

## Business

# IMF cuts global growth outlook amid US and China slowdowns

## The world may soon be teetering on the edge of a global recession

WASHINGTON: Surging inflation and severe slowdowns in the United States and China prompted the IMF to downgrade its outlook for the global economy this year and next, while warning Tuesday that the situation could get much worse.

"The outlook has darkened significantly since April. The world may soon be teetering on the edge of a global recession, only two years after the last one," IMF chief economist Pierre-Olivier Gourinchas said.

In its latest World Economic Outlook, the International Monetary Fund cut the 2022 global GDP estimate to 3.2 percent, four-tenths of a point lower than the April forecast, and about half the rate seen last year. Last year's "tentative recovery" from the pandemic downturn "has been followed by increasingly gloomy developments in 2022 as risks began to materialize," the report said. "Several shocks have hit a world economy already weakened by the pandemic," including the war in Ukraine which has driven up global prices for food and energy, prompting central banks to raise interest rates sharply, the IMF said.

Ongoing COVID-19 lockdowns and a worsening real estate crisis have hindered economic activity in China, while the Federal Reserve's aggressive interest rate hikes are slowing US growth sharply.

But the IMF offered a stark caveat to the forecasts, cautioning that "risks to the outlook are overwhelmingly tilted to the downside," and if they materialize could push the global economy into one of the worst slumps in the past half-century. Key among the concerns is the fallout from the war in Ukraine including the potential for Russia to cut off natural gas supplies to Europe, as well as a further spike in prices and a food shortage due to the chokehold the war has on grain supplies that could trigger famine.

In an ominous warning, the WEO said "such shocks could, if sufficiently severe, cause a combination of recession accompanied by high and rising inflation ('stagflation')." That would slam the brakes on growth, slowing it to 2.0 percent in 2023. The global growth rate has only been slower five times since 1970, the IMF said.

### Inflation priority

The top priority for policymakers is to rein in soaring prices, even at the cost of inflicting pain on their citizens, the fund said, since the damage caused by allowing inflation to rage out of control would be



WASHINGTON: Handout photo released by the Argentine Ministry of Economy of Argentina's Economy Minister Silvina Batakis (left) and International Monetary Fund Managing Director Kristalina Georgieva posing for a picture in Washington, on July 25, 2022. — AFP

much worse. Gourinchas, in a blog post about the report, noted that the "synchronized" moves by major central banks to deal with the inflation threat "is historically unprecedented, and its effects are expected to bite."

"Tighter monetary policy will inevitably have real economic costs, but delaying it will only exacerbate the hardship," he said. The IMF now sees consumer prices jumping 8.3 percent this year, nearly a full point higher than previously forecast, while emerging market economies face a 9.5 percent increase in consumer prices. But, "further supply-related shocks to food and energy prices from the war in Ukraine could sharply increase headline inflation."

That would increase the pain for poor nations least able to withstand the shock, where food makes up a larger share of family budgets.

### US, China slowdown

While the global economy did a bit better than expected in the first three months of the year, it appears to have "shrunk in the second quarter—the first contrac-

tion since 2020," the IMF said. The IMF downgraded growth forecasts for most countries, including big revisions for the United States and China, which cut more than a point off the prior forecasts. The fund now sees US growth this year of just 2.3 percent, amid slowing consumer spending and rising interest rates, and the report said a recession—defined by two quarters of negative growth—may already have begun.

China's economy is expected to slow dramatically in 2022, expanding just 3.3 percent—the lowest in more than four decades other than the 2020 pandemic crisis—due to COVID concerns and the "worsening crisis" in the property sector, the report said. "The slowdown in China has global consequences: lockdowns added to global supply chain disruptions and the decline in domestic spending are reducing demand for goods and services from China's trade partners," the report said.

There were some exceptions to the gloomy outlook, including upgrades for Italy, Brazil and Mexico, as well as for Russia which is still expected to contract but is benefitting from rising oil prices due to Western sanctions, the WEO said. — AFP

power can replace some of the gas used for electricity production.

"I'm predicting that the lifetime of the nuclear power plants will be prolonged at the end of the year," Merz recently told public broadcaster ZDF.

### Green shift

Scholz's junior coalition partner, the liberal FDP, is also turning up the pressure. "The run-time should be extended until spring 2024," senior FDP member Michael Kruse told the daily Bild. "We must use everything that can contribute to electricity production. Nuclear power plants are part of that." Katrin Goering-Eckardt, deputy president of the German parliament, signaled that the mood was shifting even among her Green party, which has opposed atomic power for more than 40 years.

Nothing should be ruled out "if it comes to the point that we have a real emergency situation, that hospitals can't operate... then we have talk about it," she told public broadcaster ARD.

Social Democratic party co-leader, Saskia Esken, on Monday also said there should be no red lines when it comes to tackling the energy crisis. In the Bavarian city of Munich, local officials from the SPD and Greens have urged the federal government to keep the region's Isar 2 plant, one of the three remaining nuclear plants, online for longer.

Munich mayor Dieter Reiter said the extension could be made possible by not running the plant at full capacity, allowing the nuclear fuel rods to last longer.

Should Germany abandon its nuclear exit, it would not be the government's first energy U-turn since the start of the Ukraine war. In a move described as "bitter" by Green Economy Minister Robert Habeck, Germany recently decided to restart mothballed coal-fired power plants to preserve gas. — AFP



WERNE, Germany: This file photograph taken on March 24, 2022, shows a controller at a pipe for gas lines is pictured at Open Grid Europe (OGE), one of Europe's largest gas transmission system operators, in Werne, western Germany. — AFP

it is expected to remain elevated in the second half," Unilever said. Alex Smith, analyst at research group Third Bridge, forecast more price hikes were likely in the coming months as a result. "Inflation will continue to erode Unilever's margins for the next 12-18 months, although margin pressure has been partly mitigated by price increases in the first half," Smith noted.

"Our experts see further price increases in the second half." Unilever had experienced strong demand for hand and household cleaning products during the coronavirus outbreak. It cautioned Tuesday that China's renewed lockdowns had weighed on the Asian giant's consumer spending in the second quarter of this year. Unilever became a wholly British company at the end of 2020 after it completed a merger of its Dutch and British corporate entities. — AFP

## Seven risks behind IMF global growth outlook of doom

WASHINGTON: A perfect storm of doom has been pummeling the global economy in recent months, undermining global growth expectations, but the IMF on Tuesday warned the worst-case scenario is plausible, which would cut growth to one of the lowest levels in the past five decades. If these seven risks to the outlook occur, global growth could fall to just 2.0 percent in 2023:

### War in Ukraine

Europe has a gas problem: In the wake of the Russian invasion of Ukraine, the report notes that since April, Russian pipeline gas shipped to Europe has fallen to about 40 percent of the previous year's level. European Union governments in particular have accused Moscow of squeezing supplies in retaliation for Western sanctions over its war.

The pain is not expected to let up anytime soon, and the IMF predicts volume will "decline further." Worst case scenario? A total cessation of exports in 2022 could increase worldwide inflation and force energy rationing in Europe, with subsequent growth reduction and "negative cross-border spillovers."

### Inflation surge

At every turn, the troubled outlook seems to circle back to Ukraine. Supply-related shocks have sent food and energy prices higher, spurring inflation and prompting governments to raise borrowing costs to tamp down demand.

In a worst-case scenario, central bank actions could precipitate recession even as costs simultaneously rise, creating a scenario known as stagflation. Wage-price spirals also are a possibility with low unemployment in several economies prompting workers to demand higher pay. If policymakers fail to handle the situation deftly, they could cause further complications.

However, inflation is expected to return to near pre-pandemic levels by the end of 2024.

### Central banks overshoot

Central Banks are carrying out a delicate balancing act in their attempts to prevent contraction by raising interest rates quickly. What happens if they blunder?

Recession — and the likelihood is rising. "The risk of recession is particularly prominent in 2023," the IMF said.

"In several economies growth is expected to bottom out, household savings accumulated during the pandemic will have declined, and even small shocks could cause economies to stall," the report warned.

### Debt distress

Debt dynamics are expected to worsen in advanced economies as borrowers face rising interest rates and low growth, but distress in emerging markets and developing economies is especially worrying. As advanced economies raise interest rates to fight inflation, lending costs will increase, putting the pressure on governments forced to borrow to support their economies during the pandemic, while at the same time their currencies will depreciate, as capital floods out of those countries.

The IMF estimates that 60 percent of low-income countries are already "in or at high risk of government debt distress."

### China troubles

Progress in the face of China's ongoing COVID outbreaks, including fiscal support and reworking of Beijing's zero-Covid strategy, offers some signs of hope in the world's second largest economy. However, the possibility of large-scale outbreaks due to even more contagious variants means widespread lockdowns remain a real threat, with financial impacts for the wider global economy.

China's troubled property sector, meanwhile, is not expected to improve anytime soon, creating the specter of a "sudden, wider crisis."

Unrest from food and energy prices  
Food and energy are essential to daily life and the pronounced rise in prices threatens not just family budgets but also social stability.

"Higher food and energy prices are robust predictors of unrest," the IMF said. Chief among the factors driving higher food prices has been Russia's blockade of Ukrainian grain exports.

### Fragmented economy

The war in Ukraine's tentacles are far-reaching. Beyond the obvious economic factors, the conflict has created global political fragmentation and geopolitical blocs that no longer work together smoothly. That means differing technology standards, cross-border payment systems and reserve currencies. Decreased multilateral cooperation between blocs could even result in less interaction on climate change, thereby worsening the food crisis. — AFP



Tufan Erginbilgic

## Aircraft engine maker Rolls-Royce picks new CEO

LONDON: British aircraft engine maker Rolls-Royce on Tuesday said it had chosen former BP executive Tufan Erginbilgic to replace long-serving chief executive Warren East.

Erginbilgic, a dual UK and Turkish national, replaces East from the start of 2023, Rolls said in a statement. East is stepping down after a tumultuous eight years in the top role during which time he turned around performance and slashed thousands of jobs.

Rolls-Royce chair Anita Frew described Erginbilgic, 62, as "a proven leader of winning teams within complex multinational organizations". She said he had "an ability to drive a high-performance culture and deliver results for investors". Erginbilgic worked for more than 20 years at BP, including as head of its downstream unit.

He left the British energy major in 2020 and is currently a partner at private equity firm Global Infrastructure Partners. East told AFP last week that he was "quite pleased" with his time at Rolls-Royce. "We've put in place a lot of efficiency and productivity improvements," he said on the sidelines of the Farnborough Airshow, adding that the engine maker's focus was on decarbonisation of aviation.

The 60-year-old's tenure was marked by corruption fines that pre-dated his arrival, as well as troubles with the company's Trent family of engines. Rolls, whose products power Airbus and Boeing aircraft, axed 9,000 jobs and offloaded assets in drastic cost-cutting after the COVID pandemic grounded jets and sparked a collapse in air traffic. East guided the group back to profit in 2021 after the painful restructuring and Rolls has gone on to reap the benefits of aviation's recovery and growth in government defense spending. — AFP

## Unilever sales jump on higher prices, but profit slips

LONDON: British consumer goods group Unilever said Tuesday that first-half revenues jumped on higher prices, but net profit fell on rising costs and taxation. Turnover leapt 15 percent to 29.6 billion euros (\$30.2 billion) in first six months of 2022 compared with a year earlier, but sales volumes fell, Unilever said in a statement. Profit after tax slid almost seven percent to 2.9

billion euros on higher finance, input and restructuring costs, alongside slowing world economic growth.

Unilever manufactures food, cleaning and beauty products, including Magnum ice-cream, Cif surface cleaner and Dove soap. Input costs are soaring on the back of runaway inflation—and global supply-chain pressures. "Unilever has delivered a first-half performance which builds on our momentum of 2021, despite the challenges of high inflation and slower global growth," said chief executive Alan Jope. Sales were "driven by strong pricing to mitigate input cost inflation, which, as expected, had some impact on volume".

The company warned that the outlook remains blighted by soaring cost inflation. "High-input cost inflation has been widespread across our markets, and