Table 1. France: Main Economic Indicators
(Annual percentage change, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
				Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
Demand and supply in constant prices[1]									
Gross domestic product	3.2	4.2	2.1	1.3	0.3	2.0	2.8	2.7	2.5
Private consumption	3.5	2.9	2.8	1.5	1.5	1.7	2.6	2.4	2.3
Public consumption	1.5	3.0	2.9	4.1	1.9	1.6	2.0	2.2	2.2
Gross fixed investment	8.3	8.4	2.1	-1.4	-0.8	2.5	4.2	4.0	3.8
Business investment	9.1	9.7	3.1	-2.3	-1.7	3.2	6.0	5.6	5.3
Residential investment	7.2	3.4	0.8	0.8	1.1	1.4	1.2	1.2	1.2
Public investment	7.0	10.7	-0.2	-1.0	0.2	1.6	1.3	1.3	1.2
Stockbuilding[2]	-0.2	0.5	-0.7	-0.3	0.0	0.1	0.0	0.0	0.0
Total domestic demand	3.7	4.5	2.0	1.1	1.1	2.0	2.8	2.7	2.6
Foreign balance[2]	-0.4	-0.2	0.1	0.2	-0.9	0.1	0.1	0.1	0.0
Exports of goods and NFS	4.2	13.4	1.8	1.3	-2.1	4.9	7.6	6.6	6.6
Imports of goods and NFS	6.2	15.3	1.4	0.8	0.9	4.9	7.7	6.7	6.8
Prices									
GDP deflator	0.4	0.7	1.7	1.9	1.6	1.6	1.6	1.6	1.6
Consumer prices (average)[3]	0.6	1.8	1.8	1.9	2.0	1.8	1.6	1.6	1.6
Consumer prices (end of period)[4]	1.4	1.7	1.4	2.2	2.0	...	...	...	...
Employment and wages									
Employment	2.0	2.6	1.8	0.6	0.1	0.5	1.0	0.9	0.7
Unemployment[5]	10.7	9.3	8.5	8.8	9.4	9.5	9.0	8.7	8.2
Productivity[6]	1.2	1.6	0.3	0.6	0.2	1.5	1.7	1.8	1.9
Unit labor costs (whole economy)	1.2	0.8	2.8	2.3	2.4	1.5	1.5	1.4	1.3
Output in manufacturing	4.3	6.7	3.1	-0.1	0.3	4.0	4.5	4.0	4.0
Hourly labor compensation in manufacturing	1.1	4.7	2.5	3.2	2.6	3.7	4.0	4.0	4.0
Unit labor costs in manufacturing	-1.8	-2.8	0.3	0.6	0.6	-0.1	-0.1	0.0	0.0
Personal sector									
Real disposable income[7]	3.1	3.4	3.4	2.0	0.8	2.0	2.8	2.4	2.2
Savings ratio[8]	15.3	15.7	16.2	16.7	16.0	16.1	16.2	16.2	16.2
Output gap[9]	-1.0	0.7	0.4	-0.6	-2.3	-2.5	-2.0	-1.2	-0.6
Rate of growth of potential output	2.4	2.4	2.4	2.3	2.0	2.3	2.3	1.9	1.9
Balance of payments									
Trade balance (billions of euros)	16.5	-3.6	3.9	10.1	2.7	2.9	4.3	5.8	6.0
(in percent of GDP)	1.2	-0.3	0.3	0.7	0.2	0.2	0.3	0.3	0.3
Current account (billions of euros)	39.4	19.5	25.7	27.5	14.3	18.6	21.6	24.8	26.2
(in percent of GDP)	2.9	1.4	1.7	1.8	0.9	1.2	1.3	1.4	1.4
Terms of trade	0.1	-2.7	1.0	1.5	0.0	0.4	0.4	0.3	0.2
Nominal effective exchange rate[10]	95.8	92.7	93.0	93.8	96.6	...	...	...	...
Real effective exchange rate[10]	92.3	89.0	88.2	89.0	91.4	...	...	...	...
Public sector accounts[11]									
Revenue	51.8	51.2	51.0	50.4	50.3	50.2	50.2	50.1	50.0
Expenditure	53.6	52.6	52.6	53.5	54.6	54.0	53.1	52.2	51.4
General Government balance	-1.8	-1.4	-1.6	-3.2	-4.2	-3.8	-2.9	-2.1	-1.3
Structural balance	-1.1	-1.8	-1.8	-2.9	-2.9	-2.3	-1.7	-1.3	-0.9
Primary balance	1.6	1.8	1.6	0.0	-1.0	-0.6	0.1	1.0	1.7
Gross debt	58.5	57.1	56.8	58.9	61.8	63.3	63.3	62.6	61.3

Sources: Data provided by the authorities and Fund staff estimates.

[1] Data from the INSEE quarterly national accounts system.

[2] Change as percentage of previous year's GDP.

[3] Harmonized CPI.

[4] For 2003, year on year in August.

[5] In percent of labor force; harmonized index.

[6] GDP over total employment.

[7] Personal disposable income deflated by the implicit deflator for private consumption.

[8] In percent of household disposable income.

[9] In percent of potential GDP.

[10] Index; Base 1995=100. For 2003, data as of June.

[11] In percent of GDP; Data for 2001-02 excludes the proceeds from the sale of UMTS licenses, which amounts to about 0.1 percent of GDP.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 03/128
FOR IMMEDIATE RELEASE
October 29, 2003

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with France

On October 8, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with France.[1]

Background

The French economy has been no exception to the prolonged global slowdown despite generally supportive policy conditions. The economy's initial resilience to the downturn based on the strength of private consumption has been eroded in the course of 2002. Investment plans were repeatedly postponed, in part because of a heightened focus on corporate deleveraging, while consumer confidence weakened when layoffs materialized and geopolitical uncertainties rose. Consequently, the economy flirted with recession from end-2002 through mid-2003. With the impact of adverse shocks waning and external demand conditions improving, the staff expects a gradual, if tentative economic recovery to materialize toward the end of the year. Thus, real GDP growth is projected to increase from about 0.3 percent in 2003 to 2 percent in 2004. Despite pressures from energy and drought-induced food price rises, a sizable hike in minimum wages, and possible further health care fee increases, the outlook for inflation remains benign, reflecting considerable slack in the economy and euro appreciation. Over the medium term, population aging will reduce potential growth and add several percentage points of GDP to budgetary outlays on pensions and health care. By international comparison, the tax and regulatory burdens remain high in France, while activity rates are low despite considerable increases since the mid-1990s.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

In 2003, the staff estimates the general government budget to widen to 4.2 percent of GDP from 3.2 percent of GDP in 2002, mostly due to the cyclical downswing. However, there are also appreciable spending overruns that are being masked by a better-than-expected revenue performance. The 2004 budget targets a reduction in the deficit to 3.6 percent of GDP (from an official estimate of 4 percent of GDP in 2003, and assuming GDP growth of 1.7 percent). It intends to keep central government spending constant in real terms, curb social spending growth, and implement further cuts in taxes and social security contributions. In the context of a broader reform of the State, public sector employment will decline as about 7 percent of retiring civil servants will not be replaced. The staff estimates that these plans imply a structural improvement of slightly more than half a percentage point of GDP. The 2004 budget also presents the authorities' plans for 2005–07 which include tax cuts and further consolidation to bring the fiscal accounts close to structural balance by 2007 based on a reduction in real spending growth to an annual average of 1 percent. This requires a sustained slowdown in the annual real growth of health care expenditure from more than 4 percent in recent years to 2.25 percent. The general government deficit would edge below 3 percent of GDP in 2005.

On structural issues, a key pension reform was adopted in mid-2003. The reform is expected to eliminate 40 percent of the projected increase in the pension costs of aging. Further fiscal consolidation and policies to lower structural unemployment are expected to absorb the remaining costs while five-yearly reviews of the pension system will allow for further modifications as needed to secure the sustainability of the system. Health care reform has been placed on the reform agenda for 2004. To strengthen labor market performance, subsidies will be provided to employers who hire people on protracted income support; the earned income tax credit (*PPE*) has been raised; further cuts in social security contributions are being implemented; 35-hour workweek requirements for small enterprises have been eased; and some employment protection provisions have been suspended. Divestiture by the state of remaining stakes in commercial enterprises is being pursued; obstacles to reform of network industries are being addressed; and a new agency was created to strengthen governance and transparency of state participations. The framework for corporate governance, auditing, and accounting standards is being strengthened.

Supervision in the financial sector is being intensified in response to increased risks stemming from protracted economic weakness. A new law on financial security simplified the supervisory landscape and increased consumer protection. After remaining unchanged for about a year and a half, administrative interest rates have been reduced in mid-2003, though they remain above market rates. A new adjustment mechanism that will become effective in mid-2004 has been introduced to prevent future misalignments.

Executive Board Assessment

Executive Directors welcomed the forward-looking policies recently being pursued by the French authorities, and, in particular, commended their adoption of the milestone pension reform, which will appreciably strengthen France's long-run fiscal outlook and make a key contribution toward addressing the major challenges for future GDP growth and fiscal sustainability arising from the impending demographic shock. Going forward, Directors urged the authorities to press ahead with their plans for steady structural adjustment announced in the context of the 2004 budget, and for the elaboration of a comprehensive health care reform. They also underscored that important synergies can arise from simultaneously pursuing fiscal consolidation and raising potential output based on further labor and product market reforms.

Directors observed that the prolonged global slowdown has not spared the French economy. However, with the impact of adverse shocks waning and external demand conditions improving, a gradual recovery is expected to take hold toward end-2003. Directors nevertheless pointed to continued corporate balance sheet adjustments and a still weak employment outlook domestically, as well as a possible faltering of the recovery externally, as possible sources of downside risk to the recovery. Owing to the considerable slack in the economy, France's inflation outlook remains benign.

Against this background, Directors agreed that macroeconomic policies will need to continue to do their part to support the economy. Monetary policy remains the primary tool to support euro-area wide conditions in a context of overall benign inflation. Most Directors welcomed the recent reduction in administered interest rates, which, by improving the monetary transmission, will enhance the effects of ECB monetary easing in France. They encouraged the authorities to bring rates fully in line with market rates and to further phase out administrative controls on savings and deposit instruments.

Directors recognized the difficult trade-offs between short-and long-term objectives confronting France's fiscal policy in the current conjuncture, which have been exacerbated by the absence of consolidation during the boom years. Directors welcomed the authorities' decision to base the 2004 budget on conservative growth assumptions. Most Directors endorsed the cumulative fiscal consolidation envisaged for 2004–07, which aims at improving the structural balance by about 0.5 percentage point of GDP per year with full play being given to the automatic stabilizers around this path. Some Directors urged the authorities to aim for more ambitious adjustment in 2004, which, they felt, would further underpin the credibility of the fiscal framework of the euro area while at the same time strengthening confidence in the authorities' fiscal strategy. Some Directors also suggested that, by pursuing fiscal consolidation beyond the current horizon until a small budget surplus is achieved, France would be in a stronger position to deal with the costs of population aging and achieve fiscal sustainability.

Directors emphasized that the authorities' fiscal consolidation strategy will now need to be backed up by concrete measures, and, in this connection, highlighted several issues that will warrant close attention in the period ahead. As envisaged by the authorities, the pension system parameters will need to be periodically reviewed and corrected given the uncertainties surrounding long-term projections, especially those related to the reduction in structural unemployment. A number of Directors noted that until a comprehensive health care reform takes hold, it will be necessary to take continuous specific steps to curb spending growth. Many Directors urged the authorities to pursue more ambitious civil service reform aimed at improving efficiency in the public sector and reducing public employment through attrition more vigorously. To ensure the full benefits of ongoing decentralization efforts, Directors pointed to the need for safeguards that will help maintain fiscal discipline. Many Directors also underscored the importance of greater expenditure restraint to create room for reducing France's high tax burden. In the interim, they considered that a rebalancing of the tax structure—by reducing taxes to lower labor costs while increasing reliance on broad-based taxes—could already begin to make significant inroads in removing distortions and improving incentives to work.

Directors underscored that the credibility of the authorities' fiscal strategy will hinge crucially on the ability to control spending. They noted the disappointing track record of the past few years which had seen significant spending overruns in health care and, more recently, also at the normally well-controlled central government level. Directors accordingly welcomed the new initiatives being taken by the authorities to enforce spending limits, and urged them to complement these initiatives with the adoption of multiyear expenditure norms to be expressed in terms of the level of non-cyclical spending. They welcomed the principles, announced in the 2004 budget, whereby any additional revenues from better-than-expected growth will be used to reduce the deficit and any new tax cuts will be financed by cuts in spending, and they encouraged the authorities to incorporate these principles in their medium-term framework.

Directors underscored the need for continued labor and product market reforms to raise France's medium-term growth and reduce structural unemployment. They commended the authorities for the favorable labor market performance achieved over the past several years, including during the downturn, while calling for further steps to improve labor market flexibility and contain increases in labor costs. Recent measures such as the easing of the workweek reduction requirements for small enterprises, the suspension of some employment protection measures, and the increase in the earned income tax credit were welcome, but Directors saw scope for further sharpening incentives to return to work and improving—through streamlining—the cost effectiveness of the multitude of active labor market policies. Directors supported the authorities' efforts to reduce the administrative and regulatory burden and strengthen the governance of state participation, but a number of Directors saw scope for more rapid progress in subjecting network industries to competition. They also welcomed the renewed drive for divestiture, with some Directors encouraging a more rapid phasing out of the State's involvement in enterprises pursuing commercial activities.

Directors noted that France's financial sector has weathered the protracted economic slowdown well and encouraged the supervisory authorities to remain vigilant, in particular with respect to the financial situation of some large corporate groups. They supported the changes in the supervisory framework contained in the new law on financial security and ongoing initiatives to strengthen corporate governance and accounting rules. They commended the authorities' decision to participate in the Financial Sector Assessment Program as well as France's leadership role in the fight against money laundering and the financing of terrorism.

Directors were encouraged by the authorities' support for the reform of the Common Agricultural Policy and for multilateral trade liberalization. In the context of the reformulation of EU agricultural trade policy, and given the importance of resuscitating the Doha round, many Directors looked forward to the leadership of France in working to reduce agricultural subsidies and remove other barriers to trade. Directors commended France's contribution to development assistance, and looked forward to further increases in official development assistance toward the target of 0.7 percent of GNP.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with France is also available.