IMF issues warning on global growth to G20 summit

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The International Monetary Fund has issued a call for "forceful action" by G20 countries to boost the world economy ahead of the annual leaders' summit meeting being held in China over the weekend.

It came in an assessment which said recent data, including "muted activity," slower trade growth and very low investment, pointed to "an even more modest pace of global growth this year." In a clear indication that the IMF will likely revise down its forecast for global growth when it meets in October, the note to the G20 said despite record-low interest rates, "investment continues to disappoint," reflecting demand conditions and "weak financial sector balance sheets."

Weak investment dampened underlying potential growth, which was already low due to "dismal productivity trends." The IMF said income growth had not only been meagre but had "bypassed low-income earners in many countries."

In a blog comment on the assessment, IMF managing director Christine Lagarde warned that continued low growth could lead to increased protectionist measures. "The political pendulum threatens to swing against economic openness, and without forceful policy actions, the world could suffer from disappointing growth for a long time," she said.

In a broad survey of the global economy, the IMF said recent data had pointed to "softer growth" in the advanced G20 economies. In the US, second quarter growth came in at a 1.1 percent annual rate, less than half the consensus forecast, and noted "disappointing business investment."

Weak growth was also reflected in low inflation across most advanced and emerging economies with "excess industrial capacity" in large exporters putting downward pressure on the prices of tradeable goods.

On the financial front, the assessment said that while the immediate turbulence from the UK decision to quit the European Union (Brexit) had passed, banks remained under pressure "with particular tensions surrounding Italian banks."

Recent stress tests conducted by the European Bank Authority had underscored "challenges to banks' financial health" posed by the "large stock" of non-performing loans. These were estimated to be around 8 percent of gross domestic product of the euro area in mid-2015. Weak growth and low interest rates also posed a risk.

It said the longer term outlook for the world economy as a whole was "disappointing."

In the wake of the global financial crisis of 2008, the claim was advanced that emerging economies would provide a new base for expansion. That prospect has well and truly gone. Growth in these areas has declined over the past five years and is expected to revert back to levels that prevailed previously. In the advanced G20 economies, growth was expected to be only 1.5 percent in the medium term, as compared to the historical average of 2.5 percent. Investment in the advanced economies in 2016 is expected to be two percentage points lower than in the period 1990–2007.

"Moreover," it continued, "in a negative feedback loop the resulting weakness in the global outlook can further lower incentives to invest" which, combined with slow trade, will "weigh on underlying growth."

It is in the area of trade that some of the underlying trends in the global economy are expressed most sharply. The marked slowdown in trade since the financial crisis was a result of low investment and weak growth, compounded by a recent increase in protectionism.

Global trade "has fallen significantly," with the volume of goods and services trade increasing by only

3 percent per year since 2012, less than half the rate than in the years before the crisis. The IMF noted that from the mid-1980s into the 2000s, trade grew at double the pace of global GDP. Now it was barely keeping pace. "Such prolonged weak growth has few precedents," it said.

The summit will, like previous meetings, issue commitments not to engage in protectionist measures, with claims that the lessons of the 1930s, when beggar-thy-neighbour policies wreaked havoc on the global economy and led to war, have been learned. But facts speak louder than these declamations and protectionism is on the rise.

The World Trade Organisation has reported that G20 countries have imposed a record 145 new trade-restriction measures in the seven-month period from November 2015 to May 2016. This is the highest level since the WTO began monitoring such measures in 2009.

The tensions extend to other areas as well. Following previous statements to G20 meetings, the IMF again called for government fiscal measures, including more public investment projects, to boost the economy in conditions where interest rates are already at historically low levels.

It singled out Germany as having the capacity to finance "identified needs in public investment." This has long been the position of the United States which, while cutting back its own government spending, has called on the European Union and particularly Germany to relax austerity measures. The US wants to see government measures to boost the European economy in order to benefit the export markets of American corporations. Germany, on the other hand, has opposed the US calls, seeing them as aimed at weakening its financial position as against the US.

The tensions were highlighted by US treasury secretary Jack Lew, who declared on the eve of the summit that a "consensus" had emerged on the US position that countries had to use all policy tools, including fiscal measures. That assertion may not be disagreed with publicly but opposition will remain just below the surface. Earlier this year, at the G20 finance ministers meeting, following a call by the IMF for co-ordinated action, German finance minister Wolfgang Schäuble pointedly remarked that the "debt-financed growth model has reached its limits."

The failure of the G20 to provide any real lift to the world economy was highlighted by an assessment of progress on commitments made at the Brisbane, Australia, summit in 2014. There world leaders pledged to lift their collective GDP by an additional 2 percentage points by 2018. According to the IMF, only 55 percent of the commitments have been implemented and concluded that "with 2018 drawing closer, the Brisbane goals seem out of reach."

The IMF also took account of political developments, in particular the deepening hostility to the policies of governments around the world as reflected in developments such as the Brexit vote to quit the EU.

It said the G20 should "make the positive case for globalisation" and that G20 leaders should "champion this agenda by presenting a clear and persuasive narrative showing the right policies will not only raise growth, but also ensure that it is shared by all, including those who shoulder the burden of adjustment to a changing world economy."

This is the economic equivalent of squaring the circle, and once again facts speak louder than declarations. The reality of the last eight years has been the accumulation of ever-greater wealth for the financial elites, fuelled by the cheap money provided by central banks, widening social inequality and a decline in living standards for billions of people.

While the global integration of mankind's productive forces is in and of itself a progressive development, it is carried out within the framework of the profit system, which demands an unrelenting offensive against the social position of the working class. A continuation and deepening of this agenda will be the only "forceful action" to emerge from the G20 summit.