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Roubini Sees Increasing Risk of Double-Dip Recession (Update1)

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By Shamim Adam



Aug. 24 (Bloomberg) -- Nouriel Roubini, the New York University professor who predicted the financial crisis, said the chance of a double-dip recession is increasing because of risks related to ending global monetary and fiscal stimulus.

The global economy will bottom out in the second half of 2009, Roubini wrote in a Financial Times commentary today. The recession in the U.S., the U.K., and some **European countries** will not be "formally over" before the end of the year, while the recovery has started in nations such as China, France, Germany, Australia and Japan, he said.

Governments around the world have pledged about \$2 trillion in stimulus measures amid the worst worldwide recession since the Great Depression. Federal Reserve Chairman **Ben S. Bernanke** and other global policy makers have cautioned that the recovery is likely to be muted, indicating they would not soon remove all the stimulus injected into the financial system.

"There are risks associated with exit strategies from the massive monetary and fiscal easing," Roubini wrote. "Policy makers are damned if they do and damned if they don't."

Government and central bank officials may undermine the recovery and tip their economies back into "stagdeflation" if they raise taxes, cut spending and mop up excess liquidity in their systems to reduce fiscal deficits, Roubini says. He defines "stagdeflation" as recession and deflation.

Market Vigilantes

Those who maintain large budget deficits will be punished by bond market vigilantes, as inflationary expectations and yields on long-term government bonds rise and borrowing costs climb sharply, he wrote. That will in turn lead to stagflation, Roubini said.

European Central Bank officials led by President **Jean- Claude Trichet** are suggesting they won't rush to reverse their emergency stimulus amid mounting evidence of an economic recovery. The ECB has cut its benchmark interest rate to a record 1 percent and is buying covered bonds and flooding banks with money.

"We see some signs confirming that the real economy is starting to get out of the period of freefall," Trichet said at the Fed's annual symposium in Jackson Hole, Wyoming, on Aug. 22. This "does not mean at all that we do not have a very bumpy road ahead of us."

When needed, the ECB will implement a "credible exit strategy" from its crisis policies, Trichet said.

'Monetary Medicine'

The U.S. must address the massive amounts of "monetary medicine" that have been pumped into the financial system and now pose threats to the economy and the dollar, billionaire **Warren Buffett** said last week.

Roubini currently expects a U-shaped recovery, where growth will be "anemic and below trend for at least a couple of years," he said. A full global recovery from the current recession may take two

years or more, Nobel laureate [Paul Krugman](#) said earlier this month.

Rising unemployment, a global financial system that is still “severely damaged” and weak corporate profitability are among reasons why any recovery won’t be V-shaped, Roubini said.

“Strains persist in many financial markets across the globe,” Bernanke said in an Aug. 21 speech in Jackson Hole. “The economic recovery is likely to be relatively slow at first, with unemployment declining only gradually from high levels.”

Energy and food prices are also rising faster than warranted by economic fundamentals, which may also increase the risk of a double-dip recession, Roubini wrote, adding that they could be driven by speculative trades.

“Last year, oil at \$145 a barrel was a tipping point for the global economy as it created negative terms of trade and a disposable income shock for oil-importing economies,” he said. “The global economy could not withstand another contractionary shock if similar speculation drives oil rapidly toward \$100 a barrel.”

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Last Updated: August 24, 2009 00:06 EDT



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