

The world economy

System says slow

The IMF sees political danger in the economic doldrums

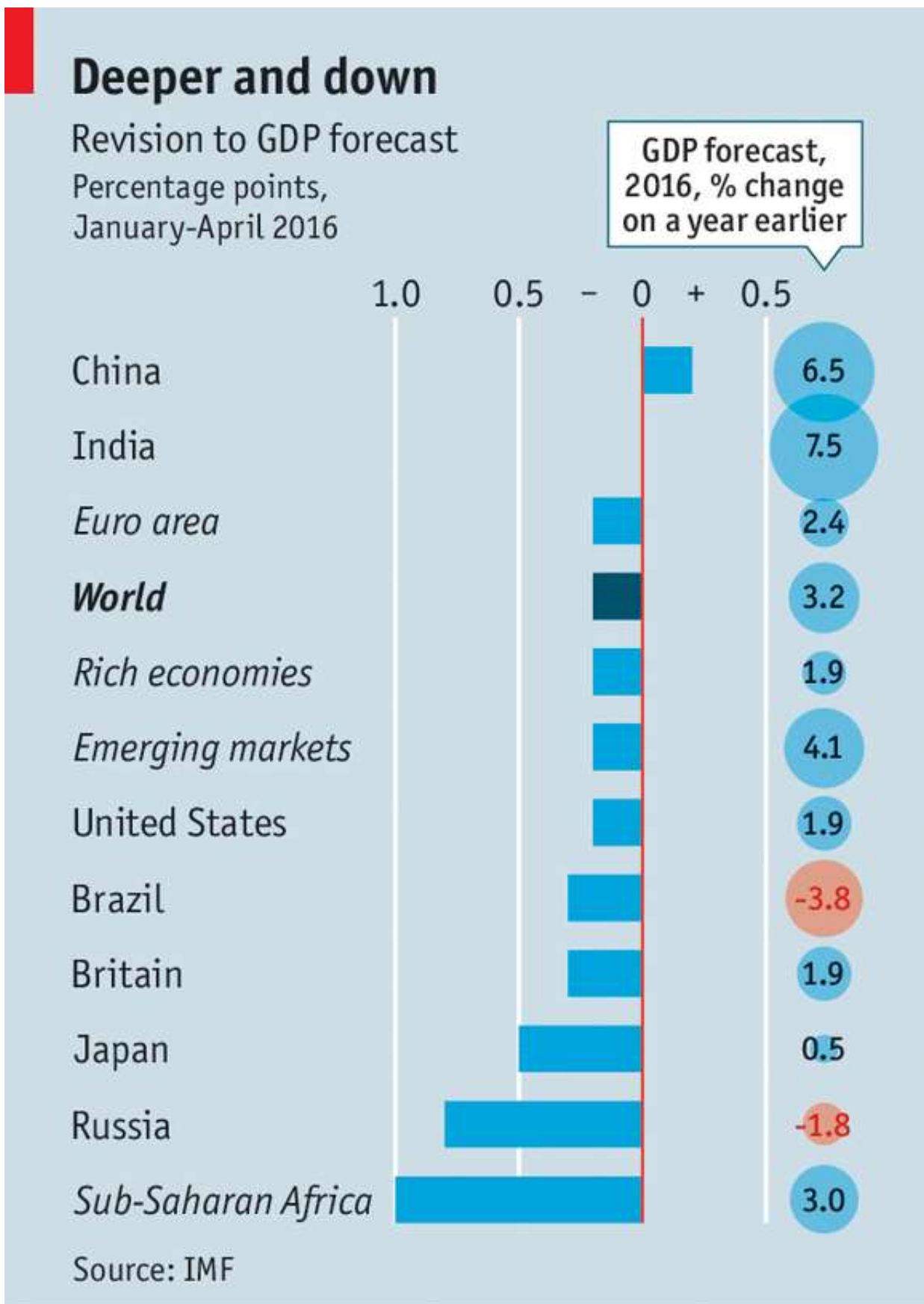
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IS THERE a global economic crisis on the horizon? Probably not. Is the world in danger of falling into recession? Not soon. Yet the IMF's latest update of its forecasts is nevertheless resolutely downbeat. Speaking this week in Washington, DC, its chief economist, Maurice Obstfeld, outlined yet another downward revision to its prediction for global GDP growth. It is likely that the next revision will again be down. One of the big threats to the world economy, he said, is from "non-economic risks"—fund-speak for grubby politics. A world economy stuck in the doldrums, he cautioned, may be a perilous place politically.



The actual forecasts are far from horrible. The fund nudged down its estimate of global growth for 2016 from 3.4% to 3.2%. That is still a shade faster than in 2015. The revisions are broad-based: America, Europe and the emerging world as a bloc all saw similar downgrades (see chart). The forecast for sub-Saharan Africa was pared back the most, in large part because of a gloomier outlook for oil-rich Nigeria, the continent's biggest economy. The recent recovery in crude prices will take some pressure off oil producers, but "we won't be seeing prices at the \$100 a barrel level for some time, if ever," said Mr Obstfeld. Of biggish economies, only China escaped a downgrade. The fund is more confident than it was in January that stimulus measures there will work. But there is a concern about the quality of China's growth, said Mr Obstfeld, as fresh credit is directed towards sputtering industries.

The scenario the fund seems most concerned about is a steady slide in global GDP growth that feeds on itself by discouraging investment, thereby exacerbating political tensions, which in turn make fixing the economy even harder. Brazil shows how a bad economy can be made worse by political paralysis. Low growth might add to the "rising tide of inward-looking nationalism" in the rich world, said Mr Obstfeld. Politics in America is moving against free trade. And there are



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various threats to Europe beyond the perennial problem of Greece. The refugee crisis has

already put pressure on the European Union's open-borders policy and there is a "real possibility" that Britain might leave the EU.

The IMF has some familiar remedies for the global economy: keep monetary policy loose, augment it with fiscal stimulus where possible and add some pro-growth reforms to the mix. Such action is needed to insure against the risks the fund identifies. But the world should also be making contingency plans for a co-ordinated response if a financial shock hits. "There is no longer much room for error," said Mr Obstfeld, with a certain weariness.

From the print edition: Finance and economics