



International Monetary and Financial Committee

Ninth Meeting
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Statement by by Mr. Nicolas Sarkozy
Ministre d'Etat, Minister of the Economy, Finance and Industry
On behalf of France

**Address by Mr. Nicolas Sarkozy, *Ministre d'Etat*,
Minister of the Economy, Finance and Industry**

**International Monetary and Financial Committee
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Dear colleagues,

This year's meeting is held at a time of global economic recovery. Europe – which will welcome 10 new member countries next week – and France in particular contributes to this recovery – even though growth still has to strengthen. I am pleased with these developments.

All the same, we cannot afford to sit back and watch while the recovery takes place. We have to consolidate it, but also to ensure that with strong policies and responsible economic behavior, growth will be strong, sustainable and will create jobs. External imbalances and their associated risks of exchange market instability, the increase in oil prices and excessive risk-taking behaviors on some financial markets, are threats we have to subdue. They are not the only ones : the recent events with the Madrid bombings and more generally the current geopolitical instability attest to the fact that economic activity is part of a larger context, which stability has to be ensured.

More than ever, we have to succeed in taking advantage of globalization, while mastering its disorders and excess. A responsible market economy will allow us to show our fellow citizens that we want to build the world they aspire to: a more prosperous world, securer and fairer.

A rapidly changing global economy fosters a feeling of anxiety and discouragement against developments that could be perceived as non-controllable: whereas globalization provides an historic opportunity to spread prosperity throughout the world, it also generates growing doubts and oppositions. It is our collective responsibility to deal with this worry and this sense of injustice.

This implies controlling economic risks and preventing financial instability factors, which could compromise growth. We must also fight against financial crime, such as the misuse of offshore centers, money laundering, financing of terrorism and corruption. A fairer world means a society where everyone has a job, where everyone can provide his family with a decent standard of living. This calls for stronger development efforts by rich as well as poor countries and the application of rules designed to align economic activity with the core values of human dignity, employee rights and preservation of the environment towards sustainable development.

In collaboration with the World Bank, the IMF plays a vital role in the service of these aims. The IMF is a key player in the prevention of economic risks, crisis resolution and development. While progress has been made in recent months, we need to remain vigilant.

I- A SAFER WORLD TO STRENGTHEN CONFIDENCE AND GROWTH

A- Economic policies appropriate to ensure a strong and sustainable growth.

The recovery is confirmed

We have a collective responsibility to make it stronger and sustainable: we need to consolidate the recovery with sufficiently accommodative policies when needed, while keeping them sustainable and forward looking. To do differently would neither be in the interest of developed economies, nor in the interest of the rest of the world. In this context, I fully share the IMF recommendations of a cooperative approach, notably aimed at reducing current imbalances : this will require a concerted effort and cannot be solved only by exchange rate moves, even less so if they are concentrated on the euro/dollar exchange rate.

We also have to ensure, collectively, that the oil price evolution will not impair growth. In the short term, the low level of stocks, associated with political uncertainty which weighs on several oil exporting countries and limited additional capacities of production, pushes prices up. In the longer term, producers should better integrate the dynamism of the Asian economies, which are ever larger consumers of raw materials.

The recovery is progressive in the euro zone, and we have to consolidate it. In this regard, the recent euro stabilization is welcome.

As for France, growth is moderate, around 2% on an annual basis. We have to do better, notably to improve the employment situation. My aim is to enhance and strengthen confidence while continuing to bring back public finances on a sustainable path. The government is also dealing with the challenges raised by the sustainability of the pension and healthcare systems, an issue faced by several economies amongst the most developed.

B- Improving transparency to preserve financial stability and fighting financial crime

The strengthening of financial stability is a condition for restoring and strengthening confidence and therefore promoting a strong and sustainable economic growth.

The Parmalat affair, late last year in addition to problems surrounding the *Long-Term Capital Management* investment fund, Enron and other major bankruptcies highlighted the need to develop instruments designed to ensure transparency and financial stability. Significant progress has been made thanks to the work of the Financial Stability Forum (FSF), headed by Andrew Crockett and subsequently Roger Ferguson, whom I want to salute here. Work on several subjects is ongoing : the code of conduct for credit rating agencies, the work on Basel II, greater transparency in the area of reinsurance and credit risk transfers. This work has to be enriched and accelerated. Modernization of accounting standards is well underway. We must make sure that the potential impact of these standards on financial stability, particularly with regard to fair value accounting methods, is well taken into account. Together with all other stakeholders, France will continue to pursue the efforts required to solve these issues.

The fight against all forms of abuse in the financial system must continue.

The offshore centers which do not comply with international standards and practices are sources of vulnerabilities for the international financial system. Our aim should be to address the potential systemic risks, to preserve savers' confidence and to fight against the use of some of these centers to channel money laundering and terrorism financing.

I am therefore extremely pleased that the IMF, in light of its great expertise, has become a major actor in the fight against abuses of the financial systems and against financial crime. Its continuing involvement is crucial, in particular as far as money laundering and financing of terrorism are concerned, both in terms of surveillance and of technical assistance. I would also like the IMF to contribute to a better monitoring of the off-shore centers that do not comply with international standards. It should follow up on the work it has already accomplished following FSF demand, by assessing the implementation of the standards on corporate transparency as defined by the FSF.

Recent events have painfully reminded us that the fight against money laundering and financing of terrorism must remain our priority. I am therefore extremely pleased that the IMF and the World Bank have renewed their pledge to tackle these issues in close collaboration with the FATF. A permanent role for these two institutions in this area within a comprehensive mission is an essential step forward, fully in line with their mission. This action has to be pursued, in particular to make sure that the necessary resources are allocated to this activity.

This system is completed by the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. It uses a particularly effective oversight mechanism, based upon mutual verification and inspection complemented by reports in the case of non-compliance. The improved transparency resulting from the ambitious reform of corporate governance principles currently being wrapped up at the OECD level will also help restore investor and market confidence as well as the confidence of other stakeholders, especially employees.

C- Financial crises cannot be prevented and solved by market forces alone

The IMF, with its high quality surveillance, provides guidance for economic policies and contributes to preventing crises.

Incontestably, the discipline accepted by all Fund's member countries to submit their situation and economic policies to its regular assessment constitutes the first tool for economic crises prevention. In this perspective, it fully helps to build a securer world. These last months, important progress has been made in developing regional surveillance procedures and launching the "balance sheet approach", which should allow the IMF to better identify vulnerabilities in our economies. In this regard, it is in our interest to ensure together that the IMF is provided with the necessary data.

Progress margin still exists in the functioning of surveillance. Reflexions on its organization should also be pursued. There are two main directions to develop : a more systematic evaluation of member countries regarding international financial standards (Basel II, IOSCO,...); a more systematic publication of reports.

Also, the suppression of the Contingent credit line (CCL) leaves, in my point of view, a gap in the set of tools available for the Fund in crisis prevention matters. It seems to me that a preventive facility which benefit would be conditional to sound economic policy implementation would reduce the probability that the recipient country effectively uses the resources of the Fund at a later stage, since the

risk of a crisis occurring would be reduced. France shares the concerns expressed by Brazil on this issue and we are looking forward to the Fund's proposals during the forthcoming board session on precautionary agreements.

The IMF crisis prevention role has been outlined more clearly in recent months but its financial situation needs to be preserved and efforts must be made to improve the interface between IMF and private sector intervention.

The crises facing the IMF in the last few years occurred at a time when there were no real criteria to define the terms of its intervention. Last year's definition of exceptional access criteria was therefore a genuine step forward. We must now ensure that these criteria are complied with when a country needs to borrow and that they evolve with the view to answer the needs of all members.

Access to the IMF financing must of course be consistent with the Fund's financial position. The current definition of criteria for exceptional access does not limit the maximal amounts of financing that could be made available to a given country. Should we go further and define access ceilings? I am not convinced of that, because we must be able to take into account the specificity of each situation. I don't think that a world where the IMF would have to limit on theoretical grounds its financial support towards a country facing a crisis but making all the necessary efforts and benefiting from a satisfactory level of private sector involvement would be a safer and fairer world.

Under these circumstances, we should pursue three objectives. First, we need to strengthen existing risk management instruments. This is the purpose of France's request to assess ex ante the impact of a default in every decision for exceptional access. It is also consistent with the objective of increasing the IMF reserves. Next, we need to remember that the IMF resources must be adapted to the changing international economic and financial environment. In other words, we must not just consider the concentration of risks taken by the IMF but also the amount of resources at its disposal. We must therefore stand ready to increase the Fund's quotas as needed. Lastly, the private sector must be asked to contribute financially on predictable terms and proportions. The envisaged sovereign debt restructuring mechanism would have allowed us to define more clearly and with greater predictability private sector involvement. We now have to find another approach, without losing sight of this aim.

Collective action clauses have proven their value but they need to be complemented by a framework for coordinating the actions of a number of different categories of creditors in the case of crises. The Code of Conduct can also serve to meet this need.

Collective action clauses (CACs) have become a routine feature of bond issues without raising issuing costs. They represent a concrete step towards an orderly crisis resolution framework, especially since the content of these clauses appears to be close to the best standards laid down by the G10.

All the same, CACs do not solve the difficulties raised by the need to aggregate claims and to coordinate creditors, let alone, of course, the problems left by the stock of debts existing before they came into use. The Sovereign Debt Restructuring Mechanism (SDRM) examined until last spring would have contributed to the necessary solutions but failed to attract the necessary consensus. The proposal to adopt a Code of Conduct, initially made by the Banque de France, currently examined by the G20 and coordinated by Brazil, provides a contractual, voluntary and flexible way for coordinating creditors. I support the ongoing work on this Code in order to make restructuring of sovereign debts, when necessary, more predictable. I therefore think it important at the present time to initiate the concrete writing of this Code, to "prove the move by walking".

II- A FAIRER WORLD TO SHARE THE GAINS OF GLOBALIZATION MORE EVENLY

A- Development is a commitment which binds all of us

Achieving the Millennium Development Goals must remain our priority, which calls for more official development assistance.

Progress reports show that the development, poverty-reduction and trade commitments accepted by the international community could not be achieved at the current pace by the initially agreed deadlines. We therefore have a duty to step up efforts to support the poorest countries in the current favorable environment. This requires joint efforts to develop innovative financing mechanisms. On April 8th, France co-organized a ministerial conference to give a new impetus to the development of new financial tools, such as the International Finance Facility (IFF), proposed by our British friends, and global taxation. I call on the Bretton Woods institutions to back this initiative with their entire expertise. Our action needs to be driven by the objective of increasing official development assistance together with ensuring greater effectiveness and better absorption capacity on the part of the beneficiary countries.

Moreover, we must continue to implement the initiative in favor of Heavily Indebted Poor Countries at a high pace.

Full implementation of the Heavily Indebted Poor Countries (HIPC) Initiative must be our priority. Despite encouraging progress in some areas, the challenges remain daunting. Let me give you two examples. On the one hand, a significant number of countries remains stuck at the threshold of the completion point and, on the other hand, debt remains barely sustainable in many low-income countries because of their continued vulnerability to exogenous shocks. We need to focus our efforts and allow countries with the worst problems to join the HIPC initiative.

Ahead of the debate on the sun-setting of the HIPC initiative, we need a clear view of the situation of each of these countries while keeping in mind the needs for ensuring fairness and for pushing for results. We must also make sure debt reductions within the framework of the HIPC initiative do restore debt sustainability in the long run. Additional debt reductions through topping-up at the completion point are our last opportunity to achieve this aim and to deal with the exogenous shocks suffered by eligible countries in recent years. I welcome the recent consensus on this issue and want it to be applied to all countries whose situation justifies its use.

Beyond the completion point, debt reductions will no longer be a solution to debt problems encountered by low-income countries. The new framework for debt sustainability analysis developed by the IMF and the World Bank should allow us to design a financing policy adapted to the situation of each country, based upon the quality of its policies and its vulnerability to shocks. It should allow us to establish, in coordination with other donors, a tolerable ceiling for loan financing and to deduce from it the volume of grants needed to cover the financing required to achieve the Millennium Development Goals (MDG). It could be a basis for a strengthened coordination among all donors, bilateral as well as multilateral.

This should make the debt crises, which are a major obstacle in these countries to achieve the Millennium Development Goals, less frequent and easier to overcome. This said, the reflections launched in recent years on the development of innovative instruments to deal with exogenous shocks should be pursued and all related concrete proposals should be examined. In this respect, I welcome the

orientation of the Fund towards a more systematic assessment and consideration of the effects of exogenous shocks on low-income countries, be they under or not under a Fund program.

France advocates a specific solution to integrate Africa in global trade, particularly in the area of agriculture

The European Union has taken many measures to promote exports by the developing countries. Thanks to its open trade policy, more than 40% of EU imports come from developing countries and it takes on two-thirds of Africa's exports. The European generalized system of preferences is one of the most favorable in the world and the Everything But Arms initiative makes a vital contribution to the poorest countries.

To illustrate the concrete commitment shown by France and the European Union in favor of Africa, I would like to single out two initiatives. First, the trade initiative in favor of Africa launched in February 2003 by the President of the French Republic. This initiative pursues three objectives: to harmonize to the top figure the preferences granted to the countries in Sub-Saharan Africa; to implement a standstill on export subsidies; and to reduce the exposure of the poorest farmers to the volatility of commodity prices.

At the Cancun Summit held last September, four African countries questioned the WTO members about the fate of the African cotton industry. Cotton is vital for development in Africa since its production involves two million farmers, impacts on fifteen million of the poorest people and is highly efficient. At France's behest, the European Union has launched an EU/Africa partnership in support of cotton sector development in order to deal concretely with this issue. The purpose of this initiative is to provide a permanent solution to the structural crisis sweeping the Sub-Saharan cotton sector. This solution is three-pronged: correcting the external factors which destabilize the market; consolidating the African cotton industry; and developing a framework designed to deal with the impact of volatile prices. This last aspect includes a feasibility study on insurance mechanisms to complement the financial instruments whose development was entrusted to the IMF and the World Bank by the G7 meeting in 2003.

More generally, I welcome the "Trade Integration Mechanism" recently launched by the IMF. This new tool will permit to counterbalance the potential negative short-term consequences of the erosion of trade preferences consecutive to regional or multilateral agreements. This short-term financial mechanism is a useful contribution to reinvigorate the Doha agenda negotiations. We cannot forget that the failure of the Cancun ministerial conference was partly linked to concerns expressed by some low-income countries on short-term negative consequences of an WTO agreement on their public finances.

B- Aligning economic activity with core ethical values

At France's initiative, the Declaration of the G8 Summit in Evian included provisions to promote effective regulation, transparent corporate governance practices and entrepreneurial conduct imbued with social and environmental concerns. This is the backbone of the principle of a responsible market economy.

In this light, France unreservedly supports the OECD Guidelines for multinational enterprises. These Guidelines lay down standards of responsible conduct based upon indicators measuring labor-management relations, environmental issues and civic responsibility. We need to reflect upon ways to

make these standards more effective since they constitute a framework within which it should be possible to balance the legitimate search for profit with basic ethical values.

The search for greater transparency is the cornerstone of the Extractive Industries Transparency Initiative proposed by the United Kingdom, which has France's unreserved support. This initiative will of course have to be implemented uniformly from one country to the next. This is why France suggests the World Bank's appointment as a trusted third party to certify the actual existence of the given financial flows.

III- THE INTERNATIONAL MONETARY FUND IS COMMITTED TO SUPPORT ALL ITS MEMBERS, NOTABLY THE MOST VULNERABLE.

A- The IMF is an institution based upon universality and multilateralism whose representativeness needs to be improved

The IMF operating rules embody the principle of mutual cooperation and assistance we want to see prevail in the international economic life. By providing the IMF with part of the reserves of their central bank, in accordance with the Articles of Agreement, the members commit themselves to the principle of solidarity. Symmetrically members must scrupulously comply with their obligations vis-à-vis the Fund. We must absolutely preserve these principles. If we were to fail to do so, we would undermine the mutual trust among members and thereby the IMF capacity to support each member when necessary.

The universality of the IMF membership gives it the necessary legitimacy and even the duty to help find solutions for the various needs of its members.

All the same, the IMF would be stronger if its membership were more evenly represented.

Developing countries must urgently be granted greater weight in IMF governance. France has traditionally and unwaveringly supported this view. While I am aware of the difficulties and opposition encountered by this position, I believe it is entirely consistent with the perspective of a fairer world.

B- Confirmation of IMF role in the low-income countries, notably in Africa.

The IMF has become a vital development player, particularly by supporting implementation of the strategies to fight poverty worked out in partnership with the World Bank. France sustains the continuation of this essential mission of the IMF towards its poorer membership, particularly in Africa. I am therefore very satisfied that a consensus in the Executive Board seems to emerge in favor of maintaining the PRGF after 2006 at a level compatible with the needs of the developing world.

Lastly, with the IMF beginning to play a permanent role in the developing countries, I believe that the Executive Board must once again examine the issue of the integration of its concessional facilities as part of its general resource account, which would make its role in the low-income countries a full-fledged activity of the institution.

This leaves us with the issue of exogenous shocks. The recent discussions of the Executive Board have opened up new prospects for more systematic and expeditious disbursement of concessional financing for the concerned countries.

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The ongoing global recovery should give us the incentive to rapidly implement the reforms necessary to achieve stability, to strengthen our commitment to the fight against poverty and to consolidate progress made in the area of a responsible market economy. We have two key instruments to achieve all this, the IMF and the World Bank. We must make sure they can fully play their role as catalysts of our joint efforts.