

June 17, 2012 5:48 pm

Policy 'paralysis' hits global recovery

By Chris Giles in Los Cabos



The global recovery has stalled again as confidence in policy makers' ability to provide conditions for growth has slipped away, according to the latest FT/Brookings Institution Tiger index of world economic conditions.

Professor Eswar Prasad of Brookings said: "The global economic recovery is being held hostage by political brinksmanship that has created policy paralysis, undermined confidence and stymied the effectiveness of macroeconomic policy tools".

As leaders of the most powerful economies gather on Monday in the Mexican beach resort of Los Cabos, expectations are low that the G20, billed as the world's "premier economic forum", will offer co-ordinated action rather than hot air.

Felipe Calderón, Mexico's president who will chair the summit, added to this perception at pre-G20 conferences at the weekend. "Even though we don't expect to reach specific agreements on Europe ... I want to see language and promises which are much more oriented to a new, stronger Europe, a Europe of the 21st century," he told journalists. Mr Calderon hopes to raise the agreed \$430bn recapitalisation of the International Monetary Fund further, even without US backing.

In an interview with Reforma, a Mexican newspaper, President Hu Jintao, China's president, called for "arduous efforts" to raise sustainable global demand. In a plea for global co-operation on the eurozone, he said the "G20 should ... encourage and support efforts made by Europe to resolve [the crisis] and send a signal of confidence to the market".

Before going to the summit, Jim Flaherty, Canadian finance minister, downplayed expectations of radical moves. "I've had conversations with some of [Europe's finance ministers] in the past few days, and I hope we can get them to the right place," he told a Canadian radio station.

Interactive graphic

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European leaders are nervous that the summit will follow the same script as the Cannes G20 last November, which broke up without any material progress, showing world leaders, and Europe in particular, to be impotent in the face of market and economic storms.

As fears mount that the G20 summit will be another damp squib, Bob Zoellick, the outgoing president of the World Bank, said the world was facing a very dangerous moment. "If people don't come to the fundamental decisions, first at a national level, but work it out internationally, very bad things could happen."

The FT/Brookings Tiger index showed world growth stalling after an initial rapid recovery from the 2008-09 economic crisis.

Growth in the US was slowing, much of Europe is in recession, China's growth outlook has weakened, the reform processes in India have stalled and other large emerging economies have slowed dramatically.

Prof Prasad said: "The engines of world growth are running out of steam while the trailing wagons are going off the rails. Emerging market economies are facing sharp slowdowns in growth while many advanced economies slip into recession".

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