

The French economy accelerates in 2015

Vincent Biaisque, Émilie Rodriguez, Camille Sutter*

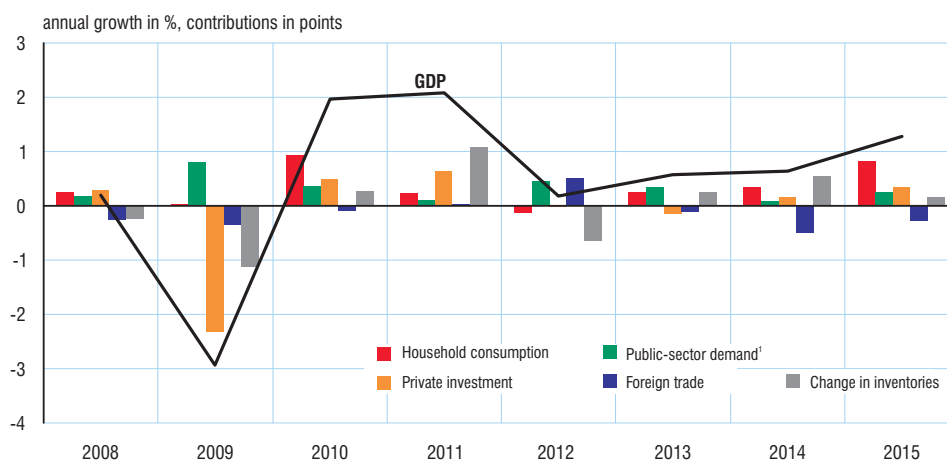
Sustained by the increase in purchasing power, the French economy accelerated in 2015: +1.3% in volume, after +0.6% in 2014 (figure 1). This was the strongest growth since 2011.

Household consumption was the main factor in the acceleration in 2015 (+1.5% after +0.7%), in the wake of increased household purchasing power. This was sustained by buoyant earned income levels and very low inflation. On the government demand side, general government consumption picked up slightly (+1.4% after +1.2%) while the decline in government investment was less marked than in 2014 (-3.8% after -5.7%). The recovery in corporate investment was confirmed (+2.8% after +1.6%), whilst the fall in household investment eased (-0.8% after -3.5%).

Foreign trade continued to weigh down on growth, but less so in 2015 (-0.3 points) than in 2014 (-0.5 points). The vigour in exports was in fact more than offset by that in imports. Finally, companies' inventory behaviour once again made a positive contribution to growth.

In the wake of the recovery in activity, payroll employment in the non-agricultural market sector stabilised after two consecutive years of decline. Thanks to net job creations in the non-market sector and creations of self-employed jobs, total employment continued to increase.

1. Contribution of the main aggregates to GDP growth



1. Including Non profit institutions serving households.

Scope: France.

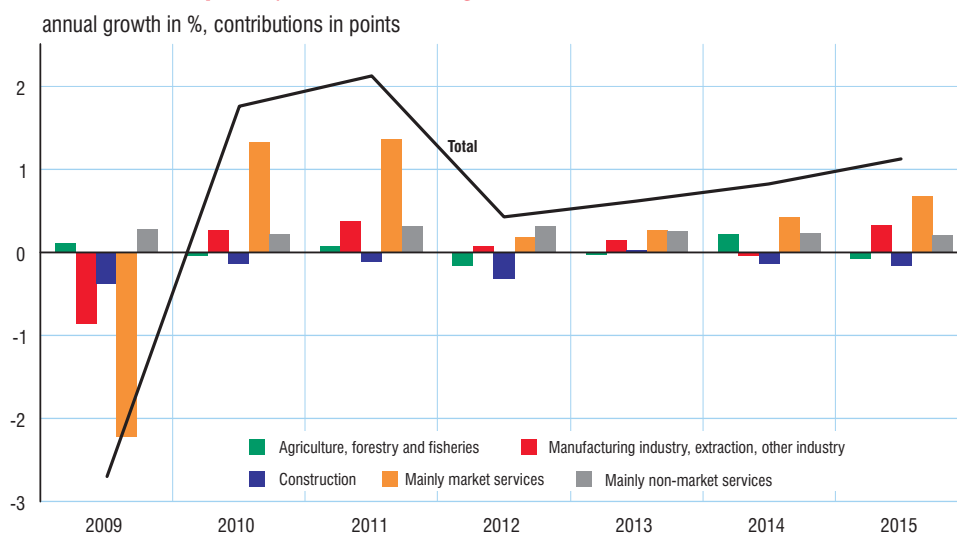
Source: Insee, national accounts, 2010 base.

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Activity accelerates

In 2015, GDP picked up: +1.3% after +0.6% in 2014. Adjusted for working days, GDP increased by +1.2% after +0.7%. This increased vigour is due in particular to a rebound in industrial value added (*figure 2*) and the acceleration in activity in mainly market services.

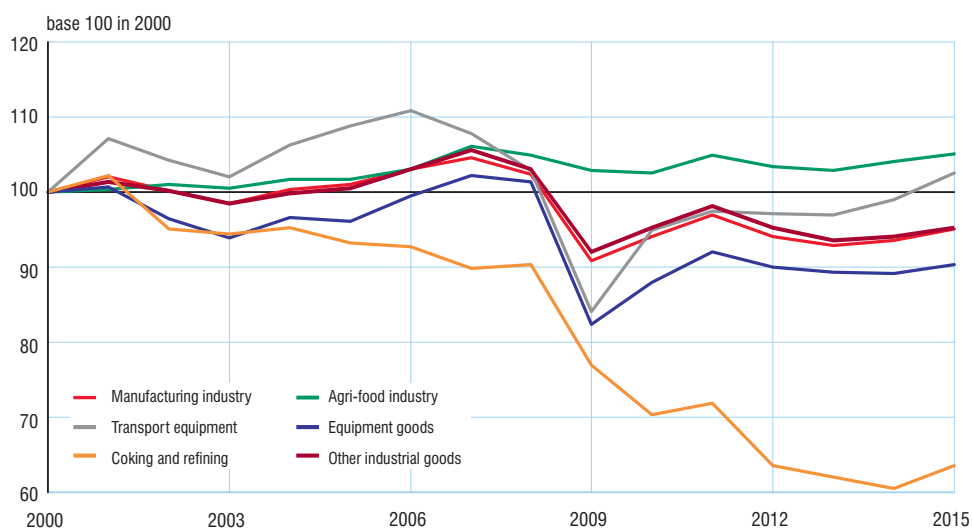
2. Contribution of primary branches to the growth in volume of total value added



Scope: France.

Source: Insee, national accounts, 2010 base.

3. Variations in manufacturing output in volume by branch



Scope: France.

Source: Insee, national accounts, 2010 base.

Manufacturing output gathers speed

After the upturn in 2014 (+0.6% after -1.2% in 2013), manufacturing output kept up the momentum in 2015: +1.7% in volume (*figure 3*). Intermediate consumption in the branch also picked up (+1.4% after +0.9% in 2014), but less strongly. As a result, value added in the manufacturing branch bounced back vigorously (+2.6% after -0.2%): it contributed +0.3 percentage points to GDP growth in 2015.

The acceleration in manufacturing output resulted first of all from a rebound in the coking-refining sector (+5.0%) after three years of marked decline (-2.4% in 2014). Output in capital goods also picked up (+1.3%) after three years of more moderate decline (-0.3% in 2014). In addition, production of "other manufactured goods" (+1.2% after +0.5% in 2014) and that of transport equipment (+3.5% after +2.0% in 2014) accelerated substantially. On the other hand, food product output remained virtually stable: +0.2% after +0.3% in 2014.

Moreover, the rebound in manufacturing output combined with a return to more normal winter temperatures to initiate a recovery in energy-water-waste production: +1.9% after -4.9% in 2014.

Output picks up in the service sector

Market services output improved: +1.9% in volume in 2015, after +1.4% in 2014. Intermediate consumption in the branch also gained momentum (+2.4% after +1.9%), so much so that value added in the sector accelerated at a more moderate pace (+1.5% after +1.0%), contributing 0.7 points to GDP growth in PIB in 2015.

The buoyancy of market services output is due first to the acceleration in the services to business sector (+2.3% after +1.3% in 2014) and that of the retail sector (+3.2% after +1.9%). The information and communication (+3.1% after +3.0% in 2014), accommodation and food services (+1.5% after +0.1%), real estate services (+1.4% after +0.9%) and household services (+1.8% after +1.1%) sectors also picked up. Output in the transport sector remained sluggish (+0.3% after -0.1%). As for the financial sector, output stagnated after rising 2.5% in 2014.

Output picked up in non-market services: +1.1% after +0.9%. This acceleration was, however, mainly attributable to a strong rise in intermediate consumption in volume, as non-market service output is conventionally evaluated as the sum of production costs. Value added in this sector therefore slowed slightly in 2015 (+0.9% after +1.0%) and did not contribute any more to GDP growth in 2015 than it had in 2014 (+0.2 points).

Activity continues to decline in the construction sector and agricultural activity drops

Construction output continued to fall (-2.1% after -2.7%) and with it value added in the branch (*box 1*): -2.9% after -2.3%, contributing -0.1 points to GDP growth.

Finally, agricultural output fell in volume (-2.2% after +6.5%), in arable farming in particular. Value added in the agricultural sector also fell sharply (-4.4% after +13.2%), also contributing -0.1 percentage points to GDP growth in 2015.

Housing construction in 2015

Julie Goussen*

Activity in the construction sector continued to contract in 2015 (-2.2%, after -2.7% in 2014), in particular in building. In this sector, the decline is mainly explained by a further drop in households' investment in housing (-3.1% after -3.9% in 2014) essentially due to the fall in new building and, to a lesser extent, to a further reduction in demand for housing maintenance and improvements (figure 1).

The number of permits for new dwellings rose slightly in 2015

From 2012, the number of permits for housing starts followed a downward trend to reach its lowest level since 1999 in 2014. In 2015, the number of permits rose slightly (+2.7%) to 385,700 housing units. The increase was much more marked for collective housing (+5.8%) than for individual dwellings (+0.4%).

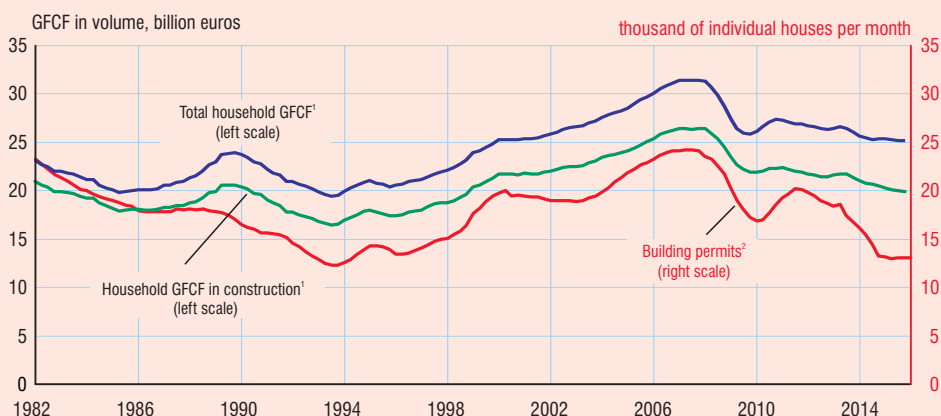
As a result, the number of actual housing starts grew by 1.7% in 2015, for the first time since 2011, to reach 349,700 units (figure 2). This increase was due to collective housing (+6.1% after -2.9% in 2014), while the number of individual dwelling starts continued to fall in 2015 (-3.0%), although

at a slower rate than in 2014 (-19.0%), reaching its lowest level since 1993.

The increase in collective housing starts reflects the improvement in the real estate market involving developers. In fact, driven by sales of new apartments, the number of units offered for sale by developers picked up in 2015: +7.2% after -9.9% in 2014. The time taken to sell both apartments and houses fell in 2015 compared to the year before and the stocks of dwellings for sale are declining.

This upward trend in the number of units offered for sale by developers results in particular from the increase in buy-to-let investment generated by the Pinel scheme introduced in summer 2014 and extended until 2017, which offers investors the opportunity to let for six, nine or twelve years and benefit from tax relief on their investment in new housing. The zero-rate loan (PTZ), on the other hand, is intended to facilitate the purchase of homes by first-time buyers. The PTZ was readjusted in October 2014 to shore up the help-to-buy schemes already available and increase the number of beneficiaries in zones B and C¹.

1. Households' investment and authorisations for individual housing starts



1. Quarterly data.

2. Arithmetical average over 18 month period.

Scope: France.

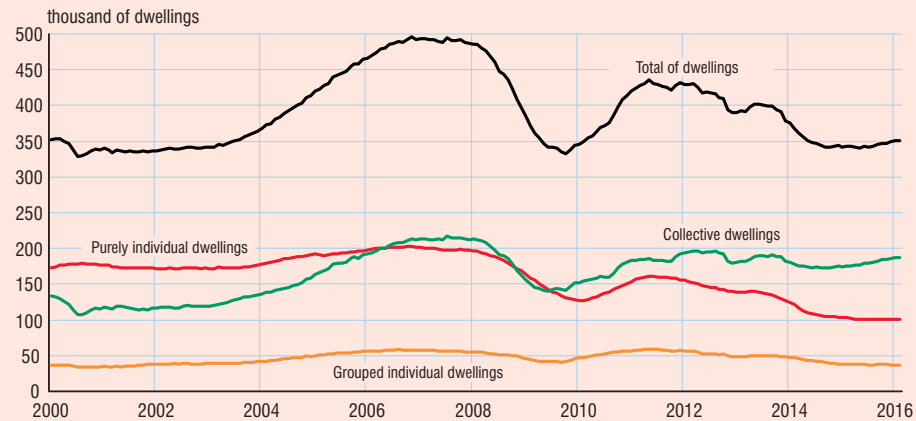
Source: Insee, national accounts; SOeS.

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1. The French real estate market is divided into zones: zone A: the urban part of the Île-de-France (Paris region), the Côte d'Azur and the French part of the Geneva conurbation; zone B: other municipalities with a population over 50,000, the islands, Corsica and the overseas departments (DOM); zone C: the rest of the country.

Box 1 (continued)

2. Housing starts (over the 12 month period)



Scope: France.
 Note: total over 12 month period.
 Source: SOeS.

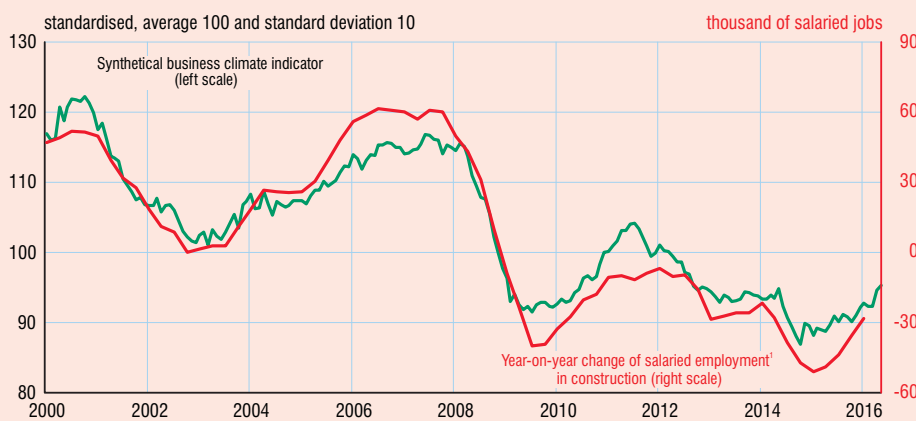
Construction professionals say the short-term outlook is poor

In line with the decline in their activity, business leaders in the building sector were still saying that the short-term outlook for the sector was poor in 2015. The overall business climate indicator for the building sector has been trending downward since mid-2011 and has been below its long-term average (100) since

2012. In 2014, it reached its lowest level since 1997. In 2015, the short-term outlook remained gloomy, even though the indicator gradually improved over the year: from 88 in January to 92 in December 2015 (figure 3).

An even greater number of business leaders in the building sector said that they were seeing a slowdown in their activity and that orders were below their normal level. They reported underused production capacities.

3. Business climate and employment in construction



1. CVS data.
 Scope: metropolitan France.
 Sources: Insee, construction conjuncture survey, salaried employment estimations.

Foreign trade continues to weigh on economic activity

French exports accelerate sharply in spite of the slowdown in world trade

World trade in goods slowed in 2015 (+1.6% after +2.9%), due in particular to the emerging economies. World demand for French goods also slowed (+3.4% after +3.9% in 2014), but remained more buoyant than world trade due to the geographical orientation of French exports.

In fact, world demand for French goods from the advanced economies, most notably the European Union, accelerated. This increase was the result of demand from the countries of Southern Europe (contribution of +1.0 points after +0.6 points in 2014) and the United Kingdom (contribution of +0.5 points after +0.2 points in 2014). On the contrary, imports from the emerging economies fell back, contributing just -0.3 points to world demand for French goods. A third of this decline was accounted for by a drop in demand from China and a further third by lower Russian demand.

In spite of the slight slowdown in world demand for French goods, exports of goods and services picked up considerably in 2015: +6.1% after +3.3%, which reflected gains in market share. This improvement (*figure 4*) is explained most notably by the depreciation of the euro during the course of 2015: it fell from an annual average of \$1.33 for €1 in 2014 to \$1.11 in 2015.

4. Trends in French exports and world trade in goods in volume



Sources: Insee, Centraal Planbureau.

The volume of exports of manufactured goods picks up markedly

In 2015, exports of manufactured goods, representing almost three quarters of sales, saw a sharp acceleration: +6.9% in volume after +1.7%. Sales of transport equipment (+10.7% after +0.6%) alone accounted for almost half of the increase in sales of manufactured goods. The improvement was due as much to car sales as to other transport equipment. The acceleration was also boosted by other items: "other manufactured goods" (+5.4% after +3.4%), capital goods (+5.0% after +1.6%), refined products (+20.1% after -1.9%) and even food products (+3.3% after -1.3%).

Sales of agricultural produce also bounced back in volume (+7.0% after -0.1%) whilst energy-water-waste exports slipped back: -9.3% after +15.3%. All in all, exports of goods accelerated substantially and contributed a total of 4.7 points to export growth.

Exports of services excluding tourism slowed slightly (+8.4% after +9.3%), in particular in the information and communication sector, but still contributed +1.8 points to the overall rise in exports.

But imports are even more buoyant

Imports of goods and services (including tourism) also picked up in 2015 (+6.6% in volume after +4.7%), driven most notably by an increase in the different components of demand.

Imports of manufactured goods accelerated sharply: +6.7% in volume after +3.7%. All the items contributed to the acceleration, but especially "other manufactured goods" (+5.1% after +4.1%), which accounted for almost half of imports of manufactured goods. After +6.2% in 2014, imports of transport equipment increased by 12.0%, the biggest rise since 2000. Purchases of capital goods (+8.1% after +2.9%) and food products (+4.1% after +1.6%) also saw a boost. Driven by weak oil prices, imports of refined petroleum products increased (+2.6% after +0.9%) and those of energy-water-waste bounced back substantially (+6.7% after -6.9%). All in all, imports of goods picked up in volume (+6.6% after +2.4%), contributing +5.0 percentage points to overall growth.

Imports of services excluding tourism decelerated slightly, but remained buoyant in 2015: +9.0% after +11.7%. This virtually general slowdown was attributable first and foremost to a decline in imports in the information and communication and household services sectors, and to a lesser extent, to a slowdown in imports of business, transport and non-market services. This trend was not offset by the acceleration of imports in the financial services sector. Imports of services contributed +1.9 percentage points to the total increase in imports.

In the final analysis, over the whole of 2015, in spite of the factors favourable to foreign trade, the pick-up in exports was not enough to offset buoyant imports. The contribution of foreign trade to real GDP growth was therefore negative (-0.3 points) for the third year running (-0.5 points in 2014 and -0.1 point in 2013).

France's net borrowing position improves

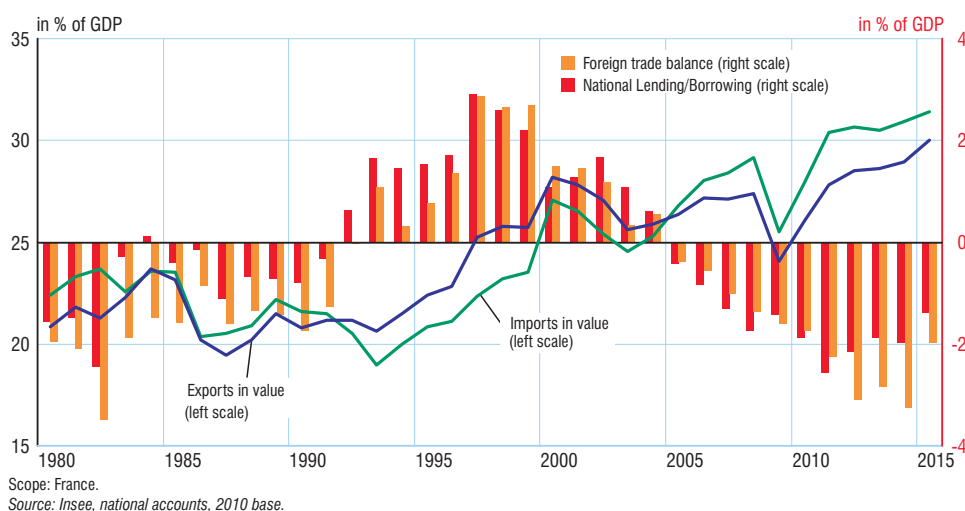
In value, however, exports grew faster (+5.7%) than imports (+3.5%). Import prices fell much more quickly than those of exports, due most notably to the drop in oil prices: the price of a barrel of Brent crude collapsed by more than a third in 2015. As a result, the foreign trade balance improved by €12.5 billion, even though it continued to show a considerable deficit: -€30.0 billion, after -€42.5 billion.

The energy deficit (including refined products) shrank for the third consecutive year to €35.3 billion in 2015. Energy aside, the balance of trade deteriorated, but continued to show a small surplus of €5.2 billion, after €8.6 billion. The balance of trade in manufactured goods excluding fuels worsened to reach -€5.7 billion. The deterioration in the balance of trade by value in automobiles - at its lowest level since 1980 - capital goods and "other manufactured goods" was not offset by the improvement in the trade balance in other transport equipment. Furthermore, the balance of trade in services (excluding tourism) has seen a substantial downturn since 2011 and now stands at -€14.6 billion. The balance of trade in tourism deteriorated slightly, but remained in surplus, at +€5.7 billion. Finally, trade in agricultural produce held up and the balance also remained in surplus, at +€3.2 billion.

Furthermore, the balance of income from property bounced back (+€5.8 billion after -€1.6 billion), due to a larger fall in interest rates in the Eurozone than in the rest of the

world: income paid to the rest of the world fell by €34.9 billion whilst income received only fell by €29.1 billion. All in all, France's net borrowing position improved considerably, by €26.3 billion, and represented 2.0% of GDP in 2015 after 3.2% in 2014 (*figure 5*).

5. External balance



Total employment goes up

On average over the year, payroll employment virtually stagnated in the non-agricultural market sectors in 2015. Nevertheless, total payroll employment increased slightly (+0.2%; *figure 6*) thanks to the growth in non-market sector employment (+0.5%) boosted by subsidised employment. The unemployment rate across the whole of France was therefore stable on average over the year at 10.3%. On the other hand, year on year at the end of the year, non-agricultural market sector payroll employment improved considerably: by the end of 2015, the French economy had 102,000 more jobs than at the end of 2014 (+0.5%).

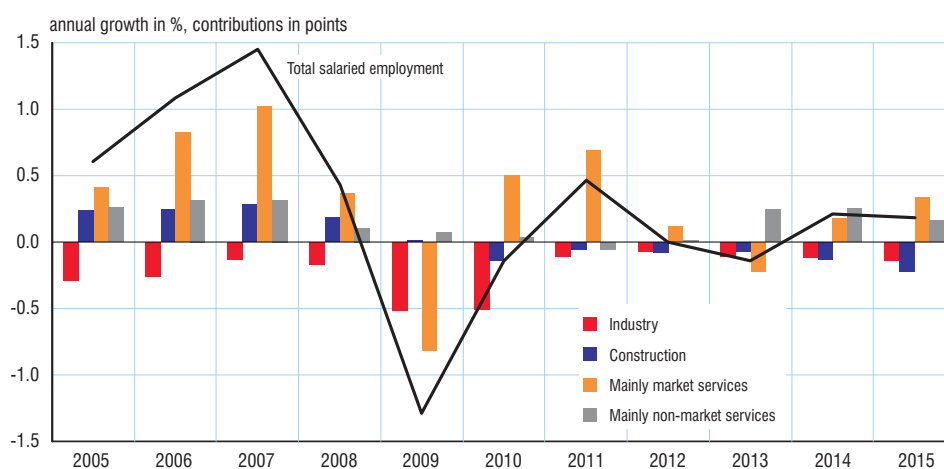
Market sector payroll employment stabilises

In the non-agricultural market sector, payroll employment was almost stable on average over the year in 2015 (-5 000 jobs), as in 2014 (-18 000 jobs, or -0.1%), after a substantial fall in 2013 (-0.6%).¹ This gradual improvement in payroll employment in the non-agricultural market sectors was driven by the acceleration in market sector valued added (*figure 7*) and measures taken to boost employment growth (Tax credit for encouraging competitiveness and jobs and Responsibility and solidarity pact) which reduced the cost of labour in 2015. Even so, firms were also able to make productivity gains. Taking account of agricultural employment, non-market sector employment and self-employment, total employment rose at almost the same pace as in 2014: +129,000 net job creations after +127,000.

1. Employment calculated and published according to the national accounts definition differs from employment estimated directly in the sectors of activity, mainly due to differences in the periods considered: the former is calculated as a quarterly (or annual) average whilst the latter is estimated at the end of the period (quarter or year-end).

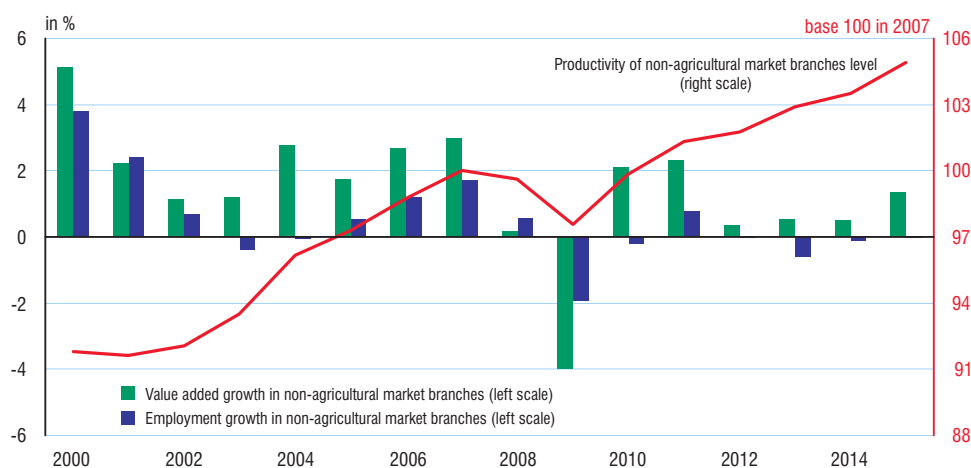
The gap widened between industry and mainly market services, including temporary employment. In the latter sectors, employment saw an upturn: +44,000 jobs after -19,000 in 2014. Industrial employment, on the other hand, continued to decline, and saw a net loss of 35,000 jobs after -29,000 jobs in 2014. Similarly, the construction sector also continued to lose jobs (-54,000). The non-market sector gained 39,000 jobs in 2015 - but at a slower rate of growth than in 2014 (+62,000) - mainly driven by subsidised employment (+23,000).

6. Trend in total salaried employment



Scope: France.
Source: Insee, national accounts, 2010 base.

7. Growth in productivity, value added and employment in the non-agricultural market branches



Scope: France.
Source: Insee, national accounts, 2010 base.

Unemployment levels out in 2015

On average over the year, the unemployment rate was stable in 2015 for the third year running, at 10.3% for France including the overseas Departments. The male unemployment rate increased by 0.3 points, to reach 10.8%, its highest level since the series has existed (1996). The female unemployment rate fell slightly, by 0.1 point, to 9.9%. This divergence can be explained by the different employment dynamics in industry and construction on the one hand, sectors that mainly employ men, and the tertiary sector on the other hand.

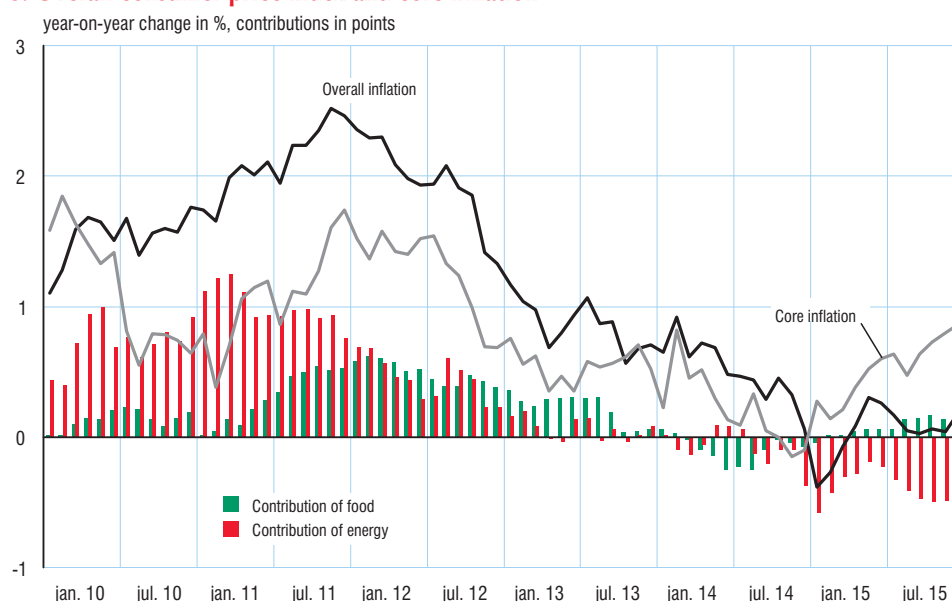
Purchasing power accelerates

Inflation falls sharply

As an average over the year, inflation² was nil, a considerable slowdown compared to 2014 (+0.5%), thanks to its energy component (*figure 8*): energy prices fell sharply in 2015 (-4.7% after -0.9% in 2014).

On the other hand, core inflation, i.e. excluding energy and food, regained a little momentum in 2015, under the effect of the depreciation of the euro, which makes imported goods, particularly electronic goods, more expensive: +0.5% after +0.2% in 2014.

8. Overall consumer price index and core inflation



Scope: France.

Note: in december 2015, overall inflation was +0.1%, of which +0.1 point of percentage due to rising price index of agri-food products and -0,4 point to rising energetic prices, meanwhile core inflation was +0.9%.

Source: Insee.

2. The consumer price index referred to here is different to the consumption deflator, mainly due to differences in scope, concerning financial products in particular. The deflator fell slightly in 2015 (-0.2%), whereas the consumer price index remained unchanged. It is the consumption deflator that is used to calculate purchasing power.

Wage increases pick up in the private sector and slow in the public sector

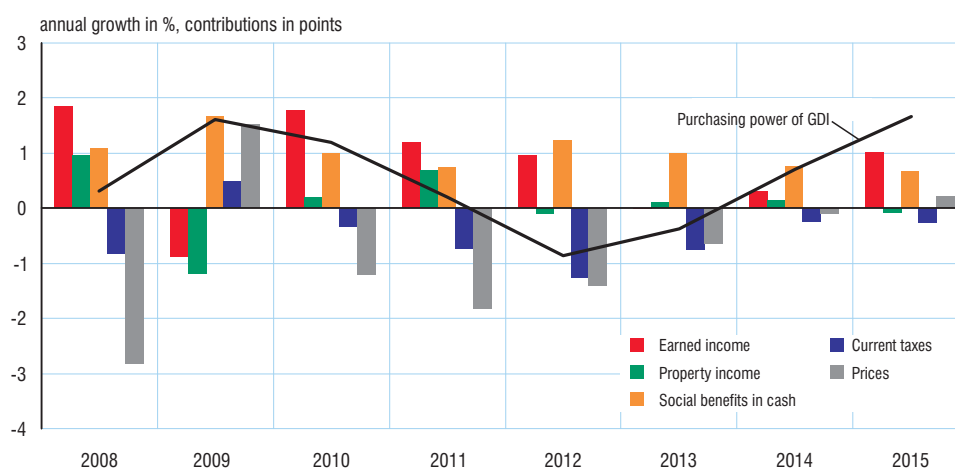
In 2015, average wages per capita in the non-agricultural market sector rose more quickly: +1.6% after +0.6%, driven in particular by the payment of bonuses at the beginning of 2015. Due to the drop in inflation, the acceleration was even more pronounced in real terms: +1.8% after +0.5%.

In general government, nominal wages slowed in 2015: +0.5% after +1.0%. On the one hand, the freeze on the index point since 1 January 2010 and the absence of any increase in the civil service minimum index since 2013 helped to contain wage inflation. Furthermore, the employment structure was modified by the acceleration in subsidised employment in the non-market sector, jobs where the pay is lower than the average civil service wage. In real terms, wage increases only slowed slightly (+0.7% after +0.9% in 2014) due to the deceleration in price rises.

Household gross disposable income also accelerates

In 2015, households' gross disposable income accelerated in nominal terms: +1.4% after +0.8% (box 2). Earned income rose a little more strongly (+1.7% after +0.8%; figure 9), due to the increase in payroll (+1.6% after +1.0%) and the acceleration in the gross operating surplus of sole proprietors: +2.5% after 0.0%. The gross operating surplus of pure households³ slowed (+0.1% after +1.1%): borrower households continued to benefit from the drop in interest rates in 2015, but they fell by less than the interbank rates, increasing their consumption of banking services by an equal amount.

9. Contributions to change in households purchasing power of disposable income



Scope: France.
Source: Insee, national accounts, 2010 base.

3. The gross operating surplus of pure households corresponds to output of housing services minus the intermediate consumption necessary to that output (in particular financial services related to borrowing) and taxes (land tax). Output corresponds to the rents private property owners receive from their tenants or could receive if they rented out their property.

From the purchasing power of disposable income to the purchasing power of “arbitrable” income per consumption unit

Sylvain Billot, Nathalie Morer *

The term “purchasing power” is used extensively, but it can refer to very different concepts: the comprehensive and coherent framework of the national accounts provides a precise definition, based on data that is harmonised internationally. It is based on the purchasing power of gross disposable income of all households (or real disposable income). Gross disposable income refers to the part of income that remains available to households for consumption and savings, after social and fiscal tax contributions have been deducted¹. Changes in the purchasing power of gross disposable income compare changes in gross disposable income to those in household consumption expenditure prices.

However, this macroeconomic measurement may differ from the perception that households have of the changes in their standard of living. In particular, they may perceive their purchasing power as having a more narrow range, by considering that in reality they have little power over some of their consumption expenditure, which must necessarily be paid: they are thus focused on the available leeway for freely making choices on consumption and savings. To understand this perception of purchasing power better, we can examine the changes in real “arbitrable” income, that of available income once all “pre-engaged” consumption expenditure has been deducted.

The growing weight of “pre-engaged” expenditure in households’ budgets

“Pre-engaged” expenditure is that which is made within the framework of a contract that is not easily renegotiable in the short-term. This complementary approach, presented in particular in the 2007 edition of the French economy report as “constrained” expenditure, was adopted, refined and recommended by the “Measurement of Household Purchasing Power” Commission in its report, submitted on 6 February 2008 to the Minister for Economic Affairs, Industry and Employment. These expenditures are defined as follows:

- expenditure related to housing (including imputed rents²), as well as expenditure related to water, gas, electricity and other fuels used in dwellings;
- telecommunications services;
- canteen expenses;
- television services (television royalty, subscriptions to pay channels);
- insurance (except life insurance);
- financial services (including the services of financial intermediation indirectly measured—FISIM³).

The portion of “pre-engaged” expenditure represents a growing fraction of household budgets: it went from 12.3% of their disposable income in 1959, to 28.9% in 2015, a rise of more than 16 points in fifty-six years (*figure 1*).

Expenditure related to housing accounts for over three quarters of this rise: its share in household income climbed from 9.3% in 1959 to 22.7% in 2015. The part of insurance and financial services (including FISIM) was more limited. It first increased, going from 1.9% in 1959 to 6.1% in 1989, before returning to 3.1% in 2015 due to the growing competition between banking institutions and the drop in interest rates, which was accompanied by tighter bank margins on deposits and loans. Expenditure on television and telecommunications services went from 0.5% in 1959 to 2.1% in 1999, then increased substantially over the course of the first half of the years 2000, to reach 2.9% in 2005 before falling back to 2.2% in 2015, due to more pronounced price decreases.

* Sylvain Billot, Nathalie Morer, Insee.

1. Gross disposable income includes earned income (wages and household gross pay, plus sole proprietors’ profits), property income excluding capital gains, whether realised or not (dividends, interest, etc.), transfers (particularly net insurance premium benefits) and social benefits (retirement pensions, unemployment benefits, family allowances, statutory minimum wages, etc.). The gross disposable income excludes taxes and social contributions. The four main types of taxes taken into account are income tax, housing tax, the Generalised Social Contribution (CSG) and the Social Debt Repayment Contribution (CRDS). Inheritance tax, however, is not included in this total.

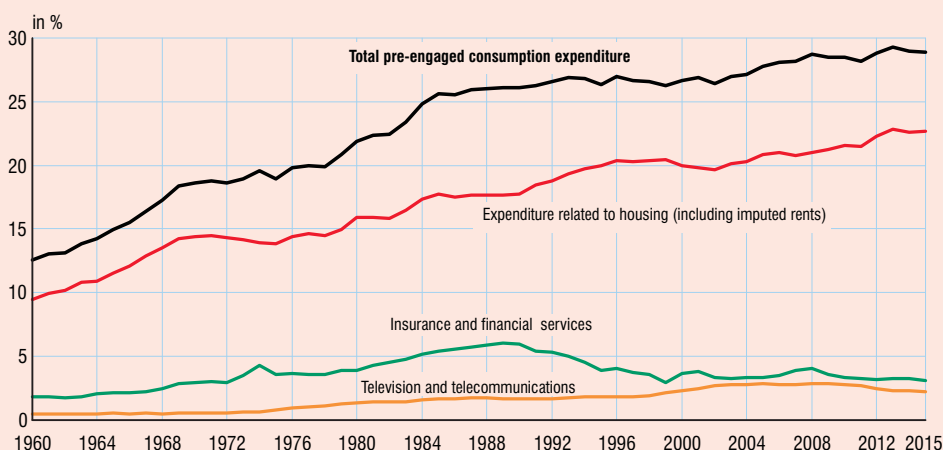
2. The national accounts consider that households that own and occupy their own dwelling pay themselves rent, referred to as “imputed”, which is measured based on the prices of the private market sector. This rent raises their level of disposable income as well as their consumption expenditure.

3. FISIM refers to the margin banks take on remunerations from deposits and loans.

Box 2 (continued)

Increased “pre-engaged” expenditure, particularly beginning in 2003, caused households to experience a certain sense of impoverishment, fed by their perception of a gap in the actual measurement of purchasing power. It is necessary to bear in mind, however, that in a long-term perspective, this strong increase was accompanied by a reduction in the burden of basic necessities (food and clothing) in their budget, taking into account the general increase in living standards.

1. Household pre-engaged consumption expenditure at current prices



Scope: France.

Note: expenditure of insurance and financial services does not include expenditure related to life insurance.

Source: Insee, national accounts, 2010 base.

Purchasing power of disposable income and of “arbitrable” income per consumption unit were again on a rising trend in 2015

In the same way that purchasing power is calculated based on household disposable income, purchasing power on “arbitrable” income can also be defined. This involves comparing changes in disposable income after payment of “pre-engaged” expenditure, to those in the price of consumption expenditure that is not “pre-engaged”.

Disposable income and “arbitrable” income are macroeconomic quantities. In order to relate them to a more individual concept of purchasing power, it is necessary to relate their changes to demographic growth; the growth of purchasing power per capita is absorbed when population growth is taken into account. The growth of purchasing power per household is absorbed to an even greater extent, due to the faster increase in the number of households than the increase in population (due to an ageing population and the trend towards undoubling). Ultimately, the best measurement of the average growth in purchasing power from an individual perspective consists of calculating the growth of purchasing power per consumption unit, in order to take not only the change in number into account, but also the composition of the households⁴.

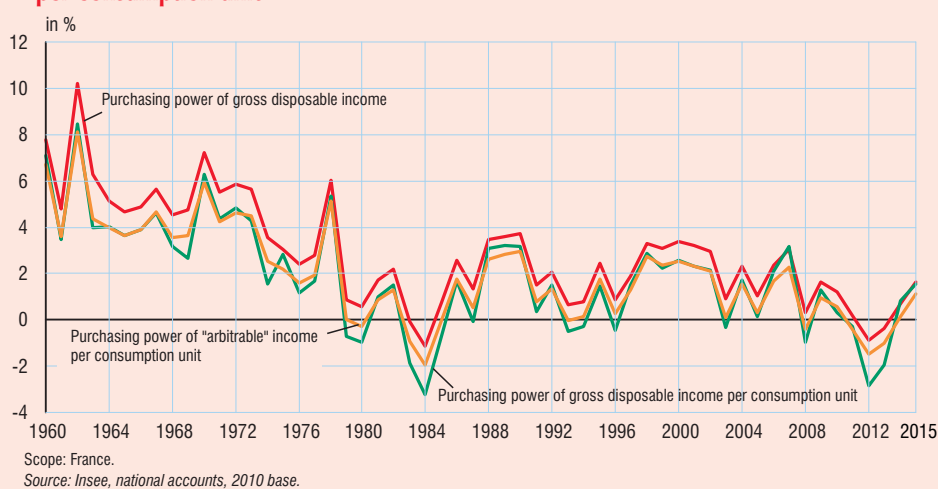
Over a long period of time, cyclical developments in purchasing power of disposable income and in purchasing power of “arbitrable” income per consumption unit are very similar. Nevertheless, since 1974, gains in “arbitrable” purchasing power per consumption unit have been slightly lower due to

4. A household's needs do not grow in strict proportion to its size. The size of each household in consumption units is calculated in the following manner: the first adult counts for 1 consumption unit (CU), each additional person aged 14 years or older counts for 0.5 CU, and each child under 14 counts for 0.3 CU. The change in purchasing power per consumption unit therefore makes it possible to take the changes in households' structure into account.

Box 2 (continued)

the growing weight of “pre-engaged” expenditure in household budgets. These gains reached +0.9% on average over the year, against +1.1% in gains in real disposable income (*figure 2*). In 2015, the gap between the two measurements remained, but the gap between the two moved in the opposite direction: purchasing power per consumption unit of disposable income increased by 1.1% and that of “arbitrable” income by 1.6%. The consumption of “pre-engaged” expenditure was less dynamic than household gross disposable income (+1.1% against +1.4%), due in particular to the sharp contraction in oil products prices and to the decline in consumption of insurance and financial services.

2. Trends in purchasing power of gross disposable income and that of arbitrable income per consumption unit



The balance of income from property fell back: -1.2% after -0.1%. In fact, the fall in interest rates affects the income from property received by households, whether via the remuneration of savings accounts or via that of life assurance policies.

Income and wealth taxes continued to increase: +1.7% after +1.5% in 2014, in line with the income on which they are calculated. Income tax paid by natural persons slowed, due to measures to help the lowest income households (abolition of the first tax band and changes to tax relief). On the other hand, the CSG (general social contribution) paid by households accelerated, in line with gross wages in particular.

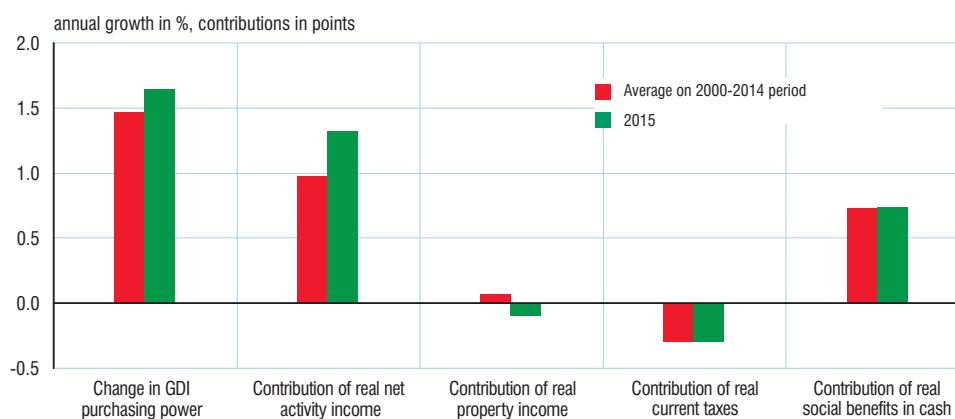
Benefits in cash received by households continued to rise (+1.9%), but less quickly than in 2014 (+2.2%). This slowdown was mainly due to that in social security benefits (+3.7% after +5.6%). Family benefits actually fell over the year, as a result of the modulation of family benefits for the best-off families from July 2015 and the lack of an increase in benefits. Old age pensions also contributed to this slowdown: against a backdrop of virtually zero inflation, pensions only received small increases and early retirements for those with long careers slowed. Finally, welfare benefits increased moderately in 2015, driven by the increased cost of the RSA (earned income supplement). The RSA scale was in fact increased by 2% on 1 September 2015 (on top of the increase on 1 January, as in the two previous years) and the number of recipients rose again (+4.8 % after +6.0 % in 2014).

Purchasing power accelerates sharply

Roughly in line with the consumer price index, the consumption deflator fell slightly in 2015 (-0.2% after +0.1%). Households' purchasing power thus increased markedly in 2015: +1.6% (after +0.7% in 2014), a figure comparable to its average annual increase since 2000 (+1.5%; *figure 10*).

Compared to the average over the period 2000-2014, real net earned income contributed considerably more to the gain in purchasing power, in contrast to real income from assets held, which contributed less. The contribution of current taxes and social benefits received in cash in real terms was virtually identical in 2015 to the average from 2000 to 2014. Per consumption unit, i.e. adjusted to an average individual level, purchasing power grew by 1.1% in 2015.

10. Breakdown of GDI change in 2015, compared to the average on 2000-2014 period



Scope: France.

Note: purchasing power may be broken down like nominal GDI, when all GDI components are assessed in real terms, i.e. after taking into account consumption price increase. Thus this figure shows, for instance, that the contribution of real net activity income to the purchasing power growth reached +1.3 point in 2015, whereas it was +1.0 point on average for the period 2000-2014.

Source: Insee, national accounts, 2010 base.

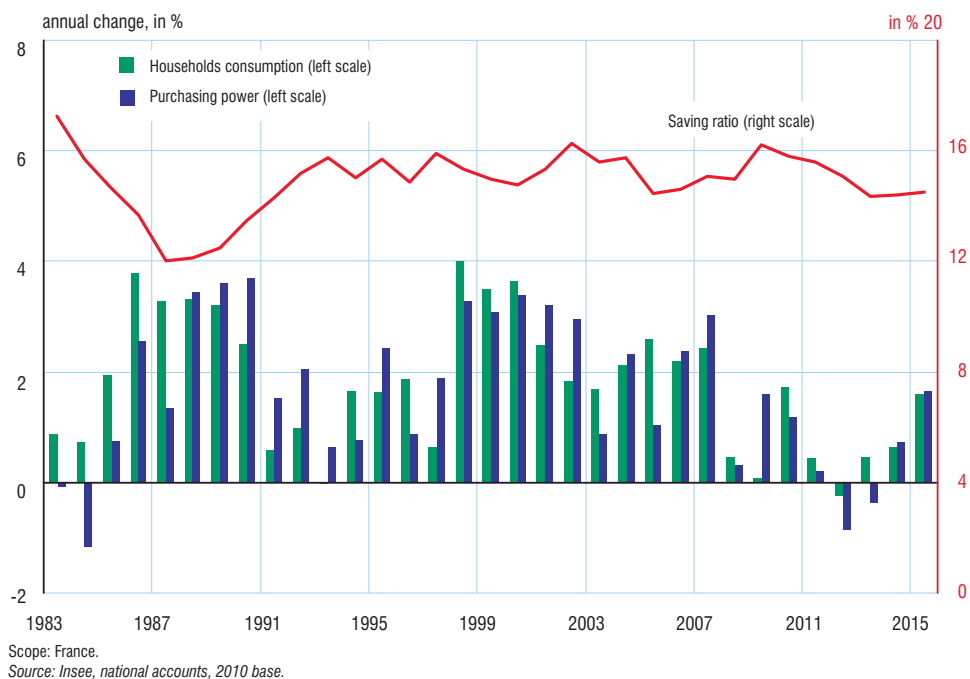
Household consumption almost back to its pre-2008 levels

On average over the year, consumption picked up (+1.5% after +0.7%), virtually to the same degree as household purchasing power. The aggregate savings ratio was therefore relatively unchanged, rising from 14.4% in 2014 to 14.5% in 2015 (*figure 11*). It remained lower than its average over the last fifteen years: 15.2%.

Households' spending on manufactured goods regained some momentum (+2.1% after +0.5%) and reached its pre-crisis pace of growth for the first time since 2008 (+1.8% on average between 1980 and 2007). This acceleration stemmed from that of consumption of food products (+1.5% after -0.4%), other industrial goods (+1.7% after +1.2%), cars (+4.4% after -0.1%) and fuel (+1.2% after -3.4%). The slowdown in the consumption of capital goods (+4.8% after +8.3%), on the other hand, held back the overall momentum.

After the downturn in 2014 (-9.0%), households' spending on energy bounced back (+2.2%), with the return to temperatures closer to the seasonal norm, especially in winter.

11. Evolution in households saving ratio, consumption and purchasing power



Household consumption of market services grew at the same pace as in 2014 (+1.1% after +0.9%). In detail, households' spending on accommodation and food services (+1.8% after +0.6%), transport (+1.6% after +0.5%) and household services (+2.8% after +1.0%) regained its momentum. However, this buoyancy was counteracted by the decline in spending on financial services (-0.8% after +2.1%) and on information and communication (-0.7% after -0.3%). Households' spending on the automobile trade and car and motorcycle repairs remained virtually stable (-0.2% after -2.0%).

Finally, the tourism trade balance continued to deteriorate in 2015, although less sharply than in 2014. In fact, French people's spending abroad fell less (-3.1% after +12.5%) sharply than foreigners' spending in France (-4.4% after +1.3%). Territorial correction therefore contributed to an increase in household consumption of +0.1 point in 2015, after +0.3 points in 2014.

Household investment in construction continues to fall back

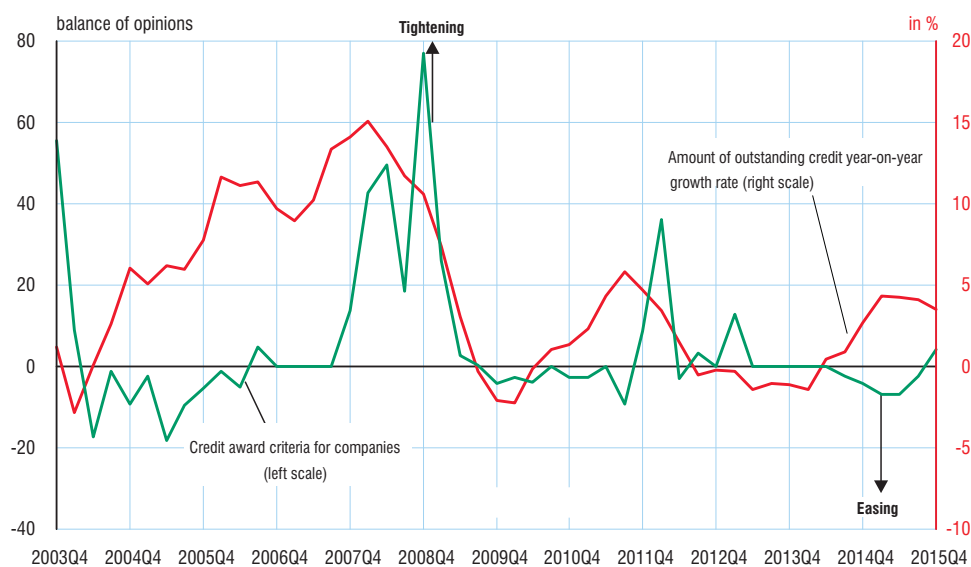
In spite of the recovery in purchasing power, household investment fell for the fourth year running (-0.8%), although less sharply than in 2014 (-3.5%). The upswing in real estate transactions led to an increase in household investment in services (including notaries' fees in particular), which picked up strongly: +8.4% after -1.5%. However, household investment in construction continued to shrink (-3.1%), although a little less sharply than in 2014 (-3.9%). This was because housing starts of individual homes picked up slightly after three consecutive years of decline.

Investment accelerates, the margin rate is virtually stable

Corporate investment gathers speed

Corporate investment accelerated in volume for the third year running (+2.8% after +1.6%), while the investment rate virtually stabilised: 21.2% after 21.1% in 2014. Against a background of improving production prospects, the industrial production capacity utilisation rate increased by 0.9 points to reach 81.9% in 2015, although it remained below its average level between 1980 and 2014 (84.4%). Growth in investment was parallel to that of outstanding loans to enterprises, which improved on average in 2015: +4.1% compared to +0.7% in 2014 (*figure 12*).

12. Corporate lending terms



Scope: France.

Note: credit award criteria for companies tighten on average for positive values. On the contrary, easing occurs when the green curve goes under the X-axis.

Source: Banque de France.

The acceleration in investment by non-financial enterprises concerned expenditure on services (+2.5% after +1.0% in 2014) and goods (+3.2% after +2.7%). Corporate investment in construction almost stabilised (-0.3%) after falling in 2014 (-1.7%). Investment in market services gained momentum in scientific and technical activities (in particular in R&D: +3.6% after +1.6%) and in information and communication, and particularly in IT services (+5.1% after +4.2%). Corporate investment in manufactured goods also picked up: +3.3% after +2.5%, most notably capital goods (+4.1% after +0.4%) and other manufactured goods (+2.2% after +1.7%). Investment in transport equipment remained very vigorous: +6.6% after +6.8%.

Changes in inventory contribute positively to economic activity

In 2015, companies continued to replenish their inventories. Changes in inventory thus contributed +0.1 points to growth in economic activity, after +0.5 points in 2014. All in all, corporate demand via their investment spending and their behaviour on inventories contributed +0.5 points to GDP growth after +0.7 points in 2014.

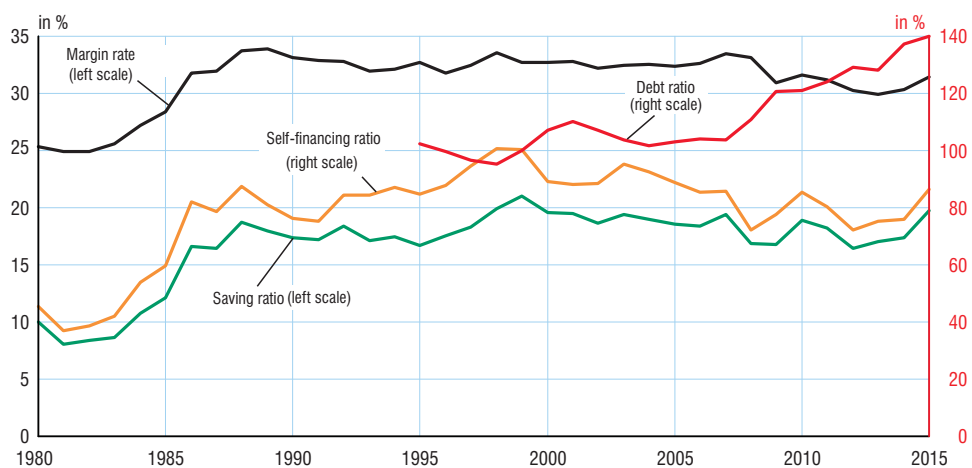
The margin rate increases sharply

The situation of non-financial enterprises (NFEs) improved for the third year running.

Real value added picked up (+2.4% after +0.8%) and grew faster than wages (+1.6% after +1.3%). In fact, the buoyancy of gross wages and salaries (+1.8% after +0.8%) was partly offset by reductions in employers' social contributions under the PRS (responsibility and solidarity pact). Taxes on products paid by NFEs stagnated (0.0% after +2.0%). Subsidies received by enterprises increased even more sharply (+20.1% after +53.0%), due to the ramp-up of the CICE (Tax credit for encouraging competitiveness and jobs). All in all, the gross operating surplus recovered strongly in 2015: +6.1% after +2.2% in 2014. As a result, the margin rate of NFEs rose by 1.1 points in 2015, to 31.4%, its highest level since 2010 (figure 13).

NFEs' balance of income from property also saw a rise of €11.4 billion. This improvement can be attributed to that of interest, whose balance increased by €11.8 billion in 2015. Interest paid continued to drop - by €14.1 billion - due to the fall in interest rates, of which NFEs, as structural debtors, got the full benefit. Finally, taxes on the NFEs income and wealth fell back in 2015 (-1.2%), although less sharply than in 2014 (-3.9%). In the end, NFEs' saving rate improved by 2.4 points to 19.7%, returning to its 2000 level, and their self-financing ratio reached 86.3%.

13. Corporate margin rate, saving ratio, self-financing ratio and debt ratio



Scope: France.

Note: margin rate is the ratio of gross operating surplus (GOS) of the year to value added (VA) of the year. Saving ratio is the ratio of saving to VA. Self-financing ratio is the ratio of saving to gross fixed capital formation. Debt ratio is measured by the ratio "average debt of the year / value added of the year".
Sources: Insee, Banque de France.

Due to falling interest rates, financial corporations are showing a financing requirement for the first time since 1999

In 2015, the value added of financial intermediaries continued to grow, for the fourth year running. Once again, this increase was mainly driven by the output of financial intermediation services indirectly measured (FISIM) (+6.2%), and therefore indirectly from the banks' refinancing costs. On the other hand, excluding FISIMs, the value added of financial intermediaries fell by -€1.2 billion. It is against this backdrop of falling rates that interest, adjusted by the output of FISIM, continued to fall (-22.2% for interest received and -15.7% for interest paid, compared to -7.1% and -6.0% respectively in 2014). Thus, the net balance of interest received deteriorated considerably in 2015: -€9.1 billion. On the other hand, dividends received increased more than dividends paid. Like 2014 with *BNP Paribas*, 2015 was marked by *Crédit Agricole's* payment to the United States of a penalty of €0.7 billion. All in all, financing capacity continued to fall, to €3.3 billion in 2015 after €5.2 billion in 2014, mainly due to the substantial deterioration in the interest balance.

FISIMs did not have any impact on the balance of primary income of financial intermediaries, but they enabled the banks to bring into their added value their interest margins which are considered as output of services. When the loan or deposit rates offered to banks' customers remain unchanged, any reduction in the refinancing rate leads to an increase in the banks' margin rate on loans and a decrease in this margin on deposits. The banks' margin on loans increased in 2015 by 14 base points while the margin on deposits fell by 13 points. Consequently, the FISIMs on loans increased by €5.5 billion and FISIMs on deposits decreased by €2.2 billion

In 2015, the value added of insurance companies fell by 16.1% in nominal terms, following on from the 3.8% fall recorded in 2014. This fall is essentially attributable to life insurance income distributed, which enters into the calculation of output of insurance services. In fact, the rate of return on life insurance policies continued to fall: euro-denominated policies saw their rate of return fall from an average of 2.5% in 2014 to 2.3% in 2015. Furthermore, the entry into force of the Hamon Law in 2014 to facilitate competition between insurers led to general stability in the output of property and casualty insurance. As for financial intermediaries, the income from property received by insurers (interest, income from investment funds and dividends) fell sharply in 2015: -€5.6 billion. In the end, the insurance sector's financing requirement worsened by €3.8 billion. It reached €7.1 billion in 2015.

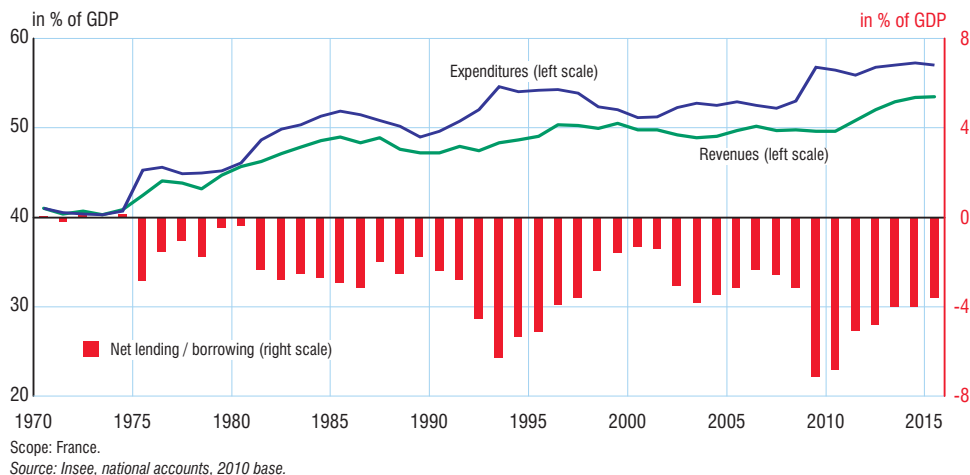
When financial auxiliaries are added, in the end financial corporations' value added fell slightly in 2015 (-0.3%), and their financing capacity turned into a financing requirement - a first since 1999 - of 4.1 billion.

The government deficit falls, but the debt continues to rise

In 2015, the government deficit reached 3.6% of GDP

In 2015, the government deficit according to the Maastricht definition was 3.6% of gross domestic product (GDP), after 4.0% in 2014 (*figure 14*). After a strong deterioration in 2009 linked to the economic crisis (*Box 3*), the government deficit continued to fall, thanks to revenues being more buoyant than spending. Public revenues rose slightly faster than in 2014 (+2.1% in 2015 after +2.0% in 2014) and the increase in public expenditure slowed (+1.4% after +1.8% in 2014).

14. General government net lending / borrowing



Box 3

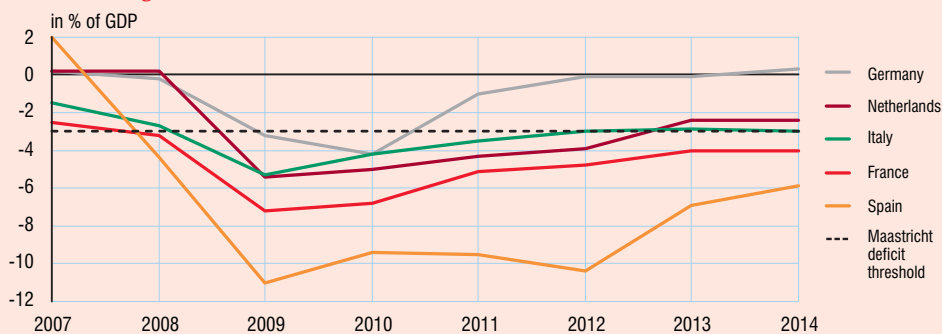
General government balance trajectories of five countries in the Eurozone since the crisis

David Audenaert, Quentin Lafféter*

The general government balance of the Member States in the Eurozone has seen extreme variations since the beginning of the 2008 economic crisis. Equal to -0.2 percentage points of GDP in 2007, it deteriorated substantially in 2008 and again in 2009, reaching -2.2 and -6.3 percentage points of GDP respectively. It then improved gradually, against a background of fiscal consolidation and timid economic recovery, to reach -2.6 percentage points of GDP in 2014.

The trends in the general government balances of the five largest economies in the Eurozone is analysed by dividing the period into two subperiods: the crisis phase proper, which covers 2007-2009 and during which deficits increased substantially and economies contracted; and the post-crisis phase covering 2009-2014, during which, given the fiscal consolidation policies implemented in the Member States, the general government balance gradually recovered (figure 1)

1. General government balances from 2007 to 2014



Reading: in 2014, France general government balance reached -4% of GDP.

Note: the "Maastricht deficit threshold" corresponds to the 3% limit imposed on the budget deficits of the EU Member States under the Stability and Growth Pact. The general government balance corresponds to the general government net lending/borrowing position as defined in national accounting (code « B9NF »).

Source: Eurostat, general government account.

* David Audenaert, Quentin Lafféter, Insee.

Box 3 (continued)

whilst the different countries were experiencing very unequal growth trajectories.

Trends in public finances during the economic crisis: an increase in deficits driven mainly by inertia in public spending

Between 2007 and 2009, general government balances followed much the same pattern in the five countries analysed. Everywhere the deficit increased compared to 2007, on a scale varying from 3 percentage points of GDP in Germany to 13 points in Spain (*figure 2*).

Everywhere, **public spending was what contributed most to the deterioration in the government balance**. First of all, public spending is characterised by low sensitivity to changes in economic outlook, which means that in periods of contracting economic activity, spending automatically increases in terms of percentage points of GDP. In fact, operating expenditure principally consists of civil service pay, growth of which shows greater inertia than that in economic activity. As for benefits and other transfers, these essentially consist of pensions and health expenditure, which are more dependent on long-term demographic factors. Added to the natural inertia of public spending were the discretionary expenditure measures taken by governments in this period to alleviate the recessionary effects of the financial crisis. The only positive contribution to the countries' budget balance over the period was a reduced interest burden on the debt, due to an accommodating European fiscal policy which brought down base interest rates.

The **impact of revenues**¹ appears in most of the countries studied to have been neutral overall in terms of the deterioration in the general government balance, as revenues vary in proportion to GDP.

This overall neutral effect nevertheless conceals variations in the contributions of different types of revenue. Social contributions received supported the government balance in all the countries, a phenomenon that can be linked, in the context of the economic crisis, to a deformation of the distribution of value added in favour of the compensation of labour, leading to an increase in the base for social contributions relative to GDP.² On the other hand, direct taxes systematically contributed to deteriorating the

government balance in all five countries, although to differing degrees. The progressive nature of these taxes is one possible cause, as are discretionary measures taken as part of economic stimulus plans (targeted income tax cuts in France especially, *Konjunkturpaket I* and *II* in Germany, etc.). These effects have been compounded by the erosion of the tax base, in particular income from land, financial revenues and company profits.

Among the five countries studied, Spain is the only one where the overall change in revenues contributed significantly to the deterioration of the general government balance. In particular, this reflects the scale of the stimulus measures implemented (temporary cancellation of certain taxes on assets, reduction in corporation tax and extra income tax credits) and the particularly sharp contraction in the tax bases during the economic crisis, due to the collapse of the real estate sector. Conversely, revenue growth slowed the deterioration in the balance slightly in Germany.

Trends in public finances after the economic crisis: all manner of consolidation events

Over the period from 2010 to 2014 taken as a whole, the general government balances of the five countries improved from their 2009 levels, as a result of the fiscal consolidation strategies implemented. The reduction in the government deficit reached 2 percentage points of GDP in Italy, 3 to 3.5 points in France, the Netherlands and Germany, and as much as 5 percentage points in Spain (*figure 3*).

In France and Italy, the reduction of the government deficit in percentage points of GDP between 2009 and 2014 was mainly attributable to the increase in the revenue-to-GDP ratio. In Germany on the contrary, the improvement in the government balance was mainly due to reduced public spending (again in percentage points of GDP). In the Netherlands and Spain, the situation was somewhere between the two, with changes in both spending and revenue contributing to the improvement. Although the contributions of revenues and public spending depend first and foremost on spontaneous developments (that is to say, excluding discretionary measures), they also translate the type of fiscal consolidation strategy adopted in the different

1. Tax revenue trends are extensively analysed every year in a European Commission publication, "Taxation Trends".

2. In all the countries studied except Spain, the share in value added of the aggregate consisting of the gross operating surplus and mixed income fell between 2007 and 2009.

Box 3 (continued)

countries, as well as reflecting very different economic backgrounds.

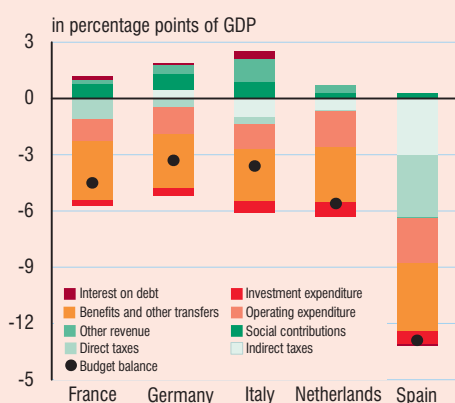
All five countries took measures to control public spending, reducing benefits in particular. And yet, in most of these countries, spending on benefits rose faster than GDP due both to the spontaneous inertia of benefit spending (in particular pensions and health expenditure) and to a sluggish macroeconomic environment (France, Netherlands) or one that was frankly unfavourable (Spain, Italy) so that benefit expenditure grew as a proportion of GDP. Germany was the only exception: in addition to controlling expenditure on pensions (very low increases) and healthcare (medicines in particular), the buoyant labour market in Germany had a favourable effect on unemployment benefit spending.

In practice, with the exception of Germany, efforts to control spending concentrated first of all on operating expenditure (mainly payroll: non-replacement of four civil service workers in five in Italy, reductions in civil service pay in the Netherlands) and investments (divided by 2.5 in Spain). The reduction of operating expenditure and investments in terms of percentage points of GDP was, however, considerably less marked in France than in the Netherlands, Italy and Spain. Trends in interest rates, against the background of the sovereign debt crisis, also had very different

effects in the various countries: France and the Netherlands, and to an even greater extent Germany, saw substantial reductions in their government borrowing rates, whilst Italy and Spain were faced in 2011-2012 with sharp increases in the rates at which they could borrow, before seeing a slackening off in 2013-2014. Between 2009 and 2014, the interest burden, as a percentage of GDP, therefore decreased in Germany, the Netherlands and France, whilst it stagnated in Italy and increased sharply in Spain due to the very rapid increase in government debt.

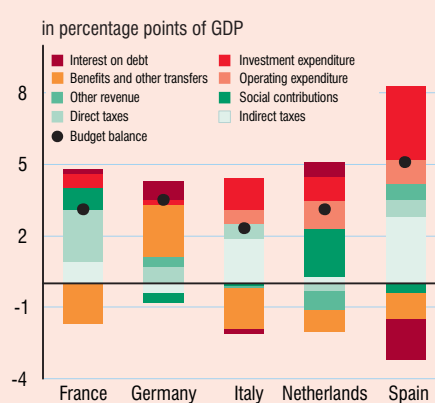
Ultimately, only Germany managed to improve its general government balance without increasing government revenues in percentage points of GDP. The other countries therefore had to increase the tax burden, although to varying degrees. In the Netherlands (where 60% of the improvement in the government balance in terms of percentage points of GDP was nevertheless due to changes in expenditure), this mainly took the form of an increase in social contributions. In the other three countries, the increases in levies concerned both social contributions and direct taxes (income tax on households, corporation tax) and indirect taxes (higher VAT rates in particular).

2. Change in general government balance in the studied countries between 2007 and 2009



Reading: in France, the Public balance-to-GDP ratio was reduced 4,5 points between 2007 and 2009. This evolution is explained for 3,1 points of GDP by that of benefits and other transfers. Social contributions contributed to the increase in public balance up to 0,8 point of GDP.
Source: Eurostat, general government account.

3. Change in public balance in the studied countries between 2009 and 2014



Source: Eurostat, general government account, Insee calculation.
Reading: in France, public balance increased 3,1 points of GDP between 2009 and 2014. Direct taxes contributed to this growth up to 2,2 points of GDP.
Source: Eurostat, general government account.

As in 2014, the ramp-up in the CICE (tax credit for encouraging competitiveness and jobs) contributed to the increase in public expenditure:⁴ expenditure on the CICE reached €17.2 billion in 2015, after €10.6 billion in 2014. This rise is explained by the increase in the rate of the tax credit from 4% to 6% of payroll. Excluding tax credits, public expenditure slowed slightly compared to 2014: +0.9 % after +1.0 %. In particular, interest paid fell again under the effect of the drop in interest rates and zero inflation (0.0% after 0.4% in 2014, as defined by the consumer price index excluding tobacco) and investment continued to decline (-5.1% after -5.8 % in 2014) due most notably to the municipal election cycle and the reduction in State grants to local authorities.

The €7.3 billion improvement in the government balance was essentially due to local government (+€5.3 billion) and, to a lesser extent, to the Social Security bodies (+€2.1 billion). The central government balance was stable: the improvement in the public deficit was offset by a deterioration in that of various central government bodies, which went from having a financing capacity in 2014 to a deficit in 2015.

The rate of compulsory levies falls by 0.1 percentage point of GDP in 2015

In 2015, the rate of compulsory levies stood at 44.7% of GDP, 0.1 point down on 2014. This reduction is due to the impact of the new measures: mainly the ramp-up of the CICE (competitiveness and employment tax credit) and the PRS (responsibility and solidarity pact), partially offset by that of the ecology tax measures and the increase in pension contributions, as well as by the extra revenue from the measures against tax evasion (box 4). Without these new measures, compulsory levies would have spontaneously increased at the same pace as nominal GDP (+1.9%).

The deficit of central general government is stable

The net borrowing position of the central general government, the State and other government bodies (ODACs) was stable, at -€72.4 billion in 2015. The public deficit improved by €3.9 billion, offset by a €4 billion deterioration in the deficit of ODACs. These developments are explained by the effects of the capital grants paid to the ODACs as part of the second Investment for the Future programme.

The revenues of central general government were more vigorous than in 2014 (+1.3% in 2015 compared to +1.0% in 2014) and expenditure slowed (+1.1% in 2015 after +1.7% in 2014).

Intermediate consumption excluding FISIMs (financial intermediation services indirectly measured) increased sharply (+5.0%) due to increased State military spending, after a 2014 marked by a fall of over €1 billion (-3.2%). Expenditure on personnel increased slightly (+0.4% in 2015). The increase in gross wages (+0.3% after +0.6% in 2014) resulted from the continued workforce reductions at the Ministry of Defence offset by increased hiring in public education. The State's employer's imputed social contributions slowed again (+0.4% after +1.1% in 2014).

Internal current transfers fell by almost €4 billion, following the reduction of the general operating grant (DGF) by €3.5 billion, as part of the local authorities' participation in the effort to restore public accounts.

4. See box "L'impact comptable du crédit d'impôt pour la compétitivité et l'emploi (CICE) en 2014" (The accounting impact of the CICE in 2014) in *French economy* - 2015 edition, INSEE Références collection, page 26.

Box 4

Main fiscal and social measures and their impact on change in tax and social contributions in 2015

Matthieu Bourasseau, Thomas Meinzel, Carmina Montero de Espinosa*

In 2015, fiscal and social measures helped to reduce government taxes and social contributions (-€1.8bn) after 5 years of increases due to the need to improve public finances. Changes to the tax structure begun in 2014 continued with an increase in indirect taxation at the same time as a reduction in direct taxation: ramping up of the CICE (tax credit for encouraging competitiveness and jobs) and implementation of the PRS (responsibility and solidarity pact) for businesses and households.

The new measures have increased direct taxation by approximately €5bn, mainly by raising energy taxes

In 2015, the carbon component of domestic taxes on consumption (energy climate contribution) was raised from €7 to €14.5 per tonne of carbon emitted (+€1.8bn of revenue). The public

electricity service contribution (CSPE) increased by €1.1bn to finance the development of renewable energies in particular. Finally, the domestic tax on consumption of diesel was raised by two cents a litre (+€0.8bn), thereby reducing the gap between the taxation of diesel and petrol and helping to finance transport infrastructures.

The new measures considerably reduced the direct taxation of businesses and employer contributions in 2015, by a total of €8.5bn

This fall is explained mainly by the ramp-up in the CICE (tax credit for encouraging competitiveness and jobs) (-€5.3bn) and the implementation of the PRS (responsibility and solidarity pact) (-€4.8bn). Conversely, other measures have increased the direct taxation of businesses, such as the decision to end the deductibility of certain

Measures related to taxes and social contributions

billion euros

Measures related to taxes and social contributions	-1.8
of which: Indirect taxation	4.9
Ramp-up in the carbon component of domestic taxes on consumption (TIC)	1.8
Increase in the public electricity public service contribution (CSPE)	1.1
2 cent increase in the diesel TIC to finance transport infrastructure	0.8
Others	1.1
Direct taxation of corporations¹ and employers' contributions	-8.5
Ramp-up in Tax Credit for encouraging competitiveness and jobs (CICE)	-5.3
Corporations component of the Responsibility and Solidarity Pact	-4.8
Ending of the deductibility of some levies on corporation income tax	0.8
Others	0.9
Direct taxation of households¹ and employees/self-employed contributions	0.8
Households and self-employed component of Responsibility and Solidarity Pact	-2.5
Reduction in the maximum duration of credits granted by the State for the payment of estate duties	1.0
Financing of the retirement pension reform	1.7
Reform of the taxation of capital gains on immovable and movable property	0.7
Others	-0.1
Others	1.1
Anti-fraud measures (including the department in charge of handling amended tax returns - STDR)	0.7
Exceptional government-related events and measures	0.4

1. The division of the effects of the new measures between households and corporations is partly based on conventions. Firstly, it is a "static" division as it does not take into account the macroeconomic impact of the taxes and social contributions concerned: certain taxes may be paid by corporations, but in the final analysis weigh on households as corporations pass them on to consumers in their prices or in the salaries of their employees, which can take several years. The approach presented here therefore does not take into account the medium-term impact of these measures.

Secondly, this division does not take into account the tax burden on households and corporations due to indirect taxes.

Scope: France.

Source: direction générale de Trésor.

* Matthieu Bourasseau, Thomas Meinzel, Carmina Montero de Espinosa, direction générale de Trésor.

Box 4 (continued)

levies for corporation tax purposes implemented by the Amending Finance Law for 2014 (+€0.8bn).

The new measures increased the direct taxation of households and the social contributions of salaried workers and the self-employed in 2015, by a total of €1bn

The reductions under the households and self-employed component of the PRS (responsibility and solidarity pact) amounted to €2.5bn.

However, they were more than offset by the reduction in the maximum duration of the credits granted by the State for the payment of estate duties (+1.0bn) as well as the effects of some earlier measures, notably the financing of retirement pension reforms (+€1.7bn) and the impact of the reform of the taxation of capital gains on immovable and moveable property (+€0.7bn).

Finally, in 2015, other measures helped to increase compulsory levies by €1bn, in particular the measures against tax fraud, which contributed €0.7bn.

The sharp rise in subsidies on payroll (+€7.5 billion) is due to the ramp-up of the CICE (Tax credit for encouraging competitiveness and jobs) (+€6.7 billion). Interest on the debt burden continued to fall (-4.7% in 2015 compared to -2.4% in 2014) as a result of the particularly low (and even negative) interest rates and zero inflation.

Social benefits paid by central government increased at a slower pace than in 2014: +1.2% after +2.0%. Retirement pensions, benefits paid under the RSA (earned income supplement) and universal health cover schemes continued to rise (+€0.7 billion in total).

Current international cooperation expenditure fell back (-€0.2 billion) as the revenue received on Greek debt instruments was not returned to Greece in 2015. The delivery of assets purchased under public-private partnerships worth €1.4 billion (most notably the Ministry of Defence Balard site) led to a sharp increase in investment spending, after several years of decline (+6.0% in 2015 after -5.7% in 2014). Capital transfers paid decreased by €1.1 billion. This fall is the result of opposing trends: a €0.8 billion increase in expenditure relating to EU accounts clearance (European Commission decision of 16 January 2015), a €1.1 billion reduction in debt remission (effect of the signing in 2014 of a debt reduction and development contract with Ivory Coast) as well as the effects of the payment by the *Agence de financement des infrastructures de transport de France* of €0.8 billion to the *Écomouv company* in 2014, following the termination of the public-private partnership agreement relating to the HGV road tax.

On the revenue side, taxes and social contributions collected were very buoyant: +2.7% after +0.6% in 2014. Taxes on production and imports increased by 5.0% (+€8.8 billion) due to the growth in jobs liable to VAT and a lower allocation of VAT revenue to social security bodies (a total of €4.5 billion). Other taxes on goods rose by €3.7 billion, with the CSPE (public electricity service contribution) accounting for +€1.3 billion and the TICPE (domestic tax on consumption of energy products) for +€1.8 billion. On the other hand, income taxes continued to fall (-€1.1 billion). In particular, personal income tax was affected by changes to the tax brackets, a drop in income from levies deducted at source (not in discharge) and from capital gains tax. Other current taxes fell by €0.3 billion, due to the gradual abolition of the systemic banking risk tax in favour of a tax to finance a support fund for local authorities that have taken out risky structure loans and financial contracts. Internal current transfers to general government fell substantially (-€5.5 billion): the FNAL (national housing support fund) is now funded directly by the State and no longer receives a grant from the CNAF (national family allowance fund). Other current transfers decreased by €0.5 billion, as there was no payment from the COFACE (French foreign trade insurance

company). In fact, the COFACE was confronted with a high level of payouts in 2015, following the cancellation of the contract to sell Mistral frigates to Russia. Finally, thanks to the work of the STDR (department processing amended tax returns) and the reform of the system of deferred payment/payment in instalments of estate duties, taxes on capital increased by €2.0 billion.

Local government finances recover thanks to the drop in investments and intermediate consumption

In 2015, the local government balance improved by €5.3 billion to a surplus of €0.7 billion, after having a net borrowing requirement of €4.6 billion in 2014. Expenditure fell by 1.3%, after a rise of 0.2% in 2014, whilst revenues slowed (+0.8% after +1.7%).

On the expenditure side, local government investment fell back substantially again (-10.0% after -8.4% in 2014), due most notably to the municipal election cycle and probably also the reduction in State transfers. This probably also took its toll on intermediate consumption, which fell by 1.0% (after -0.1% in 2014), against a backdrop of zero inflation. In addition, wage expenditure slowed in 2015 (+2.1% after +3.7%) after a 2014 marked by the increase in employer social contributions to the CNRACL (local government workers' pension fund) and category-specific measures. Interest charges dropped due to the fall in interest rates (-3.0% after +1.4% in 2014). Spending on benefits and social transfers decelerated: +3.0% after +4.5% in 2014.

On the revenue side, local government ("APUL") taxes and social contributions rose by €5.4 billion. The increases in the rates of local direct taxes adopted by local authorities accounted for almost a billion of this and came in addition to the revaluation and extension of the tax bases. Furthermore, the buoyancy of real estate transactions at the end of the year, as well as the rise in the rate applied in certain Departments, led to an increase of €1.5 billion in the DMTO (property transfer duty). Concerning transfers received from the State, the general operating grant (DGF) fell by €3.5 billion in 2015, after already seeing a €1.4 billion reduction in 2014.

The social accounts deficit continues to shrink

In 2015, the social security bodies' balance stood at -€5.8 billion, after -€7.9 billion in 2014. The social accounts deficit therefore continued to be reduced, thanks to expenditure increasing less sharply than revenues.

The social security bodies' revenues slowed significantly in 2015 (+1.1% after +2.5%), due to the implementation of the first phase of the PRS (responsibility and solidarity pact). This meant that social contributions slowed (+1.0% after +2.7%), with the reinforcement of general reductions and the cut in the rate of the family contribution for wages below 1.6 times the minimum wage (SMIC) and for self-employed workers. The increase in tax revenues (+1.5% after +3.0% in 2014) was also slowed by the PRS, with the introduction of an allowance on the C3S (the additional social solidarity levy).

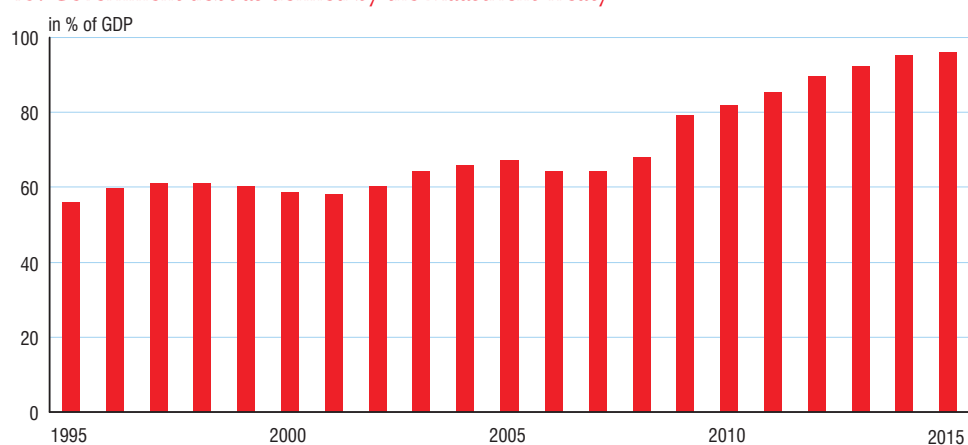
The rise in expenditure slowed considerably (+0.7% after +2.3%), with the transfer to the State of the funding of a part of housing benefits to compensate for the loss of revenue due to the PRS. With inflation virtually nil, social benefit spending also continued to slow (+1.9% after +2.2%). Spending on family allowances fell, mainly due to the implementation of family policy measures, including the modulation of family allowance according to income from 1 July 2015. Spending on old age pensions slowed, most notably as a result of the freeze on basic pensions from 1 October 2014. The increase in health spending was kept in check (+2.0%), in line with the national objectives on health insurance spending ("Ondam"). On

the other hand, spending on unemployment benefits was still vigorous due to a still very difficult labour market situation.

Government debt increases by 0.8 points to 96.1% of GDP

Government debt according to the Maastricht definition amounted to €2 096.9 billion at the end of 2015 after €2 040.3 billion a year earlier, an increase of €56.6 billion. It reached 96.1% of GDP, after 95.3% at the end of 2014 (figure 15).

15. Government debt as defined by the Maastricht Treaty



Scope: France.

Source: Insee, national accounts, 2010 base.

The State's contribution to government debt stood at €1 661.2 billion, up €49.8 billion. The variation is less than the State's net borrowing requirement (€71.3 billion) due to a high amount of issue premiums in 2015. In fact, the State issued bonds at rates higher than market rates, meaning these bonds were purchased for amounts greater than their redemption value, which is used to calculate the debt according to the Maastricht definition.

The contribution of the ODACs (other government bodies) to debt fell back by €3.8 billion in 2015 to reach €18.9 billion. A good half of this reduction (€2.1 billion) was linked to the removal of the FGDR deposit guarantee fund from the general government scope in 2015. Furthermore, the CNA (French motorways fund) reduced its debt by €1.7 billion.

The contribution of local government authorities ("APULs") to debt reached €196.5 billion at the end of 2015, or an increase of €7.0 billion compared to 2014 in spite of their having a financing capacity of €0.7 billion. The difference comes largely from an increase of €5.1 billion in local authorities' deposits with the Treasury. In addition, the APULs used a part of the money borrowed to pay €0.9 in indemnities as part of the renegotiation of structured loans (so-called "toxic loans"). The payment of these indemnities does not affect the net borrowing position.⁵

5. Cf. INSEE press release of 21 April 2016 concerning Eurostat's reservation on the treatment of the renegotiation of local government loans, available from: http://www.insee.fr/fr/service/presse/comm_presse/liste_comm_presse.asp.

Finally, the contribution of the social security bodies to government debt rose by €3.6 billion to reach €220.3 billion at the end of 2015. The gap between the borrowing requirement (€5.8 billion) and the variation in the debt is largely accounted for by accounting lags.

At the end of 2015, net general government debt amounted to €1 904.1 billion (or 87.3% of GDP), up €53.5 on 2014. Movements of assets were relatively low. The cash positions of the State, the ODACs and social security bodies increased by €4.8 billion, €1.3 billion and €3.7 billion respectively. On the other hand, the social security bodies reduced their securities holdings by €3.9 billion. The State's outstanding long-term debts fell by €2.1 billion (including €2.4 billion of loans granted under the European Financial Stability Facility (EFSF) reimbursed by Greece). Similarly, the CNA (French motorways fund) received €1.7 billion in loan reimbursements. ■

Main revisions made to the National accounts in 2013 and 2014

Claire Bidault, Étienne Debauche*

Main revisions of the 2013 accounts

The resources and uses balance

In the final 2013 accounts, real GDP grew by 0.6%, compared to 0.7% in the semi-final accounts. Nominal GDP growth remained unchanged at +1.4%. However, this overall stability masks an upward revision of the value added (VA) of NFCs whilst that of financial corporations was less positive in the semi-final accounts.

On the demand side, the contribution of domestic demand excluding inventory changes to real GDP growth was revised slightly downwards, to +0.4 points compared to +0.5 points in the semi-final accounts. GFCF fell at a slightly more sustained rate than in the semi-final accounts (-0.8% compared to -0.6%) due to the revision made to non-financial corporations (+0.2% compared to +0.5%) after processing the ÉSANE (Annual Business Statistics System) data on tangible fixed assets. The general government GFCF was also revised downwards (-0.7% compared to +0.1%) after taking into account the latest data from the DGFIP (Public Finances Directorate General), whilst the drop in households' GFCF was less pronounced than in the semi-final accounts (-0.5% compared to -1.5% previously). All in all, the contribution of GFCF to GDP growth stood at -0.2 points in 2013, instead of -0.1 points in the semi-final accounts.

On the other hand, real household consumption expenditure was revised very slightly upwards. +0.5% compared to +0.4%.

The more marked upward revision on imports than on exports is reflected in a downward revision of the contribution of foreign trade to real GDP growth: -0.1 points compared to a neutral contribution.

Companies continued to replenish their inventories in 2013: the contribution of inventories to real growth was unchanged at +0.2 points.

The account of non-financial corporations

The changes in the value added of NFCs was revised upwards by 0.4 points (+1.3% instead

of +0.9%) and growth in the wages paid by such companies was revised from +0.2 points to +1.5%. Gross operating surplus (GOS) therefore came out slightly up (+0.3%) whereas it had been significantly down in the semi-final accounts (-1.1%). The balance of property income was barely changed. The increase in NFCs' gross savings was therefore stronger than in the semi-final accounts: +5.0% compared to +3.1% before. The GFCF, revised only minimally, (-0.3 points), was slightly up on 2013, at +0.9%.

The revision of the increase in value added being only very partially offset by the increase in wages, the margin rate of NFCs fell by only 0.3 points (it fell 0.6 points in the semi-final accounts) to 29.9% in 2013. The NFC investment rate was revised very slightly downwards to 22.6%, whilst the self-financing ratio was revised significantly upwards (+1.6 points) in connection with the revision of savings: in the end it was 75.2%.

Households account

The change in gross disposable income (GDI) was revised down to +0.3% (+0.7% in the semi-final accounts), in connection with the revision of the mixed income of sole proprietors and property income. Given the moderate increase in the final consumption expenditure price index, the change in purchasing power was negative, -0.4% (compared to -0.1% previously). The increase in nominal household final consumption expenditure, however, changed very little: +1.1% compared to +1.2% in the semi-final accounts. As a result, the savings rate was revised downward (-0.3 points) to reach 14.3%.

Main revisions of the 2014 accounts

The resources and uses balance

Real GDP grew +0.6% in the semi-final accounts for 2014, compared to +0.2% in the provisional accounts. Nominal GDP growth was also revised upwards: +1.2% compared to +0.8%. The GDP deflator was revised very

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Box 5 (continued)

slightly downwards (+0.5% instead of +0.6%) following the change to the volume-price split in agricultural inventory changes and imports.

On the demand side, the contribution of domestic demand excluding inventory changes to GDP growth was revised slightly upwards, to +0.6 points instead of +0.5% previously: the contribution of GFCF was in fact revised upwards due to a less marked fall in the GFCF of households (-3.5% instead of -5.3%) and general government (-5.7% compared to -6.9%). However, the GFCF of NFCs was revised slightly downward (+1.6% instead of +2.0%).

Real household consumption expenditure bounced back a little more vigorously than in the provisional accounts (+0.7% compared to +0.6%), due in particular to the revision of consumption of food services. The consumption expenditure of general government and NPISHs (non-profit institutions serving households), on the contrary, was revised downwards to +1.2% and +1.8% respectively.

Foreign trade made a strong negative contribution to real growth, at -0.5 points as in the provisional accounts. Exports were revised upwards by a similar proportion to imports, due mainly to the revisions in the balance of payments, in its latest publication.

Companies continued to replenish their inventories. The phenomenon was accentuated compared to the provisional accounts, a consequence of the taking into account of the structural enterprise data. The contribution of inventories to growth was estimated at +0.5 points instead of +0.2 points in the provisional accounts.

The account of non-financial corporations

In 2014, growth in NFCs' VA stood at 0.8% instead of +0.3% in the provisional accounts. Wage growth, on the other hand, was revised downwards to +1.3% instead of +1.7%. As a result, GOS came out significantly up (+2.2%), whereas it had been slightly down in the provisional accounts. Likewise, the margin rate increased (+0.4 points), whereas it had fallen in

the previous accounts. In 2014, the margin rate of NFCs therefore reached 30.4%. Furthermore, the balance of property income deteriorated considerably (in particular interest paid), whilst conversely, taxes on income paid by NFCs were revised downward. All in all, there was only a minor revision of gross savings: - 1.3 billion. In the semi-final accounts, the gross savings of NFCs increased by 2.7% (+3.4% previously). GFCF was revised marginally downwards (-0.1 points, to 1.6% in 2014).

Accordingly, the investment rate was up slightly (+ 0.2 points), a figure very close to the increase predicted in the provisional accounts (+0.3 points). The increase in the self-financing ratio was revised downward, in connection with the deterioration in savings: it increased by 0.8 points, compared to +1.3 points in the provisional accounts. However, in view of the revisions made in 2013, the self-financing ratio (level) for 2014 came out at 76.0% in the semi-final accounts, compared to 74.9% in the provisional accounts.

Households account

Households' nominal GDI grew by +0.8% in 2014 compared to +1.1% in the provisional accounts. Growth in earned income was less vigorous due to the fall in wages received. Conversely, income from assets held came out better in the semi-final accounts. However, the revisions to taxes, benefits in cash received and current transfers received from the rest of the world partly compensated for the increase in the balance of income from property. The household final consumption expenditure price index having also been revised upwards (+0.1 points), growth in the purchasing power of GDI was revised downwards: it grew by +0.7% in 2014, compared to +1.1% in the provisional accounts. As nominal household consumption expenditure was more vigorous than in the provisional accounts (+0.8% compared to +0.6%), households' saving ratio was now virtually stable (+0.1 points, to 14.4%). The financial savings rate was revised substantially downward to 5.2%, the drop in investment having eased.

Table of main revisions

in %

	Old series		New series	
	2013	2014	2013	2014
A. GDP in volume, gross data (evolutions)				
Gross domestic product	0.7	0.2	0.6	0.6
Imports	1.7	3.8	2.1	4.7
Household consumption expenditure	0.4	0.6	0.5	0.7
General government consumption expenditure	1.7	1.5	1.5	1.2
Total gross fixed capital formation (GFCF)	-0.6	-1.2	-0.8	-0.3
<i>of which: households</i>	<i>-1.5</i>	<i>-5.3</i>	<i>-0.5</i>	<i>-3.5</i>
<i>non financial corporations (NFC)</i>	<i>0.5</i>	<i>2.0</i>	<i>0.2</i>	<i>1.6</i>
<i>general government</i>	<i>0.1</i>	<i>-6.9</i>	<i>-0.7</i>	<i>-5.7</i>
Exports	1.7	2.4	1.9	3.3
Inventories (contribution to GDP, in points)	0.2	0.2	0.2	0.5
B. GDP in value, gross data (evolutions)				
Gross domestic product	1.4	0.8	1.4	1.2
Imports	0.4	1.3	0.7	2.6
Household consumption expenditure	1.2	0.6	1.1	0.8
General government consumption expenditure	2.1	1.6	2.0	1.6
Total gross fixed capital formation (GFCF)	-0.2	-1.2	-0.5	-0.2
<i>of which: households</i>	<i>-1.4</i>	<i>-3.9</i>	<i>-0.5</i>	<i>-2.0</i>
<i>non financial corporations (NFC)</i>	<i>1.1</i>	<i>1.7</i>	<i>0.6</i>	<i>1.4</i>
<i>general government</i>	<i>0.4</i>	<i>-7.3</i>	<i>-0.3</i>	<i>-5.8</i>
Exports	1.3	1.4	1.7	2.4
Inventories (contribution to GDP, in points)	0.0	0.3	0.1	0.5
C. Prices of GDP, gross data (evolutions)				
Gross domestic product	0.8	0.6	0.8	0.5
Imports	-1.3	-2.4	-1.4	-2.0
Household consumption expenditure	0.8	0.0	0.6	0.1
General government consumption expenditure	0.4	0.0	0.5	0.4
Total gross fixed capital formation (GFCF)	0.4	0.0	0.3	0.2
<i>of which: households</i>	<i>0.1</i>	<i>1.4</i>	<i>0.0</i>	<i>1.6</i>
<i>non financial corporations (NFC)</i>	<i>0.5</i>	<i>-0.3</i>	<i>0.5</i>	<i>-0.2</i>
<i>general government</i>	<i>0.3</i>	<i>-0.5</i>	<i>0.4</i>	<i>-0.1</i>
Exports	-0.3	-0.9	-0.2	-0.9
Inventories (contribution to GDP, in points)	-0.2	0.1	-0.2	0.0
D. Items of non financial corporations account (evolutions and rate)				
Value added (VA)	0.9	0.3	1.3	0.8
Compensation of employees	1.3	1.7	1.5	1.3
Gross operating surplus (GOS)	-1.1	-0.6	0.3	2.2
Gross saving	3.1	3.4	5.0	2.7
GFCF	1.2	1.7	0.9	1.6
Margin rate (GOS/VA)	29.7	29.4	29.9	30.4
Investment rate (GFCF/VA)	22.8	23.1	22.6	22.8
Self-financing rate (saving/GFCF)	73.7	74.9	75.2	76.0
E. Items of households account (evolutions and rate)				
Gross disposable income (GDI)	0.7	1.1	0.3	0.8
Consumption expenditure	1.2	0.6	1.1	0.8
Purchasing power of GDI	-0.1	1.1	-0.4	0.7
Saving ratio (saving/GDI)	14.7	15.1	14.3	14.4
Financial saving ratio (lending/GDI)	5.3	6.1	5.0	5.2

Scope: France.

Note: old series come from annual national accounts published on May 13, 2015; new series come from annual national accounts published on May 30, 2016.

Source: Insee, national accounts, 2010 base.