



Transcript of IMF podcast:

FP Live with Kristalina Georgieva and Gita Gopinath

Kristalina Georgieva:

We have to learn to deal with more than one crisis at one time, and we at the Fund. We have a tremendous role to keep our 190 members able to talk with each other and reach consensus on these big, big challenges the world faces.

Bruce Edwards:

Welcome to this IMF Podcast. Today, a somewhat abridged version of a Foreign Policy Live event, where the magazine's editor in chief asks the IMF, how governments should respond to a growing number of challenges facing the global economy... From the war in Ukraine to the ongoing issue of vaccines for developing countries.

Gita Gopinath:

I think a mistake governments make is to assume that they are providing developing aid to countries to help an individual country in this crisis. This is not about development aid, this is about preventing a global systemic crisis, which has consequences for everyone's economies.

Ravi Agarwal:

Hello, and welcome to FP Live, Foreign Policy magazine's forum for live journalism. I'm Ravi Agarwal, FP's Editor in Chief. And it's my pleasure to be your host for the next 40 minutes or so. I have two important guests joining me today. The IMF's two top leaders... Managing Director, Kristalina Georgieva and First Deputy Managing Director Gita Gopinath. This is the first time two women are holding the top two positions at the IMF, and appearing together. Welcome Kristalina and Gita, it's a real pleasure to have you here with us today.

Kristalina Georgieva:

Great to be with you, Ravi. Thank you for the invitation.

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Gita Gopinath:

Thank you, Ravi.

Ravi Agarwal:

Great to have you on.

Ravi Agarwal:

Kristalina, talk us through the global economic impacts from Russia's invasion. So obviously crude prices have soared, even more worrying is the fact that Ukraine and Russia are major suppliers of wheat, barley, even fertilizer, all of which will just have immense impacts on the developing world. What aspects of this right now are worrying you the most?

Kristalina Georgieva:

Well, let me start from the fact that Russia invaded Ukraine when the world economy was yet to fully recover from the COVID 19 crisis. What we were striving for is for growth to go up and the inflation, that has become a problem, to go down. Instead, we had the exact opposite, growth is going down, inflation is going up. And we are assessing the impact of the war and the sanctions in different parts of the world and different categories of countries. So let me briefly walk you through. First are the immediate neighbors of Russia and Ukraine that have relatively weak economies, the Caucasuses, some of the central Asian republics, Moldova, they rely on trade and remittances, especially with Russia, this is now brought to a stop. These countries are very impacted. Second, are the countries that are receiving refugees. We now are at 3.3 million in neighboring countries.

Kristalina Georgieva:

They're putting a demand on these economies that if the war continues for a long time is going to be quite profound. Third, are the countries that depend on imports of energy and food from Russia and Ukraine, energy primarily, of course, from Russia, food from both Russia and Ukraine. And it is devastating for those that have high level of dependency. To put it very simply, a war in Ukraine means hunger in Africa. So when we look at these lines of dependency, what we are doing is looking at best policy action that can be taken in different circumstances. And let me frame two. One, it was important before more important today, focus on the most vulnerable people. Those for whom higher energy and higher food prices mean devastation. We encourage countries to direct the little policy space they have to those that are most vulnerable. And second, look at ways in which you can anticipate further developments in policies, especially, central bank monetary policy, and then try to stay ahead of the curve.

Kristalina Georgieva:

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What does it mean? If a country has high level of dollar denominated debt, please check your currency mismatches, think about possibly re-profiling your debt early. Don't wait until there is a shock directly hitting you. Many of our members are now more intensely engaged with the fund and I can state clearly we have the financial capacity to support them, we have about three quarters of our one trillion lending capacity available. And two, we are intensely concentrated on the specific policy recommendations we need to give to countries that as I said, are faced with different impacts from this crisis.

Ravi Agarwal:

So, Gita, let's try and just delve into this a little bit deeper. If you think of the countries- just to take food, for example, the countries that were importing much of their wheat from Ukraine, so say Lebanon, for example, got 50% of its wheat from there, countries like Bangladesh also relied on Ukraine a fair bit. How worried are you about food inflation, and also what can the IMF do to help supply chains get reoriented?

Gita Gopinath:

I think the issue of food insecurity was always quite salient before this crisis, but it's become even more salient. Russia and Ukraine together account for about 30% of world's exports of wheat, it's around 15% for corn. And we may not have seen the full effect yet because we know, for instance, for wheat, what matters is the harvest that's coming around this summer. And with disruptions to that harvest in the summer, we could see even bigger effects in terms of food reaching different parts of the world. So food prices have gone up in many parts of the world, that just means lower real incomes because they have less money to spend on other things. But in other parts of the world, like Kristalina mentioned in parts of Africa and the middle east, and Asia, as you mentioned, we are talking also about real hunger.

Gita Gopinath:

We're talking about food insecurity, and the social tensions that come along with it. So this is a major concern and the longer this war lasts, the more grievous the problems become. In terms of what the IMF can do, as you know, we stand ready to help our members who are dealing with balance of payments needs, and that includes their ability to get imports of food and other essential needs that they have to meet. So we are there for their essential balance of payments needs and we can help. In terms of just the supply chain and where to get foods from, I mean, that's not our comparative advantage, but we work very closely with all the other partners of the international multilateral system to help countries address their needs as best possible.

Ravi Agarwal:

Yeah, I can imagine. Kristalina you've mentioned that the fund will likely look to downgrade the global economic outlook. Are you able to tell us how far and more broadly, what are the larger repercussions of slowing growth this year?

Kristalina Georgieva:

We will have our growth projections presented in mid April, and at that point we will be able to report on how we assess the impact of this war on the global economy in more details. Our expectation is that what we had in the beginning of the year, which was a small downgrade of growth projections for 2022 by half a percentage point to 4.4% is going to go down further, but would still remain in positive territory. Some economies that have been fast to recover from COVID are in a stronger position to face the impact of this shock. And there, the likelihood of more positive growth is higher, I mean, the United States has fairly stronger fundamentals. But those that were not yet coming out of the COVID crisis, that were falling further behind, they're going to be hit even harder. And that is where I find it particularly concerning that we are going to see possibly risk of recession in these countries where shock comes on top of weak economy.

Kristalina Georgieva:

The issue that is very concerning, of course, is the impact on inflation. It was hot before this crisis, it got hotter, and what does it mean? Of course, it means that there will be impact on real incomes of people and that may have implications for demand. But it also means that central banks are going to be asked to step up their actions. And we are already seeing Chair Powell announcing that that is coming- and rightly so. But for many emerging markets, tightening of financial conditions is going to be a big shock. And what I want to say today is that they have policy measures to respond, use them early. I'm particularly, worried of low income countries in debt distress. Remember, Ravi, 2015 we were concerned that nearly 30% of low income countries were in debt distress. And we are now in a situation in which that percentage doubled, now we have 60% near- or in debt distress. Just imagine what is the impact for them of a slowing global economy and accelerating inflation with policy actions taken, rightly so, to tackle inflation but having suffocating impact on them.

Ravi Agarwal:

That's very worrying indeed. I'm going to bring in some of our viewer questions now, and Gita, I'm going to put this one to you first. It is from one of Foreign Policy's columnists, Adam Tooze, I know you're both familiar with his work. He writes in to say that the IMF was extremely vocal and clear-sighted in calling for a concerted global vaccine response to COVID. Adam specifically sites the two of you as being at the forefront of this effort, making clear that there was a huge payoff to vaccinate the world, I remember the data when it came out as well. And yet your appeals went largely unanswered. So the moral judgment on this is obvious, the world failed. But the question is, and I ask you to now think of this question of the failure to vaccinate the world as economists, they're essentially a trillion dollar notes just lying on the sidewalk. So Gita, what's your take on that missed opportunity, what it does for the economy and also what it does for trust in the global economic system?

Gita Gopinath:

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Well, say hi to Adam. On what was needed from the global community to address the health crisis, I believe they fell short. I think without a doubt, they fell short. Progress was made, so I can also put this in terms of a glass half full, which is that efforts were made. There were clearly pledges of vaccine donations, there was part financing of the act accelerator, there were part donations to COVAX, but not on the scale and not with the speed with which it was needed last year. Now we are in a situation where there is enough supply that has come through and countries are receiving sufficient supplies, including low income countries, but there is now an absorption capacity issue and also a vaccine hesitancy issue. But given, again, how clear the economic benefits were to moving quickly, it is disappointing that not enough was done quickly enough. And it's not too late to do the right thing because the pandemic is not over.

Gita Gopinath:

If you just look at the chart of global cases on COVID over the last two weeks, they've been going up as cases have gone up in Europe and in Asia. So we still have the opportunity to do this right. It concerns me that when you look at budgets that governments are thinking less about supporting the rest of the world. I think a mistake governments make is to assume that they are providing development aid to countries to help an individual country in this crisis. This is not about development aid, this is about preventing a global systemic crisis, which has consequences for everyone's economies. So the budgets have to be more generous and much more needs to be done. It's quite clear that COVID-19 is now here for the long term. We could have a mild endemic scenario, that's one possibility, but from everything we hear from experts, there are very serious risks of much more serious downsides. So it's important for us to get the job done now.

Ravi Agarwal:

Kristalina, I want to bring you on a very similar point. So, as you were saying, the guidance was clear, the economic ramifications were clear from both of you, and yet the world didn't rise to the occasion, which is not great. And this was on an issue that was very clear cut, I remember the data, it was very clear cut. What does this then mean for issues that are maybe not so clear cut where the world needs to collaborate? I know that you're an environmental economist by training. So for example, what about the global push to achieve net zero carbon emissions? How do you then incentivize the world to cooperate on that when they couldn't on something that was far more clear cut?

Kristalina Georgieva:

It is a very pressing question for all of us because a climate catastrophe is virtually putting at risk our existence, and avoiding it is in everybody's interest. When you look at the pandemic, we call for 50 billion to turn it into benefits of trillions. It is exactly the same when we talk about climate. The advanced economies promised 100 billion a year starting 2020, and we are yet to see the 100 billion a year materializing. They need to go to the developing world to help the developing world cope with

emission reduction and adaptation to climate risks. What was encouraging and remains encouraging, in my mind, is that the private sector finance has finally gotten that message. It was incredible to see in Glasgow the presence of finance ministers, central bankers, and private sector, financial institutions on a scale I have never seen in a climate meeting. So my view is that institutions like the IMF and others, we have tremendous responsibility to make the economic case for climate action and be very forceful in demonstrating the benefits of this action for everybody.

Kristalina Georgieva:

We have been doing that, we came up with a very simple, straightforward framework for how the world can unite on climate, which is one, send a clear price signal that emissions have to go down, in other words, carbon price. As economists, we know that when you have the right incentive, consumers and producers change their behavior. We even put the quantitative line, we said, today it is about \$3 to \$4 a ton, by 2030, it has to be \$75 a ton. Everywhere we need to get gradually in that direction. Two, we said, public investments need to powerfully inject emissions reduction, climate resilience, and use it on a scale that really transforms pathways, but mostly to remove barriers to private investors to step forward. And number three, data for financial institutions, make disclosure of climate related financial stability risks visible to those who make investment decisions.

Kristalina Georgieva:

We are working on all these fronts. And actually, I should add one more point, Ravi, that is probably in this environment of high energy prices even more important. Compensate the losers, make it a just transition, recognize that some gain but some lose from it. And a fair society within countries, across countries can at a very low cost inject this transformational moment. I worry not so much that this year we will see some increase in emissions because of reliance to coal... to whatever energy source is available. I worry much more that this year we seem to be taking our eyes from the ball, the pandemic ball, as if COVID disappeared, the climate ball, we cannot afford this. So my main message to the audience is we have to learn to deal with more than one crisis at one time. Because we live in a more shock prone world. And we at the Fund, we have a tremendous role to keep our 190 members able to talk with each other and reach consensus on these big, big challenges the world faces.

Ravi Agarwal:

That's so important, Kristalina. Gita, let me bring you in back for a couple of questions from our audience, both are on sanctions. I'm going to put them both to you at the same time, but you can take them together. One is from an FP subscriber who asks, if you think the sanctions and freezing of Russian assets will result in urge for an alternate currency to the US dollar and what kinds of disruptions that will have on global trade and the economy. And as you mull that one, Carol High asks a related question, about how successful and impactful the IMF views economic sanctions to begin with, given that historically Iran and North Korea have been sanctioned, but those situations were still unresolved. Gita.

Gita Gopinath:

So these are important questions coming up, given the events we are living through. I think it's fair to say that events of the kind that we've had, in fact, this year and over the past year has important implications for the global economic order. To the question of, very quickly if I would, if you asked me today about, does this imply the imminent demise of the dollar? I would say flat out, no. That is not the case. But what we are seeing around the world is increasing fragmentation of payment systems that probably will further increase following this war. We are certainly seeing changes to global trade, for a fact, we know that energy trade will never look the same again after this war. And we are likely to see some countries reconsidering how much they hold of certain currencies in their reserves.

Gita Gopinath:

So fragmentation is indeed an important concern. And we know that typically, and I've worked on this issue of what generates a dominant currency, is usually currencies have complimentary roles, they have a role in a payment for payments, they have a role as a store of value. And if we find that there are parts of the world that are moving on to making trade payments in another currency, not the dollar for instance, or they starting to save in other forms of currency assets, then we could see pockets where we might see shifts happening.

Gita Gopinath:

Now, the longer this war continues and depending upon how it rolls out, and I'm just hoping that this ends as soon as possible, but we could see much more larger effect. In terms of the effect off the economic sanctions, now, I think it was well justified, the economic sanctions that were imposed following Russia's invasion of Ukraine. What we are seeing in terms of the effect on Russia's financial markets, on the ruble, they are quite dramatic and they will be the very large, the effect. We will have an actual assessment in terms of the economic consequences when we put out the World Economic Outlook in April. But these would have very serious economic consequences for Russia.

Ravi Agarwal:

Gita, I just want to add to that, a very related question from Alexander Kravitz, are you concerned or is the IMF concerned that cryptocurrencies could be used by Russia evade sanctions?

Gita Gopinath:

We've certainly seen an increase in the use of cryptocurrencies before this war, and we've seen it have happen more in emerging markets than in others. I think parts of the world where there's less financial inclusion, where people have less access to more regular forms of credit, cryptocurrency and other related forms of digital currencies can start playing a very important role. We don't really have a clear picture at this time of how much of this particular war has triggered an increase in the use of

cryptocurrencies, it's not an easy picture to put together. But we are tracking this very closely, and I think in terms of the implications for the global economic order, I think that it's fair to say that the recent events will accelerate consideration of central bank digital currencies more widely around the world. And we need to be particularly careful of the regulation that's needed to ensure that the new forms of digital money don't lead to evasion of capital risk flow restrictions, especially for emerging and developing economy. So I think we need to have a lot more work done on the regulatory front on crypto and digital money.

Kristalina Georgieva:

And actually our Board of Directors just months before the war started approved an expansion of our work on digital money overall. Because even without the war, it is very clear that the pandemic accelerated digitalization overall, and the application of digital money is on steroids. I just want to give you one anecdote. We surveyed our membership on interest in CBDC- in central bank digital currencies. And to our greatest surprise, more than 100 of our members are at some point of investigating the applicability of CBDCs, piloting CBDCs and of course, some already having them in place. So when we look this fast moving development, we can break it in three buckets. One is central bank digital currencies, there the most difficult question is interoperability. As Gita said, we see fragmentation in payment systems, will CBDCs based on different technologies fragment it even more?

Kristalina Georgieva:

And there we see a role for BIS, for the Bank for International Settlements for us at the IMF to build tunnels that connect these different CBDCs to make that fragmentation less damaging for the world economy or even minimize it. The second bucket are the private digital monies, stable coins that are backed by assets. In other words, they're more stable. And third issue is regulation, if they're properly regulated, they can play a very positive role. And then comes the stable coins that are less stable, in other words, they're not really backed that much, and the crypto assets like Bitcoin. And there- time has passed to have regulatory frameworks that are as much as possible harmonized around the world. And I do hope that what we now see that there may be more attention to this topic translate into appropriate policy action.

Ravi Agarwal:

I hope so too. Kristalina and Gita, I'm afraid we're out of time. I know both of you have hard outs, so I'm going to let you go. But thank you very much for joining us and for having such a wide ranging discussion.

Kristalina Georgieva:

Thank you.

Gita Gopinath:

Thank you.

Bruce Edwards:

That was IMF Managing Director, Kristalina Georgieva, and First Deputy Managing Director, Gita Gopinath speaking at a Foreign Policy live event with Ravi Agarwal, the magazine's Editor in Chief. You can watch a webcast of the event at foreignpolicy.com/events or at imf.org. Look for more IMF podcasts on Apple podcasts or wherever you listen and leave us a review. You can also follow us on Twitter @IMF_podcast. I'm Bruce Edwards. Thanks for listening.