

Amid Credit Market Crunch, Calls for Stronger IMF

With market turbulence exposing fault lines in parts of the international financial system, the IMF wrapped up its 2007 Annual Meetings amid calls for the multilateral institution to strengthen its role as a global financial watchdog and revamp its governance.

Finance ministers and central bank governors from around the world met October 20–22 in Washington, D.C., for the IMF-World Bank meetings at a time of renewed concerns about the fallout from the U.S. subprime mortgage meltdown. Outgoing IMF Managing Director Rodrigo de Rato told delegates from the 185 member countries on October 22 that the resulting market turbulence was akin to “an earthquake in the credit markets.”

The meetings also coincided with a watershed in global economic growth. Three major emerging markets—China, India, and Russia—now account for more than half of world growth, according to the just-released IMF *World Economic Outlook*.

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Chris Hondros/Getty

A sudden flight from risk, caused by the U.S. subprime mortgage meltdown, caused credit markets to seize up.

IMF Sees World Growth Slowing

World economic growth is expected to slow next year, with recent turbulence in financial markets triggered by the fallout from the U.S. subprime mortgage market clouding prospects, the IMF said in the October 2007 *World Economic Outlook (WEO)* released on October 17.

Before the turbulence erupted in August, the global economy had been expanding vigorously, with growth running above 5 percent in the first half of 2007, according to the *WEO*. China's economy gained further momentum, growing by 11½ percent. India also continued to grow very strongly at more than 9 percent, and Russia grew by almost 8 percent. In fact, these three countries alone have accounted for one-half of global growth over the past year. Robust expansions also continued in other emerging market and developing economies, including low-income countries in Africa.

Rapid growth in the emerging markets counterbalanced continued moderate growth of about 2¼ percent in the United States in the first half of 2007, as the housing sector continued to exert considerable drag. Among the advanced economies,

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Strauss-Kahn Takes Over as New IMF Head

Former French Finance Minister Dominique Strauss-Kahn began his job as the new IMF Managing Director on November 1 determined to put fresh vigor into reform of the 185-member institution that oversees the global economy. He was welcomed with a handshake at the front door of the IMF by outgoing Managing Director Rodrigo de Rato.

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Johnson: The greatest risk to world growth is continued turbulence in the financial markets.