

Global Economic Issues

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Economic Advisory Panel Meetings

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- **Europe:** *(i)* Delayed recovery, *(ii)* deflationary tendencies *(iii)* Debt overhangs and their resolution *(iv)* Greece?
- **Global finance:** Equilibrium real interest rates, QE in Europe and Japan, financial repression?
- **Emerging markets:** *(i)* Capital flow bonanzas and their aftermath *(ii)* Where are we in the boom-bust cycle? *(iii)* persistence and duration--Commodities? China?

The 2007-2009 Crisis: Severity measures

- It is premature to construct a definitive measure of the severity of the recent crises
- Of the twelve countries experiencing a systemic crisis starting in 2007-2008 (France, Germany, Greece, Iceland, Ireland, Italy, Netherlands, Portugal, Spain, Ukraine, UK, and US), only Germany and the US have reached their pre-crisis peak in per capita GDP.

Output, Crises and Recovery

Reinhart and Rogoff (2014) updated with World Economic Outlook, April 2015

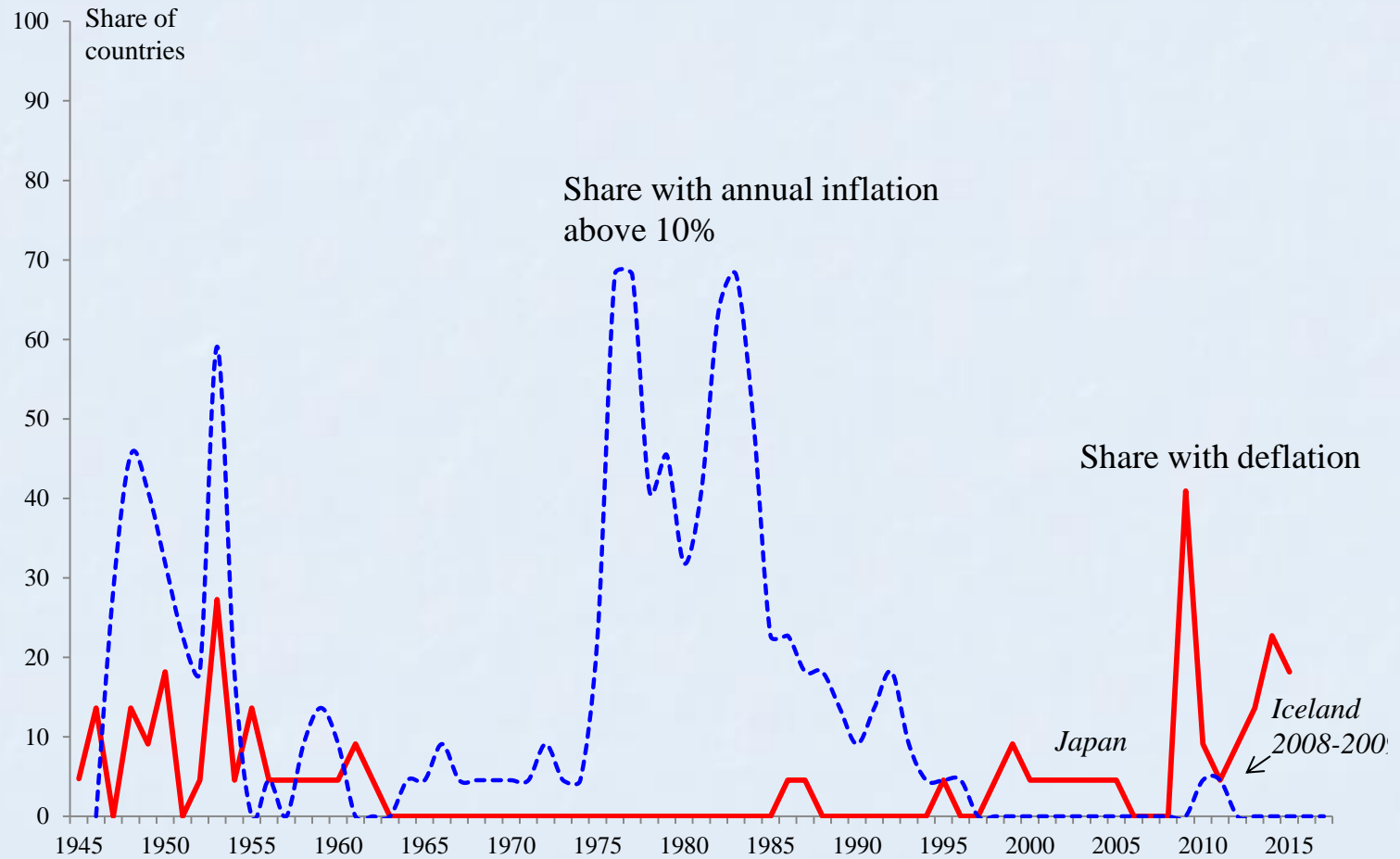
12 Systemic banking crises, 2007-2008

Year	Country	% change		Number of years		Severity index	Breakeven year
		Peak to trough	Peak to trough	Peak to recovery	Peak to recovery		
1	2008 France	-3.8	2	9	<i>12.8</i>	<i>2016</i>	
2	2008 Germany	-5.3	1	3	8.3	2011	
3	2008 Greece	-25.8	6	<i>14</i>	<i>39.8</i>	<i>2021??</i>	
4	2007 Iceland	-9.9	3	9	<i>18.9</i>	<i>2016</i>	
5	2007 Ireland	-12.6	3	<i>11</i>	<i>23.6</i>	<i>2018</i>	
6	2008 Italy	-10.8	7	<i>14</i>	<i>24.8</i>	<i>2021??</i>	
7	2008 Netherlands	-5.0	5	<i>10</i>	<i>15.0</i>	<i>2018</i>	
8	2008 Portugal	-7.4	6	<i>12</i>	<i>19.4</i>	<i>2019</i>	
9	2008 Spain	-9.0	6	<i>11</i>	<i>20.0</i>	<i>2018</i>	
10	2008 Ukraine	-14.8	1	<i>12</i>	<i>26.8</i>	<i>2020</i>	
11	2007 United Kingdom	-5.9	5	8	<i>13.9</i>	<i>2015</i>	
12	2007 United States	-4.8	2	6	10.8	2013	
Summary: Mean		-9.6	3.9	9.9	19.5		
Median		-8.2	4.0	10.5	19.2		
Standard deviation		6.1	2.2	3.2	8.6		

Note: The italics denote any calculations in which IMF estimates for 2015-2020 are used.

- **The number of years to recover the pre-crisis peak in per capita GDP in 100 of the worst crises since the 1840s is about 8 years (the median is 6 1/2 years).**
- **In the 2007-2008 wave of crises, the average may come in closer to 10 years.**

The incidence of deflation and high inflation, 22 advanced economies, 1945-2015

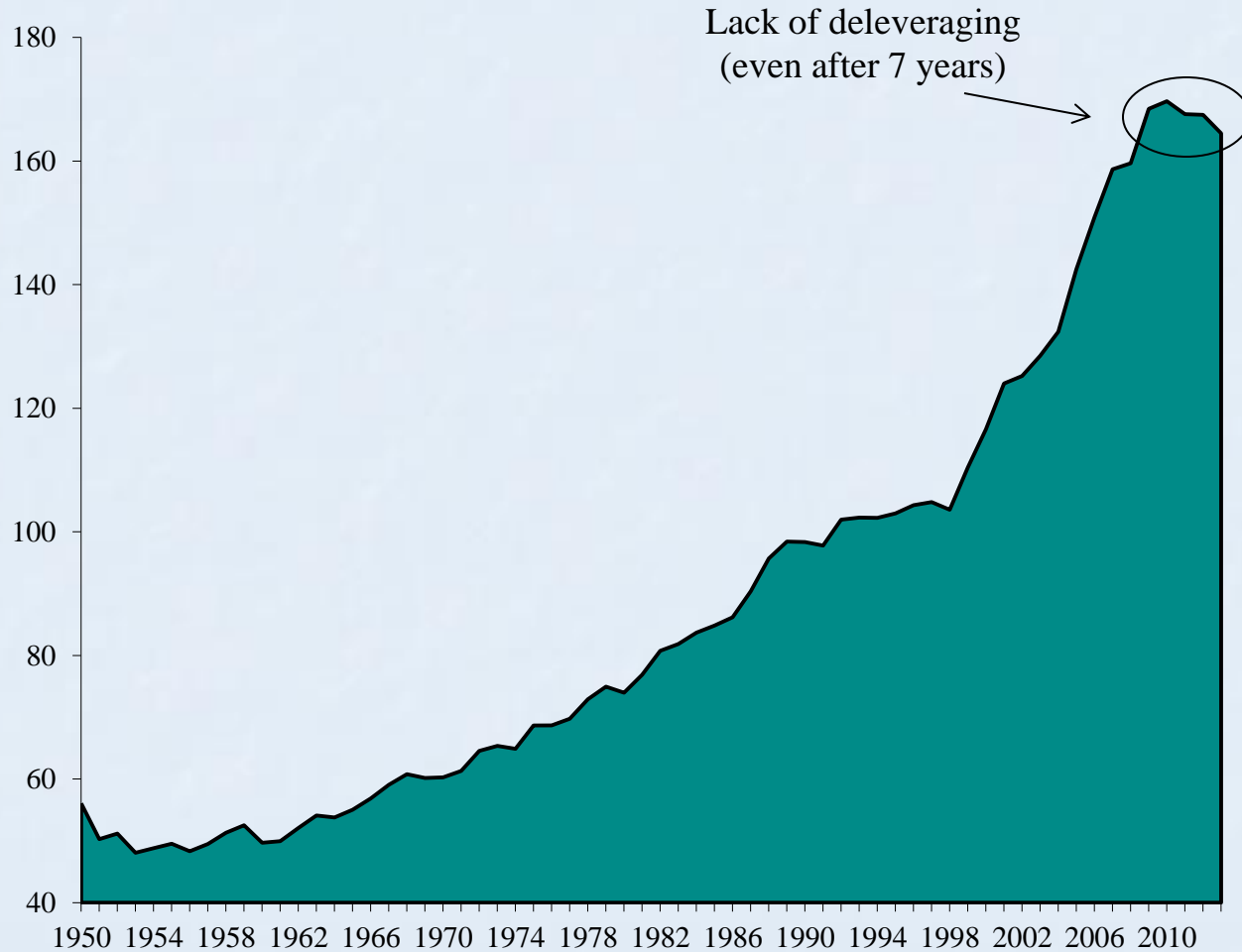


What factors have made this crisis so protracted? What is the end-game?

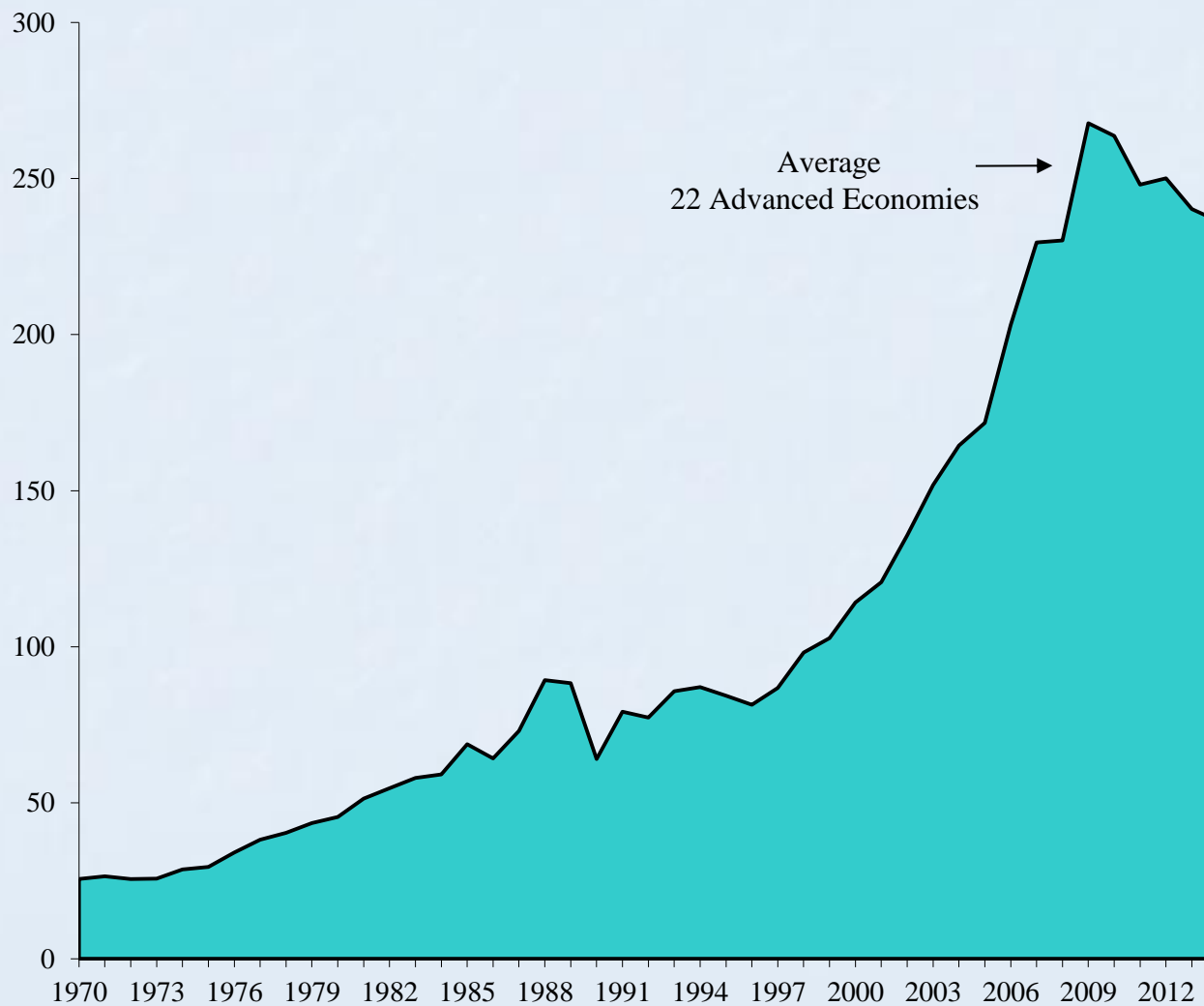
The list includes:

- the synchronous nature of the crisis,
- the absence of greater exchange rate adjustment,
- austerity,
- the dearth of credit—(external or domestic),
- *the lack of deleveraging and write-downs (private or public) almost a decade later.*

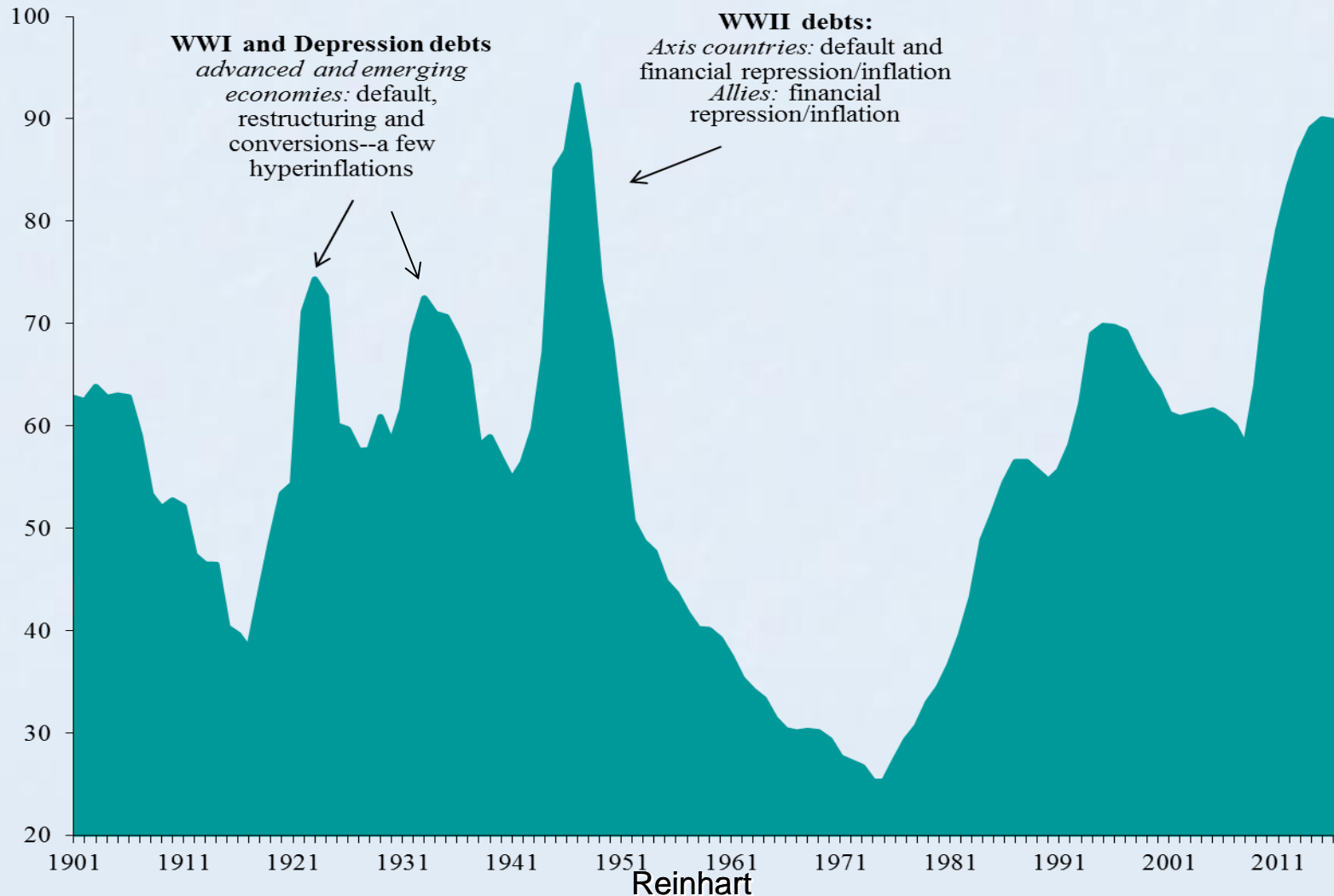
Private Domestic Credit as a Percent of GDP Advanced Economies, 1950-2014



Gross Total (Public plus Private) External Debt as a Percent of GDP: 22 Advanced Economies, 1970-2014



Public debt as a percent of GDP: Advanced Economies: 1900-2015



What is the endgame?

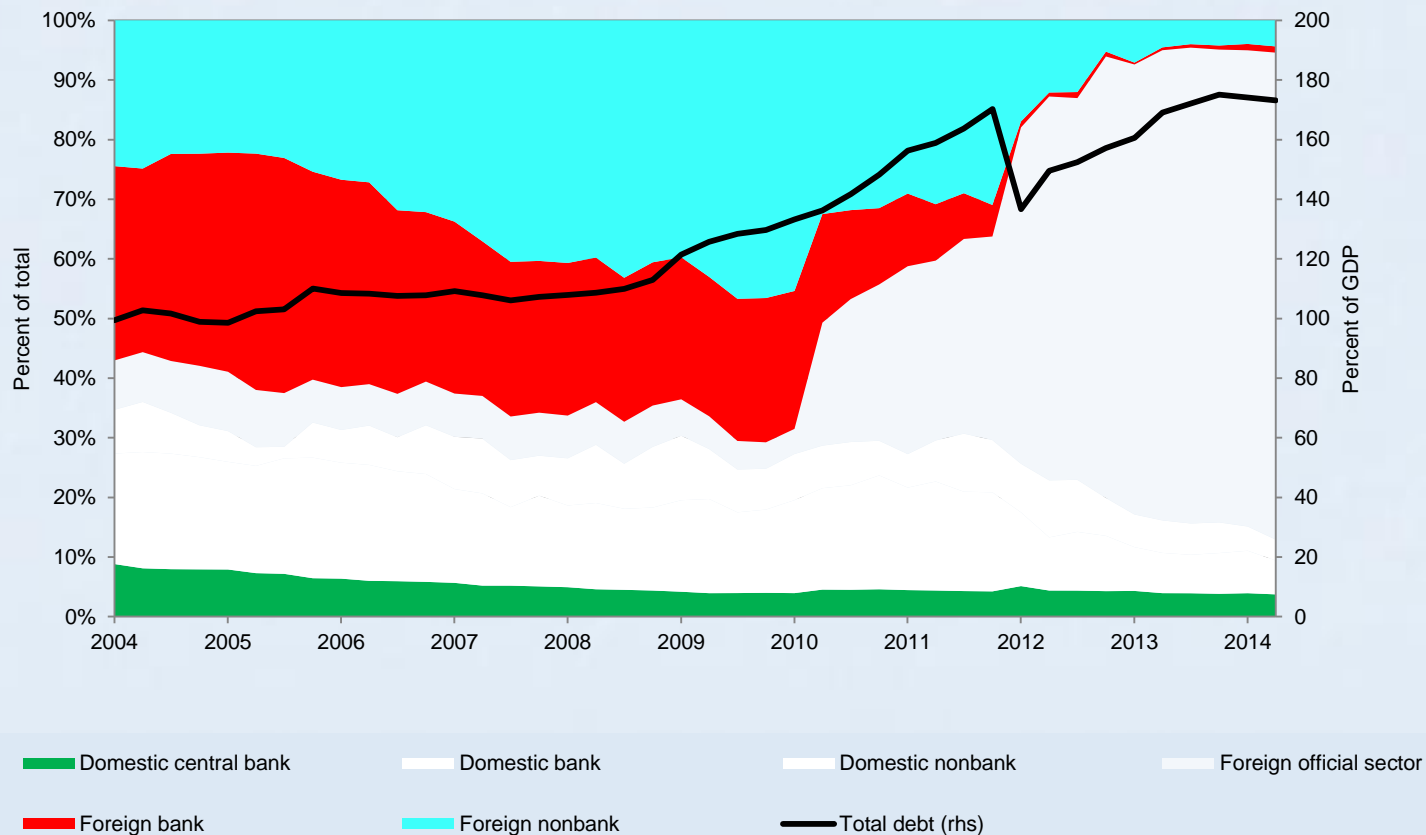
Throughout history, debt/GDP ratios have been reduced by:

- (i) economic growth;**
- (ii) fiscal adjustment/austerity;**
- (iii) explicit default or restructuring;**
- (iv) a sudden surprise burst in inflation; and**
- (v) a steady dosage of financial repression that is accompanied by an equally steady dosage of inflation.**

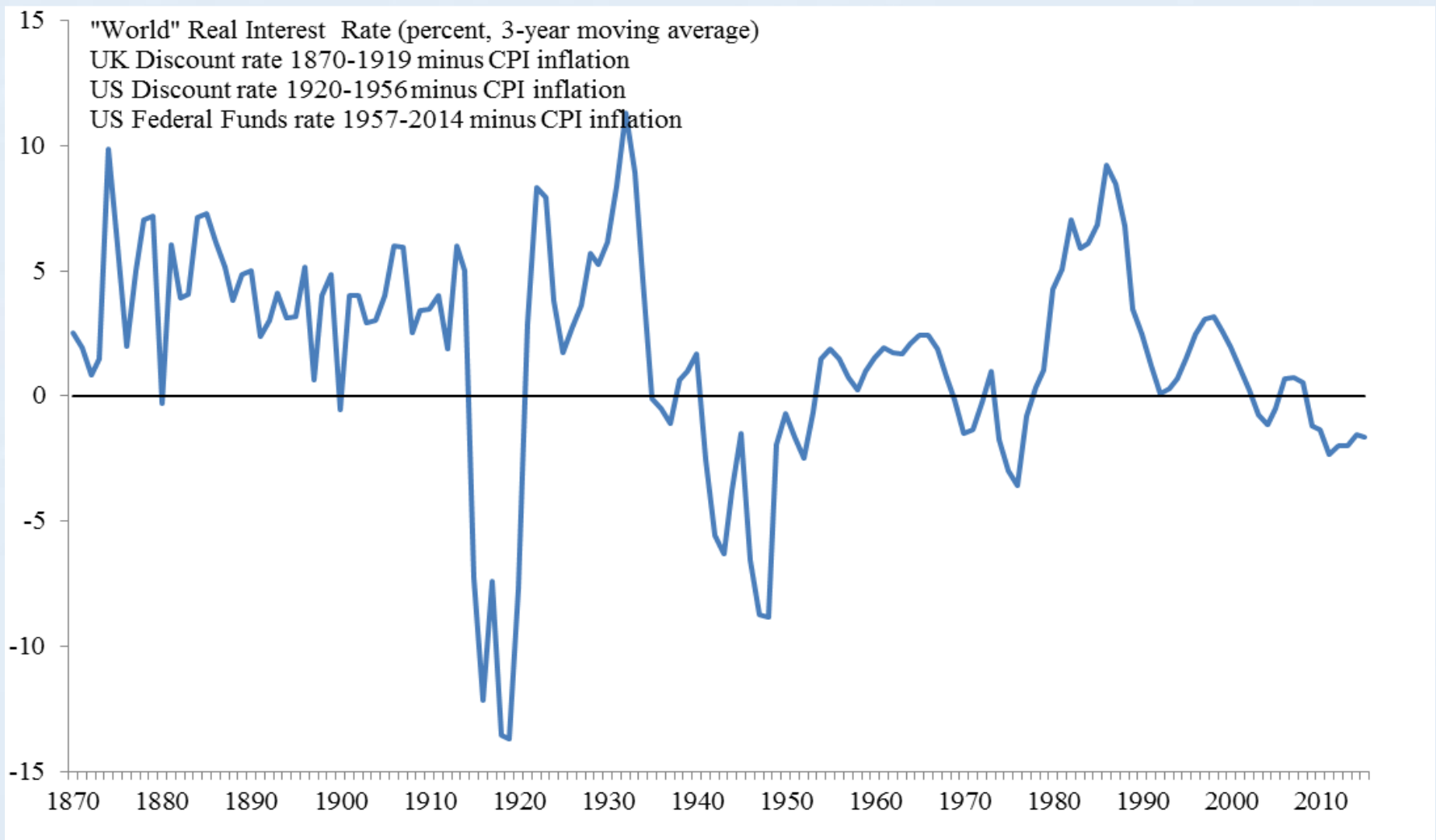
Official debt is the Greek story now

Arslanalp and Tsuda, (2014)

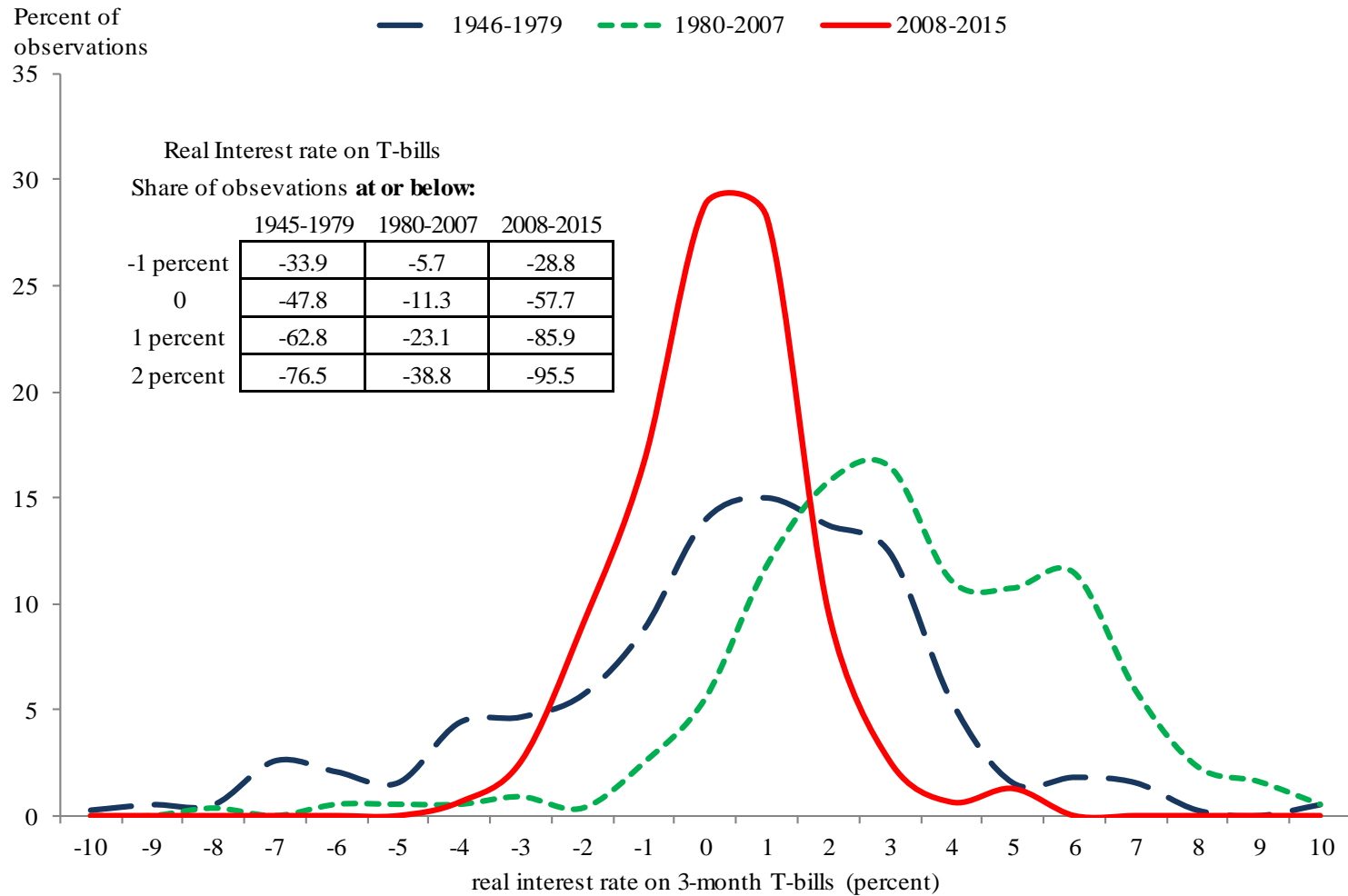
Greece



"World" Real Short-term Interest Rates, 1870-2015



Real T-bill Rates Frequency Distributions: 22 Advanced Economies, 1945-2015



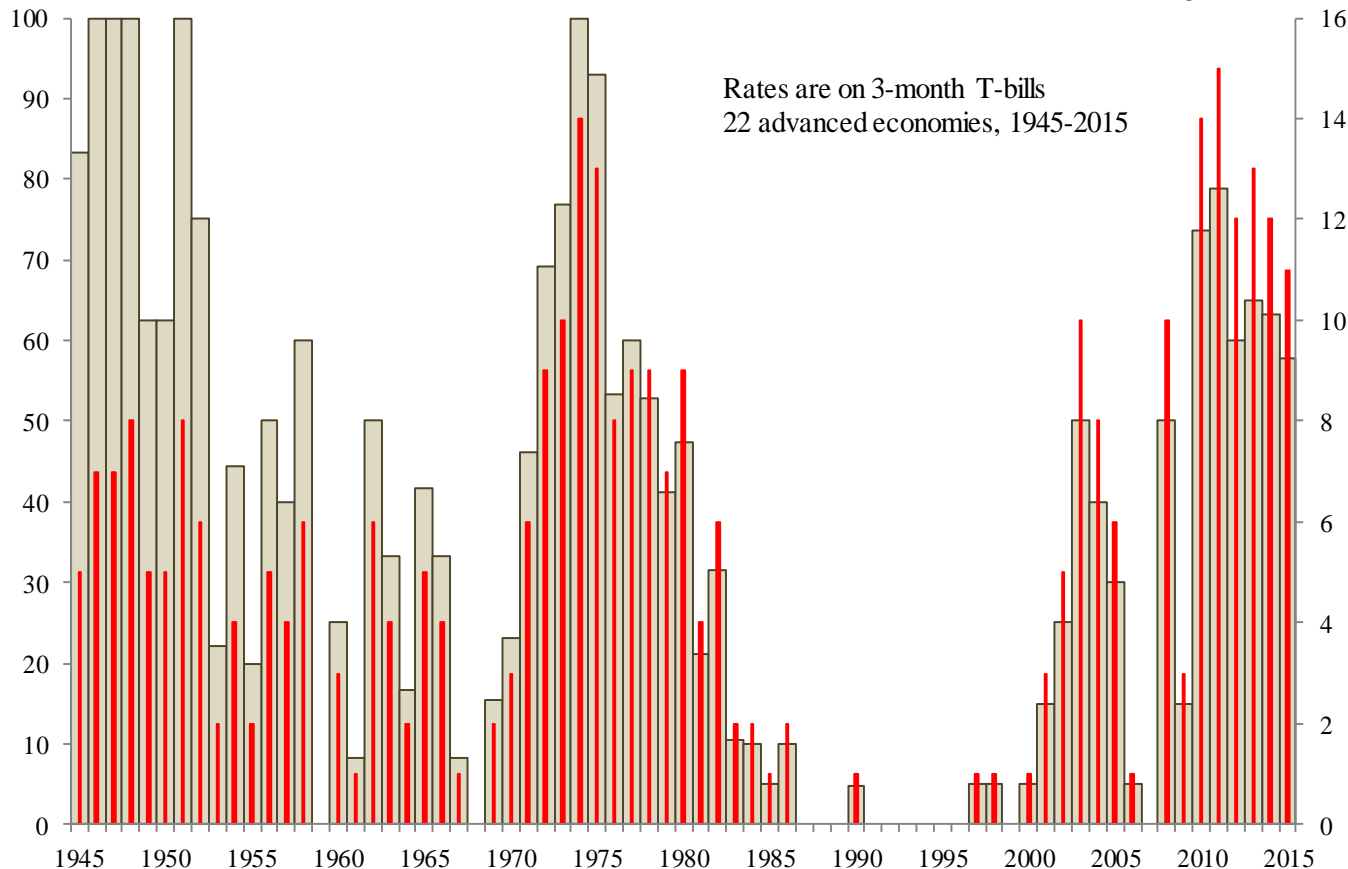
The cross-country incidence of negative real interest rates in advanced economies

(left scale, tan bars)

Share of countries with negative real rates

(right scale, red bars)

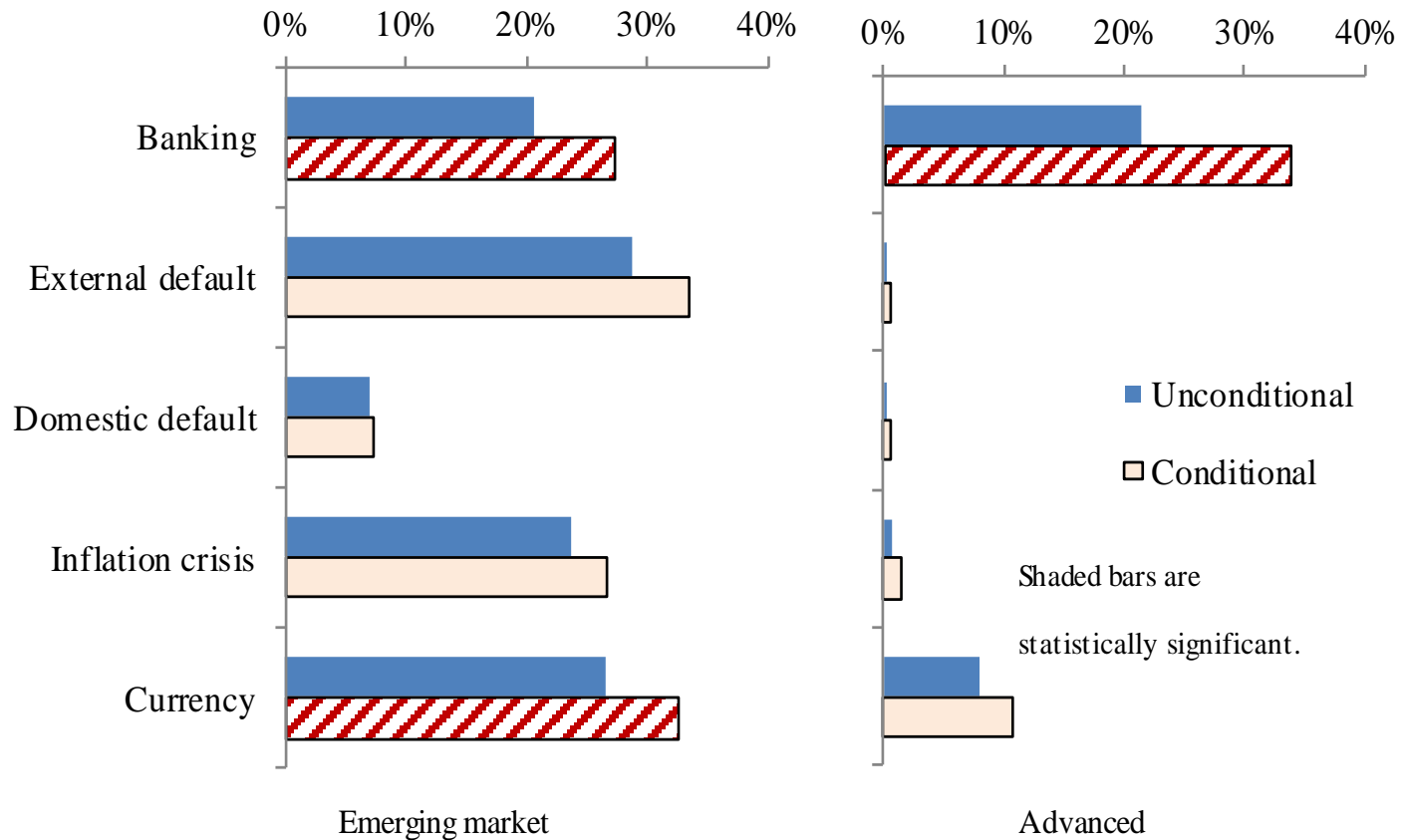
Number of countries with negative real rates



Crisis probabilities and the capital flow cycle

Reinhart and Reinhart (2015)

Probability of a crisis, by type, and the benefit of observing a current account bonanza
 Share of countries, 1982 to 2014, percent



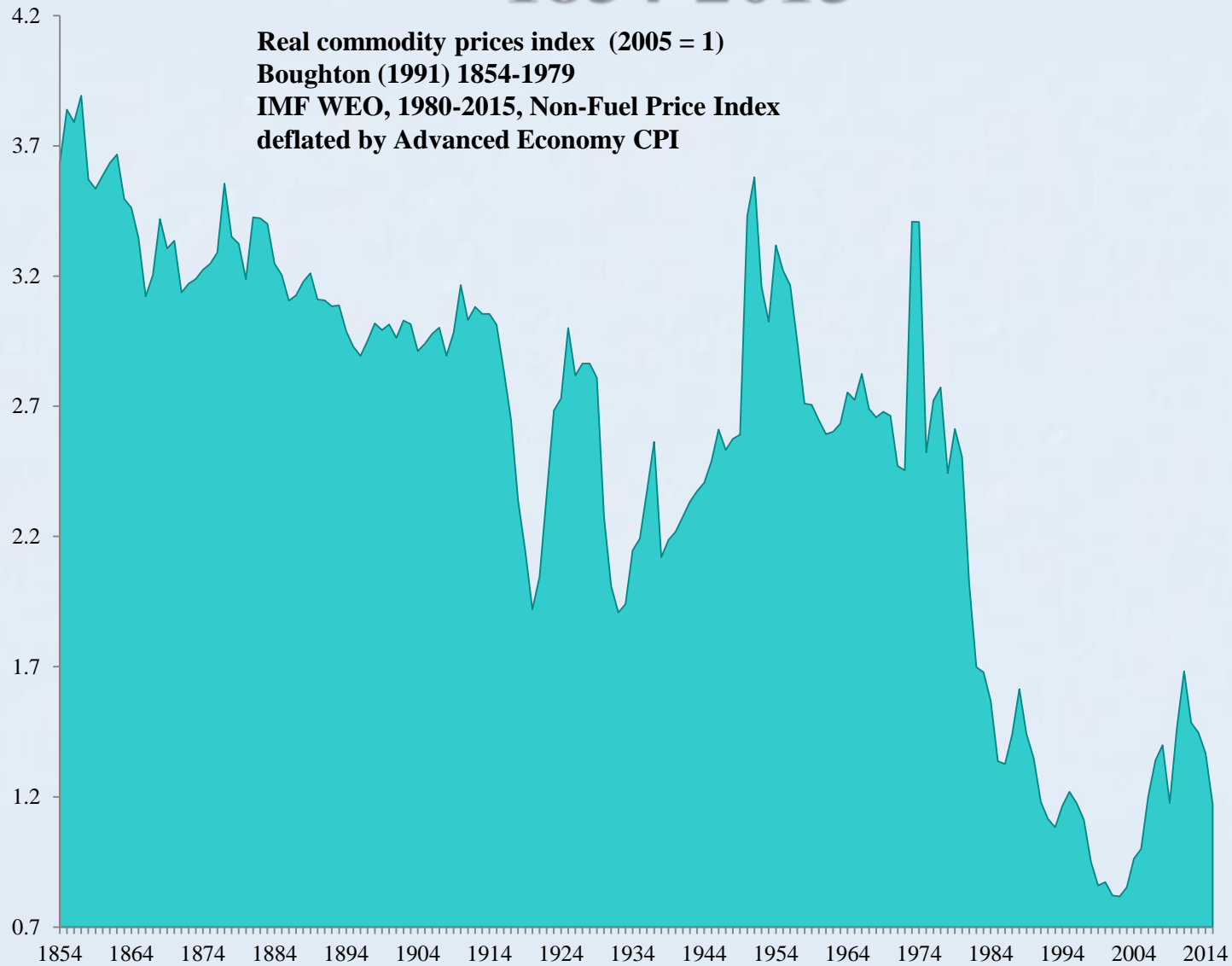
Source: Reinhart and Reinhart (2009) and Reinhart (2010), updated.

By early 2013, in major emerging markets

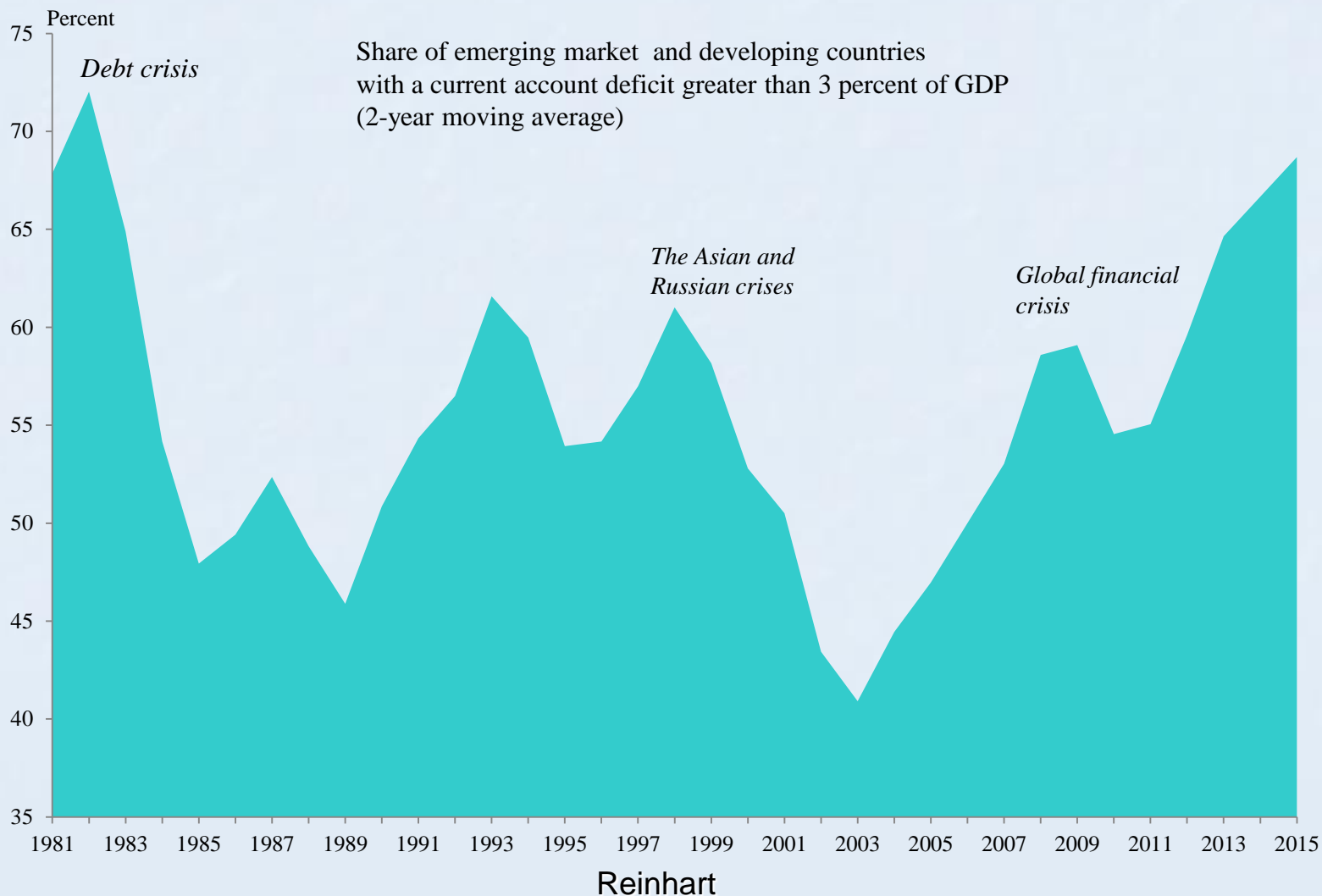
- **Current account deficits had reappeared**
- **As did credit booms**
- **And currency overvaluation**
- **Growth had begun to slow**
- **Inflation had resurfaced as a concern**

And then came the announcement of QE tapering...

Real Commodity Prices: 1854-2015



The share of EMs with significant current account deficits has risen markedly



China's fall and rise, 1500-2013

