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to the Board of Governors of the Fund,
at the Joint Annual Discussion

Brothers and Sisters, There is Much to Do

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Introduction

Presidente Humala, Presidente Bedoumra, Presidente Kim, Gobernadores, invitados de honor: Estoy encantada de estar aquí hoy y doy mi bienvenida a la Reuniones Anuales del Fondo Monetario Internacional y del Banco Mundial. ¡Bienvenidos!

Hablo en nombre de todos cuando agradezco al Gobierno y al pueblo del Perú por su gran hospitalidad. ¡Muchas gracias!

Hoy, Lima es la primera ciudad de América Latina sede de las Reuniones Anuales en casi cincuenta años. Esto confirma el dicho “las cosas buenas vienen a aquellos que esperan.”¹

So, Lima is the first Latin American city to host the Annual Meetings in almost 50 years. It has been a long time, but it also means that Peru is no longer the proverbial “country of the future”—it is the “country of the *present*.” As one of the fastest-growing economies in Latin America in the last few years, Peru has the chance to unlock its immense potential and create greater prosperity for *all* Peruvians.

Of course, nothing can be taken for granted. Being in the present means addressing the big *new* challenges and constraints. Uncertainty over the global economy is on the minds of policymakers in *all* countries, including here in Peru.

We are no longer in an economic crisis, but this is a time of change. Old paradigms no longer hold, new economic relationships emerge. This means it is also a time of opportunity and action.

Someone who captured this spirit is the great Peruvian poet César Vallejo. I love how he concludes one of his best-known poems with a confident “Can do!” message:

“Hay, hermanos, muchísimo que hacer.”

“Brothers, there is still so much to do.”

¹ President Humala, Chairman Bedoumra, President Kim, Governors, honored guests: I am delighted to be here today and would like to add my welcome to the IMF and World Bank Annual Meetings. Welcome!

I know that I speak for all in thanking the government and the people of Peru for their incredible hospitality. Thank you very much!

Lima is the first Latin American city to host the Annual Meetings in almost 50 years. This confirms the saying that “good things come to those who wait.”

Indeed, brothers and sisters—*hermanas*—there is much to do! We are all here in this wonderful new convention center to demonstrate to the world that we are ready for this change. That we can do it!

The *raison d'être* for the IMF and the World Bank—for our membership—is to work together in addressing these new challenges—as we have done many times before!

Let us examine how in this *changing* global landscape, both Latin America and the IMF are transitioning and adjusting to these new challenges.

1. The Changing Global Landscape

First, the global landscape—where currently we see uncertainty, transition, and balancing acts.

Uncertainty—because global growth will likely be weaker this year than last—at 3.1 percent, compared to 3.4 percent last year—with only a modest acceleration to 3.6 percent in 2016—much lower than what is needed to make deep inroads into unemployment and poverty.

Transition—including China's shift to a new growth model, and the expected shift in U.S. monetary policy.

Both of these transitions are necessary and healthy, but they are impacting other countries across the globe through trade, exchange rates, asset markets, and capital flows—what we call spillovers. Emerging market and low-income countries that are heavily dependent on commodity revenues will be particularly affected.

While these uncertainties and transitions may look daunting, I believe they *can* be managed—with the right mix of policies to support demand, strengthen financial stability, and implement structural reforms. All these are necessary *balancing acts*.

At the same time, they may not be enough. That is why, during these Meetings, I have been calling for specific *policy upgrades*.

For instance, central banks in *advanced economies* should give due consideration to the risks of spillovers from their policy decisions; *emerging economies* should firmly address the buildup of corporate leverage and foreign debt.

And I am hopeful that—building on the recent TPP agreement—we can restart the stalling engine of global trade.

These *upgrades* will make the global economy more resilient against the increased uncertainty that we face now. But even as we focus on the short-term policy measures, we need to be mindful of broader changes in the global landscape.

Let me use an analogy. When seen on foot, the ancient *Nazca Lines* in southern Peru resemble a series of shallow trenches. Only when viewed from the air can one see the shape of a figure. The picture of the hummingbird—which you see on the screen—is deeply ingrained in the Peruvian culture, and it is also the symbol of our Annual Meetings.

Likewise, we must take a wide perspective to understand the global *Nazca Lines* that will shape our economic future, and thus the destiny of billions of people worldwide.

Some are obvious. One is ***climate change***, where all countries need to integrate its implications into their macroeconomic frameworks. Energy pricing is key: the IMF has projected global energy subsidies at \$5.3 trillion for 2015, or 6.5 percent of GDP—a staggering number that needs to come down in the years to come. *To get it right, we need to price it right*—and now is the time to eliminate subsidies because energy prices are low.

Another *Nazca line* is ***innovative*** technology. As part of the agreement on Sustainable Development Goals (SDGs), the international community has committed to make the internet available to all by 2020. Imagine what can be achieved by everyone having access to online education, healthcare information, a bank account, and so on. *There are endless possibilities. The challenge is to make it happen.*

Of course, a *Nazca Line* on all our minds today is ***migration***. We need action *now* to resolve the heartbreaking plight of refugees from war-torn countries. I applaud those who are demonstrating leadership on this issue, and those on the ground who are working day and night to help.

We at the IMF will play our part—through our economic analysis of the issues, both in originating and receiving nations, as well as through fiscal support for member countries facing these pressures—as we have already done, for instance, in Iraq and Jordan.

Another *Nazca Line*—closely related to migration—is ***demographic change***. Think of the Middle East, where a third of the population is aged between 15 and 29. No wonder that many of these young people feel they have no choice but to leave in search of work.

Or the shrinking working-age populations in advanced economies—especially in Europe—which may need to attract more foreign talent to replenish the reservoir of qualified workers.

Regardless of whether populations are ageing or rapidly growing, one thing is clear: economies will need to adapt.

A major factor that can help—as research from the IMF has recently affirmed—is ***empowering women*** to participate more in the economy. Whether to mitigate the effects of shrinking work forces, or to create jobs by starting small or mid-sized enterprises, no country can afford to disregard the contributions women make to their economies.

Closing the gender gap will be a global economic game-changer.

A further major issue shaping the future is personified by many of you here—the dynamic role of *emerging economies*.

These countries helped pull the global economy back from the brink of another Great Depression a few years ago. They have accounted for almost 80 percent of global growth over the past five years. They now generate more than half of global output.

Only the grumpiest pessimist would bet against the long-term success of emerging markets. And yet—as emerging markets themselves recognize—braving the winds of uncertainty and spillovers that are currently swirling will *not* be an easy task.

The changing Latin American landscape helps to tell that story.

2. The Changing Latin America

From Tijuana to Tierra del Fuego, we see a region that is incredibly diverse—economically, politically, and culturally. Indeed, it embodies the diversity of the emerging market universe that has, in many ways, outgrown the one-size-fits-all label.

Latin America is also symbolic of the shifts that we have seen in so many emerging markets over the past two decades.

One was the adoption of more robust policy frameworks. This allowed many countries to fully benefit from rising commodity prices, booming international trade, and favorable global financial conditions.

A second shift came during the global financial crisis. Policymakers responded with bold, counter-cyclical measures. Latin America showed that it can do the *right* thing at the *right* time.

As a result, most countries saw strong growth and low inflation, and also tangible social progress—with income inequality and poverty levels declining sharply for more than a decade.

The result? This is no longer your *abuelo*'s Latin America. It is a *new* region—but it now faces *new* challenges.

The good news is that, like other emerging markets, Latin America is generally better prepared for the changing winds than in the past. The not-so-good news, again as in other countries, is that there are concerns about the region's capacity to buffer shocks—falling commodity prices, the anticipated rise in U.S interest rates, and volatile capital flows.

That is why confidence in policies and policymakers is vital. For most countries, the priority is to strengthen their policy frameworks—which we know will be put to the test.

That means using fiscal policy responsibly and putting rising public debt back on a sustainable path. It means using monetary policy wisely and shrinking large current account deficits.

But again, this may not be enough. I spoke earlier of “policy upgrades” by addressing the buildup of leverage and foreign debt in major companies. Monitoring these foreign currency exposures is key, as is bolstering the resilience of banks. This will reduce downside risks and strengthen financial stability.

Most countries in the region also need to press ahead with structural reforms to diversify their economies, boost growth, and unlock the full potential of *all* their people.

How can it be done?

First, greater *inclusion*. Latin America—despite recent progress—remains the world’s most unequal region. The IMF has argued that reducing excessive inequality is not just sound social policy but sound economic policy as well. Our research shows that a one percentage point increase in the income share of the poorest 20 percent can lift growth by about 0.4 percentage points.

Let me emphasize, in particular, the immense potential of Latin America’s indigenous people. When last in Peru, I met Maximiliana Taco. Living in a small village in Ayacucho, hers has been a difficult life. Yet, she told me how today she is farming her land and making a living, how she is financially savvy, and how she has educated herself thanks to a government program called “*Haku Wiñay—My Enterprising Small Farm*”.

There are millions more Maximilianas out there—their potential just waiting to be unleashed.

Natural resources is another major asset which, if properly managed, could transform the region for future generations. Too often, however, the needs of affected communities—their culture and dignity—have been neglected. Too often the rule of law has been ignored. And too often transparency and governance have been too weak. *This must change.*

The last area with massive potential that I want to mention is *infrastructure investment*. Here, I cannot describe it better than Mauricio Tong—a 23-year-old student at the Universidad del Pacífico here in Peru—and winner of the IMF’s Peruvian Student Essay Competition.

What Mauricio wrote about his country resonates for the entire region:

“In 2025, I see my country interconnected by an outstanding ground transport system, a system that is convenient, competitive, and held in high regard internationally, as our Inca roads once were. I see our fish, caught in the ocean, on the tables of homes in the mountain region. I see qualified teachers in schools, as well as medical specialists in hospitals in remote communities. And through all of this, I see development, I see a growing Peru, and I see the country unified and connected.”

As Latin America faces a pivotal moment, Mauricio challenges us to deliver on his dream, to realize the region's full potential.

*Hay, hermanos y hermanas, muchísimo que hacer.*²

3. The Changing IMF

I have talked about a new global landscape and the changing winds felt across the world, including in Latin America. One thing is clear: such is the nature of the challenges we face—from economic spillovers to climate change—no country can go it alone, and cooperation is key.

I have called for a “new multilateralism”—for a stronger, more dynamic fabric that combines new strands: such as civil society groups, think tanks, and unions—alongside reinvigorated international institutions.

The Fund is at the heart of this new multilateralism. Which brings me to my final topic: the changing IMF.

Yes, it is no longer your *abuelo's*—your *grandfather's* Latin America. Well, it is no longer your *abuela's* IMF either.

The Fund has changed in dynamic ways in recent years. My Management team and I deeply appreciate the support that you have given us in this effort.

Looking ahead, I envision an even stronger Fund that can even better address the needs of our 188 member countries. This vision rests on three objectives: *agility, integration, and member-focus*.

Together, conveniently, they spell the word “AIM”.

First, more *agility*. Earlier this year, the Fund moved swiftly to provide the Ebola-affected countries with debt relief and financial support worth more than \$400 million. Thanks to an innovative approach, we were able to provide “cash in the bank” quickly to help those countries fight this devastating disease.

Another example of this agility is our support for the SDGs. Not only are we increasing access to all our concessional loan facilities by 50 percent, but we are also maintaining zero interest rate for countries facing major shocks and disasters.

We are taking steps to ingrain this new agility in the Fund. I promise you that we will be ready for future challenges. You will not hear: “this is not how we used to do it,” but instead: “how can we explore it with you?”

² Brothers and sisters, there is still so much to do.

Second, a more *integrated* IMF. What does that mean? Connecting the dots on macro-financial linkages and cross-border spillovers. We will increase the macro-financial focus in a number of our upcoming Article IV reports—for example, for Mexico, Brazil, and Canada. And this is only the beginning.

We will also do more work on the *Nazca Lines* that shape our global destiny. That is why I am committed to a stronger emphasis on financial inclusion, inequality, gender, and climate change—where we will focus on the macro-critical aspects of these issues. This will allow us to complement the work of our partner institutions, like the World Bank.

Third, I want to see an IMF that is even more *member-focused*. A good example here is capacity building. In the past six months alone, we have provided support to 125 countries. To deliver our training and technical assistance even more efficiently, we are increasing the scope and reach of our online tools.

We will also be placing increased emphasis on servicing our low-income members—including to better mobilize the domestic revenues that are so important to tackle poverty and drive sustainable growth.

And we will strengthen our knowledge management to make best practices more easily available to all our members.

Our “AIM”—to become more *agile*, more *integrated*, and more *member-focused*—is no easy task. Working together, I know that we can—and will—deliver.

Why am I so confident about that? Because we have *fantastic staff*, the best we could possibly have, who have risen to countless challenges in the past. They are ready to do it again, and do it even better!

Governors, let me also pay tribute to your representatives at the Fund, the Executive Directors who—*together*—bring to bear the collective wisdom of all our member countries in the running of this institution.

Together, we have work to do; *together*, we are ready; *together*, we can do it

Conclusion

Let me conclude by shining a light on some of the young people that are with us today.

Earlier, we heard about Mauricio who inspired us with his dream for Peru. Behind me, you can see two evocative photos— “Smiling at Dawn” by Ramon Martinez and “Smiling at Life” by Juan Pablo Troncos. They are the winners of our photo contest.

Through their words and their art, these young people express a confidence in the future—for Peru, for Latin America, and for the world. They inspire us.

Brothers and sisters, hermanos y hermanas—yes, together we can do it!

I would like to end by thanking *you*—and by thanking *them*:

All the finalists—would you please stand up?

Muchas gracias.