Global Economic Outlook: A Conversation with IMF First Deputy Managing Director Dan Katz

Announcer 00:01

Thank you for joining us. Please welcome the panel to the stage.

Greg Ip 00:21

Let's get started ...

Dan Katz 00:22

Sure.

Greg Ip 00:22

Thanks very much, everybody. My name is Greg Ip. I'm an economics columnist with The Wall Street Journal. I'm very pleased to be here speaking with Dan Katz. Dan was with Treasury—chief of staff to Treasury Secretary Scott Bessent— for the first seven or eight months of the Trump administration, and he said to himself, this is way too exciting. There's too much going on. I'm going to go to the International Monetary Fund, because nothing ever happens in the global economy, right? So, Dan, I don't know how that's working out for you, but Dan, you're now the number two at the IMF, the first deputy managing director. You're overseeing a pretty big portfolio now. And of course—the first thing I want to ask you about is the global economy. In just last month—or, sorry, two months ago—the Fund said it's fairly upbeat about the world, looking for—is there any chance we could get these doors closed, by the way, just to cut down on the noise—3.3 percent growth in 2026. Here we are five or six weeks later. There's obviously now a war going on. The price of oil has gone up a lot. How do you see the risks to growth now? Does—

are they—are you still confident in that number? Or how does what's happening in the Middle East now affect the outlook—both upside and downside risks?

Dan Katz 01:08

Well, thanks. Thanks very much, Greg, for the—for the warm welcome, and thanks to the Milken Institute for hosting us today. You know, certainly before the weekend, we were looking at a global economy that had grown at a very healthy pace in 2025 and that we were projecting would continue to grow at a healthy level. And, you know, I would cite two factors that I think really drove the narrative in 2025 that I was expecting to drive the narrative again in 2026, which were the sort of changing nature of international economic linkages and then AI. And I was expecting a bit of a shift from, I think, the historic source of some degree of uncertainty or anxiety in 2025—which was the changing nature of international economic relations—towards AI as going to be the big story in 2026 that was a potential source of disruption. But of course, with this weekend, we have a significant escalation in the Gulf, and that certainly has the potential to be very impactful on the global economy across a range of—across a range of metrics, whether it's inflation, growth, and so on. But it's very early at this point to have any sort of firm conviction about what the likely impact is going to be. Really, the economic impact is ultimately going to be downstream of the geopolitical situation, and the persistence of the conflict in particular is going to drive—drive much of the impact. But I can give you a sense for how we might analyze the likely transmission channels between the geopolitical situation and the global economy. You know, the first thing we'll be looking at, of course, is the actual impact in the region. Are certain industries—important industries—being significantly disrupted? Tourism is an important one. Air travel. Is there physical damage to infrastructure, production facilities? And the big industry, in particular, that everyone will be focused on is, of course, the energy industry. And this could have significant impacts in the region if there is prolonged disruption in this area. The impact by country will depend on the individual country's exposure and its degree of buffers. But if you think about a country like Iraq, for example, about 90 percent of Iraq's revenue comes from oil exports, and 95 percent of that goes through the Strait of Hormuz. And so a prolonged closure could have very, very significant economic implications in the region. But again, we'll just have to see how long things last. There certainly could be linkages into the global economy as well. We've obviously seen significant impact in the energy markets over the last 48 hours, with crude oil up materially, and then natural gas—or, yeah, natural gas—up even more. And that would be a very significant transmission channel into economies on a global basis. We're also seeing this in the financial markets, with interest rates up modestly over the last 36 hours, and that reflects investors potentially pricing in the chance of inflation as a result of higher energy costs that could provoke a monetary policy response. These are all big questions, potentially very, very large impacts on the global economy. And one area from the Fund that I would particularly call out are many of our fragile countries—countries with IMF programs—many of which are energy importers and could very significantly be impacted by this. But it's again far too early to have a high degree of conviction as to what the outcome is going to be, because ultimately, the economic impact is going to be downstream of the security situation. At the Fund, we do economic forecasting. That's hard enough. We don't need to add geopolitical forecasting to our remit.

Greg Ip 05:53

Let me ask you about the inflation issue, which you did bring up. Obviously, there's a direct headline effect on inflation. It comes at a time where in some countries, like the United States, inflation has been running above target, and there's a debate about whether central banks should be easing more. What's your impression about how what's happened with the price of oil should affect our expectations of inflation and the appropriate monetary policy stance here and in other economies?

Dan Katz 06:16

Yeah, well, more generally, the monetary policy response will, you know—should, you know, at least according to textbook—depend on, again, the exact geopolitical circumstances. So, you know, the increase in energy prices—if it's a short-term increase in energy prices—you would expect central banks to really look through that, assuming that inflation expectations continue to remain well anchored. But if you're in a world where there's a more persistent shock and higher energy costs do result in a destabilizing of inflation expectations, then that's a scenario in which you could see central banks responding. But again, it really depends on the exact nature of the shock and what happens on the geopolitical front. You know, maybe the one thing I would add is the potential lesson of the energy shock that we had in 2022, which is central banks, for a long period of time, have focused on targeting core measures of inflation—in part because more volatile energy and food prices, these kind of things that are stripped out in the context of core inflation, are thought to, number one, be less subject to influence by central banks, and number two, be less central in forming inflation expectations than some of these other prices. But I think one lesson we need to think about from 2022 is if there is actually more feed-through than many have anticipated from headline inflation into core inflation. And so I'm sure central banks, as they are thinking about how the geopolitical situation is translating into energy markets, will be looking at the lessons of the pandemic and seeing if they can apply any of those lessons in setting monetary policy moving forward.

Greg Ip 08:09

That sounds like a reason, all else equal, to be more cautious and more careful and concerned about the inflationary impact—if I'm reading you correctly—all else equal.

Dan Katz 08:18

It certainly could be right. And you know, if we have prolonged uncertainty and the risk of energy price impacts, I would expect central banks to be cautious and to respond to the situation as it materializes.

Greg Ip 08:31

Thank you. Let's talk briefly about the United States. The Article IV came out recently. There was a lengthy discussion about the administration's international approach. This is an administration that wants to reduce the trade deficit. Its preferred instrument is tariffs. As you know, the Supreme Court recently struck down the primary instrument this administration has been using. They're now turning to one called Section 122, which, according to the law, is used to impose a temporary tariff to address an international payments problem. International payments problems are exactly what the IMF was created to deal with. In the Fund's judgment, does the United States have an international payments problem?

Dan Katz 09:11

Well, you know, Greg, let me first just say I'm not a lawyer. And you know the Fund has no special expertise in what Section 122 means for the purposes of US law. But generally, you know, what the Fund has said for a long period of time, including in the Article IV consultations that finished last week, is that the US current account deficit is too large, and it is—and it is—excessive, right? Some deficits and surpluses can reflect fundamentals and be desirable. For example, a country that is relatively early in its growth stage and investing a lot to realize some economic opportunities may run a current account deficit. An aging economy that needs to save for the future, where its workforce is smaller, may be running current account surpluses. And these could be desirable. But at the Fund, what we really try to focus on is assessing what proportion of surpluses and deficits are excessive or not reflective of desirable policies. And the US external position we have assessed in recent years is modestly weaker than would be implied by desirable or fundamental policies. And so the US certainly, from the Fund's perspective, should be reducing its current account deficits and evaluating a wide range of policy measures to do so.

Greg Ip 10:34

Thank you. Okay, so we talked about the very high current account deficit in the United States. Let's look at the mirror image of that, which is China—the current account surplus country. And on this, the IMF Article IV on China recently came out, and I'm just going to quote from it. You said, "the policy steps remain insufficient to the scale of the challenge." And this was with respect to restructuring the Chinese economy. It also said the external surplus was stronger than implied by fundamentals and desired policies. Dan, please unpack this for me, because it sounds like the Fund is saying China has an external surplus problem and it's not doing enough. That's kind of my read. Is that correct?

Dan Katz 11:12

Well, I would take a step back and come at this actually, not from the direction of the Chinese external surplus, but from the balance of forces in the Chinese domestic economy. You know, the Fund's very consistent policy advice to China over in recent years—and that's then this is reflected very strongly in the Article IV consultation from 2025 that I was a part of—is that the Chinese growth model really needs a shift from one that relies heavily on external demand to one where consumption from within China is the primary driver of economic activity. And right now, what we have is a situation where consumer demand is relatively weak, that is creating pressure on the external sector. And China is, you know, simply too large to grow on the back of external demand, and it's causing very significant trade tensions with with many of its trading partners. You know, additionally, this is causing problems in the Chinese domestic economy. We have, you know, very powerful deflationary forces in China today that—that when interacting with pockets of high levels of debt—could create very negative debt dynamics and put the Chinese economy into an even more uncomfortable equilibrium. And so really, you know, the—what Chinese policy makers need to move towards—and I believe that they really do understand the need to undertake this challenge—is rebalancing the Chinese economy towards more consumer, towards more consumption, which is going to raise standards of living for the Chinese people, lead to a much more sustainable economic model and also help on the external surpluses.

Greg Ip 12:59

There's an old joke about the IMF. It stands for—it's mostly fiscal, right? It seems that, like for most of the time I've been covering, this is that when the IMF did its surveillance work, it seemed obsessed with fiscal policy, and somewhere in the mists of time, it was actually set up to monitor balance of payments problems, right? And there, the Fund did come under criticism in recent years, for paying insufficient attention to external balance and focusing purely on internal balance, like fiscal policy. I understand, I know you have the external sector, you know, report once a year, but to what—I guess the reason I bring that up is that the attention to external balance in this China report is materially higher than in previous reports, and I guess my question to you, Dan, is, has the Fund taken on board this criticism that it has been insufficiently attuned to problems external balance, and is that going to play a bigger role in your surveillance work going forward, especially vis-a-vis China? And I guess the reason I bring that up is that the attention to external balance in this China report is materially higher than in previous reports. And I guess my question to you, Dan is, does—has the Fund taken on board this criticism that it has been insufficiently attuned to problems external balance, and is that going to play a bigger role in your surveillance work going forward, especially vis-a-vis China?

Dan Katz 13:56

Well, as you noted, Greg, you know, the external sector—the issue of imbalances—is really at the heart of the Fund's mandate. And we have a number of devices through which we monitor the external sector, with our External Sector Report, which we've been doing annually since 2012 as one of the primary avenues for doing this. And so the IMF has always been in this space, but what we've observed recently—which I think has led to a heightened focus on imbalances across the entire international system—has been that imbalances have actually been widening. And not just have they been widening, they have actually been increasing in their persistence. And so, you know, if you look back across a longer suite sweep of history, what you see is more frequent flipping between surpluses and deficits amongst countries. But imbalances have become increasingly persistent in recent years and in the last few years, in 2024 and 2025 in particular, they have started to widen. And so in the 2024 External Sector Report—or excuse me—the 2025 External Sector Report, which covered 2024 and 2024, what we saw was a significant widening of about 0.6 percent of global GDP, of which two-thirds we assess to be excessive, according to our methodology. And so I think it's really been the increasing prominence of imbalances that has led to more and more conversation around the issue, which we are, of course, reflecting in our bilateral surveillance—which is fancy term for the annual health checks that the IMF provides for all of our members, including the US and China, as we've previously been discussing. And given the relationship between domestic macroeconomic policies and how those translate into external imbalances via relations with other economies, it's absolutely essential for the Fund to be focused on these issues, to be reflecting it across all of our work streams.

Greg Ip 15:53

Thanks. We are at a finance event, so I want to make sure we talk about some finance issues. You know, in your time at Treasury, the Senate passed the GENIUS Act in the United States, and I think that a lot of people will see that as a watershed in the acceptability and the adoption of stablecoins, for example. From the Fund's point of view, what are the pluses and what are the risks and benefits of a greater use of stablecoins worldwide? And I especially want to ask you about the potential financial stability implications, because, as you know, there's a debate going on where banks worry that in times of financial stress, you could see liquidity rush from depositories like banks into stablecoins, and that would be destabilizing. Frame out for me what you think are the potential upsides and downsides of the spread of stablecoin?

Dan Katz 16:39

Sure. So I think, I think we first just need to step back and sort of take a—take a stock of what the stable coin ecosystem actually looks like today. You know, if you look at the total volume of stable coins that that is outstanding, it's about $300 billion dollars, which is tiny in the scope of financial markets. And it's also tiny, you know, within the digital asset ecosystem generally, right? I mean, with Bitcoin at a 2 trillion-ish market cap, and you know, with other tokens, you're talking about 3 trillion or so and so, stable coins are actually quite small, but I think do offer a high degree of potential. And I would cite a few key channels. One is, you know, international payments, which, of course, I think we can all agree are too cumbersome and too expensive today. Second important one, I would say, is financial inclusion, and we do need to recognize that much of the world and much of the populations in the IMF membership still lack access to high quality financial services and stable coins could be an important player in that. And then, you know, more generally, I think it's very important to think about embracing competitive forces, and that applies both within financial systems. So you know, anything that enhances competition within our existing financial architecture, I would say we should sort of be predisposed towards—towards welcoming, and it also applies on a cross border basis, actually, because, you know, one of the risks of stable coins, and we'll get into the risks, is this issue of volatile capital flows and potential currency substitution. But the first line of defense towards that is actually enhancing domestic fiscal and monetary policies, and that provides an important competitive dynamic as well. So I think we need to be very mindful of the potential associated with stable coins and also take stock of the relatively small size of the ecosystem and be proportionate in the way we're thinking about responding from a regulatory perspective. You know, so are there big risks? Yes, of course—disintermediation of the banking system, as you already alluded to, currency substitution, capital flows, as I mentioned. I would also cite fragmentation of payment systems as an important one that I worry about, and the siloing of payment liquidity. But really the way to mitigate against these, against these risks, is to establish clear regulatory architectures like in the US with the GENIUS Act, in the European Union with MiCA, Singapore's regulatory framework. And one thing for policymakers, I think, is particularly important to focus on, is to make sure there is appropriate interoperability between these standards internationally, because so much of the problem associated with stable coins is, in fact, through their international usage.

Greg Ip 19:29

I have almost no time left, but I'm gonna grab the last few seconds to ask you about the dollar, because you're from the IMF, right? And that's what the IMF does. It looks at things like exchange rates. So the dollar has, on a broad basis, depreciated in the last year. In your view, is this appropriate, given its underlying valuation, and where does it go from here? Should there be more devalue, depreciation of the dollar?

Dan Katz 19:50

Sure. So just stepping back, you know, it feels like every year, every six months, you know, maybe even more frequently, there's always this—a narrative out there, this question out there about the role of the dollar and the international monetary system, and whether things are changing on a fundamental level. And stepping back, I think, across a range of metrics, it's still very clear that the dollar is playing the role at the heart of the international monetary system that it always has. I mean, you cited the level of the dollar. And sure, in 2025, you know, the dollar had retreated a bit, but this is from historically strong levels at the end of 2024. And over a medium or long term level, you know, the dollar, the level of dollar is still quite strong. And I would also add, you know, at the end of 2024 we were at the end of a long period of dollar strength, also outperformance of a range of US assets. And if you were allocating to those US assets, you'd also been riding the strength of the dollar. And so what we saw was market positioning that was, you know, very, very overexposed compared to historical norms of the dollar. And so it's natural that there is a bit of a deleveraging vis-a-vis dollar exposure. And when we look at positioning in the market today, it's much more dollar neutral. Certainly, over the last 48 hours, we've seen, you know, very, very significant dollar strength, which I think is reflective of the continuing view of the dollar as a safe haven. And if you look at, you know, other important metrics that we focus on—so right to the dollar share in reserves—very stable at approximately 60 percent. People like to make a big deal about gold, but you know, the vast majority of the run up and central banks exposure to gold is a function of price, not reallocations of quantity. And if you look at, you know, the proportion of FX transactions that have the dollar as one leg, it's still incredibly high. And so I think the—you know, the dollar seems to be playing the role that it has—that has long played—at the heart of the international system. And I don't see any any shift in any big shift in recent time.

Greg Ip 21:59

Dan Katz, thank you very much for coming here this morning and sharing these insights with us. Really appreciate it.

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