

**IMF warns global economy in danger zone**  
**AFP News**  
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WASHINGTON (AFP) - The global economy has entered "a dangerous new phase," with a recovery that is much weaker than was predicted just months ago, the International Monetary Fund warned Tuesday.

Cautioning that Western economies could very well fall back into recession -- with serious knock-on effects for the rest of the globe -- the IMF cut its growth forecasts for the global economy to 4.0 percent for 2011 and 2012.

"The global economy has entered a dangerous new phase. The recovery has weakened considerably, and downside risks have increased sharply," the IMF's chief economist, Olivier Blanchard, said at a news conference.

"Strong policies are needed both to improve the outlook and to reduce the risks."

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In its twice-yearly World Economic Outlook report, the IMF predicted growth would be patchy across the developed and developing world.

The global economy, which rebounded in 2010 following the 2008-2009 Great Recession, has been dragged down by persistent debt and deficit problems in advanced economies, particularly the United States and the eurozone, it said.

Emerging market economies that have been the recovery's driving force, such as China and India, will not escape unscathed from the weakness in the advanced economies, the Washington-based lender said.

"Many emerging economies need to make faster progress in strengthening fiscal fundamentals before cyclical factors or spillovers from advanced economies... turn against them," it said in an accompanying analysis.

"Anemic" consumption in advanced economies and spiking financial volatility over worries about US and eurozone public debt have put the brakes on growth, originally forecast a half percentage point higher for this year.

The slowdown in advanced economies was "a development we largely failed to perceive as it was happening," Blanchard acknowledged.

Fiscal and financial uncertainty gathered steam in August, roiling financial markets as investors watched political gridlock in Washington over US debt and deficits and the spreading Greek debt crisis in the eurozone.

| IMF growth forecasts     | Change in GDP in % |      | Forecasts |      |
|--------------------------|--------------------|------|-----------|------|
|                          | 2009               | 2010 | 2011      | 2012 |
| World                    | -0.5               | 5.0  | 4.0       | 4.0  |
| Industrialised countries | -3.4               | 3.0  | 1.6       | 1.9  |
| United States            | -2.6               | 2.8  | 1.5       | 1.8  |
| Eurozone                 | -4.1               | 1.7  | 1.6       | 1.1  |
| Germany                  | -4.7               | 3.5  | 2.7       | 1.3  |
| France                   | -2.5               | 1.5  | 1.7       | 1.4  |
| Italy                    | -5.2               | 1.3  | 0.6       | 0.3  |
| Spain                    | -3.7               | -0.1 | 0.8       | 1.1  |
| United Kingdom           | -4.9               | 1.3  | 1.1       | 1.6  |
| Japan                    | -6.3               | 3.9  | -0.5      | 2.3  |
| Canada                   | -2.5               | 3.1  | 2.1       | 1.9  |

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The IMF report said global growth will be half a percentage point lower than it estimated in June

"Markets have clearly become more skeptical about the ability of many countries to stabilize their public debt," Blanchard said.

The United States, the world's largest economy, suffered the most notable downgrade -- about a percentage point -- with gross domestic product growth estimated at 1.5 percent this year and 1.8 percent in 2012.

For the 17-nation eurozone, GDP growth was projected to slow by about a half point, to 1.1 percent in 2012.

Japan's economy is rebounding from the March earthquake-tsunami disaster, the IMF said, and is expected to contract 0.5 percent this year, less than previously estimated, before clocking in 2.3 percent growth in 2012.

For emerging and developing economies, the IMF said that capacity constraints, policy tightening and slowing foreign demand would result in slightly slower growth of 6.1 percent in 2012.

China will continue to lead with a 9.0 percent expansion next year.

Growth downgrades were nearly universal, from Russia, Latin America and Sub-Saharan Africa to the Middle East and North Africa.

The IMF warned that a negative feedback loop between low growth and fiscal and financial stability is at the heart of risks facing the world economy.



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The global economy has been dragged down by problems in the advanced countries, particularly the US and the eurozone

Worries about sovereign debt have proliferated as growth weakens and extended to the banks holding those government bonds, mainly in Europe.

"Policy indecision has exacerbated uncertainty and added to financial strains, feeding back into the real economy," the IMF warned.

The IMF cautioned that its growth projections "assume that policymakers keep their commitments and the financial turmoil does not run beyond their control, allowing confidence to return as conditions stabilize."

If they fail to do that, "the major advanced economies could fall back into recession."

"Vulnerable sovereigns are prone to a sudden loss of investor confidence in their debt sustainability if fundamentals deteriorate sharply."

A separate IMF report showed that the budget woes of Greece, at the heart of Europe's problems, had risen.

The IMF revised up its projection of Greek debt to 189 percent of GDP in 2012,

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