IMF slashes world growth outlook

By Andre Damon
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The International Monetary Fund downgraded its 2013 outlook for the world economy Tuesday amid mounting signs that the global slump is intensifying. In its latest World Economic Outlook report, the IMF said it expects global growth to reach 3.3 percent this year, compared to its January estimate of 3.5 percent. It left unchanged its projected growth rate of 4 percent for 2014.

The IMF downgraded its outlook for almost every part of the world, including both advanced and developing economies.

Most of the downgrade was attributable to worse-than-expected economic figures for the last quarter of 2012, which were released after its previous update in January. The euro zone economy contracted at a 2.3 percent annual rate in the final quarter of 2012, and the US economy stagnated.

The IMF's assessment for the second half of this year remained cautiously optimistic, prompting criticism from commentators who noted that the global economy has fared much worse than the IMF's estimates for two years running. The *Financial Times* wryly commented, "The IMF does not acknowledge this is becoming something of a pattern."

Even if unduly optimistic, the IMF report reflects a significant deterioration in the global economy. The report cuts the organization's forecast for the euro zone by 0.2 percent to -0.3 percent. France, in particular, had its outlook downgraded by 0.4 percent, "reflecting a combination of fiscal consolidation, poor export performance, and low confidence," according to the report. The IMF noted that the weakening of the "core" European economies such as France "may call into question the ability of the core to help the periphery, if and when needed."

Referring to the continued economic morass in Europe, Olivier Blanchard, the IMF's economic counselor, concluded that "there appears to be a growing bifurcation between the United States on one hand and the euro area on the other." Blanchard noted that "most euro area periphery countries, notably Italy and Spain, are expected to have substantial contractions in 2013." He added, "Adverse feedback loops between weak banks, weak sovereigns, and low activity are still reinforcing each other."

In the United States, whose growth outlook was cut by 0.2 percent, the projected rate of 1.9 percent will be "insufficient to make a large dent in the still-high unemployment rate." But even this meager growth rate looks optimistic in light of recent developments. The US economy slowed to a crawl in the last quarter of 2012, and the jobs figures for March were among the worst in recent years.

The IMF report noted that stock prices "in advanced and emerging markets have risen by some 15 percent," and that "markets may have moved ahead of the real economy." This growth of asset prices, however, has not translated into increased availability of credit to consumers and businesses, which "remains sluggish in many advanced economies, despite the rebound in the financial markets."

Asia and the emerging economies, which the report paints in a relatively favorable light compared to the disaster in Europe, are likewise mired in their own economic problems. China's economy grew 7.7 percent in the first quarter of 2013 compared to a year earlier, significantly slower than expected, officials said Monday. The country's economy has slowed for two years in a row, down from ten percent in 2010.

The IMF report significantly upgraded the outlook for Japan, by 0.4 percent, to 1.4 percent, as a result of the country's newly announced plans to devalue its currency by doubling its money supply. The IMF generally praised the move, but called for it to be accompanied by attacks on pensions and social spending.

Blanchard wrote, “This policy will boost growth in the short term, and this is reflected in our forecast of 1.6 percent growth for 2013. Given the high level of public debt, however, embarking on a fiscal stimulus in the absence of a medium-term fiscal consolidation plan is risky; it increases the probability that investors will require a risk premium, and that this will lead in turn to debt unsustainability.”

The report comes ahead of the semiannual meeting of the IMF and World Bank scheduled for this weekend, which will be accompanied by a meeting of G20 finance ministers. The meetings will likely focus on the effects of Japan’s extraordinary monetary stimulus on global exchange rates.

China has denounced Japan’s actions, with Gao Xiqing, the head of China’s sovereign wealth fund, stating earlier this month, “Treating the neighbors as your garbage bin and starting a currency war would not only be dangerous for others but eventually be bad for yourself.” China is the largest source of Japanese imports.

Despite the obvious tensions, the report sought to downplay the danger of a currency war, saying that “complaints about competitive exchange rate depreciations appear overblown,” and adding, “The evidence on valuation of the yen is mixed,” even though the yen has fallen fifteen percent over the past year.

The IMF’s outlook downgrade came amid other weak economic data. German car sales fell 17.1 percent in the first quarter from a year earlier, according to data from the ACEA industry association, pointing to further weakness in the core European economies. Car sales were down ten percent for the EU as a whole, while sales in Cyprus were down by nearly 60 percent compared to a year earlier.

These figures followed the Markit purchasing managers’ index figures for March, which indicated the 19th consecutive month of contraction in the region. This likely means that the euro zone economy contracted in the first quarter of the year, which would mark the fourth consecutive quarter of economic contraction in the region.
