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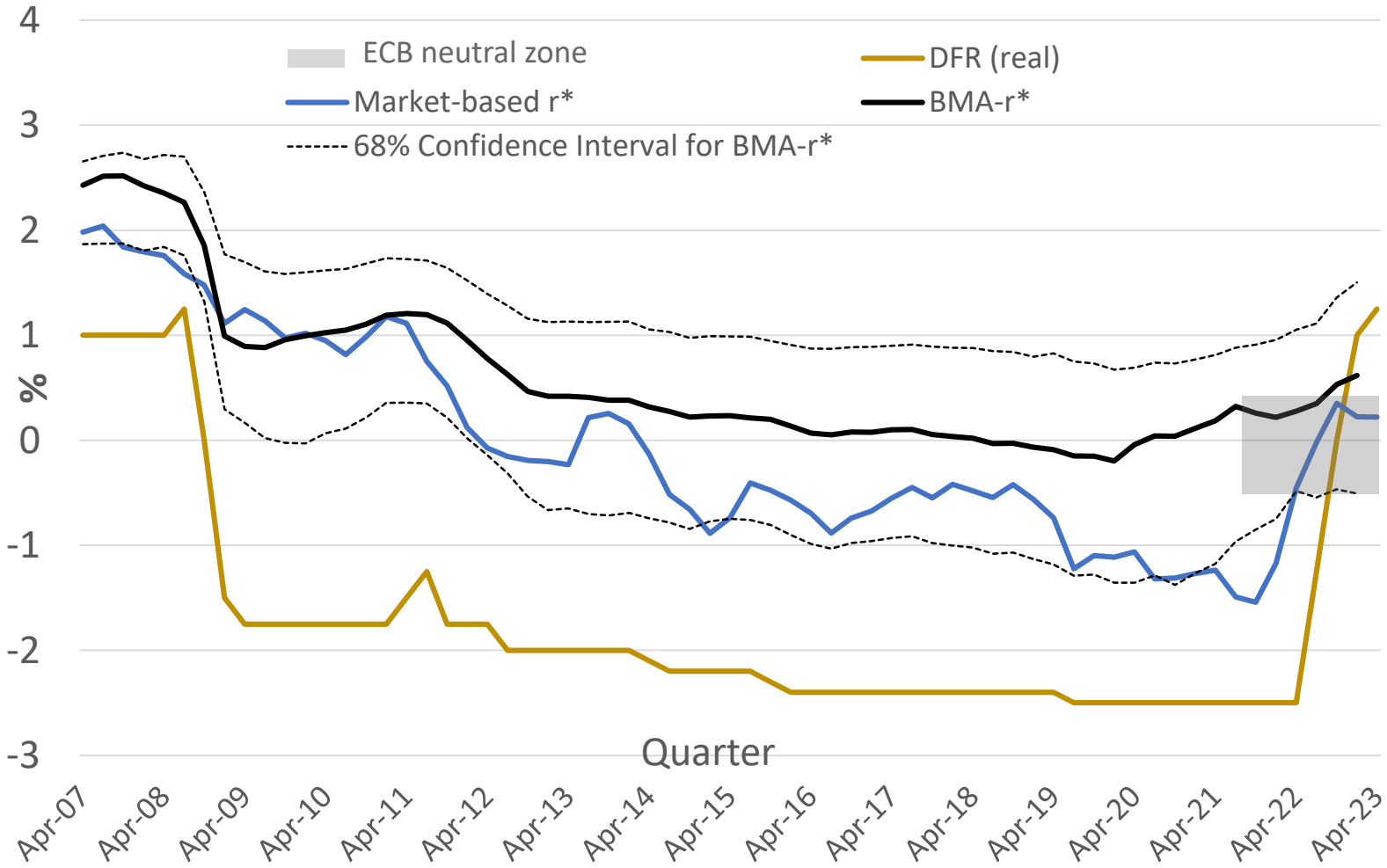
PSE POLICY FORUM

THE DFR RATE IS IN RESTRICTIVE TERRITORY COMPARED TO MEASURES OF A NEUTRAL STANCE (R*)



Note: BMA-r* is the filtered estimate of the natural rate of interest in nominal terms. Weights are computed based on the posterior likelihood; see Diebold and Lopez (1996) for a review of the methodology. Estimate of r* are presented in real terms. Dotted grey lines are 68% confidence intervals. ECB neutral zone represents the range of ESCB measure of real neutral rates r*. **DFR is in real terms**, in quarterly terms (last observation) obtained as DFR minus 2%.

Source: Banque de France estimates. Last observation: 2023Q1 model estimates. 2023Q2 data

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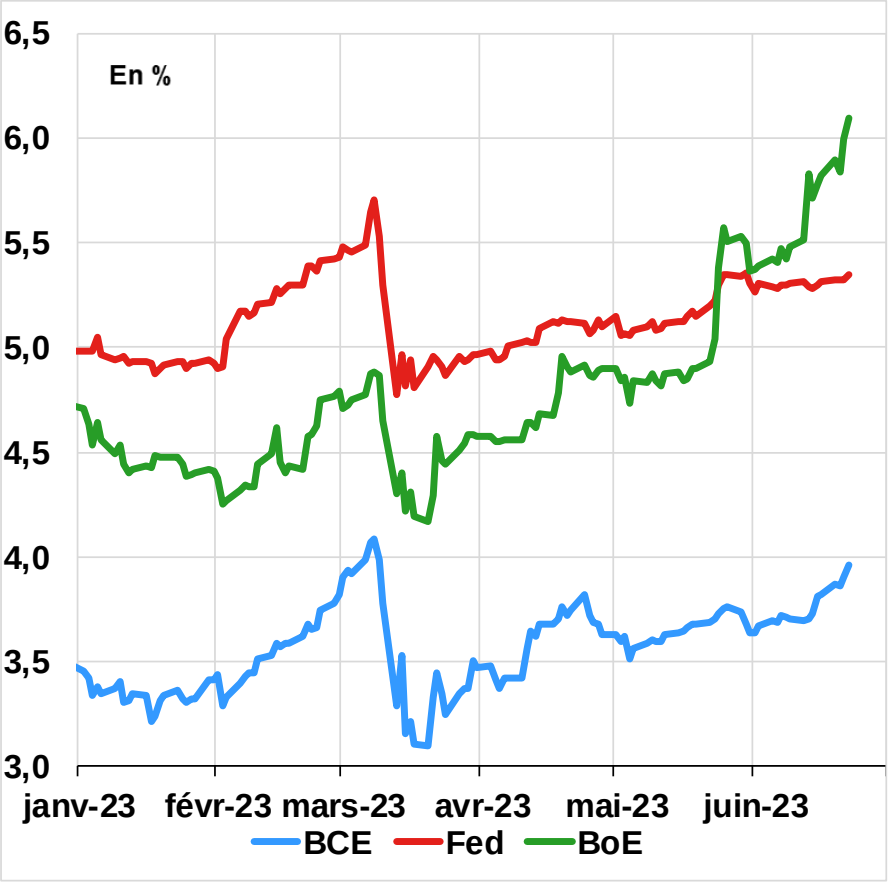
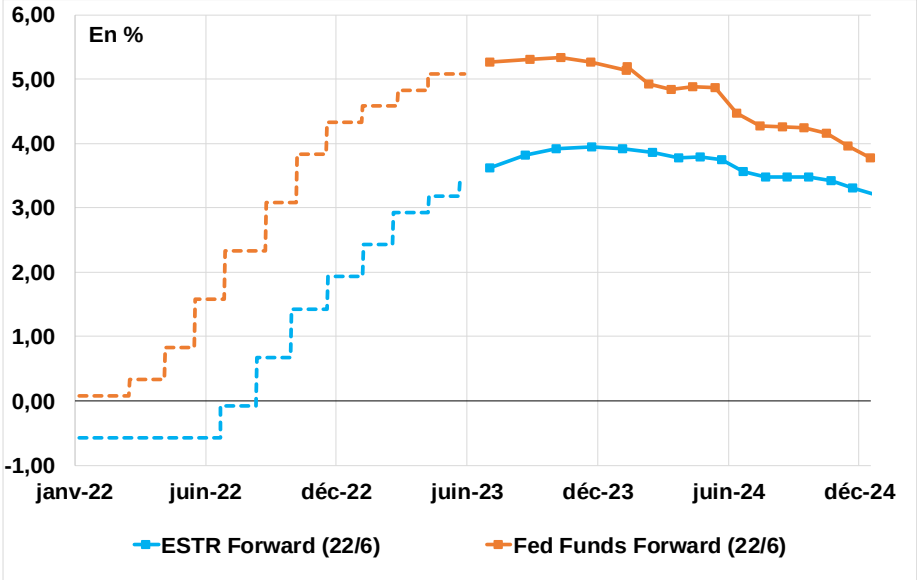
DURATION MATTERS MORE THAN THE LEVEL; PERSISTENCE MATTERS MORE THAN THE PEAK

Taux terminaux (OIS) : ~5,3% aux US ,~4% en Z€, ~6% au UK



Plus aucune baisse de taux *pricée* en 2023 pour la Fed et la BCE

Cgouvs BCE	Evol. par meeting	Cumul	FOMC Fed	Evol. par meeting	Cumul
JUL2023	23	23	JUL2023	19	19
SEP2023	20	43	SEP2023	4	23
OCT2023	10	53	NOV2023	3	26
DEC2023	3	56	DEC2023	-7	19



- Une dernière hausse de taux de +25 bps pour la Fed, encore deux hausses de taux de +25 bps pour la BCE selon les marchés monétaires
- Première baisse de taux anticipée en mars 2024 pour la Fed et en juin 2024 pour la BCE.

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Data : Bloomberg – actualisation au 22 juin 2023/ Tables/charts : BDF

DISCUSSION ON ESTIMATES OF NEUTRAL STANCE (R*)

- Wicksell (1936): the real short-term interest rate consistent with **output equaling potential and constant inflation**.
  - Secular **downward trend** of r* measures since 1980s (Laubach & Williams 2003)
  - High cross-country correlation (Del Negro, Giannon, Giannoni & Tambalotti JIE 2019)
  - Theory predicts strong link between trend growth and r*
- Central for assessment of monetary policy stance
  - Key role in most policy rules (Taylor 1993, exceptions are Orphanides & Williams 2002 and Rudebusch 2001)
- Quite imprecise estimates calls for monitoring the speed of monetary policy transmission and measures of underlying inflation.
- Recently a (cyclical) upswing
  - Re-opening boom, and shifts in household preferences toward durables, then services have increased growth and reduced unemployment.
  - Persistence of upswing still highly uncertain, but should be closely monitored to assess monetary policy stance in the euro area.

WOULDN'T CHANGING OUR TARGET BE EASIER?

The Eurosystem is committed to a 2% symmetric target over the medium term

- **Chosen after a thorough analysis of pros and cons in our 2021 strategic review**
  1. A buffer away from the Effective Lower Bound on nominal interest rates
  2. Avoiding deflation in individual countries with below-average inflation
  3. Curbing the adverse effects of downward nominal wage rigidity on employment

- **The anchor is no anchor if it keeps moving with the boat**
  - Changing it now would only hurt credibiltiy and make the return to 2% harder
  - Claiming 2% and targeting something else would hurt credibility even more
  - The last mile of an active disinflation is the hardest, and where commitment matters most

- **Our goal must be to deliver on our commitment to 2%**
  - Discussing the objective again can only come when inflation is back to 2%
  - Our next strategic review is scheduled for 2025

WHAT FISCAL POLICY ON THE PATH TO 2%?

- **Fiscal support in response to energy-price increases has been large in 2022**
  - Amounted to 1.9% of Euro Area GDP in 2022
  - Both price caps (« bouclier tarifaire » in France) and income support schemes
  - Price caps have been helpful both in limiting inflation and shielding the most vulnerable

- **Now that energy prices have eased, fiscal support needs to be rolled back**
  - Prolonging income support schemes runs the risks of adding inflationary pressure
  - Would only call for a stronger monetary response
  - Supporting the most vulnerable can be achieved through targeted measures

- **Illusory to look to inflation to erode public debt levels and relax fiscal constraints**
  - Higher interest rates imply a negative net effect on public finances

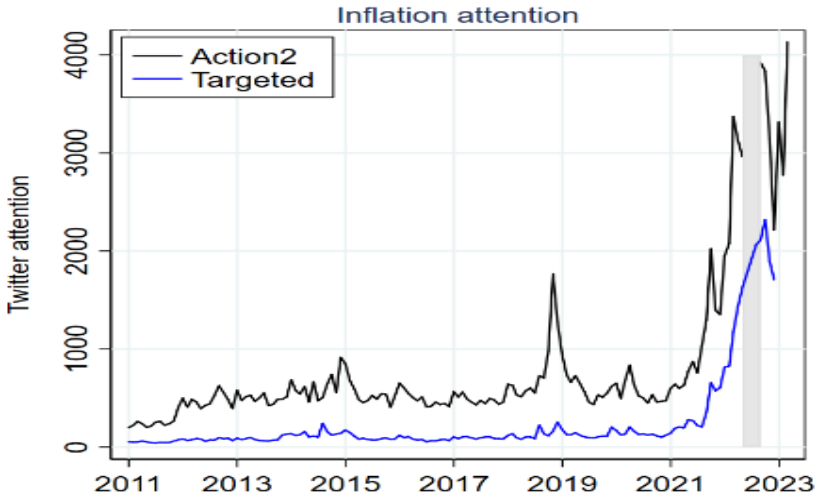
ATTENTION TO INFLATION AND THE CENTRAL BANK INFLATION TARGET

- Recent proposal by O. Blanchard: the **Central Bank inflation target** could be aligned with the inflation attention threshold.

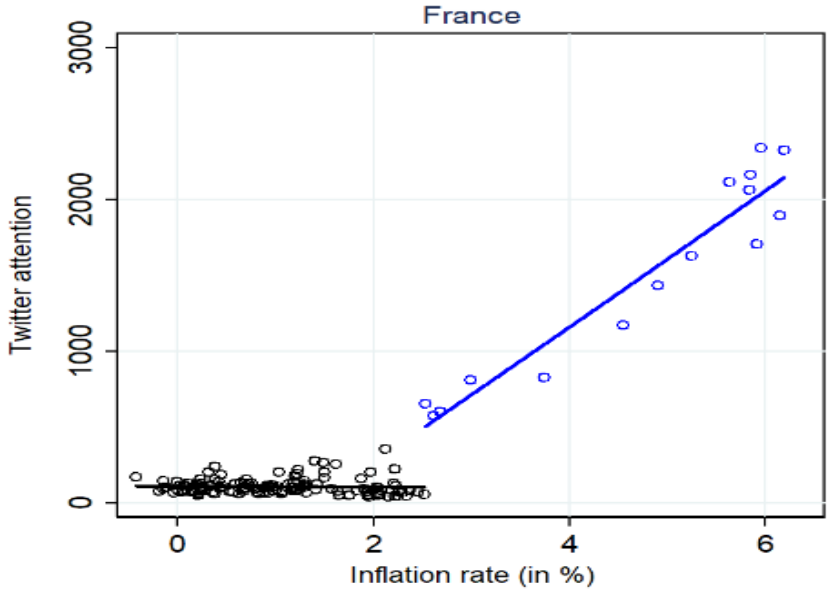
- Using Twitter-based measure of attention, we document a **non-linear relationship** between the level of inflation and attention to inflation in France, with an estimated **threshold at around 2.5%.**
  - ➔ Below this threshold, agents appears inattentive to inflation whereas above this threshold, they pay much more attention.

- This non-linearity is also at work for the **largest euro area countries** but thresholds are **higher** (4% in Germany, 3.5% in Italy and 3.25% in the Netherlands) and the slope above the threshold is **flatter than in France**.
  - ➔ Despite lower inflation in 2022, attention to the inflation topic seems more pronounced in France.

Twitter-based inflation attention measures



A non-linear relationship between the inflation level and attention



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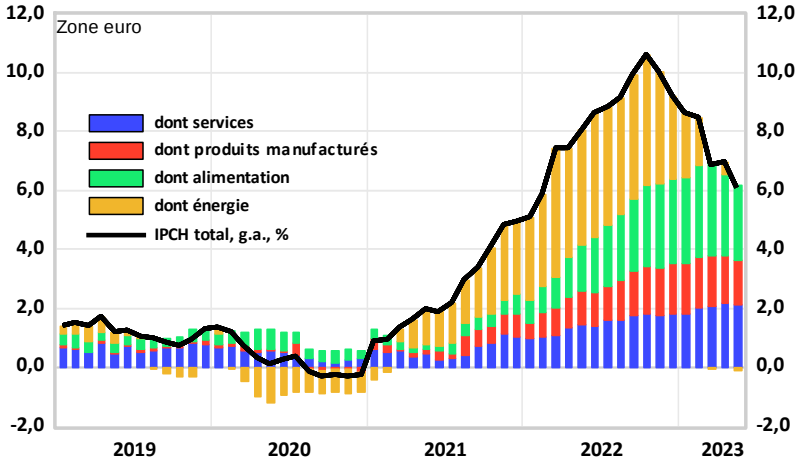
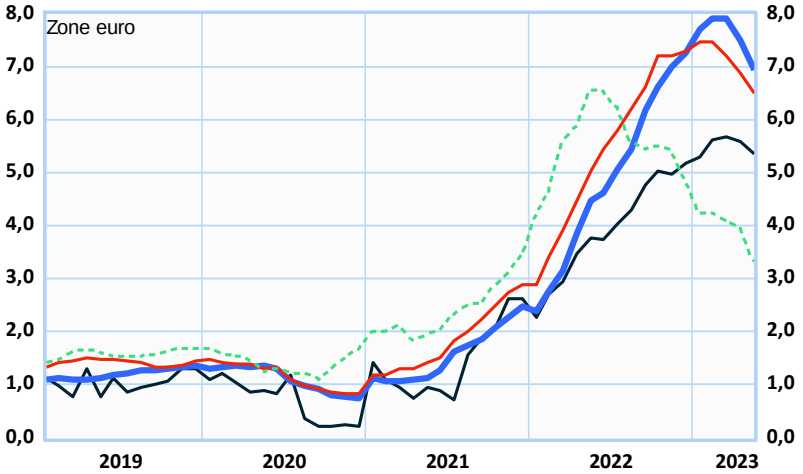
INFLATION AND UNDERLYING INFLATION





IPCH hors énergie et alimentation
IPCH Fine Core (BdF) hors composantes historiquement les plus volatiles
IPCH Trimmed Mean (BdF) hors composantes ponctuellement les plus volatiles
PCCI (BCE) Persistent and Common Component of Inflation

Source : Eurostat, calcul DCPM
Derniers points : mai 2023

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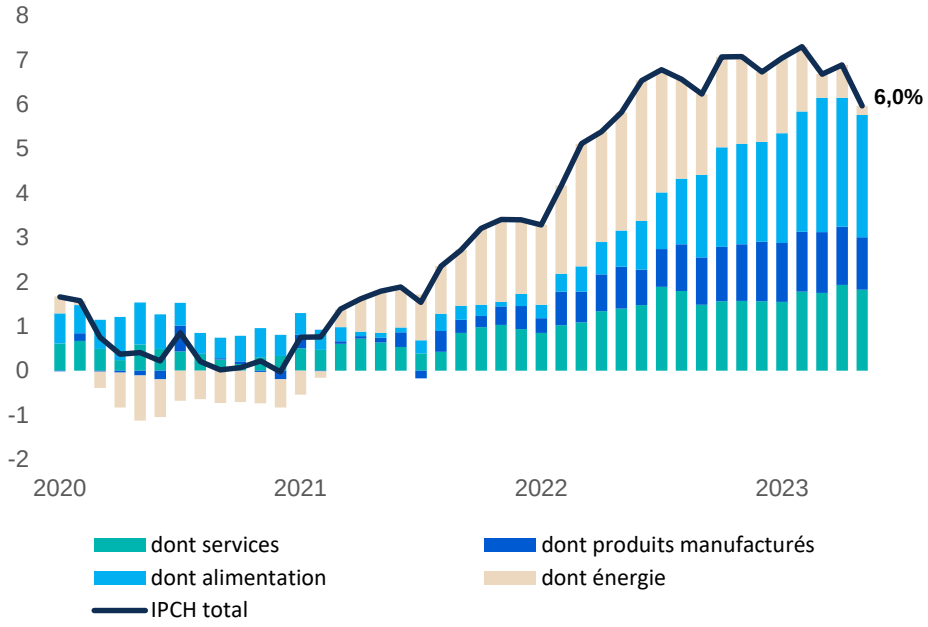
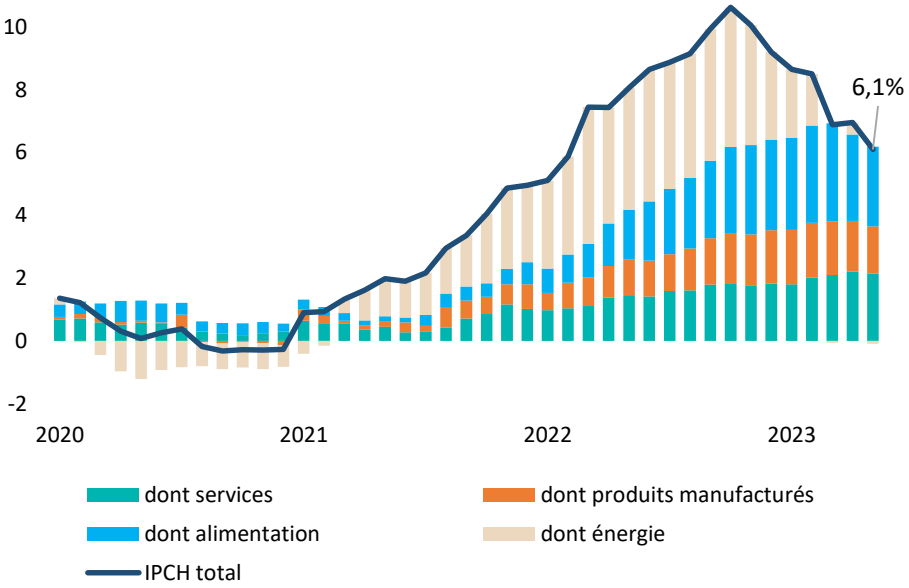
INFLATION IN FRANCE AND EURO AREA IS DECLINING IN THE FIRST HALF OF 2023

Les composantes de l'inflation observée en France



Les composantes de l'inflation observée en Zone euro



Sources : Eurostat, calculs Banque de France

En mai, l'inflation IPCH total ZE (estimation final Eurostat) s'établit à +6,1% et 6,0% en France.

Selon les prévisions Eurosystème de juin 2023, l'inflation devrait baisser au cours de 2023 en raison principalement de la baisse anticipée de la composante énergie.

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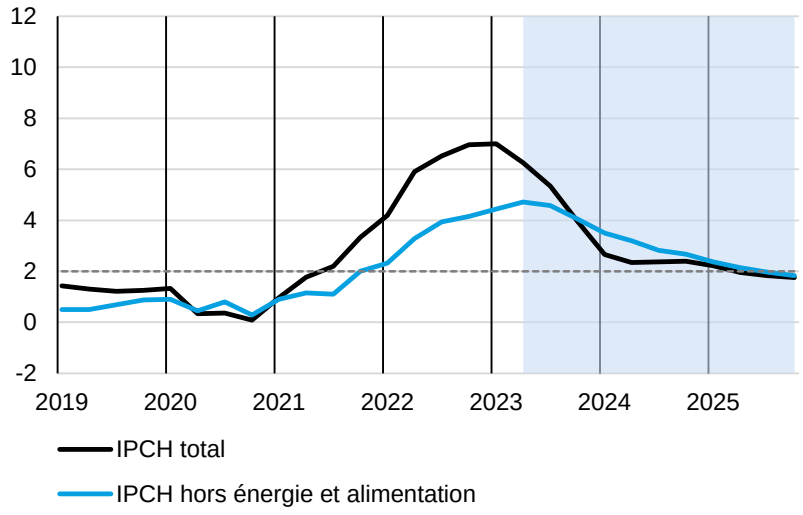
OUR FORECAST AND OUR COMMITMENT: TO BRING INFLATION DOWN TO 2% BY 2025

Les prévisions d'inflation BDF pour la France

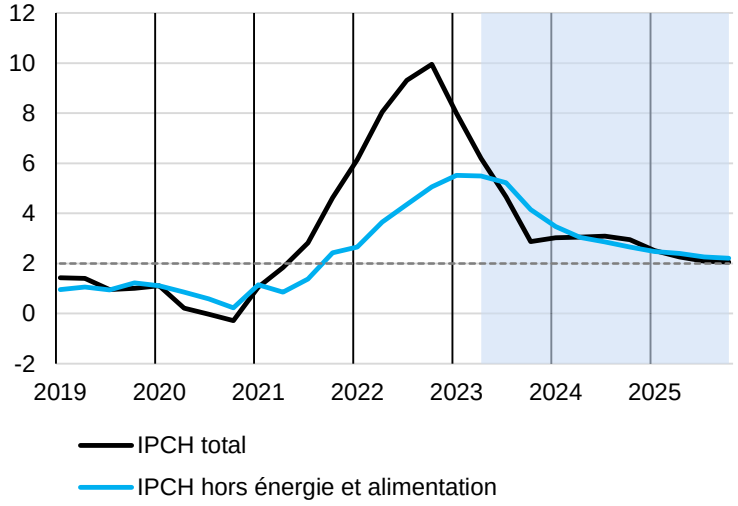
- Après avoir connu un pic à 7,3% en février, l'inflation se replierait autour de 4% en fin d'année.
- En 2024, l'inflation totale reculerait plus fortement autour de 2,4%, avant de converger vers la cible de 2% d'ici 2025, notamment grâce à notre action monétaire.

Prévisions d'inflation - France
(%, glissement annuel)



Sources : Insee jusqu'au T1 2023, et projections Banque de France (juin 2023) sur fond bleuté

Prévisions d'inflation – Zone euro
(%, glissement annuel)



Sources : Eurostat jusqu'au T1 2023, et projections Eurosystème (juin 2023) sur fond bleuté

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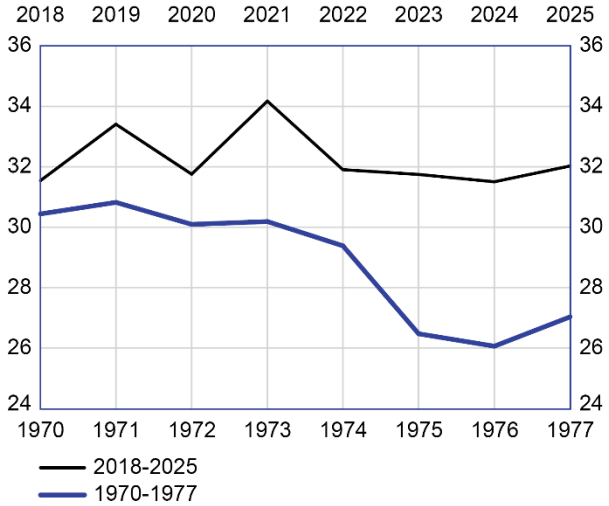
NOMINAL WAGE GROWTH SHOULD PEAK IN 2023 BUT REMAIN ROBUST OVER THE ENTIRE PROJECTION HORIZON. THE CORPORATE MARGIN RATE SHOULD FALL SLIGHTLY IN 2023 AND 2024, THEN PICK UP IN 2025 THANKS TO THE RECOVERY IN PRODUCTIVITY GAINS

Graphique 8 : Taux de marge des sociétés non financières, comparaison avec les années 1970

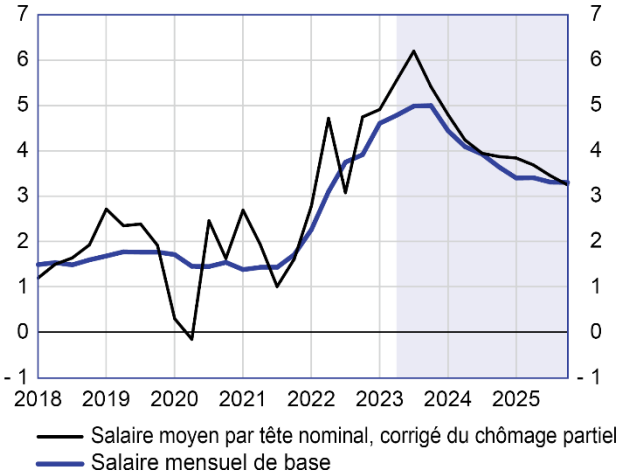
(en % de la valeur ajoutée, moyenne annuelle)



Sources : Insee jusqu'en 2022, projections Banque de France à partir de 2023.

Graphique 9 : Salaire moyen par tête et salaire mensuel de base

(glissement annuel, en %)



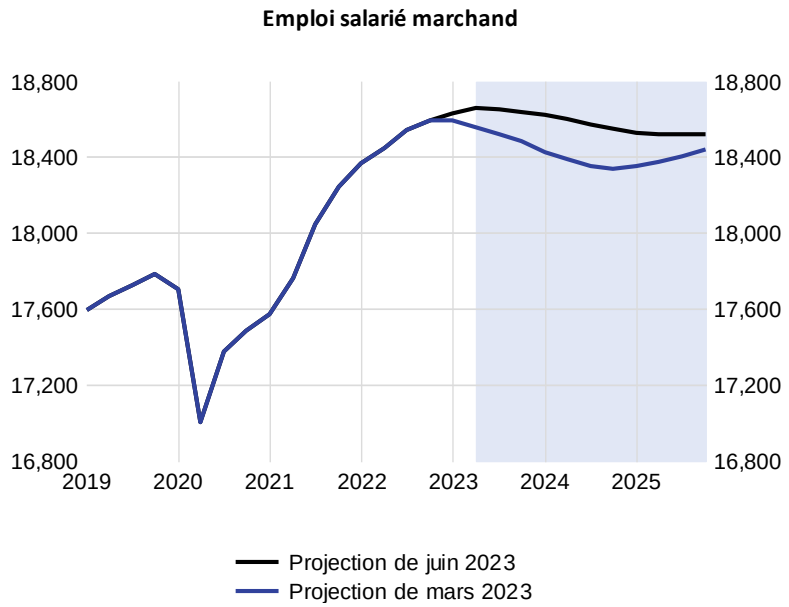
Sources : Insee jusqu'au premier trimestre 2023, projections Banque de France sur fond bleuté.

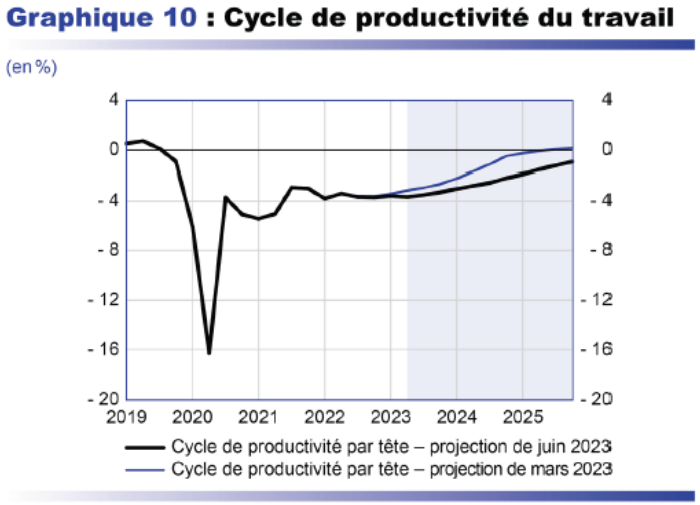
Évolution des salaires réels

(croissance annuelle en %)	2022	2023	2024	2025
Salaire moyen par tête (SMPT) nominal [a]	3,8 *(3,8)*	5,5	4,2	3,6
SMPT réel [a], déflaté par le prix de consommation des ménages	- 1,4 *(- 1,0)*	- 0,9	1,6	1,5
SMPT réel [a], déflaté par le prix de valeur ajoutée	- 0,8 *(- 0,4)*	0,7	1,7	1,6
Productivité par tête	0,0 *(- 0,3)*	0,1	1,6	2,0

a) Corrigé du chômage partiel.
Sources : Insee pour 2022 (comptes nationaux trimestriels du 28 avril 2023 ; ceux du 31 mai 2023, non publiés lors de la *cut-off date* de l'exercice de prévision Eurosystème, sont indiqués entre parenthèses), projections Banque de France sur fond bleuté.

A CYCLICAL WEAKENING IN EMPLOYMENT MORE MODERATE THAN PREVIOUSLY ANTICIPATED…





Lecture : Le cycle de productivité est ici calculé comme l'écart en pourcentage entre la productivité du travail et sa tendance de moyen-long terme. Au quatrième trimestre 2025, le niveau de la productivité du travail serait inférieur de 0,9 % à sa tendance, selon la projection de juin 2023.
Source : Calculs Banque de France.

- **Revision of our employment scenario: fewer job losses than expected in our March projections**
  - Non-profit sector: upward revision of salaried employment, more in line with growth in public-sector employment
  - Market sector:
    - Market sector non-salaried employment: upward revision → dynamic demography of micro-enterprises
    - Private sector salaried employment: revision of the productivity cycle

- **Assumption of closing the productivity cycle in 3 years instead of 2 years previously**
  - We are maintaining our March assessment that the lasting factors account for around 50% of the productivity losses observed since end-2022
  - But a revision of the rate at which the productivity cycle closes → employment-rich growth (taking into account recent positive employment surprises and the assumption of a more gradual recovery in productivity gains over the medium term)

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… LEADING TO A LOWER RISE IN THE UNEMPLOYMENT RATE

Tableau D3 : Variation de l'emploi et du chômage dans l'ensemble de l'économie

(en milliers, moyenne annuelle)	2022	2023	2024	2025
Emploi total	689 *(775)*	193	- 65	- 44
Emplois salariés marchands	*581 (626)*	*160*	*- 61*	*- 63*
Emplois salariés non marchands	*23 (15)*	*- 17*	*- 7*	*- 6*
Emplois non salariés	*86 (135)*	*50*	*3*	*25*
Population active	539 *(625)*	135	23	31
Chômage	-150	- 58	88	75
Taux de chômage (BIT, France entière, % population active)	7,3	7,1	7,4	7,6

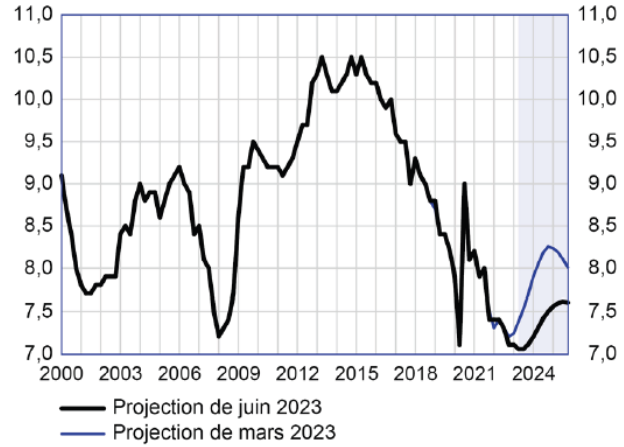
Sources : Insee pour 2022 (comptes nationaux trimestriels du 28 avril 2023 ; ceux du 31 mai 2023, non publiés lors de la *cut-off date* de l'exercice de prévision Eurosystème, sont indiqués entre parenthèses), projections Banque de France sur fond bleuté.

Unemployment rate to rise to 7.6% in 2025

- A slight time-lag between increase and economic slowdown
- Unemployment rate peak revised downwards compared with our March forecast (-0.5 percentage points)
- Pension reform taken into account: increase in working population gradually transferred to employment

Graphique 11 : Taux de chômage

(au sens du BIT, en % de la population active, France entière)



Sources : Insee jusqu'au premier trimestre 2023, projections Banque de France sur fond bleuté.

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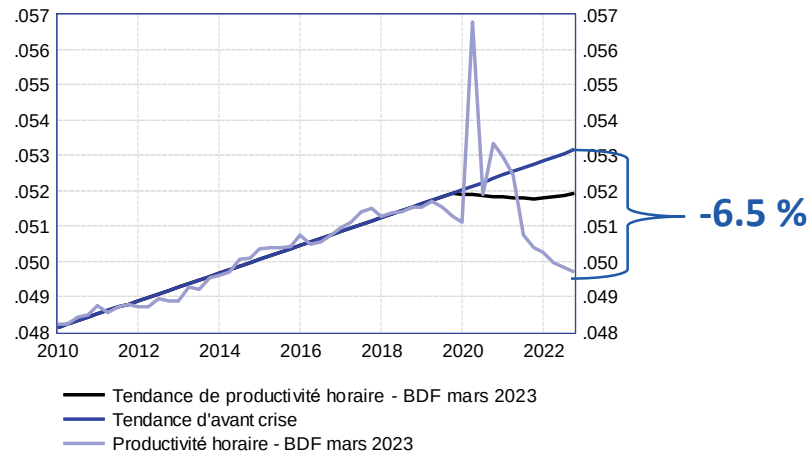
IN THE LONG TERM, AFTER THE COVID AND ENERGY SHOCKS, CONFIRMATION OF OUR ASSESSMENT OF A SUSTAINABLE PART (AROUND 50%) OF PRODUCTIVITY LOSSES

- **Methodology:**
  - **Computation of an hourly productivity trend over 2010-2019: +0,78%/year**
  - **Gap between productivity per hour and pre-crisis trend at 22Q4 : -6,5%**

Tendances de productivité hors et yc chocs & productivité horaire



Estimation at Q4-2022 : lasting factors account for 54% of the productivity losses

→ we are maintaining our March assessment regarding the lasting share of productivity losses

	Impact sur la productivité horaire des salariés	Impact sur la productivité par tête (salariés + non-salariés)	Emplois en milliers à VA donnée (T4-2022)
Sur-effectifs – branches marchandes	-6.5%	-6.7% (100 pp)	1430
Dont facteurs durables :	**-4.0%**	**-3.6% (54 pp)**	**765**
Apprentissage et autres mesures	*-1.7%*	*-1.5% (22 pp)*	*320*
Régularisation travail non déclaré et travailleurs détachés	*-1.0%*	*-0.9% (13 pp)*	*181*
Effets de composition sectoriels	*-0.5%*	*-0.5% (7 pp)*	*99*
Crise Covid	*-0.8%*	*-0.8% (11 pp)*	*166*
Autres facteurs temporaires & inexpliqué	-2.5%	-3.2% (46 pp)	665

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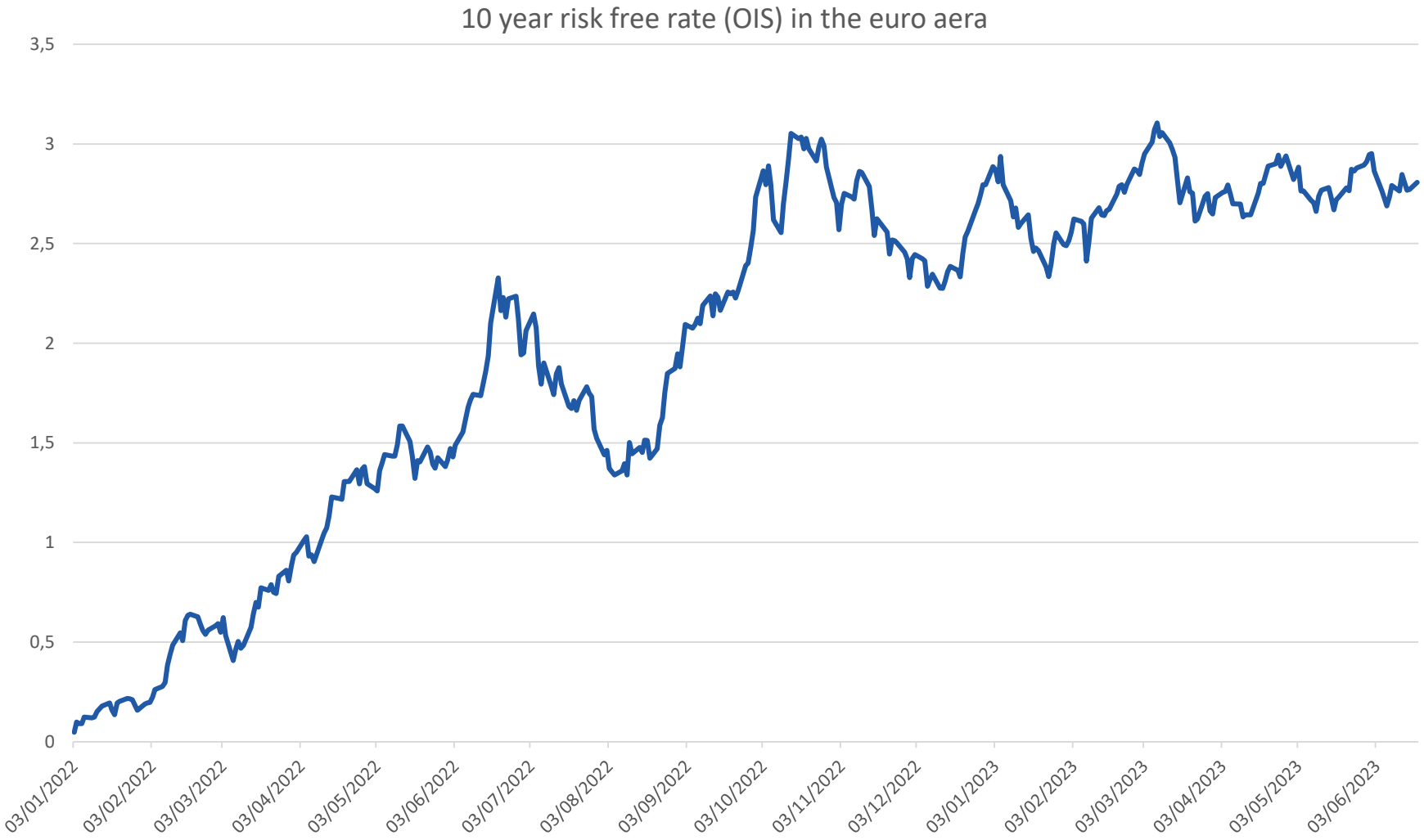
ANNEXE
COMPILATION DES SLIDES DES DISCOURS NABE ET CPF

MARKETS RAPIDLY PRICING THE POLICY TIGHTENING PATH



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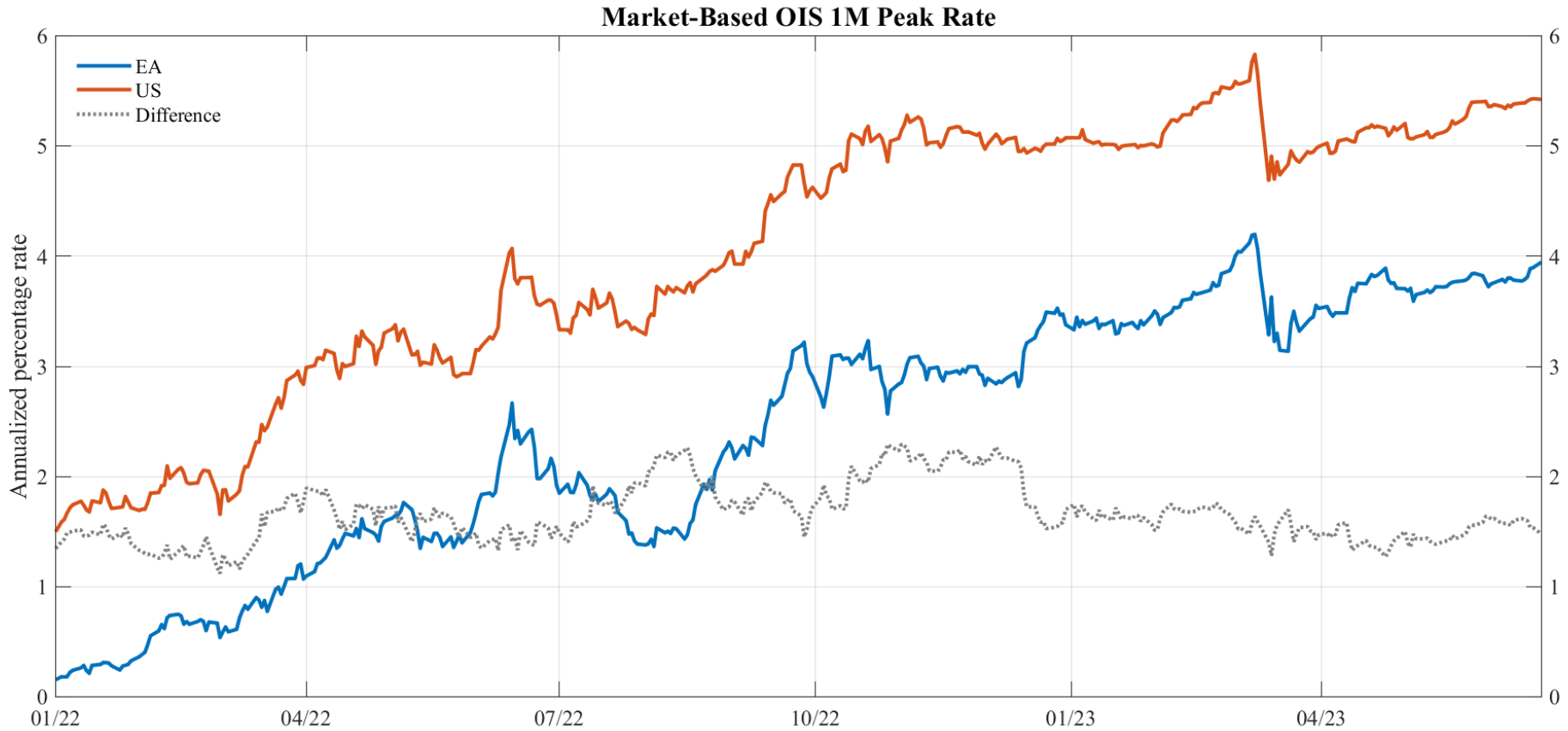
Note: last point 19/05/2023.
Source: Bloomberg

MARKETS RAPIDLY PRICING THE POLICY TIGHTENING PATH: PEAK RATE



Source : Bloomberg and Demfi calculations. Last update: 19/06/23

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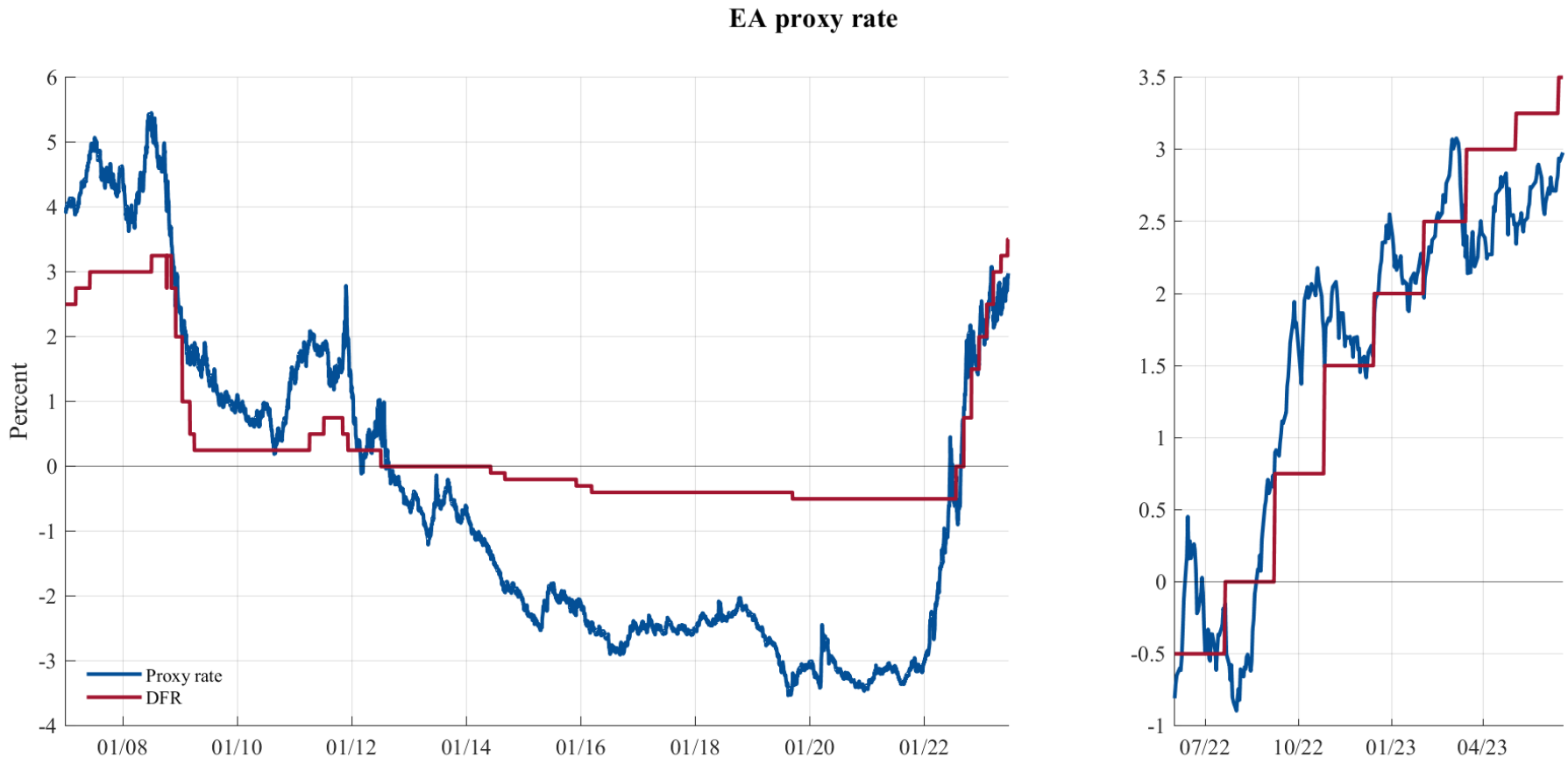
Note: last point 19/05/2023.
Source: Bloomberg

FINANCIAL CONDITIONS SUMMARIZED IN A PROXY RATE TIGHTENED QUICKLY



Source: Bloomberg, SDW and Demfi calculations. Last update: 19/06/2023

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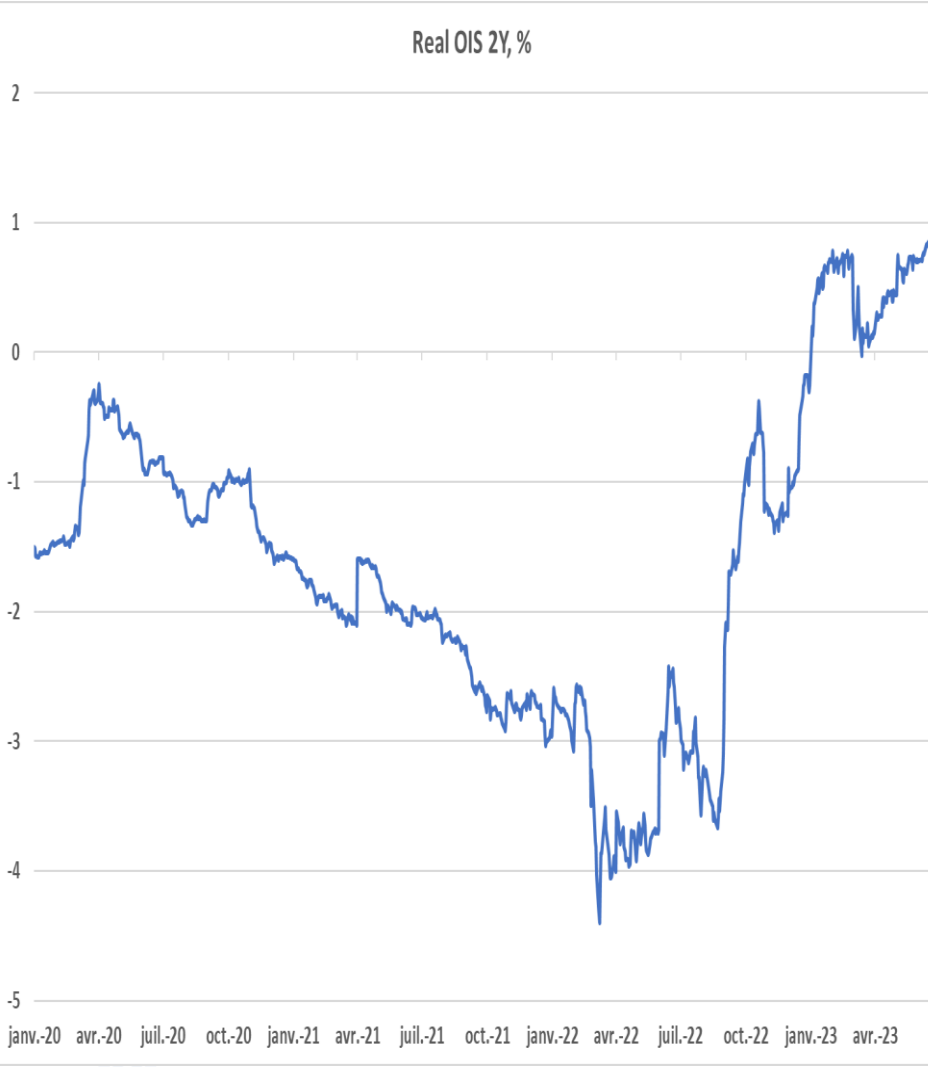
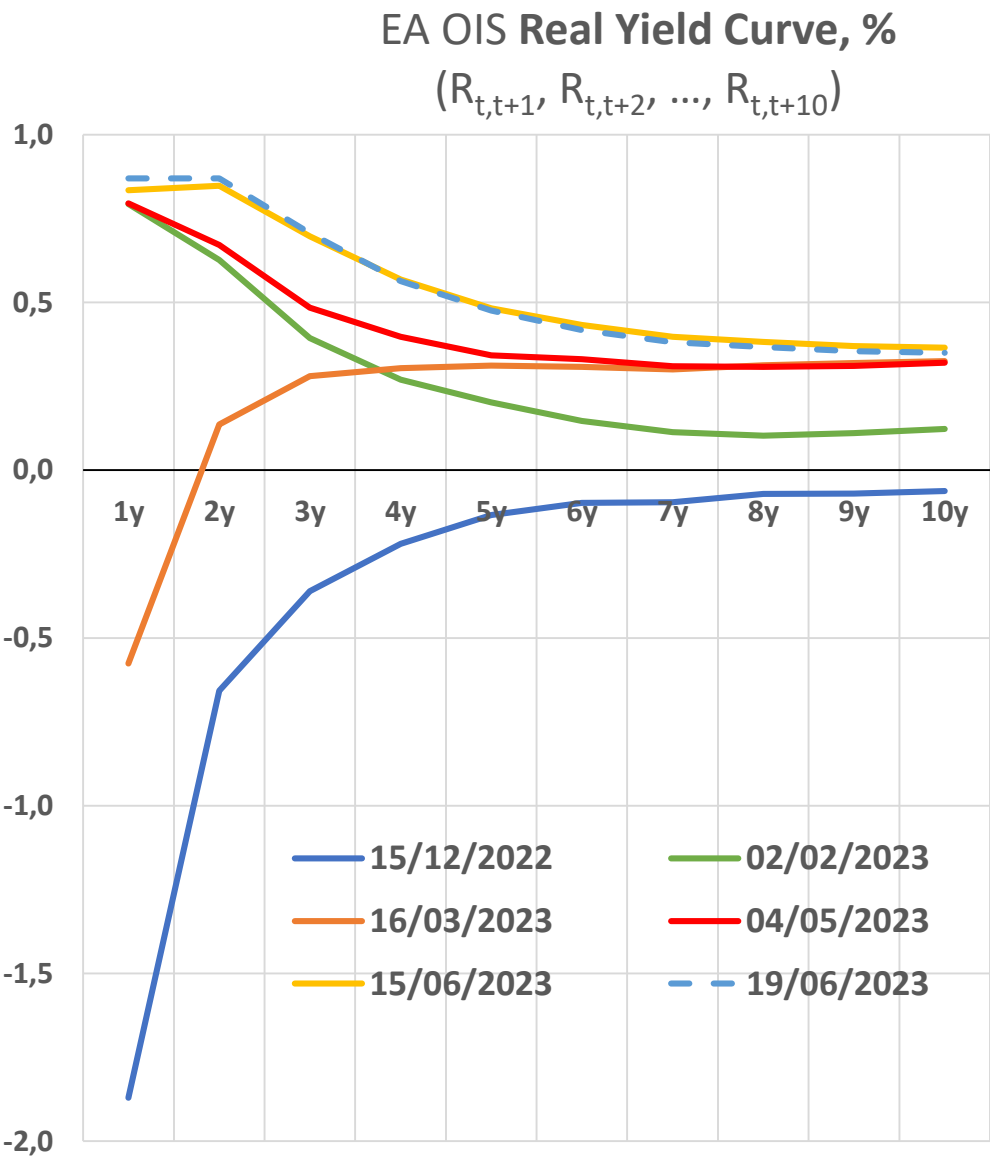
POLICY STANCE : REAL RATES POSITIVE AT ALL MATURITIES SINCE THE END OF 2022





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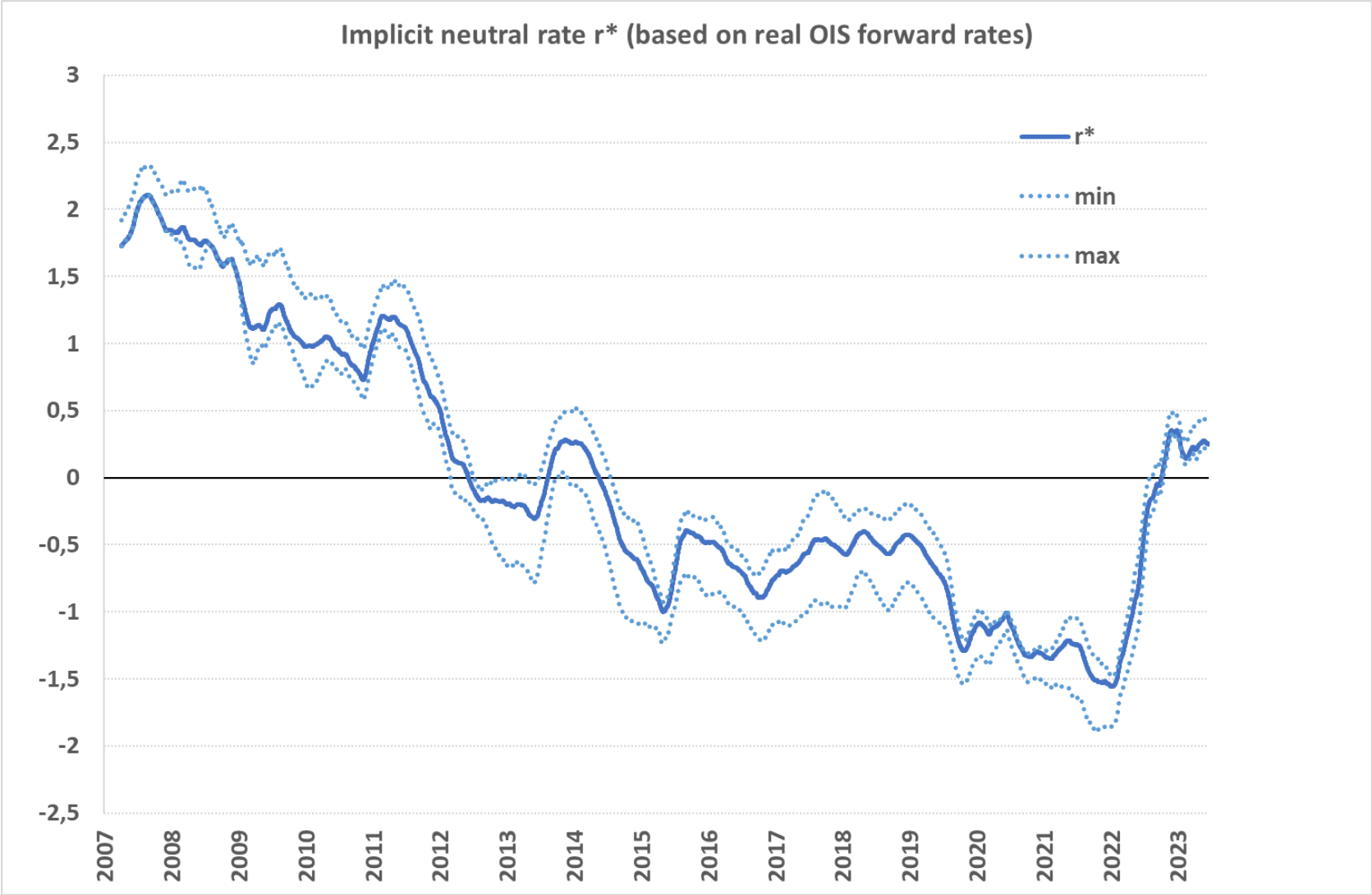
Note: last point 19/06/2023.
Source: Bloomberg, Banque-de France calculation

EURO AREA NEUTRAL RATE BASED ON REAL FORWARD RATES



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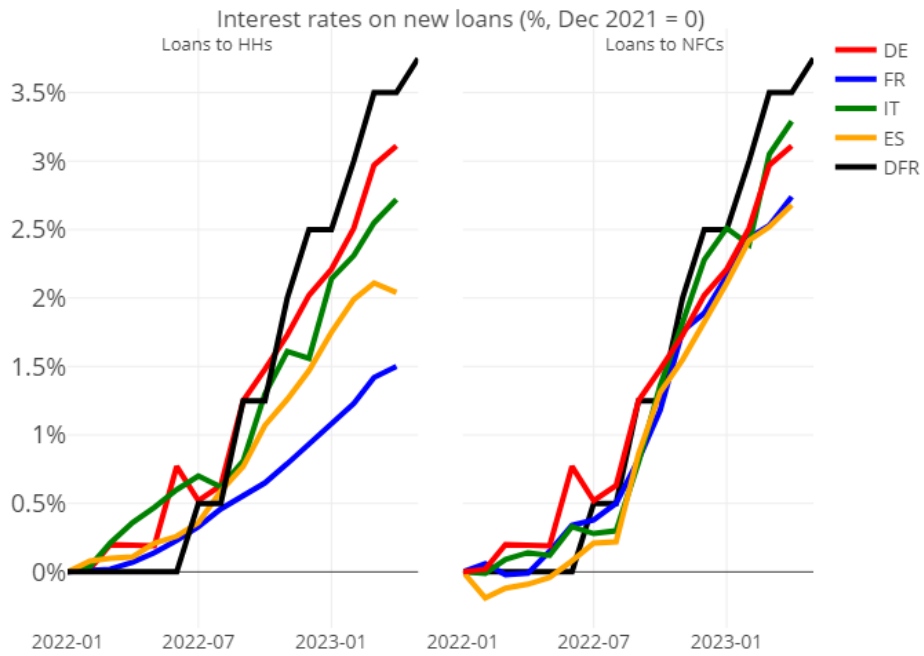
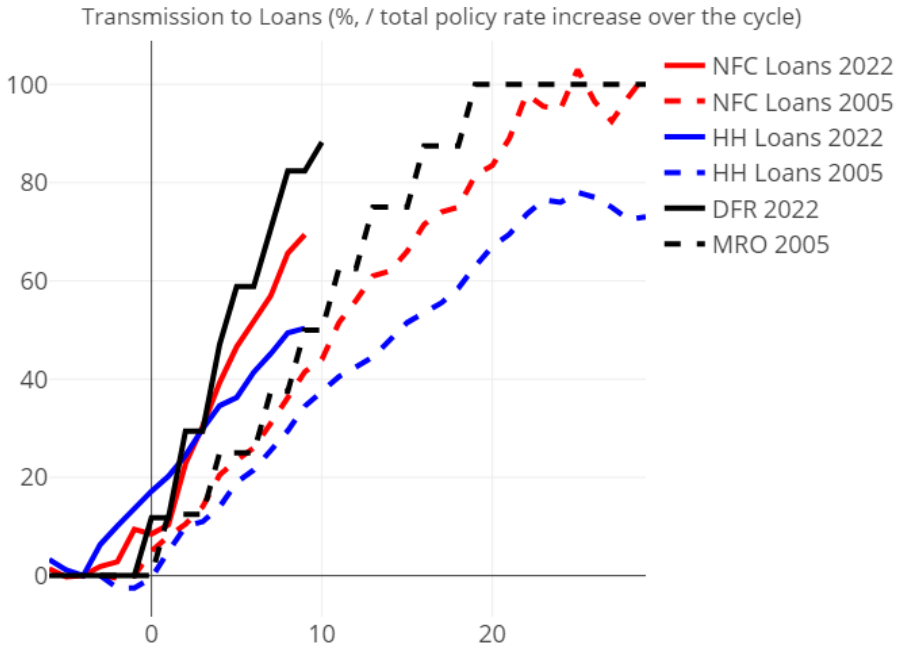
Note: last point 19/06/2023
Sources: Bloomberg, Banque de France calculations

TRANSMISSION OF INTEREST RATE INCREASES:
APPARENTLY FASTER AND MORE COMPLETE FOR NFC LOANS



Source: ECB et DBNOMICS, données MIR. Calculs DEMFI.
Note: dernier point à avril 2023.



Source: ECB et DBNOMICS, données MIR. Calculs DEMFI.
Note: dernier point à avril 2023 (sauf DFR: point à mai 2023).

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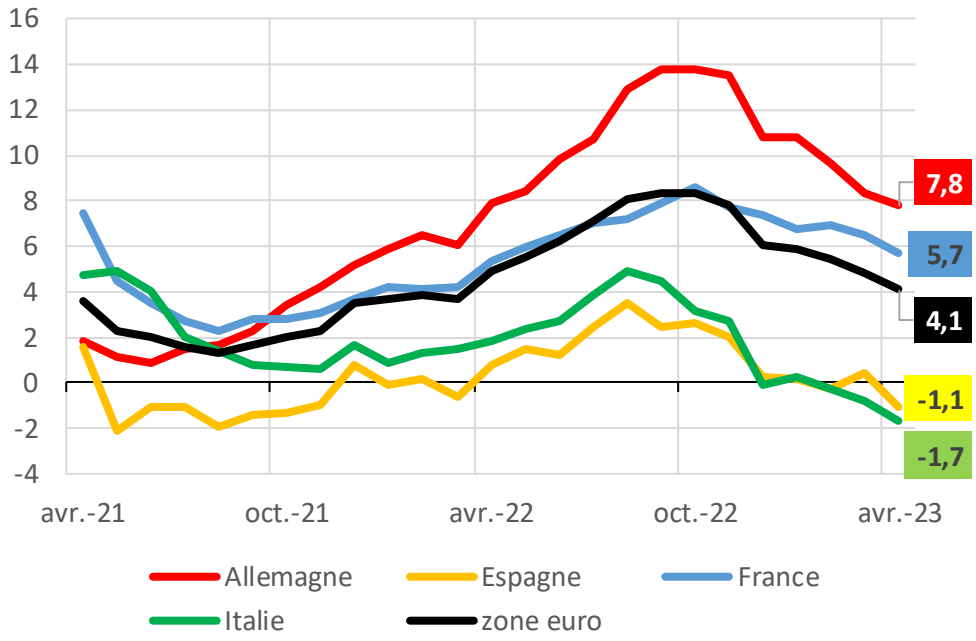
AFTER A SUSTAINED PERIOD, CREDIT TO NFC IS SLOWING ACROSS THE EURO AREA

Taux de croissance sur 1 an du crédit aux SNF (en %)



Taux de croissance sur 3 mois (en %)

	avr-22	avr-23
Allemagne	3,1	0,3
Espagne	1,0	-0,2
France	1,6	0,5
Italie	0,8	-1,1
zone euro	1,8	0,2

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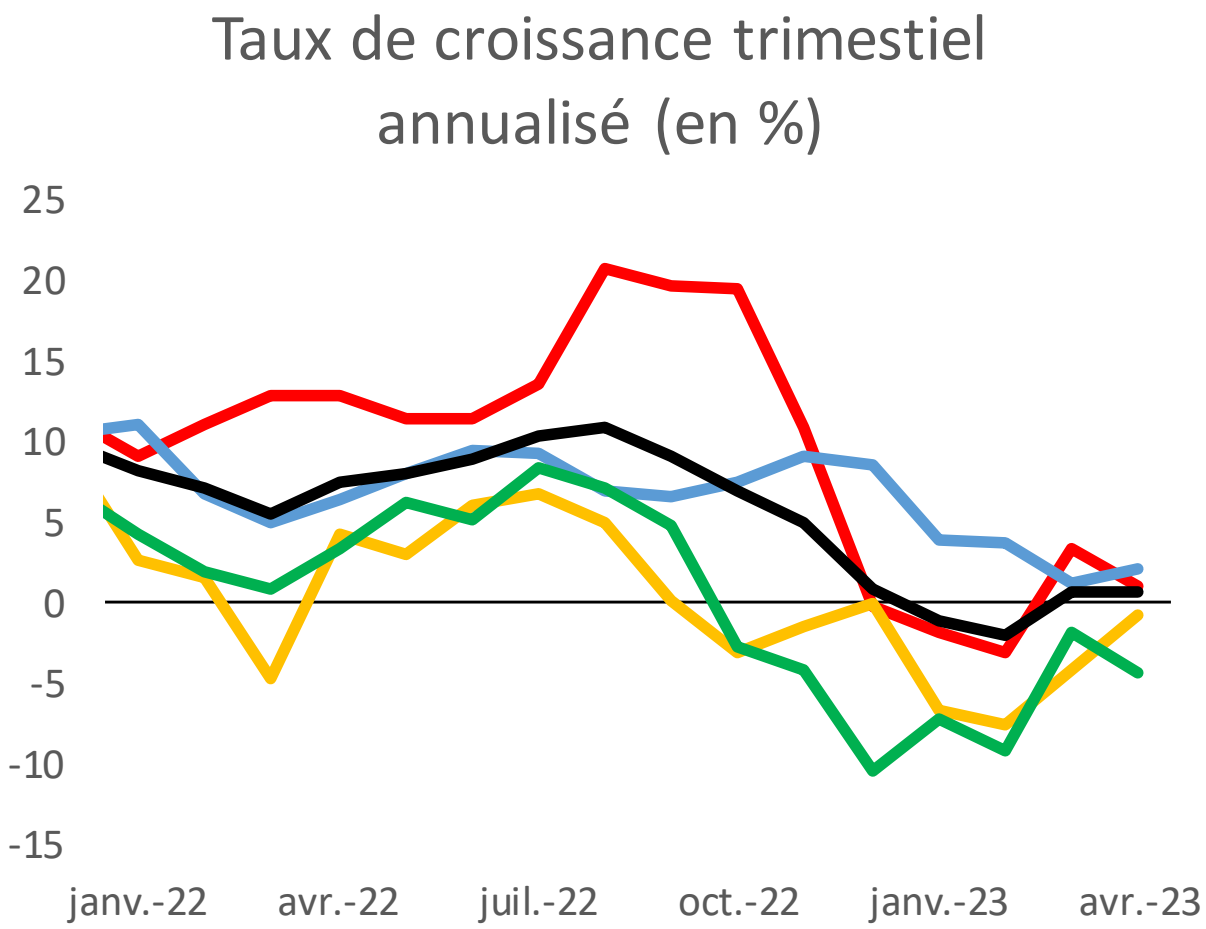
CREDIT TO NFC IS SLOWING ACROSS THE EURO AREA, PARTICULARLY IN ITALY AND SPAIN



	avr-23
Allemagne	3,2
Espagne	-0,9
France	7,2
Italie	-7,4
zone euro	8,3

BANQUE DE FRANCE
EUROSYSTÈME