INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Janet Yellen
Secretary of the Treasury

United States

October 2023 International Monetary and Financial Committee Statement

The setting of this year's Annual Meetings in Marrakech is poignant for several reasons. It is the first time these Annual Meetings have been hosted in North Africa, and the first time they have been held on the African continent in exactly 50 years since the 1973 meetings in Nairobi. These meetings also demonstrate Morocco's resilience and tenacity in the face of unspeakable tragedy and devastation following the recent earthquake. The United States stands by the people of Morocco and our gracious hosts in support and solidarity as they respond around the clock to those impacted by this disaster.

In the five years since we last met outside the United States, the world has undergone multiple shocks that few could have imagined at the time — specifically, a devastating global pandemic and Russia's illegal and immoral war against Ukraine, which continues to place a tremendous cost on the Ukrainian people and those around the world who are impacted by its spillovers. I welcome Ukraine's continued strong performance under its IMF program, which is critical to Ukraine's efforts to bolster economic stability and make progress on governance and anti-corruption. The United States will stand with Ukraine for as long as it takes.

Global growth has proven more resilient than anticipated and inflation is easing in most countries. However, more recently, there are signs of slowing momentum in some countries, and we must remain attuned to the uneven nature of the global recovery and downside risks. Many countries have seen their fiscal balances deteriorate, and for many emerging markets and developing countries higher debt service costs are adding to pre-existing debt vulnerabilities. Low-income countries have been particularly hard hit by the recent global shocks, and we saw an increase in global poverty for the first time in twenty years during the pandemic. Common challenges such as climate change and fragility and conflict have had an outsized impact on the most vulnerable. Indeed, climate change is no longer a distant threat but a present-day crisis. This past summer, no continent was spared from extreme and disastrous weather events during what we now know was the hottest summer on record. Most recently, we witnessed the devastating floods in Libya that cut so many lives short. The United States stands by the Libyan people in this time of grief and recovery.

In the United States, growth has proven resilient with a strong labor market including the lowest unemployment rate in over five decades. Our policies have supported a recovery in labor force participation and historic gains for women and minorities. Inflation has also moderated over the past year. Our financial sector is strong and stable, our regulators are applying lessons learned to ensure that oversight remains robust, and we remain vigilant in monitoring potential vulnerabilities. We have built on our strong post-pandemic recovery by pursuing an economic agenda aimed at boosting the productive capacity of the U.S. economy, supporting a transition to net-zero greenhouse gas emissions, and investing in science and technology. This agenda will support the medium- and long-term growth of the U.S. economy with ambitious investments in infrastructure, clean energy, and globally important technologies and manufacturing inputs. These investments will have positive spillovers to the global economy from continued dynamism and growth in the U.S. economy, more resilient and diversified supply chains, and clean energy innovation and climate-forward technological progress.

The multiple shocks to the global economy have underscored that the IMF is needed more today than ever. Rigorous analysis, sound policy advice, capacity development, and well-targeted financial support, are core to the IMF's mandate. We look to the IMF to help countries navigate through external shocks and to emerge from crises on a more sustainable footing. To meet its mandate and address the needs of its membership, the IMF must have adequate and predictable resources. The United States supports an equi-proportional quota increase that would restore the IMF's status as a quota-based institution at the center of the global financial safety net and reduce its reliance on borrowed resources. We continue to call for the IMF to follow through on its commitment to a new quota formula that is both fair and simple and primarily reflects the economic size of its member countries, and regret that agreement on a new formula has not been reached. In the absence of a new formula, an equi-proportional increase is the only viable outcome that avoids arbitrarily picking winners and losers. I urge all members to come together to support a successful conclusion to the 16th General Review of Quotas that would meet our shared objective of strengthening the IMF.

As part of our discussions on making the IMF more fit for purpose and responsive to the needs of its membership, we need to consider ways to elevate the voices of emerging markets and developing countries. We invite a discussion about adding a fifth Deputy Managing Director position so that one DMD position can be held by an emerging market economy and one by a low-income country. This would be the first expansion of this senior level of Management in over a decade and could help amplify the voices of the world's fastest growing economies. We welcome that sub-Saharan African members would like to pursue the creation of a third chair on the Executive Board for the region and stand ready to support them in this effort.

The IMF also has a key role to play in helping low-income countries undertake reforms that enhance economic potential and inclusive growth, strengthen institutional frameworks, build long-term resilience to global shocks, and address underlying fragility and other challenges. That is why we must also work to ensure adequate financing of the Poverty Reduction and Growth Trust (PRGT). The United States demonstrated its commitment to the PRGT through a $70 million contribution to the subsidy reserve account last year, and we continue to urge Congress to authorize lending of up to $21 billion to support the PRGT as well as the Resilience and Sustainability Trust (RST). IMF management are urgently calling for additional pledges of $1.2 billion for subsidy resources. Although donor resources can help to meet the immediate need, putting the subsidy account on a sustainable footing will require further action. I see further scope for the IMF to mobilize its own internally generated resources to support the PRGT's longer-term subsidy needs. The IMF could fill a majority of the PRGT subsidy gap though a distribution and transfer of internal resources from the IMF's reserves, while still maintaining a strong buffer of precautionary balances, in part due to the recent uptick in lending. This would provide a way for all members to support low-income borrowers.

The RST was developed to help vulnerable countries build resilience to external shocks stemming from climate change and pandemic related risks. We welcome strong demand for the RST, and we must ensure RST resources are deployed as effectively as possible. Programs should be well grounded in climate diagnostics with careful analysis of the costs and benefits of reform measures and linkage to balance of payments pressures. Conditions should be focused on deep institutional reforms that are needed to build resilience to climate shocks. And coordination between the IMF and other institutions is paramount in order for RST programs to help countries achieve climate objectives. I welcome the recent joint statement on IMF and World Bank collaboration and call on the two institutions to further cement progress through more routine collaboration on World Bank climate diagnostic work that could be used to inform the upstream design of RST-supported programs. I also call upon the IMF to bring forward RST-supported programs designed around building resilience against pandemics, working with relevant partners with expertise in health-related projects.

As more countries turn to the IMF for policy advice and upper-credit tranche lending programs, it is critical that the IMF help countries correct underlying macroeconomic imbalances and undertake credible policy reforms that leave them on a more sustainable footing. The IMF must hold firm on necessary policy adjustments, as this speaks to the fundamental credibility of the institution, and because only sound programs that bring macroeconomic sustainability can put a country in a position to return to market access. The IMF's continued leadership in macroeconomic and exchange rate surveillance is foundational for all of its other activities. It must call out distortive economic policies that have negative global spillovers, and it should be a key priority of the IMF to urge its members to adopt greater transparency, especially regarding foreign exchange intervention, to ensure that the costs of domestic policy adjustments are not passed on to trading partners. We commend the IMF's work to operationalize the Integrated Policy Framework as part of its core mandate for assessing macroeconomic policy mixes.

The IMF plays a central role in supporting low- and middle-income countries in debt distress, including through the rigorous application of its debt sustainability analysis framework in guiding the debt restructuring process. Implementation of the Common Framework must improve so that borrowers in debt distress can receive predictable, timely relief to restore debt sustainability. I urge all official bilateral and private creditors to work together to improve the process. We must also work together to improve international coordination on debt restructuring for middle income countries. Most urgently, I call upon all official bilateral creditors to quickly finalize the debt treatment for Zambia and reach consensus on debt treatments for Ethiopia, Ghana, Sri Lanka, and Suriname. Enhancing debt transparency and management practices is critical for mitigating debt vulnerabilities and preventing future debt crises.

It is also important that the IMF adapts its policies to adequately address the changed debt landscape and support restructurings. We look forward to forthcoming proposals for adapting the IMF's financing assurances and Lending into Official Arrears policies to the evolving creditor landscape. We urge all creditors to provide timely debt treatments, but in cases where this is delayed these proposed policy reforms can help to mitigate the risk of holdout creditors blocking debtor countries' access to IMF financing and undermining their IMF-supported reform efforts. Strong safeguards are an important aspect of these proposed reforms to IMF policies as they will help promote transparency and predictability in the debt restructuring process and fair burden sharing among all creditors.

The upcoming review of the IMF/World Bank Low-Income Country Debt Sustainability Framework (LIC-DSF) will be another valuable tool for supporting successful debt restructurings. We see scope for examining the impact of climate change on low-income countries' debt sustainability, the challenges created by domestic debt risks, and the use of LIC-DSF thresholds in debt restructurings as key near-term priorities.

Addressing challenges related to economic governance, anti-corruption, and anti-money laundering and countering the financing of terrorism (AML/CFT) are critical to the IMF's mission given the macro-criticality of these challenges in many jurisdictions, particularly as the

IMF deepens its engagement with fragile and conflict-affected states. We look forward to the completion of the review of the IMF's AML/CFT strategy and call upon the IMF to step up its support to the Financial Action Task Force.

The IMF Executive Board also needs to be more reflective of women's voices where it continues to lag behind its peer institutions. We call on the Board to develop medium-term, voluntary objectives for strengthening gender diversity amongst Executive Directors and Alternate Executive Directors, coupled with efforts to strengthen the pipeline of candidates for these positions. Alongside our efforts to give greater voice to underrepresented regions, we must also create space for a greater share of women to join this most important platform. Setting a higher standard for diversity and inclusion should not stop at the Board and senior management but must also filter down to the staff level at the IMF. We welcome the strengthening of management accountability to achieve diversity and inclusion and remain committed to supporting the ongoing staff-led initiatives on this important issue.

I thank IMF staff and management for their tireless work as they address the numerous requests for IMF support around the world.