

A world map composed of white dots on a blue background, centered behind a horizontal teal band.

# Another Lost Decade?

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## Another Lost Decade?

Yes for some countries

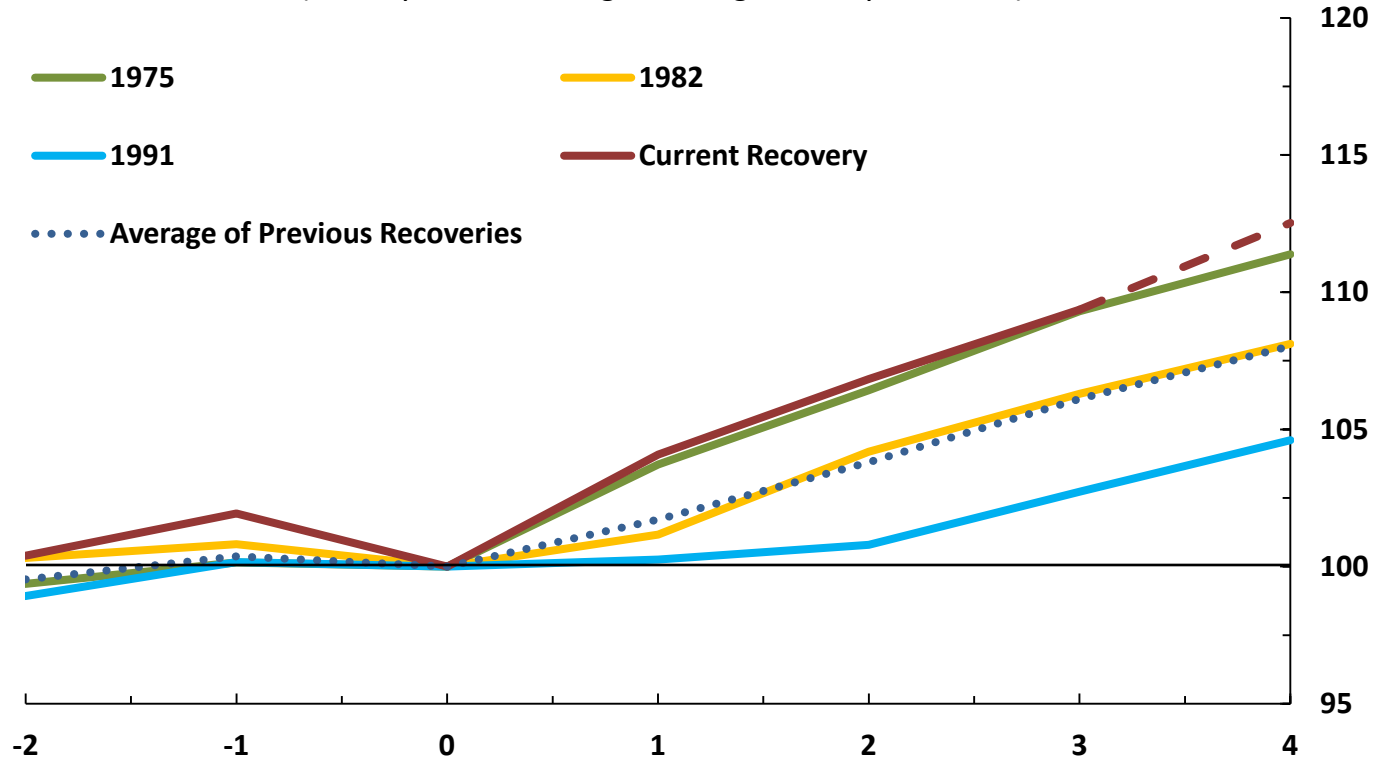
Possibly for more—depends on policies!

No for the majority of countries

# This global recovery is not weak!

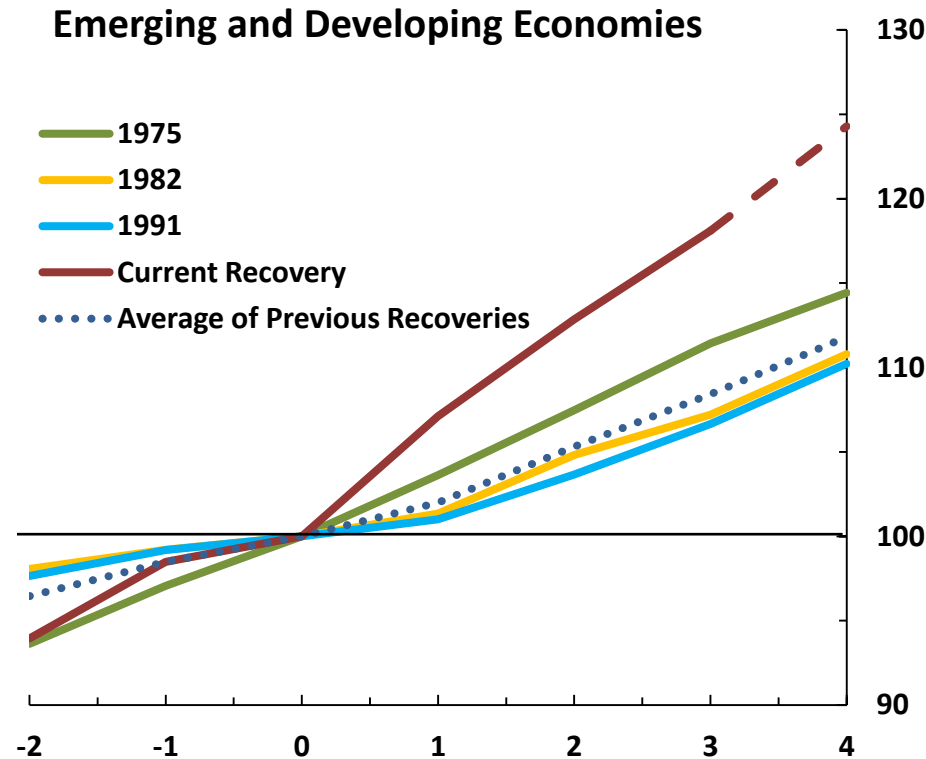
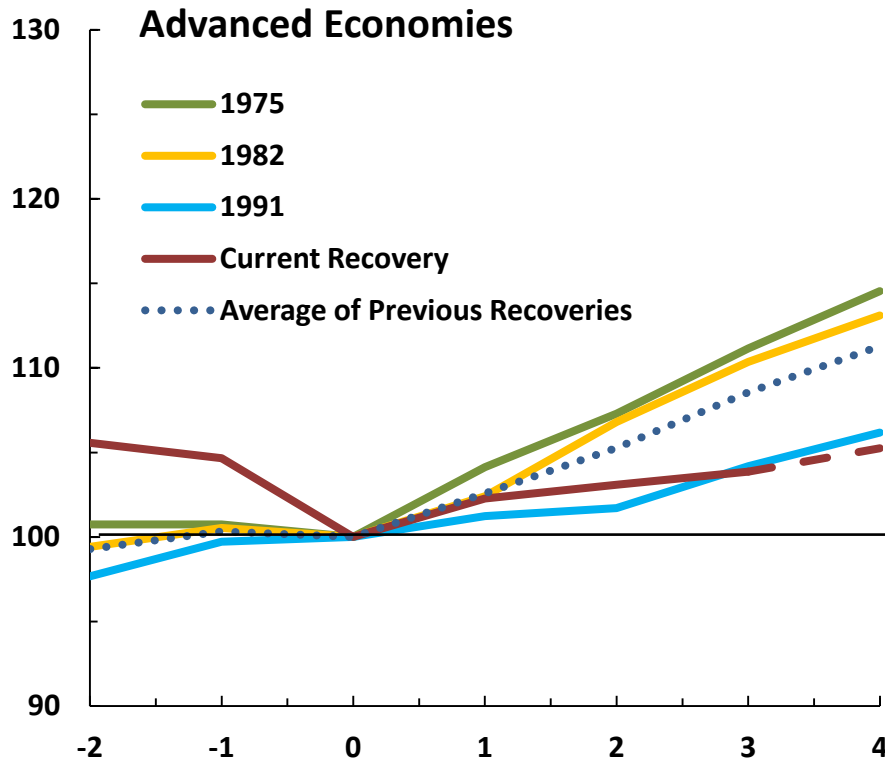
## Global Recoveries: Real GDP

(Per capita, PPP weight; trough in output at  $t=0$ )



# It is weak in advanced economies, not in most emerging economies

**Global Recoveries: Real GDP**  
(Per capita, PPP weight; trough in output at  $t=0$ )



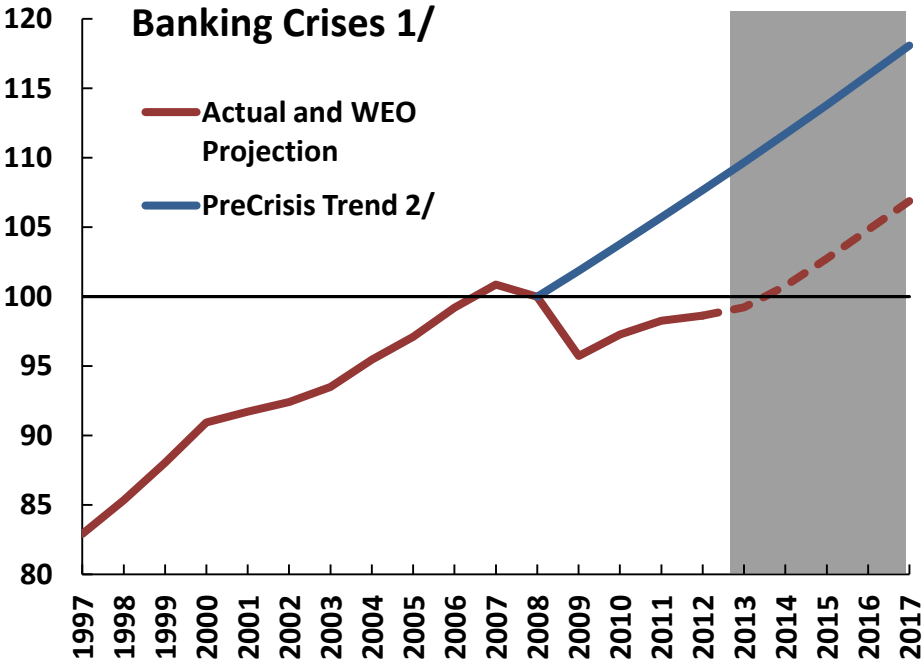


# This is due to widespread financial crises in advanced economies

## Growth and Recovery in Advanced Economies

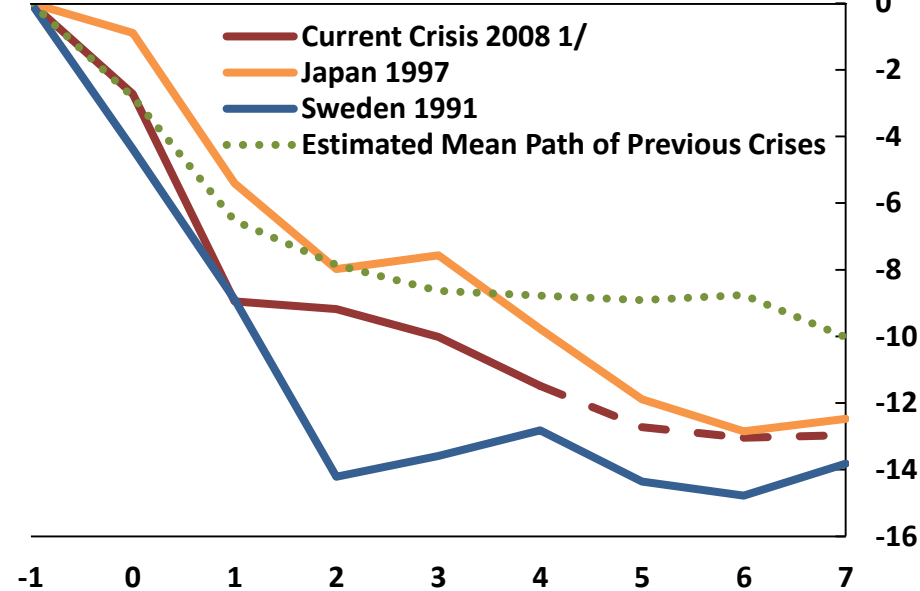
(Real PPP GDP per capita)

### Advanced Economies with Systemic Banking Crises 1/



### Output Dynamics after Banking Crises

(Output in percent of pre-crisis trend; years from crisis on x-axis)



1/ Crisis Countries include Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States.

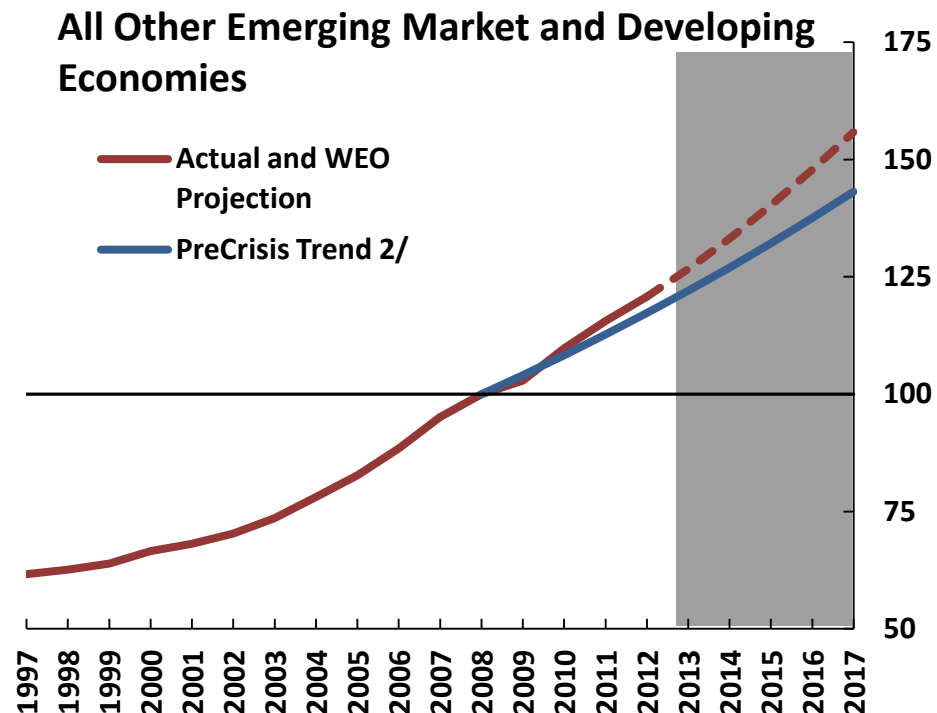
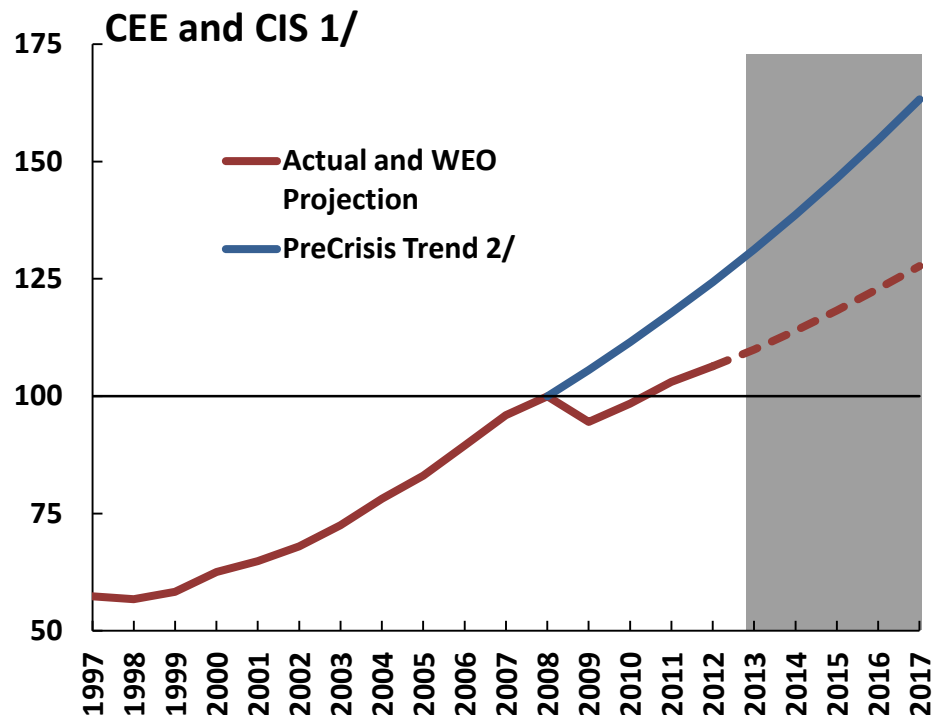
2/ The precrisis trend is estimated based on the window from 10 to 3 years before the crisis.

Sources: World Bank; and IMF staff estimates.

# Among emerging economies, only CEE and CIS economies suffered financial crises

## Growth and Recovery in Emerging Economies

(Real GDP per capita)



1/ CEE: Central and Eastern Europe; CIS: Commonwealth of Independent States.

2/ The precrisis trend is estimated based on the window from 10 to 3 years before the crisis.

Source: IMF staff estimates.

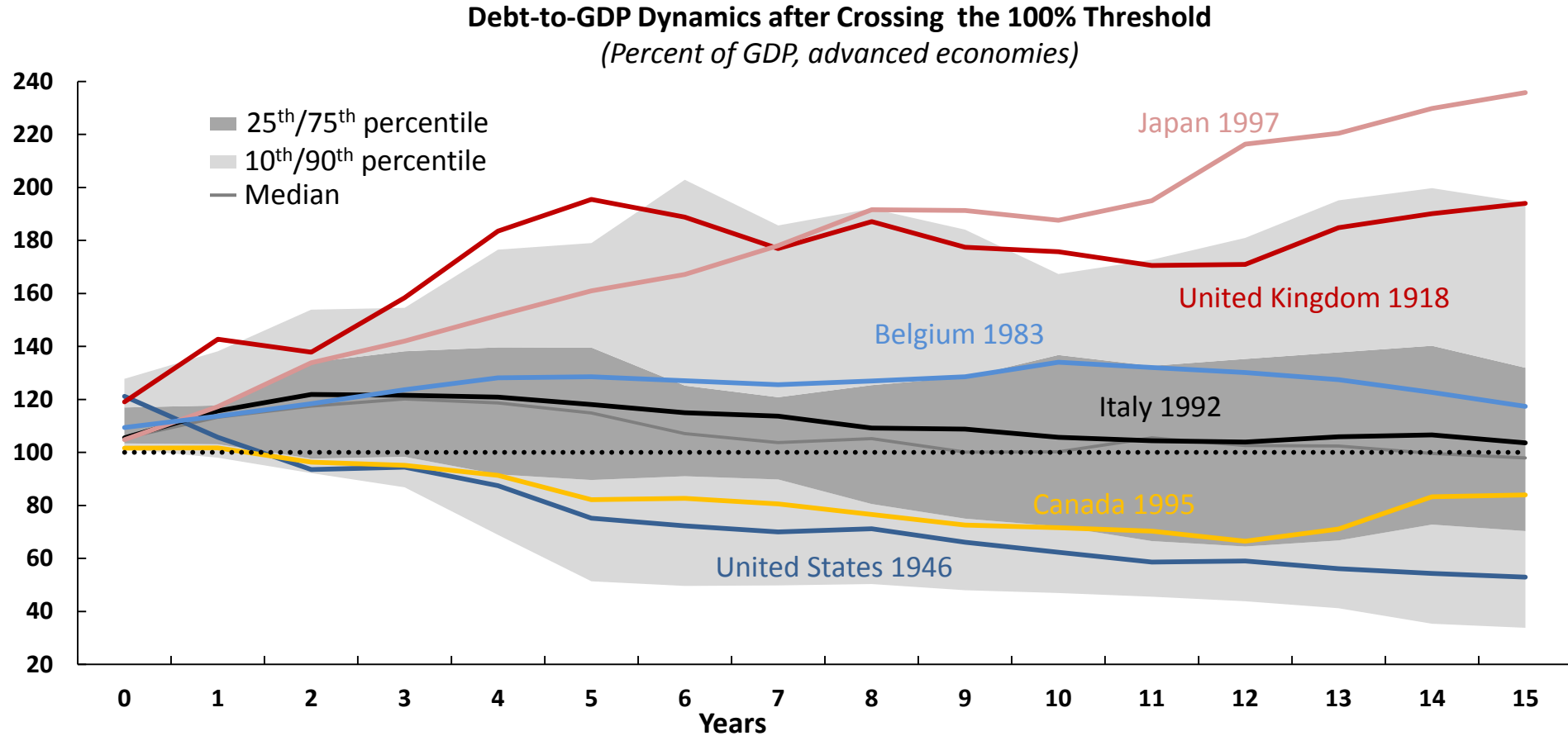
# The legacy of financial crises will weigh on growth in many advanced and various emerging economies

Large fiscal deficits and debt need to be rolled back

Households need to lower leverage

Banks need to build capital and change

# Rolling debt back is a marathon not a sprint and will weigh on growth. In the meantime, monetary policy must support activity.



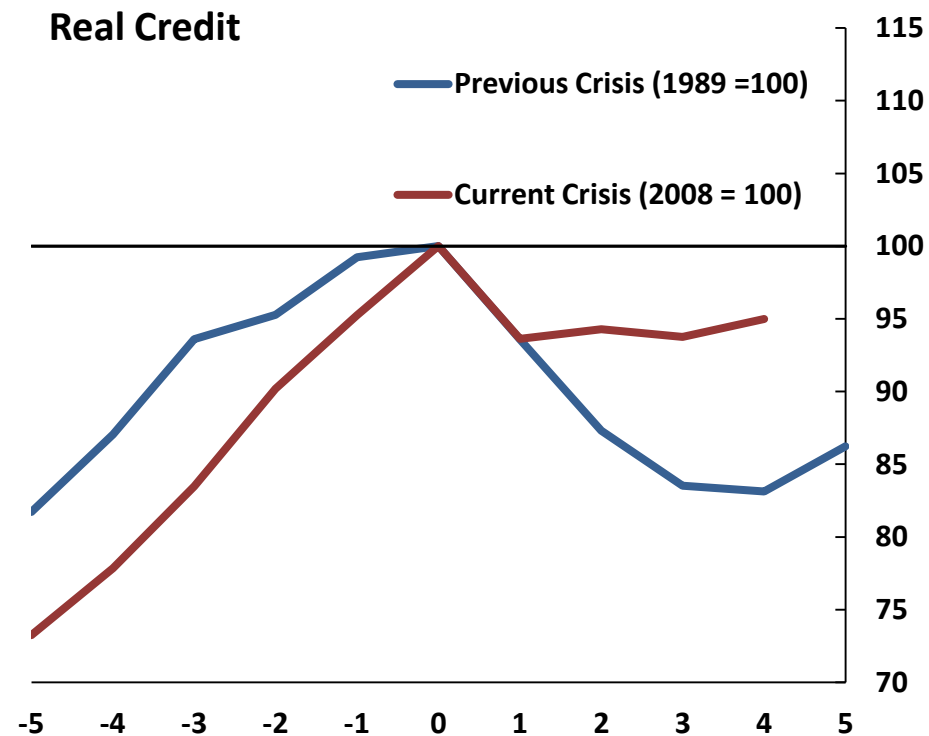
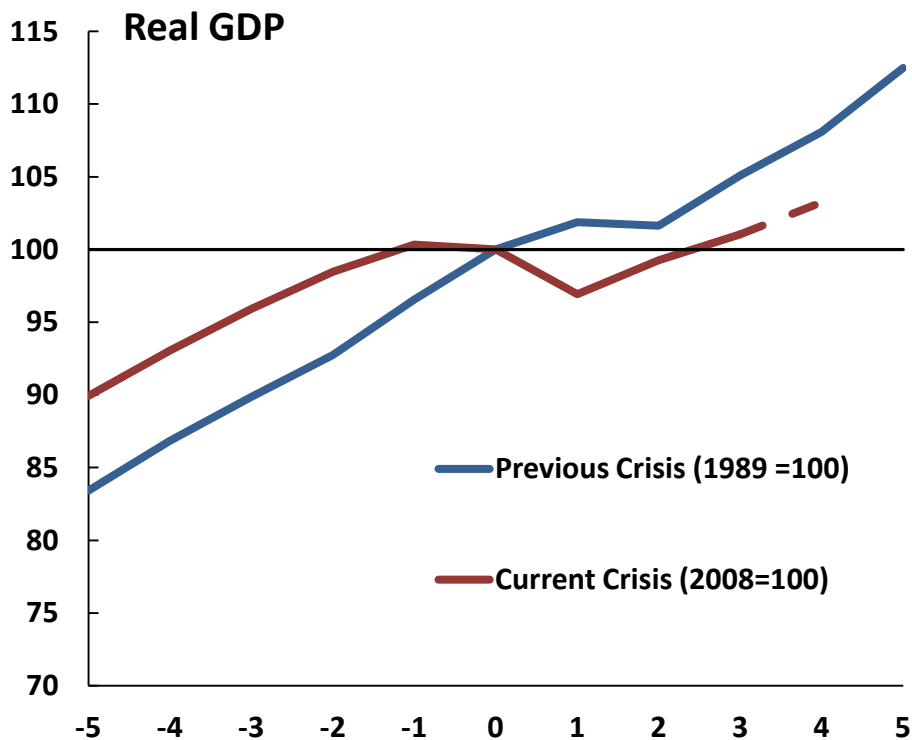
Source: IMF, *World Economic Outlook* (Chapter 3).



# Easy monetary policy has supported credit—without it output and fiscal developments would have been much worse

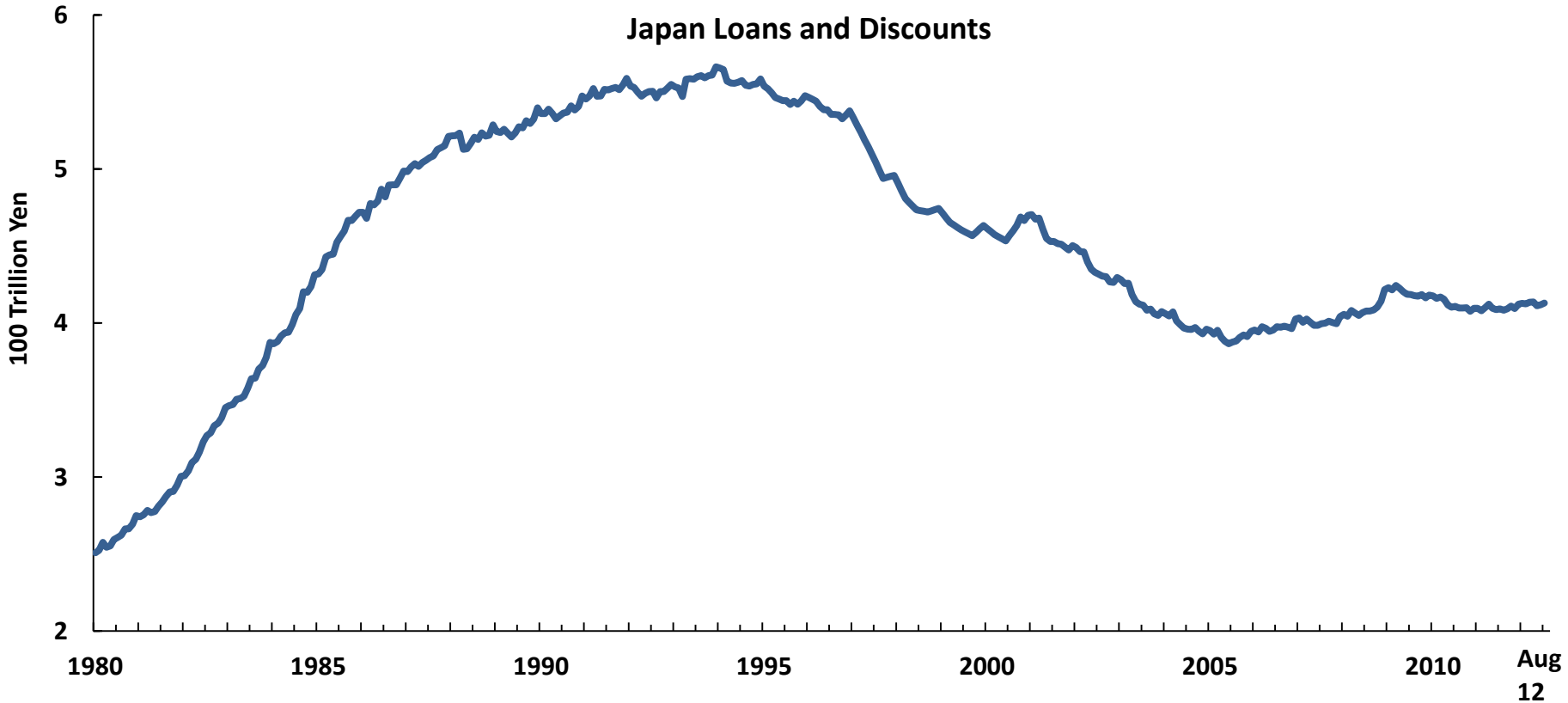
## United States: Crisis Comparisons

(Indices; years from crisis on x-axis)



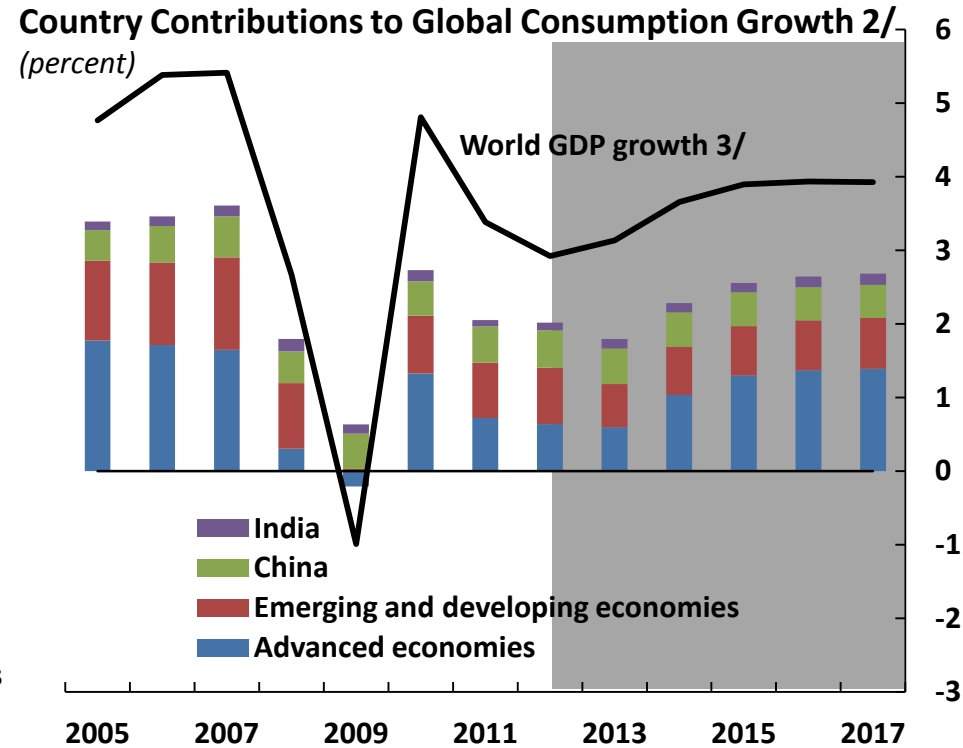
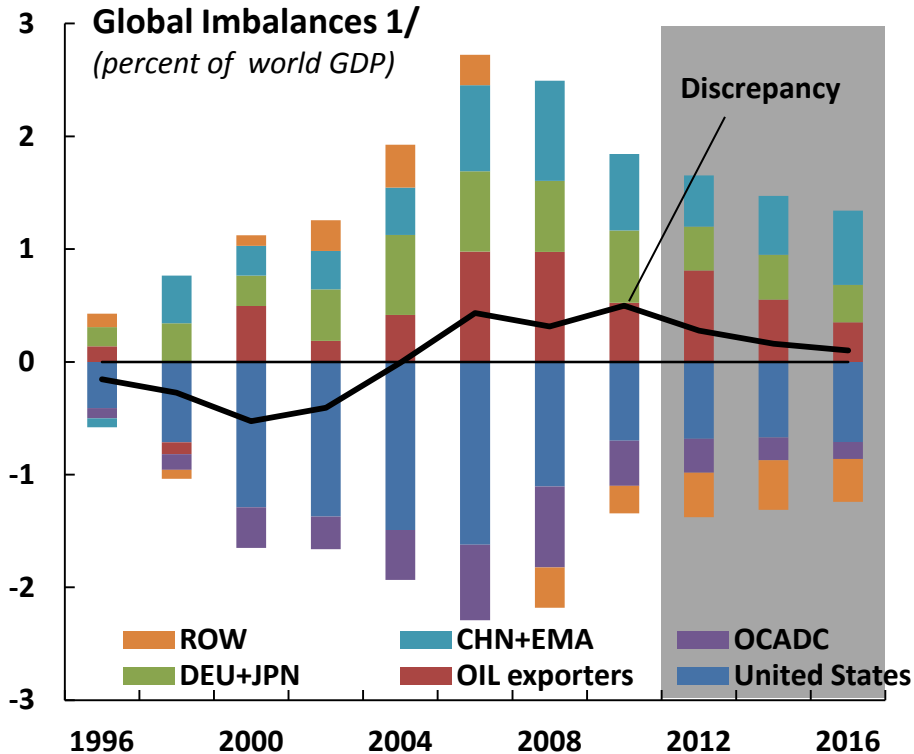
Note: Latest 2012 Credit data are based on June 2012 levels.  
Sources: IMF, *International Financial Statistics*; and IMF staff estimates.

# But, the experience of Japan suggests that unless banks are restructured, credit may still fall



Sources: IMF, *International Financial Statistics*; and Haver.

# Emerging economies are not making up for less consumption in advanced economies. How to advance global demand rebalancing?



1/ CHN+EMA: China, Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, and Thailand; DEU+JPN: Germany and Japan; OCADC: Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Turkey, and United Kingdom; ROW: rest of the world; US: United States.

2/ Based on GDP at 2007 market exchange rates.

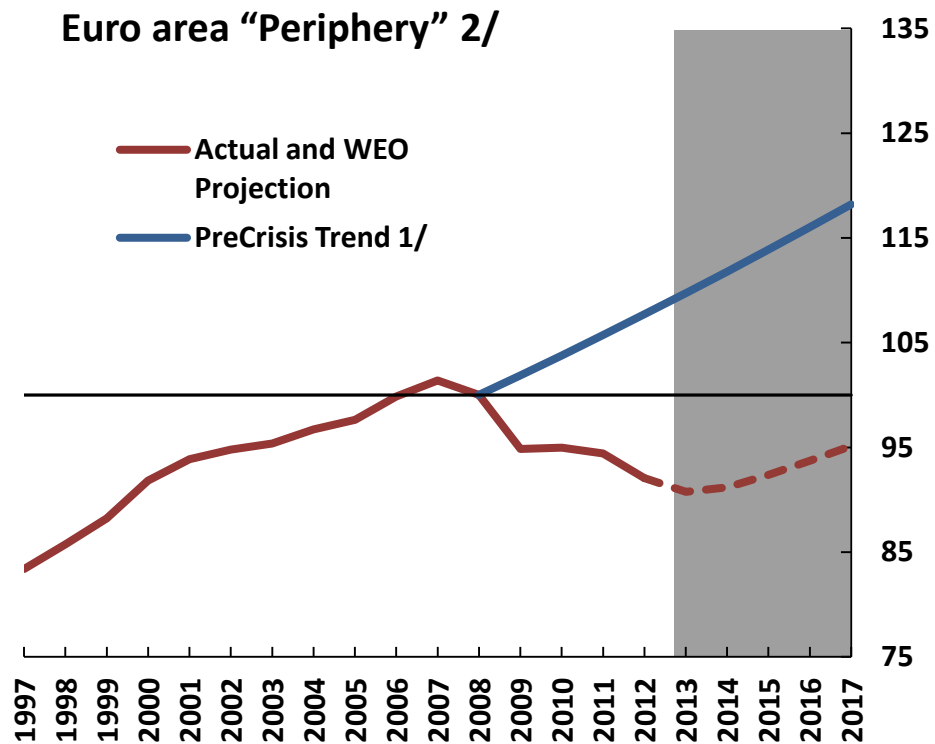
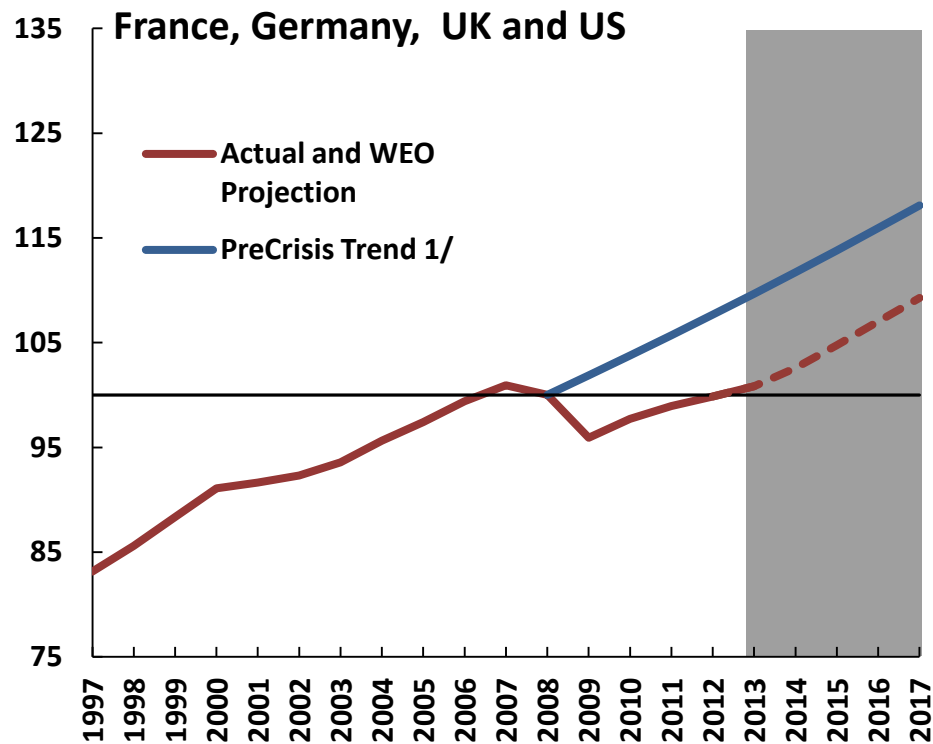
3/ Based on 2007 PPP weights.

Source: IMF staff estimates.

# We forecast large output losses relative to pre-crisis trends in advanced economies. The periphery of the euro area will not return to pre-crisis output per capita in the near future

## Growth and Recovery in Advanced Economies

(Real GDP per capita)



1/The precrisis trend is estimated based on the window from 10 to 3 years before the crisis.

2/ Portugal, Greece, Ireland, Italy and Spain.

Source: IMF Staff estimates.

## Conclusion

A lost decade is inevitable for some; for others it depends on how they go about fiscal/financial restructuring

Many emerging economies may grow less fast but still do well compared to history

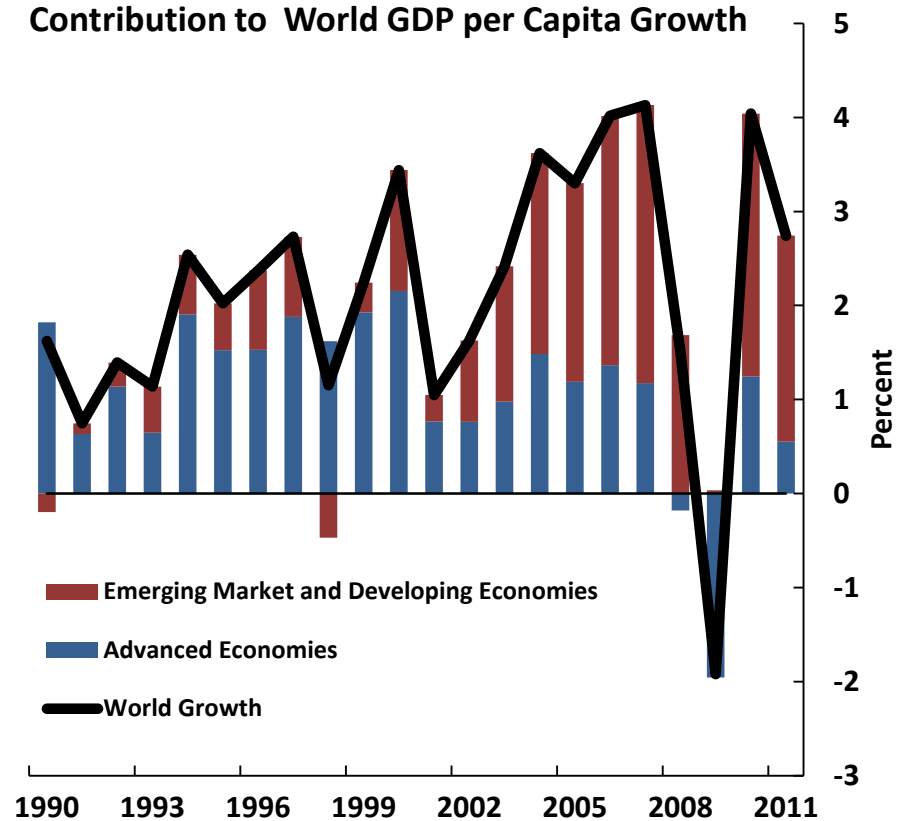
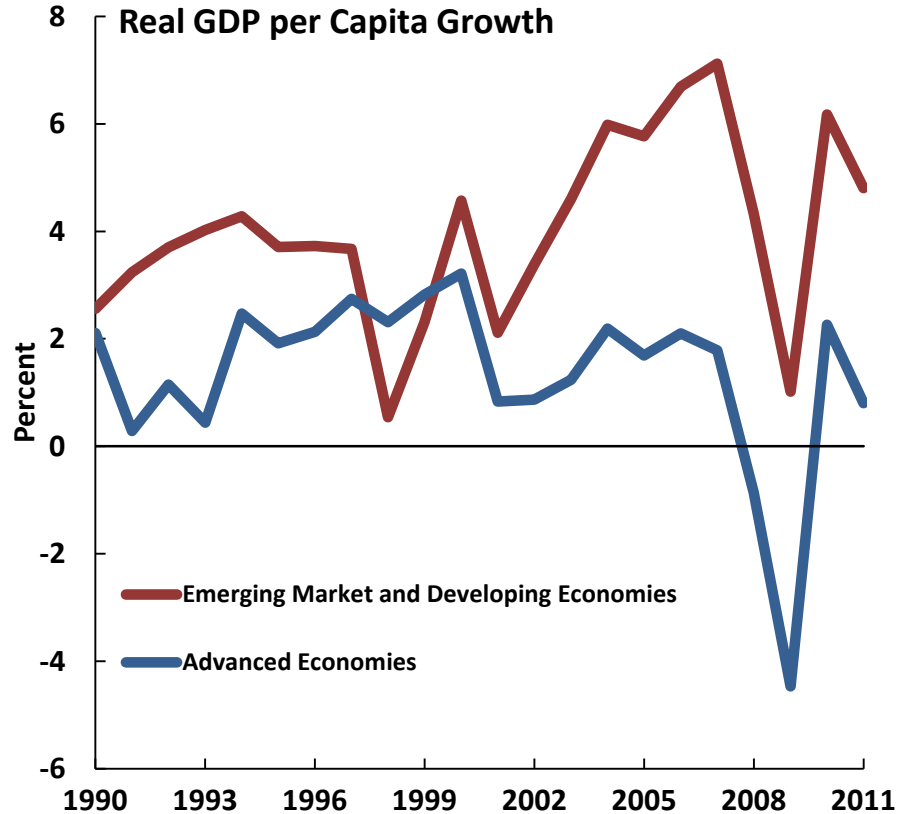
Never let a crisis go to waste!

- Fiscal adjustment not too fast, not too slow
- Restructure and reform financial sectors
- Support orderly household/company deleveraging
- Maintain easy monetary policy to support adjustment
- Advance global demand rebalancing



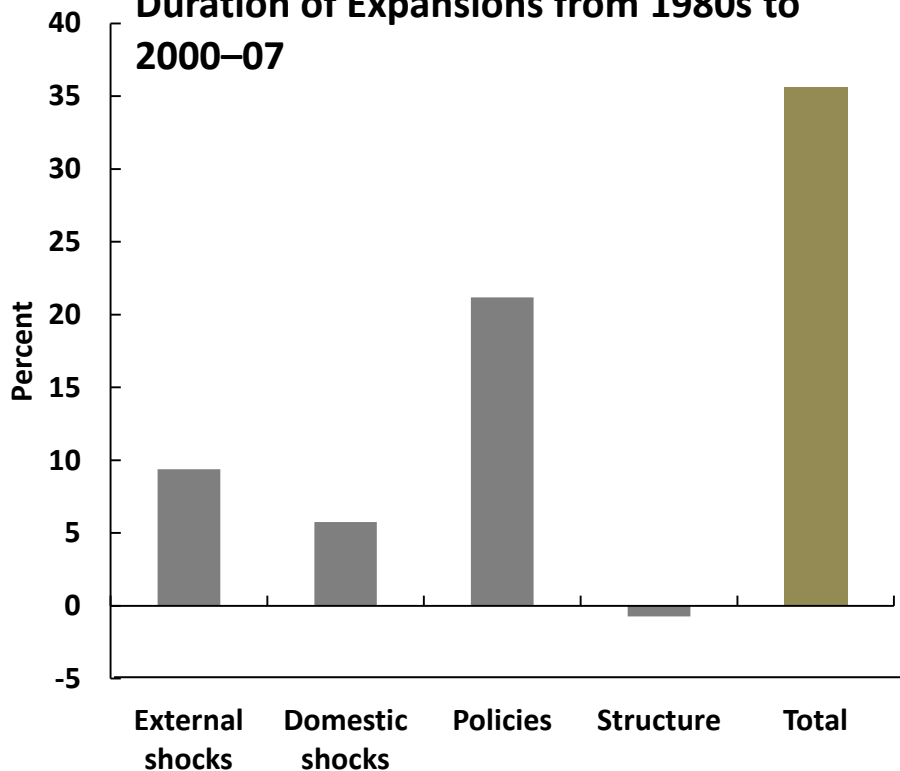
# Backup Slides

# EMDEs have done well over the past decade, and through the global crisis

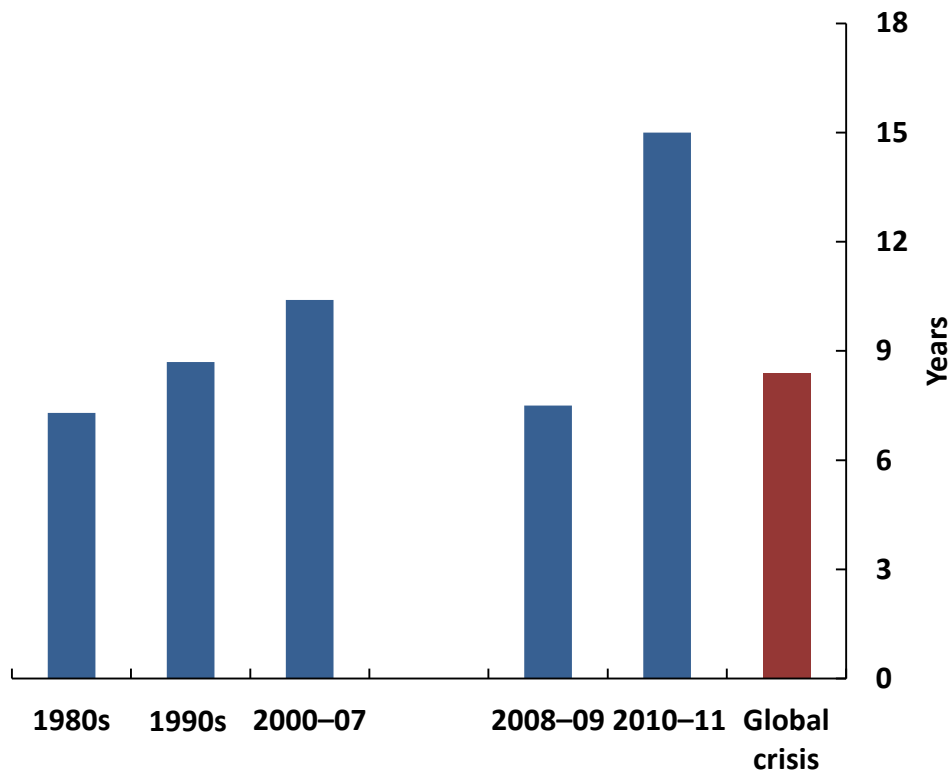


# Improved performance from the 1980s to the 2000s has been mainly due to policies and policy space

## Contribution to Change in Expected Mean Duration of Expansions from 1980s to 2000–07



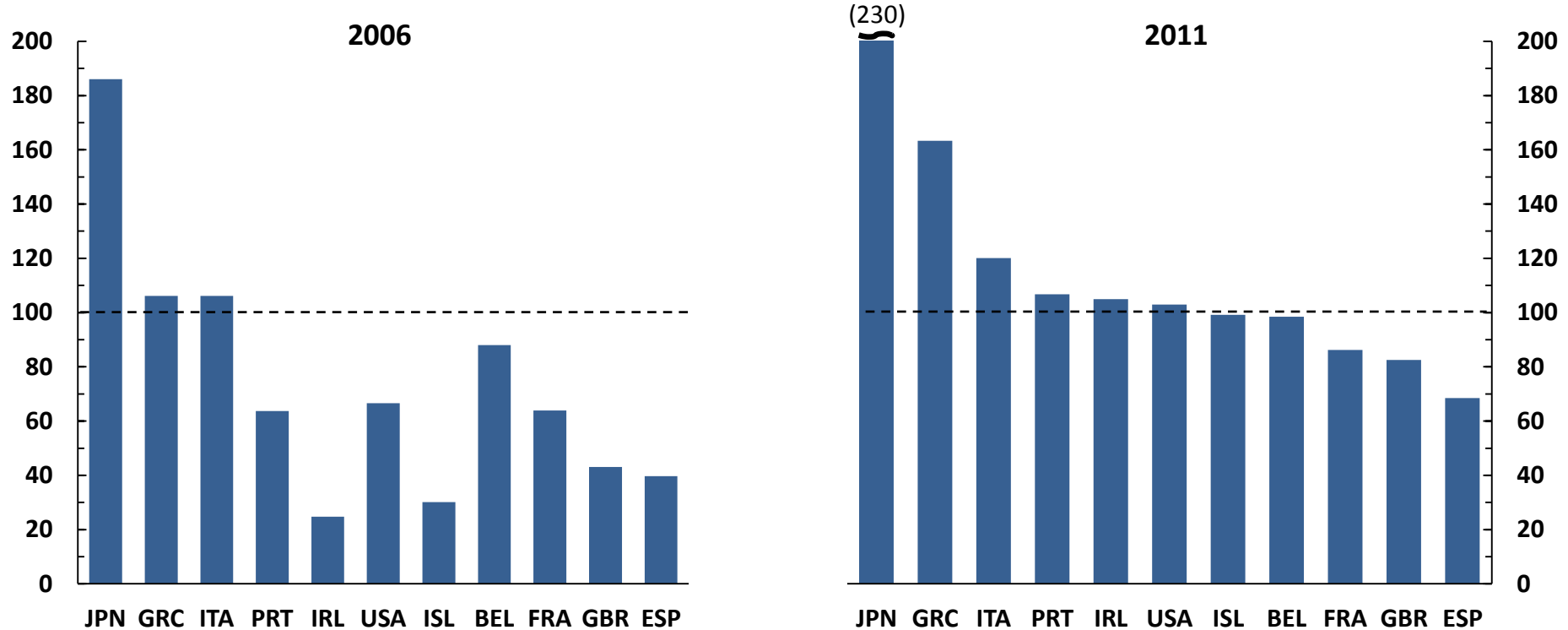
## Expected Mean Duration of Expansions



# Public debt has risen to very high levels in advanced economies

## Public Debt in Advanced Economies

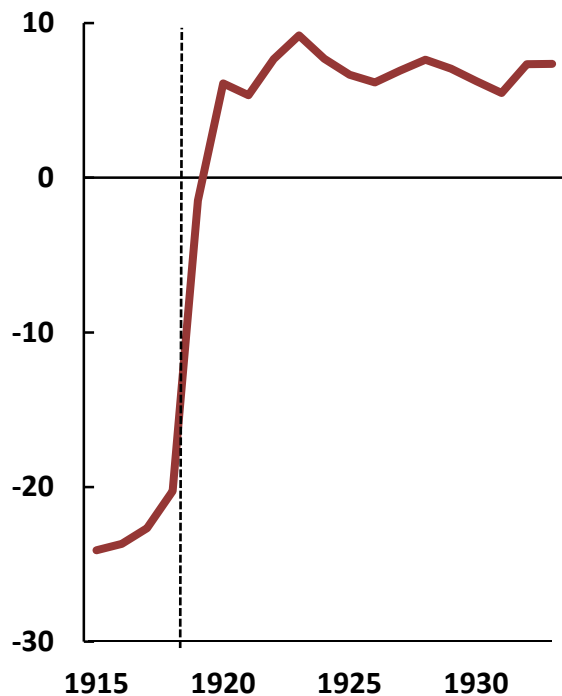
*(Debt-to-GDP Ratios for Selected Economies; percent of GDP)*



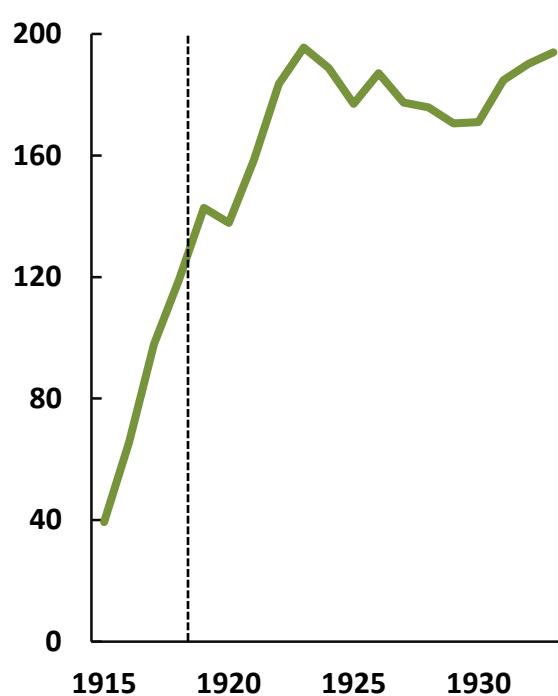
Note: JPN= Japan; GRC = Greece; ITA = Italy; PRT= Portugal; IRL = Ireland; USA = United States; ISL = Iceland; BEL = Belgium; FRA = France; GBR = United Kingdom; ESP = Spain.  
Source: IMF staff estimates.

# A Warning from the Past: UK after World War I—fiscal consolidation without supportive monetary policy does not work

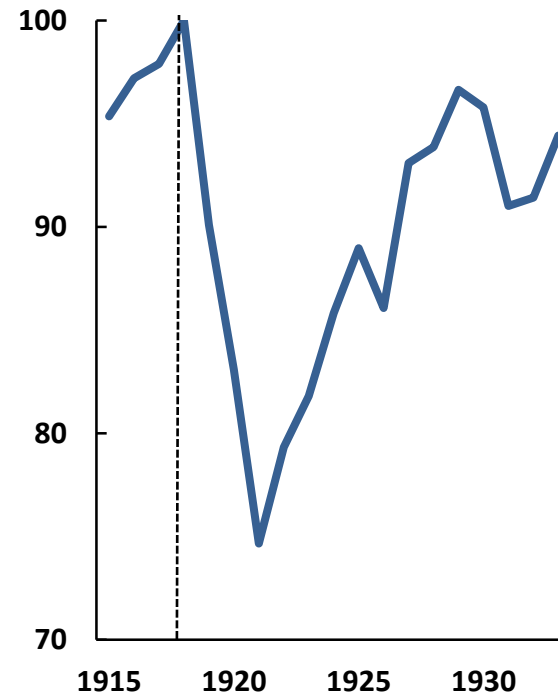
**Primary Budget Balance**  
(percent of GDP)



**Government Debt**  
(percent of GDP)



**Real GDP**  
(index; 1918 = 100)

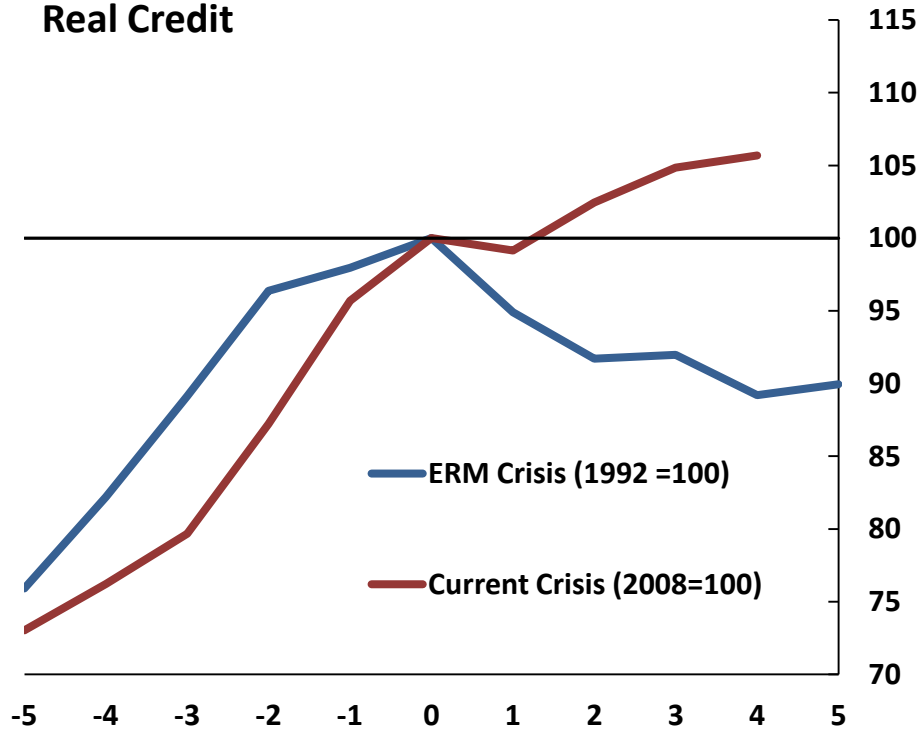
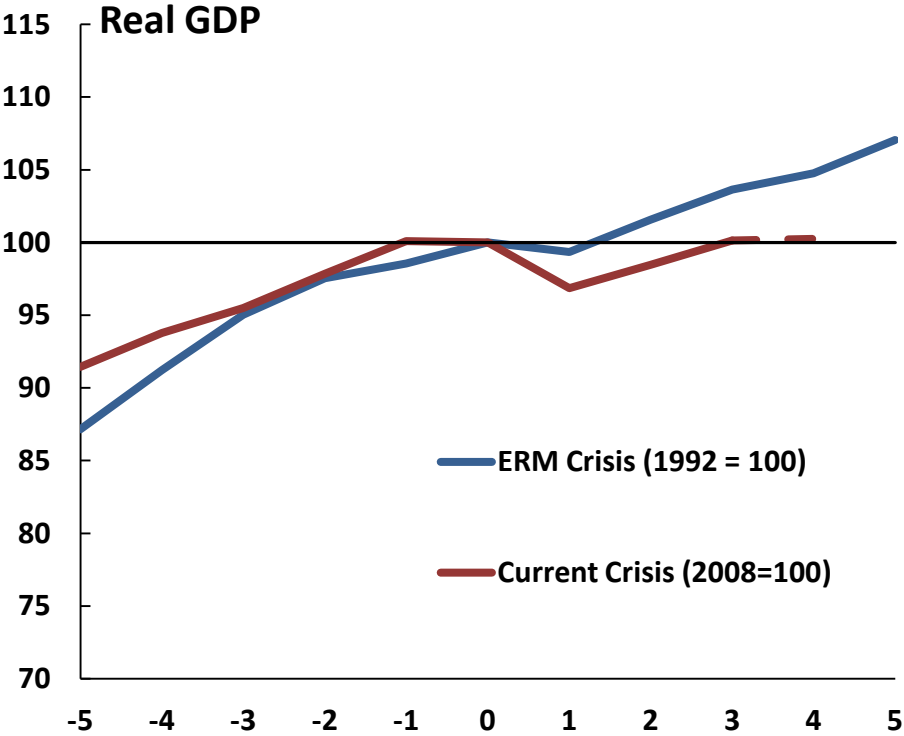




# France—Output and Credit

## France: Crisis Comparisons

(Indices; years from crisis on x-axis)

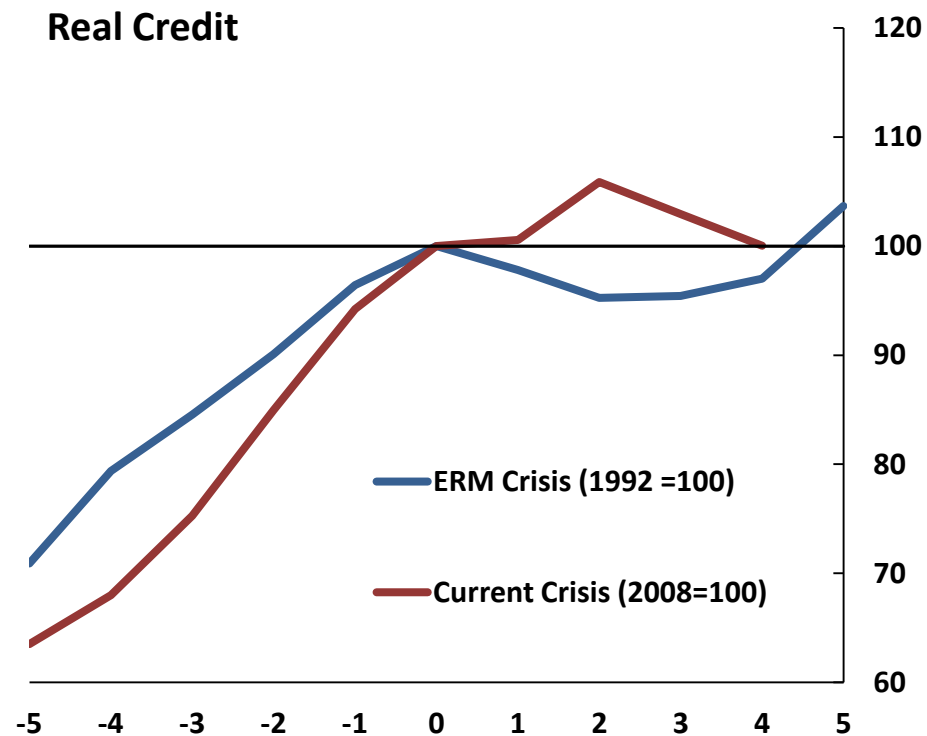
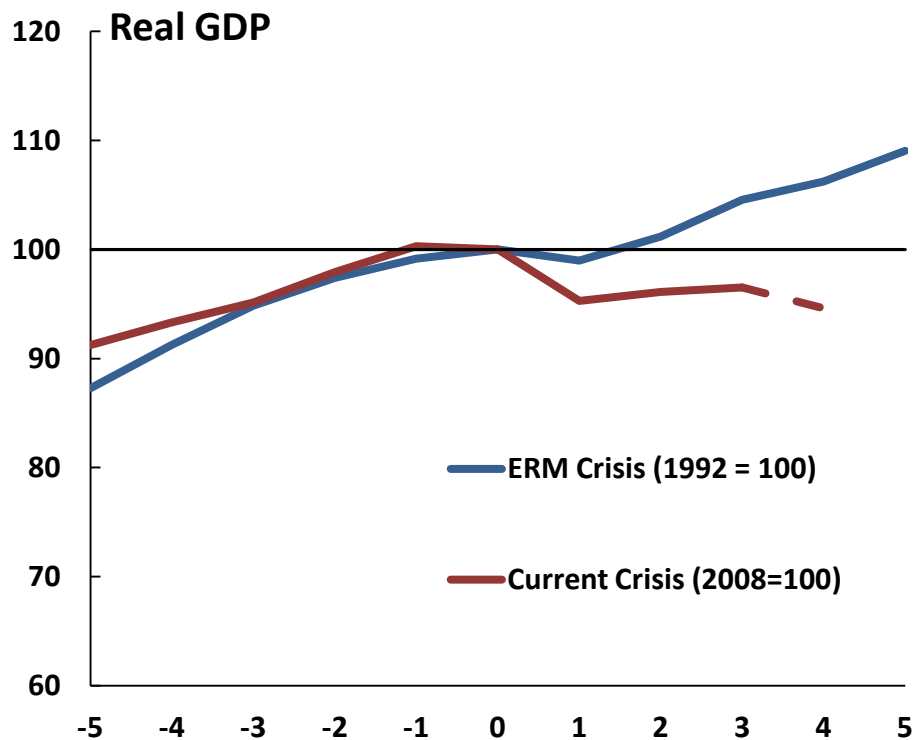


Note: Latest 2012 Credit data are based on June 2012 levels.  
Sources: IMF, *International Financial Statistics*; and IMF staff estimates.

# Monetary easing has also helped in the periphery of the euro area

## Euro area periphery: Crisis Comparisons 1/

(Indices; years from crisis on x-axis)



1/ Italy and Spain

Note: Latest 2012 Credit data are based on June 2012 levels.

Sources: IMF, *International Financial Statistics*; and IMF staff estimates.