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Ten years after: The uncomfortable new normal

■ Ten years after the collapse of Lehman Brothers, assessing to what extent major economies have fully recovered from the ensuing global financial crisis and the Great Recession very much depends on the perspective which is chosen ■ A mixed picture emerges: in most countries per capita real GDP is higher than before the crisis ■ But public sector debt hasn't declined and growth has been slow, despite the expansionary policy stance ■ Policy rates are still (very) low and central bank balance sheets are vastly bigger ■ Policy leeway hasn't been restored which implies that thinking about how to address the next downturn should be high on the agenda

Former Fed chairman Ben Bernanke, in his *The courage to act – a memoir of a crisis and its aftermath*, uses 'The dam breaks' as the title of the chapter describing the fruitless efforts to find a solution for Lehman Brothers which led to the company filing for bankruptcy at 1.45 a.m. EST on Monday 15 September 2007. The metaphor in the title reminds us to what extent Lehman's collapse was an accelerator of a crisis which had been developing for a long time already. An accelerator which made it increasingly difficult to stop the spiral. To quote Bernanke: "*It was a terrible, almost surreal moment. We were staring into the abyss.*" Tellingly, Tim Geithner, who was running the Federal Reserve of New York at the time before becoming Treasury Secretary under Obama, starts his memoirs, aptly called *Stress Test,* with the struggle to stop the decline of the economy early on in 2009, rather than focussing on Lehman. Assessing ten years later, to what extent major economies have recovered from the global financial crisis and the Great Recession is important. After all, the US expansion, which started in July 2009 is by historical standards of a respectable age so evaluating where we are ten years later helps in gauging the resilience to a new downturn. However, this exercise is also difficult because it very much depends on the perspective chosen. Focussing on GDP, the labour market, balance sheets, asset prices, developing economies and policy leeway, what emerges is a mixed picture. Per capita real GDP is higher than before the crisis but growth has been slow despite the expansionary policy stance. In some countries, the unemployment rate, in particular long-term unemployment, remains above pre-crisis levels. Several developing economies have seen a significant increase in corporate debt in foreign currency. Public sector debt in advanced economies hasn't declined, despite sustained growth and sharply declining interest rates. In conjunction with still (very) low policy rates and vastly bigger central bank balance sheets, this implies that policy leeway hasn't been restored. It means that in the 'new normal' of, for structural reasons, slower potential GDP growth and lower interest rates than before, discussing how to address the next downturn should be high on the agenda.

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TEN YEARS AFTER : A QUALITATIVE ASSESSMENT

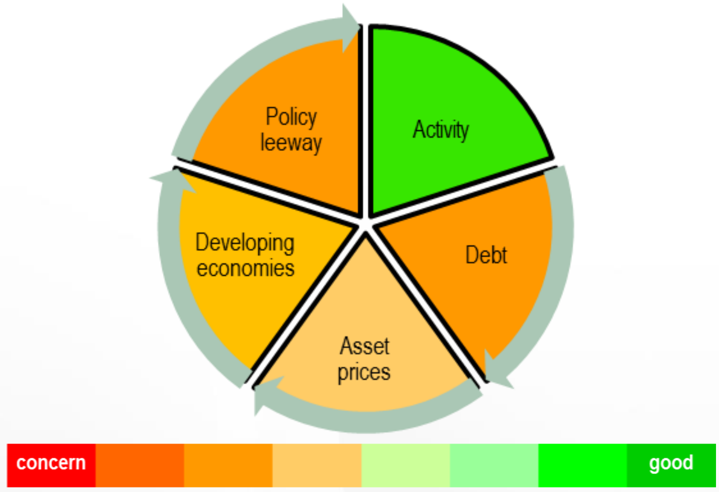

Chart 1 Source: BNP Paribas

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