

It's a recovery, but abnormally slow, says IMF

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IT'S official. The recovery has begun, according to the International Monetary Fund's chief economist. But the nature of the rebound is likely to be slow and unpredictable.

"The recovery has started," claimed **Olivier Blanchard** in a paper published by the IMF. "Sustaining it will require delicate rebalancing acts, both within and across countries."

He warned that recovery would be slow and complicated. "The world is not in a run-of-the-mill recession. The turnaround will not be simple. The crisis has left deep scars, which will affect both supply and demand for many years to come," he said.

His comments followed news that Japan had become the latest major economy to return to growth in the second quarter, following a recovery in German and French GDP. But the British economy shrank by 0.8 per cent in the second quarter, according to the Office for National Statistics.

Adam Posen, who will join the Bank of England's monetary policy committee next month, said on Tuesday that Britain, along with the US, Italy and Spain, was "lagging" in economic recovery.

In his paper, *Sustaining a Global Recovery*, Dr Blanchard said the United States, the epicentre of the crisis, was "central to any world recovery".

He said two rebalancing acts would have to come into play to sustain the global recovery: a switch from public to private spending and the rebalancing of international trade flows.

The latter would require "a shift from domestic to foreign demand in the United States and a reverse shift from foreign to domestic demand in the rest of the world, particularly in Asia", he said.

"US net exports must increase" for the US recovery to occur, he said.

"From the point of view of the United States, a decrease in China's current account surplus would help increase demand, and sustain the US recovery. That would result in more US imports, which would help sustain world recovery," the IMF economist said.

China may be willing to pursue that "because it may well be in its own interest", but other emerging Asian economies that ran large current account surpluses had weaker incentives to boost internal demand.

In a typical recession model, he said, lower-than-normal growth gave way to higher-than-normal growth for some time, until the economy returned to its normal growth path.

"The current global recession is far from normal," he said, citing the breakdown in parts of the economic system.

"In advanced countries the financial systems are partly dysfunctional and will take a long time to find their new shape," he said.

Emerging market countries may not see dwindled capital inflows return to pre-crisis levels for a few years. The end result of the global crisis was possibly a permanently lower level of potential output, he said.