

The French economy comes out of recession

Denis Boisnault, Pierre Leblanc, Geoffrey Lefebvre*

In 2010 the French economy returned to growth, after a historic decline in activity in 2008-2009: GDP increased by 1.5%, after annual averages of - 2.7% in 2009 and - 0.1% in 2008. The economy actually began to grow again as early as mid-2009. The upturn has, however, been moderate: in Q4 2010, the level of activity was lower than prior to the recession.

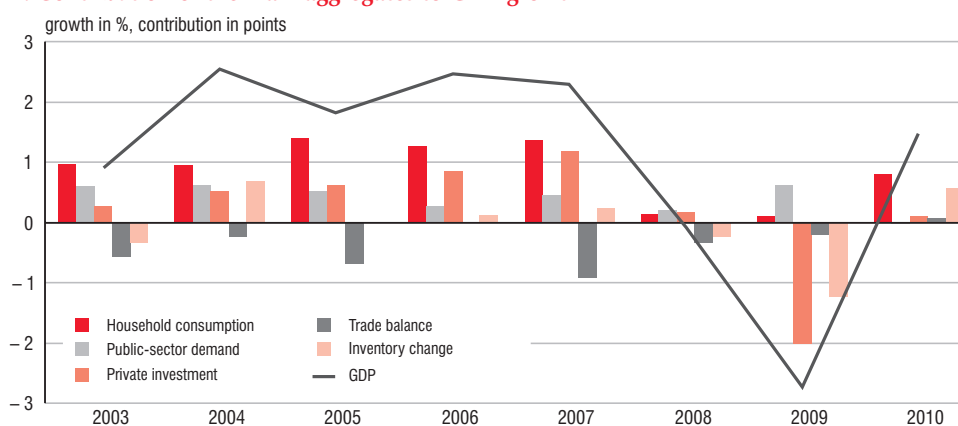
Furthermore, the post-crisis phase has shown disparities across business sectors. Activity rebounded sharply in industry and, to a lesser extent, in market services. However, the construction sector was still in recession in 2010.

On the demand side, the upturn was primarily due to the strong rebound in exports in the wake of world trade, after the collapse of trade in 2009. In particular, demand from Germany, our premier trading partner, was very dynamic in 2010. Additionally, household consumption picked up, although its growth rate remained below that prior to the crisis as purchasing power was sluggish and the unemployment rate was high. Conversely, household investment declined again as an average over 2010, despite the first signs of recovery during the year.

Government investment dropped and public-sector consumption also slowed, to the extent that general government demand slowed sharply in 2010, after accelerating in 2009 under the effect of the stimulus plan. Government deficit as a ratio to GDP stood at 7.1% in 2010, slightly down on 2009 (7.5%).

Growth in corporate demand is the factor that explains the amplitude of the economic cycle in 2009-2010 (*figure 1*). After contracting sharply in 2009, corporate investment rose slightly as an average over 2010, under the effect of the pick-up in expenditure on capital goods and on services further to improving business prospects. The stocking-up behaviour of companies also buoyed growth in 2010, without however cancelling out the sudden trend towards inventory runoff observed in 2009.

1. Contribution of the main aggregates to GDP growth



Source: INSEE, national accounts - 2005 base.

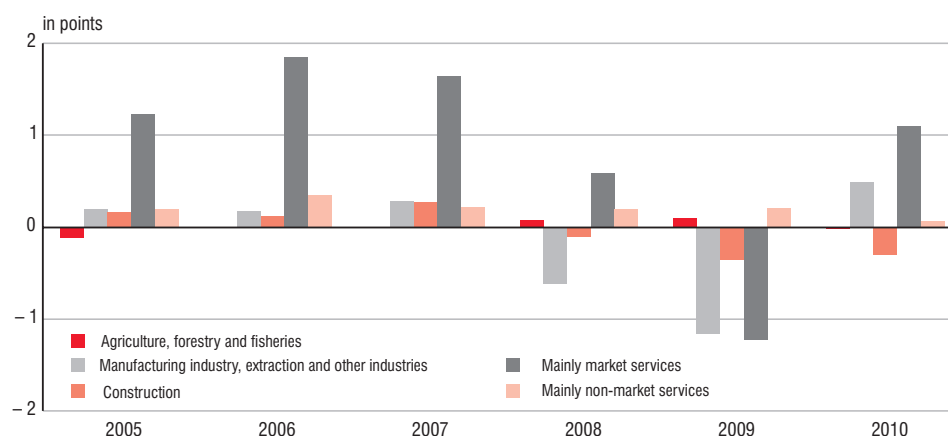
* Pierre Leblanc is part of the Economic Outlook Department of INSEE, and Denis Boisnault and Geoffrey Lefebvre the National Accounts Department.

Buoyed up by the clear upturn in demand, both domestic and foreign, imports rebounded sharply in 2010.

1. Sector-by-sector disparities in the upturn

The year 2010 came after the deepest recession France has been through since the Second World War. It was a year of recovery, at a moderate pace and with disparities between the various business sectors. While activity picked up in most sectors, construction remained in recession. But in industry activity rebounded significantly, after a major recession in 2008 and in 2009. Market services, which were relatively less hard-hit during the crisis, were dynamic in the post-recession phase (*figure 2*).

2. Contribution of the main sectors to total value-added

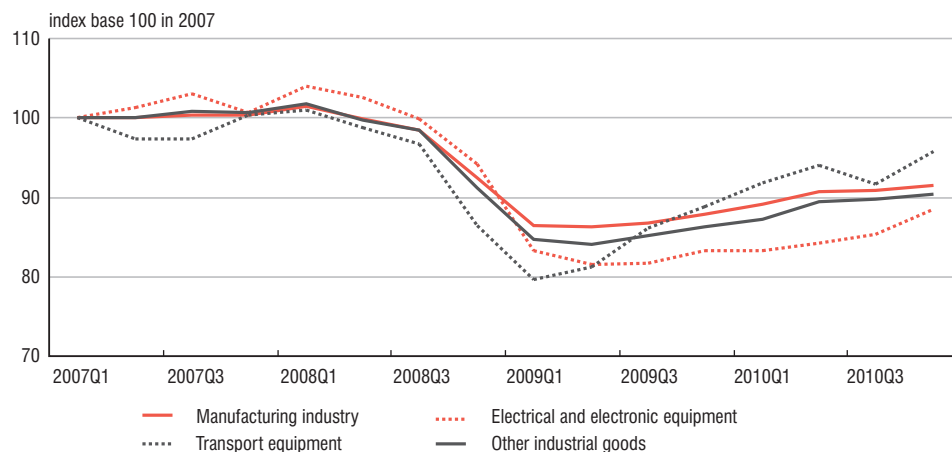


1a. The manufacturing industry rebounded sharply in 2010

As is often the case in a marked short-term cycle, the manufacturing industry experienced very sharp swings in activity throughout the crisis and afterwards. After a huge drop in 2008-2009, industrial output rebounded sharply in 2010 (+ 4.5% after - 11.6% in 2009 and - 1.8% in 2008). Production actually experienced an upturn as early as spring 2009. It benefited from the rebound in world trade starting in mid-2009, an acceleration in consumption, and a gradual upswing in productive investment by companies. Lastly, the sudden trend towards inventory rundown in 2009 was counterbalanced somewhat in 2010. Despite this, the level of activity reached in the manufacturing industry at the end of the year was significantly lower than before the crisis (*figure 3*).

Within the manufacturing industry, the transport equipment subsector showed very marked cyclical trends (+ 11.1% after - 12.4% in 2009). The automobile industry was one of the hardest-hit by the crisis: production fell by - 20.7% in 2009, mainly because carmakers drastically reduced their stocks. Sustained by the boom in automobile consumption in France in 2009-2010 thanks to the scrappage allowance, and by the pick-up in exports, output rebounded by + 12.8% in 2010.

3. At end 2010, industrial output remained below pre-crisis levels



Source: INSEE, national accounts - 2005 base.

Activity in the other main manufacturing sectors also picked up, although to a lesser extent (Sectors note). Coking and refining was the exception, as the industrial action in the refineries at the end of the year took its toll on production.

1b. Robust growth in 2010 in the service sector

In accounting terms the prime contributor to GDP growth in 2010 was the market services sector as a whole, owing to its very significant weight in the economy. Activity rebounded less sharply than in the manufacturing industry, but the 2009 drop was also less pronounced (+ 1.8% after - 2.8%). The upturn was particularly visible in the services to businesses sector (+ 2.5% after - 3.7%) and that of information-communication (+ 2.5% after - 1.9%). These branches are indeed closely linked to the overall dynamic of the economy, via demand from industry, for example. They also benefited from the upturn in corporate investment in services (see below). Conversely, activity in the financial sectors declined in volume, in particular under the effect of banking production which suffered a downturn (volume of credit and commissions) and dwindling demand for life insurance policies. Additionally, output in the non-market sector slowed, most notably due to the end of certain stimulus measures.

1c. The construction sector still in recession

Unlike the other two main sectors, construction remained in recession in 2010: output dropped by 5.5%, after - 6.1% and - 0.9% in 2009 and 2008. Household investment in construction declined once again as an average, but less markedly than in the previous year. However, general government investment contracted sharply, whereas the measures in the stimulus plan had sustained it in 2009. All in all, the cumulative drop in activity recorded by the sector since 2008 was the biggest since the end of the Second World War.

2. Corporate demand rebounded in 2010, although the inventory rundown trend observed in 2009 was not fully offset

With the gradual upturn in business prospects and the slow improvement in financing terms, corporate demand picked up in 2010. The rebound in investment seems to have been limited as an annual average, but was more significant from spring onwards.

2a. The progress in investment by non-financial enterprises in 2010 masked big differences in dynamics between products

Sustained by the rebound in investment in capital goods and services, corporate investment recovered (+ 2.4% after a very marked drop of 12.2% in 2009). Corporate investment generally reacts strongly to fluctuations in activity. It is what is known as the «accelerator» phenomenon: in a period of recession, investment drops more sharply than activity, and the reverse happens during an upturn. This trend was amplified further by the financial crisis, which restricted companies' access to credit at the height of their difficulties. Credit award terms for companies improved in 2010, as did their global financial situation (*see below*). Additionally, the production capacity utilisation rate picked up a little in 2010, although it remained well below its long-term average.

After falling heavily in 2009 (- 22.2%), corporate investment in manufactured goods rebounded sharply in 2010 (+ 9.0%). However, its level was still below that prior to the crisis. This gradual recovery of productive investment was accompanied by an increase in expenditure on services to businesses, which grew by 5.1% after a drop of 4.1% in 2009.

Conversely, corporate investment in construction (- 6.8% after - 5.6% in 2009) continued to take its toll on total investment. This year, the «civil engineering» component rebounded but investment in building continued its slide.

All in all, the rebound in investment by non-financial enterprises was limited as an average over the year as their investment rate only increased slightly, by 0.2 point in 2010, reaching 18.7%, which is 1.5 point below the peak reached in 2008.

2b. The financial situation of companies improved slightly in 2010 but was not as positive as before the crisis

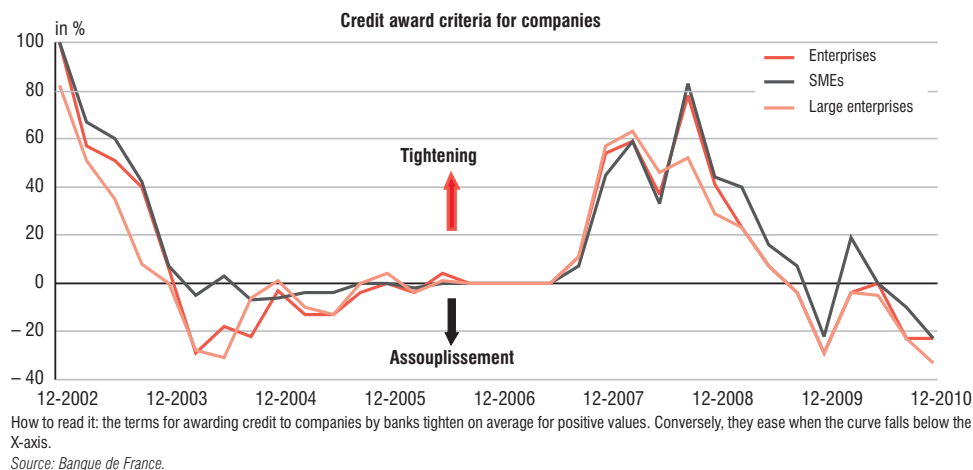
In 2010 companies saw an improvement in their financing conditions. The credit award terms practiced by banks eased somewhat, putting an end to the tightening process underway since early 2008 (*figure 4*). Furthermore, the interest rates on loans to enterprises relaxed in 2010, in particular in real terms.

Additionally, the financial situation of enterprises improved. The value-added of non-financial enterprises (NFE) progressed by 2.1% in 2010 after falling by 4.2% in 2009. Salaries progressed at the same rate, boosted by the early recovery of employment and the solidity of the average wage per head in the market sectors (*see below*). However, gross operating surplus (GOS) grew strongly (+ 5.3% after - 11.0% in 2009). The reform of the business tax resulted in an 8-billion-euro cut in taxes on production.

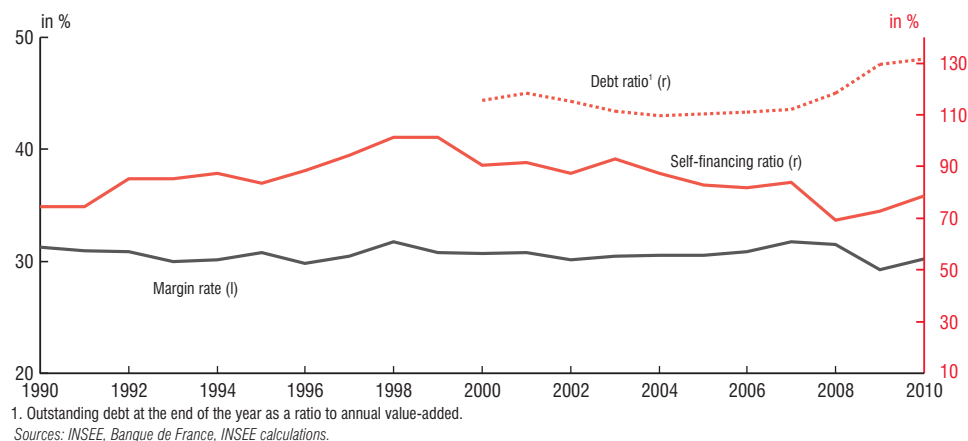
The margin rate of NFEs therefore picked up, rising from an average of 29.2% in 2009 to 30.2% in 2010, thereby returning to the lower part of the bracket it has occupied for 25 years, between 30% and 32%.

As well as the dynamism of their gross operating surplus, NFEs saw a pick-up in the balance of their investment income, thanks to a very substantial rebound in reinvested profits by those of them that have subsidiaries abroad. Corporation tax rose sharply, offsetting the progress made in savings, but these savings were nonetheless strong: + 11.3% after - 7.8%. The indebtedness of non-financial enterprises did however remain at a high level (*figure 5*).

4. In 2010, easing of company credit award terms



5. Margin rate, self-financing ratio and debt ratio of non-financial enterprises



2c. The after-effect of the inventory runoff observed in 2008-2009 was limited

The recession of 2008-2009 brought with it a strong trend towards inventory runoff, in particular at the turn of 2008. Inventory change accounted for 1.2 point of the drop in GDP in 2009. In 2010, the inventory runoff by businesses was interrupted. Due to this, inventory change contributed positively to growth, to the tune of + 0.6 point, without however fully counterbalancing the trend observed during the crisis. In the INSEE business tendency surveys, business leaders continued to state that their inventory levels were lower than average.

2d. Activity of financial enterprises slowed in 2010

The value-added of financial enterprises slowed in 2010 (+ 5.7%) after the rebound observed in 2009 (+ 19.1% after - 8.2% in 2008). This slowdown can be attributed to the banks, as insurance companies saw renewed growth after two years of decline.

Growth in the value-added of banks¹ slowed in 2010 (+ 6.4%) after the sharp upturn in the sector in 2009 (+ 31.5% after - 8.4% in 2008). These trends are qualitatively consistent with those indicated by the major banking groups over the period. However, measures of banking activity by the national accounts and by private accounting do not cover the same items. In particular, the value-added of these companies does not include the gains or losses in value of their financial assets, or property income flows. Banking production as defined by the national accounts includes only the commissions received for interbank money-market services, services invoiced to customers, and FISIM (financial intermediation services indirectly measured, corresponding to the profit margins on deposits and loans).

In 2010, two effects contributed to the slowdown in the production of banking services (+ 1.5% after + 12.3% in 2009). On the one hand, the decline in the production of services invoiced by banks gathered pace: - 3.1% after - 1.6% in 2009. On the other hand, the production of FISIM decelerated in 2010 (+ 9.8% after + 49.1% in 2009). After strong growth in intermediation margins in 2009, explained by the sharp drop in rates on the money markets, these margins grew at a less sustained pace in 2010 due to a smaller cut in rates.

The value-added of insurance companies picked up in 2010 (+ 5.8% after - 3.6% in 2009 and - 7.7% in 2008). This rise in value was the result of opposing trends in life insurance and damage insurance. Damage insurance rebounded in 2010, growing by + 9.5% after - 10.5% in 2009, due to a sharp rise in policy prices and a drop in payouts to policy holders, except for the exceptional compensation paid out following Hurricane Xynthia. Conversely, life insurance declined a little (- 0.4%) after strong growth in 2009 (+ 29.9%), due to a postponement effect in a context of falling savings book rates.

3. Early stabilisation of the labour market

After slipping back from mid-2008 until the end of 2009, employment² rose once again in early 2010. It stabilised as an annual average. This stabilisation seemed to come relatively early as companies had not yet recovered the losses in productivity accumulated during the crisis.

3a. After a widespread decline in 2009, employment entered the recovery phase

From the start of 2010, total employment of natural persons (paid and self-employed) started to rise once again. It increased from 26.6 million people in Q4 2009 to 26.8 million in Q4 2010 (+ 193,000). As an annual average, total employment progressed very slightly (+ 44,000), after falling in 2009 (- 313,000).

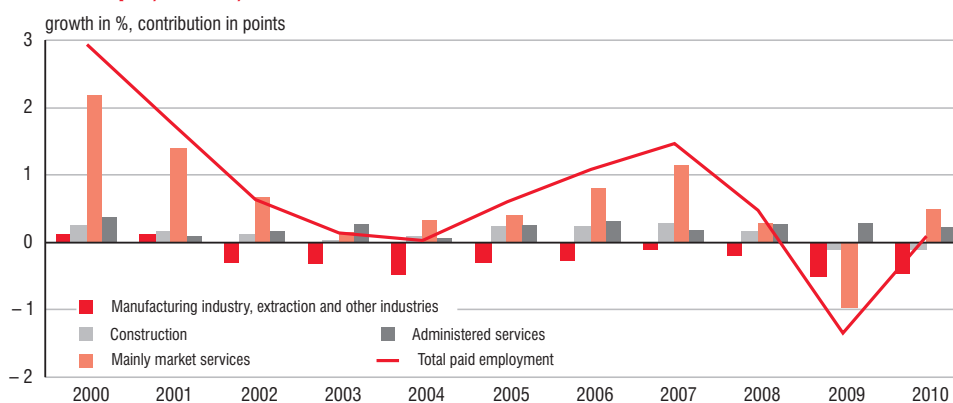
In particular, paid employment in the non-agricultural market sectors, representing around two-thirds of total employment and explaining most of its volatility, progressed by 129,000 people between the end of 2009 and the end of 2010.

1. Accredited credit institutions and investment companies.

2. Employment calculated within the definition of the national accounts differs from employment as usually published by INSEE, principally in terms of the period covered: it is calculated as a quarterly (or annual) average, while published employment is employment at the end of the period (end of quarter or year).

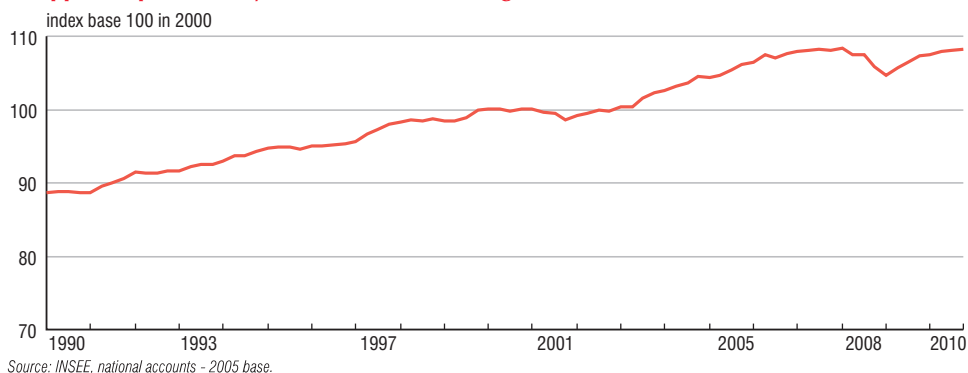
In the same way that it was largely responsible for dragging employment downwards during the crisis, temporary employment explains a large part of the stabilisation, then the upturn in market sector employment in 2010. From 675,000 in early 2008, temporary employment fell to 439,800 at the start of 2009; it rebounded quite early - in Q2 2009 - reaching 495,300 at end 2009 and 592,500 at end 2010. The rate of temporary employment, which had dropped during the crisis, returned to a level close to that observed before the crisis (nearly 4% of non-agricultural market-sector paid employment). Market sector employment excluding temporary work reacted less violently to the drop in activity, but also took longer to stabilise. However, from Q2 2010, net job creations no longer solely came from temporary work but also from the dynamism of all market-sector services excluding temporary work, while industrial employment continued to decline (*figure 6*).

6. Paid employment by sector



The upturn in employment seems to have come early. Indeed, employment generally reacts with a time lag to fluctuations in activity. During downturns, it takes time to adjust and, symmetrically, takes longer to pick up during upturns. This time, the recovery of the labour market appears to have been relatively rapid, given that companies had yet to return to their pre-crisis productivity trends (*figure 7*). For the time being, apparent productivity of labour seems to have been far from its long-term average (see «How to explain employment trends since the start of the crisis», report in *Conjoncture in France*, December 2010, INSEE).

7. Apparent productivity of labour in the non-agricultural market sector



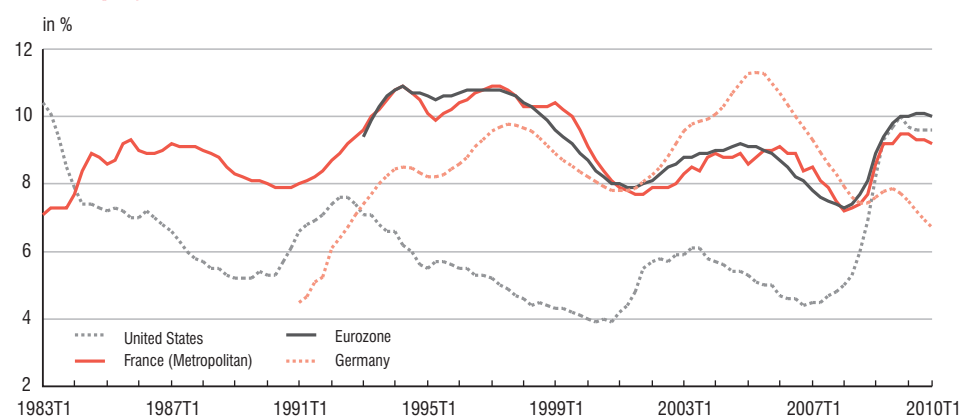
3b. The unemployment rate fell back slightly

After increasing significantly between mid-2008 and end 2009 (from 2.2 point to 9.5% in Metropolitan France and 9.9% in France including overseas departments), the unemployment rate as defined by the ILO has since fallen back slightly. At the end of 2010, it stood at 9.2% in Metropolitan France and 9.6% in France including overseas departments.

The decrease in unemployment in 2010 was slightly more significant among young people (under 25's). They were particularly hard-hit by the crisis: their unemployment rate rose from 18.5% to 24.9% between early 2008 and late 2009. Since the start of 2010, it dropped by 1.7 point and settled at 23.2% at the end of the year. This high level should however be set against the activity behaviour of young people, many of whom are still studying and are thus counted as not working. Compared to the total number of people aged 15 to 24, the unemployment rate in this age group was 7.9%³ in Q4 2010, which is a level similar to that of the unemployed in the 25-49 age bracket (7.6%).

Similarly, in most advanced countries a stabilisation or slight drop in the unemployment rate has been observed since end 2009-start 2010 (*figure 8*). Germany, however, stands out: the unemployment rate in this country has fallen sharply since the post-recession phase, and even during the crisis the rise in unemployment was relatively limited.

8. Unemployment rate in a few countries



Sources: INSEE, Eurostat.

3c. The average wage per head picked up

The average wage per head (SMPT) in the non-agricultural market sector gathered pace somewhat in 2010, progressing by 2.1%, after + 1.2% in 2009. Wages were buoyed up by several factors. First, the rise in inflation caused nominal wages to increase (*see below*). Next, working time per employee⁴ experienced an upturn after the drop observed in 2009, which had been the result among other things of the fall in overtime per employee and the increase in the proportion of part-time workers. Moreover, the short-time working measure was eased during the recession and the number of people in a short-time work situation, which had

3. Sur le champ de la France métropolitaine.

4. The rise in the number of paid hours worked by one employee brings about a rise in the SMPT, in the accounts.

grown strongly until Q2 2009, then diminished, thereby also stimulating the growth in number of hours worked. Lastly, after a large drop in bonuses in early 2009, a return to more usual rises was observed in 2010.

However, in general government the average wage per head slowed in 2010 (+ 1.5% in 2010 after 2.4% in 2009). Over the economy as a whole (market and non-market sectors), the SMPT progressed by 1.9%, after + 1.3% in 2009. But the purchasing power of employees slowed in a context where the rise in inflation became more pronounced (see *below*).

4. Purchasing power slowed with the rebound in prices in 2010, while consumption accelerated

Despite the stabilisation of employment and the acceleration in nominal wages, purchasing power slowed in 2010 owing to the rise in inflation. Conversely, consumption grew at a faster rate.

4a. In value, household income accelerated in 2010

In 2010, the gross disposable income of households accelerated, thanks to the solidity of paid income and the stabilisation of investment income after its fall in 2009. However, the rebound in direct taxes and the slowdown in social benefits attenuated this acceleration.

The wages received by households progressed by 2.0% (after + 0.2%) with the stabilisation of employment and the slight pick-up of the average wage per head. Similarly, the mixed income of sole proprietors grew by 1.6% after falling by 5.7% in 2009.

Conversely, social benefits slowed (+ 3.4% after + 5.5% in 2009). Benefits increased sharply in 2009 (+ 5.5%), via the «automatic stabiliser» effects and the support measures of the stimulus plan (in particular the active solidarity payment in Q2 2009). The non-renewal of these measures along with a sharp slowdown in unemployment benefits explain a large part of the slowdown in benefits.

In 2009, income tax dropped with the suppression of the last two-thirds for low-income households as part of the stimulus plan. The after-effect of this was a sharp rise in 2010. Furthermore, the recovery of earned income generated surplus social contributions (CSG) and social debt repayment contributions (CRDS).

Lastly, investment income contributed positively to the acceleration in household income, as it stabilised after dropping in 2009 (for further details, see «Household income and savings» note). All in all, gross disposable income progressed by 2.0% in 2010, after + 0.6% in 2009 and + 3.3% in 2008.

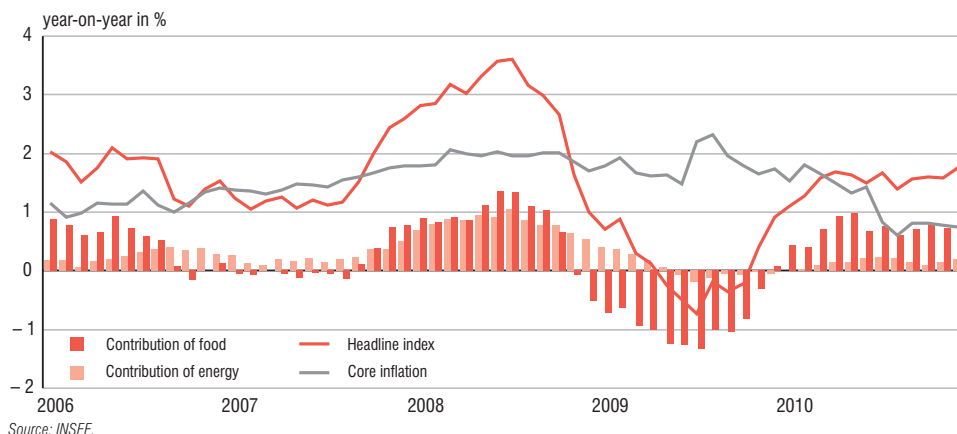
4b. But prices were on the rise once more...

This acceleration in gross disposable income was, however, offset by the rise in prices. As an annual average, the consumer price index increased by 1.5% in 2010, after almost stagnating in 2009 (+0.1%). As in 2008 and 2009, the growth as an annual average of all prices masked contrasting trends throughout the year depending on products.

Headline inflation gradually rose from 0.9% in December 2009 to 1.5% in June 2010. It was then relatively stable before rising slightly at the end of the year, to + 1.8%. This rise in headline inflation since the end of 2009⁵ can mainly be explained by the profile of energy inflation, and to a lesser extent that of food inflation (*figure 9*).

5. It even began on mid-2009: year-on-year price index reached then a low point at -0.7%.

9. Rise in inflation in 2010



In the wake of the rise in oil prices, year-on-year prices of energy goods climbed from 1.1% in December 2009 to 9.4% in June 2010, before settling at a high level thereafter. In December 2010, energy inflation stood at 12.5% and accounted for 0.9 point of headline inflation.

Additionally, the rise in the prices of food commodities pushed food inflation up, from -0.3% in December 2009 to +1.4% in July 2010. This increase was almost exclusively caused by the rise in prices of seasonal products. At the end of 2010 the rise in food commodities had not yet spread to consumer prices of non-seasonal products.

Lastly, the price of manufactured products (non-energy industrial goods in the previous classification) was relatively stable. The rise in prices of imported commodities did not have time to spread to most of these products. In services, inflation came down slightly (+1.9% in December 2009, +1.4% in December 2010).

4c. ...penalising purchasing power

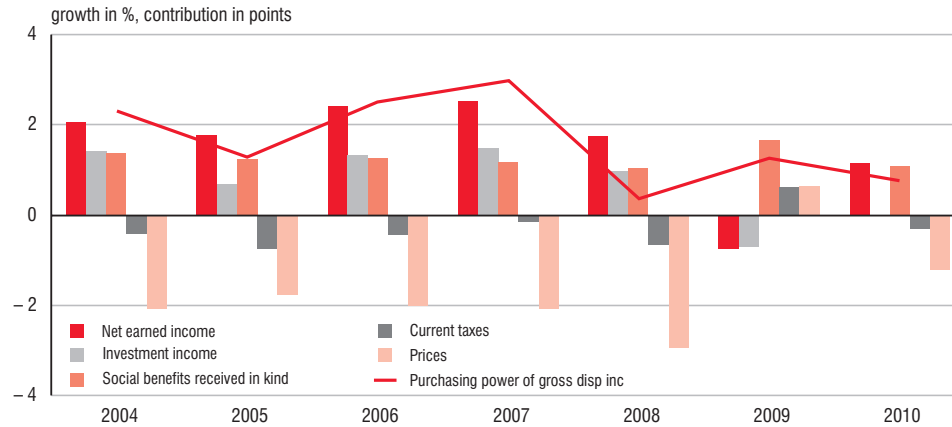
All in all, the price of final household consumption expenditure⁶ rose by 1.2% in 2010 after decreasing by 0.6% in 2009. Despite the pick-up in disposable income, purchasing power therefore slowed somewhat in 2010, to +0.8%, after +1.3% in 2009. Per consumption unit, that is, on an average individual level, purchasing power stagnated in 2010 (+0.1%) (figure 10) after progress of +0.6% and -0.3% in 2009 and 2008.

4d. Household consumption gathered pace in 2010 while household investment tended to stabilise

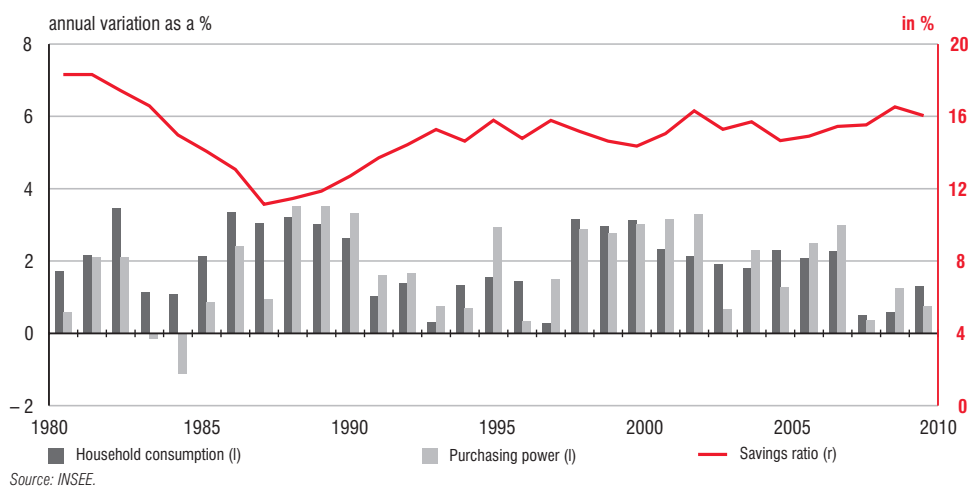
During the crisis, household consumption virtually stagnated (+0.3% in 2008 then +0.1% in 2009) but did not fall, unlike in most major European countries. It thus played the role of stabiliser in the French economy. In 2010, it rose quite sharply (+1.3%). However, this progress was below the average pre-crisis rate: from 1998 to 2007, consumption progressed at an average annual rate of 2.5%. So purchasing power was sluggish in 2010 and the rise in unemployment during the crisis brought with it the formation of precautionary savings. Despite a half-point drop in 2010, the savings ratio remained at a high level, 16.0% (figure 11).

6. The consumption deflator differs from the consumer price index, in particular because it includes financial intermediation services indirectly measured. This barely affects the calculation of purchasing power, because these services are counted both in the income and in the final consumption expenditure of households.

10. Contributions to the growth in the purchasing power of disposable income



11. Acceleration in household consumption and a slight drop in the household savings ratio



Around half of the rise in consumption was generated by the progress in purchases of manufactured products (non-energy industrial goods⁷ in the old classification). Consumption of computers and electronic goods increased sharply again (+ 12.2% after + 11.6%). Automobile purchases, benefiting from the scrappage scheme, buoyed up household consumption in 2009. In 2010, with the gradual phasing-out of the scheme, automobile purchases fell slightly but nonetheless remained at a high level. Household expenditure on mainly market services progressed once more (+ 0.8% after + 0.1%). It was sustained in particular by accommodation and catering services, which picked up after falling sharply for two years, and by information-communication services. Last, consumption of energy goods accelerated sharply. The temperatures well below the seasonal norms at the start and end of the year sustained household expenditure on heating (gas, electricity, domestic fuel).

7. In the new classification, manufactured products include agrifood products and refined products (petrol, domestic fuel).

Household investment,⁸ three-quarters of which goes into new housing, tended to stabilise. It dropped once again as an annual average (- 1.5% in 2010 after - 9.3% in 2009) but started to grow again in the course of the year. The fall in purchases of new dwellings continued at a more moderate rhythm and the market for old dwellings picked up, generating a rebound in investment in services, mainly comprising transfer duties and estate agency fees.

5. Sharp rebound in foreign trade

After a major downturn in 2009, foreign trade rebounded sharply in 2010. Exports progressed in the wake of world trade, while imports were buoyed up by the rebound in domestic demand.

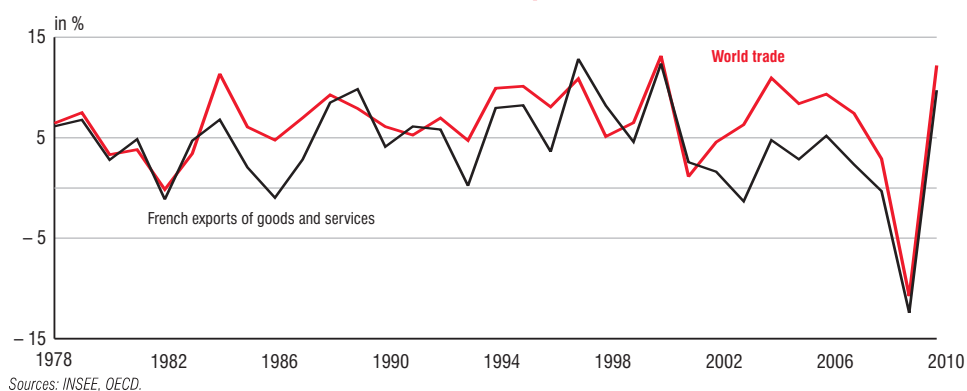
5a. World trade was very dynamic in 2010...

After a historic drop at the turn of 2008, world trade started its recovery in mid-2009. Between then and the end of 2010, it progressed at an annualised rate of almost 15%, sustained most notably by the imports of emerging countries. By the end of 2010 world trade had returned to its pre-crisis level: the imports of emerging countries rose above their level prior to the crisis while those of the advanced economies remained slightly below. World demand for French products profited from this dynamism. This demand was sustained among other things by the rebound in demand from the Eurozone and the United States. In particular, demand from France's main trading partner, Germany, was very dynamic, following on from strong German growth in 2010 (+ 3.5%, after a sharp decline in 2009, of 4.7%). Lastly, exports over the year as a whole reaped the benefits of improved price competitiveness with the depreciation of the euro in early 2010.

5b. ...boosting French exports

French exports of goods and services therefore rebounded sharply in 2010 (+ 9.7% after - 12.4%, figure 12). Progress was particularly strong in the first part of the year (+ 4.7% then + 3.1% in Q1 and Q2 2010). The rebound concerned most products, notably all non-energy industrial goods (+ 11.5% after - 13.3%), which accounted for three-quarters of exports.

12. The rebound in world trade boosted French exports



8. This is the investment of "pure" households, excluding sole proprietors. The investment of this latter category is generally grouped together with that of non-financial enterprises (see below).

Exports of agricultural goods were also very dynamic due to the delivery of some major cereals contracts. Only sales of refined products fell significantly, owing to the strikes in the refineries in October, leading to a sharp decline in sales in Q4.

5c. Imports were also very dynamic

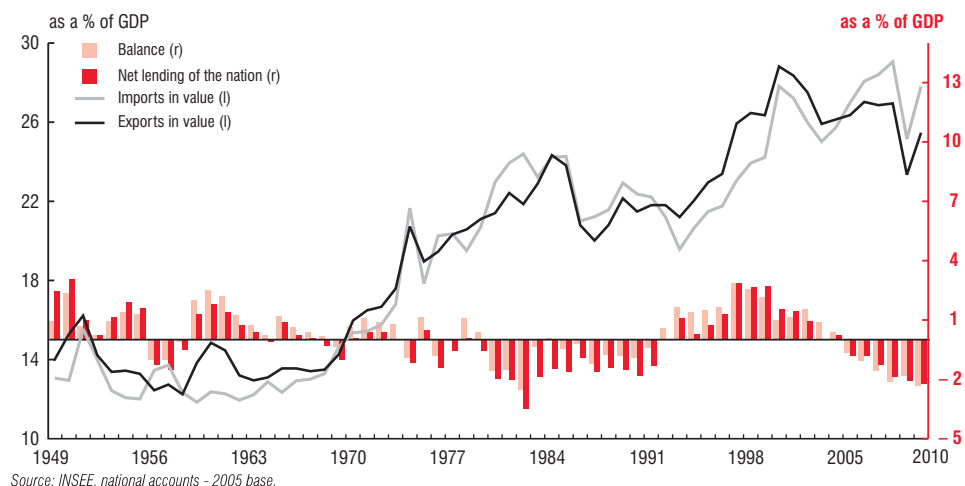
Imports also rebounded sharply in 2010 (+ 8.8% after - 10.8%), especially purchases of non-energy industrial goods (+ 11.6% after - 11.6%). Imports were sustained by the recovery of domestic demand (+ 1.4% after - 2.5%) and the rebound in exports⁹ (see above). As with exports, this rebound concerned most products (see «Relations with the rest of the world» note).

All in all, the contribution of the trade balance in volume (exports minus imports) was slightly positive in 2010 (+ 0.1 point after - 0.2 point in 2009).

5d. The trade balance deteriorated due to the sharp increase in the energy bill

Following the rise in prices of commodities, import prices progressed at a sustained rate (+ 4.0%) and the energy bill grew. Export prices were less dynamic (+ 1.7%). All in all, the trade deficit widened and reached €49.4 bn after €40.8 bn in 2009.

13. Trade balance



6. Slight improvement in public finances

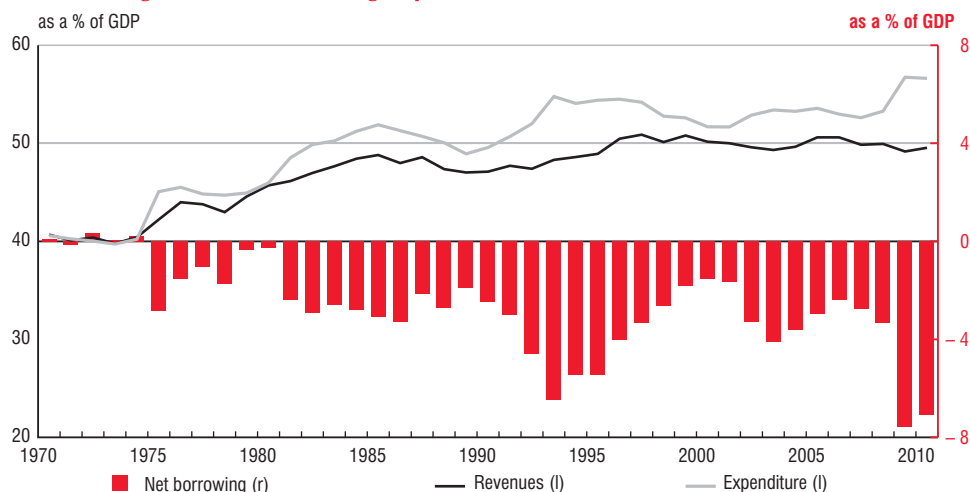
6a. Government deficit as defined by Maastricht stood at 7.1% of GDP

The government deficit reached 7.1% of GDP (figure 14), against 7.5% in 2009. This reduction, by €6 billion, came from a decrease in the deficits of general and local government (respectively - 9.4 and - 4.5 billion euros). At the same time, the social security deficit climbed by €7.8 billion.

Government revenue increased (+ 3.1% in 2010 after - 3.8% in 2009) with the economic upturn, while expenditure slowed (+ 2.1% in 2010 after + 4.1% in 2009), in particular because of the backlash following the stimulus plan in 2009.

9. Via intermediate consumptions incorporated into exports.

14. General government borrowing requirement



Source: INSEE, national accounts - 2005 base.

6b. The overall tax burden increased by 0.5 point

In 2010, the tax burden rate of general government increased by 0.5 point of GDP to 42.5%, a rate that is still lower than prior to the crisis. Two-thirds of this rebound can be ascribed to the spontaneous rise in revenues, particularly corporation tax and VAT. Not counting fiscal and social measures, the tax burden would have grown by 3%, which is above the growth rate of GDP in value (+ 2.3%).

The spontaneous rise in revenues was strengthened by the end of the cash-flow and purchasing power measures in the stimulus plan (€11 billion), and counterbalanced by certain new measures. In particular, the reform of the local business tax led to a reduction in revenues of around €8 billion, while the impact of the reduced VAT rate in the catering business was a decrease of €1.6 billion.

6c. General and local government deficits diminished

In 2010, the general government borrowing requirement came down (- 112.4 billion, against - 121.8 billion in 2009). Taxes increased by 18.5% due to the strong growth in corporation tax (+ 13 billion after - 28 billion in 2010) and VAT (+ 5.1 billion after - 6.8 billion). Also, the reform of the local business tax led to a sharp increase in taxes collected by the state. The system selected in 2010 consisted in the State collecting the new revenues (territorial economic contribution and flat-rate tax on companies in networks) created to replace the local business tax. In exchange, the State paid the local authorities a sum corresponding to what they would have received if there had been no reform. All in all, the cost of the reform to the State in this transitional year was slightly lower than €8 billion. On the expenditure side, intermediate consumptions increased due to some large deliveries of military equipment. Not counting this effect, they fell by 4.1% because of the sharp drop in expenditure under the stimulus plan. Employee compensation increased by 1.6%. Investment dropped (- 13.3% after + 21.7%) owing to the after-effect of the stimulus plan.

In 2010, the local government borrowing requirement came down to - €1.7 billion after - 6.2 billion in 2009. This improvement was the result of a drop in expenditure (- 0.4% in

2010, after + 3.2% in 2009) while revenues continued to rise (+ 1.6% in 2010, after + 4.9% in 2009). The drop in expenditure was linked to a sharp fall in investment expenses (- 6.9% in 2010, after - 1.3% in 2009). Additionally, the wage bill slowed (+ 2.5% in 2010, after + 4.2% in 2009), partly under the effect of fewer national education staff transfers. Revenues slowed in 2010. They were affected by the backlash following the measure to bring forward 2009 VAT refunds in the framework of the stimulus plan. Furthermore, direct local tax rates increased less sharply in 2010 than in 2009. Conversely, the local authorities benefited from a sharp rise in transfer duties (+ 2.4 billion), thanks to the recovery of the property market.

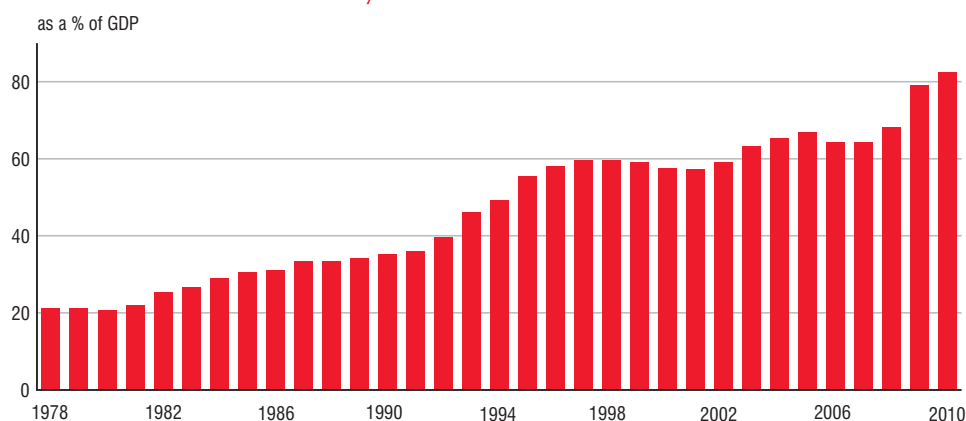
6d. The social accounts showing a large deficit

The social security administration balance was clearly in deficit in 2010, with a borrowing requirement of €22.8 billion, against 15.2 billion in 2009. This new deterioration was due to the fact that growth in expenditure still outstripped that of revenues, despite the gradual improvement in the macroeconomic environment. The expenditure of the social security administrations rose substantially, although at a slower pace (+ 3.5%, after + 4.6% in 2009). The rise in unemployment as an average over the year explains the rise in benefits, although at a slower pace than in 2009 (+ 8.0% after + 21.2%). However, for the first time, the expenditure subject to the national sickness insurance expenditure objective (Ondam) increased in line with the voted target (+ 3.0% after + 3.5%). The revenues of the social security administrations progressed by 2.0% in 2010, after + 0.2% in 2009. This acceleration can be attributed to social contributions, which increased by 1.8% after + 0.6% in 2009, in line with the renewed growth of the wage bill, and to tax revenue (+ 0.6% after - 1.0%).

6e. Government debt stood at 82.3% of GDP

Government debt as defined by Maastricht came to €1,591.2 billion at end 2010 against €1,492.7 billion one year earlier. It represented 82.3% of GDP, against 79.0% at end 2009 (*figure 15*). Net government debt grew more quickly: it stood at 76.5% of GDP after 72.0% in 2009, that is, a rise of 4.5 points.

15. Government debt as defined by Maastricht



The State's share in government debt stood at €1,245.0 billion, a rise of €77.2 billion. However, this rise was far smaller than its borrowing requirement (121.5 billion). The State financed part of its deficit by a €22.8-billion reduction in its treasury constituted at end 2009. It also benefited from a rise in deposits from the other governmental administrations into the Treasury (+18.9 billion), notably as part of future investments. The State also collected the reimbursement of part of the loans granted to the automobile sector (2.2 billion). Conversely, it financed €4.4 billion worth of loans to Greece. The contribution of various central governmental bodies to debt came to €15.0 billion at end 2010, down 3.7 billion on the year before: in particular, the Socit de Prise de Participation de l'tat (SPPE) received reimbursements for part of its shareholding in banks and thus rid itself of €3.5 billion of debt.

Net debt progressed faster than gross debt (4.5 points against 3.3 points) because part of general government borrowing requirement was not financed by further debt but by reducing assets. In particular, the State treasury diminished sharply between end 2009 and end 2010. ■