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

**We broadly agree with the staff appraisal.** The outlook for the French economy is subject to similar uncertainties and downside risks faced by other economies in the region. Compounding shocks stemming from the Covid pandemic, associated supply chain disruptions, Russia's war in Ukraine, and commodity price shocks, pose ongoing challenges to macroeconomic management.

**Consolidating the fiscal position of France should be a policy priority for the authorities.** Staff recommendations to narrow the fiscal deficit and unwind pandemic support appear well directed given the high starting point for public debt on the one hand and on the other the advanced stage of the broad-based economic recovery. However, the baseline projection indicates deficit reduction will be very gradual and public debt levels will remain elevated. This constitutes a source of risk given the potential implications for debt sustainability alluded to in the report. Better targeted programs, enhanced efficiency, and reduced expenditure on non-priority items should be brought forward where possible to expedite the opportunity to create fiscal space and rebuild buffers (that have been depleted by the pandemic and subsidies aimed at limiting the inflationary consequences of supply side shocks). While noting mitigating factors, it will be important for the authorities to remain vigilant and seek opportunities to hasten fiscal consolidation in a manner that protects the vulnerable. The agreement of the authorities that the thrust of consolidation should be driven by expenditure reduction is well noted.

**Inflation has risen by less in France than other major European economies.** While a key reason is lower structural reliance by France on oil and gas to meet electricity demands, we also note the material role of energy price controls and subsidies. *If energy price controls and subsidies need to be unwound eventually, we wonder how staff assess their potential impact on the persistence of inflation?* In addition, given that France does not have an independent monetary policy, the report could have included more discussion on the appropriate mix of macroeconomic policies and their overall stance. *We would be interested to hear more from staff on how appropriate the combined restrictive monetary and fiscal policy stances are in the context of overall macroeconomic*

*management—especially given that the output path is not projected to recover to the levels envisaged prior to the pandemic.*

**Structural challenges remain, and the labor market would benefit from reforms that better target educational attainment and integration into the workforce of recent graduates.** The report notes the differences in education spending in France and the rest of Europe. While it is interesting to note the different levels of spending at different stages of education in France, Germany, and the United Kingdom, those differences are not shown to be an inherent inefficiency. It would have been informative to also identify where education spending in France is the most productive at the margin. It is not immediately clear that this would be the same across all countries and would probably at least in part depend on labor demand.