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INTERNATIONAL MONETARY FUND

FRANCE

Recent Economic Developments

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Approved by the European I Department

October 6, 1995

<u>Contents</u>	<u>Page</u>
Basic Data	iv
I. Domestic Economy	1
1. Overview	1
2. Demand and expenditure developments since 1993	1
a. Exports	1
b. Private consumption	2
c. Gross fixed investment	2
d. Stockbuilding	3
e. Imports	3
f. Saving-investment balance	3
g. The composition of output	3
3. Labor market	4
4. Prices and wages	4
II. Fiscal Policy	5
1. General government	6
2. Central government budget	6
a. Outcome in 1994	6
b. The 1995 budget	8
c. The 1995 supplementary law	8
d. The 1996 draft budget	9
e. Privatization	10
3. Social security	11
a. General overview	11
b. Institutional changes	12
4. The local authorities	13

<u>Contents</u>	<u>Page</u>
III. Monetary Developments	14
1. Introduction	14
2. The conduct of monetary policy	14
3. Exchange and interest rate developments	15
4. Monetary aggregates and domestic debt	16
IV. External Sector	17
1. Trade and current account developments	17
2. Capital account and overall balance	19
3. Competitiveness	20
V. Structural Issues	21
1. Labor market policy	21
a. Policies to reduce the cost of low-skilled labor	21
b. Changes in the training system	24
c. Other labor market regulations	24
2. The financial sector	24
a. Overview	24
b. Banking	25
c. Insurance	27
3. Trade Policy	28
Text Tables	
1. Central Government Finances, 1994-96	7
2. Privatization, 1993-95	11
3. Financial Balances of Main Social Security Funds	12
4. Budgetary Impact of Employment Measures	23
5. Intermediation Margins	26
Statistical Appendix Tables	
A1. Macroeconomic Performance in Comparison with Germany and G-7 Countries	29
A2. Aggregate Demand	30
A3. Contributions to GDP Growth	31
A4. Household Income and Spending	32
A5. Real Incomes and Selected Ratios of Household Sector	33
A6. Income and Expenditure of Nonfinancial Corporate Enterprises	34
A7. Saving-Investment Balance	35
A8. Structure of Output	36
A9. Labor market	37
A10. Price Developments	38
A11. Consolidated General Government Accounts	39
A12. Public Sector Financial Balances	40
A13. Central Government Budget	41
A14. Central Government Revenue and Expenditure	42
A15. Level and Structure of Government Debt	43

<u>Contents</u>	<u>Page</u>
Statistical Appendix Tables (continued)	
A16. Simplified Accounts of the Social Security System	44
A17. Social Security, Régime Général	45
A18. Simplified Accounts of the Local Authorities	46
A19. Key Interest Rates	47
A20. Changes in Official Interest Rates	48
A21. Main Monetary Aggregates	49
A22. M3 and Its Counterparts	50
A23. Monetary Base and Its Counterparts	51
A24. Total Domestic Debt and Its Components	52
A25. Balance of Payments Summary	53
A26. Current Account Developments	54
A27. Services Balance	55
A28. Capital Account	56
A29. Banking Sector External Position	57
A30. Indicators for Commercial Banks in Selected Countries	58
A31. Income Statement of the Insurance Sector	59
 Charts	
1. Main Economic Indicators	2a
2. Aggregate Demand Components	2b
3. Household Income and Expenditure	2c
4. Labor Market Developments	4a
5. Inflation	4b
6. General Government Balance	6a
7. Exchange and Interest Rate Developments	16a
8. Interest Rates and Inflation	16b
9. Monetary Indicators	16c
10. Trade and the Current Account	18a
11. Capital Account	20a
12. Bilateral Exchange Rates	20b
13. Effective Exchange Rates	20c
14. Unemployment Rate by Education Level	22a
15. Banking Sector Indicators	26a

France - Basic Data

Area	549,200 square kilometers
Total population (1994):	57.2 million
GDP per capita (1994):	US\$23,236

1991 1992 1993 1994 1995 1/

(Volume changes: in percent)

Demand and supply					
Household consumption	1.4	1.4	0.2	1.5	2.5
Public consumption	2.8	3.4	3.3	1.1	1.8
Gross fixed investment	0.0	-3.1	-5.8	1.6	3.3
Public	5.4	4.0	-0.3	3.3	-0.2
Residential construction	-4.1	-4.2	-6.7	2.5	1.5
Other private	0.4	-4.6	-7.1	0.6	5.4
Stockbuilding 2/	-0.7	-0.4	-1.8	1.6	--
Total domestic demand	0.6	0.4	-2.3	3.1	2.5
Exports of goods and services	4.1	4.9	-0.4	5.8	6.9
Imports of goods and services	3.0	1.1	-3.4	6.8	5.7
Gross Domestic Product	0.8	1.3	-1.5	2.9	2.9

(Contribution to growth of GDP: in percent) 2/

Household consumption	0.8	0.8	0.1	0.9	1.5
Public consumption	0.5	0.6	0.6	0.2	0.4
Gross fixed investment	--	-0.7	-1.3	0.3	0.7
Exports of goods and services	1.0	1.3	-0.1	1.6	1.9
Imports of goods and services	0.8	0.3	-0.9	1.8	1.6
Foreign balance	0.2	1.0	0.8	-0.2	0.3

(Annual averages)

Employment and unemployment					
Labor force (millions)	24.8	24.9	25.0	25.2	25.5
Unemployed	2.3	2.6	2.9	3.1	3.0
(In percent of total labor force)	9.4	10.3	11.6	12.4	11.7
Employment					
(Change in percent)	0.2	-0.6	-1.0	0.1	1.7

	1991	1992	1993	1994	1995 1/
	<u>(Annual changes in percent)</u>				
Prices and incomes					
GDP deflator	3.3	2.1	2.5	1.3	2.0
Consumer price index	3.2	2.4	2.1	1.7	2.1
Import unit values	-0.5	-3.2	-3.9	1.3	2.3
Average hourly compensation					
(manufacturing)	5.4	5.2	2.7	2.1	3.2
Unit labor costs (in manufacturing)	4.0	0.1	2.7	-6.1	1.3
Real disposable income of					
households	2.1	2.2	1.0	0.5	2.9
Household saving ratio (in percent)	13.2	13.7	13.8	13.4	13.4
	<u>(In percent of GDP)</u>				
Public finances 3/					
General Government					
Expenditure	50.5	52.1	55.0	55.1	54.7
Revenue	48.3	48.0	48.9	49.1	49.4
Balance	-2.2	-4.0	-6.1	-6.0	-5.2
Central Government	-1.7	-3.0	-4.5	-4.9	-4.2
Local authorities	-0.2	-0.4	-0.2	-0.2	-0.1
Social security	-0.3	-0.7	-1.4	-1.0	-0.9
General Government Debt (gross) 4/	35.8	39.6	45.3	48.4	51.1
(In billions of francs)	2,424	2,777	3,211	3,568	3,957
	<u>(In billions of francs)</u>				
Balance of payments					
Trade balance	-49.8	15.3	49.1	44.5	52.0
Other	15.3	5.2	3.3	7.2	28.0
Current account	-34.5	20.5	52.4	51.7	80.0
(As a percent of GDP)	-0.5	0.3	0.7	0.7	1.0
Long-term capital	12.4	117.9	-23.7	-256.0	...
Capital transfers	-3.2	2.1	-0.4	-25.6	...
Short-term capital	--	-151.5	-43.2	212.8	...
Net change in official reserves					
(- = increase)	29.8	5.3	30.9	-13.9	...

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	
	<u>(Annual changes in percent)</u>					
Exchange rates (averages)						
U.S. dollar per French franc	-3.5	6.5	-6.5	2.0	10.8	5/
Deutsche mark per French franc	-0.9	0.3	-1.1	0.2	-2.0	5/
Effective rate (MERM)	-2.6	3.7	0.5	0.7	4.3	5/
Relative unit labor costs (in manufacturing)	-4.0	1.1	2.1	1.3	3.3	6/
	<u>(Through-the-year changes in percent)</u>					
Monetary data						
Money (M1)	-4.6	-0.3	1.5	3.1	1.5	6/
Broad money (M3)	2.4	5.3	-3.2	2.0	4.6	6/
Total domestic debt	8.5	4.7	1.8	3.8	4.4	7/
	<u>(Period averages: in percent)</u>					
Interest rates						
Three-month interbank money rate	9.7	10.4	8.4	5.8	6.8	6/
Differential with Germany	0.5	1.0	1.2	0.5	2.1	6/
Government bond yield	9.0	8.6	6.8	7.2	7.7	6/
Differential with Germany	0.6	0.8	0.3	0.3	0.7	6/

Sources: Data provided by the French authorities; and staff estimates.

- 1/ Data for 1995 are staff projections.
2/ Changes expressed as a percent of previous year's GDP.
3/ National accounts basis.
4/ Maastricht definition.
5/ Average to October 2, 1995, percent changes calculated relative to the average for the previous year.
6/ 1995 second quarter over the same period in 1994.
7/ May 1995 over the same period in 1994.

I. Domestic Economy

1. Overview

France emerged from a deep recession during the second half of 1993 (Tables A1, A2, and A3; Chart 1). The recovery was triggered mainly by an upturn in partner country demand, which led to a resurgence of export growth (Chart 2). Private consumption also picked up at an early stage, reflecting an improvement in consumer confidence, which became more pronounced as the downturn in employment bottomed out. The recovery was consolidated during the first half of 1994 by a substantial turnaround in inventories; it was further bolstered during the year by an upturn in both private and public investment. On average, real GDP increased by 2.9 percent in 1994 following a decline of 1.5 percent in 1993. The recovery slowed somewhat in 1995, reflecting a dip in confidence in the run-up to the presidential elections, with output growing at an annualized rate of 2 1/2 percent in the first half.

Unemployment continued to increase even after the turning point in output and employment had been passed, reflecting increased labor force participation. The unemployment rate held steady near its record rate of 12 1/2 percent for most of 1994. A more pronounced fall in unemployment, to 11.4 percent by July, set in during 1995.

Consumer price inflation declined further, from 2.1 percent in 1993 to 1.7 percent in 1994. Inflation remained low in the first half of 1995, despite a short-lived boost imparted by the increase of the fuel tax at the beginning of the year. The continued low rate of underlying inflation reflected the slow growth of wages, the persistence of a substantial output gap, and the nominal effective appreciation of the franc.

2. Demand and expenditure developments since 1993

a. Exports

Partner country demand recovered markedly in the course of 1993, following a sharp downturn since the middle of 1992. The surge of exports (by 10 1/2 percent at an annualized rate) during the second half of 1993 was followed by a temporary stabilization at a higher level during the first half of 1994. Strong export growth resumed during the second half of 1994. Overall, French exports of goods and non-factor services increased by almost 6 percent in 1994. A rapid pace of expansion was maintained during the first half of 1995, with exports increasing by over 8 percent at an annualized rate, compared with market growth estimated at about 7 percent. Overall, exchange rate developments appear to have had little or only a short-term effect on the evolution of France's international market share in 1993-95.

b. Private consumption

Real private consumption was essentially flat in 1993, with a small decline in the first half being offset in the second half as the recovery took hold. Labor income was adversely affected by a 1 percent decline in employment and the stagnation of real wages. This was offset by a marked increase in transfers from the government, notably unemployment payments. Overall, real disposable income increased by 0.3 percent, implying little change in the saving rate (Tables A4 and A5; Chart 3).

The financial situation of households improved gradually in 1994, though less markedly than during previous recoveries. Although employment did not increase much, stronger activity allowed for an increase in real wages of 3/4 percent. An important boost was given to income and consumption during the second half of the year by the special tax break for the purchase of automobiles and a generous back-to-school allowance. Overall, real disposable income increased by 1.0 percent. These developments were accompanied by a gradual strengthening of consumer confidence and a small decline in the saving rate, allowing real private consumption to increase at the relatively modest rate of 1.5 percent.

During the first few months of 1995, consumer confidence was adversely affected, presumably by uncertainties during the run-up to the presidential election held in late April and early May. However, with employment growth picking up and political uncertainties waning, consumer confidence recovered, and consumer spending rebounded sharply in the second quarter. Private consumption was also spurred by special incentives for car purchases which expired at the end of June. Overall, real private consumption during the first half of 1995 increased by 2.3 percent relative to the same period of the previous year.

c. Gross fixed investment

Investment in 1993 was still strongly affected by the recession. On average, it fell by 5.8 percent, with most of the decline concentrated in the first half of the year. Business investment accounted for more than two-thirds of the overall drop, residential investment for most of the rest. Public investment held more or less steady.

With the marked recovery of exports and private consumption in 1994, investment began to pick up as well, increasing by an annual average of 1.6 percent. An initial stimulus was provided during the first half of the year by stronger public investment. This was followed in the second half by a pronounced but short-lived acceleration of residential construction. The relatively slow overall growth of residential construction may be attributed, inter alia, to a large supply of vacant office space, some of which is being converted to residences, the increase in real long-term interest rates in 1994, and to the still rather modest growth of household disposable income. There was a more sustained and stronger upturn in business investment beginning in the second half of 1994, as capacity

CHART 1
FRANCE

Main Economic Indicators
(In percent)

Source: IMF, World Economic Outlook.
1/ Aggregated using WEO weights.

CHART 2
FRANCE

Aggregate Demand Components
(Constant Prices, Percent Change over Same Period of Previous Year)

Source: INSEE, National Accounts.

CHART 3
FRANCE
Household Income and Expenditure
(In percent)

Sources: INSEE, National Accounts and Banque de France, Bulletin.

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utilization approached its long-term average for the first time since the recession began in 1992, and profit margins improved (Table A6). The vigorous expansion of business investment continued during the first quarter of 1995. The decline during the second quarter is likely to have been temporary and had probably been brought on by the sharp rise in short-term interest rates as well as by political uncertainty.

d. Stockbuilding

The contribution of stockbuilding to GDP growth remained negative through the end of 1993. The recovery of domestic and foreign demand, combined with the cumulatively significant reduction of real short-term interest rates since the fall of 1992, induced a sharp turnaround of inventory investment in 1994, especially during the first half of the year. Stockbuilding has since slowed to a more sustainable pace; the destocking during the first half of 1995 (contributing -0.3 percent to the growth of GDP) is difficult to interpret in light of the preliminary nature of the data.

e. Imports

Imports of goods and non-factor services in 1993 declined by 3.4 percent, with a sharp fall in the first half and virtual stagnation in the second half. In 1994, import growth accelerated to 6.6 percent; the annualized rate during the first half of 1995 was 5 percent. These developments imply an elasticity of imports on total domestic demand of somewhat more than 2 since the beginning of 1994, a development that is closely in line with the historical relationship between imports and domestic activity.

f. Saving-investment balance

Economy-wide saving and investment both declined during 1993, reflecting the recession. The decline in investment, which can be attributed almost entirely to enterprises, was not completely offset by a decline in saving, despite the emergence of a substantial public sector current deficit. Indeed, contrary to the expectation that the saving rate might decline during a recession to smooth consumption, household saving increased in 1993, suggesting an unusually strong shock to consumer confidence about longer-term prospects for incomes and employment. On balance, a current account surplus (national accounts basis) of 1 percent of GDP emerged (Table A7). With the consolidation of the recovery in 1994, both saving and investment increased markedly in relation to GDP, with the enterprise sector accounting for much of the improvement in both. Overall, the current account deteriorated slightly in 1994, to 0.5 percent of GDP.

g. The composition of output

The manufacturing industry was among the sectors hardest hit by the recession, with output declining by 5.5 percent in 1993. The strong export-

led recovery, however, allowed the production of manufactured goods to reach its pre-recession level in the course of 1994. By contrast, construction output, which declined by 6 percent in 1993, has not yet recovered fully; this may be attributed to the oversupply of buildings that has been created since the late 1980s.

Value-added in the tertiary sector was generally far more stable during and after the recession, with telecommunications and non-financial market services showing practically no decline, and insurance and financial services continuing to expand at a rapid pace (Table A8).

3. Labor market ^{1/}

The recession was accompanied by a sharp downturn in employment, with a cumulative decline of more than 1 1/2 percent in 1992 and 1993. As in past recessions, labor force growth slowed substantially, to only 0.4 percent in 1993, as increasing numbers of individuals became discouraged about the prospects of finding work. The unemployment rate rose sharply, from 10.3 percent of the labor force in 1992 to 11.6 percent in 1993 (Table A9; Chart 4). Low-skilled workers were most adversely affected by worsening labor market conditions. However, the unemployment rate for educated workers also rose to new record levels.

Employment bottomed out in mid-1993 and after that increased only slowly, averaging 0.1 percent in 1994. However, even this modest improvement in job prospects and a slight increase in real take-home pay were sufficient to induce an upturn in labor force participation. As a result, the unemployment rate rose further in 1994, to a post-war record of 12.4 percent. Consistent with patterns observed historically, the increase in the labor force appears to have slowed slightly during the first half of 1995, while employment accelerated further. As a result, the unemployment rate has declined at a faster pace, averaging 11.7 percent in the first six months of 1995 and reaching 11.4 percent in August.

4. Prices and wages

The anti-inflationary policies pursued by the Banque de France continued to bear fruit in the last three years (Table A10; Chart 5). Consumer price inflation in 1993 declined to 2.1 percent. Goods prices, which have a weight of about 50 percent in the index, increased by about 1 percent, while rents and services prices rose by more than 3 percent. A similar pattern was observed in 1994, when consumer price inflation declined to 1.7 percent, the lowest rate since the 1950s. The increase of services prices has been most marked in the public sector (excluding health services and water charges), with a cumulative increase of 12 1/2 percent in 1993 and 1994.

^{1/} Recent developments in labor market policy are discussed in the section on structural issues.

CHART 4
FRANCE
Labor Market Developments

Sources: OECD, Analytical Database; and staff calculations.

- 4b -
CHART 5
FRANCE
Inflation

(Percent Change over Same Period of Previous Year)

Source: INSEE, National Accounts; and IMF, International Financial Statistics.

Inflation developments thus far in 1995 have continued to be favorable despite a one-time jump in the price level caused by an increase in the fuel tax at the beginning of the year. By July, the 12-month rate had dropped back to 1.5 percent. However, seasonally adjusted consumer prices increased by 0.4 percent in August following the increase in the standard VAT rate from 18.6 to 20.6 percent at the beginning of the month. 1/

As noted above, aggregate wage developments have remained moderate in the early phases of the recovery. Gross earnings per employed person increased by 2.3 percent in 1994 following a 2.6 percent rise in 1993, and the share of labor in national income declined. Although surveys have indicated for more than a year now that households are expecting a stronger increase in wages, actual wages have accelerated only slowly. By mid-1995, wages were rising at an annual rate of about 3 percent. The increase of the minimum wage (SMIC) by 4 percent at the beginning of July will most likely be reflected in a somewhat more rapid increase of wages in general.

II. Fiscal Policy

Since the entry into force of the Maastricht treaty on Economic and Monetary Union, fiscal policy in France has been oriented primarily towards convergence in accordance with the deficit and debt criteria in the treaty. The current convergence plan, presented jointly with Germany to the European Council in November 1993, envisages the reduction of the general government deficit to 2 percent of GDP in 1997. In France, a key tool in implementing the convergence plan is a five year budget law, the loi d'orientation quinquennale, which defines medium-term guidelines for the central government budget. This law sets annual targets for the deficit, which are to be achieved principally by keeping the growth of expenditure at or below the rate of inflation. The convergence plan also assumes that there would be a gradual improvement in the accounts of the lower levels of government and the social security funds as the economy recovered and various structural reforms were put into place.

There have been considerable slippages since the convergence plan was adopted. At 6 percent of GDP, the general government deficit was 1 percentage point above the plan target in 1994, and further deviations are expected in 1995 and years to come unless additional measures are taken. In light of these developments, the new government formed after the May 1995 presidential elections reaffirmed its commitment to fiscal consolidation. As a first step, the government prepared a supplementary budget law aimed at correcting slippages in the central government's deficit from its initial budget target. The government announced further consolidation measures in connection with the 1996 budget. However, no comparable steps have yet been

1/ A purely mechanical calculation suggests that this tax increase would raise the price level by 1 percent. The impact effect of the VAT increase could be spread over two or more months.

outlined to correct the major imbalances in the social security system, a sector in which the role of the government is limited by the prerogatives of the social partners.

1. General government

France's general government deficit reached unprecedented levels during the last two years. It peaked at 6.1 percent of GDP in 1993 and stayed at 6 percent in 1994, well above the G7 average of 3.5 percent. By contrast, public deficits declined in many of France's major partner countries, most notably in Germany (Tables A1, A11, A12, and Chart 6). 1/ In view of the accumulated deviations from target, the new government has announced that it is revising the consolidation strategy and targets promulgated by the previous government.

2. Central government budget

a. Outcome in 1994

The 1994 central government deficit, at F 299.1 billion (4.1 percent of GDP), was slightly below the budget target (Tables 1, A13, and A14). 2/ This outcome reflected revenues and expenditures that were both substantially higher than envisaged in the budget. Total expenditure was set to increase by 1.9 percent, the expected rate of inflation. In the event, spending increased substantially faster (Table 1). In particular, outlays on economic and social programs exceeded the budget by F 43 billion (0.6 percent of GDP), largely as a result of measures to sustain employment, and unexpectedly large claims for welfare benefits (Revenu Minimum d'Insertion, RMI).

On the revenue side, the 1994 budget introduced a reform of the personal income tax and shortened the effective lag between VAT payments and reimbursements; each of these measures was expected to result in a revenue loss of F 20 billion compared with previous policies. 3/ With the economic recovery substantially faster than anticipated, revenue growth was, however, strong enough to fully offset the overrun in expenditure. Corporate taxes, the tax on gasoline, and non-tax receipts were all notably buoyant.

1/ Despite significant measures on the revenue side, the structural deficit did not decline in 1994, reflecting unexpected discretionary capital expenditure: the debt write-off for African franc-zone (CFA) countries amounted to F 25.8 billion (0.3 percent of GDP).

2/ Figures given in this section are on an administrative basis.

3/ The reform of the income tax reduced the number of tax brackets from 13 to 7 and lowered the average income tax rate.

CHART 6
FRANCE

General Government Balance
(In Percent of GDP)

Sources: IMF, World Economic Outlook and staff calculations.

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Table 1. Central Government Finances, 1994-96

	1994			1995				1996
	Budget	Outturn	Overrun	Budget	June forecast	Overrun	Supplementary budget 1/	Draft budget 1/
Personal income tax	296.3	295.6	-0.7	303.5	303.5	--	303.5	309.4
Corporate income tax	127.9	134.4	6.5	145.8	140.5	-5.3	155.5	155.6
Other direct taxes	111.1	115.5	4.4	116.8	116.8	--	117.7	128.9
Value added tax	648.4	645.5	-2.9	673.2	671.2	-2.0	687.7	761.7
Other indirect taxes	273.9	274.2	0.3	286.9	286.9	--	287.7	287.2
Non tax revenues	178.8	199.1	20.3	167.5	145.7	-21.8	138.5	129.9
Of which: Privatisation receipts	50.0	50.0	--	47.0	25.4	-21.6	--	--
Transfer to other government	-244.1	-236.8	7.3	-245.2	-240.2	5.0	-240.7	-252.7
Tax refund and relief	-221.0	-211.1	9.9	-220.4	-223.1	-2.7	-224.1	-241.1
Total Revenue	1171.3	1216.4	45.1	1228.1	1201.3	-26.8	1225.8	1279.0
Interest payments	217.1	215.9	-1.2	224.6	236.3	11.7	241.4	247.1
Operating expenditures	547.8	547.7	0.7	564.9	567.7	2.8	570.6	589.8
Social interventions	166.6	181.6	15.0	166.9	171.5	4.6	175.1	173.4
Economic and other interventions	239.8	268.2	28.4	250.6	259.8	9.2	267.8	274.0
Investment expenditures	89.1	91.0	1.9	86.2	86.2	--	88.0	84.1
Military expenditures	193.8	187.8	-6.0	194.3	198.1	3.8	188.7	189.6
Expenditure (Budget General)	1458.4	1492.2	38.8	1487.5	1519.6	32.1	1531.4	1557.9
Special account of the Treasury	-19.2	-22.8	-3.6	-15.7	-12.5	3.2	-16.0	-10.8
Exchange stabilisation fund	--	-0.5	-0.5	--	--	--	--	--
Total expenditure	1472.6	1515.5	42.9	1503.2	1532.1	28.9	1547.4	1568.7
Balance	-301.3	-299.1	2.2	-275.1	-330.8	-55.7	-321.6	-289.7
In percent of GDP	-4.1	-4.1	--	-3.5	-4.3	--	-4.1	-3.6
Balance excl. privatisation receipts	-351.3	-349.1	2.2	-322.1	-356.2	-34.1	-321.6	-289.7
In percent of GDP	-4.8	-4.7	--	-4.1	-4.6	--	-4.1	-3.6

Source: Data provided by the authorities; and staff calculations.

1/ Does not include transactions related to privatisation.

b. The 1995 budget

The 1995 budget was again drafted in conformity with the five-year law. It envisaged a deficit of F 275 billion (3 1/2 percent of GDP), 1/2 percentage point below the deficit in 1994. Expenditures were budgeted to rise by 1.9 percent, in line with predicted inflation. Achieving this degree of expenditure restraint was difficult in light of: (i) a generous two-year wage agreement reached in 1993 for the civil service; (ii) the increase in interest rates; and (iii) the need to maintain economic and social spending against a background of unfavorable labor market conditions. In the end, the bulk of the adjustment fell on public investment and military expenditure. In addition, transfers to the local authorities were reduced, partly as a consequence of an increase in the ceiling of the taxe professionnelle. 1/

On this basis, a revenue increase of 4.7 percent was needed to reach the deficit target. Despite the relatively robust outlook for economic growth (real GDP was expected to increase by 3 1/4 percent in real terms) and favorable assumptions about privatization receipts, several new tax measures were required. 2/ The income tax brackets were indexed on the CPI excluding tobacco (leading to a 1.4 percent upward revision instead of 1.7 percent with the overall CPI), implying an increase in the tax burden at unchanged tax rates. The government also decided to postpone the next step of the personal income tax reform. In addition, several indirect tax rates were raised (most notably the gasoline tax).

c. The 1995 supplementary law

By mid-1995 it became clear that in the absence of additional measures, the central government deficit would have exceeded the budget target by about F 56 billion, or 0.7 percent of GDP (Table 1). On the expenditure side, there were overruns of about 1/3 percent of GDP. These reflected higher spending on economic and social programs, and higher interest expenditure. Much of the revenue shortfall (also 1/3 percent of GDP) was attributable to disappointing corporate tax and privatization receipts.

By the end of July, parliament had approved a supplementary budget intended to keep the central government deficit, excluding privatization, in line with the initial target of F 322 billion. The decision to remove transactions related to privatization from the supplementary budget makes it

1/ This tax, which is levied on business enterprises, is an important source of revenue for local governments. In 1983, the central government decided to pay the portion of the tax above a certain ceiling. This measure was introduced to alleviate the tax burden on business.

2/ Of the F 55 billion in privatization receipts (compared with F 50 billion budgeted in 1994), F 8 billion were allocated to the recapitalization of state-owned companies, F 27 billion to deficit reduction, and F 20 billion to finance employment measures.

difficult to compare the gross revenue and expenditure figures with those in the initial budget. New tax measures, estimated at F 33 billion, include an increase in the normal rate of VAT from 18.6 to 20.6 percent (effective on August 1), and a 10 percent surcharge on corporate taxes and the wealth tax. 1/ The supplementary budget also envisages a net increase in spending (relative to the June forecast) of F 15 billion. This figure is composed of expenditure cuts totaling about F 17 billion (of which about half on military) and about F 32 billion in new spending, of which F 11.4 billion is allocated to labor market measures, F 2.4 billion to housing, and F 0.5 billion to support the poor.

Developments since the adoption of the supplementary budget in July indicate that an additional revenue shortfall, of perhaps F 25 billion, is likely to emerge. Corporate tax receipts are running well below projections, reflecting substantial write-offs and provisioning by enterprises (especially banks) in the aftermath of the decline in real estate prices. The personal income tax and the VAT are also expected to fall short of what was foreseen in the supplementary budget. On the expenditure side, policy has so far been implemented in line with the supplementary budget. One exception is an additional expenditure of about F 5 billion on a back-to-school allowance.

d. The 1996 draft budget

The 1996 budget was made public in late September. In accordance with the five-year budget law, it restricts the growth of overall expenditure to 1.7 percent, well below the anticipated rate of inflation (2.1 percent). It envisages a deficit of about F 290 billion (3.6 percent of GDP).

On the expenditure side, measures include freezing the pay scale for public sector employees at its November 1995 level, when the last increase provided for in the current multi-year pay agreement takes effect. The budget would also restrict capital spending, transfers to local governments, defense, and social spending. In particular, the government plans to eliminate its transfer to the unemployment insurance fund, which is expected to continue to show a surplus in 1996. 2/

In light of the weakness of revenue in 1995, the government decided to exercise caution in its tax projections for the 1996 budget. Thus, excluding the effect of tax measures taken in 1995 and planned for 1996, revenue is expected to increase by only 3 percent, compared with a projected 5 percent increase in nominal GDP. Including the effect of measures (largely the full-year impact of the VAT increase in August 1995 and higher

1/ The surcharge on the wealth tax applies only to tax payments of over F 4.47 million.

2/ Of course, this measure will have no net effect on the general government deficit.

tax rates on alcohol, tobacco, and gasoline in 1996), tax revenue increases by 7 percent, compared with the anticipated outturn in 1995.

e. Privatization

The privatization program that began in 1993 envisages the sale of 21 state-owned groups. This program would still leave the government with substantial control over many enterprises producing private goods and services, as well as the seven large national enterprises and some firms in the defense industry. 1/ Six state-owned enterprises had been privatized by the end of the first quarter of 1995, generating about 110 billion in receipts (Table 2).

The first phase of the privatization program was the most successful, with shares of Banque Nationale de Paris (BNP), Rhône-Poulenc, and Elf easily absorbed by the market. Difficulties arose as the stock market weakened. For example, Union des Assurances de Paris (UAP), the largest French insurance company, was sold for F 18.5 billion, F 5 billion below the announced target. Privatization has slowed considerably during the first seven months of 1995, with only two enterprises offered to the market.

Despite these difficulties, the new government has reaffirmed its intention to continue with the privatization program. However, the speed of privatization will be adjusted to reflect market conditions. As a result, projected privatization receipts were revised down sharply from about F 50 billion in the initial budget. Since the new government took office, Usinor Sacilor was sold, generating receipts of F 6.2 billion. The government has announced its intention to use future privatization receipts for repayment of the public debt and to inject fresh capital into publicly owned enterprises.

1/ The seven large national enterprises are Charbonnages de France, Electricité de France, Gaz de France, Société Nationale des Chemins de Fer, Régie Autonome des Transports Parisiens, La Poste, and France Télécom.

Table 2. Privatization, 1993-95

	Date of Privati- zation	Net Receipts (Billion francs)	Number of Share- holders (million)	Share of Core Shareholders (percent)
BNP	10/93	28.1	2.8	30 1/
Rhône Poulenc	11/93	13.3	2.9	24
Elf Aquitaine	1/94	33.6	3.0	23 2/
UAP	5/94	18.5	1.9	34 3/
Renault	11/94	10.0	...	...
Seita	2/95	5.6	...	25
Usinor Sacilor	7/95	6.2	0.8	12 4/

1/ Of which 15 percent held by UAP.

2/ The government keeps 13 percent of Elf through ERAP; a "golden share" conferring a circumscribed veto power was also retained by the government.

3/ Of which 15 percent held by BNP.

4/ After F 5 billion of capital injection.

3. Social security

a. General overview

Despite significant measures taken by the previous government, notably the reform of the basic pension system in 1993, the structural deficit of the social security system has shown a tendency to increase further. Even the strong economic recovery in 1994 resulted in only a modest reduction in the overall deficit of the system, to 1.0 percent of GDP compared with 1.4 percent of GDP the previous year (Table A16). 1/ The deficit of the régime général subsector--which includes the four branches of health, accidents, family and maternity, and pensions--reached an unprecedented level in 1993 and has since shown no tendency to decline (Table A17). 2/ By contrast, the unemployment insurance fund (UNEDIC), which is separate from the régime général, has seen its finances recover markedly. On an administrative basis, it showed a surplus of F 10 1/2 billion in 1994, which is expected to increase further in 1995 (Table 3).

The large social security deficit partly reflects a delayed response of revenue to the recovery of economic activity. This delay may be attributed

- 1/ This definition covers: (i) the basic schemes (régime général); (ii) supplementary and special schemes; (iii) unemployment insurance; and (iv) various public and private institutions related to social security.

2/ Report Les Comptes de la Sécurité Sociale, July 1995.

to the financing of social security through payroll taxes, which tend to reflect the lagged response of employment to output. However, the continued weakness of the social security finances is also due to structural factors, notably the tendency of expenditure on health and pensions to increase more rapidly than potential output. 1/ Revenue has been adversely affected by the continuing expansion of exemptions from social security contributions intended to stimulate the demand for low-skilled labor. 2/

Table 3. Financial Balances of Main Social Security Funds 1/

(In billions of francs)

	1993	1994	1995 4/
Régime général 2/	-56.4	-55.9	-61.9
Supplementary pension schemes 3/	-17.1	-5.6	-10.6
UNEDIC	-12.4	10.5	27.0

1/ Administrative basis.

2/ Report on Social Security, July 1995.

3/ Report on Social Security, October 1994.

4/ Official projection.

The French social security system is by law financed on a pure pay-as-you-go basis. As such, the social security funds may incur deficits only to meet short-term cash flow variations, and they may not issue long-term debt. Thus, the central government was obliged to take on, at the end of 1993, the accumulated debt (F 110 billion) of the régime général. A special fund, the Fonds de Solidarité Vieillesse (FSV), was created in July 1993 to repay this debt over 17 years, with no interest being accrued during the first three years. It is likely that the accumulated deficit of the régime général in 1994 and 1995, now estimated at F 118 billion, will be placed in a special fund, to be serviced in part by earmarked revenue.

b. Institutional changes

The reform of the basic pension scheme (of the régime général) introduced in 1993 increased the number of years of contributions required to receive a full pension. In addition, pensions were indexed to prices

1/ The trend in pensions is about 3 percent and the growth of medical expenditures is 3.5 percent.

2/ See Section V.1 below.

(rather than wages). These measures were expected to allow the basic pension scheme to return to full balance by the end of the next decade with only a limited increase in contribution rates.

The savings from this reform were tempered by the decision, in July 1995, to increase pensions by an additional 0.5 percent and the minimum pension by 2.8 percent. Moreover, there has been no comparable reform of the supplementary pension schemes (for the private sector) or the special pension schemes (in particular for civil servants). The deterioration in the financial situation of the supplementary schemes, although not dramatic, is still serious, with the emergence of sizeable deficits forestalled only by regular increases in contribution rates (Table 3).

Several measures were taken in 1994 to reduce the growth of health care expenditure, notably the negotiation of quantitative objectives by the government, the providers of medical services, and the health care funds. 1/ Nonetheless, large deficits have persisted in the health care branch of the régime général. 2/ The government is studying a variety of proposals for further reform, in particular a reduction in coverage, global expenditure targets, and a restructuring of hospital finance.

4. The local authorities

Provisional national accounts data for 1994 show a deficit of F 12 billion (0.2 percent of GDP), compared with an unusually large deficit of F 17 billion (0.4 percent of GDP) in 1993 (Table A18). 3/ Revenue rose in 1994, reflecting a strong increase in local taxes (6 percent). The main transfer received from the central government, the dotation globale de financement, grew rather more slowly (4.0 percent). Expenditure growth was reduced to 4.5 percent in 1994, reflecting a slowdown in interest payments and a moderation of operating expenditures. However, social transfers continued to grow rapidly. The local authorities' deficits are usually financed through loans from state-owned banks rather than bonds, and their total debt was still relatively small (about 7 percent of GDP) at the end of 1994.

1/ For example, physicians were required to contain overall expenditure. This was accomplished by reining in unnecessary prescriptions.

2/ The deficit in 1994 reached F 31 billion in 1994; the Report on Social Security published in July estimates that it will increase further to F 35 billion in 1995 (Table A21).

3/ The sizable revision of the general government deficit in the national account definition from 5.8 to 6.1 percent in 1993 was essentially due to a revision of the deficit of the local authorities from 3 billion to 17 billion.

III. Monetary Developments

1. Introduction

The considerable turbulence of 1992-93 in the foreign exchange and money markets was followed by more than a year of calm. The Banque de France, which became independent of the government in January 1994, continued to successfully implement an anti-inflationary monetary policy, and the rate of inflation remained below 2 percent in 1994.

The commitment of the Banque de France to a stable franc was, however, tested once again in the first quarter of 1995. Following a sharp depreciation of the exchange rate, the Banque de France increased its ceiling rate on March 8, thus limiting the further weakening of the franc. With expectations stabilizing after the second round of the presidential election in May and the presentation of a supplementary budget by the new government, the Banque de France announced a policy of gradual interest rate reduction. By the end of August 1995, the ceiling rate stood 35 basis points below its level during the second half of 1994, while the franc had returned to within 2 1/2 percent below its central rate in terms of the deutsche mark. However, the short-term interest rate differential vis-à-vis Germany was 1 1/2 percentage points compared with 1/2 percentage points before the crisis. Renewed downward pressure on the franc, brought on largely by a weakening of the dollar during the second half of September, resulted in a more pronounced widening of the 3-month interest rate differential vis-à-vis Germany, to almost 2 1/2 percentage points.

2. The conduct of monetary policy

The principal target of monetary policy has been an inflation rate below 2 percent. To achieve this target, the Banque de France relies on two intermediate targets, one external and one internal. The external objective is stability of the franc in terms of the group of the most credible currencies within the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS). The internal objective is to maintain the average growth rate of broad money (M3) in the vicinity of 5 percent over the medium term. 1/ As in earlier years, the target for broad money has been given substantially less weight in the implementation of monetary policy than the exchange rate anchor.

Since the reform of French financial markets in 1985-87, the Banque de France has implemented monetary policy using indirect instruments, notably the two official interest rates (taux directeurs). In recent years, the spread between the lower intervention rate (the calls-for-repurchase-tender rate) and the ceiling rate (the 5-10 day repurchase rate) has been around

1/- Notably, the Banque de France did not adopt a target corridor for M3. Rather, the targeted medium-term growth rate is based on a non-accelerating-inflation output growth rate of 2-3 percent and 2 percent inflation.

150 basis points in periods of calm. However, as noted above, the Banque de France has been ready to increase the ceiling rate in periods of turbulence in the exchange markets and, in special circumstances, to replace the 5-10 day facility by a 24-hour facility, with interest rates subject to daily changes (Tables A19 and A20). Repurchase agreements in both windows are based on government and eligible private paper. The amount of liquidity offered at the intervention rate was stable for most of 1994, after a temporary increase in June-November 1993.

The Banque de France also influences short-term interest rates by intervening in the interbank market through overnight repurchase agreements and carrying out open market operations (i.e., operations outside the interbank market) using government bonds. Non-remunerated required reserves, which are not used as an instrument for active monetary policy, were drastically reduced in 1992 to alleviate banks' operating cost. ^{1/}

3. Exchange and interest rate developments

Following a period of strong downward pressure in 1993, the franc was stable during most of 1994, hovering 2 percent below its central parity vis-à-vis the deutsche mark. Another turbulent episode occurred during the first half of 1995, with the franc deviating by up to 6 1/2 percent from its central parity (Chart 7). Nonetheless, the franc appreciated vis-à-vis the U.S. dollar and in effective terms in the first half of 1995, a development that was, however, largely reversed after July.

Both international and domestic factors were at work in the temporary weakening of the franc vis-à-vis the deutsche mark in 1995. On the international side, the deutsche mark (and the yen) appreciated sharply vis-à-vis the dollar. The tendency of the franc (and other European currencies) not to follow fully movements in the deutsche mark/U.S. dollar rate is often explained by the reserve role of the German currency and by the deepness of its market. On the domestic side, inflation was below 2 percent on average, economic growth was strong but not excessive, and real wage increases were around 1/2 percent. However, the fiscal deficit was large compared with France's most stable partner countries, the unemployment rate remained stubbornly high in the early part of the recovery, and expectations may have been affected by uncertainties about the course of policy following the presidential elections.

Before the renewed exchange market tensions during the first half of 1995, the official ceiling rate was last changed in May 1994, following a series of reductions paralleling the fall in German rates that began in late

^{1/} At that time, the reserve ratio for sight deposits was lowered from 4.1 percent to 1 percent and the ratio for passbooks halved to 1 percent. The ratio for time deposits with a maturity of less than one year was maintained at the 0.5 percent level adopted in 1990. Deposits with a maturity of more than one year continued to be exempt from reserves.

1992 (Charts 7 and 8). The intervention rate has been held steady at 5 percent since July 1994. During the turbulent period that began in March 1995, the Banque de France temporarily replaced its 5-10 day repurchase facility at 6.4 percent with a one-day facility at 8.0 percent, while leaving the intervention rate unchanged. The rate on the one-day facility was reduced to 7.75 percent in early April. In early June, the Banque de France reinstated the 5-10 day facility at an interest rate of 7.5 percent. This rate has since been lowered repeatedly and stood at 6.15 percent in early September, bringing the differential vis-à-vis Germany to 1.5 percentage points. Although some short-term interest rates (e.g. the 3 month interbank rate) rose markedly in late September, reflecting the renewed strength of the deutsche mark, the Banque de France kept its 5-10 day intervention rate unchanged.

Since at least 1993, long-term interest rates in France have moved broadly in line with international market conditions. In particular, the differential with German long-term interest rates never exceeded 1 percentage point (Chart 9). As in other industrial countries, most of the decrease in long-term interest rates observed in 1993 was offset by the middle of 1994, but rates fell again in 1995.

4. Monetary aggregates and domestic debt

As in other countries, the velocity of money in France fluctuated following financial liberalization, with M3 falling 15 percent in 1986-92 in the wake of the introduction of mutual funds and other saving instruments at non-regulated interest rates (Chart 9). This development has, however, been reversed since 1993, largely as a result of tax measures favoring long-term savings (such as contractual saving tied to the holding of government bonds). 1/ These measures resulted in a decline in the share of assets held in mutual funds.

The composition of monetary aggregates continued to change in recent years (Tables A21, A22, and A23). Since mid-1992, M2 (money and quasi-money) has increased more than M3-M2 (near money). 2/ This reflects increased deposits in passbooks and other instruments at regulated interest rates and tax benefits, which have become more attractive as market interest

1/ The ceiling for the tax exemption on capital gains from mutual funds was gradually lowered from F 332,000 in 1993 to F 50,000 in 1995. Transfers of resources from these mutual funds towards the purchase of selected government bonds and stocks were tax exempt.

2/ M2-M1 (quasi-money) comprises saving instruments at regulated rates. M3-M2 (near money) comprises liquid saving instruments at non-regulated rates.

CHART 7
FRANCE

Exchange and Interest Rate Developments

Source: IMF, Treasurer's Department and International Financial Statistics.

CHART 8
FRANCE

Interest Rates and Inflation
(In Percent)

Sources: IMF, International Financial Statistics and Treasurer's Department.

CHART 9
FRANCE
Monetary Indicators

Sources: IMF, International Financial Statistics and Banque de France.
1/ Ratio of nominal GDP to M3 (respectively total domestic debt).

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rates have fallen. 1/ The composition of M3-M2 itself has recently been altered by the reduction of the withholding tax on income from certificates of deposit effective early 1995, which led to a 20 percent increase in the stock of CDs in the first half of the year.

Since 1991 the Banque de France has placed increasing emphasis on the aggregate domestic debt (EIT, endettement intérieur total) in the belief that the role of credit in total financing to the economy has become less important. 2/ Total domestic debt rose by 3.8 percent in 1994, with a sharp increase in the government component (18.4 percent) largely compensated by a 1.5 percent reduction in corporate debt (Table A24). Much of the decline in corporate debt may be attributed to a reduction in bank lending. 3/ Despite the recovery of the economy, corporate debt in early 1995 still stood 6.5 percent below the historical maximum reached in late 1992.

IV. External Sector

1. Trade and current account developments

The trade balance showed a surplus in 1993, as did the current account (about 3/4 percent of GDP) (Tables A25 and A26; and Chart 10). The current account surplus held broadly steady in 1994 while the trade surplus declined slightly. The improvement in the trade and current accounts in 1993 resulted mainly from weak domestic activity which led imports to decline even more sharply than exports. By contrast, trade performance in 1994 was spurred by an expansion in foreign demand for French exports that outpaced the increase in domestic demand for imports. Overall, exports of goods and services grew by 8 percent in nominal terms and 6.4 percent in volume terms in 1994, while imports increased by 8.5 and 7.0 percent, respectively. 4/

1/ For example, in Codevi (Comptes pour le développement industriel), which are saving accounts earmarked to finance industrial investment. Like other passbooks, these accounts have a ceiling, which was doubled to F 30,000 in 1994.

2/ However, total domestic debt is not strongly correlated with nominal income (the correlation coefficient was less than 40 percent in 1987-94). Moreover, using Granger causality tests, the information in lagged total domestic debt adds little to the information in lagged nominal GDP.

3/ Bank lending still accounts for 80 percent of corporate debt. Although there are no statistics on bank credit by size of firm, the 1994 annual report of the Banking Commission indicates that banks have been extremely cautious in lending to small enterprises.

4/ The figures discussed in the text are adjusted for the changes in coverage introduced in 1993 with the adoption of the Intrastat system of recording intra-EU trade flows.

The strong pickup in exports of goods in 1994 is attributable largely to the performance of the manufacturing sector (particularly exports of intermediate goods, heavy equipment, and transport), with sales abroad increasing in volume terms by more than 9.4 percent relative to 1993, compared with an increase of 8.2 percent for imports. This reflected a pickup in world demand for French manufactured goods, which grew by about 9 percent at current prices in 1994 after falling by more than 2 percent in 1993. Exports and imports of energy products fell in 1994, reflecting a drop in foreign sales of refined products and a lower price of oil coupled with the appreciation of the franc relative to the dollar. Imports of food and agricultural products increased substantially (by about 15 percent)--in part owing to increases in world coffee and cocoa prices--while agricultural exports fell (by about 9 percent) for the second year in a row, as production surpluses declined following the reduction in support prices under the Common Agricultural Policy (CAP) of the European Union. The relatively larger increase in import volumes was partly compensated by a slight improvement in the terms of trade, and the trade balance (in nominal terms) remained at about the same level (in nominal terms) as in 1993.

Trade in services continued to improve in 1994 in line with the expansion of foreign demand, and the services balance showed a surplus of almost 1 percent of GDP following a positive balance of about 3/4 percent of GDP in 1993. The largest improvements were seen in areas such as transport and insurance services, while the tourism balance held broadly steady (Table A27). However, in sectors such as telecommunications, advertising, and audiovisual services, France's performance has shown a tendency to deteriorate. Net factor income (mostly investment income) has also continued to fall.

The geographic distribution of trade changed relatively little in 1994. Despite the economic rebound in Europe, exports to OECD countries, excluding EU countries, were the most buoyant; to the United States alone, exports increased by 13.3 percent in nominal terms. Exports to the newly-industrialized countries (NICs) of Asia also expanded significantly, more than doubling in nominal terms between 1988 and 1994. A similar pattern, with an increase in the weight of trade with Asian NICs, can also be observed on the import side.

The currency realignments in the EU since 1992 appear to have had relatively little effect on France's bilateral trade flows, except with Italy. Despite the depreciation of the British pound, France recorded its largest bilateral trade surplus in 1994 with the United Kingdom (F 27 billion, compared with F 16 billion in 1992 and F 19 billion in 1993). France's surplus with Spain fell in 1994 (as in 1993) but remained relatively large at about F 15 billion. The bilateral trade balance with Italy, however, showed a significant deterioration between 1992 and 1994--particularly in sectors such as automobiles, textiles, shoes, and agricultural products. There are also indications that France may have lost market shares to Italy in third-country markets.

- 18a -

CHART 10
FRANCE

Trade and The Current Account
(In Percent of GDP)

Source: IMF, Datafund.

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Currency movements in 1992 and 1993 appear to have affected tourism more than other sectors. Receipts on account of tourism from Spain fell by 2 percent in 1994 after falling by 18 percent in 1993. Receipts from the United Kingdom dropped by about 15 percent in 1994. But receipts from Italy, after falling by about 23 percent in 1993, rose by 2 percent in 1994, despite the depreciation of the lira.

Both exports and imports of goods and services continued to grow rapidly in early 1995. Exports of manufactured products in the first quarter fell in some areas (notably automobiles, and to a lesser extent intermediate goods), but exports in other sectors (most notably heavy equipment goods) remained buoyant. Preliminary data indicate that the trade surplus reached F 32 billion (0.4 percent of GDP) in the first half of 1995.

2. Capital account and overall balance

The structure of capital flows changed considerably between 1993 and 1994. In 1993, net long-term capital outflows were relatively small (of the order of F 25 billion). Net short-term capital movements (excluding changes in net official assets) were negative, and official assets fell by about F 28 billion (Table A28 and Chart 11). In 1994, by contrast, the capital account showed substantial net outflows of long-term capital (F 256 billion), which were more than offset by short-term inflows (of about F 283 billion, of which F 273 billion were related to operations by the banking sector). Net foreign assets of the Banque de France increased by more than F 70 billion last year.

Key factors in accounting for the shift in the long-term capital account position were a reduction in purchases of French fixed income assets (mainly bonds) by non-residents, which dropped from a net inflow of about F 195 billion in 1993 to a net outflow of F 170 billion in 1994, and an increase in purchases of foreign assets by the nonbank private sector. The reduction in purchases of French fixed income assets by non-residents (after the sharp increases in purchases registered during 1989 and 1993) was apparently triggered to a large extent by expectations that the franc would depreciate.

Net capital movements related to direct investment contributed little to changes in the structure of the capital account, despite significant changes in the composition of these flows. French foreign direct investment (which takes place mostly in EU countries and other OECD member countries) continued to decline in 1994, after the peak observed in 1992. Foreign direct investment amounted to F 61 billion in 1994, down from F 69 billion

in 1993 and F 84 billion in 1992. 1/ Foreign investment in France fell last year, partly because international investors responded to improved conditions in developing countries and emerging market economies. 2/

Capital transfers shifted from approximate balance in 1993 to a large deficit in 1994, with a net outflow of F 25.5 billion. This shift resulted from a sharp increase in net transfers to European institutions and most importantly from debt forgiveness aimed at supporting economic adjustment in the CFA countries.

France's ODA reached F 46.9 billion in 1994, an increase of 3 percent in real terms relative to 1993. At 0.64 percent of GDP in 1994, France's foreign assistance remains one of the highest among industrial countries. Official estimates indicate that in 1995 aid will increase further, to 0.65 percent of GDP.

3. Competitiveness

In 1994, external competitiveness remained broadly unchanged. On a bilateral basis, the franc was essentially stable in nominal terms against the deutsche mark. It appreciated relative to the US dollar, the Italian lira and the pound sterling, and was broadly unchanged against the Japanese yen (Chart 12). The nominal and real effective exchange rates showed a small appreciation in the course of 1994 (Chart 13). Developments in 1995 were marked by swings in the foreign exchange markets, with large but relatively short-lived changes in the relationships among major currencies. Following an appreciation during the first half of the year, by late summer the real effective exchange rate of the franc had almost returned to its level at the end of 1994.

An in-depth analysis of the international competitiveness of the French economy is provided in a background study. 3/ A broad range of price and non-price indicators is examined in this paper, including conventional

1/ A recent study by the Banque de France ("Les Flux d'investissements Directs de la France avec l'Etranger en 1994," Bulletin de la Banque de France, No 17, May 1995) indicates that in 1994, French foreign direct investment was concentrated mostly in financial services (27 percent), chemical products (17 percent), energy (15 percent), and insurance (14 percent). Foreign direct investment in France by nonresidents was mostly concentrated in the insurance sector (20 percent), other market-oriented services (16 percent), and the financial sector (15 percent).

2/ In an apparent attempt to reverse this trend and increase the attractiveness of its capital markets, the government announced on July 10, 1995, its intention to remove in the coming months remaining restrictions on investors from outside the EU--including those requiring prior government approval for mergers and acquisitions.

3/ See "Competitiveness and Trade Performance," in France - 1995 Article IV Consultation, Selected Background Issues.

CHART 11
FRANCE
Capital Account
(In Percent of GDP)

Source: IMF, Datafund.
1/ Excluding gold.

CHART 12
FRANCE

Bilateral Exchange Rates
(January 1992=100, Currency Per French Franc)

Source: IMF, Treasurer's Department.

- 20c -

CHART 13

FRANCE

Effective Exchange Rates

Source: IMF, Treasurer's Department and International Financial Statistics.

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price- and cost-based indices, measures of internal price competitiveness, relative profitability indices, and quantity-based indicators--such as import penetration ratios and relative export performance. The study suggests that overall competitiveness has remained broadly unchanged since the mid-1980s.

V. Structural Issues

1. Labor market policy

The government adopted a number of additional measures since 1993, designed to combat high structural unemployment, especially among the low-skilled and the low-paid. The unifying principle of these policies is to lower the cost, both relative and absolute, to employers of hiring individuals with little training or experience, or those whose human capital has been adversely affected by long-term unemployment. In addition, the government has taken a number of steps to improve the effectiveness of the training system and, to a lesser extent, to reduce the complexity and rigidity of labor market regulations governing hiring and dismissals.

Lower-skilled and lower-paid workers make up a disproportionately large part of the unemployed in France (about 1 million out of total unemployment of just under 3 million in mid-1995). This is reflected in unemployment rates disaggregated by educational level. Almost 20 percent of persons with no formal education are unemployed, compared with about 6 percent of university graduates (Chart 14).

a. Policies to reduce the cost of low-skilled labor

In part, it has been necessary to adopt these measures in order to offset the effects of the minimum wage, which is high by international standards. Heavy taxes on labor income have also contributed to raising the cost of labor faced by employers. ^{1/} The stated objective of combining a high minimum wage with special measures to reduce the cost of low-skilled labor is to prevent the emergence of a broad stratum of "working poor." It is recognized that favoring workers with low qualifications in this way has the drawback of reducing individual incentives to acquire skills.

A distinction is drawn between measures that provide a temporary incentive to help integrate certain workers (notably young persons and the

^{1/} At the aggregate level, the incidence of these taxes has been mainly on workers, regardless of whether they are formally levied on employers or employees. However, the incidence of these taxes varies by skill level. In particular, if the market for the services of low-skilled workers does not clear because of the minimum wage, reducing taxes on labor income paid by employers would have a substantially stronger effect on employment than will reducing taxes paid by employees.

long-term unemployed) into the labor market, and those that are intended to permanently alter the structure of relative wages faced by employers.

An important restructuring and expansion of measures to lower the cost of low-skilled labor was adopted in 1993. ^{1/} As regards measures to permanently change the wage structure, it was decided to exempt employees earning between 1.0 and 1.2 times the minimum wage (SMIC) from employer social security contributions to the family branch of the general regime. In addition, it was decided to gradually increase the range of salaries covered by this exemption between 1995 and 1998. Currently, earnings up to 1.2 SMIC enjoy a total exemption, and earnings between 1.2 and 1.3 times SMIC are eligible for a 50 percent exemption. Each year, the thresholds are to be raised 0.1 percentage point, so that by 1998, earnings up to 1.5 SMIC will be fully exempted, with an exemption of 50 percent for earnings between 1.5 and 1.6 SMIC.

These permanent measures were further expanded in 1995 by a system of degressive rebates on other categories of employer social security contributions (notably health and basic pensions). Effective September 1, the rebate will amount to F 800 on contributions on earnings at the level of the SMIC, with the amount declining to zero for earnings of 1.2 SMIC. Table 4 shows the budgetary cost in 1995 and 1996 of this measure.

The government estimates that about 3.5 million employees will be affected by the various permanent exemptions from employer social security contributions in 1995 and 1996. As of July 1993, the permanent exemptions reduced the cost to employers of a worker earning the SMIC by about 4 percent; taking account of the new measures that are to take effect in September 1995, this figure will increase to 13 percent.

The 1993 reforms also firmly established in law the temporary comprehensive exemptions from employer social security contributions in return for hiring a first, second, and third employee, a provision that is intended mainly to stimulate hiring by small enterprises and the self-employed. The duration of the exemption is 24 months for the first person hired (18 months for fixed-term employees) and 12 months for the second and third persons hired. In order to stimulate the hiring of individuals unemployed for more than a year, unemployed persons above 50 years of age, and persons on welfare, the terms of the Return to Employment Contract (Contrat de Retour à l'Emploi, CRE) were made more favorable, with a complete exemption from employer social security contributions for a period of up to 24 months, and special premia of up to F 20,000. Finally, modifications were made to the many special incentive contracts intended to

^{1/} In connection with the Law of July 27, 1993 and the Law of December 20, 1993 (Five-Year Law Concerning Labor, Employment, and Training).

CHART 14
FRANCE
Unemployment Rate by Education Level
(In Percent)

Source: INSEE and staff estimates.

- 22a -

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encourage the hiring of young persons. 1/ Again, the key instruments are time-limited exemptions from employer social security contributions and direct subsidies. Some contracts now permit paying workers below the age of 21 a salary below the SMIC, but only for a limited period (usually 3 to 6 months). 2/

Table 4. Budgetary Impact of Employment Measures

(In billions of francs)

	1995	1996
Reduction in employers' social security contributions	5.4	19.0
Measures to raise youth employment	0.2	1.8
Employment Initiative Contract	3.2	12.7
Total	8.8	33.5

Source: Ministry of Labor.

A number of these measures were revised and expanded following the 1995 presidential elections. In particular, the CRE was replaced at the beginning of July by the new Employment Initiative Contract (Contrat Initiative Emploi, CIE). Under this program, employers hiring a long-term unemployed person will, for a period of up to 2 years, be completely exempted from employer social security contributions payable on compensation up to the SMIC and will receive a monthly subsidy of F 2,000. The government estimates that the CIE will reduce by 38 percent the cost of an employee earning the SMIC and result in net job creation of 175,000 in 1995 and 350,000 in 1996. In addition to the CIE, the government has introduced an increase to F 3,000 per month (previously F 1,000) for nine months of the subsidy for hiring a young worker. The cost to the budget of these measures may also be found in Table 4.

1/ These include the Apprenticeship Contract, the Orientation Contract, and the Employment-Solidarity Contract.

2/ The government's intention to create a more general youth minimum wage in 1994 was stymied by widespread protests.

b. Changes in the training system

The Five-Year Law on Employment adopted in 1993 provides for a decentralization and differentiation of training programs offered by business enterprises. By 1998, the regions will be responsible for all matters relating the vocational training of persons less than 26 years of age. Moreover, the social partners will be given greater leeway to negotiate--at the branch level--guidelines for training programs.

Other measures include (1) the provision of better information to guide the career choices of young people; (2) the re-establishment of school programs compatible with taking up vocational apprenticeships at age 14; (3) streamlining approval procedures for enterprises wishing to offer an apprenticeship program; (4) the introduction of annual negotiations among the social partners to improve the functioning of programs that combine formal schooling with on-the-job training; and (5) an initiative to encourage the social partners to adapt enterprise training programs to the needs of young people.

c. Other labor market regulations

Policy in recent years has aimed to increase the flexibility of working hours, notably by encouraging part-time work and reduced working hours as a means of increasing employment. 1/ The partial exemption from employer social security contributions for part-time workers was extended by the Five-Year Law to employees who work between 16 and 32 hours per week (previously 19 to 30 hours). 2/ An experimental program provides a subsidy for a period of three years to enterprises that reduce individual working hours by at least 15 percent, increase the number of persons employed by at least 10 percent, and negotiate salary reductions.

As to regulations governing hiring and dismissals, little has changed in recent years. The procedures for collective dismissals were liberalized in 1986; they were tightened again in some respects in 1992. In the foreseeable future, the government hopes to present to parliament a completely reworked and streamlined Labor Code.

2. The financial sector

a. Overview

After expanding strongly following deregulation in the 1980s, the financial sector in France has suffered some setbacks in the last three

1/ By March 1995, 15.5 percent of wage-earners were working part-time, a substantial increase over previous years.

2/ Until April 1994, the exemption rate was 50 percent; it was subsequently reduced to 30 percent. This exemption may be combined with the general exemptions for low-paid workers.

years. In the banking sector, a number of factors have contributed to falling profits and to the 8 percent contraction in real credit to enterprises since 1990: integration and competition in Europe, an overexposure to risky real estate loans, and the surge in business bankruptcies during the recession. 1/ A number of important institutions, most notably the publicly controlled Crédit Lyonnais, have experienced severe financial difficulties. The profitability of insurance companies has also weakened somewhat in recent years, with high payouts on accident-risk policies and unstable returns on their investment portfolios. 2/ Nevertheless, the overall capitalization of the financial sector has improved, and now stands well above the minimum required by international standards.

b. Banking

The annual report of the Banking Commission indicates that before-tax profits in the banking sector fell from F 15 billion in 1993 to less than F 2 billion in 1994, suggesting that there are important structural weaknesses in the sector. 3/ For example, there has been a substantial increase in provisions since 1990, which has adversely affected profits (Chart 15). On the positive side, there has been a marked improvement in the capital-to-assets ratio and labor productivity in the sector. 4/

The problems of the banking sector may be attributed in part to the side-effects of changes in the regulatory environment since the mid 1980s, which eliminated credit ceilings and allowed financial institutions to enter new markets. First, the regulatory reform did not eliminate the unequal advantages and constraints affecting public and private institutions. This resulted in strong distortions of the competitive process. Second, as in other developed countries, deregulation and the free movement of capital led to increasing disintermediation with the attendant decrease in overall margins (Table 5). Third, recurrent episodes of high short-term interest rates may have reduced bank profitability, despite the increasing indexation

1/ The Banking Commission, which is the key supervisory body, has avoided publishing an estimate of the total amount of underperforming real estate loans.

2/ In addition, insurance companies that were associated with or controlled banks (e.g., the GAN group and UAP) posted large losses following the absorption of those banks' real estate portfolios.

3/ An international comparison confirms this impression (Table A30). However, such comparisons must be interpreted with care to take account of institutional differences. One example is the large share of low-spread interbank deposits in France compared with other countries (around 40 percent and between 10 and 20 percent of total assets, respectively).

4/ The ratios presented do not necessarily correspond to the standard risk-adjusted prudential figure. Nevertheless, the corresponding figure for France is also estimated at 5.6 percent, well above the 4 percent minimum.

of loans to market rates instead of to the slow-to-react prime rate. ^{1/} Finally, the economic slowdown of 1992-93 and bankruptcy legislation that is relatively favorable to borrowers have forced banks to increase their provisions for losses on loans to small enterprises. ^{2/}

Table 5. Intermediation Margins

(In percent)

	1988	1989	1990	1991	1992	1993
Loans	6.18	6.15	6.11	5.86	6.02	5.86
Interbank Loans	0.16	-0.11	-0.13	-0.12	-0.45	-0.14
Overall	2.12	1.86	1.80	1.63	1.48	1.40

Source: Banking Commission.

Problems in the real estate market are another key factor affecting the financial condition of the banking system. According to the French Banking Association, the real estate slump may cost the banking sector more than F 150 billion (2 percent of GDP and about half of the original value of the portfolio). ^{3/} These losses would include the estimated F 15 billion annual cost of carrying the stock of non-performing assets. The narrowness of the market has made it difficult and inadvisable to attempt a large-scale sell-off of these assets. However, since late 1993, there have been special write-offs supported by parent companies or major shareholders (Chart 12). Also, some banks have begun to provision more aggressively. ^{4/}

^{1/} Bulletin de la Banque de France, 2ème trimestre 1995, Supplément Etudes.

^{2/} The need to increase provisions explains in part the sharp restraint in new lending to this market.

^{3/} Since 1990, the price of office space has fallen by 50 percent, reflecting an excess supply of 50 million square feet. The supply of real estate loans increased tenfold between 1986 and 1991 (reaching F 175 billion at the latter date), but became stagnant in 1992. Nevertheless, new office space will continue to come on the market until 1996, as projects are still being completed.

^{4/} Overall provisions for all types of doubtful debts amounted to F 277 billion in December 1994. Continuous replenishment of provisions reduced the before-tax profits of credit institutions by F 87 billion in 1993 and F 72 billion in 1994 (F 53 billion and F 45 billion for the commercial banks).

CHART 15

FRANCE

Banking Sector Indicators

(In Billions of Francs)

Sources: Banking Commission and staff estimates.

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The state remains a major shareholder in the financial sector, and has acted to absorb losses in the enterprises under its control through write-offs and recapitalization. The Crédit Lyonnais (CL) has been the beneficiary of the largest and most complex rescue operation thus far. 1/ Large losses were incurred following a rapid expansion in 1989-91 of the bank's investments in real estate, stocks, loans to industrial enterprises, exchange-rate instruments, and non-investment grade bonds.

The government has announced two restructuring plans for the CL since the beginning of 1994. The current plan comprises a triangular operation that supersedes the planned transfer of F 43 billion in non-performing real estate loans announced earlier. It includes a F 145 billion, 7 percent loan by CL to the state-owned company SPBI. Of this amount, F 135 billion are to be relent to a special-purpose entity (CDR), which will use this amount to buy non-performing assets from CL. The remaining F 10 billion will be used to purchase long-maturity government zero-coupon bonds. The plan envisages that CDR will sell, in the course of five years, 80 percent of its portfolio and transfer back to SPBI an estimated F 85 billion in receipts. The remaining liabilities of SPBI toward CL (including interest) are to be financed from interest earnings on the zero coupon bonds and from direct injections from the state. 2/ The rescue plan was approved by the European Commission in July 1995, subject to CL selling 35 percent of its commercial activities outside France (valued at F 300 billion). 3/

c. Insurance

Profits in the insurance sector have weakened somewhat but are still relatively steady. In the accident-risk segment, increasing payouts have resulted in losses (Table A31). In the life-insurance segment, the ratio of profits to premiums has declined somewhat. The new and less beneficial tax treatment of life insurance contracts proposed by the government in September 1995 is likely to reduce the flow of saving into such contracts. However, these changes are not likely to lead to large early withdrawals. In the light of the adverse effect of the recent decline in equity and real estate prices on the market value of their reserves, such withdrawals might have posed risks to the solvency of some insurers. 4/

1/ Others are GAN, Compagnie du BTP, and Société Marseillaise de Crédit.

2/ The state expects to recover its expenses through special dividends and fees paid by the CL, and possibly higher privatization receipts from the sale of the CL.

3/ This condition accords with the divestment strategy pursued by CL since 1994. It sold F 12 billion in assets in 1994 and is currently selling several foreign subsidiaries.

4/ The main stock-exchange index (CAC-40) fell 17 percent in 1994.

3. Trade policy

The completion of the Uruguay Round of multilateral trade negotiations, which led to the establishment of the World Trade Organization (WTO), is expected to have a broadly favorable effect on the French economy. A recent study by the French Trade Ministry found that this agreement will result in the net creation of 16,000 jobs and a \$ 1.2 billion boost to trade over the next ten years.

However, the agreement will also require substantial adjustment in the agricultural sector. A reduction in agricultural support prices had already begun in connection with the reform of the European Union's Common Agricultural Policy (CAP). The Uruguay Round will entail further cuts in support prices, the tariffication of border measures, and a shift away from subsidization of products to direct payments to farmers.

As the world's second largest net exporter of non-factor services, France has shown a strong interest in fostering the conclusion of the nondiscriminatory multilateral agreements envisaged in the General Agreement on Trade and Services (GATS). ^{1/} In this context, the authorities hope that the extension of most favored nation clauses to all partners, which has not found support among all G7 nations, will be considered more seriously in discussions to be held in Singapore in 1996. As with other agreements within the Uruguay Round, GATS regulations and those established by the European Union are being harmonized.

In other areas, there is considerable accord between French policy objectives and the course set by the European Union. Notably, France favors the integration of Eastern European countries into the Union. However, the French authorities believe that trading blocs, such as the ACP (African-Caribbean-Pacific) agreement, and the potential establishment of a trans-Atlantic free trade area, are disadvantageous and could undermine the role of the WTO.

Inside the EU, France has expressed a preference for maintaining the state monopoly on electrical energy distribution. France has opened some segments of the telecommunications sector and should fully liberalize voice communications by 1998, but there is no indication the state telephone monopoly will be privatized in the near future. France has stated its reservations about the proposed liberalization of trade in audio-visual services.

^{1/} France expects also to benefit from the strengthening of rules on intellectual property rights, aimed at protecting *inter alia* the luxury goods industry.

Table A1. France: Macroeconomic Performance in Comparison with Germany and G-7 Countries

(Annual growth rates, in percent)

	<u>Averages</u>					
	1971-80	1981-90	1991	1992	1993	1994
Real GDP						
France	3.3	2.4	0.8	1.3	-1.5	2.9
Germany	2.7	2.3	2.8	2.2	-1.1	2.9
G-7	3.2	2.8	0.8	1.6	1.4	3.1
Real total domestic demand						
France	3.1	2.5	0.6	0.4	-2.3	3.1
Germany	2.7	1.8	6.1	3.0	-1.2	2.6
G-7	3.0	2.9	0.5	1.6	1.4	3.3
Inflation 1/						
France	9.7	6.3	3.2	2.4	2.1	1.7
Germany	5.1	2.6	4.6	4.9	4.7	3.1
G-7	8.8	4.8	4.4	3.2	2.8	2.2
Employment						
France	0.5	0.3	0.2	-0.6	-1.0	0.1
Germany	0.2	0.5	-2.2	-1.6	-1.8	-0.9
G-7	1.3	1.2	-0.5	-0.1	0.1	1.2
Unemployment rate 2/						
France	4.2	9.3	9.4	10.3	11.6	12.4
Germany	2.7	7.3	6.6	7.7	8.8	9.6
G-7	4.6	6.8	6.4	7.2	7.3	7.2
Current account including official transfers 3/						
France	0.3	-0.6	-0.5	0.3	0.8	0.8
Germany	0.7	2.6	-1.1	-1.1	-0.8	-1.1
G-7	0.0	-0.5	-0.1	-0.2	-0.0	-0.3
General government overall balance 3/						
France	-0.5	-2.3	-2.2	-4.0	-6.1	-6.0
Germany	-2.0	-2.0	-3.2	-2.6	-3.3	-2.5
G-7 4/	-2.1	-2.9	-2.6	-3.6	-4.1	-3.5

Sources: INSEE, Rapport sur Les Comptes de la Nation; and International Monetary Fund, World Economic Outlook.

- 1/ Consumer prices.
- 2/ In percent of the labor force.
- 3/ In percent of GDP.
- 4/ Average of 1977-80 instead of 1971-80.

Table A2. France: Aggregate Demand 1/

	Changes in percent in constant prices								
	1991	1992	1993	1994	93 S1	93 S2	94 S1	94 S2	95 S1
Private consumption 2/	1.4	1.4	0.2	1.5	-0.5	0.6	0.7	1.0	1.2
Public consumption	2.8	3.4	3.3	1.1	1.7	1.2	0.1	0.8	1.0
Gross fixed investment	0.0	-3.1	-5.8	1.6	-4.6	-1.1	0.6	3.1	1.0
Government	5.4	4.0	-0.3	3.3	-0.1	-0.8	3.0	1.4	-1.3
Non-government									
Residential	-4.1	-4.2	-6.7	2.5	-6.6	1.4	-0.4	4.4	-0.5
Non-residential	0.4	-4.6	-7.1	0.6	-5.1	-2.2	0.2	3.1	2.5
Stockbuilding 3/	-0.7	-0.4	-1.8	1.7	-0.8	-1.2	2.1	0.4	-0.3
Final domestic demand	1.3	0.8	-0.5	1.4	-0.9	0.4	0.5	1.4	1.1
Total domestic demand	0.6	0.4	-2.3	3.1	-1.8	-0.8	2.6	1.8	0.8
Exports of goods and nonfactor services	4.1	4.9	-0.4	5.9	-2.7	5.2	0.9	4.6	4.1
Imports of goods and nonfactor services	3.0	1.1	-3.4	6.8	-3.6	0.7	4.5	3.7	2.5
Foreign balance 3/	0.2	1.0	0.8	-0.2	0.3	1.2	-1.0	0.2	0.4
GDP	0.8	1.3	-1.5	2.9	-1.5	0.3	1.7	2.1	1.3

Source: INSEE, Quarterly National Accounts.

1/ Constant 1980 prices; data are based on quarterly national accounts.

2/ Households only.

3/ Contribution to growth.

Table A3. France: Contributions to GDP Growth
(Percentage contributions to the growth of GDP at 1980 prices) 1/

	1989	1990	1991	1992	1993	1994
Private consumption 2/	1.8	1.6	0.8	0.8	0.1	0.9
Public consumption	0.1	0.4	0.5	0.6	0.6	0.2
Gross fixed investment	1.7	0.6	0.0	-0.7	-1.3	0.3
Government	0.2	0.0	0.2	0.2	-0.0	0.1
Non-government						
Residential	0.4	0.0	-0.2	-0.2	-0.4	0.1
Non-residential	1.1	0.6	0.1	-0.6	-0.9	0.1
Final domestic demand	3.6	2.6	1.3	0.8	-0.5	1.4
Stockbuilding	0.4	0.2	-0.7	-0.4	-1.8	1.7
Total domestic demand	4.0	2.8	0.6	0.4	-2.3	3.1
Exports of goods and services	2.4	1.3	1.0	1.3	-0.1	1.6
Imports of goods and services	2.1	1.6	0.8	0.3	-0.9	1.8
Foreign balance	0.3	-0.3	0.2	1.0	0.8	-0.2
GDP	4.3	2.5	0.8	1.3	-1.5	2.9

Source: INSEE, Quarterly National Accounts.

1/ Data are based on quarterly national accounts.

2/ Households only.

Table A4. France: Household Income and Spending

	<u>1994</u> In billions of francs	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
		Annual percentage change			
Compensation of employees <u>1/</u>	3,813.9	4.8	3.8	1.5	2.5
Of which:					
Gross wages	2,737.8	4.9	3.5	1.4	2.3
Wages, net <u>2/</u>	2,252.0	5.2	3.1	0.9	2.2
Profit income	1,320.4	2.8	3.9	0.8	4.1
Net property income	287.4	36.9	3.7	3.7	6.1
Social security receipts	1,848.1	6.5	6.2	6.2	3.1
Other transfers (net)	61.3	18.6	7.3	1.6	1.4
Personal income	7,331.1	5.9	4.4	2.6	3.1
Taxes on income and property	531.1	17.6	4.2	4.1	6.3
Social security contributions <u>3/</u>	1,679.5	4.2	4.7	2.3	2.7
Disposable income	5,120.5	5.4	4.4	2.6	2.9
Households' consumption	4,433.6	4.6	3.8	2.4	3.3
Savings of households	687.1	11.0	8.3	3.6	--
Gross capital formation	348.3	-0.1	-3.2	-5.3	3.0

Sources: INSEE, Quarterly National Accounts.

1/ Including all actual and imputed social security contributions.

2/ Gross wages minus social security contributions of employees.

3/ Contributions of employees and employers.

Table A5. France: Real Incomes and Selected Ratios of the Household Sector

(In percent) 1/

	<u>Averages</u>								
	1971-74	1975-79	1980-84	1985-89	1990	1991	1992	1993	1994
<u>(Changes in percent)</u>									
Real incomes 2/									
Gross disposable income	4.4	3.2	0.7	2.4	3.7	2.1	1.9	0.3	1.0
Compensation of employees	5.7	4.3	1.0	1.9	3.6	1.5	1.4	-0.7	0.7
Hourly wages	5.3	3.9	1.6	1.2	2.1	1.3	1.7	-0.3	0.1
Social security receipts	5.4	6.8	3.9	2.9	3.5	3.2	3.7	3.9	1.3
<u>(In percent of gross disposable income)</u>									
Saving ratio	19.0	19.3	16.7	12.1	12.5	13.2	13.7	13.8	13.4
Tax burden	28.6	33.7	38.4	41.2	41.4	41.9	42.0	42.0	42.2
Social security contributions	22.6	26.6	30.2	32.7	33.2	32.9	33.0	32.9	32.8
Other	6.0	7.1	8.2	8.5	8.2	9.0	9.0	9.1	9.4
Net wages and salaries	50.3	51.5	49.9	46.8	45.6	45.5	45.0	44.3	44.0
<u>(In percent of GDP)</u>									
Gross disposable income	70.7	71.8	72.0	68.4	67.8	68.6	69.2	70.3	69.4
Profit income	21.5	19.0	18.0	17.8	18.1	17.9	17.9	17.9	17.9
Compensation of employees 3/	50.5	54.9	56.2	52.8	51.8	52.1	52.3	52.5	51.7
Net wages and salaries	35.5	37.0	36.0	32.0	30.9	31.3	31.2	31.1	30.5
Social security receipts	16.6	19.5	22.4	23.3	22.9	23.4	24.1	25.3	25.0

Source: INSEE, Quarterly National Accounts.

1/ Data based on quarterly national accounts.

2/ Deflated by private consumption deflator.

3/ Including all actual and imputed social security contributions

Table A6. France: Income and Expenditure of Nonfinancial Corporate Enterprises 1/

	1994 In billions of francs	Annual percentage change 2/				
		1990	1991	1992	1993	1994
Gross operating surplus (GOS)	1,244.3	2.9	5.6	1.6	-1.4	2.9
Resources	3,992.9	6.0	4.9	2.7	-0.2	2.9
Gross value added	3,893.9	6.2	4.8	2.7	-0.3	3.0
Subsidies	99.0	-0.1	10.7	2.5	2.8	-1.1
Uses	2,749.4	7.5	4.6	3.2	0.3	3.0
Wages and salaries	1,680.4	7.5	4.9	2.6	-0.7	2.0
Social security contributions	650.6	7.2	4.5	4.1	-0.2	2.1
Production taxes	418.5	8.3	3.6	4.4	5.6	9.1
Other revenue	543.6	14.2	16.2	11.3	4.3	2.1
Expenditure	1,062.9	10.1	7.3	4.9	2.6	-2.4
Of which:						
Interest	373.7	11.3	10.7	10.6	0.7	-11.1
Dividends	326.7	13.5	13.5	7.0	5.8	8.9
Taxes on income and property	108.6	2.1	-10.1	-19.8	-2.5	15.4
Gross savings	725.1	-0.8	9.8	3.3	-3.4	11.0
Investment and stockbuilding	591.3	7.6	0.7	-6.6	-26.9	15.5
Of which:						
Fixed investment	...	7.5	1.4	-3.2	-7.1	...
Memorandum item:						
Financial balance 3/	133.8	-4.1	-2.5	-0.6	3.6	3.4

Source: INSEE, Quarterly National Accounts.

1/ Enterprises and quasi-enterprises (SQS).

2/ Unless otherwise noted.

3/ In percent of resources.

Table A7. France: Saving-Investment Balance

(In percent of GDP)

	1980	1989	1990	1991	1992	1993	1994
Gross saving	23.6	21.8	21.5	21.0	19.9	18.1	18.9
Households	12.5	7.9	8.5	9.0	9.5	9.7	9.3
Enterprises	6.2	9.8	9.2	9.7	9.6	9.2	9.8
General government	3.8	2.4	2.5	1.4	-0.5	-2.6	-2.2
Rest of economy 1/	1.2	1.7	1.4	0.9	1.3	1.8	2.0
Gross investment 2/	24.3	22.4	22.8	21.6	19.8	17.2	18.4
Households	8.9	6.6	6.4	5.7	5.2	5.4	5.5
Enterprises	11.2	11.2	11.4	11.1	10.0	7.2	8.0
General government	3.8	3.6	4.0	3.5	3.5	3.5	3.9
Rest of economy 1/	0.4	0.9	0.9	1.3	1.1	1.0	1.0
Financial balances (current account balance) 3/	-0.7	-0.6	-1.3	-0.6	0.1	1.0	0.5
Households	3.6	1.2	2.1	3.3	4.3	4.3	3.8
Enterprise sector	-5.0	-1.5	-2.3	-1.4	-0.4	2.0	1.8
General government	-0.0	-1.2	-1.6	-2.2	-4.0	-6.1	-6.1
Rest of economy 1/	0.7	0.9	0.5	-0.3	0.2	0.8	1.0

Source: INSEE, Quarterly National Accounts.

1/ Financial sector and private administration

2/ Stockbuilding included.

3/ National accounts basis.

Table A8. France: Structure of Output

(Value added in constant 1980 prices: in percent)

	Shares in GDP			Annual percentage change			
	1980	1993	1994	1991	1992	1993	1994
Commercial sector GDP 1/	84.0	83.8	83.8	0.4	1.1	-2.1	2.9
Industry	26.8	23.0	23.2	-0.9	0.3	-3.3	3.9
Foodstuffs	3.2	2.8	2.7	1.6	-2.6	3.0	-0.1
Energy	3.9	4.1	4.0	4.1	2.8	1.5	-0.4
Manufacturing	19.8	16.1	16.6	-2.3	0.2	-5.5	5.7
Intermediate goods	6.9	5.4	5.6	-3.4	0.1	-6.2	7.6
Current consumption	5.2	4.4	4.4	-1.5	0.6	-2.0	2.9
Investment goods	5.4	4.7	4.7	-1.1	-0.2	-5.9	3.2
Household equipment	0.3	0.4	0.4	8.3	0.6	-3.6	7.3
Transportation equipment	1.9	1.2	1.4	-7.5	1.4	-12.7	16.0
Nonindustrial 2/	48.4	52.0	51.7	1.5	1.4	-1.3	2.2
Agriculture	4.2	4.0	3.9	-3.5	6.7	-7.9	1.1
Construction	6.9	5.5	5.3	0.3	-3.5	-6.0	-1.7
Commerce	10.4	10.1	9.8	0.9	-1.0	-2.8	0.2
Transportation and telecommunication	5.8	7.8	7.7	3.7	3.6	-0.2	2.0
Market services (nonfinancial)	20.4	24.4	24.1	1.5	1.6	-0.2	1.8
Insurance and financial services	4.4	3.8	4.0	-1.7	-1.4	11.0	8.6
Taxes and subsidies	8.8	8.8	8.9	-2.3	1.9	-4.0	5.1
Memorandum items:							
GDP	Billions of francs						
Current prices	2,808.3	7,082.8	7,378.1	4.1	3.5	1.0	4.2
Constant 1980 prices	2,808.3	3,567.9	3,670.5	0.8	1.3	-1.5	2.9

Source: INSEE, Quarterly National Accounts.

1/ Secteur marchand, excludes public administration.

2/ Excluding the imputed services of the financial sector.

Table A9. France: Labor Market

	1990	1991	1992	1993	1994
<u>(In millions of persons)</u>					
Population	56.395	57.055	57.374	57.667	57.947
Labor force	24.853	25.032	25.121	25.228	25.486
Civilian employment	22.396	22.442	22.306	22.078	22.109
Military personnel	0.252	0.241	0.225	0.220	0.212
Unemployment	2.205	2.349	2.590	2.930	3.165
<u>(Percent changes, unless otherwise noted)</u>					
Population	-0.1	1.2	0.6	0.5	0.5
Labor force	0.5	0.7	0.4	0.4	1.0
Civilian employment	1.1	0.2	-0.6	-1.0	0.1
Military personnel	-1.0	-4.4	-6.4	-2.3	-3.5
Unemployment rate ^{1/}	8.9	9.4	10.3	11.6	12.4

Source: INSEE, Rapport sur les Comptes de la Nation.

^{1/} As percent of labor force.

Table A10. France: Price Developments

(Changes in percent from same period of preceding year)

	1991	1992	1993	1994	1994				1995	
					Q1	Q2	Q3	Q4	Q1	Q2
GDP deflator	3.3	2.1	2.5	1.3	1.5	1.1	1.1	1.3	1.6	...
Total domestic demand deflator	3.1	2.0	2.5	1.0	1.3	1.2	0.7	1.0	1.9	...
Consumer price index	3.2	2.4	2.1	1.7	1.7	1.7	1.6	1.6	1.7	1.6
Food	3.4	1.5	0.8	1.2	0.4	1.1	1.7	1.6	2.1	1.6
Nonfood	3.1	2.7	2.6	1.8	2.2	1.9	1.6	1.6	1.6	1.6
Goods (excl. food)	2.6	1.4	1.5	0.6	1.0	0.9	0.4	0.2	0.6	0.7
Energy	2.1	-1.3	2.0	1.5	3.3	2.8	0.4	-0.4	1.3	1.5
Rent	5.0	5.2	4.2	2.8	3.0	2.8	2.8	2.7	2.5	2.5
Services	3.7	3.8	3.1	2.3	2.5	2.2	2.3	2.4	2.5	2.7
Value added deflators										
Market GDP	3.3	1.7	2.2	1.2	1.4	1.1	1.0	1.2	1.4	...
Industry	2.9	1.5	1.0	-1.6	-1.4	-2.9	-2.0	0.0	1.1	...
Manufacturing	2.6	0.8	0.6	-2.3	-2.8	-3.8	-2.4	0.0	2.1	...
Nonindustrial sectors	3.6	2.3	2.6	2.6	2.9	3.0	2.6	2.1	2.3	...
Memorandum items:										
Merchandise imports deflator 1/	-0.6	-3.2	-3.9	1.9	-0.6	3.4	2.3	2.3	3.6	...
CFI/merchandise imports deflator 1/	3.8	5.8	6.3	-0.2	2.4	-1.7	-0.7	-0.7	-1.8	...

Sources: International Monetary Fund, International Financial Statistics; OECD, Main Economic Indicators; and INSEE, Rapport sur les Comptes de la Nation.

1/ National accounts definition.

Table A11. France: Consolidated General Government Accounts 1/

	In billions of francs 1994	In percent of GDP			Changes in percent			
		1980	1993	1994	1991	1992	1993	1994
Revenue	3,603.2	46.3	48.8	48.8	4.6	2.9	2.5	4.3
Tax revenue	1,739.3	23.0	23.0	23.6	3.7	1.4	3.1	6.7
Value added tax	500.6	8.3	6.7	6.8	-2.1	1.6	-0.1	4.9
Other production taxes	539.5	6.3	7.1	7.3	3.1	3.7	5.9	7.6
Income and property taxes	699.3	8.4	9.2	9.5	8.8	-0.4	3.3	7.4
Corporate taxes	113.6	2.0	1.4	1.5	-13.3	-19.6	0.4	13.5
Personal income taxes	387.3	4.3	5.2	5.2	24.5	4.7	3.9	5.0
Other income and wealth taxes	198.4	2.1	2.6	2.7	2.1	3.2	3.9	9.0
Social security contributions	1,420.4	17.8	19.6	19.3	4.0	4.3	1.8	2.5
Other revenue	443.5	5.5	6.2	6.0	10.0	3.9	2.6	0.9
Expenditure	4,053.6	46.3	54.9	54.9	5.8	6.7	6.5	4.2
Current expenditure	3,765.7	42.5	51.4	51.0	7.1	7.0	6.9	3.4
Compensation of employees	923.8	12.0	12.5	12.5	5.2	6.0	5.8	4.3
Consumption of goods and services	487.0	6.0	6.9	6.6	9.6	5.8	8.0	0.4
Social transfers	1,718.7	19.2	23.6	23.3	6.7	6.3	6.5	3.0
Operating subsidies	121.6	1.9	1.6	1.6	1.6	10.1	1.1	6.3
Interest payments	277.4	1.5	3.7	3.8	9.0	13.7	10.0	6.4
Other current expenditure	237.0	2.0	3.2	3.2	15.1	10.4	11.4	5.1
Capital expenditure	288.0	3.8	3.5	3.9	-8.5	3.1	0.7	15.7
Net financing capacity	-450.5	--	-6.1	-6.0	...	...	...	...
Memorandum items:								
Primary surplus	-173.0	1.5	-2.5	-2.3	...	...	...	...
Noninterest expenditure	3,776.2	44.8	51.2	51.2	5.6	6.3	6.2	4.1
Real revenue 2/	...	...	...	...	1.2	0.8	--	3.0
Real expenditure 2/	...	...	...	...	2.5	4.5	3.8	2.9
Real noninterest expenditure 2/	...	...	...	...	2.3	4.1	3.6	2.8

Sources: INSEE, Rapport sur les Comptes de la Nation.

1/ National accounts basis.

2/ Deflated by GDP deflator.

Table A12. France: Public Sector Financial Balances 1/

(in billions of francs and in percent of GDP)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
1. General government	-120.2	-134.7	-138.4	-100.4	-95.7	-75.2	-101.1	-147.1	-283.6	-435.0	-442.1
	-2.8	-2.9	-2.7	-1.9	-1.7	-1.2	-1.6	-2.2	-4.0	-6.1	-6.0
Central government	-129.2	-142.3	-110.8	-102.8	-97.7	-86.6	-101.6	-113.7	-210.1	-317.1	-358.0
	-3.0	-3.0	-2.2	-1.9	-1.7	-1.4	-1.6	-1.7	-3.0	-4.5	-4.9
Local authorities	-14.5	-16.6	-12.7	-7.7	-10.4	-8.8	-4.5	-14.2	-24.7	-17.0	-11.8
	-0.3	-0.4	-0.3	-0.1	-0.2	-0.1	-0.1	-0.2	-0.4	-0.2	-0.2
Social security system	23.5	24.2	-14.9	10.1	12.4	20.2	5.0	-19.2	-48.8	-100.9	-72.3
	0.5	0.5	-0.3	0.2	0.2	0.3	0.1	-0.3	-0.7	-1.4	-1.0
2. Public enterprises 2/	-26.8	-23.3	-18.9	0.7	-6.9	-4.1	-11.0	-6.9	13.8	10.2	28.5
	-0.6	-0.5	-0.4	0.0	-0.1	-0.1	-0.2	-0.1	0.2	0.1	0.4
3. Total public sector (1+2)	-147.0	-158.0	-157.3	-99.7	-102.6	-79.3	-112.1	-154.0	-269.8	-424.8	-413.6
	-3.4	-3.4	-3.1	-1.9	-1.8	-1.3	-1.7	-2.3	-3.8	-6.0	-5.6
Memorandum items:											
General Government 3/	-108.9	-128.6	-132.2	-82.6	-109.8	-73.2	-96.5	-148.1	-287.8	-434.9	-442.6
	-2.5	-2.7	-2.6	-1.5	-1.9	-1.2	-1.5	-2.2	-4.1	-6.1	-6.0
Central Government 3/	-114.1	-128.8	-104.6	-85.0	-111.8	-84.6	-97.0	-116.0	-214.3	-317.0	-358.5
	-2.6	-2.7	-2.1	-1.6	-2.0	-1.4	-1.5	-1.7	-3.1	-4.5	-4.9

Sources: INSEE, *Rapport sur les Comptes de la Nation*; and data provided by the French authorities.

1/ National accounts basis, including Fonds de Stabilisation des Changes (FSC); plus sign indicates financing capacity.

2/ Grandes entreprises nationales only: Charbonnages de France, Electricite de France, Gaz de France, SNCF, RATP, Air France, Air Inter, La Poste, France Telecom.

3/ Excluding operations of the Fonds de Stabilisation des Changes (FSC).

Table A13. France: Central Government Budget

(Administrative basis: in billions of francs)

	1991	1992	1993	1994	1994		1995		1996
	Final outturn				Initial budget	Sup. budget	Initial budget	Sup. budget	Draft budget
Permanent operations									
Expenditure 1/	1,334.9	1,424.7	1,502.1	1,551.2	1,453.3	1,485.1	1,487.4	1,531.4	1,557.9
Interest on public debt	161.8	188.6	209.7	215.9	217.1	216.2	224.6	241.4	247.1
Operating expenditure	502.1	533.6	561.4	583.5	547.0	550.2	564.9	570.6	589.8
Social transfers	166.3	173.7	185.1	182.0	166.6	180.4	166.9	175.1	173.4
Economic & other transfers	219.1	235.8	247.7	273.1	239.8	252.0	250.6	267.8	274.0
Capital expenditure	97.5	103.7	109.8	104.9	89.1	89.4	86.2	88.0	84.1
Defense	188.9	189.8	189.1	192.2	193.8	197.0	194.3	188.7	189.6
Special accounts, net	-0.7	-0.5	-0.8	-0.4	-0.2	-0.2	-0.2	-0.2	-0.1
Revenue, net	1,223.1	1,218.3	1,209.2	1,275.9	1,171.3	1,203.2	1,228.2	1,225.8	1,279.0
Personal income tax	303.5	307.1	309.8	295.6	296.3	296.7	303.5	303.5	309.4
Corporate taxes	154.4	135.8	127.2	134.4	127.9	136.0	145.8	155.5	155.6
Other direct taxes	105.0	106.1	109.8	115.5	111.1	116.7	116.8	117.7	128.9
Value-added tax	641.9	654.3	622.3	645.5	648.4	647.0	673.2	687.7	761.7
Other indirect taxes	248.0	250.3	260.6	274.2	273.9	270.0	286.9	287.7	287.2
Nontax revenue	156.4	165.9	172.7	199.1	178.8	189.1	167.5	138.5	129.9
Earmarked accounts	53.8	56.6	60.1	59.4	...	...	...	...	...
Revenue sharing	-215.4	-219.8	-232.6	-236.8	-244.1	-238.7	-245.2	-240.7	-252.7
Tax refunds and reliefs	-224.6	-238.1	-220.5	-211.1	-221.0	-213.7	-220.4	-224.1	-241.1
Balance on permanent operations	-111.8	-206.5	-292.8	-275.4	-282.0	-281.9	-259.2	-305.5	-278.9
Balance on temporary operations	-18.9	-15.6	-22.9	-23.2	-19.4	-19.3	-15.9	-16.1	-10.9
Overall balance, including FSC 2/	-130.7	-222.1	-315.8	-298.6	-301.4	-301.2	-275.1	-321.6	-289.7
Overall balance, excluding FSC 2/	-131.7	-226.3	-315.7	-299.1	-301.4	-301.2	-275.1	-321.6	-289.7
(As percent of GDP)	(-1.9)	(-3.2)	(-4.5)	(-4.1)	(-4.1)	(-4.1)	(-3.6)	(-4.2)	(-3.6)
Memorandum item:									
Primary balance 3/	30.1	-37.7	-106.0	-83.2	-84.3	-85.0	-50.5	-80.2	-42.6
(As percent of GDP)	0.4	-0.5	-1.5	-1.1	-1.1	-1.2	-0.7	-1.0	-0.5

Sources: Budget documents and data provided by the French authorities.

1/ Including net special accounts (*comptes d'affectation speciale*).

2/ Fonds de stabilisation des changes (FSC).

3/ Overall balance minus gross interest payments.

Table A14. France: Central Government Revenue and Expenditure 1/
(Changes in percent)

	Final Outturn				Budget 1994 2/		Budget 1995 3/		Percent of GDP Outturn 1994
	1990	1991	1992	1993	Compared to Budget 1993	Outturn 1993	Compared to Budget 1994	Revision 1994	
Permanent operations									
Expenditure	5.7	4.2	6.7	5.4	6.1	3.3	2.3	2.1	21.0
Interest on public debt	12.6	7.2	16.6	11.2	22.1	3.0	3.5	9.7	2.9
Operating expenditure	5.5	4.9	6.3	5.2	3.1	3.9	3.3	3.8	7.9
Social transfers	-1.7	0.8	4.4	6.6	-0.6	-1.7	0.2	-5.9	2.5
Economic and other transfers	3.5	5.4	7.6	5.0	15.7	10.3	4.5	3.9	3.7
Capital expenditure	11.2	4.2	6.4	5.9	0.3	-4.5	-3.3	-10.5	1.4
Defense	7.6	1.5	0.5	-0.4	-2.0	1.6	0.3	1.1	2.6
Revenue, net 4/	5.2	3.2	-0.4	-0.7	-3.4	5.5	4.9	3.6	17.3
Personal income tax	10.2	15.4	1.2	0.9	-8.8	-4.6	2.4	-4.1	4.0
Corporate taxes	8.8	-7.3	-12.0	-6.3	-16.6	5.7	14.0	-5.3	1.8
Other direct taxes	0.1	2.6	1.0	3.5	3.6	5.2	5.1	6.6	1.6
Value added tax	5.1	2.6	1.9	-4.9	-7.9	3.7	3.8	0.4	6.7
Other indirect taxes	2.1	4.3	0.8	4.1	1.4	5.2	4.7	5.3	3.7
Nontax revenue	16.1	27.1	6.1	4.1	38.4	15.3	-6.3	15.3	2.7
Memorandum items:									
Real expenditure 5/	2.5	0.9	4.5	2.8	4.7	1.9	...	0.4	...
Real noninterest expenditure 5/	1.6	0.5	3.2	2.0	2.4	2.0	...	0.5	...

Sources: Budget documents and data provided by the French authorities.

1/ Budgetary outturns on an administrative basis.

2/ The budget figures are compared with the initial budget for 1992; the preliminary outturn is compared with the final outturn of 1992.

3/ The budget figures are compared with the initial 1993 budget and with the supplementary 1993 budget.

4/ Net of revenue sharing and tax refunds.

5/ Deflated by GDP deflator.

Table A15. France: Level and Structure of Government Debt

(In billions of francs and in percent)

	Level					Percent of Total				
	1985	1991	1992	1993	1994	1985	1991	1992	1993	1994
Negotiable debt 1/	703.0	1,466.4	1,776.6	2,133.7	2,479.6	65.8	78.5	84.1	86.7	85.4
Long-term debt	366.0	909.3	1,061.9	1,352.6	1,559.2	34.3	48.7	50.3	54.9	53.7
Including OATs	72.0	761.0	982.4	1,226.9	...	6.7	40.8	46.5	49.8	...
Notes and bills	337.0	557.1	714.7	781.0	920.4	31.6	29.8	33.9	31.7	31.7
Including BTAN	...	417.7	456.2	593.2	681.7	...	22.4	21.6	24.1	23.5
Non-negotiable debt	364.6	400.5	334.7	328.2	424.2	34.2	21.5	15.9	13.3	14.6
Long-term debt later trans-										
ferred to the state	44.5	71.5	50.2	77.6	74.9	4.2	3.8	2.4	3.2	2.6
Savings bills	36.2	24.6	19.1	15.2	12.6	3.4	1.3	0.9	0.6	0.4
Deposits in current accounts	274.4	314.2	304.4	324.8	362.7	25.7	16.8	14.4	13.2	12.5
Treasury's account at the Bank of France	-55.1	-63.1	-108.1	-161.7	-101.5	-5.2	-3.4	-5.1	-6.6	-3.5
Miscellaneous	27.7	15.5	13.7	14.4	12.9	2.6	0.8	0.6	0.6	0.4
Total	1,067.6	1,866.9	2,111.3	2,461.9	2,903.8	100.0	100.0	100.0	100.0	100.0
(In percent of GDP)	22.7	27.6	30.1	34.8	39.4	...	...	...	...	...
General Government 2/	1,458.2	2,391.8	2,758.8	3,148.1	3,546.1	...	...	...	...	...
(In percent of GDP)	31.0	35.3	39.4	44.4	48.1	...	...	...	...	...

Sources: INSEE, Rapport sur les Comptes de la Nation; and data provided by the French authorities.

1/ Excluding FSR, "Fonds de Soutien des Rentes". Securities issued on behalf of the FSR were F 5 bil. in 1992 and F 13 bil. in 1993.

2/ General government consists of central government, the local authorities and social security.

Table A16. France: Simplified Accounts of the Social Security System

(In billions of francs and in percent) 1/

	In billions of francs		Percent of resources		Changes in percent			
	1985	1995	1985	1993	1991	1992	1993	1994
Resources	1054.4	1669.6	100.0	100.0	5.6	5.6	3.0	3.8
Social security contributions	892.1	1399.0	84.6	83.8	4.2	4.4	1.8	2.5
Employers	585.9	872.0	55.6	52.2	4.2	4.0	1.3	2.6
Employees	233.4	415.8	22.1	24.9	3.9	5.9	3.3	2.9
Self-employed	72.8	111.3	6.9	6.6	5.9	2.1	0.1	-0.3
earmarked and other taxes	36.1	85.8	3.4	5.1	36.5	10.4	31.3	-20.6
Transfers from other government sectors	88.4	148.3	8.4	8.9	2.3	18.6	0.0	55.6
Other	37.8	36.5	3.6	2.2	11.5	2.8	-5.3	4.2
Uses	1030.2	1729.7	97.7	103.6	7.2	7.3	6.2	1.9
Social security benefits	823.2	1370.6	78.1	82.1	6.8	6.7	5.8	2.6
Health, disability 2/	243.7	399.6	23.1	23.9	5.9	5.6	4.4	2.5
Family allowances	116.7	152.6	11.1	9.2	2.2	3.5	7.6	-1.0
Unemployment	47.7	106.9	4.5	9.1	22.5	17.5	10.6	-4.3
Pensions 3/	415.0	711.6	39.4	42.6	6.8	6.5	5.5	4.6
Transfers to hospitals	122.5	240.0	11.6	14.4	5.2	6.8	6.3	4.3
Other	84.5	119.1	8.0	7.1	14.2	14.8	8.9	-6.9
Financing capacity (+) or requirement (-)	24.2	-60.1	2.3	-3.6				
In percent of GDP	0.5	-1.8						
Memorandum item:								
Social security benefits								
Growth in real terms 4/	...	...	...	...	3.6	4.3	3.1	0.9

Sources: INSEE, Rapport sur les Comptes de la Nation.

1/ On a national accounts basis.

2/ Not including expenditure in public hospitals.

3/ Including early retirement payments.

4/ Deflated by consumer price index.

Table A17. Social Security, Régime Général

	1991	1992	1993	1994	1995 1/
Health insurance					
Revenue	442.5	470.9	479.6	489.9	511.5
Percent change	8.2	6.4	1.8	2.2	4.4
Expenditure	445.5	477.2	507.0	521.4	547.0
Percent change	6.6	7.1	6.2	3.1	4.9
Balance	-3.0	-6.3	-27.3	-31.5	-35.5
Accidents					
Revenue	45.3	43.7	41.0	41.8	42.9
Percent change	-0.2	-3.5	-6.3	2.0	2.6
Expenditure	44.8	41.7	41.2	41.9	42.6
Percent change	4.5	-6.9	-1.2	1.7	1.7
Balance	0.5	2.0	-0.3	-0.1	-0.3
Pensions					
Revenue	264.0	279.9	277.0	313.3	330.3
Percent change	3.2	6.0	-1.0	13.1	5.4
Expenditure	282.7	297.8	316.5	326.0	343.6
Percent change	7.8	5.4	6.3	3.0	5.4
Balance	-18.7	-17.9	-39.5	-12.8	-13.2
Family allowances					
Revenue	198.2	208.7	229.9	215.5	223.4
Percent change	2.8	5.3	10.1	-6.2	3.6
Expenditure	193.6	201.9	219.2	227.1	236.9
Percent change	2.4	4.3	8.6	3.6	4.3
Balance	4.6	6.8	10.7	-11.6	-13.5
Total régime général					
Revenue	950.0	1003.3	1027.5	1060.6	1108.1
Percent change	5.2	5.6	2.4	3.2	4.5
Expenditure	966.6	1018.6	1083.9	1116.5	1170.0
Percent change	6.0	5.4	6.4	3.0	4.8
Balance	-16.6	-15.4	-56.4	-55.9	-62.0

Source: Rapport sur les comptes de la sécurité sociale, July 1995.

1/ Forecast.

Table A18. Simplified Accounts of the Local Authorities 1/

	<u>Structure</u> <u>in percent</u>		<u>In billions</u> <u>of francs</u>		<u>Percent change</u>			
	1985	1994	1993	1994	1991	1992	1993	1994
Receipts								
Taxes	65.0	65.9	477.9	507.1	7.9	4.7	7.2	6.1
Fiscal transfers received	21.3	22.9	168.0	176.1	12.4	6.5	5.5	4.8
Transfers from other government	11.5	11.2	83.2	86.1	1.9	5.8	3.5	3.4
Other	23.5	23.0	172.6	176.7	5.3	7.2	3.9	2.3
Total	100.0	100.0	733.7	769.9	6.7	5.5	5.7	4.9
Expenditure								
Current	76.0	76.5	572.8	598.3	6.9	6.0	4.9	4.5
Operating expenditure	51.6	51.5	390.7	402.6	6.8	6.2	4.0	3.0
Compensation of employees	31.6	30.3	225.5	236.8	6.9	6.6	4.1	5.0
Consumption and other	20.0	21.2	165.2	165.8	6.8	5.7	3.8	0.4
Transfers	14.8	16.2	119.4	126.7	17.3	5.0	7.7	6.1
Interest payments	9.6	7.7	62.7	60.0	6.6	6.0	5.0	-4.3
Investment	24.0	23.5	178.1	183.4	10.7	4.8	1.8	3.0
Total	100.0	100.0	750.8	781.7	8.2	6.9	4.4	4.1
Net balance			-17.0	-11.8				

Source: INSEE, Rapport sur les Comptes de la Nation.

1/ On a national accounts basis.

Table A19. France: Key Interest Rates

(In percent per annum; period averages)

	1990	1991	1992	1993	1994				1995	
	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June
Interbank market										
Intervention rate ^{2/}	9.25	9.36	9.10	6.22	6.08	5.25	5.00	5.00	5.00	5.00
Repurchase rate	10.00	10.17	10.00	7.02	7.00	6.40	6.40	6.40	7.64	7.67
Three-month Interbank rate	10.27	10.11	11.34	6.52	6.25	5.56	5.63	5.95	8.06	7.20
Capital market										
Government bond yield	9.93	8.79	8.30	5.94	6.53	7.64	8.15	8.09	8.05	7.54
Lending rates										
Prime lending rate	10.25	10.35	10.00	8.15	7.95	7.70	7.95	8.25	8.25	8.25
Overdrafts and advances to enterprises ^{4/}	11.40	11.43	12.29	8.90	8.19	7.61	7.58	7.96	7.76	9.32
Deposit rates										
Passbook savings ^{5/}	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Money market securities										
Treasury Bills	9.99	10.12	10.82	6.27	6.19	5.55	5.64	5.81	8.23	7.31
Contractual savings										
Plan d'epargne logement	6.00	6.00	6.00	6.00	5.25	5.25	5.25	5.25	5.25	5.25
Eurofranc three-month rate	10.25	10.10	11.44	6.53	6.28	5.58	5.65	5.97	8.27	7.23

Sources: Banque de France, *Bulletin Trimestriel*, and IMF, *International Financial Statistics*.^{1/} A 2 percent surcharge for special social security contributions to be added to all withholding taxes on interest income.^{2/} Rate on the *appels d'offres*; end of period.^{3/} Average of maximum and minimum rates, with spreads of up to 5-6 percentage points.^{4/} Observations taken in January, April, July, and October.^{5/} Livrets A or Bleu, included in M2-M1.

Table A20. France: Changes in Official Interest Rates
(In percent)

Date	Intervention rate (Auction rates)	Ceiling rate (Repo rates)	
		5/10 days	24 hours
<hr/>			
1994			
Feb 25	6.10		
March 25	6.00		
April 1	5.90		
April 21		6.75	
April 22	5.80		
May 6	5.60		
May 17		6.40	
May 19	5.40		
July 1	5.10		
July 29	5.00		
1995			
March 8		...	8.00
April 6			7.75
June 22		7.50	...
July 8		7.25	
July 22		7.00	
August 4		6.50	
August 31		6.15	

Source: Banque de France, Bulletin Trimestriel, Supplément Statistique; and Reuters News Agency.

Table A21. France: Main Monetary Aggregates
(In billions of francs and growth rate in percent) 1/

	1989	1990	1991	1992	1993	1994	1995 Q2
Money (M1)	1,531.1 7.6	1,590.2 3.9	1,517.2 -4.6	1,513.1 -0.3	1,536.4 1.5	1,584.1 3.1	1,579.4 1.9
Quasi-money (M2 - M1)	1,272.1 0.5	1,235.6 -2.9	1,216.9 -1.5	1,180.6 -3.0	1,204.7 2.0	1,306.2 8.4	1,343.2 8.5
Money and quasi-money (M2)	2,803.1 4.3	2,825.7 0.8	2,734.2 -3.2	2,693.7 -1.5	2,741.1 1.8	2,890.3 5.4	2,922.6 4.8
Near money (M3 - M2)	1,651.2 21.5	2,042.8 23.7	2,249.6 10.1	2,555.8 13.6	2,339.5 -8.5	2,290.5 -2.1	2,328.5 4.7
Broad money (M3)	4,454.4 10.0	4,868.5 9.3	4,983.7 2.4	5,249.6 5.3	5,080.7 -3.2	5,180.8 2.0	5,251.1 4.8
Nonmonetary liquidity (M4 - M3)	68.6 53.3	52.5 -23.5	51.3 -2.4	57.5 12.2	50.9 -11.6	75.2 48.0	86.4 50.2
Liquidity (M4)	4,523.0 10.5	4,921.1 8.8	5,035.0 2.3	5,307.1 5.4	5,131.5 -3.3	5,256.1 2.4	5,337.5 5.3
Memorandum items:							
Velocity of circulation							
M1	4.02	4.09	4.47	4.63	4.61	4.66	4.86 2/
M2	2.20	2.30	2.48	2.60	2.58	2.55	2.63 2/
M3	1.38	1.34	1.36	1.34	1.39	1.42	1.46 2/

Source: Banque de France, Bulletin Trimestriel.

1/ End of period data and year-on-year percentage changes.

2/ Staff estimates.

Table A22. France: M3 and Its Counterparts

(In billions of francs, end of period)

	1988	1989	1990	1991	1992	1993	1994
1. M3	4,124.5	4,543.0	4,955.9	5,063.3	5,312.4	5,162.3	5,282.2
2. External counterparts	80.4	54.2	-50.9	85.4	234.1	628.1	454.3
Net foreign assets of the Banque de France	101.8	95.2	154.8	137.0	17.4	18.8	122.9
Net foreign asset position of banks	-21.4	-41.0	-205.7	-51.6	216.8	609.3	331.4
3. Domestic credit	5,759.8	7,354.2	7,951.2	8,526.9	8,899.0	9,048.6	9,043.1
Claims on government	918.6	887.8	888.6	1,011.0	1,088.1	1,350.2	1,679.4
Claims on the economy	5,826.1	6,609.9	7,189.7	7,516.0	7,810.9	7,698.3	7,363.7
4. Other sources							
(3 + 2 - 1)	1,715.7	2,865.4	2,944.4	3,549.0	3,820.7	4,514.3	4,215.1
Contractual savings	409.7	449.7	539.8	640.6	758.3	938.8	1,064.5
Net stable resources	2,116.5	2,434.8	2,430.4	2,557.6	2,749.4	3,315.4	3,112.2
Other	277.2	204.5	183.8	350.8	313.0	260.2	38.5
Memorandum item:							
5. Net domestic credit							
(1 - 2)	4,044.1	4,488.8	5,006.8	4,977.9	5,078.3	4,534.3	4,828.0
(Contributions to the growth of M3, in percent)							
Percentage change in M3	8.2	10.1	9.1	2.2	4.9	-2.8	2.3
External counterparts	-1.2	-0.6	-2.3	2.8	2.9	7.4	-3.4
Banque de France	-0.0	-0.2	1.3	-0.4	-2.4	0.0	2.0
Other credit institutions	-1.2	-0.5	-3.6	3.1	5.3	7.4	-5.4
Net domestic credit	9.4	10.8	11.4	-0.6	2.0	-10.2	5.7
Claims on government	1.4	-0.7	0.0	2.5	1.5	4.9	6.4
Claims on the economy	17.7	19.0	12.8	6.6	5.8	-2.1	-6.5
Contractual savings	-1.5	-1.0	-2.0	-2.0	-2.3	-3.4	-2.4
Net stable resources	-7.4	-7.7	0.1	-2.6	-3.8	-10.7	3.9
Other	-1.9	1.8	0.5	-3.4	0.7	1.0	4.3

Sources: Banque de France, Bulletin Trimestriel.

Table A23. France: Monetary Base and Its Counterparts

(In billions of francs)

	1988	1989	1990	1991	1992	1993	1994
Monetary base	324.7	331.2	322.7	316.4	273.2	265.2	265.4
Sources:							
Net foreign assets	101.8	95.2	154.8	137.0	17.4	18.8	122.9
Credits to government	36.9	28.9	38.5	26.4	40.8	36.0	21.6
Discounted government paper	56.7	66.8	37.9	70.4	169.5	178.9	119.4
Discounted private bills and money market instruments	164.8	196.5	134.4	116.8	149.6	211.7	110.0
Minus:							
Treasury's account at the Banque de France	75.6	107.0	103.7	85.6	147.7	197.6	123.0
Other	-40.1	-50.8	-60.8	-51.4	-43.6	-17.4	-14.5

(Contributions to growth of monetary base, in percent)

Percentage change in monetary base	1.2	2.0	-2.6	-2.0	-13.7	-2.9	0.1
Net foreign assets	-0.2	-2.0	18.0	-5.5	-37.8	0.5	39.2
Credits to government	0.1	-2.5	2.9	-3.7	4.6	-1.8	-5.4
Discounted government paper	-7.9	3.1	-8.7	10.1	31.3	3.4	-22.4

Source: Banque de France, Bulletin Trimestriel.

Table A24. France: Total Domestic Debt and Its Components

(In billions of francs)

	1990	1991	1992	1993	1994	1995 Q1
Total domestic debt	8,377.9	8,882.8	9,415.5	9,692.0	10,061.3	10,246.1
Of which:						
To the central government	1,727.8	1,815.8	2,046.0	2,362.1	2,795.8	3,072.5
Credit	295.8	289.1	231.7	174.6	247.9	356.8
Domestic money market	549.9	557.1	714.7	782.0	926.3	1,022.8
Domestic bond market	855.3	944.8	1,080.0	1,379.7	1,581.2	1,648.1
Other	26.8	24.8	19.6	25.8	40.4	44.8
To the private sector	5,965.3	6,314.6	6,534.3	6,380.2	6,339.9	6,307.9
Firms	3,572.8	3,866.3	4,065.6	3,906.9	3,848.3	3,821.9
Credit	2,925.6	3,162.5	3,291.0	3,117.6	3,050.5	3,026.7
Domestic money market	152.2	151.6	171.6	152.7	151.7	147.8
Domestic bond market	336.0	379.9	397.8	428.5	436.9	438.2
Other	159.0	172.3	205.2	208.1	209.2	209.2
Households	2,392.5	2,448.3	2,468.7	2,473.3	2,491.6	2,486.0
Memorandum items:						
External Financing	185.6	197.2	224.8	233.8	249.8	254.0
Credit from non-residents	96.6	95.7	102.8	111.0	125.8	130.1
Bonds issued abroad	89.0	101.5	122.0	122.8	123.9	123.9
Negotiable instruments as percentage of total credit to firms	13.7	13.7	14.0	14.9	15.3	15.3
Growth rate of selected components ^{1/}						
Total domestic debt	10.6	6.0	6.0	2.9	3.8	4.3
Government debt	9.4	5.1	12.7	15.4	18.4	16.3
Credit to the private sector	11.6	5.9	3.5	-2.4	-0.6	-0.9
To firms	14.5	8.2	5.2	-3.9	-1.5	-1.8
To households	7.5	2.3	0.8	0.2	0.7	0.6

Source: Banque de France, Bulletin Trimestriel.

^{1/} Year-on-year percent change.

Table A25. France: Balance of Payments Summary

(In billions of francs)

	1991	1992	1993	1994	1994			1995	
					Q2	Q3	Q4	Q1	Q2
Current account	-34.5	20.5	52.4	51.7	5.9	20.8	13.6	36.2	29.5
Trade Balance 1/	-49.8	15.3	49.1	44.5	11.2	8.3	19.2	17.8	19.1
Services	50.1	60.5	59.3	76.6	20.6	24.4	17.4	13.2	23.4
Factor income	-32.6	-48.3	-51.8	-60.5	-17.9	-9.2	-13.8	-9.1	-8.1
Other goods and services	39.0	40.1	30.3	29.0	7.8	7.2	7.0	4.9	5.4
Unrequited transfers	-41.3	-47.1	-34.6	-44.8	-15.6	-17.1	-16.1	9.4	-10.2
Capital Transfers	-3.2	2.1	-0.4	-25.6	-2.2	-0.4	-22.8	-0.5	-0.3
Long-term capital	12.4	117.9	-23.7	-256.0	-80.8	-46.6	0.0	-62.7	28.4
Short-term capital	-0.0	-151.5	-43.2	212.8	37.4	-2.0	44.9	31.9	-73.4
Short-term private nonbank capital	-35.5	-21.2	211.1	10.3	27.4	-12.3	25.1	-1.0	59.7
Short-term bank capital	4.3	-240.3	-282.1	272.5	19.0	6.6	15.6	42.5	-140.9
Balance on official settlements 2/	31.2	109.9	27.8	-70.0	-9.0	3.7	4.2	-9.6	7.8
of which:									
Change in official reserves	29.8	5.3	30.9	-13.9	-3.2	-0.4	-6.8	1.4	--
Errors and omissions	25.4	11.0	14.9	23.3	40.2	35.1	-35.6	-4.9	15.8
Memorandum item:									
Current account including capital transfers	-37.7	22.6	51.9	26.2	3.7	20.4	-9.2	35.7	29.2
Basic balance 3/	-25.3	140.5	28.3	-229.8	-77.1	-26.2	-9.2	-27.0	57.6
Capital balance 4/	6.5	-132.5	-79.7	50.2	5.8	-17.1	5.1	-26.1	-37.0

Sources: Direction du Tresor and Banque de France, La Balance des Paiements de la France; Ministère de l'Economie, des Finances et du Budget, Les Notes Bleues; and data provided by the French authorities.

1/ Including international brokerage.

2/ A plus sign indicates a reduction in net foreign assets or an increase in net foreign liabilities.

3/ Equals current account including capital transfers plus long-term capital balance.

4/ Equals long-term capital plus short-term non-official capital, including errors and omissions.

Table A26. France: Current Account Developments

	1991	1992	1993	1994	1994			1995	
					Q2	Q3	Q4	Q1	Q2
<u>(In billions of francs)</u>									
Trade balance	-56.4	9.4	38.4	35.8	8.7	6.4	18.0	14.9	17.2
Exports	1,165.0	1,193.3	1,113.8	1,226.3	311.3	283.5	336.3	341.4	339.0
Imports	-1,221.4	-1,183.9	-1,075.5	-1,190.5	-302.6	-277.1	-318.2	-326.4	-321.8
International brokerage, net	6.7	5.9	10.8	8.7	2.5	1.9	1.1	2.9	1.9
Services, net	50.1	60.5	59.3	76.6	20.6	24.4	17.4	13.2	23.4
Of which:									
Travel, net	51.0	59.7	60.8	60.5	17.0	18.2	12.9	11.3	16.5
Factor income	-32.6	-48.3	-51.8	-60.5	-17.9	-9.2	-13.8	-9.1	-8.1
Of which:									
Investment income, net	-28.6	-40.9	-45.8	-55.4	-16.2	-7.8	-12.7	-10.3	-6.8
Other goods and services, net	39.0	40.1	30.3	29.0	7.8	7.2	7.0	4.9	5.4
Unrequited transfers, net	-41.3	-47.1	-34.6	-44.8	-15.6	-17.1	-16.1	9.4	-10.2
Private	-14.4	-17.0	-3.9	-4.6	-1.0	-2.0	-1.1	-0.6	-1.2
Official	-26.9	-30.1	-30.7	-40.2	-14.6	-15.0	-15.1	10.0	-9.0
Current account	-34.5	20.5	52.4	51.7	5.9	20.8	13.6	36.2	29.5
<u>(As percent of GDP)</u>									
Memorandum items:									
Current account	-0.5	0.3	0.7	0.7	0.3	1.1	0.7	1.9	...
Trade balance	-0.8	0.1	0.5	0.5	0.5	0.3	1.0	0.8	...
Services, net	0.7	0.9	0.8	1.0	1.1	1.3	0.9	0.7	...
Factor income	-0.5	-0.7	-0.7	-0.8	-1.0	-0.5	-0.7	-0.5	...
Other goods and services, net	0.6	0.6	0.4	0.4	0.4	0.4	0.4	0.3	...
Unrequited transfers	-0.6	-0.7	-0.5	-0.6	-0.9	-0.9	-0.9	0.5	...
<u>(Changes in percent)</u>									
Terms of trade ^{1/}	0.7	0.9	1.2	0.4	-1.1	0.7	-0.3	-0.5	...

Sources: International Monetary Fund, International Financial Statistics; Direction du Trésor and Banque de France, La Balance des Paiements de la France; and data provided by the authorities.

^{1/} Calculated for national accounts aggregates.

Table A27. France: Services Balance

(In billions of French francs)

	1991	1992	1993	1994	1994			1995	
					Q2	Q3	Q4	Q1	Q2
Services linked to trade	-13.2	-15.7	-15.4	-7.5	-2.8	-1.0	-2.9	-2.7	-2.6
Incidental costs on merchandise	-6.0	-5.6	-6.5	-7.1	-1.7	-1.7	-1.7	-2.2	-2.0
Sea transportation	-7.2	-7.1	-7.1	-6.5	-1.5	-1.6	-1.6	-1.6	-1.4
Other transportation	0.6	-1.4	0.1	3.4	0.5	0.9	1.0	0.7	0.8
Insurance	-0.6	-1.6	-1.9	2.7	-0.1	1.4	-0.6	0.5	--
Services linked to technology	19.2	19.2	22.0	25.5	6.0	6.6	8.2	4.6	7.2
Major work projects	7.7	9.3	8.4	8.3	2.0	2.3	2.0	2.4	2.0
Technical cooperation	7.6	7.8	8.5	7.5	2.2	2.5	3.1	-0.7	3.2
Processing and repair	3.2	3.2	4.2	7.1	1.5	1.4	2.3	1.8	1.4
Royalties, licensing	-3.9	-4.5	-3.9	-3.4	-1.4	-1.2	-0.4	-0.4	-1.2
Management services	4.5	3.4	4.9	5.9	1.7	1.6	1.3	1.5	1.8
Interest, dividend and other investment income	-28.6	-40.9	-45.8	-55.4	-16.2	-7.8	-12.7	-10.3	-6.8
Salaries and other labor income	-0.1	-2.9	-2.1	-1.7	-0.3	-0.1	-0.7	1.6	-0.1
Travel	51.0	59.7	60.8	60.5	17.0	18.2	12.9	11.3	16.5
Of which:									
EU12	20.5	24.7	24.9	22.4	...	...	...	...	...
United States	1.0	1.5	2.6	2.1	...	...	...	...	...
Other services	-6.8	-3.9	-7.9	-1.8	-0.1	0.3	-0.2	0.5	1.8
French government income and expenditure	-5.1	-4.8	-5.6	-4.9	-1.2	-1.3	-1.4	-1.2	-1.0
Foreign government income and expenditure	1.1	1.4	1.4	1.3	0.2	0.4	0.4	0.3	0.3
Total services balance	50.1	60.5	59.3	76.6	20.6	24.4	17.4	13.2	23.4

Sources: International Monetary Fund, International Financial Statistics; Ministère de l'Economie, des Finances et du Budget, Les Notes Bleues; Banque de France, La balance des paiements; and data provided by the authorities.

Table A28. France: Capital Account
(In billions of francs)

	1990	1991	1992	1993	1994
Long-term capital flows	89.4	12.4	117.9	-23.7	-256.0
Trade credit	8.1	3.6	0.6	11.9	-2.5
Direct investment	-97.4	-53.2	-16.8	-0.1	0.3
Inflow	49.2	62.4	84.3	68.8	60.8
Outflow	-146.6	-115.7	-101.1	-68.9	-60.5
Public sector investment	-2.9	-3.9	-3.5	-3.8	-3.7
Loans (net)	-6.5	-14.8	-49.4	-48.5	58.1
Banks	8.7	11.1	-38.7	-35.8	46.8
Private nonbanks	-5.3	-1.6	8.1	1.6	-0.0
Public	-9.9	-24.3	-18.9	-14.4	11.4
Portfolio investment (net)	188.1	80.6	187.1	16.9	-308.2
Residents	-46.1	-84.2	-101.3	-176.1	-136.6
Nonresidents	234.1	167.0	282.9	194.8	-169.8
conditional instruments	--	-2.2	5.5	-1.8	-1.7
Short-term capital flows	-9.2	-0.0	-151.5	-43.2	212.8
Private nonbanks	-99.7	-35.5	-21.2	211.1	10.3
Trade credits	-34.0	-6.7	-4.5	33.6	5.1
deposits and loans	-65.7	-28.8	-16.7	177.5	5.2
Banks	149.4	4.3	-240.3	-282.1	272.5
In francs	176.1	-11.5	-253.3	-283.8	229.3
In foreign exchange	-26.7	15.7	13.1	1.7	43.2
Public sector	-58.9	31.2	109.9	27.8	-70.0
Total capital flows	80.2	12.3	-33.6	-66.9	-43.2
Private capital flows	139.1	-18.8	-143.5	-94.7	26.8
Memorandum item:					
Forward operations of banks with Banque de France	7.3	2.1	-8.2	5.0	...

Sources: Banque de France, Bulletin and Supplement "Statistiques"; and data provided by the authorities.

Table A29. France: Banking Sector External Position

(End of period, in billions of francs)

	1990	1991	1/	1992	1993	1994	1994			1995	
							Q2	Q3	Q4	Q1	Q2
Assets											
Short term	1,545.8	1,530.8		1,898.4	2,243.2	2,050.5	1,948.5	1,953.2	2,050.5	2,124.0	2,194.2
Francs	155.4	209.2		464.9	687.2	504.8	542.5	517.8	504.8	592.8	647.7
Foreign exchange	1,390.4	1,322.7		1,432.7	1,556.0	1,545.7	1,406.0	1,435.4	1,545.7	1,531.2	1,546.5
Long term	449.2	451.9		477.8	495.8	444.5	466.8	449.6	444.5	430.2	432.9
Francs	156.0	153.2		148.0	140.5	132.3	135.9	134.5	132.3	131.7	130.9
Foreign exchange	293.2	298.7		329.8	355.3	312.2	330.9	315.1	312.2	298.5	302.0
Liabilities											
Short term	1,999.2	1,989.5		2,065.8	2,109.7	2,222.4	2,081.9	2,089.5	2,222.4	2,321.4	2,223.5
Francs	442.1	482.9		485.5	404.7	446.8	441.0	434.1	446.8	519.3	480.6
Foreign exchange	1,557.1	1,500.6		1,579.9	1,705.0	1,775.6	1,641.0	1,655.3	1,775.6	1,802.1	1,742.9
Long term	191.8	208.9		210.0	186.1	191.3	196.3	197.2	191.3	188.6	201.5
Francs	41.3	56.8		68.2	83.5	83.2	89.7	86.6	83.2	81.9	83.1
Foreign exchange	150.5	152.1		141.8	102.6	108.1	106.7	110.7	108.1	106.7	118.4
Net											
Francs	-196.0	-215.7		100.3	443.2	81.3	137.0	116.1	81.3	44.2	202.1
Foreign exchange	-172.0	-177.3		59.2	339.5	107.1	147.7	131.6	107.1	123.3	214.9
	-24.0	-31.3		40.8	103.7	-25.8	-10.8	-15.5	-25.8	-79.1	-12.8

Sources: Banque de France, Bulletin Trimestriel; and data supplied by the French authorities.

1/ Change in methodology in 1990.

Table A30. Indicators for Commercial Banks in Selected Countries
(in percent of assets excluding interbank deposits)

	1988	1989	1990	1991	1992	1993
Net interest income						
France	4.1	3.0	2.8	2.4	2.1	1.6
Germany	2.9	2.7	2.7	2.8	2.8	2.8
United Kingdom	4.0	3.7	3.5	3.5	3.0	2.9
United States	3.7	3.7	3.6	3.7	4.0	4.0
Before-tax profits						
France	0.7	0.4	0.4	0.4	0.1	-0.1
Germany	1.0	0.9	0.8	0.7	0.6	0.7
United Kingdom	1.8	0.2	0.8	0.5	0.4	0.9
United States	1.2	0.8	0.8	0.8	1.4	1.8
Staff costs						
France	2.2	1.7	1.6	1.5	1.5	1.3
Germany	1.9	1.8	1.7	1.7	1.6	1.5
United Kingdom	2.4	2.3	2.1	2.1	1.9	1.8
United States	1.6	1.6	1.6	1.6	1.7	1.7
Provisions						
France	0.6	0.5	0.5	0.6	1.0	0.9
Germany	0.3	0.5	0.7	0.6	0.9	0.9
United Kingdom	...	...	...	...	...	...
United States	0.6	1.0	1.0	1.0	0.8	0.5
Capital and reserves						
France	4.3	4.0	4.3	4.7	5.1	5.6
Germany	6.1	6.5	6.7	6.5	6.8	6.4
United Kingdom	6.9	6.0	5.7	5.4	4.4	4.5
United States	6.6	6.5	6.7	7.0	7.8	8.2

Sources: OECD and staff estimates.

Table A31. Income Statement of the Insurance Sector
(in billions of francs)

	1989	1990	1991	1992	1993	1994
Life Insurance and annuities						
Premiums and net interests	258	267	321	366	451	498
Other net revenues 1/	9	12	17	13	18	7
Expenses	108	136	159	187	221	249
Reserves	152	135	170	183	240	250
Net Income	7	8	9	9	8	6
Accident-risk insurance						
Premiums and net interests	187	200	213	231	249	267
Other net revenues 1/	21	39	33	41	32	...
Expenses	190	214	229	253	266	284
Reserves	7	15	13	19	15	...
Net Income	11	10	4	--	--	...

Sources: Data provided by the French authorities; and staff estimates.

1/ Including capital gains on the sale of assets.