PIERRE JACQUET

President of the Global Development Network, former Chief Economist of the French Development Agency, former Deputy Director of Ifri

In our workshop, we had a lively exchange on the current economic and financial situation, during which we also addressed some structural transformations that are taking place.

I. On the current economic and financial environment, we concluded that any assessment would have to be the judgmental result of balancing positive elements with a negative side made of various risks to consider.

1. On the positive side:

a/ Growth: Global recovery is on its way at an unprecedented pace, in the world economy globally, and also in this region of Gulf countries, with a clear correlation with the degree of vaccination; market economies, the financial sector and banks proved resilient.

b/ This was facilitated by responsive fiscal and monetary policies, providing ample liquidity and government support.

c/ Inflation: looking at it from concerns existing before the Covid crisis, the resumption of inflation can also be interpreted as a welcome exit from a situation that was on the verge of deflation. Central Banks are monitoring the situation and their inflation target (which converges across CBs around 2%) provides an anchor that guides policy responses.

d/ Even in poor countries of SSA, there is dynamism, confidence and energy among policymakers. The state of mind is favorable. It was mentioned that the new frontier is investment for climate and sustainability: the « build back better » motto that applies for Africa is actually « build ».

2. On the negative and risk side:

a/ The growth picture is unequal, and growth remains too slow in merging countries and many low-income countries, notably in Sub-Saharan Africa. This is compounded by the inequality in the distribution of, and access to, vaccination which was often mentioned yesterday.

b/ Even with the comfort of CB careful policies, Inflation prospects remain uncertain: is the current inflation surge (which goes beyond the welcome return to the 2% target shared by many central banks), fed by commodity and energy prices as well as sustained demand facing supply and transportation bottlenecks, temporary, or will it transform into sustained overheating? Liquidity remains abundant, energy prices are up, wages may increase and are no longer constrained by an ageing Chinese labor (though automation can compensate in terms of pressure on labor markets). The jury seems to be still out, but there was no convergence, within our group to either Larry Summers's prediction of a change of regime toward high inflation, nor Roubini's prediction of stagflation.

c/ Debt, both corporate and public, is very high, and its burden depends on the evolution of interest rates, and therefore on the management and pace of tapering. This may not be a source of concern in the short term, but complacency would be dangerous.

d/ In developing countries, debt can be managed but has become an overriding issue. The allocation of SDRs has been excellent news, but this is too small and likely to be disbursed too slowly.

e/ In some emerging markets, especially in China, financial risks have emerged that may spill over to financial markets worldwide. This is yet another point of attention.

f/ Over the longer term, questions were raised about the prospects for potential growth. Total factor productivity had been on a declining trend in advanced countries since before the 2008-2009 crisis before recovering somewhat before the Covid crisis. Much of the uncertainty hinged on what to expect from technical progress (digitalization, artificial intelligence…). Should we expect a powerful growth impact - which was not observed yet given understandable delays before technical progress is disseminated throughout organization and processes, or will the impact on productivity be insignificant, as some economists (such as Gordon in the US) have prophesized? One participant remarked that old problems (before Covid) are still there and that the Covid crisis may also be seen as an excuse not to implement needed structural reforms.

g/ Among the risks to consider, the social costs of the pandemic, of inequalities of situations throughout the pandemic, of frustrations that may surface when policies, fiscal and monetary, go back to « normal », were mentioned as potential issues which could possibly provoke political and economic instability. How to manage social expectations appeared as a crucial question

h/ It was mentioned that « the party may be over », in the sense that policy correction has started to take place. How it is managed (including on the side of social expectations) will be crucial for the pursuit of growth, the response of inflation, and financial market stability

i/ Finally, the group noted, but did not discuss, geostrategic uncertainties that were mentioned in yesterday's discussions

II. Within our discussion, some structural trends received the group's attention. I will mention two of them

<u>1. Digitalization was described as pervasive, especially on financial markets, and disruptive in many ways</u>

a/ First, it announces a revolution in digital payments and the advent of a cashless society. This revolution is a disruption for banks because it deprives them of a source of revenues that was linked with payment systems that they used to control.

b/ As part of this discussion, a distinction was made between crypto-assets, which are mainly speculative financial instruments, however popular, who do not meet the criteria of « money »; and cryptocurrencies, which are based on baskets of currencies, or which may be soon emitted as digital currencies by Central Banks. Central banks were seen as necessary to anchor the trust in the currency and payment system, and it was felt very unlikely that a decentralized cryptocurrency system could emerge without central banks.

c/ Another aspect of the disruption was linked to the labor implications due to automation. Up to 50% of employment may be lost, for example, in GCC banks.

d/ In the future, more can be expected with the development of quantum computing. It was agreed that we should spend more time assessing the potential benefits and implications as well as the risk for security and crime.

2. Green finance

a/ The concern over sustainability, the attention to ESG concerns, have become pervasive across the private sector.

b/ ESG has become a powerful set of standards at a global level.

c/ Big companies are increasingly concerned by ESG, by climate.

d/ Green washing needs to be avoided, it's always a risk.

To conclude, as often in this kind of discussions, there was a short exchange on whether we could or should be « optimistic » or « pessimistic ». I would synthesize that discussion by the combination of mental optimism with caution against any complacency.