International Monetary and Financial Committee

Thirty-Fifth Meeting
April 22, 2017

IMFC Statement by Michel Sapin
Minister of Finance
France

On behalf of France

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE
Address by the French Minister for the Economy and Finance – April 2017

There are positive signs that the global economy is on the path to recovery, yet considerable uncertainty remains. In times like these, taking a backward step is out of the question. We must press ahead with sustainable growth and promote a more sustainable and inclusive global economy that works for everyone, founded on a rules-based multilateral system.

I. Global growth is picking up slowly, but persistent risks and new uncertainties are weighing on the world economy.

1.1 Global economic conditions are improving, especially in advanced economies.

International organizations agree: the global economy is now in recovery. Global growth appears to be back on track after a marginal year-on-year downturn in 2016, fueled chiefly by robust performance in advanced economies. This year has started on a positive note – the US administration has announced an economic stimulus plan, the effects of the Japanese plan have begun to take hold, and the economic recovery is gaining momentum in the euro area despite a modest slowdown amid rising oil prices. And there is good news in the UK too, where the economy has proven more resilient to Brexit than anticipated.

Economic conditions have improved in emerging market economies, heralding an opportunity to reduce vulnerabilities and promote growth-boosting reforms. Yet persistent fragility means that we will need to keep a close eye on developments in some of these economies.

1.2 Fragilities continue to drag on the global economic recovery.

Challenging conditions in several emerging market economies continue to give cause for concern. Political uncertainty remains an ever-present threat in Brazil and Turkey. Meanwhile, unease persists around how China's economic transition program could affect the internal balance of the country's economy. **With US rate hikes now a reality, the resulting capital flows could have harmful consequences for emerging market economies** and Fed and ECB monetary stances look set to diverge further.

Commodity prices have stabilized, but conditions remain critical for a number of commodity-exporting countries, and for low-income countries in particular. Some are now turning to the IMF for support as they look to transition to a more diverse, sustainable growth model. And well-funded IMF programs will be needed to spread the impact of this adjustment over time and lighten the burden on already extremely vulnerable populations.

1.3 The current political climate is breeding fresh uncertainty.

In 2016, a strong anti-globalization movement – especially in advanced economies – exposed a series of deficiencies and highlighted the need to make globalization work for everyone. Unless these challenges are met with an adequate response, the very future of economic and trade integration will be in jeopardy.

But political and economic uncertainty is not limited to this trend alone. The arrival of a new administration in the White House has raised questions on the continuation of long-standing US policy in areas such as trade and climate. In Europe, the Brexit negotiations are still in their infancy. And on the economy, questions remain around the new US fiscal program, the timing and magnitude of Japan's recovery plan, and the future direction of economic policy in China.

These risks and uncertainties come amid resurgent geopolitical tensions in several areas of the world, including regions where conditions are already extremely challenging. Conflict is still fueling instability in the Middle East, and parts of Sub-Saharan Africa and Yemen are once again gripped by famine. Population displacement from both regions continues on a massive scale. The threat of terrorism, meanwhile, is reaching unprecedented levels in many countries across the globe. Moreover, geopolitical tensions are likely to rise as the pace of climate change accelerates, placing a strain on natural resources and causing more frequent – and more devastating – natural disasters.

II. In light of these developments, we must remain committed to multilateralism – to preserve its benefits, and to ensure globalization works for everyone. And we must continue our work on strengthening the international financial architecture.

2.1 Preserving the benefits of multilateralism

Multilateralism had one of its finest hours in 2008, when we engineered a coordinated, concerted response to the financial crisis. Compare that with 1929 and the differences are clear. This time around, discussion and dialogue in multilateral economic and financial forums helped avoid a global trade war and ward off a cascade of competitive devaluations. We must do everything possible to preserve this benefit. A return to the days of unilateral crisis management and dispute settlement would be a senseless, wasteful move.

The global financial system is now much more resilient in the wake of post-2008 international reforms – sweeping financial regulatory reforms spearheaded by the G20 and the Financial Stability Board, a sharp rise in IMF and multilateral development bank resources, and improvements to the IMF's crisis prevention and management instruments. The speed with which last year's shocks – Brexit and the US election result – were absorbed proves that concerted effort and discipline works.

Now more than ever, we must press ahead with effective international coordination in pursuit of our goal of strong, sustainable and balanced growth. G20 member countries must continue working on the commitments set out in their National Growth Strategies, as approved by the leaders at their November 2014 Brisbane Summit. These strategies have since been fleshed out, with new macroeconomic measures added to support structural reforms – spread and timed in a manner that reflects each country's headroom. Major macroeconomic imbalances must be addressed, as countries with current account surpluses leverage their wriggle room in support of growth.

With this new global momentum, spurred by the G20, leaders have proven able to react to current events. The responses to the November 2015 attacks in France and the April 2016 Panama Papers revelations are a case in point. We have come a long way in our efforts to tackle opaque financial practices. Proposals to bolster the Financial Action Task Force's (FATF) capabilities on terrorist financing are now being put into action. In a similar vein, plans for an international list of non-cooperative tax jurisdictions have applied much-needed pressure, forcing some territories to comply with international tax good governance standards. We are also making progress on aggressive tax planning by major firms, as countries prepare to sign a multilateral convention on implementing the Base Erosion and Profit Shifting (BEPS) Action Plan in Paris in June this year.

On trade, we have a multilateral system to establish universal rules and a dispute settlement mechanism to oversee how these rules are implemented. This welcome creation is the outcome of a long, shared tradition. Of course, recognizing its benefits does not mean overlooking its shortcomings. France supports the objective of stronger concerted discipline and a more effective multilateral trading system with the World Trade Organization and the dispute settlement mechanism at its center.

On climate change, we need to build on the momentum gained from the Paris Agreement. On an issue so vital to our planet's future, it is imperative that we maintain a multilateral approach. The challenge now is to fast-track implementation of the Agreement, to mobilize climate change mitigation and adaptation funding pledges, and to press ahead with the energy transition.

2.2 Promoting a more regulated global economy in a way that works for everyone remains a key priority

Multilateralism has delivered substantial gains. It is now our collective responsibility to extend them so that implementation of prior decisions can continue and new reforms can be introduced to regulate globalization more effectively and make its benefits more widely available.

That will require advancing on several fronts. To start with, we need to facilitate the digital transformation under way and anticipate the impact of technological change on how economies and social systems operate. We must also heighten multilateral discipline in order to promote a fairer global competitive playing field in areas ranging from labor and environmental standards to export credits. At the same time, it will be important to sustain and deepen the fight against climate change, including the structuring and interconnection of carbon markets and the elimination of inefficient fossil-fuel subsidies, as well as our development work, for example, monitoring the implementation of the 2030 Agenda and the operations of multilateral development banks. And last of all, we have to step up our efforts to counter the financing of terrorism, and more broadly financial opacity, money laundering, corruption and illicit financial flows, and to promote greater transparency on the beneficial owners of companies using complex financial structures. That, in turn, means keeping up the pressure on tax havens and vigorously tackling the decline in correspondent banking – through regulatory clarification, clarifying the regime for international financial sanctions, and technical assistance to developing countries.

The IMF must work in coordination with other intergovernmental organizations to address these challenges. With its extensive expertise, the Fund can speak with considerable authority on how technological change and trade affect inequality, how the decline in correspondent banking impacts funding for legitimate activities and the financial stability of the countries involved, and how global warming influences macroeconomic fundamentals in specific countries. The IMF must deepen its knowledge and enhance its analytical capabilities with respect to those issues, while more effectively incorporating them into its surveillance work.

2.3 Efforts must continue to strengthen the international financial architecture and the resilience of the financial system

Since the financial crisis of 2008, our global financial safety nets have been made substantially more robust. New arrangements like the European Stability Mechanism and the Chang Mai Initiative Multilateralization have been established, and existing ones have been strengthened, as evidenced by the quadrupling of IMF lending resources and the growing number of international swap agreements. But there is room for improvement in how these various contributors to the management of balance of payments crises cooperate with each other.

The current quest for ways to enhance safety-net consistency is vitally important. For example, the G20 could adopt principles for coordination among international financial institutions to deal with requests by troubled countries for budget support loans. Greater thought could likewise be given to linkage between the IMF and regional financial arrangements (RFAs). Our financial safety nets must also be adapted to macroeconomic conditions, and on that score, **the Fund's work on its instruments – which precedes its work on its resources, its quotas and quota formula – should help us make further progress in building up an increasingly sound international financial architecture.** Precisely because those safety nets need to cover the whole world, the IMF has a crucial role to play. The Fund is often the only such safety net available to low-income countries like the ones suffering today from persistently low commodity prices. Those countries simply must not be left out of our drive to reinforce the international financial architecture. It is a question of elementary solidarity.

That architecture will not be resilient unless a commitment to sustainability governs the way debt levels are monitored and managed. This highlights the central importance of the Fund's efforts to enhance the debt sustainability framework for low-income countries. For one thing, those efforts will vastly improve this joint IMF-World Bank instrument. For another, they should lead to a more granular approach to debt monitoring. **Making the international financial system more resilient also requires more effective knowledge and management of capital flows.** To that end, the drive to fill data gaps must continue. The work performed in parallel by the IMF and the OECD on their respective approaches to managing capital flows – through the Institutional View and the Code on Liberalization of Capital Movements – should be increasingly integrated to ensure greater consistency between the two instruments, which differ in scope and purpose but are complementary in nature.

Last of all, we need to prevent any moves toward financial deregulation, not only because the reforms undertaken have rendered financial institutions much more resilient, but also because deregulation at a time of abundant liquidity in financial markets would generate risks of the kind that were widespread in the run-up to the subprime crisis in 2007. The challenge ahead will involve linking our efforts to further enhance the stability and security of the financial system with sustainable long-term growth and support for economic activity.