

IMF says west's deficits to stay sky-high

By Chris Giles and Krishna Guha in Washington , Financial Times, 26 Apr 2009

Budget deficits across the industrialised world will remain sky-high next year in spite of reduced spending on fiscal stimulus, the International Monetary Fund warned on Sunday.

It said the Group of 20 leading economies taken together would run a budget deficit of 6.5 per cent next year compared with 6.6 per cent in 2009.

The huge ongoing deficits owe more to the severe weakness in the world's big economies than to discretionary spending on fiscal stimulus, which is set to decline in 2010.

The IMF put the US budget deficit at 8.8 per cent of gross domestic product next year, Japan's deficit at 9.6 per cent and the UK deficit at 10.9 per cent.

The biggest deterioration will come in Germany, the IMF forecast, with the deficit jumping from 4.7 per cent of GDP to 6.1 per cent. The deficit will also move higher in France, to 6.5 per cent of GDP.

In many cases the estimates are worse than those prepared by individual nations.

The new IMF budget forecasts came after three days of meetings of world finance ministers and central bank governors in Washington DC.

In a statement, the Group of Seven industrialised nations said "some signs of stabilisation are emerging" in the world economy.

But US officials maintained a wary tone. Lawrence Summers, director of the National Economic Council, told Fox News on Sunday: "I suspect the economy will continue to contract for some time."

Dominique Strauss-Kahn, IMF managing director, told reporters that nations differed over whether it was time to start refocusing on an "exit strategy".

Eswar Prasad, a professor at Cornell University, said the suggestion of recovery "appears to be sapping the desire to make the tough compromises that are necessary to foster international co-operation".

US and UK officials worry that continental European nations might backslide on stimulus, while French and German officials fear the US and UK could backslide on regulation.

After years of attempting to browbeat China into revaluing its currency, the G7 made peace with Beijing, praising China's action to "promote more balanced growth".

Ministers pledged support for World Bank efforts to provide counter-cyclical support for the poorest countries.

But the meeting of the IMF's governing council saw ongoing divisions over giving China and other emerging nations a larger stake in the Fund. China has indicated that until this issue is resolved, it may lend the IMF money by buying new IMF bonds rather than make more permanent financing commitments.

Mr Strauss-Kahn said new shareholding arrangements would be agreed by January 2011.

