

# IMF warns over parallels to Great Depression

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The International Monetary Fund has warned of "worrisome parallels" between the current global crisis and the Great Depression, despite the unprecedented steps already taken by central banks and governments worldwide.

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This recession is likely to be "unusually long and severe, and the recovery sluggish," said the Fund, releasing two advance chapters from its World Economic Outlook. However, it warned there is a risk that it could spiral down into a full-blown slump unless further action is taken to stop "feedback effects" gathering force.

Dominique Strauss-Kahn, head of the IMF, said millions of people risk being pushed back into poverty as the economic storm ravages the most vulnerable countries. "The human consequences could be absolutely devastating. This is a truly global crisis, and nobody is escaping," he said.

"The free-fall in the global economy may be starting to abate, with a recovery emerging in 2010, but this depends crucially on the right policies being adopted today."

Mr Strauss-Kahn called for a urgent action to "cleanse banks" of toxic assets and for further fiscal stimulus beyond the 2pc of global GDP already agreed. The snag is that high-debt countries may have hit the limits already.

"The impact becomes negative for debt levels that exceed 60pc of GDP," said the Fund.

While no countries were named, this would raise questions about Japan, Germany, France, Italy and ultimately Britain and the US after their bank rescues.

The IMF said the US is at the epicentre of this crisis just as it was in the Depression, setting the two episodes apart from normal downturns. However, the risks are greater this time. "While the credit boom in the 1920s was largely specific to the US, the boom during 2004-2007 was global, with increased leverage and risk-taking in advanced economies and many emerging economies. Levels of integration are now much higher than during the inter-war period, so US financial shocks have a larger impact," it said.

The IMF said the global financial system is still under acute stress, with output tumbling and inflation falling towards zero in key nations. "The risks of debt deflation have increased," it said.

Abrupt halts in capital flows can have "dire consequences" for emerging economies, it said. Eastern Europe has already suffered the effects, with a 17.6pc fall in industrial production in February. The region is highly vulnerable to the credit crunch since it owes more than 50pc of its GDP to Western banks.

Synchronised world recessions striking all major regions are "historically rare" events, the Fund said. They last one and a half times as long typical downturns, and are followed by painfully slow recoveries.

<http://www.telegraph.co.uk/finance/financetopics/recession/5166956/IMF-warns-over-parallels-to-Great-Depression.html>