IMF says US debt creating “significant risks” for the global economy

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Reports delivered by the International Monetary Fund (IMF) to its annual spring meeting in Washington this week indicate that a major crisis is building up in the global economy and financial system to which the ruling classes will respond with an onslaught against the working class.

It will be far deeper than the attacks on jobs, wages and social conditions that followed the 2008 global financial crisis because of the enormous rise in debt since then. This is the consequence of a speculative binge, fuelled by the supply of ultra-cheap money from the world’s major central banks, as well as the escalation of government debt to historically unprecedented levels.

The developing crisis is centred in the very heart of the global economy, the United States, and was alluded to by the IMF’s chief economist Pierre-Olivier Gourinchas on Tuesday when he said the fiscal position of the US was “of particular concern.”

The huge US debt raised risks to the disinflation process “as well as longer-term fiscal and stability risks for the global economy. Something will have to give.”

The worsening debt situation, not only in the US but in other major economies—the IMF named Italy, the UK and China—was further elaborated in its *Fiscal Monitor* report published yesterday.

The report said it expected the US to record a fiscal deficit of 7.1 percent of GDP next year, more than three times the 2 percent average for other economies. In 2023, it noted, the US had exhibited “remarkably large fiscal slippages” with the deficit reaching 8.8 percent of GDP, up from 4.1 percent in 2022.

The four countries it named “critically need to take policy action to address fundamental imbalances between spending and revenues.” Unless this were done it could have “profound effects for the global economy and pose significant risks for baseline fiscal projections in other economies.”

The report said loose fiscal policy and tightening monetary policy in the US had “contributed to the increase in long-term government yields [higher interest rates on bonds] and their heightened volatility in the United States, raising risks elsewhere through interest rate spillovers.”

The question posed by the report is where will the money come from to pay down the debt?

Not from expanded growth in the world economy because, as the *World Economic Outlook* report indicated, growth has been on a steady decline since 2008 and the projection for the next five years is that it will remain well below the historical average.

Policy must be directed to the expenditure side. As stated in the executive summary of the report: “Durable fiscal consolidation efforts are needed to safeguard public finances and rebuild buffers in a context of slowing medium-term growth prospects and high real interest rates.”

The real content of this language, typical of such reports which are always aimed at obscuring rather revealing their social and class content, was, however, alluded to in the body of the report.

“Many advanced economies with aging populations,” it said, “should focus on containing pressures on health and pensions through entitlement reforms and other measures.”

This means that in the US, the long-pursued aim of the evisceration of Social Security will be intensified along with the further rundown of already debilitated health services. The same applies to other countries as well.

In the US, according to the Congressional Budget Office, interest payments to the holders of government debt, banks and other financial institutions, which form an ever-increasing portion of the annual deficit, will rise to more than $1 trillion over the next two years.

The IMF said delaying efforts to strengthen public finances—that is, holding back on attacks on pensions, health and other vital services—"could increase vulnerabilities and limit fiscal space to deal with future crises, potentially leading to more painful fiscal adjustment and adverse financial consequences."

This means that unless debt is reduced now, governments in the UK, the US and elsewhere may not have enough money on hand when another crisis strikes, as it inevitably will, to bail out corporations and financial institutions as they have in the past.

Governments also need to drive down debt in order to finance rapidly rising military spending.

Another key component of the IMF analysis, but one which has been little reported on, is the growth of private credit as a source of finance for both corporations and finance houses. The *Global Financial Stability* report devoted a whole chapter to this area of the financial system.

It estimated the size of this sector at $2 trillion, most of it centred in the US. But according to research by JP Morgan, the results of which were published in the *Financial Times*, it is much larger, coming in at $3.14 trillion.

One of the reasons for the divergence is that this area is "opaque," meaning that financial authorities have little knowledge about its operations.

The IMF analysis, while discounting any immediate problem, pointed to a number of factors which mean this situation could rapidly change.

It said borrowers' vulnerabilities could "generate large, unexpected losses in a downturn." These losses could create significant losses for investors including "insurance and pension funds" which had "significantly expanded their investments in private credit and other illiquid investments."

An illiquid asset is one which cannot be easily turned into cash during a crisis or even a downturn. "Without better insight into the performance of underlying credits, these firms and their regulators could be caught unaware by a dramatic re-rating of credit risks across the asset classes."

The IMF also warned that risks to financial stability may also stem from the interconnections of private credit with other parts of the financial system under conditions where "data constraints" made it "challenging" for supervisors to "evaluate exposures across segments of the financial sector and assess potential spillovers."

What the various IMF reports make clear is that for all the talk of a so-called "soft landing"—a reduction in inflation, continued economic growth albeit at a much slower rate and the prevention of a recession, at least so far—the global capitalist system is heading into a systemic crisis and breakdown.

The response of the ruling classes and their agencies, such as the IMF, is that the workers and their families, the aged, the ill and children needing education must be made to pay for it through an all-out assault their social position.

This objective situation poses the necessity for working class to respond with its own independent systemic solution through the fight for a revolutionary program aimed at the conquest of political power as the first step in the establishment of a socialist economy. Nothing else offers a solution for workers to the crisis of the profit system that is deepening every day.