The Economic Club of New York

113th Year
545th Meeting

Kristalina Georgieva
Managing Director,
International Monetary Fund

June 29, 2020

Webinar

Moderator: John C. Williams
Chairman, The Economic Club of New York
President & CEO, Federal Reserve Bank of New York

Introduction

Hello, this is Barbara Van Allen, President of The Economic Club of New York. Thank you for joining us this afternoon, and we will get started in exactly two minutes.

Chairman John C. Williams: Well, good afternoon, and welcome to the 545th meeting of The Economic Club of New York in our 113th year. I'm John Williams and I'm the Chair of The Economic Club of New York and I'm the President and CEO of the Federal Reserve Bank of New York. The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues. And this mission is as important today as ever as we continue to bring people together as a catalyst for conversation and innovation.

So a special welcome to guests of our members and members of The Economic Clubs of Chicago and Washington, D.C. who we've invited to join today's webinar. In addition, we're happy to welcome members of The Economic Club of New York 2020 Class of Fellows as well as graduate students from Fordham University and the School of Business at Medgar Evers College.

So before we begin, we'd like to thank our healthcare workers and our frontline workers for all that they do, particularly during these challenging times, to keep us healthy and safe.

So it's a pleasure for me now to introduce our guest today, Kristalina Georgieva, the Managing Director of the IMF. Now, before joining the Fund, Kristalina was CEO of the World Bank from January 2017 to September 2019, and she also served as Interim President of the World Bank Group. Previously, Kristalina helped shape the agenda of the European Union, for which she served as the European Commission Vice President for Budget and Human Resources. And in that capacity, she was deeply involved in efforts to address the Euro Area debt crisis and the 2015 refugee crisis. Before that, she was Commissioner for International Cooperation, Humanitarian Aid, and Crisis Response, managing one of the world's largest aid budgets.

So, in 2010, Kristalina was named "European of the Year" and "Commissioner of the Year" by European Voice for her leadership in the EU's humanitarian response to these crises.

Now, the format today is a conversation which I am fortunate enough to be moderating, and we will end promptly at 3:45. So, as a reminder, this conversation is on the record and we do have media on the line.

Conversation with Kristalina Georgieva

CHAIRMAN JOHN C. WILLIAMS: So, with that, let's jump right into this. First of all, thank you for joining us today. I'm really looking forward to our conversation. So why don't we start with, the IMF has just put out their update for their weekly, I mean for their World Economic Outlook and I thought it would be helpful for our audience to hear your views at the Fund of where do you see the global economy and where it's headed?

KRISTALINA GEORGIEVA: Well, thank you very much, John. Good afternoon to all who are online. I am very privileged to be your first guest as you take over the Chair of The Economic Club of New York and particularly privileged because we are in this very unusual time economically as a world community. So we came up with our updated projections and in some what they say is the recession is deeper than we thought it would be just in April. The recovery is more, is protracted, it is one that is going to be uneven. But we also have a piece of really good news – policy action by central banks, by financial authorities has been absolutely fantastic in putting a floor under the world economy.

So, what are the numbers? We are now projecting minus 4.9% for 2020 and then a recovery, 5.4% next year. It is unfortunately a crisis that doesn't spare anyone – both advanced economies and emerging markets are very severely hit. And the result in terms of loss of GDP over these two years is staggering. We will have $12 trillion less because of this crisis. Where we are now headed? Two things that we didn't know before – one, now we know that recovery and reopening coexists with the pandemic.

Back in April we were hoping that maybe an end of the pandemic and then a big recovery, and that is where the uneven, partial recovery comes from.
And two, we now know that there are a set of actions that have proven to work in terms of protecting lives and protecting livelihoods. What we are still somewhat lacking globally is the discipline of applying relentlessly these actions and what we are still a bit behind is a recognition that we have to be much more agile as policymakers as we learn more to tune up the policies accordingly.

So, for the IMF, what we are doing on our front is to lean forward with the financial capacity we have. Fortunately, our shareholders had the wisdom – after the global financial crisis – to lift up our lending capacity to $1 trillion. Then we had $250 billion. Now we have four times more. And we are bringing emergency financing on unprecedented scale. As unprecedented the crisis itself is, we have done in this short three months 72 emergency financing lifelines for countries that need it and we are prepared to do as much as necessary to help the membership. This is what we tell countries. Do as much as you can but keep your receipts. This is what we are doing ourselves.

CHAIRMAN JOHN C. WILLIAMS: Thank you for that. Now, I would like to ask you a more, kind of a more personal question so people get to know you better. You came into this role less than a year ago and immediately you are facing an unprecedented crisis – you used the word unprecedented; I think it's a word that we'll probably use 30 times today. So what was that like? You have a long, distinguished career at the World Bank and elsewhere, so what was it like coming from the World Bank to the IMF? And what was your biggest surprise?

KRISTALINA GEORGIEVA: Well, the biggest surprise probably was that I came in October and at that time I thought that our biggest problem is anemic growth. We were projecting growth at 3.4%, and I was worried that this is not good enough for a dynamic economy that lifts up the well-being of countries. And here we are, it feels like a lifetime ago, we have a very different set of concerns.

Coming from the World Bank, coming from the European Commission, as Crisis Commissioner, but also coming from Bulgaria, which in the 90s went through a very dramatic collapse of the economy, all of this actually helps to be in charge of the IMF at a time of crisis. What I have learned in all these experiences, John, is act early, act decisively, anticipate what is to come. And while we all pray for the best, prepare for the worst. That experience being in a front seat of many very dramatic tragedies – be it because of conflict or because of natural disasters – somehow, I think uniquely prepared me to actually get into the hot seat exactly at that time.

CHAIRMAN JOHN C. WILLIAMS: Well, we're all dealing with unusual circumstances.

You mentioned monetary policy. You mentioned fiscal policy. Now typically the IMF– I'll just say this is my opinion – has spent time finding fault with others around various things. Right now you're sounding very positive about at least the general trends in fiscal and monetary policy. So we'll talk some more about what else needs to be done and specifically what the Fund is going to do, but could you comment a little bit about how you've seen the response and actions of monetary and fiscal authorities and other authorities around the world over the past several months?

KRISTALINA GEORGIEVA: We all remember that during the global financial crisis there was a bit of hesitation initially to act. And then during the Eurozone crisis, there was even more of a pondering over what to do, especially when Greece was front and center for European policymakers. We also saw that we withdrew support from the economy a bit too quickly and the price that we were paying was that very same anemic growth that I started my time at the Fund with.

So, what is very important for everyone, for institutions, for countries, for businesses is to learn from experience and then to make sure that the lessons are applied full speed. For the policymakers today, one of the big demonstrations of having learned from this experience is that these massive monetary policy actions, rates, countries that can cut rates did it decisively. The Fed here has gone all out with asset purchases basically saying we will do anything that is necessary to stabilize the economy. And we also have seen unbelievable fiscal measures totaling some close to $11 trillion in just this short couple of months.

All of this is necessary. Why? Because the economies put us into kind of coma, so it is self-contained, both on the supply and on the demand side. And if we don’t want to have massive bankruptcies and massive unemployment, we have to provide the support for as long as it takes so we go through this crisis.

At the Fund, I take pride that we have immediately recognized that some countries will have access to finance because they have built strong fundamentals – by the way, another very important lesson that was learned – have good buffers, good policies, so you can withstand crises. But there are countries that do not have access to finance or not at affordable cost. And for these countries, there is an IMF. And I can say we will be, we are there for countries, we will be there for our membership.

What we are also saying to everybody is, look, you are putting this tremendous support, you have to think about the medium-long-term. So your fiscal measures have to be targeted and they have to be temporary. Your monetary policy, you have to think how you anchor in the future this accommodation. And you have to now think what are the lessons we will draw from this crisis to do better in the future.

Again, to finish with another earring we put on our ear and it is still standing since being there, it is what has been done for the banking sector that let us down during the global financial crisis? What was done is to tighten up supervision, put prudential measures in place, and build buffers that could withstand stress tests and then do the stress tests. The banking sector is one of the anchors today because it is sound and reliable. And I want to praise you, John, and everybody here in the Fed for the incredibly prudent work you do so we have that reliability of a key part of our economy, including taking additional measures like the decision that has been taken on buybacks and on dividends –a healthy decision. We want strength today for a more effective performance tomorrow.

CHAIRMAN JOHN C. WILLIAMS: We'll come back to, I think, some questions on some of the longer run, maybe lessons from this pandemic, but in the here and now one of the things we've seen is obviously countries in the southern hemisphere, emerging market countries, now experiencing big increases in cases. Those are some of the countries that I think are more challenged in terms of the economic and financial conditions there. So could you talk a little bit about that and what you're seeing in the emerging market world and what the role of the IMF is.

KRISTALINA GEORGIEVA: Well, unfortunately I need to recognize that cumulatively the hit of this crisis on emerging markets and developing economies is going to be higher than it is on advanced economies. Yes, in 2020, advanced economies are very severely hit, but they have the capacity, many of them the fiscal space, to take action and 2021 looks better for them. They also have fairly quickly lifted up capacity of health systems so they can cope with the pandemic while it is still with us.

When we look at emerging markets, developing economies, what we see there is the health systems are weaker. When the pandemic moves in a country with a weak system, it is, I mean it is a tragedy everywhere, but it is a heartbreaking tragedy in a country like Ecuador or when we look at Brazil or Mexico where cases are going up. But even more so when we go to the continent of Africa where, yes, the number of cases is still relatively smaller, they have about a quarter million people infected, but it is going up. Yes, they have a younger population, same in parts of Latin America, but much weaker health systems. So we have to recognize that that calls for global solidarity. If we are to get beyond the pandemic, it has to be dealt with everywhere for us to be safe wherever we are. So that is the very first important message that the health risks are in an environment with weaker systems.

Secondly, many of the developing emerging markets, not only have to apply containment measures in a very difficult environment, imagine how do you do social distancing in an urban slum? How do you do hand washing if there is no running water? How do you say to people stay home when they are in the form of economy, hand to mouth existence?

So that severity is compounded by three things. One, many countries are commodity exporters. So you look at oil exporters, severely hit. Their shrinking is in the minus 8 to 10 category. By the way, Latin America shrinking 9.4%, minus 9.4%. It's like pushing Latin America twenty years back in history. Then you have the countries that are heavily dependent on tourism. And this is a category of countries where just, I mean I throw my hands in the air, how do you help when your revenues shrink by 90% and your expenditures go up? So these countries are in a very tough place.

And then you have many countries depending on remittances. Remittances were more than, at the high for indirect investments, a boost for these countries, now shrinking World Bank estimates 20 to 30%. So, how do you deal with this harsh reality? And I would put to our minds actually three sets of action. The first one is as much as possible use the small fiscal space and financing from international sources to very rapidly improve your health system, your capacity to deal with this, and to protect the most vulnerable parts of the economy, the most vulnerable people.

Second, for economies that are deep in debt, well, we have for the poor countries, the Debt Service Suspension Initiative. Seventy-three countries are eligible. Take advantage of it. For some countries it would be a matter of debt restructuring and we know two in Latin America – Argentina and Ecuador – that are going through this process. And three, when you are at this very difficult place, make sure that actions are taken in domestic policy that is helpful for recovery and growth. Not easy, especially if the world decides to pull back from trade and from global cooperation. And I actually am here to talk to all of you to say please don't do it. Not only morally a tragedy, but economically the gravest mistake we can make for our future.

CHAIRMAN JOHN C. WILLIAMS: So one of the issues that comes up a lot, I hear a lot, I'm guessing you're hearing a lot, is that there's been this enormous fiscal action and huge deficits and debt increases and central banks have increased their balance sheets. And you've argued this is what we need, it's the right treatment for the situation we're dealing with. But are there aspects of this that worry you in terms of, you know, risks of instability, debt stability, things like that?

KRISTALINA GEORGIEVA: Well, there are at least three things we need to keep in mind and not lose sight of those. The first one is law of unintended consequences. So one positive unintended consequences is access of emerging markets to borrow at reasonable cost. But there is also negative unintended consequence and this is the stretch valuations we see on markets. Many people talk about it. What is this? I get this question all the time. How come markets are up almost where they were before and the economy is so much down? And a bit of it is because we have so much liquidity that allows assets to kind of stay afloat at high level.

We have to be mindful of this. Why? Because, yes, as we are assuming that we will return to growth and not only that, but that growth may be more dynamic, driven by digital transformation, high tech innovation, we are not there yet. And if we are not there yet, it's a bit of a bet that doesn't quite yet have the certainty to materialize. But also because if there is some sudden shock that we don't anticipate and financial conditions heighten, then we may have very big headache to deal with.

The second issue to worry about is, as you said, debt going up, deficits going up. Now, we are anticipating interest rates to stay low for a long time. If this is the case and we are expecting this to be the case, then high debt levels, we have time to act on that. High deficits, we have time to act on those. But act we must. So we can't just assume that we, boom, boom, that that is it and it somehow miraculously melts on its own. There will have to be prudent fiscal policy. There will have to be inevitably some changes in taxation. I am the first to say that now is not the time to talk about more tax. But it doesn't mean there won't be time to talk about more tax especially from the winners, the big winners of this pandemic.

And the last and definitely not the least to worry about from all these actions is that if fiscal measures are poorly targeted and they keep afloat for a long time, businesses that should be closing down because of structural change or just because of fast development of alternatives, then we might be loading on our neck a huge burden without reaping benefits in the future. The same applies if they are not temporary. And we know this is a big risk, you put the measure, people get more money, what is not to like? You have to pull the whole measure and the whole hell breaks loose. People are protesting. They're on the street. So policymakers have to think carefully how to calibrate policy response especially now that we know more about this crisis.

CHAIRMAN JOHN C. WILLIAMS: So we started with IMF's new forecast and they were grim, I think, is how some forecasts described, very realistic in terms of prospects. But, you know, from my, you know, being in the forecast business myself, I mean this is a really challenging time to come up with forecasts. The situation is evolving rapidly. It's a completely different situation than we're used to. It's a very different recession. So how are you and your colleagues at the Fund, using Big Data, new analytics, other approaches, to try to figure out where the global economy is going?

KRISTALINA GEORGIEVA: You know this is one of the positive spillovers from the crisis, that our macro-economies are accelerating what we wanted to do anyway and it is to tap into Big Data so we have more accurate projections. What we are doing is we are integrating in our models two new blocks. One, epidemiological data. Now, we never did that before. We didn't have to do it. And now we have to plug into models what are the projections for the spread of the pandemic, the risk of a second wave, the ups and downs depending on how the measures applied are being implemented.

And the second, which is very interesting, and again it started before the pandemic and now accelerated, is to plug in Big Data of a variety of sources. Electricity – and this is high frequency data. In other words, we take it on weekly, daily, sometimes hourly basis – like electricity consumption, like bookings in restaurants and hotels, like departures and arrivals and how many passengers get on planes, like data on mobility that is being traced by mobile phones. Where are people? Like data on recruitments, what positions are out there, how many of them are being filled, how quickly? All these very different database, oh, pollution, very important. Pollution basically tells you whether industrial activities and transport are restarting and with what intensity. So all of this helps our teams to come up with more accurate projections, but of course they have their limitations. And the limitations are these are data of what is happening now and obviously we have to have foresight based on looking at the rearview mirror of data.

But I can tell you that I am fascinated, we get presentations, we actually have some places where I can go in and see the story that is being told and this is incredible. This is a very different world of data. And I think while we will continue to insist that there is uncertainty and past experience, even as current as every hour, it still doesn't quite tell us the future. We are in a much more interesting place in terms of forecasts. But I would say the biggest value is in a much more interesting place in terms of policy recommendations. Not your grandmother's IMF, John.

CHAIRMAN JOHN C. WILLIAMS: Right. That's absolutely true. You know one of the things we're able to do, and you're doing the same kind of work, is actually look at, you know, where things are different across regions, across countries, and using this very granular high-frequency data, really see how different policies affected things and the changes that have happened. So it's a completely different world today and it's being used literally every day. Plus, you know, the economists have, as you mentioned, bringing the epidemiological models together with the macroeconomic models. You mentioned to me that's something that's underway at the IMF, really taking, connecting those dots between these two parts of the picture.

So, you know, when you think about some of the kind of longer term challenges that you were talking about, so we're all focused on Covid, we're focused on getting through this situation, but, you know, one of the things you mentioned also is we have to kind of keep our eye on some of these medium and longer term issues that were either areas of focus before Covid or maybe lessons from Covid for the future. So why don't we start with the first part. What are the things that, even though we're focused on the pandemic, that we really don't want to lose track of when we think about some of the longer-term economic issues?

KRISTALINA GEORGIEVA: Right. I mean the first block is things that we had to wrestle with before the pandemic that were preoccupying us and were serious. I mentioned the anemic growth. Why was growth anemic? Because productivity is stubbornly low. Why is productivity low? There are all kinds of explanations but not really quite yet a clear solution. And it is a good time now to look into this question again and see what can be new drivers of growth, especially what can be new drivers of productivity growth.

Another issue that I'm particularly sensitive too that we don't forget is the increase in inequalities. Just before the pandemic, 2019 was looming as a big year because of the unrest happening in so many places around the world. And the root cause of this unrest most of the time was increase in inequality. We actually did an analysis at the Fund that showed that inequality in fact impacts negatively the financial performance and impacts negatively growth prospects. It's actually not so difficult to understand why because especially inequality of opportunity means that a part of your population does not contribute as much as they could to growth and to the well-being of everybody.

So these issues, they are still with us. They haven't gone anywhere. And for many people 2019 was also a year when we finally saw business, actually in January 2020, that was the big topic in Davos, concentration on the climate crisis and how we can take it from a negative to turn it into a huge investment opportunity and growth opportunity for the future.

So if we take these problems, oh, can I add one more, John? One more, just one more. Trade, and we were wrestling with trade disputes and pensions before the pandemic and there was a reason, there is a reason which is trade agreements have fallen behind developments of the economy. E-commerce, not part of trade agreements, services, not part of trade agreements, technology transfer not really handled well. And on top of it, we had parts of the population in countries feeling that they're left behind because of globalization. So all of these buckets of issues, I think we can zero now as we think of the very big thing that is likely to be done next year and it is massive fiscal stimulus to restart growth and help us to accelerate, catch up – if you wish – with the pre-pandemic time.

When I look at this future, I see a chance to blow it up or to make the fiscal stimulus really deliver for us. And deliver for us means to concentrate on removing, well, concentrate on action that is accelerating positive transformation, like the digital transformation in a way that doesn't add to inequality. Well, what does it mean? Accessibility. Everybody has to be able to get on the internet. Putting governments at all levels on the internet so citizens can control how their tax money is being spent. Taking a very big lesson from this crisis in terms of investing in health and more broadly investing in people. If we want to be resilient, people have to be skilled, healthy, and with a social protection that at the time of shocks doesn't have to be invented every time.

So, what is the conclusion? Last time we did automatic stabilization of the banking sector. Now may be a good time to do automatic stabilizer for health, education, social protection so we can be more resilient. And then last but not least, who is going to create the jobs of tomorrow? Private sector. So look at what is there to help and to hinder private sector development. And use that time to eliminate red tape but also to inject that kind of stimulus that is vitalizing medium, small-medium enterprises that is job-friendly, getting to job-rich types of activities where we can see public money doing a big service by injecting more dynamism in the economy.

Is this just a dream? I mean sometimes I think, well, am I, you know, am I dreaming here? Well, whenever this is a very deep crisis, it is opportune time and the impossible gets done. And I see no reason why on earth we are going to blow up this particular crisis.

CHAIRMAN JOHN C. WILLIAMS: Those are great optimistic words for the future which I fully endorse. One thing that came out of a lot of the debates around globalization and free trade, you know, was a sense that it was oversold by economists typically that free trade was great for everybody. Sure, there were footnotes or, you know, perhaps comments about winners and losers but, you know, after the fact a lot of people said, you know, that wasn't given enough attention. So when I hear people talking about the things you've talked about, whether it's investing in, you know, greener economy, climate change, more inclusive growth, how do we make sure that we don't end up making, you know, as a profession, the same kind of mistakes of overselling it and at the same time making sure that, you know, those distribution or inequality issues are addressed from the very beginning? I know you've already commented about it a little bit, but maybe a little, talk a little bit more about it.

KRISTALINA GEORGIEVA: You know, let me first wholeheartedly agree that we do have a tendency to oversell the desirable outcome, and we do have to be careful not to repeat that mistake. What it means, of course, is to build sufficient feedback loops in the policies we are putting in place that help us to take corrective action with no shame. And we know that 21st century policymaking is really this kind of sandbox. You kind of experiment and you adjust. There are certain things that are proven to be no regrets. Investing in high quality education and health services, no regrets. Can't get you wrong for the 21st century.

If you look at the countries that are doing best in this pandemic environment, well, some of them are the same countries that are doing best in Pisa. Countries in Asia where they have taken a determined approach to education and bringing it into the digital world, everybody with equal opportunity access, they're coping with the pandemic. I mean I don't want to be; I don't want to be excluding many countries that do well, but I just want to give you one example – Vietnam. Vietnam, if you look at Vietnam it's like a miracle.

People say they overreacted. They acted very early on in the pandemic. They made it a national priority. And from what I remember when I last checked, 300 cases, zero deaths. Strong health system. Education is a huge priority and that sense that we are in this together, built through this equal access to opportunities.

So we have to recognize that there are certain things that we just simply ought to prioritize now and then as we implement them, we adjust. And there are things that would be much trickier, like getting into changes in taxation. Redistributing some of the kind of burden on society is not an easy thing. It's going to be one area of, I'm sure, of passionate debates. And again, we have to be sure that we don't shy away from the debate but we do retain an open mind to listen to different views as policymakers make these necessary changes.

We are in a world that, if you take the one determinant that we all know is absolutely there, fast change. It used to be that you had the luxury of a decade to invent a policy, put it in place, reap all the benefits. I don't have that. This is all compressed in a much shorter period of time. So, to be successful, it has to be feedback looped based. And you put your finger, it has to be honest. It cannot be wishful thinking. It has to be aspirational, ambitious, and reality-grounded.

I know we are running close to finishing this, John, but I wanted to tell you, you know, people who teach us best lessons are not necessarily the big and powerful. In my case, my granddaughter. She was five when I was telling her how when I was her age there were no computers and no internet, no cell phones. So she looks up at me and says, so you only had iPads. I'm saying this because this is my, my kind of reality test, how quickly the world is changing and how much we have to be agile and adjustable so we can succeed.

CHAIRMAN JOHN C. WILLIAMS: Absolutely. So thank you so much for this wonderful conversation and sharing your perspectives and views. And I think we are now out of time. So, with that, again thank you Kristalina. And for those people who are watching, you may have noticed The Economic Club of New York's Calendar of Events is going to continue through the summer and we've got a number of speakers already lined up. So please, we invite people to attend and bring your guests. We have on July 14, my colleague Jim Bullard, the President and CEO of the Federal Reserve Bank of St. Louis. We've got Stephen Hahn, the Commissioner of the FDA on July 15. And Bobby Kotick, the CEO of Activision Blizzard on July 20, which is going to be especially important for me since in my "free time" I am a gamer. I'm always interested in Bobby's views about that industry. So, as our calendar continues to grow, please monitor our website and we'll also be sending out, of course, email communications around upcoming events as they become available. So, again, thank you Kristalina. Thank you everybody for joining us today, and everyone stay well.