

IMF: US default to have 'very serious repercussions' on global economy

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The International Monetary Fund said that a US debt default prompted by failure to raise the country's debt ceiling would have "very serious repercussions" for the US economy as well as the global economy, including likely higher borrowing costs.

IMF spokesperson Julie Kozack also said that US authorities needed to stay vigilant on new vulnerabilities in the US banking sector, including in regional banks, that could emerge in the adjustment to a much higher interest rate environment.

Kozack said the IMF could not immediately quantify the impact that a US default would have on global growth. The Fund in April forecast global GDP growth at 2.8 per cent for 2023, but said that deeper financial market turmoil, marked by a severe pull-back in asset prices and sharp cuts in bank lending, could slam output growth back to 1.0 per cent. But she said higher interest rates could be one result of a US

default and some broader instability in the global economy. "We would want to avoid those severe repercussions," Kozack said. "And for that reason, we again are calling on all of the parties to come together, reach consensus and resolve the matter as quickly as possible."

Detailed talks on raising the government's \$31.4 trillion debt ceiling kicked off on Wednesday with Republicans continuing to insist on spending cuts, a day after President Joe Biden and congressional Republican Kevin met on the issue for the first time in three months.

Treasury Secretary Janet Yellen has warned that a default on US payments could come as early as June 1 if Congress fails to raise the borrowing cap. Regarding turmoil in the US banking sector, Kozack said the IMF has welcomed the "decisive" actions by US regulators and policy makers to contain the failures of three major regional US lenders in recent weeks. Kozack

added that the Fund will soon conduct its "Article IV" annual review of US economic policies, and that assessment, to be issued towards May-end.

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US authorities asked to stay vigilant on new vulnerabilities, including in regional banks, while adjusting to a higher interest rate environment