IMF cuts growth forecast amid warnings of global recession

Nick Beams
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The International Monetary Fund has said more than a third of the global economy will contract either this year or next with the three major economies, the US, the European Union and China continuing to stall.

In its *World Economic Outlook* report issued at its semi-annual meeting in Washington yesterday, the IMF said growth would slow from 6 percent in 2021 to 3.2 percent in 2022 and to 2.7 percent in 2023. This is the weakest growth path since 2001, except for the global financial crisis of 2008-2009 and the onset of the COVID-19 pandemic.

It said inflation, which was 4.7 percent in 2021, would be 8.8 percent for 2022, coming down to 6.5 percent in 2023 and then falling to 4.1 percent in 2023.

The growth figures are a continuation of the downward revisions the IMF made since its meeting in April. For advanced economies, growth is expected to come in at 2.4 percent this year, following growth of 5.2 percent in 2021 and then fall to 1.1 percent in 2023, with "the slowdown gathering strength."

In the US, the world's largest economy, growth is expected to be only 1 percent in 2023, falling from 1.6 percent this year. The projection for 2022 was revised down by 0.7 percentage points from the estimate in July "reflecting the unexpected real GDP contraction in the second quarter."

For the US, the IMF said: "Declining real disposable income continues to eat into consumer demand, and higher interest rates are taking an important toll on spending, especially spending on residential investment."

The forecast for the euro area is growth of 3.7 percent in 2022, falling to just 0.5 percent in 2023. The slowdown for Germany, the euro area's largest economy and the world's fourth biggest, is "especially sharp" with negative annual growth expected next year.

The IMF projected a "significant slowdown" for the UK with growth falling from 3.6 percent in 2022 to just 0.3 percent in 2023 as "high inflation reduces purchasing power and tighter monetary policy takes a toll on consumer spending and business investment."

The growth forecast for China this year has been revised downward to 3.2 percent. This is the lowest growth rate in more than four decades, excluding the contraction at the start of the pandemic in 2020. Growth is predicted to rise to 4.4 percent in 2023, but this is still well below the target of the government for growth of above 5 percent.

Summarising the outlook in his foreword to the report, IMF economic counsellor, Pierre-Olivier Gourinchas, said: "The worst is yet to come, and for many people 2023 will feel like a recession."

With higher energy prices, "winter 2022 will be challenging for Europe, but winter 2023 will likely be worse."

Despite the worsening economic outlook, the IMF is insisting there must be no letup in the interest rate hikes by central banks, spearheaded by the US Federal Reserve, which are bringing financial turmoil and recession.

The rate hikes are being conducted under the banner of the fight against inflation, but the real aim is to induce an economic contraction—recession if necessary—to batter down wage demands as workers seek to redress the daily gouging of their living standards by the highest inflation in four decades.

Real wages must be driven down even lower even as the IMF has acknowledged that "nominal wage growth in 2021 did not fully keep up with price inflation," meaning that real wages were flat or falling and, against a backdrop of even higher inflation, this pattern continued into 2022.

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While no mention was made by the IMF of their crucial role, this situation is the result of the sabotage by the trade unions in all the major economies of the wages struggles of the working class. The number one concern of the IMF, as it is of all governments and central banks, is that the working class breaks out of these shackles.

This issue was placed front and centre in Gourinchas' policy prescriptions in his foreword. "Central banks around the world," he wrote, "are now laser-focused on restoring price stability, and the pace of tightening has accelerated sharply."

There should be no let-up because "under-tightening would entrench further the inflation process, erode the credibility of central banks, and de-anchor inflation expectations."

In the language of the economic institutions of capital, "entrenching" inflation and "de-anchoring" expectations are code words for a situation in which workers realise, from their daily experiences, that the cuts to the living standards will continue unabated and escalate their action.

Gourinchas warned that as economies start "slowing down and financial fragilities emerge, calls for a pivot toward looser monetary conditions will inevitably become louder." While financial policy should ensure the markets remain stable, "central banks around the world need to keep a steady hand with monetary policy firmly focused on taming inflation."

In other words, the class war launched against the working class through the high interest rate regime must continue and be deepened, with financial authorities taking the necessary action to protect the casualties that may result on the side of finance capital.

As the IMF revises down its growth forecasts, with "the worst yet to come," predictions of recession have been coming thick and fast.

Earlier this week, in a major interview with the US business channel CNBC, JP Morgan chief Jamie Dimon said the US economy would likely enter a recession in the next six to nine months. He warned that this could lead to "panic" in credit markets, noting that depressed market conditions for initial public offerings on Wall Street and high-yield debt deals could soon spread.

There could be a further 20 percent fall in Wall Street's S&P 500 index which would be more painful than the 20 percent decline so far this year.

S&P Global Market Intelligence has downgraded its forecast for growth and says the US economy will enter a recession in the last quarter of this year. It predicted the GDP would contract by 0.5 percent next year, well down from its previous forecast of 0.9 percent growth. S&P cited the "broad tightening of financial conditions" as the chief reason for the downward revision.

The Bank of America has said that higher interest rates will lead to the loss of tens of thousands of jobs a month starting from the beginning of next year. There would be a loss of about 175,000 jobs a month in the first quarter of next year and the job losses would continue throughout 2023.

Michael Gapen, head of US economics at the Bank of America, told CNN the premise was now for a "hard landing" with the unemployment rate climbing to 5 percent or 5.5 percent over the next year from its present level of 3.5 percent.

Signs of tensions over the global consequences of the US interest rate hikes were evident in remarks by Josep Borrell, the EU's high representative for foreign affairs, to a conference of diplomats earlier this week.

He said central banks were being forced to lift rates to prevent their currencies falling against the US dollar, likening it to German domination of monetary policy before the establishment of the euro single currency.

"Everybody is running to increase interest rates, this will bring us to a world recession," he said.

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