

IMF Sees Stronger Global Rebound From '09 Recession

By Sandrine Rastello and Timothy R. Homan

July 8, 2009 (Bloomberg) -- **The International Monetary Fund** said the global economic rebound next year will be stronger than it forecast in April as the **financial system** stabilizes and the pace of contractions from the U.S. to Japan moderates.

The Washington-based lender said in a revised **forecast** released today that the world economy will expand 2.5 percent in 2010, compared with its April projection of 1.9 percent growth. A contraction this year will be 1.4 percent, worse than an April forecast for a 1.3 percent drop, the IMF said.

The improved outlook for next year boosted **U.S. stocks**. The forecasts reflect differing stages of recovery across the globe, with emerging economies including China helping pull the world out of the worst recession in six decades, while Europe lags behind the U.S. and Japan. The fund warned the pickup is likely to be "sluggish" and called repairing the international banking system a priority.

"The global economy is still in recession, but a recovery is coming," IMF chief economist **Olivier Blanchard** said in a Bloomberg Television interview today. "A weak recovery is a way of putting it," he said, adding that unemployment around the world may keep rising into 2010.

Stocks and Treasuries rose after the IMF released its new forecasts and an updated outlook for the global financial system. The Standard & Poor's 500 Index gained 0.6 percent to 886.5 as of 10:22 a.m. in New York. The yield on the benchmark 10-year government note slipped to 3.44 percent from 3.46 percent late yesterday.

Exit Strategies

The fund also called on policy makers to start crafting plans to exit such support measures in order to tame inflation concerns and take steps toward balancing public finances.

Advanced economies will continue to lead the slump this year by shrinking 3.8 percent. They will grow 0.6 percent in 2010, more than forecast in April, when the fund expected no growth for next year.

U.S. gross domestic product will shrink 2.6 percent this year before expanding 0.8 percent in 2010, the IMF said. In April it expected growth to stall next year.

Asked whether the U.S. should consider a stimulus plan in addition to a \$787 billion package passed earlier this year, Blanchard said it may become an option worth debate if the recession lingers.

Stimulus Efforts

"It may well be that if the recovery turns out to be very weak, weaker than we expect, governments may have to continue fiscal stimulus in 2010" and even 2011, Blanchard said in a press conference in Washington. "These are options that they have to be thinking about."

The outlook for Japan jumped to 1.7 percent next year from an April estimate of 0.5 percent. This year the fund sees Japan's economy contracting 6 percent, from an earlier estimate of 6.2 percent, helped by "aggressive fiscal policies" and increased demand from other Asian partners.

Emerging and developing economies will grow 4.7 percent next year, a 0.7 percentage point increase from the previous forecasts. This year they will expand 1.5 percent, compared with a 1.6 percent expansion expected in April.

China's growth is forecast to accelerate to 8.5 percent next year, a percentage point more than expected in April, after slowing to 7.5 percent this year. India's economy will expand by 6.5 percent in 2010, compared with the April forecast of 5.6 percent, after a 5.4 increase percent this year that was higher than the IMF's prior estimate.

Inflation Risks

While the fund called risks for sustained deflation "small," the outlook for global inflation "is expected to remain subdued through 2010, held back by significant excess capacity."

Still, risks to the outlook, which have "diminished noticeably," are still "tilted to the downside," the fund said, citing a possible downward pressure on asset prices resulting from rising unemployment, pressure on bond yields from concerns on public debt, and emerging economies' vulnerability to financial stress.

A larger-than-expected drop in risk aversion and stronger demand in emerging economies could offer "some upside risk" that boosts growth, according to the fund.

In a separate report today on the state of the global financial system, the IMF said that while financial markets and confidence in an economic recovery have improved since April, risks remain and policy makers must remain vigilant until a sustained recovery is under way. Credit risks are high, bank lending to the private sector is slowing and the recovery so far has been dependent primarily on public funds, the fund said in an update to its Global Financial Stability Report.