IMF report points to ongoing plunge in world economy

Nick Beams
13 October 2020

When the COVID-19 pandemic first struck there was considerable speculation about a V-shaped economic recovery, with the world economy rapidly returning to "normal." That prospect was blown apart some time ago, and the latest projections from the International Monetary Fund (IMF) released yesterday make clear that the global economy has been irrevocably transformed.

The latest IMF's *World Economic Outlook* (WEO) projects that the global economy will contract by 4.4 percent in 2020, with growth expected to rebound by 5.2 percent in 2021 before flattening to just 3.5 percent in the medium term.

"This implies only limited progress toward catching up to the path of economic activity for 2020-2025 projected before the pandemic for both advanced and emerging market and developing economies. The pandemic will reverse the progress made since the 1990s in reducing global poverty and will increase inequality," the report said.

The WEO projections for 2020 are for a slightly smaller contraction in the world economy than was forecast in June. But this is only the result of the moves by all governments in May and June to scale back lockdowns, as they adopted a return-to-work agenda at the cost of hundreds of thousands of lives.

As IMF research director Gita Gopinath acknowledged in her foreword to the *WEO*, compared to the June forecast, "prospects have worsened significantly in some emerging markets and developing economies where infections are rising rapidly," and there are "renewed upticks in COVID-19 infections that had reduced local transmissions to low levels."

The IMF forecasts are based on the assumption that a vaccine will be rapidly developed and that it will be made widely available. There is no guarantee of either. The WEO warns that the risk of growth outcomes worse than projected remains "sizable," and adds that if the virus resurges and progress on a vaccine and treatments is slower than an expected, and countries' access to them remains unequal, economic activity could be lower than expected.

There is also the prospect that the severity of the recession could lead to the withdrawal of emergency support in some countries and rising bankruptcies, which would compound job and income losses. Deteriorating financial sentiment could lead to a "sudden stop in new lending" to vulnerable economies, with cross-border spillover effects.

Before the pandemic hit, the global economy was on course for a significant downturn following a brief uptick in growth in 2018—a process that has now intensified. The IMF noted that the "scarring" effect of the pandemic is "expected to compound forces that dragged productivity growth lower across many economies in the years leading up to the pandemic."

In other words, COVID-19 has functioned as a trigger and now an accelerant for processes already underway.

The devastating impact on the global working class is highlighted by figures from the International Labour Organization, which estimates that the global reduction in work hours was equivalent to the loss of 400 million jobs in the second quarter, topping the equivalent loss of 155 million in the first.

The IMF report advocates continued government support, even calling for the temporary relaxation of fiscal rules where this is considered necessary. But there are clear indications of where policy is heading. It states: "Room for immediate spending needs could be created by prioritizing crisis countermeasures and reducing wasteful and poorly targeted subsidies."

It advises that governments "may need to consider" raising progressive taxes in higher income brackets, as well as taxing property and capital gains, along with changes to tax regimes to ensure that firms pay taxes commensurate with profitability. It states that countries should "cooperate on the design of international corporate taxation to respond to the challenges of the digital economy."

There is virtually no prospect of any of this taking place. The Australian budget brought down last week, for example, provided a graphic illustration of the direction that will be followed. It contained tax cuts benefiting higher income groups combined with tax write-offs for big business, while moving to cut unemployment relief programs. As for cooperation on a new tax regime covering the digital giants such as Google and Apple, Trump has made it clear that any such measures will be met with immediate retaliation by the US.

The IMF calls for much-needed investment in public health. But this too will fall on deaf ears.

Given the worsening situation facing so-called emerging market economies as they confront increasing debt, the IMF recommends "support from the international community through debt relief, grants, and concessional financing."

But according to the international aid agency Oxfam, the IMF itself is not following its own prescriptions. The agency said 76 of the fund's 91 loans since March have involved spending cuts.

Oxfam International's interim executive director, Chema Vera, noted that the IMF has "sounded the alarm about a massive spike in inequality in the wake of the pandemic." But the measures it is adopting "could leave millions of people without access to health care or income support while they search for work, and could thwart any hope of sustainable recovery."

While hundreds of millions of people the world over are confronting economic and social devastation, the financial oligarchy continues to prosper. A report issued by UBS last week said the world's 2,189 billionaires had increased their wealth by $2 trillion in the past six months, to reach a record of more than $10 trillion, with those investing in health care companies among the main beneficiaries.

This massive redistribution of wealth is being financed through the injection of trillions of dollars by the world's central banks, led by the US Federal Reserve, into the financial markets. And this is expected to continue.

"If markets believe that policy supports will be maintained or scaled up in response to the deterioration in the economic outlook, current risk asset valuations could be sustained for some time," the IMF states in its *Global Financial Stability Report,* also issued yesterday.

However, it warns that vulnerabilities are rising, leading to "financial stability concerns in some countries," while vulnerabilities are increasing in the non-financial corporate sector, as firms have taken on more debt to cope with cash shortages, and in the sovereign sector, as fiscal deficits have widened to support the economy.

It adds that as the crisis unfolds, "corporate liquidity pressures may morph into insolvencies, especially if the recovery is delayed," with small and medium-sized firms the most likely to be affected because they have less access to capital markets.

A warning of rising bankruptcies is also contained in an analysis published by the Bank for International Settlements last week. It states that support from governments and the central banks has limited the number of bankruptcies so far, but given the size of shock, it "may be just a matter of time" before they rise, leading to a further increase in unemployment.

Just a few a months ago, the air was filled with talk of a "V-shaped recovery," "snapback" and "rebound." Now the underlying reality is bursting to the surface—a breakdown of the world capitalist economy, triggered, but not caused, by the pandemic.