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Statement by Mr. Le Maire
France

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Speech by the Minister for the Economy and Finance – April 2018

After a marked acceleration in 2017, global economic activity is expected to remain buoyant in 2018. We need to maintain the prospect of strong, sustainable, well-balanced and inclusive global economic growth by focusing on emerging and existing medium- and long-term risks. These risks call for ever-stronger multilateral cooperation and a rejection of the temptations of unilateralism and protectionism.

I. Global economic growth remains robust, but in the medium and long terms various risk factors on the global economy remain and new uncertainties emerge.

1.1 Global growth remains strong.

After picking up sharply in 2017 (+3.8%), global activity, driven by both advanced and emerging economies, **is expected to achieve similar growth rates** in 2018 and 2019 (+3.9% for both years).

In the United States, activity should pick up, under the impetus of expansionary fiscal measures (tax reform and the new budget voted by Congress, resulting in increased spending). On the other hand, growth is expected to slow in Japan – although remaining buoyed by booming exports and domestic demand – as well as in the UK, penalised by the Brexit-related uncertainties.

Recovery should continue at a brisk pace in the euro area. Growth is expected to be driven by surging domestic demand, within a context of renewed household and business confidence, as well as by an upswing in global demand. Growth is expected to fall off slightly in Spain while still remaining dynamic, and should stabilise in Germany and Italy. In France, the economic recovery begun in 2017 is expected to continue in 2018 and 2019; after having reached 2.0% in 2017, the economic growth is expected to be of 2.0% again in 2018 and then of 1.9% in 2019. This growth should be driven by: the continuation of economic recovery in the euro area and the acceleration of the global demand; corporate investment, which will remain particularly dynamic in 2018, at 4.4%; the dynamism of household purchasing capacity.

In the main emerging economies, growth is expected to increase strongly in Brazil and to a lesser extent in India. It should remain broadly stable in Russia and decline noticeably in Turkey. China, on the other hand, should experience a gradual slowdown: the reflection of gradual reductions in monetary and fiscal stimuli.

Trade should continue to fuel global growth. World trade picked up strongly in 2017, increasing by 5.3%, after two years of moderate growth of around 2.0%. It should remain dynamic in 2018 and 2019 (5.1% and 4.7% respectively), albeit at a somewhat slower pace.

1.2 Despite this momentum, economic risks continue to weigh on the world economy's medium- and long-term growth prospects.

The global outlook is facing a series of risks:

Protectionist measures could weigh heavily on trade. In particular, US tariffs on steel and aluminium imports (25% and 10%, respectively), as announced by President Trump in early March, could lead to similar reactions from its trading partners, with a significant risk that the situation could escalate.
Economic literature suggests that an increase by 10 points of custom tariffs in the world could lead to a reduction of the world GDP of up to 5% to 10% in the long term.

It is unclear what direction certain economic policies will take. This is the case in the US (public finances, debt sustainability, the pace of rate increases by the Fed if the economy shows signs of overheating), in Italy (following the general election in March) and in China (the extent of support provided by the Chinese authorities).

The extent of the effect of Brexit is still unknown, due to a number of factors. The pace of negotiations means that it is impossible to clearly foresee the likelihood and possible content of the final agreement with the EU.

Emerging economies remain exposed to major risks. Financial and fiscal imbalances in China could contribute to a sharper-than-expected slowdown. Emerging countries are also vulnerable if the Fed raises rates faster than expected, which could lead to large capital outflows, while political and geopolitical uncertainties also represent a hazard.

Lastly, financial risks remain high with respect to price/earnings ratios. There is a risk of overvaluation of assets in the United States, and it is possible that the same risk exists, to a lesser extent, in Europe, despite the corrections observed in early February. Moreover, after a period characterised by historically low rates leading to greater higher risk-taking, a faster-than-expected rise in interest rates could lead to tensions on the markets.

<u>1.3 Although several non-economic factors are causes for concern, technological and financial innovations also offer important growth opportunities.</u>

Political and geopolitical risks remain high. Tensions between the US and China have taken a worrying turn for world trade with the introduction of new tariffs. Venezuela is mired in a profound economic and financial crisis, while the Middle East remains threatened by deep instability and protracted conflicts.

Terrorism remains a major threat in Europe and in many parts of the world. International mobilisation must be maintained to combat this scourge, and its financing in particular. We must strengthen our cooperation in this area, which is the aim of the Paris Conference on 25 and 26 April 2018, but we also need to move forward on the root causes of the problem. Development must become a tool to support this cause.

Many other risk factors are emerging. Given the growing number of cyberattacks against companies and States, cybersecurity is becoming a growing concern. In addition, the consequences of global warming pose significant threats to the world order: large-scale natural disasters are on the rise and geopolitical tensions are likely to increase in the management of natural resources.

These uncertainties must not, however, obscure the opportunities linked to technological and financial innovations. Although the impact of new technologies (automation, artificial intelligence) on employment and the new uses arising from them (the sharing economy, service platforms) is difficult to measure, they are obliging countries to reform their labour markets, tax systems, training schemes, social security systems and competition regulations. France supports the work underway in these areas at both G20 and OECD levels. In terms of financial innovation, the emergence of crypto-assets will require increased multilateral coordination, both to exploit the potential of this innovation and its underlying technology, but also to limit and contain the risks in terms of financial stability, money laundering, terrorist financing, market manipulation and consumer protection.

II. Faced with the build-up of these risks, it is crucial that we strengthen the international financial system, structured around the IMF, and that we use multilateralism to address global challenges.

2.1 Strengthening the international financial system and coordinating macroeconomic policies must remain priorities for the members of the IMF and the G20.

We must continue to strengthen the international financial architecture, structured around the IMF as its cornerstone. The Fifteenth General Review of Quotas for the IMF shall result in a strong IMF, with a sufficient endowment, placed at the heart of the Global Financial Safety Net (GFSN) and equipped with the instruments it needs to tackle the new global financial and macroeconomic challenges. The aim will also be to track the implementation of the G20's Operational Guidelines for Sustainable Financing and to ensure that financing conditions are sustainable in developing countries through the harnessing of domestic resources and proper use of public resources. Moreover, volatility in capital flows must be monitored carefully as advanced countries normalise their monetary policies. Lastly, discussions continue regarding the right coordination between international financial institutions.

We must reinforce coordination of global macroeconomic policies to deliver strong, sustainable, inclusive and well-balanced growth. This coordination must remain a priority on the agendas of multilateral organisations, notably to resolve excessive macroeconomic imbalances. In addition, this coordination is indispensable for seizing all the growth opportunities of the digital revolution and for dealing with the subsequent radical changes.

The completion of the regulatory cycle that began after the 2008 crisis must not result in reduced focus on market stability and must enable emerging risks to be addressed, while also supporting the economic recovery. Reforms are being finalised in four areas in particular: making financial institutions more robust, coping with the "too big to fail" challenge, securing derivative markets, and transforming shadow banking into resilient market-based finance. In parallel, work must be done on cybersecurity in the financial sector, and the challenges of banks withdrawing from correspondent banking relationships (as a result of de-risking) must be addressed. In short, the challenge is to combine the pursuit of an objective of stability and security for the financial sector, which ensures sustainable long-term growth, with support for economic activity.

2. 2 Multilateralism provides the best answer to global challenges.

Multilateralism offers the tools we need to respond to today's challenges in terms of terrorist financing, financial integrity and international taxation, as well as managing sovereign debt, climate and trade issues. France is reiterating its commitment to this governance mode for globalisation.

We must ramp up our efforts in favour of financial integrity. This begins with increasing joint efforts to combat the financing of terrorism. The measures under way to strengthen the Financial Action Task Force (FATF) should increase its visibility and capacity to attract regional organisations with similar remits.

Anti-corruption efforts cannot be fully effective without increased multilateral cooperation. France would like to see all the large emerging countries become signatories to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The IMF also plays a role in this issue, and we welcome the IMF's recent decision to do more on anti-corruption.

The rapid, strong increase in debt in developing countries and the lack of transparent, sustainable financing practices call for greater international coordination. More specifically, this involves reinforcing the Paris Club's position as the principal international forum for restructuring official bilateral debt, and expanding its membership to emerging creditors, as well as establishing and implementing principles of transparency and sustainable financing by public- and private-sector stakeholders.

Countering the temptation of fiscal dumping, tackling offshore tax shelters, taxing digital firms fairly: the current challenges of international taxation require us to find convincing multilateral answers rapidly. The risk of a race to the bottom on corporation tax is real and is a threat for public revenues, in our view. A coordinated response is needed. With regard to digital taxation, France encourages the members of the G20 to continue constructive talks, based on the OECD's report published in March 2018, in order to find long-term, coherent and ambitious solutions by 2020. In the interim, given the urgency of the situation, France gives its full backing to the interim proposals made by the European Commission in order to find a quick and efficient solution in the short term, as a sign of our determination to set up a tax system that is fairer for everyone.

With regard to the climate, the stimulus provided by the Paris Agreement must be maintained. We must sustain the multilateral momentum on this crucial topic for the future of our planet. France welcomes the mobilisation of international financial institutions, and calls on them to continue their efforts.

Lastly, France remains committed to free trade. However, now more than ever, competition must be fair and all parties must comply with shared rules. As such, the principle of reciprocity must prevail in international investments. France therefore supports stronger collective discipline and strengthened efficiency of the multilateral trade system, centred on the World Trade Organisation.

Conclusion – France is actively contributing to this trend by implementing an ambitious reform programme while continuing its commitment to multilateralism.

Since Emmanuel Macron's election as President of the French Republic, the new government has been working on a rapid and thorough transformation of France's economic model. The major reform programmes being carried out under the Prime Minister's authority should enable France to return to a stronger growth dynamic, to accelerate job creations and to make public finances more sustainable. Instead of taking advantage of the global economic recovery to postpone reforms, the government intends to seize this window of opportunity to move faster and go even further.

While France must complete its economic transformation, it also wishes to strengthen and deepen the euro area. Despite considerable progress, euro area integration remains incomplete. This process must continue to strengthen the currency area's resilience to shocks and to foster convergence among its members.

Growth is strong. We must take advantage of it to implement tough reforms – for both France and the euro area. This is essential for our long-term prosperity.

Lastly, France will continue its commitment in favour of multilateralism, as the President stated in his speech in Davos. France will defend its values and convictions in all the fora for multilateral cooperation. It regards globalisation as an opportunity, but this process must be regulated. The fight against climate change is one example. The question of a fair taxation of the digital economy is another. This is precisely the reason behind France's support and determination to find a solution to tax more fairly the digital companies at the European level.