

# **Recovery After the Great Recession:** *“The Good, the Bad, and the Ugly”*

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1

## **Disclaimer!**

**The views presented here are those of the authors and do not necessarily reflect the views of the IMF or IMF policy.**

2

## **This talk is based on the following studies:**

1. IMF World Economic Outlook, April 2010  
presentation by Jörg Decressin
2. “Recessions and Financial Disruptions in Emerging Markets”
3. “What Happens During Recessions, Crunches and Busts?”
4. “How do Business and Financial Cycles Interact?”
5. “Emerging Markets: Resilience, Stability, and Growth”

joint work with  
Stijn Claessens, Eswar Prasad, and Marco Terrones

3

## **After the Great Recession**

The recovery: here, but proceeding at varying speeds

Prospects for growth: subdued for advanced countries, but solid for many emerging economies

The risks: both financial and fiscal vulnerabilities

Policy challenges: not easy to address

4

## Objective: Three Questions

**What is good about the recovery so far?**

**What is bad?**

**What could get ugly?**

5

## Answers

**What is good about the recovery so far?**

**Recovery better than expected so far. Still tepid in many advanced countries, but solid in most emerging markets. Emerging markets' performance has been a pleasant surprise.**

**What is bad?**

**Recoveries after financial crises are often slow and weak with high unemployment and low credit growth. Room for policy is limited.**

**What could get ugly?**

**Considerable downside risks related to advanced country sovereigns.**

6

## Outline

**What is good about the recovery so far?**

**What is bad?**

*What is next?*

**What could get ugly?**

7

## Outline

**What is good about the recovery so far?**

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8

## What is good about the recovery so far?

Financial markets recovered faster than expected, notwithstanding renewed volatility recently.

World production and trade have also recovered

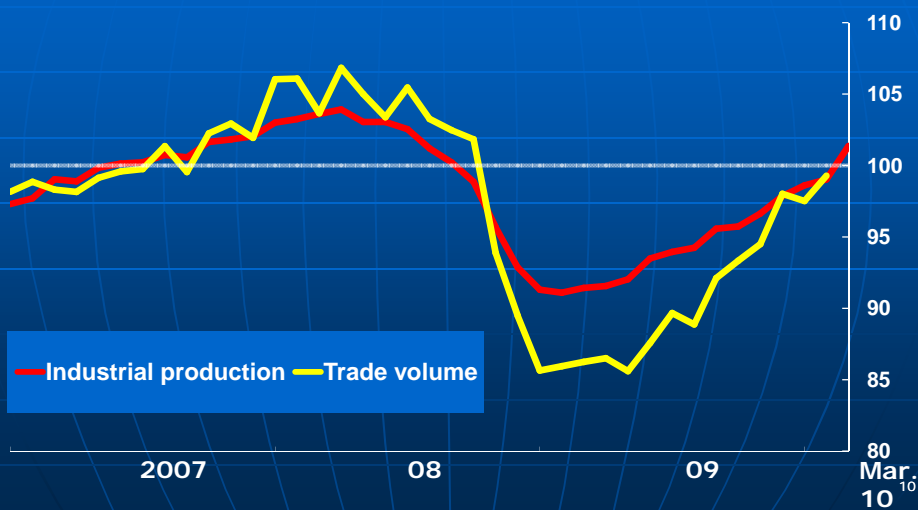
However, the recovery has proceeded at varying speeds. Tepidly in many advanced countries, but solidly in most emerging markets and other developing countries.

Emerging markets' performance as a group has been a pleasant surprise

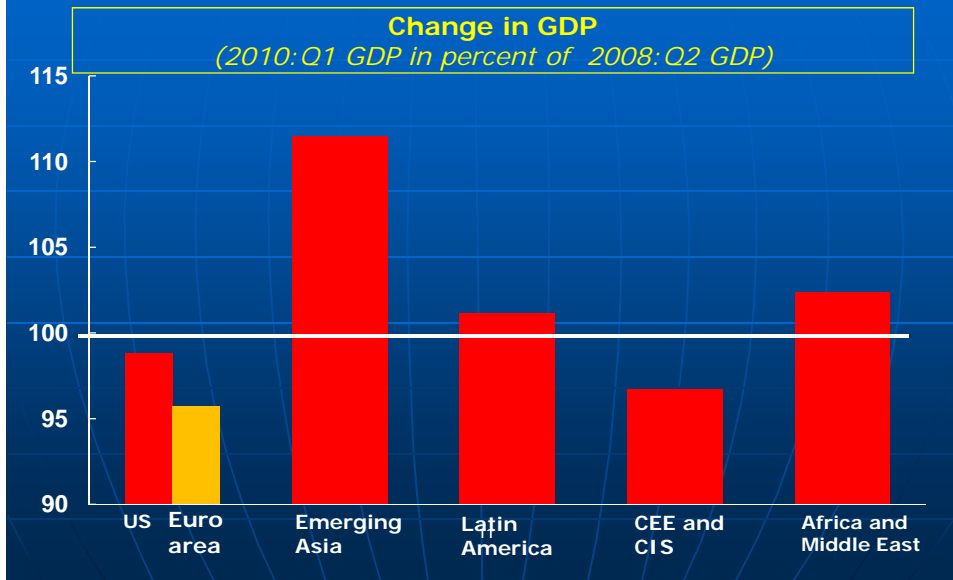
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## World production and trade recovered

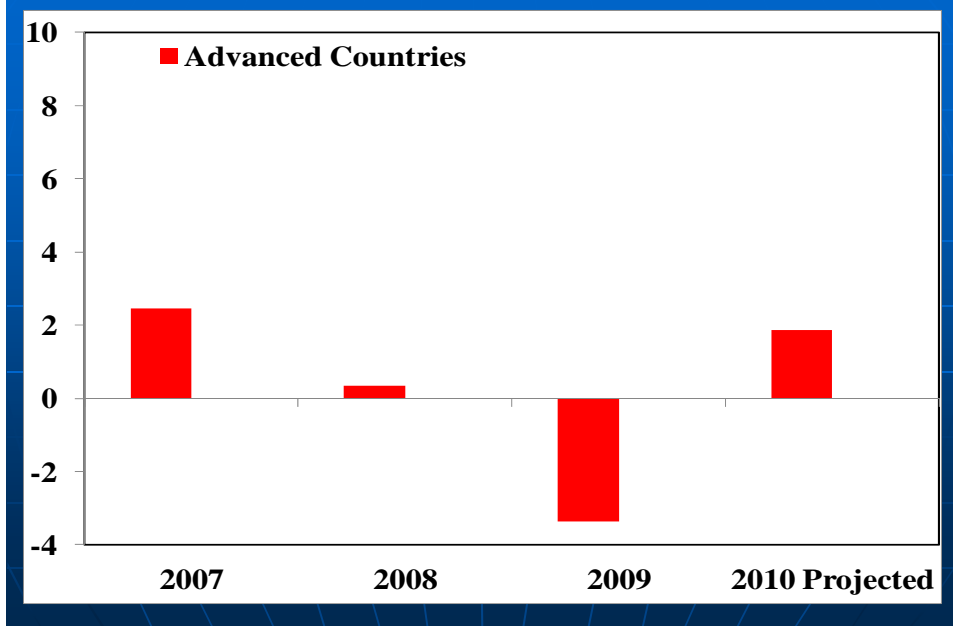
**Industrial Production and Trade Volume**  
(Index: 2007 = 100)



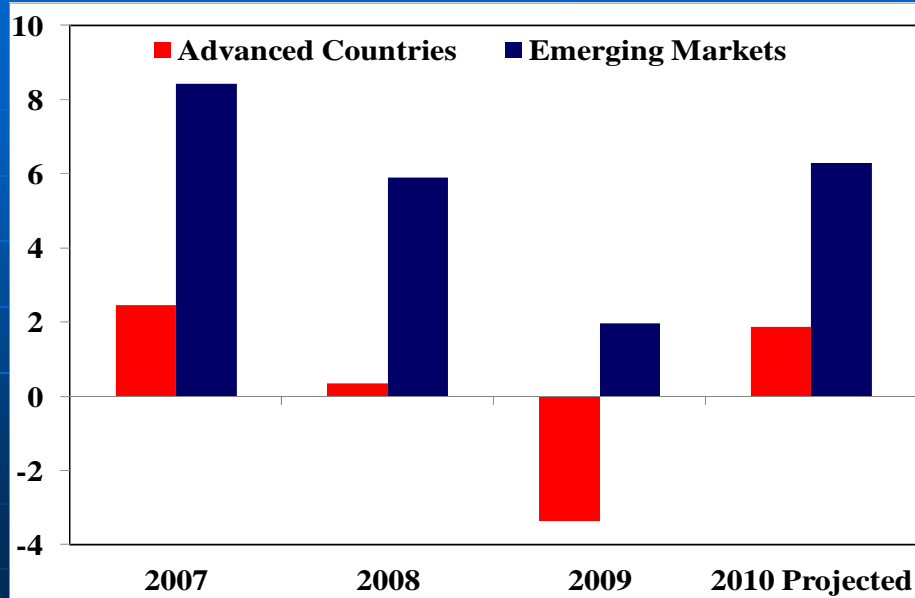
## Recovery at varying speeds *Asia is in the lead*



## Advanced Countries: Recession over?



## Emerging Markets: Pick up in Growth



## Why is it a pleasant surprise?

In the past, recessions and financial disruptions were much deeper in emerging markets than advanced countries

Is this time different?

Some emerging regions, especially CEE, were hit hard, while some others did well, especially Asian emerging markets...

Emerging markets' growth has resumed its march after a brief interruption

## Recessions in Emerging and Advanced Countries

A new study

To understand the cyclical differences between emerging markets and advanced countries

Large dataset of business and financial cycles

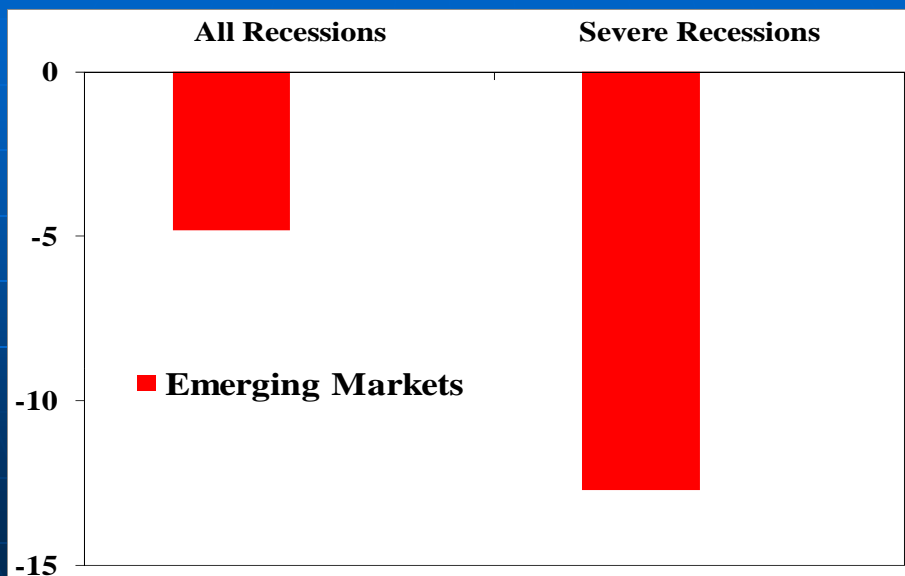
44 countries: 21 Advanced; 23 Emerging

Period: 1960:1-2007:4 for Advanced Countries  
1978:1-2007:4 for Emerging Markets

15

## Recessions Vary Greatly in Severity

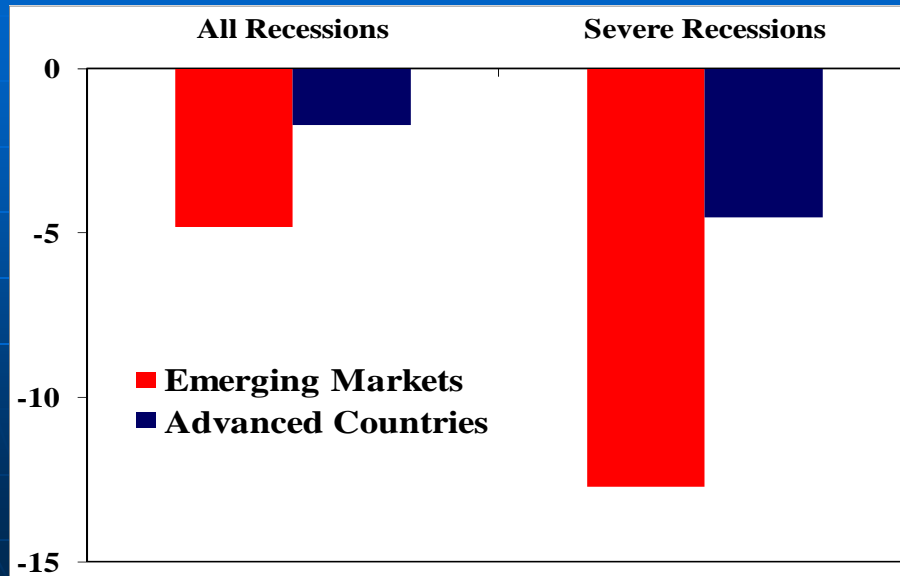
*(percent change in GDP from Peak to Trough)*





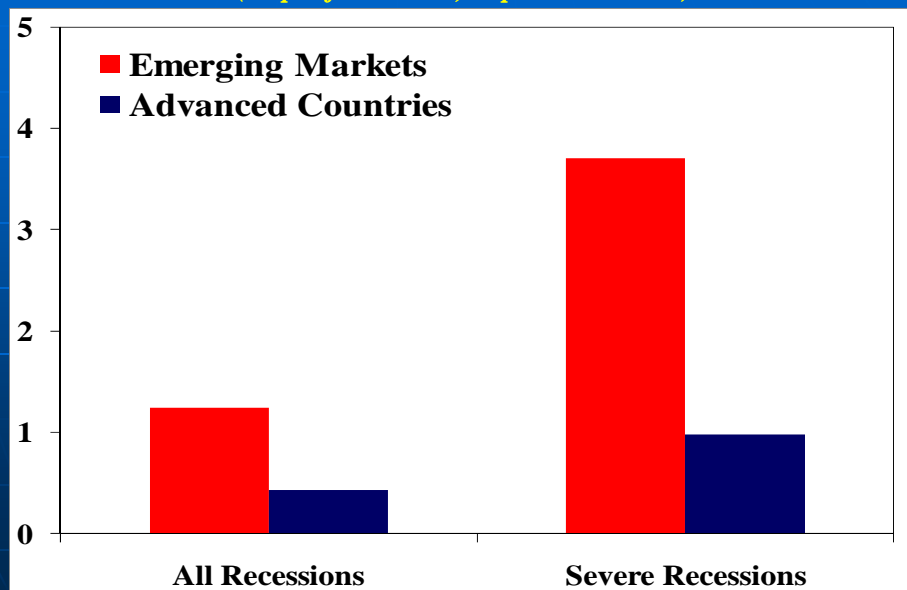
## Much Deeper in Emerging Markets

*(percent change in GDP from Peak to Trough)*



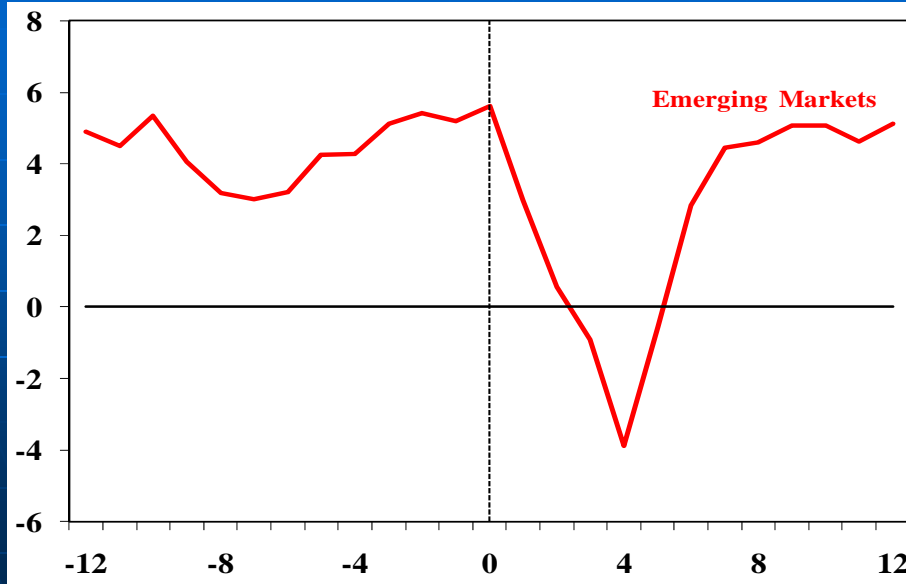
## And More Violent in Emerging Markets

*(slope of recessions, amplitude/duration)*



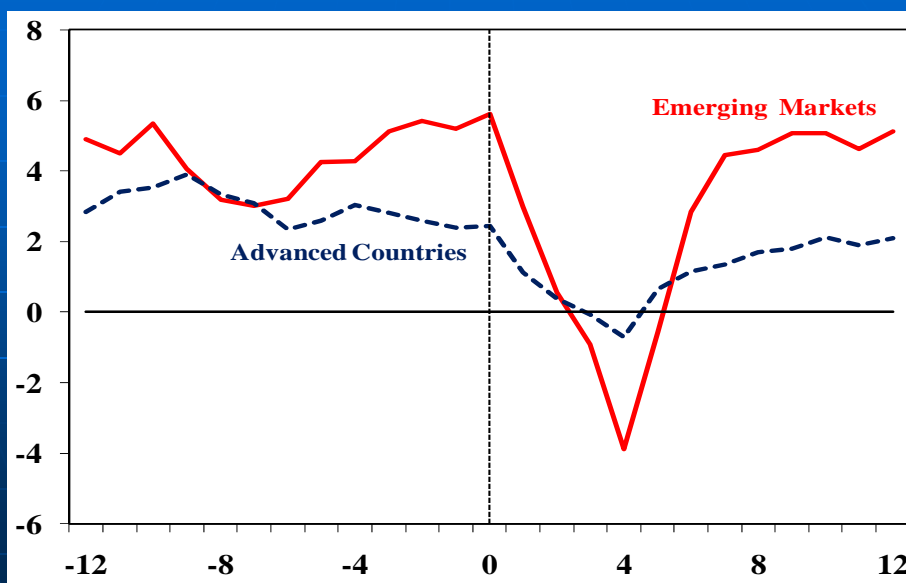
## A Sharp Decline in Output in EM

*(Percent change from a year earlier; zero denotes peak; x-axis quarter)*



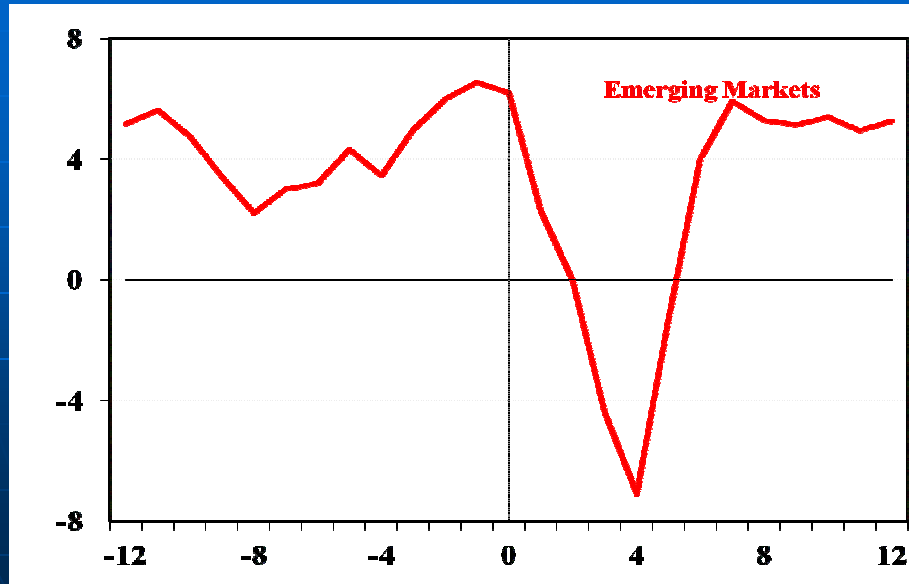
## Much Sharper Than Advanced

*(Percent change from a year earlier; zero denotes peak; x-axis quarter)*



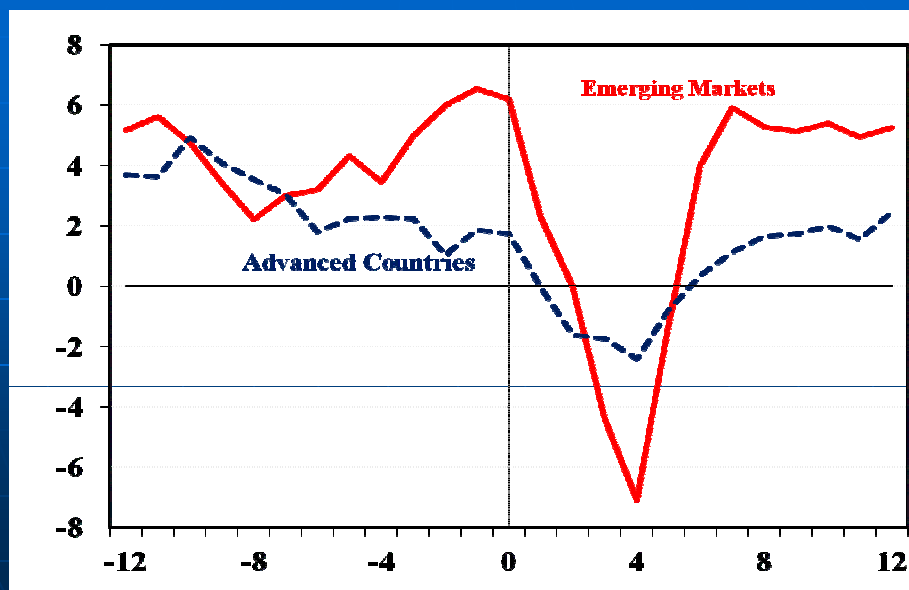
## Collapse of Industrial Production in EM

*(Percent change from a year earlier; zero denotes peak; x-axis quarter)*



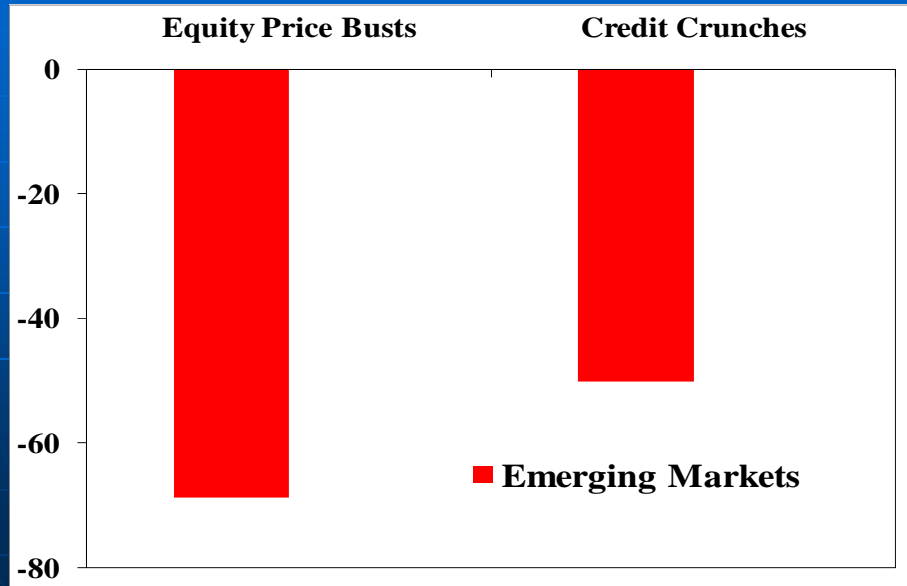
## Industrial Production: Advanced vs. EM

*(Percent change from a year earlier; zero denotes peak; x-axis quarter)*



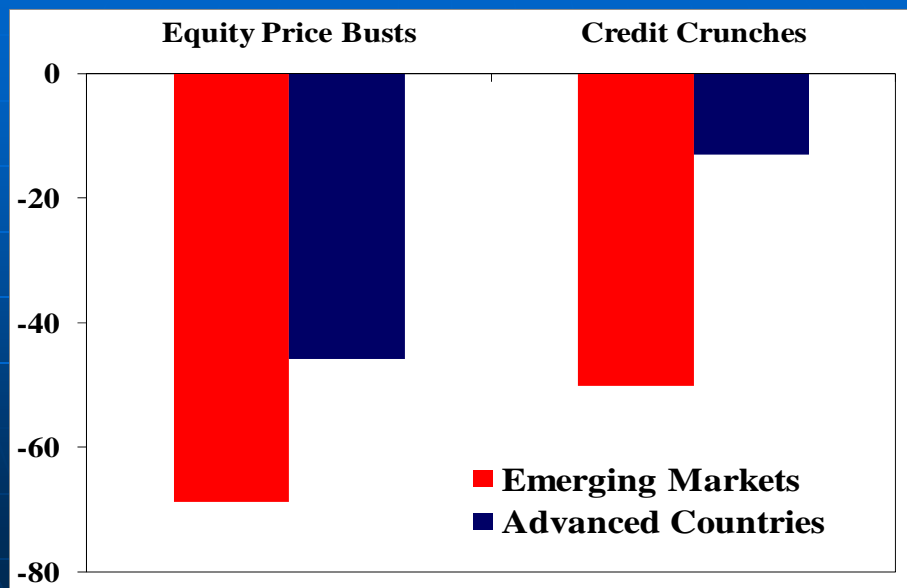
## Disruptions are Deeper than Recessions

*(percent change from Peak to Trough)*



## And Deeper in Emerging than Advanced

*(percent change from Peak to Trough)*



## **Why Some Emerging Markets *More* Resilient this time? - 1**

A new study analyzing the performance of EM

Less dependence on foreign finance and shift away from foreign currency-denominated external debt

Large buffers of foreign exchange reserves

More stable macroeconomic policies, including flexible exchange rates in a number of emerging markets

Greater trade linkages among the EMEs

## **Why Some Emerging Markets *More* Resilient this time? - 2**

Emerging markets have become more diversified in their production and export patterns

Broader divergence of emerging markets' business cycles from those of the advanced economies

Rising per capita income levels, burgeoning middle class

## Answers

**What is good about the recovery so far?**

**Recovery better than expected so far. Still tepid in many advanced countries, but solid in most emerging markets. Emerging markets' performance has been a pleasant surprise.**

**What is bad?**

27

## What is bad?

Recoveries after financial crises are often slow and weak

Unemployment is projected to stay high over the medium term in advanced economies, holding back demand

Credit growth will likely to be constrained as banks need to rebuild capital

And room for policy is limited. Diminishing fiscal support or increased fiscal vulnerabilities... Towards the ugly...

28

## Recoveries after crises different?

Are recoveries following recessions associated with financial crises different?

122 recoveries in 21 OECD countries over the period 1960-2007

Compare these recoveries with recovery episodes following financial crises

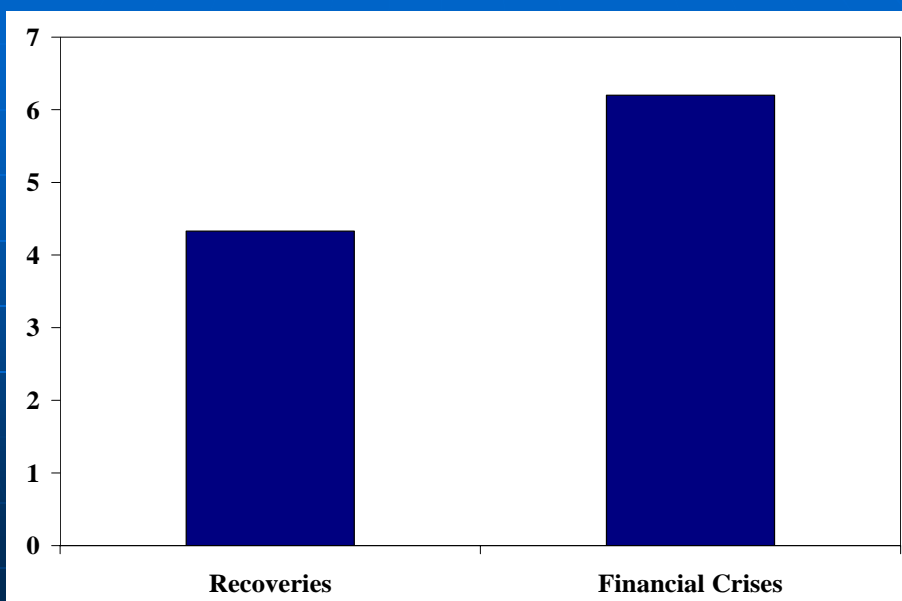
Financial crises: 5 major crises episodes

(Finland, 90; Japan, 93; Norway, 88; Spain, 78; Sweden, 90)

29

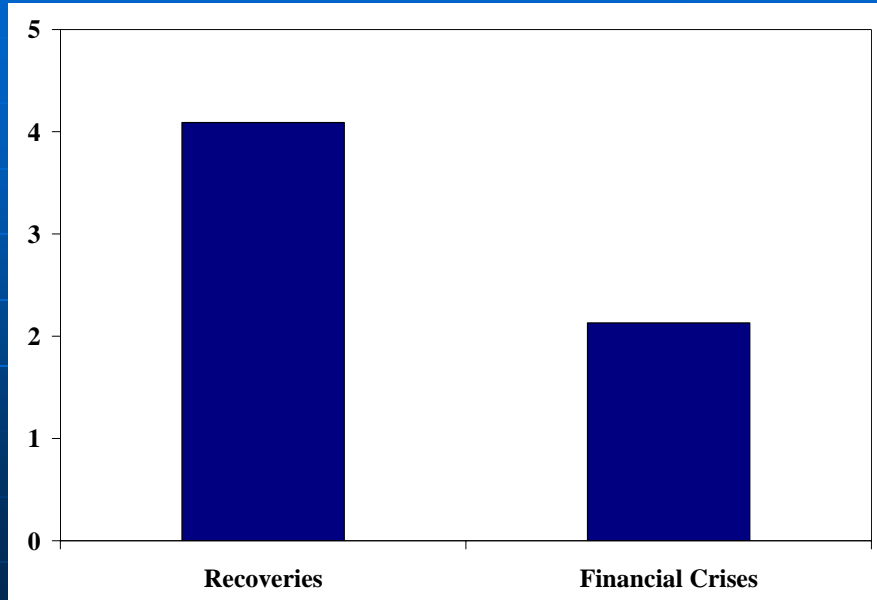
### Recoveries w/ Crises Often Slower

*(# of quarters from Trough to the 1<sup>st</sup> quarter in output above recession level)*



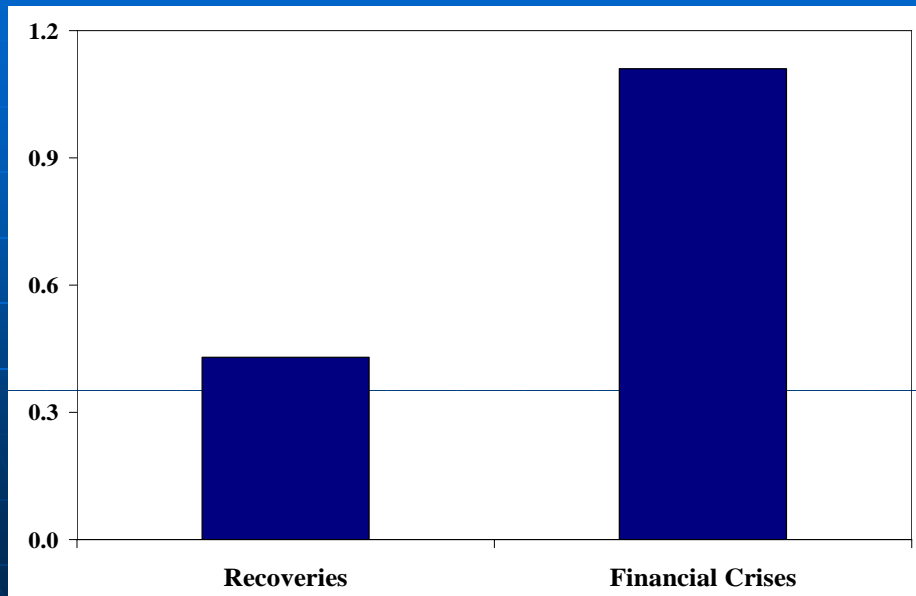
## And Much Weaker

*(GDP percent change four quarters after trough)*



## Unemployment Picks Up More

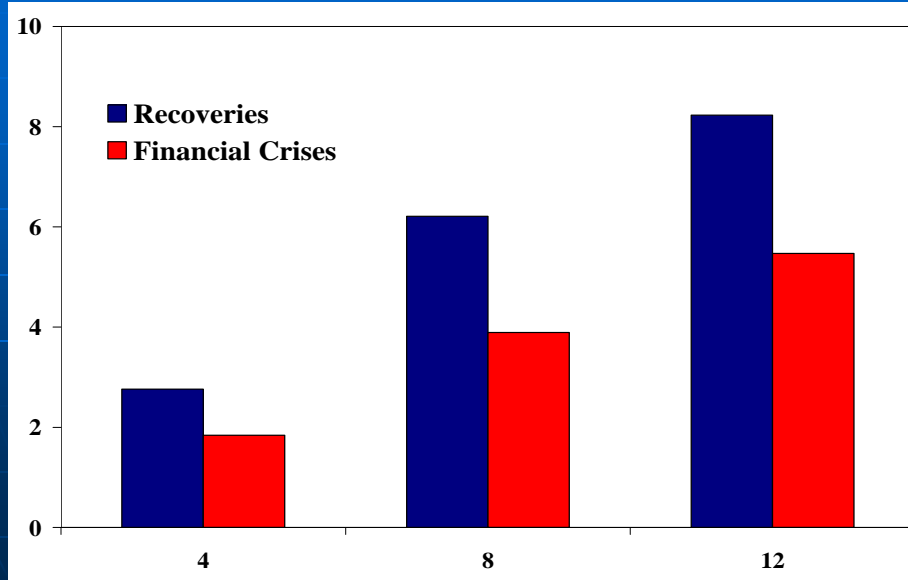
*(percentage point change four quarters after trough)*





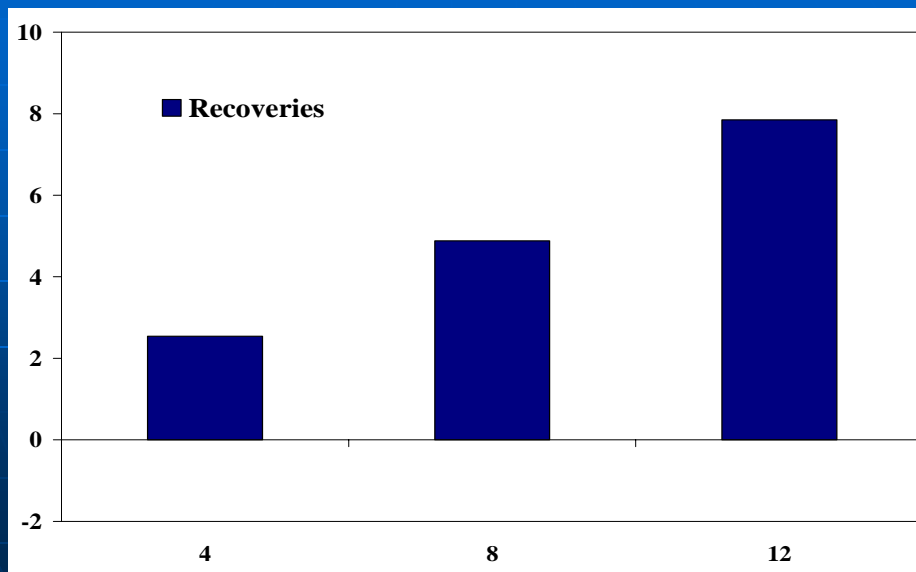
## Weak Consumption Growth After Crises

*(Percent change from start of recovery to quarter 4, 8, and 12)*



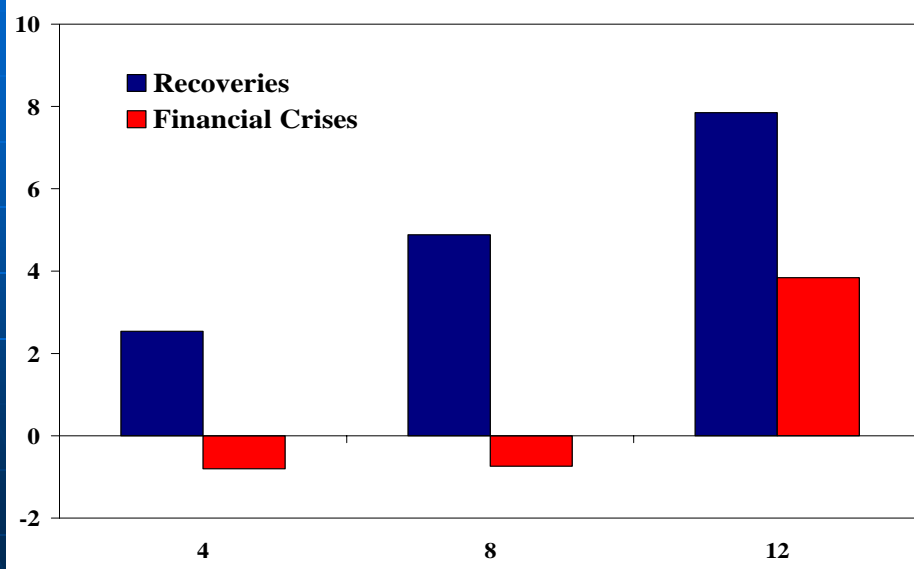
## Investment Grows During Recoveries

*(Percent change from start of recovery to quarter 4, 8, and 12)*



## But Investment Contracts After Crises

*(Percent change from start of recovery to quarter 4, 8, and 12)*



## Crises Associated with Permanent Output Losses Advanced Economies

**Real GDP for Advanced Economies**  
*(index: 2006 = 100)*

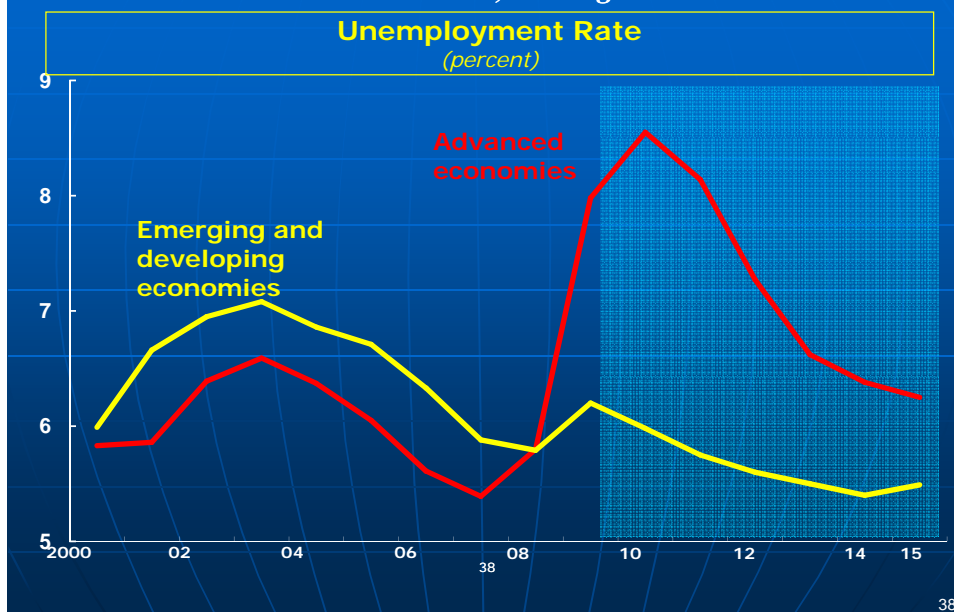


## Bank Credit Constrained in Many Countries



37

## High Unemployment Over the Medium Term in advanced economies, holding back demand



38

# Answers

## What is bad?

**Recoveries after financial crises are often slow and weak with high unemployment and low credit growth. Room for policy is limited.**

## What is next?

39

## What is next?

The world economy is projected to recover further, at varying speeds.

Declining impact of fiscal policies and inventories will likely to slow growth later in 2010 and 2011.

IMF-WEO growth projections broadly unchanged relative to the January 2010 IMF-WEO Update.

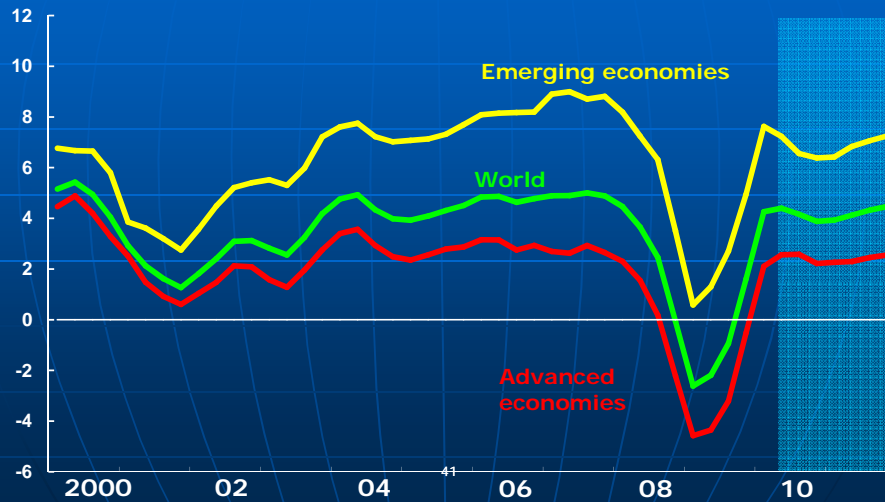
Downside risks related to advanced economy sovereigns have increased sharply.

40

## World Economy to Recover Further *at varying speeds*

### Real GDP Growth

(percent change from a year earlier)



## IMF-WEO Growth Projections Broadly Unchanged *relative to the January 2010 WEO Update*

### WEO Real GDP Growth Projections

(percent change from a year earlier)

	U.S.	Euro	Japan	China	India	World
2010 (Current)	3.1	1.0	1.9	10.0	8.8	4.2
2010 (Jan. 10)	2.7	1.0	1.7	10.0	7.7	3.9
2011 (Current)	2.6	1.5	2.0	9.9	8.4	4.3
2011 (Jan. 10)	2.4	1.6	2.2	9.7	7.8	4.3

Source: IMF, World Economic Outlook.

# Answers

## What is next?

The world economy is projected to recover further, at varying speeds. Downside risks related to advanced economy sovereigns have increased sharply

## What could get ugly?

43

## What could get ugly?

Advanced economies face daunting fiscal challenges. Need to stay supportive in 2010, but urgently need medium-term plans.

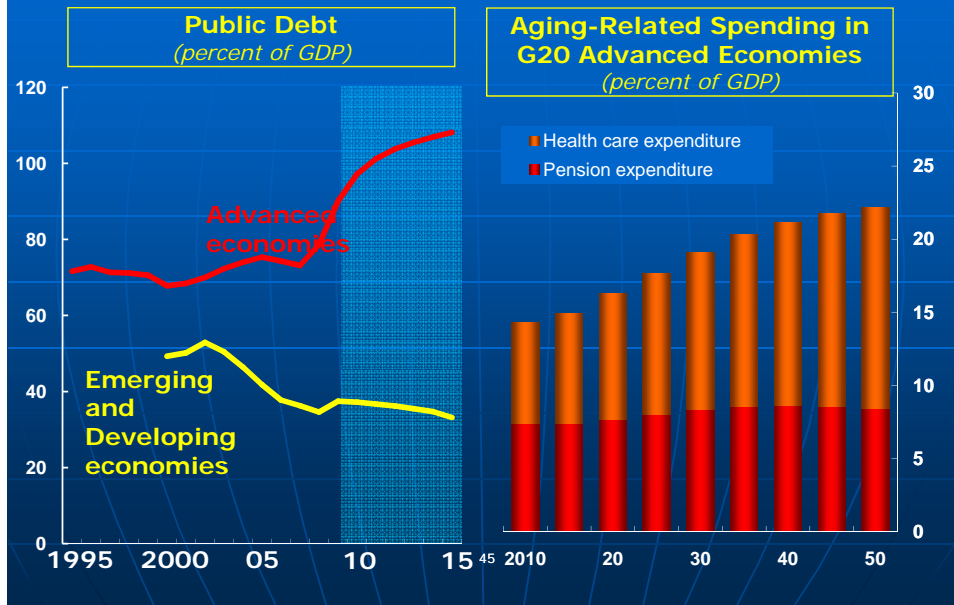
The most vulnerable economies are those facing fiscal and external sector challenges.

Recently, markets questioned the ability of some euro-area economies to adjust their fiscal policies sufficiently.

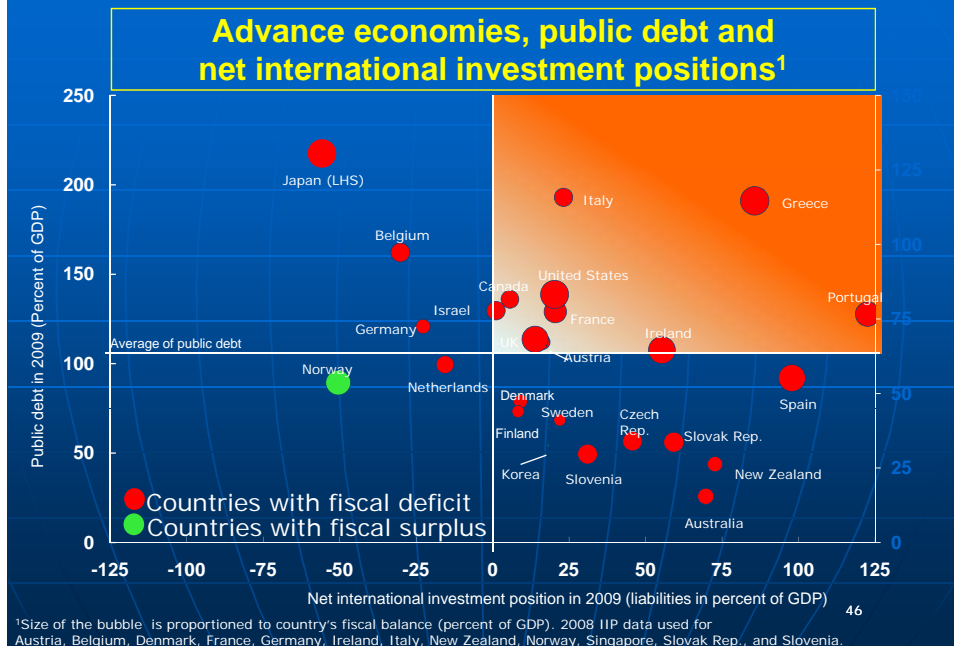
Concerns about these economies can spread to others via many linkages, notably banks' exposures.

44

## Daunting Fiscal Challenges in Advanced Economies

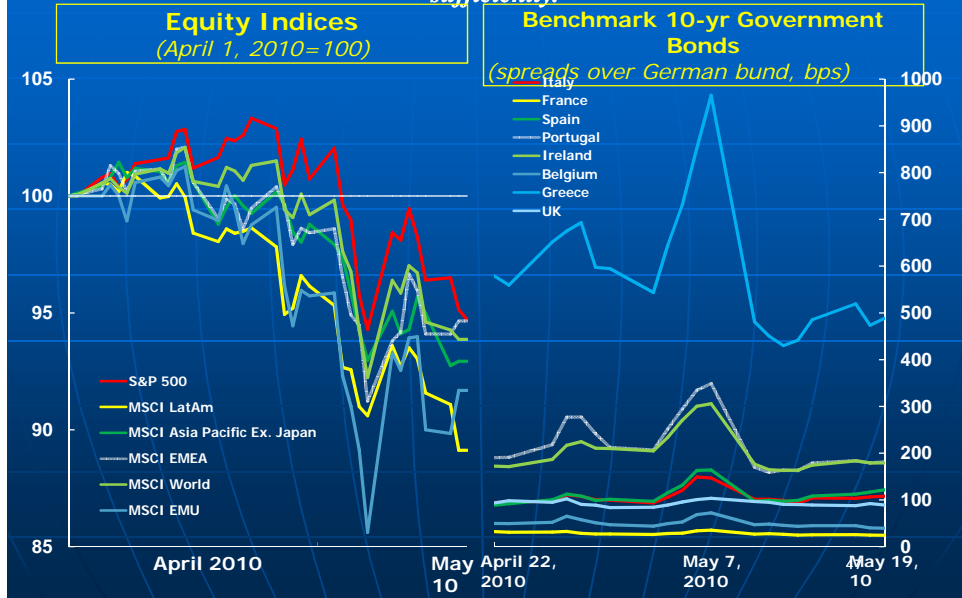


## Most Vulnerable: Large Fiscal & External Deficits



## Recent market developments

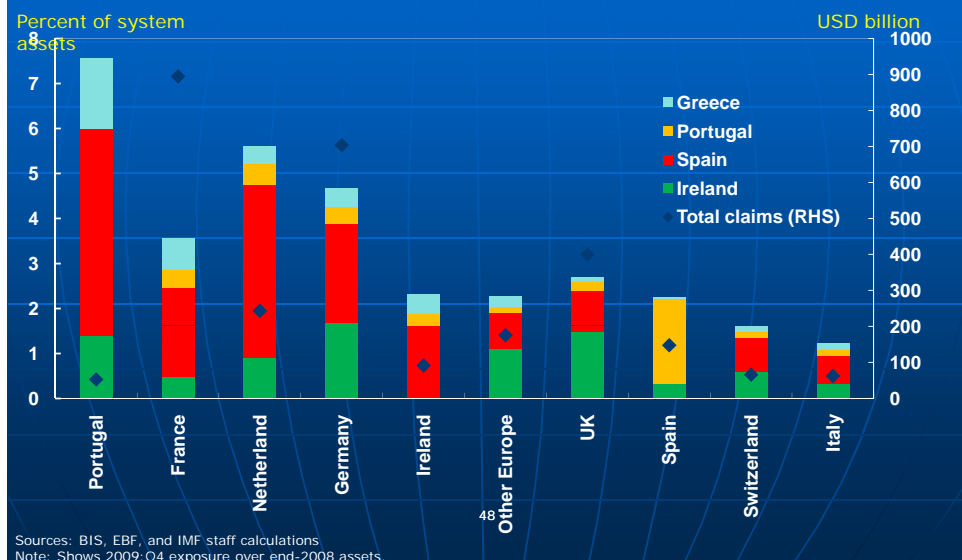
*questioned the ability of some euro-area economies to adjust their fiscal policies sufficiently.*



## Concerns can Spread to Others

*via many linkages notably banks' exposures.*

### European banks' international claims on GIPS





## Answers

**What could get ugly?**

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49

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50

**Questions & Comments**

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51