Flash Economics

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The two obstacles to the recovery of public finances in France

The recovery of public finances in France will be very complicated because of two characteristics of the French economy:

- the rapid rise in the household savings rate, which is weakening consumption and therefore tax receipts (VAT), without this being offset by a surge in investment;

- the fall in labour productivity, which, despite the rise in employment, has resulted in weak GDP growth.

As long as these two causes persist, France's growth will be weak and export-led, so tax revenues will continue to stagnate, making it difficult to reduce the public deficit.

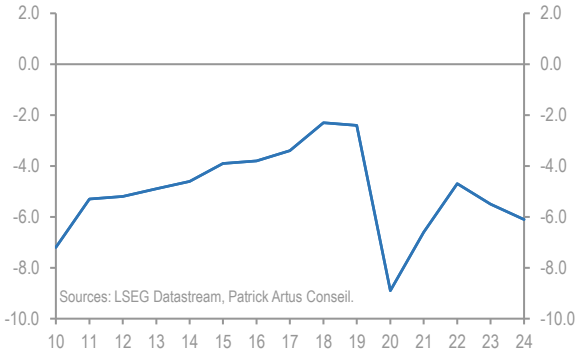
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France's public deficit will exceed 6% of GDP in 2024

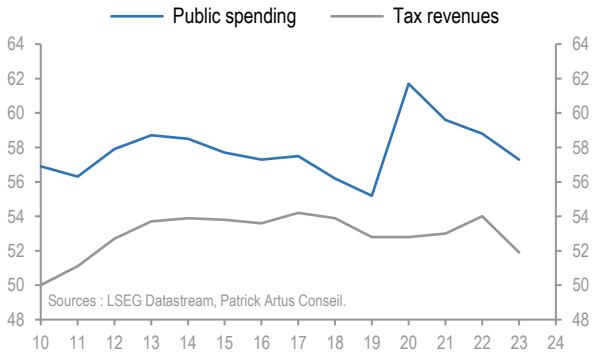
France's public deficit will exceed 6% of GDP in 2024 (Chart 1)

Chart 1
Fiscal deficit (as % of nominal GDP)



The rise in the public deficit is mainly due to weak tax revenues rather than strong growth in public spending (Chart 2).

Chart 2
France: Public spending and tax revenues
(as % of nominal GDP)



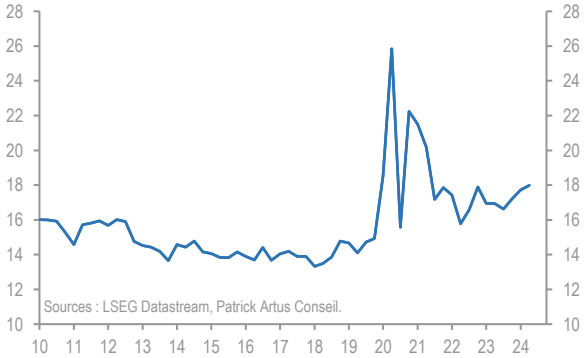
Here we look at the two main causes of low tax revenues:

- the rise in the household savings rate;
- the fall in labour productivity.

First problem: the rising household savings rate

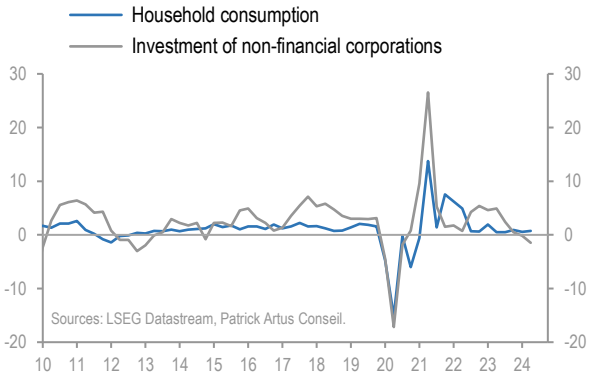
The French household savings rate has risen sharply since 2018 and again since 2023 (Chart 3), reaching 17.9% in the second quarter of 2024.

Chart 3
France: Gross household savings rate
(as % of gross disposable income)



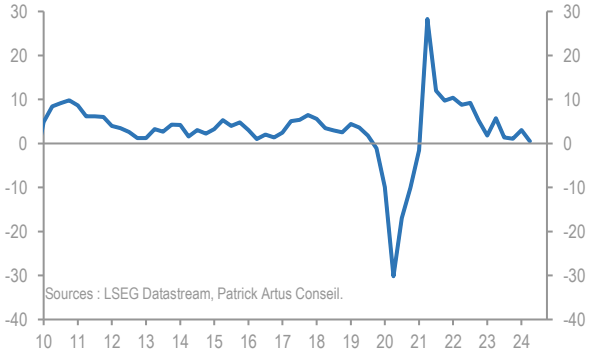
This rise in the savings rate is probably the result of economic uncertainty, political uncertainty, worries about the future of pensions, and the prospect of higher taxes or lower public spending. The result is **weak household consumption (Chart 4)**, which has not been offset by a rise in business investment.

Chart 4
France: Household consumption and Investment of non-financial corporations (in volume terms, Y/Y as %)



As a result, **France's growth is mainly driven by exports (Chart 5)**, and as exports are not subject to VAT, this results in low VAT receipts (which at the end of July 2024 are €1.2bn lower than their level over the period January-July 2023).

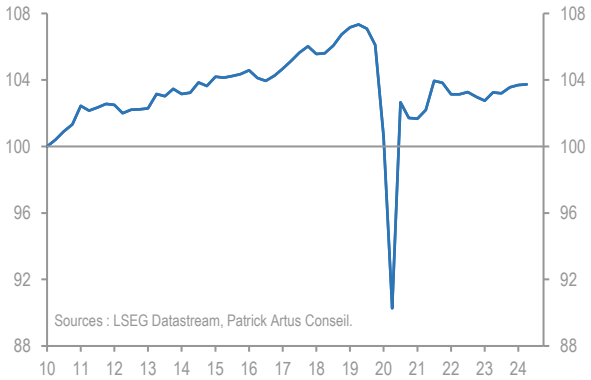
Chart 5
France: Exports of goods and services (in volume terms, Y/Y as %)



Second problem: falling labour productivity

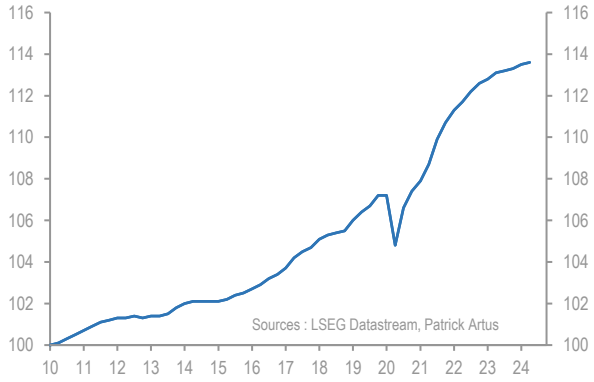
Chart 6 shows the trend in **labour productivity in France**.

Chart 6
France; Productivity per head (2010.Q1 = 100)



One can see that labour productivity falls by 4% between 2019 and the second quarter of 2024 and recovers only slightly in 2024. The fall in productivity is offset, in terms of determining activity, by the rise in employment (**Chart 7**).

Chart 7
France : employment (2010 Q1 = 100)



Total employment rose by 9% between 2019 and the second quarter of 2024. However, the decline in productivity has created **major recruitment difficulties (Chart 8), and has slowed GDP growth (Chart 9)**, leading to a slowdown in tax revenues.

Chart 8
Companies experiencing recruitment difficulties (by sector, as %)

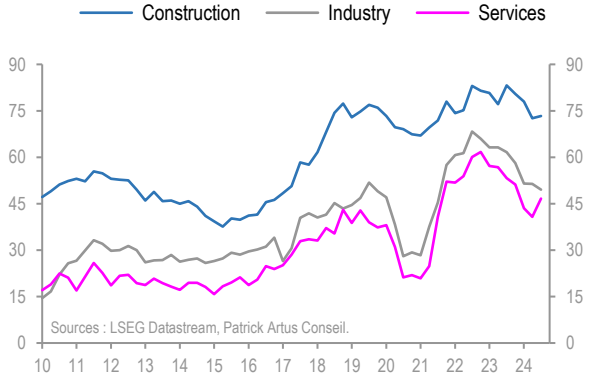
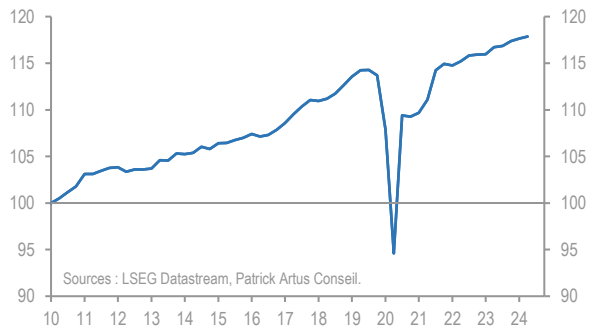


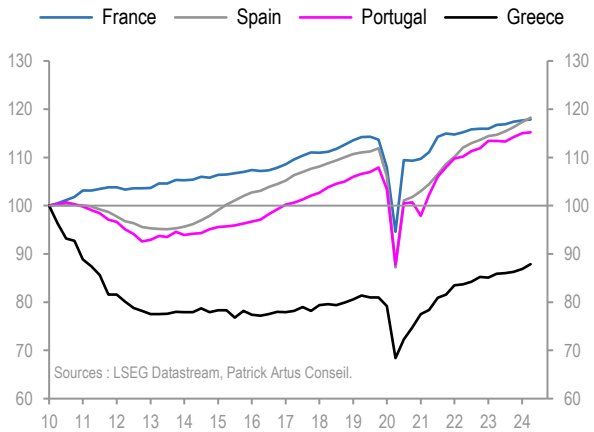
Chart 9
France: Real GDP (2010.Q1 = 100)



Summary: continuing difficulties for French public finances

As long as uncertainty (economic, political, fiscal, etc.) persists, it is unlikely that **the household savings rate will fall**. Consumption will therefore remain weak, which will have an impact on tax revenues. As long as spending on R&D and investment in new technologies remains low, and as long as skills are insufficient, labour productivity will not recover. The weakness of tax revenues, with unchanged tax pressure, **will therefore not be corrected**, **which makes the situation of public finances in France much more difficult to improve than in Spain, Portugal or Greece**, where GDP growth has been between 2% and 3% in the recent period (**Chart 10**)

Chart 10
Real GDP (2010.Q1 = 100)



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