A Fireside Chat with Kristalina Georgieva

Tuesday, April 2, 2024

MASOOD AHMED:
Welcome, everyone. Welcome to Kristalina Georgieva, managing director of the IMF. It's always a pleasure to have you back at CGD. And right now, even more so on the eve of the spring meetings coming up. And you're just back from a trip to China. We were just talking about it. We'll have a chance to talk about a lot of these things. And before I start, I just want to remind we have a lot of people watching this virtually. So I want to remind all of you who are watching virtually that you can send in questions. If you do have any, you can send them in by email or to events@cgdev, thats C-G-D-E-V.org, or on the YouTube channel you're watching this on or on Twitter. So any of those ways will hopefully reach us in time. And I'm sure there are people in the audience sitting here who will have questions too. So before we get to the questions, I have a few questions of my own that I wanted to get to.

But first of all, welcome, Kristalina. As I said, it's always a great pleasure to have you here.

KRISTALINA GEORGIEVA:
Wonderful to join you. So thank you for the invitation.

MASOOD AHMED:
I want to start by, I don't know how many of you had a chance to look at this, but the managing director of the IMF did a speech at King's College at Cambridge about two weeks ago now, and it was a speech which was sort of the economic prospects for my grandchildren. And some of you will remember that title from somebody else who made a very similar paper many, many decades ago. And harking back, in a way, to the spirit of that paper by Keynes, you also looked in that speech at sort of the prospects for the next 100 years. And you drew out two scenarios, one of which would see sort of per capita incomes, living standards double over the next 100 years, and the other would see them increase almost tenfold, depending on how the world organized itself over the coming decades on the new challenges we face. And I thought that was a very nice framing. And then now I thought today we could come back a little bit. I'm a more modest man, so I tend to look at the next decade, sort of well, what are the prospects for the next decade.

And I would just get a little bit your sense to start with. We were just talking before we came in that in some ways, it's so clear what the challenges are. It's so clear what is needed to make progress. But yet when you look at the numbers, whether it's growth numbers that your own staff put out in the wheel for the World Economic Outlook for the next five years, or investment numbers, and without investment, it's not going to be any growth. Or you look at financial flow numbers. And the private sector last year actually took out a couple of hundred billion dollars out of developing countries. And the official sector put in some but couldn't compensate. So, you square all this and you sort of say, well, are we starting off on that lower trajectory that you had? You had these two-- Are we at the moment sitting close to the bottom of your range? How do you see the next decade? Then we'll get into more specific stuff.

KRISTALINA GEORGIEVA:
Well, the question is exactly right. What would determine whether we are on the lower growth trajectory for the next hundred years or on the high growth trajectory would be determined by three things. First, how technology penetrates our economies, how inclusive we are in making it work for everybody. Second, how we make capital work for the best purpose in the best places. And this is actually where I differ from the Keynes's writing in which he emphasizes the accumulation of capital. Whereas I think today we need to focus on the allocation of capital. What capital go to the countries where population will increase, and there would be this youthful labor force or not. Would it go to the green and digital transformation or not? And these are choices that indeed we have to make with clear heads that there are consequences of how we make them? And when I look at today, what makes me lose sleep at night is this low productivity, low growth trajectory for the next years. I remember vividly, I started as managing director in October 2019, just before Covid.

Gave my first speech. What was the speech about? Low productivity, anemic growth. And that is still the case after the pandemic. Can we shake it up? Yes, of course, we can. It would take determination and it would take something that is currently in insufficient supply. And it is the will to cooperate. And I look at the IMF, I see for us two equally important tasks. One, make sure that we have the financial capacity to operate, support those that most need us, and for the next years, this would be vulnerable middle-income countries and low-income countries. So we have to have the strength for them. And later, I can come to how we build the strength. Two, make sure that we bring our membership together. And despite all the difficulties in cooperation, we work towards consensus on those issues on which the future of our children and grandchildren depend.

MASOOD AHMED:
So, I think that's great. So now let's let's zoom in a little bit on what you've just said, and focus a bit on the IMF. And if you take the IMF, well one part is the sort of financing, the other as you said, is bringing people together. And, of course, the financing is accompanied with a set of policies that help countries to do better with their own resources. But on the financing, there is a persistent question that people raise, and I think it's good to get your response to which is, look, you have a big balance sheet and obviously you want to

strengthen it, and we'll talk about how it could be strengthened. But when you look at the flows from the IMF to emerging markets, developing countries, last year I think they were slightly negative numbers in terms of when you get the repayments back, but they're always fairly small in relation to the potential. And now is the time when countries need that financing. So are there ways in which one could envisage over the next five seven years, an IMF that is a more active financier of emerging markets in developing countries?

And also, can we imagine a way in which the IMF is able to respond more effectively to countries as they are hit by shocks? I think there's one of the things that you have made a big point over the last couple of years is that we're going to be living in a more shock-prone world. So it'd be good to get a little bit of your sense of that. And then for the lower-income countries, we can talk about what's holding back the ability to do more, which is, in a way, the subsidies. So first we need to recognize that since the pandemic, we have injected $1 trillion in liquidity and reserves. $650 billion, the 2021 SDR allocation, which is adding financial capacity without adding to that very valuable, especially for the countries that are most distressed because of high debt levels. And about $360 billion in lending, which went to about 100 countries. Now we are a lender of last resort, you know that very well. We actually do much prefer that we help countries to create conditions for financial flows beyond the IMF.

We prefer to see more private sector domestic and foreign investments in countries. So I would not think of our job is to lend more. But lend as much is necessary to stabilize countries. I will give you a couple of examples. Over the last months, we had, as you know, a very sizable program for Ukraine, over $15 billion. It is an anchor for Ukraine, and it mobilizes 120 billion overall support over four years. We just went to board with augmentation of our Egypt program from 3 to 8 billion. It is significant because it is an anchor for Egypt and multiple sources of financing have come. When I look at our role, it is this can we anchor a country and can we help it build sound macroeconomic fundamentals that allow for growth to go up? Different story for low-income countries, different story. In low-income countries--

KRISTALINA GEORGIEVA:
Our role today is generally to provide sometimes life-saving financial resources and maybe the audience knows, maybe you don't. The fund traditionally for many many decades was very marginal when it comes down to low-income countries. Our average annual lending was around $1 billion for all low-income countries. Since the pandemic, we have recognized our responsibility to step up and we have in the years of the pandemic, we have more than quadrupled financing for low-income countries. We actually created something that on behalf of my colleagues at the fund, I'm very proud of. We have offered our region

members to lend some of their SDRs to us and through us to direct them to low-income countries and also to address climate vulnerabilities. Our lending capacity for PRGT has expanded significantly. We are now at the point when we do not have a problem anymore of lending capacity. A couple of days ago the US Congress approved $21 billion loan to PRGT. It comes on top of around 40 billion that we have built over time.

Now our issue is to guarantee that we have the subsidy resources to bring the cost of our lending to these countries down. At this point, we lent at zero interest rate to low-income countries with the objective to be able to do a low-cost lending in the future. Possibly, and we are discussing this with our membership, possibly going more in the direction of the World Bank in which there is some differentiation. Really poor countries, they get grants. We don't have much of, as you know, grant-giving capacity, but…

MASOOD AHMED:
You could have zero interest.

KRISTALINA GEORGIEVA:
Zero interest rates for them. And then maybe a way below market, way below very concessional rate for countries that are in better shape so we can expand our liquidity provision capacity. And I want to say this to the audience. It breaks my heart when I look at what the data tells us about advanced economies, emerging markets, and low-income countries. It tells us that actually, the scarring from the pandemic in advanced economies and emerging markets is much less than we anticipated, we projected some years ago. Why? Because these countries can pump money into the economy and prop it up. For low-income countries, today they are on average 10% GDP less than they had before the pandemic. The scarring for them is really significant. So we have this, the World Bank is going for IDA, we are going for funding our PRGT. I really think that it is in the interest of global stability that we are successful in getting that funding.

MASOOD AHMED:
So I think that that is clearly a priority for low-income countries this year, and I want to just prove a little bit more of that. So one of the things about the financing of low-income countries, as you say, is being able to generate enough subsidy resources that enable you to bring down the cost of that lending. And maybe going forward won't all be at zero interest rates. It could be more graduated depending on how the needs are for different groups of low-income countries. And if I remember right at Marrakesh, at the animal meeting, there was some discussion about how to generate those subsidy resources. And there's a periodically a question, doesn't the fund have all this gold sitting there? And you know, if you could sell 8% of your gold profits on that would be $10 billion. There'd be a lot of subsidy resources. And then people say, oh, you've got all these surcharges. Billion dollars

a year, $2 billion a year that these emerging markets have been paying, going into the fund, sitting there, your reserves are building up.

Why is it so hard to reallocate some of these funds to subsidize the low-income lending? And let's move it after 10 billion a year.

KRISTALINA GEORGIEVA:
I'm with you, so let me give you a perspective of how the how the conversation is going. First, there is a recognition that the fund's role in low-income countries is significantly broader and bigger today. And the membership is prepared to support it for it. When we were in Marrakesh, miracles happened. Actually, Christine Lagarde, my predecessor, called the Marrakesh meetings the Marrakesh miracle. Because we got 50% increase in our quarters, which is massively better than to rely on borrowed resources. And actually, our finance team calculated that if we take $1 notes and we line them up, it will go to the moon and partially back this increase of subsidy. And very nice image. That gives us strength for the GRA countries. But the other miracle was that we reached our target for both lending, loan resources, and subsidy resources on the basis of two things. 41 countries making contributions, some of them for a first time, some of them not rich countries. And that was solidarity in action.

Two, we have created an investment account. So some countries put SDRs into this investment account. We invest it. The income is more than the interest rate on SDRs. This income goes into the subsidy account. So that kind of creativity is there. Now you're asking a very good question. Can the fund do more? And the answer is yes. Now we have started the conversation with the membership on that basis. In 2011 our membership very wisely said we need to have precautionary balances that are enough to guarantee against any potential losses on our balance sheet. Target 25 billion SDRs. This month, April, we are going to reach the target. What does it mean? It means that with income still being higher because we lent so much over the last years, we can discuss what do we do with this income in excess of our precautionary balances. Now it is not an easy conversation because there are different interests. There are those who would say bring the cost on our loans down, surcharges. There are those that would say let's put more money into the subsidy account.

And there are those who say wait a minute, you're telling us the world is more unpredictable and it is shock-prone. Let's put more in the precautionary balance.

MASOOD AHMED:
You can never have enough precautionary balance.

KRISTALINA GEORGIEVA:
Maybe we can never have enough. So the discussion I think is going to be a very constructive discussion. We would come to the annual meetings and I think the world would like where we come. On the gold sales, this is a matter of very strong conviction among some of our members that selling gold is really last resort in case of unanticipated emergency. And we haven't yet gotten to a point where there is enough openness. We have many members who say sell some gold. And there are some that are saying wait a minute, don't rush there. But it is on the table. It's a possibility.

MASOOD AHMED:
I remember the last time we had the conversation about gold sales and you know it went through the same process of strong denial and opposition and ultimately you guys found a compromise and I'm sure that when the time comes you will find a compromise. But what I took away from that segment is that between now and the annual meetings we should be aiming to find, looking for, some way in which one could meet all these different, equally legitimate demands for how the additional resources could be used. Just before we move on financing, one final question because it's one also that is out there people. Which is, you talked about the fund being a sort of catalyst for mobilizing other financing and obviously one of the other sources of financing is the Multilateral Development Bank. And there are many proposals about how the fund could help the MDBs once. Can you provide a backstop facility, etc? So let's leave some of the ones that haven't been explored out for the moment. But there is one which has been on the table for a couple of years, which is can one use some of the reallocated SDRs to provide them as loans to the MDBs in a way that they could use those loans to be quasi-equity and leverage them up.

And this has been discussed and I know this has kind of been working its way through the system and it's been a somewhat difficult process. I want to just get your sense on where we are and where you think we will end up on that in the coming weeks.

KRISTALINA GEORGIEVA:
Well, where we are is that there is a discussion in our board because this is new use of SDRs. It has to be approved by our board of directors. There are quite a number of supporters to go that way. Obviously, they have to be holders of SDRs willing to participate and it looks like there may be sufficient number of them to create that kind of hybrid capital. Where the difficulty is, and actually this time I would be more amenable to the concerns, central banks think of SDRs as reserve asset. They are still absorbing the fact that we have created a hundred billion dollars equivalent of these reserve assets for lending. So now we come and say, oh well, here is another way to use it and they are very there for very good reasons, incredibly cautious. So they're cautious. They're saying, are you sure that you can

protect the reserve asset quality of the SDRs? And then comes the question on, would there be critical mass to secure that reserve quality? Because the way we use it in PRGT and with the creation of the Resilience and Sustainability Trust is we pull SDRs from many countries and on that basis we guarantee to every owner, if you want your SDRs, you can have it.

So it is one of these rare things in life when you can have your cake and eat it at the same time. So we have to do the same cake-eating, but having maneuver for the development banks.

MASOOD AHMED:
Which of course we've already done for the PRGT and the RST.

KRISTALINA GEORGIEVA:
And so to answer your question, it is in process and I think I'm quite you know sure that a way a resolution would be found.

MASOOD AHMED:
Thank you. I know I'm trying to see Mark Plante is sitting here. Yeah, there he is. Mark Plante is a go-to man for everything to do with…

KRISTALINA GEORGIEVA:
He wrote, you wrote a great paper. You know, I think that the way you explain to central bankers why they are still going to have their cake. That was brilliant. Thank you. Thank you, Mark.

MASOOD AHMED:
And eat it twice.

KRISTALINA GEORGIEVA:
Eat it, yes.

MASOOD AHMED:
So in this case you eat it and guess leverage four times, you eat four times.

KRISTALINA GEORGIEVA:
So you eat it and you have three more cakes.

MASOOD AHMED:
This is becoming a little too. Now, let's move from all of that I think to another area because you know, it's the Fund's role in supporting countries dealing with climate change. Of course, you have the RST and that's part of your response. But the Fund's role goes much beyond that in terms of looking at the macro implications of climate change, etc. What

strikes me is that I think the first time there was a discussion of climate change in a flagship IMF document was 2008. That's kind of 15 years ago, and they're still today probably, I don't know, maybe in this audience, but certainly, in a broader audience people who think the IMF is doing way too much on climate change and trying to do stuff that it shouldn't be doing. And there are others who think, you know, the IMF is sort of missing in action on this climate change is such a existential question should be doing a whole lot more. And you have to sort of, you know, make progress as they say, cross the river by feeling the stones here.

And I want to get a little bit of your sense of do you think this is now more or less settled? Do you have a sort of contentious path forward? Are we gonna be seeing the IMF doing a lot more on climate change? In what ways or pulling back?

KRISTALINA GEORGIEVA:
Well, let's first recognize that in a world where there are still some who don't believe climate change is real, don't believe it is human impact, it is natural that there would be also skepticism for anyone doing anything on climate. For the fund, I can say first we only do what we are good at and what matters to us and we matter to the solution. In the case of climate change, why matters to us? Because climate shocks are already macro-significant. They can wipe out the GDP of a country in one event and because moving to the new climate economy is an opportunity for growth and for jobs. So we can't ignore it. It is straight in our alley. But it doesn't mean that we can do everything related to climate change. We focus on three things. We look at the impact of climate risks and the presence of climate opportunities, mitigation, adaptation, from the perspective of fiscal policy... Monetary policy. Financial sector policy. The areas in which we have competence. Just to make it very simple, we have a lot of competence on subsidies removal.

Clearly, removing fossil fuel subsidies in a way that doesn't harm vulnerable parts of the population is part of the mitigation agenda. Very relevant for the fund. The fund is relevant for it. Or climate-related financial stability risks. If you have a bank that is concentrated in real estate in very fragile area, obviously, this bank is a risk. And then we look at data. One of the things we do is to provide higher utility data on climate for macro policy decisions. So, you can look at carbon intensity. Vulnerability to climate shocks in a context of how do you generate more growth and employment. And the third thing we do is we finance policy transformation using the resources of the Resilience Sustainability Trust. Again, 42 billion. Here is the interesting part. We created it. When we created it, we didn't know what is gonna happen. Would anybody want to borrow from this trust? Today, we have already 18 programs, more than $8 billion committed, and we have about 30 countries on the queue asking for it.

What does it mean that countries are interested first in the financial capacity to borrow from that? But equally, they're interested in what policies they need to put in place to have stronger economy. And that is where we work. What we don't do. We do not do sectoral investment of any kind. We don't look at, like, the World Bank would do into the energy efficiency parameters and how they can be changed. This is not what we do. And actually, we have fantastic partnership with the World Bank and with other development banks. They bring that expertise. More granular expertise, we translate it into policy recommendations.

MASOOD AHMED:
Right.

KRISTALINA GEORGIEVA:
So, to everybody who worries about it, the fund is right sized on climate.

MASOOD AHMED:
OK. And I'm sure there are people still out there who are like, "No, no, no, you should be doing more." And I guess the question is, how do you build a consensus?

KRISTALINA GEORGIEVA:
I mean, anybody who knows the history of the fund knows that the way the fund builds ability to engage on a particular issue is through article four consultations through our surveillance. Now that we include in surveillance mitigation issues for countries that are high emitters, adaptation in vulnerable countries, we are building up this knowledge base. So what you would see next in the years to come is that our regular programs would be better informed from the perspective of the macro significance of climate change.

MASOOD AHMED:
I'm conscious of the fact that there are going to be people who have questions. But before going to them, let me take two other areas. One is, do we talked about low productivity and growth being low? And, of course, one of the things people are talking about more and more is, well, what is the potential of using AI to go on to a different productivity trajectory and, therefore, different growth path? And at the same time, there are people who are saying, "Well, doesn't AI actually carry with it the risk that it could widen the divide between countries that are able to use it and those that get bypassed, and the growing inequality becomes even more of an issue." How do you see this AI and the interface between that and economic performance currently? And also, how would it affect the work of the IMF itself? I mean, do you see your teams doing the same kind of work, or are they going to be mostly doing other stuff?

KRISTALINA GEORGIEVA:
Well, first, to answer your first question. Artificial intelligence can be the big bank that creates tremendous opportunities, some that we cannot even imagine today, for productivity growth. No question about it. You just look at some of the applications of artificial intelligence already. You can be driven by your car, so you don't need to chauffeur. The way information can be processed. The way medical treatment can be delivered there. It is enormous. We did an assessment of, what is the likely impact on labor markets. And it is really massive. Over the next years, on average, 40% of jobs globally would be impacted by artificial intelligence. Some would be enhanced. There would be more productive jobs. Many would disappear. In advanced economies, it is 60%. In low-income countries, 26%. And that takes us to your point on inequality. 26% of jobs affected in low-income countries may sound like, "Oh, thank God, we are not at that risk of this wave to hit us." But it also means they may be left behind.

And the risk of growing inequality within countries and across countries is very real, as is the risk of using artificial intelligence for evil, not for good. We said, "OK, how well are countries prepared for this new world of artificial intelligence?" We created an index that takes into account four things. Digital infrastructure. Investment in human capital and labor markets. Innovation. And regulation and ethics. So, we ranked countries, 175 of them on the basis of these four indicators. What came as a surprise when we did the ranking is that when you take that kind of comprehensive approach, it is not US that comes on top. Obviously, if you only look at development of artificial intelligence, US has the Magnificent Seven. US is way ahead. But when you look at how well society is prepared as a whole for it, number one, Singapore, number two, Denmark, number three, US. Of course, we need to work on this index. This is our first attempt. But what it tells us is that countries have to take it very seriously, and they have to build the ingredients to bake the ingredients, since we are on the cake analogy today, so they can actually achieve high productivity, high growth in the future.

You asked me about the IMF. So, in the IMF, we now have Ida. Ida is our artificial intelligence assistant. And it's remarkable. It's like you're talking to a human being. It changes the way we work. There is a cross-departmental team that is working on that. And I said, "Please, define my job in a world of artificial intelligence." So, when I see you next time, I'll tell you how it looks like. There will be change. There are quite a number of activities at the IMF in which artificial intelligence can play a very big role. And, of course, we also have to think how we prepare our staff for this. I mean, how we transition in a way that is respectful of people's professional standing and dignity. So it's a big job. If there is anybody in this room who still thinks that we are talking about something 20 years down the road, wake up.

MASOOD AHMED:
Alright. So you've got your wake-up call. That kind of takes me to the last area that I just wanted to get your reaction to, which is artificial intelligence and governance of artificial intelligence is one of the big challenges of international cooperation that we face over the next decade. It's clearly one of the areas where we can't have every country doing its own governance easily. And in some ways, there are other areas, debt, another area where we need to have some common approaches to make things work better. I hear you're just back from China. And I wanted to get a little bit your sense of in a world… I mean, the IMF has written a lot about the cost of fragmentation, and I think I saw a speech that Gita gave recently where she talked about the equivalent of the GDP of Germany or something being lost through fragmentation.

KRISTALINA GEORGIEVA:
Germany and Japan.

MASOOD AHMED:
Well, there you go. And now, I think the question in my mind is, how do you see creating a zone of cooperation in a world where fragmentation is more the norm than the exception?

KRISTALINA GEORGIEVA:
No question that we are in a more fragmented world. The evidence is very clear. You look at trade statistics. What we see is traits is increasing slower than GDP, and normally, trade is an engine of growth. The number of restrictions has quadrupled in just last couple of years. Trade restrictions. Very interesting data when we look at trade within and across. Let's call them blocks. Countries that come more closely together. It is done in both cases, but, of course, more down between. Who is the beneficiary, especially in a foreign direct investment? It's a very important message. The beneficiaries are countries that trade with everybody, work with everybody, the Indonesians of this world. My view is that the world is now so economically integrated that to completely fragment it, to break it to separate entities, as it was in the times of the Cold War, is difficult, not impossible, but more difficult. And there is enormous role of technology to connect us, which didn't exist in these days.

When I was living on the other side of the Iron Curtain in Bulgaria, I had no clue how life was here. None. Now, we are all in a fishbowl. You see what the others are doing. You aspire to do better. So I don't think we can go that direction short of some very dramatic event. God forbid. What can we do? The IMF. Be very pragmatic. Focus on issues of common interest of our members and bring the membership together. You talked about that. We have a big role to play to bring different entities together. We created, together with India as G20 chair and the World Bank, the Global Sovereign Debt Roundtable. What is it? It is a place where traditional creditors, the so-called Paris Club creditors, new creditors, China, India, Saudi

Arabia, Brazil, private sector creditors and they are a big part of the credit landscape and other countries. They all sit together. What is the practical outcome of it? Identifying concrete issues where there is disagreement and building common approach to them. For example, disagreement on what is the role of multilateral development banks.

Resolved. Now, we are on our way to address the issue of comparability of treatment. Private sector, public sector, same treatment. These are the kinds of things that we can and we do to bring countries on a common position, so we can solve problems and have the Marrakesh miracle repeated in the future.

MASOOD AHMED:
Great. OK. Let's see now. Can we just raise your hands, and then we'll try and take maybe three questions? So, I think I saw that hand go up first. There was a hand over there. And then there's a lady over here. So I'll do those three first.

STEPHEN:
Thank you so much, managing director. My name is Stephen. I am an intern at the United Nations Population Fund. Thank you so much for being here today. I learned so much from this conversation. So I just wanna get your reaction a little bit on the term, what we say, "Instead of giving someone a fish, we teach them how to fish." So I just wanna get your reaction a little bit on what is IMF's role in the future in terms of not only serving as a lender of last resort but also helping low-income countries, helping emerging economies to build capacity through technical assistance or other means. How do you see IMF strike that balance in the future? Thank you very much.

MASOOD AHMED:
Thank you very much. Very good question. Over there, please.

KATE DONALD:
Hi. Thank you so much, managing director. My name is Kate Donald. I work for Oxfam International. I wanted to ask a question about the types of policies that the IMF is recommending. One of the concerns we have is that sometimes, in some of the loan programs and in the surveillance, that the fund recommends economic policies that we see as kind of detrimental to tackling inequality and poverty. And I noticed in a blog recently that some of your colleagues published. We were very happy to see a very firm statement that this is not a call for austerity. However, they did say we still need to see substantial fiscal consolidation. So I'd just like to ask you, where does the fund see the line between substantial fiscal consolidation and austerity? 'Cause I think it's really important in terms of how that plays out at the country level.

MASOOD AHMED:
Very good question. And the third one there, and then we'll come back to you. No, I think this lady right up here, Jeremy. Yeah. Thank you.

SARAH:
Thank you. Hi, my name is Sarah and I work for the House Financial Services Committee under Ranking Member Waters. I recently heard from some researchers at William and Mary that there's some evidence that China is using escrow accounts to basically, like, if they're building a port or something like that, have countries put money into an escrow account so that it doesn't change the amount of debt that they're in technically. How are you thinking about that, things like that, and dealing with that?

MASOOD AHMED:
OK. Escrow accounts for projects. So, do you want to take those three and then…
(CROSSTALK)

KRISTALINA GEORGIEVA:
Yeah, let me take those three. And if we've got more time, we'll do more. Fantastic questions. So, let me start with the one on helping countries to help themselves. This is actually what we aspire to do, help countries build strong fundamentals, so they don't need to rely on anybody else. How do we do that? We engage with countries and we look at… are they collecting sufficient revenues, especially from the richer part of their population? Are they then investing these revenues for infrastructure, for human capital efficiently and effectively? Are they creating environment for entrepreneurship that can generate jobs? And if there is one lesson that I repeat constantly, that we learned from the pandemic is that, countries with strong fundamentals withstand these shocks much better, and of course, they have a better opportunity to grow. We are also looking now into how we help countries to define social protection systems that do not create dependency, but provide an opportunity to grow.

I call this, instead of social safety nets, which is the term we usually use so you don't fall. Social safety ropes or social safety ladders allow… like investment in education is a ladder for families for the future. The most important lesson of engagement of the fund in country programs is that, when country is brave to put their economy on sound footing, they reap off the benefits of it. My own country in the 90s had a IMF program. We had 8,300% inflation before IMF came. It was a very painful period, but as a result of taking the reforms, the steps necessary, Bulgaria stabilized, became member of the European Union, and income per capita quadrupled in the last decades. So. there is that… we… don't think of us as we are there and say, "Here, get this money, squander it, come back again." We want to see countries doing well for themselves and their people. I really appreciate the question on inequality because there is so much evidence that inequality harms the economies… Not only harms people, it harms chances for economies to grow.

It was my predecessor, Christine Lagarde, that worked on introducing a policy of social spending flaws. Meaning, that in our programs, we have to protect education, health care, social support. And that is a policy that is absolutely central in our work. We do believe that medium-term fiscal consolidation, after years of increased spending and increased debt levels, is necessary. Otherwise, economies will be crippled. I mean, then you have to pay high costs on your… servicing your debt. So, we believe that is a necessity. But we also recognize that it has to be done with more focus on revenue raising. We did a study. It shows that in emerging markets and developing economies, there can be eight to nine percent GDP increase if taxation is put on sound footing. And then, of course, we want to see quality of spending. Definitely, definitely, we don't want the price of fiscal consolidation to be borne by the most vulnerable people in society. And to the question, I mean, the most important thing we do, together with the World Bank, is to work on more transparency on that, so we can see who exactly borrows how much from whom, under what conditions.

And in that sense, we are mindful that there could be lending practices that are ultimately detrimental to interests of countries. And it is something we are discussing, including in that forum that I mentioned, the Sovereign Debt Roundtable. So yes, it is something that we need to be very watchful of.

MASOOD AHMED:
Alright. OK. Let's take three more questions. So, I think I had somebody in the front row here. And then, I see there's somebody in the back there, and then I'll come to you next. Alright.

CHRISTIAN:
Thank you, Madam Managing director. I'm Christian, still with the Hanns Seidel Foundation. I'm glad to see you. And my question is, how much are you concerned about the rising U.S. sovereign debt, and possible impact it might have? Yeah.

MASOOD AHMED:
Great. U.S. sovereign debt. Right in the back. Yep. Please.

STEPHEN PADUANO:
Hi. I'm Stephen Paduano, PhD candidate at the London School of Economics. So, I'm curious about your comments on SDR rechanneling in reserve asset status. And you mentioned this difficulty that in the schemes proposed with the hybrid capital, it wouldn't necessarily have the same encashment as if you were channeling to the RST. And I think when the MDBs hear this, there's some vexation because they have put forward this liquidity support agreement modeled after the RST. And they say, why isn't this good

enough? So I'm wondering, does that count? Is there a way to improve that? And alternatively, is the problem just sort of intrinsic to the instrument, the hybrid capital itself? And if that were the case, if saying, you know, partial equity or 100% equity doesn't count as a normal reserve asset, would you, would the Board think differently about a normal debt security denominated in SDR as that the World Bank could issue, shareholders could purchase, and that would be a new channel for SDR channeling?

MASOOD AHMED:
Great. Thank you. And then this lady here.

MALINI PATEL:
Thank you for taking the question. Malini Patel from Banyan Global. IMF has recognized that gender is macro-critical. I'd love an update on what's happening internally and what policies are effective.

KRISTALINA GEORGIEVA:
OK, great. Thank you.

MASOOD AHMED:
Alright. So, we've got three. I don't think we'll have time for another round. So, let's just come back to you with these three.

KRISTALINA GEORGIEVA:
So the… for the U.S., what we see in the U.S. is the support that has been provided to the economy has propped up the U.S. growth. What is important is that growth in the United States is coupled with increase in productivity. Not the case in many other countries. So for this reason, we think that the U.S. economy is actually in a reasonable place. This being said, we tell everybody, watch your debt levels. You have to take a medium-term perspective on how you're going to bring it down, because what has been done to prop up the economy because of the pandemic, cannot be sustained forever. It has to be worked back. And that is, we would have our discussion with U.S., the Article IV Consultation. And that would be one of the issues we will be talking about. But again, when you look at the data, something I didn't talk about, and it is probably worth recognizing. There is quite a significant divergence within advanced economies; within emerging markets. And this divergence is driven by multiple factors.

How much you rely on import for energy. U.S. doesn't rely that much. But one of the factors that is very interesting to look at, is this difference in productivity. In the U.S., we see wages going up, but productivity going up even higher. And that is a good thing for the economy.
On the question of hybrid capital, we have been very supportive of the two development banks that have asked for it. Our technical team in the finance department has worked with

them, so they can be a robust proposal put to our Board. My personal sense is the following: It is new. And it is coming new over new over new. So, we had the on-lending of SDRs, the creation of the RSF, the use of SDRs for... to put in an investment vehicle. Now comes this proposal. It takes a bit of time for the membership to absorb, because they're thinking, "Are we now doing too much in too many places?" "Do we need to slow down and first absorb what we have decided before we move forward?" I don't think it is a matter of specifically hybrid capital being riskier, but it is something new.

You know, hybrid capital is not something that we have supported with the SDRs. And as long as there is enough... there are enough members who want to do it, holders of SDRs who want to do it, I think we will find a pathway forward. And on gender, thank you for asking. So, amazingly, we are exceeding on our commitments to our Board. When we went with the gender strategy, we said we are going to do that many countries in which we would look in the... we would put a gender lens in our surveillance. Was it... are we 50% above what we promised? Some... I don't want to...

MALINI PATEL:
Quite a bit.

KRISTALINA GEORGIEVA:
Quite a bit above. What does it mean? It means that teams are interested in doing it. It is not being shoveled through their throats. They recognize that labor market participation of women, ability of women to grow up in the ranks, take responsibility... more responsibility, this is really significant from a productivity standpoint. And if you look at what is the difference between our analysis of prospects for growth before, when we were a bit more pessimistic, and today, it is the strength of labor markets. Women are part of this strength. As for us at the front, we have now... we went from 25% women in senior positions to 38%. We have, for a first time in the top five, me and the deputies, three women, two men. Never happened before. And most interesting, I sit in meetings. And women, young women speak up. And that, to me, is hugely, hugely important.

MASOOD AHMED:
Yep. So, alright. OK. Well, that seems to me to be a very positive note on which to end this.

KRISTALINA GEORGIEVA:
No, I want to end with Keynes. I want to end with Keynes.

MASOOD AHMED:
Let's go back to Keynes. We started with Keynes. (CROSSTALK)

KRISTALINA GEORGIEVA:
So Kaynes, everybody quotes him for what? "In the long run, we are all dead." Actually, we

should quote him for, "In the long run, almost everything is possible." So, I want to end on that note.

MASOOD AHMED:
Right. Exactly. So, there we go. In the long run, and I'm kind of hoping that maybe in the not so long run, a few good things will also be possible.

KRISTALINA GEORGIEVA:
Absolutely, they will be.

MASOOD AHMED:
So, let's move on that. Thank you, Kristalina, for coming. (APPLAUSE) Thanks, everyone. (APPLAUSE CONTINUES)

KRISTALINA GEORGIEVA:
Thank you. Thank you, Masood. (APPLAUSE CONTINUES) Thank you to the audience.

MASOOD AHMED:
And… And thank you also to all of you who joined online. Thanks again.

KRISTALINA GEORGIEVA:
Thank you. (ENDING MUSIC PLAYS)