IMF issues grim forecasts for 2009

Patrick O'Connor
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The International Monetary Fund's updated World Economic Outlook, released Wednesday, predicts world economic growth of negative 1.3 percent this year, marking "by far the deepest global recession since the Great Depression". Not since the 1930s has the global economy undergone a collective contraction.

The latest evidence of a rapidly accelerating world slump comes amid growing signs of disarray among policy makers. Finance ministers and central bankers from the G7 group of advanced economies are meeting in Washington today, with an expanded discussion involving G20 countries to be held immediately after.

Member states are deeply divided over how to respond to the crisis, with each seeking to promote its own national business interests at the expense of its rivals. Few if any concrete decisions are expected to emerge. The focus is reportedly on working out how to implement the limited measures agreed to at the G20 leaders' summit held in Britain earlier this month, including who is to pay for the proposed $500 billion extra emergency loan money for the IMF.

This month's World Economic Outlook marks another downward revision of the IMF's forecasts for 2009. In October 2008, the Fund was predicting 3 percent annual growth, then in November this was lowered to 2.2 percent, in January to 0.5 percent, and now to minus 1.3 percent.

According to the IMF, advanced economies experienced an "unprecedented" 7.5 percent decline in real gross domestic product (GDP) during the fourth quarter of 2008. Over 2009, this group of countries is forecast to contract by 3.8 percent, with the US economy—described by the IMF as the "epicentre of the crisis"—shrinking by 2.8 percent. Official unemployment rates in the advanced economies are expected to average 9.2 percent by the end of 2010.

In 2009, the Eurozone is projected to contract by 4.2 percent, with Germany (minus 5.6 percent) and Ireland (minus 8 percent) especially hard hit. Britain is forecast to decline by 4.1 percent. The IMF predicts that the Japanese economy will shrink by 6.2 percent, and the Russian by 6 percent, while the export-dependent "newly industrialised Asian economies" will experience average negative growth of 5.6 percent, with Singapore (minus 10 percent) and Taiwan (minus 7.5 percent) the worst affected.

China and India are forecast to grow by 6.5 and 4.5 percent respectively, and are among the few major economies expected to register positive growth. The figures nevertheless mark a major slowdown in both countries and unemployment is expected to sharply increase.

The IMF predicts that the world economy will grow by 1.9 percent in 2010. Advanced economies will stagnate, with average GDP growth of exactly zero. These estimates may prove optimistic, especially given the Fund's repeated revisions of the 2009 figures. In any case, IMF Chief Economist Olivier Blanchard acknowledged that there would be no rapid recovery from the current economic crisis. He noted that, historically, wherever recessions are preceded by financial crises they are more severe and longer lasting.

A separate IMF publication issued on Tuesday, the Global Financial Stability Report, revised estimated writedowns on US-originated assets—largely sub-prime mortgage "toxic" debt—from $US2.2 trillion to $2.7 trillion. Global writedowns, including "other mature market-originated assets," may be more than $4 trillion, with two-thirds of this incurred by banks and the rest by insurance companies, pension funds, and hedge funds.

The report effectively admitted that the world's banking system was on the verge of insolvency. “If banks were to bring forward to today loss provisions for the next two years before expected earnings, the US and European banks in aggregate would have tangible equity close to zero,” the IMF stated.

This assessment was rejected by US Treasury Secretary Timothy Geithner, who insisted before Congress earlier this week that the “vast majority” of US banks had enough capital. The Obama administration has no interest in a public discussion on the real levels of bad debt wracking the financial system; instead, behind the backs of the American people, it is preparing to hand over hundreds of billions of dollars to the banks.

Previously announced bailouts are only the beginning of what is set to be a protracted looting of public funds. The IMF estimated that to restabilise the banking system, capital injections are needed of about $500 billion for US banks, $725 billion for those in the Eurozone, and $225 billion for banks in the rest of “mature Europe”. The Fund nervously acknowledged: “The political support for such action, however, is waning as the public is becoming disillusioned by what it perceives as abuses of taxpayer funds.”

A similar concern over mounting public opposition was evident in the IMF’s World Economic Outlook. The Fund advised that while stimulus measures to boost immediate economic activity were needed, fiscal deficits could not be sustained indefinitely and would require deep cuts to government spending in the longer term. It warned of “impending costs from rising expenditures on social security and health care for the elderly” that required “credible policy reforms” to ensure balanced budgets.

The economic crisis is being exacerbated by what the Global Financial Stability Report described as a “downward spiral between the financial system and the global economy”. While the global slump was initially triggered by the US credit crunch, declining economic activity is now exacerbating the banks’ precarious position, which in turn further raises the cost and scarcity of credit.

An editorial in the *Financial Times* on Wednesday, titled “Facing the abyss,” described the IMF’s $4 trillion write-down estimate as “shocking”. The figures reflected two important facts, the editorial continued. Firstly, “we have no certainty whatsoever as to what the real losses will eventually be—except that they get worse every time we look” and secondly, “the recession in the real economy is compounding losses that originated in finance: conventional loans, not exotic securities, make up half of the forecast writedowns”.

The two IMF reports refute recent optimistic statements by Obama administration officials that the recent upturn on Wall Street signals an imminent economic revival. Economic officials and pundits have been clutching at other straws—including marginal improvements in Japanese exports and capital spending in China—to forecast the beginnings of a recovery.

Financial Times commentator Martin Wolf devoted his column on Tuesday to countering claims that “glimmers of hope” and “green shoots” were visible. “Is the worst behind us?” Wolf asked. “In a word, No. In the US, the rate of decline of manufactured output compares with that of the Great Depression. Japan’s output of manufactures has already fallen by almost as much as in the US during the 1930s. The disintegration of the financial system is, arguably, worse than it was then.”

Wolf concluded: “The brutal truth is that the deleveraging of the private sectors of highly indebted countries has not begun, the needed rebalancing of global demand has barely even started and, for all these reasons, a return to sustained, private-sector-led growth probably remains a long way in the future.”