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Twenty-Fifth Meeting
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Statement by François Baroin
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On behalf of France

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<u>The global economic outlook has improved since the beginning of the year, notably due to the significant economic policy measures taken by Europe since last Autumn – but risks have not disappeared</u>

Over recent months, the global economy has pulled back from the very worrying situation it was in at the end of last year.

Growth prospects have improved slightly since January, with global output now expected by the IMF to rise by 3.5% in 2012 and by 4.1% in 2013. This is less than had been anticipated at our last meeting in September – but more than had been feared this winter. It reflects higher growth projections for most advanced and emerging economies, including for major European countries like Germany, the United Kingdom or France. Regions like Central and Eastern Europe or the Middle East - North Africa area have even seen their growth projections raised by almost 1 percentage point since January.

Meanwhile, tensions on government bond markets in Europe, although not extinct, have eased somewhat, after the very high levels reached by sovereign spreads last November. We must of course remain vigilant and ready for any new deterioration. More generally, access to liquidity has improved, notably in Europe, creating better conditions on the banking markets.

These positive developments result in large part from several important economic policy measures taken since last Autumn, in particular in Europe.

In the euro area, several crucial steps have now been taken to stem the crisis. The Eurozone's "firewalls" – the European Financial stability Fund (EFSF) and the European Stability Mechanism (ESM) – have been strengthened; the financial capacities put in place by Europe to solve the crisis will reach a total amount of over USD 1 trillion when the ESM enters into force. In the past few months, the European Central Bank's two successive Long-Term Refinancing Operations (LTROs) have also greatly eased tensions on European financial markets. Meanwhile, far-reaching fiscal consolidation plans and structural reforms have been agreed in several Member States, and are now being implemented. France, for its part, has also taken a number of new measures, going beyond its existing international commitments, to boost competitiveness end employment, while maintaining its fiscal consolidation targets. Finally, the euro area's fiscal governance has been strengthened, with the "fiscal compact" now signed by Heads of State and government; it will enshrine the fiscal "golden rule" in Europe – a commitment long defended by France.

However, the situation remains fragile and risks have not disappeared.

Growth prospects are still relatively weak, with very limited expansion or negative growth expected this year in several advanced economies. The fiscal situation also remains a cause for concern in several major developed economies. Similarly, the expansion of credit in some emerging economies will need to avoid ending too abruptly and policies should strive to ensure a soft landing. Finally, an additional risk has also emerged, in the shape of a potential sharp rise in oil prices, linked to concerns over oil supplies; we should all be prepared to respond to this challenge, which underlines the relevance of the work being conducted on commodity price volatility at the G20.

Action is therefore still required on several fronts, to ensure growth-friendly fiscal consolidation in advanced economies, continued rebalancing of global growth, and strong global economic policy coordination.

The slight improvements to the economic and financial environment, which offer us some relative breathing space, must be put to use to implement the necessary reforms and not lead to complacency.

Among them, medium-term fiscal consolidation should continue in advanced economies, not only in Europe but also in the United-States and in Japan. However, fiscal consolidation should be as growth friendly as possible, and countries that still enjoy fiscal margins for maneuver should let automatic stabilizers work freely.

Structural reforms are also necessary. Preserving and raising potential growth is essential to improving longer-term growth prospects – without growth, there is no way out of the current crisis. And, for some countries, structural reforms are the main option available to support growth in the short term.

There is also still a need to sustain the rebalancing of global growth which is expected to slow in the coming years: advanced and emerging economies experiencing current account surpluses should boost their domestic demand while countries experiencing external deficits should strive to raise domestic saving.

Moreover, continued intervention by the IMF in all its Member States that require its assistance is also essential to achieve a more stable economic environment.

Finally, coordination and global dialogue on economic policy must continue and be deepened – this is why we are meeting today and why the G20 Framework for Strong, Sustainable and Balanced Growth should remain an ambitious platform for designing, implementing and monitoring economic policy at world level.

In order to help its Member States to face current challenges, the IMF needs to remain a pivotal global player in the world economy

In 2011, the French presidency of the G20 sought to emphasize the IMF’s central role in the international monetary system. I wish that the momentum we worked to create will be sustained over the coming years.

To cope with the destabilizing consequences of the crisis on external balance sheets, the Fund’s lending activity has increased dramatically over the past few years. To support its members, total loan commitments increased from SDR 144 billion in July 2010 to SDR 202 billion today, reflecting both the new assistance programs but also an increase in precautionary lending under the new instruments FCL and PCL. This gives an indication of both 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 ensuring that IMF action will continue to benefit its whole membership. This is why continuing to adapt the Fund’s instruments and resources to the challenges of the world economy is essential.

Much progress has already been made in the last few years to allow the IMF to respond to the various needs of its members. New instruments have been developed to increase the Fund’s role in crisis prevention and risk mitigation. In 2011 we created in particular the Precautionary and Liquidity Line (PLL), which aims to reinforce global financial safety nets, after the creation of the Flexible Credit Line (FCL) in 2009 and of the Precautionary Credit Line (PCL) in 2010. Adapting the IMF’s tools was necessary to tackle the crisis and prevent contagion. The range of the Fund’s tools has also been widened through the creation of the Rapid Financing Instrument (RFI), which allows emergency support in a wide range of circumstances, including those arising from commodity price shocks, natural disasters, post-conflict situations and emergencies resulting from structural fragilities. We must continue to be vigilant as to the adequacy of the Fund’s instruments and make them evolve according to our collective needs.

To continue to play its role and to prevent further risks, the IMF needs additional resources

Our common interest is now clear. We should be able to ensure that global financing resources available are adequate not only to resolve the crisis but also to secure global stability.

We have taken important steps since the 2009 decision to triple the IMF's lending capacity. For more than a year now, we managed to preserve the IMF's intervention capacity, notably by fully activating the New Arrangements to Borrow. At a regional level, euro area countries have provided a comprehensive plan proving their determination to bring their full resources and entire institutional capacity to bear in restoring confidence and financial stability, and in ensuring the proper functioning of money and financial markets. In Copenhagen in March, we decided to significantly increase our regional firewalls. This represents an essential input to this global strategy.

Nevertheless, in today's interconnected world, no economy will be immune if risks intensify and adverse scenarios materialize. Stemming contagion and securing global economic stability, by providing the IMF adequate resources to fulfil its systemic role, must remain our main priority. At this critical juncture for the world economy, it is now our collective duty to ensure that the Fund will have substantial additional resources to the benefit of its whole membership, in order to cope with downside risks in the near future. The Fund has announced that its resources should be raised by at least USD 400 billion and we welcome the pledges received up to now, beyond the USD 200 billion already committed by euro area countries. We should remain committed, in a spirit of both solidarity and compromise from all, to ensuring the IMF's capacity to resolve the current crisis and secure global stability in the future.

It is also necessary to preserve universal access by all Fund members to the Fund's support – the IMF should not be an instrument available only to emerging or advanced economies. We should therefore ensure that the Poverty Reduction and Growth Trust's capacity remains adequate to provide support for low-income countries. France has agreed to the transfer of its share of the SDR 0.7 bn partial distribution of the general reserve resulting from windfall gold sale profits. Going forward, making the PRGT a self-sustained instrument over the long term should remain a priority, in order to ensure the IMF's continued support for low-income countries, and I look forward to upcoming discussions on this issue later this year.

The Fund's capacity for adaptation proved of paramount importance to help low-income countries to overcome the effects of the global recession. The IMF's action in LICs needs to be sustained; it consists of policy advice, of technical assistance and of financial support. I welcome the approval of one more year of 0% interest rate on PRGT loans, which gives more room for maneuver for these countries in a still uncertain economic context. The next review of the IMF's lending tools for low-income countries will also be crucial and has to be comprehensive.

Reforming IMF surveillance is crucial to improve the credibility and legitimacy of IMF advice, as well as its traction.

Bilateral, regional and global surveillance is at the core of the IMF's mandate to ensure the stability of the international monetary system. In that field, lessons have already been learnt from the crisis. The Fund's surveillance has been modernized through the creation of spillover reports for systemically important economies and a stronger emphasis has been put on financial sector surveillance. Important progress has been made towards offering IMFC members timely information on systemic risks, *via* the Early Warning Exercise.

We should now consolidate this progress and allow for further improvements. It is important that IMF surveillance be put back on a firm legal footing, which better reflects the goal of ensuring global economic and financial stability. The framework of bilateral surveillance, while maintaining a focus on exchange rate policies, should better take into account all relevant domestic policies; the framework of multilateral surveillance can at best be described as partial; and there is little integration between the two. Furthermore, the IMF relies on the voluntary cooperation of its membership in order to produce the spillover reports. For a rules-based institution like the Fund, this is problematic and over time risks undermining the credibility and legitimacy of surveillance. I therefore strongly support ongoing efforts to adopt an ambitious and consensual new Integrated Surveillance Decision, reflecting a more balanced treatment of all policies, and I look forward to the next steps that will lead to the adoption of this decision.

Nevertheless, an ambitious strengthening of IMF surveillance would be pointless without the parallel reinforcement of its political traction. The IMFC has a key role to play in ensuring effective ministerial oversight over the IMF's action and is the adequate level for policy recommendations to be addressed. The IMFC could notably adopt annually the Statement on surveillance priorities. The Fund's accountability to its membership could also be deepened through the annual examination of the performance of IMF surveillance, compared to the Statement of priorities.

Beyond the need to reinforce the information it receives, the IMFC should be given a decision-making role. I would welcome the IMFC being given a leading role in the strategic oversight of the IMF's activity.

Conclusion

In order to fulfill its missions under good conditions, **the IMF needs to remain legitimate** in the eyes of its Member States. A **swift implementation of the 2010 quota and governance reform** is essential to reach that objective; it will rebalance the Fund's governance in view of the emergence of new global economic powers.

The agreement found in 2010 on IMF governance and quotas marked a milestone in our common will to adapt the Fund to the reality of a globalized and changing economy. As already agreed, we must make ratifying this agreement our collective priority. For its part, France has now fully ratified the reform.