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January 11, 2021

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

1. We thank staff for the informative report on France and Mr. Buisse and Mr. Rozan for a helpful Buff statement.
2. In France, COVID infection has been quite intense causing health and economic crisis. We welcome the decisive and swift action by the authorities to save lives and livelihood of its population. An unprecedented emergency fiscal package of close to 22 per cent of GDP (including both above and below the line measures) seems to have contained the scarring effects on the economy. Short-term work schemes, guarantees for bank loans, tax cuts, liquidity measures including tax deferrals and temporary relaxation in prudential norms have helped cushion the economy. Nevertheless, there appears to be some erosion in the potential output level. Staff may like to comment.
3. Staff expects a continued drag from the pandemic and uncertainty and only a partial recovery in 2021. This assessment is predicated on a continuing pandemic, availability of vaccine by the end of 2021, liquidity risk and no-deal Brexit. Considering that the vaccination drive has already begun, accommodative stance of ECB to stay and deal on Brexit has occurred, we tend to agree with the authorities and expect an optimistic scenario of faster recovery.
4. We note that fiscal deficit is expected to rise sharply to 11 percent of GDP in 2020 and may remain elevated in the medium term as well. Public debt is expected to be at 116 percent of GDP and may move up further to 122 percent of GDP in the medium term. However, we agree with the Staff that strong fiscal support needs to continue but should become increasingly targeted as recovery gains traction. Further, as output reaches its pre-crisis level, efforts towards fiscal consolidation aiming to reduce debt may be warranted.

5. There is an increased insolvency risk for the services-sector and for the small sized firms. Similarly, household defaults are likely to rise as fiscal support measures will be withdrawn. As proposed by the Staff, we encourage authorities to facilitate a gradual move towards equity or quasi equity financing. Further, as debt restructuring cases are likely to rise, additional capacity for out-of-court restructuring mechanism would be desirable.

6. Finally, we support authorities' proposals to boost the digital transformation of the economy. It will have twin benefits – movement toward contact-less economic activities would be encouraged and productivity, which has been falling during the past two decades, will improve. These measures will be crucial in bringing about sustained recovery in the post COVID period.

We wish authorities all the best in their future endeavors.