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Commentary

THE BUFFIN FOUNDATION SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

The IMF's Current Global Perspective

The International Monetary Fund (IMF) held its annual meeting this month in Washington in collaboration with the World Bank. In a closing statement, the policy-setting committee for the 189-nation IMF commented that global growth should accelerate next year, although officials acknowledged that a range of factors could undermine that forecast, including continued trade disputes and increased geopolitical risks. The statement stressed the need to resolve trade tensions and support the necessary reform of the World Trade Organization. IMF Managing Director Kristalina Georgieva said that the threat from trade wars was the chief topic of discussion for finance officials during the Washington meeting; she reported that the IMF has estimated that the tariffs already imposed or threatened could reduce global growth by 0.8 percent by the end of next year with most of the reduction coming from fallout on business confidence. She appealed for policymakers to take very seriously their obligations to international cooperation on trade. World Bank President David Malpass noted that growth is slowing, investment is sluggish, manufacturing activity is soft and trade is weakening. Against this backdrop of concern and pessimism, the IMF has released its two quarterly publications *World Economic Outlook* and *Global Financial Stability Report*. In its latest economic outlook, the IMF projects the global economy will expand by 3.0 percent this year, the weakest rate in a decade and a 0.3 percent downgrade from its previous estimate. The IMF reported that 90 percent of the world is experiencing a decline in growth. However, the IMF forecasts that growth will accelerate slightly to 3.4 percent in 2020, representing a 0.2 percent downgrade from its previous estimate, but still below the actual 3.6% rate achieved in 2018.

After slowing sharply in the last three quarters of 2018, global economic activity remains weak. Momentum in manufacturing activity, in particular, has weakened substantially, to levels not seen since the global financial crisis. Rising trade and geopolitical tensions have increased uncertainty about the future of the global trading system and international cooperation more generally, taking a toll on business confidence, investment decisions, and global trade. A notable shift toward increased monetary policy accommodation has cushioned the impact of these tensions on financial market sentiment and activity, while a generally resilient service sector has supported employment growth. However, the outlook remains precarious. With uncertainty about prospects in emerging markets in Latin America, the Middle East and Europe, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could emerge. To forestall such an outcome, policies should aim decisively at defusing trade tensions, reinvigorating multilateral cooperation, and providing timely support to economic activity where needed. To strengthen resilience, policy makers should address financial vulnerabilities that pose risks to growth in the medium term. Making growth more inclusive, securing better economic prospects for all, should remain an overarching goal.

Financial markets have been buffeted by trade tensions and growing concerns about the global economic outlook. Weakening economic activity and increased downside risks have prompted an easing in monetary policy across the globe, a development that has been accompanied by sharp declines in market yields. As a result, the amount of bonds with negative yields has increased to about $15 trillion. Investors now expect interest rates to remain very low for longer than anticipated at the beginning of the year. In some markets, investors' search for yield has left asset prices overstretched and has fostered further easing in financial conditions. Accommodative monetary policy is supporting the economy in the near term, but easy financial conditions are encouraging financial risk-taking and fueling a further buildup of vulnerabilities in some sectors and countries. Corporate sector vulnerabilities are already elevated in several systemically important economies as a result of rising debt burdens and weakening debt service capacity. In a material economic slowdown scenario, half as severe as the global financial crisis, corporate debt at risk could rise above crisis levels to $19 trillion, nearly 40 percent of total corporate debt in major economies. Vulnerabilities among nonbank financial institutions are now elevated in 80 percent of economies with systemically important financial sectors, specifically the insurance sector. Institutional investors' search for yield could lead to exposures that may amplify shocks during market stress. Similarities in investment funds' portfolios could magnify a market sell-off; pension funds' illiquid investments could constrain their ability to play a role in stabilizing markets as they have done in the past. Also cross-border investments by life insurers could produce spillovers across markets. Capital flows to emerging markets have also been spurred by low interest rates in advanced economies; these inflows of capital have supported additional borrowing, such that median external debt in emerging market economies has risen by about 60 percent in relation to the value of exports since 2008.

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