

G8 finance chiefs dampen recovery hopes

By Dario Thuburn –

June 12 2009

LECCE, Italy (AFP) — G8 finance chiefs on Saturday warned the global economic outlook remained uncertain and risky despite encouraging signs, while Europe stalled on carrying out US-style "stress tests" on its banks.

"There are signs of stabilisation in our economies... but the situation remains uncertain and significant risks remain to economic and financial stability," ministers from the G8 leading world powers said in a statement.

"We must remain vigilant to ensure that consumer and investor confidence is fully restored and that growth is underpinned by stable financial markets and strong fundamentals," they said following two days of talks in southern Italy.

US Treasury Secretary Timothy Geithner said there was no real turnaround yet.

"I don't think we're at the point yet where we can say we have a recovery in place," he said, adding: "It's too early to shift towards policy restraint."

Geithner said the global economy was still "well below potential" and encouraging growth should still be "the main focus of policy" for world powers.

There have been calls from countries like Germany for major economies to start reducing huge deficits and spending approved to stimulate growth.

"The G8 meeting was characterised by ill-concealed disagreement on the key issues of banks stress testing and of developing concrete strategies for unwinding policy stimulus," said Unicredit bank analyst Marco Annunziata.

International Monetary Fund chief Dominique Strauss-Kahn was also downbeat, saying: "We have to stay very careful, recovery is weak... We have to think about exit strategies but before the exit strategy we have to exit the crisis."

Strauss-Kahn also warned global unemployment would peak in 2011.

French Finance Minister Christine Lagarde meanwhile pointed to "early signs of an economic recovery but said that these remained "fragile."

"We're still in uncharted territory," said Italian minister Giulio Tremonti.

There were also rifts over "stress tests" to check on the financial stability of crisis-hit European banks, with Washington and London in favour but Berlin warning that they could undermine economic confidence.

"In Europe we haven't begun speaking about stress tests," Tremonti said.

In an interview with the Financial Times before the meeting, British finance minister Alistair Darling warned Britain's recovery could be held back by other European countries failing to clean up their banks.

In their statement, the ministers agreed only they would continue to provide liquidity for banks as required and begin to prepare "exit strategies" for after the crisis, adding that these "may vary from country to country."

They also warned unemployment could rise even if economic growth returns.

German Finance Minister Peer Steinbrueck told reporters on the sidelines of the meeting that rescue measures for economies hit by the crisis must "increasingly be combined with a credible exit strategy."

"This means we must now think about how will go about it once we are getting out of this hole, this valley," he said, adding that this applied to monetary and fiscal policy as well as to the rescue efforts for the banking sector.

The IMF has upped its forecast for global growth in 2010 to 2.4 percent, but the World Bank says the crisis in 2009 will be worse than expected and the World Trade Organisation says there are no signs of a trade recovery yet.

Strauss-Kahn said the increase in the IMF's forecast was due to "improvement in the United States, in Asia and particularly in Japan" but

added that the situation in emerging economies was "very concerning."

The talks included ministers from all the Group of Eight (G8) countries -- Britain, Canada, France, Germany, Italy, Japan, Russia and the United States. - Dow Jones Newswires contributed to this report -

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