The Moscow Times
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INDEPENDENT NEWS FROM RUSSIA

Extraordinary Recession, Ordinary Recovery

By The Moscow Times

April 18, 2011

What is wrong with everyone, and why all the long faces? If we hadn't just been through a crisis, and if Western Europe weren't so concerned about another possible meltdown on Europe's periphery, then we'd be all popping bottles of bubbly and talking about a boom.

Goldman Sachs released a note last week entitled "Extraordinary Recession, Ordinary Recovery," pointing out that after the mega-crash in 2008, the global economy is actually — and amazingly — growing quite nicely. "The euro-zone recovery that started in mid-2009 has been close to the average of previous cycles since 1970," the report said.

Although gross domestic product growth has been a little weaker than normal (as both private and public consumption have lagged), employment has grown slightly quicker than normal. "Overall, economic activity has grown at a pace close to both the long-term trend and the average experience following severe financial crises," said the "Vampire Squid's" analysts.

Did you get that? Things are back to the normal long-term trend rates of growth. It is about time someone said "hats off" to our respective central bankers. Against the odds, they have all but pulled off an amazing rescue and prevented the global economy from falling into an abyss of economic misery.

Indeed, in Russia, things are more than good. True that key indicators like investment and retail sales are still growing more slowly than in 2008. But nominal incomes and retail sales have also already passed 2008 levels. In other words, the Russian economy has recovered almost all the ground it lost.

Russia has even got back almost all the money it lost: The 30 percent devaluation that the Central Bank pushed through at the start of 2009 has been appreciated away, and the ruble is back to where it was before the crash. And thanks to higher than expected oil prices, the state has recovered more than half of the $260 billion it spent on cushioning the economy from the worst of the meltdown's blow. Finally, the RTS went through the psychologically important 2000 mark in March and at the time of writing is about 400 points away from breaking its all-time high set in May 2008.

To be completely honest, this recovery is a bit artificial: The state was spending at a federal budget break-even level of $70 per barrel of oil before the crisis (way too high) and is now spending at a level of $115 per barrel (clearly not sustainable). However, with oil currently at $122, this high level of spending is more than sustainable in the short-term. Moreover, rather than spend down the rest of the Reserve Fund by the end of this year as planned (which saved Russia's bacon in the worst of the crisis), the government has been siphoning off excess revenue since March into the fund and started the process of building it up again. (The fund contained about $134 billion going into the crisis and has about $26 billion now.)

There are still a lot of real problems to over come, but they are not emerging market problems. The World Bank highlighted the deepening divide between the old and new worlds in its World Economic Outlook report issued in April entitled "Tensions From the Two-Speed Recovery," which sums it up nicely: While the West (and particularly the so-called "PIIGs") worry about another meltdown, the worst problem the East has to worry about is overheating.

The combination of an extraordinary recession and an ordinary recovery has also left the West with large output gap, which Goldman Sachs estimates to be about 3 percent to 4 percent of GDP in most European countries. Fears of rising inflation, especially in food products, are also a problem and are causing interest rates to start rising before economic growth has fully recovered. That is a problem for everyone.

"Rising food and energy prices could push 5.3 million more people into poverty across emerging Europe and Central Asia," said Theodore Ahlers, director of Strategy and Operations of the World Bank's Europe and Central Asia region. "For most countries in the region, growth returned in 2010 following sharp declines in 2008 and 2009. However, the region's annual growth of about 4.5 percent was much lower than that of other regions in 2010, and projections for 2011-13 indicate only slightly stronger performance." And of course it is the poorest countries that suffer the most from rising food prices as food makes up a much larger share of a shopping basket's contents for the poor.

But given that Russia is by far the richest of all the emerging market countries, with a per capita income on the order of $14,000 a year — two or three times more than its fellow BRIC members on a price purchasing parity basis — it will be the least affected by rising food costs. That Russia is also the world's fourth biggest grain producer only makes its position stronger. Food price hikes are actually a far bigger problem for places like China and India where hundreds of millions of people live on $1 per day or less. The comparative number for Russia is zero.

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