

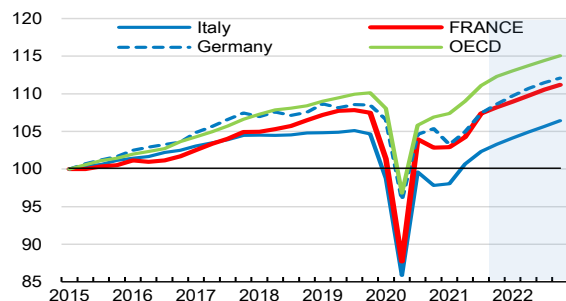
Executive Summary

Activity bounced back strongly after a deep recession


Economic policies reacted swiftly and strongly to the crisis, and activity has rebounded quickly. The recession associated with the pandemic was severe. From March 2020 to end-June 2021, sanitary restrictions tightly constrained economic activity, although their impact gradually declined, leading to a steep rebound (Figure 1).

Figure 1. The economic contraction was severe

Real GDP, index 2015Q1 = 100



Source: OECD, Economic Outlook and updates.

StatLink  <https://doi.org/10.1787/888934284887>

Strong public support measures limited the economic and social shock. Since 2020, the short-time work scheme has protected employment and household incomes. The solidarity fund, tax deferrals, and state-backed loans have supported corporate liquidity and profitability, reducing bankruptcies. Direct fiscal support for economic activity reached 3.1% of GDP in 2020 and 4.1% in 2021. In a welcome move, the measures are becoming more selective as the recovery gains traction, and the EUR 100 billion recovery plan and the 2030 investment plan rightly focus on environmental and digital transitions.

Domestic demand is driving the recovery (Table 1). With the economy reopening, domestic demand and employment bounced back rapidly in 2021. The emergency measures and the recovery plan, combined with accommodative monetary policy, are adding support to consumption and investment. In 2022, the gradual reduction of savings accumulated during the crisis is set to sustain consumption, while exports and investment should benefit from improving external demand.

Risks remain high. Demand for some services and transport equipment depends on the health situation. The negative risks associated with private debt have also increased for some businesses and households. However, growth could surprise on the upside if household confidence improved more

rapidly than expected and encouraged a greater reduction in accumulated savings.

Table 1. Domestic demand drives the recovery

Variation (%)	2020	2021	2022
Gross domestic product (GDP)	-8.0	6.8	4.2
Private consumption	-7.2	4.8	6.8
Public consumption	-3.2	6.4	1.9
Gross fixed capital formation	-8.9	12.0	3.7
Exports of goods and services	-16.1	8.2	7.5
Imports of goods and services	-12.2	7.3	8.4
Unemployment	8.1	7.8	7.6
Consumer price index	0.5	1.9	1.7
Public deficit (% of GDP)	-9.1	-8.0	-5.0
Gross debt (Maastricht definition, % of GDP)	115.1	115.2	115.3

Source: OECD, Economic Outlook and updates.

Ensuring a steady and inclusive recovery

The marked and impressive acceleration of the vaccination campaign will support a steady recovery. Yet, poor municipalities and the elderly have still comparatively low vaccination rates and efforts to reach the most exposed and vulnerable should be strengthened.

Ensuring a swift and effective implementation of the recovery plan should allow the economic rebound to turn into durable growth. For the same reason, a premature withdrawal of support for households and businesses should be avoided as it could push viable businesses into bankruptcy. However, fiscal support needs to become increasingly selective as the recovery gains traction.

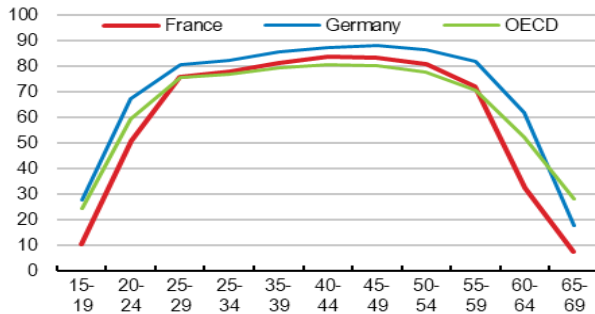
High corporate debt and heterogeneous businesses' conditions could eventually put some firms into difficulties. This calls for strengthening businesses' equity, and ensuring early and swift resolution processes for non-viable firms. Simplified preventive procedures introduced in 2021 will facilitate earlier and more effective restructuring. However, insolvency proceedings were lengthy before the crisis and strengthening the capacity of commercial courts would speed up the restructuring of distressed firms.

Boosting training and job transition support is crucial. Despite a high unemployment rate, labour market shortages have risen. Recent reforms have improved access to professional training and its quality, but the crisis has delayed their implementation. The 2021 strategy for retraining workers is welcome. Yet, even before the crisis, the school-to-work transition was difficult (Figure 2).

The foreseen expansion of the youth guarantee scheme will have to combine a financial allowance for those who need it, greater support to enter the labour market and streamlined procedures. At the same time, the financing of unemployment insurance and activation programmes appears procyclical and measures should ensure that their financing is better in line with economic conditions.

Figure 2. Employment among young and older people is weak

Employment by age, as a % of the population, 2019



Source: OECD (2021), Labour Market Statistics (database)

StatLink  <https://doi.org/10.1787/888934284906>

Reforming public finance

Public debt has increased markedly during the crisis. Developing a strategy to stabilise and gradually lower public debt is necessary to put it on a sustainable path since ageing-related expenditures are expected to increase.

Public spending is high (Figure 3) and some expenditures are not effective. Educational outcomes largely reflect the family environment and business innovation does not fully reflect high R&D support. Moreover, tax expenditures such as those on overtime, reduced rates of value-added tax or fossil-fuel subsidies do not support long-term growth. It is necessary to lower gradually and significantly public spending through a medium-term consolidation strategy based on spending reviews and improved expenditure allocation.

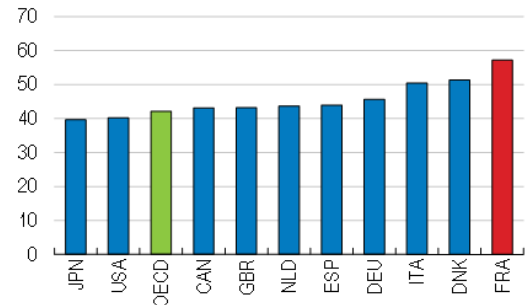
The pension system requires further reforms. The effective age of exit from the labour market is the second lowest of all OECD countries and has an adverse effect on potential growth. At the same time, life expectancy at age 65 is the second highest of the OECD. Increasing the minimum retirement age in line with life expectancy, and better integrating older workers into firms would encourage a rise in the effective age of exit from the labour market.

The governance of public finance is fragmented across sectors and levels of government. It does

not allow a full evaluation of some policies. A multiannual expenditure rule that encompasses the entire public sector, whose implementation would be assessed by the fiscal council (HCFP), would make for better coordination of sectoral expenditures. Additionally, the current debt projections are limited to 5 years and publishing long-term debt projections, whose assumptions would be validated by the HCFP, would raise awareness around sustainability issues.

Figure 3. Public spending is high

% of GDP, 2016-20



Source: OECD, Economic Outlook and updates.

StatLink  <https://doi.org/10.1787/888934284925>

Towards more inclusive and sustainable growth

Boosting employment and productivity is a priority. Welcome reforms have lowered labour costs and increased the in-work bonus for low-paid workers, while also improving the financing and targeting of education and vocational training. However, too many workers have inadequate skills and their employment rate remains low. The measures proposed in this Survey to improve employment and productivity further could increase GDP per capita by 1.2% after 10 years.

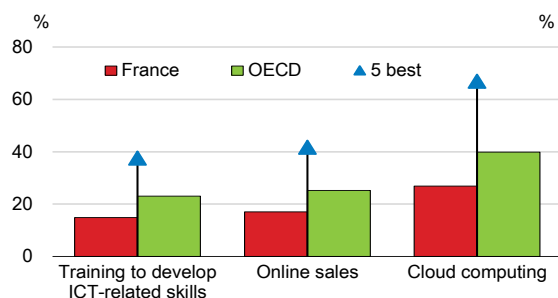
Early and initial education are key to strengthen skills and equity. Limited school closures have helped to maintain learning outcomes during the crisis, but they have weighed more on less performant children. Disadvantaged households have also less access to formal childcare, which calls for speeding up the development of additional childcare services for low-income households and in the poorest neighbourhoods. Action must be taken to lower the risk of school dropouts, as well as to improve the relationships between business and the education system. Apprenticeship could be developed further, as planned in the reform of vocational education, by increasing the share of work-based training.

The diffusion of digital technologies remains unequal, hindering productivity gains (Figure 4).

Many small businesses lags behind the adoption of these new digital technologies and will require additional support for training their workers.

Figure 4. There is room to boost firms' adoption of digital technologies

% of businesses, 2020



Source: OECD (2021), ICT Access and Usage (database).

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Efforts to support vulnerable regions and households should be stepped up. The crisis risks widening social and territorial inequalities. Providing equitable access to essential services, notably through the “France Services” network, would require to strengthen outreach and accessibility schemes by implementing a quantitative follow-up of local access to public services. The short supply of housing in dynamic areas also prevents higher housing mobility, especially for young people. Focusing support for housing supply on very densely populated areas would raise mobility and employment opportunities.

Speeding-up the green transition

Investment in the green transition should continue to reduce greenhouse gases and pollution. The pace of transition towards a greener economy must accelerate. Even though France is one of the lowest greenhouse-gas-emitting countries in the OECD, its emissions have fallen slowly. Artificial areas, transport demand and waste are steadily increasing. Intensive agriculture and the use of chemical inputs have reduced biodiversity and deteriorated air quality (Figure 5).

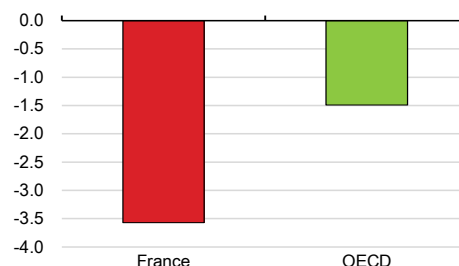
The environmental transition is one of the main pillar of the recovery plan. It allocates EUR 30 billion (1.2% of 2019 GDP) to green investment. However, the transition will be successful only if the mechanisms that are put in place are effective.

Green private investment must increase, and further incentives would boost households and businesses behavioural changes. Phasing-out tax breaks and reduced rates, and subsequently rising green tax rates, notably carbon prices, are

needed. To prevent an increase in inequality and to promote the social acceptability of such measures, support should be provided to the most vulnerable households and businesses. In particular, developing generous and targeted help-to-buy schemes, for cleaner equipments, would effectively complement environmental taxes.

Figure 5. Biodiversity on farmland is falling

Annual variation 2008-2019, %



Source: OECD (2021), OECD Agri-environmental indicators.

StatLink <https://doi.org/10.1787/888934284963>

Containing the growing demand for transport and the associated pollution should be a priority. The recent increase in electric car sales has not been sufficient to curb the rise in road transport emissions. Schemes to support the purchase of less polluting vehicles are not ambitious enough. The eligibility criteria for the conversion premium and the ecological malus scale should become more stringent.

Improving the energy efficiency of buildings would reduce energy consumption. Emissions from buildings have barely evolved. Policies to support building energy renovation works do not encourage efficient overall energy renovations. Public support should be conditional on achieving a minimum energy efficiency standard and tight controls on major projects.

Production of renewable energies must increase. France plans to reduce the share of nuclear power, which does not emit greenhouse gases. In order to comply with emission-reduction targets, renewable energies must be developed further, notably though higher support for renewable thermal energy.

Land use should take better into account the benefits of biodiversity. The environmental offset required for major development projects is not demanding enough. Land use taxes should also be reconsidered to encourage sustainable land use. In the agriculture sector, public support often comes without meaningful environmental condition. Reallocating agricultural support towards payments for agri-environmental services would encourage more sustainable practices.

MAIN FINDINGS	KEY RECOMMENDATIONS
Ensuring a strong and resilient recovery	
Fiscal policy has responded swiftly and appropriately to the effects of the pandemic. The economic rebound has been rapid, but a premature withdrawal of policy support could raise bankruptcies and unemployment.	Provide increasingly selective fiscal support as the economic recovery gains traction.
The recovery plan, supported by EU funds, is expected to support the green and digital transitions, which should lead to a stronger and more resilient growth.	Ensure swift and effective implementation of the recovery plan.
The commercial courts and the early warning system risk not being able to deal efficiently with insolvencies when the economy emerges from the crisis. Insolvency proceedings are lengthy.	Encourage the take-up of the new, simplified preventive procedures and strengthen the capacity of commercial courts.
Strengthening the effectiveness of fiscal policy	
Public debt is historically high as a share of GDP and ageing costs, if not addressed, could put it on an unsustainable path.	Develop a strategy to stabilise and gradually lower the public debt ratio.
The projections for public debt do not cover the long term.	Publish long-term debt projections based on assumptions validated by the fiscal council.
Public spending is among the highest in the OECD and is damaging growth and debt sustainability, despite favourable borrowing costs.	Lower gradually and significantly public spending through a medium-term consolidation strategy based on spending reviews and improved expenditure allocation.
The governance of public finance is fragmented across sectors and levels of government. It does not allow a full evaluation of some policies.	Implement a multiannual expenditure rule that encompasses the entire public sector.
Tax expenditure is considerable and some new measures have been implemented (such as tax exemptions for overtime), even though evidence of their effectiveness is poor.	Reduce tax expenditure, in particular those that do not benefit low-income households or measures that encourage excessive household saving.
The effective age of exit from the labour market is low. The pension system is fragmented and pension expenditure is high.	Encourage a rise in the effective age of exit from the labour market, notably by increasing the minimum retirement age in line with life expectancy.
Recalibrating the economy for greener growth	
Help-to-buy schemes for less polluting vehicles are not ambitious enough.	Make the eligibility criteria for the conversion premium and the ecological malus scale more stringent.
Some support schemes for building renovations do not encourage efficient energy renovations.	Make aid conditional on achieving a minimum energy efficiency standard and tighten controls on major projects.
The bulk of the support to the agricultural sector comes with little environmental counterparts. The reform of the CAP should increase environmental conditionality. France has also introduced its own incentives, notably based on the second pillar of the CAP, but they remain limited.	Reallocate support to the agricultural sector towards payments for agri-environmental services.
Public acceptance of environmental taxes is low, in part due to their regressive and sectoral effects.	Link economic incentives with measures to increase their social acceptability when needed.
Exemptions and reduced rates weaken the incentives of environmental taxes. The level of the carbon price remains uneven across sectors.	Gradually withdraw exemptions and reduced rates on environmental taxes. Prioritise the progressive alignment of carbon prices across sectors while resuming the gradual upward trend of the carbon component of energy taxes.
Boosting employment and productivity	
The financing of unemployment insurance and activation programmes is pro-cyclical.	Reform the financing of job seekers's support to ensure it is in line with economic conditions.
The school-to-work transition is still complex, especially for low-skilled youth, who have been severely affected by the crisis. The authorities plan to expand the youth guarantee scheme. Apprenticeship is underdeveloped, especially at the secondary level.	Ensure that measures to expand the youth guarantee scheme combine a financial allowance for those who needs it, support to enter the labour market and streamlined procedures. Increase the share of work-based training for apprentices.
The pandemic has speeded up the transition to a digital economy, but the take-up of digital technologies by small businesses remains low.	Provide financial support for training in digital technologies for small businesses.

Enhancing equal access to opportunities

Disadvantaged households have less access to formal childcare, making employment more difficult for women.	Speed up the development of additional childcare services for low-income households and in the poorest neighbourhoods.
Access to public services could be improved in certain rural and urban areas. The government is developing a network of regional contact points known as "France Services".	Strengthen outreach and accessibility schemes by implementing a quantitative follow-up of local access to public services.
The short supply of housing in dynamic areas prevents higher housing mobility and employment, especially for young people.	Refocus housing supply subsidies on the most densely populated areas.



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