

Emerging Markets: Where Is The Growth Shortfall From Pre-Pandemic Trend?

July 07, 2022

This report does not constitute a rating action

In our recently published Emerging Markets (EM) economic outlook report, [Testing Times Ahead](#), we pointed out that most major EM economies are back at their pre-pandemic level of GDP, and in some cases, meaningfully above that level. Real GDP of a median EM, in our sample of 15 countries, is now approximately 5% above its pre-pandemic Q4 2019 level. In comparison, a similar metric for the median of US, Eurozone and Japan stands just above 1% (see chart 1).

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Too Early To Celebrate

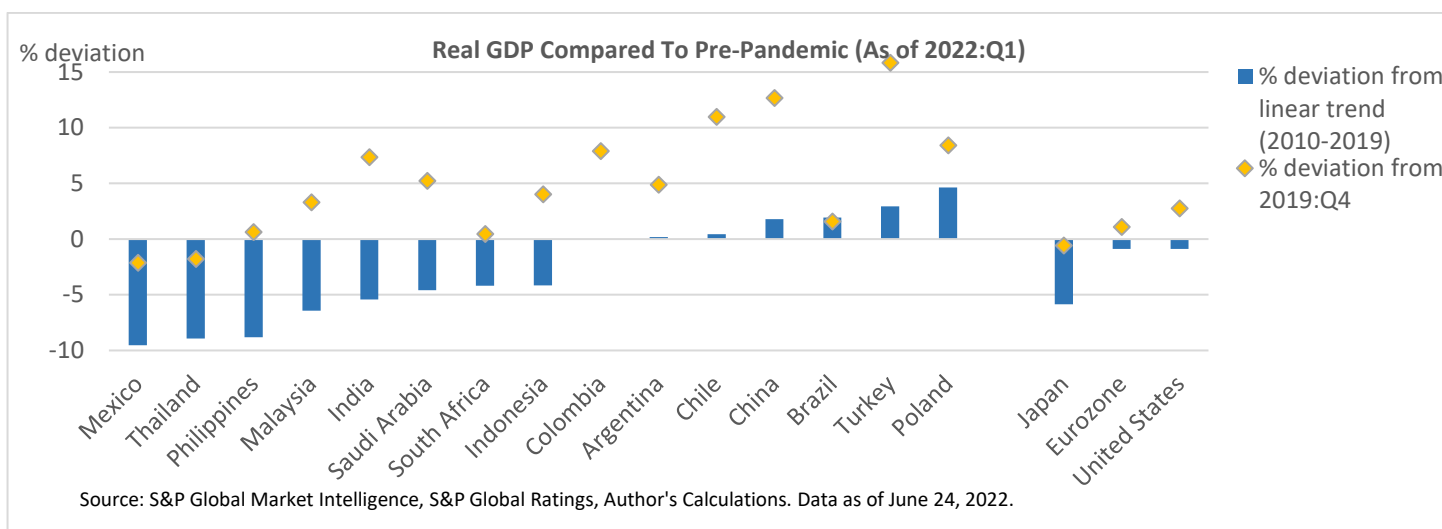
Although an important milestone to acknowledge, we are tempted not to celebrate yet. Why? Because comparing recovery to the previous cycle peak can be deceiving. A better comparison would be of the overall recovery to the pre-pandemic trend path (or, alternatively, to the pre-pandemic forecast path). This allows for a comparison against a counterfactual that incorporates true (er) loss of growth experience-- the missed growth path had it not been for the downturn--, and an appreciation of the subsequent longer road to recovery. Without a high-growth rebound (above trend growth rate) back to the initial trend, the missed growth component starts to add up as speed bumps persist for longer on that path to trend. In other words, probability of permanent losses of output and welfare increases.

So, based on “recovery to trend”, which countries in our EMs are recovery laggards?

Chart 1

Recovery Remains Short Of Trend In More Than Half Of Major EMs In Our Sample

EM-Asia Is Running Behind



As of the first quarter of 2022, more than half of the countries in our sample of EMs were still well short of full recovery to their pre-pandemic “trend” growth path (chart 1). A median EM was 4.2% short of pre-pandemic trend. All five countries in our EM-Asia-excl. China— i.e., Thailand, Philippines, Malaysia, India, and Indonesia—, Mexico from LatAm-5, and EM-EMEA’s South Africa, and Saudi Arabia continue to be short of pre-pandemic trend. Of these, Mexico and Thailand hadn’t yet reached pre-pandemic level as of Q1 2022.

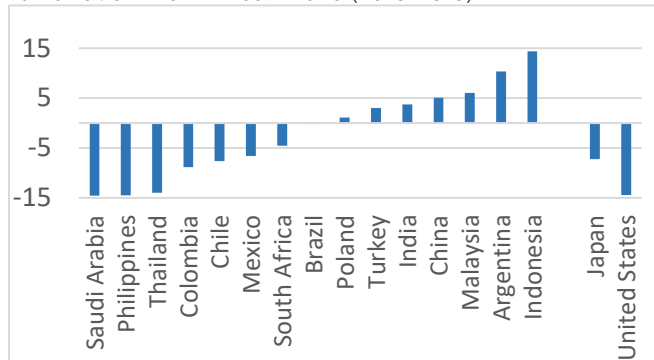
External Demand Versus Domestic Demand

Digging down one level by external demand versus domestic demand (charts 2 and 3), EM-Europe and EM-Asia outside of Thailand and Philippines have benefited from a global surge in demand for goods. EM-Europe has also seen full recovery of its domestic demand. EM-Asia, however, struggled with domestic demand due to pandemic headwinds (in part policy driven) across the entire region. Saudi Arabia-- a major energy exporter--, although behind now, should make up ground in volume terms this year, and possibly next, as OPEC+ continues to taper output cuts. That said, going forward, as growth in advanced economies weaken and consumer behavior globally shifts from (unsustainable) spending on consumer goods towards services, scope for catch up to trend and/or sustaining above trend growth in goods exports will diminish, however. Moving forward, the core scope of catchup growth to trend in EMs is likely to come from domestic demand and tourism exports.

Chart 2

External Demand

% Deviation From Linear Trend (2010-2019)

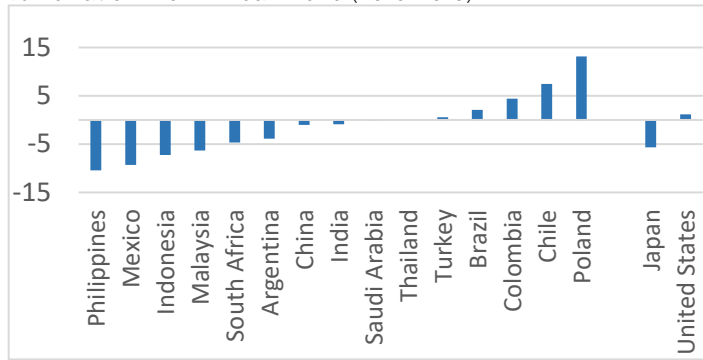


Source: S&P Global Market Intelligence, S&P Global Ratings, Author’s Calculations.

Chart 3

Domestic Demand

% Deviation From Linear Trend (2010-2019)



Source: S&P Global Market Intelligence, S&P Global Ratings, Author’s Calculations.

Where Does Our Forecast Come Out?

In our latest forecasts, for EM-Asia-excluding China, we see real GDP growth above 2010-2019 linear trend over the 2022-2025 horizon. Better late than never to the catch-up party. This should help close the current large gap from trend, but convergence is not in the cards during our forecast horizon for Malaysia, Philippines, Thailand, and to a lesser extent, Indonesia. In LatAm, where the bar was very low to begin with, we see Argentina, Brazil and Colombia continue to outshine pre-pandemic trend. Chile and Mexico look to grow slightly below trend on average. Chile has already recovered to pre-pandemic trend; Mexico is the one country that appears to be on the path of substantial permanent loss of output in LatAm. In EM-EMEA, we see Poland and Turkey slow down below trend growth after rapid recovery back to get above trend. Saudi Arabia looks to catch up by 2025, while South Africa remains a bit below trend even as it grows a bit above pre-pandemic trend on average. For latest forecasts, see more in our regional outlook reports: [APAC](#), [LatAm](#), [EM-EMEA](#).

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