IMF upgrades global growth forecast but warns of “fracture points”

By Nick Beams
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As the World Economic Forum summit of global elites got underway in Davos, Switzerland, the International Monetary Fund (IMF) upgraded its prediction for world economic growth over the next two years.

The IMF pointed to the “broadest synchronised global growth upsurge since 2010,” when the world economy pulled out of the recession of 2008–2009. It estimated that global output increased by 3.7 percent in 2017, a 0.1 percentage point rise on its forecast last October and 0.5 percentage points higher than 2016. The IMF revised its predictions of global growth for 2018 and 2019 upward by 0.2 percentage points to 3.9 percent.

However, a report issued by Oxfam for the Davos summit demonstrated that virtually all of this increase will flow to the oligarchs who dominate the world economy. Last year saw the biggest increase in the number of billionaires in history, as 82 percent of the increase in global wealth flowed to the top 1 percent, while the bottom 50 percent received no increase at all.

Not surprisingly, as the *Financial Times* reported, the mood among the chief executives gathering for the summit was more upbeat than at any time in the past decade. “With the stock markets booming … it’s no surprise CEOs are so bullish,” Bob Moritz, the global chairman of the accounting and financial firm PwC commented.

While attention is focused on the headline predictions for a rise in global growth, there are warnings, including from within the IMF itself, that the spurt may not last.

In a blog post, IMF chief economist Maurice Obstfeld said the upturn was “good news” but the present economic momentum “reflects a confluence of factors that is unlikely to last for long.” Without prompt action to address structural impediments to growth, the building of policy buffers and enhancing the inclusiveness of growth, “the next downturn will come sooner and be harder to fight.”

Obstfeld said the current upturn “is unlikely to become a new normal.” Instead, “medium-term downside risks” were “likely will grow over time.” He noted that the two biggest economies driving the present upturn—the US and China—both faced slowing growth prospects in the future.

China would cut back both the fiscal stimulus and credit expansion of the recent period, in order to “strengthen its overheated financial system.” In the US, the short-term stimulus provided by the Trump administration’s tax cuts would wear off.

Easy financial conditions, important as they were during the recovery, had left a legacy of debt, Obstfeld said. A sudden rise in interest rates from their current very low levels could tighten financial conditions globally. “Elevated equity prices would also be vulnerable, raising the risk of disruptive price adjustments,” he warned.

Summing up his views on the longer-term outlook, Obstfeld wrote: “Perhaps the over-arching risk is complacency. While the current conjuncture might appear to be a sweet spot for the global economy, prudent policymakers must look beyond the near term … The next recession may be closer than we think, and the ammunition with which to combat it is much more limited than a decade ago because public debts are so much higher.”

A sharper warning of the dangers facing the global economy and financial system came from former Bank for International Settlements chief economist William White.

In an interview with the UK-based *Telegraph,* White, who was one of the few to warn of the 2008 crash, said the world financial system was as dangerously stretched as it was during the previous bubble. This time, however, financial authorities had few defences left.

This was because of the policies pursued over the past decade—the reduction of interest rates to record lows and the pumping of trillions of dollars into the financial system under the program of quantitative easing (QE).

"All the market indicators right now are looking very similar to what we saw before the Lehman crisis, but the lesson has somehow been forgotten," White said. He cited the revelation that the bankrupt US construction group, Carillion, had raised £112 million through German Schuldschein bonds, and a South African retailer also had tapped into this obscure market to raise £730 million.

Schuldschein loans were once issued to family-owned, middle-sized German companies. The transformation of this corner of the market into a high-risk, shadow banking operation showed how badly the lending system had been distorted by QE and negative interest rates.

White noted there is always an intoxicating optimism at the height of every boom when people convince themselves that risk is fading. But that is precisely when the worst mistakes are made. "Central banks have been pouring more fuel on the fire," he said.

Since the 2008 crisis, global debt ratios had surged by 51 percentage points relative to global gross domestic product and stood at a record 327 percent, with every part of the world economy exhibiting some form of deformation.

"Should regulators really be congratulating themselves that the system is now safer? Nobody knows what is going to happen when they unwind QE. The markets had better be careful because there are a lot of fracture points out there," White warned.

While the elites gather at Davos to wallow in their fabulously increased wealth, the international working class should draw a balance sheet of the policies pursued by governments and financial authorities around the world over the past decade.

What have these policies produced? The siphoning of wealth and income to the heights of society, paid for by stagnant and declining wages, worsening working conditions and intensified exploitation, savage and ongoing cuts in all forms of social spending. These are coupled with the creation of conditions for another financial disaster potentially more serious than that of 2008.