



R&R Weekly Column
By Brunello Rosa



Key Takeaways from the IMF-World Bank Meetings

The IMF-World Bank meetings took place in Washington D.C. last week. As usual, this was an occasion to revisit the outlook for growth and inflation at the global level, and to re-evaluate the policy paths chosen by many countries. The updated forecasts for the global economy are reported in the [latest edition of the World Economic Outlook \(WEO\)](#). [As the IMF Chief Economist wrote in his blog](#), they show that “the global economy remained unusually resilient throughout the disinflationary process. Growth is projected to hold steady at 3.2 percent in 2024 and 2025,” while “some low-income and developing economies have seen sizable downside growth revisions, often tied to intensifying conflicts.”

When looking at specific countries or regions, US GDP growth is expected to remain “strong, at 2.8 percent this year, but will revert toward its potential in 2025.” In the Eurozone, “a modest growth rebound is expected next year, with output approaching potential.” In emerging markets and developing economies, the growth outlook remains positive, “around 4.2 percent this year and next, with continued robust performance from emerging Asia.”

While labour markets have shown remarkable resilience, with unemployment rates at or close to their lowest levels of recent decades, according to the IMF the battle against inflation has been “largely won, even if price pressures persist in some countries”. After peaking at 9.4% in Q3 2022, headline inflation is now expected to fall to 3.5% by the end of 2025; i.e., “slightly below the average during the two decades before the pandemic. In most countries, inflation is now hovering close to central bank targets, paving the way for monetary easing across major central banks.”

This is where the IMF requires countries to make a triple policy pivot. First, with inflation falling, central banks have no reason to continue keeping rates as high as they have been in the last couple of years. For this reason, the ECB has already cut rates in [June](#), [September](#) and [even October](#) (which in September seemed not to be a “live meeting”). The Fed too has cut rates once, in September, [surprising the market with a 50bps cut](#), when the market had been expecting a 25bps reduction. Among the largest advanced economies, the [BoE also cut rates, in August 2024](#), and is expected to follow suit in November.

As monetary policy becomes easier, governments should start a process of gradual fiscal consolidation, to reduce the large fiscal deficits and public debts accumulated during the pandemic and the initial phases of Russia’s aggression against Ukraine. It is remarkable how investors are not worried by the increasing fiscal deficit of the US (the third largest in history), [and by its public debt, which has reached the astronomical figure of USD 35tn, or 124% of GDP](#).

As the IMF says, “the third pivot—and the hardest—is toward growth-enhancing reforms,” centred around the common goal of “enhancing productivity, as this is the only way we can address the many challenges we face: rebuilding fiscal buffers; coping with aging and shrinking populations in many parts of the world; tackling the climate transition; increasing resilience, and improving the lives of the most vulnerable, within and across countries.” This would be the time to implement those reforms, as growth is still acceptable, the unemployment rate is low, and inflation is under control. But the political economy of structural reforms remains complicated: it is very hard to find any elected politician willing to impose a sacrifice today, which will bear fruits only many years later, when he or she will no longer be in power.

The IMF has made predictions and policy recommendations ahead of the defining moment of this year, the US election, which was at the centre of every discussion during the meetings. While Harris would guarantee a higher degree of policy continuity, Trump is likely to be severely disruptive again. But we will discuss the effects of a Trump presidency only if this event materialises.

Our Recent Publications

📖 [Fusion, Quantum, and AI: The Triad Shaping Tomorrow's Energy Landscape and Geopolitical Balance](#), by Nathan Ali, 24 October 2024

📖 [Shadows of Conflict: The Iran-Israel Tug of War](#), by Joshua Bowes, 23 October 2024

📖 [Italy is Happily Out of the Radar Screen, But Remains Vulnerable to Shocks](#), by Brunello Rosa, 22 October 2024

📖 [Review: ECB Cut Rates, As It “Starts Breaking the Neck of Inflation”](#), by Brunello Rosa and Nato Balavadze, 17 October 2024



Looking Ahead

The Week Ahead: QoQ GDP To Increase In US, EZ, France And Italy, While Contracting In Germany; Headline Inflation To Rise In EZ

In the US, in Q3, according to the advance estimate, GDP growth rate is seen increasing by 3.0% q-o-q (*p*: 3.0%). In October, unemployment is likely to remain at 4.1%. NFPs are expected to rise by 140K (*p*: 254K). In October, S&P Global Manufacturing PMI is seen increasing to 47.8 (*p*: 47.3).

In the EZ, in Q3, according to the flash estimates, the economy is likely to advance by 0.2% q-o-q (*p*: 0.2%) and 0.8% y-o-y (*p*: 0.6%). In October, consumer confidence is seen rising slightly to 96.4 (*p*: 96.2). In October, headline inflation is seen rising to 1.9% y-o-y (*p*: 1.7%), whereas core inflation is expected to remain at 2.7% y-o-y. In September, the unemployment rate is likely to stay unchanged at 6.4%.

Among the largest EZ economies, in Q3, the GDP growth rate is expected to: *i*) increase by 0.4% q-o-q (*p*: 0.2%) in France; *ii*) contract by 0.1% q-o-q (*p*: -0.1%) and 0.3% y-o-y (*p*: 0.0%) in Germany; and *iii*) advance by 0.3% q-o-q (*p*: 0.2%) and 0.7% y-o-y (*p*: 0.9%) in Italy. In October, headline inflation rate is likely to: *i*) rise by 1.8% y-o-y (*p*: 1.6%) in Germany; *ii*) ease off too 1.0% y-o-y (*p*: 1.1%) in France.

In the UK, in October, S&P Global Manufacturing PMI is seen declining to 50.3 (*p*: 51.5).

The Quarter Ahead: Tentative Deal Reached On Boeing; US Budget Deficit Widens, Third Highest On Record

Trump reaffirmed his proposal to replace income taxes with tariffs. In an interview with Joe Rogan, Trump also suggested scrapping income taxes on tips, overtime pay, and Social Security benefits, alongside implementing a sweeping universal tariff on all imports. However, tax experts and economists doubt that tariffs alone could offset the trillions in revenue lost from eliminating income taxes.

Iran-Israel Israel launched strikes on Iran, targeting military sites in response to recent missile attacks. Iran reported four casualties and limited damage, while affirming its right to self-defense. Biden urged Israel to avoid escalation, as global leaders push for restraint. In Gaza, Israel detained staff at Kamal Adwan Hospital, drawing UN criticism for actions against civilians.

Last Week's Review

Real Economy: PMIs Decreased In UK, While Increased In EZ And US; Consumer Sentiment Increased In US

In the US, in October, S&P Global Manufacturing and Services PMIs increased to 47.8 (*c*: 47.5; *p*: 47.3) and 55.3 (*c*: 55; *p*: 55.2). Composite PMI edged up to 54.3 (*p*: 54.0). In October, Michigan consumer sentiment rose to 70.5 (*c*: 69.0; *p*: 70.1).

In the EZ, in October, HCOB Manufacturing PMI rose to 45.9 (*c*: 45.3; *p*: 45.0), whereas Services PMI declined to 51.2 (*c*: 51.5; *p*: 51.4). Composite PMI increased slightly to 49.7 (*c*: 49.8; *p*: 49.6). In October, consumer confidence rose to -12.5 (*c*: -12.5; *p*: -12.9).

In the UK, in October, S&P Global Manufacturing and Services PMIs decreased to 50.3 (*c*: 51.4; *p*: 51.5) and 51.8 (*c*: 52.4; *p*: 52.4). Composite PMI edged down to 51.7 (*c*: 52.6; *p*: 52.6). In October GfK Consumer Confidence fell to -21 (*c*: -21; *p*: -20).

Financial Markets: Stock Prices Decreased; UST Yields Edged Up; Dollar, Oil And Gold Prices Increased

Market Drivers: Stocks pulled back from record highs after six weeks of gains, as rising Treasury yields and high valuations kept investors cautious ahead of major earnings reports. Key reasons for UST yields rise include Fed caution and uncertainty around the US presidential elections. Major European stock indexes also down amid expectations of slower Fed rate cuts.

Global Equities: Decreased w-o-w (MSCI ACWI, -1.3%, to 845.49). The US S&P 500 index declined (-0.9% w-o-w, to 5,808.12). In the EZ, share prices decreased (Eurostoxx 50, -0.9% w-o-w, to 4,942.65). In EMs, equity decreased (MSCI EMs, -1.8%, to 1,134.88). Volatility decreased rose to 19.90 (VIX S&P 500, 52w avg.: 15.6; 10y avg.: 18.8).

Fixed Income: w-o-w, the 10-year US Treasury yields rose (+15 bps to 4.23%). The 2-year US Treasury yields increased (+16 bps to 4.11%). The German 10-year bund yields edged up (+11 bps to 2.29%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.8%, to 104.26; EUR/USD -0.7%, to 1.08). In EMs, currencies declined (MSCI EM Currency Index, -0.2% w-o-w, to 1,762.80).

Commodities: w-o-w, oil prices increased (Brent, +4.1% to 76.05 USD/b). Gold prices increased w-o-w (+0.9% to 2,754.60 USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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