

## WORLD ECONOMY: HOW TO TAKE STOCK IN THE MIDST OF UNFOLDING CHAOS?

This week, Washington DC will host two gatherings that should be important in their own right, and yet are unlikely to be: one is the Spring Meetings of the International Monetary Fund (IMF) and World Bank (WB), which brings into town thousands of top finance and central banking officials as well as private sector delegates from the financial sector and civil society; the other is the peace negotiations between Israel and Lebanon. The former is traditionally an opportunity to take stock and send a combination of reassuring messages to markets and stern admonitions to policymakers. The latter could have been history-making just for taking place. Yet both are certain to be overshadowed by developments in the Persian Gulf and US-Iran talks. Unable to pin down the near-term outlook, delegates are likely to set their sight, more than usual, on longer-fused developments: inexorably rising public debt burdens, global economic governance in the post US-centric age, AI's economic and geopolitical impacts, and the implications of the rise of private markets and digital finance. Here are five key questions I will seek to get greater clarity on.

### HOW RESILIENT WILL THE GLOBAL ECONOMY BE THIS TIME AROUND?

The 2026 Spring Meetings bring a weary sense of *déjà vu*. A year ago, they were haunted by the fallout from "Liberation Day", which turned out to inflict minimal, if any, damage to the global economy, contrary to consensus expectations at the 2025 Spring Meetings. Today, the ghost in the machine is the war in the Gulf—a crisis that has effectively tethered global growth to the whims of belligerents' attacks on energy infrastructure and restrictions on passage through the Strait of Hormuz.

We are witnessing a stagflationary shock that compounds with every day the world is going without the bulk of the 20 million barrels per day of crude oil and petroleum products it was getting from the Gulf prior to the war.

While some are more vulnerable than others, most economies - advanced and emerging alike - entered 2026 with a healthy growth momentum, broadly contained inflation, and manageable external imbalances. These will provide helpful buffers.

However, fiscal positions are generally weak and are likely to worsen. The IMF has already sounded the alarm about this. It will be interesting to see if governments listen.

### HOW HAWKISHLY WILL CENTRAL BANKS RESPOND?

While the year started with expectations of multiple rate cuts from the Fed, the Bank of England and many EM central banks, and a long spell of neutral policy from the ECB, central bank rhetoric and market expectations alike have taken a hawkish turn.

Crucially, this is not a repeat of 2022. Central banks are starting from much higher interest rate levels, and do not face the ultra-tight labour markets and broad-based supply-demand imbalances of the post-pandemic era. The sharp increases already seen in fuel prices will slow down demand.

That said, central banks will be keen not to let inflation expectations get out of hand so soon after the last inflation shock. Monetary policymakers will be hard-pressed to explain how they process the incoming data flow to adjust their reaction strategy and balance growth and inflation risks in their respective economies.

### HOW WILL THE APPARENT DISCONNECT BETWEEN FINANCIAL MARKETS AND THE REAL ECONOMY GET RESOLVED?

In recent weeks, there has been a striking dissonance between energy experts and economists on the one hand, and financial markets on the other.

The former have tended to stress that the energy price shock caused by the war is set to outlast military hostilities by at least several months, and possibly longer if more damage is inflicted to energy production infrastructure in the Gulf. All economies will face higher inflation and lower growth as a result, with the extent of the shock growing with every passing day without a resolution on the ground.

Meanwhile, stock markets have corrected only to a very modest extent, if at all (the NASDAQ closed up compared to the eve of the war on April 10) and full-year earnings expectations have generally not been revised down, at least for now. By contrast, sovereign bond markets have delivered large increases in long-term bond yields, reflecting less higher inflation expectations than growing fiscal risks. Dollar appreciation has been relatively muted, relative to previous energy price shocks.

Should the outlook for peace and oil markets normalization worsen, risk assets could reprice abruptly. Given the ongoing cracks that have been appearing in private markets since before the onset of the war, it is not hard to think of scenarios where financial markets abruptly take a turn for the worse, and these are certain to feature prominently in conversations throughout the week. What would central banks do then will be another question for attention.

### WILL AI SAVE THE DAY AGAIN OR BRING FURTHER DOOM AND GLOOM, AND ARE THERE OTHER CREDIBLE LEVERS OF STRUCTURAL GROWTH?

The accelerated infrastructure buildup and deployment of AI was a key unsung hero of 2025, explaining a large part of the resilience of global trade and GDP growth in the US and many Asian countries that are key nodes in the global AI supply chain.

While most research to date on the impact of AI on either the labour market or productivity is inconclusive, even in the US, there is a raging debate, both in academia and among policymakers, as to the extent to which AI could deliver a structural boost to growth and hence help ameliorate fiscal challenges. There is also a growing focus on who will be the losers from the deployment of AI, and what strategies govern-



ments can and should develop to maximise the gains and minimise the losses from this transformative technology.

In Europe, policymakers have a much broader agenda of structural reforms intended to boost growth in a structural way. Spring Meetings delegates will be keen to probe how far along Europe is in moving forward from agenda to execution.

## **WHAT WILL BE THE BROADER AND LONGER-TERM IMPLICATIONS OF THIS GULF WAR?**

Global delegates to the IMF/WB Meetings are always keen to understand US politics in election years. They will be doubly so this year. The Gulf War and associated gasoline price increases have been deeply unpopular in the US, and the odds have been rising of Republicans losing not just the House but also the Senate in the November mid-term elections. It's too soon to tell, but not to start mapping out the implications of these scenarios.

On the global stage too, this war is likely to be consequential, with US antagonists like China, Russia and others likely to recalibrate their perceptions of the threat represented by the US, and US allies – in the Gulf and in NATO – rethinking the costs and benefits of the said alliance. Of course, the US President has vowed to rethink NATO involvement too.

The upcoming reset starts with geopolitics but is likely to extend to finance as well: will cross-border capital stocks and flows underpinned for decades by hard-wired geopolitical alliances remain as strong if these underpinnings weaken? At issue here is, yet again, the dominant role of the US dollar in the international financial system.

Lastly, many nations are likely to conclude from the war that they must intensify their efforts to diversify their energy sources away from imported oil and gas and accelerate their electrification efforts. This too will have financial and geopolitical implications.

There will be other issues in focus as well: what's next for US trade policy, and how quickly is digital ledger technology-based finance growing. Both important and interesting, but less likely than the others to be game changing over the next six months.

Unusually, the near-term fate of the global economy will be largely out of the hands of the top officials gathered in Washington this week. But by sharing their perspectives, heeding the analysis and advice of the multilateral institutions, and actively preparing for the world after the war, they are more likely to "do no harm", and guide both markets and their respective economies to a soft landing.

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