

## GLOBAL MEETINGS UNDER THE SHADOW OF THE US ELECTIONS

The sun was shining last week in Washington, DC during the Annual Meetings of the International Monetary Fund (IMF), but the imminent US elections cast a shadow over the meetings of the Finance Ministers, Central Bank Governors, and private sector economists and finance professionals from all around the world who gathered in town. The better-than-expected state of the global economy was obscured, and all other conversations relegated to second or third billing, including the IMF's usual warnings about various dangers (excessive debt, insufficient growth, protectionism), the outlook for Europe (improving), for China (as well), for other EM (generally good) and digital finance (further gaining status).

*On the US elections*, those hoping to get a better sense of the likely outcome will have been disappointed. While both camps profess to have the lead, too close to call is the verdict for the White House, while the Senate is deemed likely to flip Republican and the House likely to align with the White House result. This would imply a Republican sweep in the event of a Trump victory.

Yet, some trends are clear whoever wins the White House: more economic fragmentation, more US public debt, more US exceptionalism acting as a magnet for foreign investment, a stronger dollar, and higher US interest rates, with the difference between the two candidates being one of degree rather than substance on economic matters. Where the two candidates differ more radically is in the area of defense and foreign policy, which ultimately also has economic implications for US allies. Overall, while US participants were generally sanguine about the country's economic prospects, participants from around the world went home with a sense of foreboding and need to prepare.

*European policymakers* welcomed the rapid disinflation registered without hit to their labour markets. Though the expected rebound in consumption has yet to materialize, they remained hopeful it would eventually do so and dismissed recession fears. With risks to inflation now seen as evenly balanced, a debate emerged about the potential for accelerating the pace of easing. However, at this stage, this seems a small minority view, not ruled out but a high bar to clear, requiring a material change in inflation projections. Labour market conditions will be an important indicator in that context. It was also clear that the diagnostic set out in the Draghi report about the urgent need to boost Europe's lackluster productivity growth is in fact widely shared. Views differ more on the remedies, but I left Washington more optimistic that action will be taken.

*China's stimulus* was another topic on which clarity remained elusive. While there has clearly been a shift in thinking at the top of

the state on the need to stimulate the economy, expert China watchers disagreed on the ultimate effectiveness of the measures likely to be deployed. Beyond China, emerging markets policy makers also generally expressed satisfaction with the state of their economies and, to varying degrees, progress in bringing inflation down. But they were bracing themselves for the negative spillovers that would likely arise if US economic policies took a further expansionary, inflationary and protectionist turn. They noted with concern the underlying trend toward less free trade and investment regimes, notably in developed economies, and foresaw a world economy fragmented into blocs. Seeking greater integration within such blocs was seen as a partial remedy.

*Digital finance*, after years of being a trendy but somewhat fringe topic at the Meetings, seemed to be coming of age, at least judging by the seniority of policy makers discussing it in multiple panel discussions across town. Views continue to differ across jurisdictions on the need for central bank digital currencies for retail usage, but increasingly the focus is on how rather than if. Opinion is less divided on the benefits of digitization of wholesale finance— not just for payments but also settlements and potentially a whole range of wholesale financial transactions. In this area as well, policymakers are hoping —and working towards— resisting the fragmentation forces at play at in the geopolitical arena.

Many commentaries written this past week lamented the weakness of the two host institutions, the IMF and the World Bank, but in truth helplessness seemed widely shared among participants as they witnessed the ebbing of multilateralism and the global rules-based economic order, and pondered how to make the most of whatever comes next in their respective spheres of competence.

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