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Post Crisis World Economy
: Further coordination at G20 is necessary[1]

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Recovery of the global economy continues, although the extent of the recoveries varies for each region and economy. The emerging economies-mostly in Asia-maintain stable recoveries, while developed economies have slow recoveries.

The global economy as a whole continues its gradual recovery. In October, the IMF announced its global economic outlook, estimating that the global real GDP growth will be 4.8 % in 2010 and 4.2 % in 2011 while that of 2009 was negative 0.6 %. As for 2010, the IMF revised its estimate upward, compared with July, in light of good economic performance in the first six months. Nonetheless, the emerging economies mostly in Asia, generally, maintain stable recovery and expansion. In contrast, most of the developed economies' recoveries are fragile.

On September 20, the National Bureau of Economic Research (NBER) announced that the US recession bottomed out in June 2009. The recession lasted 18 months, the longest since the Great Depression, and its magnitude was the most severe. Although a year has passed since the economy bottomed out, the pace of the recovery has been much slower compared with past recovery periods. Thus, the opinion poll shows that

[1] This paper is the script of a speech delivered at the 4th ABAC Meeting on November 8th, 2010 in Yokohama.

recoveries are not necessarily perceived. Particularly after the summer, recovery speeds have slowed as fiscal stimulus measures and inventory rebuilding ended. The real GDP growth of the US in the third quarter was 2.0 % (seasonally adjusted annualized basis, announced dated October 29), peaked at 5 % in the fourth quarter of 2009.

In Europe, the weak Euro in the first half of this year underpinned the economic recovery through increased export toward outside region, and the stable German economy pushed up the entire Euro zone. However, some economies such as Greece take stringent fiscal reconstruction, and other economies (including Germany) will also start similar fiscal reconstruction measures in 2011. Downward pressure may exist due to tight fiscal measures. On the other hand, the sentiment of corporations and consumers deteriorates in Japan, reflecting appreciation of Yen and weak stock markets. In October, the Japanese Government changed its economic outlook downward, and there is high probability that the economic recovery has slowed.

The Asian economies continue stable recovery and expansion, leading the global economic recovery. China maintains real GDP growth in the third quarter 2010 at 9.6 %, although it has slowed from the double digit growth of the past three consecutive quarters. Due to such high growth, concerns for inflation come up where the consumer price index increased by 3.6 % in September, compared with that of the last tear. Thus, monetary tightening is observed where the reserve deposit ratio rose in September, and the policy interest rate rose in October after 2 years and 10 months. NIEs and ASEAN economies maintain stable recovery through increased exports to China and investment for infrastructure. Latin America also recovers faster than expected. On the other hand, the emerging economies such as CIS (Commonwealth of Independent States) and Eastern Europe economies are faced with severe situations. The economic recovery varies for each region.

Financial market is calm, although downside risk exists. Asset price bubble in emerging economies is a concern due to monetary easing by developed economies.

The global financial crisis has calmed down, due to each economy's support for financial institutions through fiscal measures and positive fiscal stimulus measures. Such measures, however, also created concerns for deteriorated fiscal conditions. There are concerns over the fragile fiscal condition in Europe; for example, Greece deteriorates financial institutions' credit standing. A large amount of the governmental bonds of the European economies are held by the financial institutions. Fortunately, however, the European financial market has calmed down due to the support measures by the IMF and EU as well as announcement of fiscal reconstruction plans by economies with fiscal deficits. From now on, minimizing the negative impacts of each economy's fiscal austerity will be an issue. Close attention should be paid to not damage the nascent economic recovery at this moment by urgent fiscal reconstruction. Fiscal sustainability on medium and long term is a crucial matter for developed economies with the common aging problem. By clarifying passes for fiscal reconstruction on medium and long term, credibility should be maintained in the market, and sentiment of households and corporations should be improved.

Improvement of financial institutions' asset quality in developed economies progressed due to by governmental capital injections. Consequently, however, most of the governments bear risks, and attention should be paid to not weaken their fiscal conditions. The IMF estimates that the amount necessary for write-off amounts to US$2.2 trillion globally from 2007 to 2010, which decreased from US$2.3 trillion estimated in April due to decrease of mark-to-market losses of holding securities. Write-offs by financial institutions progresses where the difference between the losses accounted and losses necessary has shrunk to approximately US$550 billion. On the other hand, the financial institutions do not necessarily possess sufficient liquidity. European financial institutions, in particular, rely on the capital market for their liquidity and care must be taken to release support measures of the governments.

In USA, slow recovery of employment is a concern. Compared with early 2000 when it was called "Jobless recovery", the recovery is much slower. The unemployment rate increased rapidly, staying at as high as latter half of 9 % after peaking out at 10.1 % in October 2009. The residential market were about to reach the bottom after the bubble burst due to historical low interest rate. The end of the Federal Government's tax cut for home buyers, however, makes it weak again where the price fall is noticed. Further concerns are on the delayed foreclosure process due to insufficient legal documents, which further weakens the markets. If the market remains weak, the consumption may not increase due to the prolonged adjustment of households' balance sheets, coupled with concerns for employment and income.

In developed economies, the loosing monetary policies will continue for the time being where the economic recovery is mild and downside risk remains. In Japan and the USA where the zero interest rate policy is taken, many non-traditional monetary measures have been announced. The FOMC announced last week “the Committee intends to purchase a further $600 billion of longer-term Treasury securities by the end of the second quarter of 2011”. In contrast, among emerging economies, some Asian and Latin American economies such as China, Korea, Brazil and Chile have already tightened their monetary policies. Capital inflows to emerging economies have increased where the difference is outstanding in terms of growth ratios and interest rate between the emerging and developed economies. Increases of liquidity due to such capital inflows create concerns for inflation and asset bubbles in emerging economies. Some economies try to avoid bubble by strengthening macro prudence regulations. Stable economic expansion should be maintained by controlling capital flows and avoiding inflation and bubble.

Tasks for the global economies such as APEC region: exit strategies towards rebalancing the growth

Although the global economy is in the recovery process after the financial crisis, the recovery is still fragile and imbalanced. Its sustainability is a question. In order to attain “stronger, more sustainable and balanced” economic recovery, the growth should be rebalanced, both domestically and internationally. Autonomous recovery should be attained through replacing public demand by private demand. Also, Asian emerging economies with current account surplus should shift from foreign to domestic demand, and economies such as US with current account deficit should shift from domestic to foreign demand.

Fiscal stimulus effects after the global financial crisis weaken in most of the developed economies, and progresses of shifting from domestic demand delay. Monetary policy becomes very important due to restriction caused by fiscal deficit.

In order to recover the balance of Asian emerging economies with current account surplus should decrease saving ratio through expanded social safety net, stimulate consumption, and introduce flexible foreign exchange rate mechanism. The Chinese Government announced flexible RMB in June. After that RMB has appreciated by more than 2 % vis-a-vis US$. This is a good step towards rebalancing the growth. Although a rapid appreciation of currency is not desirable, a flexible currency system to reflect economic fundamentals has merits for China where inflation and asset bubbles are concerns.

The Brazilian finance minister named it the “currency war”. The emerging economies demonstrate their concerns on capital inflows and currency appreciation pressure due to monetary easing by developed economies. The US, on the other hand, argues that protective currency policies and subsequent foreign reserve increase create obstacles for rebalancing growth. We should not repeat the history at the Great Depression where competitive devaluation of currencies brought protectionism movements such as capital restrictions, import restrictions, and blocking economies. The communiqué of G20 finance ministers and central bank governors announced in October declared that they refrain from competitive devaluation of currencies and reduce excessive imbalances. The G20 summit is expected to announce further global coordination.

Global coordination is expected in the area of currencies, macroeconomic policies, and regulatory reforms, in particular financial capital markets, safety nets, and trade.

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