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Statement by the Hon. **FRANÇOIS BAROIN**,
Governor of the Bank and the Fund for **FRANCE**

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Governors, delegates, ladies and gentlemen,

We are meeting at a time of new challenges to global economic recovery. From development, growth to budget deficits or sovereign debt, serious issues are at stake.

We have to face the facts. In most countries, and to varying degrees, it will take time for households, businesses and public administrations to pay down their debt. Growth rates will be affected. This means that the global recovery is inherently fragile and particularly vulnerable to shocks. We have just been through a particularly trying summer, marked by new economic and financial tension. The outlook remains uncertain for a more buoyant economy in the second half of 2011 and in 2012.

We therefore need to restore confidence, support growth, dispel uncertainty and protect a convalescent world economy from new shocks. In the months ahead, it is vital to that purpose that we manage to achieve a balance between the fiscal consolidation required and the need to sustain growth. We should give priority to measures that hurt demand least, while ensuring that governments are on a credible and sustainable medium-term path to reducing their deficits. In countries where it is possible, we should use the room of manoeuvre available to us in the short term.

To enhance our ability to respond to crises, foster a return to inclusive, sustainable, and balanced global growth and prevent future crises, we must renew our will to take action. The advanced economies need to strengthen the resilience of their financial sectors. Medium-term fiscal consolidation plans must be implemented – or in some countries designed – with the aim of moving towards a balanced budget while, where possible, supporting growth in the short term. The major emerging economies also have to help reduce global imbalances, notably by an increase in domestic demand. In developing countries, ensuring sustainable growth and poverty reduction will require sustained effort, both to tackle structural vulnerabilities and to rebuild the buffers that enabled them to overcome the global crisis. This means achieving a delicate balance. As the cornerstone of world economic and financial governance and development, the Bretton Woods institutions have a vital role to play in emphasising this urgent need for coordination.

Chairing the G20, the G7 and the G8 has given France special responsibilities this year. We are committed to continuing our efforts in this regard. The international context requires more than ever a determined, concrete and concerted action. This is the ambition of the G20 French presidency: to come up at the Leaders' Summit, in Cannes the 4th of November, with political decisions accompanied as far as possible by concrete actions. In our view, the legitimacy of the G20 is at stake here.

1. It is essential today to bolster the status of the Bretton Woods institutions as the linchpin of the crisis response.

These institutions have dealt effectively and swiftly with the deepest economic and financial crisis since World War II. This is basically because our collective mobilisation since 2008 has been exemplary, and we have provided those institutions with the expanded resources they needed to take action. Since the onset of the crisis, the World Bank has committed more than \$150 billion to secure economic recovery in the developing countries, and the IMF's commitments have increased fivefold since January 2009, from roughly \$60 billion to \$330 billion. Following a decade of diminishing intervention, the response to the crisis has given fresh impetus to the Bretton Woods institutions.

Collectively, we have succeeded in taking a pragmatic approach and demonstrated our ability to adjust to new economic realities by endowing the international financial institutions with more appropriate tools. As a result, they have been able to take action in a troubled environment and respond in innovative ways to the needs of all their members, from developed nations to the emerging and low-income countries. I am particularly encouraged by the new precautionary instruments introduced by the IMF, a significant boost to the Fund's scope of intervention. I am also encouraged by the targeted, timely moves by the Bretton Woods institutions to assist their poorest and most vulnerable members. Over the last few years, the IMF has considerably increased – almost doubled – its commitments to low-income countries, and took an important step forward by revamping its lending facilities for those countries. At the World Bank, we have created a Crisis Response Window within IDA so that adequate resources and an appropriate mechanism will be readily available for us to confront economic crises and natural disasters. The current famine in the Horn of Africa cruelly highlights how urgently such an instrument was needed.

Our ability to respond collectively is also in evidence in our approach to the Arab Spring. The international financial institutions can and must provide effective, coordinated support to the economic and democratic progress under way in the countries on the southern rim of the Mediterranean. Multilateral action is a key component of the response proposed by the Deauville Partnership, so I am particularly pleased with the

involvement of the Bretton Woods institutions. The Joint Statement of commitment by the multilateral institutions to coordinating their work on the ground attests to their determination to act together, effectively and in new ways. Substantial funding, close to 38 billion of euros, has been mobilised at the Marseille meeting the 10th of September to support exemplary transition plans. The path taken by the Deauville Partnership is a model of effective, coordinated, country-focused development policy.

To be ready to respond to future crises, we need to learn from our recent experience and achievements. The primary conclusion I have drawn is that crisis response must be collective.

We must continuously strive to refine our tools. What is lacking is a structured approach that can ensure our collective ability to meet short-term liquidity needs in the event of a systemic crisis. This situation must be corrected. I maintain that the IMF has to play a more important role – a pivotal role – with respect to global financial safety nets.

We also need to strengthen our ability to work together. I believe that collaboration between the Bretton Woods institutions and regional organisations will be beneficial, because I have witnessed the IMF's exemplary collaboration with the European institutions, creating collaborative rather than competitive synergies. Increased coordination with the existing regional mechanisms and organisations will also be crucial to making global financial safety nets more effective. This is another area in which I would like to see the World Bank step up its efforts. Today, we have the institution's own scorecard. It is a highly valuable tool for institutional monitoring and dialogue. Let's make it a guidance tool that development banks can use in a uniform manner.

Last of all, we need resources that match our ambition. By way of example, establishing a mechanism for responding to liquidity crises triggered by systemic shocks implies that we also consider the issue of adequate available resources for the Fund. We must act responsibly by giving the Fund the means to fully assume its role and refine its tools as needed. Should we so decide, we are also in a position today to ensure that the IMF will have a lasting ability to support its poorest members. For that reason, France is in favour of using the windfall profits from gold sales to boost the concessional lending capacity of the Poverty Reduction and Growth Trust.

2. We must prepare for the future by giving the IFIs the means to prevent crises and foster sustainable, balanced and inclusive growth.

It's by improving surveillance that we will be able to act more effectively and to reduce macroeconomic vulnerabilities.

We need stronger, more effective, and more consistent IMF surveillance. Progress has been achieved, and the Triennial Surveillance Review helps us identify possible avenues for making surveillance as interconnected as today's economy and financial world. But we mustn't stop halfway. We must make sure there is adequate follow-through. That requires setting ambitious goals for ourselves. By adapting the legal surveillance framework, we can come together around a shared vision of international stability and prosperity; by strengthening the role of the IMFC, we can improve the traction of the IMF.

Heightened surveillance is complementary to the Mutual Assessment Process carried out under the G20 Framework for Strong, Sustainable and Balanced Growth, to which the IMF contributes essential technical expertise. With the help of the IMF, the upcoming G20 Summit can adopt an action plan specifying the domestic policies that countries can pursue to foster growth and tackle global imbalances.

By factoring a changing economy into our thinking, we will likewise be better equipped to prevent future crises and promote balanced development.

The Bretton Woods institutions must adjust to a changing global economy. I encourage the IMF to continue with its work on major developments in the international monetary system and support the increasing internationalisation of emerging markets currencies by its advice. The IMF should also go forward with its work on such growing challenges as managing capital flows, measuring global liquidity and assessing reserves adequacy.

Finally, by resolutely addressing structural vulnerabilities, the Bretton Woods institutions will be in a better position to prevent future crises and promote inclusive, sustainable growth.

Just three years after food riots erupted in the most vulnerable countries, we are confronted with another large-scale **food crisis**, this time in the Horn of Africa. A swift response was required, and I wish to commend the World Bank for intervening so effectively in the hardest-hit countries. We must also prevent any recurrence of the same scenario. In that respect, the response by the World Bank, which has worked to strengthen the resilience of the countries affected, deserves our full approval. **Food security is built from the shorter to the longer term**, and this is the approach adopted by the G20. I wish to thank the World Bank for taking part in our efforts, which led last June to a far-reaching Action Plan on Food Price Volatility and Agriculture. The expertise of the World Bank, alongside other international organizations, is essential for implementation of this action plan in order to reach concrete decisions and implement instruments that facilitate mitigation of the risks associated with excessive agricultural commodity price volatility.

Infrastructure deficits are likewise a significant obstacle to growth in developing countries and a source of structural fragility. They reduce annual GDP by nearly 2 points in Africa, the continent that has made the slowest progress towards the Millennium Development Goals. Working alongside the other multilateral development banks and in close coordination with the High-Level Panel (HLP) on infrastructure created to provide private sector expertise in this area, the World Bank has contributed heavily to the G20's work. A joint action plan prepared by the multilateral development banks is being finalized. Once implemented, it should lead to major progress in enhancing the transparency and quality of information. Ahead of the Cannes Summit, a number of recommendations are eagerly awaited in areas on which the multilateral development banks have already made a commitment: creating an environment conducive to investment in infrastructure through the harmonization of procurement rules among the MDBs and making the debt sustainability framework more flexible to facilitate the financing of large-scale infrastructure projects.

Financing development and the fight against climate change is one of the biggest challenges facing the international community in the coming years. We must deliver not only on the global development goals we have set ourselves, but also on the financial commitment we made in Copenhagen and reaffirmed in Cancún to mobilise \$100 billion a year between now and 2020 in public and private sector funding to help the developing countries combat climate change. France put this theme on the G20 Development agenda in order to underscore the need to come up with tangible, sustainable ways of meeting our commitments and create lasting momentum in the area of climate and development financing. I would like to thank the World Bank and the IMF for their preliminary report, and encourage them to carry on with their efforts. France, jointly with Germany, is in favour of a financial transactions tax and a market instrument (a levy or market for emissions permits) as a means of reducing carbon emissions produced by international shipping and aviation. Such innovative tools would generate substantial revenue that could be mobilized to deal with climate change.

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The challenges we are facing are considerable. Once they have been reformed and strengthened, the Bretton Woods institutions will make all the difference.

I would like to underscore how committed I am to the existence of **strong, sustainable and legitimate financial institutions.** In the case of the World Bank, this calls for an allocation of income that ensures significant transfers to the poorest countries; for appropriate loan pricing in order to ensure the institution's sustainability; and for adequate control over the administrative budget.

We must also give further thought to adjusting the IMF's resources to its new commitments. With respect to internal functioning, the IMF should also stay on course with the new income model approved in 2008 and promote the organisational changes that will make it a stronger, more efficient institution.

Governance reform and the 14th General Review of Quotas have represented a major step towards increasing the representative character of the IMF. It is now necessary to implement it.