

Secular Stagnation in Europe and Japan

Introductory remarks

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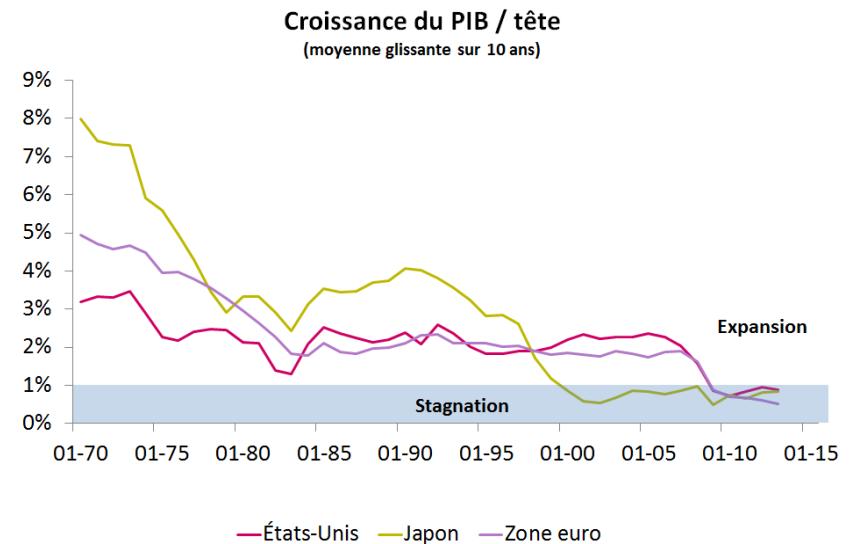
Monday 5 October 2015, 9:30-11am

Bruegel, Rue de la Charité 33, 1210 Brussels

One Way to Characterise « Prolongued » Stagnation

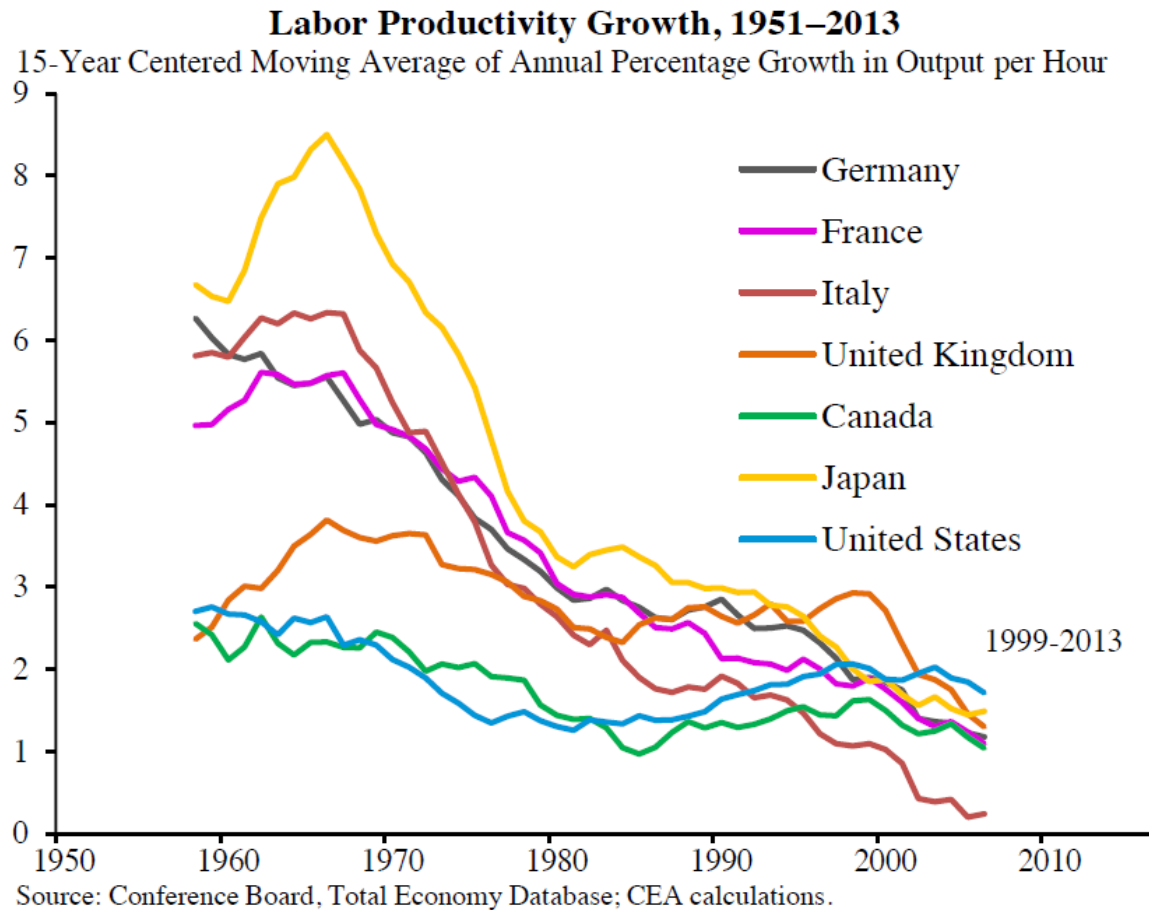
1. Macroeconomic conditions where S - I equilibrium at full employment can not be reached
2. Why? The natural rate (<0) is not attainable by the real market rate
3. Why? Central Bank stuck at ZLB

Per c. real GDP growth



Source: Aglietta and Brand in CEPII (2015). 10y m.a.

Symptom 1: Generalised Productivity Slowdown (Developed Economies since the 1970s)

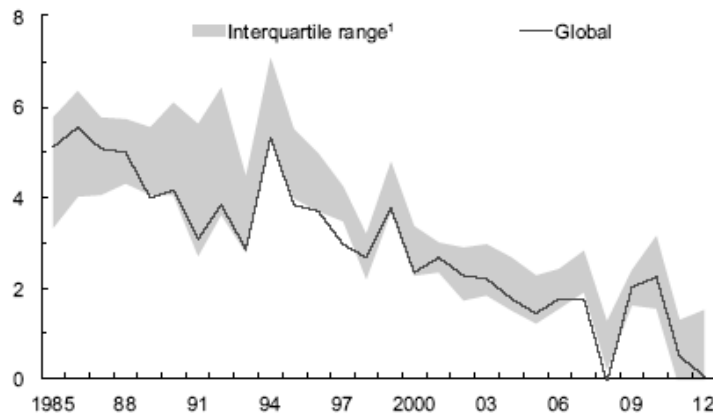


Symptom 2: Secular Decline in the Natural Interest Rate

Trend estimate for advanced economies

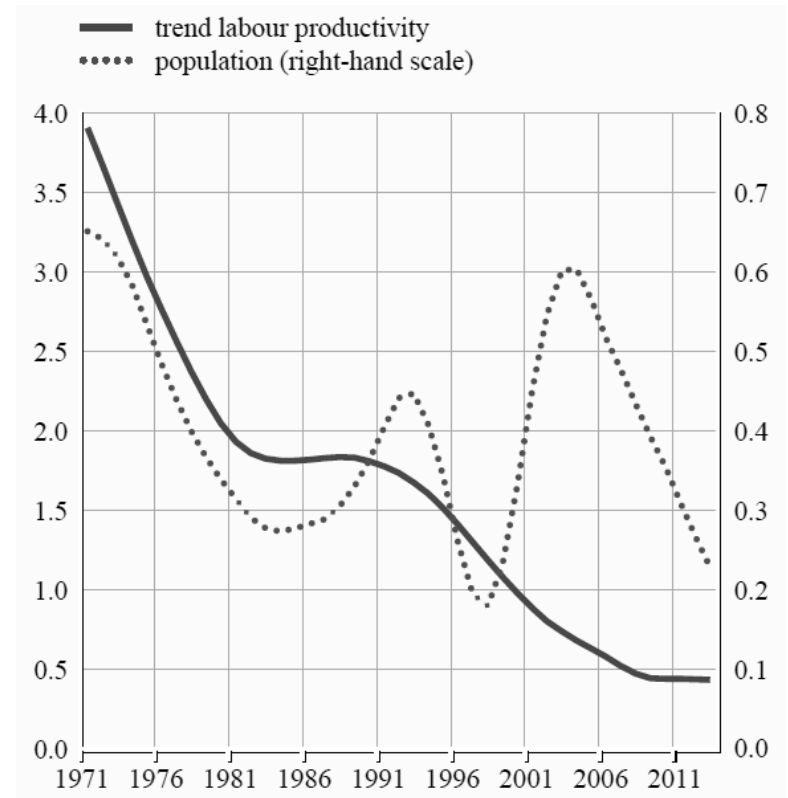
Determinants of the long run equilibrium real rate in the euro area (%yoy)

Figure 1 Short- and long-term global real interest rates (% per year)



Note: 1 The sample consists of: United States, United Kingdom, Austria, Belgium, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, Canada, Japan, Finland, Greece, Portugal, Spain, Australia, New Zealand. Global based on the GDP-weighted average.

Source: IMF (2014).



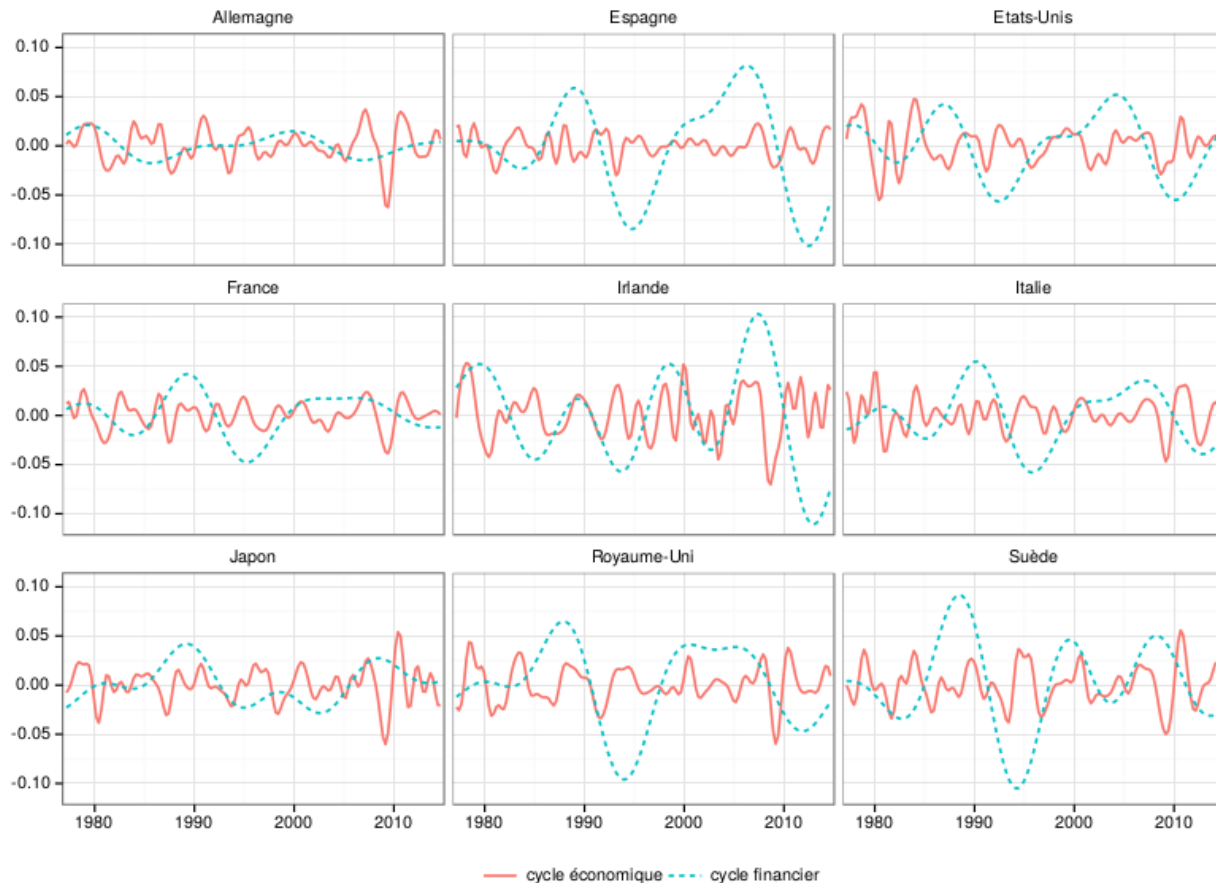
Source: UN, ECB.

Factors Behind Secular Stagnation: Prospects for Europe?

- Eggertson and Mehrotra (2014 NBER 20574)
- Persistent slump triggered by:
 - **Deleveraging shock (→ oversupply of savings)**
 - Drop in population growth
 - Increase in income inequality
 - **Fall in the relative price of investment**

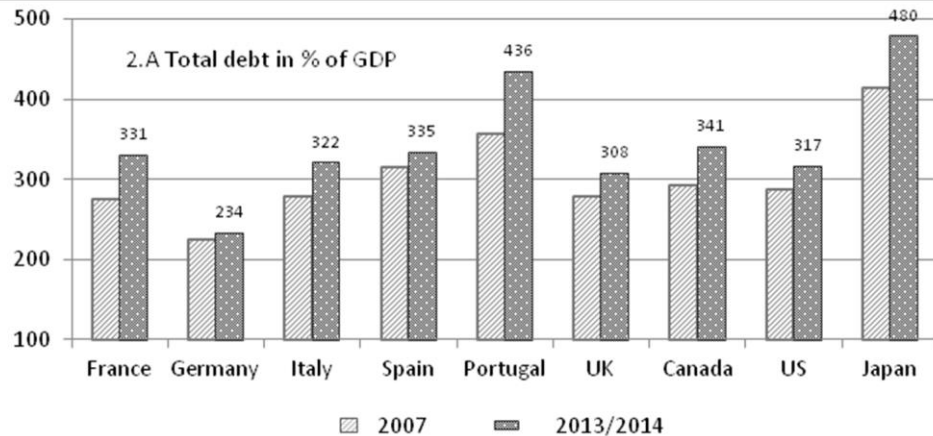
The Financial Momentum behind Secular Stagnation in Europe: Discrepancies

Estimates of the Financial Cycle « à la » BIS

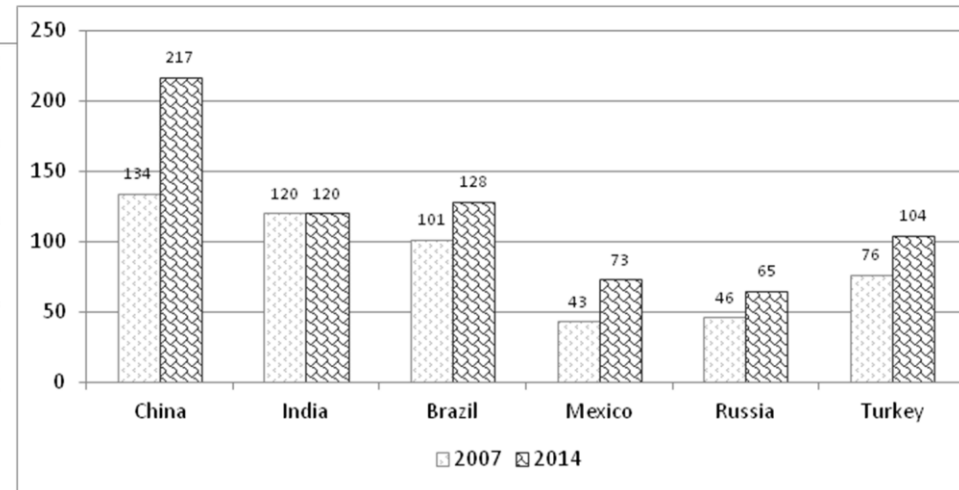


Financial Cycle after the « 2008 Turning Point »: Leverage Up Everywhere (but Discrepancies too)

Advanced Economies



Emerging Economies



Can the ECB Provide an Escape from Stagnation?

- ZLB complicates the situation (natural rate unattainable, etc)...
- ...but ZLB brought along non-conventional monetary polic(ies) (NCMP) at the ECB

➔ Under which conditions can MP « derail » stagnation in Europe?

- By adopting an « asset manager » approach to monetary policy (integrate an « investment pillar» in the strategy)
- By becoming a proactive risk taker of last resort (choose risky assets over sovereign bonds)
- If accompanied by a « one-off » deleveraging (debt write-off)