

In 2011, French growth withstood the shocks

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In 2011, activity progressed by 1.7% in France, the same rate as in 2010, after the all-time record fall in 2009 (-3.1%). In Q4 2010, GDP remained (slightly) below its pre-recession Q1 2008 level. In the services branch, activity in 2011 exceeded 2007 levels, but industrial production remained below its 2007 all-time high.

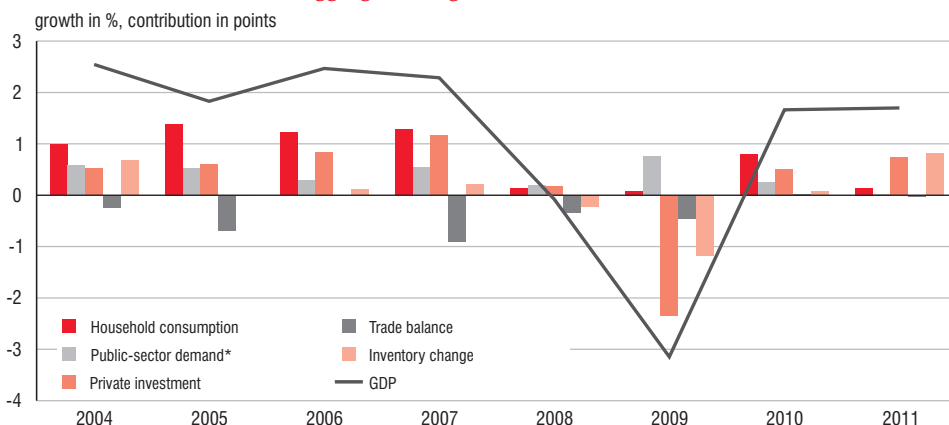
Activity in 2011 was buoyed up by final domestic demand excluding stocks, which contributed +0.9 points to growth in GDP (*Figure 1*), mainly thanks to investment, notably by non-financial enterprises, which remained sustained (+5.1% after +6.3% in 2010). Conversely, household consumption stalled (+0.3% after +1.4% in 2010), under the effect of the slowdown in purchasing power (+0.5% after +0.9%) and a slight rise in the savings ratio.

2011 was also marked by a strong stockbuilding trend, as was to be expected after the considerable running down of stocks during the recession. Over the year, the accounting contribution of stock variations to growth was 0.8 points.

Trade increased significantly in 2011, but at a lesser rate than in 2010. At the end of 2011, it returned to its pre-crisis level. Exports progressed by 5.3%, after 9.6% in 2010: the slowdown in export growth followed that in world trade. Imports also increased markedly (+4.9%), driven in particular by corporate demand. Overall, the accounting contribution of foreign trade to growth in GDP was zero over the year.

Final demand from general government was stable in 2011. Investment by general government continued to fall, especially due to the drop in investment by the State, although it did decline less than in 2010. Individual consumer expenditure by government continued to progress. Collective expenditure showed a marked fall, due to one-off items and to efforts to reduce public spending.

1. Contribution of the main aggregates to growth in GDP



*Includes non-profit institutions serving households (NPISHs).

Source: INSEE, national accounts - 2005 base.

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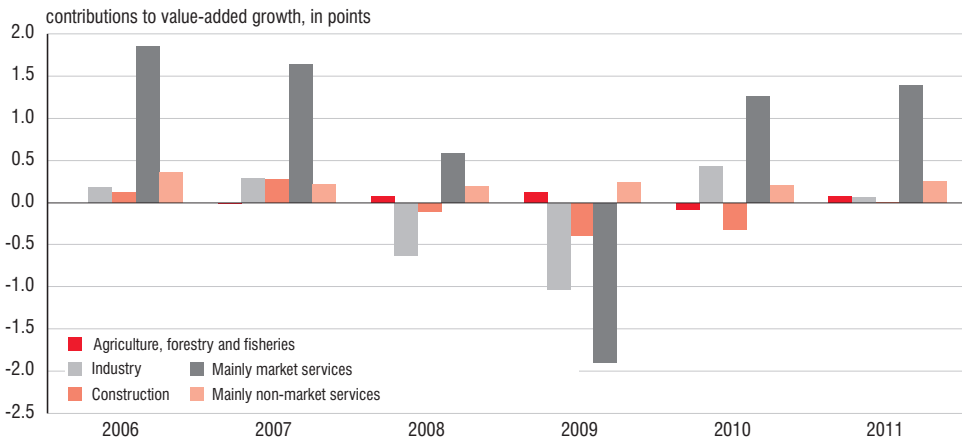
The deficit of general government as defined by Maastricht was 5.2% of GDP, after 7.1% of GDP in 2010, significantly down. General government debt as defined by Maastricht stood at 86.0% of GDP at the end of 2011.

In 2011, the upturn in activity thus continued, but the French economy was hit by several shocks: the rise in commodity prices, the consequences of the earthquake in Japan, the effects of fiscal consolidation in Europe and worsening tensions surrounding European sovereign debt. In addition to this, under the effect of these shocks, the quarterly activity profile had its ups and downs: after strong growth in Q1 (+0.9%), activity was sluggish for the rest of the year (+0.0% in Q2, +0.3% in Q3 and +0.1% in Q4). Likewise, market-sector employment fell at the end of the year, whereas it had still been rising strongly before the summer.

The upturn confirmed, at differing rates according to the sector of activity

After a profound recession in 2009 and an upturn in 2010, the rise in activity in France continued at a moderate rate in 2011 (+1.7%), although with differing trends from one sector to another. Manufacturing production slowed down in 2011 after rebounding significantly in 2010 (*Figure 2*). In contrast, the rate of growth in the production of market services increased slightly. Activity in construction, which had continued to fall in 2010, rose again in 2011.

2. Contribution of the main branches to total value added



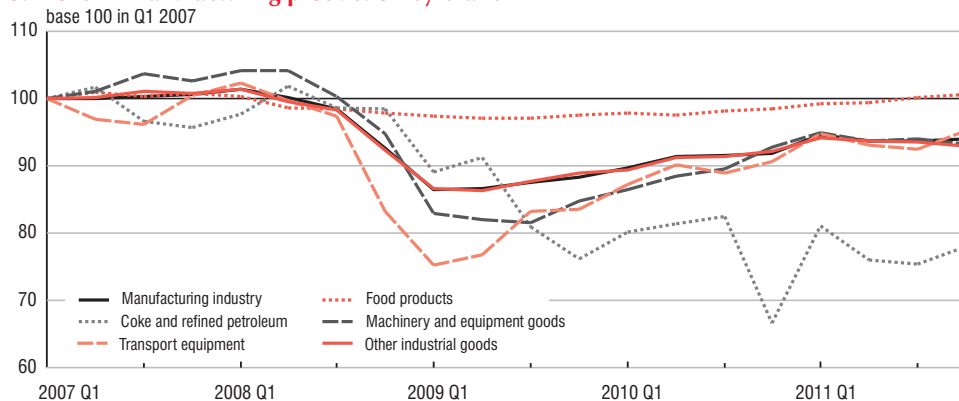
Source: INSEE, national accounts - 2005 base.

Manufacturing production slowed down in 2011; it remained well below its pre-crisis level

Manufacturing production, which had suffered particularly from the crisis (-10.3% in 2009), slowed down in 2011 (+3.2%), after a clear rebound in 2010 (+4.7%): it is still well below its pre-crisis level (*Figure 3*). The slowdown was also visible in the course of the year: after a sharp increase in Q1 2011 (+3.1%), it stopped progressing, affected by the end of the scrappage bonus in the automobile sector and by the general deterioration in the outlook from spring 2011 onwards.

Demand for manufactured products softened in 2011, notably because household consumption of manufactured goods slowed down. The same applied to corporate investment and to exports. Stocks were built up again, meanwhile in 2011, after falling sharply in 2009 and 2010.

3. Trend in manufacturing production by branch



Source: INSEE, national accounts - 2005 base.

Among the manufacturing branches, production in the transport equipment industry was dynamic (+5.6%). On the one hand, automobile production progressed by 5.4%, although it suffered in the course of the year from the end of the scrappage bonus and the loss of some supply lines further to the earthquake in Japan. Production of other transport equipment also remained dynamic (+5.9%).

The agrifood sector was less affected by the crisis and in 2011 it almost returned to its 2007 level. In contrast, activity in the coking and refining sector levelled out in 2011, remaining more than 20% below its 2007 level. Finally, production of capital goods and that of other industrial products also remained well below pre-crisis levels, although they did increase in 2011.

Energy, water and waste production was little affected by the recession in 2009 and fell back in 2011 (-3.9% after +5.5% in 2010), notably because temperatures were milder in 2011 than in 2010, in particular in spring and early winter. All in all, industrial production progressed by 2.0% in 2011 after +4.8% in 2010.

The recovery confirmed in services

Due to their very great weight in value added, market services are the biggest contributor to growth in GDP in accounting terms (*Figure 2*). Market service activity progressed markedly in 2011, at a rate close to that in 2010 (+2.4% after +2.3%). Unlike manufacturing industry, production in market services exceeded its pre-crisis level in 2011.

Activity in services is very closely linked to the overall dynamics of the economy, and growth in manufacturing production provided a strong boost to demand for services. Investment by non-financial enterprises in services¹ also remained dynamic.

In 2011, the upturn was confirmed in transport activities (+3.2% after +4.3% in 2010 and -8.3% in 2009) and in services to businesses (+4.0% after +3.1% in 2010 and -7.2% in 2009). In contrast, production of financial services progressed little (+0.3% after -0.8% in 2010. see below).

1. Investment in services by non-financial enterprises (excluding construction) is mainly composed of information-communication services (item JZ in the classification) and services linked with scientific and technical activities, administrative and support services (item MN in the classification).

Production in non-market services was slow, meanwhile, progressing by 0.2% in 2011 after buoying up activity in 2009 (+1.9%) and in 2010 (+1.7%). Intermediate consumption² by the State recorded a marked fall, after large deliveries of military equipment in 2010.

Activity stabilised in construction

In 2011, the construction sector emerged from the recession: activity grew by 1.4% after continuing its fall in 2010 (-5.2%), unlike industry and services. Activity saw an upturn in both building and civil engineering: it was buoyed by a rise in household investment in construction (+2.7%), which had been falling sharply since 2008. Likewise, investment in construction by businesses grew again. On the contrary, public investment continued to fall (-1.4% after -8.6% in 2010).

Businesses: dynamic investment, stock building and falling margins

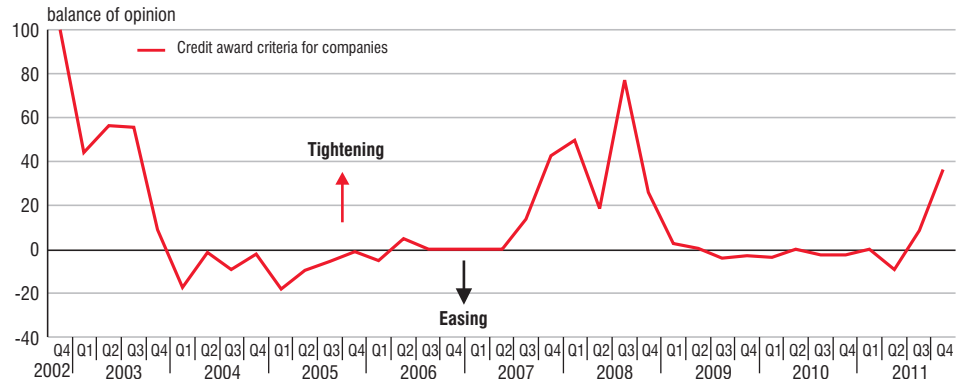
Demand from businesses significantly buoyed up activity in 2011: investment in production continued to improve and entrepreneurs built up their stocks again.

The strong upturn in corporate investment continued

In general, variations in investment are more pronounced than those in activity, due to the so-called “acceleration” factor. Investment by non-financial enterprises has grown very significantly since the end of the recession (+5.1% in 2011 after +6.3% in 2010 and -13.7% in 2009). In 2011, it still remained below its pre-crisis level, although the investment ratio reached 18.7% in 2010, close to its 2008 peak.

Improved production prospects through to summer 2011 encouraged companies to increase their production capacities, especially as capacity utilisation rates in industry increased in 2011. In addition to this, lending terms continued to improve slightly until summer 2011 (*Figure 4*) and interest rates on loans remained low in real terms.

4. Corporate lending terms



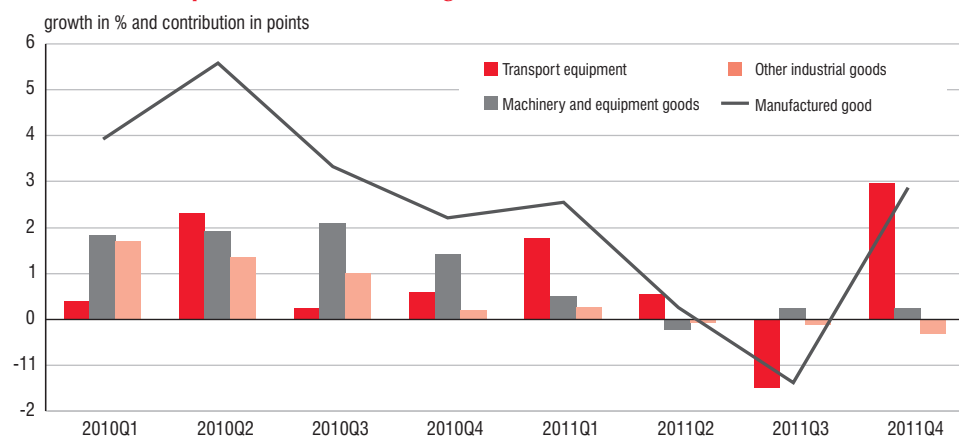
How to read it: the terms for awarding credit to companies by banks tighten on average for positive values. Conversely, they ease when the curve falls below the X-axis.
Source: Banque de France.

2. Production in the non-market branches is measured at cost in such a way that the net operating surplus comes to zero. In this way, a fall in intermediate consumption weighs on the production that is measured.

Investment by non-financial enterprises in manufactured goods progressed sharply in 2011, by 7.7% after +14.8% in 2010 and -20.8% in 2009, thanks to the rise in investment in capital goods (+9.1%) and in automobiles (+16.1%). Likewise, investment by non-financial enterprises in market services progressed strongly in 2011 (+5.7% after +9.4% in 2010). Finally, corporate investment in construction saw an upturn (+1.6% after -5.3% in 2010), notably in civil engineering (+4.0% after -1.0%), but also in building (+0.9% after -6.3%).

The overall dynamism of corporate investment in 2011 masked a pronounced slowdown in the course of the year, however. From summer onwards, production prospects worsened and lending terms became tighter again with the deepening of the Eurozone crisis. For example, investment in capital goods slowed down sharply over the year and that in “other industrial products”³ fell from Q2 onwards (*Figure 5*). At the end of 2011, investment in manufactured goods was boosted mainly by people anticipating the upcoming disappearance of certain fiscal advantages⁴ on automobile purchases in 2012.

5. Contributions of categories of manufactured goods to the trend in investment by non-financial enterprises in manufactured goods



Margin rates of non-financial enterprises fell in 2011

The financial situation of non-financial enterprises (NFE) worsened in 2011. The value added of NFEs progressed by 2.8% in value, after +2.4% in 2010, but their gross operating surplus⁵ fell by 2.2%, after +6.0% in 2010. The margin rate of NFEs thus fell to 28.6%, from 30.1% in 2010 and 29.1% in 2009. This is its lowest level since the mid-1980s.

Productivity progressed slightly more quickly in 2011 than real wages, thereby boosting corporate margins. In contrast, the average rate of social contributions increased, due notably to annualisation of the calculation of social contribution rebates. Finally, while the price of production grew at about the same rate as the price of household consumption, the price of intermediate consumption grew distinctly more quickly, notably due to the rise in energy prices. On account of this, the price of added value was not very dynamic and weighed down on margins of NFEs.

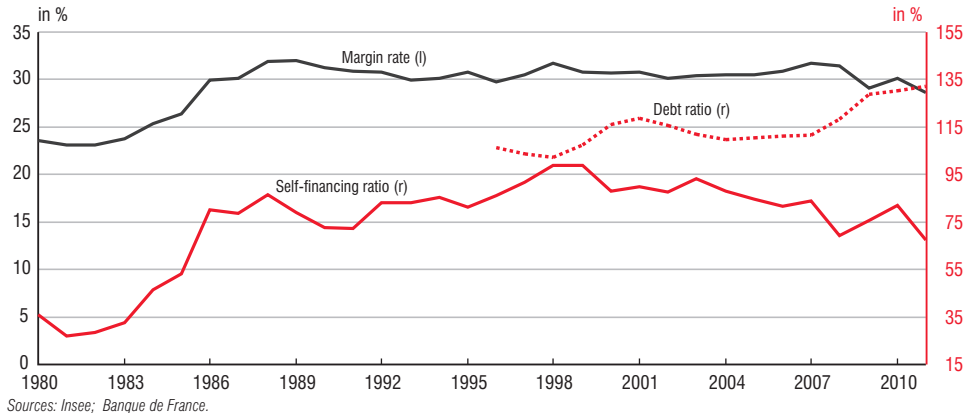
3. Item C5 in the classification.

4. Tighter terms on the ecological bonus-penalty system as of 1st January and rise in the tax on the highest-pollution company cars.

5. The gross operating surplus is equal to value added minus the remuneration of employees (including social contributions) and other taxes on production, plus operating subsidies.

In addition to this, the balance of income from ownership of NFEs deteriorated and, above all, corporation tax paid in 2011 was up sharply. All in all, savings of NFEs thus fell by 10.5% in 2011 and NFE borrowing requirements rose from 1.8% of their value added in 2010 to 6.5% in 2011. Correlatively, the debt ratio of NFEs increased to 132.0%, a high level compared with previous years (*Figure 6*).

6. Margin rate, self-financing ratio and debt ratio of non-financial enterprises



Businesses built up their stocks in early 2011

During the recession, businesses ran down their stocks considerably. The accounting contribution of stock variations to growth in GDP was -1.2 points in 2009. The after-effect of this movement was not seen in 2010 (contribution of +0.1 points), but it did occur in 2011: businesses increased their stocks significantly (contribution of +0.8 points).

Activity of financial enterprises continued to slow down in 2011

In 2011, the value added of financial enterprises decelerated for the second consecutive year, increasing by +0.2%, after +9.2% in 2010 and +17.0% in 2009.

The value added of banks⁶ fell back by 1.2% in 2011, after two years of strong growth (+31.0% in 2009, +12.0% in 2010). At the same time, Net Bank Income (NBI) saw a slight rise (+1.0%, after -7.2% in 2010). These two measures of banking activity by the national accounts and by private accounting do not cover the same items. Among other things, NBI includes gains and losses in the value of financial assets which, in the national accounts, do not enter into the calculation of service production but appear as effects of the revaluation of their financial assets.

The fall in the added value of banks can be linked with the fall in production (-1.4% after +4.8% in 2010). This fall results from two factors in the national accounts: commissions received for interbank services and services invoiced to clients, and financial intermediation services indirectly measured (FISIM, corresponding to the profit margins on deposits and loans). The fall in production is explained by the decline in FISIM (-4.5% after +19.8% in 2010). The slight tightening of the policy of the European Central Bank in the course of 2011

6. Accredited credit institutions and investment companies.

led to a rise in interbank rates after falling for two years (the EONIA gained 44 base points after -314 in 2009 and -28 in 2010). This rate rise led to a fall in the intermediation margin of banks. The fall in production was attenuated slightly, however, by the upturn in services invoiced (+0.7% after -3.7% in 2010).

The value added of insurance companies accelerated in 2011 (+4.5% after +0.7%) due mainly to the fall in intermediate consumption (-1.0% after +6.0% in 2010) and notably in reinsurance imports. At the same time, insurance company production slowed down in 2011 (+0.7% after +4.4% in 2010). After a sharp progression in 2010, the activity of damage insurers returned to a more moderate rate of growth (+ 3.1% after +11.2%); that of life insurers fell (-2.9% after + 0.1% in 2010), under the effects of increased competition from more liquid investments, such as the *Livret A* passbook and a rise in contract redemption applications.

Sharp increase in employment in 2011

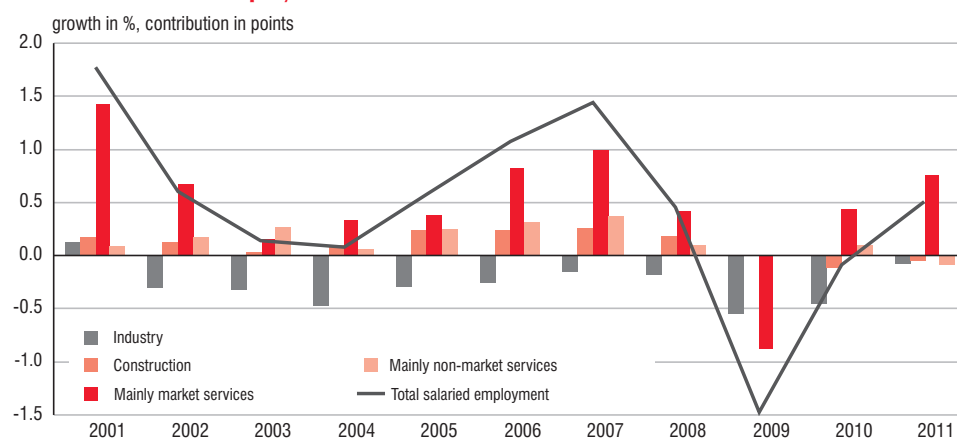
After falling sharply in 2009 and almost stagnating in 2010, employment⁷ progressed strongly in 2011, mainly at the start of the year.

Employment saw a sharp rise in 2011, although it did fall in H2

The trend in the number of jobs since the end of the recession has been uneven: the upturn appeared to come quite early on, given the losses in productivity accumulated during the crisis, but the trend took a downturn after summer 2011.

In 2011, an annual average of 123,000 jobs were created, against -20,000 in 2010 and -365,000 in 2009 (*Figure 7*). In particular, salaried employment in the non-agricultural market sectors, which represents over 60% of total employment and explains the major part of its variations, increased significantly in 2011 (+154,000 as an annual average), making up part of

7. Trend in salaried employment



Source: INSEE, national accounts - 2005 base.

7. Employment calculated within the definition of the national accounts differs from employment as usually published by INSEE, principally in terms of the period covered: it is calculated as a quarterly (or annual) average, while published employment is employment at the end of the period (end of quarter or year).

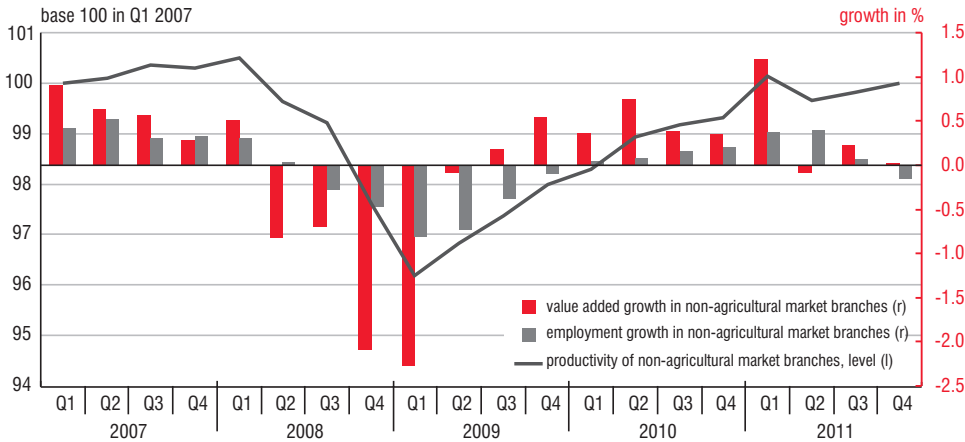
the cumulative fall recorded in 2009 (-350,000) and 2010 (-34,000). There were very marked ups and downs in the course of the year: after creating large numbers of jobs in H1 (121,000), market-sector employment fell in H2 2011 (-54,000)⁸.

Salaried employment in market-sector services increased sharply in 2011, with 185,000 net job creations, after +107,000 in 2010 and -217,000 in 2009. This great volatility is largely due to the fact that temporary employment fell sharply during the recession but recovered strongly afterwards. Its rise was interrupted in H2 2011, contributing largely to the renewed fall in employment at the end of the year. All in all, temporary employment increased by 97,000 jobs⁹ in 2010 and then fell by 22,000 jobs in 2011, with a pronounced drop in H2. Service sector employment excluding temporary employment reacted more slowly and took longer to level out after the crisis. It progressed sharply at the beginning of 2011 and levelled out in H2. In contrast with market-sector services, employment fell back slightly in the non-market branches due to application of the rule that one State civil servant in two taking retirement should not be replaced.

In 2011, industrial salaried employment fell (-19,000), but this was the smallest recorded since 2001. Industrial employment even progressed slightly in early 2011 before heading down again after the summer.

Market-sector employment surprised by its relative buoyancy during the crisis, given the downturn in activity, and by its dynamism from the beginning of 2010 when the recovery came. This stronger-than-expected trend compared with that in activity continued through to mid-2011 and was then reversed: employment fell back more in H2 than suggested by the trend in activity (*Figure 8*). At the end of 2011, businesses may have given priority to productivity gains to boost their margins which had reached a relatively low level.

8. Trend in productivity, value added and employment in the non-agricultural market branches



Source: INSEE, national accounts - 2005 base.

8. The half-yearly figures are end-of-period employment data.

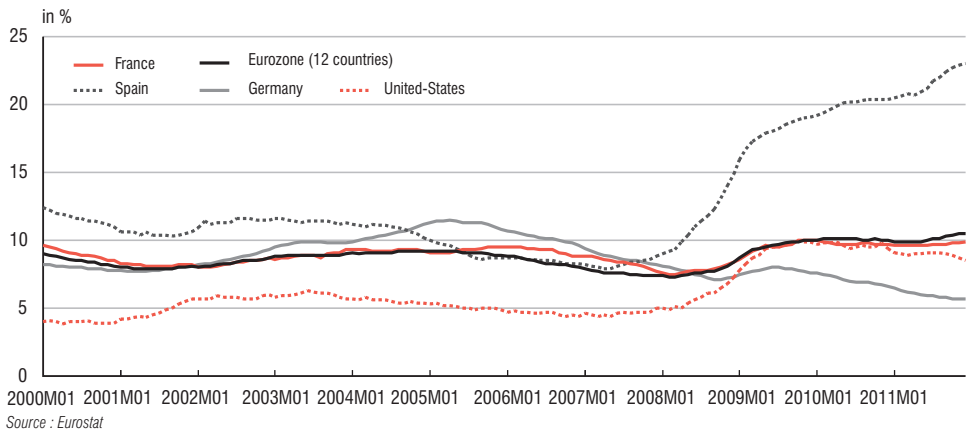
9. The temporary employment figures are end-of-period employment data.

Unemployment fell back slowly through to summer 2011 then increased at the end of the year

After increasing sharply between mid-2008 and the end of 2009, the unemployment rate as defined by the ILO started a slow fall which continued through to Q2 2011. After the peak at 10.0%¹⁰ reached in Q4 2009, it fell to 9.5% in Q2 2010, thanks to growth in employment. With the turnaround in the labour market from mid-2011, the unemployment rate started rising again.

This trend in unemployment is close to the Eurozone average (*Figure 9*). However, this Eurozone average hides sharp contrasts between countries, notably between Spain where unemployment continued to rise at a sustained rate to very high levels, and Germany where it was contained during the recession and has fallen significantly since.

9. Unemployment rates in several European Union countries and the United States



Wages per head increased at the same rate as in 2010, but slowed down in real terms

In 2011, the average wage per head in the non-agricultural market sectors progressed by 2.4%, the same rates as in 2010.

Nominal wages increased in the wake of inflation. In particular, the minimum wage in 2011 benefitted from a larger automatic adjustment than in 2010, with +1.6% on 1st January 2011 then +2.1% on 1st December 2011. In addition, effective working time of employees stabilised, after falling in 2009 and in 2010.

In general government, the average wage per head continued to slow down (+1.8% after +2.0% in 2010), due to efforts to contain public spending. For example, the civil service wage index point was frozen in 2011 (after +0.5% on 1st July 2010).

Overall in the economy as a whole, the average wage per head increased by +2.4%, at the same rate as in 2010. This trend in current Euros was close to that of the previous year, but did conceal a clear slowdown in real wages as inflation increased in 2011. Therefore, the progression in average wages per head in real terms was only +0.3% in 2011, after +1.3% in 2010. The still-poor situation on the labour market weighed down on real wages by limiting the bargaining power of employees.

10. Figures covering France including the overseas departments.

Purchasing power and household consumption slowed down

In 2011, household purchasing power slowed down. Household consumption was affected by this and slowed down even more sharply.

In value, household disposable income accelerated...

In 2011, household gross disposable income (GDI) accelerated (+2.6% after +2.0% in 2010). Tax progressed more quickly in 2011 than in 2010, but the different sources of income were also more dynamic than the previous year.

First, earned income accelerated: the gross wages received by households progressed more quickly than in 2010 (+2.9% after +2.3% in 2010), due to more dynamic wages than in 2010 and the upturn in employment. The gross operating surplus of sole proprietorships was also more dynamic in 2011 than in 2010.

Buoyed notably by the rise in short-term interest rates, income from investments recovered significantly in 2011 (+3.5%), after falling slightly in 2010 (-0.6%).

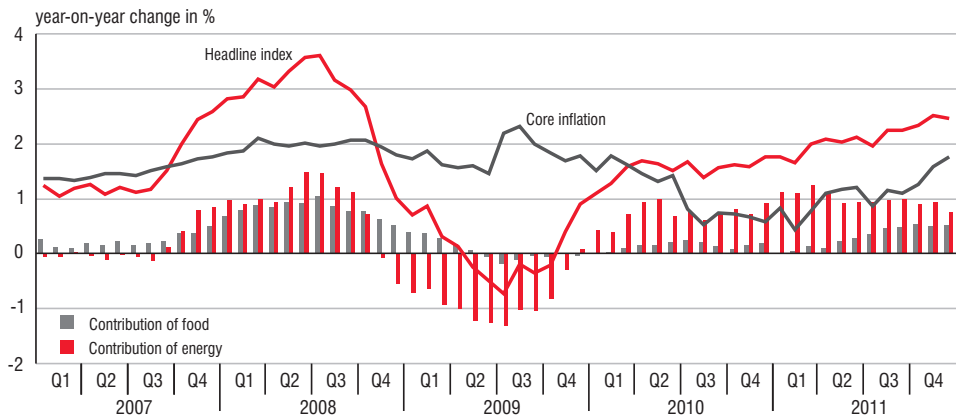
Finally, social benefits received in cash progressed at the same rate as in 2010 (+3.2%). Social security benefits slowed down somewhat because unemployment benefits fell in 2011, thanks to the improvement in the labour market in H1. Social assistance benefits increased in 2011, after 2010 which had been marked by the non-renewal of the measures introduced in the 2009 stimulus plan.

Taxes, meanwhile, were more dynamic in 2011 than in 2010 (+6.6% after +2.8%). In particular, growth in revenues from income tax was strong, due to the rise in income in 2010 and the tax rises passed for 2011. Taxation of financial income also increased, with the tax-on-earning system for life insurance. Other current taxes slowed down in 2011, notably due to the fall in solidarity tax on wealth (ISF).

...but inflation increased

As an annual average, the consumer price index increased by 2.1% in 2011, after +1.5% in 2010 (*Figure 10*). This acceleration in consumer prices was largely the result of the sharp increase in the prices of energy and food commodities from summer 2010.

10. Consumer price index and core inflation



Source : Insee.

For example, energy consumer prices, which had already risen sharply in 2010 (+10.0%), progressed even more sharply in 2011 (+12.3%), under the effect of the rise in world prices at the end of 2010 and beginning of 2011: the price per barrel of Brent rose from €59.5 in October 2010 to €85.6 in April 2011, before falling back slightly.

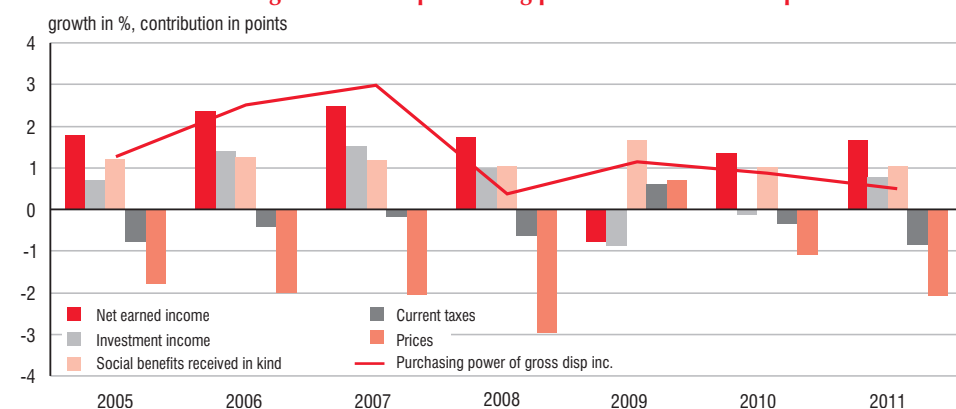
Likewise, the rise in prices of food commodities from summer 2010 worked its way through and buoyed up food product consumer prices throughout the year, progressing globally by 1.9% in 2011, after +0.8% in 2010.

Core inflation, meanwhile, remained stable at +1.1%: the low level of production capacity utilisation and still-high level of unemployment kept inflationary pressures moderate. Prices of manufactured goods¹¹ were stable in 2011 (+0.1%) and, in services, prices progressed by +1.7% as an annual average, slightly more quickly than in 2010 (+1.4%).

...all in all, purchasing power slowed down...

All in all, despite buoyant income, purchasing power slowed down in 2011 due to the acceleration in prices: it progressed by +0.5% after +0.9% in 2010 (*Figure 11*). Per consumption unit, meaning on an average individual level, purchasing power fell by 0.1%, after +0.3% in 2010.

11. Contributions to the growth in the purchasing power of household disposable income



Source: INSEE, national accounts - 2005 base.

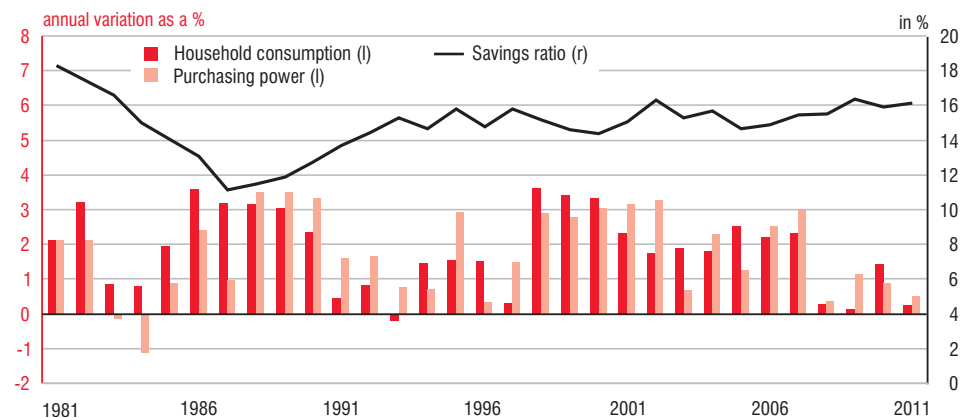
...and household consumption stalled

Household consumer spending was slow in 2011: it progressed by just 0.3%, after +1.4% in 2010. On the one hand, the slowdown in purchasing power put the brakes on consumer spending while on the other, households increased their savings ratio slightly in the course of 2011, after reducing it in 2010 (*Figure 12*). This ratio increased from 15.9% in 2010 to 16.1% in 2011 and its high level can be interpreted as precautionary behaviour: faced with a poor labour market situation and global macro-economic uncertainty, households are putting a large part of their income to one side.

The different consumption items were not all affected in exactly the same way by this slowdown in household consumption.

11. The price of manufactured goods as in the Consumer Price Index commented on here does not include agrofood products and the products of coking and refining, unlike the "manufactured goods" item in the National Accounts which does include them. Their dynamics therefore differ noticeably.

12. Trends in household savings ratio, consumption and purchasing power



Source : Insee.

For example, energy expenditure fell sharply in 2011 (-5.9% after +1.7% in 2010¹²), notably because temperatures were higher by about 1.8°C on average in 2011 than in 2010.

Consumption of other categories of goods slowed down slightly: consumption of capital goods remained dynamic (+6.8% after +7.2%), driven by purchases of computer, electronic and optical products. That of automobiles stagnated (+0.2% after -1.5% in 2010); over the year, there were sharp variations from one quarter to another, being hit hard at the start of the year by the end of the scrappage bonus, but buoyed up by people bringing purchases forward to the end of the year before the modification of the ecological bonus-penalty system. Food consumption¹³ continued to increase at a moderate rate (+1.0% after +0.9% in 2010), while consumption of textiles-leather-clothing and shoes fell back (-1.4%). Overall, consumption of manufactured goods grew moderately by 1.0% after +1.2% in 2010.

Consumption of market-sector services slowed down (+0.7% after +1.1% in 2010). In particular, consumption of information-communication services fell, as did that of financial services. Consumption of other services to households,¹⁴ which includes notably recreation and artistic activities, was at a standstill. In contrast, spending on accommodation-catering and on property services increased moderately, while that on transport services increased significantly.

In contrast with consumer spending, household investment, which represents about half of their savings, increased by 3.1%, after falling for three years (-0.4% in 2010 and -12.2% in 2009). This spending was made up mainly of purchases of new homes. Due to construction lead times, investment is delayed in relation to housing starts. The upturn in starts began at the end of 2010 and by the end of 2011 the level was close to that observed prior to the crisis.

Strong growth in foreign trade

World trade progressed quickly, even if it did slow down in 2011 after the rebound in 2010

After a historic fall in late 2008 and early 2009, world trade rebounded strongly in 2010. In 2011, world trade in goods progressed by 5.6% on an annual average, slowing down from

12. Items DE (Energy, water, waste) and C2 (coking and refining) in the classification.

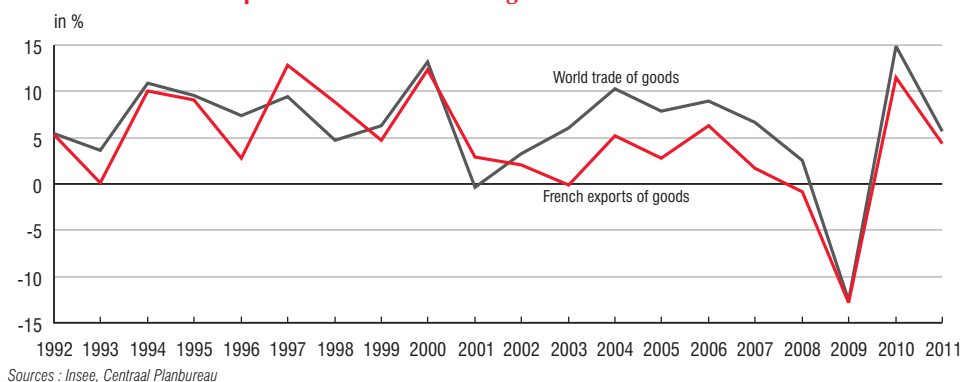
13. Items AZ (Agricultural products) and C1 (Agrifood products) in the classification.

14. Item RU in the classification.

2010 (+14.9%, *Figure 13*). Trade was buoyed up on the whole by strong activity in the United States and by the dynamism of the emerging countries, although the latter did slow down over the year. The consequences of the earthquake in Japan temporarily disorganised world supply lines, however, in the middle of the year and thus slowed down trade.

Finally, demand from crisis-hit European countries was weak. While demand on average over the year was strong from Germany, our main trading partner, as was that from Belgium, demand from Spain, Italy and the United Kingdom was slow.

13. Trend in French exports and world trade of goods



Exports progressed in line with world trade

Exports progressed by +5.3%, after +9.6% in 2010, in line with world trade. Exports of services were particularly dynamic (+9.0% after +6.3% in 2010). For most goods, exports were up. First of all, exports of manufactured goods, which represent almost three-quarters of total sales, progressed by 4.2% after 10.4% in 2010. In particular, exports of capital goods, agrifood products and “other industrial products” were all dynamic. Rises in exports of textiles-leather, chemical and metallurgy products contributed strongly to the rise in exports of “other industrial products”. Exports of transport products stagnated (+0.6%), with the rise in automobile sales being offset by the fall in sales of other transport.

Imports remained dynamic

In 2011, imports increased by 4.9%, after 8.9% in 2010: they were driven by final domestic demand excluding stocks (+0.9% after +1.5%), by stock building and by dynamic exports, via the import content of exports. Imports of all categories of manufactured goods were dynamic. Energy purchases also progressed, as did those of services.

Overall, volumes of exports and imports progressed at similar rates in 2011, with the result that the accounting contribution of the foreign trade balance to growth in GDP was zero in 2011, as it was in 2010.

The foreign trade deficit widened as terms of trade worsened

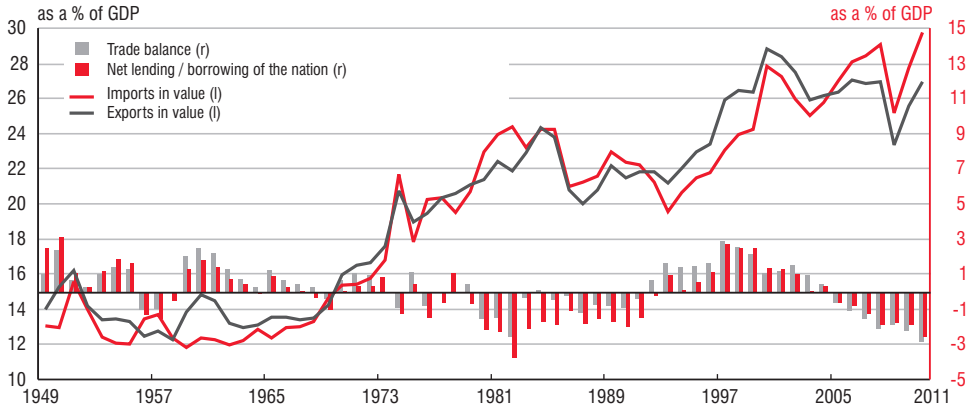
While in volume, exports grew slightly more quickly than imports, in value it was imports that progressed more quickly. Import prices rose at a more sustained rate (+5.4%) than export prices (+3.2%), due to the rise in the price of imported energy. In this way, the price of imports of energy, water and waste, which encompasses crude oil and gas, increased

by 28.8% in 2011, after +20.0% in 2010. Likewise, the price of coking and refining products increased sharply.

All in all, the trade deficit¹⁵ widened (*Figure 14*) to €56 billion in 2011, or 2.8% of GDP, after €42 billion in 2010, equivalent to 2.2% of GDP. The trade deficit in energy, water and waste¹⁶ grew by a further €11 billion in 2011, explaining a large part of the deterioration in the trade deficit.

The current deficit thus increased. The nation's financing requirement is now 2.6% of GDP, against 1.9% of GDP in 2010.

14. Trend in the foreign trade balance



Source: INSEE, national accounts - 2005 base.

Public finances continue to improve

Government deficit as defined by Maastricht reached 5.2% of GDP

In 2011, the government deficit as defined by Maastricht came to 5.2% of GDP, after 7.1% in 2010 (*Figure 15*): two-thirds of the reduction can be explained by central government and one third by social security administrations.

Government revenue increased almost twice as quickly as in 2010 (+5.9% after +3.3% in 2010), under the effect both of the economic upturn and new fiscal and social measures. As for government expenditure, the rise was a little smaller than in 2010 (+ 2.1% after + 2.3% in 2010).

Tax burden up 0.4 points

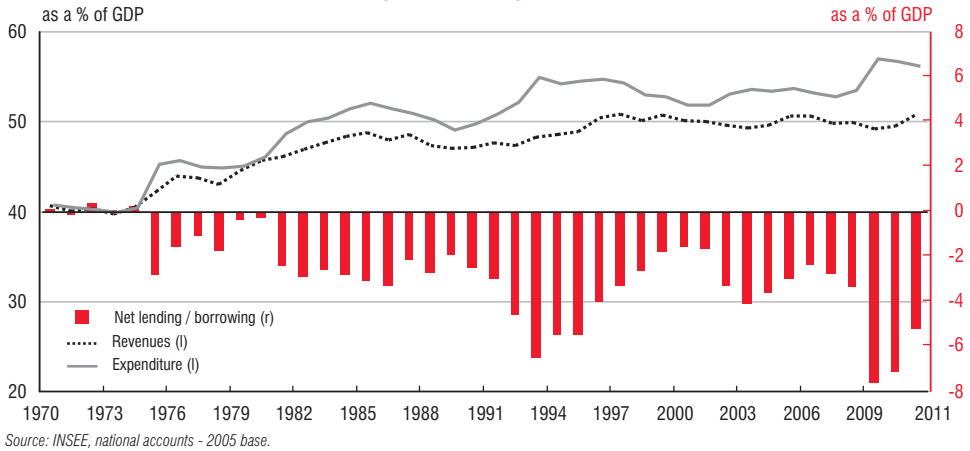
In 2011, the obligatory tax burden stood at 43.9% of GDP, up 1.4 points on 2010. This rise was essentially due to the implementation of new fiscal and social measures and the end of certain measures (+ 1.1 points). Without the new fiscal and social measures, the tax burden would have grown by 3.6%, making a slightly higher rate than the trend in GDP by value.

The non-renewal of the tax rebates granted as part of the stimulus plan and the permanent switch to the reform of professional tax represented about €6 billion in additional revenues.

15. Measured FOB-FOB.

16. Measured CIF-FOB.

15. General Government net lending / borrowing



Likewise, the measures voted in the Finance Law for 2011 contributed to increasing revenues: these were mainly VAT on triple play contracts (+ €1.1 billion in revenues), the annualisation of general rebates on social contributions (+€1.8 billion), the tax-on-earnings system for life insurance contracts (+€1.6 billion) and the exit tax on the capitalisation reserve of insurance companies (+€1.7 billion).

Central and local government deficits continue to fall

In 2011, the borrowing requirements of central government, the State and various central government organisations, came to €90.2 billion, after €112.7 billion in 2010. Revenues were down 1.2%, but expenditure fell more sharply, by 5.7%. These trends are largely tied in with the reform of professional tax: the new revenues allocated provisionally to the State in 2010 are now collected by local government administrations and, in return, the State is reducing the amounts it transfers to local authorities. On the revenues side, taxes were down 0.7% and were the most affected by this transfer. The fall remained moderate, however, attenuated by the sharp progression in corporation tax (+€8.7 billion, up 26.1%) and income tax (+€3.6 billion, up 7.7%). On the expenditure side, intermediate consumption was down sharply (-10.8%) due to the low level of deliveries of military equipment; excluding this effect, it would have been close to stable (-0.5%). Pay and wages increased little (1.2%), due to the non-replacement of one civil servant in two for the State and the freezing of the civil service pay-scale point. Interest paid increased by 9.3%, driven by the increase in debt and the rise in inflation. The latter has an effect on the remuneration of index-linked government bonds. Investment was down (-8.5% after -9.8% in 2010).

In 2011, the borrowing requirement of local government fell slightly (-€0.9 billion after -€1.4 billion in 2010). This improvement results from revenues that were a little more dynamic (+2.5% after +1.8% in 2010) than spending, despite the upturn in the latter (+2.3% after -0.3% in 2010). Net growth in conveyance duties (+€1.4 billion) due to the continuing dynamism of the real-estate market, explains the greater part of the rise in revenues of local authorities. Local direct taxation rates (local rates, property taxes and corporate property contribution) progressed at a moderate rate, meanwhile. On the expenditure side, investment headed upwards again (+2.3% after -6.7% in 2010), but operating expenditure slowed down: total payroll increased less quickly (+2.4% after +2.9% in 2010), due mainly to the freeze on the value of the civil service wage-scale point and the end of personnel transfers.

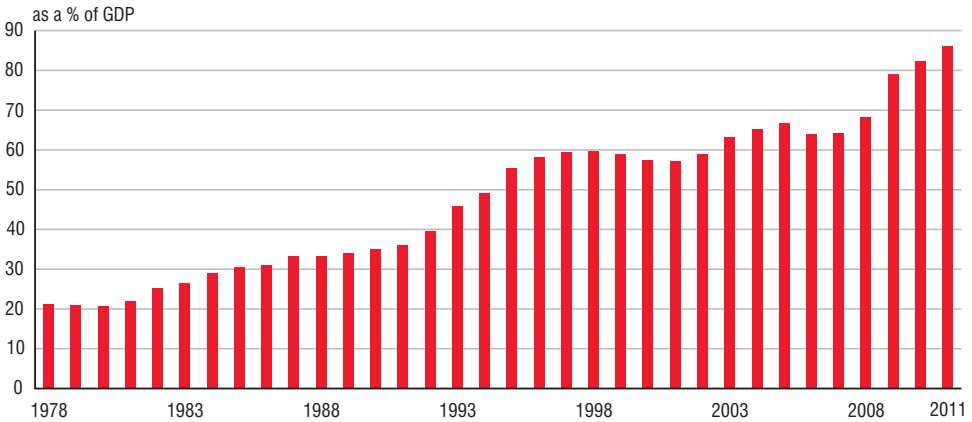
Social accounts improving, but still in the red

The borrowing requirement of social security administrations fell significantly in 2011, to €12.5 billion from €23.3 billion in 2010. Revenues grew by 5.5%, after +2.0% in 2010. This acceleration was partly due to social contributions which progressed by 4.2% after +2.1% in 2010. Expenditure slowed down slightly (+3.2% after +3.6% in 2010), notably due to the fall in unemployment insurance payouts (0.3% after a rise of 7.6% in 2010), due to the labour market situation. In addition to this, the health insurance expenditure target based on a rise in expenditure of 2.9% was respected in 2011 for the second consecutive year.

Government debt increased by 3.7 points to 86.0% of GDP

At the end of 2011, government debt as defined by Maastricht stood at €1,717.3 billion, after €1,595.2 billion one year earlier: it represented 86.0% of GDP, after 82.3% at the end of 2010 (*Figure 16*).

16. Government debt as defined by the Maastricht Treaty



Source: INSEE, national accounts - 2005 base.

The share of the State in government debt was €1,335.2 billion, up €90.2 billion. This increased slightly more than its borrowing requirement (87.5 milliards), with the surplus coming from an increase in cash flow (up €5.9 billion on end 2010) and loans granted to Eurozone countries (+€10.1 billion). Conversely, the State received repayment of part of the loans granted to the automobile sector (€4.0 billion). In addition to this, two factors had an impact on the State contribution to debt via consolidation: on the one hand, deposits of other administrations with the Treasury, which constitute a liability for the State, increased by €5.7 billion, while social security organisations acquired €5.1 billion of long-term debt issued by the State. The contribution of social security administrations to debt increased by €30.4 billion to €205.4 billion at the end of 2011. The increase in debt was significantly greater than the deficit (which was €12.5 billion), because the cash flow of social security organisations, in particular that of the CADES, increased by €10.7 billion and the holdings of bonds progressed by €5.6 billion.

In 2011, government debt reached €1,572.9 billion, or 78.8% of GDP, up €99.1 billion on end 2010: this smaller rise in net debt than in gross debt (gap of €23.0 billion) essentially shows a growth in general government cash flow. ■