Summary for non-specialists
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Macroeconomic Imbalances

France 2014

On 13 November 2013, the European Commission presented its third Alert Mechanism Report (AMR) 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, presented on 5 March 2014, the Commission will conclude 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 2014 in-depth reviews (for Belgium, Bulgaria, Germany, Denmark, Ireland, Spain, France, Croatia, Italy, Luxembourg, Hungary, Malta, Netherlands, Slovenia, Sweden, Finland and the United Kingdom) were published on 5 March 2014 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

France continues to experience *macroeconomic imbalances, which require specific monitoring and decisive policy action*. In particular, the deterioration in the trade balance and in competitiveness as well as the implications of the high level of public sector indebtedness deserve continuous policy attention. The need for decisive action so as to reduce the risk of adverse effects on the functioning of the French economy and of the euro area is particularly important given the size of the French economy and potential spillovers onto the functioning of the euro area. Given the need for policy action already called in the 2013 IDR, the Commission will put in motion a specific monitoring of the policies recommended by the Council to France in the context of the European Semester, and will regularly report to the Council and the Euro Group.

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. Despite measures taken to foster competitiveness, so far there is limited evidence of rebalancing. While wages have developed in line with productivity, the labour cost remains high and weighs on firms' profit margins. The low and decreasing profitability of private companies, in particular in the manufacturing sector, may have hampered their ability to grow and improve their export performance. The unfavourable business environment, and in particular the low level of competition in services, further aggravate the competitiveness challenge. In addition, rigidities in the wage setting system result in difficulties for firms to adjust wages to productivity. Despite measures taken to reduce the government deficit since 2010, public debt has continued to increase, which calls for continued fiscal consolidation and, given the high level of public expenditure, for specific focus on spending cuts, notably through the search for efficiency gains. France is projected to miss both headline deficit and structural adjustment targets over the entire forecast period.