October 1999

IMF Staff Country Report No. 99/127

# France: Staff Report for the 1999 Article IV Consultation

This report was prepared by a staff team of the International Monetary Fund following discussions with the officials of France on economic developments and policies. The report was then considered by the IMF's Executive Board in the context of the IMF's periodic consultation with France, as required under Article IV of the IMF Articles of Agreement. The views expressed in the staff report itself are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF or of the authorities of France; a supplementary statement by IMF staff may also be included. The views of the Executive Board as expressed in the discussion of the Article IV consultation report and as summarized in a Public Information Notice (PIN) are also included. In addition, a statement by the member country authorities may be appended. Further background documentation prepared by IMF staff for the consultation may be published separately at a later date. The policy of publication of Article IV staff reports allows for the deletion of market sensitive information.

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INTERNATIONAL MONETARY FUND

FRANCE

# Staff Report for the 1999 Article IV Consultation

Prepared by the Staff Representatives for the 1999 Consultation with France

Approved by Michael Deppler and Leslie Lipschitz

October 1, 1999

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## I. Introduction

1. The Article IV consultation discussions were held in Paris during June 29–July 13, 1999. The mission met with the Minister of the Economy, Finance, and Industry and his staff; the Governor and senior officials of the Bank of France; officials in the *Commissariat Général du Plan*; the Ministry of Labor and Solidarity; and the national statistical institute INSEE, as well as in the agencies for banking, insurance, and security exchange supervision; executives at several financial institutions; academics; and representatives of labor unions and the employers' association.[1] Mr. Milleron (Executive Director) or Mr. Bauche (Alternate Executive Director) participated in these meetings.

2. The last Article IV consultation was concluded on October 28, 1998 (SUR/98/123). Directors commended the authorities for the prudent macroeconomic policies of recent years, which had cleared the way to founding membership in the euro area, and encouraged them to continue addressing structural problems, particularly in the labor market and public finances. In this regard, they urged sufficient restraint in public spending to allow for a sizable reduction in the burden of taxes on labor income over the medium term, as well as further fiscal consolidation.

3. The authorities have expressed their intention to participate in the pilot program for the public release of Article IV staff reports.

## II. Policy Discussions

### A. Overview

4. The exchange of views confirmed that France's short-term outlook was favorable—thanks in part to policies that had promoted some employment creation and fostered consumer confidence—but it also underscored that major policy challenges remained unmet. Prime among them was how to bring about a major reduction in structural unemployment—an objective that, in the view of the staff, could not be achieved through a simple extension of current labor market policies. To reach their goal, the authorities would have no choice but to restore much stronger incentives to job search, review the educational system to ensure a rapid decline in the number of unskilled workers, and allow for a lower minimum wage for workers without any skill or experience.

5. The mission completed the discussions with a sense that the authorities' approach to economic policymaking is influenced by the conviction that only gradual, circumscribed changes offer assurances of a sustained expansion over the medium term. This conviction is

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[1] The staff team comprised Messrs. Artus (head), Zanello, and Ubide-Querol, Ms. Louppe (all EU1), Ms. Dziobek (MAE), and Mr. Jeanne (RES), with Ms. Raelison-Rajaobelina (INS) as the Administrative Assistant.

founded on two premises: that the current cyclical upturn is being underpinned by a revival in consumer sentiment; and that the latter is inherently fragile. Indeed, household confidence (which suffered under the rigorous macroeconomic policies of the mid-1990s) has been critically bolstered by rapid job creation since early 1997—in part the outcome of active labor-market initiatives, the promotion of part-time and temporary work, and the reduction in social charges on low wages. In turn, improved sentiment has sustained private consumption, which triggered a virtuous circle of economic growth and additional confidence-enhancing reductions in unemployment. This virtuous circle, together with other special factors, seems to be at the heart of the recent superior performance of France compared to its major European partners. (See Appendix I for an assessment of France's growth record in an international perspective). Accordingly, the authorities are particularly mindful of the possibility of a reversal of consumers' confidence, which could weaken the employment-consumption nexus and undermine the upswing. Hence, there is reluctance to undertake policy changes that might create social disruptions.

6. With gradualism the hallmark of the authorities' strategy, policy actions since the last consultation have been limited in scope and intensity. In the fiscal domain, the preference for caution has found its expression in a medium-term consolidation program that, by setting unambitious targets, maximizes the potential for better-than-expected outcomes. Similarly, the authorities' efforts to address structural issues in public finance have been selective and narrowly based. While there has been noteworthy progress on the privatization front in 1998–99—a departure from gradualism that may be explained in terms of the relatively limited social impact of state divestment, as well as the wide margins of control over the privatization process available to the authorities throughout—other critical items on the structural agenda are yet to receive sufficient policymaking attention (including further reforms of the tax, pension, and healthcare systems; and an overhaul of the public administration).

7. As regards labor market policies, the authorities' engagement has been contained also by the fact that the 35-hour workweek initiative has continued to monopolize the public debate on reforms. A draft second law clarifying key parameters of the new work regime was adopted in July by the government and is slated for parliamentary debate in the fall (see Box 4 below). Whether the initiative—which seems to have had a favorable impact on the social dialogue and work organization—will turn out to be an innovative social experiment is uncertain, but there is little doubt that the prominence it has received in the government's agenda has diverted attention away from a much-needed reevaluation of the root causes of France's high and persistent unemployment and of the policies in place to address them.

8. In this context, the consultation discussions focused on the following topics:

- the cyclical position and the balance of risks in the near-term outlook;

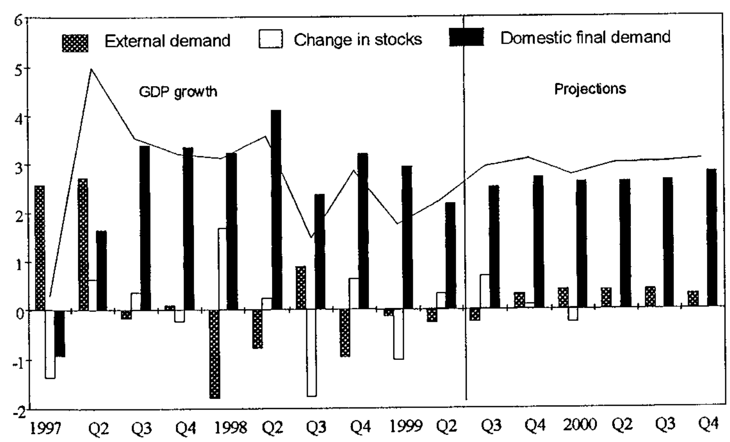
- the implications for France of the current and prospective monetary conditions in the euro area;

- the appropriate objectives for fiscal policy from both a cyclical and medium-term perspective;
- structural issues in public finance;
- the implementation of the 35-hour workweek initiative;
- the unfinished tasks in labor and product market reform; and
- the longer term significance of ongoing developments in the domestic financial sector.

## B. Economic Outlook

9. **The authorities and the mission agreed that France's economic growth—which had decelerated in the wake of the emerging market crisis and reached an 18-month low in the third quarter of 1998—seemed poised to resume at above-potential rates in the second half of 1999.** The dynamism of internal demand in 1998[2] had created enough momentum in activity to soften the contractionary effects of a deteriorating external environment[3] and limited the inventory correction started in midyear. The pace of the expansion had nonetheless slowed by year's end, although real GDP growth at an annual rate of 3.2 percent was still the fastest in the decade. In the event, the economic slowdown had persisted through the winter, but—the authorities concurred—there were growing signs that it was ending.

**France: GDP Growth and Its Sources**
(Annualized quarterly rates)

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[2] Consumption increased by about 3½ percent in real terms, reflecting rapidly growing real disposable income and falling saving ratios, while fixed capital formation (up 4.2 percent in volume, after 0.1 percent in 1997) benefited from lower interest rates and a stronger financial position of firms and households.

[3] Exports contracted in real terms in the fourth quarter of 1998 (at about a 1½ percent quarterly rate) and in the first quarter of 1999 (at a quarterly rate of about 1 percent). Relative to 1997, average export growth in 1998 fell by half, to about 6 percent.

10. **There was agreement that activity appeared to have recovered in the second quarter of 1999 with a significant pickup in manufacturing, a rise in capacity utilization, more upbeat investment plans, expanding order books, and improving external prospects.** Consumer spending—still underpinned by buoyant confidence, significant employment creation, and gains in real disposable income—remained strong; the inventory correction had been completed; and the construction sector was benefiting from fiscal incentives and favorable financial conditions for firms and households alike.[4] The strong performance of the stock market (a 15 percent gain in the first half of the year after a 30 percent increase in 1998) reflected these favorable developments and, in turn, might have contributed to a mood of optimism. On these trends, the authorities' outlook for 1999 real GDP growth was an annual rate of between 2.2 and 2.5 percent—in line with the staff's estimate—in a setting of price stability and falling unemployment (then at 11.3 percent). Notwithstanding the relative weakness of the euro, as well as France's strong competitive position within the euro area (see as Appendix I), there was a consensus that the external sector—which jump-started the recovery in 1997—would provide only a neutral contribution to growth over the year.[5]

11. **Official projections for the year 2000 and beyond had not yet been updated, but the authorities did not dispute the staff's forecast of real growth rates of close to 3 percent a year on average for the near and medium term.**[6] In their view, an optimistic outlook could be predicated on the expectation of further employment gains (including any arising from the switch to the 35-hour workweek), possible further declines in the private saving ratio (as precautionary saving unwound), the potential for an acceleration in investment activity (which

Real GDP Growth Projections in Art. IV Staff Reports
(In percent)

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| **Actual** | 1.5 | 2.3 | 3.2 | | |
| 1996 Staff Report | 1.6 | 2.4 | | | |
| 1997 Staff Report | | 2.2 | 2.8 | | |
| 1998 Staff Report | | | 3.1 | 2.8 | |
| 1999 Staff Report | | | | 2.5 | 3.0 |

Source: IMF.

[4] Consumption of manufactures was up 2 percent year-on-year in June 1999; the May survey pointed to a turnaround in business sentiment after a seven-month lull; investment plans sampled in April showed a 4 percent increase in value for the year; industrial production, which had remained flat since June 1998, increased by 0.6 percent in May; and building permits were up 26 percent in 1998.

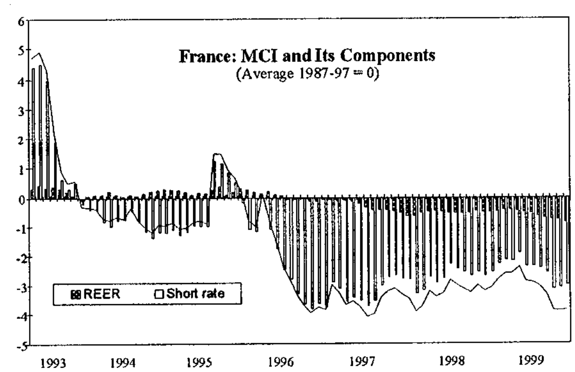
[5] France's external position remains strong, with a current account surplus of 2.8 percent of GDP. The latest staff's assessment based on a saving-investment approach suggests that the euro is considerably weaker than the level justified by medium-term fundamentals, both in effective terms and against the U.S. dollar. Moreover, France continues to benefit from a favorable competitive position vis-à-vis Germany.

[6] The most recent Consensus forecast is for growth at a rate of 2.3 percent in 1999 and 2.7 percent in 2000. However, this forecast was prepared before the release of the favorable data for the second quarter of 1999.

appeared to have not yet responded fully to its traditional determinants), and the still sizable output gap. The authorities stressed, however, that key to sustained growth would be an economic climate that safeguarded confidence in the private sector. On current policies, they and the mission saw downside risks to the outlook arising mostly from the external side—for example, a hard landing in the United States or a weak recovery in other large euro-area countries.

## C. Assessment of Monetary Conditions

12. **Monetary conditions eased through the first half of 1999, and were regarded as adequately supportive of activity in France by both the authorities and the staff.** By June, the short rate, at 2.5 percent, was about 120 basis points below its December 1997 level. A monetary conditions index (MCI)—with a relative weight for the real effective exchange rate reflective of the openness of the euro area[7]—indicated that the stance of policy was the most accommodative since the establishment of the European Monetary System. From a domestic perspective, this was seen as appropriate in light of the still large output gap (which the staff of the Ministry of Finance put at some 2¾ percent), the mildly contractionary fiscal stance, and France's subdued inflation—an assessment shared by the mission. The staff agreed that CPI inflation was virtually absent at a 12-month rate of about ½ of 1 percent in July (admittedly owing to some exceptional factors, however) and that, notwithstanding the anticipated upturn in commodity prices, the inflation outlook for the near term remained quite favorable, given the pervasive wage moderation and continued productivity growth.[8] Purely on policy-mix and cyclical considerations, the authorities at the Banque de France broadly agreed with the mission that the setting was suitable for more ambitious programs of budgetary adjustment and public expenditure reform.

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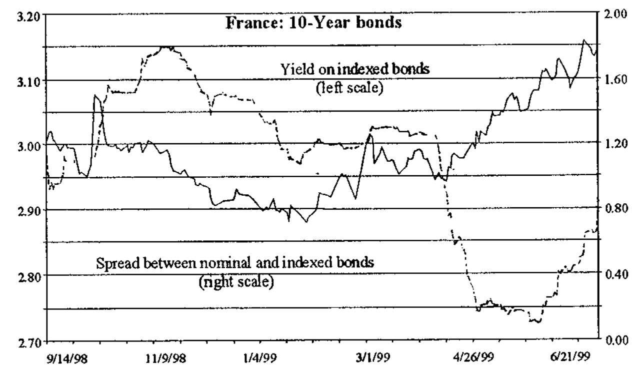
[7] The weights for the real exchange and interest rate are in the ratio 1 to 10. See *Bulletin de la Banque de France*, October 1998.

[8] Economy-wide real wages grew by 1.7 percent in 1998 and unit labor costs in manufacturing fell by 1.2 percent. The modest increase in the minimum wage in July 1999 (up only 1.24 percent in the absence of a discretionary intervention by the government) was recognized as helpful in containing labor costs this year. (The minimum wage increased by 2 percent in 1998 and 4 percent in 1997.)

13. **The authorities at the Banque de France, however, were somewhat concerned about recent developments in the foreign exchange and bond markets.** They noted that, given the subdued inflation outlook, the recent increase in long-term nominal interest rates (which had been more pronounced than in the United States) might have been the result of a hike in risk premiums on euro-denominated assets demanded by markets in response to the continued depreciation of the euro. In their view, market participants had become increasingly bearish about the euro and there was an element of self-fulfilling expectations in its ongoing slide. The mission broadly concurred with this view, arguing that the sharp increase in long-term interest rates was difficult to explain in terms of any marked change in the prospects for prices and economic activity.




14. **The authorities expressed their satisfaction over the seamless transfer of institutional responsibilities and the smooth functioning of the euro asset markets at the start of the monetary union.** They noted the fluidity of the euro money market as evidenced by the growing importance of the intra-EMU gross settlement system and the increasing share of cross-border transactions in the interbank market. As for the bond market, the conversion of government liabilities into euro-denominated instruments had taken place successfully (laying the grounds for enhanced portfolio diversification across the euro area) and—the authorities underscored—French government paper was becoming the benchmark at the five year portion of the euro yield curve. They also pointed out the beneficial effect of the introduction of the remunerated reserve requirements on the efficiency of banks' treasury operations. The authorities noted that the gradual transition to the new system had helped ensure a positive outcome.

### D. Fiscal Policy in a Cyclical and Medium-Term Perspective

15. **In discussing near-term fiscal developments, the authorities reaffirmed their determination to meet the 1999 deficit target.**[9] They noted that general government

[9] The 1999 budget envisages a 2.3 percent of GDP deficit of the general government, or a structural adjustment on the order of ¼ of 1 percent of GDP. State expenditures are to increase by about 1 percent in real terms—a significant departure from the policy of expenditure restraint of the previous four years—with priority given to spending related to employment-support programs (up about 4 percent), including those related to the 35-hour workweek initiative. The social security account for the basic pension scheme for private employees (*régime général*) is projected to be in balance. The budget also implies a modest reduction of the tax burden by 0.2 percent of GDP, in part owing to measures taken in 1998.

(continued...)

revenues were performing better than projected, owing to collection lags and favorable changes in the composition of aggregate demand.[10] On the expenditure side, cuts in nominal state spending—to reflect lower-than-expected inflation and to partly offset overruns in healthcare expenditure (amounting in the first half of the year to 0.2 percent of GDP)—were coming onstream through greater spending selectivity at the state level in the context of the *contrats de gestion* with line ministries. More broadly, the authorities saw sufficient built-in flexibility in the budget to achieve the announced fiscal goals without additional measures and undue fiscal withdrawal. The staff concurred that, given the modest budgetary impact of the activity slowdown and the arrangements in place to rein in state expenditure, the target was well within reach—provided that the slippages in healthcare spending were quickly brought under control.

16. **Turning to the medium-term fiscal strategy, the staff supported the policy approach underlying the authorities' consolidation plan under the Stability and Growth Pact.** There was agreement that, in the transition to longer term fiscal sustainability: (i) real growth of public spending should be set clearly below the growth rate of potential output; (ii) revenues should be allowed to respond endogenously to cyclical developments; and (iii) the deficit and tax burden should be steadily reduced.

17. **However, the staff noted that the fiscal adjustment envisaged in the 2000–02 Stability Program was unambitious, especially under the high-growth scenario that seemed most likely to materialize.**[11] In its view, particularly after the 1998 hiatus in fiscal adjustment,[12] a somewhat stronger program would have been warranted for three reasons. First, the targeted tax cuts were rather limited, given France's extremely high revenue ratio

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The main fiscal innovation was a phased exclusion of the wage bill from the base for the local business tax (*taxe professionelle*).

[10] By July, total tax revenues had increased by about 8 percent year-on-year, or 2 percentage points more than anticipated, mostly owing to corporate tax receipts about 35 percent higher than 12 months before. About 40 percent of France's tax revenues is linked to the previous year's activity.

[11] The 2000–02 Stability Program submitted to ECOFIN in late 1998 considers adjustment paths under two alternative growth assumptions. Under the best-case scenario of GDP growth at a rate of 3 percent for three years, the deficit would be reduced by about 1½ percentage points of GDP, and the tax burden—measured as the ratio of *prélèvements obligatoires* to aggregate income—by about ¾ of 1 percentage point of GDP.

[12] In 1998, better-than-anticipated real GDP growth and lower interest rates more than compensated for overruns in health spending and facilitated the budgetary outturn. But the tax burden remained very high at about 46 percent and, in cyclically adjusted terms, the primary balance of the general government was unchanged as a ratio of GDP.

and the need to catalyze meaningful supply-side responses: greater expenditure restraint was a prerequisite to create room for durable reductions in the tax burden. Second, the program did not provide adequate margins to provision for the demographic shock ahead: with only limited economies that could realistically be expected from entitlement reform, substantial consolidation over the medium term was a necessity in anticipation of heavy demands on the budget resulting from adverse demographics and a prospective increase in the debt ratio in the long run (Box 1). Third, the monetary context called for a sustained fiscal adjustment: from a euro-area perspective, the desirable policy mix—combining an accommodative monetary stance with budgetary rigor—could be undermined by stalled budgetary consolidation at the national level.

Fiscal Policy Indicators
(In percent of GDP)

| | | | Budget | Stability Program 1/ | |
|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2002 |
| General government balance 2/ | -3.5 | -2.7 | -2.3 | -1.7 | -0.8 |
| Cyclical component | -1.6 | -1.1 | -1 | -0.6 | -0.4 |
| Structural balance | -1.4 | -1.3 | -1.1 | -0.9 | -0.5 |
| Interest payments | 3.8 | 3.5 | 3.4 | 3.2 | 3.0 |
| Structural primary balance | 2.4 | 2.2 | 2.3 | 2.3 | 2.5 |
| Change in structural primary balance | 0.2 | -0.2 | 0.1 | 0.0 | 0.2 |
| Tax burden | 46.1 | 45.9 | 45.7 | 45.4 | 44.9 |

Sources: Data provided by the authorities; and Fund staff estimates.
1/ High-growth scenario.
2/ Excluding the France Télécom transfer in 1997.

18. **In this connection, the staff argued that the upcoming revision to the multiyear fiscal program provided an opportunity for strengthening the effort to curb public spending along a path that aimed at budget balance—and a reduction in the tax burden of some 2 percentage points of GDP—by 3 (Table 1).** This adjustment would imply an approximately constant real primary expenditure (at the state level) and social security spending growing in volume at an annual rate of about 1¼ in 2000–03.[13] In the mission's judgement, the inclusion in the program of such objectives would mark a welcome reduction of the government's weight in the economy (although the tax burden would still remain by 2003 well above that of major European partners), and the year 2000 budget (under discussion at the time) should lay the groundwork to achieve them.[14]

19. **In response, the authorities stressed that it was important for the 2000 budget not to deviate from the pre-announced Stability Program through 2002, so as to preserve the credibility of the medium-term fiscal orientation.** They valued the fact that the

[13] The authorities' Stability Program through 2002 calls for growth at an annual rate of about ½ of 1 percent in primary real spending at the state level, and at an annual rate of about 1½ percent for real social security expenditure.

[14] By comparison, the staff estimates that the measures recently announced by the German authorities would amount to a 2¾ percent of GDP reduction in general government spending, about a 1 percent of GDP cut in tax revenues, and a 1¾ percent of GDP deficit reduction over 1999–2003. In 1998, Germany had a revenue ratio of about 46½ percent, or 5 percentage points lower than France.

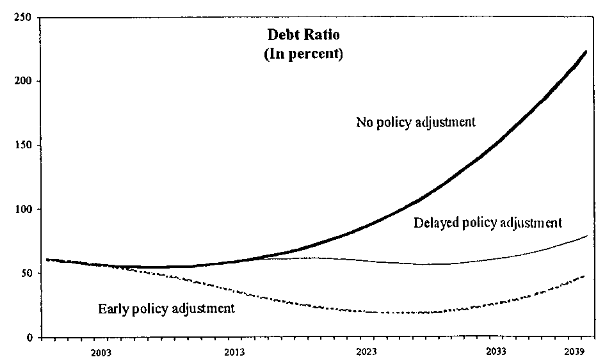
## Box 1. France: Debt Dynamics and the Demographic Shock

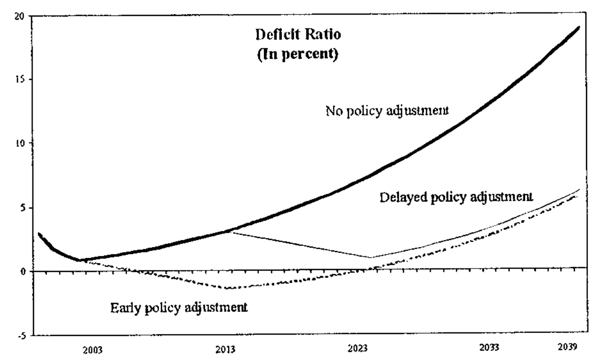
The most basic intuition about the impact of population aging on the public finances can be established by considering how a higher stream of public spending (say, due to maturing pension entitlements or greater healthcare expenditure) financed by issuing government bonds affects the ratio of the stock of public debt to GDP through time. Heuristically, if this ratio grows "too much", debt-financing would not be a viable option: policy adjustments that increase the prospective sequence of primary surpluses will have to be made to accommodate the larger spending, lest the solvency of the government be undermined.

The graphs below portray three simulated paths of the debt ratio (and the implied deficit to GDP ratio) under different assumptions about the policy response to an anticipated 10 percentage points increase in government spending as a percentage of aggregate income over the period 2003-40—an educated estimate of the resources needed to meet current pension obligations over that horizon in the absence of pension reform (see Appendix II) plus additional demands on the health system.

The simulation intentionally appeals to the simplest possible formalization of the underlying dynamic processes and plausible parameter values: output grows exogenously at 2¼ percent, inflation is constant at an annual rate of 1 percent, and debt can be issued at an unchanged nominal interest rate of 5 percent. The initial debt and deficit ratios are set at the current values for France, and the assumed difference between the real average cost of government borrowing and the growth rate is in line with the historical experience of the last 20 years.

The "**no policy adjustment** " path shows how public finances would evolve under the Stability Program through 2002. Thereafter, the policy involves a stable revenue ratio and an expenditure ratio that increases linearly through the end of the simulation period when it is 10 percentage points higher than in 2003—the stylized effect of the demographic shock. Here, debt and deficit spin inexorably out of control: without adjustment, the prospective stream of spending cannot be sustained.




The two paths—labeled "**early policy adjustment**" and "**delayed policy adjustment**"—illustrate the effect of the same amount of adjustment (a gardual reduction in the ratio of public expenditure to GDP cumulating to 2 percentage points after 10 years) starting at different times (2003 and 2013, respectively). In both cases after the 10-year adjustment period, government expenditure starts increasing again without any attempt to offset the budgetary impact of the adverse demographics.

The graph shows unambiguously that the earlier the adjustment, the lower the terminal debt to GDP ratio—a result that would not be reversed in more realistic setups with endogenous capital accumulation and supply-side responses to fiscal adjustment. Moreover, inaction has a cost that grows exponentially: the increase in the debt ratio is more than proportional to the delay in policy adjustment.

Hence, only with early adjustment the debt ratio can be contained within the bounds that do not require increases in the risk premium on government bonds—and trigger a potentially more "explosive" debt dynamics. This would allow, at least in part, easier terms for the deficit-financing of the higher spending stream as it occurs.

A second argument for early adjustment considers intergenerational equity. The burden of adjustment in this case falls on the future beneficiaries of old age insurance rather than on future cohorts of workers whose welfare would suffer if they had to support their elders under unchanged pension rules.

Finally, a third argument for earlier ajustment appeals to the notion that, at the margin, the distortionary cost of taxation is proportional to the tax rate. Then, the (convex) cost of adjustment would be minimized if taxes were "smoothed" over time (X. Zhu, Optimal fiscal policy in a stochastic growth model, *Journal of Economic Theory*, 1992)—an outcome that could indeed be best achieved with early fiscal tightening.

Table 1. France: Medium-Term Outlook and Normative Scenario for the Public Finances

| | 1997 | 1998 | 1999 Budget | 2000 Proj. | 2002 Authorities 1/ | 2003 Normative 2/ |
|---|---|---|---|---|---|---|
| | (In percent of GDP, unless otherwise noted) | | | | | |
| Expenditure | 54.9 | 54.2 | 53.5 | 52.5 | 50.6 | 49.0 |
| State | 24.3 | 23.7 | 23.4 | 22.8 | 21.6 | 20.8 |
| Social security | 24.3 | 24.1 | 24.1 | 23.8 | 23.1 | 22.6 |
| Revenue | 51.9 | 51.5 | 51.2 | 50.7 | 49.8 | 49.0 |
| Tax revenue 3/ | 46.1 | 45.9 | 45.7 | 45.3 | 44.9 | 44.1 |
| Balance | -3.0 | -2.7 | -2.3 | -1.7 | -0.8 | 0.0 |
| Interest payments | 3.8 | 3.6 | 3.4 | 3.2 | 3.0 | 3.0 |
| Primary balance | 0.8 | 0.9 | 1.1 | 1.5 | 2.2 | 3.0 |
| Structural balance 4/ | -0.9 | -1.3 | -1.1 | -0.9 | -0.5 | 0.0 |
| Gross debt 3/ | 57.8 | 58.2 | 58.7 | 58.5 | 57.1 | 55.9 |
| Memorandum items | | | | | | |
| Real GDP (percentage change) | 2.3 | 3.2 | 2.5 | 3.0 | 3.0 | 3.0 |
| Output gap 4/ | -3.2 | -2.2 | -2.1 | -1.4 | -0.5 | 0.0 |

Source: Data provided by the authorities and staff calculations.

1/ Authorities' Stability Program under the high growth scenario. It assumes an average annual growth of total expenditure of 1 percent over 2000-2002.

2/ Staff normative scenario. It assumes an average growth of expenditure of 0.7 percent per year over 2000-2003.

3/ According to the ESA79 system of national accounts.

4/ In percent of potential GDP.

program envisaged realistic objectives for 2000—including a ¼ of 1 percentage point cut in the tax burden under the high-growth scenario—with a potential for better-than-expected deficit and tax reductions that would bolster confidence. In addition, the program provided a measure of flexibility by setting cumulative expenditure growth ceilings over three years rather than year-by-year limits—a flexibility exploited by the decision to freeze state spending next year, although the plan would have permitted a laxer yearly target, on average.[15] The mission took note, but underscored that any significant headway toward sizable tax reductions over the medium term required more ambitious adjustments in present expenditure policies.

### E. Structural Issues in Public Finance

20. **There was agreement that a comprehensive reform of public spending, encompassing both the state and the social security system, was central to a viable medium-term consolidation strategy.** The authorities, however, argued that success would be best assured by a careful sequencing of reforms and a more gradual approach than recommended by the mission on the grounds that the chances of forging the necessary political consensus would be weakened otherwise, heightening the risk of social unrest and a drop in consumer confidence that could stall the economic recovery. In this perspective, they thought that healthcare reform should be the first order of business, given the recurring slippages. In their view, though, pension reform would require time to be implemented successfully, as would a meaningful rationalization of the civil service.

#### Healthcare reform

21. The authorities admitted that insufficient control on health expenditure posed a continuous threat to the public finances, and that no fully satisfactory regulatory system was in place to condition the behavior of healthcare consumers and providers (Box 2).[16] They thought, nonetheless, that some progress had been achieved with the further development of an electronic information system, the establishment of regional agencies to rationalize hospital care (ARHs), the introduction of screening by general practitioners (*médecins*

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[15] The 2000–02 Stability Program calls for real growth of 1 percent for state spending over three years. General government expenditure is set to increase by 3 percent in volume over the same horizon.

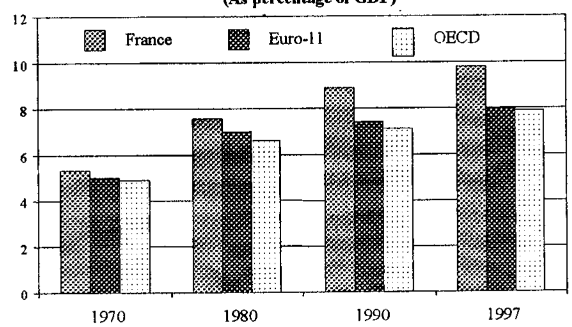
[16] These points have been stressed in the recent report *Régulation du système de santé*, Conseil d'analyse économique, January 1999.

## Box 2. France: The Ailing Healthcare Sector

Healthcare spending in France—three-fourths of which is financed by the social security system—represents about 10 percent of GDP, one of the largest shares among OECD countries. [1]

With spending growing at an average real annual rate of some 2½ percent—about ½ of 1 percent faster than GDP—this share has increased steadily over the last decade.

**Health Expenditure**
**(As percentage of GDP)**




In 1997, the government introduced a formal budgetary procedure to curb this trend by establishing a national spending objective, the *Objectif National des Dépenses d'Assurance Maladie* (ONDAM). Under this procedure, each year an explicit budgetary envelope for health expenditure must be approved by Parliament in the context of the annual discussion of the social security budget. While the approach makes the allocation process more transparent—and helps pinpoint the source of slippages after the fact—it does not provide an effective system of checks and balances that might ensure the achievement of the annual targets.

In 1997 the objective was met. In 1998, though, the target (2.4 percent growth) was missed by a wide margin. The main slippages arose in ambulatory care (*soins de ville*)—which accounts for about 40 percent of total health spending—especially owing to larger-than-anticipated disbursements for specialists' fees and prescriptions. This was in part the result of a mid year abrogation by the constitutional court of the agreements fixing both the fees of some specialists (*médecins libéraux*) and the system of sanctions for not respecting expenditure ceilings. No other control system has been reinstituted since, although discussions between the government and the relevant medical associations have been underway for some time.

France: Allocations and Outturns in Health Spending

(Annual growth, in percent)

| | 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|
| | Objective | Outturn | Objective | Outturn | Objective | Outturn 1/ |
| Ambulatory care | 2.0 | 1.8 | 2.4 | 5.8 | 2.2 | |
| Disbursements to institutions | | | | | | |
| Hospital | -0.1 | 0.2 | 2.0 | 1.7 | 2.4 | |
| Public walk-in clinics | 2.3 | 2.8 | 2.7 | 5.8 | 5.5 | |
| Private clinics | 10.0 | 5.9 | 1.7 | 3.0 | 2.9 | |
| ONDAM | 1.7 | 1.5 | 2.4 | 3.9 | 2.6 | 3.2 |

1/ Estimate through mid-year.

The ONDAM for 1999 is a growth rate of about 2½ percent. Outturn data through June cast a doubt on its attainability: with spending growing by 3.2 percent over the same period in 1998, serious slippages have already occurred and—if not clawed back—may reach up to ¼ of 1 percent of GDP by year-end. The main overruns have again occurred in ambulatory care, the cost for which grew at a rate of more than 4 percent, in part because of a surge in expenditure on prescription drugs.

To address this latter problem, the authorities recently signed an agreement with the pharmaceutical industry, whereby laboratories will be subject to financial sanctions should the ONDAM targets for medicine spending be overshot. Under this framework, spending targets for broad categories of reimbursable medicines will be defined, and the use of generic drugs will be more actively promoted.

[1] The structure of France's healthcare sector has been analyzed in 1996 Selected Issues paper (SM/96/249).

*référents*), and the promotion of generic drugs.[17] The mission acknowledged these steps and the technicalities (beyond its expertise) involved in the search for lasting solutions, but still stressed that the incentive system to contain costs remained weak, especially as regards ambulatory care. There was broad consensus that a recent reform proposal by the social security insurer CNAM provided a helpful contribution to the debate and deserved serious consideration.[18]

**Pension reform**

22. **The need for further pension reform had been forcefully brought into the policy debate by the May 1999 publication of the Charpin Report (Appendix II).**[19] The authorities recognized the diagnostic value of the report but thought that, with political sensitivities running high in these matters, further consultations among the social partners were necessary before a clear policy line could be developed and implemented. The mission expressed concern that the opportunity for change provided by the renewed public awareness of the issue could be missed, and noted that a headstart to reform could be secured by steps to tighten early retirement programs that impacted negatively on the participation and dependency ratios.[20] More broadly, the mission pointed out that ensuring

Distribution of 1997 Retirees in Terms of Initial Age at which Pension Rights are Exercised
(In percent)

| Age | < 55 | 55-60 | 60-65 | > 65 |
|---|---|---|---|---|
| Private sector | 0.0 | 0.0 | 56.1 | 43.9 |
| Civil servants | 9.8 | 35.2 | 45.7 | 9.3 |
| Military | 65.8 | 29.0 | 5.2 | 0.0 |
| Special regimes | 16.9 | 53.9 | 24.5 | 4.7 |

Source: Ministère de L'Emploi - DREES. EIR 97.

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[17] The information system relies on electronic cards (*cartes Vitale*) for the insured to better track recourse to the health system; the ARHs are in charge of restructuring the network of hospitals and private clinics to develop alternatives to hospitalization and reduce excess capacity; the *médecin référent* should act as a single gate-keeper for access to public healthcare; and generic pharmaceuticals are promoted by giving pharmacists the authority to substitute between medicaments with comparable therapeutic value.

[18] The proposal suggests measures that could mobilize economies worth F 60 billion, although only a fraction of these would generate recurrent savings.

[19] The report estimates that, because of demographic pressure, the annual financing gap of the public pension program will be about 5 percent of GDP in 2040 in the absence of new reforms and with a 9 percent equilibrium unemployment rate. It argues that, although most of the increase in the financing gap will occur between 2010 and 2030, measures have to be taken now in order to smooth the effects of the shock. The main recommendation is to increase the contribution period to 42½ years for all employees (with a cut off at 65 years of age) by 2019.

[20] About 200,000 people are currently covered by early retirement programs. The average retirement age has fallen by about 3½ years since 1970, while it is estimated that entry into the labor force has been delayed by as much. Thus, the average working life has fallen by

(continued...)

the viability and equity of France's pay-as-you-go/defined benefit system made some hard choices inevitable—such as bringing the pension rules for the special regimes and for public sector employees more in line with those in the *régime générale*, and increasing the contribution period for all employees. There was agreement that recourse to early retirement should be tightened, although the authorities saw merits in leaving the option selectively open where production efficiency could benefit from a rejuvenation of the workforce.

**Civil service reform**

23. While there was agreement that significant economies in state spending could be achieved by more effective management of public employment,[21] the authorities did not see a reduction in staffing as feasible or desirable, pending an assessment of how work procedures in the public administration could be reorganized in a way that preserved or enhanced the quality of public services. They thought that stabilizing the number of civil servants over the previous two years had already entailed a significant effort, and did not dispute that a substantive restructuring of the public administration would be facilitated only in the future with the expected increase in retirement flows.[22] The staff countered that a more proactive approach to streamlining the public sector would be unavoidable if, as expected, the central government had to bear a significant part of the burden of the expenditure restraint needed to complete fiscal consolidation, and that there appeared to be clear instances of overstaffing (for example, in some areas of competence of the Ministry of Education and the Ministry of Finance), where attrition could be allowed to play out.

24. **As for tax reform, the authorities considered the measures already in place, and some new ones to be implemented in the near future, as contributing toward a durable reduction in the burden of labor taxation.**[23] In particular, the decision in the context of the

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about seven years. The budgetary cost of early retirement schemes has been constant at about 0.4 percent of GDP in France and 0.2 percent of GDP in Italy over the last five years; by comparison, this cost has fallen in Germany from 0.5 percent of GDP in 1994 to less than 0.1 percent in 1997. (OECD, Employment Outlook 1999.)

[21] In France, public employees are about 25 percent of the workforce, or 5½ million people. At the level of the state, personnel expenditures (including pensions) account for about 40 percent of the budget, or more than 7 percent of GDP, and have grown by about 2 percent a year in real terms since the early 1990s. More broadly, the share of the general government wage bill in total income was in 1997 about 14 percent in France, 11 percent in Italy, 10 percent in Germany, 9 percent in the Netherlands, and 7 percent in the United Kingdom.

[22] About 60,000 civil servants currently retire every year. The flow is expected to peak in 2010.

[23] The 2000 budget law would thus include a further broadening of the partial exemption of wages from the base of the local business tax, introduced in 1999; the elimination of the 1997

(continued...)

35-hour week legislation to make permanent the system of graduated rebates of employers' social contributions and to extend its base to 1.8 times the minimum wage (SMIC) was seen as especially significant (Box 3). The mission welcomed the reform but expressed concerns about the prospective financing of the initiative, which involved offsetting increases in the taxation of profits and energy consumption in spite of an already high marginal corporate tax rate. The authorities had no immediate plans for overhauling the tax system in other directions, including reforming the real estate tax, increasing the transparency of personal income taxation—which is clouded by a complex web of exemptions and deductions—and consolidating the two flat-rate taxes (CSG and CRDS)—which, in their view, performed different functions.[24] They were committed, though, to a continued rationalization of tax administration, which had recently been found lacking effectiveness in an independent assessment.[25]

## F. The Implementation of the 35-Hour Workweek Initiative

25. **In the authorities' view, the new draft law on the implementation of the 35-hour initiative offered an appropriate framework (Box 4).** By incorporating many of the provisions of the agreements already concluded at the firm- and industry-level,[26] it reflected the government's strategy of letting decentralized negotiations among workers and employers determine the reorganization of work. In this perspective—the authorities argued—the significance of the 35-hour-week initiative transcended its ultimate effect on job

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corporate tax surcharge for large enterprises; and a redefinition of the base of the tax on polluting activities (TGAP), with a view to transforming it into an ecotax on intermediate energy consumption in 2001. Targeted reductions in the value-added tax on some labor-intensive services were also under consideration, but their implementation had to await the outcome of discussions at the European Union level.

[24] The CSG (*Contribution sociale généralisée*) finances some social security spending through general income taxation rather than only taxation of wages; the CRDS (*Contribution pour le remboursement de la dette sociale*) provides the funding for redeeming debt issued by the social security system (ACOSS) and taken over by a special fund (CADES).

[25] The audit showed that the cost of collection amounted to 1½ percent of the assessed tax receivables. By comparison, this cost is about ½ of 1 percent in the United States and in Sweden.

[26] The first law of June 1998 had called on the social partners to reach bilateral agreements on how to switch to the shortened workweek and instituted a system of transitory employment subsidies to promote the negotiations. By end-July 1999, some 11,000 agreements had been signed, covering almost 1.5 million workers at firms eligible for the subsidies. In addition, agreements concerning about 400,000 workers were signed at firms not eligible for the subsidies (basically, public enterprises.)

## Box 3. France: The 1999 Reform of Employers' Social Charges

As in other advanced countries, joblessness in France affects disproportionately the low-skilled and the inexperienced. There is a growing consensus that a key factor behind this secular development has been the interaction of rigidities at the low end of the wage distribution with the effects of skill-biased technical progress, greater global trade, and the shrinking employment share of manufacturing and agriculture—which in frictionless markets would tend to increase skill-based wage differentials. Instead, society's pursuit of equity objectives through minimum wage and other labor market restrictions has effectively priced low-productivity workers out of employment.

The situation has been exacerbated (especially in continental Europe) by a policy of taxing wages to finance an ever-expanding social security system, including programs of passive income support for the non-employed. (See: T. Piketty, Can Fiscal Redistribution Undo Skill-Biased Technical Change? *European Economic Review*, 43, 1999.) This has led to a growing tax wedge and, hence, higher labor cost and lower labor demand, to wit: since the 1970s, in France the tax wedge (of which social charges are the largest component) has increased from about 50 percent of the net wage to 100 percent—i.e., the cost of labor to the employer is about twice the take-home pay of the worker.

**Social Charges 1/**
(As a percent of gross average wage)

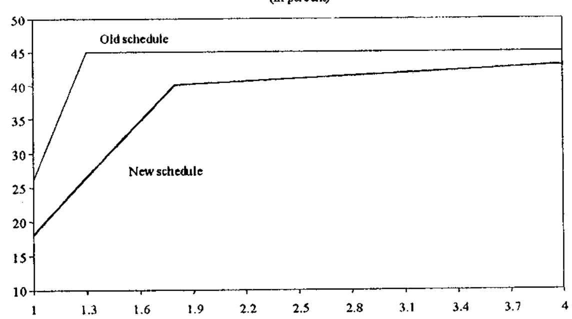
| | Employer | Employee |
|---|---|---|
| France | 43 | 22 |
| Belgium | 35 | 14 |
| Sweden | 33 | 7 |
| Spain | 30 | 6 |
| Italy | 30 | 10 |
| Greece | 28 | 16 |
| Finland | 25 | 8 |
| Portugal | 24 | 11 |
| Austria | 22 | 18 |
| Germany | 21 | 21 |
| Netherlands | 16 | 6 |
| Luxembourg | 14 | 11 |
| Irlande | 12 | 5 |
| U.K. | 10 | 10 |
| Denmark | ... | 9 |

Source: OECD.
1/ Approximate figures for 1998.

To revamp labor demand, a system of graduated rebates of social charges on low wages (the *ristourne dégressive*) was instituted in 1993 and later refined in several stages. The 1999 reform of employers' social security contributions is an offspring of that social experiment, from which it differs, however, in four important respects:

- it extends the base eligible for rebates to wages up to 1.8 times the SMIC. As a result, some nine million workers will be affected, instead of five million under the older system;

**France: Employers' Contribution Rate**
(In percent)




Wage as a Multiple of the SMIC

- it increases the amount of the rebate at the level of the SMIC by 8 percentage points, (to F 21,500 per SMIC-earner per year) thus reducing the effective employers' charges to some 18 percent of gross wage. The rebates decrease (presumably) linearly to become a permanent lump-sum rebate of F 4,000 a year for each employee earning wages of 1.8 times the SMIC or more;
- it is a permanent change (the old system had to be renewed by law each year); and
- only employers who have signed agreements to implement the new 35-hour legislation with employees' representatives at the firm or industry level will be eligible for the rebates, although the others would still benefit from the old, less generous, scheme.

The steady-state (gross) cost of the initiative is estimated at F 100 billion (or 1.2 percent of GDP), F 40 billion of which represents the cost of the 1993 *ristourne*, F 25 billion is the cost of extending it to 1.8 times the SMIC, and the rest accounts for the yearly lump-sum rebate of F 4,000 per employee. The government plans to finance the additional cost over the old regime by a new 10 percent profit tax on large enterprises and a future ecotax on intermediate energy consumption of all firms (yielding about F 25 billion per year), and through contributions from the social security system and the unemployment fund (UNEDIC), which will see their revenues increase as employment grows. The modalities of financing had not yet been fully worked out at the time of the Article IV consultation discussions.

Model-based evaluations by the *Direction de la Prévison* suggest the rough order of magnitude of the employment effect of a reduction in employers' contributions on low wages. A F 10 billion reduction in social charges would lead to about 55,000 new hires over five years, three-fourths of which would be low-skilled workers. The additional employment would contribute about 10 basis points to GDP growth and, through higher revenues and lower unemployment compensation, reduce the gross cost of the measure by half in the long run. (See L'Economie française, 1996 and 1999–2000 editions, INSEE.) These estimates of course cannot be extrapolated linearly and do not quantify the likely impact of the recent reform, which mostly offsets a wage shock.

### Box 4. France: The Evolving Perspectives on the 35-Hour Workweek Initiative

The 35-hour workweek initiative—the centerpiece of France's recent labor market policy—was given legal expression with the *Loi d'orientation et d'incitation à la réduction du temps de travail* of June 1998. This law established a rigid calendar for reducing the standard workweek from 39 to 35 hours; set up a system of state subsidies for firms that adopted the shorter workweek ahead of schedule while creating (or preserving) jobs; and called on employees and employers to enter into "35-hour agreements" to determine in a decentralized fashion any necessary reorganization of work at the firm level. The law also deferred to a second law due in 1999 the full specification of the legal framework, including the regulation of overtime work, the possibility of reckoning work time on a basis other than the week, and the treatment of upper-echelon workers (*cadres*) and civil servants.

In the context of the 1998 Article IV consultation discussions, the staff had argued that, in order to contain the increase in labor costs arising from the mandated compression of straight-time hours (which would have depressed output and labor demand), maximum flexibility in implementation had to be allowed—a recommendation broadly endorsed by the Board. In particular, the staff suggested that the wage shock at the level of the SMIC be cushioned by a judicious combination of cuts in employer's and employee's social contributions; that overall wage moderation be pursued, not least at the level of the SMIC; that overtime limits be set liberally; and that annualization of work time be permitted so as to unlock productivity gains through higher capital utilization.

The draft second law approved by the Council of Ministers in July 1999 reflects a tension between a strict application of the principles in the first law and the need to ease the transition and limit the supply shock, as underscored by the staff. On the one hand, deadlines and operational constraints on firms' choices are confirmed, especially as regards permissible overtime; on the other, there are transitional provisions, employment creation and "non-structural" use of overtime are no longer a *sine qua non* for state aid, and the door is left open for some fine-tuning of the passage to the 35-hour workweek at the microeconomic level through plant- or industry-level agreements.

Its main provisions are:

- The legal workweek will decline to 35 hours on January 1, 2000 for firms with more than 20 employees and two years later for all others.

- Overtime work between the 36th and the 39th hour will be paid in 2000 at a 10 percent premium (instead of the current 25 percent) unless the workers are paid in kind as compensatory rest. For firms that have signed "35-hour agreements" the overtime premium is paid to the workers; for the others the premium is paid into a state-run "employment fund." From 2001, the premium increases to 25 percent, with 10 percent going into the employment fund if the workers are at a firm that have not adopted a 35-hour workweek.

- The limit on annual overtime per worker remains at 130 hours, but will be counted from the 38th hour in 2000, the 37th hour in 2001, and the 36th hour in 2002 at enterprises with a 35-hour workweek. (In practice, this means that in 2000 such firms will have an effective overtime limit of 220 hours, and of 175 hours in 2001.) However, if a firm has opted for the annualization of work time, the maximum permissible overtime will be 90 hours per worker each year.

- The 2.2 million minimum-wage earners will maintain their monthly income in spite of the reduction in statutory work time by receiving pay that combines a remuneration for 35 hours a week paid at the hourly SMIC with a lump-sum supplement. Slightly different indexation provisions for the SMIC and the lump-sum payment ensure that the latter will eventually disappear. (The government has later committed to the Conseil d'Etat to eliminate the guaranteed supplement by 2005, which raises the possibility of large discretionary adjustments to the SMIC in the interim.)

- Annualization of work time is liberally permitted. The maximum permissible number of hours worked is set at 1,600 per year. Workers must be notified seven days in advance of any change in their weekly work schedule.

- *Cadres* are classified into three groups. *Cadres dirigeants* are exempted from work time restrictions; *cadres* integrated in work crews are subject to the same regulations on overtime as workers; and all other upper-echelon employees may have the duration of their work calculated in days, which in any event cannot be more than 217 per year.

- Graduated rebates of social charges according to a new schedule (Box 3) will be granted only to firms that have signed "35-hour agreements," to help them defray the additional labor costs incurred in the application of the law.

creation: it had revamped the social dialogue, catalyzed widespread productivity gains, provided the backdrop for a significant overhaul of social security contributions, and convinced the public that—at last—the unemployment problem was the target of a sweeping reorientation in social policy.

26. **The mission argued that, while the initiative was having some positive effects on the social dialogue and productivity, the draft law still imposed an excessively rigid framework.** In its judgement, the 35-hour initiative would have mixed effects—some positive, some neutral in the medium run, and some potentially harmful to labor demand and competitiveness. A noteworthy, durable positive effect would be the reorganization of work in the context of decentralized "35-hour negotiations" at the firm or industry level: work reorganization could unlock productivity gains (particularly, by enhancing capital utilization under more flexible work schedules), and create mutually beneficial opportunities for both employers and employees. A broadly neutral by-product of the 35-hour initiative would be its impact on labor costs: the social charges rebates on low wages and pervasive wage moderation would—ultimately—contain the wage shock. In the mission's view, the main negative effect of the initiative would be a legal framework that, in order to promote work-sharing, unduly restricted the choices freely made in bilateral negotiations between workers and employers. Tight restrictions on overtime work were a case in point: the permissible quota was overly constraining, and the regulatory framework prohibited long work-schedules even at firms where the parties concerned wanted them. Overtime limitations would be particularly damaging at small enterprises—which would also be affected by these new regulations from 2002—because they often had less scope for reorganizing production processes. Furthermore, constraints on labor supply would make it more difficult to adjust to the looming demographic shock. A first-best solution would have been to introduce more flexibility in work organization (including greater scope for negotiations on work schedules at the firm and industry level) without imposing work hour constraints that impinge on both enterprises' needs and workers' preferences.

27. **From a macroeconomic perspective, the mission expressed concerns about the fiscal implications of the initiative and sought clarifications from the authorities on its likely impact on employment**. The mission noted that the switch to the 35-hour workweek would have a nontrivial fiscal cost: not only would there be additional outright demands on the budget, but the scheduled reduction in the 1997 corporate tax surcharge for large enterprises had effectively been preempted by the initiative, and the reform in employers' contributions would not provide any significant stimulus to labor demand since it just offset the increase in labor cost due to the shortening of standard work time.

28. **In response, the authorities explained that the draft law struck a balance between several objectives.** In their opinion, the constraints on the permissible overtime would not restrict work schedules at firms that had opted for annualization of work time.[27] In meetings

[27] "Annualization" is the definition of maximum work time over an annual—rather than weekly—time horizon.

with labor representatives, the additional point was made that overtime and other restrictions in the draft law performed the useful function of allowing the workers' preference for a shortened work time to prevail. This would not necessarily be the outcome of negotiations often marred by an unfavorable distribution of bargaining power. The authorities thought that the budgetary implications of the initiative would be manageable, although they readily acknowledged that the steady-state cost was only roughly estimated, and that some of the financing details were still being worked out—including the degree of involvement of some social security funds. The ultimate employment effect of a shift to a 35-hour workweek was generally regarded as very difficult to predict.[28] In this connection, the mission noted that the 1996–98 experiment with (voluntary) reductions in work time under the *Loi Robien* had had at best a modest impact on employment. The OECD Secretariat estimates, under favorable assumptions, that the reduction in the workweek would increase employment by anything between ¼ of 1 percent and 2 percent after five years.[29]

### G. Labor and Product Markets Reforms

29. **Turning to unemployment issues, the mission acknowledged that the causes of structural unemployment were complex,[30] but that in France—as in many other European countries—the fundamental problem lies at the low end of the skill distribution.** Three critical factors interacted in the background: (i) a large supply of unskilled workers—in itself, the outcome of "social exclusion" phenomena and weaknesses in the educational system; (ii) a minimum wage too high to ensure employability of the unskilled and the inexperienced, even allowing for the targeted reductions in the employers' social charges; and (iii) a system of social assistance that undermined incentives to work because of weak conditionality and open-ended benefits. In the staff's view, a durable reduction in structural unemployment required determined and persistent policy actions in all these three areas: a more selective approach would fail to unlock the complementarities

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[28] The "35-hour agreements" signed through mid-1999 contain employers' statements of intention to hire 85,000 workers. (An increase of at least 6 percent of the workforce is a condition for state aid under the first law.)

[29] The OECD simulations assume a fall in monthly salaries, unchanged permissible overtime, and a permanent subsidy of F 5,000 per employee (France: Economic outlook, OECD, February 1999).

[30] These have been extensively discussed in Chapter IV of the World Economic Outlook, May 1999, the OECD Job Strategy—Making Work Pay, 1997, and in the Selected Issues paper (SM/98/240).

inherent in a more comprehensive reform, and be much less likely to succeed.[31] A major policy effort—rather than the marginal tinkering of the past—was called for.

30. **The authorities countered that their labor policies had been critical in increasing the employment content of the recovery and reducing unemployment.**[32] They singled out the positive effects of the rebates of social charges on low wages and of long-established active labor market programs.[33] The authorities noted that the number of employees in the private sector increased by 200,000 in 1997 and 300,000 in 1998, when it overtook its 1990 record level. By comparison, average yearly employment creation in the private sector amounted to 20,000 jobs in 1993–96. As a result of active labor market programs, in 1998 directly subsidized employment in the market sector had remained broadly stable, while about 100,000 subsidized jobs were created in noncommercial activities as part of public programs to foster integration of the low-skilled and the inexperienced into the workforce.[34] Overall, 1998 marked the best employment performance in 25 years, with employment growth exceeding 2 percent, the highest rate among the three largest euro-area countries.

31. **The staff acknowledged some beneficial effects of recent labor market policies but also stressed their limitations.** Recent policies had contributed to job creation by supporting labor demand in the cyclical upswing and favoring greater labor market flexibility—inter alia with the promotion of temporary or part-time work, and of youth employment in

[31] Increased administrative pressure to bring people back into employment would fail if labor demand remained stunted by a minimum wage above most unskilled workers' productivity. However, because of the large supply of these, free play of market forces would not be a realistic option since it would imply market clearing wages at socially unacceptable low levels.

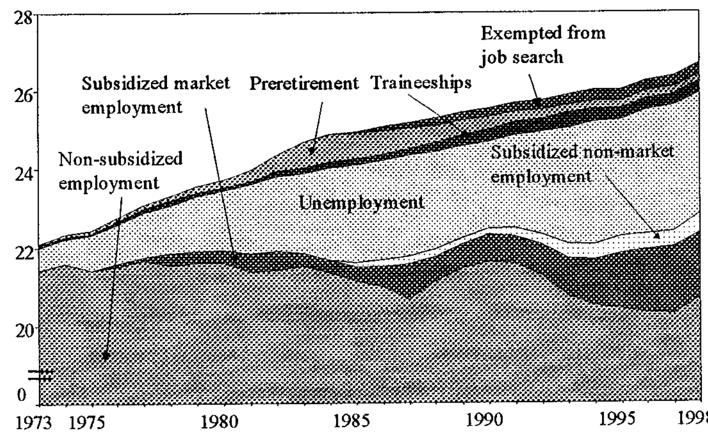
[32] The unemployment rate had fallen from an all-time high of 12.6 percent in July 1997 to 11.3 percent in June 1999. The long-term unemployment rate at 4.1 percent was down from 4.3 percent one year earlier, while youth unemployment had fallen from 25.1 percent of the labor force to 21.7 percent by mid-1999.

[33] The rebates of social charges, including those on part time work, are credited with creating about 150,000 jobs in 1995–98, interrupting a secular decline in the share of low-skilled employment. Among recent active labor market programs, the most prominent has been the 1998 *emplois-jeunes* program which subsidizes five-year employment in the "nonmarket" sector (nonprofit organizations, local communities, and some public agencies). By June 1999, 200,000 jobs had been created under this program in about two years.

[34] The latest data are for 1998. Subsidized employment—which is defined as employment benefiting from subsidies other than those in the form of the graduated rebate in social charges (*ristourne dégressive*)—increased by 1 percent in the market sector and by 8 percent in the nonmarket sector.

noncommercial activities. (Appendix I puts France's employment performance in an international perspective.) However, in the mission's view, the authorities had not done enough to weed out the least efficient programs, and this had contributed to the rapid increase in the budgetary cost of active labor market programs.[35] Even more importantly, the limits of these policies had to a large extent been reached. This was clear in three areas: (i) the scope for targeted reductions in nonwage cost at low wages had practically been exhausted, and the strategy of financing subsidies at one end of the wage distribution with tax hikes at the other end came at the cost of distorted incentives to work and training; (ii) targeted employment programs were bound to lose effectiveness at the margin, where a harder core of the inactive had to be reabsorbed; and (iii) the usefulness of youth-employment support was constrained by the fact that only so many jobs in noncommercial activities could claim an economic justification. Furthermore, the toll on the budget had been considerable. In the staff's judgement, under these circumstances a policy response was needed at two levels: first, ongoing initiatives should be streamlined and better targeted, so as to contain their aggregate budgetary impact and get the most out of the cost-effective ones; second—and most importantly—a far-reaching overhaul of the social institutions that accounted for the large supply of unskilled workers and the weakness of the incentives to hire and seek employment was in order.

**France: Labor Force Dynamics**
**(in millions)**




32. **The authorities responded that some progress had been made in concentrating resources in the more effective employment-support initiatives, including training programs to improve the likelihood of successful matches**. This had been in part the result of a delegation to local communities of the administration of many programs, and the 1998 establishment of the national employment agency (ANPE) as the sole point of contact for

[35] There are more than 50 active employment-support programs. They differ inter alia by duration (up to five years), amount of the exemption from social charges (up to 100 percent), the sector in which a job is subsidized (private/public), the wage rate of the intended beneficiary (in relation to the statutory minimum wage), the availability of training, and the type of beneficiary (young/older, unemployed/new entrant, part-time worker, socially disadvantaged). The cost of employment-support initiatives has reached over 4 percent of GDP and the number of people covered by the different programs approaches 2½ million (or 10 percent of the labor force). An additional five million jobs benefit from the graduated social contribution exemptions of the *ristourne dégressive*.

job-seekers.[36] They did not see any serious risk of fixed-term public sector jobs becoming permanent, except perhaps in education and police, where additional hires might be necessary anyway and fixed-term contracts aided in screening potential candidates.

33. **As for the elimination of unemployment and poverty traps, the authorities mentioned steps taken in late 1998 to improve the system of earnings exemptions.** The new policy aimed at strengthening the process of re-entry into durable employment by a more graduated withdrawal of social benefits.[37] The staff maintained that a tougher conditioning of eligibility for social assistance on effective training and active job-search, as well as the introduction of "in-work" benefits, held greater promise of success.

34. **Regarding product market reform, recent noteworthy developments included substantial inroads into privatization, and further liberalization of some network sectors.** The mission welcomed the determination with which the authorities had pursued their privatization agenda. The authorities noted that 1998 had been a landmark year with full divestment of Thomson CNF, GAN, and the Société Marseillaise de Crédit, and partial sales of France Télécom (where the government's stake remained at 62 percent) and Thomson Multimedia (33 percent of which was privately held.) By July 1999, Crédit Lyonnais and Crédit Foncier de France had been successfully sold, as had a majority share in Aéreospatiale Matra (where the state's residual holding was about 48 percent).[38] More broadly, the authorities stated their intention to continue selective transfers of public enterprises to private hands, when appropriate.[39] However, there were no plans to pursue divestment in postal services and railways, in spite of a changing, competitive environment.[40] As for other

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[36] The ANPE registers labor offers and gives personalized advice on a strategy to gain employment. It is not involved, though, in the administration of social benefits.

[37] This new system of earnings exemptions (*mécanisme d'intéressement*) permits to keep 100 percent of the earnings up to 50 percent of the SMIC, and 50 percent of the earnings beyond this threshold, with several social benefits for three months. Over the following nine months, the offset is for half of the net earnings.

[38] Privatization receipts were F 54 billion (or about ⅔ of 1 percent of GDP) in 1998, and F 14 billion by June 1999. As a rule, the receipts had been used to recapitalize public enterprises.

[39] In part as a result of this trend, employment at public enterprises has fallen from 5.2 percent of total employment in 1993 to 3.7 percent to date.

[40] The national railway company SNCF—whose consistently weak balance sheet was restructured in 1997—recently saw a degradation of its financial condition owing to losses in a freight subsidiary, against which provisions worth F 640 million had to be made.

network sectors (notably, electricity and gas distribution), liberalization was being pursued in line with European Union (EU) directives, but at a slow pace.[41]

## H. Developments in the Financial Sector

35. **France's financial sector has undergone a sweeping transformation over the last decade and a half, spurred by European integration and the advent of EMU.**[42] The authorities noted that consolidation in banking had advanced rapidly; bank profitability was being restored; state divestment from controlling interests had been practically completed; and fundamental regulatory changes—including the 1999 reform of the saving banks and the establishment of a pre-funded deposit insurance scheme—had deeply changed the institutional landscape.

36. **There was agreement that these developments would better prepare the financial system to operate successfully in the increasingly competitive international environment, and that they were appropriately supported by a further strengthening of supervisory practices.** The mission argued, nonetheless, that the still-extensive system of administered interest rates was a costly anachronism incompatible with the efficient intermediation of savings, and that consideration of "social clauses" at the expense of competitiveness in vetting merger and privatization plans—including their impact on employment—represented an ongoing involvement of the state in the sector that undermined the prospective benefits from consolidation. The authorities defended their case arguing the need to safeguard hard-won public confidence, and expressed no intention of overhauling the system of administered rates.[43]

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[41] Pending the transposition of the relevant EU directive, the electricity sector was being opened to competition up to the minimal EU thresholds (essentially, by allowing industrial users the choice of the supplier). In the gas sector, the EU directive was scheduled for application in mid-2000. An EU-compliant liberalization was slated for mail services as well, but no definite date had been set. The telecommunication sector has already been liberalized for some years, with France Télécom retaining a market share of some 50 percent.

[42] See the accompanying Selected Issues paper for a comprehensive discussion of these matters.

[43] The interest rates on a variety of saving instruments (accounting for about 60 percent of total deposits and about ½ of the broad aggregate M3 + P1) are set by the Ministry of Finance. A consultative commission including industry representatives makes recommendations that may, however, be disregarded by the Ministry.

## I. Other Matters

37. On **trade issues**, there was agreement that any reform of the EU's common agricultural policy (CAP) would be shaped by three factors: (i) trade liberalization under the aegis of the World Trade Organization; (ii) the prospective enlargement to Central and Eastern European countries (CEECs); and, on the domestic front, (iii) the growing importance of environmental and equity concerns. Taking each of these factors in turn, the authorities felt that: (i) a new round of multilateral negotiations would involve discussions on further liberalization along the principles of the 1994 Marrakesh Agreement; (ii) the EU enlargement to the CEECs would entail a further reduction in support prices to curb supply, accompanied by an increase in direct subsidies—a prospect that would open up debates over burden-sharing in financing the EU agricultural budget;[44] and (iii) there was ample scope for policy to further increase farmers' awareness of the negative environmental impact of some agricultural practices, and to better target income support.

38. France's **ODA** decreased in 1998 by more than 5 percent, to about F 35 billion, or four-tenths of 1 percent of GDP.[45] In 1998 the government reformed the institutional architecture through which ODA would be provided, creating a new interministerial policymaking body, chaired by the prime minister, with L'Agence française de développement as its operational arm. The authorities suggested that most future aid would be channeled to a "priority zone for solidarity," spanning parts of Africa, the Caribbean, and Southeast Asia.

39. The authorities and market participants confirmed that France had had in place for some time the appropriate institutional arrangements to increase awareness of—and promote responses to—**Y2K issues**. Over the last few years, the Banque de France, the Trésor, and the agencies in charge of the supervision of financial institutions had set up—singly or jointly—ad hoc committees to look into Y2K-readiness in the financial sector, in partnership with industry representatives. Their work had been summarized in the 1998 *Livre blanc du secteur financier sur le passage à l'an 2000*, which outlined timetables for different levels of compliance and best practices in line with recommendations from the "Joint Year 2000 Council." All considered, there was agreement that there did not seem to be any particular Y2K-vulnerability in French financial markets.

40. As for **statistical issues**, the authorities were considering performing a self-evaluation of their data dissemination practices.

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[44] France is one of the two largest beneficiary of the CAP, with a net receipt of EUR 2 billion in 1997.

[45] Most of the aid is in the form of grants and the main beneficiaries are North African and Sub-Saharan countries, which receive about 80 percent of total development assistance. Of the total, F 4½ billion are France's contribution to EU multilateral aid.

## III. Staff Appraisal

41. The French economy has demonstrated considerable resilience in the face of the emerging-market crises of 1997–98 and, against a backdrop of price stability and accommodative monetary conditions, the near-term outlook is for above-potential growth. The cyclical upswing, however, will not erase the twin legacy of high unemployment and heavy tax burden left behind by an unsatisfactory pattern of growth stretching back almost three decades. High unemployment exacerbates fiscal pressures, while high taxes continue to weigh down on France's economic vitality. Thus, the challenges ahead remain considerable and—in some key dimensions—the policy effort is not yet commensurate with the magnitude of the problems.

42. The authorities' preference for caution in policymaking may be understandable in terms of their desire to avoid the social tensions that would result from a frontal attack on entrenched vested interests. But necessary adjustment cannot be postponed indefinitely, and delays are likely to exacerbate its economic cost. In many areas, there should now be—at a minimum—an acceleration of the authorities' gradualistic approach. In some key instances, an even bolder course of action is necessary.

43. In the area of public finance, the current outlook creates a cyclical window of opportunity for strengthening the ongoing consolidation. While the general orientation of the 2000–02 Stability Program is sound, its objectives are unambitious. In particular, the scheduled deficit reductions do not go far enough in provisioning for the demographic shock ahead and in creating room to supplement—if need be—the operation of automatic stabilizers through discretionary fiscal support. Furthermore, the path of public expenditure reductions does not allow for sizable tax cuts. The upcoming 2001–03 fiscal program provides an opportunity for revamping fiscal consolidation with a view to achieving sizable, confidence-enhancing tax cuts of, say, 2 percent of GDP—"financed" by a sustained reduction in public expenditure—and a balanced budget by the end of the program. The year 2000 budget should lay the groundwork.

44. As regards state expenditure, there is scope for a significant reduction in the manpower of the civil service. In particular, a rationalization of work in the administrative services for education, in the national network of public treasuries, and in tax administration should permit personnel reduction without compromising the quality of public services.

45. A compression of spending at the state level is desirable but can hardly suffice to achieve the necessary fiscal adjustment over the medium term: social security expenditure has to be brought firmly under control and this requires harder policy choices.

46. In healthcare, the issues are technical and largely beyond the staff's expertise but the guiding principle for reform is unequivocal: effective incentive systems to contain costs must be put in place. From this angle, there is a clear need for stronger inducements to promote the use of generic pharmaceuticals and to control expenses in ambulatory care. As for the hospital system, further rationalization should be pursued in the context of the AHRs.

47. The long-term imbalances in the pension systems obviously call for further reforms. Heightened awareness of this issue in the public discourse offers a valuable opportunity for a new headstart to tackle the problem. Increasing the number of years of contributions required for a full pension is unavoidable, if France wants to ensure the long-term viability of its pay-as-you-go system. For the sake of equity, the rules governing pension contributions and entitlements in the public sector and special regimes must be brought closer in line with those in the *régime général*. In this context, private pension funds should be viewed as a useful complement to intergenerational solidarity, rather than as a threatening alternative.

48. With structural reform in public expenditure setting the stage for lasting reductions in the tax burden, tax reform should become a second pillar of the fiscal strategy. The scheduled cut of the local business tax and the reform of employers' contribution rebates are welcome developments. However, there remains an urgent need to cut the very high marginal rates of personal income taxes, while removing many deductions and exemptions that only cater to vested interests. Corporate taxes will also have to be cut, if only to keep up with developments in other EU countries.

49. Turning to other structural issues, the 35-hour workweek initiative must be credited with revamping the social dialogue and catalyzing work reorganization, especially through the annualization of work time. However, it will not contribute much to unemployment reduction, and will be quite costly to the budget. The authorities should now eschew a rigid implementation framework. In particular, it would be quite counterproductive to place undue restraints on the use of overtime and on the number of working days of professional staff. Limits to the amount of work that people want to perform—beyond what may be justifiable for health reasons—are hard to rationalize on economic grounds. Moreover, to say the least, it is not a good idea to reduce the labor supply just ahead of a demographic shock that is bound to boost the dependency ratio.

50. More broadly, in order to make a real difference in reducing unemployment, the authorities' strategy must be reoriented. The current policies centered on employment subsidies have contributed to job creation in the recovery—albeit at a hefty cost to the budget—but their limits have been reached. With no scope left for additional targeted reductions in social charges or increases in public employment, the authorities must now tackle directly the root causes of France's unemployment. In this context, three issues are critical: (i) the need to enhance the educational system and the targeted training programs with a view to gradually reducing the number of unskilled and inexperienced workers; (ii) the need for a wage distribution that better reflects productivity differentials across workers; (iii) the need to redesign the system of unemployment compensation and welfare assistance in order to strengthen incentives to job search.

51. A first priority should be enhancing vocational training and broadening programs that provide effective on-the-job training for the unskilled regardless of age, with a remuneration that, given the low productivity of the trainee, would most often have to be below the "minimum wage." Moreover, incentives to participate in the labor force and actively seek a job should be strengthened by: (i) tightening eligibility requirements for unemployment

compensation; (ii) enforcing penalties for refusal of suitable job offers; and (iii) further smoothing the withdrawal of minimum income benefits—with a view to ultimately introducing a system of earned income tax credits, inter alia to address poverty traps at the level of the SMIC.

52. Other challenges remain in the unfinished agenda of structural reforms. In the product and service markets, a great deal has been achieved with the remarkable privatization efforts of the last two years. Yet, public ownership is still significant, and divestment of controlling stakes should continue. As for the network sectors, some progress has been made to enhance competition but there still remains vast scope for additional liberalization beyond the minimal thresholds set by EU directives.

53. In the financial sector, important transformations are taking place, which might call for difficult policy decisions. To realize efficiency gains from consolidation and restructuring, some further measures, such as closing branches and shedding labor, are unavoidable and should not be prevented, and cross-border mergers should not be hampered. In this environment, administered interest rates stand out as an anachronistic interference with the efficient allocation of capital, and—at a minimum—their timely adjustment to market levels would be key to support profitability in banking.

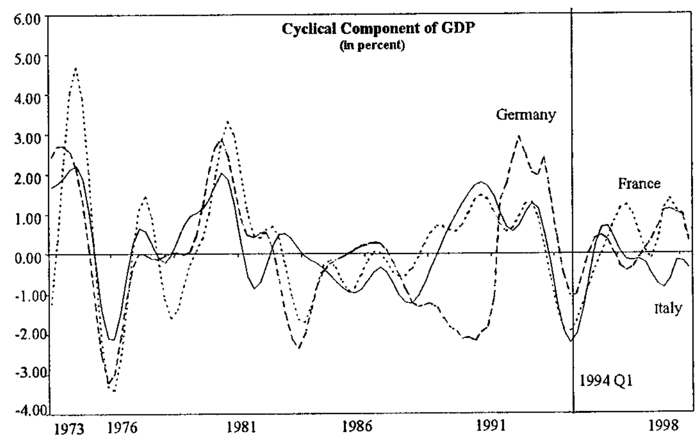
54. France provides core economic data to the Fund in a comprehensive fashion and data quality and timeliness are generally adequate for effective surveillance.

55. It is proposed that the next Article IV consultation with France take place on the standard 12-month cycle.

**Why Has France Been Growing Faster than Germany and Italy?**

56. The economic cycles of the three major euro-area countries have been broadly in phase over the last 20 years.[46] The latest turnaround was no exception : the recessions in France, Italy, and Germany bottomed out essentially at the same time in Winter 1993.

57. The pace of the recovery since then, however, has differed in the three economies: the pattern of the quarterly cyclical components in GDP—obtained by removing from the real GDP time series an estimated trend—shows less correlation in both time and intensity during the ongoing upswing than ever before, except for the truly exceptional times of German unification. Moreover, by 1999 the cumulative growth differential since 1993 in favor of France was about 2 percentage points vis-à-vis Germany, and 3 percentage points vis-à-vis Italy. Undoubtedly, these differentials reflect in part underlying disparities in potential growth rates.[47] This is particularly true in the case of Italy, whose long-term outlook is negatively affected by a shrinking labor force. The growth discrepancy between France and Germany, however, is harder to rationalize in terms of rapidly diverging GDP trends—not least because the staff's estimate of German potential growth might be biased downward as a result of recent output developments. With a special attention to these two countries, an explanation of the uneven growth performance may be more fruitfully sought by focusing separately on supply-side and demand-side factors in a medium-term perspective.




*Supply-side conditions*

58. On the aggregate supply side, four reasons might account for international differences in growth over the medium run: (i) different amounts of economic slack to start with;

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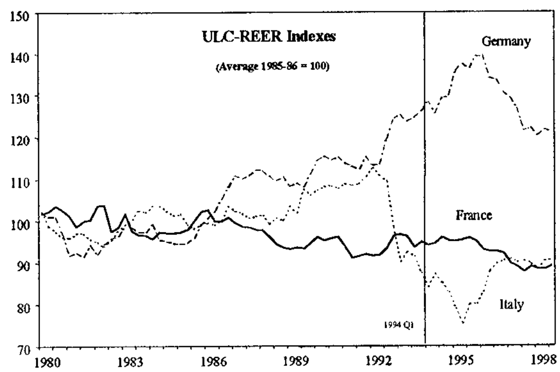
[46] Rankings of business cycle correlation suggest that synchronization between the cycles in France, Italy, and Germany has increased since the establishment of the ERM. See M. Artis, and W. Zhang: "Further Evidence on the International Business Cycle and the ERM: Is There a European Business Cycle?" *Oxford Economic Papers*, No. 51, 1999.

[47] The staff estimates that potential growth is at an annual rate of 2.3 percent for France, 1.8 percent for Italy, and 2.1 percent for Germany.

(ii) different degrees of competitiveness; (iii) different structures of production; and (iv) different labor market performances. These are considered in turn.

- **Initial amount of economic slack.** The pattern of cyclical components of GDP in the previous figure suggest that Germany was the least affected by the slowdown of the early 1990s, with Italy slightly worse off than France. The constellation of output gaps (as reported in the World Economic Outlook) confirms this picture: France started the recovery with an output gap of about 3½ percent, or ½ of 1 percentage point less than Italy, and 1¾ percentage points more than Germany. This evidence may provide a first explanation of why France may have "bounced back" more energetically than Germany.

- **The competitive position.** Standard measures of competitiveness show that France was in fact better positioned than Germany at the trough of the cycle in 1994 to benefit from a generalized pickup abroad. Germany has suffered from the 1995 wage shock as well as the post-unification real exchange rate appreciation: it has been estimated that average gross unit labor cost there exceeded French levels by about 25 percent.[48] The comparison with Italy is more ambiguous. Italy's return to the ERM in late 1996 was followed by a steady real appreciation, but its international competitiveness remained robust: in fact, on average over the recovery, it was slightly stronger than France's. These trends underscore the role played by external competitiveness in creating an uneven growth pattern among the three European economies, especially in the case of France and Germany: indeed, the cumulative external contribution to GDP growth over the period 1993–98 (at about ½ percentage point) was twice as high in France as in Germany (and only broadly neutral in Italy).



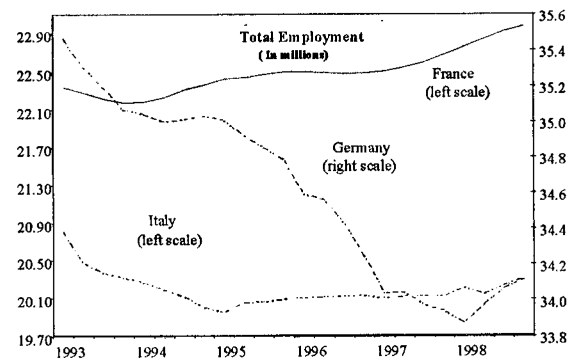

- **The structure of production** might have come into play at two levels. First, a lower share of manufacturing in value added might have better insulated France from the vulnerability of the tradable goods sector to external developments. Second, the geographical and commodity composition of exports might

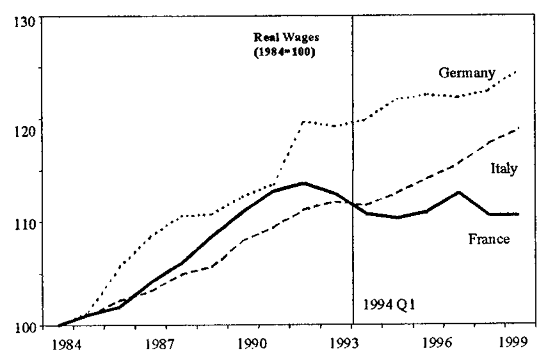
| (In percent) | France | Germany | Italy |
|---|---|---|---|
| Value added in manufacturing | 15 | 24 | 23 |
| Share of exports to emerging markets 1/ | 15 | 23 | 22 |
| 1/ Asia excluding Japan; Latin America; and Eastern Europe. | | | |

[48] See "La structure des salaires en France et en Allemagne en 1995: une analyse statistique comparative des hiérarchies salariales," *Economie et Statistique,* INSEE, No. 315, 1998.

have helped stabilize the external sector's contribution to growth, especially at the end of the period under consideration when the emerging market crises dampened (asymmetrically) the external environment: in fact, France has a smaller proportion of cyclically sensitive goods (e.g., capital goods) in exports, and a weaker trade linkage with the economies of Asia, Eastern Europe, and Latin America, than Germany and Italy.

- **Labor market performance**. The direction of causality running between output growth and employment is obviously difficult to disentangle, but there is no doubt that France stands out in the group as the most successful employment promoter: in 1993–98, about 800,000 new jobs were created, whereas employment contracted sharply in Germany and remained roughly stable in Italy. Two factors may help explain these developments. First, fiscal incentives to support labor demand at low wages and promote temporary and part-time work seem to have played a significant role in increasing the dynamism of the French labor market; second, wage moderation has been more pronounced in France than in Italy and Germany.



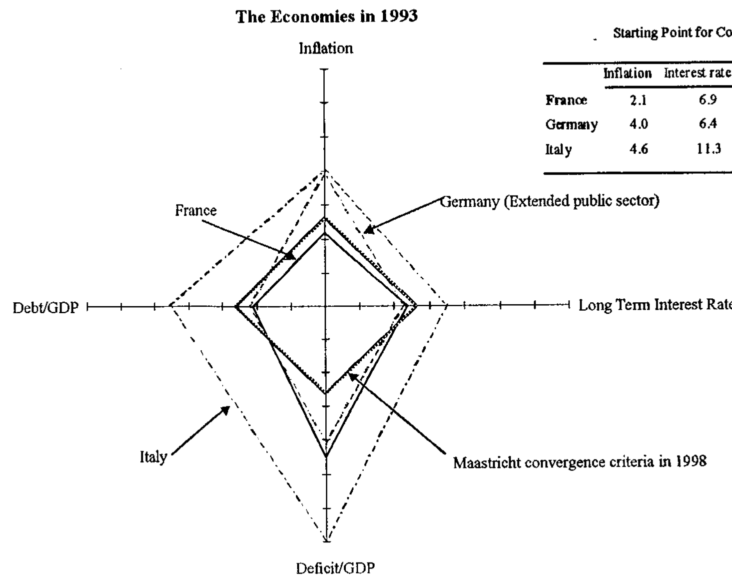




59. These supply-side conditions interacted with each other and, to a certain extent, unleashed self-reinforcing expansionary effects more forcefully in France than elsewhere: a comparatively large initial output gap meant that employment could expand there without price effects detrimental to competitiveness, which allowed export-led growth to jump-start the upturn; with employment creation, the base of the recovery broadened as internal demand became the driving force; finally, the production bias toward nontraded goods and services may have enhanced the employment content of growth in a virtuous circle, sheltered the economy from the effects of the external shocks, and positioned it better to benefit from an expanding internal demand.

***Demand-side conditions***

60. On the aggregate demand side, the stance of macroeconomic policies is essential to understand growth differences between France, Italy, and Germany. In this regard, 1997 marks a natural break point for the analysis: with monetary union ensured, the objectives of policy—and the intensity of their pursuit—have undergone qualitative changes.

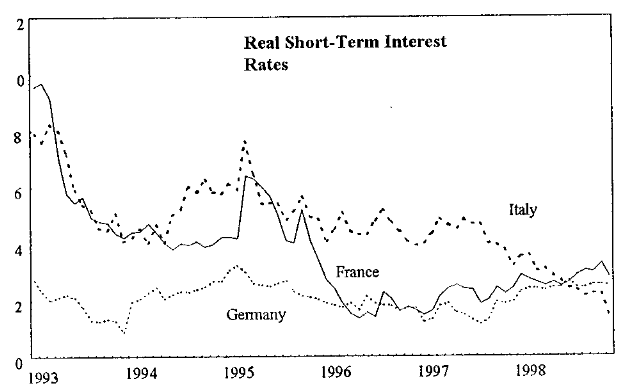
- In the **run-up to Stage III of EMU**, the imperative of meeting the Maastricht convergence criteria was the hallmark of demand management in all three countries. Yet, the 1993 initial conditions varied significantly across the three economies—and so did the adjustment effort necessary to gain founding membership in the euro area. The graph below establishes a heuristic metric for this effort: each country's constellation of deficit- and debt to GDP ratios, inflation, and interest rates in 1993




Starting Point for Convergence

| | Inflation | Interest rate | Deficit | Debt/GDP |
|---|---|---|---|---|
| France | 2.1 | 6.9 | -5.8 | 45 |
| Germany | 4.0 | 6.4 | -5.2 | 48 |
| Italy | 4.6 | 11.3 | -9.5 | 118 |

defines a quadrilateral whose area and shape can be compared with that of the central square representing the corresponding Maastricht benchmarks taken as units of measurement. The farther away are the vertices of a quadrilateral from those of the square, the more contractionary demand management had to be in the convergence process (as a first approximation). It is clear that fiscal policy had to be much tighter in Italy—and arguably in Germany, once due account is taken of off-budget imbalances arising from the unification shock—than in France, suggesting a ranking of fiscal withdrawals over 1993–97 broadly consistent with the actual growth record in these countries.




The evolution of monetary conditions portrays, however, a less clear-cut picture. Real interest rates had to be kept higher in Italy and—to a lesser extent—in France, to promote disinflation (in Italy) and to defend the exchange rate in a setting where policy credibility was still being established and investors demanded sizable risk premiums on assets not denominated in the anchor currency. Thus, the less accommodative stance of monetary policy slowed down the pace of activity in France and Italy relative to Germany, at least through 1997.

- With **convergence achieved** in 1997, the defining motivation of French, German, and Italian economic policymaking became how to safeguard the hard-won gains. The pace of fiscal withdrawal—now dictated by the less pressing calendar of medium-term consolidation—abated significantly to a rhythm broadly similar in all three countries. However, the lagged effects of earlier, more pronounced efforts probably continued to be felt in Italy. Monetary conditions eased everywhere—first as a result of interest rate convergence to the German levels, then owing to further easing in late 1998 and by the ECB in early 1999, as well as the depreciation of the euro. However, the easing was relatively more in Italy and, to a lesser degree, in France. More difficult to gauge—but possibly quite important—was the differential impact across the three countries of the broad reorientation in the policy mix in 1998–99. The French strategy to assure households that they would not bear the burden of further increases in taxes, combined with targeted measures to foster employment, appears to have been remarkably successful in supporting consumer confidence and spending. This pick-up in household sentiment has been a key factor behind the better growth outturn in France in the last two years. It triggered a virtuous circle of expanding internal demand and employment even when external prospects dimmed. By contrast, lingering uncertainties about national politics, and future tax and social policies—among other factors—dampened the revival of private sector's confidence in Italy and Germany.

61. International comparisons of economic histories are inherently difficult: the quest for common elements of comparison comes at the cost of downplaying the importance of country-specific events. The collapse of the German construction sector in 1995, the 1996 introduction in France of fiscal incentives for the purchase of new automobiles, and their elimination in 1998 in Italy are but a few examples of such events that shaped the recent growth performance in these countries. Yet, there is still something to be learned from the more synthetic perspective. On balance—and without overstating the case—it seems that much of France's faster recovery can be traced back to favorable supply-side conditions—especially the comparatively strong competitive position, and the positive impact on internal demand of a relatively superior employment dynamics. Policy-related factors on the demand side—taken together—may have given France an additional edge over Germany and Italy. Although the overall stance of macroeconomic policies in all three countries has been restrictive throughout much of the last six year period, France—more than its partners—emerged from the "forced march to EMU" with enough dynamism to ensure a self-sustaining upswing.

## Pension Reform in France

62. France's near-exclusive reliance on pay-as-you-go schemes makes its pension system especially vulnerable to the demographic pressures that loom in all developed economies. Some steps have been taken in the 1990s to bring pension programs closer to intertemporal balance, but progress has been slow overall. Pension reform has come back to the forefront of policy debates following the publication this year of an official report on the long-run prospects of the French pension system. This report, prepared by the French planning agency, the *Commissariat Général du Plan*, in consultation with a wide range of unions and employers' representatives, confirms the diagnosis of previous studies on the long-run financial implications for the pension system of the impending demographic shock, and outlines some paths of reform. The government has announced that it will take the Charpin Report—named after the head of the *Commissariat Général du Plan*—as the basis for a new phase of consultation with social partners on pension reform.

63. This appendix reviews the main problems and policy options involved in pension reform in France in light of the Charpin Report: it presents some background information on the French pension system, discusses the main policy challenges, and evaluates reform options.

### Background

64. The French pension system consists of numerous schemes differing widely in scope, management, source of revenues, and entitlement rules. Private sector employees are covered by a large basic scheme, the *Caisse Nationale d'Assurances Vieillesse des Travailleurs Salariés* (CNAVTS), also called *régime général*. This basic regime is supplemented by several compulsory complementary regimes, most notably ARRCO (*Association des régimes de retraite complémentaires*), covering all employees, and AGIRC (*Association des régimes de retraite des cadres*) for upper-echelon employees. The public sector is covered by a number of *régimes spéciaux* organized by the employing agency. A few large special regimes (for central government employees, local government employees, the railway system, etc.) coexist with a plethora of much smaller schemes.[49] Finally, self-employed workers are covered by a third category of specific regimes.

65. The involvement of the central government in the regulation, financing, and management of these regimes is pervasive. It is direct in the public sector, where the government, in addition to being the employer, finances the often large deficits of special regimes through its central budget.[50] The involvement of the central government is no less important in the private sector. While the *régime général* was designed to be—and nominally

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[49] For example, the employees of the *Opéra de Paris*, the *Comédie Francaise,* and Strasbourg's fluvial port have their own *régime spécial.*

[50] State subsidies amount to 84 percent of the revenues for the regime of central government employees, and 48 percent in the case of the national railway company, SNCF.

still is—managed cooperatively by employees' and employers' representatives, the effective power is exercised by the central government, which sets the contribution rates and the level of benefits.

66. The last major reform in 1993 was limited to the *régime général*. It involved an increase in the contribution period to receive a full pension from 37½ to 40 years and a reduction in the benefit levels, achieved in particular through a lengthening from 10 to 25 years of the best-paid period of one's working life on the basis of which pension benefits are computed. While the increase in the contribution period to 40 years will be fully phased in by 2003, the full impact will be felt more progressively as a result of limits on the statutory retirement age. In order to be entitled to full pension rights, employees must have reached the age of 60. The generations now retiring entered working life early, so for the majority of today's retirees the binding constraint remains the statutory retirement age. The condition on the contribution period will become increasingly binding over time, as younger cohorts, who have started to work later in life, begin to retire.

67. Reforming the *régimes spéciaux* of public sector employees has proved politically more difficult. A proposed reform of the SNCF pension regime had to be withdrawn at the end of 1995 after a period of widespread strikes and protracted social unrest. This precedent has made the succeeding governments very cautious in approaching the reform of *régimes spéciaux* in spite of increasing disparities with the *régime général*. As a result, public sector employees have been able to enjoy pension rules that are widely perceived as more generous than in the private sector: the number of years of work required to receive a full pension is still 37½ years, and pension benefits are computed on the basis of the last six months of wages.

68. Timid attempts at introducing pension funds have been unsuccessful so far. A law granting a favorable fiscal regime to individual pension plans (*Loi Thomas*), passed in 1995, was never implemented following the change in political majority. This law had been criticized, most notably by labor unions, for favoring high-wage earners and undermining the resources of pay-as-you-go systems. While opposition parties are currently proposing the re-introduction of pension funds, the authorities did not report to the mission that they had intentions to do so in the short term.

**Policy issues and options**

69. Slow progress in reforming the pension system means that a large adjustment to the demographic shock remains to be done. The Charpin Report estimates that, because of demographic pressures, the annual financing gap of the public pension programs will be close to 5 percent of GDP in 2040 in the absence of reform. This deficit, obtained under the assumption that the structural rate of unemployment stays close to its current level of 9 percent, would remain high even under more optimistic assumptions on the labor market.

Pension Expenditures and Deficit in the Absence of Reform

| | | 2040 | | |
|---|---|---|---|---|
| | | Structural Unemployment Rate | | |
| | 1998 | 9 percent | 6 percent | 3 percent |
| Pension expenditures (percent of GDP) | 12.1 | 16.7 | 15.8 | 15.1 |
| Deficit (percent of GDP) | 0 | 4.8 | 3.9 | ... |

Source: "L'avenir de nos retraites," Commissariat Général du Plan, pp. 101–102.

70. Under current rules, moreover, the long-run evolution of the pension system will be marked by an increasing disparity in pension entitlements between the private sector and the public sector. The replacement ratio (the ratio of the first pension benefit to the last wage), which is now slightly higher for the private sector, will become markedly lower by 2040.[51] This mounting disparity is due to differences in the determination of pension entitlements, especially indexation rules. The replacement ratio of the *régime général* will fall until 2010 as a result of the 1993 reform. Under current indexation rules, the level of pension benefits served by *régimes complémentaires* is approximately constant in real terms, implying a secular decrease in the replacement ratio. By contrast, the replacement ratio remains almost constant in the public sector since the level of pensions is generally based on the last six months of wages.

Replacement Ratios
in the Absence of Reform 1/
(In percent)

| | 1996 | 2040 |
|---|---|---|
| Private sector | | |
| CNAV+ARRCO | 69.3 | 52.1 |
| Public sector | | |
| Central government | 57.8 | 57.8 |
| SNCF | 61.8 | 57.6 |

Source: "L'avenir de nos retraites," Commissariat Général du Plan.
1/ These figures correspond to a wage level equal to the social security ceiling.

71. The standard policy options in reforming pay-as-you-go systems are: raising the contribution rates, increasing the contribution period, or reducing benefits. The main recommendation of the Charpin Report, in this respect, is to increase the number of years of contribution to the pension system to 42½ years in 2019, including for public sector employees.[52] The authorities reported to the mission that they would expect this measure to cut by about one third the 2040 deficit in the main scenario.

72. Another path for reform was opened by the establishment, at the beginning of this year, of a national pension reserve fund (*Fonds de réserve des retraites*). Its initial, quite modest, endowment of F 2 billion is scheduled to be increased with the receipts from the reform of *caisses d'épargne* and surpluses in the social security fund for assistance to families. Different options can be envisaged for the fund's long-run strategy, ranging from a temporary reserve—meant to disappear after its resources have been exhausted by the demographic shock—to a permanent fund, the return to which would provide a durable complementary source of income for the pension system. A related policy question is whether the fund should be allowed to invest in stocks or should restrict its portfolio to safer assets such as government bonds.

73. The Charpin Report has catalyzed a public debate on the long-term future of the French pension system. While the report's diagnosis on the long-run sustainability of current pension

[51] The 1996 replacement ratios for the public sector are underestimated for methodological reasons: they are currently roughly similar to those in the private sector.

[52] The longer contribution period is required for full pension and there is a cut-off age at 65. This and other suggested changes in the pension rules try to shift progressively the retirement age up to 65 but not later.

arrangements has been criticized by some as pessimistic, the report has certainly produced an enhanced awareness, among social partners and in the public opinion, of the threat posed to the public finances by the demographic shock and of the urgency of reform. However, the proposal to increase the length of working life is often perceived as inconsistent with current labor policies—an argument that forces hostile to the reform have been quick to embrace. The case for raising the effective retirement age is difficult to explain in a context of high unemployment among workers over 50—with pervasive reliance on pre-retirement schemes—and when some aspects of the 35-hour workweek initiative are hard to explain if they are not based on the premise that joblessness can be reduced by reducing the work time of employed workers.

**Assessment**

74. While most of the economic assumptions underpinning the long-term projections in the Charpin Report seem reasonable, there is a significant degree of uncertainty in one key variable—the secular growth rate in labor productivity. The hypothesis adopted in the report that the yearly growth rate in labor productivity will remain close to the average level observed over the past 25 years (1.7 percent) may be overoptimistic. This estimate reflects Europe's catch-up effect relative to the United States. Thus, the growth rate in labor productivity to be more realistically expected in the future might be closer to the level observed in the United States over the past two decades—around 1.2 percent. Under this assumption, the prospective deficit of the pension system might be several percentage points of GDP higher than calculated in the report, other things being equal.[53]

75. Extending the required number of years to receive full pension rights to 42.5 years in the private and the public sector would be a step in the right direction. Such a measure is in line with reforms implemented in other OECD countries, and appears consistent with the increase in life expectancy since the establishment of the French social security pension system. It would offer the additional advantage of bringing the rules for pensions in the public sector closer in line with those of the private sector. A possible further step could be to gradually increase the statutory retirement age to 65.

76. This reform will not be sufficient, though, to forestall the growing divergence in the replacement ratio between the public sector and the private sector arising from different pension entitlement rules. Letting such a divergence develop would put the whole pension system at risk in the long term—inter alia by undermining public support for a system that

[53] Increasing labor productivity eases the financing of pay-as-you-go systems by ensuring that the level of wages on which contributions are levied is higher than the historic level on the basis of which pension rights are computed. The staff has estimated, in the case of Italy, that the pension expenditure share in GDP could rise by somewhere between 2 and 6 percentage points by 2040, depending on whether productivity growth ends up being 0.7 percent or 1.7 percent (SM/99/111).

would be perceived as increasingly unfair and by accentuating the fault line, inside workers' unions, between public and private sector employees. Some measures, sooner or later, will have to be taken anyway to bring the rules for pensions in the public sector closer in line with those of the private sector. As the Charpin Report shows, aligning the two systems toward the top, by maintaining the replacement ratio in the private sector at its current level, would be extremely costly—and could more than offset the gains from lengthening the contribution period to 42½ years.

77. All things considered, it is very unlikely that any reform will avoid a substantial transitory rise in pension spending in 2020–40 when the baby-boomer generation retires. This raises the question of the intergenerational allocation of the increase in taxes and social contributions that will be necessary to ensure the intertemporal balance of the pension system. A taxation peak on the generations that will be at work in 2020–40 can be avoided by shifting part of the tax burden forward to subsequent generations, or backward to the generations currently at work. The first option (Option A), which would involve running deficits at the time of the demographic shock and surpluses afterwards, is likely to be constrained by the Stability and Growth Pact limit on fiscal deficits and—more importantly—the initial level of the debt. The national pension reserve fund may be interpreted as a way to implement the second option (Option B), since it will be financed by contributions levied on the generations currently at work.[54] From this perspective, the accumulation of assets in the (public) pension reserve fund is economically "equivalent" to reducing the stock of debt outstanding by running budgetary surpluses ahead of the demographic shock. The fundamental difference between Options A and B is, of course, the fact that—other things being equal—the earlier the government's saving takes place (through asset build-up in the pension fund or interim budgetary surpluses), the smaller the accumulated net interest outlays by some future date. This may make a substantial difference over the time horizon under consideration, as it would reinforce a virtuous path of debt dynamics. A related reason for early action is the fact that pension entitlements are but one of the channels through which population aging impacts on the budget: health expenditure is also likely to soar, and provisions have to be made.[55]

78. It should be acknowledged, in this connection, that the newly established pension reserve fund effectively represents a move away from pure intergenerational solidarity, since its assets will be in part redistributed to its contributors—the baby-boomers who will have

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[54] As argued by E. Sadka and V. Tanzi: *Increasing dependency ratios, pensions, and tax smoothing*, 1998, IMF WP/98/12.

[55] In 2030, 22 percent of the population, or 13 million people, will be more than 65 year old. This will burden the healthcare system through a higher incidence of multiple pathologies, including degenerative diseases and non-terminal chronic illnesses (e.g., Alzheimer's disease) that increase the need for nursing home assistance or long-term hospital care. See *Santé 2010: santé, maladies et technologies*, Commissariat Général du Plan, 1993.

contributed to the fund before retiring. In this context, the question arises of why these individuals should not be left to save for themselves with individual pension plans. The arguments for setting up a public fund financed by compulsory contributions—in particular, one that provides a way to implement intragenerational redistribution—should be weighed against the distortionary costs of taxation and of imposing "one-size-fits-all" pension entitlements to individuals with different risk profiles and risk aversion. The development of individual pension funds could be viewed, from this perspective, as part of the panoply of measures aimed at smoothing, at the margin, the impact of the demographic shock on the pay-as-you-go-system—which could reinforce, rather than threaten, intergenerational solidarity in the long term.

France: Selected Economic Indicators

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 Proj. | 2000 Proj. |
|---|---|---|---|---|---|---|---|
| Demand and supply in constant prices 1/ | | | | | | | |
| Gross domestic product | 2.8 | 2.1 | 1.6 | 2.3 | 3.2 | 2.5 | 3.0 |
| Private consumption | 1.4 | 1.7 | 2.0 | 0.9 | 3.8 | 2.5 | 2.6 |
| Public consumption | 1.1 | 0.0 | 2.6 | 1.2 | 1.1 | 1.5 | 1.5 |
| Gross fixed investment | 1.3 | 2.5 | -0.5 | 0.1 | 4.2 | 5.2 | 4.2 |
| Business investment | 1.5 | 3.5 | 2.0 | 0.4 | 6.2 | 5.7 | 4.7 |
| Residential investment | 2.0 | 2.3 | -1.0 | -0.6 | 1.0 | 6.1 | 4.7 |
| Public investment | -0.4 | -0.4 | -7.5 | 0.2 | 1.8 | 2.2 | 1.7 |
| Stockbuilding 2/ | 1.7 | 0.3 | -0.7 | 0.1 | 0.3 | -0.2 | 0.1 |
| Total domestic demand | 3.0 | 1.8 | 0.9 | 0.9 | 3.8 | 2.6 | 2.8 |
| Foreign balance 2/ | -0.2 | 0.3 | 0.6 | 1.4 | -0.4 | -0.1 | 0.2 |
| Exports of goods and NFS | 6.0 | 6.3 | 5.2 | 12.6 | 6.3 | 1.6 | 6.4 |
| Imports of goods and NFS | 6.7 | 5.1 | 3.0 | 8.1 | 7.9 | 1.9 | 6.0 |
| Prices | | | | | | | |
| GDP deflator | 1.5 | 1.6 | 1.2 | 0.9 | 0.8 | 1.0 | 0.8 |
| Consumer prices (average) 3/ | 1.7 | 1.8 | 2.1 | 1.3 | 0.8 | 0.5 | 1.1 |
| Consumer prices (end of period) 4/ | 1.6 | 2.1 | 1.7 | 1.1 | 0.5 | 0.4 | ... |
| Employment and wages | | | | | | | |
| Employment | -0.1 | 0.8 | 0.3 | 0.2 | 2.1 | 1.6 | 1.5 |
| Unemployment 5/ | 12.3 | 11.7 | 12.4 | 12.5 | 11.6 | 11.3 | 10.7 |
| Productivity 6/ | 3.0 | 1.2 | 1.3 | 2.2 | 1.1 | 0.9 | 1.5 |
| Output in manufacturing | 5.6 | 4.0 | 1.1 | 4.7 | 5.1 | 4.5 | 4.6 |
| Average hourly earnings in manufacturing | 3.7 | 1.6 | 2.6 | 3.2 | 1.5 | 1.8 | 1.9 |
| Personal sector | | | | | | | |
| Real disposable income 7/ | 0.8 | 2.8 | 0.6 | 2.4 | 2.9 | 3.1 | 2.6 |
| Savings ratio 8/ | 13.6 | 14.5 | 13.3 | 14.6 | 13.9 | 14.4 | 14.4 |
| Output gap 9/ | -3.1 | -2.8 | -3.4 | -3.2 | -2.2 | -2.1 | -1.4 |
| Balance of payments | | | | | | | |
| Trade balance (billions of francs) | 39.6 | 54.9 | 76.5 | 164.3 | 155.0 | 113.8 | 129.5 |
| (in percent of GDP) | 0.5 | 0.7 | 1.0 | 2.0 | 1.8 | 1.3 | 1.4 |
| Current account (billions of francs) | 41.0 | 54.5 | 105.0 | 230.1 | 239.7 | 226.9 | 253.4 |
| (in percent of GDP) | 0.6 | 0.7 | 1.3 | 2.8 | 2.8 | 2.6 | 2.8 |
| Terms of trade | 0.5 | -0.6 | -1.3 | -0.1 | -0.2 | ... | ... |
| Nominal effective exchange rate 10/ | 106.0 | 109.2 | 109.1 | 105.6 | 106.1 | ... | ... |
| Real effective exchange rate | 99.1 | 99.5 | 96.7 | 92.9 | 92.9 | ... | ... |
| Public sector accounts 8/ | | | | | | | |
| Revenue | 49.6 | 49.9 | 51.5 | 51.9 | 51.5 | 51.2 | 50.7 |
| Expenditure | 55.4 | 55.3 | 55.6 | 54.9 | 54.2 | 53.5 | 52.5 |
| General Government balance | -5.8 | -5.4 | -4.1 | -3.0 | -2.7 | -2.3 | -1.7 |
| Primary balance | -2.0 | -1.4 | -0.1 | 0.8 | 0.9 | 1.1 | 1.5 |
| Gross debt 11/ | 48.3 | 52.5 | 55.4 | 57.8 | 58.2 | 58.7 | 58.5 |

Sources: Data provided by the authorities; and Fund staff estimates.
1/ In constant prices of 1980.
2/ Change as percentage of previous year's GDP.
3/ Harmonized CPI.
4/ Year on year in July 1999.
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 GDP.
9/ In percent of potential GDP.
10/ Index. Base 1990=100.
11/ Under the ESA79 system of national accounts, which will be used to report to the European Commission until end-1999

## France: Fund Relations

As of August 31, 1999

I. **Membership Status**: Joined December 27, 1945. France has accepted the obligations of Article VIII, Sections 2, 3, and 4, and it has consented to a quota increase under the eleventh general review and accepted the fourth amendment of the Articles of Agreement.

| II. **General Resources Account**: | **SDR Million** | **Percent of Quota** |
|---|---|---|
| Quota | 10,738.50 | 100.0 |
| Fund holdings of currency | 6,681.49 | 62.2 |
| Reserve position in Fund | 4,057.09 | 37.8 |
| Operational budget transfers (net) | 267.00 | |

| III. **SDR Department** | **SDR Million** | **Percent of Allocation** |
|---|---|---|
| Net cumulative allocation | 1,079.87 | 100.0 |
| Holdings | 191.63 | 17.7 |
| Designation plan | 29.00 | |

IV. **Outstanding Purchases and Loans**: None

V. **Financial Arrangements**: None

VI. **Projected Obligations to Fund**: (SDR million; based on existing use of resources and present holdings of SDRs): None

VII. **Exchange Rate Arrangements**:

- Since January 1, 1999 France participates in Stage III of the European Economic and Monetary Union (EMU). The French franc entered EMU at a value of F 6.55957 per euro.

- France continues to apply exchange restrictions vis-à-vis Iraq, the Federal Republic of Yugoslavia (Serbia and Montenegro) and the Socialist People's Libyan Arab Jamahiriya. These restrictions have been notified to the Fund under Decision No. 144-(52/51), as follows: in respect of Iraq, see EBD/90/234 (8/8/90) and EBD/93/92, Supplement 1 (1/6/94); and in respect of the Federal Republic of Yugoslavia (Serbia and Montenegro) and the Socialist People's Libyan Arab Jamahiriya, see EBD/93/92 (12/27/93) and Supplement 1 (1/6/94).

VIII. **Article IV Consultation**:

The last article IV consultation was concluded at EBM/98/109 (10/28/98). France is on the standard 12-month consultation cycle.

## France: Statistical Information

France's economic database is comprehensive and of generally high quality. The authorities regularly publish a full range of economic and financial data; calendar dates of main statistical releases are also provided. The transmission of data in electronic form from INSEE and the profusion of data from various institutions (Banque de France, INSEE, Ministry of Finance) have helped to build an infrastructure in which all data can be easily accessed through the economic data sharing system. As a subscriber to the Special Data Dissemination Standard (SDDS), France posts its metadata on the Fund's Dissemination Standards Bulletin Board (DSBB) on the Internet.

Recent data issues include the need to provide information on monthly or quarterly developments not only in the finances of the state, but also in the social security and local governments' budgets.

Statistics for *International Financial Statistics* on banking institutions are available only quarterly, but statistics on the monetary aggregates are prepared on a monthly basis and are timely. France is in the process of changing the methodology for its national accounts in the context of EU harmonization of statistical procedures.

## France: Core Statistical Indicators as of Mid-September 1999

| | Exchange Rates | Int'l Reserves 1/ | Central Bank Balance Sheet | Reserve/ Base Money | Broad Money | Interest Rates | Consumer Price Index | Exports/ Imports | Current Account Balance | Central Government Balance | GDP/GNP |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Date of Latest Observation | Sept. 15 | June | Sept. 3 | Sept. 3 | May | Sept. 15 | July | June | April | June 30 | 1999 Q1 |
| Date Received | Sept. 15 | August 15 | Sept. 10 | Sept. 10 | August 15 | Sept. 15 | August 15 | August 19 | August 15 | August 19 | July 8 |
| Frequency of Data | Daily | Monthly | Weekly | Weekly | Monthly | Daily | Monthly | Monthly | Monthly | Monthly | Quarterly |
| Frequency of Reporting | Daily | Monthly | Weekly | Weekly | Monthly | Daily | Monthly | Monthly | Monthly | Monthly | Quarterly |
| Source of Update | Reuters | Banque de France | Banque de France | Banque de France | Banque de France | Reuters | INSEE | Reuters/ INSEE | Banque de France | MoF | INSEE |
| Mode of Reporting | Electronic | Fax | Fax | Fax | Paper | Electronic | Fax | Electronic/ Fax | Electronic | Electronic | Electronic |
| Confidentiality | Published | Published | Published | Published | Published | Published | Published | Published | Published | Published | Published |
| Frequency of Publication | Daily | Monthly | Weekly | Weekly | Monthly | Daily | Monthly | Monthly | Monthly | Monthly | Quarterly |

1/ Includes all gross international reserves of the state; reserves at the Banque de France are reported weekly, and within a week.

**Statement by the IMF Staff Representative**
**October 22, 1999**

This statement provides information on economic and financial developments and on the year 2000 draft budget, which has become available since the issuance of the staff report for the Article IV consultation (SM/99/250, 10/1/99). This information does not alter the thrust of the staff appraisal.

1. After the slowdown of late 1998 and early 1999, **real GDP** grew at an annual rate of 2.4 percent in the second quarter of 1999, in line with the staff's projections. Domestic demand continues to support activity: private consumption and investment grew at annual real rates of 2.4 percent and 5.2 percent, respectively. The external sector has recovered as well, with exports growing at an annual real rate of 10.4 percent.

2. The latest **cyclical indicators** show that, in September, consumer sentiment reached a record high and business confidence continued to improve. Consumption of manufactured goods was 3.6 percent higher in August than a year earlier. These developments are in line with the growth outlook presented in the staff report (GDP growth of 2.5 percent in 1999 and 3 percent in 2000, as in the latest Consensus Forecast).

3. In the **labor market**, employment expanded strongly in the second quarter of 1999, at a rate of 1.8 percent year-on-year, while unemployment was stable at a seasonally adjusted rate of 11.3 percent in August 1999. Wage inflation remains contained, as hourly wages increased at an annual rate of 1.9 percent in the second quarter of 1999. Price **inflation** continues to be low, with the September harmonized price index 0.6 percent higher than a year earlier.

4. Recent **interest rate developments** have paralleled those in other euro-area countries: the 10-year government bond yield rose in mid-October to about 5.5 percent, a 21-month high, while the short-term interest rate increased to about 3.3 percent. To put these changes in perspective, the spread with respect to comparable (10-year) U.S. Treasury bonds has fallen to 60 basis points from 150 basis points in mid-June. The yield on the 10-year inflation-indexed bond reached 3.5 percent, up from 2.8 percent in June 999.

5. The authorities' most recent projection for the **1999 general government deficit** is 2.2 percent of GDP, 0.1 percentage points less than anticipated in the budget, reflecting better-than-expected revenue collection that was only partly offset by slippages in health care spending.

6. The recently announced **draft 2000 budget** for the general government projects a deficit of 1.8 percent of GDP, which implies a reduction in the structural deficit of about

0.3 percent of GDP under the assumption of 2.8 percent real GDP growth (compared to 3 percent in the Staff Report's projection). The draft budget envisages real growth of total expenditure of about 1.3 percent, and a reduction in the tax burden of 0.5 percentage points of GDP. If these targets are attained, the fiscal deficit would be reduced by about 0.9 percent of GDP in 1998–2000 (with half of the reduction owing to cyclical factors), the ratio of public spending to GDP would decline by about 1 percentage point, and the revenue ratio would be cut by about 0.2 percent of GDP over the same period. With a primary surplus of about 1.4 percent of GDP, the debt ratio is projected to decline for the first time since 1980.

7. At the level of the central government, total state expenditures are projected to be stable in real terms, while primary spending will increase in volume by 0.3 percent, with priority given to the areas of employment, education, justice, and environment protection. The two main tax measures in the budget are the reduction of the value-added tax rate on home improvements and the elimination of the 1997 surcharge on corporate taxes (already legislated in 1998). A reduction of the income tax has been postponed to 2001.

8. As regards the social security system, real expenditure is expected to increase by about 2.2 percent (after an estimated 2.7 percent growth in 1999), and the general fund is projected to achieve balance for the first time since 1989. The major features of the draft 2000 social security budget are: the establishment of new taxes to partially finance the 35-hour workweek initiative (namely a tax on profits of large enterprises and an ecotax), an allocation to the pension reserve fund; and a 2.5 percent ceiling on the growth of health care spending.

9. The 2000 draft budget is broadly in line with the authorities' 2000–02 Stability Program: it implements the strategy of cutting the deficit by about 0.4 percent of GDP each year over the medium term, and gradually reducing the tax burden. However, in the staff's view, the draft budget does not go as far as had been hoped in addressing structural issues in the public finances, in order to allow for a sizable decline of the government's weight in the economy. In particular, it does not appear to make meaningful inroads into streamlining the civil service (where staffing is expected to remain constant) or curbing healthcare spending (which is projected to be 4.1 percent greater than the initial 1999 objective).

INTERNATIONAL MONETARY FUND
*Public Information Notice*
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 99/100
FOR IMMEDIATE RELEASE
October 28, 1999

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

# IMF Concludes Article IV Consultation with France

On October 22, 1999, the Executive Board concluded the Article IV consultation with France.[1]

## Background

The economic recovery—which began hesitantly in the mid-1990s—strengthened in the first half of 1998 when internal demand became the driving force in a setting of price stability, strong competitiveness, and falling interest rates. By summer 1998, though, a weaker external environment in the wake of the emerging market crises had started to dampen the upswing. Activity softened as business confidence deteriorated and excessive inventories were worked out. Nonetheless, GDP growth for the year (more than 3 percent) was still the fastest in the decade.

This economic turbulence (*trou d'air*) lasted through the first quarter of 1999, after which evidence of a renewed momentum in the expansion became more pervasive: consumption remained buoyant, business sentiment and investment plans improved, industrial production emerged from a seven-month lull, order books expanded, and external prospects brightened up.

Since July 1997 the unemployment rate has been declining from an all-time high to 11.3 percent in August 1999, as employment growth (at an annual rate of about 2 percent in 1998 and the first half of 1999) responded to the cyclical recovery, thus providing a powerful boost to household consumption and GDP growth in a virtuous, self-reinforcing circle. An important factor behind the 1998 record job creation was a significant broadening of subsidized employment in noncommercial activities.

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[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 this PIN, the main features of the Board's discussion are described.

The policy mix has been broadly supportive of the upswing. Monetary conditions have eased in the run up to the third stage of EMU and through mid-1999: lower interest rates have supported investment demand and the construction sector, while a depreciating currency has buttressed external competitiveness. Inflation, nonetheless, has remained subdued owing to pervasive wage moderation and favorable movements in commodity prices.

On the fiscal front, the 1998 deficit target of 2.7 percent of GDP was met, although planned reductions in the tax burden could not materialize. The revised 1999 deficit target of 2.2 percent of GDP will be met, in spite of lower-than-anticipated inflation and slippages in healthcare spending. The proposed 2000 budget is broadly in line with the 2000–2002 Stability Program: it foresees a 1.8 percent of GDP deficit for the general government and a small reduction in the tax burden.

On these trends, the latest staff projection for 1999 GDP growth is about 2½ percent, fueled by strong domestic demand. For the year 2000, the staff anticipates growth at about 3 percent.

**Executive Board Assessment**

Executive Directors commended the authorities for policies that had yielded a remarkable economic performance, and contributed to the resilience of domestic demand in the face of the adverse effects of weakness in emerging markets that had been felt in some European countries. Growth had been sustained at one of the highest levels in the euro area, inflation had been subdued, the budget balance had been maintained within the Maastricht requirements, and employment creation had been significant.

Directors, while supporting the policies that are being followed to reduce unemployment, encouraged the authorities to strengthen their efforts to tackle long-standing structural problems so as to promote further growth and lower unemployment. Many Directors pointed out that the favorable near-term outlook offered a propitious setting for faster fiscal consolidation and deeper structural reforms. They underscored that early implementation of structural reforms, in particular—including in the fiscal area—would be crucial to put the economy on a path of sustained high growth. Directors generally recognized, however, that to ensure the durability and success of ambitious and socially sensitive structural reforms, it would be necessary to garner broad-based consensus. A number of Directors agreed with the authorities that a more rapid pace of consolidation and reforms could, by reducing the extent of social consensus, undermine hard-won private sector confidence. These Directors felt that the present cautious pace of reform was appropriate.

In calling for a faster pace of fiscal reform and consolidation, many Directors considered that, while the general orientation of the authorities' stability program for 2000-2002 was sound, its objectives were unambitious. They indicated that public expenditure plans should have been aimed toward achieving deeper deficit and tax cuts. Accordingly, they urged the authorities to strengthen their consolidation efforts in the upcoming revision of their medium-term plan, with a view to achieving a balanced budget and sizable tax reductions by 2003. This would be all the more appropriate if short-term growth turns out to be more robust than currently projected. They stressed that fiscal adjustment along these lines would not only help provision for the demographic shock ahead, but would also catalyze favorable supply-side responses and more satisfactory job creation. Given the planned evolution of public spending, some Directors suggested that further consideration should be given to the issue of the right balance between cutting deficits and reducing the tax burden.

Most Directors agreed that restraint in public expenditure should be sought at the level of the social security system. From this perspective, they urged the authorities to restore incentives to contain health care spending, and to address the long-term imbalances of the current pension system through further reform. In addition, they saw scope for selectively streamlining the civil service without undermining the high quality of public administration.

Directors held the view that tax cuts and tax reform should be critical elements of the authorities' medium-term fiscal strategy. In welcoming ongoing initiatives to shift the burden of taxation away from labor, they noted nonetheless the lack of progress in reforming personal income taxes, and the risk of a misalignment between France's corporate tax rates vis-à-vis those in major partners.

Most Directors acknowledged that the 35-hour workweek initiative appeared to have had a positive impact on the social dialogue, and some believed that its impact on work organization was also positive. However, they expressed concern that the initiative would not contribute much to unemployment reduction, could be costly to the budget, and would worsen the effect of the coming demographic shock. Directors agreed that the initiative should be implemented with maximum flexibility and without undue restraint on permissible overtime or work schedules freely agreed in negotiations at the firm level.

As for other labor market policies, Directors thought that the authorities' approach—especially the reductions in social security contributions on low wages and the fiscal incentives to increase part-time work—had contributed to sustaining labor demand in recent years. In their view, however, employment support programs needed to be streamlined and, more fundamentally, major reductions in structural unemployment would require a careful reevaluation of the root causes of this problem. Crucial actions in this regard would be ensuring greater flexibility in wage determination, strengthening the educational and vocational system in order to reduce the number of low-skilled and inexperienced workers, and broadening programs that offered on-the-job training at wages commensurate with the low productivity of the trainees. In addition, several Directors advised giving high priority to redesigning the system of unemployment compensation and welfare assistance to reinforce the incentives for the jobless and the inactive to seek work. This could be accomplished through tighter eligibility requirements and a more gradual reduction of social assistance upon entering employment.

Directors commended the significant progress on the privatization front, but saw further scope for reducing state involvement in commercial enterprises. Directors took note of ongoing market-driven changes in the financial system. They also observed that supervisory practices were evolving appropriately to meet the challenges of global capital markets. Nonetheless, many Directors advised the authorities to discontinue the practice of setting interest rates on some saving accounts, in order to reap the full benefits of financial integration through enhanced domestic and foreign competition.

Directors praised France's general development assistance and urged that it be kept at a high level despite budget stringency.

Directors noted that France maintains high standards of data provision to the Fund for surveillance, and is a subscriber to the Special Data Dissemination Standard and the Dissemination Standard Bulletin Board.

***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. As part of a pilot project, the staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 1999 Article IV consultation with France is also available on the IMF's website (http://www.imf.org).

France: Selected Economic Indicators

| | 1995 | 1996 | 1997 | 1998 | 1999 1/ |
|---|---|---|---|---|---|
| ***Real economy*** *(change in percent)* | | | | | |
| Real GDP | 2.1 | 1.5 | 2.3 | 3.4 | 2.5 |
| Domestic demand | 1.8 | 0.9 | 0.9 | 3.7 | 2.6 |
| CPI (year average) | 1.8 | 2.1 | 1.3 | 0.8 | 0.5 |
| Unemployment rate (in percent | 11.7 | 12.4 | 12.5 | 11.6 | 11.3 |
| Gross national saving (percent of GDP) | 18.6 | 18.7 | 19.7 | 19.9 | 20.5 |
| Gross capital formation (percent of GDP) | 17.9 | 17.4 | 17.1 | 17.2 | 17.6 |
| ***Public finance*** *(percent of GDP)* | | | | | |
| Central government balance | -4.2 | -3.7 | -2.6 | -3.0 | -2.7 |
| General government balance | -4.9 | -4.1 | -3.0 | -2.7 | -2.2 |
| Public debt | 52.5 | 55.4 | 57.8 | 58.2 | 58.7 |
| ***Money and interest rates*** | | | | | |
| M3 (end of year, percent change) | 4.3 | -3.5 | 1.6 | 4.3 | |
| Money market rate (in percent) 2/ | 6.6 | 3.8 | 3.3 | 3.4 | |
| Government bond yield (in percent) 2/ | 7.6 | 6.3 | 5.6 | 4.7 | |
| ***Balance of payments*** *(in percent of GDP)* | | | | | |
| Trade balance (percent of GDP) | 0.7 | 1.0 | 2.0 | 1.8 | 1.3 |
| Current account (percent of GDP) | 0.7 | 1.3 | 2.8 | 2.8 | 2.5 |
| Official reserves (US$ billion) 3/ | 26.9 | 26.8 | 30.9 | 44.3 | 38.6 |
| ***Exchange rates*** | | | | | |
| Exchange rate regime | | Member of euro area 4/ | | | |
| Nominal effective exchange rate (1995= 100) 5/ | 100 | 99.9 | 96.7 | 97.2 | 95.6 |
| Real effective exchange rate (1995 = 100) 5/ 6/ | 100 | 97.2 | 93.3 | 93.1 | 89.9 |

Sources:

1/ Staff projections, unless otherwise noted.
2/ September 1999.
3/ Excluding gold, as of June 1999; From 1999, eurosystem definition
4/ While the franc to euro rate was irrevocably fixed on January 1, 1999, the external exchange rate of the euro is market determined. The franc will remain in circulation until 2002, when euro banknotes and coins will be issued.
5/ July 1999.
6/ Based on relative normalized unit labor costs in manufacturing.

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Note d'information au public (NIP) N° 99/100
POUR DIFFUSION IMMÉDIATE
28 Octobre 1999

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## Le FMI conclut les consultations au titre de l'article IV avec la France

Le Conseil d'administration a conclu le 22 octobre 1999 les consultations au titre de l'article IV avec la France[1].

### Informations générales

La reprise économique, qui a débuté de manière hésitante au milieu des années 90, s'est affermie au premier semestre de 1998, sous l'impulsion de la demande intérieure, dans un climat de stabilité des prix, de compétitivité vigoureuse et de baisse des taux d'intérêt. À partir de l'été, cependant, la dégradation de la conjoncture extérieure consécutive à la crise des marchés émergents a commencé à freiner le redressement. L'activité a crû moins vite, car la confiance des entreprises s'est effritée, tandis que les stocks excédentaires étaient réduits. Cependant, avec un taux de croissance annuel supérieur à 3 %, le PIB réel a quand même enregistré sa plus forte progression en dix ans.

Ce trou d'air a duré jusqu'à la fin du premier trimestre de 1999, après quoi les signes d'un nouvel essor de l'expansion se sont multipliés: la consommation est restée dynamique, le niveau de confiance et les plans d'investissement des entreprises se sont améliorés, la production industrielle est sortie de sept mois de pause, les carnets de commandes se sont remplis et les perspectives extérieures se sont éclaircies.

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[1] Conformément aux dispositions de l'article IV de ses statuts, le FMI procède, habituellement chaque année, à des consultations bilatérales avec ses membres. Une mission des services du FMI se rend dans le pays, recueille des renseignements économiques et financiers, et s'entretient avec les responsables nationaux de l'évolution et des politiques économiques du pays. De retour au siège, les membres de la mission rédigent un rapport qui est soumis à l'examen du Conseil d'administration. À l'issue de cet examen, le Directeur général, en qualité de Président du Conseil d'administration, résume les opinions des administrateurs, et ce résumé est communiqué aux autorités du pays. La présente NIP décrit les points marquants des discussions du Conseil.

Le taux de chômage, qui avait atteint un pic sans précédent en juillet 1997, est tombé à 11,3 % en août 1999, car l'emploi a bien réagi à la reprise conjoncturelle (avec un taux de progression annuel d'environ 2 % en 1998 et au premier semestre de 1999), ce qui a puissamment stimulé la consommation des ménages et la croissance du PIB, créant donc un cercle vertueux auto-entretenu. Un des facteurs importants à l'origine du nombre record de créations d'emplois en 1998 est le développement significatif de l'emploi subventionné dans les activités non marchandes.

Les diverses composantes de la politique économique ont largement appuyé la reprise. Les conditions monétaires se sont détendues à l'approche de la troisième phase de l'UEM et pendant toute la première moitié de l'année 1999 : le bas niveau des taux d'intérêt a encouragé la demande d'investissement et l'activité du secteur des BTP, tandis que la compétitivité extérieure s'est améliorée à la faveur de la dépréciation de la monnaie. L'inflation est cependant restée maîtrisée, du fait de la modération salariale généralisée et de l'évolution favorable des cours des matières premières.

Sur le front des finances publiques, l'objectif pour 1998, soit un déficit de 2,7 % du PIB, a été observé, sans toutefois que les réductions de la charge fiscale qui étaient prévues se soient matérialisées. L'objectif revisé pour 1999, soit un déficit de 2,2 % du PIB, sera atteint, en dépit d'un rythme d'inflation plus faible que prévu et de dérapages au niveau des dépenses de santé. Le projet de budget 2000 s'inscrit dans les grandes lignes du programme de stabilité 2000-2002 : il prévoit un déficit de 1,8 % du PIB pour l'ensemble des administrations publiques et une légère diminution de la charge fiscale.

Compte tenu de ces tendances, les dernières projections des services du FMI tablent sur une progression du PIB d'environ 2½ % en 1999, la forte demande intérieure en étant l'élément moteur. Pour l'an 2000, la croissance serait de l'ordre de 3 %.

**Évaluation par le Conseil d'administration**

Les administrateurs font l'éloge de la politique menée par les autorités, qui a produit de remarquables résultats économiques, et contribué au ressort de la demande intérieure face aux effets défavorables de la faiblesse des marchés émergents qui se sont fait ressentir dans quelques pays d'Europe. La France a enregistré une croissance soutenue, parmi les plus élevées de la zone euro, l'inflation est restée jugulée, le solde budgétaire a été maintenu dans les limites imposées par le Traité de Maastricht et les créations d'emplois ont été significatives.

Les administrateurs, tout en soutenant la politique menée pour faire reculer le chômage, encouragent les autorités à redoubler d'efforts pour s'attaquer aux problèmes structurels de longue date, de manière à favoriser une croissance soutenue et la réduction du chômage. De nombreux administrateurs font observer que les perspectives favorables à court terme offrent un climat propice à un rééquilibrage plus rapide des finances publiques et à des réformes structurelles plus approfondies. Ils soulignent qu'il est crucial de mener à bien au plus tôt les réformes structurelles — sur le plan budgétaire notamment — pour mettre l'économie sur un sentier de croissance forte et soutenue. Les administrateurs s'accordent cependant pour penser qu'il sera nécessaire de réunir un vaste consensus pour assurer la durabilité et la réussite de réformes structurelles ambitieuses et socialement sensibles. Un certain nombre d'administrateurs conviennent avec les autorités qu'un rythme plus rapide de rééquilibrage et de réforme pourrait affaiblir le consensus social et ainsi miner la confiance chèrement gagnée du secteur privé. Ces administrateurs sont d'avis que la démarche prudente suivie actuellement dans l'avancement des réformes est appropriée.

Préconisant une progression plus rapide de la réforme et du rééquilibrage des finances publiques, de nombreux administrateurs considèrent que si l'orientation générale du programme à moyen terme des autorités pour 2000-2002 est saine, ses objectifs manquent d'ambition. Ils sont d'avis que les programmes de dépenses publiques devraient viser une réduction plus sensible du déficit et des impôts. Ils engagent donc vivement les autorités à renforcer l'effort de rééquilibrage à l'occasion de la prochaine révision de leur programme à moyen terme, en se donnant pour objectifs un budget en équilibre et des réduction d'impôts sensibles à l'horizon 2003, orientation qui sera d'autant plus justifiée si la croissance à court terme dépasse les projections actuelles. Ils soulignent qu'ajuster les finances publiques de la sorte aiderait non seulement à amortir le choc démographique qui s'annonce mais aussi à catalyser des réactions favorables du côté de l'offre et des créations d'emplois plus satisfaisantes. Compte tenu de l'évolution prévue des dépenses publiques, quelques administrateurs suggèrent qu'il serait bon de réfléchir plus avant au bon équilibre entre la réduction du déficit et la diminution de la charge fiscale.

La plupart des administrateurs sont d'avis que la maîtrise des dépenses publiques devrait être recherchée au niveau du système de sécurité sociale. Dans cette perspective, ils engagent vivement les autorités à rétablir les incitations à la maîtrise des dépenses médicales, et à remédier aux déséquilibres à long terme du système actuel de retraites par des réformes plus poussées. En outre, ils considèrent qu'il y a moyen de réduire sélectivement les effectifs de la fonction publique sans nuire à la haute qualité des services publics.

Les administrateurs sont d'avis que les réductions d'impôts et la réforme de la fiscalité doivent être des éléments cruciaux de la stratégie budgétaire à moyen terme. Ils saluent les initiatives lancées afin d'alléger la fiscalité du travail, tout en notant le manque de progrès dans la réforme de l'impôt sur le revenu des particuliers et le risque de déphasage entre les taux d'imposition des sociétés en France et chez ses principaux partenaires.

Les administrateurs conviennent pour la plupart que l'initiative de la semaine des 35 heures semble avoir eu un impact positif sur le dialogue social et certains estiment qu'elle a aussi eu un effet positif sur l'organisation du travail. Ils craignent toutefois que cette initiative ne contribue guère à la réduction du chômage, qu'elle ait un coût budgétaire élevé et qu'elle aggrave l'effet du choc démographique à venir. Les administrateurs s'accordent pour penser que l'initiative doit être mise en œuvre avec la plus grande souplesse et sans restreindre indûment le nombre d'heures supplémentaires autorisé ou les horaires librement arrêtés dans le cadre des négociations au niveau des entreprises.

Pour ce qui est des autres politiques intéressant le marché du travail, les administrateurs pensent que la démarche gouvernementale, notamment la réduction des cotisations sociales sur les bas salaires et les incitations fiscales en faveur du travail à temps partiel, ont contribué à soutenir la demande de main-d'œuvre ces dernières années. Ils sont cependant d'avis qu'il importe de rationaliser les programmes de soutien de l'emploi et plus fondamentalement qu'il est essentiel de réexaminer soigneusement les causes profondes du problème, pour faire reculer sensiblement le chômage structurel. Il est crucial à cet égard de ménager une plus grande souplesse dans la fixation des salaires, de renforcer le système d'éducation et de formation professionnelle afin de réduire la main-d'œuvre peu qualifiée et inexpérimentée, et de développer les programmes proposant une formation continue avec un niveau de salaire proportionné à la faible productivité des personnes en formation. De plus, plusieurs administrateurs préconisent que l'on s'attache en priorité à revoir la conception du système d'indemnisation du chômage et d'assistance sociale pour inciter davantage les personnes sans emploi à rechercher du travail. Cela peut se faire en durcissant les conditions d'admissibilité à l'assurance-chômage et en évitant que le retour à l'emploi ne se traduise par l'arrêt brutal des certaines prestations sociales.

Les administrateurs saluent les progrès significatifs accomplis sur le front des privatisations, mais considèrent qu'il y a lieu de poursuivre le désengagement de l'État des entreprises du secteur marchand. Les administrateurs prennent note des changement en cours dans le système financier, entraînés par l'évolution des marchés. Ils observent que l'exercice de la supervision s'est adapté efficacement pour faire face aux défis de la mondialisation des marchés de capitaux. Néanmoins, de nombreux administrateurs conseillent aux autorités de mettre fin à la pratique consistant à fixer le taux d'intérêt de certains comptes d'épargne, afin de recueillir pleinement les fruits de l'intégration financière, grâce au développement de la concurrence interne et externe.

Les administrateurs font l'éloge de l'aide publique au développement que fournit la France, et l'engagent vivement à maintenir ce niveau élevé d'assistance, malgré la rigueur des contraintes budgétaires.

Les administrateurs notent que la France continue de communiquer au FMI des données de grande qualité aux fins de la surveillance, qu'elle a adopté la norme spéciale de diffusion des données et souscrit au tableau d'affichage des normes de diffusion.

***Les Notes d'information à la presse (NIP)*** sont diffusées : i) à la demande du pays membre, après la conclusion des consultations au titre de l'article IV, lorsque le pays intéressé souhaite que le public connaisse le point de vue du FMI — l'objectif est de renforcer la surveillance des politiques économiques des pays membres en améliorant la transparence de l'évaluation de ces politiques économiques par le FMI; et ii) à la suite des discussions de politiques économiques qui ont lieu au Conseil d'administration du FMI, sur décision de celui-ci.

France : indicateurs économiques

| | 1995 | 1996 | 1997 | 1998 | 1999[1] |
|---|---|---|---|---|---|
| ***Économie réelle** (variation en pourcentage)* | | | | | |
| PIB réel | 2,1 | 1,5 | 2,3 | 3,4 | 2,5 |
| Demande intérieure | 1,8 | 0,9 | 0,9 | 3,7 | 2,6 |
| IPC (moyenne annuelle) | 1,8 | 2,1 | 1,3 | 0,8 | 0,5 |
| Taux de chômage (pourcentage) | 11,7 | 12,4 | 12,5 | 11,6 | 11,3 |
| Épargne nationale brute (pourcentage du PIB) | 18,6 | 18,7 | 19,7 | 19,9 | 20,5 |
| Formation brute de capital (pourcentage du PIB) | 17,9 | 17,4 | 17,1 | 17,2 | 17,6 |
| ***Finances publiques** (pourcentage du PIB)* | | | | | |
| Solde de l'administration centrale | -4,2 | -3,7 | -2,6 | -3,0 | -2,7 |
| Solde des administrations publiques | -4,9 | -4,1 | -3,0 | -2,7 | -2,2 |
| Dette publique | 52,5 | 55,4 | 57,8 | 58,2 | 58,7 |
| ***Monnaie et taux d'intérêt*** | | | | | |
| M3 (en fin d'année, variation en pourcentage) | 4,3 | -3,5 | 1,6 | 4,3 | |
| Taux du marché monétaire (en pourcentage)[2] | 6,6 | 3,8 | 3,3 | 3,4 | |
| Rendement des obligations d'État (en pourcentage)[2] | 7,6 | 6,3 | 5,6 | 4,7 | |
| ***Balance des paiements** (pourcentage du PIB)* | | | | | |
| Balance commerciale (pourcentage du PIB) | 0,7 | 1,0 | 2,0 | 1,8 | 1,3 |
| Solde extérieur courant (pourcentage du PIB) | 0,7 | 1,3 | 2,8 | 2,8 | 2,5 |
| Réserves officielles (milliards de $ E.U.) [3] | 26,9 | 26,8 | 30,9 | 44,3 | 38,6 |
| ***Taux de change*** | | | | | |
| Régime de change | | Membre de la zone euro[4] | | | |
| Taux de change effectif nominal (1995= 100)[5] | 100 | 99,9 | 96,7 | 97,2 | 95,6 |
| Taux de change effectif réel (1995 = 100)[5,6] | 100 | 97,2 | 93,3 | 93,1 | 89,9 |

Sources :

1/ Projections réalisées par les services du FMI, sauf indication contraire.
2/ Septembre 1999.
3/ Or non compris, juin 1999; à partir de 1999, définition de l'eurosystème.
4/ Le taux de conversion du franc en euro a été fixé irrévocablement le 1er janvier 1999, mais la valeur de change externe de l'euro est déterminée par le marché. Le franc restera en circulation jusqu'en 2002; des billets et pièces en euro seront alors émis.
5/ Juillet 1999.
6/ Sur la base des coûts unitaires relatifs normalisés de la main-d'oeuvre dans le secteur manufacturier.