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**Statement by Mr. Mozhin, Mr. Potapov, and Mr. Shestakov on France
(Preliminary)
Executive Board Meeting
January 25, 2023**

We thank staff for the comprehensive report and Mr. Buissé, Mr. Grossmann-Wirth, Mr. Benac, and Ms. de Waziers for the helpful Buff statement. The French economy strongly rebounded from the COVID-19 shock, yet multiple new shocks of 2022, including adverse supply shock due to geopolitical tensions, elevated uncertainty, and high energy prices, caused a significant slowdown in economic activity, which is projected to continue in 2023. In the near term high public debt level should not preclude the authorities from supporting the most vulnerable. Over the medium-to-long term the French economy will benefit from alleviating structural impediments to its potential growth and increasing its industries' resilience against international pressures to “re-shore”.

Gradual fiscal consolidation over the medium term will be necessary to reduce the fiscal deficit level below its ceiling and put the public debt on a declining path. According to staff, fiscal support over the last year has been costly and distortionary. Reliance on poorly targeted energy subsidies and cash transfers further depleted fiscal buffers and decreased private incentives for greening domestic production. We also take note of the conclusion of the SIP on spending efficiency and reforms that primary spending growth outpaced output growth over the past three decades, which reflects limited countercyclicality of fiscal policy in France. Yet current plans for deficit reduction rely on the supply response of not fully specified structural reforms, which is subject to high degree of uncertainty. We broadly support the staff proposal for a credible package of reforms to enhance revenue mobilization.

Inflation remains persistent and risks are tilted to the downside. Staff note that wage increases remain below inflation, and despite high headline inflation risks of wage-price spiral have not yet materialized. However, second-round pressures from minimum wage indexation and collective bargaining agreements may create an abrupt uptick for wages, while strong enough claims on the part of workers could create wage-price spiral even in the

absence of real wage growth. Energy price controls and subsidies cushion the impact of the energy price shock on the consumers in the near term and going forward price pressures will likely subside due to reduced economic activity in trading partners and delayed effects of monetary tightening.

A comprehensive structural reform agenda should address multiple interconnected challenges to improve economic growth performance. The proper focus should be placed on reducing labor market frictions and facilitating human capital accumulation through greater efficiency in education and on-the-job training. There is also an urgent need to address governance vulnerabilities and strengthen the criminal justice system and prosecution of bribery along the recommendations of the OECD Working Group on Bribery. The new round of geoeconomic fragmentation may lead to a costly competition in subsidies and retaliatory measures, which will weigh heavy on potential economic growth at least over the medium term. *What is the projected impact of the US CHIPS and IRA laws on French manufacturing, investment, and green industries growth?*