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IMF says global economy could get worse

Global growth forecast cut to 3.3 per cent amid continued eurozone crisis and slowdown in powerful emerging economies.

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The IMF said greater integration of taxation and spending policies across the eurozone was needed [AFP]

The International Monetary Fund has cut its global economic growth forecast and warned things could get much worse if the eurozone crisis continues.

The IMF's quarterly report released on Monday says world financial conditions are likely to remain "very fragile" because of continued problems in the eurozone.

Growth forecast for 2012 has been put down to 3.3 per cent, from its July estimate of 3.5 per cent, with Asia still leading the pack of expanding regions while European economies contract an expected 0.4 per cent.

The Fund said the global economic growth will only hit 3.6 per cent next year, lower than the 3.9 per cent predicted in July, as even powerful emerging economies like China, India and Brazil slow down.

Overall, "[economic] output is expected to remain sluggish in advanced economies but still relatively solid in many emerging markets and developing economies," the IMF said.

Global efforts to ease credit and increase the amount of money available for lending are helping, but appear to be yielding diminishing returns, as are fiscal stimulus policies, the IMF said in its report released in the Japanese capital, Tokyo.

It said much would depend on action taken by policymakers in Europe and the US.

"In the United States, it is imperative to avoid excessive fiscal consolidation (the fiscal cliff) in 2013, to raise the debt ceiling promptly, and to agree on a credible medium-term fiscal consolidation plan," the Fund said in its World Economic Outlook.

The Fund warned the US economy is likely slow slightly next year from this year's forecast 2.2 per cent expansion even if the cliff plan is avoided.

"The most immediate downside risk, that delayed or insufficient policy action will further escalate the euro area crisis, remains in place," said the report.

It highlighted the [importance of the European Stability Mechanism \(ESM\)](#), the eurozone's new permanent fund to bail out struggling economies and banks launched earlier on Monday.

The fund added that greater integration of taxation and spending policies across the eurozone was needed, as well as measures to begin the process of banking union.

"The ESM must intervene in banking systems and provide support to sovereigns, while national leaders must work toward true economic and monetary union," the IMF said.

Steve Keen, a Professor of Economics and Finance at the University of Western Sydney, told Al Jazeera: "The IMF is accurately providing the symptoms of the crisis."

"We have seen five years of the downturn, we could see another fifteen years, unless they deal with private debt and stop looking at austerity as measures," he said.

China cooling

The IMF said the main forces pulling down growth in advanced economies are pressure to close budget deficits, by cutting spending and hiking taxes, as well as frail banking systems.

"While this consolidation is needed, there is no question that it is weighing on demand," it said.

Despite relatively strong growth compared with advanced economies, the IMF also downgraded growth prospects for emerging nations.

In Asia, "the near and medium-term outlooks are less buoyant compared with the region's growth performance in recent years", the fund said.

It highlighted weaker exports as a result of lower demand for goods in the West.

China would grow by 7.8 per cent this year, down from its previous forecast of 8 per cent, and by 8.2 per cent next year, down from 8.5 per cent.

It also revised dramatically its growth forecasts for India, which would grow by 4.9 per cent this

year and 6.1 per cent next year.

The report was released just ahead of the World Bank-IMF annual meeting, which is being held in Tokyo this week. The gathering of some 10,000 bankers, executives and officials will likely refocus attention on Japan's failure to escape its own economic slump.

The IMF said it expects growth in Japan to hit 2.2 per cent this year but to slacken further as reconstruction from the March 2011 disasters winds down, falling to 1.2 per cent next year.