CONVERSATIONS WITH MIKE MILKEN

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Mike Milken: As I think about the assignments you've had at the European Commission, the International Cooperation and Development, Humanitarian Aid Crisis Response, environmental economist when you first joined the World Bank, it's hard to believe a person was better prepared to unfortunately face this crisis.

Well, the crisis we face is truly a crisis like no other. We cannot overcome this crisis unless we come together. That means bring all shareholders of the IMF, all 189 governments together, but also make sure that we think of private-sector solutions. Therefore we reach out for the ideas that private sector generates and solutions that it offers; we make sure that we have the active civil society engaged. We partner with epidemiologists and their modeling to make our macro-economic projections; this has never has been done before in the history of the IMF. Bringing everybody together is paramount because of the high degree of uncertainty we face. I know from my work as a crisis commissioner that to succeed you really have to pray for the best, but prepare for the worst. We need to think of the upside of a scientific solution that comes fast with vaccine and treatment, but we also have to be ready to recover and to build the economy upwards even if this solution is not yet in our hands.

This interview has been lightly edited for clarity and readability.

We first and foremost focus on people, on their health, on the vulnerable parts of the economy, and make sure they are first in line to be protected. For this we have done an unbelievable deployment; never ever in our history have we provided so many lifelines at the same time. In seven weeks, 70 countries received financial support from the IMF. And as we are looking forward, this unity of purpose, of institutions, the private sector, the energy and innovation that comes from people, this is what is going to take us forward.

Kristalina, could you give us a feeling of how you've shortened the decision process? You've talked about 70 actions in a short period of time, but some of them have required cooperation with the World Bank or the European Commission and other organizations. Have you been holding regular sessions with these other leadership groups?

We have regular meetings with the development banks. In fact, I just got off the phone, talking to David Malpass, the president of the World Bank. We are also bringing on issues like Africa – how we can help a continent that has been on the move and now it may lose momentum by bringing everybody, of course the Africans themselves first and foremost, but everybody that can contribute and keep attention to the objectives we have set up for development. I have never seen such a strong, massive, phenomenal action on the monetary policy side: central banks stepping up with everything they have, cutting interest rates, increasing asset purchasing; $6 trillion of new assets purchasing. We are coming close to $11 trillion of fiscal measures to put the floor under the economy. If that didn't happen, we would have had massive bankruptcies and possibly structural unemployment for a long time to come. So yes, I take pride of what we do at the IMF. But I want to recognize that in this unusual time, you're stepping up like never before. Governments are stepping up like never before, and institutions like mine are stepping up like never before.

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We're moving more and more to a digital world. We're going to analyze all the data and tell us this is what could happen, and our goal has to make sure it didn't happen. You started as an environmental economist at the World Bank. You've been a leader in the focus on the environment and the society we live in. Today we see more than 170

economies not growing any longer, but now declining. What is the collateral damage that you're concerned about and that you're addressing today in these areas?

The downturn is going to be more severe and the recovery is going to be slower than we anticipated in April. We also know that some of the measures that are taken to put the floor under the economy will have longer-term, unintended or undesirable consequences. Higher debt, we all already are projecting highest debt levels for a long, long time; higher deficits, and these are obviously these are problems to be addressed. The fact that there is so much liquidity helps countries and helps companies, but it is leading to asset valuation’s going up and up and risk appetite up and up. That is something that we have to be watching very carefully, because if there is a shock of some kind, and then we see bankruptcies, especially in the corporate sector on the larger scale that could push us backwards in a very dramatic manner.

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When I think of the risks, I'm also very mindful of the collateral opportunity. The biggest collateral damage would be if we sleep through a huge opportunity to shift gears in our economies and our societies for the better. Is this going to be a winner for few, but not for everybody? If this is the case, we're digging a big collateral damage called ‘growing inequality and lack of access to opportunities.’ Are we going to build back, in other words, the economy as it was before the crisis? Anemic growth? Low productivity? Climate crisis looming? Or will we build forward? We would create incentives for low carbon climate, resilient environmentally sustainable growth, job-rich, and environmentally sustainable. So that's to me, to finish on your question, the biggest collateral damage would be our complacency. But I believe in you. I believe in people around you. I believe we are not going to allow this to happen. So maybe you can give me some assurances, Mike: you can say, ‘yes, Kristalina, don't worry not going to happen.’

I don't think any of us want to let that happen. As you pointed out, these issues of inequality were rising long before the coronavirus. One of the things that brings me hope is the recognition of what is an important job. Is it the person who’s providing food? Is it the person who is handling distribution? I hope that as we look at jobs, we will look at them differently. As we focus on infrastructure and growth, as you've

pointed out, creating this digital infrastructure around the world is exceedingly important. So you gave us a little peek at the IMF report that is coming out shortly, and your answer is slower growth than we expected and longer time for a recovery. Are there things that the private sector could do that you would call on us to respond to?

The private sector is the job creator and the job protector. What I do hope is to see more attention to using the instruments governments are putting in place to protect jobs. We have to start thinking about a recovery in which some sectors are going to be affected more than others. We know hospitality, tourism and transport jobs may be lost for a longer period of time. So we have to gear towards a recovery in which perhaps we concentrate on generating jobs where there is a likelihood of faster recovery. The private sector certainly, by deploying investments in the next months and years, can help. It can help tremendously with reskilling, upskilling of workers, and it can help tremendously by adopting a longer-term outlook in which factors like sustainability and inclusion matter equally. If we want to have dynamic economies, they have to be inclusive. Every single day, 400,000 children are born on this planet. They don't choose their race. They don't choose whether they are born in a rich family or a poor family. In other words, it's kind of a lottery at the start, but it needn't be a lottery for the future. There has to be clear thinking around equality of opportunity, access to education, to financing, to jobs so we actually tap into the potential of all these people. And when we tap into the potential of everybody, the private sector knows what happens: we have higher productivity, higher profitability. But we need you to be a strong partner in thinking about these issues and acting with your investments, with the messaging to your workers and to society. Stay on that message.

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I think we're all focused on that. My feeling is this worldwide crisis is a wake-up call for all of us. As we look at responsibilities, what are the World Bank's responsibilities? What are the IMF responsibilities? How do you break down the leadership in these different areas?

For the IMF, it is financial stability, growth, employment. For the World Bank, the focus is development and poverty eradication. Clearly what we do and what they do connects; there would be no growth if there is no financial stability. What unites all of us is global solidarity, international cooperation for the sake of everybody being better off, but also not to leave countries and people to fall so behind that it is devastating for them and their families, and they have no option but to turn possibly to very bad choices – terrorism or putting their lives at risk. We have a unity of purpose among all these institutions. And I'm so incredibly lucky that I have seen each and every one of them from inside, so we can build this corporation even stronger.

Kristalina, in the 1980s many of the emerging countries had borrowed, particularly in U.S. dollars, and the weakness of their currencies put them in a very difficult period and the payments on those currencies. How is the IMF and others responded in this crisis?

Countries have learned a painful lesson. A vast majority of emerging markets have built strong fundamentals; they have reserves, they have sound macro-economic and monetary policies. And it shows in this crisis. Remember, in March, there was panic that markets were closing on emerging economies: no access or very high yields. But because of the strong fundamentals, once there was more liquidity in advanced economies, emerging markets returned very effectively and they're issuing even more so they can boost their economies, protect their people in this crisis. What we are saying is very simple: in good times build your strength for bad times. It has proven to be right, and we hope more countries will do that.

Then we have some economies that are either under significant debt distress or they're very fragile for reasons often not of their making because of wars, because of natural disasters. For these economies, what is paramount is that we and the World Bank and others are there for them today; that we provide financial lifelines at the scale to stabilize them in the face of this crisis. But also we need to recognize that there would be some countries that we'll have to look at their debt levels and take steps to a debt restructuring. We all know there are countries already doing it, like Argentina and Ecuador. There would be some others that would have to go through this process and what I'm praying and actually turning to our audience is that we would all have the maturity to act in a responsive, responsible manner to make sure that these economies go to that sustainability and they can stay there. They can grow. And that we do that with a clear understanding that these orderly defaults are very bad for everybody. If we didn't do these stabilization and micro-policies, the risk of this

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disorderly defaults today would have been much higher. But it is not. And yet, it is not zero. So our policy engagement is very strong everywhere, but it is particularly focused on the countries that are more vulnerable. The same way people with preconditions are more vulnerable to the virus, weakened economies are more vulnerable to the economic shock we experience today. So they need more of our help.

Today we have two factors: one, the enormous involvement of both countries and agencies such as yourself and record issuance of debt, interest rates very low. On the other hand, we now have as a partial result, surging equity markets around the world with more than $10 trillion of equity being created in terms of value. How do you reconcile this and how do you think the future will deal with these issues?

The good news is that after the global financial crisis the world's banking system is stronger. The IMF invented stress testing. So it is stress-tested at a very high level of shock. Where we are concerned is in two places; one is the non-banking financial institutions; they are not subject to the same scrutiny and supervision. Even before the pandemic, this part of the financial system was growing. We need to pay more attention. And then comes asset valuation. The asset valuation has gone almost where it was in January, whereas the real economy is falling way behind. A big source of it is the confidence that is provided by decisive actions of governments and central banks. Not just the money, I mean, the money is very important because you have money to buy assets. But it is the confidence that there is a floor under the economy. We are concerned that should there be another wave of the pandemic, then the risk of bankruptcies goes up, then we may have a dangerous situation. So what we are telling everybody is just be careful. Watch it; we are not out of the woods yet. There will be more agility in public policy because now policymakers recognize there isn't certainty. So they would be appropriately shifting policy measures to direct more resources where they would be most helpful for recovery while the pandemic is still with us. Be careful. Watch it. Stay vigilant.

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I heard from my father when I was a very young boy at eight, that if there isn't opportunity and hope that we can all succeed based on our ability and have equal opportunity, that it will not be a good world for all of us unless each person feels that

way. You've reminded us once again. You've also reminded us of the 400,000 children born every day in the world that we have to make sure they have hope and opportunity. As you've seen in so many crises in your life, if people don't have hope, decisions they are making might be detrimental to all.

So one, I want to thank you for your service for decades. Two, we are so thankful that you are in this position at this time at the IMF. And third, we hope that the optimism expressed by financial markets turns out to be true with either medical solutions or other opportunities. We wish you the best. And thank you for joining us today.

Thank you, Mike.
