France has begun to recover from the Great Recession earlier than most advanced European economies. However, weak domestic demand, as well as the slow recovery in its main trading partners in Europe and elsewhere, has resulted in a sluggish rebound with high unemployment. Turbulence in European debt markets and the possible spillovers are also weighing on the short-term economic outlook.

But if the near-term prospects are less than stellar, the longer-term fiscal prospects are perhaps more clouded. Not only are public finances feeling the adverse effects of the recession, an aging population with its attendant health and pension costs will put increasing pressure on France’s fiscal future—as they will in most advanced economies (see “How Grima a Fiscal Future?” in this issue of F&D).

The government is left with a delicate balancing act. On the one hand, it is wary of taking steps to reduce the budget deficit too rapidly for fear of derailing the fragile recovery. On the other, it cannot delay instituting policies that aim at getting public debt as a percentage of GDP begun to grow sharply in 2008 and is projected to rise for the near future.

Adapted from IMF staff calculations. Note: Fiscal year 2008 is a projection.