Stronger policy response needed to avoid risks to growth, especially in the euro area, says OECD in latest Economic Outlook

25/11/2014-Modest global economic forecasts, continuing high unemployment, and downshifts in potential output should spur governments with a greater sense of urgency to fully employ monetary, fiscal and structural policy levers to support growth, notably in Europe, according to the Economic Outlook

The Economic Outlook draws attention to a global economy stuck in low gear, with growth in trade and investment under-performing historic averages and diverging demand patterns across countries and regions, both in advanced and emerging economies.

"We are far from being on the road to a healthy recovery. There is a growing risk of stagnation in the euro zone that could have impacts worldwide, while Japan has fallen into a technical recession," OECD Secretary-General Angel Gurria said. "Furthermore, diverging monetary policies could lead to greater financial volatility for emerging economies, many of which have accumulated high levels of debt." (Read the speech)

Global GDP growth is projected to reach a 3.3% rate in 2014 before accelerating to 3.7% in 2015 and 3.9% in 2016, according to the Outlook. This pace is modest compared with the pre-crisis period and somewhat below the long-term average.

The euro area is projected to grow by 0.8% in 2014, before slight acceleration to a 1.1% rate in 2015 and a 1.7% rate in 2016.

A prolonged stagnation in the euro area could drag down global growth and have knock-on effects on other economies through trade and financial links. A scenario in the Outlook shows how a negative shock could lead an extended period of very low growth and very low euro inflation, resulting in unemployment remaining at its current unacceptably high level.

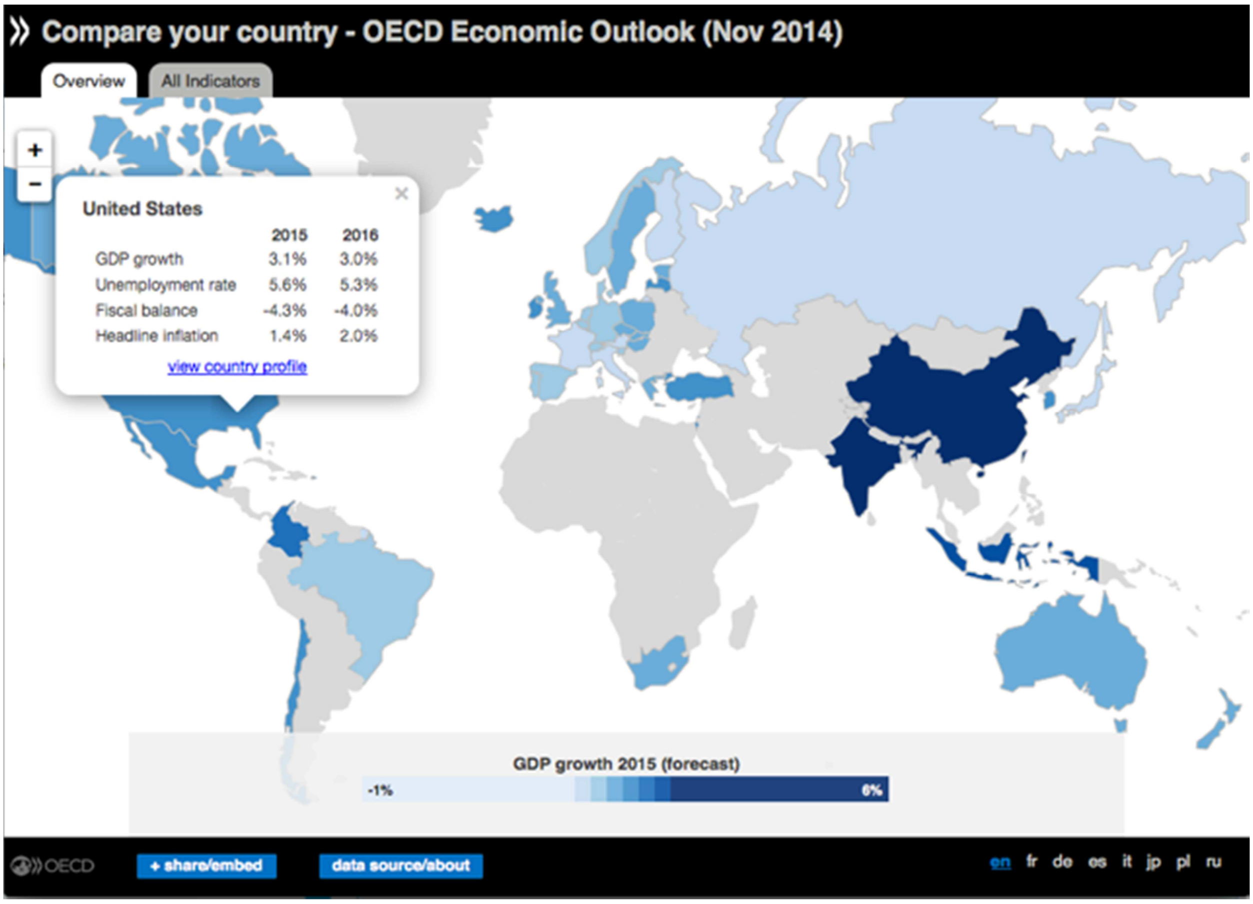
"With the euro zone outlook weak and vulnerable to further bad news, a stronger policy response is needed, particularly to boost demand," said OECD Chief Economist Catherine L Mann. "That will mean more action by the European Central Bank and more supportive fiscal policy, so that there is space for deeper structural reforms to take hold. A Europe that is doing poorly is bad news for everyone."

Among the major advanced economies activity is gaining strength in the United States, which is projected to grow by 2.2% in 2014 and around 3% in 2015 and 2016. In Japan, growth was impacted by consumption tax hikes in 2014, with expected growth of only 0.4% in 2014, and rises modestly to 0.8% in 2015 and 1% in 2016.

Large emerging economies are projected to show diverging performance over the coming years. A slowdown in China, towards more sustainable growth rates, will see GDP growth drop from a 7.3% growth rate in 2014 to a 7.1% rate in 2015 and a 6.9% rate in 2016. However, the rapid increase in credit, rising share of non-bank credit as well as housing market and local government activity are raising concerns about financial stability. A scenario in the Outlook shows that a 2-percentage point decline in the growth of Chinese domestic demand would lower global GDP by 0.3 percent per year.

"The Chinese authorities will need to use all of their policy instruments to keep the economy on an even keel," Ms Mann said.

This full release of the Economic Outlook today follows up on the advanced G-20 release on 6 November, and contains full projections for all OECD and key emerging economies. GDP projections for the G-20 economies have been updated. To attend the presentation or to request interviews with OECD economists on individual countries, journalists should contact Lawrence Speer or the OECD Media Division (+33 1 45 24 97 00).



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