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Even the IMF Is Warning Of a Systemic Crisis

by Rainer Apel

In its *Global Financial Stability Report,* published on Sept. 12, the International Monetary Fund (IMF) draws—after all its previous cover-ups of reality—a comparison between the present situation on world financial markets and the days of the hedge-fund meltdown in September-October 1998. In that highly dramatic situation—as even then-IMF Managing Director Michel Camdessus later admitted—the global financial system was teetering on the brink of a "true world catastrophe."

In its first chapter, the IMF report states:

"During the period under review, a sharp erosion of investor confidence, heightened risk aversion, and growing concerns about the strength and durability of the global recovery and the pace and quality of corporate earnings had repercussions in all of the major equity, credit, and foreign exchange markets. Market adjustments occurred against the background of the bursting of the telecom, media, and technology (TMT) bubble. . . .

"First, major equity market indices declined significantly and by early August were near or below levels not seen since the Autumn of 1998, when global markets were unsettled by Russia's default and the near-collapse of the global hedge fund, Long Term Capital Management.

"Second, as U.S. corporate bankruptcies hit records, institutional investors and banks discriminated more clearly between classes of borrowers and reduced lending to high-risk borrowers. As a result, corporate credit spreads widened, and speculative grade borrowers faced dramatically higher borrowing costs. The credit deterioration also created a record number of 'fallen angels,' whose outstanding bonds were downgraded from investment grade to junk status.

"Third, the dollar continued to depreciate against the other major currencies, reflecting reductions in foreign portfolio flows into U.S. equity markets and in foreign direct investment. The dollar's decline, together with the continuous stream of accounting irregularities in the United States and the relative absence of them elsewhere so far, intensified concerns about how much further the major currencies would be realigned and doubts about the sustainability of capital flows needed to finance the U.S. current account deficit."

The IMF report, in unusually drastic language, then points to "considerable downside risks" in the "imminent future":

- "The possibility of further equity price declines, and in the worst case scenario, panic selling by both institutional and retail investors;
- "A further weakening of financial institutions' balance sheets and profit outlooks, in particular among banks and insurers in Europe; and
- "An accelerating slowdown in net capital inflows to the United and the associated potential for substantial exchange rate movements."

Effects from a War on Iraq

There were also warnings from inside the IMF staff, in mid-September, pointing to disastrous effects upon the world economy from a new war on Iraq. This was immediately taken up by the German government in its reiterated criticism of the American war plans on Sept. 14; Germany said that a war, with oil prices being driven up, would hit the developing sector even harder than the industrialized countries. The developing nations could definitely not afford war-linked increases for crude oil prices—there is speculation that prices could hit $100 per barrel—and an instant collapse of the developing sector economies should be feared.

This theme had already been touched upon prominently by German Chancellor Gerhard Schröder in a Sept. 5 interview with the *New York Times.* Leading establishment economists, too, have realized that such a war would not only have incalculable military and poltical consequences, but that it will mean a global economic and financial catastrophe.

War and 'World Recession'

In Germany, the chief economist of the Federation of German Industry (BDI), Hans-Joachim Hass, warned on Sept. 9 that an Iraq war would lead the world into recession. Already now, he said, the German economy is "just above zero growth"; no longer are there "any reserves left." The mood among German corporations and consumers has been bleak for months; their hoped-for export-led recovery, in particular a "recovery of demand in the United States," is turning out to be non-existent. A war against Iraq would therefore mean that Germany "is stuck in recession," Hass said. But he concluded that the prime victim of a war against Iraq would be the American economy.

Deutsche Bank chief economist Norbert Walter said in a radio interview on Sept. 13 that a war against Iraq would cause a new global recession, and the German Association of Wholesale and Foreign Trade (BGA) and the Association of the Chemical Industry (VCI) jointly forecast that the oil price would shoot up and remain for some time at above $40 per barrel, causing another world recession.

A City of London financial insider told *EIR*'s Wiesbaden office on Sept. 13, that the "direction things are now headed, is that the United States will plunge into a very severe depression. Confidence is now fragile, and a war would shatter it completely."

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