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**Statement by Michel Sapin,**
**Minister for Finance and Public Accounts, France**

On behalf of France

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The global economic situation keeps improving, in line with the trend already spotted at our last International Monetary and Financial Committee. The economic recovery in advanced economies contributes to global growth rebalancing. However, some risks remain, reminding us of the importance of a solid International Monetary Fund, with the appropriate financial capacity to face shocks affecting the global economy and capable of providing support in managing the post-crisis situation.

The euro area exits the crisis and sees a return to growth alongside the other advanced economies. The decisive role played by the IMF in the euro area crisis has demonstrated the way the Fund knows how to adapt itself and to answer all types of crisis situations. However, its role in monitoring global imbalances and risk factors is also crucial.

**In a changing economic environment, the IMF's members must work together more closely to reach the common goal of achieving sustainably higher growth that will create quality jobs**

Almost 5 years after the onset of a major global economic and financial crisis, France's output has climbed back up to its 2008 level, and its growth outlook for the next few years has strengthened considerably. This good news, shared with the other advanced economies, is a sign of the gradual and welcome rebalancing of global growth rates. Nevertheless, it brings new challenges.

The first of these involves managing the transition from a "liquidity-driven" to a "growth-driven" model based on balanced global economic activity levels and more buoyant demand. The normalization of monetary policy lies at the heart of this transition. We must now strive to keep renewed financial market volatility in check, and deal with the liquidity risks and weaknesses in emerging markets that recently came to light.

We must also continue to tackle the causes of the crisis to ensure there is no repeat. Thanks to the collective measures taken, considerable progress has been made in this area in the last few years, resulting in a stronger financial system. Nevertheless, much work lies ahead. There are new risks that must be contained, including the growth in non-banking activities in systemically important economies, the rapid expansion in new sources of international liquidity, particularly via corporate bonds issued on foreign markets by major private companies, and the sensitivity of certain market segments to interest rate fluctuations.

Finally, we must see a return to stronger, sustainable global growth. There are two main areas of concern that must be addressed: in emerging economies, activity levels have weakened against a background of tighter financial conditions and persistent structural weaknesses; in advanced economies, inflation is too low and potential growth has deteriorated. We must work together to ensure that the risk of a prolonged period of global economic stagnation does not become a reality.

Faced with the emergence of these new risks, very high rates of unemployment, significant global imbalances and a fragile economic recovery, we must continue our individual and collective efforts to push through reforms.

This obviously applies to France. As the Prime Minister explained when he presented his new government's policy program to Parliament on the 8th of April, **France is committed to stimulate its growth by raising its competitiveness and ensuring its fiscal sustainability, while also supporting short term growth**. An ambitious three-pronged strategy has been put in place.

The first part of the strategy is **competitiveness, aiming to restore companies' margin, to help them invest and hire, thus supporting short-term growth recovery and preparing the future**: over three years, the Responsibility and Solidarity Pact announced by our President and detailed by our Prime Minister plans a 30 billion euros labor cost cut as well as a tax cut on companies' production and benefits and the suppression of dozens of small, complex and low-return taxes. As a compensation for these efforts, labor and business representatives negotiated an agreement (signed on March 5), setting aims in terms of jobs creation, in particular for young people and senior citizens, as well as quality of jobs offered. The Responsibility and Solidarity Pact will also give particular attention to low-earning workers' purchasing power, through a cut in payroll social contributions and a tax cut targeted at them. In total, lower-earning households will benefit of a total 5 billion euros tax and social contribution cut through 2017.

The second leg of this strategy is the **financing for competitiveness measures. It will be paid for exclusively through savings on public spending**. Starting from 2014 the fiscal consolidation effort will be rebalanced toward spending. 50 billion euros of savings will be done in three years, shared by all public administrations, as the State and its subsidiaries will contribute 19 billion euros, local governments 10 billion euros and the Health insurance system also 10 billion euros. The final 11 billion euros will be found through other savings measures on social spending, without lowering the quality of service. A revised budget Bill introduced this summer will materialize the first savings measures, allowing the financing of tax and social contributions cuts, but also to reduce our deficit, in consistency with our European commitments.

The third part of our strategy, complementing the two others, aims at **a higher long-term potential growth for the French economy**. It will include a structural reforms package both regarding the labor, goods and services markets. Important reforms have already been negotiated with labor and business representatives to modernize the French labor market by developing flexicurity, re-founding the vocational education system and implementing specific mechanisms stimulating youth and senior-citizens employment. Other reforms will follow, for example to raise competition in the energy and transport sectors. France will also modernize its administrative organization through rationalizing the map of local governments, as announced by the Prime Minister.

All these reforms will help France to ensure a stronger, more sustainable and more balanced growth, thus contributing to better European and global growth prospects.

Let me next turn my attention to Europe. The ongoing strong political momentum will help finalize the creation of a **European banking union** and draw a line under the euro area's financial fragmentation. Following the agreement reached on 19 March by the European Parliament and the Council, the euro area has, in less than two years, built a centralized banking supervision and resolution mechanism for all European banks. Backed in the longer run by a genuine European resolution fund capable of intervening directly in support of bank recapitalizations, and combined with the ECB's very ambitious asset quality review and stress tests, this centralized two-pronged mechanism will help ensure that the burden of risk is spread more evenly. Furthermore, it will result in an unprecedented transfer of sovereignty designed to improve banking sector supervision. This major milestone in the history of European economic and monetary union will also help to boost the resilience of the international financial system.

Lastly, I must turn my attention to the global economy. Even stronger multilateral cooperation is required to smooth the economic transition towards achieving growth that is not only stronger, but more stable, balanced and fair. The financial turmoil in emerging markets that coincided with the beginning of US monetary policy normalization calls for clear communication about and fine-tuning of this policy.

Similarly, **significant and persistent global imbalances** should encourage us to step up our efforts in this area. Some countries are suffering from a lack of competitiveness, others from weak domestic demand. The important and difficult structural reforms implemented in deficit countries are beginning to pay off. All countries, including surplus countries, must play their part in restoring the global balance to help boost short-term demand and raise medium-term potential growth. Cooperation on economic matters must also continue to make progress on tax issues to promote fairness of treatment and guarantee the long-term sustainability of public finances. Tax evasion and avoidance and other harmful tax practices are hindering our flexibility at national level.

Lastly, there must be no let-up in our efforts targeted at strengthening the international financial system's resilience. Financial regulation is and must remain a work-in-progress, adapting to developments in the financial system and to new risks. Although we can be very satisfied with the progress made since 2008, we must not lower our guard in light of the changing nature of risks which could pose a threat to global financial stability, such as those posed by the shadow banking system. Similarly, we must also be vigilant in guaranteeing the consistent application of the reforms that we have agreed on in light of the ongoing risk of financial fragmentation.

To deal with these new risks and lend its support to our collective efforts to promote growth and create jobs, the International Monetary Fund must continue to have a central risk surveillance role and maintain its ability to respond to global crises.

**To effectively address these new risks, the IMF must have adequate resources and suitable instruments, bolster its framework for surveillance and continue rolling out initiatives in the MENA and low-income countries**

It is vital that the Fund's governance and resources reforms stay on track and that it has suitable lending instruments.

In 2008, the IMF embarked on a historic set of institutional reforms. Since then, its resources have increased fourfold through the New Arrangements to Borrow and bilateral loans. This massive increase in the size of the Fund was a determining factor in weathering the crisis, especially in the euro area. What is more, the IMF's governance has started to better reflect the new world balance. Since the 2008 reforms, the new distribution of IMF quotas and the voting power of members of the Executive Board have been geared towards enhancing the voice and representation of dynamic emerging markets. By committing to reduce their combined Board representation by two chairs, advanced European countries are playing a telling role in upholding these principles.

That said, the reform process has stalled pending US ratification of the 2010 reforms. So that the IMF continues to be seen as a legitimate and effective institution, it is essential to set the ball rolling again. But, before that happens, we need to come up with a work program to ensure the Fund has adequate resources and that its governance reflects the reality of the world today. The first major step towards resuming discussions is the report from the Chairman of this Committee, Mr. Tharman Shanmugaratnam, who was commissioned by the IMF's Board of Governors. The discussions will have to factor in the interests of all the shareholders and take place within the IMF's decision-making bodies.

Whilst the Fund must have the financial resources to effectively address the shocks that have a destabilizing effect on the global economy, it also needs finely-tuned loan instruments. This is why the ongoing review of the IMF's crisis prevention instruments, introduced following the onset of the 2008 global crisis and intended to boost market confidence, is of utmost importance. We must continue to unswervingly support these instruments that are central to the global financial safety net.

The IMF's second priority should be to strengthen its surveillance work. Much progress has been made since 2010 but the Fund needs to step up its analysis of several key areas for the stability and consistency of global economies.

These include the risks of financial system instability owing, in particular, to the potential shifting of systemic risk towards the shadow banking system. An in-depth analysis should be conducted on the transmission of shocks and risks, such as the spillover effect of monetary policy normalization. Attention should also be paid to monitoring financial fragmentation due to inconsistent application of regulation reforms and, lastly, to growth and job-creation (or income inequality). This would help to expand out the Fund's recommendations in these areas and develop concrete measures to materialize them.

To ensure heightened IMF surveillance, resources must match the challenges at hand. Close follow-up would give its recommendations greater reach. As the IMF's financial surveillance strategy goes hand-in-hand with effective surveillance by national supervisory authorities, we welcome the Fund's initiatives to provide the latter with technical assistance and training.

Leaving aside the question of resources, instruments and the framework for surveillance, the IMF must pursue its leading role for the benefit of the transition economies of both the MENA region and low-income countries, especially those in Africa.

As the MENA transition economies continue to be beset with highly specific problems, IMF support, both in terms of financing and of technical assistance, in coordination with all other donors, is still vital. These efforts need to be supported and extended. Analytical input from the Fund is also very useful and should help to nurture our collective thinking on medium-term challenges for these countries, beyond short-term stabilization.

IMF assistance to low-income countries is multi-faceted and large-scale - and this should be highlighted. One huge leap forward was last fall's distribution of the remaining windfall profits from gold sales to the Poverty Reduction and Growth Trust, made possible by the decisive action of the vast majority of IMF members. What is more, both creditors and debtors need to act responsibly to ensure sustainable financing for low-income countries. So that unsustainable debt trajectories become a thing of the past for these countries, an inclusive discussion process should be initiated. Recent debt relief initiatives have had highly positive repercussions leading to higher development and poverty reduction spending.

**The world needs a strong IMF to help it along the path to global recovery and to monitor nascent risk factors; an IMF that has the resources, instruments and analytical tools required to manage the ongoing transition.**

**As we emerge from the crisis, countries must continue to cooperate as they did during the height of the global downturn that affected us all. This could involve coordinating economic policies to mitigate global imbalances, tax cooperation, discussions on structural reforms and initiatives to benefit low-income countries and transition economies.**