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Address by **KRISTALINA GEORGIEVA**,
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to the Board of Governors of the Fund
at the Joint Annual Discussions

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The IMF's Role in a More Shock-Prone World

Thank you—Mr. Abdallah—for your remarks—and I am looking forward very much to Egypt hosting COP27 next month. I am so happy to see so many colleagues and friends here in person for the first time in three years!

I stand in front of you on behalf of the dedicated and hardworking staff of the IMF – I want to recognize them for their service to our members.

One of the Fund's founding fathers, John Maynard Keynes, wrote that the best economists: *"study the present in the light of the past for the purposes of the future."*

It's fitting to apply this framework to our own circumstances today— starting with the light of the recent past.

The past

Since we last gathered in person, the world has seen extraordinary upheaval. Pandemic, war, and record-high inflation driving a cost-of-living crisis.

For policymakers, the pandemic meant taking extraordinary action to shield households and firms from the worst effects. This was vital, but in the process additional spending reached **10 percent** of GDP globally in the first 18 months of the pandemic.

As crisis has followed crisis, many countries faced sharply reduced buffers and increased external pressures. The IMF stepped up to help—in fact, with an unprecedented response: **$260 billion** in new financing to **93** economies delivered at record speed just since COVID-19 hit. Since Russia's invasion of Ukraine, we have supported **16** countries with close to **$90 billion--** and a further **28** countries have expressed interest in receiving Fund support. This is on top of last year's historic **$650 billion** SDR allocation.

Even as countries tackled immediate and pressing challenges, vulnerabilities were building.

Supply-demand imbalances, pandemic-era policy support, and Russia's invasion of Ukraine led to severe inflationary pressures. Sovereign debts reached record highs in 2020 and are projected at **91 percent** of GDP globally this year, while accommodative monetary policy pushed up prices for riskier assets.

What we are experiencing is a fundamental shift—from a period of relative stability, low rates, and low inflation to a period of high rates, high inflation, and much greater uncertainty. And this comes as climate disasters become far more frequent and more extreme, and geopolitical tensions make global cooperation far harder.

We are entering **a new danger zone**—a world that is *more* fragmented, *more* fragile, and *more* prone to shocks that can quickly knock countries off course—often through no fault of their own.

After navigating extraordinary challenges over the past two-and-a-half years, further extraordinary challenges lie before us. Indeed, the path ahead is likely to be just as tough, if not tougher.

The Present

Turning to the present, the IMF's projection for global growth next year is **2.7 percent,** the fourth downgrade in 12 months, and there is a 1 in 4 chance it could fall below **2 percent**. Markets have been extremely volatile, and the risk of a recession is rising in many economies.

The biggest immediate challenge is to bring down inflation. We see central banks rapidly tightening policy, laser-focused on restoring price stability. This is the right thing to do, but it will come at a painful cost: growth will be slower and unemployment higher as monetary tightening ratchets up.

Formulating the appropriate fiscal policy is key. The priority must be to protect vulnerable households—with targeted measures to alleviate the impact of rising food and fuel prices.

At the same time fiscal policy must work *with, not against*, monetary policy. To avoid stoking inflation, any new spending must be offset by savings or new revenue.

The need to rebuild buffers and reduce debt makes this doubly important. The pandemic gave us a vivid illustration of why fiscal space matters and how crucial it is to address pre-existing vulnerabilities.

As policymakers determine the right balance of monetary and fiscal measures, they must also keep a watchful eye on stresses in the financial sector. Here, macroprudential policy must guard against the failure of systemic institutions, using selected instruments to address pockets of elevated vulnerability among nonbank financial institutions and credit markets.

Policymakers have an incredibly narrow path to walk—there is no room for missteps. Get it wrong and the challenges of the present could mutate into worse problems – prolonged low growth, entrenched inflation, or even sovereign debt crises with the risk of contagion.

On the other hand, a well-calibrated policy package would—over time—lead to more durable growth, more stable prices, and healthier public finances. More than that—we would see more resilient economies emerge, better prepared to cope with shocks.

The future

As we look to the future, the right choices can avoid the worst outcomes.

They begin with a more **proactive, precautionary mindset** to build resilience in a more shock-prone world. There are three pillars: **resilient economies, resilient people, and a resilient planet.**

First, resilient economies.

Even as risks rise, we must **strengthen fundamentals.**

Start with credible medium-term fiscal frameworks.

Why? Because grounding fiscal policy in a solid set of rules helps ensure a more predictable outlook and fosters macroeconomic stability. More importantly, credible frameworks build investor trust which helps governments maintain vital spending plans and stabilize their debts without the pain of sharp austerity.

Some countries are already confronting severe debt problems.

More than **60 percent** of low-income countries and over **25 percent** of emerging markets are in or at risk of debt distress. This will only get worse if interest rates rise further, the dollar gets stronger, and capital outflows increase.

An effective debt resolution mechanism is desperately needed. In particular, the Common Framework should be expanded, and *all* creditors—both sovereign and private—must take their fair share of responsibility. The alternative is the risk of disorderly debt crises which would harm everyone involved.

Of course, prevention is better than cure.

Better debt transparency and governance will help avoid situations of distress, so will a system to identify risks early. On both fronts, the IMF is actively advancing efforts to support our members.

In this way, we are applying a more **proactive approach**.

During the pandemic, we saw our precautionary lending reach **$141 billion—**a clear example of how early access to Fund support can help maintain liquidity and smooth adjustments.

And on the eve of these Meetings, we agreed a new Food Shock Window to provide additional IMF financing to those countries hit hardest by the global food crisis.

Going further, last year's historic SDR allocation helped shore up reserves across the whole membership. And the rechanneling of some of these SDRs continues apac.

Such measures are vital, but they are not enough. We must do more—and this brings me to **resilient people**.

The pandemic accelerated the shift to the digital and knowledge economy that's driving productivity and prosperity in the 21st century.

Investing in *all* aspects of human capital is a priority for *all* our members—from health, education, and social safety nets to reforms that boost equity and access to technology.

Again, a key challenge for policymakers. *Again*, the IMF is stepping up.

Already, we are advancing new strategies related to gender gaps and conflict into our work. Parallel efforts are ongoing in the fintech space to harness the potential of e-payments and central bank digital currencies.

The returns from these proactive and precautionary measures will be huge. Not only do educated, healthy, connected people adapt and thrive in new industries—they can also cope better with shocks, such as those due to the climate crisis.

Which brings me to the importance of a resilient planet.

Climate change is already compounding current challenges—undermining food security, disrupting supply chains, and jeopardizing vital infrastructure.

IMF research shows that done right and done now the costs of the green transition are manageable. Delay will mean bigger costs and enormous damage to macro-financial stability--and to people's welfare.

Again, the Fund is stepping up, supporting policies for mitigation, adaptation, and transition—and deploying all our tools, both lending and non-lending. In this critical area I'm pleased to report the Resilience and Sustainability Trust is now operational, and staff-level agreements already in place with **Barbados, Costa Rica, and Rwanda**, with many more requests in the pipeline.

Thanks to the generosity of our members, we are making good progress converting over **$40 billion** of funding pledges into firm contributions. Given the strong demand for this new facility, I ask those with stronger economies to do even more.

Let me conclude.

Since its founding, **the IMF has always adapted to a changing world.**

At every critical juncture, our predecessors looked ahead and asked: *Do we have the right tools and right resources for the world in which we live?*

This is another such turning point and we must ask ourselves the same question. Finding the right answer will mean **exploring all options** to ensure we can be there for our members—well funded and fit for purpose.

I want to conclude by thanking **our Executive Board and our entire membership,** for your continued support.

You have shown that as the forces of fragmentation struggle to pull us apart, the Bretton Woods institutions continue to bring us together: **190 countries cooperating** on issues that matter to us all. Every single day.

I look forward to your continued support and solidarity as, together, we embrace the spirit of Keynes to build a more resilient world for all—and an *IMF for the future.*

Thank you.

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