Financialisation, Crisis and Perspectives: an analysis for 15 countries

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Outline

1. Pre-crisis developments

2. Type of development and the financial and economic crises
   2.1 Debt-led private demand boom countries
   2.2 Export-led mercantilist countries
   2.3 Catching-up domestic demand-led countries
   2.4 Mature domestic demand-led countries

3. Current account balances before and after the crisis

4. Conclusions
1. Pre-crisis developments: Debt-led private demand boom economies

Table 1: Sectoral financial balances as a share of nominal GDP, in per cent

<table>
<thead>
<tr>
<th>Sector</th>
<th>USA</th>
<th>UK</th>
<th>Spain</th>
<th>Estonia</th>
<th>Greece</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External sector</td>
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<td>6.3</td>
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<td>10.4</td>
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<td>0.0</td>
<td>-0.9</td>
<td>-5.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>Corporate sector</td>
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</tr>
<tr>
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<td>-0.3</td>
<td>-2.1</td>
<td>-4.9</td>
<td>-9.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: AMECO, own calculations
Pre-crisis developments: Debt-led private demand boom economies

Table 2: Real GDP growth (in per cent) and growth contributions, selected countries (in percentage points)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>2.1</td>
<td>2.5</td>
<td>3.1</td>
<td>5.8</td>
<td>3.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Private consumption</td>
<td>1.7</td>
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<td>1.6</td>
<td>3.8</td>
<td>2.6</td>
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<td>Public consumption</td>
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<td>0.9</td>
<td>0.5</td>
<td>0.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Investment</td>
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<td>0.4</td>
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<td>2.8</td>
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<td>Balance of goods and services</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.7</td>
<td>-1.5</td>
<td>-0.8</td>
<td>-1.2</td>
</tr>
</tbody>
</table>

Source: AMECO, own calculations
Pre-crisis developments: Export-led mercantilist economies

Table 3: Sectoral financial balances as a share of nominal GDP, in per cent

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>External sector</td>
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<td>-7.0</td>
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<tr>
<td>Public sector</td>
<td>-2.0</td>
<td>-5.7</td>
<td>1.0</td>
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<tr>
<td>Corporate sector</td>
<td>1.2</td>
<td>5.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Private household sector</td>
<td>5.7</td>
<td>2.8</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: AMECO, own calculations
Pre-crisis developments: Export-led mercantilist economies

**Table 4:** Real GDP growth (in per cent) and growth contributions, selected countries (in percentage points)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>1,5</td>
<td>0,8</td>
<td>2,6</td>
</tr>
<tr>
<td>Private consumption</td>
<td>0,3</td>
<td>0,4</td>
<td>1,0</td>
</tr>
<tr>
<td>Public consumption</td>
<td>0,2</td>
<td>0,3</td>
<td>0,2</td>
</tr>
<tr>
<td>Investment</td>
<td>0,4</td>
<td>-0,3</td>
<td>0,9</td>
</tr>
<tr>
<td>Balance of goods and services</td>
<td>0,6</td>
<td>0,4</td>
<td>0,5</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*
Pre-crisis developments: Catching-up domestic demand-led economies

Table 5: Sectoral financial balances as a share of nominal GDP, in per cent

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>External sector</td>
<td>3,3</td>
<td>3,7</td>
<td>7,4</td>
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<tr>
<td>Public sector</td>
<td>-6,5</td>
<td>-4,9</td>
<td>-6,6</td>
</tr>
<tr>
<td>Corporate sector</td>
<td>3,2 *</td>
<td>0,1</td>
<td>-2,0</td>
</tr>
<tr>
<td>Private household sector</td>
<td>0,7</td>
<td>1,2</td>
<td></td>
</tr>
</tbody>
</table>

* Financial balance of private sector (corporate and private household)

Source: AMECO, own calculations
Pre-crisis developments: Catching-up domestic demand-led economies

**Table 6:** Real GDP growth (in per cent) and growth contributions, selected countries (in percentage points)

<table>
<thead>
<tr>
<th></th>
<th>Turkey</th>
<th>Poland</th>
<th>Hungary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2008</td>
<td>4,5</td>
<td>4,4</td>
<td>3,0</td>
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<tr>
<td>2002-2008</td>
<td>3,3</td>
<td>2,6</td>
<td>1,3</td>
</tr>
<tr>
<td>2003-2008</td>
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<td>0,7</td>
<td>0,3</td>
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<tr>
<td>Real GDP growth</td>
<td>4,5</td>
<td>4,4</td>
<td>3,0</td>
</tr>
<tr>
<td>Private consumption</td>
<td>3,3</td>
<td>2,6</td>
<td>1,3</td>
</tr>
<tr>
<td>Public consumption</td>
<td>0,4</td>
<td>0,7</td>
<td>0,3</td>
</tr>
<tr>
<td>Investment</td>
<td>1,1</td>
<td>1,4</td>
<td>0,7</td>
</tr>
<tr>
<td>Balance of goods and services</td>
<td>-0,3</td>
<td>-0,5</td>
<td>0,8</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*
## Pre-crisis developments: Mature domestic demand-led economies

**Table 7:** Sectoral financial balances as a share of nominal GDP, in per cent

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>External sector</td>
<td>0,4</td>
<td>1,2</td>
<td>8,5</td>
</tr>
<tr>
<td>Public sector</td>
<td>-3,1</td>
<td>-3,2</td>
<td>-4,7</td>
</tr>
<tr>
<td>Corporate sector</td>
<td>-0,2</td>
<td>-0,7</td>
<td>-5,5</td>
</tr>
<tr>
<td>Private household sector</td>
<td>2,9</td>
<td>2,6</td>
<td>1,7</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*
Pre-crisis developments: Mature domestic demand-led economies

**Table 8:** Real GDP growth (in per cent) and growth contributions, selected countries (in percentage points)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>1,7</td>
<td>0,9</td>
<td>1,0</td>
</tr>
<tr>
<td>Private consumption</td>
<td>1,0</td>
<td>0,5</td>
<td>1,0</td>
</tr>
<tr>
<td>Public consumption</td>
<td>0,4</td>
<td>0,1</td>
<td>0,3</td>
</tr>
<tr>
<td>Investment</td>
<td>0,7</td>
<td>0,2</td>
<td>-0,2</td>
</tr>
<tr>
<td>Balance of goods and services</td>
<td>-0,4</td>
<td>0,0</td>
<td>-0,2</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*
3. Crisis in debt-led private demand boom economies

- Most vulnerable to contagion effects from the financial crisis originated in the US, either directly due to substantial holdings of toxic US financial products, or indirectly due to widespread global panic and uncertainty affecting the health and terms of lending of domestic banking sectors.

- Prolonged deleveraging due to excessive build-up of debt by the private sector, also by non-financial corporations, and high unemployment rates.

- The absence of the lender of last resort and associated market uncertainty penalizing banks and national governments in the EMU → High public sector deficits in several EMU countries following the attempt to save domestic banking sectors and ultimately sovereign debt crises.

- Economic crisis harsh and prolonged in those cases where austerity policies were implemented instead of government stimulus being provided.
Crisis in debt-led private demand boom economies

**Figure 1:** Real GDP growth, the USA, the UK, Estonia, Greece, Spain and South Africa, 2005-2014, in per cent

Source: AMECO, own calculations
Crisis in export-led mercantilist economies

• Affected by the crisis primarily via trade channel (falling exports due to a contraction in foreign demand) and only partially by the financial contagion channel.

• Relatively fast recovery: immediate government responses, but also increasing foreign demand (China, India)

• Long process of deleveraging did not need to take place since the indebtedness of the private sector had been low relative to the other group of countries.

• Safe haven effect, both in case of Germany and Sweden.
Crisis in export-led mercantilist economies

**Figure 2:** Real GDP growth, Germany, Sweden and Japan, 2005-2014, in percent

Source: AMECO, own calculations
Crisis in catching-up domestic demand led economies

• Crisis transmission mainly via financial flows → balance of payments channel (only briefly).

• Economic crisis as a result of contracting domestic demand was the more pervasive one, in particular when combined with weak (Turkey) or adverse (Hungary) government responses.
Crisis in catching-up domestic demand led economies

**Figure 3**: Real GDP growth, Turkey, Poland and Hungary, 2005-2014, in per cent

Source: AMECO, own calculations
Crisis in mature domestic demand led economies

• Primarily affected through rising borrowing costs and rising uncertainty, but no major or prolonged problems in the banking sector given the low exposure of domestic banks to sub-prime financial products from the US.

• Recovery in 2009-2010 but with the euro crisis came a slowdown in private consumption and investment \( \rightarrow \) largely the result of ‘soft’ (France and Italy) or severe (Portugal) austerity policies.

• Weak growth since.
Crisis in mature domestic demand led economies

**Figure 4:** Real GDP growth, France, Italy and Portugal, 2005-2014, in per cent

*Source: AMECO, own calculations*
3. Current account balances before and after the crisis

**Figure 5:** Current account balance, selected countries, 2000-2014, in billions of US dollars

*Source: IMF, World Economic Outlook*
Current account balances before and after the crisis

**Figure 6:** Current account balance, Germany, Sweden and Japan, 2000-2014, in billions of US dollars

Source: AMECO, own calculations
Current account balances before and after the crisis

Figure 7: Current account balance, the USA, the UK and South Africa, 2000-2014, in billions of US dollars

Source: AMECO, own calculations
Current account balances before and after the crisis

**Figure 8:** Current account balance, Spain, Estonia, Greece, France, Italy and Portugal, 2000-2014, in billions of US dollars

*Source: AMECO, own calculations*
Current account balances before and after the crisis

Figure 9: Current account balance, Turkey, Poland and Hungary, 2000-2014, in billions of US dollars

Source: AMECO, own calculations
4. Conclusions

• ‘Stagnation policies’ → depressing effect on global economic activity

• Maintaining the export-led strategy on the back of the domestic demand-led economies . . . → Fallacy of composition!

- political constraints for mature domestic demand-led countries

- danger of ‘sudden stops’ for the catching-up domestic demand-led countries

. . . Would require:

i. A reassessment of the role of economic policy making regarding public deficits and debt;

ii. A stable recycling of current account surpluses towards high-growth catching-up countries.
This project is funded by the European Union under the 7th Research Framework programme (theme SSH) Grant Agreement nr 266800

Thank you for your attention.
### Crises in debt-led consumption boom economies

**Table 9:** Sectoral financial balances as a share of nominal GDP, in per cent

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>External sector</td>
<td>2.8</td>
<td>3.1</td>
<td>1.2</td>
<td>-2.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Public sector</td>
<td>-9.1</td>
<td>-7.9</td>
<td>-8.7</td>
<td>-0.9</td>
<td>-9.8</td>
</tr>
<tr>
<td>Corporate sector</td>
<td>3.3</td>
<td>2.8</td>
<td>4.2</td>
<td>2.1</td>
<td>12.4</td>
</tr>
<tr>
<td>Private household sector</td>
<td>4.0</td>
<td>1.9</td>
<td>3.3</td>
<td>1.6</td>
<td>-8.3</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*
## Crises in debt-led consumption boom economies

**Table 10**: Real GDP growth (in per cent) and growth contributions, selected countries (in percentage points)

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
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<td>-1,0</td>
<td>0,7</td>
<td>-4,7</td>
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<tr>
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<td>0,3</td>
<td>-0,8</td>
<td>-0,2</td>
<td>-3,4</td>
</tr>
<tr>
<td>Public consumption</td>
<td>0,0</td>
<td>0,2</td>
<td>0,0</td>
<td>0,2</td>
<td>-0,9</td>
</tr>
<tr>
<td>Investment</td>
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<td>0,1</td>
<td>-1,7</td>
<td>-0,2</td>
<td>-2,5</td>
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<tr>
<td>Balance of goods and services</td>
<td>0,1</td>
<td>0,1</td>
<td>1,5</td>
<td>0,9</td>
<td>2,3</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*
Crises in export-led mercantilist economies

**Table 11: Sectoral financial balances as a share of nominal GDP, in per cent**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>External sector</td>
<td>-6,6</td>
<td>-1,8</td>
<td>-6,1</td>
</tr>
<tr>
<td>Public sector</td>
<td>-1,2</td>
<td>-8,5</td>
<td>-0,9</td>
</tr>
<tr>
<td>Corporate sector</td>
<td>2,6</td>
<td>7,7</td>
<td>0,7</td>
</tr>
<tr>
<td>Private household sector</td>
<td>5,2</td>
<td>2,5</td>
<td>6,2</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*
### Crises in export-led mercantilist economies

**Table 12:** Real GDP growth (in per cent) and growth contributions, selected countries (in percentage points)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
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<td>1.1</td>
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<td>Private consumption</td>
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<td>0.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Public consumption</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Investment</td>
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</tr>
<tr>
<td>Balance of goods and services</td>
<td>0.0</td>
<td>-0.3</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*
### Crises in Turkey, Poland, Hungary and South Africa

**Table 13: Sectoral financial balances as a share of nominal GDP, in per cent**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Turkey</th>
<th>Poland</th>
<th>Hungary</th>
</tr>
</thead>
<tbody>
<tr>
<td>External sector</td>
<td>6,3</td>
<td>1,7</td>
<td>-4,4</td>
</tr>
<tr>
<td>Public sector</td>
<td>-2,6</td>
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<td>-3,7</td>
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<tr>
<td>Corporate sector</td>
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<td>*</td>
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<td></td>
</tr>
<tr>
<td>Private household sector</td>
<td></td>
<td>-1,0</td>
<td>3,6</td>
</tr>
</tbody>
</table>

*Financial balance of private sector (corporate and private household)*

**Source:** AMECO, own calculations
# Crises in Turkey, Poland, Hungary and South Africa

## Table 14: Real GDP growth (in per cent) and growth contributions, selected countries (in percentage points)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>3,7</td>
<td>2,9</td>
<td>-0,1</td>
</tr>
<tr>
<td>Private consumption</td>
<td>2,1</td>
<td>1,4</td>
<td>-0,8</td>
</tr>
<tr>
<td>Public consumption</td>
<td>0,7</td>
<td>0,3</td>
<td>0,1</td>
</tr>
<tr>
<td>Investment</td>
<td>0,8</td>
<td>0,4</td>
<td>-0,3</td>
</tr>
<tr>
<td>Balance of goods and services</td>
<td>0,0</td>
<td>1,0</td>
<td>1,3</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*
### Crises in France, Italy and Portugal

**Table 15: Sectoral financial balances as a share of nominal GDP, in per cent**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>External sector</td>
<td>2,0</td>
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<td>3,4</td>
</tr>
<tr>
<td>Public sector</td>
<td>-5,4</td>
<td>-3,6</td>
<td>-7,3</td>
</tr>
<tr>
<td>Corporate sector</td>
<td>-0,7</td>
<td>1,2</td>
<td>-0,4</td>
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<tr>
<td>Private household sector</td>
<td>4,1</td>
<td>1,5</td>
<td>4,3</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*
## Crises in France, Italy and Portugal

**Table 16**: Real GDP growth (in per cent) and growth contributions, selected countries (in percentage points)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>0,3</td>
<td>-1,3</td>
<td>-1,1</td>
</tr>
<tr>
<td>Private consumption</td>
<td>0,2</td>
<td>-0,7</td>
<td>-0,9</td>
</tr>
<tr>
<td>Public consumption</td>
<td>0,4</td>
<td>-0,1</td>
<td>-0,3</td>
</tr>
<tr>
<td>Investment</td>
<td>-0,3</td>
<td>-0,9</td>
<td>-1,3</td>
</tr>
<tr>
<td>Balance of goods and services</td>
<td>0,0</td>
<td>0,6</td>
<td>1,6</td>
</tr>
</tbody>
</table>

*Source: AMECO, own calculations*