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IMF Urges Work on 'Rebalancing'

By BOB DAVIS

SEOUL—The International Monetary Fund said the Group of 20 nations had made only "limited progress" in revamping global growth patterns and were using economic projections that were "distinctly more optimistic" than recoveries from past recessions would suggest.

The report, commissioned by the G-20 industrialized and developing countries, represents a light rap on the knuckles of the G-20 nations, who have made sweeping promises to "rebalance" global growth so it depends less on U.S. consumer spending and to rein in escalating deficits and debts over coming years.

When the G-20's rebalancing process was conceived, the IMF was envisioned as a kind of referee that could cite individual nations for unrealistic policies, in what economic officials call a "name and shame" effort.

But the report seldom criticized specific countries. Instead, it largely set out countries' recent policies and then examined the overall result.

The IMF also generally looked at the G-20 as a whole—or divided the group into emerging countries or advanced ones. That is likely to be less effective in getting nations to change their ways.

The rebalancing, called the Mutual Assessment Process, "remains a tool that has not yet lived up to its promise," said Eswar Prasad, a Cornell University economist and former head of the IMF's China division. "Political constraints prevent it from being as hard-hitting as it ought to be and it lacks a mechanism for any serious follow-through."

The IMF report said the G-20 countries are "broadly on track" to meet their pledge—made in June in Toronto—to halve deficits by 2013 and reduce or stabilize their debt by 2016. But because the countries often use overly optimistic projections, the IMF said, there is a "significant risk" they might not hit the target if the expected growth doesn't materialize.

The G-20 nations are projecting strong growth over the next three to five years, accompanied by a sharp decline in unemployment, according to the Fund. But those forecasts "remain distinctly more optimistic than what past recoveries would suggest," the IMF says.

The IMF also was skeptical that the G-20 is making much progress in rebalancing growth so that it depends less on U.S. consumer spending.

Under a G-20 initiative, trade-deficit countries—the U.S. in particular—are expected to import less and save more, while trade-surplus countries—Germany and China especially—are expected to rely less on exports and boost domestic demand.

"After narrowing substantially in 2009," the report said, "global imbalances are expected to resume widening through 2014," which is the end date of the report.

If the G-20 countries managed to succeed in their efforts to rebalance growth, the IMF forecasts, global GDP would be 2% higher in 2014 than it otherwise would be. On the other hand, if the countries don't coordinate their policies as they have pledged, the result could be government default in Europe, asset bubbles in fast-growing Asia and a rise in protectionism.

—Ian Talley contributed to this article.

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