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## IMF: World economy is stronger but faces threats

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WASHINGTON (AP) — The global economy is strengthening but faces threats from super-low inflation and outflows of capital from emerging economies, the International Monetary Fund warned Tuesday.

The lending organization expects the global economy to grow 3.6 percent this year and 3.9 percent in 2015, up from 3 percent last year. Those figures are just one-tenth of a percentage point below the IMF's previous forecasts in January.

The acceleration is being driven mostly by strong growth in advanced economies, including the United States and the United Kingdom, and a modest recovery in the 18 nations that use the euro currency.

By contrast, developing nations, particularly Russia, Brazil and South Africa, are now expected to grow much more slowly than the IMF forecast three months ago. Russia's economy will likely suffer as a result of its fight with the U.S. and Europe over the Ukraine. Others face high interest rates, which are intended to fight inflation but could slow growth.

The IMF, in its World Economic Outlook report, sharply upgraded its growth forecasts for the U.K., Germany and Spain. It expects the eurozone to grow 1.2 percent in 2014 and 1.5 percent in 2015 after shrinking 0.5 percent last year. Both estimates are one-tenth of a percentage point higher than the IMF's January forecasts.

The IMF made no changes to its forecasts for U.S. growth, which it estimates at 2.8 percent this year and 3 percent in 2015.

"The recovery ... is becoming not only stronger but broader," Olivier Blanchard, the IMF's chief economist, said at a news conference Tuesday.

The U.S. and European economies are benefiting from smaller government spending cuts and tax increases, Blanchard said. Banks are improving their finances. And investors are increasingly willing to buy European government debt.

Japan, however, is forecast to expand just 1.4 percent next year, down from the IMF's previous projection of 1.7 percent, and just 1 percent in 2015. Higher sales taxes are expected to weigh on growth.

Growth in China, the world's second-largest economy, is expected to continue its slowdown from its double-digit pace of a few years ago. That will have repercussions for many nations that export raw materials and parts to Chinese factories. China

is projected to expand 7.5 percent in 2014 and 7.3 percent in 2015, down from 7.7 percent last year.

The 188-nation IMF and its sister organization, the World Bank, will hold their spring meetings in Washington this weekend. Finance ministers and central bank governors from the Group of 20 leading economies will meet Thursday.

The issues highlighted in the IMF's outlook, such as alarmingly low inflation, will likely be high on the agenda. Yet the meetings will be relatively free of the crisis atmosphere that beset the IMF for several years after the global financial meltdown and European debt crisis.

"Relative to previous years, the global economy is more stable," said Jacob Kierkegaard, a senior fellow at the Peterson Institute for International Economics. "This is going to be an annual meeting that will be more about process and medium- to long-run goals" than about short-term actions.

Nevertheless, analysts expect European officials, particularly the European Central Bank, to come under pressure to fight low inflation. Last week, Christine Lagarde, the IMF's managing director, urged the ECB to take "unconventional measures" to push prices up.

Such steps could include the purchase of bonds or other financial assets. The U.S. Federal Reserve and the Bank of Japan have both made such purchases to try to stimulate their economies.

Lagarde's comment drew a rebuke last week from ECB President Mario Draghi. He noted tartly that the IMF "has been ... extremely generous in its suggestions on what we should or should not do" and added that the ECB disagreed.

Even so, the IMF "will reiterate the message that the ECB should be more aggressive," said Domenico Lombardi, director of the global economy program at CIGI, a Toronto-based think tank. "The ECB is behind the curve."

Inflation in the 18 countries that use the euro currency fell to an annual rate of 0.5 percent last month. Though consumers can enjoy flat prices, ultra-low inflation can stifle growth. People and companies postpone purchases knowing that prices will be little changed months later. Debts become harder to pay off. That's a particularly severe problem in Europe, where many governments remain squeezed by debts.

Super-low inflation also raises the risk of deflation — a decline in wages and prices that can cause a recession.

At the meetings, developing countries will likely push for greater coordination of central bank policies. Many say they've been harmed by the Federal Reserve's pullback of its stimulus this year. The Fed has been paring its monthly bond purchases, which were intended to keep U.S. interest rates low and spur more borrowing and spending.

But the prospect of higher U.S. rates has led investors to pull money from developing countries and reinvest it in the United States for higher returns. That exodus has caused currencies in Turkey, South Africa and other countries to plunge in value.

Eswar Prasad, a former IMF official and fellow at the Brookings Institution, said many Asian nations will likely raise a similar concern. They are wary of efforts by central banks in Japan and China to depress their currencies, which can make their exports cheaper and give them a trade advantage. Better coordination among central banks could address some of these concerns.

The United States could face criticism because Congress has refused to approve changes to the IMF that would give developing countries more influence. The Obama administration has sought the changes, which were dropped from legislation that gave \$1 billion in loan guarantees to Ukraine. The provisions would have given Russia slightly more influence at the IMF just as lawmakers sought to punish President Vladimir Putin.

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