

Global economic growth

Global economic recovery ‘broad-based and stable’

Brookings-FT index reinforces optimism although fears remain over political uncertainty



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Almost a decade after the world economy was hit by financial crisis, the global recovery has finally become “broad-based and stable”, according to a tracking index by the Brookings Institution and the Financial Times.

The findings, released ahead of this week’s annual meetings of the International Monetary Fund and the World Bank, will reinforce optimism that most economies around the world are showing signs of a consistent, but far from stellar, recovery. But fears remain that political uncertainty could yet throw countries off course.

The [Brookings-FT Tiger index](#) — tracking indices for the global economy — suggests growth has picked up sharply in both advanced economies and emerging markets in recent months. The index, which covers all major advanced and developing economies, compares many separate indicators of real activity, financial markets and investor confidence with their historical averages for the global economy and for each country separately.

The Tiger index suggests growth in emerging markets has picked up sharply since the oil price fall hit output in 2015. Having languished well below historic average levels this time last year, the

index for emerging market growth has climbed to a level not seen since early 2013.

China and India appear to have weathered recent rocky periods and indicators for growth are back above historic averages for both countries. The Chinese economy grew 6.7 per cent last year, its slowest rate since 1990, while Narendra Modi's attempts to demonetise the Indian economy last year weighed on the country's performance. But the indicators suggest growth in both countries is now picking up.

It looks like the global economic recovery is for real

Brookings-FT Tiger composite index



Source: The Brookings Institution

FT

“A recent important state election has provided political validation for Prime Minister Modi’s demonetisation initiative, and gives him additional political capital for deep-rooted structural reforms,” said Professor Eswar Prasad, an economist at Brookings.

With the leadership of China’s Communist party due to undergo a five-yearly reshuffle later this year, the government is likely to try to keep tight control over the economy and financial markets and avoid major reforms.

Indicators of growth in advanced economies have also moved above historic average levels. The index of confidence is at its highest level since the global financial crisis. The growth and confidence indices for the US have picked up particularly sharply during the past year.

But, said Professor Prasad, “political ferment, protectionist policies, and lack of progress on the reform agenda in most countries could hurt both the quality and sustainability of growth.”

The results of the index may be reflected in IMF forecasts for the global economy on Tuesday. Christine Lagarde, the fund's managing director, [told an audience](#) in Brussels last week that “after six years of disappointing growth, the world economy is gaining momentum”.

The IMF predicted in January that the world economy would grow 3.4 per cent this year. If they upgrade that forecast this week, it will be the first time in six years that the IMF has upgraded its in-year forecast for global growth. Over recent years, the recovery has failed to gather momentum, repeatedly falling short of projections by the IMF and other forecasters.

Despite the apparently benign short-term outlook, many economists are concerned that the underlying growth dynamics in many advanced economies are weak. Levels of investment are still low and productivity remains sluggish, providing only a shaky foundation for future economic expansion.

“Weak productivity . . . continues to be a severe drag on strong and inclusive growth,” Ms Lagarde said on Wednesday, “largely because of population ageing, the slowdown in trade, and weak private investment.”

Politicians advocating nationalist and protectionist policies, such as US president Donald Trump and French presidential candidate Marine Le Pen, have also gained popularity, raising concerns that global trade and economic growth could be affected. However, Mr Trump has softened some of his earlier rhetoric, signalling on Wednesday that Washington [would not label China a currency manipulator](#).

Political tensions in the Middle East and the Korean peninsula also pose a risk to economic growth in those regions.

“This year is shaping up as one where the apparent economic calm on the surface is offset by rising economic stresses and political tensions that could bubble up and undercut the recovery in 2018 or beyond,” concluded Professor Prasad.