Agenda Item	7.b
Report No	RES/28/20

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 11 November 2020

Report Title: Mid-Year Treasury Management Report 2020/21

Report By: Executive Chief Officer, Resources and Finance

1. Purpose/Executive Summary

1.1 This report is the mid-year treasury management review for the financial year 2020/21 which is prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Code of Practice on Treasury Management in Local Authorities.

1.2 The report highlights the Council's treasury management activities undertaken, provides a commentary on the year to 30 September 2020 and compares activity to the expected activities contained in the annual Treasury Management Strategy Statement and Investment Statement (TMSS) which was approved at Council on 12 March 2020.

1.3 This Treasury Management Mid-Year Review 2020/21 is submitted to the Committee for consideration.

1.4 The Prudential Code also requires the Council to report the actual prudential indicators after the financial year end and these are shown as at 30 September 2020 in **Appendix 1.**

2. Recommendations

2.1 Members are asked to:

i. Consider the Treasury Management Mid-Year Review 2020/21.

3. Implications

3.1 Resource – Loan charges are forecast to be in line with the budget provision. However, this figure depends on the level of capital expenditure undertaken during the rest of the financial year and market interest rates for short term borrowing and deposits which will continue to be monitored.

3.2 Due to high levels of economic uncertainty there is a risk that any approach the Council takes to its borrowing may not correctly anticipate future market movements. By historic standards all borrowing opportunities are at very low interest rates.

3.3 Other Treasury management risk considerations are:-

- Volatility on PWLB/borrowing rates and changes that the PWLB may make to borrowing arrangements following the close of the consultation in 2020.
- Political risk in theory places the UK's sovereign credit rating under some pressure, remembering the UK rating is already on a negative watch from one of the ratings agencies.
- Managing cashflows in an uncertain environment due to the impact of Covid-19 with unexpected receipts and expenditure and also the wider funding considerations such reductions in grants/contributions will impact budget and borrowing plans.
- Potential credit risk/uncertainty to UK Banks and interest rates. The Governor of the Bank of England has highlighted risks to economic growth due to Covid-19 and the BoE will take action to manage those risks (monetary stimulus/rate changes to support the economy including possibility of negative interest rates).

3.4 There are no Legal, Equalities; Climate Change/Carbon Clever; Gaelic or Community (Equality, Poverty and Rural) implications relating this report.

4. Background

4.1 Treasury Management is defined as: "*The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks*".

4.2 This report has been written in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2017). The primary requirements of the code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Council of an Annual Strategy Report for the year ahead, a mid–year report and an Annual Review Report of the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management policies to a specific named body, which in this Council is the Corporate Resources Committee.

4.3 This Treasury Management Mid-Year Review 2020/21 covers the following:

- An economic update for the first six months of 2020/21, provided by the Council's Treasury Advisers, Link Asset Services
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- The Council's capital expenditure (prudential indicators)
- A review of the Council's investment portfolio for 2020/21
- A review of the Council's borrowing strategy for 2020/21
- A review of any debt rescheduling undertaken during 2020/21
- A review of compliance with Treasury and Prudential Limits for 2020/21

5. Economic update (provided by Link Asset Services)

5.1 The Council has appointed Link Asset Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. **Appendix 2** provides an economic update from Link Asset Services.

5.2 The impact of the coronavirus outbreak has seen significant economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6 August (and the subsequent September meeting), although some forecasters had suggested that negative interest rates could happen. However, the Governor of the Bank of England has indicated that he currently considers negative interest rates would do more damage than good and that further quantitative easing is the preferred tool if more action is required. As shown in the forecast table below, no increase in Bank Rate is expected within the forecast horizon ending on 31 March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

5.3 Link Asset Services undertook its last review of interest rate forecasts in August 2020. The forecast provided by Link Asset Services below is for PWLB certainty rates for non-HRA borrowing (currently gilts plus 180 basis points). The Treasury consultation on reviewing PWLB margins and lending ended on 31 July 2020. Link Asset Services expect that non-HRA certainty rate will be subject to revision downwards after the PWLB consultation paper which could happen sometime between now and March 2021.

Link Group Interest Rate View 11.8.20											
	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
6 Month LIBID	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
12 Month LIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

5.4 In addition, the following rates also apply which were effective from 11 March 2020

- PLWB standard rate is gilts plus 200 basis points
- PWLB HRA standard rate is gilts plus 100 basis points
- PWLB HRA certainty rate is gilts plus 80 basis points
- Local Infrastructure rate is gilts plus 60 basis points

5.5 The overall balance of risks to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the virus. There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that investor flight to safe havens (gilts), due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

6. Treasury Management Strategy Statement and Annual Investment Strategy update

6.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Council on 12 March 2020. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as security of capital, liquidity and then yield.

6.2 The investment portfolio yield for the first six months of the year is an average rate of 0.22% (2019/20 0.82%) against a benchmark (7 Day London Inter-bank Offer Rate – LIBID average) of -0.06%.

6.3 The daily average level of funds available for investment purposes in the first six months of 2020/21 was £112.3m (2019/20 £76.3m). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of council tax payments, receipt of grants and progress of the capital programme.

6.4 During the first six months of 2020, the impact of Covid-19 meant there was uncertainty over cash-flows. On 1 April 2020 the Scottish Government advanced £75.724m to the Council for the payment of Covid-19 business grants. In addition to receiving the business grant with the closure of schools and capital projects put

on hold during lockdown, there was reduced expenditure, which meant higher levels of cash were held during this period.

6.5 In line with the investment strategy, the Council will only place deposits with counterparties with a high creditworthiness. The forecasts in section 5.3 demonstrate that it is a very difficult investment market at present. It is now impossible to earn the level of interest commonly seen previously as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31 March 2023, investment returns are expected to remain low.

6.6 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government provided large sums of grants to local authorities to help deal with the Covid-19 crisis and front loaded General Revenue Grant at the start of the year; with some local authorities having sudden large increases in investment balances for a very short term until grants are processed. As a result, Inter-local authority lending and borrowing rates in the shorter periods have reduced as many local authorities have issues accurately predicting when disbursements of funds received will occur or when further large receipts will be received from the Government.

6.7 As for money market funds (MMFs), yields have continued to drift lower. Fund managers have reduced fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant greater amounts at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short-term maturities. It is still the case that some MMFs are still offering a marginally positive return, as are a number of financial institutions.

6.8 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs with security and liquidity being the key considerations.

7. New External Borrowing

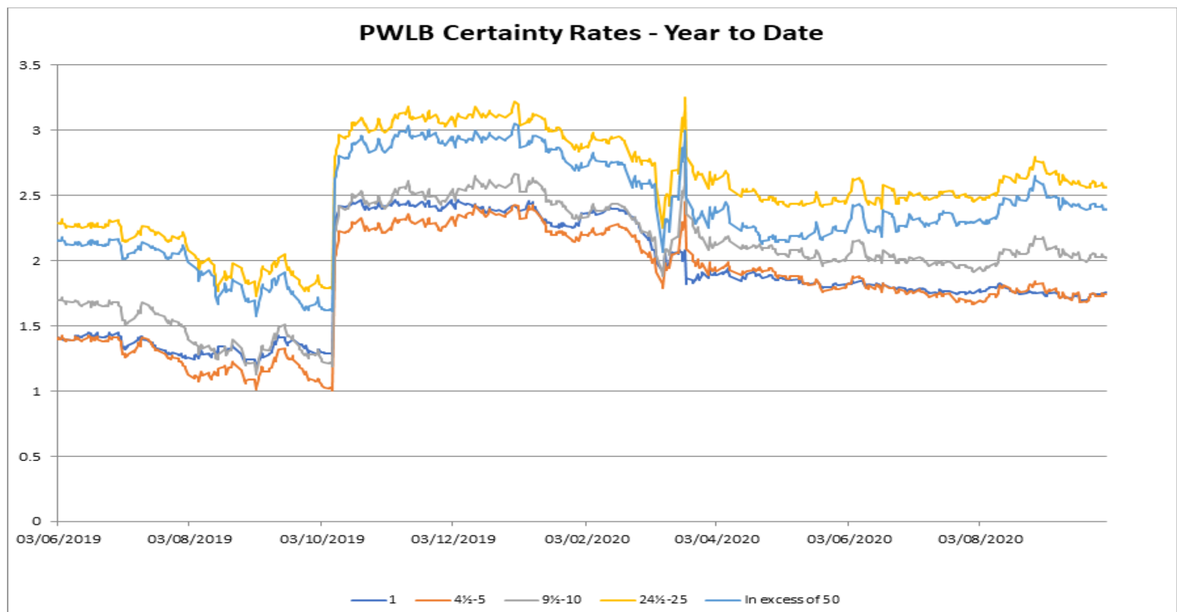
7.1 The Capital Financing Requirement (CFR) represents the accumulated net capital expenditure for the General Fund and Housing Revenue account which the Council requires to fund by way of long term debt until the capital projects, comprising the CFR, are fully written off by way of annual loan charges to revenue accounts.

7.2 The balance of external and internal borrowing is generally driven by market conditions, and the need to take a balanced view of savings available from short term and internal borrowing, versus the mitigation of re-financing risk which can be achieved from longer-term borrowing, but at potentially higher cost.

7.3 The table below shows the estimated CFR at 31/03/21 and how it is expected to be funded by short term borrowing and historic long-term borrowing.

	£m
Estimated Capital Financing Requirement (CFR) at 31/03/21 See appendix 1 – indicator 2	1,176.0
Less PPP/NPD	-142.1
Estimated CFR 31/03/21	**1,033.9**
Opening Long Term Debt 01/04/20	859.0
Long term maturities (PWLB)	-16.0
New PWLB loans	0
Market Loan repays	-20.5
New market loans (Period of 1.5 years)	10.0
Estimated Long Term Debt 31/03/21	**832.5**
Opening short term borrowing 01/04/20	173.5
Raised and repaid to 30 Sept 2020	-76.0
Replace remaining maturities to 31/03/21	49.0
Add estimated net borrowing for new capital expenditure in 2020/21 (November to March)	28.9
Estimated Short Term Debt at 31/03/21	**175.4**
Estimated total long term and short-term debt 31/03/21	**1,007.9**
Difference between CFR and borrowing = Funding from internal balances and cash flow	26.0

7.4 The graph and table below show the movement in PWLB rates from 1 April until 30 September incorporating the certainty rate (0.20% discount on rates for local authorities who have applied for rate). For information data has been included for 2019/20 and 2020/21 to include the rate rise which was applied by the PWLB on 9 October 2019.



PWLB rates varied within a relatively narrow range between April and July but the longer end of the curve rose during August. This increase came in two periods; the first in the second week of the month was on the back of hopes for fresh US stimulus. This saw investors switch monies out of government bonds and into equities. The second shift higher at the longer end of the curve came in the latter stages of the month as investors reacted to the announcement of the tweak to the Fed's inflation target. Despite moves further out in the yield curve, the short end remained anchored on the basis of no fundamental change to the interest rate outlook.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.70%	1.68%	1.94%	2.44%	2.14%
Date	21/09/20	30/07/20	31/07/20	18/06/20	30/04/20
High	1.92%	1.98%	2.22%	2.77%	2.61%
Date	20/04/20	08/04/20	01/09/20	28/08/20	28/08/20
Average	1.80%	1.81%	2.08%	2.54%	2.33%

7.5 There has been no PWLB borrowing undertaken since March 2020 when the HRA certainty rate was used to access borrowing for the capital programme. Borrowing requirements are currently being funded with short term borrowing. Due to the increase in PWLB margins over gilt yields in October 2019, and the subsequent consultation on these margins by HM Treasury (consultation ended on 31 July 2020) the Authority has refrained from undertaking new long-term PWLB borrowing for the present and has met its requirements for additional borrowing by using short-term borrowing until such time as new PWLB margins are finally determined. In addition, the effect of coronavirus on the capital programme objectives are being assessed. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

7.6 It is anticipated that over the remainder of the financial year, no further new long-term borrowing will be undertaken though this is dependent on rates. Markets remain volatile, and favourable short-term borrowing opportunities are likely to be available to the Council. However, the strategy remains flexible and consideration will be given to long term borrowing based on prevailing market conditions.

7.7 In consultation with Link Asset Services, the market situation is constantly monitored and borrowing strategies reviewed on a regular basis.

8. Debt rescheduling

8.1 No debt rescheduling was undertaken during the first six months of 2020/21 as there were no cost-effective opportunities.

9. Compliance with Treasury and Prudential Limits

9.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Capital Expenditure Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement (TMSS) agreed on 12 March 2020.

9.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in **Appendix 1**, comparing the initial limits agreed for the year, and updated year-end forecasts.

Designation: Executive Chief Officer, Finance and Corporate Resources

Date: 30th October 2020

Author: Edward Foster, Head of Corporate Finance and Commercialism

Background Papers: Treasury Live System and Integra financial ledger

https://www.highland.gov.uk/download/meetings/id/76593/item_15_treasury_management_strategy_statement_and_investment_statement_202021

Appendix 1

Estimated Treasury Position and Prudential Indicators
Figures are for financial year unless otherwise titled in italics

Prudential Indicator		2020/21 Original £m	2020/21 Revised £m
1.	**Capital expenditure**		
	Gross capital expenditure		
	General Fund including PPP	96.0	96.0
	Housing Revenue Account	41.9	50.9
	Total gross capital expenditure	**137.9**	**146.9**
	Income - General Fund	(64.9)	(64.9)
	Income - HRA	(15.0)	(24.2)
	Total income	**(79.9)**	**(89.1)**
	Net capital expenditure		
	General Fund	31.1	31.1
	HRA	26.9	26.7
	Total net capital expenditure	**58.0**	**57.8**
	Loan charge instalments General Fund	(30.8)	(30.8)
	Loan charge instalments HRA	(10.1)	(9.6)
	Total instalments	**(40.9)**	**(40.4)**
	Net borrowing for new capital expenditure		
	General Fund	0.3	0.3
	HRA	16.8	17.1
	Total net borrowing for new capital expenditure	**17.1**	**17.4**
2.	**Capital Financing Requirement (CFR) at 31 March**		
	General Fund excluding PPP/NPD	716.1	739.2
	Housing Revenue Account	301.7	277.6
	Joint Boards	17.1	17.1
	PPP	142.1	142.1
	Total	**1,177.0**	**1,176.0**

	Prudential Indicator	2020/21 Original £m	2020/21 Revised £m
	Treasury Position at 31 March		
	Borrowing – Long term	799.3	832.5
	Borrowing – Short term	209.6	175.4
	Other Long Term Liabilities (PPP/NPD)	142.1	142.1
	Total Debt	**1,151.0**	**1,150.0**
	Investments	50.0	50.0
	Net Borrowing	**1,101.0**	**1,100.0**
3.	**Ratio of financing costs to net revenue stream**		
	General Fund including PPP/NPD	13.2%	13.2%
	Housing Revenue Account	38.0%	38.0%

	Prudential Indicator	2020/21 Maximum £m	2020/21 Actual £m
4.	**Authorised Limit for Borrowing**	1,063.1	1,032.5 (April 2020)
5.	**Operational Boundary for Borrowing**	1,037.0	1,032.5 (April2 020)
6.	**Interest rate exposures of debt net of investments**		
	Upper Limit (Fixed)	1,034.8	936.0 (June 2020)
	Upper Limit (Variable)	362.2	-26.3* (June 2020)
7.	**Maturity structure of fixed rate borrowing (against maximum position)**		
	Under 12 months	30.0%	17.0% (June 2020)
	12 months to 2 years	30.0%	3.6% (Sept 2020)
	2 years to 5 years	40.0%	4.5% (June 2020)
	5 years to 10 years	50.0%	12.8% (Sept 2020)
	10 years and above	100.0%	66.0% (Sept 2020)
8.	**Upper limit for the maturing of investments made for periods longer than 364 days**	20.0	Nil
9.	**Short term borrowing as a % of outstanding long-term debt (maximum position)**	25.0%	16.6% (April 2020)
10.	**Variable interest debt as a % of outstanding long-term debt (maximum position)**	35.0%	3.9% (Sept 2020)

*Negative as higher level of investments than variable borrowing

Appendix 2

Economic update (provided by Link Asset Services)

UK

As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.
- It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six-month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third

of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid-September.

Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

There will be some painful longer-term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.
One key addition to the Bank's forward guidance was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.

The Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

USA

The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked its inflation target from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has

actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The Federal Open Market Committee's (FOMC) updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

EU

The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

China

After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan

There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

World Growth

Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.