The International Monetary Fund cut its growth forecast for the U.S. economy this year and said the Federal Reserve may have scope to keep interest rates at zero for longer than investors expect.

The Washington-based IMF now sees the world’s largest economy growing 2 percent this year, down from an April estimate of 2.8 percent. The IMF left a 2015 prediction unchanged at 3 percent, and said it doesn’t expect the U.S. to see full employment until the end of 2017, amid low inflation.

“We see prospects looking up for the U.S. but we also believe that attention must now turn to the kinds of policies needed to lay the foundation for growth that will be sustainable,” IMF Managing Director Christine Lagarde said at a press conference in Washington today.

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Lagarde said the cut was largely linked to the economy’s contraction in the first quarter, when a harsh winter added to other factors such as a drawdown in inventories, a sluggish housing market and slower demand. While a rebound is under way, it’s providing “only a partial offset” to the weakness at the beginning of the year, IMF economists wrote.

The IMF also lowered its prediction for the economy’s potential growth in future years to reflect the effects of an aging population and slower productivity growth. It now sees average potential growth of 2 percent, compared with 3 percent in the 50 years through 2007. Last year its projections were 2.3 percent in 2015-2016 and 2.4 percent in 2017-2018.

For the Fed, the IMF’s employment and inflation forecasts mean “policy rates could afford to stay at zero for longer than the mid-2015 date currently foreseen by markets,” the fund said in its annual assessment of the U.S. economy.

Inflation Rise

“And if inflation has to go temporarily up a little bit above the 2 percent target, we believe that it’s OK,” Lagarde said in an interview on Bloomberg Television with Tom Keene, adding that she meant inflation of about 2.5 percent.

The IMF forecast comes less than a week after the World Bank reduced its 2014 growth forecast for the
U.S., to 2.1 percent from 2.8 percent. Private economists have also lowered their predictions this month. The median forecast in a Bloomberg survey of 84 economists this month calls for growth of 2.2 percent this year, down from a May projection of 2.5 percent.

Fund economists urged the U.S. to raise the minimum wage, invest in infrastructure and overhaul immigration policies to boost potential growth as it slips below the long-term average.

**Fed Meeting**

The IMF offered its advice as policy makers prepare to meet this week in Washington. Fed Chair Janet Yellen will hold a press conference on June 18, after the Federal Open Market Committee, which guides monetary policy, concludes a two-day meeting.

“She has communicated well the hollow of uncertainty that looms around the U.S. economy at the moment, particularly the employment and unemployment numbers,” Lagarde said of Yellen in the interview.

The U.S. central bank in April decided to trim its monthly bond-buying program by $10 billion to $45 billion. It is expected to continue tapering its bond-buying until late this year as part of the wind-down of a third quantitative easing program.

“The market assessment is generally that once tapering will have been completed to the point where there will no longer be purchases, then tightening might in short order take place,” Lagarde told reporters. “We’re not that certain about the ‘short order.’”

Even if the Fed lays out well its planned increase in interest rates, there’s still a risk for “significant swings in market flows and prices” in coming months, including beyond U.S. borders, according to the IMF.

**Fed Communications**

The report suggests additions to the Fed’s communication tool kit, including a press conference after every meeting of the FOMC and a quarterly monetary report with details about the view of panel’s majority.

The IMF also urged the implementation of more proactive labor market policies, which included strengthening the Earned Income Tax Credit and increasing the minimum wage to align more closely with U.S. historical levels and international standards.

“This would help raise incomes for millions of working poor and would have strong complementarities with the suggested improvements in the EITC,” said the report.

President [Barack Obama](http://www.whitehouse.gov) announced an executive order in February that would raise the minimum wage level for workers under federal contracts to $10.10 an hour from $7.25. In April, U.S. Senate Republicans blocked legislation on a broader increase in the federal minimum wage.