Recessions and Recoveries in Asia: What Can the Past Teach Us About the Present Recession?

Jacques Miniane
International Monetary Fund

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Key objective of the chapter

To study past recessions and recoveries in Asia to draw insights on two key questions:

1) How long and deep is the current recession likely to be?

2) What might lead the recovery, and how vigorous will it be?

Key findings

- Export dependent economies are doubly vulnerable to export shocks, because their domestic demand cycle is less autonomous.

- Financial stress—notably bank impairment—makes recessions noticeably longer and deeper.

- Recoveries in Asia are relatively weak, because they are overtly dependent on exports.

- Deeper recessions do *not* lead to faster recoveries: in fact, they lead to *permanent* output losses.

Preliminary considerations

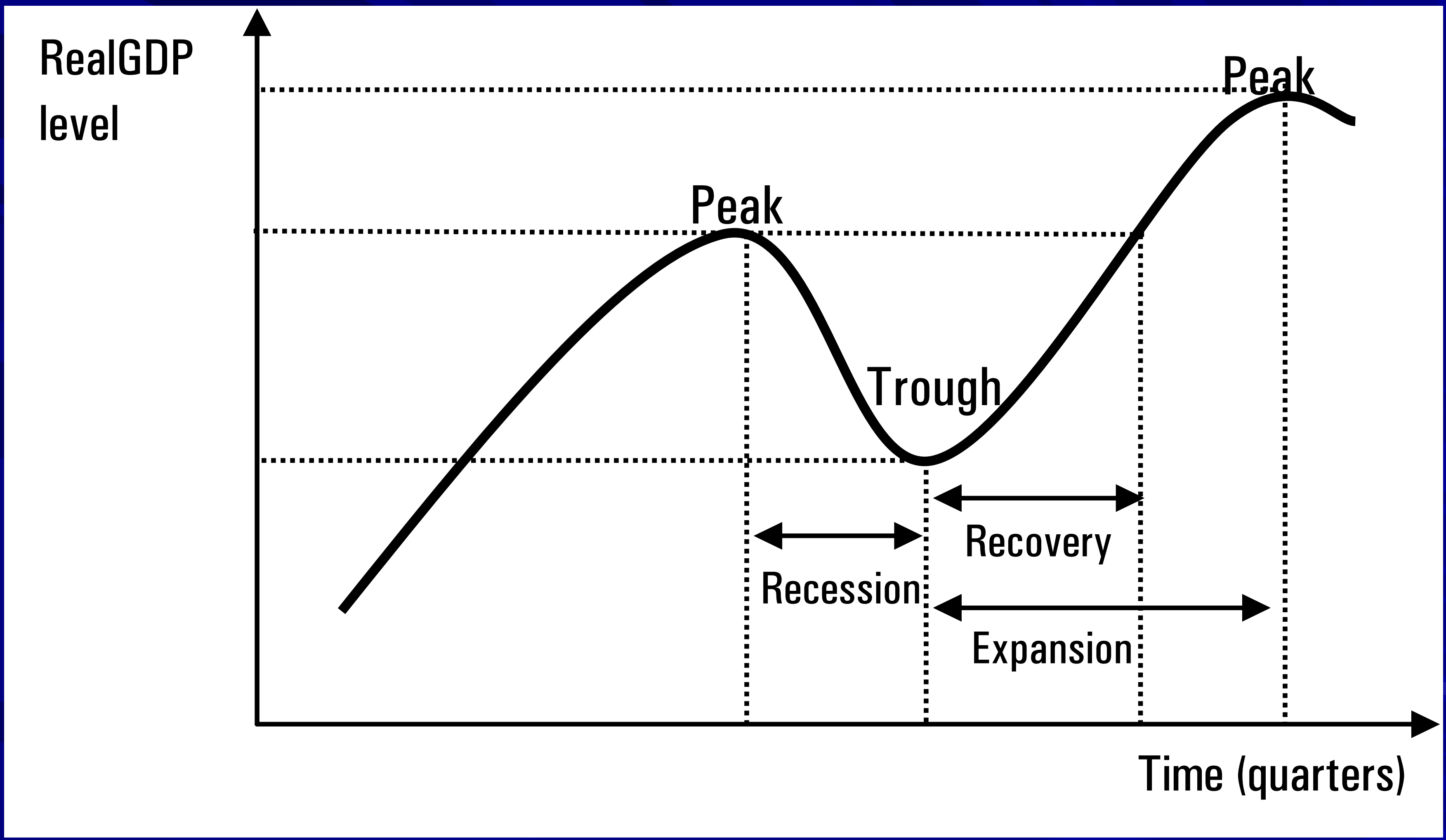
What kind of recessions?

- We focus on classical recessions that involve declines in GDP *levels*, not on growth slowdowns.

- We focus on the post-1980 period (quarterly data) because of the rapid changes in economic structure in the region.

- We try to distinguish between financial stress and non-financial stress recessions, and export recessions vs. non-export recessions.

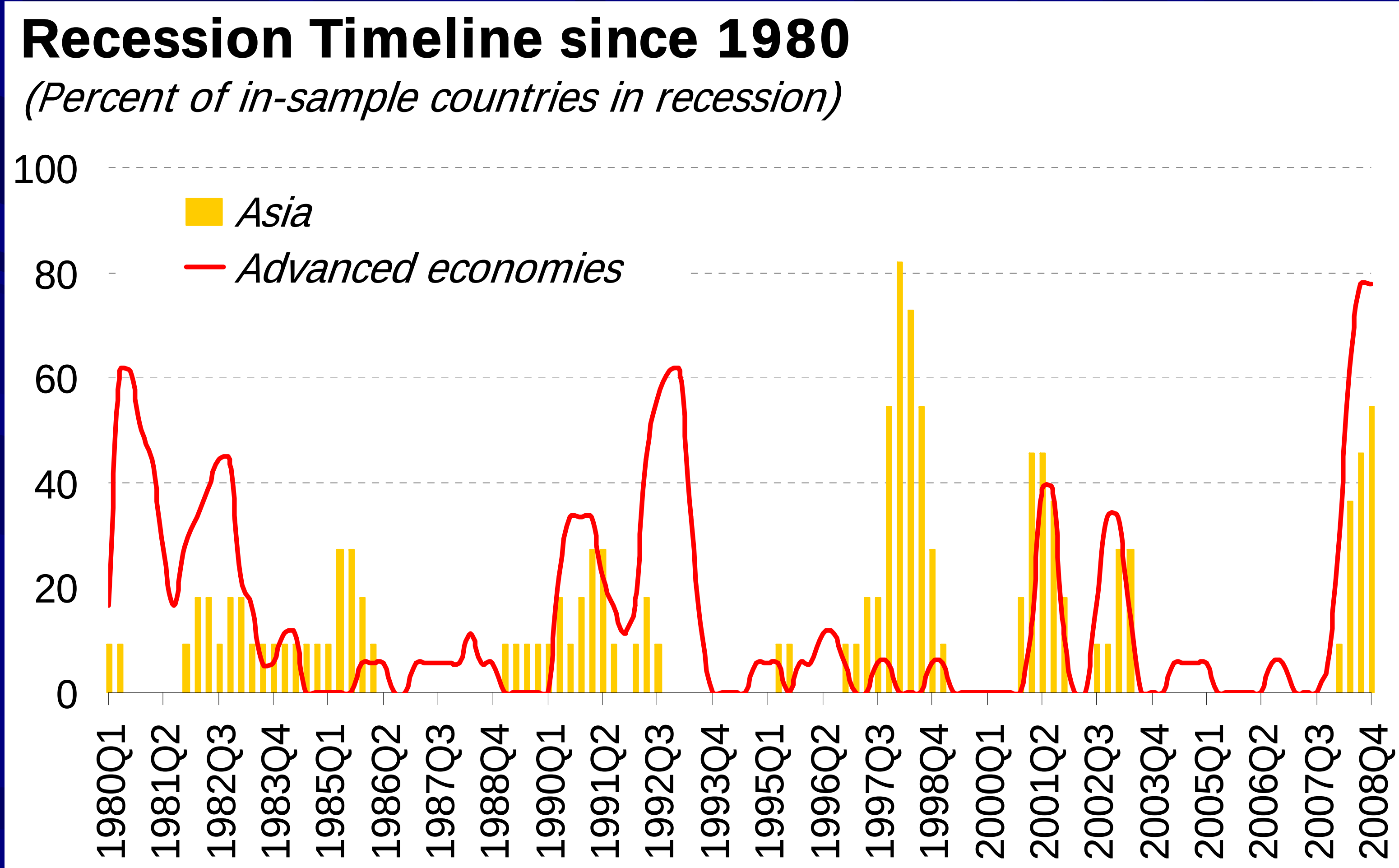
Some terminology



We identify 33 recessions since 1980 (excluding current episode)

	Number of recessions
Asia	33
Excluding 97/98 crisis	24
Financial stress recessions	16
of which banking crises	7
Export recessions	8

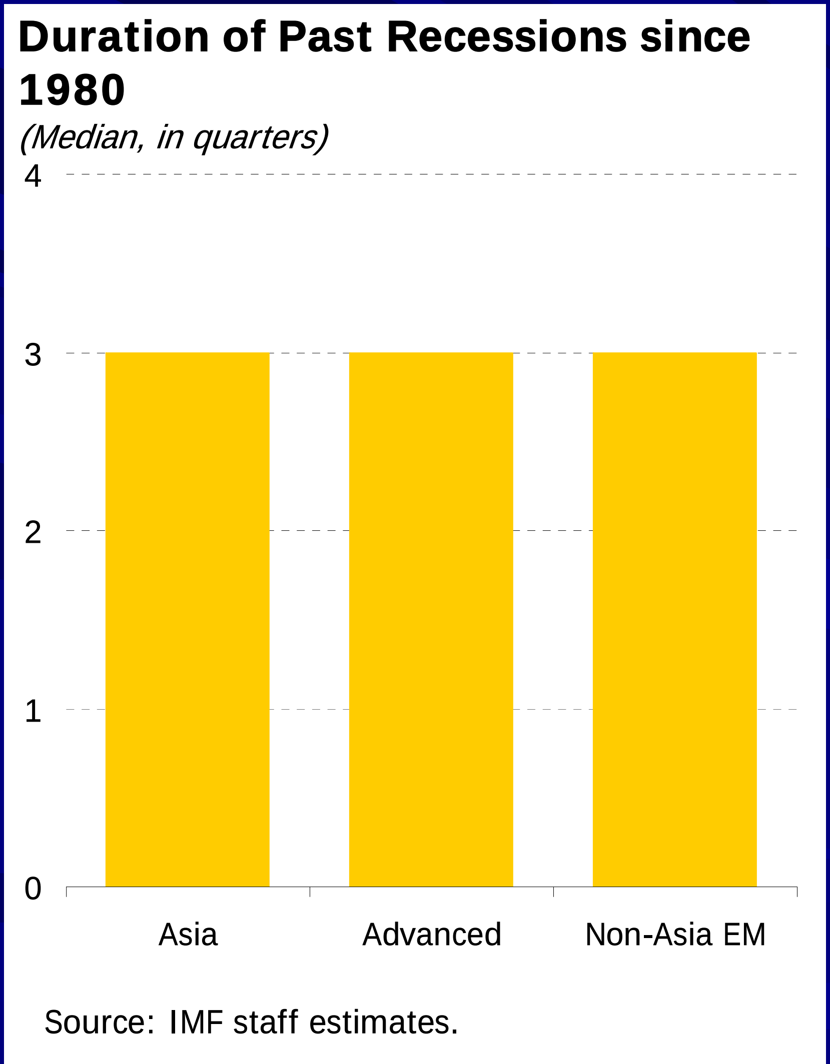
Synchronicity between Asian and global recessions limited, but growing over time

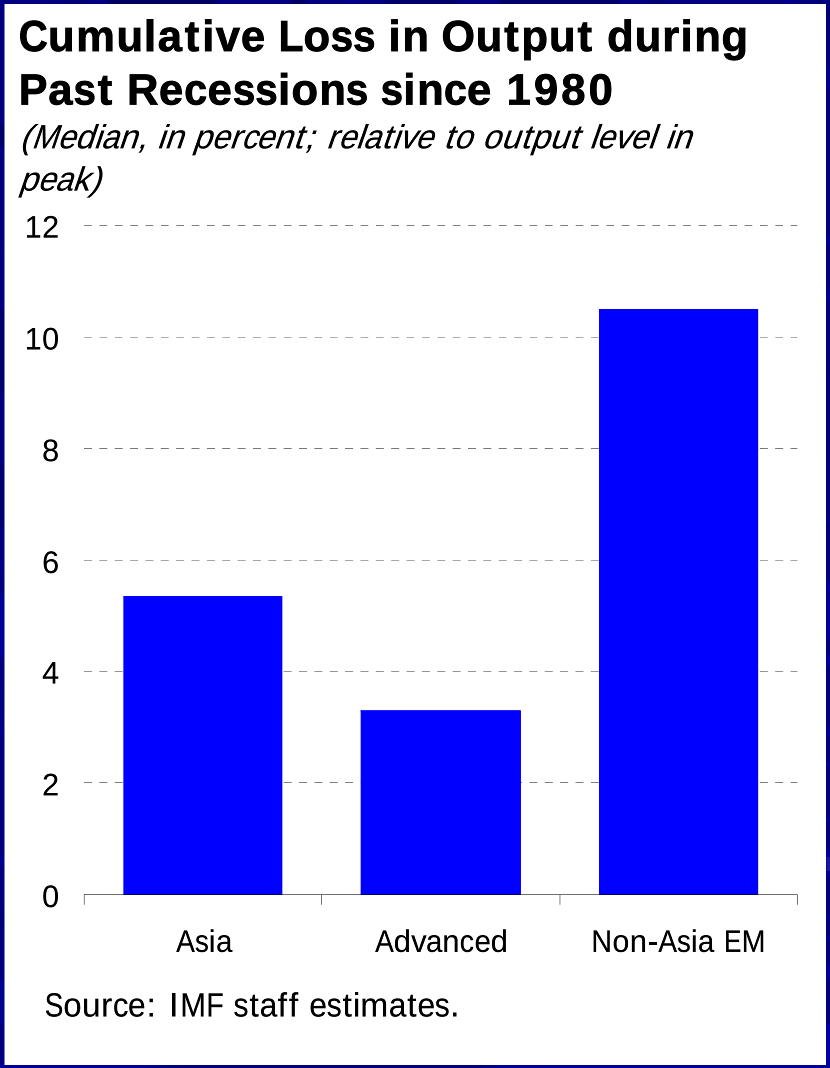


Source: IMF staff estimates.

Asian Past Recessions: How Deep?

Typical recession in Asia not very long nor very deep…

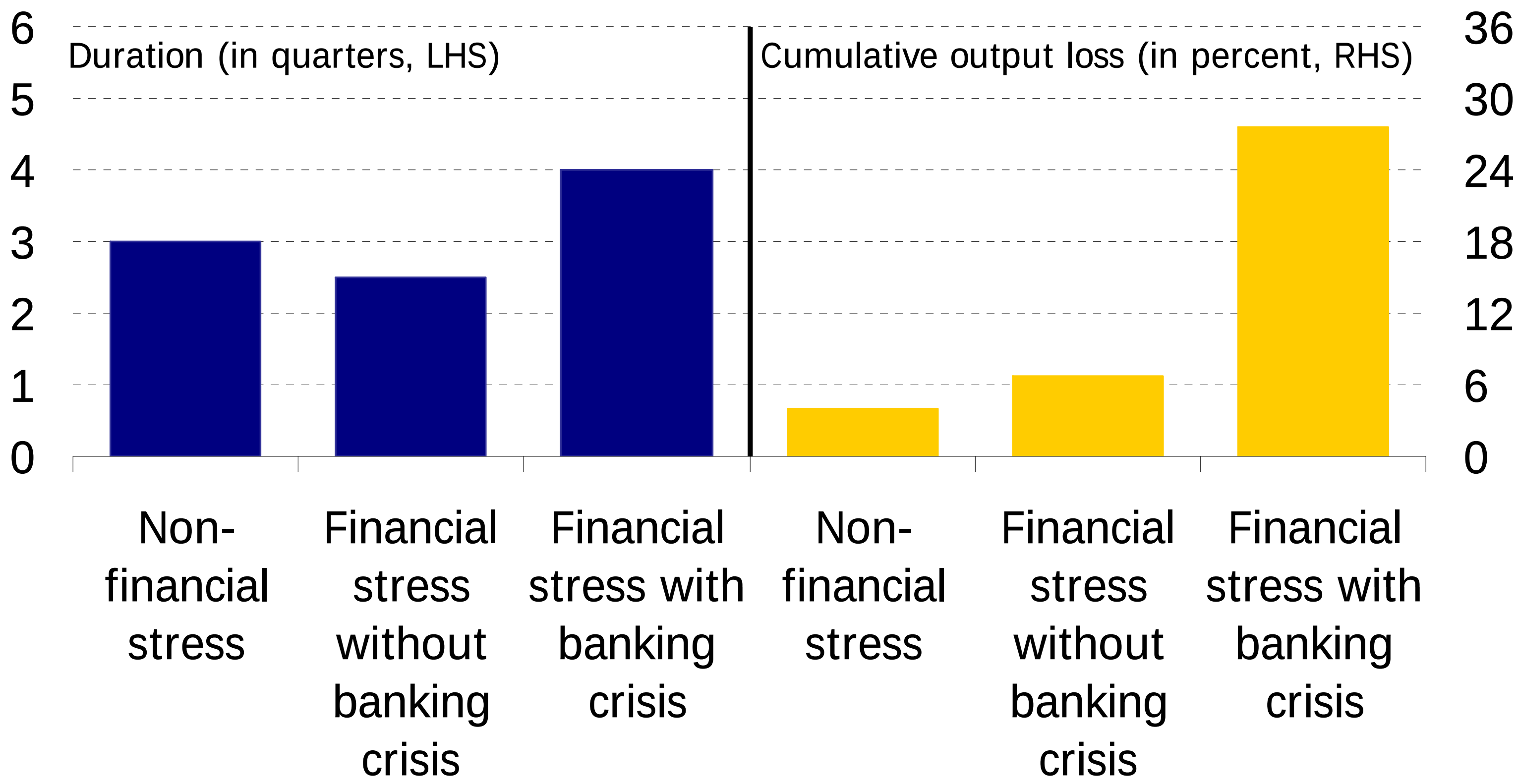




…But financial stress recession, particularly banking crises, *very* deep…

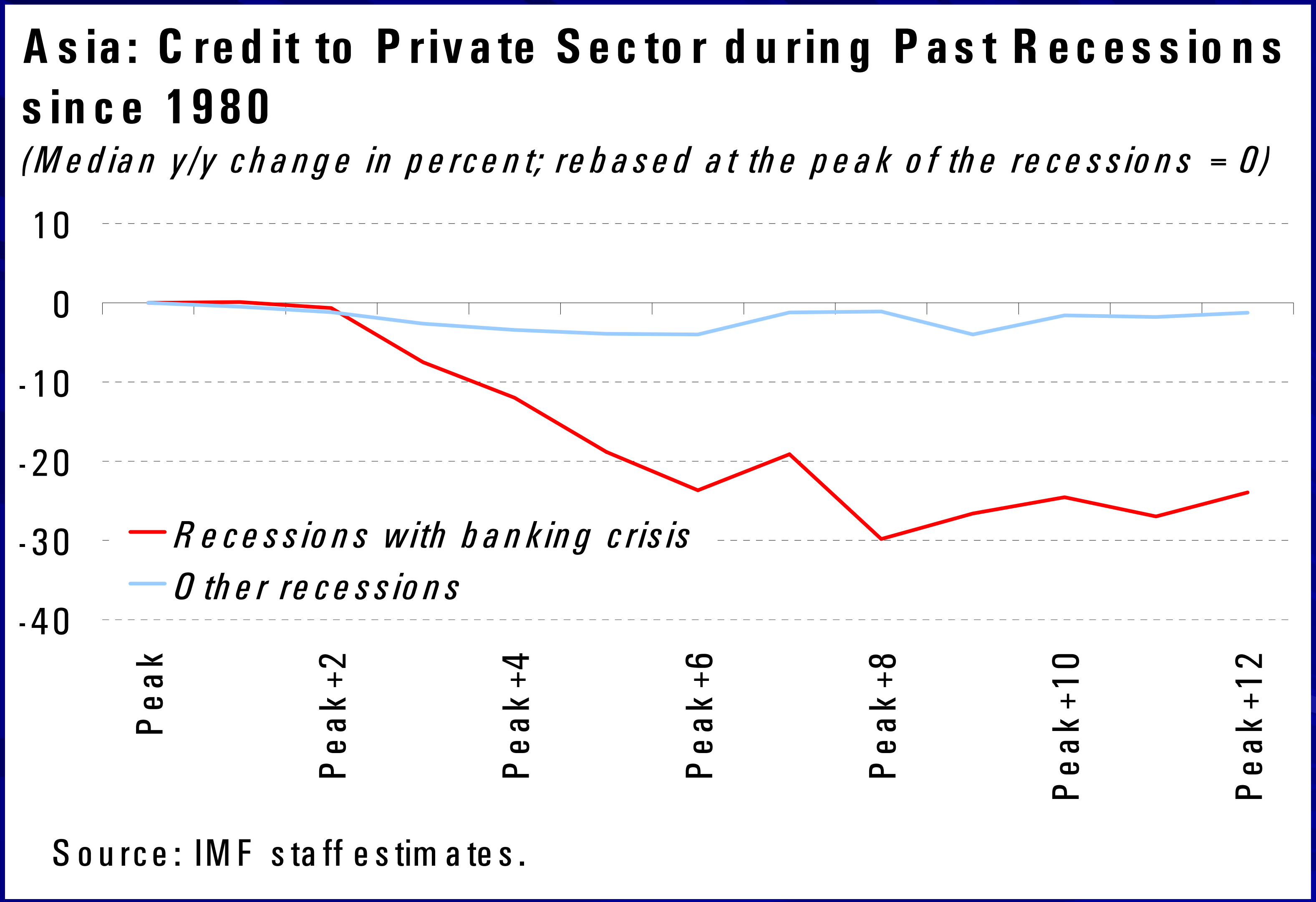
Asia: Past Recessions since 1980

(Median)



Source: IMF staff estimates.

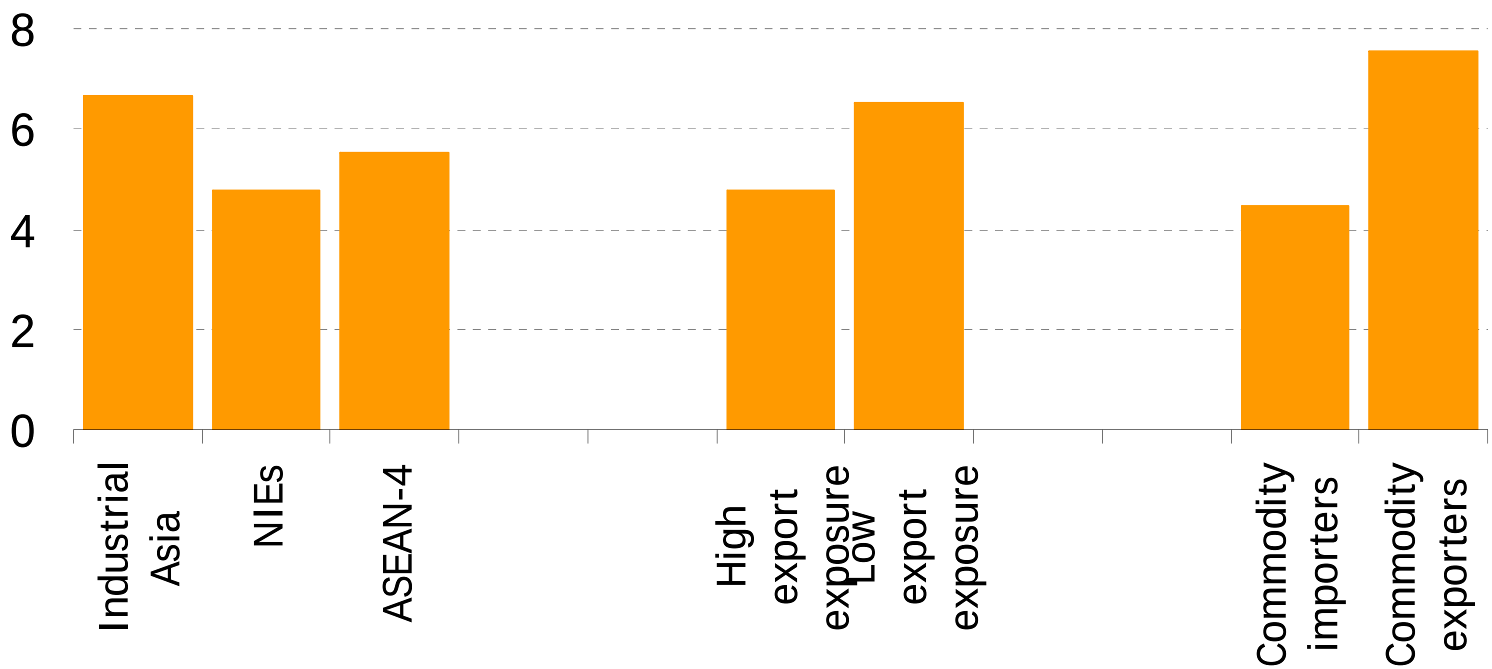
…partly because credit is impaired.



On average, different countries suffer similar recessions

Asia: Cumulative Loss in Output during Past Recessions since 1980 by Country Groups

(Median in percent, relative to peak)

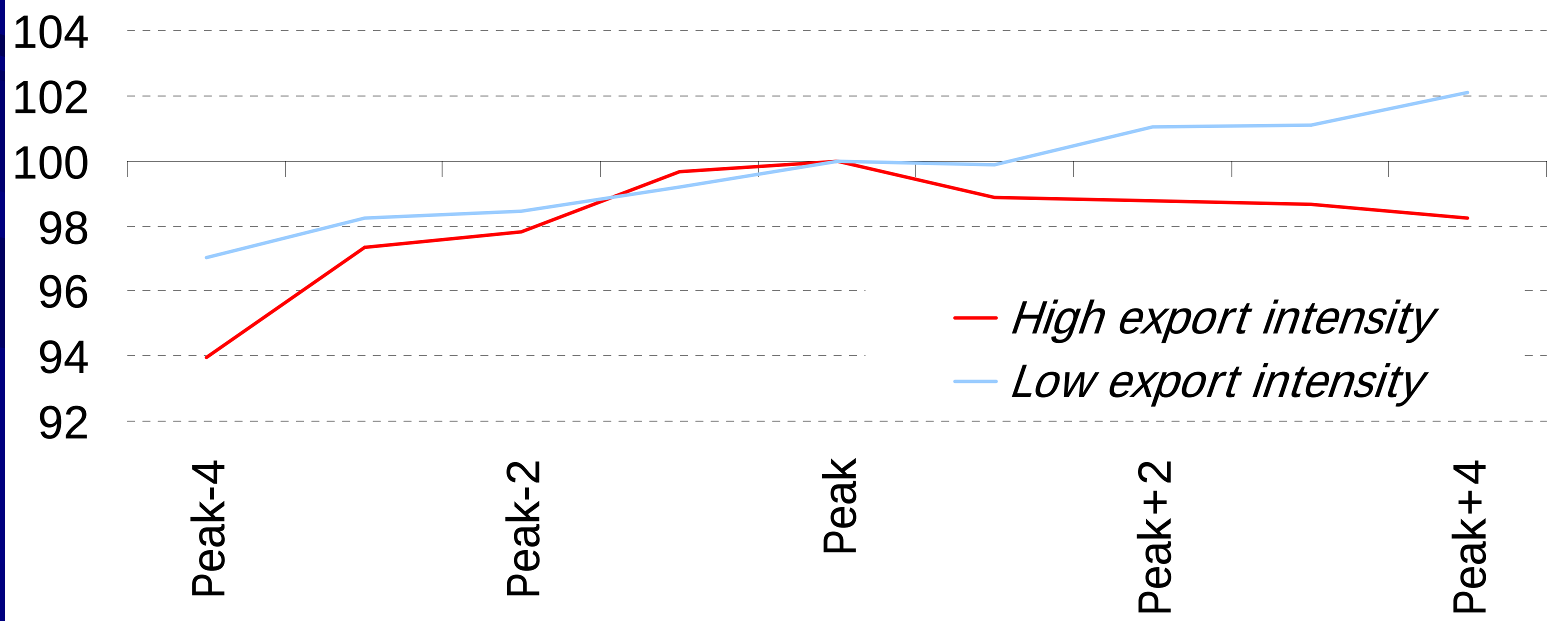


Source: IMF staff estimates.

But export dependent economies suffer deeper output declines in export recessions

Asia: Gross Domestic Product by type of Export Activity during 2000-01 Recession[1]

(Median, rebased at peak of the recessions=100)



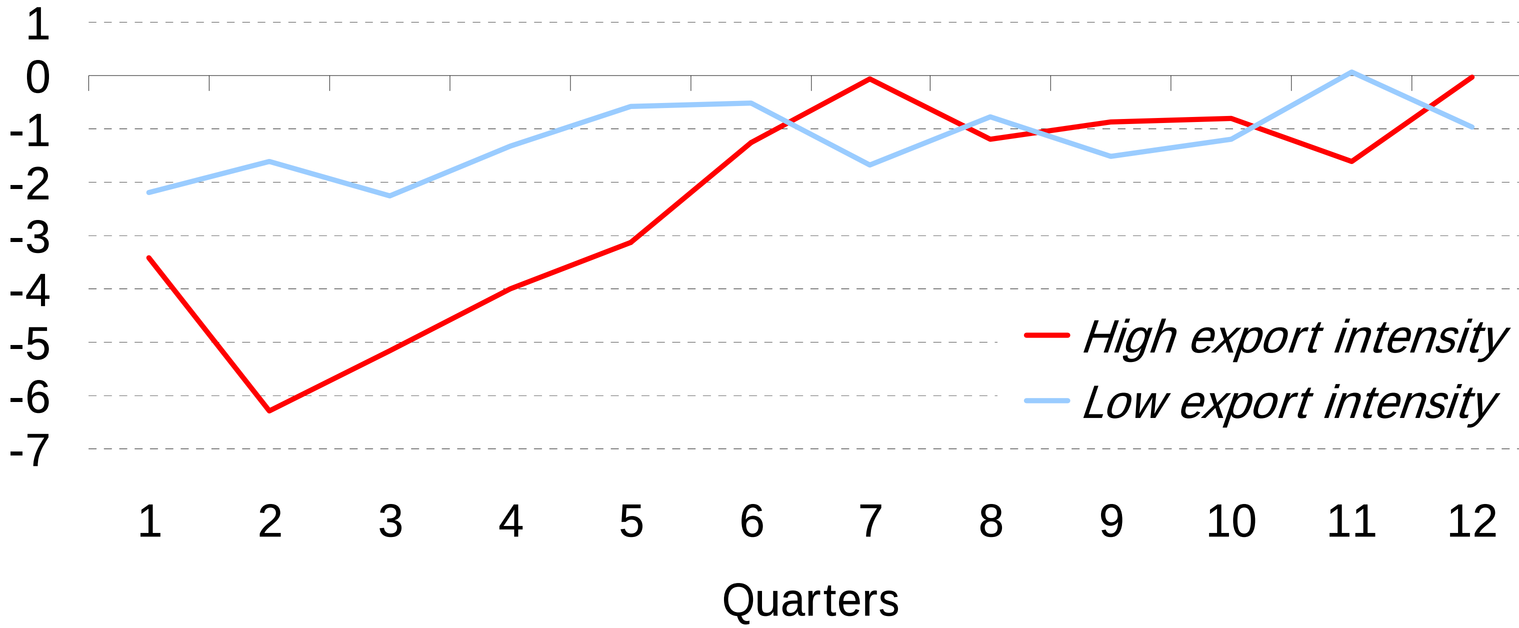
Source: IMF staff estimates.

[1] Includes countries (excluding China and India) not having recession in 2000-01.

Because the transmission from exports to domestic demand is stronger in these countries

Asia: Response of Real Gross Fixed Investment Growth to a 15 percentage point Shock to Real Export Growth

(In percentage points)



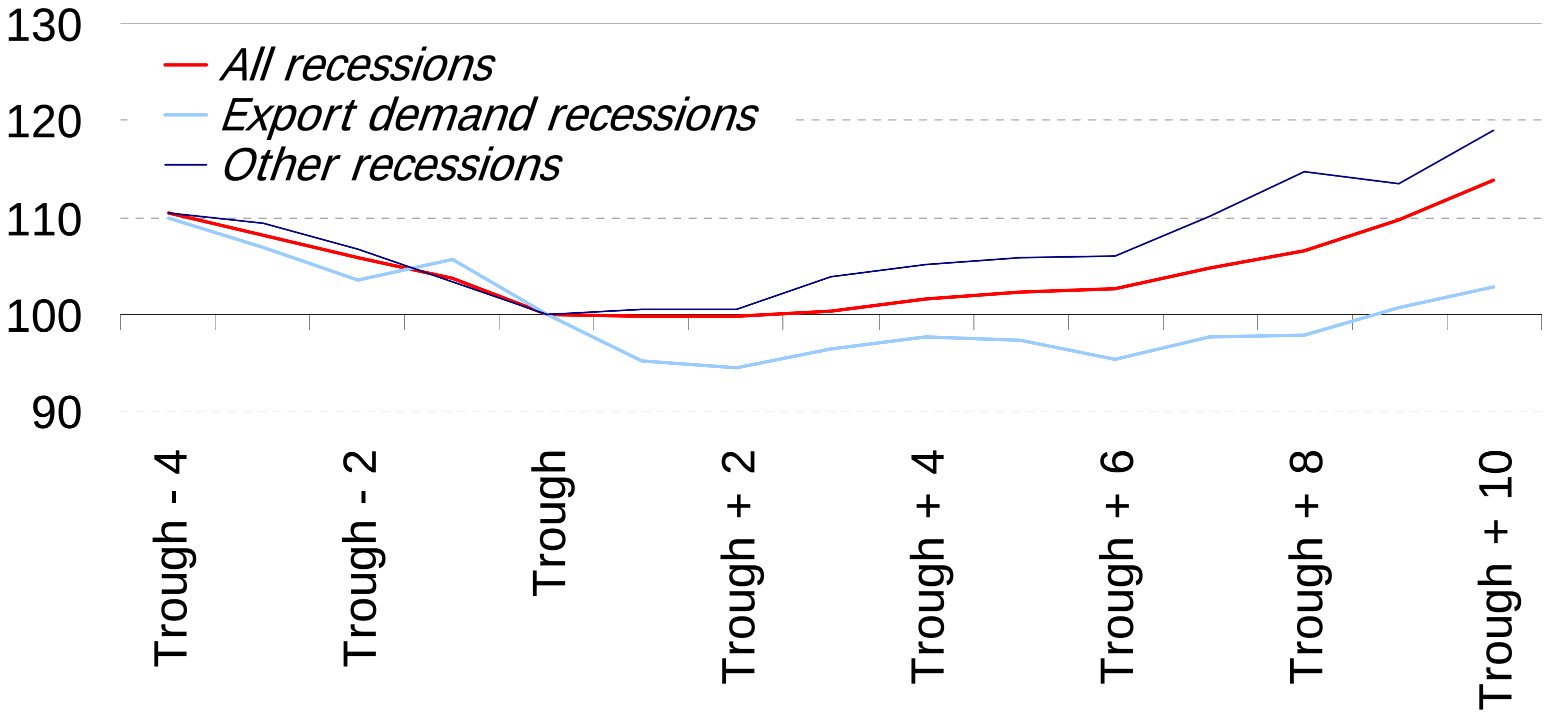
Source: IMF staff estimates.

Asia's Typical Recovery

Many recoveries in Asia have been investment-less

Asia: Gross Fixed Investment during Past Recessions since 1980

(Median, rebased at trough of the recessions = 100)

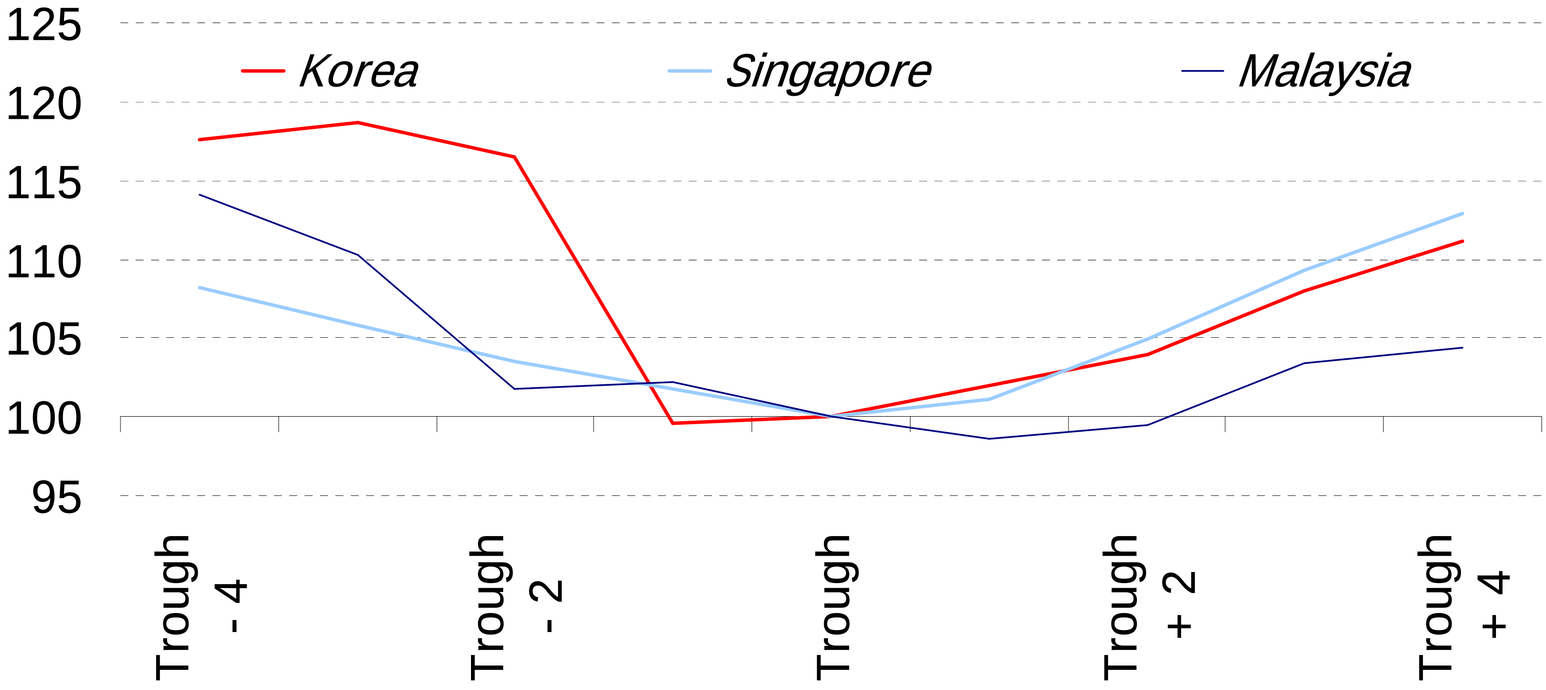


Source: IMF staff estimates.

Consumption has played an important role, but only in a *few* recoveries

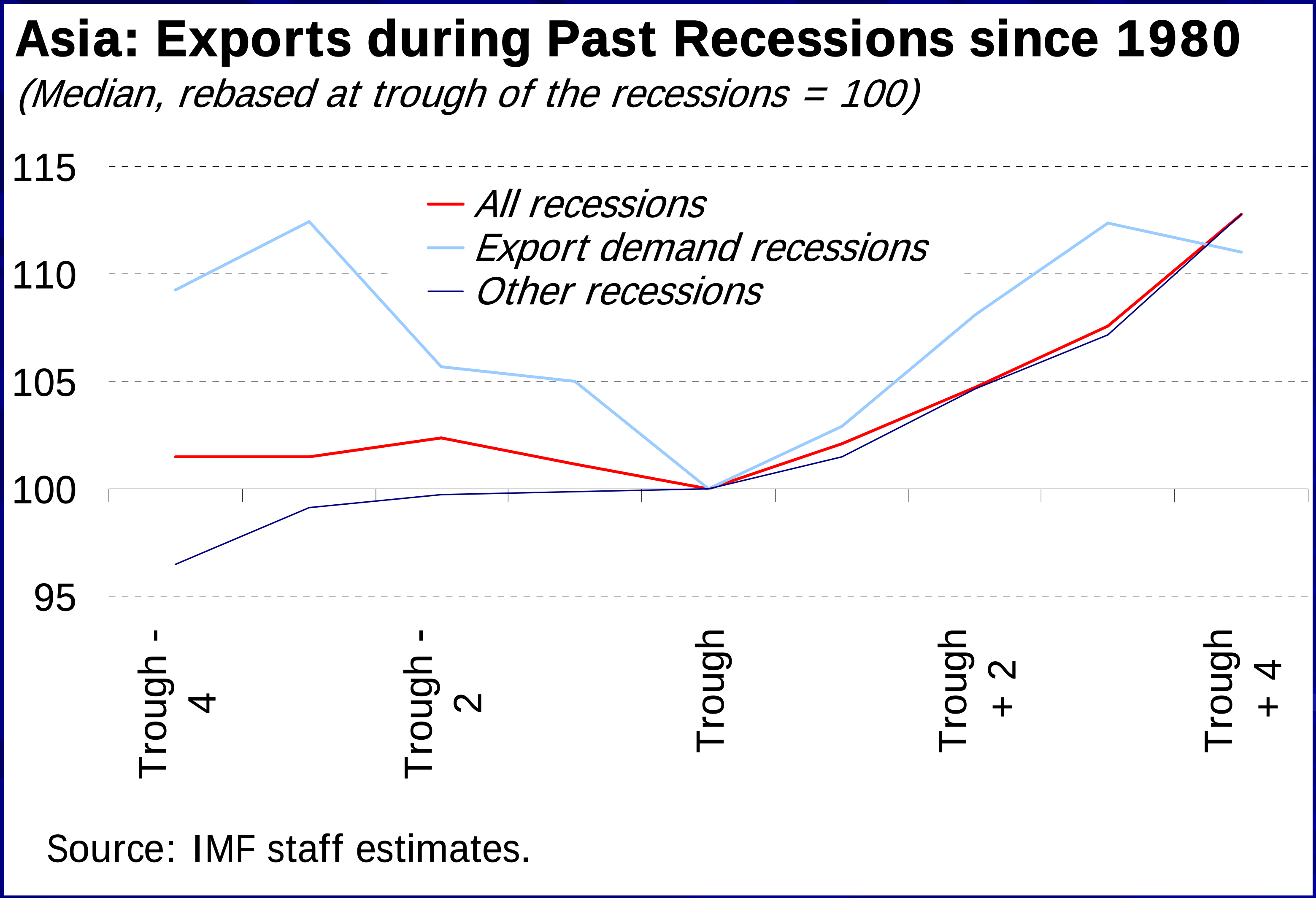
Selected Asia: Private Consumption during the Asian Crisis

(Rebased at trough of the recession = 100)

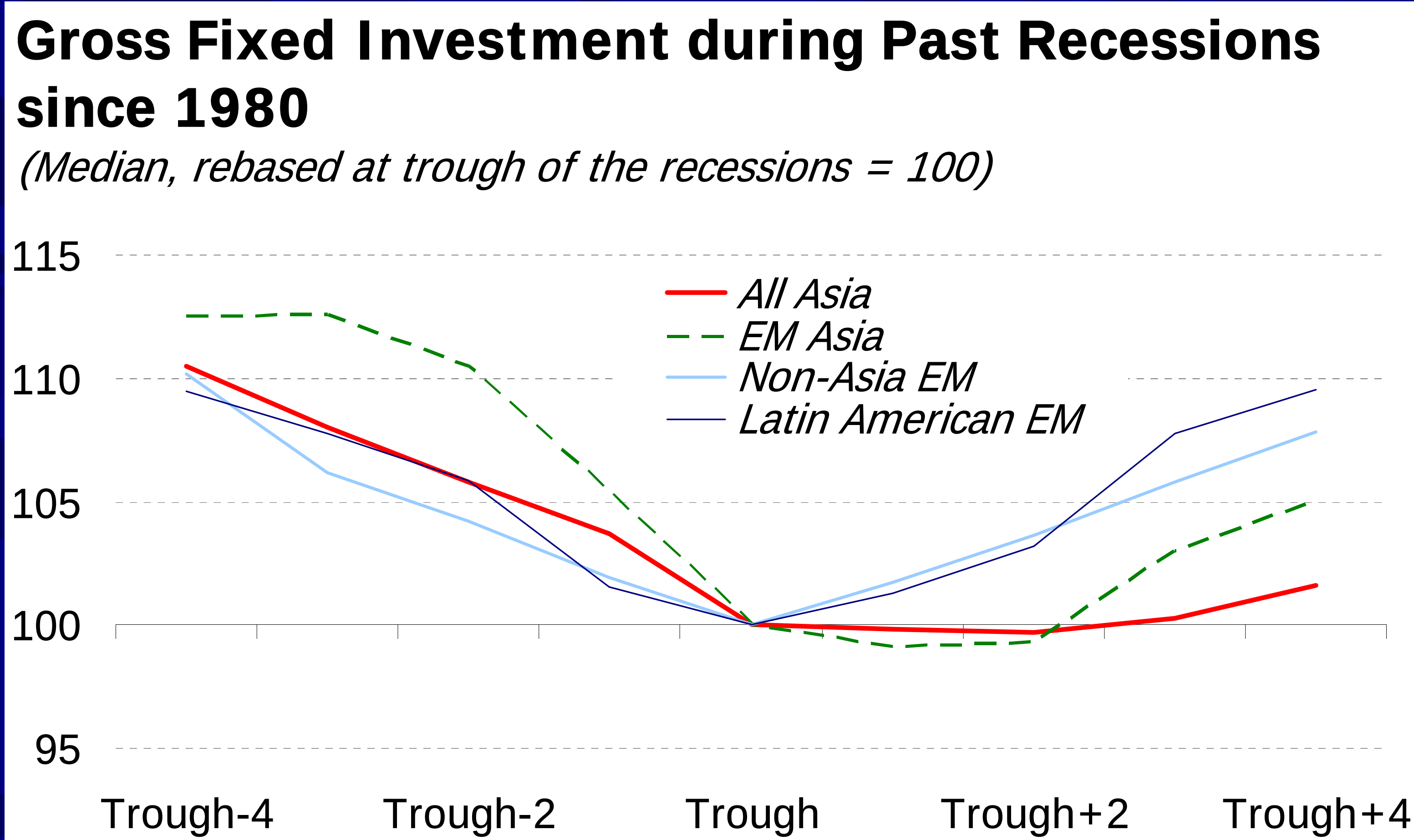


Source: IMF staff estimates.

Exports have been the key engine to Asia's recoveries



Because recoveries have often flown on one engine, they've been weaker than elsewhere

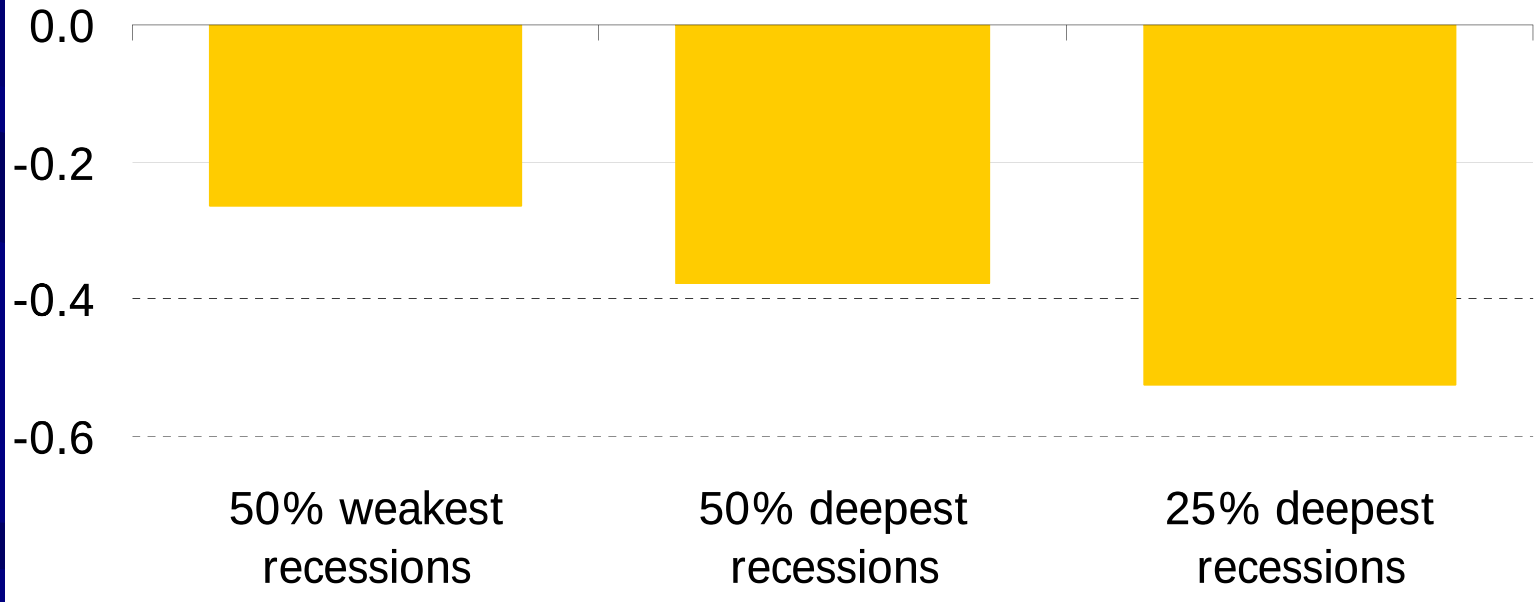


Source: IMF staff estimates.

Finally, deeper recessions do *not* lead to stronger recoveries

Asia: Trend GDP during Past Recessions since 1980

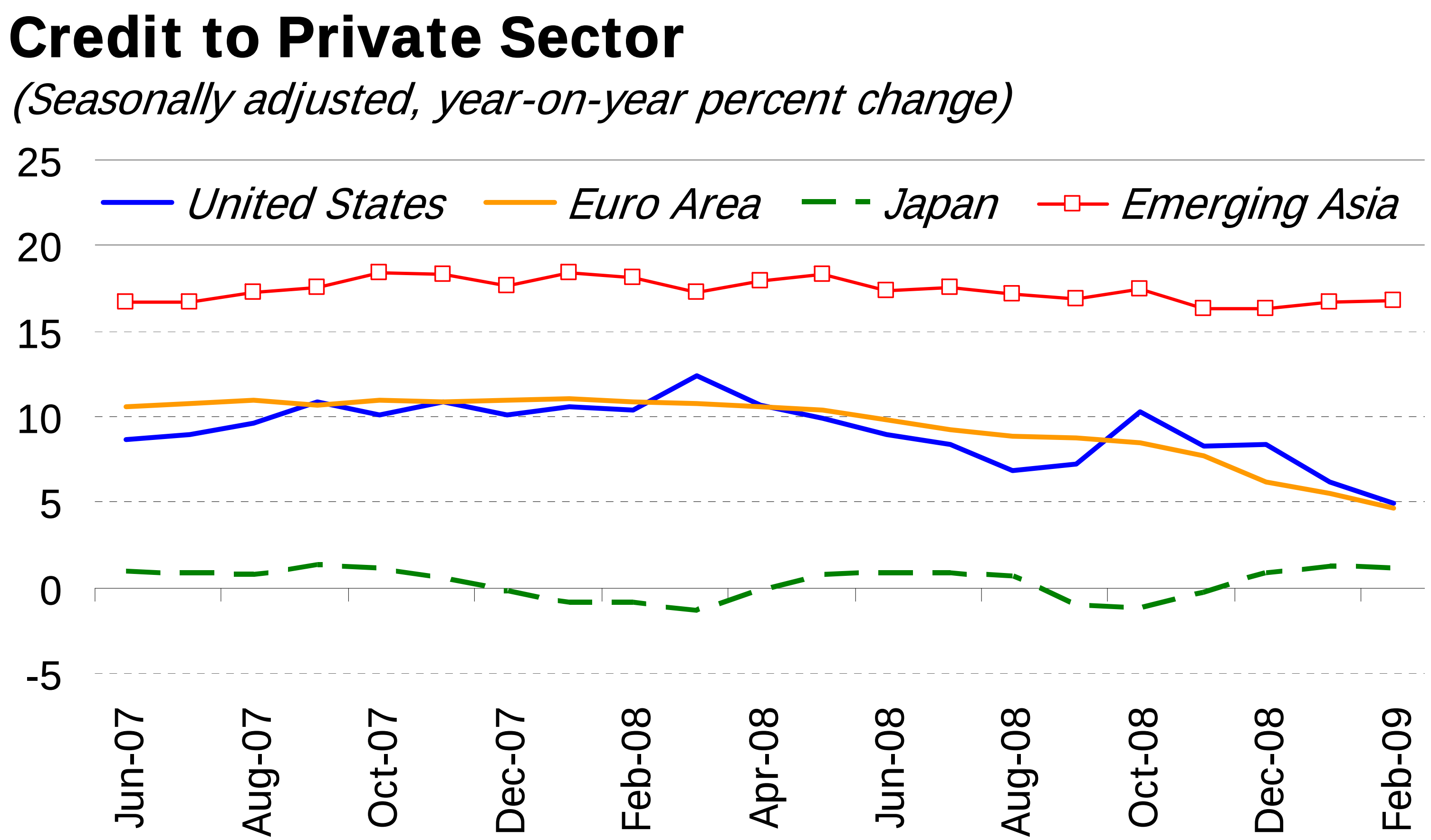
(Difference in average annualized quarterly growth between eight quarters before peak and eight quarters after trough of the recessions, median, in percent)



Source: IMF staff estimates.

Key Policy Considerations

So far, banks in the region have remained resilient…

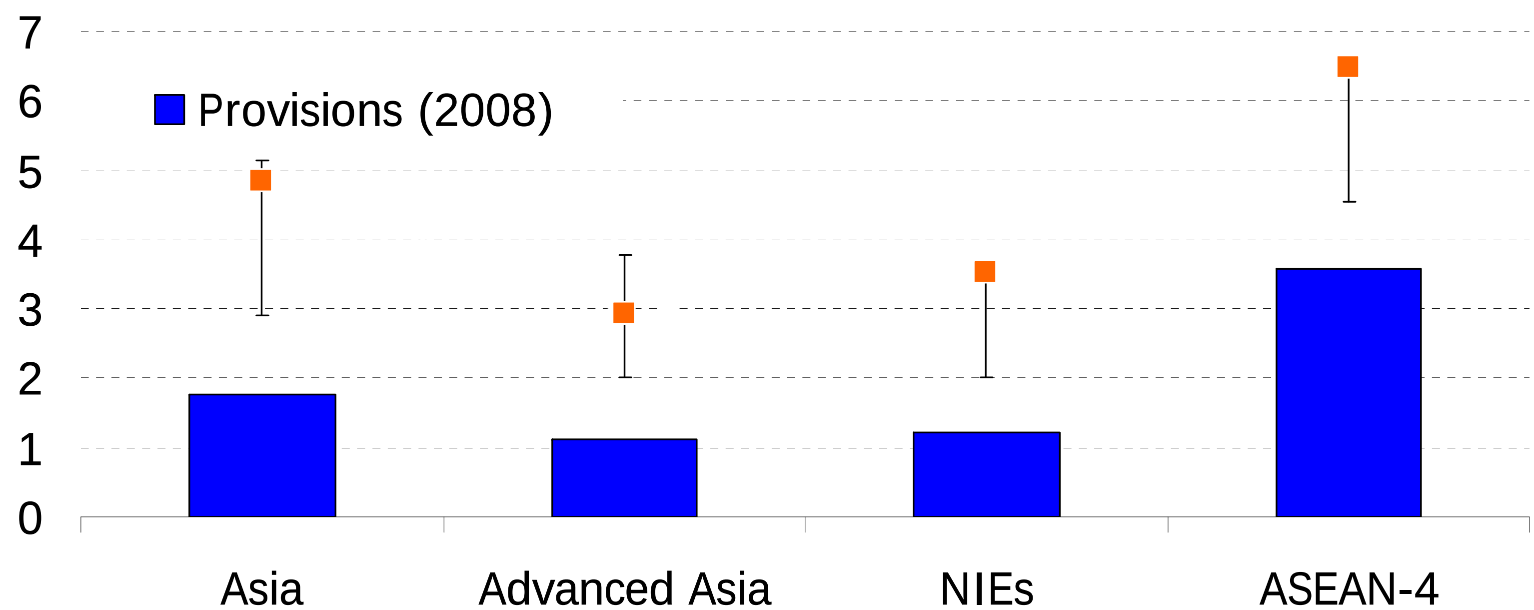


Sources: CEIC Data Company Ltd; Haver Analytics; and IMF staff calculations.

…but losses going forward could be large

Banking Sector: Expected Losses from Corporate Sector Distress One Year Ahead[1]

(In percent of total banking sector loans)



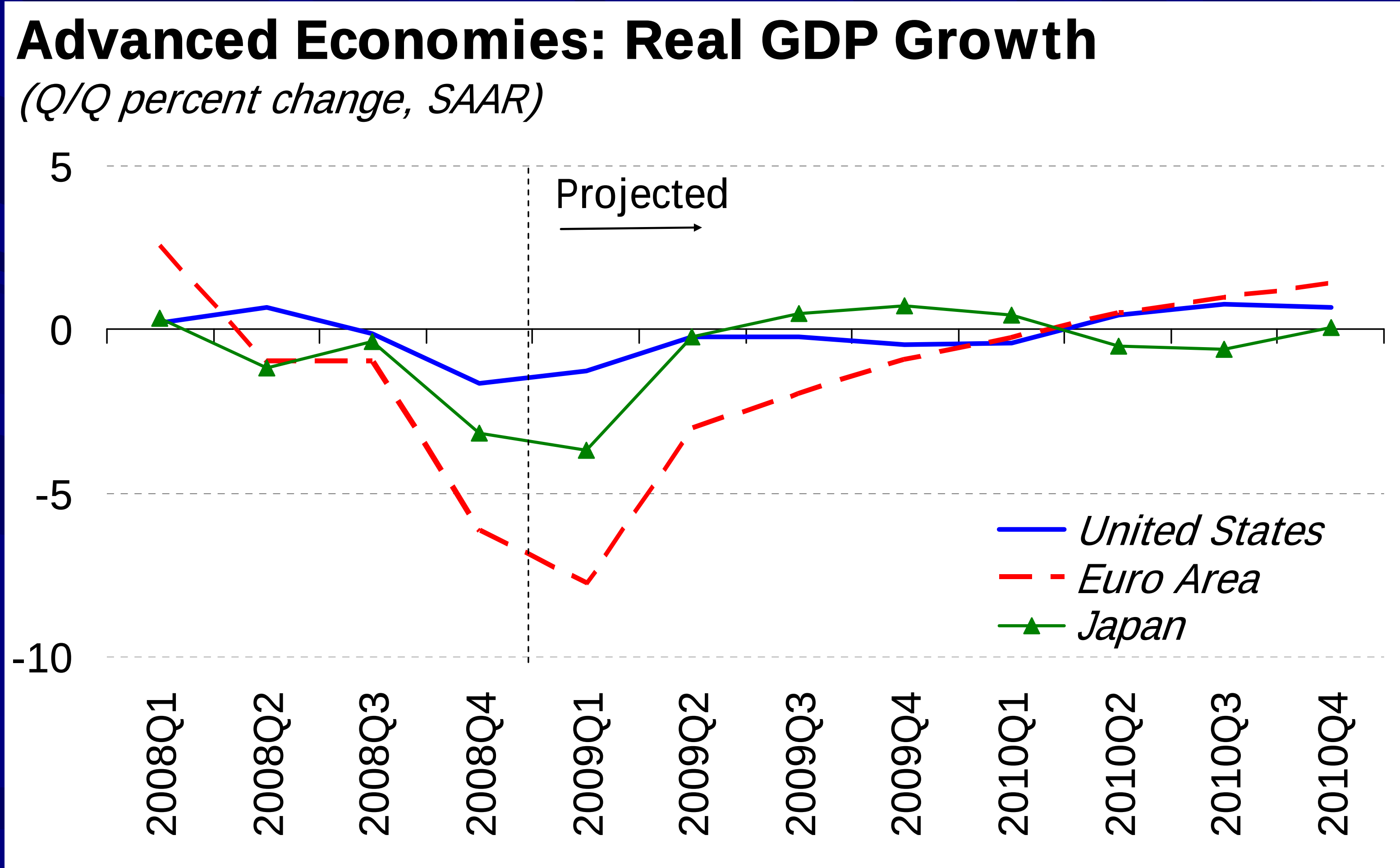
Source: IMF staff estimates.

[1] Dots represent point estimates. Confidence intervals assume 80 percent and 40 percent recovery rate in case of default.

Hence:

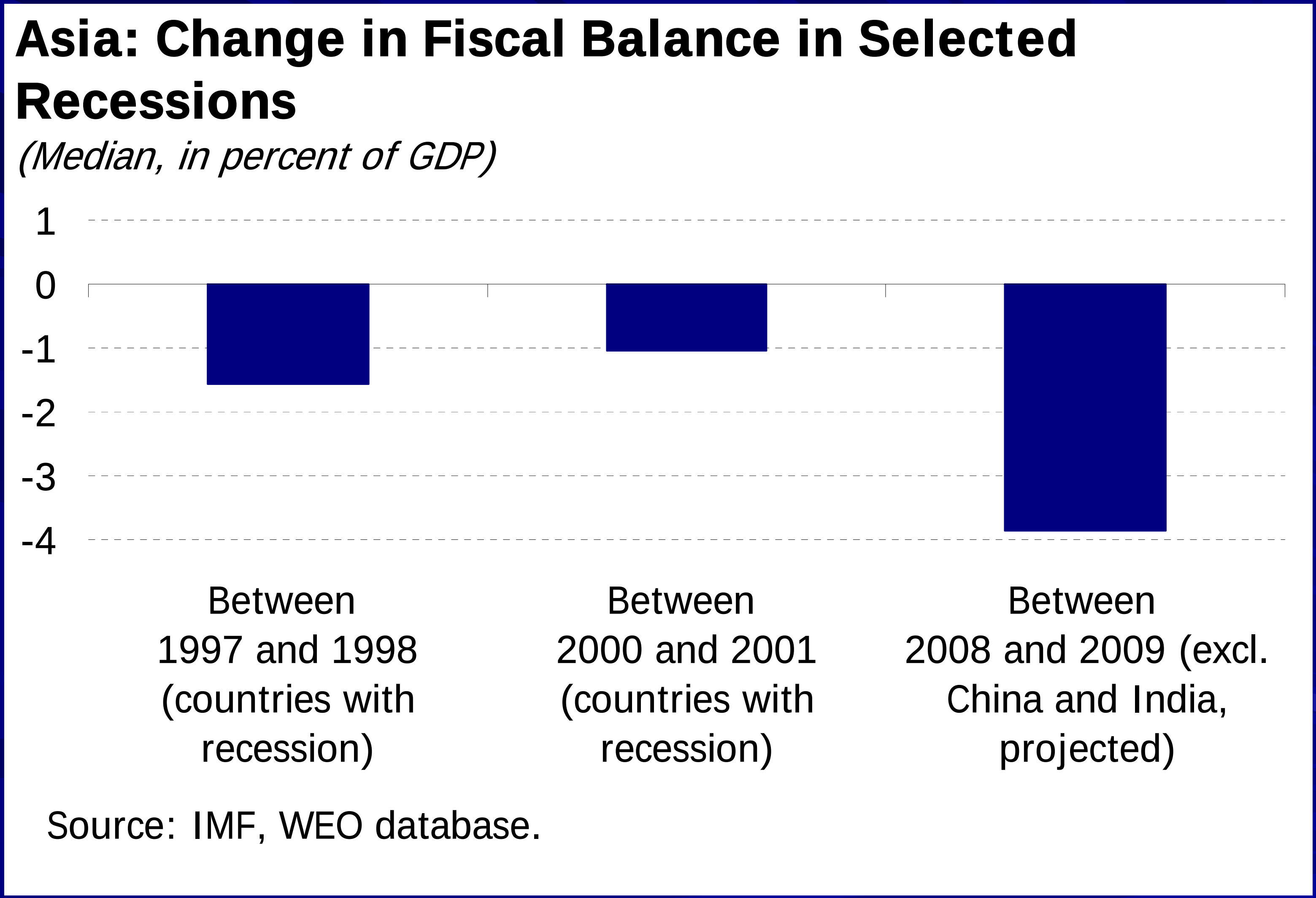
Asia should strive at all costs to preserve the stability of core banking systems. Otherwise, history teaches that this very deep recession could be longer, deeper, and with more permanent losses.

Asia cannot count on strong G2 growth to help support an export-led recovery



Source: IMF, WEO database.

Hence: a strong macro response is key…



…but not enough

- In the medium-term, growth in the G2 may be less consumption and credit-driven
- Hence, Asia will need structural reform to durably rebalance its economies, if it wants to maintain high rates of growth.

Thank you very much