

## **G20 plans for stimulus exit**

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*World leaders on Thursday set out their first steps toward withdrawing emergency support for the global economy even though they warned that the crisis was not yet over.*

The US, Britain, France and Germany called for work to start "on exit strategies to be implemented in a co-ordinated manner as soon as the crisis is over".

Separately, Jean-Claude Trichet, European Central Bank president, writing in the Financial Times, has outlined for the first time the principles on which the ECB would unwind the exceptional steps it has taken.

Tim Geithner, US Treasury secretary, also said finance ministers should start to spell out how the "very successful policy response" to the economic crisis could be reversed.

Speaking at the US Treasury before flying to London for a meeting of finance ministers of the G20 group of nations, Mr Geithner said these exit strategies were "very important to confidence" of the financial markets.

The latest news highlighted how the policy debate has switched from crisis response to presaging a return to more normal conditions.

A recovery in the world's economy now looks likely to come earlier than had been expected just a few months ago, the Organisation for Economic Co-operation and Development said on Thursday although it cautioned that a return to normal conditions would be slow and protracted.

The OECD is forecasting that in 2009, the contraction in output among G7 nations will be 3.7 per cent, less severe than the 4.1 per cent decline forecast just a few months ago.

However, the OECD warned that there are considerable headwinds that will weigh on recovery. "Economies may not be robust enough to withstand a sudden unwinding of stimulus," said Jorgen Elmeskov, acting head of the OECD's economics department.

In his FT article, Mr Trichet writes that the "measured" scale of ECB asset purchases – which have been much lower profile than those of the US and UK central banks – will facilitate the programme's unwinding. However, Mr Trichet writes that "stressing the importance of the exit strategy should not be confused with its activation: it is premature to declare the financial crisis over."

The ECB sees a bumpy road ahead for the eurozone and is wary about global prospects, especially if the US rebound disappoints. The ECB left its main interest rate unchanged at 1 per cent yesterday.

In a joint letter to European Union countries, Gordon Brown, UK prime minister, Nicolas Sarkozy, French president, and Angela Merkel, German chancellor, wrote: "While cyclical indicators point to economic stabilisation, the crisis is not over and the labour markets will suffer the consequences of low capacity utilisation over the months to come."

**Financial Times, London, Sept. 3<sup>rd</sup> 2009, Global Economy, online.**