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On behalf of France

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The global economy this autumn is characterized by slow recovery, weak demand, and persistent mass unemployment. We need to face these challenging realities and work together to identify solutions. Otherwise, we are liable to find ourselves in a prolonged period of mediocre growth. Our collective response should be based on an effective multilateral system, entailing participation by all stakeholders and benefiting from appropriate tools and analytical resources.

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<u>At a time when growth forecasts are regularly revised downward and economic activity is flat in Europe, we need to make further concerted efforts to usher in strong, sustainable and balanced growth.</u>

Acceptance of a prolonged period of poor activity in the present is tantamount to jeopardizing our future growth, and harms our capacity to achieve sustainable reductions in unemployment; a wait-and-see attitude is not an option.

We dare not be complacent about the present state of the world economy. Indisputably, growth has returned in the United States and remains dynamic in Asia; however, other areas—and the euro area in particular—are experiencing sluggish economic recovery. Unemployment is reaching unacceptable levels in many countries, while persistently low inflation and repeated downward revisions of growth forecasts call into question how well we are actually overcoming the crisis. We are now facing a challenge fully comparable to the one we faced in the midst of the economic and financial crisis in 2008. Our challenge is to ensure that current economic problems are not allowed to become chronic. This danger is not confined to Europe, yet it is a matter for particular concern there. Accordingly, the IMF is calling upon us to lift and rapidly rebalance global demand as well as restore the growth potential of our economies. We dare not ignore this advice, for we cannot keep on waiting for a return to growth each quarter, so often forecast and yet seemingly forever out of reach. We should therefore work together to meet these new challenges everywhere in the world and especially in Europe.

If we are to put the crisis behind us once and for all, we must strengthen our cooperation and ask ourselves candidly whether our economic policies are truly relevant.

Weak economic activity around the world—and especially in Europe—reflects short-term constraints and structural failures alike. If we are to address these challenges, we should avoid poorly thought-out economic stimulus measures or supply-side policies that bear no relation to actual economic conditions. Instead, we should mobilize available room for maneuver to support short-term recovery and bring about reforms capable of enhancing our growth potential in the medium term. We should use every means at our disposal. As the IMF recommends, our central banks should be able to continue relying on accommodative monetary policies, including unconventional measures if necessary. Furthermore, our fiscal consolidation strategies should be implemented in a flexible manner. Those with room for maneuver should use it and those without such leeway should calibrate their tax revenues and government expenditure in such a way as to ensure fiscal sustainability with minimal impact on growth. Moreover, our structural reforms should be prioritized; we should focus on those reforms that have a rapid positive impact on demand, such as measures to revitalize public and private investment. Finally, our coordination should be strengthened so that our domestic efforts can be accompanied by a reduction in global imbalances. This rebalancing should be achieved in the short term by strengthened domestic demand in surplus countries and through increased competitiveness in deficit countries. It serves no purpose to argue that structural policies are incompatible with policies aimed at supporting demand in the short term. These two types of policies are complementary and self-reinforcing.

Strengthened global demand is necessary in the short term—it is bound to facilitate the implementation of structural reforms that will allow for a collective increase in our potential growth.

France has implemented an ambitious strategy for revitalizing growth, and is advocating such policies within the EU.

France is committed to implementing an economic strategy based on these principles. In order to achieve sustainable reductions in unemployment and restore competitiveness to France's economy, measures to reduce labor costs have been adopted, with the scaling-up of the competitiveness and employment tax credit (CICE) and the implementation of the Responsibility and Solidarity Pact. This € 30 billion reduction in labor costs—i.e., about one and half points of GDP—is being complemented by a variety of measures to facilitate financing for businesses and provide them with further flexibilities. These efforts go hand-in-hand with a decrease in taxes for the lowest-income households as well as measures to liberalize the regulated professions, which are designed to enhance purchasing power. These structural reforms are part and parcel of a fiscal consolidation strategy which is expected to reduce government expenditure by € 50 billion on a trend basis by 2017. At a time when low inflation and low growth are complicating efforts to reduce public deficits, this strategy will be pursued and complemented by a reform of France's territorial organization. Within Europe, the implementation of the Banking Union is allowing us to overcome the earlier crisis and turn our attention to supporting a meaningful economic recovery. The efforts undertaken by the European Central Bank—which are of decisive importance in this area—should be welcomed and can be complemented by an appropriate fiscal policy that is aggregated at the level of the euro area as a whole. At a time when most members are pursuing fiscal consolidation, we should also encourage the preparation of an ambitious program of European investment to begin supporting demand, while empowering the European economy to innovate and grow at a sustained pace in future. Unless we act rapidly, there is a danger that the current economic stagnation could become permanent.

<u>During this challenging post-crisis environment, we must be vigilant regarding all the sources of vulnerability facing our economies. At present, there are three main risks that require attention.</u>

First, we must provide a collective response to public-health, geopolitical, and climate-related risks affecting states, and in particular, the most vulnerable countries.

The countries affected by the Ebola virus are currently one of the greatest causes for concern. Although such countries as Sierra Leone and Liberia have made considerable progress in the aftermath of their civil wars, the current epidemic is weakening them substantially. I wish to commend the IMF, which has responded with an allocation of US$130 million for the three countries hardest hit by the Ebola virus. Furthermore, the Ukrainian crisis and the situation in the Middle East have reminded us that geopolitical risk remains in evidence and could have a severe impact on the global outlook for growth. Accordingly, Ukraine should receive continued support from the IMF during this exceptionally challenging period. It is also necessary for the international community to make concerted efforts to address the climate-related emergencies facing some of the most fragile countries.

Financial risks should be appropriately regulated and supervised.

Since 2008, the international financial community has been engaged in an unprecedented effort to regulate finance. This has been a great success for the G-20 and the Financial Stability Board but there is still work to be done. Taking stock of the crisis, significant reforms made it possible to reduce the risks associated with systemic banks or derivatives markets. However, it would be unwise to presume that this source of vulnerability has disappeared, for no one can argue that all financial institutions, market actors and products are currently subject to appropriate regulation. Further work is thus needed on shadow banking, the insurance sectors, as well as those financial benchmarks whose integrity may have been compromised. It is important to monitor evolving vulnerabilities within the financial system, and not to allow such risks to be shifted onto less well-regulated participants. Furthermore, today there is a danger that the global financial landscape could fragment, and we must resolve the issues involved in the cross-border implementation of reforms. In addition, we should remain alert to potential new challenges emerging on financial markets—in particular, those resulting from a search for yields. In this context, the IMF must continue to strengthen and enhance its financial supervision, and to enhance its advice, particularly in the area of macro-prudential policies.

Preserve growth also means facilitating sustainable indebtedness and the orderly resolution of sovereign debt crises.

Global cooperation is necessary for two reasons. First, we should encourage sustainable financing practices among States. Where sovereign financing is concerned, most stakeholders (creditors and debtors) should focus on preserving public debt sustainability. This is a prerequisite for strong, sustainable, and balanced growth. Second, if our precautions should prove insufficient and debt crises should occur, our sovereign debt restructuring contractual framework should be strengthened in order to prevent uncooperative behaviors which ultimately harm growth in the weakest states. Several recent events—in particular, the dispute between Argentina and a number of its procedural creditors, have highlighted the obstacles impeding such restructuring efforts. The IMF is currently working on measures to strengthen collective action clauses and further encouragement in this direction should be provided. These clauses, and in particular the so-called "aggregation clauses", mean that a restructuring, once accepted by a qualified majority of creditors, can be imposed across the board. Specifically, such clauses help combat practices employed by certain procedural creditors, which give restructuring operations a wide berth only to sue governments in distress at a later time. It is against this backdrop that the euro area, since January 1, 2013, has equipped itself with collective action clauses that must be incorporated in all instruments bearing maturities in excess of one year.

<u>If we are to boost growth and address new vulnerabilities, we must enhance the effectiveness of the multilateral system.</u>

The Bretton Woods system, whose 70th anniversary we are celebrating this year, should adapt to these new challenges and risks, as well as to the new global economic equilibria. If the Bretton Woods system falters in this task, it could endanger its own legitimacy, and hence its effectiveness, even though it plays such a central role in maintaining international economic and financial stability. The IMF is of vital importance in this respect, as it has been engaged in a historic reform agenda since 2008. The Fund has instituted wide-ranging reforms, which include a doubling of the Fund's permanent resources (quotas), as well as a rebalancing of its members' representation, in addition to governance reforms in favor of dynamic emerging economies. In the absence of ratification by the United States, these reforms have still not been put into practice, which is a source of general frustration. Should this situation carry on into next year, we will have to work together with Fund staff to come up with a credible method for overcoming this impasse and moving forward. As members of the IMFC, we should see to it that the IMF can address these challenges and act accordingly. At all events, as long as the 2010 reforms are on hold, the IMF's temporary resources implemented during the crisis are being called upon to play a crucial role in ensuring the resiliency of the international financial system, and they must be preserved at all costs. Thus, we welcome the one-year extension for the set of bilateral loans prepared in 2012 and the new six-month activation period for the New Arrangements to Borrow (NAB).

Quite apart from the issue of governance, the IMF's analysis and policy advice must be equal to the challenge of addressing new global risks, and they must evolve if necessary. Strengthened surveillance activity by the IMF will require a more effective consideration of the new risks, the interconnections between our economies, and the policy challenges which we face. At all events, it is essential for IMF surveillance to abide by a number of key principles: consistency, impartiality, and efficiency in targeting recommendations. The IMF has also reviewed the design of its precautionary instruments, which constitute a key component of the global financial safety net, in an effort to enhance transparency and predictability in eligibility for these instruments. We must also ensure that the purview of the IMF's responsibilities, whether in regard to macrofinancial supervision or crisis management, gives the Fund the leeway it requires to discharge its mandate properly, while encouraging cooperation with other international organizations, in an effort to derive full benefit from their own expertise.

More generally, it is the multilateral system itself that requires strengthening today. In the face of global challenges and risks, global responses are called for. To begin with trade, we can only deplore the lack of progress achieved in the Doha round. Rules-based world trade is dependent on negotiations within the framework of the World Trade Organization. Second, collective solutions must be found in regard to climate change policy. Accordingly, the organization of the COP21 conference in Paris in December 2015 must help us reach a new ambitious and universal agreement for fighting global climate change.