JOHN LIPSKY

Senior Fellow of the Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies

Jean-Claude Trichet, President of the Académie des sciences morales et politiques, former President of the European Central Bank, Honorary Governor of the Banque de France

I will now turn to John.

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Thank you very much. Allow me first to offer my congratulations to Thierry de Montbrial for this new edition of the World Policy Conference. Thank you for including me and offering me the chance to participate on this panel with my friend Jean-Claude Trichet and other illustrious colleagues.

I will begin with a few comments on the outlook. It is quite appropriate that the timing of today's conference comes just weeks after the G20 leaders' summit meeting in New Delhi, and the IMF World Bank annual meetings in Marrakesh, and as we heard from the minister, in just a few weeks COP28 will be meeting in Dubai to discuss and hopefully, to make progress on climate-change issues.

I will take the World Economic Outlook of the IMF as my starting point.The IMF analysis noted that global GDP grew 3.5% last year and 3% this year, and it forecasts 2.9% for next year. This compares to the period between 2000 and 2019 — that includes the global financial crisis — in which the world GDP growth averaged 3.8% per annum. The IMF's forward-looking forecast of global GDP growth for the next five years o is only 3.1% per annum. Even by the standard of recent history, this is a very mediocre outlook at best. The Fund also characterizes this outlook as both uneven and quite uncertain. Notably, they do not expect inflation to return to its pre-Covid performance until at least 2025. This is not a pleasing forecast.

What are the key issues here? To me, of critical importance is the outlook for inflation. At this moment, central banks are advertising that their rate policy is likely will be "higher for longer". Of course, this hinges on their expectation that inflation will remain sticky, and will recede only grudginglyz. This expectation seems reasonable right now, but let us not forget that it was not too long ago that central banks were advertising their policy as "lower for longer". Simply put, their policies are going to depend on the outlook for inflation.

As noted by Jean-Claude, there is no differentiation today in inflation targets among the key central banks. However, there may well be differentiation in inflation outcomes, and if so, there will be different policy trajectories followed by individual authorities. Such divergence, if it occurs, would have a substantial impact both on global markets and on perceptions of financial risks.

At present, principal concerns about financial risks relates to the recent substantial rise in long-term interest rates, particularly in the US, and to the combination of losses that this implies for current holders of these securities. However, if the inflation outlook turns out to be more favorable than current consensus views — just as it turned out to be more difficult than had been foreseen prior to the sharp Covid-related inflation surge — these worries could diminish.

The second issue is the substantial rush-up in fiscal debt, reflecting differences in the fiscal policy stances of governments post-COVID. The more expansionary policies in place in the United States, for example, has been one of the sources of both the short-term differences in the pace ofeconomic expansion, but also of the upward pressure on long-term capital markets. The assumed pressure on budgets going forward therefore will provide an important determinant at least of the perceptions of financial and economic risks. In this context, the political outlook — especially in advance of the US Presidential elections next year — could have an impact on the outlook for public deficits and the growth of debt.

In this context, it is important to keep in mind that one of the key reasons why the run-up in public debt that occurred in the wake of the global financial crisis was nowhere near as destabilizing as many thought that it would be, was because of the unexpected continuation of very low interest rates, including long-term bond yields. As a result, the percentage of government revenues that were required in the advanced economies to cover debt service declined, despite the rise in the stock of debt. It is only recently that this has been reversed. As a result, the inflation outlook — and its implication for interest rates — will play a key role in influencing the impact of fiscal policy on economic and financial market outcomes.

Another key issue, which has been discussed already, is that of trade. For 60 years following the formation of the Breton Woods system, global trade every year grew faster than global GDP, virtually without exception. In other words, the restoration of the global trading system represented a key element driving global development, just as the architects of the post-war system had anticipated and intended. Since the global financial crisis, however, global trade has grown more slowly than global GDP for eight of the past 10 years, and it remains the case today.

The outlook certainly remains problematic. There are various forces at work here. One is the increased use of sanctions and protectionist measures, as discussed already by Gabrielle. At the same time, and as a response to the Covid experience, there has been much greater attention paid to supply-chain resilience. Some of what we see in the changing direction or changing nature of supply chains in various markets reflects trade diversion, as underscored by Sébastien. Some of this, however, is more organic to the issue of resilience and reliability of trade and of supply-chains under extreme circumstances, and likely will be more permanent.

Time will tell, but the recent G20 leaders' summit pledged to restore the functioning of the WTO and to work towards a more open trading system. However, when reading the content of their undertakings, it becomes clear that it is far from certain whether this will happen or not. This is particularly important, as the growth of trade in services is complicated and not well dealt with in trade legislation. Of course, the prospect of new technology could once again result in an improvement in productivity growth similar to what was experienced in the 1990's. The development of technology — such as AI — and the evolution of the trading system is therefore going to be of utmost importance to the medium-term outlook for global growth and development. In this context, the prospect of new technologies also is creating new demands for subsidies and other forms of industrial policy, with the risk of adding to trading system barriers rather than the reverse.

I began with mentioning the recent round of high level official gatherings. Did anything new arise from this round of meetings of global leaders? I would say yes: there was a much greater focus on the provision of what are called global public goods; including climate-change measures, environment, health, and food-security issues. What has been observed so far is a much greater willingness to discuss these issues, which could potentially imply non-trivial changes in public policy and the provision of these goods at a global level. At the same time, there is a lack of clarity concerning how these goals might be accomplished. So far, one can detect more intention than real, tangible action. Still, this area is something to watch closely. I will stop here.

Jean-Claude Trichet

Thank you very much, John. I take your point on higher for longer coming from the central banks as meaning that they have to fight permanently against market participants calling for interest rates to decrease as rapidly as possible. It is a way to counter a spontaneous move that we understand well, because they are talking about their books, and it is normal that the market would give such a signal. I also gather from what you said that de-risking would be okay, but that de-coupling would be totally catastrophic. This same message comes from Europe also, in the difficult circumstances of geostrategic tensions that we are experiencing.