

IMF downgrades forecast for global economy

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The International Monetary Fund (IMF) has significantly increased its forecast for the contraction in global economy, warning that it will take a cumulative \$12 trillion hit over 2020–2021. Updating its forecast yesterday, the IMF said the global contraction for 2020 would be -4.9 percent, some 1.9 percentage points below the forecast it issued in April.

It said the COVID-19 pandemic “has had a more negative impact on activity on the first half of 2020 than anticipated, and the recovery is expected to be more gradual than previously forecast.” Overall, this would leave 2021 gross domestic product (GDP) some 6.5 percentage points lower than the pre-pandemic projections of 2020.

These forecasts assume that financial conditions will remain “broadly at current levels” following the major interventions by the US Fed and other central banks when markets froze in mid-March. However, given the divorce between financial markets and the underlying real economy—exemplified by the surge in stock markets, above all in the US—it is highly likely that turmoil will return.

The IMF said the “disconnect” between the rebound in financial markets and the underlying economic prospects raised “the possibility that financial conditions may tighten more than assumed.”

It said the synchronised and deep downturn in the first quarter was more severe than expected, except for a few countries, and indicators pointed to a “more severe contraction” in the second.

The plunge into conditions not seen since the Great Depression began with a supply shock as firms halted economic activity as a result of measures taken against the pandemic. But this had now been compounded by a “broad-based aggregate demand shock” as firms, faced with “precipitous” falls in their markets, supply interruptions and uncertain future earnings prospects, cut back on investment.

This steep decline in economic activity had resulted in a “catastrophic” hit to the global labour market. The IMF cited estimates by the International Labour Organisation that the decline in hours worked in the first quarter was equivalent to the loss of 130 million jobs. The loss in the second quarter is expected to be equivalent to 300 million jobs.

The impact on the labour market had been “particularly acute” for low-skilled workers who do not have the option of working from home. It cited estimates from the International Labor Organization that of the approximately 2 billion informally employed workers worldwide “close to 80 percent have been affected.”

The IMF said its projections implied “a particularly negative impact of the pandemic on low-income households worldwide that could significantly raise inequality.”

Just as COVID-19 has become a disease afflicting the poorer sections of the working class in every country, so they are the most affected by its economic consequences.

The IMF said that for the first time ever all regions of the world are expected to experience negative growth in the 2020.

Growth in the advanced economy group is projected at -8 percent this year. The US economy is predicted to contract by 8 percent, Japan 5.8 percent, the UK 10.2 percent, Germany 7.8 percent, France 12.5 percent and Italy and Spain 12.8 percent.

In 2021, as long as there is no second wave of infections, the IMF said there would be growth of 4.8 percent, leaving global GDP down by about 4 percent from its level in 2019.

In the group of emerging market and developing economies growth is forecast to be -3 percent this year, 2 percentage points below the April forecast. The economic impact in Latin America, now a major centre

of infections, is particularly severe, with the two largest economies, Brazil and Mexico, projected to contract by 9.1 percent and 10.5 percent respectively.

The IMF update pointed to the contraction in world trade, close to 3.5 percent in the first quarter as a result of weak demand, the collapse of cross-border tourism and disrupted supply chains that were exacerbated in some cases by trade restrictions.

It said that beyond the pandemic policymakers had to address the economic issues underlying trade and technology tensions as well as what it called “gaps in the rules-based international trading system.” It warned that “without a durable solution to the frictions” the eventual recovery from the COVID-19 crisis would be endangered.

There is, however, no prospect of such a solution emerging. In the course of the pandemic the Trump administration has stepped up verbal attacks on China and moved to increase pressure on hi-tech Chinese companies such as Huawei.

Moreover, the trade war measures are widening. The US has withdrawn from talks with France and other European powers to resolve the conflict over their moves to impose a so-called digital tax on the revenues raised in their countries by US hi-tech firms such as Google and Facebook.

An investigation has been carried out by the Office of the US Trade Representative on the proposed taxes under Section 301 of the 1974 Trade Act—the same section used to impose tariffs on \$360 billion worth of Chinese goods that remain in place despite the “phase one” trade deal agreed to in January.

The Trump administration has made it clear it is opposed to the present organisation and rules of the World Trade Organization which it says have worked to the detriment of the US. The conflicts will not be resolved if a Democratic administration comes to power because the Democrats are even more bellicose on the issue of China than Trump.

The IMF update recorded the massive impact of the rise in government debt both as a result of limited social security measures and the money provided to corporations. It is expected that total government debt as a proportion of GDP in advanced economies will exceed the levels reached as a result of World War II. Debt will rise to 130 percent of GDP compared to the peak of 120 percent in the war.

This statistic has decisive economic and political implications. Following World War II, major countries were able to run down their debt because of the growth in the world economy during the post-war economic boom. Today, there is no such boom waiting in the wings. Even before the pandemic struck, world economic growth was slowing with significant falls in investment and trade.

The present situation does not resemble World War II but rather the aftermath of World War I when, in a stagnant world economy, the accumulation of debt used to finance the war, led to a series of economic crises and was one of the driving forces for the ongoing and deepening attacks on the working class through the two decades that followed.



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