



THE EUROPEAN INSTITUTE

2011 Ambassadors' Gala Dinner

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Remarks by Christine Lagarde

Managing Director of the International Monetary Fund

I've been extremely sensitive and particularly attentive to all the comments that you made. And as you were seeing through, I was realizing how much I have failed given the major achievements that you've attributed to me, which I have not yet really developed into actual achievements. So you put the bar very high for me. Madame Jacqueline Grapin, thank you ever so much for putting this event together with your staff, with everybody working around you. Thank you so much for having created The European Institute and for really epitomizing the best that France and the United States - Europe and the United States - can actually deliver in terms of intellectual leadership and ability to bring people together.

I must say that I'm particularly impressed that you organized the staging of this event between President Sarkozy and Chancellor Merkel today so that we have something of substance to actually discuss. This is a tribute to your talent. And jokes apart, it's clearly a moving target that we are seeing currently in front of us, and, obviously, we're all very, very attentive to what is being developed in the next few days. I would like to, by the same token, salute and thank all the European ambassadors who have decided to participate in this dinner and who are spending their days and nights following exactly what is happening, how it's unfolding, and what consequences it will have particularly for an economic and financial point of view, not only for the eurozone, not only for Europe, but for the world at large.

What I would like to do is have the benefit of your attention for a few minutes to just fill in from my vantage point, a little bit of what we perceive at the IMF as the current economic outlook for the world. And then possibly try to identify what we see as a way forward as a potential pass to celebrate essentially what brings us together, which is the spirit of cooperation that is so important.

In terms of global economic outlook, we are clearly seeing a situation that can be characterized as extremely serious, extremely concerning, and to use some of Jean-Claude Trichet's own word, extremely grave. It is not only serious in the heart of Europe but it's obviously very serious in many parts of the world. And in the last three weeks, I visited in turn, Russia, China, Japan, Peru, Mexico, and Brazil, and there is not one single country where the first question that was asked by either president or the prime minister and, obviously, the minister of finance and the governor of the central bank, was not about Europe. That was not about the consequences and the spillover effects of the European crisis. So it only goes to show how very closely interconnected all economies are.

When I asked the newly elected president of Peru what he was most concerned about, he said, well, it's whatever will come out of Brazil as a result of the European crisis. And when I spoke to President Calderón in Mexico and I asked him what he was most concerned about, he said, whatever the consequences of slow growth in the United States on Mexico, and that slow growth would be a factor of some of the difficulties faced by the United States of America and also the consequences on the United States of America of the European Union crisis, and in particular the eurozone combination of sovereign debt, difficult situation of the banks in Europe, as well as stalled growth.

So Europe is clearly at the heart of everybody's concern, and in many ways at the heart of everybody's concerns despite the fact that some members of the international community will say that's all right. We can build this, for instance, Trans-Pacific partnership because then we will build this region of the world where we can trade with little barriers, with little nontariff barriers, and where we can organize ourselves. Well, yes, but unfortunately it takes a bit of time to build those partnerships. And you can only build so many partnerships if you exclude the zone of the world that represents about 30 percent, if not more, of the trade of the foreign direct investment, and certainly more in terms of banking power. You certainly miss a little bit of the economic forces that are valuable.

So to all those that have actually advocated the building of sort of sub-regional bases where internally within ourselves we can try to develop trade investment and banking, I've said you are far better off trying to help in relation to the European Union, in relation to the eurozone, and trade partner with the euro partners themselves so that that set off difficulties of sovereign debt, bank recapitalization, and slow growth can be addressed first and foremost so that it can then spin out and spill over, not so much in negative consequences, but in positive effects.

So it's interconnected; it matters all around the globe, and it's a matter of urgency as well. And it's particularly appropriate that the European leaders, in particular President Sarkozy and Chancellor Merkel, have decided that things have to really move. And as we say, something's got to give. And this, at least beginning of a compromise that we see gradually shaping up is critical. It's not, in and of itself, sufficient, and a lot more will be needed for the overall situation to be properly addressed and for confidence to return to not only markets but to just investors, to

consumers, to those that have to set up their strategy for the next two, three, four years; move on to know where they're going to open new factories, where they're going to invest.

It's really an imperative and one where we keep saying that time was of the essence in the legal jargon, but never, as a lawyer, surrounded by 2,500 terribly competent economists, that I've ever sensed so much the urgency of this time is of the essence.

That isn't to say that we are extremely pessimistic. No. In any event, I don't think that we should either be pessimistic or optimistic, and there's no difference between the two as a matter of fact, because both of them get it wrong at the end of the day. But I myself have decided, together with you, Jacqueline, to be on the optimistic side of things because while we are both wrong - the pessimists and the optimists - at least the optimist is happier.

What's the path forward? Given the presence of multiple ambassadors of great talent, I thought I will borrow from one of your predecessors, Benjamin Franklin. This saying applies perfectly at the moment, which is we either hang together or we shall hang separately. And that is definitely what needs to happen in terms of this way forward and the possible recovery associated.

Clearly, the heart of the problem lies with the advanced economies, and it would only be fair that the bulk of the work and the heaviest part of the burden be actually borne - shouldered - by the most advanced economies, and this is clearly what is due to happen. Equally, everybody seems to have to participate in this what I'd call the sort of drawn compromise where the Europeans address their European problems and decide to tackle the issue of fiscal consolidation where we do not move into short term to facilitate enough growth. They address the issue of bank

recapitalization, and they also work a lot further on this issue of governance that they have not worked on many, many moons ago, which is really sort of taking shape, a visible shape as we speak.

On the other side of the pond, it's obvious that the United States has to tackle the issue of public finances, whether it's the debt ceiling, whether it's deficit reduction policies, whether it's housing problems. A lot needs to be done with this medium-term fiscal consolidation which is so necessary to reestablish better conditions for growth and better conditions for both households and for investment in the future. So it's not because the United States has exorbitant privilege of the dollar that nothing should be done to the country, that economy also has to address internal issues.

Now, what about the emerging markets? As I said, I just came back on Saturday from three Latin American countries that are thriving. They're doing exceptionally well, the growth rate varying anywhere from about 2.5 percent to possibly 5 percent with good fiscal policies, with good managerial policies. Well, they do have to, number one, beef up their resistance to shocks so that they can resist whatever would come out of Europe or the United States, or Europe beyond the United States. And because they export mostly, they certainly need to look at their internal consumption in order to boost their domestic market and make sure that they have another engine of growth than just trade. And this is clearly happening in countries like, for instance, Brazil that is clearly readdressing its internal market to make sure that it's developing in addition to relying exclusively on trade.

The same needs to happen in countries that have not suffered, have exported vastly. And I really think a country like China, which has also driven a lot of its domestic market and which had to do so at the exchange rate policies that are in line with the fundamentals of the Chinese economy.

So if all that was to happen, clearly we would not be -- in a few months, maybe next year, when you celebrate new European figures, we would not be talking about gloom; we'll be talking about growth, and that's very much what needs to happen. And it needs to happen because people are going to put their energy, their forces together, and it's on that note that I would just like to finish. This sense of cooperation, an international cooperation that The European Institute certainly has stood for ever since it was set up. It's also the spirit of the International Monetary Fund, and it's one that fosters dialogue, sometimes confrontational views and ideas, but certainly for the benefit of all.

I would like to finish with a little quote that I borrowed not so much from an ambassador or, frankly, he could have been the best and the first ambassador of the European Union to the rest of the world, and that's Mr. Victor Hugo, who was certainly one of the first ones to advocate the -- I think he called it *les États-Unis d'Europe*, advocating that European nations have to get together to form the United States of Europe, and in that sense, he was very much a man of grand vision.

And being a man of grand vision, he was also very attentive to the words. He was a poet. He was a politician. He was a fantastic novelist, and he was a figure bigger than life and used interesting words, which we can still see now, even in the jargon language of the economies or in

the fascinating language of Chinese authorities when they decide to set a path that is either the 11th quinquennial plan or the 12th quinquennial plan.

Now, you will be adapting to that, and I'll say it in French, and then I'll translate to English. He said the following, he said, "Mettre tout en équilibre, c'est bien, mettre tout en harmonie, c'est mieux." Now, if you put everything in balance, it's good; but if you can put everything in harmony, it's even better. We also have been advocating balanced, sustainable, and solid growth, and it's certainly with that wish that next year when you celebrate with Europeans yet again, it will be with the hope that solid, sustainable growth have actually taken root, and that has been thanks to the goodwill and the efforts of people of your talent and caliber, Madame Grapin, and Europe.

Thank you very much.