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GROWTH UP AGAINST FISCAL RECOVERY
The 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 autumn 2024. It is based on the work of the France team, led by Mathieu Plane and composed of Elliot Aurissergues, Bruno Coquet, Magali Dauvin, Elsa Feltz, Ombeline Jullien de Pommerol, Pierre Madec, Raul Sampognaro.

This forecast is based on information available up to 11 october 2024.

A summary of the 2024-2025 outlook for the world economy is available in the *OFCE Policy brief,* n° 136.

Abstract

The OFCE's forecast for France's GDP growth in the coming years is 1.1% for 2024 and 0.8% for 2025. The impact of the violent shocks experienced by the French economy is gradually fading, as can be seen by slowing inflation, which should average 1.5% in 2025. This will permit the European Central Bank to cut interest rates, which will boost the economy in 2025 by 0.4 point of GDP. The deterioration in the public finances was not well anticipated, which, amidst today's political instability, will require a sharp tightening of the budget. Reducing the structural deficit will trim the economy by 0.8 GDP point in 2025.

A more detailed version is updated and available on our site:
https://www.ofce.sciences-po.fr/prev/prev2409

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French GDP grew by 1.1% in 2023 according to INSEE's latest accounts (from 30 August 2024), so at a faster pace than the euro zone average (0.5%, Figure 1). This helped the French economy to close the gap with the zone that arose since 2019, the last quarter preceding the pandemic. As a result, in mid-2024, France's GDP was 3.8% above its pre-COVID level; this is very close to the euro zone average (4.3%), well above Germany (0.2%) but still far behind the United States (12.5%).

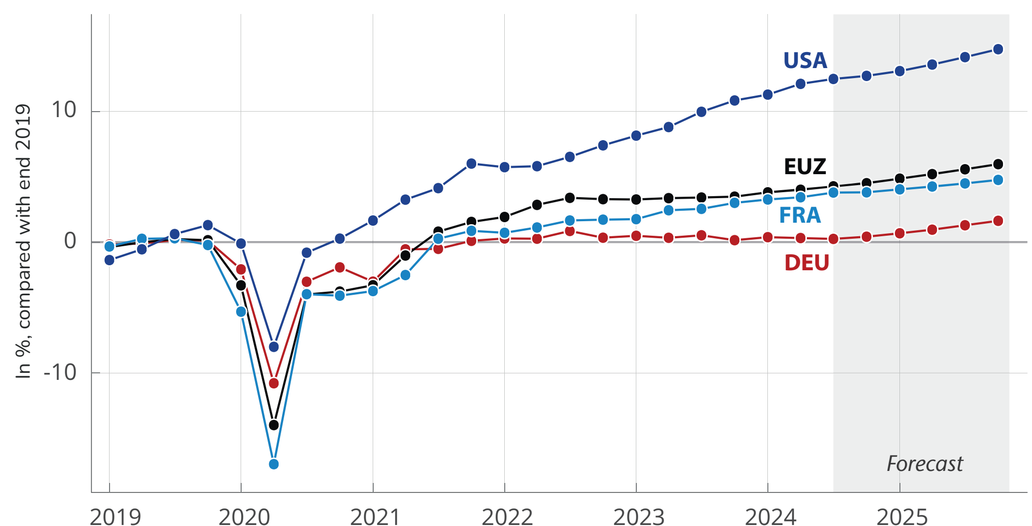
France's average annual growth rate should hit 1.1% in 2024. This upwards revision since our April 2023 forecast is due to three factors:

1. First, the fiscal trajectory has differed greatly from what was presented in the Stability Programme in April 2024. Even though growth was revised only very little during the various budget processes and will be very close to the Treasury's forecasts, the public deficit has deviated significantly from the forecasts. It will come to 6.1% in 2024, compared with the 5.1% initially forecast in the Stability Programme presented that spring (and 4.4% in the 2024 Finance Act). This was due to the cancellation of fiscal measures after Parliament was dissolved, along with increases in local government expenditure that exceeded expectations, while increases in tax revenue fell short. This difference in the fiscal impulse in 2024 pushed GDP for the year up 0.5 point above our Spring forecast;
2. The second factor is related to the revision of the accounts for 2023, with GDP growth revised 0.3 point upwards (from 0.2% to 0.5%);
3. The third factor concerns the dissolution of Parliament and uncertainty concerning the country's economic policy, which cut 0.1 point off 2024 growth (see Box 2).

In 2025, French growth is expected to reach 0.8%, despite the positive impact of monetary policy (+0.4 GDP point due to lower interest rates), but this will be constrained by the elimination of all the tariff shields, and in particular by the new fiscal adjustments planned by the Barnier government next year (which the government estimates at 60 billion euros[1]).

1. According to our calculations (see Box 6 for more details), the reduction of the structural public deficit should come to -1.5 GDP point in 2025 (which corresponds to 44 billion euros), of which 0.3 GDP point is related to the end of the exceptional measures (end of the tariff shields and stimulus measures). A breakdown of the primary structural adjustment shows it to be about 60/40 between increased revenue and reduced public expenditure.

Figure 1. **Change in GDP from 2019**



OECD, OFCE forecasts October 2024.
Last known point: Q2 2024.

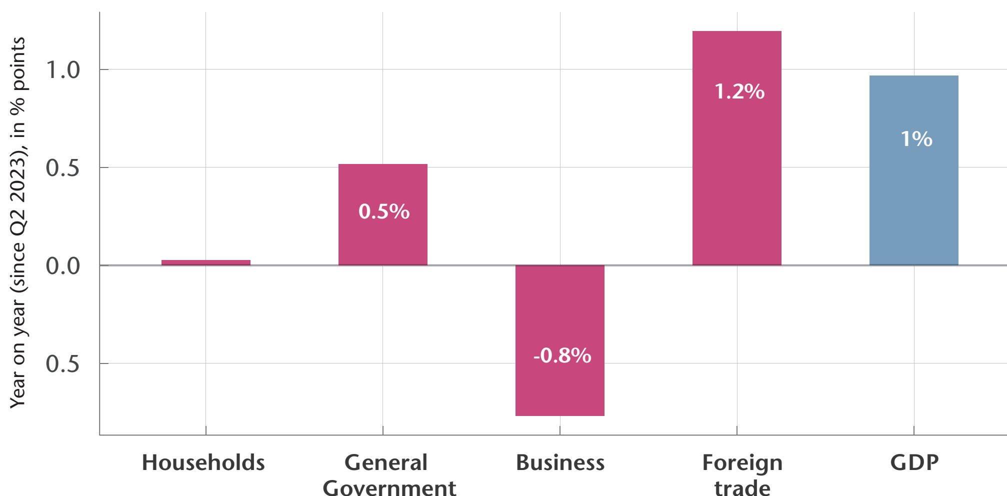
Inflation should fall in 2024 (averaging 2.0% after 4.9% in 2023) and hit 1.5% in 2025, which is well below the 2% target, due in particular to the drop expected in electricity prices. The downturn in the labour market is expected to continue, due to slow economic growth and to partially making up past productivity losses. The unemployment rate should thus reach 8% by the end of 2025, up from 7.3% today (excluding the impact of the reform of France's RSA minimum income benefit). While the savings rate should remain high in 2024, it will fall in 2025 along with inflation and interest rates, which should sustain consumer spending even though purchasing power will be lower next year (-0.2%, after +1.1% in 2024 per consumer unit). The public deficit will rise to 6.1% of GDP in 2024 and will still reach 5.3% of GDP in 2025, despite the plans for a fiscal adjustment programme.

1. The drivers of growth – foreign trade and public spending

The pace of growth increased by 1% annually over the last four quarters, which was slightly faster than the euro zone average. There was a polarisation in the factors affecting growth. On the one hand, growth was driven principally by a strong recovery in foreign trade (contributing 1.2 GDP point), more than 80% of which was due to a steep fall in imports. Public spending also contributed, due to both public spending and investment, which contributed about 0.5 GDP point over the year (Figure 2). This contribution by the public sector, which is hardly compatible with improving the public finances, wound up worsening the public deficit compared with the trajectory expected in the 2024 Budget. In contrast, household spending barely contributed to growth over the preceding year, which reflected a continuing fall in property investment and stagnating consumption, with a high savings rate.

Note that household investment cut GDP by -0.9 point between mid-2022 and mid-2024, due in particular to rising interest rates. Finally, business spending, including on both investment and inventories, reduced growth by -0.8 GDP point over the last four quarters. In fact in Q2 2024, business investment, after growing strongly between

Figure 2. **The various factors contributing to GDP growth**



INSEE, OFCE calculations.
Last known point: Q2 2024.

the post-Covid period and mid-2023, fell by 1.5% year-on-year. Inventory drawdown alone, including transport equipment as well as capital goods and other industrial products, led to cutting growth by -0.7 point. This is taking place after the period of post-Covid restocking, but destocking on this scale is unprecedented since the 2009 financial crisis.

Box 1. **Four-and-a-half years after the onset of the Covid crisis: A comparison with the impact of the financial crisis ?**

Four-and-a-half-years after Covid hit, it is interesting to compare the current macroeconomic situation with the situation following the subprime crisis, which, leaving Covid aside, was the biggest shock to the French economy since World War 2. We are therefore going to analyse changes in the components of GDP, of value added in the main economic sectors, and of the accounts of various agents over comparable timeframes (i.e. over eighteen quarters after the pre-crisis reference quarter). The aim is to identify any similarities and draw lessons about the effectiveness of the post-Covid recovery, compared with the post-subprime situation.

In the second quarter of 2024, eighteen quarters after the start of the Covid crisis, France's GDP was 3.7% above its pre-crisis level. By comparison, eighteen quarters after the onset of the subprime crisis, GDP was only 0.8% above its pre-crisis level. What explains GDP's better performance following Covid? First, value added (VA) in market services recovered particularly well, rising 7.4% in 2024 compared with just 2.9% in 2012. Note, however, that in the very short term, the shock was much greater post-Covid, with VA losing more than 15% of its value in two quarters, whereas post-subprime VA lost "just" 4% of its value, and that took place over a year. Second, some of this better performance was because the construction sector fell less sharply (-7.5%) post-Covid, despite the inflationary shock, rising interest rates, and the heightened geopolitical tensions that undercut its recovery due to higher raw material costs and supply chain problems. The fall in VA in the construction sector was more than twice as steep post-subprime (-16%). It totally collapsed in the first quarter, and declined steadily over time, due to tighter credit and a fall in demand for housing. As for industry, although it had still not returned to its pre-crisis level by the second quarter of 2024, it was not hit as hard overall as during the subprime crisis, and is currently -0.6% below its pre-crisis value, compared with -3.6% in the same period post-subprime. On the other hand, non-market services contributed less to growth in the wake of the Covid crisis (+2.8%) than in the post-subprime context (+6.8%).

Table 1. **Comparisons of changes in certain macroeconomic variables after the subprime crisis and the Covid crisis**

	Value added				Demand factor				
	Industry	Construction	Tradable Services	Non-tradable Services	Private Consumption	Public Consumption	Investment	Foreign Trade	GDP
Change in %									
Subprime crisis	-3.6	-16.0	2.9	6.8	2.7	8.1	-7.7		**0.8**
Covid crisis	-0.6	-7.5	7.4	2.8	2.8	7.0	1.3		**3.7**
Contribution, in GDP points									
Subprime crisis	-0.4	-1.2	1.6	1.5	1.4	1.9	-1.8	-0.5	**0.8**
Covid crisis	-0.1	-0.4	4.2	0.6	1.5	1.7	0.3	0.8	**3.7**

INSEE, OFCE calculations.

Subprime crisis: Q1 2008 – Q3 2012; Covid crisis: Q4 2019 – Q2 2024.
Note: the changes and the contributions are calculated between the pre-crisis reference quarter and eighteen quarters later.

As for the demand components of GDP eighteen quarters after the onset of the two crises, the level of total consumption (private and public) was relatively identical post-subprime and post-Covid, in each case helping to boost GDP by 3.3 points. There was a clear difference in regard to investment, which contracted sharply post-subprime (-7.7%), while post-Covid it was 1.3% above its pre-pandemic level. Likewise, foreign trade makes a positive contribution to GDP growth compared with the pre-Covid situation (+0.8 point), whereas it was cutting into growth by -0.5 GDP point eighteen quarters after the subprime crisis. These two components account for a difference of over 3 GDP points, suggesting that the Covid crisis will not hit long-term growth as hard as did the subprime crisis.

Concerning the financial situation of the different economic agents, it is interesting to note that the agents' economic situations were very similar before each of the two crises: households had an identical financing capacity, representing 2.6% of GDP, while business capacity lay between 0.6% and 0.8% of GDP. General government borrowing requirements were close to 3% of GDP, and the French economy was running a slight external surplus of 0.3% of GDP. Eighteen quarters after the start of the two crises, the agents' accounts were still relatively similar, albeit with a few nuances. First, in both cases, the public balance had deteriorated by almost 2.5 GDP points, with the public deficit ranging between 5.3 and 5.5 points of GDP, due to the widening of the output gap, but also to a deterioration in the structural deficit that went beyond the fiscal stimulus measures alone. While in terms of the deficit the situations were relatively similar, the levels of public debt differed: it was 91.3% of GDP in Q3 2012 but 112% in Q2 2024, even if in the case of the Covid crisis it rose less than during the subprime crisis (13.9 points of GDP versus 24.4 points).

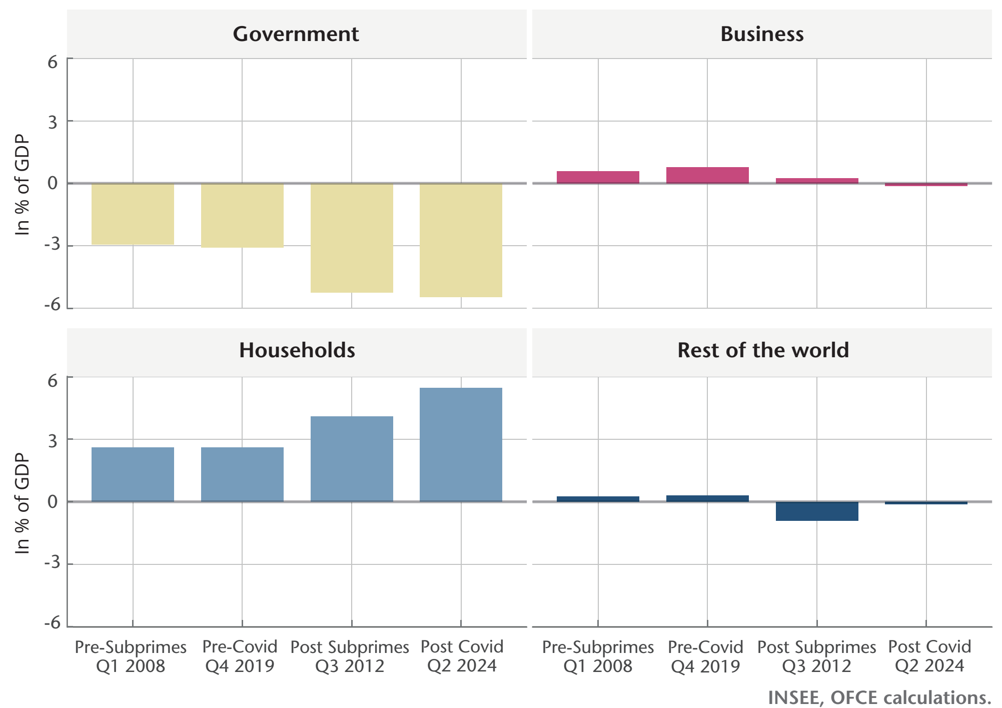
As for businesses, their situations are fairly similar in both cases to the pre-crisis period, and close to equilibrium, although in the subprime case, this was largely due to reining in investment, whereas during the Covid crisis companies' margin rates did not deteriorate. At the end of the Covid crisis, the external balance was not as unfavourable as after the subprime crisis. Equilibrium had almost been reached by mid-2024, after deteriorating very sharply, with a low point of -2.5 GDP points in mid-2022 at the peak of energy prices. By contrast, eighteen quarters after the start of the subprime crisis, the external deficit was -0.9 GDP point.

Finally, with regard to households, their financing capacity improved sharply over the course of both crises, but more significantly after the Covid crisis (5.5% of GDP vs. 4.1% after the subprime crisis). This can be explained by the over-saving of French households, which has become the norm since the Covid shock and has never returned to its pre-Covid level. This over-saving phenomenon was less marked during the subprime crisis; the improvement in household financing capacity is now taking place through a more marked drop in household investment. As a result, in the second quarter of 2024, households were saving 17.9% of their gross disposable income, compared with 15.9% at the end of the subprime crisis.

A comparative analysis of the Covid crisis and the subprime crisis highlights that the economic recovery was more favourable in 2024 than in 2012, even if there are a number of similarities in terms of agent accounts.

It's important to note, however, that fiscal consolidation to restore the public accounts had already begun in 2012, whereas it will begin "only" in 2025, which could alter future economic trajectories. Moreover, the spread between French and German 10-year government bond yields was 0.75 point at the end of September 2012, the same as in September 2024 (see Box 4). However, there are some major differences: the spread was on a downward slope in 2012, whereas it is on an upward slope today, and the nominal interest rate is higher today (3% versus 2.2% in September 2012).

Figure 3. **Financing needs /capacities**



INSEE, OFCE calculations.

2. A macroeconomic framework marked by a changing policy mix

According to our calculations (Table 2), based on the various factors that will affect the French economy, GDP growth will come to 1.1% in 2024 and 0.8% in 2025, whereas growth excluding the shocks[2] would have been 1.5% and 1.4%.

2. Growth excluding shocks corresponds to the potential growth of 1.3% in 2024 and 2025, to which is added the carry-over in relation to potential quarterly growth of -0.3 point in 2024 and -0.4 point in 2025 and the rate of closure of the output gap of 0.5 point in 2024 and 2025.

The energy shock had a very negative impact for two years, but this had faded to almost nothing in 2024 and could have an even slightly positive effect on growth in 2025, despite the winding down of the tariff shield. This is due to the sharp drop in spot energy prices, particularly wholesale electricity prices, which will result in lower tariffs for consumers in 2025.

The improvement in supply chains that began in 2023 will continue to have a positive impact on growth in 2024 (+0.2 GDP point), but no longer in 2025.

While geopolitical uncertainties mounted at the end of 2023 and in 2024 following the attack on 7 October 2023, reducing French growth by -0.1 GDP point in 2024, we don't foresee any further deterioration in 2025. Of course, a widening and intensification of conflict, in the Middle East or Ukraine, would alter global economic conditions and hit French growth. However, political uncertainty is no longer limited to the international arena, since it has also existed at the national level since the dissolution of the National Assembly in June 2024. Based on one measure of economic policy uncertainty for France, and assuming that the situation measured by this indicator remains at the same level as the current one, we estimate that this factor will reduce growth by -0.1 GDP point in 2024 and -0.2 point in 2025 (see Box 2).

Table 2. **Evaluation of the impact of various shocks on GDP growth**

In GDP pts	2022	2023	2024	2025
Growth excluding shocks*	4.0	1.5	1.5	1.4
Supply shock	-0.3	0.2	0.2	0.0
Change in interest rates	-0.1	-0.6	-0.6	0.4
International uncertainty and geopolitical tensions	-0.3	0.0	-0.1	0.0
Domestic political uncertainty			-0.1	-0.2
Energy impact (shock and policies)	-0.3	-0.5	-0.1	0.1
Energy shock	*-1.1*	*-0.7*	*0.3*	*0.5*
Tariff shield and energy measures	*0.8*	*0.2*	*-0.4*	*-0.4*
Fiscal measures (excl. temporary measures)	0.1	0.0	0.3	-0.8
Nuclear power station impact (halt and restart)	-0.5	0.5	0.0	0.0
Olympics impact			0.1	-0.1
Observed and expected growth	**2.6**	**1.1**	**1.1**	**0.8**

INSEE, OFCE forecasts October 2024.

Note: Growth excluding shocks corresponds to the potential growth, plus the closing of the output gap and the growth potential. In more detail, the energy shock leads to cutting GDP growth by -1.1 point in 2022 and -0.7 point in 2023 and raising it by 0.3 point in 2024 and 0.5 point in 2025, i.e. a cumulative impact of -1 GDP point over the 2022-2025 period. The implementation of specific fiscal measures to deal with this energy shock impacted GDP growth by +0.8 point in 2022, +0.2 point in 2023, -0.4 point in 2024 and -0.4 point in 2025, i.e. a cumulative impact over this period that should disappear after 2025 due to the gradual phasing out of the exceptional fiscal measures.

The Olympic and Paralympic Games in Paris helped to boost annual GDP growth by 0.1 point in 2024, due to the peak in activity in the third quarter. However, this is an exceptional, temporary effect, so GDP should return to its normal level excluding the Games in 2025, i.e. reducing GDP growth by 0.1 point.

Since the impact of a rise in interest rates on activity is delayed, by between 12 and 18 months for the full effects,[3] the past rise in rates[4] should reduce growth by -0.6 GDP point in 2024 (after -0.6 point in 2023). On the other hand, in a context of low and controlled inflation, the European Central Bank's (ECB) continuing reduction of key interest rates – expected to be at a pace of -0.25 point per quarter over the forecast horizon – should push up growth in 2025 by +0.4 point. Conversely, the fiscal measures that supported growth in 2024 (+0.3 GDP point) are likely to have a very negative impact in 2025. The reduction in the primary structural deficit of -1.2 GDP points (excluding the withdrawal of exceptional measures) should lead to reducing growth by -0.8 GDP point in 2025 (see the box on fiscal measures in 2025 and the impact on GDP). Thus, the character of the policy mix changes completely between 2024 and 2025: the combination of the negative impact of monetary policy and the positive impact of fiscal policy in 2024 reverses in 2025. The sum of these two effects (excluding the elimination of exceptional measures) is estimated at -0.3 GDP point in 2024 and -0.4 GDP point in 2025.

3. For more information, see C. Blot and P. Hubert, 2018, "Une analyse de la contribution de la politique monétaire à la croissance économique" [An analysis of the contribution of monetary policy to economic growth], *Revue de l'OFCE*, no. 159.

4. There are many ways in which the rise in interest rates affects the economy: it has a negative impact on household investment and consumption through the rise in mortgage costs and the impact on the value of assets and real estate loans. As for business, the higher cost of capital negatively impacts business investment.

Box 2. Impact of political uncertainty on the prospects for growth

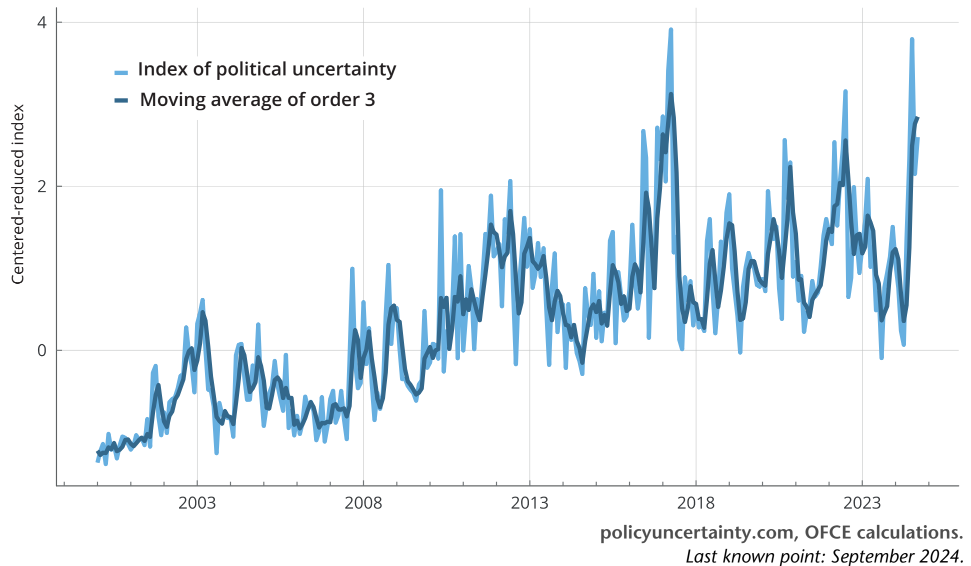
The dissolution of the National Assembly on 9 June 2024 ushered in a period of political uncertainty in France, nor was this resolved by the results of the legislative elections of 30 June and 7 July. While the formation of a minority coalition government may have eased uncertainty for the moment, whether this will last is far from clear at the very moment the Initial Finance Act for 2025 comes up for approval and just as an excessive deficit procedure has been initiated on 26 July.

To analyse how this mounting political risk will affect the prospects for French GDP growth, we used data on domestic policy uncertainty from the work of Baker, Bloom and Davis (2016)[(a)]. This index uses the appearances in the US and French press (*Le Monde* and *Le Figaro*) of articles in which terms related to uncertainty about France's main economic policies occur simultaneously[(b)].

The political uncertainty index of Baker *et al.* (2016) rose sharply after the announcement of the dissolution of France's parliament (Figure 4). In the third quarter of 2024, it rose to a level more than 50% higher than the average value seen during the XVIth legislative session (running from June 2022 to June 2024, when a minority government was already in place). Using the methodology developed by Sampognaro (2022)[(c)], we developed a statistical model that links the national political risk index to a number of key macroeconomic variables. So French political uncertainty, investment by non-financial companies, GDP and the 3-month interest rate can be modelled simultaneously. In addition, the exogenous effect of oil prices, the short-term interest rate on German debt and political uncertainty in Europe can be controlled for[(d)].

Using this approach, we see that a shock associated with political risk has a significant impact, lowering private investment and GDP and raising short-term interest rates (though not with statistical significance)[(e)].

Figure 4. **Index of economic policy uncertainty**



policyuncertainty.com, OFCE calculations.
Last known point: September 2024.

Based on this model, the impact of the uncertainty shock in Q3 of 2024 on the volume of France's GDP growth should amount to -0.1 point for 2024 and -0.2 point for 2025. Growth will be hurt in particular by holding back investment by non-financial companies. Furthermore, a one-off political uncertainty shock generates an increase in domestic interest rates that still shows up eight quarters after the uncertainty shock, which accounts for some persistence in GDP losses. A temporal breakdown of the estimated impact of the political uncertainty shock on the main macroeconomic variables analysed is shown in Table 3.

(a)
Scott R. Baker, Nicholas Bloom and Steven J. Davis, 2016, "Measuring Economic Policy Uncertainty", *The Quarterly Journal of Economics*, President and Fellows of Harvard College, Vol. 131(4), pp.1593-1636.

(b)
An article is counted if it simultaneously concerns uncertainty (the presence of the words *incertitude(s), incertain(s)*) and economic policy (*économie, taxe(s), réglementation(s), déficit,?etc.*). A complete list is available in the appendices of Baker *et al.* (2016).

(c)
Raul Sampognaro (2022), "Ukraine et hausse des tensions internationales : quel impact sur le PIB ?", [Ukraine and rising international uncertainty: What impact on GDP?], *Revue de l'OFCE*, no. 178.

(d)
It is assumed that there is no feedback from French variables to international variables, which may be a strong hypothesis, particularly for European variables.

(e)
There is more detail in the special study associated with this forecast.

Table 3. **Estimated impact of the policy risk shock following dissolution**

Difference with central account (% point)	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
GDP	-0.1	-0.2	-0.1	-0.2	-0.3	-0.4
GFCF of NFCs	-0.3	-0.3	-0.3	-0.3	-0.7	-1.1
Interest rate	0.0	0.1	0.1	0.3	0.2	0.2

OFCE calculations.

In terms of intra-annual dynamics, we forecast quarterly growth of 0.3% and 0.0% respectively in the third and fourth quarters of 2024 (Table 4). This is based on the specific cyclical economic data available to us. Business confidence fell sharply in July and then has remained below its long-term average, while the consumer confidence index has been improving over the past year but is still below its historical average. At the end of August, the growth potential for the third quarter of 2024 was 0.2% for household consumption of goods and 0.6% for the manufacturing production index.

In addition, new vehicle registrations fell by -7.1% in the third quarter of 2024, and by -11.3% year-on-year. On the basis of all the economic data, we would have forecast 0% growth in the third quarter. But, according to the INSEE, the Olympics will have an impact of 0.3 GDP point in the third quarter,[5] a very large portion of which is due to the accounting entry of ticket sales and television rights in August. However, this purely accounting effect cannot be measured on the basis of surveys, which are more sensitive to real-time activity. This is why we show a peak in activity in the third quarter, even though the economic data indicates otherwise. This effect is nevertheless temporary and will be reflected in a dip in growth in the fourth quarter of 2024.

5. Insee (2024) "Du PIB, des jeux, des inconnues" [GDP, the Games, the unknowns], *Note de conjoncture*, 9 July.

Table 4. **Supply and Use Table for France**

	Change (Q/Q-1)								Change (Q/Q-4)		
	2024				2025				2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	**0.3**	**0.2**	**0.3**	**0.0**	**0.2**	**0.2**	**0.2**	**0.3**	**1.1**	**1.1**	**0.8**
Private consumption	-0.1	0.1	0.3	0.3	0.2	0.2	0.3	0.3	0.9	0.6	1.1
Government consumption	0.6	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.8	1.5	0.1
Total GFCF	-0.5	-0.4	-0.3	-0.2	-0.2	0.0	0.1	0.1	0.7	-1.5	-0.5
GFCF NFCIE	-0.5	-0.5	-0.3	-0.2	-0.2	-0.1	0.0	0.0	3.1	-1.4	-0.7
GFCF Households	-1.9	-1.1	-0.6	-0.5	-0.2	0.1	0.2	0.4	-8.2	-5.8	-0.9
GFCF General Gov't	0.5	0.6	0.3	0.3	0.1	0.1	0.1	0.1	7.1	2.1	0.8
Exports	0.6	0.4	0.8	0.0	0.8	0.9	0.9	1.0	2.5	1.9	2.7
Imports	-0.4	0.1	0.6	0.8	0.7	0.7	0.7	0.8	0.7	-1.4	2.8
Contributions											
Domestic demand excl inventories	0.0	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.9	0.4	0.5
Change in inventories	-0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	-0.3	-0.3	0.3
Trade balance	0.3	0.1	0.1	-0.3	0.0	0.1	0.1	0.1	0.5	1.1	0.0

Insee, OFCE forecasts.
NFCIE = Non-Financial Companies and Individual Enterprises ("SNFEI").

For 2025, the economy will be driven mainly by household consumption (+1.1% in 2025, after 0.6 % in 2024), with government spending (0.1% in 2025, versus 1.5% in 2024) acting in contrast as a brake on growth due to the planned fiscal adjustment. Foreign trade should continue to recover, although at a slower pace than in 2024. On the other hand, household investment will continue to hold back growth in 2025, though the situation is gradually improving. Finally, the interest rate cut will provide some oxygen for business and consumers, despite investment remaining sluggish due to the relative stagnation of demand and purchasing power. This sluggishness will be compounded by the tighter fiscal measures and by political uncertainty, which could lead investors to put off some of their projects.

Box 3. **Construction: Towards a (slow) exit from the crisis ?**

France has never produced so little new housing as during the period between July 2023 and July 2024. With fewer than 260,000 housing starts and 332,000 building permits granted over the 12 months, the construction of new housing is experiencing a historical crisis (Figure 5a). Several explanations have been advanced by people in the sector: overly rigid environmental standards, such as zero net artificialisation (“ZAN”); a downturn in public subsidies, with the modification of rental investment schemes (Pinel); the reduction of fiscal manoeuvring room accorded to local authorities with the end of the housing tax; etc.

In addition to all this, the sudden tightening of credit conditions in early 2022 explains much of this massive decline. Proof of this is the very steep fall in the number of sales of existing homes (-400,000 in the last two years). Between the second quarter of 2022 and the second quarter of 2024, the average interest rates on new home loans to households tripled (Figure 5b), while during this same period the volume of home loans granted to households was halved in current euros (Figure 5d, Heyer and Madec).[a]

Despite this very difficult situation, some indicators nevertheless point to a beginning recovery in the property market for 2025.

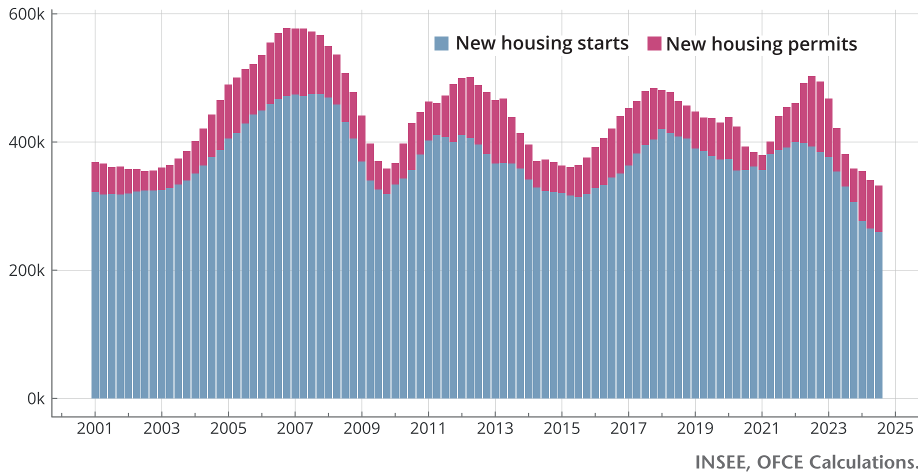
Business surveys remained relatively stable in the first half of 2024 but now seem to be picking up. Although at historically low levels, the outlook for new housing starts and property developers' views on demand for new homes are both improving (Figure 5c). At the same time, the rates on new home loans to households are tending to fall, with the result that more households are being granted home loans. Finally, the Prime Minister's announcements during his general policy speech (extension of the zero-rate loan, post-ponement or cancellation of certain environmental standards, etc.) should give an immediate boost to the housing construction sector.

Over the last three years, household investment has cut GDP growth by more than one percentage point. We anticipate that, starting in the second quarter of 2025, and with support from the above-mentioned factors, household investment should begin to recover.

(a) See É. Heyer and P. Madec, “Impact de la hausse des taux d’intérêt sur l’investissement des ménages en Zone euro” [Impact of higher interest rates on household invest-ment in the euro zone], *Revue de l’OFCE*, no. 187 (forthcoming).

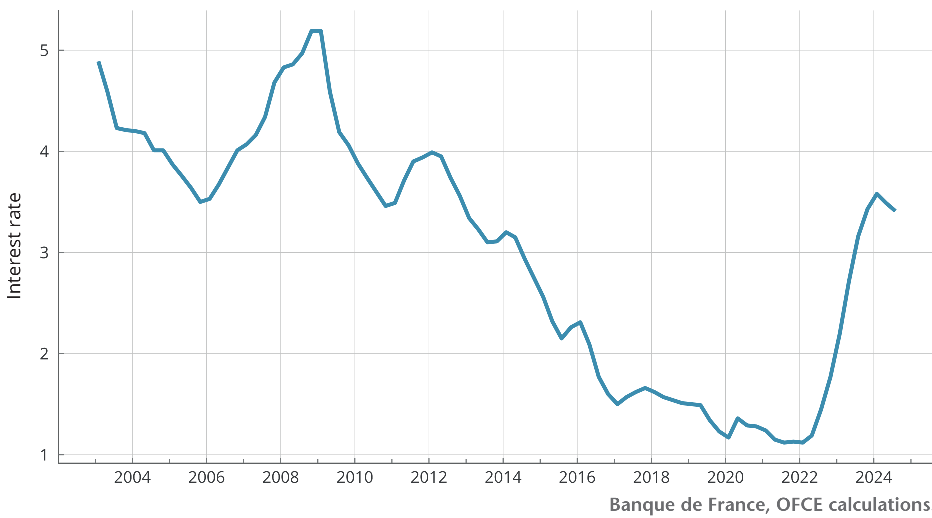
Figure 5. **Economic factors affecting housing construction**

a) New housing starts and permits



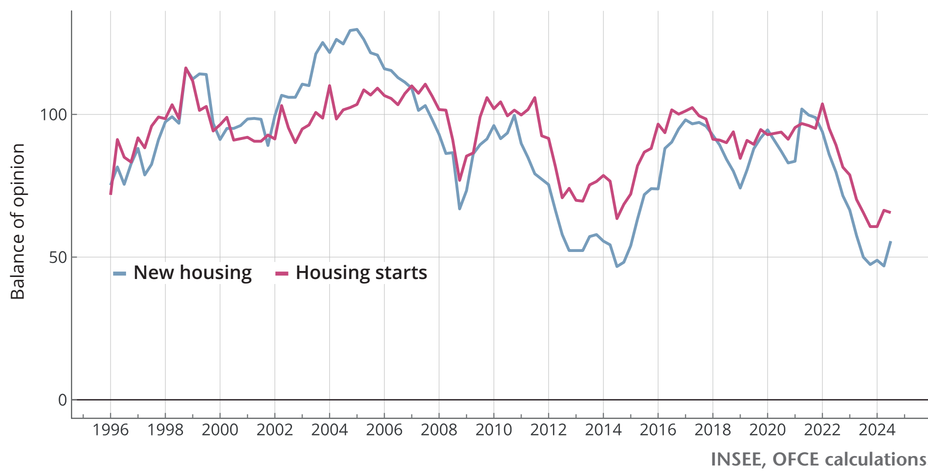
INSEE, OFCE Calculations.

b) Interest rates on new home loans



Banque de France, OFCE calculations.

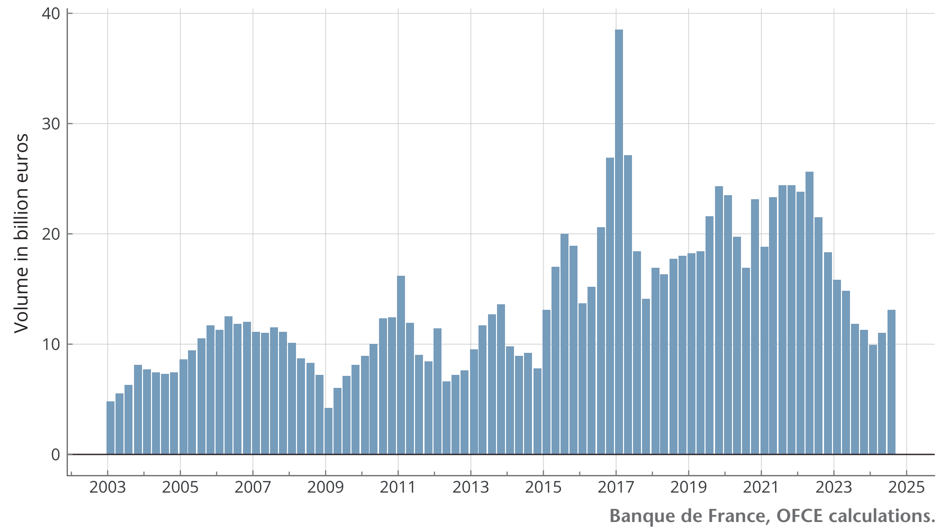
c) State of building sector



INSEE, OFCE calculations.

Figure 5. **Economic factors affecting housing construction**

d) Volume of new home loans



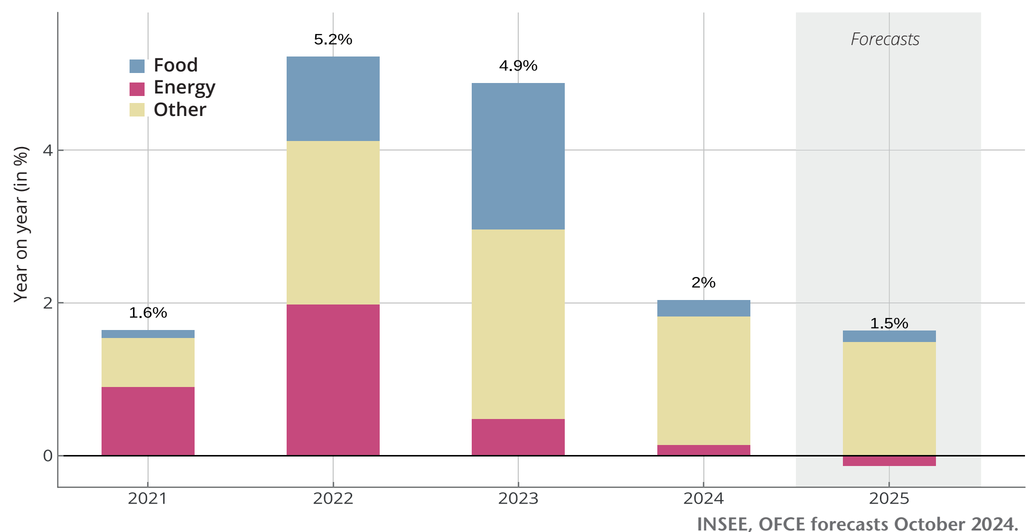
Banque de France, OFCE calculations.

3. Household consumption, the main driver of growth

Inflation: a rapid decline aided by the downturn in energy prices

After two years when inflation, as measured by the consumer price index (CPI), stood at high levels (5.2% in 2022 and 4.9% in 2023), 2024 saw a sharp fall (Figure 6) from its peak in February 2023 of 6.3% to 1.2% in September 2024. This was the lowest level since July 2021, before the rise in inflationary pressures with the post-Covid recovery. The lower inflation is due mainly to a downturn in energy and food costs. This rapid fall in inflation has not however wiped out the 12% rise in the CPI over the last three years (between September 2021 and September 2024), including a 28% rise in energy prices alone and 21% for food prices.

Figure 6. **Changes in the Consumer price index**



INSEE, OFCE forecasts October 2024.

The CPI will rise by an average of 2% in 2024, with food and energy prices contributing just 0.3 point to inflation over the year, whereas these two components (representing around 25% of the CPI weighting) contributed 3.1 points in 2022 and 2.4 points in 2023. In 2025, the CPI should rise by an annual average of 1.5%, with these two components having no effect on price changes. With a cut in electricity tariffs expected in February 2025, the fall in energy prices should help to reduce inflation by -0.15 point in 2025.

After purchasing power rose again in 2024, it renewed its fall in 2025

After purchasing power per consumption unit (CU) stagnated for two years as an annual average,[6] 2024 has seen households make gains once again (Table 5). In fact, real household income per CU will be 3.5% above its 2019 level in 2024, compared with just 0.6% for GDP per CU.

The rise in real income, up 1.1% per CU in 2024, has been driven in 2024 by a sharp revaluation of social benefits at the start of the year and by real wage hikes. While the real average per capita wage (nominal wage deflated by the CPI) fell by -1.2% over the last four years, lower inflation in 2024 and 2025 will not result in an equivalent reduction in the growth of nominal wages. Hence real wages will rise by 0.5% in 2024 and 0.7% in 2025. Due to productivity gains, this will not hit companies' profit margins. This catching-up will thus boost employee purchasing power, although real wages in 2025 will return only to their level in 2019.

In 2025, purchasing power per CU will fall again (-0.2%), despite positive real wage growth. This is because it will be hit by a contraction in employment, weak growth in social benefits, with the postponement of pension indexation to July, and less growth from income from assets and lower dividend payments, as interest rates continue to fall. In 2025, GDP per CU is expected to grow faster (0.3%) than real GDI per unit, which will very partially offset the decoupling observed between these two variables since the end of 2019.

6. For further detail, 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 accounts**

In %	2019	2020	2021	2022	2023	2024	2025
Nominal gross disposable income (GDI)	3.4	1.0	4.8	5.2	8.0	4.4	1.3
Consumption deflator	0.8	0.7	1.3	4.9	7.1	2.7	1.0
CPI	*1.1*	*0.5*	*1.6*	*5.2*	*4.9*	*2.0*	*1.5*
Real GDI	2.6	0.2	3.4	0.2	0.9	1.7	0.3
Real GDI per consumption unit	**2.0**	**-0.4**	**2.8**	**-0.4**	**0.3**	**1.1**	**-0.2**
Household consumption (in volume)	1.7	-6.5	5.2	3.0	0.9	0.6	1.1
Savings rate (in % of GDI)	**14.6**	**20.5**	**19.1**	**16.9**	**16.9**	**17.8**	**17.1**
Nominal average salary per capita ("SMPT")	2.2	-3.7	5.3	5.4	4.2	2.6	2.2
Real average salary per capita (deflated by the CPI)	1.1	-4.2	3.6	0.1	-0.7	0.5	0.7

INSEE, OFCE forecasts, October 2024.

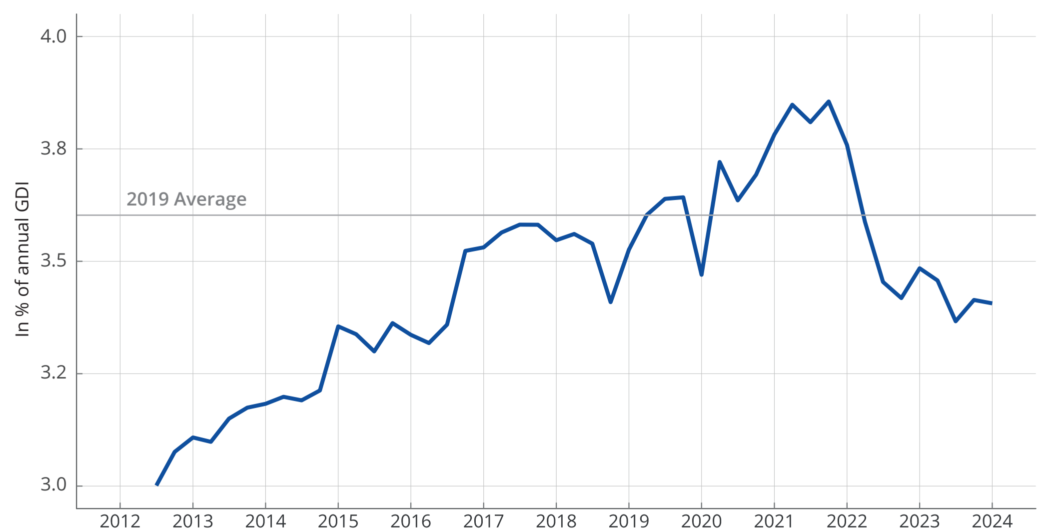
A savings rate that began to fall in 2025, boosting consumption

Since 2020, the household savings ratio has always been above its pre-crisis average, which stood at 14.6% of GDI on average during the 2010s decade. Households did not reduce their excess savings to cope with the inflationary shock, which would have enabled them to smooth out the impact of inflation on their consumption. On the contrary, the savings rate has been on the rise again since mid-2022, increasing by more than 2 points of GDI and reaching almost 18% in the second quarter of 2024 (Figure 8). Over the last four-and-a-half years, households have accumulated almost 17 points of annual income in "over-savings", almost 270 billion euros, a figure that does not consider the real depreciation of their assets. Assets' real value has in fact fallen since 2022 as a result of the inflationary tax. As a result, the real value of households' financial assets in 2024 was below its pre-Covid level at the end of 2019 (Figure 7). The additional savings that boosted household wealth have thus been eroded by inflation, reducing the real amount outstanding by the same amount. So, while households have been saving more over the last four-and-a-half years, this has not increased the purchasing power of their wealth.

According to our forecasts, the savings rate will remain high until the end of 2024 (17.8%), before falling during 2025, due in particular to the sharp drop in inflation and lower interest rates (Figure 9). The disappearance of the inflationary tax and savings that are nominally less remunerative will lead households to gradually reduce their savings rate, which will reach 17.1% on average in 2025 (16.7% by year end). Even so, households should still save 2.5 GDP points above their pre-crisis level, representing almost 50 billion euros in excess savings in 2025 (adding to the 270 billion accumulated to date) despite the end of the inflationary tax (Figure 8).

If the savings rate in 2025 were to remain at its high 2024 level, pushed to the extreme by uncertainty about economic and fiscal policy, this would lead to a revision of our scenario for GDP growth in 2025 from 0.8% to 0.5%.

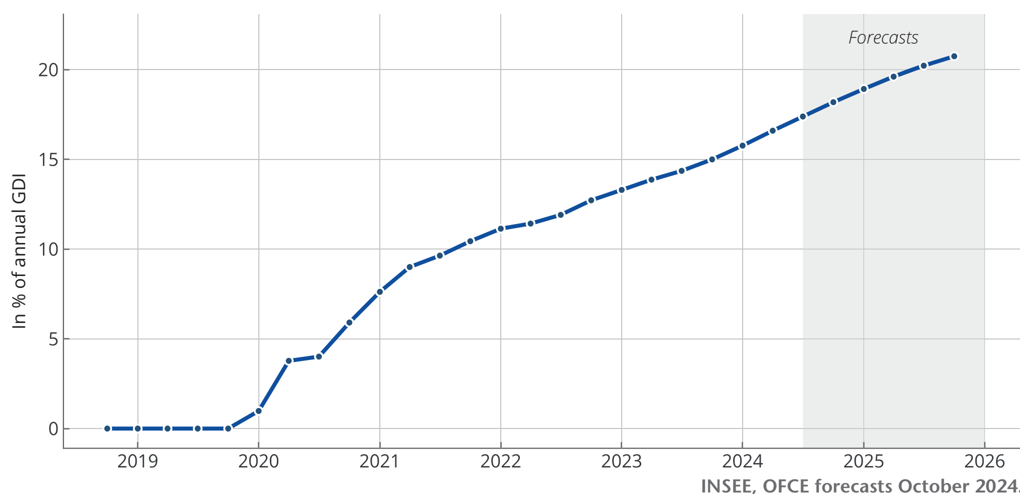
Figure 7. **Household financial wealth**



Banque de France, INSEE, OFCE calculations.

Note: Household financial wealth is calculated as the ratio between outstanding amounts and gross disposable income.

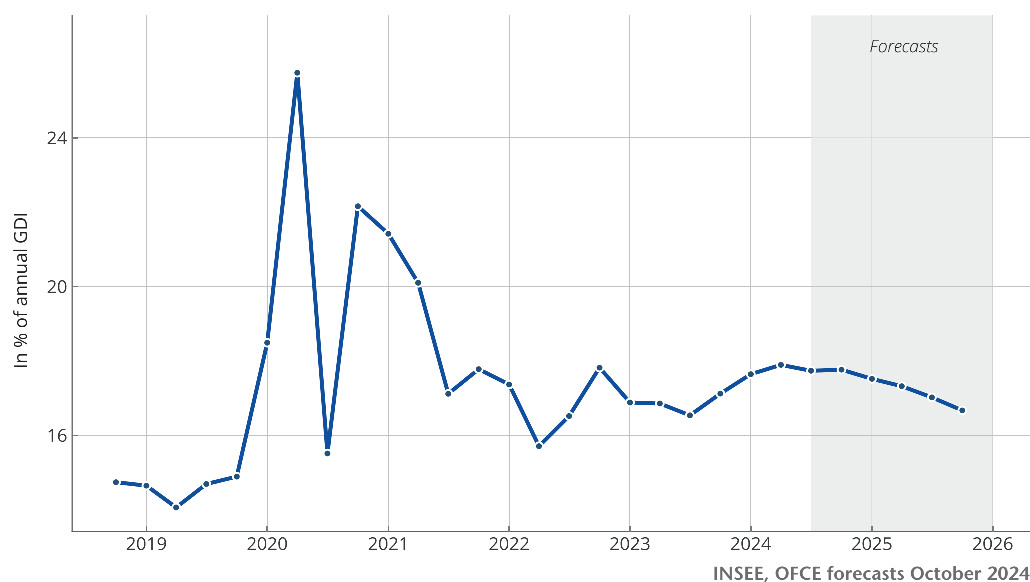
Figure 8. **Household excess savings**



INSEE, OFCE forecasts October 2024.

Note: The excess savings calculated here are purely accounting figures and are measured relative to the pre-crisis benchmark ratio (2019) and do not take account of the real value of assets or the inflationary tax.

Figure 9. **Household savings rate**



INSEE, OFCE forecasts October 2024.

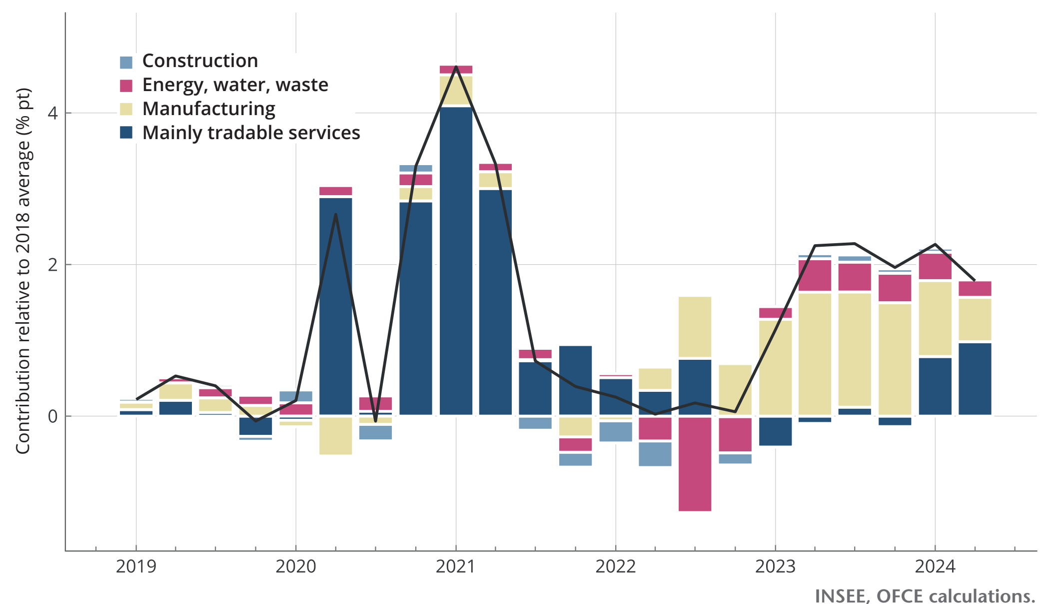
4. Business investment is falling despite lower interest rates

Business health, which had held up until the start of 2024, then began to worsen. In the second quarter of 2024, the margin rate of non-financial companies fell 1 point in the quarter to 30.8% of value added, thus returning to its long-term level (since 2012). This normalisation in the margin rate, which followed two years of good performance, can be explained by several factors. If we break down the factors that contribute to the formation of corporate margins, we see that labour productivity played a negative role over the period from 2020 to 2023, while real wages, which fell by 2%, made a positive cumulative contribution over the period. The gains linked to the fall in real wages were accompanied by gains also linked to the change in relative prices (the price of NFCs' value added – which is estimated from the price of market sector value added

excluding real estate and financial services – in relation to household consumption prices (CPI)). Businesses have therefore managed to generate higher margins during inflationary periods, thanks to an even stronger rise in VA prices. However, since the start of 2024, this ratio has reversed, and relative prices are once again making a negative contribution.

Since the start of the Covid and energy crises, there have been disparities between the sectors in terms of changes in margin rates. But since the inflationary shock, the energy sector has benefited from the price rises and seen its margins improve sharply. In the last quarter, however, market services once again made a positive contribution, after several years of negative contributions, and accounted for half of all margin gains. On the other hand, since the beginning of 2024, manufacturing, which had experienced clear improvements, has seen its margins fall.

Figure 10. **Contributions to growth of margin rate by sector**

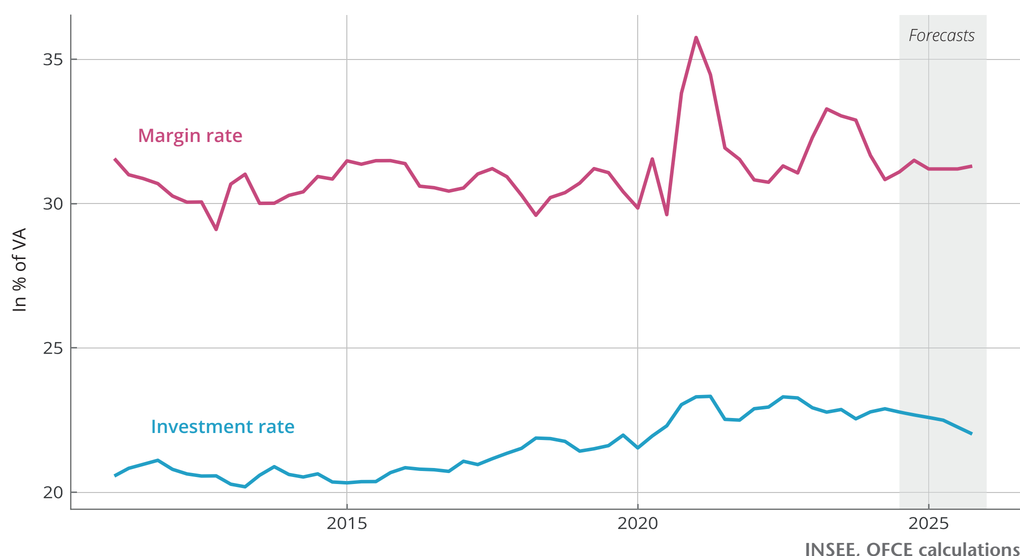


INSEE, OFCE calculations.

Business stepped up its rate of investment in mid-2024, to 22.9% of value added, after the level fell from 2022 to a low point in 2023. It is now 2 points above its long-term average. And even though the rate of investment increased, the value in volume terms of gross fixed capital formation (GFCF) fell by 1.3% over the year to the second quarter of 2024, although the level remains 7% above that of 2019. By product, it is mainly the information and communications sector that is making a positive contribution to GFCF growth, as has been the case since the Covid crisis. In contrast, investment in construction has still not recovered, and has been falling for three quarters, as has investment in capital goods.

Labour productivity should rise faster than real wages in 2025 in a context marked by normal inflation, which should enable companies to see a slight improvement in their margin rates. We expect business margin rates at the end of 2025 to reach 31.3% of value-added, i.e. 0.5 point above their current level. Furthermore, business investment is expected to continue to fall over 2024 by -1.4% and by -0.7% in 2025. The sluggish outlook for demand in 2025 could reduce the business investment outlook, particularly in a situation marked by higher taxation, the likely reduction of business subsidies, and political uncertainty.

Figure 11. **Business investment rate and margin rate**



INSEE, OFCE calculations.

Furthermore, bankruptcies hit a record level in 2024, surpassing their level in 2019. In terms of annual change, they were up by nearly 26% in July and 24% in August. This high number of bankruptcies (nearly 63,000 in August) could also have a negative impact on investment rates, even though most of these involved micro-enterprises (57,000).

Furthermore, business self-financing – company savings divided by investment – fell to 79% in the second quarter of 2024, the lowest level since 2020, which is below the average of 94% from 2012 to 2019.

Even if the ECB has already begun to lower its base rates, the cost of debt, which has been stable at 4.65% since June, is still very high. Thus, the start of 2024 was marked by much weaker growth in outstanding business loans, which rose by a lowly 1.4% in the first quarter of the year. Since then, outstanding loans grew by 2% in July, still well short of the 6% average monthly post-Covid growth rate. It is not certain that lower interest rates will be enough in the short term to encourage companies to take on debt to invest.

Finally, certain tax measures decided by the government as part of the 2025 Finance Act could increase the uncertainty surrounding business performance. The package reducing employer social security contributions could be made less favourable. In addition, while the tax rate on profits has been gradually cut from 33% to 25%, another measure aimed at improving the public finances could see the introduction of a one-off tax on the profits of big corporations. This would raise 8 billion euros and would be concentrated on the largest French corporations.[7]

7. To get an idea of what this sum represents, consider the data on these "large corporations". According to 2023 Insee Entreprise data, the value added produced by 277 big corporations in 2021 came to 409 billion euros, i.e. 34.7% of all business VA. With a margin rate of 20.8%, the gross operating profit of these "large corporations" thus came to about 300 billion euros.

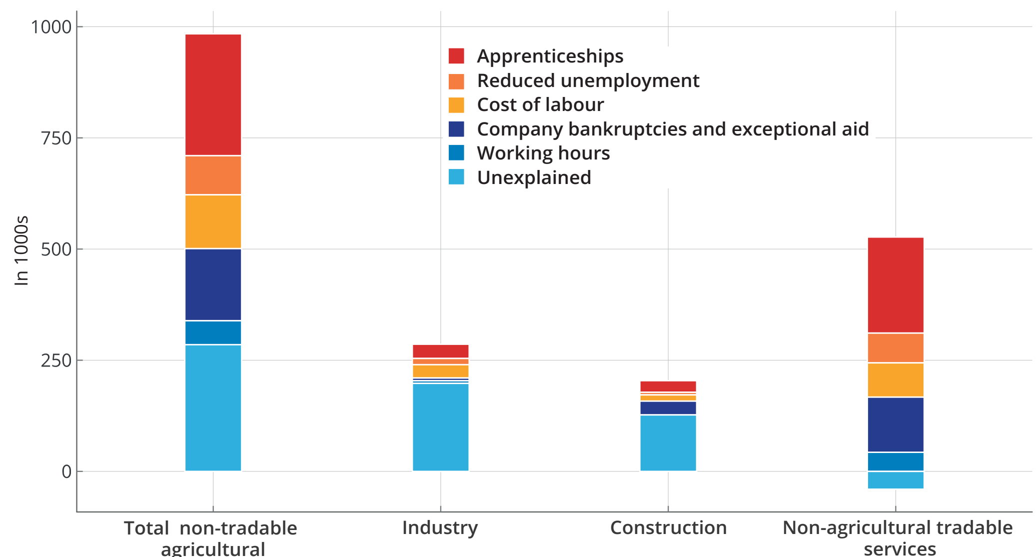
5. Job losses and the coming rise in unemployment

Employment is falling

In 2023, job creation continued to lose momentum, with 210,000 net new jobs created year-on-year (an increase of 1.1%) compared to the 499,000 recorded in 2022 (2.4%). Over the first half of 2024, the French economy continued to create jobs, but at a more moderate pace: +73,000 from the end of 2023.

Between the end of 2019 and mid-2024, salaried employment in the non-agricultural market sector rose by 6.3%, while value-added grew by only 4.9%, revealing losses in labour productivity. Productivity per capita is now almost 1.3% below its pre-Covid level, while hourly productivity has fallen by 1.2% over the same period. If we compare the current level of hourly productivity with the pre-Covid trend level (0.85% per year), the picture becomes even worse: the gap is 6.1%. The revision of the national accounts in May 2024 revealed that productivity had deteriorated less than indicated by the data available for the previous forecasting exercise[8] when the difference over the period seemed to be 9.4%. Our calculations indicate that, given the trend in activity and productivity, only 129,000 jobs would have been created since the end of 2019. However, over a million jobs have been created in the four-and-a-half years, i.e. a difference of almost one million. According to our estimates,[9] three-quarters of the productivity losses can be explained by several specific factors: an increase in the number of apprentices, public support for business since the Covid crisis, a fall in the real cost of labour and, to a much lesser extent, past reductions in working hours and the unemployment rate (Figure 12).

Figure 12. **Breakdown of changes in employment since 2019**



INSEE, OFCE calculations.

Note: Mid-2024 gap between observed waged employment and that simulated by stabilising all the explanatory values at their end 2019 value.

Following the end of the "whatever it takes" policy and the return of working hours to their 2019 level, reducing public support for business should offset some of the productivity losses between now and the end of our forecast horizon (one quarter). Salaried employment should stop rising in 2024, with 31,000 jobs lost in the second half of the year. Despite the measures implemented, employment policy should still hit the labour market, leading to an overall reduction of 64,000 jobs. In 2025, job losses should be concentrated in the second half of the year, largely due to the fall in new apprenticeships, which are heavily concentrated between August and October. The reform of the general reduction in employer social security contributions in the 2025 Finance Act is expected to generate savings of 5.1 billion euros next year and is likely to destroy around 15,000 jobs in the first year.[10] The anticipated growth in activity will provide only moderate support for job creation (+25,000), and will not suffice to offset the impact of the reduction in public support (e.g. state-guaranteed loans – PGE) from

8. Mathieu Plane, Elliot Aurissergues, Bruno Coquet, Ombeline Jullien de Pommerol, Pierre Madec, Raul Sampognaro , "L'heure des comptes" [Accounts time], 2024, *OFCE Policy brief*, no. 186.

9. See the methodology in É. Heyer, 2023, "Comment expliquer l'évolution de l'emploi salarié depuis la crise Covid ? Une analyse économétrique sur données macro-sectorielles" [What explains the change in salaried employment since the Covid pandemic? An econometric analysis of macro-sectoral data], *Revue de l'OFCE*, no. 180 (2023/1).

10. We assume here that the 5.1 billion euro reduction in exemptions from employer social security contributions, which corresponds to a 0.5% increase in labour costs, would be divided equally between those on the minimum wage and those above double the minimum wage. In the long term (around 3 years), this measure would destroy 50,000 jobs in the market sector.

2020 onwards. Overall, employment should fall by 0.5%, or around 140,000 jobs (Table 6), an adjustment that would not make it possible to close the productivity cycle.

Table 6. **Changes in the labour market**

In 1000s	Change (Q/Q-1)								Change (Q/Q-4)		
	2024				2025				2023	2024	2025
	T1	T2	T3	T4	T1	T2	T3	T4			
Salaried employment	**34**	**31**	**24**	**-55**	**-21**	**-36**	**-44**	**-62**	**175**	**34**	**-163**
Tradable	9	10	14	-65	-18	-34	-42	-60	98	-34	-150
Non-tradable	25	21	10	10	-3	-3	-3	-3	69	66	-10
Non-salaried employment	**4**	**5**	**5**	**5**	**5**	**5**	**5**	**5**	**35**	**18**	**20**
Total employment	**38**	**36**	**29**	**-50**	**-16**	**-31**	**-39**	**-57**	**210**	**52**	**-143**
Change in %	*0.1*	*0.1*	*0.1*	*-0.2*	*0.0*	*0.0*	*-0.1*	*-0.2*	*0.7*	*0.2*	*-0.4*
Unemployment rate*	**7.5**	**7.3**	**7.3**	**7.5**	**7.5**	**7.6**	**7.8**	**8**	**7.5**	**7.5**	**8.0**
Workforce (in %)	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	1.1	0.3	0.3
Incl. 2023 pension reform										*0.3*	*0.3*

INSEE, Dares, OFCE forecasts October 2024.
** In %, at the end of the period.*

Unemployment at 8 % in 2025

The unemployment rate fell by 0.2 point in the second quarter of 2024, to 7.3% of the workforce, or 2.34 million people. Given our employment scenario and an almost stable workforce in the second half of the year, the unemployment rate can be expected to rise slightly at the end of the year and reach 7.5% by the end of 2024 and 8.0% by the end of 2025. 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 raised the retirement age and increases the required length of contributions. The reform will contribute 0.6 point to the increase in the working population between 2023 and 2025, which means that it more than offsets the reduction in the workforce that would have occurred without the reform.

Here we assume that the employment/unemployment breakdown of this increase in the workforce goes 80% into employment and 20% into unemployment due to the existence of "horizon" effects which lead to an increase in the employment rate of older people, an assumption consistent with the latest available simulations.[11] In addition, if France's Full employment law (*La Loi pour le plein emploi*) leads to a modification in the behaviour of those questioned in the Employment survey, it could have an impact on the number of individuals considered to be unemployed and consequently on the unemployment rate (estimated at between 0.1 and 1.2 points of the workforce[12]), but we do not include this in our central account.

Employment policy

In 2024, employment was stagnant, and unemployment ceased to fall. In the absence of any real deterioration and given the tighter budget, the accommodating employment policy pursued in recent years should come to an end.

Savings for the budget can come from two types of subsidised jobs: apprenticeships, which absorb almost 25 billion euros a year, and the plethora of other schemes

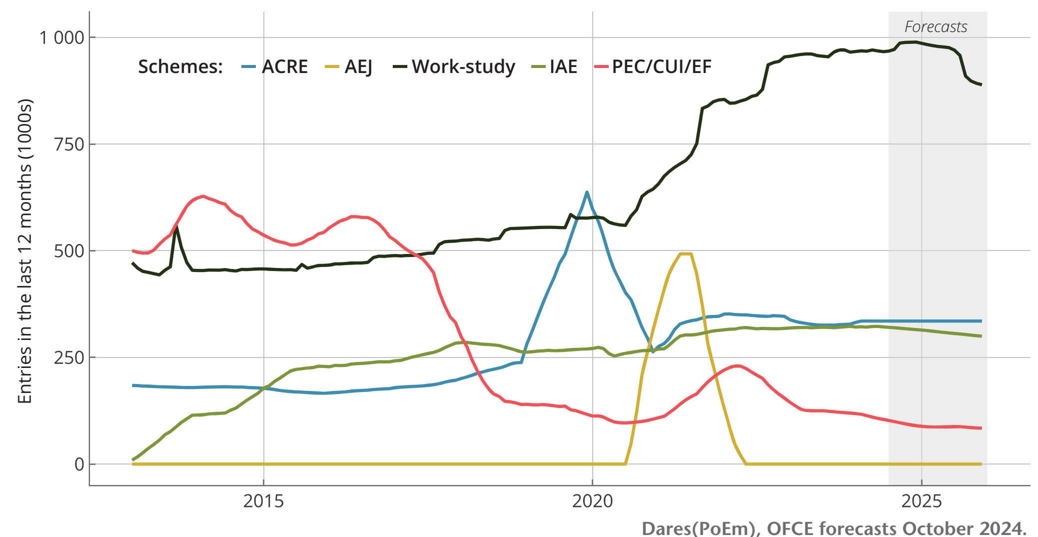
11. See A. Marino and P. Meinzel (dir), 2023, "Les retraités et les retraites. Édition 2023" [Retirees. 2023 Edition], Paris, Direction de la recherche, des études, de l'évaluation et des statistiques.

12. See "Effet de la réforme du RSA sur les chiffres du chômage de la précédente prévision (Annexe 3)", [Impact of the RSA benefits reform on the unemployment figures from the previous forecast – Appendix 3], Mathieu Plane, Elliot Aurissergues, Bruno Coquet, Ombeline Jullien de Pommerol, Pierre Madec, Raul Sampognaro , « L'heure des comptes » 2024, *Revue de l'OFCE*, no. 186.

for people experiencing difficulties entering the labour market, which cost around 4 billion. To save, therefore, the government has a choice between moderating its spending on apprenticeships or colossal cuts to the other expenditures - which will be all the more difficult to achieve as unemployment rises anew.

It is easier, however, to make cuts in the small grouping of job integration schemes, where the State controls both the volume and the terms and conditions: the *parcours emploi compétences* (subsidy to employer for on-the-job experience and training – PEC), *contrats uniques d'insertion* (subsidy to employer for hiring someone currently unemployed – CUI-CIE) and *emplois francs* (bonus for hiring someone from a disadvantaged neighbourhood). But these schemes have already borne the brunt of the meagre savings made in 2023 and 2024, which will reduce the total number of beneficiaries to around 84,000 by the end of 2024. Cutting these budgets further also comes up against the fact that there is no operational alternative to these contracts if unemployment rises again, as the vulnerable groups needing assistance will be even more numerous. We therefore expect a limited reduction in these budgets, with the number of beneficiaries falling to 73,000 by the end of 2025 (-13%) (Figure 13).

Figure 13. **Entries into subsidised employment**



Dares(PoEm), OFCE forecasts October 2024.

The *insertion par l'activité économique* programme (Integration through economic activity – IAE) also targets people in difficulty. The budget for this is also in the hands of the State. This programme is politically sensitive and has been expanded over the years, but not all the funds have been used, so unused budgets have been transferred during the year to other schemes such as apprenticeships. The savings proposed by the IGAS-IGF regulatory authorities[13] would not bite into the resources actually used: we therefore anticipate that the government will go further, reducing the number of beneficiaries from around 140,000 at the end of 2024 to 127,000 at the end of 2025 (-10%).

The fastest-growing forms of subsidised employment are those that are not subject to quotas, as they are open to anyone who meets the eligibility criteria: apprenticeships, *contrat de professionnalisation* (vocational training – CP) contracts and *aide aux créateurs et repreneurs d'entreprise* (support for business start-ups and takeovers – ACRE). Overall, the number of people benefiting from these schemes is growing in line with employment in the market sector.

13. IGAS-IGF (2024) "Les dispositifs de soutien à l'emploi et à l'accompagnement des chômeurs" [Job support schemes and assisting the unemployed], *Revue de Dépenses*, Inspection Générale des Affaires Sociales & Inspection Générale des Finances.

New apprenticeships, after falling slightly at the end of 2023, picked up again in the first half of 2024: +10% compared with the same period in 2023. They still receive substantial support from very costly public subsidies (24.9 billion euros in 2023), making the apprenticeship contract the most attractive of these options available on the labour market, with the result that 40% of the jobs created in the private sector since the end of 2019 have been apprenticeships.

We assume that the government will adopt the IGAS-IGF authorities' recommendations[14] to make moderate savings, mainly on recruitment aid, tax exemptions and social security contributions for apprentices. As an aside, the reduction in support for vocational training contracts (introduced last May) should see a further shift towards apprenticeships, helping to create several thousand jobs by 2024. In 2025, the number of apprentices taking up training should fall, contributing 55,000 fewer new jobs. Whichever the option, the bulk of the savings won't show up until 2026.[15]

Overall, then, employment policy should be neutral in 2024 and contribute to the loss of 64,000 subsidised jobs in 2025. This will have a limited impact on unemployment, because most of these job losses would come from apprenticeships.[16]

14. IGAS-IGF (2024) "Revue des dépenses publiques d'apprentissage et de formation professionnelle" [Review of public spending on apprenticeships and job training] Inspection Générale des Affaires Sociales & Inspection Générale des Finances, but more ambitious measures are possible *cf.* Coquet (2024a) "Apprentissage: 4 leviers pour reprendre le contrôle" [Apprenticeships: 4 levers to take control], *OFCE Policy brief* no. 135.

15. Coquet (2023) "Et pour quelques milliards de plus… 1 million d'apprentis" [And for a few billion more… 1 million apprentices], *OFCE Le blog*.

16. Coquet (2024b) "Pourquoi le chômage des jeunes résiste-t-il à des moyens inédits?" [Why does youth unemployment persist despite unprecedented resources?], *OFCE Le blog*.

Table 7. **Subsidised jobs 2024-2025: Numbers, changes in numbers, employment impact on 31/12**

In 1000s	Numbers			Change in numbers			Impact on employment		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Parcours Emploi Compétences	47	41	39	-5	-6	-2	-3	-3	-1
Contrat Initiative Emploi	17	6	6	-5	-10	0	-1	-1	0
Emplois Francs	50	37	28	1	-12	-9	0	-6	-5
IAE	147	141	127	2	-2	-14	1	-1	-9
Aide Créateurs d'Entreprise	347	306	306	—	0	0	—	0	0
Apprenticeship contracts	1 020	1 051	959	47	37	-92	28	22	-55
Contrat professionnalisation	91	66	59	-7	-26	-7	-4	-16	-4
Total	**1 718**	**1 648**	**1 503**	**33**	**-19**	**-124**	**22**	**0**	**-64**

IINSEE, DARES, OFCE forecasts.

Note: The employment impact measures the jobs created (or destroyed) that would not have happened without (or with) aid. The windfall effect is the difference between the numbers and the impact on employment.

6. Public finances: One nasty surprise can hide another

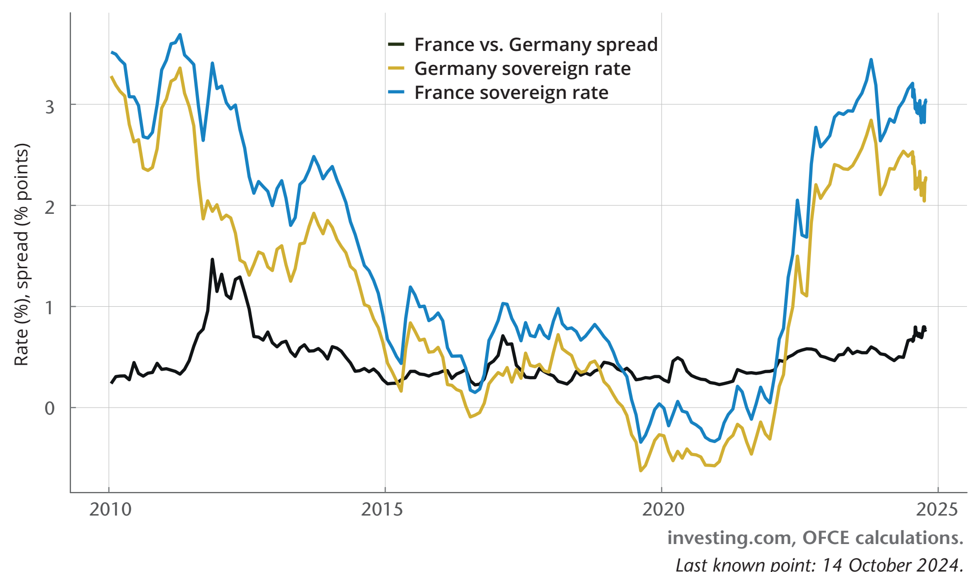
In 2023, France stood out for the scale of its public deficit. At 5.5% of GDP, it was the second highest in the euro zone, second only to Italy's, and the only one that had risen. This figure, and its very magnitude, was a surprise when it was published.[17] We will encounter this scenario again in 2024. Starting from what was already considered a negative state, the situation will be even worse in 2024. According to the latest projections, the deficit should be 6.1% of GDP in 2024.

17. For more detail, see the box: "5,5% de déficit public: anatomie d'un dérapage", by the Analysis and Forecasting Department of the OFCE, 2024 in "L'heure des comptes : perspectives 2024-2025 pour l'économie française" [Accounts time: 2024-2025 outlook for the French economy], *OFCE Policy brief* 126, 10 April.

Box 4. Uncertainty and sovereign risk

The announcement by French President Emmanuel Macron of the dissolution of the National Assembly on 9 June ushered in a period of political uncertainty, which was reflected on the markets by a rise in the yield spread between France and Germany. Between 7 and 19 June, the yield on the French 10-year Treasury bonds (OAT)[a] rose by 0.1 point, while that on the German bond for the same maturity fell by 0.2 point. The spread (Figure 14), which measures the difference between these two rates, rose by 0.8 point, indicating a real reaction from the markets. Following the results of France's parliamentary elections, the spread fell back to almost 0.6. However the continuing high level of political uncertainty surrounding the 2025 Finance Act, as well as the dreary fiscal news with the sharp downward revision of the public deficit for 2024 (Box 6), pushed the spread up again. It has hovered between 0.7 and 0.8 point since mid-September (0.78 points on 14 October). With France's borrowing rate on 10-year government bonds now around 3%, the country borrows at a rate comparable to Spain's and higher than Portugal's. In the euro zone, only Italy's, with a rate of around 3.5%, remains higher. However, even though the spread has widened significantly over the last four months, the 10-year T-bond rate in mid-October was slightly lower than in early June, before the dissolution.

Figure 14. **Sovereign rates in France and Germany and the French-German spread**



investing.com, OFCE calculations.
Last known point: 14 October 2024.

This rise in the French spread, though still moderate, reflects uncertainty about France's economic and fiscal outlook, with the country's relative risk increasing relative to its main European partners. By comparison, the downgrading of France's credit rating by S&P on 31 May 2024 did not result in any significant movement in yields.

A sustained rise in interest rate spreads could complicate the next government's fiscal calculations. To illustrate the financial risks for the French economy that could result from a lasting rise in the spread with Germany, we estimate the additional cost to the public purse by taking a range between a rise of 0.3 point (seen today) and 1 point, which would amount more or less to the level of Italian borrowing. According to our calculations based on the timetable published by the Treasury in the latest Stability Programme,[b] a long-term rise in the spread of 0.3 point on negotiable debt would lead to an increase in the cost of debt, all other things being equal, of 800 million euros in year one, 2 billion in year two, then 4 billion in 2027 and 10 billion (0.3 GDP point) in 10 years' time. In the more extreme case, where the risk premium were to rise by 1 percentage point over the long

(a)
L'Obligation Assimilable du Trésor (OAT) is the reference T-bond issued by the French State for maturities ranging from 2 to 50 years.

(b)
France's Stability Programme, April 2024.

term, the cost of debt would rise by almost 3 billion in the first year, 7 billion in the second, 14 billion in 2027 and 33 billion (1.1 GDP points) in 10 years' time. These different scenarios do not of course take into account the possible transmission of the increase in public spreads to the economy's other financing establishments, in particular the private sector, with a possible hike in rates for businesses and households. On the other hand, as the case of Italy shows, the rise in the spread might not take place solely due to a rise in French rates but also by a fall in German rates, which would not have the same effect on the additional cost to the public finances.

This new downturn is especially worrying in that it is taking place just as the emergency measures taken to deal with the effects of the Covid crisis, and then the energy crisis, are wearing off. As a reminder, over the entire period 2020-2023, the government took exceptional measures on a massive scale to deal with the Covid crisis and then the resurgence of inflation with the energy crisis (a cumulative 10.4 GDP points over the period). While 1.3 GDP points of support were still in effect in 2023, this figure falls in 2024 to 0.6 GDP point. The public deficit will rise in 2024 by 0.6 GDP point, even though the winding down of the emergency measures should help to reduce it by 0.7 GDP point.

A large part of the deterioration in the public accounts stems from the 0.6 GDP point increase in the primary structural balance (excluding temporary measures).[18] The capacity for absorbing temporary deficits has been offset by the rise in public spending. According to the latest information available, local authority spending rose in particular. Moreover, the cost of debt will be 0.1 GDP point higher in 2024 than in 2023, and the slowdown in economic activity will degrade the public balance by 0.1 GDP point.

These factors alone do not, however, explain the extent to which the public accounts have deteriorated. To understand the public deficit figure for 2024, it is necessary to take into account the weakness of tax revenues in relation to GDP growth (see Figure 15). This weakness reflects above all a normalisation of revenues, which had been extremely favourable over the period 2020-2022 and which began to normalise last year.[19]

Amidst this fiscal context, the Council of the European Union launched an excessive deficit procedure against France in July.[20] It will be increasingly difficult to avoid the need for a major fiscal adjustment.

According to our evaluation of the 2025 Finance Act (PLF), the measures announced for the PLF and supplementary PLFSS 2025 should boost the structural primary balance by 1.2 GDP points. This effort will be divided between 0.7 GDP point in new compulsory taxation (OP), 0.1 point in non-tax revenues, and 0.4 GDP point through structural budget savings. The new compulsory levies include the increase announced in corporation tax on the largest companies, a reform of the general reduction in social security contributions, which could begin with the elimination of reductions on the highest earners[21] and an increase in household taxation (with the complete removal of the tariff shield and raising the excise duty on electricity [TICFE] above its pre-crisis level). The rest of the adjustment should come from savings in primary public spending. The measures considered in our forecast include a change in the way retirement pensions are indexed,[22] savings in local authority spending and a curb on Social Security reimbursements for household spending on healthcare. In sum, we have not seen an effort of this magnitude since 2012-2013.

18. Whereas our last prediction was for a 0.5 GDP point reduction in this component.

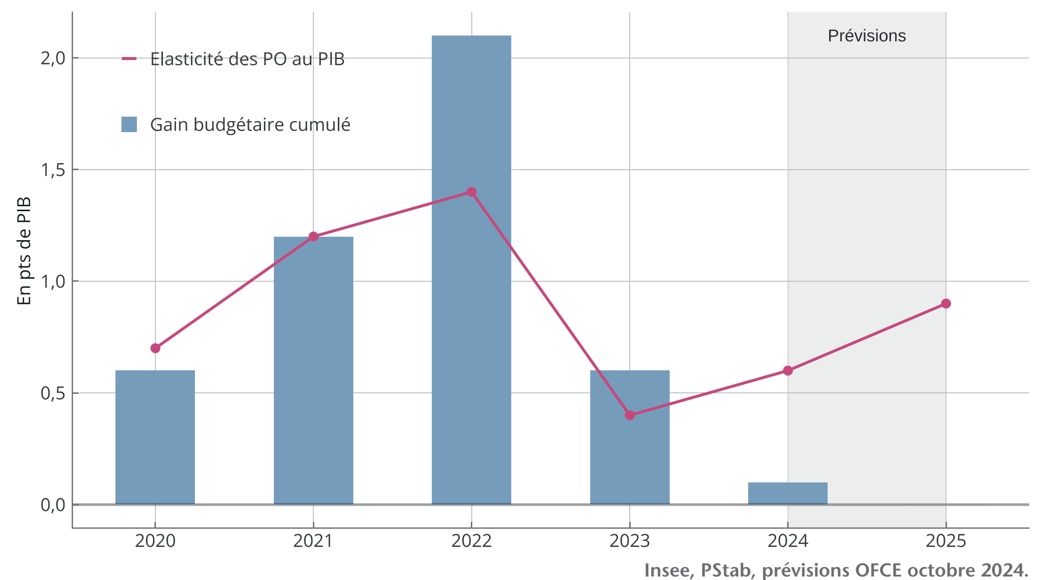
19. This is explored further in the Box: *2024 : What's behind the new under-estimation of the deficit?*

20. Although the procedure has been triggered, just how the public finances will come into compliance with European fiscal governance is still unclear. Given the delay in the budget timetable, the date of publication of the recommendation, initially scheduled for mid-October, may well be postponed.

21. A more overall reform could be implemented in the medium term based on the proposals in the Bozio-Wasmer report. See Antoine Bozio and Etienne Wasmer (2024), *Les politiques d'exonération de cotisations sociales: une inflexion nécessaire*, [The policy on social security exemptions: A necessary shift]. Report, October 2024, *France Stratégie.*

22. See Madec (2024), *Quel impact d'un décalage de l'indexation des pensions* de retraites? [What will be the impact of shifting pension indexes?], *OFCE le blog*, 10 October.

Figure 15. **Elasticity and cumulative fiscal gains**



Insee, PStab, prévisions OFCE octobre 2024.

Note : Elasticité et gains budgétaires cumulés liés aux évolutions des assiettes fiscales.

Box 5. The 2025 Draft Budget Bill : A fiscal turning point

On 10 October, the 2025 Draft Budget Bill (Projet de loi de finances 2025-PLF) was made public, providing an initial idea of the direction fiscal policy will take over the coming year.

Based on our calculations, the primary fiscal effort expected for 2025 would be around 44 billion euros (or 1.5 GDP points). This effort reflects in part the gradual phasing out of the emergency measures implemented to deal with the impact of the Covid and energy crises. Excluding these measures, **the primary fiscal effort in the 2025 PLF would be 34 billion euros (or 1.1 GDP points), which is still a historically high level.**

The new compulsory levies introduced by the 2025 PLF amount to 0.7 GDP point (22 billion euros), a figure that rises to 0.8 point if non-tax revenues are added (see Table 8). In quantitative terms, the main levies involved would be exceptional measures on the profits of large corporations (8 billion euros). Added to this is the reform of the general reduction in employer social security contributions[(a)] and the increase in the excise duty on electricity, which is combined with the end of the tariff shield (4 billion euros each). The temporary differential contribution on very high incomes is expected to raise 2 billion according to the PLF 2025. With regard to the compulsory levies, the 4 point increase in social security contributions for local authorities should have an impact of more than 2 billion. The rest of these would raise 1.7 billion according to our calculations. Finally, 2 billion euros in non-tax revenue is expected from the exceptional dividend payment by the EDF.

The primary expenditures set out in the 2025 PLF would help reduce the structural deficit by 0.4 GDP point (12 billion euros). In terms of primary public spending, employment policy (in particular support for apprenticeships) and aid to businesses should contribute 4.5 billion euros (0.2 GDP point). Postponing pension indexation should make it possible to cut spending by 3.6 billion (0.1 GDP points). Finally, the recalibration of ecological aid (2 billion), the increase in patient co-payments and the reduction in daily allowances (2 billion), the reduction in public development aid (1 billion) and the reduction in social loopholes and changes to the employment incentive (*prime d'activité* – 1 billion) will make a significant contribution to the effort.

(a) According to standard national accounting rules, for general government as a whole, the reform of the reductions in employer social security contributions will result in an increase in net social security contributions, which fall within the scope of compulsory levies.

Table 8. **Main budget measures for 2025**

Compulsory taxation			**Primary expenditure**		
	Bn euros	GDP pts		Bn euros	GDP pts
Measures included in the 2025 PLF					
Surtax on large corporation business tax	8.0	0.3	Shifting apprenticeship expenses and aid to businesses	-4.5	-0.2
Reduction in social security contribution exemptions (incl. return of business tax)	4.0	0.1	Postponing revaluation of pensions	-3.6	-0.1
Electricity excise duty (TICFE) — PLF 2025 supplement	3.0	0.1	Repositioning of ecological aid (MaPrimeRenov, etc.)	-1.9	-0.1
4 point hike in pension contribution rates (CNRACL)	2.3	0.1	Increasing patient co-payments and lowering the daily allowances ceiling	-1.7	-0.1
Minimum income tax rate of 20%	2.0	0.1	Cutting social benefit and unemployment insurance loopholes	-1.1	0.0
Other	0.9	0.0	Public development aid	-1.3	0.0
Exceptional maritime freight tax	0.5	0.0			
Misc energy measures	0.3	0.0			
End of emergency measures					
End tariff shield (return to the normal TIFCE)	3.9	0.1	End of transitional stimulus measures (recovery plan, etc.)	-6.0	0.2
Total PLF 2025	**20.9**	**0.7**	**Total PLF 2025**	**-12.8**	**-0.4**
Total	**24.9**	**0.8**	**Total**	**-18.8**	**-0.6**

PLF 2025, OFCE calculations.

According to our forecasts, fiscal policy should penalise French GDP growth by 0.8 GDP point (see Table 9). A breakdown of the effort, with its strong emphasis on compulsory levies, indicates an average multiplier effect of 0.7 (on the basis of the new measures introduced by the PLF 2025, excluding the cancellation of past emergency measures). In fact, the new compulsory levies (targeting businesses and wealthy households), which account for 60% of the adjustment, should have an average short-term multiplier effect (1st year) of 0.4, while expenditures would have an average effect close to 1. All things considered, the composition of the adjustment should make it possible to limit the impact on French GDP growth in 2025.

Finally, it is important to add that these calculations include only the measures in the PLF 2025. In addition to the measures set out above, the government has an even more ambitious target for restoring the public purse, which includes a 1.5 billion euro increase in environmental taxes (air tickets, fossil fuels) and a further 5 billion reduction in government spending. In total, the government is aiming for an additional primary adjustment of 0.2 GDP point, to be introduced via a government amendment during the parliamentary debate. Given the unstable balance of forces in the National Assembly (Box 2), it seems prudent to stick to the fiscal adjustment described here and not to add future measures, which are not well documented at this stage of the analysis. In any case, if these measures are finally integrated into the initial 2025 Finance Act, growth would be cut by a further 0.1 percentage point.

Table 9. **Impact of fiscal policy on GDP**

	Bn euros	GDP pts	Multiplier	Impact on GDP
Budget measures				
Total public revenue	**26.9**	**0.9**	**0.4**	**-0.4**
Total compulsory taxation	**24.9**	**0.8**	**0.4**	**-0.4**
Structural compulsory taxation	20.9	0.7	0.5	-0.4
Structural compulsory taxation	3.9	0.1	0.0	0.0
Total non-tax revenue	**2.0**	**0.1**	**0.5**	**0.0**
Total measures for savings in public spending	**-16.8**	**-0.6**	**0.8**	**-0.4**
Primary expenditure measures included in the 2025 PLF	-12.8	-0.4	1.0	-0.4
Interest costs	2.0	0.1	0.0	0.0
End of spending on transitional measures	-6.0	-0.2	0.0	0.0
Total for 2025 PLF				
Total fiscal effort	42.0	1.4	0.5	-0.8
Total primary fiscal effort	44.0	1.5	0.5	-0.8
Total primary fiscal effort (excl transitional measures	35.1	1.1	0.7	-0.8
Total on the amended 2025 PLF				
Total fiscal effort	48.0	1.6	0.6	-0.9
Total primary fiscal effort	50.0	1.7	0.5	-0.9
Total primary fiscal effort (excl transitional measures)	41.1	1.3	0.7	-0.9

PLF 2025, OFCE calculations.

In addition to this strong structural adjustment, the public balance should improve in 2025 as the emergency measures implemented to offset the impact of the pandemic and the energy crisis expire (0.3 GDP point). On the other hand, the deficit should rise with higher interest charges (by 0.1 point) and the slowdown in nominal GDP growth (0.3 point). Finally, the complete normalisation of public revenue (Box 6) should reduce the deficit by a further 0.1 GDP point (with an elasticity assumption of 0.9).

Box 6. What's behind the new underestimation of the deficit?

According to initial estimates, the public deficit is expected to reach 6.1% of GDP in 2024, a far cry from what was anticipated at the time of the vote on the 2024 Initial Finance Act (4.4%) and even from the 2024-2027 Stability Programme (PStab) (5.1%) dated April 2024. What could explain such a discrepancy between expectations and actual results?

The surprise arises in part because the starting point was much worse than initially forecast. In fact, the 2023 deficit was surprisingly high: the balance notified in March 2024 was -5.5 GDP points instead of the -4.9 points forecast in October 2023. This additional 0.6 GDP point was analysed in detail in OFCE (2024).[a] Given this, barring any further surprises in the macroeconomic scenario and with no change in fiscal policy, we could have expected a deficit of around 5% of GDP in 2024.

This surprising starting point was incorporated into the government's projections in April 2024, when the PStab was published. Since then, nominal GDP growth was revised downwards, to 3.1% in 2024 instead of the 3.6% anticipated.[b] This led to a further downward revision in the budget balance of around 0.3 GDP point, pushing the deficit up to 5.3% of GDP.

(a) See the box: "5,5 % de déficit public: anatomie d'un dérapage" by the OFCE Analysis and Forecasting Department, 2024, in "L'heure des comptes : perspectives 2024-2025 pour l'économie française", [Accounts time: 2024-2025 outlook for the French economy], *OFCE Policy brief* 126, 10 April.

(b) It should be noted that the Ministry of Finance teams anticipated the growth in volume for 2024 fairly well, but that a downward revision of the nominal outlook is due to the downward revision of price dynamics.

Furthermore, according to the information available, primary public spending, particularly by local authorities, has been higher than initially forecast. This will increase the public balance by 0.5 GDP point. Note that in 2023, local authorities posted a surplus before investment of 51.6 billion euros. A gap of 16 billion euros in their spending thus seems compatible with the fiscal rules applicable to local authorities. They would therefore have used the available fiscal space to increase their spending above expectations. According to preliminary calculations (considering PStab projections and the announced gap), the projected surplus for local authorities in 2024 before investment would be 35 billion (1.2% of GDP instead of 1.8%) and the total budget balance would be -26 billion (-0.9% of GDP instead of -0.2%). In this situation, the deficit would increase to 5.8% of GDP.

To better understand the scale of the 2024 deficit, we need to add another, unanticipated shock to the public revenues, on the order of 0.3 GDP point. Since the outbreak of the pandemic, it has proved particularly difficult to forecast public revenues. Between 2020 and 2022, compulsory levies grew faster than GDP and what would have been predicted by the new measures. For example, the new measures taken during this period should have reduced revenues by almost 1 GDP point, whereas the rate of compulsory taxes observed rose by 1 GDP point. Because of this dynamic – probably linked to the composition of growth and the particular effects of inflation – the public accounts were in a better state than anticipated. The year 2023 saw the tax base begin to return to normal, which reduced the cumulative gains after three years when revenues rose abnormally. Thus, according to our calculations, at the end of 2023, general government was still benefiting from more than 0.4 GDP point in extraordinary revenues (see Table 10). Although it was difficult to anticipate how fast the public revenues would return to normal, it would seem that this process should be virtually complete by 2024.

Table 10. **Elasticity of the cumulative fiscal gains related to changes in the tax base**

	2020	2021	2022	2023
Spontaneous change in compulsory levies (%)	-3.1	9.4	8.1	2.7
Growth in nominal GDP (%)	-4.7	8.2	5.9	0.6
Elasticity of compulsory levies	0.7	1.1	1.4	0.4
Cumulative gain (GDP points)	0.7	1.2	2.0	0.4

INSEE, fiscal documents, OFCE calculations.

In the final analysis, the deterioration in the public finances does not so much reflect the impact of new, unanticipated shocks as it does the effect of the overall situation returning to normal, with, on the one hand, the ebbing of inflation and, on the other, the dissipation of the recent massive shocks and the normalisation of the tax base (in both 2023 and 2024). Far from being good news, these developments leave France facing structural challenges that were masked by the recent unprecedented global shocks.

In sum, if the fiscal measures outlined here are indeed approved,[23] we forecast a public deficit of 5.3% of GDP in 2025 (Table 11). This is still barely below the 2023 level. In this context, public debt in the Maastricht sense should rise to 115.1% of GDP in 2025 (after 112.8% in 2024), a higher level than in 2020 in the midst of the pandemic. Despite making an adjustment of historic proportions, France will stand out from the rest of the euro zone, with public debt set to continue to rise (see Box 4).

23. See Box 4 on political uncertainty.

Table 11. **Change in the public finances**

In GDP points	2020	2021	2022	2023	2024	2025
Public balance (= a + b + c - d + e)	**-8.9**	**-6.6**	**-4.7**	**-5.5**	**-6.1**	**-5.3**
Primary public balance excluding temporary measures and activity effect (a)	-1.2	-2.2	-2.4	-2.4	-3.0	-1.8
Interest costs (d)	1.3	1.4	1.9	1.9	2.0	2.1
Emergency measures (b)	-3.1	-3.5	-2.4	-1.3	-0.6	-0.3
Activity effect (including the elasticity effect) (c)	-3.3	-0.1	1.6	-0.1	-0.7	-1.1
...including the effect related to the output gap alone	-4.0	-1.2	-0.5	-0.7	-0.8	-1.1
European recovery plan funds (e)	0.0	0.5	0.4	0.2	0.2	0.1
Public debt	**114.8**	**112.7**	**111.2**	**109.9**	**112.8**	**115.1**

INSEE, PLF 2024, Cour des comptes, OFCE forecasts October 2024.

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