IMF: US economy improving but spending cuts a drag

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WASHINGTON — The U.S. economy is on sounder footing than it was a year ago but is still being restrained by government spending cuts and tax increases, the International Monetary Fund said Friday.

The IMF's annual report on the U.S. economy noted that the underlying fundamentals are gradually improving: Home prices and construction are rising, household finances have strengthened and employers are steadily adding jobs. The outlook was much more optimistic than IMF's 2012 report.



Lagarde

"There are signs that the U.S. recovery is gaining ground and becoming more durable," Christine Lagarde, the IMF's managing director, said in a written statement.

Still, the IMF forecasts economic growth of just 1.9 percent this year, the same as its April forecast. That would be down from 2.2 percent in 2012. And it's below many private economists' expectations that the U.S. economy will grow more than 2 percent this year.

The IMF says the tax increases and spending cuts that kicked in this year will shave about 1.5 percentage points from growth. The international lending organization had opposed the steep federal spending cuts that began on March 1.

The reduction in the U.S. budget deficit "has been excessively rapid and ill-designed," the report says.

Congress should cancel the $85 billion in spending cuts, the report urged, and replace them with longer-term reductions in entitlement programs, such as Social Security, that would weigh less on the economy.

The IMF also expects the Federal Reserve will maintain its bond purchases through the end of the year and will "very gradually" reduce them next year. The bond purchases are intended to lower long-term interest rates and encourage more borrowing investing and spending.