OECD: Europe Remains Threat To World Economy

Greg Keller, Associated Press

PARIS (AP) — The recession in Europe risks hurting the world's economic recovery, a leading international body warned Wednesday.

In its half-yearly update, the Organization for Economic Cooperation and Development said that protracted economic weakness in Europe "could evolve into stagnation with negative implications for the global economy."

The OECD again slashed its forecast for the economy of the 17-country eurozone, saying it will shrink by 0.6 percent this year, after a 0.5 percent drop in 2012. The OECD had predicted a 0.1 percent decline for the eurozone in its report six months ago — and this time last year, it forecast growth of nearly 1 percent for 2013.

The U.S. economy will continue to outpace Europe, the OECD said, with growth of 1.9 percent in 2013 and 2.8 percent in 2014. For global gross domestic product, the OECD forecasts an increase of 3.1 percent for this year and 4 percent for 2014.

Noting that eurozone policymakers have "often been behind the curve," the OECD warned that Europe was still beset by "weakly capitalized banks, public debt financing requirements and exit risks."

Meanwhile, the eurozone's 12.1 percent unemployment rate "is likely to continue to rise further ... stabilizing at a very high level only in 2014," the OECD said.

The report predicts unemployment will reach 28 percent in Spain next year and 28.4 percent in Greece.

The eurozone economy shrank 0.2 percent in the January-March period, the sixth consecutive quarterly decline, making it the eurozone's longest ever recession.

Austerity measures have inflicted severe economic pain and sparked social unrest across the continent. Europe's young people are especially suffering, with unemployment of around 50 percent in some of the hardest-hit eurozone countries such as Spain and Greece.

But OECD Secretary-General Angel Gurria also noted that the tough reforms those countries made — such as loosening their labor markets and making public administrations more efficient — will soon bear fruit.

"In the periphery in particular, which was hardest hit by the crisis, that is where the reforms are taking place at the faster pace and where things eventually are, I believe, going to be looking better faster once we go through the acute stage of the crisis," Gurria told reporters.

With a population of more than half a billion people, the EU is the world's largest export market. If it remains stuck in reverse, companies in the U.S. and Asia will be hit.

Last month, U.S.-based Ford Motor Co. lost $462 million in Europe and called the outlook there "uncertain."

The OECD also urged the European Central Bank to take additional emergency steps to boost the economy. It said the eurozone's central bank should take the unusual step of cutting the interest rate it pays banks for depositing money with it to below zero. This would push banks to lend money rather than hoard it as super-safe central bank deposits.

The OECD also said the ECB should issue clear guidance on how long its exceptional measures, such as very low interest rates, will remain in place — along the same lines as the U.S. Federal Reserve. The ECB was even urged to consider buying assets such bonds — a tool that can ease borrowing costs and increase the supply of money in the economy but one that the central bank has so far been reluctant to take.

Other major economies have faltered this year but none are in recession, like Europe. The U.S. economy grew 2.2 percent last year and China, the world's No. 2 economy, is growing around 8 percent a year.

In the U.S., the organization urged politicians to soften automatic across-the-board budget spending cuts to make them less harmful to growth, and said "a credible long-term fiscal plan needs to be put in place."

Source URL (retrieved on *01/29/2015 - 6:02am*):
http://www.impomag.com/news/2013/05/oecd-europe-remains-threat-world-economy