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The Business Times
Saturday 13th June 2020
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Global economy to suffer ‘significant scarring’: IMF

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Singapore

THE global economy is recovering more slowly than expected from the coronavirus pandemic and will bear lingering scars from the experience, said the International Monetary Fund (IMF).

The IMF is set to release economic growth projections on June 24 that “will be, very likely, worse than what we had” in April, even as there remains “profound uncertainty” around the forecasts, Gita Gopinath, the IMF’s chief economist, said in a video recorded on June 4 and released on Friday as part of the seventh annual Asian Monetary Policy Forum.

“One has to be quite concerned about the path of recovery,” she said, citing the depth of the crisis, the need for labour re-allocation, the onset of bankruptcies and insolvency issues, and changes in consumer behaviour. “Many of these variables point to significant scarring effects.”

In April, the IMF estimated the global economy would shrink by 3 per cent this year – the deepest contraction since the Great Depression – and anticipated an even worse outcome if the coronavirus lingers or returns. That analysis saw growth rebounding to 5.8 per cent in 2021.

The forum, which is usually held live as a series of in-person panels, was co-hosted by the Monetary Authority of Singapore, Asian Bureau of Finance and Economic Research, University of Chicago Booth School of Business and National University of Singapore Business School.

Asian economies are further along in their recoveries and generally have done better at containing their virus outbreaks, Ms Gopinath said, noting Taiwan’s success specifically. Asia’s deep integration with the Chinese economy, where “containment has worked very well”, could also provide a “mild positive” for the region, she added.

Asia’s open economies are especially vulnerable to the downturn in global trade, and external financing needs and fiscal vulnerabilities remain for emerging markets even after effective liquidity injections. PHOTO: AFP

At the same time, the region’s open economies are especially vulnerable to the downturn in global trade, and external financing needs and fiscal vulnerabilities remain for emerging markets even after effective liquidity injections, she said.

Geopolitical issues, including US-China tensions and turmoil in Hong Kong, also continue to exacerbate risk in Asia and worldwide, she too said.

“All of that has very big implications for global supply chains, the location of production going forward, the risks to globalisation and the rise of protectionism,” she said.

Ms Gopinath said a faster improvement in financial markets could be credited to the rapid global policy reaction to the pandemic, which helped ease liquidity problems.

Her video was recorded before this week’s whipsaw in financial markets, which included a Wall Street buying surge ahead of the Federal Reserve’s policy decision on Wednesday and a sharp sell-off on Thursday amid worries about a second wave of coronavirus infections.

“You’ve had very rapid cuts in monetary policy rates, very large amounts of liquidity infusion, and this has absolutely helped with global liquidity,” she said.

“The question of course is how long will this continue, and can this hold up.” BLOOMBERG