# IMF cuts growth forecast and points to rising financial risks

**Nick Beams**
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The International Monetary Fund has cut its forecast for global growth this year to its lowest level since the global financial crisis and recession of 2008-2009 and warned that deepening trade conflicts make the outlook "precarious."

Apart from the headline numbers in the *World Economic Outlook* report issued on Tuesday, the most significant aspect of the IMF's update on the state of the world economy was its forecast on continuing low growth in four key sectors.

It found that the global "big four"—the US, China, Japan and the eurozone—would not see any improvement in their growth rates over the next five years.

The IMF predicted the world economy would grow by only 3 percent this year, down from 3.6 percent in 2018 and 0.3 percent below the forecast at its April meeting.

The *Global Financial Stability Report* issued on Wednesday added to the darkening outlook. It warned that continuing low interest rates were leading investors to take greater risks in an effort to maintain their returns on capital, and that could have an adverse impact on the broader economy.

"The search for yield among institutional investors—such as insurance companies, asset managers and pension funds—has led them to take on riskier and less-liquid securities," Tobias Adrian, the IMF's financial counsellor said. "These exposures may act as an amplifier of shocks."

The low-interest rate regime was supporting the economy at present, but was putting growth at risk in the medium term.

The IMF's *WEO* report said global growth was expected to rise to 3.4 percent in 2020—a downward revision of 0.2 percentage points from its forecast last April. But it warned that even this limited projected upturn, unlike the "synchronised slowdown," was "not broad based and is precarious."

Growth for the advanced economies is projected to slow to 1.7 percent in 2019 and 2020. If a global pickup does take place, it will be as a result of expansion in emerging market economies. More than half of this would be driven by "recoveries or shallower recessions in stressed emerging markets, such as Turkey, Argentina and Iran." In other words, the projected recovery rests on very shaky foundations, given the ongoing slowdown in the major economies.

The report itself acknowledged that the risks to its baseline outlook were "significant." It warned that "should stress fail to dissipate in a few key emerging market and developing economies that are currently under performing or experiencing severe strains, global growth in 2020 would fall well short of the baseline."

Further escalation of trade tensions and policy uncertainty could further weaken growth. Financial market sentiment could also deteriorate, resulting in tighter financial conditions that would impact heavily on vulnerable economies.

"Possible triggers for such an episode include worsening trade and geopolitical tensions, a no-deal Brexit withdrawal … and persistently weak economic data pointing to a protracted slowdown in global growth," it stated.

For the US, the IMF expects the economy to slow from 2.4 percent growth this year to 2.1 percent in the election year of 2020—well below the Trump administration's target of growth of 3 percent or more.

Largely as a result of the weakness in the German economy, economic growth in the eurozone is expected be only 1.2 percent this year, rising to 1.4 percent in 2020.

The growth rate of the Chinese economy is also forecast to slow. The IMF predicts that it will fall from 6.1 percent in 2019 to 5.5 percent in 2024, with the forecast for this year 0.2 percent lower than the prediction in April.

In her foreword to the WEO report, IMF chief economist Gita Gopinath began by noting that the fall in expected growth to just 3 percent was a “serious climb down” from 2017 when it was 3.8 percent. She cited rising trade barriers and uncertainties surrounding geopolitics as key factors.

The IMF has estimated that the US-China trade tensions have reduced the expected level of global GDP by 0.8 percent for 2020.

Gopinath pointed out that a “noticeable feature” of the sluggish growth for 2019 was the “sharp and geographically broad-based slowdown in manufacturing and global trade.” Higher tariffs and prolonged uncertainty were denting investment and demand for capital goods.

This has led to a virtual standstill in global trade volume growth, which rose by only 1 percent in the first half of 2019—its lowest level since 2012. In the years of economic expansion, prior to the crisis of 2008, trade growth rates consistently exceeded those for an economy as a whole. Now they consistently lag behind.

Gopinath said that in contrast to weak manufacturing and trade, the services sector across much of the world continued to hold up. But this may not continue for much longer.

“The divergence between manufacturing and services has persisted for an atypically long duration, which raises concerns of whether and when weakness in manufacturing may spill over into the services sector,” she said, noting that leading service sector indicators in the US, Germany and Japan had shown some signs of softening.

The chief economist said that as far as policy priorities go “undoing the trade barriers put in place with durable agreements and reining in geopolitical tensions top the list.” She suggested that would boost confidence and rejuvenate investment.

Yet there is no more a chance of such measures being implemented following this report than when similar calls were made last year and the year before that. Even as the consequences of existing actions, and the future dangers they raise, become more pronounced, so the trade conflicts intensify rather than lessen.

The same trend can be seen with regard to the call for governments to take more action on the fiscal front to stimulate their economies. With interest rates around the world at historically low levels—in some cases at zero or even below—the ability of central banks to supply economic stimulus is very limited. According to the IMF report, even easier financial conditions “could also contribute to a further build-up of financial vulnerabilities.”

In line with this assessment, Gopinath called for more government action. “Monetary policy cannot be the only game in town and should be coupled with fiscal support if available and where fiscal policy it not already too expansionary.” She cited Germany as a country that should take advantage of negative borrowing rates to invest in infrastructure projects.

But in the ten tears and more since the global financial crisis, government policy in every country, expressing the most basic interests of the financial oligarchy, has gone in the opposite direction in the form of increased attacks on public facilities and social services. The only significant fiscal action has been taken in the United States where the budget deficit has been increased to provide billions of dollars in tax cuts for corporations and the ultra-wealthy.

In conditions where, as the latest IMF report shows, the 2008-2009 crisis ushered in a period of ongoing stagnation and where the policies followed over the past decade have created the possibility of renewed financial turmoil, government policies are not going to be turned around.