Emerging economies' performance boosts OECD's forecast

The Organization for Economic Cooperation and Development (OECD) raised its growth forecasts for this year and next as emerging economies such as China outpace debt-burdened developed countries to drive the global expansion.

The economy of the OECD's 30 members will grow 2.7 percent this year, more than the 1.9 percent predicted in November, the Paris-based group said in a report. Including non-members such as China, the global economy will expand 4.6 percent this year and 4.5 percent in 2011, compared with an average of 3.7 percent during the decade through 2006.

"A first substantive risk is related to developments in sovereign debt markets," OECD Chief Economist Pier Carlo Padoan wrote in the report.

Elsewhere, "a boom-bust scenario cannot be ruled out, requiring a much stronger tightening of monetary policy" in some countries, including China and India, he said.

Europe's sovereign-debt crisis, triggered by Greece, has raised investor concern that the economic recovery will fade and sent equity markets around the world tumbling. The MSCI World Index is down 10 percent this year, while the S&P 500 Index in the US has shed 3.7 percent and the Euro Stoxx 50 Index has dropped 14 percent.

Still, the US economy will grow 3.2 percent in 2010 and next year instead of the 2.5 percent predicted in November, and the euro region will advance 1.2 percent compared with the previous forecast of 0.9 percent, the OECD said. Japan's economy will expand 3 percent instead of 1.8 percent.

Those rates contrast with a far faster pace of growth in emerging economies. China will expand more than 11 percent this year, India 8.3 percent and Brazil 6.5 percent, according to OECD forecasts.

"As activity gathers momentum, global imbalances are beginning to widen again," Padoan said. "Strong, sustainable and more balanced growth can be achieved through a combination of macro-economic, exchange-rate and structural policies."

China's efforts to stoke domestic demand have helped keep its trade surplus from returning to the record levels registered in 2006 and 2007, before the financial crisis, the OECD said.

The relative weakness of the euro region puts the onus on its policymakers to improve their long-term coordination after agreeing earlier this month on a support package worth almost $1 trillion to help debt-burdened countries such as Greece, Spain and Portugal, the OECD said.

The European effort, culminating in a finance ministers' meeting in Brussels on May 9, was comparable with that made to shore up banks in Western countries in October 2008.

"The fact that the second set of actions has been taken 18 months after the first is a reminder that the period of significant financial instability that began in August 2007 is not yet over," Padoan said.

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