INTERNATIONAL MONETARY FUND

DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

April 2024

The global economy has been resilient and appears headed for a soft landing. Inflation continues to recede and risks have become more balanced globally. Nonetheless, medium-term growth prospects remain at the lowest level in decades and a smooth completion of the disinflation process should not be taken for granted. While the outlook for low-income developing countries (LIDCs) is improving, risks are tilted to the downside. The pace of convergence toward higher living standards has slowed, making it increasingly challenging to achieve the Sustainable Development Goals (SDGs). In the last mile of disinflation, central banks should ensure that inflation moves durably to target: they should neither ease policies prematurely nor delay too long and risk causing target undershoot. Fiscal policies need to rebuild budgetary room and ensure debt sustainability. Fostering faster productivity growth and facilitating the green transition are keys to improving long-term growth prospects. Multilateral cooperation is key to enhancing the resilience of the global economy in a more shock-prone world.

ECONOMIC OUTLOOK AND RISKS

The global economy has been surprisingly resilient …

The global economy has shown a surprising resilience during global disinflation in the last two years, thanks to favorable demand and supply developments in major economies. Global growth for 2024 is projected at 3.2 percent, up by 0.3 percentage points compared to the projection from last October.

… though growth remains subdued in both the near and the medium term.

Despite the resilience, near-term growth is below the historical average of 3.8 percent between 2000-19, reflecting restrictive monetary policies, withdrawal of fiscal support, and low underlying productivity growth. The latter is driven by declining labor force participation, weaker business investment, and persistent structural frictions that misallocate resources. Together with deepening geoeconomic fragmentation, these factors lead to a medium-term growth forecast of 3.1 percent for the global economy, the lowest level in decades.

AEs are expecting a slight uptick in growth.

Growth in advanced economies (AEs) is projected to rise slightly by 0.1 percentage point to 1.7 percent from 2023 to 2024, driven primarily by robust U.S. economy. Among other AEs, while strengthening household consumption following the fall in inflation is expected to support the recovery, the pace is held back by persistently weak consumer sentiment and the fading of other one-off positive factors.

Regional variations persist

While the aggregate growth in emerging market and developing economies (EMDEs) is expected to remain broadly stable at 4.2 percent for 2024, the paths of

underneath a stable aggregate EMDE growth.

economies in different regions are projected to vary. A slowing Chinese economy is a risk to weakening the momentum in emerging and developing Asia, while Latin America and the Caribbean are expected to face headwinds from the effects of tight policies to bring down inflation. On the positive side, non-oil sector growth, driven by private investment, is expected to support rising growth in the Middle East and Central Asia and sub-Sahara Africa. Growth in emerging and developing Europe is expected to be stable, as war-related shocks subside. Nevertheless, the pace of convergence to higher living standards has slowed for EMDEs.

While the outlook for LIDCs is improving, long-term challenges continue to be daunting.

After several challenging years, the outlook for LIDCs is gradually improving: growth is projected to increase from 4.0 percent in 2023 to 4.7 percent in 2024. However, unlike in other countries, past shocks are still showing their scarring effects, and liquidity concerns have emerged as a chief immediate challenge, with high debt service putting pressure on the fiscal space available for development spending. As such, achieving the SDGs will require extraordinary efforts, with the challenge being the toughest for the poorest and most fragile countries.

Inflation is declining, with different speed across countries.

Global headline inflation is expected to fall from 6.8 percent in 2023 to 5.9 percent in 2024. The fall in 2024 reflects a broad-based decline in global core inflation as opposed to lower commodity prices in 2023. The declining core inflation was driven by monetary tightening, softening in labor markets, and fading pass-through effects from early price hikes. Despite the descent, inflation still persists in a number of countries. Disinflation is expected to be more frontloaded for AEs than EMDEs, as the latter face stronger impacts from pass-through and currency depreciation.

Risks have become balanced.

With the likelihood of a hard landing receding, the distribution of risks has become more balanced. The most prominent downside risks include new commodity price shock amid regional conflicts, persistent inflation, growing strains in some commercial real estate markets, financial sector stress, a faltering of China's recovery, disruptive fiscal adjustment and debt distress, and intensifying geoeconomic fragmentation. There are, however, upside risks including productivity boost spurred by artificial intelligence (although gains for EMDEs are uncertain), and further momentum on structural reforms.

POLICY PRIORITIES

Central banks should ensure that inflation touches down smoothly …

As the global economy makes an approach to a soft landing, central banks need to ensure that wage and price pressures are dissipating before easing to guard against the need to tighten again. Where core inflation persists above target-consistent levels, maintaining higher real interest rates may be necessary to achieve price stability. While in countries where underlying indicators, including inflation expectations, currency movements, and wage and price pressures, are clearly signaling that inflation is declining toward target levels, moving gradually to a more neutral stance while continuing to signal commitment to price stability is suitable.

… and monitor closely the financial sector.

Capital flow movements and sharp tightening of global financial conditions triggered by more persistent-than-expected inflation may put external and financial sectors under pressure. The IMF's Integrated Policy Framework can be used to guide the appropriate policy mix in this circumstance. For countries with flexible exchange rate regimes, deep foreign exchange (FX) markets and low foreign currency debt, adjusting the policy rate while allowing the exchange rate to move freely is appropriate. Conversely, if a country has a shallow foreign exchange market and large foreign currency debt, it may be appropriate to conduct FX interventions or implement capital flow management measures—even outside of inflow surges in line with the revised IMF Institutional View—provided that monetary and fiscal policy are at their appropriate settings. Strengthening bank supervision and deploying tools to provide liquidity support promptly and forcefully, while being mindful of moral hazard risks, would help address market strains.

Fiscal policy should focus on rebuilding budgetary room and containing debt vulnerabilities.

Fiscal policy should focus on rebuilding budgetary space to prepare for future shocks and curb the rise of debt. A tighter fiscal stance can also help the fight against inflation. The pace of fiscal consolidation needs to be calibrated carefully to avoid excessive decline in growth and undercutting support for reforms. Building credibility with well-specified baseline, strong institutions and clear contingency plans can help reduce policy uncertainty. It is important that targeted support for the vulnerable population and priority investment are protected in the process.

Structural reforms are crucial to boosting medium-term growth prospects and progressing towards the SDGs.

Carefully targeted and sequenced structural reforms can reverse the declining medium-term growth prospects and revitalize progress towards the SDGs. Better growth outlook can also alleviate the policy trade-offs in the near term. Reforms that relax the most binding constraints should be bundled and prioritized to frontload the gains, ensure public buy-in, and pave the way to more challenging ones. While the most effective reforms are country specific, those that strengthen governance, optimize business regulations, reduce frictions in trade, and improve access to foreign capital are the most relevant.

The green transition needs to accelerate.

Large global policy gaps persist to contain the rise of global average temperature to 1.5 – 2.0°C above pre-industrial level. Countries need a holistic set of instruments for mitigation, including carbon pricing, infrastructure investment in clean energy, sectoral policies, regulations, and reductions in fossil-fuel subsidies. Structural reforms can help green transition by enhancing growth and private sector's response to climate policy signals. Investments in climate adaptation activities and infrastructure, strengthening climate risk monitoring system and risk management frameworks, as well as stronger safety net can enhance climate resilience.

Multilateral cooperation is vital to mitigating fragmentation and enhancing

Multilateral cooperation is imperative to meeting many of the challenges that are global in their nature—fragmentation, debt resolution and climate change—and to building a more resilient world economy in a more shock-prone environment.

A key step is to restore trust in multilateral frameworks, in particular with regards to trade policies. Policymakers should maintain stable and transparent trade policies,

resilience in a more shock-prone world.

ensure that industrial policies and incentive schemes for green investments comply with WTO rules, and revive the WTO's ability to settle trade disputes.

The international sovereign debt resolution framework is moving in the right direction, with the Common Framework (CF) starting to deliver and the Global Sovereign Debt Roundtable helping by advancing a common understanding of key issues in debt restructurings. Each case under the CF provides experience that facilitates the faster coordination for successive cases. Despite the positive news, challenges remain, and it is important to build on the progress to improve the efficiency of creditor coordination for countries not eligible for the CF.

The global community should build on recent agreements at the 2023 Conference of the Parties to the UN Framework Convention on Climate Change (COP28) to mitigate the effects of climate change and facilitate the green transition. Mobilizing climate finance for both adaptation and mitigation will require coordinated efforts by international organizations, private investors, country authorities and donors. AEs and EMDEs need to agree on new Collective Quantified Goal on Climate Finance.

IMF SUPPORT

The Fund continues to adapt its lending toolkits to better support members in need.

The Fund continues to adapt its lending toolkit to support members' efforts to bolster macroeconomic stability and advance the reform agenda. In March, the Board approved an extension to end 2024 of the temporary increase in annual and cumulative access limits to the General Resource Account (GRA) to 200 and 600 percent of quota, respectively. Access limits to the Poverty Reduction and Growth Trust were also raised by the Executive Board to the same levels in December 2023 until end-2024. A comprehensive review of the Fund's concessional facilities and financing is expected to be completed this year. The Fund will also review the access limits to GRA and its surcharges policy. To better understand key drivers of successful programs and strengthen their catalytical effects, the Fund will also engage a new Review of Program Design and Conditionality.

Demand for the Resilience and Sustainability Facility (RSF) remains strong. To date, eighteen RSF arrangements have been approved by the Board and around 30-35 other countries have expressed interest. The RST interim review will take stock of the initial experience with the instrument, focusing on progress and challenges so far, and propose fine-tuning of the RST design aiming to strengthen implementation of the Trust's objectives. The Fund has been working with the World Health Organization and the World Bank to finalize the Broad Coordination Principles and to operationalize the RSF arrangements that would deal with pandemic preparedness. We continue to rely on our economically stronger members to further boost the RST resources.

Governance reforms needs to continue to ensure the IMF remains representative of the membership.

The Board of Governors concluded the 16th General Review of Quota (GRQ) and approved an increase of IMF members quotas by 50 percent. When implemented, the quota increase, combined with reduced reliance on borrowing, will maintain the Fund's lending capacity. The membership acknowledged the urgency and importance of quota share realignment, while protecting the shares of the poorest members. We will continue the work to develop possible approaches as a guide for further quota realignment, including through a new quota formula, under the 17th GRQ. The Fund will welcome the 25th Executive Board Chair intended for sub-Saharan Africa.

The Fund is committed to helping countries reduce debt vulnerabilities.

The IMF continues to support global efforts on reducing debt vulnerabilities, including by providing financial and policy support to help prevent debt crises. In addition, the Executive Board has endorsed policy reforms to better support members undertaking debt restructurings, to ensure that Fund financing in a restructuring context helps the country address its debt problem and provide stronger incentives for faster creditor participation. Together with the Bank, the Fund is also reviewing the Debt Sustainability Framework for Low-Income Countries.

IMF Surveillance and capacity development continue to evolve.

The IMF's bilateral and multilateral surveillance aims to provide first-rate real-time diagnostics and policy advice against the backdrop of profound change in the global economy. The Data Adequacy Assessment for Surveillance, approved by the Board, provides a more structured, principle based, and transparent assessment of data adequacy. The upcoming Review of the Transparency Policy aims to increase public access to the Fund's analysis and policy advice and to facilitate the sharing of cross-country experience to benefit Fund membership. The operationalization of strategies including on climate, fragile states, gender, governance, AML/CFT and social spending continues. The Fund is committed to collaborating closely with other international organizations, especially the World Bank, to leverage each institution's expertise, as can be seen from the many initiatives mentioned in the statement and the IMF-WTO dialogue on trade and industrial policies.

The recent Review of the Fund's Capacity Development (CD) Strategy brings changes to make Fund CD more flexible, integrated, tailored and more impactful on members' policies and institutions. The Fund is working with the Bank on a new Domestic Resource Mobilization Initiative to help members increase fiscal revenue, spend better, and develop their financial markets. The Fund is also providing fiscal CD to members through the Global Public Finance Partnership. Fund CD continues to be delivered in the IMF's core areas of expertise and expands to areas that present challenges and opportunities to the membership, including climate change, digital money, inclusion, and gender, with the Central Bank Digital Currency Virtual Handbook being the latest addition.