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## IMF's best guess is for a gradual U.S. recovery IMF report says U.S. is facing unprecedented shocks

By [Greg Robb](#), MarketWatch  
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**WASHINGTON (MarketWatch) - The staff of the International Monetary Fund said Friday that its best guess was that the U.S. economy would recover gradually as the "healing" of the U.S. financial sector will take some time.**

The report from the staff said the United States is facing unprecedented shocks making it difficult to forecast the outlook for the world's largest economy. [Read full IMF report.](#)

**'The restoration of growth in the U.S. is going to be more gradual than may have been the case in the past.'**

— *John Lipsky, IMF first deputy managing director*

A more rapid recovery is possible, but so is a longer and steeper slowdown. The slowdown so far has been less than feared, the IMF said, but the recovery may be anemic.

"The restoration of growth in the U.S. is going to be more gradual than may have been the case in the past," said John Lipsky, the IMF's first deputy managing director, at a press conference ahead of the report's release.

"This reflects our expectation that some of the headwinds facing growth will remain in place," he said.

Bolstering the economy are substantial monetary and fiscal stimulus, and a proactive response to the financial market turmoil.

On the other hand, "there is a worrisome possibility that weakening activity will feed back into further bank losses, generating a longer slowdown," the report said.

Lipsky said he was cautiously optimistic that the U.S. financial sector was on the mend. He noted that there have been over \$300 billion in write-downs of assets on financial balance sheets but that the sector has also raised over \$200 billion in new capital.

This new capital should limit the risk of a credit crunch, Lipsky said.

The official IMF staff forecast is for flat growth this year, on a fourth-quarter-to-fourth-quarter basis, followed by about 2% growth in 2009.

The IMF raised its growth forecast slightly in 2008 from its previous estimate of a decline of 0.7%. But the revision this year simply reflects data already published by the government, Lipsky said. The IMF also bumped up its forecast for 2009 from the previous estimate of 1.6%.

The IMF was sanguine on the inflation outlook, saying that it expects "a lessening of inflationary pressures" as commodity prices peak and economic slack rises.

The Fed should be on hold, the report said. The weak financial sector precludes any rate hikes at the moment. If the economy recovers quickly, then the Fed might have to swiftly tighten policy.

While the dollar has moved lower - a key IMF desire - the nature of the decline hasn't eased global imbalances because most of the adjustment has been versus the euro and other floating currencies and not Asian currencies.

Another risk to the outlook is that growth in all the major industrial economies will be below trend in the second half of the year. ■

*Greg Robb is a senior reporter for MarketWatch in Washington.*

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