INTERNATIONAL MONETARY FUND

DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

April 2023

Tentative signs of stabilization of the global economy have receded with recent financial sector turmoil. Headline inflation is moderating on the back of retreating commodity prices, but sticky underlying price pressures are complicating disinflation efforts. While growth in low-income developing countries (LIDCs) has been higher than in the rest of the world, its level is insufficient to address momentous challenges that range from combatting poverty to coping with climate change. Moreover, elevated debt levels and higher borrowing costs due to tighter global financial conditions leave policymakers with little fiscal space. Containing inflation, safeguarding financial stability, and protecting the vulnerable remain immediate policy priorities. At the same time, countries need to preserve or—in some cases—restore debt sustainability, which often requires better targeting of fiscally costly support measures taken in response to the COVID and commodity price shocks. Multilateral cooperation is more important than ever as many challenges are global, but it is acutely under threat from fragmentation.

ECONOMIC OUTLOOK AND RISKS

The world economy showed some resilience in the second half of 2022….

The global economy displayed a degree of resilience in the second half of 2022, as strong labor markets in advanced economies, retreating commodity prices, and the reopening of the Chinese economy after COVID-related disruptions earlier in the year supported demand. Global growth for 2022 is now estimated at 3.4 percent, which is 0.2 percentage points higher than the projection in October 2022.

… but the recovery has come again under threat from rising risks, including to financial stability.

However, risks have increased, including recent financial sector turmoil and tightening in global financial conditions, denting hopes for a soft landing. While forceful actions by policymakers have contained systemic risks so far, financial sector strains reinforce other headwinds to growth, notably tight policy stances across the globe to combat inflation, dislocations from Russia's war in Ukraine, and wider geopolitical fragmentation that disrupts supply chains and exacerbates uncertainty. Overall, global growth is forecast to slow to 2.8 percent in 2023. After that, growth is expected to recover very gradually and settle around 3.0 percent in the medium term—the weakest forecast in decades.

Advanced economy growth is projected to half in 2023.

Advanced economies (AEs) are expected to account for most of the global slowdown. Assuming that financial turmoil is contained, growth in AEs is projected to fall to 1.3 percent in 2023, from 2.7 percent in 2022. For 2024, only a minor improvement to 1.4 percent is projected. The main short-term drag on growth is the

simultaneous monetary tightening of advanced economy central banks to combat inflationary pressures.

Prospects for EMDEs are better, although with significant regional variations.

The outlook for emerging market and developing economies (EMDEs) is more favorable on average, although with significant regional variations. For EMDEs, real growth is estimated at 4.0 percent in 2022 and is forecast to remain broadly unchanged in 2023. Robust activity in India and China account for the lion's share of projected EMDE growth, with China's reopening triggering positive spillovers to other economies in Emerging Asia and elsewhere. At the other end of the spectrum, growth in Latin America and in the Middle East/Central Asia is projected to slow in 2023, owing to a mixture of tighter global financial conditions, domestic policy tightening, and lower prices for export commodities.

LIDCs are still grappling with the fallout from previous shocks and the more difficult global environment.

Growth in LIDCs is forecast to slow only marginally to 4.7 percent in 2023, from 5.0 percent in 2022. While headline growth in LIDCs is projected to exceed that of middle-income countries, the difference reflects mostly faster labor force growth, with no progress regarding the convergence of per-capita incomes. Moreover, most LIDCs continue to struggle with the fallout from previous shocks, including labor force scarring, food insecurity, and high public debt. Close to 60 percent of LIDCs are either in or at high risk of debt distress. Together with a more difficult external financing environment, this greatly restricts policymakers' fiscal room for maneuver. Many LIDCs are also disproportionately affected by climate change.

While disinflation has made progress, a return to pre-crisis inflation rates is unlikely before 2025.

Global headline inflation is projected to retreat to 7.0 percent after 8.7 percent in 2022. Another decline to 4.9 percent is forecast for 2024. Disinflation is driven primarily by declining commodity prices and coordinated monetary policy tightening. It is also broad-based, with 76 percent of all economies expecting lower headline inflation this year. At the same time, disinflation is advancing more slowly than anticipated in October 2022 as underlying price pressures have become be more persistent, reflecting inter alia tight labor markets and supply chain bottlenecks.

Downside risks dominate.

Risks to the outlook are tilted to the downside. Financial sector turbulence could translate into a sharper tightening in global financial conditions and inhibit financial intermediation, while inflation could turn out to be stickier than anticipated and trigger larger disinflation cost. Other risks include a faltering post-COVID recovery in China, a further escalation of Russia's war in Ukraine, systemic debt distress in EMDEs, and deepening global fragmentation. On the upside, robust consumption growth and tight labor markets may again render the recovery more resilient than expected. An easing in supply-chain bottlenecks and a cooling in labor markets from falling vacancies—rather than rising unemployment—could also allow for softer-than-expected disinflation.

POLICY PRIORITIES

The most urgent global policy priorities are reducing inflation and ensuring inflation expectations stay anchored, safeguarding financial stability, supporting the vulnerable, and sustaining prosperity.

Securing disinflation remains the most urgent priority…

Central banks should maintain a restrictive policy stance until there is clear evidence that inflation is returning to target—the stickiness of underlying price pressures suggests that policy may have to remain tight for longer than anticipated. This said, calibrating policy is subject to unusually large uncertainties. For example, the impact of recent financial turbulence on aggregate demand is difficult to assess at this juncture, as is the extent of scarring from the pandemic and its impact on productive capacity. Central banks must be ready to adjust the pace and possibly even direction of policy changes in response to incoming data.

… together with safeguarding financial stability.

Governments and financial regulators must closely monitor the buildup of risks in the financial sector, swiftly provide liquidity support where appropriate, strengthen prudential oversight, and initiate resolution procedures for non-viable institutions. Macroprudential tools may be used to tackle pockets of elevated risk. While the U.S. dollar has depreciated since October, it remains stronger than ever since the mid-2000s. EMDEs should allow their currencies to adjust as much as possible. However, where currency movements can trigger financial stability risks or jeopardize the central banks' ability to maintain price stability, temporary foreign exchange interventions to help address market dysfunction and capital flow management measures on outflows may be appropriate.

Fiscal policy needs to focus on those most in need.

Governments need to protect the vulnerable from the cost-of-living crisis. More targeted social protection measures should increasingly replace broad-based support. Moreover, policies should preserve market signals as much as possible. In countries where inflation remains high, a tighter fiscal stance can help reduce aggregate demand and limit the need for monetary tightening.

Debt sustainability requires credible fiscal plans, structural policies for sustained growth, and, in some cases, debt restructuring.

Weaker growth, wider fiscal deficits as a result of the COVID and commodity price shocks, and higher borrowing costs have worsened debt vulnerabilities in many countries. Credible medium-term fiscal consolidation remains key to preserving or (where needed) restoring debt sustainability, including through stronger revenue mobilization, better spending efficiency, and credible fiscal frameworks.

To boost growth prospects, countries should advance structural reforms, including by improving governance, boosting productivity, and building resilience.

For countries that face solvency or liquidity constraints, debt restructuring is likely to be necessary. In this context, it is critical to improve the timeliness and efficiency of the G20 Common Framework (CF). The CF has begun to deliver results, but greater efforts are needed for enhancing creditor coordination, including for middle-income countries not eligible for the CF. Non-Paris Club and private creditors often have a

crucial role in ensuring effective, predictable, and timely debt resolution. The newly created Global Sovereign Debt Roundtable (GSDR) can help official bilateral creditors, private creditors, and borrowers come to a better understanding of ways to overcome the shortcomings in debt restructurings. Domestically, enhancing debt management capacity can also help mitigate vulnerabilities.

Multilateral collaboration is more crucial than ever to support vulnerable countries, accelerate climate action, and avoid dangerous fragmentation.

However, the global nature of many challenges means multilateral cooperation is more important than ever. For instance, progress is urgently needed to limit global warming to below 2°C of pre-industrial temperatures to avoid the materialization of hitherto unknown macroeconomic and financial risks. To this end, governments must both strengthen mitigation commitments and close the gap between ambition and actions very rapidly. International coordination on carbon pricing or equivalent policies is key for facilitating faster decarbonization, supported by a concerted push for green energy investments that can also bolster energy security.

Also, avoiding trade restrictions on exports of food and fertilizers, especially those imposed recently, is necessary to safeguard food supply and distribution worldwide. More generally, the multilateral trading system has helped lift more than a billion people out of extreme poverty in the past 30 years. As such, it is key to upgrade World Trade Organization (WTO) rules in areas such as agricultural and industrial subsidies, implement new WTO-based agreements, and fully restore the WTO dispute settlement system.

IMF SUPPORT

The Fund's lending facilities are adapting to support our members in a world prone to multiple and diverse shocks.

The IMF's Food Shock Window (FSW) under the emergency financing facilities, and Resilience and Sustainability Facility (RSF) have become operational. Six requests under the FSW have been approved by the IMF's Executive Board (Ukraine, Malawi, Guinea, Haiti, South Sudan, and Burkina Faso). In addition, nine other countries have benefited from new UCT arrangements or augmentations of existing arrangements to address the balance of payments needs associated with food insecurity.

Five countries (Barbados, Costa Rica, Bangladesh, Rwanda, and Jamaica) have entered early RSF arrangements, aiming at enhancing resilience to climate shocks. Close cooperation with the World Bank, including by drawing on the Bank's Country Climate and Development Reports, has been a key element in preparing these programs. Amid strong interest from the membership, an ongoing stocktaking exercise seeks to draw early lessons to strengthen the RSF's modalities.

Other steps to help members adapt to shocks included a temporary increase in access limits to the General Resources Account (GRA). The IMF's emergency facilities, precautionary lending facilities, and the FSW will be reviewed in due course. A comprehensive review of the Fund's concessional lending facilities, including its lending envelope and financing options, is scheduled for 2024/25.

An effective IMF needs adequate funding.

The IMF needs to be adequately resourced to fulfill its role at the center of the global financial safety net. The Poverty Reduction and Growth Trust (PRGT) is integral to safeguarding economic and financial stability in poorer countries through loans that support well-designed economic programs and help catalyze additional financing from multilateral and bilateral donors. The PRGT's fundraising targets are SDR 12.6 billion in loan resources and SDR 2.3 billion in new subsidy resources; the latter are key to making the loans interest-free. However, thus far, pledges covering only about three-quarters/half of these respective amounts have been received. Funding needs are growing rapidly, making it an urgent priority to place the PRGT's finances on a sound footing.

Good progress has been made towards the SDR 33 billion goal for the RST, but more pledges and their timely delivery are needed to meet demand. Finally, completing the 16th General Review of Quotas by end-2023 is key to ensuring that the size and composition of GRA resources remain adequate.

The IMF contributes to making debt resolution more efficient.

The IMF continues to work with its international partners to support debt restructuring efforts and strengthen the global debt architecture. Besides contributing to the CF and GSDR, the IMF and the World Bank continue to implement their multipronged approach to addressing debt vulnerabilities. Enhancing debt transparency is a key pillar. The new Sovereign Risk and Debt Sustainability Framework for market access countries has been rolled out, and groundwork for the review of the LIC-DSF will start later this year.

IMF Surveillance and capacity development evolve constantly.

The IMF is constantly integrating new analytical findings into its bilateral and multilateral surveillance. It has updated the Institutional View and is operationalizing the Integrated Policy Framework to help countries manage volatile cross-border capital flows. Implementation of the strategies on climate, digitalization, fragile states, gender and social spending is advancing swiftly. For example, in the area of climate, a rapidly growing share of Article IV consultation reports contains in-depth discussions of climate-related macroeconomic policy challenges. The IMF has also completed reviews of the implementation of its Framework for Enhanced Fund Engagement on Governance and the Role of Trade in the Work of Fund.

The 2023 Review of the Fund's Capacity Development (CD) Strategy aims to further modernize CD management, administration, and delivery to maximize its impact. CD is expanding beyond the IMF's traditional areas of expertise into new challenges to the membership, including climate change, digital money, and inclusion and gender.

The IMF welcomes the World Bank's Evolution Roadmap.

The Bank's Evolution Roadmap, its ambitions, and transformative proposals are timely and welcome. An increasingly shock-prone world calls for adequate MDB resources and strong MDB-IMF collaboration. The IMF congratulates the World Bank for leading the way in the MDB community and is looking forward to help reinforce the Roadmap's impact.