April 25, 2009

World Finance Leaders Meet, and Cautiously Glimpse ‘Green Shoots’ of Recovery

By EDMUND L. ANDREWS

WASHINGTON — Sounding slightly less terrified than they have at any time in the last six months, finance ministers from the United States and other wealthy nations said Friday that they saw “signs of stabilization” in the global economic crisis.

“There are signs that the pace of deterioration in economic activity and trade flows has eased,” said Treasury Secretary Timothy F. Geithner after meeting with finance ministers and central bankers from the Group of 7 industrialized nations. “These are encouraging signs, but it’s too early to say that the risks have receded.”

In a joint statement, the group went further and predicted that economic activity should begin to edge up later this year, though they cautioned that growth would be “weak” and that the outlook could darken again.

Some economists agree that the downward plunge may be slowing in some parts of the world, but even optimists caution that it will be months before economic activity starts to climb and that unemployment is unlikely to start easing before some time in 2010.

Even as American and European officials embraced a hopeful new buzz phrase — the “green shoots” of recovery — they made no apparent progress toward agreeing on how much to stimulate their respective domestic economies or in lining up additional financial commitments to shore up the International Monetary Fund.

When leaders from the so-called Group of 20 met three weeks ago in London, they agreed to raise an additional $500 billion for the fund, which would use the money to help stabilize poorer countries that were blindsided by the financial crisis.

Led by the United States, Europe and Japan, governments have thus far pledged about $375 billion. Though some officials had been hoping that more pledges would surface this weekend, that prospect seemed doubtful on Friday.

Mr. Geithner hosted two back-to-back meetings with finance ministers here on Friday. The first was with ministers from the seven big industrialized countries. The second meeting, which began Friday evening, was with officials from the Group of 20, which includes China, Russia and large developing countries like Brazil, India and South Africa. The Group of 20 comprises 19 nations plus the European Union.

Before the meetings began, American officials went out of their way to dampen expectations for any big accomplishments. Noting that only three weeks had passed since leaders from the Group of 20 mapped out an ambitious effort in London to combat the global downturn, Treasury officials said their goals this weekend were simply to “build on” the earlier meeting.

The biggest issue dividing the United States from other wealthy countries is the amount that governments should spend to revive their domestic economies.

Mr. Geithner and other American officials prodded their counterparts in Europe and Japan to plow more money into public spending projects and tax cuts. But while Japan has increased its stimulus efforts since the London summit meeting, European nations have been unwilling to go further than they have gone.

“It is critical that we supply the necessary stimulus to domestic demand in each of our countries,” Mr. Geithner said, praising China for embarking on an aggressive $500 billion stimulus program and giving a nod to Japan. “Recovery in the United States depends significantly on recovery in those large and previously rapidly growing economies.”

Economists said there have indeed been glimmers of hope. The frozen credit markets have thawed somewhat in recent weeks; shares in financial companies have climbed sharply, though from abysmal lows; and mortgage refinancing has soared in the United States.

But even optimists warn that an economic recovery is likely to be slow and fragile, and may not start until late in 2009. Even if economic activity climbs, they add, it will probably be many months later before unemployment peaks and starts to decline.

Eswar Prasad, a professor of economics at Cornell University and a former senior economist at the International Monetary Fund, warned that the hopeful hints might have the unwelcome consequence of making leaders in some countries complacent and reluctant to follow through on the regulatory reforms and stimulus measures they recently supported.

“The warm glow from the meeting of G-20 leaders has subsided and we are back to grappling with reality, although reality seems a lot less scary than it did a few weeks ago,” he said.