2009.11.9 (No.20, 2009)

Newsletter

Institute for International Monetary Affairs
(財)国際通貨研究所

# Beyond the Global Recession
# ～Heading for "Strong, Sustainable and Balanced Growth"～[1]

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## The Global Recession seems to have hit the bottom

As a result of the global financial crises, world production and trading volumes have experienced the worst drop since post-war period since the latter part of last year. However, due to quick and positive responses on fiscal and monetary measures by individual economies, stability has been brought back to the financial markets. In addition, inventories are being recovered after full inventory adjustments. Thus, we could say that the world economy has hit the bottom and that we are now starting to feel the arrival of dawn.

The US, the epicenter of crises, has announced that its real GDP for the third quarter has increased by 3.5% p.a. from the previous quarter, the first positive result after four consecutive quarters of negative growth. Economic stimulus incentives such as "cash for clunkers" and the tax deductible scheme for the first time house buyers pushed up the economy, inventory liquidation cycle nearing an end, and so forth are the reasons for the growth. As for the housing market, the statistics on the sales and construction starts have hit the bottom and the tendency of decreasing housing price seems to be

[1] This paper is the script of a speech delivered at the 4th ABAC Meeting on November 9th, 2009 in Singapore

diminishing. The second quarter growth rates in Japan, France and Germany also have turned positive.

On one hand, China, who is expected to take the lead in a global economic recovery, has accelerated its actual GDP growth for the third quarter by 8.9% yoy while the same figure for the second quarter rate was 7.9%. Although the exports are inactive, the investments in infrastructure based upon the economic stimulus package in the sum of RMB 4 trillion (13% of GDP) played the role of economic locomotive, and the purchase supporting policy for electrical appliance in rural districts was effective in increasing individual consumption. As a result, it is forecasted that it will be mostly certain that China will reach its goal of 8% which was set by the government. With a background of solid-bottom sustainable growth of China, neighboring Asian economies are starting to enjoy their economic recovery by increasing their exports towards China.

Emerging economies in Asia are the areas where the impacts of the recent financial crises were minimal. The following, along with the lessons from the Asian Crisis, are thought to be the reasons;

1 Efforts were made to rely less on borrowing loans from abroad.
2 The financial system was strengthened and the financial institutions were relatively in healthy conditions.
3 Timely fiscal policies were implemented during the crisis, which was larger than those of the G20 average in terms of GDP.
4 Due to stable price levels, large cut of interest rates was possible.
5 Efforts were made to deepen the relationship with China, which remains in good shape.

Under these circumstances, IMF revised its world economic forecast in October, indicating that the world's real GDP will be -1.1% for 2009, +3.1% for 2010, which are revised up by 0.3% and 0.6% respectively from the forecast in July. The same figures for the emerging economies in Asia are as solid as 5.1% and 7.0%. Although the world economy has come back to the recovery track, its pace is still far slower than the pre-crisis level of 5.2% of 2007. It may be still too early to exit from the fiscal and monetary support by the public sector.

**Although the financial markets have regained stability, the performance of US/European financial institutions is still concerning.**

Due to unprecedented positive interventions of each government including drastic and swift interest rate cuts, supplying abundant liquidity, easing credits, and capital injections to financial institutions, financial markets have regained stability with diminishing credit spreads. The primary market for corporate bonds is also coming back to where they were and, thus, funds came back even to the stock markets. However, as a negative result of those aggressive interventions, the public sector now faces a big risk. We now must be careful about the possibility of larger fiscal burdens because of increased bad assets at last.

Major banks in the US have taken the stress test and their capitals have been reinforced, but their non-performing loan ratios have been going up as their bad asset amounts increase, reflecting the deteriorated economy. In Europe, the stress test at the EU was undertaken to prove that the major financial institutions in the region had sufficient equity level to overcome rapid deterioration of the real economy. However, we cannot exclude the possibility that the EU stress test underestimates the risk since the financial institutions in the EU have large overseas credit exposure to Eastern Europe, Russia and CIS. As we all see, US and European financial institutions have gotten rid of the worst critical condition, but they may not yet fully function at their lending capabilities. Supposing that the real economy does not make a full recovery, the deterioration of the performance of the financial sector may place stress on economic recovery and, thus, balance sheets of the financial sector should be rapidly restored.

**The global economy is being pushed up by the effects of stimulus measures, but still faces a risk of deterioration.**

The pace of recovery for industrialized economies will be sluggish, and their economies, for a while, seem to face the risk of being pushed down. Those economies, especially the US, will experience, with high probability, “jobless recovery” as the economic recovery is far below the potential growth rate. There might be cases where the additional fiscal measures are desperately required as the economic self recovery functions are not sufficient even in the next year when the effects by the fiscal enhancement measurements, which holds the current economic recovery, expire. If that happens, concerns for prolonged fiscal deficit could bring the long-term interest rate up and we may not ignore the possibility of observing the economy, which is about to take off, deteriorate. The US economy in particular possesses lots of risk factors of getting into a double-dip recession once the effectiveness of economic rescue measures ceases due to the severe employment condition and deteriorated commercial real estate markets.

As to China, which is now functioning as a driving force of the global economy, it still has the tasks of attaining sustainable growth, including a risk of turning excessive capital investments into a future adjustment burden and concern for a bubble phenomenon in some parts of the economy, like real-estate markets. For other emerging economies, we have to watch the influences of recessive economies in advanced economies, fragility against financial stress and the influences of energy prices, which are beginning to increase.

**The Issue for the World and APEC Economies:**
**Heading for "Strong, Sustainable and Balanced Growth"**

The current global economy shows rapid recovery based upon the economic statistics, mainly due to the reaction against an excessive drop of the economy, the restoration of inventories and the implementation of various fiscal stimulus measures. Under such circumstances, discussions on fiscal and monetary exit strategies are actively made and some economies started increasing their policy interest rates. It is obvious that exiting strategies from the fiscal and monetary measures for crisis is necessary sooner or later, if one considers the economic stability in the mid-term range. However, a rapid change of policies should be avoided so that the current temporary economic recovery connects steady autonomous demand recovery of private sector. For the time being, rebuilding the soundness within the financial sector and the support of the economy with macro-economic policies are necessary. On one hand, it is bothering to see that the bubble phenomenon is recurring from time to time in some stock and commodity markets, due to a low interest rate and abundant supply of liquidity. We would need to examine the timing and pace very carefully to implement the exit strategies.

It will be unavoidable that the effects of the measures are diminishing gradually and we need to increase the demand in the private sector which will take a lead to grow. The US needs to shift the engine of growth from the domestic demand to the foreign demand while the balance-of-payments surplus economies, mainly the ones in Asia, need to shift the engine of growth from the foreign demand to the domestic demand. However, this is not something we can actualize overnight. Honest efforts through policy collaboration among respective governments are required. While the recovery of advanced economies is forecasted to be a fragile one, international collaboration is necessary to increase global growth capabilities, since it is not certain if the Chinese economic growth only can support the global growth.

At the G20 Summit held in Pittsburgh in September, it was agreed "to build a framework of presenting collaborating policies and methods for the purpose of producing strong, sustainable and balanced growth for the world". This is an important agreement in that they committed to collaborate to attain the same goal not only for advanced economies but also for major economies including emerging ones such as China, India, and Brazil, which show higher profiles in the world economy.

APEC economies expect China to maintain stable growth, as well as the favorable circulation of growth within the region. In addition to each government's endeavors to vitalize domestic economies, including the enhancement of productivity for service industries, the expansion of domestic demand within the entire region, including China, has become a crucial subject. In order to achieve this, it is necessary to increase the growth potential within the region by promoting financial and economic cooperation in various fields including environment, infrastructure, etc.

On the other hand, we need to pay attention to see protectionist movements here and there, such as raising import duties and putting priorities on domestic products in governments' purchases. The promotion of free trade is directly connected to economic growth for the world as a whole and, thus, the progress in WTO discussions for promoting free trade is strongly advised. At the same time, promoting liberalization of trade and investments and deepening an economic integration within a region like APEC are necessary.


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