IMF downgrades growth projections, warns of “synchronized slowdown”

Barry Grey
13 April 2016

The International Monetary Fund’s “World Economic Outlook” (WEO), released Tuesday in advance of this week’s semiannual meetings in Washington of the IMF and World Bank, gives a gloomy and fraught estimate of the state of the world economy, nearly eight years after the 2008 financial meltdown.

The IMF has again downwardly revised its projection for global growth, the fourth straight cut in a year. The WEO estimates that the world economy will grow by only 3.2 percent in 2016, a reduction of 0.2 percentage points from the projection the IMF made only three months ago. The new projection is 0.6 percentage points below the organization’s July 2015 estimate.

It is only a hair above last year’s 3.1 percent global growth rate and only marginally higher than the 3.0 rate the IMF once considered indicative of a global recession. The organization also downgraded its world growth estimate for 2017 from 3.6 percent to 3.5 percent.

Even this pessimistic prediction is ringed with warnings and caveats that strongly suggest the so-called “recovery” from the 2008 crash is teetering on the edge of a new financial crisis and slump. The WEO executive summary states that “uncertainty has increased, and risks of weaker growth scenarios are becoming more tangible.” It adds, “The fragile conjuncture increases the urgency of a broad-based policy response to raise growth and manage vulnerabilities.”

The summary goes on to speak of “still weak external demand,” a “threat of synchronized slowdown,” an “increase in the already significant downside risks,” and a “critical stage of the global recovery.”

The press release on the IMF web site is headlined “Global Economy Faltering from Too Slow Growth for Too Long.” The statement highlights as major trends: “Financial risks prominent, together with geopolitical shocks, political discord.”

At a press conference to introduce the “World Economic Outlook,” IMF Chief Economist Maurice Obstfeld said, “Global growth continues, but at an increasingly disappointing pace that leaves the world economy more exposed to negative risks.” He continued: “Consecutive downgrades of future economic prospects carry the risk of a world economy that reaches stalling speed and falls into widespread secular stagnation… We definitely face the risk of going into doldrums that could be politically perilous.”

The WEO cites as factors in the continuing economic stagnation the slowdown in China, the sharp fall in oil and other commodity prices, and the decline in growth rates for trade, productivity and investment. It notes that these trends have wreaked havoc on emerging market and developing economies, particularly those that rely on exports of commodities. It cites, in particular, the deep recessions in Brazil and Russia, both of whose 2016 growth rates it downgrades from the previous IMF estimate. However, it also notes the worsening financial position of major oil exporters, including Saudi Arabia, whose economy it projects to grow by only 1.2 percent this year.

The report warns of mounting financial problems, as oil-linked loans and other assets risk steep losses and credit conditions tighten, despite massive monetary stimulus from central banks in Europe and Japan that have driven interest rates into negative territory.

The IMF has downgraded its projections for every major advanced economy, including the US and Canada, the euro area, the UK and Japan. Growth in the advanced economies as a whole is projected to remain at the anemic pace of 1.9 percent this year and 2.0

percent in 2017. The IMF estimates US growth this year at 2.4 percent, a downgrade of 0.2 percentage points. It projects that the euro area will grow by only 1.5 percent, Japan by a mere 0.5 percent, followed by a contraction of minus 0.1 percent in 2017. Canada is estimated at 1.5 percent for 2016.

China is projected to grow by 6.5 percent, a sharp reduction from the double-digit rates of previous years but 0.2 percentage points higher than the IMF's January projection. India is seen as a "bright spot," with projected growth of 7.5 percent both this year and next.

The IMF predicts that impoverished sub-Saharan Africa will grow by only 3.0 percent this year, a full percentage point slower than the organization's forecast three months ago.

Particularly striking is the prominence given in the report to the impact of "noneconomic" factors in the deepening economic quagmire. The executive summary notes: "Shocks of a noneconomic origin—related to geopolitical conflicts, political discord, terrorism, refugee flows, or global epidemics—loom over some countries and regions, and, if left unchecked, could have significant spillovers on global economic activity."

In his press conference, IMF Chief Economist Obstfeld warned, "Across Europe, the political consensus that once propelled the European project is fraying." He said that the refugee crisis and recent terrorist attacks, together with economic pressures such as stagnant wages, were leading to a "rising tide of inward-looking nationalism."

He singled out as a serious danger to the world economy the "real possibility" that the UK would vote in its June 23 referendum to leave the European Union, and pointed to a backlash in the US against globalization that "threatens to halt or even reverse the postwar trend of ever more open trade."

Here the IMF is referring, somewhat obliquely, to the mounting economic conflicts between the major powers and the explosive growth of militarism and war. It is also alluding, indirectly, to the growth of working-class resistance and the threat of a new period of revolutionary upheaval.

To cope with this increasingly dangerous crisis of the world capitalist system, the IMF calls for urgent action by the major economies to develop a coordinated plan for continuing monetary stimulus to prop up the banks and financial markets, fiscal measures to promote investment, and so-called "structural reforms" to boost competitiveness and demand. Indicative of its concern over the prospect of a new financial crisis and economic downturn, the WEO calls on world policy makers to draft contingency plans for a joint response to revive growth should the global economy stagnate further.

There is virtually no chance of serious international coordination. As recent meetings such as the G20 have demonstrated, there is no agreement among the major imperialist powers over a common economic policy. Instead, what predominate are growing tendencies toward trade and currency warfare, along the lines of the policies that preceded the outbreak of World War II.

As for the class content of the IMF's call for "structural" economic reform, it is shown by the report's reference to "narrowing unemployment benefits and easing job protection."