



Which rebalancing strategy for France?

Conference:

'French competitiveness: New challenges, new measures'

Banque de France

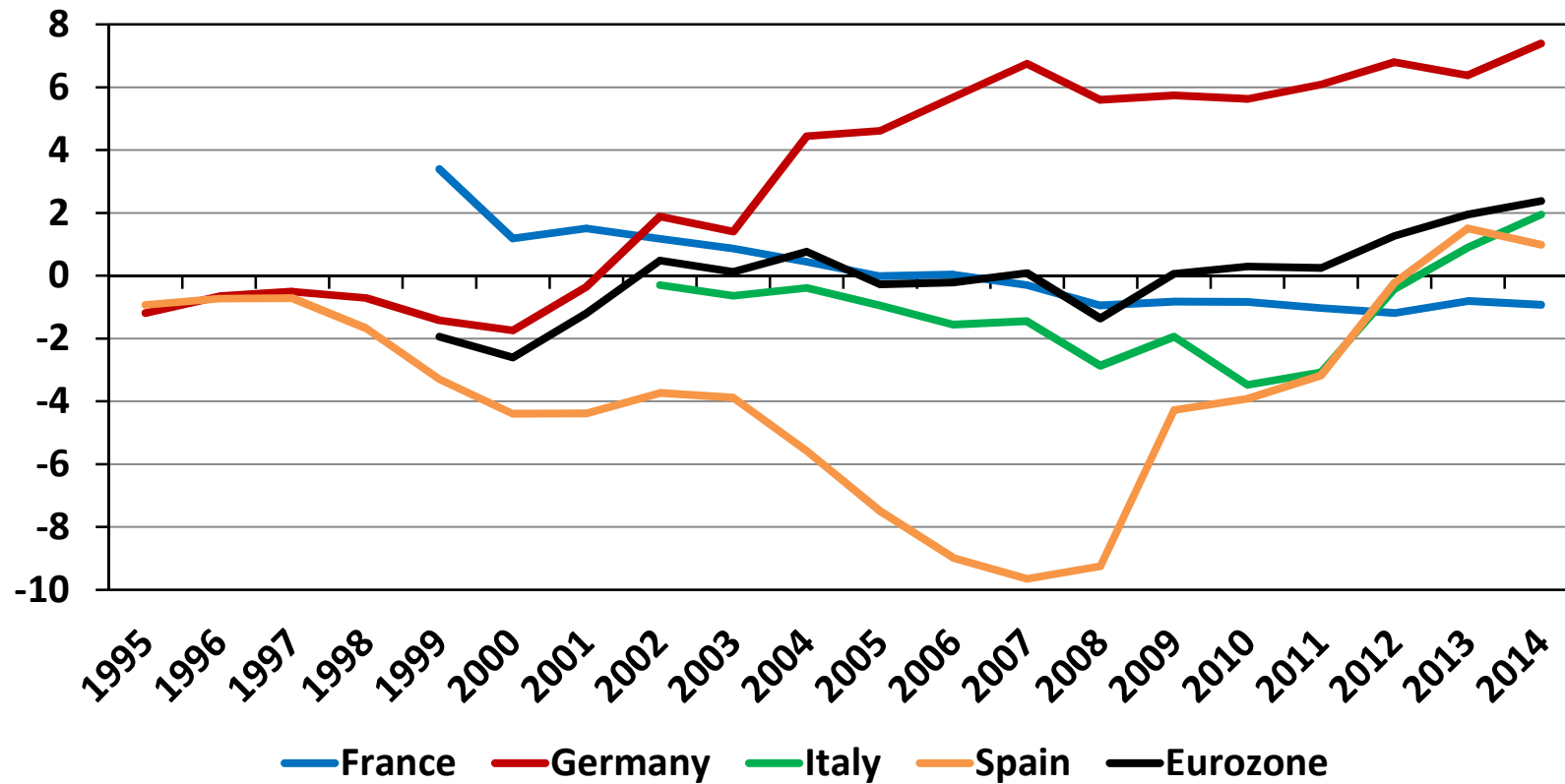
December 16th 2015

Gilbert Cette

Banque de France

Current account - % GDP

- Large and growing surplus in Germany
- Rebalancing in Spain and Italy
- **From surplus to deficit in France: declining trend**



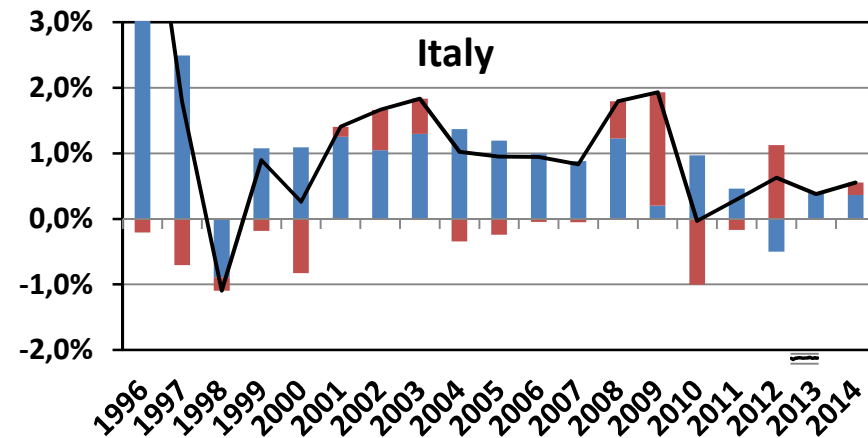
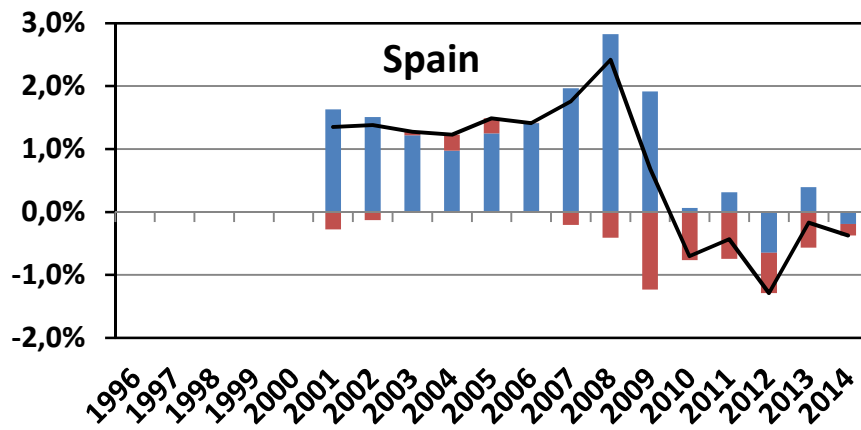
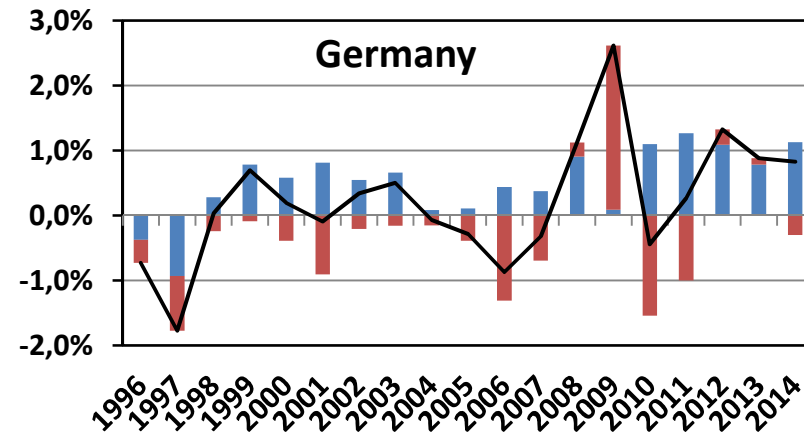
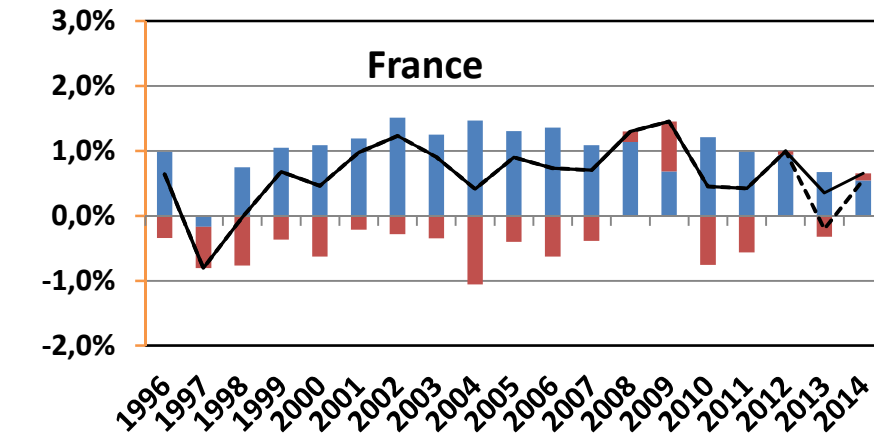
Source: National accounts, Eurostat

German success: From reforms?

*“We therefore believe that while **the Hartz reforms** have contributed to the recent decline in long-term unemployment and to the continued increase in wage inequality at the lower end of the wage distribution, they **were not central or essential in the process of improving the competitiveness of German industry.**”*

C. Dustmann, B. Fitzenberger, U. Schönberg, A. Spitz-Oener “*From Sick Man of Europe to Economic Superstar: Germany’s Resurgent Economy*” *Journal of Economic Perspectives*, Volume 28, Number 1, Winter 2014, p. 184

Breakdown of unit labor cost growth (delta logs)



■ Productivity per employee (inverted)
■ Compensation per employee
 — ULC

Source: National accounts, Eurostat

Breakdown of unit labor cost growth - % and PP

- 2001-2008: ULC stability in Germany, from wage moderation; ULC increase in Spain and Italy from compensation increase and no productivity gains; **intermediate situation for France**;
- 2009-2014: Higher ULC growth in Germany from compensation acceleration and no productivity gains; ULC decrease in Spain from low compensation increase and productivity gains; **intermediate situation for France and Italy**

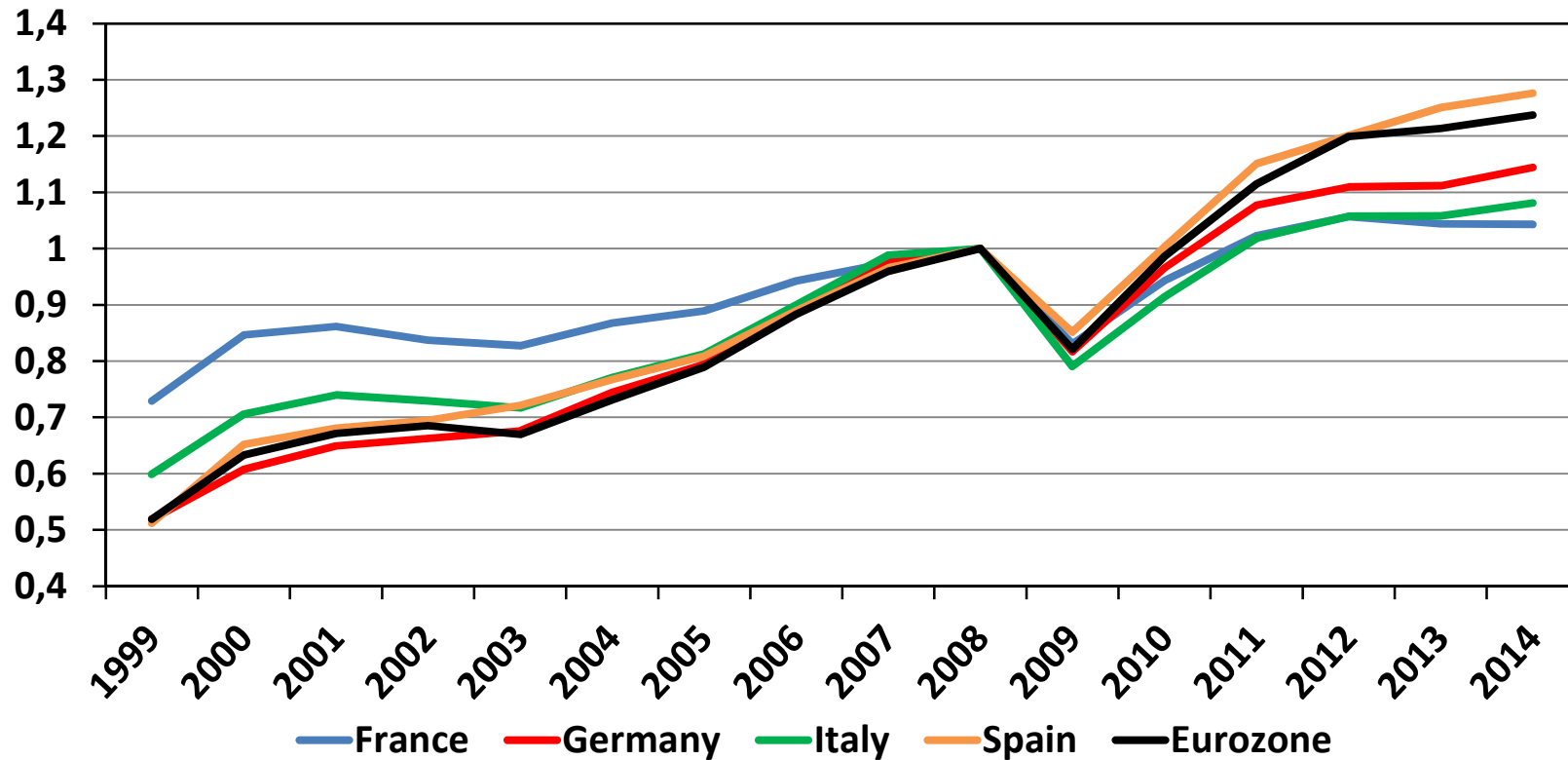
		Germany	France	Spain	Italy
2001-2008	ULC	0,04	0,89	1,54	1,30
	Compensation	0,49	1,29	1,60	1,16
	Productivity	-0,45	-0,39	-0,06	0,15
2009-2014	ULC	0,91	0,61	-0,38	0,63
	Compensation	0,91	0,73	0,31	0,32
	Productivity	0,00	-0,12	-0,69	0,31

Source: National accounts, Eurostat

Rebalancing: Contribution of total exports

From 2008, large contribution in Spain, low in France and Italy, medium in Germany

Export value – Index 2008 = 1

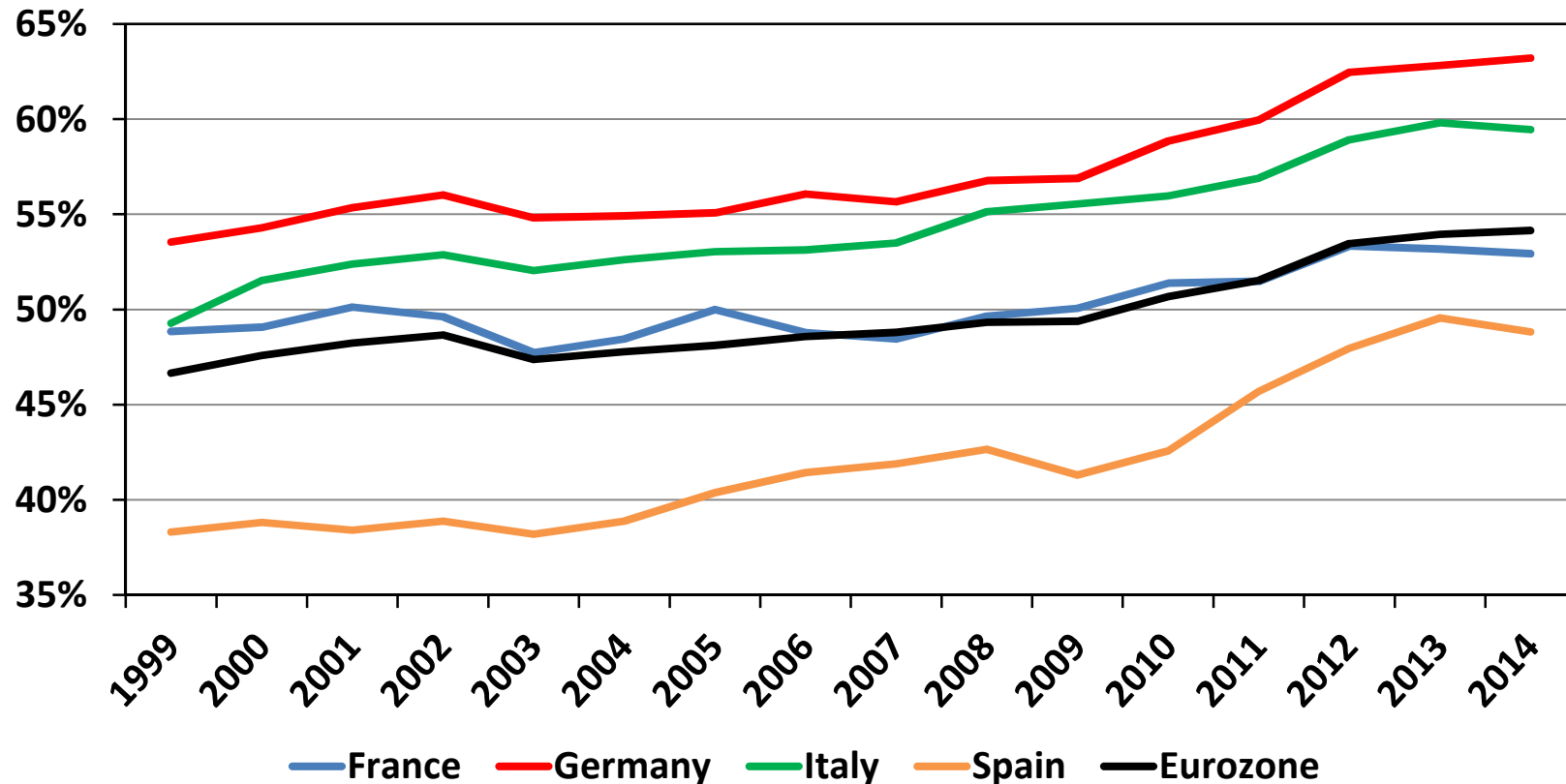


Source: National accounts, Eurostat

Extra-EA exports

Export extra EA share: high and growing strongly in Germany, low but growing strongly in Spain, **medium and slightly increasing in France and Italy**

Extra-EA exports (% of total exports)



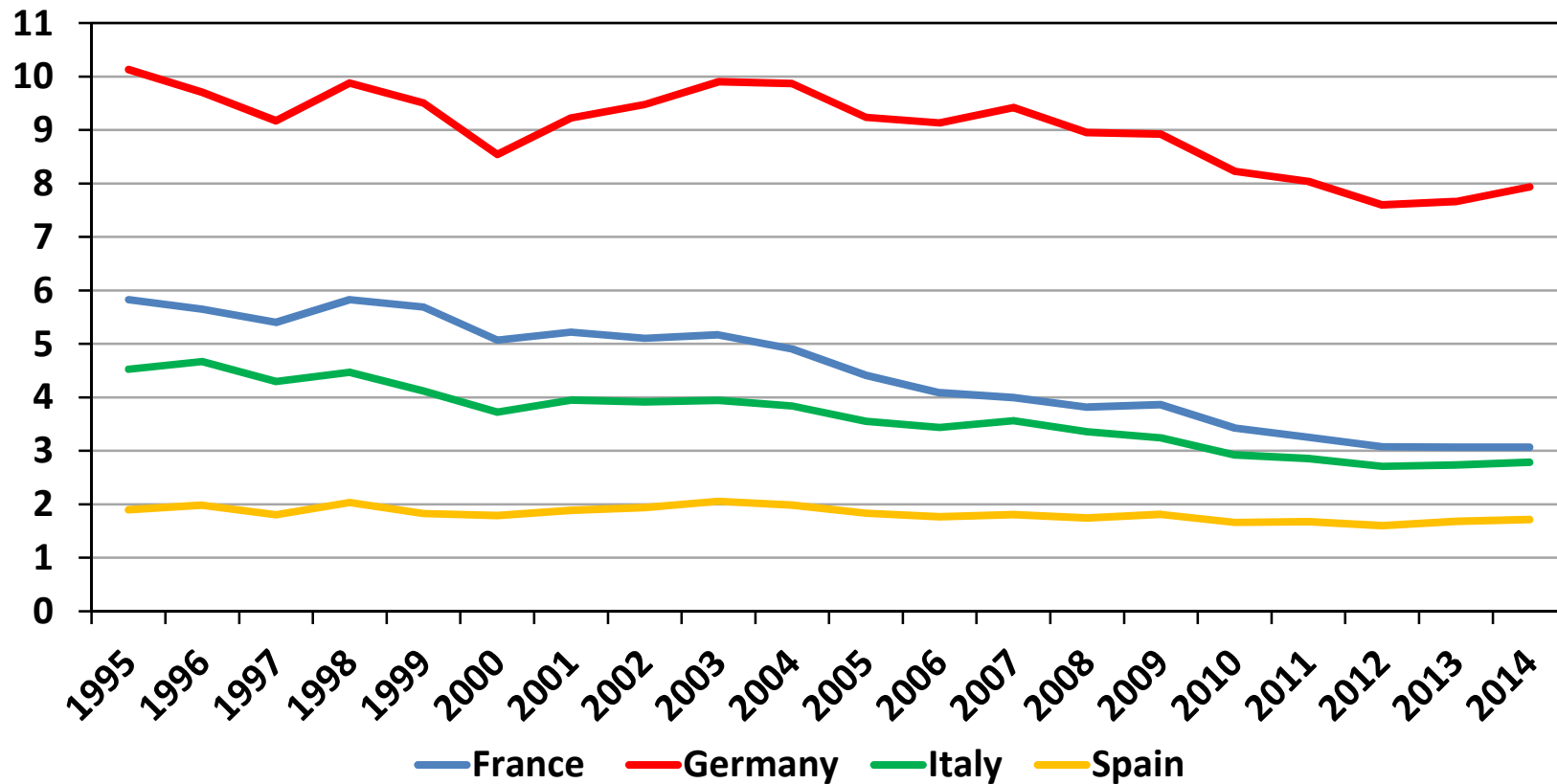
Source: National accounts, Eurostat

Market shares

Decrease of the market shares, by:

- 1995-2008 : **34.6% in France**, 25.7% in Italy, 11.6% in Germany, 8.0% in Spain
- 2008-2014 : **19.6% in France**, 17,2% in Italy, 11.3% in Germany, 1.9% in Spain

Market shares – In %

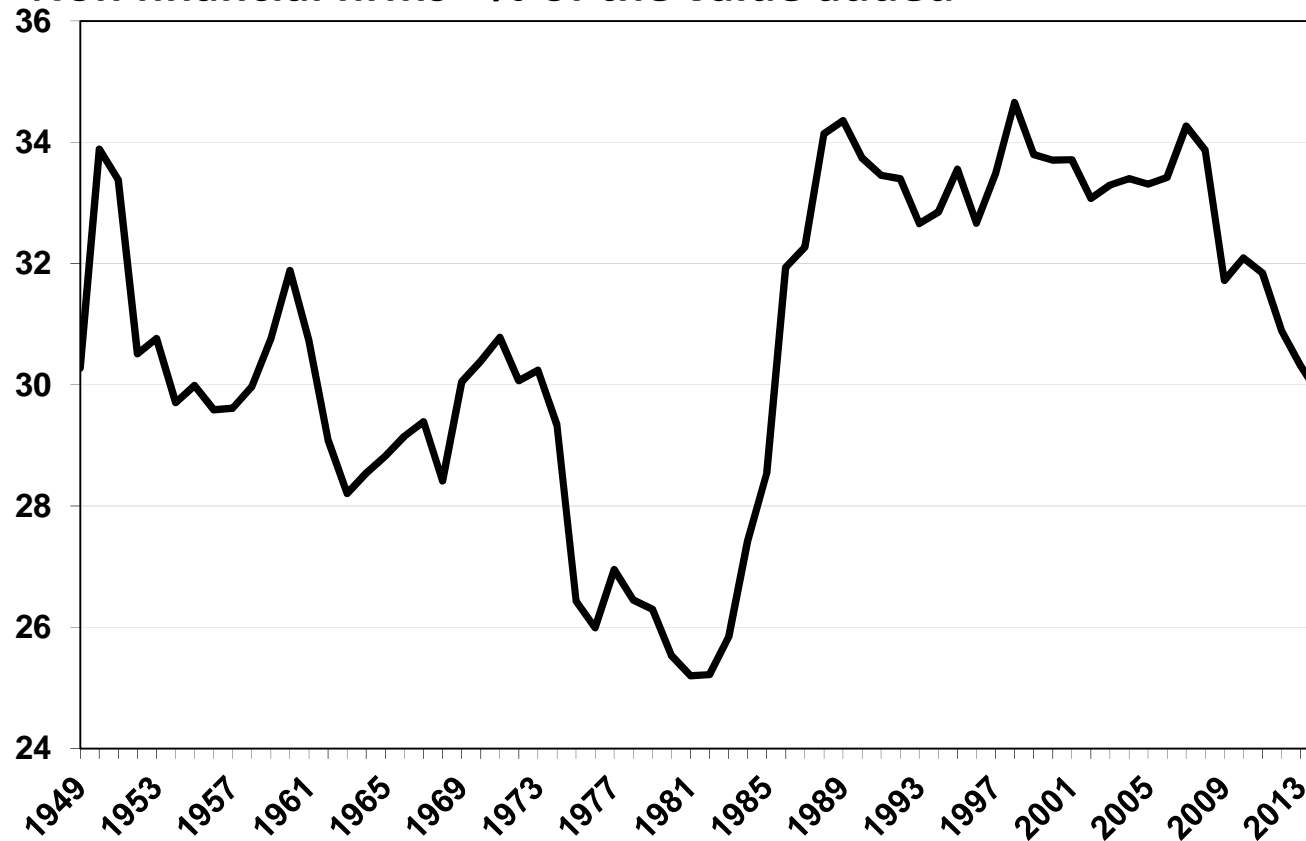


Source: OMC - BdF

Value added profit share

Impressive decrease of the profit share
Back to the level of the mid 1980s

Non financial firms - % of the value added

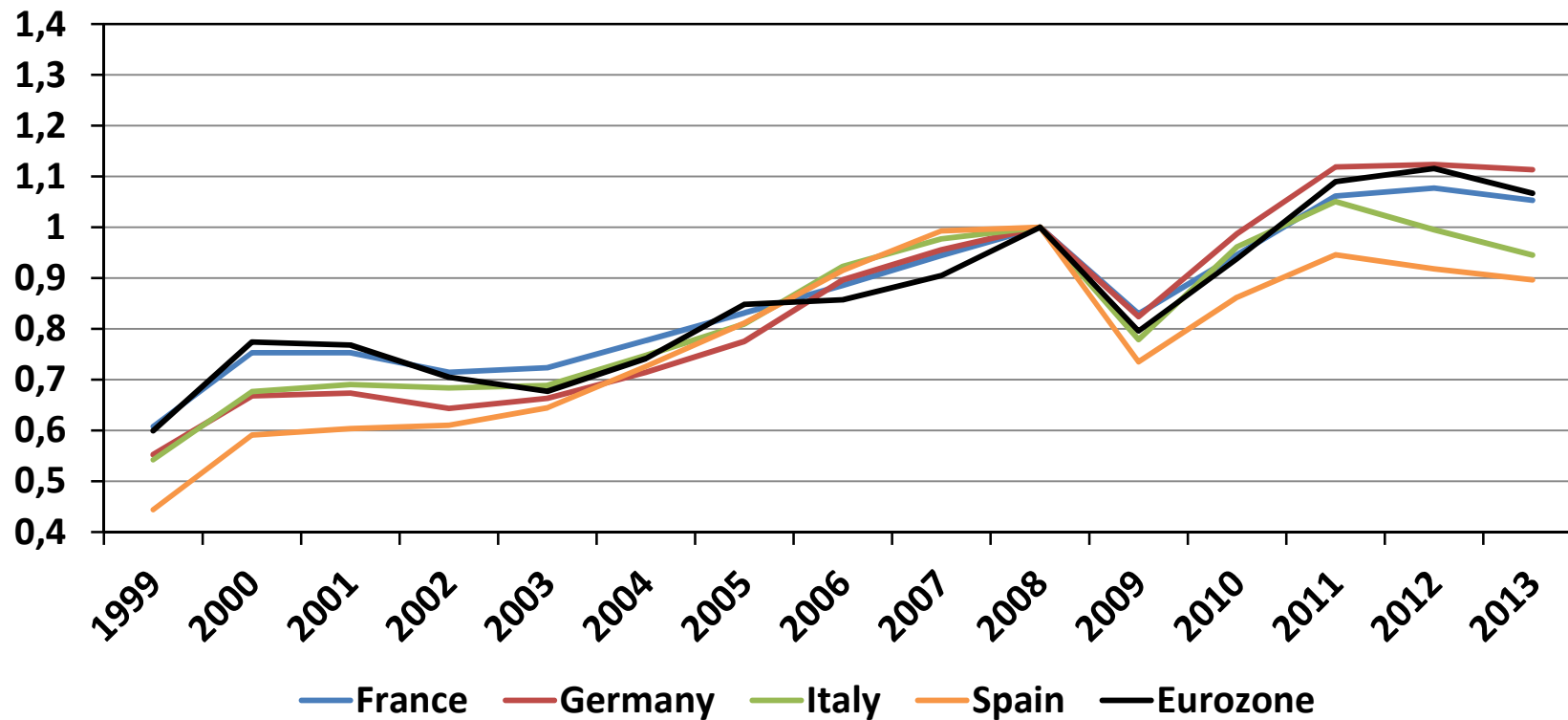


Source: OMC - BdF

Rebalancing: Contribution of total imports

From 2008, contribution of total imports in rebalancing: positive in Spain and Italy due to a lower domestic demand, **neutral in France** and Germany

Import value – Index 2008 = 1

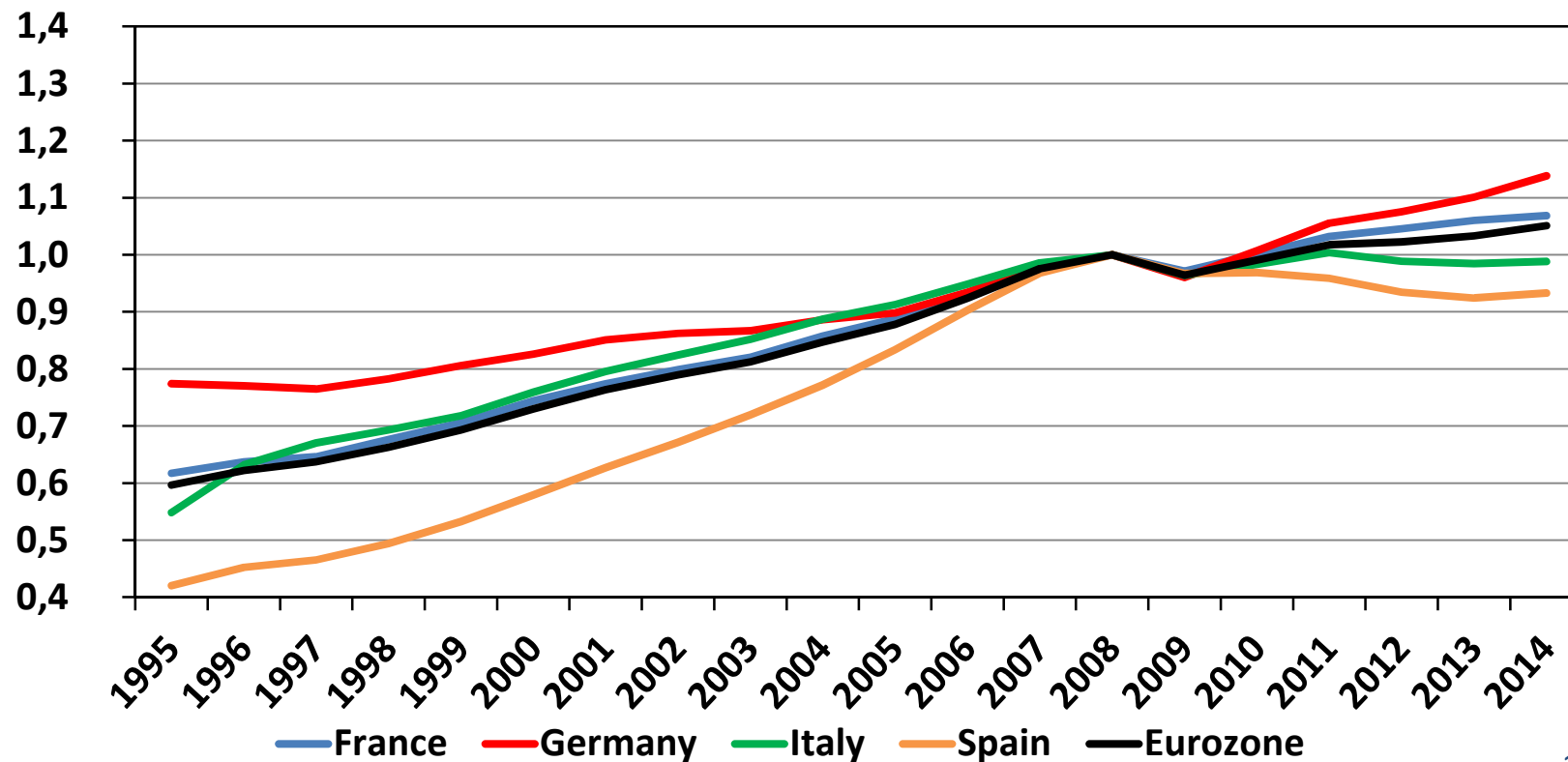


Source: National accounts, Eurostat

Rebalancing: contribution of domestic demand

From 2008, GDP increase in Germany, **slight increase in France**, stability in Italy, decrease in Spain

GDP – Index 2008 =1



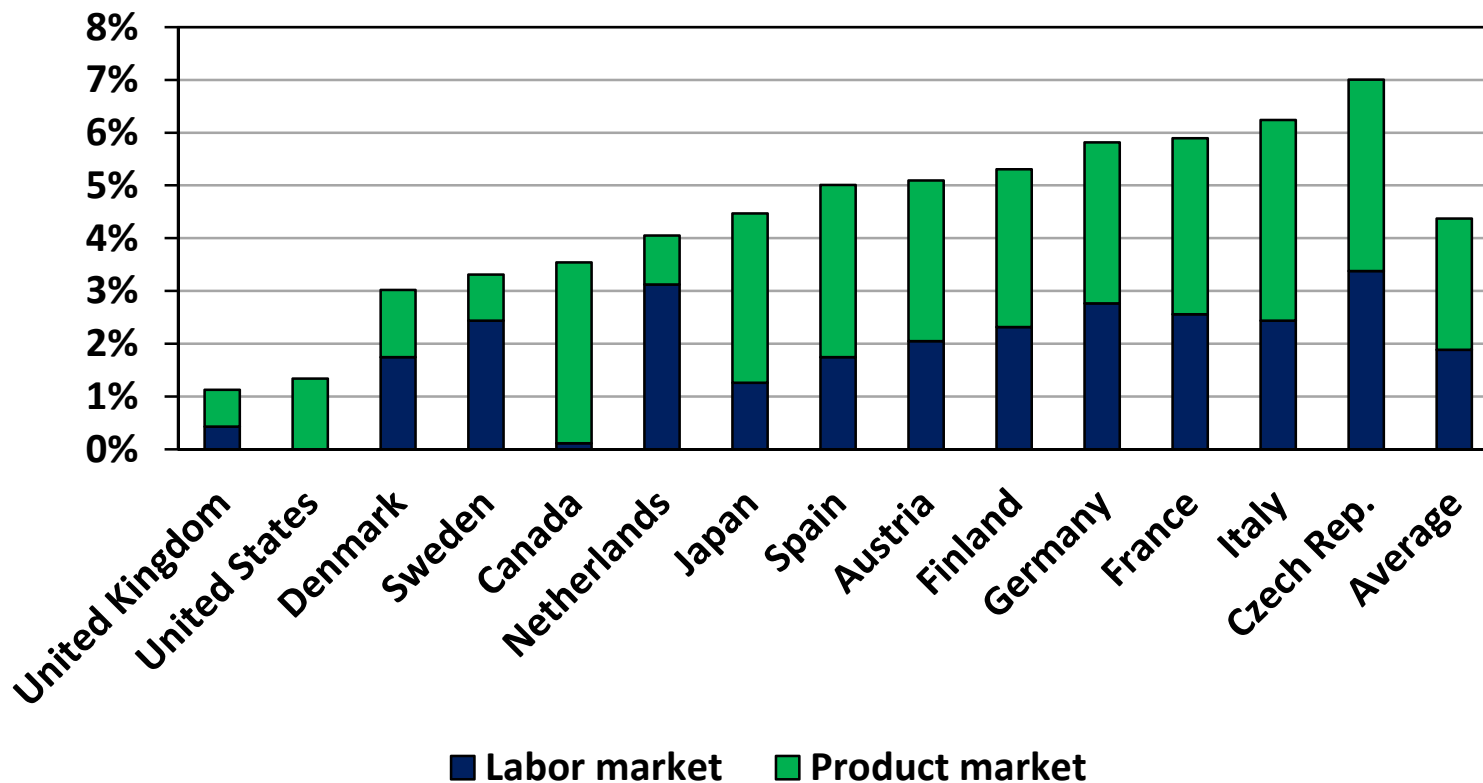
Source : National accounts, Eurostat

Policy coordination and reforms

- **Large and growing current account surplus in the EA. But country heterogeneity:** large and growing surplus in Germany, rebalancing in Italy and Spain, *declining in France*
 - Germany: a “success story” but not an example
 - Spanish rebalancing: From competitiveness improvement **and** decline of domestic demand
 - Italian rebalancing: Mainly from stable domestic demand
 - **France: No competitiveness improvement, slight increase of domestic demand. Role of the MW (SMIC) dynamic**
- **EA: Need more coordination in demand behavior.**
 - To avoid a larger domestic demand moderation in deficit countries, need of more domestic demand in Germany
 - Hope from MW implementation and spending for refugees in Germany?
- **Competitiveness and growth can be obtained from implementation of ambitious structural reforms**

Gains from structural reforms

Long term impact of structural reforms on labor and product markets
Impact on TFP and GDP – In %



Source: Cetto, Lopez and Mairesse (2014)