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FRANCE

July 2024

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR FRANCE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with France, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 27, 2024, consideration of the staff report that concluded the Article IV consultation with France.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 27, 2024, following discussions that ended on May 23, 2024, with the officials of France on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed June 17-18, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for France.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2024 Article IV Consultation with France

FOR IMMEDIATE RELEASE

WASHINGTON, DC – **July 12, 2024:** On June 27, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with France.

A strong and timely policy response helped cushion the impact of the COVID19 pandemic and the energy crisis resulting from Russia's war in Ukraine. Despite a recovery slowdown in 2023, the French economy has remained relatively resilient in the face of financial tightening and weaker euro area external demand. Real GDP grew by 1.1 percent in 2023, supported by net exports, while investment surprised on the downside and consumption remained weak. Inflation continued to decline since its peak in early 2023, despite some volatility from the unwinding of the energy support measures and delayed wage adjustments.

The crisis response and slower-than-expected recovery have weighed on public finances, with a sizable fiscal underperformance in 2023 reducing fiscal space at a time of rising investment needs for the green and digital transformation. The fiscal deficit in 2023 was 5.5 percent of GDP, exceeding the authorities' budget plans, as revenues fell short. The 2024 budget envisaged a sizable consolidation, helped by the unwinding of purchasing power measures, while making space for new spending in critical areas. However, given the sizable 2023 underperformance and weaker recovery, the 2024 budget target has been revised to 5.1 percent of GDP. The reforms of the pension and unemployment benefit systems have started to yield results. Labor market performance has remained robust, although labor productivity remains below its pre-COVID trend. The French banking system has remained resilient, with adequate capital and liquidity buffers, notwithstanding a compression in net interest margins.

Growth is projected to gradually reach 1.3 percent by 2025 from 0.9 percent in 2024. The disinflationary process is on track, with headline inflation expected to reach 2.3 percent in 2024 and return to target in the first half of 2025. Over the medium term, growth is projected to converge towards its potential rate of 1.3 percent. The outlook remains subject to high uncertainty. Political fragmentation and policy uncertainty domestically could delay fiscal consolidation and reform efforts, weighing on confidence and public finances. External downside risks, including escalating geopolitical tensions and an abrupt global slowdown in key trading partners, could also significantly impact the outlook. In contrast, faster reform momentum in France and at the EU level could mitigate these risks.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors noted that the French economy had remained resilient in the face of recent shocks and welcomed the gradual recovery. Nevertheless, Directors recognized that the crisis response and slower-than-expected growth had weighed on public finances, reducing fiscal space at a time of rising investment needs for the green and digital transitions. Against this backdrop, they agreed with the shift in focus towards rebuilding fiscal buffers and achieving a sustainable modernization of the economy.

Directors agreed on the importance for the French authorities to identify a well-specified and credible package of measures to underpin their fiscal consolidation plans. They emphasized the need for substantial additional efforts to bring the deficit below 3 percent of GDP by 2027 and set debt firmly on a downward trajectory. Directors stressed that the adjustment would help strengthen France's resilience to shocks noting how the future evolution of public finances remains exposed to an increase in sovereign spreads or a reduction in growth. Directors agreed that the fiscal consolidation should focus on rationalizing current spending, while preserving room for growth-friendly investment.

Directors recognized the authorities' proactive efforts to strengthen the resilience of the banking system and mitigate systemic risks. They welcomed the supervisors' reliance on prudent lending standards as well as the higher countercyclical buffer and systemic risk buffer against highly indebted firms. While recognizing the limited direct banks' exposures, Directors called for continued monitoring of vulnerabilities in real estate investment funds. They supported France's ongoing efforts to integrate climate transition risk into banks' governance, strategy, and risk management processes.

Directors commended France for the significant progress towards reducing greenhouse gas emissions, while noting the need for further efforts to meet key mitigation targets. They recommended complementing ongoing spending efforts with other revenue-neutral schemes and higher carbon pricing, whose revenue could be recycled to minimize distributional impacts.

Directors commended the important reforms to the pension and unemployment benefit systems and stressed the need to continue to advance structural reforms to support jobs and raise productivity. They welcomed ongoing efforts to promote longer and less fragmented careers, while noting the importance of education and training reforms to prepare workers for the green and digital transformations. Directors supported plans to revamp parental leave, while supporting provision of childcare facilities, which could further boost labor force participation by women.

Directors emphasized the importance of continuing to safeguard and deepen the single market, amid ongoing geopolitical and economic transitions. They welcomed ongoing efforts to address France's own structural growth challenges, while enhancing capital market integration and fostering efficient investment allocation at the EU level. Directors emphasized

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[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings-up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

that industrial policies to support critical industries should be pursued cautiously and coordinated closely at the EU level.

Directors commended the authorities for France’s leadership in multilateral cooperation and looked forward to their continued leadership in addressing global challenges.

Table 1. France: Selected Economic Indicators, 2021-26

(Annual percentage change, unless noted otherwise)

	2021	2022	2023	Projection 2024	2025	2026
Real economy (change in percent)						
Real GDP	6.8	2.6	1.1	0.9	1.3	1.5
Domestic demand	6.0	2.9	0.6	0.3	1.2	1.2
Foreign balance (contr. to GDP growth)	0.7	-0.3	0.5	0.6	0.1	0.3
CPI (year average)	2.1	5.9	5.7	2.3	1.8	1.8
GDP deflator	1.3	3.2	5.1	2.6	2.0	1.9
Public finance (percent of GDP)						
General government balance	-6.6	-4.7	-5.5	-5.2	-5.0	-4.6
Revenue	52.9	53.7	51.5	51.4	51.4	51.4
Expenditure	59.5	58.4	57.0	56.7	56.4	56.0
Primary balance	-5.2	-2.9	-3.7	-3.4	-3.0	-2.4
Structural balance (percent of pot. GDP)	-5.1	-4.1	-4.9	-4.8	-4.6	-4.3
General government gross debt	112.6	111.1	109.9	111.3	112.8	113.5
Labor market (percent change)						
Employment	1.8	2.0	-0.1	0.1	0.4	0.2
Labor force	1.6	1.4	0.0	0.1	0.0	0.0
Unemployment rate (percent)	7.9	7.3	7.4	7.4	7.0	6.9
Credit and interest rates (percent)						
Growth of credit to the private non-financial sector	4.5	5.7	3.6	0.9	1.8	3.0
Money market rate (Euro area)	-0.5	0.1	3.3	...	...	...
Government bond yield, 10-year	0.0	1.7	3.0	...	...	...
Balance of payments (percent of GDP)						
Current account	0.4	-2.0	-0.7	-0.3	-0.5	-0.4
Trade balance of goods and services	-1.3	-3.2	-1.6	-0.6	-0.7	-0.5
Exports of goods and services	31.2	36.3	34.5	34.1	33.8	33.3
Imports of goods and services	-32.5	-39.5	-36.0	-34.7	-34.5	-33.9
FDI (net)	0.5	0.4	1.5	1.3	1.2	1.2
Official reserves (US$ billion)	101.7	100.4	...	...	...	...
Exchange rates						
Euro per U.S. dollar, period average	0.82	0.95	0.92	...	...	...
NEER, ULC-styled (2005=100, +=appreciation)	97.8	95.9	97.0	...	...	...
REER, ULC-based (2005=100, +=appreciation)	92.8	93.3	97.1	...	...	...
Potential output and output gap						
Potential output (change in percent)	4.2	1.4	1.2	0.7	1.2	1.4
Output gap	-2.1	-0.9	-0.9	-0.7	-0.6	-0.5

Sources: INSEE, Banque de France, and IMF Staff calculations.

FRANCE

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

June 18, 2024

KEY ISSUES

Context. A strong and timely policy response helped cushion the impact of the COVID19 pandemic and the energy crisis resulting from Russia's war in Ukraine. Despite a recovery slowdown in 2023, the French economy has remained relatively resilient in the face of financial tightening and weaker euro area external demand. Nevertheless, the crisis response and slower-than-expected recovery have weighed on public finances, with a sizable fiscal underperformance in 2023 reducing fiscal space at a time of rising investment needs for the green and digital transformation. While financial conditions started improving in early 2024, market pressures on sovereign spreads and stock markets rose in early June following the European elections amid political uncertainty. Labor market performance has remained robust, although labor productivity remains below its pre-COVID trend. Against this backdrop, the French authorities have appropriately shifted their focus towards rebuilding buffers and achieving a sustainable modernization of the economy. The reforms of the pension and unemployment benefit systems have already started to yield results. Parliamentary elections are scheduled for June 30 and July 7. The Staff Report was completed on June 17.

Outlook and risks. Growth is projected to gradually reach 1.3 percent by 2025 from 0.9 percent in 2024. The disinflationary process is on track, with headline inflation expected to reach 2.3 percent in 2024 and return to target in the first half of 2025. The outlook remains subject to high uncertainty. Heightened political fragmentation and policy uncertainty domestically could delay fiscal consolidation and reform efforts, weighing on confidence and public finances. External downside risks, including escalating geopolitical tensions and an abrupt global slowdown in key trading partners, could also significantly impact the outlook. In contrast, faster reform momentum in France and at the EU level could mitigate these risks.

Policies. Staff's main policy recommendations are as follows:

- **Fiscal Policy**. France's Stability Program (PSTAB) objective of bringing the deficit below 3 percent of GDP by 2027 remains appropriate to set debt firmly on a downward trajectory. Nevertheless, substantial additional efforts will be needed, starting in 2024, to achieve this goal, while making space for targeted growth-enhancing spending. For the rest of 2024, the French authorities should aim at identifying additional new measures, compared to staff's current policy scenario, for about 0.4 percent of GDP. This would help improve debt dynamics while smoothing the adjustment in the outer years, reducing the potential negative effects on the economy. In parallel, as monetary policy eases, it can also help mitigate the contractionary impact of fiscal tightening. Over the medium term, under staff's recommended scenario, sustained fiscal efforts—averaging almost 1 percent of GDP annually over 2025-27—will be needed to bring the deficit below 3 percent of GDP by 2027, as targeted in the PSTAB. This adjustment would strengthen France's resilience to shocks and help rebuild adequate fiscal buffers to meet new spending demands. Building on the pension and unemployment benefits reforms as well as ongoing spending reviews, fiscal consolidation should remain focused on rationalizing current spending, while preserving room for growth-friendly investment, including on the green and digital transitions.

- **Financial Stability**. The French banking system has remained resilient, with adequate capital and liquidity buffers, notwithstanding a compression in net interest margins. Despite a marked credit slowdown, the preponderance of fixed-rate loans has shielded the non-financial corporate and housing mortgage segments from the impact of tighter financial conditions. Prudent lending standards are supporting an orderly adjustment of the housing market, and the higher countercyclical buffer and the systemic risk buffer against highly indebted firms further mitigate risks to financial stability. Although banks' direct exposures to the commercial real estate market are limited, vulnerabilities in real estate investment funds warrant continued close monitoring. French banks should continue to mitigate climate transition risks by integrating them into their governance, strategy, and risk management processes. A Financial System Stability Assessment is planned for France in 2025.

- **Structural Reforms.** The French authorities should continue to advance structural reforms to support jobs and raise productivity, amid ongoing geopolitical and economic transitions. Ongoing spending efforts to accelerate the green transformation, while mitigating its costs and dislocations, can be complemented by other revenue-neutral schemes and higher carbon pricing, whose revenue can be recycled to minimize distributional impacts. Education and labor market reforms can prepare the labor force, across gender and age groups, for the green and digital transformations. While a complex balancing act, France should continue to foster an innovative domestic industry and rise to the challenge of the climate transition, while remaining committed to multilateralism and fiscal discipline. The authorities' plans to address France's structural growth challenges should continue to safeguard and deepen the European single market, with emphasis on horizontal efforts to support competitiveness, enhance capital market integration, and foster efficient investment allocation.

Approved By
Uma Ramakrishnan (EUR) and Martin Sommer (SPR)

Discussions took place in Paris during May 13-23, 2024. The staff team comprised Manuela Goretti (head), Roberto Piazza, Iulia Teodoru, Stephen Ayerst, Maryam Vaziri (all EUR), Rachel Lee (now SPR), and Nate Vernon (FAD), with assistance from Caroline Leroy and Xun Li (both EUR). Arnaud Buisse (Executive Director) joined the mission. Staff met with the Central Bank Governor Villeroy de Galhau; senior officials in the President and Prime Minister's offices, various ministries, the *Haut Conseil des Finances Publiques*, and Members of Parliament; financial sector interlocutors, think tanks, trade union and employer association representatives. A press conference was held at the end of the mission.

CONTENTS

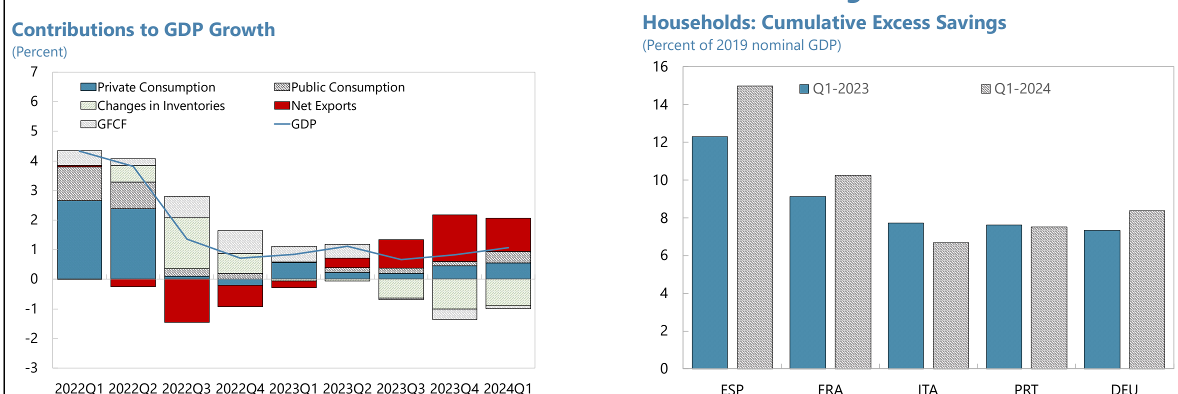
CONTEXT

1. **As past shocks recede, the French authorities should increasingly focus on rebuilding fiscal buffers and achieving a sustainable modernization of the economy.** A strong and timely policy response helped cushion the impact of the pandemic and energy crisis. Despite a recovery slowdown, the French economy has remained relatively resilient in the face of financial tightening and weaker euro area external demand. Nevertheless, the crisis response and slower-than-expected recovery have weighed on public finances, which, combined with a sizable fiscal underperformance in 2023 have reduced fiscal space at a time of rising investment needs for the green and digital transformation. Labor market performance has remained robust, although labor productivity remains below its pre-COVID trend. The reforms of the pension and unemployment benefit systems have started to yield results. Nevertheless, substantial additional efforts will be needed in 2024 and over the medium term to strengthen public finances, lift potential growth, and create jobs. Against this backdrop, the Article IV discussions in May focused on France's policies and structural priorities to rebuild buffers and ensure an orderly adjustment to the green and digital transitions. In early June, pressures on bond and stock markets emerged amid political uncertainty following the European elections and the announcement of parliamentary elections for June 30 and July 7.

RECENT ECONOMIC DEVELOPMENTS

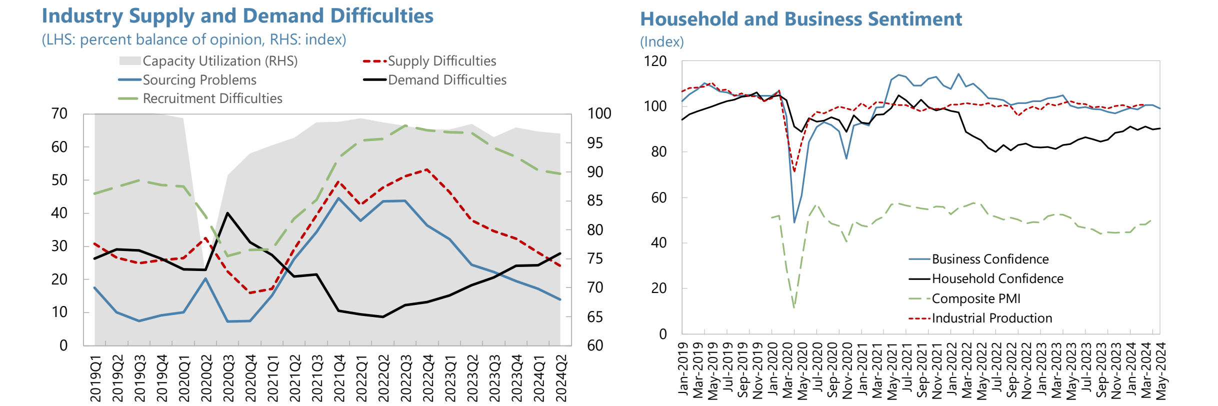
2. **The economic recovery slowed in 2023, given headwinds from monetary policy tightening and weaker external demand.** Growth was 1.1 percent in 2023, supported by net exports from the aeronautics and naval sectors, while investment, especially residential construction, surprised on the downside by year end. Consumption growth remained weak, showing timid signs of recovery as inflationary pressures started easing. Following a significant build-up during the pandemic, the household savings rate remained well above its long-term average, amid still high uncertainty and a wait-and-see attitude. Net exports started recovering in 2023Q2, supported by lower energy prices and imports.

France: Economic Growth and Savings



Sources: INSEE and IMF staff estimates.
Notes: Real GDP growth was revised in May 2024, as part of the rebasing of the national accounts to 2020. Excess savings are calculated assuming the average 2018-2019 savings rate as the "normal" rate.

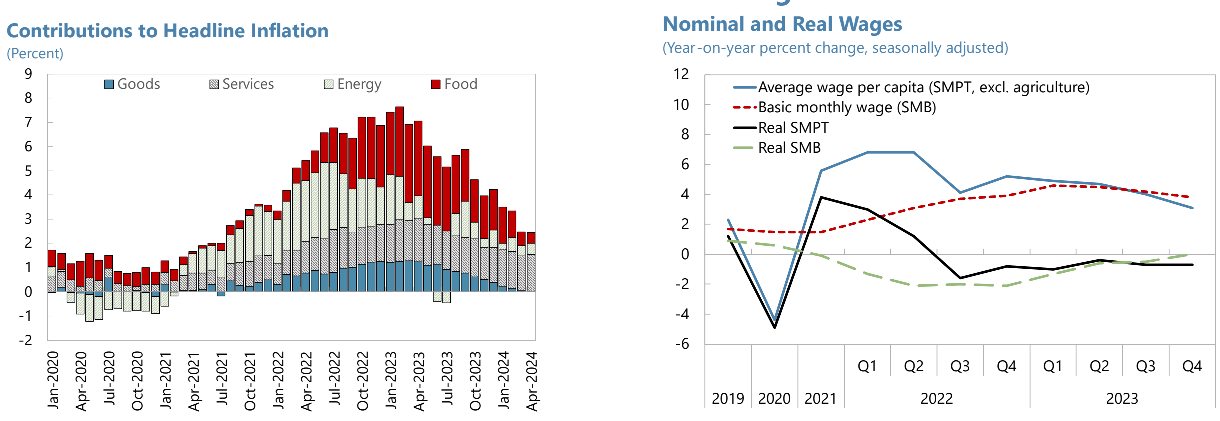
France: Sentiment Indicators and Industrial Production



Sources: INSEE and S&P Global.
Note: Capacity utilization index set at December 2019=100.

3. Economic activity is improving only gradually in 2024, with sentiment indicators remaining at weak levels. Real GDP growth grew moderately by 0.2 percent (q/q) in 2024Q1, supported by net exports, amid still weak domestic demand. Higher-frequency indicators point to similar growth prospects for Q2. Industrial production grew by 0.5 percent in April (from -0.2 percent in March), with a rebound in manufacturing, notably in machinery and equipment goods. However, following improvements in previous months, the composite PMI worsened in May due to a decline in services activity. Business and household sentiment indicators remained stable in May. For business sentiment, improvements in services were offset by a deterioration in retail trade and to a lesser extent in manufacturing. For households, stronger purchases intentions were counterbalanced by tighter financial prospects.

France: Disinflation and Wages

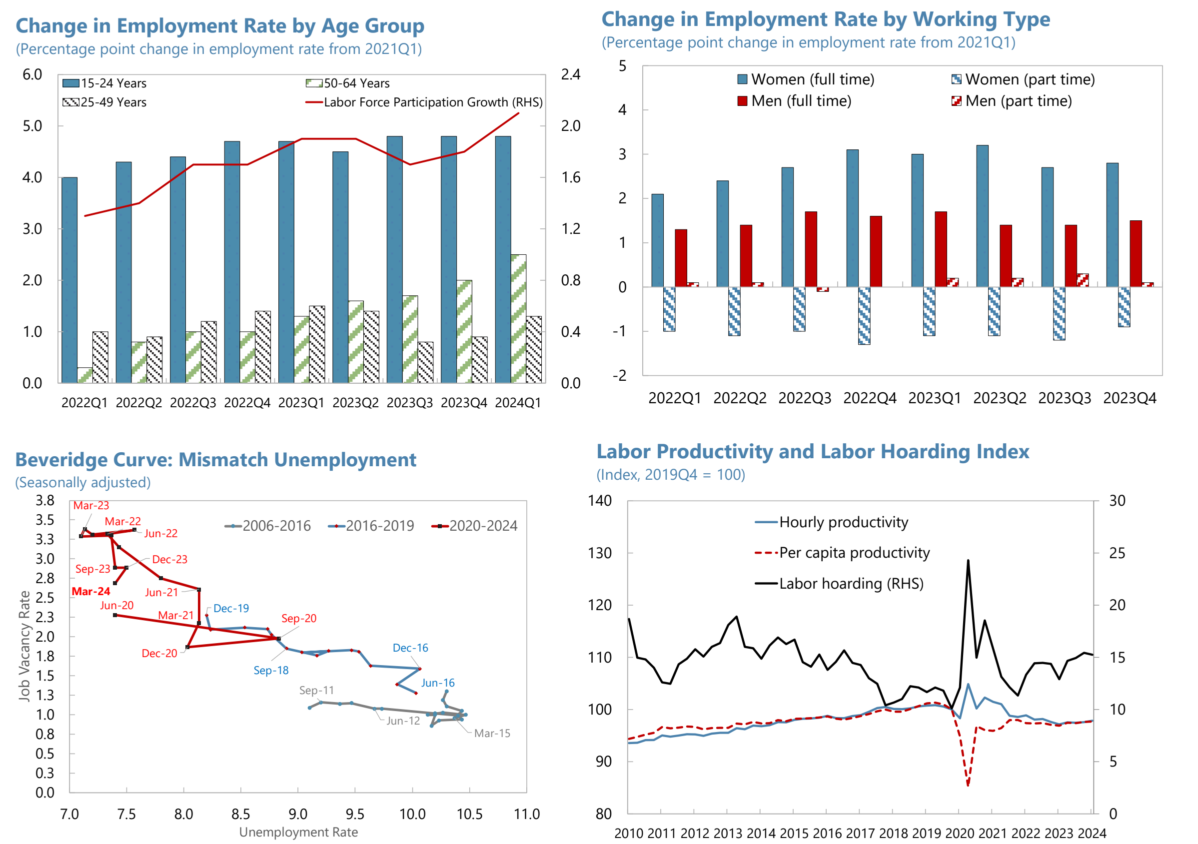


Sources: Ministry of Labor and INSEE.

4. Inflation continues to decline, despite some volatility from the unwinding of the energy support measures and delayed wage adjustments. Price pressures further weakened in May, with inflation down to 2.6 percent (y-o-y), from its 7.3 percent peak in February 2023. The increase from 2.4 percent in April was driven by higher energy prices, due to base effects. Core inflation continued to decline to 2.3 percent in May, even as services inflation remained stickier at

3 percent due to delayed wage increases. After reaching 4.9 percent in 2023Q1, following indexed adjustments to the minimum wage (SMIC) and increases in industry-level negotiated wages, nominal average wages kept slowing to 3.1 percent in 2023Q4. In real terms, average wage growth remained below inflation in 2023. More recent hourly wage indicators confirm the ongoing downward trend in nominal wage growth, at 2.8 percent in 2024Q1. One-year ahead price and wage growth expectations by businesses both declined to 3 percent during the same quarter.

France: Labor Market Performance and Productivity



Sources: DARES, Eurostat, European Commission, INSEE, French Labor Ministry, and IMF staff estimates.
Note: The labor hoarding index constructed by the European Commission reports the weighted number of surveyed companies that expect output to decrease and employment to remain constant or increase. A higher value indicates more labor hoarding. Data is missing for the 2020Q1 vacancy rate.

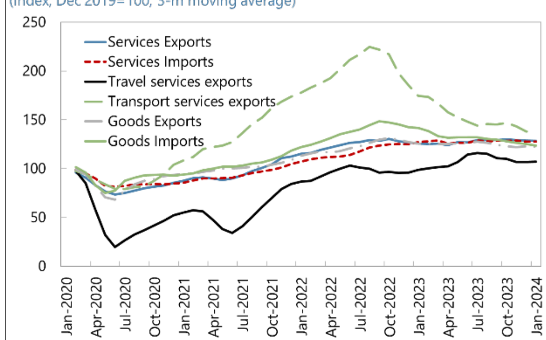
5. **Labor market performance has remained robust in the face of successive shocks and weaker economic activity.** Following a strong performance over 2021-22, the employment rate remained well above its pre-pandemic trend in 2024Q1, sustained by an increase in labor force participation and despite a negative output gap. Specifically, it continued to improve for the 50-64-years age group and remained elevated for the 15-24 group, supported by apprenticeships and other programs. For the 25-49-years age group, it was just below the historical peak of 82.9 percent reached in 2023Q1. The improvement was more marked among women with a shift from part-time to full-time employment. The unemployment rate increased slightly in late 2023 and remained

stable in 2024Q1 at a historically low level of 7.5 percent. Vacancy rates have also started easing since their peak in 2022, with enterprises seeing their activity less penalized by labor shortages.

6. **Labor productivity remains below its pre-Covid trend.** Since end-2019, total hours worked in France have increased by 5.6 percent, more than in other advanced economies. Nevertheless, employment has increased faster than output, resulting in important per-capita productivity losses. These had been estimated by Banque de France in their December 2023 macroeconomic outlook at 8.5 percent. Around one third of these losses were expected to be from temporary factors, such as labor hoarding due to job-retention schemes and a difficult recruitment environment. Nevertheless, other structural factors largely associated with the reintegration of lower skilled workers through new programs, are estimated to account for the remaining losses. Following the national account rebasing in May, labor productivity was revised up, due to an upward revision in activity and a downward revision in employment, implying a 5.9 percent loss relative to the pre-pandemic trend.

7. **The external position in 2023 is broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex III).** The current account (CA) deficit adjusted to 0.7 percent of GDP in 2023 from 2 percent in 2022. The correction was driven by strong export performance by the aeronautics and textile sectors and in capital goods, as well as by lower energy imports. The services balance remained in surplus in 2023, driven by tourism and financial services, despite a correction in transport after its strong surplus in 2022. Staff assesses the CA gap in 2023 to be between −1.3 and –0.5 percent of GDP, with a midpoint of –0.9 percent of GDP. The main contributor to the overall positive policy gap of 0.1 percent of GDP is a positive credit gap of 0.4 percent, against a negative health expenditure gap of 0.3 percent. The fiscal policy gap is 0 percent, despite a negative domestic fiscal gap of 1.2 percent. In 2024Q1, the current account recorded a surplus of 0.1 percent of GDP, driven by an improvement in the goods trade deficit.

France: Goods and Services Trade
(Index, Dec 2019=100, 3-m moving average)

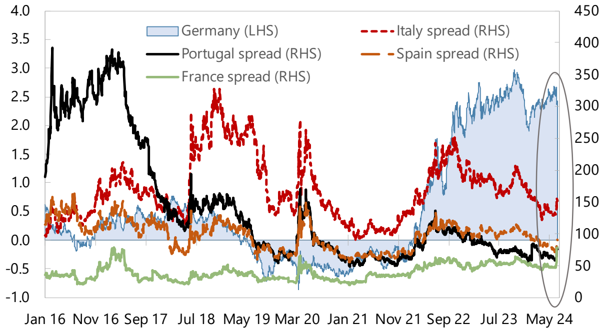


Sources: Banque de France and IMF staff estimates.

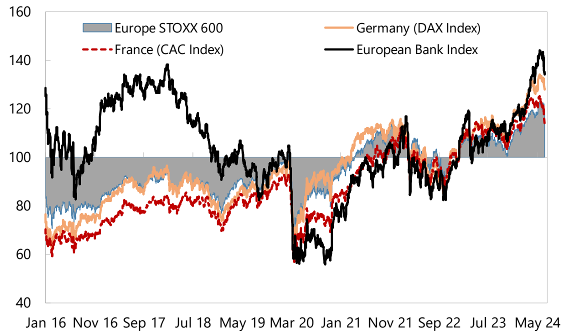
8. **While market conditions have remained stable in 2023 and in the first half of 2024, market pressures emerged more recently following the European elections on June 9th.** During January-May 2024, French equities registered some gains (of about 6 percent) and spreads on sovereign bonds fluctuated within a narrow range of about 50 bps. The S&P downgrade in May of the sovereign debt rating to AA- did not have significant repercussion on market rates. However, following the outcome of the European elections and the ensuing political campaign ahead of the parliamentary elections, market pressures on sovereign bond spreads and corporate stocks, including bank equities, have emerged. French sovereign bond and CDS spreads widened by 28 and 15 bps, respectively, during June 9-17, and the stock market dropped by around 6 percent, offsetting the gains so far this year. The recent spread increase is comparable to the last peak increase experienced ahead of the 2017 presidential elections. Spillovers to other euro area countries appear contained.

France: Market Developments

German 10-yr Bund Yield and Other Euro Area Spreads
(LHS: percent, RHS: bps)



European Stocks Selected Indices
(Jan 2023 = 100)



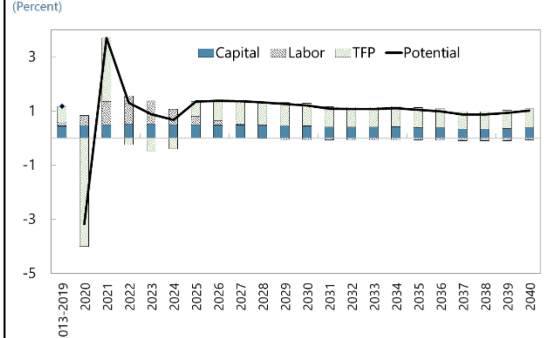
Sources: Bloomberg and IMF staff estimates.

OUTLOOK AND RISKS

9. The economic recovery is expected to gradually take hold in 2025, while the disinflationary process remains on track. Real GDP growth is projected to reach 1.3 percent by 2025 from 0.9 percent in 2024, as monetary policy and financial conditions gradually ease and investment starts recovering, and households' purchasing power and consumption improve. Following a rebound in foreign trade after the energy price shock, net exports will have a positive, albeit smaller, contribution to growth due to continued catch-up in exports of the aeronautics and automobile sectors as well as tourism, while imports will rebound in line with domestic demand. Monetary policy tightening has supported the disinflationary process. Despite delayed wage adjustments and a slower expected decline in core inflation, average headline inflation is projected at 2.3 and 1.8 percent for 2024 and 2025, respectively, given favorable base effects and easing supply constraints.

10. Over the medium term, growth is projected to converge towards its potential rate of 1.3 percent, before decelerating towards 1 percent in the long run as the population ages. Recent pension and unemployment benefits reforms are expected to reduce structural unemployment below 7 percent and raise potential output by a cumulative 0.5 percent by 2028 relative to a no reform scenario. Nevertheless, over the medium-to-long term, population aging is expected to continue to weigh on potential output (Annex IV). While the temporary factors holding back total factor productivity (¶6) will disappear over the medium term, productivity growth is expected to remain weak in the long term, as in other advanced economies, pending further structural reforms.

France: Potential Output Growth Contributions
(Percent)



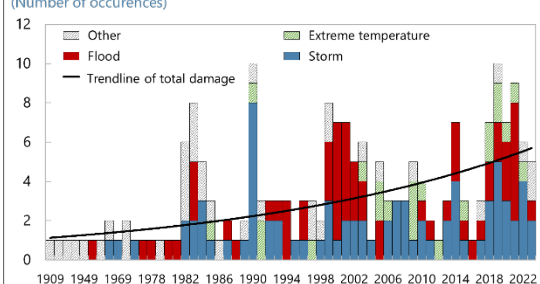
Sources: INSEE, UN World Population Prospects, and IMF staff estimates.

The CA deficit is also expected to further decline over the medium term, supported by ongoing fiscal consolidation and recent structural reforms.

11. The outlook remains subject to high uncertainty, with important downside risks but also potential upsides (Annex V). Heightened political fragmentation and rising policy uncertainty domestically could delay fiscal consolidation and reform efforts, weighing on confidence and raising fiscal risks. Social tensions could also materialize. Escalating geopolitical tensions, coupled with rising energy prices, trade and financial flows disruptions, could dampen activity, undermine confidence, and reignite inflationary pressures. In such an environment, monetary and financial conditions may tighten further or for longer, reducing domestic demand and worsening debt dynamics. An abrupt global slowdown, including weaker growth in main trading partners, could depress external demand. Over the medium term, deepening geoeconomic fragmentation could expose France to trade and supply disruptions, increased protectionism, and rising input costs, lowering potential growth. On the upside, faster structural reform momentum in France and at the EU level, including through deeper integration, could help mitigate these risks. Consumption could be stronger if the household saving rate were to return more rapidly to its pre-COVID level. Business investment, on the back of heightened demand from the digital and green transitions, and export performance could also surprise on the upside.

12. Climate change presents an unprecedented long-term challenge to the French economy. Physical risks from extreme weather events, such as heatwaves, flooding, and storms, materialize more frequently and can be significant, with economic damages averaging 0.1 percent of GDP per year over the past three decades. Accordingly, there are clear benefits from averting the adverse consequences of climate change, including in terms of reduced natural disasters, improved health outcomes, productivity gains in low carbon technologies, and energy security through reduced fossil fuel imports. At the same time, the transition towards a low-carbon economy and the structural changes associated with it are subject to a high degree of uncertainty and can pose important economic and financial challenges, if not well-managed and timed. Under alternative Fit-for-55 transition scenarios (Section C), real GDP could be 1.3 percent lower relative to the baseline by 2030, driven by the energy-intensive sectors.[1]

France: Historical Natural Hazards
(Number of occurences)



Note: The EM-DAT database is subject to data constraints before 1980. At the same time, coverage of extreme events in more recent years can be underestimated as only disasters that affect the population and cause large economic damage are recorded.
Sources: EM-DAT and IMF staff estimates.

Authorities' Views

13. The authorities broadly shared staff's views on the outlook and balance of risks, despite being somewhat more optimistic on growth prospects. They emphasized the resilience of the French economy, in the face of recent shocks, and pointed to a slightly faster economic

[1] See "A Deep Dive on the Climate Transition for France: Macroeconomic Implications, Fiscal Policies, and Financial Risks", France: Selected Issues (SIP), 2024.

recovery—with real GDP growth projected in the PSTAB at 1.0 and 1.4 percent in 2024 and 2025, respectively. They concurred with staff on the expected pace of disinflation, noting that wage growth has been softer than expected. They also shared staff's assessment of the external position. Nevertheless, in the medium term, the authorities expected somewhat faster growth, thanks to the gradual decline of the saving rate towards its long-term average and the support to net trade from the recovery of aircraft exports. They broadly agreed with staff's medium-to-long-term potential growth estimates, while seeing room for a stronger labor contribution, supported by ongoing and planned labor market reforms. They also shared staff's views on the downside risks from escalating geopolitical fragmentation or a global slowdown as well as the upsides in terms of stronger exports and domestic demand. They broadly shared staff's assessment on the challenges posed by climate change as well as the potential macroeconomic impact of the green transition, while emphasizing climate change mitigation policies generate medium and long-term benefits. They also pointed to the benefits from digitalization as well as deeper integration at the EU level to support productivity and competitiveness.

POLICY DISCUSSIONS

The French authorities should advance their fiscal and structural efforts to rebuild fiscal buffers and place public debt on a downward trajectory, while achieving a sustainable modernization of the economy. While the reforms of the pension and unemployment benefit systems have started to yield results, substantial additional efforts will be needed, starting in 2024, to strengthen public finances, while making space for targeted growth-enhancing spending. In parallel, as monetary policy eases, it can also help mitigate the contractionary impact of fiscal tightening. Proactive efforts to strengthen financial stability have helped support the resilience of the banking system and should be sustained to mitigate systemic risks. The authorities should continue to make progress on the structural agenda to support jobs and potential growth, amid geopolitical and economic transitions, while continuing to safeguard and deepen the European single market.

A. Fiscal Policy: Reducing Debt while Modernizing the Economy

14. The fiscal stance was expansionary in 2023, well beyond the original budget plans. The headline deficit reached 5.5 percent of GDP in 2023, 0.9 percentage points looser in structural primary terms than in 2022 and 0.6 percentage points above the budget target—of this, 0.1 is attributed to a statistical rebasing. The looser-than-expected stance was driven by a sizable revenue shortfall: weaker social security contributions largely reflected slower underlying real wage dynamics; VAT underperformance was mostly due to larger tax refunds; and the fall in CIT revenues was driven by lower taxable profits. The initial set of cuts in a distortive value-added tax (CVAE), expected to be fully eliminated by 2027, accounted for 0.1 percent of GDP. All main categories of primary spending

France and Euro Area: 2023 Public Deficit and Debt
(Percent of GDP)

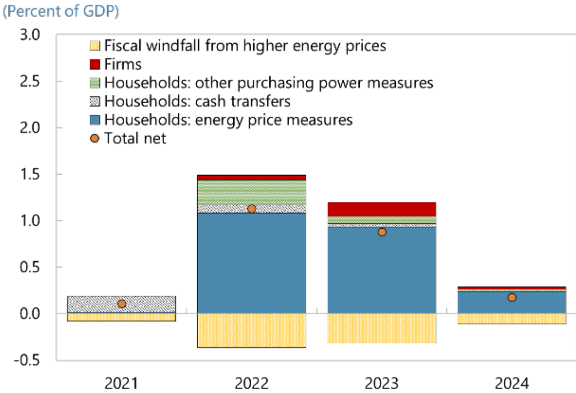
Sources: WEO and IMF staff estimates.
Note: Weighted average for the Euro Area (PPP GDP).

contracted as a share of GDP, but with higher-than-expected spending at the local government level. Energy and other purchasing power support measures were reduced by 0.3 percent of GDP in 2023 (to 1.2 percent of GDP), more than offsetting capital spending under the *France 2030* plan by about 0.2 percent of GDP.

15. The fiscal deficit is expected to decline only modestly in 2024, due to the impact of the 2023 underperformance, weaker-than-expected growth, and new spending pressures. The 2024 budget envisaged a sizable fiscal consolidation to achieve a deficit target of 4.4 percent of GDP, underpinned by the phasing out of most of the outstanding crisis response measures and spending reviews. The planned cuts also made space for new targeted spending on green policies, education, and defense.[2] In response to the weaker economic recovery, the authorities approved by decree in February further budget cuts to line ministries to mitigate the fiscal underperformance. Nevertheless, with the [2024-2027 Stability Program] (PSTAB) last April, the 2024 deficit target was eventually revised up to 5.1 percent of GDP to reflect the 2023 fiscal results and additional spending pressures—notably from pension and social transfer indexation as well as local governments. Staff's baseline estimate of 5.2 percent refers to a current-policy scenario based only on legislated and clearly specified measures, and thus includes only a small part of the new additional measures for 0.3 percent of GDP announced in the PSTAB. It also reflects the 2020 national accounts rebasing published at the end of May.

France: 2024 Fiscal Measures

Purchasing Power Measures
(Percent of GDP)



2024 Fiscal Adjustment
(Change from 2023)

	Euro billions	Percent of GDP
Overall balance	**1.0**	**0.2**
Interest payments	**3.6**	**0.1**
Primary balance	**4.5**	**0.3**
Revenue measures	**1.4**	**0.0**
New green taxes	2.9	0.1
Production tax cut (*CVAE*)	-1.5	-0.1
Expenditure measures	**-17.7**	**-0.6**
Green spending 1/	4.6	0.2
Sectoral programming laws (defense/interior/justice)	2.3	0.1
Increase teacher salaries (*pacte enseignants*)	2.8	0.1
Purchasing power measures 2/	-19.7	-0.7
ALMPs	-0.9	0.0
Other spending reductions 3/	-6.7	-0.2
Primary balance excluding measures	**-14.5**	**-0.4**

1/ Net of reductions in green spending from the February 2024 decree.
2/ Net of change in windfall revenues from higher energy prices.
3/ Other spending reductions from the February 2024 decree. Details are not available.

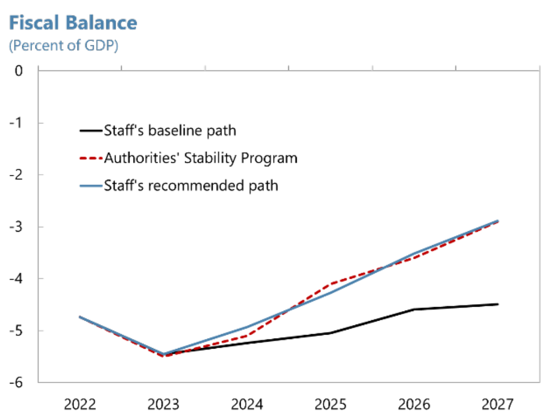
Sources: French authorities and IMF staff estimates.

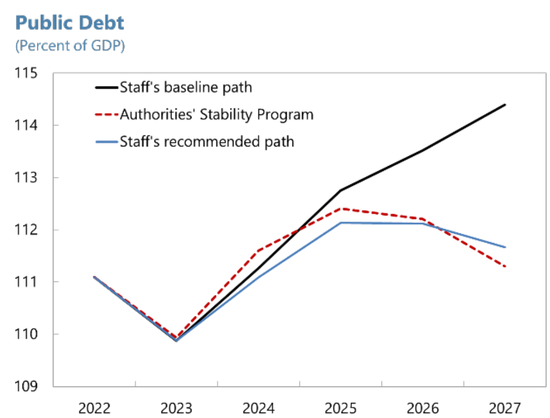
16. Pending further measures, the fiscal deficit is projected to remain elevated over the medium-term, well above the 3 percent of GDP Maastricht limit, posing fiscal risks. Under current policies, staff projects the overall deficit to decline modestly to 4.5 percent of GDP by 2027. The latter is significantly higher than the 2.9 percent deficit level targeted in the PSTAB, as key

[2] Green spending focuses on building renovations, promotion of public transports and zero/low-emission vehicles, agriculture, and green investment, with new revenues from green taxes for 0.1 percent of GDP. Defense spending was increased as part of the authorities' commitment to raise the defense budget to 2 percent of GDP by 2027.

spending reforms and review measures underpinning the planned adjustment remain to be identified. Moreover, despite ongoing growth-enhancing structural efforts, the macroeconomic assumptions underlying the PSTAB might prove somewhat optimistic over the adjustment period, an issue also raised by France's High Council of Public Finances. In particular, there is significant uncertainty about the impact of the planned fiscal consolidation on GDP growth as this depends on the specific measures to be adopted. Moreover, while spreads on sovereign bonds have remained stable in 2023 and early 2024, they increased during June 9-17 (by about 30 bps), although sovereign yields increases were more limited (at only 10 bps), amid a compression in German bund yields. In the absence of further measures, under staff's baseline, debt would rise to 111 percent of GDP in 2024 and increase by about 1 percentage points a year over the medium term. This poses fiscal risks, as it leaves the future evolution of public finances exposed to an increase in sovereign interest spreads and volatility or a reduction in growth, which would compound already existing long-term fiscal pressures from the green and demographic transitions.[3] For instance, based on PSTAB estimates, staff calculates that a permanent increase by 100 basis points in interest rates could translate into a cumulative increase in the debt burden of about 0.1 percent of GDP in the first year, by 0.5 percent in 5 years, and by 0.9 percent in 10 years. Nevertheless, even as high debt levels and refinancing needs represent a moderate source of medium- and long-term risk (Annex VI), staff assesses that France's overall risk of sovereign debt stress remains low, considering France's commitment to undertake further fiscal consolidation, as per EU rules, as well as its liquid debt market that benefits from a diversified investor base and the stabilizing role of the ECB.

France: Fiscal Adjustment Paths





Sources: 2024-27 Stability Program and IMF staff estimates.
Note: The Stability Program path does not reflect the 2020 national accounts rebasing. The debt path is adjusted with the updated historical data for 2022-2023.

17. To correct the course of public finances, further consolidation measures are recommended for 2024. The French authorities should aim at identifying additional new measures, compared to staff's current policy scenario, for about 0.4 percent of GDP, building on what has been announced in the PSTAB. This would help improve debt dynamics while smoothing the adjustment in the outer years, reducing the potential negative effects on the economy. The additional fiscal

[3] Staff's baseline incorporates structural spending pressures from pensions, defense, health, and green spending (consistent with the authorities' approved measures).

effort should draw from ongoing spending reviews (¶19), including by acting on local government spending.

18. For the medium term, the PSTAB consolidation objective of bringing the deficit below 3 percent of GDP by 2027 remains appropriate. It would strengthen France's resilience to shocks, help rebuild adequate buffers to meet new spending demands from ongoing transitions and long-term aging pressures and bring the debt ratio on a downward trajectory. It would allow France to exit the Excessive Deficit Procedure (EDP), which is expected to be initiated later this year, by end-2027, as targeted by the PSTAB. Meeting this goal would, however, require a substantial structural primary effort of nearly 3 percent of GDP over 2025-27, on top of the recommended effort in 2024. This is equivalent to an average annual effort of almost 1 percent (or an average additional annual effort of 0.6 percent relative to the baseline). After 2027, the effort could be marginally reduced, benefiting from a further reduction in fiscal risks, with public debt declining by about 3 percentage points of GDP over 2025-29. Overall, staff's debt sustainability analysis indicates that the recommended fiscal path would significantly reduce medium-term risks, allowing France to reach its debt-stabilizing primary balance by 2027. While ambitious, the recommended adjustment path would be consistent with past consolidation episodes in France (see Annex VI). Staff assesses that France has some fiscal space which could be deployed in case of large negative shocks. Symmetrically, staff recommends saving any surprise revenue overperformance to strengthen fiscal buffers.

France: Fiscal Scenarios

(Percent of GDP, unless noted otherwise)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Baseline										
Real GDP growth (percent)	-7.6	6.8	2.6	1.1	0.9	1.3	1.5	1.5	1.4	1.3
Revenue	52.8	52.9	53.7	51.5	51.4	51.4	51.4	51.3	51.3	51.3
Expenditure	61.7	59.5	58.4	57.0	56.7	56.4	56.0	55.8	55.7	55.6
Overall balance	-8.9	-6.6	-4.7	-5.5	-5.2	-5.0	-4.6	-4.5	-4.4	-4.3
Primary balance	-7.7	-5.2	-2.9	-3.7	-3.4	-3.0	-2.4	-2.0	-1.7	-1.5
Fiscal effort 1/			1.5	-0.9	0.1	0.4	0.6	0.3	0.2	0.2
Public debt	114.6	112.6	111.1	109.9	111.3	112.8	113.5	114.4	115.2	116.2
Recommended										
Real GDP growth (percent)	-7.6	6.8	2.6	1.1	0.8	1.0	1.3	1.3	1.2	1.2
Revenue	52.8	52.9	53.7	51.5	51.4	51.4	51.4	51.3	51.3	51.3
Expenditure	61.7	59.5	58.4	57.0	56.4	55.6	54.9	54.2	53.6	53.1
Overall balance	-8.9	-6.6	-4.7	-5.5	-4.9	-4.3	-3.5	-2.9	-2.3	-1.8
Primary balance	-7.7	-5.2	-2.9	-3.7	-3.1	-2.3	-1.3	-0.4	0.3	0.9
Fiscal effort 1/					0.5	1.0	1.0	0.9	0.8	0.6
Recommended additional fiscal effort 1/					0.4	0.6	0.4	0.6	0.6	0.5
Public debt	114.6	112.6	111.1	109.9	111.1	112.1	112.1	111.7	110.7	109.5

1/ Computed as the change in the structural primary balance. Recommended additional fiscal effort is relative to the baseline projections.

Sources: French authorities and IMF staff estimates.

19. The authorities should identify a well-specified and credible package of measures to underpin their fiscal consolidation plans, following the elections. Given France's already high levels of taxation (with a 52 percent of GDP revenue ratio in 2023), fiscal consolidation should continue to focus on targeted measures to lower current spending, while preserving room for growth-friendly investment, including for the green and digital transition. As per staff's past policy recommendations,[4] there is significant scope to further rationalize current spending building on recent reforms and ongoing spending reviews:

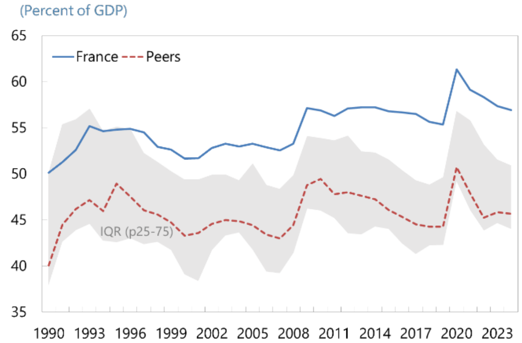
- Better targeting *unemployment benefits and support schemes for workers and enterprises* while regularly testing for effectiveness and fine-tuning active labor market policies (¶32-34) could generate savings, while sustaining investment in both physical and human capital. This would complement the 2019 and 2023 unemployment benefit reforms, which tightened eligibility criteria and introduced a counter-cyclical component that links benefit duration to labor market conditions – the two reforms are projected to generate future savings of around 0.2 percent of GDP per year.

- The ongoing *broad-based spending reviews* are also critical to target pockets of inefficiency in a growth-friendly way. In their latest wave of spending reviews, important efficiency gains were already identified across line ministries, including on health spending, social security, education, and active labor market policies. A new round of spending review is under way to help support the PSTAB goals. In terms of additional areas where savings could be generated, for example, the increase in the public sector salary bill can be contained by reducing the overlaps between different levels of government and through a greater reliance on automation and digitalization.[5] Tax expenditure can be redesigned to increase economic efficiency while lowering fiscal costs. These structural fiscal efforts can also further lift potential growth, creating further space to support the digital and green transitions. Involving local governments more in these fiscal consolidation efforts, by ensuring a strict adherence to existing targets on current spending, would also help contain public spending.

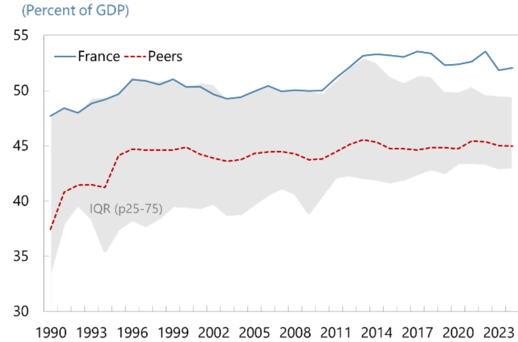
Further supporting the authorities' consolidation plans, the High Council of Public Finances should remain a building block of France's fiscal framework, with its evaluation of the realism and internal

France and European Peers: Spending and Revenue Ratios

Spending Ratio
(Percent of GDP)



Revenue Ratio
(Percent of GDP)



Source: IMF WEO and IMF staff estimates.
Note: Peer countries include Austria, Belgium, Denmark, Finland, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom.

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[4] See Spending Efficiency and Reforms, France: Selected Issues, 2023.
[5] See also Transforming Public Finance Through GovTech, IMF SDN/2003/004.

consistency of the macroeconomic and budgetary forecasts, including vis-à-vis France's commitments under the EU fiscal rules.

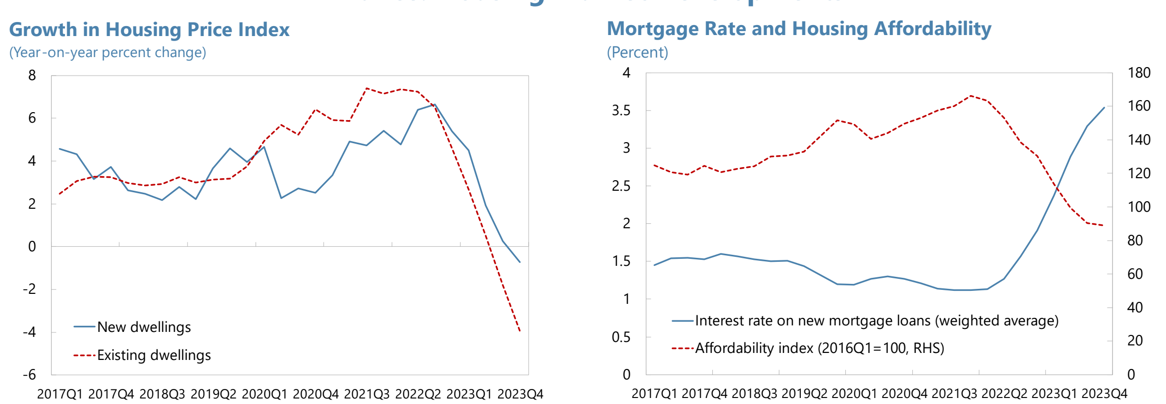
Authorities' Views

20. The Stability Program for 2024-2027 sets a deficit target below 3 percent of GDP in 2027, thanks to continued efforts to control current spending as per staff's recommendations. The authorities took note of the recommended fiscal trajectory, although they saw limited scope for further adjustment in 2024 compared to what has already been announced, in order not to weigh on the recovery. On the realism of the macroeconomic and fiscal projections, they emphasized ongoing efforts to identify structural measures and reforms to stimulate jobs and growth, while generating fiscal savings. The remaining measures for 2024 and 2025 are expected to be finalized in time for the new EU Medium Term Fiscal-Structural Plan and 2025 budget in early October.

B. Maintaining Financial Sector Stability

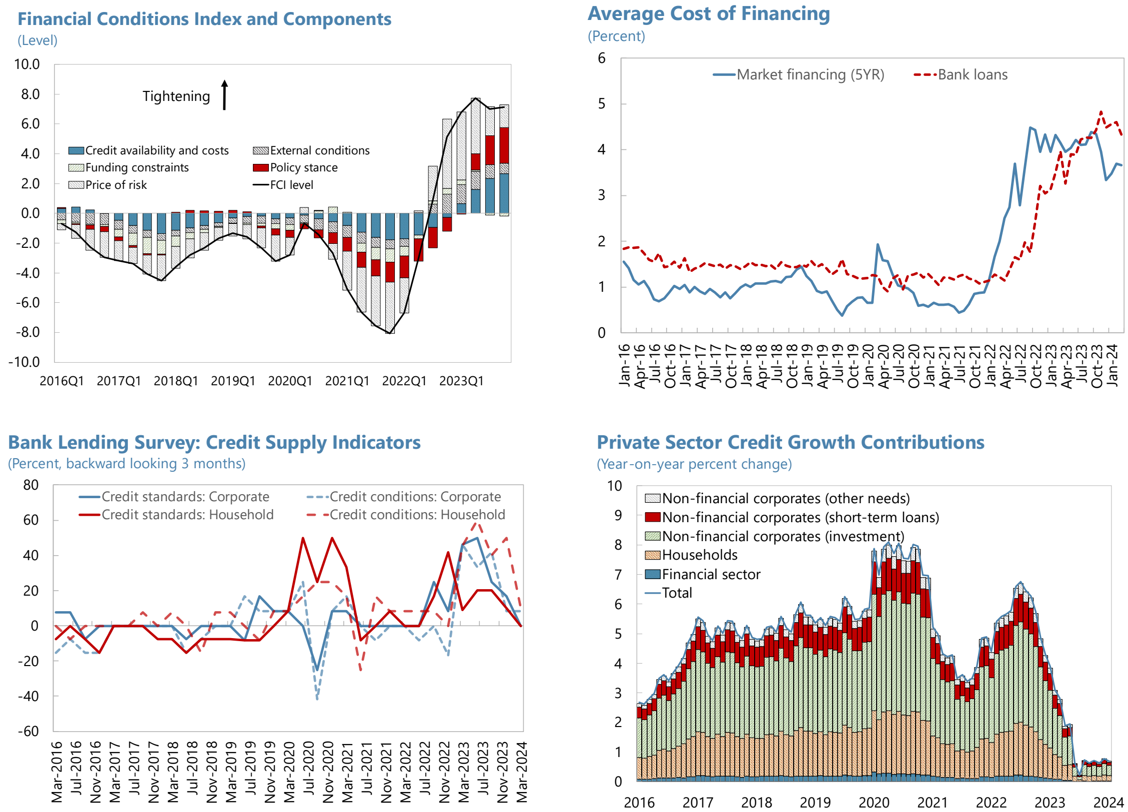
21. Tighter financial conditions have continued to weigh on credit growth in 2023. A tighter monetary policy stance increased costs in both market-financing and bank loans in 2023. Financial conditions started stabilizing in 2024Q1, with some new pressures emerging in the run up to the elections in mid-June. Household and non-financial corporate (NFC) credit growth dropped markedly in 2023 and early 2024, amid higher lending rates, with only a timid improvement in NFC credit. Despite high indebtedness, NFC refinancing needs remain contained, with 11 percent of outstanding bank fixed-rate loans expected to be renewed by end-2025, amid comfortable cash buffers. Bankruptcies among SMEs increased, although they remain in line with pre-pandemic trends, also thanks to the large share of fixed-rate loans. While banks' non-performing loans (NPL) slowly increased throughout 2023, notably in the accommodation and food sectors, they remained on average at 1.9 percent of total by end-2023.

France: Housing Market Developments



Sources: Statistical Office of the European Communities, INSEE, European Mortgage Federation, and ECBC.
Note: Affordability is calculated as (Disposable income/(1+average weighted mortgage rate)) x (Initial housing price index/Current housing price index).

France: Recent Financial Sector Developments

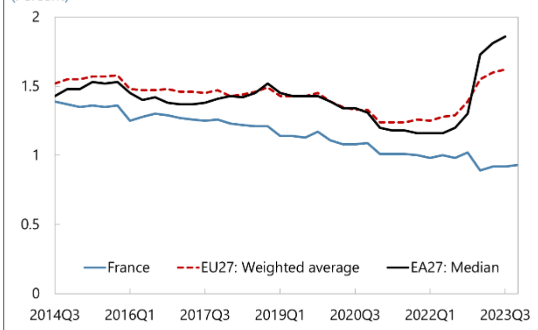


Sources: Banque de France, BLS, and IMF staff estimates
Note: FCI is unscaled. For methodological details, please refer to IMF WP/23/209.

22. **The housing market is undergoing an orderly downward adjustment in response to rising interest rates, in the context of prudent lending standards.** Higher mortgage rates have dampened housing affordability and demand, notwithstanding the downward correction in housing prices. Nevertheless, NPLs in housing mortgages have remained low (at 2.1 percent in 2023Q4), as the prevalence of fixed-rate mortgages (99 percent of total) at long maturity (23 years on average) have shielded French households from rate increases on outstanding mortgage loans. France's proactive implementation of prudent borrower-based lending standards, including a 35 percent DSTI ratio cap and a maximum loan maturity of 25 years for 80 percent of loan production, has also helped mitigate insolvency risks for both borrowers and lenders. While not altering the overall measure, in response to some operational difficulties encountered by banks, the French authorities introduced some adjustments in June 2023 to the allocations within the banks' 20 percent flexibility margin (allowing compliance to be assessed over a quarter and increasing to 30 percent the margin proportion that is free to be used). Moreover, to support first-time home buyers, they have broadened the base for the Zero Rate Loans (known as *Prêt à Taux Zéro* or PTZ)—by relaxing the maximum income threshold while better targeting eligibility requirements—and extended the scheme till end-2027.

23. The authorities' proactive efforts to strengthen financial stability have helped support the resilience of the French banking system and mitigate systemic risks. While fixed-rate loans have helped prevent a deterioration in asset quality, French banks have not benefited from the record-high profits experienced by most European peers in 2023 in the face of rising interest rates. On the liability side, net interest margins have been further compressed by the higher cost of wholesale funding and the indexation of the large share of regulated savings accounts to inflation and interbank rates.[6] Despite relatively lower profitability, French banks' liquidity and solvency positions have remained robust, as indicated by Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) of 150 and 115.8 percent in 2023Q4, respectively (relative to LCR and NSFR minimum requirements of 100 percent), and a Common Equity Tier 1 (CET1) ratio of 16 percent. The recent increase in the countercyclical buffer (CCyB) to 1 percent starting in January 2024, along with the implementation of the systemic risk buffer (SyRB) against highly indebted firms, are important steps implemented by the French authorities to further mitigate systemic risks and strengthen financial sector's resilience. Recent market developments, as of mid-June, in the run up to the elections are not expected to have a significant impact on banks' liquidity and capital positions. The impact of the recent increase in spreads (+30 basis points) on banks' CET1, through their sovereign exposures (1.65 percent of assets) and own financing costs, is estimated at about 5 basis points. Looking ahead, the authorities should continue to ensure that the *Haut Conseil de Stabilité Financière* (HCSF – High Council for Financial Stability) enjoys the operational independence needed to focus on financial stability issues and has sufficient and adequate legal powers to respond in a flexible, timely, and proportionate way to new risks that may arise.

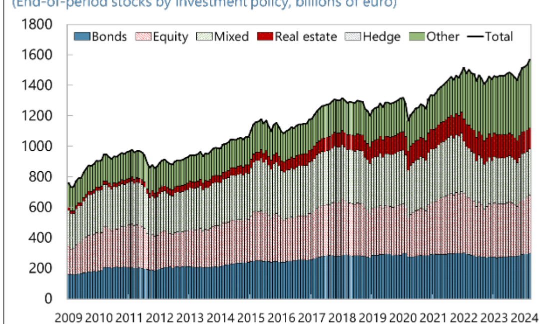
France and Rest of Europe: Banks' Net Interest Margin
(Percent)



Source: EBA Risk Dashboard.

24. While direct exposures of the banking system to the commercial real estate (CRE) market are limited, vulnerabilities in real estate investment funds (REIFs) warrant continued close monitoring. The sharp decline in CRE prices has had a limited impact on the French banking system, as direct exposures are small at around 6 percent of total loans and NPLs in the CRE sector account for less than 10 percent of total NPLs (compared to EA averages of 13 and 21 percent, respectively). Nevertheless, the market for REIFs has grown significantly over the past decade, reaching €150 billion in 2023 (about 0.8 percent of total financial system's assets). Lower returns from

France: Open-end Investment Funds by Investment Policies
(End-of-period stocks by investment policy, billions of euro)



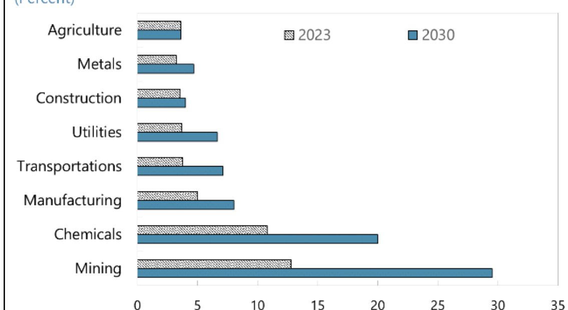
Sources: ECB and IMF staff estimates.
Note: Consolidated balance sheet of investment funds resident in France.

[6] To mitigate the impact of deposit repricing on NIMs, the authorities have frozen the rates for the most popular regulated savings account, Livret A, until the end of 2024.

declining CRE prices have heightened liquidity risks in REIFs, although vulnerabilities appear contained given a stable investor base, comprised mainly of domestic participants and insurers. In this context, the French supervisors' proactive work to close data gaps and establish relevant metrics for monitoring broader systemic risk stemming from indirect exposures via non-bank financial institutions (NBFIs) is welcome. The authorities should further advance these risk-monitoring efforts, also benefiting from the results of system-wide stress tests, while continuing to encourage the use of liquidity management tools, including gates and notice periods, by investment funds. New European initiatives to develop appropriate macroprudential measures for REIFs and other NBFIs targeting build-up of risks in the CRE market are also welcome.

25. French banks should continue to mitigate climate transition risks by integrating them into their governance, strategy, and risk management processes. While the immediate impact on the banking sector appears to be contained, under staff's climate risk assessment simulating the Fit-for-55 scenario—where the EU and UK achieve a 55 percent emissions reduction by end-2030—key systemic banks may be exposed to rising credit losses. Specifically, NPLs are estimated to increase over the medium term for the energy-intensive chemical, metals, and manufacturing sectors by about 1.5 percent of total loans under the central scenario (see SIP). These results are broadly consistent with past exercises, under different scenarios and time horizons, by Banque de France (2020-21) and the ECB (2023) and underscore the importance for the authorities to work with the financial sector to expand its analytical capacity for assessing climate risks and enhance the resilience against future risks. In parallel, the ECB is requiring banks to progressively reach full alignment with supervisory expectations on climate and environment-related risks by 2024. Greater efforts will be needed to increase banks' compliance with EU Corporate Sustainability Reporting Standards (CSRD), the EU taxonomy regulatory requirements, and Pillar 3/ESG risks reporting and disclosures and integrate climate risk into their governance, strategy, and risk management processes. Further integrating transition plans into the prudential framework will encourage diversification of investments by banks.

France: Corporate Probability of Default under Fit-for-55 Scenario
(Percent)



Source: IMF staff estimates.
Note: Manufacturing refers to other energy-sensitive manufacturing sectors or sectors of interest as per BdF (2021).

Authorities' Views

26. There was broad agreement that the financial system had weathered well recent shocks, although some vulnerabilities may be better identified and monitored. The authorities felt that monetary policy easing, on the back of the successful disinflationary process, would provide some relief to banks' net interest margins going forward. They pointed to an orderly deleveraging process in the corporate sector, despite high indebtedness, with continued access to finance and comfortable cash buffers. They concurred with staff on the positive role played by fixed-rate mortgages and prudent borrower-based limits in preserving households and banks from a rise in

NPLs. They also reaffirmed last March the appropriateness of the CCyB and SyRB. With reference to French NBFI's vulnerabilities, the authorities noted how these remain contained for the most part of the sub-sectors and should decrease structurally, particularly in terms of liquidity risk, with the increased take up of liquidity management tools by investment funds. They agreed on the usefulness of system-wide stress tests, including at the EU level to better gauge cross-border risks. They welcomed staff's focus on climate risk, in the context of the recent risk assessment by the BdF for the insurance sector and the forthcoming Eurosystem update for the banks. They concurred on the importance of ensuring a timely and well-managed climate transition to mitigate risks, emphasizing how France's emission-reduction efforts have so far been easily absorbed by the banking system, with no notable increase in credit risks even for the more energy-intensive sectors.

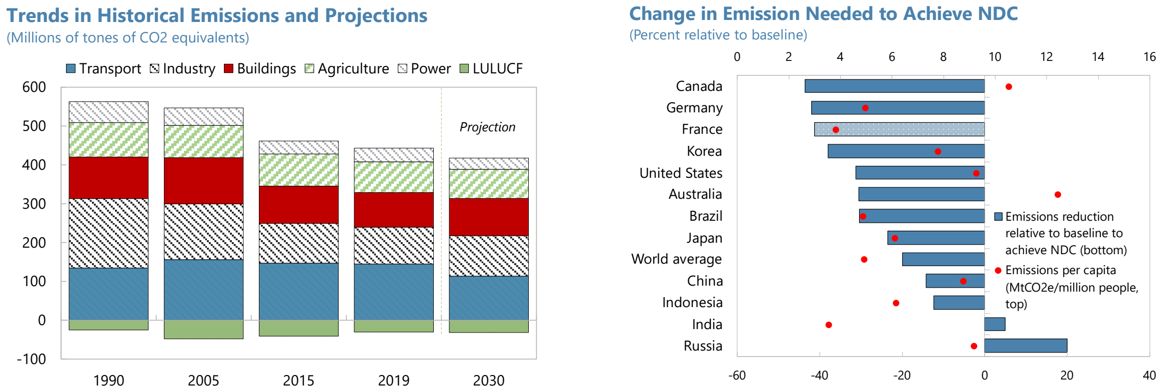
C. Accelerating the Green Transition while Lifting Potential Growth

Accelerating the Green Transition: Price and Non-Price Sectoral Policies

27. France has taken a leadership role in global mitigation initiatives. France has been an integral part of the Conference of the Parties (COP) multilateral discussion framework, including the NDC Partnership which supports developing countries to meet their Nationally Determined Contributions (NDCs). France has also played a key role in promoting renewable energy initiatives and contributing to climate financing for developing countries, including the International Solar Alliance, Africa Renewable Energy Initiative, and the Green Climate Fund.

28. While France has made significant progress towards reducing greenhouse gas (GHG) emissions, important additional policy efforts are still needed to meet Fit-for-55 targets. France is the second largest GHG emitter in the EU after Germany, although it is also among the lowest emitters relative to output or population due to its low-carbon electricity generation mix. Transportation is the largest contributor to emissions, followed by industry, buildings, and agriculture. Since 2005, emissions have decreased by 23 percent, with reductions concentrated in power generation, industry, and buildings. Looking ahead, the green transition plan (*France Nation Verte*) and France 2030 identify new measures to further reduce emissions, including in the most polluting sectors with higher abatement costs. Under the Fit-for-55, France targets to reduce emissions by 52 percent by 2030 relative to 2005 levels and achieve net zero by 2050. Policies in France's 2020 NECP are expected to contribute towards a 33.5 percent emissions reduction by 2030 relative to 2005 (48.1 and 28.7 percent for EU Emission Trading System (ETS1) and non-ETS1 sectors, respectively). However, based on the 2022 assessment by the European Environmental Agency they do not fully close the gap.

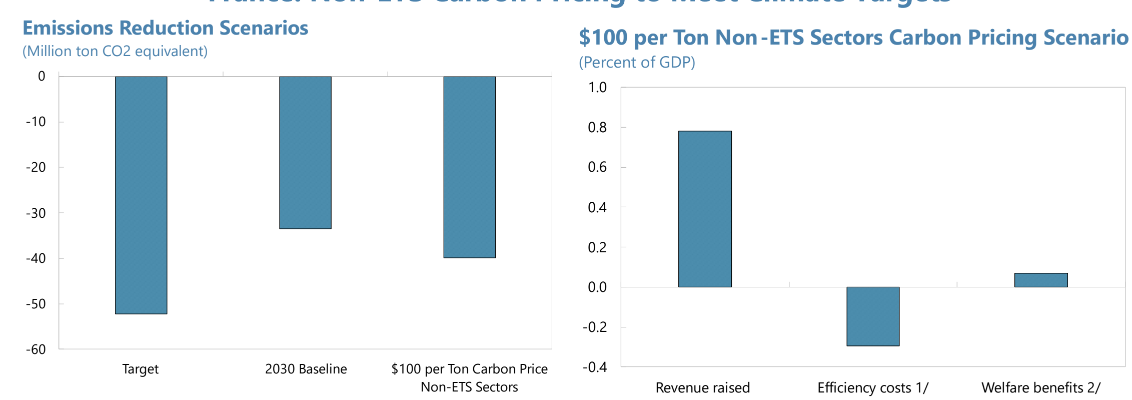
France: Climate Targets



Sources : *Stratégie Nationale Bas-Carbone* (2020) – based on the trend scenario of current policies (*scénario tendanciel*), Green Transition Plan (2023), Citepa (2023), and CPAT.

29. Growing reliance on green spending measures highlights the need to ensure cost-effectiveness, amid tight budget constraints. Green spending, ranging from support for low-emission energy to investment in green transports and buildings to agriculture, is set to reach about 1.3 percent of GDP in 2024. Key sectoral policies include subsidies for the renovation of buildings (*MaPrimeRenov*), the decarbonization of the industry, and for zero-emission passenger vehicles. Both renovation and vehicle schemes have means-tested aspects to support affordability and, in recent budgets, have been fine-tuned to address market failures and target the lowest abatement costs—e.g., increasing subsidies for deeper renovations and providing concessional finance to lease zero-emission vehicles for lower income households. Transitioning to revenue-neutral continuous feebate schemes for non-ETS1 sectors—such as a continuous subsidy with a pivot point at the average emissions rate for a building, vehicle, and space heating technology—could be also considered to further improve efficiency and limit fiscal costs (see SIP).

France: Non-ETS Carbon Pricing to Meet Climate Targets

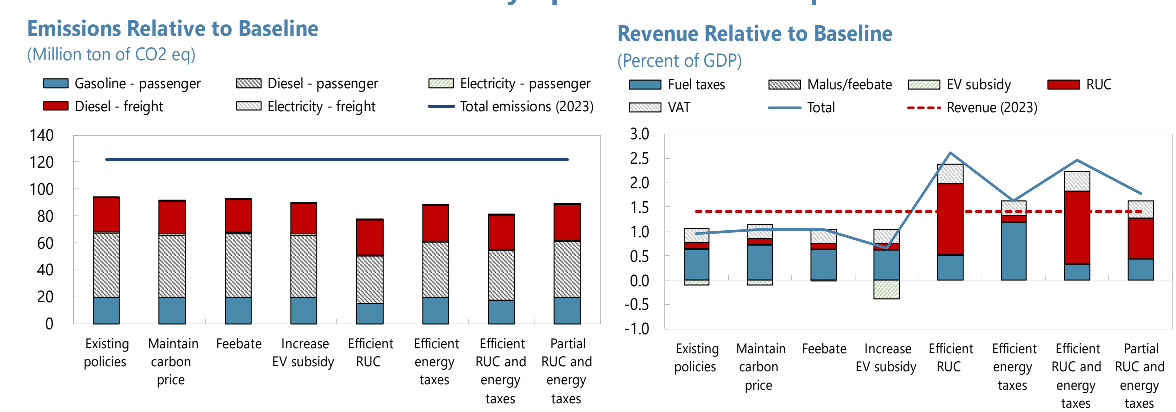


1/ Deadweight losses in fuel markets from changes in fuel prices, not accounting for revenue recycling benefits or tax interaction effects.
2/ Benefits from reduced air pollution net of losses to consumer welfare caused by higher taxes.
Source: IMF staff estimates using CPAT.

30. Higher carbon pricing, including for non-ETS1 sectors, could complement ongoing spending efforts by the authorities. France's explicit carbon contribution (*Contribution Climat-Énergie* or CCE) equals EUR 44.6/tCO2—in line with other advanced EU economies.[7] Further increases, including by gradually phasing out reduced rates and exemptions on fossil-fuel taxes, could be complemented by higher carbon pricing for the non-ETS1 sectors. This could in turn be set as a floor for the planned EU-wide ETS2 for buildings and transportation in 2027-28. For example, a carbon price for non-ETS sectors progressively reaching around $100 per ton by 2030 would reduce non-ETS1 emissions by nearly 10 percent relative to the baseline (assuming no additional policies). It would also generate net welfare benefits and mobilize additional revenues, which could be recycled via cash transfers to offset the price impact on lower-income households. Coupling the non-ETS1 carbon price with a gradually increasing ETS1 price floor would achieve equalization of abatement costs across the economy and ensure efficiency in emissions reductions. Transparent and extensive communication with stakeholders on the distributional impact and use of revenues of the measures would be critical to ensure buy in.

31. Over the medium-term, new charges for road transportation would help maintain an adequate coverage of externalities, while helping offset declining fuel tax revenue. Road transport emissions are expected to have peaked in 2023, with future reductions driven by declining EV prices and more stringent EU vehicle fuel standards. The resulting erosion of the fuel tax base will lead to underpricing of driving externalities (like congestion) and is expected to reduce revenues by about 0.05 percent of GDP per year, from 1.4 percent of GDP in 2024. As the vehicle fleet electrifies, transitioning to distance-based charges would help address driving related externalities, while maintaining current levels of revenues. This would need to be balanced, in the short to medium term, by finetuning incentives for switching to zero-emissions vehicles, including heavy duty vehicles and increasing road fuel charges. Changes to the transport fiscal system should also incorporate equity and environmental considerations.

France: Climate Policy Options for the Transport Sector



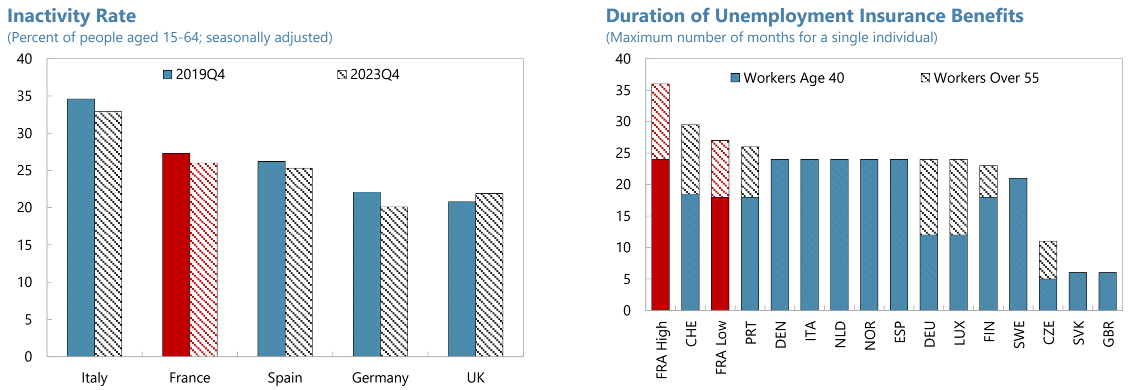
Sources: IMF staff estimates using an updated version of the Carbon Pricing Assessment Tools transportation module (Vernon-Lin 2024).
Note: Bars for emissions related to EV use are negligible, partly given the decarbonized power generation mix.

[7] The average level of effective carbon price linked to energy combustion was €104/tCO_2 in 2022 (French Ministry of Energy Transition).

Supporting Employment and Productivity

32. Ongoing efforts to modernize the labor market can help integrate and requalify workers, further strengthening employment. Recent labor programs and reforms have successfully helped increase employment above its pre-pandemic trend and supported real GDP growth. Apprenticeship reforms have bolstered youth employment, adding 850,000 additional workers in 2023. *France Travail* registration efforts and job-seeking support can facilitate labor market integration, while ongoing efforts by the authorities to strengthen targeting to lower skilled workers can raise the reskilling benefits of existing programs, such as *France Competences*. The recent pension and unemployment benefit reforms (¶19) are also supporting labor participation, by increasing work incentives and faster unemployment-to-employment transitions.[8] As the system remains comparatively generous among OECD countries, there is scope to introduce further reforms, as recently announced by the authorities, focused on reviewing the eligibility and duration of benefits to promote longer and less fragmented careers, while retaining adequate coverage against unemployment risk and protecting the vulnerable. Ongoing plans to revamp parental leave, providing shorter but better paid leave for both parents, while increasing provision of childcare facilities, addressing shortages of qualified staff, could further support labor force participation by women.

France: Inactivity Rate and Unemployment Benefits



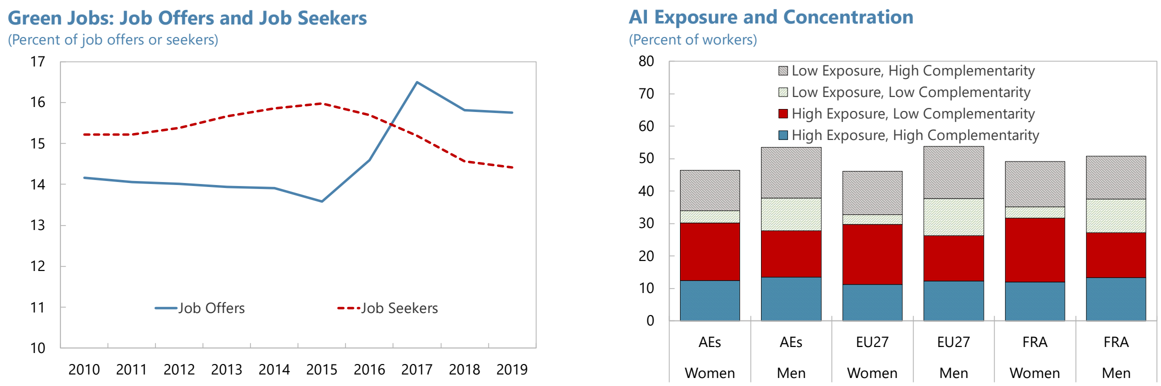
Sources: OECD, UNEDIC, and European Commission.
Notes: France's unemployment benefits duration shown for unemployment rate levels are above (high) or below (low) 9 percent and quarterly variations in the unemployment rate have not exceeded +0.8 points over the last three quarters. Maximum applicable duration of benefits used for countries with multiple categories for over 55 age group.

33. France needs to prepare its labor force for the expected labor transitions from the green and digital transformations. The green transition is already having an impact on the labor market as demand for green jobs has steadily increased, benefiting workers with skills and training that are transferable to new green occupations while displacing more specialized workers in carbon-

[8] The 2023 pension reform has introduced several parametric adjustments to the system. The minimum retirement age is set to gradually increase from 62 to 64 years by 2030. The minimum contribution period for a full pension will be raised from 42 years to 43 years by 2027. The age at which workers can retire without having met the minimum contribution period and without incurring any discounts will remain at 67. Complementary support measures were also introduced.

intensive occupations.[9] While France ranks high in terms of AI preparedness, AI adoption will also unequally impact the workforce. Young workers in some highly educated occupations are positioned to reap the largest gains from AI complementarities, but around 50 percent of workers (disproportionately women) in jobs with high exposure to AI are expected to be disrupted.[10]

France: Green and Digital Transition



Sources: IMF/SDN 24/001, Onemev, *Pole Emploi*, and IMF staff estimates.
Notes: AI exposure is an index based on AI applications and human skills in each occupation that measures the degree of overlap between AI and an occupation's skills. AI complementarity is a judgement-based measure of the expected potential for AI to improve, rather than replace, occupational productivity. In both cases, high complementarity / exposure refers to occupations that rank comparatively high in the indicated measure.

34. Education and training reforms can support an orderly adjustment. Addressing inefficiencies in education spending can help upskill the workforce, close the education attainment gaps with peers, and smooth these transitions. Active labor market policies (ALMP) can help reduce recruitment tensions and skills mismatches. Ongoing initiatives by the authorities include the planned reform of vocational training (*lycée professionel*) as well as the introduction of training certification and professional qualification (as in *Qualiopi*). Programs should target workers that may face skill obsolescence or be displaced, such as older workers in carbon-intensive or more AI substitutable occupations. Further efforts to address the low school enrolment in STEM fields of women, as envisaged in the authorities' digital strategy, and better integrate women in industry (*IndustriElles*) are also welcome.

35. At the other end of the labor market, complementary policies on firms' incentives are also needed to boost productivity. Better regulatory and competition policies can improve productivity and business dynamism.[11] While important progress has been made in recent years, significant room still exists to reduce regulatory burden and barriers to entry, especially in some service sectors. The Simplification Bill, currently under discussion, is a welcome step to streamline firms' authorization and reporting requirements, with a special focus on SMEs and greater digitalization of processes. France has one of the highest levels of public support for business R&D in Europe, mainly through tax incentives like the Research Tax Credit (CIR). Building on spending

[9] See An Anatomy of Occupational Pathways for the Climate Transition in France, France: Selected Issues, 2022.
[10] See IMF/SDN 24/001 for further discussion.
[11] See OECD Economic Surveys: France.

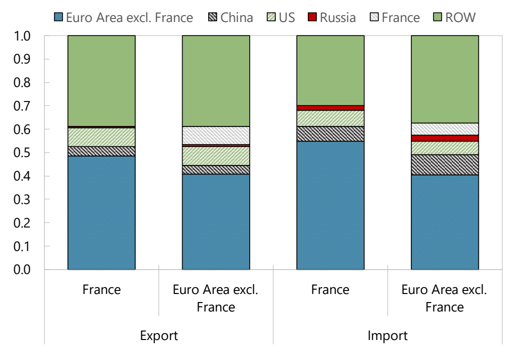
reviews, the authorities should assess scope for rationalizing existing tax expenditure for R&D and innovation by focusing on the highest impact schemes.

Navigating Geoeconomic Fragmentation and Advancing the Single Market

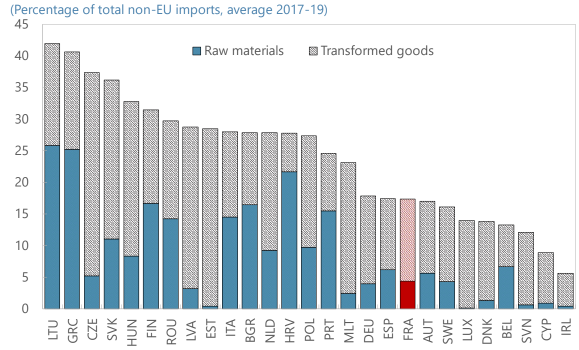
36. Deepening geoeconomic fragmentation poses additional challenges to France's growth outlook. France can count on a well-diversified economy, as its more marked fall in manufacturing as a share of GDP compared to EU peers over the last decades has been balanced by dynamism in the services sector, more recently also in terms of exports.[12] Moreover, it is relatively less dependent than most EU peers on imports of critical intermediate goods from geopolitically distant countries. Nevertheless, it remains exposed directly and through key trading partners to the risk of supply disruptions as well as to technological and payments systems fragmentation from geopolitical tensions and the resulting reconfiguration of global trade and investment (Annex V).

France: Exposure to Geoeconomic Fragmentation

Export and Import Shares by Trading Partners
(Percent of GDP)



Fragile Intermediate Good Imports from Geo-politically Distanced Countries
(Percentage of total non-EU imports, average 2017-19)



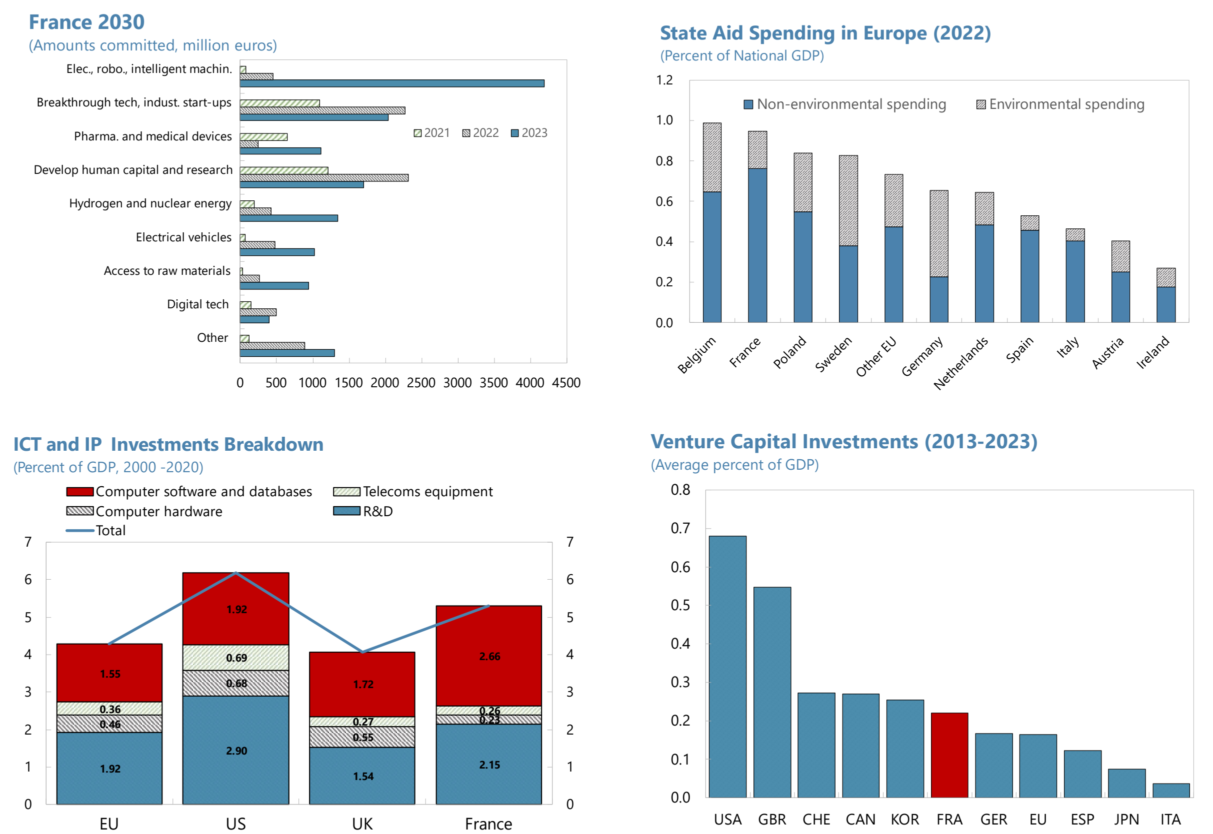
Sources: IMF Direction of Trade Statistics, IMF WP 23/245, CEPII-BACI bilateral trade data, and IMF staff estimates.
Note: CEPII- BACI database provides data on bilateral trade flows at the product level between 200 countries. For more details on categorization of intermediate goods as fragile, please refer to IMF WP 23/245.

37. Against this backdrop, the French authorities have stepped up efforts to support critical industries and economic activities, in line with policies adopted at the EU level. As of 2022, France's state aid spending accounted for nearly 1 percent of GDP (including subsidies, tax expenditure and non-financial instruments). Past policies have focused on reducing record-high levels of taxation on production (i.e., the *Crédit d'impôt pour la compétitivité et l'emploi*) and supporting innovation and R&D through a reform of tax credits. More recently, in coordination with initiatives at the EU level, the recovery plan *France Relance* devoted about €30 billion (including €9 billion from the NGEU for digital transformation) to support firms' exports, investment, and digital transformation. Since 2021, *France 2030* national investment plan has added another €54 billion over five years for the strategic development of critical technologies and for the green and digital transformation. Nevertheless, while higher than in other European countries, R&D and ICT investment by French firms still lags the United States.[13] Similarly, and despite these important

[12] See also Banque de France.
[13] See Arnold et al. (2024), "Stepping up Venture Capital to Finance Innovation in Europe", IMF Working Paper (forthcoming).

public investment efforts, venture capital investment in France remains limited, especially when compared to the United States.

France and Rest of Europe: Investment, State Aid Spending and Venture Capital



Sources: Eurostat, European Commission Scoreboard, French authorities, OECD, PitchBook, IMF WEO April 2024 database, and IMF staff estimates.

38. The authorities' plans to address France's structural growth challenges should continue to safeguard and deepen the European single market. Fostering an innovative domestic industry and rising to the challenge of the climate transition, while remaining committed to multilateralism and to fiscal discipline is a complex balancing act.[14] Nevertheless, these objectives have key complementarities that France should continue to exploit and support. Deepening the European single market by simplifying cross-border services and recognizing qualifications across member states would foster competition, lower costs, and enhance economic resilience. Renewed efforts at the EU and Member States level to deepen Europe's capital market integration and harmonize taxes and subsidies across countries are welcome. This would encourage cross-border access to finance and infrastructure investment, including in green technologies, and help preserve fiscal space. Industrial policies to support critical industries should be pursued cautiously and coordinated closely at the EU level. Limiting state intervention to address market failures and

[14] See Jean Pisani-Ferry and Selma Mahfouz. 2023. The Economic Implications of Climate Action. November 2023.

maintaining a level-playing field across firms and sectors, in a non-discriminatory manner against trading partners, would support firms while driving innovation, productivity, and growth.[15]

Authorities' Views

39. The authorities emphasized the criticality of further supporting jobs and reindustrialization, in the context of the green and digital transitions, to lift potential growth. They welcomed staff's climate deep dive, highlighting France's commitment to meet key mitigation targets. They shared staff's views on the need to complement ongoing subsidies programs with further measures, while mitigating their distributional impact and operational complexity. They highlighted the success of recent labor policies in boosting activity rates and reducing unemployment, pointing to renewed efforts to integrate and requalify workers. As staff, they saw important opportunities from integrating even more women in the labor force through ongoing initiatives to revamp parental leave, while improving childcare offer and further promoting STEM fields in education. They pointed to renewed dynamism in the French industry, supported by ongoing efforts to reduce France's high tax burden, deregulate, and foster competition. They stressed the critical role played by new industrial policies under France 2030 to support riskier projects and facilitate the green and digital transition. They agreed with staff on the crucial importance of coordinating actions at the EU level, including by strengthening the capital market union.

D. Voluntary Assessment of Transnational Aspects of Corruption[16]

40. France continues its efforts to fight significant risks of foreign bribery.[17] In the 2024 Follow-up Report, the OECD Working Group on Bribery (WGB) welcomed notable progress made by France in enforcing the foreign bribery offence and its further legislative efforts which have preserved the major overhaul of France's institutional and legislative framework in combating foreign bribery noted in 2021. However, the authorities should continue to address the recommendations of the OECD 2021 Phase 4 evaluation, including pursuing the efforts made to resolve resource issues affecting various components of the criminal justice system, clarifying the corporate criminal liability framework for foreign bribery, and reinforcing the guarantees of the independence of the Public Prosecutor's Office (see Annex VIII).

41. France should continue strengthening efforts to tackle illicit flows stemming from foreign bribery. Both the OECD and the Financial Action Task Force (FATF) have recently assessed

[15] See also Industrial Policy Coverage in IMF Surveillance.

[16] France volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance for purposes of determining whether it: (a) criminalizes and prosecutes the bribery of foreign public officials; and (b) has an effective AML/CFT system that is designed to prevent foreign officials from concealing the proceeds of corruption. See Annex VIII for a detailed analysis.

[17] Key risk factors include the size of the economy, scale of outward FDI and exports, and the number of large groups and multinational companies operating in high-risk sectors (e.g. aerospace, manufacturing, extractive and strategic arms sector). Out of the 500 largest multinational enterprises (MNE) in the world, 18 are headquartered in France, with some operating in high-risk sectors and jurisdictions, according to the OECD- UNSD Multinational Enterprise Information Platform.

France's ability to pursue money laundering cases linked to corruption. In the most recent evaluation of France's anti-money laundering and combatting the financing of terrorism (AML/CFT) framework and its effectiveness, the FATF considered that investigations and prosecutions related to the laundering of proceeds of corruption did not entirely align with the country's risk profile. Despite the fact that the National Risk Assessment (NRA) identified violations of integrity as a concern for France, only 1.5% of initiated money laundering investigations are related to the proceeds of corruption. Although France was recognized as being broadly aware of money laundering and terrorism risks, France was considered to be less cognizant of some important risks, such as those related to corruption. However, following the mutual evaluation, in 2023, France published an updated NRA with specific analysis on corruption threats. France also has been building the capacity of law enforcement bodies responsible for financial crime by increasing specialized resources. France should continue improving understanding of money laundering threats posed by corruption offenses and enhancing the ability of criminal justice bodies to pursue money laundering investigations and prosecutions linked to corruption (including the proceeds of foreign bribery).

STAFF APPRAISAL

42. Despite a recovery slowdown in 2023, the French economy has remained relatively resilient in the face of financial tightening and weaker euro area external demand. The economic recovery is expected to gradually take hold in 2025, with real GDP growth gradually reaching 1.3 percent from 0.9 percent in 2024, while the disinflationary process remains on track. The external position in 2023 was assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies. Nevertheless, the crisis response and slower-than-expected recovery have weighed on public finances, with a sizable fiscal underperformance in 2023, reducing fiscal space at a time of rising investment needs for the green and digital transformation. Labor market performance has remained robust, although labor productivity remains below its pre-COVID trend. Against this backdrop, the French authorities have appropriately shifted their focus towards rebuilding fiscal buffers and achieving a sustainable modernization of the economy.

43. The authorities should identify a well-specified and credible package of measures following the elections to underpin their fiscal consolidation plans. The fiscal consolidation goal under France's Stability Program of bringing the deficit below 3 percent of GDP by 2027 remains appropriate to set debt firmly on a downward trajectory. Nevertheless, while the reforms of the pension and unemployment benefit systems have started to yield results, substantial additional efforts will be needed to achieve this goal, while making space for targeted growth-enhancing spending. In parallel, as monetary policy eases, it can also help mitigate the contractionary impact of fiscal tightening. While France's overall risk of sovereign debt distress remains low, the future evolution of public finances remains exposed to an increase in sovereign interest spreads and volatility or a reduction in growth, which would compound already existing long-term fiscal pressures from the green and demographic transitions. The recommended adjustment would help improve debt dynamics and strengthen France's resilience to shocks, while rebuilding adequate fiscal buffers to meet new spending demands. The reduction in fiscal risks would also gradually reduce the additional fiscal effort required beyond 2027. Building on recent reforms and ongoing spending reviews, fiscal consolidation should remain focused on rationalizing current spending, while preserving room for growth-friendly investment, including on the green and digital transition.

44. The authorities' proactive efforts to strengthen financial stability have helped support the resilience of the French banking system and mitigate systemic risks. The French banking system has remained resilient, with adequate capital and liquidity buffers, notwithstanding a compression in net interest margins. Despite a marked credit slowdown, the preponderance of fixed-rate loans has shielded the non-financial corporate and housing mortgage segments from the impact of tighter financial conditions. Prudent lending standards are supporting an orderly adjustment of the housing market, and the higher countercyclical buffer and the systemic risk buffer against highly indebted firms further mitigate risks to financial stability. Although banks' direct exposures to the commercial real estate market are limited, vulnerabilities in real estate investment funds warrant continued close monitoring. French banks should continue to mitigate climate transition risks by integrating them into their governance, strategy, and risk management processes.

45. The authorities should continue to advance the structural reform agenda, supporting jobs and raising productivity, amid ongoing economic transitions. Recent labor programs and reforms have successfully helped increase employment above its pre-pandemic trend. Ongoing efforts to integrate and requalify workers and further unemployment benefit reforms can promote longer and less fragmented careers, while retaining adequate coverage against unemployment risk and protecting the vulnerable. Education and training reforms are also critical to prepare workers for the green and digital transformations. Plans to revamp parental leave, while supporting provision of childcare facilities, and to promote greater school enrollment in STEM fields could further boost labor force participation by women.

46. France has made significant progress towards reducing greenhouse gas emissions, although further efforts are still needed to meet key mitigation targets. France is playing a leadership role in global mitigation, with France's own emissions declining by 23 percent since 2005. France 2030 and the green transition plan identify new measures to meet key emission-reduction targets, including in the most polluting sectors with higher abatement costs. Ongoing spending efforts to accelerate the green transformation, while mitigating its costs and dislocations, can be complemented by other revenue-neutral schemes and higher carbon pricing, whose revenue can be recycled to minimize distributional impacts. Over the medium term, new charges for road transportation could also be considered to maintain an adequate coverage of road transport externalities, while helping offset declining fuel tax revenue and integrating equity and environmental considerations.

47. The French authorities' plans to address France's structural growth challenges, amid rising geoeconomic fragmentation, should continue to safeguard and deepen the single market. France should continue to foster an innovative domestic industry and rise to the challenge of the climate transition, while remaining committed to multilateralism and fiscal discipline. Ongoing efforts to further reduce regulatory burden and barriers to entry to support productivity and business dynamism could be complemented by a review of existing tax expenditure for R&D and innovation to focus on the highest impact schemes. Deepening the European single market by simplifying cross-border services and recognizing qualifications across member states would foster competition, lower costs, and enhance economic resilience. Renewed efforts at the EU and Member States level to deepen Europe's capital market integration would encourage cross-border access to finance and infrastructure investment, including in green technologies, and help preserve fiscal space. Industrial policies to support critical industries should be pursued cautiously and coordinated closely at the EU level.

48. It is proposed that the next Article IV consultation takes place on the standard 12-month cycle.

Table 1. France: Selected Economic Indicators, 2019-29
(In percent of GDP, unless otherwise indicated)

						Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Real economy (change in percent)											
Real GDP	2.1	-7.6	6.8	2.6	1.1	0.9	1.3	1.5	1.5	1.4	1.3
Domestic demand	2.0	-6.3	6.0	2.9	0.6	0.3	1.2	1.2	1.2	1.2	1.1
Private consumption	1.7	-6.5	5.3	3.2	0.9	1.2	1.5	1.6	1.6	1.5	1.3
Public consumption	1.1	-4.3	6.6	2.6	0.8	1.2	0.7	0.5	0.5	0.7	0.7
Gross fixed investment	4.2	-6.2	9.6	0.1	0.8	-1.1	0.6	1.3	1.2	1.1	1.1
Foreign balance (contr. to GDP growth)	0.0	-1.3	0.7	-0.3	0.5	0.6	0.1	0.3	0.2	0.2	0.2
Exports of goods and services	2.2	-16.8	11.1	8.3	2.5	3.1	3.0	3.5	3.4	3.3	3.1
Imports of goods and services	2.1	-12.6	8.0	9.1	0.7	1.2	2.8	2.5	2.7	2.7	2.6
Nominal GDP (billions of euros)	2,432	2,318	2,508	2,655	2,822	2,922	3,018	3,125	3,227	3,332	3,432
CPI (year average)	1.3	0.5	2.1	5.9	5.7	2.3	1.8	1.8	1.8	1.8	1.7
GDP deflator	1.2	3.1	1.3	3.2	5.1	2.6	2.0	1.9	1.8	1.8	1.7
Gross national savings (percent of GDP)	23.5	21.2	23.8	23.8	24.2	22.0	21.6	21.5	21.4	21.5	21.6
Gross domestic investment (percent of GDP)	23.0	22.8	23.4	25.8	24.9	22.3	22.1	21.9	21.9	21.8	21.7
Public finance (percent of GDP)											
General government balance	-2.4	-8.9	-6.6	-4.7	-5.5	-5.2	-5.0	-4.6	-4.5	-4.4	-4.3
Revenue	53.0	52.8	52.9	53.7	51.5	51.4	51.4	51.4	51.3	51.3	51.3
Expenditure	55.3	61.7	59.5	58.4	57.0	56.7	56.4	56.0	55.8	55.7	55.6
Primary balance	-0.9	-7.7	-5.2	-2.9	-3.7	-3.4	-3.0	-2.4	-2.0	-1.7	-1.5
Structural balance (percent of pot. GDP)	-1.4	-5.9	-5.1	-4.1	-4.9	-4.8	-4.6	-4.3	-4.3	-4.3	-4.3
Nominal expenditure (change in percent)	1.4	6.3	4.3	4.0	3.7	3.0	2.8	2.7	3.0	3.0	2.9
Real expenditure (change in percent)	0.1	5.7	2.2	-1.8	-1.8	0.6	1.0	0.9	1.2	1.2	1.2
General government gross debt	97.6	114.6	112.6	111.1	109.9	111.3	112.8	113.5	114.4	115.2	116.2
Labor market (percent change)											
Employment	0.3	-0.4	1.8	2.0	-0.1	0.1	0.4	0.2	0.2	0.2	0.2
Labor force	-0.3	-0.8	1.6	1.4	0.0	0.1	0.0	0.0	0.1	0.1	0.1
Unemployment rate (percent)	8.4	8.0	7.9	7.3	7.4	7.4	7.0	6.9	6.8	6.7	6.7
Credit and interest rates (percent)											
Growth of credit to the private non-financial sector	5.3	7.1	4.5	5.7	3.6	0.9	1.8	3.0	2.8	2.8	2.6
Money market rate (Euro area)	-0.5	-0.5	-0.5	0.1	3.3	...	...	...	...	...	...
Government bond yield, 10-year	0.1	-0.1	0.0	1.7	3.0	...	...	...	...	...	...
Balance of payments (percent of GDP)											
Current account	0.5	-1.6	0.4	-2.0	-0.7	-0.3	-0.5	-0.4	-0.4	-0.2	-0.1
Trade balance of goods and services	-0.9	-1.8	-1.3	-3.2	-1.6	-0.6	-0.7	-0.5	-0.5	-0.3	-0.2
Exports of goods and services	32.8	28.4	31.2	36.3	34.5	34.1	33.8	33.3	33.2	33.4	33.9
Imports of goods and services	-33.6	-30.2	-32.5	-39.5	-36.0	-34.7	-34.5	-33.9	-33.8	-33.8	-34.1
FDI (net)	1.1	0.4	0.5	0.4	1.5	1.3	1.2	1.2	1.2	1.2	1.2
Official reserves (US$ billion)	69.7	76.1	101.7	100.4	79.2	...	...	...	...	...	...
Exchange rates											
Euro per U.S. dollar, period average	0.89	0.88	0.82	0.95	0.92	...	...	...	...	...	...
NEER, ULC-styled (2010=100, +=appreciation)	97.1	97.4	97.8	95.9	97.0	...	...	...	...	...	...
REER, ULC-based (2010=100, +=appreciation)	87.2	86.8	92.8	93.3	97.1	...	...	...	...	...	...
Potential output and output gap											
Potential output (change in percent)	1.2	-3.2	4.2	1.4	1.2	0.7	1.2	1.4	1.3	1.3	1.3
Memo: per working age person	1.4	-3.1	4.5	1.4	1.2	0.7	1.2	1.4	1.3	1.2	1.2
Output gap	0.0	-4.5	-2.1	-0.9	-0.9	-0.7	-0.6	-0.5	-0.3	-0.2	-0.1

Sources: Haver Analytics, INSEE, Banque de France, and IMF Staff calculations.

Table 2. France: General Government Operations, 2019-29
(In percent of GDP, unless otherwise indicated)

				Est.				Proj.			
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	53.0	52.8	52.9	53.7	51.5	51.4	51.4	51.4	51.3	51.3	51.3
Taxes	30.4	30.3	30.0	30.7	29.0	28.9	29.0	29.0	29.0	29.0	29.0
Direct taxes	13.1	13.2	12.9	13.5	12.7	12.6	12.6	12.6	12.6	12.6	12.6
Indirect taxes	17.3	17.1	17.1	17.2	16.3	16.3	16.4	16.4	16.4	16.4	16.4
Social contributions	16.7	16.9	16.7	16.7	16.4	16.3	16.3	16.2	16.2	16.2	16.2
Other revenue	5.9	5.6	6.2	6.3	6.2	6.2	6.1	6.1	6.1	6.1	6.1
Expenditure	55.3	61.7	59.5	58.4	57.0	56.7	56.4	56.0	55.8	55.7	55.6
Expense	55.0	61.4	59.1	58.1	56.7	56.3	56.1	55.6	55.5	55.4	55.3
Compensation of employees	12.4	13.3	12.6	12.5	12.3	12.3	12.3	12.1	12.0	12.0	12.0
Goods and services	5.2	5.5	5.4	5.5	5.5	5.3	5.3	5.3	5.2	5.2	5.2
Interest	1.5	1.3	1.4	1.9	1.9	1.9	2.1	2.4	2.6	2.8	2.9
Social benefits	25.5	28.8	27.1	25.9	25.2	25.4	25.0	24.8	24.6	24.5	24.4
Other expense	10.4	12.5	12.6	12.3	11.9	11.4	11.3	11.1	11.0	10.9	10.8
Gross public investment	4.2	4.2	4.1	4.2	4.3	4.2	4.2	4.1	4.1	4.1	4.1
Net acquisition of nonfinancial assets	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net lending / borrowing	-2.4	-8.9	-6.6	-4.7	-5.5	-5.2	-5.0	-4.6	-4.5	-4.4	-4.3
Primary balance	-0.9	-7.7	-5.2	-2.9	-3.7	-3.4	-3.0	-2.4	-2.0	-1.7	-1.5
Memorandum items:											
Structural balance (percent of potential GDP)	-1.4	-5.9	-5.1	-4.1	-4.9	-4.8	-4.6	-4.3	-4.3	-4.3	-4.3
Structural primary balance (percent of potential GDP	0.0	-4.7	-3.8	-2.3	-3.1	-3.0	-2.6	-2.1	-1.8	-1.6	-1.5
Change in structural primary balance	*-0.1*	*-4.8*	*0.9*	*1.5*	*-0.9*	*0.1*	*0.4*	*0.6*	*0.3*	*0.2*	*0.2*
Public gross debt (Maastricht definition)	97.6	114.6	112.6	111.1	109.9	111.3	112.8	113.5	114.4	115.2	116.2
Nominal GDP (in billion of Euros)	2,432	2,318	2,508	2,655	2,822	2,922	3,018	3,125	3,227	3,332	3,432
Real GDP growth (in percent)	2.1	-7.6	6.8	2.6	1.1	0.9	1.3	1.5	1.5	1.4	1.3
Nominal expenditure growth	1.4	6.3	4.3	4.0	3.7	3.0	2.8	2.7	3.0	3.0	2.9
Real expenditure growth (in percent)	0.1	5.7	2.2	-1.8	-1.8	0.6	1.0	0.9	1.2	1.2	1.2
of which: primary	0.5	6.4	1.9	-2.8	-1.8	0.5	0.5	0.5	0.6	0.9	0.9
of which: structural primary	0.6	5.7	2.2	-2.6	-1.8	0.5	0.5	0.5	0.7	0.9	0.9

Sources: Haver Analytics, INSEE, Banque de France, and IMF Staff calculations.

Table 3. France: Balance of Payments, 2019-29
(In percent of GDP)

						Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Current account	0.5	-1.6	0.4	-2.0	-0.7	-0.3	-0.5	-0.4	-0.4	-0.2	-0.1
Net exports of goods	-1.9	-2.5	-2.7	-5.2	-2.9	-1.9	-2.0	-1.7	-1.5	-1.3	-1.2
Exports of goods	21.9	19.1	21.0	24.0	22.7	22.5	22.4	22.2	22.2	22.3	22.6
Imports of goods	23.8	21.6	23.7	29.1	25.5	24.4	24.5	23.9	23.7	23.6	23.8
Net exports of services	1.1	0.7	1.4	2.0	1.3	1.3	1.3	1.1	1.0	1.0	1.0
Exports of services	10.9	9.3	10.3	12.3	11.8	11.6	11.3	11.1	11.1	11.1	11.3
Imports of services	9.8	8.6	8.9	10.4	10.5	10.3	10.0	10.0	10.1	10.1	10.2
Income balance	3.2	2.1	3.3	2.9	2.4	2.1	2.1	2.1	2.1	2.1	2.1
Current transfers	-1.8	-1.9	-1.6	-1.7	-1.6	-1.8	-1.9	-2.0	-2.0	-2.0	-2.0
Capital and financial account											
Capital account	0.1	0.1	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Financial account	0.0	-2.1	0.2	-2.2	-1.9	0.0	-0.3	-0.2	-0.2	0.0	0.1
Direct investment	1.1	0.4	0.5	0.4	1.5	1.3	1.2	1.2	1.2	1.2	1.2
Portfolio investment	-2.6	-1.1	0.5	-4.5	-4.9	-1.1	-0.4	0.2	0.4	0.7	0.9
Financial derivatives	0.2	-1.0	0.7	-1.5	-0.6	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2
Other investments net	1.2	-0.5	-2.4	3.4	2.8	0.4	-0.8	-1.4	-1.6	-1.8	-1.9
Reserve assets	0.1	0.2	0.9	0.1	-0.7	-0.3	0.0	0.1	0.1	0.1	0.2
Errors and omissions	-0.6	-0.6	-0.6	-0.5	-1.4	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Haver Analytics, Banque de France, and IMF Staff calculations.

Table 4. France: Depository Corporations Survey, 2019-23

	2019	2020	2021	2022	2023
	In billions of euros, end of period				
Net foreign assets	438	481	425	347	518
Claims on Nonresidents	2780	2943	3133	3311	3576
Central Bank	389	469	513	480	463
Other Depository Corporations	2391	2475	2619	2831	3113
Liabilities to Nonresidents (-)	2342	2462	2707	2964	3058
Central Bank (-)	168	196	244	191	188
Other Depository Corporations (-)	2174	2267	2463	2772	2870
Net domestic assets	3396	3808	3979	4169	4212
Net Claims on Central Government	484	583	719	799	832
Claims on State and Local Government	213	240	234	246	263
Claims on NBFIs	643	648	615	637	630
Financial Derivatives	172	208	174	160	135
Claims on Private Sector	2600	2907	3028	3166	3181
Corporates	1236	1467	1508	1581	1602
Households	1364	1440	1519	1585	1580
Capital and Reserves (-)	686	723	761	925	925
Other Items, Net (-, including discrepancy)	-142	-153	-145	-245	-231
Broad Money	2447	2886	3025	3109	3149
Currency in Circulation	236	263	284	289	286
Transferable Deposits	1082	1356	1483	1410	1230
Other Deposits	1072	1216	1219	1359	1578
Securities	57	50	39	50	55
Other Liabilities	1387	1403	1380	1407	1580
Financial Derivatives	171	211	180	168	144
	(Annual percentage change)				
Net foreign assets	-20.3	9.9	-11.6	-18.4	49.3
Net domestic assets	23.6	12.1	4.5	4.8	1.0
Claims on private sector	27.9	11.8	4.2	4.6	0.5
Corporates	34.3	18.7	2.8	4.8	1.3
Households	22.6	5.5	5.5	4.3	-0.4
Broad Money	32.5	17.9	4.8	2.8	1.3
	(In millions of U.S. dollars, end of period)				
Net foreign assets	486	585	481	367	565
Net domestic assets	3774	4634	4498	4414	4592
Claims on private sector	2890	3538	3423	3352	3468
Corporates	1374	1786	1705	1674	1746
Households	1516	1752	1717	1679	1722
Memorandum items					
Velocity (GDP/Broad Money)	1.0	0.8	0.8	0.8	0.9
Euro per U.S. dollar (end of period)	0.9	0.8	0.9	0.9	0.9

Sources: International Financial Statistics and IMF Staff.

Table 5. France: Vulnerability Indicators, 2015-2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023
External Indicators									
Exports (annual percentage change, in U.S. dollars)	-10.4	0.3	6.8	10.0	-2.7	-15.9	23.6	9.5	3.6
Imports (annual percentage change, in U.S. dollars)	-11.6	0.8	8.1	10.5	-3.4	-12.8	20.9	14.5	-0.5
Terms of trade (annual percentage change)	3.2	0.9	-1.2	-1.1	0.8	1.2	-0.7	-3.0	-0.1
Current account balance	-0.4	-0.5	-0.8	-0.8	0.5	-1.6	0.4	-2.0	-0.7
Capital and financial account balance	-0.1	-0.7	-1.4	-0.9	0.1	-2.0	0.6	-1.8	-1.7
Of which									
Inward portfolio investment (debt securities, etc.)	0.2	1.6	1.2	0.6	5.4	7.2	4.1	5.6	10.9
Inward foreign direct investment	1.8	1.3	1.4	2.8	2.0	0.7	3.2	3.8	-0.1
Other investment (net)	-3.0	-1.8	-2.8	-3.2	1.2	-0.5	-2.4	3.4	2.8
Total reserves minus gold									
(in billions of U.S. dollars, end-of-period)	55.2	56.1	54.8	66.1	69.7	76.1	101.7	100.4	79.2
Euros per U.S. dollar (period average)	0.9	0.9	0.9	0.8	0.9	0.9	0.8	0.9	0.9
Market Indicators									
Financial Markets									
Public sector debt 1/	95.5	98.1	98.4	98.1	97.6	114.6	112.6	111.1	109.9
3-month T-bill yield (percentage points)	-0.2	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	0.0	3.3
3-month T-bill yield in real terms (percentage points)	-0.2	-0.7	-1.7	-2.5	-1.7	-1.1	-2.3	-5.2	-1.6
US 3 month T-bill	0.1	0.3	0.9	1.9	2.1	0.4	0.0	2.0	5.1
Spread with the US T-bill (percentage points)	-0.3	-0.9	-1.6	-2.6	-2.6	-0.9	-0.7	-2.0	-1.8
10-year government bond (percentage points)	0.8	0.5	0.8	0.8	0.1	-0.1	0.0	1.7	3.0
10-year government bond (United States)	2.1	1.8	2.3	2.9	2.1	0.9	1.4	3.0	4.0
Spread with US bond (percentage points)	-1.3	-1.4	-1.5	-2.1	-2.0	-1.0	-1.4	-1.3	-1.0
Yield curve (10 year - 3 month, percentage points)	1.0	1.0	1.5	1.4	0.7	0.4	0.7	1.7	-0.3
Stock market index (period average, 1995=100)	216.2	218.6	221.7	224.0	227.3	229.5	230.4	231.7	231.3
Real estate prices (index, Q1-10=100, period average)	100.0	100.9	104.0	107.2	110.7	116.8	124.6	132.5	131.6
Credit markets (end-of-period 12-month growth rates)									
Credit to the private sector	2.5	4.3	4.6	6.3	5.3	8.5	3.8	5.8	-0.4
Bank credit to households	3.3	3.3	5.6	5.3	6.0	4.7	5.3	4.9	1.0
Housing Loans	4.0	3.5	6.1	5.8	6.8	5.5	6.4	5.5	1.1
Bank credit to nonfinancial enterprises	4.3	4.3	5.8	5.7	4.2	13.0	3.5	7.3	1.4
Sectoral risk indicators									
Household sector									
Household savings ratio	14.0	13.9	14.0	13.9	14.6	20.5	19.1	16.9	16.9
Household financial savings ratio	4.8	4.5	4.2	4.3	4.6	11.2	7.8	6.1	6.8
Corporate sector									
Gross margin ratio	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Investment ratio	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Savings ratio	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Self-financing ratio	1.0	1.0	1.0	0.9	1.0	0.9	1.1	0.9	0.9
Banking sector									
Share of housing loans in bank credit to the private sectc	41.6	41.8	42.4	42.4	42.7	42.2	43.4	42.9	42.9
Share of nonperforming loans in total loans	4.0	3.7	3.1	2.7	2.5	2.7	2.4	2.3	2.1
Ratio of nonperforming loans net of provisions to	18.0	16.2	15.0	13.6	12.2	11.9	10.3	10.4	11.5
Liquid assets to total short-term liabilities 2/	17.5	20.2	20.7	19.3	20.1	26.0	27.0	23.5	24.3
Return on assets	0.6	0.5	0.4	0.4	0.4	0.2	0.5	0.3	0.5
Return on equity	9.2	8.4	6.3	6.7	6.4	3.9	7.5	6.1	5.9
Regulatory capital to risk-weighted assets	17.1	18.3	18.9	18.8	19.6	19.9	20.4	19.7	19.5

Sources: French authorities, INSEE, BdF, ECB, Haver, and IMF International Financial Statistics.

1/ The debt figure does not include guarantees on non-general government debt.

2/ Data is based on new methodology which is not comparable to older figures before 2014.

Table 6. France: Core Financial Soundness Indicators, 2015-2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Deposit-taking institutions 1/									
Regulatory capital to risk-weighted assets 2/	17.1	18.3	18.9	18.8	19.6	19.9	20.4	19.4	19.5
Regulatory Tier I capital to risk-weighted assets 2/	13.8	15.1	15.4	15.6	16.0	17.1	16.9	16.8	17.2
Nonperforming loans net of provisions to capital	18.0	16.2	15.0	13.6	12.2	11.9	10.3	11.0	11.5
Bank provisions to Nonperforming loans	50.6	51.0	50.6	50.4	49.9	48.7	49.2	46.5	45.0
Nonperforming loans to total gross loans	4.0	3.7	3.1	2.7	2.5	2.7	2.4	2.1	2.1
Sectoral distribution of loans to total loans, of which									
Deposit-takers	3.4	3.0	3.0	3.0	3.5	3.5	3.4	3.2	4.9
Nonfinancial corporation	15.1	15.3	16.3	16.1	16.4	16.6	20.0	21.7	20.6
Households (including individual firms)	28.4	29.3	25.8	25.7	25.9	24.2	30.1	29.6	28.3
Nonresidents (including financial sectors)	40.5	38.8	37.4	38.5	37.9	34.8	38.5	36.5	37.2
ROA (aggregated data on a parent-company basis) 3/ 4/	0.4	0.4	0.4	0.4	0.4	0.3	0.5	0.5	0.5
ROA (main groups on a consolidated basis) 2/ 4/	0.6	0.5	0.4	0.4	0.4	0.2	0.5	0.5	0.5
ROE (aggregated data on a parent-company basis) 3/ 4/	6.8	6.5	6.4	6.5	6.0	4.1	7.1	6.2	5.9
ROE (main groups on a consolidated basis) 2/ 4/	9.2	8.4	6.3	6.7	6.4	3.9	7.5	6.4	6.2
Interest margin to gross income	32.9	37.8	36.2	36.0	37.1	38.8	35.6	36.4	32.9
Noninterest expenses to gross income	75.2	71.5	74.2	76.2	73.3	70.4	67.5	63.6	67.1
Liquid assets to total assets	0.0	13.0	13.9	13.7	14.1	18.0	18.5	17.4	16.9
Liquid assets to short-term liabilities	17.5	20.2	20.7	19.3	20.1	26.0	27.0	23.8	24.3

Sources: Banque de France, ACPR

1/ These may be grouped in different peer groups based on control, business lines, or group structure.

2/ Consolidated data for the five banking groups (IFRS).

3/ All credit institutions' aggregated data on a parent-company basis.

4/ ROA and ROE ratios are calculated after taxes (same calculation as the ECB consolidated data ratios).

Annex I. Authorities' Response to Past Fund Policy Advice

IMF 2022 Article IV Recommendations	Authorities' Response
Fiscal Policy	
Begin to normalize the fiscal stance in 2023 through a structural effort of ¾ ppt of GDP relative to staff's baseline.	The fiscal stance was expansionary in 2023, significantly above budgetary plans.
Better target energy support and accelerate the phase out of energy price controls.	The tariff shield for gas ended in July 2023 and regulated electricity prices have increased, nearly closing the gap vis-à-vis market prices.
Sustain a steady, expenditure-led consolidation, consistent with reaching France's medium-term objective (MTO).	The 2024-27 Stability Program targets a deficit of 2.9 percent of GDP by 2027, but key measures are yet to be specified.
Financial Policy	
Banking supervision to remain vigilant against possible negative effects of increased credit risk from vulnerable corporates.	In August 2023, the HCSF introduced a 3-percent sector-specific systemic risk buffer for exposures above 5 percent of capital to heavily indebted large French companies.
Support the authorities' plans to further tighten the counter-cyclical bank capital buffer (CCyB) to a rate above pre-pandemic levels.	In December 2022, the HCSF raised the CCyB to 1 percent. The requirement took effect on January 2, 2024.
Structural Policy	
Ensure smooth transition of apprentices into permanent work, while addressing skills shortages and inferior educational outcomes.	In November 2023, the law on full employment was approved to provide more effective employment support through "France Travail".
Continue structural reforms in pensions, unemployment, and product and services markets.	In 2023, the authorities approved and started implementing the pension and unemployment insurance benefit reforms.
Accelerate green transition through energy conservation and faster switch to renewable energy.	The authorities are implementing the five-year budget under the National Low-Carbon Strategy.

Annex II. 2019 Key FSAP Recommendations—Implementation Status

Recommendations	Agency	Timing*	Implementation Status D—Done / LD—Largely Done / PD—Partly Done / NA—No Action
			Preemptive Management of Systemic Vulnerabilities
Engage with ECB and other EU agencies on use of Pillar II measures to address bank-specific residual risk from concentration of exposures to large, indebted corporates.	ACPR	I	D The ECB has published on its website further explanation with the 'guide on leveraged transactions' dated May 2017. In addition, bank-specific letters were sent to the most exposed banks (of which 4 French groups). Banks were required to provide detailed information on their risk appetite framework and how it is operationalized. The answers to the letters were analyzed by the SSM and fed to the SREP analysis. In France, the macroprudential authority, *Haut Conseil à la Stabilité Financière* (HCSF), has replaced the measure art. 458 "Large exposure" with a sectoral systemic risk buffer (sSyRB) of 3% on the exposures of French banks to large, heavily indebted corporates (see press release published on July 31st).
Develop analytical framework for borrower-based measures for corporates. Consider a sectoral Systemic Risk Buffer (SRB) if risks intensify.	HCSF	NT	On July 28th, 2023, the French macroprudential authority introduced a sectoral systemic risk buffer of 3% on the exposures of French banks to large, heavily indebted corporates (see press release published on July 31st).
Evaluate options to further incentivize corporates to finance through equity rather than debt.	MoF	NT	NA
			Ensuring Adequate Liquidity Management and Buffers
Develop with the ECB options to manage any disruptions in wholesale funding markets. Consider, as appropriate, liquidity buffers to cover at least 50 percent of wholesale funding outflows over/up to five days horizon for all major currencies.	ACPR, ECB	NT	PD Banks currently maintain a significant liquidity buffer, above the 100% usual threshold for LCR and NSFR introduced as a prudential requirement in June 2021. Within the framework of the SREP analysis in 2022, the ECB judged that liquidity risks were not particularly high and liquidity risk management frameworks globally adequate. Currently, there is no need to add or change liquidity buffer requirements. However – in the context of higher rates environment – the monitoring of liquidity risk will be reinforced through dedicated initiatives to monitor the effects of termination of extraordinary monetary policy actions (TLTRO reimbursement notably) and the impacts of higher funding prices.
Actively engage with the ESRB and others for a speedy development of liquidity and leverage related tools for insurers and investment funds.	BdF, HCSF, ACPR, AMF	NT	PD The revision of the AIFM Directive will strengthen the rules on liquidity management for open-ended funds, broadening the range of tools available and requiring managers to choose at least two of them. In addition, article 25 of the AIFM directive provides the market authority with the capacity of imposing a limit on leverage in response to macroprudential concerns. Regarding insurers, the review of Directive 2009/138/EC enhances liquidity monitoring and supervision through the introduction of a *liquidity risk management plan*. It also introduces the power for public authorities to suspend redemptions in the event of a liquidity crisis. The Banque de France and the AMF closely monitor developments in liquidity and leverage risks in the fund sector. They contribute to the discussions on the topic at the HCSF and regularly publish their analyses in the financial stability review or in the markets and risk outlook. The Banque de France and the AMF are also actively involved in developing a macroprudential approach for investment funds through their participation in several European and international fora. The AMF recently published a position paper on this topic, co-signed with the Spanish, Italian and Austrian regulators) The Banque de France contributes to several workstreams within the Eurosystem (where it co-chairs a high-level task force). Both the Banque de France and the AMF participate in workstreams at the FSB (open-ended funds), and the ESRB (Policy task force, Non-bank expert group, Non-bank monitoring expert group, etc.). Regarding investment and money market funds, the French Treasury is involved in the FSB Working Group on OEFs and has participated in MMF Peer review. It is a member of the FSB Standing Committee on Supervisory and Regulatory Cooperation. It is also a member of the Expert Group on Banking, Payments and Insurance of the European Commission
			Further Integration of Financial Conglomerate Oversight
Report intragroup exposures and transactions within conglomerates on a flow and stock basis at quarterly or regular frequency. Develop guidance to address direct and indirect, and common exposures of entities in the conglomerate.	ACPR, AMF	NT	PD As of this date, French conglomerates report on common exposures and intragroup transactions within conglomerates on a flow and stock basis at a regular frequency (CONGLOMER reporting). An enhanced reporting has been developed by the European Joint Committee on Financial Conglomerate; the European Commission should adopt it through an Implementing Technical Standard by 2024. The first reporting date should be 31/12/2023.
Develop with the ECB and other EU agencies liquidity risk management requirements and stress testing at the conglomerate level.	ACPR, AMF	NT	PD No liquidity risk management requirement has been considered at this stage because the current supervisory framework coinciding with the prudential consolidation perimeter is deemed satisfactory. Along with a market-wide stress test that typically encompasses conglomerates and allows distinguishing their performance compared with other financial groups, ACPR is carrying out ad hoc research projects on liquidity analysis and the conduct of stress testing at the conglomerate level, recently presented to the ACPR Scientific Committee. Thorough research is still ongoing and will improve ACPR oversight and assessment of liquidity risk.
Strengthen conglomerate oversight and work with the Joint Committee of the ESAs to finalize common reporting templates, and with the ECB on common supervisory guidance for conglomerates.	ACPR, AMF	NT	PD The ACPR maintained a high level of engagement in both arenas in order to strengthen conglomerate supervision. An ACPR's deputy Secretary General chairs the works of the JC of the ESAs on common reporting templates and the group should be in position to deliver the full set of reporting by end 2021. ACPR actively participated in ESA's work to answer The Commission's call for advice on digital finance, including questions on a potential review of FICOD to supervise mixed-activity groups. As an "integrated" supervisor, the ACPR actively favors the exchange of information between the insurance supervision side and the banking one, which encompasses discussions with ECB staff members. These discussions also include the development of joint supervisory guidance. ACPR and the ECB are putting in place coordination arrangements for each financial conglomerate to formalize and strengthen their cooperation on this matter.

Recommendations	Agency	Timing*	Implementation Status D—Done / LD—Largely Done / PD—Partly Done / NA—No Action
Enhancing Governance, Financial Policies and Financial Integrity			
The ACPR and AMF should have autonomy to determine their resource levels based on a forward-looking review of supervisory and monitoring needs.	ACPR, AMF, MoF	I	NA (constitutional constraint) The NSAs are free to allocate resources towards the most needed fields, but it is not constitutionally possible to let them determine their global resource level as these resources are fiscal by nature thus requiring a parliamentary decision. Note that the parliamentary decision is informed by an independent report from the NSA. The current arrangement with a vote on a resource threshold is guaranteeing a stable funding of the NSAs.
To avoid any perception of a potential conflict of interest and facilitate operationally independent functioning, the government should recuse itself from all supervisory decision-making committees at the ACPR and the AMF.	MoF	I	NA (provides the legal underpinning to sharing confidential information) The presence of the MoF as an observer at the NSAs' board does not prevent the decisions to be taken independently. On the contrary, the cross participation of the NSA and the attendance of a MoF representative on a non-voting basis give a robust legal framework for sharing information between the NSAs and with the MoF both on policy (where the MoF has regulatory responsibilities) and oversight issues (as it contributes to informative feedbacks).
Reduce further the spread between market interest rates and the return on regulated savings products. Ensure timely and effective implementation of CDC governance reform under the Loi PACTE and undertake a full review of regulated savings framework at the appropriate time.	MoF	NT	PD Two decisions, taken in 2018 and 2023, have contributed to reducing the spread between market interest rates and the return on regulated savings products. In 2018, a new formula was established to calculate the return on Livret A and LDDS, removing the former « inflation floor » and replacing EONIA benchmark with the new €STR. Since the implementation of this new formula, LA and LDDS rates have increased at a slower pace. The outbreak of the Russia's war in Ukraine and the subsequent rise of inflation boosted the Livret A rate from 0.5% in January 2022 to 3% in February 2023. In order to avoid a too sharp rise in the Livret A's and the LDDS' rate and to maintain them within market rates, the Minister of the Economy decided to freeze the rate at 3% for eighteen months until February 2025, as permitted by law. Without this decision, the strict application of the formula would have given a return of 4,1% in August 2023 and 3,9% in February 2024. Under the Loi PACTE, the ACPR has become CDC's supervisor in its own right, thus bringing CDC closer to the framework of ordinary law in relation to financial institutions. At the same time, the "Commission de surveillance" has become a true decision-making body with more qualified individuals chosen for their expertise. The budgetary process has been clarified, with the "Commission de surveillance" adopting the budget and the Minister of Economy and Finances approving it. The reform of CDC's governance under the PACTE Act is thus bearing fruit (appropriation of its new prerogatives by the Commission, better organization of its functioning, etc.) and work is still ongoing to make the governance of the CDC even more optimal under the new PACTE rules.
Enhance AML/CFT supervision of smaller banks rated as high-risk. (¶67) Explore ways to provide systematic guidance on detection of potential terrorist financing activities.	ACPR, Tracfin	I	D The ACPR implements a risk-based AML/CFT supervisory approach that links the supervisory intensity applied to any supervised entity (banks, insurance companies, payment services, and electronic money providers) to its individual risk assessment. The AML-CFT supervisory approach provides for different supervisory tools with different levels of intrusiveness, from annual returns and meetings to onsite visits and inspections. Thus, over the 2015-2020 onsite inspection cycle, 88% of the higher-risk banks were subject to an onsite inspection, compared to 44% of the medium-high-risk banks, 9% of the medium-low risk banks, and 1% of the lower-risk banks. As regards guidance on the detection of terrorist financing activities, the ACPR/TRACFIN joint Guidelines list several criteria, including weak signals that oblige entities to have to take into account. In addition, the Sectoral Risk Assessment published by ACPR describes the risks of each category of institutions and gives a focus on CFT for each activity
Reinforcing Crisis Management, Safety Nets, Resolution Arrangement			
Work toward an enhanced resolution framework for insurers by including wider powers to restructure liabilities (bail-in), and enhanced safeguards and funding.	ACPR	MT	NA (EU single market issue) The European Directive on Insurance Recovery and Resolution (IRRD) should be transposed by end of 2026/early 2027 into the French authorities recognize that the resolution legal framework would benefit from additional tools, especially. It will complete the French resolution toolkit by adding bail-in powers and adequate resolution financing arrangements. In September 2021, the European Commission published a proposal for a directive for a harmonized regime in recovery and resolution in The IRR Directive foresees the European Union within its Solvency II package review. This proposal includes inclusion of a write-down or conversion tool, in addition to a solvent run-off tool, (which is a new addition compared to the French framework), an asset and liability separation tool, a sale of business tool, and a bridge undertaking tool. However, no funding arrangements or harmonization of national Insurance Guarantee Schemes are foreseen in the first version of this proposal. Member States shall establish one or more financing arrangements to ensure that the resolution authority has at its disposal adequate funds to cover at least the payment of No-Creditor-Worth-Off (NCWO) claims (article 77a). The authorities consider this EU Directive as essential to further advance the recovery and resolution framework in the context of a level playing field for insurers in the European Union. During the French Presidency of the EU, the ACPR was heavily involved in providing technical input to discussions on the various themes covered by the directive proposal, and will continue to provide this support thereafter., especially to assist EIOPA in the drafting of the various mandates given by the EU Directive.
The eligibility of the FGDR's Supervisory Board membership, which is formed by bank executives in activity, should be changed to independent members only.	FGDR	MT	NA
Develop modalities for providing ELA in currencies other than euros and establish general rules that may assist banks in identifying assets, which might be proposed as ELA collateral and buttress their operational readiness to pledge them.	BdF, ACPR	MT	PD The main responsibility for the provision of ELA lies with National Central Banks but must comply with general principles laid down in ECB ELA agreement. Banque de France has an internal and recently updated procedure in place to ensure efficient and quick implementation of ELA. These arrangements are, however, confidential.

** I= immediate (within one year), NT= near term (1–3 years), MT= medium term (3–5 years); these ratings reflect the authorities' own assessment of implementation status.*

Annex III. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The CA deficit declined to 0.7 percent of GDP in 2023, driven by the unwinding of the terms-of-trade shock and strong non-oil goods export performance. Over the medium term, the CA deficit is expected to continue to shrink as fiscal consolidation and structural reforms to improve competitiveness of the economy are implemented.

Potential Policy Responses: Maintaining the external position in line with medium-term fundamentals and desirable policies will require sustained fiscal consolidation efforts as well as structural reforms to support productivity and attract higher private investment to facilitate the green and digital transitions. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, and avoid favoring domestic producers over imports to minimize trade and investment distortions.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The NIIP stood at −29.2 percent of GDP in 2023, slightly above the range observed during 2014–19 (between −15 and −26 percent of GDP). The NIIP worsened by 5.5 percent of GDP since the end of 2022, largely driven by a decrease in direct and portfolio investment. While the net position is moderately negative, gross positions are large. Gross assets stood at 334.9 percent of GDP in 2023, of which banks' non-FDI-related assets accounted for about 46.2 percent, reflecting their global activities. Gross liabilities increased to 364.1 percent of GDP in 2023, of which external debt was about 227.5 percent of GDP (58 percent accounted for by banks and 24 percent by the public sector). About three-quarters of France's external debt liabilities are denominated in domestic currency. The average TARGET2 balance in 2023 was about €120.5 billion.

Assessment. The NIIP is negative, but its size and projected stable trajectory do not raise sustainability concerns. However, there are vulnerabilities coming from the large public external debt (53.7 percent of GDP in 2023) and banks' gross financing needs—the stock of banks' short-term debt securities was €149 billion in 2023 (5.3 percent of GDP), and financial derivatives stood at about 47.7 percent of GDP.</td></tr>
<tr><td>2023 (% GDP)</td><td>NIIP: −29.2</td><td colspan="2">Gross Assets: 334.9</td><td>Debt Assets: 190.7</td><td>Gross Liab.: 364.1</td><td>Debt Liab.: 227.5</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA deficit declined to 0.7 percent of GDP in 2023 (from a deficit of 2 percent in 2022), driven by the unwinding of the large terms-of-trade shock and a strong export performance by the aeronautics, naval, and textile sectors and in capital goods as well as lower energy imports from ongoing price corrections. Gross national savings continued to increase in 2023 by 0.4 percent of GDP, driven by private savings given still high uncertainty around the external outlook, while domestic investment declined somewhat after reaching a peak in 2022. The CA deficit is expected to decrease slightly to about 0.3 percent of GDP in 2024, driven by the continued recovery in the aeronautics and automobile sectors. Over the medium term, the CA deficit is projected to shrink to a small deficit by 2029 as recent reforms to improve France's competitiveness start to pay off. Fiscal consolidation will also help reduce the CA deficit over the medium term.

Assessment. The 2023 cyclically adjusted CA balance is estimated at –0.9 percent of GDP compared with an EBA-estimated norm of 0 percent. On this basis, the IMF staff assesses that the CA gap in 2023 is between –1.3 and –0.5 percent of GDP (compared with −2.5 and –1.6 percent of GDP in 2022), with a midpoint of –0.9 percent of GDP. The main contributor to the overall positive policy gap of 0.1 percent of GDP is a positive credit gap of 0.4 percent, while the health expenditure gap is –0.3 percent. The fiscal policy gap is 0 percent despite a negative domestic gap of 1.2 percent.</td></tr>
<tr><td>2023 (% GDP)</td><td>CA: –0.7</td><td>Cycl. Adj. CA: –0.9</td><td>EBA Norm: 0.0</td><td>EBA Gap: –0.9</td><td>Staff Adj.: 0.0</td><td>Staff Gap: –0.9</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The ULC-based and CPI-based REERs continued to appreciate in 2023, by 4.1 and 1.9 percent, respectively, compared to 2022. As of April 2024, the ULC-based REER was 0.6 percent below the 2023 average, while the CPI-based measure was about 0.5 below the 2023 average. From a longer-term perspective, France has not managed to regain the loss of about one-third of its export market share registered in the early 2000s (while the export market share of the euro area remained broadly stable between 2000 and 2023). France should advance its reform agenda, with emphasis on horizontal efforts to support competitiveness and foster efficient investment allocation.

Assessment. The CA gap, as assessed by IMF staff, implies a REER gap of 3.3 percent in 2023 (applying an estimated semi-elasticity of 0.27). The EBA REER index model points to a REER gap of −5.1 percent, while the EBA REER level model points to a REER gap of 2.9 percent. Consistent with the IMF staff CA gap, the IMF staff assesses the REER to be overvalued in the range of 1.7 to 5 percent, with a midpoint of 3.3 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. After a post-pandemic normalization in 2021–22, inward and outward foreign direct investment declined significantly in 2023 (from 3.8 to 0.7, and from 4.2 to 2.2 percent of GDP, respectively). The financial account is open. Public external debt and banks' gross financing needs have increased in 2023.

Assessment. France remains exposed to financial market risks owing to the large refinancing needs of the sovereign and banking sectors.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. The euro has the status of a global reserve currency.

Assessment. Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.</td></tr>
</table>

Annex IV. Projecting Medium-to-Long-Term Potential Output in France

This annex discusses potential growth estimates for France in the medium-to-long-term using a production function approach, complementing the multivariate approach used in the short-to-medium term to better capture cyclical factors. The estimates are in turn used as an input to the Sovereign Risk and Debt Sustainability Analysis, including the new long-term modules. Potential growth is projected to increase to around 1.3 percent by 2029 and then converge to around 1.0 percent over the long run, mainly driven by the impact of population aging. Productivity and in turn capital growth are expected to remain stable, although, as in other advanced economies, they will remain relatively low at around 0.7 percent. Structural reforms targeting labor participation of underrepresented groups and/or increasing technology adoption can support potential output growth and help offset the impact of population aging.

1. Staff projects potential growth into the short-to-medium run using predictions from a multivariate filter model to better account for the economic cycle. The multivariate filter model by IMF (2010) incorporates current unemployment gap and inflation data to inform the potential output gap and growth. The model is supplemented with information from high-frequency indicators, other economic modeling tools (including analysis on the anticipated impact of structural reforms) and expert judgement to project a path for potential output in the short-to-medium term. Potential output growth is projected to reach around 1.3 percent in 2029, which is taken as an input in the following analysis.

2. Growth accounting can be used to decompose potential output into contributions from total factor productivity, labor, and capital inputs and shed light on longer-run trends. While the multivariate filter model is useful for understanding the short-run dynamics and forecasts, it is less relevant for projecting growth into the longer run where the economy is assumed to converge to potential. Given this consideration, the annex employs a standard production function approach to project output into the medium-to-long term. This approach allows potential output to be decomposed into its components allowing for the quantification of each component's historical and projected future contribution. The main strength of this methodology is its ability to provide comparatively transparent structural interpretation of growth drivers. Other methods to estimate potential growth, such as structural DSGE models, may provide sharper predictions but also require stronger assumptions on the structure of the economy and, like the multivariate filter model, tend to be most useful when additional data can inform other economic dynamics.

3. Growth is projected into the medium term using a production function approach. Real GDP is assumed to follow a Cobb-Douglas specification given by $GDP_t = TFP_t \times (Capital_t)^{\alpha_t} \times (Hours_t)^{1-\alpha_t}$, where TFP is total factor productivity, $Capital$ is the aggregate capital stock, $Hours$ is total hours worked.[1] Rearranging, output-per-capita can be written as:

[1] The capital share α is taken from the Penn World Tables v10.0 and then assumed to remain constant in each year after 2019. The average value is around 0.62 between 2004 and 2019.

$$\frac{GDP_t}{Pop_t} = TFP_t^{\frac{1}{1-\alpha}} \times \left(\frac{Capital_t}{GDP_t}\right)^{\frac{\alpha}{1-\alpha}} \times \frac{Hours_t}{Emp_t} \times \frac{Emp_t}{Pop_t}$$

Output-per-capita is decomposed into four components that describe total factor productivity (TFP), the capital intensity of the economy (capital stock divided by GDP), hours worked per employee, and the labor participation rate. The four components are estimated up to 2029 (as reported in the Selected Economic Indicators Table 1), and then projected to 2040 (as described below).

A. Production Components

4. Population aging is expected to shift employment from a positive contributor to a drag on potential output growth over the next decade. The French working-age population is expected to decline by around 1 percent by 2030 and by a further 3 percent by 2040, as projected under the UN World Population Prospects 2022 medium scenario.[2] The population projections are divided by age and sex and cover up to 2100. Employment is constructed for subgroups based on age $a \in \{15-24, 25-49, 50-64\}$ and sex $s \in \{M, F\}$. For projections years, employment is constructed as:

$$EMP_{a,M,t} = POP_{a,M,t} \times \left(EMPRATE_{a,M,t-1} + \Delta_a\right)$$
$$EMP_{a,F,t} = POP_{a,F,t} \times \left(\xi EMPRATE_{a,F,t-1} + (1-\xi)EMPRATE_{a,M,t-1} + \Delta_a\right)$$

The decline in the in the working age population is assumed to be partly counteracted by continued convergence in the employment rate of women and the 50-to-64-year-old group. The parameter $\xi = 4\%$ captures the catch-up of the employment rate of women, implying that the five-percentage point gap between men and women in 2023 is expected to close by around half by 2040. This is consistent with the ongoing convergence in the employment rate between men and women (see Figure IV.1) and should be supported by planned reforms to further support employment of women by the authorities. The parameter Δ_a is set to 0.1 percentage points for 50-to-64-year-old group to account for increase labor participation of this group as life expectancy increases. This would close the 20-percentage point gap between the 50-to-64-year-old group and the 25-to-49-year-old group by around 10 percent over the next 20 years. This also reflects increased labor participation and shorter unemployment durations from recent pension and unemployment benefit reforms. The parameter choices imply that the total employment rate increases by around 0.1 percent per annum (similar to OECD, 2023). Average hours per worker are projected to remain at their 2023 values going forward.

5. Total factor productivity has been a primary driver of historic growth dynamics in France and is projected to stabilize at around 0.7 percent in the long term. Total factor productivity is estimated in each period as $TFP_t = GDP_t/(Capital_t^{\alpha_t} \times Hours_t^{1-\alpha_t})$. Over the past two

[2] The working-age population estimates in the INSEE population projections imply a slower population decline, of around 0.04 percentage points per annum on average, but follow a similar overall path as the UN population estimates.

decades, total factor productivity has had large fluctuations, ranging from a high of 1.4 percent in the pre-global financial crisis (GFC) period (2004-2006) to a low of -0.7 percent in 2020-2023 during the pandemic and energy crisis (see Figure). Total factor productivity converges to 0.7 percent in the medium-to-long term, based on the middle point of historical non-crisis periods and to account for potential head and tailwinds.[3]

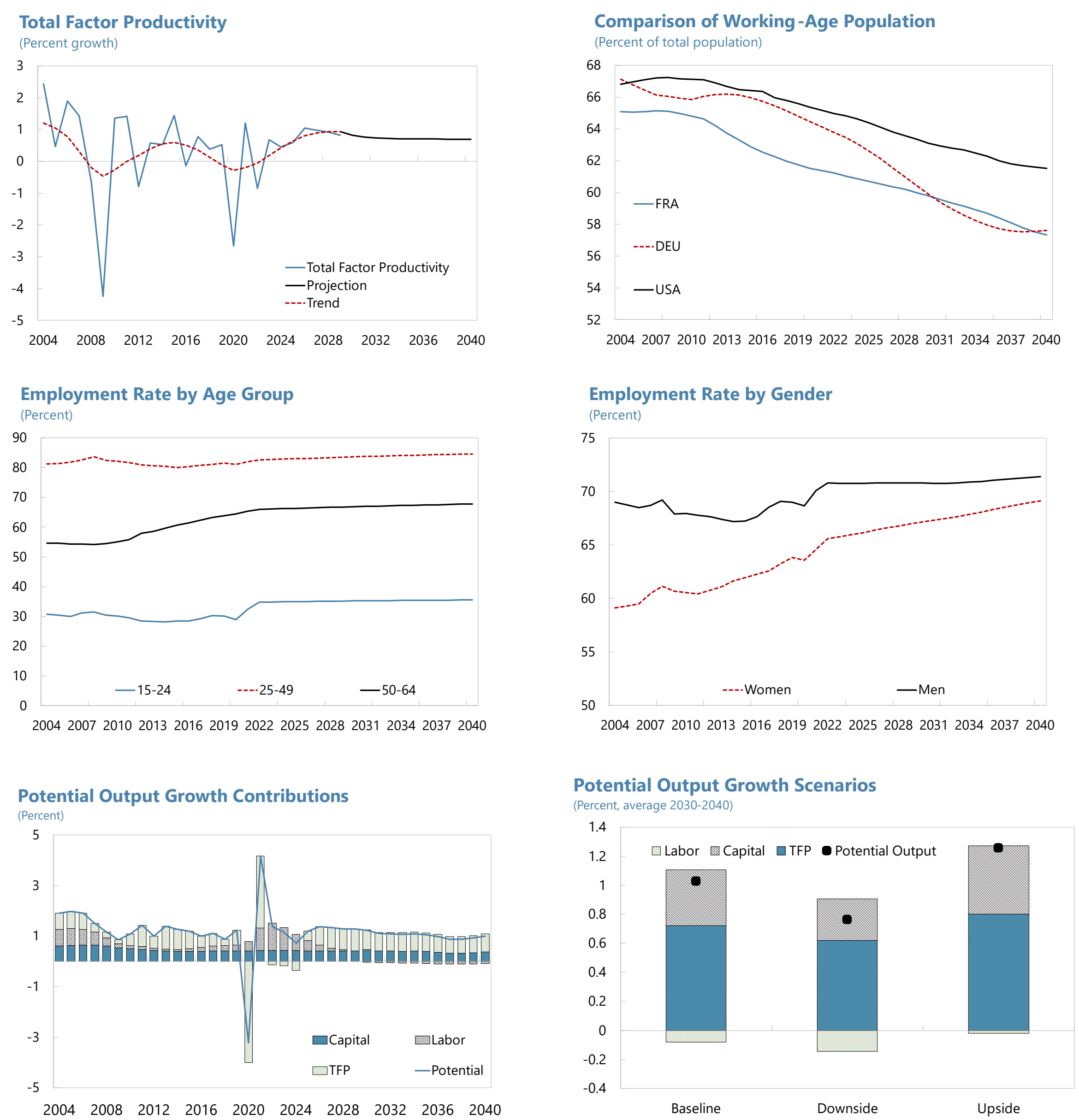
6. The capital stock is projected using the perpetual inventory method and is assumed to be driven by growth in total factor productivity and employment. The capital stock in each period is constructed as $Capital_t = (1 - \delta_t)Capital_{t-1} - Inv_t$ where δ_t is the depreciation rate of existing capital and Inv_t is real Gross Fixed Capital Formation. In the first period of data, the capital stock is set equal to $Capital_0 = Inv_0/(\bar{g}^{Inv} + \Delta_0)$ where $\bar{g}^{Inv}$ is the average growth rates of between 1980 and 2019.[4] Capital is projected forward as a constant ratio of output, which is consistent with the steady state relationship implied by the neoclassical growth model. Productivity and employment growth are assumed to drive capital growth, which results in capital growing at around 1.0 percent in the medium term.

B. Potential Output Estimates and Balance of Risks

7. Potential output is projected to grow at around 1.0 percent over the medium-to-long term. Potential output growth is mainly driven by TFP, directly and through its indirect impact via increases in the capital stock. Due to population aging, employment is projected to weigh on potential output by around 0.1 percentage points per year, substantially below its positive contribution of around 0.5 percentage points over the last two decades.[5] At shorter horizons, the projections are broadly in line with estimates by French Treasury (2022) and the OECD (2023), albeit more conservative in terms of employment growth. Policy reforms that encourage participation by traditionally underrepresented groups—such as recent pension reforms to encourage older workers to remain in the labor market or further support for the employment of women—can help delay the decline in employment. Additionally, getting ahead of trends in digitalization and the green transition can help retain workers in the labor market and take advantage of potential labor substituting technologies that will help reduce bottlenecks due to labor shortages as well as boosting productivity.

[3] As the estimate is similar to that one for other advanced economies, it implies a near constant productivity gap between France and peers.
[4] The depreciation rate is taken from the Penn World Tables v10.0 up to 2019 and then assumed to be constant in each future period.
[5] A slower decline in the working age population, as per INSEE population projections, would increase potential output growth to around 1.1 percent in the medium-to-long term.

Figure IV.1. France: Potential Output Charts



Sources: INSEE, UN World Population Prospects, PWT v10.0, and IMF staff estimates.

8. Risks to the outlook for potential growth are on both the upside and downside.

- *Downside risks*. The population decline could be steeper than expected and/or have larger spillovers to investment or TFP growth. An aging population may lead to a substitution of investment for private and public consumption lowering the aggregate capital stock and productivity growth. Secular trends in slower TFP growth could continue or intensify after the post-pandemic recovery has finished. Weaker growth abroad and global economic fragmentation could lead to long-term reallocations that reduce productivity.

- *Upside risks.* Growth in quality-adjusted employment (e.g., due to education or better skill matching) could buttress the labor stock, despite population aging. Stronger-than-expected migrant flows, if well incorporated into the labor market, could slow the impact of population aging and increase employment levels. Stronger-than-expected labor market participation convergence of traditionally underrepresented groups (older workers, women), due to policy reforms, could help to delay the decline in employment. Automation and AI could increase the capital share and/or increase capital-skill complementarities reducing the need for labor in certain bottleneck areas of the economy and/or reducing pressures from the declining labor force.

Annex V. Risk Assessment Matrix

Source of Risks	Relative Likelihood[1]	Impact if Realized	Policy Response
Global / Regional Risks			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**High:** Heightened uncertainty weakens consumer and business confidence with a negative impact on consumption and investment, affecting both manufacturing and services.	Accelerate the green transition and further diversify energy mix and sources. Provide targeted fiscal support to vulnerable households and firms. Advance structural reform agenda to boost productivity and improve competitiveness.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**High**	**Medium:** Increasing geoeconomic fragmentation could reduce exports and trade market share, directly and due to negative spillovers from key trading partners, and lower potential growth.	Further diversify supply chains and undertake structural reforms to boost competitiveness. Deepen the European single market and foster capital market integration to encourage investment and innovation. Maintain a level playing field between firms and sectors, and limit state intervention to address market failures.
Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	**Medium**	**Medium:** A global growth slowdown especially among France's main trading partners, worsens its external position, lowers investment, and further reduces growth.	Allow automatic stabilizers to operate, while providing targeted support to vulnerable households and firms. Ensure a balanced policy mix. Advance structural reform agenda to boost productivity and improve competitiveness.
Monetary policy miscalibration. Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.	**Medium**	**Medium:** Persistently higher inflation leads to de-anchoring of inflation expectations, wage-price spirals, hurting consumer and business confidence. Higher rates and tighter financial conditions negatively impact investment and lead to lower growth.	If monetary policy is loosened prematurely, further fiscal consolidation may be warranted to support disinflationary efforts. If monetary policy is tighter than warranted, allow automatic stabilizers to play to help rebalance the policy mix.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	**Medium**	**Medium:** Tighter financial conditions negatively impact leveraged households and firms. Rising NPLs and insolvencies weigh on bank's balance sheets. Tighter financial conditions could translate to lower economic growth.	Macroprudential policies, including cyclical and systemic buffers, should be employed as warranted to mitigate systemic financial instability. Maintain close monitoring of liquidity risks in NBFIs. Fiscal policy should allow automatic stabilizers to operate.

Source of Risks	Relative Likelihood[1]	Impact if Realized	Policy Response
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	Medium	Medium: Cyberattacks to key infrastructure can disrupt economic activity and threaten financial stability.	Advance crisis preparedness to cyberattacks and further strengthen coordination at the European/international level. Strengthen the operational resilience of the financial system.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	Medium: Extreme climate events disrupt economic activity and negatively impact growth.	Provide targeted fiscal support, including public investment in France. Accelerate green transition to meet emission targets.
Disorderly energy transition. A disorderly shift to net-zero emissions and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	Medium	Medium: High and volatile prices of critical inputs combined with policy uncertainty will negatively impact investment in green technologies.	Promote international efforts to accelerate the green transition. Provide targeted fiscal support to severely affected households and firms. Accelerate reforms to improve energy efficiency and facilitate labor reallocation.
Domestic Risks			
Systemic social unrest. Persistently higher inflation, real income loss, spillovers from conflicts cause social unrest and political instability, slowing economic growth and leading to policy uncertainty and market repricing.	Medium	Medium: Social unrest could impact consumer and business confidence and slow growth. This could delay the fiscal adjustment, increase financing costs, and weaken public debt dynamics.	Provide targeted fiscal support to vulnerable households and firms. Advance structural reform agenda to boost jobs and productivity.
Political fragmentation. Political fragmentation leads to delays in needed fiscal adjustment and the reform agenda.	High	Medium/High. Setbacks to the fiscal and structural agenda would negatively impact business confidence and investment, employment, raise refinancing costs, and weaken public debt dynamics.	Promote broad-based political and social support to advance France's fiscal plans, as per EU fiscal rules, and make progress on structural priorities, providing targeted support to the most vulnerable.

[1]The Risk Assessment Matrix shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more).

Annex VI. Sovereign Risk and Debt Sustainability Analysis

Following a sizable fiscal underperformance in 2023, weaker-than-expected growth, and new spending pressures the authorities have updated their 2024-27 Stability Program last April, raising their 2024 deficit target but maintaining the goal of bringing the deficit below 3 percent by 2027. Under staff's baseline scenario, based only on legislated measures, the primary deficit over the projection horizon remains 1 percentage point of GDP above its debt-stabilizing level. As a result, the debt ratio increases from around 111 percent of GDP in 2023 to 120 percent in 2033. Main fiscal risks include the high sensitivity of the debt ratio to an uncertain future path of real interest rates and growth and long-term spending pressures from the demographic and climate transition. Risk-mitigating factors are represented by the France's fiscal consolidation commitments under the EU fiscal rules, and a liquid debt market that benefits from a diversified investor base and the stabilizing role of the ECB.

1. Background. Since 2020, the French economy has suffered two consecutive negative shocks from the COVID-19 pandemic and the subsequent spike in European energy prices precipitated by Russia's invasion of Ukraine. The actions taken by the authorities to help cushion the impact of the shocks combined with a sizable revenue underperformance in 2023 have weighed on public finances. In 2023, the deficit reached 5.5 percent of GDP and the debt ratio increased to 111 percent, from 98 percent in 2019. In May, S&P downgraded the sovereign debt rating to AA-, without any repercussion on market interest rates. While spreads on sovereign bonds have remained stable in 2023 and early 2024, they increased during June 9-17 (by about 30 bps), although sovereign yields increases were more limited (at only 10 bps), amid a compression in German bund yields.

2. Baseline. Staff's baseline projection incorporates only measures that are legislated, including the 2024 budget and the subsequent February decree, as well as measures contained in sectoral and medium-term programming laws that are sufficiently specified. Importantly, the projection abstracts from commitments under the European fiscal rules. Under staff's baseline, and barring further adjustment, the fiscal deficit is projected to decline moderately to 5.2 percent of GDP in 2024. In the medium term, the deficit remains well above 3 percent of GDP under the baseline. The differential between the effective real rate and real GDP growth is initially negative, but over the next 10 years it progressively increases and turns marginally positive, so that the projected baseline reduction in the primary deficit is not enough to prevent an increase in the debt ratio. Over the same horizon, the interest rate burden increases by 1½ percentage points of GDP. The debt ratio increases by about 10 percent of GDP to 122 percent of GDP by 2033, reflecting a projected primary deficit that is about 1 percentage point above its debt-stabilizing level.

3. Realism of the medium-term projections. The realism analysis point to some optimism in staff's past projections for the drivers of debt, with realized values for the primary deficit and the r-g differentials significantly larger than initially projected over the medium term. Looking ahead, projected fiscal efforts and debt reductions are well within norms of both past fiscal consolidation episodes in France and in other advanced economies. The largest one-year adjustment occurs in 2026 with the expiration of the European Recovery Plan and its associated public spending measures.

4. Risks and mitigating factors. At its currently high level, the evolution of the debt ratio remains highly sensitive to the path of future real interest rates and real growth, posing risks that unfavorable shocks may put the debt ratio on a steeper upward trajectory. Additional long-term spending pressures from the climate transition could also materialize, although they appear manageable. The potentially higher increase in healthcare spending, estimated by the European Commission at 0.4 percentage points of GDP between 2030 and 2050, would also be modest. There are however some elements that mitigate these risks. The baseline fiscal projection is relatively conservative, as it does not consider consolidations that are planned, including under the new EU fiscal rules, but not yet based on sufficiently specified measures. France's sovereign debt has a large investor base and is traded in a liquid market that benefits from the stabilizing role of the ECB.

Figure VI.1. France: Risk of Sovereign Stress

France: Risk of sovereign stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	Overall risks remain low. The assessment takes into account important mitigating elements. First, the baseline projection for France's primary deficit is conservative, as it does not incorporate consolidations that are planned but not yet based on sufficiently specified measures. For example, the minimum fiscal adjustment under the new EU fiscal rules would already reduce to low levels the mechanical signal of medium-term risks. Second, sovereign rollover risk is contained by a large institutional investor base, home bias, as well as the ECB's stabilizing role.
Near term 1/			
Medium term	Moderate	Moderate	The mechanical signal has improved from last year and is now closer to the low-risk threshold. However, risks remain moderate, as debt dynamics remain highly sensitive to the future paths of interest rates and growth.
Fanchart	Moderate	...	
GFN	Moderate	...	
Long term	...	Moderate	Long-term risks are assessed to be moderate. Under relatively conservative scenarios, fiscal consolidation can put gross financing needs and the debt on a downward trajectory as a share of GDP. However, there are risks that additional long-term spending pressures may materialize due to the demographic and green transitions.
Debt stabilization in the baseline			No

DSA Summary Assessment

France is at a low risk of sovereign stress. Medium-term sovereign risks are moderate and stem from high debt levels and from debt dynamics that are highly sensitive to the future paths of interest rates and growth. Significant elements mitigate these mechanical signals. They include the use of a conservative deficit projection based only on legislated measures that are sufficiently specified, thus excluding most of the authorities' fiscal consolidation plans, as presented in their medium-term programming law and/or required by the EU fiscal rules. Debt rollover risks from non-fundamental shocks are strongly mitigated by the presence of a deep and liquid debt market. Over the longer term, risks are assessed as moderate as new additional spending pressures, currently not included in the baseline projection, may arise from the demographic and green transitions.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

Figure VI.2. France: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

				Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1 Budgetary central government	Yes	
				2 Extra budgetary funds (EBFs)	No	Not applicable
				3 Social security funds (SSFs)	Yes	
				4 State governments	Yes	
				5 Local governments	Yes	
				6 Public nonfinancial corporations	No	
				7 Central bank	No	
				8 Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting On Intra-government Debt Holdings

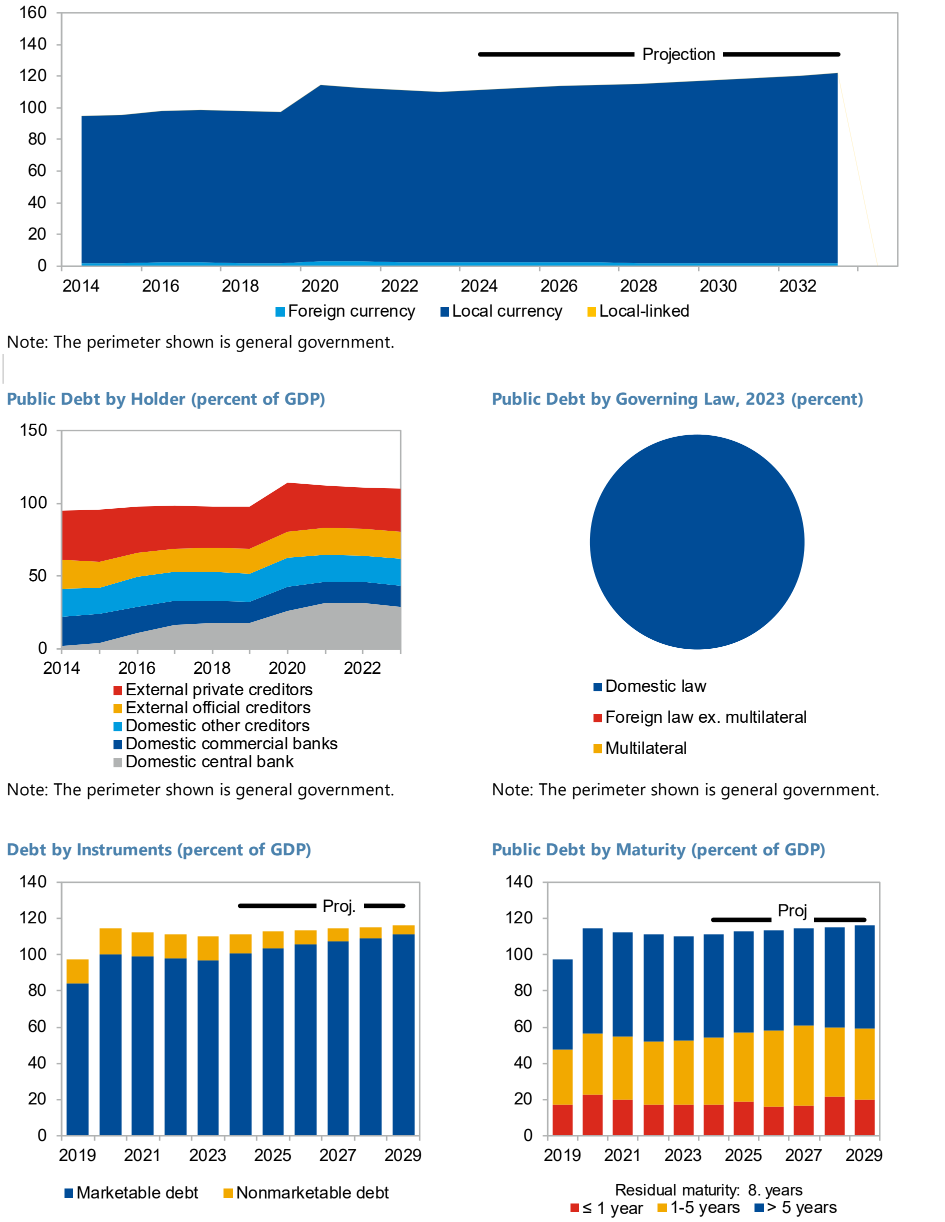
				Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1 Budget. central govt									0
				2 Extra-budget. funds									0
				3 Social security funds									0
				4 State govt.									0
				5 Local govt.									0
				6 Nonfin pub. corp.									0
				7 Central bank									0
				8 Oth. pub. fin. corp									0
				Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

The debt coverage is unchanged from recent AIVs -- i.e. it covers general government debt, with most debt issued by the central government. Bank loan guarantees issued in response to the pandemic and energy crises (PGE) amount to some 6 percent of GDP.

Figure VI.3. France: Public Debt Structure Indicators

Debt by Currency (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)

Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)

Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)

Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)

Note: The perimeter shown is general government.

Debt is predominantly in domestic currency and marketable. The share held by the central bank has increased steadily since 2015 but is now projected to decrease. Shares are similar across the other four identified holders, but with a relatively larger presence of external private creditors. All public debt is governed by domestic law. About half of debt is long term, and the overall average residual maturity is about 8 years.

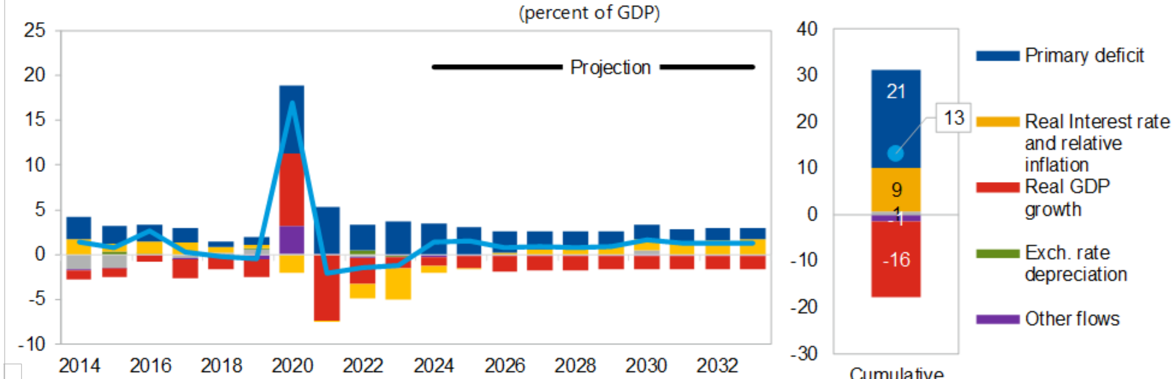
Figure VI.4. France: Baseline Scenario

(In Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	109.9	111.3	112.8	113.6	114.4	115.2	116.2	117.8	119.1	120.4	121.8
Change in public debt	-1.2	1.4	1.5	0.8	0.9	0.8	0.9	1.7	1.3	1.3	1.3
Contribution of identified flows	-1.2	1.4	1.5	0.8	0.9	0.8	0.9	1.2	1.3	1.3	1.3
Primary deficit	3.7	3.4	3.0	2.4	2.0	1.7	1.5	1.6	1.5	1.3	1.3
Noninterest revenues	51.4	51.3	51.2	51.2	51.2	51.2	51.2	51.2	51.2	51.2	51.2
Noninterest expenditures	54.8	54.4	53.9	53.3	52.9	52.6	52.4	52.4	52.3	52.2	52.2
Automatic debt dynamics	-4.8	-1.8	-1.4	-1.5	-1.0	-0.8	-0.5	-0.3	-0.1	0.1	0.1
Real interest rate and relative inflatio	-3.4	-0.8	0.0	0.3	0.7	0.8	1.0	1.2	1.4	1.6	1.7
Real interest rate	-3.5	-0.8	0.0	0.3	0.7	0.8	1.0	1.2	1.4	1.6	1.7
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.2	-1.0	-1.4	-1.7	-1.7	-1.6	-1.5	-1.5	-1.5	-1.5	-1.5
Real exchange rate	-0.1	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other transactions	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0
Gross financing needs	21.3	20.2	21.4	22.7	19.9	20.2	25.4	23.9	24.1	23.5	20.8
of which: debt service	17.7	16.9	18.5	20.4	18.0	18.6	24.0	22.5	22.8	22.2	19.6
Local currency	17.7	16.9	18.5	20.4	18.0	18.6	24.0	22.5	22.8	22.2	19.6
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	1.1	0.9	1.3	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.3
Inflation (GDP deflator, percent)	5.1	2.6	2.0	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.7
Nominal GDP growth (percent)	6.3	3.5	3.3	3.5	3.3	3.2	3.0	2.6	3.0	3.0	3.0
Effective interest rate (percent)	1.8	1.8	2.0	2.2	2.4	2.5	2.6	2.8	2.9	3.0	3.1

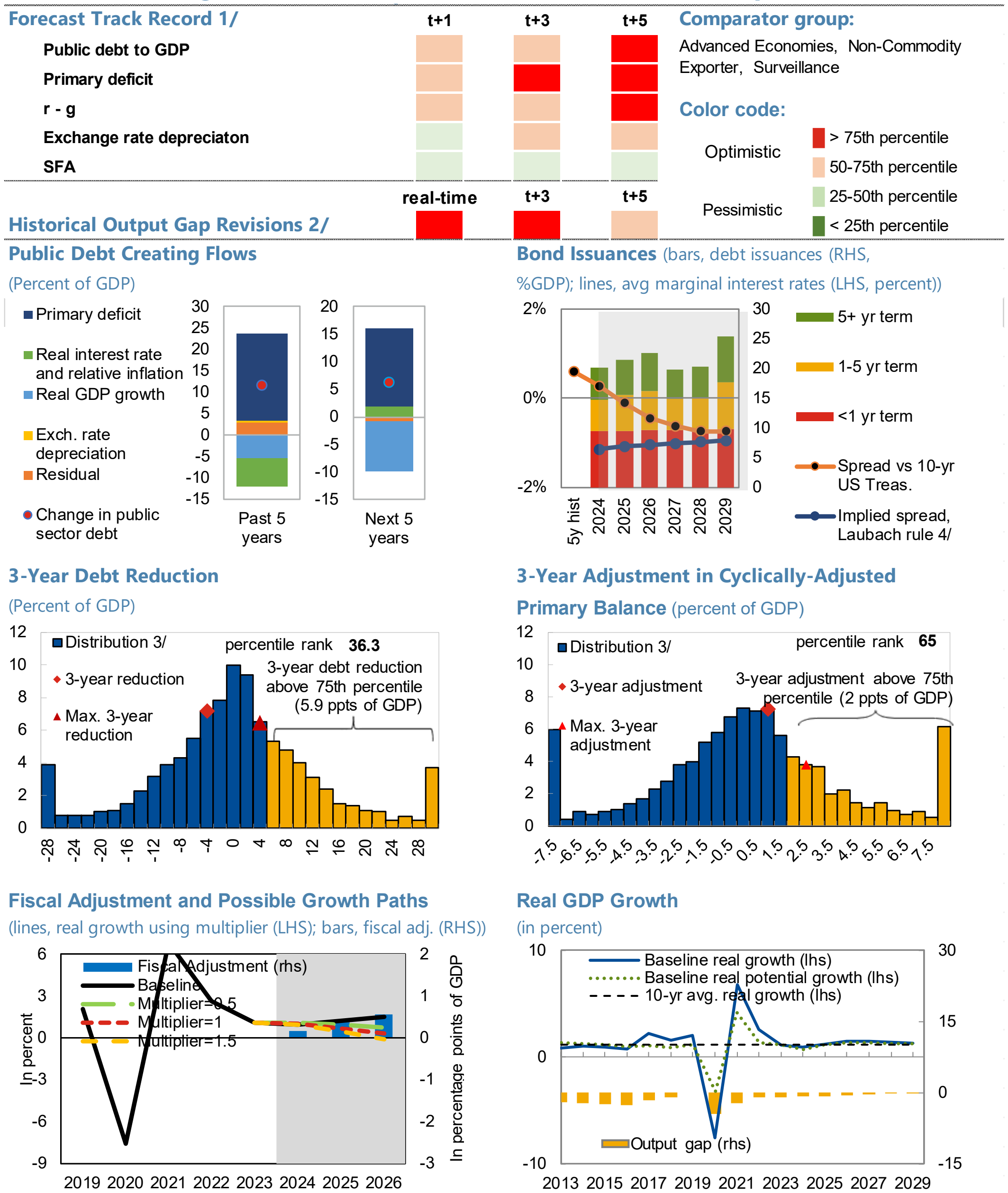
Contribution to Change in Public Debt

(percent of GDP)



The ratio of public debt to GDP gradually increases over time, reflecting a projected primary balance that continues to remain negative, based on a current policy baseline scenario. The differential between the effective real rate and real GDP growth is initially negative but it progressively increases and turns marginally positive, thus providing a slightly positive contribution to debt creation.

Figure VI.5. France: Realism of Baseline Assumptions



The realism analysis shows large median forecast errors for the primary deficit that suggest a past optimistic bias, and a more moderate one for r-g and debt projections. The projected fiscal adjustment and debt reduction are well within norms. The largest one-year adjustment occurs in 2026 with the expiration of the European Recovery Plan and the associated reduction in public spending.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

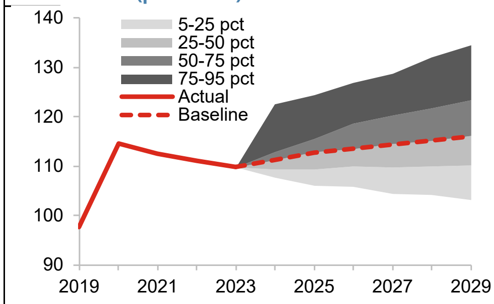
3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

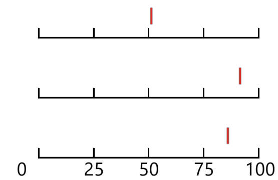
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure VI.6. France: Medium-term Risk Assessment

	Value	Contrib [1/]	Percentile in peer group [2/]
Debt fanchart module			
Fanchart width *(percent of GDP)*	31.1	0.5	
Probability of debt non-stabilizaiton *(percent)*	82.0	0.7	
Terminal debt-to-GDP x institutions index	30.7	0.7	
Debt fanchart index (DFI)		1.8	
Risk signal: [3/]		**Moderate**	

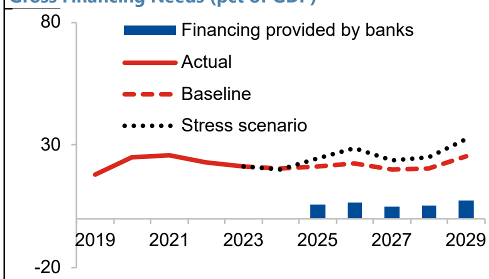
Final Fanchart (pct of GDP)

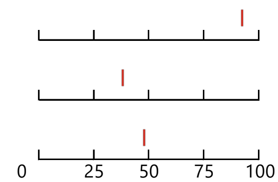




	Value	Contrib [1/]	Percentile in peer group [2/]
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	21.6	7.4	
Initial Banks' claims on the gen. govt *(pct bank assets)*	3.7	1.2	
Chg. In banks' claims in stress *(pct banks' assets)*	3.3	1.1	
GFN financeability index (GFI)		9.7	
Risk signal: [4/]		**Moderate**	

Gross Financing Needs (pct of GDP)

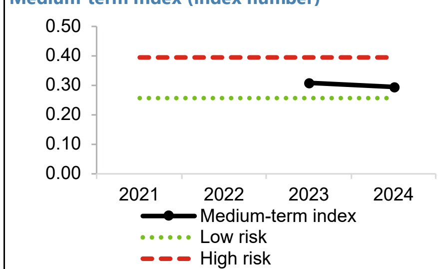




Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index (index number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.8	0.4	0.5	0.2
GFN finaceability index	9.7	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2024-2029, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 30.7 pct.

The mechanical signals point to moderate medium-term risks. Even though the debt ratio is almost stabilized under the baseline, the probabilistic fan chart constructed from past shocks points to moderate risks of non-stabilization. The index of the gross financing needs (9.7) is instead relatively close to the low-risk threshold (7.6), with the moderate risk signal driven by large average gross financing needs. The overall mechanical signal (0.29) improves significantly from its value last year and is now closer to the low-risk threshold (0.26).

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the Medium-term index is below 0.26; high risk if the Medium-term index is above 0.40; and otherwise, it is moderate risk.

Figure VI.7. France: Long-Term Risk Assessment

France: Triggered Modules

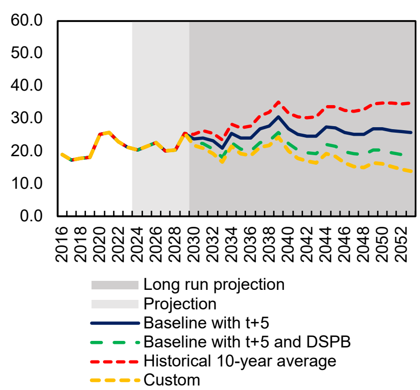
Large amortizations	Pensions	**Climate change: Adaptation**	Natural Resources
	Health	**Climate change: Mitigation**	

France: Long-term Risk Assessment: Large Amortization incl. Custom scenario

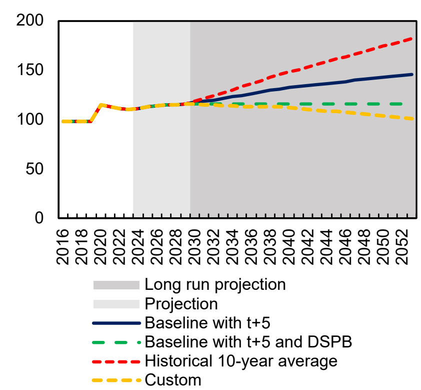
Projection	**Variable**	**Risk Indication**
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Variable	**2029**	**2033 to 2037 average**	**Custom Scenario**
Real GDP growth	1.3%	1.3%	1.0%
Primary Balance-to-GDP ratio	-1.5%	-1.4%	0.7%
Real depreciation	-1.6%	-1.9%	-1.9%
Inflation (GDP deflator)	1.7%	1.7%	1.7%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

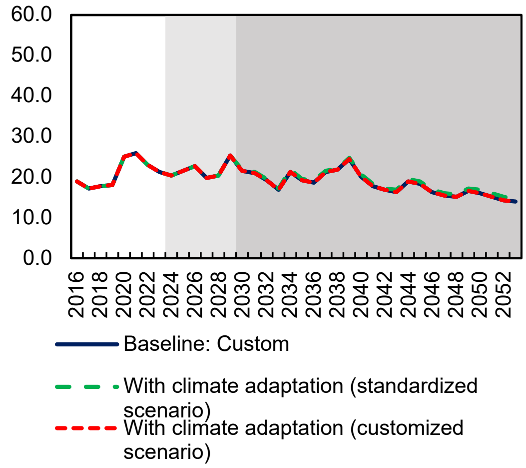


The Large Amortization module presents a range of four illustrative policy scenarios (three standard and one "Custom") for the long-term evolution of gross financing needs and debt. The "historical" scenario assumes mechanically that after 2029 debt drivers evolve on average as in the past decade (including large and rare negative shocks like the Covid-19 pandemic), without any new fiscal measures. A second scenario ("Baseline") assumes that after 2029 debt drivers are kept constant at their 2029 level, with no new fiscal measures. A third scenario ("Baseline and DSPB") assumes that, starting in 2030, the authorities undertake new fiscal measures to stabilize the debt ratio. In the case of France, under this scenario, the government's deficit remains throughout the projection period above the 3 percent of GDP deficit limit of the Excessive Deficit Procedure (EDP). Finally, the "Custom" scenario is calibrated so that, after 2029, the deficit remains at around 2.2 percent of GDP (corresponding to a primary balance of 0.7 percent of GDP), that is between 3 percent of GDP and the minimum 1.5 percent deficit conservation buffer under the new EU fiscal rules. This is a conservative scenario, since it assumes that no new fiscal measures are taken between 2024 and 2029 and it uses staff's own potential longer GDP growth projection of 1 percent, to account for the impact of population aging (see Annex IV). The mechanical signals of the three standard scenarios breach the GFN thresholds, pointing to the presence of long-term risks in the absence of any new fiscal measures. Under the customized scenario, gross financing needs and the debt ratios return to a downward long-run trajectory under still conservative assumptions for fiscal policy and GDP growth.

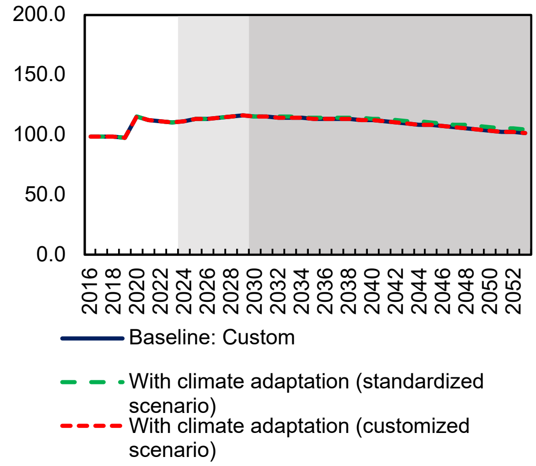
Figure VI.7. France: Long-Term Risk Assessment (concluded)

France: Climate Change: Adaptation

GFN-to-GDP Ratio



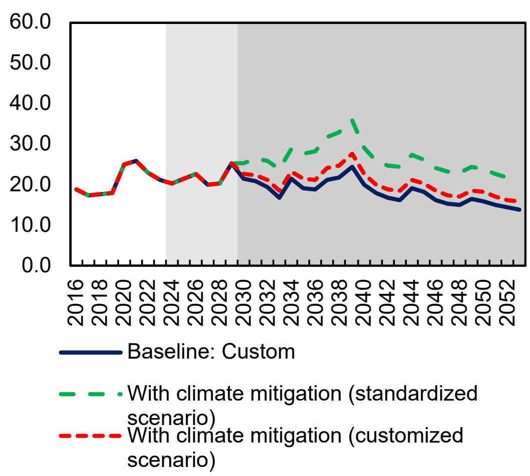
Total Public Debt-to-GDP Ratio



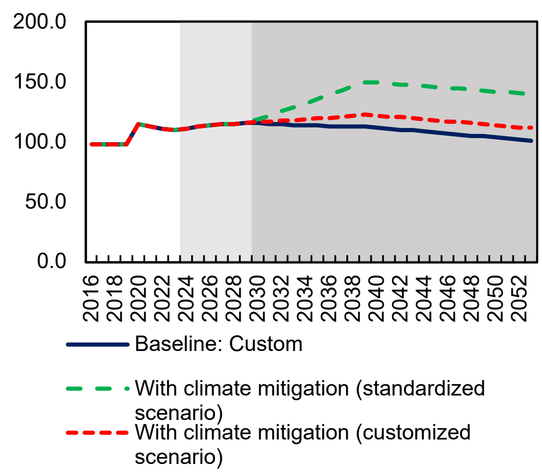
The standardized scenario for France assumes adaptation costs of 0.16 percent of GDP a year. Since these costs are already embedded under the baseline, as per customized scenario, the standardized scenario can be viewed as an adverse scenario generating unexpected additional costs. The charts show that, even in the more pessimistic case, the impact on public finances would be negligible.

France: Climate Change: Mitigation

GFN-to-GDP Ratio



Total public debt-to-GDP Ratio



The customized scenario uses estimates from a recent study (n. 342, April 2024) by the French Treasury that puts the total net additional cost of mitigation at 63 billion euros a year over a 9-year period, or 2 percent of GDP a year. Assuming that half of it is financed by the government, the impact on the deficit of mitigation policies would amount to 1 percent of GDP a year. The additional spending pressures remain manageable under the customized scenario, with conservative assumptions for fiscal policy and GDP growth. The standardized mitigation scenario considers instead a higher total (public and private) annual cost of 3.7 percent of GDP. It is calculated not specifically for France but for a group of peer countries and does not take into account that France already spends 1.3 percent of GDP on mitigation policies.

Annex VII. Data Issues Annex

Table VII.1. France: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Staff assess the overall data quality as adequate for the Fund's surveillance. France's economic and financial statistics are comprehensive, generally of high quality, and are provided to the Fund in a comprehensive manner. The authorities regularly publish a full range of economic and financial data, as well as a calendar of dates for the main statistical releases. France is also subject to the statistical requirement of Eurostat and the European Central Bank, including the timeliness and reporting standards, and it has adopted the European System Accounts 2010.

Changes since the last Article IV consultation. N/A

Corrective actions and capacity development priorities. N/A

Use of data and/or estimates different from official statistics in the Article IV consultation. Staff do not use data and/or estimates different from official statistics.

Other data gaps. It is critical to close data gaps and establish relevant metrics for monitoring broader systemic risk stemming from indirect exposures via NBFIs.

Table VII.2. France: Data Standards Initiatives

France adheres to the Special Data Dissemination Standard (SDDS) Plus since February 2015 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Annex VIII. Transnational Aspects of Corruption

Supply-Side of Corruption[1]

1. **In the 2024 Phase 4 Follow-up Report, the OECD WGB commended France's efforts to enhance enforcement of the foreign bribery offence and adopt reforms to strengthen the institutional and legislative framework for combating serious economic crime.** Since the Phase 3 evaluation, the authorities achieved notable progress in enforcing the offence of bribery of foreign public officials, with a significant increase in the number of investigations opened and the imposition of final sanctions both on legal and natural persons. In addition, the sanctions imposed on legal persons in foreign bribery cases through the *Convention judiciaire d'intérêt* public (CJIP, a non-trial resolution mechanism) since 2021 appeared to remain at high levels. The WGB also welcomed France's further legislative efforts which have preserved the major overhaul of its institutional and legislative framework in combating foreign bribery noted in 2021, including introducing several possibilities for significantly extending the duration of preliminary investigations to address the limitations imposed by the Act on "confidence in the judiciary" (2021), and carrying out a major new reform of the whistleblower protection system to transpose the European Union directive on whistleblowers. Efforts to alleviate concerns regarding the guarantees of the Anti-Corruption Agency (AFA)'s independence and missions, preserve the role and actions of the National Financial Prosecutor's Office (PNF) in investigations, prosecutions and non-trial resolution of foreign bribery cases, and further cooperation between the PNF and the AFA were also recognized by the WGB.

2. **The WGB noted that France should continue to take steps to tackle foreign bribery, particularly pursuing efforts made to address the prevalent resource issues for the criminal justice system, clarifying the corporate criminal liability framework, and reinforcing the guarantees of the independence of the Public Prosecutor's Office.** Given the scale of the deficits and the growing number of complex foreign bribery cases, efforts to strengthen the resources allocated to specialized investigative departments, prosecutors, investigative judges and trial judges responsible for these cases should continue. Although the authorities initiated steps to clarify the corporate criminal liability framework for foreign bribery as part of ongoing negotiations on the anti-corruption directive at the EU level, weaknesses in the legislative framework for corporate liability remain a major obstacle to enforcement outside the CJIP. The WGB also noted that France needs to further its reflection about its non-trial resolution tools available to natural persons to promote, in particular, better coordination between the non-trial resolution mechanisms applicable to natural and legal persons. Another challenge identified by the WGB lies in the guarantees of the independence of the Public Prosecutor's Office, considering the non-completion of the constitutional reforms to strengthen the independence of the public prosecution service and the persistence of the principle of requiring the Prosecutor General's Office to transmit information to the Ministry of Justice in certain sensitive cases. Finally, further efforts in fighting foreign bribery

[1] Information relating to supply-side corruption in this annex draws on the WGB's Phase 4 Follow-Up Report of France (March 2024). The IMF staff and France have provided additional views and information whose accuracy have not been verified by the WGB or the OECD Secretariat, and which do not prejudice the WGB's monitoring of the implementation of the OECD Anti-Bribery Convention.

were called for, among others, removing the obstacles to prompt and effective mutual legal assistance, preventing the assertions of professional secrecy obligations from impeding the identification of suspicious financial transactions, and ensuring that defense secrecy classification would not hamper the investigation and prosecution of foreign bribery cases.

INTERNATIONAL MONETARY FUND

FRANCE

June 18, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By
European Department

CONTENTS

FUND RELATIONS

(As of May 31, 2024)

Membership Status: Joined December 27, 1945; Article VIII.

General Resources Account	SDR Million	Percent of Quota
Quota	20,155.10	100.00
Fund Holding of Currency (Exchange Rate)	14,918.56	74.02
Reserve Tranche Position	5,236.66	25.98
Lending to the Fund		
New Arrangements to Borrow	111.52	

SDR Department:	SDR Million	Percent of Allocation
Net Cumulative Allocation	29,451.96	100.00
Holdings	27,616.58	93.77

Outstanding Purchases and Loans: None

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Sep 19, 1969	Sep 18, 1970	985.00	985.00
Stand-By	Jan 31, 1958	Jan 30, 1959	131.25	131.25
Stand-By	Oct 17, 1956	Oct 16, 1957	262.50	262.5

Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	2024	**2025**	**2026**	**2027**
Principal				
Charges/Interest	37.68	75.48	75.51	75.51
Total	**37.68**	**75.48**	**75.51**	**75.51**

Implementation of HIPC Initiative: Not applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not applicable

Exchange Arrangements:

- The currency of France is the euro. The exchange rate arrangement of the euro area is free floating. France participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies.

- France has accepted the obligations under Article VIII, Section 2(a), 3, and 4 of the IMF's Articles of Agreements, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, with the exception of restrictions imposed solely for the preservation of international peace and security, which have been notified to the Fund in accordance with Executive Board Decision No. 144-(52/51).

Article IV Consultation:

The last Article IV consultation was concluded on January 25, 2023. The associated Executive Board assessment is available at https://www.imf.org/en/News/Articles/2023/01/27/pr2321-imf-executive-board-concludes-2022-article-iv-consultation-with-france and the staff report at https://www.imf.org/en/Publications/CR/Issues/2023/01/30/France-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-528669. France is on the standard 12-month consultation cycle.

FSAP Participation and ROSC:

France–Report on the Observance of Standards and Codes (ROSC): Module I–Fiscal Transparency	October 17, 2000
Fiscal Transparency—Update	IMF Country Report
No. 01/196, 11/05/01	
Fiscal Transparency—Update	IMF Country Report
No. 04/345, 11/03/04	

Summary: The report found that France has achieved a high level of fiscal transparency and has introduced a number of improvements in coverage and presentation of fiscal information. Notable areas of progress include the development in the final accounts publication to include more complete information on government assets and liabilities as well as disclosure of contingent liabilities. Accounting standards have been changed to reflect accruals principles in a number of areas, and these standards are clearly explained. The staff suggested that further steps could be taken to identify and report quasi-fiscal activities in the budget presentation, provide a more consolidated picture of fiscal activity outside the appropriation process, and improve the reconciliation of stated policies with outcomes at the general government level.

These issues have been addressed in the *Loi organique aux lois de finance* (LOLF), which has become fully effective on January 1, 2006. In addition to the annual appropriations, the first multi-annual fiscal framework law was adopted in January 2009, and contains fiscal objectives for the period 2009–12. The budget is organized along missions and provides details on the level of appropriations for each mission and performance indicators by which the expected results of the mission will be assessed ex post. The State Audit Office has been given the new assignment of certifying the public accounts, and implementation of accruals basis accounting has been confirmed. Parliamentary oversight powers have been strengthened.

France–Report on the Observance of Standards and Codes (ROSC): Module II–Transparency in Monetary and Financial Policies	October 2000, corrected: 2/15/01
Transparency in Monetary and Financial Policies—Update	IMF Country Report No. 01/197, 11/05/01
Transparency in Monetary and Financial Policies—Update	IMF Country Report No. 02/248, 11/13/02

Summary: The 2000 ROSC noted that transparency of financial policies is accorded a high priority by all financial agencies assessed, and they are in observance of the good practices of the *Code of Good Practices on Transparency in Monetary and Financial Policies*. The major agencies disclose their objectives, their legal and institutional frameworks, and have open processes of policymaking and regulation. The principles of transparency are observed by dissemination of relevant information to the public and in the agencies' arrangements for internal conduct, integrity, and accountability. However, the staff noted that the framework for supervision and regulation applicable to mutual insurance firms is not as well defined and suggested to improve its transparency. The transparency of monetary policy was not assessed by the Fund team as the *Banque de France* is a member of the European System of Central Banks and no longer conducts independent monetary policy.

Subsequently, the framework for supervision and regulation applicable to a specific group of mutual insurance firms was modified in a number of steps. In August 2003, legislation created a single supervisory body, the *Commission de Contrôle des Assurances, Mutuelles et Institutions de Prévoyance* (CCAMIP) by merging the regular insurance supervisor (CCA) and mutualities' supervisor (CCMIP). Coordination with the banking sector supervisors was strengthened and the powers of the supervisory authorities extended. In 2010, supervision of the banking and insurance sectors was unified under the *Autorité de contrôle prudentiel (ACP)*, which subsequently also was granted resolution powers and was renamed the *Autorité de contrôle prudentiel et de résolution (ACPR)*.

France–Report on the Observance of Standards and Codes (ROSC): Data Module	IMF Country Report No. 03/339, 10/29/03
Data Module—Update	IMF Country Report No. 05/398, 11/07/05

Summary: The report found that France is in observance of the Fund's Special Data Dissemination Standard (SDDS) Plus. In particular, the mandate of INSEE and the *Banque de France* for the production of the six macroeconomic datasets is clearly defined, with the reporting burden and the confidentiality provisions given special consideration notably through the CNIS. Professionalism is central to the statistical operations of the two institutions, internationally and/or European accepted methodologies are generally followed, the degree of accuracy and reliability of the six datasets is remarkable, statistics are relevant and provided on a timely basis, and they are accessible to the public.

The report made a number of suggestions for further improvements: the responsibility of INSEE as the producer of government finance statistics should be clarified; data sharing between the *Banque de France* and the rest of the French statistical system improved; classification and valuation methods in balance-of-payments statistics reviewed; consistency between the current account of the balance of payments and the goods and services account in the national accounts improved; the timing of revisions in the quarterly and annual national accounts aligned; and identification of data production units of INSEE facilitated.

France participates to the G-20 Data Gaps Initiative, which aims at implementing twenty key recommendations aimed at addressing the data gaps identified after the global financial crisis and promote the regular flow of timely and reliable statistics for policy use. For example, with regard to Recommendation on Sectoral Accounts, all target requirements (dissemination of both annual and quarterly nonfinancial and financial accounts and balance sheets) have been met through the recent transmission of additional data to the OECD.

***France–Financial System Stability Assessment* (FSSA)**	IMF Country Report No. 04/344, 11/03/04
FSAP Assessment and Reports on ROSCs	IMF Country Report No. 04/345, 11/03/04
FSAP Assessment	IMF Country Report No. 05/185, 06/08/05
Publication of FSAP—Detailed Assessment of Observance of Standards and Codes	IMF Country Report No. 05/186, 06/08/05
***France–Financial System Stability Assessment* (FSSA)**	IMF Country Report No. 12/341, 12/07/12

France: Financial Sector Assessment Program—Detailed Assessment of Observance of Standards and Codes	
Basel Core Principles for Effective Banking Supervision	*IMF Country Report No. 13/180, June 2013*
Insurance Core Principles	*IMF Country Report No. 13/181, June 2013*
IOSCO Objectives and Principles of Securities Regulation	*IMF Country Report No. 13/182, June 2013*
Securities Settlement Systems and for Central Counterparties	*IMF Country Report No. 13/183, June 2013*
Financial Sector Assessment Program—Technical Notes	
Housing Prices and Financial Stability	*IMF Country Report No. 13/184, June 2013*
Stress Testing the Banking Sector	*IMF Country Report No. 13/185, June 2013*
France–Financial System Stability Assessment **(FSSA)**	IMF Country Report No. 19/241, 07/24/19
France: Financial Sector Assessment Program—Technical Notes	
Anti-Money Laundering and Combating the Financing of Terrorism Regime in France	*IMF Country Report No. 19/326, Oct 2019*
Balance Sheet Risks and Financial Stability	*IMF Country Report No. 19/324, Oct 2019*
Issues in Insurance Supervision and Regulation	*IMF Country Report No. 19/323, Oct 2019*
Key Attributes of Effective Resolution Regimes for Insurance Companies	*IMF Country Report No. 19/328, Oct 2019*
Macroprudential Policy Framework and Tools	*IMF Country Report No. 19/327, Oct 2019*
Nonfinancial Corporations and Households Vulnerabilities	*IMF Country Report No. 19/321, Oct 2019*

Risk Analysis of Banking and Insurance Sector	*IMF Country Report No. 19/322, Oct 2019*
Select Topics in Financial Supervision and Oversight	*IMF Country Report No. 19/325, Oct 2019*

Summary: The 2004 report concluded that France's financial sector is strong and well supervised. No weaknesses that could cause systemic risks were identified. The strength of the system is supported by the financial soundness indicators and the strong conformity to the supervisory and regulatory standards approved by the Basel Committee, IAIS, IOSCO, FATF, and CPSS. The degree of observance of the transparency code is high in all relevant areas. The French banking sector has been modernized and restructured over the past two decades and is well capitalized. Systemic vulnerabilities in the important insurance sector are well contained. Securities markets are large and sophisticated.

The FSAP Update undertaken in January and June 2012 confirmed the resilience of France's financial system to severe market pressures but also identified challenges faced by the system. While its structure has contributed to solid profit generation, the crisis exposed the risks posed by the banks' size, complexity, and dependence on wholesale funding. The larger banks have been actively restructuring their balance sheets—moving to more stable sources of funding; reducing their cross-border presence; and building up capital. They remain, however, vulnerable to sustained disruptions in funding markets and reduced profitability, which would cause delays in meeting capital-raising plans.

The 2012 report confirmed that the regulatory and supervisory regime for banks, insurance, and securities market was of a very high standard. Areas for improvement that emerged from the FSAP Update included greater de jure independence of supervisory authorities; disclosure of the capital treatment and related financial interactions within complex banking groups; a move toward a more economic risk-focused approach to insurance regulation and supervision; and enhanced supervision of investment service providers and financial advisors.

The 2012 report also found disclosure-related shortcomings. French banks and listed companies, more generally, make extensive public financial disclosures under IFRS, and as a result of bank regulations (Pillar III of Basel II). Nonetheless, disclosure of financial sector data falls short of international best practice and enhancements would be highly desirable. Market discipline would benefit from the publication of regular and comparable data on an institution-by-institution basis, as well as detailed official analyses of financial sector developments in France.

The FSAP Update undertaken in July 2019 confirmed that the financial system is more resilient than it was in 2012. French banks' capital positions and asset quality have improved. Banking business is better placed to handle cross-border contagion, including from exposures to high-yield EA economies. Insurers' solvency ratios have been stable and have been bolstered by the effective implementation of Solvency II. Household savings and balance sheets are relatively sound and house prices presently appear broadly aligned with fundamentals. The French financial conglomerate (FC) and bancassurance models thus far have worked well. Important institutional and policy changes have also taken place since the 2012 FSAP. At the national level, the authorities have strengthened the macroprudential framework by establishing the High Council for Financial Stability (HCSF), enhanced monitoring of financial stability risks, introduced macroprudential measures, and taken various financial reform measures. At the European level, significant changes include the Banking Union (BU), Capital Requirements Regulation/Capital Requirements Directive (CRR/CRD), Solvency II, and efforts towards a Capital Markets Union (CMU).

The 2019 report however found that there are several challenges. Banking and insurance business lines, and the corporate sector, carry important financial vulnerabilities that need close attention Private nonfinancial sector and public debt has continued to rise, with some concentration of vulnerable corporate debt. Risks from a tail of highly indebted corporates appear manageable, though stress tests show that some banks' large exposures to highly indebted corporates may increase notably under stress. Bank face profitability pressures due to the interest rate environment, lower revenue from market-related business, and stronger market competition. The reliance of banks on wholesale funding is better managed but is still sizable, and, could pose further risks to profitability and solvency. Insurers are broadly resilient against market shocks, but vulnerabilities stem from the concentrated exposures, mostly to their parent banks. Nonbanks—insurers and investment funds—are playing a larger role given the growing cross-border and non-EU exposures. The French financial conglomerate model, while so-far working well, is complex to manage and exposed to contagion and unexpected reputational risks. Finally, the incomplete BU and the slow progress towards CMU are creating uncertainty and constraining faster shifts in business models.

The 2019 report recommended augmenting policy tools to contain vulnerabilities and continue to act pre-emptively if systemic risks intensify. To mitigate intensification of corporate—and potentially household—vulnerabilities, the FSAP proposed: (i) active engagement with the ECB on the possible use of bank-specific (Pillar II) measures; (ii) considering fiscal measures to incentivize corporates to finance through equity rather than debt; and (iii) a sectoral systemic risk buffer. Additional liquidity buffers in all major currencies including in U.S. dollars, and intensified monitoring of insurers' exposures to parent banks, are desirable. A high priority should be placed on enhancing oversight of financial conglomerates, including through augmented conglomerate-level reporting and stress testing, and improving the resolution framework for insurers by including the bail-in tool. Stronger and formal coordination between the French Prudential Supervision and Resolution Authority (ACPR), French Financial Markets Authority (AMF), and the European Central Bank (ECB), alongside adequate skilled supervisory resources are also essential.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: The economic database is comprehensive and of high quality, and data provision to the Fund is adequate for surveillance. The authorities regularly publish a full range of economic and financial data, and calendar dates of main statistical releases are also provided. France subscribes to the Fund's Special Data Dissemination Standard (SDDS) Plus and has transmitted data to international agencies in electronic format using the Statistical Data and Metadata exchange (SDMX) standard.
National Accounts: France adopted the *European System of Accounts 2010* (*ESA 2010*) in May 2014. The transition from the *ESA 1995* (*ESA95*) entailed a revision of national accounts data. New data sources have been incorporated in the revised estimates. In 2024, the new 2020 base has been adopted and series have been revised accordingly. Historical data series are available from 1949.
Government Finance Statistics: Starting from September 2014, government finance statistics (GFS) data have been compiled and reported based on *ESA 2010* methodology. Revised time series for general government deficit and debt levels from 1995 onwards, based on the new methodology, were reported shortly thereafter. In 2024, the new 2020 base has been adopted and series have been revised accordingly. Although the source data are collected by the Ministry of Economy and Finance, INSEE is principally responsible for the compilation and dissemination of fiscal data in a framework that is consistent with ESA. **Monetary and Financial Statistics:** Monetary data reported for *International Financial Statistics* are based on the European Central Bank's (ECB) framework for collecting, compiling, and reporting monetary data. Statistics for *International Financial Statistics* on banking institutions and monetary aggregates are prepared on a monthly basis and are timely. Monetary data are also disseminated in the quarterly *IFS Supplement* on monetary and financial statistics. **Financial Sector Surveillance:** France provides financial soundness indicators (FSIs), both the core and some of the encouraged indicators, on a timely basis. **External Sector:** Starting in June 2014, monthly balance-of-payments statistics are published using the guidelines set out in the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*). Back casting of previous periods started with the publication of the Annual report of the balance of payments and the international investment position end June 2014. Currently, a consistent set of quarterly balance of payments and IIP data in *BPM6* format covering the period 1999:Q1 to date are published.

Table 1. France: Table of Common Indicators Required for Surveillance
(As of June 2024)

	Date of Latest Observation	Date Received	Frequency of Data	Frequency of Reporting	Frequency of Publication
Exchange Rates	6/24	6/24	Daily	Daily	Daily
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	5/24	5/24	Monthly	Monthly	Monthly
International Investment Position	Q4:2023	Q3:2024	Quarterly	Quarterly	Quarterly
Reserve/Base Money	4/24	5/24	Monthly	Monthly	Monthly
Broad Money	4/24	5/24	Monthly	Monthly	Monthly
Central Bank Balance Sheet	4/24	5/24	Monthly	Monthly	Monthly
Consolidated Balance Sheet of the Banking System	4/24	5/24	Monthly	Monthly	Monthly
Interest Rates[2]	5/24	5/24	Daily	Daily	Daily
Consumer Price Index	5/24	5/24	Monthly	Monthly	Monthly
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2023	05/24	Annual	Annual	Annual
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[5]	04/24	06/24	Monthly	Monthly	Monthly
Stock of Central Government Debt	04/24	06/24	Monthly	Monthly	Monthly
External Current Account Balance	03/24	03/24	Monthly	Monthly	Monthly
Exports and Imports of Goods and Services	03/24	03/24	Monthly	Monthly	Monthly
GDP/GNP	Q1:2024	Q2:2024	Quarterly	Quarterly	Quarterly
Gross External Debt	Q4:2023	Q1:2024	Quarterly	Quarterly	Quarterly

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] This information is provided on a budget-accounting basis (not on a national accounts basis).

Statement by Mr. Arnaud Buissé, Executive Director for France and Mr. Paul-Simon Benac, Alternate Executive Director
June 27, 2024

On behalf of our authorities, we would like to warmly thank Ms. Goretti and her team for the very constructive and insightful discussions, and the well-written and well-balanced report.

Overall, we wish to underscore the broad convergence of views between staff and our authorities at the time of the Article IV consultation. This alignment is true both on strategic priorities and policy measures to achieve the underlying objectives, with differences (including in economic and fiscal projections) mainly driven by considerations on the timing of reforms and the need to incorporate in staff's forecasts only measures already specified and announced.

Economic outlook

As underlined in the report, the French economy has demonstrated strong resilience despite weaker external demand and the monetary tightening, while recent market movements are not expected to have any significant impact at this stage. Growth reached 1.1% in 2023 according to the latest Insee figures, very close to government's expectation (1.0 %) and above the last Article IV forecasts (0.7%). Labor market performance is strong: the unemployment rate is near historically low levels and the employment rate is at an all-time high. Staff's forecasts and government projections are almost aligned in 2024 and 2025. The 2024Q1 results led to a slight upward revision in staff's growth projection for 2024 to 0.9%, virtually similar to the government's forecast of 1%. For 2025, differences in growth forecasts are also not significant, and both staff and our authorities expect inflation to come down to 1.8% at that time. Risks to the baseline were mainly external at the time of the consultation, and mostly related to geopolitical developments, including Russia's war on Ukraine. Since then, the announcement of new parliamentary elections, to be held on June 30 and July 7, has led to market movements and increased volatility. The 10-year sovereign spread over Germany has first increased by about 30bp the week following the dissolution of the National Assembly, but then tightened back to currently 23 basis points wider levels compared to before the announcement.

Fiscal policies

France's stability program (PSTAB) targets a deficit below 3% of GDP by 2027 and is based on an expenditure-based consolidation – a strategy fully in line with staff's advice. Against the background of a revenue-to-GDP ratio slightly above 51% and the urgent need to remove distortive tax measures which hamper France's competitiveness, our authorities' strategy focuses on winding down temporary support measures and implementing structural reforms to support growth and generate significant savings. On the latter, ambitious and highly sensitive reforms have already been adopted since the last Presidential elections. The implementation of the pension reform started in September 2023 and will progressively increase the minimum retirement age from 62 to 64 by 2030 and the minimum contribution period for a full pension to 43 years by 2027, leading to a ½pp of GDP reduction in the fiscal deficit per year from 2027 and an increase in activity (+0.7% in 2027, driven by 200,000 additional jobs), relative to a no reform scenario. Unemployment benefit reforms have also been successively adopted to contribute to the objective of full employment French authorities are also leveraging current favorable labor market conditions to reform the unemployment benefits scheme, with a new decree to complement the 2023 reform which includes additional changes to support labor participation. In parallel, the 2024 budget phased out most of the outstanding crisis response measures as outlined in staff report. While the disappointing 2023 fiscal outturn was driven by a sharp revenue shortfall, the immediate announcement by the government of an additional EUR 10bn set of saving measures is testament of France's commitment to the PSTAB targets. Looking ahead, the PSTAB targets a 2.9% deficit in 2027, based on an aggregated structural effort of 2.3pp between 2023 and 2027, starting with 0.6pp in 2024, followed by 0.9pp in 2025. Staff's projections only reflect measures already identified and announced, which explains the differences with the PSTAB. Beyond already committed cuts, French authorities already planned to add another EUR 10bn savings for 2024. Additional spending measures are under preparation, based on the ongoing spending review exercise and greater association of local governments to consolidation efforts, including with the creation of the High Council of Local Public Finances to promote consensus on the fiscal consolidation strategy across all levels of government, in line with staff's advice.

Financial sector

The French financial sector has shown resilience and remains robust, as witnessed by healthy bank's liquidity and solvency positions and the limited impact on financial institutions of the decline in real estate prices, the orderly deleveraging process, and the financial tightening. French banks benefit from solid solvency and liquidity ratios, well above regulatory requirements (CET1 of 15.5% at end 2023, liquidity coverage ratio around 150%), and have also comfortable liquidity reserves – their high-quality liquid assets (HQLA) exceed €1,000bn, and their ratios of assets already used as collateral remain relatively low, leaving a comfortable reserve of unencumbered assets eligible for central bank refinancing. Insurance companies also largely meet their solvency requirements (with a solvency capital requirement around 250% at end 2023, on average), while surrender and liquidity risks of life insurers remain low, in a context of revived net subscriptions in 2024. Overall, the prevalence of fixed-rate loans for both households (99% of mortgages) and non-financial corporations (70 %) was instrumental in shielding them from the adverse impact of the fast monetary tightening. It also allows for an orderly deleveraging process in the corporate sector (with the number of bankruptcies now above the 2010-2019 average, making up for the low level of insolvencies in 2020 and 2021) and helps limit the impact of the decline in real estate prices on non-performing loans, which remain extremely low at 1.9% on average. While some vulnerabilities were observed in relation to real-estate investment funds (REIFs) and are monitored by the relevant authorities, most of them already use liquidity managements tools, including redemption gates, and are far less leveraged (5.9% on average in June 2023) than REIFs in other jurisdictions, which help limit liquidity tensions stemming from high redemptions requests, and in turn risks to financial stability.

Structural policies

Staff report rightly underscores the need to accelerate the green transition and to address the slowdown in productivity growth, both being, with reaching full employment, the key priorities of our authorities' structural reforms agenda. The reforms agenda has strongly emphasized education and training reforms, in line with staff's advice, including through (i) a reform of vocational schools in 2023 to strengthen links with businesses and align training courses on the needs related to the climate and digital transitions; (ii) apprenticeship reforms to increase youth employability, with the impressive results outlined in the report, and (iii) job retraining programs with the creation in 2019 of *France compétences*, an agency which has already played a decisive role by bringing consistency and structure in the French vocational training system and by financing targeted training to facilitate labor transitions. In parallel, and while France has one of the highest levels of public support for business R&D in the OECD, several initiatives were launched to address innovative businesses' financing needs to accelerate innovation, including the introduction of regulatory incentives to channel private savings to capital investments through the creation of a new pension saving product and targeted changes in the legal framework governing life-insurance products. Next steps include accelerating efforts at EU level to deepen and complete the capital markets union, an agenda on which France plays a leading role, with concrete proposals to develop European long-term savings products, revitalize the securitization market and move towards an integrated supervision for capital market activities.

In line with the objective of achieving carbon neutrality by 2050, significant institutional changes were implemented to accelerate ongoing climate mitigation efforts, along with the concrete sectoral policies already outlined in the report. A new General Secretariat for Ecological Planning (SGPE), which reports directly to the Prime minister, was created in mid-2022. It has since then played a major role in bringing all sectors and ministries in line with France's decarbonization objectives and with other national ecological transition objectives (biodiversity, natural resources, water, etc.). A major outcome was the design of a plan breaking down the decarbonization efforts across the various sectors of the economy, monitored by 250 public indicators. To consolidate cooperation between the State and local authorities on decarbonization, this work has been adapted at regional level as part of an ongoing consultation process (regional "COPs"). A multi-year strategy defining the financing of the ecological transition and national energy policy is also under preparation, which the Government is due to submit to Parliament in the coming months. This Strategy will provide multi-year visibility for the various public and private players. In 2023, France experienced a 5.8% reduction in its greenhouse gas emissions, which is fully consistent with France's decarbonization targets for 2030.