

French Economy: Situation and Outlook

OVERALL A SATISFACTORY PERFORMANCE

Even though the French economy slowed down in 1991, **France's economic situation remains satisfactory and continues to compare favourably with its major trade partners.** France is one of the three countries in the European Community which already satisfies the criteria of convergence established in preparation for Monetary Union.

The rate of inflation has remained moderate at the 3% level for the seventh consecutive year. For the first time in 20 years, this was below the rate in Germany. As a result, French products are more competitively priced and together with the strong demand from Germany, export results have greatly improved. Thus, the trade balance, after a reduction of the deficit by half in 1991, became positive in 1992. The strategy of "competitive disinflation" to increase French competitiveness through inflation control and currency stability, which was implemented over the past several years by Prime Minister Bérégovoy when he was Minister of Finance, is evidently bearing fruit. The budget deficit, even though over 65% of its forecast of 132 billion FF (\$26 billion), remains small as a percentage of GNP (1.9%).

The major problems which France has been facing are the rise in unemployment, the weak point in the French economic picture, the halt of corporate investments, and the high rate of real interest rates.

Overall, and unlike many of its trade partner countries, France does not seem to suffer from major imbalances which might hinder a return to growth. **For 1992, there is a consensus that the recovery will be gradual, but modest, around 2%;** it will be based on export and private consumption, but will be slowed by the low level of investment. Data gathered at the beginning of 1992 point to continued strong French exports, which benefit both from gains based on price competitiveness and the expected recovery of Anglo-Saxon economies. However, internal signs of recovery remain too limited to allow for strong growth this year. While on the consumer side, there is the possibility of a decrease in the savings rate which could support consumption before an improvement in employment, nevertheless, on the corporate side, investment incentives are insufficient to allow for a recovery in investments.

In summary, the growth rate will be too weak to stop unemployment from increasing above its current rate of 10% of the labour force. It is this rise in unemployment which explains the gloomy and pessimistic view of the French toward their economic situation.

In an attempt to encourage a recovery, the French government has relaxed temporarily its tight economic policy which it has been following since 1983. This policy which is focused both on competitive disinflation and reduction of the budget deficit, is part of a medium term strategy to maintain conditions for healthy and continued growth and to strengthen France's competitiveness in the European single market. In the face of the slowdown, the government has reconciled the need to encourage growth with its