

## FURTHER DETERIORATION OF THE CURRENT ACCOUNT BALANCE IN 2004

The current account slid into the red last year, coming out at -0.3 % of GDP, having been in surplus in 1999 at 2.9 % of GDP. The value of goods and services exports rose by just 5.2 % in 2004, while imports, pushed up by strong domestic demand and down by the higher fuel bill, increased 8.2 %.

### • Serious deterioration of the current account balance last year

The French current account balance slipped again in 2004, registering a substantial deficit for the first time since 1991: the balance came out at EUR -4.4bn, i.e. -0.3 % of GDP, after being positive in 2003 at EUR 4.4bn (+0.3 % of GDP).

Balance in billions of euros	1999	2000	2001	2002	2003	2004
<b>Current account balance</b>	<b>39.4</b>	<b>19.5</b>	<b>24.0</b>	<b>15.4</b>	<b>4.4</b>	<b>-4.4</b>
- Goods	16.5	-3.6	3.9	8.0	1.6	-6.1
- Non-travel services	5.5	7.4	6.3	4.6	1.0	0.2
- Travel	12.0	14.1	13.6	13.6	11.6	10.4
- Revenues	17.8	16.7	16.7	4.2	6.9	7.7
- Current account transfers	-12.4	-15.2	-16.6	-15.0	-16.7	-16.5
<b>Capital account</b>	<b>1.4</b>	<b>1.5</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-7.7</b>	<b>1.6</b>
<b>Financial account</b>	<b>-37.5</b>	<b>-32.6</b>	<b>-31.4</b>	<b>-15.7</b>	<b>13.0</b>	<b>17.2</b>
<i>o/w French FDI</i>	-119.1	-192.6	-97.0	-51.8	-50.8	-46.5
<i>o/w FDI in France</i>	43.7	46.9	56.4	51.9	41.6	21.3
- Portfolio investments	-7.1	40.0	24.0	-11.2	6.2	-26.2
- Other investments	45.3	65.3	-23.4	-14.3	24.2	66.1
<b>Errors and omissions (net)</b>	<b>-3.3</b>	<b>11.7</b>	<b>7.7</b>	<b>0.6</b>	<b>-9.8</b>	<b>-14.5</b>

This counter-performance was mainly down to the extremely weak trade account, which registered a deficit of EUR 7.8bn, or 0.5 % of GDP, after an estimated surplus of EUR 1.7bn in 2003. The cumulated trade account was balanced until June before sliding into the red in July.

The value of goods exported (EUR 341bn) rose by a modest 5.6 % last year. The best performing sectors included the motor industry (+8.5 %) which, in addition to various innovations, benefited from its ability to diversify its markets, and business goods (+6.4 %), which benefited from the rise in commodity prices. Exports of consumer and capital goods were up 4.3 % and 3.2 % respectively.

French businesses enjoyed few of the advantages of robust global demand, which increased 10.3 % in 2004. There were several reasons for this:

- i) specialisation in regions where demand is not very strong (Germany, Italy and Africa). And, although exports to Asia did rise 11 %, sales were insufficient (accounting for just 8 % of the total). The 15 % increase in exports to China – half as much as in 2003 (31.3 %) – compares with a 30 % leap in imports from China;
- ii) insufficient specialisation in lucrative goods;
- iii) a loss in price-competitiveness due to the appreciation of the euro (2.2 %, after 6.4 % in 2003) and an end to the cost-competitiveness gains seen in late 2003/early 2004 following the slowdown in unit labour costs. So, although the value of France's market share in relation to that of other OECD countries has stabilised at around 7.3 %, volumes have fallen again, from 8 % in 2002 to 7.6 % in 2003 and 7.3 % in 2004.

Imports (EUR 349bn) were up 8.6 % under the influence of major inventory building and consumer spending (in particular the 16 % increase in "brown goods" imports). The higher cost of imported energy products (oil, gas) was another factor.

The energy deficit (nearly EUR 29bn) widened considerably in 2004 under the effect of higher oil prices (+33 % on average between 2003 and 2004). The energy bill accounted for 1.8 % of GDP, up from 1.5 % in 2003. To a lesser extent, sales of consumer and business goods were also structurally negative. In contrast, France is a net seller of processed foods (EUR 8bn in 2004), motor vehicles

(EUR 12.3bn) and capital goods. Indeed, while the surplus of the latter may have fallen slightly, the aeronautical segment is still lending support. However, these export champions have entered a period of maturity – notably processed goods, exports of which have been slack for four years, even though France is the world's largest exporter thereof – which may subsequently prove damaging.

Balance in billions of euros	1990	1995	2000	2002	2003	2004
<b>Total (o/w military equipment)</b>	<b>-12.2</b>	<b>9.2</b>	<b>-4.3</b>	<b>6.2</b>	<b>1.7</b>	<b>-7.7</b>
<b>Processed foods</b>	<b>7.4</b>	<b>7.2</b>	<b>9.3</b>	<b>8.4</b>	<b>8.5</b>	<b>8.0</b>
<b>Industrial:</b>	<b>-17.1</b>	<b>2.1</b>	<b>0.9</b>	<b>11.2</b>	<b>8.5</b>	<b>2.7</b>
<i>Consumer goods</i>	-6.5	-4.2	-7.3	-6.2	-6.7	-8.0
<i>Motor industry</i>	3.6	3.5	9.0	11.2	11.9	12.3
<i>Professional equipment</i>	-4.8	4.3	6.1	8.1	6.1	3.3
<i>Business goods</i>	-9.4	-1.5	-7.0	-1.9	-2.9	-4.9
<b>Energy products</b>	<b>-14.2</b>	<b>-9.3</b>	<b>-23.4</b>	<b>-21.4</b>	<b>-22.8</b>	<b>-28.8</b>

Unlike France, Germany managed to generate a record trade surplus of EUR 156bn (7.2 % of GDP), while Italy's trade account is balanced (+0.1 % of GDP). Both countries do suffer from weak domestic demand, and yet, in those European countries where domestic demand is strong, trade deficits are high: GBP-57.6bn in the United Kingdom (-5 % of GDP vs. an average of -4.1 % since 2000), where annual GDP growth stands at 3.1 %. In Spain, robust growth (+2.6 % in 2004) came at the cost of a 30 % increase in the trade deficit (EUR 55bn over the first 11 months of 2004).

### • The other items of the trade account cannot prevent a deficit

The other items of the current account are no longer enough to ensure its balance. For the fourth year in a row, there was a sharp decline in the net contribution from non-travel services, partly due to the increase in spending on the Airbus programme, which went to foreign subsidiaries, but also due to slower growth in business services such as international trade and other commercial services that had until then been lucrative. Only the travel and revenue balances continue to record comfortable surpluses, even if these are much lower than those of the early 2000s. Tourism spending by non-residents was hindered by the appreciation of the euro. The revenue balance actually improved after falling since the 1999 high: the improved return on foreign equity and increase in net dividend payments have more than offset the "accounting" effects of the stronger euro and the conversion of currency flows.

For the second consecutive year, the financial account was well in the black (EUR 17.3bn). Of course, foreign direct investment in France has fallen again, from EUR 41.6bn to EUR 21.3bn, i.e. its 1997 level. Although this drop of nearly 50 % is partly attributable to the major divestment following the Sanofi-Aventis public exchange offer, it also reflects an underlying trend: foreign companies are using local subsidiaries to take over French firms: a move that no longer counts as foreign investment. French foreign direct investment fell 8 % between 2003 and 2004 (to EUR 46.5bn). Portfolio investments also gave rise to capital outflows in 2004, again due to significant investment abroad by French residents.

All in all, it was the massive influx of short-term capital classed as "other investments" (EUR 66.1bn) that financed the current deficit and net capital outflows in the form of direct and portfolio investments (as well as the Errors and Omissions item).

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