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

**Annual Meetings Speech: The Road Ahead—A Changing Global Economy,
A Changing IMF**

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Introduction—the World Comes to Japan

Ohayo gozaimasu—good morning!

Mr. Chairman, governors, honored guests: on behalf of the International Monetary Fund, let me welcome you all to these Annual Meetings. *Tokyo e yokoso*!

Let me acknowledge and thank His Imperial Highness, Crown Prince Naruhito, for being with us this morning. We feel deeply privileged by his presence. I would also like to thank our Japanese hosts for their incredible hospitality. And let me bid a very warm welcome to my friend President Jim Kim, who is taking part in his first Annual Meetings. I know how he feels—I was in his shoes last year!

When the Annual Meetings were last held in Tokyo, back in 1964, Japanese Prime Minister Hayato Ikeda said that "the vital challenge which we all face, whether domestically or internationally, is to promote stable economic growth and reduce the disparity between the rich and the poor." As the old saying goes: the more things change, the more they stay the same (*plus ça change, plus c'est la même chose).*

Japan has come a long way since 1964.

I have just returned from Sendai, the scene of last year's devastating earthquake and tsunami. The scene of so many lost lives, so many shattered dreams. And yet I saw a city born anew. I saw firsthand the amazing efforts of the Japanese people in rebuilding their country and their lives. I saw courage and confidence.

It is an inspiration to the world. They understood what we must *all* understand—only by standing together as one can we overcome the turmoil of today and improve our collective future.

This morning, I would like to share some sense of what that future might look like—for the global economy, the IMF, and all of us.

And so I will talk about three things:

A. *The pace and scale of change in the global economy*;

B. Navigating the road ahead;

C. *My sense of the Fund for the future*.

A. World in Flux—Big Sweeping Changes

As we grapple with the great changes happening around us, perhaps we can learn from the 1964 Tokyo Annual Meetings.

Back then, the members who gathered here stood on the cusp of a bright new world, a golden era. Japan was in the midst of an economic rebirth and the global economy was roaring ahead.

Just look at how far we have come. Look at the remarkable rise in living standards, measured by real GDP per capita: nearly 3½ times higher for the world, 4 times higher for Japan, a stunning 9½ times higher for emerging Asia. World trade volumes are 16 times higher. And, led by China, half a billion people in Asia alone have pulled themselves out of poverty over the past few decades.

As we look ahead today, our world is being reshaped once again by a number of big megatrends.

Big demographic changes are taking place: vast numbers of young people in rising economic regions; graying populations in advanced and major emerging economies; and more and more women participating in the economy. By 2035, Africa will have the world's largest labor force of more than a billion people—more than India or China. But by then, there will also be more than a billion people aged over 65 in the world.

Economic power is spreading from west to east, and prosperity has begun to move from north to south. Emerging markets and developing economies now account for half of world GDP, up from a quarter in 1964.

The communications and technology innovations are propelling our economies and societies to ever-greater heights. An infinity of interconnections binds us together, opening up a portal of a billion possibilities for every one of us. Today, nearly 3 billion people are connected to the internet—truly a worldwide web.

In short, the sands of the global economy are shifting.

The strength and dynamism of Asia is obvious. This also holds true for other emerging regions. When I was in Brazil earlier this year, for example, I witnessed a female president, Dilma Rousseff, absolutely determined to pursue inclusive growth and push forward her agenda of reducing inequality. We can learn a lot from those regions that had their time of trauma.

Europe too is going through a historical process of integration, however laborious. Yes, the Eurozone is being severely tested, and it must keep pushing ahead with implementing the policy initiatives it has announced. But we should also recognize that deeper banking and fiscal integration, alongside deep-seated structural reforms, will fortify its economic foundations and lay the groundwork for a stronger and more resilient union in the future.

The Middle East, too, is transforming. And yes, the road ahead will be fraught with difficulty. But with commitment, and with external support, I am confident that the promises of the Arab transformation will shine through as a beacon of hope. When I met with President Morsi of Egypt, he spoke to me of his resolve to pursue ambitious economic reforms underpinned by strong and democratic institutions, and he is delivering.

Sub-Saharan Africa is also breaking through—growing strongly and steadily after decades of stagnation. Of course, there is still a long way to go to win the long war against poverty. But old stereotypes are fading fast, with the rise of fast-growing "frontier markets" attracting lots of outside interest. Look at Nigeria, a country I visited earlier this year. This is a country that for many years squandered its inheritance of oil riches, but now is growing impressively—helped by dynamic reforms and strong leadership.

These changes are shaping our future.

But there are big challenges as well. We must not get carried away. As you will have seen from our forecasts, the global recovery is still too weak. Job prospects for untold millions are still too scarce. The gap between rich and poor is still too wide.

There is a tough road ahead to turn our optimism into reality.

B. Navigating the Road Ahead

This brings to me to my second point—how do we successfully navigate that road? How do we manage this change?

I see three milestones:

- Putting the crisis behind us;
- Completing reform of the financial sector; and
- Addressing inequality and building inclusive growth.

Putting the crisis behind us

The first priority, clearly, is to get beyond the crisis and restore growth—especially to end the scourge of unemployment.

We know the package of policies that can get us there: accommodative monetary policy; the right pace of fiscal adjustment, mindful of not undercutting growth but with solid and realistic plans to bring debt down over the medium term; finishing the banking sector clean-up; and structural reforms to boost productivity and growth. All of this should be complemented by a rebalancing of global demand toward the dynamic emerging markets.

Let us not delude ourselves: without growth, the future of the global economy is in jeopardy.

Perhaps the greatest roadblock will be the huge legacy of public debt, which now averages almost 110 percent of GDP for the advanced economies—the highest level since World War II. This leaves governments highly exposed to subtle shifts in confidence. It also ties their hands, especially as they seek to build the infrastructure of the 21th century while respecting social promises. The needs of rapidly aging populations will add to these pressures.

One lesson is clear from history—reducing public debt is incredibly difficult without growth. High debt, in turn, makes it harder to get growth.

The road ahead of us is narrow and long.

The key now is to move from deliberation to action on the policies we know are needed, and to move together and on all fronts. We are multiple players, but it is a single game—a game of increasing complexity that can be a positive-sum game.

A better financial system

My second milestone is a better financial system. We know that it is crucial to the modern global economy.

But we need to move beyond the system that gave us the crisis—a financial sector where some, as the ancient Greeks might say, toyed with hubris and unleashed nemesis.

Today, despite some progress, the system is not yet much safer than at the time of Lehman. It is still too complex; activities are still too concentrated in large institutions; and the specter of too-important-to fail still haunts the sector. Continuing excesses and scandals show that the culture has not really changed.

So, as a matter of urgent priority, we must complete the agenda of financial sector reform: better regulation, better supervision, better resolution of cross-border entities, sensible incentives in financial institutions, and a level playing field for the sector.

We are making progress, especially on the Basel III agenda for better capital and liquidity buffers. But I fear that we are losing momentum, both on implementing the agreed reforms and on making more progress in areas like derivatives, shadow banking, and too-important-to-fail institutions.

Many in the industry are concerned about the costs of new regulations. Are these concerns valid? A recent IMF study shows that better regulation will nudge bank lending rates up, but by relatively little. We also found that increasing capital buffers to appropriate levels helps growth, not hurts it. Reforming financial sector taxation can also help reduce excessive risk-taking and leverage.

The bottom line is that the costs of reform are affordable. The costs of complacency are not. We have been there.

One further point: the financial system can help ease the transition to more balanced global growth. Right now, emerging Asia accounts for about a third of world savings. Developing local financial markets can redirect more of these savings into emerging Asia's own backyard—to the people on the edge of prosperity who need it most.

Inequality and inclusive growth

This brings me to my third milestone: inequality and the quality of growth in our future world. Really, this is about the human dimension of policymaking.

Growth is essential for the future global economy, but it must be a different kind of growth. A growth that is not simply the fallout from unfettered globalization. A growth that is inclusive.

Recent IMF research tells us that less inequality is associated with greater macroeconomic stability and more sustainable growth. This has profound policy implications.

It means focusing on efficiency but also keeping equity in mind when setting fiscal policy. It means fairness in sharing the burden of adjustment, and protecting the weak and vulnerable. It means better financial inclusion, so that all have access to credit and financial markets. It means better transparency and governance, so that the doors of opportunity are open to all—and if they close, one knows why.

So again, three points on which our future global economy will turn: getting beyond the crisis, improving the financial system, building a new kind of growth.

C. The Future IMF—Serving our Members in the New World

What does all of this mean for the future of the IMF?

Transcending everything I have said so far is the need for greater cooperation. A world that is bound together must be a world that works together—a world that, in the words of the great Indian poet Tagore, "has not been broken up into fragments by narrow domestic walls".

So while multilateral institutions were important in the past, they are even more important for our future.

And the IMF is a premier forum for this kind of global cooperation.

This crisis has changed us—new approaches, new tools, new relevance. The key contours of the future IMF are emerging—but they are built on our past and what we were mandated to do by our founders.

So what should the Fund look like for the future?

First off: the IMF must always be a trusted adviser.

Advice is sometimes difficult—both giving and receiving! Over the past year, we made a number of big judgment calls—some controversial. The call to recapitalize European banks; the call for a larger European financial firewall; the call for a more balanced approach to fiscal adjustment; the call for urgent attention to the fiscal cliff. These were tough calls, but it is our job to make them—to be an objective, independent arbiter of economic issues, especially during hard times.

Now the Fund must push ahead and adapt even more to the shifting realities and priorities of the modern global economy, the world of vast interconnections. So we are focusing more than ever on economic and policy spillovers—how what happens in one country affects others.

Our new Integrated Surveillance Decision, for example, will help cross-fertilize country-level *and* global surveillance, shining a light on cross-border effects. Our new External Sector Report sharpens our assessment of policies from a multilateral perspective, including exchange rates. And our new Financial Surveillance Strategy substantially strengthens our focus on a sector that is at the very heart of national and global stability concerns.

Second: the IMF must have the resources necessary to stand by its membership in this world of interconnections.

So far during the crisis, we have committed $540 billion and disbursed $157 billion in 126 lending programs—57 non-concessional, 69 concessional. We are helping all kinds of countries with all kinds of problems—financing to help adjustment and transition, insurance to prevent contagion and certify good policies. And we are doing so with more flexibility and sensitivity to social conditions—for example, by calling for a longer period of fiscal adjustment in some countries.

Your decision earlier this year to boost our resources by $456 billion is a huge vote of confidence in the Fund, bringing our total lending power to over $1 trillion. And recently, using windfall profits from gold sales, you have also come through for the low-income countries—ensuring that we have enough resources in our Poverty Reduction and Growth Trust for concessional lending in the years to come.

Rest assured, your investments will be put to good use—helping to end crises, to prevent crises, to reduce the human costs of crises.

A final but crucial point about the Fund for the future: it must truly reflect global ownership.

We need an IMF that represents the world, looks like the world, and in which the world finds a safe and comfortable home.

In this context, the reforms agreed in 2010 represent the biggest governance change in our history. As a result: 6 percent in quotas will shift to the dynamic emerging and developing countries, or 9 percent in total since the start of the previous 2006 reform. For the first time, Brazil, China, India, and Russia will all be among our top ten shareholders. For the first time, for any international financial institution, we will have an all-elected Executive Board.

The good news is that we have made great progress toward this reform. We have reached most of the major milestones—over 75 percent of consents for the quota increase, more than

120 countries for Board reform. Now we must push ahead to get the 85 percent of voting power required to complete the Board reform and the 2010 package.

We can see the finish line. It is close, and today—here in Tokyo—I am again urging our membership to reach it.

Mr. Chairman, Governors: this is the IMF we have been building, and will continue to build, with your support. It is yours. An IMF for all seasons and all peoples. A servant of the membership, of the world, of the people.

Conclusion: The Spirit of Tokyo—Cooperation

As I conclude today, let me thank and pay tribute once again to our Japanese hosts. Japan is truly the champion of multilateralism and global cooperation. It is a friend of the IMF, and we are now celebrating 60 years of partnership.

Let me express my deep appreciation to the magnificent, world class, staff of the IMF. I have never been more impressed by a group of dedicated professionals who work day and night to support our member countries.

I also wish to thank the Fund's Executive Directors for all their great guidance and collegiality. And I would like to thank you, the members, for your constant support, for believing in us.

One final reflection: as part of these Meetings, we offered an essay contest for Japanese students to share their thoughts on the IMF and the global economy. We had many wonderful, inspiring, entries. The finalists are with us today. Could they please stand up?

One essay in particular stuck in my mind. It was written by a young woman named *Nao Yonemoto*.

Nao talked about a famous incident in Japanese history, when two warlords—*Shingen Takeda* and *Kenshin Uesugi*—were fighting for supremacy. When one warlord found out that the other was short of salt—an especially valuable commodity in those days—he sent him some from his own personal supply.

And so we have the great Japanese proverb: "*give salt to your opponent*". In other words, be generous to those in need, even if they are different from you, or not on your team. The message? Helping each other in difficult times is the only way forward.

Mr. Chairman, Governors: the spirit of cooperation is the only way forward. I saw that spirit in Sendai the other day. I saw it as I traveled throughout our member countries over the past year. I see it again on your faces this morning.

It is the spirit of our Meetings. May you travel back with it when you go home.

Thank you.