

SUR/12/108

December 21, 2012

**The Acting Chair's Summing Up
France—2012 Article IV Consultation
Executive Board Meeting 12/118
December 20, 2012**

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the resilience of the French economy in withstanding relatively well the euro area crisis and enjoying a safe haven status. They noted, however, that economic growth remains sluggish and the near-term outlook is subject to downside risks. The main challenge going forward would be to further strengthen the recovery, while addressing the competitiveness gap vis-à-vis trading partners and safeguarding financial stability. In this context, Directors underscored the need to properly calibrate fiscal policy and remove structural rigidities that constrain competitiveness and growth.

Directors commended the authorities for their commitment to fiscal discipline in line with the euro-area stabilization strategy, and for the transposition of the EU Fiscal Compact into French law. They noted that the adoption of the fiscal responsibility law and creation of the Fiscal Council would strengthen credibility by anchoring fiscal policy to a balanced position over the medium term. Many Directors stressed that adherence to the EU's fiscal target in 2013 would be crucial to preserve credibility and market confidence, and advised that contingency measures be prepared should downside risks materialize. Other Directors encouraged the authorities to refrain from additional fiscal tightening in the event of slower-than-expected growth in 2013. Directors called for a rebalancing of fiscal adjustment over the medium term toward additional expenditure containment in a growth-friendly manner, stressing the adverse supply side effects of the high tax ratio.

Directors underscored the need to address the competitiveness gap through deep labor and product market reforms. They welcomed the authorities' recent decision to lower social security contributions, and recommended wage moderation as a supporting measure. They also welcomed the ongoing negotiations among social partners to improve the functioning of the labor market, and encouraged the authorities to move forward with the ambitious labor market reform. Directors also observed that greater competition in the services sector would help lower production costs and enhance the benefits of the labor market reform. They called on the authorities to open the services sector to more competition, while acknowledging the need for careful sequencing of the various reforms.

Directors noted the FSSA's findings that the French financial system has been resilient to shocks and that financial stability risks have receded. They commended the authorities' strong regulatory and supervisory regime, and welcomed moves to boost financial oversight further, including at the European level. Directors welcomed the rapid improvements in bank capitalization and funding structures in the aftermath of the crisis.

Nevertheless, they observed that banks remain exposed to the risk of financial stress owing to their still-significant reliance on wholesale funding and exposure to periphery euro-area countries. To stimulate deposit mobilization by banks, Directors encouraged further tax reform to create a level playing field and remove disincentives against bank deposits.

The next Article IV consultation with France is expected to be held on the standard 12-month cycle.