

Global economic growth

Strong global growth conceals emerging market fragility

Tiger index points to strains as IMF set to warn against escalating trade conflict



Christine Lagarde: rejected US complaints that China was engaged in competitive devaluations of the renminbi © Bloomberg

Chris Giles in London OCTOBER 6, 2018

The global economy's continued strength is concealing fragility in emerging markets and a lack of firepower to deal with future shocks in advanced nations, according to the latest update of a tracking index compiled by the Brookings Institution think-tank and the Financial Times.

Momentum in the global economy remains strong, if a little weaker than hoped at the start of the year, but severe strains have already been seen in Argentina and Turkey and these are beginning to ripple out to other emerging economies.

Professor Eswar Prasad, a senior fellow at Brookings, said: "While conventional growth indicators look relatively healthy for most countries, weakening business and consumer confidence bode poorly for growth prospects in many of them, especially the major emerging markets."

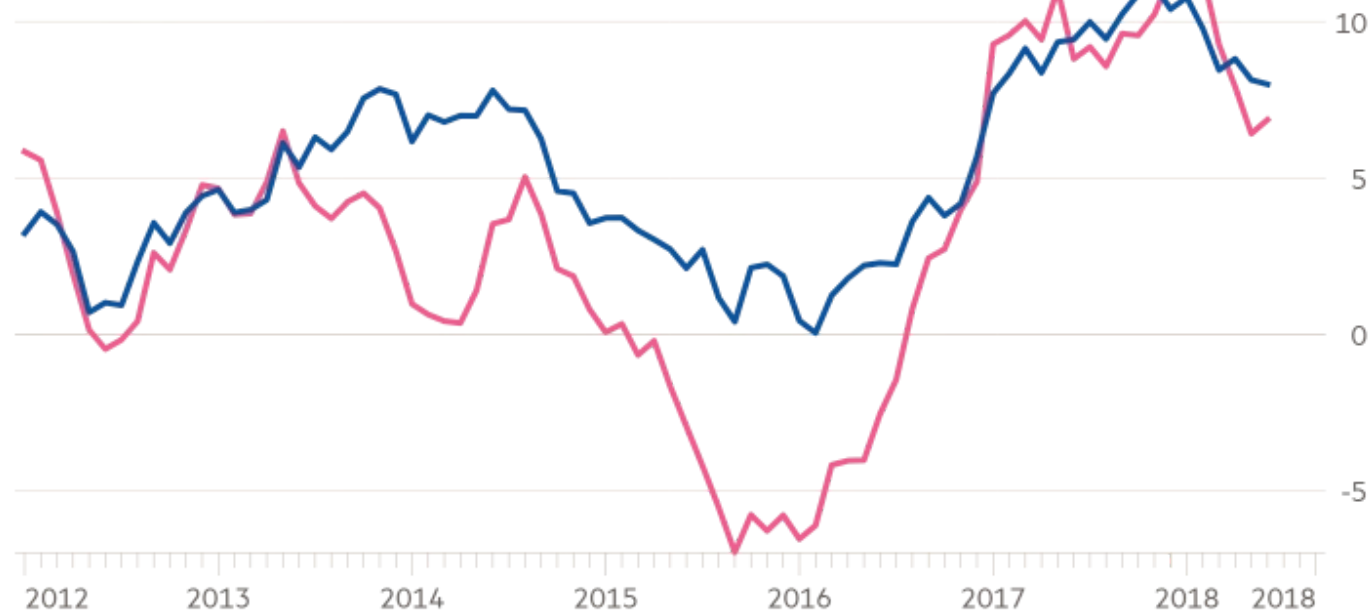
The Tiger index, which tracks a wide range of official economic data, financial market prices and confidence indicators and compares them with their historical values for the largest economies, suggests that global growth has come a little off the boil.

Christine Lagarde, managing director of the IMF, indicated last week that the fund's growth forecasts were likely to be revised down this week at its annual meetings in Bali, Indonesia. The composite Tiger index has similarly come off its recent highs, reflecting slightly weaker data in Europe and emerging economies.

Composite index

Index of relative strength of a range of indicators

— Advanced — Emerging Markets



Source: Brookings Institution

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With the US economy notably strong, pushing unemployment to its [lowest level](#) in almost 50 years, and other advanced economies still growing faster than long-term sustainable rates, the short-term concern in the global economy is centred in emerging economies.

These have hit a rough patch, Mr Prasad said, suffering from outflows of money, depreciations of their currency and therefore an increase in the burden of foreign currency denominated debt.

“As in the past, their domestic and external vulnerabilities tend to get exposed when global financial conditions tighten and the US dollar strengthens,” he added.

“Other countries such as Indonesia and South Africa that share some of these vulnerabilities have

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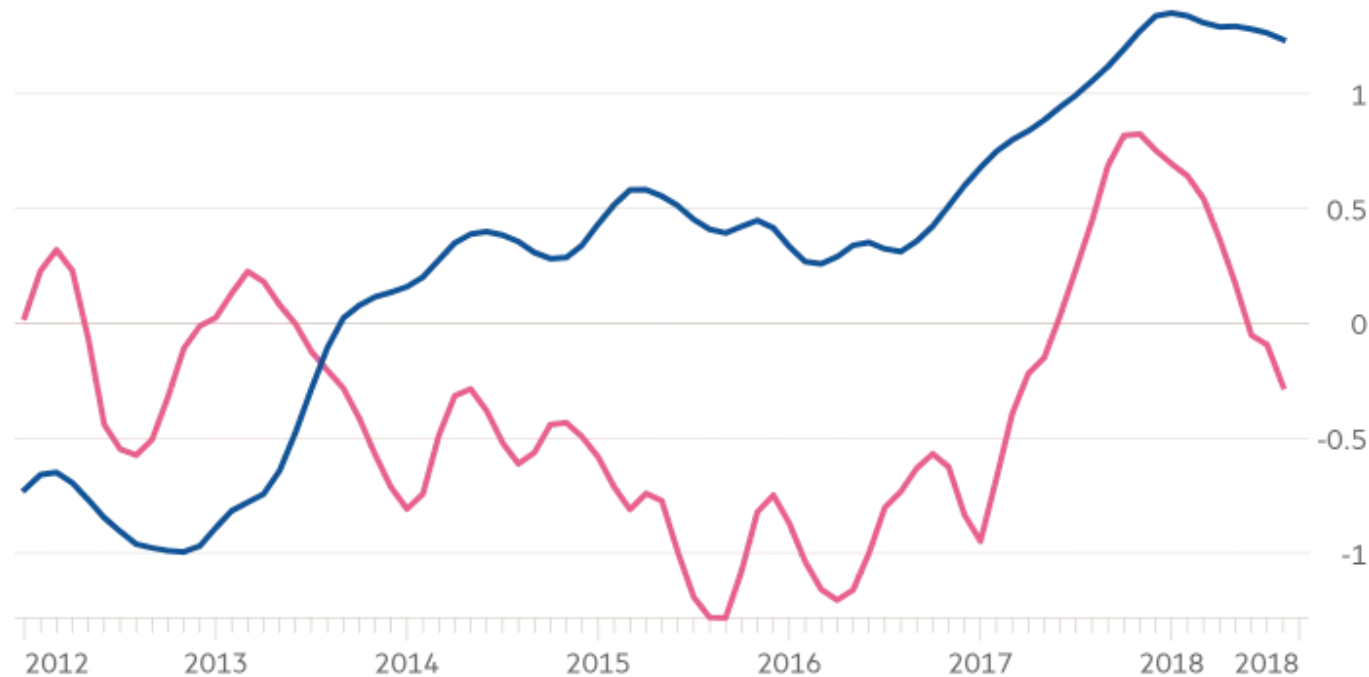
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India is now the world's fastest growing significant economy, but it too is caught up in the concerns about confidence in emerging economies as a result of the postponement of many reforms.

Confidence is falling rapidly in emerging economies

Index of relative strength of confidence indicators

— Advanced — Emerging Markets



Source: Brookings Institution

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In advanced economies, the long upswing has been welcome in lowering unemployment to pre-crisis levels in most economies, but that has not repaired all of the damage of the crisis, leaving them vulnerable to a new shock.

“Policymakers may be left with little room to respond aggressively to a slowdown in growth as the expansionary phase of the global business cycle winds down amid an increase in economic, trade, and geopolitical uncertainties,” Mr Prasad said.

The IMF will use the annual meetings to urge countries not to go further down the route of trade conflicts and instead to concentrate on implementing reforms to boost productivity growth so that the expansion can continue without either petering out or beginning to generate excessive inflation.

With Ms Lagarde berating countries for the protectionist moves of the past year and what she called drift in policy reforms, the theme of the meetings in Bali will be an attempt to rebuild trust,

co-operation and enthusiasm for a new multilateralism among the leading players in the global economy.

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