# IMF Executive Board Concludes the 2017 Article IV Consultation with France



September 21, 2017

On September 20, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation [1] with France.

The recovery is picking up, with real GDP growth projected to reach 1.6 percent this year and 1.8 percent in 2018. Growth is primarily driven by buoyant corporate investment, a rebound in residential construction, and solid consumer demand. Net exports, by contrast, have been a drag on growth, and France's external position is assessed to be weaker than implied by economic fundamentals. Private sector job creation has begun to accelerate moderately and the unemployment rate has begun to recede moderately from its 10 percent post-crisis mark. Despite the cyclical upturn, the inflation outlook remains subdued as in many other euro area economies. Fiscal consolidation, on a structural basis, has stalled since 2015, and the public debt ratio is still rising.

The new government is advancing an ambitious economic reform strategy aimed at making France's economy more dynamic and its public finances sustainable. On the fiscal front, the strategy focuses on reining in public spending with a view to gradually reducing the fiscal deficit while lowering the tax burden. Labor market reforms seek to enhance firm-level flexibility in labor negotiations, revamp unemployment insurance, and improve professional training and apprenticeship programs. Tax reforms are designed to boost growth, employment, and competitiveness.

Medium-term prospects will critically depend on the implementation of the reform agenda. While the output gap is projected to close over the medium term assuming that the recovery sustains its momentum, potential growth remains constrained by modest total factor productivity growth (as in other advanced economies), a stagnant working age population, high structural unemployment (especially among the young and low-skilled), and weak external competitiveness. Comprehensive labor, tax, and spending reforms would help raise potential growth and boost employment while rebuilding room for fiscal maneuver.

Executive Board Assessment **[2]**

Executive Directors welcomed the new government's broad reform agenda, which seeks to address France's longstanding economic challenges. With the recovery gaining strength and job creation picking up, they noted that there is now an important window of opportunity for a bold and comprehensive strategy to boost growth, reduce unemployment, ensure the sustainability of public finances, and improve competitiveness, while also promoting inclusiveness and social mobility. The key challenge will be implementation, especially with regards to the envisaged fiscal strategy and labor market reforms.

Directors supported the government's gradual expenditure-based fiscal consolidation plan, which aims for a near-balanced budget over the medium term. This would create room for fiscal maneuver and place debt on a downward trajectory. They noted, however, that given past fiscal slippages and the envisaged tax relief for 2018/19, success will critically depend on the timely specification and implementation of efficiency-oriented expenditure reforms. Comprehensive spending reviews could help identify savings at all levels of government while ensuring adequate social protections, which would help make consolidation sustainable.

Directors welcomed the proposed reform of France's labor laws, which should help enhance flexibility at the enterprise level, improve the social dialogue, and reduce judicial uncertainty related to dismissals. They stressed that complementary measures will be needed to bring down the high level of structural unemployment. In this respect, they welcomed the authorities' plans to reform the unemployment insurance and professional education and apprenticeship systems, and recommended continued wage moderation.

Directors considered that the planned cut in the corporate income tax rate, together with a further reduction in the labor tax wedge, will help make France more competitive. To maximize the growth benefits, they recommended that these reforms be complemented by measures to improve the efficiency of capital taxation, including by limiting exemptions, reducing the debt bias, and eliminating disincentives to company growth. They saw merit in the envisaged unification of tax rates on interest, dividends, and capital gains, and recommended streamlining the taxation of long-term savings.

Directors noted that the financial sector has become more resilient since the crisis, with the large banks having buttressed their balance sheets and provided adequate financing to the economy. However, they stressed that banks and insurers need to continue adapting their business models to the low interest environment, new technologies, and evolving regulatory standards. Directors stressed the need for supervisors to remain vigilant with respect to market risks—including a potential increase in interest rates—and the rise in corporate indebtedness.

**France: Selected Economic Indicators, 2015–18**

| | | | Projections | |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | | | | |
| **Real economy (change in percent)** | | | | |
| Real GDP | 1.1 | 1.2 | 1.6 | 1.8 |
| Domestic demand | 1.6 | 1.9 | 1.9 | 1.7 |
| Private consumption | 1.4 | 2.2 | 1.2 | 1.6 |
| Public consumption | 1.1 | 1.3 | 1.2 | 0.5 |
| Gross fixed investment | 1.0 | 2.9 | 2.9 | 3.1 |
| Foreign balance (contr. to GDP growth) | -0.5 | -0.8 | -0.3 | 0.0 |
| Exports of goods and services | 4.3 | 1.8 | 3.0 | 3.9 |
| Imports of goods and services | 5.7 | 4.2 | 3.5 | 3.5 |
| Nominal GDP (billions of euros) | 2194 | 2229 | 2283 | 2351 |
| | | | | |
| CPI (year average) | 0.1 | 0.3 | 1.2 | 1.3 |
| GDP deflator | 1.1 | 0.4 | 0.8 | 1.2 |
| | | | | |
| Gross national savings (percent of GDP) | 22.3 | 22.0 | 22.1 | 22.3 |
| Gross domestic investment (percent of GDP) | 22.8 | 23.0 | 23.3 | 23.0 |
| | | | | |
| **Public finance (percent of GDP)** | | | | |
| General government balance | -3.6 | -3.4 | -3.0 | -3.0 |
| Revenue | 53.1 | 53.0 | 53.1 | 52.5 |

| | | | | |
|---|---|---|---|---|
| Expenditure | 56.7 | 56.4 | 56.2 | 55.6 |
| Structural balance (percent of pot. GDP) | -2.0 | -1.9 | -1.8 | -2.2 |
| Primary balance | -1.7 | -1.7 | -1.4 | -1.4 |
| General government gross debt | 95.6 | 96.3 | 96.8 | 97.0 |
| **Labor market (percent change)** | | | | |
| Employment | 0.2 | 0.6 | 0.7 | 0.5 |
| Labor force | 0.3 | 0.3 | 0.0 | 0.0 |
| Unemployment rate (percent) | 10.4 | 10.0 | 9.5 | 9.0 |
| Total compensation per employee | 1.0 | 1.1 | … | … |
| **Credit and interest rates (percent)** | | | | |
| Growth of credit to the private non-financial sector | 3.2 | 4.1 | 5.2 | 5.8 |
| Money market rate (Euro area) | -0.2 | ... | ... | ... |
| Government bond yield, 10-year | 0.8 | 0.5 | ... | ... |
| **Balance of payments (percent of GDP)** | | | | |
| Exports of goods | 21.0 | 20.7 | 21.0 | 20.6 |
| Imports of goods | -22.1 | -21.9 | -22.4 | -21.7 |
| Trade balance | -1.9 | -2.0 | -2.3 | -2.0 |
| Current account | -0.4 | -1.0 | -1.1 | -0.8 |
| FDI (net) | -0.1 | 0.1 | 0.2 | 0.4 |
| Official reserves (US$ billion) | 55.2 | 56.1 | ... | ... |
| **Exchange rates** | | | | |
| Euro per U.S. dollar, period average | 0.90 | 0.90 | ... | ... |
| NEER, ULC-styled (2000=100) | 97.9 | 98.7 | ... | ... |
| REER, ULC-based (2000=100) | 92.7 | 92.0 | ... | ... |
| **Potential output and output gap** | | | | |
| Potential output (change in percent) | 1.0 | 1.0 | 1.1 | 1.3 |
| *Memo: per working age person* | 0.6 | 0.6 | 0.6 | 0.8 |
| Output gap | -2.4 | -2.2 | -1.8 | -1.3 |

Sources: Haver Analytics, INSEE, Banque de France, and IMF staff calculations.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.