

**EXECUTIVE
BOARD
MEETING**

SM/21/209
Supplement 4

January 14, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **France—Staff Report for the 2021 Article IV Consultation—Revised Draft Press Release**

Board Action: Executive Directors' **consideration** (Formal)

Additional Information: The text and the table in the press release have been revised to ensure consistency with staff's economic projections included in staff's supplementary information (SM/21/209, Sup. 2 (1/13/22) and Sup. 3, 1/14/22)).

Tentative Board Date: **Wednesday, January 19, 2022**

Publication: Yes*

Questions: Mr. Franks, EUR (ext. 36347)
Ms. Patnam, EUR (ext. 30485)
Mr. Gruss, AFR (ext. 37516)

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the revised draft press release will be published.**



IMF Executive Board Concludes 2021 Article IV Consultation with France

FOR IMMEDIATE RELEASE

WASHINGTON, DC – January 19, 2022

On January 19, 2022 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with France.

France was among the most affected European countries from the COVID crisis. Strong progress on vaccination has helped effectively contain the COVID virus and has supported a fast normalization of activity in 2021. Widespread inoculation has also ensured that hospitalizations and fatalities remained low in contrast to previous waves. In recent days, Covid-19 infections have risen again substantially due to the rapid spread of the Omicron variant.

A robust economic recovery is underway, bolstered by public support and by solid private sector investment. Overall, growth is estimated to have increased by about 6¾ for the year. Headline inflation is projected to increase to about 2.1 percent driven by base effects and an increase in energy prices. Employment growth is robust, and the unemployment rate has remained relatively stable. The financial sector has withstood the crisis well and provided ample credit to the economy, with continued supported from a range of prudential and monetary measures.

To address the crisis, the government put in place a large fiscal package in 2020 and further expanded relief programs during the first half of 2021. These are being increasingly targeted and scaled down as the recovery progresses but have been appropriately expanded amidst the new epidemic wave. For 2022, the government plans to continue implementing France's recovery plan, together with additional measures for vulnerable youth and for tackling skills shortages. The authorities also plan to kickstart a new five-year investment plan, "France 2030", aimed at reestablishing a technological lead in selected industries through targeted interventions.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Growth in 2022 is forecast at 3.5 percent, but medium-term output will remain below the pre-crisis trend, reflecting some productivity loss from the uneven pace of recovery. Near-term risks to the outlook are tilted to the downside, dominated by the evolution of the pandemic and supply-chain issues. On the upside, a faster rundown of accumulated savings or stronger demand recovery in hard-hit sectors could raise growth in the near term and reduce scarring in the medium term.

Executive Board Assessment²

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² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings-up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Table 1. France: Selected Economic Indicators, 2019-22

	2019	2020	Projections	
			2021	2022
Real economy (change in percent)				
Real GDP	1.8	-8.0	6.7	3.5
Domestic demand	2.1	-6.8	6.1	2.5
Foreign balance (contr. to GDP growth)	-0.3	-1.1	0.4	0.9
CPI (year average)	1.3	0.5	2.1	2.4
GDP deflator	1.3	2.7	0.2	2.0
Public finance (percent of GDP)				
General government balance	-3.1	-9.2	-8.3	-5.2
Revenue	52.3	52.6	52.0	51.2
Expenditure	55.4	61.8	60.3	56.4
Primary balance	-1.7	-8.0	-7.1	-4.2
Structural balance (percent of pot. GDP)	-2.1	-6.0	-7.0	-5.0
General government gross debt	97.5	115.0	114.6	113.5
Labor market (percent change)				
Employment	0.8	-0.7	1.2	0.2
Labor force	0.2	-1.1	1.2	0.3
Unemployment rate (percent)	8.4	8.0	8.0	8.1
Credit and interest rates (percent)				
Growth of credit to the private non-financial sector	5.3	8.1	2.5	3.8
Money market rate (Euro area)	-0.4	...	...	...
Government bond yield, 10-year	0.1	...	...	...
Balance of payments (percent of GDP)				
Current account	-0.3	-1.9	-1.4	-1.4
Trade balance of goods and services	-0.9	-1.9	-1.6	-1.4
Exports of goods and services	32.7	28.8	31.7	33.8
Imports of goods and services	-33.7	-30.7	-33.3	-35.2
FDI (net)	0.2	1.6	0.8	0.9
Official reserves (US\$ billion)	69.7	...	...	...
Exchange rates				
Euro per U.S. dollar, period average	0.89	...	...	...
NEER, ULC-styled (2005=100, +=appreciation)	97.1	...	...	...
REER, ULC-based (2005=100, +=appreciation)	90.2	...	...	...
Potential output and output gap				
Potential output (change in percent)	1.0	-3.3	3.7	1.7
<i>Memo: per working age person</i>	1.2	-3.2	3.8	1.7
Output gap	0.0	-4.8	-2.1	-0.4

Sources: Haver Analytics, INSEE, Banque de France, and IMF Staff calculations.