

GLOBAL ECONOMIC OUTLOOK – JUNE

Monetary and Statistics Department
External Economic Relations Division

2012

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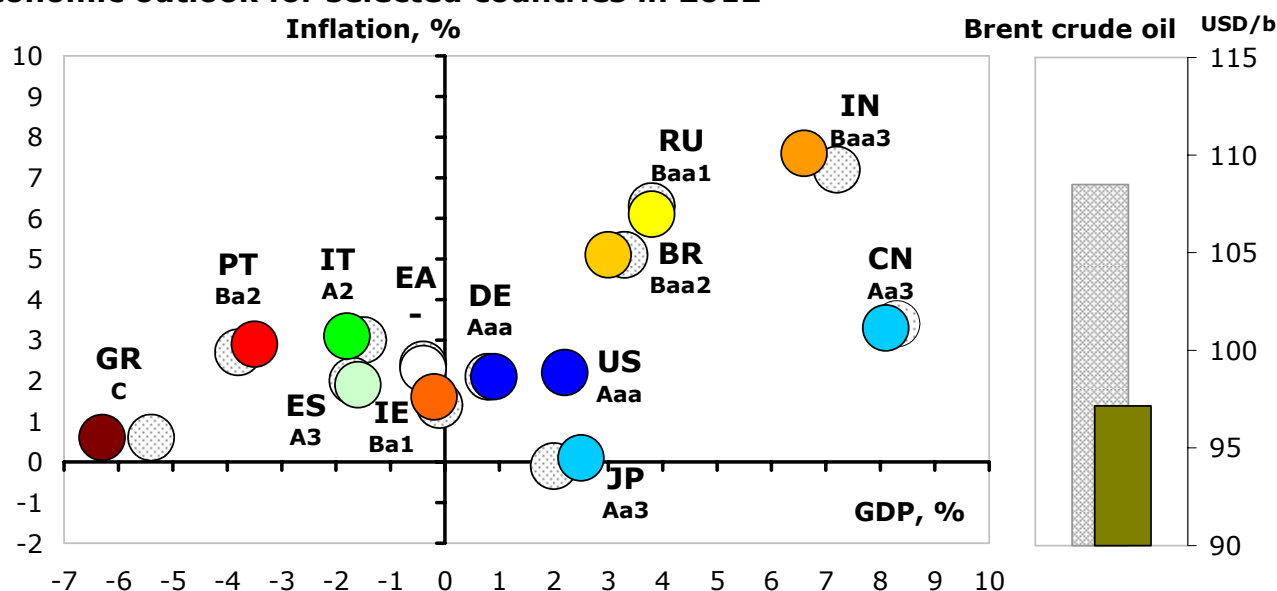
The June issue of *Global Economic Outlook* presents its regular overview of recent and expected developments in selected territories in terms of standard indicators such as GDP, inflation, leading indicators, interest rates, exchange rates and commodity prices. In this issue, we also focus on presenting selected information from the spring meeting of the Institute of International Finance (IIF), which took place in Copenhagen at the start of June. The main topics discussed were possible solutions to the debt crisis, the creation of a banking union, the prospects for the US economy and the experience of Scandinavian economies in combating the financial crisis. As usual, IIF economists also presented their global economic and financial forecast, which for most territories is slightly more pessimistic than the June Consensus Forecasts.

The revised economic outlooks for advanced countries confirm that 2012 will be a year of lower economic performance. For the euro area, moreover, it will be a year of economic contraction. The euro area economy continues to be driven by Germany, whose economic condition, like that of most other advanced countries, should improve in 2013. By contrast, the economic situation in the southern periphery of the euro area and Ireland remains unenviable. This is gradually being reflected in downgrades of their sovereign (see the figure below) and other ratings.

Emerging economies, especially the BRIC countries (Brazil, Russia, India and China) are still showing robust economic growth at an acceptable inflation rate. China is still number one in this group of countries, with the highest GDP growth outlooks and the lowest inflation this year and the next. Its position is being reinforced by its A rating (according to the Moody's classification).

In the remainder of 2012, the global economy could partly benefit from the sizeable decline in oil prices in May and the still falling outlook for oil prices. Growth in demand for oil is losing momentum, while the oil supply (especially from OPEC countries) is rising. The dollar price of oil (and of other commodities) is also being pushed down by the strong dollar. Prices of industrial metals should edge up at the one-year horizon and food commodity prices should stay broadly flat around their present levels. The one-year interest rate outlook reflects no change in rates in the euro area and the USA. The appreciation trend of the US dollar against the euro should undergo a slight correction and converge towards 1.25 during 2013.

Economic outlook for selected countries in 2012



Moody's **Aaa** **Aa3** **A2** **A3** **Baa1** **Baa2** **Baa3** **Ba1** **Ba2** **C**

outlook XII-2012

Note: EA – euro area, DE – Germany, US – United States, JP – Japan, CN – China, IN – India, BR – Brazil, RU – Russia, GR – Greece, IE – Ireland, IT – Italy, PT – Portugal, ES – Spain. The points are coloured according to Moody's ratings. The grey colour is the CF forecast (GDP, inflation) or Bloomberg survey (oil price) from the previous month. [Cut-off date for data: 15 June 2012]

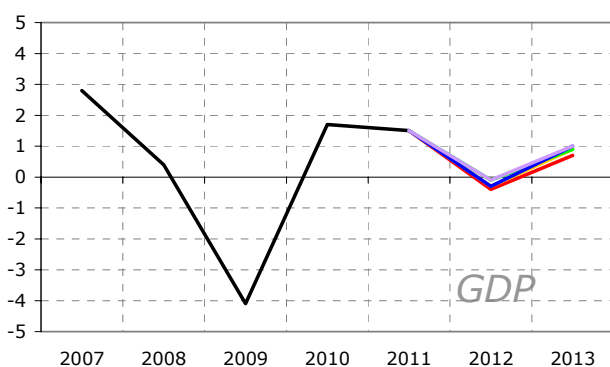
Source: CNB calculation using Bloomberg and Consensus Economics.

II.1 GDP

Uncertainty about future developments in the euro area remains high. However, the June outlooks of the ECB and DBB expect the crisis not to spread further and are slightly more optimistic than the new CF, which expects euro area GDP to fall by 0.4% **in 2012** (according to the ECB, the monetary union’s economy will shrink by just 0.1%). According to the CF, Germany will grow by 0.9% (DBB expects 1.0%). So far, the largest euro area economy has been supported by domestic demand and export growth; the economic and financial problems of the southern periphery of the euro area and the global slowdown remain obstacles to a faster recovery. The USA will record growth of 2.2% this year. Although China is still showing the highest growth of the economies monitored, its growth has slowed considerably and the expected 8.1% (CF) is less than 60% of that observed five years ago. Slightly more favourable economic developments can be expected **in 2013**. Euro area GDP growth will be between 0.7% and 1.0%. Germany will contribute with growth of between 1.4% and 1.6%. Economic growth in the other monitored economies will pick up slightly to 2.2% (USA) and 8.4% (China).

EURO AREA

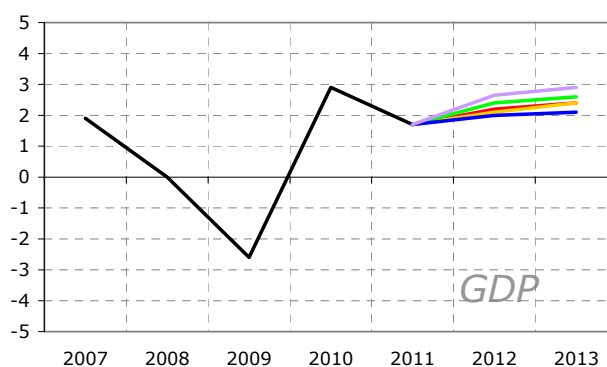
— HIST — CF, 6/12 — IMF, 4/12
 — OECD, 5/12 — EC, 5/12 — ECB, 6/12



	HIST	CF	IMF	OECD	EC	ECB
2011	1.5					
2012		-0.4	-0.3	-0.1	-0.3	-0.1
2013		0.7	0.9	0.9	1.0	1.0

USA

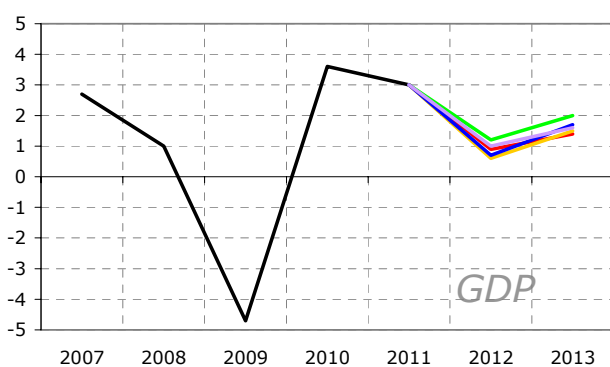
— HIST — CF, 6/12 — IMF, 4/12
 — OECD, 5/12 — EC, 5/12 — Fed, 4/12



	HIST	CF	IMF	OECD	EC	Fed
2011	1.7					
2012		2.2	2.1	2.4	2.0	2.7
2013		2.4	2.4	2.6	2.1	2.9

GERMANY

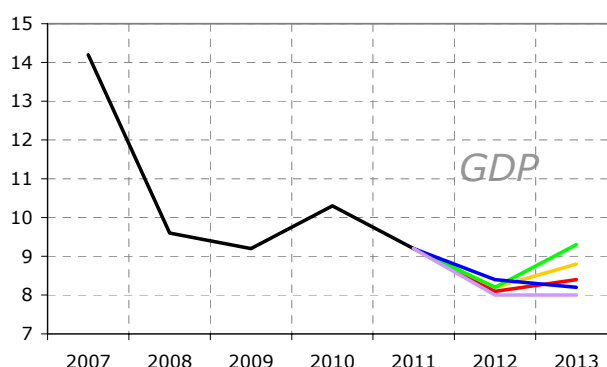
— HIST — CF, 6/12 — IMF, 4/12
 — OECD, 5/12 — EC, 5/12 — DBB, 6/12



	HIST	CF	IMF	OECD	EC	DBB
2011	3.0					
2012		0.9	0.6	1.2	0.7	1.0
2013		1.4	1.5	2.0	1.7	1.6

CHINA

— HIST — CF, 6/12 — IMF, 4/12
 — OECD, 5/12 — EC, 5/12 — BOFIT, 3/12



	HIST	CF	IMF	OECD	EC	BOFIT
2011	9.2					
2012		8.1	8.2	8.2	8.4	8.0
2013		8.4	8.8	9.3	8.2	8.0

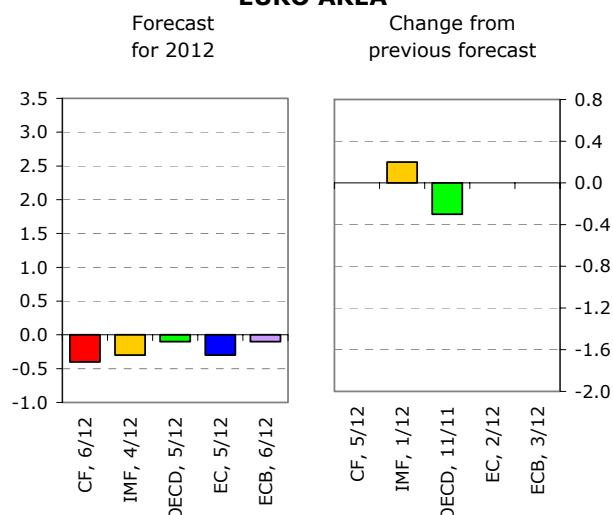
Note: Legend shows latest forecast data in format "Source, month/year of forecast publication". HIST: historical value. ECB and Fed: midpoint of range. [Cut-off date for data: 15 June 2012]

Source: CNB calculation using Eurostat, CF, IMF, OECD, EC, ECB, Fed, DBB and BOFIT databases.

II.2 Current GDP forecast and change from the previous forecast

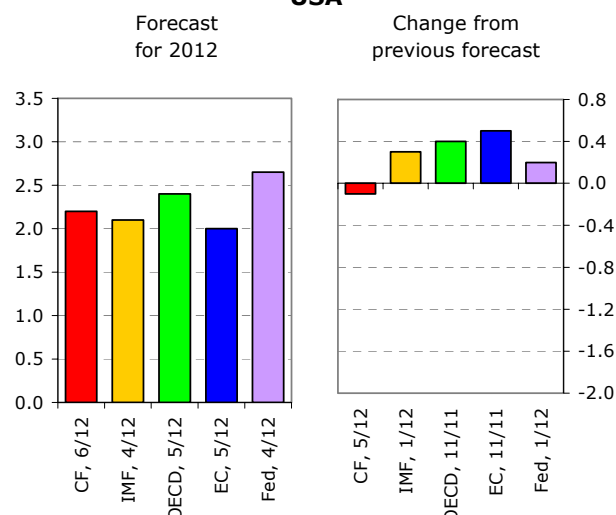
The June forecast for the euro area is unchanged for **this year** (CF and ECB). By contrast, the outlook for Germany improved by 0.1 pp according to CF and 0.4 pp according to DBB. CF expects economic growth in the USA to be 0.1 pp weaker than the previous month's forecast. The CF outlook for GDP growth in China was also revised downwards, by 0.2 pp.

EURO AREA



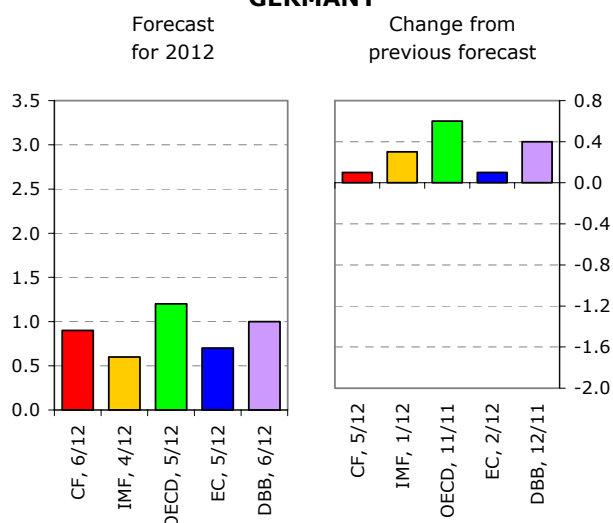
	2011	CF	IMF	OECD	EC	ECB
Forecast	1.5	-0.4	-0.3	-0.1	-0.3	-0.1
Change		0.0	0.2	-0.3	0.0	0.0

USA



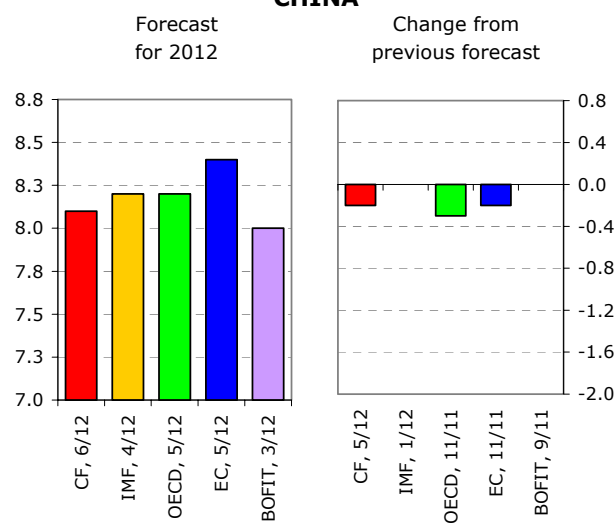
	2011	CF	IMF	OECD	EC	Fed
Forecast	1.7	2.2	2.1	2.4	2.0	2.7
Change		-0.1	0.3	0.4	0.5	0.2

GERMANY



	2011	CF	IMF	OECD	EC	DBB
Forecast	3.0	0.9	0.6	1.2	0.7	1.0
Change		0.1	0.3	0.6	0.1	0.4

CHINA



	2011	CF	IMF	OECD	EC	BOFIT
Forecast	9.2	8.1	8.2	8.2	8.4	8.0
Change		-0.2	0.0	-0.3	-0.2	0.0

Note: Horizontal axis of left-hand (right-hand) chart shows latest (previous) forecast data in format "Source, month/year of forecast publication". HIST: historical value. ECB and Fed: midpoint of range.

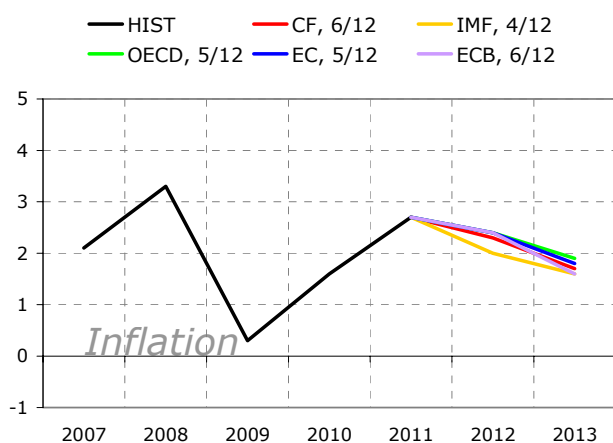
[Cut-off date for data: 15 June 2012]

Source: CNB calculation using Eurostat, CF, IMF, OECD, EC, ECB, Fed, DBB and BOFIT databases.

II.3 Inflation

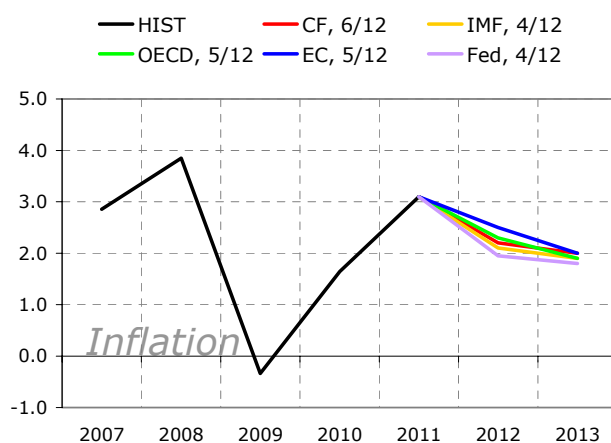
According to new estimates (CF, ECB and DBB), inflation in the advanced economies monitored will remain between 2.1% and 2.4% **in 2012**, and consumer price inflation in China should not exceed 3.3% (CF). Inflationary pressures can be expected to weaken **next year**. Inflation in the euro area and Germany will fall to 1.6%–1.9%, owing among other things to declining energy prices. Inflation in the USA will decrease to 2% and inflation in China will rise to 3.6%.

EURO AREA



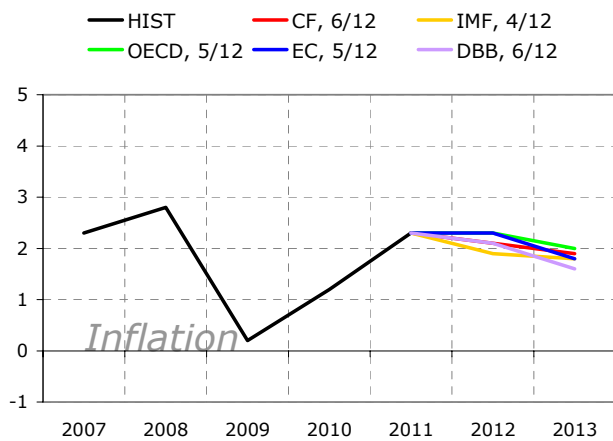
	HIST	CF	IMF	OECD	EC	ECB
2011	2.7					
2012		2.3	2.0	2.4	2.4	2.4
2013		1.7	1.6	1.9	1.8	1.6

USA



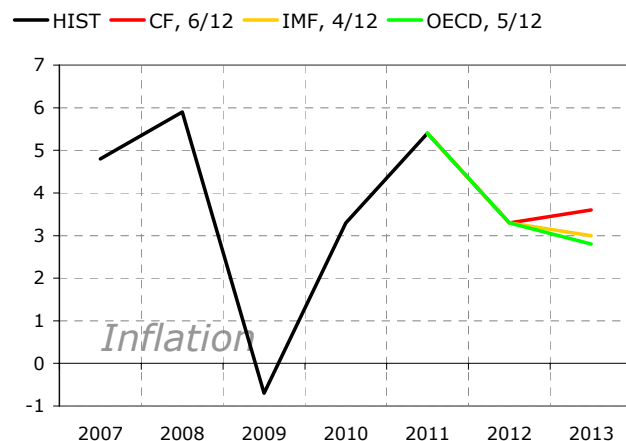
	HIST	CF	IMF	OECD	EC	Fed
2011	3.1					
2012		2.2	2.1	2.3	2.5	2.0
2013		2.0	1.9	1.9	2.0	1.8

GERMANY



	HIST	CF	IMF	OECD	EC	DBB
2011	2.3					
2012		2.1	1.9	2.3	2.3	2.1
2013		1.9	1.8	2.0	1.8	1.6

CHINA



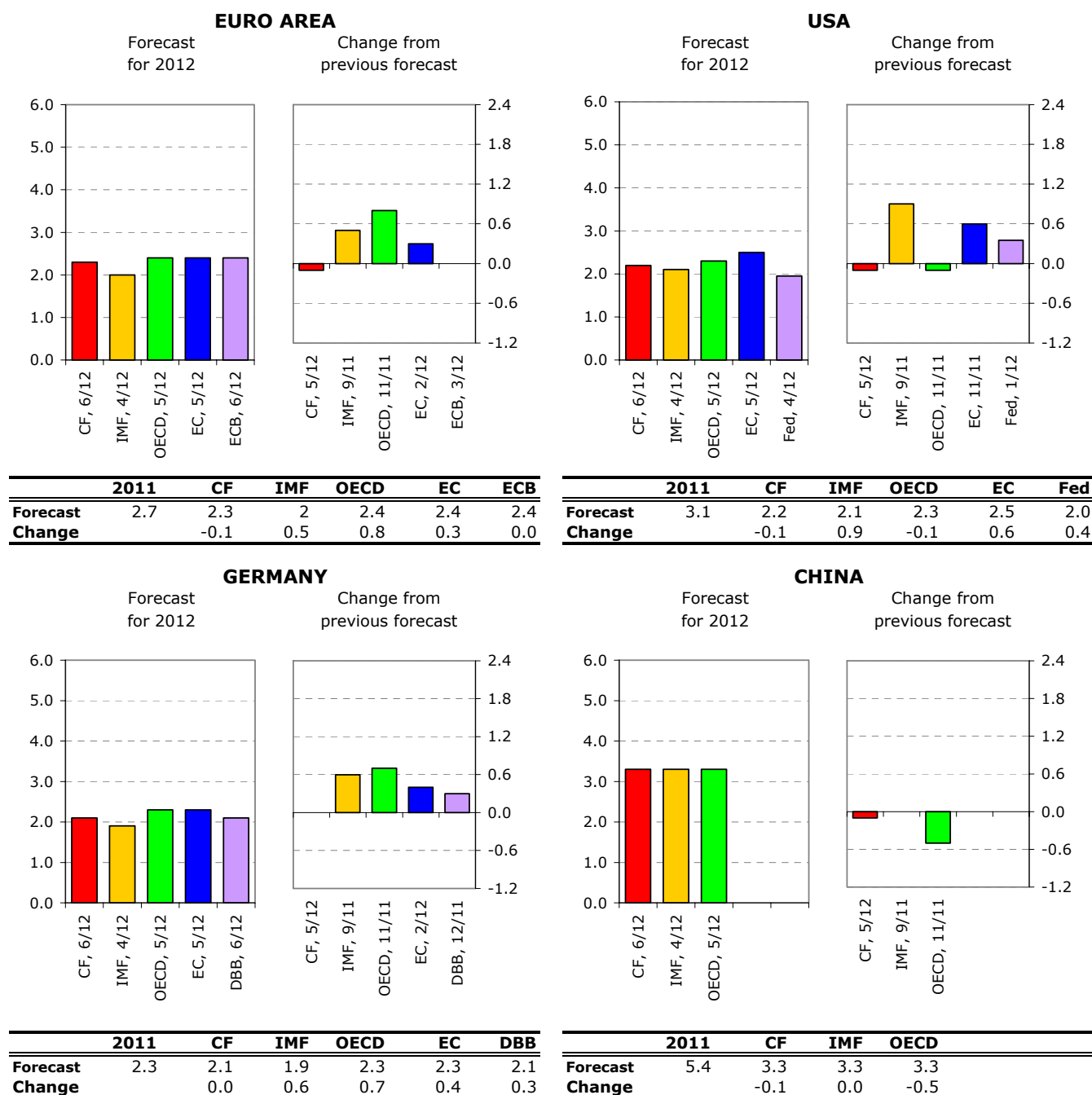
	HIST	CF	IMF	OECD
2011	5.4			
2012		3.3	3.3	3.3
2013		3.6	3.0	2.8

Note: Legend shows latest forecast data in format "Source, month/year of forecast publication". HIST: historical value. ECB and Fed: midpoint of range. [Cut-off date for data: 15 June 2012]

Source: CNB calculation using Eurostat, CF, IMF, OECD, EC, ECB, Fed, DBB and BOFIT databases.

II.4 Inflation forecast and change from the previous forecast

The June CF left the inflation outlook for the euro area and Germany in 2012 unchanged. By contrast, inflation in the USA and China should be 0.1 pp lower than predicted last month. The ECB's euro area inflation outlook saw no change. The DBB increased expected inflation in Germany by 0.3 pp compared to its December forecast.



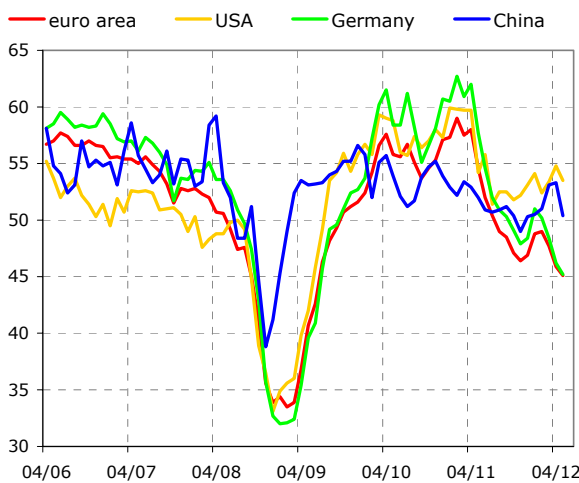
Note: Horizontal axis of left-hand (right-hand) chart shows latest (previous) forecast data in format "Source, month/year of forecast publication". HIST: historical value. ECB and Fed: midpoint of range.

[Cut-off date for data: 15 June 2012]

Source: CNB calculation using Eurostat, CF, IMF, OECD, EC, ECB, Fed, DBB and BOFIT databases.

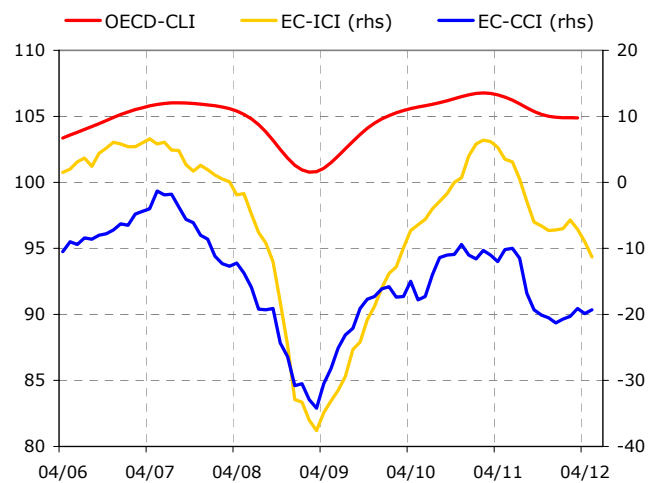
From the perspective of leading indicators, the economic outlook for the second half of this year deteriorated in June compared to the previous month. The PMI (Purchasing Managers' Index) in industry fell in all the countries and regions monitored. However, the US economy can be expected to develop more favourably than the European economy. Although the PMI decreased in the USA, it remains well above 50%. US composite indicators were flat and the estimate of future consumer demand is ambiguous, as one consumer confidence indicator decreased and another increased. The euro area PMI fell further below 50 points, but the other monitored leading indicators were also flat or falling. A fall in industrial production can be expected in Germany: the PMI in industry declined further below 50% and other indicators of sentiment in industry are also falling. By contrast, consumer confidence continued to rise.

PMI IN MANUFACTURING



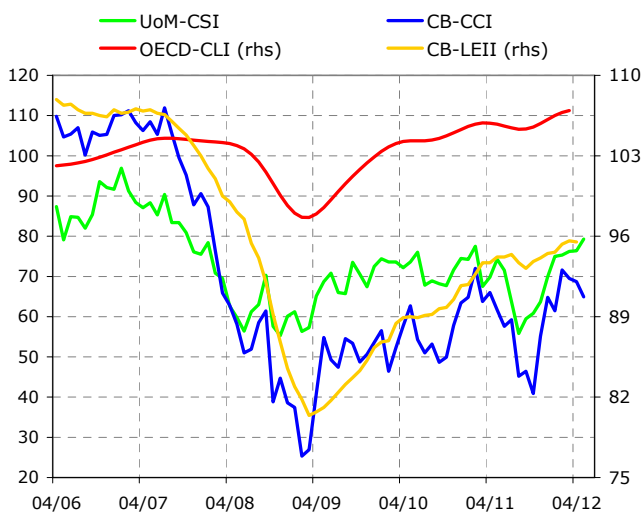
	EA	US	DE	CN
3/12	47.7	53.4	48.4	53.1
4/12	45.9	54.8	46.2	53.3
5/12	45.1	53.5	45.2	50.4

EURO AREA



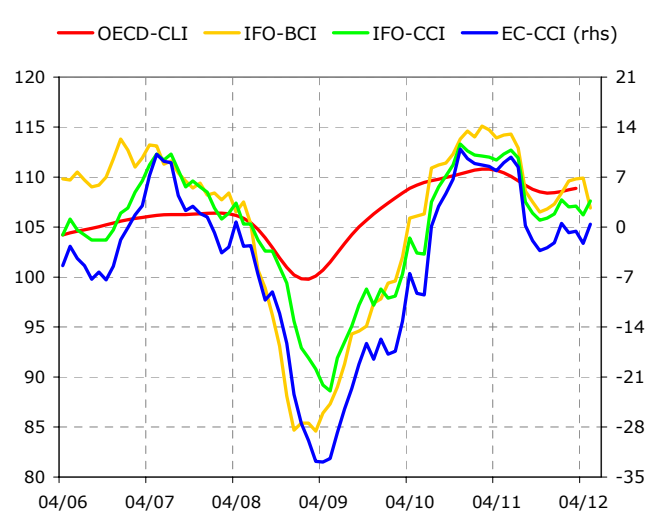
	OECD-CLI	EC-ICI	EC-CCI
3/12	104.9	-7.1	-19.1
4/12		-9.0	-19.9
5/12		-11.3	-19.3

USA



	OECD-CLI	CB-LEII	UoM-CSI	CB-CCI
3/12	106.9	95.6	76.2	69.5
4/12		95.5	76.4	68.7
5/12			79.3	64.9

GERMANY



	OECD-CLI	IFO-BCI	IFO-CCI	EC-CCI
3/12	108.9	109.8	107.1	-0.6
4/12		109.9	106.2	-2.3
5/12		106.9	107.6	0.4

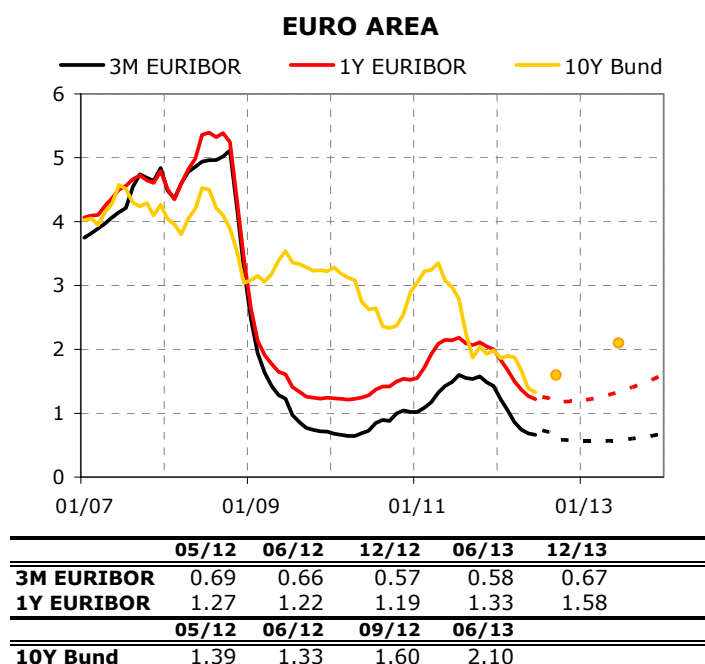
Note: OECD-CLI stands for OECD Composite Leading Indicator, EC-ICI (right-hand scale) for European Commission Industrial Confidence Indicator, EC-CCI (right-hand scale) for EC Consumer Confidence Indicator, CB-LEII for Conference Board Leading Economic Indicator Index, CB-CCI for CB Consumer Confidence Index, UoM-CSI for University of Michigan Consumer Sentiment Index, IFO-BCI for Institute for Economic Research – Business Climate Index, and IFO-CCI for IFO Consumer Confidence Index. [Cut-off date for data: 15 June 2012]

Source: CNB calculation using OECD, EC, IFO and UoM databases.

IV.1 Outlook for short-term and long-term interest rates: Euro area

The decline in unsecured 3M and 1Y EURIBOR rates halted at the end of May. In at the end of the second week, the 3M rate was 0.66% and the 1Y rate 1.22%. The forecast based on implied rates shifted downwards from the previous month and rates should continue to fall in 2012 H2. The ECB left its rates unchanged at the June meeting and expects inflation to stay above 2% until the end of 2012. According to the ECB, the risks to economic growth are skewed downwards. The decline in risk premia also stopped for both maturities in May.

At the end of May, the average yield on the 10Y German government bond fell markedly as demand for safe assets rebounded in connection with the uncertain situation in the euro area. The new CF forecast again shifted downwards over the entire horizon and the 10Y Bund rate is expected to exceed 2% in one year.



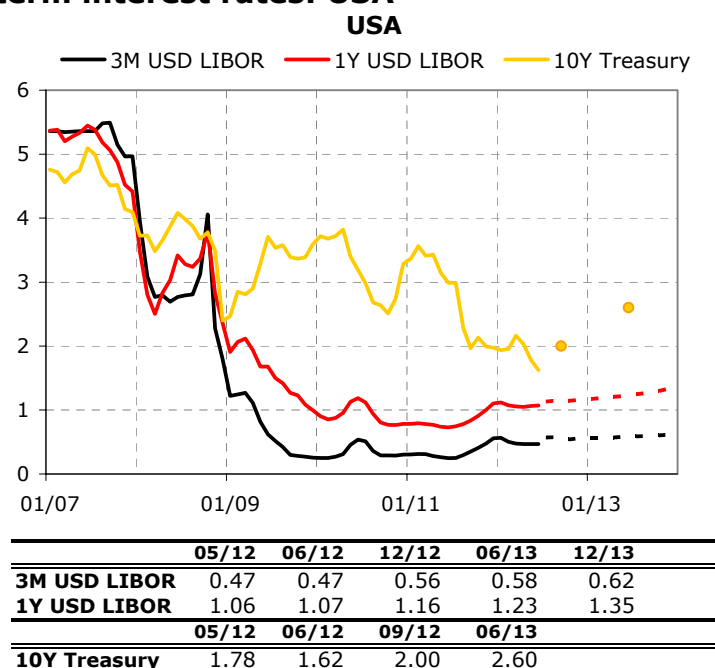
Note: Forecast for EURIBOR rates is based on implied rates from interbank market yield curve (FRA rates are used from 4M to 15M and adjusted IRS rates for longer horizons). Forecast for German government bond yield (10Y Bund) is taken from CF. Dashed lines and points represent outlook. [Cut-off date for data: 11 June 2012]

Sources: Thomson Reuters (Datastream), Bloomberg, CNB calculations.

IV.2 Outlook for short-term and long-term interest rates: USA

As in previous months, both the 3M and 1Y USD LIBOR rates did not change much. The 3M rate was 0.5% and the 1Y rate 1.1%. The implied future 1Y LIBOR rate path also remained slightly rising, with a stronger increase expected for 1Y rates. By the end of 2013, 3M rates are expected to increase by only 0.15 pp and 1Y rates by 0.3 pp.

Risk aversion related to the situation in the euro area continued to affect US bond rates. In early June, the yield on the 10Y US government bond fell below 1.5%. The new CF forecast also shifted downwards from the previous month.

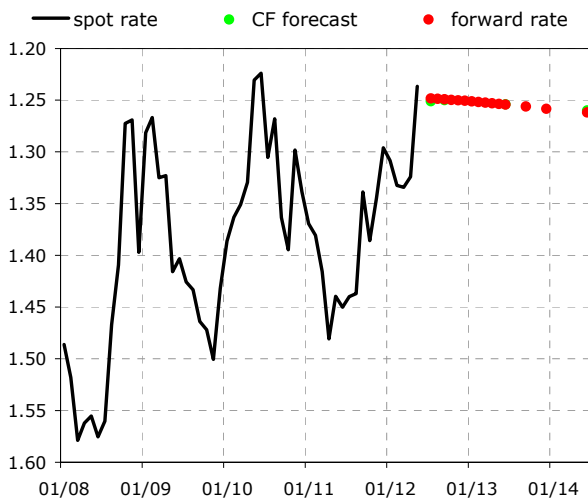


Note: Implied LIBOR rates are derived from London interbank market yield curve. Forecast for 10Y Treasury yield is taken from CF. Dashed lines and points represent outlook. [Cut-off date for data: 11 June 2012]

Sources: Thomson Reuters, Bloomberg, CNB calculations.

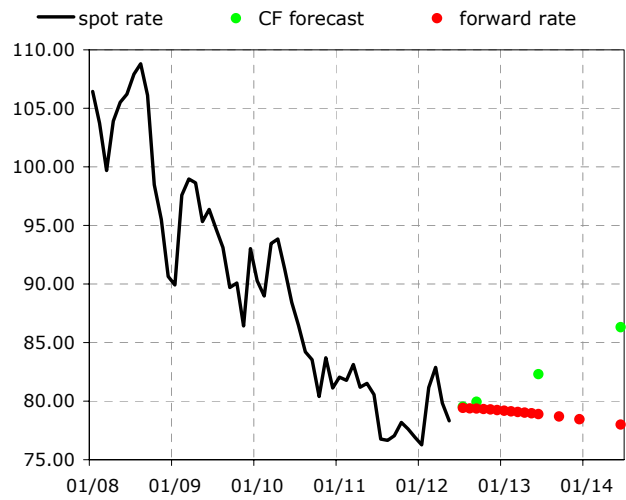
The persisting uncertainty regarding the political and economic situation in the euro area caused the euro to weaken further against the dollar. In early June, Spain asked for international financial assistance for its banking sector. The new round of elections in Greece, where a refusal to implement reforms and an exit from the euro area are still real threats, was also viewed with concern. For this reason, among others, the euro weakened below USD 1.23. The new forecast also shifted towards a weaker euro. The new CF expects the exchange rate to be flat at around USD 1.25 to the euro at the two-year horizon. Concerns of a euro area debt crisis caused the UK pound to depreciate, lowering the outlook as well. The exchange rate will be around USD 1.55 to the pound until the end of this year. However, there is ongoing interest in the Swiss franc and the Japanese yen amid increased risk aversion. The yen gained some support from good news on the Japanese economy and the June outlook saw a shift towards a stronger yen.

US\$ per Euro



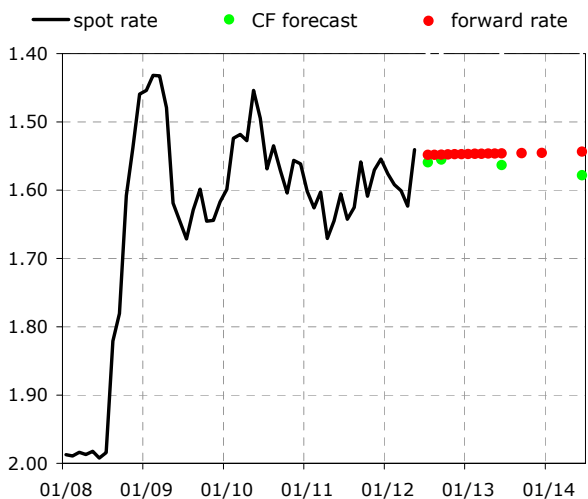
	11/6/12	07/12	09/12	06/13	06/14
spot rate	1.248				
CF forecast		1.251	1.250	1.254	1.260
forward rate		1.248	1.249	1.254	1.262

Yen per US\$



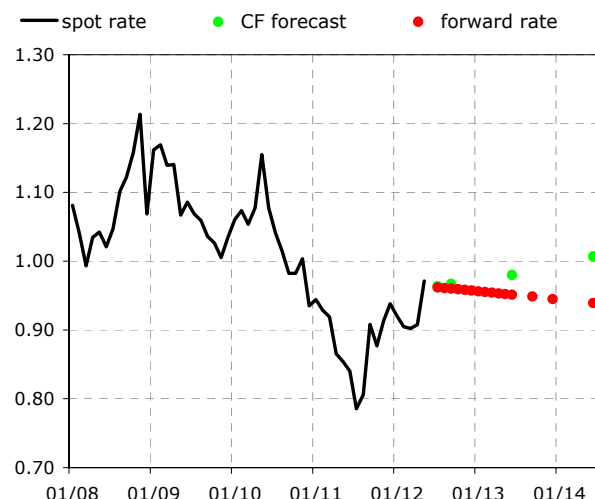
	11/6/12	07/12	09/12	06/13	06/14
spot rate	79.44				
CF forecast		79.52	79.94	82.30	86.31
forward rate		79.41	79.35	78.88	77.99

US\$ per UK£



	11/6/12	07/12	09/12	06/13	06/14
spot rate	1.549				
CF forecast		1.559	1.555	1.563	1.578
forward rate		1.548	1.548	1.546	1.544

Swfr per US\$



	11/6/12	07/12	09/12	06/13	06/14
spot rate	0.962				
CF forecast		0.964	0.967	0.980	1.007
forward rate		0.962	0.960	0.951	0.939

Note: Increase in currency pair represents appreciation of US dollar; data as of the last day of the month. Forward rate does not represent outlook; it is based on covered interest parity, i.e. currency of country with higher interest rate is depreciating. Forward rate represents current (as of cut-off date) possibilities for securing future exchange rate. [Cut-off date for data: 15 June 2012]

Source: CNB calculation using Bloomberg and Consensus Forecasts databases.

VI.1 Oil and natural gas

The Brent crude oil price began a downward trend in April. The decline intensified in May, and in early June oil was trading for less than USD 100 a barrel for the first time since February 2011. The oil price fell in reaction to data on lower demand (especially from China) as well as to weaker figures on industry and services in the euro area and worse data from the US labour market. The price was also pushed down by an appreciating dollar as the euro reacted negatively first to the worsening political situation in Greece and in the second half of May also to the financial situation in Spain. The supply side is also fostering lower oil prices. OPEC production is close to its highest level in many years (with rising production in Iraq and Saudi Arabia offsetting falling exports from Iran) and non-OPEC production is rising as well (especially in the USA and Canada). Commercial stocks of oil and oil products in OECD countries rose in April and May. The oil price outlook shifted downwards by around USD 113 a barrel from the previous month, but the slope of the falling futures curve decreased considerably. Natural gas prices should start to fall gradually on the back of the sharp decline in oil prices.

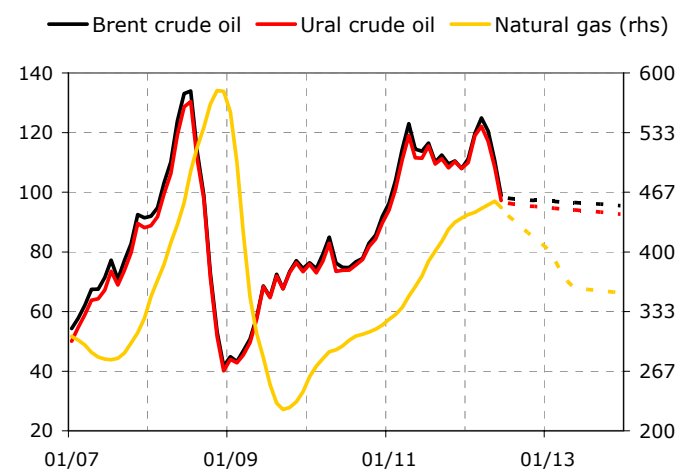
VI.2 Other commodities

While the food commodity price index was in line with the previous forecast last month (only a small decrease) and its outlook was therefore virtually unchanged, the industrial metal price index continued to fall sharply and its forecast fell by around 4%. Technical crops (cotton, rubber) also recorded further strong price declines.

The prices of individual food commodities were very mixed. Wheat prices edged up amid high volatility and their outlook remains rising. By contrast, the price of rice declined amid a rising outlook. Prices of maize and soy were also volatile but almost unchanged; a price drop is expected for soy. Coffee prices continued to fall sharply and cocoa also saw a slight decrease. The price of pork surged, while the beef price stagnated amid an outlook of growth to a new historical high.

As for industrial metals, aluminium and copper recorded the largest price declines. Steel prices also fell. By contrast, the drop in coal prices slowed.

OUTLOOK FOR PRICES OF OIL AND NATURAL GAS



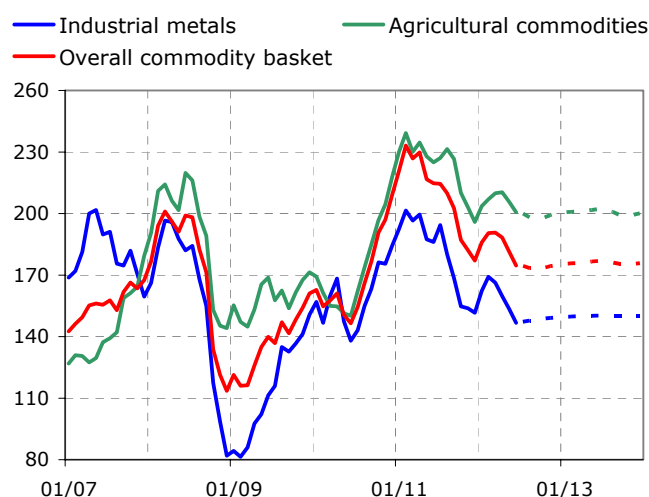
	06/12	12/12	06/13	12/13
Brent crude oil	98.9	97.2	96.4	95.5
Ural crude oil	97.3	95.0	93.9	92.6
Natural gas	449.5	410.0	359.0	354.3

Note: Brent oil price in USD/barrel (ICE quotation). Price of Russian natural gas at German border in USD/1,000 cubic m (IMF database). Future oil prices are derived from oil prices. Dashed line represents outlook.

[Cut-off date for data: 11 June 2012]

Source: Bloomberg, IMF, CNB calculations.

OUTLOOK FOR OTHER COMMODITY PRICES



	06/12	12/12	06/13	12/13
Industrial metals	146.7	149.3	150.2	150.1
Agricultural commodities	200.6	200.3	202.2	200.1
Overall commodity basket	174.6	175.1	176.9	175.8

Note: Chart shows price indices, year 2005 = 100. Dashed line represents outlook based on futures.

[Cut-off date for data: 11 June 2012]

Source: Bloomberg, outlooks based on futures.

A LOOK BACK AT THE IIF SPRING MEMBERSHIP MEETING¹

The Institute of International Finance (IIF)² Spring Membership Meeting took place in Copenhagen on 6–8 June this year. The IIF macroeconomic team presented the current outlook for the global economy, where the growth divergence between mature and emerging economies is continuing. Other debates focused mainly on the European debt crisis, for which a definitive solution is still not in sight. The proposal to create a European banking union was discussed, although how it might operate is very unclear so far. Two special panels were then held, one devoted to the prospects for the US economy and the other – made up of Scandinavian finance ministers – focusing on the relatively good results of the Nordic economies during the financial crisis. Last but not least, attention was paid to the potential effects of the reform of bank regulation, which could result in weaker economic activity owing to pressure for deleveraging.³

1. The global economic outlook

The current global economic outlook is characterised by increased uncertainty due to the ongoing financial crisis. The climate is generally very pessimistic and, according to the IIF Chief Economist, the current outlooks will probably be revised downwards. Although the current weakness in mature economies could undermine the strength of emerging economies, the growth divergence between mature and emerging economies continues. The euro area is currently the weakest link in the global economy owing to the ongoing debt crisis, but special attention should also be paid to the US economy because current tax cuts will expire at the end of 2012 and some mandatory expenses will be reduced. This will have a strong impact on economic growth. From this perspective, the outcome of the November presidential election is of great importance for the US economic outlook. It is also significant that the current problems in the euro area are adversely affecting the US economy as a result of the strong links between their financial sectors. Despite the small exposure of US banks to GIIPS⁴ countries, there are strong links with EU banks.

European and US banks have too many assets. Their balance sheets are heavily encumbered and they face an increased need for collateral to manage their liquidity. Looking at US, German and Japanese bond yields, there is a parallel between the past Japanese experience and the present trends in the euro area and the USA. The mature countries, therefore, are currently on a Japanese trajectory with a time lag.

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² The IIF (www.iif.com) is a global association of financial institutions (mainly large ones) created in 1982 in response to the international debt crisis. Members include most of the world's largest commercial banks and investment banks, as well as a growing number of insurance companies and investment management firms.

³ The evening programme paid tribute to Josef Ackermann, former IIF Chairman and Deutsche Bank CEO, who resigned from both posts this year. He was replaced at the helm of the IIF by Douglas Flint from HSBC. IIF Managing Director Charles H. Dallara also announced his resignation at the conference.

⁴ Greece, Ireland, Italy, Portugal and Spain.

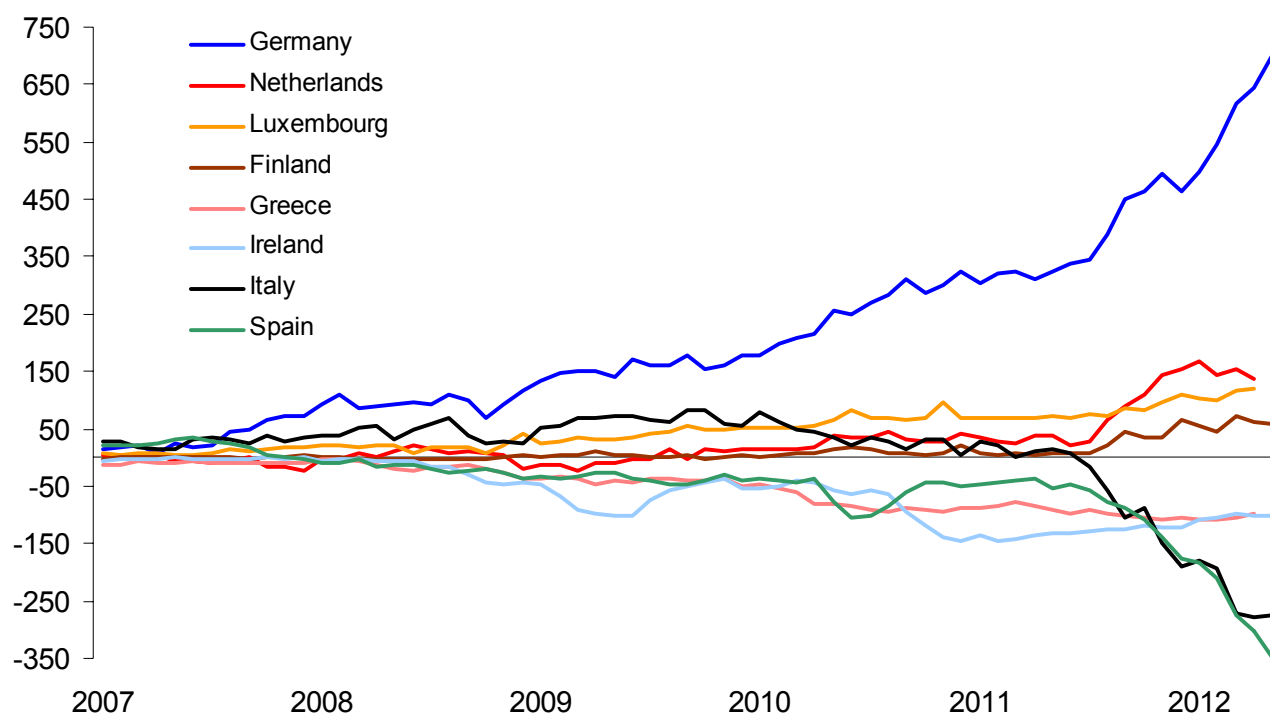
Table VII-1: IIF GDP growth outlook and comparison with June CF (in %)

	2012		2013	
	IIF	CF	IIF	CF
United States	2.4	2.2	2.5	2.4
Euro area	-0.2	-0.4	0.9	0.7
Japan	2.6	2.5	1.5	1.3
Latin America	3.5	-	4.4	-
Emerging Europe	2.8	-	3.6	-
Emerging Asia	7.0	-	7.6	-

Source: IIF, CF.

2. The euro area

The euro area as a whole is expected to decline slightly this year (see Table VII-1). Growth was still flat in Q1, but the prospects are weak due to huge financial risks. The second-quarter results will be unpleasant. In general, the macroeconomic situation in Europe is characterised by a search for a compromise between government austerity measures and economic growth. However, there are also large differences across euro area countries. The opinion was expressed that the various existing divisions of Europe should be changed into a breakdown into northern and southern countries. The imbalances in the European cross-border interbank payment system TARGET2 are the Achilles' heel of the Eurosystem, as they do not reflect current account imbalances but are based on market sentiment (see Figure VII-1).

Figure VII-1: TARGET2 imbalances (EUR billion)

Source: Institute of Empirical Economic Research – Universität Osnabrück

3. Scandinavian countries

The relatively positive economic situation in the northern periphery was discussed in a panel made up of finance ministers of Scandinavian countries (Norway, Sweden and the host country Denmark). All the ministers agreed that the most precious resource was human capital and that this needed to be supported and developed. This need was amplified by the process of ageing of the European population. The Swedish representative said in this context that it was also vital to focus on the integration of immigrants. Some government measures to stimulate the economy, such as a reduction of property taxes in Sweden, were presented. The recent large inflow of capital into Denmark, which – alongside the often mentioned Germany – enjoys the status of safe financial haven, was also mentioned. The recent demand for five-year government bonds had been so high that their yields were negative.

The Danish Prime Minister Helle Thorning-Schmidt said that Scandinavian countries were a typical example of a combination of sound public finances, economic growth and solidarity. Denmark has implemented a tax reform that reduces taxation on labour. The reform agenda also includes increasing participation on the labour market, improving public finances, and increasing productivity and competitiveness. Last but not least, she mentioned population ageing, saying that if we live longer, we should retire later.

4. Latin America and Asia

The presentation of the outlook for Latin America was similarly optimistic. This region has low public debt (below the OECD average) and solid banking systems as measured by the capital ratio and deposit-to-loan ratio. The Latin American banking sector is also resilient to euro area deleveraging. In addition, governments are pursuing countercyclical fiscal policies.

The situation is similar in Asia. Consumer price inflation in China is under control. This is enabling the Chinese central bank to ease monetary policy. Although China is not at risk of a hard landing, it can evidently no longer afford economic growth of almost 10%. Sustainable GDP growth is estimated at 7%. China is also trying to stimulate its service sector, which is putting some constraints on industry. In this way it is endeavouring to better balance the economy.

5. Outlook for the US economy

The USA panel saw mostly downside risks to US economic growth. Professor Martin Feldstein of Harvard University stated that despite a relatively optimistic start of the year, economic growth in the USA would hardly exceed 2% and might even be below 1%. Much weaker employment growth had been recorded in recent months. This was having a large effect on GDP, as personal consumption accounts for 70% of US GDP. The unemployment rate was running at 8.2% and the labour market was still very weak. Overall, the income of those employed was currently decreasing. Consumer confidence had been hit hard and retail sales per capita had started to decline. Exports, which had accounted for 50% of GDP growth in Q1, were also a risk. However, the euro area was now in recession and Japan and the rest of Asia were slowing. Feldstein also questioned the effectiveness of the Fed's quantitative easing policy. He admitted that quantitative easing had had an effect in 2010 Q4, but its effectiveness had decreased significantly in 2011. Moreover, the observed effect of stock market growth was less important for households. Households were mainly watching the property market, where a quarter of home owners still had negative equity. This was giving rise to strong incentives to default.

The US budget deficit had reached 7% of GDP. Government debt had risen from the long-term level of 40% to 70% of GDP in just a few years and was likely to grow to 100% of GDP in ten years' time. The main cause was rising expenditure on various social programmes. Compromises would probably have to be made after the election in November.

The Goldman Sachs representative was slightly more optimistic about the US economy. Unless the legislation was changed, current tax cuts would expire at the end of this year and mandatory government budget expenditure would see cuts in the billions of dollars which had been postponed after the budget ceiling debates in summer 2011. The US economy was therefore at risk of hitting a "fiscal cliff" of around USD 600 billion at the start of 2013. Unless Congress passes legislative measures, this would certainly cause a recession in the USA. Fiscal policy and the election results therefore remain a major uncertainty for the US economy.

According to Goldman Sachs, if the legislation currently in force remains unchanged, a negative effect on GDP growth exceeding 3 pp would arise in the first two quarters of 2012 (the IIF estimates the effect at 2.6 pp, but for 2013 as a whole). However, the most likely Goldman Sachs scenario assumes an effect of just over 1 pp in 2012 Q1, which will gradually disappear. The IIF baseline scenario assumes a negative effect of 1.3 pp for 2013 as a whole.

As regards monetary policy, the Fed is currently missing its second objective, namely support for employment. Long-term unemployment has particularly high costs.

6. Possible solutions to the current situation

Generally, it was said that there are vast differences in economic policy settings around the world. While banks in the USA and the EU, for instance, have very exposed balance sheets, banks in Asia and Latin America are in quite the opposite position. This implies that different regions need different economic policies. From this perspective, policy makers in emerging economies still have a wide range of options.

Each country has its own policy model, but a single model is necessary in the regulatory area. In this context, Charles H. Dallara of the IIF said that the job of the IIF was to provide analyses of the current situation and possible future perspectives, not to act as an adviser to policy makers. According to Jacek Rostowski, Minister of Finance of Poland, the current European financial crisis is a crisis of European political institutions.

Fast-growing emerging economies still have scope to develop their capital markets, as 85% of capital is provided by banks. It is worth mentioning that investment between emerging economies has been rising dramatically. A backward trend in financial market development can be seen in Greece, where despite successful government debt restructuring (involving 97% of creditors) new Greek bonds were subscribed under the laws of the United Kingdom.

Among other things, there was discussion of the possibility of resolving the European debt crisis in the form of a banking union. According to the IIF's chief economist, as with the proposed fiscal union the question is who would be willing to carry the burden in the case of the banking sector. A banking union exists de facto in every member country, but it is not clear what it should look like at EU level.

In the regulatory area, legislators are pushing regulators towards a more proactive approach to the relationship between the private and public sectors. This represents a change from the past. The first step towards uniform supervision is the creation of the three new Europe-wide financial authorities – the European Banking Agency, the European Securities and Markets Agency and the European Insurance and Occupational

Pensions Authority. Jean Lemierre of BNP Paribas said that in the area of banking supervision it was necessary to truly integrate national supervisory authorities rather than to merely add further levels of supervision. As for a banking union, he commented that a liquidity union exists already, provided by the ECB. However, the debate about the recapitalisation system will be crucial. A banking union is the right way towards forming a narrower monetary union. In a sense, a banking union represents a big step towards a fiscal union. However, Axel A. Weber of UBS noted that we all understand the direction from the long-term perspective, but nobody knows what it would mean in the short term. Consequently, there are still major uncertainties about how to resolve the current situation. Things could become clearer at the June EU summit.

BOFIT	Bank of Finland Institute for Economies in Transition
BR	Brazil
BRIC	Brazil, Russia, India and China
CB-CCI	Conference Board Consumer Confidence Index
CB-LEII	Conference Board Leading Economic Indicator Index
CBOT	Chicago Board of Trade
CF	Consensus Forecasts
CN	China
CNB	Czech National Bank
DBB	Deutsche Bundesbank
DE	Germany
EA	euro area
EC	European Commission
ECB	European Central Bank
EC-CCI	European Commission Consumer Confidence Indicator
EC-ICI	European Commission Industrial Confidence Indicator
EIU	The Economist Intelligence Unit database
ES	Spain
EU	European Union
EUR	euro
EURIBOR	Euro Interbank Offered Rate
Fed	Federal Reserve System (the US central bank)
FRA	forward rate agreement
GBP	pound sterling
GDP	gross domestic product
GR	Greece
CHF	Swiss franc
ICE	Intercontinental Exchange
IE	Ireland
IFO	Institute for Economic Research
IFO-BCI	IFO – Business Climate Index
IFO-CCI	IFO – Consumer Confidence Index
IMF	International Monetary Fund
IN	India
IRS	Interest rate swap
IT	Italy
JP	Japan
JPY	Japanese yen
LIBOR	London Interbank Offered Rate
N/A	not available
OECD	Organisation for Economic Co-operation and Development
OECD-CLI	OECD Composite Leading Indicator
PT	Portugal
RU	Russia
UoM	University of Michigan
UoM-CSI	University of Michigan Consumer Sentiment Index
US	United States
USD	US dollar

2012

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The euro area bond market during the debt crisis (Tomáš Adam and Soňa Benecká)	2012-2
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2011

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