

IMF downgrades world growth, warns of 'precarious' 2020

July 23 2019, by Heather Scott



The International Monetary Fund warns global growth is suffering from self-inflicted wounds

Global trade tensions, continued uncertainty and rising prospects for a no-deal Brexit are sapping the strength of the world economy, which faces a "precarious" 2020, the International Monetary Fund warned on Tuesday.

Trade conflicts are undercutting investment and weakening manufacturing, and the IMF urged countries to avoid using tariffs to resolve their differences.

In its quarterly update of its World Economic Outlook the IMF trimmed the global forecast issued in April by 0.1 percentage point this year and next, with growth expected to hit 3.2 percent in 2019 and 3.5 percent in 2020.

But the report sounded the alarm, saying things could easily go wrong.

"Global growth is sluggish and precarious, but it does not have to be this way because some of this is self-inflicted," IMF chief economist Gita Gopinath told reporters.

"Dynamism in the global economy is being weighed down by prolonged policy uncertainty as trade tensions remain heightened despite the recent US-China trade truce ... and the prospects of a no-deal Brexit have increased," she said at a briefing in Santiago, Chile.

Gopinath warned that the recovery seen next year "is precarious" because "close to 70 percent of the increase relies on an improvement in the growth performance in stressed emerging market and developing economies and is therefore subject to high uncertainty."

However, the United States, which is at the center of most of the trade tensions, saw one of the rare upgrades in the report, as it got a short-term boost from strong economic growth in the early part of the year.

The IMF raised the US GDP forecast by three-tenths of a percentage point to 2.6 percent for 2019, but weakening demand, in part due to the trade conflicts and tariffs, points to "slowing momentum over the rest of the year."

US economic growth is expected to slow to 1.9 percent in 2020.

China, which is the main target of US trade actions, was already experiencing a slowdown. But "the [negative effects](#) of escalating tariffs and weakening external demand have added pressure," the report said. A sudden slowdown in China is a key risk to the world economy.

The report downgraded Chinese growth by a tenth of a point this year and next, to 6.2 percent and 6.0 percent.

Avoid policy missteps

The IMF cautioned that there is an abundance of "potential triggers" for the situation to turn negative quickly, including the possibility of more US tariffs on China or on European autos, as well as a no-deal Brexit and high debt levels in many countries.

"While the tensions abated in June, durable agreements to resolve differences remain subject to possibly protracted and difficult negotiations," the report said.

Gopinath repeated the IMF calculation showing that the combined effect of tariffs imposed last year and potential tariffs threatened in May between the United States and China could reduce global GDP in 2020 by 0.5 percent.

The latest forecast was once again full of downgrades, with small downward revisions for Germany and Japan, but much larger cuts for Brazil, Mexico, Russia, India and South Africa—countries that were the engine for global growth in the wake of the 2008 financial crisis.

The IMF again stressed that resolving uncertainty remains the most pressing issue for the [global economy](#) and said governments should avoid

"policy missteps" which could have "a severely debilitating effect on sentiment, growth and job creation."

And "countries should not use tariffs to target bilateral trade balances," the report said, while recognizing that "trade disputes may be symptoms of deeper frustration with gaps in the rules-based multilateral trading system."

President Donald Trump and Chinese leader Xi Jinping in June agreed to a truce in their trade hostilities. Senior officials from Washington and Beijing have held two phone calls in recent weeks but no face-to-face meetings have yet been scheduled.

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