

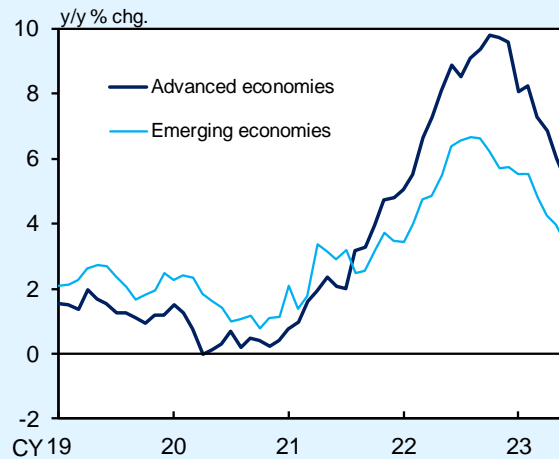
(Box 1) Uncertainties regarding the Pace of Recovery in Overseas Economies

Although the pace of recovery in overseas economies is projected to remain slow for the time being, they are likely to pick up gradually thereafter. However, there are extremely high uncertainties surrounding them, and downside risks have remained a particular concern. Among these risks, the following factors warrant special attention.

The first is uncertainties over price developments and policy interest rate hikes by overseas central banks. Developments in inflation, which have exerted downward pressure on overseas economies, show a clear deceleration in both advanced and emerging economies after inflation reached its peak in the second half of last year, mainly reflecting a decline in energy prices and a waning of supply-side constraints (Chart B1-1). However, inflation rates are still high, especially in advanced economies, and vigilance against the risk of these rates staying elevated through wage increases has been strong in some countries and regions. It is necessary to pay attention to the possibility of overseas economies slowing further if it takes time for inflation rates to be contained and policy interest rates are raised by more than market participants expect.

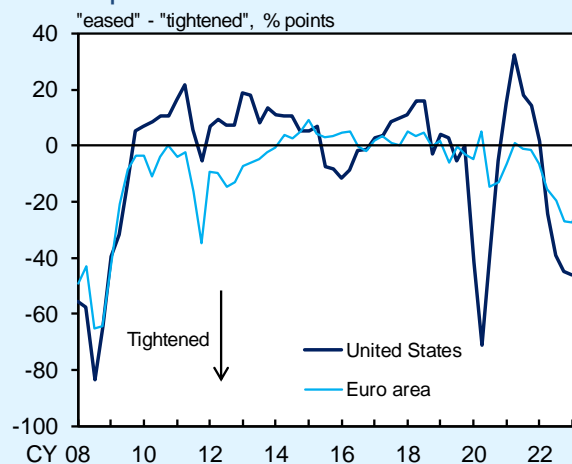
Second, attention also needs to be paid to the possibility that the functioning of financial intermediation will decline as credit risks materialize. In the United States and Europe, banks' lending standards have clearly tightened since last year (Chart B1-2). After the failures of

Chart B1-1: Inflation Rates in Advanced and Emerging Economies



Sources: Haver; CEIC.
 Note: Figures for advanced economies are the median year-on-year rates of change in consumer prices for 17 economies, including the United States and European countries. Figures for emerging economies are the median year-on-year rates of change in consumer prices for 12 economies in Asia (excluding China) and Latin America.

Chart B1-2: Lending Attitudes of U.S. and European Financial Institutions



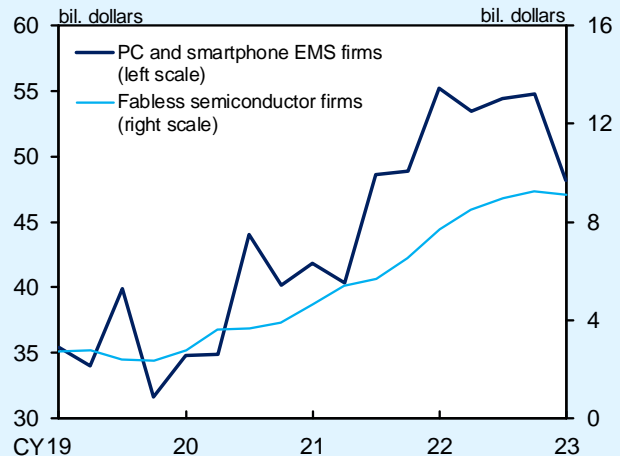
Sources: FRB, "Senior Loan Officer Opinion Survey on Bank Lending Practices"; ECB, "The Euro Area Bank Lending Survey."
 Note: Figures are the percentage of financial institutions responding that they had eased standards for loans minus the percentage responding that they had tightened standards. Figures for the United States are for loans to large and middle-market firms, while those for the euro area are for loans to firms overall.

some financial institutions in these economies this spring, an acceleration in the tightening of lending standards due to this has been avoided. However, as has been of concern with regard to, for example, commercial real estate lending in the United States, there is a risk that a materialization of credit risks will trigger a further tightening of lending standards coupled with a deterioration in banks' balance sheets.

The third factor concerns developments in IT-related demand. Developments in IT-related firms' inventories show that, while inventories are still at high levels, progress with adjustments seems to have begun gradually, especially for products close to final demand (Chart B1-3). Meanwhile, South Korean and Taiwanese IT-related exports have started to bottom out (Chart B1-4). Given these developments, it is highly likely that IT-related demand will head toward a pick-up after bottoming out as inventory adjustments gradually progress. In this regard, anecdotal information from firms indicates that IT-related demand will pick up gradually in the second half of this year. However, if final demand continues to be weak due to, for example, the impact of continued inflation and policy interest rate hikes, the pace of the pick-up could turn out to be slow.

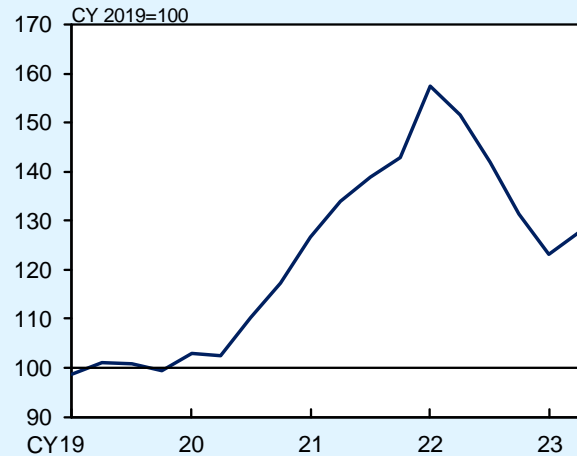
Fourth, there is a risk of a delay in the recovery of the Chinese economy due to prolonged adjustments in the real estate market, as well as on the employment and income side. Looking at the Chinese real estate market, lending to the real estate industry has shown signs of bottoming out -- partly due to government support measures --

Chart B1-3: Inventories of IT-Related Firms



Source: S&P Global Market Intelligence.
 Notes: 1. Figures for PC and smartphone EMS (electronics manufacturing services) firms are for six major EMS providers.
 2. Figures for fabless semiconductor firms are for two major firms that mainly design and sell logic ICs for smartphones.

Chart B1-4: South Korean and Taiwanese IT-Related Exports



Source: CEIC.
 Note: Figures are for nominal exports in U.S. dollar terms.

and there is less concern over developers' financial positions than a while ago (Chart B1-5). However, construction starts have remained weak. Since the real estate industry accounts for a large share of economic activity in China, if adjustments in this industry prolong, this is likely to push down the Chinese economy to a certain degree. Moreover, in the labor market, the increase in youth unemployment has not come to a halt despite the resumption of economic activity, suggesting that adjustment pressure has remained (Chart B1-6). In this context, attention needs to be paid to the risk that it will take a relatively long time for the employment and income situation to improve.

Lastly, it is necessary to keep in mind factors such as the impact of the situation surrounding Ukraine and the prolonged U.S.-China tension. For the time being, close monitoring is required as to whether these various downside risks will materialize.

Chart B1-5: Construction Starts and Bank Loans to Real Estate Industry in China

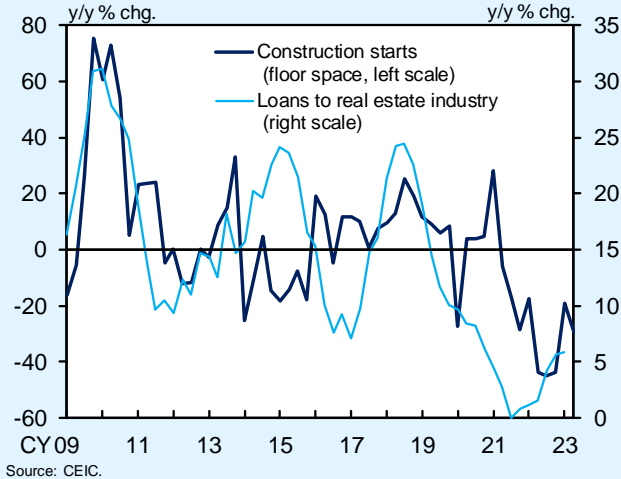


Chart B1-6: Surveyed Urban Unemployment Rate in China

