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Research Summaries

The Rise and Fall of Current Account Deficits in the Euro Area Periphery and the Baltics

Joong Shik Kang and Jay C. Shambaugh



One feature of the economic crisis in Europe is that a number of countries ran very large current account deficits heading into the crisis. While increases in domestic absorption explain some of the deficits, there were also important movements in transfers and net income balances for many countries. When transfers declined, households and firms borrowed so as to maintain the same level of spending. This was part of a persistent failure to adjust to trade deficits, which, along with rising net-income payments, led to growing current account deficits. Since the crisis, tangible progress has been made through lower wages and/or higher productivity relative to trading partners (“internal devaluation”), contributing to narrowing deficits. Going forward, these countries still need to continue adjustment to generate growing tradable sector employment and to prevent imbalances from returning as output gaps close. Doing so against a backdrop of austerity, low growth in the euro area, and low inflation in their trading partners has been very challenging.

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Two Sides of the Same Coin? Rebalancing and Inclusive Growth in China

Il Houg Lee, Murtaza Syed, and Xin Wang



China’s remarkable growth has been hailed as the greatest development story of all time. However, its success is somewhat undermined by a sharp rise in income inequality.

While most countries have also become less equal since 1990, the deterioration has been especially severe in China’s case and has left it among the most inequitable societies in the world. Could China’s growth model—with its emphasis on exports and investment, and its more recent dependence on credit—itself be at fault?

Since embarking on its reform and opening-up policy, China has made remarkable strides in lifting incomes and reducing poverty. On the eve of its reforms, nearly 85 percent of its population lived on less than \$1.25 a day, the fifth

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