



France : Economic developments and reforms, where are we heading ?

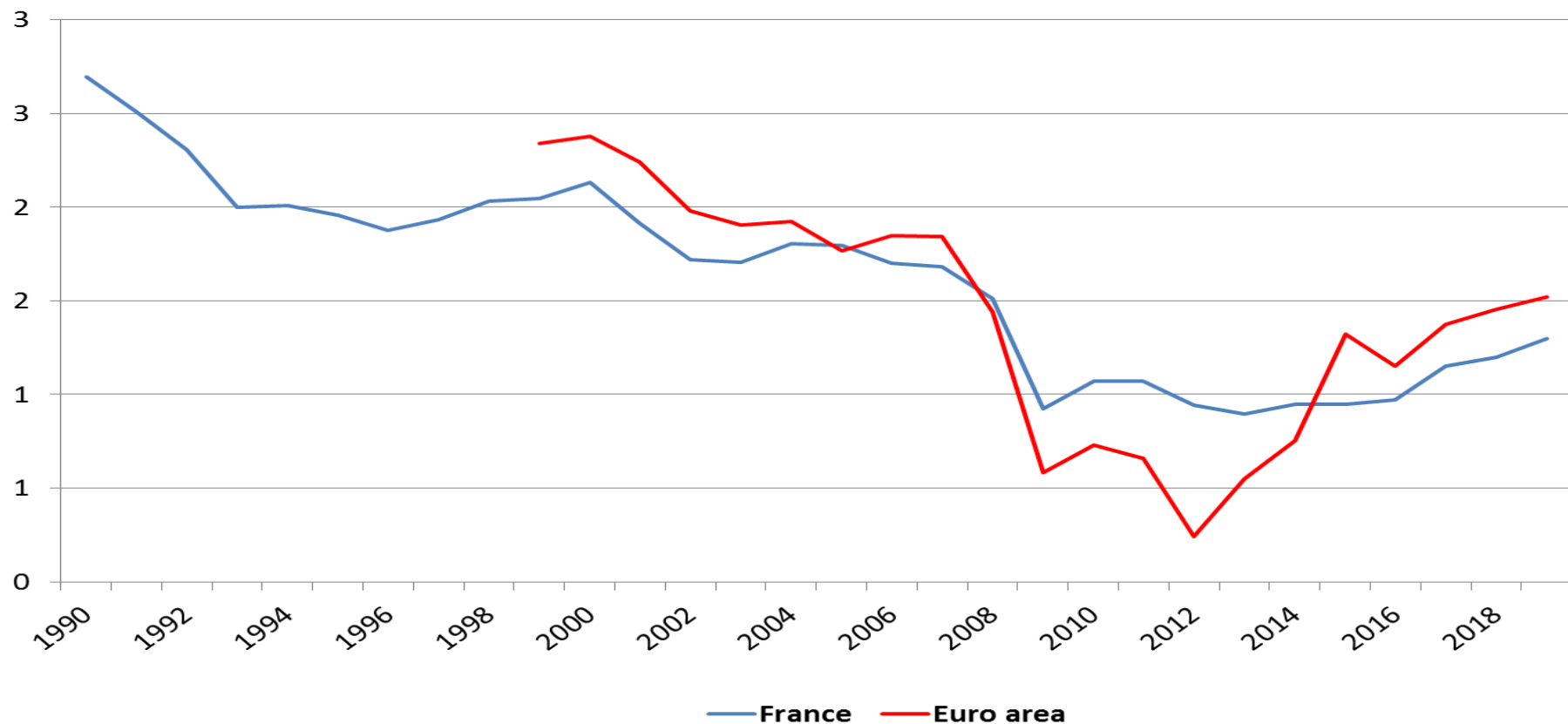
The Economic Club of New York : 18 April 2018

François VILLEROY de GALHAU, Governor of the Banque de France



WHERE ARE WE STARTING FROM ? SLOWDOWN IN POTENTIAL GROWTH

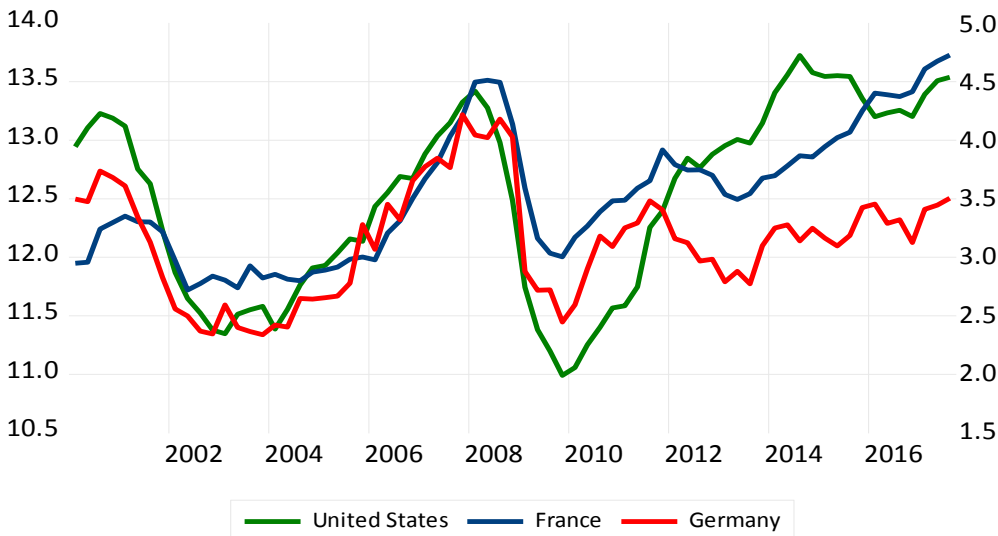
Potential output (yearly growth, in %)



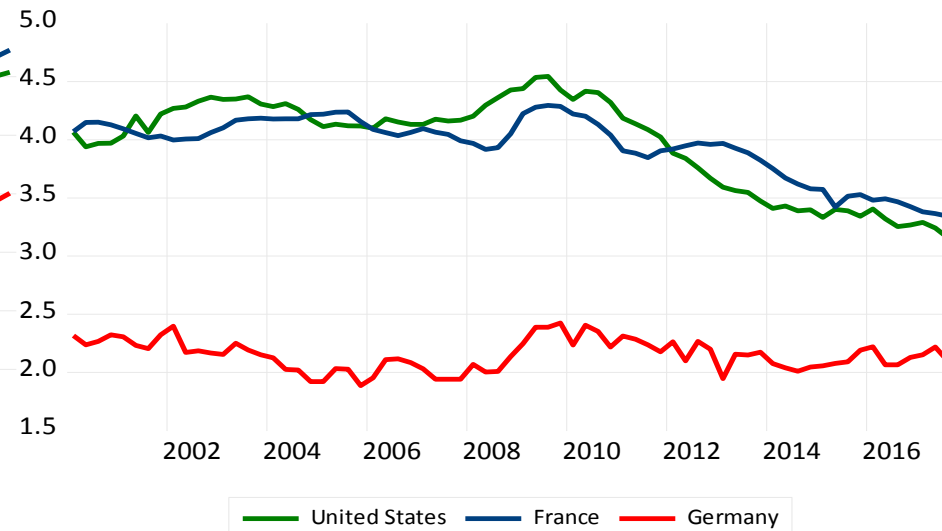
Source : European Commission

SOME STRONG FRENCH ASSETS (1/2): CAPITAL AND INNOVATION

Private non-residential gross fixed capital formation (% of GDP, OECD)

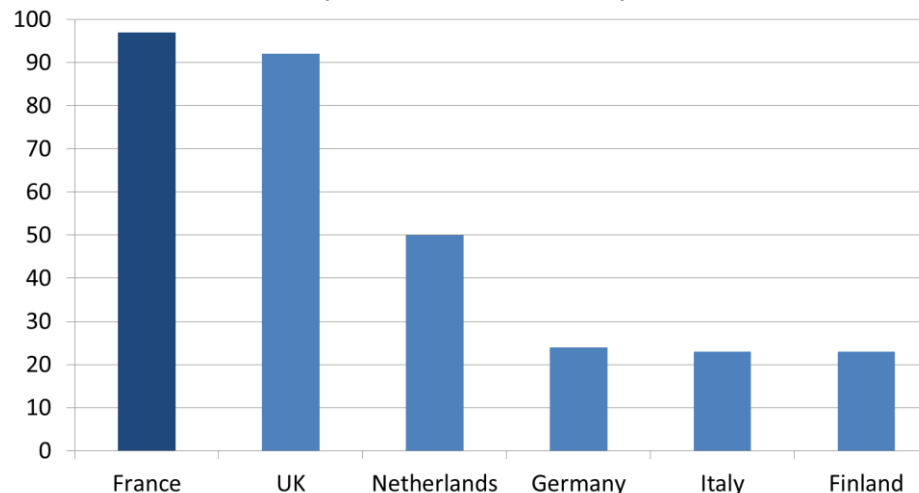


Government gross fixed capital formation (% of GDP, OECD)



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

Source : OECD



Source : OECD

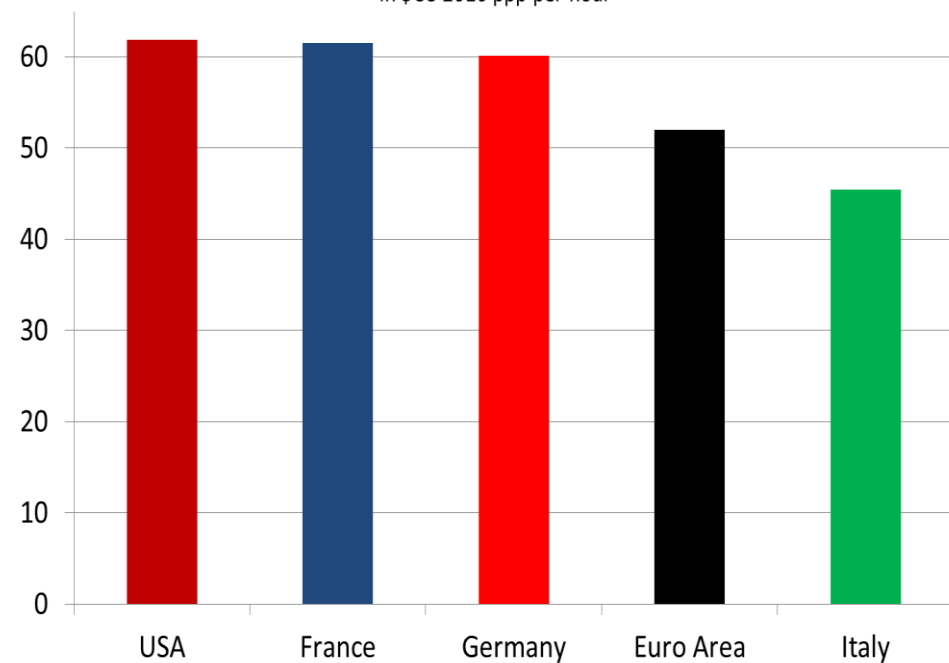
Fastest-growing technology companies in Europe, the Middle East, and Africa (EMEA) during the past four years. Growth for individual companies on the list ranged from 220 percent to 107,117 percent. Winners were selected based on percentage fiscal-year revenue growth from 2013 to 2016.

Source : Deloitte

SOME STRONG FRENCH ASSETS (2/2): LABOUR

Labor productivity (2016)

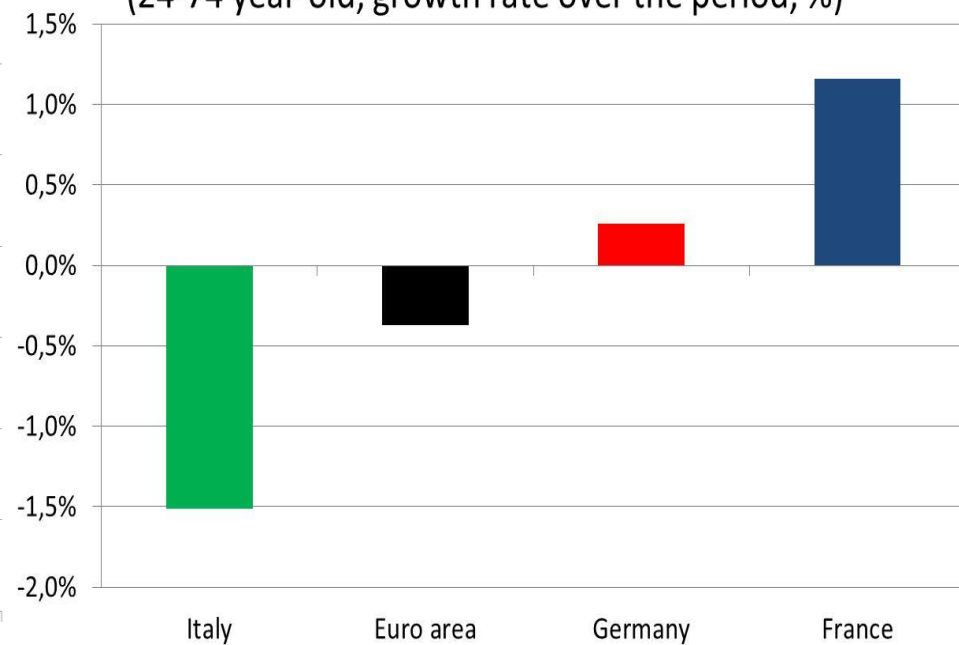
in \$US 2010 ppp per hour




Source : Bergeaud, Cette, and Lecat, 2017.

Working-age population 2018-2030 projections

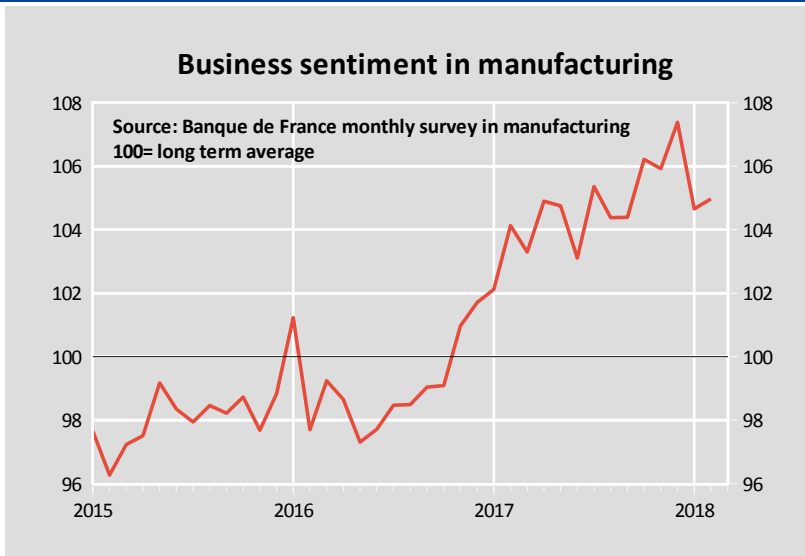
(24-74 year-old, growth rate over the period, %)



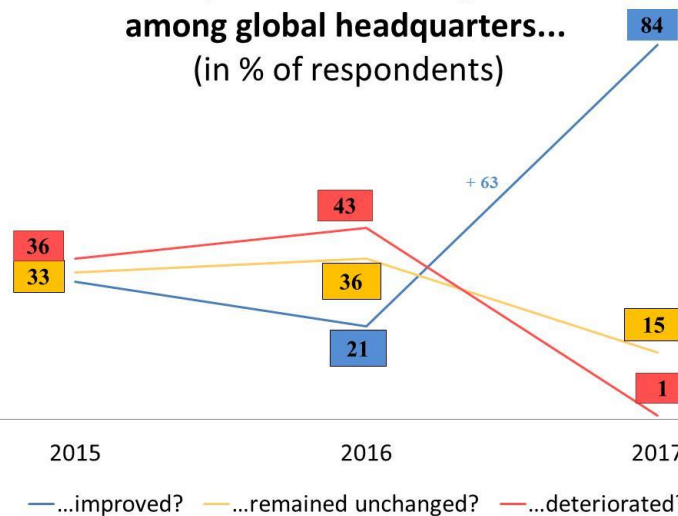
Source: Eurostat

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- 1. A favourable momentum : a robust upturn creates an appropriate timing for reforms**
 2. This momentum is being harnessed to implement ambitious and consistent reforms

A POSITIVE CONFIDENCE SINCE SPRING 2017



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

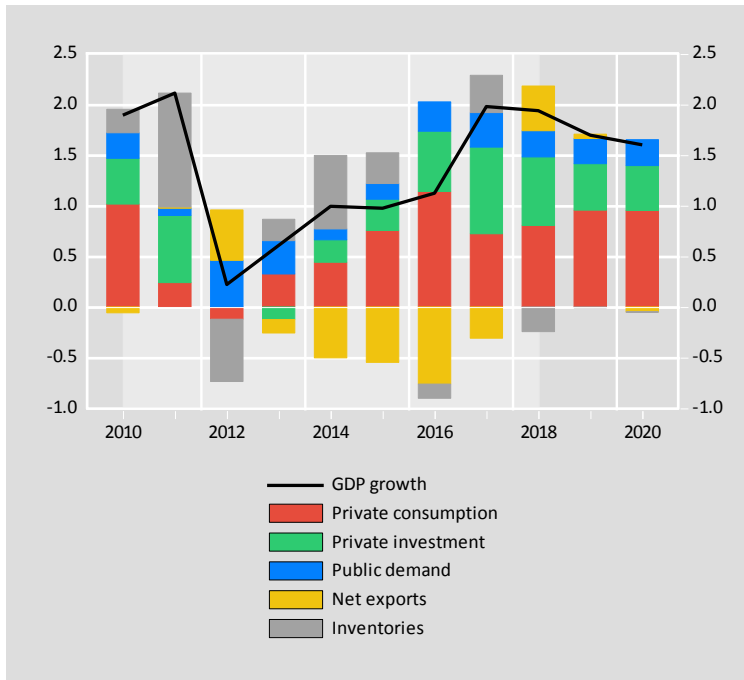


Source: IPSOS; survey on attractiveness among executives of foreign firms in France

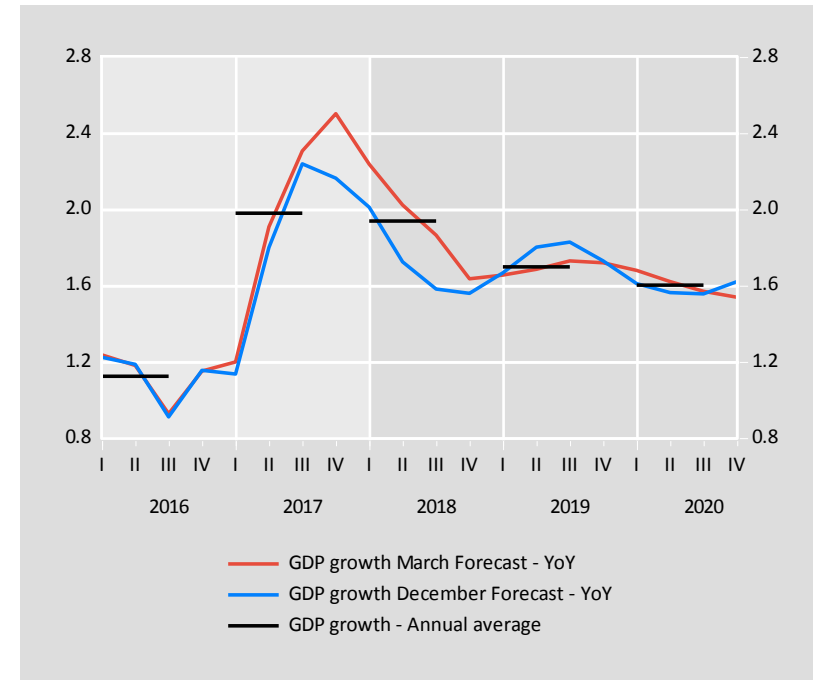


STRONG RECENT PERFORMANCE OF THE FRENCH ECONOMY AND SUPPORTIVE MEDIUM TERM PROSPECTS

GDP growth and its components (%/pp)



GDP growth (% YoY and annual average)

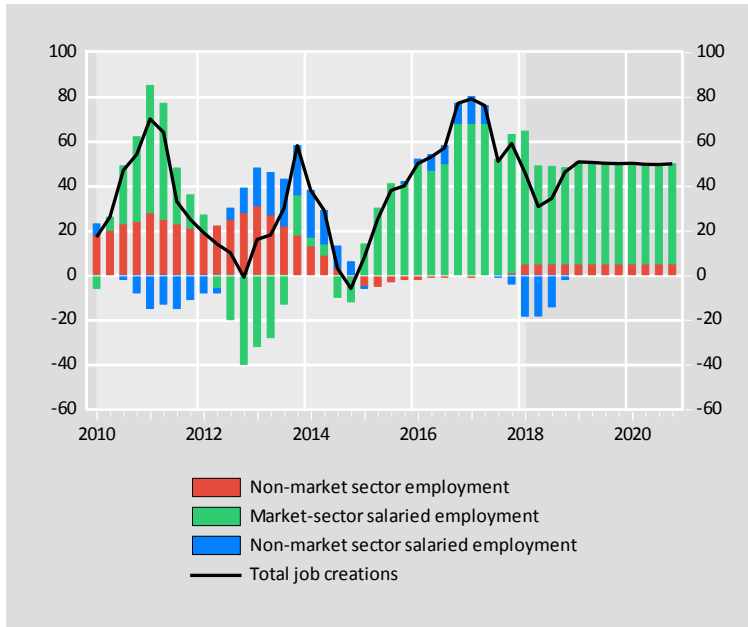


Source : Insee, Banque de France projections

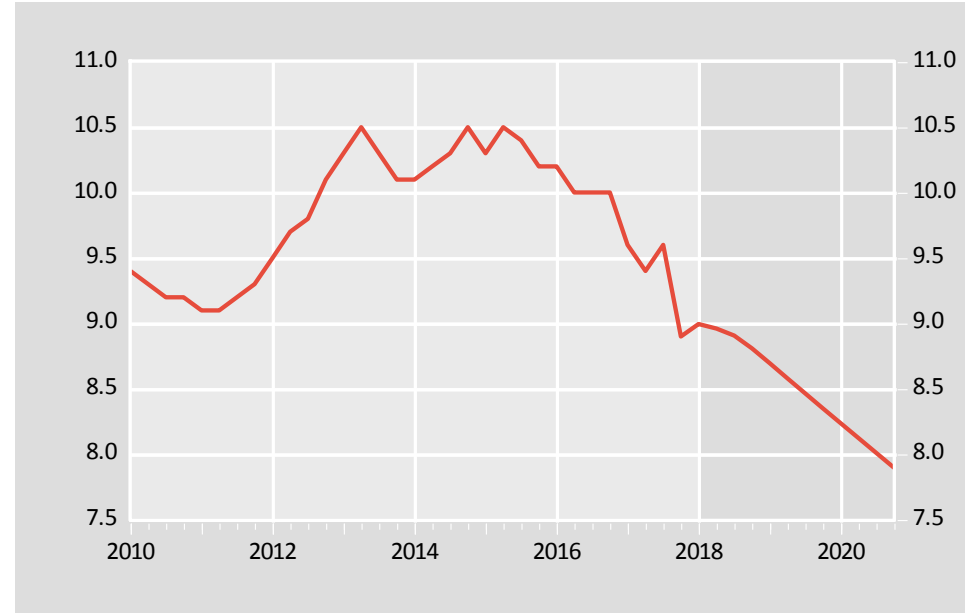
- Strong GDP growth in 2017 (2.0% after 1.1% in 2016).
- GDP growth should then remain above its potential rate, at 1.9% in 2018, 1.7% in 2019, 1.6% in 2020.
- Growth should be more balanced: rebound in exports in 2018 and dynamic domestic demand over the entire projection horizon.

THE UNEMPLOYMENT RATE SHOULD FALL TO JUST BELOW 8.0% AT END-2020, ITS LOWEST LEVEL SINCE END-2008

Quarterly changes in employment
(in thousands)



Unemployment rate
(% of labour force)

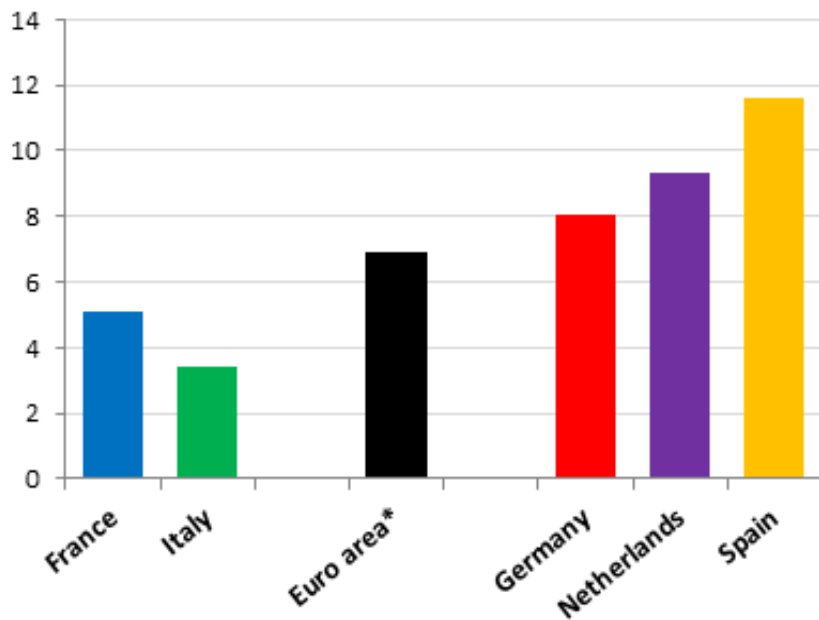


Source : Insee, Banque de France projections

- 2017 was marked by significant employment gains, with 276,000 new jobs. This trend should continue over the projection horizon, with between 180,000/200,000 new jobs expected to be added each year, despite the 2018 cut in subsidized contracts.
- In 2019 and 2020, market sector employment should be supported by the transformation of the CICE tax credit into a permanent cut in employer social security contributions.

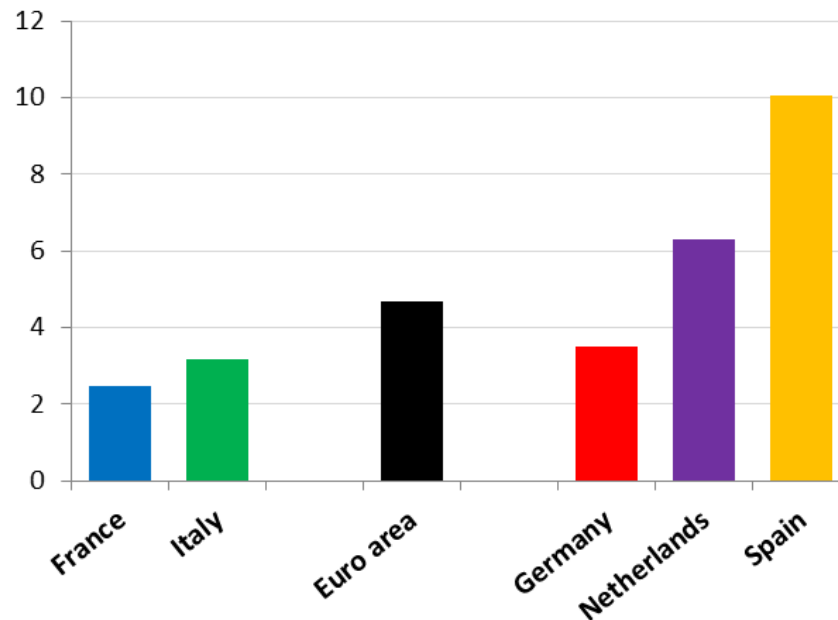
THE PAY-OFFS OF REFORMS IN EUROPE


GDP, cumulated growth over 2014-2017
(%)



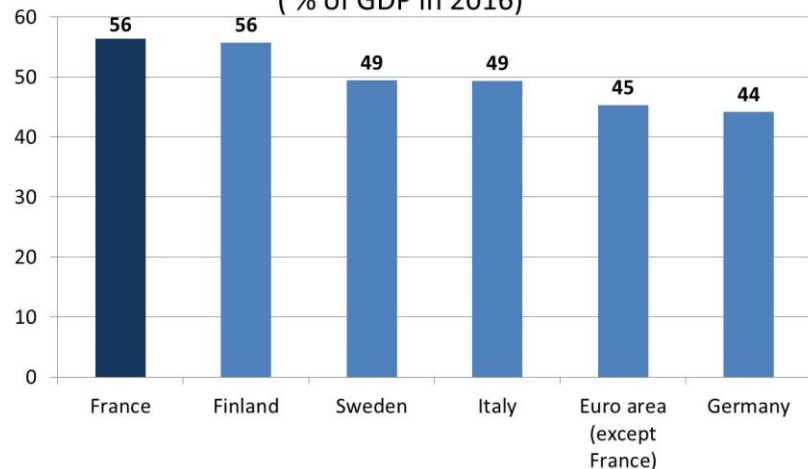
*except Ireland.

Employment, cumulated growth over 2014-2017
(market economy, %)



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1. A favourable momentum : a robust upturn creates an appropriate timing for reforms
 - 2. This momentum is being harnessed to implement ambitious and consistent reforms**

Public expenditure
(% of GDP in 2016)

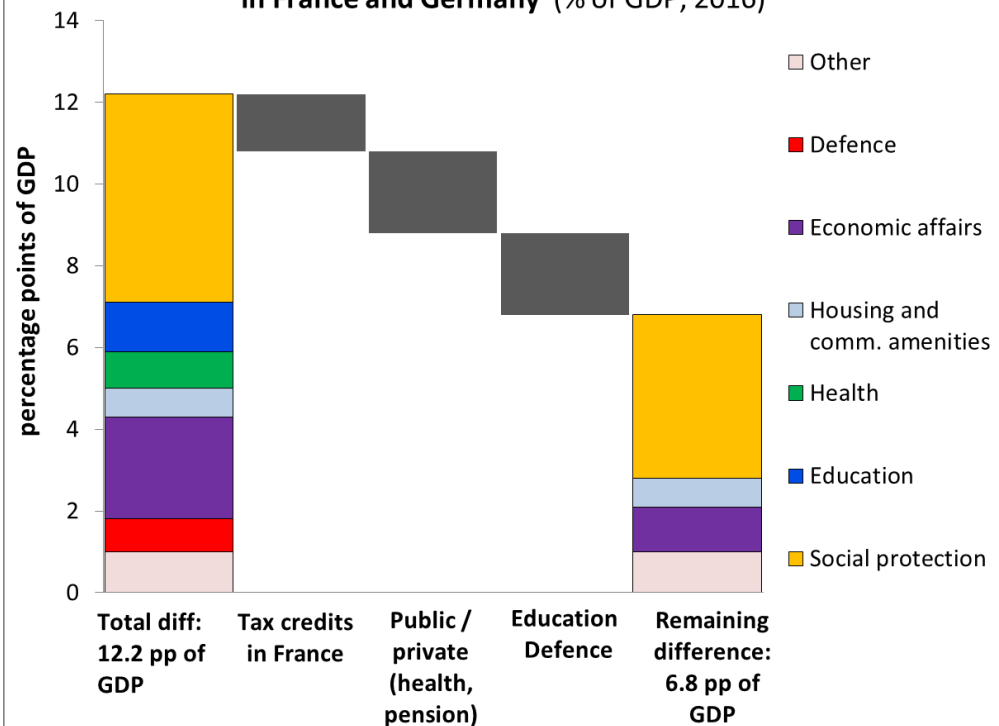


Source: Eurostat

Some ongoing reforms

- **Public deficit down to 2.6% in 2017 (from 3.4% in 2016)**
- **Reduction of the tax burden on corporate income (to 25% in 2022) and capital**

A better understanding of the difference in public spending ratio in France and Germany (% of GDP, 2016)



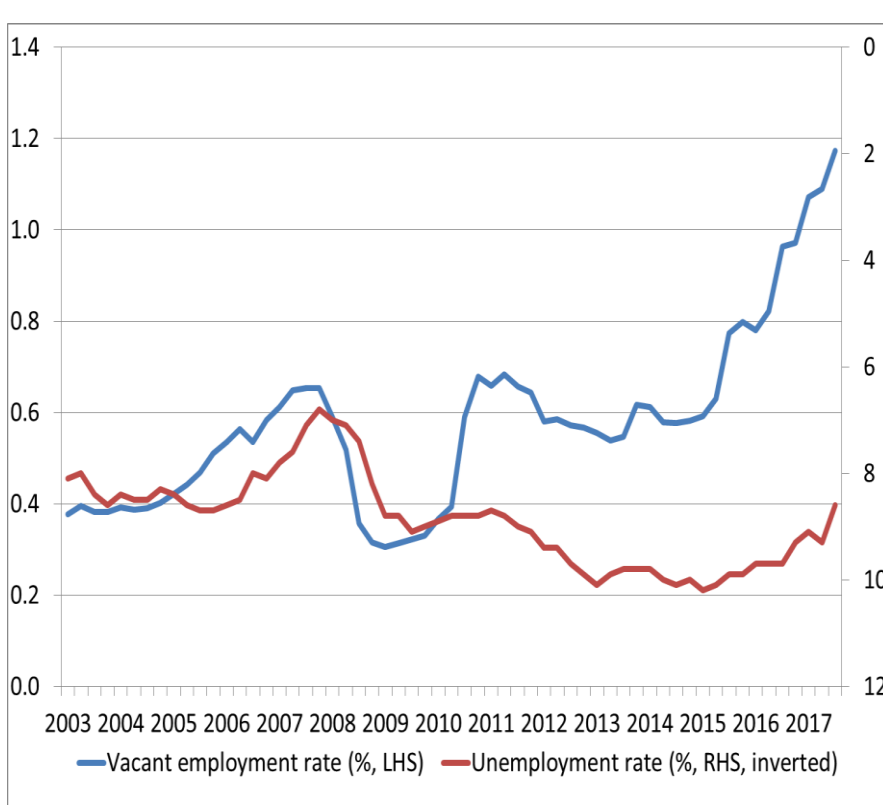
Source: Eurostat, based on COFOG nomenclature

AMBITIOUS LABOUR MARKET REFORMS

- Widen the negotiation space given to social partners for decision-making:
 - Social partners become the true actors of the effective labour regulation
 - This process can reconcile efficiency and worker protection
- Simplify staff-representation obligations: Enlarge the negotiation field and hence ease compromise
- Reduce the uncertainties of labour disputes and better secure labour relations:
 - Cap severance pay in case of abusive lay-off
 - New type of collective layoff by mutual consent

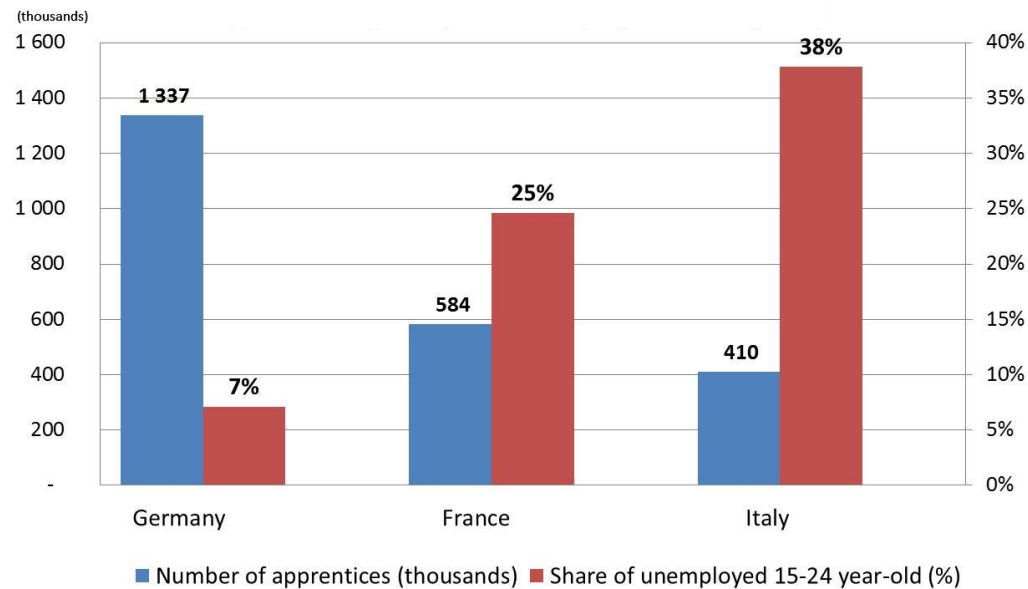
A BETTER-FUNCTIONING LIFELONG TRAINING AND APPRENTICESHIP SYSTEM

Vacant employment and unemployment rates



Source : DARES, INSEE

Apprenticeship and youth unemployment rate (2016)



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

Some ongoing reforms

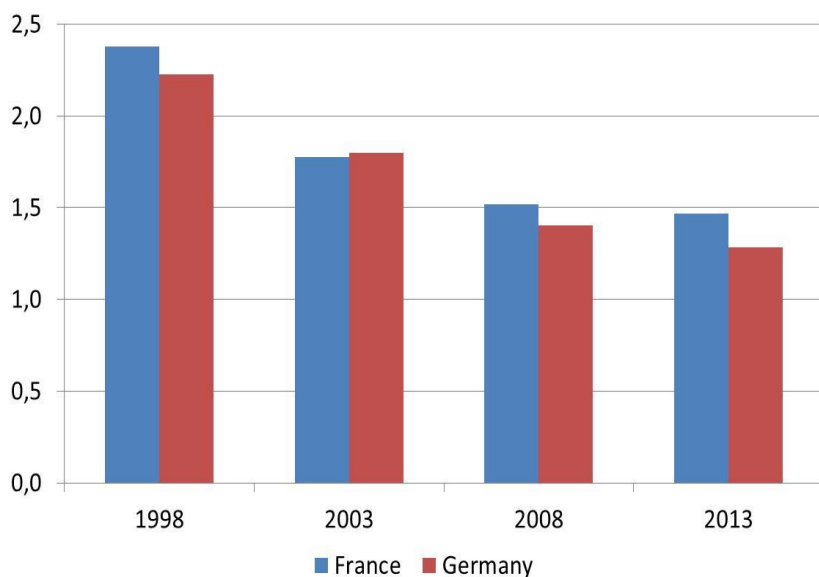
- Reform of primary and secondary education
- Reform of academic orientation
- Reform of apprenticeship
- Reform of lifelong training



LABOUR MARKET REFORMS INTERRELATED WITH PRODUCT MARKET REFORMS

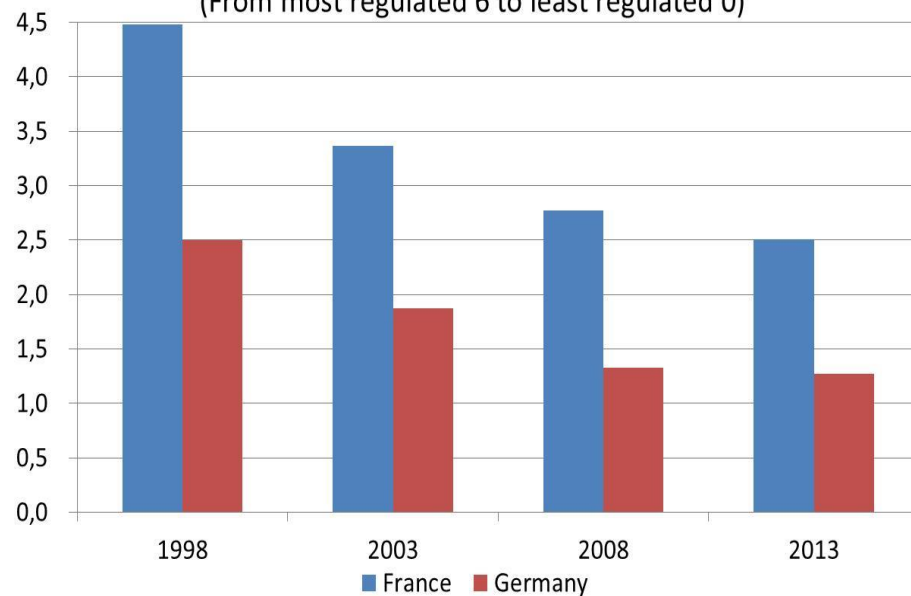
Product market regulation

(From most regulated 6 to least regulated 0)



Regulation in energy, transport and communications

(From most regulated 6 to least regulated 0)



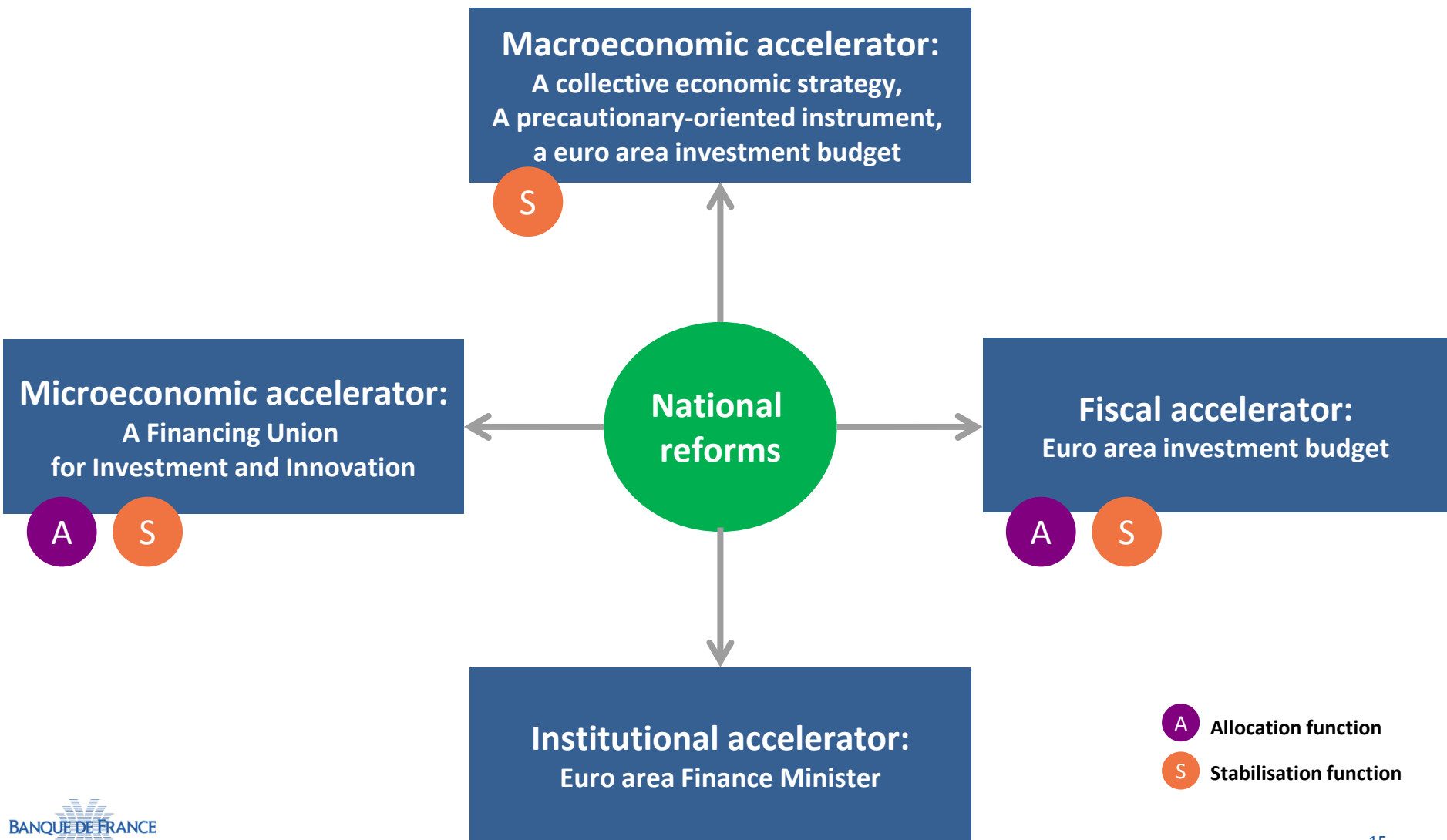
Source : OECD

Reforms done:

'Macron law' (2015)

Railway reform underway

FOUR ACCELERATORS OF THE ECONOMIC UNION



RULES-BASED MULTILATERAL ORDER

- France is heading in the right direction...
- ...and at a fast pace with a strong government commitment to reforms.
- The European and international environments need to remain supportive.
- In particular, we need to maintain an open international environment, a rule-based multilateral order.