France

Macroeconomic outlook and forecasts

France has been severely affected by the Covid-19 pandemic and the repeated adoption of the strict measures to contain the spread of the virus. Compared with the Eurozone average decline in GDP (-6.8%), France recorded a higher decline in 2020 (-8.20% y-y) with a contraction by 5.9% (q-q) and 13.2% (q-q) in the first and second quarter respectively, followed by a rebound (+ 18.5% q-q) in the third quarter and another contraction (- 1.5 % q-q) in the fourth one. Although the reintroduction of containment measures in spring 2021 led to a small contraction in the first quarter 2021 (- 0.1% q-q) and a postponement of the French economic recovery, France is expected to reach its pre-crisis levels by the end of 2021 (European Commission Summer Forecast 2021).

To cushion the effects of the pandemic, France put in place a significant fiscal package, equal to 23.1% of GDP, including discretionary expenditure measures to support employment (2% GDP), households (1.6% of GDP) and healthcare (0.8% of GDP). In particular, the extensive use of short-time work (STW) schemes as well as the relaxation of eligibility criteria to access such STW schemes and similar measures (included to non-standard workers) contributed to keep the unemployment rate under control (+ 1.1 pp from 2019 to 2020), while the employment rate has already returned to pre-crisis level. In addition to discretionary expenditure, revenue and fiscal measures (e.g., early tax refunds, tax deferrals) were adopted for an amount equal to 0.1% and 2.4% of GDP respectively. The largest interventions were in the use of financial instruments (loans and equity) and guarantees that the government put in place for an amount equal to 2.4% of GDP and 15.1% of GDP respectively.

All in all, the budgetary impact of the fiscal stimulus amounted to 4% of GDP in 2020 and is expected to be around 2% of GDP in 2021. Because of the fiscal intervention, the general government budgetary effort worsened in 2020, leading to a deficit for the year of around 9.2% of GDP. The deficit is expected to continue to be around 9% of GDP and 5.3% of GDP in 2021 and 2022. At the same time, due to the large government deficit and the severe contraction in GDP, the general government gross debt-to-GDP ratio rose by almost 18 pp from 97.6% to 115.7% between 2019 and 2020. It is estimated that it will reach its peak in 2025 (118.30%). As a result, France is projected to face high fiscal sustainability risks in both, the short and the medium term. In the longer term meanwhile projections expect France to face medium fiscal sustainability risks. The high French debt-to-GDP ratio represents a real fiscal sustainability risk, according to the Commission debt sustainability analysis (DSA).

Table 1 Macroeconomic development and forecast France

	2019	2020	2021	2022	2023	2024	2025	2026
GDP Growth (% change)	1.50	-8.20	5.00	4.00	2.30	1.60	1.40	1.40
Employment (% change)	1.10	-0.90	0.40	1.00	0.20	0.10	0.20	0.20

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Unemployment rate (%)	8.40	8.00	9.10	8.70	n.a.	n.a.	n.a.	n.a.
HICP inflation (% change)	1.30	0.50	1.10	0.80	1.20	1.50	1.80	1.80
Gov balance (% GDP)	-3.10	-9.20	-9.00	-5.30	-4.40	-3.90	-3.50	-3.20
Debt to GDP (% GDP)	97.60	115.70	117.80	116.30	117.20	118.00	118.30	118.20

Source: Own elaboration, based on French NRRP

France structural challenges before Covid-19

When entering the Covid-19 pandemic, France was experiencing moderate economic growth. Yet, structural challenges were persisting and affecting negatively competitiveness and productivity.

With respect to the labour market, France showed positive trends before the pandemic. Yet, unemployment rate remained above EU average and an important pool of untapped employment persisted especially for specific groups of workers included migrants, old-age workers, and young people aged 15-24. In addition, France labour market remained highly segmented especially for low-skilled workers. Since the early 200s, the numbers of temporary contract significantly increased before the crisis, and notably the interim temporary contracts, notably due to the exemptions from social security contributions. The use of these contract is particularly high among younger workers, and increased progressively also due to the rigidity of open ended contracts, and became a necessary choice for many employers to remain competitive. The result was an accentuation of the dualisation of the labor market in France for 25 years, between employees on permanent contracts and employees increasing the number of fixed-term contracts, the duration of which has tended to shorten. In 2017, the proportion of very short contracts among fixed-term contracts, lasting less than one month, stood at 83%, against 57% in 1998. Employees and intermediary professions in the tertiary sector have the highest probability of signing a very short contract, while executives more frequently obtain permanent contracts than other professional categories. Industry and construction have more recourse to temporary workers than to fixed-term contracts for their hiring on temporary contracts.

Part of the labour market challenges can be explained by structural problems affecting the French education system, which seems to fail to align with labour market needs. The education system also appears to show significant socio-economic and territorial inequalities. This is further aggravated by the fact that many education institutes in the periphery lack qualified and young teachers especially in scientific subjects. The qualifications gap of science teachers in disadvantaged schools is wide, with only 26% of science teachers in schools in the lowest socio-economic quartile being fully certified, against 94% in the top quartile. According to the OECD, lower secondary school directors frequently report that quality of teaching is hindered by (i) shortages of qualified teachers; (ii) shortages of teachers able to deal with pupils from socioeconomic disadvantaged background; and (iii) insufficient time with students. As a result, the turnover in these institutes is very high and they have greater recourse to contract workers, who are less trained.

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Productivity growth in services is affected negatively by rigidities also regulatory barriers in the product markets which lead to weak business dynamism. Doing Business data by the World Bank for France (2020) identifies barriers in access to credit and the property market. These restrictions have a negative impact on business dynamism, competitiveness, and the supply of professional services. This appears also to have had a negative bearing on innovation and research and development (R&D) in the private sector investment, leading to share of GDP below the EU's 3% target for 2020. France is lagging behind on a global scale compared to the most innovative countries.

Finally, with respect to social outcomes, France is one of the best performing countries in the EU according to all statistics. Yet some challenges emerge especially in terms of territorial inequalities. Disparities between regions are found in terms of competitiveness and investment, and also in access to social services, notably housing policies (European Commission Country Report for France 2020).

Table 2 France country specific challenges before Covid-19

Policy area	Challenges
Labour market	Entrenched segmentation and untapped employment for older and low-skilled workers.
	High unemployment rate.
	Persisting inequalities affecting people with a migrant background.
Education and skills	High levels of skills mismatch.
	Educational inequalities
Justice	-
Research and innovation	Low investment in R&D.
Public administration	-
Taxation	High taxes on production factors.
	Complex tax system.
Product market	High regulatory restrictions especially in service sector.
	Weak business dynamism and regulatory barriers.
	High share of "zombie firms"
Social policies	Unmet demand for social housing.
	Increase in the risk of poverty share among non-EU born

Source: Own elaboration, based on the Country Report for France 2020

In addition to structural weaknesses, France experiences significant challenges related to the green and digital transition. On the one hand, the current pace of renewable energy deployment seems to be insufficient to meet France's 2020 and 2030 targets. The energy efficiency targets for 2020 have not been met and major challenges for decarbonisation persist. Compared to its ambitious objectives, France has not implemented yet all the necessary steps as regards the waste management and it does not meet all air quality standards, especially in its largest agglomerations.

A the digital front, France ranks 15th in the European Commission's Digital Economy and Society Index (DESI) for 2020. Problems persist with respect to the coverage of fast broadband, especially in rural areas. In addition, the share of people with "basic or above basic digital skills" remain slightly below the EU

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average (57% vs 58%) and firms still have a comparatively low uptake of information and communication technologies.

The French NRRP: key numbers and timeline

On 23 June 2021, the European Commission approved the French plan for a total allocation of near €41 billion. The plan includes 70 investments' projects, grouped around three missions (Environment, Competitiveness and Cohesion) and a total of 21 reforms. Most of the reforms (near 55%) will be adopted in the first three years, whereas the big part of investments' projects will be completed between 2024 and 2026 (58%).

Table 3. Timeline for completion of reforms and investments' projects under French NRRP, by year (% total)

	2020	2021	2022	2023	2024	2025	2026	TOT
RRF Investments' projects [EUR billion]	0,00	3,63	7,77	5,81	9,85	8,99	4,94	40,98
RRF Investments' projects (% total)	0%	9%	19%	14%	24%	22%	12%	100%
RRF Reforms [number]	1,00	5,00	6,00	4,00	1,00	4,00	1,00	22,00
RRF Reforms (% total)	5%	23%	27%	18%	5%	18%	5%	100%

Source: Own elaboration, based on French NRRP

The completion of the projects goes along with the request for payments to the Commission. Yet, France does not provide information on the annual breakdown of spending under RRF grants, which does not allow to understand the timeline for the payments' disbursement from the Commission.

According to the stylized impact simulations run by the French government with the QUEST macroeconomic model, the NRRP is expected to have a discrete impact in the GDP growth estimates. Notably, the plan expects a slight decrease in the average annual GDP growth rate of 0.5 percentage points (pp), that will be increased in 0.2 pp by 2026. Yet, no information is provided with respect to the estimated impact of the plan on employment growth.

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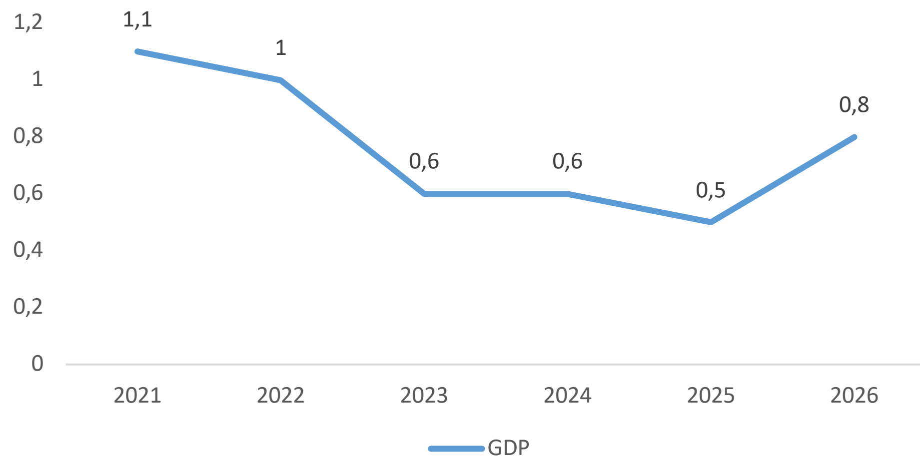
Figure 1. NRRP impact on GDP-deviations from baseline scenario

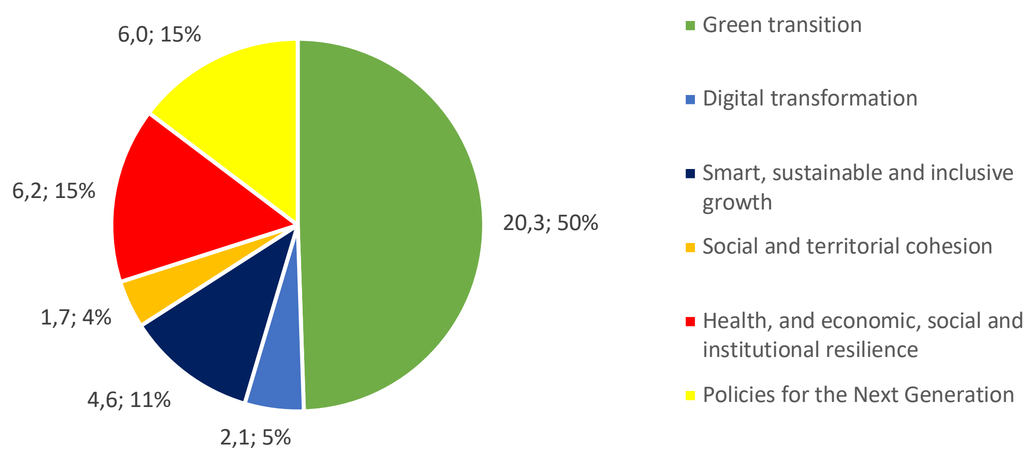


Source: Own elaboration, based on French NRPP

Investments in the French NRRP

Following the Commission guideline, the French NRRP investments can be classified based on the objectives included in the six pillars of RRF. In this respect, 50% of the investments projects have as a primary objective to foster the *Green transition*, 15% primarily support the *Health, economic, social and institutional resilience*, and 15% the *Policies for the Next Generation*. The remaining investments are primarily addressed to the *Smart, sustainable and inclusive growth policies* (11%), *Social and territorial cohesion* (4%) and the *Digital transformation* (5%).

Figure 2 French investments by RRF pillars (€ billion)



Source: Own elaboration, based on French NRRP

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A closer look at the breakdown of the six French pillars gives a better understanding of the investment prioritisation. Under the *Green transition* pillar, the French plan includes all investments of the mission 'Environment', which is made of four components dedicated to building renovation, ecology and biodiversity, infrastructure and green mobility and green energy and technology. Investments in building renovation and energy efficiency (€5.8 billion) include projects directed to public buildings (€3.8 billion), SMEs (€1.4 billion) and social housing (€0.5 billion). Under the infrastructure and green mobility component (€7.0 billion) the most relevant projects include support to the railway sector (€4.3 billion) as well as subsidies for clean vehicles (€0.98 billion).

Under the green energies and technologies component, the plan includes investments in the development of decarbonised hydrogen (€1.92 billion). Under *Policies for the Next Generation* pillar, France allocates a large number of resources to facilitate the access of young people to the labour market by giving subsidies for apprenticeships (€2.3 billion), for *'contrats de professionalisation*' (€0.8 billion) and for youth under 26 (€0.8 billion). Under *Health, economic, social and institutional resilience* France plan foresees public investments in the digitalization of the health care system (€2.5 billion) and in the renovation of health care infrastructure (€1.5 billion). *Smart, sustainable and inclusive growth* pillar includes investments in innovative business models (€2.55 billion), the creation of innovative ecosystems (€0.75 billion) and the National Research Agency (€0.43 billion). Finally, of particular relevance are the investments in the *Digital Transformation*, which include the creation of a digital health information systems (€2.0 billion) and the digital transition of the public sector (€1 billion).

Another interesting way of looking at the priorities of the country is to list the 10 top strategic projects from the different the pillars (Table 4), which offers an insight on the plan's focus.

Table 4. France 10 strategic projects financed by RRF and timeline

Project	€ bn	Description	Timeline
Renovation of buildings	5.8	Financing a large-scale renovation programme to increase the energy efficiency of buildings.	4Q2024
Modernisation and restructuring of hospitals and digitalization of health sector	4.5	Renovating hospitals and healthcare facilities, building outpatient facilities, and modernising medical infrastructure and equipment.	2Q2026
Support to the railway sector	4.4	Improving the rail network increasing the use of railway as an alternative to road transport.	4Q2025
Hiring subsidies for employers	4.0	Tax incentives for employers for apprentices, professionalization contracts and recruitment of people under 26.	1Q2022
Develop decarbonised hydrogen	1.9	Development of value chains for decarbonised hydrogen. The first sub-measure shall consist of establishing a mechanism to support renewable and low-carbon hydrogen production. The second sub-measure shall consist of launching and implementing planned Important Projects of Common European Interest (IPCEIs) on renewable and low-carbon hydrogen, in association with other Member State.	4Q20205

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Innovating for the resilience of our business models	1.8	Supporting investments for the development of key digital technologies, e.g., development of quantum technologies, cybersecurity, creative industries, 5G and future telecommunications technology.	4Q2024
Support to businesses in the ecological transition	1.7	Launch of several green transition acceleration strategies, e.g., decarbonised hydrogen, decarbonisation of industry, sustainable agricultural systems, recycling and reincorporation of recycled materials, sustainable cities and innovative buildings, digitalisation, and decarbonisation of mobility.	4Q2023
Support plan to the aeronautics sector	1.7	Helping SMEs and mid-cap companies to invest in new processes and installations; accelerate diversification, modernization, and environmental transformation through subsidies direct and consultancy services; and support R&D and innovation in "green airplane" technologies.	4Q2025
Renovation of medico-social establishments.	1.5	Massive property investment plan for medical and social establishments.	2Q2026
Digitalisation of public administration and schools	0.6	Providing digital equipment to elementary and secondary schools (131 million) and improving the efficiency of the PA and quality of working environment of public officials (500 million).	3Q2023

Source: Own elaboration

French key structural reforms

Overall, the French national plan contains 21 reforms which are synergistic and interact with public investment and other spending measures included in the Plan. Compared to other countries, France includes few structural interventions, and these are mainly focused on the public administration, social policies and research and innovation.

As illustrated in Table 5, with respect to public administration, the plan foresees a twofold intervention on public finance governance and PA simplification. Two reforms are indicated in the plan which aim to put in place a strategy for the consolidation of the budget in the medium and long term and improve the quality of public expenditure by directing it towards sectors which favour growth while reducing those that are inefficient. Other reforms are envisaged to simplify PA and review the distribution of competences between local authorities and the State with the objective to make the latter more flexible thus facilitating business development and simplifying administrative procedures for individuals. All these reforms are planned to be implemented between 2022 and 2025.

In the area of social policies, it’s worth highlighting two main interventions: the adoption of a national strategy for the transformation of the healthcare system, and the reform of the unemployment insurance. The former aims to reform hospital governance allowing for more flexibility in the organization and functioning of hospitals, by setting up new local health structures, and providing hospital units with an increased role in the decision-making. The latter by contrast is particularly controversial. The reform

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introduces some changes in the eligibility criteria to access to the unemployment benefits, notably is necessary to have worked 6 out of the last 24 months in a job or 4 out of the last 28 months to make use of unemployment protection. In addition, the reform introduces a modulation of the contributions, making employers pay a malus in case they hire on a temporary base contract, while giving a bonus to those who hire on a permanent basis. Finally, a third intervention regards the creation of a new branch of social security covering the risk of loss of autonomy, which was however adopted already in 2020.

In the area of research and innovation, the plan includes, through the implementation of the Research Programming Law, a complete overhaul of policies in this field, first by increasing the funding of the National Research Agency, and with it, the number of funded projects as well, and secondly by providing fiscal incentives to the private sector investing in R&D.

Table 5. Key structural reforms

Area	Measure	Description	Timeline
Labour market	Provision of services by the unemployment agency (Pôle Emploi)	Reorganisation of the provision of services by Pôle Emploi, the main public employment service, with the aim to speed up the treatment and individual diagnosis of jobseekers' situation and thus facilitate the rapid return of people to the labour market	4Q2022
Education and skills	-		
Justice	-		
Research and innovation	Structural aspects of the Research Programming Law	Strengthening the impact of research, consolidating research funding schemes, and enhancing the attractiveness of scientific jobs and careers.	3Q2025
Public administration	Civil service transformation	Improving recruitment and enhancing equal opportunities, in particular in senior civil service jobs.	1Q2022
	Public finance governance	Establishment of a multi-year expenditure rule as a steering rule ensuring consistency between the annual budget bills and the multi-year objectives. Implementation of a COVID debt containment scheme in the draft budgetary plan.	1Q2023
	Assessment of the quality of public expenditure	Directing public spending towards the most efficient ones in favour of growth, social inclusion, and the ecological and digital transition.	1Q2024
	Law on accelerating and simplifying public action ("loi ASAP")	Bringing the administration closer to the citizen, facilitating business development, and simplifying administrative procedures for individuals.	2Q2025
	Law on differentiation, decentralization, deconcentration to simplify local public action (4D)	Transferring new powers to local authorities and making relations between the State and local authorities more flexible.	1Q2022
Taxation	-	-	-
Product market	-	-	-
Social policies	Reform of the unemployment insurance	To accelerate and facilitate the return to sustainable employment of jobseekers by personalising and intensifying support according to needs.	2Q2024

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	National Strategy for the Transformation of the Health System	Improving the relevance of the health system, the organisation of work, valuing the work of health professionals and ensuring equal access to the health system.	4Q2023
	Creation of a new branch of social security covering the risk of loss of autonomy	Transforming the way in which the risk of loss of autonomy is recognized. Better financing of care for the elderly and the disabled and contributing to improving the quality and equity of care.	3Q2020

Source: Own elaboration

Overall assessment of the French plan

France entered the Covid-19 with a moderate economic growth, a high debt level and structural challenges, especially in the areas of competitiveness and productivity (see Table 2). The Plan addresses some of the challenges affecting the French economy and, at the same time, defines the growth strategy of the years to come within the framework of Next Generation EU. Indeed, the plan pursues a twofold objective: (1) in the short term, supporting the rebound of our economy; (2) in the longer term, supporting the green and digital transformation of the French economy.

One of the positive aspects of the plan is the intervention in public administration and social policies, as the former is a key area for economic growth and the latter has correctly identified the country's structural problems. Still to be seen, by contrast, the effect of the French plan in the research and innovation area. While the intervention is needed to cushion the country's problems of low private investments in R&D, the envisaged measures are in line with the ones already in pace (such as Crédit Impôt Recherche), which however did not show positive results in the previous years. Very controversial remains the unemployment benefit reform, which risks creating a boomerang effect, de facto reducing workers protection, instead of helping the most vulnerable groups, such as temporary workers, in accessing to the benefits.

The plan lacks any proposal for reforms and investments in equally relevant areas, such as in the field of education, justice, taxation and the product markets.

Overall, the proposed interventions can be expected to be implemented since the plan is accompanied by a detailed timeline of the different steps to adopt the reforms and complete the investments, and a clear reference to the responsible actors who will be in charge of implementation. However, concerns might emerge with respect to the timing of the reforms, whereas large part of the reforms will have to be completed as early as 2021 or early 2022, which might prove to be difficult in given the Presidential electoral campaign of 2022. In addition, the unemployment benefit reform remains largely contested, especially after the government decided to adopt it, after the failure of the negotiations with the social partners.

Another concern is the lack of ambition in the area of labour market reforms. With entrenched segmentation, high unemployment and inequalities affecting people with a migrant background present, there is this concern that some of the country's structural problems will remain unresolved.

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Coherence of the investments with the envisaged reforms is not always guaranteed in all policy areas. For instance, while the investments in youth employment policies are relevant, no accompanying reforms were envisaged in this respect.

One area which could raise concern is public finances for two reasons: i) despite the complexity of the pension system, there are no details provided in the plan; ii) dubious timeline for the new public finance programming law, January 2023, at a time after the presidential election.

In the area of digital transformation, despite compliance with the guidelines set by the European Commission, there are doubts as to whether France will achieve the numerical targets set by the European Commission for 2030. For instance, as mentioned above, the indicator of French people aged 16-74 with basic digital skills (70% by 2030, according to Deloitte's analysis, compared to the 80% target set by the European Commission) could be a cause for concern.

As observed above, most of the investments' projects and reforms aim to foster the green transition. Particularly relevant are the measures related to the transformation of ecology and biodiversity regulation: the Climate & Resilience Law and the law on circular economy, the renovation of buildings' reforms, the transformation of transport through the Mobility law (*'loi d'Orientation des Mobilités')* and the creation of a green budget to coordinate expenditure on green transition. However, while the focus on the green economy seems to be very strong, the fiscal and financial stability are not sufficiently addressed. On structural reforms the French programme is rather weak, even though the stability of the French economy is of paramount importance for the Eurozone.

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