SPEECH

Navigating A More Fragile World

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1. Introduction:

Thank you, President DeGioia. Thank you to the faculty, distinguished guests and friends, and to all the Hoyas in this room and around the world.

Here, in Gaston Hall, I stand in front of a painting of Athena, the Greek goddess of wisdom — and a good point of reference for what I will be talking about. Our world economy is like a ship in choppy waters. We need all the wisdom we can muster—to steady the ship and navigate through what is ahead.

In less than three years we lived through shock, after shock, after shock.

First, Covid. Then Russia's invasion of Ukraine. And climate disasters on all continents.

These shocks have inflicted immeasurable harm on people's lives. Their combined impact is driving a global surge in prices, especially on food and energy, causing a cost-of-living crisis.

And dealing with them is made harder by geopolitical fragmentation.

We are experiencing a **fundamental shift** in the global economy:

- From a world of relative predictability—with a rules-based framework for international economic cooperation, low interest rates, and low inflation…
- To a world with more fragility—greater uncertainty, higher economic volatility, geopolitical confrontations, and more frequent and devastating natural disasters—a world in which any country can be thrown off course more easily and more often.

What can we do to prevent this period of heightened fragility from becoming a dangerous 'new normal'?

First and foremost, we must **stabilize** the global economy by addressing the most **immediate challenges**.

And, as we address the crises of today, we must revitalize global cooperation and **transform** our economy to **build resilience** against the shocks of the future.

That's why we at the IMF are calling for **early and joint action** to **regroup** and **rethink**—how can we adopt a more **proactive, precautionary** mindset than in the past? And more willingness to **act now and act together**.

This will be the focus for our Annual Meetings next week with our 190 member countries.

2. A Darkening Outlook

Let me start with the **urgency to stabilize** the economy, given the darkening global outlook.

Last October, we projected a strong recovery from the depths of the Covid crisis. Global growth reached **6.1 percent** in 2021. And most economists, including at the IMF, thought the recovery would continue, and inflation would quickly subside—largely because we expected vaccines would help tame supply side disruptions and allow production to rebound.

But this is not what happened. Multiple shocks, among them a senseless war, changed the economic picture completely. Far from being transitory, inflation has become more **persistent**.

High energy and food prices, tighter financial conditions and lingering supply constraints decelerated growth. All of the world's largest economies are slowing down—the *Euro Area* is severely impacted by the reduction of gas supplies from Russia; *China* suffers from pandemic-related disruptions and a deepening downturn in its property market; and momentum is slowing in the *United States* as inflation reduces disposable income and consumer demand, and higher interest rates are a drag on investment.

This in turn affects **emerging and developing countries** as they face reduced demand for their exports; and many feel severe strains from high food and high energy prices.

We have downgraded our growth projections already three times, to only **3.2** percent for 2022 and **2.9** percent for 2023. And as you will see in our updated *World Economic Outlook* next week, we will downgrade growth for **next year**.

And we will flag that the risks of recession are rising. We estimate that countries accounting for about **one-third** of the world economy will experience at least two consecutive quarters of contraction this or next year. And, even when growth is positive, it will ***feel* like a recession** because of shrinking real incomes and rising prices.

Overall, we expect a **global output loss** of about **$4 trillion** between now and 2026. This is the size of the German economy—a massive setback for the world economy.

And it is more likely to get worse than to get better. **Uncertainty** remains extremely high in the context of war and pandemic. There could be even more economic shocks. **Financial stability risks** are growing: rapid and disorderly repricing of assets could be amplified by pre-existing vulnerabilities, including high sovereign debt and concerns over liquidity in key segments of the financial market.

3. Stabilize

So, how can policymakers stabilize the economy? We focus on three priorities:

First, stay the course to bring down inflation.

Here the cost of a policy misstep can be enormous.

Not tightening enough would cause inflation to become de-anchored and entrenched—which would require future interest rates to be much higher and more sustained, causing massive harm on growth and massive harm on people.

On the other hand, tightening monetary policy too much and too fast—and doing so in a synchronized manner across countries—could push many economies into prolonged recession.

So far, higher interest rates are taking some of the heat out of domestic demand, including in housing markets. But inflation has remained stubbornly high and broad-based—which means that central banks have to continue to respond. In the current environment, this is the right thing to do: act decisively even as the economy

inevitably slows. This is not easy, and it will not be without pain in the near term. But the key is to avoid much greater and longer-lasting pain for everybody.

The second immediate priority is to put in place responsible fiscal policy—one that protects the vulnerable, without adding fuel to inflation.

Given the gravity of the cost-of-living crisis, governments should deploy fiscal measures that are not only temporary, but also targeted—with a laser-sharp focus on lower-income households.

Where high energy prices are likely to persist, governments could provide direct help to low- and middle-income families—and minimize the use of price controls. We know that controlling prices for an extended period of time is not affordable—nor is it effective.

Avoiding indiscriminate fiscal support is critical, because if it is done on a broad basis, the boost to demand would make it even harder to fight inflation. In other words, while monetary policy is hitting the brakes, you shouldn't have a fiscal policy that is stepping on the accelerator. This would make for a very rough and dangerous ride.

Our third priority is joint efforts to support emerging market and developing economies.

A stronger dollar, high borrowing costs and capital outflows cause a triple blow to many emerging markets and developing economies. The probability of portfolio outflows from emerging markets over the next three quarters has risen to **40 percent**. That could pose a major challenge to countries with large external financing needs.

Maintaining exchange rate flexibility will help. But countries would also benefit from a more proactive approach and from taking precautionary steps before a crisis emerges. And here, the IMF's *Integrated Policy Framework* can help calibrate the best possible mix of policies—and our precautionary lending tools can help support them.

In this environment, many countries also need help to deal with debt that was pushed up with the Covid crisis. This is particularly challenging for the developing world. More than **a quarter of emerging economies** have either defaulted or had bonds trading at distressed levels; and over **60 percent of low-income-countries** are in—or at high risk of—debt distress.

This raises the risk of a widening debt crisis in these countries—harming their people, as well as global growth and financial stability.

To reduce the risk of debt crises, large creditors such as China and the private sector have a responsibility to act. The G-20 *Common Framework* is in place to support debt resolution for low-income countries. But this process must become faster and more predictable.

4. Revitalize and Transform

These immediate actions are essential, but they will not be enough to revitalize the global economy and build resilience at times of increased fragility.

For that, we need **transformational reforms**—and supporting our members in these efforts is a major focus of the Fund's work.

Take public finances. Countries can use medium-term fiscal frameworks to make their finances more sustainable and create more room in their budgets. That fiscal space can then be used to invest in people and more productive economies—in health, education, and stronger safety nets. So, too, is digital infrastructure to open doors to innovation and to cutting edge digital government services that are more transparent and more efficient.

And think of how we can use smart policies that we have been working on—such as training or enabling a digital-ready workforce—to help people join and stay in the workforce, especially women and young people. This is a positive lesson that we can take from the pandemic to create lasting opportunities that can reduce inequality, and foster more durable long-term growth.

Of course, the deeper causes of the world's fragility can only be addressed by countries working together.

This means facing up to the chilling effects of fragmentation. Let me give you a few examples of where stronger international cooperation is critical:

We need to step up our efforts to counter acute **food insecurity**—which is now affecting a staggering number of people: **345 million**. Here the IMF is helping with a new **'food shock window'** as part of our emergency financing—which is aimed at helping countries that are most affected by terms of trade shocks.

We also need much stronger cooperation to address the existential threat to humanity—**climate change**. We can survive inflation; we can survive recession; but we cannot survive an unabated climate crisis. COP27 is next month—we must use it for more decisive action.

To help with the transition to greener and more sustainable economies, we have created our first-ever long-term lending tool: the **Resilience and Sustainability Trust**. We have already gotten pledges for **$40** billion, and we aim to leverage a multiple of that in private investment—so critical to provide the trillions of dollars needed for adaptation and mitigation.

With our policy advice, the IMF is helping our members find the right responses to multiple crises. With our capacity development efforts, we have supported **174** countries over the past three years in key areas: from domestic revenue mobilization, to helping with debt sustainability and public investment management.

And with our financial support, we are helping countries maintain access to liquidity. Just since the pandemic began, we have provided **$258 billion** to **93** countries. Since Russia's invasion of Ukraine, we have supported **16** countries with close to **$90 billion**. This is additional to last year's historic **$650 billion** SDR allocation.

In our more shock-prone world, the IMF has been stepping up—I promise you that we will continue to do so.

5. Conclusion

To conclude, let me return to Athena.

Athena was also known as the patroness of weaving. If we are to navigate our way through this period of historic fragility, we must weave a new economic and social fabric that is stronger and more resilient to the stresses our world faces today.

We can do it: working together, we managed to overcome the worst of the Covid crisis. Working together, we can build a brighter and more prosperous future for all.

Thank you.