



# France and Europe: economic developments, reforms and attractiveness

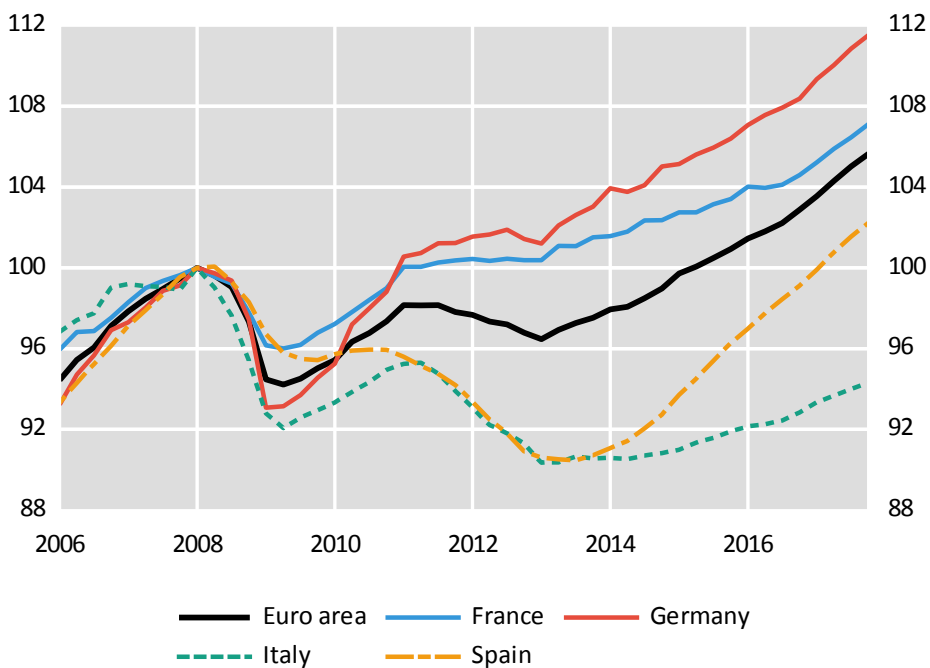
Paris Europlace, New York : 18 April 2018

François VILLEROY de GALHAU, Governor of the Banque de France



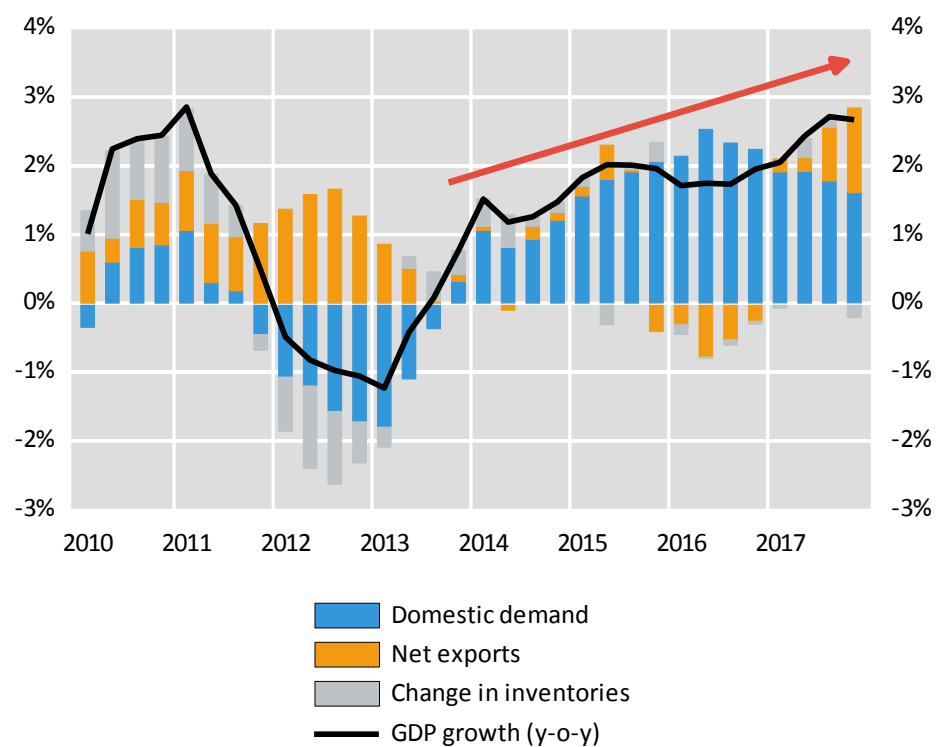
# EURO AREA: FROM THE RECOVERY TO AN EXPANSION PHASE

## Robust growth across countries



Sources: Eurostat

## Domestic demand to support growth

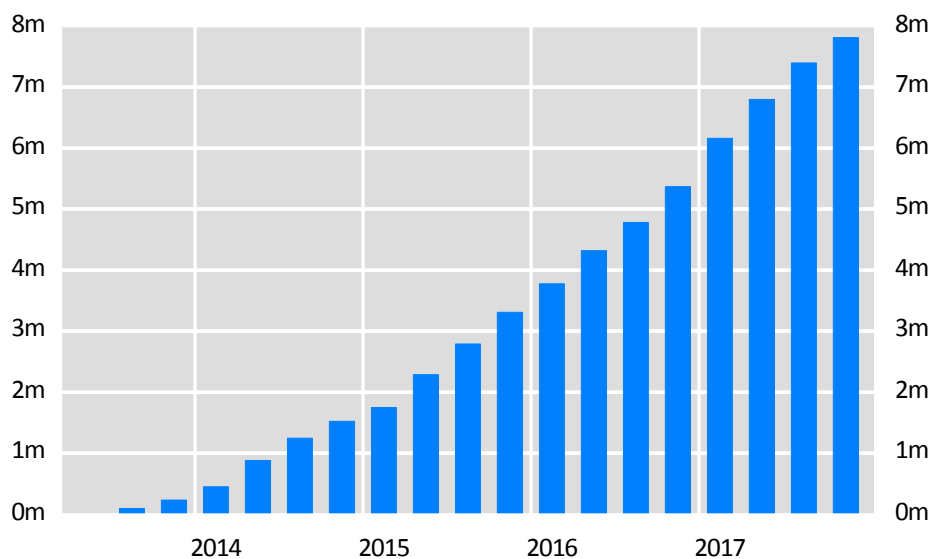


Sources: Eurostat



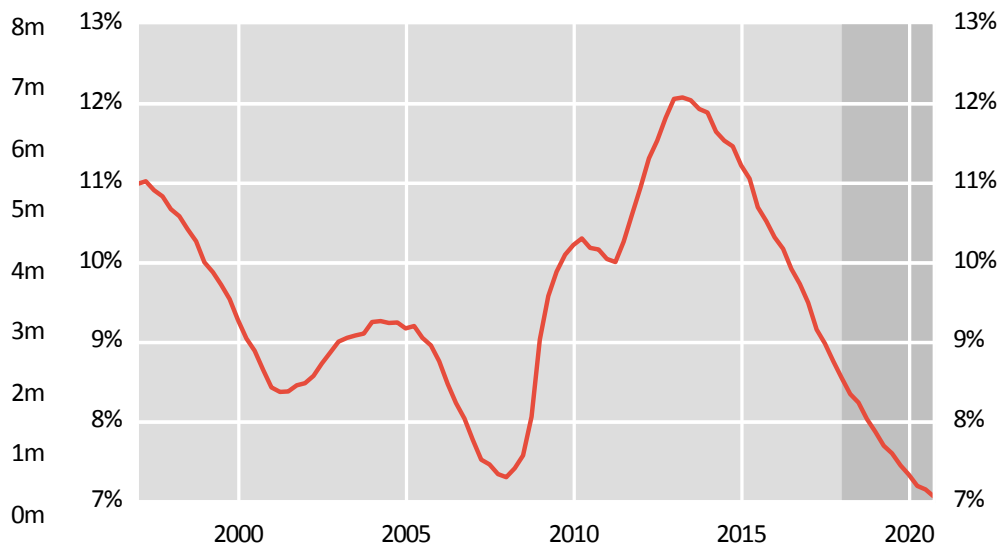
# EURO AREA: LABOUR MARKET BACK TO ITS PRE-CRISIS LEVEL

## Almost 8 millions jobs added since 2013Q2



Sources: Eurostat

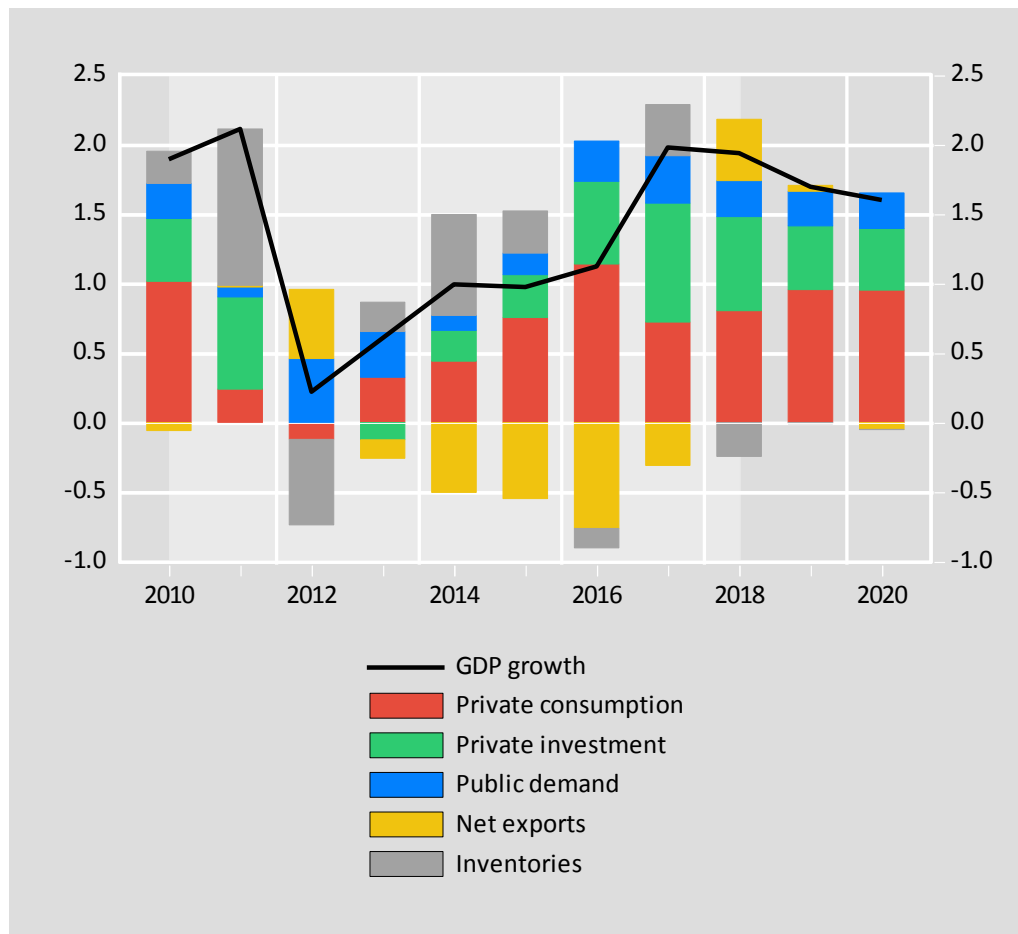
## Large fall of the unemployment rate



Sources: Eurostat + March 2018 ECB Projections

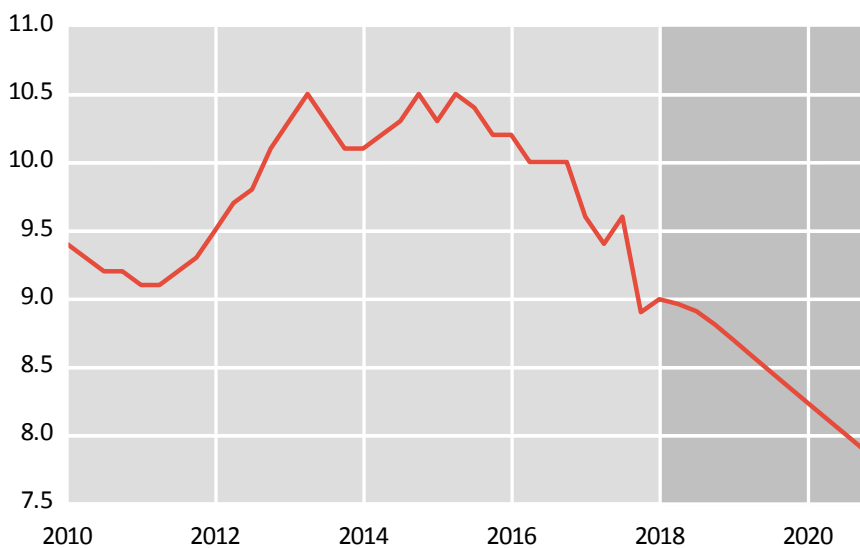
# FRANCE: ROBUST GROWTH SUPPORTED BY BUOYANT DOMESTIC DEMAND AND DYNAMIC NET EXPORTS

## GDP growth and its components (%/pp)



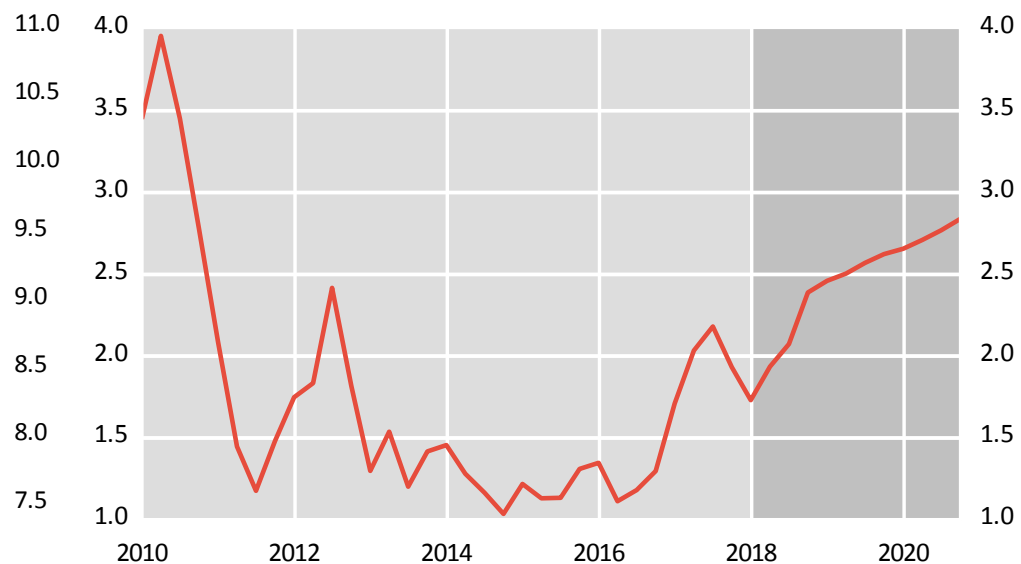
# FRANCE: IMPROVING LABOUR MARKET

## Unemployment rate



Sources: Insee + March 2018 BdF Projections

## Wage growth (private sector)

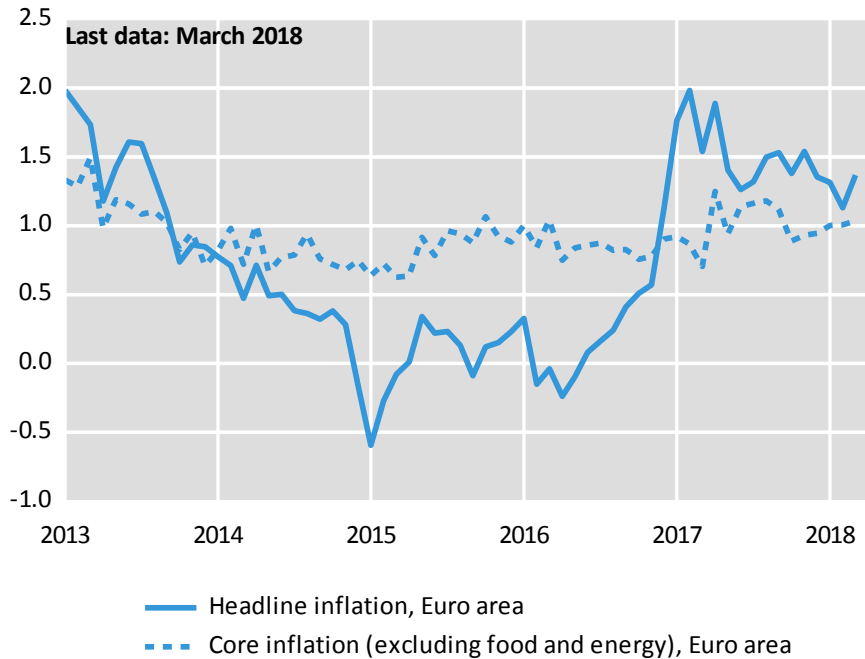


Sources: Insee + March 2018 BdF Projections



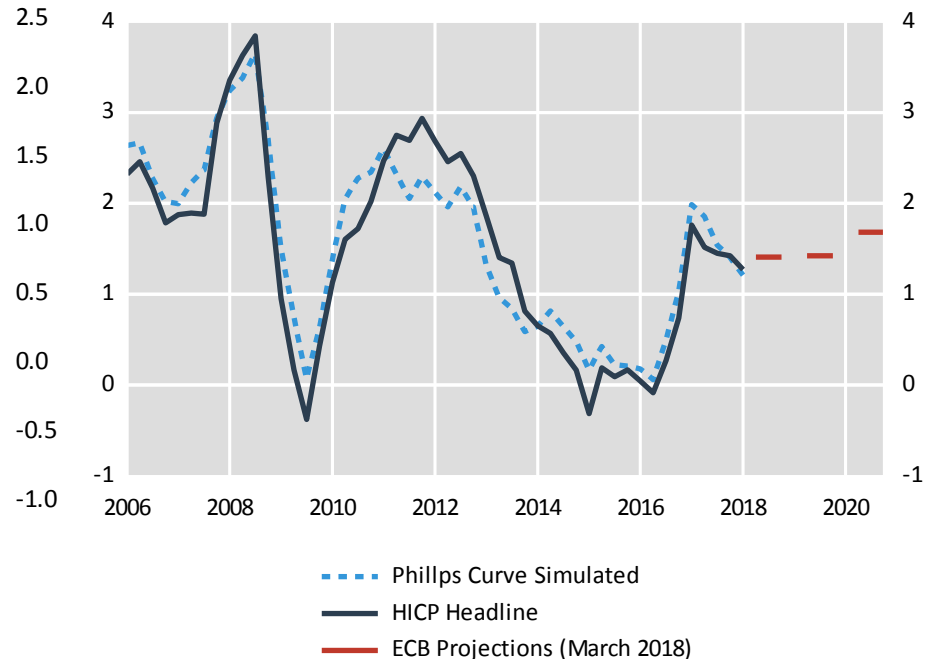
# EURO AREA INFLATION: PROGRESS TOWARDS THE TARGET

## Deflationary risks have disappeared



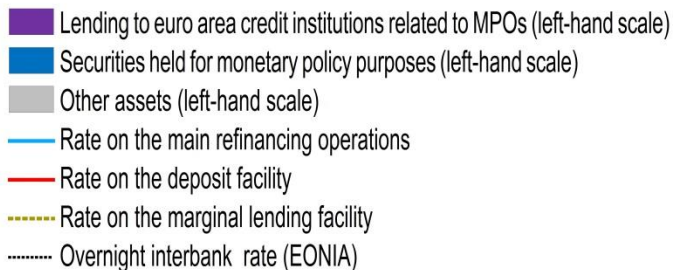
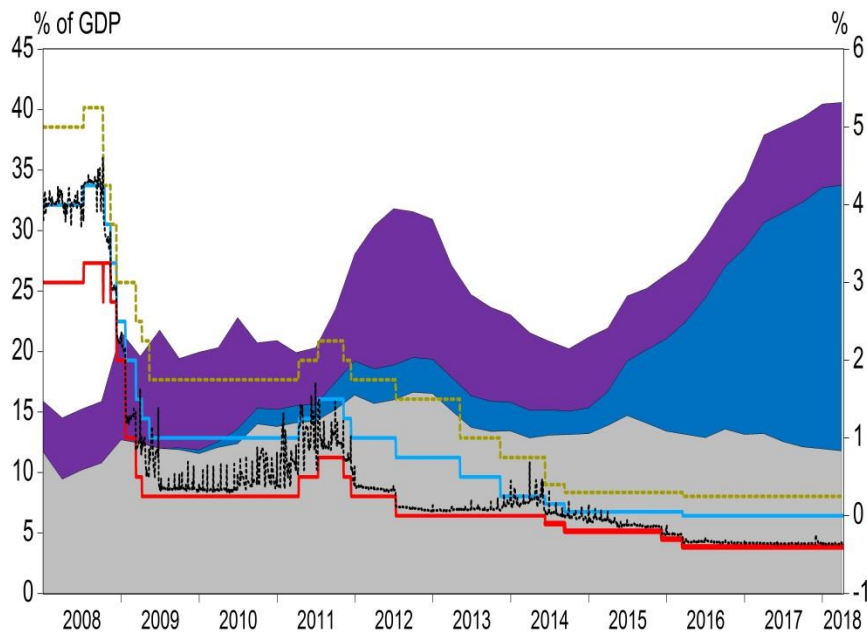
Sources: Eurostat

## Gradual return to target in the medium term



Sources: Eurostat, ECB, BdF calculations

# INSTRUMENTS OF UNCONVENTIONAL MONETARY POLICY: A 'QUARTET' OF MEASURES



## 1. Liquidity provision

- Fixed-Rate Full Allotment (since October 2008)
- TLTRO-I (launched in June 2014);

## 2. Forward Guidance (since July 2013);

## 3. Negative rates on the deposit facility (since June 2014);

## 4. Asset Purchases Programme (since January 2015), €60 billion monthly, at least until Sep. 2016.

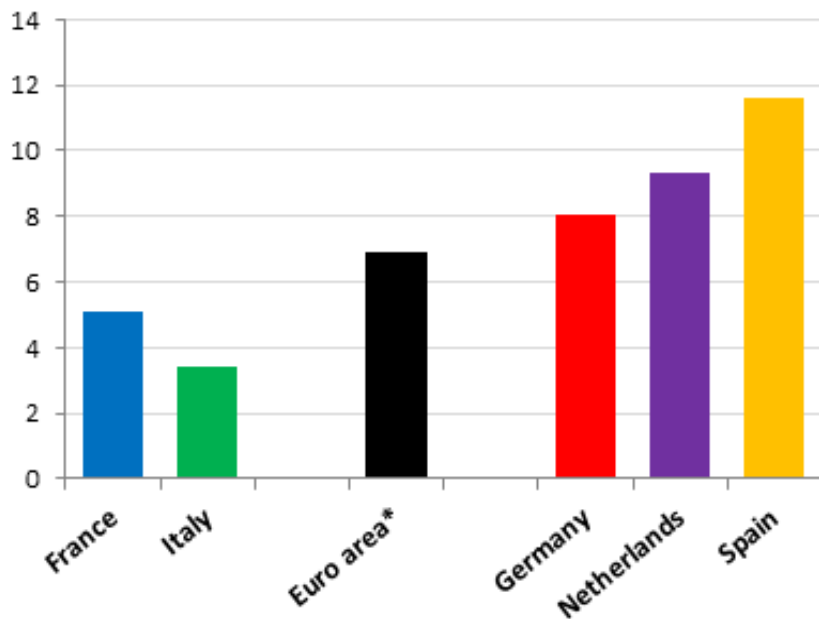
### - Extensions -

- ✓ **March 2016:** cut of the deposit facility rate = -0.4%; monthly purchases to €80 billion; TLTRO-II (€760 billion as of Sep. 2017)
- ✓ **December 2016 :** APP extended at least until Dec. 2017, an additional € 60 billion/month.
- ✓ **October 2017:** APP extended to end of Sep. 2018, €30 billion/month; reinvest the principal payment for an extended period of time... for as long as necessary; liquidity provision (the main refinancing operations + TLTRO) as long as necessary and at least until the end of the last reserve maintenance period of 2019.
- ✓ Total APP holdings (March 2018) ≈ €2.37 trillion, will increase up to €2.55 trillion by end of Sep. 2018.

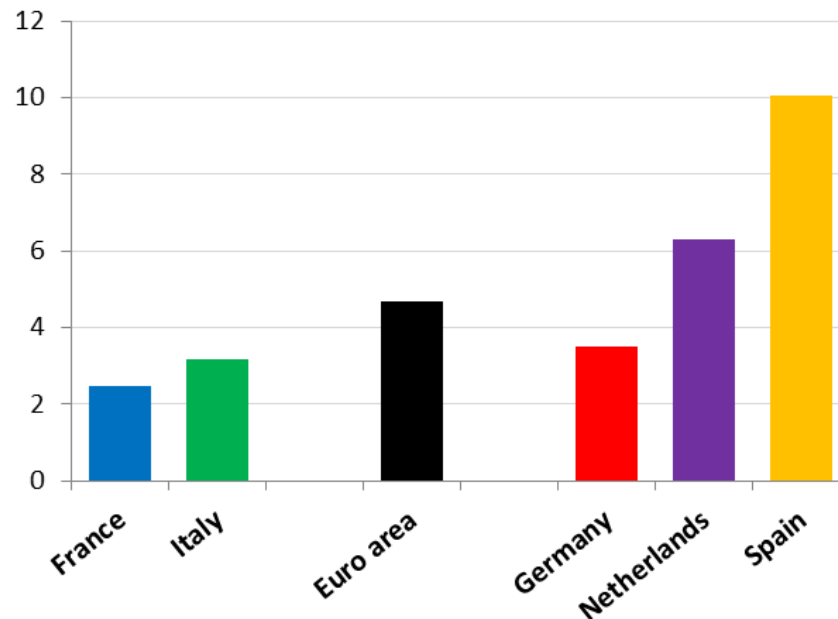


# THE PAY-OFFS OF REFORMS IN THE EURO AREA

**GDP, cumulated growth over 2014-2017**  
(%)



**Employment, cumulated growth over 2014-2017**  
(business sector, %)



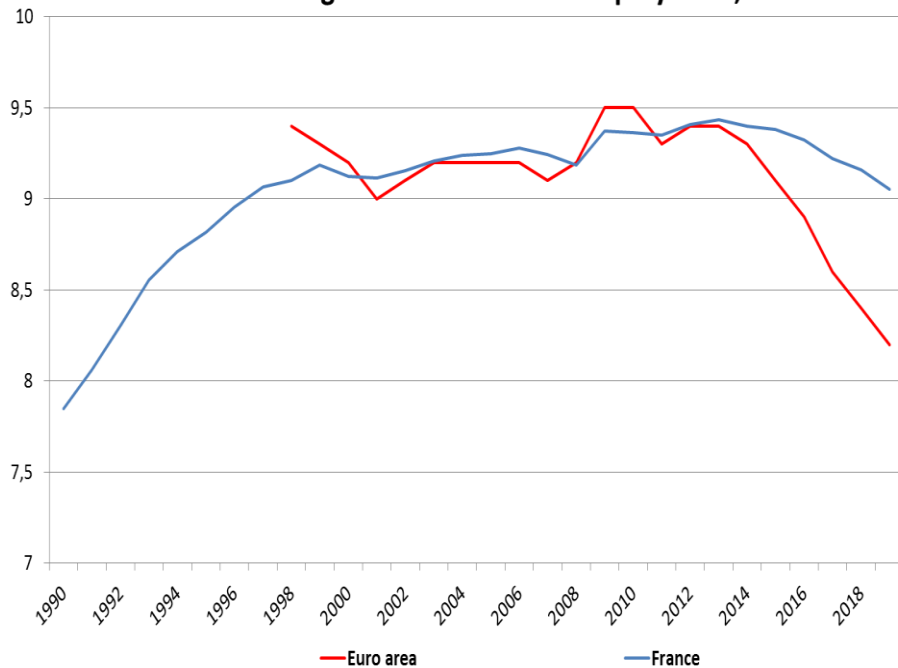
\*except Ireland.





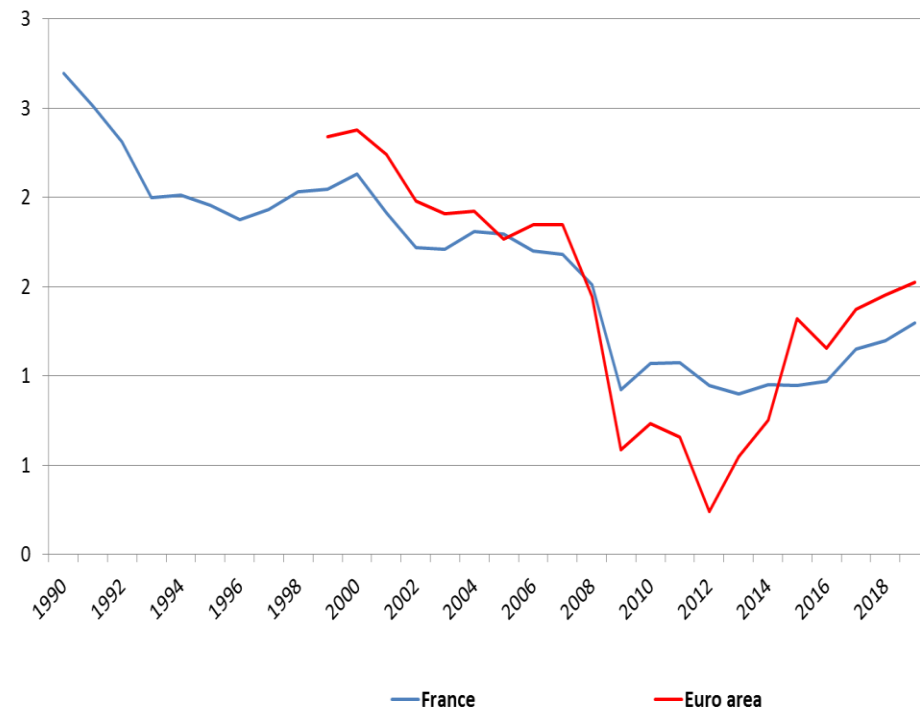
# BUT IMPORTANT REMAINING CHALLENGES: HIGH STRUCTURAL UNEMPLOYMENT AND LOW POTENTIAL GROWTH

### Structural unemployment rate, Non accelerating inflation rate of unemployment, in %



Source : European Commission

### Potential output (yearly growth, in %)

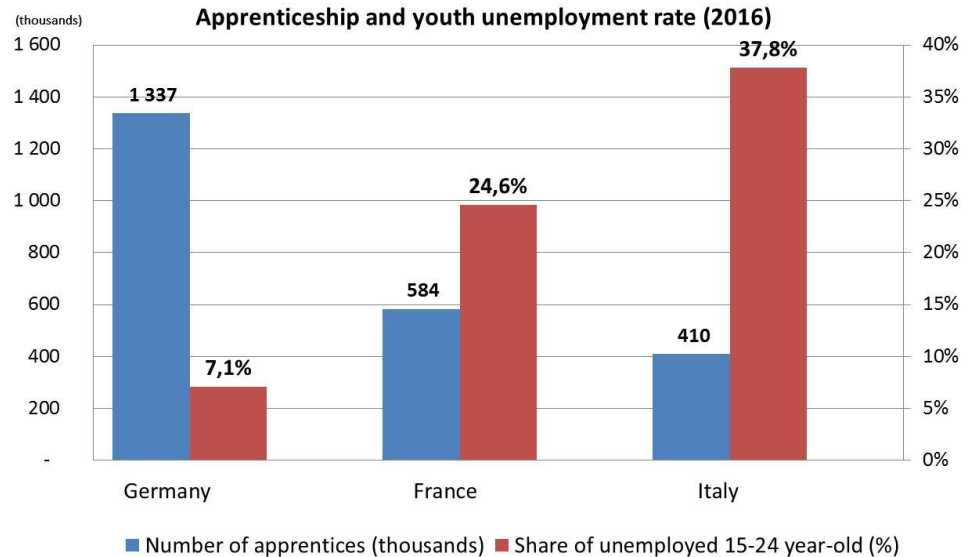


Source : European Commission

# ONGOING REFORMS FOR A BETTER-FUNCTIONING LIFELONG TRAINING AND APPRENTICESHIP SYSTEM

An ambitious labour market reform was recently implemented:

- Widen the negotiation space given to social partners for decision-making
- Simplify staff-representation obligations: Enlarge the negotiation field and hence ease compromise
- Reduce the uncertainties of labour disputes and better secure labour relations
- Should give more flexibility and reduce uncertainty for firms



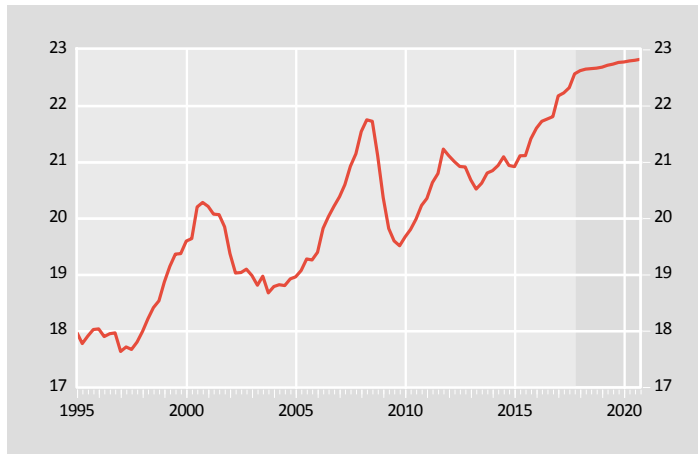
Sources: Apprenticeship: Germany: BiBB ; France: INSEE ; Italy: Report Cedefop Italy ; unemployment data: Eurostat.

Important reforms are also on the way to better adapt worker skills to the needs of firms

- A reform of lifelong training (currently inefficient)
- A reform of apprenticeship (to make it more attractive for firms and young people)
- A reform of insurance benefits (to increase labour force participation)

# ONGOING REFORMS TO SUPPORT PUBLIC AND PRIVATE INVESTMENT

**Corporate investment rate  
(% of private value added)**



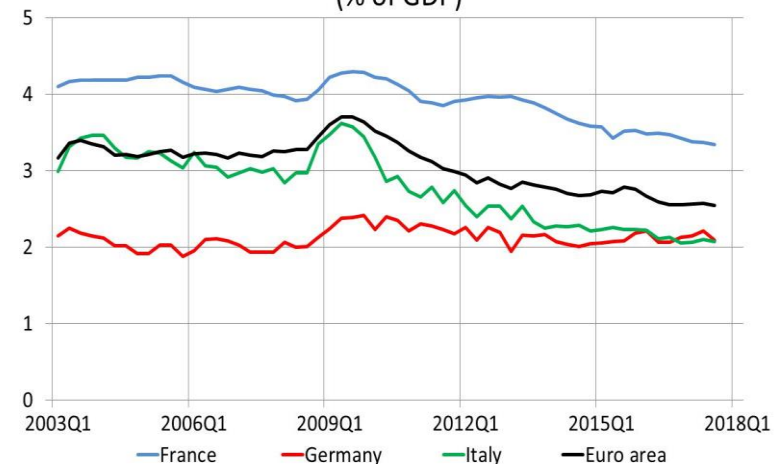
■ **An important public investment plan**

- Spanned over 2017-2022
- In key areas for the future
- Energetic transition, digital, infrastructure

**Private investment rate is expected to remain high:**

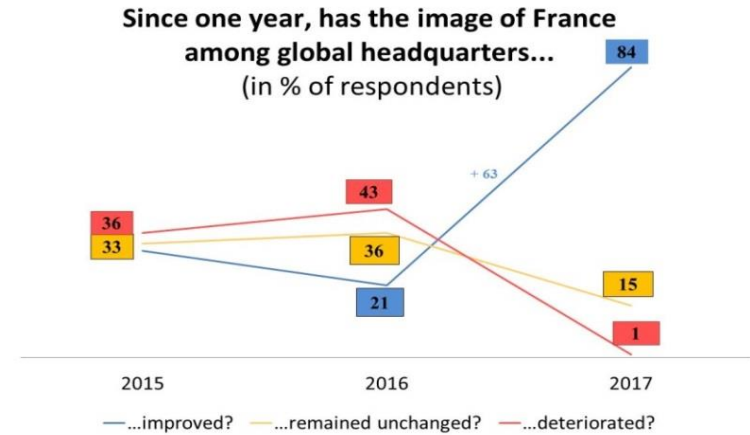
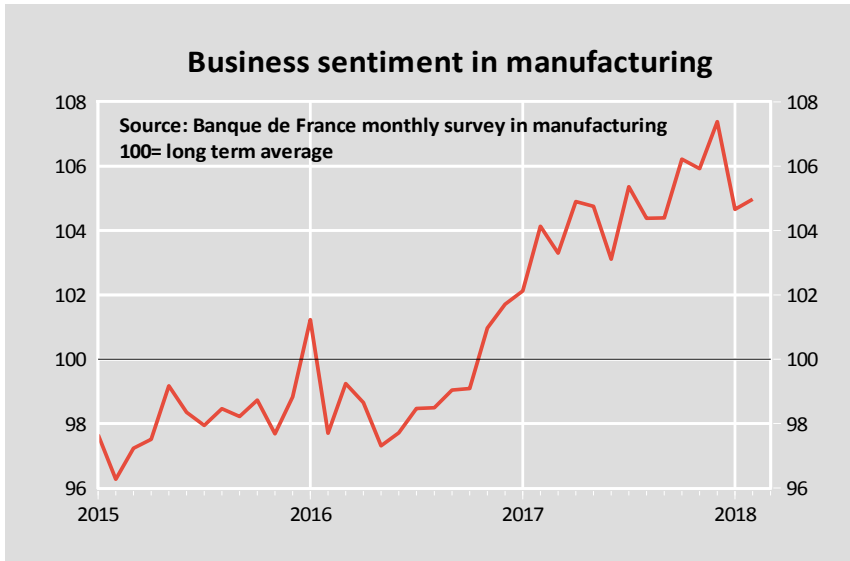
- It has already exceeded the previous peak seen in 2008 and should continue to increase over the projection horizon, reaching 22.8% by end-2020.
- The introduction of flat tax on capital gains and dividends and the reduction of corporate income tax should support this positive investment trend

**Public investment rate  
(% of GDP)**

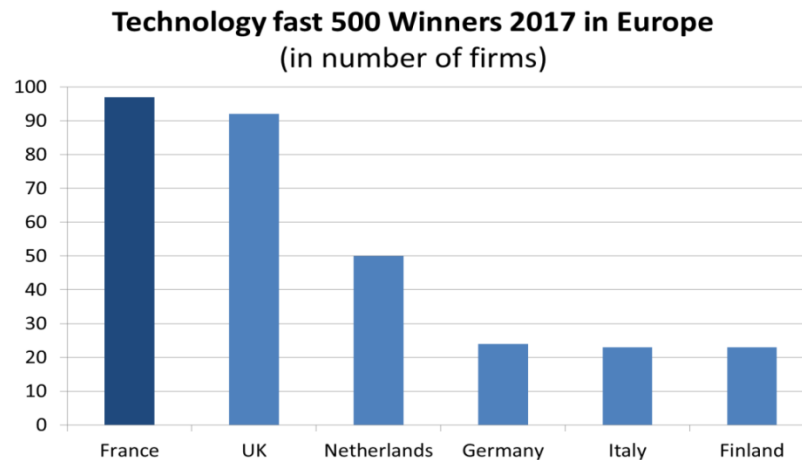


Source: BMPE

# POSITIVE CONFIDENCE REINFORCES FRENCH ATTRACTIVENESS



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



Source : Deloitte