Country Risk / Global Economy

Risk of economic anemia

El País (Spain)

Sara Baliña

The risk that the main developed economies are moving towards a regime of reduced economic growth in the medium term has once again gained relevance in recent months. It has been driven by the increase in the probability of recession in the United States and the eurozone, and the relapse of inflation expectations and long-term interest rates in both regions. The parallels with the situation in Japan have revived even the fears of a possible 'Japanisation' of certain economies, particularly those in Europe. It is estimated that, if a growth scenario of this type were to materialise, the GDP advance rates could be less than half of those registered, on average, during the decade prior to the Great Recession (4% in the case of the United States and 2.5% in the eurozone).

In the debate about the nature of the forces that can lead to this risk scenario, the dilemma lies in the importance assigned to the consequences of the last "super debt cycle" (K. Rogoff) against factors of a more structural nature, which is the essence of the hypothesis of "secular stagnation" (L. Summers). The first interpretation is somewhat more optimistic, given that this scenario would have an expiration date once the ongoing deleveraging processes (to which we can also add that of China) are completed. Under the second perspective, the insufficiency of demand would be chronic, and this expectation would be behind the low interest rate levels on a global scale.

Unfortunately, and given its restrictive impact on the propensity to invest in the medium term, there is no shortage of elements that support the second view. Among them, it is important to note the increase in risk aversion caused by the global financial crisis, population ageing (not only in developed countries, but also in China as well), the economic slowdown in Asia, lower rates of trade integration, or the increase in market power that has been seen in certain sectors of activity.

The implications of a reduced growth scenario on economic policies would not be minor, with the lessons learned from the global financial crisis and the Japanese experience serving as a reference. Central banks would be in a position to reinforce their monetary stimuli through quantitative easing programs and the maintenance of reference rates close to 0%, in order to guarantee negative financing costs. In turn, fiscal authorities would most likely show greater tolerance for public deficits, at least while maintaining a low interest rate environment that helps to limit the risks of unsustainability of public debt. This context would be a good opportunity to take advantage of the impulse of public spending to solve deficiencies in infrastructure and human capital.

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ENQUIRIES TO:
BBVA Research: Calle Azul, 4 Edificio La Vela, Floors 4 & 5 28050 Madrid, Spain
Tel. +34 91 374 60 00 and +34 91 537 70 00 / Fax (+34) 91 374 25
bbvaresearch@bbva.com www.bbvaresearch.com