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

The Future Global Economy and the Future Fund
By Christine Lagarde
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As prepared for delivery

Chairman Frieden, President Kim, Governors, Excellencies: I am delighted to welcome you, on behalf of the IMF, to *our* Annual Meetings.

Coming into these Meetings, I spoke of the *Great Transition* underway in the global economy: the changing patterns of growth; the changing dynamics of monetary policy; and the changes taking place in the financial sector as well as in the real economy. These transitions will be with us for some time.

Even as we grapple with them, we have a responsibility to raise our eyes—and look toward some of the major changes that will transform the global economy over the next generation. I want to take the opportunity today to ask what this might mean for you, *our* member countries; and what it might mean for the Fund, *your* institution.

Our "constitution"—the Articles of Agreement that our founders devised nearly 70 years ago—have proven to be a feat of engineering: strong enough to stand the test of time, yet supple enough to respond to the many challenges that have faced our membership.

I am reminded of a Greek proverb about how *a society grows great when old people plant trees whose shade they know they shall never sit in.*

Our founders planted the trees that shade us today. Together, we must plant the trees that will provide shade for the generations to come.

Over the next generation, the *rate and reach of change* will be great. With that, the needs of our members will change. So too must the Fund.

The IMF must be *flexible* in its approach and *focused* on its core goals to best *serve* you, our members. *Flexibility*, *focus*, *service*—those are our guiding principles.

In that spirit, I would like to share with you my thoughts on:

i. The road we have taken;

ii. The road we are on; and

iii. The road ahead—some of the long-term trends that will shape our future.

I. The Road We Have Taken

So, where have we come from? The IMF was forged from change. In the midst of the devastation of the Second World War, nations came together to find a solution for the times—and a vision for the future.

It was the original *multilateral moment*.

In the years since, the Fund's mandate has endured: to promote global financial stability and help build a global economy in which all our members—and all people—can prosper.

Time and again, this has required the IMF to respond to changes.

We began by helping Europe to rebuild after World War II. With the winds of change in Africa, and independence in many developing countries, there came a new wave of members—with a new wave of needs. In Latin America, the Fund responded to a major debt crisis. Another major financial crisis followed in Asia. When the Iron Curtain lifted, the Fund responded to another set of new members as they transformed themselves into market economies.

Amidst all this, in the 1970s, the Bretton Woods exchange rate system itself collapsed—and the Fund *adapted* to support the new monetary system.

We may not have always got it right, but we have always learned—mostly by listening to you, our members. And, even as we have adapted, we have always stayed *true to our mission—and true to our membership*.

This proved to be an *invaluable* combination during the recent crisis. It is serving us well on the road we are now on.

II. The Road We are On

Indeed, the Great Recession generated *unprecedented* challenges—and the Fund responded in an *unprecedented* way. This was partly through the sheer scale of our financial support: we have provided more than $300 billion to help ease the burden of adjustment for our member countries in need. But that is far from the whole story.

I think about the IMF's early call for global fiscal stimulus—then, I was sitting where you are, now; our call for a stronger global firewall, including by increasing the Fund's resources; and our consistent call to get the pace and mix of fiscal adjustment right. Now, as global growth dynamics are changing, it is critical that we continue to customize our advice to countries' needs, always sensitive to the impact on growth *and* on people.

Today, many of you are considering how to navigate the eventual exit from unconventional monetary policies in the advanced economies. Here, too, we are offering a neutral and tailored view of the challenges this may present—for *all* our members.

This crisis leaves behind the legacy of too little growth and too few jobs. More of our work is focusing on reforms to promote competitiveness, and to create *growth* and *jobs*. This resonates, of course, with the first of our Articles—which embeds concern for employment in our mandate.

Another defining feature of this crisis has been its *global* scope—and the Fund has responded *globally*.

Yes, Europe has received a lot of attention—not surprising since the Eurozone has been a focal point of the crisis. But over the past five years, we have made 150 new commitments to countries all around the globe.

This support has been delivered in *new ways*: zero-interest loans to help our low-income members—especially in Sub-Saharan Africa; crisis prevention insurance, including flexible credit lines for Colombia, Mexico and Poland; and capacity building and financial support for our Middle East members facing historic economic and political challenges.

The crisis has also led us to *rethink* our macroeconomic analysis and to *adapt* our policy advice—reflecting, above all, that we operate in an increasingly interconnected world.

This means placing even greater emphasis on *spillovers*—how policies in one country affect others—and doing even more to assess feedback loops and imbalances. We have pushed ahead on this over the past year, including through our Spillover Report; the pilot External Sector Report; and a new strategy for our work in the financial sector—which triggered the crisis in the first place.

Another innovation is what we call ‘cluster’ analysis—looking at groups of economies that have strong interlinkages or common concerns. We completed these for a group of countries in southern Africa and also for several Nordic countries.

These new ideas and approaches have infused our core business—surveillance, lending, and technical assistance—carried out by our *world-class staff*.

You see them when they visit your countries—for technical discussions, for Article IV discussions, for program discussions.

I see them at work every day—long days, sometimes long nights as well, and many weekends. I am deeply impressed by their tireless dedication. I am very proud of them—and I hope you are proud of them too. I know that you share my appreciation for the superb people who work at the Fund.

Let me also express my deep gratitude to our *Executive Board*. Their guidance and insights have helped ensure that the IMF's response during this crisis has been effective and timely.

Our tradition of adapting, while staying focused has enabled us to better serve you, our members.

Again, *flexibility*, *focus*, *service*. These must remain our guideposts for the road ahead.

III. The Road Ahead

Why venture into the future? Because the future is a promise that only time can deliver.

At the Fund—Management, staff, and your Executive Directors—we have been giving some thought to the long-term trends that might shape the next generation.

I will mention three: a more multipolar world; a more financially integrated world; and what I would describe as the "new frontiers of risk".

The first is a more multi-polar world.

In just the next decade, the share of emerging and developing economies in global GDP will increase from about half to nearly two-thirds. Per capita incomes will converge across countries, with a rapidly expanding middle class in those nations.

So the stage is set for a world, 20 or 30 years from now, where economic power will be far less concentrated in the advanced economies—and more vastly *dispersed* across all regions.

What does this mean for the Fund?

We must be even more *representative* and mirror these shifts—and we are already moving in this direction.

We all know what is at stake with the 2010 governance reforms. Once implemented—I am hopeful it will happen, even if not as quickly as we all would have liked—the IMF will have a platform on which to build further.

Representation, of course, is not just about shares or chairs. It is also about how we *engage* with our members. To be their trusted advisor, our analysis and advice must meet important tests: it must be of the highest quality; it must be objective; it must be even-handed; and it must be of help to you.

We are committed to meet those tests.

They will become even more relevant as our membership faces a world of increasing financial integration—that is my second long-term trend.

When the IMF was founded, private financial flows barely registered. By the time of the crisis, the degree of financial integration had increased by a multiple of ten or more.

Today, the world economy is not simply connected, it is *hyperconnected*. This will propel financial integration on a scale not yet quantified, and to corners of the world not yet reached.

As emerging and developing countries grow and converge, their financial interconnections will become deeper and more complex.

Deeper integration will fuel growth, but not without risk. Experience teaches us an important lesson: greater financial integration raises the probability and size of financial crises.

What does it mean for the Fund? And for you?

It means sharpening our tools for *crisis prevention*: strengthening our work on financial sector risks, repair, and reform; more thorough and timely analysis of interlinkages and spillovers between countries; and clearer early warning.

It also means strengthening our support for *crisis resolution*: adapting our lending toolkit as needed; strengthening our cooperation, including with regional financial arrangements; and ensuring that the burden of adjustment is shared fairly.

It also raises the question of ensuring that the Fund will have enough resources to help our members deal with future crises.

I would also like to take this opportunity to thank all member countries who agreed to transfer gold profits to help meet the financing needs of the low-income countries in the years ahead.

The capacity to *prevent* and *resolve* crises will be vital.

This is especially true given the "new frontiers of risk" that our membership will face—that is my final long-term trend.

These are challenges you are well aware of. We, at the Fund, are sharpening our focus on their economic effects. Let me mention a few.

Demographic shifts will affect growth and stability.

By 2030, there will be 1.1 billion more people in the world than today—97 percent of them will be in emerging and developing countries. One billion people will be 65 years or older. These *demographics*—and their inter-generational costs—will dramatically affect education, healthcare, savings, pensions, public spending.

Income distribution will also affect growth and stability.

Today, inequality stands at levels not seen since the Fund was created. In many countries, this has led to growing frustration and breakdowns in social and political cohesion. The current recovery is not reversing this trend. It remains too uneven—too many people are unemployed, too many people are left out.

Environmental sustainability will affect growth and stability.

Average temperatures are rising, and with it the risk of more frequent natural disasters, more volatile agricultural output, and more food and water insecurity. In many countries, particularly the poorest, it will exacerbate their already fragile state.

What does this mean for the Fund? And for you?

These issues threaten the *macroeconomic health* of our member countries. In that case, they must be a part of our work. There are a number of ways that we can help.

I am not suggesting we go into the territory of others, but we can and must *cooperate more effectively*, with the Bank and others, drawing on their expertise as needed—and offering ours. I am thinking, for instance, of our fiscal advice on carbon pricing.

For another, we can help focus *global attention* on specific issues. Take, for example, our recent research on energy subsidies. It showed how global savings of almost $2 trillion could be used to help better protect the environment and the poor. The same is true for our research demonstrating the linkage between income equality and sustained growth.

And, just a few weeks ago, a new IMF study showed that engaging women more fully in the labor market, could increase per capita incomes by almost 30 percent in some cases, but in most by a margin of 3 percent. This could be an economic game-changer. And given that today is *The International Day of the Girl*, there is no better time to convey this message!

In all these areas, the Fund's comparative advantage, again, is to bring our *macro-critical perspective* to bear. *Maintaining* that focus and *adapting* our approach is what has made the IMF an effective institution in the past. *Retaining* that focus and *adapting* our approach will enable us to support our membership effectively in the future.

CONCLUSION: FORGING A NEW FUTURE TOGETHER

Mr. Chairman, Governors, Excellencies:

Almost 70 years ago, the IMF began with some 40 members. Today, there are 188 of you. Together *we are* the Fund. *You* are the Fund.

As I stand here with you, I recognize an IMF that was founded on the spirit of *international cooperation*.

But, more than that, the principles I have talked about today—*flexibility, focus, service*—have helped us stand the test of time.

The philosopher Edmund Burke described society as "a partnership in every virtue, and in all perfection … a partnership not only between those who are living, but between those who are to be born."

This is how I see the IMF—as a partnership between its member countries. A partnership of the present—and for the future.

Thank you.