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to the Board of Governors of the Fund,
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“The Path Forward—Act Now and Act Together”

Opening Address to the 2011 Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund

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Introduction: The Spirit of Bretton Woods

Mr. Chairman, governors, honored guests: I am privileged, and humbled, to address you for the first time as Managing Director of the IMF.

Let me thank **Chairman Ingraham** and all of you for your strong support of our institution. And let me acknowledge my friend **Bob Zoellick** for the great work he is doing at the World Bank.

I want to begin by telling you how I felt when I first walked into the IMF as Managing Director over two months ago. I saw the flags in the atrium. *Your* flags, the flags of our 187 members, reminding us that we are one global economy, interconnected as never before.

That was a powerful feeling. And I feel it again as I see you this morning, our global membership, here in one place.

That is what the IMF is all about. That is the spirit of Bretton Woods. The spirit we must renew today.

We meet at a pivotal moment. A moment of choice.

As we gather inside this hall, the mood outside is grim. All across the world, people worry more and more about their futures—and their children’s futures. They are looking to us for solutions.

As Victor Hugo once said: “Great perils have this beauty, that they bring to light the fraternity of strangers”.

We are by no means strangers, and we are linked by a common destiny. And these turbulent times must bind us ever closer together.

Depending on the choice we make today, and in the weeks and months ahead, our collective economic fortunes will advance or fall back.

We need to act *now*, and we need to act *together*.

In that context , I want to talk about three issues:

- First, the state of the global economy;
- Second, the policy path forward and the role each must play;
- And finally, how the IMF can serve and support *you*, our members along that path.

First, the state of the global economy

You have seen our forecasts released earlier this week. Overall, we expect global growth to slow to 4 percent this year and next. But the advanced economies will only manage an anemic 1½ -2 percent.

So, there is a recovery, but it is weak and uneven. And risks have increased sharply.

They are propelled by a negative feedback loop—between weak growth; weak balance sheets among sovereigns, banks, and households; and inefficient political commitment.

This has led to a crisis of confidence. And it imposes not only economic, but also social costs.

Yes, the emerging-market and low-income countries are doing better, harvesting the fruits of sound policy choices. But make no mistake: the global south is not immune to missteps in the global north.

We have entered what I have called a dangerous new phase.

And yet, there is a way forward. The policy options have narrowed, but that does not mean there are *no* options.

So let me turn to my second issue: the path forward

What do we want? Inclusive, job-creating, growth must be our goal. But today, we risk losing the battle for growth. With dark clouds over Europe, and huge uncertainty in the United States, we risk a collapse in global demand.

This challenge could not be more urgent.

In our interconnected world, we are all on one boat. Any thought of decoupling is a mirage.

But let us be frank—the primary burden of responsibility for addressing the current crisis lies with the advanced economies.

I see three policy imperatives for them—fiscal and monetary, financial, and structural. *Fiscal policy* must navigate between the twin threats of undermining credibility and undercutting recovery. Advanced countries need fiscal consolidation as a matter of priority, but, for some, pushing too fast will harm growth and jobs. So the pace must neither be too hesitant nor too hasty.

It is less a dilemma than a question of timing and confidence. If countries have solid measures to anchor savings in the medium and long term, they can do more in the short term to accommodate growth. The amount of available space depends, of course, on country circumstances.

As for *monetary policy*, given that inflation expectations are generally well anchored, it should remain accommodative. And central banks should stand ready to dive back into unconventional waters as needed—as some have done in recent days.

Turning to the *financial sector*, we must strengthen banks' balance sheets so that they can lend to fuel growth and adequately face uncertain times with confidence.

We also need stronger consistent and implementable financial regulation, to make the system safer and sounder—to make financial crises *less likely*, and to make taxpayer bailouts of reckless operators *less likely still*.

To boost competitiveness and growth, advanced economies must continue with *structural reforms*: in product and labor markets—and confront vested interests in service sectors, to allow entrepreneurs to flourish and grow and create value.

We must also pay close attention to the social dimension. Growth alone is not enough. We need growth that supports jobs—we must not lose this generation of young people. We need inclusive growth that benefits the whole of society. We need decent social safety nets.

This is the policy path. And the world's largest economies—the United States and the Eurozone in particular—have a special responsibility. They have begun the effort. It must be accelerated as a matter of urgency.

The United States must reduce its fiscal deficit over the medium and long term, deal urgently with unemployment, and relieve pressure on overly-indebted households.

Europe must deal urgently with the twin problems of sovereign and bank debt, and deal with them together. The countries at the heart of the crisis must implement the programs to which they have committed. And their European partners must do whatever it takes to support them—as they have committed to do.

So far, I have focused on the responsibility of the advanced economies. I believe this is right because they are at the forefront of the crisis, and because decisions taken by them affect everyone else—the Kenyan farmer, the Brazilian designer, the Chinese entrepreneur.

But of course, we need to look further ahead—to the ultimate objective of rebalancing the global economy. And to achieve that, *all must play their part*.

In many *emerging markets*, growth has been resilient. But the external surplus countries now need to rely more on domestic demand.

Especially in Asia, they need it to generate more inclusive growth—to “finish the job” started by the historic reduction in poverty over the past few decades. This can also help propel the global recovery.

In other emerging markets with current account deficits, including in Latin America, the challenge is to reduce overheating and preserve financial stability.

The *low-income countries* must play a role too—to rebuild the policy buffers that have served them well during the crisis, and to invest in growth and employment creation. The international community must help these countries help themselves.

This includes the urgent action needed to help the people in the Horn of Africa, who are facing the most devastating human catastrophe in a generation.

And all across *the Middle East and North Africa*, I am convinced that the Arab Spring provides a historic transformational opportunity: to unlock the full potential of the region and bring about higher and more inclusive growth.

We are all in this together. And cooperation *will* pay off.

The IMF has estimated the benefits: a potential increase in world GDP of 1½ percent and 20 million more jobs over the next five years.

On that note, let me turn to my third and final issue: the role of the IMF and how we can help.

I have a core belief about the Fund. It is here for one reason, and one reason only—to serve you, our global membership. Our role is to bring countries together and facilitate comprehensive and collaborative solutions.

Policymakers can learn from each other. Those who have weathered the storm in previous crises can share their expertise with those facing the storm. The Fund can facilitate this.

The Fund has been striving to do this throughout its history. I believe that, with your support, we can do even better. How?

First, we can do more in the area of providing the best possible, objective analysis and advice through our **surveillance**. Candor is sometimes hard to accept, but is especially valuable when choices are hardest.

Today, we are focused more than ever on the vulnerabilities and spillovers that run through our interconnected world. This will feature even more in our work in the future.

Second, our **lending** can do more to contain and resolve crises.

Our lending helps soften the economic and social costs of crises—for example, by allowing low-income countries to protect and increase spending on health and education. And our precautionary lending can help protect countries from the gales of contagion.

We look forward to discussions with our membership on how we might help fortify our lending and the global financial safety net overall. We will be creative if needed.

Third, we can help our members more with our **technical assistance and training**. Often overlooked, these services lay the foundations for a better tomorrow.

As an example, we helped the ministry of finance in Liberia pay teachers directly into their bank accounts, avoiding costly disruptions in classroom time. And we are helping to turn the dreams of the Arab Spring into reality—for instance, by working with Egypt to modernize its tax system.

To be even more effective, we need an IMF that looks even more like our membership. We must mirror each other.

Significant progress has been made on representation and governance issues in recent years. Now we must go further. As a priority step, I urge all of you to implement the 2010 reforms.

I want you to know that I will be attentive to your concerns. I want to listen to you. And to do so, I will travel to Africa, Asia, Latin America, and the Middle East in the coming months.

I also would like you to know that from the moment I walked into the building last July, I was impressed by the magnificent staff here. Behind all the reports and statistics, it is sometimes forgotten that there are real people—a dedicated and diverse cadre of professionals—working hard to find solutions to some of the world's most difficult problems.

I am proud of them. I hope you are too.

And let me also recognize and thank the Board of Executive Directors for all their support, dedication, and hard work.

Conclusion—the Choice

Mr Chairman, governors: I said at the outset that we faced a choice. Three years ago, we faced a similar fork in the road.

Then, the global community chose wisely. We came together with a sense of unity and purpose. We acted boldly—and in doing so, we helped stave off a second Great Depression

Now we are at another critical juncture. We must choose wisely again. The need is urgent. The actions I am calling for today are not for the coming *years*—they are for the coming *months*.

Our problems may be largely economic, but the solutions are largely political. We need commitment. We need courage.

On the occasion of these Meetings, I hope that we can reach common diagnosis, and agree on the set of policy recommendations that you will propose to your leaders and heads of government so that we can pave the path to collective action—and walk the path to recovery.

If we can do it, I am hopeful that when we meet again in Tokyo next year, we will be greeting a new dawn.

Just as I saw the flags on that first day at the Fund, I see them here again today in your eyes.

A symbol of our interconnectedness. A symbol of one global community. A symbol of the IMF.

There is a path forward. Let us take it. Together.

Thank you.