France and Europe: economic developments, reforms and attractiveness

Paris Europlace, New York: 18 April 2018

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EURO AREA: FROM THE RECOVERY TO AN EXPANSION PHASE

Robust growth across countries

Domestic demand to support growth

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

Almost 8 millions jobs added since 2013Q2

Large fall of the unemployment rate

Sources: Eurostat

Sources: Eurostat + March 2018 ECB Projections
FRANCE: ROBUST GROWTH SUPPORTED BY BUOYANT DOMESTIC DEMAND AND DYNAMIC NET EXPORTS

GDP growth and its components (%/pp)

Sources: Insee + March 2018 BdF Projections
FRANCE: IMPROVING LABOUR MARKET

Unemployment rate

Wage growth (private sector)

Sources: Insee + March 2018 BdF Projections
Deflationary risks have disappeared

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);

- 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 %

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

Source: European Commission
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

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)

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

- An important public investment plan
  - Spanned over 2017-2022
  - In key areas for the future
  - Energetic transition, digital, infrastructure

Source: BMPE
POSITIVE CONFIDENCE REINFORCES FRENCH ATTRACTIVENESS

Business sentiment in manufacturing

Source: Banque de France monthly survey in manufacturing
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

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

Source: Deloitte