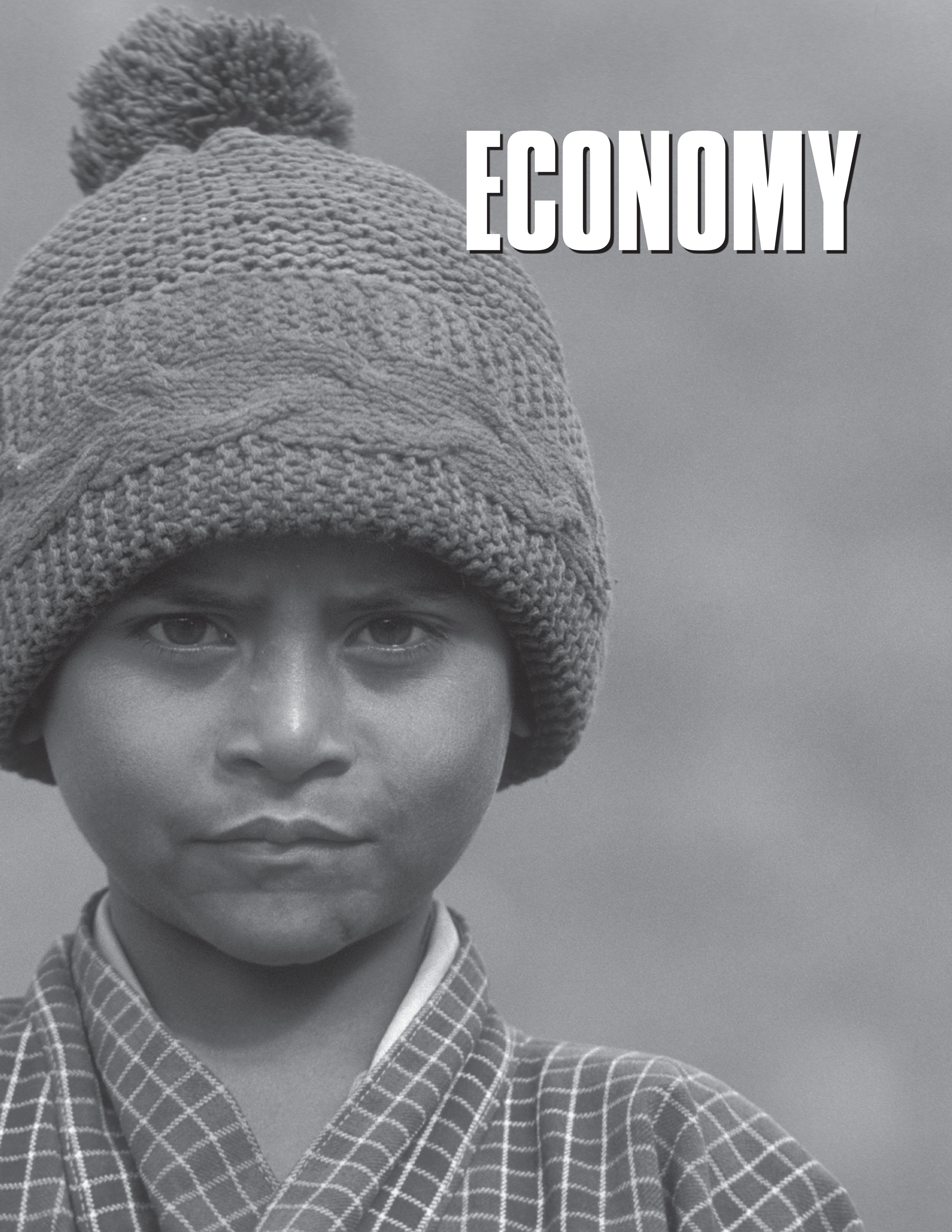
ECONOMY



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Recently revised data now confirm that in 2009 the world economy experienced the steepest global recession since the Great Depression. World gross domestic product (GDP) contracted 1.9 percent in 2009, with high-income economies contracting 3.3 percent and developing economies expanding just 2.7 percent, down from 8.6 percent in 2008. Among developing country regions, Europe and Central Asia fared the worst, contracting 5.8 percent (figure 4a). Contrast that with East Asia and Pacific, which grew at 7.4 percent, and South Asia, at 7 percent. The global economy rebounded in 2010, with domestic demand in developing countries accounting for 46 percent of global growth. Developing economies' contribution to global growth has been rising since 2000 and was more stable than that of high-income economies during the recent recession (figure 4b). Preliminary estimates, often revised, indicate that the world economy grew 3.9 percent—2.8 percent in high-income economies and 7 percent in developing economies (figure 4c).

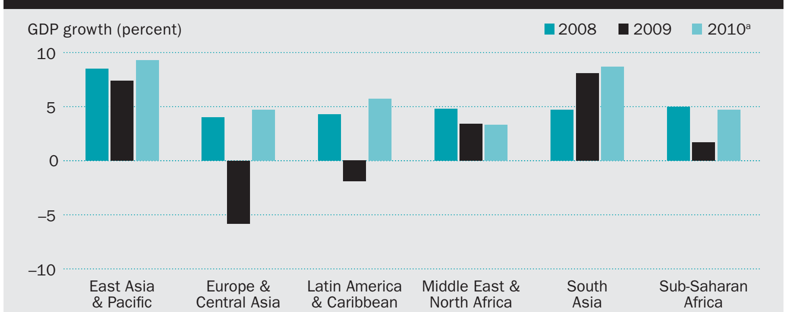
Revisions to GDP

Revisions to GDP usually occur one to two months after the initial release, as additional data sources become available. For example, the U.S. Bureau of Economic Analysis releases three versions of quarterly GDP estimates—advance (about a month after the quarter ends), preliminary (two months after), and final (three months after). Other countries follow a similar process, although the reporting lag varies. And some countries compile GDP only annually not quarterly. The differences between GDP estimates decline with each revision, and GDP data become more stable on average (figure 4d).

More significant revisions to GDP involve new methodologies and new or improved data sources and data collection practices. Countries with advanced statistical capacity comprehensively revise GDP estimates every five years. These revisions take into account the latest recommendations of the Intersecretariat Working Group on National Accounts. They may also incorporate a change in the base year used for the constant price data (rebasing). Rebasing adjusts the weights used to compute aggregate measures by selecting a new set of relative component prices in the newly chosen base year.

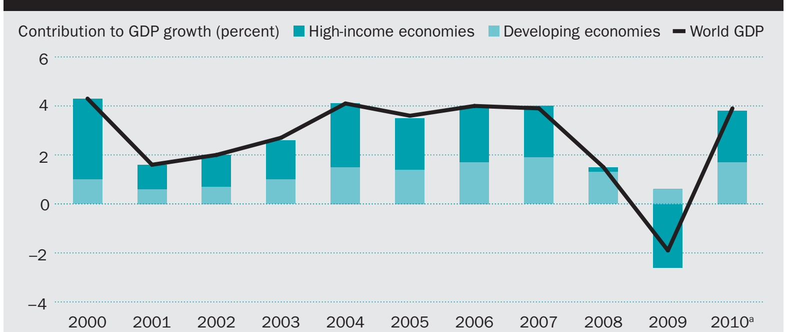
Comprehensive revisions of GDP estimates are usually higher as improved data sources increase the coverage of the economy and new weights for growing industries more accurately reflect contributions

Differences in GDP growth among developing country regions **4a**



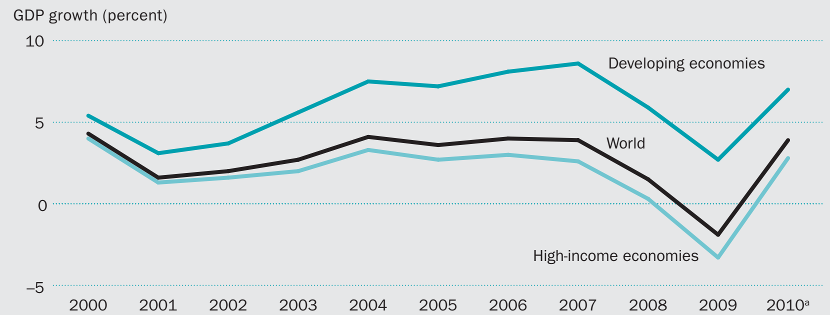
a. Data are preliminary estimates.
Source: World Development Indicators data files.

Developing countries are contributing more to global growth **4b**



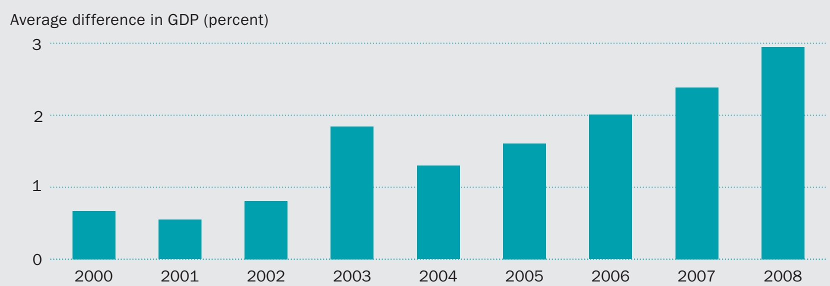
a. Data are preliminary estimates.
Source: World Development Indicators data files.

Economies—both developing and high income—rebounded in 2010 **4c**



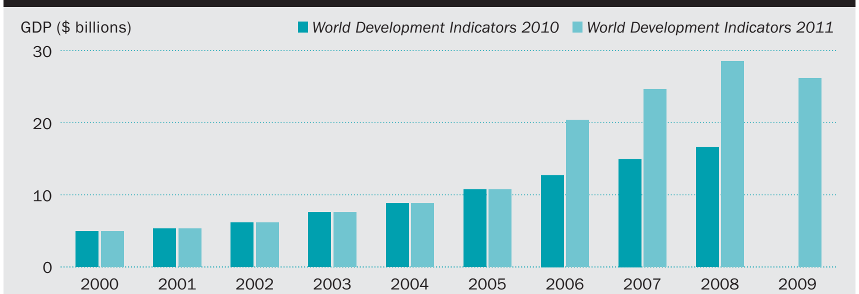
a. Data are preliminary estimates.
Source: World Development Indicators data files.

Revisions to GDP decline over time, and GDP data become more stable on average **4d**



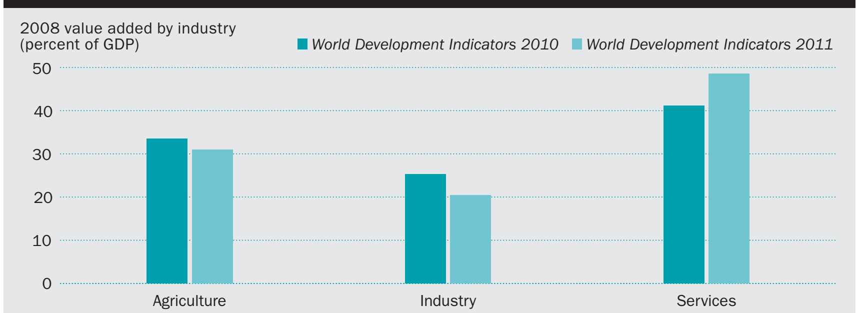
Note: Average differences in current price GDP between *World Development Indicators* 2010 and 2011.
Source: World Development Indicators data files.

Ghana's revised GDP was 60 percent higher in the new base year, 2006 **4e**



Source: World Development Indicators data files.

Revised data for Ghana show a larger share of services in GDP **4f**



Source: World Development Indicators data files.

to the economy. This has been the case for several countries that recently undertook such revisions to their national accounts statistics.

In November 2010 the Ghana Statistical Service revised Ghana's national accounts series, increasing GDP 60 percent in 2006, the new base year (figure 4e). Of the increase, 11 percentage points are in agriculture, 6 in industry, and 44 in services (figure 4f). Other countries have made similar revisions to their national accounts, incorporating improved methodology and data sources. Namibia revised its national accounts in 2008, resulting in 10–30 percent higher GDP estimates for 2000–07. Malawi revised its national accounts in 2007, raising GDP 37 percent. São Tomé and Príncipe revised its national accounts in 2006, resulting in 47.5 percent higher GDP in the new base year 2001. For more information on countries that have recently revised their national accounts data, see *Primary data documentation.*

Many countries do not incorporate new sources of data into national accounts data compilation until they change the base year, which is the base or pricing period for constant price calculations. Such revisions can be substantial because of the long lag between rebasing exercises. The adjustments arising from rebasing can be reduced by incorporating new data sources in a timely manner and ensuring that the accounts are rebased at least every five years.

Data users should be aware that rebasing creates a break in the time series. New data sources and methodologies are usually implemented only for recent years, creating a jump in GDP between the last year of the old data and the first year of the new. For constant price GDP these breaks can be eliminated by linking the old series to the new using historical growth rates. But for nominal GDP data the break in the time series cannot be avoided unless the statistics office revises historical series backward at a detailed level.

Broader measures of income and savings

Two tables have been added to the *Economy* section this year. Table 4.10 contains new measures of adjusted net national income, and table 4.11 contains measures of adjusted net savings, previously included in the *Environment* section. Both tables follow recommendations of the recently published *The Changing Wealth of Nations* (World Bank 2011a).

Adjusted net savings measures the change in a country's national wealth. It begins with gross national savings and then adjusts for consumption of fixed capital, depletion of natural resources, changes in human capital, and damages from carbon dioxide and particulate emissions. If adjusted net savings is negative, capital stocks are declining and future well-being is reduced. The report argues that the key to increasing living standards is building national wealth through investment and national savings to finance the investment.

The table on adjusted net national income presents growth rates of GDP, gross national income (GNI), and adjusted net national income. GNI is more useful than GDP for measuring the economic resources available to residents of an economy because it takes into account inflows of income (profits, wages, and rents) from outside the economy, net of outflows to other economies (box 4g). Adjusted net national income goes one step further by subtracting from GNI a charge for the consumption of fixed capital (or depreciation) and the depletion of natural resources. For some countries, adjusted net national income growth rates tell a story quite different from that of the more widely used GDP growth rates.

Commission on the Measurement of Economic and Social Progress **4g**

Gross domestic product (GDP), the most quoted measure of economic activity, is often used as a measure of welfare. But as the Commission on the Measurement of Economic and Social Progress points out, GDP has many shortcomings as the sole measure of well-being. The commission's report identified problems with the GDP measure itself and recommended including additional measures of the objective and subjective dimensions of well-being and measures of the sustainability of current consumption levels. The commission endorsed the adjusted net savings approach as the "relevant economic counterpart of the notion of sustainability" (Stiglitz, Sen, and Fitoussi 2009, p. 108). But it pointed out that the adjustment for environmental degradation has so far been limited mostly to carbon dioxide emissions. The report also notes the difficulties of pricing natural resources and environmental degradation. Other recommendations for improving GDP measurement include accounting more accurately for improvements in the quality of goods and services produced and the value of government services (usually based on inputs rather than on actual outputs produced).

Changes to monetary indicators

The monetary indicators in table 4.15 have been revised to reflect the International Monetary Fund's (IMF) new presentation of monetary data for countries reporting in compliance with the *Monetary and Financial Statistics Manual* (IMF 2000) and *Monetary and Financial Statistics Compilation Guide* (IMF 2008). More than 120 countries report their monetary data under this new presentation. A majority of these countries transmit the data on standardized report forms for the country's monetary aggregates and for the assets and liabilities of the central bank, other depository corporations, and other financial corporations. This new presentation better classifies financial institution assets and liabilities by financial instrument, sector of the domestic economy, and residency. For many countries the new presentation provides broader institutional coverage of other depository corporations and monetary aggregates.

In the new presentation, the IMF has adopted broad money as the flagship concept. Broad money consists of currency in circulation outside depository corporations, transferable deposits, and other liquid components. Table 4.15 has replaced money and quasi money with broad money. Claims on the private sector have been replaced with other claims on the domestic economy, consisting of the private sector plus state and local governments, public nonfinancial corporations, and other financial corporations. Claims on governments and other public entities have been replaced with net claims on the central government.