

OUTLOOK FOR 1992

There is a consensus that the slightly stronger activity at the beginning of 1992 should gradually lead to a **moderate recovery for the whole of 1992**. Government forecasts as well as those of the Institute of Official Studies on the Economy (INSEE) and the majority of private economic commentators anticipate that growth will reach 2%, based on increased exports and household consumption, but will still remain restrained by low business investment.

France would benefit from an improved world economy. Despite the weakening of demand in Germany, French exports should increase due to both the recovery in its major trading partners and the continued price competitiveness of French products. It must be emphasized that this recovery scenario is crucially dependent on an improved international situation. Whereas the outlook in the Anglo-Saxon countries seems to be more positive, Germany's future remains uncertain. If that country's slowdown turns out to be more severe than anticipated or if its monetary policy were to be tightened, France's recovery would be both delayed and weaker.

Internal trends for a recovery seem limited. Private consumption should be increasing slightly due to favourable changes in both the purchasing power and savings rate, thus becoming the major driving force of the recovery. As for corporate investment, considering falling profit margins, over-production and the high cost and difficulty of obtaining credit, businesses are waiting for confirmation of a lasting recovery to invest. Overall, on a yearly average, production investment should at best stabilize, not yet contributing to sustaining growth.

Growth will be insufficient to avoid a continued increase in unemployment over 10% of the active population, the level reached at the beginning of the year, thus again justifying an active employment policy. With the recovery expected to be gradual and weak, and the delayed reaction in the job market, employment will progress only marginally. Since government measures to stimulate employment will only be fully felt in the second half of the year, unemployment will continue to increase at least during that period.

The government continues to enforce a more flexible budget policy and a monetary policy of competitive disinflation. Again this year, the budget deficit forecast at 135 billion FF will include tax losses which have already appeared since the beginning of the year. Spending remains controlled, as additional expenditures are financed through a reduction in other expenses and income from partial privatizations. Monetary policy remains focused on a moderate rate of inflation and keeping the franc stable while making an effort to reduce interest rates.

The most positive economic signs are that inflation is expected to remain at moderate levels, and that the balance of trade will continue to improve. Thus, France remains one of the least inflationary industrialized countries, even compared with Germany. In this context, with continued improvement of price competitiveness, together with a stronger foreign demand, exports of French products should improve whereas the small strengthening in domestic demand will not be sufficient to contribute, through increased imports, to an increase in the trade deficit. On the contrary, continued improvement of the positive trade balance will allow for further reduction in the deficit for the year.