

In his keynote address to the 10th Annual Herzliya Conference in Tel Aviv, International Monetary Fund Managing Director Dominique Strauss-Kahn said the world economy was reviving faster than expected, but the recovery was still fragile. "Domestic demand, mostly in advanced countries, is still driven by the public sector stimulus. Private demand is still rather weak," he warned.

Mr. Strauss-Kahn noted the global economy is experiencing a multi-speed recovery with emerging countries, mainly in Asia, having recovered almost fully. He said Asia was leading the way. "It shows the Asian part of the world is now close to total recovery. The question of dealing with different speeds in the economy... is something to which we need to give great attention."

He also advised countries to be careful how quickly they withdraw stimulus measures used to combat the financial crisis. "If you exit too early, then the risks are much bigger. Private demand must have recovered before the stimulus is withdrawn."

Mr. Strauss-Kahn stressed that the global crisis had created a problem of fiscal sustainability for many countries that could take decades to fix because of the huge debts built up during the crisis, especially in developed countries. "The fiscal sustainability problem is going to be one of the biggest, maybe the biggest problem for the coming ... several years," he stated. "But at this stage, what's important is for countries to announce a credible strategy to bring their debt back to more sustainable levels."

#### Linkage Between Economic Insecurity and Peace

In this context, Mr. Strauss Kahn pointed to the linkage between global economic recovery and political stability. "History is replete with examples of how economic and financial insecurity stoke social tensions, which in turn can undermine political stability, and even result in war," he said.

"Getting the economy right—and addressing threats to its stability—can play an essential role in fostering the conditions for peace," he said. Mr. Strauss-Kahn noted that the IMF helps strengthen economic security. IMF financing, for example, can help avert economic collapse in times of crisis. It can also allow governments maintain social spending.

He added that the IMF is exploring new ways to help countries suffering from shocks, conflict, or other fragilities. Mr. Strauss-Kahn explained that "this could be used in periods of conflict, instability, or as an immediate response to severe shocks, where the threats to economic security are the greatest."

#### Outlook for the Middle East

In discussing the situation in the Middle East, Mr. Strauss-Kahn remarked that "the good news is that the near-term economic outlook is encouraging." Most economies were not heavily affected by the financial crisis, in part due to a strong policy response. For 2010, growth is forecast to rise modestly, as the global recovery boosts oil prices.

Turning to Israel, he noted that the economy "had weathered the financial crisis exceptionally well—it was amongst the last to be affected, amongst the mildest hit, and one of the earliest to recover." Timely and appropriately strong macroeconomic policies played an important role, as did the

stability of the banking sector and high household saving. This year, the IMF expects growth to continue to rebound strongly, and rise above trend in 2011.

Mr. Strauss-Kahn was of the view that “there is still important work to be done in the region to bolster economic and financial stability—and thus to increase the chances of securing lasting peace.” Many regional governments face “enormous economic and social challenges.” Unemployment is very high, especially for those people under 25, and poverty remains a major problem. Over the next two decades, an additional 80-90 million jobs would need to be created for young people entering the labor market.

The IMF has also sought to promote economic cooperation between the Palestinian Authority, the government of Israel, and the international community. “Enhanced cooperation amongst these parties has played a critical role in supporting growth,” he said.