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Forecasts brightening for world economy

"A boom-bust scenario cannot be ruled out, requiring a much stronger tightening of monetary policy in some non-O.E.C.D. countries."

PARIS

Report raises outlook, but also cautions of risks from Europe and Asia

BY MATTHEW SALTMARSH

Despite mounting concerns about European debt and possible overheating economies in Asia, the global recovery is taking root and there are greater reasons for optimism about the future, the Organization for Economic Cooperation and Development said Wednesday.

In its twice-yearly Economic Outlook, the O.E.C.D. — with 31 member countries, all of them advanced industrial democracies — raised its overall growth forecast and its outlook for the United States, the euro zone, China and Japan.

The rebound from the severe downturn that plagued the global economy for much of 2008 and 2009 is driven by a healthy increase in trade flows, booming emerging markets, the continued support of government stimulus policies — now unwinding — and better market conditions, the report said.

"There's objective reasons to be positive about the outlook," said Ángel Gurría, the organization's secretary general. "World growth is picking up — it's quite better than it was even a few months ago — led by China, led by India, but also a very brisk recovery in the United States, where we're seeing a pickup in jobs."

The research organization predicted that gross domestic product across the O.E.C.D. area would rise 2.7 percent this year and 2.8 percent in 2011; in November it had estimated that growth would be a meager 1.9 percent in 2010 and 2.5 percent next year.

"We're slowly moving from a policy-driven recovery to a self-sustaining recovery," the organization's chief economist, Pier Carlo Padoan, said.

The United States is in a stronger position than the euro area, he said, helped by better financial market conditions and "a number of more favorable elements on the fiscal side," notably the outlook for stronger tax revenues, which gives it more time than Europe to undertake efforts to reduce debt-reduction steps.

But the O.E.C.D. warned that the debt crisis in Europe, if it continued to worsen, posed a serious threat to the strength of the economic recovery.

The challenges to the euro zone from the fiscal problems in Greece, Portugal and Spain has "highlighted the need for the euro area to strengthen significantly its institutional and operational architecture to dissipate doubts about the long-term viability of the monetary union," the O.E.C.D. said. "At a minimum, surveillance of domestic policies needs to be strengthened."

Mr. Gurría suggested that the doubts about the viability of the euro area have been excessive. Bad news "tends to sell better than good news," he said.

A report this week from Media Tenor, a private research group based in Zurich that scrutinizes media analysis, concluded that the continuing economic recovery in Germany and France "has been crowded out by the extensive reporting about the economic crisis in Greece."

"This type of coverage could again trigger a severe loss of trust among consumers and business," it added.

Mr. Gurría said that countries are now taking steps to deal with the problem. Germany and France are moving toward legally enshrining budgetary rigor, while other countries, like Spain and Britain, have started serious deficit reduction. Some countries may even impose new taxes.

Esko Aho, an executive vice president and spokesman for the Finnish cellphone company Nokia, emphasized the differences between the markets, where the greatest fear is excess government borrowing, and the "real economy," where there are still lots of obstacles to growth.

"Maybe we're putting too much emphasis in Europe on financial stability and fiscal consolidation," Mr. Aho said during an interview at an O.E.C.D. forum in Paris. "This is important, but it's also important in Europe that, in the crisis, we create reasonable policy for growth."

A former Finnish prime minister, Mr. Aho noted that during the recession of the early 1990s, his government cut state spending widely, but investment in research and development was increased. Finland is now consistently ranked near the top of global competitiveness polls.

The O.E.C.D. report cautioned that the fiscal retrenchment announced in Europe would not take effect until next year and might not prove enough to avoid continued volatility in debt markets. "Bolder measures need to be taken to ensure fiscal discipline," the report said.

Mr. Padoan, the economist, said that it was wiser for countries like Spain, France and Britain, which are trying to rein in long-term liabilities, to focus on raising revenue through consumption-related taxes, rather than higher direct taxes, which can be more harmful to growth.


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The shift taking place in Europe was emphasized by Giulio Tremonti, the finance minister of Italy, which on Tuesday became the latest euro-area country to announce austerity measures. The government proposed budget savings that aim to cut Italy's deficit below 3 percent of G.D.P. by 2012, from 5.3 percent last year.

"We are confronted with hard choices," Mr. Tremonti said. "The public coffers are not unlimited."

Still, the Italian government does not plan to reduce health and social security budgets, he said.

Challenging some of the conventional fears about the weakening euro, the O.E.C.D. said recent declines in the currency could help the economic outlook by lifting the competitiveness of euro-zone exporters.

"I would not be concerned if we see a further decline" in the euro, Mr. Padoan said, adding that any fall against other major currencies would help "rebalance" the global economy.

China can also play a role in the rebalancing by allowing its currency to climb, Mr. Padoan said, describing such a move as "low-hanging fruit" for the authorities in Beijing.

A stronger renminbi, along with higher interest rates, would help to offset rising Chinese inflation and lower the risk of a hard landing after years of surging growth.

"Overheating in emerging-market economies also poses a serious risk," the O.E.C.D. report said.

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The report forecast a moderate decline in Chinese growth to 9.7 percent next year, from 11.1 percent this year, with consumer prices steady at 2.5 percent.

Over all, the organization said that the outlook for inflation remained "benign" in the advanced economies because of economic slack.

The report forecast real G.D.P. growth in the United States of 3.2 percent this year and next, compared with its previous forecast of 2.5 percent this year and 2.8 percent in 2011. It predicted that the U.S. jobless rate would fall to 8.9 percent in 2011 from 9.7 percent this year.

Growth in the 16-country euro area was estimated at a much more modest 1.2 percent this year and 1.8 percent next year, but that was up from the previous forecast of 0.9 percent this year and 1.7 percent next year. Unemployment will remain high in the region, at 10.1 percent next year, it said.

For Britain, the O.E.C.D. forecast growth of 1.3 percent this year, held back by the lingering effects of the credit crunch, but rising to 2.5 percent next year, when household consumption and business investment are set to grow.

Driven mostly by export gains, Japan's G.D.P. was forecast to grow 3 percent this year and 2 percent in 2011.