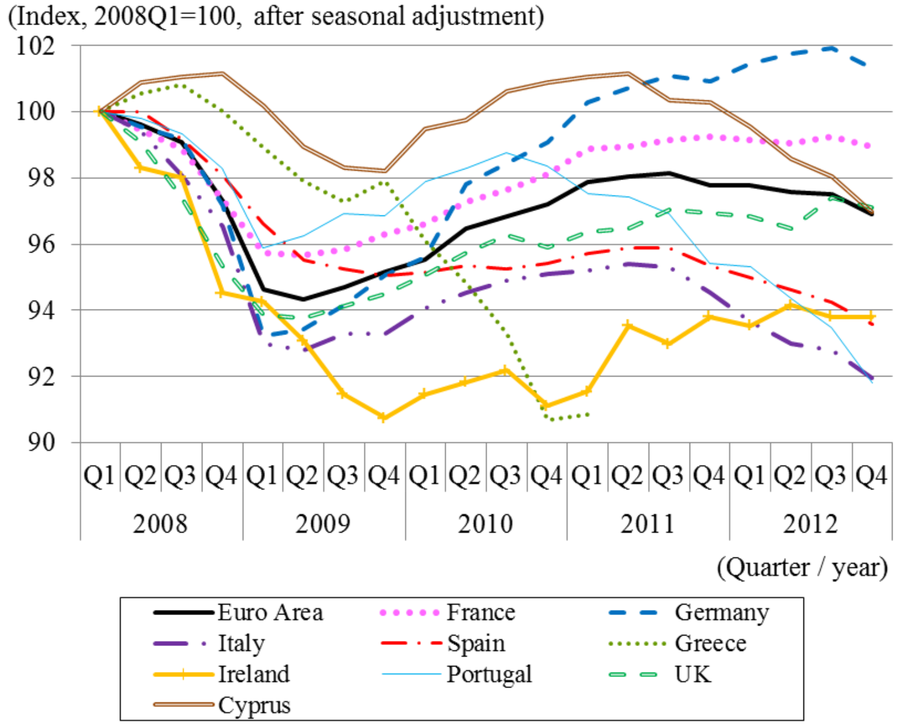
Source: Eurostat.

Figure III-2-2-6　Changes in real GDP growth rate and contribution by demand components in the euro area

Figure III-2-2-7　Changes in real GDP of countries in the euro area and the United Kingdom



Source: CEIC Database (Eurostat).



Notes: Seasonal-adjusted value of Greece after 2011Q2 is not published.
Source: Eurostat.

Figure III-2-2-8 Changes in real GDP growth rate of countries in the euro area and the United Kingdom

(After seasonal adjustment, compared to the previous quarter, %)	2011				2012				(Reference)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	GDP (Real amount)	Sovereign rating
Euro Area	0.6	0.2	0.1	▲ 0.3	▲ 0.1	▲ 0.2	▲ 0.1	▲ 0.6	2,126,437	AA+、Aa1、AAA
Germany	1.2	0.5	0.4	▲ 0.1	0.5	0.3	0.2	▲ 0.6	615,756	AAA
France	0.8	0	0.2	0.1	▲ 0.1	▲ 0.1	0.2	▲ 0.3	449,453	AAA、AA+、Aa1
Netherlands	0.5	-0.1	▲ 0.2	▲ 0.6	0.1	0.2	▲ 1.0	▲ 0.4	136,524	AAA
Belgium	0.8	0.2	0.0	▲ 0.1	0.2	▲ 0.5	0.0	▲ 0.1	81,681	AA～Aa3
Austria	0.6	0.3	0.0	0.2	0.4	0.1	0.1	▲ 0.1	67,920	AAA～AA+
Finland	0.2	0.3	0.7	0.1	0.4	-1.3	0.1	-0.5	41,765	AAA
Luxembourg	0.4	-0.5	0.6	▲ 0.5	0.0	0.5	▲ 0.5	1.6	8,548	AAA
Italy	0.1	0.3	-0.1	-0.8	-0.9	-0.7	-0.2	-0.9	344,151	BBB+、Baa2
Spain	0.3	0.2	0	-0.5	-0.4	-0.4	-0.3	-0.8	232,592	BBB-、Baa3、BBB
Ireland	0.5	2.1	▲ 0.6	0.9	▲ 0.3	0.7	▲ 0.4	0.0	42,545	BBB+、Ba1
Portugal	-0.9	-0.1	▲ 0.5	▲ 1.6	▲ 0.1	▲ 1.0	▲ 0.9	▲ 1.8	37,002	BB、Ba3、BB+
Cyprus	0.2	0.1	▲ 0.8	▲ 0.1	▲ 0.7	▲ 0.9	▲ 0.6	▲ 1.1	3,707	CCC+、Caa3、B
Greece	*-8.8*	*-7.9*	*▲ 4.0*	*▲ 7.9*	*▲ 6.7*	*▲ 6.4*	*▲ 6.7*	*▲ 5.7*	*40,737*	B-、C、CCC
UK	0.5	0.1	0.6	-0.1	-0.1	-0.4	0.9	-0.3	481,950	AAA

Notes1: Greek values are year-on-year, before seasonal adjustment.
Notes2: Real amount is value of 2012Q4 (billion euro)
Notes3: Rating is by major 3agencies (S&P, Moody's and Fitch) (on April 12). Rates with underline are "Speculative."
Source: Eurostat.

3. Production

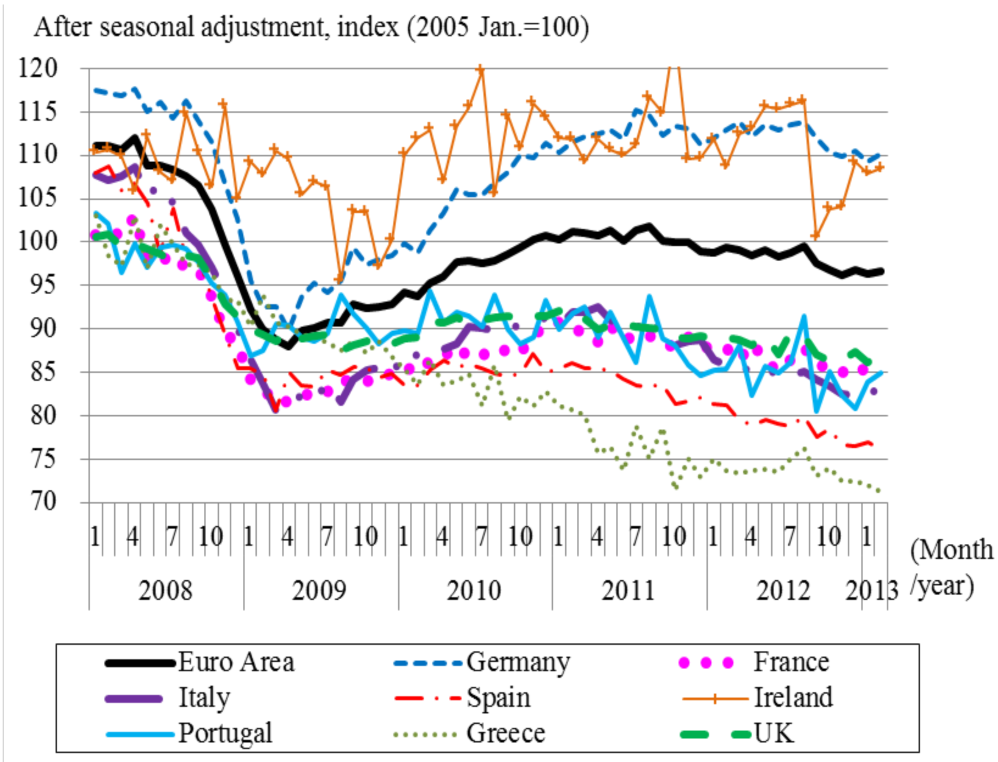
Production of mining and manufacturing industry gradually continued to recover in 2010 since it experienced the bottom in early 2009, and after that, slowed down in 2011 by the serious situation of the European debt crisis. In the beginning of autumn 2012, influenced by a slow-down of the business sentiment in emerging economies and suppressed production activities in the United States, production decreased and has moved at the level of about 15%, which is less than the one at its peak before the global economic crisis.

For each country, although Germany production had recovered smoothly since 2009, production including automobile manufacturing fell down in 2012, and total production turned to decrease from September. Meanwhile, the recovery speed of the southern European countries had been slow, and production turned into a decreasing trend in many countries in 2012, including Spain and Portugal, which have already been at a lower level than the one in 2009, including Italy and France, which have nearly reached the level of 2009 (Figure III-2-2-9).

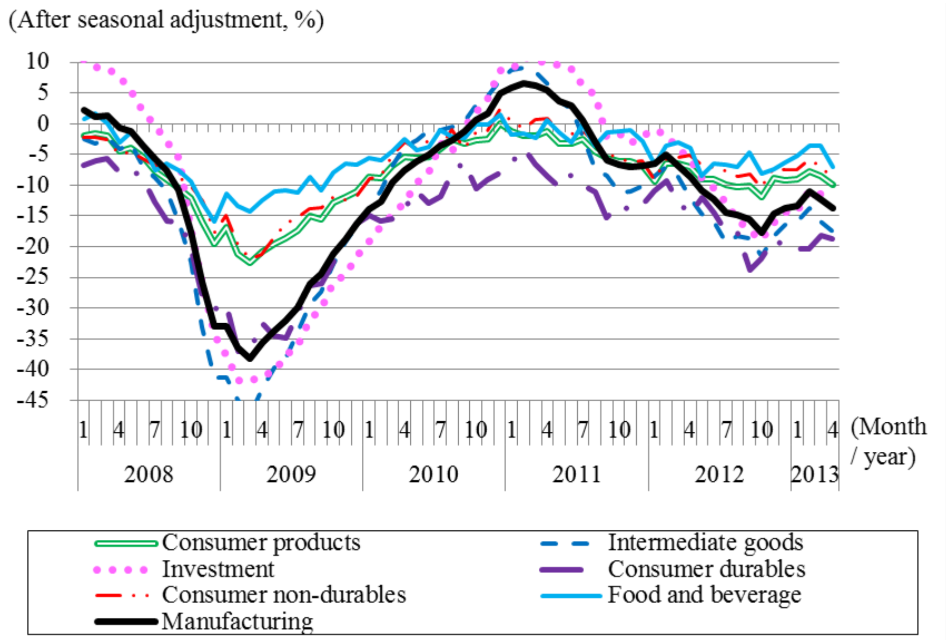
Still, although the business sentiment in manufacturing companies had improved since autumn in 2012, when financial markets became stable by the political actions of EU governments, it worsened recently influenced by the confusion around Cypriot assistance (Figure III-2-2-10).

Figure III-2-2-9 Changes in mining and manufacturing production of countries in the euro area and the United Kingdom (left)

Figure III-2-2-10 Business sentiment index (manufacturing) in the euro area (right)



Source: Eurostat.



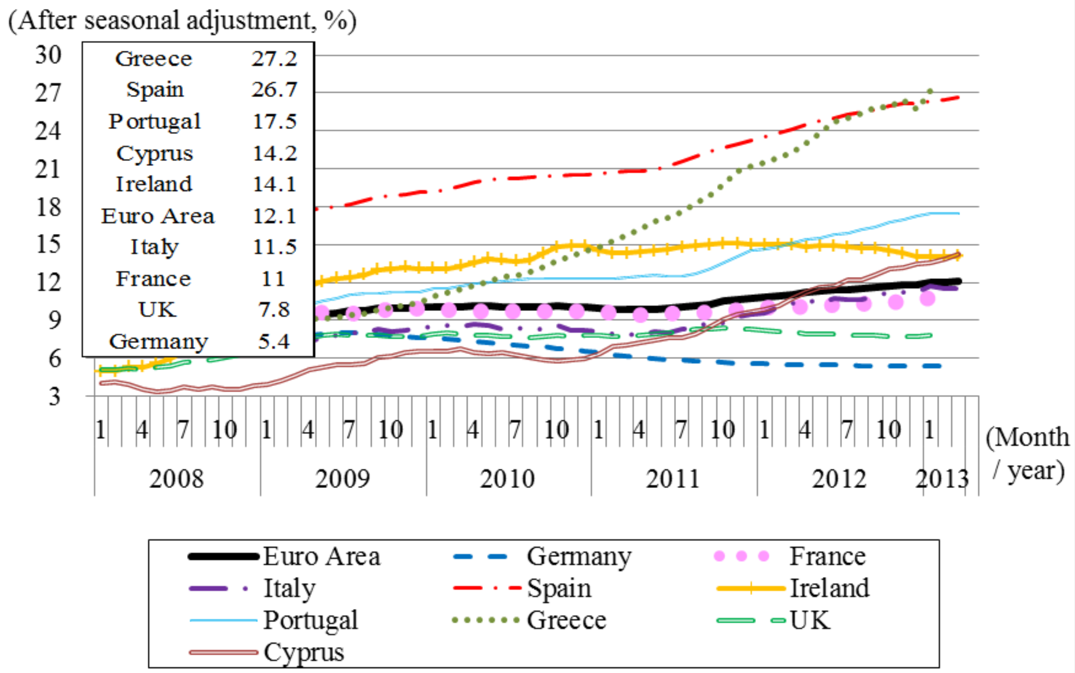
Notes: Industrial sentiment indicator based on survey on order, stock and production outlook.
Source: *Industry/ Business Climate Indicator (BCI)* (European Committee).

4. Employment

Unemployment rate in the euro area marked 11%[16] in April 2012, the worst level since the introduction of the euro, and has gradually continued to worsen after that, recording 12.0% in February 2013 (Figure III-2-2-11). Also unemployment rate of young people under the age of 24 has been higher, reaching 24.0% in January 2013 (Figure III-2-2-12).

For each country, unemployment rate in Greece and Spain has constantly worsened since the middle of 2011, in which one of four laborers did not have a job[17], including Portugal and Cyprus has substantially continued to deteriorate since the middle of 2011. Also, unemployment rate in Spain has been remarkably high (Figure III-2-2-13). On the other hand, employment environment in Germany continued to improve in 2012, and stayed at its lowest level since the German reunification.

Figure III-2-2-11 Changes in unemployment rate of countries in the euro area and the United Kingdom



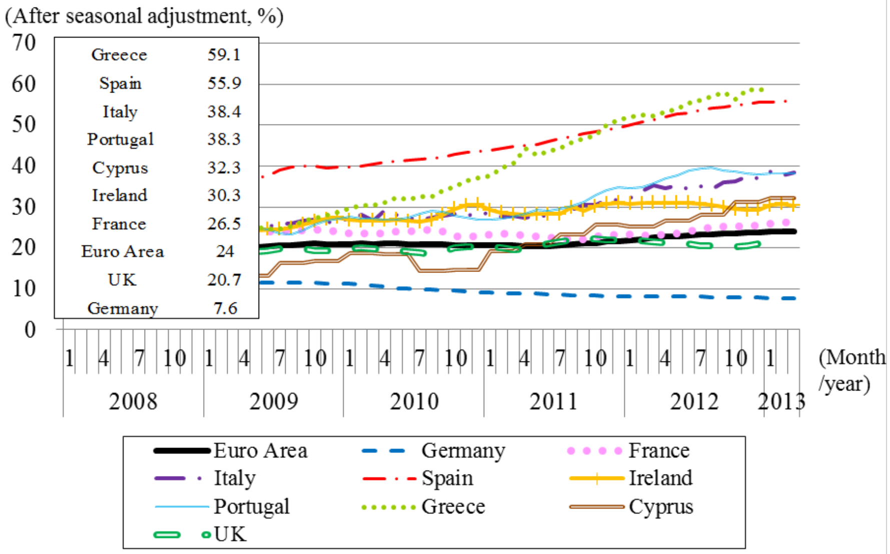
Notes: Values of the United Kingdom and Greece were in Jan 2013, others were in March.

Source: CEIC Database (Eurostat).

[16] After seasonal adjustment.

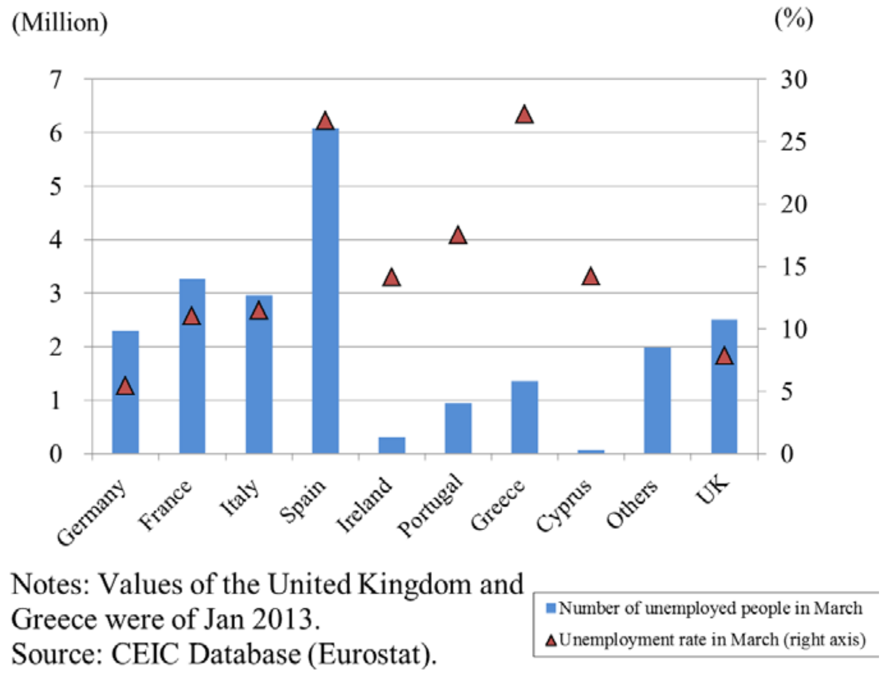
[17] Greek unemployment rate reached 27.2% in January 2013, and Spanish unemployment reached 26.7% in March 2013.

Figure III-2-2-12 Changes in unemployment rate of young people of countries in the euro area and the United Kingdom



Notes: Unemployment rate of the age 15-24. Values of the United Kingdom and Greece were in Jan 2013, others were in March.
Source: CEIC Database (Eurostat).

Figure III-2-2-13 Unemployment rate of countries in the euro area and the United Kingdom (March)

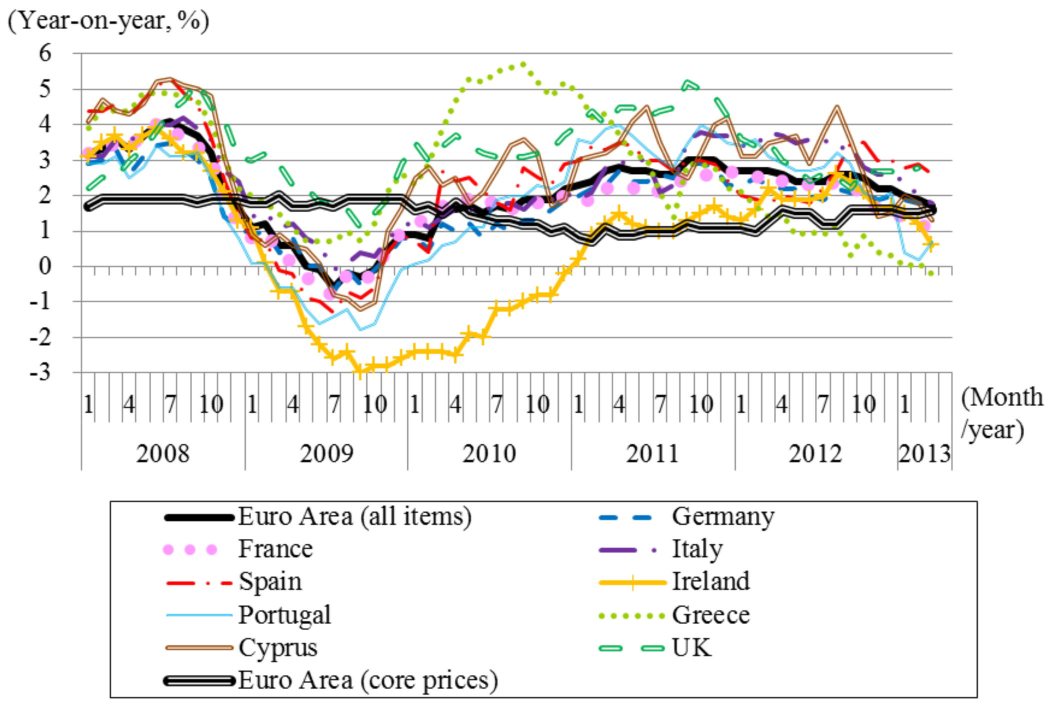


Notes: Values of the United Kingdom and Greece were of Jan 2013.
Source: CEIC Database (Eurostat).

5. Consumer prices index

While economy in the EU and the euro area has been declining by prolonged debt problems, inflationary pressure has been weak, and the increasing rate of consumer prices index in the euro area was at 1.8% year-on-year in February 2013, reaching the inflation target (below, but close to, 2%) of the European Central Bank (ECB) for the first time since November 2010 (Figure III-2-2-14).

Figure III-2-2-14 Changes in increasing rate of consumer prices of countries in the euro area and the United Kingdom

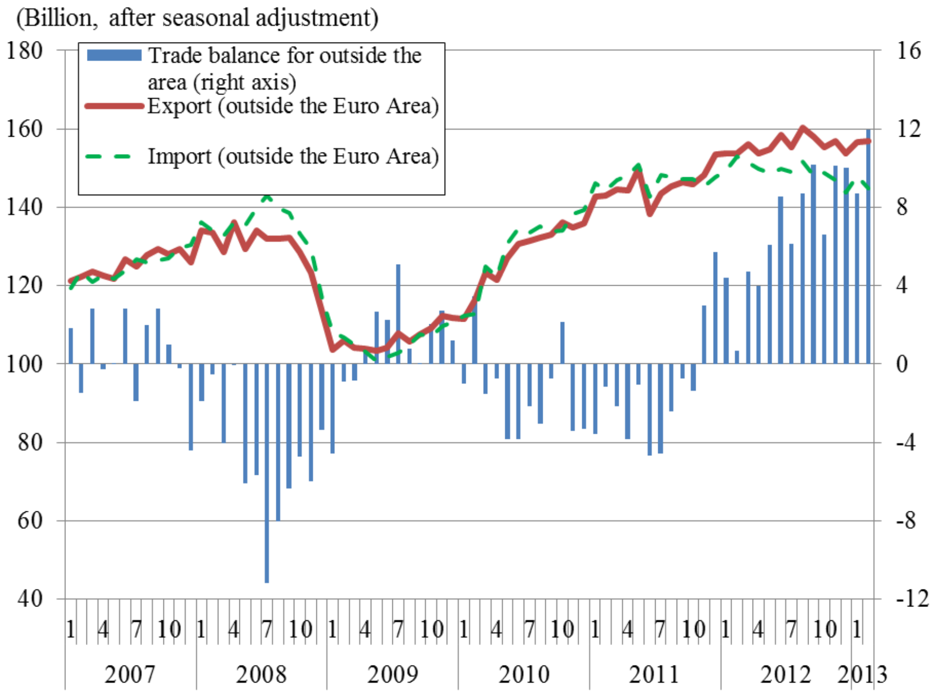


Notes: Values for countries are for all items. Core prices excludes food, cigarette, alcohol and energy. Value of the United Kingdom is until Feb. 2013. Others are data until Mar. 2013.
Source: (Eurostat).

6. Foreign trade

Since the global economic crisis, export outside the euro area significantly recovered from the worst of 2009, supported by improved competitiveness of export by a weaker euro and increased demand from the emerging economies including China, and then, export volume reached a level widely surpassing the peak before the global economic crisis. However, its growth slowed down in autumn 2011, and then, the volume decreased in autumn 2012 influenced by the slow-down of business sentiment in the emerging economies and the worsened production activities in the United States. Although import in 2011 recovered to the level above its peak before the global economic crisis, it gradually decreased in 2012, influenced by a decreased demand in the euro area because of austerity in countries including the peripheral countries with heavy debt and slow-down in business sentiment. The trade surplus increased (Figure III-2-2-15).

Figure III-2-2-15 Changes in trade surplus in the euro area



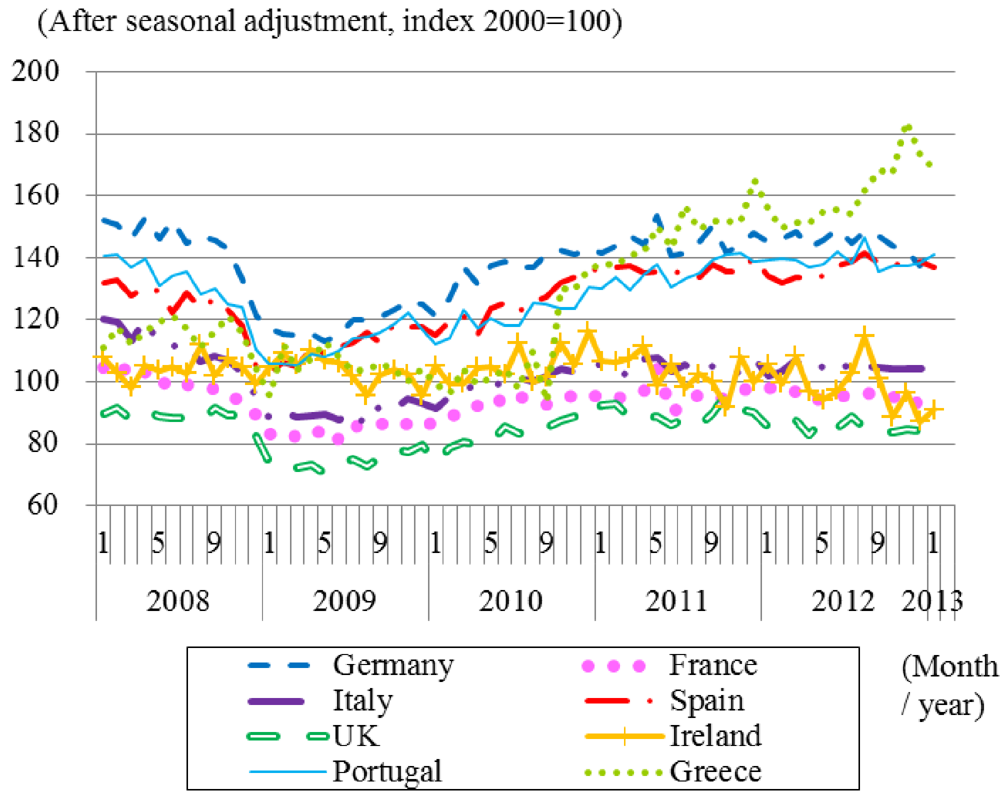
Source: Eurostat.

For export of each country, German export steadily recovered from 2009 supported by automobile and machinery[18], but its growth slowed down from the late 2011 and stayed at 0.1% increasing in the amount compared to the previous year. In Greece, oil products significantly increased from the late 2010, and in Portugal, export extended widely by machinery and automobile towards China and Africa. Moreover, Spain has been on a recovery trend by the increase in machinery and clothes (Figure III-2-2-16). Meanwhile in Italy, France and Ireland, not only export toward inside the euro area has been suppressed, but the one toward outside the euro area had not extended well (Figure III-2-2-17, Figure III-2-2-18).

Including the southern European countries, whose price competitiveness improved backed by lowered labor cost in addition to the weak euro, most countries have extended the export ratio toward outside the euro area, but slow-down in demand inside the euro area, which accounted for about half the amount of exports, which has lowered export of major countries especially in German, France and Italy, this has been a major factor of economic stagnation in the euro area (Figure III-2-2-19, Figure III-2-2-20).

[18] Source: *Global Trade Atlas*.

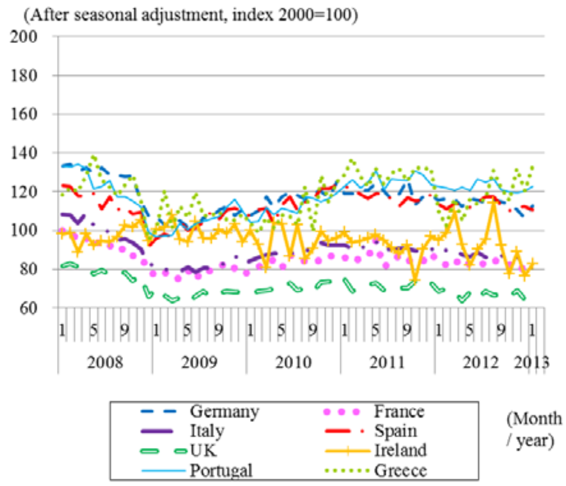
Figure III-2-2-16　Changes in export of countries in the euro area and the United Kingdom (to the world)



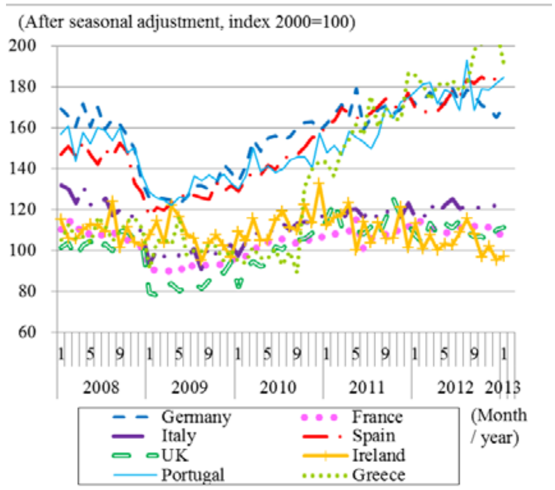
Source: Eurostat.

Figure III-2-2-17　Changes in export of countries in the euro area and the United Kingdom (to the euro area) (left)

Figure III-2-2-18　Changes in export of countries in the euro area and the United Kingdom (to outside the euro area) (right)



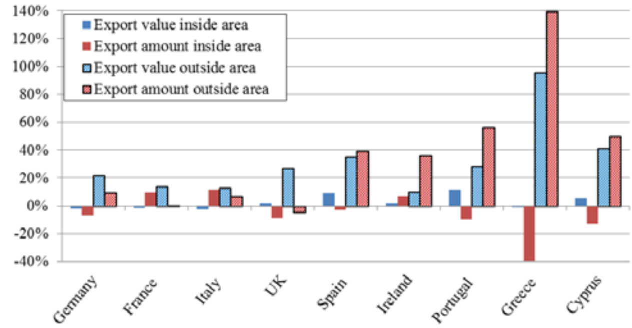
Source: Eurostat.



Source: Eurostat.

Figure III-2-2-19 Export growth of countries in the euro area and the United Kingdom (2012/2008) (left)

Figure III-2-2-20 Ratio of export toward inside the euro area (right)



Notes: Inside area = inside the Euro Area, outside area = outside the euro area.
Source: Eurostat.

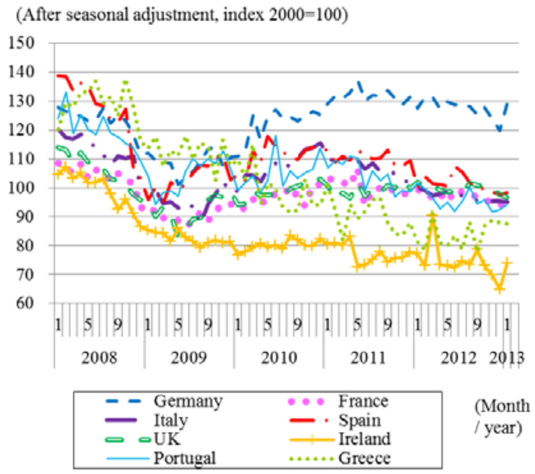
	2008	2012
Germany	42.9%	37.6%
France	50.2%	46.6%
Italy	44.5%	40.8%
Spain	57.1%	51.7%
Ireland	40.8%	38.8%
Portugal	64.5%	61.2%
Greece	44.5%	28.9%
Cyprus	53.2%	45.8%
UK	49.9%	44.4%

Notes: Ratio of export toward inside the euro area to total export value (euro).
Source: Eurostat.

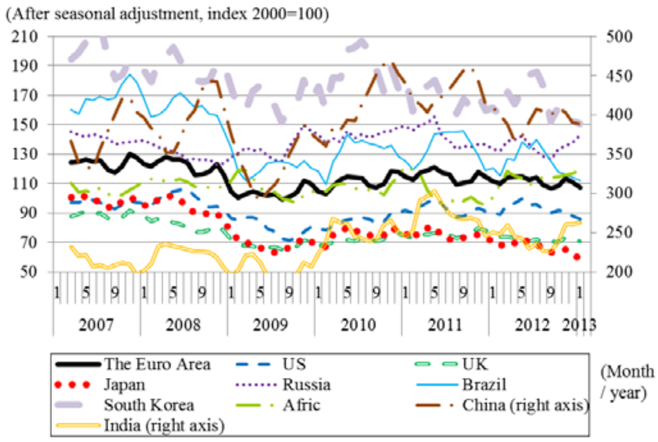
For each country, exports of both Germany and France in 2012 were at -3% year-on-year in volume, and Italy was at -9%, declining substantially, influenced by the prolonged slow-down of the business sentiment (Figure III-2-2-21). Regarding source countries of import, import from many countries has declined since 2008, and import from Japan especially dropped significantly influenced by the strong yen, in which not only the amount decreased but the sum of the export value decreased more than 15%.

Figure III-2-2-21 Changes in import of countries in the euro area and the United Kingdom (from the world)

Figure III-2-2-22 Changes in import in the euro area (source country, amount) (right)



Source: Eurostat.



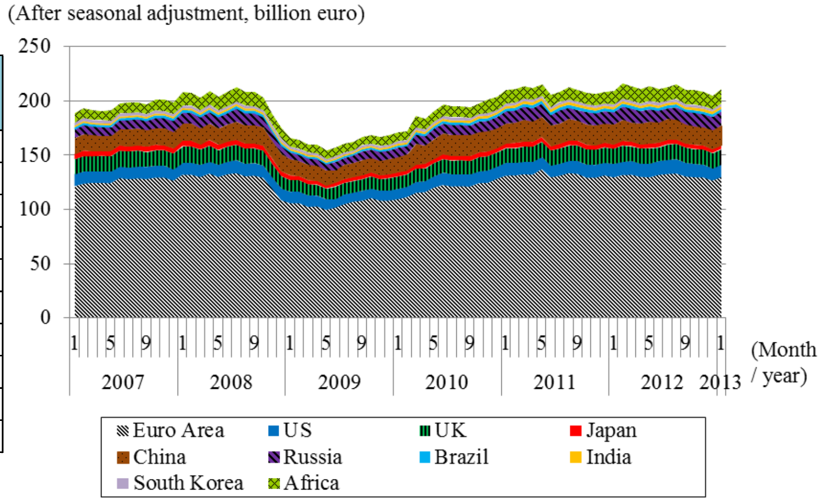
Notes: 3-month backward moving average.
Source: Eurostat

Figure III-2-2-23 import amount in the euro area (2012) (left)

Figure III-2-2-24 Changes in import in the euro area (source country, real amount) (right)

Import source	Growth (compared to 2008)	Import value
Euro Area	1.6%	1565
China	15.5%	214
UK	1.7%	168
Africa	11.1%	157
US	9.7%	150
Russia	16.2%	143
Japan	-15.6%	48
Brazil	2.7%	31
India	26.6%	28
South Korea	-6.3%	27

Notes: Billion euro for import value
Source: Eurostat.



Source: Eurostat.

7. Trend in capital investment

Capital investment in the euro area in 2012 was at -4.1% compared to the previous year, recording a drastic decrease (Figure III-2-2-25).

In the European peripheral countries that have heavy debts, capital investment significantly has dropped since 2011 influenced by uncertain economic outlook, slow-down in demand and the severity of the financing environment (Figure III-2-2-26). Especially in Greece, where serious financial austerity has taken effect, capital investment has decreased more than 15% each year since 2010, and in the southern European countries including Spain, who had balance sheet issues after the estate and housing bubble. Decreasing the amount in 2012 became larger than the previous year because of decreased demand and high yields of bank loans. Meanwhile in Ireland, who also had balance sheet issues like Spain, showed drastic decrease in 2010 and 2011, a sign of recovery was seen in 2012 and capital investment slightly increased compared to the previous year.

Although Germany recovered firmly from 2009 to 2011, it turned to decrease at -2.5% year-on-year in 2012 influenced by decreased export order. Also France, who was on a gradual recovery trend, saw zero growth in 2012. Capital investment cost of companies in both countries has been in the lowest level in history, and it can be said companies were still in a more advantageous capital environment than the ones in southern European countries, but low demand in the euro area and uncertain economic outlook might lose willingness for capital investment[19].

In addition, companies' demand for bank loans has fallen significantly since 2011 influenced by low fixed capital formation (Figure III-2-2-27, Figure III-2-2-28).

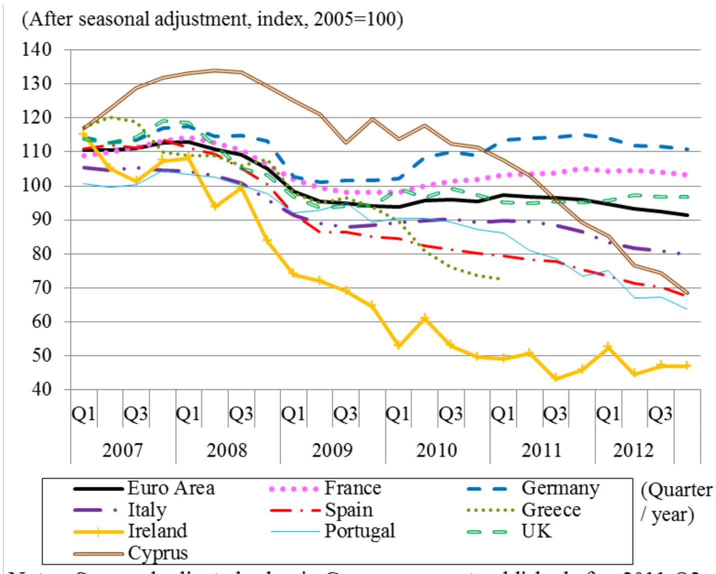
[19] European Commission (2013a).

Figure III-2-2-25　Capital investment of countries in the euro area and the United Kingdom (year-on-year) (left)

Figure III-2-2-26　Changes in capital investment of countries in the euro area and the United Kingdom (left)

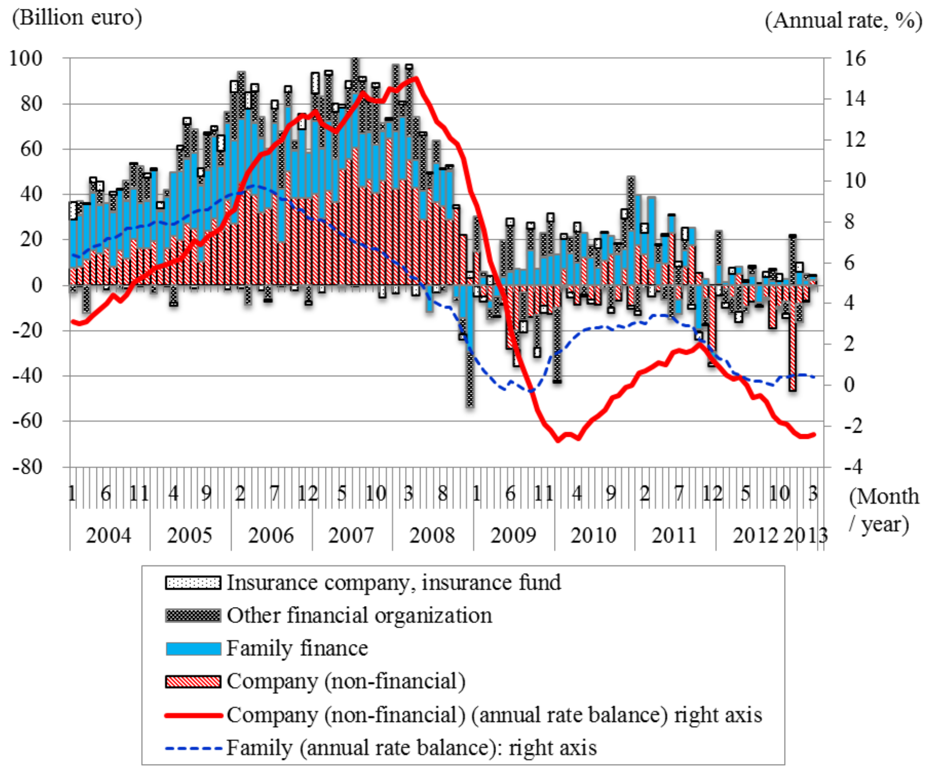
	2010	2011	2012
Euro Area	▲ 0.4	1.5	▲ 4.1
Germany	5.9	6.2	▲ 2.5
France	1.2	3.5	0.0
Italy	0.6	▲ 1.8	▲ 8.0
Spain	▲ 6.2	▲ 5.3	▲ 8.9
Ireland	▲ 22.7	▲ 12.2	0.9
Portugal	▲ 3.1	▲ 10.7	▲ 14.5
Greece	▲ 15.0	▲ 19.6	▲ 19.2
Cyprus	▲ 4.9	▲ 13.1	▲ 23.0
UK	3.5	▲ 2.9	1.5

Notes: Year-on-year (%).
Source: Eurostat.



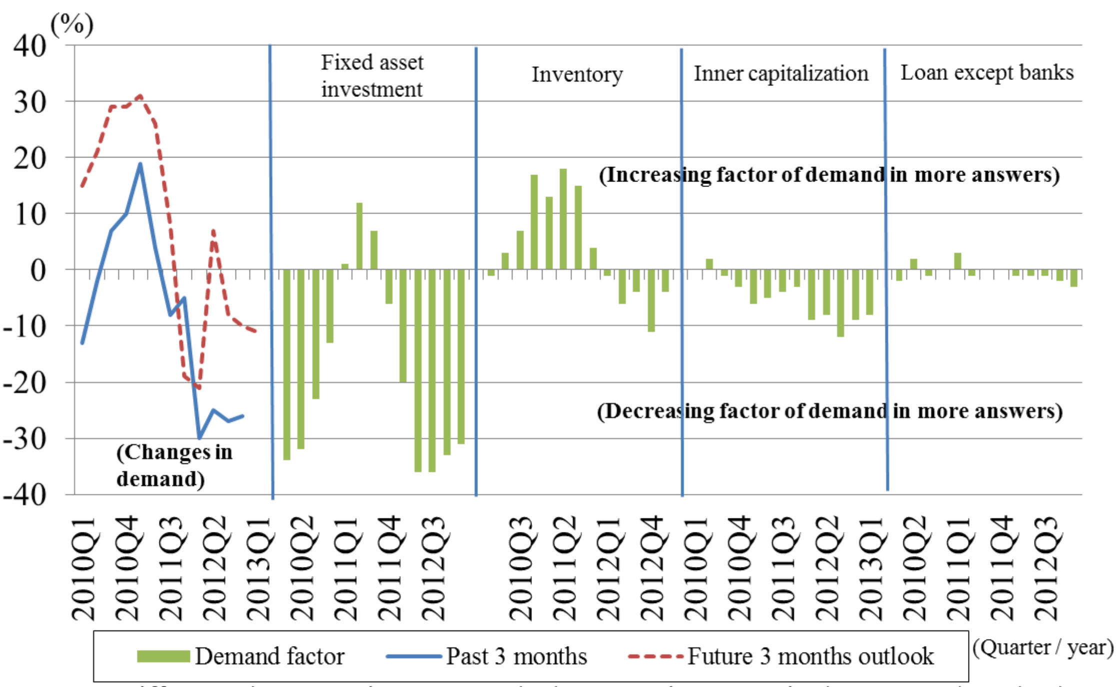
Notes: Seasonal-adjusted value in Greece were not published after 2011 Q2.
Source: Eurostat.

Figure III-2-2-27　Changes in lending of banks toward private sectors in the euro area



Notes: Bar chart for net lending. Line chart for balance compared to the previous year. After seasonal adjustment.
Source: ECB.

Figure III-2-2-28 Changes in loan demand (for companies) and factors to change



Notes: Difference between "increase" and "decrease" in answer in the survey about banks
Source: *Bank Lending Survey* (ECB), January 2012.

8. Trend in consumer spending

Consumer expenditure in the euro area has been weak influenced by prolonged deterioration of employment environment and uncertain economic outlook decreased to 1.3% in 2012 from the previous year (Figure III-2-2-29). Real retail sales has continued to decrease since 2011, when the European debt crisis became serious, the decreasing range extended in 2012 compared to the previous year (-1.9% from the previous year) (Figure III-2-2-30). Consumer confidence indicator has been in a recovery trend since autumn of 2012, but it remained below the long-term average (Figure III-2-2-31).

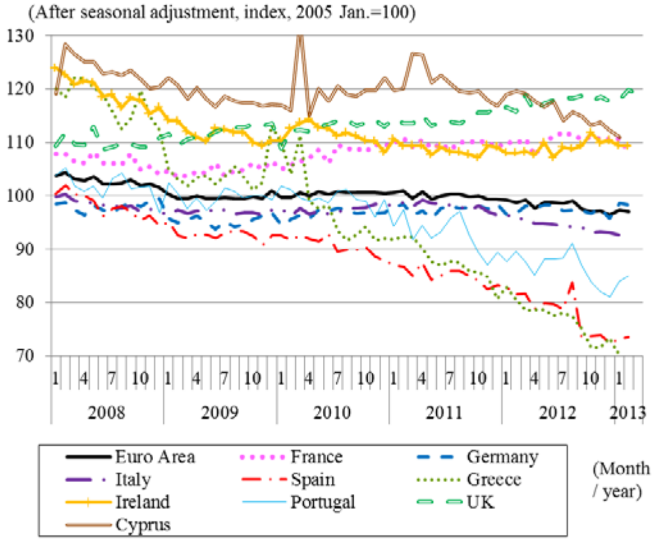
For each country, the European peripheral countries that had a high unemployment rate and serious capitalization environment, have shown a significant fall in family spending since 2011. In France, where enough wages and employment conditions have been assured to employees, both retail sales and consumer spending moved steadily backed by growth in wages.

Figure III-2-2-29 Consumer spending growth of countries in the euro area and the United Kingdom (left)

Figure III-2-2-30 Changes in retail sales of countries in the euro area and the United Kingdom (right)

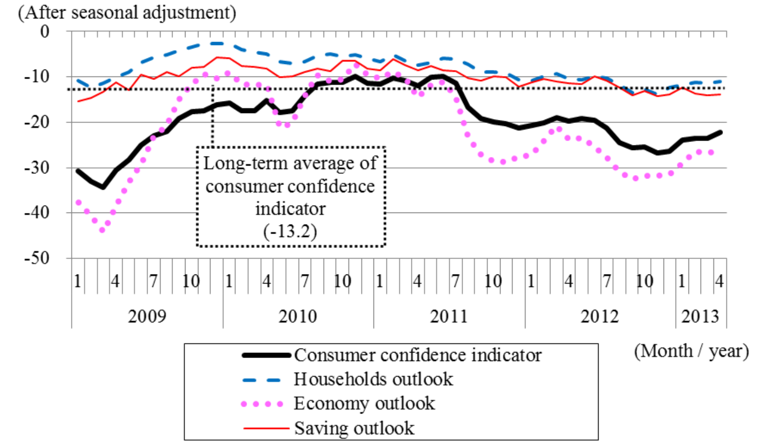
	2010	2011	2012
Euro Area	1.0	0.1	▲ 1.3
Germany	0.9	1.7	0.6
France	1.5	0.3	0.0
Italy	1.5	0.1	▲ 4.2
Spain	0.7	▲ 1.0	▲ 1.9
Ireland	0.5	▲ 2.3	▲ 0.9
Portugal	2.5	▲ 3.8	▲ 5.6
Greece	▲ 6.2	▲ 7.7	▲ 9.1
Cyprus	1.5	0.5	▲ 3.0
UK	1.3	▲ 0.8	1.2

Notes: Year-on-year.
Source: Eurostat.



Notes: Except auto sales.

Figure III-2-2-31 Economic Sentiment Indicator (ESI) in the euro area

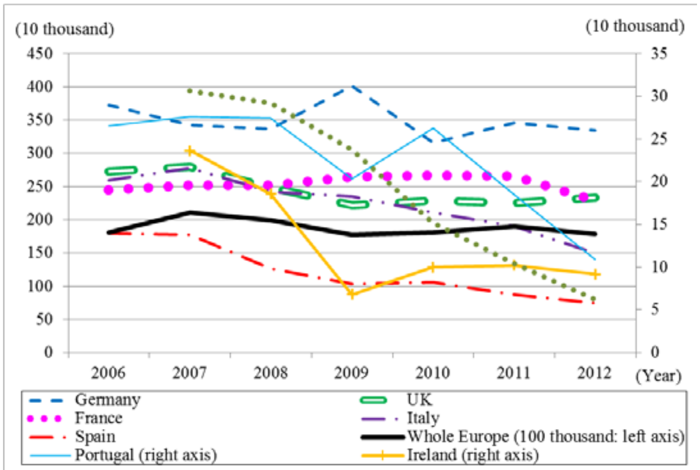


Notes: Difference between "improve/worsen" or "will save/ will not save" in answer ratio on consumer survey for households outlook, economic outlook and saving outlook. Consumer confidence indicator is calculated by those three indicators.
Source: *Business and Consumer Survey* (European Committee).

In automobile sales trend, Germany had decreased in 2012, France, Italy, Spain and Ireland decreased more than 10% compared to the previous year. Moreover, Greece and Portugal's auto sales continued to fall drastically from the previous year, decreasing more than 40%. Total amount of registered cars in the whole Europe decreased 5.6% compared to the previous year (Figure III-2-2-32, Figure III-2-2-33).

Figure III-2-2-32 Changes in registered new cars of countries in the euro area and the United Kingdom (left)

Figure III-2-2-33 Growth of registered new cars of countries in the euro area and the United Kingdom (right)



Notes: Registered number of cars, trucks and buses.
Source: MarkLines.

	2010	2011	2012
Germany	▲ 21.4	9.5	▲ 3.2
UK	3.2	▲ 1.9	3.8
France	0.9	▲ 0.4	▲ 13.6
Italy	▲ 10.3	▲ 10.2	▲ 20.9
Spain	3.0	▲ 17.5	▲ 15.4
Portugal	29.0	▲ 29.7	▲ 40.7
Ireland	47.0	2.5	▲ 10.5
Greece	▲ 36.0	▲ 31.6	▲ 40.2

9. Political actions by EU and the euro area governments

Although the confusion in financial markets was caused by an underestimate of the Greek fiscal deficit, it has now slightly calmed down since September 2012, economy in many countries have not yet recovered, and actions by the EU and the euro area authorities have not been completed. Here, major actions by the EU and the euro area authorities are overlooked.

First to restore fiscal conditions of governments, frameworks to supervise fiscal conditions and economic policies were created (Figure III-2-2-34). Based on those frameworks agreed on one after another, surveillance and evaluation by the EU on budget plans and economic policies of each country has been performed since 2011.

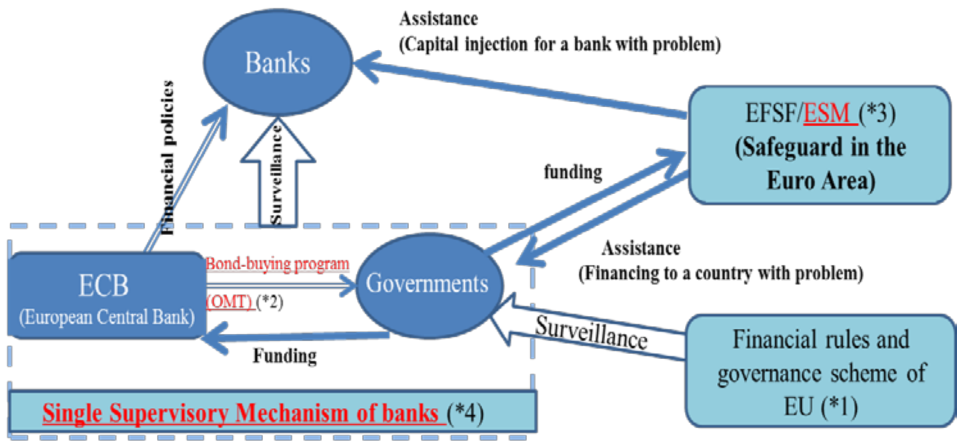
In June 2012, to enable bank's risks to be detected in the early stages and to intervened, it has been agreed to create a framework of banking union to establish Single Supervisory Mechanism, in which supervising and rules for banks would be unified even though they were dependent on each country, and Stability Mechanism, in which bank resolutions would be handled. The idea of a banking union is aimed to strengthen financial frameworks in the euro area, and moreover, the President of the European Council Van Rompuy also suggested a report to strengthen the current Economic and Monetary Union (EMU) through unification of the fiscal system, economic policies and politics[20].

As frameworks to support heavy-indebted countries, the force of ESM (European Stability Mechanism) was implemented as a permanent safeguard funding program in October 2012, replacing[21] EFSF (European Financial Stability Facility[22]), and ECB (European Central Bank)

20 Van Rompuy, Herman (2012).
21 This will coexist until June in2013.
22 Founded by the agreement in the EU Economic and Financial Affairs Council in May 2010. Lending ceiling of 440 billion euro.

announced a new bond-buying scheme (OMT) to handle surged bond yields of heavy-indebted countries such as Spain and Italy[23].

Figure III-2-2-35 Frameworks to support fiscal and financial stability in the euro area



(*1) For example, European Semester (from 2011), advanced evaluation scheme for budget, and Treaty on Stability, Coordination and Governance in the EMU (in January 2013), which ruled to add financial balancing to the constitution.
(*2) As an evolutional financial policy by ECB, new bond-buying scheme (OMT) was adopted on September 6, 2012.
(*3) Permanent safeguard, the European Stability Mechanism (ESM), was started on October 8, 2012.
(*4) Single Supervisory Mechanism, in which ECB supervise banks in the Euro Area by coordinating with surveillance organizations in countries, will start in 2014.

As these actions are aimed to restore a countries' finances, banks and to allow necessary support to them (Figure III-2-2-35), they succeeded to reduce anxiety in the financial markets, and then, bond yields of highly-indebted countries have dropped since September 2012 (as above, Figure III-2-2-1, Figure III-2-2-2), and financial markets have acquired stability again.

On the other hand, since European economy continued to stay in recession and especially the highly-indebted countries were in the vicious cycle where low demand caused decrease of government income and then damaged government finances, new policies focused on economic growth have been announced. EU agreed on the "Compact for Growth and Jobs" in June 2012[24], which ruled actions that would strengthen European competitiveness, stimulating growth, investment and employment, including growth-promoting strategy in the scale of 120 billion euros with recapitalization of EIB (European Investment Bank), and announced the Single Market Act II in October, which showed priority actions to improve competitiveness as a single market[25] (Figure III-2-2-36).

Also as the demand of the people increased seeking to loosen austerity, it was confirmed one of the issues to consider was to pursue differentiated, growth-friendly fiscal restoration in the European Council in March 2013[26]. In April 2013, EU extended loan repayments for Ireland and Portugal to assist their smooth recovery to bond markets[27] (Figure III-2-2-37), and the European Commission

[23] ECB, *Press Release on September 7, 2012*.
(http://www.ecb.int/press/pr/date/2012/html/pr120906_1.en.html)
[24] The European Council in June 2012.
[25] Jetro (2012d).
[26] Jetro (2013).
[27] It was agreed to extend seven years in average.

advised six countries including France and Spain to alleviate the fiscal restoration target in May[28].

However, to obtain a stable euro, it would remain to be inevitable to maintain fiscal restoration policies especially for countries who offer funding. The "growth-friendly" fiscal restoration, which countries have to carry out, means also to invest limited financial source efficiently to growing fields and supposes the implementation of fiscal austerity policies. If some of targets of fiscal restoration are suspended, it should still be focusing on how countries can acquire recovery of the real economy during handling austerity.

As looked over in this section, economy in the euro area, which went into a serious debt crisis in 2011, was recovered by the financial market stability in 2012, and austerity in various countries has contributed to reduce fiscal deficits, but demand in the area has stagnated for a long time, and GDP of countries have shrunk. Frameworks reinforcement of the Economic and Monetary Union (EMU) including financial sectors are expected to realize stability of the single currency, euro, but also worried the possibility to be delayed because of the different opinions of countries that are related with. Moreover, there is a possibility where those countries could not maintain supporting those policies of the EU because of a confrontation against austerity. To clear anxiety in markets and to recover the real economy, EU is expected to quickly promote sustainable fiscal restoration and actions to realize the implementation of a bank union.

Figure III-2-2-34　Major political actions regarding the European debt crisis

Reinforcement of the Economic and Monetary Union (EMU)	<Background>Triggered by the European debt crisis, where European financial markets got unstable, it was needed to strengthen European economic frameworks to be an appropriate one using single currency. - The purpose is to strengthen current economic and monetary union by four factors. The factors are reinforcement of financial frameworks (bank union *1), reinforcement of financial surveillance and common budget making (financial unification), unification of economic policies frameworks and strengthening of political accountability in the EU level. (Based on the agreement in the European council in June and October 2012 as well as suggestions and opinions of the European Committee and the European Parliament, President of the European Council, Van Rompuy, sent in the final report including the action agenda in December.)	
(*1) Bank union	- To avoid the spread of a problem of one bank to the whole economy, this system strengthens the surveillance of banks (*2), rules mechanism of bank's resolution and saves deposit in banks, and then, maintains the stability of European banks. (Based on the agreement of G20 and the European Council in June 2012.)	- Resolution mechanism will be suggested by the European Committee in 2013.
(*2) Single Supervisory Mechanism of banks (SSM)	- One of the major factors of the bank union. ECB supervises all banks in the Euro Area collecting coordination of surveillance organizations in countries, to detect risks in the early stage and intervened in and to promote unification of bank rules in the area. EU countries outside the Euro Area can join this mechanism. (Based on the agreement of the European Council in June 2012, the European Committee suggested this in September and the European Council agreed in December.)	- Starts in 2014.
Reinforcement of surveillance on government finance and economic policies	<Background> Since current frameworks to maintain healthy finance condition (rules of fiscal deficit and government debt balance were set based on Stable and Growth Pact.) was not enough to avoid fiscal deterioration in the European countries, new frameworks to supervise government finance and economic policies. - Euro Plus Pact (Promotes policy coordination in a wide range of fields including strengthening competitiveness. Agreed in March 2011.) - European Semester (EU examines and evaluates economic policies and budgets of countries in advance. Started in 2011.) - Six-pack (Fiscal surveillance and macroeconomic surveillance to correct imbalance in the early stage. Started in December 2011.) - Treaty on Stability, Coordination and Governance in the EMU (TSCG. Obliged countries to assure fiscal balance by constitutions. 25 countries except the United Kingdom and Czech singed in January 2013.) - Two-pack (Surveillance depending on countries' fiscal condition. Started in May 2013.)	- TSCG: countries will add rules to constitutions in 2013.
OMT (New bond-buying program by ECB)	<Background> By surged bond yield caused by financial instability, capitalization in heavy-indebted countries became difficult. -New bond-buying program by ECB (European Central Bank) as a backup against instability in bond market, replacing former Securities Markets Programme (SMP). (1) Focuses incentive design that promotes fiscal restoration and restructuring in a country with problem. (2) Does not have preferential treatment. (3) Assures transparency. (Announced in September 2012.)	
ESM (European Stability Mechanism)	- Permanent assistant fund. Maximum capacity is 500 billion euro. - Started in October 2012. Assistance of 700 billion euro in maximum in whole framework of EU is possible until June in 2013, when EFSF coexists.	- Direct capital injection to banks will be agreed in the early 2013.
Monetary Easing by ECB (European Central Bank)	- Easing provision of liquidity (3-yr LTROs (December 2011, March 2012), etc. - Lowering policy rates (November, December in 2011, July in 2012 and May in 2013).	

Source: Press Release (European Commission), Press Release (ECB), Towards a Genuine Economic and Monetary Union (European Council President), White Paper on International Economy and Trade 2012 (METI), EU Tends (Dai-ichi Life Research Institute Inc.), etc.

[28] Also, Netherlands, Poland, Portugal and Slovenia. (Source: Website of European Commission (http://europa.eu/rapid/press-release_SPEECH-13-384_en.htm,http://europa.eu/rapid/press-release_MEMO-13-463_en.htm).)

Figure III-2-2-36　Major agreements and suggestions toward economic growth in Europe

Compact for Growth and Jobs	<Background> In the prolonged recession and with the high-unemployment rate, it was agreed that it is important not only to restore government finance but to promote economic growth and employment. Defines growth-promoting policies in 102 billion euro scale, including recapitalization of EIB (European Investment Bank) and start of project bond trials (energy, transportation and information infrastructure), and actions to promote trade investment and employment to stable fiscal finance. (Agreed in the European Council in June 2012.)
Single Market Act I	<Background> Recognition promoting European "new growth" needs development of market unification as a single market to reveal its potential. Defines four major issues below, and twelve priority actions. (1) Developing fully integrated networks in the Single Market. (2) Fostering mobility of citizens and businesses across borders. (3) Supporting the digital economy across Europe. (4) Strengthening social entrepreneurship, cohesion and consumer confidence. (Announced in October 2012. Based on the more comprehensive one, Single Market Act I in April 2011, details of priority issues were suggested.)

Source: Minutes of the European Committee, Tsusho Kouhou (JETRO).

Figure III-2-2-37　Support for individual countries by EU and the euro area authorities

Greece	- EU, IMF approved the first bailout package (total 110 billion euro) in May 2010. - EU, IMF approved the second bailout package (total 130 billion euro) in March 2012. Also private sectors implemented debt exchange for the Greek bond. - EU, IMF agreed to continue the assistance, to extend the limit to reduce fiscal deficit and government debt and to support the debt reducing in exchange for austerity in a huge scale. Also, reducing debt balance of government bond that Greek banks had was pursued
Ireland	- EU, IMF approved the bailout (total 67.5 billion euro) in November 2011. - Fiscal restoration was accepted and Ireland gradually recovered to bond market after July in 2012. - To support Ireland's recovery to bond market, EU extended the repayment limit of assistance finance in seven years in average.
Portugal	- EU, IMF approved the bailout (total 78 billion euro) in May 2011. - EU alleviated the reducing target of fiscal deficit based on huge decrease of government income in September 2012. - Constitutional Court rejected parts of austerity budget, but accepted adjustment program by the government. To support Portugal's recovery to bond market, EU extended the repayment limit of assistance finance in seven years in average.
Spain	- The Euro Area approved bailout for financial sectors (100 billion euro in maximum) in July 2012, and alleviated the limit of reducing fiscal deficit. In exchange for this, Spain made austerity budget until 2014 and announced and started new actions to increase income and to decrease expenditure including increased tax of value-added tax. - Recapitalization program of banks based on MOU was pursued after September.
Cyprus	- Announced request of urgent financing for EU in June 2012. - EU, IMF approved bailout (total 10 billion euro) in April 2013 based on the agreement between Cyprus and the Euro Area financial minister, in exchange for restructuring of the largest two banks and seizing large deposit.

Source: White Paper on International Economy and Trade 2012 (METI), Minutes and press release of the European Committee.

Section 3 China

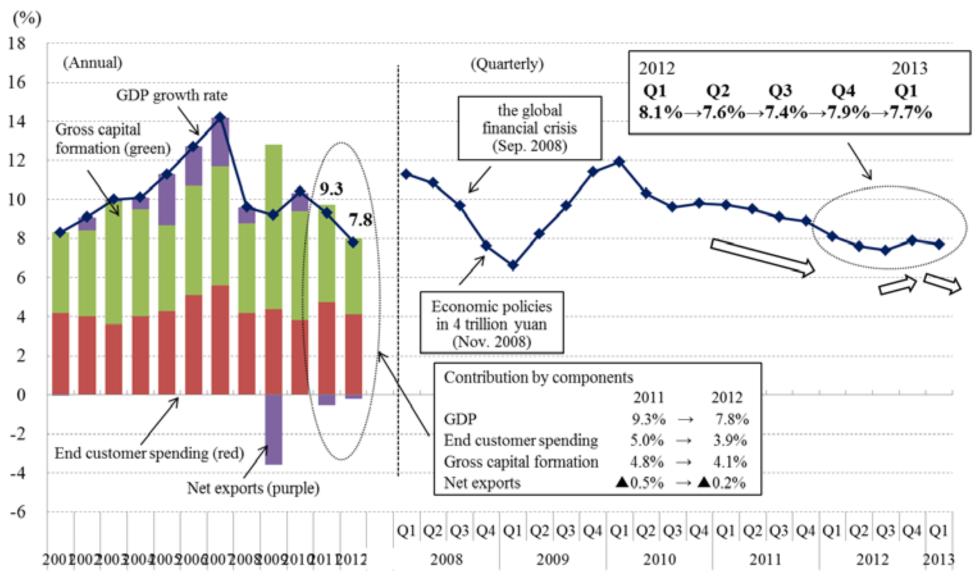
The Chinese economy in 2012 began in a gradual slowdown of economic growth. China quickly recovered from the global financial crisis in 2008 by economic stimulus in the scale of 4 trillion yuan. However, the government tightened its monetary policy due to accelerated inflation in 2011. As the exports slowed down towards Europe because of the European debt crisis, China's economic growth started to decelerate gradually notably in the coastal areas where exports played important role. In 2012, the Chinese government pursued economic policies against the economic slowdown, including monetary easing and the speed-up in approvals for investment projects. As a result, growth in industrial production, retail sales and fixed asset investments turned to accelerate in autumn 2012, and real GDP growth rate in the fourth quarter increased for the first time in the previous eight quarters. However, a sign of decrease in growth was seen in the industrial production and consumer spending in early 2013, real GDP growth rate in the first quarter again slowed down again, which has shown uncertainty in the economy.

1. GDP

Real GDP growth rate in 2012 was at 7.8%, surpassing the government's target of 7.5%, but it was lower than the rate in 2011 (9.3%) (Figure III-2-3-1). In the contribution to GDP growth by final demand components, net exports continued to stay in minus growth since the previous year, and final consumption and gross capital formation were still positive, but their contribution declined.

Overviewing quarterly movement, gradual slowdown continued until the third quarter in 2012, and then, the growth in the fourth quarter increased for the first time in the previous eight quarters, but it again decelerated in the first quarter of 2013.

Figure III-2-3-1 Changes in real GDP growth rate (year-on-year) in China



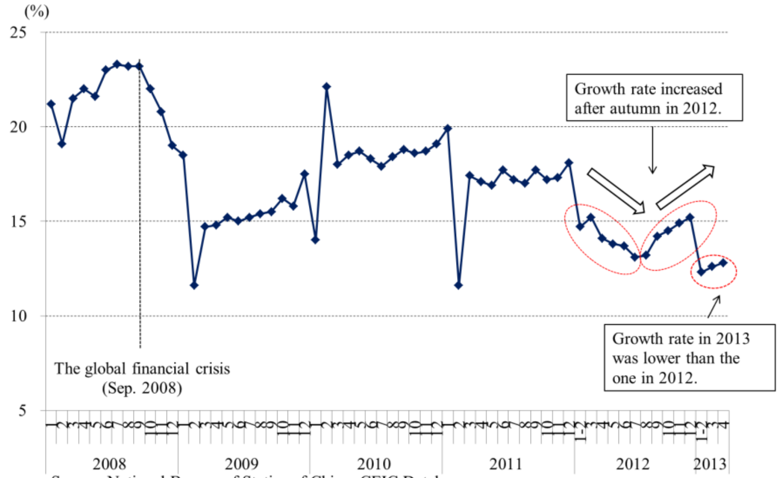
Notes: Quarterly contribution by components are not published, and only growth rates are shown.
Source: National Bureau of Statics of China. CEIC Database.

2. Consumption

In and after this part, major indices for demand components are overlooked.

We start with the trend in consumption. The growth rate of retail sales of social consumer goods declined toward the middle of 2012, but it recovered after the fall (Figure III-2-3-2). However, the growth rate drastically dropped in January and February 2013, and also stayed in limited growth in March and April, compared to December 2012.

Figure III-2-3-2 Changes in retail sales growth rate (year-on-year) in China

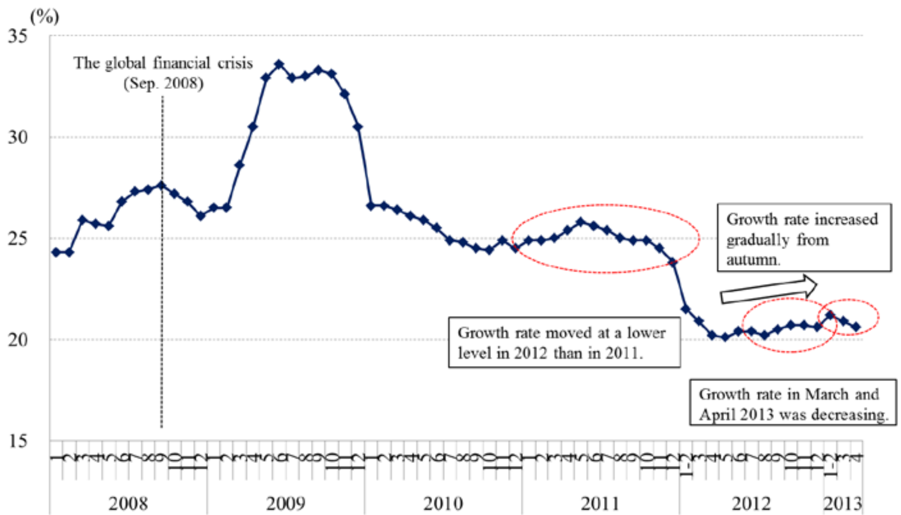


Source: National Bureau of Statics of China. CEIC Database.

3. Investment

The growth rate of fixed asset investments in 2012 moved at a lower level than in the previous year (Figure III-2-3-3). Overviewing monthly movement, its growth slowed down in early 2012, but it turned into a gradually increasing trend, reflecting monetary easing and the speed-up in approvals for investment projects. However, there was a sign for decreasing again in March and April 2013.

Figure III-2-3-3 Changes in fixed asset investments growth rate (total from the beginning of the year, year-on-year) in China



Notes: Values of fixed asset investments are published as total from January.
Source: National Bureau of Statics of China. CEIC Database.

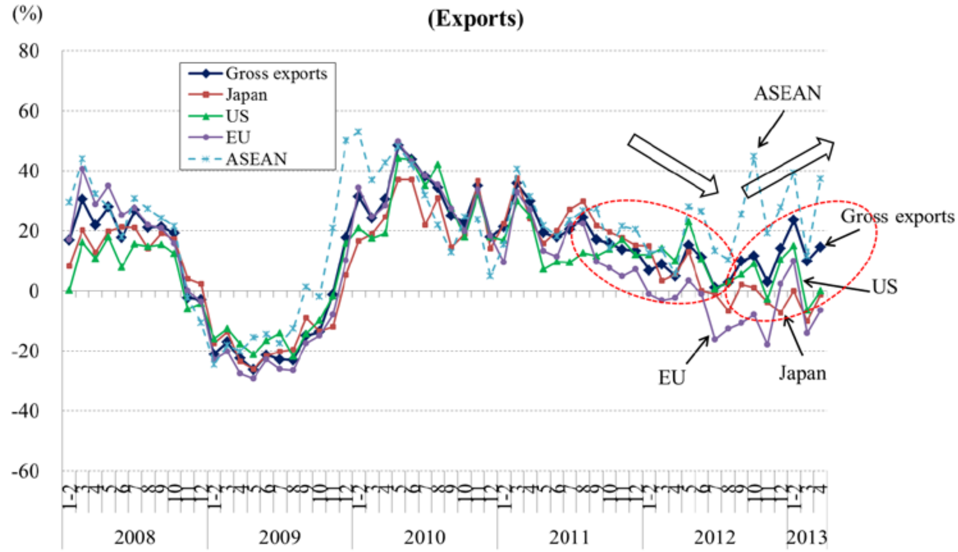
4. Foreign trade

In foreign trade, both export growth and import growth, especially to the EU, continued to slow down towards the middle of the year, but it started to recover from autumn (Figure III-2-3-4). With regards to individual partner, the growth in exports toward the EU turned negative in the beginning of the year and continued to decrease further until it stopped to fall in the middle of the year, then its negative gap started to shrink after summer. On the other hand, exports toward ASEAN fluctuated substantially but continued to extend in a high rate. Exports to Japan have been inactive since protest movements towards Japan got serious in autumn.

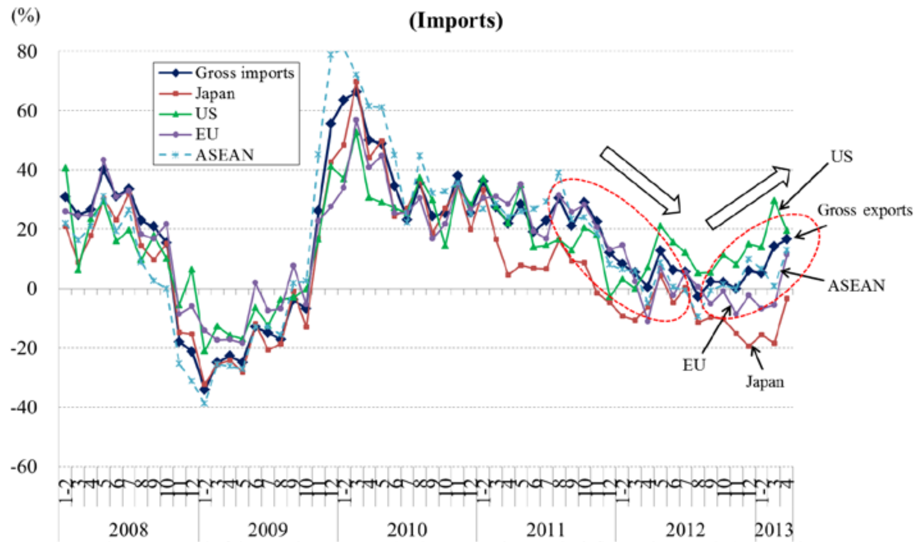
Meanwhile, imports from the EU stayed in a low tone, and imports from Japan also decreased. Initially imports from Japan recovered from the occurrence of cutoff of supply chains caused by the flood in Thailand in the early 2012, but it again deteriorated after autumn when protest movements against Japan became more intense.

Still, as growth through 2012, export growth (7.9%) surpassed import growth (4.4%), and trade surplus extended.

Figure III-2-3-4 Changes in growth rates in trade (year-on-year) in China



Notes: Values were total of the ones in January and February to wipe out the influence by annual change of lunar new year..
Source: General Administration of Customs of China. CEIC Database.



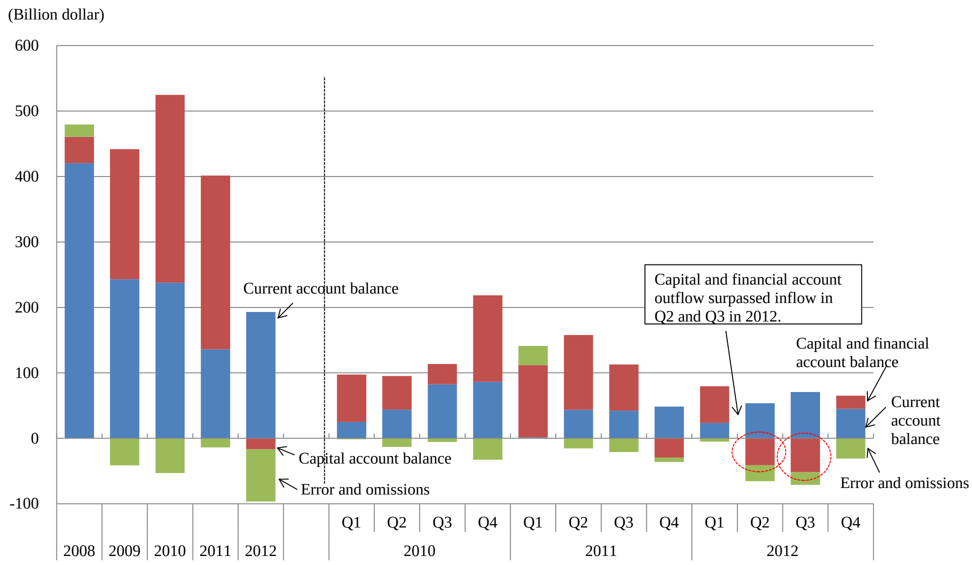
Notes: Values were total of the ones in January and February to wipe out the influence by annual change of lunar new year..
Source: General Administration of Customs of China. CEIC Database.

5. Balance of payments

In the balance of payments, Chinese current account surplus had continued to decrease since 2009, after the global financial crisis, however, it increased in 2012 backed by extended trade surplus (Figure III-2-3-5).

Meanwhile in capital accounts, large surplus (inflow surpasses outflow) in 2011 turned into deficit (outflow surpassed inflow) in 2012, because capital flowed out in the second and third quarter as the Chinese economy continued to slow down. Then, it recovered to surplus in the fourth quarter as major economic indicators recovered such as industrial production.

Figure III-2-3-5 Changes in trade balance of China

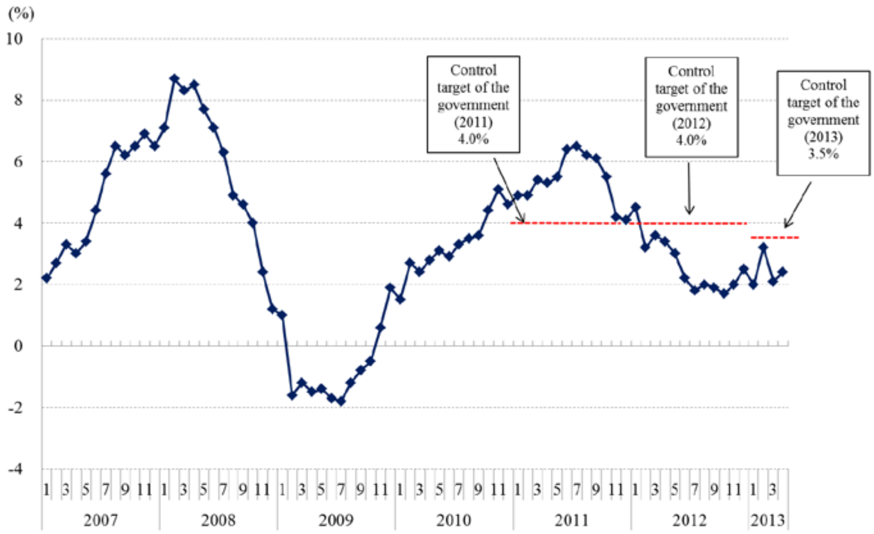


Notes: Values of foreign reserve were at the end of each quarter.
Source: People's Bank of China. State Administration of Foreign Exchange. CEIC Database.

6. Prices

As a result of tight monetary policy in 2011, the increase in consumer prices has gradually calmed down from the peak of summer 2011. Even after the government turned to monetary easing in 2012, the growth of consumer price index (CPI) remained below the control target of the government's 4.0% (Figure III-2-3-6). After middle of 2012, they stayed at a level around 2% except at the end of 2001 and beginning of 2012 when growth of CPI temporally increased.

Figure III-2-3-6 Changes in growth rates in consumer prices (year-on-year) in China

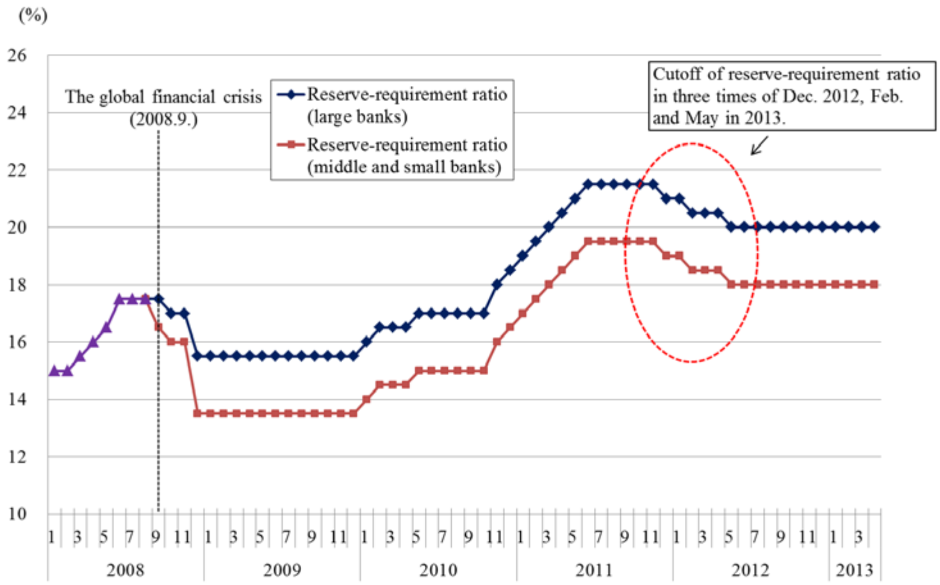


Source: National Bureau of Statics of China. CEIC Database.

7. Financial policies

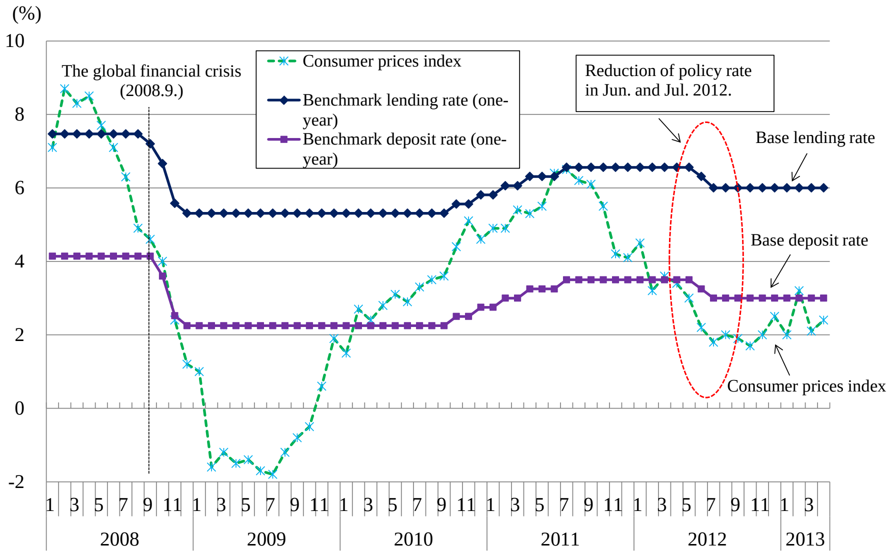
In 2011, the government gave priority to inflation control and tightened monetary policy, however, worrying economic slowdown, monetary easing was implemented little by little in 2012, with careful attention to the trend in consumer prices. The People's Bank of China decided to decrease the reserve-requirement ratio in December 2011, and pursued the reduction in the ratio three times in total including February and May 2012 (Figure III-2-3-7). Moreover, in June and July 2012, when growth of consumer prices had declined, the bank cut the interest rate consecutively for two months (Figure III-2-3-8).

Figure III-2-3-7 Changes in reserve-requirement ratio in China



Notes: Reserve-requirement ratio until the middle of 2008 includes whole banks.
Source: People’s Bank of China. CEIC Database.

Figure III-2-3-8 Changes in monetary policy in China

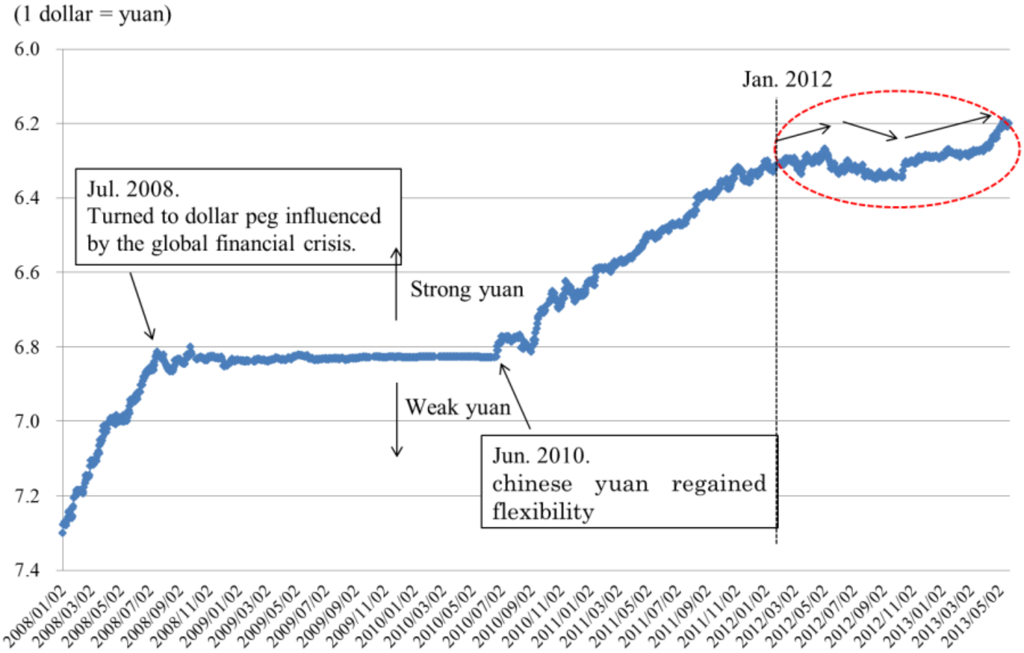


Source: People’s Bank of China. National Bureau of Statics of China. CEIC Database.

8. Renminbi

The Renminbi (Chinese yuan) had increased gradually since the government allowed the renminbi to move more freely in June 2010. The renminbi continued to increase in the early period in 2012, but it fell down in some periods along with the slowdown in Chinese economy (Figure III-2-3-9). The renminbi moved again in an increasing trend after autumn.

Figure III-2-3-9 Changes in Chinese yuan to US dollar exchange rate



Source: China Foreign Exchange Trading Center. CEIC Database.

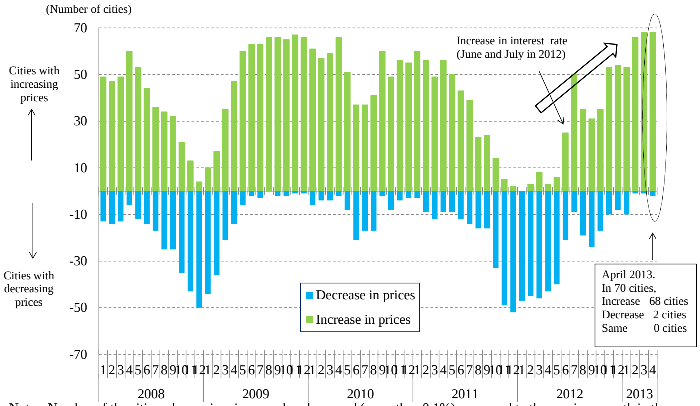
9. Risks

The Chinese economy in 2012 can be summarized as stated above, and here are some risks in considering the outlook of the Chinese economy.

(1) Real estate prices

Real estate prices are important in considering the relationship with financial policies. In the trend of new housing prices in 70 cities in China, which showed the trend of real estate prices, housing prices turned to increase in many cities after the reduction of interest rates (June and July in 2012) (Figure III-2-3-10). They have been increasing in most cities lately, and there is a concern that China would tighten its monetary and this may influence business sentiment.

Figure III-2-3-10 Changes in new housing prices

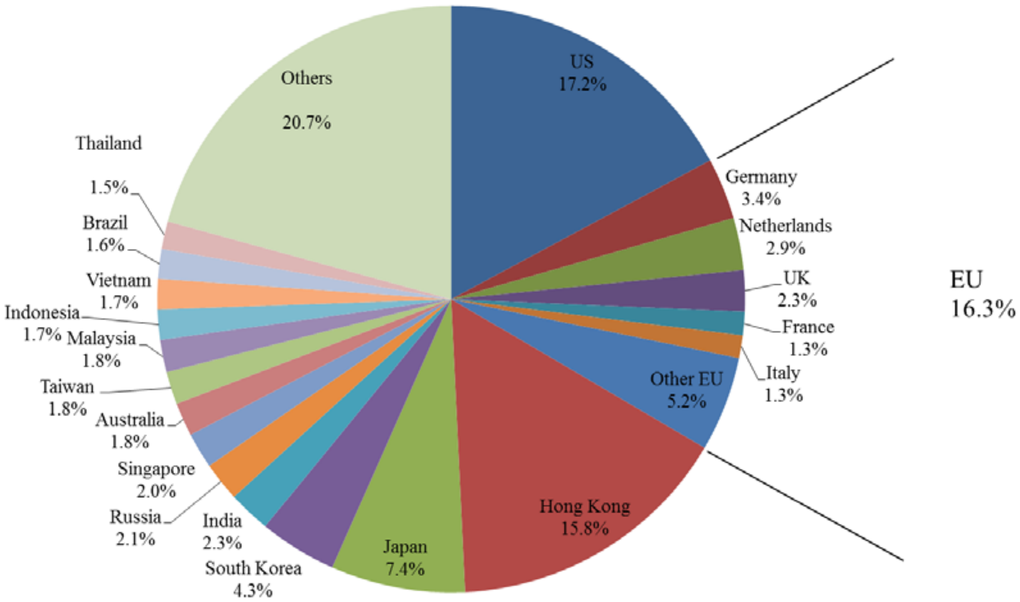


Notes: Number of the cities where prices increased or decreased (more than 0.1%) compared to the previous month in the major 70 cities. Prices in other cities didn't change.
Source: National Bureau of Statics of China. CEIC Database.

(2) Trend in exports

One of the factors that caused economic slowdown in China was decrease in exports, mainly exports towards Europe that was hit by the European debt crisis. Ratio of exports to EU as a whole in China decreased from 19.7% in 2010 to 18.7% in 2011 and to 16.3% in 2012. The largest exports are now towards the United States, but also a share of exports to the EU still have accounted for large amount, and the influence of the exports to Europe is significant to the Chinese economy (Figure III-2-3-11). Although the European debt crisis has calmed down currently, enough caution is still needed in future on the movement in Europe and on exports towards them.

Figure III-2-3-11 Major countries and areas for Chinese exports (2012)



Source: Global Trade Atlas.

In addition to the short-term risks as mentioned in this section, China has mid-term or long-term issues that may influence economic growth. China has pursued high-growth of economy so far, it has considered that economic growth rate will decrease in a mid-term or long-term range, influenced by some factors such as decrease in working age population and decrease in global competitiveness caused by increasing wages. To maintain a sustainable growth and to conquer these issues, it is needed for China to promote new movement including modernization of industry such as sorting out the current excess in facilities, conversion of demand structure to the one built on consumption and reduction of the disparity.

In China, new state leaders were elected officially through the National Congress of the Chinese Communist Party in November 2012 and the National People's Congress in March 2013. New leaders have expressed to promote economic revolution such as conversion in economic growth model and have shown their intention to implement a sustainable development, but, of course, those are not to be solved in one day, and it is important to observe their movements carefully in the future.

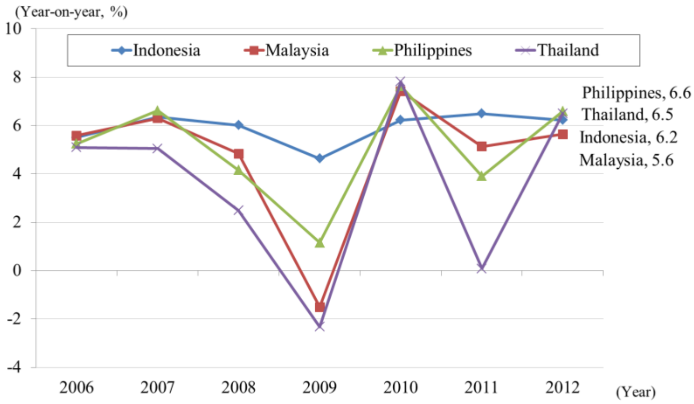
Section 4 Other emerging economies

1. ASEAN-4 (Indonesia, Thailand, Malaysia and the Philippines)

(1) GDP

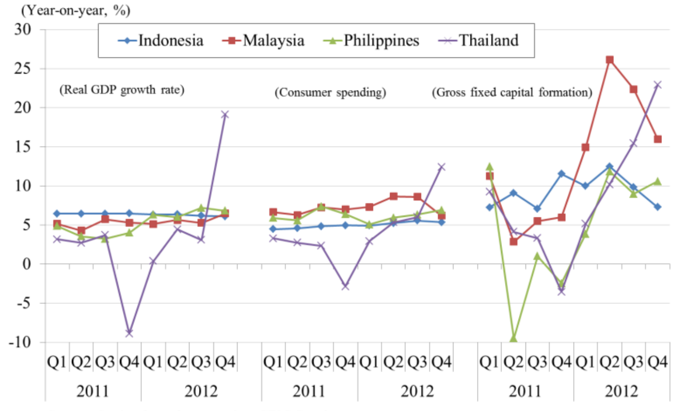
While most emerging economies were in a decreasing trend in 2012, ASEAN-4 maintained relatively high growth rate at 5 - 7% from the previous year. Firm growth in domestic demand covered the fall in exports and pushed up the economy growth of ASEAN-4. Especially in Thailand, consumption and investment that had fallen drastically by the flood in 2011 increased backed by the implementation of economic policies by the government, and growth rate recovered significantly (0.1% from the previous year in 2011 to 6.5% in 2012) (Figure III-2-4-1, Figure III-2-4-2).

Figure III-2-4-1 Changes in real GDP growth rate (year-on-year) in ASEAN-4



Source: Statics from the countries, CEIC Database.

Figure III-2-4-2 Changes in real GDP growth rate, consumer spending and gross fixed capital formation (year-on-year) in ASEAN-4



Source: Statics from the countries, CEIC Database.

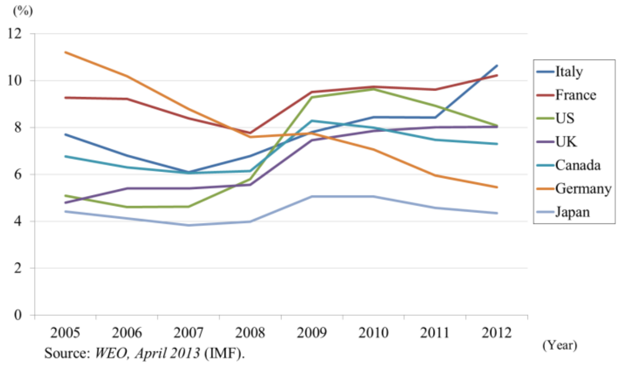
(2) Consumption

Consumer spending maintained a high growth rate in each country (As shown in Figure III-2-4-2). This was because environment around consumer spending was good including good employment environment, the increase in income resulted by increase of wages, settling down of consumer prices and lowered interests by monetary policy easing. Especially about employment environment in these factors, unemployment rate in ASEAN-4 was decreasing and also stayed at relatively lower level than in advanced economies (Figure III-2-4-3). Also about the increase in income, as minimum wage in ASEAN-4 has recently increased significantly[29] (Figure III-2-4-4), average wage in manufacturing in Indonesia and Thailand has continued to increase, which also proves the increase in income (Figure III-2-4-5) (See later part of this section on "Consumer prices" and "Financial policies.").

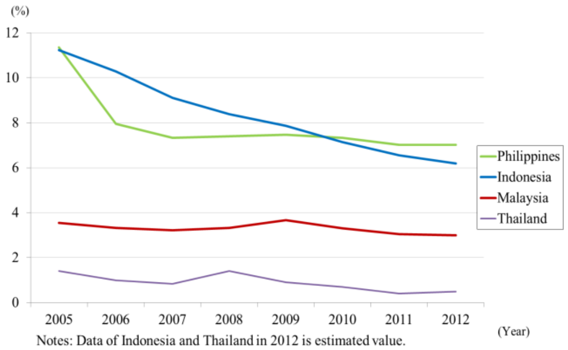
Automobile sales in Thailand, Indonesia and Malaysia renewed the history record in 2012. Especially in Thailand, auto sales moved in a good pace contributed by recovery in production from the flood and by tax reduction policy[30], and also in Indonesia, double-digit growth continued. As a result, the number of annual auto sales in both countries surpassed one million for the first time in history (Figure III-2-4-6).

[29] In Malaysia, minimum wage policy was adopted in January 2013.
[30] In this tax reduction policy, excise tax was refunded to first-time car buyers up to 100 thousand baht (1 baht = about 3.4 yen) for household new cars (limited car types) that must be purchased from September 2011 to the end of 2012.

Figure III-2-4-3 Changes in unemployment rate in major countries (left: G7, right: ASEAN-4)

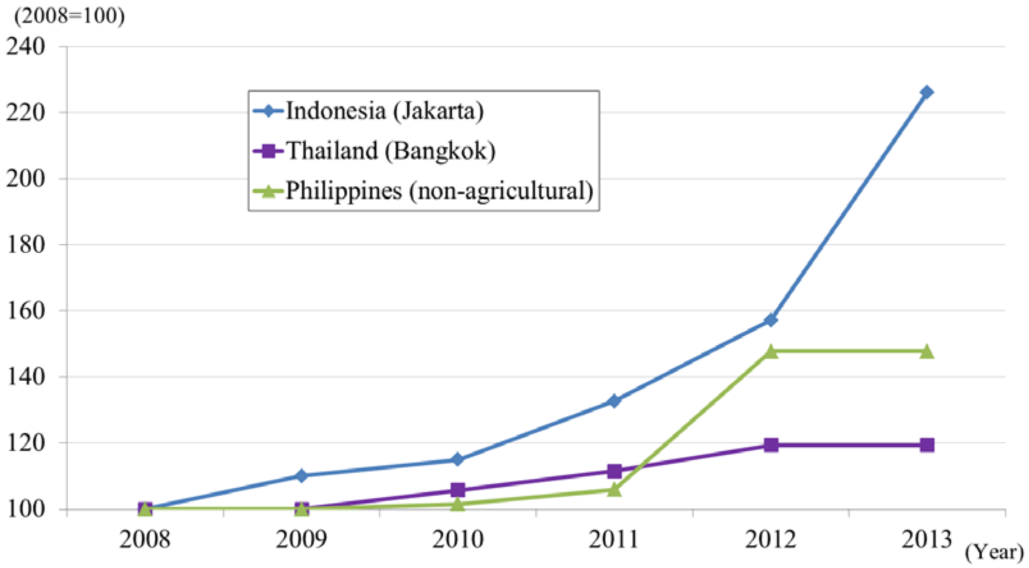


Source: *WEO, April 2013* (IMF).



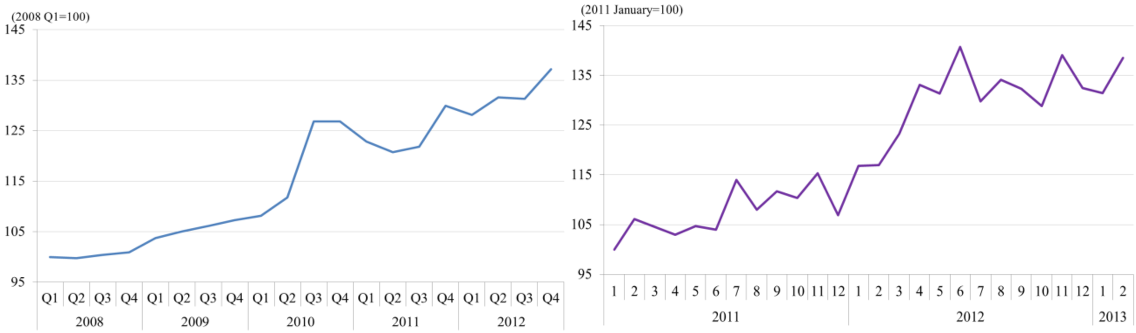
Notes: Data of Indonesia and Thailand in 2012 is estimated value.
Source: *WEO, April 2013* (IMF).

Figure III-2-4-4 Changes in minimum wage in Indonesia (Jakarta), Thailand (Bangkok) and Philippines (2008 = 100)



Notes: Data of Thailand and Philippine was published monthly, and the highest values in the year are on this chart.
Source: Statics from the countries, CEIC Database.

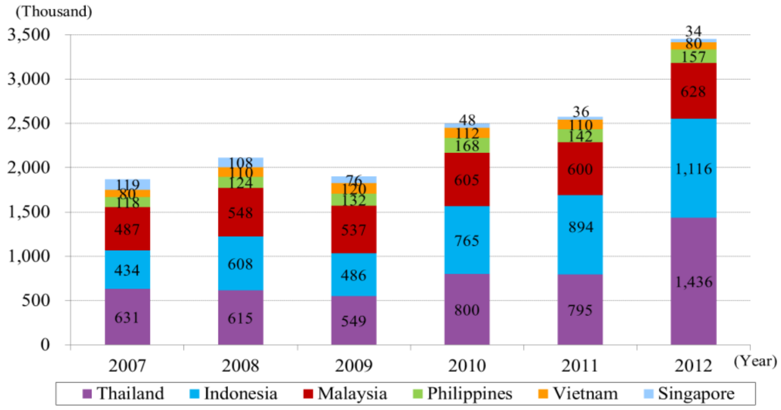
Figure III-2-4-5 Changes in average wage in manufacturing in Indonesia and Thailand (left: Indonesia (2008 Q1 =100), right: Thailand (2011 January =100))



Source: National Bureau of Statics in Indonesia, CEIC Database.

Source: National Statistical Office in Thailand, CEIC Database.

(Figure III-2-4-6) Changes in auto sales in ASEAN countries



Notes: The number of registered cars in Singapore.
Source: Statics from the countries, CEIC Database.

(3) Investment

With firm domestic demand as a background, lowered policy rate and promotion of public investment into infrastructure improvement pushed up gross fixed capital formation (As shown in Figure III-2-4-2). Investment growth especially in Thailand and Malaysia was remarkable. Reconstruction demand supported the growth in Thailand, and in Malaysia, investment grew substantially under huge investment projects in the Economic Transformation Program of the government[31]

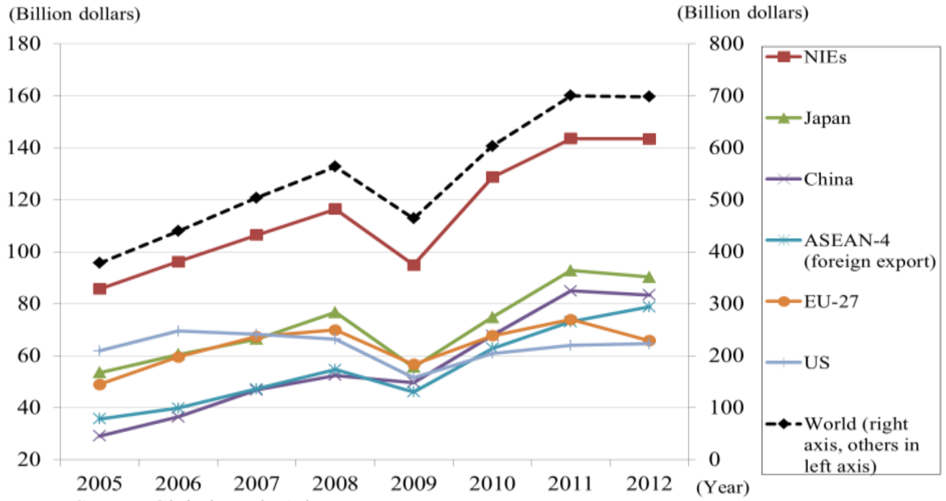
(4) Foreign trade

Export value of ASEAN-4 (in total) in 2012 decreased to 698 billion dollars from the one in 2011 (700.2 billion dollars) (0.3% decrease from the previous year), influenced by slowdown in foreign demand (Figure III-2-4-7). In export trend in quarterly base, exports turned to negative in year-on-year in the second and third quarter in 2012, and then they got into a recovery trend in the fourth quarter. In export share by major destination countries and regions, exports to NIEs, ASEAN-4 and the United States recovered in the fourth quarter, but exports to Europe, Japan and China continued to decrease from the same period in the previous year (Figure III-2-4-8, Figure III-2-4-9).

31 Malaysia government aims to become developed country by 2020.

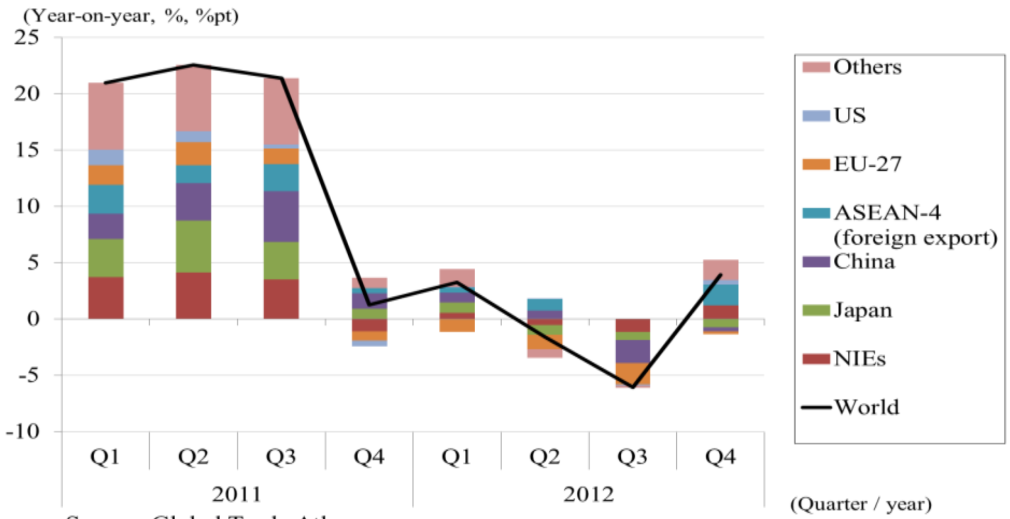
In the trade balance in each country of ASEAN-4, Indonesia turned into trade deficit through the year for the first time in history as exports decreased 6.6% yearly, and imports increased 8.0% yearly. In addition, trade deficit in Thailand extended (exports increased 3.6% year-on-year, and imports increased 8.8% year-on-year), and trade surplus in Malaysia shrunk (exports decrease 0.3% year-on-year, and imports increased 4.9% year-on-year). Slowdown in exports influenced trade balance of each country. On the other hand, export growth in Philippine surpassed import growth (exports increased 8.2% year-on-year, and imports increased 2.6% year-on-year), and trade deficit shrunk (Figure III-2-4-10).

Figure III-2-4-7 Changes in export value in ASEAN-4 (major countries and regions)



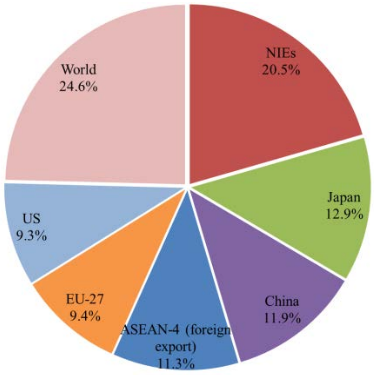
Source: Global Trade Atlas.

Figure III-2-4-8 Changes in export value (year-on-year) in ASEAN-4 and ratio of major destination countries and regions



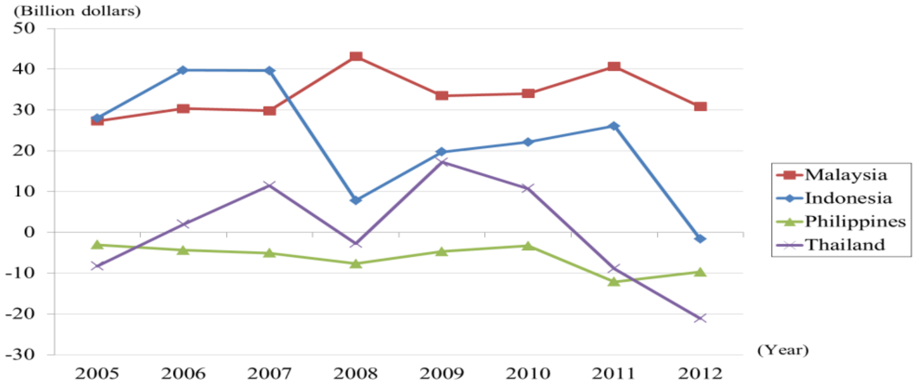
Source: Global Trade Atlas.

Figure III-2-4-9 Share of exports by countries in exports from ASEAN-4 (2012)



Source: Global Trade Atlas.

Figure III-2-4-10 Changes in trade balance in ASEAN-4

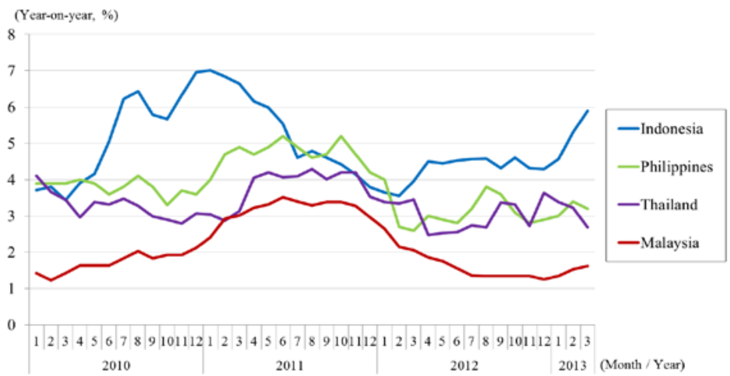


Source: Global Trade Atlas.

(5) Prices

Consumer prices in ASEAN-4 were generally stable in 2012, and this also supported the growth in consumer spending. However, increase in prices in Indonesia has recently accelerated, influenced by increase in food prices (Figure III-2-4-11).

Figure III-2-4-11 Changes in consumer prices index (year-on-year) in ASEAN-4

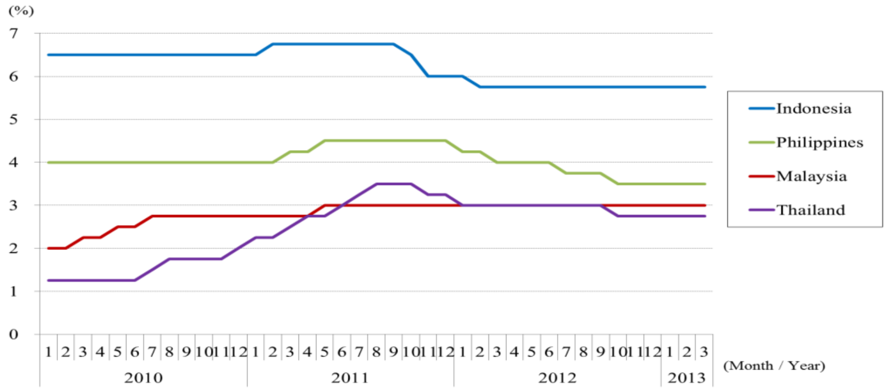


Source: CEIC Database.

(6) Financial policies

While global trend of financial policies tend to ease, Indonesia, Thailand and the Philippines in ASEAN-4 lowered policy rate from the beginning of autumn in 2011 to 2012 in order to mitigate the influence of economic slowdown abroad (Figure III-2-4-12).

Figure III-2-4-12 Changes in policy rate in ASEAN-4

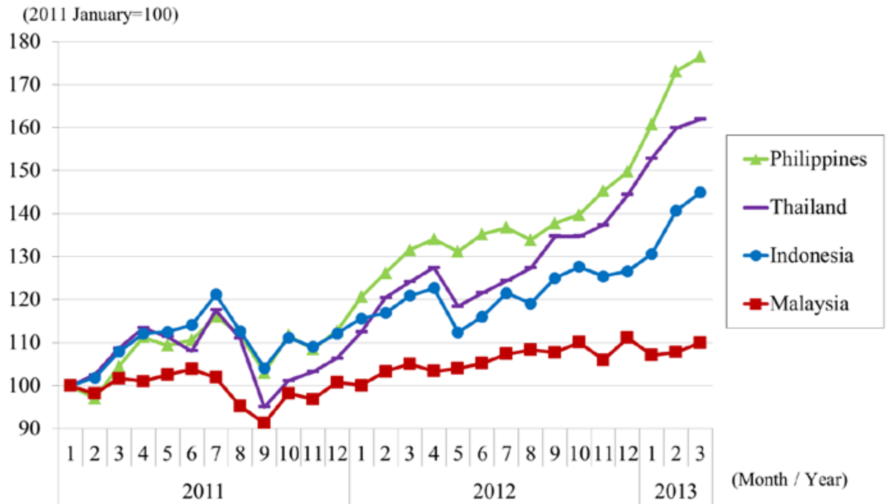


Source: Central banks in the countries, CEIC Database.

(7) Stock prices

As global stock prices increased in 2012 (See "Trend in Financial markets", Section 1, Part I), capital flowed into ASEAN-4 markets whose economic growth was firm. Especially in Philippines, Thailand and Indonesia, stock prices marked historical records (Figure III-2-4-13).

Figure III-2-4-13 Changes in stock prices in ASEAN-4 (January 2011 = 100)



Source: Statics of the countries, CEIC Database.

(8) Outlook and issues

As mentioned above, ASEAN-4 maintained its growth lead by domestic demand, while exports decelerated in the middle of 2012.

It is considered that economy in ASEAN-4 would continue to grow firmly supported by domestic demand. According to the outlook of international organizations, growth in ASEAN-4 in the range of 4 - 7% is expected in 2013 and 2014 (Figure III-2-4-14).

Meanwhile, as deterioration in balance of payments caused by slowdown in foreign demand could be a risk factor, it is important to observe their trend in future.

Figure III-2-4-14 Outlook of real GDP growth rate in ASEAN-4 (IMF, World Bank and ADB)

(Year-on-year, %)

		Result	Outlook	
		2012	2013	2014
Indonesia	IMF	6.2	6.3	6.4
	WB		6.2	6.5
	ADB		6.4	6.6
Thailand	IMF	6.4	5.9	4.2
	WB		5.3	5.0
	ADB		4.9	5.0
Malaysia	IMF	5.6	5.1	5.2
	WB		5.1	5.4
	ADB		5.3	5.5
Philippines	IMF	6.6	6.0	5.5
	WB		6.2	6.4
	ADB		6.0	5.9

Source: *WEO, April 2013* (IMF), published on April 16.
East Asia and Pacific Economic Update April 2013 (the World Bank, (WB)), published on April 15.
Asian Development Outlook 2013 (ADB), published on April 9.

Column 13 The last frontier in Asia, Myanmar

Worldwide attention has been focused on Myanmar. The number of visitors to this country surged up in 2012[32], and rent has soared along with increased demand of houses and office buildings.

After the transition from military administration to democratic administration in March 2011, Myanmar's new government promoted democratization including release of political prisoners, abolition of censorship of media and agreement of ceasefire with ethnic minority, and has pursued economic revolution including unification of exchange rate[33] and revision of foreign investment law[34]. And then, western countries appreciated these changes and they have been mitigating economic sanctions against Myanmar step by step.

[32] According to the Immigration and National Registration Department in Myanmar, the number of foreign visitors to Myanmar in 2012 increased 51% from the previous year.

[33] Before April in 2012, Myanmar had practiced a multiple exchange rate system with multiple exchange markets, but unified those rates to a managed floating exchange system in April 2012 aiming to promote inward foreign direct investment.

[34] The foreign investment law (enacted in 1988) was revised in November 2012, and additionally, detailed regulations and the industry sectors in which foreign investment was prohibited or limited were announced in January 2013.

Since employment cost in some countries such as China and Thailand increased as labor market became tight, and as diversification of investment risks became necessary, companies in our country also have been looking at Myanmar as a new potential market to build their production bases in, and then, more companies are expressing their intention to enter the market.

(Economy)

According to the estimation by IMF, nominal GDP of Myanmar in fiscal 2012 (April to March) was ranked seventh in ASEAN, next to Vietnam, but nominal GDP per capita was 835 dollars, which was the lowest. Real GDP growth rate in 2012 was 6.3%, and about 6-7% increase in growth are expected in years[35] (Figure Column 13-1).

Relationship with China and Thailand has been strong in trade and investment, exports and imports with these two countries accounted for about 60% of whole exports and imports in Myanmar in 2011[36] (Figure Column 13-2). Also, the amount of foreign direct investment in Myanmar from both countries up to April 2013 accounted for 56% in total (71%, when including Hong Kong)[37] (Figure Column 13-3). In the relationship with our country, our country's share in exports and imports in Myanmar was 6.5% in exports and 4.1% in imports (as shown in Figure Column 13-2). Now, according to the trade statistics of our country, exports to Myanmar in 2012 surged up 151% from the previous year[38]. This reflected the huge increase in export of vehicles (mainly used cars) from our country due to Myanmar's deregulation of car imports introduced in September 2011[39]. Still, the share of foreign direct investment in Myanmar from our country was only 0.6% in total by April in 2013, which was ranked 11st[40] (as shown in Figure Column 13-3).

(Reason why Myanmar has been focused, and their future issues)

Myanmar has abundant natural resources including natural gas, water, forest, marine products and jewels, and rice production is ranked seventh in the world[41]. Myanmar's land area is the second largest (1.8 times larger than Japan) in ASEAN, next to Indonesia (as shown in Figure Column 13-1), and

[35] ADB published its outlook in August 2012, stating that Myanmar could grow at 7% to 8% per year for a decade or more if it can surmount substantial development challenges by further implementing across-the-board reforms, and at such growth rates, its GDP per capita would reach $2,000-$3,000 by 2030, propelling Myanmar safely into the ranks of the middle-income countries.

[36] By the implementation of the economic sanctions in 2003, exports to the United States, which was the largest destination for Myanmar's exports in 2000, stopped, but Myanmar increased its exports including natural gas toward Thailand.

[37] Classified by industry, projects in oil, gas and electricity account for about 80%.

[38] Source: *Global Trade Atlas*. Exports from our country to Myanmar were 100.4 billion yen (151% increase from the previous year) in 2012, and imports were 53.6 billion yen (14% increase), and then, trade surplus was 46.7 billion, turning into surplus from the deficit of 6.9 billion yen in 2011.

[39] Automobile export (HS87) to Myanmar in 2012 was 81.6 billion yen, increased 376% from the previous year.

[40] Although many Japanese companies entered into Myanmar's market in 1990s, many companies withdrew due to the influence of the economic sanctions, and new investment had stopped. New investment projects in 4 million dollars (apparel manufacturers, two projects) were permitted for the first time in the last 10 years (Global Trade and Investment Report 2012 (JETRO)).

[41] *FAOSTAT, 2011* (FAO) (http://faostat.fao.org/site/339/default.aspx).

Myanmar adjoin not to the huge countries of China and India but Thailand, Laos and Bangladesh[42], which means it is located in an important place in geopolitical meanings, connecting many Asian countries[43]. Also, traveling overland through Myanmar may shorten the days for transportation instead of sailing the Strait of Malacca, which is important strait for marine transportation, which means a possibility of new transportation route.

The number of population is 64 million, which is the second largest in ASEAN next to Thailand (as shown in Figure Column 13-1), and 44.3% of it is made of young people of the age 24 or under, working age population (age 15 - 64) is expected to increase toward 2035[44]. Therefore, it can be said Myanmar has good human resources and also is attractive as a consuming market.

Low wages and quality labor force are also attractive as a place to build production bases. According to the survey by JETRO[45], monthly basic wages of manufacturing worker in Myanmar are 53 dollars, which is the lowest level in Asia. Also, the literacy rate of Myanmar's people [46] is 92% (the World Bank[47], 2010), which is high, and it is well-known that they are good with hands and also faithful.

However, infrastructure development in Myanmar has just started recently. ADB (2012) estimated 26% of people in Myanmar had access to electricity in 2011. In Myanmar, dependence on hydroelectric is high at about 70%, blackout occurs in many times in dry season due to short in water. Therefore, companies entering Myanmar's market operate business by private power generation when blackout happens, and it takes additional fuel cost. Also, paved road ratio and communication system coverage ratio are low[48], and preparation of investment environment including regulations[49] will be a mid-term or long-term issue in near future.

Our government expressed our intention to pursue the support for Myanmar's reform, which is advancing rapidly in a wide range of fields, in the Japan-Myanmar Summit Meeting in April 2012. Also, the government has been promoted the support to resolve the unpaid debt issue[50] and the cooperation to the development of special economic zones[51]. It is expected that this movement would

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[42] According to *the World Population Prospects, the 2010 Revision* (the United Nations) (http://esa.un.org/wpp/), population of these five countries in 2010 was 2.8 billion, which was 40.5% to the one of whole world.
[43] Myanmar is the west starting point of the "Southern Economic Corridor," which connects Vietnam (Ho Chi Minh), Cambodia (Phnom Penh) and Thailand (Bangkok), and the "East-West Economic Corridor," which connects to Vietnam (Da Nang) crossing the central region of the Indochina peninsula.
[44] *World Population Prospects, the 2010 Revision* (the United Nations) (http://esa.un.org/wpp/).
[45] *Survey of Japanese-Affiliated Companies in Asia and Oceania, FY 2012* (JETRO), at the time in October in 2012.
[46] The literacy rate in India is 74% (the national census in 2011).
[47] *World Data Bank* (the World Bank) (http://databank.worldbank.org/data/home.aspx).
[48] See "Figure II-2-1-16 infrastructure development" in Chapter 1 of Part II, emerging economy development in countries.
[49] Our country is now negotiating with Myanmar to enter into Investment Treaty and ASEAN-Japan Comprehensive EPA (Investment).
[50] The government in our country implemented the support to resolve the unpaid debt issue of yen lending to Myanmar (total 326.3 billion yen), and then the World Bank and ADB restarted lending. Also in May, the government exchanged a letter on the issue with the Myanmar's government, which was on the relief of the late payment charge (176.1 billion yen) regarding yen loan to Myanmar.
[51] See "Support for infrastructure export", Section 3, Chapter 3, Part II.

connect private investment to Myanmar and would support for the infrastructure development in the country.

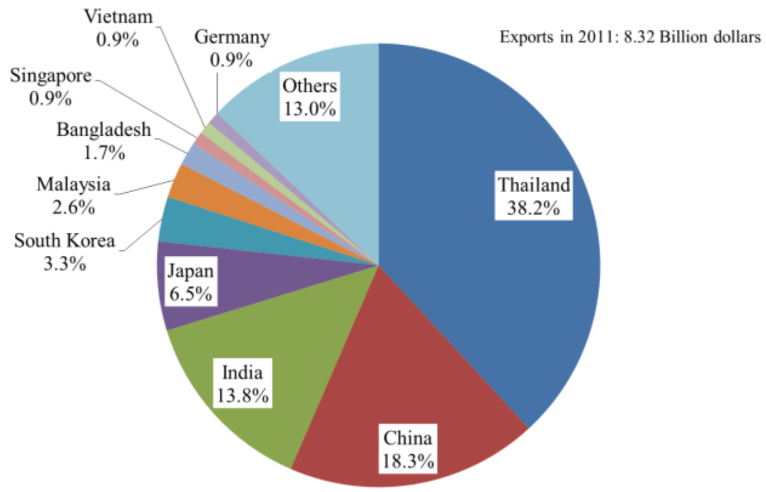
Myanmar has some major events in near future such as Southeast Asian Games in December 2013, ASEAN chair in 2014 and general election in 2015. Movement of this country will be focused on in future.

Column Figure 13-1 Comparison of economies of ASEAN countries

	Nominal GDP	Nominal GDP per person	Real GDP growth rate	Population	Land area
Unit	Billion dollar	Dollar	%	Million	Thousand km
Indonesia	878.2	3,592	6.2	244.5	1,910.9
Thailand	365.6	5,678	6.4	64.4	513.1
Malaysia	303.5	10,304	5.6	29.5	330.8
Singapore	276.5	51,162	1.3	5.4	0.7
Philippines	250.4	2,614	6.6	95.8	300.0
Vietnam	138.1	1,528	5.0	90.4	331.0
Myanmar	53.1	835	6.3	63.7	676.6
Brunei	16.6	41,703	1.3	0.4	5.8
Cambodia	14.2	934	6.5	15.3	181.0
Laos	9.2	1,446	8.3	6.4	236.8

Notes: 1. Land area was at 2011, and other data was at 2012 (including estimated value).
2. GDP of Myanmar is in fiscal year (Apr.-Mar.) base.
Source: WEO, April 2013 (IMF), Demographic Yearbook 2011 (UN).

Column Figure 13-2 Share of exports and Imports by countries



Source: *DOT* (IMF), CEIC Database.

Column Figure13-3 Total value of direct investment into Myanmar's projects (by investing countries and regions)(As of the end of April 2013)

(Unit: million dollars, %)

	Country	Cases	value	Share
1	China	44	14,181	33.5
2	Thailand	64	9,600	22.7
3	Hong Kong	49	6,393	15.1
4	UK	58	2,995	7.1
5	South Korea	77	2,979	7.0
6	Singapore	87	2,222	5.3
7	Malaysia	43	1,031	2.4
8	France	2	469	1.1
9	Vietnam	6	511	1.2
10	India	8	274	0.7
11	Japan	35	270	0.6
12	Netherlands	7	249	0.6
13	US	15	244	0.6
	Others	68	890	2.1
	Total	**563**	**42,309**	**100.0**

Notes: 1. Permission base.
2. The UK includes investment from Virgin Islands, Bermuda Islands and Cayman Island.
Source: Ministry of National Planning and Economic Development.

1. India

(1) GDP

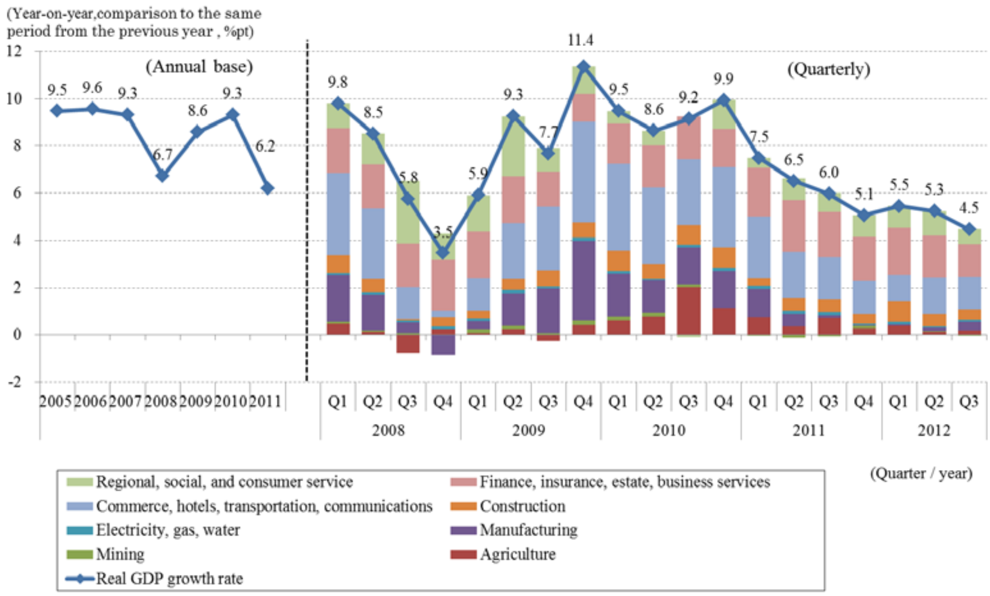
India maintained high real GDP growth rate in the range of 8 - 10% year-on-year in the fiscal year 2010 (April to March), but it started to decrease in the beginning of fiscal 2011, and moved at the range of 5 - 6% year-on-year from the fourth quarter of 2011 to the second quarter of 2012. Also the growth rate fell to 4.5% in the third quarter in 2012, recording the lowest growth rate in the previous four years (Figure III-2-4-15).

In each industry, slump in manufacturing and agriculture continued, and mining recorded year-on-year decrease in the third quarter in 2012, for the first time since the previous year. Also growth in the service industry, which supported GDP growth in 2011, was in a deceleration trend (Figure III-2-4-15).

The reasons of deceleration were that domestic demand slowed down by inferior consumption and investment sentiment influenced by high interest policy of the Reserve Bank of India, that exports decreased by slowdown in foreign demand (See each part of "Consumption", "Investment" and "Financial policies") and that agriculture (Figure III-2-4-16)[52], which accounted for 17.5% of GDP, deteriorated because less rain in monsoon season in 2012 than usual damaged crop production.

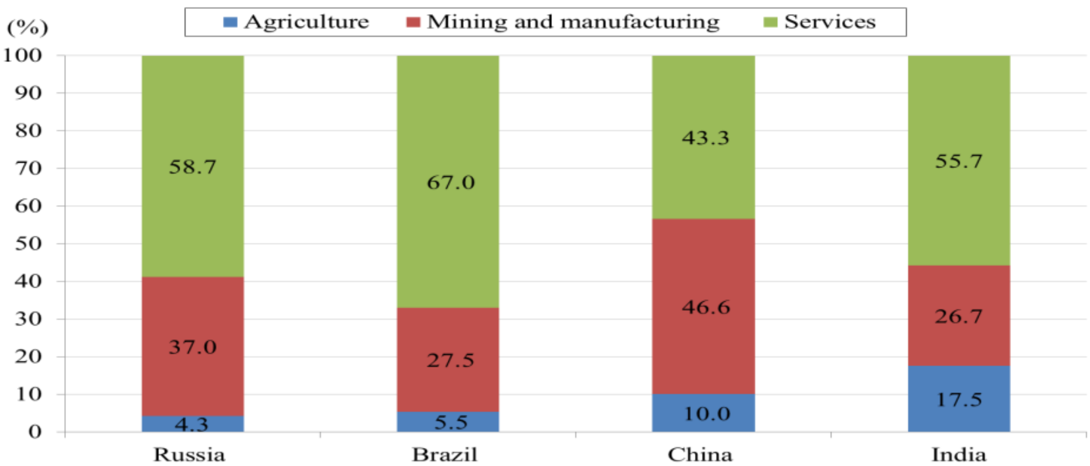
[52] Indian government announced the National Manufacturing Policy in November 2011, which expressed a target of manufacturing ratio to GDP of India to increase from current 15 -16%, at least to 25% by 2022, and an employment target of 100 million new jobs to produce.

Figure III-2-4-15 Changes in real GDP growth rate and contribution of each industry in India



Notes: Fiscal year (April-March).
Source: Central Statistical Office in India, Reserve Bank of India, CEIC Database.

Figure III-2-4-16 Industrial structure in BRICs (ratio in GDP, 2011)



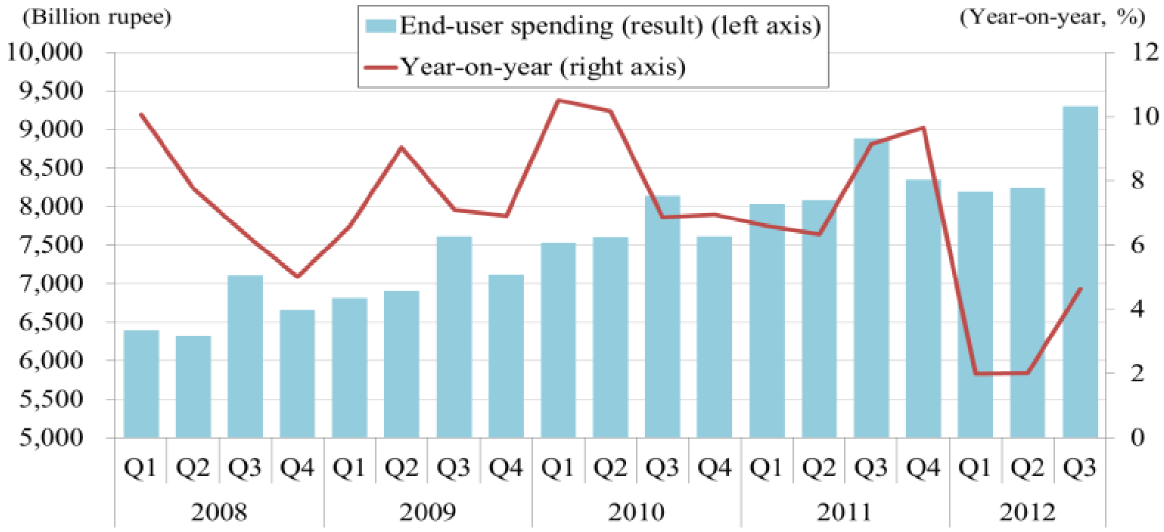
Source: *WDI* (World Bank).

(2) Consumption

Final private consumption expenditure (real), which accounted for about 60% of GDP , has been in an increasing trend with seasonal fluctuation. However, it moved at 2 - 5% year-on-year in 2012, which meant decrease in the growth compared to the rate 6 -10% in fiscal 2010 - 2011 (Figure III-2-4-17).

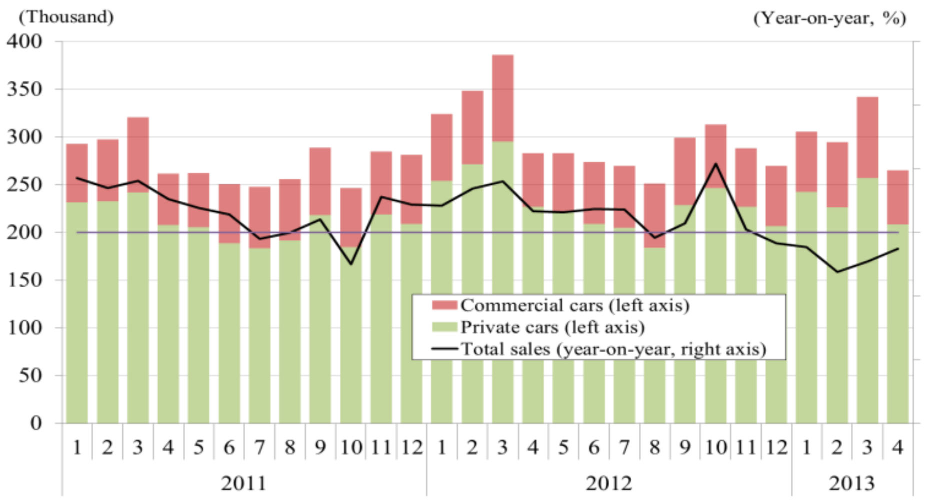
Auto sales decreased on year-on-year in August, influenced by labor disputes by employees in a major automobile company occurred in July 2012. Auto sales once recovered after that, but it decreased continuously for five months from December, showing a depression (Figure III-2-4-18).

Figure III-2-4-17 Changes in Final private consumption expenditure (real) **in India**



Notes: Fiscal year (April-March).
Source: Central Statistical Office in India, CEIC Database.

Figure III-2-4-18 Changes in auto sales in India



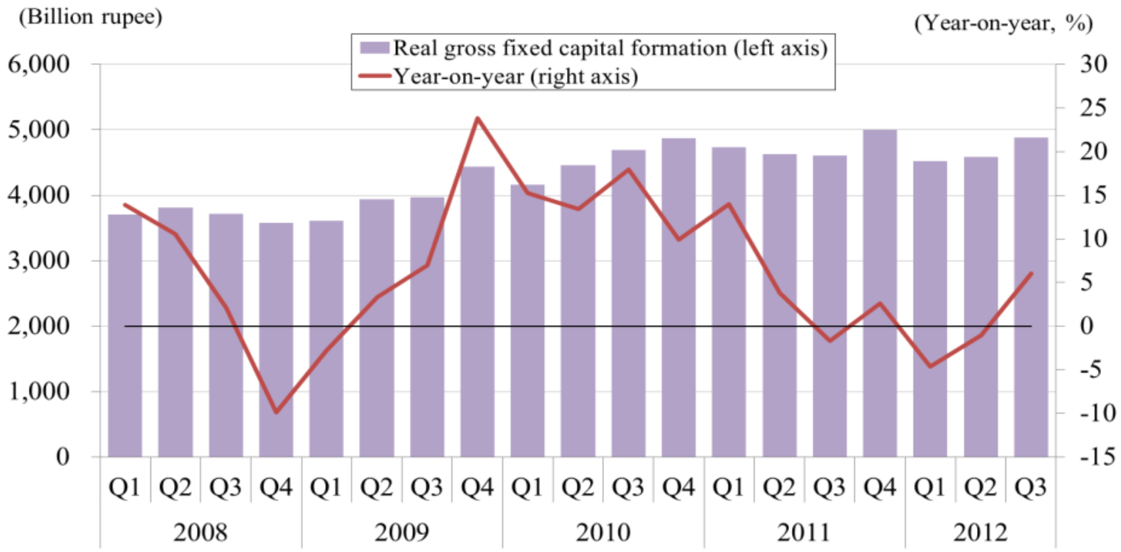
Source: SIAM, CEIC Database.

(3) Investment

Gross fixed capital formation (real) had been in a decreasing trend in year-on-year method since late 2011, but it recovered to increase in 6.0% year-on-year in the third quarter (Figure III-2-4-19).

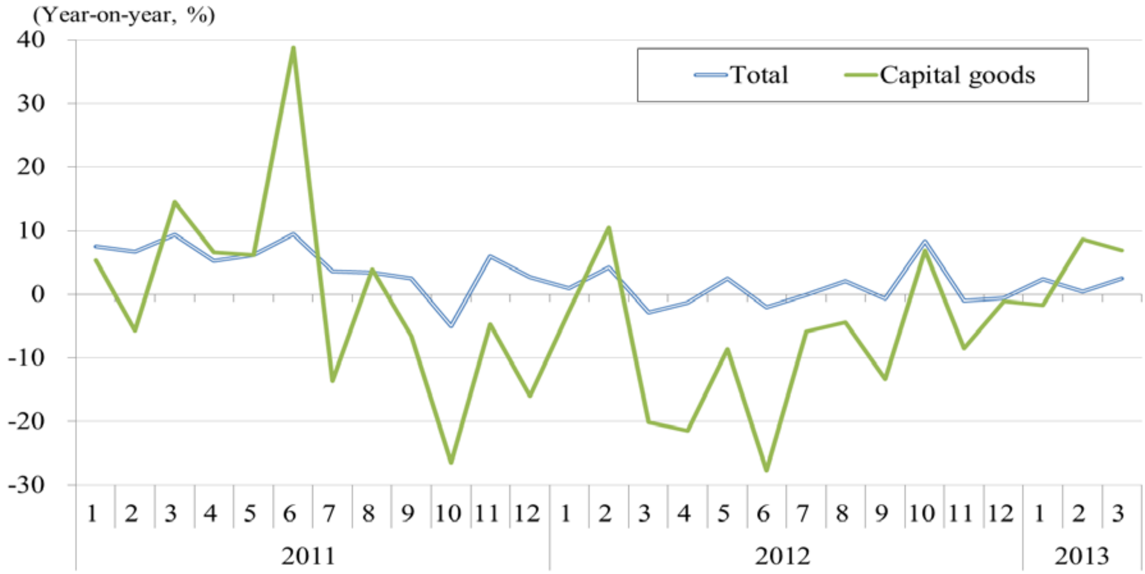
Index of Industrial Production (capital goods) for each month, which represented the trend of capital investment of private sectors, showed negative growth on year-on-year except some months, but has been recovering recently (Figure III-2-4-20).

Figure III-2-4-19　Changes in gross fixed capital formation (real) in India



Notes: Fiscal year (April-March)
Source: Central Statistical Office in India, CEIC Database.

Figure III-2-4-20　Changes in the Index of Industrial Production (year-on-year) in India

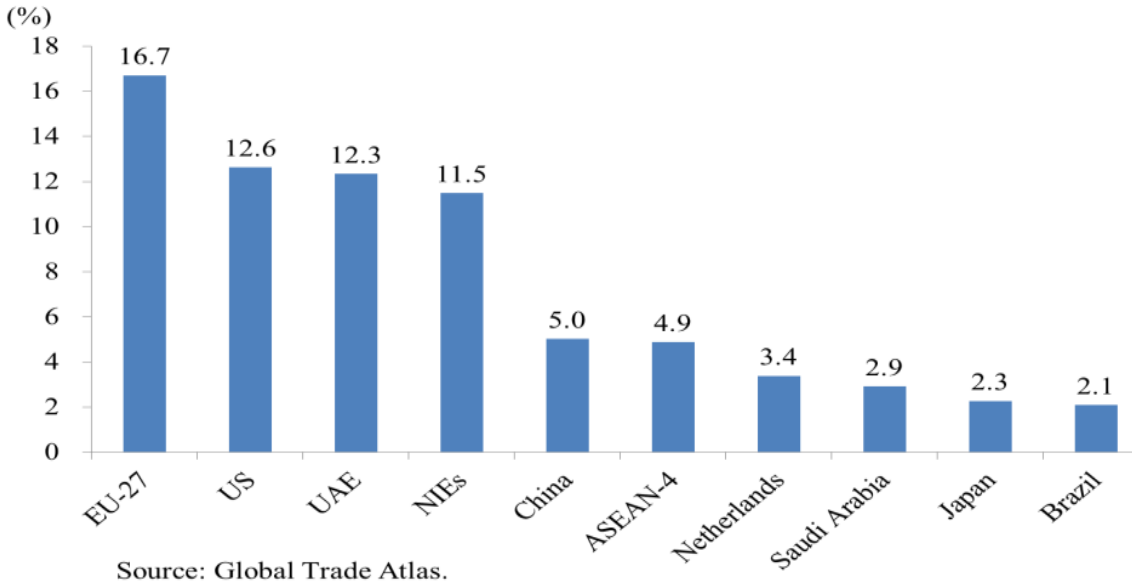


Source: Central Statistical Office in India, *CEIC Database*.

(4) Foreign trade

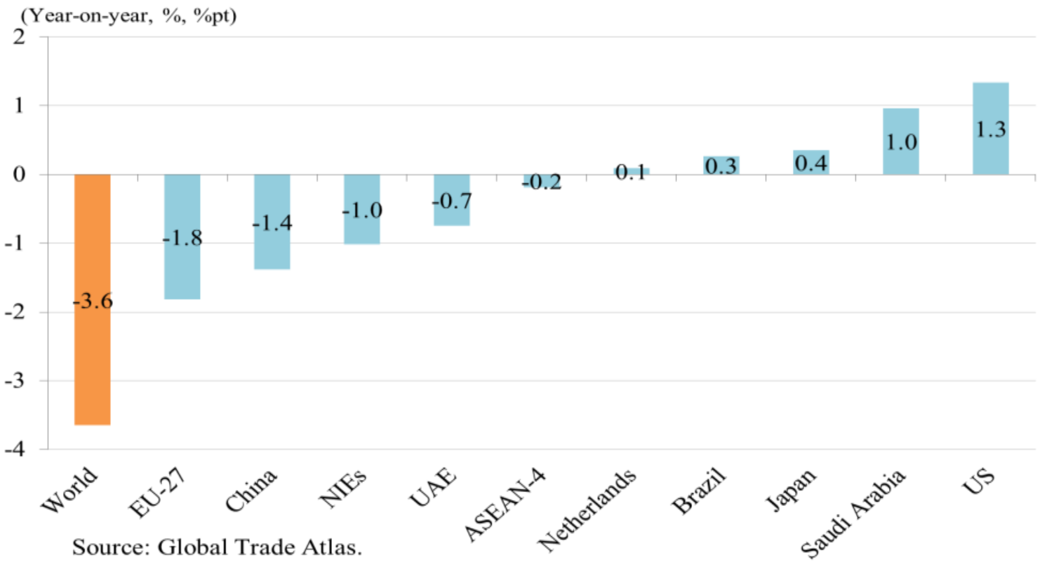
Trade balance in India has been in deficit for years. As the volume of trade in 2012 (calendar year), exports decreased to 295.9 billion dollars (3.6% decrease from the previous year) as exports to major destinations such as Europe and China decelerated (Figure III-2-4-21, Figure III-2-4-22). On the other hand, imports increased to 489.2 billion dollars (5.2% increase) as imports of fuel increased. This resulted in a historical record in Indian trade deficit of 193.4 billion dollars (Figure III-2-4-23).

Figure III-2-4-21 Share of exports by countries and regions from India (2012)



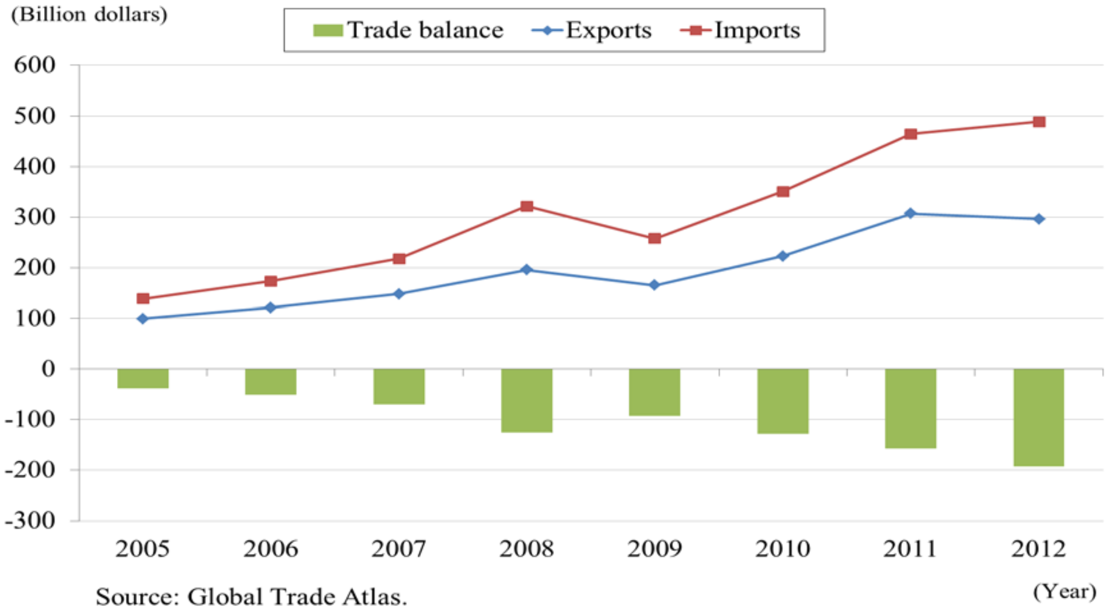
Source: Global Trade Atlas.

Figure III-2-4-22 Export value (2012, year-on-year) in contribution by each component in India
(major countries and regions)



Source: Global Trade Atlas.

Figure III-2-4-23　Changes in trade balance in India

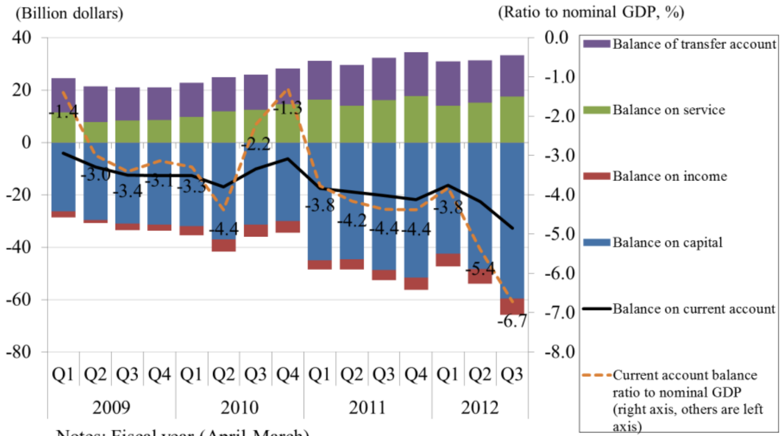


Source: Global Trade Atlas.

(5) Current account balance

Current account deficit has expanded as goods trade deficit expanded. Current account deficit in the third quarter in 2012 reached a record high at 32.6 billion dollars (6.7% to nominal GDP), (Figure III-2-4-24).

Figure III-2-4-24　Changes in current account balance in India



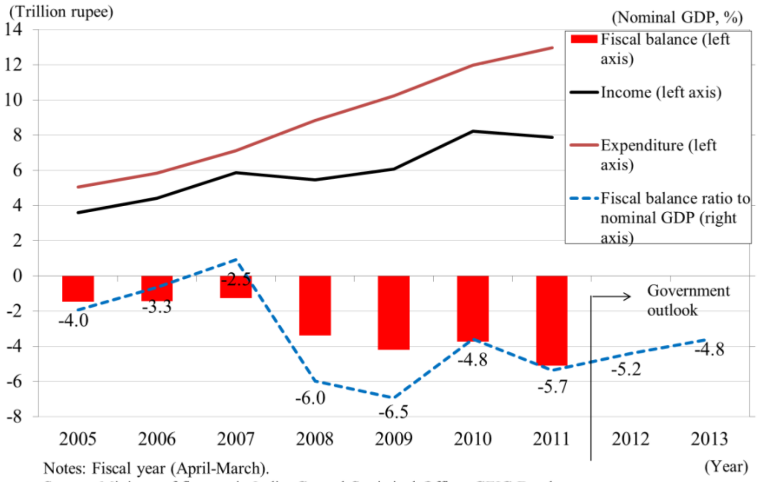
Notes: Fiscal year (April-March).
Source: Reserve Bank of India, CEIC Database.

(6) Fiscal balance

According to the budget bill for fiscal 2013 (April 2013 - March 2014), announced by the Indian government on February 28, 2013, fiscal deficit outlook was estimated to improve to 5.2% to nominal

GDP[53], which would be better than the previous fiscal year. Moreover in 2013, while expenditure would be expanded more, fiscal deficit was estimated to shrink to 4.8% by increasing income brought by reduction in subsidies and increase in taxation[54] (Figure III-2-4-25).

Figure III-2-4-25 Changes in fiscal balance in India



Notes: Fiscal year (April-March).
Source: Ministry of finance in India, Central Statistical Office, CEIC Database.

(7) Structural reform

Indian government expressed their intention for fiscal restoration and economic growth, and after September 2012, they announced some structural reforming plans such as reduction of fuel subsidy and deregulation for foreign capital (Figure III-2-4-26).

Figure III-2-4-26 Major structural reform of Indian government

<u>Reduction of fuel subsidy</u>
(Announced on Sep. 13)
- Increase in control price of gas oil (5 rupee/L)
- Limited purchase of household LP gas on control price

<u>Mitigation in foreign capital limitation (capital rate, etc)</u>
(Announced on Sep 14)
- General retail: up to 51%
- Civil airline: up to 49%
- Single brand retail: mitigation in local purchase rate when capital rate is 51-100%
- Broadcasting: up to 74% in satellite broadcasting
- Electricity business: up to 49%

(Announced on October 4)
- Insurance: up to 49%
- Annuity fund: open to foreign capital

<u>Sellout of part of stock of country's company</u>
(Announced on September 14)
- 4 companies in natural resource industry: MMTC, Oil India, NALCO, Hindustan Copper

[53] In the end of October 2012, Indian government announced the Five Year Plan for financial restoration. In this plan, the government showed a target that would control fiscal deficit to 5.3% to nominal GDP in fiscal 2012 and decrease to 3.0% by fiscal 2016.
[54] Increasing in tax for high-income individuals and companies for limited period, increasing in commodity tax for SUV (Sport Utility Vehicle) and tobacco, etc.

Source: Press release of the government.

(8) Foreign exchange and stock prices

As risk aversion by investors became strong along with the prolonged European debt crisis, and as chronic current account deficit and fiscal deficit in India caused concerns for them, Indian currency, rupee, and stock prices declined toward the end of May 2012[55]. Then, as investors evaluated the announcement of structural reform by government pursued after September, rupee and stock prices was pushed up (Figure III-2-4-27, Figure III-2-4-28).

Figure III-2-4-27 Changes in exchange market in India

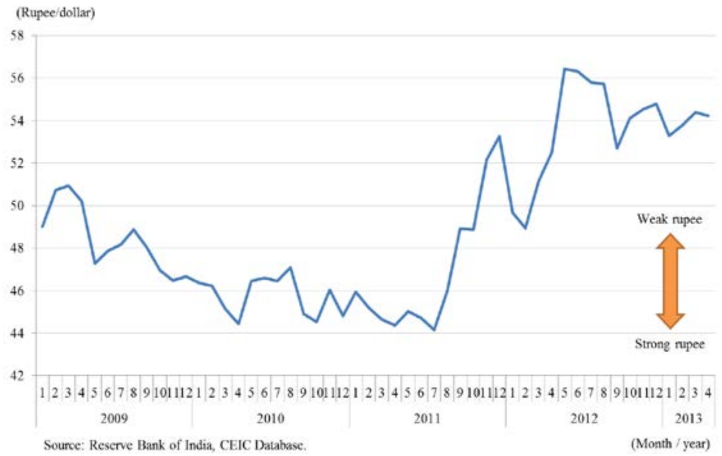


Figure III-2-4-28 Changes in stock prices in India

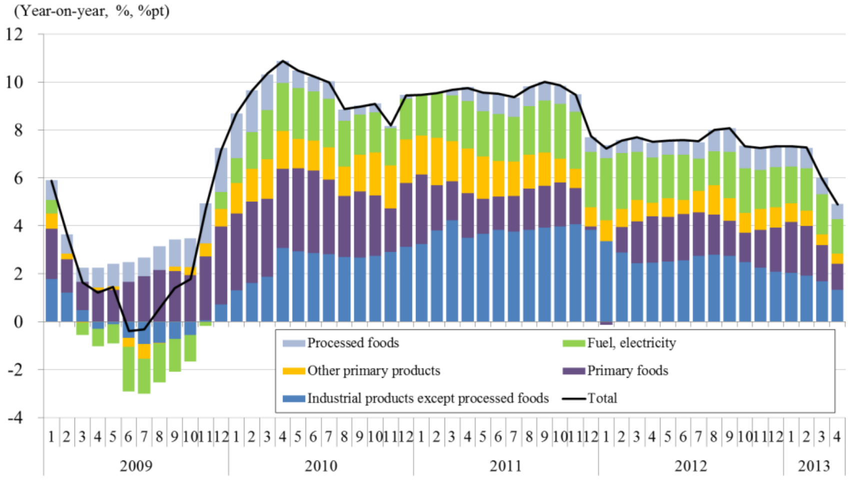
(9) Prices

Wholesale Price Index in 2012 moved toward high inflation levels at 7 - 8% year-on-year. In addition to increase in import prices index due to increase in global commodity prices and weaker rupee, decrease in crop production due to bad weather was a huge factor to increase inflationary

55 In April and June in 2012, major credit rating companies declined the rating outlook of India from "stable" to "negative" one after another.

pressure in India although India was in a slowdown in business sentiment. However, growth rate has calmed down recently along with the slowdown in increasing rate of prices including manufacturing production (Figure III-2-4-29).

Figure III-2-4-29 Wholesale Price Index in contribution by each component in India

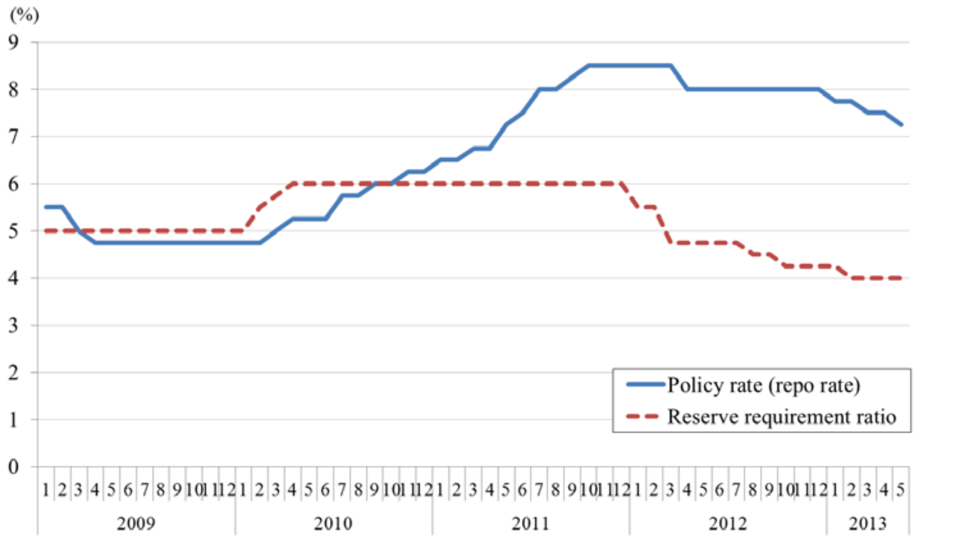


Source: Department of Commerce in India, CEIC Database.

(10) Financial policies

The Reserve Bank of India has faced difficulty to pursue both economic recovery and price control at the same time. As inflation pressure had still remained, it was difficult to stimulate economy by monetary easing, and policy rate stayed high since the bank decrease it to 8.0% in April 2012. After that, along with the slowdown in domestic growth, the bank lowered policy rate continuously in three times from January to May 2013 (from 8.0% to 7.75% (January) to 7.5% (March) to 7.25% (May)) (Figure III-2-4-30).

Figure III-2-4-30 Changes in policy rate and cash reserve ratio in India



Source: Reserve Bank of India, CEIC Database.

(11) Future outlook and issues

As an outlook of Indian economy, ADB estimated[56] economic growth of 6.0% in fiscal 2013 and 6.5% in 2014 on the assumption of gradual recovery of investment and consumption by promotion of economic restructuring, recovery of global trade, reduction of fiscal deficit and more accommodative monetary policies. Also according to the IMF's outlook[57], economic growth was estimated as 5.7% in 2013 (calendar year) and 6.2% in 2014.

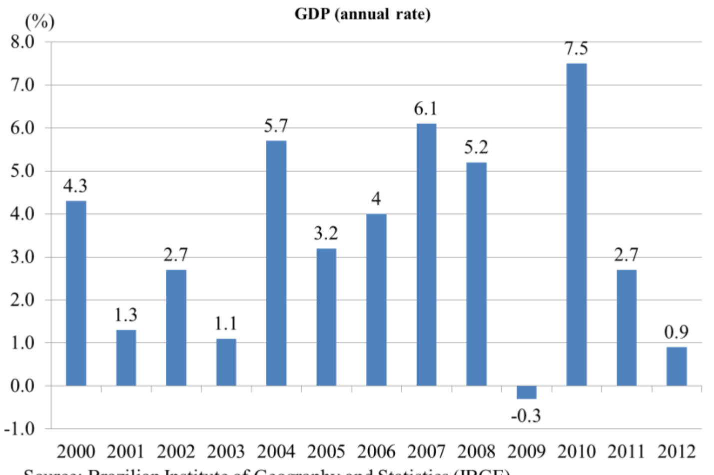
The Reserve Bank of India made a statement after the financial policy meeting in May 2013, which said, "the balance of risks stemming from the Reserve Bank’s assessment of the growth-inflation dynamic yields little space for further monetary easing". Under this circumstance, general election will be held in 2014, and much attention will be focused on how the structural reform may be promoted by the government for fiscal reconstruction and future economic growth.

3. Brazil

(1) Economic growth rate

In Brazilian economy, GDP in 2012 recorded +0.9% from the previous year, which was the second from the worst since 2000, because of the European economic crisis and the slowdown in Chinese economy and poor domestic agricultural production due to a drought (Figure III-2-4-31). Notwithstanding that a sign of recovery lead by consumption was seen in the third quarter of 2012, investment tendency, mentioned later, has been valunerable and not strong enough to recover its economy yet (Figure III-2-4-32).

Figure III-2-4-31 Real economic growth rate in Brazil (annual rate)

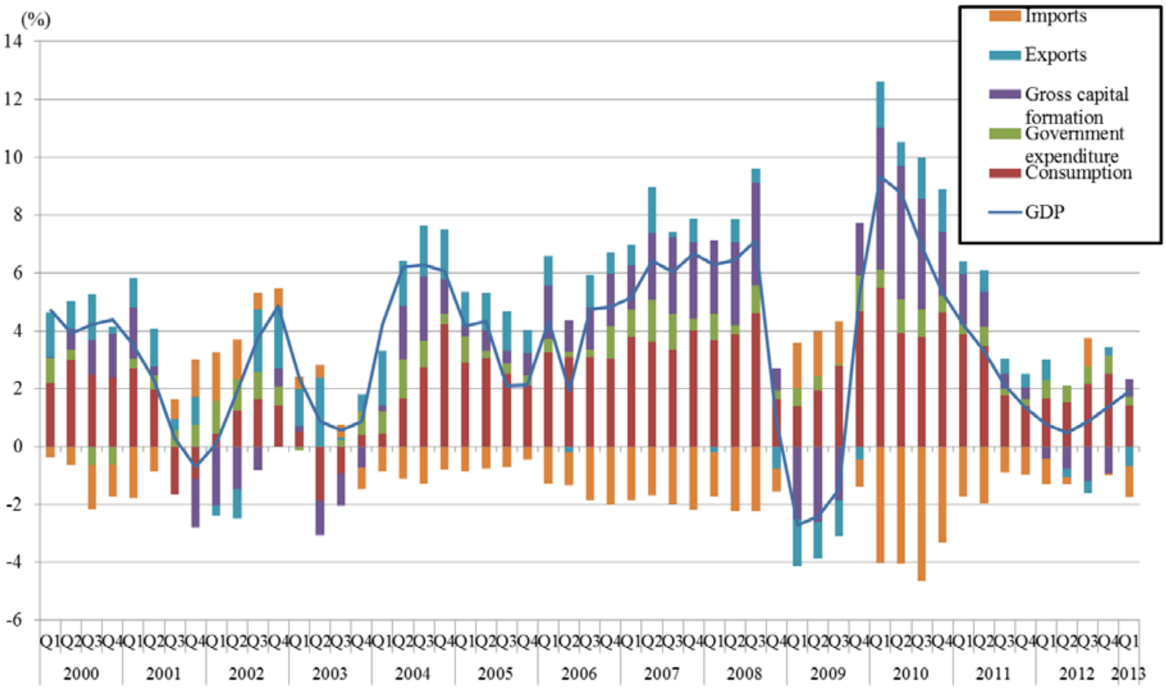


Source: Brazilian Institute of Geography and Statistics (IBGE).

[56] Asian Development Outlook 2013 (ADB), published on April 9, 2013. Growth rate outlook is at factor cost.

[57] WEO, April 2013 (IMF), published on April 16, 2013. Growth rate outlook is at market price.

Figure III-2-4-32 Real economic growth rate and contribution by each component in Brazil (year-on-year)

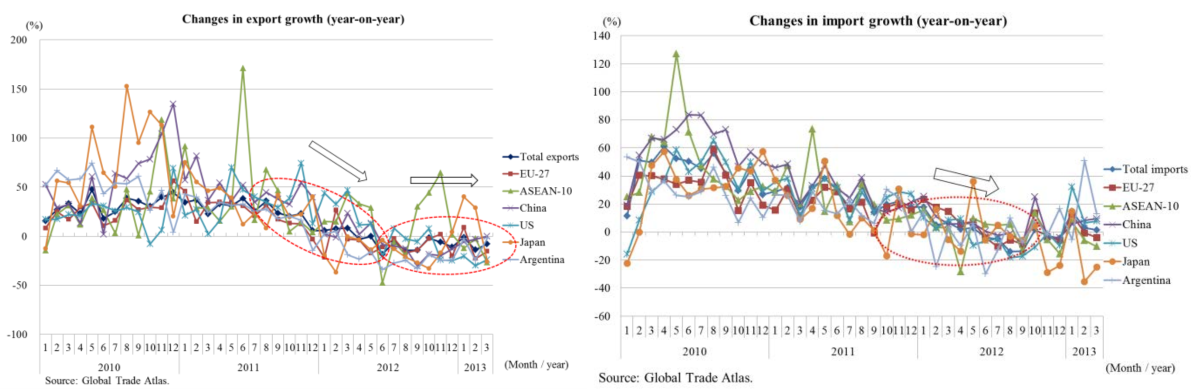


Source: Brazilian Institute of Geography and Statistics (IBGE).

(2) Foreign trade

Export growth in Brazil was generally in a shrinking tendency from the beginning to the middle of 2012 due to the slowdown in economies of China, Europe and the United States, and it turned into negative growth after the middle of the year, which reflected the sluggish tendency of the global economy. Also, trade balance maintained surplus but was in a decreasing trend, with trade surplus of 19.4 billion dollars in 2012, which was about 10 billion dollars less than the one in 2011, 29.7 billion (Figure III -2-4-33, Figure III-2-4-34).

Figure III-2-4-33 Changes in export growth (left) and import growth (right) to major countries from Brazil



Source: Global Trade Atlas.

Source: Global Trade Atlas.

Figure III-2-4-34　Trade balance (2011, 2012) (million dollars)

	2011	2012
Export	256,039	242,580
Import	226,246	223,149
Balance	29,793	19,431

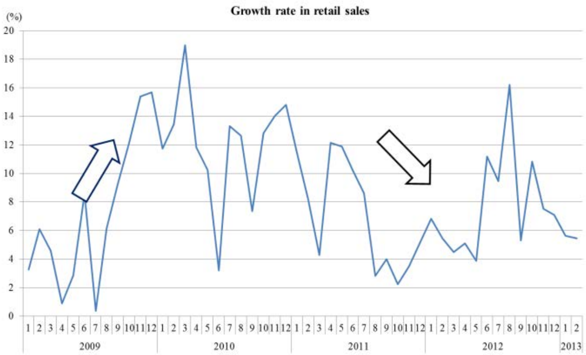
Source: Ministry of Development, Industry and Foreign Trade of Brazil

(3) Consumption

Automobile sales unit reached to the world's fourth in 2010, surpassing Germany, and current sales unit is almost more than twice of the one in 2004 (Figure III-2-4-35). Sales unit number was 3.83 million, which was the highest number in history, and sales growth recorded 6%. On the other hand, as retail sales fluctuated significantly, tendency showed that it recovered to 2010 from the global financial crisis in 2008[58], and consumption slowed down in 2011 influenced by the European economic crisis. While again it increased in the middle of 2012, this reflected the effect of tax reduction for daily necessities and basic home appliances implemented in the end of 2011.

Figure III-2-4-35　Changes in auto sales (left)
and growth in retail sales (year-on-year) (right)

Notes: Includes buses and tracks.
Source: ANFAVEA (Brazilian Association of Automotive Vehicle Manufacturers.



Source: Brazilian Institute of Geography and Statistics (IBGE), *CEIC Database*.

(4) Investment

Real gross fixed capital formation declined after the peak in 2010, which represented the effect of the European economic crisis (Figure III-2-4-36)

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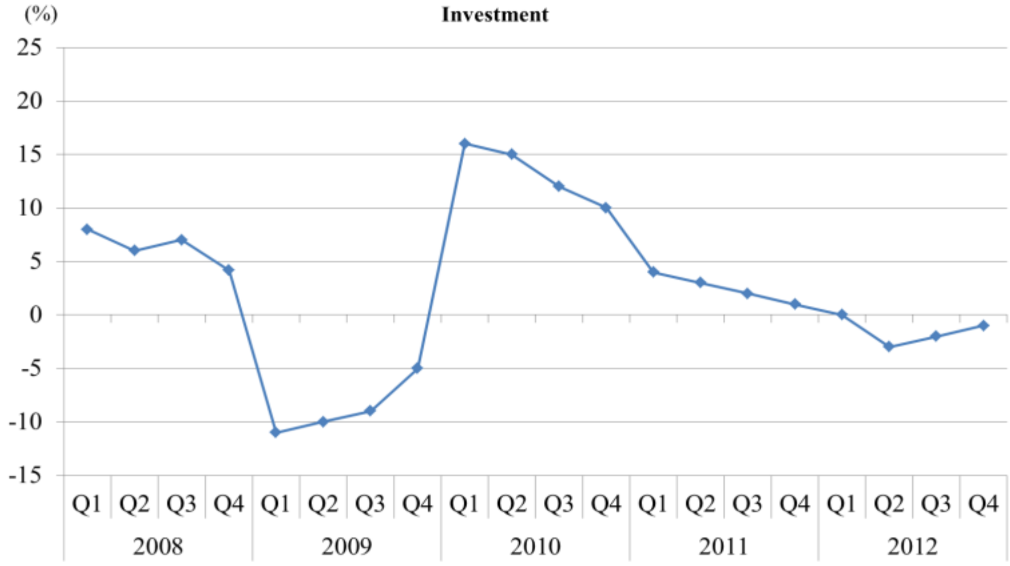
58 In Brazilian custom, installment payment is popular not only for expensive product purchase such as vehicle, but for wide variety of products purchase including motorcycles, home appliances, travel and on-line shopping (allotment is shown in a price tag with the number of installment along with the value of lump-sum payment.　Both the value of lump-sum and the one of installment are mostly shown in on-line shopping, but the value of installment tends to be printed larger than the one of lump-sum in store.).

Figure III-2-4-36　Investment in Brazil



Notes: Year-on-year.
Source: Brazilian Institute of Geography and Statistics (IBGE).

(5) Production

Industrial production output index recovered slightly in the end of 2012 and increased substantially in January 2013. However, it was not a sustainable recovery, and the index again turned to decrease in February or moved back and forth currently (Figure III-2-4-37).

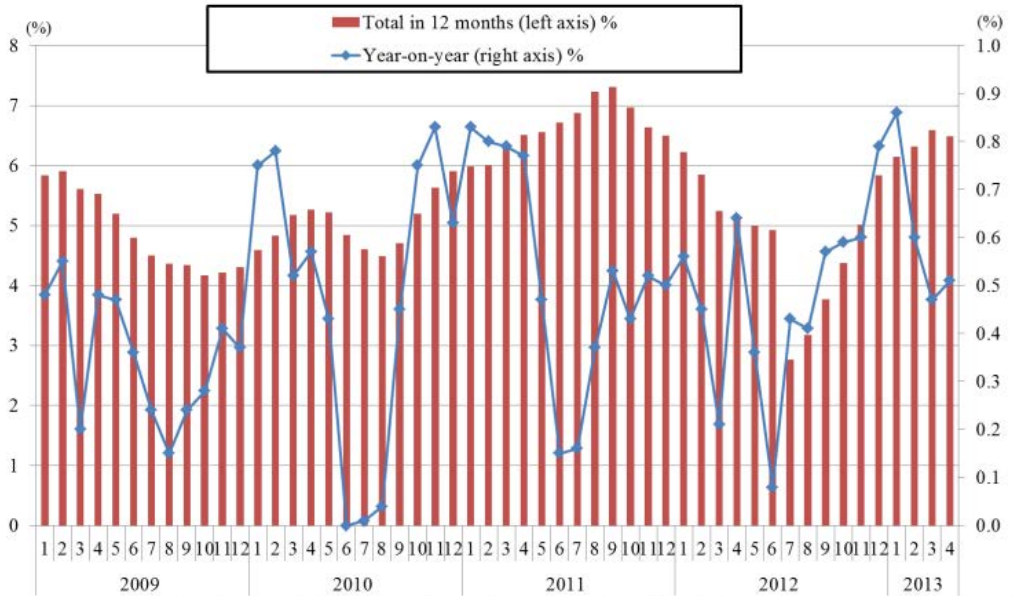
Figure III-2-4-37　Changes in industrial production index in Brazil

Notes: Year-on-year.
Source: Brazilian Institute of Geography and Statistics (IBGE).

(6) Tax reduction policy

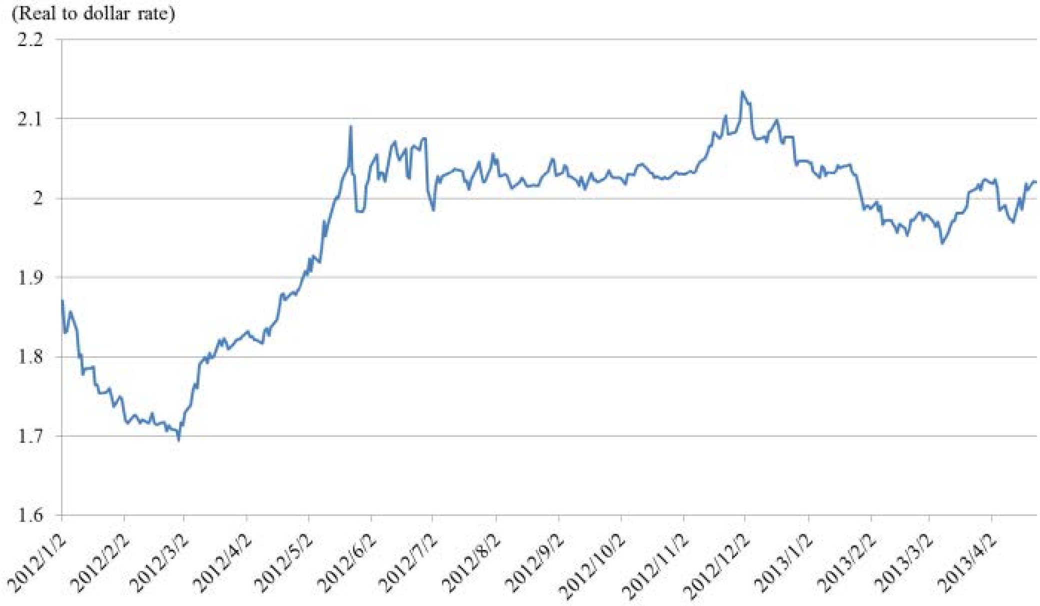
As prices including daily necessities increased from late 2012, the government implemented tax reduction for basic foods called "Cesta Basica (Portuguese)"[59] (meat, coffee, oil, butter, toilet paper, etc.) in March 2013 as tax reduction for daily necessities to control increase in prices of them, which was an action to reduce burdens of people accompanied by increase in extended national consumer price index (hereinafter referred to as "inflation rate".). Inflation rate started to calm down from the late 2011, and it dropped to 4.92% by June 2012. However, along with weaker Brazilian Real (Figure III-2-4-38), Inflation rate turned to increase gradually, reaching 6.15% in January 2013 and 6.59% in March 2013. The increase in inflation rate and the actions of the Central Bank of Brazil will be discussed in the later section "Future outlook and issues".

Figure III-2-4-38 Changes in exchange rate to dollar from 2012 and inflation rate from 2008



Source: Central Bank of Brazil, Brazilian Institute of Geography and Statistics (IBGE).

59 Provisional Measure (MP) No. 609. Tax reduction for milk, beans, rice, flour, pasta, bread, potatoes vegetable and fruits was already implemented in December 2011.

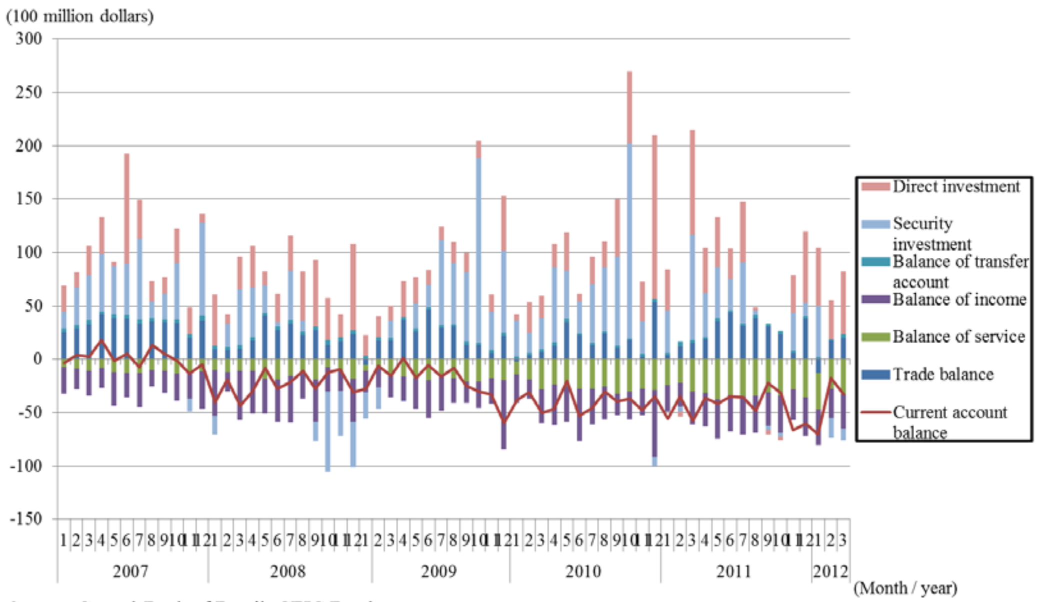


Source: Thomson Reuters Eikon.

(7) Balance of Payments

Current account balance has been in deficit chronically as shown in Figure III-2-4-39. While deficit has been expanding especially since the late 2012, this reflected that trade balance temporarily went into deficit due to poor exports of the natural resources (iron ores, etc.). Trade deficit shrunk substantially after that, and current account deficit also has been recovering to shrink.

Figure III-2-4-39 Balance of payments in Brazil



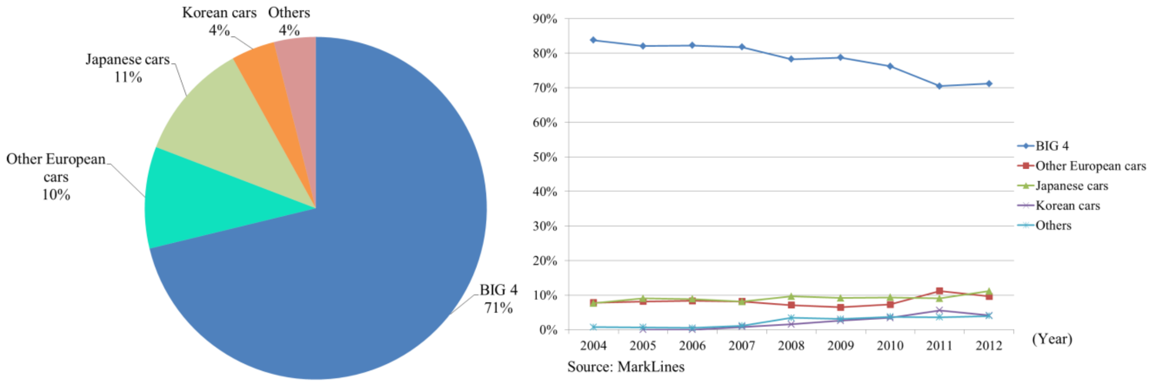
Source: Central Bank of Brazil, CEIC Database.

(8) Acceleration in local production of automobile

Many auto manufacturers have been investing to Brazil expecting the growth of Brazilian market (ranked fourth in the world). Especially in the category of 1000 - 1600 cc, some manufacturers have newly entered in the market, challenging to the share of so-called "Big 4" in Brazil, which consists of European and American major four companies that have accounted for huge share in Brazil. Japanese and South Korean companies successively started local production and sales in this category in September 2012, and another Japanese company also plans production of small cars from 2014 in Brazil. Also a European companies of laxulary class cars has announced their intention for local production in Brazil. On the other hand, as additional rate to the industrial product tax (30%) is applied to imported cars that do not satisfy the local procurement ratio of 65%, share of Chinese and South Korean cars, which were mainly imported[60], dropped in 2012 (Figure III-2-4-40). Then, South Korean and Chinese companies have been shifting their production to local production in Brazil.

The effect of this movement has been reflected at once in South Korean cars and Japanese car, and they expanded their share in the first quarter of 2013. The Japanese companiesr that started production of small cars as mentioned above also expanded their share (Figure III-2-4-4). "Big 4" have still occupied the Brazilian auto market, but they are gradually decreasing their share influenced by new entry of other companies (Figure III-2-4-40).

Figure III-2-4-40 Share in Brazilian auto market and changes share of "Big 4" and others



Source: MarkLines

60 South Korean manufacturers have started partial local production in small cars.

Figure III-2-4-41 Auto sales of vehicle and commercial vehicle (the first quarter in 2013 and the first quarter in 2012)

	2012Q1	Share	2013Q1	Share
BIG 4	542,686	70.2	547,620	69.5
Japan	85,340	11.0	95,029	12.1
Others in Europe	90,544	11.7	78,121	9.9
South Korean cars	31,532	4.1	53,005	6.8
China	5,029	0.7	4,280	0.5
Others	17,624	2.3	9,623	1.2
Total	772,755	100	787,678	100

Notes: Unit (one), share (%), not including buses and tracks.
Source: Fenabrave (Automotive Vehicles Distribution National Federation in Brazil).

(9) Future outlook and issues

Outlook by IMF of Brazilian economic growth in 2013 did not fall as same as in 2012, saying that it could reach about to 3% if they pursue any policy to bring in private investment.

(A) Factors to increase growth

It can be said that there are two factors as followings. First, people's purchasing power would be strengthen through the recovery of consumer spending by tax reduction of the government and increase in income. Also, industrial production may extend toward the World Cup held in 2014 and the summer Olympics held in 2016. Also, Brazilian government has been implementing a growth -promoting program "PAC (growth acceleration program) 2[61]" (by 2014) from 2011. This aims to expand employment, to improve living condition and to increase people's income, and infrastructure investment in huge scale (total amount = 45 trillion yen) has been planned as investment for hydroelectric dams, airports (for example, Guarulhos International Airport in Sao Paulo and Rio de Janeiro International Airport, etc.), port facilities and highway, etc. Also, total infrastructure investment will be over 50 trillion yen summed up with infrastructure investment for the World Cup 2014 (estimated investment total = 5 trillion yen) and for the summer Olympic Games in Rio de Janeiro (total = 1 trillion yen), and this is a good material for Brazilian economy in future. In addition, Brazil is promoting the development of the huge offshore oil-field (Prepre-Salt) that was found in the offshore near Santos, and it is expected for Brazil to be an export country of oil and natural gas. Petrobras is to invest 236.7 billion dollars in 2013 - 2017 with government loan, and 51.7 billion dollars will be used for pre-salt exploration and oil production from it.

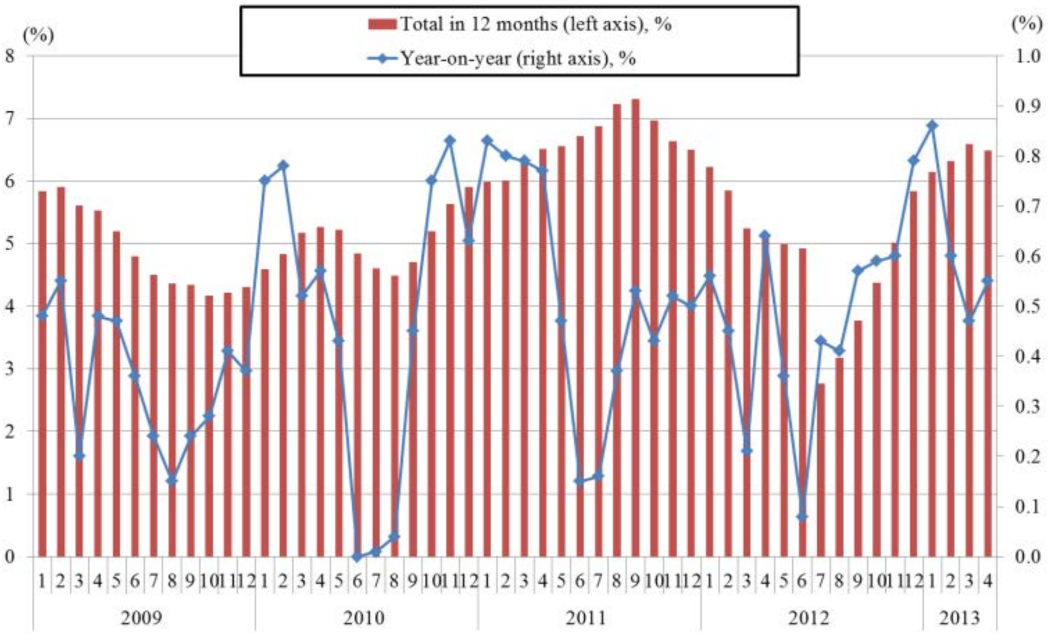
(B) Risk factors: inflation

Brazilian currency, The Brazilian Real, stayed slightly strong to the US dollars in the beginning of 2012. The Central Bank of Brazil continuously pursued policy rate (hereinafter “SELIC”) cut, which was 12.5% at the highest in July 2011, to modify strong Brazilian Real and to handle the influence of the European economic crisis, and decrease it to 7.25% at last in March 2013 (Figure III-2-4-42).

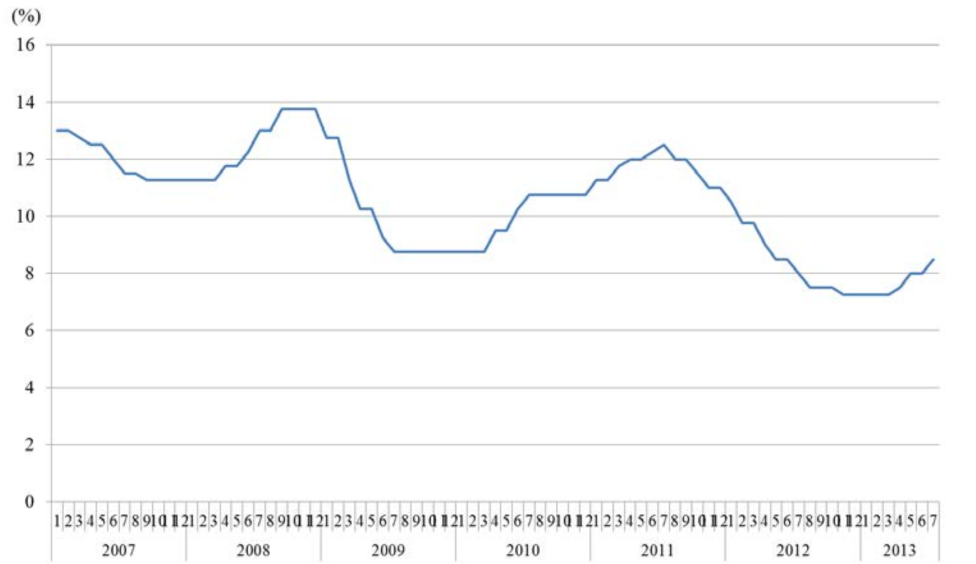
[61] "2" in PAC2 means the second version of PAC program to be done. First PAC started in 2007. Brazilian policies are based on growth strategies through infrastructure improvement by promoting investment from government budget, public corporations (Petrobras, etc.) and private capital. PAC2 was announced in January 2011.

Inflation did not occurred soon after the rate cut due to the slowdown in business, but prices started quietly to increase in the middle of 2012 as mentioned in (6), inflation rate in March 2013 surpassed the inflation target ceiling of 6.5% (4.5%±2%), reaching 6.59% (Figure III-2-4-42). Then, the government and the Central Bank changed their main policy target from economic growth to inflation containment, and the Central Bank decided to raise SELIC to 7.5%, increased by 25bp, on April 18. Although current inflation rate is much lower than the one in hyperinflation occurred in 1980s, it should be carefully observed in future.

Figure III-2-4-42 Changes in policy rate (left) and inflation ratio (right) in Brazil



Source: Central Bank of Brazil, IBGE (Brazilian Institute of Geography and Statistics). (Month / year)



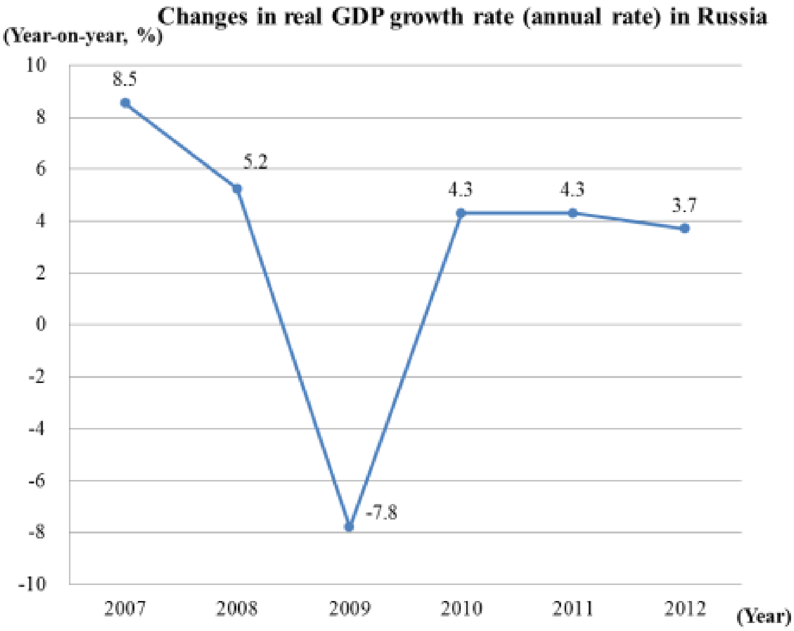
Source: Central Bank of Brazil. (Month / year)

4. Russia

After the significant drop in business sentiment in 2009 due to the global economic crisis, Russian economy showed firm growth, supported by the increase in crude oil price, resulting in real GDP growth rate of mostly about 4% in 2010 and 2011, but slightly slowed down in 2012 (Figure III-2-4-43, Figure III-2-4-44). This is mainly because of decreased imports due to the slowdown in global economy and inferior consumer spending.

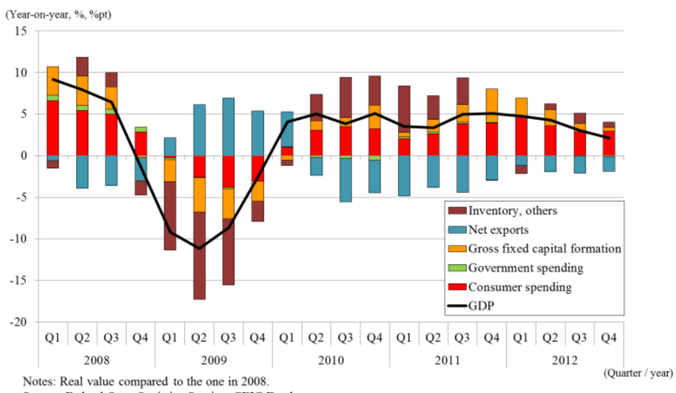
In this part, trend in exports and consumer spending will be reviewed.

Figure III-2-4-43 Changes in real GDP growth rate (annual rate) in Russia



Notes: Data in 2012 was IMF's estimation.
Source: WEO 2012 Oct. (IMF).

Figure III-2-4-44 Changes in real GDP growth rate and contribution by demand components in Russia



Notes: Real value compared to the one in 2008.
Source: Federal State Statistics Service, CEIC Database.

(1) Trend in exports

As export destination countries from Russia, exports to EU-27 accounted for more than half (53.4%) of total exports, but it has not yet recovered the level before the global financial crisis in 2008. Meanwhile, exports to Turkey and China, who were also ones of main export destinations from Russia, almost continuously surpassed the level before the crisis after the fourth quarter of 2010, leading export recovery in Russia (Figure III-2-4-45, Figure III-2-4-46). With this background, exports ware in an increasing trend until the second quarter in 2012, but they turned to decrease by 8.4% year-on-year in the third quarter due to slowdown in exports not only for depressed EU-27 but for China, and exports in the fourth quarter resulted in -31.7% from the previous year (Figure III-2-4-47).

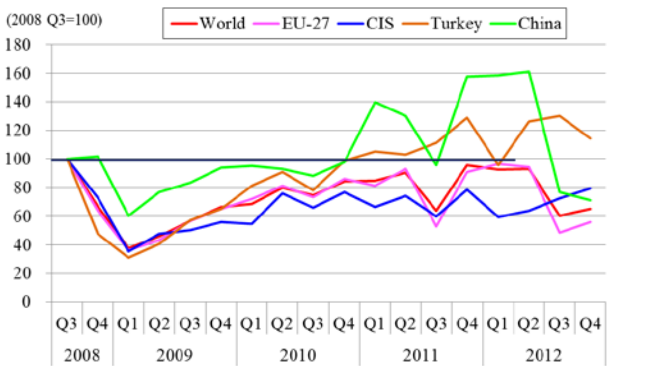
As the weak condition of the global economy has continued, exports related with oil and natural gas, which accounted for 67.4% (2012) of Russian exports, has declined (Figure III-2-4-48). In addition, although exports to CIS and Turkey has contributed to some extent to Russian exports (Figure III-2-4-49, Figure III-2-4-50), full recovery in exports would take much time because of downturn in European economy, and therefore, it is important to carefully observe the export trend in Russia in future.

Figure III-2-4-45 Share of exports by countries in exports from Russia (2012)

Major export destination	Export share (%)
EU-27	53.4
CIS	10.3
Turkey	7.4
Ukraine	7.3
China	6.8
Japan	3.3
US	2.7
South Korea	2.6
ASEAN-10	1.4

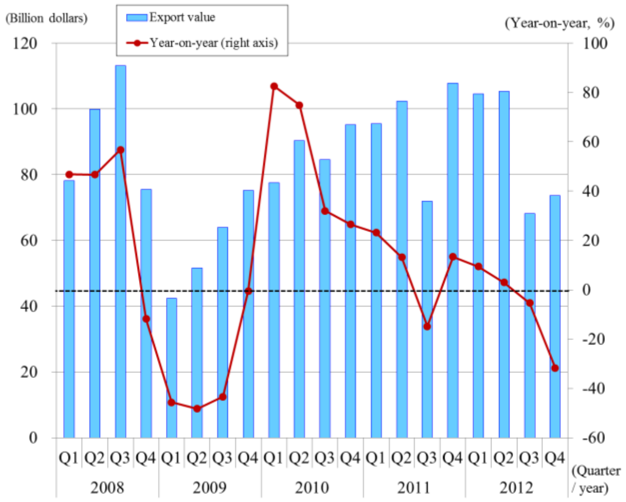
Notes: CIS data does not
Source: Global Trade Atlas.

Figure III-2-4-46 Recovery in exports in Russia by regions



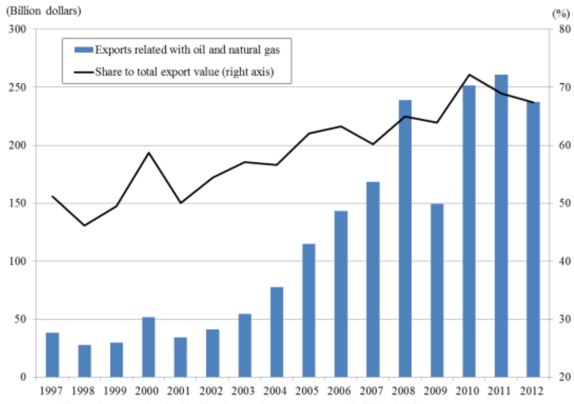
Notes: CIS data does not include Russian data.
Source: Global Trade Atlas.

Figure III-2-4-47 Changes in export value (year-on-year) in Russia



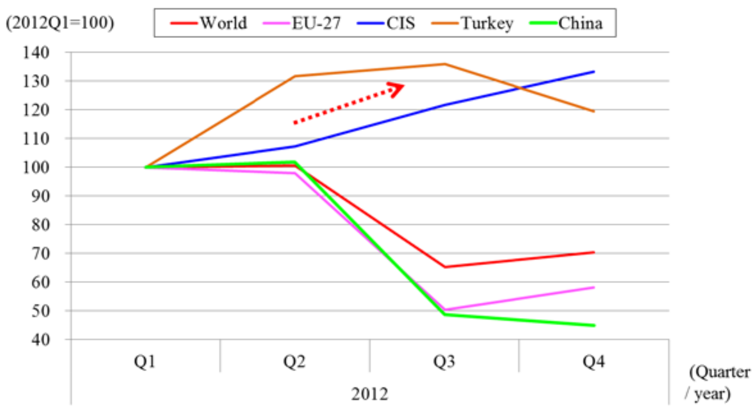
Source: Global Trade Atlas.

Figure III-2-4-48 Ratio of export related with oil and natural gas to whole goods export in Russia



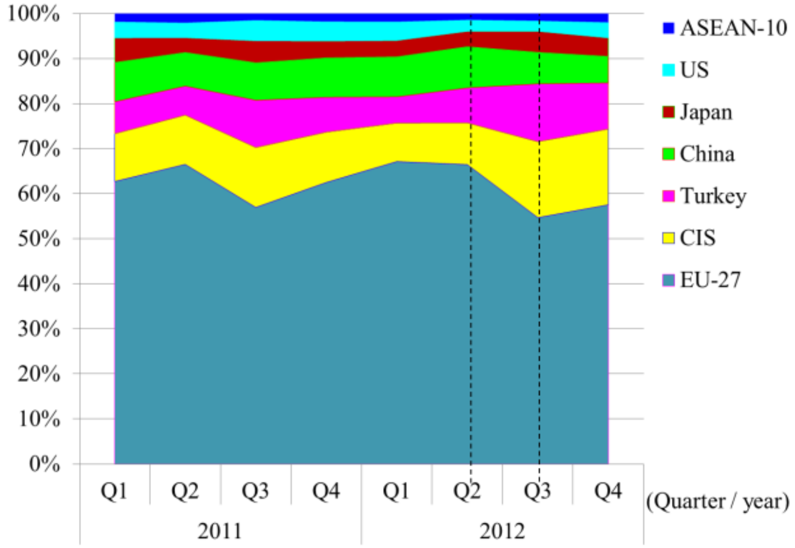
Notes: Exports related with oil and natural gas mean exports in HS code 27.
Source: Global Trade Atlas.

Figure III-2-4-49 Changes in export value in Russia by major destination countries (index)



Source: Global Trade Atlas.

Figure III-2-4-50 Changes in exports share of Russia



Source: Global Trade Atlas.

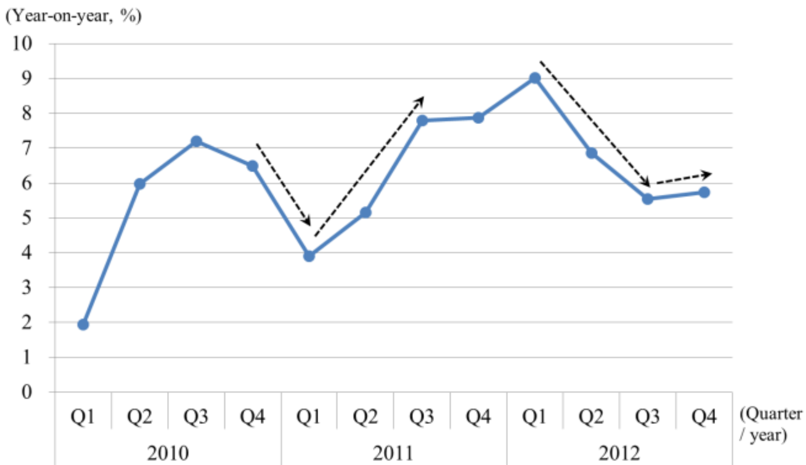
(2) Consumer spending

Consumer spending recovered by 2010 from the bad condition after the global financial crisis, and then, it again deteriorated in the first quarter of 2011. At that time, it immediately recovered in the second quarter of the same year, but when consumer spending deteriorated in the second quarter in 2012, the recovery was delayed more than the last one (the first quarter in 2011) (Figure III-2-4-51).

In the trend of related indices, nominal wages and retail sales, both indices dropped significantly in January in 2011, when consumer spending went badly in the first quarter of the year, but both indices recovered immediately after February and the recovery sustained. On the other hand, when consumer spending dropped down in the second quarter in 2012, both nominal wages and retail sales decreased, and their recovery delayed, growing at a sluggish pace also in 2013 (Figure III-2-4-52).

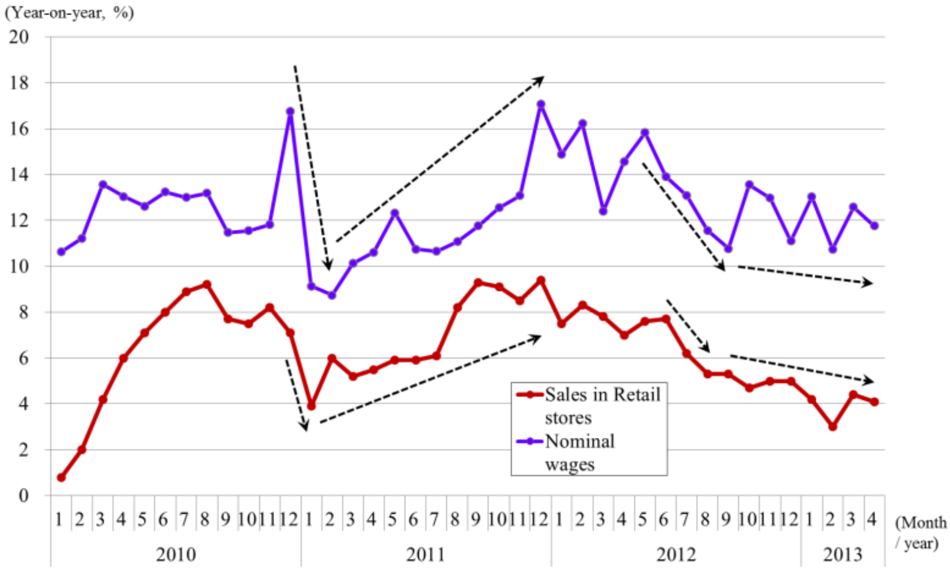
Thus, delayed recovery in employment environment and retail sales became a burden to the recovery of consumer spending in 2012.

Figure III-2-4-51 Changes in consumer spending in Russia



Source: CEIC Database.

Figure III-2-4-52　Changes in retail sales and nominal wages in Russia

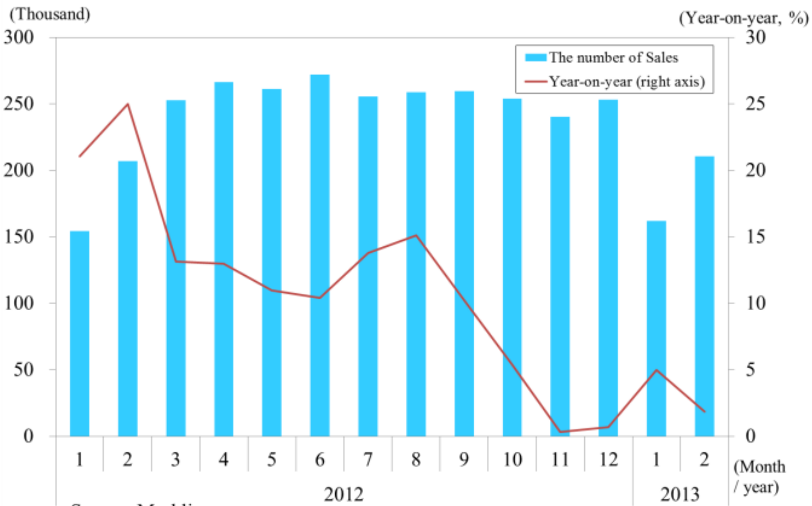


Source: CEIC Database.

(3) Trend in auto sales

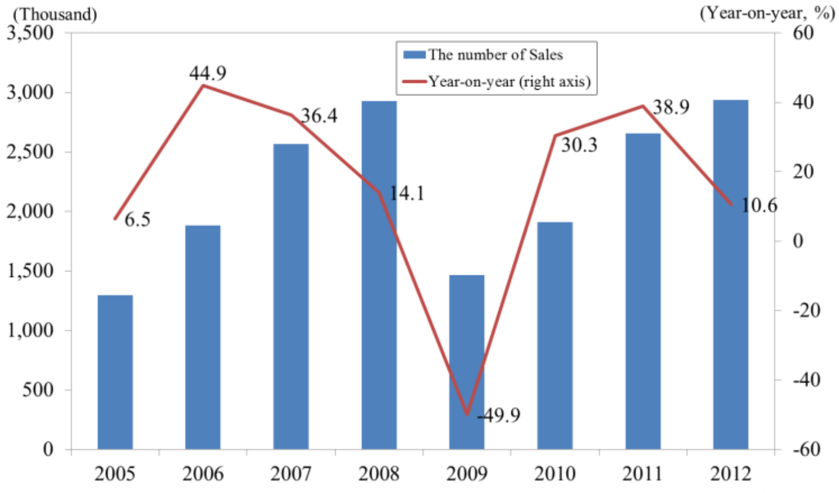
As stated above, since environment around consumer spending got serious in the late 2012, growth in retail sale slowed down though it was in a good mood previously. In the trend of auto sales, which considerably influences retail sales, the growth in auto sales deteriorated after March in 2012 along with the decrease in consumer spending shown in the part (2) (Figure III-2-4-53). Also, the number of auto sales through 2012 in Russia was 2,935,111, and this was 10.6% in the growth rate from the previous year, which was substantially lower than the growth rate of 2011, 38.9% (Figure III-2-4-54).

Figure III-2-4-53 Auto sales in Russia (monthly sales)



Source: Marklines.

Figure III-2-4-54 Auto sales in Russia (annual sales)

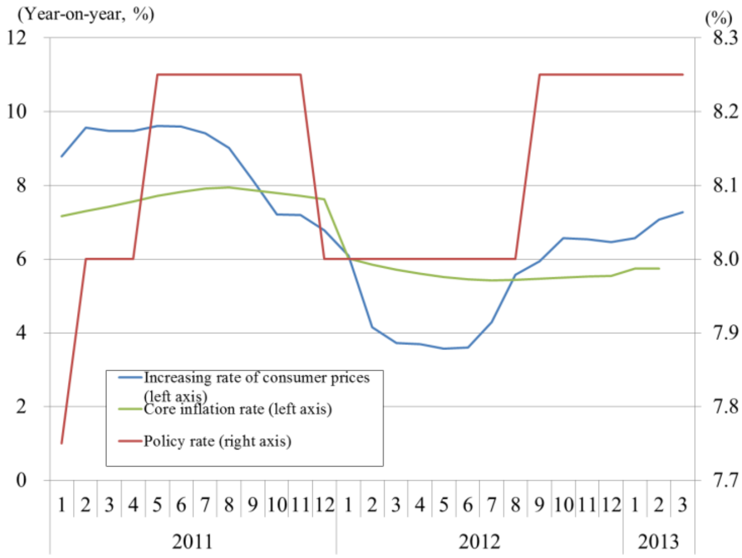


Source: Marklines.

(4) Consumer prices

Consumer prices once dropped in April 2012 to 3.57% on year-on-year, the lowest level since New Russia was founded in 1992, and it surged up to 6.57 on year-on-year in September (Figure III-2-4-55). This happened because of the increased public utility fares for the ones in fiscal 2012, which was suspended before the president election in March, increase in global food prices and inferior domestic crop production. As a result, prices in 2012 surpassed the target inflation rate (5.0 - 6.0%) of the Central Bank of Russia. Moreover, Core inflation rate except food and fuel prices seemed to gradually increase. Since there were concerns against the increase in these inflation pressures and rapid expansion of consumer credit, the Central Bank raised policy rate by 0.25 point in September 2012. If the inflation pressure continue to increase in 2013, there is a possibility that they may tight money additionally.

Figure III-2-2-55 Changes in increasing rate of consumer prices and policy rate in Russia



Source: Central Bank of Russia, CEIC Database.

(5) Future issues and risk factors

As reviewed in this section, economic growth rate in Russia decelerated in 2012 due to slowdown in exports and consumer spending.

On the other hand, according to the outlook by international organizations[62], GDP growth rate in Russia has been estimated to accelerate, reaching 3.4% in 2013 and 3.8% in 2014, as confusion in Russia will be calmed down. It is expected that current account surplus would gradually decrease along with the expansion in domestic demand, and inflation rate would gradually calm down to the target rate (4 - 5%) of the Central Bank in 2014. For further growth of Russian economy, improvement of governance in public sectors and improvement in business environment both in energy related sectors and other sectors.

[62] "*Interim Economic Assessment*" (March 28th, 2013), OECD.