INTERNATIONAL MONETARY FUND

DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

October 2024

The global economy has remained resilient, and a soft landing is within reach. Global growth has been resilient despite a series of shocks and is projected to remain steady, and inflation has continued to moderate, although progress is uneven across countries. However, medium-term growth prospects remain weak, with the risk for the global economy to get stuck on a low growth-high debt path. While the low-income developing countries (LIDCs) continue to recover, many remain vulnerable, with significant scarring from recent shocks. The pace of convergence toward higher living standards has slowed, making it increasingly challenging to achieve the Sustainable Development Goals (SDGs). As inflation descends and approaches targets, monetary policy must ensure that inflation expectations are well anchored while supporting growth and employment. Fiscal consolidation is necessary to rebuild buffers, fund priority investments, and ensure long-term debt sustainability. Multilateral cooperation is essential to limit the costs associated with geoeconomic fragmentation, support efforts to address debt vulnerabilities, and harness the benefits while mitigating the risks associated with the green and digital transitions.

ECONOMIC OUTLOOK AND RISKS

The global economy has proved resilient …

The global economy has demonstrated resilience despite a series of shocks and a sharp tightening of monetary policy aimed at curbing inflation. Global growth for 2024 is projected at 3.2 percent, virtually unchanged from the April 2024 WEO.

… but medium-term growth prospects remain weak.

In the medium term, however, global growth is expected to remain underwhelming and broadly flat, with 5-year ahead projections at their lowest in decades, and structural challenges such as population aging, weak investment, and historically low productivity.

Growth amid AEs is expected to remain steady, with output in major economies converging as cyclical forces unwind.

The aggregate picture hides significant variations across countries. Growth in advanced economies (AEs) is projected to remain at around 1.8 percent in 2024 and 2025. However, country dynamics vary significantly, as economic activity gets back in line with potential. Growth in the U.S. is expected to decelerate in 2025 as fiscal policy is gradually tightened and consumption slows, while the UK and the Euro Area are expected to grow faster, due to stronger domestic demand (the UK) and a pickup in consumption and net exports (the Euro Area).

EMDEs are projected to grow

Growth outlook in emerging market and developing economies (EMDEs) is projected to remain broadly stable at 4.2 percent over the next two years. Emerging

at a stable pace in the near-term but with regional variations. Asia's strong growth is expected to subside, with China slowing down. In contrast, growth in the Middle East and Central Asia is expected to increase as temporary disruptions to oil production and shipping fade, assuming regional conflicts don't escalate and lead to new disruptions. In sub-Saharan Africa, GDP growth is projected to increase as the adverse impacts of weather shocks abate and supply constraints ease. Growth in emerging and developing Europe is expected to decrease in 2025, reflecting slowdowns in Russia and Turkey. In Latin America and the Caribbean, growth is expected to slow in 2024, rebounding next year. Many EMDEs face tight financing conditions, with elevated debt service crowding out development spending.

LIDC continue to recover but prospects remain less sanguine. LIDCs continue to recover, with 2024 growth projected at 4.0 percent compared to 4.1 percent in 2023, rising to 4.7 percent in 2025. Yet, challenges persist. Many countries are grappling with rapid increases in costs of living, short-term effects of macroeconomic adjustments in a context of high poverty levels, and deeply seated structural problems including lack of inclusion.

Inflation continues to fall, although progress is uneven across countries. Global headline inflation is expected to fall from 6.7 percent in 2023 to 5.8 percent in 2024, with the persistent core inflation driven primarily by services inflation, reflecting partly high nominal wage growth. Goods inflation, however, has declined to zero. While AEs have largely caught up with levels of activity and inflation projected pre-pandemic, developing countries show more permanent scars, and are more vulnerable to commodity price fluctuations.

The balance of risks has shifted to the downside. Adverse risks have gained prominence. Key downside risks include faster-than-expected cooling of labor markets and economic activity, sharp rise in financial sector volatility, sovereign debt stress, increasing trade protectionism, deepening geoeconomic fragmentation, new commodity price shocks due to either conflicts or climate shocks, and rising social tensions. However, upside risks are also possible, including strengthened drive for structural reforms and an acceleration of investments in advanced economies.

POLICY PRIORITIES

Central banks should secure price stability… Monetary policy should remain flexible and adjust based on the analysis of incoming data, to keep inflation expectations anchored while supporting growth and employment. Central bank independence and clear communication will be crucial for credibility, and to safeguard the ability to anchor inflation expectations. In countries where core inflation is persistently above target levels, central banks should maintain restrictive stance until there is clear evidence that underlying inflation has abated. Where underlying inflation is falling consistently and in line with expectations, transition to more neutral stance would be warranted.

…and closely monitor financial As countries follow different paths to disinflation, central bank policies may be less synchronized, leading to capital flow volatility, with pressures on the external and

sector developments.

financial sectors. The IMF's Integrated Policy Framework offers guidance tailored to country circumstances. Countries with shallow foreign exchange (FX) markets or significant FX debt may find temporary interventions or capital flow management measures appropriate, but these should not be a substitute for macroeconomic adjustment. As adverse shocks become prevalent, enhancing prudential frameworks is essential to help mitigate vulnerabilities. When risk-off episodes raise borrowing costs, authorities should monitor financial conditions and strengthen financial sector supervision. Where needed, macroprudential buffers should be rebuilt, central banks should be ready to support financial stability in response to market strains.

Fiscal policy should shift towards consolidation and ensure debt sustainability.

With high fiscal deficits, debt levels and debt service costs, fiscal consolidation is needed in many countries. Fiscal adjustments should be gradual but sustained and supported by credible medium-term plans and institutional frameworks. The pace of fiscal adjustment should be calibrated to country-specific circumstances and strike a balance between containing debt vulnerabilities and supporting private demand. Countries with high vulnerabilities or limited market access will likely require more front-loaded adjustments. Prompt action should be taken to restructure debt and restore debt sustainability where public debt is assessed as unsustainable. To support social cohesion and lessen the impact on growth, adjustments should be fairly shared and protect the most vulnerable as well as critical investment spending. Revenue mobilization should remain a top priority in LIDCs.

Advancing growth-enhancing reforms is key given limited fiscal space and weak growth prospects.

Reforms targeting structural weaknesses are crucial for reviving productivity growth, especially when fiscal space is limited, and growth prospects are weak. Key reforms include enhancing human capital by expanding healthcare coverage and increasing access to education; reducing labor market rigidity and increasing labor force participation; reducing barriers to competition and supporting start-ups; improving governance and advancing digitalization. Early engagement, clear communication and attention to distributional effects can help build consensus for difficult reforms.

Rapid implementation of climate policies is essential to meet global climate targets.

Comprehensive actions are needed to limit the rise of global average temperatures to 1.5–2.0°C above preindustrial levels. Green industrial policies should be designed to complement carbon pricing while avoiding trade distortions. Significant cuts of emissions are achievable by helping firms adopt frontier technologies. Investments in climate adaptation activities and infrastructure are essential for regions vulnerable to climate shocks, together with climate risk monitoring systems, insurance and safety nets to build climate resilience.

Multilateral cooperation is imperative to help build resilience in a shock-prone global economy.

Securing peace around the world remains integral to the economic and social stability needed to build prosperity. Effective multilateral cooperation is essential for addressing global challenges.

Further effort to address debt vulnerabilities remains critical. The Common Framework is delivering faster and more predictable debt treatments, though further efforts are needed to support efficient resolution of debt crises. Addressing current liquidity challenges has become critical and can be advanced through a 3-

pillar approach combining structural reforms and domestic resource mobilization, supported by capacity development (Pillar 1); adequate financial support, including from IFIs (Pillar 2); and actions to reduce debt servicing burdens, including through greater use of risk-sharing instruments to incentivize inflows from private creditors (Pillar 3). The Global Sovereign Debt Roundtable (GSDR) is helping build consensus on these debt and debt restructuring challenges.

Protecting the gains from global economic integration is essential. Protectionist measures are rewiring trade along geopolitical lines, which would lower market efficiency and slow knowledge transfer, with implications for the green transition. Countries should avoid discriminatory actions and harmful cross-border spillovers, to avoid escalation. To combat climate change, establishing a "green corridor" agreement will secure the flow of critical minerals essential for the green transition. Promoting a common platform for the transfer and regulation of new technologies to EMDEs can help foster global prosperity.

The global community should also 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. Global coordination on a carbon price floor differentiated by income levels, green technology diffusion and climate finance can advance progress towards the green transition.

Artificial intelligence (AI) offers potential benefits to productivity and growth, but also poses challenges, including job losses, rising inequality and financial sector risks. To prepare themselves for AI, countries need investment in skills and infrastructure and to develop regulations to mitigate risks. Efforts at the country level must be complemented by multilateral collaboration to ensure safe and responsible use of AI globally. The AI Preparedness Index developed by IMF staff measures progress in these areas based on a set of macro-structural indicators.

IMF SUPPORT

IMF surveillance and capacity development are adapting to new trends.

The IMF is mainstreaming its work on topics such as climate change, digital money, fragile and conflict-affected states, gender, governance, and social spending. The forthcoming Comprehensive Surveillance Review will analyze the future surveillance landscape, including trends related to demographic shifts, climate, digitalization, and fragmentation, while setting surveillance priorities for the next decade. To assist countries with growth-enhancing reforms, the IMF introduced a macrostructural reforms dashboard. The IMF developed the Early Warning Trade Tools and the New Industrial Policy Observatory to help members navigate trade and industrial policies.

The IMF's capacity development (CD) continues to strengthen institutions and provide training to help countries design and implement better policies, including in areas such as climate change, gender, inclusion, and digitalization. The IMF and the WB are implementing the Joint Domestic Resource Mobilization Initiative (JDRMI), which aims to help countries improve domestic revenue mobilization, enhance spending efficiency, and develop domestic financial markets. The enhanced IMF-WB cooperation framework to help countries scale up climate action became operational in July. Six new chapters of the Central Bank Digital Currency (CBDC) Virtual Handbook will be published in November 2024.

The Fund is adapting its lending toolkits in order to meet demand in a shock-prone world.

The Fund continues to adapt its lending toolkit to meet members' evolving needs. The recently completed Review of the Poverty Reduction and Growth Trust (PRGT) allows the Fund to maintain adequate financial support to LICs, while restoring the self-sustainability of the Trust. The Review of Charges and the Surcharge Policy reduces the cost of borrowing under the General Resource Account (GRA) while safeguarding its revolving nature and the strength of the Fund's balance sheet. The Fund will soon review the access limits under the GRA and respond to the upcoming IMF's Independent Evaluation Office evaluation of the exceptional access policy. The planned Review of Program Design and Conditionality will aim to improve program design. The Fund will also review the Short-term Liquidity Line. Demand for the Resilience and Sustainability Facility (RSF) remains strong, with twenty arrangements approved by the Board to date, and interest from around 30 additional countries. The RSF interim review fine-tuned a few design elements to enhance effectiveness. A comprehensive review is planned for 2026. The Fund agreed the Broad Coordination Principles with the WHO and the WB on pandemic preparedness to enable members to access the Resilience and Sustainability Trust (RST) for pandemic preparedness. We continue to rely on our economically stronger members to boost RST resources.

The Executive Board has approved the use of SDRs for the acquisition of hybrid capital instruments issued by prescribed holders, allowing members to channel SDRs to Multilateral Development Banks as part of their capital.

The IMF continues to support members address debt vulnerabilities.

Recently approved IMF debt policy reforms allow for more agile and effective Fund engagement in debt restructuring cases and provide stronger incentives for faster creditor participation. Together with the Bank, the Fund continues its active engagement to support restructuring processes, including under the Common Framework, and build consensus through the GSDR. The WB and the IMF are also advancing the review of the Debt Sustainability Framework for Low-Income Countries, to keep assessments aligned with current and emerging vulnerabilities.

Governance reforms aim to ensure IMF is representative of the membership.

With the 16th General Review of Quota (GRQ) concluded, and an approved increase of IMF members quotas by 50 percent, the Fund is working to develop approaches 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 next month.