Which rebalancing strategy for France?

Conference:
‘French competitiveness: New challenges, new measures’

Banque de France
December 16th 2015

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Banque de France
Current account - % GDP

- Large and growing surplus in Germany
- Rebalancing in Spain and Italy
- From surplus to deficit in France: declining trend

Source: National accounts, Eurostat
German success: From reforms?

“We therefore believe that while the Hartz reforms have contributed to the recent decline in long-term unemployment and to the continued increase in wage inequality at the lower end of the wage distribution, they were not central or essential in the process of improving the competitiveness of German industry.”

Breakdown of unit labor cost growth (delta logs)

Source: National accounts, Eurostat
Breakdown of unit labor cost growth - % and PP

- 2001-2008: ULC stability in Germany, from wage moderation; ULC increase in Spain and Italy from compensation increase and no productivity gains; **intermediate situation for France**;
- 2009-2014: Higher ULC growth in Germany from compensation acceleration and no productivity gains; ULC decrease in Spain from low compensation increase and productivity gains; **intermediate situation for France and Italy**

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<th>Germany</th>
<th>France</th>
<th>Spain</th>
<th>Italy</th>
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<td>2001-2008</td>
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Source: National accounts, Eurostat
Rebalancing: Contribution of total exports

From 2008, large contribution in Spain, **low in France** and Italy, medium in Germany

Export value – Index 2008 = 1

Source: National accounts, Eurostat
Extra-EA exports

Export extra EA share: high and growing strongly in Germany, low but growing strongly in Spain, **medium and slightly increasing in France** and Italy.

Extra-EA exports (% of total exports)

Source: National accounts, Eurostat
Market shares

Decrease of the market shares, by:
- 1995-2008: **34.6% in France**, 25.7% in Italy, 11.6% in Germany, 8.0% in Spain
- 2008-2014: **19.6% in France**, 17.2% in Italy, 11.3% in Germany, 1.9% in Spain

Source: OMC - BdF
Impressive decrease of the profit share
Back to the level of the mid 1980s

Non financial firms - % of the value added

Source: OMC - BdF
Rebalancing: Contribution of total imports

From 2008, contribution of total imports in rebalancing: positive in Spain and Italy due to a lower domestic demand, neutral in France and Germany

Import value – Index 2008 = 1

Source: National accounts, Eurostat
Rebalancing: contribution of domestic demand

From 2008, GDP increase in Germany, slight increase in France, stability in Italy, decrease in Spain

GDP – Index 2008 =1

Source: National accounts, Eurostat
Policy coordination and reforms

- Large and growing current account surplus in the EA. But country heterogeneity: large and growing surplus in Germany, rebalancing in Italy and Spain, *declining in France*
  - Germany: a “success story” but not an example
  - Spanish rebalancing: From competitiveness improvement and decline of domestic demand
  - Italian rebalancing: Mainly from stable domestic demand
  - France: No competitiveness improvement, slight increase of domestic demand. Role of the MW (SMIC) dynamic

- EA: Need more coordination in demand behavior.
  - To avoid a larger domestic demand moderation in deficit countries, need of more domestic demand in Germany
  - Hope from MW implementation and spending for refugees in Germany?

- Competitiveness and growth can be obtained from implementation of ambitious structural reforms
Gains from structural reforms

Long term impact of structural reforms on labor and product markets
Impact on TFP and GDP – In %

Source: Cette, Lopez and Mairesse (2014)