

Item: 8

Policy and Resources Committee: 25 September 2018.

Treasury Management – Annual Report.

Report by Head of Finance.

1. Purpose of Report

To report on the performance of the treasury management function for financial year ended 31 March 2018.

2. Recommendations

The Committee is invited to note:

2.1.

The performance analysis of the undernoted treasury management activities for 2017 to 2018, as detailed in Appendices 1 to 4 to this report:

- Borrowing activity.
- Temporary loans.
- The Strategic Reserve Fund.
- The Pension Fund.

2.2.

The Treasury Adviser's overview of the economy and interest rates during financial year 2017 to 2018, as detailed in Appendix 5 to this report.

2.3.

That the Bank of England Base Rate increased to 0.50% on 2 November 2017, with the Public Works Loans Board borrowing rates increasing correspondingly, with shorter term rates increasing more sharply than longer term rates.

2.4.

That the strategic priority for Central Government and the Bank of England during 2017 to 2018 was to maintain monetary and financial stability as the United Kingdom prepares to depart from the European Union.

2.5.

That the inconclusive result of the UK parliamentary election on 8 June 2017 had relatively little impact on financial markets, although sterling did suffer a sharp devaluation against most other currencies, which impacted on the valuation of assets held in foreign denominations.

2.6.

That the Council should be well placed to benefit from savings on loan charges over the longer term as interest rates rise.

2.7.

That the Treasury Management Practices have operated effectively during financial year 2017 to 2018.

2.8.

That the Treasury Management Strategy Statement and Annual Investment Strategy for 2017 to 2018 has been adhered to.

3. Background

3.1.

Section 21 of the Financial Regulations confirms that the Council has adopted the key recommendations of Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Sector Code of Practice (the Code).

3.2.

The revised Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management in the Public Services (2011) further expands the definition of treasury management to include investment activities.

3.3.

The Council's investment priorities can be summarised as maintaining:

- The security of capital.
- The liquidity of its investments.

3.4.

The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments. This is in keeping with the nature of the Strategic Reserve Fund, which is to provide for the benefit of Orkney and its inhabitants, whilst having regard to the Fund's long-term obligations in terms of the decline and decommissioning of the Flotta Oil Terminal in the future.

3.5.

The Financial Regulations refer to maintenance of the Treasury Management Policy Statement and Treasury Management Practices as the cornerstone for effective treasury management and the requirement to report annually on the Treasury Management function.

3.6.

Although not covered by the Treasury Management Strategy Statement, the Pension Fund investments form part of the Council's treasury management function and is included for information. The Pension Fund investment arrangements are set out in a separate Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016.

4. Treasury Management Performance

4.1.

A detailed analysis of the Treasury Management Performance for financial year 2017 to 2018 is contained in Appendices 1 to 4 to this report, which refer to the following activities:

- Borrowing activity.
- Temporary loans.
- The Strategic Reserve Fund.
- The Pension Fund.

4.2.

The conclusion of the analysis of performance is that existing treasury management practices have operated effectively over the previous financial year.

4.3.

The prime objective for the managed funds remains to maintain or increase their real value over time, while at the same time generating an annual return which meets the targets set by the Council. These objectives normally require to be measured over a number of years while acknowledging that abnormal fluctuations in the short term do create a cause for concern.

4.4.

Appendix 5 to this report presents the Council's Treasury Adviser's overview of the economy and interest rates during financial year 2017 to 2018.

5. Corporate Governance

This report relates to the Council complying with its governance and financial processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

6.1.

Slippage on the approved capital programme for financial year 2016 to 2017 of £1,543,000 into financial year 2017 to 2018 and then further re-profiling of £10,120,000 from financial year 2017 to 2018, and beyond, has delayed the timescale over which the capital finance is required.

6.2.

The Council has established an authorised limit for external debt of £75,000,000 for the three-year period 2017 to 2020, together with an operational boundary of £60,000,000, as part of its Treasury Management Strategy for 2017 to 2018.

6.3.

The Council supports its capital financing requirement through a combination of borrowings and use of internal reserves. In determining this combination, the cost of raising additional finance or borrowing is compared against the opportunity cost of using internal reserves and balances, in that these funds could otherwise be generating an investment return for the Council. On the basis the capital financing requirement can be externalised through borrowings, and investment returns generated in excess of the cost of any borrowings to meet the requirements of the capital programme, the potential exists for a net saving to be realised by the treasury management function over the longer term.

6.4.

As at 31 March 2018, the Council's debt portfolio stood at £30,199,675, with loan maturities ranging over periods from one to 46 years. Overall this represents an average cost of borrowing of 3.05% per annum, with an average duration of 36.6 years.

6.5.

The cost of this debt is managed as part of the loan charges associated with the capital programme and has been offset in the short term with surplus funds placed on deposit for periods of up to one year at an average rate of 0.61% for financial year 2017 to 2018.

6.6.

The Bank of England Base Rate increased to 0.50% on 2 November 2017, with the Public Works Loans Board borrowing rates increasing correspondingly, with shorter term rates increasing more sharply than longer term rates.

6.7.

The strategic priority for Central Government and the Bank of England during 2017 to 2018 was to maintain monetary and financial stability as the United Kingdom prepares to depart from the European Union.

6.8.

The major United Kingdom landmark event of the year was the inconclusive result of the UK parliamentary election on 8 June 2017. However, this had relatively little impact on financial markets. Sterling did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant progress.

6.9.

Although there remains much uncertainty over interest rates, with the long-term trend prediction for rates to rise, the Council should be well placed to benefit from savings on loan charges over the longer term.

7. Legal Aspects

7.1.

Treasury Management arrangements help the Council meet its statutory obligation to secure best value.

7.2.

Section 40 of the Local Government in Scotland Act 2003 provides local authorities with the power to invest money. This power may be exercised in accordance with regulations made by Scottish Ministers under this section.

7.3.

Section 95 of the Local Government Act 1973 states that every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer has responsibility for the administration of those affairs.

8. Contact Officers

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9. Appendices

Appendix 1: Borrowing (Capital Financing Requirement) – Outturn 2017 to 2018.

Appendix 2: Temporary Loans – Outturn 2017 to 2018.

Appendix 3: Strategic Reserve Fund – Outturn 2017 to 2018.

Appendix 4: Pension Fund – Outturn 2017 to 2018.

Appendix 5: Treasury Adviser's economic overview for 2017 to 2018.

Treasury Management Practices

Appendices.

Contents

Appendix 1 – Capital Financing Requirement	2
Appendix 2 – Treasury Loans Outturn for 2017 to 2018.....	5
Appendix 3 –Strategic Reserve Fund Outturn for 2017 to 2018.....	7
Appendix 4 – Pension Fund Outturn for 2017 to 2018	10
Appendix 5 – Treasury Adviser’s Economic Overview	12

Appendix 1 – Capital Financing Requirement

1.1.

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement. The Capital Financing Requirement arises directly from the capital activity of the Council and the resources applied to fund the capital spend and represents the unfinanced element of capital expenditure.

1.2.

A key part of the Council's treasury management function includes the need to manage the cashflow requirements for all the Council's activities including the capital financing requirements. Depending on the progress of the capital expenditure programme, the treasury service aims to organise the Council's cash position to best effect and ensure that sufficient cashflow is available to meet all planned outlays. For capital purposes, this can be sourced through borrowing from external bodies such as the Public Works Loans Board or alternatively through what is known as internal borrowing i.e. utilising Council reserves held in the form of surplus or temporary cash balances that would otherwise be placed on deposit as temporary loans.

1.3.

The Council's underlying Capital Financing Requirement or need to borrow is not allowed to rise indefinitely, and statutory controls exist to ensure that the cost of financing the acquisition and/or creation of capital assets is charged to revenue accounts over the life of the asset. This reduction in the Capital Financing Requirement is effectively a repayment of the borrowing need and differs from the treasury management arrangements which aim to ensure that sufficient cash is available to meet the Council's capital commitments. The total Capital Financing Requirement can also be reduced by the application of additional capital financing resources or charging accelerated loan repayments.

1.4.

The Council's Capital Financing Requirement for the year ending 31 March 2018, is shown below:

Capital Expenditure and Capital Financing	2017 to 2018 Budget £000	2017 to 2018 Actual £000
Opening Capital Financing Requirement	54.9	50.4
Capital Expenditure for Year	19.7	14.8
Sources for Finance:		
Capital Receipts and Grants	(4.8)	(8.8)
Use of Reserves and Revenue	(1.4)	(3.1)
Less: Scheduled Debt Amortisation	(1.6)	(4.2)
Closing Capital Financing Requirement	66.8	49.1
External Long-term Borrowings (PWLB)	50.0	30.2
Under-borrowed Position	(16.8)	(18.9)
Operational Boundary in External Debt	60.0	60.0
Authorised Limit for External Debt	75.0	75.0

1.5.

The underlying need to borrow and the requirement to ensure that sufficient cash resources are available to cash flow all planned capital outlays during the financial year can be impacted by any changes or slippage on the approved capital programme.

1.6.

As a whole the 2017 to 2018 Capital Programme was established on the basis of a programme expenditure limit of £19,708,000, including £15,442,000 of General Fund and £4,266,000 of Non-General Fund Programmes.

1.7.

During financial year 2017 to 2018 a number of changes were agreed, including the addition and removal of projects resulting in a revised expenditure limit of £26,062,000.

1.8.

After allowing for slippage totalling £1,543,000 in 2016 to 2017 carried forward into 2017 to 2018, and further re-profiling of £10,120,000 during 2017 to 2018, the resulting Capital Financing Requirement was £18,900,000 less than planned as at 31 March 2018. This impacts directly on both the capital financing and cashflow requirements of the Council.

1.9.

As at 31 March 2018 actual capital debt remained at £30,199,675 as follows:

Body	Borrowed £ million	Term Years	Rate %	Maturity
PWLB	5	9	3.51	26/05/19
PWLB	5	12	3.93	26/05/22
PWLB	10	50	4.28	26/05/60
PWLB	10	50	3.54	10/10/64
Salix Finance Ltd	0.200	8	0.00	01/10/24
Total	30.200			
Average Rate %			3.82	

1.10.

As stated in the Treasury Management Strategy Statement, interest rates were originally anticipated to increase during 2010 and therefore it was considered prudent to borrow for periods longer than one year at that point in time. The cost of borrowing can be compared against the Bank of England base rate which stood at 0.50% as at 31 March 2018, after rising by 0.25% from 0.25% on 2 November 2017.

1.11.

The challenging and uncertain economic outlook has several treasury management implications including the fact that the cost of borrowing continues to be attractive and is likely to remain relatively low over the short term at least.

Appendix 2 – Treasury Loans Outturn for 2017 to 2018

2.1.

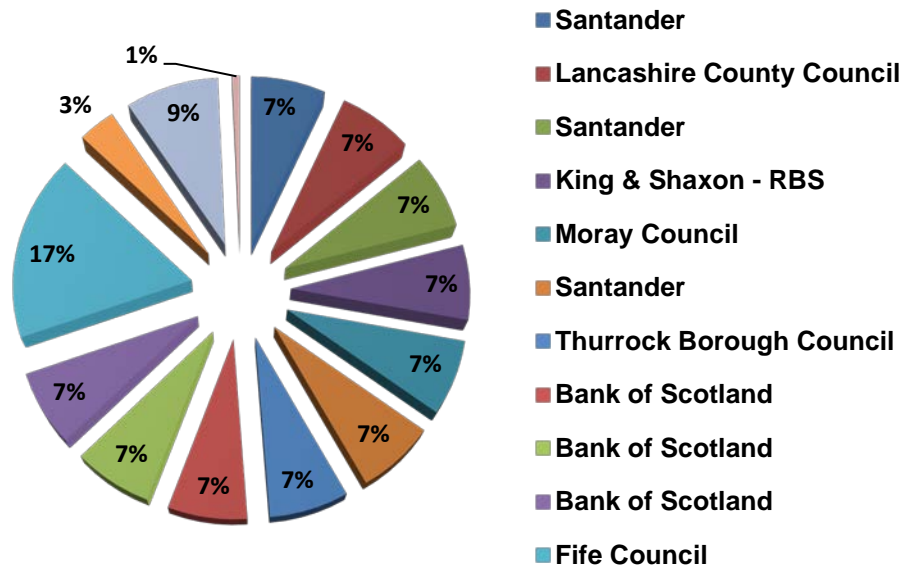
The amount of cash and cash equivalent funds that can be deposited with bodies such as banks, building societies and local authorities is governed by the Council's Treasury Management Practices schedule.

2.2.

The following loans amounting to £28,699,335.99 were held as part of the treasury management function as at 31 March 2018:

Body	Lending £m	Term	Rate %	Maturity
Santander	2.0	6 months	0.55	06/04/18
Lancashire County Council	2.0	1 year	0.58	24/04/18
Santander	2.0	6 months	0.55	15/05/18
King & Shaxson - RBS	2.0	1 year	0.64	20/07/18
Moray Council	2.0	6 months	0.60	30/07/18
Santander	2.0	6 months	0.70	22/08/18
Thurrock Borough Council	2.0	1 year	0.74	09/11/18
Bank of Scotland	2.0	1 year	0.90	23/11/18
Bank of Scotland	2.0	1 year	0.90	10/12/18
Bank of Scotland	2.0	1 year	0.85	03/01/19
Fife Council	5.0	1 year	0.73	04/01/19
Standard Life Money Market Fund	1.0	Call	0.46	Call
BlackRock ICS Heritage Money Market Fund	2.5	Call	0.39	Call
Royal Bank of Scotland SIBA	0.2	Call	0.05	Call

Temporary Loans at 31.03.2018



2.3.

The temporary loans portfolio has operated within policy during financial year 2017 to 2018 and realised a return of £191,163,35 at a rate of 0.61%. This equates favourably with the 3 months LIBOR (London Inter-Bank Offered Rate) performance benchmark (0.41%) and is therefore considered to be an acceptable return.

Appendix 3 – Strategic Reserve Fund Outturn for 2017 to 2018

3.1.

The performance of the managed funds for the Strategic Reserve Fund is measured on a rolling 3 year average, with the target mandate being to outperform the respective benchmarks as follows:

	Portfolio	Benchmark	Target Mandate
1	Bond Fund	UK Gilts (25%) - FTSE Government All Stocks Index, UK Corporate Bonds (75%) - ML Sterling Non-Gilts All Stocks UNPO Index	+0.75% p.a
2	Equities Fund	UK Equities (40%) - FTSE All Share Index, Global Equities (60%) - MSCI All Country World Index (NDR)	+1.5% p.a
3	UK Property Fund	IPD All Balances Property Fund Index Weighted Average	Out-perform the benchmark
4	Diversified Growth Fund	3 Month LIBOR	+3.0% p.a
5	Global High Yield Credit Strategies Fund	3 Month LIBOR	+5.0% p.a

3.2.

The following table summarises those returns relative to benchmark for the four discrete portfolios as at 31 March 2018:

	Portfolio	Market Value £m	Actual 1 Year %	Benchmark 1 Year %	Actual 3 Year %	Benchmark 3 Year %
1	Bond Fund	47.9	1.2	0.8	4.1	3.5
2	Equities Fund	88.5	0.5	1.9	8.1	8.3
3	UK Property Fund *	21.4	11.0	10.0	n/a	n/a
4	Diversified Growth Fund **	37.4	4.6	0.4	n/a	n/a
5	Global High Yield Credit	20.2	n/a	n/a	n/a	n/a

Portfolio	Market Value £m	Actual 1 Year %	Benchmark 1 Year %	Actual 3 Year %	Benchmark 3 Year %
Strategies Fund ***					
Total	215.4				
*Funds held for less than 3 years – Inception date 27 February 2015.					
**Funds held for less than 3 years – Inception date 22 July 2015.					
***Funds held for less than 1 year – Inception date 2 August 2017.					

3.3.

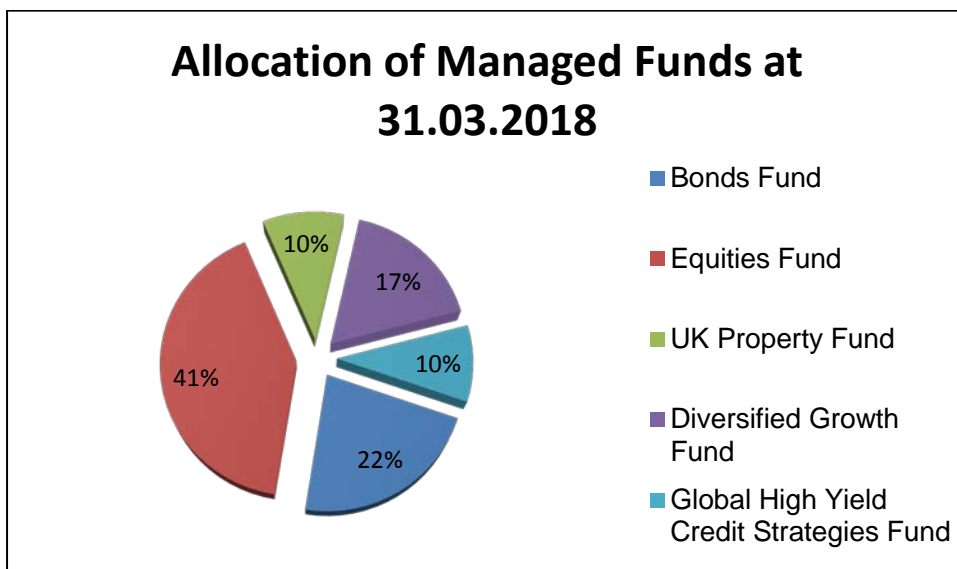
A revised investment strategy, approved by Council in October 2016, introduced a new 10% allocation to debt focused investment strategies, offset by a corresponding reduction in the weighting of UK Gilts and Corporate Bonds.

3.4.

Following a short listing exercise carried out by Hymans Robertson, interviews took place on 8 March 2017, and Barings were selected as the preferred Fund Managers for the new Multi Asset Credit investment.

3.5.

The formal appointment process, including processing the necessary documentation, was concluded in August 2017 with the investment of £20,000,000 into 166,209.590 shares in the Barings Global High Yield Credit Strategies Fund.



3.6.

The value of the managed funds for the Strategic Reserve Fund increased from an opening position of £207,300,000 to £215,400,000 or by £8,100,000 for the financial year to 31 March 2018 which, after transfers in of £3,800,000 equates to a gain of £4,300,000.

3.7.

The Bonds portfolio returned a gain of 1.2% p.a., which was 0.4% ahead of benchmark. This contributed to a 3-year performance of 4.1% p.a. which was ahead of benchmark but 0.15% behind the target mandate.

3.8.

The Equities portfolio returned a gain of 0.5% p.a. which is 1.4% behind its benchmark of 1.9% for the year.

3.9.

With an average return of 8.1% p.a. over a rolling 3 year period, the Equities portfolio has fallen well short of the agreed target of benchmark +1.5% which was 9.8%. With equity markets driven largely by a momentum style including technology stocks, our value style bias has not performed well.

3.10.

The UK Property Fund returned a gain of 11.0% p.a. which is 1.0% ahead of its benchmark and ahead of target.

3.11.

The Diversified Growth Fund returned a gain of 4.6% p.a. which is 4.2% ahead of its benchmark. Against a target to outperform 3 month London Inter-bank Offered Rate by 5.0% this, however remains below target.

3.12.

The UK Property Fund and the Diversified Growth Fund allocations were established in 2015, with Global High Yield Credit Strategies more recently in 2017, as part of an agreed investment strategy for the Strategic Reserve Fund, to reduce the risks through a process of diversification away from equities as an asset class. It is perhaps too early to comment on the performance of these Funds against the 3 year benchmark period, other than to note that the Funds have delivered positive performance figures over the past year. As such these Funds appear to be acting to stabilise the performance of the Strategic Reserve Fund managed funds over time.

3.13.

Following an annual performance review the Investment Sub-Committee agreed to commission a review of the investment strategy for the Strategic Reserve Fund managed funds. It is anticipated that the findings of this strategy review will be considered by the Sub-Committee later in 2018.

Appendix 4 – Pension Fund Outturn for 2017 to 2018

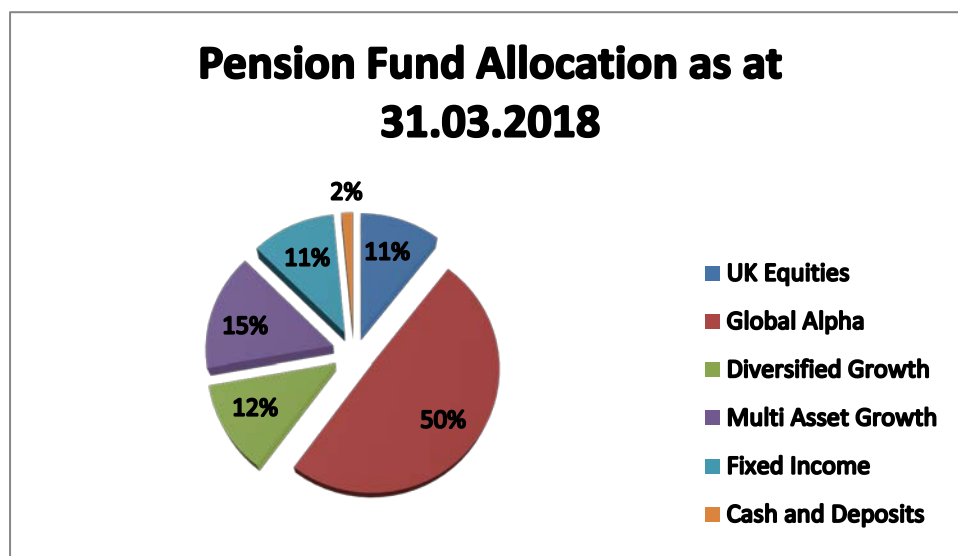
4.1.

The Pension Fund investments are managed by a single fund manager under a mandate which allows the fund manager to invest in equities, bonds, diversified growth, multi-asset growth fund and cash type investments. The performance of this fund is measured over a longer period with a rolling 5 year average relative to benchmark with the target mandate being to outperform the fund specific benchmark.

4.2.

The following table summarises the performance of the Pension Fund investments as at 31 March 2018:

Portfolio	Market Value £m	Actual 1 Year %	Benchmark 1 Year %	Actual 5 Year %	Benchmark 5 Year %
Balanced Fund	365.9	9.0	2.3	11.1	8.0



4.3.

From the table shown at 4.2 above, it can be seen that the Pension Fund investments are performing ahead of both the benchmark and target over the rolling 5 year period.

4.4.

The value of the Pension Fund investments increased from an opening position of £334,600,000 to £365,900,000 as at 31 March 2018, or by £31,300,000.

4.5.

After allowing for capital contributions made during the year of £1,200,000, the value of Pension Fund investments as at 31 March 2018 increased by £30,100,000 (9.0%). The movement in the value of investments was represented by a gain of £22,200,000, which was realised during the year in the form of investment income, and unrealised profit of £7,900,000 due to the increase in the value of the investments held as at 31 March 2018.

4.6.

Following an annual performance review the Pension Fund Sub-committee agreed to commission a review of the investment strategy for the Pension Fund managed funds. It is anticipated that the findings of this strategy review will be considered by the Sub-committee later in 2018.

Appendix 5 – Treasury Adviser’s Economic Overview

The Council’s Treasury advisers, Link Asset Services, have provided the following overview of the economy and interest rates during financial year 2017 to 2018:

“The outcome of the EU referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK GDP growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years. Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. Both measures were intended to stimulate growth in the economy. This gloom was overdone as the UK economy turned in a G7 leading growth rate of 1.8% in 2016, (actually joint equal with Germany), and followed it up with another 1.8% in 2017, (although this was a comparatively weak result compared to the US and EZ).

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

Consequently, market expectations during the autumn rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The MPC meeting of 14 September provided a shock to the markets with a sharp increase in tone in the minutes where the MPC considerably hardened their wording in terms of needing to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be a one and done move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years. The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were pessimistically weak while there was little evidence of building pressure on wage increases despite remarkably low unemployment. The MPC forecast that CPI would peak at about 3.1% and chose to look through that breaching of its 2% target as this was a one off result of the devaluation of sterling caused by the result of the EU referendum. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. So this all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years.

However, GDP growth in the second half of 2017 came in stronger than expected, while in the new year there was evidence that wage increases had started to rise. The 8 February MPC meeting minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years.) This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

As for equity markets, the FTSE 100 hit a new peak near to 7,800 in early January before there was a sharp selloff in a number of stages during the spring, replicating similar developments in US equity markets.

The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets. However, sterling did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little progress.

The manufacturing sector has been the bright spot in the economy, seeing stronger growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

EU. Economic growth in the EU, (the UK's biggest trading partner), was lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing to stimulate growth. However, growth eventually picked up in 2016 and subsequently gathered further momentum to produce an overall GDP figure for 2017 of 2.3%. Nevertheless, despite providing this massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March, inflation was still only 1.4%. It is, therefore, unlikely to start an upswing in rates until possibly towards the end of 2019.

USA. Growth in the American economy was volatile in 2015 and 2016. 2017 followed that path again with quarter 1 at 1.2%, quarter 2 3.1%, quarter 3 3.2% and quarter 4 2.9%. The annual rate of GDP growth for 2017 was 2.3%, up from 1.6% in 2016. Unemployment in the US also fell to the lowest level for 17 years, reaching 4.1% in October to February, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has been the first major western central bank to start on an upswing in rates with six increases since the first one in December 2015 to lift the central rate to 1.50 – 1.75% in March 2018. There could be a further two or three increases in 2018 as the Fed faces a challenging situation with GDP growth trending upwards at a time when the recent Trump fiscal stimulus is likely to increase growth further, consequently increasing inflationary pressures in an economy which is already operating at near full capacity. In October 2017, the Fed also became the first major western central bank to make a start on unwinding quantitative easing by phasing in a gradual reduction in reinvesting maturing debt.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan. GDP growth has been improving to reach an annual figure of 2.1% in quarter 4 of 2017. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, although inflation has risen in 2018 to reach 1.5% in February. It is also making little progress on fundamental reform of the economy”.