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The COVID-19 Crisis and Secular Stagnation

Economic Research Dept.
Shotaro Kugo

Summary

- In this report, the impact of the coronavirus crisis is examined from the context of secular stagnation. Our analysis attempts to verify whether the coronavirus crisis could cause secular stagnation. The implications obtained from this paper are as follows.
- The uneven distribution of savings observed after the coronavirus crisis has the risk of lowering the natural rate of interest through an increase in the propensity to save in the household sector.
- In the corporate sector, changes such as an increase in the number of zombie corporations and a decrease in corporate risk tolerance can both lead to prolonged stagnation through a decline in investment demand and an increase in the propensity to save.
- From the perspective of post-COVID-19 policy response, it is important to return the scale of government expenditure, which has expanded rapidly in response to COVID-19, to normal levels in conjunction with the normalization of socioeconomic activities.
- Although the economy may be adversely affected in the short term, it is expected in the medium to long term to encourage the appropriate turnover of industries to increase the willingness of corporations to invest, and alleviate the decline in pressure on economic growth brought about by the expansion of government debt.

Attention

This report is a summary translation. The official document is only in Japanese, included in the DIR Research Quarterly Review (Vol.43).