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This paper provides background information to the staff report on the 1982 Article IV consultation discussions with France, which was circulated as SM/82/63 on April 5, 1982.

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INTERNATIONAL MONETARY FUND

FRANCE

Recent Economic Developments

Prepared by B. de Schaetzen, J. Somogyi,
and M. Xafa

Approved by the European Department

April 8, 1982

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Basic Data

Population (1980 annual average) 53.7 million
GDP per capita (1980) SDR 9,327

National accounts 1980 (at current prices)	In billions of SDRs	Per cent of GDP
Private consumption	318.9	63.7
Public consumption	76.6	15.3
Gross fixed investment	108.0	21.6
Change in stocks	7.6	1.5
Exports of goods and services	105.6	21.1
Imports of goods and services	<u>115.7</u>	<u>23.1</u>
GDP	500.8	100.0

Selected economic data (changes in per cent)	<u>1979</u>	<u>1980</u>	<u>1981</u> <u>1/</u>
GNP <u>2/</u>	3.5	1.6	0.7
Private consumption <u>2/</u>	3.5	2.2	2.3
Gross fixed investment <u>2/</u>	3.7	2.6	-1.1
Exports of goods and services <u>2/</u>	6.8	3.4	4.9
Imports of goods and services <u>2/</u>	11.3	8.6	0.7
GNP deflator	10.1	11.6	11.0
Consumer price index (end of year)	11.8	13.6	14.0
Money plus quasi money (end of year)	14.4	9.7	12.0
Domestic credit (end of year)	15.2	11.1	18.4

Balance of payments (in millions of SDRS;
on a transactions basis)

Trade balance	-912	-9,236	-7,724
Net services	4,992	6,400	4,713
Private transfers	-1,779	-1,920	-2,509
Official transfers	-1,335	-1,280	-1,127
Current balance	966	-6,018	-6,648
Long-term capital	-2,694	-818	-1,202
Basic balance	-1,728	-6,836	-7,849
Short-term capital	3,168	11,945	3,480
Changes in official reserves (increase = -)	-1,440	-5,109	4,369

IMF (as of February 28, 1982)

Quota	SDR 2,878.5 million
Fund holdings of francs	69.8 per cent of quota
SDR value of franc	F 6.8509 = SDR 1
Holdings of SDRs	SDR 954.4 million or 88.4 per cent of net cumulative allocation

1/ Staff estimates.

2/ In volume terms.

I. Domestic Economic Developments

1. Real foreign balance and domestic absorption, 1977-80

The pattern of growth in France during the 1977-79 period differed in several respects from the 1971-73 pre-recession period (Table 1). First, real growth averaged only 3.4 per cent in 1977-79, approximately 2.2 percentage points per year less than in 1971-73. Second, while most components of final domestic demand grew more slowly, the slowdown was particularly marked for real investment expenditures--from an average growth of 6.8 per cent per year in 1971-73 to 1.5 per cent in 1977-79, and to a lesser extent for private consumption--from 6.0 per cent per year in 1971-73 to 3.8 per cent in 1977-79. The trend in public consumption on the other hand was not markedly different: compared with the 1971-73 period, average growth in public consumption in 1977-79 declined by less than 1 percentage point to 2.4 per cent. Third, whereas the real foreign balance contributed little to growth in 1971-73, sustained export growth led to a strong positive contribution in 1977-78. This effect however disappeared in 1979-80 when the marked rise in import volume led to a negative contribution.

The impact of the second oil shock on the French economy was also somewhat different from the first. In part, because the full effect of the oil price shock in 1979-80 was mitigated by the appreciation of the franc and because the economy was already on a lower growth path, the decline in activity in 1979-80 was less pronounced than in 1974-75. Also, contrary to the first oil price shock, there was no decline in real investment, probably because investment had already been very sluggish in the previous year, so that some replacement investment could no longer be postponed. Another difference between the two recessions was with respect to stockbuilding. Stockbuilding was very much larger in 1974-75 than in 1979-80 partly because the second recession was less severe but also because enterprises seem to have adjusted earlier their inventory to the decline in demand.

Except for investment, the trend in 1977-80 of major components of final demand in France was not much different from other large industrialized countries and both private and public consumption grew at about the same rate as the average for the seven largest industrialized countries (Table 1). Investment growth in France in 1977-79 however, was much lower on average than in other large industrialized countries--1.4 per cent per year against 6.0 per cent per year on average for the seven largest industrialized countries.

2. Output, income, and expenditure

The recession which started in early 1980 was prolonged well into 1981, with a consumption-led revival of demand occurring in mid-year partly in response to the June 3 measures affecting minimum wages and social transfers. Real GDP stagnated in the second half of 1980 and in

the first half of 1981, but rebounded in the second half of the year. The upturn was supported by expansionary fiscal and monetary policies, particularly in the early part of the year. The fiscal stance shifted to a cyclically neutral position in 1981, involving a deficit equivalent to 2.4 per cent of GDP, after recording a small surplus in 1980. Partly in response to the need to finance the deficit, but also to assist firms in difficulty, domestic credit expanded rapidly in the first half of the year and the 10 per cent target growth in M₂ during the year was overshot. For the year as a whole, GDP growth is estimated at 0.7 per cent compared with 1.6 per cent in the previous year. In through-the-year terms real GDP showed a modest increase in 1981 after stagnating in 1980.

The first semester of 1981 was characterized by a weakening of domestic demand including stockbuilding, while foreign demand rose appreciably (see below). These trends were reversed in the second semester, when exports slowed while domestic demand accelerated. Real final domestic demand rose by 1.5 per cent in the year as a whole as the increase in private and public consumption more than offset the decline in fixed investment (Table 1). However, the inventory accumulation observed in the early phase of the recession was followed by heavy liquidation starting in the fourth quarter of 1980 as businessmen attempted to restore their inventory-sales ratio and as interest rates rose sharply. This destocking process, which leveled off in the third quarter of 1981, made a strong negative contribution to growth in 1981 and resulted in a small decline in total domestic demand.

Private consumption accelerated slightly in 1981 despite the slowdown in GDP, reflecting policy measures and notwithstanding a reversal of the downward trend in the savings ratio which had supported consumption in 1980. The elimination in February of the social security contributions surcharge imposed in early 1979 contributed to a rise in disposable income of about 1 per cent. In the second semester consumption was also sustained by the rise in nominal incomes resulting from the social measures adopted in mid-year and by the decline in the savings ratio as income was redistributed to income groups with a high propensity to consume. For the year as a whole, the saving rate is estimated to have risen to 15.1 per cent from 14.6 per cent in 1980 and real private consumption to have grown at just above the 2.2 per cent rate recorded in 1980 (Table 2). Real disposable income rose by 1.9 per cent, up from -0.2 per cent in 1980, and was mainly sustained by the rise in unemployment compensation and the June increase in social transfers.

Total gross fixed investment in real terms, which has been on a declining trend since the second quarter of 1980, fell back by 1.1 per cent in 1981 to its mid-1979 level. The decline in residential and public investment was particularly marked, while business investment showed signs of recovery toward the end of the year. All of the determinants of business fixed investment turned down or continued their earlier declines in the first semester of 1981. The sales outlook remained unfavorable and unutilized capacity rose to its highest level since the

1975 recession, as investment held up better than production in 1980. These developments were accompanied by an 11 per cent reduction in the share of gross profits in value added in the first half of the year compared with the second half in 1980, resulting in a sharp reduction in the corporate self-financing ratio. Financing difficulties were compounded by the steep rise in the cost of credit in the second quarter of 1981, as interest rates rose to historically unprecedented levels. Despite a mild upturn at year-end as demand prospects improved, business investment is likely to have been flat during the year. Preliminary national accounts data estimate a 0.3 per cent decline in business fixed investment in 1981, following a 5.6 per cent rise in 1980, although survey data paint a bleaker picture. Public enterprise investment made a negative contribution to the growth in total productive investment in 1981 as major projects have been completed or are nearing completion. The volume of capital outlays of public enterprises, which constitute over 20 per cent of business fixed investment, is estimated to have declined by about 3 per cent in 1981 after rising at an average annual rate of 10 per cent over the period 1975-80. The decline reflects a stabilization of equipment outlays of Electricité de France (EDF) in implementation of the nuclear power program and a reduction in outlays of the Postes, Télécommunications et Télédiffusions (FTT) as the planned expansion of the telecommunications network was completed.

The volume of residential investment declined by 2.8 per cent in 1981 to its mid-1977 level after a 4.4 per cent decline in 1980. A mild upturn in mid-year may have been of a speculative nature and was not sustained. Survey data released early this year on the prospects for new housing starts indicate that the recession in residential construction may not have bottomed out yet.

The foreign balance in real terms improved markedly in 1981, more than offsetting the decline in total domestic demand (Table 1). The volume of exports of goods and services rose by 4.9 per cent, reflecting the real effective depreciation of the franc since mid-1980, and the lagged response of industrial exports to large contracts concluded in 1979 and 1980. The volume of imports declined by 1.4 per cent in the first half of 1981 in response to the weakening in domestic economic activity reinforced by the relative price effect but rebounded in the second half of the year as economic activity recovered. In the year as a whole, imports rose by 0.7 per cent compared with 8.6 per cent in 1980. Nevertheless, the rise in import volume at a time when real domestic demand declined resulted in an increase in import penetration which has been on a rising trend since mid-1978.

The decline in industrial production, which represents 35 per cent of GDP, accelerated in all sectors in the first half of 1981 (Table 3). From the beginning of the downswing in the first quarter of 1980 to the second quarter of 1981, the index fell by 6.6 per cent to its mid-1978

level. This compares with a 9.6 per cent decline from peak to trough registered in the 1975 recession. The second half of the year was marked by an upturn in all industrial sectors except construction, bringing the year-on-year change in the index to -2.4 per cent from 0.4 per cent in 1980.

3. Employment

a. Labor market

Since the 1975 recession, the labor market in France has been characterized by a growing imbalance between labor supply and labor demand. Despite increased recruiting in the service sector, a reduction in the average workweek and government programs to expand employment, net employment creation has been adversely affected by a decline in the number of jobs in the manufacturing and the construction sectors. As a result, total employment grew by less than 2 per cent between 1975 and 1980. Over the same period, the labor supply, strengthened by demographic factors and by rising participation rates for women, expanded by close to 6 per cent. Unemployment correspondingly increased by more than 800,000 to 1,455,000 persons on average in 1980 or 6.3 per cent of the active population that year, and rose further to 1,773,000 or 7.6 per cent of the labor force in 1981.

(1) Supply

Table 4 shows the main factors which have affected the development in the labor force since 1962. Compared with earlier periods, demographic factors had their strongest impact in 1975-80. This reflected the entering in the labor market of the large age group born immediately after the second world war and a relative decline in retirement as the smaller 1914-1919 age group came to retirement age.

For men, however, declining participation rates, under the influence of longer education periods and increased tendencies for older workers to seek early retirement under the newly expanded early retirement schemes, mitigated the full effect of demographic factors. In 1975-80 the male labor force increased by an average of only 73,000 men per year or about half the increase warranted by demographic factors.

For women, increases in participation rates, particularly for married women, reinforced the demographic trend and the female labor force increased in 1975-80 by an average 165,000 women per year, about twice the increase resulting from demographic factors. Women accounted for nearly 70 per cent of the increase in the total labor force over this period.

Since 1974 when immigration from non-EC countries was restricted, net immigration appears to have had little effect on the total labor supply. This is in contrast with earlier periods when immigration

accounted for between one fourth (in 1968-75) and one half of growth in the labor force (in 1962-68, at the time of the repatriation of French residents from North Africa).

(2) Demand

Labor demand in France never completely recovered from the 1975 recession. In that year employment declined by 217,000 persons or 1 per cent of total employment. Thereafter it took almost two years to return to the level of employment of before the recession. Demand then grew only very sluggishly if at all. All told, in 1978-80 employment increased by only 42,000 persons on average per year compared with an average of 157,000 in 1971-73.

The decline in the number of jobs in 1975 came above all from a steep reduction of jobs in the manufacturing and construction sectors, while the growth of recruiting in the service sector slowed.

The manufacturing sector lost 154,000 jobs in 1975 or 3 per cent of the total. The decline affected nearly all major subsectors but particularly hard hit were the textile industry and the steel and related industries. In part due to a strengthening in the automobile sector, the decline slowed in 1976-77 to 44,000 jobs per year, but difficulties in the automobile industry and the restructuring of the steel sector caused the decline to accelerate in 1978-80 to 88,700 jobs per year. Consequently by 1980 the level of employment in the manufacturing sector had regressed to below 1969 levels and compared to 1974 nearly 500,000 jobs had been lost.

There is no single cause for this steady deterioration of employment in the manufacturing sector. Of importance among the factors that contributed is, as in other industrialized countries, the structural shift away from traditional industries such as steel and textiles. However, it is significant that since 1974 among the 18 different subsectors in manufacturing, employment remained stationary or declined in virtually all subsectors except in the nonferrous metal sector, and even in this sector the increase was due mostly to uranium processing which is more closely related to the energy sector than to manufacturing. The deteriorating employment situation therefore is a sign of a general weakness of the manufacturing sector of which sluggish production growth and decline in enterprises' profitability favoring labor saving investments rather than capacity expansion are other symptoms.

Employment in the construction sector also fell steeply in 1975 when 86,000 jobs were lost. In later years and until 1979 employment continued to decline but at a slower pace and on average 18,500 jobs per year were eliminated in this sector in 1976-79. In 1980 there was a modest gain of 9,000 jobs.

Most of the increase in employment in the economy took place in the service sector. After a sharp deceleration in 1975 employment in commercial services rebounded, and helped in part by the transfers of jobs from the manufacturing sector to the service sector, grew on average by 175,000 persons per year in 1976-78. Since 1979, however, the growth has weakened and in 1980 job creation in that sector fell to below the 1971-73 average.

There was a marked slowdown since 1975 in the secular decline of jobs in agriculture, probably because conditions in the labor market made it more difficult for workers to move out of this sector. The slowdown in the number of workers leaving agriculture was also the main reason for the markedly slower decline of the number of self-employed from 140,000 persons per year in 1971-73 to 30,000 persons per year in 1976-80 and since 1976 the number of nonfarm self-employed has been slowly increasing.

b. Unemployment

As a result of the sharp decline in employment in 1975, the number of unemployed increased by nearly 50 per cent in that year to 902,000 persons, equivalent to 4.1 per cent of the labor force. In subsequent years unemployment continued to increase by on average 10 per cent per year and reached 1,773,000 persons in 1981 or 7.6 per cent of the labor force (Table 5). The main pattern in unemployment has been a marked increase in female unemployment, particularly in the younger age group ^{1/} and an increase in the average duration of the unemployment period from eight months in 1974 to a year in 1981. Per sector, unemployment grew most rapidly in the service sector. It is also in this sector that the ratio of vacancies over unemployment is the lowest.

c. Required growth in unemployment to stabilize the unemployment rate

As shown in Table 4, no significant reduction in the growth of the labor force is expected until the middle of the 1980s. Until then slower demographic growth and decelerating female participation rates will be offset by slower decreases in male participation rates, and on average the labor supply will increase by 230,000 persons per year, comparable to the growth in 1975-80. A sharp decrease to 133,000 persons per year, however, is expected in the later half of the 1980s. Demographic growth will then slow down substantially and female participation rates will begin to stabilize around 45 per cent. This trend is expected to continue into the 1990s when labor force growth may stabilize around 95,000 per year.

^{1/} The increase in the number of women of less than 40 years of age accounted for more than 40 per cent of the total increase in unemployment over 1974-80, and in 1980 some 55 per cent of persons unemployed were women, up from 45 per cent in 1970.

In order to maintain the unemployment rate at its 1980 level of 6.3 per cent, and based on INSEE's labor force projections, net employment creation should average 230,000 jobs in 1980-85, 125,000 jobs in 1985-90, and 88,000 jobs in 1990. This compares with the creation of 157,000 new jobs on average in 1971-73 and 90,000 jobs in 1976-80. If, however, job creation in the next 20 years remains around the 1976-80 average, the unemployment rate will increase to 9.1 per cent in 1985, 9.7 per cent in 1990, and thereafter stabilize around 9 per cent until the end of the century.

d. Employment policies

In view of the high rates of growth needed to create the new employment necessary to absorb the actual and prospective job seekers, the authorities have turned to special measures to contain unemployment.

(1) Decrees of January 1982 reduced the legal workweek from 40 to 39 hours and introduced a fifth week of paid holiday. The purpose of this measure, which constitutes a first step toward a 35-hour workweek by 1985, was to promote new employment through work sharing. To avoid having the reduction in the workweek show up mainly in increases in overtime rather than in new employment, the decree also limited the recourse to overtime. Concerning pay, the decree provided for maintenance of monthly wages, despite the reduction in hours worked, for workers paid at the SMIC. Subsequently, however, the principle was accepted that monthly wages should be maintained at all levels.

(2) Work sharing is also to be promoted through a reduction in the retirement age to 60 after 37.5 years of contributions to the social security system, and for optional retirement at 55. The scheme, to become effective in April 1983, would replace the existing "guarantee of resources" which provides for early retirement at 60 with 70 per cent of gross salary at retirement.

The Government has granted fiscal incentives to firms that sign agreements (contrats de solidarité) to create new employment through reductions in the workweek or early retirement. The agreements provide for state subsidization of early retiree pensions, provided the retired are replaced by new personnel, and for reductions in social security contributions to firms creating new employment by reducing the workweek to below the legally prescribed hours between September 15, 1981 and September 1, 1983. Under the scheme, the State would contribute 70 per cent of salary to workers retiring before age 60 and firms would contribute an additional 10 per cent. Employers' social security contributions would be reduced by 75 per cent for new personnel hired during the first year and 25 per cent during the second year if the workweek were shortened by two hours, and by 100 per cent and 50 per cent respectively for reductions exceeding two hours.

(3) In addition to these measures, a youth training scheme (Plan Avenir Jeunes) was initiated in 1981, which constituted a new version of the Pactes pour l'Emploi. The new version provided fiscal incentives to firms which hired young persons without training.

(4) Finally, the Government announced the creation of 210,000 new jobs in the public sector by 1983. Of these, 55,000 had already been created in 1981; an additional 71,000 were targeted for 1982 and 85,000 for 1983.

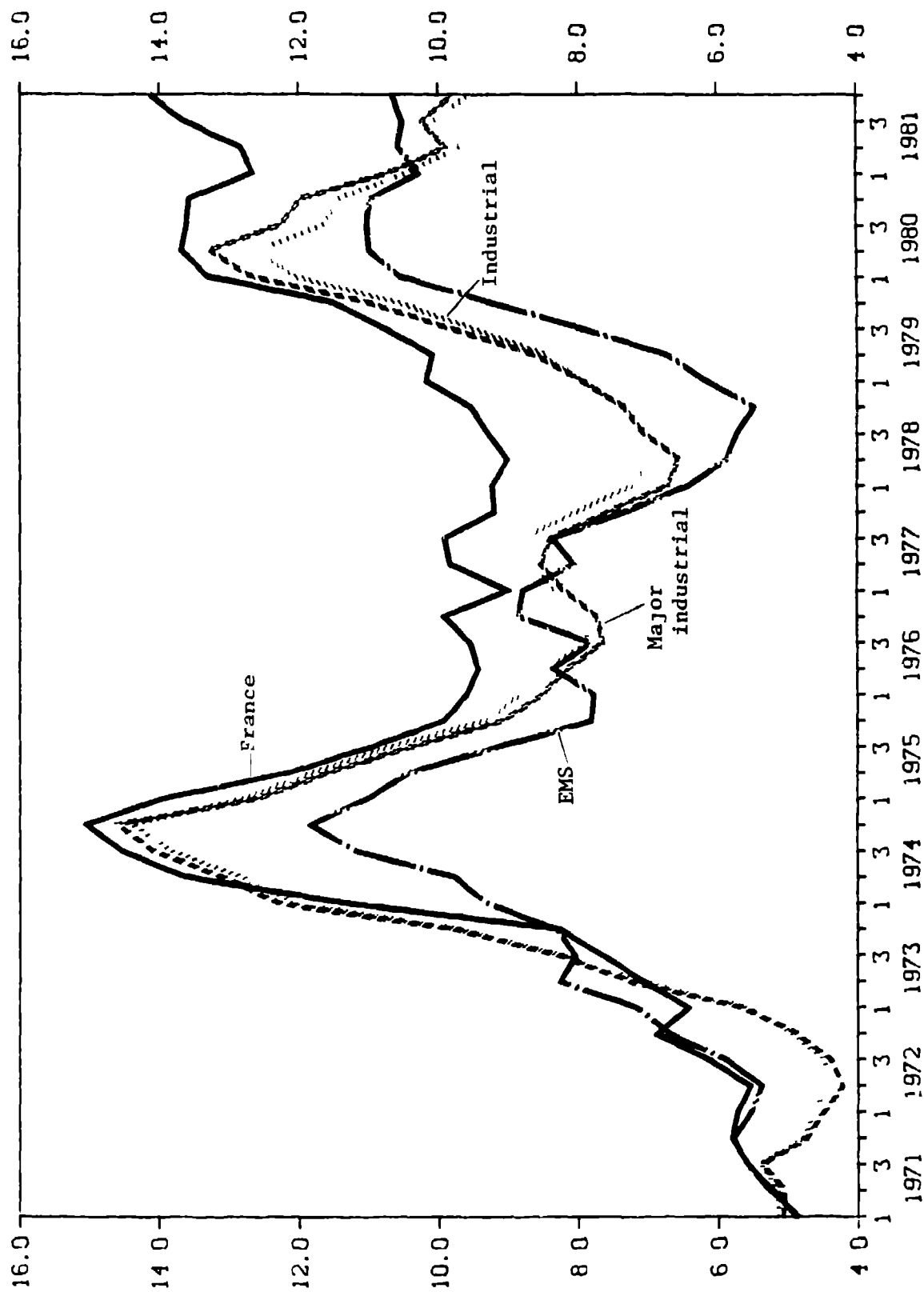
4. Costs and prices

The inflation rate in France has been consistently higher than the industrial country average in the 1970s. The differential, which had averaged 1.3 percentage points in 1975-79, widened to 1.4 percentage points in 1980 and 3.4 points in 1981 (Chart 1). With respect to the countries participating in the European Monetary System the differential narrowed from 3.2 in 1979 to 2.4 in 1980 but widened to 2.8 percentage points in 1981.

Nominal hourly wages rose by 17.0 per cent during 1981, up from 15.4 per cent during 1980, and accelerated during the second half of the year (Table 6). Hourly wages in real terms followed the same pattern as nominal wages, rising by 2.6 per cent during 1981, up from 1.6 per cent during 1980, and accelerating between the two halves of the year. Although real hourly wages rose by an average of 2.0 per cent per year over the past four years, take-home pay has only risen by about 1.5 per cent over the same period as higher social security tax rates have been less than fully reflected in gross wage claims.

Wages in France are set by collective bargaining; wage agreements are usually concluded for periods covering less than a year and are subject to cost of living adjustments, although formal wage indexation was outlawed in 1958. The minimum wage, however, is set by the Government and is automatically adjusted when consumer prices rise by 2 per cent or more. In recent years government policy has sought to compress the wage scale in order to reduce income differentials by granting, at its own discretion, minimum wage increases in excess of the legally prescribed cost of living adjustments. As a result of this policy, the minimum wage rate has outpaced the economy-wide rate by an average of 0.3 percentage points over the period 1975 to 1980. The differential rose in 1981, reflecting the 10 per cent upward adjustment in the minimum wage granted by the Government on June 1--representing a 6.5 per cent increase in real terms--which was less than fully reflected in higher wages. To partly offset the cost to enterprises of the large mid-year increase in the minimum wage, the Government reduced by 50 per cent the employers' social security contributions for wages and salaries less than or equal to 1.2 times the minimum wage.

Chart 1
FRANCE
CONSUMER PRICES IN FRANCE AND OTHER COUNTRIES
(Percentage change over same quarter of previous year)



Source: IMF, International Financial Statistics.

In order to moderate the rise in wage rates and break the price-wage spiral, the Government has proposed a forward-looking indexation scheme linking wages to the target rate of inflation rather than the recorded rate, with a provision for compensation of the difference, if any should arise, between target and actual rates of inflation. The system will be introduced in the public sector in the second half of 1982, following an agreement with civil servants in March, and has been strongly encouraged in the private sector.

After decelerating mildly in the second half of 1980, the rate of increase in consumer prices picked up again during the first nine months of 1981 to an annual rate of 14.9 per cent from 13.6 per cent during 1980. Several factors contributed to the increase. Food prices, which had been a dampening factor in the previous year, rose by 16.9 per cent (annual rate) during the first nine months of 1981, compared with 9.8 per cent during 1980. Prices of services also rose by slightly more than the index for all items, while prices of manufactures, which are more exposed to foreign competition, decelerated to 13.6 per cent from 15.6 per cent during 1980. Import prices climbed sharply as the franc depreciated, particularly the use of energy and raw materials (Table 8). The acceleration of inflation was particularly marked during the summer months, when domestic energy prices and public utility charges, which had hardly changed during the first five months of 1981, were adjusted to reflect costs.

Following the devaluation of the franc within the EMS on October 4, prices of services, which rose at an annual rate of 15.2 per cent during the six months ending in September, were frozen at their October 3 level for six months, while importers' profit margins and prices of basic foodstuffs were frozen for three months. At the same time, the Government announced a 10 per cent target rate of inflation during 1982 and a 12 per cent guideline on wage increases. These measures contributed to a slowdown in price increases during the last quarter of 1981, bringing the rise in the CPI down to 14.0 per cent during the year as a whole. An additional restraining factor was the virtual standstill in public tariffs during the fourth quarter, notwithstanding a 26 per cent increase in energy prices (annual rate) as the franc depreciated. ^{1/} In year-on-year terms, the CPI rose by 13.1 per cent in 1981, ^{2/} just below the rate recorded in the previous year, reflecting a 14 per cent increase in prices of food and services and a 12.8 per cent increase in prices of manufactures (Table 8).

In January 1982 the Government announced that service industries would be released from the freeze, due to expire in April, provided they signed agreements to limit their price increases to 10 per cent during

^{1/} Public tariffs account for 14 per cent of the CPI, and 72 per cent of these relate to energy products.

^{2/} 13.4 per cent on the basis of the annual average computed by INSEE.

1982. Such agreements were signed with several service industries, including hotels, restaurants, and auto repairers. Food prices were freed since the beginning of the year. Manufactured goods, whose production the Government wishes to encourage, are only subject to a voluntary guideline, while increases in public utility charges are also subject to the 10 per cent limit for 1982.

Table 1 France Comparison of Growth in Real GNP and Components

(In percentage changes)

	1971- 1973	1974	1975	1976	1977	1978	1979	1980	1981	1977-80 Average
France										
Private consumption	6.0	3.2	3.2	5.5	3.2	4.7	3.5	2.2	2.3	3.4
Public consumption	3.1	1.2	4.7	6.2	1.4	4.3	1.6	2.7	1.8	2.5
Gross fixed investment	6.8	0.9	-3.2	3.7	-0.8	1.2	3.7	2.6	-1.1	1.7
Final domestic demand	5.8	2.4	1.8	5.2	2.0	3.9	3.3	2.3	1.5	2.9
Stockbuilding 1/	--	0.1	2.7	1.6	-0.3	-0.3	1.0	0.4	-1.7	0.2
Foreign balance 1/	-0.1	0.8	1.1	-1.5	1.3	0.2	-0.8	-0.8	0.9	--
GNP	5.6	3.2	0.2	5.2	3.0	3.7	3.5	1.2	0.7	2.9
Seven major industrial countries 2/										
Private consumption					3.5	4.6	3.7	1.3		3.3
Public consumption					2.0	3.0	2.2	2.4		2.4
Gross fixed investment					7.3	6.0	4.6	-1.9		3.9
Final domestic demand					3.7	4.6	3.7	1.0		3.2
Stockbuilding 1/					0.1	--	0.4	0.6		0.3
Foreign balance 1/					0.5	--	-0.2	1.0		0.3
GNP					4.3	4.5	3.8	1.4		3.5

Source: IMF Research Department

1/ Changes expressed as a percentage of GNP in previous period.

2/ The countries included are Canada, the United States, Japan, France, Germany, Italy, and the United Kingdom.

Table 2. France: Gross Domestic Product and Income and Expenditure of Households, in Current Prices, 1978-81

(Changes and ratios in per cent)

	1978	1979	1980	1981 ^{1/}
Gross domestic product	13.6	14.0	12.9	12.6
Personal income ^{2/}	12.9	13.2	14.6	16.5
Of which:				
Wages and salaries ^{3/}	12.5	10.1	13.6	15.0
Other earned income	13.1	13.4	13.3	15.9
Social security transfers	19.0	15.7	15.4	19.7
Income taxes	12.8	13.2	18.8	16.1
Disposable income	14.5	12.1	12.7	16.0
Of which:				
Consumption expenditure	13.3	14.3	15.1	15.7
Saving	20.8	1.6	0.3	18.1
Saving as a per cent of disposable income	17.5	15.9	14.6	15.1
Real disposable income	4.9	1.3	-0.2	1.9

Sources: INSEE, Informations Rapides, No. 61 (April 7, 1981) and No. 176 (October 9, 1981); Tendances de la Conjoncture, Note de Synthèse (March 5, 1982); and Assemblée Nationale, Projet de Loi de Finances pour 1982, Rapport Economique et Financier (1981).

^{1/} Estimate.

^{2/} Includes other income (net), which in 1980 amounted to only 3.3 per cent of personal income.

^{3/} Net of social security contributions.

Table 3. France: Industrial Production, 1978-81

(Period averages, volume changes in per cent, seasonally adjusted)

	1978	1979	1980	1981 1/	1980		1981	
					I	II	I	II 2/
Industrial production								
Excluding construction	2.4	4.1	-0.4	-2.4	-2.2	-1.9	-3.8	1.2
Of which:								
Energy	1.6	6.3	-1.1	-1.1	-1.5	0.8	-2.7	1.3
Intermediate goods	3.0	5.8	-1.0	-3.6	-1.5	-5.8	-4.1	2.3
Consumer goods	3.1	3.5	0.4	-3.4	--	-1.8	-5.1	0.2
Investment goods	1.4	2.5	-0.7	2.8	-5.3	1.1	0.3	3.8
Construction	-4.2	--	2.2	--	1.6	-3.2	-5.6	-2.7

Sources: INSEE, Bulletin Mensuel de Statistique (December 1981), Informations Rapides, No. 15 (January 25, 1982) and No. 36 (February 19, 1982).

1/ Provisional.

2/ Based on monthly index, which has a narrower coverage than the quarterly index.

Table 4. France: Factors Affecting the Development of the Supply of Labor, 1962-2000

(Annual average changes in thousand persons)

	1962- 1968	1968- 1975	1975- 1980	1980- 1985 <u>1/</u>	1985- 1990 <u>1/</u>	1990- 2000 <u>1/</u>
Effect of demographic factors and net immigration	268	228	207	182	123	83
Of which:						
Net immigration <u>2/</u>	132	58	--	--	--	--
Net increase of men	166	151	136	114	76	52
Less than 25 years			1	2	-9	-18
Of 25-54 years			81	73	86	79
55 and older			54	39	-1	-9
Net increase of women	102	77	71	68	-47	31
Less than 25 years			1	1	-9	-16
Of 25-54 years			42	44	60	57
55 and older			28	23	-4	-10
Effect of changes in participation rates	-128	-34	31	48	10	11
Men	-106	-101	-63	-40	-31	-16
Less than 25 years	-44	-51	-17	-7	-7	-1
Of 25-54 years	-5	2	-3	-1	-1	-1
55 and older	-57	-52	-43	-32	-23	-14
Women	-22	67	94	88	41	27
Less than 25 years	-20	-19	-15	11	10	5
Of 25-54 years	25	113	119	94	44	26
55 and older	-27	-27	-10	-17	-13	-4
Changes in the supply of labor	140	194	238	230	133	94
Men	30	50	73	74	45	36
Less than 25 years			-16	-5	-16	-19
Of 25-54 years			78	72	85	78
55 and older			11	-	-24	-23
Women	80	144	165	156	88	58
Less than 25 years			-14	12	1	-11
Of 25-54 years			161	138	104	83
55 and older			18	6	-17	-14

Sources: INSEE, Economie et Statistique No. 115, and Collection D No. 79, Projection de la Population Active et Disponible, 1975-2000.

1/ INSEE projections.

2/ Net immigration assumed to be zero after 1976.

Table 5. France: Unemployment and Vacancies, 1974-81

	1974	1975	1976	1977 ^{1/}	1978	1979	1980	1981 ^{2/}
Active population (in thousands)	22,135	22,205	22,441	22,697	22,894	23,059	23,210	23,360
Unemployment (in thousands) ^{3/}	615	902	993	1,073 ^{1/}	1,183	1,355	1,455	1,773
Of which								
Women	389	513	591	641 ^{1/}	685	787	869	...
Vacancies (in thousands)	205	109	124	104	87	88	89	84
Unemployment rate (in per cent)	2.8	4.1	4.4	4.7	5.2	5.9	6.3	7.6

Sources: INSEE, Rapport sur les Comptes de la Nation 1980; and Ministère du Travail, Données Mensuelles.

1/ Definitional changes after 1976.

2/ Estimates.

3/ International Labor Organization definition.

Table 6. France: Developments in Nominal and Real Wage Rates, 1978-81
(Percentage change over previous period)

	1978	1979	1980	1981	1980		1981	
					I	II	I	II
Nominal hourly wage Average Through the period	12.6 12.6	12.9 13.8	15.3 15.4	15.2 17.0	7.6 8.2	7.5 6.6	6.7 7.4	8.4 8.4
Consumer prices Average Through the period	9.1 9.7	10.8 11.8	13.6 13.6	13.4 14.0	6.9 7.1	6.2 6.2	6.1 6.5	7.3 7.0
Real hourly wage Average Through the period	3.2 2.6	1.9 1.8	1.5 1.6	1.6 2.6	0.7 1.0	1.2 0.4	0.6 0.8	1.0 1.3
SMIC (average) Nominal Real	12.9 3.5	12.5 1.8	15.6 1.8	16.8 3.0	7.2 0.3	7.3 1.0	7.3 1.1	12.8 5.4

Sources: INSEE, Bulletin Mensuel de Statistique, Informations Rapides; and staff estimates.

Table 7. France: Factor Allocation of Value Added in Enterprises 1/

(In per cent)

	1974	1975	1976	1977	1978	1979	1980
Labor share	66.0	68.5	69.1	68.8	68.9	68.3	69.7
Of which:							
Wages and salaries	50.9	51.7	52.0	51.5	51.4	50.4	51.4
Social security contributions	15.1	16.8	17.1	17.3	17.5	17.9	18.3
Taxes net of subsidies	6.9	6.8	6.4	6.8	6.9	7.4	7.3
Gross operating surplus	27.1	24.7	24.5	24.4	24.2	24.3	23.0

Source: INSEE, Les Comptes de la Nation 1980, Tome I.

1/ Excludes large public enterprises.

Table 8. France: Price Indicators, 1978-81

(Period average anges in per cent)

	1978	1979	1980	1981	1980		1981	
					I	II	I	II
Consumer prices	9.1	10.8	13.6	13.4	6.9	6.2	6.1	7.3
Of which:								
Food	8.1	8.9	9.7	14.0	4.4	5.0	6.4	8.3
Manufactures	9.2	11.3	16.3	12.8	8.8	6.3	5.8	6.9
Services	10.0	11.5	13.0	14.0	6.1	7.4	6.2	7.1
Wholesale industrial prices ^{1/}								
Raw materials	1.6	13.0	6.8	9.8	3.8	1.5	5.8	6.4
Of which:								
Domestic	6.3	15.3	8.9	5.7	4.6	2.1	1.3	6.5
Imported	-4.0	10.0	4.0	15.6	2.5	0.7	12.2	6.2
Semiprocessed products	5.3	13.4	9.8	11.1	4.4	3.5	5.4	7.8
Unit labor costs in manufacturing	9.1	8.2	11.7	12.6	6.9	6.8	7.6	8.8
Import unit values	1.0	10.3	10.9	17.8	11.3	3.9	11.7	8.1
Idem, excluding energy	2.5	7.2	8.3	12.3	5.5	0.4	9.0	6.3

Sources: INSEE, Bulletin Mensuel de Statistique; and IMF Research Department.^{1/} Excluding taxes.

II. The Manufacturing Sector

1. Profitability and investment in the manufacturing sector since 1975

Movements in the profit position of enterprises can be separated into two components: the trend in value added and the allocation of value added among production factors. After the first oil price shock a noticeable decline in manufacturers' profitability occurred on account of both these components. Despite some improvements in the latter half of the 1970s, profitability in the manufacturing sector never completely recovered. Value added on average grew less rapidly than in other sectors of the economy and the share of the operating surplus in value added remained below its 1974 level and below the average for the economy.

This drop in profitability appears to have reduced the sector's capacity to invest, as shown by the fall in the investment ratio after 1975. It provided an incentive to invest in labor saving equipment rather than expand capacity and thereby contributed to the decline in employment in the manufacturing sector since 1975 (Table 9). It also contributed to the marked slowdown in potential growth in recent years.

a. Developments in value added

Since 1975 value added in the manufacturing sector has grown on average by 12 per cent per year in nominal terms, or approximately 1.3 percentage points per year below value added for the whole of the market sector, and the share of manufacturing in total value added has declined from 28 per cent in 1973 to 26.8 per cent in 1980. Moreover, within the manufacturing industry there was some divergence as the strong progression of value added in the motor vehicle industry (18.8 per cent per year) concealed the weaker performance of some of the main industries including consumer goods, intermediate goods, and consumer durables (together, 60 per cent of manufacturing value added in 1980) where value added grew on average by less than 11 per cent per year (Table 10).

One of the reasons for this sluggish growth in manufacturing value added seems to be the gap that appeared in 1974, following the first oil shock, between value added and output prices on the one hand, and input prices on the other: while input, output, and value-added prices in most sectors increased at roughly the same rate from 1968 and until end-1973, input prices by far outpaced output prices following the terms-of-trade shock of 1973. Output prices and the value-added deflator partly caught up in 1975, but grew at the same rate as input prices thereafter and by 1981 they were still lagging behind input prices in the manufacturing sector. This suggests that in the latter half of the 1970s, because of competitive pressures, manufacturers have not been able to raise their output prices sufficiently to maintain gross margins and instead accepted a relative squeeze of the unit price of their value added. In

contrast, in the commerce and service sectors, there was also a relative squeeze of the deflator of value added over the 1974-75 period, but the increase in input prices was more spread out and by 1979 enterprises in this sector had largely re-established their gross margins.

b. Factor shares in value added

Table 11 compares the factor distribution of value added for the manufacturing sector, for the commerce and service sector, and for the market sector in general.

In the manufacturing sector, from 1967 and until 1973, the share of gross wages and salaries remained relatively constant at about 52 per cent. Immediately following the first oil price shock in 1974, this share declined by 2 percentage points as salary increases lagged behind increases in producer prices. The next year, however, as the recession slowed output and productivity growth while wages and salaries continued to adjust to previous years' price increases, the wage share reached a decade high of 54.6 per cent. Subsequently, from 1976 to 1980 slower growth in real wages and productivity gains led to a decline and then stabilization of the wage share around 53.7 per cent (except for a dip to 52.6 per cent in 1979). However, the labor share inclusive of employers' social security contributions did not fully reflect the reduction and subsequent stabilization of the gross wage share after 1975. Following the recession of 1975 and the ensuing large increases in unemployment, the social security system came into financial difficulties. Both employers' and employees' contributions were then raised, mainly by gradually increasing the salary ceilings on which maximum contributions are computed. As a result, the share of social security contributions in the manufacturing sector value added rose from an average of around 15 per cent in the late 1960s and early 1970s to close to 19 per cent in 1980. Since there were no major changes in enterprises' taxes, the share of gross operating surplus mirrored the movements in the labor share and it increased from 30 per cent on average in the early 1970s to 33 per cent in 1974. Thereafter it abruptly declined by 8 percentage points in 1975 to 25 per cent and remained around that level in the following years.

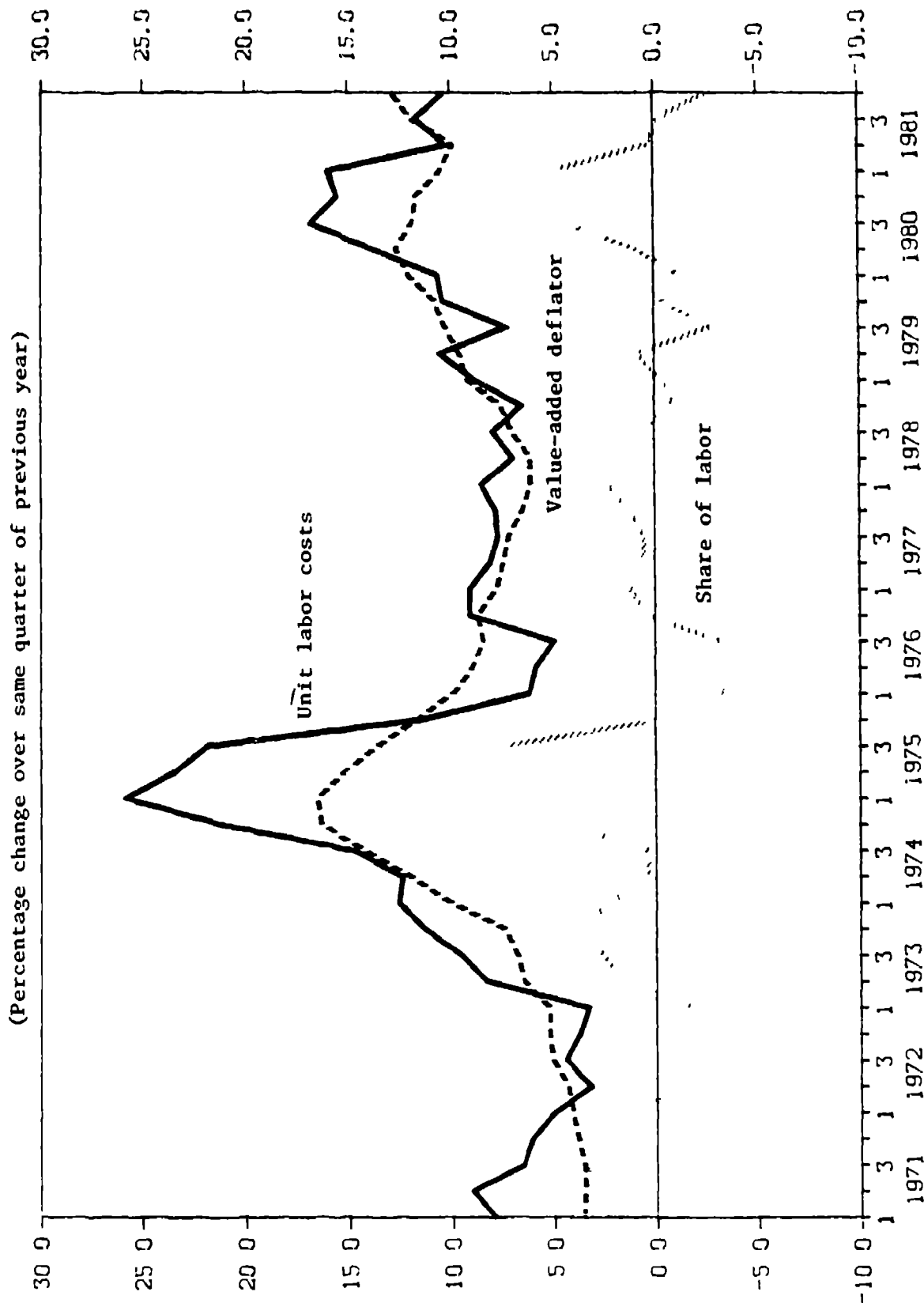
In the rest of the economy, shifts in factor shares have been less pronounced and the labor share, on the whole, increased less than in the manufacturing sector. Although the share of gross operating surplus was also affected by the increase in social security contributions, the decline compared to pre-1974 levels was only about 3 percentage points.

After moderating in 1977 to 1979, unit labor costs in manufacturing picked up considerably in 1980 and 1981 (Table 12). The acceleration reflected a sharp cyclical decline in productivity while hourly compensation did not pick up appreciably. However, the constraint imposed by foreign competition prevented the value-added deflator from rising in line with unit labor costs. As a result, profit margins in manufacturing

Chart 2

FRANCE

UNIT LABOR COSTS, VALUE-ADDED DEFULATOR, AND SHARE OF LABOR IN VALUE ADDED IN
MANUFACTURING



Source: IMF Research Department; and staff estimates.

have been squeezed and the share of labor in value added has risen sharply since the third quarter of 1980 (Chart 2). The impact of the rise in unit labor costs on profits has been reinforced by the sharp rise in imported energy and raw materials prices in 1981 reflecting the appreciation of the dollar as well as by the rise in the cost of borrowing as interest rates rose sharply.

Staff estimates based on a three-equation model determining output, employment, and the value-added deflator in manufacturing show labor costs to have been a major factor explaining the slowdown in output since 1975 (Table 13). Nominal wages accelerated in the latter period despite the slowdown in world growth and in productivity and despite the fact that foreign prices expressed in francs rose at about the same rate in the two periods. This was reflected partly in a profit squeeze and partly in a loss in competitiveness, and output growth decelerated on both counts. ^{1/} Simulations carried on with the model showed that a 1 percentage point acceleration in nominal wage costs, other things being equal, reduces output growth by 0.5 percentage points.

A further point to note with respect to profitability is the dissimilarity between the manufacturing sector and the commerce and service sectors in the trends of gross savings or retained earnings. The share of gross savings in the manufacturing sector was much more affected by the recession of 1975, when it fell by 5 percentage points relative to its average of the previous eight years. Despite some subsequent improvement it remained about 2 percentage points below its level of the early 1970s. In contrast, the share of gross savings in the commerce and service sectors was practically not affected by the recession and in 1979 it was again at a decade high of 16 per cent. This may be attributed to the fact that enterprises in the commerce and service sectors have preferred to reduce their debt-equity ratio since 1975, instead of maintaining their investment ratio, and have therefore been less affected by the generally upward trend in interest rates in the latter half of the 1970s.

c. Investment and potential growth

One consequence of the eroding profit position of enterprises has been the decline in the investment rate (gross capital formation to value added). In the manufacturing sector the investment ratio fell by nearly one fourth to 13.6 per cent in the late 1970s compared with the early 1970s (Table 14). Despite the decline in the investment ratio, the self-financing ratio also declined in the manufacturing sector, leading to a deterioration of the debt-equity position of enterprises in that sector.

^{1/} The value-added deflator in manufacturing accelerated from an average annual rate of 7.0 per cent in 1971-74 to 10.5 per cent in 1975-80, while foreign value-added deflators in francs rose at 8.0-8.5 per cent in both periods. The loss in competitiveness in the latter period was accompanied by a squeeze on profit margins, as noted above.

In the commerce and service sectors, there was also a decline in the investment ratio but an increase in the self-financing ratio, indicating, as noted above, that in view of the high interest rates, enterprises in this sector have preferred to improve their debt-equity ratio rather than step up their investment.

As a consequence of the lower rate of capital accumulation, together with the reduction in employment, potential growth in the manufacturing sector has since 1975 markedly decelerated. Staff estimates based on a production function suggest that potential growth fell from an average of 6.2 per cent in 1970-73 to 4.3 per cent in 1975-80. Compared with other major industrialized countries, the decline in France was the second largest after Germany, and France moved from the second highest potential growth rate after Japan to the third highest after Italy.

2. Industrial policy

Industrial policy in France since the mid-1970s has sought to foster the development of a competitive industrial sector and to promote exports. Emphasis was placed on promoting research and innovation, supporting investment in energy-saving equipment, providing adjustment assistance to help restructure ailing industries and diversify economic activity in depressed regions, and developing the export potential of small and medium-sized firms. This policy was partly formulated in response to the recession and large trade deficits which followed the first oil shock and represented a departure from earlier policy which emphasized protectionism.

These remain the major goals of industrial policy under the new Government. In the two-year interim development plan (1982-83) heavy emphasis is placed on modernizing industry and on channeling resources to high technology sectors. Spending on research and development is to rise from 1.8 per cent of GDP in 1980 to 2.5 per cent by 1985. In the 1982 budget, aid to industry is to be raised by 52.4 per cent to F 34.4 billion, of which loans by the Fonds de Développement Economique et Social (FDES) amount to F 7.9 billion, up from F 2.5 billion in 1981. Within the framework of the plan, contracts will be negotiated by mid-1982 with the newly nationalized firms setting the targets of industrial policy. Although bound by these contracts, the firms would maintain full managerial autonomy. It is through the pursuit of the goals of industrial policy that the aim of reconquering the domestic market is to be achieved. In this context, the capital goods and textiles sectors constituted a policy priority. A three-year plan was announced in December 1981 designed to develop and modernize the industrial equipment sector. The plan aims at raising the share of exports in value added from 15 per cent to 35 per cent and reducing import penetration from 60 per cent to 30 per cent over three years at a cost of F 4 billion in subsidized loans and grants. In the textiles sector, social security charges were reduced for firms

which raised their investment without reducing employment, or modernized their equipment and processes. The cost of the scheme, announced in February 1982, was estimated at F 2 billion.

a. Nationalization of industrial groups

On February 13, 1982 the nationalization bill, presented to Parliament in October 1981, was signed into law. The bill provides for state takeover of five industrial groups, 1/ the steel sector, two financial groups and 39 banks. The Government had also taken majority control of two aerospace and armaments companies in late 1981, 2/ and is to raise its participation in the French subsidiary of a pharmaceuticals group to 50 per cent, in three stages, 3/

Compensation for the five industrial groups will amount to about F 17 billion, to be amortized over 15 years by issuing government-guaranteed variable-rate bonds in exchange for privately held stocks. The steel sector was nationalized through conversion of outstanding government loans, amounting to F 13 billion, into capital. Nationalization of the eight industrial groups (including the steel, aerospace, and armaments companies) will raise the share of industrial output under state control from 10 per cent to 30 per cent, and the share of industrial employment to 24 per cent.

The newly nationalized firms are to be run on a competitive basis and to retain full decision-making authority within the framework of the Government's regional and sectoral development plans. Investment and employment policies would continue to be guided by profitability criteria, although the time horizon affecting investment decisions might be lengthened. Government control over the firms is to be exercised strictly through contractual policy, to assure consistency with the Government's industrial strategy.

b. Investment financing

Since 1975 a number of institutions have been set up to provide support for industrial investment, mainly through subsidized loans. There are four institutions which are set up as interministerial committees and are funded by the budget, particularly through the FDES: (a) The Comité Interministériel d'Aménagement des Structures Industrielles (CIASI), created in 1975, offers financial support to enterprises in severe difficulties, but for which a workable industrial arrangement has

1/ Rhône-Poulenc, Thomson-Brandt, Saint-Gobain, Compagnie Générale d'Electricité (GCE), and Pechiney-Ugine-Kuhlmann (PUK). Their activities are mainly in the fields of electronics, chemicals, metals and arms.

2/ Dassault and Matra.

3/ Roussel-Uclaf, subsidiary of Hoechst. The Government's stake in the company is to rise through capital increases and through the acquisition of privately held shares, including some Hoechst shares.

been found. Its loans amounted to F 700 million in 1981. (b) The Comité Interministériel pour le Développement des Investissements et le Soutien de l'Emploi (CIDISE), created in 1978, provides participative loans to small and medium-sized firms with a shortage of equity capital. Operations in 1981 involved about F 800 million a year for 500 firms. (c) The Fonds Spécial d'Adaptation Industrielle (FSAI) was set up in 1978 to promote new employment-creating activities in depressed regions, through participative loans and direct subsidies. By now, however, it has used up most of its initial endowment of F 3 billion. Finally, (d) The Comité de Développement des Industries Stratégiques (CODIS) was established in 1980 to support growth industries, such as electronics and data processing, through FDES loans, subsidies, and R and D financing.

Aside from these channels, long-term financing to industry is also provided by specialized credit institutions. Until 1979 the subsidy element of such loans was limited to the cost of the intermediation margin, which amounted to only 1-1.5 percentage points, or about F 300 million a year. Both the subsidy element and the amount of credit extended were subsequently raised substantially however, as interest rates rose and the economy moved into recession. In addition to F 8 billion in public loans to industry at market rates appropriated for 1982, subsidized loans of F 11 billion at 13.5 per cent and F 5 billion at 15.5 per cent would be extended to companies fulfilling certain requirements, such as investing in energy-saving equipment.

Table 9 . France: Shares of Subsectors in Total Output,
Value Added, Investment, Capital, Employment, 1967-79 1/

(In percentages)

	1967	1970	1975	1979
Manufacturing <u>2/</u>				
Output	32.3	34.5	34.0	34.0
Value added	26.8	28.7	28.5	28.6
Gross fixed capital formation	31.1	34.8	30.0	27.8
Capital stock	30.2	30.4	31.4	31.1
Employment	37.3	36.6	36.6	34.6
Commerce and services <u>3/</u>				
Output	27.8	27.9	29.9	30.9
Value added	36.8	36.1	38.2	39.3
Gross fixed capital formation	20.0	21.0	22.5	23.4
Capital stock	18.1	19.0	21.0	22.1
Employment	27.3	29.8	32.9	36.9
Other				
Output	39.8	37.6	36.1	35.1
Value added	36.3	35.2	33.3	32.1
Gross fixed capital formation	48.9	44.3	47.5	48.9
Capital stock	51.7	50.6	47.6	46.8
Employment	35.4	33.6	30.5	29.0

Sources: INSEE, Les Comptes Nationaux Trimestriels en Base 1971;
Conseil Economique et Social, L'Investissement des Entreprises; and
staff calculations.

1/ All ratios computed at 1970 prices.

2/ Sectors U4 to U6 (consumer, intermediate and capital goods sectors).

3/ Sectors U8 and U10 (commerce and service sectors).

Table 10. France: Value Added in Manufacturing

(In per cent)

	Average Nominal Growth 1975-80	Average Volume Growth 1975-80	Share in total Value Added of Manufacturing <u>1/</u>	
			1975	1980
Intermediate goods	10.3	1.6	42.8	38.9
Machinery and equipment goods	13.5	4.0	24.6	26.5
Consumer durables	9.7	3.0	1.7	1.5
Motor vehicles and ground transportation	18.8	2.8	8.4	11.9
Consumer goods	10.8	0.5	22.5	21.1
Total manufacturing	12.0	2.0	100.0	100.0
Total market sector	13.3	2.5	--	--

Sources: INSEE, Rapport sur les Comptes de la Nation; and staff calculations.

1/ At current prices.

Table 11. France: Factor Distribution of Value Added, 1973-80
(In percentage of value added at current prices)

	1973	1974	1975	1976	1977	1978	1979	1980
Gross wages and salaries								
Manufacturing	51.7	49.7	54.6	53.6	53.6	53.9	52.6	53.6
Commerce and services	48.0	46.5	49.2	49.9	49.6	49.6	48.7	
Total market sector ^{1/}	47.8	46.6	49.8	49.8	49.8	49.8	48.2	
Social security contributions								
Manufacturing	15.2	14.7	17.8	17.8	18.2	18.5	18.8	19.2
Commerce and services	13.1	13.0	15.0	15.3	15.6	15.9	16.3	
Total market sector ^{1/}	14.1	13.8	16.1	16.4	16.7	17.0	17.1	
Gross operating surplus								
Manufacturing	30.1	33.8	25.0	26.2	25.3	24.6	25.6	23.8
Commerce and services	32.0	34.0	30.0	29.6	28.5	28.5	28.1	
Total market sector ^{1/}	30.5	33.3	27.5	27.7	26.9	26.5	27.6	
Gross savings								
Manufacturing	15.4	18.2	9.9	12.5	10.8	11.6	13.2	11.4
Commerce and services	15.2	16.0	14.7	14.5	14.5	15.5	16.0	

Source: INSEE, Les Comptes des Entreprises par Secteur d'Activité, and Rapport sur les Comptes de la Nation 1980.

^{1/} Excludes large public enterprises.

Table 12. France: Unit Labor Costs and Value-Added Deflator
in Manufacturing Industries, 1977-81

(Percentage change over previous period)

	1977	1978	1979	1980	1981	1980 II	1981 I	1981 II
Employment	-0.6	-2.0	-2.2	-1.5	-3.7	-1.2	-2.1	-0.9
Average weekly hours worked	-0.9	-0.7	-0.4	-0.4	-0.9	-0.1	-0.3	-0.6
Hourly compensation	15.0	13.8	14.4	14.7	14.8	7.6	6.3	8.8
Output	3.2	2.0	3.0	0.9	-2.7	-1.2	-2.3	0.4
Productivity	4.8	4.4	5.8	2.8	1.9	0.2	0.2	2.5
Unit labor costs	9.8	9.1	8.2	11.7	12.6	7.6	6.3	8.8
Value-added deflator	6.8	8.4	10.4	13.3	11.2	5.6	5.0	6.4

Sources: IMF Research Department; and staff estimates.

Table 13. France: Sources of Change in Manufacturing Output
(Average annual rates in per cent)

	1971-74	1975-80
Actual change in output	5.8	2.2
Attributed to:		
Explanatory variables	6.6	2.9
Market growth	3.9	2.2
Foreign prices in francs	4.2	4.1
Capital stock	2.4	0.8
Energy prices	-0.5	-0.3
Labor costs	-7.4	-7.9
Trend	4.0	4.0
Residual	0.8	0.7

Source: Staff estimates.

Table 14. France: Investment and Self-Financing Ratios 1/

	1970- 1972	1973	1974	1975	1976- 1978	1979
<hr/>						
Investment ratio						
Manufacturing	17.9	15.4	14.2	13.7	13.9	12.7
Commerce and service	15.5	16.2	14.2	13.4	13.3	11.8
Self-financing ratio						
Manufacturing	90.0	100.0	128.2	71.7	83.5	103.2
Commerce and service	92.7	93.1	112.8	109.1	112.2	135.1
<hr/>						

Sources: INSEE, Les Comptes Trimestriels en Base 1971;
and staff calculations.

1/ Excludes noncorporate business.

III. Public Finance

1. Developments in the public sector in 1981

Fiscal policy in France is mainly conducted through the state budget. For the local authorities, and even more so for the social security funds, spending and revenues are to a large extent either legally predetermined or depend on economic activity and on decisions taken by the State Government. 1/

a. The state budget in 1981

The initial state budget for 1981 reflected the intention of the authorities to balance three different objectives: stabilizing the tax burden, containing the budget deficit, and providing some support to the economy. In expenditures scheduled for 1981 priority was given to promoting private investment and research, to defense and internal security, and to supporting large families and low-income households. Expenditure of the ordinary budget was to grow by 17.6 per cent over the amount originally envisaged for 1980. The budget was based on growth in real GDP of 1.6 per cent and in nominal GDP of 12.3 per cent. To allow for a quick release of funds in case additional support to the economy were needed, it also provided for a contingency budget authorizing additional investment orders of up to F 6.5 billion.

The most important measures on the receipts side concerned a substantial increase in tax incentives for investment, and a nearly full inflation adjustment of personal income taxation. Unlike the investment incentives granted in 1979 and 1980, which entitled enterprises to deduct up to 10 per cent of the increase in investment outlays from taxable income, the budget for 1981 provided for a tax allowance of 10 per cent on the full amount of investment spending. In addition, the scope of the incentive was widened and it was extended until the end of 1985. 2/ The budgetary cost was estimated at about F 5 billion for 1981 and would affect tax receipts in 1982 and thereafter. Regarding the adjustment of the personal income tax for inflation, tax brackets were adjusted fully for the lowest income groups and somewhat less for the higher ones. The differentiation reflected the continuation of a government policy to increase the share of direct taxes in total revenues, without burdening the lowest income groups. The budgetary cost of this measure was estimated at F 11.8 billion, to which inflation adjustment of tax allowances would add another F 0.8 billion. In addition, for families with three or more children tax progression was to be lowered further, implying a revenue loss of F 1 billion in 1981. Discretionary revenue increases in 1981 were expected to amount to F 4.3 billion,

1/ For a description of the major structural features of the public sector, see France - Recent Economic Developments (SM/81/36, 2/13/81), p. 20.

2/ Besides this general investment incentive, a variety of regional and sectoral incentives are granted (see SM/80/39, 2/11/80, Appendix I).

implying a net loss in receipts of F 9.3 billion. Tax receipts after revenue sharing and refunds were projected to grow by 18.5 per cent over the initial budget for 1980, and total receipts by 18.9 per cent. The deficit was forecast at F 29.4 billion (1.0 per cent of GDP), compared with an initially budgeted deficit of F 31.2 billion and a final outturn of F 30.3 billion (1.1 per cent of GDP) in 1980 (Table 15).

The weakening of economic activity since the latter part of 1980 was associated with a slowdown in government revenues, while outlays continued to rise rapidly, reflecting in part a sharp increase in subsidies granted to the farm sector and the effect of high interest rates on the servicing of government debt. In the ordinary budget of the State, expenditures (on a cash basis) under the current budget law were about 20 per cent higher in the first half of 1981 than a year earlier, while receipts grew only by some 11 per cent. The deficit rose to F 47.5 billion from F 18.3 billion in the first half of 1980. Including transactions on the loans and advances accounts, the cash deficit of the state budget in the first half of 1981 amounted to F 65.6 billion, compared with F 40.6 billion in the same period of the preceding year. The rise in the deficit would have been more pronounced had it not been for the statutory imputation to the Treasury's account with the Banque de France of valuation adjustments on official foreign currency reserves. Mainly owing to the depreciation of the franc vis-à-vis the U.S. dollar during the second half of 1980, the Treasury's account with the Banque de France was credited with valuation gains of F 5.7 billion in the beginning of 1981, whereas a year earlier the Treasury had to bear a valuation loss of F 2.5 billion.

Developments in the state budget in the second half of 1981 were marked by the social policy measures announced by the new administration in early June and other decisions incorporated in the first supplementary budget adopted in early August (Tables 16 and 17). Improvements in various social benefits and the Government's contribution to financing part of the increase in the minimum wage were estimated to raise the state deficit of 1981 by F 5.2 billion and that of social security by F 2.6 billion. Further additional outlays of F 7.6 billion, mainly for 54,000 new jobs in the public sector and the promotion of youth employment, low-income housing, and industrial projects, were covered by tax increases. Parliament adopted a temporary surcharge of 25 per cent on income tax liabilities of more than F 100,000, a special tax of 10 per cent on sundry expenses of enterprises, a windfall profit tax on banks and oil companies, and an increase in the excise tax on petroleum products. It was estimated by INSEE that for 1981 as a whole the effect of these discretionary measures would be reflected in an increase of 0.7 per cent in real household income, of 0.3 per cent in private consumption, and of 0.2 per cent in real GDP, with the real fixed investment of enterprises falling by 0.2 per cent. Further discretionary increases in expenditures of F 11.8 billion, mainly involving additional assistance to public and private enterprises, the housing-saving scheme, and farming and

unemployment compensation from the state budget, were decided in the last two supplementary budgets of 1981. On the whole, discretionary measures introduced by the new administration raised expenditures in the 1981 state budget by F 24.6 billion, of which F 7.6 billion were offset by discretionary revenue increases. Adjustments to correct for underestimated expenditure items and a divergence of actual developments in economic aggregates from those underlying the initial budget resulted in a further increase in expenditures by F 26.4 billion and a net revenue shortfall of F 3.3 billion. On the whole, the latter adjustments coupled with the discretionary measures raised the budget deficit (on an administrative basis) by F 46.7 billion to F 76 billion (2.5 per cent of GDP) (Tables 16 and 17). 1/ The net cost to the budget of 1981 of measures to reduce unemployment, after taking account of savings in unemployment compensation and gains in social security contributions, was estimated at F 1.2 billion, reducing the number of unemployed by the end of the year by some 77,500.

b. Financing of the state budget deficit in 1981

According to preliminary estimates, the state government deficit on a cash basis rose to about F 85 billion in 1981 from F 42 billion in the previous year. After the statutory imputation of valuation gains on official foreign exchange reserves to the Treasury's account at the Banque de France, the deficits to be financed were reduced to some F 63 billion and F 35.6 billion, respectively. Mainly owing to the marked increase in the financing requirement and the weakness of the long-term financial market during a large part of the year, the development of the monetary financing of the deficit turned around sharply from the preceding year. Whereas in 1980 Treasury operations absorbed F 7.3 billion of monetary assets, in 1981 they boosted the money supply by about F 36 billion, which accounted for 2.5 percentage points of the 12 per cent growth of

1/ The nationalization of the two iron and steel companies, Usinor and Sacilor, and the acquisition of a majority state participation in Avions Marcel Dassault-Bréguet Aviations and Matra did not affect the budget balance. The former transactions, reflected in the second supplementary budget of 1981, involved a capital expenditure of F 13.8 billion in the ordinary budget, offset by a contemporaneous redemption by Usinor and Sacilor of loans owed to the Fonds de Développement Economique et Social (FDES), which is included in the state budget. The other transactions took place outside the state budget. An initial state participation in Dassault-Bréguet of 20 per cent through the holding company Société de Gestion des Participations Publiques was raised to 46 per cent through a donation by Mr. Dassault with an additional 5 per cent to be acquired by a purchase of shares from the public. A state participation of 51 per cent in Matra resulted in equal parts from an increase in capital and the exchange of shares against 15-year government-guaranteed variable interest rate bonds issued by the Office National d'Etudes et de Recherches Aéropaciales.

M₂ during the year. The pickup in monetary financing principally reflected a sharp increase in the placement of Treasury certificates with the banks, whereas borrowing from the Banque de France was essentially matched by the valuation gains on foreign exchange reserves credited to the Treasury's account.

The main source of nonmonetary financing was the purchase of Treasury certificates and deposits by correspondents of the Treasury. 1/ Funds obtained from this source increased from about F 9 billion in 1980 to F 25-30 billion in 1981, with about F 20 billion stemming from the Caisse des Dépôts et Consignations. A government bond issue of F 10 billion was placed in January 1981 but further recourse to this source was withheld through early September, when the Treasury issued bonds with a maturity of six years and a record yield of 16.75 per cent. As subscriptions were unexpectedly buoyant, the amount of the issue was raised from the initially scheduled F 8 billion to F 15 billion. As the next government bond issue of F 10 billion, with a maturity of eight years and a coupon of 16.2 per cent, was not forthcoming until January 1982, gross issues by the Treasury in 1981 were F 6 billion lower than the record amount of F 31 billion in 1980. Since redemptions of bonds almost doubled, net Treasury financing through the bond market declined from about F 28 billion in 1980 to F 19 billion in 1981 (Table 18). Moreover, net purchases of Treasury certificates by the public of F 1 billion in 1980 were followed by net sales of F 2 billion in 1981 and the other nonmonetary sources of Treasury financing showed a further negative swing of the order of F 20 billion. The latter turnaround reflected in part a marked increase in bank-guaranteed loans (obligations cautionnées) granted by the Treasury in association with a deferral of tax payments.

c. Local authorities and social security in 1981

After an extended debate, legislation of January 10, 1980 reformed the system of local authority taxation (business tax, dwelling tax, and two real estate taxes). 2/ From 1981 on, each municipality was empowered to set the rate schedule freely for the dwelling tax and the two real estate taxes, up to 2 1/2 times the average rate on a departmental or on a national level (whichever is higher). The rate for the business tax, which is by far the most important local tax, can be raised up to the average rate of the former three taxes imposed by the municipality. Notwithstanding initial difficulties involved in the application of the new procedures, it was found that for more than 93 per cent of municipalities the estimated outturn of revenues was within 1 per cent of the amounts voted in the respective budgets. In 1981, with both revenues

1/ Excluding postal checking system, whose deposits are included in monetary financing.

2/ Taxe Professionnelle; taxe d'habitation; taxe foncière des propriétés; and taxe foncière des propriétés non bâties.

and expenditures growing by somewhat less than 15 per cent, the financial deficit of local authorities remained at a level of 0.6 per cent of GDP. As in previous years, it was predominantly financed by borrowing from semipublic financial institutions, mainly the Caisse des Dépôts et Consignations, at privileged interest rates.

Mainly owing to an acceleration in the rise of health costs, the lapse in February 1981 of the 1 percentage point temporary surcharge on the contribution rate of employees to health insurance, sluggish economic activity, as well as discretionary increases in social benefits, ^{1/} the financial balance of the main social security funds for wage and salary earners, on an administrative basis (excluding unemployment insurance) was estimated to change from a surplus of F 10.7 billion in 1980 to deficits of F 10.2 billion in 1981, and F 25.8 billion in 1982. However, in November 1981 the Government introduced a package of measures to balance the accounts in both years. Most of the decisions took effect retroactively on November 1, 1981. The contribution rate to health insurance was increased by 1 percentage point for wage earners, civil servants, and formerly exempted unemployed persons whose unemployment benefits exceed the minimum wage. This, together with a change to a semiannual pattern in the formerly annual adjustment of the income ceiling for contributions and other measures affecting employees was estimated to yield supplementary revenues of some F 17 billion. For employers, the ceiling was raised by an additional 3.5 percentage points, which coupled with the semiannual adjustment and other decisions affecting nonsalaried persons, yielded new receipts of F 12.5 billion. An accelerated reimbursement of funds owed by enterprises to the social security system and an increase in the tax on car insurance earmarked for social security benefits are estimated to result in additional revenues of F 3 billion and F 1 billion, respectively. The remainder of the cumulative deficit of F 36 billion would be covered by a F 2.5 billion subsidy from the state budget of 1982. Given the rapid rise in unemployment, benefit payments considerably exceeded receipts at the existing contribution rates and the deficit of the unemployment fund on an administrative basis was estimated at F 6 billion for 1981 and F 12 billion for 1982. To finance the deficit of F 12 billion through the first half of 1982, the third supplementary budget for 1981 authorized the Government to guarantee a F 6 billion loan placed by the unemployment insurance fund with institutional investors and an exceptional state subsidy of F 6 billion was appropriated in the 1982 budget.

d. General government in 1981

On a national accounts basis, the state deficit is officially estimated to have widened from F 3 billion in 1980 to F 53 billion in 1981.

^{1/} See footnote 2 of Table 17, p. 42. Further improvements in social benefits were scheduled to take effect at the beginning of 1982, mainly affecting health insurance coverage and family and old-age allowances. After taking account of planned savings in health insurance of F 3.8 billion, they were estimated to raise the deficit in 1982 by F 3.9 billion.

The deficit of local authorities rose only moderately, to F 18.4 billion. Albeit a substantial deterioration occurred in the financial balance of the social security funds from their sizable surplus in 1980, their deficit on a national accounts basis in 1981 was limited to F 5.5 billion (0.2 per cent of GDP). On the whole, the financial balance of the general government is estimated to have changed from a surplus of F 10.4 billion (0.4 per cent of GDP) in 1980 to a deficit of some F 74 billion (2.4 per cent of GDP) in 1981. The turnaround mainly reflected a rise in the proportion of public sector expenditures in GDP by 2.5 percentage points to about 46 per cent in 1981 (Tables 19-23). Estimates based on the cyclically neutral budget concept suggest that state government operations provided an expansionary impulse of about 1 per cent of GDP in 1981, following a notable withdrawal of stimulus in the preceding year. However, this measure does not reflect either multiplier or lagged effects of budgetary developments on the economy. Since major additional expenditure commitments were made in the latter part of the year, their effect may be felt in part in 1982. The budgets of the local authorities remained essentially neutral and the impulse over 1980 provided by the social security system together with that of the state budget, is estimated to have amounted to about 1.5 per cent of GDP, reversing the trend of the previous two years (Table 24).

2. Prospects for the public sector in 1982

a. The state budget for 1982

The state budget for 1982 focuses on three major government objectives, to sustain economic growth and employment, to promote the efficiency of the economy, and to redistribute incomes so as to moderate inequalities. Against the background of an officially projected growth of GDP by 3.1 per cent in real terms and by 17 per cent in nominal terms, outlays in the ordinary budget are foreseen to rise by 28 per cent and revenues by 19 per cent against the initial budget for 1981 and by 17 per cent and 18 per cent, respectively, against the estimates of 1981 after the end-year supplementary budget, resulting in a deficit of F 83.8 billion. Including net expenditures under the loans and advances accounts, the deficit is budgeted to rise to F 95.5 billion, equivalent to 2.6 per cent of GDP (Table 15). ^{1/}

A sustainment of demand and employment is scheduled to stem in particular from a rise in social benefits, transfers to bolster employment in the private sector, and a 15.6 per cent increase in budgeted outlays

^{1/} The nationalization, as of February 13, 1982 of various industrial groups and financial institutions involves an exchange of shares of former stockholders against government-guaranteed 15-year variable interest rate bonds to be issued by two newly established holding companies, the Caisse Nationale de l'Industrie and the Caisse Nationale des Banques. In the state budget F 2 billion are appropriated for the creation and the initial working capital of these holding companies.

on wages and salaries. The latter will be absorbed primarily by the creation of 61,000 new jobs in the public sector in 1982. Together with additional jobs in health and social services supported by the 1982 budget and with those authorized by the first supplementary budget of 1981, public sector employment will rise by about 125,000 over the 18 months through the end of 1982. This compares with an average growth of public sector jobs by some 25,500 a year between 1974 and 1980, which was reduced to about 1,900 in the initial budget for 1981. Appropriations for wages and salaries are further based on the intent to keep average real earnings in the public sector stable in 1982 with some leeway for an increase in the lower brackets. At an estimated net cost to the budget of F 6.3 billion, measures to alleviate unemployment, including job creation in the public sector, and the youth employment and early retirement schemes, ^{1/} are expected to lower the number of unemployed by 95,000 by the end of the year.

Appropriations for capital expenditures are scheduled to increase by 28 per cent as against the initial budget of 1981, with particularly rapid growth in outlays for housing construction and renovation. However, budgeted capital outlays are lower than those of 1981 after the end-year supplementary budget. In an effort to prevent the budgetary support to economic activity from fueling inflationary pressures and entailing a deterioration of the external account, the authorities foresaw measures to enhance the expansion of productive capacities, and to give priority to raising outlays with a low import content. The measures foreseen to bolster the supply side include a doubling, as against the 1981 budget, in spending appropriations for subsidies to industry, in particular to support innovation, data processing, communications, new energy sources, and the aerospace industry, a 30 per cent rise in expenditure authorizations for nonmilitary research, and numerous budgetary measures in support of small and medium-sized enterprises, particularly in the industrial sector. Much of the assistance provided to industry is designed to enhance import substitution and to strengthen the export potential of the sector. Moreover, defense expenditure is budgeted to rise by 17.6 per cent to 3.9 per cent of GDP. Given the widening of the budget deficit and higher interest rates on new debt, outlays on servicing public debt are expected to rise by more than 40 per cent.

In the framework of a package of measures decided in the wake of the devaluation of the franc within the EMS on October 4, 1981, the Government announced a freeze of F 16 billion of investment outlays foreseen in the 1982 budget. These expenditures would be released only if warranted by the economic situation.

State revenues in 1982 will be affected by the slowdown in household incomes and the deterioration of business profits in 1981, the full indexation of income tax brackets on the rise in consumer prices, and various

^{1/} The youth employment program is in force through the middle of 1982.

discretionary tax increases. In the light of the weakening of the tax base and a revenue loss of about F 16 billion stemming from a uniform 13.5 per cent inflation adjustment of income tax brackets and deductions, the share of fiscal revenue in nominal GDP would have fallen by about 1 percentage point as against that foreseen in the 1981 budget. With the gross discretionary revenue increases estimated at some F 32 billion, total fiscal receipts are expected to grow roughly in line with the projected increase in nominal GDP of 17 per cent over the estimated outturn of 1981, leaving the state tax burden, after revenue sharing and refunds, practically unchanged at about 18.5 per cent of GDP. The discretionary measures to raise revenues primarily affect direct taxes and reflect the authorities' endeavor to moderate inequalities in the distribution of income and wealth. Discretionary increases in direct taxes amount to approximately F 20 billion, mainly encompassing a surtax on higher incomes to help finance unemployment benefits, a new wealth tax, a tax on corporate expenses mainly benefiting senior management, and special taxes on windfall profits of banks and petroleum companies. Discretionary increases in indirect taxes, totaling about F 12 billion, apart from contributing to the containment of the budget deficit, are expected to provide an inducement to shifts in consumption patterns, as they mostly affect gasoline consumption, the consumption of tobacco and alcohol, and car ownership.

b. General government in 1982

The official projections on a national accounts basis for the general government consistent with the state budget for 1982 are for a growth of both expenditures and revenues at some 18.5 per cent. Against the background of the rise in the deficit and high interest rates, interest payments are forecast to increase by more than 28 per cent to 4.4 per cent of total outlays. A further marked increase of almost 20 per cent is projected for social transfers, which represent more than half of consolidated expenditures. Although scheduled to pick up against the preceding year, the rise in public consumption and investment outlays is expected to stay below the average of all expenditures; the most pronounced acceleration against previous years is foreseen for fixed investment, reflecting a sharp increase in investment spending by local authorities, which account for about 80 per cent of public sector investment.

Notwithstanding discretionary tax increases, the projected rise of about 16 per cent in tax revenues lags behind the official forecast of GDP growth, mainly owing to the full indexation of the income tax on the CPI and the weakness of incomes estimated for the previous year, on which income tax liabilities for 1982 are assessed. The pickup in receipts from indirect taxes mainly reflects the projected recovery of activity and the increase in the tax on petroleum products, while revenues from capital taxes will be boosted by the introduction of the wealth tax. Because of the expected pickup in incomes and increases in contribution rates to social security, the rise in contributions is foreseen to double to about 24 per cent as against 1981 (Table 19). This accounts for the renewed increase in the share of consolidated taxes and social security contributions in GDP to 40.7 per cent in 1982 (Table 23).

The general government deficit on a national accounts basis is officially projected to rise to F 83 billion (2.3 per cent of GDP) (Tables 19 and 23). According to the cyclically neutral budget concept, this suggests a neutral stance of fiscal policy (Table 24).

c. The local authorities and the decentralization program

The decentralization program to be completed in 1983, involves a transfer of decision-making authority from the Central Government to local authorities. Any delegation of competence would be accompanied by a transfer of resources, either by shifting certain taxes to local authorities or by providing them with untied transfers from the state budget. Although the reform would alter the mix of public finances it would not affect their level. The principle that local authority budgets must be balanced will remain in force and the authority of prefects to enforce this principle will be maintained, while procedures will be simplified. The first decentralization bill, signed into law in February 1982, defines the legal structure of local authority decisionmaking and establishes the system of ex post control over the budgets of local authorities. Further legislation to be introduced by 1983 will specify the distribution of authority between the State and the three levels of provincial government.

Progress in providing local authorities with untied funds from the state budget has already taken place with the replacement of the local tax by the versement représentatif de la taxe sur les salaires from the state budget to finance operational expenditures of communities. The funds amount to about F 50 billion in 1982 and supplement untied funds of F 7 billion provided to local authorities under regulations in force since 1975 to refund VAT payments on local investment projects. New legislation will allow for untied investment subsidies (dotation globale d'équipement) to be freely used for the financing of local projects or for amortization. However, the State Government will retain responsibility for overseeing large communal projects entailing financial commitments for other public authorities.

Table 15 France State Budget, 1980-82 ^{1/}

(Administrative basis, in billions of francs)

	1980			1981		1982
	Initial budget law	After end-year supplementary budget	Final out- turn ^{2/}	Initial budget law	After end-year supplementary budget	Initial budget law
Expenditures						
Ordinary budget	525.0	566.0	579.5 ^{3/}	617.5	675.8	788.4
Current expenditure ^{4/}	377.9	402.9	410.1	442.6	480.1	578.1
Capital expenditure ^{5/}	41.9	57.6	57.4 ^{6/}	51.9	72.2	66.2
Defense ^{7/}	105.4	105.8	97.1	123.2	123.7	144.4
Special accounts, net	-0.2	-0.2	0.1	-0.2	-0.2	-0.3
Loans and advances accounts ^{8/}	79.0	81.9	81.8	0.1	96.8	109.3
Revenues						
Ordinary budget, net	497.9	524.8	544.4	592.1	596.5	704.6
Tax revenue	567.7	597.0	597.0	671.2	682.3	797.6
Non-tax revenue	27.8	29.3	50.0 ^{3/}	35.1	34.3	41.3
Less: Revenue sharing and refunds	-97.6	-101.5	-102.6	-114.2	-120.1	-134.3
Loans and advances accounts	11.4	87.4	86.6 ^{5/}	86.3	100.1	97.7
Balances						
Ordinary budget	-27.2	-41.2	-35.1	-25.4	-79.4	-83.8
Loans and advances accounts	-4.0	5.4	4.8	-4.0	3.3	-11.6
Overall balance	-31.2	-35.8	-30.3	-29.4	-76.0	-95.5

Sources: Assemblée Nationale, Projet de Loi de Finances pour 1982, Rapport Economique et Financier, Ministère de l'Economie et des Finances-Budget, Les Notes Bleues, and data provided by the French authorities.

^{1/} Excluding transactions with the IMF and the Fonds de Stabilization des Changes.

^{2/} Data include revenues and expenditures under earmarked account and other dispositions not included in initial or supplementary budgets.

^{3/} Including earmarked accounts (fonds de concours), accounting for expenditures of F 21.1 billion and revenues of F 20.7 billion in 1980, not included in initial or supplementary budgets.

^{4/} Wages, salaries, old-age pensions (including pensions for military personnel), outlays for goods and services for non-defense purposes, interest on the public debt, and transfers.

^{5/} Investment and investment aids.

^{6/} Including F 12.4 billion for the conversion of debt by Electricité de France into share capital.

^{7/} Current expenditure (including wages and salaries) and capital expenditure.

^{8/} Including other special accounts.

Table 16 France State Budget for 1981

(Administrative presentation, in millions of francs)

	Initial budget law	First supple- mentary budget 1/ Aug 3	Second supple- mentary budget 2/ Nov 28	Third supple- mentary budget Dec 31	Fourth supple- mentary budget Dec 31	Budget after end-year supple- mentary budget
Expenditures						
Ordinary budget	617 521	28,282	13,804	13,449	2,751	675,807
Current expenditure	442,649	25,427	--	10,093	1,976	480,145
Capital expenditure	51,871	2,698	13,804	3,051	775	72,199
Defense	123,211	156	--	305	--	123,672
Special accounts, net	-210	1	--	--	--	-209
Loans and advances accounts	90,246	6,942	--	-390	--	96,798
Revenues						
Ordinary budget, net	592,104	7,606	--	-3,250	--	596,460
Tax revenues	671,168	7,567	--	3,561	--	682,296
Income tax	135,226	3,315	--	-656	--	137,885
Corporate income tax	64,660	--	--	5,140	--	69,800
Other direct taxes	52,710	3,220	--	6,001	--	61,931
Value-added tax	299,130	246	--	-4,376	--	295,000
Customs duties (incl tax on petroleum products)	55,988	816	--	-904	--	55,900
Other indirect taxes	63,454	-30	--	-1,644	--	61,780
Nontax revenues	35,143	39	--	-922	--	34,260
Taxes levied for local authorities	-45,307	--	--	-46	--	-45,353
Taxes levied for EEC	-23,300	--	--	307	--	-22,993
Tax alleviations and refunds	-45,600	--	--	-6,150	--	-51,750
Loans and advances accounts	86,279	20	13,804	--	--	100,103
Balances						
Ordinary budget	-25,417	-20,676	-13,804	-16,699	-2,751	-79,347
Loans and advances accounts	-3,967	-6,922	13,804	390	--	3,305
Overall balance	-29,384	-27,598	--	-16,309	-2,751	-76,042

Sources Assemblée Nationale, Projet de Loi de Finances pour 1982, Rapport Economique et Financier, and Ministère de l'Economie et des Finances-Budget, Les Notes Bleues.

1/ Including amendments by decree of June 5, 1981

2/ Conversion of loans to Usinor and Sacilor into shares after nationalization.

Table 17. France: Main Factors Affecting the Development of the State Budget in 1981 ^{1/}

(Administrative presentation; in billions of francs)

	First supple- mentary budget	Third supple- mentary budget	Fourth supple- mentary budget	Total
Discretionary measures				
Changes in expenditures	12.8	9 0	2.8	24.6
Social policy	5 9 ^{2/}	2.7 ^{3/}	--	8.6
Employment policy	2.8 ^{4/}	--	--	2.8
Investment policy and assistance to enterprises	4.0 ^{5/}	7.2 ^{6/}	2.8 ^{7/}	14.0
Miscellaneous measures	--	-0.9 ^{8/}	--	-0.9
Changes in revenues	7.6 ^{9/}	--	--	7.6
Changes in budget balance	-5.2	-9.0	-2.8	-17.0
Adjustments of budget estimates				
Changes in expenditures	22.4 ^{10/}	4 0 ^{11/}	--	26.4
Changes in revenues	--	-3 3 ^{12/}	--	-3.3
Changes in budget balance	-22.4	-7.3	--	-29.7
Overall changes in budget balance	-27 6	-16.3	-2.8	-46.7

Sources Ministère de l'Economie et des Finances-Budget, Les Notes Bleues.

^{1/} Excluding the transactions of the second supplementary budget involving the conversion of loans to Usinor and Sacilor into shares after nationalization

^{2/} A 25 per cent increase in family allowances as from July 1; a 50 per cent increase, in two equal steps on July 1 and December 1, in housing allowances; a 20 per cent increase on July 1 in allowances for the elderly and adult handicapped; additional social benefits to farmers and others; and the Government's contribution to financing part of the increase in the minimum wage by 10 per cent. Estimate includes interest on corresponding rise in public debt, but excludes effect of F 2 6 billion on deficit of social security.

^{3/} Unemployment compensation and assistance to migrant foreign workers.

^{4/} Increase in public employment and appropriations for youth employment and vocational training schemes.

^{5/} Support for 50,000 low-income housing units, for raising the funds of the FDES and of the Fonds Spécial d'Adaptation Industrielle (FSAI), and for promoting energy conservation, research, and industrial policy projects

^{6/} Capital and current transfers to public enterprises and aid to private enterprises and the housing-saving scheme.

^{7/} Various forms of assistance to agricultural enterprises.

^{8/} Mainly reflecting new appropriations for remuneration and cost of fuel consumption in the defense budget, and cancellations of earlier appropriations.

^{9/} A temporary surcharge of 25 per cent on 1980 income tax liabilities in excess of F 100,000, a special tax of 10 per cent on sundry expenses of corporations, special taxes on windfall profits of banks and petroleum companies, an increase in the tax on petroleum products, modifications in the deductibles of the inheritance and donations taxes, a levy of 5 per cent on the 1980 profits of labor-pooling enterprises, and various taxes on yachts and luxury hotels

^{10/} Revisions for underestimated outlays of initial budget law of F 7 billion for government debt servicing, guarantees, interest subsidies, and subsidies to housing-saving scheme, F 4.2 billion for benefits to unemployed and early retirees, F 3 2 billion for subsidies to public enterprises, F 2 billion for loans by the FDES, and F 6 billion for miscellaneous subsidies and loans to health services, agriculture, shipbuilding, navy, etc.

^{11/} Adjustments owing to different than initially projected economic developments, mainly affecting wages and salaries, and pensions.

^{12/} Revisions for overestimated indirect tax revenues and for underestimated direct tax receipts and tax alleviations and refunds.

Table 18. France: Treasury Financing Operations, 1979-81 1/
(Cash basis; in billions of francs)

	1979	1980	Jan.-Oct. 1980	1981
Overall cash balance <u>2/</u>	-29.3	-35.6	-62.4	-97.8
Nonmonetary financing, net				
Bonds, net	17.0	41.8	50.9	37.6
New issues	12.6	27.7	27.6	18.5
Redemptions	(15.0)	(31.0)	(31.0)	(25.0)
Operations with nonmonetary Treasury correspondents, net <u>3/</u>	(-2.4)	(-3.3)	(-3.4)	(-6.5)
Placement of Treasury certificates with the public, net	15.4	8.7	12.3	27.0
Other, net <u>4/</u>	2.6	1.0	0.9	-1.3
	-13.6	5.5	10.1	-6.6
Monetary financing, net				
Liabilities to nonfinancial agents, net <u>5/</u>	12.3	-7.3	11.5	60.2
Liabilities to banks and financial establishments, net	8.5	6.8	-0.8	3.2
Banque de France, net <u>6/</u>	3.8	-14.1	12.3	57.0
Banks and financial establishments, net	4.2	-14.5	-8.0	6.5
Of which:	-0.4	0.4	20.3	50.5
Placement of Treasury certificates, net	(-0.4)	(0.6)	(20.4)	(50.3)

Sources: Conseil National du Cr dit, Rapports Annuels; and data provided by the French authorities.

1/ Excluding operations with the IMF.

2/ After taking account of leads and lags in payments between fiscal years, and crediting or debiting the Treasury's account at the Banque de France with valuation gains or losses on official foreign exchange reserves. Valuation losses of F 1.4 billion were recorded in 1979 and valuation gains of F 6.5 billion in 1980 and F 22.3 billion in 1981.

3/ Mainly purchases of Treasury certificates and deposits of the Caisse des D p ts et Consignations, excluding postal checking system.

4/ Including obligations cautionn es.

5/ Mainly deposits of postal checking system.

6/ After taking account of valuation gains or losses on official foreign exchange reserves.

Table 19. France: General Government Operations, 1978-82

(National accounts basis)

	In billions of francs 1980	In per cent of total 1980	Percentage change				
			1978	1979	1980	1981 <u>1/</u>	1982 <u>2/</u>
Expenditures							
Interest payments	45.9	3.8	20.9	23.2	22.1	39.6	28.3
Functional expenditures	423.1	35.2	12.9	13.8	15.2	15.7	16.7
Wages and salaries	220.7	18.4	12.9	12.5	15.2	14.9	16.6
Intermediary consumption	125.2	10.4	16.5	15.6	15.4	18.2	17.2
Investment	77.2	6.4	9.2	13.9	15.0	14.3	16.4
Of which:							
Fixed capital	(75.0)	(6.2)	(4.4)	(12.4)	(15.3)	(13.0)	(17.3)
Domestic transfers	708.3	58.9	17.6	14.8	14.4	19.5	18.7
Social transfers	620.8	51.7	18.5	15.8	15.3	19.9	19.7
Other transfers <u>3/</u>	87.4	7.3	11.8	8.5	8.7	17.2	11.0
Transfers to rest of world	24.5	2.0	9.4	17.2	12.4	18.5	16.1
Total expenditures	1,201.8	100.0	15.8	14.9	14.9	19.0	18.4
Revenues							
Tax receipts	639.5	52.8	12.7	17.3	16.8	12.4	15.9
Of which:							
Taxes on production and imports	(397.0)	(32.8)	(15.3)	(18.6)	(13.7)	(10.6)	(15.8)
Taxes on income and property	(236.0)	(19.5)	(8.3)	(14.7)	(22.6)	(15.1)	(14.5)
Social security contributions	466.2	38.4	14.0	20.4	18.0	11.7	23.7
Marketed production	47.8	3.9	17.5	15.0	12.5	15.1	15.1
Other revenue	58.6	4.8	5.8	12.4	30.2	3.9	13.0
Total revenue	1,212.1	100.0	13.0	18.1	17.7	11.8	18.7

(In billions of francs)

Financial balances							
Central Government	...	...	-27.1	-20.6	-0.9	-50.3	...
Of which:							
State	(...)	(...)	(-28.2)	(-23.3)	(-3.1)	(-52.8)	(...)
Local authorities	...	..	-15.3	-13.1	-16.1	-18.4	...
Social security	...	...	2.9	17.9	27.3	-5.5	...
General government	...	...	-39.5	-15.8	10.4	-74.3	-83.0

Sources: INSEE, Rapport sur les Comptes de la Nation, 1980; and Assemblée Nationale, Projet de Loi de Finances pour 1982, Rapport Economique et Financier; and data provided by the French authorities.

1/ Official estimate.

2/ Official forecast.

3/ Mainly subsidies.

Table 20. France: State Government Operations, 1978-81

(National accounts basis)

	In billions of francs 1980	In per cent of total 1980	Percentage change		
			1978	1979	1980 1981 1/
Expenditures					
Investment	11.9	2.1	3.5	10.2	9.6 1.7
Wages and salaries	161.4	28.4	13.8	11.3	15.5 14.5
Intermediary consumption	56.3	9.9	12.1	24.0	13.0 20.4
Social transfers	71.2	12.5	15.1	13.5	6.6 16.6
Other transfers 2/	241.6	42.5	18.0	15.8	14.6 20.5
Other 3/	26.6	4.7	24.5	25.4	22.7 54.9
Total expenditures	569.0	100.0	15.7	15.2	13.9 19.5
Revenues					
Tax receipts 4/	510.7	90.3	12.3	18.4	17.5 11.5
Goods and services	12.7	2.3	11.9	3.5	14.0 15.0
Other	42.5	7.5	8.4	10.1	38.9 1.4
Total revenues	565.9	100.0	12.0	17.4	18.8 10.8
Financial balance	...	...	-28.2	-23.3	-3.1 -52.8

(In billions of francs)

Sources. INSEE, Rapport sur les Comptes de la Nation, 1980, Assemblée Nationale, Projet de Loi de Finances pour 1982, Rapport Economique et Financier; and data provided by the French authorities.

1/ Official estimate.

2/ Current transfers and capital transfers.

3/ Taxes, insurance premiums and interest payments.

4/ Net of revenue sharing.

Table 21. France: Local Authorities' Operations, 1978-81

(National accounts basis)

	In billions of francs	In per cent of total	Percentage change			
			1978	1979	1980	1981 1/
Expenditures						
Investment	60.1	27.3	3.1	13.6	17.4	14.6
Wages and salaries	49.8	22.6	18.2	17.0	15.0	14.5
Intermediary consumption	41.8	19.0	14.5	14.5	19.7	17.0
Social transfers	27.1	12.3	15.8	6.2	12.6	15.1
Other transfers 2/	21.5	9.8	13.0	7.3	12.7	8.8
Other 3/	20.2	9.2	18.6	17.8	20.3	17.3
Total expenditures	220.5	100.0	12.3	13.2	16.4	14.7
Revenues						
Tax receipts 4/	126.0	61.6	15.5	15.8	15.9	15.0
Public transfers 5/	36.4	17.8	12.1	16.7	14.3	14.3
Goods and services	25.6	12.5	12.5	17.1	20.2	17.2
Other 6/	16.3	8.0	18.1	13.8	13.9	11.7
Total revenues	204.4	100.0	14.7	15.9	16.0	14.8
Financial balance	...	...	-15.3	-13.1	-16.1	-18.4

(In billions of francs)

Sources: INSEE, Rapport sur les Comptes de la Nation, 1980; Assemblée Nationale, Projet de Loi de Finances pour 1982, Rapport Economique et Financier; and data provided by the French authorities.

1/ Official estimate.

2/ Current transfers and capital transfers.

3/ Taxes, insurance premiums and interest payments.

4/ Including proceeds from revenue sharing.

5/ Investment aids and current transfers.

6/ Including interest earnings, insurance premiums, current transfers, and capital transfers.

Table 22. France: Operations of the Social Security System, 1978-81

(National accounts basis)

	In billions of francs 1980	In per cent of total 1980	Percentage change			
			1978	1979	1980	1981 ^{1/}
Expenditures						
Old age benefits	217.2	39.2	17.5	16.0	14.4)	
Health benefits	176.3	31.8	19.5	17.1	15.9)	
Family benefits	68.0	12.3	18.1	14.5	18.1)	20.7
Unemployment benefits	33.5	6.1	46.2	42.6	40.7)	
Accident benefits	22.4	4.0	13.3	10.6	10.4)	
Other ^{2/}	37.5	6.7	18.8	12.0	15.9	13.1
Total expenditures	554.8	100.0	19.1	16.7	16.6	20.2
Revenues						
Employers' contributions	339.8	58.4	14.4	16.6	15.7	13.3
Employees' contributions	125.6	21.6	13.6	30.2	24.5	7.2
Other contributions ^{3/}	33.6	5.8	15.5	27.5	19.2	15.2
Public transfers	69.1	11.7	28.0	21.8	21.7	23.7
Other	14.0	2.5	4.4	-1.8	-2.1	24.3
Total revenues	582.1	100.0	15.3	20.3	17.9	13.6
(In billions of francs)						
Financial balance	...	...	2.9	17.9	27.3	-5.5
Of which:						
Main insurance fund ^{4/}	...	...	-7.5	4.2	13.2	...
Of which:						
Unemployment insurance	...	...	(-0.4)	(0.6)	(2.2)	(...)
Fund for other private employees ^{5/}	...	...	1.4	3.1	3.7	...
Fund for public employees ^{6/}	...	...	3.3	3.9	1.9	...
Supplementary old age insurance funds ^{7/}	...	...	5.4	6.1	6.4	...

Sources: INSEE, Rapport sur les Comptes de la Nation, 1980; Assemblée Nationale, Projet de Loi de Finances pour 1982, Rapport Economique et Financier; and data provided by the French authorities.

^{1/} Official estimate.

^{2/} Including wages and salaries, expenditures on goods and services, transfers, and investment outlays.

^{3/} Contributions by self-employed or nonemployed.

^{4/} Régimes généraux.

^{5/} Régimes spéciaux.

^{6/} Régimes statutaires.

^{7/} Régimes complémentaires.

Table 23. France: Indicators of the Relative Importance of the Public Sector, 1978-82

(National accounts basis; in per cent of GDP)

	1978	1979	1980	1981 1/	1982 2/
General government 3/					
Expenditure	42.6	42.9	43.6	46.1	46.7
Taxes and social security contributions	37.1	38.6	40.1	40.0	40.7
Of which:					
Social security contributions	(15.3)	(16.2)	(16.9)	(16.8)	(17.8)
Financial balance	-1.9	-0.7	0.4	-2.4	-2.3
State					
Expenditure	20.4	20.5	20.7	21.9	...
Taxes	17.3	17.9	18.5	18.5	18.4
Financial balance	-1.3	-1.0	-0.1	-1.7	...
Memorandum items:					
Financial balances of general government					
Germany	-2.7	-2.9	-3.4	-4.5	...
Italy	-9.7	-10.0	-8.7	-11.6	...
United Kingdom	-4.3	-3.2	-3.5	-2.5	...
Netherlands	-4.4	-5.0	-5.8	-6.7	...
Belgium	-7.2	-9.1	-12.1	-15.9	...

Sources: INSEE, Rapport sur les Comptes de la Nation, 1980; Assemblée Nationale, Projet de Loi de Finances pour 1982, Rapport Economique et Financier; and IMF European Department.

1/ Official estimates for France and staff estimates.

2/ Official forecast.

3/ Including Central Government, local authorities, and social security funds.

Table 24. France Cyclical Impact of Public Sector Operations, 1978-82

(National accounts basis)

	1978	1979	1980	1981 ^{1/}	1982 ^{2/}
(In per cent of GDP)					
Actual financial balance					
Central Government	-1.3	-0.9	--	-1.8	...
Of which:					
State	(-1.3)	(-1.0)	(-0.1)	(-1.7)	(...)
Local authorities	-0.7	-0.5	-0.6	-0.6	...
Social security funds	0.1	0.7	1.0	-0.2	...
General government	-1.9	-0.7	0.4	-2.4	-2.3
Cyclical effect ^{3/}					
Central Government	1.6	1.0	-0.2	1.1	...
Of which:					
State	(1.4)	(1.0)	(-0.2)	(0.9)	(...)
Local authorities	-0.3	-0.5	-0.5	-0.7	...
Social security funds	-0.1	-0.7	-1.2	-0.4	...
General government	1.2	-0.2	-1.9	--	--
Change in cyclical effect ^{3/}					
Central Government	0.7	-0.4	-1.5	1.1	...
Of which:					
State	(0.7)	(-0.3)	(-1.1)	(1.1)	(...)
Local authorities	-1.2	-0.2	-0.1	-0.2	...
Social security funds	0.5	-0.6	-0.1	0.7	...
General government	1.0	-1.2	-1.7	1.6	--

Sources: INSEE, Rapport sur les Comptes de la Nation, 1980; Assemblée Nationale, Projet de Loi de Finances pour 1982, Rapport Economique et Financier; data provided by the French authorities; and staff calculations.

^{1/} Based on official estimates.

^{2/} Based on official forecasts.

^{3/} The cyclical effect is calculated by subtracting the actual financial balance from the cyclically neutral financial balance. The latter is derived by projecting expenditures in line with the growth of potential GDP, and receipts in line with the growth of actual GDP, both in value terms.

IV. Monetary Policy and Developments

1. Developments in 1981 ^{1/}

a. The monetary target

Reflecting the intent of the authorities to contain inflationary pressures, the monetary target set for 1981 allowed for an increase in the money supply (M_2) by 10 per cent during the year. It represented a slowdown by 1 percentage point as against the previous year's target, but corresponded roughly to the actual expansion of M_2 at 9.7 per cent during 1980 (Tables 25 and 26). Assuming a steady expansion of M_2 during 1981, the target implied a year-on-year average increase of about 11 per cent. Thus, compared with a contemporaneous official projection for the growth of nominal GDP of 12.3 per cent in 1981, the prospect was for an acceleration in the income velocity of M_2 by more than 1 per cent, a somewhat higher rate than occurred in 1980.

When establishing the target for 1981, the authorities expected that the contribution to the growth of M_2 of the evolution of net official reserves and of the monetary financing of the budget deficit by the Treasury would be maintained at its level of F 20 billion envisaged for 1980. ^{2/} Moreover, after taking account of expected developments during 1981 with respect to bond issues and the own resources of financial institutions ^{3/} as well as to other miscellaneous factors affecting the growth of M_2 , ^{4/} it was concluded that the achievement of the monetary target required a limitation of the expansion of bank lending to the economy to some 10 per cent. ^{5/} This compared with a correspondingly projected rise of 11 per cent and an actual increase of 14.5 per cent during 1980. ^{5/}

In an effort to contain the growth of bank lending within the scope of the target in 1981, the authorities tightened the credit growth ceilings for the majority of the institutions subject to the encadrement (Table 27). On the other hand, against the background of the slow expansion during 1980 of preferential credits only partially subject

^{1/} For a description of financial institutions and monetary policy instruments see France - Recent Economic Developments (SM/81/36, 2/13/81).

^{2/} The outturn on this combined item in 1980 was F 18 billion.

^{3/} Both are deductible from the expansion of bank credit subject to growth ceilings under the encadrement.

^{4/} Mainly reflecting the domestic banks' liabilities to foreign banks and correspondents associated with the extension of foreign currency credits to the economy.

^{5/} After elimination of the statistical bias attributable to the establishment at the end of 1980 of two banking institutions, Crédit d'Équipement des PME (CEPME) and Banque Populaire Fédérale de Développement (BPFED); the predecessors of the two banks were classified as nonbank financial institutions.

to the encadrement (Table 28), it was decided to lower the proportion of the increase in such credits included under the ceilings from 50 per cent for the latter part of 1980 to 40 per cent for 1981.

b. Monetary developments

In 1981, the pace and pattern of movements in monetary and financial flows have undergone a substantial change from the previous year. In the early part of 1981, the increase in all major monetary aggregates picked up considerably. Although the growth of the money supply slowed down from a seasonally adjusted annual rate of 22.5 per cent during April/May to some 7 per cent during June, it picked up again in the subsequent two months, raising the annual average rate to 17.7 per cent during January-August, 1981 (Table 25). In the light of the approaching elections period, there was a notable increase in liquidity preference, reflected in an acceleration in the growth of narrow money (M_1) from about 7 per cent during 1980 to an annual rate of some 19 per cent during January-May 1981. Moreover, given the liberalization of interest rates on time deposits since mid-1979, permitting a remuneration of certain deposits at a rate near the going money market rates, the sharp increase in short-term interest rates from March 1981 led to a placement of funds by individuals and institutional investors in time deposits instead of savings deposits and securities.

As to the sources alimentering monetary expansion, the increase in official foreign reserves continued to boost the money supply in the early part of the year, but it turned around subsequently (Table 29). The monetary financing of the budget deficit, which had exercised a dampening effect on M_2 during most of 1980, became an important source of monetary growth in 1981. Notwithstanding a marked pickup in the Treasury's absorption of nonmonetary resources from its correspondents, chiefly the Caisse des Dépôts et Consignations (CDC), owing to the widening of the deficit and the weakness of the bond market, the Treasury's monetary borrowing at F 50.5 billion during the first eight months of 1981 was about double the amount of a year earlier. The growth of bank lending to the economy accelerated from the middle of 1980 and continued at an annual average rate of about 19 per cent during the first eight months of 1981. However, this development was affected by the depreciation of the franc, mainly vis-à-vis the U.S. dollar, which boosted the value of credits granted in terms of foreign currency. Bank credits in francs to private residents grew at a year-on-year rate of somewhat less than 14 per cent (Table 30). Furthermore, there was a pronounced alteration in the pattern of bank lending to the economy. During 1980 as a whole, such lending grew noticeably faster than was envisaged at the time the monetary target was established. Nonetheless, this generated only a modest unexpected contribution to the increase in the money supply (Table 25). The boom in the securities market enabled banks to raise substantially their bond issues, which provided additional scope for lending outside the confines of credit growth ceilings, but at

the same time absorbed monetary assets of nonbanks. Moreover, against the background of widespread expectations for an appreciation of the exchange rate of the franc, there was a strong demand for bank credits in foreign currency terms. They are not subject to the encadrement, and they grew by some 55 per cent during 1980 (Table 28). However, the rise in foreign currency loans was not paralleled by a commensurate rise in deposits with domestic banks, but in part by an increase in the banks' liabilities to foreign banks and correspondents. From the beginning of 1981 through August, the contribution of bank lending to the growth of M_2 was exacerbated by a deceleration and eventual decline in the absorption of monetary assets through the nonmonetary resources of the banks. Notably, there was a decline in the resources the banks were able to borrow from the CDC, against the background of a slowdown in its collection of deposits and an increase in its contribution to financing the budget deficit. Furthermore, whereas the continued strong expansion in bank lending in foreign currencies was accompanied by an exceptionally rapid increase in the banks' liabilities to foreign banks and correspondents during the first quarter of 1981, this relationship was reversed with a subsequent turnaround in exchange rate expectations (Table 29).

In early September the remuneration obtainable on time deposits and certificates of deposit was severely constrained. Moreover, short-term interest rates eased noticeably after the realignment in the EMS in early October. Investors shifted funds from time deposits and certificates of deposit into demand and savings deposits, and more significantly, into bonds. As a result, during the last four months of 1981, the growth of M_2 decelerated to an estimated annual rate of less than 2 per cent, lowering the rate during the year as a whole to 12 per cent. This corresponded to an annual average increase of about 12.5 per cent, which left the liquidity ratio in 1981 roughly unchanged as against the previous year (Table 31). The component of the money supply held by residents (M_2R), which is practically unaffected by valuation adjustments on foreign currency deposits essentially kept by nonresidents, grew by 11.5 per cent between the end of 1980 and that of 1981.

An increase of net official foreign reserves between August and December contributed to the expansion of the money supply, which was partly attributable to valuation gains on foreign exchange reserves. During the year as a whole the effect of net official reserve movements dampened the expansion of M_2 by about 2 percentage points (F 27.7 billion), or by 3.5 percentage points (F 50 billion) if valuation gains on official foreign exchange holdings are excluded. Although the monetary financing of the budget deficit in the latter part of 1981 was moderated by the recovery of the long-term financial market, Treasury operations during the entire year boosted the money supply by 2.5 percentage points, or by 4 percentage points before crediting the Treasury's account at the Banque de France with the valuation gains on official foreign exchange reserves. Bank lending to the economy decelerated between August and December, leading to an increase of about 15.5 per

cent during the year as a whole. Although this exceeded the rate initially foreseen in the framework of the monetary target, it represented a moderate slowdown as against the preceding year. The growth of bank credits to private residents which are little affected by valuation adjustments on foreign currencies, slowed down from 15.7 per cent in 1980 to 13.3 per cent in 1981. The absorption of monetary assets by the banks' use of nonmonetary resources grew by only 5.5 per cent during 1981, compared with about 40 per cent during 1980 (Table 25).

c. The securities market and financial flows

The modifications in the pattern of financial flows between 1980 and most of 1981 also bear on the implications of monetary expansion for the economy and the effectiveness of the credit growth ceilings. During 1980, the slowdown in the money supply was not accompanied by a commensurate curtailment of financial resources for the economy. The income velocity of money, as reflected in the fall of the liquidity ratio shown in Table 31, increased by about 1 per cent. This was greatly helped by the rise in direct financial intermediation between households, on the one hand, and the Treasury and enterprises, on the other hand, via the securities market and in indirect intermediation over nonmonetary channels mainly by households purchasing securities issued by the banking system (Tables 32 and 33). The shift of financial placements from liquid assets to securities mainly stemmed from a widening of the interest rate differential between short-term and long-term financial investment. While interest rates in the short-term market declined moderately during 1980, bond yields were permitted by the authorities to rise and they were positive in real terms during the entire year. The differential in remuneration was further accentuated by regulatory measures, since notwithstanding developments in the rate of inflation, interest rates on housing savings accounts were left unchanged, and the tax levied at the source on interest earnings on anonymous liquid assets was increased. The pickup in bond sales was further enhanced by a more frequent recourse of the Treasury to the bond market in an effort to contain the monetary financing of the budget deficit and a shift by issuers toward shorter maturities and bonds at variable interest rates.

A reversal in the pattern of financial flows was largely responsible for a slowdown in the income velocity of money in the first half of 1981. The notable drop against a year earlier in the issuance of securities and in their weight in financial capital formation was caused by a variety of factors. Liquidity preference increased against the background of the national elections, reinforced by a strong shift in the yield curve benefiting short-term financial placements. Whereas in the early part of the year bond purchases were hampered by investors expecting a firming of yields, in the subsequent period borrowers were reluctant to issue fixed interest rate bonds at the given high rates in expectation of an early easing of the market. Moreover, bond purchases by nonresidents

were adversely affected by a turnaround in exchange rate expectations upon the outturn of the elections. As a result, bond sales during the first eight months of 1981 fell to some F 55 billion from about F 78 billion during the same period of 1980 (Table 32).

In the light of the sluggishness of the securities market firms were compelled to rely more on bank financing. At the same time, the latitude of banks and financial establishments to lend to the economy outside the framework of the encadrement was constrained by the conditions in the bond market and by the fact that a larger proportion of long-term funds obtainable from nonbank financial institutions was diverted to financing the budget deficit. To mitigate the effect of the deterioration of financial conditions on small and medium-sized enterprises and to bolster priority investments in areas such as job creation, exports, technological innovation, and energy conservation, the authorities repeatedly widened the scope of subsidized loans granted for these purposes, exempt from the encadrement. Moreover, whereas up to May the banks could rely, as in previous years, on using up remaining margins under the credit growth ceilings currently in force, such reserves were nearly depleted by June. The premium on unused margins negotiable between banks (prime de désencadrement) rose to about 6.5 per cent by August, the highest level since the end of 1974. Furthermore, a number of banks exceeded their credit growth ceilings and became subject to the penalty rates of minimum reserve requirements (Table 34). A tightening of financing conditions around mid-year was further reflected in surveys monitoring the availability of credits to enterprises. Against the background of these developments, the authorities raised in various steps the credit ceilings of the majority of banks for June and each subsequent month through the end of the year (Table 27). The amount of supplementary credits thus released was estimated to allow for an increase of about 0.5 percentage points in bank credits to the economy and in the money supply in 1981 as a whole.

Conditions in the financial markets in the latter part of the year eased further, mainly because of a marked recovery of the bond market. With a normalization of the yield curve following measures to limit the remuneration of time deposits and certificates of deposit in early September, and a lowering of short-term interest rates after the realignment in the EMS in early October, average monthly issues of bonds during September-December almost doubled as against the preceding eight months. As a result, gross bond issues during 1981 rose to about F 107 billion, close to the record level of 1980 (Table 32). The strengthening of the bond market benefited the nonmonetary financing of both the budget deficit, and, through the intermediation of financial institutions, the borrowing requirement of the private sector. The further marked pickup in bond issues by financial institutions in 1981 stemmed in part from a strong shift toward bonds at variable interest rates. The latter type of bonds represented almost 20 per cent of total issues in 1981 compared with less than 6 per cent in the previous year.

Developments in the stock market in 1981 were influenced by the election period and the nationalization program of the new administration. Upon the outcome of the presidential elections stock prices plummeted, and trading in the stock exchange was halted for 48 hours. Although share prices picked up subsequently, the INSEE index for domestic shares closed the year at about 15 per cent below its level at the end of 1980. During periods when the authorities deliberated over the compensation of shareholders, trading was suspended for the stocks of companies included in the nationalization program. Nonetheless, the issuance of new equities proceeded more steadily during the year than bond issues, and totaled F 23.3 billion in 1981 compared with F 21 billion a year earlier (Table 32). The good progress in the issue of equities, which mainly benefited small and medium corporations not quoted in the stock exchange, was attributable to the effect of legislation introduced in 1978 (Loi Monory) providing tax incentives to corporations on increases in capital and within certain limits, to subscribers of stocks of French corporations.

d. Interest rates

The principal objectives of interest rate policy are to bolster the position of the franc in the exchange markets and to enhance the placement of funds in the securities market rather than in monetary assets. In the light of the development of interest rates abroad and of other factors affecting the exchange rate, during most of the period since early in 1981 interest rate policy was dominated by the former objective. The marked firming of interest rates in Germany in the latter part of February and subsequent heavy pressures on the franc in the exchange markets, prompted the authorities substantially to raise short-term interest rates. The money market intervention rate of the Banque de France on seven-day advances against collateral of Treasury bills was successively raised from 10.8 per cent in January to 22 per cent in June. The three-month money market rate rose over the same period from 11.4 per cent to almost 19 per cent (Table 35). This was paralleled by an increase in the banks' base lending rate from 12.3 per cent to 17 per cent while the freely negotiable rates on time deposits of more than F 100,000 with a maturity of at least one month and time deposits on more than one year closely followed the rise in money market rates. Although long-term interest rates were firming also, the positive differential of about 3.5 percentage points between yields on private bonds and the three-month money market rate in January narrowed progressively and turned around by June to a negative figure of about 1 percentage point.

As tensions in the exchange markets abated the Banque de France gradually lowered the money market intervention rate. The process was halted when pressures on the franc recurred in August and September, but resumed after the October 4 realignment in the EMS, so that by February 1982 the

rate on seven-day advances had fallen to 15.4 per cent. Further helped by a cut in minimum reserve requirements at the end of June (Tables 34 and 36), conditions in the money market eased and the three-month rate had declined to 14.5 per cent by February 1982.

On September 3 regulations concerning the remuneration of residents' time deposits and certificates of deposit were tightened, leaving subject to free negotiation only rates on deposits of more than F 500,000 on maturities of above six months and deposits on more than one year. In consequence, although bond yields declined gradually, to a rate of 17.1 per cent for private bonds by February 1982, investment in bonds became considerably more attractive compared with short-term financial placements. Moreover, the decision facilitated progress in the authorities' endeavor to lower the banks' base lending rate, which fell to 14 per cent in October and has remained at this level subsequently.

Given renewed pressures on the franc in the EMS since mid-March 1982, the Banque de France was again compelled to tighten money market rates. In several steps, the money market intervention rate on seven-day advances to banks had been raised to 20 per cent by the latter part of March.

2. Monetary policy for 1982

a. The monetary target

The authorities remain committed to controlling monetary expansion in an effort to support the fight against inflation. Against the background of the official projection of a 17 per cent growth in nominal GDP, the monetary target is for a 12.5 per cent to 13.5 per cent growth in M_2 during 1982. The constraint implicit in the monetary goal appears less pronounced in the light of an expected less rapid rise in prices owing to the measures initiated by the authorities after the October 1981 realignment in the EMS. The target for 1982 has been, for the first time, expressed in terms of a range of permissible monetary growth, mainly reflecting prevailing uncertainties with respect to the extent of economic recovery. As to the main financial flows underlying the target, the authorities expect that the current account deficit would be financed essentially by foreign borrowing, with an important contribution foreseen to result from the organized foreign loan issues of public enterprises. The scope provided by the target for the monetary financing of the borrowing requirement of the Treasury and that associated with a recovery in the private sector are seen in conjunction with an expected further growth in nonmonetary resources, essentially through the bond market. The rise in the monetary financing of the budget deficit is expected to pick up, while that in bank lending to the economy is foreseen to slow down somewhat as against 1981.

As in previous years, the authorities rely on the system of credit growth ceilings as a major instrument of controlling monetary expansion through 1982. New ceilings have been set for the first half year, roughly in line with those applicable a year before, and the scheme has been altered to the effect of simplifying the establishment of ceilings and permitting firmer control over credit expansion (Table 27). In particular, the former practice of subjecting to the ceilings a certain proportion of increases in credits exempt from minimum reserve requirements was abandoned in favor of their full integration in the encaement, albeit under specific norms (Table 27).

b. The securities market

The achievement of the monetary target against the background of an anticipated recovery in economic activity is contingent on a continued favorable performance of the securities market. An assurance of positive bond yields in real terms coupled with the maintenance of constraints on the remuneration of time deposits and fiscal incentives as well as the trend toward a growing weight of bonds at variable interest rates are expected to secure a further expansion of the bond market. The issuance of the government-guaranteed variable interest rate bonds in exchange for shares of former stockholders in newly nationalized enterprises will entail a restructuring of investors' portfolios. It is not expected that this would create disturbances in the market, given the attractive terms on which the nationalization bonds are issued.

The nationalization program affects about 20 per cent of the shares in the stock market or about 30 per cent including the shares of affiliates. In an effort to mitigate the decline in the size of the market as a result of the nationalizations, measures are under consideration to widen the access of equity capital to the market, in particular, involving the introduction of small and medium enterprises to the stock market. Moreover, the issuance of new shares is likely to be boosted by the extension of the fiscal incentives granted under the Loi Monory.

c. Nationalization of banks

The law of February 13, 1982 provided for the nationalization of 39 banks and two holding companies. With respect to 17 banks officially quoted at the stock exchange and the two holding companies (Compagnie Financière de Paris et des Pays-Bas and Compagnie Financière de Suez) the law took effect immediately. The remaining 22 banks will be incorporated in the public sector as of July 1, 1982. The compensation of stockholders involves an exchange of shares against government-guaranteed bonds issued by the newly established Caisse Nationale des Banques.

The newly nationalized banks account for about 10 per cent of the deposits of all financial institutions. With their inclusion, the share of the public sector increases to about 76 per cent. ^{1/} Another 21 per cent of deposits are kept with the mutual and cooperative banks and the remaining 3 per cent essentially with privately owned small banks and affiliates of foreign banks. The enlarged sector of publicly controlled financial institutions accounts for about 75 per cent of credits to the economy, while the respective shares of the mutual and cooperative banks and of private banks are about 18 per cent and 7 per cent, respectively.

^{1/} The former group of public sector financial institutions included the three nationalized commercial banks, the CEPME, the Banque Française du Commerce Extérieur, the Banque de France, the Treasury, the banking network of the PTT, and public and semipublic nonbank financial institutions, such as the savings banks, Crédit Foncier de France, and Crédit National.

Table 25 France: Monetary Target, 1980-81

(End of period; billions of francs) 1/

	1980		1981						
	Target/ pro- jection	Outturn	Target/ pro- jection	Prelim- inary outturn	Outturn				
					March	May	June Seasonally adjusted 2/	Sept.	Nov.
Money supply (M ₂)	1,427.9 (11.0)	1,411.4 (9.7)	1,552.5 (10.0)	1,580.9 (12.0)	1,422.3 (16.5)	1,471.3 (18.9)	1,479.4 (16.8)	1,515.7 (14.5)	1,526.3 (12.6)
Counterparts of M ₂									
Foreign assets, net 3/)	220.1 (10.0)	218.0 (9.0)	238.0 (9.2)	247.5 (13.5)	243.4 (25.2)	222.5 (-7.7)	231.9 (1.6)	223.5 (-3.8)	253.7 (11.2)
Claims on Treasury, net)	1,314.8 (12.6)	1,319.6 (13.0)	...	1,549.7 (17.4)	1,339.7 (25.5)	...	1,402.3 (22.7)	1,451.8 (20.1)	...
Claims on the economy	1,503.0 (11.4)	1,548.0 (16.3)	1,733.5 (12.0)	1,790.7 (15.7)	1,580.0 (24.6)	1,616.3 (20.5)	1,628.7 (18.6)	1,677.6 (16.6)	1,723.2 (16.7)
Bank lending to the economy 4/									
Less: lending out of non- monetary sources	-188.2 (14.6)	-228.4 (39.1)	...	-241.0 (5.5)	-243.0 (10.1)	...	-236.4 (-2.0)	-238.0 (0.4)	...
Less: Other items, net 5/	-107.0 (31.9)	-126.2 (55.8)	...	-216.3 (71.4)	-160.8 (159.4)	...	-154.8 (49.3)	-159.6 (36.0)	...

Sources: Conseil National du Cr dit, Rapport Annuel and Statistiques Mensuelles; Banque de France, Bulletin Trimestriel; INSEE, Tendances de la Conjoncture and Bulletin Mensuel de Statistique; and data provided by the French authorities.

1/ Figures in brackets are percentage changes against outturn at end of preceding year.

2/ Percentage changes are against outturn at the end of 1980 at seasonally adjusted annual rates, i.e., comparable with the monetary target.

3/ Not seasonally adjusted.

4/ Including CEPHE and BPPD.

5/ Including banks' liabilities to foreign banks and correspondents.

Table 26. France: Monetary Survey, 1978-81

(National definitions; percentage changes on a year earlier; end of period)

	1980	1978	1979	1980	1981			
	(In billions of francs)				I	II	III	IV 1/
Monetary aggregates								
Money supply (M ₂) 2/	1,411.4	12.2	14.4	9.7	10.8	13.1	13.2	12.0
Of which:								
Narrow money (M ₁) 3/	691.6	11.1	12.2	6.8	8.4	11.6	15.9	14.7 4/
Quasi money 5/	719.8	13.5	16.8	12.6	13.0	14.6	10.7	9.6 4/
Broad money (M ₃) 6/	2,027.9	13.5	14.5	10.4	11.4	13.0	12.6	11.9 4/
Counterparts to M ₂								
Foreign assets (net) 7/	88.2	20.3	13.1	40.0	51.6	-13.6	-23.0	-7.1
Domestic claims (net)	1,449.4	10.0	15.2	11.1	13.2	17.1	17.1	18.4
Treasury	129.8	2.8	9.9	-5.3	-7.6	14.4	13.0	27.6
Economy 8/9/	1,319.6	11.0	15.9	13.0	16.1	17.5	17.6	17.4
Less: Other items (net)	-126.2	13.2	27.2	55.8	83.5	51.8	35.9	71.4
Memorandum items:								
Reserve money	193.3	12.2	6.6	15.4	13.5	20.4	18.6	5.8 4/
Money supply (M ₂), period averages	1,314.4	13.2	13.4	11.6	11.4	12.8	14.0	12.4
Aggregates on IFS definitions								
Money supply (M ₂)	1,347.4	12.2	13.9	8.3	9.5	11.9	11.9	11.3
Domestic credit	1,485.0	8.8	14.0	12.3	14.3	15.4	14.7	15.8
Money supply (M ₂), period averages	1,264.3	13.9	13.0	10.7	9.9	11.6	12.7	11.8 4/

Sources: Banque de France, Bulletin Trimestriel; Conseil National du Cr dit, Statistiques Mensuelles; IMF, International Financial Statistics; and data provided by the French authorities.

1/ Preliminary data.

2/ Aggregate in terms of which the annual target for the growth of the money supply during the year expressed. This target rate was set at 12.5 per cent for 1977, 12 per cent for 1978, 11 per cent for 1979 and 1980, and 10 per cent for 1981.

3/ Covering the following establishments: Banque de France (including the Exchange Stabilization Fund), registered banks, financial establishments, mutual credit companies, popular banks, the National Agricultural Bank, the French Bank for Foreign Trade, and the checking system of the Treasury and the Postal Administration (PTT). The data also include deposits by nonbank nonresidents which are excluded in International Financial Statistics.

4/ November data.

5/ Quasi money includes time deposits, passbook savings, savings qualifying for housing loans (comptes  pargne-logement, plans d' pargne-logement), and certificates at the establishments listed in footnote 3. Quasi money also includes time deposits of nonbank nonresidents, but excludes foreign currency demand deposits of residents, which are recorded under M₁.

6/ M₃ differs from M₂ mainly in institutional coverage, by including also savings banks (including the savings system of the PTT, Caisse Nationale d' pargne) and the National Energy Fund. In addition, M₃ includes Treasury bills held by the nonfinancial sector.

7/ Net assets held by the Banque de France only; excluding changes in the valuation of gold and ECUs and SDR allocations.

8/ Including claims on nonbank nonresidents and excluding lending from nonmonetary sources.

9/ Including CEPME and BPF .

Table 27. France: Credit Ceilings, 1/ 1980-82

(Index, January 2=100)

<u>General ceiling</u>						
<u>Banks and financial establishments</u>			<u>Small banks and financial establishments 2/</u>		<u>Ceiling on short-term export credit all institutions</u>	
<u>Category I 3/</u>	<u>Category II 4/</u>	<u>Category III 5/</u>	<u>Category II 4/</u>	<u>Category III 5/</u>		
1980						
March	98	100	101	102	103	104
June	99.5	102.5	104	104.5	106	107
September	100	102.5	105.5	106.5	109.5	111
December	103.5	106	107	110	111	114
1981 6/						
March	98	99	101	101	103	104
June	98.5 (99)	101 (101.5)	102.5 (103)	103 (103.5)	104.5 (105)	107
July	99 (100)	101 (102)	103 (104)	105 (106)	107 (108)	109
August	98.5 (99.5)	100.5 (101.5)	103.5 (104.5)	104.5 (105.5)	107.5 (108.5)	110
September	99 (101)	101 (102)	104 (105)	105 (106)	108 (109)	111
October	100 (102)	102 (103)	105 (105.5)	106 (107)	109 (109.5)	112
November	100.5 (102.5)	103 (104)	106 (106)	107 (108)	110 (110)	113
December	102.5 (104.5)	105 (105)	107 (107)	109 (109)	111 (111)	114
<u>Banks and financial establishments</u>			<u>Small banks and financial establishments 2/</u>		<u>Special ceiling all institutions 7/</u>	
<u>Category A 8/</u>	<u>Category B 5/</u>		<u>Category A 8/</u>	<u>Category B 5/</u>		
1982						
January	99.5	100.5	101.5	102.5	102	
February	100.0	101.0	102.0	103.0	103	
March	100.5	101.5	102.5	103.5	104	
April	101.0	102.0	103.0	104.0	105	
May	101.0	102.5	103.0	104.5	106	
June	101.5	103.5	103.5	105.5	107	

Sources: Banque de France, Bulletin Trimestriel, and instructions to Association Française des Banques.

1/ The credit ceilings apply to all credits and loans which are subject to the ordinary reserve requirement. Starting in 1978, certain credits not subject to the ordinary reserve requirement (i.e., medium-term and long-term export financing, certain types of housing and certain investment credits) have been gradually integrated into the general ceiling. This reintegration procedure requires banks and financial establishments to add to the amounts counting against the ceiling a specified proportion (taux de réintégration) of the increase in those credits. In 1978, the proportion was 15 per cent, it was 20 per cent (through October) and 30 per cent (for November and December) in 1979, 40 per cent (through March), 50 per cent (for April to December for all categories except certain housing credits) and 100 per cent (for April to December for certain housing credits) in 1980; and it has been set at 40 per cent (for all categories except certain housing credits) through 1981. Separate ceilings are set for Crédit Agricole. For 1982, credits formerly subject to partial reintegration are fully subject to ceilings at special rates.

2/ Banks and financial establishments whose credits subject to reserves did not exceed F 200 million on July 1 of previous year. In addition, since 1979, institutions whose total assets do not exceed F 100 million have been exempt from observing credit ceilings if their own resources are equivalent to at least 10 per cent of their outstanding credits.

3/ Banks whose credit subject to reserves exceeded F 9 billion on July 1, 1980.

4/ Other banks and financial establishments excluding installment credit institutions.

5/ Installment credit institutions.

6/ The credit growth ceilings were modified on June 17 for the end of June, on July 20 for the end of July and the end of August, and on September 10 for the end of the last four months of 1981. New ceilings are shown in brackets.

7/ Applicable to majority of credits exempt from ordinary reserve requirements. Special housing credits (prêts conventionnés) may grow within the general norm augmented by 80 per cent of the increase recorded during 1980 or 1981.

8/ All banks and financial establishments excluding installment credit institutions.

Table 28. France: Coverage of Credit Ceilings, 1979-81

(End of period)

	1980	Per cent	1979	1980 1/	1981
	Billions of francs	of total claims on economy	Percentage change from year earlier	November	November
Claims on Government 2/					
Claims, counterpart to M ₂	129.8	...	9.9	-5.3	40.0
Claims of nonbank financial institutions	54.1	...	26.4	13.3	39.7 3/
Claims on the economy 2/	2,370.4	100.0	15.0	13.6	10.0
Fully subject to ceiling	1,005.1	42.4	8.9	10.0	...
Partly subject to ceiling	197.0	8.3	29.9	5.3	...
Not subject to ceiling	1,168.3	49.3	18.1	14.4	...
Claims on economy by banks	1,548.0	65.3	15.3	14.5	15.7
Of which:					
Counterpart to M ₂	(1,319.6)	(55.7)	(15.9)	(13.1)	(15.6)
Lending out of nonmonetary sources 4/	(228.4)	(9.6)	(11.8)	(24.2)	(16.1)
Fully subject to ceiling	990.2	41.8	8.9	14.3	...
Partly subject to ceiling 5/	195.6	8.2	29.8	5.3	...
Not subject to ceiling	362.2	15.3	29.3	19.9	...
Of which:					
Credits in foreign currency	(124.2)	(5.2)	(18.9)	(55.4)	(46.2)
Of which:					
To residents	(34.3)	(1.4)	(2.4)	(103.0)	(21.6)
Claims on economy by nonbank financial institutions 6/	822.4	34.7	14.3	11.6	10.1 3/
Fully subject to ceiling	14.9	0.6	6.8	18.3	...
Not subject to ceiling	807.5	34.1	14.3	11.6	...

Sources: Conseil National du Cr dit, Rapport Annuel and Statistiques Mensuelles; Banque de France, Bulletin Trimestriel; and data provided by the French authorities.

1/ After elimination of the effect of the establishment of CEPME and BPDF.

2/ Claims on public authorities other than the State are recorded under credit to the economy.

3/ September data.

4/ Net liabilities to other financial institutions, bonds issued by banks, and capital net of fixed assets.

5/ Due to a partial reintegration since 1978. The credits subjected to the ceilings amounted to F 5.2 billion in 1978, F 9.8 billion in 1979, and F 16.1 billion in 1980.

6/ Specialized credit institutions and Treasury.

Table 29. France: Development of Main Monetary Aggregates, 1980-81

(End of period; percentage changes)

	1980	1981 1/	1980			1981		
			3rd qtr.	4th qtr.	Seasonally adjusted percentage changes at actual rates	1st qtr.	2nd qtr.	3rd qtr.
Monetary aggregates								
Money supply (M ₂)	9.7	12.0	2.4	2.2		3.9	4.0	2.5
Of which:								
Narrow money (M ₁)	6.8	14.7 2/	2.4	1.9		2.5	4.4	6.2
Quasi money	12.6	9.6 2/	2.2	3.8		3.7	4.1	-1.2
Broad money (M ₃)	10.4	11.9 2/	2.6	2.5		3.7	3.5	2.3
Counterparts to M ₂								
Foreign assets, net 3/	40.0	-7.1	4.0	16.7		13.6	-37.3	-7.3
Claims on Treasury, net	-4.8	27.6	-1.2	-2.9		0.9	18.1	-2.2
Claims on the economy	13.0	17.4	3.5	2.5		5.8	4.7	3.5
Bank lending to the economy 4/	16.3	15.7	3.9	4.9		5.7	3.1	3.0
Less: Lending out of nonmonetary sources	39.1	5.5	7.3	18.0		2.4	-2.7	0.7
Less: Other items, net 5/	55.8	71.4	10.2	8.0		26.9	-3.7	3.1

Sources: Banque de France, Bulletin Trimestriel; INSEE, Bulletin Mensuel de Statistique; and data provided by the French authorities.

1/ Preliminary data.

2/ Year-on-year change for November.

3/ Not seasonally adjusted.

4/ Including CEPME and BPF.

5/ Including the banks' liabilities to foreign banks and correspondents.

Table 30. France: Credit Outstanding by Sector, 1979-81

(Percentage change on a year earlier; end of period)

	1980		1979	1980	1981		
	In bil- lions of francs	Percent- age share			March	June	Sept.
Bank credit to the economy <u>1/</u>	1,372.0	65.1	14.0	17.3	17.0	18.2	17.7
Of which:							
Short-term	(504.1)	(23.9)	(6.9)	(15.0)	(15.0)	(14.7)	(14.1)
Medium- and long-term	(841.4)	(39.9)	(18.4)	(18.7)	(18.3)	(19.7)	(19.3)
Bank credit to private sector <u>2/</u>	1,342.2	63.7	14.1	17.4	17.1	18.3	17.9
Enterprises <u>3/</u>	745.2	35.3	7.1	16.6	17.0	15.9	16.3
Working capital	320.9	15.2	4.8	16.1	14.1	9.5	10.3
Investment	275.2	13.0	8.7	20.4	21.9	22.9	21.1
Exports	80.7	3.8	8.4	14.1	12.0	12.7	17.8
Other <u>4/</u>	68.4	3.3	10.1	8.2	18.0	23.4	23.9
Households	400.8	19.1	25.7	14.8	12.4	12.3	11.5
Working capital	56.3	2.7	31.9	5.4	5.1	11.9	12.9
Housing <u>5/</u>	326.4	15.5	24.1	15.9	13.7	11.9	11.6
Other	18.1	0.9	38.5	25.7	13.8	21.1	6.6
Other residents	8.9	0.4	2.6	—	-9.2	13.0	34.4
Nonresidents	187.3	8.9	21.8	28.2	29.9	42.5	37.4
Bank credit to public sector <u>6/</u>	30.4	1.4	10.6	11.8	11.8	12.3	11.5
Credit to economy by nonbank financial institutions <u>1/</u>	736.2	34.9	13.8	8.5	8.3	8.6	9.4
Credit to private sector	545.1	25.8	13.6	8.4	7.2	7.6	8.4
Credit to public sector <u>6/</u>	191.1	9.1	14.3	8.6	11.7	11.4	12.2
Total credit to the economy <u>1/</u>	2,108.8	100.0	13.9	14.1	13.8	14.7	14.6
Total credit to private sector	1,887.3	89.5	13.9	14.7	14.1	15.0	14.9
Residents	1,695.0	80.4	13.2	13.4	12.4	12.2	12.5
Nonresidents	192.3	9.1	21.7	27.7	29.4	41.7	36.8
Total credit to public sector <u>6/</u>	221.5	10.5	13.8	9.1	11.7	11.5	12.2
Memorandum items:							
Credit to Treasury							
Of which:							
Bank credit	(129.8)	(...)	(9.9)	(-5.3)	(-7.6)	(14.4)	(13.0)
Export credits <u>7/</u>	178.6	...	14.3	22.2	14.9	16.3	20.7
Bank credits to private residents in francs	1,150.9	...	13.2	14.2	13.8	13.7	13.0

Sources: Conseil National du Cr dit, Statistiques Trimestrielles and Statistiques Mensuelles; and data provided by the French authorities.

1/ Excluding credit to the Treasury.

2/ Credit to the private sector excludes leasing credit, terms of payment, and miscellaneous items (recorded as autres concours), but includes credit to nonbank nonresidents, and lending from nonmonetary sources.

3/ Companies and individual enterprises.

4/ Excluding housing credit to individual enterprises.

5/ Including credit to individual enterprises.

6/ Excluding Treasury. Almost entirely medium- and long-term credit.

7/ Residents and nonresidents.

Table 31. France: Behavior of the Liquidity
Ratio, 1/ 1970-81

(In per cent)

	Liquidity Ratio		Change from previous period	
	National definition	IFS	National definition	IFS
1970	41.2	39.9	-0.9	-5.0
1971	43.5	42.4	2.3	6.1
1972	45.9	44.8	2.4	5.9
1973	46.3	45.3	0.4	0.9
1974	46.8	46.3	0.5	2.3
1975	48.0	46.7	1.2	0.9
1976	48.7	47.3	0.7	0.6
1977	48.8	47.2 2/	0.1	-0.1 2/
1978	48.7	47.2	-0.1	-- 2/
1979	48.3	46.8	-0.4	-0.4
1980	47.7	45.9	-0.6	-0.9
1981 3/	47.8	...	0.1	...

Sources: Conseil National du Cr dit, Rapport Annuel and Statistiques Mensuelles; IMF, International Financial Statistics; and staff estimates.

1/ Period average of money supply (M₂) in per cent of GDP.

2/ Break in the series.

3/ Official estimates.

Table 32. France. Public Issues of Securities, 1978-81

(In billions of francs)

	1978	1979	1980	1981	1980 Jan.-Aug.	1981 Sept -Dec
Bonds, gross	57 82	65.48	111 67	106.59	77 83	54.86
Public authorities 1/	19 79	20.25	36 36	28 85	23.97	11.60
Of which:						
State	(13 50)	(15.00)	(31.00)	(25 00)	(20.50)	(10 00)
Financial institutions	27.54	30 78	59 00	64.81	44.08	35.43
Nonfinancial institutions	9 62	13.62	15 2 1/	12.43	9.08	7.83
Of which:						
Major state enterprises	(6 97)	(10 37)	(11 93)	(7 95)	(7.30)	(4.55)
Foreign issues	0 87	0 83	1 10	0.50	0.70	--
Equities (gross)	14 32	14 36	21 05	23 30	11.68	13.54
All securities (gross) 2/	72.14	79 84	132.72	129.89	89.51	68.40
Shares of open-end security funds (SICAV)	0.72	2.04	1.52	1.59 3/	...	...
Funds investing in bonds						
Funds with diversified portfolio	3.87	3.84	5 95	4 41 3/	...	...
All funds (net)	4 59	5.88	7.47	6 00 3/	2.21	5.26
						6.00 4/

Sources. Banque de France, Bulletin Trimestriel; Conseil National du Cr dit, Statistiques Manuelles and Statistiques Trimestrielles; and data provided by the French authorities.

1/ Including Postal Administration (Postes, T l communications et T l diffusions, (PTT)).

2/ Excluding issues of open-end security funds (Soci t s d'Investissements   Capital Variable, (SICAV))

3/ January-September

4/ September.

Table 33. France: Structure of Financial Placements, 1978-81

	1980	1978	1979	1980	1980	1981
	In billions of francs				Jan.-Sept.	
		In per cent of total				
Liquid assets (M_3)	190.6	76.2	78.3	63.0	45.4	62.6
Nonmonetary liquid assets (M_3-M_2)	65.6	27.4	23.7	21.7	14.9	11.7
Money supply (M_2)	125.0	48.8	54.6	41.3	30.5	50.9
Quasi money (M_2-M_1)	80.7	25.9	30.9	26.7	31.6	21.6
Narrow money (M_1)	44.3	22.9	23.7	14.6	-1.1	29.3
Bonds	90.8	18.1	16.8	30.0	46.4	29.8
Stocks	21.1	5.7	4.9	7.0	8.2	7.6
Total	302.5	100.0	100.0	100.0	100.0	100.0

Sources: Conseil National du Cr dit, Rapport Annuel and Statistiques Mensuelles; and data provided by the French authorities.

Table 34. France: Major Factors Affecting the Development and Sources of Bank Liquidity, 1980-81

(Changes in billions of francs) 1/

	1980				1981			
	I	II	III	IV	I	II	III	IV
Sources of bank liquidity								
Foreign assets, net	6.0	5.9	2.3	12.1	5.7	-35.4	-15.0	16.1
Central bank lending to Treasury	9.9	-13.9	12.5	-18.3	22.5	0.8	-4.3	-7.3
Central bank lending to banks	-10.4	13.9	-15.3	18.1	-25.0	41.2	16.0	-7.5
Lending at fixed interest rates	1.6	4.0	2.0	3.1	2.7	2.9	3.2	3.5
Lending at variable interest rates	-12.0	9.9	-17.3	15.0	-27.7	37.4	14.5	-8.3
Reabsorption of proceeds from discount of medium-term export credits	--	--	--	--	--	0.9	-1.7	-2.7
Other factors, net	-2.9	-0.6	-0.9	6.2	-3.1	-2.5	-2.8	4.9
Total	2.6	5.3	-1.4	18.1	0.1	4.1	-6.1	6.2
Uses of bank liquidity								
Bank notes outside banks	-1.3	5.6	-0.3	2.4	-0.7	11.3	0.8	6.0
Changes in bank reserves	3.9	-0.3	-1.1	15.7	0.8	-7.2	-6.9	0.2
Excluding changes in reserve requirements	3.9	-0.3	-1.1	0.2	0.8	8.3	-6.9	0.2
Of which:								
Supplementary reserves 2/	(3.1)	(-1.0)	(-1.2)	(-0.7)	(--)	(0.8)	(0.4)	(--)
Due to changes in reserve requirements	--	--	--	15.5	--	-15.5	--	--
Total	2.6	5.3	-1.4	18.1	0.1	4.1	-6.1	6.2

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

1/ Periods are from the 21st of the first month to the 20th of the month subsequent to the last month of the quarter.

2/ Reflecting application of penalty rates for lending in excess of credit growth ceilings.

Table 35. France: Key Interest Rates, 1977-81

(In per cent per annum)

	1977 Dec.	1978 Dec.	1979 Dec.	1980 Sept.	1980 Dec.	1981			
						Mar.	June	Sept.	Dec.
Bank of France rates									
Official discount rate <u>1/</u>	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Reduced discount rate <u>2/</u>	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Money market intervention rate <u>3/</u>	9.0	6.625	12.125	11.5	10.75	12.5	22.0	19.5	17.5
Money market rates <u>4/</u>									
Call money rate	9.30	6.67	12.17	11.37	10.88	11.72	19.93	17.78	15.46
Three-month rate	9.86	6.67	12.59	11.83	11.56	12.57	18.92	17.59	15.26
Capital market rate <u>5/</u>	11.70	10.27	12.92	14.05	14.68	15.29	17.98	17.88	17.33
Lending rates									
Prime lending rate	9.3	8.8	11.50	12.25	12.25	12.75	17.00	14.50	14.00
Commercial bills <u>6/</u>	12.80	12.30	15.10	15.90	15.90	16.40	20.89	18.40	17.90
Overdrafts and advances <u>6/7/</u>	13.50	13.00	15.68	16.43	16.43	16.93	21.49	18.98	18.48
Deposit rates <u>8/</u>									
Time deposits <u>9/</u>	5.5	5.5	5.5	6.5	6.5	6.5	6.5	7.5	8.5
Passbook savings <u>10/</u>	6.5	6.5	6.5	7.5	7.5	7.5	7.5	7.5	8.5
Dollar rates <u>11/</u>	7.19	11.69	14.50	13.94	17.75	15.41	17.91	17.79	13.33

Sources: Banque de France, Bulletin Trimestriel; Conseil National du Cr dit, Statistiques Mensuelles; IMF, International Financial Statistics; Morgan Guaranty Trust Co., International Financial Markets; and data provided by the French authorities.

1/ Rate is also applied for rediscount of bills representing short-term credits (up to 18 months), and medium-term export credits to EC countries.

2/ Applied for rediscount of bills representing medium-term export credits to non-EC countries.

3/ Maximum rate of the month, up to September 1980 for purchases on call for tender of commercial paper and from December 1980 for seven-day advances against collateral of Treasury bills.

4/ Average daily interbank rates.

5/ Yield on private sector bonds on the secondary market before taxation.

6/ Rediscountable paper; excluding a banking commission of 1-2 percentage points; average of maximum and minimum rates, with a spread of 5-6 percentage points.

7/ Excluding a monthly commission imputed on the highest daily balance.

8/ Sight deposits bear no interest.

9/ Up to September 3, 1981, one year on amounts of F 100,000 and less; from September 3, 1981, one year on amounts of F 200,000 and less.

10/ Interest on deposits of up to F 49,000 held at savings banks are exempt from income tax (Livrets A). On other savings, the interest after taxation is 3.9 per cent.

11/ Monthly average three-month rate (London).

Table 36. France: Reserve Requirements, 1/ 1974-81

(In per cent)

Effective Date of Changes	Against Deposits 2/				Credits 4/
	Sight deposits		Other deposits 3/		
	Residents	Non- residents	Residents	Non- residents	
1974					
January 21	16.0	--	7.0	--	33.0 5/
June 21	17.0	--	6.0	--	--
August 21	17.0	--	4.0	--	--
1975					
January 21	15.0	--	--	--	--
June 21	11.0	--	--	--	--
September 21	2.0	--	--	--	--
1976					
October 21	2.0	--	--	--	0.5
1978					
October 21	4.0	--	--	--	0.5
1980					
January 11	4.0	--	--	--	0.5
November 21	4.5	5.0	0.5	5.0	1.75
1981					
May 16	5.5	5.0	1.0	5.0	1.75
May 21	5.5	--	1.0	--	1.75
June 30	4.25	--	0.5	--	0.1

Source: Banque de France, Bulletin Trimestriel.

1/ Ordinary reserve requirements on operations in domestic currency to be held on noninterest-bearing accounts at Banque de France. In addition to these deposit requirements, banks are subject to investment requirements, calculated as a percentage of most deposits (sight deposits; time deposits of less than three years; passbook savings, excluding savings qualifying for housing loans (comptes d'épargne-logement)). Before January 11, 1980, banks had to invest an amount equal to 7 per cent of these deposits in paper representing medium-term credit, if the calculated requirement exceeded F 50 million. Since then, an amount equal to only 5 per cent of these deposits has to be invested, and the requirement does not apply if the calculated requirement is less than F 200 million.

2/ Deposits held by banks; if the reserve requirement does not exceed F 15 million only half the rate applies.

3/ Time deposits of less than three years, passbook savings (excluding savings qualifying for housing loans), and deposits by banks located abroad.

4/ Ordinary reserves to be held by banks and financial establishments on credit and leasing credit. Since December 1972, supplementary reserves have been used to enforce the observation of the credit ceilings (encadrement du crédit). This rate increases with the size of the institution and the amount by which the ceiling is exceeded. Since October 21, 1976, credits in foreign exchange, medium-term and long-term export credits, certain types of housing, and some investment credits are exempt from the ordinary reserve requirement, as is credit financed from nonmonetary sources.

5/ Rate in effect since November 21, 1972.

V. Exchange Rate and Balance of Payments

1. Exchange rate and international competitiveness

From end-1976 to end-1979 the franc appreciated by 24 per cent against the U.S. dollar and depreciated by 12 per cent against the German mark (Table 38). Over this period France's effective exchange rate (MERM) appreciated by 6.0 per cent. From end-1979 to end-1980 this trend reversed and the franc depreciated relatively to the dollar by 11 per cent and appreciated relatively to the German mark by 0.7 per cent while depreciating in effective terms by 3.7 per cent.

Within the EMS, following the first realignment of September 1979 and until March 1981 the franc was in a position of relative strength, generally moving at the top of the narrow band (Chart 3). By and large this strength reflected France's favorable balance of payments position, particularly compared with the German situation, and the relatively high level of domestic interest rates (Chart 4). The good performance of the franc also led the authorities to liberalize exchange control in June 1980.

The franc began to weaken somewhat in the latter part of February 1981, when German interest rates were raised in the wake of U.S. interest rates. Strong downward pressures caused by large speculative outflows of capital appeared after the May 1981 presidential election, and the franc fell to the bottom of the narrow band in the EMS, with the divergence indicator at times falling below its lower threshold. The new Government reacted vigorously; together with heavy intervention on exchange markets, domestic interest rates were steeply increased, reserve requirements were removed on nonresidents' deposits, and exchange controls were tightened. Following these measures the franc stabilized and remained in the middle of the EMS band, allowing the Banque de France to reduce somewhat its interest rate.

Pressures however renewed in the two weeks preceding the August 15 holiday as the markets generally expected a realignment during this holiday. The pressures abated in the second half of August but, induced by the upward movement of the deutsche mark relative to the U.S. dollar, reappeared in the third week of September. Exchange controls were further tightened and interest rates were temporarily raised to 18.8 per cent for the call money rate and as a result in late September the franc stabilized again.

In early October it was decided to take advantage of the relative weakness of the dollar to readjust central rates within the EMS. The bilateral central rates between the Danish krone, the Belgian and Luxembourg franc, and the Irish pound remained unchanged, but with respect to these currencies, on October 4 the French franc and the Italian lira were devalued by 3.0 per cent while the deutsche mark and the Netherlands guilder were revalued by 5.5 per cent.

From end-1980 to September 1981 the franc had devalued by 19 per cent relatively to the U.S. dollar, by 3.3 per cent relatively to the deutsche mark, and by 7.4 per cent in effective terms (MERM). The October 4, 1981 realignment resulted in a depreciation of the franc of 3.7 per cent in effective terms (MERM), of 8.1 per cent vis-à-vis the deutsche mark and the Netherlands guilder, and of 4.7 per cent relatively to other EMS participants except Italy. Since the realignment, and until early March 1982, the franc has generally been firm, moving back toward the middle of the fluctuation band. This reduced the effective depreciation relatively to the German mark to only 4.5 to 5.5 per cent and allowed the Banque de France to recover some of the reserves lost during the summer while also allowing it to ease interest rates.

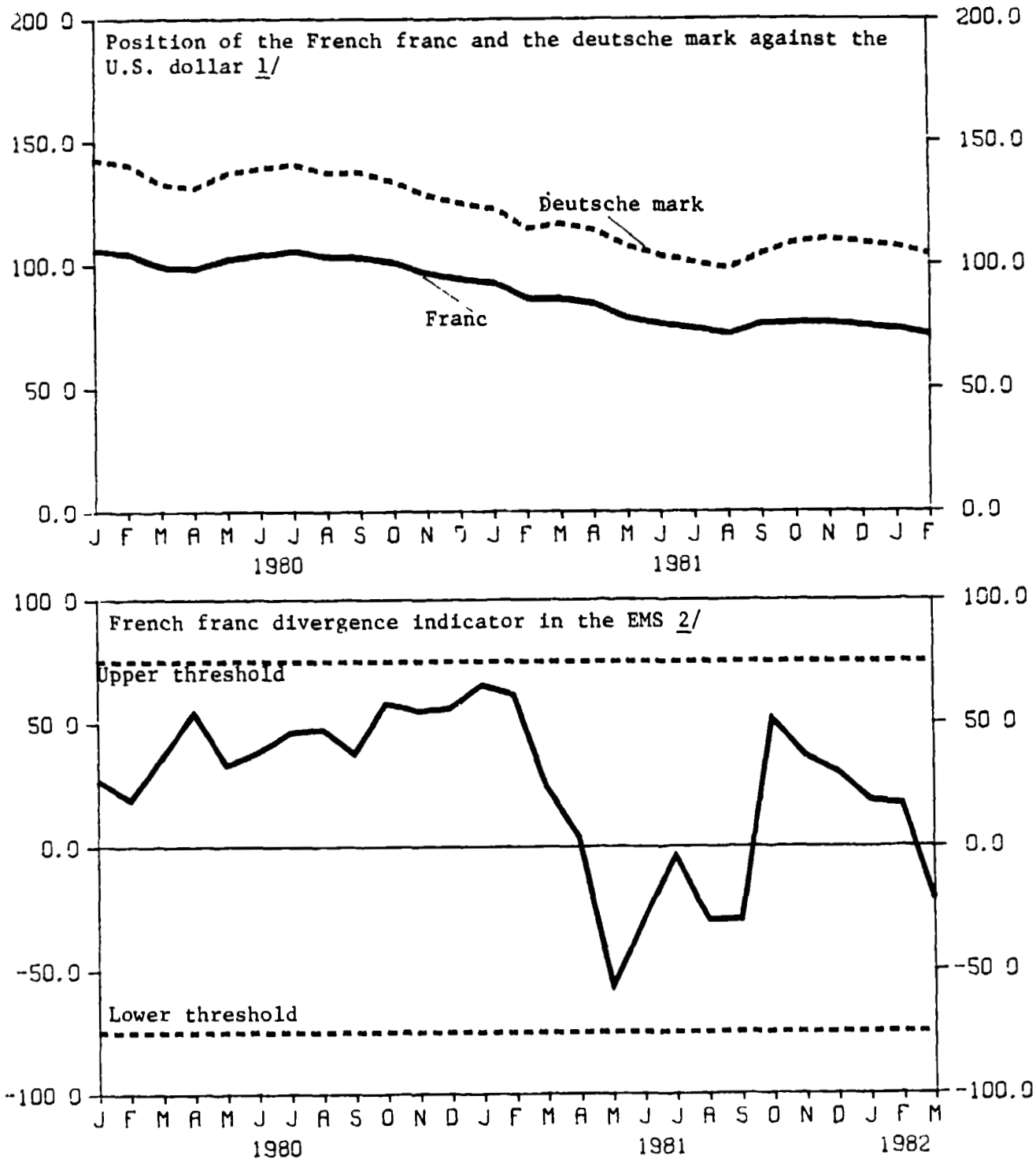
The steep appreciation of the dollar since the latter part of 1980 greatly improved France's overall international competitiveness. The ratio of France's index of unit labor costs in manufacturing to that of its competitors adjusted for exchange rate movements, declined from the second quarter of 1980 to the second quarter of 1981 by 8.4 per cent (Table 39), or approximately to the level at which this indicator stood in 1977-78. Similarly, the indicator for relative value-added prices declined by 7.1 per cent, and the indicator for relative export unit value by 7.4 per cent. Since the third quarter of 1981, however, the improvement in competitiveness has ceased and preliminary estimates indicate a slight deterioration in the fourth quarter. Also, whereas France's overall competitiveness markedly improved in 1981, its competitiveness relative to Germany continued to deteriorate. From the first quarter of 1980 to the third quarter of 1981, the ratio of France's index of unit labor costs relative to that of Germany rose by 7.3 per cent and the ratio of the indices of export unit values rose by 9.7 per cent. The 8.1 per cent devaluation of the franc against the deutsche mark in October 1981 partially offset this deterioration, but the devaluation restored competitiveness relative to Germany only to its late 1980 level.

2. Current account developments

a. Introduction

From 1976 to 1978 stabilization of the energy deficit and large increases in the surplus on other current transactions (Table 40) attested to the successful external adjustment of the French economy to the terms of trade shock of the 1973-74 period. The adjustment culminated in 1978 with the re-emergence, for the first time since 1972, of a current account surplus (some F 14.8 billion or 0.7 per cent of GDP). Improvement in French cost competitiveness, expanding market shares for exports--particularly for exports of services--improving terms of trade and development of domestic energy sources were the main forces underlying this adjustment.

Chart 3
FRANCE
EXCHANGE RATE

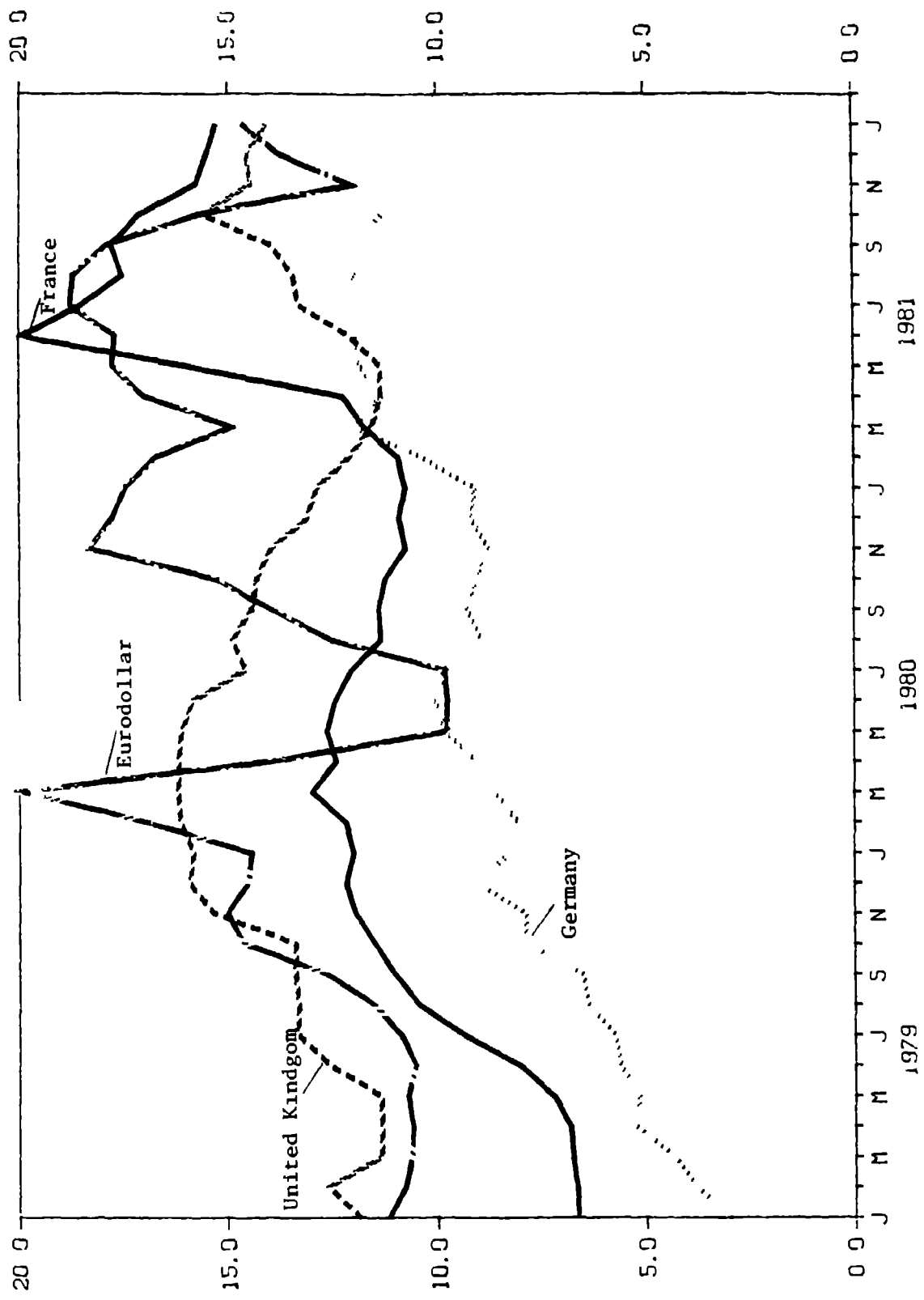


Source: IMF, International Financial Statistics; IMF Treasurer's Department; and staff calculations.

1/ Index of exchange rate, 1975=100.

2/ As a percentage of maximum permissible difference. London Wednesday noon quotation.

FRANCE
SELECTED SHORT-TERM INTEREST RATES 1/



Source: IMF, International Financial Statistics.

1/ Call money rates for France and Germany, Treasury bill rate for the United Kingdom, and three-month deposit rate for Eurodollar.

From 1979 to 1980 the second round of oil price increases, eroding competitiveness, and increased import penetration caused a reversal of the earlier trend and the current account surplus shrank to F 5.3 billion in 1979 (0.2 per cent of GDP) and then slid back to a F 33.1 billion deficit in 1980 (1.2 per cent of GDP).

Available data suggest that in 1981 the deterioration of the current account continued but at a slower pace than in 1979-80. Mainly because of a 27 per cent increase in the energy bill and a reduction of the surplus on invisibles, the deficit in 1981 is estimated to have reached F 42.8 billion or some 1.4 per cent of GDP.

b. Developments in the trade balance

From 1976 to 1978 the balance on merchandise trade ^{1/} improved from a deficit of F 21.1 billion to a surplus of F 5.1 billion. Thereafter it steadily declined to a F 5.0 billion deficit in 1979 and a F 50.7 billion deficit in 1980 (1.8 per cent of GDP). In 1981 it is estimated to have stabilized around F 50.0 billion.

By commodity composition the 1976-78 improvement of the trade account primarily came from stabilization of the energy deficit around F 63 billion (and a decline in terms of GDP from 3.7 per cent to 2.9 per cent), from a reduction or stabilization of the deficit on intermediate goods and consumer durables, and from sustained growth in the surplus on trade of machinery and equipment goods and of motor vehicles and other ground transportation. Similarly, the deterioration over the 1979-80 period was the result of a considerable increase in the energy deficit--F 85.1 billion in 1979 (3.5 per cent of GDP) and F 132.9 billion in 1980 (4.3 per cent of GDP)--a widening of the deficit on intermediate goods and consumer durables, and in 1980 a narrowing of the surplus on equipment goods including transportation. The stabilization of the trade deficit in 1981, despite a worsening of the energy deficit to F 161.9 billion (5.3 per cent of GDP), resulted mainly from a near doubling of the surplus on agricultural and food products to F 21.5 billion and a sharp improvement of the surplus on equipment goods to F 16.2 billion (against 10.3 billion in 1980).

By regional distribution, from 1976 to 1978 France reduced its deficit with OPEC countries by 25 per cent (to F 23.5 billion) and with EC countries by 50 per cent (to F 8.6 billion). Over the 1979-80 period, however, the deficit with OPEC countries more than doubled (to F 64.2 billion) but the increase amounted to only approximately two thirds of the increase in the energy deficit. A further point to note is the large jump since 1979, but particularly in 1980, of the trade deficit with Germany (a 65 per cent increase to F 16.8 billion) and with the United States (a trifold increase to F 24.5 billion).

^{1/} Including Negoce International.

(1) Merchandise exports

Table 41 gives developments in merchandise export volumes and prices for France in recent years. Volume growth over the 1977-79 period was quite sustained around 7.3 per cent per year (but well below the 1971-73 average of 13.1 per cent). The year 1980, however, saw a sharp deceleration and the growth rate fell to 3.4 per cent. This weakening was attributable mainly to the overall sluggishness of international demand and the slowdown in export market growth which followed the second round of oil price increases. In 1979-80, France seems also to have lost market shares as measured by its share in total value of merchandise exports of the seven largest industrialized countries plus Belgium and the Netherlands (Table 42). This share declined from 12.2 per cent in 1978 to 10.5 per cent in 1980. Volume growth in France in 1980 was also below the average for the seven largest industrialized countries. One reason for this loss in market shares and slower growth appears to be the decline since early 1978 in the relative competitiveness of French exports of manufactured goods. Merchandise exports however recovered somewhat in 1981 when they are estimated to have increased by 5 per cent in volume. This strength at a time of sluggish demand in France's partner countries came principally from improved French competitiveness in dollar-denominated trade as a result of the steep appreciation of the dollar relatively to the franc.

When merchandise exports are analyzed by product (Table 41), it is seen that, over the 1977-79 period, above average volume growth was registered for agricultural and food products, and below average growth for machinery and equipment goods and for motor vehicles and other ground transportation. Also noticeable is the steady deceleration in volume exports growth of machinery and equipment, a trend which had already begun in 1975 and which is even more pronounced if military equipment is excluded. In 1980 the slowing down of merchandise exports came primarily from a slower growth in exports of intermediate products and, for the first time in more than a decade, a decline in the volume of exports of motor vehicles. This decline in part reflected the difficulties of the automobile industry throughout the world but, together with the growing share of imported cars on the French market, it was also a sign of eroding competitiveness of French car manufactures.

Based on data for the first three quarters, the recovery in 1981 appears to have occurred in almost all categories of merchandise exports, but was particularly noticeable for equipment goods and for intermediate products, while exports of agricultural products continued to remain strong.

Export prices have accelerated in recent years from an annual increase of 7.7 per cent in 1977 to 11.3 per cent in 1980 and in the first nine months they increased on average by 12.3 per cent compared

with the corresponding period of 1980. On the whole, export prices by product have followed the trend for domestic producer prices except in 1980 when the increase in export prices for motor vehicles and for consumer goods fell well below the increase in domestic producer prices (by, respectively, 3.4 and 6.6 percentage points), indicating a compression of export margins in these sectors.

(2) Merchandise imports

Between 1977 and 1979 volume growth of merchandise imports rose from 0.6 per cent per year to 12.0 per cent (Table 43) and largely exceeded the growth rate in final domestic demand which increased only moderately from 1.5 per cent to 4.0 per cent. Increased import penetration induced by the widening gap between domestic prices and import prices, and large stockpiling in 1979 of raw materials and energy products in expectation of price increases, were the principal contributing factors.

In 1980, mainly as a result of a 2.6 per cent drop in the volume of energy imports, the growth rate of volume imports fell to 8.7 per cent. Excluding energy, the volume of imports rose by 9.7 per cent, well above the 2.1 per cent increase in final domestic demand. Import penetration consequently deepened and according to INSEE's estimates, merchandise imports at current prices in the fourth quarter of 1980 captured 25.9 per cent of the domestic market, up from 22.5 per cent in the first quarter of 1979 (Table 44).

Preliminary data for 1981 show that total merchandise imports declined by between 0.2 per cent and 0.4 per cent in volume, but excluding energy--crude oil imports' tonnage fell by 17.9 per cent--imports remained at the same level as in 1980. Despite this stabilization in volume, and because of steep increases in import prices, import penetration in value rose to 27.3 per cent in the third quarter of 1981 (Table 44).

Table 43 gives developments of imports by commodity group. Energy products on average showed the least growth in volume. After nearly no growth in 1978, a precautionary buildup of crude oil inventories led to a brisk acceleration in 1979, but this was offset by a decline which began in 1980 and intensified in 1981. All told, the volume of energy imports since 1974 has slightly declined whereas domestic consumption increased by 7 per cent, illustrating France's successful effort to develop domestic nuclear energy sources.

Growth of imports of nonenergy products, in general, accelerated between 1978 and the first quarter of 1980. This was especially the case for imports of machinery and equipment goods, consumer durables, and to a lesser extent, for imports of consumer goods and motor vehicles. Since domestic demand for these products grew only moderately--domestic investment in machinery and equipment goods, for instance, rose at constant

prices by less than 8 per cent on average in 1979 and 1980, whereas corresponding imports rose by 19.1 per cent on average--this acceleration can almost certainly be explained by the growing gap between domestic and import prices. This gap for selected products is shown in the following table. The table also shows the divergent trend between domestic production and imports of these products.

Table 37. France: Average Annual Growth over the 1979-80 Period

(In per cent)

	Domestic Producer Prices	Import Prices	Domestic Production In Volume	Imports In Volume	Final Domestic Demand In Volume
Machinery and equipment	9.3	1.6	2.8	19.1	7.8
Consumer durables	8.1	-1.8	-0.7	19.8	4.6
Motor vehicles and other ground transportation	11.8	8.8	-1.0	8.8	-0.9
Consumer goods	12.1	11.3	1.8	10.3	0.3

Sources: INSEE, Informations Rapides; and staff calculations.

Among the reasons for this disparity between trends in domestic and import prices are the nominal appreciation in 1979 of the franc relative to the U.S. dollar, and in 1980 the real appreciation of the franc relative to the currencies of some of France's other trading partners--in particular, Germany--as the stable exchange rate did not fully reflect diverging domestic inflation rates.

From the last quarter of 1980 to the middle of 1981, nonenergy imports substantially slowed down and even declined for certain categories. Especially noticeable were the decline in imports of intermediate goods and investment goods. This weakness in imports was due in part to the sluggishness of domestic activity--industrial production fell by 5 per cent between the first quarter of 1980 and the first quarter of 1981--but also to the acceleration in import prices resulting from the sharp appreciation of the dollar. This acceleration was particularly steep for import prices of equipment goods as they rose by nearly 20 per cent in 1981 against virtually no increase in 1980.

Since the fall of 1981, led by the recovery in domestic demand, imports have again shown some strength. The growth seems to be primarily concentrated in consumer goods and motor vehicles while there is only a modest upturn for intermediate and investment goods.

(3) Terms of trade

After remaining virtually unchanged in 1979, France's merchandise terms of trade declined in 1980 by 3.5 per cent. Most of the decline took place during the first quarter and was due almost entirely to the oil price increase.

On a product basis, a large improvement occurred in 1979 and 1980 in the terms of trade for equipment goods and for consumer durables. This improvement in fact is the counterpart of the divergent trends between domestic producer prices and import prices and the resulting loss in competitiveness mentioned in the previous sections.

Since the end of 1980 and mainly as a result of the steep appreciation of the dollar, France's terms of trade have deteriorated again (by an estimated 3.1 per cent in the first quarter and 2.3 per cent in the second quarter). This deterioration was particularly noticeable for energy products and for machinery and equipment goods as a significant share of imports of these products are invoiced in U.S. dollars.

c. Invisible transactions

(1) Services

A remarkable pattern in the French current account since the first oil price shock has been the rapid growth of the surplus on services. From 1976 to 1978 the surplus on services more than quadrupled, to F 24.5 billion, and over this period the improvement in the service balance was responsible for nearly half of the total improvement in the current account. In later years this trend continued, although at a somewhat slower pace, and by 1980 the surplus on services had reached F 35.2 billion, some 1.3 per cent of GDP. This growing surplus on services came mainly from rapid export growth and shows the increased international specialization of the French economy in the service sector. France's market share, as measured by its share in total exports of services of the seven largest industrialized countries plus Belgium and the Netherlands, rose from 10 per cent in 1974 to almost 12 per cent in 1980 and France has now become, after the United Kingdom and the United States, the third largest exporter of services.

Table 45 shows the breakdown of the French service account by category. It can be seen that, while the balance on most categories of services improved--with the noticeable exception of shipment costs--the large gains came mainly from technical assistance and engineering work, from travel, and from investment income. Technical assistance and engineering work largely relate to construction projects in the Middle East

and have substantially contributed to the reduction of France's deficit with some of those countries. With respect to travel and tourism, France is one of the few industrialized countries to show a structural surplus on this item. One reason for this is that travel receipts have moved closely with disposable income in neighboring countries whereas outlays have been less sensitive to developments in domestic income. Finally, the growing surplus on interest and dividends in part reflects the growth in outstanding export credit, and of official foreign reserves through early 1981, but it also reflects the expanding intermediation activities of French banks on Eurocapital markets.

In 1981 the service account appears to have weakened somewhat and the overall surplus is estimated to have fallen to F 30.2 billion against F 35.2 billion in 1980. The main items responsible for this decline were a drop in net investment income stemming from the growth of France's foreign debt, large increases on the shipment costs of merchandise trade related to the appreciation of the U.S. dollar, and a decline in net travel and tourist earnings.

(2) Unrequited transfers

Net private transfers abroad increased from F 8.14 billion in 1978 to F 10.32 billion in 1980 (Table 40). These operations consist mainly of remittances from migrant workers to their home countries, the principal receiving countries being Portugal, Morocco, and Spain (together, 80 per cent of remittances in 1980). The deficit on workers' remittances has increased since 1976 on average at a slightly slower pace than the rate of increase in average hourly wages (12 per cent against 13.6 per cent) probably as a result of the authorities' policy since 1974 to restrict immigration from non-EC countries.

Net public transfers abroad, after increasing moderately in 1979 to F 7.33 billion, declined slightly in 1980 to F 7.25 billion. The relatively slow growth of these transfers in recent years is mainly due to the reduction in net transfers to the EC which, as a result of increased transfers received by France under the Common Agricultural Policy, declined from F 2.06 billion in 1977 to F 0.56 billion in 1980.

Unrequited transfers abroad in 1981 are estimated to have increased by 30 per cent to F 23.3 billion. This increase reflected primarily higher private transfers.

3. Capital account

a. Introduction

In recent years four main factors have influenced developments in the French capital account. First, the expansion of France's trade with socialist countries and with non-oil developing countries has led

to steady capital outflows under the form of export credit to these countries. Second, since the first oil price shock, the authorities have at times actively encouraged various domestic entities to borrow abroad in order to finance their capital requirements. Prominent among those entities have been large public enterprises, such as Electricité de France, (to finance its large nuclear energy projects), the SNCF, Gaz de France, Crédit National, and Caisse Nationale des Télécommunications (to finance the modernization and expansion of the telecommunication network). Third, the Government's stance in recent years to control inflation by relatively tight monetary policy has resulted in a level of domestic interest rates generally higher than abroad. Fourth, the emergence of Paris as a major Eurocurrency center and the expanding intermediation activities of French banks on international capital markets brought a large absolute increase in capital movements but also introduced a higher degree of volatility in net capital flows.

b. Long-term capital

From 1977 to 1979 the balance on long-term capital flows swung from a net inflow of F 0.58 billion to an outflow of F 14.81 billion (Table 46). Mainly responsible were an F 10.3 billion negative swing in net portfolio investment due both to a reduction of net purchases of French securities by nonresidents and a sharp increase in 1979 of purchases by residents of securities denominated in pounds, deutsche mark, and guilders--and an F 8.3 billion reduction in foreign borrowing by the private nonbank sector. The latter was mainly the result of a sizable decline in foreign borrowing by some of the large public enterprises and reflected the authorities' policy, in view of the current account surplus, to let domestic capital markets accommodate a large proportion of the borrowing requirements of these enterprises.

In 1980 net long-term capital outflows slowed to F 4.53 billion as some of the earlier trend reversed and in particular as large public enterprises, abetted by the authorities, sharply stepped up their foreign borrowing. A more than doubling of bonds issued abroad by large public enterprises--principally Electricité de France and Caisse Nationale de Télécommunications--was the main cause of an F 6.92 billion reduction to F 1.13 billion in net portfolio investment abroad. Borrowing by large public enterprises was also the main reason for the doubling to F 17.4 billion of other private nonbank borrowing which, partially offset by larger net foreign lending by banks and the public sector--the latter resulting from increased loans to developing countries, led to a F 6.5 billion increase in other net long-term capital inflows (Table 46).

A further point to note with regard to long-term capital flows in 1980 is the F 2.3 billion drop to F 0.8 billion in net direct foreign investments. This sharp drop mainly reflected a 57 per cent increase in French direct investment abroad to F 13.6 billion which might have been influenced by the liberalization in July 1980 of the controls on these outflows.

Preliminary data show that in 1981 long-term capital outflows increased by F 3.2 billion to F 7.7 billion, and many components showed even larger variations. The most stable component was export credits which, reflecting the strength of French exports, increased by 13 per cent to F 17.5 billion. Net outflows under portfolio investment, on the other hand, sharply increased by F 9.7 billion to F 16.1 billion. These outflows occurred mostly in the second and third week of May after the presidential elections but subsided when the devise-titre system was introduced (see exchange and trade arrangement section). Net foreign loans abroad also showed large increases to F 11.5 billion, while net direct foreign investment turned from an inflow of F 0.8 billion in 1980 to an outflow of F 3.8 billion. Most of these higher outflows were, however, offset by a nearly F 20 billion increase to F 42.5 billion of authorized foreign borrowing of large public enterprises as the authorities continued the policy of encouraging large domestic entities to borrow abroad in order to finance their capital requirements.

c. Short-term private nonbank capital

This item is traditionally a net inflow and consists of trade credit and other transactions of the nonbank private sector, including advances on import and export contracts. After relatively uneventful years from 1976 to 1979, net inflows increased in 1980 by F 6.8 billion to F 15.5 billion. The principal reasons for this were a more than doubling of import credits to F 8.2 billion, probably resulting from the strong progression of imports in 1980, a 30 per cent increase in advances on export contracts to F 13.2 billion, and an F 3.1 billion increase in other net loans.

In 1981 this item is estimated to have changed to a net outflow which reached F 4.6 billion in the first three quarters. Slower progression of import credits, higher export credits and in the second quarter speculative movements in anticipation of an exchange rate adjustment were the principal contributing factors.

d. Short-term monetary capital

From 1978 to 1980 short-term capital movements of banks turned from a F 14.6 billion outflow to a F 29.0 billion inflow. Changes in interest differentials and the strength of the franc in the EMS were the principal factors underlying this F 43.6 billion swing (equivalent to 10.7 per cent of the change in M₂ over the period).

Capital inflows through the banking system were particularly strong in 1980. Net deposits in francs of nonresidents and foreign correspondent banks increased by F 11.6 billion with the largest inflows coming from the United Kingdom (F 2.5 billion), BLEU (F 2.0 billion), Iraq (F 1.1 billion), Portugal (F 0.8 billion), Switzerland (F 0.7 billion), and Nigeria (F 0.7 billion). Residents' short-term indebtedness in foreign currency

to domestic banks rose by F 13.2 billion against a decline of F 0.5 billion in 1979. Foreign borrowing was mainly in U.S. dollars (50 per cent), in deutsche mark (25 per cent), and Swiss francs (11 per cent). A tightening of domestic credit, the lower cost of funds borrowed abroad (in the case of deutsche mark and Swiss franc borrowing), and expected stability or appreciation of the franc (in the case of the U.S. dollar) seem to have been the principal reasons for this sharp increase. Commercial banks' net forward transactions on foreign currencies also registered strong inflows--F 11.7 billion against outflows of F 0.6 billion in 1979. The main contributing factors were the high levels of domestic interest rates and expectations that the strengthening of the U.S. dollar in the last quarter would only be temporary which led to increased forward sales by exporters.

The year 1981 saw drastic swings in monetary capital flows especially in net deposits of nonresidents and of foreign correspondent banks, and in banks' net forward position on foreign currencies. In the first quarter, net monetary capital inflows, attracted by the relatively high domestic interest rates, rose to F 20.2 billion--then, by far, the highest flow ever recorded in a quarter--but in the second quarter, after the presidential election they abruptly turned around to a F 12.4 billion outflow. The tightening of capital controls at the end of May, especially the limits imposed on forward transactions, and further increases in domestic interest rates, halted the outflow and brought a net inflow of F 2.7 billion in the third quarter, which in the fourth quarter, after the October realignment of exchange rates, rose to F 23.4 billion.

e. Leads and lags and unallocated transactions

This entry in the capital account has for several years consistently registered a surplus, probably because it also includes, in addition to leads and lags on trade receipts, a relatively large component of unallocated transactions. After declining by two thirds in 1979 to F 5.1 billion, inflows increased again in 1980 to F 11.6 billion (1.2 per cent of total trade transactions).

For the first nine months of 1981, data is available only for leads and lags combined with errors and omissions. This combined item, which normally shows an inflow, registered an outflow of F 11.9 billion.

4. Official reserves

From 1977 to 1980 the French overall balance of payments showed a cumulative surplus of F 51.5 billion (Table 40). Despite the sharp deterioration in the current account in 1980, more than half (F 28.2 billion) of this cumulative surplus was registered in that year as capital inflows significantly exceeded the current account deficit.

From end-1976 until end-1980 according to the French method of valuation, net official reserves (Table 47) rose from F 91.5 billion (equivalent to some three months of merchandise imports in 1976) to F 351.1 billion (some seven months of merchandise imports in 1980) reflecting in addition to the cumulative balance of payments surplus, mainly new ECU allocations and valuation adjustment on France's large official gold reserves ^{1/} (62 per cent of gross reserves, end of 1980). In 1980 official reserves increased by F 141.5 billion, of which F 88.6 billion was due to gold re-evaluation and F 31.7 billion to operations with the European Monetary Cooperation Fund (including devaluations of ECU holdings).

Net reserves, excluding valuation adjustment, continued to increase in the first quarter of 1981 (by F 9.2 billion). In the second and third quarters, however, heavy pressure on the franc caused by the large speculative capital outflows led to massive intervention by monetary authorities and net reserves declined by an estimated F 53.3 billion (approximately 15 per cent of net official reserves at end-1980). In the fourth quarter the strength of the franc allowed the authorities to recover some of the reserves lost during the previous quarters and net reserves increased by F 16.4 billion. Overall, however, and excluding valuation adjustments, net official reserves declined in 1981 by F 28 billion.

5. Development assistance

French official development aid rose in 1981 to 0.67 per cent of GDP from 0.62 per cent in 1980 (from 0.36 per cent to 0.40 per cent if overseas departments and territories are excluded). The new Government has reaffirmed France's commitment to development aid and announced its intention of reaching by 1988 at the latest, the target of 0.7 per cent of GDP for its ODA, excluding aid to overseas departments and territories. In addition, to this near doubling of ODA by 1988 the French authorities announced at the United Nations Conference on the Less Developed Countries in September 1981 its commitment to raise aid to those countries, within its overall ODA target, from 0.09 per cent of GDP in 1980 to 0.15 per cent of GDP in 1985.

6. Exchange and trade arrangements

A description of France's exchange and trade arrangements up to the end of 1980 is contained in the Fund's 1980 Annual Report on Exchange Arrangements and Exchange Restrictions. The principal recent changes are set out below.

^{1/} Gold holdings are valued on the basis of the average gold price in U.S. dollars prevailing in the international markets during the preceding three months, converted into francs using the average exchange rate of the dollar on the Paris market during the same period.

1981

May 16. The 5 per cent reserve requirement on nonresidents' deposits at commercial banks was removed.

May 21. The Government introduced the following exchange control measures which essentially rescinded the liberalization of July 1980:

- to limit to one month (against two months previously) the duration of a forward position for most imports and to three months for imports of raw materials and other essential products (no restrictions previously);

- to limit to two working days (instead of eight calendar days previously) the time during which importers can hold foreign exchange necessary to pay for imports on a spot basis;

- to require exporters to redeem after one month the foreign exchange proceeds from exports delivered after May 1981 (instead of until covering contracts had matured);

- to tighten restrictions on French direct investment abroad by lowering the maximum amount for which no authorization is required from F 5 million to F 1 million and to require that the fraction of direct foreign investment abroad in excess of the latter amount be financed for at least three fourths by foreign currency borrowing,

- the re-establishment of the devise titre system by which the purchase of foreign securities by residents is required to be matched with the proceeds from sales of foreign securities by residents. The devise titre is the unit of account in which these matching operations are denominated and its value can fluctuate depending on domestic demand and supply of foreign securities.

September 18. The Government announced that in a further effort to alleviate speculative pressures on the franc all forward coverage of importers was temporarily suspended.

November 12. The Government announced a partial relaxation of the ban on forward coverage of imports. Importers of green coffee, rice, hides and skins, wool, hair, cotton and cotton waste, were authorized to engage in covering operations not to exceed three months of duration. Forward coverage must be carried out in the currency stipulated in the contract and terminate on the date of the settlement. If settlement of the contract is deferred, the forward covering can be extended for a maximum of eight days without prior authorization. If the settlement takes place before three months, the operation must be cancelled for the remaining period. If the contract is cancelled, the covering operation must be terminated immediately. If the cancellation results in a foreign exchange profit, the bank involved must inform the monetary authorities.

1982

March 25. In order to protect the franc against speculative pressures, the Government announced the following additional exchange control measures:

- exporters were required to redeem after 15 days (instead of one month previously) foreign exchange proceeds from exports;

- French direct investment abroad above F 1 million were required to be financed for at least 75 per cent by foreign currency borrowing (instead of 75 per cent of the fraction above F 1 million previously);

- the period after which French nationals who leave the country are considered as nonresidents was increased from one to two years. Furthermore, after this two-year period, to transfer assets abroad, nonresident nationals were required to seek approval by the Banque de France;

- gifts and unilateral transfers by residents to nonresidents and transfers abroad by residents for the purpose of acquiring a secondary residence were also made subject to authorization by the Banque de France.

Table 38. France: French Franc: Spot Exchange Rates
and Effective Rate, 1976-81

(Period average)

		Per cent change against preceding period's external value of the franc 1/			Effective exchange rate (MERM)
		Francs per U.S. dollar	Relative to U.S. dollar	Relative to deutsche mark	
1976		4.7796	-10.3	-8.2	-4.4
1977		4.9134	-2.7	-10.3	-4.5
1978		4.5128	8.9	-5.8	--
1979		4.2545	6.1	-3.2	2.3
1980		4.2260	0.7	-0.2	1.2
1981		5.4346	-22.2	-3.4	-10.6
1979	I	4.2680	0.8	-0.3	1.2
1979	II	4.3743	-2.4	-0.3	-0.8
1979	III	4.2343	3.3	-1.0	0.9
1979	IV	4.1412	2.3	-0.6	2.6
1980	I	4.1491	-0.2	0.2	0.2
1980	II	4.2121	-1.5	0.6	-0.8
1980	III	4.1214	2.2	0.2	0.3
1980	IV	4.4215	-6.8	0.3	-3.4
1981	I	4.8598	-9.0	-0.7	-4.2
1981	II	5.4185	-10.3	-2.2	-4.0
1981	III	5.8084	-6.7	-0.3	-2.0
1981	IV	5.6516	-2.8	-5.4	-3.4
1981					
January		4.6412	-1.6	0.2	-1.1
February		4.9681	-6.6	-0.3	-2.6
March		4.9700	--	-1.7	-0.1
April		5.1054	-2.7	-0.3	-0.6
May		5.4890	-7.0	-1.3	-3.6
June		5.6612	-3.0	0.5	-0.3
July		5.7994	-2.4	0.3	-0.3
August		5.9815	-3.0	-0.6	1.5
September		5.6443	6.0	-0.1	2.7
October		5.6246	0.3	-4.1	-1.1
November		5.6147	0.1	-1.1	-1.1
December		5.7156	-1.8	-0.3	-1.1

Source: IMF, International Financial Statistics.

1/ A positive figure denotes appreciation of the franc.

Table 39. France: Relative Competitiveness in Manufacturing

(Percentage changes from preceding period)

	1978	1979	1980	1981 Est.	1980				1981			
					I	II	III	IV	I	II	III	IV Est.
Overall competitiveness ^{1/}												
Relative unit labor costs	-0.4	4.7	4.2	-5.4	1.6	0.2	-1.4	-2.1	-0.1	-4.9	0.6	0.9
Relative value-added deflator	-1.9	4.9	4.0	-6.3	1.0	-0.4	0.9	-2.4	-3.1	-2.8	0.6	-0.6
Relative export unit value	-0.1	1.8	0.3	-6.2	-0.3	-0.7	1.2	-3.4	-2.9	-2.4	0.8	0.9
Competitiveness relative to Germany ^{1/}												
Relative unit labor costs	-3.1	2.8	6.2	3.7	2.8	1.5	-0.2	1.1	5.5	-3.5	2.8	-5.4
Relative value-added deflator	-4.5	3.1	6.7	2.1	3.0	1.0	1.8	1.5	1.8	-2.0	1.5	-3.7
Relative export unit value	-2.1	3.0	4.7	5.7	1.8	1.6	1.1	0.5	3.7	0.5	1.9	-2.6

Sources: IMF, International Financial Statistics, and staff estimates.

^{1/} Ratios of France's indexes to competitors' indexes in French francs, base year is 1975. A positive number shows a decline in France's competitiveness

Table 40 France Balance of Payments, 1974-81
(In billions of francs, unless otherwise indicated)

	1974	1975	1976	1977	1978	1979	1980	1981 ^{1/}	1981 ^{1/}			
									I	II	III	IV 1/
Trade balance, excluding energy 2/	30.5	51.2	40.2	53.1	68.0	80.0	84.1	112.4	-15.2	-3.9	-12.2	-18.2
Net energy balance	-52.2	-46.1	-61.3	-65.0	-62.9	-85.1	-134.9	-161.9				
Service balance	2.7	5.1	5.6	10.6	24.5	27.4	35.2	30.2	5.3	10.7	6.5	7.7
Private transfers	-5.5	-6.5	-6.7	-6.9	-8.1	-9.8	-10.3					
Official transfers	-5.4	-4.7	-5.0	-6.9	-6.7	-7.3	-7.3	-23.2	-4.5	-4.9	-6.9	-7.0
Current account, excluding energy	22.3	45.1	34.0	49.8	77.7	90.3	101.8	119.4				
Current account balance	-29.9	-1.0	-27.3	-15.2	14.8	5.2	-33.1	-42.6	-14.3	1.9	-12.6	-17.6
Long-term capital 3/	9.3	-0.3	-6.2	0.6	-8.6	-14.8	-4.5	-7.7	1.4	-11.0	-3.8	5.7
Short-term nonmonetary capital	-2.2	4.9	5.0	6.5	5.7	8.1	15.5	4/	6.3	-8.1	-2.8	4/
Monetary capital	-2.0	-5.2	5.5	-6.6	-14.6	1.8	29.0	34.0	20.2	-12.3	2.7	23.4
Leads and lags and unallocated	12.8	10.6	4.3	13.4	15.0	5.1	11.6	4/	-4.3	-6.4	-1.2	4/
Errors and omissions	5.4	7.7	5.0	4.6	-0.2	2.4	9.7					
Net changes in official reserves	-2.2	16.6	-13.7	3.2	12.2	7.9	28.2	-28.0	9.2	-35.9	-17.7	16.4
Current account, as a per cent of GDP	(-2.3)	(--)	(-1.6)	(-0.8)	(0.7)	(0.2)	(-1.2)	(-1.4)				
Net energy balance, as a per cent of GDP	(-4.1)	(-3.2)	(-3.7)	(-3.5)	(-2.9)	(-3.5)	(-4.9)	(-5.3)				

Sources INSEE, Rapport sur les Comptes de la Nation, 1980, Ministère de l'Economie et des Finances and Banque de France, Balance des Paiements entre la France et l'Extérieur, 1980, and Ministère de l'Economie et des Finances

1/ Estimates

2/ Includes Negoce International

3/ Adjusted for intermediation by the banking sector

4/ Fourth quarter estimates for 1981 are available only for short-term nonmonetary capital combined with leads and lags and errors and omissions. This combined item is estimated at F 4.8 billion in the fourth quarter for a total of F -11.7 billion in 1981

Table 41. France. Development of Exports by Commodity Groups, 1977-81
(Percentage change from preceding period)

	Volume				Prices									
	1977	1978	1979	1980	1981			1977	1978	1979	1980	1981		
					I	II	III					I	II	III
Products of agriculture, forestry and fishing	11.5	18.5	14.1	12.1	3.5	-6.5	11.8	15.6	8.1	0.8	5.8	6.0	1.6	-0.3
Food products	12.4	8.3	10.8	7.5	1.9	0.6	-0.5	8.0	2.2	5.1	12.6	3.9	7.0	1.4
Energy products	10.5	-4.1	18.1	-6.3	-9.2	7.7	-2.2	9.1	0.4	32.9	37.6	8.8	3.5	11.2
Intermediate goods	10.2	7.6	9.0	0.9	2.3	5.3	0.9	8.2	2.8	11.9	15.5	2.7	3.1	5.7
Machinery and equipment	6.5	6.2	5.7	3.9	-0.9	14.1	-4.0	7.3	4.3	9.2	10.2	2.1	2.3	5.2
Consumer durables	12.0	1.1	12.7	0.1	-1.0	-2.2	3.4	9.6	8.3	4.3	9.2	2.4	7.4	2.9
Motor vehicles and other ground transportation	9.5	2.1	6.2	-2.0	-2.8	0.9	9.6	10.3	10.3	11.4	6.9	3.5	0.6	2.0
Consumer goods	8.5	3.6	6.4	6.4	3.0	4.1	1.1	11.9	8.2	10.6	7.5	-1.5	4.6	5.0
Total merchandise	7.6	6.2	8.0	3.4	0.7	5.8	0.9	7.7	9.4	10.4	11.3	2.4	2.8	4.6

Sources INSEE, Rapport sur les Comptes de la Nation, 1980 and Informations Rapides, Série F, January 4, 1982.

Table 42. France: Comparison of Market Share for Export of Goods, 1/
1973-80

(In per cent)

	1973	1974	1975	1976	1977	1978	1979	1980
Canada	8.0	7.6	7.1	7.5	6.9	6.4	6.4	6.4
United States	21.7	21.8	22.4	21.7	20.1	19.8	21.2	21.8
Japan	11.0	12.1	11.5	12.5	13.2	13.3	11.6	12.4
France	11.5	11.5	12.4	12.0	11.9	12.2	10.9	10.5
Germany	19.7	19.4	18.6	18.8	19.0	19.3	19.1	18.2
Italy	6.7	6.6	7.2	7.0	7.5	7.7	8.2	7.5
United Kingdom	9.0	8.5	9.0	8.6	9.2	9.4	9.9	10.8
Belgium	5.8	5.6	5.1	5.1	5.6	5.7	6.0	5.9
Netherlands	6.6	6.8	6.7	6.8	6.6	6.3	6.7	6.6

Sources: IMF Research Department; and staff calculations.

1/ Market shares as defined as the ratio of the country's exports of goods in current dollars over total exports of goods in current dollars of the seven largest industrial countries, plus Belgium and the Netherlands.

Table 43. France. Development of Merchandise Imports by Commodity Groups, 1977-81

(Percentage change from preceding period)

	Volume					Prices								
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981				
										I	II	III		
Products of agriculture, forestry and fishing	0.2	6.9	2.2	-2.9	-6.5	3.2	-5.0	29.5	-7.2	2.7	7.9	3.2	5.0	1.2
Food products	6.0	11.9	3.2	5.2	-0.2	-2.1	-0.9	20.0	0.9	4.9	5.5	1.4	6.1	6.1
Energy products	-1.6	0.9	11.4	-2.6	-5.9	-0.4	-1.0	9.7	-6.2	24.2	58.0	12.3	10.8	7.1
Intermediate goods	1.9	8.0	12.9	4.0	-4.3	0.9	1.5	6.6	1.0	12.1	14.4	3.4	4.1	3.6
Machinery and equipment	-0.6	4.6	14.7	23.7	-6.6	1.5	0.8	9.1	6.3	3.0	0.2	8.6	5.0	5.4
Consumer durables	1.9	0.4	20.7	18.4	3.9	-4.3	6.4	7.9	5.0	-0.4	-2.8	3.5	5.1	6.2
Motor vehicles and other ground transportation	-0.1	0.3	10.0	7.6	6.3	-4.2	0.6	12.6	9.5	8.3	9.3	2.9	2.4	4.8
Consumer goods	1.8	7.2	15.5	5.3	3.3	2.2	3.6	14.4	5.1	10.9	11.8	-0.3	3.6	4.1
Total merchandise	0.6	5.4	12.0	8.7	-3.0	0.6	1.0	11.8	1.2	10.5	15.7	5.7	5.9	4.5

Sources: INSEE, Rapport sur les Comptes de la Nation, 1980 and Informations Rapides. Série F, January 4, 1982

Table 44. France: Import Penetration by Product, 1978-81

(In per cent, at current prices)

	1978	1979	1980	1981		
				I	II	III
Products of agriculture, forestry and fishing	15.1	14.2	14.1	14.2	14.5	13.7
Food products	11.9	11.6	11.8	12.3	12.3	12.6
Energy	27.4	29.6	34.2	34.3	36.1	36.7
Intermediate goods	25.8	26.9	28.9	28.8	28.8	28.8
Machinery and equipment goods	31.2	31.4	33.5	34.8	36.8	37.3
Consumer durables excluding motor vehicles	42.2	44.8	47.0	49.5	48.5	51.7
Motor vehicles and other ground transportation equipment	24.7	25.7	27.3	31.0	28.7	29.3
Consumer goods	18.9	21.1	21.6	21.1	22.1	22.6
Total manufacturing	25.4	26.9	27.9	28.8	29.3	29.6
Total merchandise	22.4	23.5	25.5	26.2	26.9	27.3
Total goods and services	15.6	14.1	15.3	15.6	16.1	16.2

Sources: INSEE, Informations Rapides, Série F, April 1981 (No. 74) and January 1982 (No. 1).

Table 45. France: Service Account, 1976-81

(In millions of francs)

	1976	1977	1978	1979	1980	1981 I	1981 II
Shipment cost on merchandise trade	-1,682	-1,655	-2,015	-2,517	-3,596	-1,261	-1,517
Other sea transportation	-2,384	-2,021	-2,077	-2,933	-3,371	-1,660	-1,624
Other transportation	1,987	2,803	3,681	4,869	5,249	897	980
Insurance	-267	-175	208	169	-303	-35	-63
Technical assistance and engineering works	7,497	9,578	14,021	13,825	16,957	4,138	5,154
Interest, dividends, and other investment income	1,770	1,943	4,633	6,771	9,654	24	2,469
Wages and other labor income	-438	-137	-795	-966	-1,010	-411	-267
Royalties and license fees	-1,809	-1,288	-1,495	-1,607	-2,242	-557	-646
Travel	407	2,267	7,379	6,969	9,401	1,530	3,079
Other services	973	644	1,148	1,256	726	1,135	592
Receipts and expenditures of the Government	-1,019	-1,976	-683	1,176	3,424	1,393	2,346
Receipts and expenditures of foreign governments	527	593	509	431	351	116	104
Total	5,562	10,576	17,116	27,443	35,240	5,309	10,607

Sources: Ministère de l'Economie et des Finances and Banque de France, Balance des Paiements entre la France et l'Extérieur, 1980; and Banque de France.

Table 46. France: Capital Account Adjusted for Intermediation by the Banking Sector, 1976-81

(In millions of francs)

	1976	1977	1978	1979	1980	1981 <u>1/</u>
Long-term capital	-6,126	584	-8,622	-14,813	-4,536	-7,700
Commercial credit	-16,597	-18,531	-16,670	-14,576	-15,469	-17,500
Export credit	-16,170	-18,250	-16,210	-13,315	-15,834	
Import credit	-427	-281	-460	-155	365	
Direct investments	3,162	2,785	2,936	3,184	801	-3,800
Residents abroad	-8,184	-5,885	-8,095	-8,395	-13,260	
Foreigners in France	5,022	8,670	11,031	11,579	14,061	
Public investment	-417	-595	-898	-1,144	-1,032	-1,300
Portfolio investment	-4,180	2,284	-1,983	-8,061	-1,138	14,900
Other long-term capital	9,870	14,641	7,993	5,784	12,302	
Lending abroad	-2,105	-2,915	-696	-3,468	-7,095	
Private nonbanking sector	-197	-768	-89	-62	—	
Banks	-890	-1,350	-1,245	-1,699	-3,195	
Public sector	-1,018	-797	638	-1,707	-3,900	
Borrowing abroad	11,975	17,556	8,689	9,252	19,397	
Private nonbanking sector	10,283	15,838	7,093	8,766	17,389	
Banks	1,340	1,409	1,353	633	1,714	
Public sector	352	309	243	-147	294	
Short-term nonbanking sector	4,994	6,537	5,738	8,095	15,455	-11,700
Export credit	-5,594	-3,134	-3,623	-5,236	-4,754	
Import credit	7,129	1,826	2,624	3,489	8,195	
Other lending abroad	-4,253	-340	-1,883	-823	-7,324	
Other borrowing abroad	7,712	8,149	8,620	10,665	19,338	
Reserves and lags and unallocated	4,337	13,364	14,983	5,132	11,640	
Banks	5,478	-6,648	-14,598	1,808	29,048	34,000
In francs	-1,524	878	1,172	110	10,509	
In foreign currencies	7,002	-7,526	-15,770	1,918	18,539	

Sources: Ministère de l'Economie et des Finances and Banque de France, Balance des Paiements entre la France et l'Extérieur; and Banque de France, Bulletin Trimestriel, September 1981.

1/ Preliminary estimates.

Table 47. France: Official Reserves, 1976-81

(French presentation; end of period; in millions of francs)

	1976	1977	1978	1979	1980	1981
SDRs	1,306	1,340	1,560	3,431	4,235	7,195
Reserve position in the Fund	4,850	4,210	2,510	2,547	4,830	5,886
Foreign exchange	21,740	22,140	34,830	31,774	44,473	38,268
ECUs	--	--	--	33,391	70,572	76,511
Gold	63,673	78,860	93,690	138,405	226,982	194,658
Total	91,533	106,550	132,590	209,548	351,092	322,518

Sources: Ministère de l'Economie et des Finances and Banque de France, Balance des Paiements entre la France et l'Extérieur; and Banque de France.

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