

# Global Economic Performance

## Overview and Global Prospects<sup>1</sup>

In terms of global economic performance, the recent past can be divided into two parts. From August 2008 through mid-2009, the world suffered one of the worst global economic downturns in history. The banking system teetered on the abyss, real output fell, and global trade plunged across most economies. Policy intervention on an unprecedented scale was essential to jumpstart the recovery. Monetary policy has been highly expansionary and supported by unconventional liquidity provision, while fiscal policy provided a major stimulus in response to the deep downturn. Recoveries in real and financial activity are mutually supportive. The downturn bottomed out toward mid-2009, and a turnaround has been underway since that time. Nonetheless, even as the recovery has gained traction and risks to global financial stability have eased, stability has not yet been assured.

While activity remains dependent on highly accommodative macroeconomic policies, the recovery has evolved better than many had expected. However, growth has been recovering at varying speeds—tepidly in many advanced economies but solidly in most emerging and developing economies.

After recording growth rates in excess of 5 percent in both 2006 and 2007, global real gross domestic product (GDP) slowed to 3.0 percent in 2008 before contracting by 0.6 percent in 2009. It was the first and only

contraction in global GDP in the history of this data series, dating back to 1980. The losses were widespread, with only a few minor economies not experiencing a slowdown or a contraction. The recovery also picked up momentum as the year progressed: world real GDP growth reached about 3.2 percent on an annualized basis during the second quarter of 2009 and rose to over 4.5 percent during the second half of the year.

The bulk of the declines were tallied by the advanced economies, which collectively contracted by 3.2 percent last year (Table 1). Japan (down 5.2 percent) and advanced EU nations (U.K. down 4.9 percent and the euro area down 4.1 percent) were hardest hit, while North America (United States down 2.4 percent and Canada down 2.6 percent) fared somewhat better, and all other advanced nations performed the best (down 1.1 percent). Yet, a number of encouraging signs suggest that the advanced economies are squarely on a path to recovery. A nascent turn in the inventory cycle and slowing deterioration (followed more recently by improvements) in U.S. labour markets have contributed to the positive developments, and strong manufacturing orders and a recovering corporate bond market are helping foster investment.

The United States is off to a somewhat later but better start than Europe or Japan. The stronger U.S. recovery reflects a variety of differences between the United States and

1 Statistics, estimations, and projections in this chapter come from the International Monetary Fund's *World Economic Outlook*, April 2010, supplemented by statistics from the U.S. Bureau of Economic Analysis, the Japan Cabinet Office, the European Central Bank, the U.K. Office for National Statistics, and the World Economic Outlook April 2010 database.