IMF forecasts slower growth for world economy

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9 July 2010

In its updated World Economic Outlook, released Thursday in Hong Kong, the International Monetary Fund (IMF) forecast slower economic growth worldwide over the next 18 months. While the Washington-based lending institution upwardly revised its estimate for world growth this year from its April forecast, it revised downward its previous estimate for 2011 for the global economy, as well as for the United States and major economies in Europe, Asia and Latin America.

The thrust of the report was to warn that the purported economic recovery is losing steam, dashing hopes that mass unemployment in the US and throughout much of the world will recede any time soon. While the IMF downplayed the likelihood of a global "double-dip" recession, it declared, "Downside risks have risen sharply amid renewed financial turbulence." It added, "The ultimate effect could be substantially lower global demand."

This is the first IMF global survey since the full-scale eruption of the sovereign debt crisis in Europe and the ensuing turn by the whole of Europe to severe austerity policies. The IMF cited the cutback in government stimulus spending for 2011, slower growth in manufacturing, deficit reduction measures in Europe, and declining consumer confidence in the US and Europe as factors in curbing future growth.

Europe's debt and banking problems "could spill over to other regions and stall the global recovery," said Jose Vinals, director of the fund's monetary and capital markets department, at a news conference in Hong Kong.

"In the near term," the IMF said, "the main risk is an escalation of financial stress and contagion, prompted by rising concern over sovereign risk. This could lead to additional increases in funding costs and weaker bank balance sheets, and hence to tighter lending conditions, declining business and consumer confidence, and abrupt changes in exchange rates."

The fund noted that the European countries and the US will be competing to refinance $4 trillion in government bonds that mature in the second half of this year. This is increasing the pressure from financial markets on Britain and weaker eurozone countries such as Portugal and Spain to slash their deficits, and driving up their borrowing costs.

The IMF warned that the "calming effect" of the 110 billion euro IMF-European Union fund established in May to guarantee the repayment of eurozone government debt is "wearing off," and noted that interest rates paid by countries such as Spain and Italy are once again rising in comparison to those paid by Germany.

"On the heels of Greece's fiscal troubles," the report stated, "investors are repricing these risks across the region."

The IMF also said the European banking system is plagued by a "legacy of unfinished cleansing," which has left "pockets of vulnerability, overcapacity, and poor profitability." It noted that banks have pulled back on lending to one another, leaving many European banks to rely on short-term loans from the European Central Bank to stay afloat.

The grim IMF forecast placed in sharp relief the efforts of the Obama administration to give the economic disaster in the US a positive spin. Hours after the IMF issued its report, Obama held a photo op at a small electric truck plant in Kansas City, Missouri to tout the "success" of his economic policies in putting people to work.

"What is absolutely clear is we're moving in the right direction," he said. He made no mention of the refusal

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of Congress to extend federal unemployment benefits to millions of long-term jobless workers. This has already deprived some 2 million workers of any income, a number that will rise to 3.3 million by the end of the month and 7 million by the end of the year, unless the extended benefits are reinstated.

Nor did he mention the refusal of Congress to provide additional relief for state and local governments across the country that face huge deficits and are slashing jobs and basic public services.

As Obama signaled the previous day in announcing his President's Export Council, his administration has effectively abandoned further stimulus measures and is redefining its "jobs program" even more directly to coincide with the profit interests of big business. This includes promoting US exports by using mass unemployment to drive down wages and increase labor productivity, turning American manufacturing into a cheap-labor platform for export to global markets. It also includes further concessions to the corporate elite on business regulations and tax breaks.

The IMF report predicts that global economic growth will decline to 4.3 percent next year from 4.6 percent this year. In recent days, the Institute of International Finance, a bankers' association, and JPMorgan and IHS Global Insight have forecast even steeper declines in the rate of growth.

The IMF forecasts that US growth will fall to 2.9 percent next year from 3.3 percent in 2010. It predicts that US growth will not exceed 3 percent per year over the next five years.

The fund is calling for the US to take more rapid and severe actions to curb its government deficits. It suggests measures including cutting Social Security benefits, ending or trimming tax cuts for home mortgages, and imposing a national sales tax—all measures that target the working population.

The IMF forecasts a small gain for 2011 in the 16-nation eurozone, but this is from a mere 1 percent rate for 2010. The eurozone, according to the fund, will see a growth rate of 1.3 percent next year. This is down from its April forecast of 1.5 percent growth in 2011.

The fund lowered its April forecast for British growth in 2011 from 2.5 percent to 2.1 percent. It also lowered its 2011 forecast for Spain.

Japan's growth rate is predicted to fall from 2.4 percent this year to 1.8 percent in 2011. India's rate is forecast to decline to 8.4 percent from 9.4 percent. The IMF lowered its 2011 forecast for China from 9.9 percent to 9.6 percent. For Asia as a whole, the IMF forecasts a decline from 7.5 percent to 7 percent.

Brazil, Latin America's biggest economy, will, according to the IMF, experience a decline in its growth rate from 7.1 percent to 4.2 percent.

For the advanced economies as a whole, the IMF sees a decline in growth from 2.6 percent in 2010 to 2.4 percent in 2011.

The IMF report coincided with US government reports pointing to continued economic weakness. The Labor Department on Thursday reported that weekly initial jobless benefit claims fell 21,000, but the total remained at the high level of 454,000—well above the level that would presage a significant growth in hiring. The four-week average of benefit claims fell by only 1,250 to 466,000.

Retail chain stores released their sales reports for June, for the most part showing only tepid gains.

Even more ominous was a report in the *Wall Street Journal* Tuesday that US steel prices fell sharply in June, leading US-based steel makers to slash production at plants in Indiana and Maryland.

Wells Fargo, the fourth largest US bank according to assets, announced Wednesday that it will shut its subprime lending unit and eliminate 3,800 jobs. Some 2,800 of the unit's work force will be sacked in the next 60 days, the other 1,000 will be released in the next year.

The pharmaceutical giant Merck said Thursday it will close 8 research facilities and 8 manufacturing plants in the US and internationally as a result of its takeover last year of Schering-Plough. The closures are part of its plan announced in February to eliminate 15,000 jobs.

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