

Financial crisis slams global economy to near-halt: IMF

by Veronica Smith – Wed Jan 28, 3:36 pm ET Yahoo News

WASHINGTON (AFP) – The International Monetary Fund slashed its economic outlook Wednesday, predicting the global financial crisis would slam growth to a virtual standstill this year.

"World growth is projected to fall to 0.5 percent in 2009, its lowest rate since World War II," the IMF said in a sharp 1.75-point downward revision of November forecasts.

"The world economy is facing a deep recession," the 185-nation institution warned.

The advanced economies were expected to contract by 2.0 percent, their first annual contraction in the postwar period and far more than the negative 0.3 percent the IMF estimated less than three months ago.

The financial problems that emerged in August 2007, stemming from a US subprime mortgage crisis, grew into a firestorm in September after the collapse of Wall Street investment bank Lehman Brothers which has hammered growth and trade worldwide.

"Despite wide-ranging policy actions, financial strains remain acute, pulling down the real economy," it said.

Noting a "highly uncertain outlook," the IMF said that "the timing and pace of the recovery depend critically on strong policy actions."

"A sustained economic recovery will not be possible until the financial sector's functionality is restored and credit markets are unclogged."

The United States, the epicenter of the financial crisis, would endure a 1.6 percent contraction in 2009, slashing its prior estimate of 0.9 percent.

The world's biggest economy, nonetheless, would weather the financial storm better than most other major advanced economies.

Japan's economy would shrink by 2.6 percent in 2009 instead of the 0.2 percent seen previously. The world's second-largest economy would be mired in recession for a second consecutive year, after shrinking 0.3 percent in 2008.

The 27-member eurozone economy would hit a wall, suffering a 2.0 percent contraction after growing 1.0 percent in 2008. The previous 2009 estimate was a 0.5 percent contraction.

IMF managing director Dominique Strauss-Kahn called for the European Central Bank to "give more gas" to the eurozone economy by cutting interest rates again, according to an interview with German weekly Die Zeit.

Germany, Europe's biggest economy, would shrink by 2.5 percent this year after a 1.3-percent expansion in 2008, according to IMF figures published six days ago.

Britain, outside the eurozone, would suffer the most, with gross domestic product (GDP) activity contracting 2.8 percent, after 0.7 percent growth last year.

Developing countries were forecast to expand by 3.3 percent in 2009, about half the 6.3-percent expansion of last year.

China would remain the world's fastest-growing economy, putting in a relatively blistering 6.7-percent pace, down from 9.0 percent in 2008.

India's economic growth would slow to 5.1 percent after 7.3 percent.

The IMF held out hope for a gradual economic recovery in 2010, with global growth of 3.0 percent spurred by "continued efforts to ease credit strains as well as expansionary fiscal and monetary policies."

But the institution cautioned that "the uncertainty surrounding the outlook is unusually large."

"Downside risks continue to dominate, as the scale and scope of the current financial crisis have taken the global economy into uncharted waters," it said.

The main risk is that unless stronger financial strains and uncertainties are forcefully addressed, the pernicious feedback loop between real activity and financial markets will intensify, leading to even more toxic effects on global growth.

In a separate report on global financial stability, the IMF raised its estimate of potential losses in US-originated asset writedowns to 2.2 trillion dollars, up from 1.4 trillion dollars.

"More aggressive actions by both policymakers and market participants are needed to ensure that the necessary deleveraging process is less disorderly," it said, underscoring that international cooperation was key to re-establishing financial stability.

It prescribed a broad three-pronged approach -- including liquidity provision, capital injections, and disposal of problem assets -- "that should be implemented fully and quickly so as to encourage balance sheet cleansing."

On Monday Strauss-Kahn criticized the Group of 20 major industrial and emerging countries for having done "very little" on their pledge in November to fight the global financial turmoil.