

IMF Raises Global Growth Forecast

Fears About Inflation
And Slowdown Linger;
'In a Tough Spot'
By TOM BARKLEY
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WASHINGTON -- The outlook for the world economy has improved in recent months, but governments face an increasingly difficult task of trying to tamp down rising inflation pressures without jeopardizing economic growth, the International Monetary Fund said.

"The global economy is in a tough spot, caught between sharply slowing demand in many advanced economies and rising inflation everywhere, notably in emerging and developing economies," the fund said in its latest update to the World Economic Outlook.

The IMF raised its global economic-growth forecast for 2008 to 4.1% from an earlier estimate of 3.7% in April. Its 2009 projection was lifted a notch to 3.9% from 3.8%.

The first-quarter slowdown wasn't as bad as expected. But the fund sees signs of a further deceleration in the second half, with a gradual recovery next year.

Meanwhile, fears of financial-market unrest have been overtaken by bigger concerns about surging oil and food prices, which present a "much more difficult" environment for policy makers, IMF chief economist Simon Johnson said.

The improvement in the growth forecasts is in large part due to a surprisingly resilient U.S. economy, which grew 1% in the first quarter. The IMF revised its U.S. estimate for 2008 to 1.3% from a forecast of 0.5% growth given in April.

U.S. growth is expected to be flat or "decline modestly" in the second half of the year, owing to rising commodity prices and tighter credit conditions, then recover slowly next year, Mr. Johnson said.

The 2009 U.S. growth estimate also edged up to 0.8% from 0.6%, with the housing market expected to hit bottom in the next few quarters.

The IMF's April forecasts, particularly those for the U.S. and euro area, drew criticism from those countries' governments and even its sister institution, the World Bank, as being overly pessimistic.

The IMF also raised its euro-area forecast, for the 15 nations of the European Union that use the euro as their currency, to 1.7% this year from its previous estimate of 1.4%, while keeping its 2009 projection at 1.2%. The U.K. is now expected to grow 1.8% this year and 1.7% in the next, versus previous growth estimates of 1.6% for 2008 and 2009.

Japan's forecast for this year was adjusted higher by 0.1 percentage point to 1.5%, with the 2009 forecast unchanged at 1.5%.

The overall forecast for emerging and developing economies edged up 0.2 percentage point to 6.9% this year, with a 0.1-percentage-point increase over the April forecast for next year to 6.7%.

China's 2008 forecast was raised to 9.7% from 9.3% in April, with the 2009 estimate increasing to 9.8% from 9.5%. India is estimated to grow 8% this year, up from an earlier forecast of 7.9%, while the 8% forecast for 2009 was unchanged.