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TIME FOR A RECKONING
2024-2025 Outlook for the French economy

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* This *Policy brief* summarizes the Analysis and Forecasting Department's analysis of the French economy in spring 2024. It is based on the work of the France team, 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 up to 5 April 2024.

A summary of the 2024-2025 outlook for the world economy is available in the *OFCE Policy brief*, n° 125.

Summary

French growth is expected to reach an annual average of 0.5% in 2024. This downward revision of our growth forecast from 0.8% in October 2023 is due mainly to weaker than expected growth for 2024 (ultimately -0.15 GDP point lower for 2024 than previously forecast) and a new 10 billion euro fiscal adjustment program, whose impact on GDP is estimated at -0.2 GDP point in 2024. In 2025, French growth is forecast at 1.2%, despite the positive effects of lower interest rates (0.2 GDP point). But growth will be constrained by the government's planned new fiscal adjustments of 20 billion euros in 2025 (whose impact on GDP is estimated at -0.6%), as well as by the total abolition of tariff shields. Inflation should fall in 2024 (2.4% after 4.9% in 2023) and be close to the 2% target in 2025. The downturn in the labor market is continuing, due to weak growth in activity and the partial recovery of past productivity losses, which will push the unemployment rate to 8.2% by the end of 2024 and 8.1% by the end of 2025 (excluding the effect of the RSA benefits reform). The saving rate should remain high in 2024, but fall in 2025, supporting consumption despite sluggish purchasing power in 2025 after the rebound in 2024 (0.2%, after 1% in 2024 per consumption unit).

Due to a sharp shrinkage in certain tax bases (real estate, corporate profits, etc.), the public deficit reached 5.5% of GDP in 2023, 0.6 point higher than forecast in the Finance Act for 2024. With the expiry of the exceptional budget support measures and the expected further structural adjustments of 1 GDP point over two years, the public deficit should fall to 5% of GDP in 2024 and 4.4% in 2025, despite higher interest charges and the deterioration in the cyclical deficit. After three years of decline, public debt (in points of GDP) is set to rise again in 2024 and 2025, due to lower nominal growth and lower inflation. It should reach 112.8% of GDP in 2025, after 111.9% in 2024 and 110.6% in 2023.

SciencesPo

While France appears to have avoided recession in the second half of 2023, the fact remains that GDP stagnated over this period, despite the sharp fall in energy commodity prices and lower inflation. The year 2023 ends with average annual growth of 0.9%, but GDP has grown by only 0.7% over the last five quarters. Despite this, the gap in GDP growth with the eurozone since the start of the crises has narrowed (Figure 1) over the past year, with France posting year on year growth of 0.7%, compared with 0.1% for the eurozone.

French growth is expected to reach an annual average of 0.5% in 2024. This downward revision of our growth forecast from 0.8% in October 2023 is due mainly to a lower than expected growth rate for 2024 (ultimately -0.15 GDP point lower for 2024 than previously forecast) and a new 10 billion euro fiscal adjustment program, whose impact on GDP is estimated at -0.2 GDP point in 2024. In 2025, French growth is expected to reach 1.2%, despite the positive effects of lower interest rates (0.2 GDP point). But growth will be constrained by the government's planned 20 billion euro fiscal adjustments, as well as by the total abolition of tariff shields. Inflation should fall in 2024 (2.4% after 4.9% in 2023) and be close to the 2% target in 2025. The downturn in the labor market is continuing due to weak growth in activity and the partial catching-up of past productivity losses, pushing up the unemployment rate to 8.2% by the end of 2024, then 8.1% by the end of 2025 (excluding the effect of the RSA[1] benefits reform). The saving rate should remain high in 2024, and then fall in 2025, supporting consumption despite lackluster purchasing power in 2025, after the rebound in 2024 (0.2%, after 1% in 2024 per consumption unit).

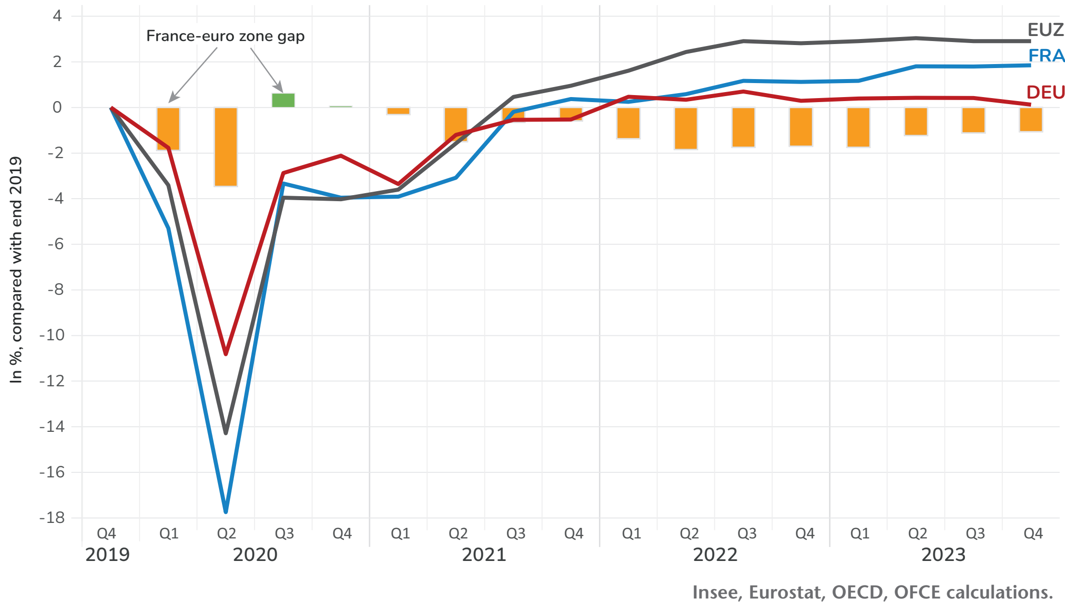
1. For further information, see Appendix 1.

The public deficit reached 5.5% of GDP in 2023, 0.6 point higher than forecast in the Finance Act for 2024. Against a backdrop of downward revisions to growth, this 16 billion euro increase in the deficit will make it all the more difficult to return to a 3% deficit by 2027, even if the government can still count on the extinction of certain exceptional measures, notably the end of the electricity tariff shield (0.9 GDP point).

1. From the Covid crisis to the inflationary shock: Growth put to the test

Four years after the start of the pandemic and the energy crisis, France's GDP is 1.9% above its pre-Covid level. Adjusted for demographics, GDP per capita is only 0.3% higher. Even though France's GDP has been catching up with the eurozone over the past year, between the end of 2019 and the end of 2023 its GDP increased by 1 point less than the eurozone average (and 6 points less than that of the United States) but almost 2 points more than Germany's (Figure 1). The last four years have been marked by two sub-periods: the Covid period from late 2019 to late 2021, and the energy shock and return of inflation from late 2021 to late 2023. Supported by low interest rates and a "whatever it takes" attitude during the pandemic, growth was driven by public consumption as well as business and household investment, despite being undercut by public investment and foreign trade (Table 1).

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



Insee, Eurostat, OECD, OFCE calculations.

Over the last two years, i.e. the inflationary crisis, GDP has grown by 1.5%, driven by business investment, public consumption and investment, as well as by a positive contribution from foreign trade as exports recovered following the Covid shock. On the other hand, with purchasing power stagnating and the cost of credit rising, growth will be held back by the fall in household spending, so consumption and investment combined, which have reduced GDP by -0.4 point between the end of 2021 and the end of 2023. Conversely, gross capital formation by companies and foreign trade contributed 80% of growth over this period, with the remainder coming from general government spending.

Table 1. **Change in GDP and contribution of different components to growth**

In %	2019 Q4 – 2021 Q4	2021 Q4 – 2023 Q4	2019 Q4 – 2023 Q4
GDP	**0.4**	**1.5**	**1.9**
GDP per capita	***-0.4***	***0.7***	***0.3***
Private consumption	0.7	0.4	1.1
Public consumption	3.8	1.4	5.3
Corporate investment	2.7	5.8	8.6
Household investment	4.9	-8.7	-4.2
Public investment	-5.2	7.9	2.3
Exports	-2.5	4.5	1.9
Imports	1.3	2.6	3.9
Contributions (in pts)			
Domestic demand excluding inventories	1.7	1.1	2.8
Changes in inventories	-0.1	-0.1	-0.3
Balance of trade	-1.2	0.5	-0.7

Insee, OFCE calculations.

France's financing requirement vis-à-vis the rest of the world has fallen sharply since peaking in the third quarter of 2022 at -4.5 GDP points, with the fall in energy prices and the recovery in foreign trade, to -1 GDP point at the end of 2023, close to pre-crisis levels. Despite high inflation over the past two years, households have seen their financing capacity continue to improve, thanks to a persistently high saving rate (17.9% of GDI at the end of 2023, versus 15% on average in 2019) and a contraction in investment to a level well above its pre-Covid level (4.7 GDP points at the end of 2023, versus 2.8 points on average in 2019). As for businesses, thanks to a stable margin rate, their financing requirement fell between the end of 2021 and the end of 2023, and now stands at -0.8 GDP point, close to the pre-Covid level. On the other hand, general government's situation has largely deteriorated over the past four years, with the public deficit reaching 5.5% of GDP in 2023, compared with just 2.4% in 2019. This represents a deterioration of over 3 points GDP, of which 1.4 point (excluding EU financing) is still attributable to exceptional and temporary measures to support the economy.

2. Few growth drivers in 2024 and 2025

According to our estimates (Table 2), as a result of the various factors affecting the French economy, GDP growth in 2024 would be 0.5%, while growth excluding shocks[2] is expected to be 1.5%. Due to the delayed effects of the rise in interest rates on activity (between 12 and 18 months for the full effects[3]), the past rise in interest rates[4] should reduce growth by -0.6 GDP point in 2024, after -0.5 point in 2023. The spread of the energy shock would continue to produce effects due to the gradual withdrawal of tariff shields. The net effect is expected to be -0.4 point GDP in 2024. The new budgetary savings measures announced to the tune of 10 billion should reduce growth by -0.2 point GDP[5]. On the other hand, the normalization of the situation of global production chains will make it possible to recover GDP losses linked to past disruptions, resulting in a growth gain of 0.3 GDP point in 2024.

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

In GDP point	2022	2023	2024	2025
Growth excluding shocks*	**4.0**	**1.5**	**1.5**	**1.7**
Covid shock and supplies	-0.3	0	0.3	0.2
Change in rates	-0.1	-0.5	-0.6	0.2
Uncertainty and geopolitical tensions	-0.4	0.4	-0.1	0.1
Energy shock**	-1.5	-0.6	0.4	0.2
Tariff shield and energy measures**	1.0	0.2	-0.8	-0.4
Budget measures* (excluding energy measures)**	0.2	-0.1	-0.2	-0.6
Other	*-0.3*	*0.0*	*0.0*	*0.0*
Observed and forecast growth	**2.5**	**0.9**	**0.5**	**1.2**

Insee, OFCE forecasts.

* Corresponds to potential growth, plus the closing of the output gap and potential growth gains.

** In detail, the energy shock has reduced GDP growth by -1.5 point in 2022 and -0.6 point in 2023, and is raising it by +0.4 point in 2024 and +0.2 point in 2025, i.e. a cumulative effect of -1.5 GDP point over the period 2022-2025. The introduction of specific budgetary measures to cushion this energy shock had an effect on GDP growth of +1 point in 2022, +0.2 point in 2023, -0.8 point in 2024 and -0.4 point in 2025, i.e. a cumulative effect of zero over the period due to the extinction of the exceptional budgetary measures at the horizon of our forecast.

*** This includes the 10 billion in budget savings for 2024 and the additional 20 billion announced for 2025.

2. Growth excluding shocks corresponds to potential growth of 1.4% in 2024 and 1.3% in 2025, to which are added the growth surplus (relative to potential quarterly growth) of -0.4 point in 2024 and -0.2 point in 2025, and the rate of closure of the output gap of 0.5 point in 2024 and 0.6 point in 2025.

3. For more details, see C. Blot and P. Hubert, 2018, « Une analyse de la contribution de la politique monétaire à la croissance économique », *Revue de l'OFCE*, no.159.

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

5. Of the 10 billion in budget savings announced (0.34% of GDP), only 7.4 billion of the measures will have an effect on France's GDP (0.25% of GDP), bearing in mind that some measures, such as the reduction in official development assistance, will have no direct impact on French growth. With an expected impact on GDP of -0.19%, the average multiplier is 0.75 for the 7.4 billion measures with an effect on the French economy, and 0.55 for all measures.

In 2025, growth is expected to pick up to 1.2%, close to growth excluding shocks (1.7%). The expected cut in European Central Bank (ECB) key rates from the second half of 2024 should begin to have a positive impact on growth in 2025 (0.2 GDP point), but the expected tightening of fiscal policy, with a further €20 billion in structural savings planned, after the €10 billion in 2024, will cut growth by -0.6 GDP point [6].

Under our assumptions[7], the effect of the energy shock, net of budgetary measures to limit price rises, will continue to have a slightly negative impact (-0.2 GDP point) on growth. This effect can be seen in the rise in consumer gas and electricity prices, despite the decline in market prices. Conversely, improvements in production chains should continue to have a positive impact on growth in 2025 (0.2 GDP point).

In terms of infra-annual dynamics, we forecast quarterly growth of 0.1% and 0.2% respectively in the first and second quarters of 2024. This is based in particular on the various economic data available to us. Business sentiment, although slightly brighter in March, remained below its long term average, at a level close to that of the fourth quarter of 2023 (Figure 2). The household confidence index has been recovering since the second quarter of 2023, in line with the downturn in inflation, but still remains at very low levels, corroborated by weak consumption momentum and a high saving rate (still 3 points above its pre-Covid level). In the first quarter of 2024, the growth rate of manufacturing output at the end of February 2024 was -0.6%, and that of household consumption of goods -0.2%. Only the services production index was positive (1.7%), but the figures are for January 2024.

In the third quarter of 2024, a slight peak in growth (0.3%) is expected due to the tourism effect linked to the Olympic Games in summer 2024, though falling back in the fourth quarter (0.1%) (Table 3). Beyond that, we expect growth momentum to improve to 0.4% per quarter for 2025 as a whole.

Growth will be driven by household consumption (0.9% in 2024 and 1.4% in 2025), underpinned by increasing purchasing power in 2024 and a falling saving rate from 2025 onwards. On the other hand, the downturn in investment steepened in 2024, marked by a drop in business investment (-1.7% in 2024 after 2.7% in 2023) and, above all, a sharp contraction in household investment (-4.3% in 2024 after -5.1% in 2023). In 2025, total investment growth will be weak but positive (0.5% in 2025 after -1.6% in 2024).

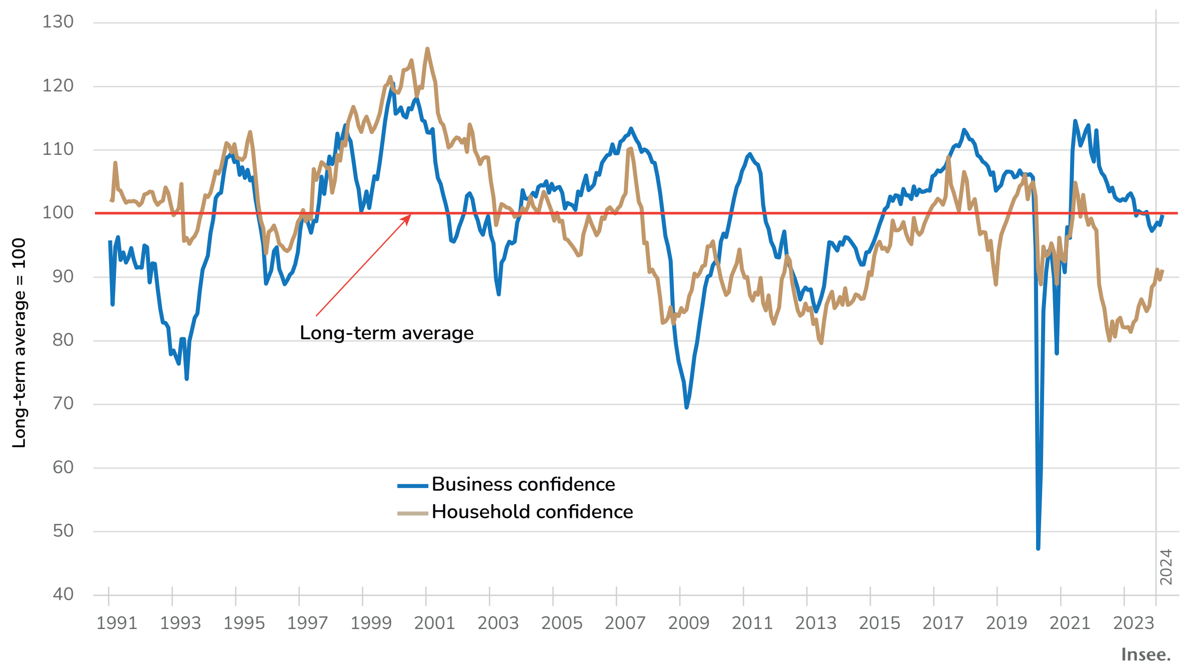
Foreign trade is set to continue its recovery, with market share slightly higher over the forecast horizon. After a clear improvement in 2023 (0.5 GDP point), the contribution of foreign trade to growth should continue to be positive in 2024 (0.6 GDP point), driven by the recovery of the transport equipment sector, in particular aeronautics (see Appendix 2), and by an increase in international tourism during the summer of 2024 with the Olympic Games.

Domestic demand, excluding changes in inventories, will be sluggish in 2024 (0.3% after 0.8% in 2023), before improving slightly in 2025 (0.9%). Apart from cyclical movements in the first half of 2024 that mirror foreign trade, changes in inventories should make a positive contribution to growth in the second half of 2024 and early 2025, offsetting the sharp fall at the end of 2023.

6. This corresponds to a multiplier of 0.9 over one year on generic public spending.

7. We assume an oil price of $85 per barrel and a TTF gas price of €30 per MWh in 2024 and 2025, and the end of the electricity shield by the end of 2025.

Figure 2. **Business surveys**



Insee.

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

In %	2023	2023	2024				2025				2023	2024	2025
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	**0.0**	**0.1**	**0.1**	**0.2**	**0.3**	**0.1**	**0.4**	**0.4**	**0.4**	**0.4**	**0.9**	**0.5**	**1.2**
Private consumption	**0.5**	**0.0**	**0.2**	**0.3**	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**	**0.4**	**0.7**	**0.9**	**1.4**
Government consumption	**0.3**	**0.3**	**0.2**	**0.1**	**0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.5**	**0.7**	**0.0**
Total GFCF	**0.2**	**-0.9**	**-0.6**	**-0.5**	**-0.3**	**0.0**	**0.2**	**0.3**	**0.4**	**0.5**	**1.1**	**-1.6**	**0.5**
GFCF SNF-EI	*0.3*	*-0.9*	*-0.9*	*-0.6*	*-0.3*	*0.1*	*0.3*	*0.3*	*0.4*	*0.5*	*2.7*	*-1.7*	*0.6*
GFCF Households	*-1.1*	*-1.1*	*-1.3*	*-0.9*	*-0.6*	*-0.4*	*-0.2*	*0.1*	*0.2*	*0.3*	*-5.1*	*-4.3*	*-0.8*
GFCF Government	*1.6*	*0.0*	*0.6*	*0.6*	*0.3*	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*4.5*	*2.3*	*1.4*
Exports	**-0.7**	**0.0**	**0.3**	**1.3**	**1.5**	**0.4**	**0.9**	**0.9**	**0.9**	**0.9**	**1.5**	**2.5**	**3.7**
Imports	**-0.4**	**-2.3**	**0.9**	**0.2**	**1.2**	**1.3**	**1.0**	**0.8**	**0.7**	**0.6**	**-0.1**	**0.7**	**3.8**
Contributions													
Domestic demand excluding inventories	0.4	-0.1	0.0	0.0	0.1	0.2	0.2	0.3	0.3	0.3	0.8	0.3	0.9
Changes in inventories	-0.3	-0.6	0.3	-0.2	0.1	0.2	0.2	0.0	0.0	0.0	-0.4	-0.3	0.4
Balance of trade	-0.1	0.8	-0.2	0.4	0.1	-0.3	-0.1	0.0	0.1	0.1	0.5	0.6	-0.1

Insee, OFCE forecasts.

3. Household consumption, the main source of growth

Inflation: Back towards the 2% target

After two years of sharp rises in consumer prices (5.2% in 2022 and 4.9% in 2023), 2024 is characterized by a sharp decline in inflation (Table 4). Falling from 6.3% at the February 2023 peak to 2.3% in March 2024, the drop in inflation is linked mainly to the decline in energy and food inflation. This trend is set to continue, with inflation returning to 2% from the second half of 2024. Over 2024 as a whole, CPI inflation should average 2.4%, with food and energy prices contributing 0.6 point, whereas these two components (representing around 25% of CPI weighting) contributed 3.1 points in 2022 and 2.4 points in 2023. In 2025, CPI growth is expected to average 2.2% per year, due to less dynamic prices, excluding energy and food.

Table 4. **Evolution and contribution of the components of inflation**

	Annual variation (in %)					Contribution to annual change (in % points)				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Food	0.6	6.8	11.8	1.7	1.8	0.1	1.1	1.9	0.3	0.3
Energie	10.5	23.1	5.6	3.6	4.1	0.9	2.0	0.5	0.3	0.4
Other	0.9	2.9	3.3	2.4	2.0	0.6	2.1	2.5	1.8	1.5
CPI	**1.6**	**5.2**	**4.9**	**2.4**	**2.2**	**1.6**	**5.2**	**4.9**	**2.4**	**2.2**

Insee, OFCE forecasts

Purchasing power on the rise again in 2024…

After two years of stagnation in purchasing power per consumption unit (UC), en on annual average[8], the year 2024 marks a return of purchasing power gains for households (Table 5). Real income in 2024 will be driven 1% per CU higher by the strong revaluation of social benefits at the start of the year and by rising real wages, despite expected job losses. While average real wages per head have fallen by -2.4% over the past four years, the lower inflation forecast for 2024 and 2025 should not translate into an equivalent fall in nominal wage growth. Real wages would thus rise by 1% in 2024 and 1.2% in 2025, with no impact on corporate margins due to the recovery in productivity gains.

Thus, in 2024, real household income per CU should be 2.8% above its 2019 level, while GDP per CU should be only 0.2% above its 2019 level. In 2025, purchasing power gains per unit should be limited to 0.2%, due in particular to weak growth in social benefits and a sharp slowdown in the growth of wealth income, particularly with the expected fall in interest rates and lower dividend payments. In 2025, per unit GDP is expected to grow faster (0.7%) than per unit real GDI, partially offsetting the decoupling observed between these two variables since the end of 2019.

8. For further details, see O. Jullien de Pommerol, P. Madec, M. Plane and R. Sampognaro, 2024, « De la crise Covid au choc inflationniste. Une analyse macro/micro du pouvoir d'achat en France », ["From the Covid crisis to the inflationary shock. A macro/micro analysis of purchasing power in France"], *OFCE Policy brief*, no. 124, february.

Table 5. **Household account**

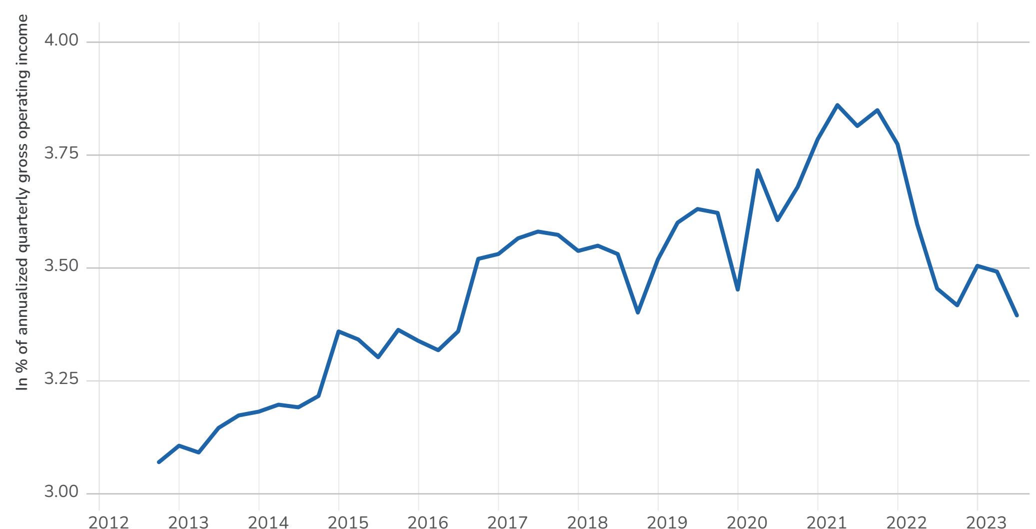
In %	2019	2020	2021	2022	2023	2024	2025
Nominal GDI	3.4	1.2	4.2	5.1	7.3	3.9	2.7
Consumption deflator	0.8	0.9	1.5	4.9	6.4	2.3	2.0
CPI	*1.1*	*0.5*	*1.6*	*5.2*	*4.9*	*2.4*	*2.2*
Real GDI	2.6	0.3	2.6	0.2	0.8	1.5	0.7
Real GDI per CU	**2.0**	**-0.3**	**2.1**	**-0.4**	**0.3**	**1.0**	**0.2**
Household consumption (in vol.)	1.8	-6.7	5.1	2.1	0.6	0.9	1.4
Saving rate (as % of GDI)	**15.0**	**21.0**	**19.0**	**17.5**	**17.6**	**18.1**	**17.5**
Nominal average per capita income	2.2	-3.7	5.0	5.6	4.4	3.3	3.2
Real average per capita income (deflated by CPI)	1.1	-4.1	3.4	0.3	-0.5	0.8	1.0

Insee, OFCE forecasts.

… and a saving rate that will begin to fall in 2025

Since 2020, the household saving rate has never returned to its pre-crisis average ratio of 15% of gross disposable income (GDI). Households have not reduced their oversaving to cope with the inflationary shock, which would have enabled them to smooth out the effects of inflation on their consumption. On the contrary, the saving rate has been on the rise again since mid 2022, increasing by 1.5 point of GDI and reaching almost 18% in the last quarter of 2023 (Figure 4). Over the past four years, households have accumulated 15 points of annual income in "over-savings", or 240 billion euros, a figure that does not take into account the real depreciation of their assets. In fact, the real value of assets has been falling since 2022 as a result of the inflationary tax. As a result, the real value of financial assets held by households at the end of 2023 was below its pre-Covid level at the end of 2019 (Figure 3). The additional savings that increase wealth have thus been eroded by inflation, reducing the real amount of wealth outstanding by the same amount. So, while households have been saving more over the past four years, the purchasing power of their wealth has not increased, and this will not encourage them to draw on the excess savings that have melted away with the inflationary tax.

Figure 3. **Household financial assets**

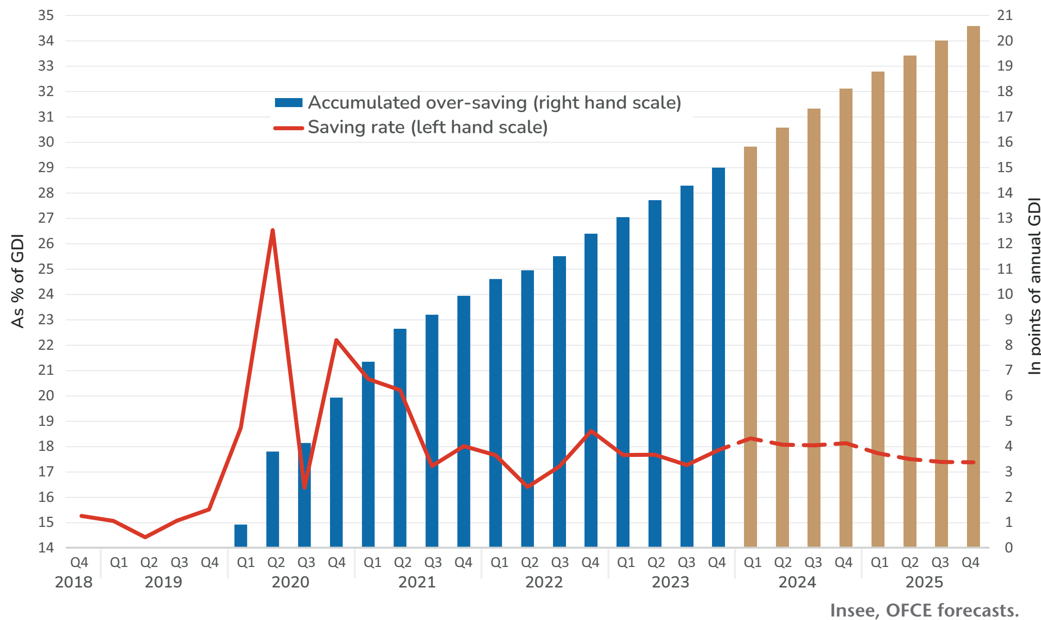


Banque de France, INSEE, authors' calculations.

According to our forecasts, the saving rate will remain high in 2024 (18.1% on average), before declining. This forecast for the saving rate is consistent with expected trends in short term interest rates, consumer prices, asset values and the unemployment rate. A faster return to the pre-crisis saving rate would lead to a more dynamic growth scenario[9] and higher inflation.

9. With a saving rate trajectory that would be, by the end of 2024, 1 point lower than our forecast (17% instead of 18%), the average annual growth rate would be 0.4 GDP point higher, raising GDP growth to 0.9% in 2024.

Figure 4. **Household saving rate and over-saving**



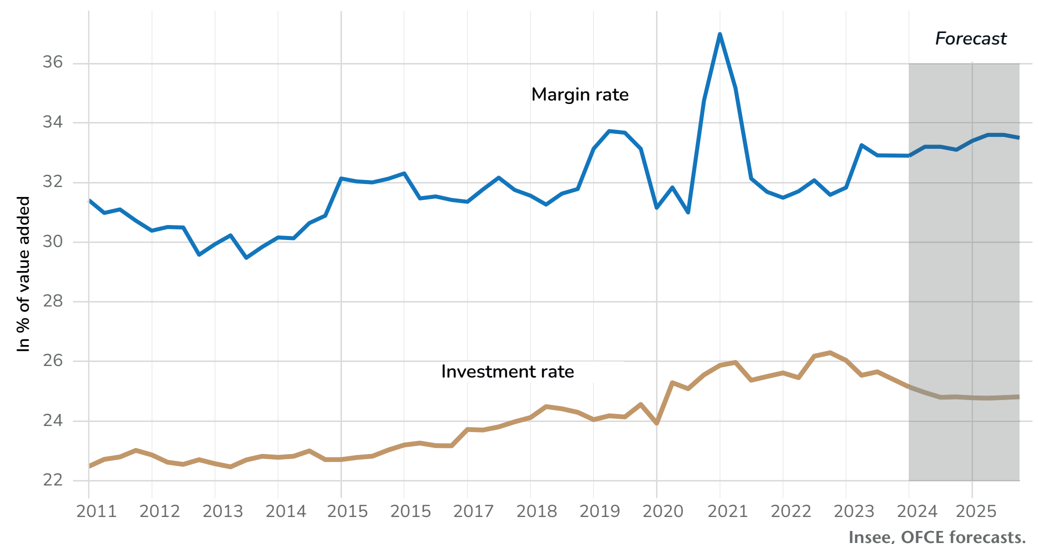
Note: The excess saving calculated here are purely accounting figures, measured against the pre-crisis reference ratio (year 2019) and do not take into account the real value of assets and the inflationary tax.

4. Business and household investment comes to a halt

After two years of strong performance in investment and margins in the wake of the Covid crisis, companies have begun to feel the impact of the slowdown in economic activity in an environment of high inflation. After rising by 9% between the end of 2020 and the end of 2022, business investment contracted by 0.2% year-on-year in 2023. As a result, the corporate investment rate has fallen since the end of 2022, but remains at a high level at 25.4% of value added in the fourth quarter of 2023, compared with 23% on average over the 2012-2019 period (Figure 5). Despite this decline, which began in 2023, investment remains 8.6% above its pre-Covid level, while GDP is 1.9% higher. Moreover, it appears that all investment items declined in the final quarter of 2023. In particular, construction investment by non-financial companies (NFCs) is continuing to deteriorate, falling for the fourth consecutive quarter to its lowest level since 2016 (excluding the Covid crisis). In contrast, since 2019 the positive contributors to growth, which continue to be investments in information and communications technology (8%), have remained unchanged from quarter to quarter.

Finally, the business investment rate should adjust downwards in 2024 and 2025, falling from 25.1% in the first quarter of 2024 to 24.8% in the last quarter of 2025, as companies adjust to sluggish economic growth in 2024 and to less dynamic demand, along with repayment schedules of State-guaranteed PGE loans and high refinancing interest rates.

Figure 5. **Investment and margin rates for companies**



Insee, OFCE forecasts.

At the end of 2023, the NFC margin rate remained at 32.9% of value added, above its long term average (31.5%) and its end-2018 level (31.8%). From a sectoral point of view, industry has been the main contributor to the increase in the non-agricultural trade margin since the rise in energy prices at the end of 2021, particularly the energy, water and waste, and agrifood branches. In contrast, margins have deteriorated over this period in service sectors such as business and household services and financial services (Figure 6). For 2024, the margin rate should remain close to its current level, before rising slightly in 2025 due to the expected upturn in productivity and the continued reduction in taxes on production.

Although corporate margins improved, companies' self-financing – their saving divided by their investment – fell in the second half of 2023 to 87%, below its average of 94% observed from 2012 to 2019. The sharp rise in the cost of credit for businesses has led to a pronounced contraction in new loan growth. The rate of growth in total loans outstanding has slowed markedly since the end of 2022, and loans held by businesses for cash flow purposes are continuing to decline (Figure 7).

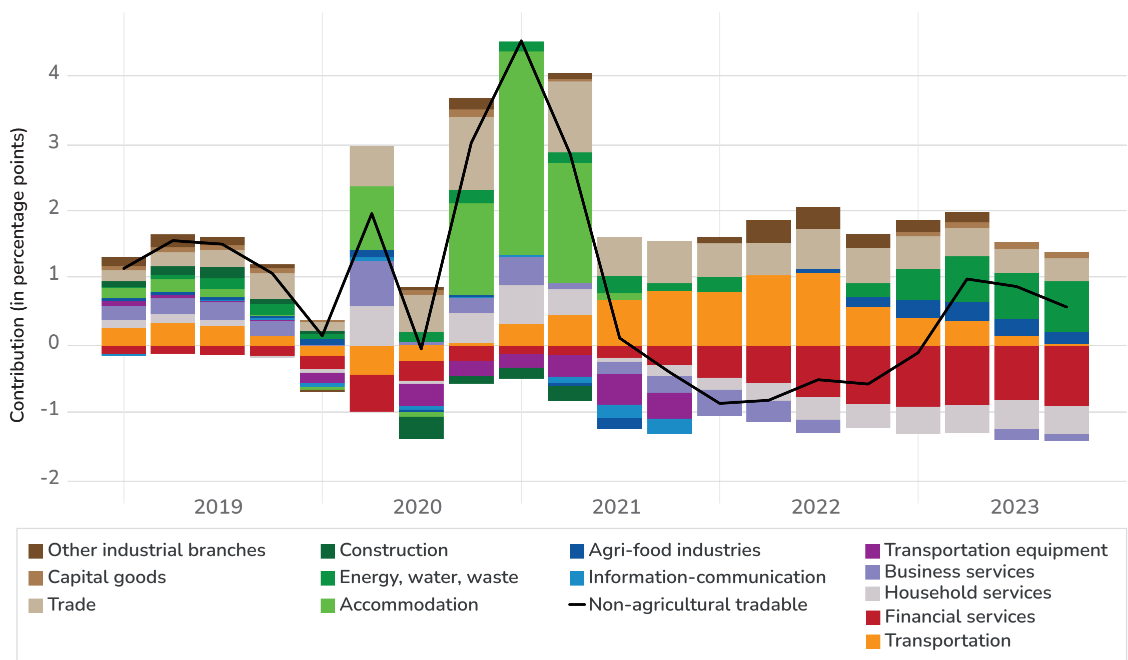
Overall, outstanding cash loans have contracted by almost 10% since their peak in 2022. However, the level is still 32% higher than in January 2020. This decline appears to reflect the gradual repayment of post-Covid loans. In fact, if we look at the Banque de France's credit access surveys[10], demand for cash credit has becom "stable at a low level", and the remaining demand is being met by banks, at 86% for SMEs (< 250 employees) and 90% for "ETIs" (250-4,999 employees) in the final quarter of 2023. Lastly, the number of business failures has returned to pre-crisis levels, reaching a cumulative total of 57,798 in February over 12 months (compared with an average of 59,342 from 2010 to 2019)[11]. A stronger correction in the number of insolvencies could be expected in the future, with the past rise in interest rates and debts in a context of weak growth accelerating the catch-up effect at work[12].

10. See https://www.banque-france.fr/fr/statistiques/acces-des-entreprises-au-credit-2023t4.

11. See https://www.banque-france.fr/fr/statistiques/defaillances-dentreprises-fev-2024.

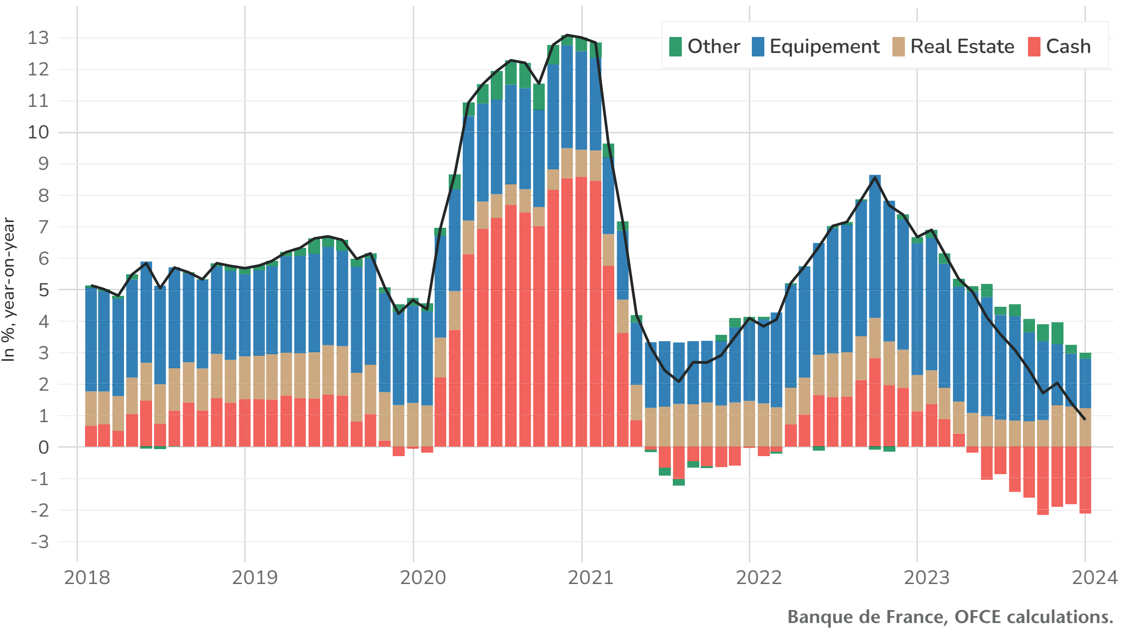
12. See https://www.banque-france.fr/fr/publications-et-statistiques/publications/enquete-mensuelle-de-conjoncture-debut-mars-2024.

Figure 6. **Contribution to the change in the margin rate by branch since the end of 2018**



Insee, OFCE calculations.

Figure 7. **Growth rate of outstanding business loans by type of credit**



Banque de France, OFCE calculations.

Household investment has contracted sharply (see Appendix 1), largely as a result of the sudden tightening of credit conditions. Over the past two years, it has reduced GDP by 0.5 percentage point. In the long term, household investment is determined mainly by households' real disposable income. In the short term, it is largely underpinned by the dynamics of employment, property prices and interest rates. Between now and 2025, the job losses forecast in our 2024 scenario, combined with the continuation of the past effects of rising interest rates and falling property prices, will further reduce household investment. This decline will only be partially offset by the slight gains expected in purchasing power. In addition, the drop in public support for new housing construction (refocusing of the zero-rate loan, end of the Pinel scheme) should also contribute to the contraction in household investment, although there are uncertainties as to the implementation of recent announcements pertaining to logement intermédiaire (rent-capped housing) . We expect household investment to fall by 4.3% in 2024 (after -5.1% in 2023 and -1.3% in 2022). In 2025, stable purchasing power and a relatively sluggish labor market should continue to weigh on household investment, despite the anticipated fall in interest rates. Despite the uncertainties surrounding the dynamics of real estate prices and their impact on household investment, we anticipate a slight decline in household investment in 2025 (-0.8%).

5. Foreign trade to continue driving growth in 2024

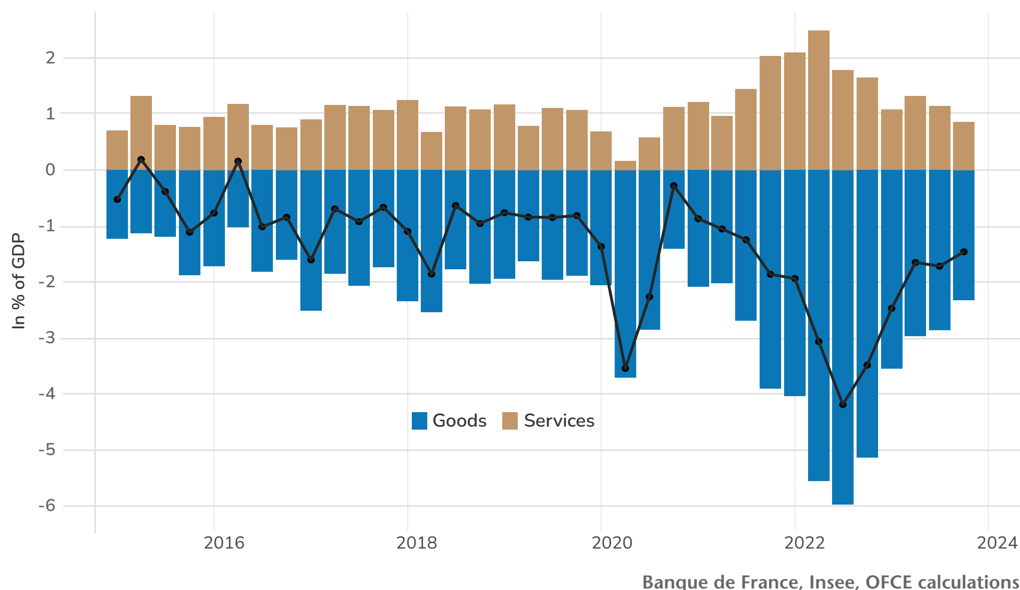
Foreign trade was a serious drag on growth between 2020 and 2022, with a cumulative negative contribution of 1.8 GDP point over the three years. The Covid crisis was marked by significant losses in market share. In terms of volume, by 2023 exports had barely returned to their 2019 level, while demand addressed to the French economy was growing at the same time by 8% according to our calculations. Import growth (+3.7% in volume between 2019 and 2022) was stronger than GDP growth (0.7% over the period). Together with the deterioration in the terms of trade following the energy shock in 2022, these counter-performances partly explain the deterioration in the balance of goods and services in the balance of payments, with a record deficit of over 4% of GDP reached during 2022 (Figure 8). It should be remembered, however, that the deterioration in the terms of trade observed in2022 was no longer the case at the end of 2023, when the export and import deflators had both risen by 17% since the end of 2019.

Lost market share was partially recovered in 2023. Exports rose by 1.5% in volume terms, while imports remained at the same level, giving foreign trade a positive contribution of 0.5 point to GDP growth over the year. The performance of exports is all the more noteworthy given the particularly sluggish state of addressed demand, with annual average growth of just 0.2%, due in particular to a drop in German and American imports (-3% and -1.7% respectively). By 2023, France had regained some of the market share lost during the Covid crisis (Figure 9).

This trajectory of French market share is explained largely by the dynamism of transport equipment, which includes aeronautics and automobiles. Exports of transport equipment, which accounted for 16% of total exports and around 5% of GDP in 2019, plummeted by 33% in 2020, and since then market share has recovered only very gradually. In 2022, exports were still 22% lower in volume terms than the average for 2019. Aeronautical exports, which account for just over half of the sector's total, were particularly hard hit by the collapse in air traffic during the pandemic. The recovery in

transport equipment exports continued in 2023, with growth of 6.6%, accounting for the bulk of total export growth in volume terms over the year. In the fourth quarter, however, transport equipment exports were still 18% below their average 2019 level.

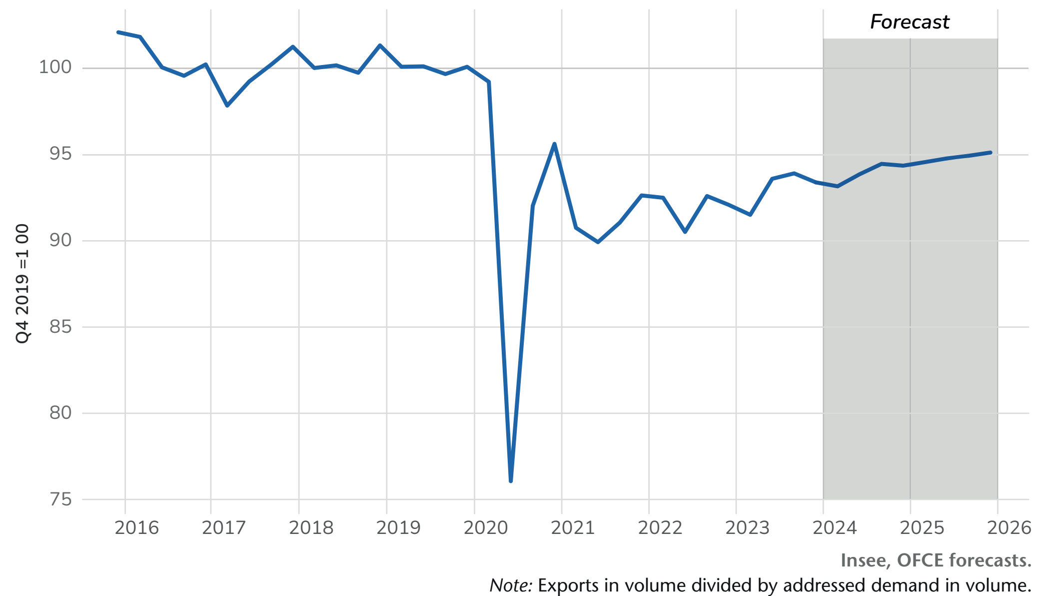
Figure 8. **Balance of goods and services**



Banque de France, Insee, OFCE calculations.

We expect the recovery in transport equipment exports to continue and even accelerate in 2024 and 2025, with a particularly positive outlook for the aerospace industry (see Appendix 1). We also anticipate a recovery in demand from France after the very poor year of 2023. Demand is expected to grow by 1.5% in 2024 and 2.5% in 2025. Finally, we include an impact of the "Olympic Games" on exports of tourism services, which will be very good in the third quarter, but offset by a negative impact in the following quarter. These factors lead us to forecast export growth of 2.5% in 2024 and 3.5% in 2025. Imports are expected to rebound in 2024, as manufacturers rebuild their raw materials inventories, but to grow by only 0.7% on an annual average basis, due to a very weak momentum. The rebound should continue in 2025, when imports will grow by 3.8%, significantly outpacing GDP, as has often been the case in the recent past (9 out of 10 years between 2010 and 2020). Imports could, however, be penalized either by the weak or moderate growth we forecast in 2024 and 2025, as they are historically more volatile than GDP, or by the end of the upward trend in the penetration rate. In the latter case, we'd be talking about an upward risk to economic growth in 2025.

Figure 9. **Export market share of the French economy**



Insee, OFCE forecasts.

Note: Exports in volume divided by addressed demand in volume.

6. Full employment recedes

In 2022, the rebound in employment that began in 2021 in the wake of the pandemic continued, with 545,000 net new jobs created year on year (1.5%). In 2023, the economy continued to create jobs, albeit at a more measured pace (0.5% on average per quarter in 2022 versus 0.2% per quarter in 2023). Finally, 208,000 net new jobs were created in the last quarter of 2023 compared with the previous year (0.7%).

Between the end of 2019 and the end of 2023, salaried employment in the non-agricultural market sector rose by 6.5% (7.4% for hours worked), while market value added grew by just 2.2%, revealing significant losses in labor productivity. Hourly productivity is now almost 5% below its pre-Covid level (end 2019). If we compare the current level of hourly productivity with its pre-Covid trend level (0.85% per year), the picture becomes even worse: the gap is 9.4%. According to our estimates, two-thirds of these losses are attributable to the increase in the number of apprentices, public support for companies since the Covid crisis, the fall in the real cost of labor and, to a much lesser extent, past reductions in working hours and unemployment[13].

13.
See methodology in É. Heyer, 2023, « Comment expliquer l'évolution de l'emploi salarié depuis la crise Covid ? Une analyse économétrique sur données macro-sectorielles » ["How to explain changes in salaried employment since the Covid crisis ? An econometric analysis using macro-sector data"], *Revue de l'OFCE*, no. 180 (2023/1).

The reduction in public support for businesses, linked to the end of the "whatever it takes" policy, and the return of working hours to their 2019 level should help to make up for a small part of the observed productivity losses. Combined with the decline in subsidized employment (-15,000 in 2024), excluding apprentices, and the slowdown in growth, salaried employment will contract in 2024 before returning to a positive dynamic. We forecast a stabilization in the number of apprenticeship entrants (852,000) compared to 2023, and the creation of 5,600 "apprentic" jobs in 2024. Based in particular on economic surveys, notably the employment climate, we anticipate the destruction of 52,000 salaried jobs in the first half of 2024. Total market employment should fall by 115,000 year-on-year by the end of 2024 (Table 6), with the increase in non-salaried employment unable to offset the decline in salaried employment.

Table 6. **Job market trends**

In thousands	Change (Q/Q-1)				Change (Q/Q-4)		
	2024				2023	2024	2025
	Q1	Q2	Q3	Q4			
Salaried employment	**-30**	**-22**	**8**	**-71**	**157**	**-115**	**69**
Market	-40	-32	5	-74	99	-138	55
Non-market	10	10	3	3	47	26	13
Self-employment	**5**	**5**	**5**	**5**	**131**	**20**	**36**
Total employment	**-24**	**-17**	**13**	**-64**	**208**	**-92**	**104**
% change	*-0.1*	*-0.1*	*0.0*	*-0.2*	*0.7*	*-0.3*	*0.3*
Unemployment rate*	**7.7**	**7.8**	**7.9**	**8.2**	**7.5**	**8.2**	**8.1**
Working population (%)	**0.1**	**0.1**	**0.1**	**0.1**	**0.8**	**0.4**	**0.3**
Including pension reform in 2023						*0.3*	*0.3*

Insee, Dares, OFCE forecasts.

* In %, at end of period.

However, this adjustment in employment would be insufficient to close the productivity cycle, which takes into account the historical trend in productivity (0.85% p.a.). In 2025, the anticipated dynamism of activity should support job creation (104,000), even if this will be limited by the attenuation of the effects of public support (PGE loans) provided since 2020. By our forecast horizon of 2025, only one-sixth of the productivity losses recorded since the start of the crisis (relative to trend) would thus be made up.

Although stable compared with the third quarter of 2023, the unemployment rate rose by 0.4 point over the year as a whole, affecting 7.5% of the working population in the fourth quarter of 2023. This rise is set to continue until the end of the year, before relatively stabilizing over the forecast horizon. The unemployment rate should reach 8.2% by the end of 2024, then 8.1% by the end of 2025, close to its level at the beginning of 2021. This forecast incorporates Insee's latest projections for the working population, following the entry into force in September 2023 of the pension reform, which gradually shifts the retirement age and increases the contribution period. These new projections anticipate a 0.7% increase in the working population over two years, i.e. a rise of almost 230,000 in the number of people in employment over the 2024-2025 period compared with projections prior to the pension reform.

We assume here that the employment/unemployment breakdown of this increase in the active 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 consistent with the latest available simulations[14]. Figure 10 illustrates the effects of different variables and measures on the unemployment rate. The Full Employment Act, if it were to modify the behavior of those surveyed in the Employment survey, could have an impact on the number of individuals considered unemployed, and consequently on the unemployment rate (see Appendix 3).

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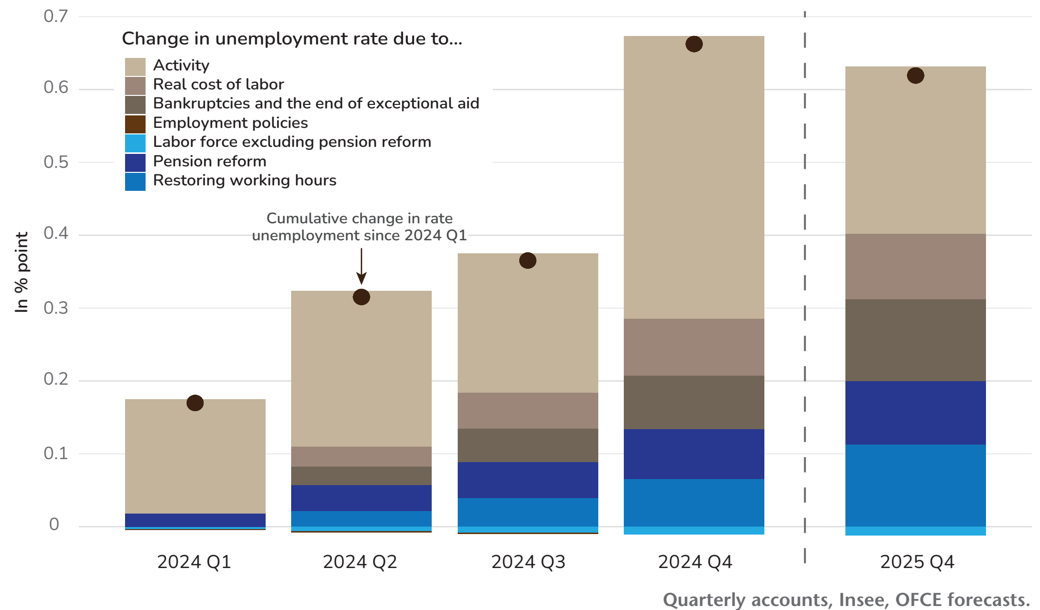
14. See A. Marino and P. Meinzel (dir), 2023, *Les retraités et les retraites.* [Pensioners and pensions], *Édition 2023*, Paris, Direction de la recherche, des études, de l'évaluation et des statistiques.

Figure 10. **Cumulative contribution of various “effects” to the change in the unemployment rate from the beginning of 2024 to the end of 2025 (compared with the situation at the end of 2023)**



Quarterly accounts, Insee, OFCE forecasts.

7. Inflation will no longer suffice to contain public debt

Over the entire 2020-2023 period, the government took massive exceptional measures to deal with the Covid crisis and then the resurgence of inflation with the energy crisis. These measures represented an overall cost to the public finances of 10.9 points of annual GDP accumulated over four years (Table 7). These measures, decided in response to temporary situations (Covid-19) or for which private players had few levers for rapid adjustment (energy crisis), will be virtually cancelled by the time of our forecast. They should therefore cease to be central to the analysis of public finances in the years ahead.

When the health situation normalized and emergency measures could be withdrawn, the public authorities then had to respond to the energy crisis and rising inflation. In France, most of the budgetary measures put in place were aimed at cushioning price rises, notably the gas price shield until mid-2023, the electricity price shield until the end of 2024, and the fuel rebate from April to December 2022. In addition, direct household subsidies were also introduced, but these played a more secondary role in France’s strategy for managing the energy crisis. While the latter required a massive mobilization of fiscal policy, certain factors helped mitigate the cost to the public finances[15], albeit below expectations (see box). In total, measures designed to offset the energy shock represented 0.8 GDP point in 2022 and 0.9 GDP point in 2023. For the coming years, the budgetary cost is expected to be 0.2 GDP point in 2024, then 0 in 2025 with the end of the electricity tariff shield.

Finally, the budgetary cost of non-permanent measures (inflationary shock, Covid crisis, stimulus plan, “France 2030” plan) should fall sharply in 2024 and 2025, from 1.6 GDP point in 2023, to 0.7 point in 2024 and 0.3 point in 2025.

15. The evolution of revenues and expenditure linked to the CSPE tax on electricity will reduce the public deficit by around 9 billion euros in 2022 and 8 billion in 2023. Finally, the contribution to the inframarginal rent generated revenues of 0.4 billion in 2023 and 0.3 billion in 2024.

Tableau 7. **Budget cost of non-permanent measures over the period 2020-2025**

In GDP point	2020	2021	2022	2023	2024	2025
Emergency measures	3.0	2.5	0.6	0.1	0.0	0.0
Stimulus measures*	0.1	0.9	0.7	0.4	0.3	0.1
France 2030	0.0	0.0	0.2	0.2	0.2	0.2
Energy measures**	0.0	0.1	0.8	0.9	0.2	0.0
Purchasing power measures***	0.0	0.0	0.3	0.1	0.0	0.0
Total	**3.1**	**3.5**	**2.6**	**1.6**	**0.7**	**0.3**
European recovery plan funds	0.0	0.5	0.4	0.2	0.1	0.0

Insee, PLF 2024, Cour des comptes, OFCE forecasts.

** Excluding measures taken as part of the stimulus plan to permanently reduce 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.*

According to our calculations, the primary deficit excluding exceptional measures and purged of the cyclical situation (including the effect of tax revenue elasticities on GDP) stood at 1.0% of GDP in 2019. Between 2019 and 2023, this indicator deteriorated by 1.2 GDP point, due entirely to discretionary measures to reduce compulsory levies. This proactive policy has not been without consequences for the public accounts. In 2023, the public deficit will stand at 5.5% of GDP (after 4.8% in 2022). The sharp deterioration in the public balance (see box) in 2023 was unexpected. The gradual dissipation of non-permanent measures should have led to an improvement in the public balance, despite the slowdown in activity observed.

The main reason for the increase in the deficit is tax revenue, which, given GDP growth, has been disappointing. Thus, after years of positive surprises, the elasticity of compulsory levies has fallen sharply (to 0.4 in 2023, after 1.5 in 2022). Finally, the deterioration in the activity effect (including the effect of tax elasticity) of 1.7 GDP point was offset neither by the winding down of exceptional measures (which should have improved the public balance by 1 point), nor by the slight decrease in the interest burden (0.2 point). All in all, when the financing of the European stimulus plan is taken into account, the public balance deteriorated by 0.7 GDP point in 2023.

In 2024, the public deficit is expected to reach 5% of GDP, thanks to the 0.9 GDP point reduction in exceptional budgetary measures and the 0.5 GDP point reduction in primary public spending (excluding exceptional measures) (Table 8). In fact, the cyclical public balance should deteriorate by 0.6 GDP point due to growth below potential and tax revenue elasticity slightly below unity (due in particular to the negative impact of tax bases linked to the ongoing real estate crisis). In addition, interest expense is set to rise by a further 0.3 GDP point.

In 2025, the public deficit should be 4.4% of GDP. The continued reduction in non-permanent budgetary measures (-0.4 GDP point) and the announced budgetary savings of 20 billion euros (0.7 GDP point) explain a large part of the decline in the deficit.

Box. 5.5% public deficit: Anatomy of a slippage

Insee's March 26 announcement of a public deficit of 5.5% of GDP for 2023 came as a surprise to economic analysts. As a reminder, in October, the government forecast a deficit of 4.9%, while the OFCE forecast a deficit of 4.8% of GDP. In principle, the negative surprise in the deficit is not explained by a collapse in growth at the end of the year. Annual GDP growth was forecast at 1.0% by the government (whereas according to the quarterly accounts, it stood at 0.9%[16]). As a reminder, OFCE's latest annual forecast, dated October 2023, was 0.9%. In this context, it is clear that a surprise in growth, whether real or nominal, is not sufficient to explain the difference in deficit forecasts.

A direct comparison between the INSEE publication and the PLF 2024 finance act forecasts is difficult, as the INSEE figures are published in the 2020 base of the national accounts, whereas the government forecasts are made in the 2014 base[17]. Beyond these effects, we can say that, at first order, public spending has evolved in line with the government's projections. In value terms, public spending increased by 3.7%, whereas the government forecast an increase of 3.4%. Although definitions may differ, and this discrepancy must be treated with caution due to changes in national accounts methodology, at most this difference explains 5 billion euros of deficit (0.2 GDP point). The bulk of the difference in public spending stems from higher than expected intermediate consumption by general government (up by 0.2 GDP point, whereas the PLF 2024 had forecast a fall of 0.1 point).

The budgetary slippage is mainly due to an underestimation of public revenues by around 0.4 GDP point, or 11 billion euros, and therefore a lower than expected elasticity of tax revenues to GDP. As we have seen, the revenue shortfall is not due to an error in forecasting nominal GDP. The data published by Insee point to a significant underestimation of revenues from the contribution on energy companies4 infra-marginal rent linked to windfall profits (0.3 billion versus 1.9 billion expected in 2023, i.e. 0.1 GDP point). Finally, the elasticity of compulsory levies (0.4 according to our calculations) turned out to be lower than the government's expectations (0.6 according to the PLF 2024). This difference would explain 0.4 GDP point of the deficit surprise, most of which would come from corporate income tax. The PLF 2024 forecast a drop in revenues of around 1 billion, whereas INSEE has announced a drop of 11 billion. As corporate income tax is slow to respond to changes in profits, this may explain part of the surprise. Tax revenues will suffer from the slowdown in 2022 in gross operating surplus (EBITDA), an accounting measure that approximates corporate profits (+1% for the non-agricultural market sector), compared with the sharp rise in 2021 (+9%). However, it should not be forgotten that the tax base is not directly linked to EBITDA, notably because part of EBITDA can be provisioned or used to offset past losses. The link between the corporate income tax base and EBITDA is not direct, and this may explain part of the big surprise in corporate income tax revenues. Also worth noting is the fall in transfer duties (5 billion, whereas a decline of around 3 billion was expected), linked to the drop in real estate transactions. However, this shortfall was partially offset by free transfer duties.

Finally, some surprises reduced the deficit by 0.1 point, in particular public investment, which rose by 0.1 GDP point, whereas the government had expected a higher increase (0.2 point). All in all, the surprise deficit (0.6 GDP point) is due not to a poor assessment of the economic situation, but to the difficulty of forecasting tax bases (and their particularities) in a context of inflation and slow adjustment of relative prices. Changes in corporate income tax seems central to the analysis of the 2023 deficit, even if other factors may also have played a role (cost of intermediary consumption and assessment of revenues from new measures linked to the creation of new tools to manage the energy crisis).

16. It should be noted that the quarterly accounts are adjusted for seasonal variations (sa) and the number of working days (wda). Annual aggregation eliminates the effects of sa but preserves those of awd. In the Insee deficit publication, annual GDP volume growth, excluding wda, would be 0.7% in 2023, which suggests a working day effect of -0.2 point, in line with Insee's preliminary assessment.

17. And let's not forget that the scope of public administrations is itself evolving

After falling to 110.6% of GDP in 2023 (from 111.9% in 2022), public debt, as defined by Maastricht, is set to rise again in 2024. The drop in GDP point in 2023 is explained by a deficit of 5.5% of GDP, which despite being higher than forecast, remains lower than the debt stabilizing level (equal to 7% of GDP in 2023), due to high nominal GDP growth (6.3%) linked to inflation. In 2024 and 2025, despite a declining public deficit, public debt should rise again to 111.9% of GDP in 2024 and 112.8% in 2025. As inflation recedes, the debt stabilizing deficit will fall to 4% of GDP in 2024 and 3.6% of GDP in 2025 as nominal growth declines (3.6% in 2024 and 3.2% in 2025). Thus, the fall in public debt, in GDP point, over the period 2020-2023 – a consequence of strong nominal growth albeit linked to erratic economic trends – will be interrupted with a return to a situation of modest growth and lower GDP price rises.

Table 8. **Public finances**

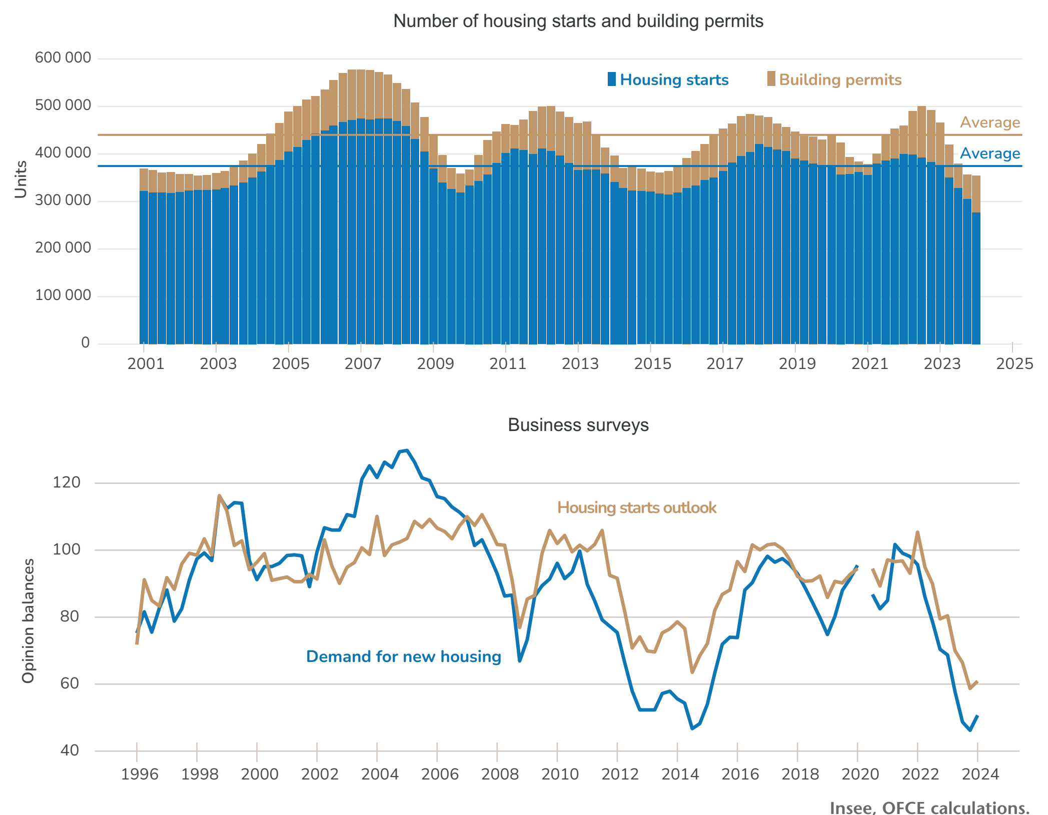
In pts of GDP	2019	2020	2021	2022	2023	2024	2025
Public balance (= a + b + c + d + e)	**-2.4**	**-8.9**	**-6.6**	**-4.8**	**-5.5**	**-5.0**	**-4.4**
Primary public balance (excluding temporary measures and activity effect) (a)	-1.0	-1.2	-2.1	-2.2	-2.2	-1.7	-1.0
Interest expense (d)	-1.4	-1.3	-1.4	-2.0	-1.8	-2.1	-2.3
Emergency measures / stimulus / energy / inflation (b)	0.0	-3.1	-3.5	-2.6	-1.6	-0.7	-0.3
Activity effect (including elasticity effect) (c)	0.0	-3.3	-0.2	1.6	-0.1	-0.7	-0.7
European recovery plan funds (e)		0.5	0.4	0.2	0.2	0.1	0.0
Public debt	**97.9**	**114.9**	**113.0**	**111.9**	**110.6**	**111.9**	**112.8**

Insee, PLF 2024, Cour des comptes, OFCE forecasts.

When construction goes wrong ...

On average, since 2000, 440,000 housing units have been authorized for construction and 375,000 started each year. In 2023, 355,000 units were authorized and only 280,000 were started, a drop of 19% and 25% respectively. Never since housing starts have these figures been so low (Figure A1-1). According to the industry's business surveys (demand for new housing and housing starts outlook, which are leading indicators of future housing starts), this crisis in new construction is set to continue in the months ahead.

Figure A1-1. **Construction and surveys**

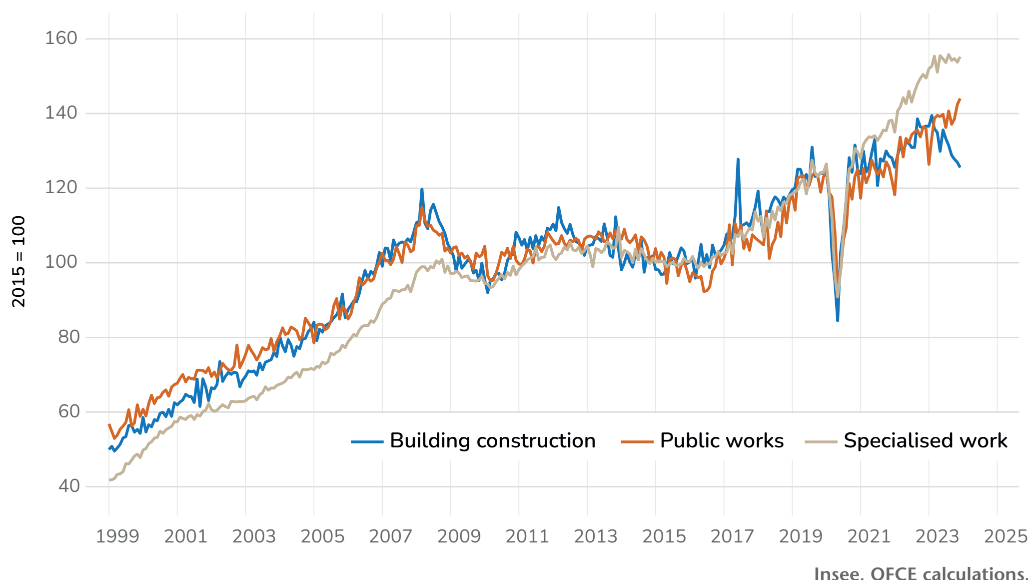


Insee, OFCE calculations.

Although household investment has contracted sharply in recent quarters, the decline has been much less severe than that seen in the new-build market. This is due to the fact that new home construction accounts for just over a third of total household investment. Historically, given these significant fluctuations, it accounted for almost two-thirds of investment trends. In the current context, it is possible that this share has been reduced in favor of renovation work. The strong performance of the building renovation market, particularly thermal renovation, continued to support household investment, as can be seen from an analysis of the following detailed business figures for the construction sector (Figure A1-2): building construction contracted sharply in 2023, but specialized work remained stable. The budget savings projected for 2024 on

renovation subsidies such as MaPrimeRénov' are likely to penalize household investment in the coming quarters.

Figure A1-2. **Construction sales indices**



Insee, OFCE calculations.

APPENDIX 2

Towards a rebound in the aeronautics industry

The aeronautics sector is an important one for the French economy. Aerospace exports accounted for just under 10% of total French exports in 2019, or around 3% of GDP. This production of aeronautical equipment includes both the sector's own added value of around 20 billion euros, or around 1% of GDP, and numerous intermediate consumptions of products from other sectors. It has been one of the French economy's most dynamic sectors over the decade 2010-2019, with a 60% increase in production volume over the period.

This momentum was violently interrupted by the pandemic and the resulting drop in air traffic. In the absence of revenues, airlines postponed purchases of new aircraft. Sales and production collapsed by 40% between late 2019 and early 2020 (Figure A2). The recovery since this autumn has been rather slow, particularly in terms of production volume. In Q4 2023, the industrial production index was still 20% below its average level in Q4 2019. Demand did not pick up until 2022, and the sector also had to deal with supply issues[18] (recruitment and supply difficulties). Thanks to relatively dynamic prices (9% since December 2019), the sales index was doing a little better, with a drop of "only" 15% compared to pre-Covid levels. The difficulties common to

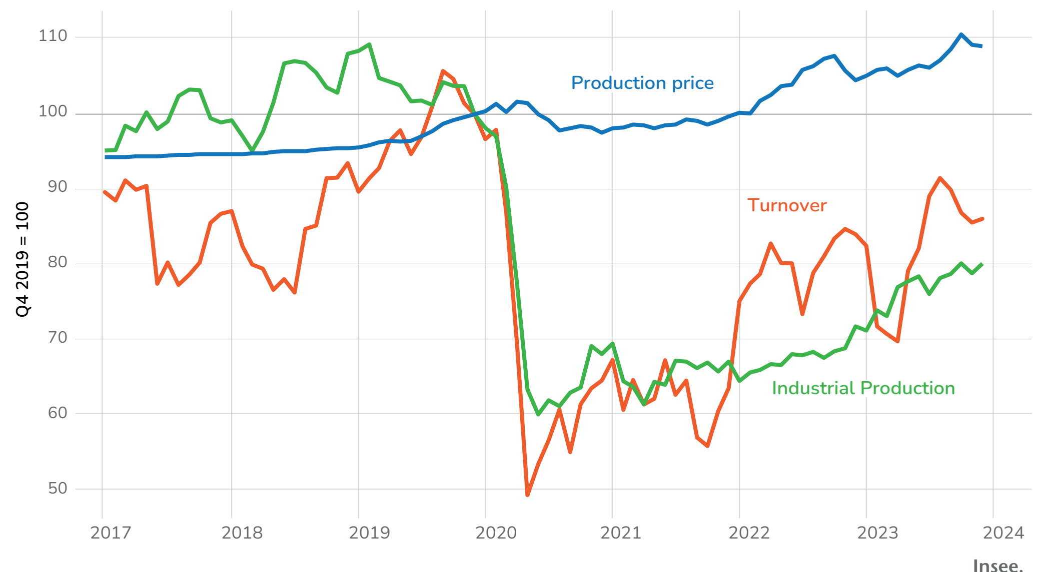
18. On this subject, see G. Roulleau, 2024, « L'activité aéronautique en France, toujours en deçà de son niveau d'avant-crise, pourrait redécoller en 2024 », [Aeronautics activity in France, still below its pre-crisis level, could rebound in 2024], in « La reprise se fait attendre », *Note de conjoncture de l'INSEE*, March, p. 7, https://www.insee.fr/fr/statistiques/7943884?sommaire=7943944.

the whole sector were compounded in France by unfavorable specialization, with the wide-body market (A330, A350) suffering more than the market for single-aisle aircraft (A320 family) assembled mainly in Germany[19].

19. *Ibid.*

The sector's recovery is set to continue in 2024 and 2025 and could even accelerate. The data provided by the sector's major companies at the start of 2024 are very positive indeed. Airbus recorded exceptional order levels in 2023, with 2,094 aircraft orders compared with 768 in 2019, bringing its backlog to 8,600 aircraft versus 7,482 in 2019. Airbus expects to deliver 800 aircraft in 2024, a 10% increase on the 735 delivered in 2023. However, forecast deliveries will remain below their 2019 level (863 units delivered), and therefore still only very partially reflect the growth in the order books. Airbus' French operations could also benefit from the opening of a new production line dedicated to single-aisle aircraft. For its part, engine-maker Safran is betting on a 20% rise in sales in 2024, driven by the commercial success of the LEAP engine. These factors lead us to be positive about growth in French aeronautical equipment production and exports in 2024 and 2025. We anticipate growth of between 10 and 15%, which should translate into a rise in total exports of around 1% more than addressed demand, thereby contributing to a recovery in export market share (see Figure 9).

Figure A2. **Aeronautical activity indices**



Insee.

Sales indices for other transport equipment (NAF2 30), average over the last 3 months.
Aeronautics industrial production index (NAF2, 30-3), average over last 3 months.
Industrial production price index for other transport equipment.

APPENDIX 3

Impact of RSA benefits reform on unemployment figures

The 18 December 2023 Law for Full Employment includes automatic registration with France Travail for anyone applying for benefit, and for their spouse. The conditions governing payment of the RSA have also been modified. Payment will be conditional on an average of 15 hours' work per week over a period of one month, with the aim of encouraging reintegration into the job market. In a test phase in 18 areas since early 2023, then 47 since early March 2024, the measure will take effect by January 2025 at the latest. The recipient's personal and family situation will be taken into account and may give rise to a reduction or exemption from compulsory hours of activity (the so-called "social" stream). From a purely accounting perspective, we are interested in the impact of the reform on unemployment figures. What follows is based on a number of assumptions about individual behavior, so the figures given are only an order of magnitude and do not constitute an assessment in the strict sense of the term. Today, the number of unemployed people in France is measured in two ways: firstly, through the number of people registered with France Travail, i.e. jobseekers at the end of the month in category A, and secondly, through unemployment in the ILO sense, as provided by Insee via responses to the Continuous Employment Survey (EEC). We will concentrate here on the second.

Between 0.1 and 1.2 point on the unemployment rate in the event of a change in behavior

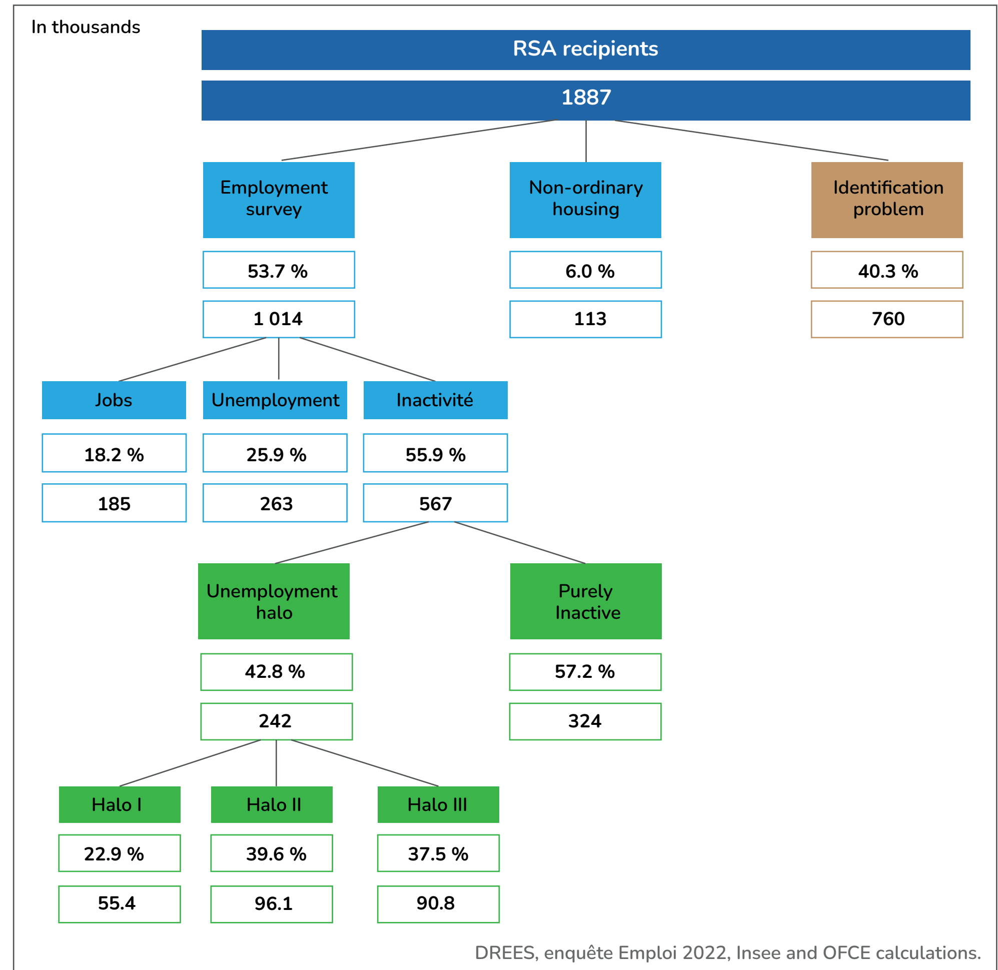
In the Emploi 2022 survey, we find almost 1 million individuals receiving the RSA, while DREES data (collected from the CNAF and MSA) indicate around 1.9 million RSA recipients ("ARSA" in the following). This difference of half can be partly explained by the fact that 6% of ARSA recipients live in non-ordinary housing[20], which is not covered by the Employment survey, i.e. 113,000 individuals (Figure A3). The remaining 760,000 are explained by a problem in identifying ARSA in the EEC (under-reporting, Mayotte excluded from the Employment survey, etc.). The reform of the RSA and the intensity of the coercion exerted by the 15 hours of activities requirement may modify the behavior of respondents, and in particular the way they answer the Employment survey questionnaire. The extent of its impact on ILO unemployment remains highly uncertain since we are making hypotheses based on the snapshot provided by the 2022 Employment survey and we are assessing the impact on the unemployment rate as simply as possible (Table A3).

Let's take a look at the ARSAs identified in the EEC, of whom 44.1% (18.2% in employment and 25.9% unemployed) are in the active work force, compared with 55.9% not. It is certain that the reform may enable unemployed claimants to return to work and thus modify the employment/unemployment split, but the results of the experiment launched in 2023, as published, do not allow us to estimate this effect. We therefore focus on the stock of people considered to be inactive. Inactivity includes both the purely inactive, i.e. individuals not looking for work, and the individuals making up the so-called halo around unemployment. This includes all unemployed individuals who have actively looked for work but are not available within two weeks (halo I); those who have not actively sought employment but are available for work in

20. Ordinary housing is defined in contrast to housing offering specific services (residences for the elderly, for students, for tourism, for social purposes, for disabled people, convents, prisons, etc.). See P.-Y. Cabannes and M. Chevalier (dir.), 2023, *Minima sociaux et prestations sociales. Ménages aux revenus modestes et redistribution*. [Social welfare floor and social benefits. Households on modest incomes and redistribution.] Édition 2023, Paris, Direction de la recherche, des études, de l'évaluation et des statistiques.

the two weeks following the reference week (halo II); and finally, individuals who have not sought employment in the previous month, are not available for work in the two weeks, but nevertheless wish to work (halo III).

Figure A3. **Where are RSA recipients in the 2022 Employment survey?**



DREES, enquête Emploi 2022, Insee and OFCE calculations.

According to data from the Employment survey for 2022, 1.86 million people are in the unemployment halo, and almost 13% of them receive the RSA (242,000 individuals). If all these people indicated that they were available for work (for halo I and halo III) and actively seeking work (for halo II and halo III), but were unable to find a job, then they would be considered unemployed according to the ILO definition. This would increase the unemployment rate by 0.7 point[21]. On the other hand, the impact on the unemployment rate would be 0.4 point for the structure of the 2022 employment survey[22]. If all RSA recipients were identified in the Employment Survey, and the structure of employment remained unchanged, the effect on the unemployment rate would be 0.5 point.

21. In other words, in this hypothesis, the 242,000 people included in the unemployment halo (I, II and III) would be counted as unemployed. If the number of unemployed and the working population increase by 242,000, the unemployment rate rises by 0.7 point.

22. Under this assumption, we consider that the 242,000 are divided between employment and unemployment according to the following distribution key: RSA in employment: (185 + 185/(185 + 263) * 242) = 285 and RSA unemployment : (263 + 263/(185 + 263) * 242) = 405. If we increase the number of unemployed by (405 - 263) = 142 and working population by (450 –263) + (285 – 185) = 242, then the unemployment rate increases by just 0.4 point.

Table A3. **Potential effects of the reform on the ILO unemployment rate**

Assumptions	Impact on unemployment rate (in point)
Maximum effect: everyone out of work	
Halo I, II and III	**0.7**
Halo I	0.2
Halo II	0.3
Halo III	0.3
Structural effect of the EEC continuous employment survey*	
Halo I, II and III	**0.4**
Halo I	0.1
Halo II	0.2
Halo III	0.2
Those not identified by the EEC are now identified**	**0.5**

OFCE calculations.

* According to the employment/unemployment split in the 2022 employment survey for ARSAs.
** I.e. those in the Employment survey and those in non-ordinary housing.
Scope: France as a whole.

Assisted employment, a bad fall

As the pandemic drew to a close and the labor market demonstrated a level of dynamism unseen for some time, public policy to support employment remained highly accommodating. It wasn't until the second half of 2021 that the withdrawal of certain health crisis specific schemes[23] materialized, and it wasn't until the second half of 2022 that the number of subsidized jobs[24] began to decline (Figure A4). However, this alignment with the economic situation was only very partial: on the one hand, support for work-study programs (particularly apprenticeships) was maintained at a high level, without targeting the most vulnerable segments of the population; on the other hand, the number of beneficiaries of subsidized contracts never fell below its 2019 level, even though employment had grown considerably in the meantime; lastly, reinforced support measures were stepped up and maintained at a high level[25].

Despite a few adjustments, employment policy thus remained clearly pro-cyclical. The 2024 Finance Act provided for a very sharp reduction in credits allocated to subsidized contracts, the number of which was limited by the budget (-312 million euros compared to 2023, or -32% in "commitment authorizations", i.e. for new contracts signed during 2024), but remained rather generous on other items, including those with "open windows" (schemes for which the number of entrants is not constrained but follows demand, such as apprenticeship contracts). All in all, apprenticeships helped to create 28,000 jobs in 2023, but other schemes contributed to destroying -5,700 positions, i.e. a net balance of 22,300 jobs attributable to employment policy (Table A4).

As we had anticipated in our previous forecasts, this atypical strategy comes at a price: employment policy today finds itself at odds between a slowing labor market, which would necessitate an increase in credits allocated to subsidized jobs, and budgetary constraints, which are tightening all the more since the 2024 budget was built on overly high growth assumptions. In 2024, the 5,700 jobs still created by apprenticeships would not compensate for the -15,500 job losses engendered by the reduction in resources allocated to other schemes (and this before the budgetary cut).

23. The AEJ Help with hiring young people scheme.

24. Within the "assisted employment" category, "assisted contracts" define specific, subsidized contractual supports for the integration of people who are furthest from the job market: PEC (*parcours emploi compétences*, for public-sector employers), CIE (*contrat initiative emploi*, for private-sector employers), and emplois francs for public-sector employers hiring an unemployed person living in a priority urban district. These people who are far from employment also have access to support and employment in the structures of the *insertion par l'activité économique* (IAE) scheme, jobs that are subsidized ("aides au postes"), but based on ordinary legal employment contracts, which distinguishes them from "assisted contracts". All these schemes are contingent and "closed window", unlike the other three forms of subsidized employment – apprenticeship contracts, professionalization contracts, assistance for business creators and entrepreneurs (ACRE) – which are "open window", i.e. not contingent, and can be likened to an entitlement

25. "Garantie jeunes" scheme, then "Contrat d'engagement jeune" scheme (CEJ). Traditionally, these schemes are not counted as subsidized employment, which is debatable insofar as the beneficiaries may be "placed in a job situation" and receive an income. There were up to 230,000 young people accompanied in July 2022, and 193,000 in late November 2023.

Table A4. **Beneficiaries of subsidized jobs and impact on employment**

Thousands of people	Inventory at 12/31			Change in inventory		Employment effect	
	2022	2023	2024	2023	2024	2023	2024
Employment and skills pathways (PEC)	51.9	46.8	40.7	-5.1	-6.1	-2.6	-3.0
"Contrat initiative emploi" (CIE)	21.8	16.8	6.4	-4.9	-10.3	-0.5	-1.0
Emplois francs	49.3	50.1	39.1	+0.8	-10.9	+0.1	-2.0
Insertion par l'activité économique (IAE)	144.9	146.7	140.7	+1.8	-6.0	+1.1	-3.8
Aide aux créateurs d'entreprise (ACRE)	346.7	346.7	346.7	—	—	—	—
Apprenticeship contract	973.3	1020.0	1029.3	+46.7	+9.4	+28.0	+5.6
Professionalization contract	97.8	91.2	81.5	-6.6	-9.7	-3.9	-5.8
Total	**1 685.7**	**1 718.4**	**1 684.6**	**+32.7**	**-33.8**	**+22.3**	**-10.1**

Dares (PoEm), PLF 2024, OFCE spring 2024 forecast, authors' calculations.

Learning against all odds

In 2023, apprenticeships once again spearheaded France's employment policy. The 852,000 contracts signed erased the record set in 2022 (836,000), but still fell far short of the President's target of 1 million new apprentices per year. The number of apprentices under contract rose by a further 46,700, including 45,100 in the commercial sector, where these contracts accounted for half of all salaried jobs created during the year (91,000). Given the particularly strong substitution effects generated by the aid currently associated with this scheme[26], the net contribution to market employment would have been around 28,000 in 2023. However, the increase in entries slowed sharply in 2023, to 1.9%, compared with 38.1% in 2022 and 14.1% in 2023. The reduction in the one-off grant from 8,000 to 6,000 euros for adult apprentices seems to have weighed on the pace of entries into higher education, which nevertheless accounted for 80% of the additional entries (11,400 out of 15,800); on the other hand, the increase from 5,000 to 6,000 euros in the one-off grant for minors has not led to a rebound in entries by apprentices preparing a secondary school diploma (3,600).

We forecast a stabilization in the number of apprenticeship entrants (852,000), well below the government forecast of 901,000 that we adopted last autumn. The latter is optimistic: on the one hand, the rate of growth in apprenticeship entries has slowed; on the other hand, apprenticeship entries are traditionally in phase with the salaried employment situation, which will itself contract in 2024. Even so, under these conditions, apprenticeships should still contribute to the creation of 5,600 jobs in 2024; but even a slight downturn in new entries could easily tip this contribution into the red.

In the field of work-study programs, the 115,800 new vocational training contracts will be down in 2023 by a further 3,000 compared to 2022. This trend is set to continue in 2024 in comparable proportions (-6,000), under the dual effect of persistent competition from apprenticeships and the deteriorating economic climate. The stock of beneficiaries will fall by -9,700, resulting in the destruction of almost -5,800 jobs in 2024.

Sharp drop in integration contracts for people far from employment

While the appropriations voted for subsidized contracts in 2023 were still procyclical, the actual situation was quite different. PEC schemes [Parcours emploi compétences, for public sector employers] were allocated 530 million euros in commitment authorizations in the 2023 LFI finance act (for around 80,000 contracts), 13% more than in 2022: but with only 62,900 new contracts signed in 2023, PECs led to the destruction of -2,600 jobs. At constant contract characteristics, these entries would therefore have involved only 417 million euros[27]. In 2024, the budget envelope reduced to 331 million goes even further: -37% compared to the LFI 2023 and -21% compared to actual performance, demonstrating a very brutal braking. Yet the government is planning almost as many PECs in 2024 as in the previous year (61,000, i.e. only -5.6%). To achieve such a result, the characteristics of the contracts have been downgraded: for 2024, their total duration has been reduced from 11 to 9.9 months (-10%) and from 26 to 25 weekly working hours (-4%). Given this basis, PECs will once again make a negative contribution to salaried employment in 2024 (-3,000).

CIE schemes (*Contrats d'initiation à l'emploi*, for private sector employers) have also suffered regular and severe cuts: after peaking at the beginning of 2022, the year ended with 50,000 new entries (-37% compared with 2021). In 2023, only 32,000 new contracts were signed (-36%), in line with the volumes programmed at the start of the year, with a negative impact of -500 salaried market jobs. For 2024, 14,000 new contracts (-56%) are forecast.

26. Coquet B., 2023, « Apprentissage : un bilan des années folles » [Apprenticeships : A summary of some crazy years], *OFCE Policy brief*, no. 117.

27. This does not take into account the 6.7% annual average increase in the minimum wage (SMIC), which does not have a homothetic impact, as the profile of new hires will be very different in 2023 than in 2022.

This is in line with a budget that has also been cut by 56%; the government is nonetheless taking advantage of this margin to make savings, since the quality of the contracts has deteriorated in the same way as for the PECs: the average duration of the CIEs has fallen to 8.3 months (-14%), with a weekly duration reduced to 28.3 hours (-6%). All in all, the CIE program is estimated to have led to the destruction of -1,000 salaried market jobs. The *Emplois francs* scheme [for public sector employers hiring an unemployed person in a priority urban district] saw a slight downturn in the first half of 2023[28]; as with the other two types of subsidized contract, the decline is likely to have intensified in the second half. Here too, the budget voted for 2024 is down significantly (-9% on 2023). While their effect on employment was neutral in 2023 (100), *Emplois francs* will account for -2,000 job losses in 2024.

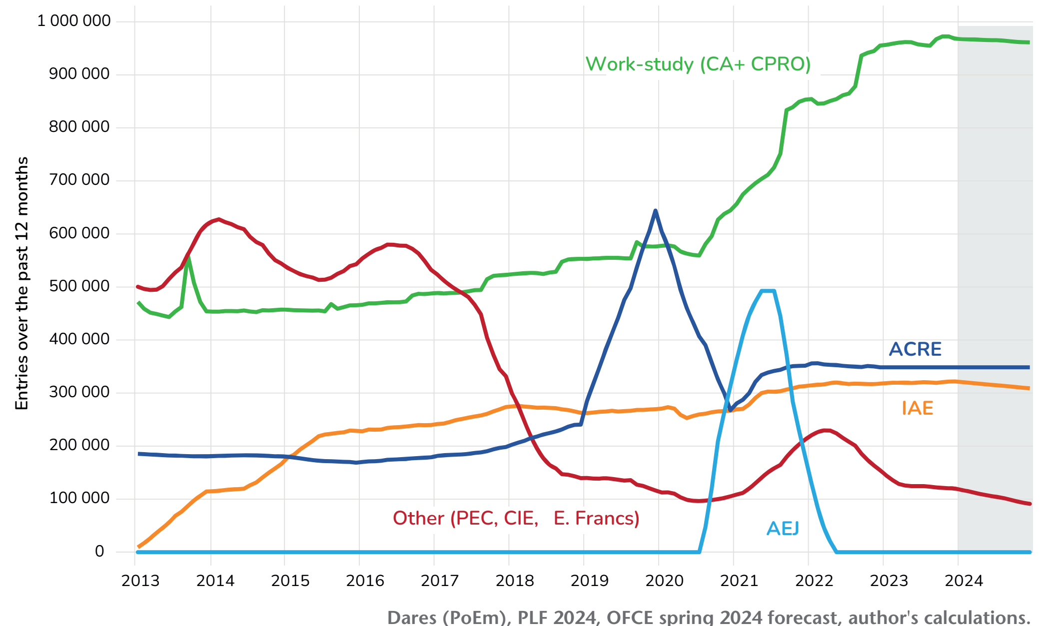
All in all, at a time when unemployment is on the rise, these three schemes designed to help those furthest from the job market have destroyed around -3,000 jobs in 2023, and will contribute to a reduction of around -6,000 positions in 2024.

Aid for integration through economic activity (IAE – *Insertion par l'activité économique*), expected to rise slightly, could be affected by budget cuts, insofar as it is discretionary: with no information on any future cuts in this politically sensitive sector, we forecast a slight drop in entries (-12,900, or -4%) due to increases in the SMIC (minimum wage), which raises unit costs[29]. After supporting employment by 1,000 jobs in 2023, the contraction of aid to the IAE would eliminate 3,800 jobs in 2024. On the other hand, aid for business start-ups and takeovers (ACRE – *Aide aux créateurs et repreneurs d'entreprise*) is an open window that can be modified only by reviewing the rules of the scheme: without information on the whole of 2023, we consider that the number of new entrants in 2023 and 2024 was equivalent to 2022, and therefore neutral in terms of job creation.

28. Data are available only until July 2023.

29. For IAE, as for subsidized contracts with a defined budget, the rise in the SMIC (due both to the base effect of the 2023 increases and to the two increases anticipated by the Ministry of Labor for 2024) reduces the number of jobs that can be financed, thus implying a drop in entries.

Figure A4. **Annual entries by type of subsidized employment (2013-2024)**



Dares (PoEm), PLF 2024, OFCE spring 2024 forecast, author's calculations.

Note: The year 2025 is not shown, as in the absence of sufficient information on future budget adjustments, we have adopted the technical assumption of stable entries into subsidized employment schemes.

In the uncertainty of a budgetary update

In the absence of precise information, our 2025 forecast stabilizes the stock of subsidized jobs, which implies neutral effects on employment and unemployment. Without the threat of a budgetary cut-off, the slowdown in activity and employment, and the rise in unemployment, would have led us to expect an increase in the number of people on subsidized contracts, as early as 2024.

Even before the budget package announced for the summer, and the 2025 Finance Act, the credit cancellations announced in February 2024[30] have already removed 228 million euros (-3%)[31] from the "Labor Mission" program, which finances subsidized contracts among other things, and 864 million euros (-6%) from the program that finances other subsidized jobs, including apprenticeships, as well as vocational training.

These cuts, which would affect "youth schemes, employment policies, vocational training and apprenticeships", could be dealt with in different ways:

- By allocating them exclusively to subsidized employment. Given the situation described above, however, it seems inappropriate – and therefore unlikely – to cut the budget for subsidized contracts by around -45%, and that for other subsidized jobs by just over -11%. What's more, not all budgetary gains are easy to achieve or immediately accessible: assisted contracts or AEI can simply be cut, as they are discretionary, but for a scheme such as apprenticeships, a change in the rules in spring 2024 would generate only very few savings this year, the bulk of which will be deferred until 2025[32].
- By sparing subsidized jobs. This would seem appropriate, particularly for subsidized contracts and schemes aimed at integrating those most at risk from rising unemployment. The savings on subsidized contracts would then be transferred to other budgets with which these expenses are fungible, for example by matching them now with the announced abolition of the specific solidarity allowance (ASS), or by reducing the subsidy to the France Travail jobs agency and making unemployment insurance contribute slightly more than planned, which would transfer the problem and therefore the savings to the unemployed on benefit. Similarly, the subsidy to France Compétences [the public organization in charge of the regulation and financing of apprenticeship and vocational training] could be reduced, but it would then be the agency's accounts that would have to adjust (higher contributions, moderating fees for the personal training account, lower levels of support for apprentices, etc.). Such a strategy presupposes structural reforms, which are very different from simple budget cuts in "expenditure on interventions".
- Nor should we underestimate the resource represented by the 9.2 billion euros of "tax expenditures" (tax credit for home workers, overtime tax exemption, etc.) allocated to the Labor Mission, but which would only generate budget savings if amended by a rectifying finance act. This option is all the more tempting in that it avoids any tax increases.

The government could take advantage of the fact that the predicted deterioration is, for the time being, small-scale and limited in time, to stretch itself and not try to control the effects of rising unemployment. The fact remains that inefficient expenditure, such as apprenticeship in its current form, can and should be reviewed, which could save public finances around €8 billion a year[33].

Much of the success achieved in the labor market over the past three years has come at a high price and based on credit, in part artificially. In any case, the looming budgetary update will not spare the labor market, and in a procyclical sense once again. ■

30. Decree no. 2024-124 of February 21 2024.

31. In fact, a little more, considering that credits have already been committed in the first 50 days of the year.

32. Coquet B., 2023, « Et pour quelques milliards de pus… 1 million d'apprentis » [For a few billion more… 1 million apprenticeships], *Blog de l'OFCE*, 16 octobre.

33. Coquet B., 2023, *op cit.* note 25.

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