

IMF sees two years of high oil prices

The managing director of the International Monetary Fund (IMF) says the world will have to live with lofty oil prices for at least the next two years due to a combination of strong demand and supply constraints.

World oil prices have climbed almost 50 per cent in the past year, with US light crude oil garnering \$US56.72 a barrel in Friday trade.

Rodrigo Rato says oil prices will probably stay high, although he expects the price to dip slightly.

"Because of demand pressures - there is certainly very strong demand in the world for oil --and also because of certain supply constraints," Mr Rato said.

The world economy enjoyed its strongest growth in 30 years in 2004 despite the spike in oil prices.

Mr Rato says he expects growth of more than 4 per cent again this year.

But he says growth could be hit if oil stays at current levels or climbs even higher.

He is urging oil-producing countries to be more receptive to private-sector investment.

Output boosted

The Organisation of Petroleum Exporting Countries (OPEC) on Wednesday announced an immediate 500,000 barrel per day (bpd) increase in output.

There will be another half a million bpd rise if prices fail to ease.

Top producer Saudi Arabia says the extra oil is meant to ward off an end-2005 supply crunch.

But with output already near a 25-year high, the group is stretched to meet demand growth.

Other major exporters Russia and Norway also cannot add significantly to this year's supply.

Mr Rato says, though, the supply bottlenecks forcing prices higher also reflect a lack of refining capacity, where the major responsibility lies with oil-consuming countries.

Stricter environmental concerns, along with decades of low margins caused by overcapacity, have made major oil companies reluctant to invest in new refineries in the United States and Western Europe.

He says consumers needed to be aware of the real cost of oil, while governments needed to diversify their sources of energy.

"It's clear that at this level of prices - even if they're reduced little bit in the medium-term - governments of all consuming countries have to have a very clear energy policy both in terms of demand and pricing," Mr Rato said.

- **Reuters**