

NATIONAL PRESS CLUB LUNCHEON WITH CHRISTINE LAGARDE

SUBJECT: THE WORLD'S ECONOMY

MODERATOR: ANGELA GREILING KEANE, PRESIDENT OF THE NATIONAL PRESS CLUB

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**ANGELA GREILING KEANE:** (Sounds gavel.) Good afternoon, and welcome to the National Press Club. My name is Angela Greiling Keane. I'm a reporter for Bloomberg News and the 106<sup>th</sup> president of the National Press Club. We are the world's leading professional organization for journalists committed to our profession's future through our programming with events such as this while fostering a free press worldwide. For more information about the National Press Club, please visit our website at [www.press.org](http://www.press.org). To donate to programs offered to the public through our National Press Club Journalism Institute, please visit [press.org/institute](http://press.org/institute).

On behalf of our members worldwide, I'd like to welcome our speaker today and those of you in our audience. Our head table includes guests of our speaker as well as working journalists who are Club members. And if you hear applause in the audience, I'd also note that members of the general public are also attending, so it's not necessarily evidence of a lack of journalistic objectivity. (Laughter)

I would like to welcome also our C-SPAN and Public Radio audiences. You can follow the action today on Twitter using the hashtag NPCLunch. After our guest's speech concludes, we'll have a question and answer period. I will ask as many questions as time permits. Now it's time to introduce our head table guests. I'd ask each of you to stand briefly as your name is announced.

From your right, Mark Hamrick, Washington bureau chief for Bankrate.com, and a former National Press Club president; Molly McCluskey, a freelance foreign correspondent and Chairwoman of the National Press Club's International

Correspondence Committee; Anna Yukhananov, the economics reporter for Thomson Reuters International Economics; Hortense N'Danou, administrative assistant to Madame Lagarde; Heather Scott, Washington bureau chief for MNI; Jerry Rice, Director of Communications for the IMF; Alison Fitzgerald, finance and investigative reporter at the Center for Public Integrity and Chairwoman of the National Press Club Speakers Committee.

Skipping over our speaker just for a moment, Kasia Klimasinska, a National Press Club Speakers Committee member who organized today's events and an economy reporter for Bloomberg News; Gilles Bauche, advisor to the managing director of the IMF; Eddie Brown, Chairman, CEO and founder of Brown Capital Management; Suzanne Struglinski, North America proposal specialist at Baker & McKenzie, and a member of the National Press Club Board of Governors; Mark Wino, senior assistant editor at Kiplinger's Personal Finance, and membership secretary of the National Press Club; and Marilyn Geewax a senior business editor at NPR and a member of the National Press Club Board of Governors. (Applause)

Now, for our guest today, she is the first woman at the helm of the International Monetary Fund and the first woman to hold a finance minister job in a G7 country. Christine Lagarde has led the IMF for 2 ½ years during which time she's been immersed in the European economic crisis. When she took over the job, headquartered in Washington, Ms. Lagarde was not new to the U.S. capital. She attended Holton Arms School in Bethesda and worked at the U.S. Capitol as an aid to then-representative William Cohen, where she helped him correspond with his French-speaking constituents during the Watergate hearings.

A one-time member of the French national synchronized swimming team, and a noted antitrust and labor lawyer, Madame Lagarde became the first female chairman of the international law firm, Baker & McKenzie. Earlier in her career, at a job interview at a law firm in Paris, she was told she would never become partner because she was a woman. Later in her career, she would stress equal opportunities for women, encouraging them to work and advance their careers.

Climbing her own ladder, Madame Lagarde joined the French government in June 2005 as Minister for Foreign Trade. She worked briefly as a minister for agriculture and fisheries, and in 2007 became France's head of finance. She also chaired ECOFIN Council, the body of economics and finance ministers, of the European Union. This experience with the EU bureaucracy came in handy when Madame Lagarde had to negotiate the bailout of Greece and economic help for Portugal and Cypress. According to news reports in the darkest hours, she handed out M&M candies to lift the spirits of her global counterparts. (Laughter)

With Europe slowly emerging from the deep recession, and the U.S. dealing with its own budget issues, she expressed optimism about the global economy in recent weeks saying the IMF will raise its outlook both for the U.S. and for the global economy. Yet, she remains concerned about the global recovery being uneven and subdued and about

slowing of emerging market economies, the main engine of global growth in the last several years.

Speaking in Mali on January 9<sup>th</sup>, she said the risk of heightened volatility in financial markets may create new challenges in emerging market economies and further slow their growth. In the U.S., she's urging the fund's largest shareholder to fulfill a pledge made three years ago to approve the increase of the IMF's lending capacity and allow more say to developing countries including China. Clearly, for the Iron Lady of the global economy, the challenges are far from over.

To hear about these matters today, please join me in giving a warm National Press Club welcome to Managing Director of the IMF, Christine Lagarde. (Applause)

**MADAME LAGARDE:** Thank you so much, merci beaucoup. As you can tell, I do as I'm told and I thought I had to stand up at the time when my immediate predecessor would sit down and clearly I failed.

Good afternoon, and thank you very much for having me with you. I would like to thank the National Press Club and especially President Angela Greiling Keane, for not only inviting me to this prestigious venue, but essentially presenting the outline of what I want to talk to you about now. So it's as if we had prepared that together, which we have not.

Now, let me first of all, of course, begin by wishing you all a happy new year. I guess it's still time to do that, given that we are just exactly halfway through between our western new year and the lunar new year, which will loom in a few weeks' time.

I think it's also appropriate to wish ourselves a happy new year given what I would like to talk to you about, which has to do with the global economy and what we should expect for 2014.

Now, I'm going to test your numerology skills by asking you to think about the magic seven, okay? Most of you will know that seven is quite a number in all sorts of themes, religions. And I'm sure that you can compress numbers as well. So if we think about 2014, all right, I'm just giving you 2014, you drop the zero, 14, two times 7. Okay, that's just by way of example, and we're going to carry on. (Laughter)

So 2014 will be a milestone and hopefully a magic year in many respects. It will mark the hundredth anniversary of the First World War back in 1914. It will note the 70<sup>th</sup> anniversary, drop the zero, seven-- of the Breton Woods conference that actually gave birth to the IMF. And it will be the 25<sup>th</sup> anniversary of the fall of the Berlin Wall, 25<sup>th</sup>, okay. It will also mark the seventh anniversary of the financial market jitters that quickly turned into the greatest global economic calamity since the Great Depression.

The crisis still lingers. Yet, optimism is in the air. We've left the deep freeze behind us and the horizon looks just a bit brighter. So my hope and my wish for 2014 is

that after those seven miserable years, weak and fragile, we have seven strong years. I don't know whether the G7 will have anything to do with it, or whether it will be the G20. I certainly hope that the IMF will have something to do with it.

Now, is this wishful thinking? No. But it will not happen randomly without us together and policymakers in particular making the right decisions, having the right policy mix, organizing themselves in a coordinated way. Let me talk about, first of all, the global outlook as we see it, and then I would like to touch on the policies that I believe will help us transform those seven miserable years into seven strong years.

Now, I'm going to anticipate on potential questions that some of you might be tempted to ask by just stating clearly that I'm not going to give you the number of our revised world economic outlook number that will be disclosed on January 21<sup>st</sup>. Suffice to say that it will be directionally positive as a revision.

But I'm going to discuss the main trends, but not the numbers. We saw the momentum strengthen in the latter half of 2013 and we believe that it will continue to strengthen in 2014 largely due to improvement in the advanced economies. Yet, despite that and the directionally positive movement, growth is still stuck in fairly low gear. It remains below potential, which we believe is at around four percent which means that the world could, if it worked at full potential, could create a lot more jobs than before, than we do have at the moment. And we could do that without having to worry about the inflation genie coming out of the bottle.

With that positive initial statement, I would also like to add that it will not be without downside risks, and significant ones. With inflation running way below Central Bank targets in most corners, clearly we are seeing rising risk of deflation which could prove disastrous for the recovery. If inflation is the genie, then certainly deflation is the ogre that must be fought decisively.

During the years of crisis, we have relied heavily on the emerging market economies and on the low income economies to actually be the drivers of growth. And if you combine those two categories, emerging and low income countries, they produced actually about three-quarters of global growth. However, a growing number of those emerging market economies are slowing down as the economy cycle turns. So that's also one of the risks that we see going forward.

We also see risks arising out of the financial market turbulence and the volatility of capital flows. The reaction to the Fed's tapering has been calm so far, and this is partly due to the fact that we had had a dry run back in May and June. It is good news that this reaction was calm, but there could still be some rough waters ahead.

Overall, as I said, the direction is positive. But global growth is still too low, too fragile, and too uneven. Moreover, even as it is, or as we forecast that it will be, it is not enough to create the 200 million jobs that are needed by people who are looking for a job everywhere in the world.

Additionally, in too many countries, actually most countries, the benefits of growth are being enjoyed by far too few people. And just to give an example in the United States, 95 percent of income gains since 2009 went to the top one percent. Ninety-five percent of the income gains went to the top one percent. Now, this is not a recipe for stability and not a recipe for sustainability.

Let's now turn to the policy recommendation. Because all of that really points to the fact that policymakers all need to stay focused, focused on the policies that are needed for sustainable and inclusive growth, as well as rewarding jobs. We so far have certainly avoided the worst case scenario, and all policymakers have made part of the necessary efforts. Those that went clearly beyond, way beyond, the call of duty were the central bankers. They did that to keep interest rates low, and the financial system functioning while government, in most places, deployed fiscal stimulus where they could and applied adequate, sometimes a bit too much, fiscal consolidation where they should. The road has certainly been difficult and continues to be so. But as Edward Murrow once said, difficulty is the excuse that history never accepts.

Now that the global economy looks more stable, the big priority for policymakers from our point of view in 2014 is going to be to fortify the feeble global recovery and make it sustainable. Great. What does it mean in practice? I'm going to run you through the advanced economies that I will take by groups, then the emerging markets, then the low income countries, as to what we see as a good coordinated policy mix that should be applied in order to secure and strengthen that growth and create those jobs.

If we look at the advanced economies first, what it means is that you remember what I said about the monetary policies applied by the central banks? Well, central banks are going to have to slightly, gradually over time and properly communicated, undo what they have done. But, they should not do that until growth is robust enough and firmly rooted. So, the way in which tapering is applied, the way in which from unconventional to conventional they return, will have to be very well timed.

At the same time, countries will need to use the room created by those unconventional policies to put in place the reforms that are needed to jumpstart growth and jobs. So it's not just for central bankers to do some policy work, but it's also for the other players in terms of budgetary policy in particular.

Now, let me go deeper and touch on the different regions and look first at the largest economic player in the world, the United States. Growth in the United States is certainly picking up, driven essentially by private demand. And, that recovery that we have observed in 2013, that unfortunately was dragged by the fiscal consolidation of 2013, will be helped by the loosening of the fiscal corset as a result of the recent budget deal.

Still, it will be critical to avoid premature withdrawal of monetary support and to return to an orderly budget process including removing the threat of the debt ceiling. If we look now at the euro area, the euro area is clearly turning the corner from recession to

recovery. But when you drill down, growth is still unbalanced with some countries growing reasonably well and some economies doing quite well, and others still lagging behind. And some of those are actually suffering from significant high debt and credit constraints as well.

So here, monetary policy can continue to help. Clearly, the ECB has done quite a bit to facilitate the financing of the economy. But it can do more, and we believe that it can do so in a very targeted way by facilitating targeted lending in particular in order to avoid the financial fragmentation that is still there despite the unconventional policy that has been applied including forward guidance.

We believe that the forthcoming asset quality and stress test that will take place in the course of 2014 is going to help if it is done evenhandedly, and in a credible manner. And obviously, well communicated as well. In the euro area, we also believe that there is a need to accelerate reforms, to boost labor market participation, and enhance competitiveness. And that applies pretty much across most euro area countries.

Let's now turn to Japan. In Japan, the initial boost from Abenomics and the three arrows has been effective, but it is weakening a bit. Hopefully, temporary fiscal stimulus that have been announced by Prime Minister Abe will actually offset, or at least partially offset, the negative effect of the necessary consumption tax increase, which is one step in the process of increasing consumption tax.

Now, the challenge for Japan is to agree on medium term fiscal adjustment, medium term, and to the economic and social reforms that we believe are needed to strengthen growth in Japan. What do I mean by that? Well, deregulating the service and product markets that is heavily regulated and highly protected and that's what I mean by social reforms, making sure that women in the Japanese economy, can actually access the job market. I'm very pleased, actually, that Prime Minister Abe has listened to that recommendation and that he's including in his budget for 2014 significant amount of spending on daycare centers for Japanese women.

Now, moving away from the advanced economies, let's look at the emerging markets. Now, the challenge there is going to be to navigate any bumpiness and stay strong. Policymakers may be weary of any signs of financial excess, and they should, especially in the form of asset bubbles or rising debt including through back door channels, or off balance sheets instruments. Financial regulation needs to be strengthened and implemented in order to be able to better manage credit cycles.

And yes, many countries also could do more on the structural front. If only by way of investing in the necessary infrastructure, in a well managed and with a good strategy in order to remove the bottlenecks that some of those emerging market economies face as they have grown quite steadily over the last five years.

What about low income countries? Here, the news is generally good. These countries have really been the bright spot of the global economy. But now is the time to

lock in those gains and to make sure that some of the buffers that they have used during the time of the financial crisis are reconstituted and that they can build stronger defense against either the direct, by way of the commodity markets, for instance, or the consequential external shocks that could result from movement of capital flows that could weaken the growth in the emerging market economies that are typically the trading and investment partners of those low income countries.

In addition, countries should keep-- those countries, the low income countries-- in addition to building the buffers, including by raising revenues, frankly, because they have had the benefit of strong growth, but we haven't seen in those economies an equivalent and proportional increase of their revenue. So they have to focus on that. But they also should keep on spending effectively and selectively on important social programs and infrastructure projects.

I have to say that I'm just coming back from two fast growing regions of the world. I was just before Christmas in Asia visiting Cambodia, Myanmar, and Korea, which is certainly not in the category of the low income countries. And I just got back from South Africa, Kenya and Mali. And, you know, those two regions have grown at the rate of 6 ½ and 5 percent respectively, and when we're here in D.C., often we tend to forget the massive movements that are taking place in those markets and how those economies are on the go, how the middle class is actually building and the economic power is strengthening in those areas.

Everything is relative, let's face it. Anybody who's been to Mali will not say that the middle class is rising and everything is rosy, no. But, there are massive changes under way and the speed at which they're taking place is just phenomenal.

Now, I will not close that sort of panorama of the global economy without mentioning the Arab countries in transition. And while you are right that we had to spend quite a bit of time on Europe and the euro area, we have also spent quite a lot of time on the Arab countries in transition to try to help them strengthen their economy in order to restore some political stability going forward.

It's exactly three years ago that the Arab Spring started back in Tunisia and then spread out to the rest of the region. And as these countries grapple with the reforms needed to unleash the dynamism of their private sector and create more jobs for their young people, they need support and they need international support in a significant way. And not just from next door neighbors.

So I've tried to take you through the various regions of the world, both in terms of where we see those economies, where we see them going forward. And I've tried to describe the policies and the coordination of policies that they should apply. Which doesn't mean to say that there are no issues that actually cut across those different groups that require common resolve, common solutions to common problems.

Think about the legacy of public and private debt, for instance. Think about the fiscal and current account consolidation. Think about the reforms to the financial system that do not apply only by virtue of the Dodd-Frank Act, but that apply across the board because just like environmental threat, just like contagious disease, those issues know no borders. The same is true with rising inequality. As I mentioned to you, rising income has gone to one percent of the population. Now, you will say to me, "Of course, it's as a result of the improvement of the security market." Not only because of that. So those are problems that cut across all groups of countries.

And they're not abstract challenges. So it's only by addressing them that we can actually insure future prosperity, that we can meet the rising aspiration of the young people in those countries and global citizens more generally for jobs, for security, for opportunity, and for dignity.

So, I will conclude. At the outset, I made reference to the Breton Wood conference here in this country back 70 years ago. And the multilateral impulses behind the funding of the IMF, amongst others. Now, to move forward and for the IMF to continue to be a supportive force, an ally and a partner of financial stability that is needed for all economies to prosper, we need the same spirit of cooperation and global solidarity today.

Some people sometimes worry, and they wonder, and they say, "You know, why is it that the IMF is supporting Europe at the moment?" And I remind them, back 70 years ago, the first countries that had the benefit of IMF support were European countries, like my country. France was actually the first program with the IMF. And then it moved around the planet. We had to help Latin American countries, we had to help Asian countries. We are helping African countries on a regular basis through our different lines of businesses. And we're helping Europe at the moment. And it will be another group of countries next time around.

Now, I believe that the IMF can play an especially valuable role here as a forum not just to lend and then collect back as we always do, but also to operate as a forum for cooperation, for coordination. We have certainly played our part in the collective response to the crisis. We have made no less than 154 lending commitments and provided technical assistance to 90 percent of our membership since the onset of the crisis in 2008. And we've provided our best possible policy advice to all 188 members.

One of the strengths of the IMF is that we actually see the bigger picture and it's not me being arrogant about it. We just have to look under the skin of the economy of 188 members. And we have to compare best practices and we have to offer advice that actually take into account what spillover effects will be as a result of the domestic policy decided by one country or the other.

No other institution can do that at that scale, at that level. And the role will certainly become more important with time. We need to continue to adopt and to reflect



the changing dynamics of the global economy and of our membership. That is why we need the continued support of our entire membership.

I will end with-- well, I will end with one thing. I just would like to pay credit to your association and through you to the journalists who very often have this commitment to truth and honesty and do that sometimes in very difficult circumstances in very far away places where they take risks much more so than we often think of.

And I will end with another icon of American journalism here. Now I don't mean Ron Burgundy. (Laughter) I mean Walter Cronkite. And he actually says-- you all know what he says-- but he says something which I've heard President Chirac say so many times, in French version of course, during cabinet meetings. He used to say, after having described something horrendous happening in the world and all of us sort of waiting to see what we could do, and he would say, "Voilà. C'est comme ça." So Walter Cronkite used to say, "And that's the way it is." Thank you very much. (Applause)

**MS. GREILING KEANE:** Thank you. We have lots of questions on lots of topics from all around the world. Let's start here in the U.S. What's your reaction to the U.S. Congress leaving the increase in the IMF budget out of the omnibus spending bill and do you plan-- have you met with our lawmakers in recent weeks and do you plan any more meetings now that decision looks to have been made?

**MADAME LAGARDE:** Is that the only question on the U.S.? No? Okay, good. Well, I did say so right after the announcement of the deal, which in and of itself is great. You know, to have a deal on the budget, no matter what the deal is, I was going to say, is a good indication that there is willingness to actually work in a more orderly fashion. And it's, I hope, one step of many and I certainly hope that in the many steps to come, the IMF reform will be included. So I very much hope that it's a question of timing and not a question of determination to exclude the IMF. I would find it extraordinary and very disconcerting, actually, given that the International Monetary Fund was actually created in the United States, largely at the sort of joint initiative of Treasury Secretary White from this country and Lord Keynes from the United Kingdom.

And given the fact that the IMF's main mission is to work, help with and insure the best possible financial stability in the world, which is clearly in the interest of all economies, first amongst all the U.S. economy, which is clearly the largest player, my largest shareholder, and one that is bound to have a vested interest in financial stability. So I very much hope that it is the IMF working and partnering with all its members, but essentially as far as this country's concerned, the United States of America, yes.

And have I worked with lots of people? Yes, I have. (Laughter)

**MS. GREILING KEANE:** And what is your strategy for twisting those arms to get a different result when the U.S. works on its next budget bill?

**MADAME LAGARDE:** You know, my Baker & McKenzie partners that are there at the table will tell you that I have never been in the business of twisting arms, which is probably the reason why I'll never be a very good politician. I, on the other hand, believe that time is on our side, number one. And number two, that the merits of the case should suffice to convince those in charge that it's actually a force for good and it's a force for economic development and financial stability which is not only in the interest of the entire planet, but in the interest of the economic players including, of course, the United States of America.

And given the role that it can play in the institution, what I will hope is that by continuing to explain what we do, why we do it, what principles we do it in the name of, I hope that sensible and commonsense judgment will prevail.

**MS. GREILING KEANE:** Does the IMF still have a time table for the 2010 quota and governance reform?

**MADAME LAGARDE:** Now, this is coded language, frankly, not everybody know about this. So I'm going to explain just for a second. The 2010 reform was a decision made by all members of the IMF, particularly the G20 countries because that's where it was really essentially pushed. But it was decided for the IMF, to actually strengthen the institution, to give it more permanent financial strength to intervene where it was needed. And that was called the doubling of the quotas. The IMF is a quota institution.

And the second part of the reform was to change the board composition of the IMF so that there would be less European representation on the board and more voice, votes, quota, available for emerging and dynamic countries that were underrepresented. That was, you know, the genes of the 2010 reform. The commitment was to complete the reform by the end of 2012. We are now at the end of 2013, beginning of 2014 and we're still short of one of the three thresholds to actually complete that reform. And the United States support is vital for that.

**MS. GREILING KEANE:** What are the repercussions of the U.S. Congress's action on your European programs and their support among developing countries?

**MADAME LAGARDE:** I'm not sure about the intention of the question, but for all the programs that we have put together, both for the European countries, then the euro area countries, and lots of other programs that we have, I mean just to give you an example, we have programs with Jordan, we have programs with Tunisia, we have programs with Morocco. We have a program with Pakistan. There are lots of other countries, it's not just as if the IMF was working for the euro area. Those programs are developed, negotiated in partnership with the governments on the ground and then taken back to the board of the IMF and approved by members of the board.

And once the program is approved, it becomes the program of the country, and it's very important that the country actually takes ownership of that program, but it is fully supported by the board, the entire board.

**MS. GREILING KEANE:** Do you see the U.S.'s failure to increase the funding as a turning point for the future of the IMF?

**MADAME LAGARDE:** No, not at all because I really think that, you know, as a lead economy, as the key partner at the table, the United States of America are bound to support the institution. And we work for stability, we work for the economic development and it's in the interest of the entire membership, as I've said. But it's clearly in the interest of the United States as well, that there be stability.

Let's assume that we had not been able to help the euro area countries and there had been difficulties in that part of the world. It's a key partner for the United States and it's a key economic region in the world. If it had been in disarray, everybody would have suffered as a result. So, I think everybody is interested including the U.S.

**MS. GREILING KEANE:** Looking to the Fed, what's your assessment of the impact of Fed tapering on the global economy?

**MADAME LAGARDE:** Well, it's a bit difficult to say because they're beginning now. They have sort of hinted back in May and June that they might be looking into tapering and that gave us a bit of a dress rehearsal of what it might be. More than a dress rehearsal, I think it has helped everybody anticipate what the outcome of the tapering could be. And that has helped countries, particularly emerging market economies, prepare for the potential tapering. This is what has taken place in the last six months.

So what the consequences will be? Difficult to predict, but the announcement that was made in December certainly did not produce the outcome that we saw in May and June. So we can hopefully expect that most of the anticipation has now taken place and tapering, if conducted gradually, if well communicated as it was the case in December, should not produce massive effects. There will be consequences, clearly, because you don't move as significantly, yet gradually, as is announced, without consequences. But we don't anticipate massive, heavy and serious consequences of it.

**MS. GREILING KEANE:** What would a premature Fed exit timetable look like?

**MADAME LAGARDE:** Premature exit?

**MS. GREILING KEANE:** Exit timetable?

**MADAME LAGARDE:** Why should we speculate on that because it's been clearly announced that it would not be-- that it would be gradual, that it would be

anchored in various economic criterias that have some flexibility about how the board of the Fed will read them. But it doesn't seem that there is any prematurity to be feared. You know, prematurity would entail all sorts of things. But, clearly because people have thought about it, it's unlikely to happen. So why should I speculate? I won't. (Laughter)

**MS. GREILING KEANE:** Looking to the Fed leadership, much attention is being paid to the fact that Janet Yellen is the first female Fed chair. From your own perspective, what is the significance of that?

**MADAME LAGARDE:** That women can do anything. (Applause) If I may add, particularly Janet.

**MS. GREILING KEANE:** On the topic of women, in addition to Ms. Yellen, we, of course, now have as of this week, Mary Barra running GM, women heads of state in Korea and Chile, and this is all happening in recent months. Are we finally starting to see real change in terms of women in these top leadership roles?

**MADAME LAGARDE:** I would say that those changes are very welcome. And I was, as I said in Africa just recently, met with representatives of the corporate sector in Kenya and was really happy to see that the head of GM Kenya and a few other countries around, was also a woman. So it's not as if it was sort of a token appointment to show off with a woman at the helm. There is a clear determination and there is a clear potential that is being tapped and I hope will continue to be tapped. But I think it requires constant vigilance as well.

**MS. GREILING KEANE:** Looking at women who are not necessarily at the top, you talked about the importance of funding daycare in Japan. Tell us a little more about the importance of women in the professional workplace as it concerns global economic growth. It's an area you've studied. What other countries besides Japan do you see positive development in, and where do you see reason for concern?

**MADAME LAGARDE:** You know, they can be positive developments pretty much across the board. The work that we've done, the analysis that we've conducted, leads us to believe that it's a positive across the board, it's never a negative. And there are countries where it's more so the case. Japan is one, a country like Saudi Arabia is one, but a country like the United States of America as well, could benefit from better and facilitated access of women to the workplace.

So as I said, it's across the board a plus, and in some countries where the hurdles, the obstacles, the cultural differences, are more pronounced, there is potential higher upside to them joining the workforce, but it's across the board.

**MS. GREILING KEANE:** You told us in your speech that we will not be getting a preview of the economic forecast next week, much as we would like to. But on the topic of forecasting, can you address the critique that the IMF's forecasts are more

backward-looking based on data we already have rather than true predictions looking forward?

**MADAME LAGARDE:** Well, the IMF works on models so clearly you develop your model on the basis of historical data. And then we don't just stop there, we don't just run numbers through models to sort of anticipate and develop. We also check with what we call the country desks. We have 188 country desks. That includes economists, sometimes financial experts, focusing on those particular markets. So we also use their knowledge, their close to the ground understanding of where things are going. And then they read, not from tea leaves, but they read from the economic indicators, they read from what's happening both at private sector level, but also obviously on the basis of the policy mix decided by the countries.

So it's a combination of both that actually leads us to forecast. But as a lawyer background and as a non-economist by background, although I understand a bit now, I would say that a forecast is a forecast is a forecast. And it's then proven true or wrong and the closer to the truth, the better we are. But it's a forecast. We try to do it as well as we can.

**MS. GREILING KEANE:** This questioner says a year or two ago, the term currency wars was very popular. But we haven't heard as much about them recently, although we are hearing a lot about currency with bitcoin. Are currency wars over now?

**MADAME LAGARDE:** Yeah, there was a big talk about it, and it was, I think, Guido Mantega, the finance minister of Brazil, who started that in the first place. It was about three years ago, actually. And no, we don't see the currency war. And clearly in our models, we see a much better alignment of currencies relative to fundamentals of the economies added to which, you know, the monetary tools that have been used by those countries when there were capital flows, when there were movement on currencies, have been adequate to actually facilitate a much more constituent and harmonious monetary system. So no, we don't-- there's none of that at the moment.

**MS. GREILING KEANE:** You've suggested that there needs to be more than one reserve currency. How do you see more currencies emerging over time, and over what time frame?

**MADAME LAGARDE:** When you look back, you see that, for instance, the sterling, the British pound, gradually over time, and it was accelerated by the wars, of course, lost its role as a reserve currency. And gradually, the U.S. dollar went up. This is a reflection of, I think, a combination of the strength of the economy and the confidence that the rest of the world has in that economy. So, it would actually take both for more reserve currency to not necessarily rival, but join at the U.S. dollar as a reserve currency. I think we will see that. Now, in what period of time, I don't have a clue.

**MS. GREILING KEANE:** How would you assess the stability of the global banking system at this point? And what more needs to be done to shore that up?

**MADAME LAGARDE:** Well, the banking system is certainly more stable than it was six years ago. That's really a truism. But we also believe that a lot more needs to be done. There has been significant work conducted by the Basel Committee, which brings all the financial and monetary experts together, which is a bit of an informal group, no matter how much we've heard about them.

There's been a lot of work done by the FSB, the Financial Stability Board. And at national regulatory levels, and legislative levels, there has been a lot of work conducted in various corners of the world here in this country, in Europe as well with several directives that have now taken place, the MiFID being the last one, point in case. But I would say that there is more work to be done on the issue of cross-border resolution, for instance. If we had a major financial institution that was in significant trouble and if such troubles were to expand beyond the borders of one country, the issue of cross border resolution is not yet stabilized and resolved. I would say that on derivative products market, there is still work to be done as well.

And I think that we need to think more, and we are doing that at the IMF, we need to think more about the consequences of these financial regulatory changes as they apply to the emerging markets, but more so low income countries. Because we're clearly seeing now a translation of some of the financial movements affecting low income countries. And we need to be wary of that.

**MS. GREILING KEANE:** What about derivatives regulation in the U.S.? Are you comfortable where this country's at on that?

**MADAME LAGARDE:** I think it's not just in that country, that's the point I was trying to make. Those instruments-- and we had it back seven years ago when we had no idea where those products were, how much there was, where were the counterparties. And I think that the clearing platforms have to be strengthened. There has to be more coordination between the various markets. I think that's where we need more. It's not just a U.S. issue.

**MS. GREILING KEANE:** This questioner says a consensus is forming that the developed world, particularly central banks, should accept or at least tolerate higher inflation. What is your opinion on that?

**MADAME LAGARDE:** Well, if only inflation could be as high as the high end of the targets of the central banks, it would already be quite good, but we're not there. I don't think that it can be as sort of straightforward and one size fits all as the question would imply. I think it needs to be very tailored to the specifics of the economy. When I look at, for instance, Japan, where clearly the inflation target is two and it's somewhere around one at the moment, and it will take time to get to two, that's an effort in the right direction.

If we look at the regional currency zones like the euro area, there are differentiations that could be helpful. It's not the case at the moment because there is one single target number. But, in the main I would say that a little bit more would not hurt.

**MS. GREILING KEANE:** At the IMF meeting in October, you were quite critical of the U.S. Congress, and of course a lot's happened since then. Did the--

**MADAME LAGARDE:** I had nothing to do with it. (Laughter)

**MS. GREILING KEANE:** Did the government shutdown hurt global confidence? And what's your assessment of the U.S. Congress since October?

**MADAME LAGARDE:** You know, I said at the time that any degree of uncertainty is hurting the economy simply because the economic players do not know in which framework they're going to operate; whether it's budgetary, whether it's tax-wise, whether it's regulatory-wise, in all dimensions they need predictability. So a government shutdown, in and of itself, without even mentioning the micro economic direct consequences of having a mass of federal employees not operating in the normal way, although I know that they've been-- their salaries have been compensated, is a factor of uncertainty and questions the ability of a sovereign to actually manage its operations.

So I think we are all very pleased to see that an orderly budgetary process is back on the Hill, that there is a determination to observe fiscal principles. So all of that is much better. As I said, any deal is better than no deal, let's face it.

**MS. GREILING KEANE:** If the stock market in the U.S. has the correction this year that is anticipated, what sort of impact would that have on growth in the global economy? And if so, how significant of an impact do you see and where would that be felt most?

**MADAME LAGARDE:** You know, more importantly than the stock market corrections, I think what will be very important on a cross border basis and in other economies, particularly the emerging markets, will be the monetary policy. That's what will be observed and will have consequences if not done properly. I don't think that a slight correction of the stock market would have a major impact outside the U.S.

**MS. GREILING KEANE:** What do you see for the value of the euro relative to the dollar this year? This questioner says strategists have been calling for this for the past couple of years only to lose their shirts.

**MADAME LAGARDE:** Say that again, the last bit?

**MS. GREILING KEANE:** Strategists have been predicting that the euro value will fall relative to the dollar for the past couple years only to lose their shirts.

**MADAME LAGARDE:** No, but they've been saying that for the last ten years. Actually, some observers have been saying that ever since the euro was put in place. (Laughter) I remember I still have cover pages of magazines and the financial newspapers that were predicting it. It's not happening. So as much as there is trepidation and concern and there was anxiety about the stability of the euro zone and its viability, there has never been such a thing as far as the euro itself is concerned.

Now, as to predict the currency and the relative level of the euro vis-à-vis the dollar, I'm not going to go there.

**MS. GREILING KEANE:** Is Europe really likely to face deflation?

**MADAME LAGARDE:** You know, as I said, the inflation target, which has been the monetary policy decided by the European Central Bank, is much higher than the inflation actually observed in that region, although you really have to distinguish and go down to the core inflation to see whether that is effectively the case. And it is. So deflation is a rising risk. We are seeing some interesting development. Spain, for instance, was almost, at least for a short period of time, moving into the deflation zone. It has picked up. It is back in the inflation zone. So, it's a risk but I would not put too high a probability on that.

**MS. GREILING KEANE:** We have questions on probably every continent in the globe in the pile and not enough time to ask them all. But moving to one other continent, it'll soon be a year since Japan started implementing their three arrows economic program. Share with us your opinion on how successful you think that program has been and whether it's had any spillover effects around the world?

**MADAME LAGARDE:** There's no question that there has been success as a result of what is now commonly referred to as Abenomics. Clearly, the massive shift in the monetary policy decided by the Central Bank of Japan has had a huge impact. The fiscal stimulus that have been announced a few months ago will also have an impact. We understand that there is political determination to actually raise the consumption tax first in April, then later on.

I think it is still short of two things. One is a medium-term fiscal consolidation path that will be anchored in the economic policies of Japan. And, probably even more so than has already been identified by the Japanese authorities, the economic reforms that will actually boost and consolidate Japan economy. I think more can be done there.

**MS. GREILING KEANE:** What should the IMF do to address rising income disparities globally? You mentioned the scope of the problem. What's your role in addressing that?

**MADAME LAGARDE:** The only thing we can do, because this is our mission under article one of the articles of the IMF, is focus on stability and financial and economic stability to the extent that any factor jeopardizes that stability, our duty is to



look into it, to analyze it, to do enough correlation, enough regressions, and so on and so forth, to identify where it is a problem. So this is what we have begun doing, and we will continue doing. So as we will continue to work and study on the relationship between growth and jobs, because we also regard that as a critical issue.

**MS. GREILING KEANE:** We are, unfortunately, almost out of time but before asking the last question, just a couple of housekeeping matters to take care of. First of all, I'd like to remind you of our next speaker. On January 22<sup>nd</sup>, we have DeMaurice Smith, the executive director of the NFL Players Association; secondly, I would like to present our guest today with the traditional National Press Club coffee mug.

**MADAME LAGARDE:** I was told about that mug, so--

**MS. GREILING KEANE:** Are we making a trade?

**MADAME LAGARDE:** Yes, we're doing a swap here.

**MS. GREILING KEANE:** Lovely, thank you. (Applause) Very nice.

**MADAME LAGARDE:** Lovely.

**MS. GREILING KEANE:** Thank you.

**MADAME LAGARDE:** The ladies with the mugs.

**MS. GREILING KEANE:** There we go, and they match. One last question. One of our audience members wants to know whether you will consider a run as candidate in France's next presidential election? (Applause)

**MADAME LAGARDE:** You know, I'm very, very happy as Managing Director of the IMF, settled here in Washington, D. C. Thank you. (Applause)

**MS. GREILING KEANE:** Thank you, thank you for coming today. I'd also like to thank our National Press Club staff including our Broadcast Center and National Press Club Journalism Institute staff for helping organize today's event. And here's a reminder. You can find more information about the National Press Club online as well as a copy of today's program, at [www.press.org](http://www.press.org). Thank you, we are adjourned. (Sounds gavel.)

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