

ANNUAL MEETINGS
2026 | THAILAND
INTERNATIONAL MONETARY FUND
WORLD BANK GROUP

October 16, 2026

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to the Board of Governors of the Fund
at the Joint Annual Discussions

Rebuilding Buffers
Without the Luxury of Time

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October 16, 2026

Good morning to all! I would like to start with a series of thanks:

- To the **IMF's membership**, present here and represented in Washington by our excellent Board. We exist to serve you.

- To **Thailand**, for the warm hospitality. Your Excellency Prime Minister Anutin: how fitting to see this beautiful replica of the Royal Barge. It reminds us we are all in the same boat.

- To colleagues at the **World Bank**, for being our partners. Ajay: our institutions pursue their duties in different ways. But we row together.

- And to **Governor Carvallo**, this year's Chair of our Board of Governors. Your country, Paraguay, shows all the hallmarks of maturity that make me want to drop the emerging-markets label.

I would also like to recognize my colleagues, the management and the **staff of the Fund**, drawn from 161 member countries (#1) yet all sworn to serve the global public good. Please stand up—I am so proud of you, of your dedication and hard work.

My task today is to provide a brief overview of the world economy—**shaped increasingly by AI**—and a succinct report on how we at the IMF are contributing.

Let me start from my conviction that, no matter what the zig zags of history may be, **the world is on an improving path**. But good outcomes are not granted—we have to work hard for them. And as we do, we need to make the most of the opportunities we create and manage the risks—for the

sake of all people, whoever they may be, wherever they may be.

Today, our boat is being lashed by the waves of **technology and geopolitics**. Our ability to twist and turn and maneuver is impaired by a heavy load of public debt. So far, the boat has proven resilient—but keeping it this way will require considerable effort.

Technology has been with us since the beginning of time, so what is new about it now? What is new is the **sheer speed** at which things are changing. On top of AI—an incredibly exciting yet scary thing—we also have advanced robotics, quantum computing, the hypercloud, fintech, and giant leaps in medicine.

In geopolitics, an **air of mistrust** adds security concerns to countries' traditional focus on economic efficiency. Discontent with the world trading system in some places triggers disruption, and from Ukraine to the Gulf we see an arc of war.

Given the sweeping changes, it is remarkable **how steady** the world economy has been. In October 2025, we forecast growth this year at 3.1 percent; one year later, still 3.1 percent. Trade, meanwhile, has flowed around all obstacles.

This steady growth is the net result of **two big opposing forces**: an energy shock, hurting growth, and an AI boom, lifting it.

But digging deeper, we see **significant divergence** (#2). War-hit economies have suffered large growth downgrades, while economies in the AI value chain—the U.S., China, India, and others, mostly in Asia—enjoy upgrades.

And too many countries carry too much **public debt** (#3). Rich countries are the worst offenders, but debt levels are rising in emerging markets too. Low-income countries tend to have lower public debt-to-GDP ratios, but still, high and rising interest burdens. Coming on top of

declining official aid, this crowds out development spending.

The **macroeconomic consequences** of these crosscurrents are clear:

- First, the energy supply shock pushes **inflation up and growth down**. Shipping (#4) remains in peril. Refinery and natural gas shortfalls are biting. Northern countries need to rebuild their fuel reserves as winter is coming.

- Second, high debts and deficits hurt countries' **ability to buffer shocks** and can also be inflationary. And while growth helps, no plausible growth pick-up on its own can reverse rising debt paths fast enough without fiscal effort.

- Third, yes, the rapid arrival of AI pushes **growth up**, but it too fuels inflation in the short run. AI generates vast infrastructure needs, increasingly funded by debt. Certainly, productivity gains are

coming and more are expected, but how much and how fast is yet to be seen.

In addition, this year's **super El Niño** also adds to inflationary pressures, impacting food prices—which hurt the poor the most—and causing other disruptions.

One outcome of all of this is that **the bond markets are talking to us**. After significant increases this year, U.S., German, and Japanese 10-year sovereign yields recently reached their highest levels since 2002, 2009, and 1996, respectively.

These **rising benchmark rates** lift yields in both emerging market and advanced economies, including in the euro area (#5). Higher-debt countries see larger increases, as is to be expected. Importantly, market dynamics remain orderly.

With multiple factors pushing inflation upward and with memories of the recent high inflation still fresh, central banks should be **laser focused on price stability**.

We at the IMF support the recent tightening actions and firm language from the U.S. Federal Reserve, ECB, and Bank of Japan.

Rate hikes today are better than **falling behind the curve** and having to double down with larger rate increases tomorrow. Nonetheless, tighter monetary policy does lift government funding costs—and more rapidly if short-term public debt is large.

The inescapable bottom line is that preserving stability requires **fiscal consolidation** in most high-debt countries. Governments need to develop credible medium-term fiscal plans, supported by upfront measures in some cases.

Our call for fiscal restraint is particularly relevant for systemically significant advanced economies with high debts and deficits—not only to benefit them at home but also to help others, given that they can generate spillovers to the rest of the world.

Consolidation is hard, everywhere and always. Policymakers need to explain why it is necessary; they need to formulate plans that limit costs to future growth to the extent possible while protecting the most vulnerable; and they need to complement fiscal reforms with **structural policies** to lift potential growth.

Given the speed at which AI moves, key among these structural policies must be steps to ensure **AI preparedness**. This means different things in different countries depending on whether they are AI providers, suppliers, or adopters.

Simple AI, accessible via a smartphone, could prove very democratic. As the science fiction writer William Gibson said, "The future is already here—it's just not evenly distributed." Our task must be to **bring this future to all**.

Equally, all countries must protect themselves from the substantial risks AI brings, stretching from youth joblessness to

a hollowing out of the tax base to financial instability. Perhaps the deepest worry is **cyber risk**—which invokes fears of financial turmoil, infrastructure disruptions, or worse.

We see the number of cyber attacks growing exponentially while the time between discovering and exploiting vulnerabilities (#6) is collapsing from months to hours and soon to minutes. **We are in a race** to make sure the "good guys" remain a step ahead of the "bad guys."

A borderless global AI system may only be as strong as its weakest link. Ensuring supervisors everywhere can work to enhance cyber resilience becomes a matter of the **collective good**.

In these and other areas, the need of the hour is for **urgent and practical international cooperation**—which brings me to what we at the IMF do.

Through our capacity development work and our Financial Sector Assessment Program, we help countries **strengthen their financial systems**, including to protect against the global cybersecurity challenge.

Each year, we deliver about 300 technical assistance and training programs in financial supervision and around 15 FSAPs. And this year we concluded our latest five-yearly **FSAP Review**, which seeks to ensure that we remain at the leading edge.

Today I am pleased to report that, for exactly the same reason, we have also completed **comprehensive reviews** of our surveillance work, lending conditionality, and debt sustainability assessment methodology for low-income countries.

The Fund—your Fund—**never rests**.

Fundamentally, our macroeconomic work is about addressing **domestic and global imbalances**—fiscal, as I have discussed,

but also imbalances between private savings, investment, and trade within and between countries, where we are deepening our assessment methodologies and advice.

We are urging our largest members to take this challenge very seriously: the U.S. needs to save more, China needs to consume more, and Europe needs to invest more. There is **plenty of policy homework** for all: fiscal consolidation in the U.S., less state involvement in economic decisions and better social safety nets in China, and deeper integration in the EU.

In the near term, trends are going in the **wrong direction** (#7), with the U.S. still over-reliant on domestic demand and China on net exports. But this is a medium-term endeavor, where the purpose is to stem a build-up of global vulnerabilities.

Along the way, some countries will stumble, and when they do **we catch them**. Currently, our credit outstanding plus undrawn commitments (#8) stands at

$240 billion, and our unused lending capacity is about three times that. Our concessional lending, at $36 billion, is around four times its historical average.

And on that note, let me turn to you, our membership, with **an important request**.

We have agreed that putting our Poverty Reduction and Growth Trust—our main vehicle for concessional lending—on a path to self-sustainability requires **broad approval** for distributions from an interim account (#9).

So far, 39 countries have provided assurances totaling almost 48 percent. I welcome the efforts of EU countries to find a path to providing assurances. Their combined contribution, enough to take us to 74 percent, will be critical to the success of the framework, where the agreed objective is 90 percent. I ask the rest of you also for your support to **get us to the finish line**.

And in the meantime, I give my heartfelt thanks to those of you who have already committed your support to the PRGT, as well as to all our **capacity development donors**. During these Annual Meetings we have secured more than $100 million in new CD commitments—a significant achievement equivalent to about one-quarter of our annual spending on CD.

So let me now conclude. Standing here in this beautiful country, I can think of no better way to do this than by quoting **His Majesty the Late King Bhumibol** whose words remind us that "Benefits and positive outcomes do not arise on their own. Rather, they must be gradually cultivated, accumulated, and strengthened over time."

This is the **essence of our work**: a relentless pursuit of betterment in the lives of people. It takes time. It takes perseverance. And it is best done when we work together. We at the IMF, with our 191 member countries, will continue to work relentlessly toward this goal.

Thank you Thailand, thank you all, and over to you dear Ajay!