2010 ANNUAL MEETINGS
International Monetary Fund
World Bank Group
Washington, D.C.

Press Release No. 36

October 8, 2010

Statement by the Hon. **CHRISTINE LAGARDE,**
Governor of the Fund and the Bank for **FRANCE**

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Mr. Chairman,
Mr. Managing Director, Mr. President,
Governors,
Delegates,

At no time since the Great Depression of the nineteen-thirties has the world seen anything like the global crisis we have just experienced, a crisis affecting physical, energy, real estate and financial markets.

But the difference, this time around, is that **by working together, we made sure that concerted action would win out over protectionism and free-riding.** To put it in more visual terms, we succeeded in avoiding a return to those long lines of unprotected jobless workers, so vividly portrayed by the Franklin D. Roosevelt Memorial just a few hundred yards from here.

Along with the G20, **the international financial institutions have played a vital role in getting us out of the crisis,** validating the insights of Keynes nearly 66 years after the Bretton Woods Conference. With the IMF committing more than 150 billion euros and the World Bank more than 100 billion euros over a two-year period, an essential safety net has been provided—essential to macro-economic balance and social stability in the recipient countries, essential to the entire international community as well.

2010 should be considered as a pivotal year for the Bretton Woods institutions. Their effective response to cascading crises has confirmed the importance of their role, while their current task is to support a recovery that is rife with uncertainty. **Endowed with additional resources (1), both the International Monetary Fund and the World Bank must now go on modernizing their instruments and operational policies, (2) complete their governance reform (3) and take part in outlining a more stable economic order, based on sustainable, balanced growth and collective discipline (4).**

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1. Honor the financial commitments made during the crisis

The response of the IMF and the World Bank to cascading crises was made possible by a commitment to provide both institutions with greatly expanded resources, despite the massive fiscal consolidation drive under way across the industrialized world. The time has come to honor those commitments:

- Reformed, expanded New Arrangements to Borrow should lead to a tripling of IMF resources. Last spring, France took the first step, voting for a contribution of more than 18 billion SDRs, and subsequently providing over 2 billion US dollars to the IMF's concessional facilities for low-income countries. I now call on all NAB participants to meet their commitments.
- The General Capital Increase should enable the IBRD to implement a determined counter-cyclical policy for the benefit of all its members, without weakening its future lending ability. The chief beneficiaries should be the most vulnerable countries, notably in Africa : this is the whole point of the intra-group transfers to IDA. But such an outcome will require a prompt subscription of the capital increase and a substantial IDA replenishment, made possible notably by emerging-country donors, notably those at high-income levels, living up to their duty. France has already included its commitments in the budget for 2011.

2. Go on modernizing their instruments and operational policies

In response to the provision of additional resources, the Bretton Woods institutions should continue with their efforts to manage and spend those resources more effectively, adjusting to the needs of their members while delivering on their mandate.

That means being **more effective:**

- The IMF has changed considerably in this respect, and our work last year on reviewing its mandate has paid off.

  To start with, the Fund has continually adapted its lending instruments and enhanced its crisis prevention capacity. The creation of the Flexible Credit Line is a success, as illustrated by the positive track record of the benefiting countries, and this instrument has been made even more attractive recently. At the same time, the recently created Precautionary Credit Line will help the Fund tailor its offer more appropriately to the differentiated profiles of its members.

In addition, the IMF has strengthened its surveillance tools, above all the ones pertaining to the financial industry. I wholeheartedly support the five-year review to be required of the 25 most "systemic" economies. And I applaud the plan to introduce "spillover reports," which will help eliminate a gap in how the Fund carries out its mandate.

- Turning now to the World Bank, the new Crisis Response Window introduced within IDA, a change fervently backed by France, likewise represents real progress. It will give the Bank greater flexibility to deal with the kinds of shocks that the most vulnerable countries are most exposed to and correct an allocation process too heavily focused on one specific governance indicator.

  The key challenge for the entire World Bank Group today is to target resource allocation more effectively on the basis of three priorities: focus on the most vulnerable countries; assist the most advanced emerging countries in graduating; and help promote infrastructure, the private sector and regional integration— three prerequisites to sustainable growth.

Being more effective was the point I stressed. But the Bretton Woods institutions also need to be **more efficient.**

- The exceptional shareholder support it has received has created an efficiency imperative for the World Bank. First of all, the Bank must make full use of the funds contributed and ensure that the subscribed capital is paid for in local currency. Second of all, the Bank has to preserve the equity provided by its shareholders while carrying out the loan pricing reform, which was the prerequisite for the General Capital Increase. Last of all, it is the duty of the Bank to manage its resources in an exemplary fashion through tighter control over spending, particularly on compensation, sensible management of the decentralization process and an expanded guarantee program.

3. Complete their governance reform

These efforts to be more effective and more efficient will not succeed unless they are underpinned by **reformed governance structures:**

- A first step was taken at the World Bank last April. The resulting ad hoc balance gives even greater voice to the emerging and developing countries. For this reason, I strongly encourage the countries that have not yet ratified Phase 1 of the reform to do so as soon as possible to avoid penalizing the poorest countries, the ones with the least representation. I expect the countries that benefit from Phase 2 of the reform to be fully cognizant of the related responsibilities and to make sure the World Bank upholds its commitment to the most vulnerable population groups.

- I am convinced that an agreement can be reached at the IMF if everyone shoulders his or her share of the load and shows a willingness to compromise. To accomplish that by the end of the year and in accordance with the clear commitment our leaders took at Pittsburgh, we now have to take a reasonable approach.

  But let's be clear about one thing. To be acceptable to everyone, quota reform must be fair. As I have said, France is prepared to do its part to bring about greater representation for dynamic emerging countries among the Fund's shareholders. What France and Europe are *not* prepared to do is to serve as an "adjustment variable" in an arrangement that disregards economic realities, that fails to establish principles that apply to all and that all apply. To put it bluntly, the reform cannot and must not generate new imbalances by turning the over-represented countries of today into the under-represented countries of tomorrow.

  In addition, quota reform is not all there is to governance reform. To enhance the long-term legitimacy, credibility and efficiency of the Fund, we must make sure that the Governors be more involved with IMF governance and operations. That, in my opinion, means granting the IMFC decision-making powers.

- Last but not least, both the IMF and the World Bank need to look more like their members; they need a proactive approach to staff and executive diversity.

  This is obviously the issue underlying the selection of the World Bank President and of the IMF Managing Director regardless of nationality.

  It is also the issue behind the concern for a wider variety of academic backgrounds. It should be recalled that the Washington Consensus that has drawn so much fire was not the product of one nation; it came out of a single school of thought. Only a determined attitude in the future will protect us from new fads that consider one way of "doing business" the measure of all things.

4. Take part in outlining a more stable economic order, based on sustainable, balanced growth and collective discipline

In conclusion, I would like to emphasize the unique contribution of the IMF and the World Bank to clarifying our economic policy options and their ability to follow through immediately and effectively on major multilateral commitments. **The Bretton Woods institutions should leverage those assets to play a leading role in outlining a more stable economic order, based on sustainable, balanced growth and collective discipline.**

To meet the expanded responsibilities it has been given, the IMF will have to make further changes in three main areas. The first one involves devising a mechanism for addressing systemic crises that would give nation-States enhanced protection against volatile capital flows. The second one involves greater monetary and financial surveillance by the Fund, especially now that global imbalances are increasing once again. The third and last area involves encouraging gradual capital account liberalization in a way that responds to the risks created by volatile capital flows.

In 2011, France will have additional responsibility for the international agenda as the holder of the G20 presidency. We in France know that we can count on the expertise, the commitment and the legitimacy of the IMF and the World Bank as we take up new projects—projects that have been bogged down for too long, and yet that are crucial to global stability and prosperity. Although this obviously isn't an exhaustive list, the following challenges immediately come to mind:

- Strengthening the international monetary system, because it currently fails to respond to the need for diversification and for macro-economic policy coordination in a multipolar world.
- Ensuring market stability for commodities, above all agricultural commodities, because volatility in this case is a serious issue for our economies and our citizens.
- Promoting tax, labor and environmental standards, because global growth cannot be sustainable or attuned to individual rights without them.
- Tackling non-cooperative jurisdictions, whose free-rider behavior defies international coordination.

France intends to pursue ambitious goals during its G20 presidency. And as you have undoubtedly guessed, my hope is that the IMF and the World Bank will share our ambition in 2011.

Thank you for your attention.