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INTERNATIONAL FINANCE CORPORATION
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Address by **DOMINIQUE STRAUSS-KAHN,**
Chairman of the Executive Board and
Managing Director of the International Monetary Fund,
to the Board of Governors of the Fund,
at the Joint Annual Discussion

Opening Address to the 2009 Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund

By Dominique Strauss-Kahn
Managing Director, International Monetary Fund

Istanbul, October 6, 2009

Mr. Chairman, governors, honored guests, it is a pleasure to welcome you to these meetings on behalf of the International Monetary Fund. It is a particular pleasure to meet in this magnificent city of Istanbul, a city abounding in history and culture, a city bridging east and west—an apt choice for a globalized world where international cooperation paves the way for peace and prosperity. I would like to thank my friend Bob Zoellick for his outstanding stewardship of our sister organization. I would like to thank our Turkish hosts for their hospitality and masterful organization. And I would like to thank Chairman Nguyen Van Giau and all of you, our governors, for your constant support over the past year.

This morning, I invite you to consider how far we have come. A year ago, when we met, the fall of Lehman Brothers had just occurred. Economic activity all over the world started going into free fall, as uncertainty turned to outright panic. People feared the worst, raising the specter of another Great Depression. But as I speak to you today, the world is a different place. Fear has turned to hope. We seem to have pulled back from the brink, and even if it is much too early to declare victory, we have at least stepped onto the road of recovery.

The past year has been one of profound change, and the most significant change was this—in the face of crisis, countries came together to face common challenges with common solutions, focusing on the global common good.

And now, we stand at a defining moment. We know from history that when the nations of the world come together to address common challenges in a spirit of solidarity, we can attain a virtuous cycle of peace and prosperity, and avoid a vicious cycle of conflict and stagnation.

We must seize this opportunity to shape the post-crisis world. But to meet the challenges ahead, we will need to adapt and change—at the country level, at the international level, and at the IMF too.

It is this theme of change that I want to discuss with you today.

Let me begin with the global economy. I think we have turned the corner. Financial conditions have improved substantially, and the growth engine seems to be starting up again. Our latest projections suggest that global economic activity will expand by about 3 percent in 2010, after contracting by 1 percent in 2009. The contrast with a year ago is stark.

But looking ahead, the post-crisis world will be, and must be, very different. We need to adapt to that reality, and to adopt policies that will lead to sustainable broad-based growth.

For a start, the crisis is not over. The recovery will be sluggish, and private demand is not yet self-sustaining. The specter of deleveraging will be with us for some time. And on the demand side, consumption is still tentative, especially in countries where household balance sheets remain weak.

Rising unemployment is likely to cast a long shadow. Even as growth recovers, it will take some time for jobs to follow suit. Indeed, unemployment will continue rising in many countries through 2010.

The stakes are particularly high for the low-income countries, where up to 90 million people may have been pushed into extreme poverty. With weak social safety nets, we are talking not only about higher unemployment or lower purchasing power, but life and death itself. If we do not act, we could see social unrest, political instability, or war.

So, the global economy remains in a very precarious position. Premature withdrawal of policy support could kill the recovery. For sure, policymakers should design credible exit strategies. But it is too soon to implement them.

As the mood shifts to optimism, efforts to fix problems in the financial sector must not slow down. There is still a need to fully recognize losses, to increase bank capital and to repair bank balance sheets. Unless this happens, the recovery will remain under threat.

We also need to follow through with efforts to make the financial system safer and more stable—widening the regulatory perimeter, boosting capital and liquidity buffers, and paying more attention to systemically important institutions.

Looking beyond the crisis, we need to rebalance global growth. While U.S. consumers used to support the global economy, the household saving rate in the United States has risen sharply and could stay elevated for some time. In such a scenario, the responsibility for powering the global growth engine will fall on other countries, particularly those that relied on export-led growth. Making this transition will not be easy.

The economic turnaround, and the avoidance of catastrophe, was no accident. It resulted from profound changes in global governance over the past year. We have seen an unprecedented degree of economic policy collaboration, encompassing more countries than ever before. Indeed, I believe that when our children and grandchildren look back at this crisis, it is this cooperation that will stand out. This will be our legacy.

We saw this in monetary policy, where central banks cooperated, sometimes informally, sometimes more explicitly—such as with the coordinated interest cuts and the swap lines. We saw this in fiscal policy, where countries with the requisite fiscal space delivered a 2 percent of GDP global fiscal stimulus, as had been advised by the IMF—and we think that a third of the growth gain from this stimulus came from this very act of coordination. More belatedly, we saw signs of a common response to dealing with financial sector problems.

In this modern globalized world, it no longer makes sense for global economic policy to be the concern of just a small group of countries. Reflecting this new reality, one of the great changes over the past year has been the ascent of the G-20—a group that includes the dynamic emerging economies. It was the leadership of the G-20 that harnessed the immense policy cooperation throughout the world. And recently in Pittsburgh, G-20 leaders emphasized that the global collective interest must always infuse national policy decisions.

We must build on this momentum. The G-20 is more representative than the G-7, but there are still many countries left out, especially in Africa. There are 186 countries in our membership. These countries include the low-income countries, home to billions who still live in poverty, who remain economically marginalized. Their voices too must be heard. They too deserve a stake in the global economy. We need cooperation among *all* the countries of the world.

The IMF's unique mandate places it in an ideal position to help channel cooperation. We have built on past successes and learned from past mistakes, all the while striving to fulfill the mandate bequeathed to us by our founding fathers—a mandate for global economic stability, and with it, peace and prosperity.

So, how have we changed over the past year? Let me touch on some highlights.

- We stepped up emergency financing dramatically, with commitments amounting to over twice as much as during the Asian crisis, and we have doubled access limits for all borrowers.

- We injected $283 billion of extra liquidity in Special Drawing Rights into the global economy.
- We scaled up concessional lending, up to $17 billion through 2014, including $8 billion in the next two years—more than triple what was available before the crisis—and will lend at zero interest to low-income countries through the end of 2011.
- We introduced a new Flexible Credit Line, granting rapid upfront financing in large amounts to countries with a proven track record, with no additional conditionality.
- As for our other programs, we streamlined our conditionality, focusing only on core policy measures that are critical for macroeconomic stability and growth.
- We have accommodated higher budget deficits in both concessional and non-concessional lending programs.
- And our programs now have special provisions for protecting the poorest and most vulnerable.

We have come a long way, but the journey is not over. Coming out of Sunday's meeting, the IMFC has asked us to address four key reform areas—our mandate, our financing role, multilateral surveillance, and governance. I will briefly touch on each in turn. Let's call this the Istanbul decision.

First, we need to review the mandate of the IMF, to encompass the whole range of macroeconomic and financial sector policies that affect global stability. This crisis had very little to do with current accounts and currency movements, the traditional focus of the Fund's attention. In an era of high-volume and fast-moving capital flows that can extend to every corner of the world, we need a broader mandate.

Second, we need to build on the success of the Flexible Credit Line and provide insurance to more countries. The absence of such a facility has led many emerging markets to self-insure, by building excessively large buffers of foreign reserves. This contributes to instability by fostering global imbalances. It hinders a shift from export-led growth to domestic demand—something that is necessary for more balanced growth in the future. The IMFC has asked us to assess whether enhancing our financing instruments might help address this problem. The founders of the IMF envisaged this global lender of last resort role for the IMF, but our resources are currently limited relative to the precautionary demand for reserves.

Third, the IMFC endorsed the G-20 proposal for the IMF to help with their mutual assessment of policies. This represents a new kind of multilateral surveillance for us—and it fits well with our surveillance agenda, emphasizing macro-financial linkages and cross-country spillovers. Our new Early Warning Exercise, run jointly with the Financial Stability Board, will also help us refine our understanding of tail risks and vulnerabilities, including the cross-border dimension.

Fourth, the IMFC also endorsed the big step forward on the governance front agreed by the G-20. This will shift quota shares toward dynamic emerging markets and developing countries by at least five percent from over-represented to under-represented countries. This will be done by January 2011. This boosts our legitimacy, and represents a significant down payment on our future effectiveness. But as we talk about the future, implementation of past reform is lagging—only 36 out of the needed 111 countries have passed the legislation related to the 2008 quota and voice reform. I urge countries to move ahead here as quickly as possible.

To conclude, the last year has been a year of immense change—in the global economy, in global governance, in the IMF. These changes reflected the spirit of cooperation among countries. I believe the lessons of history are clear—turning inwards made the Great Depression worse, working together this time around saved the world from a deeper crisis.

This momentum must continue. You, who represent our 186 member countries, know that you will need to change and adapt to the new post-crisis world. We, the IMF, know that we must do the same. Remember, this is *your* institution. We are here to respond to *your* needs, and we want to be as effective as possible.

Governors: I am honored to lead this institution, which has accomplished so much over the past year. I am profoundly grateful to the staff and the Executive Board for their professionalism, untiring dedication, and sheer hard work.

At the end of the day, the endeavor we have embarked upon together is about peace and stability. It is about the welfare and security of the almost seven billion people who share our planet. As John Maynard Keynes noted at the founding of the IMF, the hope was that "*the brotherhood of man will have become more than a phrase*". We have a historic opportunity to reshape our post-crisis world—and to make that phrase a reality.

Thank you.