

## DECPG Daily Economics and Financial Market Commentary February 13, 2012

Allen Dennis, Eung Ju Kim, Mick Riordan, Cristina Savescu

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**Japan's GDP contracts in Q4 2011.** Weak external demand, a strong yen and flooding in Thailand coalesced to contract Q4 2011 GDP growth in the Japanese economy at an annualized rate of 2.3%.. Exports contracted by 3.1% compared to the previous quarter, when the strong rebound in exports helped power GDP growth in that quarter to 5.6%. Given the importance of Thailand as a regional hub for manufacturing parts, the severe floods there disrupted Japanese manufactured exports in Q4 as factories faced acute shortages of Thai-made parts. With the restoration of supply chains in Thailand, Japan's exports are expected to pick up in Q1 2012, even though headwinds from a stronger yen and weak global demand still exist. Further, increased public investment in post-tsunami reconstruction-related public investment spending is expected to provide additional stimuli to GDP growth in Japan.

**Among Emerging Markets...**In Europe and Central Asia, *Russia's* trade surplus reached a record high of \$20.4 billion in December 2011, but export growth slowed to 19.5% year-on-year (y/y) compared to 29.7% growth for the full year, partly because of a high base (in 2010) for international prices of energy exports and because of slowing global economic growth. *Romania's* industrial production declined by 16.9% month-on-month (m/m) and 2.3% (y/y) in December 2011 because of slower growth of export orders and subdued domestic demand arising from a negative external economic environment, fiscal austerity measures, and domestic political uncertainty.

In the Middle East and North Africa, *Egypt's* consumer price index (CPI) inflation in urban areas decelerated to 8.6% (y/y) in January from December's 9.5%, driven by a fall in food inflation and an increase in policy rates in December.

In South Asia, *Pakistan's* central bank held its discount rate unchanged at 12.0%, citing continuing pressure on rupee liquidity due to uncertain foreign inflows and substantial government borrowings to finance the fiscal deficit despite moderating aggregate demand.

In Sub-Saharan Africa, *Zambia's* copper production rose 1.9% (y/y) to 869,058 tonnes in 2011 while exports increased 5.6% despite a weak global economy.

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