



# **International Monetary and Financial Committee**

Thirty-Ninth Meeting  
April 12–13, 2019

Statement No. 39-26

**Statement by Mr. Le Maire  
France**



## INTERNATIONAL MONETARY AND FINANCE COMMITTEE

### Statement of Mr. Bruno Le Maire, Minister for the Economy and Finance

April 13, 2019

**The global slowdown experienced in 2018 (+3.7%, after +3.8% in 2017) could be stronger than expected in 2019. Risks remain tilted to the downside and various tensions are persisting or even worsening. Against this background, it is even more urgent to lay the foundations for a new capitalism. At its heart: a fairer global taxation system, a level playing field for investments, and tackling inequalities head on.**

1. Effective multilateral coordination is more than ever essential in the context of the ongoing economic slowdown

World growth is expected to decline slightly in 2018 to +3.6% after 3.8% in 2017. This trend is even expected to deepen in 2019 to +3.3% according to recent IMF forecasts, with a marked slowdown in advanced economies and contrasting prospects in emerging economies. In the euro zone, the slowdown is stronger than expected. Growth has suffered from the deterioration of the global environment, a temporary decline of the car industry, and a slowdown in consumption and investment linked to an erosion of confidence. Overall, weakening outlooks in the US, Europe and China could ultimately synchronize and feed off each other, leading to a sharper-than-expected global growth slowdown.

The outlook is significantly less favorable than in previous years, and beyond that, risks continue to accumulate. Without mentioning them all, the most worrying dynamics include the effects of Brexit, financial vulnerabilities in some countries especially rising debt levels in low income countries and global corporate debt that has doubled in size since the global financial crisis, reaching an all-time high of 13 trillion USD. Last but not least, trade tensions continue to rise and their effects are starting to materialize. They could dramatically affect confidence, disrupt global value chains, inflict significant costs on the global economy and contribute to the ongoing slowdown.

The global economic context speaks in favor of a stronger multilateralism, not a weaker one. In line with lessons learnt from the 2008 crisis, weakening multilateral cooperation is a risk per se. Not a single one of these risk factors can be tackled by unilateral action and it is illusory to think that a single country could play its own cards right alone. Macroeconomic policy is one of the key areas where globally coordinated action is needed: in particular, countries with fiscal space should start investing now, whereas others should rebuild buffers as long as recovery allows them to. And structural reforms remain key to strengthen potential growth in the longer run.

2. The IMF should remain at the center of the global financial safety net with a focus on preventive action, particularly as regards financial risks and developing countries

Instead of inward looking policies, strengthening multilateralism and international financial institutions shall be the priority. In particular, a strong IMF at the center of the global financial

safety net is needed. The timely conclusion of the 15th review of quotas should guarantee this commitment. Against a backdrop of growing vulnerabilities, in which several crises are unfolding in emerging economies, and with financial markets that keep being sensitive, it is essential that the Fund remains adequately resourced: its capacity to intervene efficiently and rapidly could otherwise be at risk. This responsiveness is necessary for the Fund to take action in the event of a crisis.

In parallel, preventive action will be paramount to prevent a new crisis from happening.

On the one hand, we should continue to reinforce surveillance and mitigate adequately financial risks, with the implementation of the macroprudential regulatory agenda, at both domestic and multilateral levels. In particular, coordinated policy responses are key to address persistent and rising financial risks.

On the other hand, the IMF should pursue its involvement on correcting imbalances, especially with regard to debt sustainability in developing or low-income countries. The rapid, sustained increase in these countries debt levels, together with the development of opaque and unsustainable financing practices, calls for stronger international cooperation. In particular, we must reaffirm the role of the Paris Club as the principal international forum for restructuring official bilateral debt and extend its mandate to include emerging creditors.

As regards IMF programs more specifically, a better articulation between macroeconomic stabilization and tackling the longer term structural imbalances would be warranted. While the IMF primary role is to help countries achieve macroeconomic stabilization, IMF programs have a role to play in creating the appropriate incentives to the implementation of long-term reforms that would be instrumental to avoid multiple and successive IMF programs in low income developing countries (particularly as regards domestic resources mobilization, debt transparency, good governance and anti-corruption). The ongoing Review of low income countries' facilities and the Review of Conditionality and Design of IMF supported programs are good opportunities to develop such coordination and enhance coordination between the IMF and the World Bank Group, harnessing their respective actions on the above-mentioned areas for reform. In the same vein, the Fund's work on inequalities and the importance of social spending, particularly in developing countries, is very welcome and should be pursued.

### 3. For the years to come, renewing capitalism will be critical to restore confidence in globalization

Renewing capitalism is an ambitious but essential project. Capitalism has worked for decades, bringing unprecedented prosperity to many countries and lifting millions out of extreme poverty. However, the current model is not sustainable anymore. Economic growth is slowing, inequalities are widening and the climate challenge is more pressing than ever. On what basis should we rebuild capitalism? Three objectives seem of particular importance: building a fairer global taxation system; creating a level playing field for investments; tackling inequalities head on.

First, advancing the ongoing work on international taxation issues will be critical, in a context where multinational enterprises remain able to significantly minimize their tax burden by shifting highly mobile tax bases and related incomes to low-tax environments, with digitalization exacerbating this phenomenon. A comprehensive reform agenda is currently under discussion at the OECD and will pave the way for a fairer global taxation system. While

the agenda based on a two-pillar approach is very welcome, to address both profit shifting and new models of value creation based on data, detailed estimations are still needed to properly assess their possible macroeconomic effects. The IMF has a great role to play in this area.

Second, rebuilding capitalism means finding a path towards sustainable financing in developing countries that would ensure a level playing field for investments. To address the criticism that globalization and capitalism are facing, it will indeed be key to make sure no country is left behind. At the same time, companies should be able to invest and compete in emerging markets on equal terms, without threatening debt sustainability and development. Here again, the IMF has a crucial role to play, in line with its ongoing work. In this regards, the IMF and WBG multipronged approach on strengthening debt sustainability is very welcome as well as the support given by the IMF to the implementation of the G20 operational guidelines for sustainable financing. We look forward to further progress in this area, particularly in the perspective of forthcoming G20 Finance Minister and Central Bank Governors meeting in Fukuoka.

Finally, the fight against inequalities in all their forms should be scaled-up, as they are reaching unsustainable levels in our economies. One key area for progress is to promote transparency as regards financial compensation. Illustrative of this is the introduction in France in the PACTE law of mandatory reporting for the largest companies. Companies will now need to publically set out the ratio between executive compensation and the median salary. Commitments from the private sector will be instrumental in this endeavor.

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We collectively have to commit to tackling the current challenges that threaten our prosperity. To do so, we must lay the foundations for a new capitalism. One thing is certain: international institutions remain essential, and the IMF in particular. In this perspective, France strongly supports the ongoing work of the IMF on inequalities, climate change and taxation. Let us continue our common work in this direction and strengthen our mutual trust in this multilateral system of which we are all the guarantors.