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Prepare for prolonged turmoil, says US Treasury Secretary

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Investors should brace themselves for a prolonged period of market turmoil, Henry Paulson, the US Treasury Secretary, said yesterday as he held emergency meetings with the Chancellor and the French Finance Minister.

Mr Paulson flew to London to discuss the financial crisis with Alistair Darling as markets remained in the grip of anxieties over the continuing toll from the global credit squeeze.

Speaking after talks with his counterparts in France and Britain, Mr Paulson insisted that the global economy remained strong despite the seizures in interbank lending, but admitted that the American economy would take a knock from the turmoil.

After meeting Christine Lagarde, the French Finance Minister, Mr Paulson said: "It will take a while to work through the turbulence in capital markets."

Mr Paulson acknowledged that bad lending practices were to blame for the present financial crisis, which has been triggered by the high number of American homeowners falling into arrears on their mortgages.

However, he added that "the whole world, including the US, has benefited from . . . credit availability".

Ms Lagarde had called for new rules to prevent a repeat of the credit turmoil, but Mr Paulson argued that "we want to make sure we don't rush to judgments".

Mr Paulson ruled out an immediate recession, saying that the United States's economy would continue to grow in the second half of the year, despite the country's housing slump.

The Treasury Secretary said that the credit crunch was the result of bad lending practices rather than any problems in the real economy. "We are already seeing modest reductions in the strains in some markets," he said.

Mr Paulson described his country's economy as "diverse" and "healthy", with inflation controlled and growth good, and expressed confidence that growth would continue in the second half of the year. He said that the decline in US employment in August, the first drop in four years, had not been a surprise, "given where we are in the economic expansion".

However, the financial turbulence will "extract some penalty" from the US economy, he said.

Turbulence in capital markets across the globe and the slump in US property prices are expected to force the hand of the US Federal Reserve Bank today to cut interest rates by at least a quarter of a percentage point, to avert the chance of a US recession.

Some analysts believe that the Fed will bow to pressure from financial institutions and make a half-point cut.

Mr Paulson declined to comment on the Fed's meeting, saying that he had "great confidence" in its Chairman, Ben Bernanke.

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