Summary for non-specialists
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Macroeconomic Imbalances – France 2013

On 28 November 2012, the European Commission presented its second Alert Mechanism Report (AMR-2013) in accordance with the Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances. The AMR serves as an initial screening device to identify Member States that warrant further in depth analysis into whether imbalances exist or risk emerging. According to Article 5 of Regulation No. 1176/2011, these country-specific "in-depth reviews" should examine the nature, origin and severity of macroeconomic developments in the Member State concerned, which constitute, or could lead to, imbalances. On the basis of this analysis, the Commission concludes whether it considers that an imbalance exists or not, and if so whether it is excessive or not, and what type of follow-up it will recommend to the Council to address to the Member State.

The 2013 in-depth reviews (for Belgium, Bulgaria, Denmark, Spain, France, Italy, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom) were published on 10 April 2013 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

FRANCE is *experiencing macroeconomic imbalances, which require monitoring and decisive policy action.* In particular, the deterioration in the trade balance and competitiveness levels, driven both by cost and non-cost factors, against a background of a deteriorating external position and high public debt deserves continued attention. The need for action so as to reduce the risk of adverse effects on the functioning of the French economy and of the Economic and Monetary Union, is particularly important notably given the size of the French economy.

More specifically, the growing trade deficit reflects the long term decline in export market shares which is linked to persistent losses in both cost and non-price competitiveness. Wages have risen fast and put pressure on prices and firms' profitability. The low and decreasing profitability of private companies, in particular in the manufacturing sector, have not only weighed on their indebtedness, but more importantly may have hampered their ability to innovate and to strengthen their non-price competitiveness. Other factors, including the decreasing number of exporting firms have aggravated these competitiveness issues. In particular, rigidities in the French labour market, which also contributed to the development in the cost of labour, may have limited the potential for adjustment of the economy and hampered productivity developments. In addition to the competitiveness issues, the rising public debt exposes France to potential financial market turbulence and brings risks of crowding out private investment.