Transcript : World Bank Group President David Malpass's Interview with Tom Keene on Bloomberg Surveillance

January 18, 2022

Transcript:

Tom Keene: The reality is that banking is relying on prosperity. David Malpass is the President of the World Bank and we're thrilled that Mr. Malpass can join us this morning. David, I look at the World Bank website, and you're modeling growth to slow. How fragile is it right now? You and I have studied Stan Fisher, 1998, and other crises as well. How close to instability in emerging markets are we?

David Malpass: Hi, Tom. Good morning. I think that's a big challenge because as you slow down, the population growths are still fast in some countries. And if you're not getting ahead, then the people look at it and say what's in it for me? That brings the physical insecurity that we're seeing in some parts of the world. The solution is to grow more, and to get higher per capita incomes, as well as of course, health programs, vaccinations, education, all that goes with good development practices

Tom Keene: Is the institutional integrity there for you, and across the street, the International Monetary Fund? Are these nations listening to you as they struggle with some of the financial challenges they have?

David Malpass: Many countries do listen, but I think a big part of the challenge is the global environment. It's very unequal. People at the lower end of the income scales just simply aren't doing well because the wealth is concentrating. And so that's a big problem. You can put in better policies in your country and still not see much in the way of results. That's a big problem.

Lisa Abramowicz: David, given this backdrop where the recovery has been much slower and more painful in the developing world, how concerning is it that a wall of debt maturities is coming up for a lot of these nations?

David Malpass: This is a challenge. It was discussed in the last two years and by the G20. But frankly, the progress has stalled on that. So as we look at 2022, the payment from the IDA countries - that's the low income countries - are going to be $35 billion. That's the payments on principal and interest, which is way beyond the resources of the countries. That creates an added challenge because they need the money for other things - like fighting the pandemic.

Lisa Abramowicz: David, how concerning is it that amidst this backdrop, you have seen persistent dollar strike, you have seen persistent inflation in base goods. I mean, basically paint a scenario for us, how this transpires over the rest of 2022.

David Malpass: We know worldwide that inflation really subtracts from people that are on fixed income or on the bottom end of the income scale. And that's particularly true of developing countries. So as prices go up, they just don't have enough money for food, for the basics, for education, and for health. In the developing world, because of the school closures, education has really slid backwards. That means the ability to read and write, and so those are concerning. That gets us to the endpoint: if interest rate hikes start, that's going to be a double whammy. The inflation and the interest rates are a challenge. I think it would be better if the central banks looked at the capital allocation around the world, and look for better ways to allocate so that not all of the money goes to the biggest corporations. Your previous story was just about Microsoft's cash.

Tom Keene: David, you are as qualified as any World Bank president in history to look at, study, and advise on dollar dynamics. Does the World Bank, in the poor countries of the world - just take the continent of Africa as one example - how desperate are they for a weak dollar?

David Malpass: The strong dollar really puts pressure on them because their currency is weakened and then capital doesn't want to flow to them, plus prices go up more than they are in the United States. So, I wouldn't characterize it as desperate for a weak dollar: what benefits everyone is when currencies are stable, and that starts with the dollar. Long term stability, I think, is the strongest support for development. The countries want that, but right now as we go into a probable interest rate hiking phase, that adds to the dollar and makes the challenges bigger for the developing countries. I think the world needs to look at the capital allocation and ask - why is so much of the money going to the rich end of the scale?

Tom Keene: How do we amend that? I mean, it's one thing to comment on it and to identify it. But how are we proactive for a new capital allocation away from buying more Apple shares?

David Malpass: You have to think about small businesses. That means floating rate money, that means money at the short end of the curve, but we have this oddity where the government is supporting existing businesses, existing people, and demand - not so much the supply side. So that's problem one. And then on the central bank side, they have four tools. They're only talking about two tools: interest rate hikes, that hurts people at the short end of the curve because short interest rates go up first, and even more so in developing countries. And they're also talking about shrinking, or tapering the size of the balance sheet. There are two more tools: one is the duration of the central bank holdings, and one is regulatory policy. I call it post-monetarism: we're not really in a money supply world. We're in a very heavily regulatory world. Right now it penalizes small businesses, so having an explicit focus on both fiscal and monetary policy to support smaller businesses so they can help the supply chain. I think that's critical and could help worldwide.

Lisa Abramowicz: David, given where we are now, given that these changes will take time to be implemented. Do you think that the developing world complex can deal with four rate hikes from the Federal Reserve this year?

David Malpass: It's going to be really challenging. We already see it in country after country from the political side. You see it daily in the news. I think it would help if the

central bank said what the strategy is. I really think they should be looking at the duration of their assets and saying they'll stop buying so many assets at the long end and have more of their mix, which is big capital
favorable, be small capital favorable. That helps developing countries.

Tom Keene: Mr. Malpass. Thank you so much for joining us, David Malpass, World Bank President, this morning.