IMF meeting confronts “synchronized” global economic slowdown

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The semi-annual meeting of the International Monetary Fund (IMF), which begins in Washington today and runs to the end of the weekend, is being held amid warnings that the world economy has entered a major slowdown and could be on the way to outright recession.

The IMF’s *World Economic Outlook* (WEO) report, due to be published today, will include a downward revision on previous growth forecasts, as foreshadowed in a major speech by incoming managing director Kristalina Georgieva last week.

Georgieva began by pointing out that two years ago the global economy was experiencing a synchronised upswing with growth in nearly 75 percent of the world economy on the rise. Today the world economy is in a synchronised global downswing with lower growth expected in 90 percent of the world.

“The widespread deceleration means that growth this year will fall to its lowest rate since the beginning of the decade,” she said, foreshadowing a downgrade by the IMF of its growth forecasts for both 2019 and 2020 in its WEO report.

Georgieva pointed to the increasing “fractures” in the world economy caused by the escalation of trade conflicts. In the past, she said, the IMF had warned of the dangers arising from trade disputes.

“Now, we see that they are actually taking their toll. Global trade growth has come to a near standstill.”

As a result, “world manufacturing and investment have weakened substantially” and there is a “serious risk that services and consumption could soon be affected.”

Georgieva warned that, because of the cumulative effect of trade conflicts, the fall in growth could be as high as $700 billion by 2020, or about 0.8 percent of the world economy, equivalent to the size of the Swiss economy.

“Disputes now extend between multiple countries and into other critical issues. Currencies are once again in the spotlight. Because of our interconnected economies, many more countries will soon feel the impact.”

The divisions go well beyond trade as the US campaign to block the international usage of the Chinese technology giant Huawei demonstrates.

The IMF chief warned that even if growth revived in 2020, “the current rifts could lead to changes that last a generation—broken supply chains, siloed trade sectors, a ‘digital Berlin Wall’ that forces countries to choose between technology systems.”

As has now become customary in IMF statements and speeches, Georgieva called on all countries to work together to produce a lasting solution on trade. But the prospects for such an agreement are rapidly receding.

The agreement reached between the US and China last week is not an end to the trade war but merely a highly unstable truce before conflict resumes over the central US demands that China scrap its subsidies to state-owned enterprises and take action to curb its technological development. These demands have been rejected by Beijing as being tantamount to the scrapping of its central economic policies.

Within days of the limited US-China deal being announced, there are even doubts that a final agreement will be signed off by presidents Trump and Xi in November.

The trade conflicts are not confined to the US and China. This week the US is set to impose tariffs against a range of European products in response to a finding by the World Trade Organisation that subsidies paid to the European aircraft manufacturer Airbus in contravention of WTO rules adversely impact its US rival Boeing.

The European Union has indicated it will respond when the WTO brings down an expected finding that Boeing was assisted by tax breaks, also in contravention of WTO rules.

The trade conflict between the US and the EU could intensify in November if Trump goes ahead with a threat to impose a 25 percent tariff on European auto exports on "national security" grounds. The threat is the sharp end of the drive by his administration to impose a trade deal in which European markets are opened to American agricultural exports—a demand which EU negotiators have insisted is off the table.

In a preview of the IMF meeting, a Bloomberg article painted a sombre picture of the world economy.

"The global economy is wobbling and whether it topples over is the big question in financial markets, executive suites and the corridors of power," it began, noting that, according to its global GDP tracker, the pace of expansion had slowed to 2.2 percent in the third quarter, down from 4.7 percent at the start of 2018.

So far manufacturing had been the biggest victim of the trade conflicts and global activity had contracted for five straight months, the article explained. The ailing auto industry was of particular concern, especially in the export-heavy German and Japanese economies. In the US, businesses are cutting back, with non-residential investment falling in the second quarter for the first time in three years.

"The question is whether the pain at factories infects services, adding another element to the slump," the article said.

The *Wall Street Journal* also sounded a downbeat note. In an article entitled "Trade uncertainty clouds global growth prospects," it said the "small steps" by China and the US toward a trade truce were unlikely to be enough to diminish the uncertainties holding back global growth as new fronts in a global trade war opened, including the US plan to hit Europe over the airline dispute.

"Multinational businesses, after spending a quarter century building supply chains that span the globe, are increasingly holding back expansion until they have a better idea of how a shifting tariff landscape will affect their costs and profit margins," it commented.

At the centre of what is clearly a developing crisis is the total failure of the so-called "unconventional monetary policies" of the world's central banks to provide any lasting stimulus to the real economy.

The rationale for the bailout of the global financial system after the 2008 crisis—the placing of trillions of dollars of virtually free money in the hands of the banks and finance houses whose speculative activities had triggered the crisis—was that lower interest rates would eventually promote investment in the real economy.

More than a decade later nothing of sort has taken place. The money made available has simply been used to finance further speculation with the result that any plans by the world central banks to pull back on quantitative easing have been shelved lest this spark a financial crisis.

In a comment published earlier this month, the *Economist* magazine noted what it called the "strange state of affairs," in which banks were engaged in purchases of government bonds to drive down interest rates. What "once looked temporary," had now become the "new normal."

The result is that more than a quarter of investment grade bonds, worth $15 trillion [some estimates put the figure at $17 trillion] had negative yields, meaning that if an investor held them to maturity they would suffer a loss.

Overall, the article noted the combined balance sheets of central banks in America, the euro zone, Britain and Japan stood at over 35 percent of their total GDP. In Japan, the public debt, which amounts to 240 percent of GDP is entirely supported by the central bank. In effect one arm of state issues the debt while another purchases it. The situation in Japan, however, is only the most extreme expression of what is increasingly a global process.

The growing concern in ruling circles is that in event of a major global slowdown or recession, not only will central banks have no ammunition to respond because interest rates are already at record lows, but they themselves could be drawn into a financial crisis.

In the lead up to the IMF meeting, Georgieva told the *Financial Times* she would be asking the fund's staff to look more closely at the risks of negative interest rates and urging countries to use monetary policy "wisely" under conditions of a synchronised slowdown.

It was necessary under conditions of a prolonged period of low to negative interest rates, she said, to "more seriously think" about the consequences as well as what an "exit strategy might look like."

The problem confronting the IMF economists and technocrats, however, is that, as has taken place throughout the history of capitalism, the very measures devised to overcome a crisis at one point in time, contain the seeds of another.