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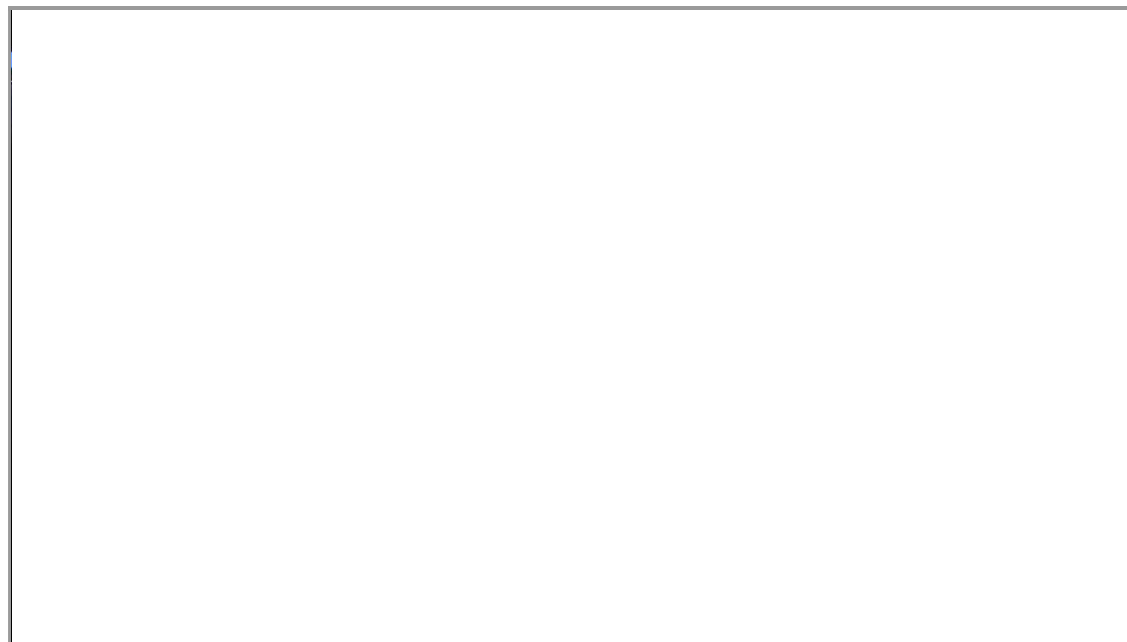
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Transcript of the United States Article IV Consultation Press Conference

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Participants:

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MS. KOZACK: Welcome to this press conference, on behalf of the International Monetary Fund. I am Julie Kozack, Director of the IMF's Communication Department. We are on the record today. Thank you so much for joining us. And I see some colleagues here on the screen, and we will take questions coming online as well.

Today, we are focusing on the 2023 IMF Staff Consultation with the U.S. Authorities on the U.S. Economy. For those of you who know the IMF, you know that this is something we do on an annual basis, and today we published our concluding statement.

This will be followed by the publication of the Staff Report in the coming weeks after the IMF Executive Board discusses the staff's findings. The Concluding Statement has already been distributed to you and you have had a chance to look at it.

I am very pleased to have with us today, IMF Managing Director, Kristalina Georgieva. We also have with us today, Director of the Western Hemisphere Department, Rodrigo Valdés, and Deputy Director of the Western Hemisphere Department and Mission Chief for the United States at the IMF, Nigel Chalk.

The Managing Director will make some opening remarks with key findings and recommendations of the IMF staff and then we will take your questions. Kristalina, over to you.

MS. GEORGIEVA: Thank you very much, Julie, and a warm welcome to all of you to this press conference to discuss the findings of the U.S. Article IV. As you can see, we released the Concluding Statement of the Mission. This morning we had very useful discussions with Chair Powell and Secretary Yellen.

And I want to start by thanking the leadership and staff of the Federal Reserve of Treasury and other agencies for facilitating discussions with our team over the past few weeks. I would like to sum up our statement in four points:

First, the U.S. economy has proven resilient. Consumer demand has held up particularly well, initially, boosted by a drawdown of pent-up savings, and, more recently, by solid growth in real disposable income.

This is good news. For those who follow the Fed on a Q4/Q4 basis, we expect the economy to grow by 1.2 percent this year and retain momentum into 2024. Unemployment, we see rising slowly to get close to 4.5 percent by end of 2024, still a very strong labor market.

Now, this resilient demand and the strong labor market are something of a double-edged sword. They have been certainly a boost to American families, but they have also contributed to more persistent inflation that had been anticipated. We now expect PCE inflation to fall only slowly ending this year at around four percent, and we see inflation remaining above the Fed's medium-term target throughout 2024.

That takes me to my second point, bringing inflation firmly back to the two percent target will require an extended period of tight monetary policy. As I mentioned, inflation is streaming down. Nonetheless, under the IMF's baseline forecasts, we see the Federal fund rate remaining at five-and-a-quarter to five-and-a-half percent until late 2024.

In other words, rates will need to be somewhat higher for longer. There is though still high uncertainty over the economy and over inflation dynamics. So, it would be essential for the Federal Reserve to communicate carefully how it assesses incoming data and provide clear guidance on what this means for the expected path for the Federal funds rate.

Third, there is a need to do more to lower the public debt. We all know that the significant fiscal legislations that was passed in late 2021 and in 2022 will have a lasting impact in reshaping U.S. economy including in accelerating progress to the Administration's climate goals.

It does require though greater efforts to reduce the fiscal deficit and put public debt on a decisively downward part. What it means is a call for a broad range of policies incorporating both tax revenue increases and addressing structural imbalances in programs such as Social Security and Medicare. The sooner this adjustment is put in place, the better. It is worth noting that the fiscal adjustment can be frontloaded and by doing so it would help the Fed in its efforts to reduce inflation.

Fourth, we know from experience that maintaining open trade policies contributed significantly to U.S. growth. We have seen over the last few years global concerns going up with regard to the resilience of supply chains including as it relates to national security.

And, in this context, the Inflation Reduction Act, the CHIPS Act, and Build America by America Act have included provisions that are explicitly designed to favor goods and services produced in U.S. or in North America.

This creates a risk that we would fall on a slippery slope that would fragment global supply chains and trigger retaliatory actions by trading partners. So, our concern is that this would ultimately be bad for U.S. growth, productivity, and employment; so less of it, more as benefits for the U.S. economy.

With this, I would like to turn to your question. And, again, thank you very much for joining us this afternoon.

MS. KOZACK: Thank you very much, Kristalina. I will now open for your questions. Please use the raised hand feature, if you are joining us on Webex, and please also identify yourself and your affiliate before you ask your question. Let us begin with Jennifer from Yahoo. Jennifer.

QUESTIONER: Good afternoon, Managing Director. Thank you so much for taking our questions. To follow up, you said this morning you met with Treasury Secretary Yellen and Fed Chair Powell, how did those meetings go?

What assurance did they give you about the debt ceiling in the event there would be a default, and on rate forecast for the Fed for five-and-a-quarter to five-and-a-half, clearly, that is twenty-five basis points up from where the Fed is currently. Do you think they should be hiking rates at the next meeting in June?

MS. GEORGIEVA: Thank you very much, Jennifer. We have very constructive meetings. And, broadly speaking, on the issues I described there is significant convergence between the view of the Fed and the Administration and what we are coming with, of course, there are aspects of our recommendations that the teams would reflect further on the first question, the debt ceiling, you all are familiar with the evidence that Secretary Yellen has provided to Congress. The concern about speedy resolution of the debt ceiling is one that has been well explained, and I join these concerns. We are very keen to see a resolution as soon as possible. Let us remember, we are now in the twelfth hour, so coming with a good outcome for the U.S. and for the world economy is paramount.

From a global perspective, we think of the U.S. Treasury market as an anchor for the global financial system; and this anchor needs to hold something solid. So, at the time of significant uncertainty, we do not add a self-inflicted injury to those that the world economy already suffers.

There is some encouraging news that discussions are advancing, but the world is watching, and the world is saying, okay, let us bring this to closer; and can you please come up with a different way in which you address this issue. In our assessment, we do see a better way in which appropriations agreed defined where the debt ceiling should be, at the minimum, if not eliminating this altogether.

So, to your second question. You are asking -- you are a little bit about where the effect is because I had a bit of a hearing. That is your question.

QUESTIONER: Yeah, you are just twenty-five basis points above where they are. I think they should hike in June.

MS. GEORGIEVA: Look, the data we have gotten -- and, actually, this is being even confirmed today -- is that inflation remains stubbornly high, especially PCE. It is telling us that the job is not quite yet done.

We made an assessment on the basis of data. The effect is somewhat below that assessment; but frankly, we need to continue to follow the data and see how much it would take to bring inflation to target, and how long it will take to bring inflation to target.

This is not a big difference in views. Ours come from the basis of what we assess to be very strong data, both on demand and on labor market; and that is what we assess to be the place as well; and I am looking at my colleagues here. Anything to add to that?

MR. VALDES: Perhaps let me just add one thing only, at least, where really, we see a big difference is what we see as the most likelihood and required path for a policy, and where markets is. It is not these twenty-five basis points. That is really small. Our main messenger thing is where we need to be very patient, and we will have to have several months with higher rates.

MS. GEORGIEVA: Right. So, it is the direction to travel, we are on the same page, which is there is some way to go. Whereas markets are saying, enough is enough, let us move on. Not quite yet.

MS. KOZACK: Very good. Thank you. I see David Lawder. Let us go to you next.

QUESTIONER: I thank you, Managing Director. I am coming to you from the press room at the APEC Trade Minister's meeting in Detroit today. So, sorry about all the activity in the background.

I just wanted to ask you, you mentioned, sort of looking past this debt ceiling episode, which looks like it may be getting resolved soon; but this won't really solve much of the fiscal problem of the United States. You touched on this in your opening remarks. What do you see as the optimum level of debt reduction, deficit reduction that the United States has to do? How should it do it? Is it frustrating to you that the United States doesn't really follow the advice that you give so many other countries to get its fiscal house in order? So, what do they need to do? Thank you.

MS. GEORGIEVA: We have had quite a tall assessment of what is necessary in the U.S., both on the revenue raising side and the spending reduction side. In other words, what can be done to bring that down; and I want to make two points and then I will ask Nigel to elaborate further.

The first one is that we do see opportunities to bring revenues up, and we have spelled out in quite details where these opportunities are. Some are likely more politically feasibly than others and this is why we think of this as a menu of options to make the fiscal position of the U.S. more amendable to bring that deficit and debt down.

Second, we are also looking in more details in the federal budget, but we need to remember that in the U.S. there are state and local budgets, and in that sense, there is quite a lot related to debt sustainability that is not exactly in the hands of the federal authorities, and that needs to be also reflected down.

Bottom line for us is U.S. debt is sustainable. U.S. has a long way to go before it gets into the territory that should make everybody worried; but being sustainable doesn't mean that it is optimal. So, how can that optimal level be achieved is what we have proposed in a number of recommendations in the concluding statement.

So, I would turn to Nigel who worked tirelessly to present these options. And, I must say, when we discussed them with Treasury, there was probably an agreement and an understanding as to why we are making these recommendations, as well -- and I would finish with this, David -- a recognition that Treasury needs to help the Feds in the fight against inflation, and that requires some sense of tightness to achieve that goal.

MR. CHALK: Just to emphasize a couple of points as the Managing Director made. First, just the pure math of the U.S. federal budget is such that there has to be action on the revenue side, there has to be a look at entitlement programs, particularly Social Security and Medicare, and they have to look at the general Government.

Looking at the general Government operational expenditure alone, it is just too small a part of the federal budget to really be enough to achieve the fiscal adjustment that I think would start bringing U.S. federal debt.

And then, secondly, on the revenue side I think we have outlined a number of proposals. I think two things that I would underline that are quite important. First is, as has been done recently, is financing the Internal Revenue Service so that they can actually collect the taxes that are due without changing the system at all, but just making sure people pay the taxes that they are due to pay will be very important and I think there's been some important progress on that, but there's probably still more that could be done in that area. And then the second point I would raise is the global tax system, the idea of a global minimum tax which I think has been supported by the U.S. and many other countries through the OECD is

very important to make sure that corporations who have pushed their intellectual property into other jurisdictions end up paying a certain amount of tax and I think it's in the interest of the U.S. to pursue that because right now that's free revenue that is not being collected.

MS. KOZACK: Okay. Thank you very much. We are going to go to a question online right now. This one is from Colby Smith of the Financial Times. Her question is on the debt ceiling and the potential financial fall-out. She asks, "Should there be any kind of adverse shock from either coming close to or surpassing the exit date X." So, would there be an adverse market shock from either coming close to or suspending the exit date (phonetic) on the debt ceiling.

MS. GEORGIEVA: Well, the historical evidence is that we come to the brink and then a solution is found. And in that sense, there is relative calm. We have seen some small shifts in niche market(s)--part of the market--that show that this concern about the debt ceiling is starting to impact costs. But this is really not in any materially significant manner. If the threshold is passed, in other words, if you are in a territory where no resolution is found and the U.S. has to trim down spending and it ultimately comes mid-month, the question of U.S. servicing its debt becomes very real. Then we are in uncharted territory. This is a very dangerous move for two reasons. The first one is confidence in the U.S. Treasury market, and, as I said in answer to Jennifer, the U.S. Treasury market is the anchor of stability for the global financial system. You pull the anchor, the world economy, the ship on which we all travel, is in choppy and even worse uncharted waters. Two, inevitably we would be at the time of contraction in the U.S. and in the world economy, and that would come as a shock upon shock upon shock. We are still recovering from COVID, the war in Ukraine still goes on, and then we have this. I want to finish by expressing my firm belief that the solution would be found but, of course, it is frustrating for everyone to have a solvable problem that is in the hands of policy-makers continuing to linger into the 12th hour, risking to abuse my time to answer, I am looking at Julie, she's not yet, she's not giving me the eye of please shut up, I am going to say the following: we all have read the fairytale about Cinderella. Cinderella having to leave the ball exactly at midnight. We are at this point, so before our carriage turns into a pumpkin, could we please get this solved. It is not just a loss of a shoe that we are faced with.

MS. KOZACK: Very good. We have time for one more question. We will go to Fatima Hussein.

QUESTIONER: Thank you, Managing Director. I appreciate you taking questions. My question is a bit like Colby's in the sense that what impact have you already seen from the debt ceiling impasse and what kind of modeling has the IMF done on the potential impact of a default globally?

MS. GEORGIEVA: So, to the first part of your question, I can't add more than what I already said. We are seeing, and maybe my colleagues can tell you a little bit more, we are seeing a little bit of price impact in some niche markets and, as I said, not of any significance. We are, of course, looking into the potential more significant impacts. Like everybody else, we recognize that there is tremendous uncertainty of what exactly this impact would be. Right now, the most significant impact is anxiety around the world over something that should not be a problem to begin with. I was just in Doha on a panel. First question I am asked is, what is going to happen with the debt ceiling? And the second question I was asked was, would that impact the role of the dollar? So, for the U.S., for the stability of the global financial system, there need not be a last-minute resolution of such a significant issue, and this is why I want to stress in our view the most important question is, can this be eliminated altogether by at least making appropriation agreement the basis for how much U.S. would borrow? So, that is automaticity in translating what has been agreed for spending to then translate it to how much can be borrowed. And let me turn to my colleagues to give you more details, technical details, in answer to your question.

MR. VALDES: Perhaps I can add that, as the Managing Director said, there are some markets where we see dislocations, in the CDs market, in the very short run treasury bill market, but to a large extent these are small given the big problem that would happen if this really happens. So, we shouldn't take comfort because these things have not moved too much. Basically, that means that everybody is attaching a very low probability, perhaps even very close to zero, that we will breach the due date, no? So, I think the basic message here I think is this would be gigantic negative shock to the world economy that is perfectly self-made and preferably possible to solve on-time.

MS. KOZACK: Thank you very much. That is all we have time for today, so thank you, Kristalina, Rodrigo, and Nigel, and thanks to all of you for joining us this morning. All of the documents, our concluding statement, is available online. As I said, we will be publishing the staff report later after our executive board has discussed the U.S. Article IV Consultation. Thank you again and we look forward to seeing you all soon.

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