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Statement by Pierre Moscovici
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On behalf of France

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STATEMENT

by Mr. Pierre Moscovici, Minister of the Economy and Finance, FRANCE

In the current difficult environment, we need to support growth while ensuring fiscal sustainability. The need for cooperation is stronger than ever.

The global economic outlook remains very challenging. We are facing moderate growth or recession among major advanced economies – and major emerging economies are now facing a slowdown in growth, as well. For 2013 the prospect is for a modest recovery but this remains subject to a number of risks. On the whole, a high level of uncertainty still prevails among economic agents, which weighs on business and consumer confidence.

However, the past few months have also witnessed positive developments, especially in the euro area, where major reforms have been launched. They include the recent entry into force of the European Stability Mechanism (ESM), while the "banking union" we are putting in place will open the way to direct bank recapitalization by the ESM, so as to break the feedback loop between sovereigns and the banking system.

In this difficult context, we must all do our part. Fiscal consolidation remains a necessity in most advanced economies. Meanwhile, governments with fiscal room for maneuver, both in advanced and in emerging economies, should calibrate their pace of fiscal consolidation carefully, in order not to stifle growth. Emerging and advanced economies with large current account surpluses should further implement policies to foster domestic demand.

France, for its part, remains fully committed to its consolidation objectives for the coming years, while simultaneously planning a number of ambitious but fair structural reforms, aimed at raising medium-term growth and competitiveness. They will include reforms of the labour market and a reflection on the financing of social welfare, which could include a reduction in labour costs depending on the results of the current consultation, while a Public Investment Bank is also being set up, to improve financing conditions for small and medium enterprises.

In this context, it is crucial that the International Monetary Fund remains a powerful instrument, with adequate resources and tools, in order to offer its members the financial support and policy advice they need to solve the ongoing crisis and secure strong and inclusive growth.

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Determined action by the IMF throughout the current economic and financial crisis has been crucial to help its whole membership to face these difficulties.

To support the needs of its members, the Fund's lending activity has increased dramatically. Its total outstanding loans grew from around SDR 6 billion in 2008 to SDR 94 billion in 2012, reflecting both new assistance programs, including to support - both financially and through its expertise - the efforts made by European countries against the crisis, but also an increase in its precautionary lending under its new instruments, the Flexible Credit Line and the Precautionary and Liquidity Line. These new instruments which we have put in place since 2009 for countries conducting sound economic policies but in need of precautionary support are gradually being deployed in several countries. In Middle East and North African countries, the IMF has been particularly attentive to the evolving needs of these countries in transition. The arrangements agreed upon this summer with Morocco and Jordan demonstrate the Fund's capacity to provide its members with appropriate and timely support. This is most welcomed.

The Fund's support to its poorest members has also increased significantly. Its total outstanding concessional loans increased from SDR 3.9 billion in 2008 to SDR 5.5 billion in 2012. The IMF's role in helping these countries to raise economic growth, reduce poverty, and build macroeconomic buffers and institutional capacity during the crisis has been very positive. The IMF must continue to help these countries improve the design of their strategies aimed at supporting sustainable and inclusive growth. In this regard, we encourage the work done by the IMF to ensure that countries have adequate policies to better manage and reap the benefits of their natural resources.

All this provides an indication both of the difficulties faced by the world economy and of the Fund's reactivity and strong commitment to supporting all its members. We must remain strongly committed to ensure that the IMF will be in a position to continue to provide high quality, efficient and timely support to the benefit of its whole membership.

<u>In this regard, we have taken major steps to ensure that the IMF continues to have the financial capacity to fulfill its mission.</u>

First, we have proved our willingness to fulfill our collective duty to reinforce global financial safety nets. Our commitment to provide additional resources of up to 456 billion dollars to the Fund is of paramount importance at this critical juncture for the world economy. It demonstrates a spirit of solidarity to make sure that the Fund will have adequate resources to continue to play its systemic role. I very much welcome the signing of the first round of these bilateral contributions during the Annual meetings in Tokyo; the French loan of 31.4 billion euro will be signed on this occasion, ensuring that these resources become available as soon as possible. I call on other members to make similar efforts so that all these additional resources will be at the Fund's disposal in a short timeframe.

At the same time, we also took decisive steps to preserve adequate financial support by the Fund to its low-income members. The approval by the Executive Board of the distribution of SDR 1.75 billion in remaining "windfall" gold sale profits to the benefit of its poorest members is a key step to make the Poverty Reduction and Growth Trust sustainable. I strongly welcome this decision. I now call on all IMF members to provide the necessary assurances to the Fund so that this decision can become effective rapidly.

<u>The modernization of the IMF's surveillance framework is a major reform to improve its quality, its evenhandedness and its political traction.</u>

Bilateral, regional and global surveillance are at the core of the IMF's mandate to ensure the stability of the international monetary system. This year we achieved an ambitious reform of the IMF's surveillance framework by adopting the "Integrated Surveillance Decision", which will not only provide a unified framework for all forms of Fund surveillance, but also put multilateral surveillance on a firmer legal footing. Decisions have also been taken to provide better strategic guidance for the Fund's surveillance activity, notably in the financial sector. This modernization process also included the launch of initiatives to further refine the Fund's analysis of the externalities created by domestic and exchange rate policies on global economic and financial stability. I strongly welcome these developments.

We must now continue to work on further improving IMF surveillance. This includes working towards strengthened risk assessments that better integrate impacts on national and global economies of interconnections between the real economy and the financial sector, as well as capital flows and their management. The Fund must also continue to improve its coverage and expertise of financial sector issues in order to strengthen its surveillance and play an increased role in preserving financial stability and to contribute to the global regulatory reform agenda, in close coordination with the FSB. A sound analysis of risks is necessary to improve the IMF's policy recommendations in support of stronger growth. I also encourage the IMF to develop its expertise on structural reforms and social issues, in collaboration with other international organizations.

Looking forward, we all need to ensure that the IMF's governance remains in line with the evolutions of the world economy.

The swift implementation of the 2010 quota and governance reform must remain our priority. I deeply regret that we will not be able to deliver this major improvement in the IMF's representativeness in the timeframe agreed on in 2010, as some countries have not yet been able to ratify this reform – I urge them to do so expeditiously. This delay is affecting our credibility and the legitimacy of the IMF's activities. We need to keep in mind that the 2010 reform is a major move, which will allow the governance of the Fund to be fully in line with today's world economy: once the reform is effective, the quota share of dynamic emerging and developing countries will have increased by 9 percentage points compared to when the process of governance reform began, while protecting the voice and representation of the poorest countries.

France remains committed to pursuing the ongoing work to improve the Fund's governance, including by concluding the review of the quota formula by January 2013 and the next quota review by January 2014. Our objective must be to reach a new formula which captures the multiple roles of quotas and better reflects not only members' relative positions but also their integration in the world economy, as requested by the IMF's mandate, as well as their financial strength and ability to contribute usable resources to the IMF.

Improving IMF governance will also make it necessary to rethink its accountability and oversight framework. In this regard, I would like to recall that the IMFC has a key role to play in ensuring effective ministerial oversight over the IMF's actions and is the adequate venue for policy recommendations to be addressed. Its role could be further improved by giving it a decision-making role. Finally, ensuring the quality of one of the Fund's main resources, its staff, is also very important for France. In my view, this also means improving the diversity of staff, not only in terms of geographic origin and gender, but also in terms of academic and professional backgrounds.

Conclusion

In recent years, we have taken major steps to improve the IMF's effectiveness, credibility and legitimacy. There is no excuse for delaying the full implementation of these improvements and we need to fulfill our commitments. I therefore call on the IMF and on all its members to swiftly implement these reforms we agreed on recently. It is the IMF's capacity to pave the way towards a strong and sustainable economic recovery which is at stake. Challenges ahead of us in the coming years are significant; hence the need to remain committed to a strong global coordination of our economic policies and to ensure that the IMF continues to be in a position to keep up with its pivotal role in global governance.