Economic adjustments in Europe: the case of France

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François VILLEROY de GALHAU, Governor of the Banque de France
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Labour productivity (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>58.26</td>
</tr>
<tr>
<td>Germany</td>
<td>60.15</td>
</tr>
<tr>
<td>Euro Area</td>
<td>43.44</td>
</tr>
<tr>
<td>Italy</td>
<td>37.70</td>
</tr>
</tbody>
</table>

Source: Bergeaud, Cette, and Lecat, 2017

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth Rate (2018-2030)</th>
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</thead>
<tbody>
<tr>
<td>Italy</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Euro area</td>
<td>0.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>0.5%</td>
</tr>
<tr>
<td>France</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Source: Eurostat
SOME STRONG FRENCH ASSETS (3/3): CONFIDENCE

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**Business sentiment indicator in manufacturing industry**

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**Consumer confidence synthetic index**

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

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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

- Competitiveness
- Tax reduction / reallocation

Sustainability of the European social model

- Control of the public debt
- Intergenerational solidarity

Goods and services markets

- Education / vocational training, apprenticeship
- Employment

Simplifications

- Innovation / creativity
- Labour market
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

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  - Simplifications
  - Education / vocational training, apprenticeship
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  - Labour market
  - Employment
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)
REFORMS IN FRANCE: FOCUS ON REGULATION

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

Source: OECD
THE FRENCH REFORMS: A NEED FOR OVERALL CONSISTENCY

- Efficiency of public spending and investment
- Control of the public debt
- Education/vocational training, apprenticeship
- Goods and services markets
- Tax reduction/reallocation
- Employment
- Innovation/creativity
- Intergenerational solidarity
- Competitiveness
- Sustainability of the European social model
- Simplifications

Labour market
REFORMS IN FRANCE: FOCUS ON EDUCATION/VOCATIONAL TRAINING AND APPRENTICESHIP

Beveridge curves (manufacturing)

Factors limiting production: labour

France

Germany

% of positive responses

% of positive responses

Unemployment, in %

Source: Eurostat, Business and consumer survey

Apprenticeship and youth unemployment rate (2016)

Apprenticeship and youth unemployment rate (2016)

Sources: Apprenticeship: Germany: BiBB; France: INSEE; Italy: Report Cedefop Italy; unemployment data: Eurostat.

Some ongoing reforms

- Reform of lifelong training
- €14bn allocated to lifelong training in the 5 year investment plan
- Reform of apprenticeship
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
- Innovation and digitalisation
- Scaling-up of SMEs
- Green finance and energy transition

Savings exceed investment by more than €350bn, but fragmentation

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