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Statement by H.E. Ms. Christine Lagarde,
Minister of Economy, Industry and Employment, France

On behalf of France

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Economic activity continued to contract sharply in the first months of 2009 and the outlook still remains highly uncertain. Nevertheless, over the past few weeks, some signs of stabilization have been noticeable, in particular regarding trade flows.

Governments have taken exceptional and coordinated measures to restore growth and central banks have used a vast array of instruments to provide liquidity to capital markets and unfreeze credit markets. These measures, along with existing safety nets, will have a gradual impact on activity in the run of 2009 and 2010. Exit strategies should be designed without delay and we should commit to maintain our public finances on a sustainable path.

Without waiting for the benefits of these measures to materialize, we need to implement swiftly the decisions agreed by the G-20 Leaders regarding the reform of financial regulation. We will need to progress in parallel to avoid any possibility of regulatory arbitrage, as embedded in the principles formulated by the G-20 Leaders. Notably, France will monitor particularly closely the implementation of the decisions taken in several areas: the actions against non-cooperative jurisdictions thanks to the OECD, the FATF and the FSB; the definition by the FSB of the systemic nature of an institution; the determination of quantitative retention requirements to improve incentives for risk management of securitization; the compliance by our institutions to the common principles on compensation that we have endorsed.

The IMF will have a major role to help the international community implementing its reform agenda and restoring global stability. The IMF has already proven its reactivity and relevance by swiftly overhauling its lending framework, including the creation of the Flexible Credit Line. Its main priority over the next months will be to complete the increase of its resources to help emerging economies and low-income countries cope with the crisis. The reform of governance will need to adapted to meet these challenges, and it will therefore need to be addressed comprehensively by dealing with all its aspects.

1. The outlook for the world economy, affected by global deleveraging and a fall in world trade, is uncertain

The year 2008 ended on very gloomy perspectives, and early 2009 did not bring any surprise in terms of economic activity. GDP has suffered a major contraction in the 4th quarter of 2008 in advanced countries, and is expected to experience a similar contraction in the first quarter of 2009. Domestic demand has been significantly contracting in developed economies, in particular in countries where growth relied heavily on credit. The free fall of demand in these countries has in turn severely affected countries with export-driven growth models and the drying up of capital inflows has weakened the balance of payment of many countries.

At present, t**he outlook remains highly uncertain**. If core inflation is expected to remain positive in advanced countries, with the notable exception of Japan. A materialization of deflationary risks in some areas of the developed world while very improbable would severely hamper a rapid pick-up of growth. In this context non conventional measures to improve liquidity and reduce the cost of funding for the real economy are welcome and may need to be further extended. However, these measures if necessary today, may turn out to be challenging in the future and the question of the exit strategies, once the economy recovers, should then be swiftly addressed.

For the time being, one should not succumb to excessive pessimism and there has been some signs of stabilisation in the past few weeks. In particular, the latest data on trade of G7 countries and emerging Asia suggest that international trade might be stabilizing after its rapid contraction recorded since last autumn.

2. External shocks have exacerbated domestic vulnerabilities in some emerging countries

In the course of the last quarter of 2008, emerging economies suffered both from declining external demand and disruptions in international financial markets. The crisis now takes its toll on domestic growth factors, notably consumption and investment.

Central and Eastern European countries, which were highly vulnerable to credit market shocks because of their large current account deficits and external debt, have been hit hard by the contraction of capital flows and the downturn in Western Europe.

At the opposite of the spectrum, countries that relied on export-led growth models, most notably Asian countries, are also affected by the crisis. They should now rebalance their domestic growth towards domestic demand, notably private consumption.

France is closely monitoring the developments in Eastern and Central Europe. The European Union is ready to intervene in the region in close cooperation with the IMF whenever it appears necessary, as has already been done for the EU member States Hungary, Latvia and Romania. **In order to strengthen its assistance tools, the EU recently decided to double to 50bn€ the ceiling of its balance of payments assistance facility. We welcome the joint Action Plan by the World Bank group, the EBRD and the EIB** to support banking systems in this region. We also welcome the recent commitment of European banks to maintain their exposure in Serbia and Romania. **Private sector involvement is certainly a key element to stabilize countries affected by the crisis, in this region as well as in the rest of the world.**

3. The unprecedented and concerted actions we took in the recent months will help to restore growth

There is some silver lining. As for France, consumption has been resilient and after 5 months of significant decline, industrial production has stabilized in February. In some emerging countries, particularly in Latin America and Asia where banking sectors are less exposed to the financial crisis, recovery may come more quickly than in advanced economies.

Those glimmers of hope have been lit thanks to the **large and coordinated actions we collectively took to sustain demand and stabilize the financial system.** Major central banks have taken measures to thaw money and credit markets and used their policy instruments to ease monetary conditions. Interbank spreads are now back to pre-Lehman levels. Governments are engaged in a significant and worldwide fiscal stimulus and are supporting business financing and the economic activity with special focus on SMEs. In addition to these, automatic stabilisers are playing a very significant role in stabilizing the economy as they are targeted towards those who are the most affected. This is particularly true for European economies where they are large. Regarding the financial sector, each country is implementing what is needed according to its situation. Yet, a strong coordination is needed to maximize the positive effect of national measures and minimize distortions between jurisdictions. Actions should be taken in a responsible manner with regard to their impact on other economies and in particular competitive devaluation of currencies are not welcome.

These measures will have a gradual impact on activity during the course of 2009 and will allow a significant pick up of growth and jobs next year.

We are facing a rapid increase of public debt especially in some developed countries that heavily supported the financial sector; we need to reaffirm our commitment to a consolidation path of our public finances once the economy recovers and make clear that fiscal expansionary measures are temporary.

4. Implementation of largely supported measures should be at the top of priorities notably in the field of financial regulation

G20 leaders took very important decisions: it is the responsibility of each of us to implement all of them as soon as possible. The most virtuous must not be penalized because some are delaying implementation of the decisions, thus creating an uneven playing field.

France already launched some actions, notably on compensation in the financial sector. After consultations between the industry, regulators and supervisors, a comprehensive list of principles is now being implemented and I asked the regulator to establish a progress report by May 2009.

Pursuing the fight against non-cooperative jurisdictions is a top priority for France. It is a matter of financial stability and consistency of the financial regulation reform: macroprudential supervision will be efficient only if there are no loopholes in its scope. In this respect, France welcomes the publication by the OECD of a list of countries that have not substantially implemented the internationally agreed tax standard. France will pay particular attention to the evolution and monitoring of this list. I call on the FSB and the FATF to publish a list of non-cooperative jurisdictions in their respective prudential and AML/CFT fields. They should build on existing FSAP which should be reinforced for all countries with large financial sectors with respect to their economy. All three institutions should swiftly adopt a toolbox of sanctions, which could include a full ban of our banks' activities in these jurisdictions. France asked the financial industry, in consultation with its partners, to contribute to such a toolbox.

G20 Leaders asked international institutions and regional development banks to review their investment policies. As institutions of the international community, they have to be exemplary. To that end, we should ask them to report on their use of non cooperative jurisdictions and provide proposals to unwind their financial relations with such jurisdictions before summer.

In order to ensure global financial stability, we need very consistent and substantial international standards, notably to avoid regulatory arbitrage between jurisdictions. In this respect, I strongly welcome the establishment of the Financial Stability Board, which will, in close cooperation with the IMF, participate in the implementation of major agreed decisions. Among those, France attaches particular importance to the production by the IMF and the FSB of guidelines for national authorities to assess whether a financial institution, market, or instrument is systemically important, as it will now be subject to supervision. In this respect, we welcome US and EU moves to create each an institution in charge of macroprudential and systemic risk supervision. More specifically, international standards should be elaborated for oversight of hedge funds as such and the leverage they use and better organisation of derivatives markets. France will also be promoting the swift definition by 2010 of harmonised quantitative retention requirements within the Basel Committee as a way to improve incentives for risk management along the lines set by the EU. Enhanced prudential tools are also needed to mitigate procyclicality, notably through through-the-cycle provisioning standards from the Basel Committee.

Last, **pursuing adjustment of accounting standards and of IASB governance** is key to ensure that financial institutions evolve in a framework that is consistent with what our societies expect from them: to finance the economy while ensuring financial stability. To that purpose, regulators and supervisors must be associated within IASB as part of a real reform of the IASB and accounting standard setters should improve standards for the valuation of the financial instruments based on their liquidity and investors' holding horizon.

5. Multilateral institutions have an important role to play to alleviate consequences of the crisis and the IMF has been exemplary

Multilateral institutions have an important role to play in the current economic and financial crises, particularly the IMF. As the crisis underlines, we live in a global environment where every part of the world is connected to each other. International financial institutions, representing almost all countries in the world, can provide countercyclical support when private and public capital flows tend to dry up and their expertise to deal with the current crisis is remarkable.

We look forward to the presentation by the IMF and the FSB of the first early warning exercise for the Spring meetings and its standardized and finalized version that should be implemented by the Annual Meetings. Such an exercise, by flagging potential risks and their associated costs and providing adequate advice to authorities on corrective measures, will undoubtedly enhance the ability of the international community to address in due time underlying and mounting vulnerabilities.

a. France welcomes the creation of the Flexible Credit Line and the move towards more preventive action of the IMF

The IMF has been exemplary in the recent months in adapting its tools to assist members cope with the crisis. It has achieved a **major overhaul of its lending framework** which was approved on March 24. A Flexible credit line arrangement of

$47 billion for Mexico has already been approved by the Board. Poland and Colombia have made similar requests of respectively $20.5 and $10.4 billion. These two announcements and the very positive reactions of the markets underline the relevance of the IMF's greater role in crisis prevention. This will provide high performing economies with adequate buffers against the global economic strains. The move towards more flexibility and early preventive action along with streamlined conditionality is also illustrated by other far reaching reforms such as: a new framework for High Access Precautionary Arrangement (HAPA), which are precautionary Stand-by Arrangements with frontloaded access and streamlined and better tailored conditionality; a simplified and more adequate framework for charges and maturities.

b. *France calls on its partners to rapidly address the urgent IMF resources needs*

Since last November, the development of the crisis and its spillovers to emerging economies has underscored the need for more **IMF resources**. The new lending framework, allowing for more flexible and high access programs adds to those potential needs.

France fully supports the significant increase of IMF resources decided by the G20 leaders and, accordingly, will be part of the international community effort to increase IMF resources. France is committed to deliver expeditiously its share of the March 20 European council announcement to provide a €75 billion loan to the IMF: it will provide a $15 billion bilateral loan to the Fund.

These bilateral loans will have to fold in enlarged and increased New Arrangements to Borrow by up to $500 billion into which France will be keen to take its full part, in proportion with its quota shares. France calls for a broad enlargement of NAB participants to major advanced and emerging countries, and in particular to countries that have accumulated significant amounts of foreign exchange reserves. In that regard, France believes that the flexibility of this multilateral framework will need to be increased so as to allow a broader participation.

France supports a general SDR allocation to increase global liquidity. France welcomes the early informal assessments provided by the IMF and urges it to update its operational framework to implement it, including a review of the likely implications for different groups of countries and for the international monetary system. A review should be made in due time so as to counter potential negative effects. In parallel, France urges all IMF members who have not yet done so to ratify the Fourth Amendment to the Articles of Agreement.

c. *Addressing the needs of the Low Income Countries is essential in the current crisis context*

The current crisis is global and low income countries are particularly hard hit. France believes that the Fund has a unique role to play in these countries, through its concessional instruments, aiming at maintaining macro-financial stability and sustainable economic growth while taking fully into account the need to foster poverty reduction. France sees these issues as on top of the forthcoming reform agenda.

T**he international financial support to LICs must step up and more resources are needed here too.** In this respect, **A doubling of the levels of access under the**

PRGF and the ESF, along with an increase of the level of concessionality of the PRGF, are immediate priorities. Besides, additional resources from agreed sales of IMF gold, together with surplus income, are relevant financing options, provided it remains consistent with the new income model approved last year. But this new source of financing must not divert the international community from its responsibilities. We call for an increase of the number of contributors to the PRGF-ESF trust fund. Bilateral financing is the most appropriate way to ensure long term financing of concessional assistance.

d. Set governance standards up to the current challenges

G20 Leaders stressed the need for the world to have a multilateral institution at the centre of the world economy endowed with adequate resources and prerogatives. They trusted the ability of the IMF to fulfil that role, thanks to its universal membership, its surveillance mandate, its financial instruments and the quality of its analysis and recommendations. The governance of the Fund must stand out with the highest standards and reflect the challenges of the world economy moving ahead.

To move in an expeditious and orderly manner, France calls on all Members to implement the package of IMF quota and voice reforms that was agreed in April 2008.

France welcomes the Manuel report and notably its comprehensive approach that encompasses all the aspects of governance review. The report first acknowledges, and rightly so, the need for the international community to have the IMF at the centre of its financial architecture. It proposes a full set of far-reaching proposals that underscore both the variety of subjects and how intertwined they are. We look forward to a discussion of all these elements.

France is particularly supportive of activating the Council of Ministers, as envisaged by the Articles of Agreement, so as to provide a forum for coordination and to make the strategic decisions that are critical for global stability. This crisis has shown how political leadership is indispensable to deal with global stability challenges. In our view, this goes along with a resident board that has shown in the current crisis its vital role of liaison with management as well as of strategic oversight.