

## U.S. DEPARTMENT OF THE TREASURY

# Remarks by Secretary Janet Yellen, World Bank President David Malpass, and IMF Managing Director Kristalina Georgieva in Conversation at the 2021 Spring Meetings, “Economic Recovery: Toward a Green, Resilient, and Inclusive Future”

April 6, 2021

### **Economic Recovery: Toward a Green, Resilient, and Inclusive Future**

MALPASS

Thank you very much, Larry. It's a pleasure to be here with IMF Managing Director Kristalina Georgieva and with U.S. Treasury Secretary Janet Yellen to discuss the economic recovery in the kickoff of our Spring Meetings. The world faces major challenges, including COVID, climate change, rising poverty and inequality and growing fragility and violence in many countries. The inequality is most apparent in the direct effects of COVID that hits informal workers and the vulnerable the most. The inequality extends well beyond that to vaccinations, the concentration in wealth, the unequal impact of the fiscal stimulus and asset purchases, and the imbalance in debtor-creditor relationships, particularly for people in the poorest countries. The World Bank Group is leaning forward as much as possible to face these challenges. In response to COVID-19, we took broad, fast action and quickly achieved over 100 active operations of support for developing countries.

Commitments rose 65% in 2020 from 2019. On vaccines, working closely with Gavi, WHO, and UNICEF, we've conducted over 100 capacity assessments, many even more before vaccines were available. We are now passing several specific country vaccine financing operations each week through our Board with already 10 approved, 10 more scheduled in April, and around 30 more expected in May and June for a total of around \$4 billion in 50 countries. There are major challenges for the countries in securing deliveries, from COVAX and manufacturers, and we're working to support their efforts. Many developing countries entered the pandemic with unsustainable debt levels. We've worked to achieve a debt service suspension initiative and increased transparency in debt contracts. Both steps are helping. We've dramatically increased our grants and loans to the DSSI countries. Our goal is to maximize resources available to people, and we're working in close collaboration with the

IMF, to support the G-20's implementation of the common framework we're pushing forward together on Chad, and the World Bank hopes to be able to put in substantial fast-disbursing resources. Chad has a heavy burden of collateralized debt owed to a very narrow group of creditors presenting specific challenges.

Finally, we're finalizing a new climate change action plan, which includes a big step up in financing, building on our record climate financing over the past two years. It includes new analytical support to countries as part of integrated climate and development programs. We want to achieve as much impact as possible with the increased financing. Our plan identifies key priorities for action, with a focus on both adaptation and mitigation. It also includes a strong focus on a just transition from coal, and we're working toward aligning our financial flows with the objectives of the Paris agreement.

To conclude, I've noted big challenges. We're working to bring all together to achieve what we call GRID: green, resilient, and inclusive development. We'll have separate events on debt tomorrow, climate transitions on Thursday, and vaccines on Friday.

And now, let me turn to Secretary Yellen, and I'm so pleased you're here. Thank you very much for that. Dr. Yellen, it's been a year since we were on a presentation together. The world had a very hard year, and the United States under your leadership is having a big impact. Could you go through what the U.S. is doing to help the world recover economically from the crisis?

YELLEN

Well, thanks so much, David. It's a pleasure to be with you. Well, first of all, domestically, we're focusing on the pandemic and trying to promote vaccinations, testing, contact tracing to get it under control, because we recognize that for the United States and for the world as a whole, the pandemic really is what's going to call the shots in terms of how the economy does. So that's first and foremost at home, and I think it's equally important for the entire globe. We are trying to support the most vulnerable people, who typically are low-income people and minorities in the United States. And the same is true globally, I think. Those who work in the service sector and minorities, vulnerable people, have been most impacted both healthwise and in terms of the economic impact. So, we have many programs that are supporting them.

Unemployment insurance programs are relief, for rental assistance, homelessness, support for families that are burdened with women who are out of the workforce because children can't go to school, trying to reopen schools as promptly as we can and support state and local governments. We've decided to go big, because we think that the risks are of severe scarring if we allow there to be long-term unemployment and we're projecting a pretty rapid as the, we deal with the pandemic. We're expecting a rapid recovery. I'm hopeful, we'll be back to full employment next year. And once we are, we're going to turn to a longer-term agenda of investment: investment in infrastructure, in R&D, in people. But globally, I think that what we're doing domestically is helpful to the entire global community, stronger growth in the U.S. is going to spill over positively, to the entire global outlook. And we are going to be careful to learn the lessons of the financial crisis, which is, don't withdraw support too quickly. And we would encourage all those developed countries that have the capacity, using fiscal policy and monetary policy to continue to support a global recovery for the sake of the growth in the entire global economy.

#### MALPASS

Thanks, fabulous. Kristalina, Managing Director Georgieva, you have been in the forefront of worry about the inequality in the system. And I wonder if you could give us some thoughts on that and what can the IMF do to ease the inequality.

#### GEORGIEVA

Thank you very much for having me here at the Bank. Fantastic to be with Secretary Yellen and with you. and if I may say, David, I am so grateful that you are focusing on this question of inequality. What do we see today? The world economy is on a sounder footing. The recovery is progressing, and actually actions taken by the United States to boost prospects for recovery in the U.S. are helping the whole world. We are upgrading our projections for the year, but economic fortunes within countries and across countries are diverging dangerously. And this is why in these Meetings, we are focusing on giving everyone a fair shot. A fair shot in the arm everywhere so we can bring the pandemic to a durable end to underpin sustainable recovery. But also a fair shot to a chance for a better life for vulnerable people and for vulnerable countries. And it is so important for the reasons both of you outlined that, that it is a focus, because if we don't do it, then we risk inequalities to deepen and to hold societies

and to hold growth back. What does it mean for us at the IMF? First and foremost, we have stepped up significantly the provision of financial lifelines to vulnerable countries, emerging markets with weak fundamentals, low-income countries are joining you, the World Bank in making sure that those with limited fiscal space, no access to markets, are not left out from the recovery.

We have done dramatically more just to give you one number, 13 times more lending to low-income countries than we would do in an average year. And we are committed to continue to support them through the recovery. More importantly, we have included in virtually almost all our programs, quantitative targets for social spending to make sure that especially spending for education and health and social protection is in place. But also, that attention is being given to the empowerment of women. They're getting now the short end of the stick in this crisis, and that we target support to the most vulnerable parts of the economy and the most vulnerable people. Going forward and working with you, working with our shareholders, what we want to see is a comprehensive program of support you spoke about that. We cannot ignore that sustainability in this crisis, provision of more concessionary resources and also seeking ways in which we can boost reserves, especially for countries with no market access. So ultimately this fair shot would bring the worlds together because in this crisis, we have no way to get through without pulling together.

MALPASS

Yeah, this is huge. A fair, shot. Dr. Yellen, Madam Secretary, you interact with the advanced economies a lot. What can everyone do working together to achieve an inclusive recovery? How do we make progress on those tough issues?

YELLEN

Well, let me second a number of the points that Kristalina just made. I think it's the responsibility of the developed countries to make sure that decades of progress in fighting poverty globally and trying to close income gaps between rich and poor countries — we need to see that that progress is not reversed because of the pandemic. And I hope, as we gather together for the spring meetings, that's going to be our focus. We need to provide a package of resources that your organizations can use to help developing countries, low-income countries. I hope that we'll make progress on approving an SDR allocation, which I think

would be a very important way to support the reserve needs globally, especially of low-income countries. You mentioned tackling debt. I think that's an extremely important initiative, concessional finance for the poorest countries. You know, I hope that this will be the focus and the developed countries will band together to make sure that we provide that support.

## MALPASS

Yeah, absolutely. And I liked very much the way you said that as the U.S. expands, that has benefits for everyone. And we can extend that as Europe expands, that has benefits and the developing world, I think really welcomes that growth coming out of the advanced economies as it can be achieved. So, I was very happy to hear Kristalina say an upgrade in the IMF forecast for that. I want to turn a little bit if we may to climate change. These are immense issues for the whole world, and so each of us in our various ways are interacting. I went through our climate change action plan that we're, that we're just releasing, but I wonder for the IMF, how do you think about the climate change issues in the context of the macro economic challenges that you work on and how can the IMF help on this area?

## GEORGIEVA

Climate risks are a growing threat to macroeconomic and to financial stability. And with the same token climate action offers the prospects for green growth in green jobs, critical for what we do at the IMF in supporting growth and employment. What we have embraced as a latecomer in this conversation is to zero in on our comparative strengths. What is it that we are uniquely positioned to help the world accelerate the transition to the new climate economy? And it is macroeconomic data and research, fiscal and monetary policies, crisis prevention, crisis response. So, what we are doing at the IMF, working very closely with the World Bank and other organizations, are four areas of stepping up our work. So, it is at the heart of what we do. First: policy advice, we engage with all countries in what is known as Article 4 consultations. And when we do so, we look at the criticality of mitigation and adaptation policies.

Naturally, we do more on mitigation in countries that are high emitters. We do more on adaptation in countries that are more vulnerable. For example, countries like China, U.K.,

there we look primarily at carbon intensity, what can be done with good policies. When we go to the Caribbean, naturally, we focus on vulnerability and adaptation, or Sub-Saharan Africa for that matter. Secondly, we are zeroing in on climate-related financial stability risks, and we have a big role to play: standardized reporting of this risks, stress testing, and looking at the role of supervisory authorities. We have an instrument together with the World Bank, the financial sector assessments. We are integrating climate-related risks in these assessments. Third, data. Data tells a story to finance ministers like nothing else, integrating carbon intensity and other climate data in quarterly macroeconomic data is what we are pursuing, again working with other organizations. So, we are going to have a dashboard that would help policymakers to see in one place, their growth numbers, employment numbers, carbon intensity numbers. Last but not least, David capacity development. Countries need to speed up their ability to integrate climate policies in their macroeconomic policies. And we are there for them.

#### MALPASS

Fabulous. Janet, President Biden has talked about the whole-of-economy approach. And you've noted that poor countries often are not the ones emitting the greenhouse gases, or not in such quantities. So, we have this challenge that Kristalina is talking about of the diagnostics being applied. So where are the areas that we can have most effect? So, I wonder your thoughts on how does the world better invest in this problem and solving it?

#### YELLEN

So, obviously climate change is a global problem, and we're not going to really be able to deal with greenhouse gas emissions successfully unless countries like the United States act domestically and then foster the transfer of resources in the financing that's necessary for developing countries to be able to do so successfully. President Biden is very focused on the U.S. climate agenda. He's going to be proposing a package of infrastructure and climate change investments to make sure that we make our own domestic contribution to meeting the Paris objectives. And we look to you and working with you, in order to make sure that the necessary resources for green development and finance are transferred to the developing countries that really need those resources. And I think both of your organizations have very important roles to play, maybe distinct roles to play as Kristalina was mentioning, but, you

know, we need to make sure that we help developing countries meet their climate goals along with their development objectives. And the availability of green finance is critical to that.

## MALPASS

This, you know, as we're putting out our climate change action plan, one of the key things we're trying to do right now this month is work with countries in DC, on their nationally determined contributions in their participation in the Paris agreement. And one of the challenges in that is how do you maximize the results for the country within their resources, within the world's resources. And that goes right back to the diagnostics area. What do we have measurement on? How do we bring in adaptation for the poorest countries? It turns out the biggest thing that they need is the adaptation side this brings us all to, and let's both, let's all discuss the importance of in the end, the private sector has to be fully engaged in this effort as well. And so that involves the financial side, the financial intermediaries and the risks measurement of the risks that are in. And I think also just the big dollar investments that are needed in cleaner sources of energy. One of the things we're trying to do World Bank is on the electricity side, that more access for people, but in a way that's greener, and so that's a big challenge from a dollars and cents standpoint. Kristalina thoughts on private sector and investment flows?

## GEORGIEVA

Well, the way we think about it at the Fund is that there has to be a framework that credibly directs private sector of a medium long-term. And the way that can be done is first to provide forward guidance on carbon price. At the Fund, we concluded that, what is today \$2 a ton is multiple times lower than where carbon price should be at least \$75 a ton, but we can't go from here to here in one jump. So, giving that predictable forward guidance helps the private sector to then integrate reduction of carbon intensity in their own investment decisions. Secondly, there is a big role for the public sector to make it easier for the private sector to take the green turn. And it is green infrastructure push. I'm thrilled that United States is intending to pursue it. We calculated that over 15 years, a green investment push in a modest amount can generate 0.7% boost to growth, create many green jobs. But also what it does is it makes it possible for the private sector to find its way. Just imagine if we have

electric charging stations easily accessible everywhere. The shift to green mobility is going to be much faster. And the third, and this is hugely important, private sector would step up when green finance is well underpinned exactly with what I was talking about. Reporting can crack, climate related financial stability, risks, creating conditions for boosting green bonds, because the private sector can see good accounting for impact. And this is where the bank is so fantastic by providing that ability to capture the meaning of greening. You said something very important David before and it is just transition. We are not going to win if there are losers unattended. If people in high carbon intensity sectors or regions do not get the helping hand, and we should not expect the private sector to solve this out entirely on its own. So again, it's very exciting to see that a country with so much clout internationally is taking on the leadership in that regard.

#### MALPASS

That's fabulous. We have the benefit here in the World Bank of having two eminent economists in fields, labor, and climate and environment, which is fabulous. And it puts together as we think about their just transition. A lot of countries have coal miners that are dependent on coal, and yet the world knows that that, that there needs to be a way to a better future on that. And so, one of the things the World Bank can bring into that is in the nature of labor economics, incentives to help people move to new things. Are there others? What are your thoughts? How does the world make this transition and what are the investments? What are the labor force implications of this?

#### YELLEN

So let me again echo my agreement with many of the points that Kristalina made. I think, to really make progress on climate we need both public investment and private investments and things like charging stations, and an electrical grid that's capable of handling renewable energy sources appropriately. These core investments are critical in order to provide the infrastructure, the public infrastructure to support private investments incentives. We're also looking at tax incentives to stimulate private R&D. I think technological change will be important and we want to incentive in a green direction. We see the potential for tax incentives for electric vehicles and the like, these are some ways in which we hope to stimulate private sector investments, and there will be opportunities. You know, we



sometimes think this as something that's costly, but it's really important to emphasize that addressing climate change is going to bring opportunities to the private sector for investment and for our society.

As a whole, you asked about labor markets, that's going to bring good jobs. And I believe that some work by the IMF shows that green investment tends to stimulate more jobs. It's more labor intensive than other forms of investment. So, there are opportunities here. And let me also echo my agreement about information. It's very important. There's a huge and growing interest in sustainable investing among financial institutions and investors around the world for that to be possible, they need information about companies and their exposure to climate risks. There's a global movement to try to provide consistent information that can be the basis for investment decisions. We're going to look carefully at that in the United States, to try to promote that. And of course, examination of risks, the type of scenario analysis, making sure that financial institutions understand the risks of climate change, due both to physical, environmental changes that will be caused by climate change, but also because of the potential for changes in asset prices or stranded assets. So those are some planks of the work we would like to see both domestically and globally.

#### MALPASS

One of the interesting questions in this area are core economic questions, which are how do you incentivize? How do you price on some of the issues? How do you do that efficiently on a global basis when people have different policies? And so, I think, one of the things we're trying to do in our own work is to think about the core economic challenges. What's the most effective way to stretch the resources that are available to deal with the problems? One of the challenges has been, some chunk of greenhouse gas emissions comes from the agriculture sector. Yet agriculture is critical to food production and to labor. So how do we put all of those together? I know we're running toward the end of our conversation. Are there other topics that you want to raise? I'll turn to Kristalina.

#### GEORGIEVA

Well, the importance of us working together, we are in the Spring Meetings, it brings the world to concentrate on what we can achieve faster and more efficiently by working

together. I want to say two things. One, we are not giving enough credit to collaboration that has already taken place. In this crisis Central Banks and finance authorities have stepped up swiftly in a coordinated manner. We just calculated that the IMF, that if that didn't happen on this scale, and in that degree of coordination, the recession would have been three times deeper. In other words, we would have been lingering into a depression. And that value of bringing everybody together cannot be overstated. And my second point is to take at least one cheer for our scientists that have delivered vaccines in a record short time. We owe it to them to make sure that everybody gets an access to vaccine. There is no more important economic policy today than doing exactly that. So, let's use our coming together for building up, the foundation of strong international cooperation for what you started from David: green, smart, inclusive future for all of us.

MALPASS

Yeah, that's huge. Both the cooperation side and the technology side, and the careful use of technology to make the advances. And we could've spent the whole conversation on vaccines. I'm sure. Janet, closing?

YELLEN

I would simply say, I think resilience is important. And to me, one of the lessons of the crisis is that the global system you know, should've learned that we need to be better prepared for crises than we were for this one. This may not be our very last health crisis ever, and I hope we will learn that we need to work together to be better prepared for future crises. We've seen, certainly we in the United States have seen that our safety net wasn't all that it should be to protect the most vulnerable citizens.

We have had to shore it up in a series of ad hoc actions. And I think making sure that our safety nets work here and throughout the world, for future crises. Global supply chains—we saw weaknesses and problems in global supply chains. I think we had very efficient supply chains, but not very resilient supply chains. And that's an area that I think we should be trying to shore up. And finally, I'd say we did a lot after the financial crisis in 2008 and 2009 to shore up the resilience of our core banking system. And we should appreciate that we did not have a banking crisis. Our banking systems were able to support growth in credit. But

some areas outside the core banking system of non-bank financial intermediation showed tremendous stress. So, I think we have more work to do to have a more resilient financial system. And in all these areas, again, globally, we need to work together to cooperate as in climate change to make progress.

MALPASS That's a great conclusion. So let's leave it there with resilience and the preparation for being stronger on the recovery and in the next global expansion. Well fingers crossed. There's lots of work to be done, but that's a great conclusion. Thank you. Thanks to you both.

###