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January 23, 2023

**Statement by Ms. Shortino and Ms. Medearis on France
(Preliminary)
Executive Board Meeting
January 25, 2023**

We thank staff for the reports and Mr. Buissé, Mr. Grossmann-Wirth, Mr. Benac, and Ms. de Waziers for their Buff statement. Following a relatively swift and broad-based post-pandemic recovery, Russia's war in Ukraine has led to a sharp slowdown in growth and heightened inflationary pressures. Against this backdrop, the French authorities must balance the need for continued supportive measures with efforts to bring fiscal deficits and debt on a downward path, as well as continue to advance structural reforms to strengthen medium-term growth and safeguard financial stability. We broadly agree with staff's analysis and assessment of policy priorities and offer the following comments focused on fiscal policy and structural reforms.

While fiscal policy should remain supportive in 2023, we concur with staff that the authorities should pursue gradual but sustained fiscal consolidation to reduce the deficit and put debt on a downward path. Efforts at fiscal consolidation would also help contain inflationary pressures and better align with the European Central Bank's monetary policy stance. Staff's recommended annual fiscal effort of 0.7 percent of GDP through 2030 could prove to be overly tight, however, and we emphasize that fiscal policy should be flexible amid current uncertainties and – importantly – allow for productivity-enhancing investments in green energy, digital infrastructure, and education/training. France is already making important investments to support its climate transition objectives, including using NextGeneration EU funds. Yet given the magnitude of estimated investment needs for the climate transition (2.5 percent of GDP per year over the next decade, per Box 3 of the staff report), the authorities will need to ramp up public investment over the coming years, in part through fiscal savings generated by greater spending efficiency.

We highly appreciate staff's thorough analysis in the Selected Issues Paper evaluating the level and efficiency of public spending in France relative to European peers. **Staff's finding of a spending gap of over 10 percent of GDP in 2019 is concerning and underscores the**

need to improve the efficiency of public spending, in particular on social benefits, the wage bill, and subsidies. We agree with staff that the authorities should rationalize or redesign costly, distortive, and regressive tax expenditures. In particular, we encourage the authorities to eliminate the remaining costly fossil fuel tax expenditures, which run counter to France’s climate change goals. We concur with staff that education spending should be recalibrated toward pre-primary and primary education and away from secondary education.

Staff emphasize that energy price controls and subsidies have resulted in lower inflation in France than the EU average, but these measures have largely been untargeted and distortionary, as highlighted in the recent staff Working Paper on “Targeted, Implementable, and Practical Energy Relief Measures for Households in Europe.” **We see value in further cross-country work by Fund staff analyzing measures taken to mitigate the impact of high energy prices, the fiscal costs they entail, and countries’ relative experiences – with the goal of harvesting best practices.** *Could staff elaborate on any plans to extend this work and employ the findings in country surveillance and Fund policy advice?* With respect to the electricity sector, we agree with staff’s analysis of potential downside risks of Électricité de France (EDF) renationalization for the government’s fiscal accounts: in the short term, the nationalization presents a risk to the 2023 budget balance if it is considered a capital transfer, and in the medium term, risks could emerge if EDF’s debt becomes a contingent liability to the government.

We commend the authorities for measures promoting the strong recovery of the labor market, which now has lower unemployment and higher employment levels than before the pandemic, and we welcome the authorities’ ongoing efforts to reform the pension system and unemployment benefits. Recognizing that France’s pension system has become more generous relative to peers since 2008 due to lack of reform, we welcome the authorities’ recent progress toward designing a pension reform that would gradually increase the minimum retirement age to 64. Aligning the 42 special pension regimes with the general regime is also a key part the pension reform as this would reduce complexity in the system and improve equity and labor mobility. We also welcome the approval of legislation that extends unemployment benefit reform through 2023 and introduces countercyclicality to unemployment benefits, and we agree with staff’s encouragement to revise parameters of unemployment insurance – particularly the high benefits ceiling – to generate additional savings.