Global recovery at risk of stalling

The global economy is mired in a “stop and go” recovery “at risk of stalling again”, according to the latest Brookings Institution-Financial Times tracking index.

“A modest reversal of fortunes between the advanced and emerging market economies belies the fact that both groups still face stunted growth prospects,” said Professor Eswar Prasad, an economist and senior fellow at Brookings.

The world economy grew 3.4 per cent last year, according to the IMF, roughly at its long-term average rate, which disappointed many officials who expected faster expansion because output is still recovering from the effects of the 2008-09 global financial crisis and faster-growing emerging economies now account for more than half of the world economy.

Last week, Christine Lagarde, head of the IMF, described the world’s current economic performance as, “just not good enough”.

The Tiger index — Tracking Indices for the Global Economic Recovery — shows how measures of real activity, financial markets and investor confidence compare with their historical averages in the global economy and within each country.

“Barring three economies with sustained growth momentum — the US, UK, and India — there are few others where short-term growth prospects look encouraging,” Prof Prasad said.

The Tiger growth index for advanced economies has improved modestly since the oil price almost halved in the second half of last year, reflecting increased household spending in Europe and Japan. But these weak economies still have some way to go before showing the momentum they normally
enjoy in an economic upswing.

In the US there is evidence of a weak patch in the first quarter of the year with slower employment growth. According to Prof Prasad that suggests “the persistent strength of the US dollar and the burden of carrying the world economy on its shoulders might be weighing on the US economy”.

There is a varied picture in the large emerging economies of China and India, which are the world’s largest and third-largest economies, measured by purchasing power parity.

China’s economic prospects are slowing as the government attempts to rebalance activity from public investment towards higher domestic consumption. By contrast, India is enjoying the fruits of cheap oil and energy, which reduces import costs, the trade deficit and government borrowing. “India remains a bright spot among the emerging market economies, although the pace of reforms and the durability of growth remain significant elements of concern,” Prof Prasad said.

In the next tier of emerging economies, including Brazil, Turkey and Russia, prospects have dimmed as cheaper oil and commodity prices have exposed underlying structural weaknesses.

In the months ahead, the global economy is likely to face the first US interest rate rise for almost nine years, threatening to destabilise a fragile recovery and expose badly run economies to capital flight.

This prospect increases the need for reforms to boost the resilience of economies in every country, Prof Prasad said. “The urgency of structural reforms seems to have dissipated, with many economies relying on loose monetary policy and weak exchange rates to prop up growth and counter deflationary pressures”.

“In the absence of a strong revival of domestic demand supported by a more balanced set of policies, a robust and sustained global economic recovery will remain elusive,” he added.

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