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To the point!

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The IMF is concerned – and rightly so

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The global economy is weaker than it has been for decades

For economists like me, there are always two anchor dates each year: The spring and fall meetings of the International Monetary Fund (IMF) and the World Bank. This week it's that time again: The world's central bankers and finance ministers meet in Washington. They missed the popular and spectacular cherry blossom this year. Because due to climate change, this is taking place earlier and earlier in the year. Instead of a walk around the Tidal Basin to the Jefferson Memorial, delegates can therefore devote themselves more thoroughly to studying the IMF's semi-annual forecast. Not a light-hearted read.

Global economic growth falls below 3% this year

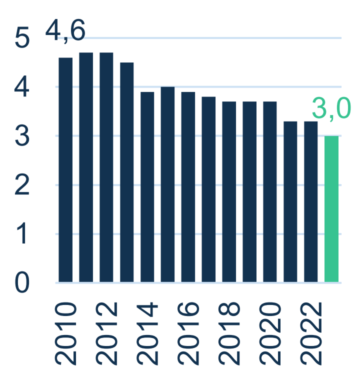
For the current year, the IMF sees a slowdown in momentum. The global economy will expand by only 2.8%, compared with 3.4% in the previous year. And that was already below the long-term average since the beginning of the millennium. Since 2000, there have only been three years in which the global economy grew more sluggishly than it probably will in 2023. By the way: With a forecast of 2.5%, LBBW Research is even slightly lower. Europe is dragging down the global average. For Germany in particular, the IMF predicts a contraction of 0.1% in 2023 (LBBW: -0.5%). Among the major industrialized countries, only the UK performs worse.

Inflation more persistent than hoped

But there is also little promising to report on the inflation front. By the end of 2023, the IMF believes that global inflation will still be 5.1%, a full 0.6% higher than estimated in January. The risk of a price-wage spiral is growing. It is therefore to be welcomed that central banks have so far stayed the course, despite the interim

Global economy to grow by only 2.8% in 2023

Average growth of the global economy during next five years, in % (IMF medium-term forecasts spring 2010-2023)



Source: IMF, LBBW Research

turbulence on the banking market. This is because the recent decline in inflation rates should not obscure the fact that underlying "core inflation" (i.e. excluding the volatile energy and food prices) has recently risen further. In the USA and Europe, it is well above 5%. I therefore expect both the Fed and the ECB to keep raising interest rates despite the gloomier economic outlook. Most likely, the Fed is very close to the top.

Inflation is sticky: No all-clear for central banks

The medium-term outlook does not put us in a good mood

But what I find almost more remarkable is that the IMF is predicting average growth for the next five years to be as low as it was last in 1990, namely 3% (see chart). What is needed are growth-promoting reforms. These range from fully exploiting the potential productivity gains through purposeful digitalization strategies and stronger focus on better educational outcomes, to reducing bureaucratic and regulatory barriers.

Germany in particular has a long to-do list. It is fine if Finance Minister Lindner proclaims that he is more optimistic about Germany than the IMF. But it is not really important. What would be more important is for policymakers to finally get serious about creating the framework that will enable the German economy to positively surprise the IMF's forecasters in Washington. And, incidentally, the forecasters at LBBW in Stuttgart. Under current conditions we see an even lower medium-term growth potential for Germany than the just under 1.5% that the IMF believes Germany can achieve. Berlin, please walk the talk and surprise us!

Structural reforms urgently needed