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To the point!

Cross-Asset- and Strategy-Research

Postcard from Bangkok

Nerves are showing at the World Bank and IMF annual meetings

As they do every October, government officials, central bankers and other financial-sector figures are gathering for the annual meetings of the International Monetary Fund (IMF) and the World Bank. LBBW is here too, of course. This year's gathering is in Bangkok, Thailand's capital. Please don't ask about the traffic. It's beyond description.

In conversations and panel discussions, everyone is trying to strike a somewhat upbeat note. And the global economy has indeed proved resilient despite geopolitical crises, trade disputes and rising inflation and interest rates. But the dark clouds gathering overhead are impossible to miss, even in Bangkok.

In its closely watched, twice-yearly World Economic Outlook (WEO), the IMF has largely reaffirmed its April forecast for global growth: 3.1% this year and 3.4% in 2027. A closer reading, though, shows that the report dwells above all on the risks to that outlook. Those concerns have also come up in discussions here to which I've had the chance to contribute.

Public finances under pressure

IMF, the joke goes, stands for "it's mostly fiscal". The quip harks back to the conditions the fund attaches to support for developing countries facing balance-of-payments trouble. A regular condition for releasing loan tranches is that governments shore up their budgets to curb excess demand. The latest WEO, too, contains plenty of warnings about unsustainable fiscal policy. This time, however, most concern advanced economies.

A prolonged conflict in the Middle East, in particular, could bring further bursts of inflation, potentially prompting central banks to raise rates again. That would add to the already rising interest

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A chaotic metropolis steeped in tradition: the Buddhist temple Wat Arun on the banks of Bangkok's Chao Phraya River.

Photo: Kamil Pietrzak via Unsplash.com

It's about fiscal policy – again

burden of heavily indebted advanced economies and deepen doubts about the sustainability of their public finances. Adverse feedback loops could push rates higher still, increasing the fiscal strain. Many countries are also choosing ill-suited ways to shield people from rising energy prices – Germany’s measures to curb fuel prices spring to mind – adding to debt and deficits.

Accordingly, the IMF has nudged up its forecast for the G7’s debt-to-GDP ratio in 2031, from 133% in April to 135%. Germany’s ratio is currently 65% and is projected by the IMF to reach 76% by 2031. That leaves it in relatively sound shape by comparison – though that is hardly a high bar. Even so, the IMF has been telling delegates at every opportunity that downside risks predominate. After decades spent analyzing public finances, I agree. Governments seem to be hoping that central banks will once again come to the rescue. But central banks can, at best, buy time. The hard work falls to governments. They need to use the time that central banks can buy them by consolidating the out-of-shape budgets.

An unbalanced global economy

Another recurring theme is how heavily global economic momentum depends on investment in artificial intelligence. U.S. growth, for example, rests to a considerable extent on building data centers and related infrastructure, while investment elsewhere in the economy is weaker than in 2025. Growth is becoming concentrated in ever fewer countries (see Figure 1).

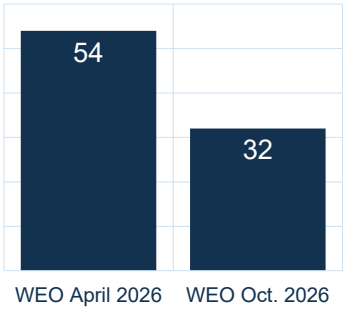
The IMF points to winners and losers among countries, with growth rates diverging further. Poorer countries in particular are at risk of falling behind. They don’t benefit from the AI boom but have to bear the brunt of a higher import bill for fossil fuels as a consequence of the Iran war and higher food import prices as a result of fewer shipments arriving from the Black Sea due to the fact that Russia is threatening Ukrainian ships carrying wheat and other grains.

The IMF’s Global Financial Stability Report also highlights risks to financial stability. At the heart of its concern is how AI investment is financed. The fund regards circular deals as particularly risky: hyperscalers are putting some \$300 billion into financially weaker and often profitless AI firms. There is also \$650 billion in debt as investments can no longer be financed through free cash flow. In return, the recipients have committed to \$1.4 trillion in future spending, for instance on computing power or chips. These interlocking arrangements make financial flows harder to trace – especially if more such deals remain undisclosed.

Finally, the IMF’s managing director, Kristalina Georgieva, has publicly warned of a slow-motion tsunami for jobs and tax revenues from AI. That is likely to hamper economic development and deepen social divisions. In a nutshell, the mood in Bangkok is decidedly somber. While all recognize the resilience of the world economy, the fear is that crunch time is drawing closer.

The risk of an interest-rate spiral

Fig. 1: Number of countries accounting for 95% of global economic growth (2026)



Source: IWF, LBBW Research

Opaque AI financing models

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