

Tracking the Global Financial Crisis: An Analysis of the IMF's World Economic Outlook

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At the end of April 2009, the International Monetary Fund (IMF) released the latest edition of its flagship publication, the World Economic Outlook (WEO). This report marks the most extensive effort to measure the health of the global economy since the outbreak of the global financial crisis last fall. The WEO's centerpiece is its GDP growth projections, given for 182 countries over the next five years. This indicator alone provides a wealth of information, allowing an examination of not only how countries will fare this year, but whether expectations of the crisis' impact have stabilized, where and when the recovery might come and how much poorer the crisis will eventually leave us. By identifying which countries and regions are being hit worst by the downturn and which appear to be weathering the storm relatively well, we can learn a great deal about the nature of the crisis, including the channels through which it is spreading around the world and the possible paths to recovery.

What's the latest outlook for the global economy?

The sober projections in the April WEO reflect the incredible turmoil currently gripping the global economy. The outlook for 2009 is very grim: the world has entered its first collective recession since World War II, with global output set to contract by 1.3 percent this year. Most regions and major economies of the world are in recession; of the world's largest economies, only China and India are set to post positive growth this year (Table 1).

An examination of the full database of 182 countries reveals the precipitous and wide-reaching economic collapse brought about by the crisis. In both 2006 and 2007, only three economies recorded negative economic growth. In 2008, that figure rose to twelve. In 2009, it is expected to be 78. Those faring the worst this year include some countries that have already made newspaper headlines and others which may come as a surprise (Table 2). Iceland, the first economy to fold since the crisis began, faces the second largest contraction, while Ireland, another high profile collapse, is projected to post the ninth largest contraction this year. The three Baltic nations Latvia, Estonia, and Lithuania make the bottom five; each enjoyed construction and credit booms over recent years which are now painfully unwinding. Of those countries which we hear less about are two of Africa's historical success stories: Botswana and the Seychelles. These are two of only three Sub-Saharan economies classified as Upper Middle Income by the World Bank. Botswana has been hammered by the collapse in the price of diamonds, its primary export, while for the Seychelles, the global recession - which has placed a serious dent in its tourism industry - has happened to coincide with a balance of payments crisis.

Table 1: 2009 Real GDP Growth

World	-1.3%
Advanced economies	-3.8%
Emerging and developing economies	1.6%
Developing Asia	4.8%
Middle East	2.5%
Sub-Saharan Africa	1.7%
Central and Eastern Europe	-3.7%
Commonwealth of Independent States	-5.1%
Latin America and Caribbean	-1.5%
<i>US</i>	-2.8%
<i>Germany</i>	-5.6%
<i>France</i>	-3.0%
<i>Italy</i>	-4.4%
<i>Spain</i>	-3.0%
<i>Japan</i>	-6.2%
<i>UK</i>	-4.1%
<i>Canada</i>	-2.5%
<i>Russia</i>	-6.0%
<i>China</i>	6.5%
<i>India</i>	4.5%
<i>Brazil</i>	-1.3%
<i>Mexico</i>	-3.7%

Source: IMF

The countries that are expected to perform best this year represent an odd mishmash. They include several post-conflict countries – Congo, Afghanistan, Timor-Leste and Iraq – undergoing the rapid growth that characterizes the process of rebuilding and recovery, after years of war. Qatar is expected to grow by a dizzy 18 percent this year, due solely to the fact that this small economy will introduce a new Liquefied Natural Gas (LNG) project. Notably, most of the countries in the top ten are prone to volatile growth performances, balancing great jumps forward with large steps back.

Bottom 10		Top 10	
Latvia	-12.0%	Qatar	18.0%
Iceland	-10.6%	Congo	9.5%
Botswana	-10.4%	Afghanistan	9.0%
Estonia	-10.0%	Yemen	7.7%
Lithuania	-10.0%	Timor-Leste	7.2%
Singapore	-10.0%	Uzbekistan	7.0%
Seychelles	-9.6%	Turkmenistan	6.9%
Ukraine	-8.0%	Malawi	6.9%
Ireland	-8.0%	Iraq	6.9%
Taiwan	-7.5%	Ethiopia	6.5%

Source: IMF

While these figures are illuminating, they mask the depth of the downturn for many economies since they do not account for the rate of population growth.

World	-2.5%
Advanced economies	-4.4%
Emerging and developing economies	0.3%
Developing Asia	3.7%
Middle East	0.3%
Sub-Saharan Africa	-0.8%
Central and Eastern Europe	-4.0%
Commonwealth of Independent States	-5.1%
Latin America and Caribbean	-2.8%

Source: Authors' calculations based on IMF

On a per capita basis, the outlook for developing countries darkens considerably. As a group, their per capita incomes will increase by just 0.1 percent this year (Table 3). Sub-Saharan Africa, whose economies are set to expand by a modest but seemingly tolerable 1.7 percent, will actually see a contraction in GDP per capita of 0.8 percent, due to rapid population growth of 2.5 percent. For advanced economies there are only minor differences between GDP growth and GDP per capita growth, as their populations are much more stable. For a few countries, such as Russia and Japan, the contraction in GDP per capita is actually less than the contraction in total output, since their populations are shrinking.

How much worse off is the world today because of the crisis?

Since the start of the crisis, growth projections for this year have been slashed across the board. A simple comparison of the 2009 growth projections from the April WEO with IMF projections for the same year made at the onset of the crisis can reveal how much worse off we now are.

We use the October WEO as a measure of the pre-crisis outlook. This provides a conservative estimate since the event which marked the crisis' unofficial inception - the collapse of Lehman Brothers on September 15th - had already taken place. Nevertheless, the October figures have the advantage of isolating the effect of the crisis, whereas earlier forecasts were strongly influenced by commodity prices, which fluctuated dramatically in the months leading up to September.

Between October and April, the global growth forecast for 2009 has been revised downward by 4.3 percentage points – a drop shared by both advanced (4.3 percentage points) and developing countries (4.5 percentage points), despite considerable variation at a regional and country level (Table 4). Eastern Europe and Central Asia have faced the most dramatic downward revisions in their growth projections, while Developing Asia has seen a relatively small, though still significant, adjustment. Among the world's major economies, Russia's revision stands out. In October, the IMF expected buoyant growth of 5.5 percent for 2009, but this projection has since been inverted and now stands at a 6.0 percent contraction - a -11.5 percentage point swing. In contrast,

World	-4.3%
Advanced economies	-4.3%
Emerging and developing economies	-4.5%
Developing Asia	-2.9%
Middle East	-3.4%
Sub-Saharan Africa	-4.6%
Central and Eastern Europe	-7.1%
Commonwealth of Independent States	-10.8%
Latin America and Caribbean	-4.6%
US	-2.8%
Germany	-5.6%
France	-3.1%
Italy	-4.2%
Spain	-2.8%
Japan	-6.7%
UK	-4.0%
Canada	-3.7%
Russia	-11.5%
China	-2.7%
India	-2.4%
Brazil	-4.8%
Mexico	-5.5%

Source: Authors' calculations based on IMF

China and India have had their growth forecasts trimmed by a mere 2.7 and 2.4 percentage points respectively.

Table 5: 2009 Real GDP Growth, Percentage Point Difference between October and April Projections

	<i>Bottom 10</i>		<i>Top 10</i>
Angola	-16.4%	Timor-Leste	6.7%
Botswana	-15.0%	Afghanistan	0.6%
Azerbaijan	-13.8%	Sudan	0.2%
Singapore	-13.4%	Rwanda	0.0%
Armenia	-13.0%	Bhutan	0.0%
Seychelles	-12.6%	Samoa	0.0%
Belarus	-12.4%	Tonga	0.0%
Russia	-11.5%	Ethiopia	0.0%
Lithuania	-10.7%	Solomon Islands	-0.1%
Estonia	-10.5%	Yemen	-0.5%

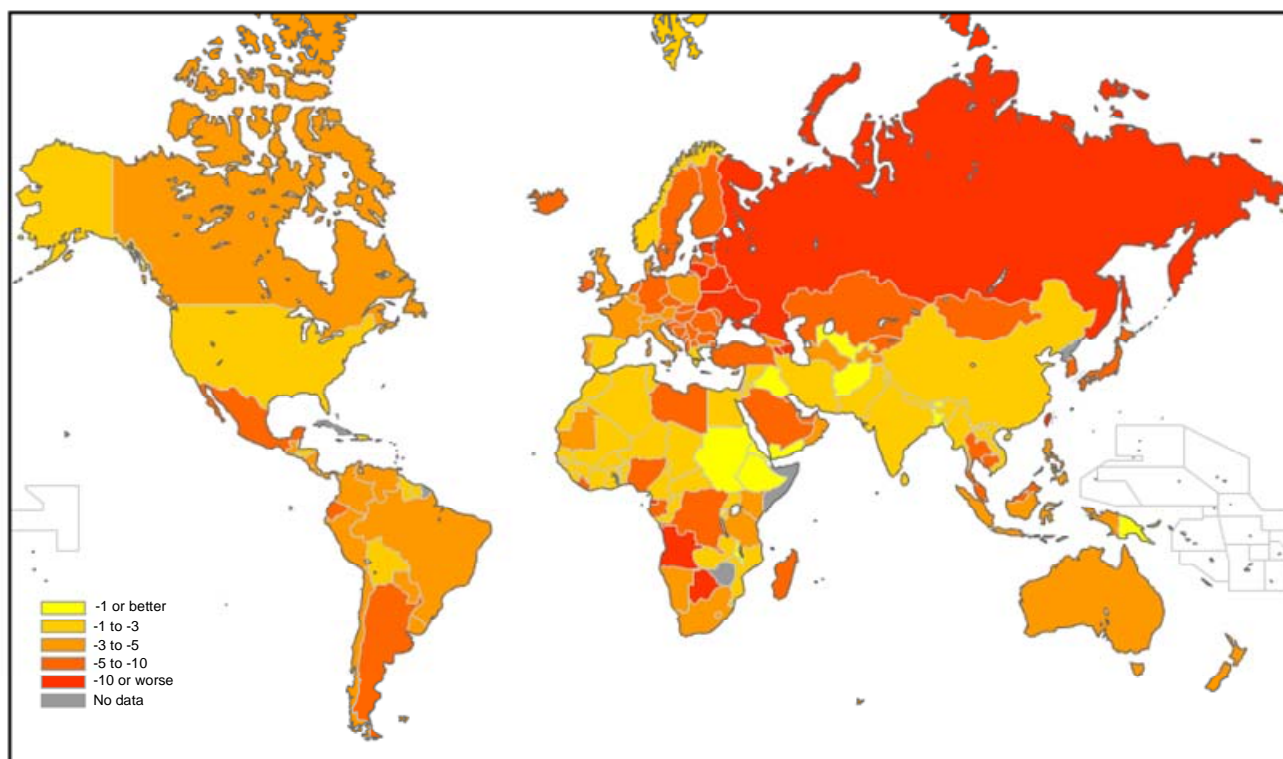
Source: Authors' calculations based on IMF

At the national level, the biggest revisions to 2009 growth have been recorded in three types of economies: globalization hubs, commodity economies and former Soviet states (Table 5). All three categories share a high level of exposure to external shocks due to their dependence on international economic activity, international demand, or international finance. Each of the bottom ten economies has seen its 2009 growth forecast slashed by more than ten percentage points.

Meanwhile, economies that have registered the smallest revisions in their growth projections for this year can be split into two groups: post-conflict and

the isolated. While post-conflict nations are hardly immune from a global slowdown – indeed, they are both vulnerable to reduced levels of foreign aid and are among the least able to tolerate a worsening economic climate – these effects can be overwhelmed by the speed and unpredictability of their recoveries. Economies can be isolated either due to geography, as in the case of the Pacific islands, or for reasons of political economy, as in the case of Bhutan. While the global financial crisis may yet to have registered any discernible impact on the Pacific, the recent turn toward state failure in Fiji will test the true degree of isolation for countries such as Samoa, Tonga, and the Solomon Islands, who are linked to Fiji through transport, trade and education services.¹ Unsurprisingly, only three of the WEO's 182 countries had their growth forecasts revised upwards over the past six months.

Impact of the Crisis in 2009
2009 Real GDP Growth, Percentage Point Difference between October and April IMF Projections



Source: Authors' calculations based on IMF

¹ Fiji: The Failing State, Jenny Hayward-Jones, Policy Brief, April 2009, Lowy Institute of International Policy

Have expectations stabilized?

Lately, there has been talk of “green shoots” and the bottoming out of the recession, if not actual recovery. While this may be premature, an important first step is for expectations to stabilize. When forecasts are regularly revised downward, this is an indication both of uncertainty and future downside risks. This is what Larry Summers was referring to in April, when he suggested that the “sense of freefall” may come to an end within the next few months.²

To monitor the change in expectations, we can compare the IMF forecasts released in April with their most recent prior forecasts released three months ago, at the end of January. If expectations had stabilized by January, the projections should have remained largely unchanged and we would now have a clearer sense of where the economy is heading.

Instead, the outlook for almost all regions and major economies was revised significantly downward over the past three months (Table 6). Eastern Europe and the Commonwealth of Independent States (CIS) saw the biggest revisions; once again, Russia in particular stands out, with a decline in the 2009 forecast of 6.7 percentage points. Other countries which saw large revisions include major exporters such as Germany (-3.1 percentage points) and Japan (-3.6 percentage points). These economies are bearing a disproportionate burden of the vicious - and ongoing - cycle of quickly contracting global demand and trade. China and India come closest to bucking the trend with revisions of just 0.2 and 0.6 percentage points, respectively.

Table 6: 2009 Real GDP Growth, Percentage Point Difference between January and April Projections

World	-1.8%
Advanced economies	-1.8%
Emerging and developing economies	-1.7%
Developing Asia	-0.7%
Middle East	-1.4%
Sub-Saharan Africa	-1.8%
Central and Eastern Europe	-3.3%
Commonwealth of Independent States	-4.7%
Latin America and Caribbean	-2.6%
US	-1.2%
Germany	-3.1%
France	-1.1%
Italy	-2.3%
Spain	-1.3%
Japan	-3.6%
UK	-1.3%
Canada	-1.3%
Russia	-6.7%
China	-0.2%
India	-0.6%
Brazil	-3.1%
Mexico	-3.4%

Source: Authors' calculations based on IMF

Table 7: 2009 Real GDP Growth

	October	November	January	April
World	3.0%	2.2%	0.5%	-1.3%
Advanced economies	0.5%	-0.3%	-2.0%	-3.8%
Emerging and developing economies	6.1%	5.1%	3.3%	1.6%
Developing Asia	7.7%	7.1%	5.5%	4.8%
Middle East	5.9%	5.3%	3.9%	2.5%
Sub-Saharan Africa	6.3%	5.1%	3.5%	1.7%
Central and Eastern Europe	3.4%	2.5%	-0.4%	-3.7%
Commonwealth of Independent States	5.7%	3.2%	-0.4%	-5.1%
Latin America and Caribbean	3.2%	2.5%	1.1%	-1.5%
US	0.1%	-0.7%	-1.6%	-2.8%
Germany	0.0%	-0.8%	-2.5%	-5.6%
France	0.2%	-0.5%	-1.9%	-3.0%
Italy	-0.2%	-0.6%	-2.1%	-4.4%
Spain	-0.2%	-0.7%	-1.7%	-3.0%
Japan	0.5%	-0.2%	-2.6%	-6.2%
UK	-0.1%	-1.3%	-2.8%	-4.1%
Canada	1.2%	0.3%	-1.2%	-2.5%
Russia	5.5%	3.5%	0.7%	-6.0%
China	9.2%	8.5%	6.7%	6.5%
India	6.9%	6.3%	5.1%	4.5%
Brazil	3.5%	3.0%	1.8%	-1.3%
Mexico	1.8%	0.9%	-0.3%	-3.7%

Source: IMF

The downward revision in projections between January and April follows two other significant adjustments since last October. The four updates of the WEO which have been released over the past 7 months demonstrate a progressive deterioration of global prospects (Table 7). Alarming, the rate at which projections have been revised downward for the world economy has hardly slowed. While this is disappointing, it is entirely plausible that expectations began to stabilize at some point between January and April. However, we will have to wait until the next update of the WEO, expected in July, for evidence of this.

An alternative interpretation of the downward revision of growth forecasts made by the IMF is its delayed recognition of the severity of the crisis. How can we be sure that we are not just capturing the institution's slow adjustment to a bleaker reality? Do the IMF's projections accurately reflect expectations at large, or simply the expectations of an institution

² Interview with Larry Summers at the Economic Club of Washington D.C., April 9th 2009

that is behind the curve? To test this hypothesis, we compare the most recent revision in IMF projections for the world's major economies with those of the Economist Intelligence Unit (EIU) covering the same period.³ If the worsening projections of the IMF are due to institutional shortcomings, then we would expect them to be out of kilter with those of the EIU.

It turns out this is not the case (Table 8). On average, the absolute difference between the EIU revisions and those of the IMF is only 0.5 percentage points, and in only one instance (Japan) does the revision differ by more than 1.0 percentage point. On this basis, there is no reason to believe the IMF projections do not accurately reflect expectations in the global economy, and the continually-evolving outlook it currently faces. Nevertheless, there is a danger in placing too much onus on forecasts, which can easily develop into self-fulfilling expectations. With a deficit of confidence impacting consumption and investment decisions, ever-deteriorating projections may no longer represent an exogenous analysis of the global economy, but rather one of the drivers of the downturn.

Will the recovery come next year?

The WEO's 2010 growth projections give a sense of which economies will bounce back quickly from the global recession and which will face an extended period of stress. The outlook for 2010 can be described as only a partial recovery, at best (Table 9). World output is projected to expand by 1.9 percent - certainly better than this year's 1.3 percent contraction, but far from 2007's robust 5.2 percent growth. Advanced economies as a group will face zero growth in 2010, and most of Europe is likely to still be in recession. Developing Asia's expected expansion of 6.1 percent is impressive, though even this figure looks depressed compared to the region's 2007 performance of 10.6 percent.

At the country level, 25 economies are expected to remain in recession in 2010. An astonishing nine of the ten worst performing economies in the world in 2010 will be in Europe (Table 10). This includes many of the Eastern European countries facing the most severe contractions this year and some large Western European economies, namely Germany and Spain.

Table 8: 2009 Real GDP Growth, Percentage Point Difference between January and April Projections

	IMF	Economist	Difference
US	-1.2%	-1.5%	0.3%
Germany	-3.1%	-2.9%	-0.2%
France	-1.1%	-1.7%	0.6%
Italy	-2.3%	-2.5%	0.2%
Spain	-1.3%	-1.8%	0.5%
Japan	-3.6%	-5.1%	1.5%
UK	-1.3%	-1.8%	0.5%
Canada	-1.3%	-1.9%	0.6%
Russia	-6.7%	-6.7%	0.0%
China	-0.2%	0.0%	-0.2%
India	-0.6%	-1.1%	0.5%
Brazil	-3.1%	-3.9%	0.8%
Mexico	-3.4%	-4.2%	0.8%

Source: Authors' calculations based on IMF, EIU

Table 9: 2010 Real GDP Growth

World	1.9%
Advanced economies	0.0%
Emerging and developing economies	4.0%
Developing Asia	6.1%
Middle East	3.5%
Sub-Saharan Africa	3.8%
Central and Eastern Europe	0.8%
Commonwealth of Independent States	1.2%
Latin America and Caribbean	1.6%
US	0.0%
Germany	-1.0%
France	0.4%
Italy	-0.4%
Spain	-0.7%
Japan	0.5%
UK	-0.4%
Canada	1.2%
Russia	0.5%
China	7.5%
India	5.6%
Brazil	2.2%
Mexico	1.0%

Source: IMF

The top performing economies in 2010 include some of the top performers from 2009, but also a selection of countries that will be hit hard by the crisis in 2009, such as Botswana, Azerbaijan, and Angola, which are forecast to experience a quick rebound.

Table 10: 2010 Real GDP Growth

Bottom 10		Top 10	
Lithuania	-3.0%	Qatar	16.4%
Ireland	-3.0%	Botswana	14.3%
Equatorial Guinea	-2.8%	Azerbaijan	12.3%
Latvia	-2.0%	Congo	11.9%
Montenegro	-2.0%	Angola	9.3%
Finland	-1.2%	Timor-Leste	7.7%
Estonia	-1.0%	Liberia	7.6%
Bulgaria	-1.0%	China	7.5%
Germany	-1.0%	Afghanistan	7.0%
Spain	-0.7%	Uzbekistan	7.0%

Source: IMF

³ EIU projections taken from the Economist magazine of the same week the IMF's forecasts were published.

Beyond GDP: how will the crisis affect national income?

The contraction in global output forecast by the IMF undoubtedly has implications for living standards around the world. However, to obtain a better sense of how the crisis will affect income levels in different countries, we must also account for changes in the terms of trade: the relative price of exports and imports. When the prices of a country's exports rise relative to the prices of its imports - an improvement in the terms of trade - the country is able to afford an increased volume of goods and services irrespective of changes in the level of domestic production. When a country's export prices fall relative to its import prices, the same production supports less consumption.

To estimate the income effect from changes in the terms of trade in the world's major economies, we first estimate the value of net exports as a percentage of GDP for each economy, disaggregated into four commodity bundles: fuel, metals, food and agriculture.⁴ We then multiply these by the projected change in prices in 2009 for each of the four categories, for which forecasts are provided in the April WEO. Adding these together yields the income effect resulting from changes in the terms of trade. This effect can then be added to the forecast 2009 GDP growth to give an approximation of the overall change in national income (Table 11).

The collapse in commodity prices over recent months has a significant bearing on national income in most of the world's major economies. For net commodity importers, the terms of trade effect is positive, partially mitigating the effect of the crisis and providing much needed respite during a time of reduced global economic activity. Driving this effect is the reduction in fuel prices, acting as an automatic stabilizer in response to reduced global demand. China and India again come out best, rewarded for their rapacious demand of imported commodities. For net commodity exporters but particularly fuel exporters - Russia, Canada and Mexico - the opposite is true, with depressed prices compounding the collapse in demand for their exports. The net effect is particularly painful for Russia, whose national income is estimated to fall by 13.0 percent this year. A big question for many commodity-exporting developing countries is to what extent robust growth in China and India can buoy global commodity prices, despite continued weakness in the US and Europe.

While the national income story is a more complete account of the effect of the crisis on living standards, it remains incomplete without consideration of equality, unemployment and poverty. The human impact of the crisis is a compelling tale, but one which is more difficult to analyze with real time statistics.

In future years, how much poorer will we be than we'd thought before the crisis?

To estimate how much poorer we will be in the coming years than was expected before the crisis, we compare the latest and pre-crisis GDP forecasts for 2013 - the latest year in which such a comparison is possible (Table 12). Four years from now, the world will be 7.2 percent poorer than the pre-crisis outlook suggested; on a per capita basis, this represents a loss of \$716 for every person in the world. Central and Eastern Europe and the CIS regions have seen the largest revisions to their medium-term outlook, dropping by 14.1 and 18.3 percent, respectively. While this is a shocking revision, it is now commonly accepted that the October forecasts for some of these economies were, in retrospect, overly optimistic. The crisis has exposed weaknesses in the growth strategies adopted in several Eastern European countries, but these fault lines would likely have been discovered sooner or later, even if the crisis had been avoided.

	2009 Real GDP Growth Forecast	Terms of Trade effect	National Income impact
US	-2.8%	1.0%	-1.8%
Germany	-5.6%	1.1%	-4.5%
France	-3.0%	0.9%	-2.1%
Italy	-4.4%	1.2%	-3.2%
Spain	-3.0%	1.4%	-1.6%
Japan	-6.2%	1.6%	-4.6%
UK	-4.1%	0.4%	-3.7%
Canada	-2.5%	-2.5%	-5.0%
Russia	-6.0%	-7.0%	-13.0%
China	6.5%	1.8%	8.3%
India	4.5%	1.9%	6.4%
Brazil	-1.3%	-0.8%	-2.1%
Mexico	-3.7%	-0.8%	-4.5%

Source: Authors' calculations based on IMF, World Bank

⁴ World Development Indicators, World Bank. Net export values are based on 2005 data.

Ironically, the US faces the smallest revision to its medium-term outlook among the world's major economies, with its 2013 GDP forecast only 3.1 percent less than was envisaged in October. China and India also fare relatively well, with only minor revisions to their medium-term prospects. The crisis has significantly altered the five-year forecast for the large economies of Western Europe, with Spain and the UK in particular thrown off track, though even these adjustments pale in comparison with that of Russia, whose 2013 forecast has been revised downwards by 20 percent.

Table 12: 2013 GDP, Difference Between October and April Forecasts⁵

World	-7.2%
Advanced economies	-6.3%
Emerging and developing economies	-8.3%
Developing Asia	-5.5%
Middle East	-8.6%
Sub-Sahara	-7.6%
Central and Eastern Europe	-14.1%
Commonwealth of Independent States	-18.3%
Latin American and Caribbean	-7.9%
US	-3.1%
Germany	-7.3%
France	-6.6%
Italy	-5.3%
Spain	-10.0%
Japan	-7.2%
UK	-8.4%
Canada	-5.9%
Russia	-20.1%
China	-4.1%
India	-6.1%
Brazil	-8.4%
Mexico	-6.9%

Source: Authors' calculations based on IMF

Table 13: 2013 GDP, Difference Between October and April Forecasts Bottom 10

Estonia	-22.1%
Armenia	-21.7%
Singapore	-20.5%
Russia	-20.1%
Moldova	-19.8%
Belarus	-19.3%
Lithuania	-18.5%
Ireland	-18.1%
Bulgaria	-18.1%
Ukraine	-18.0%

Source: Authors' calculations based on IMF

Of the ten economies in the world that face the largest downward revisions to their 2013 income forecasts, eight are former Soviet countries (Table 13). Each of these eight economies had recently recorded strong growth, after a protracted period of stagnation and contraction in the years following the break-up of the Soviet Union. Many former Soviet economies had only recently regained their 1989 income levels, and some still remain poorer than they were twenty years ago.

For example, in Moldova – by far the poorest country in Europe – real GDP per capita in 2008 was only 64 percent of its 1989 value. The pre-crisis outlook suggested that Moldova would nearly recoup this shortfall by 2013. By contrast, the latest forecast for 2013 now shows Moldova's GDP per capita reaching only two-thirds of its value at the end of the Soviet-era.

Table 14: When Will We Return to Pre-Crisis Income Levels? Constant 2007\$ GDP Per Capita, 2008 to 2014

	2008	2009	2010	2011	2012	2013	2014	2015+
World	8,507	8,295	8,335	8,574	8,868	9,174	9,480	
Advanced economies	39,660	37,932	37,706	38,462	39,416	40,348	41,151	
Emerging and developing economies	2,874	2,882	2,952	3,085	3,242	3,411	3,589	
Developing Asia	1,806	1,872	1,956	2,087	2,240	2,404	2,579	
Middle East	5,372	5,385	5,457	5,566	5,682	5,804	5,924	
Sub-Sahara	1,159	1,150	1,165	1,197	1,231	1,267	1,304	
Central and Eastern Europe	9,342	8,966	9,002	9,310	9,674	10,038	10,400	
Commonwealth of Independent States	6,418	6,094	6,185	6,428	6,744	7,091	7,470	
Latin America and Caribbean	6,788	6,599	6,616	6,763	6,955	7,161	7,384	
US	45,862	44,165	43,706	44,801	45,973	47,011	47,686	
Germany	40,961	38,704	38,364	38,983	39,753	40,586	41,531	
France	41,947	40,499	40,457	40,947	41,556	42,287	43,077	
Italy	35,316	33,494	33,127	33,135	33,364	33,687	34,124	X
Spain	31,932	30,578	30,145	30,218	30,439	30,757	31,200	X
Japan	34,115	32,014	32,210	32,951	34,050	35,073	36,038	
UK	46,227	44,250	43,552	43,949	44,706	45,408	45,665	X
Canada	43,375	41,847	42,018	42,738	44,057	45,233	46,026	
Russia	9,626	9,089	9,202	9,551	10,015	10,531	11,095	
China	2,778	2,945	3,119	3,388	3,694	4,015	4,351	
India	993	1,024	1,066	1,124	1,194	1,272	1,356	
Brazil	7,303	7,115	7,178	7,307	7,468	7,659	7,909	
Mexico	9,775	9,323	9,325	9,669	10,098	10,531	10,938	

Source: Authors' calculations based on IMF

⁵ Measured in constant 2007 US\$.

The twenty-year recovery of former Soviet countries after the events of 1989 is not the only example of protracted stagnation in modern economic history; Latin America endured a “lost decade” following its crises of the late 1970s and early 1980s, as did Japan during the 1990s. Is the world economy headed for a similar fate today? The April WEO forecasts it will take until 2011 for real global GDP per capita to regain its 2008 level, with advanced economies on average recording incomes below their pre-crisis levels until 2013 (Table 14). Among the world’s major economies, the US will be one of the first to recover its pre-crisis per capita income, in 2012; Germany will not reach this milestone until 2014 - the final year of the WEO forecast - at which point the United Kingdom, Spain, and Italy will still remain below their pre-crisis income levels. While the current forecast does not foresee a lost decade in its entirety, for certain countries – principally in Europe – the medium term forecast resembles, at the very least, half a decade lost.

Conclusion

This analysis affirms some sobering truths about the current crisis: its severity, its pervasiveness, and its expected duration. While almost all countries are being dragged down by the global recession, the costs will not be borne equally; specific regions and countries will be hit worse than others and there is little correlation between the responsibility economies bear for precipitating the crisis and the punishment they now face.

Based on the pattern of collapse and the projected pattern of recoveries, we can form some impression of what the lasting impact of the downturn may be on the shape of the global economy. There are no absolute winners in this crisis since nearly every economy is suffering, but the economies which are expected to suffer the least may emerge relatively stronger and, for some, with a potentially larger role in world affairs.

If the initial spread of the crisis was interpreted as the death of decoupling – the theory that emerging economies are no longer dependent on the economies of the West – the path to recovery appears to be its ultimate substantiation. Though China and India’s growth forecasts for 2009 are lower than those of previous years, they remain far ahead of those of other major economies for the foreseeable future.

While both of these emerging Asian powers will outpace the rest for the medium term, India – which accounts for only two percent of global output – remains too poor to have a decisive impact on the global economy at this time. Though long term trends clearly point to India becoming one of the world’s dominant economic powers in the coming decades, it is not yet poised to assume this mantle. China, on the other hand, is ready today. In fact, the next five years may ultimately turn the decoupling theory on its head; given the depth and length of contractions in the West, China looks to be the only reliable global growth engine for at least the medium term, accounting for nearly a quarter of the total expansion of the world economy between 2008 and 2013. The crisis will accelerate the ongoing shift in global economic weight from West to East, with China becoming gradually less dependent on the economies of the West, while the West – and, for that matter, the entire world – becomes gradually more dependent on China.

At the other end of the spectrum lie the Eastern European and CIS countries, whose relative standing in the global economy will likely fall as a result of the crisis. Last February, Russia had officially announced its ambition to become the world’s fifth largest economy by 2020.⁶ But with its 2013 output projected to be twenty percent less than had been envisaged before the crisis, what previously appeared a lofty aspiration now resembles a pipedream. Already hammered by communism’s collapse, the economies of Eastern Europe and Central Asia are now bearing the brunt of capitalism’s crisis.

⁶ Speech by then-President Vladimir Putin at Expanded Meeting of the State Council on “Russia’s Development Strategy through 2020”, February 8, 2008