

Slow growth for the French economy in 2014

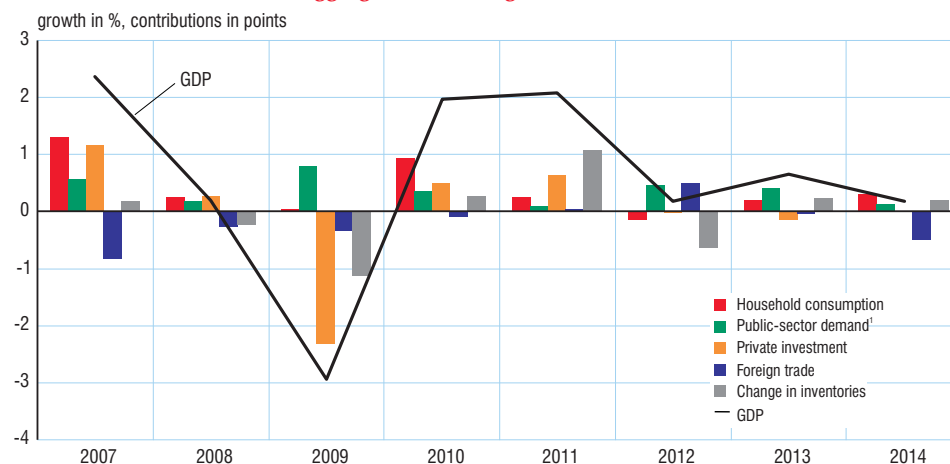
Vincent Biaisque, Sylvain Larrieu, Camille Sutter*

Despite the rebound in purchasing power due to disinflation, the French economy grew slowly in 2014: GDP progressed by just 0.2% in volume after +0.7% in 2013.

Domestic demand excluding inventory accounted for +0.5 points of growth by volume in GDP, like in 2013 (*figure 1*). Household consumption accelerated slightly (+0.6% in volume after +0.4% in 2013), in the wake of the strong rebound in purchasing power (+1.1% after -0.1% in 2013), part of which was reflected in a rise in savings of 0.4 points, to 15.1% on average over the year. In nominal terms, household income gained momentum (+1.1% after +0.7% in 2013), while consumer prices again slowed down considerably (0.0% after +0.8% in 2013). Domestic demand remained stable due to the momentum of general government consumption expenditure (+1.6% in volume, like in 2013), whereas its investment declined sharply (-6.9% after +0.1% in 2013). The volume of investment among non-financial enterprises picked up (+2.0% after +0.5% in 2013), whereas household investment, primarily in housing, fell back for the third consecutive year (-5.3% in 2014). All in all, investment in all sectors declined in 2014 (-1.2% in volume) more sharply than in 2013 (-0.6%).

In 2014 exports gained momentum, with volume growth reaching +2.4% after +1.7%. But imports accelerated even more vigorously (+3.8% in volume, after +1.7% in 2013), a phenomenon that is only very partially explained by the dynamics of the components of demand, in which import content is high (household consumption, corporate investment,

1. Contribution of the main aggregates to GDP growth



1. Including Non profit institutions serving households.

Field: France.

Source: Insee, national accounts, base 2010.

* Vincent Biaisque, Sylvain Larrieu, Camille Sutter, Insee

exports). All in all, the contribution of foreign trade to GDP growth became negative (-0.5 points after 0.0 points).

Finally, corporate inventory behaviour again contributed positively to GDP growth in 2014 (+0.2 points, like in 2013).

Per branch, volume growth in value added was driven by the activity of market services (+0.5% after +0.7%), non-market services (+1.0% after +1.2%) and agriculture (+8.5% after -1.9%). The energy-water-waste branch fell back sharply, to -2.1% after +2.2% in 2013, due to a mild winter and autumn. Construction fell back sharply (-3.6%), after near stabilisation in 2013 (0.1%). Activity in manufacturing industry also fell back (-0.7% after +0.6%).

Non-agricultural market-sector payroll employment decreased slightly (-0.2%), under the effect of the slow pace of growth in activity. However, thanks to net job creation in the non-market branches, particularly in subsidised contracts (with an increase in *emplois d'avenir*, "jobs of the future"), total employment increased on average over the year (+0.3%) and the unemployment rate decreased slightly as an annual average (10.2% after 10.3%).

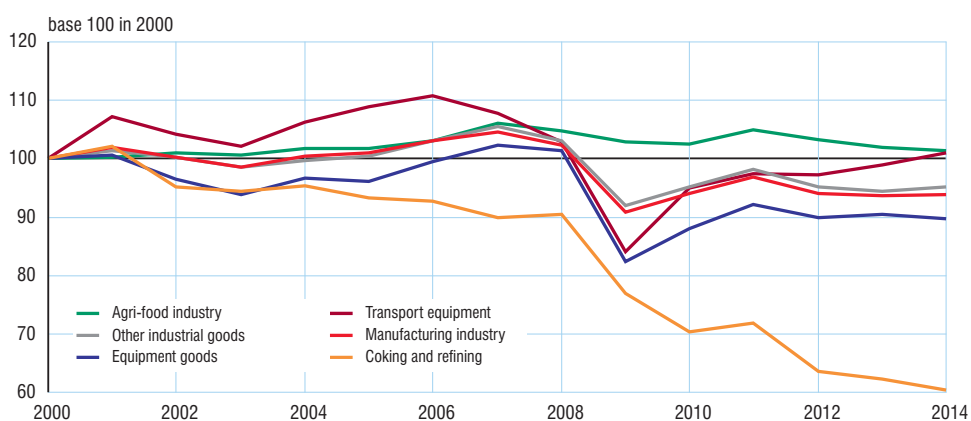
In 2014, government debt as defined in the Maastricht Treaty amounted to 4.0% of GDP, after 4.1% in 2013. Taxes and social contributions as a percentage of GDP increased from 44.7% to 44.9% in 2014 (of which +0.1 point is attributed to new measures), rising slightly more rapidly than expenditure calculated excluding tax credits. Government debt as defined in the Maastricht Treaty reached 95.6% of GDP at the end of the year, after 92.3% at the end of 2013.

Activity continued to grow slowly

Manufacturing output picked up

After two years of decline, output in the manufacturing branch picked up a little in volume in 2014: +0.3% after -0.5% (*figure 2*). However, intermediate consumption in the branch rebounded a little more quickly (+0.7% after -0.9%), causing value added to fall back in volume (-0.6% after +0.4%).

2. Variations in manufacturing output in volume by branch



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

Various demand components contributed positively to the upturn in output volume. Although it had decreased in 2012 (-1.4%), and again in 2013 (-0.8%), consumption of manufactured goods bounced back in 2014 (+0.6%). Exports of manufactured goods also remained dynamic (+1.8% after +1.3%) and investment in manufactured goods picked up (+1.1% after -1.5%).

In the manufacturing branch, coking and refining production declined for the third consecutive year (-2.8% after -2.2% in 2013), as did agri-food production (-0.5% after -1.4%). Production of capital goods fell back (-0.8% after +0.7%). However, the branches that produce transport equipment (+2.1%) and “other manufactured goods” (+0.9%) were dynamic in 2014.

The drop in the production of energy, water and waste in 2014 (-3.5% after +0.7%) was the result of a sharp decline in final consumption (-8.7% after +2.1%) due to particularly mild temperatures at the beginning of 2014, and again at the end of the year.

Activity in construction continued to decrease

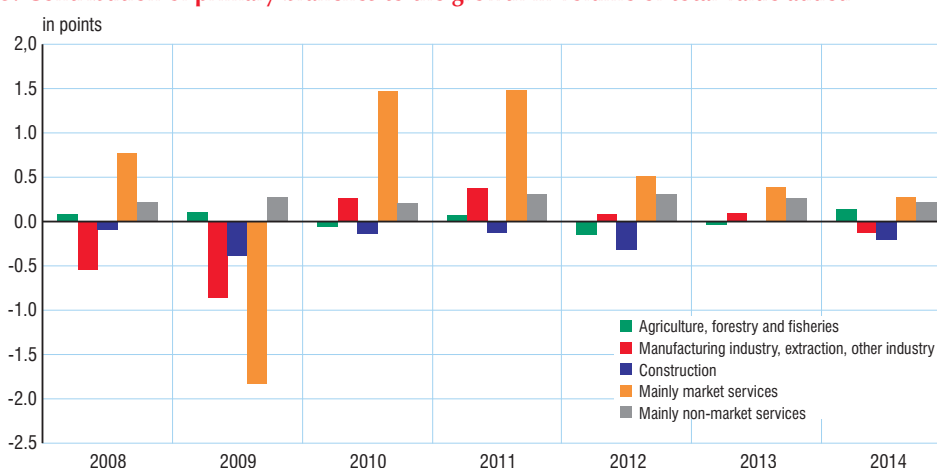
In the construction sector, activity decreased: -3.6% after +0.1% in 2013 (box 1). Investment in construction fell back 3.4%, due to the fall in households’ investment in housing (-6.1%) and that of general government in the construction of buildings and civil engineering (-7.7%); however, corporate investment in construction continued to increase: +3.0% after +1.2%.

Production of market services accelerated slightly

Production of market services accelerated, increasing by 1.2% in 2014, after +0.6%. In 2014, this branch contributed to growth in activity by +0.3 points (figure 3).

Activity in services benefited from the intermediate demand, which accelerated in 2014 to +2.0% after +0.5%. In addition, investment in services rebounded, at +0.6% after -0.1%.

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



Field: France.

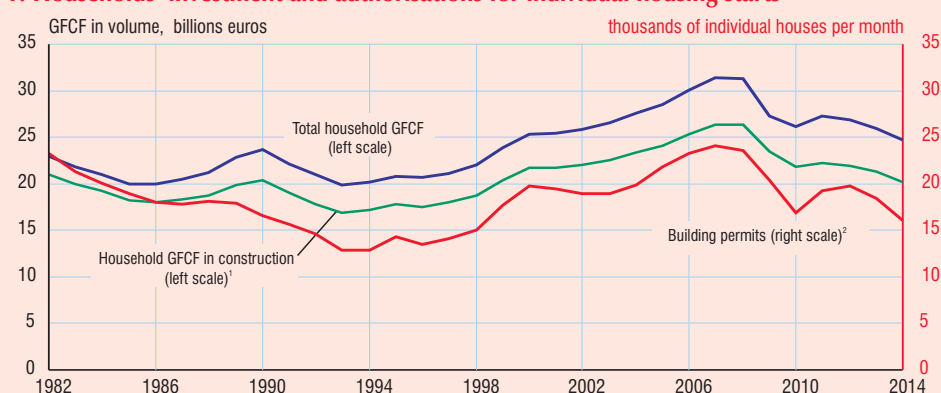
Source: Insee, national accounts, base 2010.

Fall in housing construction in 2014

Julie Goussen*

Activity in the construction branch contracted sharply in 2014 (-4.0%), and weighed down on the overall economy. Activity was penalised by a combination of factors that affected both civil engineering, linked to the phase of the electoral cycle and the downturn in local authority endowments, and building. The latter was primarily affected by the sharp decline in household investment in housing: 5.9% after a decline of 3.1% in 2013, due in particular to the decline in the construction of new housing, and to a lesser extent to the decrease in maintenance and improvement work (figure 1).

1. Households' investment and authorisations for individual housing starts



1. Quarterly data.

2. Arithmetical average over 18 month period.

Field: France.

Sources: Insee, national accounts ; SOeS.

The number of new housing starts declined in 2014

The number of building permits has been on a downward trend since 2012. Building permits for individual housing had rebounded in early 2013 due in particular to the anticipation of the "RT2012" energy consumption regulation, and then experienced a sharp backlash. Since mid-2013, the number of authorisations for housing starts has continued to fall. The level reached in 2014 (373,900 authorised housing units) was the lowest since 1999.

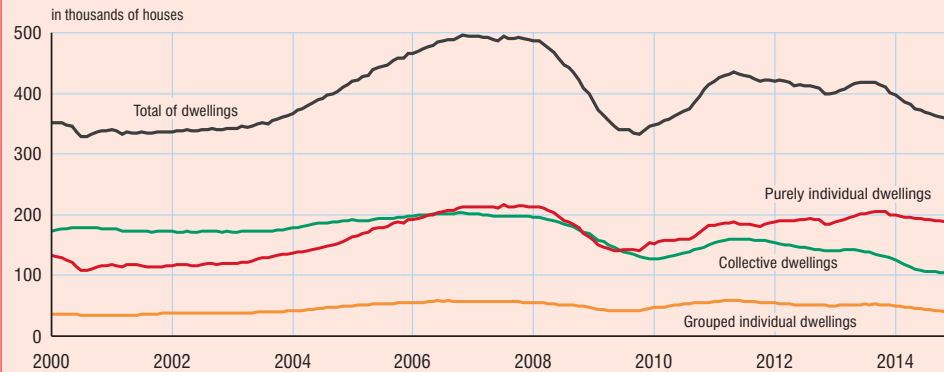
As a result, there were only 356,600 housing starts in 2014, which is 11% less than in 2013. On one hand, collective housing starts, which had held up until the end of 2013, began to decrease in 2014 (-6.4% over the year). On the other hand, the number of individual housing starts has decreased since 2011 and in 2014 reached its lowest level since 1993. On one hand, pure individual housing units declined sharply (-19.1% in 2014 after -8.7% in 2013), influenced by sluggish household purchasing power, and despite the modification of the interest-free loan. On the other hand, grouped individual dwellings plummeted: -23% in 2014 after -1.2% in 2013 (figure 2).

The fall in collective and grouped individual dwellings was reflected in the decline in the real estate market through developers. In the context of weak sales for new housing, the number of dwellings put up for sale by developers has declined sharply for the past two years: -13.3% in 2014 after 12.6% in 2013. The time taken to sell apartments and individual housing stock on the market have increased overall since the end of 2010 and housing stock up for sale is piling up.

* Julie Goussen, Insee.

Box 1 (cont'd)

2. Housing starts (over the 12 month period)



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

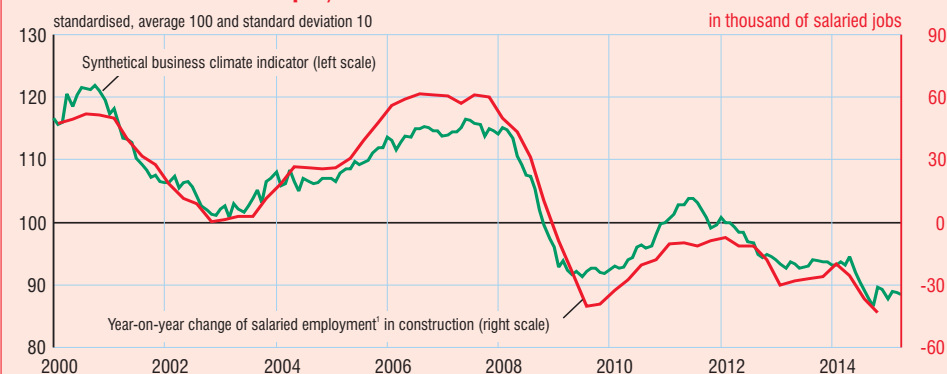
This sluggishness was in part the result of the fall in investment in accommodation for rental, probably due to the lagging momentum of incentive schemes, which were less and less attractive until the Pinel scheme took effect in the summer of 2014. This scheme offers the possibility of renting to an ascendant or descendant under certain conditions, to rent over six, nine or twelve years with a tax reduction on investment, and to put a dwelling on the market at a slightly higher price, due to revised zoning.

Building sector professionals are reporting a deterioration in the short-term outlook

In line with the decrease in household investment, business leaders in the building sector are reporting a deterioration in the short-term outlook of the sector. The indicator that summarises the business climate in the building sector has been on a downward trend since mid-2011 and below its long-term average (100) since 2012. In 2013, it levelled out, fluctuating around 93. It deteriorated sharply in mid-2014, reaching its lowest level since 1997.

An increasing number of business leaders in the building sector are reporting a decline in activity and fewer orders than usual. They report underutilised production capabilities. At the end of 2014, the production capacity utilisation rate continued to decline: it is over 10% below the level it was at before 2008. This affects payroll employment in the sector, which has shown a downward trend since 2008 (figure 3).

3. Business climate and employment in construction



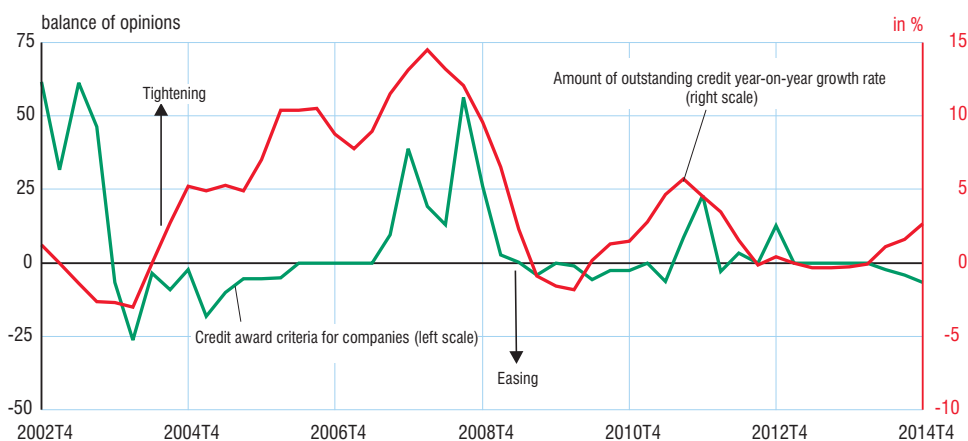
1. CVS data.
Field: metropolitan France.
Source: Insee, construction conjuncture survey, salaried employment estimations.

By branch, activity fell back more sharply than in 2013 in accommodation-catering: -2.5% in 2014 after -0.7% in 2013. Activity slowed down in the trade branch (+0.5% after +1.8%), but it remained dynamic in the information and communication branches (+1.2% after +1.1%) and in real estate services (+1.0% after +1.3%). It accelerated in the corporate services branch (+0.7% after +0.3%) and the transport branch (+1.0% after -0.8%). Finally, in non-market branches, activity slowed down very slightly (+1.0% after +1.2%).

Corporate investment accelerated

In 2014, there was a significant increase in corporate investment (+2.0%, after +0.5% in 2013), and corporate investment rates among non-financial enterprises also increased slightly to 21.4%, after 21.1% in 2013. In a context of improving production prospects, production capacity utilisation rates rose 0.6 points to reach 81.0% in industry in 2014, although still remaining 3.6 points below their long-term average. The increase in investment was parallel with that of outstanding corporate loans, which picked up significantly: +2.6% over the year at the end of 2014, after a downturn of 0.3% in 2013 (*figure 4*).

4. Corporate lending terms



Field: France.

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

Source: Banque de France.

The acceleration in corporate investment by non-financial enterprises (NFE) was attributable to expenditure on construction (+3.0% after +1.2% in 2013) and manufactured goods (+2.1% after being almost level in 2013). While investment in capital goods slowed down (+1.3% after +3.0%), investment in transport equipment rebounded (+4.0% after -1.2%) and investment in other industrial goods accelerated (+2.7% after +1.1%). The investment of NFE in services accelerated (+1.2% after +0.3% in 2013), due to a rebound in information-communication (+2.2% after -0.1%) and despite sluggish investment in services to businesses (+0.3% after +0.6%), especially in R&D (+0.1% after +1.8%).

Inventory change contributed positively to activity

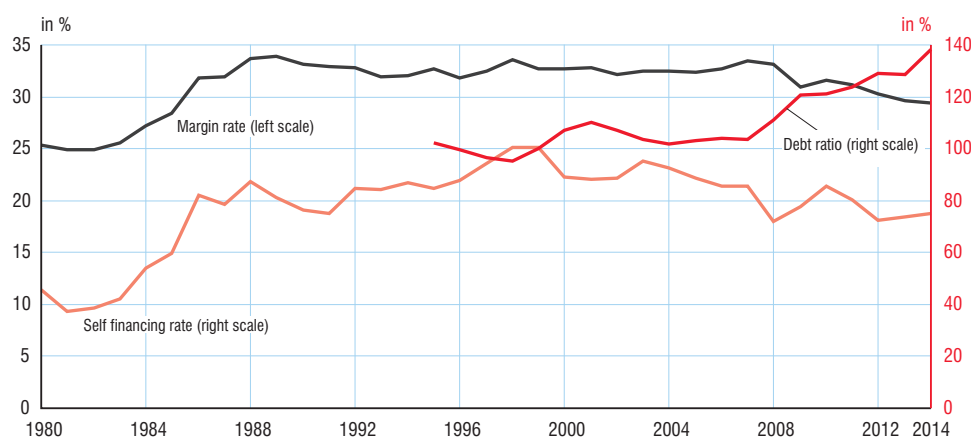
In 2014 companies continued to rebuild their stocks. Inventory change therefore contributed +0.2 points to growth in activity, as in 2013. All in all, in 2014 corporate demand via investment expenditure and inventory behaviour contributed +0.5 points to growth in GDP, after +0.2 points in 2013.

The margin rate decreased slightly

The financial situation of non-financial corporations deteriorated less in 2014 than the two preceding years.

Value added rose slightly in value (+0.3% after +0.9%), whereas spending on employee compensation increased significantly (+1.7% after +1.2% in 2013), particularly gross salaries and wages (+1.6% after +1.0%). Taxes on production and imports remained dynamic (+2.5%) although they slowed down after a sharp increase in 2013 (+6.2%) attributable to the rise in corporate social contributions. Subsidies received by companies increased considerably (+52.2% after -1.2%), due to the entry into force of the Tax Credit for Competitiveness and Employment (CICE). The positive effect of the CICE was not sufficient, however, to offset momentum in pay, resulting in unit wage costs increasing significantly. All in all, the gross operating surplus fell back (-0.6%), but less sharply than in 2013 (-1.1%). As a result, the margin rate of non-financial corporations continued to deteriorate in 2014, at 29.4% after 29.7% in 2013 (*figure 5*): the positive contribution of the CICE (+0.9 points) was not sufficient to offset the impact of average real earnings growing much faster than productivity (*Box 2*).

5. Corporate margin rate, self-financing rate and debt ratio



Field: France.

Note: debt ratio is measured by the ratio "average debt of the year / value added of the year".

Sources: Insee, Banque de France.

Furthermore, the balance of property income of non-financial corporations increased by €9.5 billion. This improvement is attributable to the interest balance increasing by €11.4 billion in 2014. Interest paid continued to decrease by €12.9 billion, due to lower interest rates which non-financial corporations with their structural debts took full advantage of. Non-financial corporations' taxes on income and wealth slowed down significantly (+2.4% after +6.6%). This slowdown was accentuated by the decrease in fiscal profit in 2013. As a result, corporate savings ratios improved by 0.5 points (17.3% after 16.8%).

Box 2

The accounting impact of the Tax Credit for Competitiveness and Employment (CICE) in 2014

Ronan Mahieu*

Since 1st January 2013, the wages paid by companies make them eligible for the Tax Credit for Competitiveness and Employment, the CICE. The base of the CICE is composed of gross compensation subject to social security contributions paid out over the period of one calendar year, with a limit of 2.5 times the legal minimum wage. The tax credit rate is 4% for wages paid in 2013 (the first year of application), and 6% for wages paid the following years. The CICE is set off against amounts payable by companies for corporation tax or personal income tax for companies that are not subject to corporation tax.

Generally, the CICE due for a given year is set off against the tax due for the same financial year. Therefore, the CICE calculated for wages paid in 2013 must be set off against the tax due for the 2013 financial year. If the CICE cannot be fully used (because it exceeds the amount due for corporation tax or personal income tax), it can be used to pay for the taxes due over the course of the next two years. After three years, the company will be reimbursed for the fraction that is not chargeable. As an exception, the immediate and full reimbursement of the amount owed may be requested by certain types of companies (small and medium enterprises, new companies, young, innovative companies, companies in difficulty).

Given these characteristics, the CICE due for the year 2013 is recorded in the companies' accounts for 2013, but does not begin to affect the companies' liquid assets until the payment of the corporate tax balance for 2013, which takes place in 2014. In companies' accounts, it can appear as a deduction of personnel charges, but also as a corporation tax deduction.

The CICE is processed very differently for the national accounts. In accordance with the provisions of the European System of Accounts (ESA 2010) on tax credits, the CICE must be recorded as a public expense all at once, in the year that the company pursues its claim on the State. In the national accounts, the CICE is therefore not recorded as a deduction, nor as wages or taxes paid, but rather as subsidies on employee compensation

(D.391). In addition, the CICE due for 2013 is recorded all at once in 2014, even though the impact of the CICE on budget revenue is spread over several years.

This manner of recording the CICE thus creates a time lag in terms of the impact on the State deficit, depending on whether the budget implementation balance or the national accounting deficit communicated to the European Commission is taken into account: the CICE due for the 2013 financial year weighs entirely on the deficit reported for 2014, whereas the impact on the budget implementation balance is spread out over several years, beginning in 2014. In national accounting, the CICE increased subsidy expenditure and weighed down on the public deficit by €10.2 billion in 2014 (or 0.5 points of GDP), which corresponds to the amount of the receivable that companies declared to the tax department in 2014 for the 2013 financial year. The impact on tax revenues and the budget implementation balance was less because it was limited to amounts charged against the corporate tax or the personal income tax paid in 2014, or directly reimbursed to companies in 2014, amounting to approximately €6 billion.

Since the CICE is recorded as a subsidy on compensation (D.391) in national accounting, it has a neutral impact on companies' gross value added and the compensation they pay. However, it improves companies' gross operating surplus (GOS) and margin rate. The impact on the margin rate of non-financial corporations' in 2014 was estimated at approximately +0.9 points. However, the margin rate of non-financial corporations dropped 0.3 points between 2013 and 2014 to stand at 29.4%. The average compensation paid by non-financial corporations indeed continued to progress in real terms in 2014 (in a context of very low inflation), whereas productivity gains were greatly reduced and the contribution of terms of trade (which measure changes in the price of value added relative to those in consumer prices) was virtually non-existent.

* Ronan Mahieu, Insee.

Box 2 (cont'd)

The margin rate of non-financial corporations would thus appear to have dropped spontaneously without the impact of the CICE in 2014: the implementation of the CICE only allowed partial compensation of the negative effect that an increase in compensation, faster than that of value added, had on the margin rate in 2014 (*figure*).

Finally, it should be noted that the CICE does not affect the unit labour cost indicators that are published, in particular, by the European Commission within the context of the macroeconomic imbalance procedure: unit labour costs are in fact calculated by comparing compensation in value (D.1) to real GDP. Since the CICE is recorded as a subsidy on compensation (D.391), it does not affect compensations paid, and therefore does not affect the unit wage cost indicator. It is also not possible to calculate a similar alternative unit wage cost indicator from one country to another

that takes subsidies on compensation into account because, unlike France, most countries do not distinguish those subsidies that are based on compensations among total production subsidies (D.39).

Breakdown of changes in non-financial corporation margin rates

	in point
Margin rate 2013 (in %)	29,7
Impact of the changes in real compensation per employee	-1,3
Impact of productivity gains per capita	0,1
Impact of terms of trade	0,1
Impact of the CICE	0,9
Other	-0,1
Margin rate 2014 (in %)	29,4

Source: Insee, national accounts, 2010 base.

Activity of financial corporations declined in 2014 against the backdrop of a fall in rates

The decrease in the ECB base rate by 20 basis points in 2014 once again significantly affected the amounts of interest received and paid by banks. In 2014, interest received¹ by this sector decreased by €7.6 billion, after -€24.9 billion in 2013 for a decline in ECB base interest rates of 50 basis points. Interest paid decreased by €5.8 billion, after -€17.1 billion in 2013. However, the vigour of the equity market allowed financial intermediaries to recover the balance of their primary income, which increased by €1.7 billion in 2014, after falling from €43.5 billion in 2009 to €31.5 billion in 2013.

While it did not affect the balance of primary incomes of financial intermediaries, the calculation of FISIM² did however lead to the reintegration into banks' value added of the proportion of interest margins assimilated to production. However, for a given level of rates on lending and deposit rates proposed to bank clients, a decrease in the refinancing rate leads to a rise in the margin rate of banks on lending and a decrease in the margin on deposits. In practice, bank margins on lending increased by 17 basis points in 2014, whereas the margin on deposits decreased by 11 points; FISIM on credits thus increased by €5.1 billion in 2014, and FISIM on deposits decreased by €1.8 billion. FISIM therefore contributed to increasing the value added of financial intermediaries by €3.3 billion in 2014. For the third consecutive year, it is therefore FISIM production that contributed primarily to the rise in the value added of financial intermediaries, which increased by €4.2 billion in 2014, after taking into account the production explicitly charged to clients of the institutions. In addition, the sector was marked by the BNP Paribas penalty payment to the United States: a transfer of €4.2 billion from France to the rest of the world thus adversely affected financial intermediaries' financing capacity which amounted to €7.4 billion at the end of 2014, after €9.6 billion at the end of 2013.

Value added of insurers fell by €4.7 billion in 2014. Financial profit provisions of life insurance companies increased in 2014: the corresponding sums will only be paid out to

1. Excluding FISIM adjustment.

2. Financial intermediation services indirectly measured.

policyholders at a later date. This prudential policy, inspired in particular by the Banque de France and the ACPR,³ aims to anticipate the impact that the drop in sovereign bond yields will have on money-market policy yields. As a consequence of this policy, heavy strain was put on the production of life insurance services in 2014. At the same time, activity in non-life insurance stagnated. The drop in burglaries was partly offset by the rise in road-traffic injuries and in payments for natural events.

Including the activity of financial auxiliaries, the value added of financial corporations stagnated as compared to 2013, and the balance of primary income declined by 2.9% to €39.2 billion.

Total employment increased

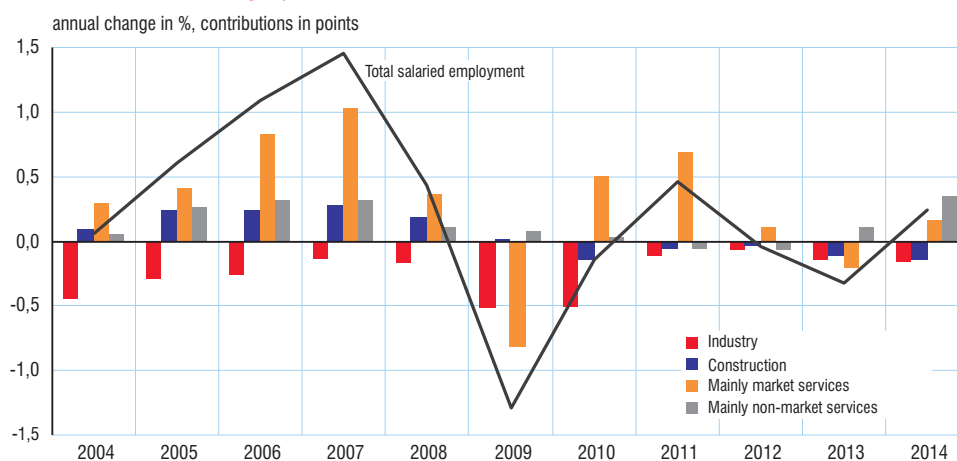
Payroll employment in the non-agricultural market sector dropped slightly (-0.2%) due to the weak pace of growth in activity. However, total employment increased (+0.3%), due to the increase in non-market sector jobs (+1.2%), which were boosted by subsidised employment. The unemployment rate was virtually stable on average over the year (10.2% after 10.3%).

Market-sector payroll employment declined

In the non-agricultural market sector, payroll employment declined for the second consecutive year, but less sharply in 2014 (-0.2%), than in 2013 (-0.6%, *figure 6*), with a decrease of 29,000 after a net loss of 100,000 in 2013 on average over the year.⁴ Including the self-employed, employment was virtually stable in 2014 (-0.1% after -0.6% as an annual average).

This decline in market salaried employment affected industry (-38,000 jobs) and construction (-34,000 jobs), whereas employment in market-sector services increased (+43,000 jobs).

6. Trend in salaried employment



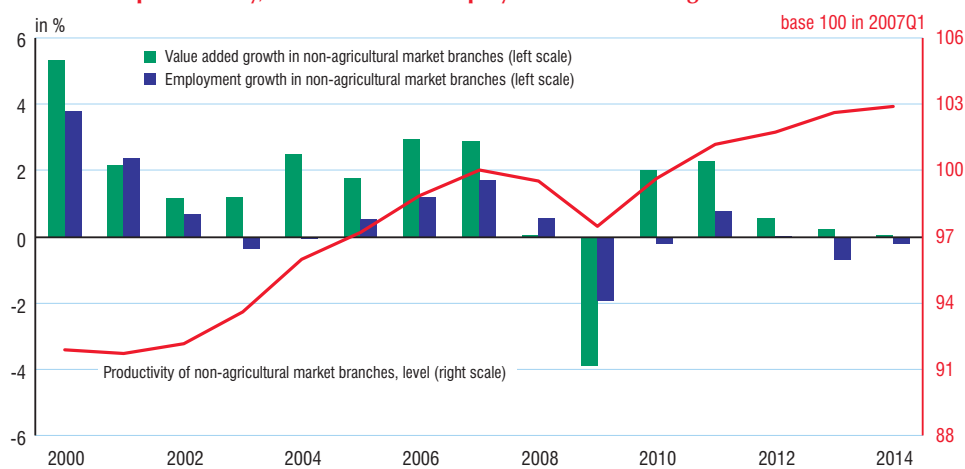
Field: France.
Source: Insee, national accounts, base 2010.

3. Autorité de contrôle prudentiel et de résolution - the administrative authority responsible for supervising the banking and insurance sectors in France.

4. Employment as it is calculated and published for the national accounts differs from employment as it is estimated directly in each activity sector. This is mainly due to differences in the period under review: the former is considered as a quarterly (or annual) average, whereas the latter is estimated at the end of the period (quarter or year-end).

The decline in market-sector employment was offset, however, by the increase in non-market salaried employment (+89,000 jobs, *figure 7*). This rise was largely due to subsidised contracts (+60,000). In particular, *emplois d'avenir* including “jobs of the future” teachers), which entered into force in November 2012 and were ramped up in 2013 and 2014: at the end of 2014, 112,000 people benefited from *emplois d'avenir* jobs in Metropolitan France, compared to 72,000 at the end of 2013.

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



Field: France.

Source: Insee, national accounts, base 2010.

Unemployment decreased in 2014 as an annual average, but increased at the end of the year

After rising for two years, in 2012 and 2013, the unemployment rate was virtually stable as an annual average in 2014 (10.2% after 10.3%, including Overseas Departments). Over the course of the year, however, it increased; in Q4 2013 it reached 10.1% of the labour force according to the ILO definition. Then, after stabilising in H1 2014, it increased at the end of the year to reach 10.4% at the end of 2014.

Real wages continued to increase

The average wage per capita in the non-agricultural market sector accelerated slightly in nominal terms in 2014, at +1.7% after +1.5% in 2013, despite lower inflation (0.0% at the end of 2014 after +0.8% at the end of 2013). This fall in inflation was of full benefit to the purchasing power of average wage per capita, which accelerated considerably (+1.7% after +0.7%).

In general government, nominal wages slowed down in 2014 (+0.2% after +0.6%), due in particular to the fact that the civil service minimum index was not revaluated at the beginning of 2014, although it had been on 1st January 2013 (+0.3%). In addition, the employment structure changed due to substantial recruitment under subsidised contracts, with lower pay levels than the average civil service wage. The slowdown in prices did however offset that of nominal wages: in 2014, real wages increased slightly (+0.3%) after a slight decrease in 2013 (-0.2%).

Purchasing power picked up significantly, consumption accelerated

Household purchasing power picked up in 2014, due to a lower rise in taxes and the deceleration in prices. In this context, consumption rose more strongly in 2014 than in 2013.

Household gross disposable income rose

In 2014, household gross disposable income (GDI) increased in nominal terms, +1.1% after +0.7% in 2013 (*Box 3*). Earned incomes increased a little more strongly (+1.3% after +0.9%), in the wake of gross wages received by households (+1.6% after +1.0%), due to a smaller decline in employment in non-agricultural market branches. The gross operating surplus of sole proprietors fell back (-0.3% after +0.1% in 2013). That of pure households⁵ continued to increase (+0.6% after +0.9%).

However, the property income balance of households declined in 2014, falling by 2.2% after increasing by 2.9%. This decrease is due to the fall in interest received by households, despite the rise in distributed company income.

Current taxes on income and wealth continued to grow, but at a slower pace (+1.4% after +4.3%, or +€2.8 billion after +€8.6 billion in 2013). This slowdown was in particular the result of new measures, which were less significant in 2014 than in 2013. The following are the main measures for taxes on income and wealth introduced in 2014: the removal of the income tax exemption for dependency benefit pension supplements, the further lowering of the ceiling of the family quotient, as well as the removal of tax exemption for a portion of employers' contributions to top-up insurance policies. The impact of these measures was limited, however, by other measures that lowered taxes, such as the income tax reduction for the lowest income households.

Social benefits in cash received by households continued to increase (+2.3%), albeit less strongly than in 2013 (+2.8%). This slowdown was due to that of social security benefits (+2.3% after +3.0%). Old-age insurance benefits slowed down in particular, due to a backlash after the increase in the number of retirements in 2013, following the easing of the terms on long careers decided in July 2012. The slowdown was also due to the fact that pensions overall were revaluated very little in 2014. Pensions paid by the general and aligned pension schemes, the civil servant scheme as well as the Agirc and Arrco supplementary schemes did not undergo any revaluation in 2014. Family allowances also increased less in 2014 (+0.6% on 1st April) than in previous years (+1.3% on average over the last five years), due to weak inflation. Finally, after strong growth in 2013, unemployment benefits slowed down considerably in 2014, affected in particular by improved employment prospects. However, social welfare benefits continued to accelerate (+3.7% after +1.9% in 2013); they were sustained by earned income supplement (RSA) expenditure, for which the scale was revaluated according to the commitments of the anti-poverty plan, and the specific solidarity allowance, in line with the rise in the number of long-term unemployed.

5. In national accounts the gross operating surplus (GOS) of pure households refers to rent that individual property owners receive from their tenants, or could receive if they rented out their property (in which case they are referred to as "imputed rents"), after deducting intermediate consumption costs and property tax.

Box 3

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 deducted**. 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 rents)***, 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-FISIM****).

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 29.0% in 2014, a rise of nearly 17 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 2014. 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 3.2% in 2014 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.

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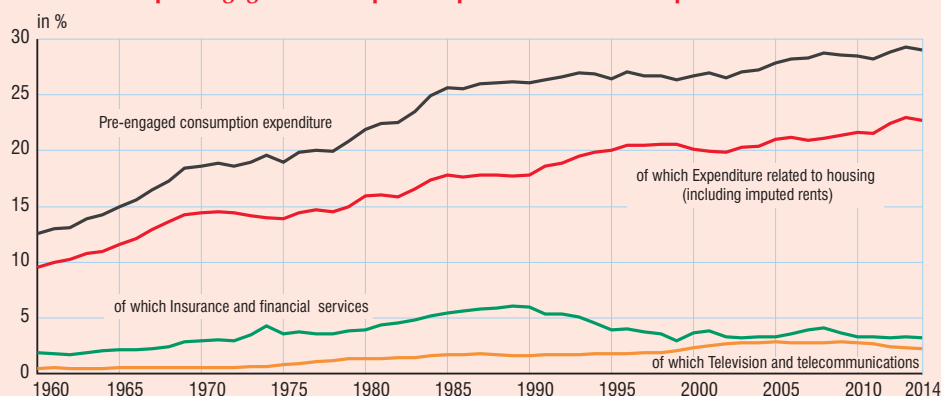
** Gross disposable income includes earned income (wages and household gross pay, plus sole proprietors' profits), property income excluding capital gains, whether realised or not (dividends, interest, etc.), transfers (particularly net insurance premium benefits) and social benefits (retirement pensions, 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.

*** 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.

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

Box 3 (cont'd)

1. Household pre-engaged consumption expenditure at current prices



Field: France.

Note 1: in 2014, household pre-engaged consumption expenditure at current prices represent 29,0 % of their gross disposable income. 22,7 % of the gross disposable income is dedicated to expenditure related to housing (including imputed rents), 3,2 % to insurance and financial services, 2,2 % to television and telecommunications expenditure, and 0,9 % to canteen expenditure.

Note 2: expenditure of insurance and financial services does not include expenditure related to life insurance.

Source: Insee, national accounts, base 2010.

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 2014.

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.

Purchasing power of disposable income and of "arbitrable" income by consumption unit were again on a rising trend in 2014

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".

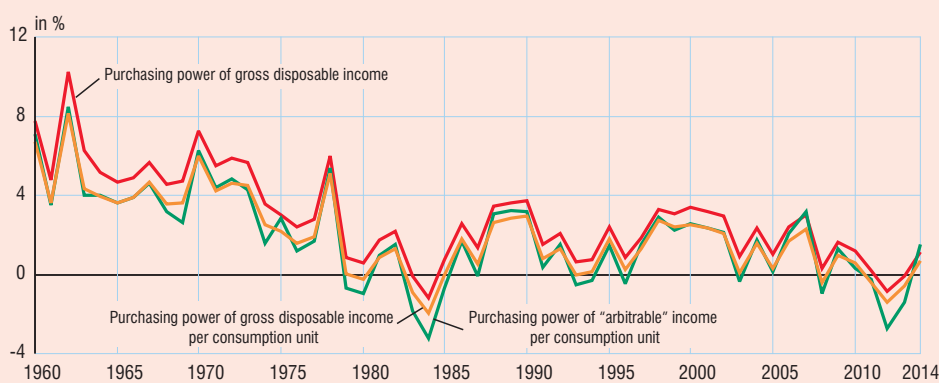
Disposable income and "arbitrable" income are macroeconomic quantities. In order to relate them to a more individual concept of purchasing power, it is necessary to relate their changes to demographic growth; the growth of purchasing power per capita is absorbed when population growth is taken into account. 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 households****.

**** 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 3 (cont'd)

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 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 2014, 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 0.7% and that of “arbitrable” income by 1.5%. The consumption of “pre-engaged” expenditure was much less dynamic than household gross disposable income (+0.1% against +1.1%), due in particular to the sharp contraction in heating costs driven by particularly mild weather conditions in 2014.

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



Field: France.

Source: Insee, national accounts, base 2010.

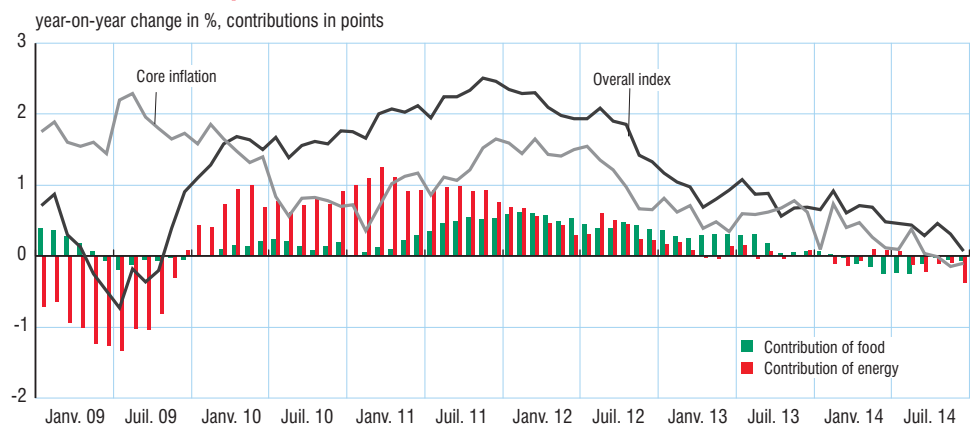
Inflation fell considerably

As an annual average, the rise in consumer prices⁶ reached +0.5%, a marked slowdown compared to 2013 (+0.9%). The year-on-year increase in prices dropped by 0.6 points between December 2013 and December 2014.

The fall in headline inflation rates was in part attributable to the fall in core inflation. As an annual average, core inflation dropped by 0.4 points, going from +0.6% to +0.2%. This movement could be observed throughout the second half of 2014 (figure 8). In addition, the contribution of energy to inflation became negative in 2014, going from an annual average of +0.8% to -0.9%. The slowdown in energy prices has thus continued for nearly four years, having decreased nearly 20 points on a year-on-year basis, between the peak in March 2011 (+15.3%) and December 2014 (-4.4%).

6. The consumption price index discussed here differs from the consumption deflator, due to differences in the areas they cover, particularly in the financial products. The deflator stagnated in 2014, while increasing 0.5% for the consumption price index. The consumption deflator is what is used to calculate purchasing power.

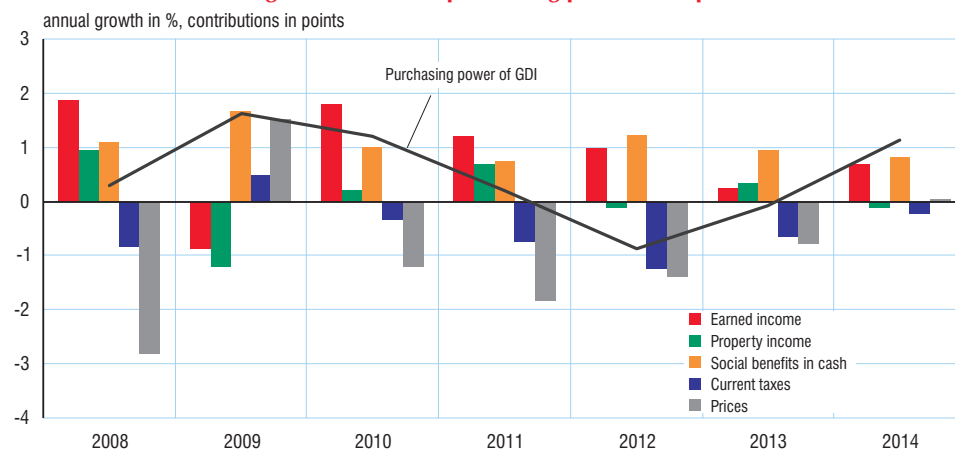
8. Overall consumer price index and core inflation



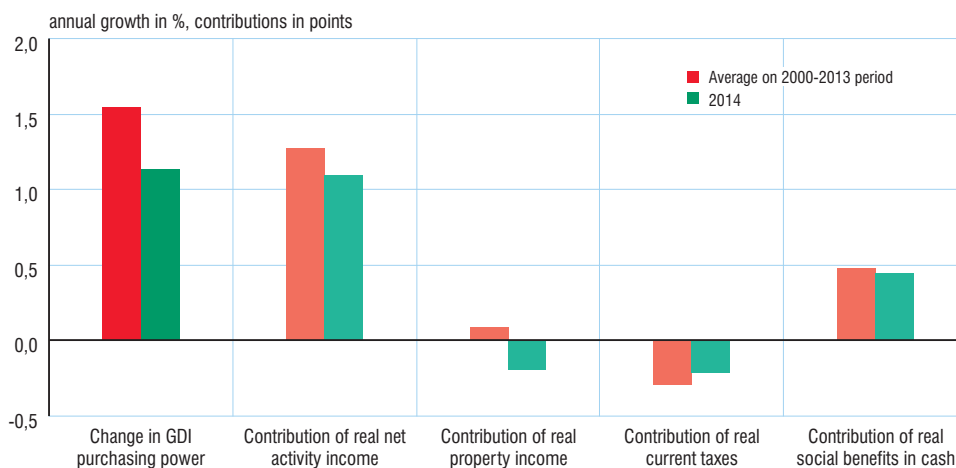
Purchasing power picked up significantly

Growth in household nominal income (+1.1%) was higher than that of the deflator of household consumption (0.0%). Purchasing power therefore picked up significantly (+1.1%), after nearly stabilising in 2013 (-0.1%; *figure 9*).

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



10. Breakdown of GDI change in 2014, compared to the average on 2000-2013 period



Field: 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 changed by -0,2 point in 2012, whereas it was +0,9 point on average for the 2000-2012 period.

Source: Insee, national accounts - 2010 base.

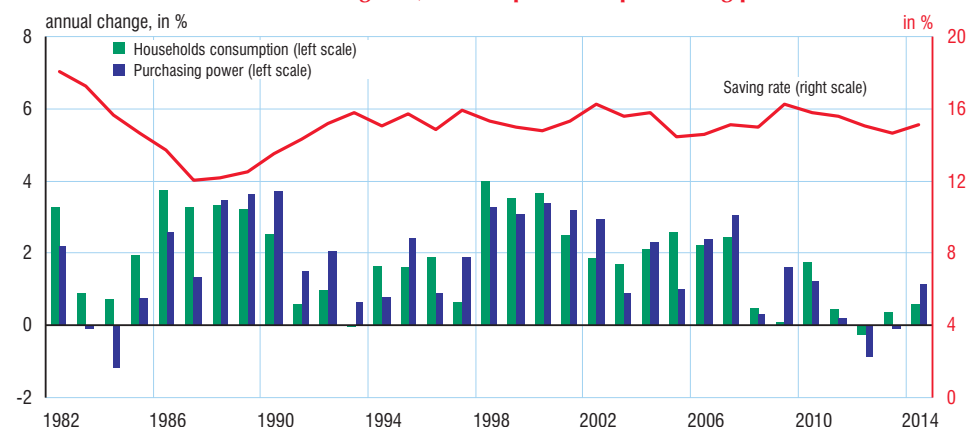
Real net earned income contributed less to gains in purchasing power, in comparison with the 2000-2013 average (*figure 10*). This was also the case for real property income and, to a lesser extent, social benefits in cash. Conversely, current taxes did not weigh as heavily on purchasing power.

Per consumption unit, meaning calculated as an individual average, purchasing power grew by 0.7% in 2014.

Despite the rise in the savings ratio, consumption increased

As an annual average, household consumption increased less strongly than purchasing power: +0.6% in volume after +0.4% in 2013. The aggregate savings ratio thus increased, rising from 14.7% in 2013 to 15.1% in 2014 (*figure 11*). It reached a level close to its average over the past twenty years (15.3%).

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



Field: France.

Source: Insee, national accounts, base 2010.

Spending on manufactured goods picked up significantly (+0.6% after -0.8%). After a decline in 2013, automobile consumption bounced back (+1.3% after -3.2%), as did consumption of capital goods (+1.1% after -1.0%). Consumption of food products continued to grow (+1.4% after +3.0%), as did consumption of other industrial goods (+1.8% after +1.1%).

Consumption of energy, water and waste fell back considerably in 2014 (-8.8% after +1.9%), affected by exceptionally mild temperatures which allowed a reduction in heating costs in Q1 and Q4.

The consumption of market services grew slightly (+0.7% after +0.9%). Consumption of accommodation and restaurant services continued to decline (-0.9% after -1.4%), as did "other household services" (-0.4% after -0.9%). Consumption in information-communication slowed considerably (0.0% after +4.0%) and that of transport services decelerated more moderately (+0.2% after +0.5%). Finally, the balance of trade in tourism deteriorated considerably in 2014 due to a rise in French residents' spending abroad (+9.6% after +3.5%) and a decline in spending by foreign visitors in France (-2.3% after +1.7%). Territorial adjustment increased the growth of household consumption by 0.2 points in 2014, after 0.4 points in 2013.

Household investment fell back sharply (-5.3% after -1.5%), particularly in construction, where individual housing starts declined for the third consecutive year.

All in all, the household financial savings ratio increased 0.8 points, from 5.3% in 2013 to 6.1% in 2014.

Foreign trade weighed down on activity

French exports grew in the wake of world trade

In 2014, world trade in goods accelerated (+3.3% after +2.7%), in line with the greater buoyancy in advanced economies. World demand for French exports was also a little more dynamic (+3.3% after +3.1%), even though the geographic breakdown of trade limited the impact of the slowdown in emerging economies. The rise came mainly from demand from Germany (contributing +0.7 points after +0.4 points in 2013) and Spain (contributing +0.6 points after 0.0), whereas the pace of demand from other partners was maintained.

Exports of goods and services accelerated in 2014, growing 2.4% in volume after +1.7%. This growth still remained lower than that in world trade in goods (*figure 12*) and that in demand for French exports, which resulted in a slight loss in market share, which was partly linked to the appreciation of the Euro on average over the year.

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



Exports of manufactured goods accelerated

Exports of manufactured goods, which represent approximately three quarters of sales, gathered momentum (+1.8% in volume after +1.3%). This acceleration came from that of exports of “other industrial products” (+3.4% after +1.0%) and exports in coking and refining (+1.7% after +0.5%). Exports of transport equipment slowed down (+0.4% after +3.7%), as did capital goods (+1.2% after +1.8%). Exports in food products fell back (-1.5% after -0.4%).

Excluding manufactured products, energy, water and waste exports bounced back strongly in 2014 (+15.4% after -7.7%). Agricultural exports slowed down (+1.3% after +7.7%). All in all, the export of goods accelerated (+2.1% in 2014 after +1.5% in 2013). Finally, export of services also accelerated (+5.0% after +3.3%).

Imports accelerated even more considerably

Imports in France increased by 3.8% in volume in 2014, after +1.7%, driven by the increase in various components of demand that were strong in import content: consumption, corporate investment and exports.

Imports of manufactured goods accelerated (+3.7% after +0.3%), due to capital goods (+4.4% after +1.2%), transport equipment (+1.8% after +1.4%) and “other industrial products” (+4.7% after -0.7% in 2013). But imports in coking and refining fell back (-2.0% after +1.2%) and energy, water and waste imports, including crude oil products, again declined sharply (-4.5% after -3.2%). All in all, the import of goods accelerated, increasing by 2.7% after 0.0% in 2013.

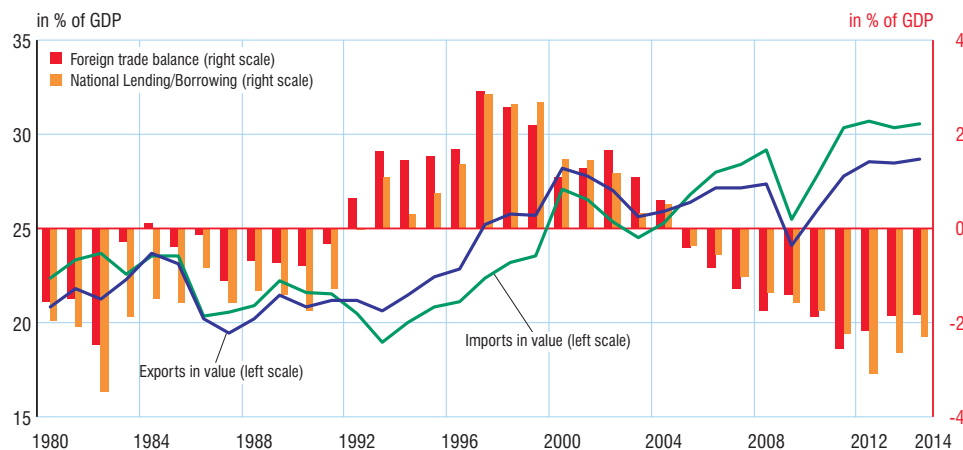
Similarly, imports of services grew strongly (+7.4% after +9.3%). In particular, imports of financial services rebounded and continued to grow vigorously in services to businesses.

Over the year 2014 as a whole, the contribution of trade to GDP was negative (-0.5 points after 0.0 points in 2013), with imports significantly more dynamic than exports.

France's net borrowing picked up

In value, however, exports of goods and services grew almost as rapidly in 2014 (+1.4%) as imports (+1.3%), due to the price of imports decreasing much more sharply than that of exports, driven in particular by the fall in the price of oil. The balance of trade was thus virtually stable and remained largely in deficit, at -€39.2 billion. The strong improvement in the energy balance (+9.4 billion) was offset by a deterioration in the balances for the other main product categories: manufactured goods (-€1.8 billion), agriculture (-€1.5 billion), market services (-€2.5 billion) and territorial adjustment (-€4.1 billion, purchases of French residents abroad were more dynamic than the purchases of non-residents in France). Furthermore, the property income balance improved (+€0.9 billion, after +€3.8 billion): income paid to the rest of the world fell back by €8.3 billion, whereas income received decreased by €7.3 billion. All in all, France's net borrowing was down by €6.2 billion and represents 2.3% of GDP, after 2.7% in 2013 (*figure 13*).

13. External balance



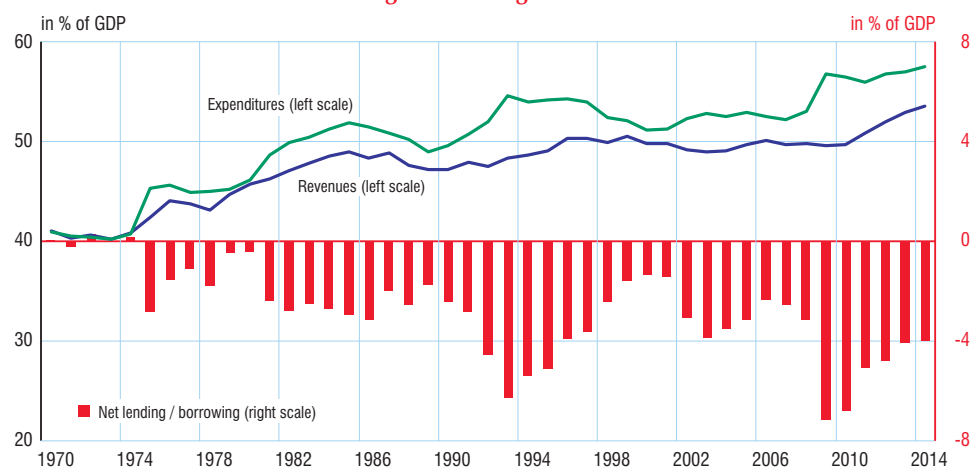
Field: France.
Source: Insee, national accounts, base 2010.

Public investment fell back and the deficit was slightly reduced

In 2014, the public deficit reached 4.0% of GDP

In 2014, the public deficit as defined in the Maastricht Treaty came to 4.0% of gross domestic product (GDP), after 4.1% in 2013 (*figure 14*). After deteriorating sharply in 2009 as a result of the great recession, the public deficit continues to narrow, due to revenue that was more dynamic than expenditure. With fewer new measures, public revenue slowed down as compared to 2013 (+1.9% in 2014 after +3.2% in 2013). It remained more dynamic than GDP, however (+0.8% in value). Public spending (+1.6% after +1.8%) continued to grow at a similar pace to that in 2013, driven by implementation of the Tax Credit for Competitiveness and Employment (CICE, +€10.2 billion of spending, or a contribution of 0.8 points to the variation in spending) (*Box 4*).

14. General Government net lending / borrowing



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

General government in the representation of the economy

Ronan Mahieu*

General government encompasses all the units that conduct economic action linked with political sovereignty. These units are responsible for providing the community as a whole (and specifically households) with goods and services. They carry out the redistribution of income and wealth by organising transfers. They finance these policies by levying taxes and mandatory contributions.

In the national accounts, general government performs these duties in the framework of a non-market production activity, which distinguishes them from public-sector firms, like EDF or the SNCF, that produce and sell market services to households or to companies. The economic activity of general government is recorded in the national accounts in the same manner as other economic agents, particularly companies and households, subject to relevant agreements.

Total expenditure agreed upon by general government to fulfil its duties amounted to €1,145 billion in 2014, which was 53.7% of GDP. This sum covers expenditure related to providing goods and services to the community, and other general government expenditure, particularly that of the redistribution process. It therefore includes all social benefits in cash, including those for old-age insurance, family policy, or for fighting unemployment, poverty, and social exclusion, as well as subsidy expenditure that benefits companies or households. Interest expenses are also included in this expenditure. Within this amount, expenditure for social benefits in cash alone represented 20.0% of GDP in 2014.

Total general government expenditure recorded in national accounting is still slightly greater than this amount, because the alignment of the representation of general government with that of households requires national accountants to allocate a number of transactions that do not correspond to any cash flow.

The best known case of such allocations is that of processing pension benefits paid by the State to former employees in the framework of the national civil and military pension scheme: the cash flows related to this scheme are limited to State pension

payments for retired civil servants. In the case of a "regular" pension scheme, the national accounts record three types of cash flow: the flow of employers' contributions from companies towards employees, the flow of employees' contributions towards pension schemes, and benefit payments from pension schemes towards pensioners. In order to make the processing of civil and military pension schemes consistent with the other pension schemes, the national accounts charge a contribution payment to the State as employer towards civil servants in active employment, and charge a payment of contributions from civil servants in active employment towards the State-manager of the pension scheme. In practice, therefore, a payment of €1,000 from the State to a retired civil servant results in a public expenditure in the national accounts of €2,000: €1,000 for employers' contributions, and €1,000 for social benefits in cash.

There are other cases of allocating expenditure in this manner in the national accounts. This is the case, for example, in the development of production for the general government's own final use, particularly in the capitalisation of R&D expenditure: a payment of €1,000 in wages to a researcher employed by a public unit results in public expenditure of €2,000: €1,000 in compensation and €1,000 in investment expenditure. The processing of refundable tax credits also brings about such charging procedures: all sums that proceed from tax credits represent a public expenditure, even though, in the vast majority of cases, the tax credit is applied in the form of a reduction of the tax owed by the taxpayers that benefit from said credit.

Ultimately, taking all of these charges into account, total public expenditure in the national accounts amounted to €1,226.40 billion in 2014, or 57.5% of GDP. These charges, though they are necessary for ensuring the overall consistency of the national accounts, reduce the relevancy of the total expenditure of general government as an indicator of general government's increased drain on the economy to finance their production and redistribution duties.

* Ronan Mahieu, Insee.

Box 4 (cont'd)

General government final consumption expenditure, as it appears in the breakdown of the GDP based on the expenditure approach, is a subset of the total expenditure agreed upon by general government. Its scope is more limited because it only represents expenditure related to providing general government goods and services to the community, and it does not, in particular, record the transactions of redistribution. **The final consumption expenditure of general government amounted to €515.9 billion in 2014, or 24.2% of GDP.** It includes the following:

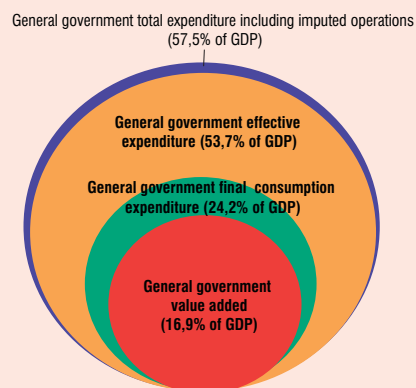
- the purchase of market goods and services produced by entities outside general government, to then provide them to households free of charge. Examples include medication or medical consultations reimbursed by public health insurance, or the portion of rent covered by housing benefits for low-income households.

- the necessary spending for financing general government's own production of non-market services. This includes different types of services that are involved in the production process: administration, national defence, education services in schools and universities, health services in public hospitals, etc. The expenditure required to finance this production is obtained by adding together intermediate consumption, the compensation of general government employees (including contributions payable by the employer), and the amortisation of capital (measured by the consumption of fixed capital, tracking the wear and tear and the obsolescence of productive capital) employed in production processes.

General government consumption expenditure was relatively dynamic in volume in 2014; it grew 1.5% after having already grown +1.7% in 2013, which is a much higher rate of growth than that of the GDP in volume the same years. The deceleration in prices resulted in a slowdown in general government consumption expenditure, much less in volume than in value (+1.6% after +2.1% in 2013).

Finally, as is the case for other categories of agents, and in particular for companies, national accountants measure the production of general government. In the national accounts, production is generally valued at its market price. This method of valuation, by definition, does not apply to entities that do not sell the services they produce. The production of general government is therefore calculated, according to an agreement, as the sum of the production costs for the services. In 2014, the total production of general government, evaluated in this manner, amounted to €470.3 billion (compensation represented 59%, intermediate consumption 23% and the consumption of fixed capital 16%). The value-added of general government was lower, however, since it is calculated by subtracting intermediate consumption from production. **The value-added of general government stood at €360.2 billion in 2014, or 16.9% of GDP:** it represents the contribution of general government to the GDP of the overall economy through the production of non-market services.

Breakdown of total general government expenditure in 2014



Source : Insee, national accounts, 2010 base..

Excluding tax credits, public spending slowed down significantly compared to 2013 (+0.9% after +1.9%). In particular, interest paid again decreased, affected by lower rates and a fall in inflation (+0.4% in 2014 against +0.7% in 2013, according to the consumer price index excluding tobacco) and general government investment declined significantly (-7.3%), particularly affected by the municipal electoral cycle.

The improvement of the general government balance by €1.6 billion was essentially attributable to local government (+€4.1 billion) and, to a lesser extent, to social security funds (+€0.6 billion). The balance of central government deteriorated, however, by €3.1 billion, as the increase in tax revenues only offset a part of the costs associated with the implementation of the CICE.

Tax and social contribution rates rose slightly in 2014

The rate of taxes and social contributions increased slightly in 2014 (+0.2 in comparison to 2013), to 44.9% of GDP. New tax and social measures contributed moderately to the rise: +0.1 points of GDP (*Box 5*). In the absence of new measures, taxes and social contributions grew spontaneously at a very similar pace to that of GDP in value (+0.8%).

The deficit of central government grew slightly

The net borrowing of central government, the State and other government bodies (ODAC), deteriorated by €3.1 billion to stand at -€71.8 billion in 2014. Exceptional transfers improved the balance of ODAC and symmetrically deteriorated that of the State: this is due to grants from the State to ODAC in the framework of the second phase of the Future Investments Programme, which represented €7.1 billion. The ODAC are thus in surplus again, after a 2013 marked by the assumption by the State of the debt of the Public Financing and Development Establishment (EPFR, in charge of taking over the bad debt of the Crédit Lyonnais bank), for €4.5 billion.

The second Future Investment programme:

In 2014 the government launched a second Future Investments programme, financed by €12 billion in budget funds. The first programme took place in 2010.

The management of these funds was entrusted to operators within central government. They were in charge of selecting the files that would benefit from subsidies.

In the national accounts, only funds related to “consumable” grants are recorded as transfers in capital, because they are final. They represent over €7 billion. The main ODAC endowed by the State are the Public Investment Bank, the Atomic Energy Commission, the National Office for Aerospace Studies and Research, the Environment and Energy Management Agency, the National Research Agency, and the National Urban Renewal Agency.

However, “non-consumable” endowments do not result in any record in the national accounts, because the operators cannot consume the funds deposited into a Public Treasury account, only the interest generated.

Central government revenue slowed down considerably (+0.9% in 2014 against +4.3% in 2013), while growth in spending (including the impact of the CICE) remained moderate (+1.4% in 2014 after +0.3% in 2013).

Intermediate consumption excluding FISIM decreased by €1.0 billion, affected by lower military expenditure, after several years of continuous increases (-3.4% in 2014 after +1.3% in 2013). Staff expenditure increased slightly (+0.6% in 2014). The slight increase in gross wages (+0.5%) was the result of contrasting developments: a decrease due to the workforce reduction in the Department of Defence, and an increase resulting from job creations in the primary and secondary school levels of education. Social contributions charged to the State as employer continued to slow down (+1.0% in 2014 after +2.4% in 2013), due to the pension reform that raised the age of retirement.

Subsidies on compensation increased sharply (+ €11.4 billion) due to the Tax Credit for Competitiveness and Employment (CICE) representing €10.2 billion, but also the increase in *emplois d'avenir*, "jobs of the future" (+ €0.7 billion) and *contrats uniques d'insertion* "single social integration contracts" (+ €0.4 billion).

Interest paid continued to decrease in 2014 (-2.3%), affected by the combination of a decrease in interest rates and in inflation, but much less considerably than in 2013 (-10.2%).

Social benefits paid by central government increased for the fourth consecutive year, with a growth of €1.9 billion (+2.0% after +2.4% in 2013). While the employment allowance continued to decrease, (-€0.3 billion), there was an increase in retirement pensions, expenditure for the earned income supplement, the adult disability allowance, as well as student scholarships (for a total of +€1.7 billion).

Expenditure for current international cooperation decreased sharply (-4.2% in 2014 after +5.2% in 2013): appropriations for the maintenance of peace and international cooperation decreased, as did refunds to Greece of income France received from Greek debt. The payment into the European Union's own resources decreased considerably (-€2.6 billion), mainly due to the revision in 2014 of the gross national revenue base in previous financial years, which was favourable for France.

In addition, the signing of a new debt reduction and development contract (C2D) with the Ivory Coast, for €0.9 billion, caused a rise in debt remission expenditure (+€0.7 billion).

Yet again this year, central government investment expenditure decreased (-5.9% in 2014 after -3.1% in 2013), mainly due to a fall in shipments of military equipment.

In terms of revenue, taxes and social contribution payments increased slightly (+0.6%).

Taxes on production and imports increased by €1.4 billion, taking into account the rise in VAT rates on 1st January (the intermediate rate went from 7% to 10% and the normal rate from 19.6% to 20%). All in all, the VAT revenue increased by €3.8 billion. The State kept 1 billion and 2.8 billion went to social security institutions, which benefited from a larger share of VAT than in 2013. Other taxes on products grew by €0.5 billion, the revenue from the contribution to the Public Electricity Service increased in particular by €1.0 billion. Income taxes, after strong growth in 2013 (+€11.3 billion), dropped by €1.8 billion in 2014. Personal income tax was particularly affected by several new measures that offset each other (see above). Corporation tax was marked by the removal of the annual flat-rate tax. Other current taxes increased (+€0.9 billion), due to tax recoveries on the solidarity tax on wealth, which were more dynamic due to an increase in the regularisation of taxes from taxpayers who have foreign bank accounts, and to a lesser extent to revenue from the systemic risk tax on banks. Capital taxes dropped €0.2 billion: the rise in revenues from transfer duties on property donations (+€0.7 billion), due in part to an increase in tax regularisation, only partially offset by the removal of the exceptional contribution of insurance companies on capitalization reserves (-€0.9 billion).

Property income grew by €0.8 billion (or +9.0%) due to €0.7 billion drawn from the savings funds managed by Caisse des Dépôts et Consignations.

Box 5

The main fiscal and social measures and their impact on variations in tax and social contributions in 2014

Claire Jolly, Thomas Meinzel, Carmina Montero de Espinosa*

In 2014, fiscal and social measures contributed to the growth in the total tax and social contributions of general government, to €3.1 billion, a significantly smaller rise than in previous years.

The new measures increased indirect taxation in exchange for a reduction in employment costs with the implementation of the Tax Credit for Competitiveness and Employment (CICE).

The rise in 2014 of intermediate and normal rates on the Value Added Tax (VAT) to 10% and 20% increased indirect taxation by €6.5 billion. Taxes and social contributions paid by companies decreased in exchange for a reduction in employment costs due to the implementation of the CICE (-€6.5 billion).

Indirect taxation was also marked by the new measures on energy transition (+€0.8 billion), particularly the increase in the contribution to the Public Electricity Service (+€1.1 billion) and the transition to the reduced VAT rate for work to improve the energy performance of dwellings (-€0.6 billion).

Households: the new income tax measures increased taxes and social contributions by €2.6 billion.

In 2014, several measures increased tax and social contributions paid by households. The following were among the main measures: the lowering of the family quotient ceiling to €1,500 (+€1.0 billion), the removal of income tax exemption for top-up pensions (+€1.2 billion), and the removal of tax exemption for a portion of employers' contributions to a top-up insurance policy (+€1.0 billion). In addition, certain older measures, such as the fiscalisation of overtime (+€1.0 billion) contributed to increasing taxes and social contributions. However, certain tax reduction measures reduced tax and social contributions weighing on households, in particular with the exceptional reduction in income tax (-€1.3 billion) for the lowest-income households, and the reform of capital gains on movable and immovable property (-€1.0 billion).

Measures related to taxes and social contributions in 2014

en milliards d'euros

Measures related to taxes and social contributions	3,1
Involving changes in the structure of taxation	0,0
Implementation of the Tax Credit for Competitiveness and Employment (CICE)	-6,5
Rise in value added tax (VAT) rates	6,5
Involving measures related to energy transition	0,8
Rise in rates for the contribution to the Public Electricity Service	1,1
VAT rate reduction for work to improve the energy performance of dwellings	-0,6
Others	0,3
Involving measures on income tax (excluding the fight against fraud)	2,6
Exceptional income tax reduction	-1,3
Others	3,9
Involving changes to corporation tax (excluding CICE)	-1,4
Others	1,1
Offshore Disclosure Unit (Service de traitement des déclarations rectificatives)	1,8
Others	-0,7

Field: France.

Source: Direction Générale du Trésor.

* Claire Jolly, Thomas Meinzel, Carmina Montero de Espinosa, direction générale du Trésor.

Box 5 (cont'd)

Companies: excluding CICE, the new measures on corporation tax decreased taxes and social contributions by - €1.4 billion.

In 2014, partial repercussions of previous measures on corporation tax decreased taxes and social contributions paid. These previous measures include limitations on the deductibility of financial charges (- €1.2 billion), the continued implementation of the rise in the assessed amount for fees and expenses on long-term capital gains (-€1.4 billion), as well as the continued effects of the 2009 recovery plan (€1.4 billion), in particular

regarding the research tax credit. However, the exceptional contribution to corporation tax had an opposite effect (+€2.0 billion), in particular with a rate increase of 10.7%.

Finally, in 2014, other measures contributed to increasing taxes and social contributions by €1.1 billion, particularly in the fight against fraud for €1.8 billion with the initiation of the Offshore Disclosure Unit (STDR - Service de traitement des déclarations rectificatives).

Local government investment fell back sharply

The net borrowing of local government dropped by €4.1 billion to €4.5 billion in 2014. Expenditure slowed down significantly (-0.3% after +3.4% in 2013), whereas revenues increased at the same pace as in 2013 (+1.4% after +1.3%).

In terms of expenditure, investment fell back sharply following the municipal elections (-9.6% after +5.2% in 2013). Intermediate consumption also slowed down significantly (+0.3% after +2.9% in 2013) in a low inflation environment. The interest burden continued to decrease due to the drop in rates (-0.3% after -1.9% in 2013). Social benefit and transfer expenditures remained dynamic (+4.2% after +4.4% in 2012). Finally, the reform of school schedules, the rise in subsidised contracts, the increase in employers' pension contributions, and the pay rise for certain categories of civil servants all contributed to the growth in compensation (+3.9% after +3.2% in 2013).

With regard to revenue, local government taxes and social contributions increased by €3.1 billion, due to a rise in taxes on products and production. These taxes were sustained by new sources of funding, in particular from the widely-used possibility given to departments of increasing the rates of transfer duties on property purchases for valuable consideration (which represented €0.7 billion of additional revenues), and by the transfer of revenues from domestic duty on consumption of energy products (TICPE) from the State to the Regions in the framework of reforms on vocational training apprenticeships.

On the flip-side of this rise in the taxes allocated, current transfers from the State to local government decreased. The drop of €1.4 billion in the general operating grant was only partially offset by a new transfer representing the management costs of the property tax of €0.8 billion.

Social accounts improved gradually

In 2014, the balance of social security funds stood at -€8.5 billion, against -€9.1 billion in 2013.

The slowdown in social security fund revenues continued in 2014 (+2.4% after +2.9% in 2013), despite an acceleration in the private payroll that forms the primary base of social contributions (+1.5% in 2014 after +1.2%, in the field measured by ACOSS). In fact, the new tax and social contribution measures did not sustain revenue as much in 2014 (+€5.6 billion - due to a rise in pension contribution rates, the retrocession to the Social Security of the amount corresponding to revenues received from the lowering of the family quotient ceiling and from the taxation of employer participation in group top-up insurance policies) as in 2013 (+€9.8

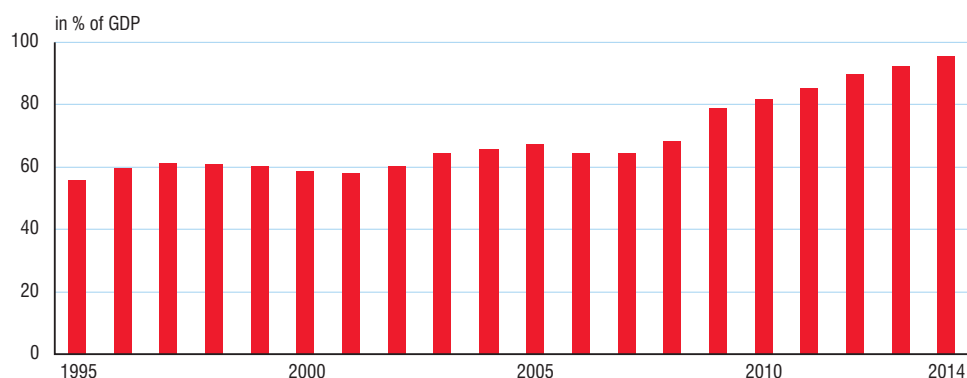
billion). In addition, social contributions on capital remained sluggish, affected in particular by the drop in rates of return on financial assets.

The growth in the expenditure of the social security administration stabilised in 2014 (+2.3% after +2.2% in 2013). While social benefits slowed down (+2.3% after +2.8%), financial costs remained stable after a considerable decline in 2013. The deceleration in benefits was particularly felt by the basic and top-up pensions, which were frozen in 2014. Weak inflation caused a moderate revaluation of family allowances (+0.6% on 1st April 2014). The growth of unemployment compensation expenditure was considerably weaker in 2014 (+1.9% against +5.7% in 2013), due in particular to less negative trend in employment. The growth in health insurance expenditure remained under control, achieving the national target ceiling for health insurance expenditure (ONDAM), €0.3 billion below the voted target ceiling.

Government debt increased by 3.3 points to 95.6%

Government debt as defined in the Maastricht Treaty reached €2,037.8 billion at the end of 2014, after €1,953.4 billion the year before. It reached 95.6% of GDP, after 92.3% at the end of 2013 (*figure 15*).

15. Government debt as defined by the Maastricht Treaty



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

State contribution to government debt as defined in the Maastricht Treaty stood at €1,610.2 billion, an increase of €74.3 billion, which is a variation very close to its net borrowing (€74.7 billion).

The contribution other government bodies (ODAC) to the debt was stable at €22.6 billion at the end of 2014, as in 2013. The French Motorway Fund, la *Caisse nationale des autoroutes* (CNA), reduced its debt load by €1.5 billion. Conversely, the debt linked to the contribution to the Public Electricity Service (CSPE), to the Bank Deposit Guarantee Fund and to SAGESSE (the French Organisation for Strategic Petroleum Stocks) caused a rise of +€1.0 billion. Finally, the AFITF (French Agency for Financing Transport Projects) went €0.4 billion into debt for a 10-year period to the *Ecomouv* company, following termination of the “Écotaxe” contract.

Local government’s contribution to the debt reached €188.2 billion at the end of 2014, a rise of €4.9 billion on 2013, which was near to their net borrowing (€4.5 billion).

Finally, the social security administrations' contribution to government debt increased by €5.1 billion to stand at €216.8 billion at the end of 2014. Net borrowing (€8.5 billion), considerably greater than the change in debts, was financed in part by the State's purchase of 3.1 billion ACOSS securities (a government agency going into debt with another government agency is not recorded in its contribution to debt as defined in the Maastricht Treaty).

At the end of 2014, the net debt of general government reached €1,849.9 billion (or 86.7% of GDP), up €81.7 billion on 2013. The recorded gross government debt grew at the same time by €84.4 billion. The movement of assets was relatively weak. The State Treasury decreased €2.0 billion and the Social security funds increased their holdings of short-term (by €2.8 billion) and long-term (by €1.8 billion) securities. The State granted €1.4 billion in loans, while the ODAC were reimbursed for an amount of €1.4 billion. ■

Box 6

Main revisions made to the National accounts in 2012 and 2013

*Étienne Debauche, Marie Leclair**

At the time of the 2014 provisional report, the final 2012 account and the half-finalised 2013 account contained revisions concerning the half-finalised 2012 account and provisional 2013 account published in 2014.

Main revisions on the 2012 account

The resources and uses balance

GDP increased by 0.2% in the final 2012 account, against +0.3% in the half-finalised account. GDP growth in value was also adjusted downwards (+1.3% against +1.5%).

Regarding demand, the contribution of domestic demand excluding inventory to GDP growth was adjusted slightly upwards to +0.3 points: gross fixed capital formation (GFCF) in volume made a slightly positive contribution to growth (+0.1 point), as in the half-finalised account. However, the GFCF of non-financial enterprises was adjusted slightly downwards (-0.2% against +0.1%), which is consistent with the tangible investment estimates according to ESANE (Annual Business Statistics Program) for these companies, whereas the GFCF of general government was adjusted upwards (+1.8% against +1.6%). Household GFCF declined considerably (-2.1%), nearly as much as in the provisional account (-2.2%).

Household consumption expenditure declined less sharply in volume than in the half-finalised account (-0.3% against -0.5%).

The contribution of foreign trade to growth in volume was adjusted downwards to +0.5 points (against +0.7 points

in the half-finalised account). Imports had indeed been revised upwards very considerably, at a higher level than exports, primarily due to the revision of the balance of payments at the time of the last publication.

Companies continued to rebuild their inventories in 2012, yet at a slower pace than in 2011: the contribution of change in inventories to growth in volume remained unchanged at 0.6 points.

The account of non-financial corporations

The development of value added of non-financial corporations was adjusted -0.3 points downwards (+1.3% instead of +1.6%) and growth in compensations paid by these corporations was adjusted +0.2 points, to +2.4%. The gross operating surplus (GOS) was therefore in sharp decline (-1.8%), although it decreased only slightly at the time of the half-finalised account (0.4%). In addition, the balance of property income deteriorated significantly. As a result, the decrease in non-financial corporations' gross savings was much stronger than in the half-finalised account (-8.9% against -3.5% before). Gross fixed capital formation (GFCF), only slightly revised (-0.4 points), was growing a little in 2012, at +1.2%.

The adjustment downwards of value added and upwards of compensation led to a sharper drop in non-financial corporations' margin rates, which lost 1.0 point (against 0.6 in the half-finalised account) to stand at 30.2% in 2012. The investment rate of non-financial corporations remained unchanged at 22.7%, whereas the self-financing ratio was revised sharply downwards (-4 points) in relation to the revision of savings, which stood at 72.3%.

* Étienne Debauche, Marie Leclair, Insee.

Box 6 (cont'd)

Households account

The growth of gross disposable income remained unchanged at +0.5%, as the revision of current transfers offset those of earned and property income. With the price of final consumption expenditure also remaining unchanged, purchasing power remained on a clearly downward trend at -0.9% in 2012. The increase in household final consumption expenditure in value was adjusted upwards (+0.2 points to +1.2%). The savings ratio was lowered (-0.1 points to 15.1%).

Main revisions on the 2013 account

The resources and uses balance

The GDP grew 0.7% in volume in the half-finalised 2013 account, against +0.3% in the provisional account. Growth of the GDP in value was also adjusted upwards to +1.4% against +1.1%. The deflator of GDP was adjusted slightly downwards, following an adjustment of the volume-price split of the variation in agricultural inventories and imports.

Regarding demand, the contribution of domestic demand excluding inventory to GDP growth was adjusted slightly upwards at +0.5 points instead of +0.4 points previously: gross fixed capital formation (GFCP) was adjusted upwards, due to the revision of the GFCP of non-financial enterprises (+0.5% against -0.9%) and the revision of household GFCP (-1.5% against -3.1%). The GFCP of general government, and especially that of financial enterprises were adjusted downwards, after taking into account the latest data available from the Directorate-General for Public Finances. Household consumption bounced back a little more vigorously than in the provisional account (+0.4% against +0.2%), due in particular to the revision of social action consumption. Consumption expenditure of general government and of NPISH (Non-profit institutions serving households) were, however, adjusted downwards to +1.7% and +0.3% respectively.

Foreign trade did not influence growth in volume in the half-finalised 2013 account (against +0.1 points in the provisional account). Exports proved to be less dynamic than estimated in the provisional account (+1.7% against +2.2%), due to the revision of the balance of payments at the time of the last publication.

Companies increased inventory in 2013, whereas a destocking of inventory had been anticipated at the time of the provisional account, before structural business statistics had been taken into account. As a result, the contribution of inventory to GDP growth in volume was revised upwards significantly, to +0.2 points against a previous -0.2 points.

The account of non-financial corporations

In 2013, growth in non-financial corporations value added stood at +0.9% instead of +0.3% in the provisional account. Employee compensation was also adjusted upwards, but to a lesser extent (+1.3% instead of +1.2%). The downturn in the GOS was much less significant (-1.1%, against -2.6% previously). As a result, the margin rate decreased a little (-0.5 points against -0.9 points in the provisional account), which offset the revision made to the 2012 account. The margin rate of non-financial corporations therefore stood at 29.7% in 2013, like before. Furthermore, the balance of property income was only marginally adjusted, so that gross savings, related to the revision of value added, were adjusted significantly upwards (+€8.0 billion). In the half-finalised account, non-financial corporation gross savings increased +3.1% (-1.4% previously). The gross fixed capital formation was then on an upward trend (+1.2%), whereas it had fallen back slightly in the provisional account (-0.4%).

The investment rate rose slightly (+0.1 points), where it had previously been down (-0.2 points). Finally, the self-financing ratio improved in 2013 (+1.4 points), although it had decreased slightly in the provisional account.

Box 6 (cont'd)

Households account

The gross disposable income of households grew by +0.7% in value in 2013 against +0.6% in the provisional account. Earned income, primarily the mixed income of sole proprietors, was adjusted upwards, as was property income. These revisions were primarily offset by a downward revision of current transfers to the rest of the world. With the price index of household final consumption expenditure also adjusted upwards,

purchasing power of gross disposable income decreased very slightly in 2013, by -0.1%, where it had been stable in the provisional account. Household consumption expenditure in value was more dynamic than in the provisional account (+1.2% against +0.8%) and the household savings ratio decreased by 0.4 points to 14.7%. The financial savings ratio was also adjusted downwards by -0.5 points, to 5.3%.

Table of main revisions

Table A : GDP in volume, gross data (evolutions)

	in %			
	Old series		New series	
	2012	2013	2012	2013
Gross national product	0.3	0.3	0.2	0.7
Imports	-1.3	1.7	0.7	1.7
Household consumption expenditure	-0.5	0.2	-0.3	0.4
General government consumption expenditure	1.7	2.0	1.6	1.7
Total gross fixed capital formation (GFCF)	0.3	-1.0	0.2	-0.6
<i>of which : households</i>	-2.2	-3.1	-2.1	-1.5
<i>non financial enterprises (NFE)</i>	0.1	-0.9	-0.2	0.5
<i>general government</i>	1.6	1.0	1.8	0.1
Exports	1.1	2.2	2.5	1.7
Inventories (contribution to GDP)	-0.6	-0.2	-0.6	0.2

Table B : GDP in value, gross data (evolutions)

	in %			
	Old series		New series	
	2012	2013	2012	2013
Gross national product	1.5	1.1	1.3	1.4
Imports	0.5	0.1	2.4	0.4
Household consumption expenditure	1.0	0.8	1.2	1.2
General government consumption expenditure	2.4	2.4	2.4	2.1
Total gross fixed capital formation (GFCF)	1.8	-0.6	1.6	-0.2
<i>of which : households</i>	-0.7	-2.9	-0.7	-1.4
<i>non financial enterprises (NFE)</i>	1.5	-0.4	1.1	1.1
<i>general government</i>	3.5	1.4	3.6	0.4
Exports	2.6	1.8	4.0	1.3
Inventories (contribution to GDP)	-0.6	-0.3	-0.6	0.0

Box 6 (cont'd)

Table of main revisions

Table C : prices of GDP, gross data (evolutions)

	in %			
	Old series		New series	
	2012	2013	2012	2013
Gross national product	1.2	0.8	1.2	0.8
Imports	1.8	-1.6	1.7	-1.3
Household consumption expenditure	1.4	0.6	1.4	0.8
General government consumption expenditure	0.7	0.5	0.7	0.4
Total gross fixed capital formation (GFCF)	1.5	0.4	1.4	0.4
<i>of which : households</i>	1,6	0.2	1.4	0.1
<i>non financial enterprises (NFE)</i>	1.4	0.5	1.3	0.5
<i>general government</i>	1.8	0.4	1.7	0.3
Exports	1.5	-0.4	1.4	-0.3
Inventories (contribution to GDP)	0.1	-0.1	0.0	-0.2

Table D : items of non financial enterprises account (evolutions and rate)

	in %			
	Old series		New series	
	2012	2013	2012	2013
Value added (VA)	1.6	0.3	1.3	0.9
Compensation of employees	2.2	1.2	2.4	1.3
Gross operating surplus (GOS)	-0.4	-2.6	-1.8	-1.1
Gross saving	-3.5	-1.4	-8.9	3.1
GFCF	1.6	-0.4	1.2	1.2
Margin rate (GOS/VA)	30.6	29.7	30.2	29.7
Investment rate (GFCF/VA)	22.7	22.5	22.7	22.8
Self-financing ratio (saving/GFCF)	76.3	75.5	72.3	73.7

Table E : items of households account (evolutions and rate)

	in %			
	Old series		New series	
	2012	2013	2012	2013
Gross disposable income (GDI)	0.5	0.6	0.5	0.7
Consumption expenditure	1.0	0.8	1.2	1.2
Purchasing power of GDI	-0.9	0.0	-0.9	-0.1
Savings ratio (savings/GDI)	15.2	15.1	15.1	14.7
Financial savings ratio (lending/GDI)	5.6	5.8	5.6	5.3

Field: France.

Note: old series come from annual national accounts published on 15 may 2014 ; new series come from annual national accounts published on 13 may 2015.

Source: Insee, national accounts, base 2010.