IMF

China Study Circle

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IMF Observations

- IMF economists prepared a report for the G20 ministers with simulations showing the worst-case scenario;
- where all the tariffs threats and retaliation are implemented,
- and business confidence erode
- could cut a half point or USD 430 billion off global GDP in 2020.
- the increasing trade restrictions "the greatest near-term threat" to the world economy.
- It will harm all the countries While all countries, , the US economy is especially vulnerable because so much of its global trade will be subject to retaliatory measures.

IMF Chief on global economy

- May other problem can also be faced including :
- stuttering emerging market economies, as investors have taken USD 14 billion out of the markets between May and June, causing some central banks to raise interest rates.
- She urged emerging market authorities
- to maintain flexible exchange rates,
- tamp down credit growth
- and reduce debt levels to prepare themselves.
- Furthermore, IMF member countries may not fully appreciate how technology is changing the composition of their labour forces, and how it could worsen inequality.
- She said countries should take "bold" steps to modernise their social safety nets, increase education and improve digital infrastructure.

- Maurice Obstfeld, the IMF’s economic counsellor, said: “Countries must resist inward-looking thinking and remember that on a range of problems of common interest, multilateral cooperation is vital.” Beyond the immediate threat from weaker levels of international trade, the IMF said greater use of protectionist measures could hinder business investment, disrupt global supply chains, slow the spread of productivity-boosting technologies and raise the price of consumer goods.

Growth Predictions

- Despite highlighting greater risks for the world economy, the fund left its global growth forecast of 3.9% for both this year and next unchanged. However, it unveiled sharp slowdowns for the EU, UK and Japan amid weaker growth and increasing political tension
- Growth in the UK this year is forecast to slow to 1.4%, compared with an estimate of 1.6% made in April due to freezing weather and heavy snowfall

IMF on EU and UK

- The fund also highlighted the risk attached to Westminster and Brussels failing to make further progress on the terms of Brexit, despite several months of negotiations between the two sides.
- Germany, France and Italy were among European nations receiving the sharpest downgrades for growth this year, of as much as 0.3% compared with forecasts made in April.
- Growth across the eurozone this year is forecast to slow to 2.2%, compared with an earlier forecast for an expansion of 2.4%.
- The IMF said China would continue to grow at the slower rates it forecast back in April, of about 6.6% this year.
- While the US faces greater risks from trade, the fund said Trump's tax cuts would also mean the American economy continuing to grow in line with its previous estimates, of around 2.4% this year.

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- The Japanese economy is forecast to cool to 1%.
- Alongside the threat of greater trade disputes, Obstfeld said: "Financial markets seem broadly complacent in the face of these contingencies."
- In another report, released on July 25, the IMF warned that external imbalances in world's key economies had global implications. Urging China to negotiate a settlement to ease trade tensions, the IMF said that its trade rift with the US would affect the international trading system and the global economy.

IMF on China’s progress

- he IMF noted China’s GDP growth of 6.9pc, was a 0.2pc increase from 2016 and the first uptick in economic growth since 2010. The report also highlighted signs of success in Beijing’s efforts to change financial regulation, reduce overcapacity and combat pollution.
- “A wide range of regulatory reforms reduced financial sector risks, overcapacity reduction progressed, anti-pollution efforts intensified and opening-up accelerated recently,” the IMF added.
- “Credit growth slowed significantly, but remained strong. While the corporate debt to GDP ratio stabilised, total nonfinancial sector debt still rose faster than nominal GDP growth.”
- The report also noted that deficit of the general government sector — including estimated off-budget investment spending — was estimated to be around 11pc of GDP in 2017.
- The current account surplus fell by 0.4pcage points to 1.4pc of GDP in 2017. It is projected to narrow to 0.9pc of GDP in 2018, driven by deteriorating terms of trade.
- Net capital outflows declined sharply from $646 billion in 2016 to $73bn in 2017. The RMB was broadly stable against the basket of currencies in 2017 and was assessed to be broadly in line with fundamentals.
- The IMF, however, was cautious in predicting the economic fallout for China of its trade war with the US.
- The report pointed out that the 25pc tariff on $50bn worth of Chinese imports announced several months ago – $34bn of which has already been imposed – would account for just 0.4pc of China’s GDP. Further duties on $200 billion in goods threatened by Trump in early July would translate to 1.7pc.

Literature

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