

PRESS POINTS FOR CHAPTER 2: WHERE ARE COMMODITY EXPORTERS HEADED? OUTPUT GROWTH IN THE AFTERMATH OF THE COMMODITY BOOM

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Key Points

- *The analysis in this chapter suggests that the weak commodity price outlook could subtract almost 1 percentage point annually from the growth rate of commodity exporters over 2015–17 as compared with 2012–14. In energy exporters, the drag is estimated to be larger—about 2¼ percentage points on average.*
- *The slowdown is not just a cyclical phenomenon; it has a structural component as well. Investment, and accordingly, potential output, tends to grow at a weaker pace in exporters during commodity price downswings.*
- *The decline in potential growth implies that the policy response should go beyond demand-side measures and include structural reforms.*
- *Exchange rate flexibility—which has increased among commodity exporters over the last decade—can help smooth the impact of the commodity price downturn. Reduced commodity-based fiscal revenues and lower potential growth limit the scope for countering the slowdown with fiscal policy.*

Commodity-exporting economies are at a difficult juncture. Global commodity prices have declined sharply over the past three years, and output growth has slowed considerably among commodity-exporting emerging market and developing economies.

The appropriate policy responses depend not only on the extent of the growth slowdown but also on whether commodity-price-related fluctuations in output are mostly structural or cyclical. This chapter uses data for more than 40 commodity-exporting economies over five decades to analyze these issues.

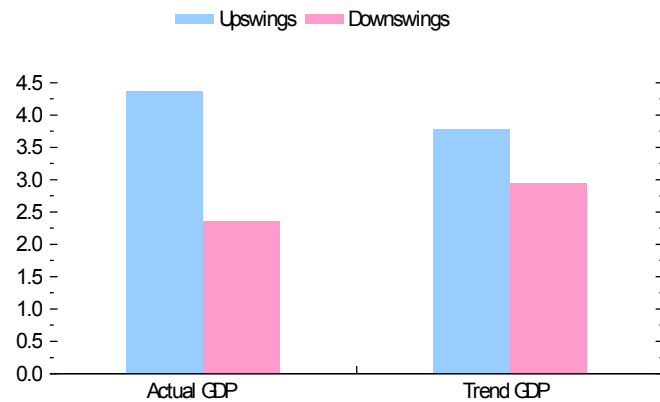
The empirical relationships estimated in the chapter suggest that the weak commodity price outlook could subtract almost 1 percentage point annually from commodity exporters' rate of economic growth over 2015–17 as compared with 2012–14. In energy exporters the drag is estimated to be larger, about 2¼ percentage points on average over the same period, reflecting a sharp downturn in oil prices over the past year.

A mix of cyclical and structural factors is likely to be at play in the current growth slowdown. The empirical analysis in this chapter suggests that commodity prices affect both the output gap and potential output in net exporters. On average, some two-thirds of the decline in output growth in commodity exporters during a commodity price downswing tends to be attributable to the cyclical component of growth. The remaining one-third tends to be attributable to the structural component, reflecting reduced investment and potential output.

Improvements in their macroeconomic policy frameworks over the past decade have put exporters in a better position to deal with a commodity price downswing. Government spending responded less to the most recent commodity price boom, enabling greater fiscal savings out of commodity-based fiscal revenues than in past boom episodes. Financial market depth and exchange rate flexibility, which in past downswings were also associated with a smaller drop in output growth, have also increased in many commodity exporters.

Nevertheless, policymakers must be realistic about growth potential in commodity-exporting economies. In countries where there is clear evidence that output has fallen below potential,

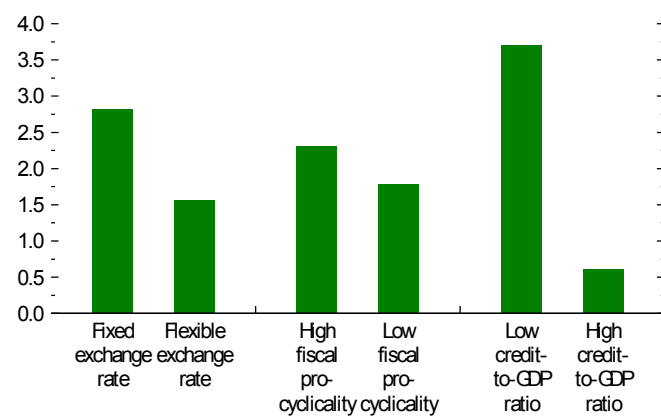
Figure 1. Median Annual Growth Rates of Actual and Trend GDP during Commodity Terms-of-Trade Upswings and Downswings (Percent)



Sources: Penn World Table 8.1; and IMF staff calculations.

Note: The sample consists of commodity terms-of-trade cycles with peaks before 2000 for commodity exporting emerging and developing economies. Trend GDP is calculated using estimates of the actual capital stock and smoothed employment and total factor productivity series.

Figure 2. Variation in Average Output Growth between Commodity Terms-of-Trade Upswings and Downswings: The Role of Policy Frameworks and Financial Depth (Percentage points)



Sources: IMF, Fiscal Monitor database; IMF, International Financial Statistics database; Penn World Table 8.1; and IMF staff calculations.

Note: The bars show the difference between the median growth rates during upswings and subsequent downswings. The exchange rate regime classification is based on Reinhart and Rogoff 2004.

supportive demand policies could help avoid a costly underutilization of resources, but declining commodity-based fiscal revenues and currency depreciations—and their pass-through to inflation—often constrain the scope for easing macroeconomic policies.

The finding that potential growth declines during commodity price downswings has an important policy implication. It makes the case that the policy response to the weaker outlook should go beyond aggregate demand measures and include targeted structural reforms to alleviate the binding supply-side bottlenecks and boost productivity growth in commodity-exporting economies.