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UNDER THREAT OF UNEMPLOYMENT

2023-2024 Outlook for the French economy

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* This Policy Brief summarizes the analysis by the Analysis and Forecasting Department of the French economy in autumn 2023. It is based on the work of the France team, which is led by Mathieu Plane and composed of Elliot Aurissergues, Bruno Coquet, Magali Dauvin, Ombeline Jullien de Pommerol, Pierre Madec and Raul Sampognaro.

This forecast is based on information available as of 4 October 2023.

A summary of the 2023-2024 outlook for the world economy is available in *OFCE Policy brief*, n° 120.

Summary

In 2023, with inflation still high (+5.2% in 2023, as in 2022) and a context marked by a sharp rise in key ECB interest rates, France's GDP will grow by 0.9%.

2024 should see falling inflation (3.3% annual average and 2.3% year-on-year at year-end), but growth will remain modest (0.8%) as hikes in the key interest rates take full effect. In our assessment, the impact of monetary policy will reduce GDP growth by -0.9 point in 2024 (after -0.4 point in 2023).

The unemployment curve is likely to turn upwards in the second half of 2023, and above all in 2024, with unemployment rising from 7.2% at present to 7.9% by the end of next year, against a backdrop of marked increases in the working population due to the implementation of pension reform. Weak growth in activity and a partial recovery of past productivity losses would account for the strong momentum in employment seen in recent years (-53,000 year-on-year in 2024, after +140,000 in 2023 and +509,000 in 2022).

In contrast to 2022 and 2023, real wages should increase (+0.6 %) in 2024, limiting the negative impact of job losses (-0.1%) on the wage bill. In 2024, real wages (deflated by the CPI) should return to their 2019 level.

After a contraction in purchasing power per consumption unit (CU) in 2022 (-0.4%, following +2.1% in 2021), households will once again see their real income rise in 2023 and 2024 (+0.7% and +0.4 % per CU respectively), driven again this year by job creation, wealth taxes and fiscal support, and next year by rising real wages.

Despite the curtailing of exceptional budgetary measures, the public deficit will remain at 4.8% of GDP in 2023 and 2024, mainly due to sluggish growth, which will hit tax revenues.

SciencesPo

Since 2020, the economy in France, as in the rest of the world, has been marked by large-scale events that have profoundly altered its growth trajectory. While 2020 and 2021 were largely dominated by the Covid epidemic and the health and budgetary responses to that, with cascading consequences for global supply chains, 2022 was the year of the energy crisis, the war in Ukraine and the return of inflation. The flattening of the GDP trajectory in 2022 therefore reflects a missed recovery, or even a form of "recession" compared to the dynamic "post-Covid" recovery that was expected. Although quarterly growth did not slip into negative territory, the scale of the shocks experienced (energy, geopolitical uncertainty and tensions, supply difficulties) cut France's GDP growth by -1.6 point (from 4.1% initially forecast in October 2021 to an actual 2.5%) in 2022, which in normal circumstances would have been diagnosed as a recession.

In 2023, with inflation still high (+5.2% in 2023 as in 2022) and a context marked by a sharp rise in the ECB's key interest rates, GDP growth will come in at 0.9%. 2024 should see falling inflation (+3.3% annual average and 2.3% year-on-year at year-end), but growth is likely to remain modest (+0.8%) as the hikes in key interest rates take full effect. According to our assessment, monetary policy is likely to reduce GDP growth by -0.9 point in 2024 (after -0.4 point in 2023).

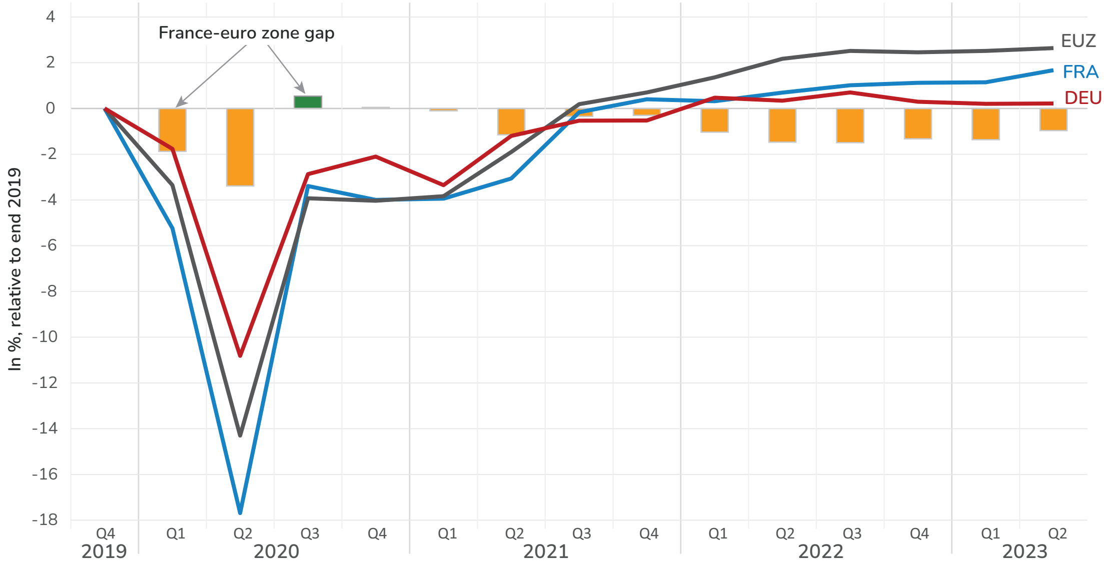
The unemployment curve is likely to turn upwards in the second half of 2023, and above all in 2024, with joblessness rising from 7.2% at present to 7.9% by the end of next year. Sluggish economic growth and a partial recovery of past productivity losses would account for the strong momentum in employment seen in recent years. While the -2.5% fall in real wages between mid-2021 and mid-2023 weighed on household purchasing power, this effect was largely offset at the macro level by strong job creation and substantial fiscal support. Against a backdrop of rising unemployment in 2024, the possibility of full employment therefore becomes more remote. Despite the curtailing of support measures, the public deficit will remain at 4.8% of GDP in 2023 and 2024, mainly due to sluggish growth, which will hit tax revenues.

1. A look back at the recent past: a stifled recovery

By the third quarter of 2021, less than two years after the Covid crisis struck, France's GDP, while still below potential, had virtually returned to pre-crisis levels, driven by buoyant household consumption and private investment. By the end of 2021, only exports – which suffered long-term harm from difficulties in the aeronautics and automotive sectors – and public investment remained well below their pre-crisis levels, despite the implementation of the Recovery Plan and the France 2030 Investment Plan.

The economy's drive to catch up with its potential GDP was brought to a screeching halt at the turn of 2022 by the rapid change in the international environment. Year-on-year growth in the French economy fell from 4.6% at the end of 2021 to 0.7% in the fourth quarter of 2022. While this slowdown in growth affected the developed countries in general, it has been more pronounced in France than in the eurozone. Indeed, at the end of 2022, eurozone GDP was 2.5 points of GDP above its pre-crisis level, compared with 1.1 point of GDP in France, even though the levels were relatively close in the third quarter of 2021. France made up some of its lost ground in the second quarter of 2023, when its GDP grew by 0.5% versus 0.1% for the eurozone. It is now 1.7% above its end-2019 level, versus 2.6% for the eurozone average. In contrast, Germany is falling behind both the European average and France, with the German economy posting a fall in GDP of -0.8% over the last three quarters, compared with +0.1% for the eurozone and +0.7% for France. By mid-2023, German GDP was "only" +0.2% above its pre-crisis level, 1.5 point below that of France and 2.4 points below the eurozone average (Figure 1).

Figure 1. **GDP trajectory (in volume) for France, Germany and the eurozone average since the start of the crisis**



Insee, Eurostat, OCDE, OFCE calculations.

Although France has seen a clear slowdown in growth for almost two years now, it is important to distinguish two sub-periods in terms of changes, the first running from the third quarter of 2021 to the third quarter of 2022, and the second from the third quarter of 2022 to the second quarter of 2023. During the first sub-period, which begins just before the energy shock, growth is clearly driven by investment and corporate restocking, with these two components contributing 2.6 percentage points to GDP growth over the period, for a total rise in GDP of 1.2% (Table 1). Conversely, the contribution of foreign trade was very negative over this period (-1.6 point of GDP), and that of household spending also weighed on growth (-0.2 point). Government spending, on the other hand, contributed +0.3 point to GDP growth. Since the third quarter of 2022, the components of growth have changed significantly, with foreign trade being the main driver (+1.3 point of GDP), thanks to an improvement in the energy (nuclear) and transport equipment (aeronautics) sectors in particular. On the other hand, changes in inventories made a negative contribution to growth (-0.4 point), and business investment contributed little to the 0.6% rise in GDP over the last three quarters (+0.2 point). General government spending contributed to increase GDP by 0.2 point over this sub-period. Household spending, whether through consumption or investment, made an even more negative contribution (-0.7 point) in this sub-period than in the previous one. The sharp contraction in the consumption of food-industry products alone – almost 12% in volume terms in the space of a year and a half – has reduced GDP by -0.8 point since the start of the inflationary shock.

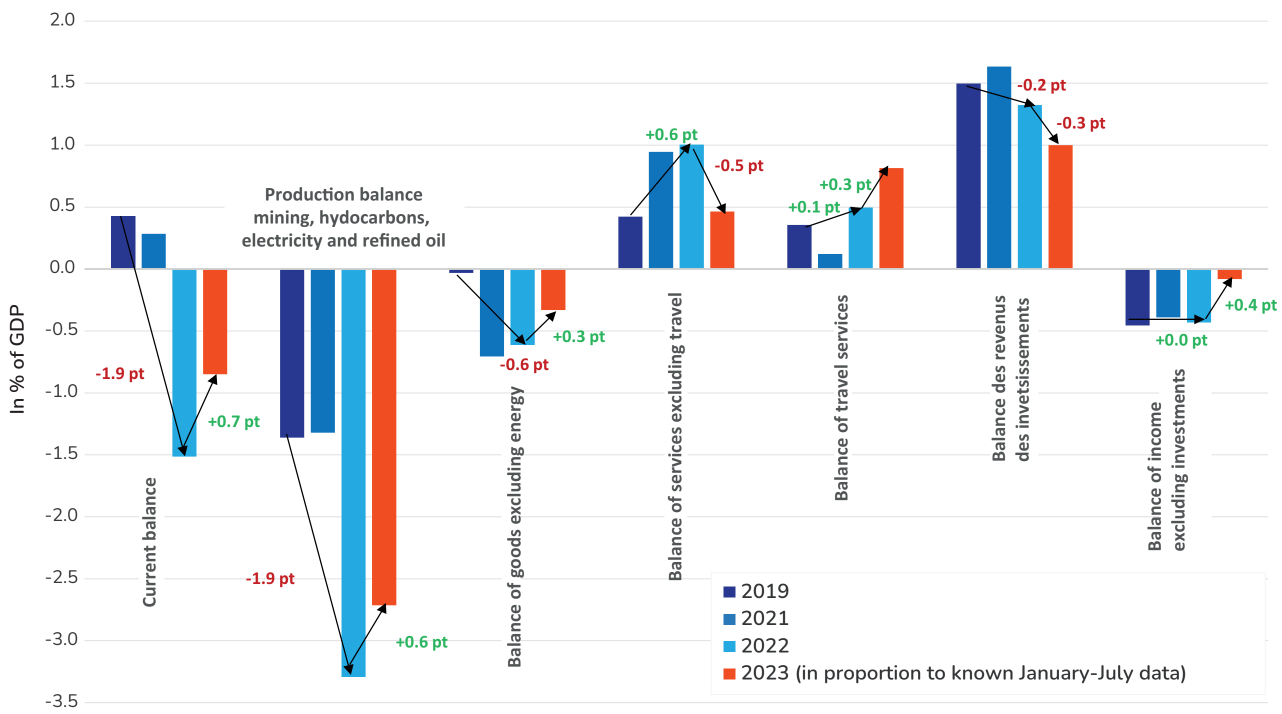
Table 1. **Change in GDP and contribution of components**

In % points of GDP	2021t3-2023 t2	2021t3-2022t3	2022t3-2023t2
PIB	1.8	1.2	0.6
Ménages	**-0.9**	**-0.2**	**-0.7**
Consumption	-0.5	0.0	-0.4
of which food consumption	*-0.8*	*-0.2*	*-0.6*
Investment	-0.4	-0.1	-0.3
Administrations publiques	**0.6**	**0.3**	**0.2**
Consumption	0.4	0.2	0.2
Investment	0.2	0.1	0.1
Companies	**2.4**	**2.6**	**-0.2**
Investment	0.9	0.7	0.2
Changes in inventories	1.5	1.9	-0.4
Foreign trade	**-0.3**	**-1.6**	**1.3**

Insee, OFCE calculations.

The current account deficit remains high (-0.8 point of GDP on average over the first seven months of 2023), but it is being partially absorbed (+0.7 point of GDP compared to 2022), thanks to the fall in energy prices, the improvement in the balance of non-energy goods (transport equipment) and the rise in the tourism surplus (Figure 2). On the other hand, surpluses on the balance of services (excluding travel) have narrowed, in particular with the drop in those on transport services and the fall in sea freight prices; they are now almost back to pre-crisis levels.

Figure 2. **Current account breakdown**



Banque de France, calculs OFCE.

2. Growth caught in a vice in 2023 and 2024

The succession of shocks since the end of 2021 has interrupted the French economy's trend towards recovery, leading us to revise our economic forecasts for 2022 and beyond. In 2022, growth, excluding shocks, was adjusted for our autumn 2021 forecast, before further major events occurred. For the years 2023 and 2024, growth, excluding shocks, corresponds to carry-over growth (at the end of the previous year) and post-Covid quarterly growth that is equal to potential growth (1.2% annualized in 2023 and 1.4% in 2024[1]), plus a spontaneous catch-up of 0.2 percentage point per quarter[2]. This leads to a growth trajectory, excluding shocks, of 4.1% in 2022, 1.6% in 2023 and 1.7% in 2024 (Table 2). In fact, the various shocks identified will reduce observed and forecast growth. Indeed, GDP growth will be 0.9% in 2023 and 0.8% in 2024 (after 2.5% in 2022). The various shocks will therefore reduce GDP growth by -1.6 point in 2022, -0.7 point in 2023 and -0.9 point in 2024, i.e. a fall in GDP of over 3% over three years.

In 2022, the main negative shocks to growth came from the energy crisis, geopolitical tensions and supply difficulties, with impacts of, respectively, -1.5 point of GDP, -0.5 point[3] and -0.3 point[4]. On the other hand, budgetary measures in response to the energy crisis (tariff shield, fuel rebate, targeted aid to households and businesses) have cushioned the economic impact to the tune of 1 point of GDP in 2022. Finally, the interest rate hike enacted by the ECB in July will have a limited impact on growth in 2022 (-0.1 point).

In 2023, the energy shock's impact on the economy continued to spread. Households and businesses were hit by a 15% rise in regulated gas prices and a 25% increase in electricity prices, as well as higher energy prices for contract renewals. And the fall in oil prices has been partly offset by the end of the fuel rebate. The energy shock and its continuing reverberations will cut growth in 2023 by -0.6 point of GDP. The rise in interest rates will pull down growth by -0.4 point of GDP in 2023[5]. On the other hand, the easing of tensions in supply chains, the slight reduction in uncertainties linked to geopolitical tensions and the implementation of new budgetary measures (abolition of the audiovisual licence fee) should boost growth by 0.3 point of GDP in 2023. The rate on the main refinancing operations should be 4.25%.

In 2024, with a negative impact of 0.9 point of GDP, growth will be held back mainly by the effects of rising interest rates[6]. Our estimate of the impact is based on a rise in the rate on main refinancing operations to 4.25% from 14 September 2023, and then stabilizing at this level until December 2024. Given the delayed effects of the rate hike on activity, ranging from 12 to 18 months for the full effects[7], the impact of monetary tightening on growth will be felt mainly in 2024.

Under our assumptions[8], the net effect of the energy shock on growth should be -0.3 point of GDP in 2024. At that point, the cumulative effects of the energy shock would reduce GDP by 2 points compared with 2021, while fiscal measures should improve it by a further 0.6 point, despite the scheduled end of support measures. In 2024, the cumulative net effect of the energy shock on GDP since 2021 would therefore be -1.4 point, which is equivalent to the rate hike shock over the same period (-1.4 point on GDP in cumulative terms).

1. This spontaneous growth dynamic corresponds to a closing of the output gap by 2021 (estimated at -4 points of GDP) over the period 2022- 2024, i.e. a closure in three years.

2. This increase in potential growth of 0.2 point of GDP in 2024 is linked to the increase in the working population in 2024 as a result of the implementation of the pension reform.

3. For more details on the valuation method, see R. Sampognaro, 2022, « Guerre en Ukraine et hausse des tensions internationales : quel impact sur le PIB ? », *Revue de l'OFCE*, n° 178.

4. For more details on the valuation method, see M. Dauvin, 2022, "Évaluation du choc d'approvisionnement", *Revue de l'OFCE*, n° 177.

5. For more details on the valuation method, see É. Heyer and X. Timbeau, 2006, "Real estate and monetary policy", *Revue de l'OFCE*, n° 96.

6. The channels through which rising interest rates are transmitted to the economy are manifold: the increase has a negative impact on household investment and consumption, through the rise in the cost of mortgage credit , as well as the effects on asset values and mortgage debt. On the corporate side, the rise in the cost of capital has a negative effect on business investment.

7. For further details, see C. Blot and P. Hubert, 2018, "mmobilier et politique monétaire", *Revue de l'OFCE*, n° 159.

8. We assume an oil price of USD90 per barrel and a TTF gas price of EUR53 in 2024, with electricity tariffs increasing by 10%.

9. This indicator stops before the Hamas attack on Israel.

Lastly, the normalization of the international situation on global production chains will make it possible to recover the GDP losses of 2022, leading to a growth gain of 0.2 point of GDP in 2024. The reduction in geopolitical uncertainty indicators[9], which peaked at the outbreak of war in Ukraine, will lead to a 0.1 point improvement in growth, without however recovering the GDP losses of 2022..

Table 2. **Assessment of the effect of different shocks on GDP growth**

in GDP points

Growth excluding shocks	2022: 4.1 %	2023: 1.6 %	2024: 1.7 %	2022-2024: 7.6 %
Covid shock and supplies	-0.3	0.1	0.2	-0.1
Rising rates	-0.1	-0.4	-0.9	-1.4
Uncertainty and geopolitical tensions	-0.5	0.1	0.1	-0.4
Energy shock (including energy shield and energy/inflation measures)*	-0.5	-0.6	-0.3	-1.4
Other new budget measures	0.0	0.1	0.0	0.1
Observed and forecast growth	**2022: 2.5%**	**2023: 0.9%**	**2024: 0.8%**	**2022-2024: 4.3%**

Insee, OFCE forecasts.

* In detail, the energy shock reduces GDP growth by -1.5 point in 2022, -0.7 point in 2023 and +0.2 point in 2024, i.e. a cumulative effect of -2 points of GDP over the 2022-2024 period. The implementation of specific budgetary measures to cushion this energy shock had an effect on GDP growth of +1 point in 2022, +0.1 point in 2023 and -0.5 point in 2024, i.e. a cumulative effect of +0.6 point of GDP over the period.

In terms of infra-annual dynamics, we forecast GDP growth of +0.1% in the third quarter of 2023. This forecast is based on the OFCE leading indicator, based on business surveys up to September. Beyond that, quarterly GDP growth will be modest (between +0.1% and +0.2%), with a peak in the third quarter of 2024 (+0.4%) due to the impact of tourism associated with the Olympic Games in summer 2024 (0.2 quarterly GDP point) (Table 3).

Table 3. **Supply-Use Account for France**

In %	2023.1	2023.2	2023.3	2023.4	2024.1	2024.2	2024.3	2024.4	2022	2023	2024
PIB	**0.0**	**0.5**	**0.1**	**0.2**	**0.1**	**0.2**	**0.4**	**0.2**	**2.5**	**0.9**	**0.8**
Private consumption	**0.1**	**-0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**2.2**	**0.0**	**1.4**
APU consumption	**-0.3**	**0.4**	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**2.5**	**0.6**	**0.8**
Total GFCF	**-0.3**	**-0.1**	**-0.2**	**-0.6**	**-0.6**	**-0.5**	**-0.3**	**-0.2**	**2.3**	**0.9**	**-1.7**
GFCF SNFEI	*0.0*	*0.5*	*0.2*	*-0.3*	*-0.5*	*-0.5*	*-0.3*	*-0.2*	*3.8*	*3.1*	*-1.1*
GFCF Households	*-1.5*	*-2.3*	*-1.9*	*-1.5*	*-2.0*	*-1.9*	*-1.8*	*-1.9*	*-1.2*	*-5.8*	*-5.7*
GFCF APU	*0.2*	*0.5*	*0.3*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*1.5*	*2.1*	*1.0*
Exports	**-1.7**	**2.7**	**0.0**	**0.7**	**0.5**	**0.4**	**1.2**	**0.5**	**7.4**	**2.1**	**2.7**
Imports	**-2.5**	**1.6**	**0.4**	**0.4**	**0.3**	**0.3**	**0.4**	**0.5**	**8.8**	**0.3**	**1.8**
Contributions											
Domestic demand excluding inventories	-0.1	-0.2	0.2	0.1	0.1	0.1	0.2	0.2	2.4	0.4	0.5
Changes in inventories	-0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.8	-0.1	0.1
Balance of trade	0.4	0.3	-0.1	0.1	0.0	0.0	0.2	0.0	-0.7	0.6	0.2

Insee, OFCE forecasts.

In contrast to previous quarters which were marked by a sharp rise in energy and food prices and a fall in real wages, growth will be driven by household consumption (+1.4% in 2024 after 0% in 2023), supported by a slight increase in purchasing power and a fall in the savings rate, which will nevertheless remain well above its 2019 level.

On the other hand, the downturn in investment will intensify, marked by a decline in business investment (-1.1% in 2024 after +3.1% in 2023) and, above all, a sharp contraction in household investment (-5.7% in 2024 after -5.8% in 2023) (see Box 1).

Foreign trade is set to continue its recovery, with a slight improvement in market share over the forecast horizon. After a clear improvement in 2023 (+0.6 point of GDP), the contribution of foreign trade to growth will continue to be positive in 2024 (+0.2 point of GDP), boosted by an increase in inter-domestic tourism during the summer of 2024 with the Olympic Games. Domestic demand, excluding inventories, will remain sluggish in 2024, as in 2023 (+0.5% after +0.4% in 2023).

Box 1. **Real eastate: crisis is here**

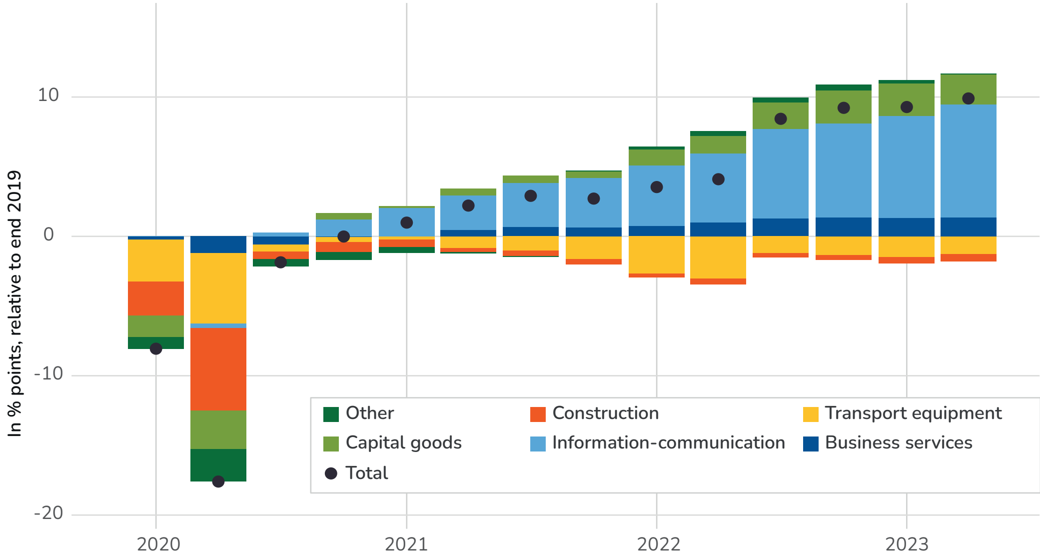
Between September 2022 and August 2023, the number of building permits and housing starts fell by 28% and 16%, respectively. The 313,740 housing starts over the period were the fewest in the last twenty years. According to industry surveys, this crisis in new construction is set to continue in the months ahead. Indeed, according to developers, demand for new homes and the outlook for housing starts – leading indicators of future housing starts – were still at historically low levels in the third quarter of 2023. As a result of the sudden tightening of credit conditions, household investment contracted sharply, cutting GDP growth by -0.4 point between the third quarter of 2022 and the second quarter of 2023.

Over the forecast horizon, the job losses in our scenario, combined with the continuing effects of rising interest rates and falling property prices, will contribute to a significant fall in household investment. This decline will only be partially offset by the slight gains forecast for purchasing power. In addition, the reduction in public support for new housing construction (repositioning of the zero-rate loan, end of the Pinel scheme) should also contribute to the contraction in household investment, which we expect to fall by 5.8% between 2022 and 2023, then by 5.7% between 2023 and 2024. By the end of 2024, the household investment rate is expected to reach 4.6% of GDI, a historically low level.

3. Companies ease up on investment

After recording two negative quarters at the start of the Covid crisis in 2020, investment by non-financial companies (NFCs) resumed a high rate of growth, which by mid-2023 stood almost 10 points above its 2019 level (Figure 3). When broken down by product, it is mainly information and communications technologies – and to a lesser extent capital goods – that are contributing to growth in gross fixed capital formation. By contrast, investment in construction and transport equipment has still not returned to pre-crisis levels.

Figure 3. **Contribution of GFCF products to changes in GFCF since the end of 2019**



Insee, OFCE calculations.

As a result, the NFC investment rate reached a historical high at the end of 2022 (26.4% of value added vs. 24.6% at end 2019). Since then, it has fallen and now stands at 25.6% of value added. We anticipate that this good performance in the investment rate will wane over the coming quarters, by more than 0.1 point on average per quarter, to end up with an investment rate of 24.7% at end 2024, erasing the rise seen since the crisis. A number of factors will weigh on business investment. The reduction in taxes on production (CVAE), which began in 2021, will ultimately be more spread out than expected under the government's 2024 budget plan (PLF2024)[10]. The end of the Stimulus Plan measures implemented from 2020 could also weigh on companies' cash flow, as could the end of the tariff shield that helped absorb rising energy prices (see the public finance section for more details). Although the margin rate will fall slightly from the third quarter of 2023, with the expected slowdown in value-added prices (Box 2), it will remain high (see Figure 5), limiting a further contraction in investment in a context of rising interest rates.

10. The maximum rate of the tax on business added value (CVAE) has been reduced to 0.8% in 2021, then 0.375% in 2023, and should reach 0.28% in 2024.

Box 2. **Why have producer prices risen sharply since 2019?**

Like consumer prices, producer prices have also risen sharply since 2019. From an annual average of 1.2% over the 1997-2019 period (compared with 1.3% for the CPI over the same period), producer price inflation has surged since the health crisis, averaging 4% over the last three and a half years, peaking at almost 9% in 2022 (Figure 4).

However, the dynamics of producer prices reflect those of the various costs involved in the production of a good, i.e. wage costs, intermediate consumption costs, taxes net of production subsidies, and company margins. To understand the reasons for such a surge in production prices, we need to examine the evolution of these different components.

Fluctuations in producer prices synthesize the unit cost prices of production components, which can be summarized by the following accounting equation:

$$\textbf{Producer price}_t = \textbf{Unitaires margins}_t + \textbf{CSU}_t + \textbf{Unitaires taxes}_t + \textbf{CUCI}_t$$

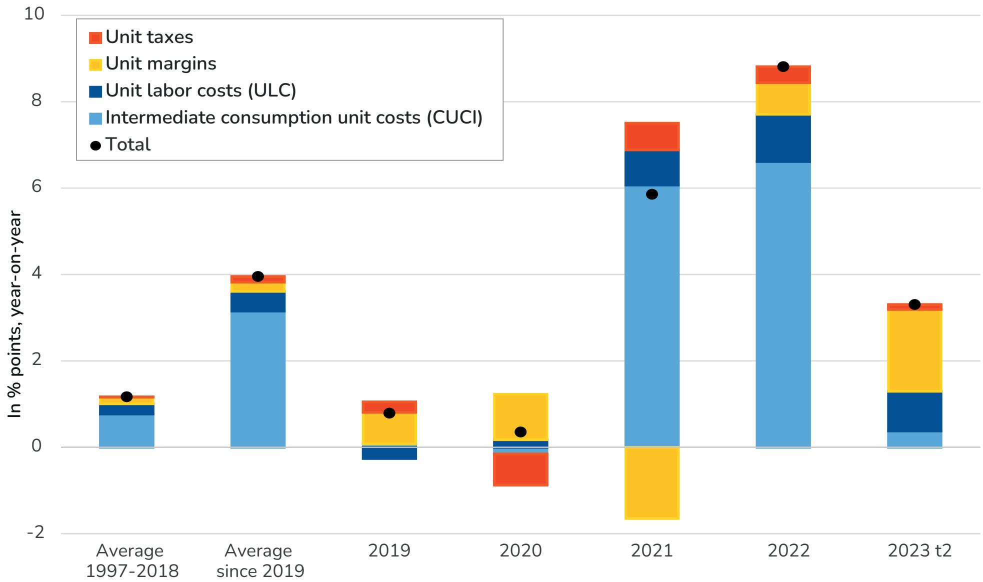
with

Unit margins: EBITDA per unit of production,
CSU: Labor costs per production unit,
Unit taxes: Amount of taxes net of subsidies on operating production per unit of production,
CUCI: Unit cost of intermediate consumption.

As shown in Figure 4, over 80% of the sharp rise in inflation in producer prices in the commercial sector since 2019 can be explained by the increase in the cost of intermediate consumption, linked in particular to the rise in energy prices.

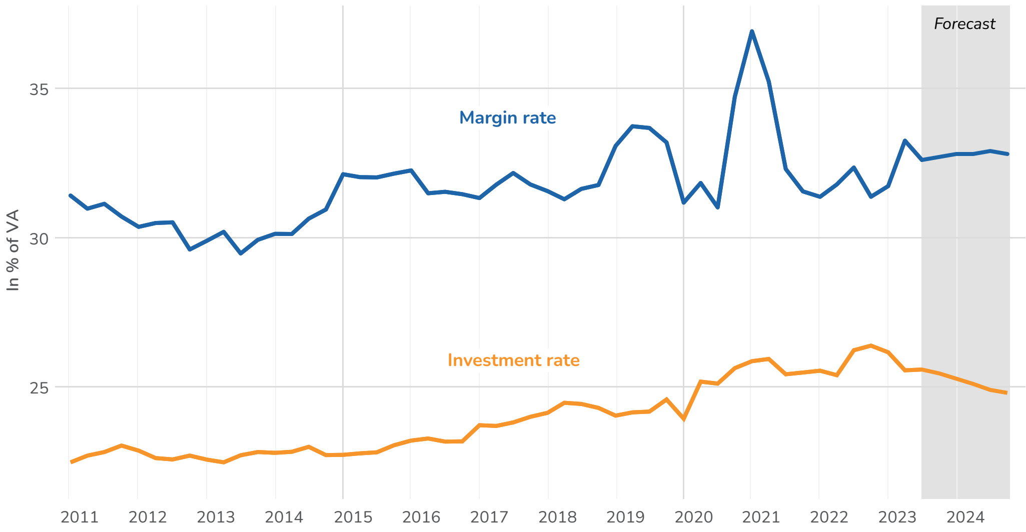
But over the past year, not only has inflation fallen significantly, it has also changed in nature: according to the latest quarterly accounts, more than half of it is due to the behavior of corporate margins, and almost 30% to the CSU, with the cost of intermediate consumption contributing just 11%. Inflation driven by unit margins is a phenomenon that is particularly prevalent in industry, and especially in the Energy, Agri-food and Capital Goods sectors, as well as in Construction. By contrast, this is not the case in the market services sector, where two-thirds of producer price inflation is due to rising labor costs (CSU).

Figure 4. **Contribution des déterminants de l'inflation des prix de production dans le secteur marchand**



INSEE, Quarterly national industry accounts, OFCE calculations.
Note for the reader: In 2022, producer prices will have risen by 8.7%, with intermediate consumption costs contributing 6.7 percentage points.

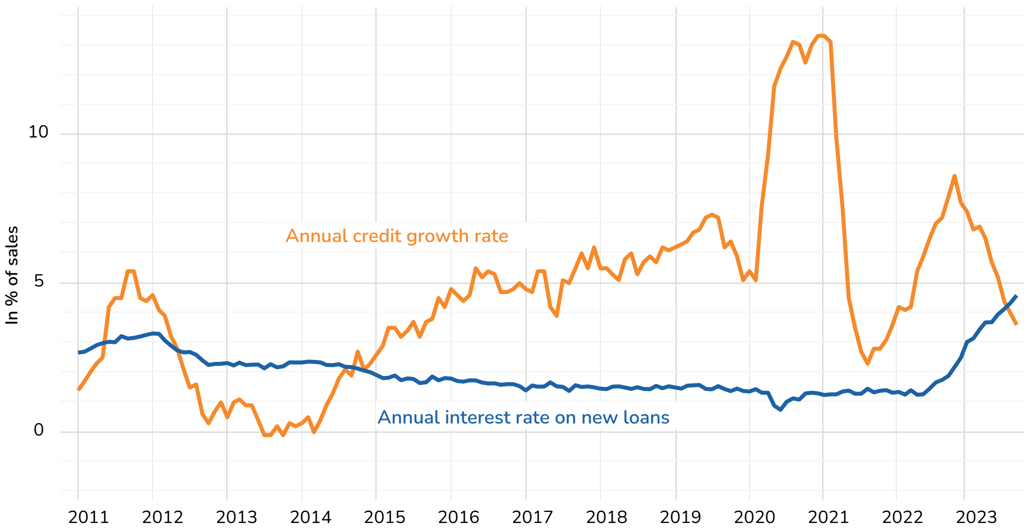
Figure 5. **Margin and investment rates for non-financial companies**



Insee, forecasts.

Finally, this slowdown in investment can also be explained in terms of financing: like households, businesses are suffering from the rise in interest rates, which have reached levels not seen since 2008. Indeed, the annual interest rate on new loans granted to businesses has soared since the end of 2022, more than doubling over the course of a year, and now exceeding the 4% mark (Figure 6). This rapid rise in interest rates is already causing a turnaround in the credit cycle when we look at monthly credit flows, even though the stock of outstanding business loans remains at a high level. According to the Banque de France, the flow of loans granted net of repayments by businesses turned negative again in August 2023, the first time this has happened since May 2021 (and therefore before the first rise in key interest rates by the ECB). On a year-on-year basis, the growth rate of outstanding credit increased by 3.6% in August, comparable to December 2021, a period still marked by the Covid crisis. This deceleration in the use of credit is expected to intensify in the coming months, as a logical consequence of the ECB's monetary policy.

Figure 6. **Growth rate of loans to NFCs and interest rates on new loans**



Banque de France.

4. Household consumption expected to rebound

No drop in annual inflation before 2024

After rising by 23% in 2022, the energy CPI is set to rise by 6% in 2023, despite the fall in raw material prices, due in particular to the 10% increase in the regulated price of gas and the 25% increase in the regulated price of electricity, as well as the abolition of the fuel rebate. In 2024, with the recent rise in the price of Brent crude remaining at a relatively high level (USD 90) and the expected rise in regulated electricity tariffs of around 10% over the year, the rise in the energy CPI is expected to reach 6.5% (Table 4). After contributing 2 points to inflation in 2022 (i.e. almost 40% of total inflation), energy will contribute 0.5 point in 2023 and 0.6 point in 2024 (respectively, less than 10% and 20% of total inflation).

Food inflation has been very dynamic over most of 2023, and only began to fall year-on-year in the second quarter, benefiting, with some delay, from the fall in agricultural commodity and energy prices. After a 6.8% rise in t h e food CPI in 2022, the rise should b e close to 12% on annual average over 2023, returning to close its historical pace in 2024, averaging just under 2%. Food prices were the main contributor to inflation in 2023 (accounting for almost 40% of total inflation, versus around 20% in 2022), as were energy prices in 2022. The return in 2024 to a more controlled price dynamic for food and energy should contribute to significantly lower inflation. Indeed, these two components contributed 3.1 inflation points in 2022 and 2.4 points in 2023, whereas they should account for only 0.9 point in 2024, despite the slight rebound in energy prices.

After reaching 2.9% in 2022, inflation excluding energy and food should come to 3.7% in 2023 and 3.3% in 2024.

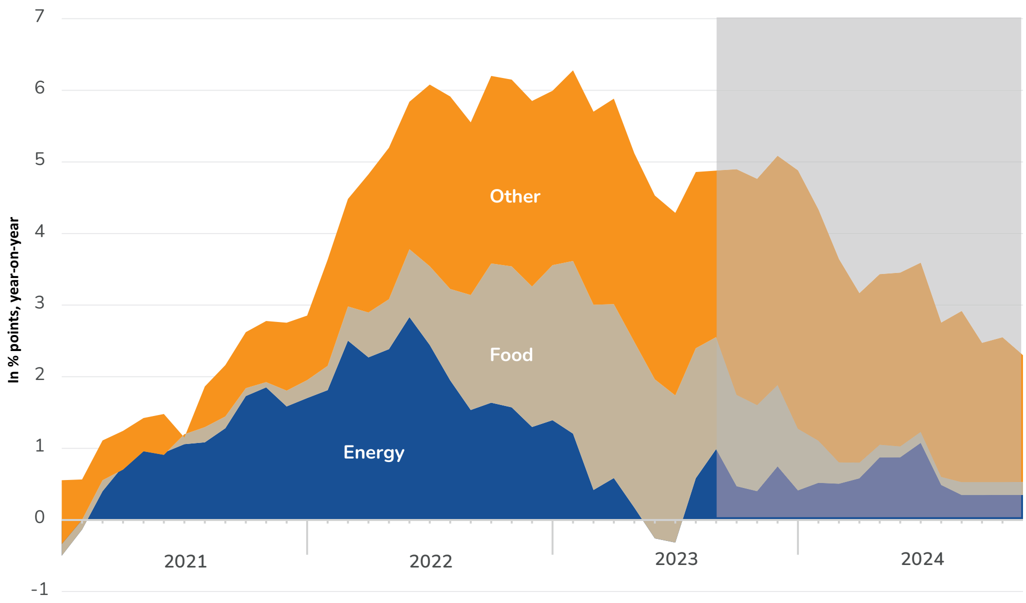
Table 4. **Components of inflation: changes and contributions**

	Annual variation (In %)				***Contribution to annual inflation* (in % points)**			
	2021	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**
Food	0.6	6.8	11.8	1.7	0.1	1.1	1.9	0.3
Energy	10.5	23.1	6.0	6.5	0.9	2.0	0.5	0.6
Other	0.9	2.9	3.7	3.3	0.6	2.1	2.8	2.5
Total CPI	**1.6**	**5.2**	**5.2**	**3.3**	**1.6**	**5.2**	**5.2**	**3.3**

Insee, OFCE forecasts.

Although total inflation has been falling from May 2023 onwards, it is expected to remain relatively high until the end of 2023, fluctuating between 4.3% and 5.1% (Figure 7). It will continue to be marked by strong heterogeneity between households (Box 3), and will only start to ease from 2024 onwards, reaching 2.3% by the end of next year. Overall, CPI inflation will rise by an average of 5.2 % in 2023, and 3.3% in 2024 (after 5.2% in 2022).

Figure 7. **Total inflation and contribution of components to total CPI**



Insee, OFCE forecasts.

Box 3. Heterogeneity of inflation

In August 2023, year-on-year CPI inflation stood at 4.9%[11]. A significant proportion of the increase in the consumer basket is explained by the rise in the food component (+11.2% year-on-year, i.e. 36% of t h e overall rise). Against this backdrop, t h e effect of inflation on household purchasing power will depend heavily on households' exposure to products whose prices are rising sharply. We use the methodology presented in Madec *et al.* (2023) to study the heterogeneity of the shock suffered by households[12].

According to our calculations, 10% of households are experiencing an increase in the price of their consumption basket of less than 3.3%, while 10% of households are experiencing inflation in excess of 6.9%. Three factors are particularly associated with a sharp rise in prices. Firstly, the rate of inflation experienced increases with the age of the household's reference person. Secondly, this rate varies according to socio-professional category (households whose reference person is a blue-collar or white-collar worker suffer a greater shock than those in managerial positions). Finally, the level of inflation decreases with the position on the living standards scale (Figure 8). It should be noted that, unlike the inflationary shock of 2021, which was strongly linked to the rise in energy prices, the type of municipality of residence has little impact on the shock experienced in recent months. Indeed, the weight of food expenditure seems to have little correlation with residential choices.

However, these groups do not all have the same capacity to absorb the shock. In particular, those who are able to save regularly can – if they wish – maintain their consumption levels unchanged despite rising prices. When the savings capacity of different groups is taken into account, the result changes (Figure 9). While the elderly suffer a higher rate of inflation, their loss of purchasing power is no greater in income points than the average household[13], so no age group stands out for t h e magnitude of the shock suffered. On the other hand, with this measure, the losses are clearly concentrated among the poor, but also among single-parent families. And blue-collar and white-collar workers remain at a disadvantage compared to managers[14].

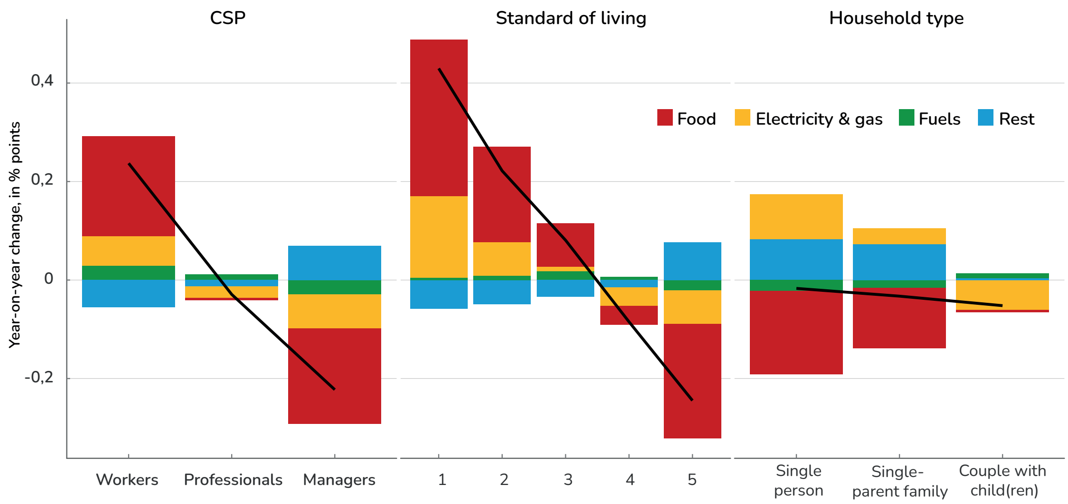
11.
The September figure is available and still shows a year-on-year rise of 4.9%. However, the detailed sub- indices required for this analysis are not available.

12.
Pierre Madec, Mathieu Plane, Raul Sampognaro, 2023, « Une analyse des mesures budgétaires et du pouvoir d'achat en France en 2022 et 2023 », *OFCE Policy brief*, no. 112, February 22.

13.
We define the loss in income points as being equal to the price shock multiplied by the share of consumption in their income. So, if everyone experiences the same inflation rate (let's assume 4.9%), a household consuming all its income would experience a shock of 4.9% of income, while a household consuming 90% of its income would experience a shock of 4.4% (4.9% x 90%).

14.
It should be noted that this analysis does not take into account possible differential indexations on the inflation of income sources and different wage levels, and therefore constitutes an upper bound to the losses suffered by households in purchasing power points.

Figure 8. **Deviation from average inflation by CSP, standard of living and household type in August 2023**



Family Budget Survey, OFCE calculations.

Note for the reader: Households where the reference person is a blue-collar worker experienced higher inflation by 0.2 point compared with the average.

Figure 9. **Deviation from average income shock by CSP, standard of living and household type in August 20233**

Family Budget Survey, OFCE calculations.

Resilient purchasing power…

After a contraction in purchasing power per consumption unit (CU) in 2022 (-0.4%, following +2.1% in 2021), due in particular to the end of the Covid crisis support measures and the exceptional payment of an inflation allowance at the end of 2021, which was not renewed in subsequent years, households will again see their real income rise in 2023 and 2024 (respectively, +0.7% and +0.4% annual average per unit), despite the fall in real wages in 2023 (Table 5). In 2023, the increase in purchasing power at the macroeconomic level is in fact underpinned by the strong momentum of net income from assets (which includes paid and implicit rents), helping to boost income by almost 40% (for a weighting in GDI of around 20%), rising employment (by 1%) and tax cuts linked to the definitive abolition of the housing tax (taxe d'habitation) and the public audiovisual licence fee at the end of 2022.

In contrast to 2023, real wages will rise (+0.6%) in 2024, limiting the negative impact of job losses (-0.1%) on the wage bill. In 2024, real wages (deflated by the CPI) should return to their 2019 level.

The significant revaluation of retirement pensions in January 2024 (+5.2%) and of other benefits in April (+4.8%) will contribute to the dynamism of social benefits in 2024. While labor income and social benefits in cash will account for around two-thirds of increases in Gross Disposable Income (GDI) in 2023, these two components will account for over 90% of GDI growth in 2024, despite expected job losses.

Thus, in 2024, real household income per CU should be 2.5% above its 2019 level, while GDP per CU should be slightly below its 2019 level (-0.3%).

Table 5. **Household accounts**

In %	2019	2020	2021	2022	2023	2024
GDI nominal	3.4	1.2	4.2	5.1	7.7	4.1
Consumption deflator	0.8	0.9	1.5	4.9	6.4	3.2
IPC	*1.1*	*0.5*	*1.6*	*5.2*	*5.2*	*3.3*
Real GDI	2.6	0.3	2.6	0.2	1.2	0.9
Real GDI per CU	**2.0**	**-0.3**	**2.1**	**-0.4**	**0.7**	**0.4**
Household consumption (in volume)	1.8	-6.7	5.1	2.1	-0.1	1.4
Savings rate (as % of GDI))	**15.0**	**21.0**	**19.0**	**17.5**	**18.5**	**18.1**
ASPC nominal*	2.2	-3.7	5.0	5.6	4.9	3.9
Real ASPC (deflated by CPI)**	1.1	-4.1	3.4	0.3	-0.2	0.6

Insee, OFCE forecasts.

** Adjusted for short-time working, average salary per capita (ASPC) would rise by 1.1% in 2020, 1.8% in 2021, 3.8% in 2022 and 5% in 2023.*

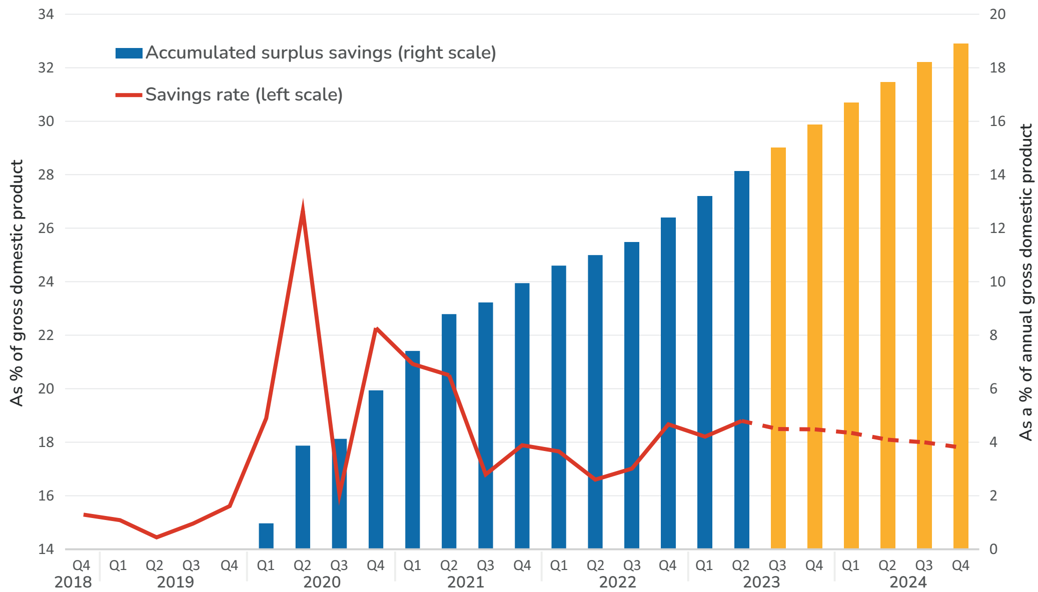
*** The real wage, which measures purchasing power from an accounting point of view, is deflated by the consumption deflator and not by the CPI.*

…and a still high savings rate

Since 2020, the household savings rate has never returned to its pre-crisis average of 15% of GDI. Households have not drawn on the excess savings accumulated during the pandemic to cope with the inflationary shock. On the contrary, the savings rate has been on the rise again since mid-2022, increasing by more than 2 points of GDI over one year, reaching almost 19% In the second quarter of 2023 (Figure 10). Over the past three and a half years, households have accumulated more than 14 points of annual income in "oversavings", equivalent to 220 billion euros.

The 4 income points currently being saved rather than consumed (representing 67 billion annually) are clearly having an effect on short-term growth. Several factors may explain the reason for this high level of savings. Firstly, of the 2.1% increase in real GDP per unit between 2019 and mid-2023, 1.5 point is linked to the rise in financial income (net interest and dividends). This rise in the share of financial income in GDI, with a higher marginal propensity to save for this type of income, is contributing to an increase in the average savings rate. In addition, the abolition of the housing tax for the wealthiest 20% of households between 2021 and 2023, a mounting to around 8 billion euros (0.5 point of GDI), also contributes to raising the average savings rate, as the highest quintile has a higher savings rate than the average population. The return of inflation, by levying an inflationary tax on wealth, can also lead some households to save more to compensate for losses in the real value of their assets. By way of example, a 5% loss in the real value of deposits and cash in 2022 would represent a real asset loss of around EUR 100 billion for households.

Figure 10. **Household savings rate and oversaving**



Insee, OFCE forecasts.

While the relatively low unemployment rate by historical standards should reduce precautionary savings, other factors could lead households to be particularly cautious. In an unstable economic and political environment, households' perception of future living standards in France remains very poor, discouraging them from dipping into their savings. In a climate marked by social conflict, reforms to unemployment insurance and, above all, to pensions may have led households to be especially cautious in the face of uncertainty about future developments in the social protection system. Lastly, the development of a more sober approach to certain types of consumption may also explain part of the rise in savings.

According to our forecasts, the household savings rate will fall very slowly over the coming quarters and will be close to 18% by the end of 2024. It should still remain well above its historical average. A faster return to the pre-crisis savings rate would lead to a more dynamic growth scenario[15] and higher inflation.

15.
With a savings rate trajectory that would be, by the end of 2024, 1 point lower than in our forecast (16.8% instead of 17.8% forecast), the average annual growth rate would be 0.4 GDP point higher, raising GDP growth to 1.2% in 2024.

5. Towards a turnaround in the unemployment curve

In 2022, the rebound in employment that began in 2021 continued, with 509,000 net new jobs created year-on-year. In the first half of 2023, job creation remained dynamic (+172,000 jobs created), but a slowdown began in the second quarter.

Between the end of 2019 and the second quarter of 2023, salaried employment i n the non-agricultural market sector rose by 6.5%, while value added grew by just 2%, revealing significant losses in labor productivity. According to our estimates, two-thirds of these losses are attributable to the past reduction in working hours, the increase in the number of apprentices, public support for companies and the fall in the real cost of labor (Box 4).

Box 4. How can we explain the trend in salaried employment in France since 2019?

In the second quarter of 2023, three and a half years after the start of the crisis, value added in the market sector was 2% above its pre-crisis level. Given the growth path for labor productivity observed before the crisis, estimated at 0.8% per year by Ducoudré and Heyer (2017)[16], this should have led, all else being equal, to a 0.8% drop in salaried employment in the market sector by mid-2023. But instead of falling by 140,000 jobs, salaried employment in the market sector has actually risen by 1.13 million (6.5%) over the last 14 quarters. There are several possible explanations for this discrepancy (Heyer, 2023[17]):

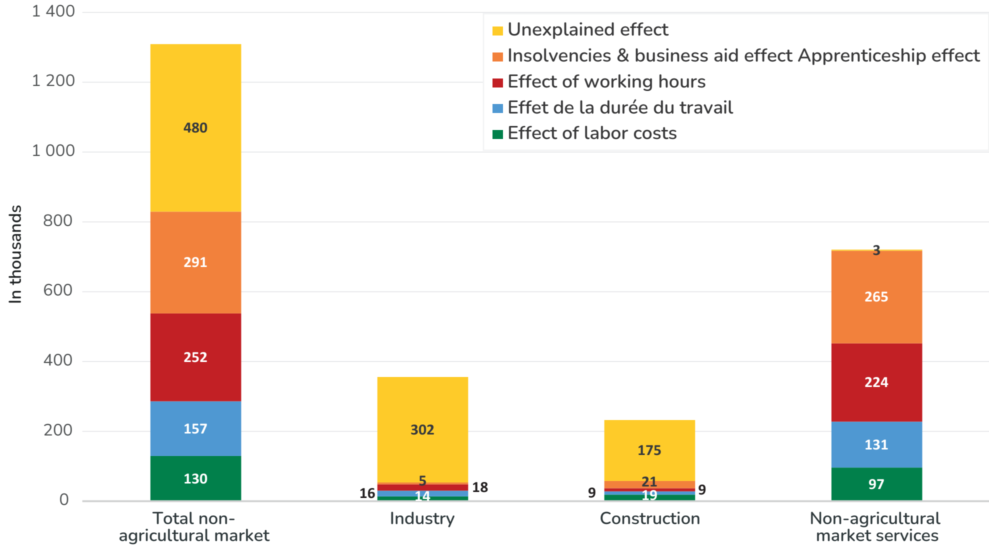
1. The first is the fact that average working hours per employee have been slow to return to pre-crisis levels, thereby reducing employees' productivity;
2. The high take-up of apprenticeships observed since 2019 is a second possible avenue;
3. The third is linked to the numerous subsidies distributed to companies since the Covid-19 crisis. These have not only boosted employment growth in companies that are doing well, but they have also artificially kept some of them in business when they should have gone bankrupt. This can be seen in the lower number of company failures over the last three years compared with previous years;
4. Finally, the downward trend in the real cost of labor can explain some job creation.

We estimate that these factors account for two-thirds of the labor market's good performance over the period, with significant sectoral differences; they explain almost all of the effect in the market services sector, a quarter in construction and barely 15% in industry (Figure 11). The unexplained drop in productivity at this stage, which represents 480,000 employees, including 300,000 in the industrial sector alone, could be due, for example, to the introduction of telecommuting, higher absenteeism and turnover rates, a drop in the number of seconded workers, an increase in the number of declared jobs, and the deliberate retention of manpower in the face of recruitment or supply difficulties, delaying certain production.

16. Bruno Ducoudré and Éric Heyer, 2017, « Quel nouveau sentier de croissance de la productivité du travail ? Une analyse pour six grands pays développés », *Revue de l'OFCE*, no. 152.

17. Éric Heyer, 2023, « Comment expliquer l'évolution de l'emploi salarié depuis la crise Covid ? Une analyse économétrique sur données macro-sectorielles », *Revue de l'OFCE*, no. 180.

Figure 11. **Factors explaining the trend in salaried employment in France since 2019**



Insee, Banque de France, OFCE calculations.

Towards a partial closure of the productivity cycle

The decline in public support for businesses, combined with the exit from the "whatever it takes" scheme and the repayment of state-guaranteed loans, as well as the return of working hours to their 2019 level, should help to make up for some of the observed productivity losses. Combined with the fall in subsidized employment (-20,000 in 2024), excluding apprentices, and the slowdown in growth, salaried employment is set to contract by the end of 2024. Based in particular on business surveys conducted in industry, services and construction, we anticipate the destruction of 16,000 jobs in the third quarter of 2023. Total employment would fall by -53,000 year-on-year by the end of 2024 (table 6), the decline in salaried employment being partially offset by the rise in non-salaried employment. This adjustment would not be enough to close the productivity cycle, which takes into account the historical trend in productivity (+0.8% p.a.). By our forecast horizon, only a quarter of the productivity losses recorded since the start of the crisis (relative to trend) would thus be made up (Figure 12).

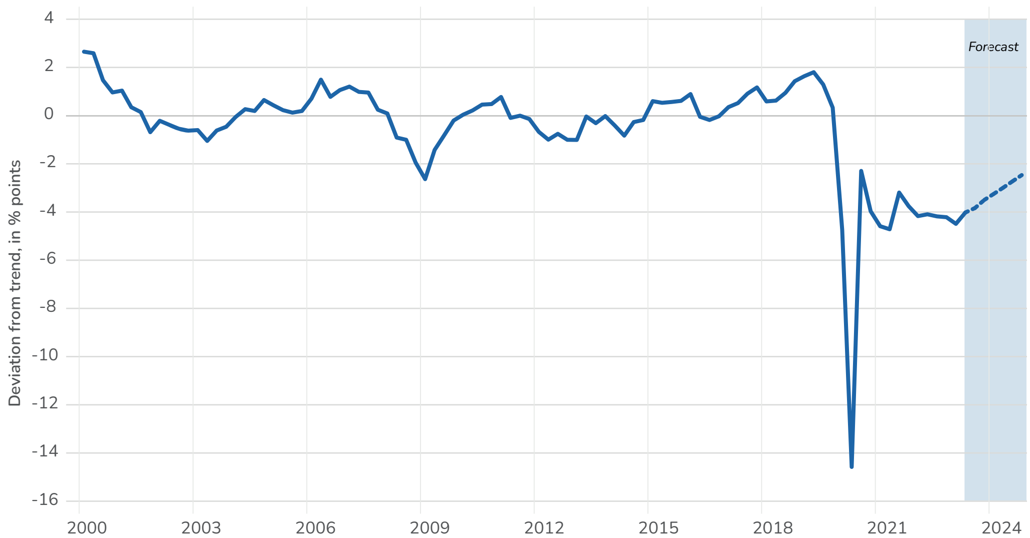
Table 6. **Job market trends**

In thousands, at end of period for annual data

Variation T/T-1	2023-Q1	2023-Q2	2023-Q3	2023-Q4	2022	2023	2024
Emploi salarié	**58**	**41**	**-16**	**-25**	**378**	**58**	**-73**
Market	47	40	-16	-25	382	46	-53
Non-market	11	1	0	0	-4	12	-20
Self-employment	**34**	**38**	**5**	**5**	**131**	**82**	**20**
Total employment	**93**	**79**	**-11**	**-20**	**509**	**140**	**-53**
% change	*-0.1*	*0.1*	*0.1*	*0.1*	*1.7*	*0.5*	*-0.2*
Unemployment rate (%)	**7.1**	**7.2**	**7.3**	**7.4**	**7.2**	**7.4**	**7.9**
Workforce (%)	**1.0**	**-0.5**	**0.0**	**0.0**	**-0.5**	**0.6**	**0.4**
of which pension reform						*0.2*	*0.4*

Insee, OFCE forecasts.
** In level..*

Figure 12. **Apparent labor productivity cycle**



Insee, OFCE forecasts.

Helping jobs: hands tied

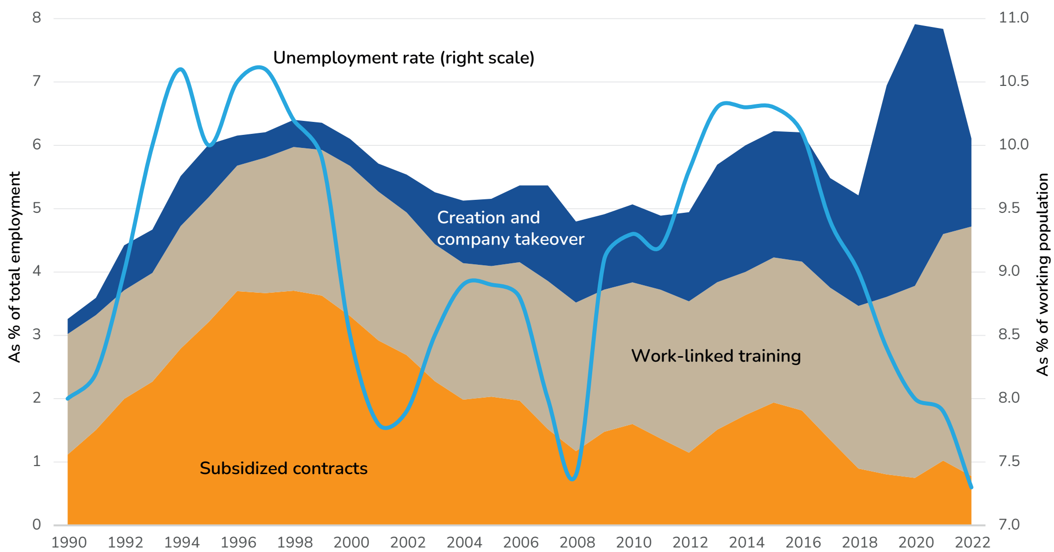
The target of one million entering into apprenticeships per year risks trapping employment policy in a dead end. With the government unable to control this budget, which has now exceeded 20 billion euros, the search for budget savings has focused on subsidized jobs excluding apprenticeships, a potential source of only 2.7 billion euros.

In the end, far from the savings of 1 billion euros mentioned in the budgetary framework, the budget for subsidized employment is stable, and even increases by 101 million euros (+3.8%) excluding apprenticeships. Appropriations for apprenticeships were down slightly (-126 million euros, -1.5%), as the reduction in the one-off subsidy for those entering the apprenticeship program implemented at the start of 2023 will take effect for a full year[18].

18. The bulk of the resources allocated to this scheme are not included in the budget of the Ministry of Labor, but in the PLFSS (4.5 billion euros in 2024), or in the budget of France Compétences, for which no budgetary framework is available, but which should generate a deficit of around 6 billion euros if the target of 901,000 apprenticeship entries in 2024 is achieved..

However, the effects of these budget changes on employment and unemployment are marginal. Forecasts of new apprentices are subject to contradictory influences, and in any case are unfinanced when expenditures by the France Compétences program are included in the scheme's budget. Our forecast is therefore a technical one, based on a stable number of new apprentices, which would still contribute to the creation of 40,000 jobs in 2023, before returning to neutral in 2024.

Figure 13. **Unemployment rate and share of subsidized jobs in total employment (1990-2022)***



Insee (Employment Survey), OFCE calculations.

* These groups combine similar schemes that have been in operation since 1990; for the most recent years, the "work-linked training" item includes apprenticeships, Contrats de professionnalisation, "Contrats aidés" (subsidized contracts), Parcours Emploi Compétences, Contrats Initiative Emploi, and Emplois Francs. For further details see Insee (2023). "Emploi chômage et revenus du travail", *Insee Références*.

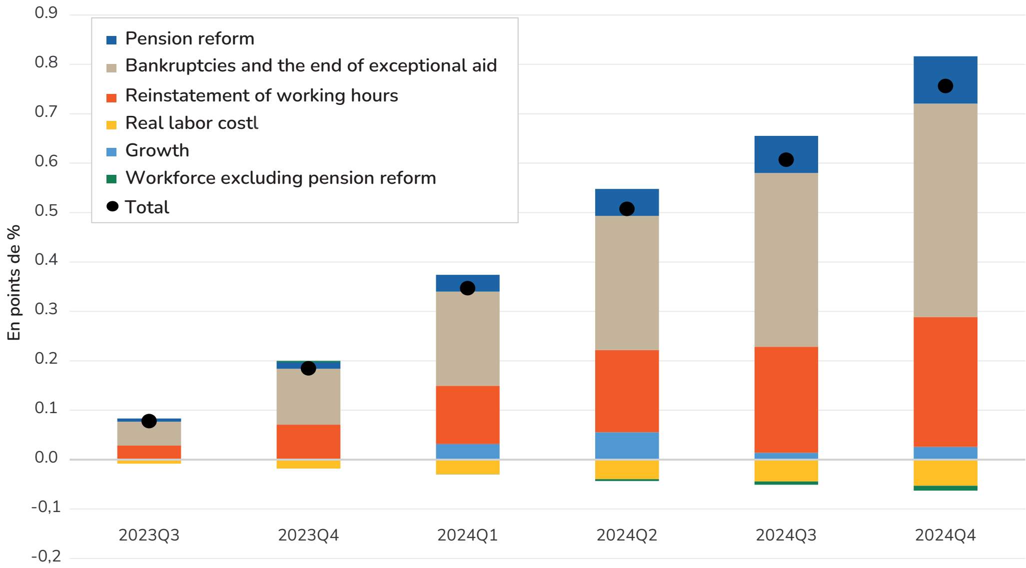
Unemployment back on the rise

Au deuxième trimestre 2023, le nombre de chômeurs au sens du Bureau international du travail (BIT) a augmenté de 20 000 par rapport au trimestre précédent, à 2,21 millions de personnes et le taux de chômage s'est légèrement accru (+0,1 point), à 7,2 % de la population active.

This rise is set to continue in the quarters ahead. The unemployment rate should reach 7.4% by the end of 2023 and 7.9% by the end of 2024, close to its mid-2021 level. This forecast incorporates new Insee projections for the working population, following the entry into force of the pension reform, which involves a gradual postponement of the retirement age and an increase in the contribution period. These new projections anticipate a 0.6% increase in the working population over two years, i.e. a rise of 177,000 in the number of active workers over the 2023-2024 period compared with projections prior to the pension reform. We assume here that the employment/unemployment breakdown of this increase in the working population is 80% towards employment and 20% towards unemployment, due to the existence of "horizon" effects leading to an increase in the employment rate of senior citizens, an assumption that is consistent with the latest simulations available[19]. Figure 14 illustrates the impact on the unemployment rate of changes in different variables or measures.

19. See DREES, *Les retraités et les retraites*, Édition 2023.

Figure 14. **Expected contribution of various factors on changes in the unemployment rate between mid-2023 and end 2024**



Insee, Comptes nationaux trimestriels, prévisions OFCE.

As with the macroeconomic scenario, this employment and unemployment scenario is subject to significant uncertainties. For example, adjustments linked to the reinstatement of pre-pandemic working hours may already have taken place. In other words, while working hours in the commercial sector have already returned to their 2019 level, the impact of this upturn on employment, which in our estimate is delayed, may already have taken place. As a result, the negative effects of longer working hours that we include in our scenario (-85,000 jobs and +0.3 point in the unemployment rate) would be cancelled out. Similarly, if, contrary to our scenario, the end of business support does not result in a significant increase in the number of bankruptcies, employment would grow by 138,000 compared to our scenario, and the unemployment rate would fall to 7.5% by the end of 2024.

On the other hand, with the end of the "whater it takes" system and future repayments of State-guaranteed loans (PGEs), companies could restore their productivity faster than expected, leading to an increase in business failures. This would lead to 138,000 more job losses than in our central scenario, and a 0.4 point rise in the unemployment rate. Finally, the postponement of the legal retirement age and the significant increase in the number of working people over the next two years are likely to have a much more negative impact on unemployment than we have assumed in our scenario. Thus, if 50 % of this increase in the working population were to fall into unemployment (versus 20% in our central scenario), the unemployment rate at the end of 2024 could rise as high as 8.1 % (Table 7).

Finally, in a more favorable scenario (stable working hours and bankruptcies), the unemployment rate would stand at 7.2% at the end of 2024. In a gloomier scenario (significant rise in bankruptcies and severer effect of pension reform on employment), it could reach 8.5%.

Table 7. **Variant on employment and unemployment rate according to positive or negative hazards**

		Employment effect	Unemployment effect
		(in thousands of jobs) end 2024	*(in unemployment rate points) end 2024*
More favorable scenario	Stable working hours	**85**	**-0.3**
	Number of bankruptcies stable	**138**	**-0.4**
Less favorable scenario	Total bankruptcy compensation	**-138**	**0.4**
	More negative impact of pension reform	**-47**	**0.2**

OFCE forecasts.

6. Public finances: time for a reckoning

Over the 2020-2022 period as a whole, the exceptional measures taken by the government to deal with the Covid crisis and then the energy crisis, excluding new structural tax-cutting measures (lower taxes on production, abolition of the contribution to public broadcasting, etc.), represented an overall cost to public finances of 9.3% of annual GDP over three years (Table 8). The measures linked to the Covid crisis are winding down sharply in 2023, and their budgetary cost is estimated at 0.5 point of GDP for 2023 and 0.3 point in 2024 (compared with over 3 points of GDP in 2020 and 2021, and a further 1.3 point of GDP in 2022).

Measures to cope with the energy shock and inflation will rise sharply in 2022 and 2023, but will be sharply reduced in 2024 with the abolition of the tariff shield for gas and the increase in the price of the regulated tariff (TRV) for electricity. Fiscal decisions to tackle the energy crisis mainly involve measures aimed at cushioning price rises, such as the tariff shield for gas until mid-2023 and the shield for electricity until end 2024, or the fuel rebate from April to December 2022 (at a cost of nearly 8 billion). The gross cost of the tariff shields was 25 billion in 2022 and 27 billion in 2023, over 80% of which was attributable to the electricity energy shield alone. In 2024, the gross cost of the electricity shield is estimated, according to the 2024 budget bill (PLF), at nearly 12 billion.

Direct aid measures for households will all decrease over time – this includes measures such as the 100 euro inflation allowance for 38 million people at the end of 2021 (3.8 billion euros), the exceptional energy vouchers (0.5 billion euros at the end of 2021 and 1.8 billion at the end of 2022), the 10% increase in the mileage scale deduction for income tax purposes (0.4 billion from 2022) and the subsidies for fuel oil and wood for low-income households (0.4 billion). By 2023, they will have almost disappeared, with the exception of the 100-euro fuel subsidy for the ten million poorest workers (1 billion) granted this year and partially renewed next year (0.5 billion). On the other hand, measures aimed at businesses will be stepped up in 2023: in addition to the tariff shield, which covers most very small businesses, and the introduction of sector-specific aid in 2022, the amounts granted for the "electricity shock absorber" scheme and the electricity bill payment aid scheme will increase significantly in 2023. As a result, aid to businesses will rise from EUR 1.4 billion in 2022 to 6.1 billion in 2023, before falling to less than 1 billion in 2023.

The net budget cost[20] of energy measures will be 0.9 point of GDP in 2022, 0.8 point of GDP in 2023 and only 0.2 point of GDP in 2024.

We take into account here only the net cost to public finances of the energy measures, which take into account the reduced costs associated with the Public Energy Service (PES), the revenue treatment of the gains on PES costs and the contribution on the infra-marginal rents of electricity producers.

In addition to the measures specific to energy, and in order to keep pace with inflation and cushion the negative impact on purchasing power, the government has decided to increase social benefits by 4% in July 2022, at a budget cost of 6.7 billion euros in 2022 and 1.6 billion in 2023, compared with automatic indexation[21]. With regard to purchasing power measures, we must add an exceptional back-to-school bonus of 1.1 billion euros in 2022, which will not be renewed in 2023 and 2024.

As for the "France 2030" investment plan , its budget cost is estimated at 0.5 point of GDP over 2022-2024.

Overall, the cost to the budget of temporary measures will fall sharply in 2023 and 2024, from 2.7 points of GDP in 2022 to 1.6 point in 2023 and 0.7 point in 2024. In 2024, this cost should be almost 3 points of GDP lower than in 2021.

Table 8. **Budget cost of non-permanent measures over the 2020-2024 period**

In GDP points	2020	2021	2022	2023	2024
Emergency measures	3.0	2.5	0.6	0.1	0.0
Stimulus* measures	0.1	0.9	0.7	0.4	0.3
France 2030	0.0	0.0	0.2	0.2	0.1
Energy measures**	0.0	0.1	0.9	0.8	0.2
Purchasing power* measures**	0.0	0.0	0.3	0.1	0.0
Total	**3.1**	**3.5**	**2.7**	**1.6**	**0.7**

Cour des comptes, PStab 2023-27, PLF 2024, OFCE forecasts.
* Excluding lower taxes on production.
** Net budget cost of energy measures. Also includes energy vouchers and inflation allowance.
*** Including accelerated revaluation of benefits but excluding revaluation of the civil service index.

In 2022, the public deficit fell to 4.8 points of GDP (after 6.5% of GDP in 2021), mainly due to a strong rise in tax revenues, in particular sharp growth in corporate income tax revenues (+31%), household income tax revenues (+11%), VAT revenues (+8%) and social security contribution revenues (+6.5%). With a tax surplus[22] of 1.4 point of GDP, due to the high elasticity of tax revenues to GDP (1.6), the public deficit has fallen by 1.7 point of GDP in 2022, despite the 0.5 point of GDP rise in interest charges (Table 9). The cyclical balance has been marked by high elasticity and growth – although revised downwards to 2.5% in 2022, but well above potential growth (1.2%) – and has improved by 2 points of GDP. Although major new budgetary

20. We take into account here only the net cost to public finances of the energy measures, which take into account the reduced costs associated with the Public Energy Service (PES), the revenue treatment of the gains on PES costs and the contribution on the infra-marginal rents of electricity producers.

21. As the civil service index is not subject to automatic revaluation, we consider its increase of 3.5% in July 2022 and 1.5% in July 2023 to be a structural measure, and not an exceptional measure.

22. A tax gain or loss is calculated here on the basis of the difference (in GDP points) between actual or forecast tax revenues and theoretical ones based on a unit elasticity of tax revenues to GDP.

measures were implemented in 2022, their overall cost to public finances will be 1.1 point of GDP lower than in 2021, due to the gradual phasing-out of emergency measures linked to the Covid crisis. On the other hand, the primary public deficit, excluding non-permanent measures and the effect of activity, will deteriorate by 0.4 point of GDP, mainly due to measures aimed at lowering taxation (housing tax, reduction in corporate income tax, abolition of the public broadcasting fee).

In 2023, the public deficit will not fall despite the 1.1 point of GDP reduction in exceptional budgetary measures and the reduction in primary public spending (excluding exceptional measures). In fact, the cyclical public balance will deteriorate by -1.3 point of GDP, due on the one hand to the sharp slowdown in activity, below potential growth, and on the other hand to the expected lower tax revenues, with an elasticity of tax revenues well below unity (0.6)[23].

23. This is due in particular to the sharp drop expected in corporate income tax revenues in 2023 compared with 2022 (-10.7 % according to the PLF 2024) due to the deceleration in taxable income in 2022 as a counterweight to the very sharp rise in 2021.

In 2024, the public deficit should stabilize at 4.8% of GDP, despite the continued reduction in temporary budgetary measures (-0.9 point of GDP). This is due, firstly, to the rise in the interest burden (+0.2 point) and the widening of the cyclical balance (-0.3 point of GDP, with an elasticity of 1) with growth below potential (estimated at 1.4% according to the OFCE). And secondly, there is the widening of the primary public deficit, excluding exceptional measures, as a result of dynamic public spending driven in particular by the timing of benefit revaluations and the high cost of apprenticeship subsidies.

After falling to 111.8% of GDP in 2022 (from 112.9% in 2021), the public debt, in the Maastricht sense of the term, will continue to decline, reaching 109.8% of GDP in 2023. This is due to an expected deficit in 2023 that is lower than the level that stabilizes debt (equal to 7% of GDP in 2023), as a result of high nominal GDP growth (6.3%) driven by inflation. On the other hand, in 2024, despite a stable public deficit, the public debt is set to rise again, to 110.8% of GDP, as the debt-stabilizing deficit falls significantly (to 4.2% of GDP) with the decline in nominal growth (3.8%). The sharp fall in the public debt over the period 2020-2023 – a consequence of strong nominal growth, albeit linked to erratic economic trends due to successive crises – will come to a halt, with a return to a situation of modest growth and lower GDP price rises.

Table 9. **Public finances**

In % of GDP	2019	2020	2021	2022	2023	2024
Public balance (= a + b + c - d + e)	**-3.1**	**-9.0**	**-6.5**	**-4.8**	**-4.8**	**-4.8**
Primary public balance excluding temporary measures and activity effect (a)	-1.7	-2.4	-3.1	-3.5	-3.2	-3.5
Interest expense (d)	1.4	1.3	1.4	1.9	1.8	2.0
Emergency measures / stimulus / energy / inflation (b)		-3.1	-3.5	-2.7	-1.6	-0.7
Activity effect (including elasticity effect) (c)	0.0	-2.2	1.0	3.0	1.7	1.4
European recovery plan funds (e)			0.5	0.4	0.2	0.1
Public debt	**97.4**	**114.6**	**112.9**	**111.8**	**109.8**	**110.8**

Cour des comptes, PStab 2023-27, PLF 2024, OFCE forecasts.

Box 5. Public spending struggles to return to its pre-Covid trajectory

According to the Government's economic, social and financial report (RESF) associated with the 2024 budget bill (PLF), public spending in volume terms (deflated by GDP price) is set to decline over the course of 2022 and 2023. These two consecutive years of declining public spending in volume terms do not reflect a significant reduction in the scope of public action, but simply the gradual winding down of the emergency measures enacted to deal with the health crisis and then the energy crisis.

Despite the recent rise in interest costs (which reached 1.9 point of GDP in 2022, compared with 1.5 point of GDP in 2019), the weight of public spending in GDP in 2022 was 3 points higher than its pre-Covid level, largely due to the weight of exceptional measures (2.7 points of GDP). If the PLF 2024 projections materialize, public spending should return to its pre-Covid level only in 2025.

In the medium term, with the anticipated end of all exceptional measures, the government plans to make structural adjustments to public spending for the period 2025-2027 (0.3 point of structural GDP in 2025, then 0.5 point per year in 2026 and 2027). Despite maintaining such pressure on public spending, and under the hypothetical scenario of growth durably above potential growth, in GDP points, public spending will only manage to return to the level anticipated for 2020 when the Stability Program was published in April 2019, i.e. before the Covid crisis (Table 10). This trend should not conceal the fact that part of the strong inertia of public spending can be explained by the prospect of a rise in interest charges linked to the increase both in the public debt (+14 points of GDP between 2019 and 2022) and in sovereign interest rates. According to the outlook published in the PLF 2024, primary public spending should return to its 2019 level in 2024, i.e. before the outbreak of the pandemic and the inflationary shocks observed since 2021.

Table 10. . **Public expenditure projections in budget documents**

	Public spending (in GDP points)								
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Pstab 2019	55.5	54.3	53.6	53.0					
PLF 2020	55.6	54.4							
Pstab 2020	55.6	61.9							
PLF 2021	55.6	63.6	59.2						
Pstab 2022			59.0	57.9	56.1	55.7			
PLF 2023			59.0	58.2	57.2				
Pstab 2023				58.1	56.6	55.7			
PLF 2024				58.3	56.5	55.9	55.6	55.0	54.4
Realisation	**55.4**	**61.3**	**59.1**	**58.2**					

2024 Finance Bills and Stability Programs from 2019 to 2024, National Accounts (Insee).

OFCE Analysis and Forecasting Department, Éric Heyer (dir.) and Xavier Timbeau (dir.), 2023, « Sous la menace du chômage : *perspectives 2023-2024 pour l'économie française* », *OFCE Policy brief* 121, october 17.

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