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January 14, 2022

**Statement by Mr. Ronicle and Ms. Andreicut on France
(Preliminary)
Executive Board Meeting
January 19, 2022**

We thank staff for the helpful set of reports and Mr. Buissé, Mr. Roman, and Mr. Grossmann-Wirth for their informative buff statement.

France has delivered an extraordinary response to the pandemic, with impressive public health and economic actions serving to mitigate the pandemic’s significant impact, setting the stage for a robust recovery. We particularly welcome the limited adverse impact of the crisis on investment, jobs and poverty, with output expected to return to pre-crisis levels by end-2021 and investment and employment already more than fully recovered. We expect the rebound to continue into 2022 – confirmed in the staff supplement, which points to only a limited effect from the current rise in cases related to the Omicron variant – and tend to concur with the authorities that risks to the outlook appear balanced. Looking ahead, the authorities should look to unwind emergency programs and start to rebuild fiscal buffers as the recovery strengthens. We commend the authorities for their leadership on climate issues and encourage them to continue with their ambitious green agenda, building on staff’s advice.

Fiscal policy

The authorities’ fiscal response to the pandemic was impressive: timely, substantive and providing much needed support when the crisis struck. As the economy gradually

recovers, we agree with staff that the fiscal stance may need to remain moderately expansionary in 2022 and we welcome its focus on boosting skills, investment and innovation. France's low financing costs and support provided by funds from the Next Generation EU (NGEU) should offer room for maneuver in the short-term.

However, with the debt to GDP ratio projected to reach 115 ½ % GDP over the medium-term, the authorities will inevitably need to adjust policy, developing credible plans and implementing them as the recovery gains strength. We welcome staff's advice regarding options for a gradual consolidation, which strikes a balance between rebuilding buffers, supporting the recovery and boosting potential growth. We strongly welcome the reforms detailed in the staff supplement, which strengthen fiscal institutions at a crucial time, and which should underpin the future fiscal adjustment. We are pleased to note that the authorities found the analysis in the Selected Issues Paper particularly helpful. *Have staff also applied the new tools in the MAC-SRDSF, which the UK found helpful in its own recent reforms to its fiscal framework?*

We welcome France's ongoing efforts to combat climate change and its ambitious strategy set out in its *Climate and Resilience Law, France Relance and France 2030 plans.* Domestic efforts will be boosted by support from the EU, in particular by NEGU funds. *Could staff comment on how the domestic initiatives will be complemented by France's disbursement under the NGEU?*

Structural Policies

We welcomed staff's focus on achieving an equitable and sustainable recovery, but would discourage staff from looking at this through the poorly-defined concept of "competitiveness", which risks being unhelpful. To raise living standards and achieve a sustained recovery, France needs to translate its frontier-levels of productivity into comparable levels of GDP per capita. To that end, the record levels of employment and participation and high level of vacancies are a positive development. That said, the deterioration in matching efficiency illustrated in the Beveridge Curve is concerning. Increasing matching efficiency and allocating resources more flexibly will need to be a

priority, so we welcome staff recommendations on training, education, job-search assistance and product and labor market reforms, as well as the authorities' actions in this area.

Building on staff's detailed assessment of climate mitigation in the 2020 Article IV Report, we found the analysis of occupational pathways for the climate transition in France in the Selected Issues Paper very helpful. The climate transition will inevitably impact the labor market and we agree with staff that a well-managed transition can lead to both economic and job growth. In this context, we support staff's calls for training and work experience to reduce skills mismatches between occupations in polluting and green sectors.

Financial sector

Supported by the post-GFC financial sector reforms and targeted European and national support measures, the banking sector proved resilient to the COVID-19 pandemic and played a key role in ensuring the flow of credit to the real economy throughout the crisis. The good shape of the banking sector was also echoed by the July 2021 results of the EBA stress test. The ongoing stresses of the pandemic and the unwind of extraordinary support will warrant continued monitoring of bank asset quality and the adequacy of loan loss provisioning.

Turning to financial sector vulnerabilities, we agree with staff that the authorities should maintain their vigilance to risks in real estate markets. In this context, we welcome current borrower-based measures which limit mortgage lending and encourage the authorities to further fine-tune existing measures as needed and potentially complement them with new tools, such as the sectoral systemic risk buffer.