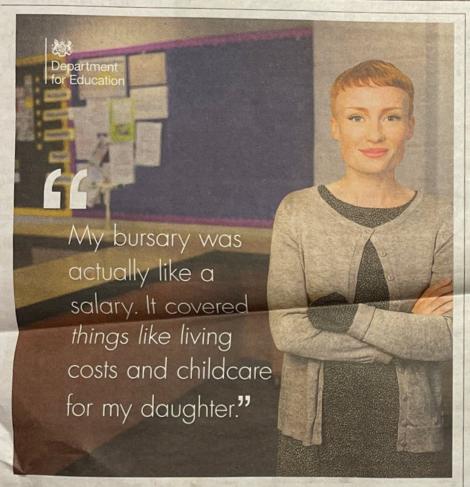
CITYAM, COM NEWS MONDAY 16 OCTOBER 2017

## ington summit a economic positi Gerard Lyons suggests enthusiasm has finally returned to world markets



I'm Miss Parsons, I chose to teach.

As a trainee teacher, you could get a tax-free bursary of £26k.\*

Register now for tailored advice. Visit: education.gov.uk/teach

> TEACHING YOUR FUTURE | THEIR FUTURE

HE ANNUAL meetings of the International Monetary Fund (IMF) and World Bank have just finished here in Washington. The attendees in-cluded all the world's leading central bankers and finance ministers. Alongbankers and mance initiates. Anois side this, the banking and financial industry has been here in their thousands, meeting with policy officials and attending meetings of their own. If you want to gauge the mood of the world economy this is a good place to start. good place to start.

good place to start.

This year the mood was the most positive I can recall since the annual meetings in 2007. I have been optimistic about the world economy throughout this year and it has surprised me how cautious the mood has been. So this pick-up in sentiment is long overdue.

It also represents a huge change. Two years ago when these meetings took years ago when these meetings took place in Lima, pessimism prevailed. Then last year, here in Washington, there was caution as populism and politics dominated every debate. Now the talk is of stronger growth, rising earnings and increased employment. If was hard to tell who was the most upbeat in Washington.

Americans spoke enthusiastically of tax cuts helping growth and of firms with cash to invest

The message from Asia was of recovering exports and trade.

Meanwhile, many emerging economies expect China's Belt Road initiative and increased spending on infrastructure to provide a huge boost. In my view, the Belt Road and the Fourth Industrial Revolution will be

strong drivers of future growth. Even the Europeans and Japanese were talking of how cheap money was now contributing to solid recovery. When it came to the topic of Brexit, however, there was a divergence, with pessimism among those who are pick ing up a negative message from ob-serving UK politics and reading the international English press versus optimism from those who are closer to the action, investing in the UK. There was much talk of the financial technology opportunities in London.

The week was given a good start with the IMF revising up its forecasts for global growth.

Post-crisis the tendency has been for forecasts to be revised down.

After 3.2 per cent last year, global growth is expected last year, global growth is expected to be 3.6 per cent this and 3.7 per cent next. Based on the mood in Washington, these forecasts may be too low. It is a cyclical and broad based upturn. Only a handful of countries across the globe are not ex-

pected to grow this year.

Despite the optimism, there were concerns in Washington. Geopolitic figured prominently. There was con-cern about President Trump's apcern about Fresident Trump's ap-proach to the North American Free Trade Agreement (Nafta), North Korea and Iran. Markets may soon be forced to price more for these risks. Debt levels also remain high. Yet the big debate was about how sustainable

this growth will be when monetary policy tightens. We have had almost a decade of unconventional monetary decade of unconventional monetary policies, which have worked by boost-ing asset prices, and while this has added to inequality it is now generat-ing growth. The consensus in Washington was that these unconventional measures might also take a decade to unwind.

Another economic concern is the uncertainty that exists about what is driving a number of key variables such as wages, inflation and productivity. All of these matter for growth and policy.

The challenge is for more people across the world to share in success. This requires not just solid jobs growth but a recovery in wages too.

While technology and globalisation have restrained wage growth, this could now change because of tightening labour markets in the west.



Gerard Lyons said the mood music from economic policymakers was upbeat

Inflation will be key. Although few think inflation will be a problem, there was the occasional reminder that inflation came out of nowhere in the 1970s. While central bankers may been unconventional they wanted everyone in Washington to know that they are still conservative. If inflation threatens, they would act to restrain it.

Across financial markets, volatility is low, markets are not pricing for risk and the predictability of monetary policy has reduced the need to hold liquidity. The challenge will come when more countries start to tighten in unison.

In my view, policy post-crisis was characterised by the three S's: it was sizeable, synchronised and successful. Now, central bankers will need to focus on a different set of S's: sequencing, scale and shocks.

They need to sequence properly raising rates and withdrawing from quantitative easing. The scale and pace of tightening will need to be gradual. They must also avoid shocking the markets. As the fundamentals and confidence improve, policy becomes the main focus

Gerard Lyons is a special advisor to Parker Fitzgerald, the management

\*Subject to eligibility. Selected subjects only.