



Economic adjustments in Europe: the case of France

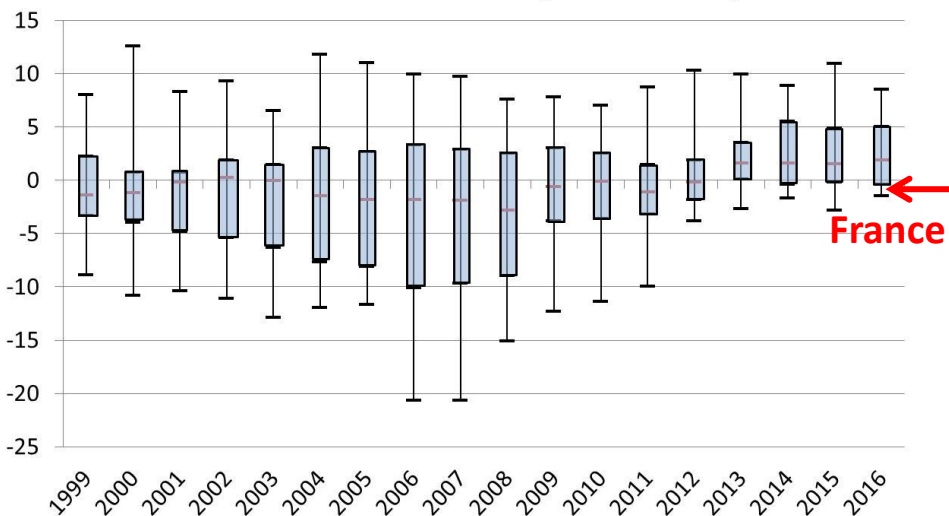
GIC/SUERF/Bundesbank conference: 8-9 February 2018

François VILLEROY de GALHAU, Governor of the Banque de France

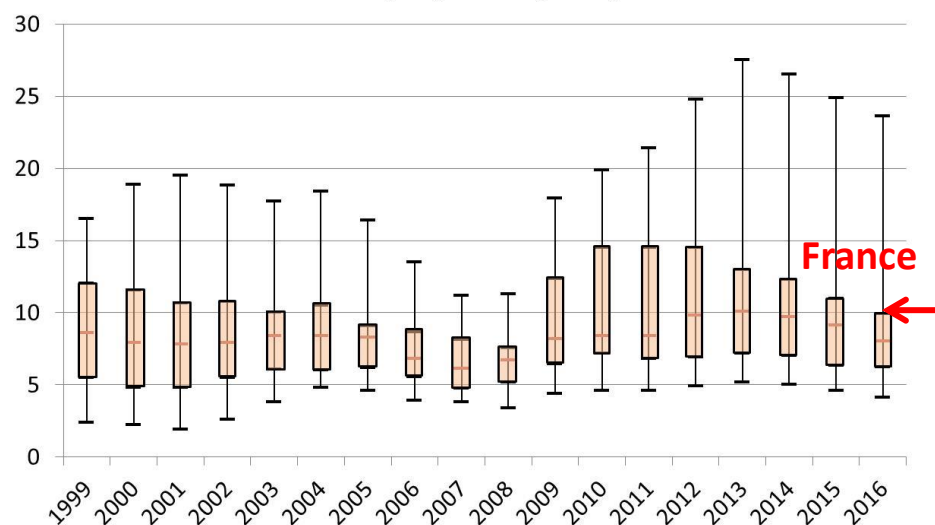


ECONOMIC ADJUSTMENTS ARE MUCH NEEDED IN THE EURO AREA

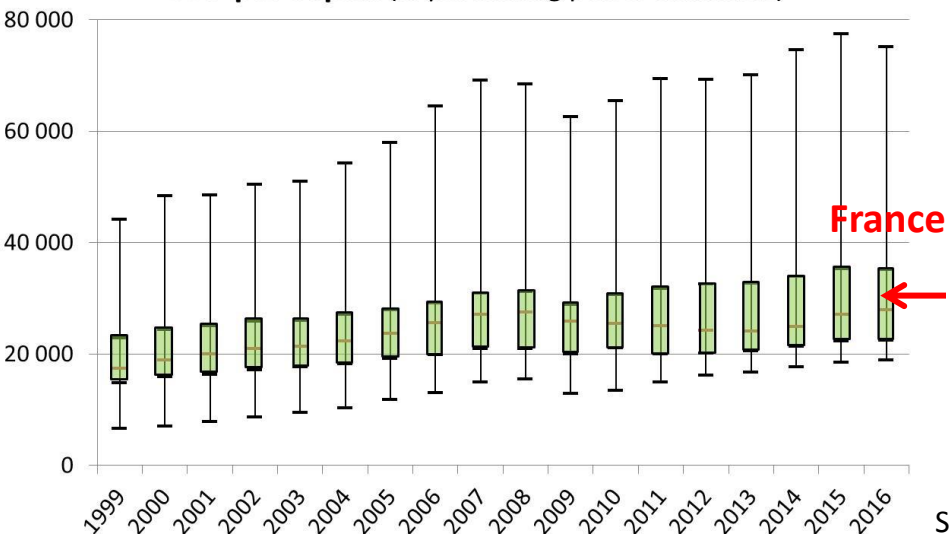
Current account balance (in % of GDP)



Unemployment (in %)



GDP per capita (in purchasing power standards)



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

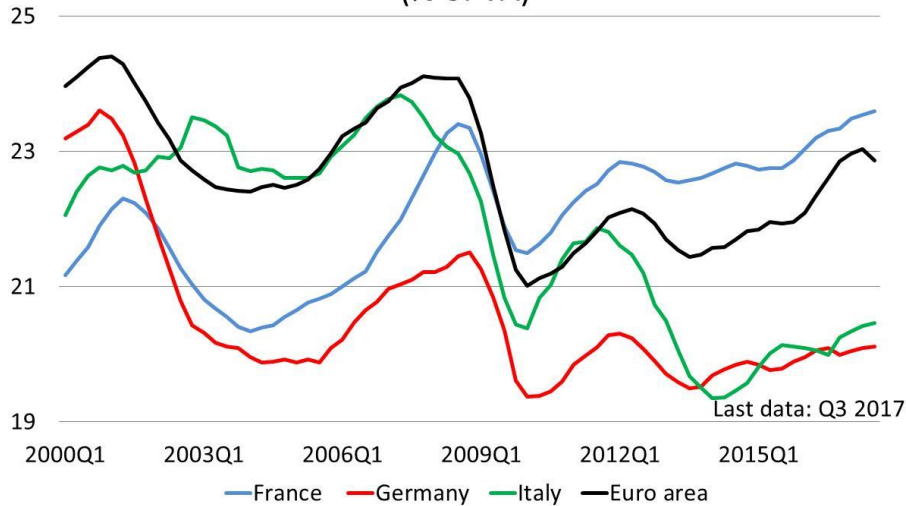
Current account dispersion increased before 2007, while unemployment and GDP per capita dispersion increased afterwards within euro area countries.

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- 1. A French momentum?**
 - 2. The French challenge**
 - 3. The French reforms**

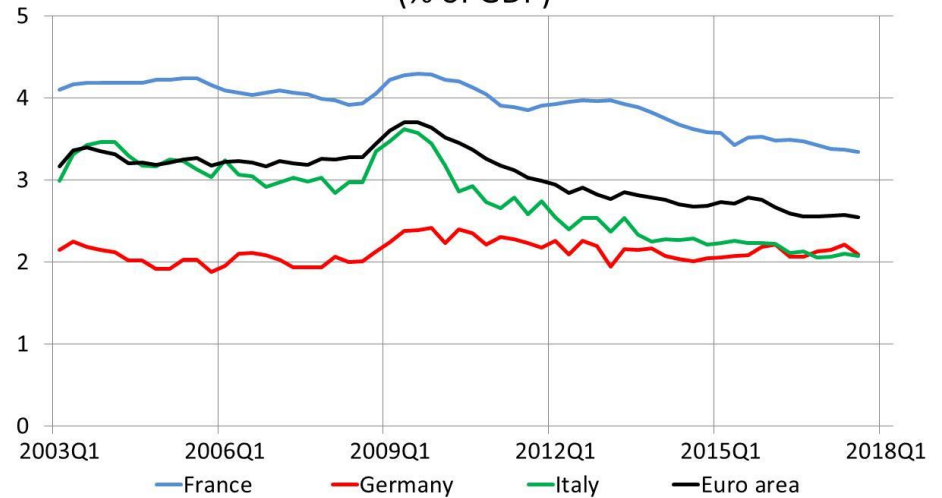


SOME STRONG FRENCH ASSETS (1/3): CAPITAL

NFC investment rate (% of VA)



Public investment rate (% of GDP)

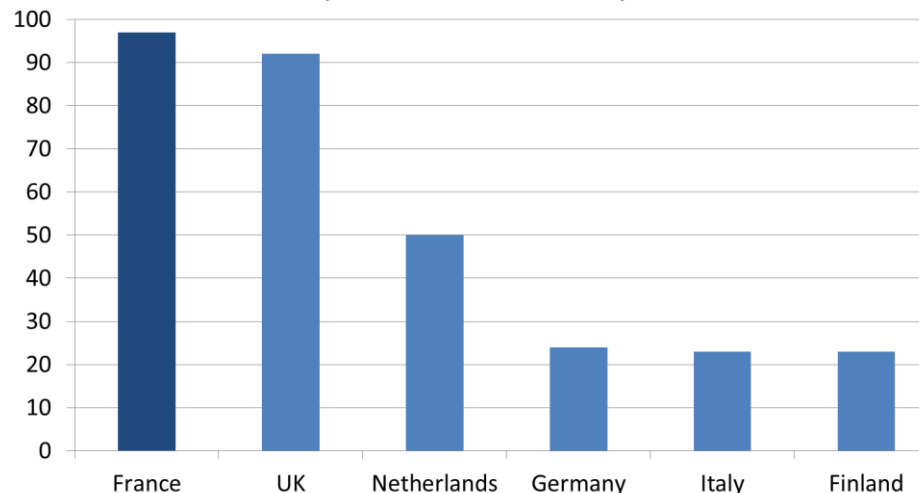


Source : Eurostat

Technology fast 500 Winners 2017 in Europe (in number of firms)

Source : BMPE dec. 2017

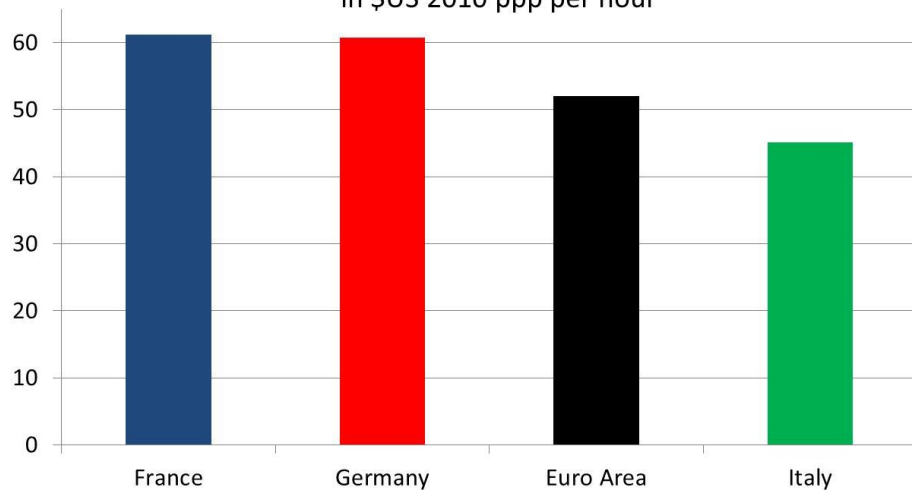
Fastest-growing technology companies in Europe, the Middle East, and Africa (EMEA) during the past four years. Growth for individual companies on the list ranged from 220 percent to 107,117 percent. Winners were selected based on percentage fiscal-year revenue growth from 2013 to 2016.



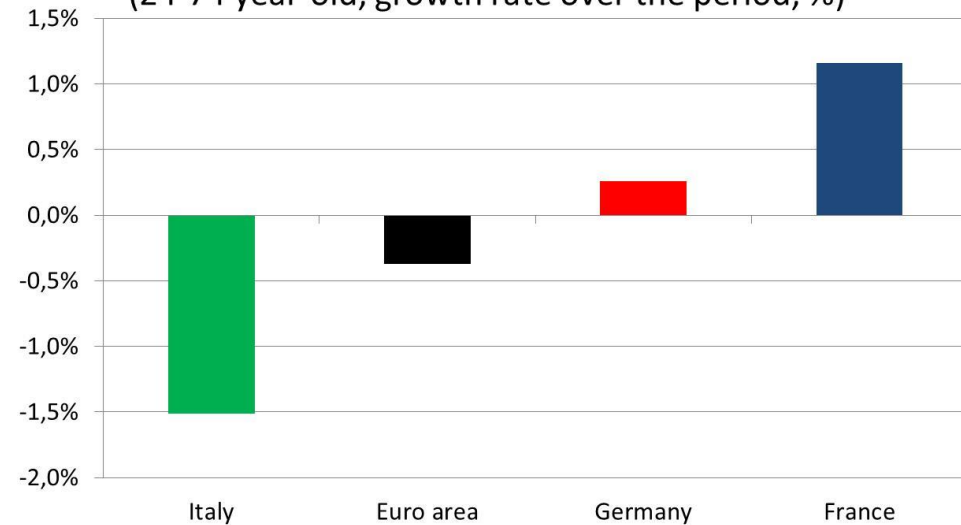
Source : Deloitte

SOME STRONG FRENCH ASSETS (2/3): LABOUR

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



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



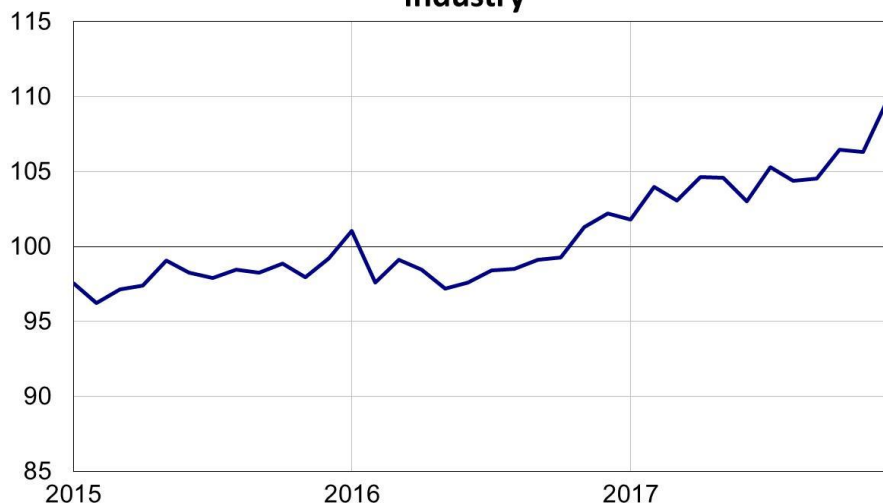
Source : Bergeaud, Cette, and Lecat, 2017

Source: Eurostat



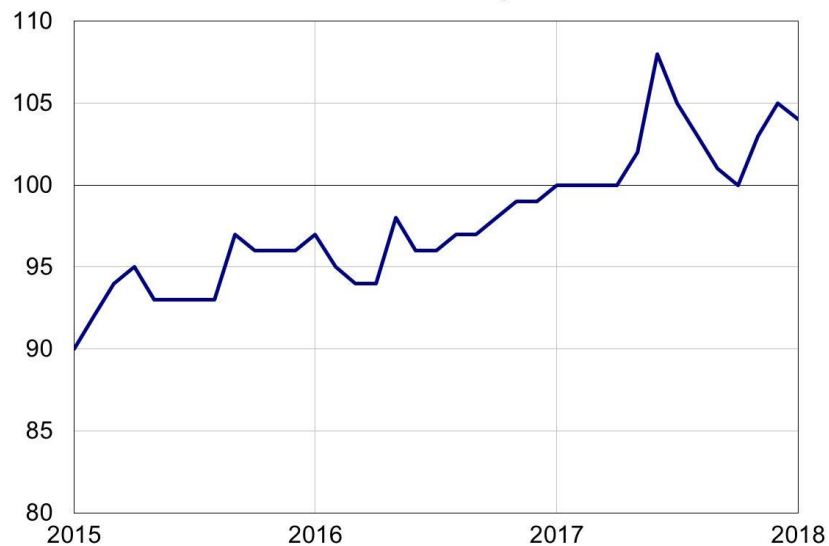
SOME STRONG FRENCH ASSETS (3/3): CONFIDENCE

Business sentiment indicator in manufacturing industry



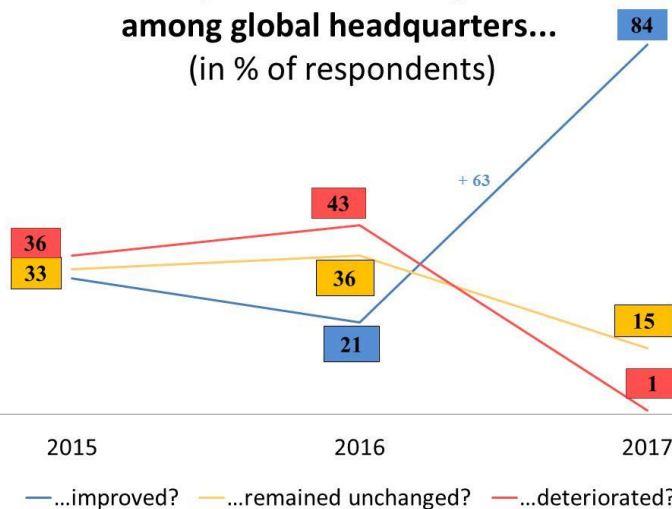
Source : Banque de France, monthly survey on industry
100=long-term average

Consumer confidence synthetic index



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

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



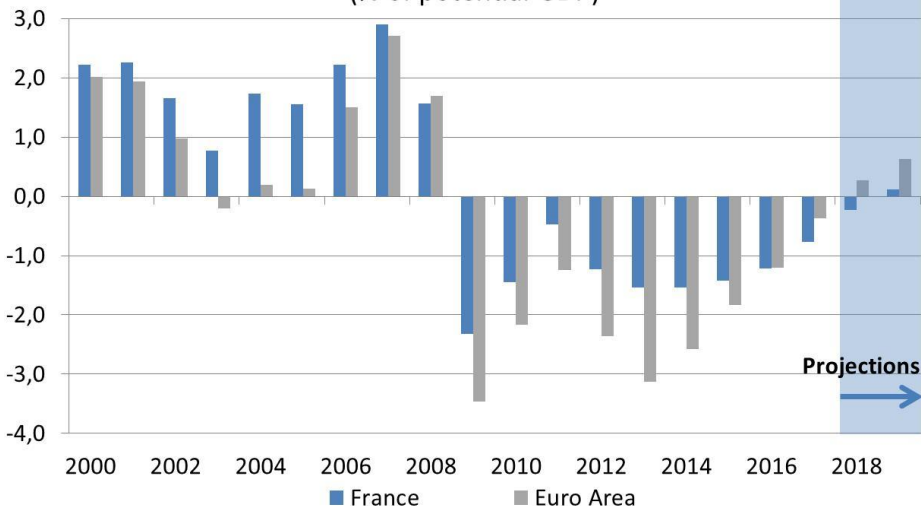
Source: IPSOS; survey on attractiveness among executives of foreign firms in France

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1. A French momentum?
 - 2. The French challenge**
 3. The French reforms

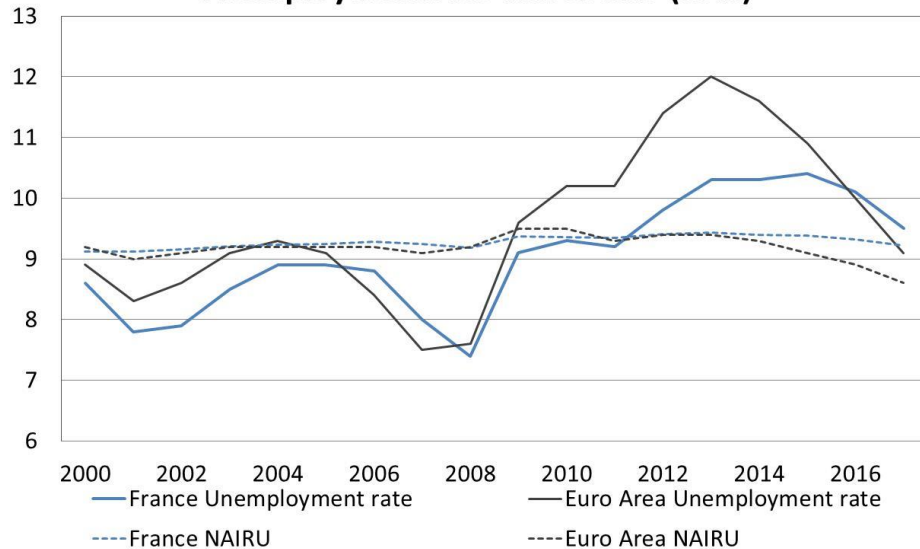


FRANCE'S ECONOMIC CHALLENGE IS THE SAME AS THE ONE FACING THE EURO ZONE: OUR PROBLEM IS NO LONGER CYCLICAL

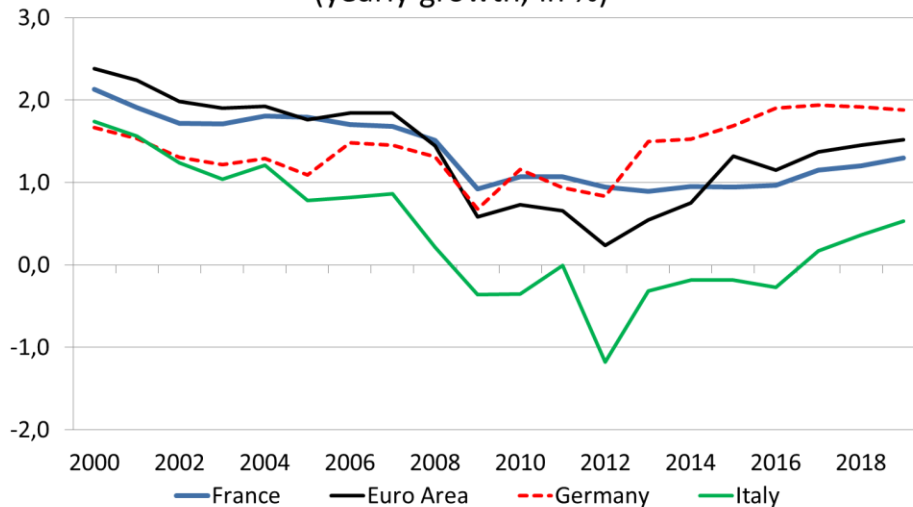
Output Gap (% of potential GDP)



Unemployment rate and NAIRU (in %)



Potential output (yearly growth, in %)



NAIRU: Non-Accelerating Inflation Rate of Unemployment



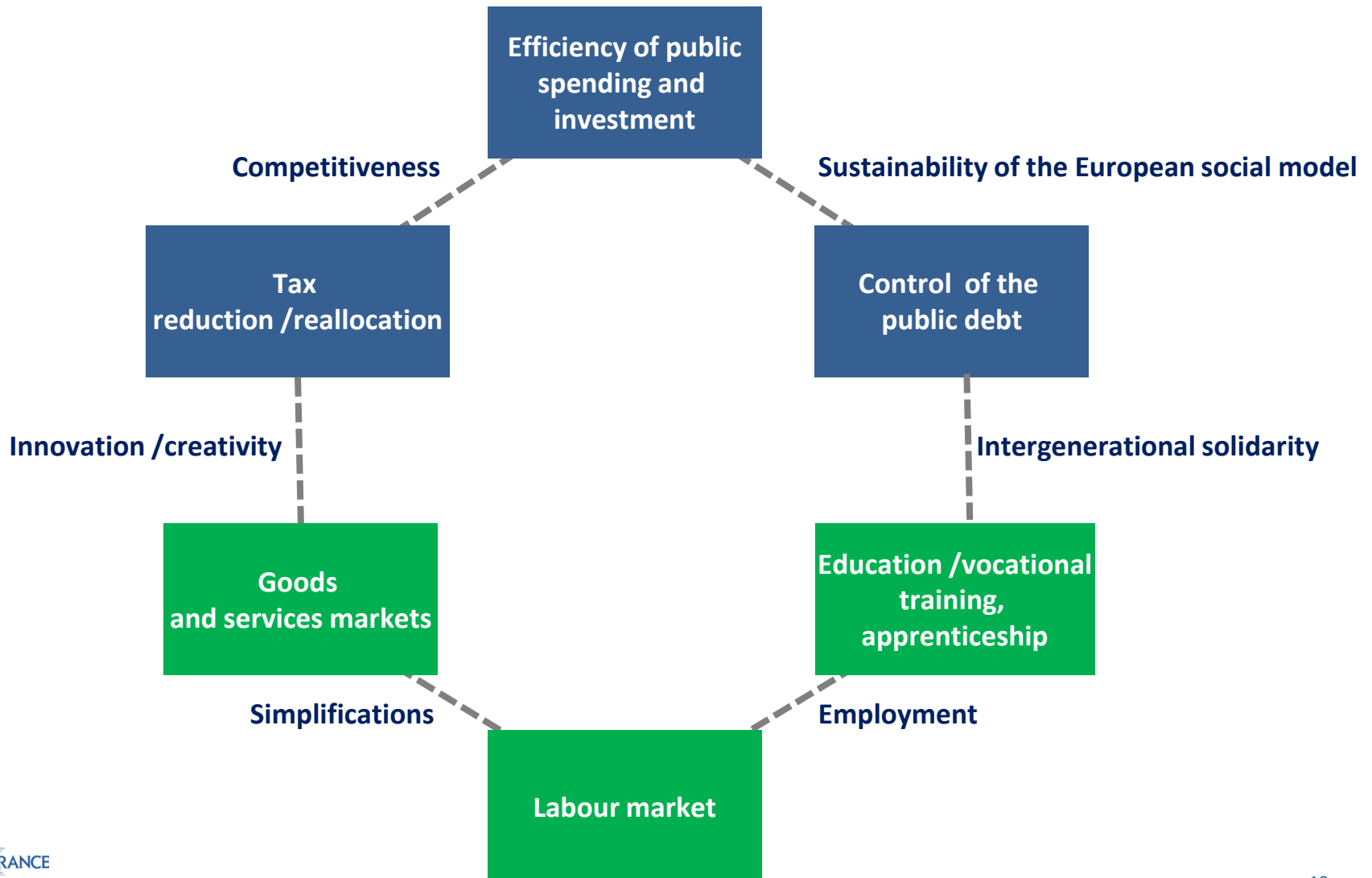
1. A French momentum?

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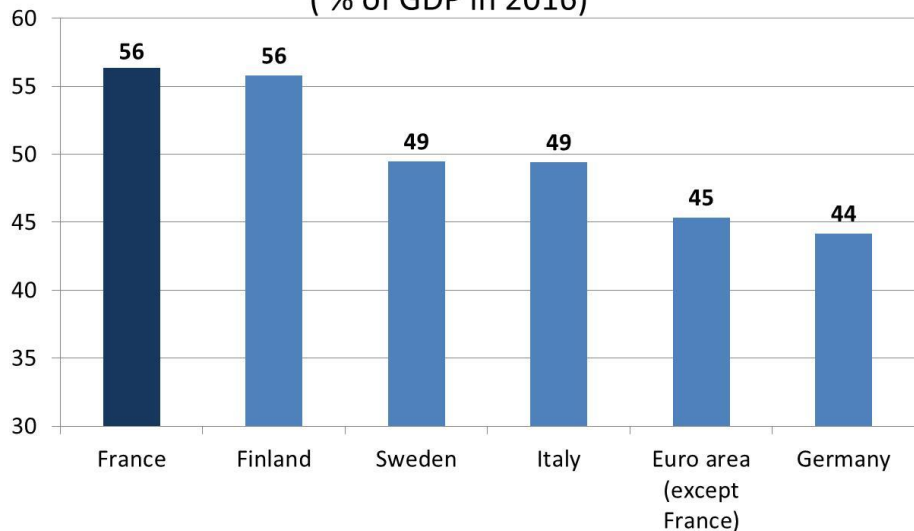
THE FRENCH REFORMS: A NEED FOR OVERALL CONSISTENCY





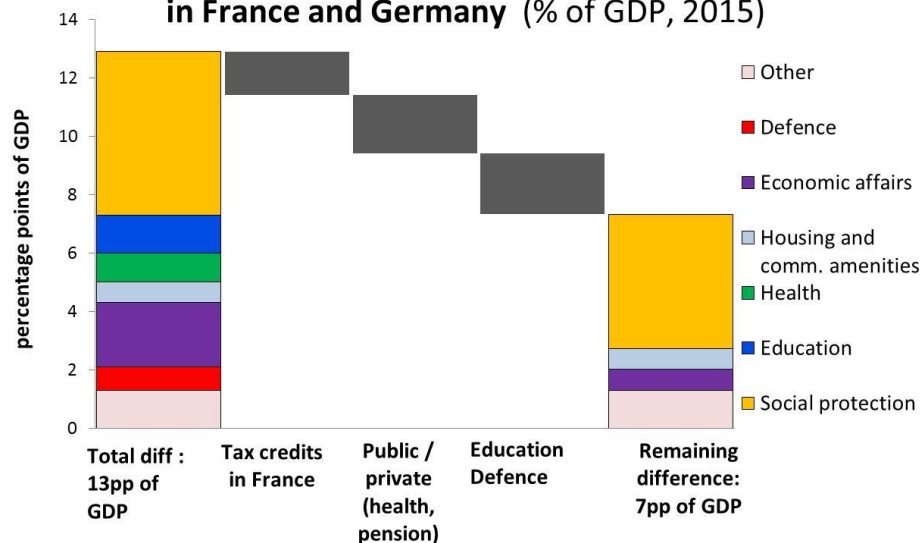
REFORMS IN FRANCE: FOCUS ON PUBLIC FINANCE

Public expenditure (% of GDP in 2016)



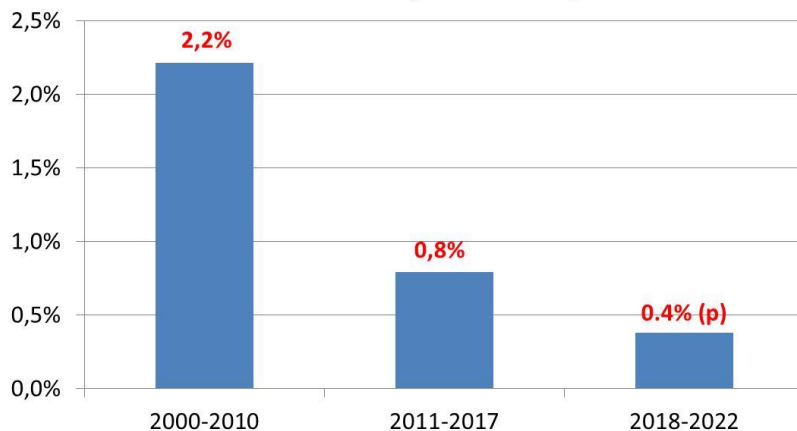
Source : Eurostat

The difference in public spending ratio in France and Germany (% of GDP, 2015)



Source: Eurostat, based on COFOG nomenclature

Average annual growth of public spending in France (real terms)



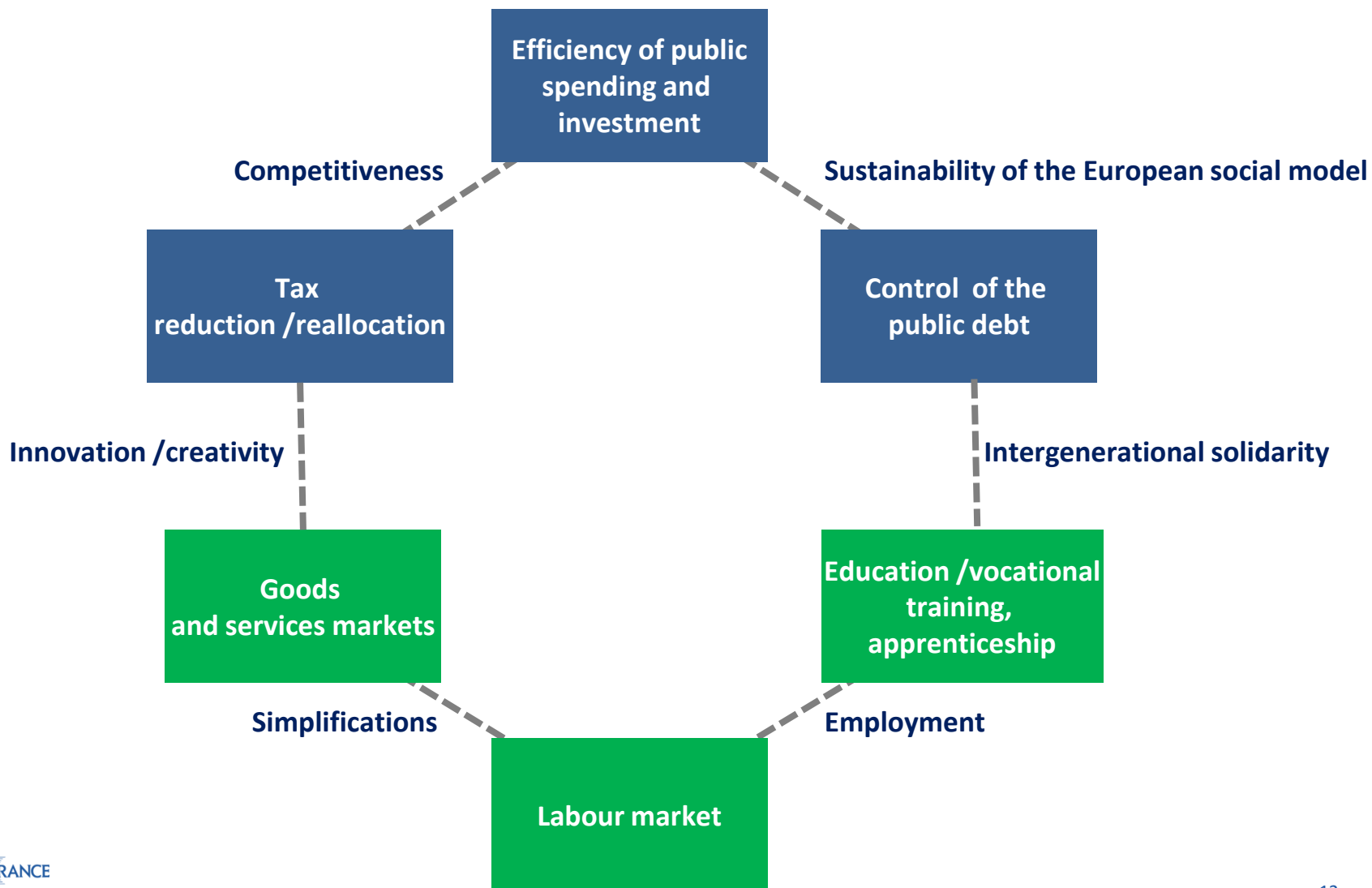
- Some ongoing reforms**

 - **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**

Source: INSEE and Government projections



THE FRENCH REFORMS: A NEED FOR OVERALL CONSISTENCY

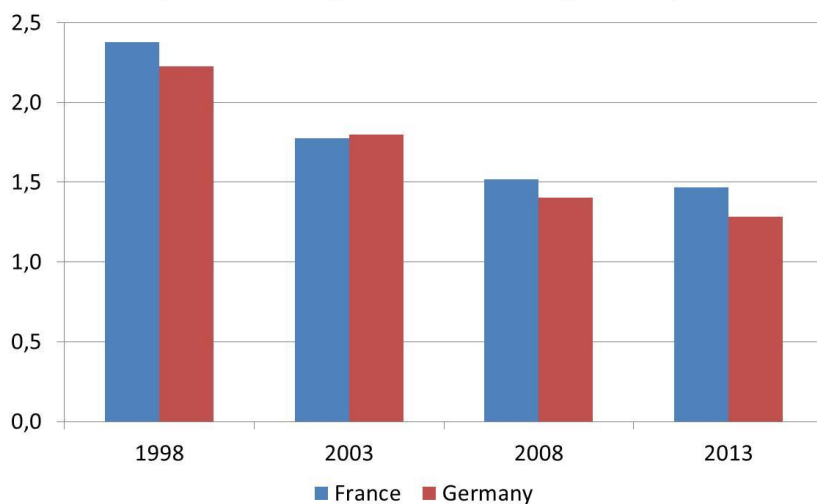




REFORMS IN FRANCE: FOCUS ON REGULATION

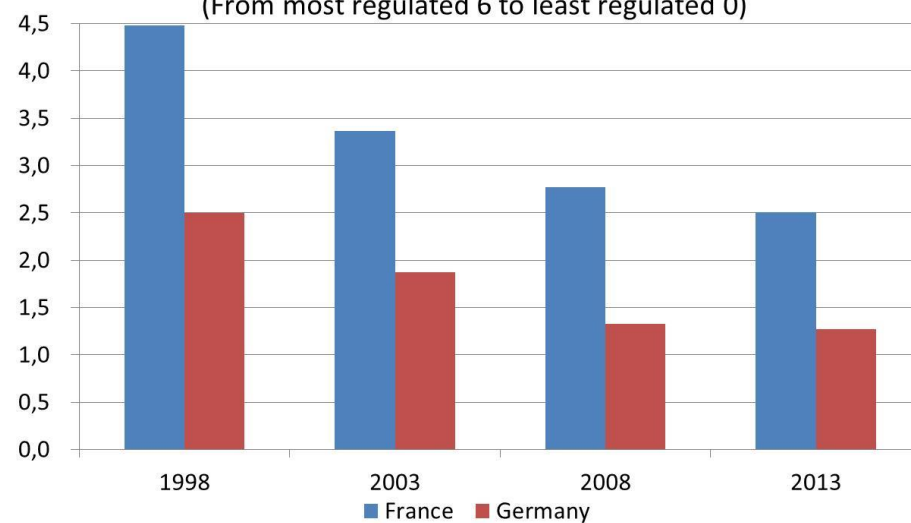
Product market regulation

(From most regulated 6 to least regulated 0)



Regulation in energy, transport and communications

(From most regulated 6 to least regulated 0)



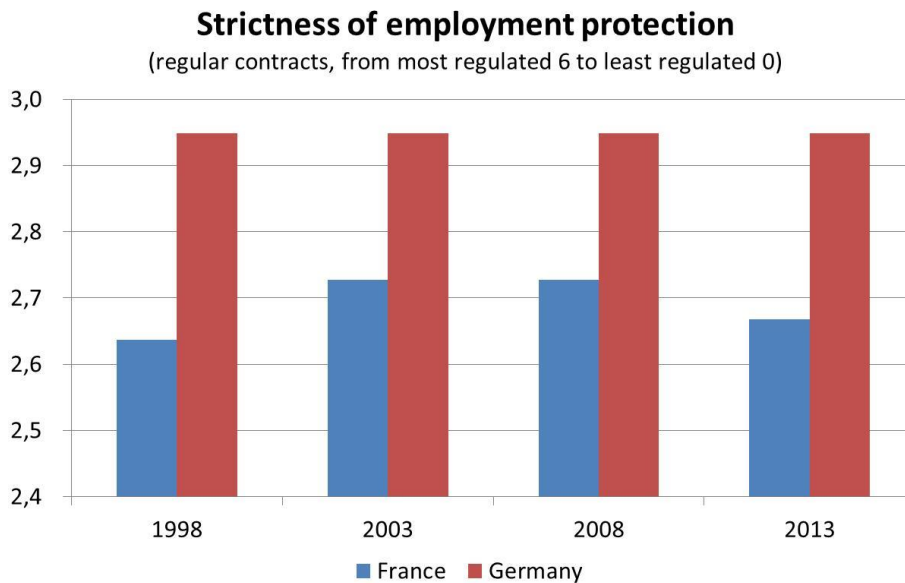
Source : OECD

Reforms done:

'Macron law' (2015)



REFORMS IN FRANCE: FOCUS ON REGULATION



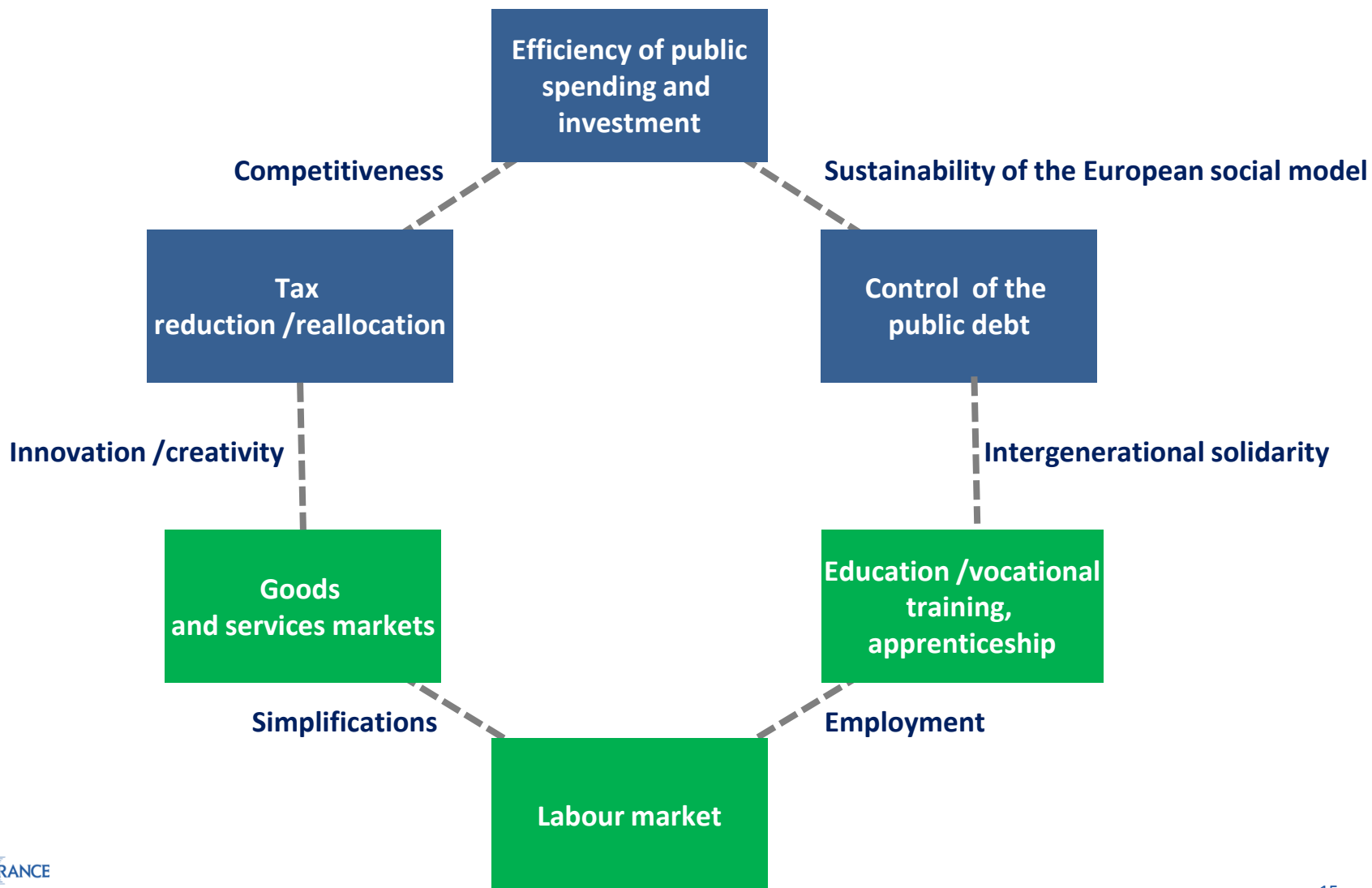
Source : OECD

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

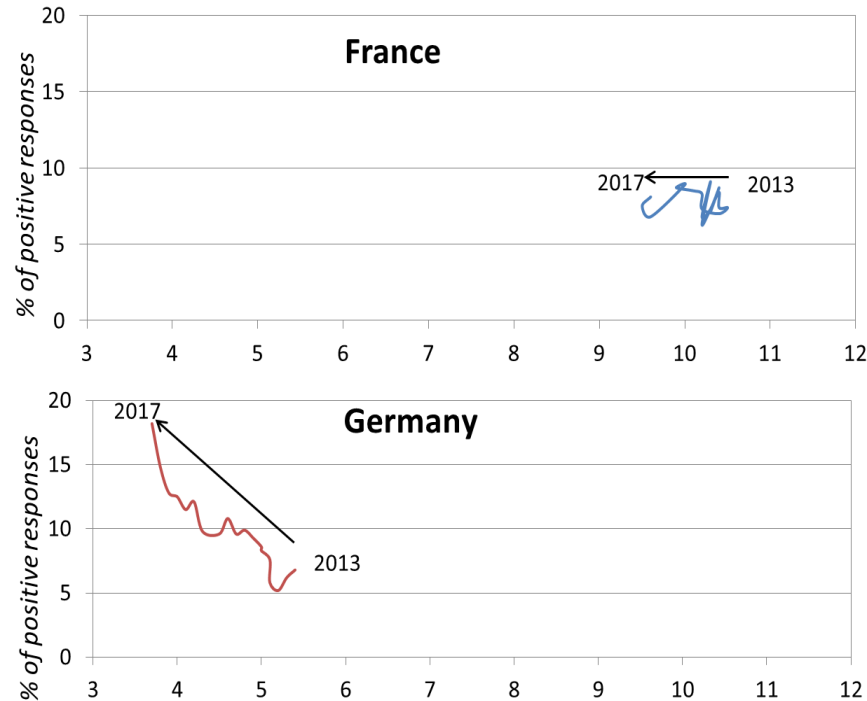




REFORMS IN FRANCE: FOCUS ON EDUCATION/VOCATIONAL TRAINING AND APPRENTICESHIP

Beveridge curves (manufacturing)

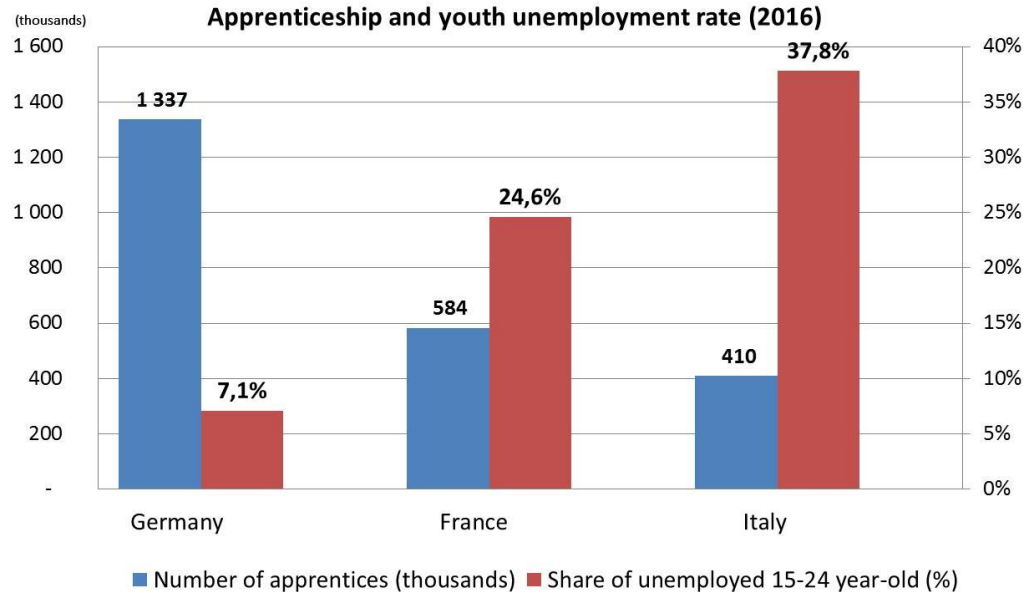
Factors limiting production : labour



Unemployment, in %

Source : Eurostat, Business and consumer survey

Apprenticeship and youth unemployment rate (2016)



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



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