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# In-Depth Review 2024

## France

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European Commission
Directorate-General for Economic and Financial Affairs

# In-Depth Review 2024

## France

EUROPEAN ECONOMY

Institutional Paper 282

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# In-Depth Review 2024

This in-depth review presents the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for France for the purposes of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. It provides technical input to the Commission for the Communication "European Semester – 2024 Spring Package" that will set out the Commission's assessment as to the existence of imbalances or excessive imbalances in France. That Communication will be published in June 2024. The current version has been presented and discussed with the Member States in the Economic Policy Committee of the Council.

This publication reproduces staff working document SWD(2024) 100 final, that was discussed with Member States in the Economic Policy Committee of the Council on 18 April 2024.

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# 1. INTRODUCTION

**This in-depth review (IDR) analyses the evolution of France's vulnerabilities related to high government debt and competitiveness, in a context of low productivity growth, which carry cross-border relevance, and possibly newly emerging risks.** This year's IDR, which follows the 2024 Alert Mechanism Report (AMR) published in November 2023, assesses the persistence or unwinding of the vulnerabilities identified last year, potential emerging risks, and relevant policy progress and policy options that could be considered for the future ([1]). Given the size of the French economy and its interlinkages with the other Member States, these vulnerabilities have a cross-border relevance.

**Growth in France is estimated to have slowed down to 0.7% in 2023 on the back of weakening global and domestic demand ([2]).** After increasing by 2.5% in 2022, GDP growth decelerated in 2023 as rising interest rates, relatively high inflation and tightening financing conditions, coupled with high uncertainty, weighed on private consumption and investment. According to the Commission Winter 2024 interim Forecast, GDP growth is forecast to be 0.9% in 2024 and 1.3% in 2025, backed by private consumption, as inflationary pressures dissipate, and by the recovery of investment as of the second half of 2024. Inflation was lower than in the euro area average in 2022 (5.9% vs euro area 8.4%), and remained broadly stable (5.7%) in 2023, while the euro area average decreased (5.4%). Headline inflation has started to moderate by the end of 2023 and fell to 4.1% in December 2023, above the euro area average of 2.9%. Declining inflation and decelerating employment are expected to contribute to easing pressure on wages, with nominal compensation per employee forecast to increase by 3.3% in 2024, compared to 4.1% in 2023. Inflation is expected to keep declining to 2.8% in 2024 and 2% in 2025, broadly in line with the euro area average. In turn, while remaining at historically high levels, employment started to lose some momentum in 2023 as GDP decelerated and firm bankruptcies rose, above 2019 levels, possibly reflecting pent-up demand for bankruptcy relief, as most support schemes linked to the COVID-19 pandemic and the energy crisis following Russia's war of aggression against Ukraine are phasing out ([3]), in line with the country-specific recommendations from the Council. If centred on non-viable companies, bankruptcies can have a positive effect on productivity and long-term growth, but a continuation of the rising trend might have a significant impact on unemployment and domestic demand in the short term.

**High integration with other major European and non-EU partners, makes France prone to spillovers resulting from economic developments in these economies ([4]).** The French

([1]) European Commission (2022), European Semester Spring Package 2022, COM(2022) 600 final; [European Commission (2023), Alert Mechanism Report 2024, COM (2023) 902 final]; and [European Commission (2023), Alert Mechanism Report 2024, SWD(2023) 901 final].

([2]) Figures for GDP growth and inflation come from the Commission Winter 2024 Interim Forecast (European Economy, Institutional Paper 268). All other forecast data used in the IDR come from the Commission Autumn 2023 Forecast (European Economy, Institutional Paper 258), unless stated otherwise, and all calculations are carried out using these data to ensure the coherence of their various components. The cut-off date for the data for the preparation of this IDR was 19 March 2024. Actual outturn data that have become available after the Autumn and Winter Interim forecasts, and before the cut-off date for the IDR, are used and supersede figures from those forecasts.

([3]) The pandemic made the filing of bankruptcy claims more difficult. At the same time, the different support schemes in place also shielded many firms in difficulties from bankruptcy. Accordingly, bankruptcies remained at artificially low levels between 2020 and 2022.

([4]) In response to the many shocks that have affected the world economy and the EU in the past few years, the Commission has started to estimate the spillovers from, and the degree of exposure of Member States' economies to, various partners economy highly relies on imports of German, Belgian and Dutch goods and services, while Germany, US and UK are major destinations for France's exports ([5]). When it comes to external demand, the largest shares of total value added in the French economy are generated to satisfy domestic demand in the US, Germany and China, while French domestic demand is mostly dependent on value added generated in Germany, China and US. Locational banking statistics show that large shares of claims of French financial institutions are located in Germany, Italy and especially the UK and US. As Frances's exposures, directly or indirectly, to non-EU partners are high, geopolitical and trade tensions appear to pose a non-negligeable risk to its economy.

## 2. ASSESSMENT OF MACROECONOMIC IMBALANCES

In recent years, France has been marked by high government debt, and weak competitiveness, in a context of low productivity growth. The general government debt ratio remained high, with fiscal sustainability challenges being high in the medium term. Private sector debt increased steadily until 2020 and started to decline thereafter, but the associated vulnerabilities were mitigated by increasing equity and liquidity buffers. Labour productivity growth has been low in recent years, whereas employment growth has remained robust. Higher activity levels propelled by higher structural employment should help to mitigate medium-term sustainability risks, more so if labour productivity picks up as expected.

### Assessment of the gravity, evolution and prospects of macroeconomic imbalances

**After the recent economic crisis, potential growth has picked up in France thanks to strong employment growth.** Faced with the COVID-19 pandemic and the energy price shock triggered by Russia's war of aggression against Ukraine, France deployed sizeable fiscal packages to offset the impacts on households and businesses. France reached pre-pandemic output levels by the second quarter of 2022. Nonetheless, France's growth recovery was somewhat weaker than in most other EU Member States. Growth was 2.5% in 2022, compared to 3.4% on average in the EU and the euro area, whereas in 2023 France's economy expanded by 0.7% compared to 0.4% on average in the EU and euro area (Graph 2.5 a). Growth is expected to be in line with the EU and euro area averages in 2024, and slightly below them in 2025. At the same time, potential growth in France has improved in the aftermath of the crises and is estimated at 1.2% in 2023 (compared to 0.8% in the 2015-19 period). According to the Commission 2023 Autumn Forecast, it is expected to remain around that level until 2025. The evolution of potential growth has recently been underpinned by a very dynamic labour contribution, alongside a steady decline in the unemployment rate, even if value added has not expanded at the same rate. As in the case of some other euro area economies, France's export performance has not recovered to its 2019 level yet, but it is set to improve as key sectors affected by the recent crises continue to regain momentum (e.g. aeronautics) (Graph 2.5 c).

and industries, in terms of nominal trade, value-added trade, inflation and financial assets. See European Commission Institutional Paper 2024 (forthcoming) – Economic spillovers and exposures in the EU.

([5]) Germany, Belgium and the Netherlands account for 15.4%, 9.7% and 9.2% of France's imports, while Germany, the US and the UK account for 12.1%, 8.4% and 7.1% of French exports, respectively.

*Government debt*

**Despite having declined in recent years, France's general government debt ratio remains high and above the pre-pandemic level and the budget deficit remains sizeable.** Public debt was already high in 2019 (97% of GDP), and the outbreak of the COVID-19 pandemic brought about a significant deterioration in public finances due to the pandemic's impact on economic activity and the large fiscal response deployed to counteract it. The measures adopted to alleviate the economic and social effects of the COVID-19 pandemic amounted to 3.3%, 2.6% and 0.5% of GDP in 2020, 2021 and 2022 respectively. Accordingly, the general government deficit rose to 9.0% of GDP in 2020, while the public debt ratio rose by some 17 percentage points, to 114.6% of GDP, also on account of a substantial fall in GDP. In 2021, the strong economic rebound and associated dynamism of tax revenues led to some improvement in public finances. This continued in 2022, also thanks to the unwinding of most of the COVID-related measures that more than offset the fiscal measures adopted to mitigate the effect of the energy crisis. Energy-related measures amounted to 0.9% and 0.8% of GDP in 2022 and 2023 respectively. The still sizeable energy-related measures and the decline in tax elasticities hampered any additional material improvement in 2023, despite the decline in interest payments due to the lower yields of inflation-indexed bonds. In particular, the decline in tax elasticities stem from lower revenues from property transfer and stamp duty taxes, excise duties and corporate income taxes due to the decline in dwellings transactions, lower energy consumption, and falling reference corporate profits in 2022. As a result, France's government deficit remained high in 2023, at 4.8% of GDP, while the public debt ratio fell to around 110% of GDP (according to data released by the French Statistical Institute (Insee) on 26 March 2024, the general government deficit was 5.5% of GDP and public debt was 110.6%) ([6]). The reduction in the public debt ratio over the 2021-23 period was largely due to high nominal GDP growth, more than outweighing the debt-increasing impact of interest payments and high primary deficits (Graph 2.2).

**Public debt is projected to remain broadly stable in 2024 and, at unchanged policies, start rising again thereafter ([7]).** It is forecast to pick up again to around 110% of GDP in 2025, thanks to a persistently high government deficit of more than 4% of GDP. The projected limited improvement in the primary deficit is set to be more than offset by the increase in the interest debt burden and the lower contribution of nominal GDP growth. In the absence of any further policy action, public debt is projected to keep rising in the medium term, to 130% of GDP by 2034 (Box 1), driven by persistently high structural primary deficits. Public debt projections are sensitive to projected interest rate and growth developments. The possibility of higher future interest rates, also bearing a negative impact on GDP growth, represent a risk for debt projections, leading to significantly higher debt ratios over the medium term. Likewise, backloading the consolidation efforts currently embedded in the French medium-term plans would also jeopardise the reduction of public debt ratios. On the contrary, boosting competitiveness and potential growth by increasing productivity and strengthening employment would help reduce public debt and mitigate medium-term sustainability risks.

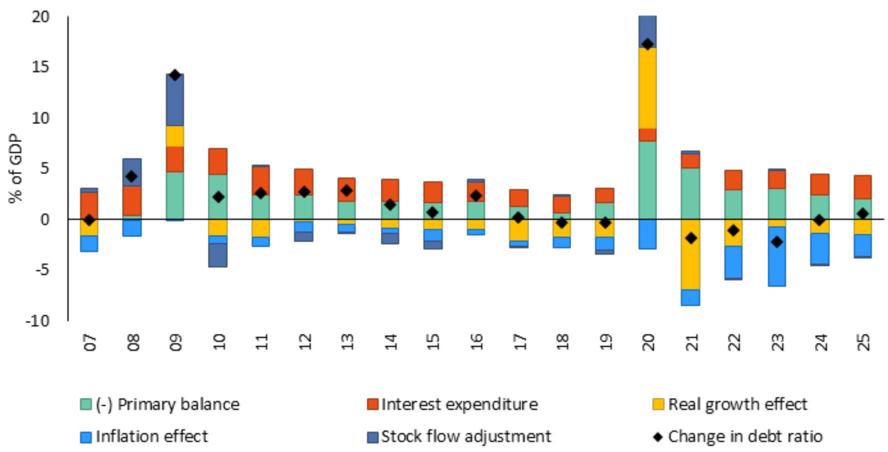
**Risks to fiscal sustainability are overall low in the short term, high in the medium term, and medium in the long term according to the Commission's debt sustainability**

([6]) On 26 March 2024, Insee released general government data for 2023, including revised data for preceding years. On the basis of these data, Eurostat will publish validated government finance statistics in its release of 22 April 2024.

([7]) Commission 2023 Autumn Forecast.

**framework ([8]).** The Commission's early-detection indicator (S0) does not point to major short-term fiscal risks. Government gross financing needs in 2024 and 2025 are expected to average some 21% of GDP per year. The debt sustainability analysis shows that under the baseline scenario, the government debt-to-GDP ratio is projected to remain at a high level in the medium term, increasing to around 118% in 2029 and to around 130% in 2034 (see Box 1 for more on the medium-term risks to fiscal sustainability). Over the long term, the Commission's fiscal gap indicators (S1 and S2) show that the risk stems mainly from France's unfavourable initial budgetary position and high debt level.

Graph 2.1: **Drivers of public debt changes**




***Source:*** Eurostat, European Commission calculations.

*Competitiveness and productivity growth*

**Employment growth has been exceptionally strong recently, thanks to policy measures supporting companies during the crises, and to apprenticeship contracts.** Despite the sharp drop in GDP in 2020, total employment (measured as people employed) held up relatively well, before expanding by 2.8% and 2.6% in 2021 and 2022 respectively ([9]). It kept rising, albeit at a slower pace (1.1%), in 2023. A number of policy measures help explain this performance. First, the permanent cut in social contributions since 2019 (replacing the previous competitiveness and employment tax credit, CICE (*credit d'impôt pour la compétitivité et l'emploi*)), the permanent EUR 10 billion reduction in the tax on production (0.4% of GDP) from 2021 onwards, and the more recent progressive reduction of the production tax on the value added of companies have alleviated the cost of labour. Second, the sizeable partial unemployment schemes (1.1% of GDP in 2020) and other liquidity support measures for companies prevented dismissals during the COVID-19 crisis, while also reducing the number of hours worked, resulting in labour hoarding. Third, the reform of apprenticeship in 2018 has brought about a significant increase in employment on payroll since

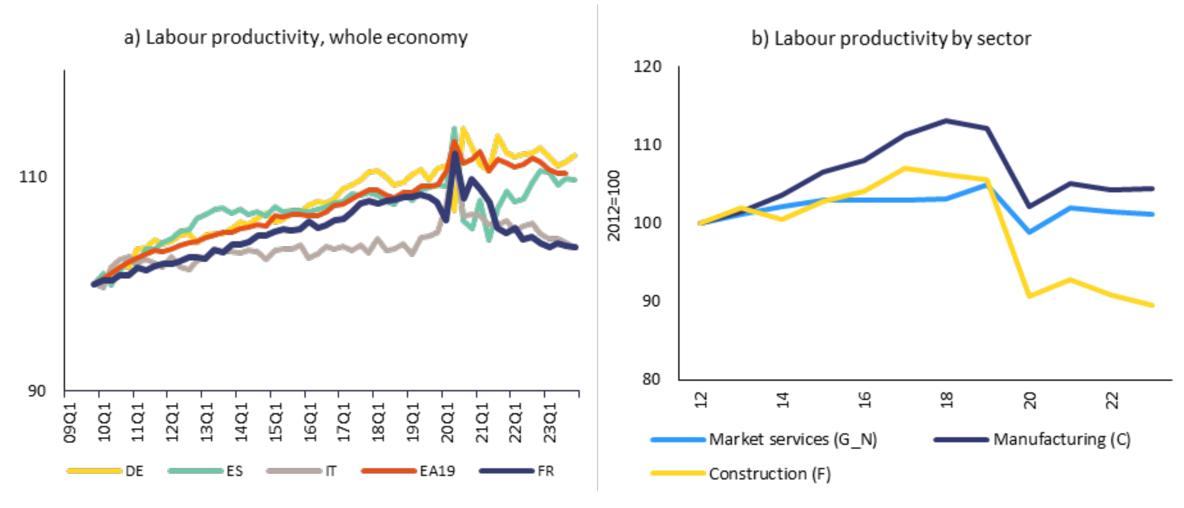
([8]) The results presented here are based on the debt sustainability analysis published in the Debt Sustainability Monitor 2023 European Commission, Institutional Paper 271, which is based on the Commission 2023 Autumn Forecast. The Debt Sustainability Monitor also has information on the methodology for the Commission's fiscal sustainability risk framework.

([9]) Based on national accounts data.

2019. Apprenticeship contracts increased from some 430 000 in January 2019 to over 1 000 000 in October 2023. These contracts have contributed in particular to the employability of young people [10]. The incidence of apprenticeship has been especially intense in services sectors, in particular in professional, scientific, and administrative support services. Overall, unemployment kept declining since 2020, to reach 7.3% in 2023. The labour market participation rate rose to above pre-pandemic levels in 2021 and 2022, and the employment rate increased by almost 2 percentage points between 2019 and 2022. The contribution of these elements to employment growth is expected to largely diminish from 2024 onwards, with employment expected to increase only marginally and the unemployment rate to increase slightly.

**Labour productivity is above the EU average, but has been declining since the early 2000s, and the pandemic caused a major drop in productivity, from which France has not yet recovered.** Over the last two decades, until the onset of the pandemic, France's real labour productivity increased more or less in line with or more than that of its main peer economies. Both in terms of per person employed and per hour worked, growth tended to be slightly above the euro area average and slightly below the EU average. Like other countries, France was also affected by the general slowdown in labour productivity growth in the 2010s. Accordingly, France's labour productivity decreased from around 135% of the EU aggregate in the early 2000s to 126% in 2019. After the outbreak of the COVID-19 crisis, however, it declined drastically, bringing it down to around 117% of the EU aggregate in 2023. The decline is visible in both productivity per person employed and per hour worked. These developments have taken place amid very low total factor productivity (TFP) growth on average, which started to clearly diverge from the euro area aggregate and major peer economies in 2019 (Graph 2.2 a). The recent decline in labour productivity affected many sectors: only information and communication technology (ICT) (J) and finance and insurance (K) did not see any decline in the aftermath of the pandemic (Graph 2.2 b).

Graph 2.2: **Labour productivity**




***Note :*** The left chart shows productivity per hour worked; the right chart shows productivity per person employed.
***Source:*** Eurostat, European Commission calculations.

([10]) See Dubois, E. and Redoulès, O. (2022), '*La productivité du travail ou sortir de la crise sanitaire*', *Haut Conseil des Finances Publiques*, Note d'étude nº 2022-1.

**The support schemes and apprenticeships that have buttressed France's dynamic employment performance of recent years have mechanically weighed on labour productivity ([11]).** Specifically, its partial unemployment schemes, by preventing dismissals, have contributed to the observed decreases in working time, and to the retention of qualified labour at company level in a context of dismal economic activity. The frequent resort to apprenticeship contracts has had a negative effect on labour productivity, as these new job holders are likely to be less productive and because part of their working time is spent in training ([12])([13]). The liquidity support schemes for companies have alleviated their financial constraints, making them a mixed blessing: preventing many bankruptcies, but also possibly keeping some of the least productive companies alive between 2020 and 2022. Overall, by modifying the incentives to recruit and dismiss staff, these schemes have helped maintain an artificially high level of employment. According to Heyer (2023), the expansion of the apprenticeship scheme, the persistent decline in hours worked per person, partly as a result of the partial unemployment schemes, as well as the temporary drop in bankruptcies would jointly explain the creation of around 720 000 jobs since the COVID-19 crisis, equivalent to around 70% of the positive gap between observed employment growth and what should have been consistent with the expansion of value added according to pre-crisis elasticities ([14]). These factors would almost fully explain employment developments in services, but not so much in industry and construction. In industry and construction, in particular the aeronautic and automotive industries, expectations of higher order books in the near future, in a context of labour market tightness ([15]), could have led to significant labour hoarding ([16]). Despite the successive extension of repayment periods, the phasing out of liquidity support schemes for companies may have contributed to the recent increase in bankruptcies to around pre-crisis levels ([17]). However, the still sizeable inflow in the labour market of apprenticeship contracts and some remaining labour hoarding, especially during the first half of 2023, led labour productivity to decline further. These factors go a long way towards explaining the evolution of labour productivity compared to the euro area and France's main European peers since the outbreak of the COVID-19 crisis (Graph 2.2 a). However, as these effects dwindle and employment growth is expected to start slowing down, labour productivity is forecast to gain momentum as of 2024, expanding above pre-pandemic growth rates and to recover part of the losses of recent years.

**With differing intensity and for various reasons across sectors, France's high employment growth took place in the context of a sluggish rebound in value added**. The

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([11]) See *Quatrième rapport du Conseil national de productivité* (CNP) (Octobre, 2023). Quatrième rapport du Conseil national de productivité (CNP) | France Stratégie (strategie.gouv.fr).

([12]) See *Troisième rapport du Conseil national de productivité* (CNP) (Mai, 2022). cnp-2022-troisieme_rapport-productivite_et_competitivite-mai_0.pdf (strategie.gouv.fr).

([13]) See Dares (2023), *Quel impact de la hausse de l'alternance depuis 2019 sur la productivité moyenne du travail,* Janvier 2023 nº 5.

([14]) The reasoning is that France's exceptionally high employment growth has not been accompanied by commensurate increases in output; the paper considers possible reasons for the 'excess' in employment growth compared to what would be in line with observed growth in value added. Heyer, E. (2023), '*Comment expliquer l'évolution de l'emploi salarié depuis la crise Covid ? Une analyse économétrique sur données macro-sectorielles*', Revue de l'OFCE, 180 (2023/1), Observatoire Français des Conjonctures Économiques.

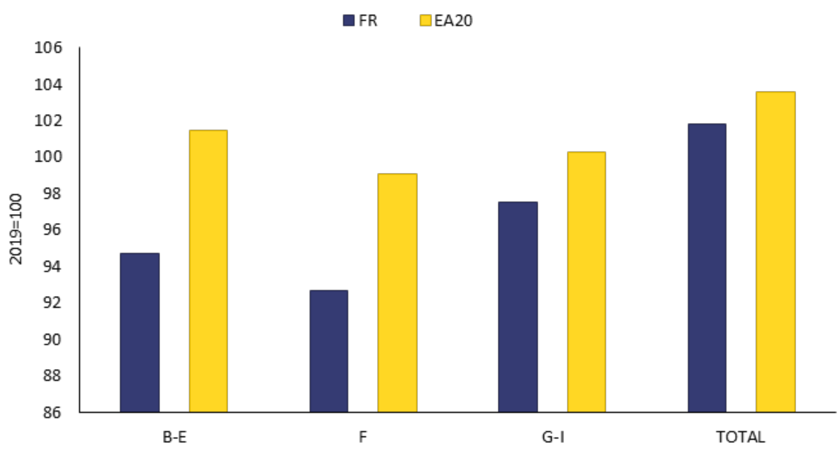
([15]) In October 2022, 62% of companies in the services sector, 66% in industry, and over 80% in construction, said they found it hard to recruit workers with the required skills.

([16]) Data from the European Commission business and consumer surveys

([17]) The cumulated bankruptcies over 2023 amounted to 55 996, still below the annual average of 59 342 over the 2010-2019 period, but above the 51 145 registered in 2019. See *Banque de France, Suivi mensuel des défaillances, janvier 2024.*

post-crisis rebound in value added was particularly disappointing in industry (B-E) and construction (F). It was also weak in trade and tourism (G-I) (Graph 2.3). In industry, the significant impact of the pandemic on key sectors, such as aeronautics and transport equipment, has been documented in Dubois and Redoulès (2022). In these sectors, there has been a lot of labour hoarding (see above). In construction, the shift from new construction to renovation projects has put downward pressure on value added, while the regularisation of workers in the construction sector, to make them eligible for the partial unemployment schemes put in place during the COVID-19 crisis, might have increased employment.

Graph 2.3: **Gross value added in 2023, by economic activity**




***Note*** : The indices presented here are calculated based on annual averages of quarterly data for 2019 and 2023.
***Source:*** Eurostat (national accounts), European Commission calculations.

**Most of the factors described above indicate a temporary impact, suggesting that labour productivity is expected to pick up in the future.** It is forecast to gain momentum from 2024 onwards Looking ahead, however, some downside risks remain. Since the early 2000s, until the pandemic, employment's shift towards less productive sectors has somewhat weighed on labour productivity. Employment has shifted away from industry and into services, producing a small negative composition effect, partly counteracted by a productivity-increasing shift away from agriculture. Apart from the effects stemming from future shifts in sectoral composition, the transformation processes required by the green transition could temporarily weigh on productivity, especially in construction and the automotive industry ([18]). Ultimately, the impact of the green transition on productivity in the long term will depend on the effectiveness of innovation and investment in these areas.

**Addressing remaining structural weaknesses in France's knowledge and innovation systems could help boost potential growth even more.** French research and development (R&D) expenditure is around 2.2% of GDP, slightly below the EU aggregate. Its public R&D spending is around 1% of GDP, but companies' R&D expenditure remains relatively low, well below the Europe 2020 strategy target of 2% of GDP despite the generous public support schemes (e.g.

([18]) J. Pisani-Ferry and S. Mahfouz (2023) find that the green transition could temporarily reduce labour productivity by a quarter of a percentage point a year. Pisani-Ferry, J. and Mahfouz, S. (2023), *Les incidences économiques de l'action pour le climat*. Rapport, France Stratégie, https://strategie.gouv.fr/publications/incidences-economiques-de-laction-climat.

research tax credit (*crédit d'impôt recherche*)). The number of patent applications is well above the EU average, and has even been increasing slightly since 2019, but French companies are relatively slow to adopt and diffuse digital technologies ([19]). France scores relatively well on educational outcomes compared to the EU-27 aggregate, even if its Programme of International Student Assessment (PISA) scores have recently deteriorated (as other countries' have), and even if major socio-economic inequalities persist. The proportion of people with tertiary education and the proportion of science, technology, engineering and maths (STEM) graduates in the 20-29 age group is well above the EU average. However, even if on the decline, skills mismatches challenges persist ([20]).

**Price competitiveness indicators were somewhat more favourable than in the rest of the euro area in 2023, having been more mixed in previous years, and prospects remain positive**. Nominal effective exchange rates appreciated between 2020 and 2023, broadly in line with developments in France's euro area peers. Over the same period on average, real effective exchange rates based on unit labour costs (ULCs) appreciated more than in the euro area as a whole and in France's main EU partners. However, in 2023, such appreciation was well below that observed in Germany and in the euro area as a whole (Graph 2.5 b). In turn, GDP or Harmonised Index of Consumer Prices (HICP)-based real effective exchange rate depreciations observed on average since 2020 have been more pronounced than in most EU economies, as a result of lower inflation in France, and further price-based real depreciations are expected in 2024 and 2025. In the years before the pandemic, the growth in unit labour costs (ULCs) was moderate and significantly lower than in the euro area. In 2021 and 2022, nominal ULCs grew faster in France than in the euro area on average, due to the decline in labour productivity ([21]). In 2023, the pass-through of energy inflation to wages pushed core inflation and ULCs further up but, again, ULC growth in France turned out to be less pronounced than in the euro area and the EU thanks to comparatively lower wage increases. Going forward, ULCs in France are projected to keep rising below the euro area and EU averages, mainly due to more muted nominal wage increases, and labour productivity growth is expected to be broadly in line with the euro area average.

**The COVID-19 and energy crises weighed on French exports, but their real values started to increase since 2022.** French exports in real terms fell significantly by almost 17% in 2020, to 27% of GDP, well below their pre-pandemic levels of around 31%. Exports contributed to France's economic recovery from 2022 on, and in 2023 reached their pre-pandemic levels in real terms, even exceeding them as a proportion of GDP. However, the gap between France's export performance and the euro area average over the last two decades has widened further since the COVID-19 crisis (Graph 2.5 c). Its export market shares fell sharply in 2020 as a result of the pandemic, have continued to fall since then, and are forecast to further fall this year and the next. The significant decline in France's export market shares since 2020 relates to the negative performance of its aeronautics, automotive, energy and tourism sectors, severely affected by the two crises. Some of the negative developments in these sectors are expected to be temporary. In particular, the aircraft industry was badly hit by the travel restrictions imposed after the outbreak of the COVID-19 pandemic, but their lifting and the ensuing recovery of world tourism has had a positive impact on order books since 2023. Production levels are therefore expected to return to close to pre-pandemic levels in 2024. In turn, the automotive industry has been negatively affected

([19]) National Productivity Board First report – Productivity and competitiveness: where does France stand in the Euro zone? (europa.eu)) (first report). See also the European innovation scoreboard (europa.eu).

([20]) There is a relatively high dispersion of employment rates across broad qualification groups.

([21]) Measured in terms of people employed.

by supply chain disruptions, in particular by those regarding electronic components. The negative contribution of the automotive sector to the external balance has bottomed out, but significant uncertainties about the future of the sector remain in a context of a structural shift towards the production of electric vehicles. The temporary closing of several nuclear plants for both planned and unexpected maintenance has had a negative impact on the French energy and trade balance, but their gradual re-opening brought nuclear electricity production back to usual levels by the end of 2023, and exports of electricity have resumed ([22]). With further re-openings of nuclear plants expected in the near term, electricity production is set to keep increasing by around 10% until 2025.

**Current account developments in 2022 and 2023 are mainly explained by the evolution in energy and raw materials prices since the outbreak of Russia's war of aggression against Ukraine.** The brisk increase in energy prices after the outbreak of the war brought about a considerable deterioration of the trade in goods deficit of 2.5 percentage points of GDP that led to an equivalent impact on the current account deficit, reaching -2% of GDP, compared to -0.4 in 2021 (Graph 2.5 d) ([23]). Deteriorations of similar or even greater magnitude were also observed in the euro area and the EU on average. As energy prices moderated over 2023, the current account deficit narrowed to -0.5% of GDP, broadly in line with the average deficits registered between 2010 and 2019. In turn, the contribution of net exports to growth turned positive in 2023 and, according to the Commission 2023 Autumn Forecast, a slightly negative contribution is expected for 2024.

**Both cost and non-cost competitiveness are expected to improve thanks to structural measures.** The normalisation of energy prices has helped alleviate the burden of production costs, especially in the most energy-intensive industries, while lower inflation is also expected to lead to more moderate wage growth. According to the Commission 2023 Autumn Forecast, ULCs are expected to decelerate significantly in 2024 and 2025, growing below the euro area and EU averages. In addition, recent reforms, including the reduction of production taxes, and investments, should have a visibly positive impact on competitiveness and productivity. The normalisation of energy prices made some recovery of mark-ups possible in 2023, which remain above 32% on average. This high and broadly stable level of mark-ups has made it possible to maintain relatively dynamic corporate investment levels. It also shows that French companies have weathered the crises well, unveiling their resilience to negative shocks, although such resilience was also helped by the public support schemes put in place for companies.

*Private sector debt*

**Private sector debt continued to decline to almost pre-pandemic levels, although it remains high.** The long-lasting upward trend of private debt peaked at 174% of GDP at the time of the outbreak of the pandemic in 2020. After that, the private debt-to-GDP ratio entered a downward trend. In 2021 and 2022 private deleveraging was mainly passive as high nominal growth more than offset the still dynamic credit flows. From the second half of 2022 onwards, the tightening of financing conditions and the sharp increase in bank lending rates brought about a

([22]) *Les Echos*, 16 February 2024. In particular, electricity production from nuclear plants increased by about 15% in 2023 compared to 2022 (see also Électricité de France (EDF), Nuclear Production in France, February 2024). This level is still about 15% lower than in 2019.

([23]) In Balance of Payments terms.

significant slowdown in credit flows to both households and corporates. Along with still relatively high nominal growth, this caused a further decline in private debt, which returned to close to pre-pandemic levels, at 154.5% of GDP, in 2023 (Graph 2.5 f). Overall, both households' and non-financial corporations' indebtedness continues to exceed the levels suggested by economic fundamentals and prudential thresholds (see Table 2.2). However, in the months to come, the prevailing high interest rates and the tighter financing conditions than in previous years are expected to keep credit growth moderate, contributing to further private deleveraging.

**Non-financial corporate debt has continued to decrease, and the associated vulnerabilities are mitigated by high, albeit dwindling, liquidity buffers.** Non-financial corporate debt decreased from 98% of GDP in 2022 to 91% of GDP in 2023, in line with pre-pandemic levels. The accumulation of corporate debt after the COVID-19 crisis was accompanied by an even faster increase in equity and financial assets, enabling non-financial corporations to maintain relatively solid balance sheets along with relatively stable mark-ups above 31% on average. Accordingly, the ratio of total liabilities to total financial assets or to equity showed a sustained downward trend. The sizeable liquidity buffers accumulated by companies, especially larger ones, in previous years, continue to mitigate risks linked to high corporate indebtedness ([24]). However, since the last quarter of 2022, such liquidity buffers have been partially used to substitute bank borrowing to serve short-term needs. In turn, the continuous decline in companies' debt service bottomed out at 4.5% of gross value added in 2021. This trend stopped in 2022, as the rapid increase in inflation, triggered by the energy price shock, led to quick interest rate hikes, resulting in an increase in companies' debt service in 2022 and 2023 (Graph 2.5 e).

**The dynamic credit flows to non-financial corporations until 2022 helped boost corporate investment, but these flows have now started to significantly decrease.** Credit flows decelerated significantly in 2023, going from 3.6% of GDP in mid-2022 to 1.6% by the end of 2023. This reflects a significant increase in borrowing costs (Graph 2.5 e) and tightened credit standards. Still, corporate investment remained in positive territory in 2023, thanks in part to sizeable liquidity buffers accumulated in recent years. According to the January 2024 euro area bank lending survey, significant net decreases in demand for loans to companies were observed across all four biggest euro area countries, including France, in 2023 ([25]). In France's case, the decrease in demand for new credit was mainly due to the big increase in borrowing costs.

**Corporate bankruptcies recently increased but the share of non-performing loans remains low.** Corporate bankruptcies started to rise sharply as of 2022, after having decreased by a cumulated 50% in 2021 compared to 2019. At the end of 2023, the cumulative number of bankruptcies exceeded the 2019 number, bringing it closer to the 2010-2019 average ([26]). The increase in the number of bankruptcies is broadly heterogeneous across all sectors and all company sizes, although more pronounced among big companies. Part of such uptick was due to some catchingup from the artificially low number of bankruptcies registered during the pandemic, when policy measures supported corporates' liquidity and temporarily adapted restructuring and insolvency procedures. In turn, the share of non-performing loans kept falling in 2022 and remained at historical lows in 2023. Overall, French credit and insurance institutions are in a robust liquidity and solvency situation, with significant capital margins. At the same time, their high

([24]) See European commission, In-depth review 2022 and 2023.

([25]) See European Central Bank, Bank lending survey, January 2024.

([26]) See *Banque de France, Suivi mensuel des défaillances, janvier 2024*.

exposure to commercial real estate, despite declining, is a risk factor. Also, with some companies still being highly indebted, the increase in the cost of financing is another moderate risk.

**Risks related to high household debt remain contained.** The household debt ratio declined in 2022 to 66% of GDP (103% of gross disposable income (GDI)), and continued to do so in 2023, to 64% of GDP (98% of GDI) by the third quarter of 2023, helped by dynamic nominal output and GDI growth. Household debt remains slightly above its fundamental benchmark, and above its prudential threshold (Table 2). Credit flows to households, the previous dynamism of which was linked to housing purchases, started to decelerate from the fourth quarter of 2022 onwards, on the back of rising borrowing costs, but have remained positive. Commission calculations suggest a potential overvaluation of house prices around 20%, but house prices have been declining slightly since the end of 2022. Data from the Household Finance and Consumption Survey (HFCS) suggest that the debt-service-to-income ratio is higher in France than in most other euro area countries (HFCS 2021). However, risks to indebted households are mitigated by the high proportion of loans at interest rates that are fixed for the entire mortgage term, households' high savings rate, and by recent reforms that have introduced more prudent lending standards, improving credit quality. Indeed, more than 99% of outstanding loans for the purchase of dwellings have fixed rates. As a result, households' aggregate interest burden as a share of their GDI remained broadly stable in 2022 and 2023 (Graph 2.5 e). Households' savings rate remains very high and is projected to continue to remain well above pre-pandemic levels over the forecast period. According to the Bank of France, in 2022 the number of over-indebtedness cases was 7% lower than in 2021 and it had halved since 2014 ([27]). In 2023, the number of cases remained below what it was in 2019 ([28]).

([27]) See *Banque de France, Enquête typologique sur le surendettement des ménages en 2022, février 2023.*

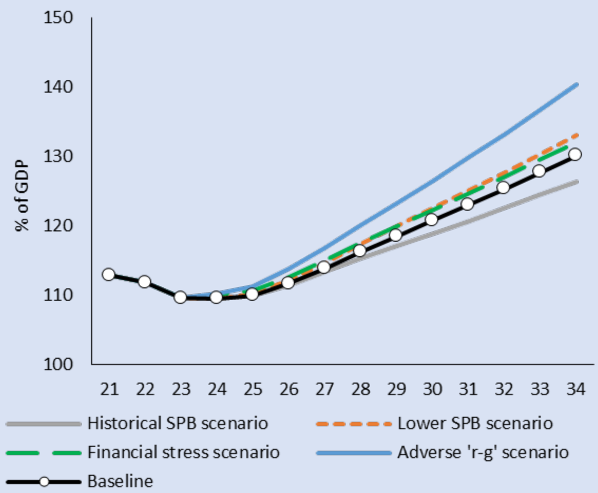
([28]) *Baromètre mensuel de l'Inclusion Financière – n°32 décembre 2023.* https://www.banque-france.fr/fr/publications-et-statistiques/statistiques/barometre-mensuel-de-linclusion-financiere-ndeg32-decembre-2023.

## Box 1: France – Medium-term government debt projections

**This box summarises government debt-to-GDP projections for France over the next decade, based on the latest public debt sustainability analysis conducted by the Commission.**

**In France, medium-term risks to fiscal sustainability are high overall** ([29]). The debt sustainability analysis for France shows that, under the baseline scenario, the government debt-to-GDP ratio is projected to remain at a high level in the medium term, increasing to around 118% in 2029 and to around 130% in 2034 (Graph 2.4). That projection assumes that, at unchanged policies, the structural primary balance (excluding changes in the cost of ageing) remains constant at a deficit of 2.4% of GDP in 2024 until 2034. The debt projection reflects until 2032 a still favourable (although declining) snowball effect. Real GDP is expected to grow by 0.6% on average over 2025-2034. Government gross financing needs are expected to remain large over the projection period, averaging around 24% of GDP, and somewhat more than that over the second half of that period. The baseline projections are stress-tested against four alternative deterministic scenarios to assess the impact of changes in key assumptions. All but one of those scenarios would lead to a faster increase in debt relative to the baseline, with the largest increase in debt due to the adverse interest rate-growth differential scenario. Stochastic projections point to a large degree of uncertainty.

Graph 2.4: **Government debt projections based on scenario analysis for France (1)**




(1) The baseline projection is stress-tested against four alternative scenarios to assess the impact of changes in key assumptions: 'historical SPB scenario': the SPB gradually converges to its historical 15-year average; 'adverse 'r-g' scenario': the differential is 1 pp. higher than in the baseline; 'lower SPB scenario': SPB level permanently lower than in the baseline as from 2024; 'financial stress scenario': temporarily increase in market interest rates by 2.4 pps. in 2024.

Source: Eurostat, Ameco, Commission services calculations..

## Assessment of MIP-relevant policies

**Several reforms aimed at reducing the cost of labour have improved cost-competitiveness.** The reforms reducing the cost of labour include a wide-ranging set of fiscal measures adopted in recent years. They include a permanent cut in social contributions since 2019, a permanent EUR 10 billion reduction in production taxes (0.4% of GDP), the progressive abolition of the production tax on companies' value added from 2023 onwards, support for apprenticeship contracts, and successive cuts in corporate income tax. By significantly reducing the fiscal burden

([29]) The results presented here are based on the debt sustainability analysis published in the 2023 Debt Sustainability Monitor (European Commission, Institutional Paper 271), based on the Commission 2023 Autumn Forecast. See notes to Graph 2.4 for more details on the four scenarios.

on labour, they have also contributed to the recent dynamic employment growth, especially among the low-skilled, and to a sustained decrease in the unemployment rate.

**Reforms in recent years, and ongoing investments to support the green and digital transitions and research, are expected to boost non-cost competitiveness and productivity.** The PACTE([30]) law, adopted in May 2019, aimed to enhance companies' growth and promote innovation. The unemployment benefit reform that entered into force in 2021, or the labour law rulings that fully entered into force in 2018, aimed to improve labour market efficiency by encouraging the use of open-ended contracts, providing stronger incentives to work and further promoting decentralised bargaining. In turn, investments under France's recovery and resilience plan (RRP) and under *France Relance*, the broader recovery strategy adopted by France in 2020, have also been committed to up- and re-skilling the labour force, especially in the digital realm, in order to reduce the important skill mismatches in the labour market. These reforms and investments are expected to have a positive effect on productivity in the medium term. Likewise, the investment plan France 2030, endowed with EUR 34 billion, is expected, over the next decade, to support investment for the green transition, state-of-the-art R&D and the digital realms, with the aim of providing a renewed impulse to re-industrialise and reduce France's external dependence in strategic areas, while creating more favourable business conditions, thereby also increasing France's non-cost competitiveness. Insofar as these reforms and investments bring about a positive impact on productivity in the medium term, they will also contribute to enhancing public debt sustainability. However, labour productivity could benefit from measures to further liberalisation of services and from the lifting of regulatory restrictions in retail trade.

**The spring 2023 pension reform is projected to have a positive impact on the sustainability of public finances in the medium term.** The reform increased the statutory retirement age by 2 years, from 62 to 64, and accelerated the extension of the contribution period required to get a full pension. The reform also puts an end to some of the main special pension schemes ([31]). The reform's measures aim to bring the system back to balance by 2030, thanks to net savings amounting to EUR 8.3 billion in 2027 and EUR 13.7 billion in 2030 (0.3% and 0.5% of 2022 GDP, respectively) ([32]) ([33]). In particular, the gradual increase in the effective retirement age and the extension of the contribution period are expected to largely offset the upward pressure on pension expenditure until 2034 due to ageing and the retirement of large baby-boomer cohorts. In turn, the June 2023 projections of the Pension Advisory Council (*Conseil d'Orientation des Retraites*, COR) show that the reform is expected to bring about a reduction in pension expenditure in all the scenarios considered. However, the COR warns that the pension system will remain in deficit by 2030 in all scenarios and in three out of four scenarios in the long term (until 2070).

([30]) Plan d'Action pour la Croissance et la Transformation des Entreprises.

([31]) The reform incorporates the special schemes for all new recruits to the Paris public transport company (*Régie autonome des transports parisiens*, RATP), the electricity and gas industries (e.g. EDF), the Bank of France, clerks of notaries and CESE (the Economic, Social and Environmental Council), which altogether cover around 500 000 employees, into the general pension regime.

([32]) The increase in the statutory retirement age and the acceleration of the extension of the contribution period would lead to savings of EUR 10.3 billion in 2027 and EUR 17.7 billion in 2030. These savings in 2030 would more than compensate for the expected deficits of the system (EUR 13.5 billion). However, the reform proposal also includes 'accompanying measures', costing EUR 2 billion in 2027 and EUR 4 billion in 2030.

([33]) The government's projections assume a productivity increase of 1% a year and a long-term unemployment rate of 4.5% (down from the current 7.3%). An assumption of 7% unemployment would increase the projected 2030 deficit (before reform) from EUR 13.5 billion to almost EUR 20 billion.

**A new spending review mechanism has been put in place, to identify saving measures supporting fiscal consolidation and public debt reduction.** A first report with concrete proposals was submitted to the parliament in June 2023. A first set of saving measures based on past spending reviews was incorporated into the 2023 budget laws on an ad hoc basis. These measures represented savings of around EUR 2.5 billion (0.1% of GDP). More importantly however, the 2023 budget law introduced a new spending review mechanism. The main objective of this new mechanism is to regularly evaluate public spending in order to identify the most efficient expenditures favouring growth, social inclusion and the green and digital transitions, while making expenditure savings where inefficiencies are detected. The first report of such annual evaluations was presented to the parliament in July 2023. The report identified potential expenditure savings in several areas. Specifically, the report found tax expenditures of EUR 7 billion to be damaging for the environment, while certain environmental taxes and schemes considered to have a positive environmental impact could be enhanced. Accordingly, in the area of the green transition, a set of fiscal measures have been identified. These include the gradual alignment, between 2024 and 2030, of reduced rates of excise duty on diesel that benefit some sectors, the increase of the environmental taxation of vehicles, the refocusing of tax incentives for housing renovation only on works to improve energy efficiency, and the abolition of local tax exemptions for land purchases. Other identified potential savings relate to employment policies, such as a more targeted coverage of the costs of apprenticeship contracts, a possible reduction of the tax exemptions of contributions to vocational training, and savings on regional skills investment plans. The 2024 budget law does not offer any detail on the actual expenditure savings incorporated into the 2024 budget as a result of the spending review report submitted to the parliament in July, but these appear to be limited. In February 2024, the government announced EUR 10 billion savings to offset the lower-than-expected revenues and ensure France's budgetary targets are reached this year. Reducing tax expenditures and broadening tax bases would contribute to the broader strategy of fiscal consolidation and public debt reduction.

**The adoption of the public finances programming law for the 2023-2027 in November 2023 is key to operationalise the modernisation of public finance management.** In particular, the public finances programming law enshrines a multiannual expenditure growth ceiling until 2027 that should help contain the dynamics of public spending. The expenditure projections in this programming law also rely on expenditure savings over the programme horizon that have not been detailed yet. Accordingly, abiding by this multiannual expenditure trajectory would call for an ambitious and effective implementation of the new spending review mechanism. Sticking to its fiscal targets is also crucial for fiscal sustainability and for bringing the public debt ratio back on a sustained downward trend.

**Both public support and macroprudential measures have ensured adequate provision of credit while safeguarding financial stability.** The public loan guarantee scheme set up by the state played an important role in supporting lending during the COVID-19 crisis, especially to SMEs, and prevented corporate bankruptcies, although it may have had a negative effect on labour productivity. Bankruptcies declined in 2021 with respect to both 2020 and even with respect to pre-pandemic years. By the end of 2022, they had started to rebound strongly. By the end of 2023, the situation normalised as they reached pre-pandemic levels. The macroprudential measures France has adopted since the outbreak of the COVID-19 crisis have helped to ensure adequate provision of credit and credit standards for households' loans have improved. On 27 December 2022, the High Council of Financial Stability (*Haut Conseil de Stabilité Financière*, HCSF) decided to raise the countercyclical capital buffer to 1.0% from 2 January 2024 ([34]). On 4 December 2023, it considered that the economic and financial environment did not justify any change in the countercyclical capital buffer, at 0.5% at that time, so that the increase to 1% announced at its December 2022 session would indeed take place on 2 January 2024 ([35]). This decision is expected to make the financial sector more resilient without having to rein in credit flows, thanks to financial institutions' accumulated reserves.

**Further efforts to promote growth-friendly fiscal consolidation and to implement an effective investment and growth strategy can reduce long-standing vulnerabilities**. Possible measures include tax reforms addressing remaining distortions and rationalise and reduce tax expenditures. Competitiveness can be supported by reviewing the administrative burden (notably on SMEs) and current restrictions on regulated professional services and retail trade. Moreover, besides reform commitments already included in the French recovery and resilience plan (RRP), more could be done to address skills gaps and mismatches, and promote digitalisation and innovation in the private sector.

Table 2.1: **MIP-relevant policy progress in France**

| **Vulnerability** | **Policies enacted since January 2023** | **Policies in progress since January 2023** |
|---|---|---|
| **Public debt** | Adoption of the 2023-2027 public finances programming law.<br><br>Pension reform to increase the statutory retirement age, accelerate the extension of the contribution period required to get a full pension, and reduce the number of special pension schemes. | New spending review mechanism. |
| **Competitiveness** | Law of 23 October 2023 for the green industry. | Progressive phasing out of the tax on companies' value added.<br><br>Support for apprenticeship contracts.<br><br>Successive corporate income tax cuts. France 2030 investment plan.<br><br>RRP investment projects in innovation, digital technologies, cybersecurity and quantum technologies.<br><br>RRP investments in up- and re-skilling the labour force. |

([34]) *Haut Conseil de Stabilité Financière* (2022), Decision nº D-HCSF-2022-06. 27/12/2022.

([35]) *Haut Conseil de Stabilité Financière* (2023), Communiqué de presse 4.12.2023.

## Conclusion

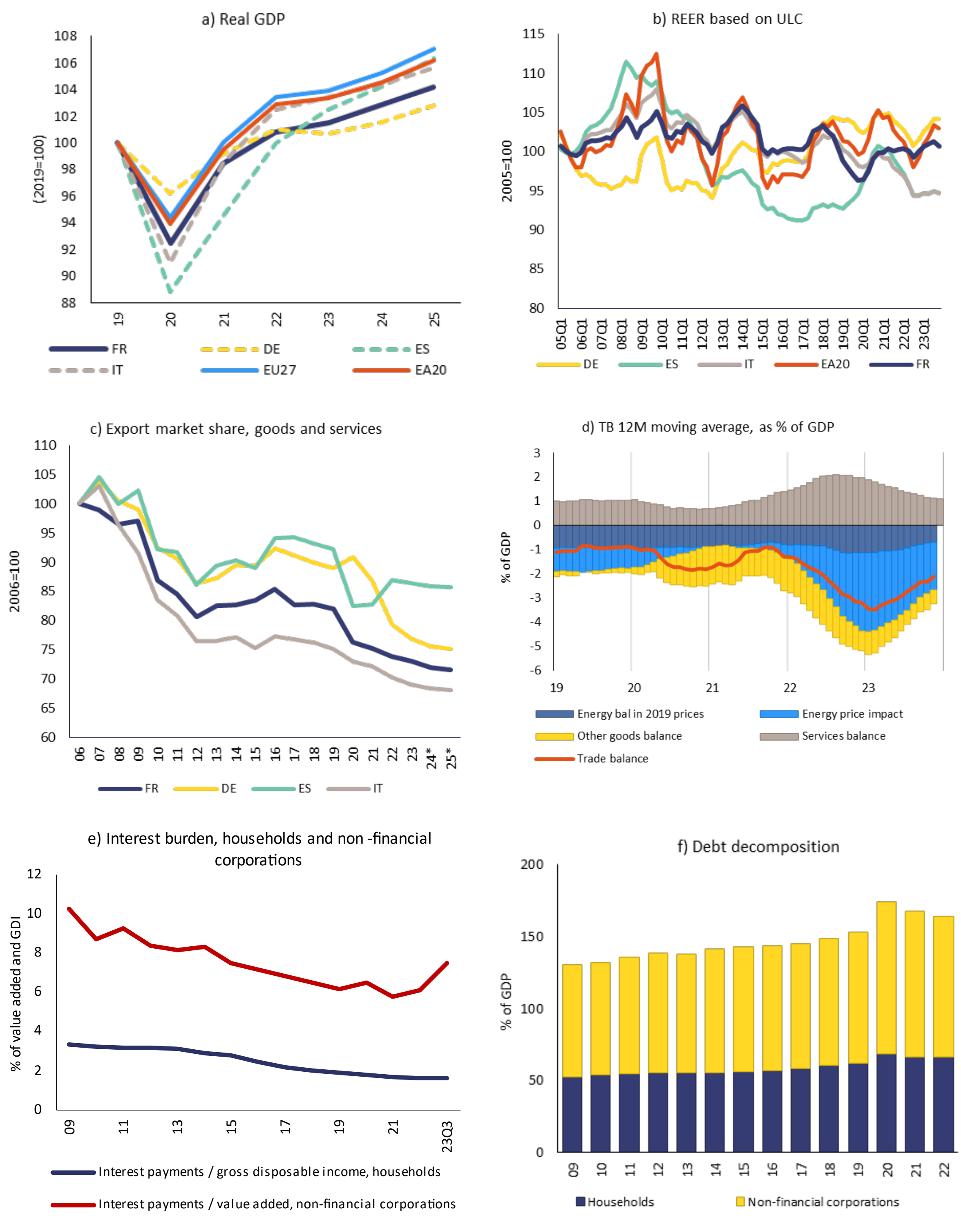
**In France, vulnerabilities relating to high public debt persist, whereas those linked to competitiveness challenges in a context of low productivity growth are showing signs of reduction.** Public debt rose by some 17 points of GDP in 2020, but it started to edge down with the rebound in economic growth in 2021. It is projected to remain broadly stable in 2024 and to increase again in 2025, while remaining high and above pre-pandemic levels. Thereafter, projections show that public debt would start increasing again in the medium term in the absence of additional fiscal adjustment. Hence, fiscal sustainability challenges remain high in the medium term. While private sector debt surged during the pandemic, the increase in corporate borrowing came hand-in-hand with increases in equity and the accumulation of liquidity buffers. The increase in bank lending rates and the tightening of financial conditions have contributed to slowing down credit flows and further private sector deleveraging in 2023, while part of the accumulated liquidity buffers is being used. However, corporate credit for investment remains dynamic. The assessment of the evolution of overall competitiveness calls for some qualifications. On the one hand, price-based competitiveness indicators have evolved favourably since 2020 as shown by the depreciation of the HICP and GDP deflator-based real effective exchange rate, in part due to lower inflation in France than in peers. Further improvements are expected going forward. On the other hand, cost-competitiveness was negatively affected by the increase in unit labour costs in 2021-23 on the back of a decline in labour productivity. The latter was to a large extent explained by temporary factors after the COVID-19 crisis affecting both value added and employment. Since 2019, structural employment has increased significantly, thereby implying a positive impact on GDP levels, partly offset by the recent decline in labour productivity. However, labour productivity and cost-competitiveness are expected to improve going forward, also helped by the investments and reforms that are in the pipeline, which should provide an additional necessary impulse to GDP growth and ultimately underpin public and private deleveraging. Likewise, exports should improve further as the effects of the two recent crises on key sectors fade away.

**The policy response to the identified vulnerabilities has been broadly appropriate, and efforts need to be sustained.** These important reforms have contributed to alleviate the fiscal burden on labour, also bringing about a dynamic employment response, especially amongst the low-skilled, and leading to a continuous decline in the unemployment rate. In turn, the implementation of the reforms and the productivity-enhancing investments in the RRP to support the green and digital transitions and research will play an important role in addressing the competitiveness challenges, while improving productivity growth. At the same time, labour productivity would also benefit from further efforts to liberalise regulated professions, especially professional and administrative support services. The macroprudential measures taken to address growing vulnerabilities, including in the residential real estate market, have been appropriate as they contributed to improving credit standards ([36]). The adoption of the public finances programming law for the 2023-2027 period is a positive step ahead in that it sets up a multiannual expenditure standard that, jointly with an efficient implementation of the new spending review mechanism, could prove crucial to address fiscal sustainability risks and to put

([36]) The European Systemic Risk Board (ESRB) (2021) identified high household indebtedness, high housing lending growth and loose lending standards as the key vulnerabilities for the French residential real estate sector. In a recent report (2024), it assessed the risks related to the residential real estate sector in France as intermediate and macroprudential policies as appropriate and sufficient. Namely, the debt-service-to-income (DSTI) limit of 35% and the maturity limit of 25 years maintain France's sound lending standards, while the countercyclical capital buffer (CcyB) of 1% from January 2024 onwards has made the banking sector more resilient.

public debt on a sustained downward trend. Finally, the new reform of the public pension system is expected to have a positive impact on public debt sustainability, especially over the medium term.

Graph 2.5: **Selected graphs, France**




***Source:*** Eurostat, Ameco, ECB and European Commission calculations.

Table 2.2: **Selected economic and financial indicators (Part 1), France**

| all variables y-o-y % change, unless otherwise stated | 2003-07 | 2008-12 | 2013-19 | 2020 | 2021 | 2022 | 2023 | forecast 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|
| Real GDP | 2.0 | 0.4 | 1.4 | -7.5 | 6.4 | 2.5 | 0.7 | 1.2 | 1.4 |
| *p.m.: Real GDP (Winter 2024 interim Forecast)* | | | | | | | *0.9* | *0.9* | *1.3* |
| Contribution to GDP growth: | | | | | | | | | |
| Domestic demand | 2.3 | 0.5 | 1.4 | -6.1 | 6.8 | 2.3 | 0.6 | 1.5 | 1.4 |
| Inventories | 0.1 | -0.1 | 0.1 | -0.1 | -0.6 | 0.7 | -0.5 | 0.0 | 0.0 |
| Net exports | -0.4 | 0.0 | -0.2 | -1.3 | 0.2 | -0.6 | 0.6 | -0.2 | 0.0 |
| Output gap (1) | 1.5 | -1.1 | -0.3 | -6.0 | -1.1 | 0.2 | 0.0 | 0.0 | 0.3 |
| Unemployment rate | 8.6 | 9.0 | 9.7 | 8.0 | 7.9 | 7.3 | 7.2 | 7.4 | 7.5 |
| Harmonised index of consumer prices (HICP) | 2.0 | 1.9 | 0.9 | 0.5 | 2.1 | 5.9 | 5.7 | 3.0 | 2.0 |
| *p.m.: HICP (Winter 2024 interim Forecast)* | | | | | | | | *2.8* | *2.0* |
| HICP excluding energy and unprocessed food (y-o-y) | 1.7 | 1.5 | 0.8 | 1.0 | 1.2 | 3.8 | 5.5 | 3.1 | 2.4 |
| GDP deflator | 2.0 | 1.1 | 1.6 | 2.8 | 1.4 | 2.9 | 5.5 | 2.9 | 2.1 |
| **External position** | | | | | | | | | |
| Current account balance (% of GDP), balance of payments | 0.3 | -0.7 | -0.5 | -1.6 | 0.4 | -2.0 | -1.2 | -0.6 | -0.6 |
| Trade balance (% of GDP), balance of payments | 0.4 | -1.3 | -0.8 | -1.8 | -1.3 | -3.2 | -1.8 | . | . |
| Primary income balance (% of GDP) | 1.7 | 2.4 | 2.3 | 2.1 | 3.3 | 2.9 | 2.2 | . | . |
| Secondary income balance (% of GDP) | -1.8 | -1.8 | -2.0 | -1.9 | -1.6 | -1.7 | -1.6 | . | . |
| Current account explained by fundamentals (CA norm, % of GDP) (2) | -0.2 | 0.3 | 0.5 | 0.5 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Required current account to stabilise NIIP above -35% of GDP over 20Y (% of GDP) (3) | 0.0 | -0.2 | -0.6 | -1.3 | -1.2 | -0.8 | -0.8 | -0.7 | 0.0 |
| Capital account balance (% of GDP) | -0.1 | 0.0 | 0.0 | 0.1 | 0.4 | 0.4 | . | . | . |
| Net international investment position (% of GDP) | -4.4 | -11.9 | -17.4 | -29.4 | -30.9 | -23.8 | . | . | . |
| NENDI - NIIP excluding non-defaultable instruments (% of GDP) (4) | -6.4 | -23.8 | -31.6 | -41.9 | -39.3 | -33.4 | . | . | . |
| Net FDI flows (% of GDP) | 1.5 | 1.5 | 1.0 | 0.4 | 0.5 | 0.4 | . | . | . |
| **Competitiveness** | | | | | | | | | |
| Unit labour costs (ULC, whole economy) | 1.6 | 2.1 | 1.8 | 4.4 | 1.3 | 5.1 | 4.5 | 2.3 | 1.6 |
| Nominal compensation per employee | 3.0 | 2.3 | 1.3 | -3.5 | 4.9 | 4.9 | 4.1 | 3.3 | 2.7 |
| Labour productivity (real, hours worked) | 0.9 | 0.2 | 0.9 | 0.3 | -1.7 | -1.9 | -0.3 | 0.9 | 1.0 |
| Real effective exchange rate (ULC) | 0.2 | 0.0 | -0.6 | 0.1 | 1.3 | 1.6 | -2.3 | -1.9 | -1.0 |
| Real effective exchange rate (HICP) | 1.3 | -0.8 | 0.2 | 1.0 | -0.2 | -4.0 | 1.7 | . | . |
| Export performance vs. advanced countries (% change over 5 years) | . | -9.0 | -3.4 | -8.3 | -8.0 | -7.3 | . | . | . |
| **Private sector debt** | | | | | | | | | |
| Private sector debt, consolidated (% of GDP) | 109.5 | 131.7 | 144.5 | 173.9 | 167.5 | 163.9 | 154.5 | . | . |
| Household debt, consolidated (% of GDP) | 41.7 | 53.0 | 57.9 | 68.2 | 66.6 | 66.2 | 63.0 | . | . |
| Household debt, fundamental benchmark (% of GDP) (5) | 37.9 | 43.6 | 51.7 | 60.5 | 61.3 | 61.6 | 62.5 | . | . |
| Household debt, prudential threshold (% of GDP) (5) | 48.3 | 44.7 | 41.7 | 40.9 | 40.7 | 39.7 | 42.1 | . | . |
| Non-financial corporate debt, consolidated (% of GDP) | 67.7 | 78.8 | 86.6 | 105.7 | 100.9 | 97.7 | 91.5 | . | . |
| Corporate debt, fundamental benchmark (% of GDP) (5) | 52.2 | 54.6 | 56.3 | 61.4 | 62.1 | 62.5 | 63.8 | . | . |
| Corporate debt, prudential threshold (% of GDP) (5) | 49.7 | 47.2 | 44.9 | 46.2 | 46.6 | 45.6 | 49.4 | . | . |
| Private credit flow, consolidated (% of GDP) | 7.7 | 5.6 | 5.7 | 13.5 | 6.7 | 8.7 | 2.0[e] | . | . |
| Household credit flow, consolidated (% of credit stock) | 9.2 | 4.4 | 3.9 | 4.1 | 5.3 | 4.8 | . | . | . |
| Non-financial corporate credit flow, consolidated (% of credit stock) | 10.0 | 8.7 | 6.4 | 17.7 | 5.2 | 9.0 | . | . | . |
| Net savings rate of households (% of net disposable income) | 9.2 | 10.0 | 8.6 | 15.2 | 13.1 | 11.2 | . | . | . |

(e) Estimate based on ECB quarterly data.

(1) Deviation of actual output from potential output as % of potential GDP.
(2) Current accounts in line with fundamentals ('current account norms') are derived from reduced-form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See L. Coutinho et al. (2018), 'Methodologies for the assessment of current account benchmarks', European Economy, Discussion Paper 86/2018, for details.
(3) This benchmark is defined as the average current account required to reach and stabilise the NIIP at -35% of GDP over the next 20 years. Calculations make use of the Commission's T+10 projections.
(4) NENDI is a subset of the NIIP that abstracts from its pure equity-related components, i.e. foreign direct investment (FDI) equity and equity shares, and from intracompany cross-border FDI debt, and represents the NIIP excluding instruments that cannot be subject to default.
(5) Fundamental benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds identify a threshold above which banking crises become more likely. The fundamentals-based and the prudential benchmarks are calculated following Bricongne, J. C., Coutinho, L., Turrini, A., Zeugner, S. (2019), "Is Private Debt Excessive?", Open Economies Review, 1- 42.

***Source:*** Eurostat and ECB as of 19.3.2024, where available; European Commission for forecast figures (2023 Autumn Forecast).

Table 2.2: **Selected economic and financial indicators (Part 2), France**

| all variables y-o-y % change, unless otherwise stated | 2003-07 | 2008-12 | 2013-19 | 2020 | 2021 | 2022 | 2023 | forecast 2024 | forecast 2025 |
|---|---|---|---|---|---|---|---|---|---|
| **Housing market** | | | | | | | | | |
| House price index, nominal | 11.9 | 0.8 | 1.1 | 5.2 | 6.3 | 6.3 | . | . | . |
| House price index, deflated | 9.8 | -0.3 | 0.5 | 4.1 | 4.8 | 1.5 | . | . | . |
| Overvaluation gap (%) (6) | 7.0 | 14.3 | 6.5 | 13.3 | 17.4 | 20.6 | 13.6 | . | . |
| Price-to-income overvaluation gap (%) (7) | 5.1 | 13.4 | 10.2 | 15.1 | 17.7 | 18.9 | 10.4 | . | . |
| Residential investment (% of GDP) | 6.1 | 6.4 | 6.2 | 6.4 | 7.0 | 7.1 | 6.7 | . | . |
| **Government debt** | | | | | | | | | |
| General government balance (% of GDP) | -3.2 | -5.5 | -3.4 | -9.0 | -6.5 | -4.8 | -4.8 | -4.4 | -4.3 |
| General government gross debt (% of GDP) | 65.4 | 83.1 | 96.5 | 114.6 | 112.9 | 111.8 | 109.6 | 109.5 | 110.0 |
| **Banking sector** | | | | | | | | | |
| Return on equity (%) | 9.5 | 4.8 | 6.2 | 4.5 | 7.3 | 6.5 | . | . | . |
| Common Equity Tier 1 ratio | . | 10.7 | 14.6 | 17.0 | 17.0 | 16.6 | . | . | . |
| Gross non-performing debt (% of total debt instruments and total loans and advances) (8) | 2.6 | 4.2 | 3.2 | 2.0 | 1.7 | 1.7 | . | . | . |
| Gross non-performing loans (% of gross loans) (8) | . | . | 3.3 | 2.2 | 1.9 | 1.8 | 1.9 | . | . |
| Cost of borrowing for corporations (%) | 4.0 | 3.1 | 1.7 | 1.2 | 1.3 | 3.1 | 5.0 | . | . |
| Cost of borrowing for households for house purchase (%) | 4.1 | 4.0 | 2.0 | 1.2 | 1.1 | 2.1 | 3.6 | . | . |

(6) Unweighted average of price-to-income, price-to-rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables; total population, real housing stock, real disposable income per capita, real long-term interest rate, and price deflator of final consumption expenditure, based on Philiponnet, N., Turrini, A. (2017), 'Assessing House Price Developments in the EU,' European Economy - Discussion Papers 2015 - 048, Directorate-General Economic and Financial Affairs (DG ECFIN), European Commission. Price-to-income and price-to-rent gaps are measured as the deviation from the long-term average (from 1995 to the latest available year).
(7) Price-to-income overvaluation gap measured as the deviation from the long-term average (from 1995 to the latest available year).
(8) Domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.

***Source:*** Eurostat and ECB as of 19.3.2024, where available; European Commission for forecast figures (2023 Autumn Forecast).

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