

How has the Great Recession Altered the Medium-Term Outlook? Evidence from the IMF's New World Economic Outlook Database

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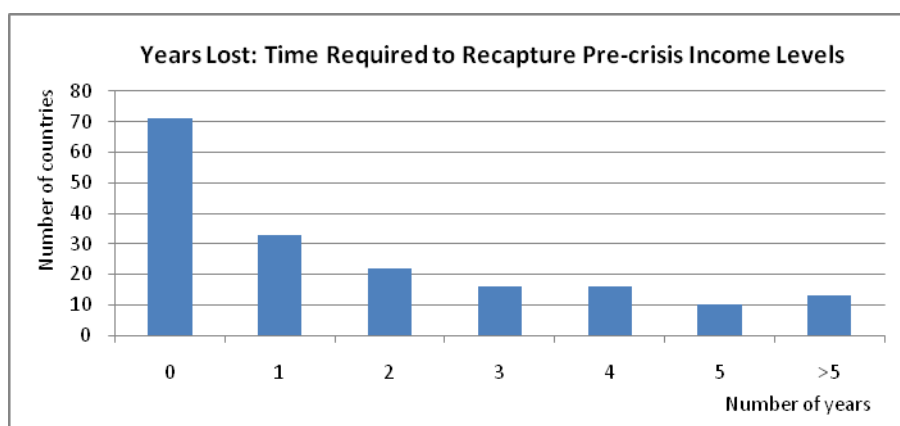
Yesterday, the IMF released another installment of its flagship report, the World Economic Outlook (WEO). The headline data from this latest WEO—global growth projections of 4.8 percent for this year and 4.2 percent for 2011—largely confirm what we already know: that the Great Recession is over, but a strong, balanced and sustained recovery remains elusive, while risks persist to the downside.

Behind these headline figures lie a trove of data that allows for a deeper analysis of the global economy. With the recovery period well underway, now is an opportune time to take stock of the worst global downturn since the Great Depression and to examine how the past two tumultuous years will shape the medium-term outlook.

In this note, we use the updated WEO database to develop three simple measures to capture the changed contours of the global economy: the number of years it will take countries to regain their pre-crisis income levels; a comparison of pre- and post-crisis growth rates to identify which countries will need to adjust to a “new normal”; and an estimate of how much poorer we will be in the future than had been expected before the crisis. Taken together, these three perspectives paint a picture of a global economy that has recovered more quickly than had been predicted, but underline the reality that the Great Recession will continue to reverberate in some countries for years to come.

Years Lost to the Great Recession

Our first measure captures the time taken for economies to recover their pre-crisis income levels. We use a conservative definition of pre-crisis income by taking GDP per capita at the beginning of 2009 (measured in today's prices), when the collapse of Lehman Brothers was already three months old and the real economy effects of financial market turmoil were spreading rapidly. We then count the number of years until per capita income levels equal or surpass their 2009 level, based on the latest WEO projections. In its essence, this measure pits the rate of economic recovery in each country against the depth and breadth of the initial contraction.



Source: Authors' calculations based on IMF WEO

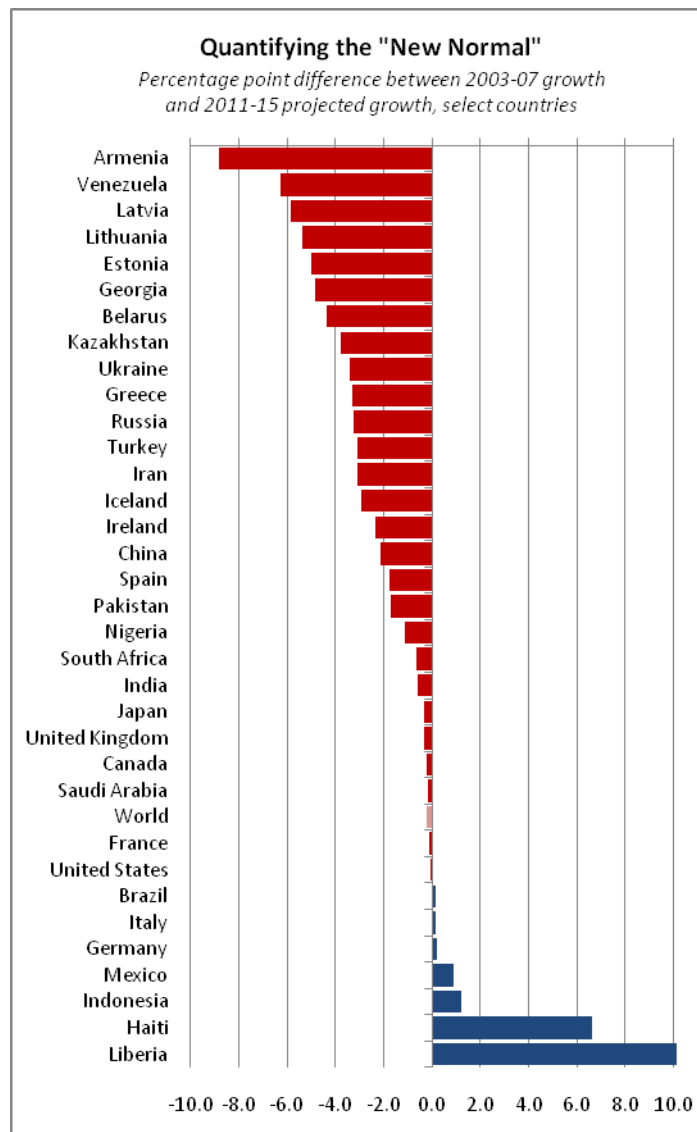
The results illustrate the mixed fortunes of countries around the world and their exposure to the crisis' enduring effects. While a large concentration of countries ducked the impact of the crisis and continued on their upward path, many of those that were hit will take years to recapture their former prosperity. At one end of the spectrum, 71 countries—two-fifths of the total number in the database—posted an increase in per capita income in 2009, despite the global economy as a whole undergoing a severe contraction. Among these 71 are three-quarters of the world's low-income countries, who, contrary to fears, fared relatively well through the crisis. At the other end of the spectrum, 39 countries have forfeited at least four years of economic progress—the typical length of a government's term in office. Thirteen of these remain below their pre-crisis income levels in 2015—the last year for which the WEO provides projections.

Quantifying the “New Normal”

A second approach compares the rate of growth in the medium-term outlook with the rate recorded in the period before the crisis hit. The medium-term outlook is captured by the projected real compound annual growth rate between 2011 and 2015, which we juxtapose with the same measure for actual growth recorded during the years 2003 to 2007. Our purpose here is to assess whether a return to economic growth in the post-crisis period will match up to peoples' memories of what economic progress felt like before the downturn, or whether they will need to adjust to a “new normal”.

Global growth in the post-crisis era is expected to be only 0.2 percentage points per year below that of the pre-crisis run-up. This is impressive, given that 2003-07 saw the strongest expansion of the world economy since the early 1970s, and can be attributed primarily to the rising share of quickly-growing developing economies in global output.

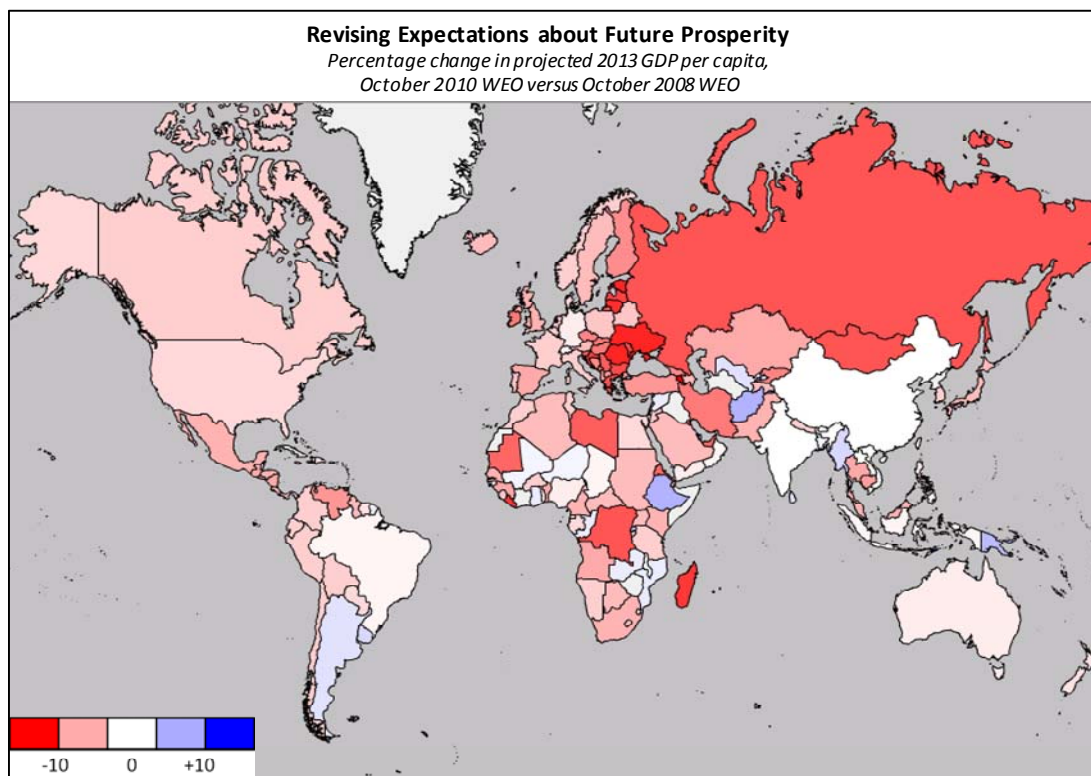
Despite this strong global performance, however, there are a number of countries facing painful adjustments to stark new realities. Many are found in Eastern Europe, where the locomotive of high growth of the last decade—European enlargement and economic integration—appears to have run out of steam. Others are of particular geopolitical significance, including Venezuela (where annual growth is expected to average a meager 1.1 percent over the coming five years), Russia, Turkey and Iran. Most advanced economies will see only minor changes in their pre- and post-crisis trajectories, but for those European countries that were growing at just 1 to 2 percent during the “boom” years, even a small downward revision may be hard to swallow. Perhaps surprisingly, China faces one of the largest downward adjustments of the world's major economies, of 2.2 percentage points. Yet with growth still expected to average 9.5 percent between now and 2015, higher than all but three other countries worldwide, few are likely to shed tears on its behalf.



Source: Authors' calculations based on IMF WEO

Revising Expectations

Our final measure is an estimate of how much poorer we will be in the future than had been expected before the crisis. Here we compare the most recent forecasts of GDP per capita in 2013 with forecasts of the same indicator at the crisis' inception, based on the October 2008 WEO, after adjusting for changes in prices. We choose 2013 as our target year as this is the final year for which GDP estimates are available in the 2008 WEO. This measure allows us to capture the enduring effects of the crisis on income levels.



Source: Authors' calculations based on IMF WEO

The map above depicts the difference between today's projections of 2013 per capita income and pre-crisis estimates. The thick concentration of dark red throughout Eastern Europe and the former Soviet Union, where for many countries 2013 incomes will be 15 to 20 percent lower than had been previously expected, illustrates where the crisis has done the greatest and most lasting damage. Conversely, developing Asia—including the large economies of China, India, Indonesia and Vietnam—escape virtually unscathed. The advanced economies of Western Europe and North America fall in the middle of this range, with downward revisions of around 5 percent. In Africa, Latin America and the Middle East, meanwhile, the picture is much more mixed: each region is home to both star performers and countries devastated by the crisis, evidence of the regions' low levels of economic interdependence. All told, 154 economies are now anticipated to be poorer in 2013 than had been thought two years ago, while only 25 are expected to be richer.

Conclusion

At the depths of the crisis in April 2009, the IMF released global growth projections for 2009 and 2010, which combined would amount to a meager 0.6 percent increase over two years. From this perspective, the latest WEO estimate for combined 2009 and 2010 growth of 4.2 percent points to a rather remarkable recovery. And yet, while collectively we may be back on track, the global rebound is a product of divergent national and regional outlooks. This is most pronounced in the divide between the two halves of the Eurasian continent, which now find themselves on dramatically different trajectories. The Western half today finds itself facing years of lost progress, a painful adjustment to a new, more austere normal, and a poorer future than had been imagined. The Eastern half, already ascendant, appears poised to continue its relentless march forward, now with the added responsibility of carrying the global economy on its back.