IMF Chief Urges China to Stay Course on Reopening Economy

- Georgieva says possible US recession would probably be mild
- Central banks must keep tightening to tame stubborn inflation

Kristalina Georgieva *Photographer: Ting Shen/Bloomberg*

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The head of the International Monetary Fund urged China to move forward with reopening its economy, calling the nation's transition from a Covid Zero policy to more normal functioning likely the single most important factor for global growth in 2023.

The Washington-based financial institution believes that a world recession can be avoided, even as growth slows from an estimated 3.2% in 2022, Managing Director Kristalina Georgieva told reporters Thursday. If the US, the largest economy, goes into contraction, it will be a mild one, she said.

The fund doesn’t expect a major downgrade of its October forecast for a 2.7% expansion in global GDP when it updates its World Economic Outlook on Jan. 31 in Singapore, Georgieva said. Global growth is likely to bottom out toward the end of the year, with the pace picking up next year, she said.

Inflation remains stubborn, and the job of central banks to tame price increases is not yet finished, she said in a wide-ranging discussion that lasted more than an hour.

“What is most important is for China to stay the course, not to back off from that reopening,” said Georgieva, who visited the world’s second-largest economy last month for the first time since the start of the pandemic. “If they stay the course, by mid-year or there around, China will turn into a positive contributor to average global growth,” she said, calling the nation’s 2022 performance “very disappointing.”

A year after the Covid-19 omicron variant and Russia’s invasion of Ukraine slammed the brakes on the global economy, President Vladimir Putin’s war continues to be a negative factor for investor and consumer confidence, especially in Europe, she said. Potential of a spillover from the war is the risk that would have the biggest impact on economic expansion, although it’s a low-probability event, Georgieva said.

While the world’s lender of last resort sees no systemic debt crisis on the horizon, 60% of low-income nations are at or near distress.

The Group of 20 largest economies along with the IMF and World Bank will hold a global sovereign debt roundtable on the margins of a meeting of central bankers and finance ministers in India next month to bring together representatives from governments, borrowing nations and private lenders to discuss challenges.

Georgieva said that one risk the world is not yet prepared for but may surface later this year is the impact of tighter financial conditions on labor markets and employment. While governments have provided policy support to help workers deal with high energy prices, that ability is shrinking, and down the line people being out of a job amid faster inflation could lead to protests like those seen in nations from Lebanon to Chile in 2019, Georgieva said.

(Updates with release date for World Economic Outlook update in third paragraph)