

Dispatch from Washington: Initial Takeaways from the IMF and IIF Annual Meetings

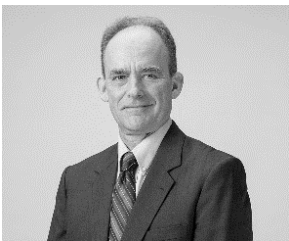
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There was a downbeat but determined mood at both the IMF and IIF annual meetings in Washington, DC this past week. This was framed by the IMF's sharp downward revisions to growth forecasts in their October World Economic Outlook report and ongoing geopolitical tensions around the Russia-Ukraine conflict. The vast majority of delegates at both venues seemed resigned that a global slowdown in the near term is unavoidable and that it is a fallacy to think current high inflation is coming down without some pain in the short term. A shallow global recession seems to be the best outcome at this juncture, but we should also prepare for a harder landing. Energy security and supply – particularly for Europe – figured into the discussions as well. While the meetings had their share of gloominess, there was also an important focus on future opportunities including for the longer-term challenge of energy transition.

Read on for our initial key takeaways.

Paul Gruenwald, Global Chief Economist



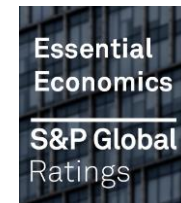
The Global Macro Mood: The mood around near-term macro prospects was sober, but not fatalistic. We heard a lot of resolve from both policy makers and private market participants in the face of slowing growth. For the most part this was based on concrete analysis with little or no sugar coating of the risks that lie ahead. The clear consensus is that the coming quarters will show flattening output and possible recessions but that central banks will continue

to raise rates until inflation (expectations) returns to target. Strong labor markets and reasonably healthy corporate and household balance sheets are tailwinds and will help cushion the slowdown, as long as it is moderate. In line with our view, the US is seen mainly as a macro story, geopolitics and energy security weight more on Europe than on any other region, and China's near-term fate turns mainly on health policy. Encouragingly, Europe was (on balance) seen as effectively rising to meet its challenges.

Energy transition. Discussion and debate on the energy transition have gone mainstream. The issue is now longer "if," but how to make the transition happen and whether it will be done quickly enough to achieve stated decarbonization and climate targets. The Russia-Ukraine conflict has brought home to need to ensure security as part of the transition, but this has not derailed the

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process. It does, however, highlight the need for scenarios and flexibility. Commitments to sustainability and net-zero targets are still very much alive despite the recognition that paths will not be a straight line. There was surprisingly strong determination from across speakers and participants to harmonize concepts and definitions to make nascent and often disconnected targets work better. Relatedly, there was recognition that private financing and shifting consumer preferences are part of the solution; it's not just about government policy and action. While the various transition paths are not fully specified, there was optimism about further technological advances and financial structures to make energy transition happen. I was particularly encouraged by the latter.

Beth Ann Bovino, Chief Economist, United States



Central Banking Challenges: Many central bankers addressed the challenges they and their economies face in removing dependency on the low interest rate environment that the world has become dependent. In particular, Bank of England Governor Bailey noted that over the short-term, unconventional monetary policy is necessary but questioned how long does “unconventional policy” stay “unconventional” before it becomes conventional? Several panelists acknowledged issues for emerging markets in managing

monetary policy in response to policy mistakes in developed markets, with Hari Hariharan of NWI Management saying that emerging markets for a long time are used to policy errors. Now they are seeing policy mistakes in developed markets. Emerging markets will pay the price. Many participants recognized the difficulties central banks face, Ravi Menon from the Monetary Authority of Singapore noted that as central banks try to bring aggregate demand and aggregate supply in balance, they don't want to cause recession. Both the World Bank and IMF have a aglobal recession as their downside case, but there were some hopeful signs including private sector balance sheets, which are currently healthy (on average) and provide many in the private sector a cushion when facing higher prices and borrowing costs.

Sylvain Broyer, Chief Economist, EMEA



Europe's Cold War Winter: The international financial community has a lot to worry about. Growth is slowing sharply, inflation and borrowing costs continue to rise while financial stability is faltering. The outlook for Europe is contingent on developments in the Ukraine conflict and the underlying issue of energy security. A sharp slowdown is underway, as suggested by the IMF's new forecasts - which are consistent with ours - but only the economies most exposed to Russian gas, such as Germany and Italy, are expected to

fall into shallow recessions next year. High inflation is painful, but it is interesting to note that some panelists also see it as a necessary evil to encourage Europe to overcome its dependence on Russian energy. Supply-side policies are needed to avoid industrial meltdown and ensure energy security. A restrictive monetary policy alone cannot meet the geopolitical and industrial challenges facing Europe.

Louis Kuijs, Chief Economist, Asia Pacific



Deglobalization's Rise: Deglobalization also featured prominently in the discussions. Speakers generally saw the steps by governments to inhibit international trade and investment or intervene otherwise as economically harmful. Some remained cautiously optimistic on the future of globalization, including Ngozi Okonjo-Aweala, Director-General of the World Trade Organization. She noted that while politicians are often keen to take measures towards deglobalization, businesses remain interested in economic engagement. Currently that is the situation even in case of the U.S. and China, with bilateral trade remaining very large.

Satyam Panday, Chief Economist, Emerging Markets



Dissonance: Policymakers and industry leaders alike attest to a peculiar moment in history that we live in, as there is a clash of short-term challenges (energy, inflation) with longer term goals (climate). There is an implicit admission that a new reality is setting in-- the world is moving from peacetime economy to war economy (virus, ground, and technology). In Emerging Markets (EM) policymakers, helpless disgruntle could be detected as business cycles have become relatively more in-sync with the advanced economies, coupled with challenges from the strengthening dollar. One EM central banker said it is quite possible that this is just a tip of the iceberg in terms of capital outflows, what happens when there is more tightening in the US and an increased flight to safety? Stability of exchange rates and anchored inflation expectations are top of mind, and all detest the current situation they feel like they have been forced into—one of importing inflation and having to raise rates sharply in a short period of time (in many cases) even as domestic demand not yet fully recovered from the pandemic. Still, lessons learnt from the past meant they were unequivocal in intentions to continue to strive to stay ahead of the inflation curve, keeping up with the disciplined monetary cycle.

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