The author of this paper has given IIPPE permission to upload the present paper on IIPPE's website.

The work presented in this paper is entirely my own except where other authors have been referred to and acknowledged in the text. The views expressed in the paper are my own, and IIPPE, or any other member of IIPPE, cannot be held responsible for any statements made in this paper.

RECOVERY? OR DEFLATION AND NEW FINANCIAL CRISES? [+]

Arturo Guillén[*]

1. Introduction

The global economic powers are once again hailing an economic recovery--the second time they have done so. The first time was in 2009, when, thanks to expensive bailout programs, a relative stability was achieved in the financial markets, and the stock markets began to rise. That time, however, the European crisis put a damper on the triumphalism. This time around, the optimism rests on the recovery of the U.S. economy, where to a certain extent growth has resumed and the unemployment rate has fallen, though neither has returned to its pre-crisis level. In its April 2014 report (IMF, 2014a), the International Monetary Fund (IMF) estimated U.S. economic growth of 2.8% and 3% for 2014 and 2015, respectively--exceeding the average of 2% for the preceding three years. At the same time, IMF managing director Christine Lagarde predicted a possible end to hard times: "This crisis still lingers. Yet, optimism is in the air: the deep freeze is behind, and the horizon is brighter. My great hope is that 2014 will prove momentous in another way--the year in which the 'seven weak years', economically speaking, slide into 'seven strong years' "(Lagarde, 2014).

The triumphalism of April was scaled back as early as July. The IMF reduced its latest projections of worldwide GDP from 3.6% to 3.4%, though it increased those for 2015 from 3.9% to 4.0%. Its prognosis for growth in the U.S. decreased more than a full percentage point, from the April estimate of 2.8% to 1.7% in July (IMF, 2014b). It attributed the diminished expectation of growth to the sharp first-quarter contraction in U.S. GDP (-2.1%) and to slowing growth in emerging countries. Nevertheless, it found cause for optimism:

> Financial conditions have eased since the April 2014 WEO was released. Long-term interest rates in advanced economies have declined further, in part reflecting expectations of a lower neutral policy rate over the medium term; indicators of expected

[+] Paper presented at the Fifth International Conference of Political Economy "The Crisis: Scholarship, Policies, Conflicts and Alternatives" organized by the "International Initiative for Promoting Political Economy (IIPPE)". September 16-18, 2014, Naples, Italy

[*] Research Professor in the Department of Economics, Universidad Autónoma Metropolitana, Iztapalapa, Mexico City. General Coordinator of the Celso Furtado European/Latin American Network for Development Studies (www.redcelsofurtado.edu.mx). Academic Chair of the PROMEP Financial Globalization and Sustainable Development Network. Member of the Mexican National System of Researchers. Email: artguillenrom@hotmail.com. Fax: +52 55 5612 5682.

> price volatility have declined as well, and equity prices have strengthened. With euro area inflation in April below expectations, the European Central Bank cut its policy rate and deployed other easing measures at its June meeting. In this environment, capital flows to emerging market economies have recovered despite generally weaker activity, bond spreads for emerging market sovereigns have declined, and exchange rates and equity prices have stabilized or even strengthened in some of these economies. (IMF, 2014b)

In my opinion, though it is true that financial markets have been more stable in 2014, than in 2013 when the Fed announced monetary normalization, the global crisis not only continues, but appears to be far from over. At this moment, two problems seem most important to me. One is the ongoing symptoms of a new recession in Europe, in spite of the weak recovery in some countries; the new European recession is determined by the maintenance of austerity programs and the reinforcement of deflationary trends. The other problem is the Fed's gradual withdrawal of monetary stimulus programs, the tightening of monetary policy planned for the middle of 2015, and the repercussions of these changes on emerging economies.

The United States and the European Union show conflicting economic signs. While the U.S. economy shows signs of recovery and the Fed is getting ready to end the monetary stimulus, deflationary trends are deepening in the European Union, and the ECB is moving ahead, if hesitantly, with the application of extraordinary stimulus measures. In this paper my objective is to offer some reflections on the development of these two contradictory realities. In the next part, I will examine the progress of the deflationary trends in Europe, and in Part 3, I will analyze programs of quantitative easing and their main effects. In Part 4, I will sketch out some ideas about the progress of monetary normalization in the U.S. and the risks implicit in this process. In the final section I will present some conclusions.

2. Deflation in Europe: A Real Threat

A specter is haunting Europe--the specter of deflation. In July 2014, consumer prices increased at an annualized rate of 0.4%, the lowest so far this year and comparable only to the 0.3% registered during the Great Recession of 2009. This rate is 1.6 percentage points lower than the 2% inflation goal fixed by the ECB. The rate of inflation has been decreasing steadily since 2011, when it closed the year at 2.7% .In fact, these aggregate data minimize the seriousness of the situation. The figures by country show that some (Greece, Portugal, Cyprus, Slovakia, and Bulgaria) are already experiencing deflation, and others (Spain, Switzerland, and Hungary) are on the verge of doing so. The decline in real estate prices in Spain and other countries that experienced a boom preceding the 2007 crisis has not yet ended (Figures 1 and 2).

The development of a deflationary threat would be a serious obstacle to any sustainable recovery in Europe and would change the course of the global crisis. As even Lagarde warns, "with inflation below the targets of many central banks, we see risks of deflation that would be disastrous for the recovery. If inflation is the genie, deflation is the ogre that must be fought decisively (Ibid)."

The European deflation would not be the first nor the last example of generalized deflation. Great crises have always resulted in debt-deflation phenomena. The European crisis is an extension of the global crisis that began in 2007. It erupted in the United States after a long period of expansion, beginning in the 1990s, that was financed with debt and ended, at the height of the boom, in Ponzi schemes. Numerous authors characterized it as a new type of debt-deflation crisis, one arising out of a financial regime based on securitization. The crisis was the result of the bursting of a real estate bubble that took the place of the previous "New Economy" bubble.

The financial crisis of 2007-2008 set off a drastic deflation of financial and real estate assets and led to the Great Recession of 2008-2009. The collapse of the real estate market in the U.S. and other countries was very deep. New home sales in the U.S. market fell to their lowest point of 336,000 in February 2010, representing a plunge of 75.85% from their peak of 1,389,000 in July 2005. That is, home sales were only a fourth of what they had been before the crisis. By November 2008, existing home sales had fallen 47.8% from their maximum in August 2005 (Figure 3). Average new home prices fell from $257,000 at their peak in April 2005 to $205,100 in March 2008, a cumulative deflation of 20.1%. The average price of existing homes fell from $230,400 at their peak in July 2006 to $164,000 at their lowest point in February 2010, a cumulative deflation of 28.5% (Figure 4). Deflation of financial assets was enormous in 2008-2009. In the period from January to

November 2008 alone, the stock markets lost $17 trillion in value. In that period the stock indexes in developed countries fell 42.7% and those in emerging countries fell 54.7%.

Deflation in real-estate assets has been contained only through the enormous bailout programs implemented by the governments and central banks of the United States, the European Union, and Japan. Yet current deflationary trends in Europe are paradoxically related to these bailout programs, which were designed to avoid a depression and the deflation caused by the financial crisis of 2007-2008. The rescue of European banks drastically increased budget deficits and public debt in the countries of the European Union. The private debts of monopoly-finance capital were socialized and converted into public debt (Guillén, 2012). The fiscal imbalances and levels of public debt with respect to GDP unleashed speculation in bonds of the European periphery and initiated a domino effect of insolvency in countries like Greece, Portugal, Ireland, Spain, and Cyprus. The European financial crisis, falsely attributed by mainstream opinion to excessive government spending, was followed by Latin American-style structural adjustment programs, with reductions in public spending, increases in regressive taxation, reductions in real wages (and unbelievably, virtually unprecedented cutbacks in nominal wages), dismantling of the welfare state, and privatization. In a word, it was "austerity" as a cure for imbalance, on the theory that once equilibrium was restored, economic recovery would be achieved.

The current deflationary trends in Europe are tied to two main factors: a double-dip recession (2008-2009 and 2012-13) that has still not clearly been overcome, and the contractionary policies of aggregate demand dictated by the "troika" and applied without much opposition by social democratic and right-wing governments alike. The structural adjustment programs have been a heavy weight on these governments. "The cuts in these structural deficits, a mix of tax increases and government spending cuts between 2010 and 2013, will be around 11.8 percent of potential GDP in Greece, 6.1 percent in Portugal, 3.5 percent in Spain, and 3.4 percent in Italy," notes Martin Wolf. Even those in the U.K., an outsider to the Eurozone, will be 4.3 percent of GDP (Wolf, 2013).

A generalized deflation would be catastrophic for Europe, with its high levels of debt. Corporations and the financial sector have not managed to deleverage themselves as have those in the U.S., at least to a point. In spite of the cutting of budget deficits , public debt continues to grow (Table 2 and Figure 6). Public debt as a proportion of GDP grew from

66.4% in 2007 to 92.7%, more than 30 percentage points over the Maastricht criteria. In 2013, some countries exceeded 100%: Greece (175%), Italy (133%), Ireland (123.7%), Belgium (101%), and Cyprus (112%) (Figure 5).

Deflation would put an end to any intent to reduce indebtedness and would plunge Europe and perhaps the world economy into a new recession (not just a "double dip"—but a *triple* dip). The reaction of the ECB to the new danger of deflation has been too little, too late. Its president, Mario Draghi, maintains that the observed slowing of inflation does not signify deflation, and that prices will rise as the recovery gains strength. However, in June of this year, the central bank decided to cut the reference rate to 0.15%, offer the banks a new program of cheap credit, and charge for the reserves that banks deposit with it--all with the purpose of reactivating credit. *The Economist* for August 4, although it celebrated the economic recovery, warned of the dangers of deflation:

> As in a complex film script, at least two storylines have been in play for the euro zone this year. One is brightly lit, featuring the revival of both consumer and business confidence, the return of investors to the troubled economies in peripheral Europe and the continuing recovery from the double-dip recession. The other is sombre, focusing on the weakness of that upturn, the onset of disturbingly low inflation and the continuing fragility of over-indebted economies and their banks. The past few days have brought a reminder that this second story is not yet fully told. (The Economist, 2014)

One warning that the story is not yet over and that the financial situation remains precarious was the publicly-funded bailout of the Banco Espirito Santo, the leading bank in Portugal, which was overwhelmed with non-performing assets.[1] Another warning, this one in the productive sphere, was the announcement that Italy's GDP contracted at an annualized rate of -0.3% in the second quarter of 2014. Another worrying sign, though in a different part of the world, is the Japanese contraction in GDP in that same period: an annualized -6.9%. And along the same lines, the IMF warned in a recent report that "the recovery is weak and uneven. Inflation has been too low for too long, financial markets are still fragmented, and structural gaps persist: these hinder rebalancing and substantial

[1] The Portuguese central bank decided to intervene and rescue the Banco Espirito Santo with a recapitalization of €3.9 billion after it announced a loss of €3.6 billion and its shares lost 75% of their value. The bank will be divided into a "good bank" that will absorb the healthy assets and a "bad bank" that will handle the toxic ones.

reductions in debt and unemployment" (cited by The Guardian, 2014). It suggested that the central bank initiate a program of quantitative easing similar to that of the Fed.

Countering deflation in Europe will require increased stimulus programs and greater monetary relaxation on the part of the ECB, which would conflict with the "tapering" of the Fed's monetary normalization program, in which it has begun to reduce its purchase of bonds. It goes without saying that an increase in U.S. interest rates caused by the Fed's actions would have serious effects on the ability of European governments, corporations, and banks to service their debts.

3. Quantitative Easing in the U.S. and Its Effects

The U.S. economy shows moderate signs of recovery. After a sharp contraction of 2.1% in GDP in the first quarter of 2014, attributed to weather and seasonal factors, it rebounded in the second quarter, showing a growth of 4.2%. The unemployment rate has dropped in recent months, dipping to 6.2% in July. Job creation has averaged 230,000 jobs per month so far this year. However, in its July report the IMF lowered its growth projection for the U.S. to 1.7% in 2014, below the figures of 2.3% for 2012 and 2.2% for 2013.

The Fed relaxed its monetary policy at the end of 2008, setting the interest rate on government funds at 0.25%, where it has remained since. In other words, short-term interest rates have hovered near zero for six long years. Given the seriousness of the Great Recession and the impossibility of using interest rates to control the business cycle, the Fed resorted to an unorthodox method of monetary relaxation: the massive purchase of securities, intended to raise the price of financial assets and reduce long-term interest rates. In November 2008, it bought $600 billion in mortgage-backed securities, and in March 2009 it announced the program of "quantitative easing," also known as Q1. The purchases consisted primarily of treasury bonds and government-insured obligations like those of Fannie Mae and Freddy Mac. The program was suspended in mid-2012, but given the lack of a robust recovery, it was renewed in November of that year, now referred to as Q2. A third stage, Q3, was initiated in September, 2012.

The Fed has not been the only central bank to initiate quantitative easing programs (QE). The ECB, though reluctantly, instituted a program of low-interest loans to banks, the

Longer-Term Refinancing Operation (LTRO), during the European crisis of 2011. And the Bank of England and the Bank of Japan have also employed similar methods.

The balance sheets of the central banks have reached unprecedented levels in the course of the global crisis. In the history of capitalism, there has been no comparable action by a lender of last resort: capitalism has entered unchartered waters. According to Alex Cukierman, the Fed tripled its assets between August 31, 2008 and March 31, 2012:

> This is equivalent to a yearly rate of increase of 38% over this period. By comparison, the yearly rate of expansion over the preceding, relatively normal, nine years (January 31, 1999–August 31, 2008) was only 6%. . . . From the eve of the Lehman event to the end of March 2012, the ECB’s balance sheet nearly doubled. During the nine years preceding August 31, 2008 its balance sheet had expanded at a yearly average rate of slightly less than 9%. From that date until March 31, 2012 the yearly average rate rose to about 22%, and during the (approximately) seven months following the downfall of Lehman Brothers, it shot up to almost 55%. Thus, although the acceleration in the rate of expansion of the ECB’s balance sheet was not as dramatic as that of the Fed’s balance sheet, its time path was generally similar. . . (Cukierman, 2013: 3-4)

At the start of 2014, the Fed's assets totaled more than $4 trillion, the ECB's €2 trillion, the Bank of Japan's ¥100 trillion, and the Bank of England's £400 billion (Figures 7-11).

There is no doubt that these programs of quantitative easing helped the exit from the Great Recession and prevented it from becoming a depression like that of the 1930s. But it is equally correct that the cost has been very high, and that they have not created the conditions for a sustained recovery. What have been the effects of this colossal injection of liquidity by the central banks? Orthodox economists are worried that QE will unleash an inflation that only they see on the horizon. But to our eyes there are serious omens, not of uncontrollable inflation, but of deflation.

One of the main problems with quantitative easing is that there has been no significant reactivation of credit and investment, in spite of interest rates that remain exceptionally low. Bernanke himself, evaluating the programs and their impact on credit, recognizes that "generally speaking, we are seeing expansions in bank lending in a lot of categories. . . .Nevertheless, there are still scenarios where credit remains tight," and he cites the example of mortgages and credits to small and medium-sized businesses (Bernanke, 2013: 114).

The failure to reactivate credit is most evident in Europe. It is not surprising, given the persistence of an accumulation regime still dominated by finance, where high-risk operations remain highly attractive.

Corporations take advantage of low interest rates and issue bonds and other securities to refinance their debts, or take out credit to purchase their own stocks (buybacks) with the purpose of increasing share value, which in turn feeds the inflation of the stock indexes. Banks freeze part of their resources as reserves in the vaults of the central banks, while the rest are only marginally directed at productive activity through the extension of credit. The major part of their resources is destined for the financial markets. Given that financial globalization remains untouchable, an important part of excess liquidity is directed to the financial markets of emerging countries through the practice of "carry trade." It is the logic of profit maximization of profits and not the needs of the productive base that determines the placement of resources. Financial profit continues to reign over other forms of appropriation of surplus value. As Stiglitz explains:

> In a world of globalization, money goes where the returns are highest--and not necessarily to the country increasing liquidity. Thus, some argue that the major impact of the increased liquidity by the Fed has been to increase demand in emerging markets (and perhaps to support asset price increases globally). . . . Why should an investor with access to funds invest them in the United States or Europe, where there is excess capacity and a long term slump, rather than in the high return booming emerging markets? (Stiglitz, 2013: 29)

In the framework of QE programs, capital flows toward emerging countries have grown rapidly. According to data from the Institute of International Finance, private capital flows to these countries have doubled, from $623 billion in 2009 to $1.232 trillion in 2012 (Figure 15). This has translated into stock market bubbles and currency appreciation. In the period January 2009-April 2013, stock markets showed an increase in value of 42% in Brazil, 74% in Chile, 102% in Turkey, 107% in India, 116% in Mexico, and 257% in Argentina. Currency overvaluation in emerging countries shares a large part of the responsibility for the clear slowing of economic activity observed since 2012 (Figures 12-14).

4. *Monetary Normalization and Its Possible Effects*

In May 2013, the president of the Federal Reserve, Ben Bernanke, announced that the Fed would begin a program of monetary normalization over the short term, through which it would gradually reduce and eliminate its purchase of bonds, and that once there was sustained economic recovery and the unemployment rate dropped below 6.5%, it would increase the interest rate on federal funds according to the specific conditions of the economy. Although Bernanke did not set a precise date to initiate tapering, the very announcement set off a disturbance in financial markets.

Tapering had its official beginning in December 2013. At that time it was decided to gradually decrease the purchase of bonds, which totaled then $85 billion per month. From that moment onward it would decrease by $10 billion per month, as long as the economy continued to improve. Currently, bond purchases are at $25 billion per month, and the program is expected to conclude in October 2014. The Fed's position is that it will maintain the federal funds rate at its current level for a "considerable time" after the end of tapering.

There are two opposing positions on the effects of tapering. The monetarist "hawks" believe that tapering must be accomplished in the shortest time possible and attention returned as soon as possible to the normal fixation on interest rates, because excess liquidity could provoke inflation. The "doves" believe that monetary normalization should not be rushed, because undue speed could interrupt the recovery.

In truth, inflation is not on the horizon, and gradual tapering will not produce either a recovery less lukewarm than the one we already have. That would be to attribute too much power and influence to monetary policy, which neither Marx nor Keynes would accept. The principal danger, in my opinion, is that monetary normalization could create and actually are creating new focal points of financial fragility, especially in emerging countries. When the program was announced in May of last year, the interest rate on ten-year Treasury bonds increased significantly, from 1.76% in April to 2.90% in December (Figure 16). As Gallagher (2014) points out, increases in interest rates in the U.S. have always sparked crises in emerging countries (remember the external debt crisis of 1982 and the "tequila" crisis of 1994-95).

In 2013, external capital flows dropped off following Bernanke's statements. According to data from the Institute of International Finance (2014), private capital flows to emerging economies totaled $1.143 trillion in 2013, a decline of $76 billion from the 2012 level of $1.232 trillion. For 2014, it predicts a further decline to $1.032 trillion, the lowest level since the recession of 2009. Several of the most important emerging countries (Brazil, India, Turkey, Chile, Mexico, and others) registered significant currency depreciation.

The arrival of the New Year brought the first symptoms of financial turbulence. The Argentinian exchange crisis was the tip of the iceberg. Although this crisis was also caused by internal factors (the lack of a credible program to control inflation), it was sparked by the change in of external capital flows and fears over the repercussions of tapering. This change had a general impact on the periphery. In contrast to the stock markets of the center, which exuded optimism at the end of 2013, those of emerging countries fell since May, 2013, and only recovered later that year or in 2014.

Clearly, the turbulence in the financial markets has calmed during 2014. The interest rate on 10-year Treasury bonds has recovered somewhat since January 2014 (Figure 16). Martin Werner reports that "the 10-year Treasury rate, adjusted for core inflation, is about 230 basis points below its 30-year average and the inflation-adjusted Fed funds rate is 320 basis points below" (Werner, 2014). However, no one can guarantee that the turbulence will not return, perhaps even stronger, in the future, particularly when the Fed begins to raise interest rates and the central banks begin to sell off their enormous quantity of bonds--presumably in mid-2015.[2]

The economic recoveries in the U.S. and Europe are lukewarm and may not be sustainable. The real estate markets have not recovered. The majority of countries have inflated stock markets. European banks are fragile, and deflation is advancing. In sum, the global crisis continues and no doubt still has a long way to go.

[2] In order to reduce the balance sheets of the Fed and avoid a collapse in bond prices, Bernanke proposes three methods: 1) pay interest on the reserve balances deposited with the Fed, which would discourage banks from expanding liquidity, during a phase in which interest rates would be increased; 2) "draining tools," which would consist of replacing reserve bonds with another type of obligation; and 3) wait for the bonds to mature or sell them on the market (Bernanke, 2013: 124)

5. Conclusions

The global crisis is far from over and its end is uncertain. Though the financial markets have shown greater stability in 2014, the recovery is weak in the U.S. Europe has not overcome its recession, and the emerging economies, including China, are slowing down.

Two problems stand out at the present time. One is the development of deflationary trends in the European economies, which have and will force the ECB to initiate new quantitative easing programs to contain them, without necessarily bringing about a recovery in growth. This process finds itself thwarted by the ongoing austerity programs imposed by the governments and the Troika, as well as by the contraction of credit and the weakness of productive investment--in spite of the enormous quantity of liquidity issued since the financial crisis of 2007. The other problem is the Fed's decision to put an end to quantitative easing and to tighten monetary policy in 2015, which runs contrary to the needs of the European economies and generates new focus points of financial fragility in emerging countries.

A deflationary threat in Europe would be a formidable obstacle to any process of sustained recovery, which would change the course of the global crisis for the worse. Generalized deflation would aggravate the recession and stand in the way of paying off the high levels of debt that continue in spite of austerity policies.

The massive and unprecedented programs of quantitative easing undertaken by central banks of the developed countries, though they did help to end the Great Recession of 2008-2009 and avoid a repetition of the Great Depression of the 1930s, have not created the conditions for sustained economic recovery. The enormous liquidity has only marginally translated into productive investment, which remains depressed. As the operation of monopoly-finance capital has not been modified, as the logic of financialization endures, the major part of these resources sit idle, as reserves in the central banks, or they are moved into high-risk speculation on the financial and stock markets, provoking new financial bubbles.

The Fed's initiation of tapering and the eventual tightening of monetary policy in mid-2015 threaten to create financial turbulence, above all in emerging countries. There have already been episodes of abrupt capital flight from these countries and depreciation of their currencies. Although so far these situations have been contained, volatility persists in stocks as well as in currency markets. Moving forward, when tapering comes to an end and interest rates are raised, more serious turbulence may follow.

Seven years after it began, the global crisis continues. The recovery is precarious and unsustainable. The stock markets and many currencies are overvalued. Real estate markets are still weak. Deflation is advancing. The banks, especially in Europe, are vulnerable. Levels of indebtedness continue to be very high (275% of GDP in the developed countries). And to the economic-financial crisis can be added the geopolitical tensions (Ukraine, Iraq, Gaza, Syria, Afghanistan), which have not been so acute since the interwar years.

REFERENCES

Institute of International Finance (2014). *Capital Flows to Emerging Market Economies.* Washington, May 29. http://www.iif.com/emr/capflows201405.php

IMF (2014a). *World Economic Outlook*. Washington, April. http://www.imf.org/external/pubs/ft/weo/2014/01/pdf/text.pdf

------ (2014b). *World Economic Outlook Update.* Washington, September, http://www.imf.org/external/pubs/ft/weo/2014/update/02/pdf/0714.pdf

Bernanke, Ben (2013). *The Federal Reserve and the Financial Crisis.* Princeton and Oxford. Princeton University Press.

Cukierman, Alex (2013). "Monetary Policy and Institutions Before, During, and After the Global Financial Crisis". *Journal of Financial Stability.* Tel Aviv, Israel. http://www.tau.ac.il/~yashiv/Cukierman%202013.pdf

Gallagher, Kevin. (2014). "Your Dollar, Our Problem." *Foreign Policy Magazine.* http://www.foreignpolicy.com/articles/2014/08/04/your_dollar_our_problem_emerging_markets_currency_federal_reserve_quantitative_easing?utm_source=GEGI+Foreign+Policy+OpEd+Eblast&utm_campaign=GEGI+Foreign+Policy+Oped+Eblast&utm_medium=email

Guillén. Arturo (2012). "Europe: The Crisis Within a Crisis." *International Journal of Political Economy. Vol. 41, No. 3.* New York, M.E. Sharpe, Fall, 2012.

Lagarde Christiane. (2014). *The Global Economy in 2014.* Washington, IMF, January 15. http://www.imf.org/external/np/speeches/2014/011514.htm.

Stiglitz, Joseph (2013). "A Revolution in Monetary Policy: Lessons in the Wake of the Global Financial Crisis." Mumbai, India, Reserve Bank of India. http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/PSS030113FL.pdf

The Economist (2014). *The euro-zone economy: Losing the plot.* London, August 4. http://www.economist.com/news/finance-and-economics/21607822-weak-growth-and-nasty-surprises-are-still-hallmarks-single-currency

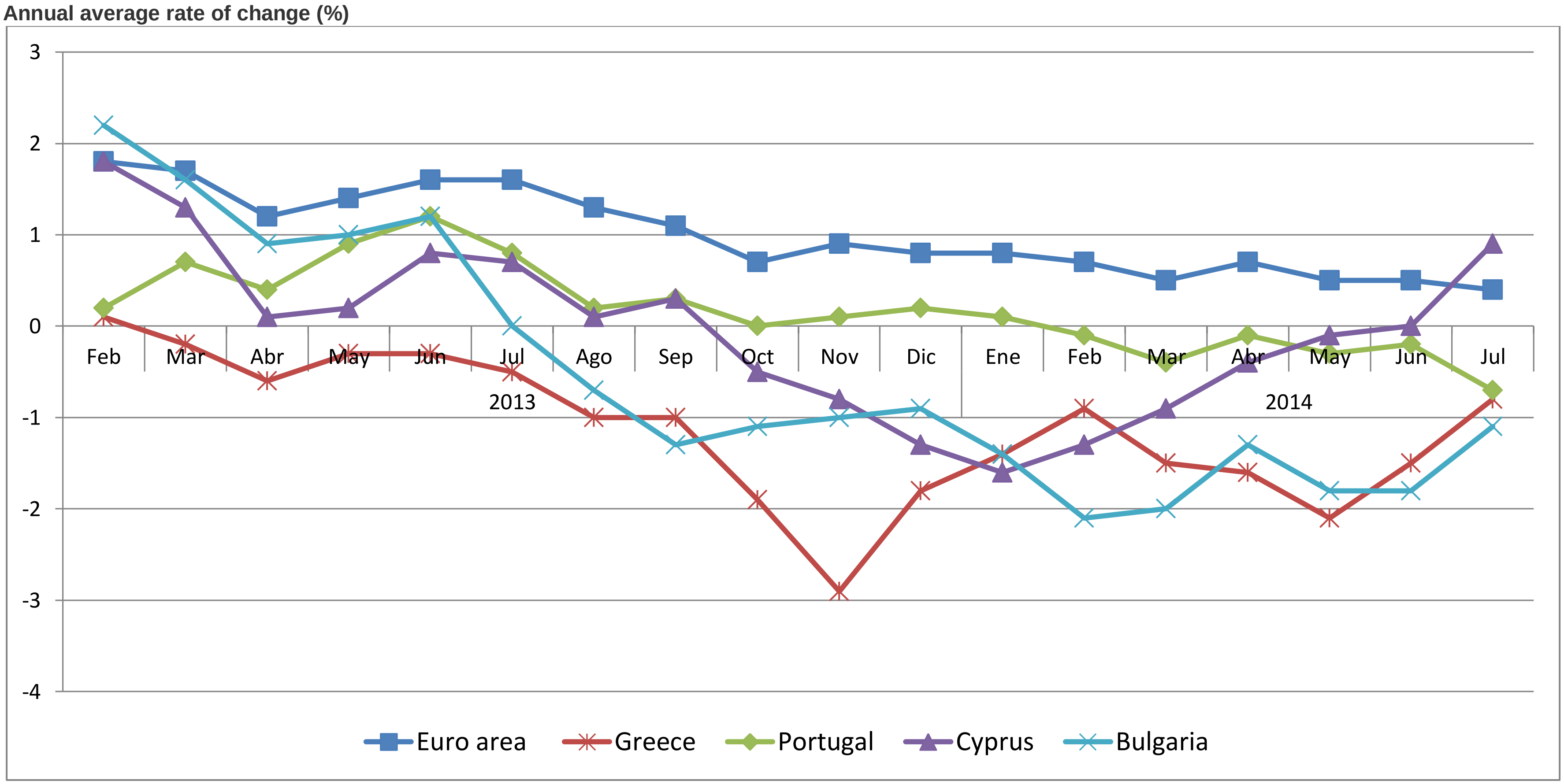
The Guardian (2014). "Eurozone is weak and risks falling into deflation, IMF report warns." *The Guardian.* London, July 14. jhttp://www.theguardian.com/business/2014/jul/14/eurozone-weak-risk-deflation-international-monetary-fund

Werner, Martin (2014) "U.S. Monetary Policy and its Effects in Latin America". *IMF Direct.* Washington, IMF. http://blog-imfdirect.imf.org/2014/01/16/u-s-monetary-policy-and-its-effects-on-latin-america/

Wolf, Martin (2013). "How Austerity Has Failed." *New York Review of Books.* July 11, http://www.nybooks.com/articles/archives/2013/jul/11/how-austerity-has-failed

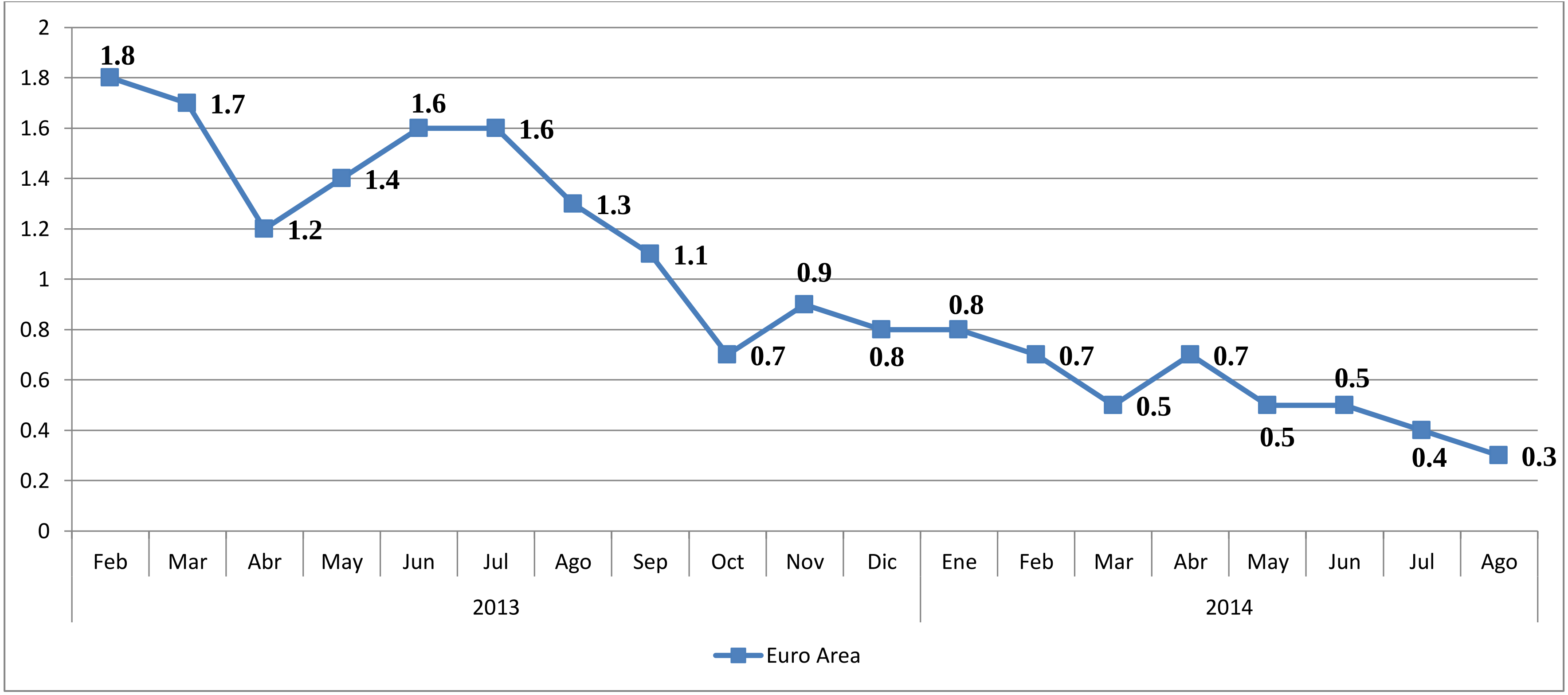
FIGURE 1.

EURO AREA: RATE OF INFLATION



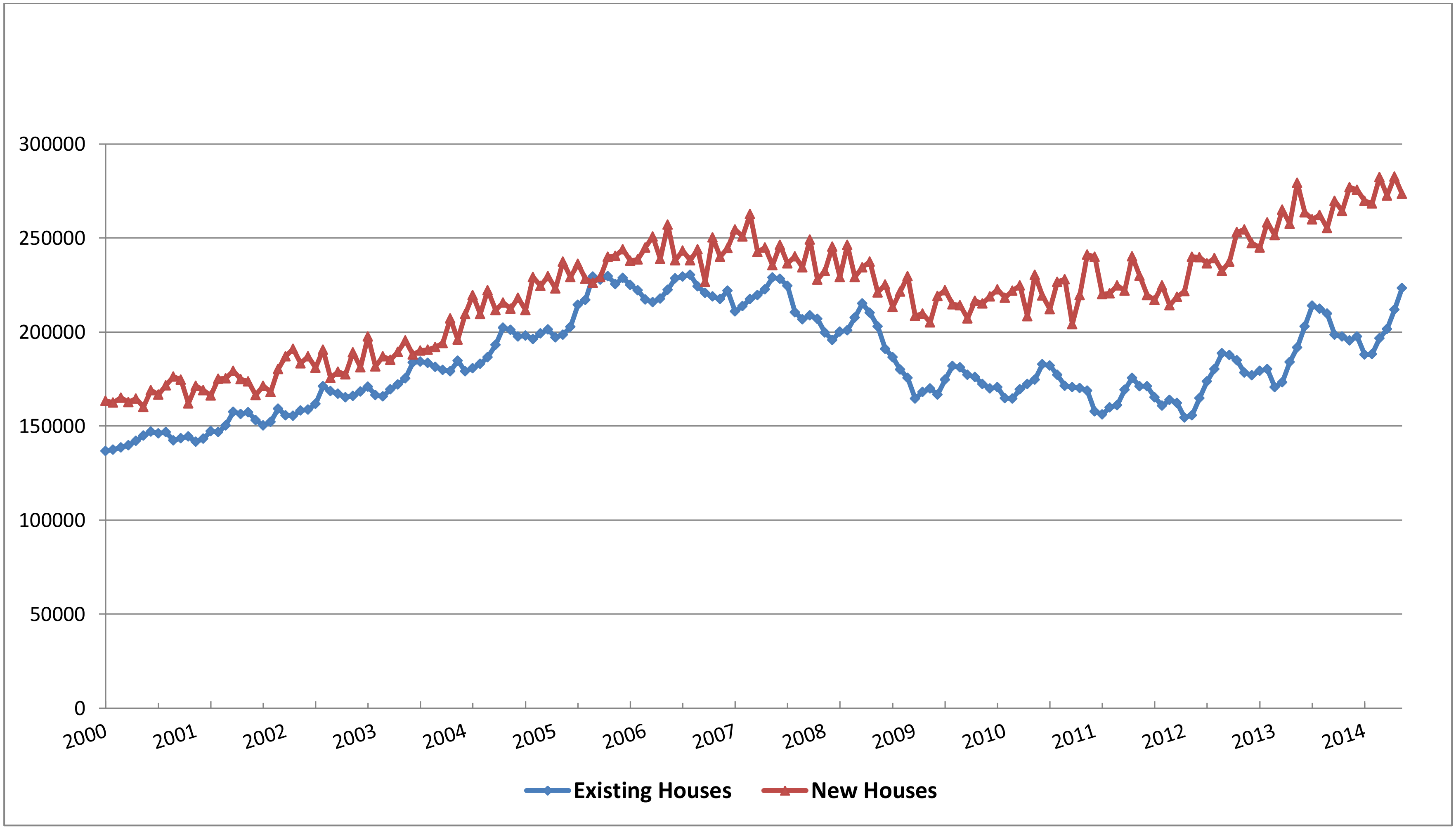
Source: EUROESTAT

FIGURE 2.
EURO AREA: RATE OF INFLATION



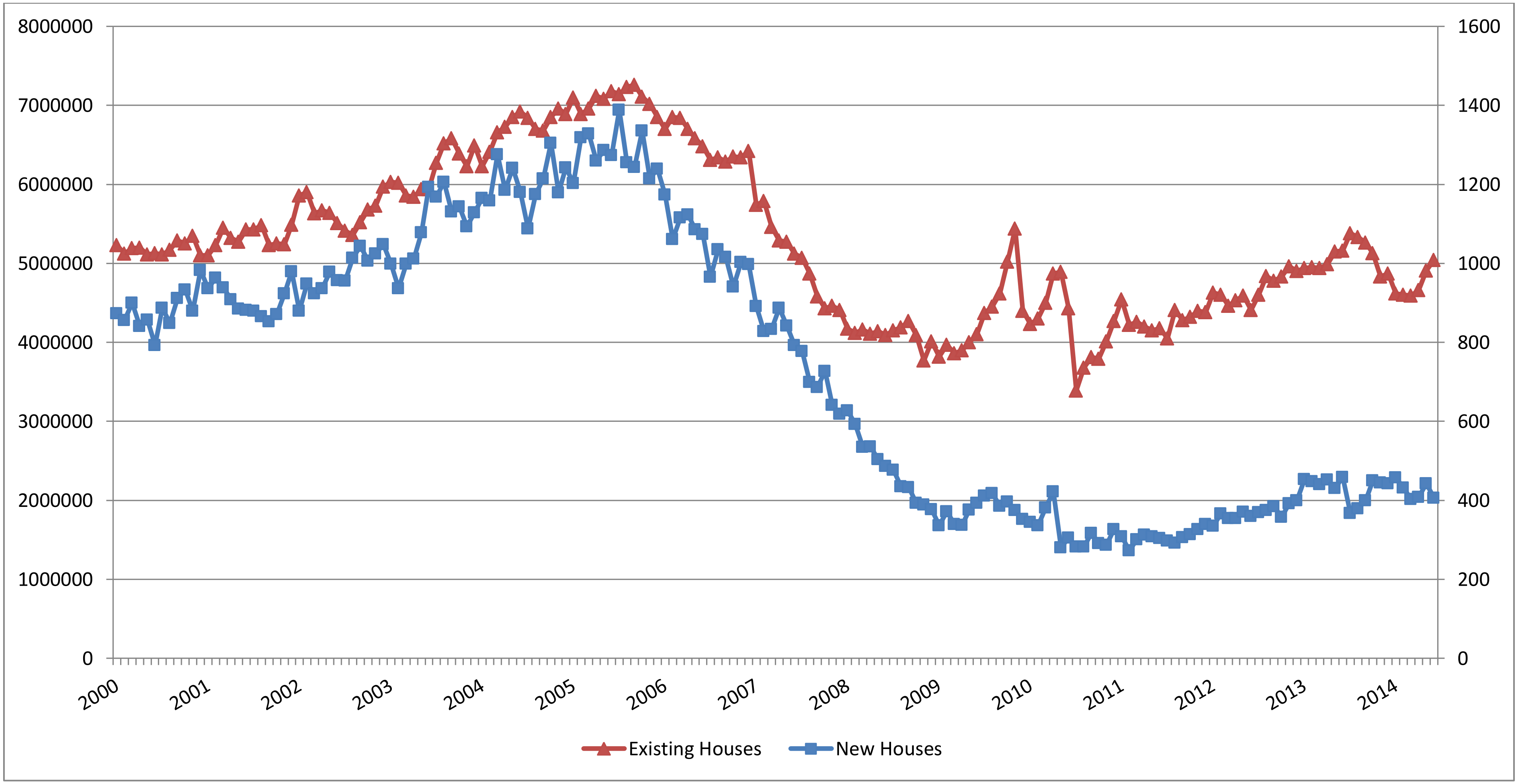
Source: EUROESTAT

FIGURE 3.
USA: HOME PRICES
Dollars



Source: *www.census.gov*

FIGURE 4.
USA: HOME SALES
Thousands of Houses



Source : *www.census.gov*

TABLE 1.

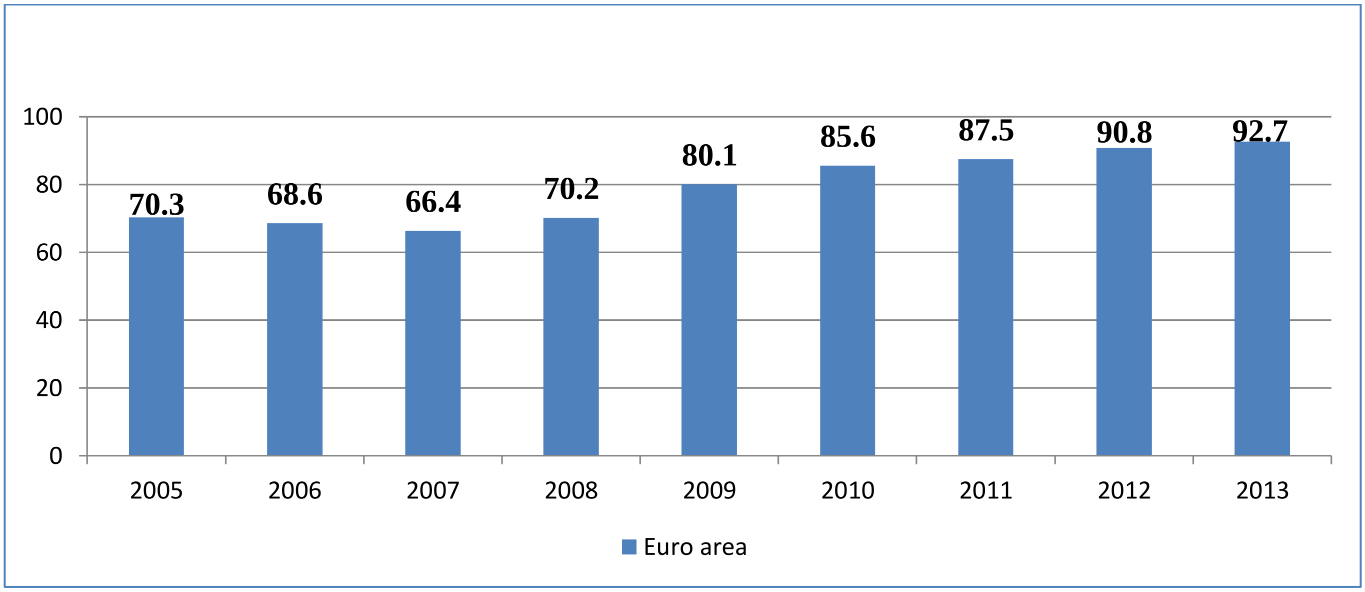
EURO AREA: PUBLIC DEBT

As a percentage of GDP

Countries	2005	2006	2007	2008	2009	2010	2011	2012	2013
Euro area	70.3	68.6	66.4	70.2	80.1	85.6	87.5	90.8	92.7
Belgium	92	87.9	84	89.2	96.6	96.6	99.2	101.1	101.5
Germany	68.6	68	65.2	66.8	74.6	82.5	80	81	78.4
Ireland	27.2	24.6	24.9	44.2	64.4	91.2	104.1	117.4	123.7
Greece	100	106.1	107.4	112.9	129.7	148.3	170.3	157.2	175.1
Spain	43.2	39.7	36.3	40.2	54	61.7	70.5	86	93.9
France	66.4	63.7	64.2	68.2	79.2	82.7	86.2	90.6	93.5
Italy	105.7	106.3	103.3	106.1	116.4	119.3	120.7	127	132.6
Cyprus	69.4	64.7	58.8	48.9	58.5	61.3	71.5	86.6	111.7
Luxembourg	6.1	6.7	6.7	14.4	15.5	19.5	18.7	21.7	23.1
Malta	68	62.5	60.7	60.9	66.5	66	68.8	70.8	73
Netherlands	51.8	47.4	45.3	58.5	60.8	63.4	65.7	71.3	73.5
Austria	64.2	62.3	60.2	63.8	69.2	72.5	73.1	74.4	74.5
Portugal	67.7	69.4	68.4	71.7	83.7	94	108.2	124.1	129
Slovenia	26.7	26.4	23.1	22	35.2	38.7	47.1	54.4	71.7
Slovakia	34.2	30.5	29.6	27.9	35.6	41	43.6	52.7	55.4
Finland	41.7	39.6	35.2	33.9	43.5	48.8	49.3	53.6	57
Estonia	4.6	4.4	3.7	4.5	7.1	6.7	6.1	9.8	67.1

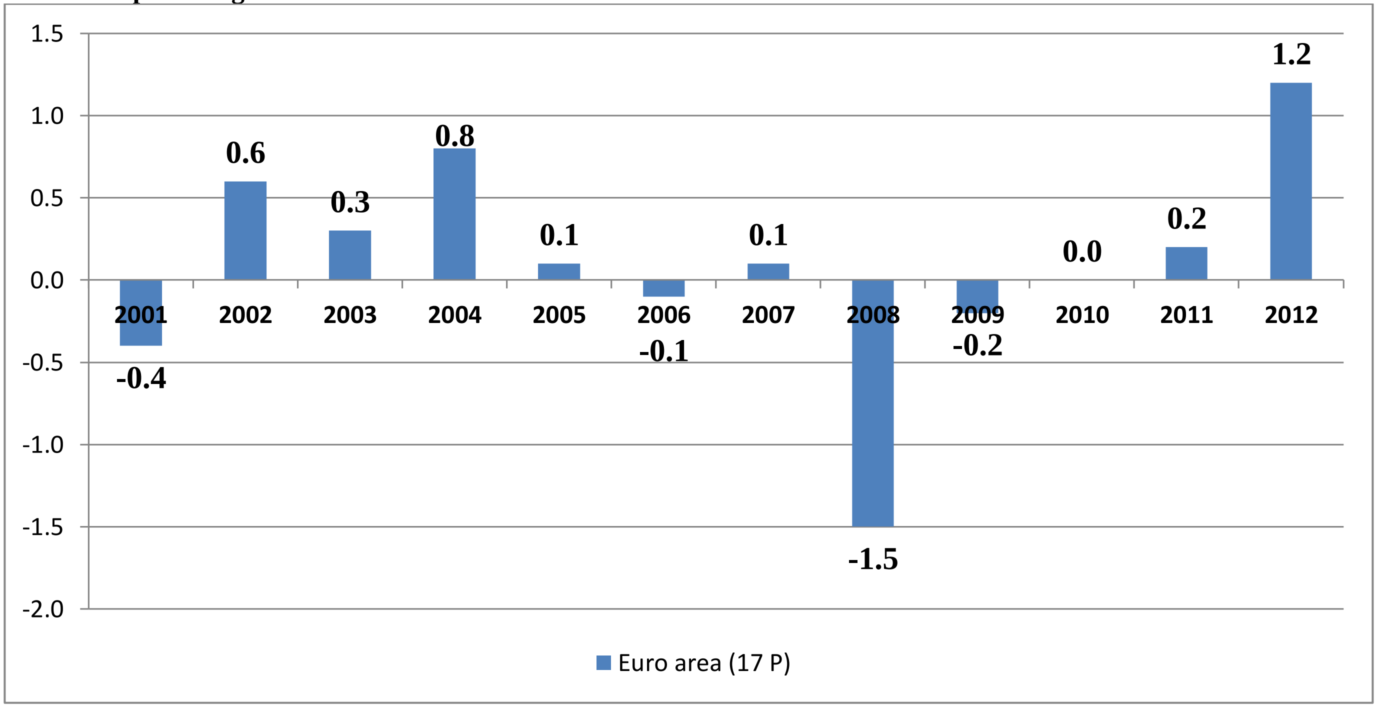
Source: EUROESTAT

FIGURE 5.
EURO AREA: PUBLIC DEBT
As a percentage of GDP



Source: EUROESTAT

FIGURE 6.
EURO AREA: PUBLIC BALANCE
As a percentage of GDP



Source: EUROESTAT

Table 2.
EURO AREA: PUBLIC BALANCE
As a percentage of GDP

Países	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU (27 P)	-1.0	-0.2	-0.3	-0.4	-0.8	-1.3	-1.1	-2.1	-0.7	-0.5	-0.3	0.3
Euro area (17 P)	-0.4	0.6	0.3	0.8	0.1	-0.1	0.1	-1.5	-0.2	0.0	0.2	1.2
Belgium	3.4	4.5	3.4	3.2	2.0	1.9	1.9	-1.3	-1.4	1.9	-1.1	-1.4
Bulgaria	-5.5	-2.4	-5.3	-6.4	-11.6	-17.6	-25.2	-23.1	-8.9	-1.5	0.1	-1.3
Czech Republic	-5.1	-5.3	-6.0	-5.1	-1.0	-2.0	-4.3	-2.1	-2.4	-3.9	-2.7	-2.5
Denmark	3.1	2.5	3.4	3.0	4.3	3.0	1.4	2.9	3.4	5.9	5.6	5.2
Germany	0.0	2.0	1.9	4.7	5.1	6.3	7.4	6.2	6.0	6.2	6.2	7.0
Estonia	-5.2	-10.6	-11.3	-11.3	-10.0	-15.3	-15.9	-9.2	3.4	2.9	2.1	-1.2
Ireland	-0.6	-1.0	0.0	-0.6	-3.5	-3.5	-5.4	-5.7	-2.3	1.1	1.1	4.9
Greece	-7.2	-6.5	-6.5	-5.8	-7.6	-11.4	-14.6	-14.9	-11.2	-10.1	-9.9	-3.1
Spain	-3.9	-3.3	-3.5	-5.2	-7.4	-9.0	-10.0	-9.6	-4.8	-4.5	-3.7	-1.1
France	1.7	1.0	0.4	0.5	-0.5	-0.6	-1.0	-1.7	-1.3	-1.6	-1.9	-2.3
Croatia	-3.0	-7.3	-6.1	-4.1	-5.2	-6.6	-7.1	-8.7	-4.9	-0.8	-0.8	0.1
Italy	0.3	-0.4	-0.8	-0.3	-0.9	-1.5	-1.3	-2.9	-2.0	-3.5	-3.1	-0.7
Cyprus	-3.3	-3.8	-2.3	-5.0	-5.9	-6.9	-11.7	-15.6	-10.7	-9.8	-4.7	-11.7
Latvia	-7.7	-6.7	-8.2	-12.9	-12.6	-22.5	-22.4	-13.2	8.6	2.9	-2.1	-1.7
Lithuania	-4.7	-5.1	-6.7	-7.6	-7.1	-10.6	-14.4	-12.9	3.7	0.1	-3.7	-0.5
Luxembourg	8.8	10.5	8.1	11.9	11.5	10.4	10.1	5.4	7.2	8.2	7.1	5.6
Hungary	-6.1	-7.0	-8.0	-8.3	-7.2	-7.4	-7.3	-7.3	-0.2	1.1	0.8	1.6
Malta	-3.7	2.3	-3.0	-5.8	-8.5	-9.5	-6.2	-4.9	-7.4	-4.7	-0.2	0.4
Netherlands	2.6	2.6	5.5	7.6	7.4	9.4	6.7	4.3	5.2	7.8	10.1	9.9
Austria	-0.8	2.7	1.7	2.2	2.2	2.8	3.5	4.9	2.7	3.4	1.4	1.8
Poland	-3.1	-2.8	-2.5	-5.3	-2.4	-3.8	-6.2	-6.6	-3.9	-5.1	-4.9	-3.5
Portugal	-10.3	-8.2	-6.4	-8.3	-10.3	-10.7	-10.1	-12.6	-10.9	-10.6	-7.0	-1.5
Romania	-5.5	-3.3	-5.9	-8.4	-8.6	-10.5	-13.4	-11.6	-4.2	-4.4	-4.5	-4.0
Slovenia	0.2	1.0	-0.8	-2.6	-1.7	-2.5	-4.8	-6.2	-0.7	-0.6	0.0	2.3
Slovakia	-8.3	-7.9	-5.9	-7.8	-8.5	-7.8	-5.3	-6.2	-2.6	-3.7	-2.1	2.3
Finland	8.4	8.5	4.8	6.2	3.4	4.2	4.3	2.6	1.8	1.5	-1.5	-1.9
Sweden	5.0	4.7	6.9	6.6	6.8	8.4	9.1	9.1	6.7	6.8	7.0	7.1
United Kingdom	-2.1	-1.7	-1.6	-2.1	-2.6	-3.4	-2.4	-1.3	-1.4	-3.3	-1.3	-3.7
Iceland	-4.2	1.6	-4.7	-9.8	-16.4	-23.8	-15.7	-27.7	-11.9	-8.1	-6.2	-4.7
Norway	15.3	12.7	12.3	12.7	16.2	17.1	13.9	17.5	13.1	12.2	12.8	14.3
Turkey	2.0	-0.3	-2.5	-3.7	-4.6	-6.1	-5.9	-5.6	-2.2	-6.2	-9.7	-5.9
United States	-3.9	-4.3	-4.7	-5.3	-5.9	-6.0	-5.1	-4.7	-2.7	-3.3	-3.1	:
Japan	2.1	2.8	3.2	3.7	3.6	3.9	4.9	3.3	2.9	3.7	2.0	:

Source: EUROESTAT

FIGURE 7.
FEDERAL RESERVE: TOTAL ASSETS

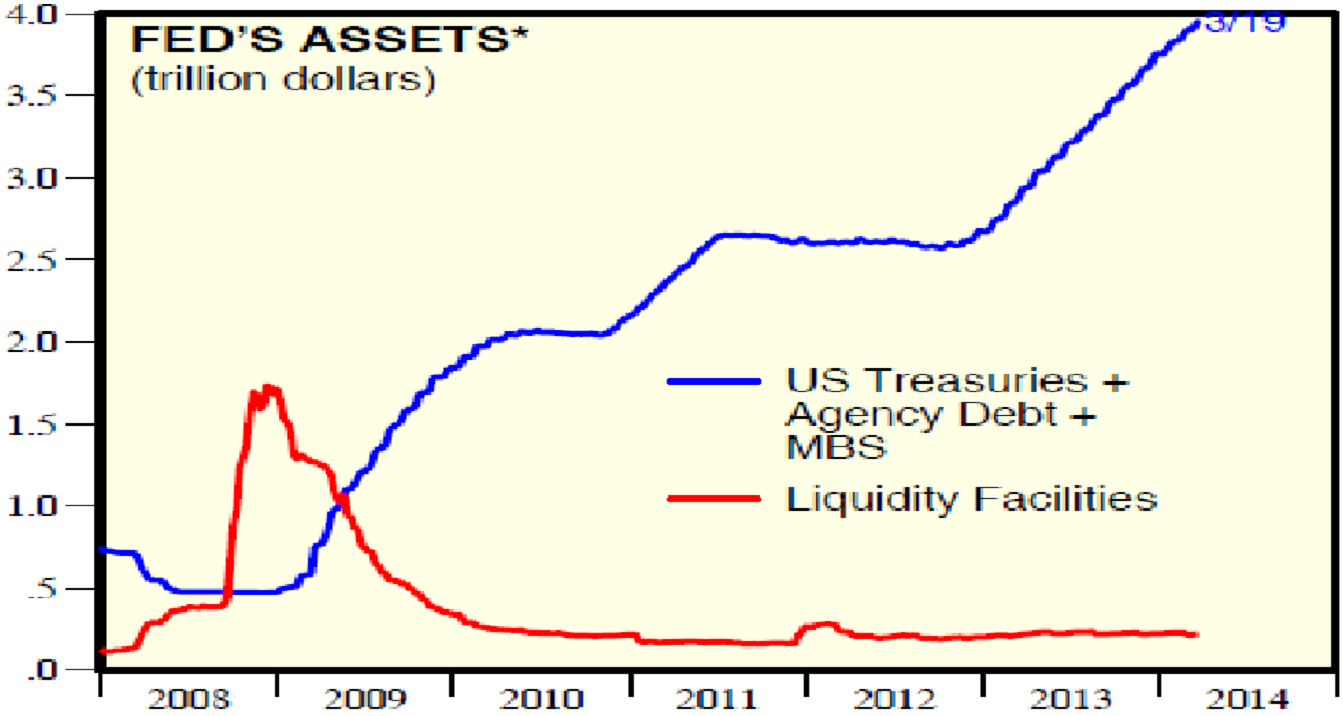


FIGURE 8.
THE EUROPEAN CENTRAL BANK: TOTAL ASSETS

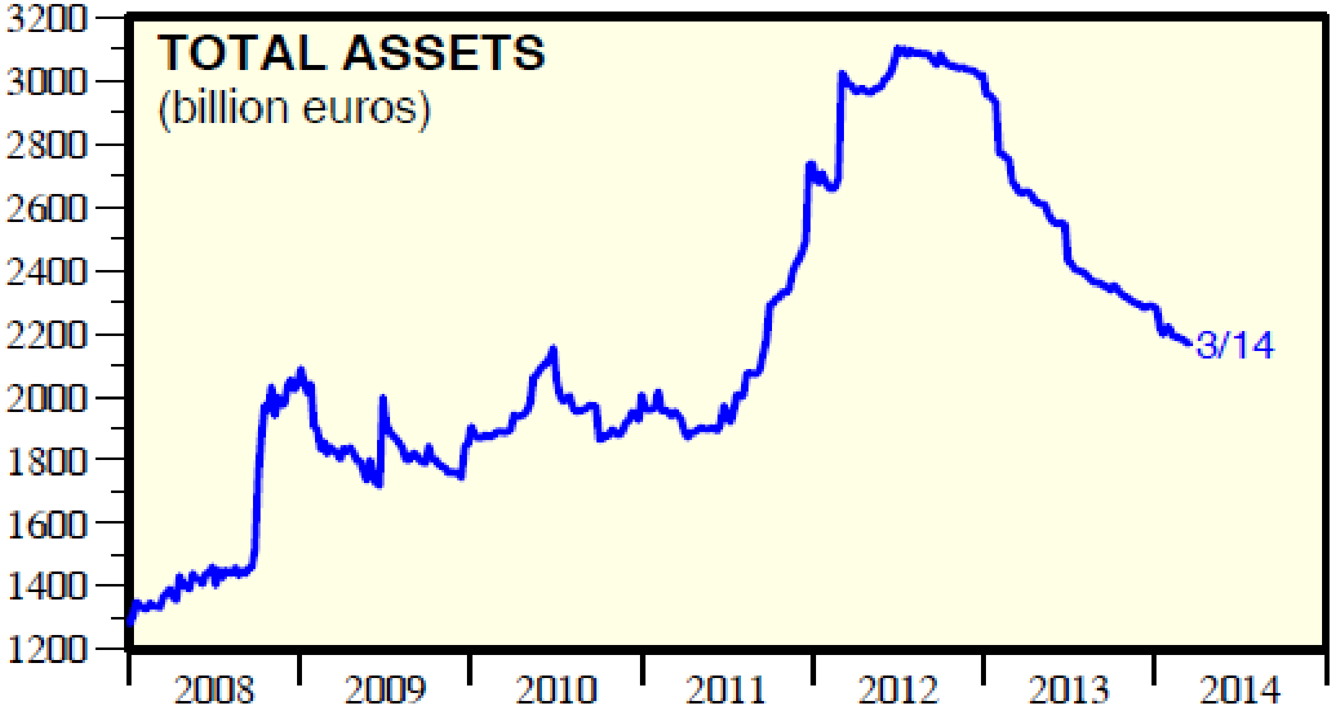


FIGURE 9.
BANK OF ENGLAND: TOTAL ASSETS

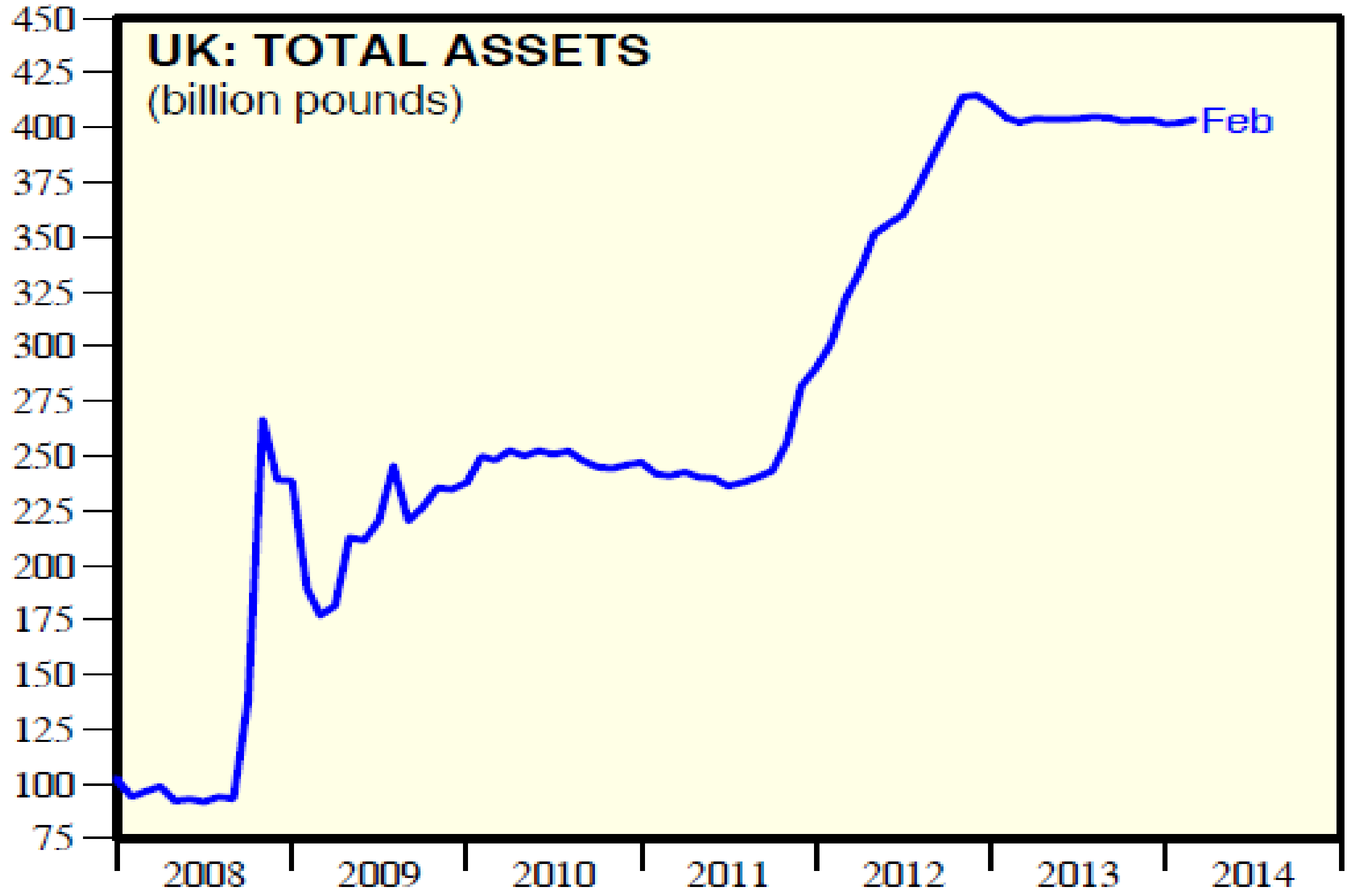


FIGURE 10.
JAPAN BANK: RESERVES BALANCES

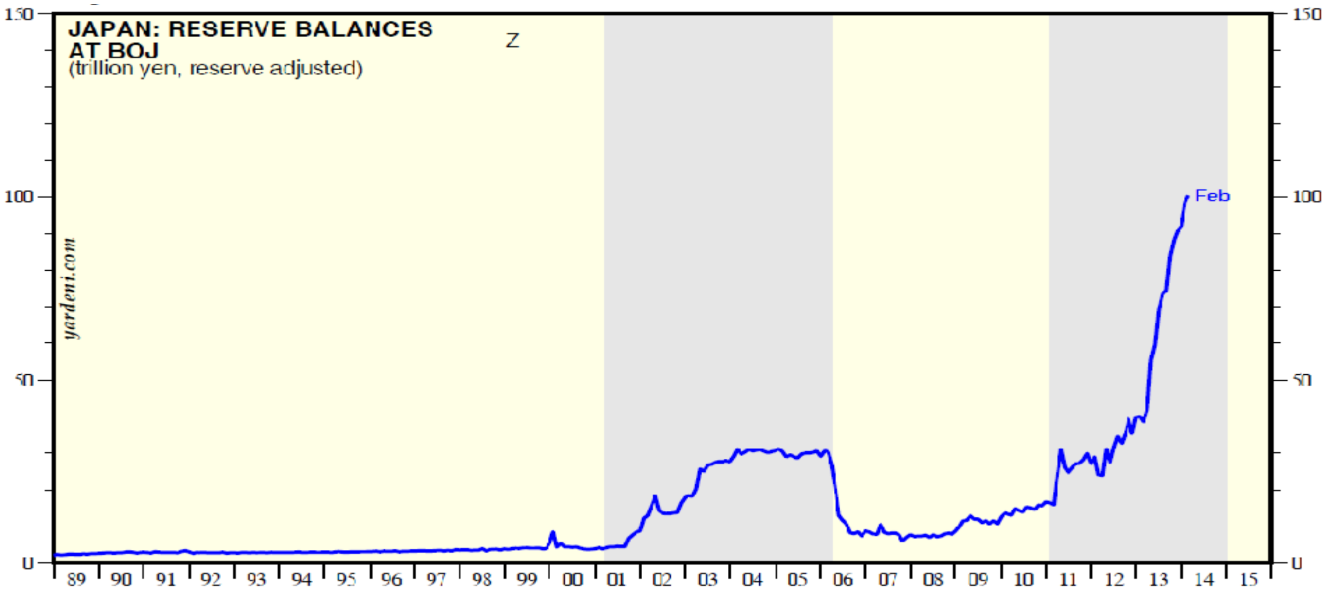


FIGURE 11.
BANK OF CHINA: TOTAL ASSETS

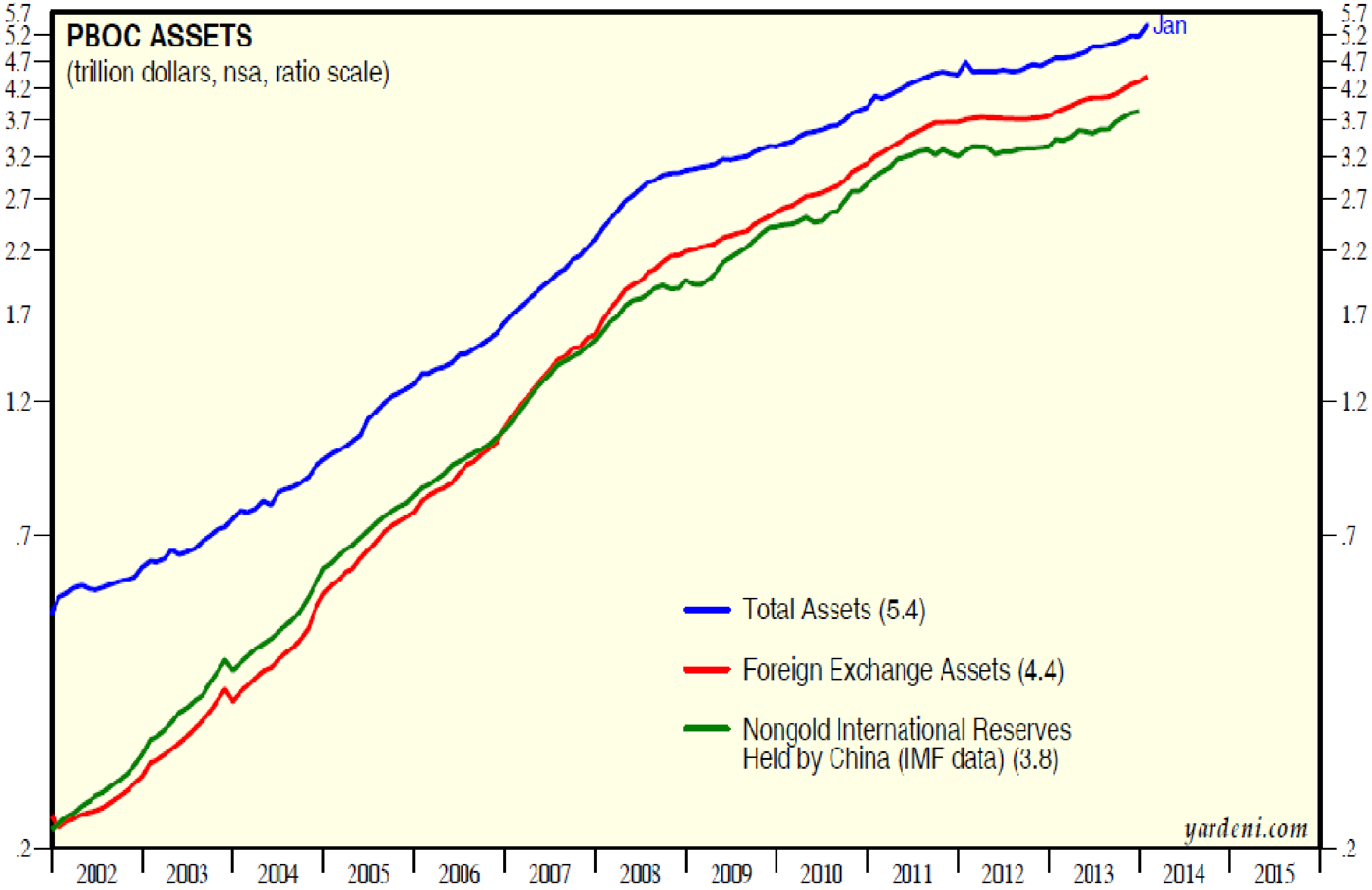
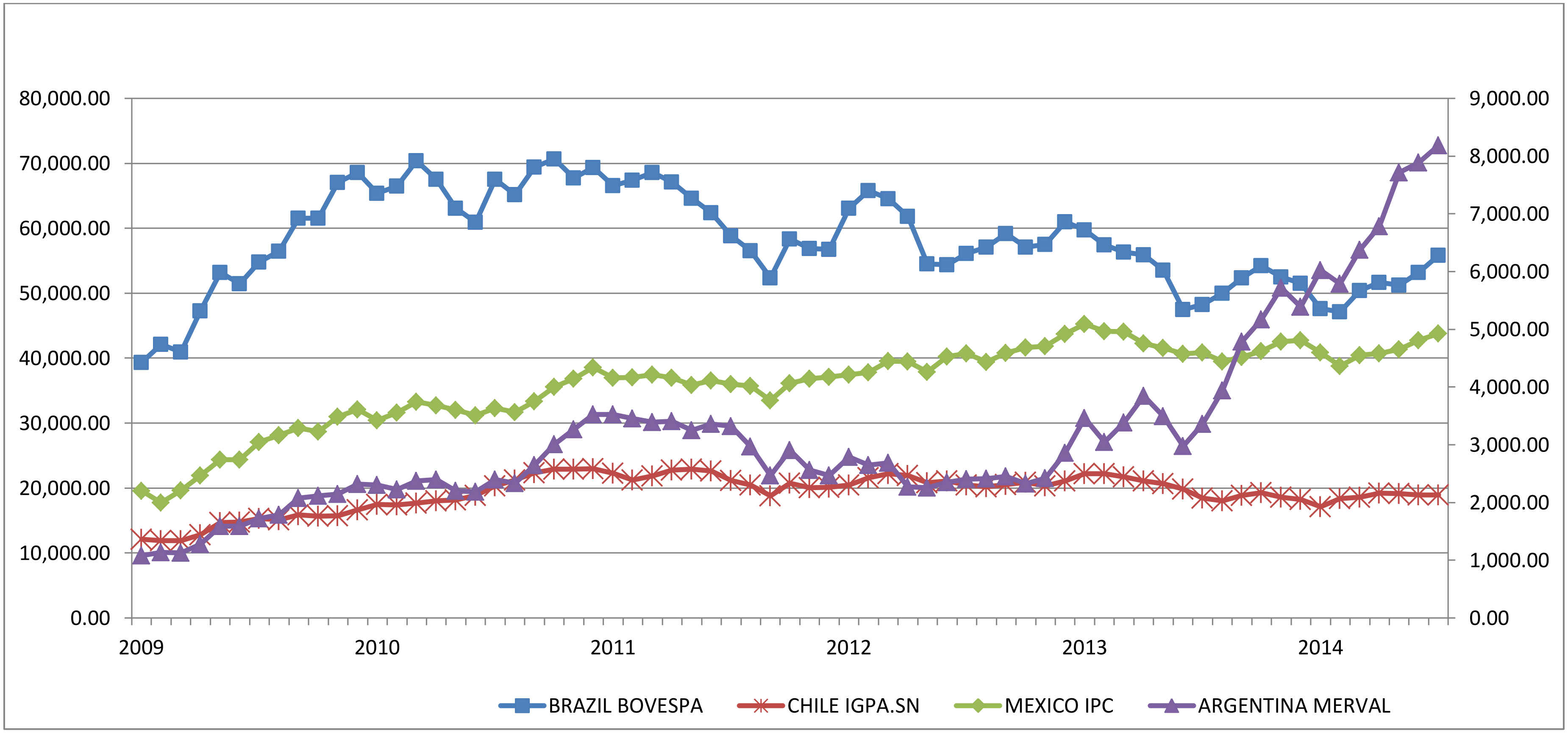
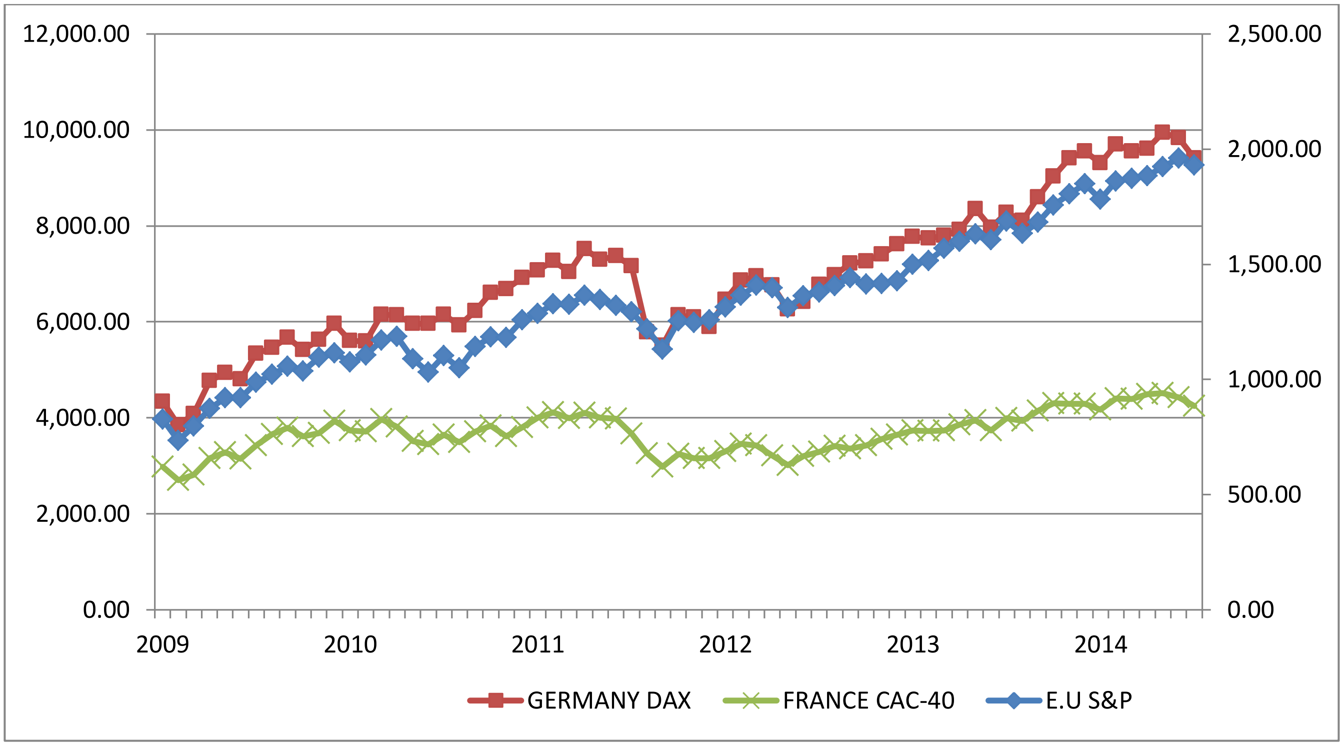


FIGURE 12.
STOCK EXCHANGES IN SELECTED COUNTRIES



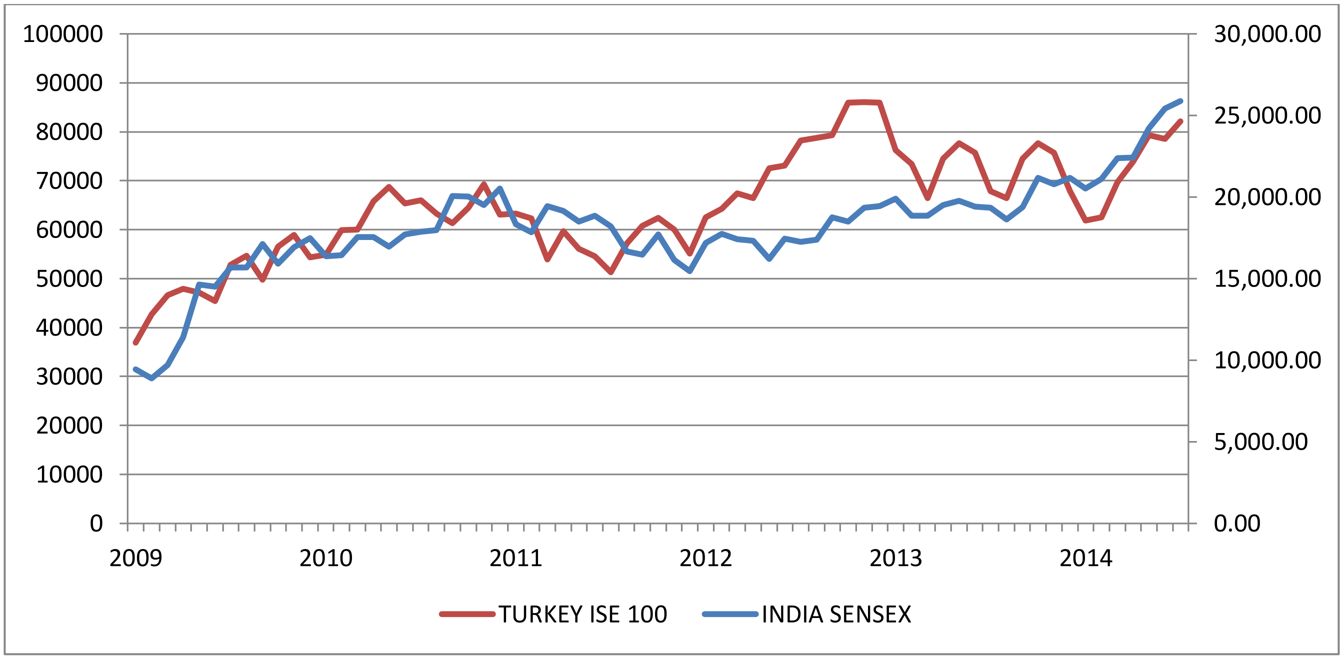
Source: www.investing.com

FIGURE 13.
STOCK EXCHANGES IN SELECTED COUNTRIES



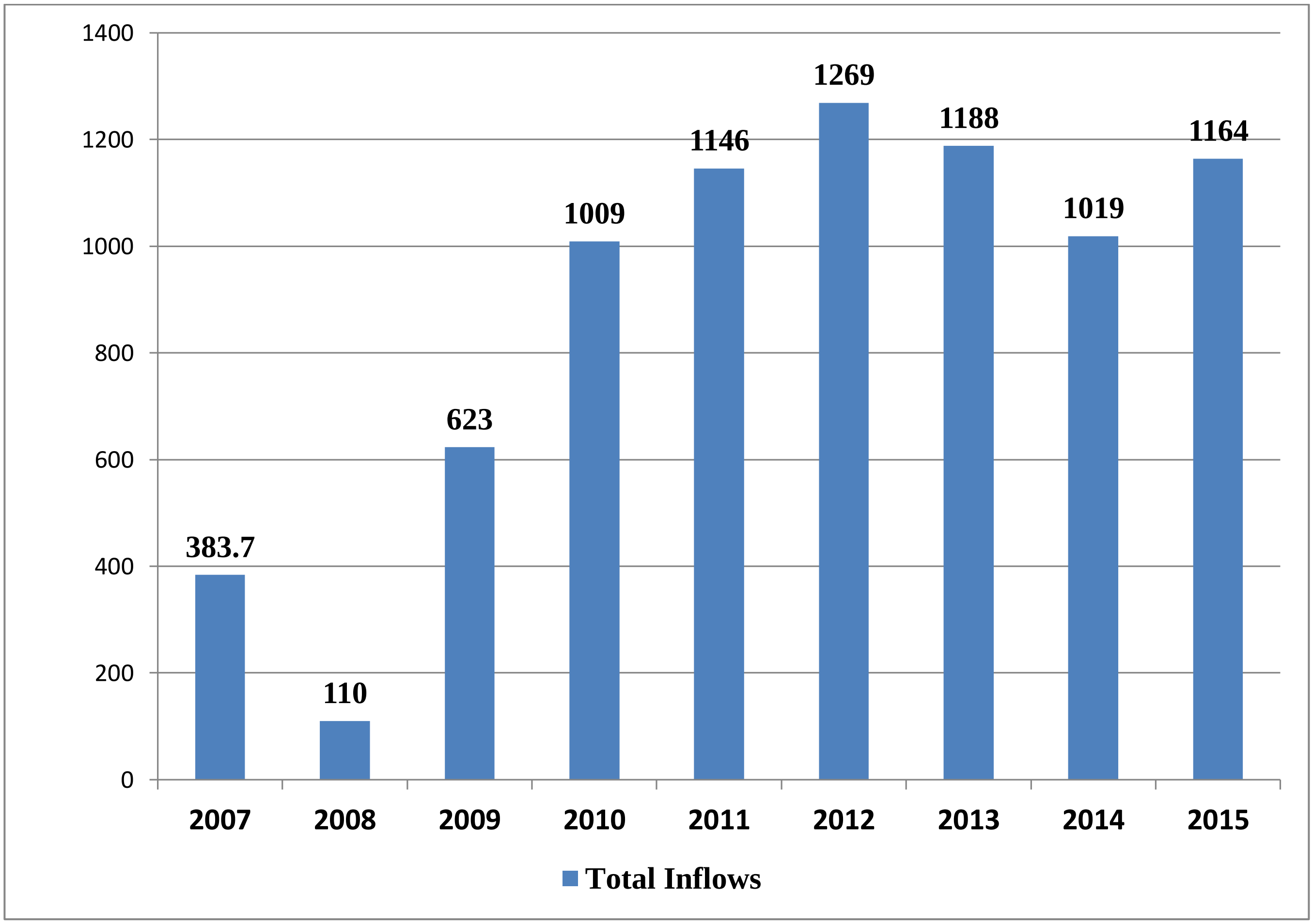
Source: *www.investing.com*

Figure 14.
STOCK EXCHANGES IN SELECTED COUNTRIES



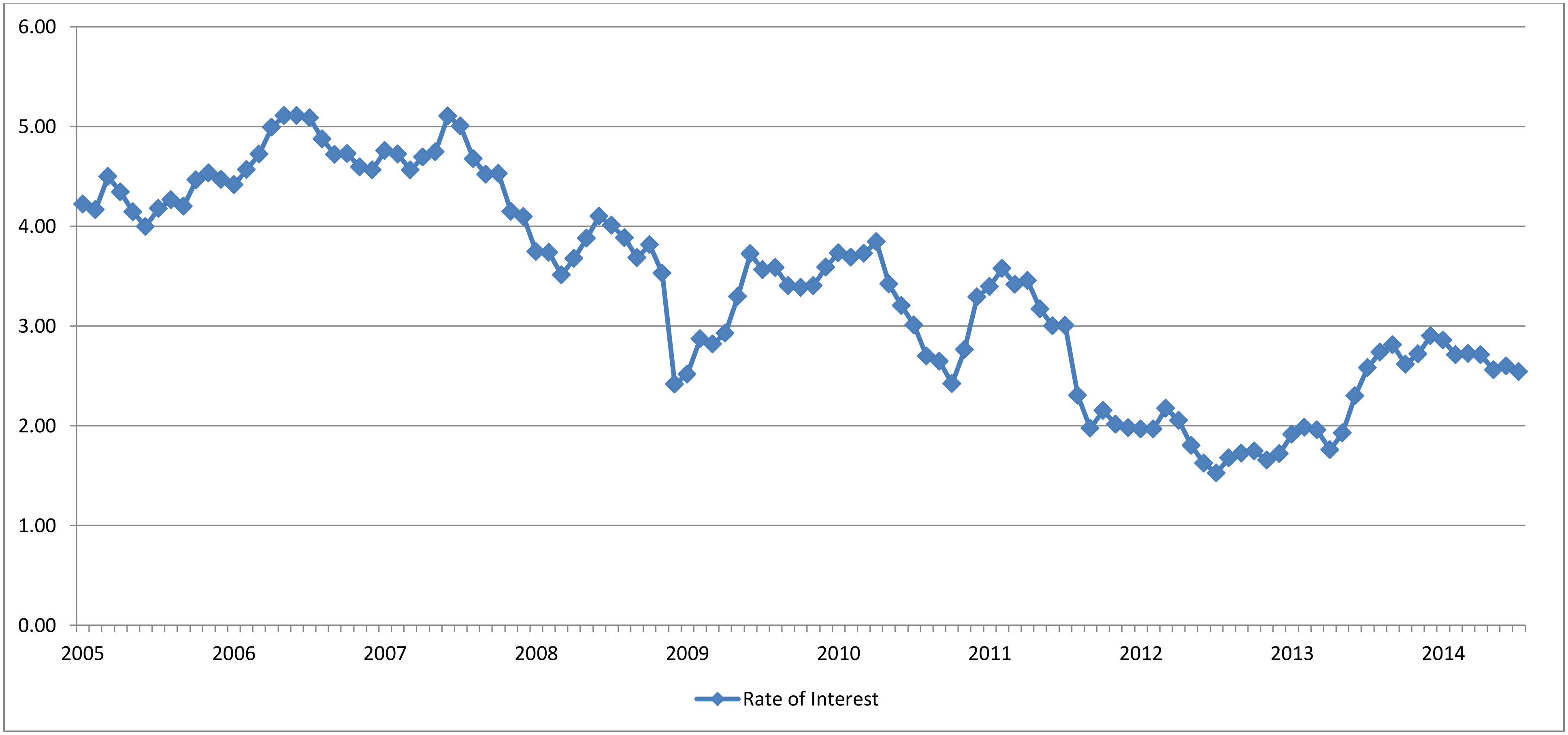
Source: *www.investing.com*

Figure 15.
PRIVATE CAPITAL FLOWS TO EMERGING COUNTRIES
Billions of Dollars



Source: IIF

FIGURE 16
USA: 10 YEARS TREASURY BONDS RATE
2005-2014



Source:www.treasury.gov