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January 23, 2023

**Statement by Mr. Hilbers and Mr. Milutinovic on France
(Preliminary)
Executive Board Meeting
January 25, 2023**

We thank staff for the insightful set of reports, particularly on their work on France's climate transition risks. We also thank Mr. Buissé, Mr. Grossmann-Wirth, Mr. Benac, and Ms. de Waziers for their helpful Buff statement. We broadly share staff's appraisal and associate ourselves with Mr. Pösö's statement. The following comments are for emphasis.

Fiscal tightening is needed to replenish fiscal buffers and put public debt on a downward path over the medium-term. We agree with staff that phasing out energy price controls and fossil fuels subsidies should be the first stage in limiting public spending, and also encourages energy savings. Looking forward, a gradual, expenditure-led consolidation, in line with staff's advice, would increase spending efficiency and bring public debt on a firmly downward path. In this context, we welcome the authorities' commitment to spending reviews and the medium-term programming bill but encourage the further specification of consolidation measures. *What would be the fiscal impact of the recently unveiled pension reform?*

While the financial sector remains resilient with the appropriate macroprudential stance, increasing systemic risks call for close oversight. We agree with staff that financial stability risks are building up amid tightening financial conditions stemming from the cooling housing market and rising vulnerabilities in the corporate sector. In this regard, we welcome the authorities' decision to increase the counter-cyclical buffer to 1 percent, which would increase the scope for releasing the capital buffers if downside risks materialize. We also note the increasing climate transition risk of stranded assets that add to financial stability risks. *What are the options to mitigate the risk of financial losses resulting from stranded assets?*

Labor market and regulatory reforms are critical to boosting France's potential growth. We agree with staff that further efforts are needed to reduce labor market friction and increase the labor supply, especially through scaling up training programs and improving educational outcomes. However, we missed a deeper analysis of France's structural reform agenda, such as the RRP and 'France Relance' program, which also includes policies to improve the labor market. Furthermore, we encourage further regulatory reforms to enhance competition and increase productivity.

We welcome the authorities' efforts on climate change and encourage stepping up the energy transition. We welcome the authorities' strategy of strengthening carbon pricing within the "Fit for 55" framework. Furthermore, we encourage the authorities to streamline regulatory and judicial procedures to help accelerate renewables investment and consider options to mobilize private finance. In this regard, the recent Renewable Energy Acceleration Act is a step in the right direction. Finally, as France is exposed to above-average temperature rises and climate shocks, we would welcome staff's assessment of climate adaptation measures and options to strengthen the financial sector's resilience to climate change in the next Article IV.