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Global recovery in danger of skidding off course

By Chris Giles in London

The global recovery "is in danger of skidding off course", according to the latest Brookings Institution-Financial Times tracking index of the world economy, with growth slowing down sharply amid financial turbulence and policy paralysis.

The gloomy prognosis applies across the Group of 20 leading economies, the TIGER index shows, although the slide back towards stagnation is much more prevalent in the advanced world compared with emerging economies.

Professor Eswar Prasad of the Brookings Institution said: "Debt crises, weak employment growth and policy dithering in the major advanced economies have exacerbated global economic uncertainty".

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 very different basis and across many countries.

The financial market component of the indicator has been particularly hard hit, reflecting widespread anxiety in markets since the spring and the lack of rapid resolution to the uncertainties hanging over the eurozone and the US debt ceiling.

In the US, Mr Prasad said, "political wrangling and weak employment growth have contributed to declines in business and consumer confidence, with these factors feeding off one another and stunting the recovery".

Interactive graphic

Brookings-Financial Times index

Across the rest of the advanced world, Japan's economy has been reeling from the effects of the earthquake and tsunami in March, while even in Germany, the fastest growing advanced economy, employment growth has

Track the global economic recovery across emerging and advanced markets

levelled off and the eurozone crisis has dented business and consumer confidence.

The real economies of emerging countries of the G20 have performed better, with China still leading the way with continued rapid growth, punctured only by domestic tensions between high inflation and the desire to promote continued rapid domestic demand.

India's financial sector has slowed, while industrial production growth has also cooled in Brazil. "Emerging markets may find it difficult to continue being the drivers of global growth for much longer if advanced economies' policies fail to restore their own economic growth and, instead, just add to global financial instability," Mr Prasad said.

The ambition to restore the rate of growth and the pace of the global recovery to 2010 levels is compromised by the already exceptionally loose monetary policies around the world and the lack of additional firepower in fiscal policy with deficits remaining extremely high. Added to this is the perception in companies and financial markets that advanced economy politicians are unwilling or unable to address the escalating risks of another descent into financial crisis.

"The world economy is entering a difficult and dangerous phase, where there are no easy or costless policy solutions but policy paralysis also carries enormous risks of unravelling the feeble recovery," Mr Prasad said.