

World economic outlook on downward trend, IMF

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The International Monetary Fund expects to announce much lower forecast figures on the world economic outlook next week.

The IMF Managing Director, Dominique Strauss-Kahn, warned that the world faces a deepening economic crisis, with the slowdown in advanced economies now spreading to major emerging markets such as China, India, and Brazil.

He said the IMF would significantly adjust downward its forecast for world growth for 2009 when the 185-member international institution announces a revised assessment of the global economy on January 29.

In an update released last November, the IMF had said that advanced economies would see a contraction in output in 2009 – the first since World War II – but that growth in major emerging markets would still enable the global economy to advance by 2.2 percent in 2009.

Mr Strauss-Kahn told the BBC's Hardtalk program today, that the economic prospects had worsened over the past few months.

"So 2009 will not be a good year for the world economy, even if we see recovery at the beginning of 2010," he said.

The IMF chief said the world had avoided a total meltdown of the financial system as a result of coordinated intervention by major central banks last October. "We were very close in September to a total collapse of the world economy," he said, adding that the crisis had revealed the needed for governments to work more closely together to save the crisis situation.

He said the IMF has recommended a combination of measures to get the world back on track, which include the stabilisation of financial markets and to get credit flowing again; fiscal stimulus through a combination of increased government spending and tax cuts to revive consumer demand; liquidity support for emerging market countries to reduce the adverse effects of the widespread capital outflows triggered by the financial crisis; and, help for low-income countries harmed by fallout from the crisis and the lingering impact of last year's spike in food and fuel prices.

He also said the IMF has proposed that governments in a position to do so should act together to inject a global fiscal stimulus equivalent to about 2 percent of world GDP – \$1.2 trillion.

Mr Strauss-Kahn said though a number of governments around the world had announced

stimulus plans, he did not think enough had been done so far. "In Europe especially, they are still behind the curve," he said. "There needs to be more done on the spending side, especially because the reaction of the economy to more spending is quicker than the reaction to a decrease in taxes."

The European Commission said on January 19 it expected that the 16 countries using the euro would see their economies shrink by 1.9 percent in 2009.

Mr Strauss-Kahn warned of the risk of social upheaval and unrest in some countries worst affected by the downturn and said he expected additional countries to seek IMF help, not just in Eastern Europe, but elsewhere in the world, including Latin America where some countries were "just on the edge."

The IMF has so far committed \$47.9 billion in lending to a number of economies affected by the crisis.

Speaking on the IMF's capacity to cope with the crisis, Mr Strauss-Kahn said that the Fund had enough money for the immediate future. "If the crisis goes on, which is most probable, then down the road – say six months from now – we will need more money."

He said the IMF may need an extra \$150 billion to help emerging markets and low-income countries get through the crisis.

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