SHAPING THE FUTURE OF FINANCE: A CONVERSATION WITH IMF MANAGING DIRECTOR KRISTALINA GEORGIEVA

Gerard Baker 00:02

Good morning, everybody. Thank you very much for that introduction. It's great pleasure to be here with the managing director of the IMF. Think it's fair to say, Kristalina, that being Managing Director of the IMF is challenging in any circumstances. You're dealing with uncertainty the whole time. I think it's fair particularly to say right now that the uncertainty you're dealing with, I think you yourself described it as off the charts in a speech at the IMF Spring Meetings last month. Obviously, we are seeing extraordinary disruption to the global economy, potentially to the global financial system: the Trump administration pursuing a radical departure from economic policy that we've seen over the last 20 years or so. I thought I'd start by quoting to you from the IMF mission statement. I actually went and looked and the IMF does have a mission statement, and apparently you have three missions: furthering international monetary cooperation, encouraging the expansion of trade and economic growth, and discouraging policies that would harm prosperity. So I'm wondering, Kristalina, how's that working out for you right now?

Kristalina Georgieva 01:03

So let me say we have the best mission out there. And needless to say, what we have seen over the last years is a world of more frequent and unexpected shocks. And what is amazing is that the world economy has proven to be remarkably resilient to these shocks. We had COVID, then we had the war in Ukraine, then we had inflation. Now we have remake of trade relations in a very dramatic way. And yet, when you look at the performance of economies, it is actually impressive. Why? Why is it that the world economy has been so resilient? It's a little bit related to the mission of the Fund, because since the global financial crisis, countries have worked hard to build sound macroeconomic fundamentals, and this is paying off at the time of shock. This being said, clearly we are experiencing a significant turbulence in global trade. And I want to reflect on two questions: Why is this happening? What are the consequences? Why is it happening? Well, if you look at the effective global tariff rate and the US tariff rate, over a long period of time, US would be low and stable, and the world would be much higher and kind of gradually going down towards the United States. And then it stopped. Then we got into a decade in which this convergence disappeared, one. Two, on top of this, we have seen non-tariff barriers popping up left, right, and center, and irritants that people in this room are very familiar with, like intellectual property theft, like intrusion of the state where it doesn't belong in quite a number of countries. So we do have a world in which the faith in fair trade has eroded. I also recognize, in the United States, that sense that jobs have gone overseas because they were taken away by unfair competitive practices. This sense is very, very strong, and my point is that things never happen for no reason. Where we are is for a reason. What are the consequences? Well, they are significant because we are now going from a predictable trade regime that we had before to what is going to be eventually a new equilibrium. But the way from here to there is very uncertain. And the transition price, what the world is paying for, that shift from one equilibrium to something new, is not trivial. We have downgraded our growth projections for this year from 3.3 to 2.8 percent. We are not predicting a recession, but we are saying [that] uncertainty, as you recognize, is very high.

Gerard Baker 05:00

And you've also upgraded inflation expectations, especially...[inaudible]

Kristalina Georgieva 05:03

We actually—in advanced economies we said, what we are saying is—it's more complicated. I'm sorry, it's more complicated than that. What we're seeing is, in advanced economies that are subject to massive supply shock like the United States, we expect that inflation would trend up. Why? Because the supplies are not coming. The demand is still there. It pushes prices up. But in advanced economies that are experiencing a demand shock, think of the European Union—in other words, they are subject to tariffs, they are seeing, possibly, their inflation expectations streaming down. And if you go all the way to China, China is likely to face deflation, because the demand shock on China is very severe. So, bottom line, this inflation continues globally, but at the slower pace, and in different countries, it is differently presenting.

Gerard Baker 06:13

But that combination, as we know, poses particular challenges for policymakers.

Kristalina Georgieva 06:16

Oh, yes.

Gerard Baker 06:17

Lower growth, higher inflation. You can call it stagflation, if you like. Some of you are old enough to remember what it was like in the 1970s and, as you said, your economists in the "World Economic Outlook" dramatically downgraded growth forecasts, especially, again, for the advanced economies. Is it—given that, given what we might call the Trump shock, because it is that, I mean, three months ago, your economists were predicting relatively solid growth and benign inflation. Given the Trump shock, can the world—how does the world—how do policy makers respond given this double effect of slower growth and accelerating inflation?

Kristalina Georgieva 06:54

Well, the first thing I saw during the Spring Meetings (where all policymakers come to Washington twice a year, they were there a week ago), was anxiety. They came very anxious: What are we going to do? And then as the week progressed, that sense that there must be a path to address differences, and for some predictability to return. And I want to praise Secretary Bessent because he did a really great job to calm down people by sending this determination to reduce uncertainty. So people came very anxious, they left less anxious, but anxious nonetheless. What do I expect to see? I expect to see a lot of flurry of activity around trade relations. I expect to see more bilateral agreements, more plurilateral agreements. But I also expect to see countries finally doing what they should have been doing anyway.

Gerard Baker 08:12

Which is what?

Kristalina Georgieva 08:12

In other words: two things. One, trade more with each other, neighbors. ASEAN now is going to integrate more; Gulf Cooperation Council to integrate more. And two, and the second is very important. These reforms that we advocate for, because of our mission and mandate, that have been postponed: delayed, postponed no more. If there is anybody from Germany in the audience: Bravo, Germany! Any Germans?

Gerard Baker 08:46

I'm sure there are.

Kristalina Georgieva 08:48

Because Germany, for many years, has been reluctant to reform the debt break and as a result, suppressing its ability to expand the economy.

Gerard Baker 09:06

Right.

Kristalina Georgieva 09:06

Now, the debt break is being reformed.

Gerard Baker 09:10

But that brings me to another policy challenge, because—and one of the things that you've identified in your global policy agenda, which is about fiscal policy and about ensuring fiscal stability—as you say, Germany, you know, it has the room, given its recent fiscal past, to release the debt break to be a little more expansionary. The US, of course, and many other major advanced economies, don't have such a luxury. US already has debt-to-GDP ratio of 100 percent, it's got a fiscal deficit right now probably around 7 percent this year, we may have a big tax cut which could possibly increase the fiscal deficit. So you've got—again, you've got this combination of weak growth, potentially weak growth, potentially accelerating inflation and, at the same time, accelerating fiscal concerns. How do you see the world, the major economies adapting to that?

Kristalina Georgieva 10:00

Well, to be fair to economists everywhere—

Gerard Baker 10:05

Oh, let's not be fair to economists.

Kristalina Georgieva 10:06

I want, I want to be fair.

Gerard Baker 10:08

I'm sorry. [Inaudible]

Kristalina Georgieva 10:10

Otherwise you are going to have trouble restoring trust in what you do in the Wall Street Journal, what we do at the IMF. What we need to recognize is that countries have been spending more because they had to deal with these recurrent massive shocks. Some went a bit too far in spending more. And here in the United States—I was on this stage last year, and I was saying there is so much inflow of capital in the United States, why do we need to have also stimulus from the budget? Makes no sense. So that overspending, yes, it needs to be pushed back. And the other thing that I'm fairly confident we would see is much more attention to what can get an economy growing faster because you cannot borrow your way out of debt. You can only grow your way out of debt, and that means much more attention to two things. One, is the regulatory environment appropriately set? Is there something that could be done to unleash more entrepreneurial capacity? And two, the role of innovation. The United States is the envy of the world because of high productivity. And this high productivity, it exceeds in productivity the rest of advanced economies. It is there because of that innovative capacity.

Gerard Baker 12:00

Can we just move on to the broader financial conditions in the world? One of the things we've seen in the last month alone is some pretty dramatic gyrations in financial markets. We saw, obviously, equity markets, particularly in the US and the developed world, fall very sharply, come pretty well all the way back again. We also saw very steep rise in bond yields, briefly again, they've come back down again, but still quite elevated. We've seen a big disruption in the currency. The US dollar has fallen very sharply, and that hasn't reversed. And we've also seen, you know, as a result of other things going on, some movements in commodity markets have just seen a bit—you know, thanks to OPEC again, we've seen a big drop today in oil prices. Oil prices now well below $60 a barrel. I wonder, is this—what kind of financial—do these financial stress, these financial developments, are they causing stresses in the global financial system, particularly for some countries, you know, that might be on the IMF's radar? Are you, I mean, how much are you concerned about what we've seen over the last month for the markets?

Kristalina Georgieva 12:54

What we have seen, again, going back to the theme of resilience, is that financial conditions tightened, volatility increased, but not to a point in which there is a need fo interference from the Fed or from other major central banks. What we are concerned with is reducing uncertainty, improving predictability, because if we don't do that, we know what is going to happen. Investors don't invest, consumers don't consume, and the financial stress becomes more palpable. Where is the emerging market world in this? Emerging markets actually have performed reasonably well. We have not seen major impact of this increased volatility on emerging markets. I want to particularly recognize emerging markets where there is the courage to take the policy reforms that are necessary for strength. Argentina comes to mind, a country that has been notoriously unable or unwilling or both to get economic policy that transformed the economy. Now, finally, what we see in Argentina is decisiveness to do the things that you alluded to, bring the deficit down—actually they have a surplus. Bring inflation down, create conditions for the economy to prosper. Bring growth up. And what Argentina did, many would say it seemed impossible. So my main message to this audience, we are in a world of more shocks, more volatility. The silver lining is in this world, the impossible becomes possible.

Gerard Baker 15:03

Let's move very quickly to the IMF itself. We have an administration in Washington which, as well as doing all these other interesting things on tariffs and fiscal policy and elsewhere, some of its members have been very critical of the IMF, and indeed, it fits—the criticism of the IMF fits in with what you might call the broader Trump administration's approach to some of these domestic and international issues. One thing that, for example, Scott Bessent, the Treasury secretary, who was here this morning, has said is that the IMF needs to take a very different approach with China. China is still treated as a developing country, even though it's the second most important, second largest economy in the world. And he argues that China, which I think everybody would agree, does do things, particularly with regard to international trade, perhaps with regard to currency manipulation, that are, you know, that are beyond the pale of what most people would accept. Shouldn't, should the IMF be taking a tougher line with China, instead of, you know, if I may say so, treating it with kid gloves? I mean, is it time for the IMF to get tougher on some of the things that China has been doing?

Kristalina Georgieva 16:04

Well, I think we have been actually doing exactly that. I agree with Secretary Bessent. Every institution in a rapidly changing world has to constantly look at the mirror and see, what can we do better? Where may be a blind spot we have to correct? With regard to China, first at the IMF, China is an emerging market economy. No, we don't have—the World Bank has these developing countries, developed countries. I mean, clearly this is the second largest economy. It should be treated respectfully as such. Second, for quite some time, we have been vocal that China has to deal with four problems that affect it domestically and affect it internationally. One, shift from export to more consumption. Two, fix the property sector. One of the reasons consumption is suppressed is because people don't know what is happening with the value of their property, which is their main saving. Three, pull the state out of the economy where it doesn't belong. Less state intervention. And four, warmly embrace services. Every economy that is said the state China is, actually sees manufacturing, in relative terms, going down, services going up. This has to happen in China.

Gerard Baker 17:34

But they're not going to do that, are they? I mean, especially on getting the government out of business. They're not...

Kristalina Georgieva 17:39

Now on that one, on that one, I would not argue. But on the moving towards consumption, moving towards...

Gerard Baker 17:50

They're going to do that as part of... Well, are they being pushed by the IMF or, to be fair to the Trump administration, is this pressure through tariffs that the Trump administration is imposing? Is that more likely to be effective in getting China to embrace some of these policies than gentle encouragement from a very friendly attitude at the IMF?

Kristalina Georgieva 17:51

...to do that is policy fixing their property sector, recognizing they need to get services to be a vital driver of economic growth. They're moving on those. And even on the role of the state, to the extent that they see attractiveness of China dependent on opening up more, they have taken some steps. I am, I'm of the view that China, you would see China doing things that seemed impossible, because they're forced now to get it. We all have to do what we have to do. We are a membership organization. For those who may not know us, we have 191 member countries. You know, sometimes, Gerry, I feel my job is herding 191 cats and being careful that they don't scratch me. But as such, of course, we have to be, we have to bring members to the table. We have to get them to listen, and this is where we bring our policy advice, honestly and respectfully.

Gerard Baker 18:40

Well, a lot of the cats, I think, are mewling right now. So I wish you all the very best in that ever difficult job.

Kristalina Georgieva 19:20

I love my cats.

Gerard Baker 19:21

Ah, yes, we all do. Kristalina Georgieva, Managing Director of the International Monetary Fund, thanks very much indeed for joining us. Thank you.

Kristalina Georgieva 19:28

Thank you, Gerry.

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