The French economy grew strongly in 2017

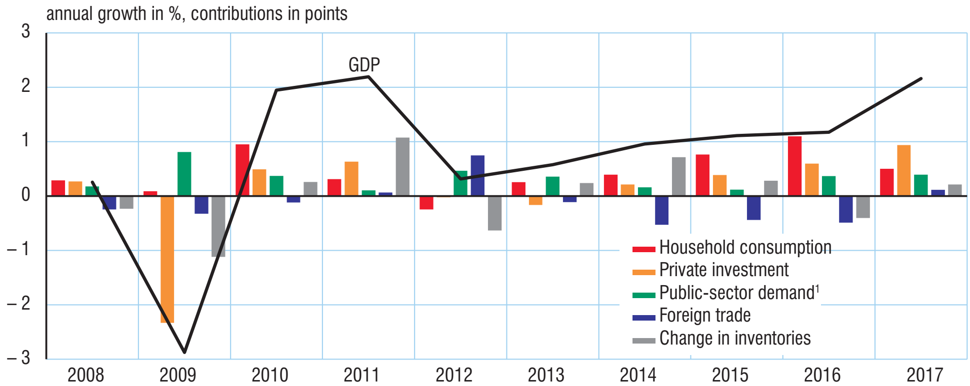
*Nicolas Boudrot, Valentin Guilloton, Bruno Patier**

In 2017, the French economy grew by 2.2% in volume, after 1.2% in 2016. This was the strongest growth since the one-off rebound in 2010-2011. However, domestic demand excluding inventory slowed down (contribution of +1.8 points to GDP growth in 2017 after +2.1 points in 2016), held back by household consumption. The slowdown in household consumption (+1.0% after +2.1%) partly originates from the slackening of household purchasing power (+1.3% after +1.8%). On the demand side, the collective consumption of general government decelerated slightly (+0.5% after +0.7%), but its investment gathered pace (+1.4% after +0.2% in 2016 and –4.6% in 2015).

Compensating for this slowdown in domestic demand, corporate storage behaviour made a positive contribution to the growth of activity in 2017 (+0.2 points after –0.4 points in 2016) as did foreign trade for the first time since 2012 (+0.1 points after –0.5 points in 2016). Exports were particularly strong (+4.5% after +1.5%), while imports also picked up, but less strongly (+4.0% after +3.0%).

In 2017, activity increased at a rate not seen since 2011: +2.2% after +1.2% in 2016 (*Figure 1*). Value added grew in all branches (*Figure 2*) without exception, and especially in mainly market services (contributing +1.4 points). Value added bounced back in agriculture and construction and contributed positively to growth.

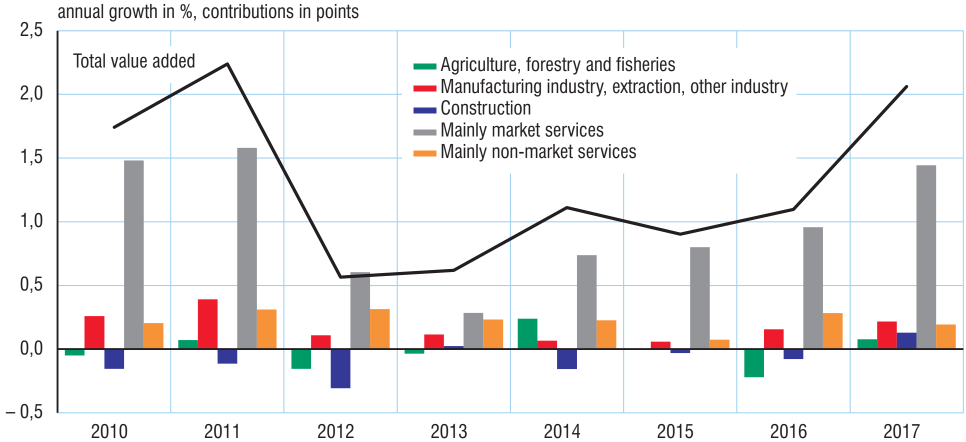
1. Contribution of the main aggregates to GDP growth



1. Including Non profit institutions serving households.
Scope: France.
Source: Insee, national accounts, 2014 base.

* Nicolas Boudrot, Valentin Guilloton, Bruno Patier, Insee.

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



Scope: France.
Source: Insee, national accounts, 2014 base.

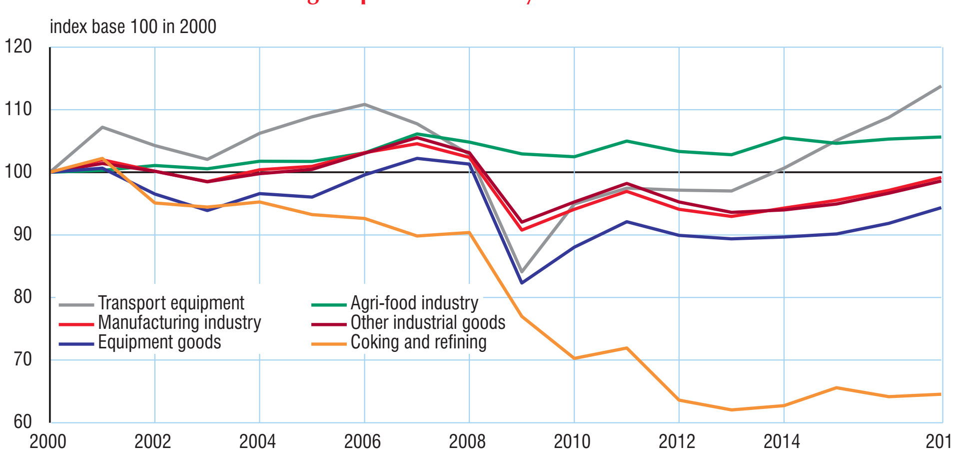
Manufacturing value added accelerated

Continuing its 2016 momentum (+1.7% after +1.3% in 2015), manufacturing production accelerated in 2017: +2.1 % in volume (Figure 3). Intermediate consumption in the sector picked up slightly (+2.3% after +1.8% in 2016), leading to a small rise in the value added in the manufacturing sector (+1.7% after +1.4%).

The acceleration of manufacturing output concerned practically all sectors: the coke and refined petroleum sector bounced back after the strikes in the spring of 2016 (+0.6% after –2.2%); transport equipment output increased more sharply (+4.6% after +3.5%), as did capital goods output (+2.7% after +1.9%). Output in "other industries" also gathered pace (+2.0% after +1.8%).

Only agrifood output slowed somewhat (+0.3% after +0.7%). All in all, value added in the manufacturing sector contributed +0.2 points to GDP growth in 2017.

3. Variations in manufacturing output in volume by branch



Scope: France.
Source: Insee, national accounts, 2014 base.

Activity picked up sharply in the market services

Market services output picked up in 2017 (+3.0% after +1.9% in 2016). As intermediate consumption in the sector gathered even more pace (+3.7% after +2.1%), the value added in the sector lost a little momentum (+2.6% after +1.7%), contributing +1.4 points to GDP growth in 2017 after +0.9 points in 2016).

The acceleration of market services output was driven by all sectors: trade (+2.7% after +1.6% in 2016), financial activities (+0.0% after –1.5%), services to businesses (+4.4% after +2.9%), transport services (+4.0% after +3.1% in 2016), accommodation and food services (+4.3% after +3.1%), information-communication (+5.3% after +4.3%) and real estate (+1.0% after +0.4%).

Output in non-market services slowed slightly in 2017 (+1.0% after +1.3%), as did the value added in this sector (+0.9% after +1.3%), which contributed slightly less to GDP growth than in 2016 (+0.2 points after + 0.3 points).

Activity in construction gathered pace, agricultural activity bounced back

After stabilising in 2016, construction output accelerated sharply (+3.4% after +0.2%). Value added in the sector bounced back strongly (+2.4% after 1.4%) and contributed 0.1 points to GDP growth.

Lastly, agricultural output returned to growth in volume (+2.2% after 5.4%), especially in crop production, in reaction to the historically poor harvests of the summer of 2016. Value added in the agricultural sector bounced back even further (+4.8 after -12.3%), thus contributing +0.1 points to GDP growth in 2017.

Foreign trade contributed positively to growth for the first time since 2012

French exports accelerated strongly, in the wake of world demand

World trade in goods recovered strongly in 2017 (+5.2% after +2.0%, corresponding to its highest growth since 2011). In its wake, world demand for French goods also accelerated (+5.0% after +3.1% in 2016), but not quite so dynamically due to the geographical orientation of French exports.

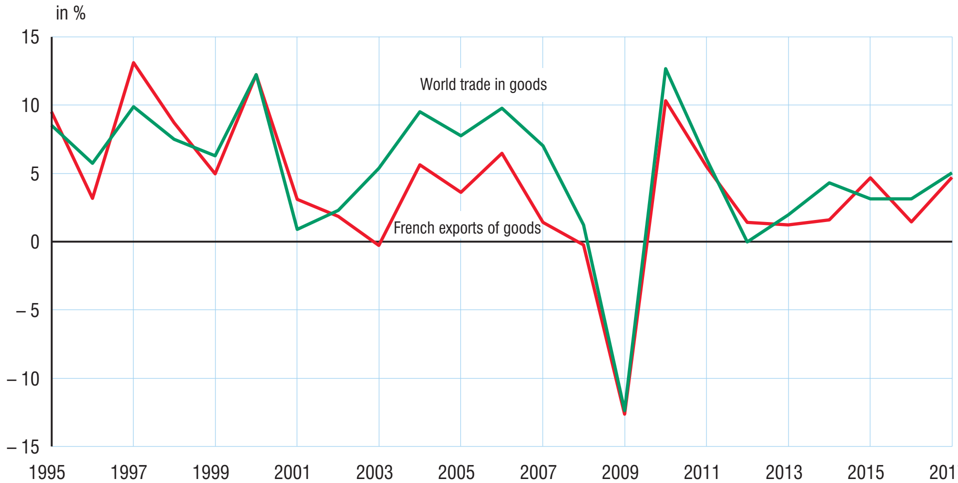
World demand for French goods was not seriously impacted by the slight slowdown in imports by Eurozone countries (contributing +2.3 points after +2.5 points in 2016), despite the stability of German, Italian and Spanish imports (+0.4 points in 2017 and 2016). Imports by other advanced economies contributed +1.5 points to world demand for French goods. In addition, imports by the emerging economies also made a positive contribution (+1.1 points after –0.5 points in 2016).

Exports of manufactured goods accelerated

In 2017, total exports increased strongly (+4.5% after +1.5%) driven by exports of manufactured goods (+4.7% in volume after +1.9%), in particular, which represented more than two thirds of sales of goods and services. In the wake of domestic production, sales of refined products bounced back (+4.0% after –8.4%). Exports of other manufactured products also picked up, and strong growth in transport equipment exports continued (+5.3% after +6.0%). Still affected by the poor cereal harvests in the summer of 2016, sales of agricultural products continued to slip back (–3.4% after –2.9%) despite the rebound in production. Energy-waste-water exports also rebounded strongly (+18.7% after –12.1% following the maintenance shutdowns of several nuclear reactors). All in all, exports of goods accelerated (+4.7% after +1.5%) at a similar rate to demand for French goods, enabling France to stabilise its share in the export markets (*Figure 4)*.

Tourism exports (i.e. purchases by foreign tourists in France) increased for the first time since 2014 (+8.2% after –5.9%), due to the recovery in foreign visitors: their contribution to total exports was +0.6 points after –0.5 points (*Box 1*). Excluding tourism, exports of services slowed (+2.6% after +4.2%): all products were concerned, with the exception of transport services whose exports accelerated considerably (+8.0 % after -0.5%). Sales of services contributed +0.6 points to total export growth (after +0.9 points in 2016).

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



Sources : DG Trésor, Insee.

Box 1

The return of tourists in 2017 contributed 0.2 points to French growth.

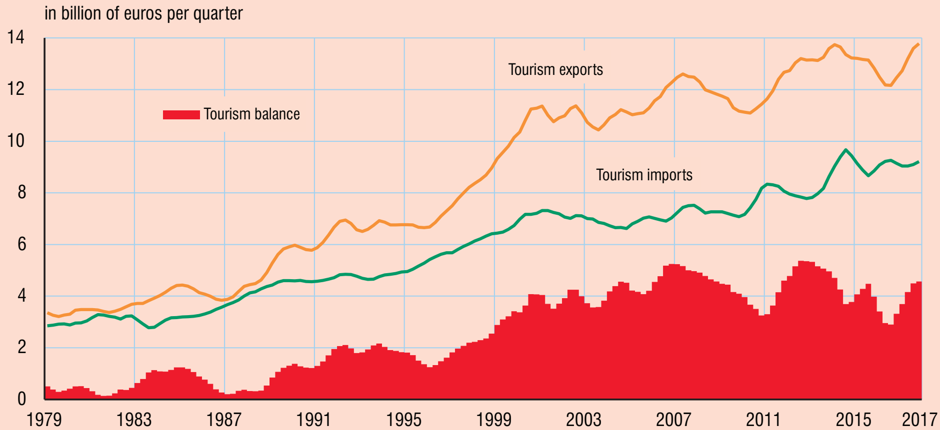
*Mikael Beatriz**

Following the terrorist attacks that hit France in 2015 and 2016, the tourism balance – defined as the difference between the expenditure of non-resident households in France and the expenditure of resident households abroad – fell back sharply (*figure 1*). In 2016, it had dropped by over 25%, reducing French growth by 0.2 points. Since then, it has recovered strongly and by 2017, it had returned to its 2014 level, thus contributing 0.2 points to GDP growth in 2017. On the one hand, tourism exports in volume, i.e. the expenditure of non-resident households on French soil, rose by 8.2% in 2017 (after –5.9% in 2016); on the other hand, tourism imports, i.e. spending by resident households abroad, edged down slightly (–0.8% after + 3.3% in 2016).

* Mikael Beatriz, Insee

Box 1 (cont.)

1. Balance tourism of France



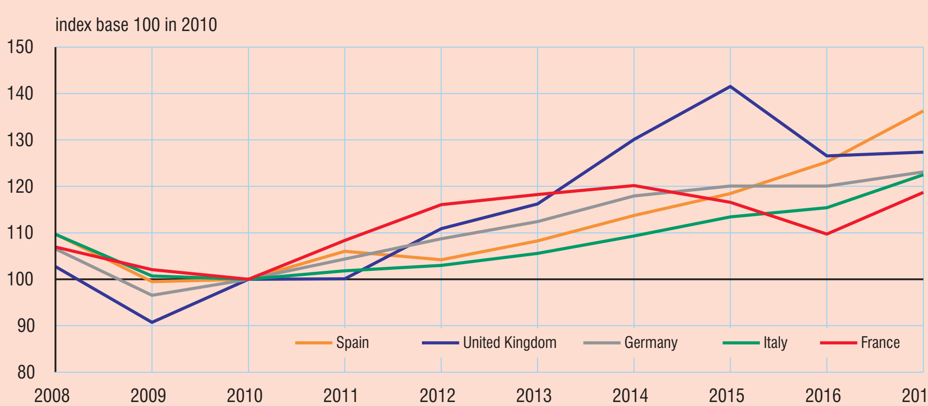
Source: Insee.

Growth in tourism in France returned to nearly the same rate as its European neighbours

Although the downturn in French tourism over the last two years was an exception in Europe, tourism exports grew faster in France in 2017 than in most other European countries (*Figure 2*).

Consequently, according to balance of payment data,[1] exports rose in real terms by 6.1% in Italy and 2.5% in Germany. Tourism exports in Spain remained particularly buoyant (+8.8% after +5.7% in 2016), driven by coastal tourism, and continued to benefit from a transfer of tourists, at the expense of certain Mediterranean countries.

2. Tourism exports (in real terms)



Note: the series in the balance of payments are in value, deflated by the consumer price index of each country.
Source: Eurostat (current account balance - tourism exports).

1. The balance of payments (BOP) summarises, in accounting form, all monetary, financial and real asset flows between the residents and non-residents of an economy during a given period. It is the main source of information used by the National Accounts to evaluate these transactions. For international comparisons, BOP data have the advantage of being available for a large number of countries.

Box 1 (cont.)

Conversely, the United Kingdom stands out as its tourism exports grew by only 0.6% in 2017, which corresponds to only the smallest of rebounds after the downturn of 10.5% recorded in 2016 following several years of strong growth. Despite the depreciation of Sterling after the "Brexit" vote of June 2016, the United Kingdom has failed to attract more tourists. In real terms, tourism exports in 2017 had still not returned to their 2014 level. In particular, tourists did give preference to the United Kingdom over France as a tourist destination.

The Île-de-France and Provence-Alpes-Côte d'Azur regions attracted the most tourists

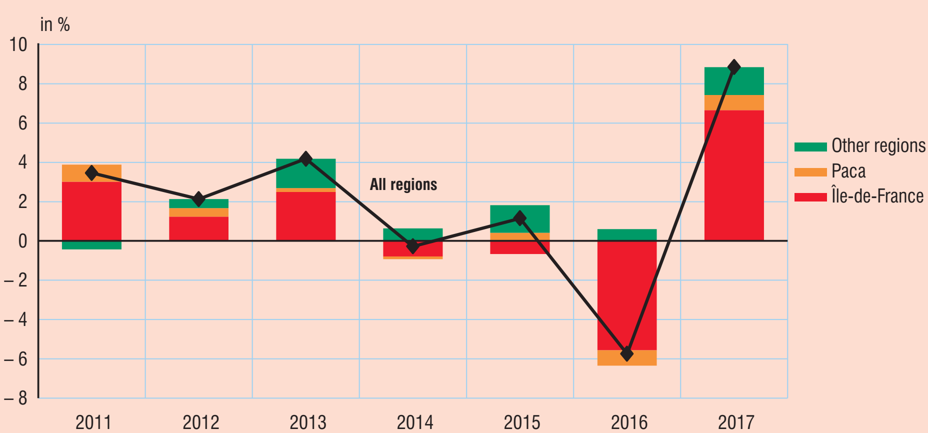
Tourist numbers – especially the number of overnight stays in accommodation establishments – bear witness to the return of tourists to France. Whereas the number of overnight stays by non-residents had dropped in 2016 compared to 2015 (– 4.2 million in French hotels, – 0.4 million on camp sites and – 2.2 million in other collective tourist accommodation), it increased sharply in 2017. Foreigners spent 6.1 million more nights in French hotels, 1.6 million more nights on camp sites and 0.6 million more nights in other accommodation in 2017 than in 2016 (up 8.8%).The Île-de-France and Provence-Alpes-Côte d'Azur (PACA) regions made the biggest contribution to this significant increase (*Figure 3*). After being hit particularly hard by the terrorist attacks of November 2015 in Paris and July 2016 in Nice, these regions had seen a sharp decline in their hotel occupancy rates (–10.8% on overnight stays in 2016 in Île-de-France, and –6.4% in PACA). Hotel occupancy in both these regions bounced back strongly in 2017, contributing +6.7 points and +0.8 points to the growth of foreign overnight stays in French hotels, respectively.

British tourists continued to avoid France in 2017, as in 2016

Following the decline in tourists of all nationalities staying in French establishments in 2016, almost all returned in greater numbers in 2017 (*Figure 4*). Consequently, there were 0.5 million more overnight stays by Spaniards in 2017 than in 2016. The same observation can be made for non-European tourists. The number of overnight stays rose by 1.2 million for Americans and 0.5 million for the Chinese. Once again, the British were the exception, with their visitor numbers declining for the second year in a row (–0.3 million overnight stays in 2017 after –0.6 million in 2016), making a negative contribution to the change in the number of overnight stays in French hotels by foreign visitors.

This drop in British visitor numbers could be a sign of disenchantment, or of France being considered less attractive. In fact, in light of the drop in their purchasing power in 2017 due to the depreciation of their currency, the British might

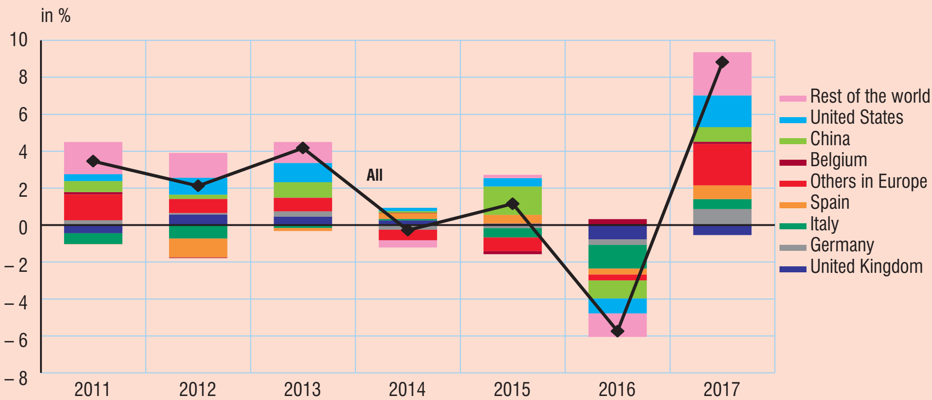
3. Variation of overnight stays in hotel by foreigners by region



Scope: métropolitan France.
Source: Insee, Hotel Occupancy Survey.

Box 1 (cont.)

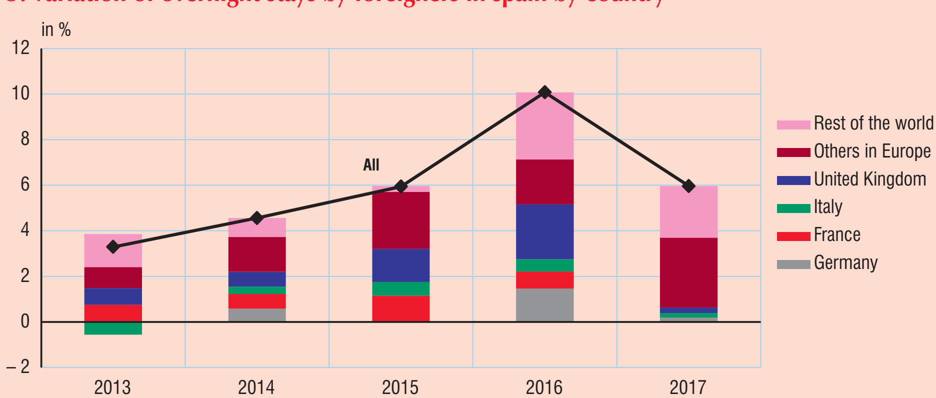
4. Variation of overnight stays in hotel by foreigners by country



Scope: métropolitan France.
Source: Insee, Hotel Occupancy Survey.

have chosen cheaper destinations than France. However, although such a substitution mechanism is hard to identify, several factors suggest that the drop in British tourism is not specific to France. On the one hand, the imports of travel services of the United Kingdom were down for the second consecutive year (–4.7% in 2016 and –6.9% in 2017, in real terms): a sign that either the average spending of the tourists abroad was down, or that they are travelling less. On the other hand, among France's neighbours, only Spanish tourism exports were slightly more buoyant than French exports, and yet, the contribution of UK residents to the increase in overnight stays by foreign tourists in Spain was just +0.2 points in 2017, after +2.4 points in 2016 (*Figure 5*).

5. Variation of overnight stays by foreigners in spain by country



Source: INE.

For further information

Gidrol J.-C., Gitton F.-P., "Les hébergements collectifs touristiques en 2017", *Insee Première* no. 1693, April 2018.
"In 2017, tourism should no longer impede French growth after costing 0.2 GDP points in 2016", *Conjuncture in France*, INSEE, June 2017.

Imports also accelerated

Imports of goods and services (including tourism) also accelerated in 2017 (+4.0% in volume after +3.0%), but to a lesser extent than exports. Imports of manufactured goods accelerated to the same extent (+5.2% in volume after +4.2%). This continued momentum can be primarily attributed to purchases of transport equipment, which continued to increase briskly (+9.3% after +10.5%), contributing +1.2 points to the rise in imports of manufactured products. Purchases of other manufactured products also contributed to this acceleration, except for imports of refined products, which fell back again (–2.8% after –2.0%). Energy-water-waste imports bounced back (+7.1% after –3.3%), whereas imports of agricultural products slowed substantially (+1.6% after +6.8%) in reaction to the sharp rise in imports in 2016, a year marked by poor harvests. All in all, purchases of goods accelerated in volume (+5.2% after +3.7%), contributing +3.9 points to the growth of imports overall. Imports of services excluding tourism slowed (+0.8% after +1.7%) and contributed +0.2 points to the buoyancy of total imports. French households' spending on tourism fell back (–0.8% after +3.3%).

All in all, over 2017 as a whole, and for the first time since 2012, foreign trade made a positive contribution to growth (+0.1 points). The reactions to the negative factors in 2016 (poor agricultural harvests, difficulties encountered by the national nuclear plants, and the disaffection of tourists after the terrorist attacks) all played a role. Trade in manufactured goods contributed –0.2 points, while services excluding tourism accounted for +0.7 points.

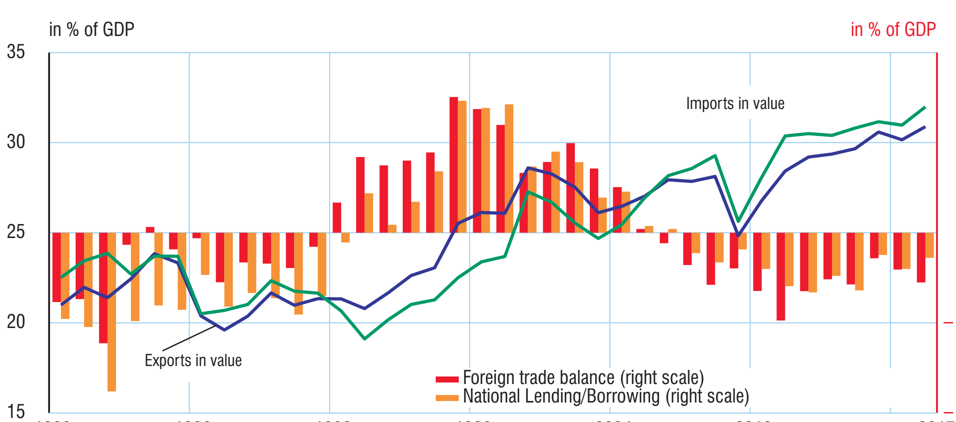
France's net borrowing decreased slightly

In value, exports grew less rapidly (+5.3%) than imports (+6.2%), however, due mainly to the rise in oil prices. As a result, the foreign trade balance in value deteriorated by €7.0 billion and remained largely negative: – €25.3 billion (*Figure 5*).

With the increase in oil prices, the energy deficit (including refined products) rose again after narrowing for four years and amounted to –€36.1 billion in 2017. Excluding energy, the balance of other products and services stood at +€10.8 billion in 2017.

The balance of trade in manufactured goods excluding fuel therefore deteriorated and fell to –€21.8 billion after –€16.2 billion in 2016, with this deterioration affecting all types of products.

5. External balance



Scope: France.
Source: Insee, national accounts, 2014 base.

The balance in value of services (excluding tourism) improved (–€1.5 billion after –€2.4 billion) and the tourism balance was at its highest since 2013 (+€17.0 billion after +€12.5 billion). Finally, the balance of agricultural products deteriorated again: €0.0 billion after +€0.8 billion. This was the first time since the end of the 1970s that France failed to produce an agricultural surplus.

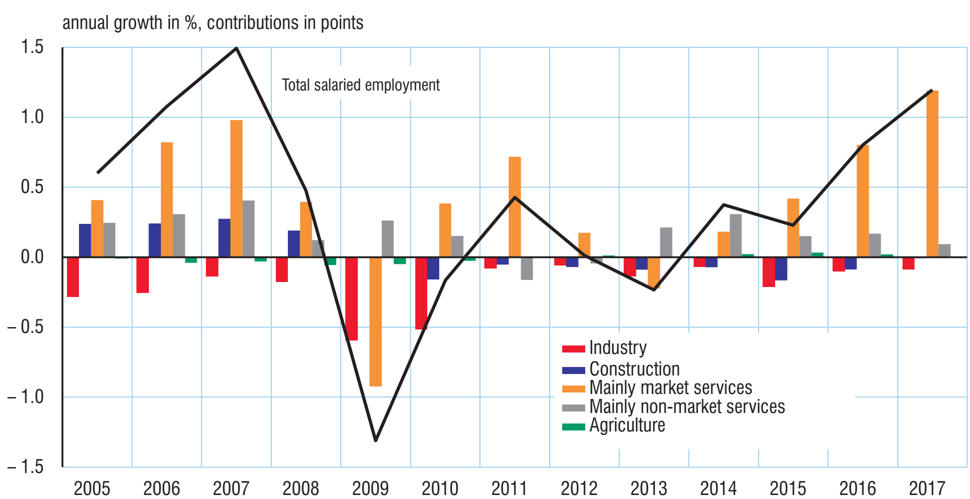
However, the balance of property income improved considerably (+€32.4 billion after +€22.8 billion): income paid to the rest of the world declined by €14.1 billion while income received contracted by only €4.5 billion. All in all, France's net borrowing improved by €5.8 billion, and represented 0.6 GDP points in 2017, after 0.8 points in 2016.

Total employment grew steadily

Market sector payroll employment gathered pace

As an annual average, total payroll employment grew by +1.2% in 2017, after +0.8% (*Figure 6*). In the non-agricultural market sectors, payroll employment accelerated sharply as an annual average: +259,000 (or +1.6%), after +146,000 in 2016 (or +0.9%).[1] This improvement stems from the acceleration in economic activity. After the higher employment intensity of growth in 2016 due to measures to reduce labour costs (tax credit for encouraging competitiveness and jobs – CICE – and the Responsibility and Solidarity Pact (PRS)), the productivity gains generated by the non-agricultural market sectors increased slightly faster in 2017 than in 2016 (+0.7% after +0.4% (*Figure 7*). Non-market employment slowed (+0.3% after +0.5%), under the effect of the drop in the number of subsidised employment contracts in H2. Taking account of agricultural employment and self-employment, total employment also accelerated sharply: +294,000 net job creations after +196,000.

6. Trend in total salaried employment

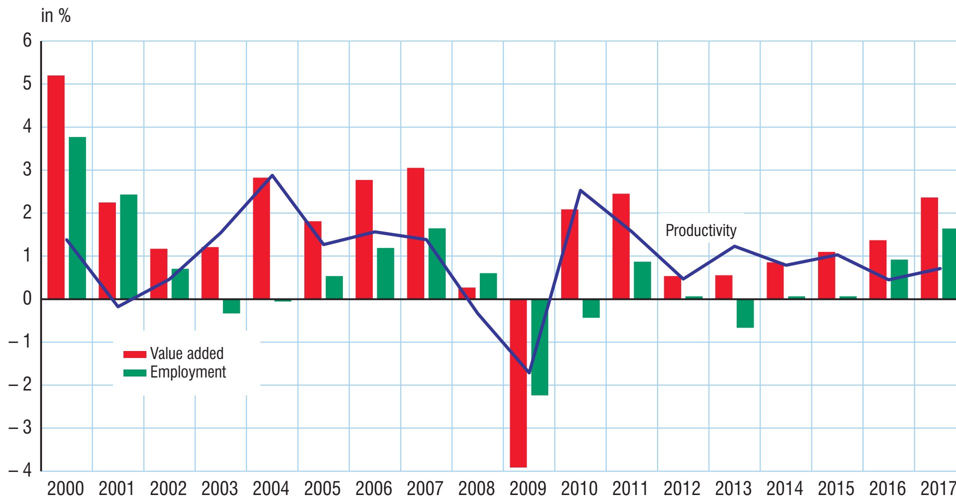


Scope: France.

Source: Insee, national accounts, 2014 base.

1. Employment calculated and published in the context of the National Accounts differs from employment estimated directly in the sectors of activity, mainly because of the differences in the periods considered: the former is calculated as a quarterly (or annual) average, while the latter is estimated at the end of the period (end of quarter or end of year).

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



Scope: France.
Source: Insee, national accounts, 2014 base.

The acceleration of market employment was mainly driven by market services (+281,000 jobs after +192,000 in 2016), especially in temporary employment. In construction, job destructions decreased significantly in 2017 (–1,500 after –21,000 in 2016), whereas they continued at the same rate in industry (–21,000 jobs in 2017 after –25,000 in 2016).

Unemployment dropped in 2017

As an annual average for 2017, the ILO unemployment rate dropped to 9.4% of the active population in France, after 10.1% in 2016. The female unemployment rate fell back (9.3% in 2017, after 9.9% in 2016) and the rate for men dropped even more, while still remaining slightly higher (9.5% after 10.2% in 2016): this divergence is explained by the difference in the employment situation in industry and construction on the one hand – sectors employing mainly men – and the tertiary sector on the other hand, which employs more women.

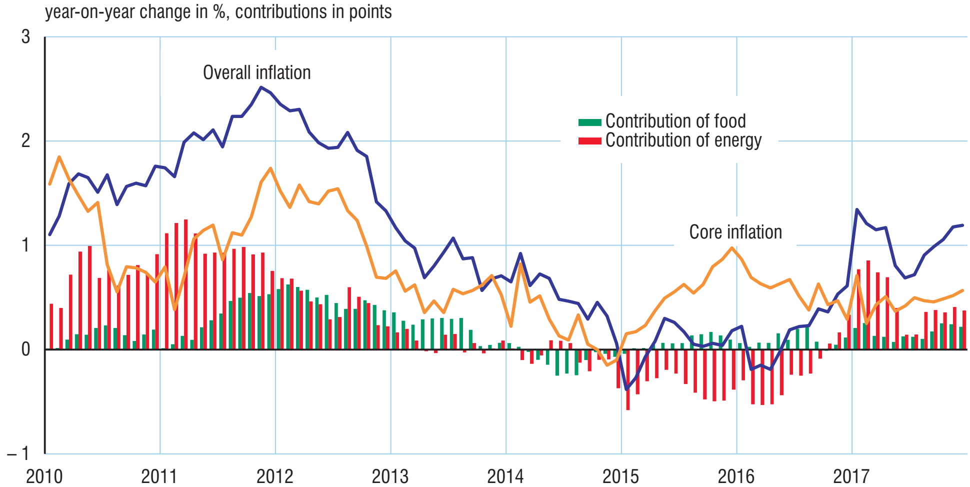
Purchasing power slowed down

Inflation increased but remained moderate

As an annual average, inflation[2] rose in 2017 (+1.0% after +0.2% in 2016): in particular, energy prices increased (contributing +0.6 points to headline inflation after –0.2 points; *Figure 8*). Core inflation, i.e. excluding energy and food, remained stable and low in 2017 (+0.6% as in 2016): on the one hand, the rise in the prices of services remained limited by the

2. The consumer price index referred to here differs from the consumption deflator which is used to calculate purchasing power, mainly due to differences in scope, and especially concerning financial products.one hand, the rise in the prices of services remained limited by the moderate increase in rents, indexed against past inflation, and by the restrained rise in wages; on the other hand, the level of unemployment in the manufacturing sector remained high and continued to limit inflationary pressures, while the previous drop in the price of commodities continued to work through.

8. Overall consumer price index and core inflation



Scope: France.
Note: in december 2017, overall inflation was +1.2%, of which +0.2 point of percentage due to rising price index of agri-food products and 0,4 point to rising energetic prices, meanwhile core inflation was +0.6%.
Source: Insee.

moderate increase in rents, indexed against past inflation, and by the restrained rise in wages; on the other hand, the level of unemployment in the manufacturing sector remained high and continued to limit inflationary pressures, while the previous drop in the price of commodities continued to spread.

The increase in the average wage per capita accelerated in 2017

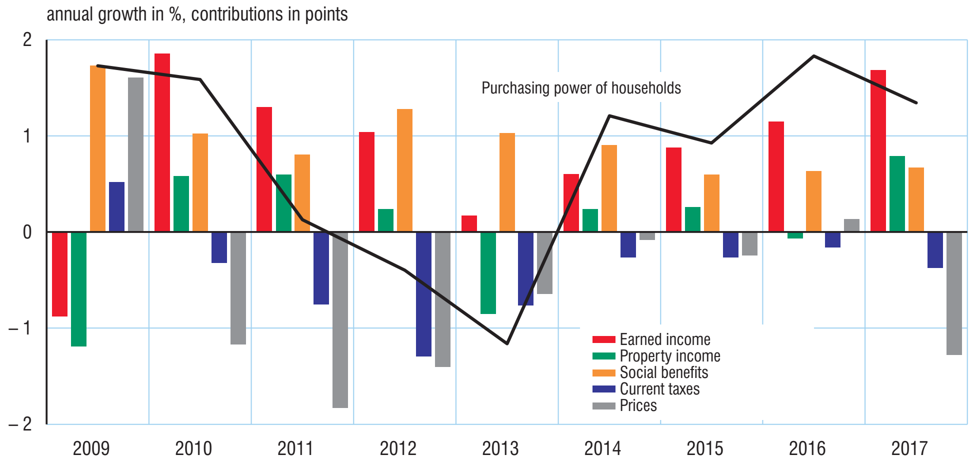
In 2017, the average wage per capita in the non-agricultural market sectors increased slightly more than in previous years: +1.8% after +1.2% in 2016. However, taking account of the slight acceleration in consumer prices, it slowed down in real terms: +0.6% after +1.3%. In general government, the nominal wage per capita accelerated due to the measures to increase wages: +2.2% after +0.6% in 2016. In real terms, wages barely accelerated (+0.9% after +0.8% in 2016).

Household gross disposable income picked up

In 2017, households' gross disposable income picked up in nominal terms: +2.6% after +1.7% (*Box 2*). On the one hand, its main component – net earned income – became more dynamic (+2.7% after +1.7%; *Figure 9*): net wage income accelerated (+3.0% after +1.8%), with the improvement in employment and wages. On the other hand, the gross operating surplus of pure households[3] was very dynamic (+3.7% after +1.9%), driven by the continuing reduction in the average interest rate on mortgages taken out by households, which reduced the cost of their intermediate consumption. The net mixed income of sole proprietors stabilised (+0.1%, after +0.5% in 2016).

3. The gross operating surplus of pure households corresponds to the production of housing services, after the deduction of the intermediate consumption required for this production (especially financial services related to loans) and taxes (property tax). Production corresponds to the rents that private owners of housing collect from their tenants or could collect if they made their property available for rental.

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



Scope: France.
Source: Insee, national accounts, 2014 base.

Social benefits in cash received by households barely accelerated in nominal terms (+1.9% after +1.8%), under the effect of social security benefits (+1.8% after +1.6%) and "other benefits" (+1.7% after +1.4%), especially health insurance reimbursements. Welfare benefits, although slowing down (+3.3% after +4.2%), remained dynamic due to the ramping-up of the activity bonus.

The balance of property income bounced back after two consecutive years of decline (+4.9% after –5.2% in 2016), due to the increase in income from life insurance policies in particular: returns on unit-linked policies increased strongly while returns on Euro-based products decreased less than in 2016.

Income and wealth taxes accelerated: +2.3% after +1.0% in 2016, which was a smaller rise than the increase in the income on which they were calculated, mainly due to income tax cuts for less well-off households.

Box 2

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

*Sylvain Billot, Alexandre Bourgeois**

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

* Sylvain Billot, Alexandre Bourgeois, Insee.

Box 2 (cont.)

social and fiscal tax contributions have been deducted[1]. Changes in the purchasing power of gross disposable income compare changes in gross disposable income to those in household consumption expenditure prices (although gross disposable income can also be used to finance investment expenditure whose price does not necessarily change in line with that of consumption expenditure).

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[2]), 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[3]).

The portion of "pre-engaged" expenditure represents a growing fraction of household budgets: it went from 12.4% of their disposable income in 1959, to 29.4% in 2017, a rise of almost 17 points in fifty-eight years (*figure 1*).

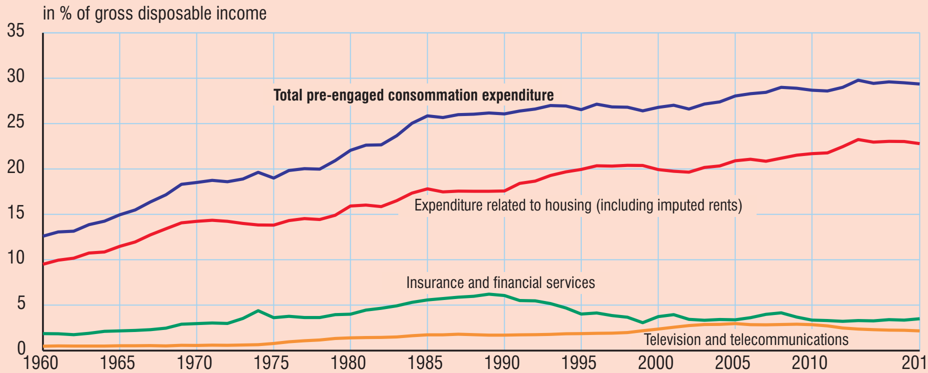
Expenditure related to housing accounts for over three quarters of this rise: its share in household income climbed from 9.3% in 1959 to 22.8% in 2017. The part of insurance and financial services (including FISIM) was more limited. It first increased, going from 1.9% in 1959 to 6.2% in 1989, before returning to 3.5% in 2017 due to the growing competition between banking institutions and the drop in interest rates, which was accompanied by tighter bank margins on deposits and loans. Expenditure on television and telecommunications services went from 0.5% in 1959 to 2.2% in 1999, then rose sharply in the first half of the 2000s, to reach 3.0% in 2005 before falling back to 2.2% in 2017, mainly due to the fall in the prices of telecommunications services.

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

1. Gross disposable income includes earned income (wages and household gross pay, plus sole proprietors' profits), property income excluding capital gains, whether realised or not (dividends, interest, etc.), transfers (particularly net insurance premium benefits) and social benefits (retirement pensions, unemployment benefits, family allowances, statutory minimum wages, etc.). The gross disposable income excludes taxes and social contributions. The four main types of taxes taken into account are income tax, housing tax, the Generalised Social Contribution (CSG) and the Social Debt Repayment Contribution (CRDS). Inheritance tax, however, is not included in this total.
2. The national accounts consider that households that own and occupy their own dwelling pay themselves rent, referred to as "imputed", which is measured based on the prices of the private market sector. This rent raises their level of disposable income as well as their consumption expenditure.
3. FISIM refers to the margin banks take on remunerations from deposits and loans.

Box 2 (cont.)

1. Household pre-engaged consumption expenditure at current prices



Scope: France.
Note: expenditure of insurance and financial services does not include expenditure related to life insurance.
Source: Insee, national accounts, 2010 base.

Purchasing power of disposable income and of "arbitrable" income by consumption unit decelerate en 2017

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".

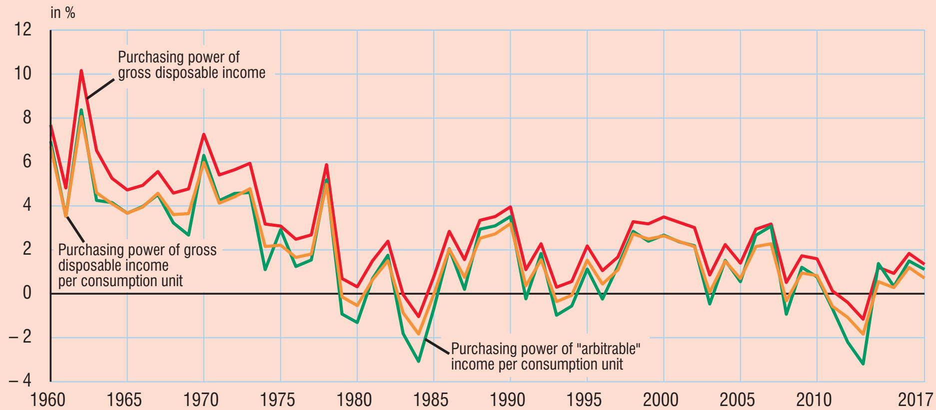
Disposable income and "arbitrable" income are macroeconomic quantities. In order to relate them to a more individual concept of purchasing power, it is necessary to relate their changes to demographic growth; taking in account the population growth, the growth in per capita purchasing power is reduced. 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 decohabitation). 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[4].

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: on average, between 1974 and 2017, these gains reached +0.9% compared to +1.0% in gains in real disposable income (*figure 2*). In 2017 as in 2016, 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 1.1%. The consumption of "pre-engaged" expenditure was less dynamic than household gross disposable income (+2,2% instead of +2.6%).

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

Box 2 (cont.)

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

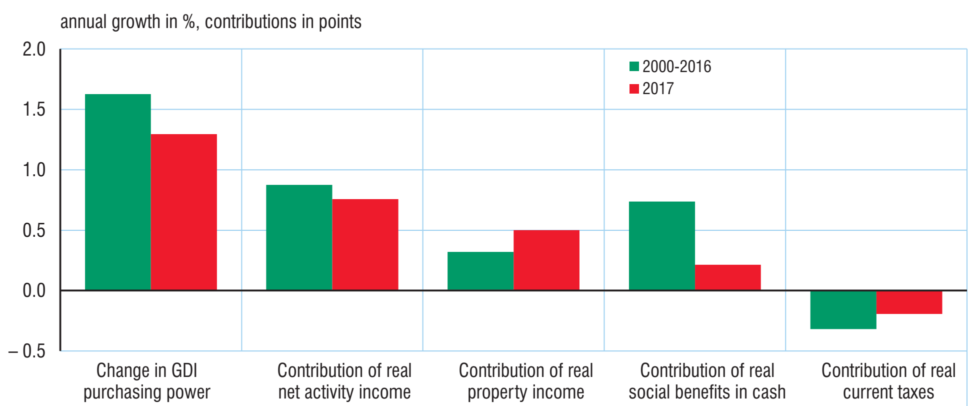


Scope: France.
Source: Insee, national accounts, 2014 base.

Household purchasing power increased moderately

Close to the consumer price index, the consumption deflator rose in 2017 but remained contained (+1.3% after –0.1% in 2016). So, households' purchasing power slowed in 2017: +1.3% (after +1.8% in 2016), i.e. at a slower pace than its average annual increase since 2000 (+1.6%; *Figure 10*). Net earned income (in real terms) contributed to gains in purchasing power

10. Breakdown of GDI change in 2016, compared to the average on 2000-2015 period



Scope: France.
Note: purchasing power may be broken down like nominal GDI, when all GDI components are assessed in real terms, i.e. after taking into account consumption price increase. Thus this figure shows, for instance, that the contribution of real social benefits in cashcto the purchasing power growth reached +0.2 point in 2017, whereas it was +0.7 point on average for the period 2000-2016.
Source: Insee, national accounts, 2014 base.

in 2017, as was the case from 2000-2016 on average, while income from wealth (in real terms) made a greater contribution (+0.5 points after +0.3 points from 2000-2016 on average). In 2017, the contribution of current taxes was close to the average for the 2000 to 2016 period. However, the contribution of social benefits in cash for 2017 was substantially lower than the average for the 2000 to 2016 period (+0.2 points after +0.7 points): index-linked to past inflation, they did not generally follow the rebound in prices observed in 2017.

Household consumption decelerated

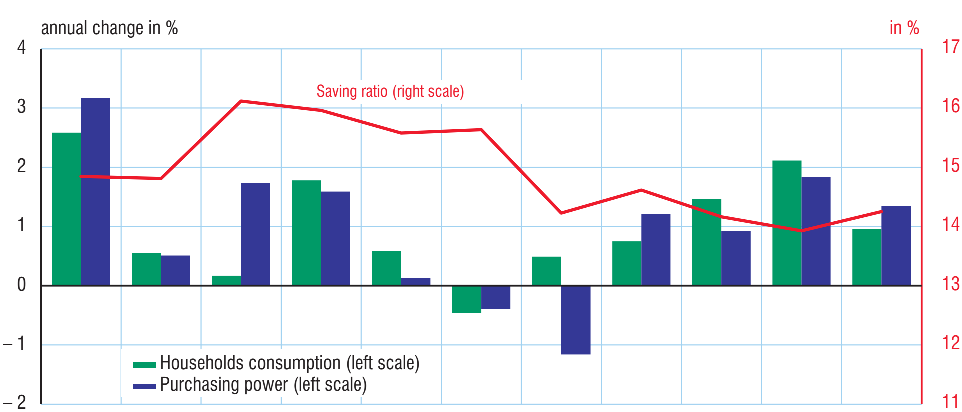
On average over the year, household consumption slowed down (+1.0% after +2.1% in 2016 – the biggest rise since 2007) more than their purchasing power. The household savings ratio increased, from 13.9% in 2016 – its lowest level since 1990 – to 14.3% in 2017 (*Figure 11*).

Household spending on manufactured goods slackened slightly but remained buoyant (+4.1% after +7.4%). This slowdown stemmed primarily from purchases of capital goods (+4.8% after +5.1%), food products (+0.3% after +0.8%) and cars (+4.1% after +7.4%) although these remained vigorous. However, purchases of other industrial goods accelerated (+1.7% after + 0.9%).

Household energy spending fell back slightly (–0.6% after +2.4 %) and purchases of agricultural products declined more sharply (–1.4% after +1.4%).

Household consumption of market services accelerated very slightly (+1.7% after +1.6%). This change was mainly the result of offsetting the acceleration in spending on accommodation and food services (+4.7% after +3.1%), transport services (+2.9% after +1.3%), information-communication (+1.2% after –0.8%) and administrative services (+4.2% after +3.4%), on the one hand, against the slowdown in spending on financial services (–1.5% after +0.8%), leisure services (+2.0% after +2.9%) and real estate services (+1.0% after +1.3%), on the other. Lastly, the tourism balance improved in 2017. Spending by French tourists abroad slipped back (–0.8% after +3.3%), whereas spending by foreign tourists in France bounced back strongly (+8.2% after –5.9%), after a significant decline in foreign visitor numbers in 2016 after the terrorist attacks. The deceleration of total consumption expenditure within France (which includes the expenditure of foreign visitors in France but excludes the spending of residents abroad) was therefore much smaller than the deceleration of household consumption expenditure.

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



Scope: France.
Source: Insee, national accounts, 2014 base.

Household investment increased briskly

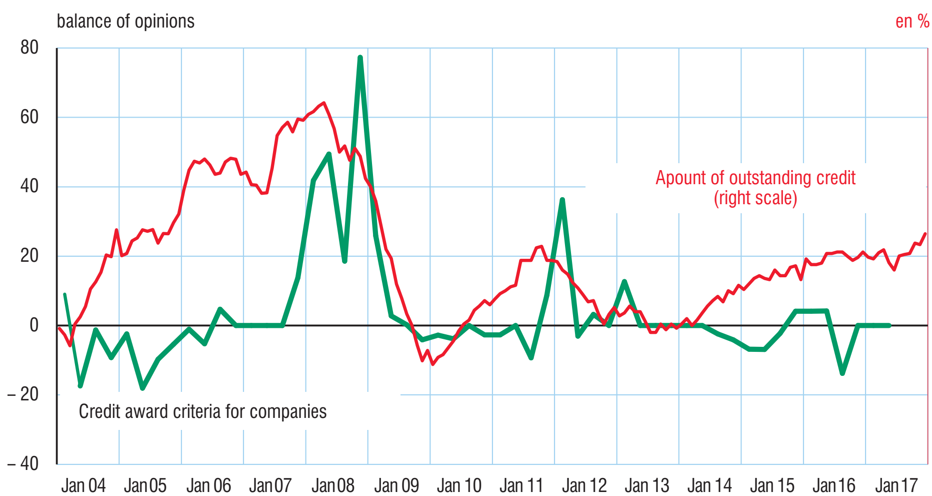
After bouncing back in 2016, household investment continued to increase briskly in 2017 (+5.6% after +2.8%). Their investment in construction gathered pace (+4.2% after +1.6% in 2016). In addition, the upswing in real estate transactions which began in 2015 was reflected in the continued buoyancy of their investment in services in 2017 (including "notary fees" in particular): +10.0% after +14.5%.

Corporate investment gathered pace, the margin ratio remained stable

Corporate investment continued to gather pace

Corporate investment picked up even more (+4.1% in volume after +3.4% in 2016), taking the gross investment rate of companies[4] to its highest level since at least 1978 (23.5% in 2017 after 23.2%). In a context of steadily growing economic activity, the production capacity utilisation rate rose by 1.8 points and stood at 82.5% in industry in 2017, which was close to its average between 1980 and 2016 (82.8%). The rise in investment was offset by the increase in outstanding corporate loans, which rose again in 2017: +5.2% as an annual average after +4.9% in 2016 (*Figure 12*).

12. Corporate lending terms



Scope: 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.

4. The net investment rate, calculated by deducting the fixed capital consumption (FCC), which measures the depreciation and the obsolescence of capital, from the gross fixed capital formation (GFCF), was much less vigorous than the gross investment rate over recent years, and does not currently stand at its highest level. This weaker trend performance of the net investment rate is explained by the growing share of investments in intangible assets (mainly software and research and development) in GFCF. These types of intangible assets have shorter useful economic lives than tangible assets: the pace of innovation in software and R&D makes them obsolete very quickly. Consequently, when the share of intangible assets increases, non-financial corporations (NFCs) must continually increase their gross investment expenditure simply to keep their fixed capital at a stable level.

Non-financial enterprises ramped up their investment expenditure on services (+3.8% after +2.3% in 2016), while their investment in goods remained very buoyant (+4.7% after +5.3%), and their construction expenditure was in much better shape (+0.9% after –0.5%).

In greater detail, investment in market services gathered pace, especially due to expenditure on information and communication (+8.3% after +7.2%). The acceleration of investment in scientific and technical activities (especially R&D), administrative and support services was also brisk (+2.7% after +0.7%). Corporate investment in manufactured products slowed but remained very buoyant (+4.9% after +5.5%). It was slightly penalised by the slowdown in vehicle purchases (+6.4% after +9.7%) but supported by very vigorous spending on capital goods (+6.7% after +2.7% in 2016). Investment in other manufactured goods slowed down more markedly (+1.7% after +4.7%).

Changes in inventories supported activity

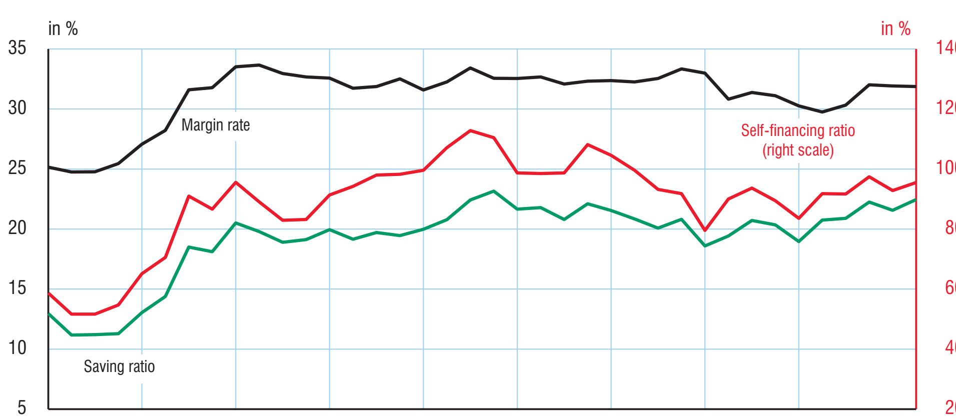
Changes in inventories contributed positively to growth in 2017 (+0.2 points after –0.4 points in 2016). All in all, through their investment expenditure and changes in inventories, corporate demand contributed +0.7 points to GDP growth after making a neutral contribution in 2016.

The margin rate remained stable

In 2017, the margin rate of non-financial corporations (NFCs) remained stable at 31.9% (*Figure 13*): Looking at the detail, several changes balanced each other out in 2017. On the one hand, the margin rate was bolstered by productivity gains; on the other hand, it was eroded by the slower rise in value added prices in relation to consumer prices, and by the increase in real wages and employers' contributions.

In addition, NFCs' balance of income from property rose by €16.5 billion. This improvement was especially due to the rise in interest, with the balance increasing by €7.5 billion in 2017. In addition, the balance of dividends received minus those paid was up €6.5 billion, with the rise in dividends received exceeding the rise in dividends paid.

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



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

Finally, income and wealth taxes of NFCs continued the upward trend that has begun in 2016 (+18.0% after +9.6% in 2016 and –3.9% in 2015). This sharp increase in tax paid by enterprises is explained firstly by the favourable economic outlook and secondly by the exceptional surcharge introduced to compensate for the State's reimbursement of the 3% contribution on dividends paid. All in all, the NFC savings rate stood at 22.6% (+0.8 points) and the self-financing rate reached 96.3%.

Financial corporations require financing

The value added of financial corporations dropped again in 2017 (–9.0% after 6.7% in 2016) and their net borrowing amounted to €3.2 billion. This drop concerned banking institutions and insurance companies alike.

The value added of financial intermediaries decreased for the third consecutive year (–10.1% after –3.8% in 2016). This decline is entirely attributable to the drop in the output of Financial Intermediation Services Indirectly Measured (FISIM: –16.2%) and hence, indirectly, to the reduction in overall intermediation margins. Although FISIM have no impact on the balance of primary income of financial intermediaries, they do, however, cause the banks to reintegrate their margins on interest into their value added, as they are considered as output of services. Between 2016 and 2017, the refinancing rate increased from 0.99% to 1.16%, corresponding to a rise of 17 basis points. FISIM on loans decreased by €12.8 billion: the intensification of competition between banks continued to favour the fall in the rates of home loans, while the interbank rates rose. FISIM on deposits, on the other hand, increased by €4.9 billion, in line with the sustained growth of non-financial agents' deposits.

Excluding FISIM, the value added of financial intermediaries increased by €1.5 billion. After dropping last year, interest received and paid increased again (+8.8% for interest received, and +9.5% for interest paid) in a context of slightly rising rates. The changes in dividends received and paid contrasted: dividends received edged down by 1.4%, whereas dividends paid rose sharply by 11.9%. Lastly, the net lending of financial intermediaries deteriorated, dropping from +€12.6 billion in 2016 to +€3.8 billion in 2017.

In 2017, the value added of insurance companies stood at €10.9 billion, down by 8.6%. This decline is explained by the rise in intermediate consumption (+2.7%) being stronger than the increase in output (+0.7%).

Life insurance output (up by €0.4 billion) was driven by buoyant returns on unit-linked products, which increased from 3.9% to 5.0%. These policies also posted net inflows of +€20 billion, which more than compensated for the dip in net inflows from Euro-based products, in a context of slow decline in the returns on these polices (1.8% in 2017 after 1.9% in 2016).

Output in non-life insurance was down by 2.2%. The effects of the "Hamon Law" on consumption, which facilitates mobility for policyholders, continued to be felt and limited the rise in subscriptions while the costs of benefits increased (+4.4%) over the same period.

Property income received by insurers continued to decline (–8.0%), whereas that paid increased (+10.5%) over the same period. Finally, the net borrowing of the insurance sector grew by €8.1 billion to reach €8.3 billion in 2017.

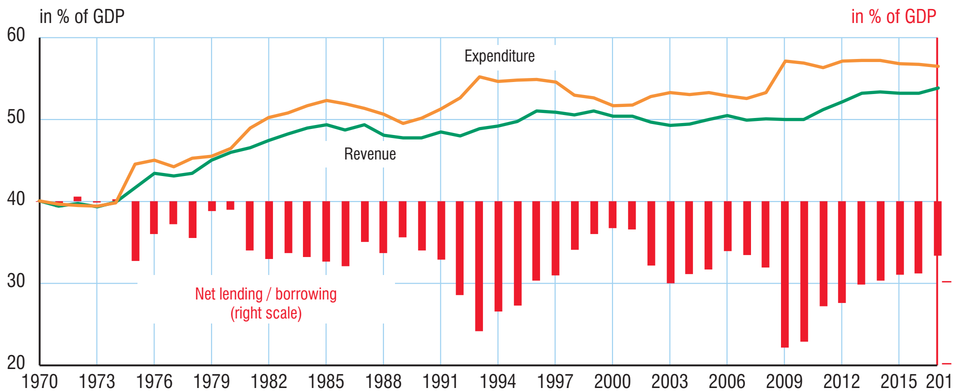
The government deficit dropped below the threshold of 3% of GDP, and debt increased very moderately as a percentage of GDP

In 2017, the government deficit was below 3% of GDP

In 2017, the government deficit stood at 2.7% of gross domestic product (GDP), after 3.5% in 2016 *(Figure 14)*. It continued to improve and, for the first time since 2007, dipped below the 3% threshold. Public revenue rose sharply (+4.0% after +1.4% in 2016) in a favourable economic context. Public expenditure also gathered pace but not to the same extent (+2.4% after +1.2% in 2016). This rise was 2.2% excluding interest charges and exceptional charges related to the reimbursement of the 3% tax on dividends. The share of public expenditure in GDP stood at 56.5% in 2017, after 56.7% in 2016 (56.3% excluding the reimbursement of the 3% tax).

All in all, the government deficit was reduced by €17.7 billion compared with 2016, under the effect of an improvement in the State balance (of €8.5 billion), that of Social Security funds (+€8.5 billion) and that of other government bodies (ODACs, +€2.9 billion). Conversely, the surplus of local government authorities (APUL) contracted (–€2.2 billion).

14. General government net lending / borrowing



Scope: France.
Source: Insee, national accounts, 2014 base.

The compulsory levies ratio increased by 0.7 GDP points in 2017

In 2017, the general government compulsory levies ratio stood at 45.3% of GDP, up 0.7 GDP points compared with 2016. Compulsory levies increased spontaneously by 4.0%, a significantly faster pace than nominal GDP growth (+2.8%). The macroeconomic context was favourable, with very buoyant gross wages, real estate transactions at a record level and strong stock market growth. In addition, the new measures contributed +€3.6 billion to the increase in taxes and social contributions. This mainly concerned the exceptional corporation tax contribution introduced at the end of the year to compensate for the expenditure in 2017 generated by the annulment of the 3% tax on dividends by the Constitutional Council (*Box 3*). Furthermore, the ecology tax continued to be ramped up. These measures were partly offset by those in the Responsibility and Solidarity Pact. However, public revenue excluding taxes and social contributions (up 2.5% in 2017) was slightly less buoyant than nominal GDP.

Box 3

The main fiscal and social measures and their impact on taxes and social contributions in 2017

*Vincent Blondelot, Alexandre Fischman, Camille Sutter**

In 2017, the effect of fiscal and social measures contributed to increasing the level of tax and social contributions across general government (+€3.6 billion). This rise stemmed mainly from the exceptional surcharge on corporation tax (IS) introduced to compensate for the impact on public finance of the Constitutional Council's decision to annul the 3% contribution on distributed dividends, and from the continued ramping-up of energy taxation, which were partly offset by measures in the Responsibility and Solidarity Pact. Excluding the impact of the temporary surcharge on corporation tax, the new measures led to a drop of €1.3 bn in taxes and social contributions.

The new measures increased direct corporate taxation and employer contributions by €0.7 billion in 2017, mainly as a result of the exceptional surcharge on corporation tax.

The exceptional surcharge on corporation tax, introduced by the Amending Finance Law for 2017, temporarily increased taxes and social contributions by €4.9 bn in 2017. This rise was partially off-set by several measures designed to reduce the taxes and social contributions paid by enterprises.

Measures relating to taxes and social contributions in 2017

billion euros

Measures relating to taxes and social contributions	**3.6**
Direct corporate taxation1 and employer contributions	**0.7**
Introduction of an exceptional and temporary surcharge on corporation tax to offset the reimbursement of the disputed 3% contribution on dividends (LFR 2017)	4.9
Ramping-up of the CICE and back-payment of amounts owed for 2014	– 2.3
Measures in the Responsibility and Solidarity Pact: reductions in social contribution and repercussions on corporation tax	– 0.7
Measure in the Responsibility and Solidarity Pact: abolition of the exceptional contribution to corporation tax	– 0.5
Other	– 0.6
Direct household taxation,1 employee and self-employed contributions	**0.3**
Income tax reduction of 20% (LFI 2017)	– 1.1
Revision of grants to improve energy performance (LFI 2012)	0.7
Reform of the promotion of home ownership (LFI 2011)	0.6
Other	0.0
Indirect taxation	**3.3**
Ecology tax: ramping-up of the carbon component (LFI 2014)	1.8
Increase in the tax on financial transactions (LFI 2017)	0.4
Other	1.0
Other	**– 0.7**
Offshore Disclosure Unit (STDR, fight against fraud)	– 0.9
Exceptional events and measure concerning general government	0.2

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

* Vincent Blondelot, Alexandre Fischman, Camille Sutter, DG tresor.

Box 3 (cont.)

Firstly, the ramping-up tax credit for encouraging competitiveness and jobs (CICE) and the start of the back-payment of amounts owed for the CICE in 2013 contributed to reducing the corporate tax burden by €2.3 billion. In addition, the measures adopted as part of the Responsibility and Solidarity Pact contributed to reducing corporate levies by €1.1 bn. These included reductions of the social contributions paid by employers that cut corporate levies by €1.0 bn, which were partly offset by a backlash that increased corporate taxation by €0.3 bn. Lastly, in 2017, the direct taxation of companies was also reduced by €0.5 bn due to the impact in 2017 of the annulment of the exceptional contribution to corporate taxation that was implemented as part of the Responsibility and Solidarity Pact in 2016.

The new measures slightly increased the direct taxation of households and the contributions of employees and the self-employed by €0.3 billion

The trend to reduce income tax (IR) for households with average or low incomes continued and was stepped up in 2017, due to the measure to reduce tax by 20% according to the reference taxable income, resulting in a €2.0 bn drop in taxes and social contributions. In the opposite direction, certain measures such as the revision of grants to improve energy performance (+€0.7 bn) and the reform of the promotion of home ownership (+€0.6 bn) contributed to increasing the direct taxation of households.

The new measures increased indirect taxation by €3.3 bn, mainly by raising energy taxes.

In 2017, the ramping-up of the carbon component, with a view to adjusting the taxation of products according to the associated level of CO2 emissions, raised indirect taxation by €1.8 bn. The tax on financial transactions increased by €0.4 bn when its rate was increased from 0.2% to 0.3% in the Initial Finance Law for 2017. Finally, in 2017, the tax fraud revenue yield derived from the establishment of the Offshore Disclosure Unit (STDR) dropped by €0.9 bn.

The central general government deficit decreased

The net borrowing of central general government, the State and other government bodies (ODACs), stood at –€68.5 billion in 2017, a substantial improvement of €11.5 billion. The deficit of the State was reduced by €8.5 billion and that of the ODACs by €2.9 billion. The revenue of central general government was particularly buoyant, rising by €23.8 billion (+5.4% in 2017 after +1.9% in 2016). Expenditure increased by €12.3 billion (+2.4%).

On the expenditure side for the State and ODACs, intermediate consumption accelerated sharply (+4.7% in 2017 after +1.8% in 2016). Expenditure on personnel also picked up (+2.2% in 2017 after +1.1% in 2016). The creation of posts in primary and secondary education continued, as well as at the Ministry of Defence. At the same time, the upward revision of the civil service index point on 1st July 2016 and 1st February 2017 contributed +0.9 points to the growth of index-linked gross wages between 2016 and 2017 (after +0.3 points in 2016). Subsidies on products increased by €1.7 billion, partly due to support for renewable energy sources. Operating subsidies also increased (+€1.3 billion): in particular, the hiring subsidy for SMEs was extended to 30 June 2017 (+€1.0 billion). Current transfers to other administrations increased by over €1 billion: the compensation for targeted exemptions from social contributions was up by 2.8 billion, especially for in-home assistance for frail people (€1.5 bn), whereas the general operating grant continued to decline (–€2.4 billion in 2017). Expenditure in favour of non-profit institutions serving households decreased by €1.2 billion due to the transfer of the funding of vocational rehabilitation centres (ESATs) to the National

Solidarity Fund for Autonomy (CNSA) (–€1.5 billion). In addition, the contribution to the European Union budget declined by over €4.0 billion under the effect of the reduction of this budget. Interest on the debt burden decreased again, but more slowly than in 2016 (–2.8% after –4.4%): the increase in the debt stock was offset by the effects of the substantial drop in interest rates in recent years. The buoyancy of social benefits (+€2.1 billion in 2017) paid out by central government was due to the ramping-up of the activity bonus and its extension to other groups, and to the rise in retirement pensions. Investment expenditure fell back by €0.5 billion, due to fewer deliveries of military hardware in 2017, although deliveries of assets acquired via public-private partnership contracts increased by €0.8 billion (due to the delivery of the Paris Courts in 2017, in particular). After several years of decline, capital transfers paid rose sharply in 2017 (+€8.2 billion): back-payments to enterprises following the invalidation of the 3% contribution on dividends amounted to +€4.7 billion and the recapitalisation and withdrawal of Areva SA shares corresponded to +€4.8 billion.

Regarding central government revenue, taxes and social contributions collected accelerated very sharply (+6.0%, after +1.2% in 2016). Taxes on production and imports were very buoyant (+€11.4 billion in 2017 after +€3.6 billion in 2016). VAT increased by €7.9 billion, under the effect of the increase in taxable jobs and the reduction in transfers to Social Security bodies. Taxes on energy consumption were up by nearly €2.7 billion (+€1.6 billion in domestic duty on consumption of energy products, +€0.6 billion in domestic tax on final electricity consumption and +€0.4 billion in domestic consumption tax on natural gas). Income taxes rose by 6.9%, especially individual income tax on natural persons (+€0.8 billion). Corporation tax increased by €8.4 billion, driven, in particular, by the introduction of an exceptional contribution and the additional contribution (of €4.9 billion) to offset the invalidation of the 3% contribution on dividends. Current internal transfers to general government slowed down (+0.4 billion after +€3.2 billion in 2016). In 2016, the Regional Intervention Fund ceased to be under the authority of the French Health Insurance Fund (CNAM). It is now under the control of the Regional Health Agencies (other government bodies – ODACs and receives transfers from the CNAM. Other current transfers declined by over €1.1 billion. Indeed, in 2016, the French foreign trade insurance company (COFACE) paid €2.0 billion to the State, whereas bonuses and recoveries in relation to financial support for foreign trade amounted to only €0.7 billion in 2017. Property income climbed by 2.0%, after a drop of 5.8% in 2016, buoyed by dividends received by the State (+€0.4 billion). Capital taxes grew by over €1.8 billion thanks to the buoyancy of inheritance taxes.

Local government surplus declined, as a result of a recovery in investment

In 2017, local government authorities had a surplus of €0.8 billion, after a balance of +€3.0 billion in 2016.

Expenditure was buoyed by an upswing in investment and grew more than revenue (+2.5% compared to +1.6% for revenue). Benefits continued to slacken (+0.6% after +1.9% in 2016 and +3.1% in 2015), but all other expenditure gathered pace. Intermediate consumption rose by 1.8%, after declining by 1.0% in 2016. Remunerations increased by 2.3% (after +0.7% in 2016), due to the upward revision of the civil service index point in February and the "Professional Career Paths, Careers and Remunerations" reform. Local investment rose again after three years of decline (+7.2%, after –3.2% in 2016).

Local government revenue increased by 1.6%, buoyed by taxes and social contributions (+€4.9 billion). Its spontaneous growth was faster than that of GDP, thanks to buoyant revenue from property transfer duty in a context of strongly rising prices and the record number of transactions on the real estate market. Despite a previous sharp rise in 2016, especially for property tax, the municipal and departmental tax rates continued to increase in 2017. Revenue from the local residence tax was put under strain by the end of the ramping-up of exemption measures in favour of pensioners on modest incomes. Lastly, the general operating grant decreased by €2.4 billion in 2017, after –€3.3 billion in 2016, in accordance with the Finance Law.

Social security funds accounts generally showed a surplus for the first time since 2008

In 2017, the balance of the social security funds stood at €6.3 billion, after –€2.2 billion in 2016. The social security funds accounts consequently showed a surplus for the first time since 2008 under the effect of very buoyant revenue, and driven by the recovery of activity, combined with controlled expenditure. In 2017, social security funds revenues continued to rise (+3.6%, after 1.5%) The acceleration in tax revenues (+3.3% after +1.2% in 2016) was particularly strong, driven by the sharp increase in private wage bill (+3.5% after +2.4% in 2016). Social contributions also benefited from the upswing in the economic outlook, growing by 3.5% after +1.3% in 2016. In addition, and although it made a smaller contribution to the improvement of the balance, non-tax revenue was also very buoyant, especially due to the State compensation for contributions previously paid for by social protection regimes. This decision, made in the Social Security Financing Act for 2017, generated additional revenue of approximately €2.3 billion for social security administrations.

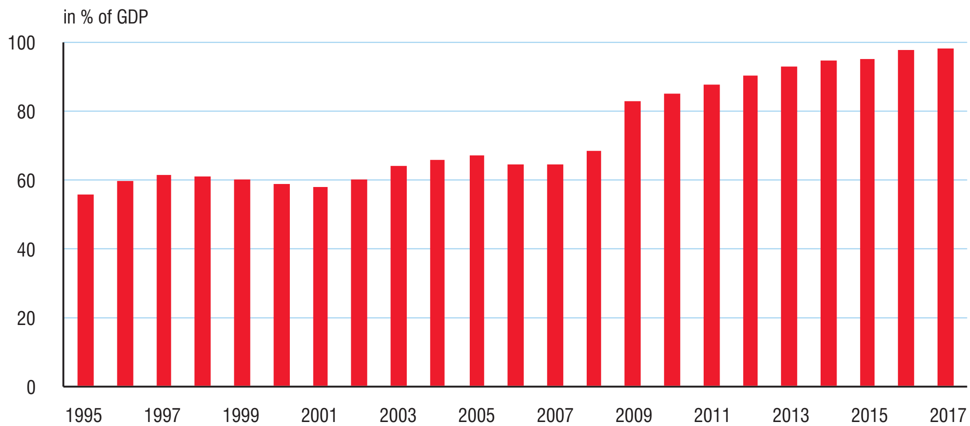
The expenditure of social security funds accelerated (+2.2% after +1.3%), but less sharply than revenue. Incidentally, this acceleration should be corrected by scoping measures for 2016 and 2017. The transfer of housing benefits to the State (amounting to nearly €4.6 bn) had significantly slowed the growth of expenditure in 2016. Conversely, the transfer of the operating expenses (amounting to €1.5 bn) of vocational rehabilitation centres (ESATs) from the State to social security funds increased expenditure in 2017. Spending on old-age pensions did not accelerate (+1.7% as in 2016). On the one hand, the relative buoyancy of inflation only came into play from the date of the revision (October 2017); on the other hand, the end of the ramping-up of the 2010 retirement reform, which led to decline in the number of retirements between September 2016 and January 2017, exerted downward pressure on the amounts of benefits paid out in 2017. The slight rise in expenditure on family benefits is largely attributable to the exceptional upward revision in benefits intended for the lowest-income families. The rise in health insurance spending was kept in check, in line with the national objective for health insurance spending (ONDAM) that was adopted for 2017. However, it grew a little more strongly than in 2016 (+2.2% in 2017, after 1.8% in 2016). Spending on unemployment benefit slowed down, in line with the slowdown in the number of jobseekers and the reduction in their coverage by unemployment insurance.

Government debt within the meaning of Maastricht increased by 0.3 points to 98.5% of GDP

Government debt within the meaning of Maastricht stood at €2,257.8 billion at the end of 2017 after €2,188.3 billion one year earlier (*Figure 15*). It reached 98.5 % of GDP, from 98.2% at the end of 2016.

The State's contribution to government debt was €1,768.1 billion, an increase of €65.4 billion. This variation was very close to its net borrowing (–€65.3 billion). It stemmed mainly from issues of long-term securities (+€73.3 billion), while the State reimbursed €7.6 billion in short-term securities and €0.9 billion for other loans.

15. Government debt as defined by the Maastricht Treaty



Scope: France.
Source: Insee, national accounts, 2014 base.

The contribution of other government bodies (ODACs) to the debt increased by €1.4 billion in 2017. Rail (SNCF) network debt increased by €2.8 bn. Conversely, the French Motorways Fund (CNA) reduced its debt by €1.3 billion. Similarly, the French Atomic Energy and Renewable Energy Commission and the public limited company responsible for managing strategic oil reserves (SAGESS) reduced their debt by €0.2 billion and €0.3 billion, respectively.

The contribution to the debt by local government authorities stood at €201.5 billion at the end of 2017, up €1.4 billion compared with 2016. The regions and municipalities increased their debt, by €0.7 billion and €0.5 billion, respectively.

Lastly, the contribution to the government debt by social security funds increased by €1.3 billion to stand at €226.2 billion at the end of 2017. The Social Debt Redemption Fund (CADES) reduced its debt by €15.0 billion whereas the central agency for social security bodies (ACOSS) and the UNEDIC unemployment insurance scheme increased their debt by €11.5 billion and €4.2 billion respectively. This rise in the debt of social security funds, whose accounts posted surpluses of over €6 billion, was largely attributable to the increase in their liquidity (+€2.6 bn). Furthermore, ACOSS reimbursed €1.6 bn in securities to the State; this operation was carried out among public bodies and not accounted for in its contribution to the debt within the meaning of Maastricht.

At the end of 2017, net general government debt amounted to €2,054.7 billion (or 89.7% of GDP), up €60.8 billion on 2016.

At the same time, gross government debt increased by €69.4 billion. The cash position of the State and social security funds increased by €10.8 billion and €2.6 billion respectively. On the other hand, social security funds reduced their holdings of long-term securities by €0.8 billion and short-term securities by €1.5 billion. Lastly, ODACs reduced their long-term credits by €1.2 billion. ■

Box 4

The main revisions made on the occasion of the publication of the 2014 base National Accounts

*Ronan Mahieu**

The National Accounts have switched to the 2014 base. This change is mainly intended to reduce most of the differences that have accumulated between the rest of the world account in the 2010 base and the balance of payment statistics produced by the Banque de France, and to improve the estimates of property income in the National Accounts, as recommended by the CNIS [report of the National Council for Statistical Information (CNIS) on the cost of capital, 2015].

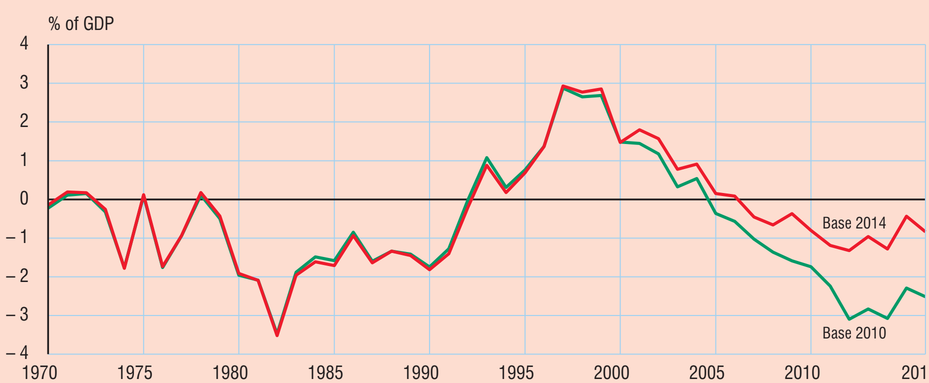
Other quantitatively less important revisions were also made to the National Accounts in the 2014 base, including the integration of narcotic drug production and trafficking, the inclusion of the 2013 National Housing Survey (ENL) in the growth in rents, and several methodological changes made to the general government accounts in consultation with Eurostat. The estimation of gross domestic product (GDP) was only very slightly revised, in terms of its level and its trend: for its level, the revision amounts to approximately +€2 billion per year (i.e. around 0.1 points of GDP), which is mainly attributable to the integration of narcotics.

Several documents published on the *www.insee.fr* website describe the sources and methods used for these different projects. Therefore, this box simply presents the impact of the transition to the 2014 base for some of the most affected indicators, without explaining the methodological details.

Marked improvement in the nation's net borrowing

The reconciliation of the National Accounts and the balance of payments led to a major revision of the rest of the world account (*Figure 1*). The nation's net borrowing was revised downwards by €38.6 billion in 2014. Nearly half of this reduction can be attributed to the balance of trade in goods and services, which rose by €17.8 billion. Approximately €10 billion of this improvement originates from the tourism balance and corresponds to the better recognition in the balance of payments of the spending trend of foreign tourists in France over the past 15 years; the remainder is derived from the upward revision of exports of services in the National Accounts. It should be noted that the indicator for the balance of current transactions used by the European Commission in the framework of the macroeconomic imbalance procedure was

1. National net lending (+) / net borrowing (–)



Scope: France.
Source: Insee, national accounts.

* Ronan Mahieu, Insee.

Box 4 (cont.)

revised to a lesser extent, insofar as it is based on the data published by the balance of payments.

The balance of primary income contributes €15.8 billion to reducing the nation's net borrowing, primarily due to the upward revision of the balance of interest.

The balance of secondary income also contributes to reducing the nation's net borrowing between the two bases, by €5.0 billion: this revision is based on the alignment of the National Accounts on the "other sundry transfers" item (D.759). Lastly, the balance of the capital account is not revised.

The balance profile (net lending or net borrowing over time) remains virtually unchanged between the two bases until the end of the 1990s (*Figure 2*). The diagnosis subsequently changes, especially from the mid-2000s onwards. Admittedly, a significant deterioration in the balance can still be observed from the peak reached in 1997 (net lending at 2.9% of GDP) and the low point reached fifteen years later, but the speed of the deterioration of the balance is reduced, to the extent that the nation's net borrowing stands at 1.3% of GDP in 2012 in the 2014 base, after 3.1% of GDP in the 2010 base.

Sharp decline in dividends received by households

In the 2014 base, pursuant to the recommendations of the National Council for Statistical Information (CNIS) report on the cost of capital, the dividends received by households are estimated primarily on the basis of administrative sources, which are mainly fiscal. The preferred source for the estimation of dividends is now the household income tax declarations for natural persons, supplemented by sources relating to the tax base for the contribution to the reimbursement of the social debt (CRDS) for dividends that are exempt from income tax but subject to the CRDS, especially in the context of personal equity plans (PEPs).

This new estimation method has led to a sharp downward revision of the dividends received by households, which is reflected, from an accounting standpoint, in the estimates of the net profits distributed by non-financial corporations (NFCs). Consequently, the indicator which relates the net profits distributed by NFCs (mainly dividends) to their gross operating surplus is also revised substantially downwards for all years covered by the national accounts (*Figure 3*). As the gross operating surplus itself is hardly revised, the revision can therefore be attributed to the estimate net distributed profits, which stands at €23.4 billion for 2014 in the 2014 base, instead of €48.0 billion in the 2010 base.

Before the 2008-2009 crisis, the level of the net distributed profits/gross operating surplus ratio is revised downward but there are few changes to its trends: between 2000 and 2009, in both the 2010 base and the 2014 base, a sharp rise in the ratio can be observed (of around 5 points). However, the profile of the years following the crisis is modified. The dramatic decline in the indicator increases after 2009, particularly in 2013 – a year marked by the end of the withholding tax on dividends and hence the start of their systematic imposition according to the income tax rate table. The level

2. Rest of the world account

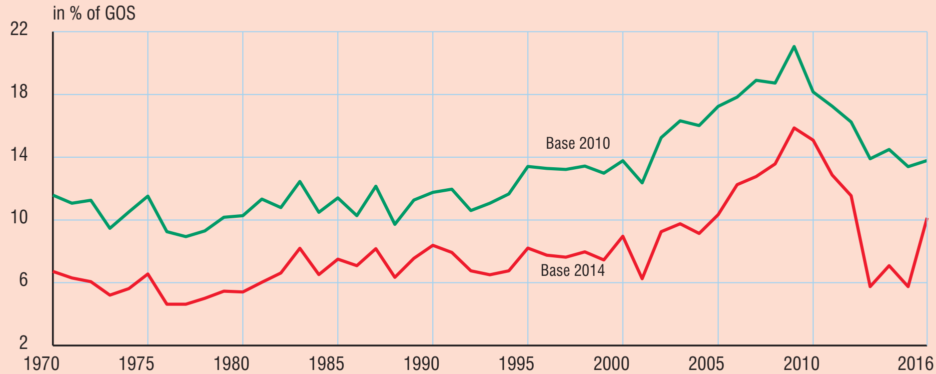
balance, millions of euros

	2014 Base 2010	2014 Base 2014	Differences
Foreign trade balance	**– 42,386**	**– 24,624**	**17,762**
Distributive transactions	**– 23,696**	**– 2,894**	**20,802**
Primary income[1]	30,824	46,594	15,770
Secondary income[2]	– 53,450	– 48,418	5,032
Capital transferts	– 1,070	– 1,070	0
Net lending (+) or net borrowing (-)	**– 66,082**	**– 27,518**	**38,564**

1. Compensation of border employees,tax and subsidy flows on production and income from property (interest, dividends, land income, etc.)
2. Taxes on income impôts and property, social cntributions and benefits other current transferts.
Scope: France.
Source: Insee, national accounts.

Box 4 (cont.)

3. Net distributed by non financial corporations profits



Scope: France.
Source: Insee, national accounts.

of the indicator for 2013-2015 (between 6% and 7%) is slightly below the estimated level for the 1990s, which was not the case for the 2010 base. However, due to the sharp rise of the indicator in 2016, by the end of the period, it has recovered to a level similar to that seen in the mid-2000s.

Box 5

Main revisions made to the National accounts in 2015 and 2016

*Lorraine Aeberhardt, Étienne Debauche**

Main revisions of the 2015 accounts

The resources and uses balance

In the final 2015 accounts, real GDP grew by 1.1%, as in the semi-final accounts whilst nominal GDP grew by +2.3% compared to +2.2% in the semi-final accounts. This revision was mainly due to a greater dynamism in the value added (VA) of non-financial corporations (NFCs).

On the demand side, the contribution of domestic demand excluding inventory changes to real GDP growth was not revised and stood at +1.3 points. GFCF growth was +1.0% in both final and semi-final accounts, but this stability masks movements in opposite directions. The real GFCF of NFCs was slightly revised upwards (+3.2% compared to +3.1%) after processing the ÉSANE (Annual Business Statistics System) data on tangible fixed assets. The drop in the general government's GFCF was more pronounced than in the semi-final accounts (-4.6% compared to -3.0%) after taking into account the latest data from the DGFiP (Public Finances Directorate General). On the other hand, the decline in households' GFCF was less pronounced: -1.5% in the final accounts compared to -2.1% in the semi-final accounts. All in all, the contribution of GFCF to real GDP growth was 0.2 points in 2015, in both final and semi-final accounts.

The government final consumption expenditure was revised very slightly downwards (+1.0% compared to +1.1%) whilst the household

* Lorraine Aeberhardt, Étienne Debauche, Insee.

Box 5 (cont.)

consumption expenditure was revised slightly upwards (+1.5 compared to +1.4%) %.

Growth in exports was up 4.6% compared with 4.3%, as was growth in imports (+5.9% compared with +5.7%), and the contribution of foreign trade to real GDP growth was slightly less negative in the final accounts (-0.4 points) than in the semi-final accounts (-0.5 points).

Companies continued to replenish their inventories in 2015: the contribution of inventories to real GDP growth remained unchanged at +0.3 points.

The account of non-financial corporations

The change in the value added of NFCs was revised upwards by 0.4 points (+3.0% instead of +2.6%). and the growth in the wages paid by such companies by +0.2 points to +1.5%. Although taxes on production net of subsidies was also revised upwards (+0.3 points), the Gross operating surplus (GOS) therefore was more vigorous in the final accounts (+8.8% instead of 7.9 %). The change in the balance of property income was less favorable, mainly due to revisions in reinvested earnings from foreign direct investment provided by the balance of payments. As a result, the change in the NFCs' gross savings decreased by -4.2%. Barely changed (+0.2 points), the GFCF increased to +3.2% over 2015. As the upward revision of value added was only partially offset by the revision of remuneration, the growth in margin rate of NFCs was slightly higher (+1.7 points instead of +1.6 points in the semi-final accounts): it came out at 32.0% in 2015. The NFC investment rate was unchanged at 22.8%, whilst the change in the self-financing rate is revised downwards (-2.3 points) in line with the savings review: in the end it was 97.5%.

Households account

Gross disposable income (GDI) was revised up to +1.2% (+1.1% in the semi-final accounts), in connection with the improvement of property income partly offset by a downward revision in earned income. Given the moderate increase in the final consumption expenditure price index, the change in purchasing power was only slightly lower than the change in GDI, +0.9% compared to +0.8% previously. The increase in nominal household final consumption expenditure, however, didn't change:+1.7%. As a result, the savings rate was not revised and stood at 14.2%

Main revisions of the 2016 accounts

The resources and uses balance

Real GDP grew by 1.2% in the semi-final accounts for 2016, as in the provisional accounts. Nominal GDP growth was revised downwards: +1.4% compared to +1.6%. The GDP deflator was therefore revised downwards (+0.2% instead of +0.4%).

On the demand side, the contribution of domestic demand excluding inventory changes to GDP growth was unchanged: +2.1 points.

The contribution of GFCF was not revised (+0.6 points) because the downward revision of the GFCF of NFCs (+3.4% instead of +3.6%) was offset by the upward revision of the GFCF of general government (+0.2% instead of -0.1%) and the GFCF of households (+2.8% instead of +2.4%).

Real household consumption expenditure increased slightly less than in the provisional accounts (+2.1% compared to +2.3%) while general government consumption expenditure increased by + 1.4% in the semi-final accounts compared to +1.3 % in the provisional accounts.

The contribution of foreign trade to real GDP growth was very strongly negative, at -0.5 points compared to -0.8 points in the provisional accounts. Imports were revised downwards (+3.0% compared to +4.2%), as were exports (+1.5% instead of +1.8%).

Corporate changes in inventories contributed negatively to GPD growth and was estimated at -0.4 points instead of -0.1 points in the provisional accounts.

The account of non-financial corporations

In 2016, growth in NFCs' VA stood at +1.9% instead of +2.2% in the provisional accounts. In addition, wage growth was revised downwards to +2.1% instead of +2.3%.

As a result, GOS was less dynamic (+1.6%) than it was in the provisional accounts (+2.2%). Likewise, the margin rate was slightly lowered (-0.1 points) and stood at 31.9% in 2016. Furthermore, the balance of property income deteriorated significantly (in particular the dividend balance), and income taxes paid by NFCs were revised upwards. Overall, gross savings were significantly revised downwards. In the semi-final accounts, the gross savings of NFCs increased by 0.1% while it increased by 4.5% in

Box 5 (cont.)

Table of main revisions

in %

B. GDP in vollume	Old series (base 2010)		New series (base 2014)	
	2015	2016	2015	2016
Gross domestic product	**1.1**	**1.2**	**1.1**	**1.2**
Imports	5.7	4.2	5.9	3.0
Household consumption expenditure	1.4	2.3	1.5	2.1
General government consumption expenditure	1.1	1.3	1.0	1.4
Total gross fixed capital formation (GFCF)	1.0	2.8	1.0	2.8
of which : households	*– 2.1*	*2.4*	*– 1.5*	*2.8*
non financial enterprises (NFE)	*3.1*	*3.6*	*3.2*	*3.4*
general government	*– 3.0*	*– 0.1*	*– 4.6*	*0.2*
Exports	4.3	1.8	4.6	1.5
Inventories (contribution to GDP, in points)	0.3	– 0.1	0.3	– 0.4
B. GDP in value, gross data	Old series (base 2010)		New series (base 2014)	
	2015	2016	2015	2016
Gross domestic product	**2.2**	**1.6**	**2.3**	**1.4**
Imports	3.2	1.7	3.4	0.8
Household consumption expenditure	1.7	2.2	1.7	2.0
General government consumption expenditure	1.0	1.3	0.9	1.2
Total gross fixed capital formation (GFCF)	0.9	3.4	0.8	3.2
of which : households	*– 1.4*	*3.2*	*– 1.1*	*3.6*
non financial enterprises (NFE)	*3.1*	*4.3*	*3.1*	*3.7*
general government	*– 4.3*	*-0.1*	*– 6.0*	*0.3*
Exports	4.9	0.2	5.5	– 0.1
Inventories (contribution to GDP, in points)	0.4	-0.1	0.4	– 0.4
C. Prices of GDP, gross data	Old series (base 2010)		New series (base 2014)	
	2015	2016	2015	2016
Gross domestic product	**1.1**	**0.4**	**1.1**	**0.2**
Imports	– 2.5	– 2.4	– 2.3	– 2.2
Household consumption expenditure	0.3	– 0.1	0.3	– 0.1
General government consumption expenditure	– 0.1	– 0.1	– 0.1	– 0.2
Total gross fixed capital formation (GFCF)	– 0.1	0.5	– 0.3	0.4
of which : households	*0.6*	*0.8*	*0.4*	*0.8*
non financial enterprises (NFE)	*0.0*	*0.6*	*– 0.2*	*0.3*
general government	*– 1.4*	*0.0*	*– 1.4*	*0.1*
Exports	0.6	– 1.7	0.8	– 1.6
Inventories (contribution to GDP, in points)	0.0	0.0	0.1	0.0
D. Items of non financial enterprises account in value	Old series (base 2010)		New series (base 2014)	
	2015	2016	2015	2016
Value added (VA)	**2.6**	**2.2**	**3.0**	**1.9**
Compensation of employees	1.3	2.3	1.5	2.1
Gross operating surplus (GOS)	7.9	2.2	8.8	1.6
Gross saving	13.9	4.5	9.7	– 1.2
GFCF	3.0	4.4	3.2	3.7
Margin rate (GOS/VA)	31.9	31.9	32.0	31.9
Investment rate (GFCF/VA)	22.9	23.3	22.8	23.2
Self-financing rate (saving/GFCF)	84.6	84.7	97.5	92.9
E. Items of households account in value	Old series (base 2010)		New series (base 2014)	
	2015	2016	2015	2016
Gross disposable income (GDI)	**1.1**	**1.7**	**1.2**	**1.7**
Consumption expenditure	1.7	2.2	1.7	2.0
Purchasing power of GDI	0.8	1.8	0.9	1.8
Saving ratio (saving/GDI)	14.2	13.9	14.2	13.9
Financial saving ratio (lending/GDI)	5.0	4.6	4.9	4.4

Scope: France.
Note: old series come from annual national accounts (base 2010) published on May 30, 2017; new series come from annual national accounts (base 2014) published on May 30, 2018.
Source: Insee, national accounts.

Box 5 (cont.)

the provisional accounts. The GFCF was revised downwards (-0.7 points, to +3.7% in 2016).

The investment rate was therefore up slightly (+0.4 points), a figure close to the trend shown in the provisional accounts (+0.4 points). The change in the self-financing ratio was revised downwards in line with the deterioration in savings: it fell by 3.4 points, whereas it was stable in the provisional accounts. In 2016, the self-financing rate was 94.0%.

Households account

Households' nominal GDI grew by +1.7% in 2016 as in the provisional accounts. Growth in compensation of employees was less vigorous due to the fall in mixed income and, to a lesser extent, wages, as well as income from assets.

However, these revisions were largely offset by those on current transfers received from the rest of the world and net insurance premiums. As with the GDI, the change in the purchasing power of the GDI was not revised: it increased by 1.8% in 2016. As nominal household consumption expenditure was less vigorous than in the provisional accounts (+2.0% compared with +2.2%), households' saving ratio fell by 0.3 points (as in the provisional accounts) to 13.9%. The financial savings rate was revised very slightly downwards to 4.4%.