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THE STATE OF THE GLOBAL ECONOMY:
A CONVERSATION WITH US TREASURY UNDERSECRETARY JAY SHAMBAUGH

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INTRODUCTION AND MODERATOR

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COULIBALY: [00:08:59] Good afternoon, everyone, and also to those who are following us online, my name is Brahima Coulibaly, I'm the vice president of the Global Economy and Development Program here at Brookings. It gives me great pleasure to welcome to Brookings, the U.S. undersecretary for international affairs, Jay Shambaugh, to share his views on the state of the global economy and the priorities for U.S. Treasury, during this week of the IMF World Bank meeting.

It's clear that we are in a very pivotal moment for the world and global economy. Very rarely in history have we experienced a confluence of overlapping shocks and crises. We first had the COVID 19 pandemic and its lingering effect, and there's a sense that perhaps it's impacts that will outlive COVID itself. And then as the global economy was reeling from that effect, then Russia decided to invade Ukraine, it couldn't have come at a worse time, as it triggered a geopolitical crisis that dislocated food and energy markets and caused food and energy insecurity in many parts of the world. It also contributed to very high levels of inflation around the world, which prompted rapid increases in global interest rates. Sovereign debt levels have risen to unsustainable levels in many countries, and time is running out to find solutions to the climate challenge or climate change crisis. As if those were not enough, stresses in the banking sector emerged in the past few weeks, raising financial stability concerns in the U.S., but also abroad, as we saw with the collapse of Credit Suisse. So all these shocks are raising, really, the odds of a global recession at a time when fiscal space is limited and monetary policy space is also constrained by the high inflations.

So as policymakers gather in Washington for the IMF and World Bank meeting this week, there certainly will be no shortage of discussions around these inter-related and complex issues. Clearly, there's a lot at stake, and the U.S. Department of Treasury has an important leadership role to play in policy formulation to manage these challenges. As the U.S. chief financial and economic diplomat, Undersecretary Jay is at the forefront of Treasury's international economic policies on the IMF, World Bank, G7, G20 exchange rate issues, climate policies, international financial regulations, among others. Jay was nominated by President Biden in February of last year and was confirmed by the Senate in December, but he's not new to public service. He previously served twice on the Council of Economic Advisers, including the chief economist under the Biden administration and under the Obama administration. He was also a senior fellow and director of the Hamilton Project here at Brookings for three years and is currently on leave from his position as professor of economics and international affairs at George Washington University, where he researches and teaches on the various topics in macroeconomics and international economics. He has also taught at Georgetown University and Dartmouth College. So in terms of run of show, I'm going to we're going to first hear from Jay for about 10 minutes or so for his keynote remarks. Then join me on the podium for a moderated discussion, and that'll be about 15 minutes at the end to take your questions and comments. So without further ado, please join me in welcoming Undersecretary Jay Shambaugh to the podium.

SHAMBAUGH: [00:12:50] Great. Thank you, Coul for having me here today, and thanks to Brookings for having me here, it's very fun to be back on the stage and at this podium. I know you likely have plenty of questions, and I know I'm sure you do as well. So but before we we start that, I'd like to take a few minutes to walk through some of the priorities that that we have that Treasury has this week. So as economic and financial leaders are kind of descending upon Washington, D.C., in the coming days for the spring meetings of the World Bank and IMF, we have no shortage of global challenges to take on as a group as we talk through this, and I want to touch on a few of them briefly, so I want to talk a little bit about the global economic outlook and financial stability, talk about Russia's war against Ukraine, talk about the evolution of the multilateral development banking system, as well as the climate agenda, sovereign debt landscape and our relationship with China. So just a few small things to chat about.

So let me start with where we stand now in terms of the global economy. You know, if you think of the last two and a half years, the world economy has really seen just two massive successive shocks and they've generated a huge loss of life and economic disruption from COVID-19, and then the destruction and elevated energy and food prices and other spillovers from from Russia's illegal invasion of Ukraine, and both of these have exacerbated global inflation. So in both cases, the economic impact is not the main story, right? So COVID has caused massive loss of life, and Russia's war is an immoral violation of a nation's sovereignty. But the economic shock from each was really large and consequential as well. So in the health sense, we are not at peak COVID anymore, but in many ways it's still present, right? People still get sick, they have to miss work, we still have far too many deaths taking place. So in the same way, in some sense, peak COVID in its economic sense was two years ago. But we still face impacts and dislocations from the pandemic. The pandemic and containment measures to combat it along with people's own actions to protect themselves, had an immediate impact on the global economy in kind of an unprecedented way.

And as we were starting to get past that from an economic perspective, only two years later, in February 2022, as that nascent recovery was taking hold, Russia's war on Ukraine sent shocks reverberating around the world. So this immoral invasion was a shock to the global conscience as an assault on our collective right to to peace and stability, but it was also, again, a big shock to the global economy. Ukraine is a vital exporter of many agricultural commodities, it's also very important in energy markets as a transit player through pipeline gas to Europe. So we saw oil and gas prices spike coming out of this invasion. We saw other commodities prices spike as well. And the global economy was hit by sharp shortages in commodities and once again exacerbating some of the inflation and debt dynamics that we were already seeing.

And again, uncertainty over both the war and its impacts still hover over the global economy. So the combined impact of these two shocks in many ways has been to high inflation, along with other forces driving that, and obviously policymakers have been working very hard to bring inflation down globally, and we are starting to see some results. In particular in the United States, you're seeing inflation pressures ease in a number of places. Altogether, again, these shocks have had a terrible toll in terms of lives lost, livelihoods disrupted, rising poverty, slower economic growth, unlike in previous economic shocks, so also, it's important for, I think, for us to recognize they've been hitting different parts of the world in different ways, depending on your status as commodity exporter or not and things like that, and so it makes it a more challenging situation sometimes for global policymakers. But that doesn't mean that America and the world's major economies can't lead on this issue together, even if we're facing these shocks in different ways.

And so when we think about coming together this week and about some of the conversations we'll have, you know, one of the things that we'll certainly be thinking about is financial stability. In the last few weeks, we contended with problems that two American banks, as I'm sure everyone's aware, and that could have had significant impacts on the broader banking system and the economy, and so that demanded a very swift response, and the federal government delivered decisive and forceful actions to strengthen public confidence in the US banking system and to protect the American economy. These recent developments are very different from those of the global financial crisis. I think it's always important to point out back then many, many, many financial institutions came under stress due to their holdings of subprime assets. In 2008, banks really faced a solvency crisis in many ways, and we don't really see that situation in the same way right now, it's more of a question of confidence in liquidity, and we're working very hard to shore up both domestically and globally. You think in the global financial crisis, credit risk was really a primary issue and it's not in the same way now. There's certainly interest rate risk out there, but it's it's a very different story, and probably more importantly, the financial system itself is just different today than it was 15 years ago. It is substantially better regulated, better capitalized, more liquid, and in many ways, that's thanks to the efforts of my predecessors at Treasury and counterparts at the Financial Stability Board and other fora who put in place really hard-fought reforms following the global financial crisis to put the global financial system on a better footing today than it was 15 years ago.

So our our shared prosperity in many ways depends on doing this work ahead of time to make sure that we have a safe, safeguarded financial system prior to any kind of crisis. And we have seen that work, I think, a few years ago when there was a dash for cash as the pandemic struck, we could see that could have put extraordinary strain on the financial system, but we avoided the worst outcomes at the time. A decade of efforts to improve financial stability, increased regulatory and financial communication between governments and forceful public interventions that took place at the time really, really have laid the groundwork for economic resilience. And so we faced the recent bank failures with a much stronger financial system and kind of hard earned lessons from the global financial crisis. Obviously, the work is not done there, these events remind us of the urgent need to complete any kind of unfinished business in terms of regulatory issues that we still need to repair and kind of fix any cracks in the regulatory perimeter that that are necessary. And so we'll continue working closely with our international partners to bolster financial resilience, and we're coming together to communicate openly about our policies and make sure we understand how our policies interact with others and any spillovers that could materialize and will be particularly attentive to any problems that arise from financial market shifts that affect emerging markets and low income countries as we're all dealing with different shocks across the world and recent financial sector concerns.

So I think it's also important to recognize, haven't really changed the overall baseline growth expectations that we see for the world economy right now. They're notably stronger than they were six months ago. I think the semiannual pace of the bank fund meetings is sometimes quite useful because you can say, alright, where were we six months ago? Where are we today? And I think in that sense, the answer is six months ago, things looked more dire to many people around bank fund meetings. In October, there was a lot of talk about recession and things like that, I think when you looked at it since then, 2022, perform much better than people were anticipating and forecasts for 2023 are better than they were six months ago. So I think recent events have in some sense highlighted some of the downside risks that exist, but they haven't really fundamentally altered the overall picture of our baseline.

So turning to thinking about support for Ukraine and countering Russia's invasion, if we think about the current inflationary environment, it really can't be separated from Russia's war in Ukraine and the economic spillovers that have come with it. I had the privilege in February to join Secretary Yellen on her trip to Kyiv and could really see firsthand the evidence of Russia's brutal war there. The U.S. is at these meetings once again, redoubling our efforts to work with to rally a global coalition to support Ukraine. And we have tried to communicate as often as we can our unwavering commitment to the people of Ukraine as they try to defend their sovereignty, and so we'll be shoring up economic support for Ukraine's government and people and also trying to deny Putin the revenue and equipment he needs to fight the war that he has launched.

When we think, when I was in Kyiv, we really observed the the impact of our continued security, humanitarian, economic assistance over the past year, we've provided close to $50 billion in overall assistance across a wide range of avenues, including we've committed now $23 billion in budget support grants to date, 15.5 billion of which has been disbursed with the rest coming over the coming months. And we're joined by an important international coalition of allies who are also providing substantial support to Ukraine and so we're trying to make sure that Ukraine's economy is functioning, its government is functioning, so that it can turn around and defend itself against this terrible invasion. As many of you are probably aware, the IMF recently approved a four-year extended fund facility for Ukraine that will provide nearly $16 billion in assistance. It, an ambitious and appropriately conditioned IMF program is really critical to underpinning Ukraine's reform efforts, including efforts to strengthen good governance, address risks of corruption, and provide obviously much needed financial support. We'll also bolster the economic assistance that the United States and our partners have provided, that is funding essential services like schools, hospitals, first responders, which are again offering this vital support to the Ukrainian economy. This program reflects months and months of collaborative work between the IMF and Ukraine's government, supported by Treasury and other partners of Ukraine, and we're really proud of the work we've done together, and I view it as a substantial achievement of a multilateralism that we were able to get this done on the timeline we were able to get it done.

So looking ahead, Ukraine will still need support from a broad set of donors as it recovers and rebuilds. And as an international community, we can coalesce around meeting the most urgent and concrete needs that Ukraine has in high impact areas that can help Ukraine restart its economy and bring home displaced Ukrainians as conditions permit. Our support effort goes hand-in-hand with countering Russia's ability to fight its war. When Putin invaded, many experts predicted a very quick victory, and more than a year later, Ukraine still stands strong, and I think many people would view Putin's war as a strategic failure. Our historic sanctions coalition, thanks to the coordinated, coordinated efforts of the United States and our allies, have been trying to deny Putin the revenue, as well as the technology and inputs he needs to fuel his illegal invasion. Russia has experienced record deficits in its postwar history, and its oil and gas revenue fell by nearly a half year over year, thanks in large part to sanctions embargos and the price cap. And senior Russian officials have recently openly acknowledged that the price gap is hurting Russia's ability to fund its war. So going forward, as President Biden has said, the United States will stand with the government and the people of Ukraine for as long as it takes in the face of Russia's unjust, unlawful and immoral war. And looking ahead to this week, the key areas of focus for us will be continuing to build on that recent IMF program with our allies to make sure we are providing the economic support that is necessary. Collaborating closely with our allies on things like the price cap to make sure that we can both limit Putin's revenue but at the same time stabilize global oil markets. And then finally, leading our broad alliance in leveling sanctions to degrade Russia's military industrial complex and decrease the revenue they need to fund their war. We've a renewed focus on enforcing our sanctions and targeting those who evade sanctions to make sure they're they are working as effectively as possible.

So, another really big priority for us this week is what we refer to as MDB evolution, so that the process of kind of updating the multilateral development banks. We're in a pivotal point in international development. The MDBs, and the World Bank in particular, are in the midst of a once-in-a-generation transition. We are now in a world that faces increasingly complex global challenges that cross boundaries and disproportionately affect the poorest and most vulnerable. And that's unfortunately, the MDBs weren't really designed for challenges that stretch across countries in this type of way, and so it required some updates. And six months ago, Secretary Yellen called on the MDBs and their shareholders to prepare for the challenges of the future, to evolve to meet the challenges of an interconnected and changing world. And I think it's really important to recognize how much we've been able to accomplish in six months from when that speech took place and working together with a broad coalition of shareholders and borrowing countries and thinking through how we can modernize the World Bank.

So we've modernized the mission, the new mission underscores the importance of building resilience in the face of global shocks, including climate pandemics and fragility and conflict, and seeing them as an integral part of the World Bank's meeting its twin goals of ending extreme poverty and boosting shared prosperity. We are strengthening the bank's operational model. Risks are not bound by borders and development challenges are not always country specific. And so the bank is integrating global challenges into its analytical work. We've also increased the bank's financing capacity without adding more resources, starting to implement the recommendations of the G20 capital adequacy framework review. So shareholders have agreed to undertake reforms that responsibly stretch the balance sheet in ways that can add up to $50 billion more in lending capacity over the next decade, which is a substantial boost in lending coming from the World Bank and doing so in a way that protects the bank's financial sustainability and its triple-A rating.

So we've come a long way in these last six months, but this week we think will be a really important opportunity to press this process forward. We view what we're accomplishing this week as kind of the down payment on a reform agenda or an evolution agenda where we can continue to make sure the multilateral development banks are fit for purpose, for tackling critical global challenges, in particular, climate change. So talking about climate, we often focus on it in the MDB process, but that's only one small part of how Treasury interacts on the climate agenda. So the United States continues to work through multilateral and bilateral financial institutions to increase climate finance, to meet President Biden's commitment to provide more than $11 billion in climate finance by 2024 and deliver on development, developed countries collected $100 billion annual climate finance mobilization goal. We know we need to continue to ramp up ambition given the needs far exceed the goals. And so Treasury is working to scale, mobilize, and align global financial flows to meet the goals of the Paris Agreement.

And I want to talk about a few things that we where we do this work, but I also want to be clear this list is by no means exhaustive. We work on climate in almost every aspect of what we do at Treasury and at International Affairs Treasury. But just to list a few things we're doing, obviously, one is we are trying to deliver on the climate goals of the Inflation Reduction Act. The IRA is about increasing production of clean energy and building resilient and clean supply chains, and that will try to keep us on track for the 2030 goal of reducing emissions by 15%. These investments will accelerate, accelerate deployment of clean energy, drive down cost and bolster energy security.

Second, we're again working with the World Bank, and regional MDBs, trying to align them to make sure that their financial operations are aligned with the Paris Agreement. And we're trying to reimagine the climate finance architecture to make sure it can reach the goals it has set and to have greater coherence and better linkages and less fragmentation across a somewhat fragmented landscape.

Third, our work and our successes on the just energy transition partnerships are essential. The JetPs, as they're known, are processes where we work with high emitting emerging markets, and we seek to bring together different players in support of ambitious partner country energy transition commitments. And we've already seen successes in these programs, and so we're starting the process in South Africa, in Indonesia and Vietnam. And so by bringing all these different groups together, the private sector, the MDBs, different bilateral donors along with the government in question, you can get financing that is necessary at the scale you need to be able to do what you need to do and also get the kind of ambitious commitments from governments because the financing is sufficiently ambitious to really drive substantial change. We're also committed to scaling up effective climate finance for developing countries, both to help in adaptation and changing climate, but also mitigation to stave off the world's worst outcomes. We hope to scale up financing in the Clean Technology Fund, the Green Climate Fund, for example, to enhance energy security and innovation while boosting resilience and environment to environmental risks and impacts.

And lastly, we're looking at climate related financial risks and many of the things that we do. Governments, regulators, private companies all must coordinate to better understand and manage climate related risks. And so we do this work in the Financial Stability Board, alongside U.S. regulators and key foreign counterparts, from climate related disclosures to vulnerability analyzes, and we're trying to take the important steps that we need to take to make sure the financial system is going to be prepared to fund the clean energy transition. So, again, that's by no means an exhaustive list of the work we're doing on climate, it shows up in almost everything we do around our G7 and G20 processes. But as urgency to address climate builds, so will our efforts.

Now, I want to talk about one last thing, but when I say last, I don't in any way mean that it is the least important, it's just the last one on my list. But I want to talk about sovereign debt and how we're trying to deal with debt treatment issues. So debt overhang remains one of the most significant economic headwinds to many countries. Many emerging market and low income countries are facing challenges right now, whether it's from the pandemic, whether it's from economic disruptions resulting from Russia's invasion of Ukraine, whether it's changes in the financial landscape as central banks try to focus their control to control inflation. And so we know that many, many countries are struggling right now that, you know, more than half of low income countries are either near or in debt distress. And so many of them with the most limited resources in policy space, they're still facing these multiple shocks and kind of a fiscal hangover from from COVID, and the high and rising commodity price really means we need to do something to support these countries.

And so we're focused on durably tackling debt distress in the low and middle income countries to help borrowers restore that sustainability and achieve economic recovery. And we're doing this a lot through the G20 and Paris Club, where we've been working with creditor and debtor countries to help get the common framework moving. So, the common framework process for those of you of who have tracked it, it's no surprise to hear it has been slower than we would like. So at a broad level level, we're really just pushing to improve the speed and predictability of this framework to assist the countries that require the assistance of debt treatment. And so this is going to require constructive and timely participation of all creditors in international debt restructuring discussions. An immediate priority for us is resolving the outstanding requests from a handful of countries, in particular Zambia, Ghana and Ethiopia, but also Sri Lanka, who's not a common framework country because it's a middle-income country. We're encouraged, to some extent, by the progress we saw in Sri Lanka recently. Sri Lanka took necessary steps it needed to take to deal with the underlying factors of crisis, engage with creditors and be more transparent on their debt, and at the same time, other creditors, after all other creditors had had gone through this process, China did agree to provide specific and credible financing assurances in the Sri Lanka case, and this enabled the IMF to go forward with a program and provide Sri Lanka with much needed assistance. And so I think this does underscore the fact that multilateralism can work, we can come together, concerted efforts can result in breakthroughs.

But looking ahead, we need to urge concerted action on Zambia's debt treatment and establishing an official creditor committee for Ghana in the next month. And so at these meetings, we're going to be working very hard to speed up this process, make it more transparent and make it function better. The international financial institutions or the IFIs are going to need to be prepared to help countries as they fall into debt, distress or economic crisis. And the IFI's support and advice for countries will be crucial as they try to calibrate their macro policies. The progress in tackling unsustainable debt in low- and middle-income countries requires us all to work together, which actually brings me to my last topic, I forgot I had one more.

So, I wanted to talk, just very briefly, about the US-China relations and the path forward. So as we as we look at big challenges, it's you're going to need the two biggest economies in the world to be able to collaborate and work together on those global challenges. We face a complicated global economic outlook, and there really is a pressing need for the two largest economies, the U.S. and China, to closely communicate on global macro and financial conditions, and as I mentioned, to cooperate on to address global economic challenges. So with respect to U.S.-China relations, as the administration has stated, responsibly managing relations between the two, the world's two largest economies has always been vitally important, and it is in particularly so today. As the leaders said in Bali, we have a responsibility to work together on shared challenges, and our approach to China underscores our over overall priorities. We want to advance our national security interests while at the same time having a healthy economic relationship with China.

Again, as the two largest economies, our ability to cooperate on these global challenges, many of which we'll have to discuss, we've already discussed today, like sovereign debt or MDB evolution, is critical. We remain committed to maintaining open lines of communication with China so that we can prevent miscalculation that could lead to conflict. And we I think it's also important for the U.S. to be very clear that, you know, we don't seek to decouple from China, we don't seek to limit China's growth in any way. Sometimes we need to take targeted national security related actions, and we'll always stand up to unfair economic practices, but there's plenty of scope for an economic relationship that benefits both of us. It's also clear that amid a complicated global economic outlook, there's a pressing need for for these two largest economies to work closely. Oh, sorry. So, again, I want to wrap up then by saying that as these meetings approach this week, it really does present an opportunity for us to to make progress. And I think it's really a challenge to multilateralism to step up and meet this moment. I think we've seen successes over the past year, I think if you think about the creation of the pandemic fund, if you look at the IMF program in Ukraine, if you look at the MDB evolution process and how much of a down payment is happening this week, I think you can see that we are able to accomplish things when we're working together, but obviously there's a lot more work to do and we look forward to tackling the challenges we face this week. So I look forward now to talking with Coul.

COULIBALY: [00:38:22] And these are just a few of the things you have to worry about over the next week or so. Now, thanks for laying out these initiatives as well as Treasury's priority so succinctly. And congratulations on your confirmation.

SHAMBAUGH: [00:38:37] Thanks.

COULIBALY: [00:38:38] Overwhelming support from the Senate, which is a great testament to the credibility you bring to the office in this polarized environment, I think that's quite an accomplishment. But a few weeks after you got then confirming you now had to go on a trip with Secretary Yellen to Africa. And,

SHAMBAUGH: [00:38:58] Yes.

COULIBALY: [00:38:58] Among the regions in the Global South, vulnerable and most exposed to these overlapping crises and shock we just talked about. So doing that, can you tell us what surprised you the most? What what stuck with you as you return to policy formulation to address the challenges?

SHAMBAUGH: [00:39:16] I think a lot. Honestly, I think we so we went to Senegal, Zambia and South Africa, and I think in all three, the dynamism in the region is just very apparent, I think the idea that what we were trying to communicate when we went was that the U.S. wants to be there as a partner. I think one of the things we talked about while we were there and I think people who study the region know that, you know, in many ways the the next 50 years of the global economy is being authored in Africa and just based on on population growth alone. And in many ways, that means both the opportunities and the challenges are crucial there, that if if Africa is not able to generate the jobs that young people need, if it's not able to grow sustainably, then that will lead us in one direction. If Africa is able to take advantage of the opportunity of this demographic dividend, then Africa could could really lead the world. And, you know, our goal there was to say that we wanted to be there as a partner with Africa. I think the other thing that stood out as someone who has studied this for a long time, being in Zambia, it just, the extent to which the debt overhang, it just hovers over everything, was just really striking. I think, you know, you know you can study it and, you know, you can look at the numbers and how that actually does operate. But, you know, if you go around the world and you ask firms, you know, what's holding you back, you usually get a pretty consistent list of taxes and regulation, you know, no matter what country you're in, that's what they want to talk about. But in Zambia, that wasn't the case. I mean, they had a few complaints that they bring up later, but really it was we need the debt treatment to be finalized because no one will do anything until they understand what that is going to look like. We, no one's going to invest, no one can borrow, no one can do anything. And it was just it just so crystal clear how much that debt treatment needs to take place just to resolve the uncertainty.

COULIBALY: [00:41:11] Yes, and then on the on the debt, I think we talk about the common framework, and can also share how slow it's been. Clearly, the Zambian share the perspective as other observers as well, that it's just becoming really protracted and is a little bit of a a reflection of the operational challenges that the common framework has faced. So in light of those challenges, what do you see as the next fixes that needs to be done to the common framework to accelerate the process?

SHAMBAUGH: [00:41:41] Yeah, I think they're kind of two separate things. So one is just regardless of what fixes take place, we need action on the the countries that are in front of us, like the the debt treatment for Zambia can't wait to fix the whole common framework, you know, forming a creditor committee for Ghana can't wait six months while we do other things. Those just need to happen. But at the same time, we need to make the process work better so that as other countries enter that distress, that they see a clear path in front of them, and so I do think here the the decision that the Indian Presidency, working with the of the G20, working with the the IMF and the World Bank, have have launched the global sovereign debt roundtable. And I am hopeful that that's a process that can help us make the the common framework operate faster and more expeditiously.

I think one of the things about it that is is actually I find fascinating is the debtor countries are there, right? We're not talking about them in absentia, as you might say, at a G20 or a G7 meeting. They're part of the group and they have a voice. And I think that really can bring into very sharp relief the struggles they're going through. So when Zambia, or Sri Lanka, or Ethiopia are talking about what is the binding constraint for them, that's really helpful, I think, in mobilizing the rest of the people on those committees to think, okay, how do we do this better? And so I think some of it can be stuff that doesn't sound very exciting but is actually meaningful. So it's like, you know, can the IMF get the debt sustainability analysis to creditors faster? That might not sound exciting, but it's actually really important, right, like that, that kind of thing can, if the IMF is providing that greater transparency, can they get greater transparency from the creditors, which is also really important. So I think there can be some things along those lines. I think hopefully over time we'll have even bigger things that we can deliver on. But I think just trying to make the process work a little in a little bit clearer and cleaner fashion would be really helpful.

COULIBALY: [00:43:43] And there's, of course, the challenge of the private creditors,

SHAMBAUGH: [00:43:46] Yes.

COULIBALY: [00:43:47] When there's not really like a mechanism that can really force some hard participation. And it has led some to suggest perhaps we need another game in town besides the common framework, including some work we've done here, also at Brookings, to take a pretty, pretty plain type of approach. Do you think there's a case here for a Brady 2.0? And that comes from the fact that the private sectors account for much of the debt servicing.

SHAMBAUGH: [00:44:15] Yeah.

COULIBALY: [00:44:16] Do they make up a smaller share of the total debt and being able to do that kind of mechanism that can reduce the debt servicing burden over the next five years can buy enough time to do fundamental reforms?

SHAMBAUGH: [00:44:29] No, so I think, you know, I think I mentioned earlier I had a chance to look at what what you and your your group have had put out. I think it's a very interesting idea. I think I'm not personally willing to write off the common framework. I'm not saying you are, but I think there is the potential for it to be a very useful process. But that doesn't mean we ignore other options to help countries that, you know, especially countries that say aren't in full debt distress, right, but that face just too high a debt service payment. So I think it's important to look at all different types of options. I think it is crucial that, you know, if we worry about nontransparent debt and we worry about debt that has too many conditions tied to it, that the Bretton Woods institutions step up and are able to provide financing to the to the countries that need it is just really crucial. So I think I think really at this point I don't write off any idea if there, if there's this this is a this is a problem that is going to need more than one solution, I think.

COULIBALY: [00:45:29] That was a good diplomatic answer. If we can, in some sense, the issue around debt is a broader issue around sustainable financing for developing tribes. Those countries have very low savings.

SHAMBAUGH: [00:45:42] Yeah.

COULIBALY: [00:45:42] High investment needs and debt has really been the way there could, you know, filling that gap, right? So it's good that you mentioned and Treasury is supporting the efforts of an MDB coalition that can increase the capacity of the World Bank. And I think in terms of what's going to be new to the mission and you mentioned there's money, there's a model, so the quality of free EMS. Well, it seems like they are concerned, too, that it should be done in a way that doesn't crowd out the traditional work on poverty. And and I am wondering whether there's enough in there, money there to support the mission, even the 50 billion you mentioned, whether that's going to be sufficient or is Treasury in a position to support capital increase or some other kind of mechanism to bolster further the bank's capacity?

SHAMBAUGH: [00:46:39] So, I mean, the first thing I would say is, the 50 billion is what we think of as the down payment, right? Like this was in some sense the low hanging fruit. These were the things we could accomplish in six months after the charge went to the bank, and so we definitely don't view that as a stopping point, this is some, we think there's there is more room in the capital adequacy framework recommendations to get more out of the IBRD, or out of the World Bank. And it's also the case that we're not stopping at the World Bank, right? It's, it's not World Bank evolution, it's MDB evolution. And so we think there is, depending on which bank you're talking about, there's actually considerable room on the balance sheet following kind of a similar, similar playbook that we're seeing here. So in that sense, I think I agree very much, there needs to be more end money. I think our view on a capital increase is that it is really important to fix the operations, fix the the incentive structure, make sure the money is being used effectively, and to use the money that's there already in terms of stretching the balance sheet to the way it should be stretched, before one then turns around and says, should I do more from a capital perspective? So I think that's been our perspective is is not to rule them out in the future so much is to say, there's a lot of scope to do things right in front of us and let's focus our attention there.

COULIBALY: [00:48:03] Right, and there are also, of course, regional development banks where the US has a representation like African Development Bank and American Development Bank. Assume you're pursuing similar things?

SHAMBAUGH: [00:48:13] Yes.

COULIBALY: [00:48:13] But the World Bank is the beginning and then you try to advocate for--

SHAMBAUGH: [00:48:16] Exactly. The idea was, you know, The World Bank is the flagship of the MDB system, and so you go first, with the World Bank. But that doesn't mean you stop with the World Bank, that the banks you mentioned, the Asian Development Bank, that there's there's scope out there to do more. And that can again can mean you've got clear, transparent, high quality, high standards lending available to countries to to tackle the important challenges they've got and fund development.

COULIBALY: [00:48:45] And also greater cooperation among them so that they can make the best use of taxpayers' money.

SHAMBAUGH: [00:48:51] Exactly.

COULIBALY: [00:48:52] So if I can now speak a little bit down to the IMF, IMF is also going to have its own conversations around Kokura review, coming up later this year, so certainly a year for MDB and the review reform. During the last quarter review, there wasn't much changed and there was this ambition was kind of set or expectation that the [inaudible] review is going to be when things happen. So how do you see that playing out?

SHAMBAUGH: [00:49:20] It's a complicated process, right? I think on the one hand, I think we can say we've seen these two massive shocks that I talked about earlier and the IMF, there was no sign that the IMF was not adequately resourced to handle those challenges, right, it didn't dip into kind of its second and third layers of defense, you know, did not go to the to the NAB, it didn't go to the the bilateral borrowing agreements, so just the money it had was sufficient in that regard, so it's not obvious you need a huge amount more resources. On the other hand, I think there is an argument that it would be nice to make it a more quota driven institution and thus kind of replace some of the other tools with more quota, would, is is, there's a very good argument for that, I think. I think one of the challenges we face is that for I think well over a decade now, the the IMFC's statement has come out and they said we need a new formula. The current quota formula doesn't make sense, it's it doesn't fit reality, and we need a new formula. Getting countries to agree to a new formula is challenging, because some countries are going to win and some countries they're going to lose. And so I think our position has you know, I think we're less threatened by it, because if you're reflecting economic size more, it probably works out fine for the United States, but I think it's a challenge to get to that formula, I think that's one issue. I think there's another issue that it's not a US position as much as a position across many, many countries, that it is challenging to see increasing the voice of countries that are not behaving as responsible actors in the international financial architecture, whether it's around debt or exchange rate transparency or things like that, or UN interventions. And so I think that will be an important process also is to get to a place where the broad set of membership at the IMF are comfortable with, with seeing particular countries share go up.

COULIBALY: [00:51:19] I think I think the that's one issue certainly, is the format itself, but even given the formula, the resulting shares that the formula suggests are still not aligned with the actual actual quota shares, and I think if we were to realign them, one of the gainers would be China. Is it perhaps that's what you mean when you said,

SHAMBAUGH: [00:51:40] Yes.

COULIBALY: [00:51:41] Okay, so that that helps a bit, a bit to to clarify. So if I can now speak a bit to the Ukraine-Russia situation.

SHAMBAUGH: [00:51:47] Yeah.

COULIBALY: [00:51:48] And I think thanks for U.S. Treasury's leadership and as well as working with others to provide the necessary assistance to Ukraine to weather what it is this assault. There's, what's your what's your sense of how the sanctions are working? And I think it's also the case that we don't know when the war is going to end, and we know by historically sanctions, the longer they last the more they're prone to leakages and become less effective. So what's your sense on how they're working and your sense to how you whether you expect them to continue to work as long as we need them to?

SHAMBAUGH: [00:52:26] No, it's a great question and it honestly dovetails very much with how we're thinking of it, which is on the one hand, if you ask, you know, how is it working, I think they've had serious impacts on Russia. I think, you know, we've seen Russia look to less reliable suppliers of technology or military equipment because they can't buy what they'd like to buy. They can't get the parts they need to fix the things they need. I think that that's been important. I think on the funding side, as as I mentioned, we've seen even Russian officials just say like we're not getting the energy revenue we want. You know, we're we've now institutionalized, you know, an roughly $30 discount on Russian oil, which is substantial and really hits them financially. Your second point, though, about leakage, right, is something that has been very much front and center in Treasury's minds of trying to make sure we work ourselves and also work with our our coalition and allies to say what do we need to do to make sure enforcement is as good as it can be? Because in some sense, if you want to keep making the sanctions more effective, that doesn't necessarily mean adding new sanctions, right? Like sometimes the marginal sanction you would add is less important than tightening the way you're actually applying one of the big ones, you did it first. So that's something we're spending a lot of time thinking about and trying to make sure just we are constantly evolving the way we enforce the sanctions to make sure there isn't leakage because it's, as you say, I mean, it is the history of sanctions that they can become more leaky over time and our goal is to defy that history.

COULIBALY: [00:54:09] Okay. So maybe one last question and then we can turn to the the to the audience on the US-China, it's a very, I would say, complex relationship, and I think there's great recognition that the two largest economies, as you mentioned, 40% of global GDP, they are, it's understandable that they'll have to compete, but they also need to cooperate.

SHAMBAUGH: [00:54:35] Yes.

COULIBALY: [00:54:36] Is it your sense that we're striking the right balance? Or what else needs to be done to get us there if we're not there yet? And in particular, I want to ask you about the China U.S. economic strategic economic dialog that was instituted between 2009 and 16, I think you probably were familiar with it from your time with Obama. I was I was at the Fed and participated in some also in Beijing and also the U.S. Treasury, but have been discontinued and subsequent programs like that have been instituted and discontinued. Do you see a case for some of that to be reinstituted to reinforce the US-China relations for the sake of global stability?

SHAMBAUGH: [00:55:22] I think, to the first part of your question of, you know, are we engaging enough? How is that going? I think what we can say is we're very much working to expand contact and expand communication. I think coming out of the leaders’ summit in Bali, there was, they charged their teams. They said explicitly, our teams now need to work together more. And I think we've tried very hard to do that, you know, a day or two days later, Secretary Yellen met with a number of senior Chinese officials in a bilat. And then a couple of months later, we had her first in person bilateral with her counterpart, Liu He, the vice premier. And so I think we've taken that charge very seriously at Treasury that, you know, to to expand contact and make sure we're working with our Chinese counterparts, just because the communication alone is really helpful. Like, if we're trying to figure out what's going on in the world economy, it's kind of hard if you're not talking to a very large chunk of it. And so for us, it has been really important to be able to have these conversations, but then again, on other things where it's global challenges, it's really important that we work together because we can't be working kind of at cross-purposes to accomplish things there. In terms of a formal or standardized dialog, it's not something I necessarily see on the horizon right in front of us. I think more important right now will be to continue to build up the contacts, Secretary Yellen said she'd be interested in going to China, the Chinese said they'd very much like to have her come, and so I think the phrase that both sides have used is, you know, they'd like her to go at the appropriate time. So I think moving it in those directions to to increase the contact, we've said we'd love to have counterparts come come back to the United States from China as well, so I think getting those kinds of contacts reestablished and deepened is really an important step now.

COULIBALY: [00:57:24] Alright very good, so now we're on the question and answer portion. So yes, raise your hand and identify yourself. Keep it short so we can take in as many as possible and make sure that the question mark at the end of your statement. Yes, each one, please. And then we'll go to Lex.

AUDIENCE MEMBER [00:57:49] I'd like to sharpen the question that Coul put to you right at the end, Undersecretary Shambaugh, you spoke very eloquently of the need for the two countries, U.S. and China, to cooperate. You've talked about the lines of communication being open, which is great. But if you look at the actions being taken, you know, the Trump era tariffs are still in place that are restrictions on technology exports to China, restrictions and investments in China. The Inflation Reduction Act and the CHIPS Act both singled out China as a major country of concern, keeping them out. Can you point to any areas in which there has been actually been progress relative to at least the previous administration in terms of the two countries aligning on certain economic issues? And given the political environment in Washington, do you see prospects for doing much more?

SHAMBAUGH: [00:58:35] So, I think what I'd say, there is, you know, when you talk about some of the the technology restrictions or things like that, I think in some ways I like to make clear to keep those distinct in one way, which is those aren't economic measures aimed at economic competitiveness. They're not things we're doing to benefit the US economically, vis-á-vie, China. They're, they're situations where for clear national security objectives, the United States has decided to put in place certain things. And so I think our goal is always to be narrowly targeted as or as targeted, as appropriate, as narrow, as appropriate. I think from the communication side, I think an essential thing there becomes trying to make sure we're able to communicate to our Chinese counterparts why we are doing what we are doing, what we are doing, what we are doing, and that they can communicate back if they see consequences that are unintended, that we understand that as well. So I think I think that dialogue can be really important as you are dealing with those national security issues more broadly, on the, you know, do I see, huge movements for it? I mean, I think you could say, and I know it's a little unfair because it should happen every year, but, you know, two way trade reached a record last year, right? It's not that we have decoupled, it's not that we have completely separated ourselves from one another. And as I said, nor are we trying to. And so I think it is important that we are able to work together, that we can talk through issues we have because we are going to, for the foreseeable future, and as far as our intentions, have economies that are very tied to one another in different ways. So whether that's going to mean different changes in different types of policies you noted, I think on the ones that are national security related, I wouldn't anticipate that, alright, that's something that we we do them for national security purposes and that's kind of where we stop.

COULIBALY: [01:00:39] Yes, Lex.

RIEFFEL [01:00:43] Thank you. Lex Rieffel, fellow former treasury economist and former Brookings scholar. Why do I hear so little discussion of land taxation in Ukraine? This is potentially land value capture. This is potentially the largest single source of financing for Ukraine reconstruction.

SHAMBAUGH: [01:01:05] That's a it's an interesting question. I have to say, it's not something that I've thought a huge amount about. I mean, I think what I can say is that through other means, at least, Ukraine has managed to take in a substantial tax share. I know that when the IMF came back, when the managing director came back from her, her visit to Ukraine, she was very struck by just the, you know, the revenue as a share of GDP Ukraine has been able to generate despite being in a major war. So I don't know that lack of of revenue being generated domestically is the binding constraint right now. But much like some of the other issues we've discussed, this is one where we don't throw out any idea that floats by, and it's something I'll certainly look into.

COULIBALY: [01:01:53] Including potentially using Russian assets for the reconstruction.

SHAMBAUGH: [01:01:58] So I think on Russian assets for reconstruction there, it's someplace where, you know, the G7 has been pretty clear as to say these assets are immobilized. Russia does not have access to them and simultaneously say Russia needs to pay for what its broken. How Russia pays for what it has broken is a different question and whether any particular asset is mapped to any particular need, I don't think we would want to necessarily prejudge that at this instance. But but it's it's obviously an important issue.

COULIBALY: [01:02:30] Okay. We've got to him in the front.

AUDIENCE MEMBER [01:02:35] Ted Truman. Mossavar-Rahmani Center for Business of Government, Harvard. So I'm interested in your comments about the IMF. And you commented the need [inaudible] I heard you to do more for middle income as well as low income countries. But the IMF has tended to concentrate on the lowest income countries in it's activities. Does this mean that we're, I say we for obvious reasons, that we that we're pushing the fund to be more? The question is, will this is a question of demand or supply and whether the whether whether the supply side from the fund has been to stingy, if you want to use that word, in terms of helping other than the lowest income countries n their, in their, in their needs at this point in time.

SHAMBAUGH: [01:03:20] So I guess I would say, from the IMF side, it feels like they are often highly engaged with the middle-income countries, right, so, Argentina's kind of historically one of the largest borrowers from the fund, things like that. So I don't know that I'd say that the the fund has ignored the middle income countries. I think in particular, what I was referencing at one point is that the common framework is set up was explicitly agreed to for low income countries. The problem is that it is not exclusively low income countries that run into debt distress. And so I think that's a place where we need to make sure we are continuing to think through what type of commitments are countries making to deal with that distress in in a middle income country? Because we can't, you know, the common framework, if it's only agreed to for low income countries, we're going to need some sort of processes for middle income countries if they get into trouble, is kind of the focus to me.

COULIBALY: [01:04:20] [Inaudible]

AUDIENCE MEMBER [01:04:27] Thank you, Coul, thank you, undersecretary. So given the inflationary pressures still present, how were their rate increases in the 1980s comparable to that we've been experiencing in the past few years, especially in terms of the limit and scope to which rate increases can take place? Thank you.

COULIBALY: [01:04:48] Let's take one last question from the gentleman in the back there. He's been patient. No, that's him in the blue jacket. There you go.

AUDIENCE MEMBER [01:04:58] Thanks. So recently, the group of countries known as the BRICS surpassed the G7 in GDP. I was wondering the ramifications of that and if the Biden administration is concerned.

SHAMBAUGH: [01:05:13] So I think. so on the first question, it's honestly a very easy question for me to answer, because I'm going to punt and say that the Federal Reserve is an independent agency in charge of monetary policy, and I wouldn't want to comment on rate increases or their potential because they're independent and they should do their own policy without the executive branch telling them what to do or characterizing what they're doing. So on the second question, I'm actually puzzling through the data because it may also depend on how you're calculating it, whether it's PPP or market rates, I think what I would say broadly is that I don't think especially people think.

COULIBALY: [01:05:55] It is PPP.

SHAMBAUGH: [01:05:56] PPP weighted GDP is the most important metric of economic size or, you know, PPP matters a lot when you're thinking about GDP per capita and living standards. But for economic size, probably what matters more is your ability to buy and sell things on world markets, at which point it be the market rate that would matter more. But even that being said, it's not always clear to me that pure size is the only thing that matters in the global context. So do I worry about it? Not in the, I mean, I would like many countries in the world to be growing faster. You know, if the BRICS got larger because India grew, that's not something that I'd be upset about. That's something I'm rooting for. So I don't think I don't I guess I'm not seeing it in that context. So I think, I think the G7 is still an incredibly important group of countries because I think the last year has revealed that more than people would have guessed coming in terms of their ability to work together, in particular on the challenge of Russia's invasion of Ukraine and to lead as a group around both sanctions and economic support and things like that. So I don't think kind of a country or group of countries weight in work in the world is strictly a matter of their their size, Size certainly does matter. It's it's why certain countries, we pay a lot more attention to what they're doing because their policies spill over around the world more. But yeah, I don't think it's one passing the other by a margin is probably not the thing. But it's an interesting question.

COULIBALY: [01:07:34] A vicious one. Last question and then we can wrap it up.

AUDIENCE MEMBER [01:07:38] Thank you, thank you very much. Thanks for all the explanations you gave. There has been a flurry of activity in terms of senior administration officials visiting Africa. Yeah. And which is a welcome, welcome, you know, relief compared to the previous administration. And I know there are so many things you guys are battling with in the Treasury. How are you preparing for the fact that in less than 18 months AGOA, which is a very, very, which is very important to the African countries, is about to expire?

SHAMBAUGH: [01:08:11] Well, it's a great question. It's it's one that it wouldn't surprise you, came up when we were in Africa, right, so, I mean, on the first part, just the premise of your question. Yes. You know, it is deliberate that the administration is paying more attention to Africa. As I said, I think it is very much our view that kind of what is happening in Africa is massively important, not just for Africa, but for the world, and that we are trying to make sure the US can be a good partner to African countries as as they encounter various challenges. AGOA is part of that. I think it's, you know, it's obviously something that USTR, U.S. trade representative owns a little bit more of that than Treasury does, but it's something that's important to us as we weigh in on trade policy and on US-Africa relations. And so it is something that the administration is thinking about. I think Katherine Tai noted that in a speech a few months ago, maybe in December, where she talked about she's, you know, yes, we're aware. Yes, we're thinking about it. I think, you know, it's not as simple as re-upping AGOA, I think it would also be making sure AGOA is as impactful as it can be. And so I think that that'll be a really crucial thing that that will take place over the next 18 months, is, is making sure that we can figure out what do we need to AGOA to be, and getting there. And that'll involve, you know, obviously dialog with our African counterparts, thinking through where has AGOA not delivered from their perspective, where do we think we could use it more effectively?

COULIBALY: [01:09:46] All right. Unfortunately, that's all the time we have, apologies for those who had hands up, but could not get a question in, we can go on the rest of the afternoon and still not scratch the surface on the host of issues that we have to work through. But hopefully it'll be several more meetings both here but also across town where you can get some of those questions, questions answered. So please join me in thanking Undersecretary Jay for taking the time out of his very busy schedule, for laying out the issue of the challenges and also Treasury's own position and thinking on this. So thank you Jay and again, thank you for your service to the nation and best of luck with the meetings at the end of the week.

SHAMBAUGH: [01:10:29] Well, thanks very much to you and to Brookings for hosting and to all the questions. That was a really fun, fun hour.

COULIBALY: [01:10:35] Very good. We officially adjourned.