INTERNATIONAL MONETARY FUND

DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

April 2026

The world faces the spillovers from the war in the Middle East. In addition to the human toll, its economic effects are global and uneven, once again hitting the poorest and most vulnerable countries the hardest. This comes at a time when policy space has been eroded and geopolitical tensions have been increasing. Spillovers to Low-Income Developing Countries (LIDCs) will transmit through supply disruptions, higher commodity prices, second-round effects on inflation and expectations, tighter global financial conditions, exchange rate pressures, and reduced remittances from members of the Gulf Cooperation Council (GCC). The appropriate policy response depends on how the shock propagates through the domestic economy, calling for pragmatism and agility, supported by credible policy frameworks. In LIDCs, near term policies should be anchored in credible frameworks, while concerted efforts are key to enhance resilience and growth potential. Domestic structural reforms, including building strong institutions, also have an important role in the medium-term to attract stronger FDI inflows and create jobs. Robust support from the international community will be essential—especially for the most vulnerable LIDCs and fragile and conflict-affected states (FCS). The IMF stands ready to deploy all its tools to assist the membership—supporting sound policies, helping ensure this new test does not derail key medium-term priorities, and providing balance of payments financing where needed.

ECONOMIC OUTLOOK AND RISKS

The resilience of the global economy is once again being tested.

The global economy has demonstrated resilience through repeated shocks, including from ongoing wars and conflicts, and elevated uncertainty. It now faces a major new test. The war in the Middle East has already caused damage to critical infrastructure and disrupted transport, affecting trade and energy, and poses a serious threat to the global economy. Fuel and fertilizer prices could remain high for a prolonged period, and shortages of key inputs could have implications for energy, food, and other industries. The war has also triggered other spillovers, such as forcibly displaced people and reduced travel and tourism. At the same time, profound transformations in technology, demographics, and the environment are creating complex challenges and new opportunities.

Global growth will slow and inflation will pick up.

The outlook is highly uncertain, but even with a relatively swift normalization, growth will slow and inflation will increase. Under our reference forecast—in which disruptions fade by mid-2026—global growth is projected at 3.1 percent in 2026 and 3.2 in 2027, below its recent pace of about 3.4 percent in 2024–25. Relative to the January 2026 World Economic Outlook (WEO), the forecast is revised down by 0.2 percentage point for 2026 and that for 2027 is unchanged, reflecting disruptions from the conflict in the Middle East, partly offset by continued tailwinds, including lower tariff rates, preexisting policy support, and stronger-than-expected data outturns through the turn of this year, with growth projections unchanged over the medium term.

Growth in AEs is projected to remain subdued.

Under the reference forecast, Advanced Economies (AEs) growth is projected to be 1.8 percent in 2026 and 1.7 percent in 2027, compared with 1.9 percent in 2025. This is mainly due to positive terms of trade effects in the United States and stronger growth momentum and offsetting government measures in Japan. A large negative effect is expected only in some net energy-importing economies, such as the euro area and the United Kingdom.

For EMDEs, growth is also expected to moderate, with large regional variations.

Growth in emerging market and developing economies (EMDEs) under the reference forecast is projected to fall from 4.4 percent in 2025 to 3.9 percent in 2026 and 4.2 percent in 2027, with notable regional divergence. Growth in the Middle East and Central Asia is expected to drop sharply from 3.6 percent in 2025 to 1.9 percent in 2026, before recovering to 4.6 percent in 2027, as the region experiences the most direct impact of the conflict and the expected subsequent rebound. Relative to 2025, growth in 2026 is projected to decline from 5.5 percent to 4.9 percent in emerging and developing Asia, and from 4.5 to 4.3 percent in sub-Saharan Africa. In Latin America and the Caribbean, growth is projected to remain broadly stable at 2.3 percent in 2026 and pick up to 2.7 percent in 2027, while in emerging and developing Europe the sharp slowdown in 2025 to a growth rate of 2.0 percent is expected only to reverse modestly to around 2.1 percent in 2027. These differences reflect varying exposures to geopolitical shocks, commodity price movements, and domestic conditions.

LIDCs face additional challenges, particularly the most vulnerable, reliant on energy and food imports.

Growth in low-income and developing countries (LIDCs) is revised downward by 0.3 percentage points to 4.8 percent in 2026 and 4.9 percent in 2027 under the reference forecast. The growth outlook has become more fragile and risks are rising, including from higher inflation. The conflict is expected to disproportionately affect these economies, particularly those relying on imported food and fuel and having limited buffers and constrained policy space. Remittance inflows may weaken—particularly in countries with strong links to GCC economies—while disruptions to fertilizer supply could weigh on agricultural production and food security. At the same time, high debt service burdens and tightening external financing conditions constrain fiscal space, while increased reliance on domestic borrowing heightens financial stability risks through increased sovereign-bank linkages. Despite recent improvements, foreign exchange reserves remain inadequate in many LIDCs, leaving them vulnerable to shifts in commodity prices, global interest rates, and aid flows.

Medium-term growth prospects remain weak.

A more fragmented international economic landscape compounded by rising geopolitical risk continues to weigh on medium-term growth prospects. In the absence of sustained structural reforms, global growth is expected to remain modest. Over the medium term, world output is projected to expand at an average annual rate of 3.1 percent in 2028-31, well below the pre-pandemic (2000–19) average of 3.7 percent. This primarily reflects the slowdown in China's growth, but also slower growth in other regions, as well as persistent structural headwinds, including geoeconomic fragmentation and demographic pressures. A more pronounced slowdown in EMDEs implies a slower pace of income convergence, increasing the risk of widening income gaps across countries.

Global inflation is projected to temporarily rise before resuming its decline.

Global headline inflation under the reference forecast is projected to pause its decline and rise to 4.4 percent in 2026 before declining to 3.7 percent in 2027. This is a 0.7 percentage point revision relative to October 2025. However, inflation dynamics remain uneven across countries, with services inflation still persistent in some cases and a growing share of inflation increasingly explained by country-specific factors. In EMDEs, inflation forecasts have been revised upward more sharply than in AEs, driven by higher energy and food prices and exchange rate depreciation.

Given the fluidity of the situation, we also consider scenarios in which the conflict is prolonged or escalates. Under a severe scenario, the impact would be significantly larger: global growth would be cut to only about 2 percent in 2026, while headline inflation could rise just above 6 percent by 2027. The effects on emerging market and developing economies would be nearly twice as large as on advanced economies.

Downside Risks dominate the outlook.

Risks to the outlook are firmly on the downside, most notably those related to a more protracted conflict in the Middle East. Geopolitical tensions could worsen—pushing the global economy toward more severe outcomes—or domestic policy strains could erupt. Trade-related disputes could also flare up. A reevaluation of profit expectations regarding AI could lead to a decline in investment and trigger an abrupt correction in financial markets. Larger fiscal deficits and increasing public debt, starting from a position where fiscal buffers are already eroded, could put pressure on long-term interest rates and thus on broader financial conditions. An erosion of institutions, including central bank independence and monetary policy credibility, could raise inflation expectations—especially at a time when headline inflation is increasing. Upside risks are limited but could arise from progress in trade talks and greater policy predictability, supporting investment and activity. Additional upside could come from stronger-than-expected AI-driven productivity gains and renewed structural reform momentum.

POLICY PRIORITIES

Strong fundamentals and policy agility are key …

In a world with unusually high uncertainty and multiple shocks, fundamentals matter and policy agility is critical. Countries that pair financial strength with credible policy frameworks and strong institutions, dynamic private sectors, and agile policymaking are better equipped to withstand shocks, while promoting economic growth and job creation.

… to allow policymakers to tackle difficult tradeoffs.

In this context, policymakers face many difficult choices. How best to ensure price stability while protecting growth? When to shift between policy restraint and stimulus? How to manage risks while embracing innovation? How to secure fiscal strength while promoting jobs and social cohesion? There are no easy answers, but experience underscores the importance of central bank independence, fiscal discipline, adequate buffers, well-functioning markets, judicious regulation, and policy agility.

Monetary policy must strike a careful balance…

Central banks should remain vigilant and be prepared to act clearly and decisively in line with their mandates. They must guard against prolonged supply shocks destabilizing medium-to-long-term inflation expectations. Monetary policymakers should reserve the option to look through negative supply shocks—such as the current one—if the shock is transitory and monetary policy stance is already properly calibrated. Transparent communication and strong central bank independence are critical for credibility. Where an imminent risk of excessive or disorderly exchange rate movements emerges, temporary foreign exchange intervention and capital flow management measures may be warranted, provided they support appropriate monetary and fiscal policy stances.

Financial sector policies should preserve stability.

Given elevated risks and uncertainty, strong banking supervision and regulation should be complemented by enhanced systemic risk monitoring and tighter oversight of non-bank financial intermediaries—particularly where leverage, liquidity mismatches, or links to banks have increased. Authorities could strengthen capital and liquidity requirements at weaker financial institutions, in line with internationally agreed standards, and stand ready to support market functioning should liquidity strains emerge

Fiscal responses to the new shock should be anchored in credible frameworks.

In most countries, fiscal space is more constrained than just a few years ago. As in past energy shocks, governments will face political pressures to limit price pass-through to households and firms. However, suppressing price signals weakens demand adjustment and can push global prices higher. Any fiscal support should be temporary, well-targeted, and narrowly focused. Countries with fiscal space should let automatic stabilizers operate, while others should reprioritize budget-neutral measures to protect the most vulnerable households and firms, while avoiding deficit-financed measures. In all countries, it will be important to focus on the quality of spending and rebuild policy space once conditions allow, supported by credible medium-term fiscal frameworks. Fiscal actions should be calibrated to avoid adding to inflationary pressures, forcing tighter monetary policy and weighing on growth.

Structural reforms to lift future growth must not be neglected.

Structural reforms enabling private sector-led investment and productivity enhancement are key, encompassing judiciousness in regulation. Objectives must include improving the business environment, modernizing labor markets, enhancing human capital, strengthening competition, and erecting new guardrails where needed, while also addressing governance weaknesses and corruption where applicable. Harnessing new technologies, including for energy security and climate transition, offer powerful pathways to economic security and growth. AI can offer new growth opportunities, but it may also disrupt labor markets and widen inequalities within and across countries, making international cooperation crucial to ensuring its benefits are widely shared. Similarly, the rapid rise of digital finance, including stablecoins, has the potential to reshape cross-border capital flows, underscoring the need to mitigate risks while sharing the benefits through the implementation of robust regulatory frameworks and oversight, guided by international norms.

International cooperation is needed …

International cooperation becomes even more important in a world of frequent shocks and major structural shifts. Multilateral approaches can be more effective in addressing common challenges—including preserving trade as an engine of growth, moderating excessive global imbalances, addressing debt fragilities, and tackling climate risks.

…including to reduce excess imbalances…

Persistent excess global imbalances distort resource allocation, build risks, and fuel protectionist sentiment. An orderly rebalancing requires coordinated policies to increase domestic demand in surplus economies, including through stronger private consumption and higher public infrastructure investment, and to increase saving in deficit countries, including by curbing fiscal deficits.

… and support growth in LICs and FCSs and address high debt pressures.

Concerted efforts are needed to enhance the resilience and growth potential of low-income countries and fragile and conflict-affected states. This includes supporting domestic reform efforts that can help attract private financing and investment, including by stepping up implementation of the Bank-Fund Three-Pillar Approach. To support countries with unsustainable debt, there is scope—building on progress in recent years—to further enhance predictability and timely debt restructuring processes. With traditional donor assistance on a downward trend, scarce concessional resources should be targeted toward the poorest and most vulnerable countries.

IMF SUPPORT

The IMF is monitoring developments and

The IMF is closely monitoring and assessing developments at the country, regional, and global levels. The Fund is running scenario analysis and sharing its findings with the membership to inform strong and agile policymaking. As always, the Fund

stands ready to fully deploy its toolkit to assist countries.

stands ready to act decisively to advise members on policies tailored to their individual circumstances, help develop capacity, and provide financing where needed by fully utilizing our existing lending toolkit.

- On monetary policy, the Fund's advice continues to be grounded in rigorous analysis of inflation dynamics, fiscal–monetary policy interactions, policy tradeoffs, and capital flows, including by mainstreaming the Integrated Policy Framework. Our latest World Economic Outlook provides advice on coping with negative supply shocks, underscoring the importance of preserving price stability while "looking through" modest transitory shocks if inflation expectations are well anchored. Preserving central bank independence is essential.

- On financial policy, the Fund is conducting real-time monitoring of systemic risks and emerging macro-financial vulnerabilities. Our latest Global Financial Stability Report identifies key channels that could amplify financial market volatility and feedback loops between financial stress and economic activity that are harder to contain.

- On fiscal policy, the Fund is helping assess risks and design credible plans, taking into account long-term adjustment needs. The latest Fiscal Monitor assesses spillover risks from high public debt in major economies as well as fiscal risks associate with declining development aid.

- On structural policies, the Fund continues to support reforms to enable private sector-led investment and boost productivity, including improving labor market efficiency, strengthening competition, enhancing skills to maximize the benefits of AI, and helping countries integrate climate risks in their macroeconomic frameworks.

While supporting members dealing with near-term policy priorities, the Fund also energetically continues to modernize its policy frameworks and internal operations to support our members in a changing world.

Fund surveillance is being sharpened with key reviews progressing.

The Comprehensive Surveillance Review (CSR) will upgrade our surveillance toolkit to better support our members in a more uncertain and shock-prone world that is experiencing major transformations. The FSAP Review aims to ensure the Program remains strategic, keeps strong traction, and maintains a flexible and risk-based approach to prioritizing systemic topics, such as AI and climate, and jurisdictions. We are also enhancing our Data and Macro-Framework Consistency and taking stock of our Interim Update on the Implementation of the Framework for Fund Engagement on Governance.

The IMF continues to address debt challenges…

Efforts to tackle debt challenges are advancing on multiple fronts. The IMF and World Bank are finalizing the review of the joint IMF–World Bank Debt Sustainability Framework for Low-Income Countries to strengthen the assessment and monitoring of debt vulnerabilities and better guide borrowing and lending decisions. Our Three-Pillar Approach, also joint with the World Bank, supports reforms to promote growth, build resilience, and alleviate near-term financing constraints. The Fund continues to support country-specific debt restructurings, including under the Common Framework, while advancing work through the Global Sovereign Debt Roundtable to improve coordination and effectiveness. In parallel, steps are being taken to strengthen debt management, including the development of Public Debt Management Governance Framework guidelines to enhance transparency and governance, and updates to guidance on the use of the Sovereign Risk and Debt Sustainability Framework for Market Access Countries.

…fortify its lending toolkit…

The IMF is committed to fully implementing the reforms approved in the 2024 Review of the Poverty Reduction and Growth Trust (PRGT) to bolster the Fund's capacity to support low-income countries in addressing their balance of payment needs. Securing assurance of additional PRGT subsidy resources remains a top priority. The ongoing Review of Program Design and Conditionality will enhance the effectiveness of our programs in the current environment.

…and enhance its CD work…

Capacity development (CD) priorities and budgets are set to ensure alignment with the Fund's strategic objectives and members' needs, through country-tailored CD that reinforces surveillance and lending. Building on the April 2024 CD Strategy Review, capacity development is being strengthened by mitigating external financing risks while enhancing funding flexibility and diversification. Further analysis is underway on the design and funding sources of a future CD Stabilization Mechanism.

…while keeping the IMF strong and agile.

Our members continue to work toward the implementation of the 50 percent quota increase under the 16th General Review of Quotas (GRQ), which will strengthen the Fund's capacity to respond to global crises. The adoption of the Diriyah Guiding Principles is a major step that will help guide discussions on quota and governance reforms, including under the 17th GRQ. We also continue to advance streamlining efforts to maintain agility and efficiency. IMF staff are its greatest asset, and the institution remains committed to attracting and retaining top talent.