

SU/23/16

January 27, 2023

**The Acting Chair's Summing Up
France—2022 Article IV Consultation
Executive Board Meeting 23/7
January 25, 2023**

Executive Directors agreed with the thrust of the staff appraisal. They noted that France saw a strong economic recovery from the Covid-19 shock but is now facing strong headwinds. While it has been less affected than most EU countries by the energy crisis due to a lower reliance on Russian gas and a strong policy response, economic activity is slowing sharply and inflation will remain persistent as energy price controls ease. Directors stressed that risks are tilted to the downside stemming from possible further impacts of Russia's war in Ukraine, faster-than-expected monetary tightening and a deeper global slowdown.

Directors welcomed the effectiveness of the fiscal response to the energy shock in containing the impact on output and inflation but noted that its largely untargeted nature pushed up costs and reduced incentives to lower energy consumption. While many Directors agreed with the staff's recommendation for a modest fiscal tightening in 2023, including by accelerating the phase-out of energy price controls and better targeting support, a number of Directors saw merit in a more gradual adjustment with the exit from price controls conditional on market developments and the policy response at the regional level. Directors broadly agreed that a sustained expenditure-led fiscal consolidation over the medium term will be critical to rebuild buffers and bring debt on a firmly downward path while leaving space to accelerate green and digital investment. Noting that implementation of the unemployment benefit and pension reform plans could deliver part of the needed adjustment, they emphasized the need for additional reforms, including to rationalize tax expenditures and enhance spending efficiency.

Directors noted that the banking sector has weathered the crisis soundly, but global financial stability risks are increasing, including from the impact of the economic slowdown on corporate balance sheets, increased credit risk from energy intensive and inflation affected sectors, and a possible downturn in the housing market. Directors supported the authorities' decision to raise the counter-cyclical buffer to guard against the buildup of financial stability risks but cautioned that the buffer should be promptly released should there be a sudden deterioration of financial conditions.

Directors urged continued action to reduce labor market frictions and increase labor supply. They welcomed the recently approved unemployment benefits reform and upcoming pension reform which will help raise the labor supply. In addition, Directors recommended policies to improve educational outcomes and alleviate skills mismatches.

Directors underscored the urgency of the transition to cleaner and more secure energy sources. They stressed the importance of streamlining regulatory and judicial procedures for renewable energy development and increasing carbon pricing while providing support for vulnerable households as part of a broader package of climate measures.

Directors commended the authorities for France's leadership in multilateral cooperation and looked forward to their continued leadership in addressing global challenges.

It is expected that the next Article IV consultation with France will be held on the standard 12-month cycle.