Speaker: Christine Lagarde, Managing Director, International Monetary Fund
Presider: Diana Farrell, Chief Executive Officer and President, JPMorgan Chase Institute
January 15, 2015
Council on Foreign Relations

LAGARDE: Well, thank you very much, Diana, and good morning to all of you, and happy new year to all of you because yes, it is my first sort of public appearance, and I'm delighted to be here at the Council on Foreign Relations, for the opportunity to speak today about the world economy, as we see it from the perspective of the IMF.

I think the Council -- I was checking back just before I came in. The Council and the IMF actually have something in common. They were both created after a world war conflict, the Council after the First World War, and the IMF after the Second World War. So our genesis has certainly something in common.

And so does our mission. You're clearly focusing on peace and stability, and our mission, as embedded in the articles of the IMF that were signed in Bretton Woods in 1944, is precisely stability and prosperity. So there's no better moment at the beginning of 2015 to talk about prosperity, to talk about stability, and certainly to talk about peace.

I think it's particularly important in 2015 because from a personal perspective, I can assure you that teamwork, team spirit and a collective approach will be not only expected but required.

I wasn't marching the streets of Paris on Sunday, I was marching the streets of Washington. And it was incredibly comforting to see the number of not just French expats but also many American friends who were marching down the streets of Washington in support, with that collective spirit about us (ph) that unites many of us around key values. So that collective approach and that team spirit was also clearly demonstrated with the line of leaders and all those who participate in the same pursuit of the same objectives on this occasion.

Now, many of you will expect numbers, and many of you will be disappointed, because we are publishing our World Economic Outlook update in a week's time, and out of respect for the team and for the research department in particular, I'm not going to mention the numbers. I will leave that to them.

But I can already say this. Despite the boost from oil prices and despite a stronger U.S. growth, we see the global recovery continuing to face a very strong headwind, and that's what I'm going to discuss with you this morning.

But I would like to first of all kick off with a little story. Two months ago, on November 12, 2014, a little spacecraft operated by the European Space Agency made the first ever landing on a comet after a 10-year journey covering half a billion miles. And like millions of other people, not necessarily into astronomy and the study of the cosmos, I was just gob-smacked by what they did.

They touchdown on the comet called 67-P was part of the ongoing Rosetta mission, which is led by a multi-national team of scientists. And together, they have extended humanity's reach into the cosmos, and by doing so, they have enhanced our understanding of our own planet. Rosetta -- that will ring a bell with some of you. Rosetta embodies the spirit of the 19th century scientists, who in their own time used actually the Rosetta stone to decode the ancient Egyptian hieroglyph.

Now, why is this story relevant today, other than to demonstrate that Europe can actually do really impressive things?

(LAUGHTER)

Well, because I think that this year, the global economy will face what we might call three Rosetta moments if they want to accomplish the international mission that I will talk about. Those major policy challenges -- think about meteorites that are coming our way. They will require decisions based on political courage, decisive action and multi-lateral thinking, cooperation, a bit like those scientists demonstrated.

So the first Rosetta moment is about boosting growth and creating employment. The second Rosetta moment is about achieving not any growth but more inclusive and better shared growth. And the third Rosetta moment is about making sure that that growth is sustainable and balanced.

Now, the three of them are clearly deeply interconnected. All are important and all demand strong leadership. They all require cooperation. But you know what? If we can catch a comet out in space with a 10 years' lag and half a billion miles in between, sure we can address the policy challenges that were facing right here on planet earth.

So I will start with the first Rosetta, the immediate challenge of how to inject greater momentum into the recovery. As I said, I'm not releasing numbers, but I would like to give you at least an understanding of trends and policy recommendations. And the obvious questions that we have at the moment is, should lower oil prices and a stronger recovery in the United States make us more upbeat about the prospect for the global economy? And unfortunately, most likely, the answer is no.

No. No why? Because there are powerful factors, legacies of the crisis, that are still with us and that are weakening our economies. Clearly, the drop in oil price is, as we say, a shot, and a welcome shot in the arm for the global economy. But to pursue the physical analogy, shot in the arm is good, but if the global economy is weak on its knees, it's not going to help. We need both strong arms, strong legs, as well.

Cheaper oil increases consumer purchasing, increases private demand in oil-importing countries. And depending on how long oil prices remain low, this could provide a positive contribution to global growth for some times. As for the U.S. economy, it performed well in 2014, and in our view, it should strengthen even more in 2015, largely due to more robust household spending.

I'm not paying too much attention to the latest number that was published this morning. To be checked, but it doesn't change our perspective.

U.S. unemployment continues to decline. Cheaper oil is boosting real incomes and consumer sentiment, and there is continued support for accommodative monetary policy.

So what is the catch? The oil price and the U.S. growth are not a cure to deep-seated weaknesses elsewhere. Too many countries are weighed down by at least two factors, legacies of the financial crisis, high debt, high unemployment. Too many companies and households keep cutting back on investment and consumption today because they are concerned about the growth tomorrow.

In fact, if you look at the overall map, the United States is probably the only major economy that is likely to buck the trend this year, while others are being held back. There are some promising recoveries in some places, and there is certainly promising recovery taking hold and continuing in the United Kingdom, for instance, while growth remains very low in the Euro area and Japan. And emerging economies that were, remember, the drivers for growth a couple of years ago, are slowing down -- in relative terms, granted, but they are slowing down, as is China, for instance.

So that's the overall situation as we see it, where the low price of oil, while probably a net positive at the end of the day, depending on the content of supply and demand driving it, and a strong U.S. economy will not suffice to actually accelerate the growth or the potential for growth in the rest of the world.

So I mentioned the strong headwinds. What do I mean by that? And what risks are we facing -- you know, those meteorites coming at us? First risk, the asynchronous normalization of monetary policy in advanced economies. And for those of you -- many, I'm sure -- who have studied ancient Greek, you will remember that the "a" before anything means exactly the opposite of what the word means. So asynchronicity of monetary policy simply means that there is no synchronicity. And for the former synchronized swimming (sic) that I was, asynchronicity is to be watched.

(LAUGHTER)

And what I mean by asynchronicity is super-asynchronicity because we can legitimately expect that the Fed will change monetary policy further, as announced, as very well communicated so far, to move into interest rates variation, while at the same time -- so exit from unconventional monetary policy on the part of the Fed, while at the same time very likely, as well -- although not yet, granted, other central banks -- including the ECB, will move into more unconventional monetary policy.

So you have the combination of an exit and one -- one major entry and continuation by, for instance, the Bank of Japan. There's been a lot of talk about it, and what we can certainly expect from the talented chairmanship of the Fed is continuous good communication, and that will be very important going forward. But we should certainly expect, as well, volatility of capital flows as a result of this asynchronous monetary policies around the world. And who (ph) says (ph) volatility of capital flows is also likely to expect potential negative effects for emerging markets and global financial stability.

Now, amongst those emerging markets, some are likely to face triple risks. First of all, the strengthening of the U.S. dollar. I'm talking emerging markets here -- strengthening of the U.S. dollar. Second, higher global interest rates. And third, more volatile (ph) capital flows.

And that will have a significant impact on financial systems in emerging markets because many banks, many large corporates (ph) have actually borrowed in U.S. dollars, and they've increased their borrowing over the last five years. The oil price drop, and weaker commodity prices more generally, have added to these risks, with some countries such as Nigeria, Russia, Venezuela facing huge currency pressures. And given -- and there are other countries, but these ones are clearly the three major ones. And given their size, the recent developments in those countries could have ramification effects on a regional basis, what we call the spillover consequences.

Third area of risk is that the Euro are, and Japan could remain stuck in a world that I would call low-low -- low growth, low inflation. And that would make it even harder for many Euro area countries to reduce very high unemployment and excessive public and private debt and would, as a result, raise the potential risk of recession and deflation.

Fourth risk is one that we hear about, watch on television on a regular basis and those that we call the geopolitical risks. I'll take an example -- Ukraine, which we are doing a lot of work on. Increased international support to complement the IMF support is crucial.

At the same time, while you have those spots of geopolitical tensions, which can be identified, with which you can talk -- we can talk, there is also this palpable sense that the forces of intolerance and fragmentation are gaining strength and sometimes competing with each other. The recent atrocities in France, my home country, but also in Nigeria or in Pakistan, are only the latest actions of forces that are fundamentally opposed to what we here in this room believe in.

Now, you take all these four risks of different natures applied to the current economic situation, and I would say that this calls for a powerful policy mix that can strengthen the recovery and provide better and employment perspectives for the citizens of the world. That's the first Rosetta moment, better recovery, more employment.

Now, how can the policy makers deliver? To show solidarity for expressed common interest is good, but there's a bit more to be done, as well. I'll look at the various policies available.

First of all, accommodative monetary policies remain essential, given the numbers that we have. Second, fiscal adjustment must be as growth and as employment-friendly as is possible. And above all, the policy makers have to step up structural reforms. There's a lot of talk about it. Some are doing it. But there has to be real implementation.

All of that is not new, but it takes a sense of increased urgency and it requires increased political leadership. For example -- and I will take an example that is on our daily radar screen, the price of oil. It will have an impact, but it will be a test for many policy makers -- not so much for the oil importers, for whom the windfall provides an opportunity to strengthen their macroeconomic framework and may help in alleviating inflation pressure.

But oil exporters need to cushion the shock on their economies. Now, some are using their rainy day funds that they were wise enough to set up in the first place. And countries like Saudi Arabia, for instance, and a few other in the Middle East, are going to actually for the first time in many, many years have actually fiscal deficits. Others will resort to allowing substantial exchange rate depreciation, which will certainly raise inflation and require tighter monetary policies.

In the Euro area, cheaper oil should be a positive, right? Most of them are importers, and not all of them have 80 percent of their needs supplied by nuclear power energy. But it could also contribute to a further decline in inflation expectations, which increases the risk of deflation, that if you will remember, I have mentioned in respect of both the Euro area and Japan.

This bolsters the case for additional monetary stimulus, which I'm very pleased to see the European Central Bank is considering. More on that January 22nd, or thereafter.

Now, most importantly -- and we at the IMF are very pleased to have seen this development lately -- the drop in oil prices provides a golden opportunity for those countries that have subsidized the use of fossil fuel energy to actually reduce their subsidies. You know, the price of oil declines, they can take out portion or all of the subsidies that were given to all consumers, in many instances, to consume at decent prices.

Well, prices are becoming decent by virtue of the supply and demand operations at the moment. And we were very pleased to see that many countries have actually embarked on the project that we've been advocating. And the list is -- well, I'll mention a few countries -- Jordan, Tunisia, Cameroon, Cote d'Ivoire, Egypt, Haiti, India, Indonesia, Malaysia -- all these countries have embarked on that journey. And I think that bodes very well for my third Rosetta that I will mention in a little while.

Does that concern only those countries that have subsidized energy? No. It could also include some advanced economies for which it might be time to consider seriously what is sometimes called the gas tax or carbon tax -- more sophisticated but same approach. In order to do what? To build fiscal buffers, yes. To finance needed infrastructure projects, maintenance of roads.

For instance, I happen to cycle in Washington, D.C....

(LAUGHTER)

-- or to reduce other taxes, such as taxes on labor in those countries where unemployment is high. It doesn't have to be an increase of tax. It can perfectly be tax-neutral, but better thought through, with a better basis. But it will require political courage.

Now my second Rosetta. We've looked at the situation as it is, we've looked at the risks, and we've identified policies. My second Rosetta is about a more inclusive and better shared growth.

Let me be blunt. For more than six years after the start of the great recession, too many -- and despite growth, except one year -- I'm talking global numbers here -- many people do not feel that we are out of the crisis. And in too many countries, unemployment remains high and inequality has increased.

This is why we need a decided push for structural reforms to boost current and potential growth. 2015 must therefore be a year of action. It means removing deep-seated distortions in labor and polipped (ph) markets. It means revamping creaking infrastructures and building new ones. It means trade liberalization and pressing ahead with reforms on education, health and social safety nets.

It also means unleashing the economic power of an underdeveloped segment of our societies when it comes to reaching a value. And I'm here talking about the women. Let me touch on two areas that I've just mentioned, infrastructure, women.

Infrastructure investment -- am I talking about the bridge to nowhere? No. We highly value infrastructure and we highly encourage it as a policy going forward, provided that it is efficient, that it is carefully chosen, and that it actually does two things -- it increases the output in the short term, whether it's publicly induced or totally publicly funded, or partly public and private. The investment in infrastructure actually contribute in boosting the output for the short term, boosting demand.

And in the long term -- and that's where you have the double-whammy as a result of investing in infrastructure -- in the long term, it improves the productivity and the productive capacity of the countries or the regions or the cities where infrastructure is being financed and developed. And this is no surprise that the G20 has actually identified major infrastructure investment as one of its lead projects going forward.

The whole growth agenda, by the way, of the G20 over the next four years, and the Australian leadership last year, is actually forecasted to increase GDP by $2 trillion U.S., if they all do what they committed to do.

Now, the scope of such investment is going to vary from country to country. If you sit in India or in Brazil, you're going to want to invest in removing bottlenecks -- bottlenecks -- and focusing probably on transportation and coordinated transportation and energy.

If you look at the U.S. and Germany, well, it's not going to be the same approach, but it's certainly going to involve financing the maintenance of existing infrastructure and possibly looking at creating new infrastructure. Why is that? Because if you look at numbers, for decades, in both those countries, the United States and Germany, there has been very little spent on the maintenance on elf (ph) infrastructure and the development of new ones.

In the same vein, certainly, the plan articulated by Mr. Juncker, the new president of the European Commission, of setting up this fund of $315 billion is also to be encouraged, particularly if it attracts private money together with it. So much for infrastructure.

Gender policies -- you know, that's a major potential game changer. There are millions of women who are locked out of the labor market, locked out of the economy as we measure it. And excluding these women is not just morally wrong, but it's an economic mistake.

Gender gaps in labor participations are everywhere in the world. Now, they very from an average of about 12 percent in the OECD countries to about 30 percent in the Middle East and North Africa. And things can be done about it. If you look at the cases of Chile, for instance, or the case of Sweden or the case of the Netherlands, using smart policies that manage to actually reduce that gap and give better access to women, poor women, to the labor market, whether it's investment in child care programs, whether it's putting in place the legal framework that encourages without disincentivizing financially part-time systems, these policies actually demonstrate that they work.

And that is another goal of the G20. I find it a little bit unambitious personally, but at least it's on the mark now, and the goal is to close the gender gap by 25 percent -- you could have dreamed more, but 25 percent by 2025. You could have expected less, but it as it may, if that was to happen, it will bring to the labor market 100 million more women. And that means, obviously, a boost to the economy, global growth, and the reduction of inequality.

OK, so much for structural reforms, but how do we leverage them? Where is growth going to come from? How will these infrastructures be used? Where will these women be employed?

There is at least one area that we are not leveraging according (ph), and that is the area of trade and trade liberalization because that might very well provide the right answer. If you look at the number of global trade, they go like that. It declines over time. And it's really about time that those numbers be moving in the right direction, and there are ways to do that and those ways that are just around the corner and available.

One is certainly one that you know, the Trans Pacific Agreement, TPA. The other one is the TTIP, which is the Transatlantic agreement, which is probably the future category of trade agreement, more based on compliance, on standards, on compatibility, rather than reduction of tariffs because reductions of tariffs between those two zones have already been done. And in the United States, these important trade deals are areas of potential cooperation between the new Congress and the president. So there is hope, we hope.

For the European Union, progress on trade would be immensely helpful in lifting growth and confidence. The Japanese government is very keen to reach closure and to use TPP in order to inject growth as an addition to the three arrows (ph) of his (ph) Abenomics. And emerging and developing economies would benefit from better integration into the global economy.

So what's holding it? Well, on all sides, there are incentives to cut deals. Political will, a collective approach will be necessary to get to the finish line.

And I come to my third and last Rosetta moment, how to achieve, in order to -- achieving growth, creating employment, doing it on a more inclusive and better shared basis, including across gender -- how do we make sure that it is sustainable, that it is more balanced?

Three proposals here that we will be working on or supporting this year -- financial regulation, international development and environmental policies. The three of them are key.

The first one is again becoming controversial. Why should there be so much regulation? Why don't they have less? Why don't we have just general principles, and we'll do the soft side amongst ourselves? I think if there is one lesson that we learned from the great recession, it is that you cannot have sustainable economic growth without having sustainable finance and a sustainable financial sector.

So we must complete the agenda on the financial sector reform. There has been progress, especially on banking regulation, and to a lesser extent on addressing what I think is a key component of that regulation, which is the "too important to fail" framework.

The global banking system is certainly less leveraged than it was, and in some countries, it has shrunk by half. You know, if you take a country like Ireland, for instance, its banking sector altogether has reduced in terms of assets by half.

Should there be joy about it? We'll (ph) ask (ph) some. It's just the fact that if you diagnosis -- if you diagnose what has caused the collapse of Ireland and required that beautiful country to actually go through a difficult program with success and courage it's because the banking system was largely inflated relative to the capabilities and the size of that economy. Not the only cause, but certainly one.

But if that has happened and if progress has been made, there are more vulnerabilities coming out of other places that we call, conveniently, the shadow banking system. Shadow banking is not bad in and of itself. It's fine if it can be -- if it can be a resilient source of finance for the economy. But it's not good if it's a nest of unpredictable hazards. And the size of the shadow banking sector has in some places, or in some segment of their business, exceeded that of the banking sector.

So the big challenges facing the financial sector is now to implement the regulations and to strengthen supervision. I'll give you a couple of examples where there has to be more coordination, a more collective approach. On the application and interpretation of the Basel 3 principles that said capital ratios, liquidity ratios, for instance, there is a divergent interpretation and a divergence of views between two very critical markets, the United States market and the European area market.

Second example of where policy makers have to reform further and make more progress -- on the OTC derivative markets, where we are still very much in the unknown.

But what is, in my view, even more important, other than focusing on those areas where there is a shortage of either regulations or supervision, or progress in getting there, is the ethical dimension of that sector. And you know, we will hear more this year about the behavior, the attitude and the ethical framework within which people operate because we will have this year the first jury trials related to the LIBOR trading scandal.

And I really hope that this will be an occasion for the profession itself, for the financial sector itself, to reflect on its mission, the ethical principles by which it operates, and that they will not only see it as a list of rules for which compliance is needed under the supervision of an army of lawyers and supervisors, but I hope there will be a reflection on what's ethical, what's not ethical.

Even if it's in compliance with the boxes and they're all checked, that (ph) can actually do something when someone is not watching. Certainly, as a mother, that's how I see the difference between what's ethical and what's not. I'm not sure I've convinced my kids always.

But certainly, restoring trust is going to be an all out-effort not just on the part of policy makers, not just on the part of regulators or supervisors, but it has to include the profession itself. They have to be part and parcel of it.

Another example of how to engender more sustainable growth is through international development. Later this year, the United Nations will, I hope, complete a major effort which has consisted in thinking through what will replace the millennium development goals, many of which have been attained, with a new set of goals that will be called the sustainable development goals.

We play an important role in that respect. We are helping with thinking through the financing that will be needed to reach those goals. We will also, of course, make available our expertise of working and dealing on a day-to-day basis with developing countries and with low-income countries.

2015 will also be a make-or-break year for the effort to strike an international agreement on climate change. To hear about COP, that will be it. It stands for the climate change conference where people will try to agree on how -- by how much they will reduce the emission of various things, actually, not only metan (ph).

To be convinced, all you need to do is look at temperatures. They are rising. And 2014 is the highest year in terms of temperature ever since recording of temperature has begun. And it is also a year when the highest number of natural catastrophe has taken place, natural disasters, more food and water scarcity and generally fuel, conflicts, disputes, wars. Again, we need greater political courage to reach that comprehensive deal to cut carbon emissions at the Paris summit in December.

And that brings me back to the beginning, and it's my conclusion. While I was speaking -- and thank you very much, you were listening -- during that time, the Rosetta spacecraft has continued to circle the dark, icy object that is comet 67P. And as the comet proceeds closer to the sun, we may yet learn more of its secrets.

Look at the mission that put together that unbelievable success. They were diverse. They came from different horizons. They didn't grow up together. And I think diversity has had something to do with the success of that Rosetta mission, and it's certainly a true testament to global cooperation. And policy makers should be inspired by that.

You know, there are no real secrets, or we have found the Rosetta long time ago to actually identify what is needed for growth, what can engender it. But to deliver on the three Rosetta moments, as I call them, the policy makers need to enhance global cooperation. They need to embrace what I've called separately otherwise a new multi-lateralism.

And it should be put into practice whether it applies to COP, whether it applies to TPP, whether it applies to TTIP, whether it applies to SDG -- you with me? This new multi-lateralism also requires institutions that are efficient, that are credible, and are representative of a changing global economy.

And this is why, back in 2010, the international community decided that the IMF should be reformed, that it should better represent the global community, that it should be endowed with more capital -- it's called "quota" in our institution -- and that some underrepresented countries, including some of the big emerging market economies, should have a bigger voice around the table.

The IMF membership has called on the United States to ratify the 2010 reforms by the end of last year, 2014. This was a commitment made to the G20 at the highest level. But it hasn't happened.

And I've spoken much about leadership today, and I cannot but express some profound disappointment in the political powers who have so far failed to grasp the benefits of reform, both for their own benefit because maintaining stability around the world, making sure that there are firefighters when something goes really wrong in any of those geopolitical areas that I've mentioned, but also for the world at large. We have seen so much fabulous leadership out of this country. I hope, I really hope, that it is going to happen.

Absent that, we are now working on interim solutions to address some of the concerns that the other 187 countries have because they have ratified. They are ready. But it can't go unless the country that has veto power on all major decisions actually goes along.

But given the challenges that 2015 and the following years will bring, I don't think that there is alternative to completing that 2010 reform. We will be trying to find interim solutions. We will be trying to address some of the issues. But the real thing is the 2010 reform that was actually very much engineered and advocated by the United States of America. So I will continue to call on Congress to approve that reform without delay. And I have trust in this country, so I know it will happen.

Now, I would like to end with a quote that encapsulates my call for greater leadership and cooperation in service of the global public good. And that's a quote from -- and I had to move away from Egypt, you see? We've talked a lot about Rosetta, so I'm turning to the Greek, to the ancient Greek, turning to Pericles. Pericles -- you say? Pericles.

He is known to have said -- and he knew something about building. He knew something about architecture, no question about it. He said, What you leave behind is not what is engraved in stone monuments but what is woven into the lives of others.

Well, I think we have a lot of weaving to do this year. Thank you.

(APPLAUSE)

FARRELL: Thank you so much for that, a lot of food for thought. But I want to go back to some of the themes that you started with, if I may. You talked about the meteorites hitting the global economy. You talked about strong headwinds, some of the deep-seated weaknesses, particularly Euro and Japan, and some of the down sides.

But you didn't quite go as far as stating the risk of secular stagnation, which, as you know, is a common theme. We were both at the Bretton Woods committee meetings where some were saying this is the seminal meeting of the day. Of course, by that, we mean the fact that the lack of demand drives a lack of supply, which creates a vicious circle that reinforces itself over time.

Is that just one step too far, in your point of view? Do not believe the secular stagnation story, or are there real risks when you put all -- your story together?

LAGARDE: You know, what I -- what we see is so much diversity, heterogeneity and fragmentation both at the economic levels, at financial levels, at banking levels, that I hate to -- shouldn't say that. I don't like to use on single concept, which is, you know, nice to have, easy to mediatize (ph), puts your name on headlines right away, because I think it oversupplied the matter.

And you know, there are different ways to look at the world, but we at the IMF are trying to drill down in each and every areas, and each and -- you know, in each category. At the moment, clearly, the rise (sic) in the price of oil is knocking down so many certainties and creating new categories in many ways. You know, you have the oil importers. You have the oil exporters. You have those that suffer the effect of the dollar because of where they are and whether they're pegged or they're not pegged, whether they're hedged or not hedged. So there is a multiplicity of current situation.

You know, I think if you look at the Euro area and Japan, we have a clear risk of what I call the low-

low. I'm using different terminology, as well. I just don't want to be bound by what has been said by many men before me, so...

(LAUGHTER)

FARRELL: So too blanket statement, you would say, and more...

(CROSSTALK)

LAGARDE: ... too broad for what we are seeing as more and more and more diversity, in a world that continues to be highly -- it's quite fascinating because you have the two movements. You have the vast interconnections that continue, and you have a more and more diverse situation locally, and you have political and geopolitical tensions that are operating in -- also very, very differently, with a temptation by some or in -- you know, or by some countries, to actually, you know, retreat and retire (ph) to your own turf and mind your own business, while at the same times, there is an absolute need for a much more collective approach.

FARRELL: So let's turn to one area where maybe there is more sort of commonality, and that is sort of low prices, low inflation, and in some cases, potentially deflation. Most of the concern people have with the aggressive actions the Fed took, that the ECB may take, had to do with the fear of inflation. It seems a far off fear, at the moment.

How well are economies equipped to deal with low inflation, maybe deflation? Is the IMF itself equipped? Is that a real risk, in your mind, since most countries are facing it, and the oil price, which most people see as a good thing, exacerbates that to some degree?

LAGARDE: Well, yes, it exacerbates it when you look at nominal inflation. When you look at core inflation and expectations of core inflation, it doesn't have such an impact, but it does at the nominal level.

I think it's important to understand, you know, why, despite the monetary policies we are seeing here or we might be seeing elsewhere, there is nonetheless either flat, you know, or a very low inflation relative to the targets that were set. And I think it has a lot to do with the output gap.

There are still in those countries -- maybe less so, and that's the reason why we might be seeing shortly a change in monetary policy. But there are still available capacity. There are still people who are looking for jobs and who have, you know, the ability to join the market. So because of that, I think we're not yet seeing an uptick of inflation. And clearly, in nominal terms, the oil prices is still keeping that down.

But you know, I'm not a central banker, but if I was, I would look very, very carefully at core inflation and at inflation expectations in -- you know, in the two situations of exit or entry into unconventional monetary policy.

FARRELL: You raised so many issues. I literally have 10 questions I could ask you, but I'm not going to be selfish and I'm going to turn for our last 10 or so minutes to the audience and ask you for any questions you may have for Madame Lagarde.

UNKNOWN: (OFF-MIKE)

FARRELL: Please introduce yourself, your affiliation and share your question.

UNKNOWN: Paula Stern (ph). I have my own consulting group, the Stern Group. And brava for a wonderful presentation. My question goes back to oil and the dropping prices and the role of oil in our whole traded sector. It is the most traded commodity, but it is not subject to any of the WTO rules in the true sense of the word.

Are we at a place now where oil, traded oil should be more subject to the rules of the road when it comes to our trade policies?

LAGARDE: You're raising a really interesting question, and the -- the sleepy competition lawyer inside myself is waking up (inaudible)

(LAUGHTER)

-- because, you know, while there are independent producers, it's also -- I mean, there are a couple of other commodities that operate along those lines. But it's -- it's a cartel. And there are many legislations around the world cartels should not exist. So I'm not -- you know, I'm not giving you exactly the answer, but I completely take your point, and I think that there is -- there's a lot to be explored, actually. You know, there are other cartels which have over the course of the last few years disappeared because of market forces. So that might be an interesting...

(CROSSTALK)

FARRELL: ... have a question up there.

UNKNOWN: Madame Lagarde, it's always a pleasure to hear you speak. Elise Nelson (ph), CEO of Bio Voice (ph). First off, I want to thank you for always being such a strong advocate and voice for women's empowerment. And I really enjoyed your comments.

I have a question for you because I think it's something that we're really struggling with. I think it's totally indisputable, in my opinion, that women were critical in helping to achieve not one but all eight of the post -- of the millennium development goals. But I think when it comes to the post-2015 agenda, and you know, 20-year anniversary of Beijing, we're still struggling with not the awareness that women are quite critical, but really financing gender equality, which you touched upon.

And I wonder if you could talk a little bit more about how we encourage, you know, multi-lateral institutions, governments to take this more seriously because it is a strategy, it's not just a nice thing to do, as you said.

LAGARDE: I agree with you that the awareness has largely been achieved. I'm not sure that the economic opportunities have been identified sufficiently on a very precise basis because at the end of the day, you know, there is so much that you can say about the moral imperative, but some people will turn their nose away and will say, You know, I'm only interested by (ph) economic results, the bottom line, or whatever. So that's where we need to continue to document and demonstrate that it makes eminent economic sense.

I have to -- I'll share something with you. We started doing some very discreet work about the force and the role of women in the Japanese economy. And you know, it's an economy that combines two things, three things. One, it's not particularly women-friendly in terms of, you know, access to the job market. It's not specially immigration-prone. And it's aging.

I mean, something's got to give, right? And we documented, and I actually presented on Japanese television for over an hour with other Japanese academics the value of women and how they can change the Japanese economy over time because you can stimulate by putting money as much as you want, if you don't have people to actually do the work, it's not going to make any difference.

And Prime Minister Abe has completely endorsed that project, and he and his wife actually are really taking the leadership and championing the cause. He has tasked his finance minister to actually identify enough budget to create child care centers, and many more of them. I hope that they're now going to also soften the regulations on the private child care facilities, which is extremely rigid in Japan. And you know, those are legal things that matter and financial support that matter, as well.

We will soon be publishing a study -- we're doing that in February -- about the legal issues that constitute obstacles to the implementation of better access, better economic contributions by women. It's amazing, actually. I mean, it goes into all sorts of ramifications, from the tax, the design of income tax, to the inheritance law, to the ability to put a name on a property title. I mean, there are lots and lots of elements that contribute to that.

But I'm a firm believer that you need a combination of a good policy framework, specific labor measures intended to facilitate access, and financing because child care centers are not going to just mushroom like that. They will need to be funded.

FARRELL: Let's take another question. Way back there. Thank you. Yes, actually -- well, go ahead.

UNKNOWN: Thank you. Happy new year, Madame Lagarde. The crisis seems to be coming back to haunt Greece, and to what extent does it affect the Euro ozone at this moment, do you think? And to go back to your point about leadership, how do you think Europe and the IMF -- and the IMF program relates to what happens next in Greece? Thank you.

LAGARDE: Well, first of all, we are all in the waiting of the elections that are due on of January the 25th. And as soon as that happens and there is stability in the -- in whatever government is formed as a result of those elections, we will pursue the discussions that we've had with the Greek authorities in order to help the Greek economy to create growth, to have sustainable, and you know, inclusive growth.

The relationship with Europe I think has been certainly better structured as a result of what the Europeans have changed about the framework. I mean, the fact that there is an ESM, the European Stability Mechanism, in place in order to avoid the systemicity and the contagion effect that could result from a major crisis in any country, I think, is one important factor.

The current work that is being done about the interpretation of the stability and growth pact in order to allow countries to pursue fiscal adjustment, but at a pace that is reasonable, considering the economic circumstances, is also helping in that direction.

But you know, bottom line, Greece, like any other European country, is going to have to go through structural reforms that are needed in order to sustain growth, in order to create the conditions for investment and for employment creation. You know, it's common destiny, if I may say.

FARRELL: (inaudible)

UNKNOWN: Father Andrew from St. Paul's. Madame chairman, I'll give you another Greek quote because we pray in ancient Greek. All good things flow into the city because of the city's greatness. And when Solon said it, he was referring to the spiritual nature of Athens. He wasn't referring to the temples and the gold. And it was also -- referenced Sparta because of the amazing utilitarian pottery they had, which was not decorated, because again, the city had great soul.

Whether it's Greece or whether it's Portugal or whether it's Italy, I'd like to know how you personally deal with the human cost. I mean, I've held the hands of widows of people who -- you know, old pensioners who've committed suicide because all of a sudden, their savings vanished overnight.

How much does the IMF really care about these things?

LAGARDE: Well, a lot. A lot, I can assure you. And you have to bear in mind one thing. The IMF is asked to come to a country when a country has created the circumstances where it's no longer handling its financial situation, where it has not taken the policy measures that should have been taken in order to maintain stability in its economy.

So when I say that, I'm not trying to point the fingers at those policy makers over the course of time, but I'm just trying to say that one cannot associate the difficult efforts, the huge sacrifices sometimes that have been made by people with the institution.

I wish I never had to go to Greece, Portugal. We don't have a program with Italy, but Iceland, Ireland, Cyprus, because if we didn't have to go there, it would have meant that the policies in place, decided by policy makers, were good and maintained stability in those economies. So that's point number one.

Point number two -- when we help design the various reforms which we believe are necessary for the country to restore its position, we are always mindful of the poor people, of the safety nets that are needed.

I'll give you a very practical example. The pension system in Greece -- the average pension in Greece is the same as the average pension in Germany. If you compare the GDP, not quite the same. You compare the cost of living, not quite the same. But when we suggested the reform of the pension system, we said, Below certain thresholds, you don't -- you cannot move the needle, you cannot change, you cannot put people in a situation where it's just too hard.

So we have that in mind, and we have in many countries actually reinforced that point by saying, Safety net is a need in your reform. We are, by the way, doing it also in all the reforms of the subsidy system because if you take a country like Egypt, for instance, that is going through a reform of its subsidies to fossil fuel energy, they cannot remove the subsidies just like that because there are a lot of poor people who rely on fuel to actually go to work or to do a little bit to get by. Those people -- they cannot suffer as a result of the subsidy reform.

So they need to use public spending not in a uniform subsidization of energy, but they use -- they have to use it to target those that actually need the money, by doing cash transfers, for instance, which is what we often recommend.

FARRELL: I'm looking at the time very sadly and seeing we're just a couple of minutes over. So maybe I'll just wrap up with a final question. This has been a busy 12, 18 months of authorship (ph) on the themes that are so important to the IMF, if we think of the Piketty book, if we think of Martin Wolfe's (ph) book on what lessons we've learned from the crisis and yet have to learn, if we think of -- I can -- (inaudible) recent book, you'll know them all as well as I will. Is there one that you...

LAGARDE: Now, maybe you have time to read them. I don't read them all. I can't!

(LAUGHTER)

FARRELL: Fair enough. OK. Is there one that you think is particularly important for people who care about these issues that you think has been a particularly seminal book of (inaudible)

LAGARDE: You know, I'm back to your first question. Is there one definition for the entire world? I think to be well informed, you have to read all these books, or at least, you know, a good, solid review of all of them, and then pick and choose what your natural inclination takes you to, and then the other ones because you need to have the dissenting views. You need to have different perspectives. Otherwise, you are sort of -- you become narrow-minded. That's my sense. I wish I had time to read them all.

(LAUGHTER)

LAGARDE: I will one day.

FARRELL: Some one will brief you, I'm sure.

Wonderful, thank you again very much for your thoughts. Thank you all for (inaudible)

(APPLAUSE)

There is a lunch outside which the Council would invite you to participate in. Thank you.