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January 23, 2023

Statement by Mr. Stephan and Mr. Boehme on France
(Preliminary)
Executive Board Meeting
January 25, 2023

We thank staff for the set of reports and Mr. Buissé, Mr. Grossmann-Wirth, Mr. Benac, and Ms. de Waziers for their informative Buff statement. We broadly concur with the thrust of staff's assessment. The French economy has shown a robust recovery after the pandemic-induced downturn; however, growth slowed over the course of last year following the Russian's invasion of Ukraine. For 2023, staff expects a GDP growth rate of 0.7%, while authorities expect 1.0%. Given the latest data releases, both estimates might prove too optimistic and actual GDP growth could turn out lower. Uncertainty surrounding the envisaged pension reform might increase downside risks. Prolonged waves of strikes could have a negative effect on confidence and economic activity.

We acknowledge the measures taken by authorities for cushioning the impact of the energy shock. Two *boucliers tarifaires* (tariff shields) were put in place, which protected households against rising gas and electricity prices, and dampened consumer price inflation. We agree with staff that, going forward, more targeted measures might be preferable. Measures focussed on vulnerable households would safeguard fiscal resources, help reduce the fiscal deficit, and, most importantly, would maintain the price signal which would incentivize energy saving.

We agree with staff on the importance of a timely reduction of the deficit and note their recommendation of a modest fiscal tightening in 2023. We also concur with staff that sustained fiscal consolidation remains key to rebuild buffers over the medium term. We acknowledge that the authorities plan to bring down the deficit below the Maastricht ceiling

of 3 percent of GDP by 2027. However, a large number of measures still needs to be specified and we note that staff in their baseline projects only a slight decline by 2027. The structural deficit is not expected to fall below 4.2 percent during the projection horizon, while government debt is expected to rise to 115.7% of GDP in 2027. We agree with staff that the authorities are well advised to adopt a credible multi-year fiscal plan to put debt on a downward path.

We welcome the authorities' reform agenda. We agree that the envisaged unemployment benefit and pension reforms are instrumental to improve the labour market and contain current spending. At the same time, we note that staff sees scope to further reduce complexity of the pension system. We also agree with staff that more reforms are needed to generate additional fiscal savings. *How does staff assess the authorities' proposal of the pension reform? Which impact on public finances is expected over the projection period?*

The French labour market has performed well in recent years; however, structural weaknesses remain. Among those weaknesses are a relatively low participation rate, a high level of youth unemployment and labour market skill mismatches. In this context, the authorities may consider measures to further improve educational outcomes and ease the school-to-work transition. Moreover, investments in human capital are essential to address the digital and green transformation. Addressing skill mismatches and promoting labour reallocation through re- and upskilling measures would boost productivity. We noted that the staff's projection of unemployment in 2023 and 2024 lies below other institutions' estimates. *In this regard, we wonder whether there are specific reasons for staff's slightly more optimistic labour market outlook?*

We want to emphasize the importance of measures to raise competitiveness. The reduction of administrative burdens and regulatory barriers, a simplification of the tax system and a reduction of the state's footprint in the economy appear particularly important in this regard.

We note staff's assessment that systemic risks in the financial sector have increased and broadly share their recommendations in this section. Banks in general and pockets of risk in particular should be monitored closely. The tightening of the counter-cyclical buffer to above pre-crisis levels will help guard against these risks.