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IMF Raises 2010 Growth Estimate for U.S., Raises Debt Concerns

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April 21 (Bloomberg) -- The International Monetary Fund raised its forecast for U.S. growth in 2010, while urging steps be taken to rein in an expanding budget deficit that risks pushing up interest rates.

The world's largest economy will grow 3.1 percent this year, up from a January forecast of 2.7 percent, the IMF said today in its World Economic Outlook report. Growth will slow to 2.6 percent in 2011 as fiscal stimulus is removed, according to the Washington-based lender, which has rescued economies from Iceland to Pakistan since the start of the financial crisis.

Manufacturing is at the forefront of the U.S. economic rebound as global demand strengthens. At the same time, an unemployment rate near a 26-year high may restrain gains in consumer spending, which accounts for about 70 percent of the economy.

"Substantial stimulus has supported the U.S. recovery, but private demand remains muted and the labor market is unusually weak," the IMF said its report. "Financial market conditions have normalized and the housing market has tentatively stabilized. But credit conditions, although no longer tightening, remain tight."

The jobless rate in the U.S. will average 9.4 percent this year before retreating to 8.3 percent in 2011, the fund said. The unemployment rate in March was 9.7 percent for a third straight month, according to Labor Department data.

Effect of Stimulus

Government stimulus plans such as an auto-rebate program and first-time homebuyer tax credits gave manufacturing and housing a boost in the second half of last year. The cash-for- clunkers plan to boost vehicle sales expired in August and the homebuyer tax credit ends on April 30.

The IMF estimates that President Barack Obama's $862 billion stimulus program boosted growth by about 1 percentage point in 2009, when the economy contracted 2.4 percent. The U.S. expanded at a 5.6 percent pace from October through December, the fastest pace in six years, the Commerce Department said last month.

"When the recovery is solidly under way, fiscal consolidation should be a top priority," the fund said. The IMF called the medium-term fiscal outlook "daunting," forecasting that the budget deficit will be around 8 percent of GDP in 2020, and federal debt will exceed 100 percent of GDP, up from its current level of 85 percent.

One approach to reducing government expenditures, the IMF said, is to build upon the Obama administration's health- insurance overhaul.

Health Care

"Health care reform will be essential to bring medical costs under control," the IMF said. "The recent progress toward reform is welcome, including signs that it may contribute modestly to medium-term deficit reduction."

The fund also said it supports the Federal Reserve's signaled intent to withdraw "excess liquidity and normalizing monetary policy gradually -- an appropriate strategy in light of uncertainties about both the economic outlook and the strength of the monetary transmission mechanism, particularly given high excess liquidity and remaining weaknesses in financial sector balance sheets."

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