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# Toxic debts could reach \$4 trillion, IMF to warn

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Toxic debts racked up by banks and insurers could spiral to \$4 trillion (£2.7 trillion), new forecasts from the International Monetary Fund (IMF) are set to suggest.

The IMF said in January that it expected the deterioration in US-originated assets to reach \$2.2 trillion by the end of next year, but it is understood to be looking at raising that to \$3.1 trillion in its next assessment of the global economy, due to be published on April 21. In addition, it is likely to boost that total by \$900 billion for toxic assets originated in Europe and Asia.

Banks and insurers, which so far have owned up to \$1.29 trillion in toxic assets, are facing increasing losses as the deepening recession takes a toll, adding to the debts racked up from sub-prime mortgages. The IMF's new forecast, which could be revised again before the end of the month, will come as a blow to governments that have already pumped billions into the banking system.

Paul Ashworth, senior US economist at Capital Economics, said: "The first losses were asset writedowns based on sub-prime mortgages and associated instruments. But now, banks are selling 'plain vanilla' losses from mortgages, commercial loans and credit cards. For this reason, the housing market will play a crucial part in how big the bad debt toll is over the next year or two."

In its January report, the IMF said: "Degradation is also occurring in the loan books of banks, reflecting the weakening outlook for the economy. Going forward, banks will need even more capital as expected losses continue to mount." At the same time, there is a clear shift in congressional attitudes in the United States about simply pumping money into the system, Mr Ashworth said. The British Government is also under pressure to repair its tattered finances. Injecting more money into the banks could further undermine its fiscal position.

The IMF's jump will come as little surprise to economists who have suggested that the bad debts will be much higher than anticipated. Nouriel Roubini, chairman of RGE Monitor, expects bad debts from US-originated assets to reach \$3.6 trillion by the middle of next year. This figure is expected to rise when bad debts from assets elsewhere are calculated, he said.

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