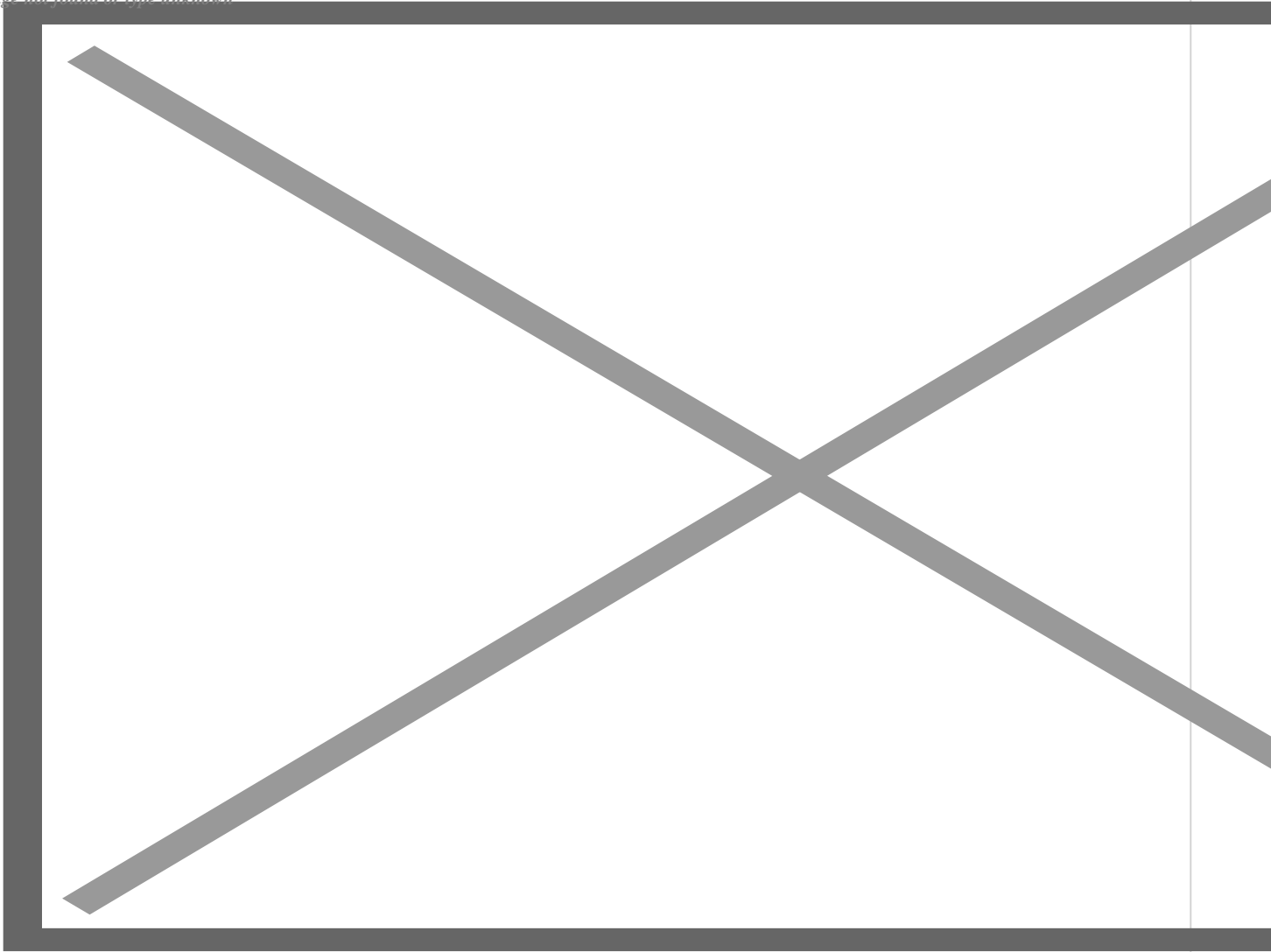


IMF says U.S. on course for major recession

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Logo of IMF at the International Monetary Fund (Reuters photo)

Washington, July 27 (RHC)-- The United States has only a slim chance of avoiding an economic downturn given the many risks it faces, the IMF said on Tuesday. "It's a very narrow path," IMF chief economist Pierre-Olivier Gourinchas said.

"The current environment suggest that the likelihood that the US economy can avoid a recession is actually quite narrow," AFP reported. He warned that even a "small shock" could tip the US economy into recession.

In its latest update to the World Economic Outlook, the IMF slashed the growth forecast for the United States to 2.3 percent this year, a drastic 1.4 percentage points lower than the April forecast. It is projected to slow further next year, with growth of just 1.0 percent.

The U.S. central bank has been raising interest rates aggressively to tamp down red-hot inflation, which is slowing economic activity. Another increase is expected Wednesday at the conclusion of the Federal Reserve's two-day policy meeting, with more to follow in coming months.

Gourinchas said that while the US labor market is strong now, with very low 3.6 percent unemployment, the IMF expects that "as this monetary policy tightening continues, then that's going to gradually cool off also the labor market" causing joblessness to rise.

Current forecasts call for a slowing but not a downturn, but there are "signs of an economy that is slowing down," Gourinchas told reporters. IMF says not holding active discussions on potential new SDR issue

A new issue of International Monetary Fund Special Drawing Rights reserves is among options that could be considered to aid countries struggling with spillovers from the Ukraine war but there are no active discussions on the matter, IMF officials said on Tuesday.

"There has been no discussion at the IMF of a further SDR allocation," an IMF spokesperson said in an emailed statement. "Despite recent developments and high global uncertainty, it would be premature to conclude that the long-term global need for reserves has changed significantly," Reuters reported.

The statement was issued after IMF chief economist Pierre-Olivier Gourinchas told a news conference that a new SDR allocation was "part of a menu of options that the fund is exploring currently" to aid countries dealing with crises prompted by high food and energy costs.

The IMF in August 2021 created and issued \$650 billion in SDR assets to member countries to aid their recovery from the COVID-19 pandemic, and the spokesperson said most still hold these assets as reserves.

More than 45 progressive US lawmakers led by Senator Elizabeth Warren and Representative Pramila Jayapal, both Democrats, earlier this month urged President Joe Biden and US Treasury Secretary Janet Yellen to support here a new SDR allocation of at least \$650 million to avoid famine and a destabilizing debt crisis in developing countries.

The SDR issue of that size last year did not require legislative approval in the United States, the IMF's controlling shareholder.

Gourinchas said an SDR allocation is "not a panacea" for difficulties facing developing countries and there are limitations on how it could help countries.

Another complicating factor is that Russia, as an IMF member, would receive an allocation, which would draw some political opposition given its invasion of Ukraine.

The IMF spokesperson said the Fund is currently focusing on channeling SDRs from wealthier members to those in need of additional reserve assets. This includes scaling up lending of the reserves through the existing Poverty Reduction and Growth Trust and establishing the new Resilience and Sustainability Trust to include vulnerable middle income countries. The IMF hopes to begin lending from the new trust in October.

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