NATIONAL PRESS CLUB LUNCHEON WITH DOMINIQUE STRAUSS-KAHN

SUBJECT: DOMINIQUE STRAUSS-KAHN, MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND, WILL DELIVER A SPECIAL ADDRESS REGARDING THE WORLD ECONOMIC RECESSION AT THE NATIONAL PRESS CLUB ON APRIL 16.

MODERATOR: DONNA LEINWAND, PRESIDENT, NATIONAL PRESS CLUB

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DONNA LEINWAND: (Sounds gavel.) Good afternoon and welcome to the National Press Club for our speaker today. My name is Donna Leinwand. I’m a reporter for *USA Today* and president of the National Press Club.

We’re the world’s leading professional organization for journalists. And on behalf of our 3,500 members worldwide, I’d like to welcome our speaker and our guests in the audience today. I’d also like to welcome those of you who are watching on C-Span.

We’re celebrating our 100th anniversary this year, and we’ve rededicated ourselves to a commitment to a future of journalism through informative programming, journalism education, and fostering a free press worldwide. For more information about the Press Club, please visit our website at www.press.org.

We’re looking forward to today’s speech, and afterwards, I will ask as many questions from the audience as time permits. Please hold your applause during the speech so that we have time for as many questions as possible.

For our broadcast audience, I'd like to explain that if you hear applause, it may be from the guests and members of the general public who attend our luncheons, and not necessarily from the working press.

I'd now like to introduce our speaker. It has often been said that when the U.S. economy catches a cold, the rest of the world catches pneumonia. With the unemployment rate approaching ten percent, and banking, housing, auto manufacturing, and other sectors of the economy in trouble, the U.S. has way more than the sniffles. That means economic hardship and potential political instability in much of the rest of the world.

Earlier this month, the world's major economies agreed to substantially boost assistance to lesser developed nations to alleviate the recession's impact on the countries that can least afford declines in their standard of living. The group of 20 nations promised to add $500 billion to the amount of money available for lending through the Washington-based International Monetary Fund.

Some of the $750 billion that will be available when those new pledges are met will be lent to well managed economies without reform preconditions in hope of heading off economic crises. Today's speaker has been managing director of the International Monetary Fund since November, 2007. He's an old hand at navigating complex politics, having served three terms in France's National Assembly. He's also worked as a corporate lawyer and an economics professor.

He is with us today to explain how the IMF plans to help developing countries weather the economic storm, and hopefully avoid a similar crisis in the future. Ladies and gentlemen, please welcome to the National Press Club, the managing director of the IMF, Mr. Dominique Strauss-Kahn. (Applause.)

DOMINIQUE STRAUSS-KAHN: Thank you. I'm happy to hear that you will hold your applause. I was afraid that each sentence would need a minute of applause, so. Let's go forward.

So I'm really delighted to be here this afternoon and have this opportunity to talk about the global financial crisis, and how the IMF sees the challenges facing us at the moment. Let's take stock at the eve of the spring meeting. As you know, we have our spring meeting next week. I think the first thing to say is that had a highly successful summit at the G-20 in London. And I was very much impressed by the appreciation of leaders for the seriousness of the global recession, what I call the great recession, and also the commitment to take action.

One big story of the summit was that the IMF emerged as a winner, given the unprecedented tripling of the resources. I think this gets it backwards. The real winner of the summit is certainly the global economy and the way the summit gives some hope for finding a way out of the crisis. Leaders were focused on what has to be done and many of what has to be done, many things involve the IMF. They were focused on urgent actions, restore growth today, but also solve the problems which are at the roots of the current crisis.

And so I think that after this meeting, really which was a good meeting (I have attended a lot of meeting like this one in the past, both in my capacity of finance minister, or in my new capacity of managing director of the IMF)-- And this one was really exceptional one. So I think that we all know now what we have to do. We have a mandate to do it, so just do it. And for its part, IMF is ready to play its role.

So I think we all understand what is at stake. 2009 will be an awful year. Whatever happen now, it's already done. The global growth will be deeply negative. And the idea that we're really facing the first global crisis is now, I think, understood by everybody. Obviously originated in that finance economy in The United States, that finance economy, and spread like wildfire across the world. But what is new since the beginning of this year maybe is that now the emerging markets are hit hard, facing a double punch, a sharp drop in exports because of the slow down of the global economy, and also the sudden stop of capital inflows, that have been relying for the last decade or even more on very important capital inflow, which is okay for emerging countries. And those capital inflow are just drying up.

So all this threatens to undo what has been gained during the last decade in the emerging market. But also maybe it's even more important in low income economies, in low income countries, where the last decade has been exceptionally good, especially in Africa, who has rate of growth which never has been reached in the past. And the crisis also arrive at the shores of low income countries, threatens to cast millions into poverty.

The good news, that the freefall in the global economy may be starting to abate. Recovery, as we say for months, is possible in our forecast, in the first half of 2010. But the bad news that it's not done. It depends crucially on the right policy being adopted today. And on this question, I have a mixed judgment.

Basically, we have asked in the IMF for three things. The first one is the financial sector reform. The second one was a fiscal stimulus. And the third one was bigger financial support for emerging countries. Let's take this in turn.

On the first point, it's clear that what we need now, what is the most urgent, is to fix the financial sector. It's essential. There is no way for recovery in the global economy without this. The IMF has experience of 122 financial banking crisis, different countries. It's different countries at different times. So you cannot just draw lesson too easily with that, some constant. And among those very little number of constant, one is that you never recover before you fix the problem in the financial sector. It may last very long if you don't do it. And ultimately at the end, you have to fix the financial sector to recover.

So the cleansing of banks' balance sheet is now the most important thing to do, restructuring the banks, recapitalize when needed. From this point of view, the U.S. plan, the new U.S. plan is a major step forward, even if everybody understand that its success relies partly on the willingness of the banks to sell toxic assets.

The second need was the need of a global fiscal stimulus. As soon as January, 2008, the IMF asked for the stimulus. And it sounds, at this time, a little odd, that my institution, which is more known for tightening the belt than asking for fiscal stimulus, gives this policy advice. But the view we had at this time for the global economy was that slowdown would be very, very big, and that we absolutely need at the global level this kind of stimulus. So we asked for a two percent stimulus at the global level. And I must say that globally, the countries did deliver for 2009. And the global stimulus accounts, more or less, for this two percent. But that's okay. We'll see for 2010 later. But for 2009, we have what we need.

One point I would like to stress is that, I have heard a lot of things about the lack of coordination among different countries. And we can always ask for more coordination. But finally, it's the first time ever that you see at the level of the global economy such coordination, fact that all the countries which had some fiscal rule used at the same time the fiscal rule to face the same problem at the global level. So finally, coordination was not that bad.

The third thing is urgent action on the financing front, especially to alleviate pressures on emerging markets. And this probably the area where the G-20 was the boldest in tripling the resources of the IMF, its lending capacity, to unprecedented $750 billion dollars. Really, the G-20 took the measure of the challenge.

At the same time, the decision has been made, as you know, to double the ...(inaudible) lending, the capacity of the Fund, which is what goes to low income countries, and to expand the global liquidity by-- with an issuance of $250 billion dollars of LGR(?). Probably you will have question about that. I would be happy to answer.

So all this, I think has reinforced this symbol that IMF was, the lender, last resort, which it has been known to be, and have this role to play. So that's the three urgent priority. And that's absolutely necessary step for recovery.

Now what is also interesting is that at the same time, in the last month, there have been other decision which have been made, and mainly linked to the fact that the crisis has been caused by a number of fundamental flows in the national and international financial architecture, and that it was needed to fix those flows. In fact, I'll go very fast(?) ...(inaudible) I think four key areas in which we need to do something looking forward: better regulation of the financial sector, surveillance of the world economy, financing of the emerging and low income countries, and sometimes the advanced economy, and international cooperation.

And in most of them, if not in all of them, the IMF has a key role to play. Better regulation, I think it's obvious for everybody that this crisis has shone the light on the failures of the financial regulation and market disciplines. So the idea that we need to have better regulation, that financial institution took decision, that, in retrospect, prove highly risky, all this, I think is in everybody's mind.

To strengthen the financial regulation and supervision is a key component of preventing future crisis. We have to expand the regulation, the regulatory parameter to entities which were, until now, out of this supervision. And we have also to reduce the conflict of interest, for instance, when we think about rating agency or institution like this one.

That's especially a feeling which-- what I had in mind when I say the IMF is not really concerned by everything. Of course the regulators are meeting in the former FSF, Financial Stability Forum. They're coming to FSB, Financial Stability Board. And we're part of it. We have input. But it's not really our job to make the regulation, to know if-- what is sound is for bank is to have 'x' percent of its capital not exceeds this part in lending. That's regulation, the banking system. That's not our job.

Our job is down the road. When this has been decided, has to be implemented in different country, and then we can, for the surveillance, to assess if the implementation has been done correctly. But the regulation by itself is not really our job.

The second area is exactly this one of surveillance. Surveillance is a very important part of the IMF's work, and especially because this crisis is the first crisis, probably not the last one, being mainly a crisis of the linkages between the real economy and the financial sector. And there's a lot of institution working on the real economy. There's a lot of institution working on the financial sector, mainly central banks. But there's only one really at the corner of Main Street and Wall Street working on these linkages. And that's why the surveillance role of the

IMF is certainly something, is going to become more important in the coming years. And that has been stressed by the G-20.

Of course surveillance is useful if you give early warnings. And we have been criticized, rightly, in not being able to-- not only to avoid the crisis, but even to warn early enough. It's partly true, partly unfair. It's partly true because-- Well, let's do it the other way around. It's partly unfair because we gave some warning. But, you know, when the sky is blue, and you go to policymakers and say, "Listen, next year may be very difficult," they don't want to listen you too much. They have election. They have other constraint. They have short-term agenda. So we warn, but certainly not loudly enough. And our warning were not listened to enough.

On the other hand, it's true to say that we didn't warn soon enough, strongly enough that we didn't have the tool to analyze the situation well enough. And so one of the big improvements for the coming time is to create this earning warning system in a much more effective way. And that's also something which has been recently asked very strongly by all leaders to the IMF.

The third area after regulation and supervision is financial arrangements. You know, the question is not only to have extra money. The problem is to have-- We cannot do business as usual in this crisis. The IMF had to change, adapt to this kind of crisis, especially because this crisis has a new kind of country. Usually when the IMF was asked to work with a country, because the country was in deep trouble, but mainly because of its own policy.

The situation which is new is that you still have this kind of country, but you have other country having the right policy in place. Nothing to change, just they're hit because of the global crisis. And that's example, for instance, of Mexico, of Poland which are the two countries just using the ...(inaudible) who established a few week ago for a country having good track record, where the traditional conditionality of the fund will not apply because we don't want them to change the policy. But nevertheless, they have troubles because of the global slowdown. So we had to find to create a new kind of facility, adapted to this country, and at the same time, to streamline the traditional conditionality that we use for other countries. Because in the past, many times when the IMF had to deal with a country, the conditions that IMF imposed were not only linked to problem to solve, but also to trying to solve other problem of the country not directly at stake in the crisis for which the IMF has been asked to come.

For instance, when you have a balance of payment crisis, you may have very good reason to explain the country that they should have a land reform, which would be very good for the country, but has nothing to do or very little to do with the crisis at stake. And so the conditionality of the IMF was certainly too large, creating a lot of problem, political problem at the origin(?) of(?) the(?) stigma of asking the IMF to work with you. And recently, in most of the country where we have program now – Hungary, Ukraine, Pakistan, some others – we tried to streamline this conditionality to what is absolutely needed for the-- to fix the problem at stake.

At the same time we tried to develop what I call social conditionality, which is to take into account the most vulnerable part of the population and to avoid that is most vulnerable part of population, would suffer the most from the adjustment, which is also something which is rather new for the institution.

And the last point (and I will come to the end) is the question of better cooperation. As I said before, the example of the stimulus is a very good example of huge cooperation at the global level. But we certainly are able to do more. We see the benefit of this cooperation, of the stimulus. We also saw the benefit of the cooperation when the different central bank provide liquidity to the market, just after the Lehman episode and the crisis at the time, the climax of the crisis at this time. So it has been shown twice. Central banks will do liquidity similar to the IMF. That international cooperation was the only way to deal with this kind of crisis. And because it's a global crisis, there's obviously no single domestic solutions.

So the question then is, what's the right place to organize this cooperation? And I do believe that the IMF is the right place to do that. One condition is to have the legitimacy from our members to do it. And that's probably one of the reason why, to increase the legitimacy, the G-20 asked the IMF to speed up the process of reforming our quota system, which is a very difficult story, reflecting the size and the share(?) and the voice of the different countries in the IMF, to enhance the voice of emerging countries, so that legitimacy of the institution would better reflect the state of the world.

So that's the main messages. I think we are at the point whether it's the-- The meeting in London has been a big success. And we really may be at a turning point. I say maybe, because there are forces pushing downwards, especially the fact that the end of 2008 has been a very bad year. So the effect of this very bad end of 2008 are still at work.

On the other way, a lot of the time, we can look at some glimmers of hope, as President Obama said. And it's true to say that if there is some red lights, there's also some green lights. So we may be at a turning point. Depends on what. Depend on the right policy being implemented. I have said that I was satisfied by what is done in term of stimulus and still concerned about what is done in terms of cleansing of the financial sector. I won't say nothing has been done. Would be unfair. But obviously doesn't go fast enough.

So it's time to move forward. And if we do move forward, in the correct way, then the recovery of the global economy in the first half of 2010 will be a correct focus. So it gives to the IMF great responsibility. I hope we can live up to it. And I'm convinced that part of the success of the recovery, and part of the health of the world economy depends on it. So thank you very much for having listened to these few introductory remarks. And of course I'm prepared to answer all your question you will like to ask.

MS. LEINWAND: How confident are you that the G-20 nations will come through with the money they have pledged? Will the U.S. deliver at least $100 billion?

MR. STRAUSS-KAHN: Well, I'm totally confident. Their pledges are for $500 billion. That's small money. Our resources today are $250. And this $500 will be the tripling everybody has been talking about. We already have the $100 from the Japanese. We have a commitment which is just being organized in an agreement with the Europeans. It takes a little time to make it, as it has taken the same time for the Japanese. The Japanese pledged it in October, and we signed the agreement in February. So we're just in the process with the Europeans. As you say, the American have said, up to $100 billion. We're in private meeting, so I can say what really I believe. I don't see the U.S. doing less than the Japanese and the Europeans. So it will be something like $100 billion. That's $300 billion. The Chinese have said around something which is close to $40 or $50 billion. So it's around $350. We have $10 billion coming from Switzerland, $5 from Norway, some from others.

All together, we're close to something which must look like $400 billion. And so we still have $100 billion to find. But there's others, country with-- saying that they will provide resources and didn't pronounce a figure already, like the Saudi, for instance, and other country from the Gulf. Some others, the countries, the Russian, the Brazilian have committed themselves for couple of billion. So absolutely confident that by the end of this year, because all this take some time to be put on the paper and signed. But by the end of this year, the $500 billion will be completed.

MS. LEINWAND: The U.S. is facing staggering domestic debt. How can it afford to provide 17% of the IMF's quota?

MR. STRAUSS-KAHN: Well, that's not exactly the same thing. You have to understand, what is the IMF resources? The IMF resources, this $500 billion we're talking about, our agreement to borrow means that if we need it, we will ask the country to provide it. But who provided it? The central banks. So it's a kind of swap agreement as if the IMF was a central bank and we just exchange an agreement with-- a loan document to the countries and they will provide us with the money. It's not budgetary money. Doesn't come from taxpayer. If it had to come from taxpayer, would be a larger story. But that's not at all the case.

And it's exactly the same thing as when the Fed and the ECB, for instance, or the Fed and the Bank of England do have swap agreement to fight(?) against(?) speculation. So that's money which comes from the monetary side. It's not money coming from the fiscal side. And that's why it's not very difficult to achieve.

MS. LEINWAND: Will the U.S. dollar continue to be the world's top international currency? If not, what will replace it and when?

MR. STRAUSS-KAHN: If I knew, I'd be a rich man. Well, I see no reason why, for very long period of time-- I don't know what's going to happen in 30, 40, or 50 years from now. But I see no reason why the U.S. dollar will not go on being the main currency in the world, even if the Euro is challenging, the Yen has its own part. There are many reasons to believe that, when the crisis will be over, we will still be in a system where the role of the U.S. dollar will be almost the same.

What is very surprising is that the dollar behaves so well in the current crisis. If you had put in the same room two years ago stack of economists and tell them, "Look — we're going to have this kind of crisis, this and this, with such a big amount of toxic asset, and such a big slowdown in the world economy, originated in The United States," well, what would have happened? And if the question was asked, "What will be the consequence on the dollar," probably most of them would have said, "Oh, it will be a collapse of the dollar."

And we experienced exactly the contrary. The dollar today is much higher compared to the Euro, for instance, then it was one year ago. So in fact, it shows that, in troubled time, people do believe in the future of the U.S. economy, do believe in the fact that finally, everything is bad, but the U.S. is not the worst, and finally, holding dollars is probably not the worst choice to make. So I've no reason to believe that, again, in seeable, foreseeable time, I don't know for ten years or so after (I don't know) there will be any kind of change in this balance of power between the currencies.

MS. LEINWAND: You said more stimulus money might be needed. Do you think the U.S. needs to provide more stimulus money? And if so, how much?

MR. STRAUSS-KAHN: Well, I didn't say it will be needed. I say, what has been done for 2009 is fine. Most of the stimulus plan do have a component for 2010. Will this component for 2010 be big enough? We will see. It depends a lot on the effectiveness of what happens in 2009. And the effectiveness of 2009 is not only the stimulus plan, as I had told you before, also the way the financial sector will be cleaned up.

You know, effectiveness of the stimulus can go from one to two, depending on what's happened in the banking sector. You have met, as I did, a lot of people in the street saying, "I don't understand. There's so many billions at the top. You're talking, huge amount of money. And when I go to my bank, asking for a little money for my business or for something like this, they say, 'We have no money.' What's the problem?"

The problem is that, in-between, the system is frozen. And the distribution of credit is still frozen, not totally frozen, less and less frozen, but still frozen. So the effectiveness of the stimulus itself will rely on the way the system will de-freeze. And, depending on that, the need for 2010 will be totally different. So it's impossible today to say that we will need more stimulus or not in 2010.

The only thing which is important is the commitment by the head of state and government in London that if needed, they will provide something. But I hope it will not be needed. Because what has been done-- And if we speed up the cleansing of the financial sector, what has been done will be enough.

MS. LEINWAND: How do the Obama Administration's policies toward the IMF differ from the Bush Administration's?

MR. STRAUSS-KAHN: Well, I worked during one year, a little more, with Hank Paulson and his team. And I think we worked very well. It was not always easy. And I won't say the Treasury always agreed with what IMF is saying. But that's absolutely normal. But the relationship, confidence, in both way, were fine. And I think we tried to do our job the best way we can, providing the U.S., and other countries of course, with policy advice, asking for speeding up the stimulus process. And everything has been done correctly.

Then the new Administration is now in place for couple of weeks. It happens that for personal reason, I have some friends in it. And, for instance, Larry Summers was a Deputy Secretary of the Treasury and then Secretary of the Treasury when myself was the French finance minister. So we had some links from the past. So in term of personal relationship, things may be easier. Same thing for Tim Geithner, who was also, at this time, in the Treasury. And so I knew him for a long time.

So I know this team for long time. I didn't know the member of the previous team for such a long time. But in both cases, I think that the U.S. is playing perfect role as the main shareholder of the IMF, having its voice as the main shareholder, but also understanding that we are in a multilateral system where the voice of everybody has to be listened to.

MS. LEINWAND: What has driven you to soften the conditions you attach to aid? And is there a risk that you swing too far toward not imposing enough conditions, and that countries take the cash without making necessary reforms?

MR. STRAUSS-KAHN: Well, that's a general problem. When we help a country, as I told you before, we ask them to make some reform. The general case, traditional case, is that the country comes to the IMF because they're in a mess. They're generally in a mess because they had the wrong policy in place. This wrong policy (often, not always) has to do with fiscal, because they spent too much. And that's why the IMF has this bad reputation that when the IMF come, they say, "Folks, you have to spend less." And spend less is always difficult. And that's why the government, when it has to implement this kind of policy says, its own citizen, that's because IMF is asking that. So of course people don't like us.

But that's part of our work. What is different, what is new is that for some countries, as I said before, we won't ask them, anything to change because they have the right policy. And it's absolutely not their fault if they are in a difficult situation. So there's no risk that they won't implement the correct condition, because they're already following, before having the agreement with the Fund, the right policy. Of course you may imagine that in such a country, there are some election, a totally different government comes in with totally different policy. Okay. Everything is possible.

But if you look what is reasonable, at least in the two countries which are now concerned with this new facility(?), Mexico and Poland, they will just go on with the policy they had in place. We don't ask more than that. Just do what you did before, which was correct. But we have to help you because the capital inflows you were used to have disappeared before of repatriation of capital by American, European banks. So you're just facing a financing gap. We're helping you to bridge the gap. But we don't ask you to change your policy.

So there's no real risk that they won't implement the reform we ask. We don't ask them to change their policy.

MS. LEINWAND: Can you give us an update on IMF debt issuing? How much will China purchase?

MR. STRAUSS-KAHN: Better ask the Chinese. First, it's something totally new, which was, since the beginning, for 60 years, in the article of agreements of the Fund, that the Fund could issue bonds to be directly borrowed by a member. But it has never been done. So it's something totally new, even if it's something which was already defined 60 years ago.

We're probably going to use this new way for China, and maybe for others, because some countries prefer this way rather than have traditional bilateral agreement of a loan to buy our bonds. So we're going to do that. How much are they going to buy? I told you before, I think it will be something around $40 billion dollars, maybe a little more. I don't know. We are just in the process of defining this new kind of bonds, which will be bonds denominated in the IMF currency, which ...(inaudible) SDR(?). And then as soon as those bonds will be created, which is a question of days, but has never been done before, as I told you so (there's some administrative and technical work to do) then we will see with the Chinese and others how much they want to buy.

But the 'how much' is a bit difficult to say because it will be something they can buy and sell. So one day, they can buy more; a few months later, they can buy even more. So there's no-- It's not as if you have a specific agreement or a loan with a country which is defined, 'x' billion dollars, that's it, and if you want to do more, you have to create a new agreement. When you use this new kind of bond, that's probably one of the reasons countries are interested in. It's much more flexible. And so the amount may move over time.

MS. LEINWAND: Latin America is one of the regions most affected by the sudden stop in foreign capital you mentioned. How concerned are you about the situation in the region? And do you expect more countries in the region to request IMF loans?

MR. STRAUSS-KAHN: I don't remember I said that Latin America was the part of the world most affected by this sudden stop in capital inflows. If I had to make a bet, I would probably say that Central Europe has been more effective in term of ...(inaudible) GDP. But nevertheless, you question is about Latin America. Many Latin American countries have suffered this sudden stop in capital inflows. And that's why some need some support. We'll relegate some support to smaller country — Costa Rica, El Salvador. We just deal with Mexico. Some other may discuss with us in the coming weeks. But surprisingly enough-- And it's always the same thing — it's not surprising when you really analyze things.

But at the first glance, surprisingly enough, Latin America is rather resilient to the crisis, more than other part of the world, and especially more than Central Europe, I just quoted. So I'm not saying that there's no problem in Latin America. Would be totally, totally wrong. I'm not saying that. But they're not in such bad shape. And for instance, country like Brazil will probably have, this year, very, very little growth rate, maybe negative growth rate. But nevertheless, they've accumulated in the past such a big amount of reserve, they're in rather good shape. They have good policy in place. They're less affected by the crisis than the U.S. or some European countries, which is not to say that they're not affected at all. Of course not.

But they're facing the crisis rather well. And Brazil is, of course, a huge part of the Latin American economy. So there may be other country from Latin America coming to the Fund asking for help, but I don't see Latin America this day as being the most concerned, the most difficult part of the world to facing this crisis.

MS. LEINWAND: It was reported that IMF already reached an agreement for a loan with Romania, speaking of Central Europe. How is it different from previous heavily criticized agreements? And what are the budget and policy restrictions?

MR. STRAUSS-KAHN: Well, Romania has an agreement which has been made a few days ago. But I could say they have the same common ...(inaudible) like Hungaria (sic) like Ukraine, the same region. What is different? The different is, as I told you before, that we focus on what is, we call, core conditionality. Which is, those countries have problem facing the crisis. What are this problem? Mainly that their capital inflows have dried up. They may have some other internal problem, excess, fiscal deficits, things like this. But mainly, the problem comes from the crisis. So we have to fix this to help them, to bridge the gap until the economy recovers.

So the first difference is this one — not-- I asked my team not to do some time they wanted to do in the past, which is to fix the world and fix all the problem, but just to fix the problem they're facing, and trying to reduce, limit, streamline the conditionality to what is needed to fix the problem at this time of this country.

And the second thing which is different from these heavily criticized program in the past, some time in an unfair way, but-- okay, I make comment after this if you want-- is that, as I said also a few minute ago, we try to protect the most vulnerable. So take an example in Hungary or in Pakistan, we look with the government, what will be the right path of reducing the fiscal deficit? And then we say, "Okay, you will have a little more deficit — 0.3, 0.5 of the GDP. And you will use it directly to face the problem of the most vulnerable."

Why? Not only for ethical reasons or because that suddenly the IMF will change in kind of charity organization. But because I do believe that the ownership of the program by a country is one of the condition of the success. And when the program is totally rejected by a country, which means that-- which is the image(?) and the tradition for some of those program, the chance of success are very much reduced. So to have the program accepted by a country, which is always difficult program when you need to adjust, to take care of the poorest part of population, which is generally the one which is the most hit by the adjustment, is absolutely necessary. That's(?) what we did in all these country, including Romania. And I do believe that it gives to the IMF program a totally different meaning and perception by the population that it was in the past.

And that's at least what we already feel when we read the newspaper in those country or when we discuss with people in this country, their impression given by the IMF program is-- I won't say they're happy to have a program with IMF. Of course they have the program because they have problems. But the impression is slightly, more than slightly, significantly different from the impression they had before.

MS. LEINWAND: Due to the severity of this crisis, do you see African economic powerhouses such as South Africa, Nigeria, and Egypt sliding into recession this year? And what would be the implications for the continent?

MR. STRAUSS-KAHN: Well, as I told you, situation in Africa is a bit special. Why? Because during the last decade, African countries eventually followed a correct framework for economic policy. That's true, clearly true in Western Africa. But it's also very good example in Eastern Africa. And the result of that was that they experienced several years, five, six, seven years in a row of very high growth, five percent, six percent, they'd never had in the past.

So the problem today is that the risk is not only an economic risk, is not only a humanitarian risk-- Because in those countries, a slowdown in the economy is not only to lose one or two point of purchasing power, or having an increase of one, two, three points of unemployment; it's much more than that. It's a question which is life and death for a lot of people.

But beyond that, it's also-- which is also at stake is the risk that the slowdown in the economy evolves in social unrest and from social unrest to threat to democracy. Those democracy are very young democracy. And social unrest are really likely to destabilize it with consequences beyond democracy, on war, civil war, or international war.

So I don't want to make too gloomy a picture, but that is really what is at stake. So in this environment, you have three big economy you just mentioned — South Africa, Nigeria, and Egypt. They're all different. They're all different. South Africa is a very diversified economy. Nigeria is centered on producing, mostly centered on producing oil. And Egypt economy is a very different kind of militaranian(?) economy. But the risk for these three economy are also big risk.

They're different from other countries because they're bigger, they're richer than the other countries, than many other countries on the continent. So the risk of destabilization I was just talking about do not concern these three countries. But the risk of having those countries slowing down rapidly is a real risk, even for a country like Nigeria, when the price of oil is today so low. The risk of going into, maybe not a negative territory of growth, but at least small growth rate, is a real risk.

MS. LEINWAND: What is the status of the IMF's negotiations with Turkey? When do you expect an agreement? And what would be the financial size of the agreement in your view?

MR. STRAUSS-KAHN: Well, we're negotiating. The needs of the Turkish economy are well-known. They're big. Again, for the same reason — that Turkey experienced in the past a very important capital inflow. And not private capital is more reluctant all over the world, not especially in Turkey. So they have big needs.

We-- just resuming negotiation. We have to pose it-- postpone it for a time because they have their elections. And election time is not always a good time for government to discuss with the IMF. So we had to wait for the election. The election took place at the end of March. So we're starting again. I met with Mr. Erdogan, the prime minister, in London during the G-20 summit. I'm confident that we can find an agreement rather soon.

And only at this time will we be able to know exactly how big is the agreement, because it's part of the negotiation and part of the work, estimating the real need for the coming years. But in my view, the Turkish economy is a strong economy and a big economy. Effort has been made in the past which have produced very good result in the-- in IMF program. So I understand why the government wants to go on with a new program. The result of the previous one has been very good. But of course the circumstances are not the same, because of the global slowdown. So it's a bit more difficult to define the framework of this program. But I believe that in the coming weeks, we will find an agreement.

MS. LEINWAND: What is your assessment of the financial situation of Austria?

MR. STRAUSS-KAHN: Well, Austria is a country which has this particularity of having big banks compared to the size of the country. And those banks are partly invested in Eastern Europe. Not only Austrian banks — it's a case of many other West European banks, but also Austrian banks.

But I do believe that the Austrian situation is fairly good. So I have no particular concern about the Austrian economy for these days. The concerns are related to the whole Western block of European countries having invested in Eastern Europe. And if things become more difficult in Eastern Europe, then all the countries, not only Austria, but Italy, Belgium, France, Germany, will have some problem because of the involvement in Eastern Europe. That's why Eastern Europe is so important. But it's not typically a problem which will be bigger for Austria than for others.

MS. LEINWAND: Will the IMF consider providing short-term liquidity lines of credit to countries which have previously defaulted or refused to honor their unpaid debt obligations such as Ecuador and Argentina?

MR. STRAUSS-KAHN: Argentina did-- repaid the Fund. And it's not true to say that Argentina didn't pay what they had to pay to the Fund. Ecuador has no debt to the Fund. There are some countries having — Zimbabwe, some others-- I'm not sure that the problem at stake today is to provide a liquidating(?) line to Zimbabwe. There's other problem to fix in Zimbabwe.

So the problem is more theoretical problem than a practical problem. Of course the recent move by the Ecuadorian government facing foreign debt creates some special problem. And we are going to discuss with them if needed about this. But it's not impossible for the fund to go on with countries, even with countries where we had problem in the past, if in-between those problem has been solved and the arrears being paid, which is the case for 99% of our membership.

MS. LEINWAND: Today the IMF warned the current global recession is likely to be unusually long and severe and the recovery slow. Do you have any recommendation to emerging countries, especially Asian countries, including Korea?

MR. STRAUSS-KAHN: Well, Korea is in good shape, of course, as anybody today hit by the crisis. But facing the crisis in(?) good(?) situation(?)-- And that takes me back to the point I mentioned previously, which is that the Fund has been lot criticized especially for the way it handled the Asian crisis, for reason I can't understand, and probably could have been done differently. It's easy to say it in retrospect. Was not that easy to do it at that time. But at least we have to acknowledge that what was the Fund's mission? To fix the problem, to avoid contagion to the rest of the world. And to allow those country to recover has been done.

Korea, Indonesia are, today, country having right policy in place, rapid growth. I'm not saying, again, that what has been done in the past couldn't have been done with less cost. Probably it's the case. It could have been done with less cost. But the result today is that Korea is a very strong, very strong economy.

As you say, we expect the recovery to come the first half of 2010. But it's not for sure. Depends, as I emphasized, on the right policy to be implemented. And if not, the crisis may last much longer. And then in this case, many emerging countries, but maybe not only emerging countries, will need to have some support.

So probably the best advice today is to acknowledge the fact that there's no domestic solution to the crisis. And so that when you're a global crisis, you need to go on with the global move. Practically it means that if countries are beginning to face a problem, they'd better come to the IMF and discuss with us than wait for the last minute, as when you're sick and you don't want to go to the doctor, and you wait for the last minute. And always, in this case, it's more difficult to recover because you wait too long. The same thing is true for the economic health of a country. And what I'm afraid of, is because of the so-called stigma in the IMF story and the fact that countries don't want to come to the IMF because it's politically difficult, they will wait, some of them will wait too long, and then, more difficult for them to recover compared to the situation they will face if they come earlier. So that's really the advice.

MS. LEINWAND: The U.S. had declined to label China a currency manipulator. Do you agree with this assessment?

MR. STRAUSS-KAHN: Well, our assessment of the Chinese currency is that the Renminbi is substantially undervalued still, and that the Renminbi has to revaluate. One of the good thing, the crisis (there are some) is that one way for us to have the Renminbi revaluating was to advise the Chinese authority to try to have a less export-led model and a more domestic-led model so that automatically, the Renminbi would revaluate. And we tried to explain for months, even more than that, to the Chinese that it was in their own interest to do that, and the interest of their people, and, moreover, in the interest of the global economy. And if they want to be big players, that was the right way to go.

One of the outcome of the crisis is that they launched, the Chinese authority launched a huge stimulus package, which is a stimulus package which is mainly domestic-oriented. So because of the crisis (I won't say because of the advice of the IMF, but maybe it's because of the advice of the IMF) they decided to do the right thing. And so one of the outcome is that, at the coming time, I expect the Renminbi, it will not happen overnight, but I expect the Renminbi to revaluate just because of the shift of the economic growth of China from export to domestic growth.

So it's still significantly undervalued. There's a long road to go. But I think the correct policy are now in place, and that they will produce the result in the coming months.

MS. LEINWAND: How will the IMF and the Bank of Basel coordinate policies in the future once the crisis has passed?

MR. STRAUSS-KAHN: Bank of Basel?

MS. LEINWAND: Is that what that says? Bank of-- Bank for International Settlement?

MR. STRAUSS-KAHN: Yeah, that one you were talking about. Okay. The BIS, which is in Basel, is a kind of a syndicate of central banks. And they have a huge role in coordinating the most important central bank. So they do this kind of work of organizing the liquidity and what is called the Basel Committee, which is in-- part of a subsidiary of this BIS, is the body producing the regulation in the banking sector. So we're working with them. And I think we're going to work even more close with them in the coming time because the new head of the Bank of International Settlement in Basel is the former head of my department on money and capital markets. So Jaime Caruana, who is a former governor of the Central Bank of Spain, was in the IMF until last month. He's now heading the BIS. And so it will certainly reinforce the links.

He will tell me that institution don't work through personal relationship, which is true, but also wrong. Personal relationship are very important to make it possible, different teams to work together. And that certainly will be a very important thing in the coming time to help the IMF, which is not a central bank, more lender and also a policy advisor, to work with this group of central bankers.

MS. LEINWAND: Okay, we are almost out of time. But before I ask the last question, we have a couple of important matters to share with you. First of all, let me remind you and our members of future speakers.

On April 21, Toby Keith, the country music star, will discuss his work with the USO, his business, and his treatment by the media. On April 22, Tom Vilsack, the U.S. Secretary of Agriculture, will speak. And on May 11th, Jeff Idelson of the Baseball Hall of Fame and special guest, Hall of Famer and former Oriole, Brooks Robinson, will be here at the Club.

And second, I would like to present our guest with the traditional and much coveted NPC coffee mug.

MR. STRAUSS-KAHN: Thank you so much.

MS. LEINWAND: And for our last question, how will the IMF participate in financial sector activities of other multilateral lenders in developed regions? Will it be more active in determining financial sector loan oversight?

MR. STRAUSS-KAHN: Well, we're working with other institution. I don't know who you have exactly in mind. Can be the World Bank. Can be other lenders, international and multilateral lenders, or also some time some national lenders, countries having their own development agency, and we work closely with them. Never has been a problem. We don't have exactly the same job.

When you compare, for instance, the IMF and the World Bank, the World Bank has mainly financing projects, long-term projects — building a dam, building a school, reorganizing an industry. That's long-term project. We are more on the macroeconomic situation, on short-term, preparing an economic environment which make it possible for the World Bank to develop its own project.

Without a good economic environment that the IMF tries to create, there's no way for development agency like the World Bank or like other development agency to succeed. On the other hand, without a development agency, what we do, creating a good economic environment, will not be enough. So there are some overlap. But we don't do exactly that same job.

Because there's some overlap, we sometimes find together, work together to find those different things, and especially with the World Bank, which is our sister institution, but also with others. And that has never been really, really a problem. The problem is that we need, both of us, to be able to face the most important problem one at a time. Today, the problem is to get rid of the crisis. I'm not saying at all that the development question has to be put aside, is not important. But even for developing countries, the main problem today is to feed the people, to avoid any kind of humanitarian catastrophe, and then to go back to a possible development. And then the need of long-term financing, by the Fund, but mainly by development agency like the World Bank or the IDB for Latin America or the African Development Bank for Africa, will come back.

So cooperation between these institution works rather well. And again, as I said before, personal relationship between people working in the different institution are very useful, because they're often in the field together. So they need to be able to work together. And I think that what has been a mantra during many decades that there's some fight between institution, everybody wants to have its own domain and not wanting the other one to put their nose in it, is behind us.

And there has been a lot of improvement in the way the different agency are working together. And I think that's for the good and really for the benefit of our members. Thank you for the mug. (Applause.)

MS. LEINWAND: I'd like to thank you all for coming today. I'd especially like to thank Ken Delecki, the member who organized today's speaking engagement. I'd also like to thank National Press Club staff members, Melinda Cooke, Pat Nelson, JoAnn Booz and Howard Rothman for organizing today's newsmaker. Also thanks to the NPC Library for its research.

The video archive of today's luncheon is provided by the National Press Broadcast Operations Center. Our events are available for free download on iTunes, as well as on our website. Non-members may purchase transcripts, audio and videotapes by calling 202.662.7598 or emailing us at archives@Press.org.

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Thank you very much and we are adjourned. (Gavel sounds.)

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