International Monetary and Financial Committee

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Statement by Pierre Moscovici, Minister for the Economy and Finance, France

On behalf of France

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While the economic situation is difficult in many of our countries and much work remains ahead, a positive trend is under way: both the global economic activity and the financial system are healing, thanks to the implementation of coherent strategies at both regional and national levels.

In particular, since our last meeting, European governments and institutions kept implementing important and courageous reforms, which are now bearing fruits, provoking a sharp decline of risk and stopping the financial markets' fragmentation process. Euro area countries are delivering on their commitment to consolidate their public finances over the medium-term, create risk-sharing mechanisms and are laying the ground for a sustainable strengthening of the Economic and Monetary Union. The recent agreement on the creation of a single supervision mechanism represents a decisive step toward a genuine Banking Union that is able to break the negative sovereign-banking feed-back loop within the Euro area.

France is fully involved in the global effort to support growth and accelerate job creation. A wide range of structural reforms aiming at reinvigorating France's competitiveness and the resilience of our economy have been launched: a National Pact for growth, competitiveness and employment which will notably reduce labor costs by Euro 20 billion per year, a comprehensive reform of the banking sector, labor market modernization and better channeling of resources toward productive investments. This structural effort is lead in parallel with a clear commitment to public finance consolidation.

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Supporting growth remains a major objective in a context of fragile and volatile recovery

Global growth prospects have only improved slightly with the IMF forecasting a rise of the global output of 3,3% in 2013 and 4% in 2014. This context of mild global recovery calls for continued efforts to implement structural reforms and repair public and private balance sheets in advanced economies. The IMF assistance in devising national and regional strategies aiming at sustaining growth and job creation, including through tailored advice on structural reforms, will be key.

Rebalancing global demand is also of paramount importance to address the weakness of the global recovery in 2013 but progress has been too slow so far. The pace and volume of the ongoing global rebalancing remain insufficient to decisively support economic activity, in particular in countries and regions committed to implement fiscal consolidation strategies. As such, surplus countries and fast-growing economies have to take their share of the global effort through enhanced support to domestic demand.

The IMF should continue to guide this common effort toward global rebalancing by exerting a constant and watchful surveillance of imbalances. The modernized surveillance instruments, by integrating national, regional and global aspects, allow to better monitor externalities stemming from both domestic and external imbalances.

<u>Stronger International Financial Institutions for a more resilient international economic and financial system</u>

The financial and economic crisis demonstrated the irreplaceable and crucial role of adequately funded international financial safety nets to prevent global crises and stem systemic risks. IMF members showed their determination to maintain the Fund's lending capacity by granting it bilateral loans amounting to USD 461 billion and thus preserving universal access to the Fund's resources. France was among the first countries to sign a bilateral loan amounting to USD 41 billion and we welcome the pledges confirmed up to now. Given the fragile recovery, the rapid finalisation of the remaining agreements would be a strong signal of our common will to support a stabilized economic situation.

Our task is now to ensure that the Fund remains able to fulfill its mandate and play its systemic role in the future, whereas the economic environment and the relative positions in the global economy are changing rapidly. By doubling the IMF quota resources and improving the governance structure, the entry into force of the reform of the IMF's governance and quotas, agreed in 2010, will be a decisive step in that direction. This is why France strongly supports the expeditious completion of the pending ratification process by all Fund members. This is crucial for the credibility and legitimacy of the Fund.

Furthermore, the conclusion of the quota formula review in January laid the ground for in-depth discussions on a new formula as part of the 15th general review of quotas, to be concluded by January 2014. All members will have to show openness to ensure good progress toward a compromise on an integrated package, bearing in mind the multiple roles of the quotas as well as the IMF mandate.

<u>Particular attention is needed to support fragile states and regions in transition</u>

I commend the Fund's adaptability and flexibility, which allowed it to react expeditiously through a dedicated and tailored support to vulnerable countries, both in low income countries and transition countries in the Middle-East and North Africa.

Tailored support to low income countries, notably through financing and technical assistance, is indeed a critical mission of the Fund. France pledged to transfer its part of the second distribution of windfall gold sales profits to the IMF PRGT. I encourage all IMF members to pledge accordingly, so that the decision to ensure the long term sustainability of the Fund's concessional lending to low income countries can be effective rapidly.

I would like in particular to commend the IMF's active involvement in supporting the stabilization of fragile and post-conflict states, as demonstrated in Mali and Ivory Coast. Indeed, in both cases rapid IMF intervention has played a crucial role to help stabilize the economic situation. In Mali, the Rapid Credit Facility (RCF) of SDR 12 million allowed Malian authorities to face urgent needs. Moreover, it has been, together with the Malian transition roadmap, a strong signal for the whole international community to resume its cooperation with Mali, and catalyzed external support which is crucial for the recovery. I encourage the IMF to continue playing such a major role and to increase coordination with other major donors, be they bilateral or multilateral.

In the wake of the HIPC Initiative, countries have recovered fiscal space to finance development. However, a prudent approach of debt accumulation is needed to prevent a return to unsustainable debt levels. In this view, the IMF's proposal to monitor more closely concessional debt, instead of focusing only on non-concessional debt accumulation, is a welcome development. I encourage further discussion on this issue.

Furthermore, I also thank the Fund for its support to transition countries in the MENA region, coordinated with other bilateral and multilateral donors within the Deauville Partnership. Recent developments on the ground recall the need for a durable support. This is crucial to complement domestic reform strategies aiming at reducing imbalances and putting back growth on a sustainable track, including through the phasing-out of energy subsidies.

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As the economic outlook remains uncertain, fostering the global recovery implies not to slow-down structural reforms' implementation and financial sector reshaping. Much work remains to be done to stem systemic risks arising from shadow banking activities, to fight non-cooperative jurisdictions and tax evasion, and to enhance the transparency of the beneficial owners of legal persons and trusts. I look forward to the implementation of the IMF's Financial Surveillance Strategy which should help to detail progress achieved so far and adverse developments of the financial sector.

Much work also remains ahead as regards to the reform of the international monetary system. Due to quick-changing situations on monetary and financial markets, the international monetary system faces new opportunities and challenges**.** There is thus a stronger need for deepening our understanding of ongoing transformations and improving the coordination of our monetary policies. In an ever more interconnected world, I am convinced that the functioning of the international monetary system can be further improved, albeit not overnight.

On this long road toward a more stable and resilient monetary system, we share common goals: ensuring cooperative policies and enhancing coordination. I thank the IMF for its dedicated work, notably on assessing the development in global liquidity, taking stock of the Fund's engagement with regional financing arrangements and for its part in the development of local bond currency markets. As the composition of the SDR basket is an important determinant of its representativeness and attractiveness, we should consider the potential extension of its composition. It will be an incentive in the process of internationalization of major currencies which remain outside the basket so far. **I therefore see merit in having regular discussions on those issues, enlightened by the IMF's analytical inputs, within the IMFC**.