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

On behalf of France

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE
Statement by Michel Sapin, Minister for Finance and Public Accounts, France –
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The IMF-World Bank Annual Meetings provide an opportunity to assess the challenges facing the global economy.

In the short run, our priority is to boost economic cooperation to consolidate the recovery; much has already been done, but there is further room for manoeuvre, particularly regarding the monitoring of international capital flows. We must pay close attention to the situation in commodity-exporting emerging and low-income countries – the risks they face are on the increase, as is their vulnerability.

In the longer term, a number of major challenges lie ahead. This year's agenda includes a number of specific issues. The Third International Conference on Financing for Development held in Addis Ababa in July, as well as the new goals set by the 2030 Agenda for Sustainable Development, show how important it is for the international community, including the IMF, to play a bigger role in setting the development financing agenda. Ahead of the COP21 Conference to be held in Paris at the end of the year, the IMF also has a key role to play in dealing with another fundamental challenge that we all face: climate change.

Consolidate the recovery in an increasingly uncertain economic climate

Although the economic recovery is underway, obstacles that sprung up recently in certain parts of the world show that we must remain extremely vigilant in our quest to restore lasting growth.

As the US recovery gathers pace, economic policies implemented in the euro area and Japan against a low-inflation background are taking longer to produce concrete results. Normally a blessing for the world's advanced economies, the latest dip in oil prices has not offered businesses any significant room for manoeuvre. Investment continues to lag behind in several regions, due in particular to persistently weak demand, while unemployment is still abnormally high in a number of developed economies.

Developing countries have new causes of concern, such as the dip in commodity prices, the Chinese economic slowdown, and heightened geopolitical tension in certain global regions. Given the potential spillover effects, we must pay particularly close attention to the current visible signs of a downturn in emerging economies caused by an adverse global economic climate and a number of more structural issues. Expectations relating to the probable normalization of US monetary policy are already triggering capital movements likely to have an impact on the most exposed emerging economies. I would like to add that this dip in commodity prices is affecting low-income countries the most, particularly in Africa. The Bretton Woods institutions must focus specifically on helping these countries adjust to this new climate while protecting their growth and social policies.

We must also support the transition currently underway in China towards a more sustainable economic model that will benefit the entire global economy. While we should not be over-hasty in our forecasts for the real economy in the wake of the stock market volatility that affected the Chinese markets a few weeks ago, a number of macroeconomic indicators, such as Chinese imports, recently deteriorated. We are satisfied by the measures currently being implemented by the Chinese government to limit the risk of contagion caused by the economic downturn in the short run, and the steps it is taking to support the economy's transition in the longer run to

a more balanced and sustainable growth model. Communication and transparency will both play a key role in achieving these goals.

Lastly, the recent escalation in geopolitical tension in the Middle East and North Africa and the resulting wave of refugees serve as a reminder that we must pay more attention to countries in this part of the world, many of which are facing significant economic, political, and social challenges which have to a certain extent been exacerbated by the currently low price of oil. Multilateral cooperation will play a vital role in helping them set their economies back on an even keel.

Getting macroeconomic policies right

The challenging situation currently facing the global economy requires a fast and determined response using the growth drivers available. I would like to reiterate that it is more important than ever that our response is a coordinated one. National policies implemented without any outside consultation or cooperation will be of no benefit to the global economy.

Within the framework of the G20, we have developed a growth strategy aimed at putting France back on the road to sustainable, long-term growth. We recently updated this strategy, adding measures designed to bolster employment and investment, such as the Boosting Employment Programme containing, for example, several policies to support SMEs. The return to growth will be achieved by creating an environment in which jobs will be created and businesses will prosper within our national boundaries. It will also come through the introduction of measures at European level to promote investment, such as the Juncker Plan launched in June. Above all else, it will be achieved by implementing steps in the correct order to ensure that each individual reform produces the maximum desired effect without jeopardising overall effectiveness.

But structural reforms alone will not be enough to guarantee a return to growth. They must be introduced in conjunction with suitable macroeconomic policies that take sufficient account of the negative impact of weak demand on the global economy. That is why we must place greater emphasis on policies to strengthen demand by harnessing the room for manoeuvre wherever it exists, notably in countries with a current account surplus. In this regard, I would like to congratulate the European Central Bank on its monetary policy which is helping to improve access to credit.

In addition, I feel that it is crucial to monitor the factors underlying the weaknesses that may arise at international level. In particular, the risks relating to financial stability spring to mind. In a low interest rate environment related to accommodative monetary policies pursued by the central banks of developed economies, and with financial systems becoming more integrated, the likely tightening of US monetary policy has triggered significant capital flows and volatility spikes. These events could have a destabilising effect on emerging economies already suffering due to a challenging economic climate or domestic structural weaknesses.

In light of this situation, we must equip ourselves with improved supervisory and diagnostic tools to gain a clearer understanding of these aforementioned capital flows.

We must focus our efforts on strengthening the resilience of our economies. Since 2008, the G20 has led the way, spearheading efforts to improve oversight and regulation of the financial sector and to strengthen international cooperation in tax matters. Despite the fundamental progress already made on the first point, there is still work to do on the regulatory front due to the changing nature of risks within the financial sector, particularly the non-banking sector. On the second point, I am delighted that the BEPS action plan to combat aggressive tax planning

has been completed; it is proof that we have come a long way since 2008. We must now begin to implement the plan in a consistent fashion and ensure that it is applied across the board in the long run. We must also continue with our attempts to ensure that the automatic exchange of tax information becomes the norm and take steps to ensure that tax jurisdictions comply with the commitment they made in this respect.

Lastly, the IMF must be able to lend its support to the aforementioned goal of strengthening the resilience of the global economies, especially those of developing countries or fragile states. I would like to draw attention to the quality of the technical assistance provided by the IMF to member states in this area. It has helped them strengthen their institutions and introduce policies to promote stability and growth. For example, and as illustrated at the Financing for Development Conference in Addis Ababa, there is currently a need to help developing countries put their domestic tax base to better use; the IMF has a key role to play in this matter.

Strengthening the global financial safety nets

Over and above the pressing need to implement the aforementioned measures to consolidate the recovery and ensure sustainable growth, we must strengthen global financial safety nets to prevent and contain crises as effectively as possible.

The global financial safety nets now boast a more robust and more complex architecture than they did several years ago. Indeed, since 2008, the European Stability Mechanism (ESM) has been put in place, certain Asian economies have launched the Chiang Mai Initiative, bilateral currency swap agreements have been entered into by central banks, IMF resources have quadrupled and there is still the automatic safety net provided by currency reserves, which nevertheless must not be excessive. As the global economy gradually exits the crisis, the progress made on this front must now be consolidated. Again, the IMF has a key role to play here.

As US Congress has still not ratified the 2010 reform, the IMF's governance reforms have been put on hold. However, the Fund's system of shareholder representation is out-of-date and its permanent resources (determined by the quota system) fall short of what is required to deal with the risks currently weighing on the global economy. In light of the above, while the goal must still be to adopt the 2010 reform, reaching an interim agreement would represent an initial, preliminary step in the right direction. Such an agreement would make it possible to both restore the balance of the IMF's shareholder representation and secure the level of its resources. The International Monetary and Financial Committee is committed to ensuring that the Fund remains strong and that it boasts a sufficient level of resources. Given the current circumstances, decreasing the IMF's resources would send an extremely negative and unfortunate signal that runs counter to this commitment; rebuilding economic confidence will come by providing reassurance that the IMF, as the lender of last resort, has an adequate level of resources. If the stand-off on reform were to continue, it may well be necessary to consider extending the temporary resource measures in place until the doubling of quotas included in the 2010 reform is adopted.

The IMF must also lead the way in the debate regarding the best way to improve the interconnection between national, regional and global financial safety nets. A sufficient degree of flexibility must be maintained, but certain principles, such as those outlined by the G20 in 2011, must be used as guidelines to ensure that the maximum amount of complementarity between levels is achieved. To this end, the work due to begin in 2016 by the Fund on global financial safety nets will be invaluable.

As well as offering financial support, the IMF must continue to oversee the implementation of fair rules to ensure globalization takes place in an orderly fashion. In terms of resolving sovereign debt crises, the IMF has a key role to play in the promotion and ongoing implementation of collective action clauses and in the review of the *pari passu* clause, both of which help to limit the action that non-cooperative creditors can take. We must go further by adding these new clauses to outstanding debt agreements and protecting as best we can the most vulnerable countries against legal action taken by some of these aforementioned non-cooperative creditors. In terms of preventing sovereign debt crises, in Ankara this September the G20 officially acknowledged the existing initiatives aimed at improving sustainable financing practices as stressed in the Addis Ababa Action Agenda. These efforts must be consolidated to ensure that developing economies do not enter a new cycle of excessive debt.

To conclude, the IMF must continue to give the most serious consideration to the long-term challenges faced, particularly climate change and the development financing agenda. Given the impact of climate change on macroeconomic stability and the activity of its members, the IMF could gradually integrate climate change questions into its bilateral surveillance practices, which it already does for exploratory purposes, to check whether or not domestic economic policies effectively include the target of transitioning to a low-carbon economy in order to strengthen over the medium term the resilience of economies. In addition, the IMF should contribute to the introduction of an incentive framework to redirect investment through the implementation of specific measures, such as: (i) the promotion of carbon pricing policies; (ii) participation in the work of the Financial Stability Board regarding the impact of climate risks on the financial sector; and (iii) stepping up its efforts on inefficient fossil fuel subsidies. It would also be useful to better integrate climate factors into its economic analysis models. Finally, following on from its contribution at the Addis Ababa Conference, the IMF must continue with its efforts to promote development financing.