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On behalf of France

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE
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2016 is shaping up to be a year of transition and challenges. Today more than ever, closer economic cooperation is essential, with a shared diagnosis of the risks facing the global economy,. By focusing the overwhelming majority of the international community on the world's major economic issues, the IMF contributes to building this diagnosis.

1. ***The global economy is undergoing fundamental, desirable changes, despite rising risks and vulnerabilities, and disparities across regions.***

For the past several years, the global economy has undergone a phase of significant transition reflecting fundamentally positive developments, but also raising risks and concerns.

After a period of stagnation, the euro area economy is now on a favorable trajectory. It is great news. The accommodative monetary policy of the European Central Bank, which again recently increased its securities purchases, has contributed significantly to this. Some vulnerabilities however remain, such as inequalities.

In the United States, the latest economic indicators, including the unemployment rate and inflation, remain just as encouraging. They are signs of increasingly strong growth and fundamentals that allowed the Federal Reserve to normalize its monetary policy.

In contrast, the emerging economies have experienced a marked slowdown in activity for several months. This economic turnaround—accentuated in some economies by political difficulties or geopolitical risks—has highlighted certain countries' weaknesses. We will have to be particularly attentive to these in order to avoid potential spill-over effects.

The Chinese economic model, traditionally based on manufacturing, investments and exports, is currently transitioning towards a model focused on domestic consumption, services and innovation. Even if the transition is a source of relative concern, we cannot but commend China's commitment to developing a more sustainable, longer-term growth model, in a context where environmental concerns are growing more important every day. This rebalancing, which is being implemented in a resolute manner, inevitably affects China's economic partners, even if it is still too early to determine its precise impact. Yet, in any event, we will have to be ready to accompany these developments.

The turmoil observed early 2016 in financial markets shows an increase of the investor's risk aversion. The impact of the rebalancing of China's growth model leads to lower demands for imports. Low oil prices cause financial difficulties for economies highly dependent on commodity exports, and certain low-income countries in particular. However, low oil prices create, for the advanced economies, most of them net importers, welcome room for manoeuvre that will sustain the economic recovery. Nevertheless, we must remain vigilant to the short term impact on inflation and on the incentives towards a low carbon economy. We will also have to remain vigilant over the secondary effects the normalization of the monetary policy could entail, more particularly in the emerging economies where an important amount of capital was placed after the crisis in the advanced economies – but that could be massively shifted with the raise of the United States interest rates.

Political and geopolitical risks have also intensified. Some large emerging market countries are experiencing sensitive internal situations, while a potential exit by the United Kingdom from the European Union creates important uncertainties. Further, in geopolitical terms, terrorism attacks the foundations of the economy in many countries, particularly those where tourism accounts for a major share of national wealth, while domestic security measures and military deployment abroad have substantial costs for public finances. Stepping up the fight against terrorist financing thus requires a lasting effort to mobilize and strengthen cooperation at all levels. Refugee movements are another factor of geopolitical risks. They have a major destabilizing effect on host countries in the short term, and this calls for expanding financial assistance to those countries, while addressing the root causes of the migrations.

New challenges must also be addressed. I shall mention two examples. We currently see banks withdrawing from correspondent banking activities, which deprives migrants in particular of the possibility of transferring funds. The de-risking trend has multiple causes. This analysis should be clarified in order to take appropriate measures to reduce the uncertainty faced by banks. Another example, in an entirely different area, is the climate challenge, which now more than ever requires a major effort. The success of the Paris Accord adopted at COP21 has established major milestones for action in this area. It is now up to national governments to sign and ratify this agreement as soon as possible and to contribute to effective mobilization of public and private funds to reach USD 100 billion a year by 2020 to support adaptation and mitigation efforts.

2. ***The quest for strong, sustainable balanced growth calls for continuing coordinated actions at multilateral level in guiding the global economy in the short term, and in enacting more structural changes.***

In the current situation, it is important to remember that continuing good international coordination is a prerequisite for returning to strong, sustainable and balanced growth.

The national growth strategies approved by the G20 Heads of State and Government at the Brisbane Summit in November 2014 are part of this global action. These strategies, which must enable us to lift global GDP by close to 2 percent above the 2013 baseline, will soon be revised. In France, last year we incorporated measures taken to establish an environment favorable to jobs and investment, and we shall continue the effort by adding the recent measures aimed at improving the functioning of the labor market to our strategy.

Nonetheless, strengthening structural reforms will not in itself be enough to return to a path of balanced growth. The reforms must be accompanied by short-term and long-term national macroeconomic measures, to achieve their effect most efficiently. The measures must be sequenced and apportioned on the basis of room for manoeuvre and capacities of each of our countries.

The structural progress already achieved in the area of international taxation and financial regulation, thanks to the political impetus of the G20, must be extended.

The Panama revelations show that the G20 must carry on its action against tax evasion and promote larger transparency, it is a matter of justice and economic efficiency and it is very important for our societies' cohesion. In this respect, the G20 response, notably under the impulsion of the European Ministers for Finance, is very ambitious. It is highly satisfactory. The G20 reiterates that it is essential that all countries and jurisdictions fully implement the

FATF standards on transparency and beneficial ownership. G20 countries express their determination to lead by example in this regard. The G20 also asks the FATF and the Global Forum on Transparency and Exchange of Information for Tax Purposes to make initial proposals by the G20 October meeting on ways to improve the implementation of the international standards on transparency, including the availability of beneficial ownership information and its international exchange. It is a real breakthrough at the G20 level. The G20 has finally mandated the OECD to establish objective criteria by our July meeting to identify non-cooperative jurisdictions with respect to tax transparency. Defensive measures will be considered by G20 members against non-cooperative jurisdictions if progress, as assessed by the Global Forum is not made. We encourage other countries to join this large movement in favor of tax transparency. I am convinced that these measures will deter the non-cooperative States and territories from not respecting their transparency and tax cooperation obligations.

The IMF also has a role to play in these issues, more particularly in taking a closer look at tax evasion issues and combatting money laundering, for instance in the context of its bilateral surveillance or its technical assistance.

Significant, essential work in the area of financial regulation has been accomplished in international bodies (the G20, Financial Stability Board, and Basel Committee) ever since the Pittsburgh Summit in 2009. The new regulatory framework has made the global financial system more solid; financial institutions are now more robust, and the establishment of macro-prudential authorities aims to reduce financial sector procyclicality. The European Union, also, has made significant progress by implementing the first two pillars of the banking union, which have led to a substantial improvement in the capitalization and liquidity of EU banks.

Still, the current turbulence in financial markets shows that continuing attention is required. The G20 must therefore pursue its work and provide the appropriate political impetus. In addition to finalizing the Pittsburgh agenda and maintaining heightened vigilance regarding new risks that may emerge, the challenge today is to understand the interactions and combined impacts of the various reforms, in order to identify possible unintended consequences. The challenge also involves dealing with potential threats to global financial stability, such as those raised by the shadow banking system; responding to new challenges mentioned above like derisking; and developing tools to enable financial markets to channel investments more towards pro-climate projects.

The ultimate aim is to strengthen the international financial architecture, with the IMF in a central position.

The IMF is at the center of the world's financial safety nets, because of its role in crisis prevention and management. Firstly, the Fund's bilateral surveillance of countries' macroeconomic policies encourages members to pursue sound and coherent policies. This exercise can be further strengthened for countries with a significant weight in the global economy. That's why I believe it would be useful for the G20 countries to commit to annual bilateral surveillance, and for the results to be published. Secondly, the role of the IMF in the prevention and resolution of crises, which expanded during and after the 2007-2009 episode, should now be taken a step further. The most promising areas for action involve the IMF instruments; precautionary lines should be reviewed to increase their attractiveness for eligible countries; an unfunded instrument, capable of sending a signal, should also be considered; and work should be done to match instruments with the specificities of low-income countries and commodity exporters. France strongly supports the work undertaken by the IMF Staff in this area.

Proper surveillance of the risks related to observed volatility in capital flows is also required. At this point, we do not have enough knowledge about these flows and cross-border exposures; the lack of data must be overcome in order to provide a good view of risks and vulnerabilities. Beyond that, we must reflect on how States reacted to capital flows in recent years to see what lessons can be learned. I know that the IMF is working on this experience-sharing exercise, and we look forward to the results with great interest.

Strengthening the international monetary system requires improved orderly management of debt restructuring and greater sovereign debt sustainability. I particularly have in mind the new collective action clauses in sovereign debt instruments. Greater sustainability in sovereign debt practices is needed to forestall the risk of dragging countries, particularly in Africa, into a new cycle of debt. This calls for action to reinforce technical assistance to low-income countries in the area of debt management. The opportunities provided by new instruments capable of promoting sustainable debt, such as contingent debt instruments (GDP linked bonds), deserve a thorough investigation.

The IMF also has a key role to play in the evolution towards a more multipolar monetary system. An extension of the use of special drawing rights could be a factor of greater stability in the current transitions. The IMF's contribution in the coming months will be essential for future discussions.

Finally, I welcome the entry into force of the 2010 Reforms, which strengthen the resources available to the IMF by doubling the Fund's permanent resources. This reform has also allowed a major evolution in IMF governance, with a rebalancing in favor of the emerging and developing countries. This rebalancing obviously enhances the institution's legitimacy. In this context, France welcomes the timetable for adoption of the 15th Review and the target of completing the review in October 2017, with the aim of examining both the Fund's resources and the quota formula. France, as ever, will be attentive to the progress of the discussions and committed to fair outcomes.

In an economic and geopolitical climate marked by persistent vulnerabilities, it is incumbent upon the international community, and the IMF in particular, to act in an ambitious, coordinated manner. Measures against tax evasion and money laundering, and macroeconomic measures that are properly sequenced and distributed according to each participant's capacities, continuing the agenda of structural reforms, enhancing our knowledge of international capital flows and strengthening the international monetary system are all key factors to address the challenges facing the global economy.