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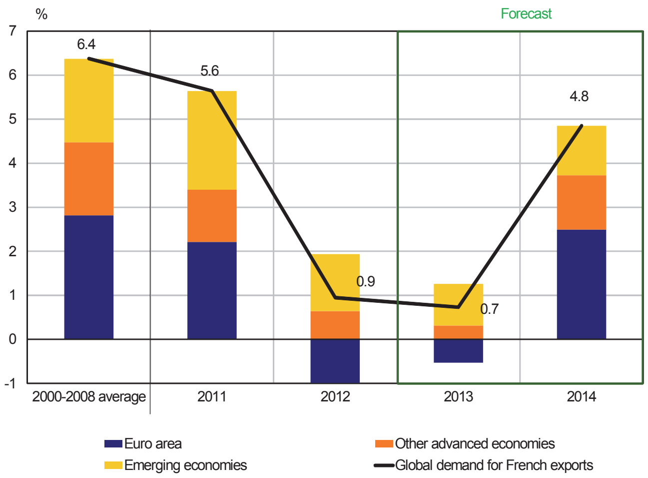
TRÉSOR-ECONOMICS

The world economy in the summer of 2013: "the sun is rising in the West"

This study was prepared under the authority of the Directorate General of the Treasury (DG Trésor) and does not necessarily reflect the position of the Ministry of Economy and Finance and Ministry of Foreign Trade

- The majority of the advanced economies experienced stronger growth in the third quarter of 2013, whereas there were growing signs of a slowdown in the emerging economies. Business confidence improved on both sides of the Atlantic, leading the Federal Reserve to announce in June a tapering of its quantitative-casing programme in the coming months, ratcheting up tension on the financial markets once again. And yet, the firmer economic growth seen in the United States and the United Kingdom in the first half of 2013 should continue, since economic indicators remain favourable. Japan's economy is maintaining a sustained rate of growth, stimulated by highly expansionary economic policy since the beginning of the year. In the euro area, improved conditions, or, at least, a slowing of the general decline, have brought an end to the recession. On the other hand, growth is softening in the emerging economies, with China in the forefront, bearing out the signs pointing to slower growth seen since the second quarter.
- In 2013, global growth is expected to remain soft, close to the rate registered in 2012. The euro area's economy should shrink again as a result of the many obstacles to growth: the continuing major deleveraging efforts in the public and private sectors and problems with financing the economy, particularly in the southern countries. Growth in the rest of the world should continue to be stronger. The United States should see continued moderate growth curbed by fiscal consolidation measures. In Japan, growth should be driven by the country's very expansionary monetary and fiscal policies. Growth in the emerging economies are expected to be close to the rate seen in 2012, which is still much lower than the prevailing growth rates seen before 2008.
- In 2014, global economic growth should pick up slightly, due to stronger growth in the United States and, most importantly, a recovery in Europe stemming from a smaller fiscal effort. The gradual removal of obstacles should enable the euro-area economy to take off again, but its growth is expected to be moderate and subject to significant disparities. Germany's private-sector demand should boost growth, owing to favourable fundamentals, but growth in Spain and Italy should still be held back by problems with debt reduction and/or financing of the economy. Growth of euro-area exports should be driven by the rebound in world trade and boosted by businesses' improved export performance. In the United States, growth should gather strength as private demand becomes firmer, fiscal consolidation measures start to ease and households continue to make good progress on reducing their debt. In the United Kingdom, growth should also be stronger, driven by the improving international environment. In contrast, Japan's growth should slow as a result of a massive fiscal consolidation effort following the fiscal stimulus in 2013 and the hike in the consumption tax. Finally, the emerging economies should continue to see relatively weak growth compared to the first decade of the new millennium.
- After remaining slack in 2012 and 2013, world trade should pick up again in 2014 (5.25%), driven by the expected recovery in the euro area and the rest of the world. Demand for French exports is likely to follow the same pattern.
- The improvement in the global economy could be swifter if the surplus savings of those countries enjoying some leeway were put to use. However, an abrupt end to unconventional monetary policy in the United States, a sharper slowdown of the emerging economies, or an increase in geopolitical tensions in the Middle East could undermine the current recovery.

Demand for French exports



Source: DG Trésor.

MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

MINISTÈRE DU COMMERCE EXTÉRIEUR

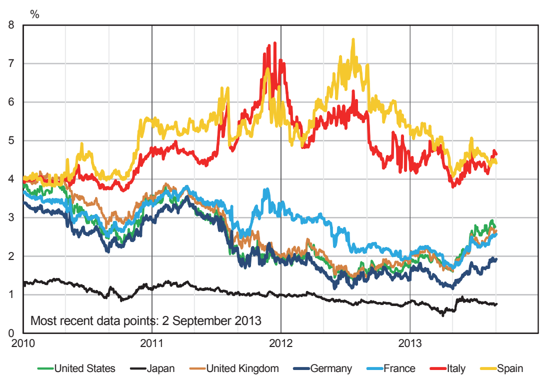
1. Growth has been stronger in the majority of the advanced economies since the beginning of 2013 but has slowed in the emerging economies

1.1 Financial tensions continued to ease in the first half of 2013, particularly in the euro area, despite the renewed uncertainty following the Federal Reserve's announcements at the beginning of the third quarter

European action to stabilise the situation in the vulnerable euro-area countries (Cyprus, Greece, Ireland and Portugal) has continued since the beginning of the year. This action, combined with the extra time granted to reach fiscal targets in many countries, progress on deeper European integration (through the creation of a banking union) and structural reforms, has prompted a steady improvement in confidence and in Europe's financial environment. Equities markets have bounced back and sovereign spreads have narrowed as uncertainty eases.

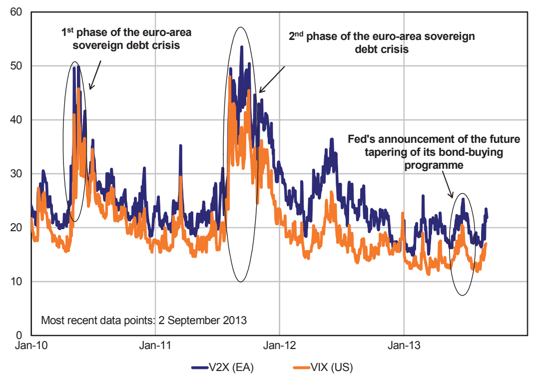
However, the Fed's tapering off announcement at the beginning of the third quarter led to renewed tension on financial markets. This tension was widespread, but relatively contained, stemming more from spillover effects than any increase in perceived risks in the euro area (see Chart 1). The level of uncertainty never reached the peaks seen in the first and second phases of the European sovereign debt crisis (see Chart 2) and affected most of the world's financial centres. A change in central bankers' communication strategies, as the Fed strengthened its explicit commitment to keep its rates low based on certain criteria ("forward guidance"[1]) and the European Central Bank and the Bank of England made similar commitments, subsequently helped to restore financial conditions and ease this uncertainty.

Chart 1: Sovereign yields in the euro area



Source: IHS Global Insight.

Chart 2: Uncertainty indicators: stock market volatility



Source: IHS Global Insight.

1.2 In the second quarter of 2013, the advanced economies saw stronger growth as the euro area emerged from recession. In contrast, emerging economies reported slower growth.

The euro area emerged from recession in the second quarter of 2013 after contracting for six quarters. The end of the recession resulted from a generalised improvement and/or a slower decline in activity levels. Germany's economy posted strong renewed growth despite flooding in the east of the country in June. Growth also strengthened in France (see Table 1). Germany's upturn was driven primarily by domestic demand, with strong growth in construction following a harsh winter. France's rebound stems in part from a sharp recovery in domestic demand, driven by households' increased consumption of automobiles and services, along with a virtually steady level of business investment. Export demand was stronger, driven by exports of manufactured goods in particular. Growth in Italy and Spain declined only moderately as structural problems and major fiscal efforts continued to hold back their economies. The Netherlands' GDP also shrank, whereas Belgium saw moderate growth. In the troubled euro-area economies, Portugal saw a big jump in growth, as exports expanded strongly, while in Greece, year-on-year growth (the only figure available) shows that GDP shrank less than in the previous quarters.

Outside the euro area, growth was also robust in the majority of the advanced economies in the second quarter of 2013. The United States' growth rate increased as private domestic demand strengthened. Household demand has been resilient, despite the tax shock at the beginning of the year. Japan's economy is maintaining a sound rate of growth, still driven by highly expansionary economic policy implemented at the beginning of the year. The United Kingdom also posted stronger growth in the second quarter of 2013, driven by private and public consumption and investment.

In the main emerging economies, the slowdown seen since the middle of 2011 was confirmed at the beginning of 2013 (see Table 1), as world trade was flat and some of these economies experienced a decline in domestic demand. In financial terms, the concerns about the Fed's tapering of its quantitative easing programme triggered a big drop in exchange rates at the beginning of the third quarter, along with wider sovereign spreads and falling equities prices stemming from a large capital outflow from these countries. However, these developments can also be attributed to the emerging economies' own weak performance. The economies that have seen the biggest dip in growth and that are the most dependent on foreign capital were particularly hard hit by the financial tension. They include Brazil, India, South Africa and Turkey. To stem capital outflows, central banks tightened up their monetary policy, which could undermine their growth levels that have already been weakened by structural challenges.

Nevertheless, the cumulative growth levels recorded at the end of the second quarter of 2013 still highlight the major disparities between advanced and emerging economies as well as between the advanced economies themselves: nearly 6% in China, approximately 1% in the United States, Japan and the United Kingdom, and –0.4% in the euro area.

(1) An explicit commitment to maintain a certain key interest rate. This communication strategy is aimed at lowering the markets' interest rate expectations.

Table 1: Quarterly growth of real GDP (seasonally and working-day adjusted, in %)

	2012Q4	2013Q1	2013Q2	2011	2012	Cumulative 2013*
Advanced economies (growth as quarterly change, except for Greece)						
United States	0.0	0.3	0,6	*1.8*	*2.8*	*1.2*
Japan	0.3	1.0	0.9	*–0.6*	*2.0*	*1.4*
United Kingdom	–0.2	0.3	0.7	*1.1*	*0.2*	*0,9*
Euro area	**–0.5**	**–0.2**	**0.3**	***1.5***	***–0.6***	***–0.4***
Germany	–0.5	0.0	0.7	*3.4*	*0.9*	*0.3*
France	**–0.2**	**–0.2**	**0.5**	***2.0***	***0.0***	***0.1***
Italy	–0.9	–0.6	–0.3	*0.4*	*–2.4*	*–1.8*
Spain	–0.8	–0.4	–0.1	*0.1*	*–1.6*	*–1.4*
Belgium	–0.1	0.0	0.2	*1.9*	*–0.3*	*–0.1*
Netherlands	–0.6	–0.4	–0.2	*0.9*	*–1.2*	*–1.3*
Greece**	–5.7	–5.6	–4.6	*–7.1*	*–6.4*	–
Ireland	–0.2	–0.6	n.d.	*2.2*	*0.1*	*–1.0*
Portugal***	–1.8	–0.4	1.1	*–1.6*	*–3.2*	*–1.6*
Emerging economies (year-on-year growth)						
Brazil	1.4	1.9	3.3	*2.7*	*0.9*	–
India	4.7	4.8	4.4	*6.3*	*3.2*	–
China	7.9	7.7	7.5	*9.3*	*7.7*	–
Russia	2.1	1.6	1.2	*4.3*	*3.4*	–

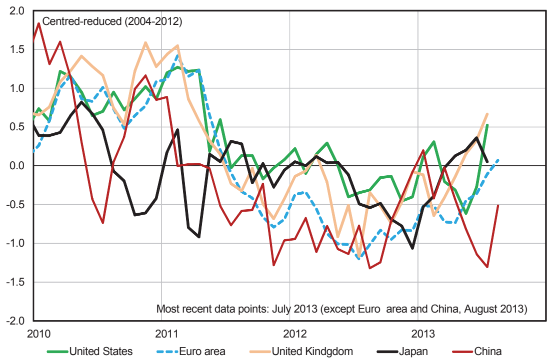
** Cumulative growth at the end of 2nd quarter, except for Ireland (1st quarter). **Only year-on-year growth figures are published at this time. *** No adjustment for working days.*

Sources: IHS Global Insight and Eurostat; slight discrepancies with the annual accounts may occur because of the working day adjustments.

1.3 In the second half of 2013, growth should continue to resume in most of the advanced economies, while the slowdown in emerging economies is expected to be ongoing

The economic indicators available in the third quarter of 2013 point to a continuing improvement in the economic outlook in the leading advanced economies (see Chart 3). In the United States, job growth will remain strong and business and household surveys are particularly favourable, as they are in the United Kingdom. Survey data from the euro area also point to a continuing improvement in the economic outlook within the monetary union, affecting all of its leading economies. Business confidence, as shown by the purchasing manager indices, is at its highest level since the third quarter of 2011. In Germany, the outlook according to the IFO national survey of entrepreneurs and the ZEW survey of financial analysts is relatively bright, pointing to continuing strong growth in the third quarter of 2013. In the second half of the year, however, the economic recovery in the euro area should still be slow, with ongoing fiscal consolidation efforts and adjustments in the southern countries, where the private sector and, more specifically businesses, are likely to still have difficulty gaining access to credit (see Box 1). In Japan, it is expected that accommodative monetary and fiscal policy, along with the past depreciation of the yen, will continue to sustain growth. In contrast, growth in the emerging economies should continue to slow as a result of the rebalancing of certain growth models and the heightened financial tension seen in recent months.

Chart 3: Purchasing manager surveys in the manufacturing sector



Source: ISM, Markit.

Box 1: **Bank lending in the euro area, the United Kingdom and Japan**

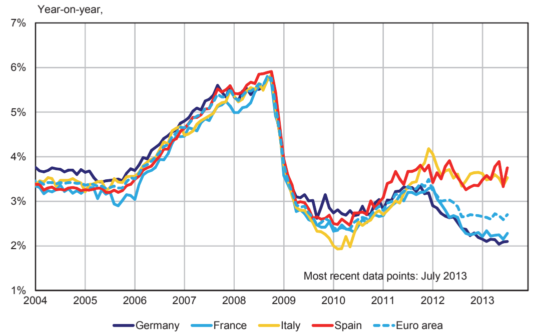
Euro-area businesses have difficulty gaining access to credit, particularly SMEs in the southern countries

Tensions on euro-area sovereign and interbank markets started to ease in the middle of 2012, but this easing was only partially passed on in the borrowing terms offered to euro-area businesses. Interest rates on new loans to non-financial corporations are at historically low levels overall, but with large disparities between countries (see Chart 4). Outstanding loan amounts continued to decline, especially in the peripheral countries, whereas lending growth was flat in the core countries owing to weak demand.

The Bank Lending Survey (BLS) over the last several quarters has shown less tightening of credit terms for business loans and continuing weak demand, but the Survey on the Access to Finance of SMEs in the euro area (SAFE) shows: (i) increasing discouragement of business leaders who are less likely to turn to their banks for financing and (ii) persistent problems with access and constraints for those who do apply for bank loans, particularly in the southern countries. A large number of Spanish and Italian SMEs in particular report that their loan applications have been rejected or only partially accepted (see Chart 5).

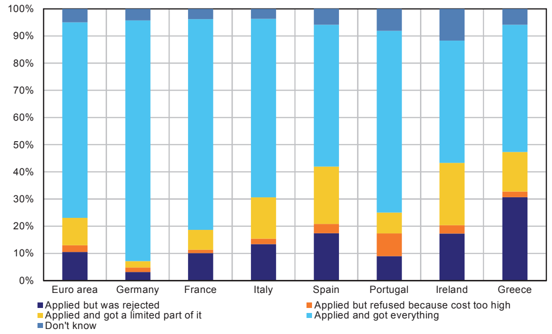
Businesses' access to bank loans, which are the main form of financing for European businesses, is still problematic, especially in the countries with fragile banking sectors and where banks' perception of risk has been exacerbated by weaker macroeconomic fundamentals and high levels of business debt (208% of value added in Spain and 171% in Italy, compared to 132% for the euro area as a whole in 2012). Greater improvement in the economic situation calls for re-establishing access to credit so that business and household investment projects are not cancelled or deferred. The establishment of a banking union, which the European Council of June 2013 cited as a priority, should help reduce financial fragmentation and restore normal credit terms. Development of non-bank intermediation is also one of the recommendations that the European Council has made to several Member States.

Chart 4: Euro area: interest rate on new loans to NFCs



Sources: European Central Bank.

Chart 5: Euro area: bank lending obstacles reported by SMEs in the ECB's SAFE* survey



Source: European Central Bank.

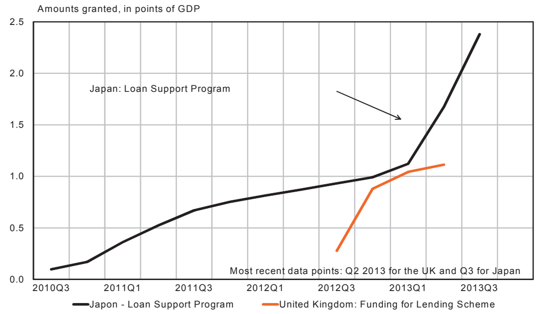
**SAFE (SME Access to Finance Survey) (October 2012 - March 2013).*

Outside of the euro area, the Bank of England and the Bank of Japan have established more or less successful programmes to support credit

These programmes involve providing long-term liquidity to banks to encourage lending to the real economy. **The British Funding for Lending Scheme was launched in the third quarter of 2012 and takes the form of four-year collateral swaps.** The Bank of England provides private-sector banks with government securities in exchange for a wide range of collateral. The swap price and volume depend on the increase in lending to the economy: the more a bank lends to households and businesses, the greater the volume of the swaps and the lower the price. The banks can use the new collateral received in this way to obtain financing at a lower cost than would have been possible with the initial collateral. In April 2013, the scheme was expanded to promote lending to SMEs in particular. **Japan's Loan Support Program operates in a similar manner.** The Bank of Japan provides short- and-medium-term loans to banks (up to 4 years with renewals) for amounts corresponding to the net increase in lending to non-financial corporations and households. The new scheme introduced in December 2012, the Stimulating Bank Lending Facility, provides unlimited amounts, unlike the previous scheme started in June 2010 (Growth-Supporting Funding Facility). The lending rate is the same as the Bank of Japan's rate of 0.1%. These loans are backed by the same assets as those accepted for standard transactions.

There is uneven demand for these two programmes (see Chart 6). The amounts lent under the UK programme have been quite small up until now, which is probably a reflection of weak demand from businesses. In contrast, demand for Japan's scheme has been strong, as growth has increased since the beginning of the year.

Chart 6: Amounts granted under funding programmes in the United Kingdom and Japan



Sources: BoE, BoJ.

2. Global growth should be somewhat stronger in 2014, driven primarily by the United States and the euro area, where fiscal efforts should be much less intense than in 2013.

Global growth should pick up slightly in 2014, with stronger growth in the United States and, most importantly, a recovery in Europe likely to stem from the easing of fiscal efforts against the backdrop of continuing accommodative monetary policy (see Box 2). This resumption of global growth is expected to be driven by stronger household and corporate demand. In the United States, household deleveraging efforts seem to be easing, and, in Germany, capital expenditure could drive growth as the economic outlook improves. Firmer demand should lead to renewed trade growth, as the advanced economies recover, along with slightly stronger growth in the emerging economies, although it will fall far short of the trade growth rates prevailing before 2008.

Yet, different economies should continue to post widely varying growth rates (see Table 2) as a result of persistent structural impediments in some euro-area countries that affect the level of financing for the economy, progress on debt reduction and the recovery of real-estate markets.

Box 2: **The leading advanced economies' economic policies up to 2014**

The leading central banks are applying highly accommodative monetary policies, but to varying degrees.

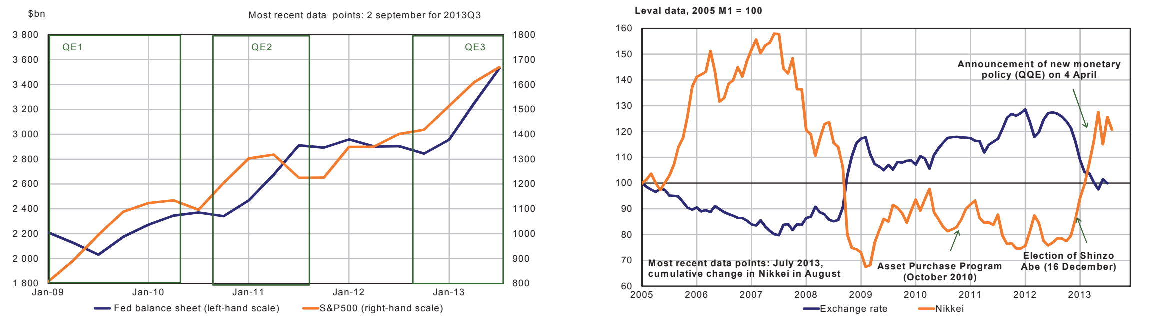
In the euro area, the ECB left its key rates unchanged at 0.5% in September. It also introduced qualitative "forward guidance" when announcing its policy decision in July, stating that it expected key interest rates to remain at or below current levels "for an extended period". The Bank of England also introduced forward guidance in its August Inflation Report, stating that it would keep rates low until unemployment dipped below 7% again, unless this approach interfered with meeting its price stability and financial stability targets.

Expansionary policies continue in the United States and Japan. In addition to its commitment to keeping its key interest rate near zero, as long as it does not affect the inflation (2.5%) and unemployment (6.5%) targets, the Fed has continued to buy bonds, purchasing $85bn each month. That said, the Chairman of the Fed explicitly stated after the Federal Open Market Committee meetings on 18 and 19 June that the Fed's bond buying would be wound down later in 2013 before being halted in the middle of 2014. The new Monetary Policy Board at the Bank of Japan announced a new Quantitative and Qualitative Easing (QQE) framework at its first meeting on 4 April. The main characteristics of this new regime are: (i) the timeframe for achieving the inflation target of 2% established back in January has been set at two years; (ii) the operating target is now the monetary base, rather than the overnight call rate, and the timeframe for doubling the monetary base is also two years; (iii) the Bank of Japan's holdings of Japanese government bonds are to be doubled.

The transmission of unconventional monetary policy to the real economy can pass through several channels. In the United States, the monetary base is increased through purchases of Treasury securities and mortgage-backed securities (MBS). This pushes equities prices higher, either because investors switch to equities, which produce higher returns than Treasuries (portfolio rebalancing), or because the bond buying signifies lasting accommodative financing terms ("signal" effect). This development is favourable for all of the players in a country with strong "wealth effects" (see Chart 7). In Japan, purchases of long-dated government bonds and riskier securities (trade bills, corporate bonds and bonds issued by Japanese real-estate investment companies) are aimed at lowering real long-term rates and reducing risk premiums, thereby encouraging investors to rebalance their portfolios with riskier assets, such as equities, and at raising inflation expectations to drive the yen down. The yen has dropped sharply since September 2012, which is likely to boost exports and improve the financial situation of businesses. Japanese firms used this opportunity to rebuild their margins by increasing their export prices. The Nikkei index also rose rapidly. The success of the strategy was seen with stronger inflation expectations, which made it possible to lower real interest rates.

Chart 7: Monetary policy transmission channels

United States: monetary base and equity prices | Exchange rate and stock market index

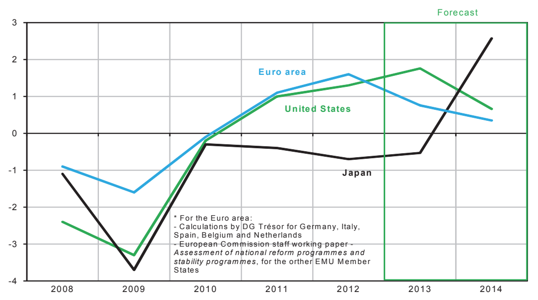


Sources: Fed, IHS Global Insight, DG Trésor calculations. | *Sources: IHS Global Insight, DG Trésor calculations.*

Efforts for fiscal consolidation will taper off, except in Japan (see Chart 8).

In the United States, the major structural effort in 2013 (equivalent to 1.7 points of GDP) should be more than halved in 2014 and will no longer affect households. In the euro area, consolidation measures were frontloaded in 2012 and have been tapering off since then. The pattern in Japan should be the reverse. Starting in 2014, fiscal policy will be used to consolidate public finances, with a 3–point increase in the consumption tax planned for April, combined with the letdown following the stimulus package introduced at the beginning of 2013.

Chart 8: Primary structural adjustment in the leading advanced economies (points of GDP)



Sources: IMF, OECD, European Commission. DG Trésor forecasts.

2.1 Euro area growth will pick up again gradually as a new balance is struck

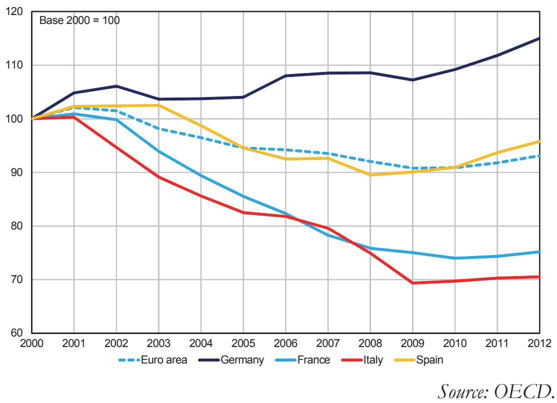
After contracting for the second year in a row in 2013, the euro area's economy should start expanding again in 2014 as less restrictive fiscal policies, more flexible credit terms and reduced uncertainty gradually remove the obstacles to growth. This recovery is expected to be self-sustaining, as the more favourable outlook for demand promotes investment and employment, thereby boosting consumption. Growth should remain moderate but will vary significantly on a country-by-country basis.

Germany should see stronger growth in 2014, after posting moderate GDP growth in 2013, which was driven solely by private consumption, since soft global demand and a slight loss of price competitiveness put a drag on exports. Germany's recovery should stem primarily from the full resumption of business investment, since companies are in a comfortable financial situation, combined with strong wage growth and a more favourable international environment. The contribution of exports to growth should be slightly negative once again, leading to a rebalancing of the growth model, with a larger contribution from domestic demand.

Italy's economy should continue to decline in 2013, with persistent financing problems and further efforts to consolidate public finances. It should start expanding again, albeit moderately, in 2014, as fiscal consolidation efforts ease and the government pays off arrears of €40bn. These payments should increase the deficit by only 0.5 points of GDP[2], but they will ease corporate cash requirements and boost investment.

Spain's recession should continue in 2013, as domestic demand remains stagnant and foreign trade is once again the only factor supporting growth. GDP could start growing again in 2014. As is the case in other countries, fiscal consolidation should be less severe and business investment should be boosted by companies' sounder financial situation resulting from productivity gains that outstrip increases in wage bills. The recovery in capital expenditure hinges on the gradual easing of financing problems. However, growth should be modest, hampered by high levels of household debt (see Box 3) and very high unemployment.

Chart 9: Export performance of the euro area and its leading economies



Source: OECD.

Improving export performance in the leading euro-area economies should boost the expected recovery and promote a rebalanced growth model. The euro-area trade balance has improved very significantly recently, reflecting the improved export performance of the leading economies (see Chart 9), whereas weak domestic demand has curbed import growth. All in all, the import coverage ratio has improved greatly in recent years, outstripping the results that could be expected from the usual macroeconomic determinants. The contribution of exports to euro-area GDP growth should be smaller in 2014 as a result of stronger domestic demand.

2.2 Growth in the rest of the world should remain stronger than in the euro area

Major disparities between the growth rates of different areas of the globe should persist in 2014. While the leading advanced economies, except Japan, have fairly similar economic policies, with support from monetary policy and less severe fiscal consolidation in the future, there are fewer structural problems in the United States and in the United Kingdom, albeit to a lesser extent, particularly in terms of reducing household debt (see Box 3).

In the United States, growth should rebound in 2014, following a slowdown in 2013 resulting from intense fiscal efforts. Household consumption should continue to be the main driver of growth. The need for precautionary savings has decreased and households have succeeded in reducing their debt burden. Private consumption should also be boosted by the wealth effects stemming from bullish financial and real-estate markets. On the other hand, public-sector consumption should decline once again, since the fiscal efforts will now primarily affect government spending. Investment in residential real estate should continue to increase strongly, driven by rising prices. Businesses are expected to use their sound financial situation to invest more as domestic demand bounces back.

In the United Kingdom, growth should primarily be sustained by greater exports to the euro area, its main trading partner, and by what is now somewhat firmer domestic demand, even though household and corporate debt is still being reduced. But major fiscal consolidation efforts that focus mainly on public expenditure should continue to put a drag on growth.

Japan's growth has been driven by very expansionary economic policy since the beginning of 2013, where fiscal and monetary measures have led to rising stock markets and depreciation of the yen. In contrast to the other leading advanced economies, Japan's growth should slow in 2014, largely as a result of a massive effort to consolidate public finances.

In emerging economies, growth could be slightly stronger in 2014, particularly in India, Russia and Brazil, although it should be much slower than the average rates seen in the first decade of the new millennium. Some of this slower growth seems to be structural, as emerging economies catch up with the advanced economies and their market shares stabilise, and it reflects long-term economic issues (changes in growth models, inflation, infrastructure investment deficits, competitiveness and governance). Each emerging economy also faces its own specific challenges, such as India's twin deficits, China's ageing population and the rebalancing of its growth model in favour of consumption, social unrest in Brazil and diversification of Russia's economy.

(2) Out of the €40bn, only €7.7bn for capital expenditure had not already been included in the government deficit.

Table 2: Growth forecasts

	2011	2012	2013	2014
	(non adjusted for working days)		*(forecast, non adjusted for working days)*	
Global growth	**3.9**	**3.2**	**2.9**	**3.7**
Advanced economies	**1.7**	**1.4**	**1.1**	**2.1**
United States	1.8	2.8	1.4	2.6
Japan	–0.6	2.0	1.5	1.1
United Kingdom	1.1	0.2	1.2	1.7
Euro area	1.5	–0.6	–0.5	1.0
Germany	*3.3*	*0.7*	*0.6*	*1.6*
Italy	*0.4*	*–2.4*	*–1.9*	*0.6*
Spain	*0.1*	*–1.6*	*–1.4*	*0.6*
Emerging / developing economies	**6.2**	**4.9**	**4.8**	**5.3**
China	*9.3*	*7.7*	*7.2*	*7.2*

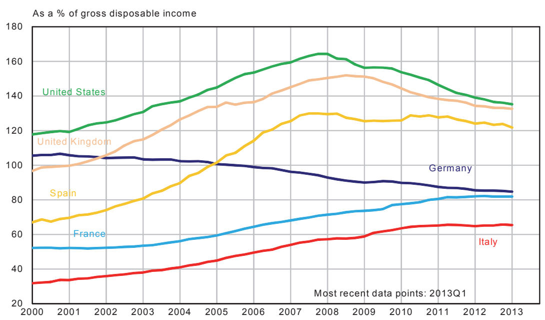
Sources: IHS Global Insight, DG Trésor forecasts.

Box 3: Uneven progress on household deleveraging in Spain, the United Kingdom and the United States

After the crisis, household deleveraging hampered growth. In the United Kingdom and the United States, as well as Spain, households had accumulated very high levels of debt as a proportion of their income. This debt became unsustainable when their net wealth collapsed following the bursting of real-estate bubbles and the big drop in equities prices during the crisis. Since then, households have achieved massive deleveraging in the United States and, to a lesser extent, in the United Kingdom. In contrast, household debt has remained relatively stable in Spain, in contrast to the other leading economies in the euro area (see Chart 10).

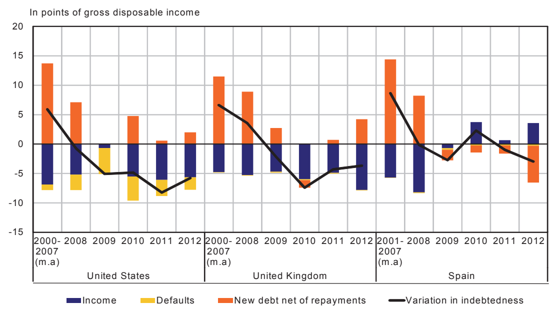
Deleveraging was easier in the United Kingdom and the United States because of the economic context and, in the case of the latter, the more favourable legal context (see Chart 11). **In the United States**, households achieved rapid and massive deleveraging (by 24 points of gross disposable income between 2009 and 2012). This was made possible by renewed income growth starting in 2010, which reduced debt as a proportion of income, and the enhanced personal bankruptcy rules, which make it easier for households to default on financial obligations than in other countries. The cost of this deleveraging, therefore, was borne in part by the financial sector and, ultimately, by the government, since much of the mortgage debt was guaranteed by Freddie Mac and Fannie Mae, which were nationalised at the height of the crisis. Households also increased their savings, but, on aggregate, new lending has always outstripped repayment of existing loans. In the United Kingdom, deleveraging was slightly weaker (18 points of gross disposable income) and the cost was borne mainly by households. Their efforts to pay down their debt were accompanied by steady growth in their income (approximately 4% on average per year over the period in nominal terms), in a legal context where defaults are rare. On the other hand, in **Spain**, where households are not able to default on their financial obligations either, households made the greatest effort to reduce their debt, cutting back on their consumption and investment in the process. But falling incomes, which shrank by an average of 1.5% since 2009, so that their debt, expressed as points of income, showed a decline of only 4 points, offset their efforts.

Chart 10: Household indebtedness



Source: Banque de France.

Chart 11: Contributions to changes in household debt

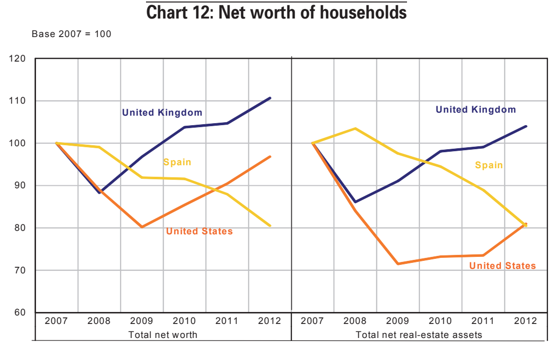


Source: Banque de France, ONS, Eurostat, BEA, Bank of Spain, DG Trésor calculations.

At the same time, contrasting patterns of change in the value of households' assets led to a recovery in the net worth of British and American households, while that of Spanish households declined steadily (see Chart 12). In the United Kingdom, the net worth of households, including real estate and financial assets, had already returned to its pre-crisis level in 2010, since the 2008 crisis had only a slight and short-lived impact on the markets for these assets. In the United States, the recovery in the real-estate market and stock markets, underpinned by the Fed's monetary policy, led to a gradual rebuilding of households' net worth, which has now virtually returned to its pre-crisis level. In contrast, Spanish households, whose real estate constitutes the bulk of their assets, are suffering from the steady decline in property prices since 2008.

Consequently, future debt reduction efforts should be easier for American and British households, which could even gradually start accumulating new debt. In contrast, Spanish households still need to make major savings efforts to cut their debt and their task is made more difficult by their shrinking income.

Chart 12: Net worth of households



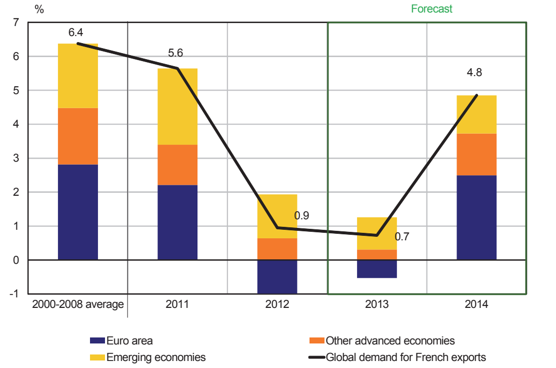
Sources: Fed, ONS, Bank of Spain, Eurostat, BEA, DG Trésor calculations.

3. Following a period of zero growth in 2012 and 2013, world trade should start expanding moderately again

The recovery in trade is expected to go hand-in-hand with global economic growth. World trade will have slowed sharply in 2012 and 2013, even more than could have been expected from the softening of domestic demand inside the euro area and weaker growth in the other leading advanced economies and in the emerging economies. Historically, the growth rate for world trade has been nearly double that of global GDP, but in 2012 and 2013, world trade will have grown less quickly than global GDP. In 2014, world trade should rebound, driven by the recovery in growth rates in the euro area and the rest of the world. Global trade growth should reach 5.25%, which is significantly lower than its historical average of 6.25% between 1982 and 2007.

Demand for French exports should follow the same pattern, with weak growth in 2013 (0.7%) and a rebound in 2014 (4.8%, see Chart 13) The expected growth rate for France is higher than that of global trade owing to the recovery in the euro area, which accounts for more than half of France's foreign trade.

Chart 13: Global demand for French exports (growth and contributions by area, in %)



Source: DG Trésor.

4. Many uncertainties surround to world growth

Many question marks remain regarding the economic scenario we have outlined here. The recovery could take place more quickly if economic agents have some leeway to increase their spending. This applies to the government, household and corporate sectors. For example, American and German businesses, which have significant financial firepower, could increase their capital expenditure. As a general rule, firmer domestic demand in economies posting current-account surpluses could speed up the rebalancing of the growth model and make stronger world economic growth possible.

On the other hand, further uncertainty in the euro area, a premature halt to unconventional monetary policy measures in the United States, concern about the sustainability of Japan's public finances and worries about the growth of emerging economies could hamper the ongoing recovery. Furthermore, recent increases in geopolitical tensions have driven up oil prices. The price of a barrel of Brent remained steady during the second quarter at approximately $103, but has been rising since July because of the events in Egypt and Syria. However, the oil market fundamentals are still favourable, with supply outstripping demand in the last two years.

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