

U.S. faces economic recession risk: research agency

WASHINGTON, Aug. 22 (Xinhua) -- U.S. budget deficit would surpass the 1 trillion-U.S.-dollar mark and fiscal tightening next year would pose significant threat to the overall economy, according to a report released by the U.S. Congressional Budget Office (CBO) on Wednesday.

In an update of U.S. budget and economic outlook report, the CBO, a non-partisan budgetary and economic research agency, estimated that the budget deficit in 2012 fiscal year ending September will total 1.1 trillion U.S. dollars.

This projection is marginally down from the 1.2 trillion dollars estimated in March, but still marking the fourth year in a row with a deficit of more than 1 trillion dollars.

At 7.3 percent of gross domestic product (GDP), the 1.1 trillion budget deficit will be three-quarters as large as the deficit in 2009.

In 2009 fiscal year, U.S. federal government recorded an all time high fiscal imbalance of 1.41 trillion dollars and the shortfall fell slightly to 1.29 trillion dollars in 2010. In 2011 fiscal year, the budget gap amounted to 1.3 trillion dollars.

The U.S. federal government registered a budget deficit of about 69.6 billion U. S. dollars in July, bringing the total deficit for the first 10 months of this fiscal year to 973.8 billion dollars, near the 1-trillion-dollar level.

The CBO expected the economic recovery to continue at a modest pace for the remainder of 2012. For the year as a whole, the economy would grow by 2.1 percent and jobless rate would stand at 8.2 percent at the year's end.

"The future paths of federal deficits and debt are especially uncertain now because they will depend crucially on how lawmakers address looming tax and spending decisions," noted the report.

Under current law, the budget situation will change markedly next year because substantial changes to tax and spending policies are scheduled to take effect in January.

Incorporating such changes in its baseline projections, the CBO said the budget deficit would shrink to 641 billion dollars, or 4 percent of GDP, in 2013 fiscal year.

However, sharp drop in the deficit, which amounts to 487 billion dollars, will have significant short-term economic consequences, the CBO warned.

The office expected that such fiscal tightening would lead to a recession, with growth in GDP declining by 0.5 percent and the unemployment rate staying above 9 percent in 2013.

In the alternative scenario - the policymakers act to change the law to avert tax increases and spending cuts - the budget deficit would hit 1 trillion dollars in 2013 fiscal year, but economic growth would reach 1.7 percent and the jobless rate would fall to around 8 percent by year end.

While facing a difficult job of striking a balance between controlling debt and boosting economy, the Congress so far has remained in a deadlock as the political parties are divided over tax and spending policies. Analysts say it is unlikely for Democrats and Republicans to reach a deal before the election.

"Today's Congressional Budget Office report only reinforces the urgent need for House Republicans to follow the Senate's lead and pass a bill that gives middle class families the confidence that they won't see their taxes go up at the beginning of next year," the White House said in a statement.