IMF report points to deepening recessionary trends in global economy

Nick Beams
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Five years after the eruption of the global financial crisis in September 2008, the latest World Economic Outlook (WEO) report on the world economy by the International Monetary Fund makes clear that the prospect of a return to pre-crisis economic growth is further away than ever.

The report has been prepared for the annual meetings of the IMF and the World Bank to be held over the weekend, where the threat of a US default is likely to be at the centre of discussions, amid warnings that such an event could set off a global financial crisis even deeper than that which followed the bankruptcy of Lehman Brothers, plunging the US and world economy into recession.

Even if the default is averted, the IMF report points to the continuing breakdown of the world economy. It warns that global growth is weak, risks remain on the downside, emerging markets face financial risks if US interest rates rise, and the global economy as a whole may settle into what it euphemistically calls "a subdued medium term growth trajectory."

Indeed, it is a mark of the condition of the global economy as a whole that the report states that "the impulse to global growth is expected to come mainly from the United States." But growth in the US is forecast to be only 1.9 percent in 2013, a downward revision of 0.2 percent on previous IMF estimates, and then rising to 2.7 percent in 2014. This is less than the 3 percent rate generally considered necessary to keep unemployment from rising.

The most significant feature of the IMF's analysis is the marked slowdown in growth predictions for so-called emerging markets, which between them have accounted for three quarters of total growth in the world economy over the past five years.

This led to claims that these regions would be able to provide a new base of support for the global economy. This report puts such claims definitively to rest. The IMF has forecast that growth in emerging markets and developing economies will be 4.5 percent this year, and 5.1 percent in 2014, a downward revision of 0.5 percent and 0.4 percent respectively from forecasts made just three months ago.

A report issued last month by the UN Conference on Trade and Development (UNCTAD) points to the longer-term underlying factors that are at work. The emerging market economies have been dependent on the expansion of exports to fuel growth. But according to the UNCTAD report, international trade has yet to return to the growth rates achieved before 2008 and growth is likely to be subdued for years to come.

It warned that the pre-crisis rapid growth of exports was "built on unsustainable global demand and financing patterns," and now there was a "structural shift in the world economy" which ruled out previous options.

The nature of this structural shift is indicated by longer-term trends in world trade. Throughout the post-war period, the growth in world trade was about double that of global GDP. Since 2008, however, world trade has grown at a rate slightly lower than GDP, pointing to the challenges facing emerging economies' attempts to grow thanks to the export trade.

These tendencies are underscored in the IMF growth predictions. Growth in the advanced economies is expected to be just 1.2 percent this year and 2 percent in 2014. The euro zone is predicted to grow by just 1 percent in 2014, after contracting by 0.4 percent this year.

The IMF forecasts that global growth will be 2.9 percent in 2013, its lowest level in four years.

This is due in large measure to the fall in emerging

market and developing economy growth rates which are down three percentage points from the levels of 2010, with China, India and Brazil accounting for about two-thirds of the decline. These economies, it predicted, would be between 8 and 14 percent smaller in 2016 than was forecast just two years ago.

While IMF chief economist Olivier Blanchard claimed there were “reasons to be optimistic”, the fact that the IMF has again revised down its global forecasts, continuing a pattern over the last several years, points to the deepening recessionary trends in the world economy.

And as the IMF report acknowledged, as “global growth remains in low gear,” a “plausible downside scenario” could include the following events: continued weak investment in Europe; a further decline in growth in emerging markets and China; the failure of the monetary policies of the Abe government to provide a long-term boost to the Japanese economy; and a tightening of financial conditions in the United States as the Federal Reserve Board begins to cut back on its asset purchases.

The possible global impact of a decision by the US Fed to “taper” its purchases of Treasury bonds was the subject of an IMF policy paper issued on Monday. Under the program of “quantitative easing” financial speculators have used cheap funds from the US to invest in emerging markets, to secure a higher rate of return. But “tapering” will lift interest rates in the US and could lead to an exit of these funds. “A repricing of risk could induce a run by investors holding speculative positions, especially if these are highly leveraged using short-term funding,” the paper warned.

This, in turn, could lead to major capital outflows and a financial crisis which would rapidly spread internationally.

The WEO report referred to “adverse feedback loops” especially in economies that had relied heavily on external funding to support credit-driven growth. As a result of statements by Fed chairman Ben Bernanke in May and June that the central bank was considering tapering, Indonesia experienced a 4.3 percentage point rise in interest rates, Turkey 2.2 and Brazil 1.2. Such figures underscore the fact that rather than providing a base of stability for the global economy, much of the growth in emerging markets has been highly dependent on volatile flows of money from global financial markets.

The report underscores the fact that the ruling elites and their array of financial experts, central bankers and their myriad of economic advisers have no economic solution to the ongoing breakdown of the profit system.

They have only one program, implemented with increasing ruthlessness across the world: an ever-deepening assault on jobs and social conditions—in short a social counter-revolution.

The international working class must respond with its own strategy—the fight for international socialism, starting with the expropriation of the banks and major corporations in order to begin the reconstruction of the world economy to meet human need.