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**Statement by Mr. Mozhin and Mr. Palei on France
(Preliminary)
Executive Board Meeting
January 13, 2021**

1. We thank staff for their comprehensive and well-focused report and Mr. Buisse and Mr. Rozan for their detailed presentation of the authorities' actions. We also welcome the gradual resumption of the regular surveillance cycle, as it is a necessary prerequisite for an adequate understanding of the global and regional outlooks, as well as cross-country analysis of the COVID-19 mitigation and subsequent policies.
2. On the eve of the COVID-19 crisis, the French economy was still gradually recovering from the Global Financial Crisis (GFC). Despite many years of the authorities' efforts to increase productivity through the implementation of structural reforms and to move to a higher growth trajectory, the exit from the GFC was slow and painful. While the French economy remained relatively well balanced, the fiscal shock from the GFC was very large, and the public debt-to-GDP ratio increased from about 65 percent in 2007 to almost 100 percent in 2019 and failed to return to a declining path. *It would be useful for staff and the authorities to look back and review the key reasons for the lackluster economic performance over this period. We would appreciate staff's comments on France's experience between the GFC and the COVID-19 crisis. In particular, staff may want to illustrate the developments with the data on the real GDP per capita changes in France compared to other advanced economies, including the peers in the euro area. Should it be attributed mostly to global and regional factors or to the authorities' policies?*
3. Facing the COVID-19 shocks, the French authorities embarked on a very ambitious and large program of fiscal stimulus. According to staff, despite the authorities' measures, in 2020 output shrank by about 9 percent, while in 2021 it is likely to recover by about 5-6 percent, and, under a baseline scenario, it may return to the pre-crisis level in 2022. From the BUFF statement, we also note that the French authorities estimate that the state sector

absorbed about 2/3 of the 2020 shock to national income. *We would invite staff to elaborate on the effectiveness of the authorities' response, and on staff's estimates of the counterfactual size of the economic shock from COVID-19.*

4. In the fiscal area, current projections point to the public debt-to-GDP ratio increasing to a level of about 122 percent. Staff agree with the authorities on the appropriateness of maintaining the fiscal stance conducive to economic recovery, and on delaying specific fiscal measures until it is firmly in place. At the same time, we note that the baseline scenario assumed a prolonged weakness in economic growth due to the deep scarring as a result of current economic decline and economic dislocations. *We would be interested in staff's views on the most appropriate medium-term fiscal strategy in France. Should the authorities emphasize pro-growth structural fiscal reforms, including the reduction in enterprise taxes and elimination of multiple VAT exemptions? Should it be rationalization of fiscal expenditures, including through the return to the pension reform? We would invite staff to elaborate on the key fiscal priorities and, if possible, to provide quantitative estimates of the yield in the key areas.*
5. In the foreseeable future, France will be experiencing a major additional increase in the role of the state. The sheer size of the fiscal package and the envisaged gradual transition from the indiscriminate provision of anti-crisis assistance to a more targeted and selective approach, in our opinion, call for close attention to evaluating the effectiveness of specific policies and for a strong accountability framework in this area. We agree with staff that providing public access to procurement contracts should be an integral part of the authorities' efforts (paragraph 24, page 17). However, it seems to us that the challenges in France go well beyond the authorities' commitment to assess France's framework for dealing with bribery of foreign officials (footnote 9). In this respect, we welcome the reference in the BUFF by Mr. Buisse and Mr. Rozan to the role of the newly established high level committee chaired by Jean Arthuis, which will soon report on the recommended fiscal trajectory and on the desirable improvement in governance of public finances. *Would more emphasis on fiscal transparency, including the possible Evaluation of Fiscal Transparency by the Fund, help in the upcoming debates and in shoring up the fiscal situation?*
6. We are concerned by the low level of inflation in France. On the one hand, low inflation may help the authorities to hold down unit labor costs and, thus, gain competitiveness in the euro area. On the other hand, low inflation is likely to slow down desirable reallocation of resources in the economy, which is necessary to accelerate the adjustment to scarring and other structural shocks. In the absence of sufficient price flexibility, the economic recovery may be unduly delayed. While we appreciate the complex interaction between the fiscal authorities at the national level, the ECB and the EU authorities, we look forward to staff's well-articulated position on the desirable outcomes of the review of monetary policy in the euro area.

7. In the structural area, we welcome the French authorities' close attention to the issues of climate change and economic opportunities for a broad stratum of the population. In this respect, we found the special chapter in the Selected Issues paper to be useful.

With these remarks, we wish the French authorities success in facing formidable challenges ahead and addressing them through more ambitious structural reforms, credible and institutionally strong fiscal strategy, as well as in their active involvement in the necessary reforms at the euro area and the EU level.