April 6, 2014 3:15 pm

Global economic recovery 'hinges on reforms'

By Chris Giles in London

The recovery in the world's leading economies is strengthening but concerted action by governments is needed to rebuild lost dynamism, according to the latest Brookings Institution-Financial Times tracking index.

With the upturn in advanced economies gathering momentum, and emerging markets cooling off after a nasty scare early in the year, global growth is steady, but the near-term prospects of a rapid acceleration remain small.

This stable but subdued outlook will intensify pressure on finance ministers and central bank governors at the spring meetings of the International Monetary Fund this week to agree a co-ordinated plan to boost growth potential.

Eswar Prasad, an economist and senior fellow at Brookings, said: "The worst may be over, but prospects for a durable and sustained recovery hinge on whether national governments demonstrate their commitment to substantive structural reforms".

The Tiger index – Tracking Indices for the Global Economic Recovery – shows that the global economy is "back on an even keel but remains bereft of a strong wind to fill its sails," said Prof Prasad. Tiger combines measures of economic activity, financial variables and indicators of confidence, according to the degree to which they are all moving up or down at the same time. Using sophisticated statistical methods it can capture similar movements of data that are measured on a different basis and across many countries.

At the start of 2014, the overall level of the growth index dipped from levels reached at the end of last year but remains well above the scores in 2011 and 2012. Indicators of the strength of the recovery in real output for advanced economies are now considerably stronger than for emerging markets, suggesting that their recovery is more likely to endure.

The indicators of growth, however, are still below their levels in the immediate post-crisis period and in the long upswing before the global recession of 2008-09. Confidence indicators are back to pre-crisis levels, as indicated by buoyancy in many global stock markets.

The message from the Tiger index chimes with that of Christine Lagarde, managing director of the IMF, who said last week that the "global economy is turning the corner of the Great Recession, although overall growth remains too slow and weak".

At the IMF meetings in Washington, finance ministers of the Group of 20 leading economies will be urged to move faster in implementing structural reforms, including trade liberalisation, sufficiently powerful to raise global growth forecasts by 2 per cent by 2018.

This would imply 22 per cent growth over the next five years, rather than the 20 per cent forecast in the World Economic Outlook published by the fund in October. The IMF and the OECD club of mostly rich nations believe that this target is realistic and Australia has adopted it as its main ambition for its presidency of the world's main economic club.

The IMF's latest forecasts, which are about to be published, are likely to show a weaker outlook for emerging economies than thought in the second half of last year, alongside greater resilience in advanced economies, especially for the UK, where growth has been surprisingly strong.

The IMF has already added geopolitical concerns to its list of potential vulnerabilities that might throw the global economy off course this year. Its other main worries are low inflation, particularly in the eurozone, and the potential for monetary policy normalisation in rich countries to hit poorer countries hard.

US

The US economy is gaining strength as confidence is high, unemployment falling and the fiscal tightening of 2013 has eased. The US Federal Reserve has begun tapering its asset purchases, but monetary policy remains exceptionally loose.

Eurozone
No longer in intensive care, the eurozone still has chronic problems to fix in its economy. Growth prospects are exceptionally weak and inflation extremely low. The European Central Bank has been less interventionist than its global peers, but may be forced to do more.

China
China’s economy is slowing and the authorities face a dilemma between stoking up another credit-fuelled investment boom, which will hinder rebalancing towards domestic consumption, and risking a much more rapid slowdown than planned.

Japan
“Abenomics” is a year old and showing success in boosting inflation expectations. This month’s rise in consumption tax will test the resilience of the recovery, while there are few signs of long-lasting structural reforms.

India
India has shown its vulnerable side in 2013 and slowed markedly, but strong action by the central bank and the prospects of a new government have renewed confidence. The current account deficit has narrowed but growth prospects remain weak.

UK
A remarkable return to good growth last year confounded many of those sceptical about the UK’s ability to recover while reducing its deficit. The big questions now relate to a bubbly housing market and terrible productivity trends.

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