INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Bruno Le Maire
Minister of the Economy, Finance and the Recovery

France

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FRANCE

I would like to begin by congratulating the International Monetary Fund and its Managing Director for the leadership they have demonstrated since the outbreak of the pandemic, by implementing a timely, agile and efficient response to the economic consequences of this crisis. In particular, the extensive financing the IMF provided in the past seven months has been instrumental to limit the impact of the crisis on the most vulnerable countries. This unprecedented crisis has also reminded us of the utter necessity, for the sake of every country, to ensure an adequately funded IMF to fulfil its role at the center of the Global Financial Safety Net. As we enter a new phase of the crisis, IMF's support will have to evolve, to enter in follow up, longer term financing arrangements with countries to help them address the crisis' legacy and tackle structural vulnerabilities. More broadly, IMF's advice to support member's post-crisis plan will be instrumental to ensure that the recovery is strong, sustainable and inclusive. The resuming of bilateral surveillance will be of critical help in this regard.

The COVID-19 pandemic has been an unprecedented shock for the global economy that threatens to leave deep scarring effects worldwide. Global activity is set to decline to an unprecedented scale in 2020, at around -4,5 %, which constitutes a much stronger shock than the Global Financial Crisis. As most economies have progressively reopened and thanks to a massive policy support, a gradual recovery is now underway. Nevertheless, the global outlook today remains highly uncertain as the COVID-19 pandemic continues to spread. Uncertainties are especially high about the resilience of sectors most affected by this crisis, the evolution of the labor market and subsequent social repercussions. Beyond the health-related risks, several downside risks require our vigilance, notably the risks linked to the rise of public and private debts. The disconnect between financial market optimism and the evolution of the global economy is also a major vulnerability, which could amplify these downside risks. Lastly, as recalled on several occasions by Kristalina Georgieva, a premature withdrawal of policy support would amplify the scarring effects of the crisis, and should therefore be avoided.

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In France, the Government has strongly reacted since the outbreak of the pandemic with a package of historic measures amounting to around EUR 470 billion. The strict health measures adopted domestically, including containment, have been efficient to limit the spread of the virus and build health capacity to fight the pandemic. At the same time, France has rapidly deployed massive economic measures to preserve households' income, strengthen companies' liquidity and support the sectors most affected by the drop in activity.

To supplement these emergency measures, the French Government disclosed on September 3rd a two-year EUR 100 billion recovery plan deployed around three main components. The first one is designed to support **the transition to a carbon-free and sustainable economy**. The second one is **competitiveness** and aims at giving companies the most favourable conditions to develop their activities and preserve employment. The third one is **cohesion**, with a focus on youth employment and solidarity between generations and territories. This exceptional public investment effort will accelerate the recovery in the short term, with a view to returning to pre-crisis activity levels by 2022.

At the European level, the agreement reached on July 21st represents a major breakthrough in our collective response to the COVID-19 crisis, as well as a milestone for the European Union itself.

With the agreed EUR 750 billion recovery package, the Europeans have shown that together they can rise to the occasion and face their biggest collective challenge for a very long time. This package allows the Commission to issue debt, in amounts commensurate with economic needs, while benefiting from the excellent credit rating of the EU.

Importantly, a significant share of the commonly issued debt will finance grants, for a total amount of EUR 390 billion. This share includes EUR 312.5 billion channeled through the Recovery and Resilience Facility to support activity in the short term in most affected countries as well as to enhance the growth-potential in the medium and long term. The strong link between investments and reforms, consistently with country specific recommendations, is at the core of the recovery package. The rest of the grants will strengthen and expand the programs of the EU budget over the 2021-2027 period. The package complements other instruments set up last April, amounting to **EUR 540 billion**, to protect people, firms and European sovereignty.

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At the international level, continuous coordination and multilateral actions are needed both during the emergency and recovery phases. **The remarkable mobilization achieved in the immediate aftermath of the crisis should now translate into ambitious policy actions to design long term solutions in support of a sustained recovery.**

First, it is important to remind how critical the IMF's role has been in providing much needed liquidity to vulnerable countries in the first phase of the crisis. In just a few months, 81 countries have received financing assistance from the IMF, amounting to approximately USD 101 billion. This mobilization has been made possible thanks to the support of its shareholders as shown through the temporary doubling of access limits, the replenishment of the Poverty Reduction and Growth Trust (PRGT), and the intensive work done by the IMF staff to deliver in record time, through speeded up procedures.

Unfortunately, this first step will not be enough to ensure a sustainable recovery in developing economies, and the IMF will play a key role in supporting members in the medium term. As the crisis specifically hurts low-income countries, a central part of the IMF strategy will be to ensure that its lending tools are adequate. The PRGT financing strategy will be a turning point to ensure that it is fit for purpose and is able to deliver more financing in the future. After a successful first fundraising campaign for loan resources in the wake of the crisis (for which France doubled its commitment) even more efforts (and in particular, with subsidy resources) are needed to ensure a sufficient capacity to lend. We encourage management and staff to explore every option in this regard, and in particular, gold sales. Going back prematurely to the pre-crisis average concessional lending levels is not an option, given the financing needs of low-income countries.

To limit the scarring effects of the COVID-19 related crisis, we also have to commit to scaling up the support by the IMF. We will need to gradually shift, on a country-by-country basis, from emergency schemes to multiannual programs, to close the widening financing gaps. The lending strategy should continue to adapt to the crisis, in particular to cope with the unprecedented levels of uncertainty: the IMF toolkit could for instance be adapted to meet the challenges induced by the crisis, including looking into the opportunity of creating a temporary Pandemic Support Facility, which would be better suited to the crisis than existing instruments. Given overall financing needs in the months and years to come, reviewing annual and cumulative access limits to Fund's financing would be important to ensure adequate amount of financing to smoothen the adjustment.

The crisis has also worsened the already significant debt vulnerabilities in many low-income countries. After five months of implementation, the Debt Service Suspension Initiative (DSSI) has been a tremendous success in alleviating the liquidity needs of the poorest countries in time of crisis. Its extension by the Paris Club and the G20 is an important step forward. However, a more structural approach of treating debt vulnerabilities according to each country's specificities is needed. This is why the G20 and the Paris Club have worked intensively on a Common Framework for Debt Treatments, which is a major breakthrough in debt treatment architecture and an important step forward in the context of several country cases to solve. In addition, we also need to design a bolder and broader strategy on financing for development to prevent the loss of a decade of development progress on the African continent. The objective here is to develop strong and sustainable financing flows, private and public, for African economies, in a spirit of mutual accountability. France will organize a summit on this issue in May 2021 and we strongly welcome the support of all stakeholders, the IMF and the World Bank.

Beyond the traditional tools, the closure of financing gaps in emerging and developing economies, especially in Africa, should encompass a broader scope of stakeholders. We need to continue to work together, in a structural manner and beyond the crisis, to create a new paradigm and to help prevent the loss of a decade of development progress on the African continent. We need a bolder and broader strategy on new financing for development. This is why France calls on the IFIs, in particular the International Monetary Fund, to provide an analysis of the external financing needs of developing countries and sustainable financing options on the road to a resilient recovery. Of course, the private sector has a key role to play, since public financing will not be enough to tackle the issues here at stake. It is therefore critical to deepen our partnerships with the private sector and to further leverage public financial instruments so strengthen the mobilization of private capital. To move forward, France will host a high-Level international conference on how to better finance African economies in May 2021. The objective will be to define a new partnership approach to develop strong and sustainable financing flow for African economies, in a spirit of mutual accountability.

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The most serious crises are the engines of major transformations of international financial institutions and their paradigms. As such, the Global Financial crisis of 2008 led to major reforms of the International Financial System governance. In the present context where decisions on the recovery paths after the crisis will have decades-long implications, the IFIs have no choice but to go further into adapting their actions to the challenges of 21st century.

Among them, **climate change is absolutely macro-critical** to the membership of the IMF, and the spillovers of domestic climate policy decisions are obvious. Building on its expertise on fiscal, monetary and structural policies, the Fund has a key role to play to advise countries on building resilient and sustainable macroeconomic frameworks, and on designing appropriate policies for a transition towards a decarbonized economy. **France calls on the IMF to expand its work on climate-related risks, in particular by embedding climate-related issues in bilateral surveillance.**

The IMF has also a strong role to play in the fight against inequalities. High levels of inequalities, which are being aggravated by the ongoing crisis, pose a serious threat, on medium to long term perspectives, to macroeconomic and social stability of countries. Enhanced inclusion and opportunities for all is therefore of particular relevance and should be well given strong attention by the IMF. More broadly, the IMF has a role to ensure that economic institutions serve all, and the fight against corruption and for transparency and good governance should be an integral part of the recovery.

Lastly, the ongoing crisis has again illustrated the centrality of new technology in our lives, while revealing how the technology gap could further widen inequalities between and within countries. Consequently, it has reasserted the necessity to set a regulatory, tax and governance framework, both at national and international levels, that makes technology accessible to everyone and protects privacy rights, fair competition and national sovereignty. Thanks to its unmatched expertise, the IMF can help harness the full potential of the digital revolution, while properly assessing the associated risks.

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This crisis is far from over, therefore making international coordination and multilateral solutions all the more critical in the coming months. Together with the IMF, we need to build back better, achieve the Sustainable Development Goals, while avoiding new over-indebtedness cycles in Africa. We also share the responsibility to use the recovery to reshape our economies in order to prepare for the overarching social, environmental and technological challenges ahead of us.