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IMFC Statement by Michel Sapin
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On behalf of France

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The global economy is seeing a modest recovery, but downside risks remain and much remains to be done. In order to get back on track for strong, sustainable, balanced and inclusive growth, we need to understand the phenomena at work and enhance effective multilateral economic and financial cooperation. The IMF is the keystone of the system.

I. The global economic situation is characterized by (i) disparate growth rates in different regions, (ii) continuing progress on desirable transitions and (iii) persistent risks and vulnerabilities.

1.1 The current global economic situation is one of contrasts

International organisations' growth forecasts have been revised downwards on a regular basis for the last several years, but this one-dimensional analysis obscures a more complex reality, where some regions of the world are coping with economic difficulties while others are seeing recovery taking root. The euro area has seen its growth stabilise, despite the Brexit vote. Its growth is driven by the dynamic expansion of the peripheral countries and the ECB's accommodative monetary policy, whereas the US economy remains sound, despite some minor downward revisions. Some of the large emerging countries, like Brazil and Russia, whose sudden economic slides were a major cause for concern for more than a year, are now starting to show signs of stabilising as well.

1.2. Disparate growth rates are a sign of sweeping transitions that primarily need to be understood and analysed.

China has started to rebalance the structure of its economy to ensure more sustainable growth, including social and environmental sustainability, in a shift to an economic model driven by innovation, services and domestic consumption. This determined transition effort by the world's second largest economy automatically produces consequences for the global economy, which all of us are now feeling. Nevertheless, the change was both necessary and welcome.

Oil prices have started to stabilise, after their slide that started in the third quarter of 2014. The positive impact on consumer countries, in the form of stronger demand, has faded, even as incentives for our economies' necessary transition to a low-carbon growth model have weakened.

For the last two years, a hike in interest rates in the US have been the source of many recurrent speculation, especially for emerging countries, which are structurally sensitive to capital flows and already coping with economic difficulties. Obviously, the potential spillover effects of such a rate hike will have to be monitored and kept in check, but we must remember that the likely rate hike is primarily a positive sign, because it is, above all, a reflection of strong fundamentals in the world's largest economy.

1.3 The transitions under way raise new risks and new vulnerabilities that we need to manage.

Low inflation, especially in the developed countries, is a sign of soft demand that hampers further progress towards our goal of sustainable and balanced growth. It also reveals the need for a more symmetrical adjustment between countries with current account deficits and those with surpluses. It is also an additional drag on indebted countries' public finances and a threat to the credibility of central banks, whose role with regard to price stability is critical.

The United Kingdom's announced exit from the European Union has also led to uncertainty in Europe, even though the initial shock seems to have been absorbed more or less successfully and the spillover effects seem to be limited for the time being.

The slowing economic growth of several emerging countries calls for vigilance, as public and private sector debt continues to rise. Low oil prices and, to a lesser extent, low commodity prices in general have also weakened exporting countries and low-income countries considerably, since their economies are largely based on extractive industries. This calls for in-depth discussions by the international community about the tools that could be used to prevent and manage this type of crisis.

In addition both political and geopolitical risks are continuing to worsen. Several leading economies are experiencing emerging or persistent political deadlock, as large numbers of refugees continue to head for Europe in a continuing and very real humanitarian catastrophe that has been unfolding for more than two years now. Furthermore, terrorism is still one of the very first threats that we must deal with in the firmest manner. We also need to be watchful about the impact of the uncertainties created by some sanction regimes that impede business relations in several parts of the world where economic growth is still weak. The scale of the difficulties caused by the withdrawal of commercial banks from all business with countries under sanctions calls for greater efforts to clarify the existing regulatory system and provide operators with the necessary legal certainty.

1.4 New risks include the rejection of a certain form of globalisation, and dealing with this risk appears to be a priority.

The worrisome rise of movements that reject globalisation, or, at least, certain forms of globalisation, along with fears about technological change, have caused a resurgence of populism and protectionism in many countries. **This phenomenon should remind us of our obligations related to social justice, fairness and fighting inequality. It requires us to strengthen measures to ensure that everyone benefits of the gains from globalisation and that technological change does not leave part of the population behind.** France has made its best efforts to ensure that the G20 work on the economic benefits of new technologies also incorporates the social dimension of the transition. The resulting changes in working conditions must be consistent with the population's rights to dignity, representation and vocational training.

II. The pursuit of a globalisation that benefits everyone calls for continuing coordinated multilateral action on short-term economic steering and on more structural changes.

2.1 The risks and challenges facing us call for a coordinated response.

Effective international coordination needs to continue to ensure strong, sustainable and balanced growth. In the case of the G20 countries, our effort must start with continuing to fulfil our commitments set out in the national growth strategies approved by G20 Leaders at their Brisbane Summit in November 2014. We have steadily built on these strategies to attain our shared goal of boosting growth. France has recently included several measures designed to improve the fluidity of its labour market. We have also included macroeconomic measures needed to support structural reforms, to ensure support for growth in both the short term and the long term, through measures that have been timed and distributed according to the flexibility and capacity of each of us. We must overcome the major macroeconomic imbalances. More specifically, countries with current account surpluses and the fiscal headroom for action should use them to boost growth.

2.2 The structural changes we are promoting at the international level need to be extended, while ensuring better distribution of the benefits of globalisation and technological change.

First of all, we need to find new drivers of growth by making the switch to the new economy and achieving energy transition. At the Hangzhou Summit, the G20 Leaders stressed the theme of innovative growth, which incorporates such critical issues as innovation, industrial transformation and the digital economy. Furthermore, the upcoming entry into force of the Paris Climate Change Agreement, less than one year after it was reached, gives us an incentive to step up the transition to a low-carbon economy. Investment in renewable energy and energy efficiency will provide new potential for growth and promote the creation of quality jobs. In this context, France is proud to lead by example, announcing its intention to issue the first sovereign "green" bond, which will raise new financing to support energy transition.

The benefits from these new drivers of economic growth should also be more widely distributed and contribute to a reduction of inequality. It stresses the need for more inclusive globalisation that benefits everyone. Technological change must be backed up by changes in our training systems, support for occupational retraining and better social protection for workers. The new drivers of growth also call for new thinking about how to share value added to the benefit of the largest number of people.

Bringing fresh momentum to potential growth also means ensuring total integrity of international capital flows and a level competitive playing field for all countries. This is a key priority for France in order to promote controlled globalisation. The integrity of capital flows requires a three-pronged approach:

(i) Combating tax fraud and evasion. The international community recently made considerable progress in this area, driven particularly by clear impetus from France. I would especially like to refer to work on tax information exchange. However, the abuse and misuse revealed by the *Panama Papers* show that it is vital to take our action a step further and this is exactly what the G20 has just decided to do, as it encourages jurisdictions that have not yet complied with regulations to meet OECD standards before July 2017, or else face being included on an international blacklist and undergoing retaliatory measures. Similarly, aggressive tax planning, which is on the borderline with fraud, must be countered. The implementation of the BEPS programme on base erosion and profit shifting should continue.

(ii) Combating corruption and money laundering. One of the main challenges is to ensure full implementation of existing transparency standards to unveil the beneficial owners of complex legal structures and provide for cross-border exchange of this type of information.

(iii) Combating the financing of terrorism. France has already implemented a number of anti-terrorist financing measures nationally, such as reducing the maximum limit for cash payments and strengthening our anti-money laundering unit TRACFIN's authority to report information. Europe is also active in this domain, as it is currently adopting a new directive bolstering European provisions to combat terrorist financing. The G20 structure enables us to further strengthen these moves as we increase communication between financial intelligence units, review the standards applied to the financial sector and increase the role and powers of the Financial Action Task Force (FATF).

More broadly speaking, the IMF, within the scope of its mandate, must work alongside and support these measures in the priority areas as identified by the G20 countries to regulate globalisation and ensure an even competitive playing field for all from three standpoints (i) an economic point of view (new macroeconomic balance based on monetary, budgetary and structural policy; dealing with excess industrial capacity), (ii) a trade standpoint (strategy for world trade, protective and non-discriminatory investment regulations, inclusion of SMEs in worldwide value chains) and (iii) socially speaking (high-quality employment, reduction in inequality, solidarity with refugees). These efforts need to continue in order to promote greater fairness in export credit practices and encourage high social and environmental standards.

Work to further strengthen the resilience of our financial system must also march on. The reform drive implemented in the wake of the 2008 financial crisis was both vital and useful. In the current context, we should on the one hand ensure a balance between meeting the economy's financing requirements and adopting a measured approach to these actions. In this respect, France supports the work carried out by the Basel Committee aimed at fine-tuning various items of the Basel III regulation out to the end of 2016, but this should not involve further significant increases in capital requirements and must ensure fair and even treatment of the various jurisdictions and different economic financing approaches. On the other hand, we feel it is crucial that risk monitoring work continue, particularly in the asset management sector. It is also essential that work on supervising market infrastructure and macro-prudential policies be sustained, and we need to remain attentive on the solidity and transparency of the process currently under way to name global systemically important insurers.
We also support the work of the Financial Stability Board aimed at reducing legal uncertainties that affect the correspondent banking business, and in this respect, it is fundamental to ensure that a clear legal framework is set for all concerned when implementing new regulatory requirements, which should include well-defined economic and financial sanctions.

We commend the progress made on work on our global financial architecture. Firstly, in view of the current economic situation, it is imperative for the IMF to have the necessary resources to deal with any potential crises. In this respect, renewal of the Fund's temporary resources is key (bilateral loans, New Arrangements to Borrow and resources from the Poverty Reduction and Growth Trust or PRGT). In light of poorer countries' vulnerabilities, it is crucial for the PRGT to hold sufficient resources to meet needs in these areas. The increase in the IMF's resources also needs to go hand-in-hand with the adjustment of the Fund's various instruments to meet the changing global economic climate. On the one hand, it is important to improve instruments ahead of financial crises, and in particular precautionary lines, while on the other hand, it is vital to adapt current instruments aimed at dealing with balance of payment crises to the changing nature of today's crises. The implementation of a new specific instrument for commodity-exporting countries that are faced with long-term energy price shocks is of primary importance in helping these countries in their transition towards a more diversified economic structure. It is also critical that these changes do not neglect PRGT recipients, as these countries must have access to the Fund's new instruments and enjoy increased access to the Fund's resources via work on the blending of available resources.

Secondly, if we look beyond the issue of instruments, we are admittedly gaining greater insight into the risks resulting from the volatility of capital movements, but the actual management of these capital movements still remains a key issue. It is essential that we close the statistical information gaps, and we should also continue monitoring risks and improving their early detection. More broadly speaking, exploration of countries' approach to and management of capital movements over recent years must be maintained. We look forward to hearing the results of the IMF's work in this field.

Thirdly, strengthening the international monetary system should involve an improvement in the debt restructuring process along with an increase in sustainability for sovereign debt. The implementation of new collective action clauses on sovereign bonds is a step in the right direction. It is also vital to increase the sustainability of sovereign financing practices in order to ward off the risks of a fresh spiral of debt, especially in Africa. Sustainable financing guiding principles could therefore be drawn up and shared by both lenders and debtors, in direct application of the action plan adopted at the Addis Ababa conference in July 2015. We must also work on improving technical assistance to low-income countries to help them in their debt management. The possibilities created by new instruments can promote sustainable debt situations, such as contingent debt instruments, and they therefore warrant greater analysis.

Fourthly, the IMF also needs to accompany and support the international monetary system's shift towards a more multi-polar monetary system. The inclusion of the renminbi in the SDR basket since October 1, 2016, along with the World Bank's issuance of SDR bonds in China, are moves in the right direction to support worldwide changes. I also encourage the IMF's endeavours as it looks into ways to adapt the SDR and extend its use.

Lastly, I would like to commend the new timeframe for finalising the fifteenth review, which firstly involves continuing the reform of the IMF's instruments, and secondly means reaching an agreement on the IMF's size, quotas and quota formula.

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In today's economic climate, characterised by ongoing economic changes and the persistence of certain risks and vulnerabilities, the IMF has a key role to play in monitoring the worldwide economic situation, assessing the existence and level of fiscal headroom in budget analysis, and preventing and managing balance of payment crises. In this respect, it must help and support structural changes in the world economy, work to strengthen world economic growth and promote greater distribution of globalisation benefits, while consolidating the resilience of our financial system and continuing to strengthen the international financial architecture and international monetary system.