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January 11, 2021

**Statement by Mr. Tanaka, Mr. Chikada, and Mr. Kuretani on France
(Preliminary)
Executive Board Meeting
January 13, 2021**

We thank staff for the informative reports and Mr. Buissé and Mr. Rozan for their insightful statement. **We commend the authorities' strong and flexible support measures to counter the COVID-19 pandemic, which has inflicted significant health and economic damages on France.** We take positive note that France put in place a large emergency fiscal package to address the crisis and will implement additional stimulus measures in 2021. However, considering the high debt level, the authorities need to take an expenditure-based consolidation effort as the crisis abates. Strengthening corporate balance sheets, continuing vigilance on risks in the financial sector and boosting employment are also crucial. As we broadly concur with the thrust of the staff appraisal, we will limit our comments to the following points:

Fiscal Policy

We welcome that the fiscal package was effectively implemented to support households and firms by preserving jobs and providing liquidity. However, given its relatively limited fiscal space, the authorities should appropriately shift its focus to support those most affected groups and viable firms. The country has taken several rounds of containment measures, and the recovery in 2021 is expected to be incomplete. In this context, continued strong fiscal support is warranted in the near term, but we concur with staff that it should be increasingly targeted as the recovery firms. Monitoring and ensuring the effectiveness, transparency, and accountability of public spending are crucial.

We note with caution that the projected deficit remains elevated over the medium term and the public debt will continue to increase under staff's baseline projection. In this regard, we concur with staff that the authorities should implement an expenditure-based consolidation effort to place debt on a downward path once the recovery is on firm ground but start planning process of fiscal consolidation earlier. We commend the authorities' commitment to implement the unemployment benefit reform and pursue a reform of the pension system after the crisis is over.

Financial Sector

Continued vigilance on the buildup of risks in the financial sector is important. We take positive note that banks are adequately capitalized and NPL ratios were low before entering the crisis. However, banking and insurance sectors have been struggling in the lower for longer interest rate environment and there are significant solvency risks in the corporate sector due to the pandemic and unsteady recovery. In addition, mortgage risk could increase in an adverse scenario. It is therefore crucial for the authorities to continue close monitoring of banking and insurance sectors' capital health and prepare for possible asset quality deterioration. We also concur with staff that the authorities' market-led quasi-equity financing initiative is a welcome step to address corporate solvency risks.

Structural Reform

The severe pandemic shock provides an opportunity for economic transformation and raising productivity and potential growth. We commend the authorities' achievement in lowering the unemployment rate before the pandemic. However, labor productivity has stagnated during the past two decades and the unemployment rate is projected to rise rapidly and decline only gradually due to the COVID-19 shocks, affecting mostly on the vulnerable groups. In this regard, we concur with staff that facilitating new work relationships in dynamic sectors could boost employment especially for vulnerable groups. *However, we wonder to what extent boosting employment for vulnerable groups and job-rich green investment could improve labor productivity. Staff's elaboration is welcome.*