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Address by **HORST KÖHLER**,  
Chairman of the Executive Board and  
Managing Director of the International Monetary Fund,  
to the Board of Governors of the Fund

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1. Mr. Chairman, Governors, honored guests, it is a pleasure to welcome you to these Annual Meetings. I would like to join Chairman Macki in extending special greetings to our newest member country, East Timor, and to wish the Timorese authorities every success in their task of building a new nation.

2. A little more than one year ago, the world experienced a traumatic attack on stability, peace, and human dignity. The community of nations rose to the challenge and demonstrated that it is capable of acting together to make the world a better place. We should not lose this momentum, but build on it and strengthen international cooperation to meet the global challenges that lie ahead. I see today's gathering of 184 member countries of the Fund and World Bank as an important part of that effort.

**The IMF in a Process of Change**

3. Two years ago, at our last Annual Meetings in Prague, we dedicated ourselves to making the IMF an active part of the international workforce to make globalization work for the benefit of all. Our vision of the future role of the IMF defined it as an institution that:

- Is committed to openness, dialogue, and learning from experience;
- Cooperates closely with other institutions dedicated to the provision of global public goods;
- Promotes sustainable and broadly-shared economic growth in the world; and
- Is the center of competence for the stability of the international financial system.

4. My report to the IMFC demonstrates that our member countries, Executive Board, Management, and staff have been working hard and making progress. The IMF has become more transparent and accountable. Our surveillance review will lead us to better vulnerability analysis, greater attention to institutional weaknesses, and better tailoring our advice to social and political realities. We are more focused on financial sectors and international capital markets. We are actively engaged in the fight against money laundering and the financing of terrorism. In our work with low-income countries, the PRSP process has become recognized as an effective way to organize poverty reduction strategies and a path to debt relief under the enhanced HIPC Initiative. We have strengthened and prioritized our technical assistance, not least through the establishment of regional centers in the Pacific, the Caribbean basin, and sub-Saharan Africa. We are streamlining and focusing IMF conditionality, for more effective programs and greater national ownership of reforms. We are collaborating more closely with the World Bank and other organizations. And we are building a culture of listening and

learning in the Fund, most recently through the establishment of the Fund's Independent Evaluation Office. I am pleased that the IEO's first report has confirmed that we are on the right track in our reforms of IMF conditionality and surveillance, and I have established an internal task force to follow up on its suggestions for further improvements.

5. I have no doubt that our comprehensive work program will help to promote sustained growth and make financial crises less frequent and less severe. But the benefits we can see in our member countries are the true measure of progress. On that basis, it is clear that we still have a lot of unfinished business.

### **The Global Economy**

6. Our most immediate concern must be to strengthen the global economy. There are clearly a number of risks and uncertainties. But we should beware of undue pessimism. There are still good reasons to expect that the recovery will continue. And while there are widespread signs of risk aversion, I trust that there are still entrepreneurs who look for new opportunities and are not content to follow the herd. I take particular encouragement that discussions in the IMFC showed that our members know what to do in case of further signs of weakness in economic activity. Monetary policy should be the first line of defense, as long as inflation prospects remain subdued. I also expect a boost to confidence as the advanced countries take energetic action to tackle underlying impediments to stronger growth. And I take confidence from the fact that these Annual Meetings demonstrate that international cooperation is alive and well.

7. The advanced countries have a particular responsibility and must show leadership in making the global economy stronger. We look to the United States to set a continued example, and to guard against the reemergence of sustained fiscal deficits. We look to Europe to stick to the Stability and Growth Pact and accelerate structural reforms in labor markets and pension systems. We trust that Japan will now move forward with bold reforms of the banking and corporate sectors, and act decisively to end deflation. We welcome further action to build confidence in accounting and corporate governance. And we look to the advanced countries for leadership in strengthening the multilateral trading system and bringing the Doha Round to a successful conclusion.

### **Fighting World Poverty**

8. It is essential for the IMF, as a universal institution, to be actively engaged in the fight against world poverty. Monterrey and Johannesburg have paved the way with a "two-pillar" approach for overcoming world poverty, based on self-responsibility and better international support. I am particularly encouraged that this also forms the guiding spirit of the New Partnership for Africa's Development (NEPAD). The IMF will continue to act decisively—in close cooperation with the World Bank—in helping our low-income members to promote macroeconomic stability and sustained growth. We will continue to show flexibility in our support for postwar institution-building and economic recovery in Rwanda, the Democratic Republic of the Congo, Afghanistan, and other countries emerging from conflict. And I also

think it is right for us to speak out on behalf of the poor—for stronger growth in the world, for better market access and a phasing-out of trade-distorting subsidies, for more aid, and for doing more to build local capacities. That also means that faster structural change in the advanced countries is indispensable for a breakthrough in the fight against poverty.

### **Investing in Better Globalization**

9. We should welcome the broad and critical public debate about globalization. I see this as an important part of the search for ways to make globalization more inclusive, and better balance its risks and opportunities. This means that integration into the global economy must be accompanied by investments in making integration pay off for the people of the world, and especially for the poor—investments in better national policies, and better cooperation. I see five guideposts for investing in better globalization:

- First, interdependence. Growing interdependence means that no nation should neglect the impact of its actions on the rest of the world. This also obliges us to pay as much attention to risks originating in the advanced countries, as we do to problems in emerging markets and developing countries.
- Second, self-responsibility. Self-responsibility is the natural counterpart of freedom, human dignity, and national identity. Our actions should support and encourage it.
- Third, solidarity. The fight against world poverty is everybody's business. We should all be actively engaged in promoting socially and environmentally sustainable development, by helping the poor to help themselves.
- Fourth, a level playing field. This requires sound institutions and respect for the rule of law within nations. It requires transparent international decision-making. And it also requires an inclusive process for developing internationally-accepted standards and codes of conduct, as rules of the game for the global economy.
- Fifth and finally, no one-size-fits-all approach. The diversity of the human experience should be understood as part of the wealth of this planet. Indeed, I see some degree of competition among economic models as healthy for the global economy.

### **Priorities for Further Reform of the IMF**

10. These principles are guiding the process of change at the IMF. Beyond the initiatives already underway, I am convinced that they should also be reflected in an integrated concept for further reform, to strengthen confidence and match the IMF's capacities with the needs of the global economy. For this concept I would suggest combining actions in four crucial areas.

- We need to provide a better safety net for countries pursuing sound policies.
- We need clearer and more predictable policies on access to IMF resources.
- There should be better mechanisms for dealing with unsustainable sovereign debts.
- And our members should demonstrate their willingness to ensure that the IMF has the resources to be a confidence-building anchor for the international financial system.

11. The IMF's member countries have overwhelmingly embraced the principles of democracy, openness, and economic stability. Now we need to support them, and help them stay the course. On the one hand, we should encourage countries to put in place “shock absorbers” to cope with volatility and risk in the global economy. These include appropriate exchange rate regimes; better debt and reserve management; sound budgets that leave room to maneuver in difficult times; efficient and diversified financial sectors; and more effective social safety nets. At the same time, where a country has been doing all it reasonably can to cope with risks in the global environment, we should have a contingency mechanism that provides rapid, effective support with a high degree of automaticity, when they are threatened by turbulence in the global economy. I know there are differing views about the wisdom and relevance of the IMF's Contingent Credit Lines (CCL), and we will be reviewing this facility in the coming months. I am convinced that the underlying principle is still correct, and that we should work to make this principle operational.

12. We have been working to develop a comprehensive approach to crisis resolution that combines a clearer and more predictable access policy, including greater selectivity in IMF lending, with systematic debt sustainability analysis and better mechanisms for restructuring unsustainable sovereign debt. There is now broad agreement within the public and private sectors on the need for ways to restructure sovereign debt in a timely, orderly, and less costly manner, while protecting asset values and creditors' rights. The IMF will continue to support efforts to develop collective action clauses that could be included in international debt instruments. And I appreciate the strong encouragement that the IMFC gave us this weekend to come back with a concrete proposal for a Sovereign Debt Restructuring Mechanism, to be considered by our membership at the time of our meeting next spring.

13. In a world of integrated global capital markets, we should be aware that the principle of helping good performers to withstand disturbances in the global economy will at times require the capacity to provide very strong support. This does not mean that the IMF should seek to match the scale of private financial flows or become a global lender of last resort. The Fund has adequate liquidity for the immediate future. But markets and political processes are forward-looking, and it would not be prudent to allow the size of the Fund to shrink in relation to the size of the global economy. Thus, as the final element in an integrated concept for further reform, openness to an increase in IMF quota resources at the appropriate time should be seen as an important investment in better globalization.

14. At the same time, I share the view that the current distribution of IMF quotas needs to be reconsidered—especially to correct the under-representation of a number of emerging market countries. We should also strengthen the voice of African countries in the Fund. These will be important steps to strengthen the cooperative nature of the IMF.

### **A Global Economy Needs Global Ethics**

15. Mr. Chairman, Governors, honored guests, I am convinced that a better world is possible, if we are willing to invest in better globalization. But I also believe that we need to take our concept of global governance one step farther. Recent corporate scandals should

remind us that there must be more to a market economy and entrepreneurship than profits alone. As President Vaclav Havel said two years ago in Prague, a global economy needs a sense of global ethics. I would encourage you to visit the exhibition "World Religions, Universal Peace, Global Ethic," prepared by the theologian Hans Küng, that is now underway at the IMF. I share Professor Küng's view that there can be no survival of the globe without a global ethic. And I think that you will be struck by how much common ground he has demonstrated among the major religions and philosophies of the world. And I trust that you, too, will see this as another source of hope for the future for the world.