

## Washington Week: Takeaways From The IMF And IIF Annual Meetings

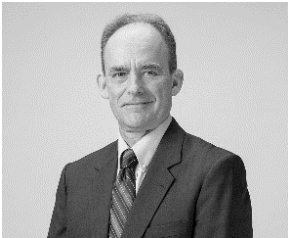
October 30, 2024

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Last week in Washington, D.C. featured the annual meetings of the IMF, World Bank, and Institute of International Finance (IIF). These meetings, along with a number of other events, are the premier global gathering of economists, financiers, and policymakers. Geopolitics, U.S. growth and elections, policy rate cuts, debt sustainability, and energy transition dominated the talks.

Read on for our key takeaways.

### Paul Gruenwald, Global Chief Economist



**Geopolitics were everywhere in this year's meetings.** This included discussions on the muted impact (so far) of ongoing conflicts, the reconfiguring and de-risking of supply chains, and the energy transition (where sustainability has taken a back seat to security). Underscoring this ongoing global fragmentation, the BRICS summit took place at the same time, and attendance from the "Global South" was relatively light.

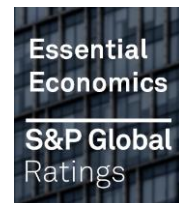
**The outcome of the upcoming U.S. election hung over the proceedings.** A potential Trump win was seen as a pullback from multilateralism and rules-based order, and a rise in uncertainty and volatility. Most economists saw the associated imposition of high tariffs and sharp curbs on immigration as negative for growth and inflation. A Harris win was seen largely as a continuation of the Biden administration.

**Monetary policy discussions centered on rate cut paths and terminal rates.** Central banks are comfortable with the current trajectory of inflation, with the Bank of Canada leading the pack (cutting its policy rate by 125 basis points so far), followed by the European Central Bank (ECB) cutting 75 basis points. The discussion around the Fed focused on the upside risks to the terminal rate. A large group viewed the Fed's dot plot end-cycle rate of 3.1% as too low, and some forecasts are nearer to 4%.

**The U.S. debt trajectory was mentioned on numerous panels.** There was little immediate worry about a credit event, but the general feeling was that the lack of attention to this issue among major politicians was a concern. More generally, panelists saw rising debt and debt service costs as an issue for the "Global South." Higher rates compound this problem for many countries, and a number of participants noted that interest payments will be greater than health and education spending in many countries as the so-called neutral rate of interest has risen post-pandemic.

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**The view on China remains negative on balance.** Property sector oversupply was seen as a continuing drag on growth, while overproduction of solar panels and especially electric vehicles was seen as a threat to domestic competitiveness in major auto-producing economies. Supply chain restructuring out of China is still going slowly, and many saw overall growth as falling short of the 5% official target.

**The future of the U.S. dollar as the world's reserve currency seems secure for now.** This reflects U.S. institutional strength and the lack of alternatives. The rise of the Chinese yuan as a trade currency—but not a store of value—puts only a small dent in this view. Over the longer term (second half of the century), the move to a multicurrency world was not seen as negative, although a U.S. policy-induced move away from the dollar was.

## Satyam Panday, U.S. Chief Economist



### **U.S. fiscal and monetary policy were top of mind for conference participants.**

On the U.S. fiscal trajectory, participants were increasingly uncomfortable with the ongoing large budget deficits (mostly structural) and federal government debt expansion. Nobody entertained the idea (proposed by some prominent economists) of debt tipping point thresholds. Everybody agreed that “we are not there yet,” and some pointed out (correctly, we think) that discontinuous leaps in funding the U.S. government are a risk only if the Fed’s

inflation-fighting credibility comes into question, not the deficit trajectory in isolation.

**There was a sense that inflation risks are tilted to the higher side of the Fed’s 2% target.** In the last decade, deleveraging in the private sector brought about sustained low demand growth in the aftermath of the great financial crisis. Inflation was consistently below the 2% target. Looking forward to the next decade, participants identified physical and transition risks within energy and climate transition, as well as changes in trade and the investment relationship with China, as key drivers of upside inflation risk. These supply-side risks are likely to increasingly put a spotlight on the Fed’s current monetary framework, which is under review over the next 12 months.

### **Amid all of it was optimism about the potential growth of the U.S. economy relative to elsewhere.**

As the director of the Congressional Budget Office aptly put it: “people want to come here; capital wants to come here; innovation and productivity continues to shine.” It is hard to resist the notion that the glass is at least half full.

## Sylvain Broyer, EMEA Chief Economist



### **This year's IMF and IIF meetings were marked by a surprisingly gloomy mood toward Europe.**

Among the negatives, participants mentioned the weakening of Germany, which is facing increasingly fierce competition from China and the U.S., the lack of political leadership, and the absence of fiscal space for core countries. Only a minority remembered that decent growth has returned to Europe this year, unemployment is still at multidecade lows, and inflation is under control, allowing both the ECB and Bank of England to cut rates.

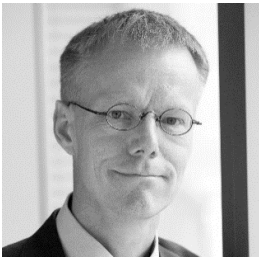
**2025 will be a pivotal year for Europe.** Trade uncertainties will have abated somewhat, but also because next year will follow the European Parliament elections and Mario Draghi’s much-commented report on competitiveness. Everyone shares Draghi’s diagnosis: Europe is

fragmented, underinvested, and overregulated. The remedies he has proposed are not unanimous, and a European industrial policy or joint debt issuance remain divisive issues.

However, a majority supports the idea that Europe must push ahead with the banking union and the capital markets union to unlock the private savings needed for risky investments--emphasizing the role of the pension system in this respect. Moreover, given geopolitical developments, Europe must also push ahead with common European defense.

A new European commission and a new EU presidency will be set up next year. It is no longer a question of defining priorities for them, but of implementing the recommendations set out in the [Draghi report](#). 2024 was about talking the walk for Europe. 2025 is about walking the talk.

## Louis Kuijs, Asia-Pacific Chief Economist



**China's economic outlook commanded broad interest, notably the size, nature, and impact of the recent stimulus measures.** In addition to a lack of clarity about the scale of fiscal stimulus, several speakers expressed concern about the apparent absence of significant measures to boost consumption and rebalance the composition of growth away from the traditional emphasis on investment and industry. This is in line with our own preliminary assessment of the measures in

this [FAQ on the stimulus package](#).

There was also a lot of debate about the international impact of the large supply of Chinese manufactured goods amid weak demand in China itself. Some speakers had a relatively sanguine assessment of the balance of pros and cons of the supply of attractively priced Chinese electric vehicles for economies like Europe. Others were less sanguine, describing this supply as the result of China's unbalanced growth pattern and industrial policy. China was also key in discussions about the outcome of the U.S. elections and the risk of more trade tariffs.

**Views on the economic outlook for the rest of Asia were generally favorable.** Many speakers talked about the opportunities that supply chain adjustment offered to Asian emerging markets. Still, some were less optimistic. When commenting on the "China + 1" narrative about companies setting up manufacturing operations outside of China, one Asian central bank governor quipped that given the meager pace of this process, it is more appropriate to call it "China + ½".

## Elijah Oliveros-Rosen, Emerging Markets Chief Economist



**Growth in emerging markets (EMs) has proved to be more resilient than expected in recent years.** However, it was also a theme that EMs will face significant external headwinds, mainly originating in the U.S. and China, which will test this ongoing resilience.

Regarding the U.S., two main concerns for EMs dominated the discussions. First was the direction of trade policy. Second was fiscal policy and its potential impact not just on short-term interest rates, but more importantly on long-term U.S. Treasury yields, which could tighten financial conditions in EMs. Regarding China, most EM-related concerns were centered on the spillovers of continued weakness in Chinese domestic demand, as well as the impact of the large supply of manufactured goods exports to the rest of the world.

**Other topics discussed included:**

- Debt. There was broad consensus that for most EMs the challenge is not the level of debt, but the interest rate burden: it's a liquidity issue, not a solvency one.
- Energy transition financing. In EMs there was a sense that progress has been too slow, and that the cost of inaction is much higher than the cost of action. Trillions of U.S. dollars need to be mobilized to address climate change, but the sum of the current proposals is in the billions. A call for standardization and scalability was recurring.
- AI. Finally, optimism about the impact of AI in EMs is rising. While the displacement of jobs due to the robotization of manufacturing will continue, AI will also facilitate an augmentation of labor capabilities. And with most of the global labor force coming from EMs, there is a potential for significant productivity gains in those countries. Most agreed that we are just in the initial stages of the AI revolution.

## S&P Global Economics

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