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Statement by Christine Lagarde
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On behalf of France

Statement by Ms. Christine Lagarde
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to the International Monetary and Financial Committee (IMFC)
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The economic situation has improved, thanks to the sweeping, coordinated measures we implemented. The return to quarter-on-quarter growth in France, Germany and Japan after four consecutive quarters of negative figures is an encouraging sign indeed. But **the recovery is still shaky** and the risk of backsliding is still very much with us. Unemployment will continue to drag down growth rates, private investment stands at a low level, and the banking sector is still dependent on government support. That means that we must continue to deliver on our commitments, both by **sustaining demand** until the recovery has clearly taken hold, and by further treating **financial regulation** as a key priority.

But at the same time, we need to start designing **adequate post crisis growth models,** along with strategies that prepare the transition from an economy on life support to an economy capable of strong, sustainable growth. The IMF has a critical role to play in this process. The Fund must help us develop a more balanced economic model, and that is what makes it so important for the IMF to participate actively in the framework for coordinating economic policy announced by the G20 in Pittsburgh, whenever fiscal, monetary, structural or trade issues are at stake. The Fund must help us devise the exit strategies we will implement in a coordinated fashion as soon as the recovery is well underway. The Early Warning Exercise is therefore essential, since we need to be properly alerted to the risks facing our economy, both in the current situation of fragile recovery, and subsequently on an ongoing basis.

To be fully able to take on this critical role, the IMF has to leverage the positive momentum of these past several months as the Fund successfully adjusted to the needs of its members. The IMF must become more legitimate and more effective, and we can help bring that about by delivering on our commitments. To boost the Fund's resources, we should incorporate our additional funding into the Fund's more flexible New Arrangements to Borrow. The IMF's concessional resources should also be expanded now that a concerted drive is under way to step up lending to low-income countries facing major difficulties. In addition, the general allocation of Special Drawing Rights (SDRs), which has led to a substantial and welcome increase in members' reserves, should be extended through supplementary mechanisms that further enhance their usefulness. Lastly, the necessary reform of IMF governance should be completed by January 2011, with all facets being dealt with concurrently. On all these fronts, France intends to make sure that the commitments undertaken will be honored on schedule.

1. The economic situation has improved, due to measures designed to support demand and restore growth

After the highly negative figures of late 2008 and the first quarter of 2009 in the advanced economies, the economic situation picked up in the second quarter, as demonstrated by the quarter-on-quarter growth achieved by France (+0.3), Germany and Japan.

This improvement was unquestionably made possible by the measures we adopted to support demand and restore growth. The **central banks** have lowered their key rates and adopted non-conventional measures. **Governments have also intervened,** initiating large-scale stimulus plans that have drawn further strength from the existence of automatic stabilizers, which have proved particularly effective in Europe. In France, for example, the stimulus package for 2009 and 2010 totals 45 billion euros, the equivalent of 2.4 percent of annual GDP. It will boost GDP by 0.5 percent in 2009 and by 0.2 percent in 2010. Stimulus packages introduced in other countries are expected to impact growth in the developed economies to roughly the same extent as national recovery plans. Finally, **government measures in support of the banking sector** have enabled the banks to maintain their operations and continue providing credit to consumers and businesses.

The full range of monetary, fiscal and financial measures adopted have also helped restore confidence and increase liquidity in financial markets. As a result, stock markets have bounced back — by 37 percent since last April, risk premiums on bonds issued by banks have gone down, with spreads on banks returning to their level prior to the Lehman Brothers collapse, and issuance by private-sector participants has resumed.

2. Yet the situation is still shaky enough to warrant further efforts in the same direction

The economic upturn under way should not lead to complacency, however. **The recovery is still shaky,** and the down side risk factors are many. **Rising unemployment,** a major source of concern, will act as a drag on medium-term growth. Likewise, **private investment**, which has been hard-hit by the crisis, is still at an extremely low level and is unlikely to contribute much in the way of growth. Lastly, **commodity price volatility** is a particularly damaging source of instability. France is determined to enhance oil market transparency and to strengthen dialogue between producers and consumers; our aim is to keep oil prices within reasonable limits.

We must therefore maintain our efforts to deliver on the G20's commitments. Any premature withdrawal of stimulus would be a serious mistake. And while it is essential to start working together to prepare effective exit strategies, I must emphasize that withdrawing our policy support as of now is simply out of the question.

3. Strengthening financial regulation must remain a key priority

Implementing financial regulation reform on the basic terms agreed to by the G20 is also a priority. This applies in particular to market operators' compensation, which in the past provided incentives to take excessive risks. We must also make sure that the Basel II capital framework is implemented by January 1st, 2011. Between now and then, we need to reinforce this framework by including the obligation for securitization originators to retain a part of the risk of the underlying assets on their balance sheets, along with tougher supervision and prudential requirements for systemically important financial institutions. In addition, sanctions against tax havens will have to be used as of March 2010.

4. The IMF must play a critical role in developing new growth models for after the crisis

Although the situation is still too shaky to allow us to withdraw our stimulus plans, we need to start working as of now to develop new growth models for after the crisis.

Devising new growth models is essential, because **the crisis has affected the growth potential of our economies.** France is currently engaged in an intense process of designing new investment priorities that can significantly raise the country's growth potential. Implementation should begin next year.

In global terms as well, we need to **find new sources of growth.** The traditionally consumer-driven U.S. economy is unlikely to retain its former status as the engine of world growth. Over an extended period, American consumers will have to rein in their spending in order to bring their debt down to a more sustainable level and rebuild the savings they lost to plummeting housing prices and financial markets. A return to sustainable global growth requires other sources of growth. Countries with significant savings generated by high current account surpluses should now move to boost domestic demand. This is essential to **rebalancing and strengthening growth,** especially since the crisis has only partially reduced global imbalances.

Once this objective has been set, **we need to develop strategies that lead us out of an economy on life support.** Those strategies must be implemented in a coordinated way as soon as recovery becomes firmly secured. The IMF and the Financial Stability Board must help us with this process, cooperatively designing the right sequencing for scaling back fiscal, monetary and financial sector support programs, both in each country and across the international community.

With these upcoming challenges in mind, France welcomes the establishment by the G20 of a framework for **coordinating economic policy, whether it involves fiscal, monetary, structural or trade issues.** The IMF has a vital role to play in this area by providing assessments as to the relevance and consistency of our national economic policies. The Fund must also advise the G20 countries to ensure that their policies are consistent with our shared commitment to balanced national and international growth.

5. **The IMF must continue to alert us to the risks facing our economy, both in the current situation of fragile recovery, and subsequently on an ongoing basis**

The Early Warning Exercise conducted by the IMF and the FSB, whose purpose is to identify potential risks and their probable impact if they were to materialize, and advise the authorities on corrective measures likely to mitigate that impact, **is a most welcome development, not only in the current situation of fragile recovery, but also going forward.** The EWE fits perfectly with the IMF's surveillance mandate, and we are entirely in favor of it.

Although the fragile nature of the recovery under way quite understandably dominates current thinking, **the Early Warning Exercise should not be halted once the crisis is behind us.** The crisis serves as a reminder, if we needed one, of how important it is to have an institution at the center of our international financial architecture that can monitor economies and support us including financially whenever required.

6. **The momentum for reform must be maintained in order to make the IMF more effective and legitimate than ever.**

The value of reforming the IMF lending framework has been amply confirmed. The overhaul of that framework stands out as both a major success and a turning point. The outcome is that the Fund is now **better equipped to avert economic and financial crises.** The new Flexible Credit Line (FCL) marks a substantial step forward that has already demonstrated its value, since the three beneficiary countries so far — Mexico, Poland and Colombia — have ultimately managed to get along without using the resources made available to them.

The swift, large-scale move of the international community to provide the IMF with additional resources must now be prolonged through incorporation of those resources into more flexible NAB.

France, a country that has strongly advocated **a significant increase in IMF resources,** has been highly active in the European Union's efforts to achieve such an increase. On July 29, 2009, France signed an agreement to lend the IMF 11 billion euros, which corresponds to the country's share of the 75 billion euros in support promised by the European Council on March 19, 2009. Convinced of the need to go further, the European Council then raised the commitment of the European Union to 125 billion euros, or roughly 175 billion US dollars. On that basis, France will be increasing its contribution to more than 25 billion US dollars.

At the IMFC meeting in April 2009, we resolved to make the New Arrangements to Borrow the unified mechanism to supplement IMF resources. That decision must now be put into practice with no further delay.

The general allocation of SDRs should be extended through supplementary mechanisms. France is extremely pleased with the 250 billion-US-dollar general allocation of SDRs, supplemented by a special allocation totaling 32 billion US dollars. France also welcomes the commitment by several countries, among them the United States and China, to take part in the voluntary trading arrangements for SDRs. France urges as many countries as possible to agree to such arrangements with the IMF in order to ensure adequate liquidity in the SDR market. At the same time, ways and means for enabling the poorest countries to benefit most effectively from the allocation of SDRs should be explored.

The reform of the IMF's concessional facilities for low-income countries must be accompanied by the necessary financing.

The economic outlook for low-income countries (LICs) has taken a definite turn for the worse. The IMF has successfully adjusted its lending programs to cope with this new situation.

The international community must live up to its responsibilities by financing the IMF's commitments. Today, France is doing just that by providing significant concessional resources to the Fund. This contribution has been bolstered by a concessional loan of 1 billion U.S. dollars to the IMF's concessional lending facilities, arranged on August 20, 2009. The next key step is to expand the list of donor countries.

I wish to stress how committed France is to seeing the IMF play a role in low-income countries that goes beyond merely ensuring macro-economic and financial stability. It is crucial for the Fund to be able to base its action on an instrument combining the promotion of growth, support for development and the reduction of poverty. The Poverty Reduction and Growth Facility has demonstrated how effective it can be, and France would like its successor, the Extended Credit Facility, to become the mainstay of IMF concessional lending activity.

Above all, the crisis highlights the Fund's vital function in addressing the economic and financial shocks that so many countries are bound to experience. It therefore highlights the need to **give greater legitimacy** to the IMF, to expand the political scope of an institution that, as France sees it, should play the leading part in the global economic governance of tomorrow.

France would like for **reform to encompass all facets of IMF governance.** While quota reform is an essential component of the process, France believes that no issues should be blocked out. Quota re-alignments and increases, the establishment of a Ministerial Council, the efficiency of the Executive Board, staff and executive diversity are all points that deserve to be addressed. As far as quotas are concerned, we are committed to participating actively in the current efforts to carry out the agreement reached in Pittsburgh, which calls for a shift in quota share toward dynamic emerging and developing countries of at least 5 percent from over-represented countries to under-represented countries, without modifying the current quota formula.