France downgraded by IMF amid poor growth

PARIS, FRANCE: The International Monetary Fund (IMF) said on Tuesday (4 June) that France must keep up its momentum on the reforms launched by the government a year ago to remove obstacles preventing the country from jump-starting economic growth and creating badly-needed jobs.

Once again, the Washington-based IMF downgraded its forecasts for the French economy, expecting gross domestic product (GDP) to contract by 0.2% this year and grow by only 0.8% in 2014.

In April it had predicted a 0.1% contraction in 2013 and 0.9% growth next year.

The eurozone's second largest economy fell into recession in the first quarter and registered a record number of job-seekers in April -- the 24th consecutive month of rising unemployment.

French President Francois Hollande vowed to boost growth and curb rising unemployment by the end of the year but as it published its annual evaluation report on France on Tuesday (4 June), the IMF warned this would probably not happen.

"Following two quarters of negative growth (last quarter of 2012 and first quarter of 2013), economic activity should begin to recover in the second half of 2013, driven by a gradual improvement in the external environment," it said.

But it warned there were still risks in the form of precarious growth in Europe and uncertainty over France's on tax policies, "which weigh on spending decisions of households and enterprises."

Rigidities are a hinderance

It also said "significant rigidities hinder the economy's capacity to grow and to create jobs."

Edward Gardner, the IMF's mission chief for France, told reporters that "macroeconomic variables lead us to think unemployment will continue to rise and that it will be hard to reverse this trend by the end of the year."

"It reflects a general phenomenon in Europe that the recovery is slower in coming than we had anticipated," he added.

Faced with a decline in productivity, companies have maintained real wage growth at the expense of profit margins, according to the IMF, which it says, has undermined the capacity of enterprises to innovate and remain competitive in international markets.

It said restoring external competitiveness remained a "critical priority."

Meaningful progress

Striking a positive note, however, the IMF said Hollande's government "has made meaningful progress on the structural reform front", but that it now needs to build on that.

"This forward momentum should be sustained and broadened to address the multiple and deep challenges faced by the country," it said, calling for more competitiveness in the services sector, pointing especially to regulated professions, transportation and distribution.

Gardner said the fund believes that "competition should be seen as an instrument to create jobs (...) rather than an instrument that will destroy jobs".

He added there is "no more scope for increasing the tax burden", saying it has already reached a critical level.

France's Industrial Renewal Minister Arnaud Montebourg responded by saying the risks linked to competition "are sometimes destructive and can prevent companies from investing".

The IMF pointed out that the financial situation of households and firms remained relatively sound and could "easily translate into an increase in demand."

"The French economy can rely on a high household saving rate, first rate global enterprises, positive demographics, a strong scientific research capacity, and high quality public infrastructure," the report added.

Source: AFP via I-Net Bridge