



## G-8 Starts Plan to Exit Stimulus on Recovery Signs (Update3)

[Share](#) | [Email](#) | [Print](#) | [A A A](#)

By Lorenzo Totaro and Simon Kennedy

June 13 (Bloomberg) -- The Group of Eight nations began considering how to reverse the emergency steps they took to rescue the world economy as it shows signs of recovery.

As they delivered their most upbeat outlook since **Lehman Brothers Holdings Inc.** collapsed, G-8 finance ministers said they will start planning exit strategies for when sustainable growth returns. It's still too soon to roll back budget deficits and bank bailouts, they said after a meeting in Lecce, Italy.

"We discussed the need to prepare appropriate strategies for unwinding the extraordinary policy measures taken to respond to the crisis once the recovery is assured," the ministers said in a statement today after two days of talks. There are "signs of stabilization," though "the situation remains uncertain."

Governments are under pressure to turn their attention from fighting recession to smoothing a recovery as investors worry more than \$2 trillion in stimulus programs will spark inflation if left unchecked. The officials bickered over whether Europe is endangering a rebound by refusing to impose stricter health checks on individual banks.

"Early signs of improvement are encouraging, but the global economy is still operating well below potential and we still face acute challenges," U.S. Treasury Secretary **Timothy Geithner** told reporters. Central bankers didn't attend this meeting and neither interest rates nor foreign exchange were mentioned in the statement.

### Inflation

Signs the worst slump since World War II is moderating are prompting central bankers and investors to warn that inflation will accelerate if governments don't cut back. U.S. Treasury 10- year note yields this week reached 4 percent for the first time since October.

"There is a distinct shift in tone" from the G-8, said **Eswar Prasad**, an economist at the Brookings Institution in Washington. Still, "rising interest rates due to concerns about fiscal deficits and prospects of inflation could choke off a nascent recovery."

The governments didn't outline how they will tighten policy once they deem their economies to be strong enough to take it and tasked the International Monetary Fund with studying ways to do so. They pledged to coordinate so as not to distort markets and economies as happened during the rush to save banks.

While German Finance Minister **Peer Steinbrueck** sought a "credible exit strategy" to avoid inflation, Geithner and U.K. Chancellor of the Exchequer **Alistair Darling** warned against hurting the global economy by acting prematurely.

### Policy Restraint

"It is too early to shift toward policy restraint," Geithner said. Darling said "no one is talking about exiting yet."

The G-8 met a day after data showed consumer confidence rose for a fourth month in the U.S. in June, and climbed to a 14-month high in May in Japan. U.S. stocks advanced this week, erasing the Dow Jones Industrial Average's 2009 loss.

**Home Depot Inc.**, the world's largest home-improvement chain, said June 10 that fiscal 2009 profit may decline less than it had projected, or not at all. Virgin America Inc., an airline partly owned by U.K. billionaire **Richard Branson**, said yesterday that its first-quarter net loss narrowed to \$40.3 million as the carrier filled more seats on its planes.

"There are increased signs of stabilization in our economies," the G-8 said. Still, it cited rising unemployment as a challenge and pledged to keep taking "all necessary steps to put the global economy on a strong, stable and sustainable growth path."

### Stress Tests

Stress tests were debated at the meeting, with euro-area governments reluctant to follow the U.S. by examining the

capital needs of particular banks. They argue that the region's institutions are too diverse to evaluate by a single standard and that publishing results could rekindle the crisis. They have instead conducted a test of their whole financial system, although still refuse to reveal the details.

By contrast, U.S. financial firms unveiled plans to raise more than \$100 billion since government tests of the 19 largest banks found that 10 needed \$74.6 billion of additional capital to weather a more severe recession.

Concern Europe isn't doing enough is starting to undermine the euro and the IMF predicts the region's banks will need to write down \$750 billion through next year. The euro has fallen 11 percent against the pound since the start of the year.

"We want stress tests, but stress tests of the system not related to individual banks," Steinbrueck told reporters in Lecce. "The European banking sector, and the German one in particular, is a lot more heterogeneous than the North American one."

French Finance Minister **Christine Lagarde** said European leaders are not yet ready to commit to deeper probes of their banks though she backs greater transparency. The Financial Stability Board was charged with comparing the various tests, she said.

#### Resistance

European resistance drew criticism ahead of the talks from Canadian Finance Minister **Jim Flaherty**, who said it could impede a revival of the world's financial markets and economy. The G-8's statement made no mention of the topic.

"There is more work to be done in some other European countries with respect to their banking systems," Flaherty said in Lecce. "Around the world one needs that assurance between economies that the system is reliable and trustworthy."

Flaherty said after the meeting that he was "much less frustrated" by Europe's position after all G-8 officials agreed the importance of studying the banks.

#### Dollar Support

The dollar got some support from Russian Finance Minister **Alexei Kudrin**, whose central bank on June 10 sparked a drop in Treasuries after saying some of its reserves may be shifted out of U.S. bonds. Kudrin said in an interview with Bloomberg Television in Lecce that he has confidence in the dollar and there are no immediate plans to switch to a new reserve currency.

While the absence of central bankers limited discussion of exchange rates, Steinbrueck said he wasn't concerned by the euro's value against the dollar. IMF Managing Director **Dominique Strauss-Kahn** said he didn't see a "weak dollar."

The G-8 is composed of the U.S., Japan, Germany, France, U.K., Canada, Italy and Russia. Its ministers met to shape an agenda for when their leaders convene July 8-10 in L'Acquila, Italy.

To contact the reporter on this story: **Lorenzo Totaro** in Lecce at [ltotaro@bloomberg.net](mailto:ltotaro@bloomberg.net)

*Last Updated: June 13, 2009 13:42 EDT*

