

IMF Publication

Development Committee: The Managing Director's Written Statement October 2023

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DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

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The global economy has shown resilience, but the recovery is slow and uneven. Risks have moderated in recent months but remain tilted to the downside. Headline inflation is about half of its 2022 peak but the decline in core inflation is more gradual.

Growth momentum across most low-income and emerging market countries is weakening and achieving the 2030 Sustainable Development Goals (SDGs) is becoming increasingly challenging. While restoring price stability, normalizing fiscal policy, and protecting the vulnerable remain near-term policy priorities, policymakers should actively pursue policies that can support sustained growth—including macro-structural reforms and green transition. Multilateral cooperation is critical to address the challenges that hold back global recovery and shadow future prosperity, including risks associated with geoeconomic fragmentation.

ECONOMIC OUTLOOK AND RISKS

The global economy showed some resilience in 2023 ...

The global economy began showing resilience in 2023 as headwinds from the COVID-19 pandemic receded, supply chains normalized, and financial sector turbulence was contained. As such, global growth for 2023 is projected at 3.0 percent—0.2 percentage point higher than projected in April 2023.

... but several forces are holding back a stronger recovery and medium-term prospects are lackluster.

Nevertheless, several forces are holding back a stronger recovery. Savings built-up during the pandemic, which supported consumption, are running out, the post-pandemic services rebound has matured, and manufacturing activity has weakened. Concurrently, the war in Ukraine, central banks' rate hikes, limited fiscal space including high debt levels, geoeconomic fragmentation, and more frequent extreme weather events also weigh on the outlook. Overall, global growth is forecast to be at 2.9 percent in 2024 and 3.1 percent in the medium term, the lowest level in decades.

Growth remains slow in advanced economies.

Owing to the containment of financial sector turbulence, the growth of advanced economies (AEs) in 2023 has been revised upward by 0.2 percentage point to 1.5 percent. This positive news is offset by persistent weakness in manufacturing, still-high inflation, and the dissipation of the effects from past stimulus. Growth in 2024 is thus projected to remain at 1.4 percent, which is substantially below its 2022 level of 2.6 percent.

Stable EMDE growth conceals regional variations.

Growth for emerging market and developing economies (EMDEs) is projected to be broadly stable at 4.0 percent for 2023 and 2024. Regional divergences, however, are significant, reflecting countries' trade composition and ability to handle energy and food price shocks. Growth in emerging and developing Europe is expected to strengthen over the next two years as economies adapt to the war in Ukraine. By contrast, emerging and developing Asia countries will be particularly impacted by the slowing Chinese economy. A mixture of commodity market developments, worsening weather shocks, rising domestic security incidences, as well as the slowdown of the global economy depresses growth momentum, relative to its 2022 levels, for EMDEs in the rest of the world. In Africa, power shortages and reduced oil and gas production will also play a role.

Dimming prospects for income convergence in line with mediocre medium-term growth projections.

Dimming growth prospects in most low-income economies will further delay convergence of their per capita income levels to those in richer countries. Achieving the SDGs by 2030 is becoming extremely challenging. Growth in these economies is forecast to decline from 5.2 percent in 2022 to 4.0 percent in 2023—0.7 percentage point lower than projected in April 2023—with only mediocre medium-term prospects. The legacy effects of past shocks—most visible in terms of labor force scarring, food insecurity, conflict, and high public debt—are being compounded with increasingly frequent weather shocks, a more difficult external financing environment, spillovers from fragility and conflict, and the impact of geoeconomic fragmentation.

Inflation is declining but the fight is not over yet.

Global headline inflation is projected to decline steadily from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024. Disinflation in 2023 is driven primarily by declining international commodity prices, though monetary policy tightening and the normalization of supply chains have also contributed. The decline of core inflation appears, however, to be more gradual. Its persistence is driven by the pass-through effects from past headline inflation shocks via relative price and near-term expectation channels, as well as demand pressures from tight labor markets. The inflation decline in EMDEs is on average more gradual than in AEs, largely reflecting higher commodity price and exchange rate exposures—though it is declining quickly in many frontier markets. Longer-term inflation expectations have so far remained anchored.

Risks have moderated in recent months but remain tilted to the downside.

Adverse risks have receded since April 2023, owing to the resolution of US debt ceiling tensions, containment of financial turbulence, and declining headline inflation. However, risks to global growth remain salient. Key downside risks include more volatile food and energy prices amid climate and geopolitical shocks, the persistence of core inflation, a reprise of financial market turmoil, stress in the real estate sector, wider debt distress among EMDEs, intensified geoeconomic fragmentation, rising inequality and renewed social unrest. On the upside, there could be a faster recovery of domestic demand, technological breakthroughs, or a soft landing in AEs amid decline in inflation.

POLICY PRIORITIES

Tight monetary policy is still necessary to restore price stability, but its extent may be increasingly differentiated across countries.

Durably restoring price stability remains the top priority. Central banks should generally maintain a tight monetary policy stance and avoid premature easing, especially in countries with elevated and persistent inflation. Effective communication is critical to anchoring long-term inflation expectations and minimizing the output costs of disinflation.

Meanwhile, tighter monetary policy is bearing fruit faster in some countries than others, implying a substantial variation of appropriate policy stances across countries. Where inflation is cooling and inflation expectations are anchored, gradually moving to a more neutral stance may be warranted. Nonetheless, central banks should signal continued commitment to price stability. Uncertainties surrounding the disinflation path calls for careful and data-driven policy calibration, with consideration for the costs of lowering rates too early or delaying too much.

The financial sector needs to be closely monitored.

The financial sector remains under pressure and central banks need to closely monitor risks to both the bank, nonbank financial, and real-estate sectors, and address data, supervisory and regulatory gaps. Macroprudential policy measures could be invoked preemptively. When market strains emerge, central banks should be ready to deploy tools that provide prompt and forceful liquidity support while mindful of moral hazard risks. Countries at risk of external shocks should make full use of the global financial safety net while implementing appropriate macroeconomic policies.

Normalizing fiscal policy can advance multiple goals.

A tight fiscal policy stance is needed to build back budgetary buffers. Careful communication of a medium-term framework that supports fiscal sustainability is important to establish credibility and avoid disruptive market responses. The composition of fiscal adjustment needs to protect the most vulnerable, especially as they are disproportionately impacted by elevated inflation. Untargeted measures, in particular those that interfere with price signals, should be phased out. A tightening of the fiscal stance could also support disinflation efforts by reducing aggregate demand, anchoring inflation expectations and reinforcing the overall commitment to price stability. For EMDEs, given large debt service obligations and spending needs, domestic revenue mobilization, greater spending efficiency, and improved institutional fiscal frameworks are increasingly pertinent.

Intensifying structural reforms could ease policy tradeoffs.

Weak growth momentum raises the tradeoffs that governments face in their efforts to bring inflation down and rebuild fiscal space. It also constrains the resources available for addressing other long-term challenges, for instance poverty reduction and climate change. Deep structural reforms could alleviate these constraints.

Reforms should be targeted and carefully sequenced. Those that relax the most critical binding constraints should be bundled and prioritized to frontload the gains and ensure public buy-in. Reforms in governance, business regulations, the labor market, and the external sector are especially useful in this regard. Industrial

Multilateral coordination is vital to debt resolution, ensuring food security and accelerating the green transition.

policies, while useful when externalities or market failures are well-established, should avoid protectionism and be consistent with the World Trade Organization (WTO) rules.

The global nature of several challenges—debt resolution, food security, and climate change—renders multilateral cooperation critical. Restoring trust in multilateral frameworks is urgently needed, beginning with the WTO, given the central role of international trade.

Nearly sixty percent of low-income countries are at high risk or already in debt distress. The G20 Common Framework (CF) is making progress, with the recent agreement among official bilateral creditors on a debt treatment for Zambia, and progress on Ghana. Discussions under the Global Sovereign Debt Roundtable (GSDR) are also helping advance a common understanding of key concepts and definitions for efficient debt restructurings. These efforts must be further accelerated.

Food security continues to be threatened by extreme weather conditions and the war in Ukraine, notably the suspension of the Black Sea Grain Initiative. Countries should withdraw trade restrictions and safeguard the global flow of agricultural inputs food supplies. Strengthening multilateral cooperation on food security is needed with rules-based frameworks for restrictions on food exports.

This year's intense heat waves, droughts and devastating floods, amid record high global temperatures reinforce the need for urgent climate action. Multilateral cooperation can help speed green transition by providing a platform to coordinate on carbon pricing, avoid distortions to international trade and investment flow from green industrial policies, establish a green corridor to safeguard the flow of critical minerals, and improve data sharing and standardization.

IMF SUPPORT

The Fund continues to adapt its lending facilities to the evolving global environment.

The Fund's lending toolkit continues to support members' efforts to bolster macroeconomic stability and advance structural reforms in the face of a challenging global environment. A temporary increase of the normal access limits under the Fund's General Resources Account (GRA) has been approved. Reforms in the precautionary lending facilities have been introduced to ensure their strong signaling power, agility and capacity to deal with external risks. The Fund has also extended the temporarily higher cumulative access limits for emergency financing until end-June 2024 for the Rapid Financing Instruments and until the 2024/25 Poverty Reduction and Growth Trust (PRGT) review for the Rapid Credit Facility. The interest rates on all PRGT credit will also remain at zero until then.

As highlighted in the recent joint statement on enhancing IMF-World Bank collaboration, the Fund and the World Bank are stepping up further their

cooperation, also working with other international organizations. This collaboration, extended to the WTO, the World Food Programme, and the Food and Agriculture Organization, helped tackle the global food crisis. Twenty-nine countries affected by the food crisis have benefited from Fund financial support, including six countries under the Food Shock Window (FSW). The FSW has been extended by six months until end-March 2024 as a contingency instrument.

Demand for programs supported by the Resilient and Sustainability Facility (RSF) remains strong and growing. Eleven RSF programs have been approved by the Board and an interim review is planned for mid-2024 to further strengthen the RSF's design and modalities. To preserve the concessionality of RSF credits for the Fund's lowest income members, an interest cap has been set. So far, all RSFs have focused on climate change but discussions with the Bank and the World Health Organization to finalize a cooperation framework for pandemic preparedness is ongoing.

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. Completing the 16th General Review of Quotas by end-2023 is key to ensuring that the size and composition of GRA resources remain adequate. In light of the growing demand for PRGT loans, securing the funding of the PRGT is also critical.

On the RST, good progress on fundraising has been made with more than \$40 billion in pledges received to date, and economically stronger countries are encouraged to scale up the ambition to channel SDRs beyond the original target of 20 percent of the 2021 SDR allocation to help meet the strong demand for RST.

The IMF works actively on debt issues.

Besides its important contribution to the CF and GSDR, the IMF continues to work with the Bank to implement the multipronged approach to addressing debt vulnerabilities. The IMF is also working on its financing assurances policy to improve its engagement with countries undertaking a debt restructuring and will initiate the Review of the IMF-World Bank Low-income Country Debt Sustainability Framework.

IMF Surveillance and capacity development continue to evolve.

The IMF's bilateral and multilateral surveillance integrates continuously new analytical findings on emerging issues. The updated Institutional View guides the Fund's policy advice on capital flows and the rollout of the Integrated Policy Framework continues. The Fund is operationalizing the strategies on climate, digitalization, fragile states, gender, governance and social spending, with a rapidly growing share of Article IV consultation reports containing in-depth discussions of related issues when macro-critical. The IMF is reviewing its strategy on Anti-Money Laundering / Countering the Financing of Terrorism.

Efforts to further modernize the delivery, management, and administration of Capacity Development (CD) will build on the forthcoming Review of the Fund's CD Strategy. Fund CD continues to be delivered in the IMF's core areas of expertise, and expands to areas that present new challenges and opportunities to the membership, including climate change, digital money, and inclusion and gender.