Flash Economics

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How can the increase in France's public debt ratio be explained?

France's public debt ratio has risen from 36% of GDP in 1991 to 112% of GDP in the second quarter of 2024; Germany's public debt ratio was 38% of GDP in 1991, rising to 64% of GDP in 2024.

How can we explain this difference between the two countries' public debt ratios? At first glance, it is likely to be due to:

- A lower tax burden in France, which is clearly not the case over the medium term (in 2023, it was 45% of GDP in France and 40% of GDP in Germany); over the recent period (since 2017), however, the tax burden has fallen in France as a result of tax cuts, while remaining significantly higher than in Germany;
- Weaker growth in France than in Germany; this is not the case over either the long term or the short term;
- Higher public spending in France than in Germany. Over the recent period (2017 to 2023), the weight of public spending has been stable in France, while the tax burden has been falling;
- When we look at the major items of public spending (pensions, education, health, military spending, public investment), we see that it is mostly public spending on pensions and public investment that is higher in France than in Germany.

Overall, structurally, successive governments have not been willing to raise the tax burden to the level that would finance public spending and have not succeeded in reducing the weight of public spending in GDP.

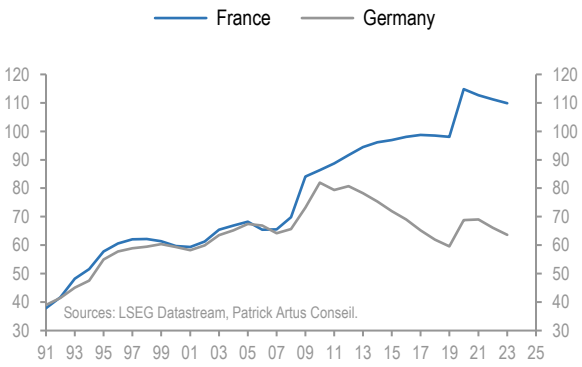
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Public debt ratio and tax burden

Chart 1 shows the public debt ratio in France and Germany since 1991.

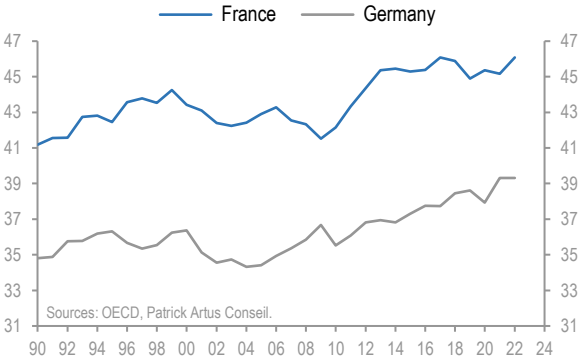
Chart 1
Public debt (as % of nominal GDP)



Since 1991, Germany's public debt ratio has risen by 26 points of GDP, while France's public debt ratio has risen by 76 points of GDP.

The first possible explanation for this very sharp rise in France's public debt ratio is that France has a lower tax burden than Germany. Chart 2 shows that this is clearly not the case.

Chart 2
Tax burden (as % of nominal GDP)



In the recent period, the rise in France's fiscal deficit (Chart 3) has been linked to the decrease in France's tax burden, according to INSEE's measure of the tax burden (which differs widely from the OECD measure), from 45.3% of GDP in 2017 to 43.2% of GDP in 2023 (Chart 4).

Chart 3
France: Fiscal deficit (as % of nominal GDP)

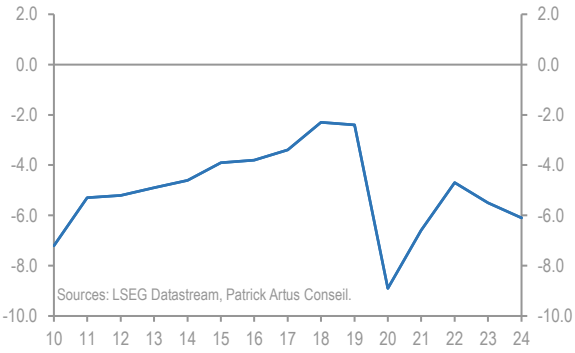
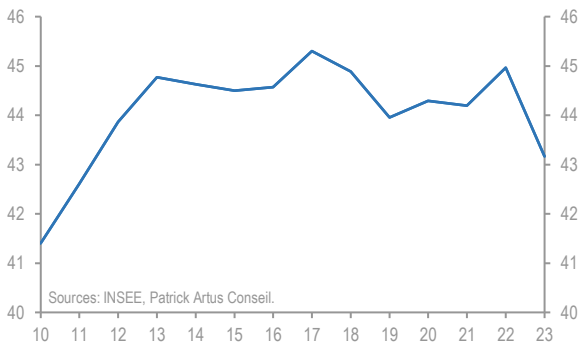


Chart 4
France: Tax burden (as % of nominal GDP)

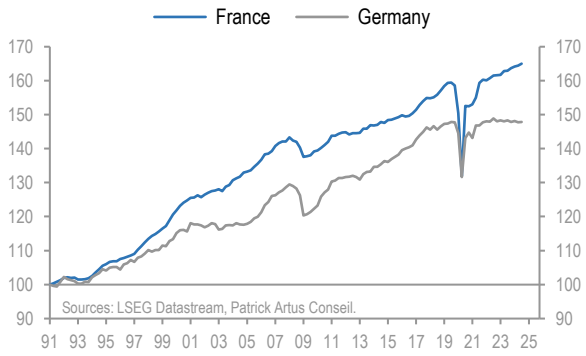


But from 1991 to 2023, the tax burden in France has been consistently higher than in Germany, and the rise in the public debt ratio cannot be attributed to the low average tax burden in France.

Growth

Chart 5 shows real GDP since 1991 in France and Germany.

Chart 5
Real GDP (1991.Q1 = 100)



One can see that growth has been stronger in France than in Germany since 1994.

Public spending

We can start by looking at total public spending (Charts 6A/B).

Chart 6A
Public spending (as % of nominal GDP)

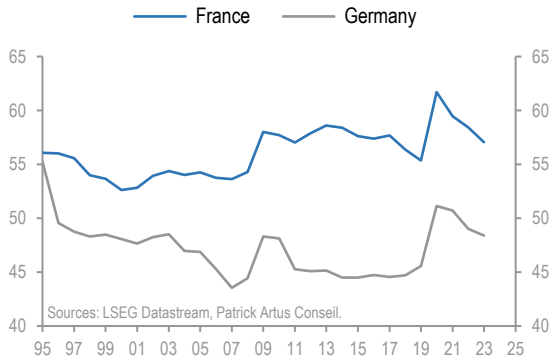
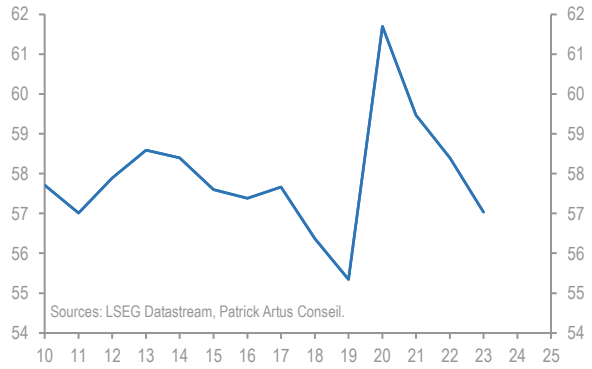


Chart 6B
France: Public spending (as % of nominal GDP)



There is a growing gap between the weight of public spending in France and that in Germany.

In the recent period (Chart 6b), the weight of public spending in France has been falling between 2013 to 2019, risen sharply in 2020 and returned to its 2011 level in 2023.

One can then look at **the main areas of public spending**: pensions, education, health, military spending and public investment (**Charts 7A/B/C/D/E**).

Chart 7A
Public spending on pensions (as % of nominal GDP)

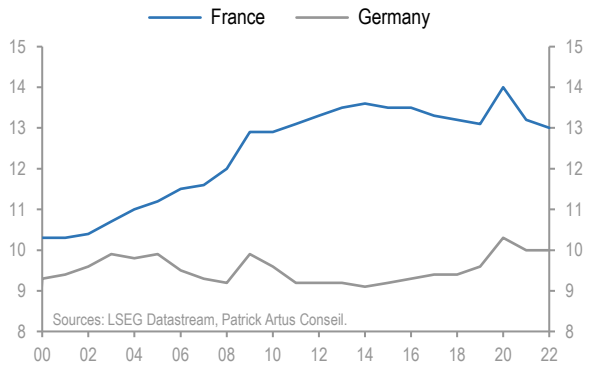


Chart 7B
Public spending on education (as % of nominal GDP)

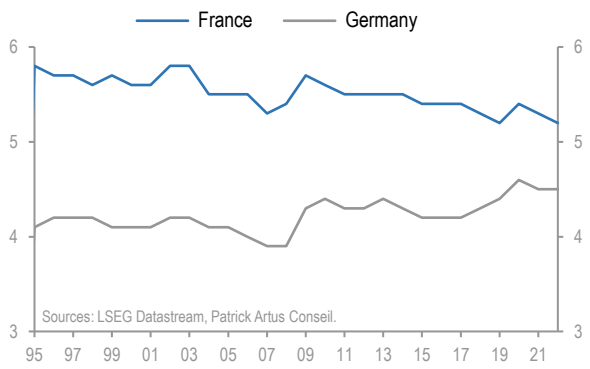
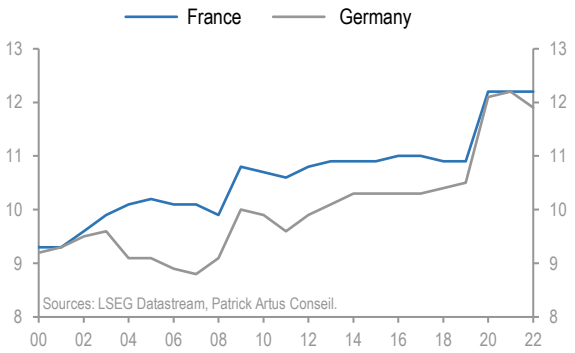


Chart 7C
Public spending on healthcare* (as % of nominal GDP)



(*) Health, sickness and disability

Chart 7D
Public spending on defence (as % of nominal GDP)

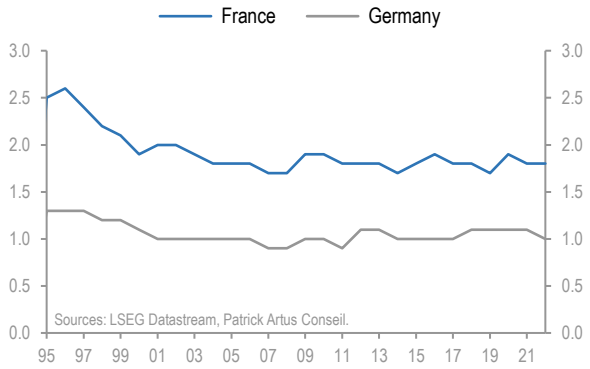
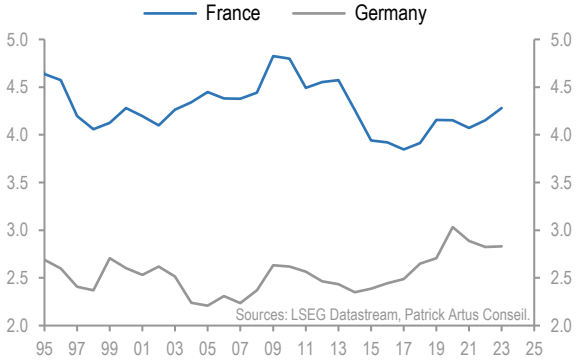


Chart 7E
Public Investment (as % of nominal GDP)



France shows:

- **A high proportion of pension expenditure**;
- Higher education spending than in Germany, although the gap is narrowing;
- Similar levels of public spending on health compared to Germany;
- A higher level of military spending and public investment than in Germany.

Summary: a gap is increasing between the public debt ratios of France and Germany, mainly due to the weight of public spending on pensions and public investment in France

From 1991 to today, France's public debt ratio has increased by 50 points of GDP more than that of Germany.

This extra outstanding debt is not due to weak growth or the tax pressure in France.

It is due to the high level of spending on pensions and on public investment, and to a lesser extent on education and on the military.

In the recent period, it is the fall in the tax burden since 2017, while public spending relative to GDP was at the same level in 2017 as it is in 2023, which explains the high level of the fiscal deficit and the rise in the public debt ratio. Unfortunately, the reduction in the tax burden has not generated sufficient additional growth to stabilise the public debt ratio.

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