DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

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STATEMENT BY THE MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

Attached for information for the Members of the Development Committee is a Statement from the Managing Director of the International Monetary Fund, Kristalina Georgieva for the Committee's one hundred and fifth meeting to be held on April 22, 2022.

INTERNATIONAL MONETARY FUND

DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

April 2022

The war in Ukraine risks derailing the global economic recovery at a time when many countries have yet to overcome the consequences of the Covid-19 pandemic. Disruptions have already a severe impact on commodity markets, trade, and financial conditions, while inflation has become a major challenge in many countries and is adding to social pressures. The combination of shocks amplifies complex policy trade-offs that require astute macroeconomic management, for Emerging Market and Developing Economies (EMDEs), this includes preparing for higher interest rates that would translate into costlier terms of borrowing. Fuel and food price increases as well as food insecurity affect vulnerable populations the most, especially in low-income developing countries (LIDCs). Moreover, many LIDCs have only minimal or no policy space to absorb the war's economic and financial spillovers. Reallocating spending and raising more revenues is paramount, as is advancing reforms that promote resilience. However, LIDCs also need support from the international community to finance priority expenditures and deal with often elevated debt burdens. Multilateral cooperation is more important than ever, and the IMF stands ready to help its members through policy advice, capacity development, and, where needed, financial support.

ECONOMIC OUTLOOK AND RISKS

In addition to the loss of life and abysmal human suffering, the war in Ukraine threatens to derail the global economic recovery

The war in Ukraine and its repercussions are weakening the global economic recovery and putting macroeconomic stability at risk. While the heaviest impact is felt in Ukraine, neighboring countries are also severely affected, while spillovers from trade disruptions, higher energy, food and commodity prices, refugees, and tighter financial conditions are reverberating widely. Volatility and uncertainty are expected to remain elevated for some time. The conflict adds to the strains wrought by the pandemic, just as many parts of the world appeared to be moving past the acute phase of the COVID-19 crisis.

Global growth in 2022 is expected to slow to 3.6 percent, from 6.1 percent in 2021 and compared to a projection of 4.9 percent made in October 2021. This forecast assumes that the war remains confined to Ukraine, further sanctions on Russia exempt the energy sector, and the pandemic's health and economic impacts abate over the course of 2022. Over the medium term, global growth is forecast to decline to about 3.3 percent.

…with EMDEs affected disproportionately.

EMDEs are projected to grow at 3.8 percent in real terms in 2022, down from 6.8 percent in 2021. The slowdown reflects *inter alia* a projected recession in Emerging Europe—owing to trade disruptions and the impact of sharply higher energy prices—and lower growth in China and Latin America that relate to renewed Covid-related restrictions (China) and policy tightening in the face of higher inflation (Brazil, Mexico).

In per-capita terms, growth in EMDEs is projected to be below the global average. Longer-term scarring effects are expected to be more severe in EMDEs than in advanced economies (AEs), reflecting limited policy support, larger human capital and investment losses and a slower pace of vaccinations that renders EMDEs more vulnerable to new Covid-19 variants. As a result, and different from AEs, output in EMDEs is expected to remain below the pre-pandemic trend throughout the forecast horizon.

Inflation looms large…

Global inflation is projected to reach levels in 2022 not seen in more than a decade, with an average of 5.7 percent forecast for AEs and 8.7 percent in EMDEs. War-induced commodity price increases are a major driver. Although under the baseline, a gradual resolution of demand-supply imbalances is expected over the course of 2022 that would ease price pressures eventually, there is a risk that inflation expectations become entrenched at higher levels. In this case, central banks would have to raise interest rates faster than currently anticipated which, in turn, could expose debt vulnerabilities, particularly in EMDEs.

… and risks are strongly tilted to the downside

Unusually high uncertainty surrounds the global outlook, with downside risks dominating—including from a possible worsening of the war, escalation of sanctions, a sharper-than-anticipated deceleration in China, and a renewed flare-up of the pandemic should new, more virulent virus strain emerge. Moreover, higher food and energy prices increase the likelihood of wider social tensions, which would further weigh on the outlook.

Low-Income Developing Countries face a triple economic blow, jeopardizing SDGs.

The war in Ukraine and its economic and financial spillovers further complicate an already difficult environment for Low Income Developing Countries (LIDCs), a subgroup of EMDEs. First, the surge in food and oil prices affects poor households the most and risks intensifying poverty and social tensions—food insecurity can, in some cases, even cause hunger. Second, many LIDCs have still to overcome repercussions of the Covid-19 pandemic. Third, LIDCs tend to be disproportionately vulnerable to stronger and more frequent natural disasters and other consequences of climate change. Overall, LIDC economies are projected to grow at 4.6 percent in 2022, which corresponds to 2.4 percent in per-capita terms. This renders 2022 the second year in a row with lower per-capita growth than the global average, contributing further to global inequality.

Moreover, many LIDCs have very limited policy space. Median public debt-to-GDP levels have almost doubled in LIDCs in the past decade, and more than half of them are assessed to be in debt distress or at high risk of debt distress by the IMF's and the World Bank's joint debt sustainability assessments. In an environment where central banks in AEs and EMs are bound to tighten monetary conditions to stave off price pressures, rising interest rates risk reinforcing debt distress and generating large gross financing needs. As borrowing costs increase, national budgets will come under even more pressure, making it difficult to service debt in some cases without crowding out vital social, health, and infrastructure spending.

POLICY PRIORITIES

Policymakers are facing unusually difficult tradeoffs

Policymakers across the globe will need to balance competing policy objectives: limiting the economic and social fallout from the war in Ukraine and the Covid-19 crisis, containing inflation, supporting the vulnerable, rebuilding fiscal buffers, preserving financial stability, and protecting social cohesion.

- Fiscal policies need to cope with slower growth, the impact of price surges for food and energy, and the risk of social tensions. Well-targeted support for the vulnerable remains critical. Countries without fiscal space—many of them LIDCs—will need to mobilize revenue through broader tax bases and better compliance, gradually scale back regressive subsidies, re-prioritize expenditures, and improve public financial management and governance. Credible medium-term fiscal frameworks will be essential to safeguard debt sustainability.
- Monetary authorities need to manage the inflationary shock from the war in Ukraine that compounds already elevated price pressures while protecting the recovery. As monetary tightening in AEs can have severe consequences for vulnerable EMDEs, major central banks should anticipate cross-border spillovers as they manage their tightening cycle.
- Financial and external policies need to be used astutely to preserve financial stability and sound banking systems. With record debt levels induced by the pandemic, EMDEs should seek to reduce rollover risks by contracting longer debt maturities where possible and contain the buildup of currency mismatches. Given heightened market volatility, foreign exchange interventions may be warranted; in (imminent) crisis circumstances, there can even be a case for temporary capital flow management measures.
- Trade policies are key for preventing a food crisis. Governments should keep the trade channels open and refrain from export restrictions. Fewer barriers to trade would also help ease supply bottlenecks.

LIDCs will need support from the international community to cope with multiple shocks

At the same time, breaking the hold of the pandemic and lowering the virus's capacity to disrupt economic and social systems remains critical. This requires a holistic approach of reducing vaccine hesitancy, safeguarding access to broad-based testing, and access to therapeutics continue to be both health and economic policy priorities.

Even with adequate policies, some countries may face balance of payments pressures in view of tighter financial conditions and higher commodity prices. International cooperation will be essential to protect livelihoods and limit spillovers to the most vulnerable countries and populations. LIDCs and eligible EMDEs should continue to seek concessional financial assistance to complement domestic reforms. For countries where sovereign debt is not sustainable, steps should be taken to restore debt sustainability, which may include debt relief through timely and orderly restructuring. The Common Framework for Debt Treatments endorsed by the G20, together with the

Paris Club, can provide breathing space for eligible countries that shoulder excessively heavy debt burdens.

Policymakers must not let up on efforts to strengthen resilience and longer-term sustainability

At the same time, policymakers must not lose sight of the need to build a more resilient future.

- Inequality: the Covid-19 pandemic has exposed and exacerbated pre-existing inequalities both within and across countries. The spillovers from the war in Ukraine have the potential to further amplify wealth and social disparities and exacerbate social tensions. Structural policies to remedy education losses and retool and reskill the labor force are key to overcome scarring and avoid persistent output losses.
- Climate: geopolitical risks associated with oil and gas dependence underscore the need to phase out fossil fuels and replace them with renewables and other low-carbon energy sources. Mitigation commitments made at the time of COP26 needs to be implemented forcefully. Carbon pricing or equivalent measures should be at the core of global mitigation efforts, supported by public investments, measures to ensure a just transition, and adequate transition financing for lower-income countries.

Multilateralism is more important than ever

The challenges confronting the world economy—from the pandemic and the spillovers of war to climate change and digitalization—are truly global in nature. Cooperation across countries, reinforced by multilateral institutions that coordinate and support national policy efforts, provides the best chance to master these challenges.

IMF SUPPORT

The IMF will use all its levers to support its membership …

With the world economy facing renewed uncertainty and disruptions, the IMF stands ready to serve its members through financial assistance, policy dialogue, and capacity development. Support by international financial institutions will be critical for countries hardest hit by the war and the ensuing spillovers, but also for the IMF's most fragile and vulnerable members.

….through financial support …

As regards the IMF's lending activities, it stands ready to help its members to address the repercussions of the war and ensuing balance of payments needs. The IMF disbursed emergency assistance to Ukraine under the Rapid Financing Instrument, responding with unprecedented speed, complemented by setting up an administered account to facilitate the channeling of donor support to Ukraine. In view of sharply higher demand for Fund concessional financing, the IMF is mobilizing loan and subsidy resources for the Poverty Reduction and Growth Trust, while also seeking donor grants for the Catastrophe Containment and Relief Trust. Fulfilling the PRGT and CCRT fundraising targets is critical for the IMF to support its poorest members. Work is ongoing work to better tailor conditionality to country needs.

Fragile and conflict-affected states (FCS) are particularly vulnerable to rising food and oil prices. The IMF is working on customizing policy analysis and financial support to country-specific circumstances and is strengthening partnerships with development institutions, in line with the IMF's FCS strategy.

On April 15, the IMF Executive Board approved the establishment of a new Resilience and Sustainability Trust by which members with strong external positions can channel a part of the historic USD 650 billion SDR allocation implemented in August 2021 to low and vulnerable middle-income countries. To become operational, the RST will need a critical mass of resources from a sufficiently broad base of contributors. The RST will complement traditional lending tools by providing affordable longer-maturity financing to address macro-critical risks from structural challenges, focusing at the outset on climate change and pandemic preparedness.

… support for debt workouts...

Given rising debt burdens, the Fund is working with international partners to strengthen implementation of the Common Framework for debt treatments and explore options to improve debt restructuring processes for all countries, including those not yet covered by the framework. The IMF's new debt sustainability framework for market-access countries and ongoing work on the Multi-Pronged Approach seek to strengthen the assessment of debt vulnerabilities.

… policy advice…

In the area of surveillance, the IMF is engaging with its members to provide real-time, granular advice tailored to country circumstances. Risk analysis and contingent advice will feature more strongly in the Fund's policy advice, in line with the recommendations from the Comprehensive Surveillance Review completed last year. Updated policies on capital flow management and macroprudential measures provide guidance on how to help deal with capital flow related risks. To help strengthen governance and bolster anti-corruption efforts, the IMF will review the implementation of the 2018 Framework for Enhanced Fund Engagement on Governance.

Consistent with its climate strategy published in 2021, the Fund is scaling up coverage of climate-related, macro-critical issues in Article IV reports and other products, including Financial Sector Assessment Programs, Climate-Macro Assessments, flagships and Regional Economic Outlooks. These efforts will be complemented by the new G-20 Data Gaps Initiative, which will prioritize climate-change data.

… and capacity development.

Capacity Development (CD) is critical for both responding to the immediate needs generate by the crisis and for supporting longer-term institution building. The IMF is working on further integrating CD with programs and surveillance, and on fostering more CD delivery through the expansion of field presence, in coordination with our partners. While CD will continue to be directed mainly to core areas of Fund expertise, work will be stepped up in areas critical to economic resilience, such as climate change, digital money and inclusion.