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Dear Mr Noyer, after our February marathon, I am delighted to get together in this magnificent establishment, which many now consider to be an annex of the Banque de France. I know how attached you are to the Golden Gallery, where yesterday evening's meeting was held. But I also understand that you might wish to free yourself from the weight of history in order to look with confidence to the future of the global economy.

Indeed, we live in a disorderly world, in which the share of emerging markets in the composition of global growth has increased steadily from 30% in 1980 to 45% 30 years on. This world is also increasingly interconnected – exports account for a growing share of wealth creation in our national economies – and increasingly volatile. A prime illustration of this is the heightened exchange rate volatility, which is all too often dislocated from economic fundamentals. For instance, between 1 January 2003 and 1 January 2008, the Korean won appreciated by around 30% against the dollar. Conversely, in 2008, it depreciated by 72% against the dollar before appreciating again by almost 30% in the following 12 months. Another example is the high volatility of capital flows that chiefly affects emerging markets. The crisis of 2008-2009 resulted in a decrease in net capital inflows of USD 1,150 billion. In the case of Russia, for example, capital outflows amounted to around USD 270 billion, or 19% of its GDP. Twenty-six episodes of sudden stops in capital flows have been identified since 2008, and 42 since 1990. A third example is a proliferation of liquidity crises with repercussions on the whole economic fabric. To shield themselves, emerging economies are tempted to act unilaterally in the areas of the regulation of capital flows, prudential measures, foreign exchange interventions or monetary measures.

In this imbalanced world, the International Monetary System (IMS) in its current form does not provide the appropriate mechanisms of regulation and coordination. The reform of the IMS is one of the French President's priorities for 2011.

In the first G20 Finance Ministers' meeting on 18 and 19 February we paved the way for the work to be

carried out this year; we defined our objectives and the pitfalls to be avoided and proposed some initial avenues for thought. I would now like to present this first stage to you.

Our starting point is to create the conditions to achieve two closely intertwined objectives, i.e. strong, sustainable, and balanced growth, on the one hand, and an orderly transition to a world that is multipolar in economic and monetary terms, on the other. These conditions are not in place in the "international monetary non-system" that characterises the world today.

In the light of the crisis, we now know exactly what we do not wish to do. We are not pursuing the Cartesian dream of a perfect monetary system. We are not trying to restore a fixed exchange rate system, which would deprive us of the flexibility needed for economic adjustments. We are not attempting to call into question the role of the US dollar as the major international reserve currency. Market forces fundamentally determine the relative share of currencies in trade and financial flows, but it is generally accepted that we are inevitably heading towards a more multi-currency world. We are not in favour of stepping up measures to control capital flows, since such flows are generally conducive to global growth. But we are seeking to avail ourselves of common multilateral rules to be able to guard against, if necessary, destabilising capital inflows or outflows.

Based on past experience, we wish to establish a series of pragmatic measures that are necessary for: improving our coordination in order to achieve strong, sustainable, and balanced growth, reducing the accumulation of foreign exchange reserves, better regulating international capital flows, and attaining an orderly transition to the internationalisation of other currencies.

- The first avenue consists in improving the coordination of economic policies in order to promote growth. To achieve this, we would need in particular to identify the imbalances, via the G20 mutual assessment process under the framework for growth.

In this respect, we made necessary and significant progress at the last G20 Finance Ministers' meeting. We reached an agreement on a series of indicators that will enable us to focus, through a two-stage process, on any large and persistent imbalances requiring measures to be taken. These indicators are public debt and fiscal deficits, the private savings rate and private debt and, for external imbalances, the current account balance, taking due consideration of the exchange rate. We also adopted a timetable for developing the 2011 action plan to ensure strong sustainable and balanced growth and monitor the implementation of existing commitments. We must now agree on the indicative guidelines for assessing each of these indicators, in other words on the use of these indicators to correct these imbalances. The help of the IMF will be indispensable in this exercise.

- The second avenue consists in reducing the need to accumulate foreign exchange reserves, which is costly for both the countries concerned and the global economy. No less than USD 9,247 billion in reserves had been accumulated at end-2009, three-quarters of which by emerging countries. This represents an increase of 162% over five years. From an economic point of view, their use has not always been optimal.

Our aim is to improve the provision of liquidity in order to reduce the need to accumulate foreign exchange reserves, notably via:

- an assessment of the financial safety net systems that we will endeavour to enhance if necessary;
 - a better coordination of existing mechanisms with regional arrangements, in particular between the IMF and the European Financial Stabilisation Mechanism or the IMF and ASEAN's Chiang Mai Initiative;
 - a closer monitoring of foreign exchange reserves based on common indicators and increased IMF surveillance;
 - the boosting of local currency funding, which should contribute to reduce reserve accumulation for insurance purposes.
- The third avenue consists in better regulating international capital flows.

To achieve this, we are seeking to:

- establish a code of good conduct for capital movements and macroprudential measures in order to differentiate between the measures that are required for preserving macroeconomic balances and balanced growth on the one hand, and those for ensuring free capital and trade flows on the other;
- enhance IMF surveillance, ideally by reforming its mandate;
- at the same time, we are seeking to promote the issuance of local currency denominated debt and the development of national financial markets with a view to limiting the vulnerability of emerging countries to international capital flows.

- The fourth and final avenue consists in achieving an orderly transition in which the emergence of new economic areas coincides with the internationalisation of other currencies and reduces the risk of exchange rate fluctuations.

The emergence of new economic areas and international currencies is not without risk. Economic history shows us that economic downturns can lead to sudden monetary adjustments, with sharp breaks, such as the transition from sterling to the US dollar as leading reserve currency: in 1973 sterling became a second class reserve currency, representing less than 7% of foreign exchange holdings, after standing at 60% in 1950 and 30% in 1970. Consequently, we must accompany this transition and reflect on, amongst other things, the role of Special Drawing Rights (SDRs) – the reserve instrument created by the IMF –, and the timetable and arrangements for changing the composition of the SDR basket.

We are therefore planning to broaden the composition of the SDR basket, notably to include the yuan as soon as China meets the prerequisites in terms of the convertibility of its currency, central bank independence and capital account liberalisation. At the same time, we wish to enhance the role of the SDR, in particular through stepping up SDR financing by international financial institutions. Given that the SDR provides considerable benefits in terms of diversification, it is inappropriate for it to account for less than 4% of international reserves.

In February, the G20 adopted an ambitious but pragmatic roadmap that I will now recall. In addition to the agreement reached on indicators to measure economic imbalances, which is a prerequisite for any attempt to reduce them, we achieved far more than just a consensus on the need to reform.

The G20 reached agreement on three objectives:

- ensure the stability of the financial system;
- promote the orderly transition from a world where a small number of economies, with their currencies, represent the bulk of wealth and trade to a multipolar world where emerging countries and their currencies represent a growing if not predominant share;
- avoid disruptive fluctuations in capital flows, disorderly movements in exchange rates and persistent misalignments of exchange rates.

I would like to stress that even bringing these three objectives to the table constitutes a major step forward. It is not free trade that has shown its limitations during the crisis, but the *laissez-faire* approach.

The next step is for us to reach an agreement, at the forthcoming G20 meeting in Washington, on a list of our imbalance indicators and the way in which they could contribute to economic policy recommendations aimed at rebalancing global growth. We must also examine the initial proposals for reforming the IMS, drawing on preliminary studies by the IMF as well as the World Bank and development banks.

In other words, the Paris G20 meeting laid the foundations for discussions in 2011, which will come to fruition at the summit of Heads of State or Government in Cannes in November. A few days before, together with other Finance Ministers and central bank Governors, we will finalise the proposals for reforming the IMS that we will submit at the summit.

Before that, on 31 March, in Nanjing, a high-level seminar dedicated to the reform of the IMS will provide a forum to freely discuss our views and put a stop to the “currency war” rhetoric in favour of a frank but respectful discussion. As Churchill said, at a White House dinner on 26 June 1954, “*To jaw-jaw is always better than to war-war*”.