Economic adjustments in Europe: the case of France

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ECONOMIC ADJUSTMENTS ARE MUCH NEEDED IN THE EURO AREA

Maximum minus Minimum value (Max-Min) and 3rd minus 1st quartile (Q3-Q1) represent the dispersion of the indicators within euro area countries.

Current account dispersion increased before 2007, while unemployment and GDP per capita dispersion increased afterwards within euro area countries.

Sources: IMF and Eurostat
1. A French momentum?
2. The French challenge
3. The French reforms
Fastest-growing technology companies in Europe, the Middle East, and Africa (EMEA) during the past four years. Growth for individual companies on the list ranged from 220 percent to 107,117 percent. Winners were selected based on percentage fiscal-year revenue growth from 2013 to 2016.
SOME STRONG FRENCH ASSETS (2/3): LABOUR

**Labour productivity (2016)** in $US 2010 ppp per hour

Source: Bergeaud, Cette, and Lecat, 2017

**Working-age population 2018-2030 projections** (24-74 year-old, growth rate over the period, %)

Source: Eurostat
Some strong French assets (3/3): Confidence

Business sentiment indicator in manufacturing industry

Consumer confidence synthetic index

Since one year, has the image of France among global headquarters...
(in % of respondents)

Source: Banque de France, monthly survey on industry
100=long-term average

Source: INSEE, Monthly consumer confidence survey
100=long-term average

Source: IPSOS; survey on attractiveness among executives of foreign firms in France
1. A French momentum?

2. The French challenge

3. The French reforms
FRANCE'S ECONOMIC CHALLENGE IS THE SAME AS THE ONE FACING THE EURO ZONE: OUR PROBLEM IS NO LONGER CYCLICAL

Output Gap
(% of potential GDP)

Unemployment rate and NAIRU (in %)

Potential output
(yearly growth, in %)

NAIRU: Non-Accelerating Inflation Rate of Unemployment

Source: European Commission
1. A French momentum?

1. The French challenge

2. The French reforms
THE FRENCH REFORMS: A NEED FOR OVERALL CONSISTENCY

- Efficiency of public spending and investment
- Control of the public debt
- Education/vocational training, apprenticeship
- Employment
- Goods and services markets
- Labour market
- Tax reduction /reallocation
- Competitiveness
- Sustainability of the European social model
- Innovation /creativity
- Intergenerational solidarity
- Simplifications
REFORMS IN FRANCE: FOCUS ON PUBLIC FINANCE

Some ongoing reforms
- Public deficit down to 2.9% in 2017
- Reduction of the ratio of public spending to GDP by 3 GDP points in the next five years
- Reduction of the tax burden on corporate income (to 25% in 2022) and capital
THE FRENCH REFORMS: A NEED FOR OVERALL CONSISTENCY

- **Labour market**
- **Efficiency of public spending and investment**
- **Tax reduction / reallocation**
- **Control of the public debt**
- **Goods and services markets**
- **Education / vocational training, apprenticeship**
- **Employment**
- **Simplifications**
- **Innovation / creativity**
- **Intergenerational solidarity**
- **Competitiveness**
- **Sustainability of the European social model**
REFORMS IN FRANCE: FOCUS ON REGULATION

Product market regulation
(From most regulated 6 to least regulated 0)

Regulation in energy, transport and communications
(From most regulated 6 to least regulated 0)

Source: OECD

Reforms done:
‘Macron law’ (2015)
Some ongoing reforms

- Labour market reform (passed in September 2017 and implemented in November 2017)
- Reform of unemployment insurance (ongoing – law in spring 2018)
- CICE (2014-2017): credit tax to reduce labour cost
THE FRENCH REFORMS: A NEED FOR OVERALL CONSISTENCY

Efficiency of public spending and investment

Competitiveness

Tax reduction / reallocation

Innovation / creativity

Goods and services markets

Simplifications

Labour market

Control of the public debt

Intergenerational solidarity

Education / vocational training, apprenticeship

Employment

Sustainability of the European social model
Reforms in France: Focus on Education/Vocational Training and Apprenticeship

Beveridge curves (manufacturing)

Factors limiting production: labour

Unemployment, in %

Source: Eurostat, Business and consumer survey

Apprenticeship and youth unemployment rate (2016)

Some ongoing reforms

- Reform of lifelong training
- €14bn allocated to lifelong training in the 5 year investment plan
- Reform of apprenticeship

Sources: Apprenticeship: Germany: BiBB; France: INSEE; Italy: Report Cedefop Italy; unemployment data: Eurostat.
A FINANCING UNION FOR INVESTMENT AND INNOVATION

The microeconomic accelerator:
A Financing Union for Investment and Innovation

- Incentives for cross-border investments (equity): accounting, taxes, insolvency laws
- Long-term pan-European savings products; European venture capital
- Completion of Banking Union; Consolidation of European banks
- Savings exceed investment by more than €350bn, but fragmentation

- Innovation and digitalisation
- Scaling-up of SMEs
- Green finance and energy transition

Equity/GDP:
- 73% in the EA, 123% in the US (Q3 2017)