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Global Economy

IMF forecasts 'very painful' outlook for global economy

Fund expects world growth of just 2.7% next year as chief economist warns of 'darkest hour' ahead



China's zero-Covid policy and fragile housing market mean its economy is forecast to grow only 4.4% this year, well below Beijing's 5.5% target © Mark R Cristino/EPA-EFE/Shutterstock

Chris Giles and **Colby Smith** in Washington DC YESTERDAY

The IMF has said there is a growing risk that the global economy will slide into recession next year as households and businesses in most countries face “stormy waters”.

China's zero-Covid policy and fragile housing market, the need to raise interest rates to control inflation in advanced economies, and higher energy and food prices following Russia's invasion of Ukraine will lower world economic growth from 3.2 per cent in 2022 to 2.7 per cent next year, the fund predicted.

The growth forecast for 2023 is the lowest for the year ahead that the IMF has published since 2001, apart from the years of the coronavirus pandemic and following the global financial crisis.

The fund's economists judged that there was a greater than even chance that the world economy would perform worse than its central forecast and a 25 per cent chance that growth would fall below 2 per cent. That would represent global economic weakness seen only one year in 10 and only in 1973, 1981, 1982, 2009 and 2020 over the past half a century.

In an interview with the Financial Times, Pierre Olivier Gourinchas, the [IMF's](#) chief economist, said there was as much as a 15 per cent chance global growth could fall below 1 per cent eventually. This level would likely meet the threshold of a recession and would be "very, very painful for a lot of people".

"We are not in a crisis yet, but things are really not looking good," he said, adding that 2023 would be the "darkest hour" for the [global economy](#).

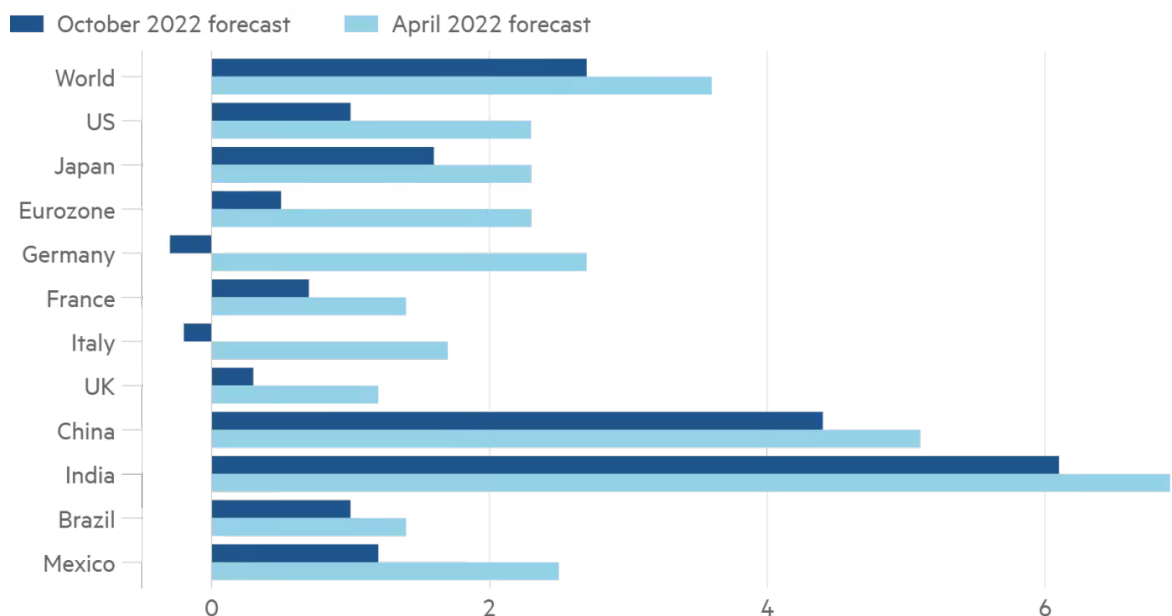
Financial turmoil, triggered by a shift into dollar assets, threatened to compound the economic threat.

"As the global economy is headed for stormy waters, financial turmoil may well erupt, prompting investors to seek the protection of safe-haven investments, such as US Treasuries, and pushing the dollar even higher," Gourinchas added in his statement that accompanied the report.

Although the sharp rises in interest rates around the world were weighing on growth, the IMF said they were necessary to ensure inflation came back under control and restored the global economy to a more stable footing.

Expectations for growth have been cut across all the major economies

IMF forecasts for GDP growth in 2023 (%)



Source: IMF
© FT

The fund forecasts inflation in advanced economies will hit 7.2 per cent this year and 4.4 per cent next year, both more than 1 percentage point higher than its previous April forecasts for 2023. For emerging and developing economies, consumer price growth will peak at an annual pace of almost 10 per cent this year before moderating to 8.1 per cent in 2023.

“On the front lines, you have the central banks. That’s their job, that’s their mandate [and] their whole reputation is at stake,” said Gourinchas. The fund said that monetary authorities must “stay the course” rather than repeat the mistakes of the 1970s when most monetary policymakers did not have the nerve to keep raising interest rates when their economies slowed or stalled.

There was a chance of tightening monetary policy too much, the IMF admitted, but it said the risks of doing too much were not as serious as letting inflation become normalised and ingrained into everyday life.

For the US Federal Reserve in particular, Gourinchas warned it was too soon for it to back off from its aggressive campaign to tighten monetary policy.

“We are far from having won that battle,” said the chief economist, adding that any signal that the Fed would not raise rates further could, at this point, be interpreted by financial markets as a sign policymakers were unwilling “to do what it takes”.

“Inflation expectations could de-anchor and we could have a more persistent process,” he said.

The IMF expanded on its recent criticism of UK economic policy, advising all countries not to have highly expansionary policies of taxation and public spending, despite the surge in energy and food prices.

There was a need to lower deficits and rebuild fiscal buffers, Gourinchas said. “Doing otherwise will only prolong the fight to bring inflation down, risk de-anchoring inflation expectations, increase funding costs, and stoke further financial instability, complicating the task of fiscal as well as monetary and financial authorities, as recent events illustrated,” he said in his statement.

Likening it to two drivers, each with their own steering wheels, Gourinchas told the FT that opposing fiscal and monetary policies prompted financial markets to question, “which way is that car going? Are we really fighting inflation or are we really stimulating economic activity?”

In the revised forecasts, 93 per cent of countries received downgrades to their growth outlook.

The 2022 global growth forecast has declined from 4.9 per cent in the fund's report a year ago to 3.2 per cent now. The 2023 growth estimate was cut from 3.6 per cent a year ago to 2.3 per cent, with the downgrades concentrated in advanced economies rather than in the emerging world.

In what will be a difficult report for Beijing's government as it prepared for the 20th national congress of the Communist party, China's economy was forecast to grow only 4.4 per cent this year, well below the government's 5.5 per cent growth target. The IMF expects this annual growth rate to improve only to 4.6 per cent over the next five years.

The US economy is expected to stagnate over the four quarters of 2022 and then maintain a sluggish 1 per cent growth rate in 2023. Many European countries will fall into recession, the IMF predicted, as households and companies struggle to cope with natural gas prices five times 2021 levels.

The fund was no more optimistic about the future. The downgrades were likely to be permanent, it said. Scarring from the pandemic and the war in Ukraine would leave the global economy 4.3 per cent smaller in 2024 than it expected in January 2020 as coronavirus began to spread globally.

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