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Economic recovery 'on the ropes'

By Chris Giles in London

The US is the brightest spot in the world economy, as another global recession threatens, according to the latest Brookings Institution-Financial Times tracking index.

Tiger (Tracking Indices for the Global Economic Recovery) shows the world's recovery to be "on the ropes", despite the best efforts of the world's central banks to boost demand.

Economic data and confidence indicators have deteriorated since earlier in the year across the Group of 20 leading developed and emerging economies, apart from the US, which is on the brink of the presidential election.

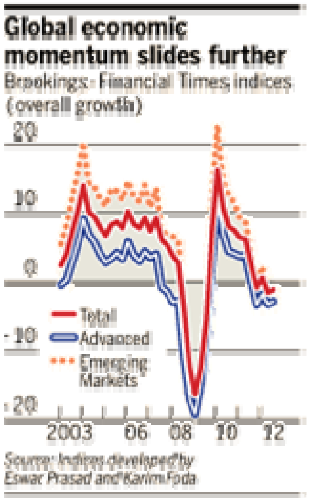
The financial markets, however, have remained relatively strong, with the financial component of the index recording its strongest position since June 2011.

The Tiger findings cast a shadow over this week's annual meetings of the International Monetary Fund and World Bank in Tokyo, as the world's finance ministers and central bankers struggle to find ways to generate self-sustaining growth.

The deterioration in hard data and sentiment has forced economic forecasters to lower their estimates of growth this year and next. A leak of the detailed IMF forecasts, to be published on Tuesday, showed the fund revising down its 2012 global growth forecast to 3.3 per cent from 3.4 per cent in July, and shaving another 0.3 percentage points off its July forecast of 3.9 per cent for 2013.

Professor Eswar Prasad, of the Brookings Institution, said: "The global economic recovery is on the ropes, battered by political conflicts within and across countries, lack of decisive policy actions, and governments' inability to tackle deep-seated problems such as unsustainable public finances that are stifling growth."

The Tiger index shows momentum in the global economy dissipating despite action by the Federal Reserve, European Central Bank, Bank of Japan and Bank of England to boost the recovery. Only in the US has economic momentum remained reasonably robust , while it has slackened off in the



formerly strong economies such as the Brics (Brazil, Russia, India and China).

The Tiger index combines measures of real 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 the co-movements of data which are measured on a very different basis and across many countries.

In this release of the index, the Brookings Institution produced a separate indicator for the troubled peripheral European economies of Portugal, Italy, Ireland, Greece and Spain. Only Ireland, among these five countries, has avoided a sharp descent towards the levels last seen during the financial and economic crisis of 2008-09.

Prof Prasad said that fiscal policy and structural reforms were hamstrung in most economies, leaving the burden on central banks to revive the flagging recovery. “In the absence of a broader range of decisive policy measures – including fiscal, financial system and structural reforms needed in many countries – the world economy may soon be down for the count,” he said.