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Opening Address by the Chairman of the Boards of Governors,
the Hon. **LUC FRIEDEN**,
Governor of the World Bank Group and the IMF for Luxembourg,
at the Joint Annual Discussion

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**Address by the Chair of the Boards of Governors,
Luc Frieden
Minister of Finance of Luxembourg**

Washington DC, October 11, 2013

Dear fellow governors,

Welcome to the Annual Meetings of the World Bank Group and the IMF. It is a great privilege for me, as Minister of Finance of Luxembourg (Europe), a founding member of the UN, the IBRD and the IMF, to chair this great event where the decision-makers in international finance gather here in Washington DC.

I have always been fascinated and inspired by the spirit of the Bretton Woods institutions. While attending law school in the US many years ago, I travelled to Bretton Woods and I could feel at the Mount Washington Hotel the genius of those who endeavored to redefine the international economic architecture at the end of World War II.

Economic reality has evolved considerably since 1944. In Bretton Woods, 45 nations gathered; today we represent 188 countries. Let us, in this audience, remember the spirit of the founding fathers of our institutions. “I think”, said US Secretary Morgenthau in 1944 that the great lesson of contemporary life is “that the people of the earth are inseparably linked to one another by a deep, underlying community of purpose... To seek the achievement of our aims separately through the planless, senseless rivalry that divided us in the past, or through the outright economic aggression... would be to invite ruin again upon us all...”. And Morgenthau went on to say: “Today, the only enlightened form of national self-interest lies in international accord.”

I have come to the Annual Meetings as a Governor of the World Bank for 15 years now. Over the years, I visited developing countries where I could see how the Bank contributes to the improvement of living standards. I attended many meetings in Europe regarding the euro crisis where I could

see how important it was for us to be able to rely on the expertise of the IMF in difficult economic times. Each period of history has its own challenges. Since 2007 obviously, we have become even more aware than ever of our deep interdependence.

We, Governors, all do in fact have the same task despite the fact that we come from different parts of the world. We worry about the well-being of our people. Our circumstances are challenging. What unites us is the determination we feel to turn these challenges into opportunities and make our contribution to further the advancement of our people.

Looking at the world economy, we see that there are encouraging signs of a moderate recovery in some parts of the world, but also that considerable risks remain. Growth dynamics have shifted: just as some advanced countries have begun to gather momentum, many emerging markets are slowing. Indeed, much remains to be done to drive a real, sustainable, global recovery.

Against the backdrop of a weakened world economy and shaken financial system, our meetings here have become crucial to global policy shaping. To address today's challenges both the IMF and World Bank have considerably developed their knowledge base and produced remarkable work for which I would like to thank the teams of both institutions.

The World Economic Outlook, the Global Financial Stability Report and the Fiscal Monitor identify some of these challenges. One interesting element I note is that recent analysis and study show that international coordination of macroeconomic policies must be further strengthened.

This is true as well for the euro area. While funding conditions have clearly improved, financial fragmentation has not been sufficiently reversed. The adverse link between banks, corporates and sovereigns has not been entirely broken yet. In order to prevent the crisis from becoming structural, it is of utmost importance that a full-fledged banking union be put in place, containing three equally strong pillars, i.e. a single supervisory mechanism, a single resolution mechanism and a single deposit guarantee. And for all three pillars, we need governance mechanisms that reflect and ensure the interests of the euro area as a whole.

Based on our recent experience and the current discussions on a European resolution mechanism, I wonder whether it is not appropriate for the IMF to reflect on a more international approach towards resolution.

Fiscal discipline remains a priority for a lot of economies although the degree of urgency may vary from country to country. Taxation of course plays an important role here. The Fiscal Monitor offers interesting insight on this topic and deals with the question of how we can tax better and more fairly. In my view, tax reforms must be balanced so as to contribute to sound public finances, social justice and economic growth.

The issue of international taxation has become more prominent recently and has led the IMF, quite rightly, to consider it as well, given the cross-country spillovers that national policies create. Whether it is the discussion on base erosion and profit shifting or tax fraud – it is evident that tax issues have significance for macroeconomic stability. I believe that we need a strong cooperation between the IMF, the OECD and regional organizations to develop fair and competitive tax systems that fully take into account the necessary cross border dimension of companies in a global economy.

From the many other interesting expertise and study that the IMF has produced, I would like to point out two new reports, the Spillover Report and the External Sector Report. Both are characterized by their focus on the interconnections between countries and regions, an issue that becomes increasingly more relevant.

All these policy areas confirm what I consider the most important message for us here today: that interdependence has undoubtedly become the most defining feature of this stage of history. In this interconnected world, global prosperity must be our common goal!

We must research, we must reflect and decide, and we must act.

As to concrete actions let me just point out a few:

Unemployment and poverty are among the priorities that both institutions have identified as impediments to global prosperity.

With over 200 million people unemployed, job creation remains an urgent priority. It is a social, an economic and ultimately a political issue. We, as

policymakers, must support job creation through education and training programs, appropriate subsidies and taxation. The private sector has an important role to play: the World Bank Group has been supporting governments to alleviate constraints, and the IFC has been providing direct support, with a record 25 billion dollars this year.

Earlier this year, the World Bank Group defined two goals to achieve a world free of poverty: to end extreme poverty and to promote shared prosperity. Now, we need a unified strategy that outlines how the World Bank Group will achieve these goals. IDA will be central in the effort to end poverty. This year saw an unprecedented 16 billion dollars to address fragile and conflict-affected situations, gender issues, and climate change resilience. The majority of resources were committed to Africa.

It is important to recognize that together, World Bank Group commitments and IMF concessional lending has helped 20 fragile and conflict-affected states meet one or more of the Millennium Development Goals' targets. An additional six countries are on track to do so by the 2015 deadline. These signs of progress demonstrate that we can succeed.

I would like to say a word about a region that is undergoing an important and difficult transition: the Middle East and North Africa region. We should give to this region, which plays an important cultural and geopolitical role, the necessary help to create hope, freedom and stability. Creating an environment that will stimulate job creation and increase the inclusion of women and minorities, strengthen governance, and promote sustained growth, will be critical for the region – and thus for the world as a whole. The Bank's new MENA Transition Fund will provide technical assistance to support the transition.

I also would like to highlight the strategy on the Sahel region; it is a very welcome initiative to help reduce vulnerabilities and improve economic opportunities.

The gist of all this is evident: globalization, especially financial and economic globalization, is today an undisputed reality. It is a formidable force, a societal and multifaceted process with which we, Governors of the World Bank and IMF, must concern ourselves thoroughly. We must ensure that this process of globalization is channeled and balanced adequately

and in a manner that will lead to prosperity for all and not just a privileged few.

For globalization to lead to prosperity we do not just need financial resources that are fairly distributed or programs that we finance. We must aim for more, also as Governors of these international financial institutions, and develop ideas and concepts that transcend the question of financial means and look at processes that need to be developed.

How can we promote the message that globalization can and must lead to global prosperity and yet at the same time remain attached to organizational structures that do not reflect a unified approach to governance? Diversity can be attained far better by inclusive decision-making processes that do not reflect specific interests only but that focus on coherence in all strategies. We must adopt a holistic approach to fundamental global issues. When one region hurts, the whole world suffers. When one region prospers, the whole world should rejoice. This is what true globalization should stand for.

We have today many different institutions and fora that serve as platforms for governments to interact. For us as ministers of Finance, the IMF, the World Bank, the OECD, regional development banks and the G-20 are probably the most outstanding ones. Do the prevailing governance models of all those institutions or fora allow for complex issues to be dealt with in a collaborative manner? Do these institutions sufficiently reflect or include all nations of this world? Should we not develop new models of representation to ensure that 160 countries are not just observing from a distance what 20 are deciding? In order to achieve prosperity for all, we need governance models that aim at unity in diversity and take more into account today's interconnected world.

What we have done through the IMF and the World Bank is formidable. And I would like to thank Jim Kim and Christine Lagarde for their remarkable contributions. The institutions they head are the symbols of globalization and interdependence. Today we must be just as visionary as the spiritual fathers of these institutions. Let us propel them to the next stage of maturity by shaping new models of governance for a world that is in dire need for truly global solutions.

Together, we, ministers and central bank governors, can achieve a lot. We have the tools to improve the lives of millions. As long as there are children who are hungry, girls and boys who cannot go to school, countries that are not governed by the rule of law, corruption and massive unemployment prevail, our work is not finished.

And our work needs to be complemented by values and principles, by visions and concepts. We must work together, consult with each other, learn from each other and respect each other. And to do so, we should use the full potential of our institutions, the Bank and the Fund, to achieve our common goal: prosperity for all mankind.

Thank you!