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To the point!

Cross-Asset- and Strategy-Research

A postcard from Washington

Bad mood at the IMF annual meeting

Today I am writing to you from Washington D.C., from the annual meeting of the World Bank and the International Monetary Fund (IMF). The sun shines brightly down from the sky. The participants from all corners of politics, research and the financial world are delighted to finally be able to meet again in person after the forced break caused by Corona.

The IMF is pessimistic, but not enough

But appearance is deceptive. In the nearly twenty years that I have been attending this event, I have not experienced the atmosphere and the outlook as negatively. At most, with the exception of the 2009 financial crisis. As expected, the IMF has further lowered its forecasts. According to this, the world economy will only grow by 2.7% next year (LBBW Research: 2.1%). After that it's just a sluggish uphill climb. The long-term average of 3.6% (2000-2021) will no longer be reached within the forecast horizon of 2027. But that's not all. According to the IMF, global inflation will average 6.5% in 2023 and will only drop back to the long-term average of under 4% in 2025. For Germany, the IMF sees a recession of -0.3% and an average inflation rate of 7.2%. LBBW Research assumes -1.5% and 8.7% respectively (see chart). Overall, the IMF forecasts still seem overly optimistic.

Inflation trumps all other issues

The vast majority of debate participants in Washington emphasized the primacy of fighting inflation. The central banks are urgently advised to boldly raise interest rates in order to prevent inflation expectations from taking hold.

At the previous annual meetings, the tenor was rather that the central banks should not rush the monetary normalization course



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According to the IMF, the global economy will only grow by 2.7% in 2023. That's still optimistic.

Central banks are challenged: hardly any votes for interest rate restraint

in order not to endanger the tender little plant of the post-pandemic upswing. The unexpectedly bold increase in inflation has caused a collective rethinking.

Probably also because high interest rates are only seen by a few as a key driver of the recession. Europe would tumble into recession next year even if the ECB had stuck to its zero interest rate policy.

Concern about financial market stability

The second dominant topic was what impact rising interest rates will have on financial market stability. After a decade of ultra-low interest rates, an abrupt turnaround in interest rates cannot go unnoticed. The IMF sees financial stability as threatened as it has not been since the financial crisis. The IMF sees emerging countries as particularly vulnerable. But the turbulence in the British bond market is also an example of this, as is the reduced liquidity in the capital markets.

The fact that the Bank of England was forced to buy government bonds again because of the government's glaring policy mistakes in order to stave off an impending collapse raises important questions. Can central banks continue to raise interest rates if the risks to financial market stability grow? You can read about it here.

The annual conference ends at the weekend. At least until then, the fabulous weather should continue. The bleak economic outlook is likely to prove more enduring.

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Source: IMF, LBBW Research

Conflicts between fighting inflation and financial stability break out
