

## OECD says recession 'near bottom'

By Steve Schifferes  
Economics reporter, BBC News

**The Organisation for Economic Cooperation and Development says the world economy is near the bottom of the worst recession in post-war history.**

The body that represents the 30 most industrialised nations said that those economies would shrink 4.1% this year.

But it adds that recovery is likely to be "weak and fragile" for some time.

The UK is in "a sharp recession", it says, with output set to decline by 4.3% in 2009, worse than its previous forecast of a 3.7% fall.

The OECD predicts zero growth in the UK economy in 2010, and says the UK budget deficit will reach 14% next year - both worse than UK government estimates.

**" It looks like the worst scenario has been avoided "**  
OECD

It says the pace of the global downturn is now moderating after the sharp drop in the six months to March, but it still expects world output to shrink by 2.2% this year.

However, this is the first time for two years it has revised upwards its overall economic forecasts, especially for 2010, with the economies of Japan and the US now expected to decline less sharply than projected in its previous report.

### Signs of hope

It says the advanced economies will return to weak growth of 0.7% in 2010, compared with its previous forecast of a contraction of 0.1%.

#### WORLD GROWTH FORECAST

- **UK** 2009 -4.3%; 2010 0.0%
- **USA** 2009 -2.8%; 2010 0.9%
- **Eurozone** 2009 -4.8%; 2010 0.0%
- **Japan** 2009 -6.8%; 2010 0.7%
- **OECD** 2009 -4.1%; 2010 0.7%
- **World** 2009 -2.2%; 2010 2.3% *Source: OECD Economic Outlook*

"It looks like the worst scenario has been avoided," the OECD said.

"Even if the subsequent recovery may be slow, such an outcome is a major achievement of economic policy."

The OECD adds that there are already signs of recovery in the large non-OECD countries such as China, and that in the US activity could bottom out in the second half of 2009.

However, it is more pessimistic about the prospects for the UK and the eurozone.

It says that "signs of impending recovery in the euro area are not yet clearly visible" because of housing bubbles, damage to the financial sector, and export setbacks.

And it warns that in the UK, rising public sector deficits will need to be reined in as recovery takes hold,

and urges the government to develop a "concrete and comprehensive plan" to ensure debt is on a declining path.

It also warns that unemployment could still rise to above 10% in the UK, the eurozone, and the US.

The collapse in world trade, which is projected to fall by 16% this year, has hit major exporting countries such as Germany and Japan particularly hard.

### **Policy measures**

The OECD says that not only have its growth projections been revised, but the risks that things might be worse than expected are lower.

It says financial conditions might improve more quickly than it has assumed, although there is still a risk of an adverse reaction in bond markets to the high levels of government debt.

"A really disastrous outcome has become more of a remote risk," said OECD chief economist Jorgen Elmeskov.

He told the BBC that "this was a policy-driven upturn", but it was still not clear when private demand would be able to replace public demand, and he urged governments to "stay the course".

The OECD says that "it would be tempting but wrong" to relax the extraordinary policy effort of the last nine months.

It says there is still more that policy can do to ensure a faster and more robust recovery, especially by removing the uncertainty over impaired bank assets.

The OECD adds that there are major challenges in eventually rolling back the range of government interventions to stabilise the financial system - in particular, it calls for coordination across countries to avoid fear of competitive disadvantage blocking progress.

And it says that tough measures will be needed to eventually reduce government budget deficits that have been stretched by the crisis. It urges governments to begin planning for such adjustments now even if they cannot be fully implemented until the economy improves.

Story from BBC NEWS:

<http://news.bbc.co.uk/go/pr/fr/-/2/hi/business/8116234.stm>

Published: 2009/06/24 10:14:30 GMT

© BBC MMIX