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Sarkozy warns on growth and austerity

By Hugh Carnegy in Paris

French growth will shrink to only one per cent of gross domestic product next year, requiring a new round of austerity measures to hit the centre-right government's targets for bringing down rising debt levels, President Nicolas Sarkozy said on Thursday night.

In a television broadcast to the nation following the eurozone agreement on the sovereign debt crisis, Mr Sarkozy said France had to "spend less and work more" in order to achieve long-term economic stability.

He said he would also work with Chancellor Angela Merkel of Germany on convergence between the French and German economies in areas such as harmonising corporate and value added taxes to make the two countries the "heavyweight at the heart of Europe".

Mr Sarkozy said the reduction in the 2012 growth forecast from a previously lowered estimate of 1.75 per cent – bringing France in line with latest forecasts for neighbouring Germany – would require €6bn-€8bn in extra austerity measures. This would be on top of €12bn ($17bn) already added to the budget, mainly through tax increases, in August as the economic outlook deteriorated in the face of the debt crisis.

The fresh move would enable the government to stay on target to reduce the budget deficit to 3 per cent of GDP in 2013 and thus begin to reduce public debt, due to peak at more than 87 per cent of GDP next year.

Mr Sarkozy said the agreement reached early on Thursday in Brussels by eurozone leaders – cutting Greece's debt, reinforcing a special bail-out fund and agreeing a bank recapitalisation programme – had averted a "catastrophe".

"If Greece had defaulted there would have been a cascade effect which hit everyone," he said.

He criticised the original decision to let Greece join the euro. "Say things as they are: it was an error. We have been paying the consequences these last months," he said.

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The impact of reduced growth on France's public finances is particularly sensitive because its high debt level has called into question its triple A sovereign debt rating, which allows it to borrow at relatively low rates, and underpins France's contribution to the eurozone rescue fund.

The rating agencies have come under heavy criticism from French politicians, but Mr Sarkozy laid the blame firmly on three decades of deficit spending and a lack of structural reforms by successive governments.

“The problem is not the rating agencies. The problem is that we spend too much. . . We have to reduce the deficit, repay our debts and work harder.”

He defended France’s banks, which are heavily exposed to vulnerable eurozone sovereign debt, saying they were “the most solid in Europe”.

But he said he had asked the Bank of France to call in all bank chiefs to scrutinise their remuneration and bonus policies. “It’s time for them to think more of their clients – not their shareholders,” he said.