Flash Economics

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The probability that France will be able to stabilise its public debt ratio is low

France is characterised by:

- A low-quality education system and weak skills among the working population;
- The rejection of the postponement of the retirement age;
- Underinvestment in new technologies and low research and development expenditure by businesses;
- A weak collective work ethic;
- A growing rejection of immigration.

As a result, it is unlikely that, in the future, the employment rate will increase or labour productivity will improve; therefore, long-term growth will remain weak.

It is also highly unlikely that public spending levels can be reduced, given the lack of state reform and the needs of the Healthcare and Education systems. Moreover, the tax burden is already very high.

The consequence of this situation is the great difficulty in reducing the public deficit and stabilising the public debt ratio.

It will probably take a significant strain on the French public debt market for the public finances situation to be restored through a collective effort.

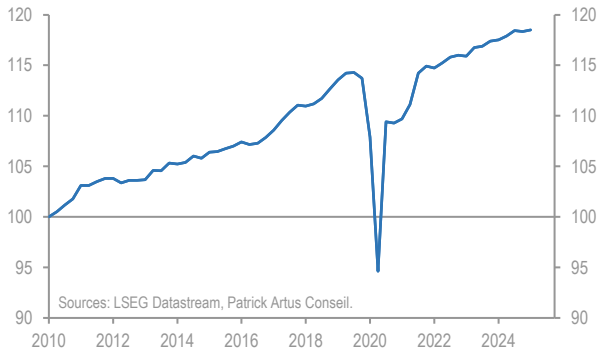
Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

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High unlikelihood that France's long-term growth will recover

We do not believe that France's long-term growth (averaging 0.7% since 2010, Chart 1) can recover.

Chart 1
France: Real GDP (1991.Q1 = 100)



Indeed:

- The French Education system is of poor quality (Table 1) and continues to deteriorate;

Table 1: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2012	2015	2018	2022
Japan	540	529	520	533
Canada	522	523	517	506
Switzerland	518	506	498	498
Finland	529	523	516	495
United Kingdom	502	500	503	494
Sweden	482	496	503	487
Germany	515	508	500	482
France	500	496	494	478

Source : OECD

- The working population's skill level is low (Table 2);

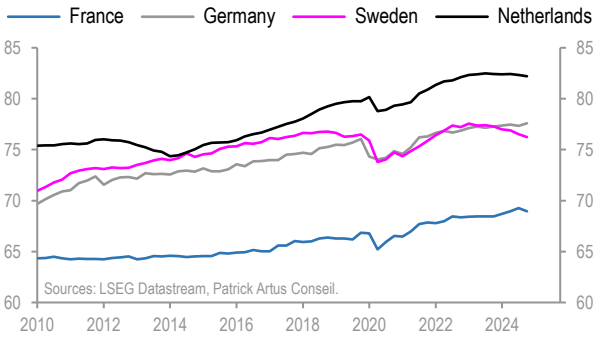
Table 2: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Finland	285	289
Japan	292	285
Sweden	279	281
Canada	269	267
Germany	271	267
Switzerland	-	267
England (UK)	267	266
France	258	253

*In 2016, average score in numeracy and literacy
Source: OECD

- **Public opinion overwhelmingly rejects raising the retirement age, so the employment rate increase will be limited** (**Chart 2**);

Chart 2
Employment rate of population aged 15 to 64 (as %)



- **Investment in new technologies** (**Chart 3**) **and corporate R&D expenditure** (**Chart 4**) are insufficient;

Chart 3
Investment in information and communication technologies (in value terms, as % of nominal GDP)

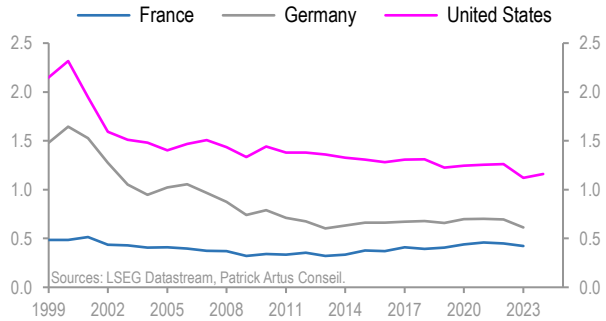
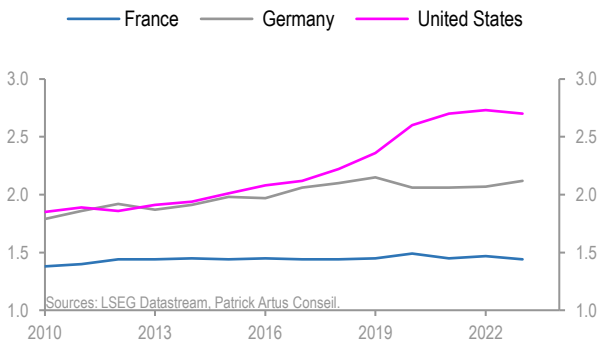


Chart 4
Corporate R&D spending (as % of nominal GDP)



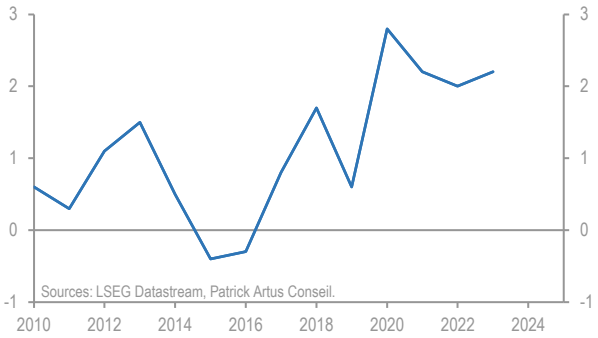
- **The collective work ethic is weak**, as shown by the evolution of **corporate absenteeism rates** (**Chart 5**);

Chart 5
France: Absenteeism rate (as %)



- Immigration (Chart 6) is subject to a growing collective rejection.

Chart.6
France: Net migration (per 1000 persons))



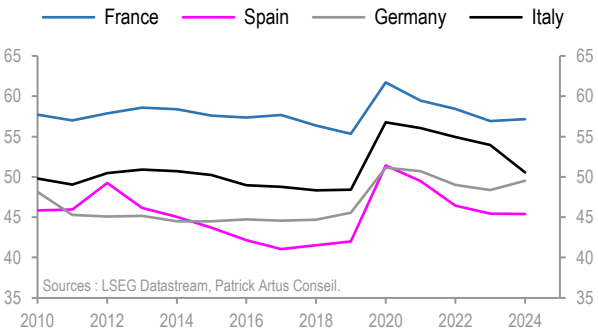
Given this overall situation, it is unlikely that long-term growth will recover in France.

Maintaining high public deficits and rising public debt ratio

Long-term growth will therefore remain weak in France, and we cannot rely on a return to growth to reduce the public deficit.

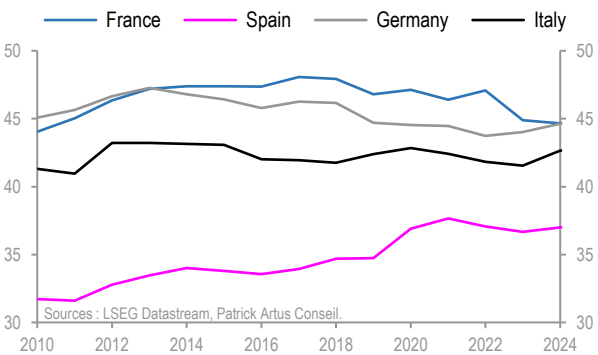
It is also highly unlikely that the level of public spending, relative to GDP (Chart 7), can be significantly reduced, due to demographic ageing (which will increase Healthcare spending, dependency, and pension needs), the needs of the Education system, and the rejection of profound state reform (which Sweden, for example, successfully implemented in the late 1990s with privatisations, the creation of Agencies, and the near-complete disappearance of civil servant status).

Chart 7
Public spending (as % of nominal GDP)



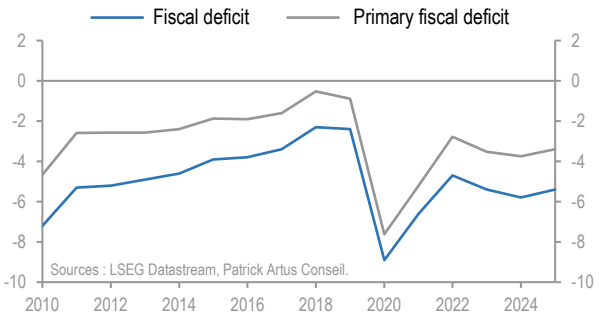
Furthermore, since the tax burden is already very high (Chart 8), in an environment of fiscal competition between countries, an additional increase in the tax burden is also very unlikely.

Chart 8
Tax burden (as % of nominal GDP)



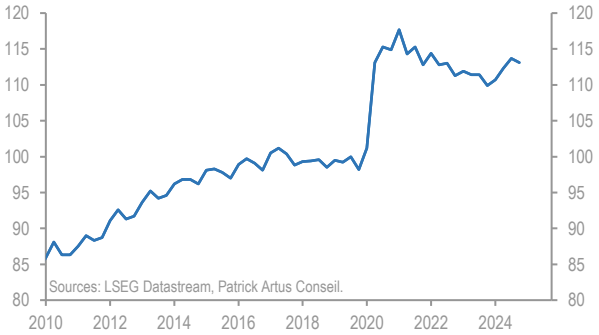
Long-term volume growth will at best equal the long-term real interest rate. Today, with a 10-year interest rate of 3.30%, and anticipated 10-year inflation of 2%, the long-term real interest rate is 1.3%, probably higher than long-term real growth.
Stabilising the public debt ratio would require a slight primary budget surplus, whereas the projected primary budget deficit is 3.4% of GDP (**Chart 9**).

Chart 9
France: Fiscal deficit and primary fiscal deficit
(as % of nominal GDP)



This implies that the public debt ratio (**Chart 10**) **will continue to grow rapidly**.

Chart 10
France: Public debt (as % of nominal GDP)



Summary: France's public debt ratio stabilisation will only come from a debt crisis

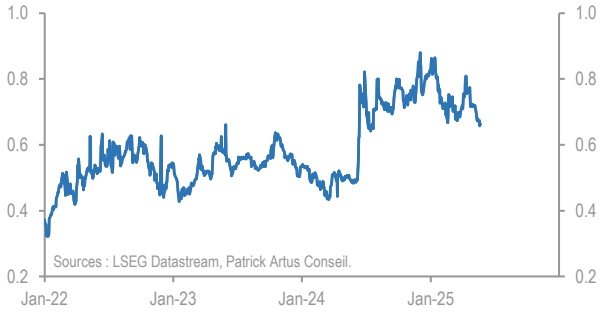
We do not believe, concerning France:

- In a recovery of long-term growth;
- In a significant reduction of public spending;
- In an increase in the tax burden.

Consequently, we should expect a significant primary public deficit to persist and the public debt ratio to continue to rise.

The only development that could force the primary budget deficit to disappear (which is necessary to stabilise the public debt ratio) is a reaction from financial markets to the rising debt ratio, i.e., difficulties for the Agence France Trésor in completing its issuance programme and concurrently a significant increase in the interest rate spread between France and Germany (**Chart 11**).

Chart 11
France: Yield spread on country's 10-year government bonds against Germany (as % point)



Neither of these two developments are being observed today.

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