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GRAY/21/108

January 11, 2021

**Statement by Mr. Moreno and Ms. Moral Betere on France  
(Preliminary)  
Executive Board Meeting  
January 13, 2021**

We thank staff for its insightful report and Selected Issues paper in the context of France's Art. IV consultation. We also thank Mr. Buissé and Mr. Rozan for their informative Buff statement and associate ourselves with Mr. Pösö's gray statement.

**We commend the authorities for their swift and flexible response to fight the economic, social, and health consequences of the COVID-19 pandemic that has severely affected France.** Swift policy measures have cushioned the economic and social impact of the shock, but the recession has been unprecedented although in a heterogeneous way among different sectors. We concur with staff that policy response should remain both supportive until recovery is firmly underway and flexible to adjust to the changing circumstances. We also share staff's view that the recovery should seek reorienting the economy towards a greener, more inclusive, digital and productive economy. The authorities' recovery plan (Plan de Relance) should be a strong catalyst in that direction. In addition, it should also be a valuable example of cooperation among European countries within the European Union, with the EU's "New Generation EU" funds slated to provide part of the funding for the Plan de Relance.

**Fiscal support has been timely and adequate and should remain in place until the recovery is firmly underway.** The economic outlook is subject to an unprecedented level of uncertainty mainly associated to the evolution of the pandemic. We share staff's overall assessment which broadly coincides with that of the authorities. Downside risks are still prevailing in the short term, albeit large-scale vaccinations and a rapid execution of the Plan de Relance could provide an additional boost to growth and investment. We agree with staff that fiscal support measures, such as short-term work schemes and public loan guarantees should remain flexible. At the same time, as the pandemic recedes, these measures should become increasingly targeted, focusing on vulnerable groups and viable and dynamic firms, while encouraging the needed resource reallocation across firms.

**When conditions allow, the fiscal response should become increasingly oriented towards sustainability.** Once recovery is underway, we share staff's call for refocusing fiscal policies towards achieving a prudent medium-term fiscal position to ensure debt sustainability. In this regard, consolidation efforts based on expenditure will be crucial, including reducing structural spending and increasing efficiency. Here, we note that authorities are committed to implement the unemployment benefit and the pension system reform, and we welcome the recent creation of a high-level committee which will help to redefine the fiscal trajectory and increase the governance of public finances. We understand that authorities intend to ring-fence COVID19-related public debt. *Could staff express their views on how this initiative will work and its impact on debt liquidity and debt management?*

**Close monitoring of the financial sector and addressing insolvency risks is critical to minimize contagion risks to the financial sector.** The French banking sector entered the crisis with strong capital buffers and low and declining non-performing loans (NPLs). In addition, the emergency measures for both households and firms have helped to preserve financial stability. However, as measures phase out, asset quality of the banking sector could be compromised, particularly given the sharp increase in additional borrowing by firms and in job losses. We concur with staff that once the acute phase of the crisis eases, the focus should progressively move away from government loan guarantees to instruments that strengthen companies' equity capital, in order to increase firms' investment while reducing risk from excessive leverage. In this regard, we commend authorities for their market-led quasi-equity financing initiative which should be implemented in a flexible manner. We also agree that it will be important to maintain the easing of regulatory capital requirements at banks until a strong recovery is more certain, and that dividends remain limited as a measure of prudence until the worst of the crisis and of the need of public support is behind us.

**The COVID-19 crisis has accentuated pre-existing weaknesses highlighting the need to continue with structural reforms with a focus on increasing productivity and supporting a greener and more digital economy.** The "Plan de Relance" rightly intends to combine all these elements. In the labor market, the main challenge is to promote the employability of the sectors and population groups most vulnerable to the crisis and to help the labor force prepare for and transition to the economic sectors expected to become more dynamic in the longer term. Other key challenges include improving regulation in the service sectors, streamlining administrative burdens for firms and the tax system, and boosting conditions for effectively fostering research and innovation. We would like to commend France's authorities for their strong commitment and leading role to fight climate change. The climate agenda included in the Plan de Relance, the green budgeting exercise that started this year, and the new Law on Climate and the Environment are relevant examples of their compromise to the green transition.