

# Economy

Focus France

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## France: the pension reform will not take place

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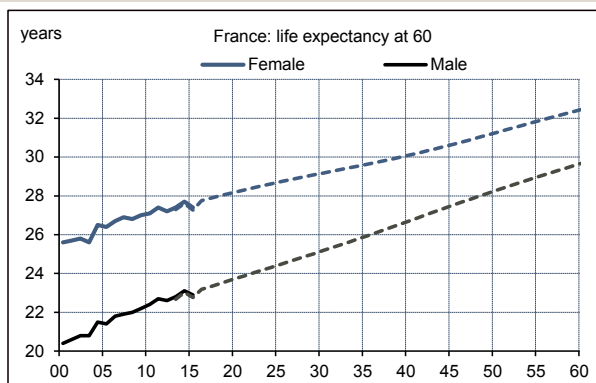
*Or, if it does, it will not be in the form and according to the timeframe favoured by the French government. Officially, the goal is to create a universal pension system that will eventually replace the many existing regimes. There would be a gain in transparency (improved management) and equity (disappearance of so-called "special regimes"). There would inevitably be losers. A year after the eruption of the "Yellow Vests" movement, it is hard to imagine Emmanuel Macron taking the risk of a social crisis durably blocking the country. The reform will be postponed, amended or shaped by concessions to those with the greatest capacity for social disruption.*

### The fortnight's focus

As the French pension system is based on the principle that contributions from working people are used to pay for current pensions, it is impossible to address this subject without including some demographic considerations. In the early 1980s, there were 3 contributors for every pensioner; a ratio which has since fallen to 1.7 and is forecast to reach 1.5 by 2040. The later entry of young people into working life and, above all, the fact that people are living longer have upended the very foundations of the pay-as-you-go system. According to the *Conseil d'Orientation des Retraites* (France's Pension Guidance Council), the life expectancy of people who had reached 60 years of age in 2015 was 27.4 for women and 22.9 for men, i.e. +1.0 and +1.5 years in one decade. The projections are for a gain of 1.2 years for women and 1.5 for men on average for each decade until 2060 (chart lhs). If one wants to preserve pension levels without increasing the amount of contributions, the ratio of contributors to pensioners must somehow be increased, either by boosting the employment rate or by pushing back the retirement age. This is the basic starting point. The effective age of retirement, duration and amount of contributions, pension levels, these are some of the key parameters that must be factored in when considering the issue of pension systems.

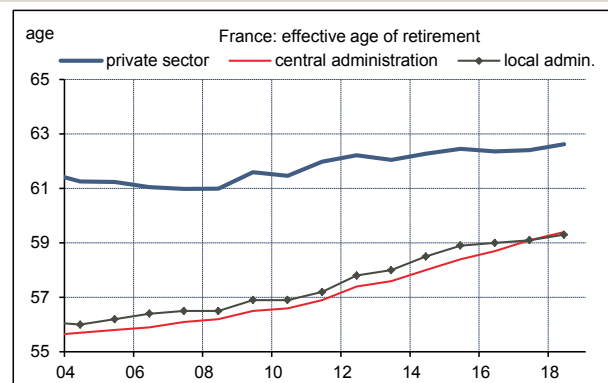
In France, the legal age of entitlement to a retirement pension, possibly with a discount where the contribution period is not reached, is 62 years. The effective age is slightly higher in the private sector, but much lower in the public sector (chart rhs). The trend is slightly upward due to previous pension reforms voted in 1993, 2003 and 2010. The replacement rate, defined as the median income of pensioners in relation to the income of the population aged 50-59, is 67%, compared to an EU average of 61%. Put simply, the French pension system is more expensive than that of other countries. According to Eurostat, pension spending represented 12.8% of GDP, on average, in the EU in 2015, but 15% in France, which is topped in this domain by just two other countries Italy (16.5%) and Greece (17.8%).

### France: life expectancy at 60



Sources: COR, Odco BHF Securities

### France: effective age of retirement



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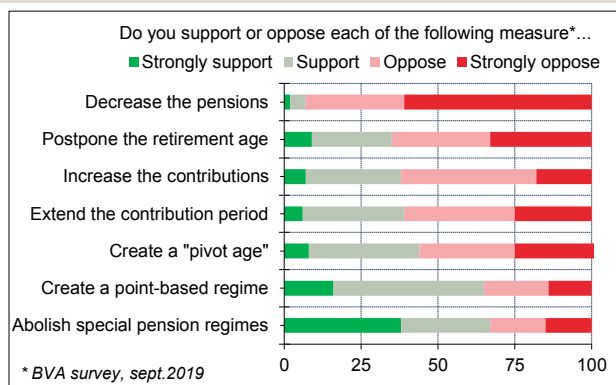
The government pension plan is not supposed to be a “*parametric*” reform, not officially at least, which means some contortions are required. Without changing the legal age, it is introducing the concept of a pivot age around which premiums or discounts would be calculated in order to provide an incentive to extend working life. The reform aims to be “*systemic*”, with a view to replacing the multitude of existing regimes (42) with a single system. Pensions would no longer be calculated on the basis of the annuities paid, which may differ from one case to another, but on the basis of an accumulation of points throughout one’s professional career. The value of the point would be the same for all contributors, whether they are employees in the private sector, independent business owners, public sector employees or civil servants, thus ensuring the new system is equitable. The switch-over to the new system is supposed to start from 2025 and lasts several years. This is the guideline advocated by the government’s high commissioner in a report published in July 2019<sup>1</sup>. A recent poll suggested that aside from the abolition of the special regimes, which are seen as advantages benefiting a minority of individuals the cost of which is partly met by all taxpayers, the measures designed to ensure the viability of the pension system are mostly rejected (chart lhs).

In short, there are plenty of reasons to modify the current system. First, it is not viable over time because of demographic shifts. Second, it is complicated to manage because of the large number of existing regimes, which offers current workers little visibility on pension entitlements. Lastly, it does not seem to be very equitable in social terms as it juxtaposes regimes the rules of which can differ quite substantially. However, as ripe as the system may be for change, there is no guarantee the replacement will succeed.

In the first place, unless there is something we have missed, there has been no serious communication effort by the government to convince public opinion regarding the validity of its approach. The lengthy consultation which did take place was a matter for experts. Clearly this is part and parcel of the process, but the opinion of experts (even if they were unanimous, which they were not) seems to have fallen out of favour in our society nowadays. Whether it is Donald Trump, Brexit supporters or the “yellow vest” movement, it seems to be the views of non-experts, to put it politely, that hold sway. There is a battle of public opinion that needs to be waged. On this front, the government does not look to be in a particularly good place. According to the most recent poll<sup>2</sup>, 29% of those interviewed favour reform, a decline of 5 pts in two months (44% against, 23% neutral). But this figure takes into account the support of the respondents of 65 years and over (at 49%), i.e. of those which will never be concerned by the reform. The French, as is often the case, may be willing to reform ... but not in their own backyard.

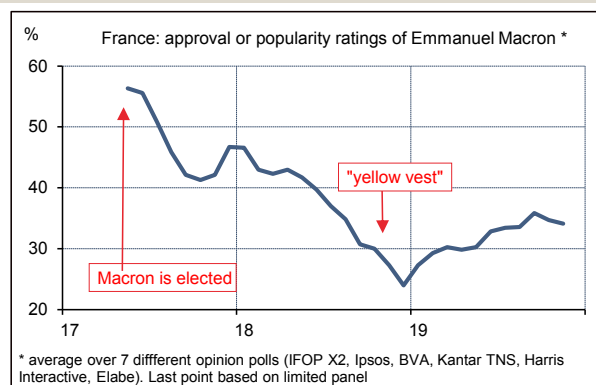
Moreover, the pension reform has often been presented by Emmanuel Macron from the political angle, and is analysed as such. He is keen to show that he remains a reformer despite the opposition and criticism triggered by the other reforms that have already been accomplished (labour code in 2017, status of the SNCF in 2018, unemployment benefits in 2019). As a result, this pension reform is attacked as much for itself as for the unpopularity of the French president. Even though he has managed to regain ground following the “yellow vests” crisis twelve months ago, Emmanuel Macron is still not popular (chart rhs). His predecessors have often been even less so, and this is therefore no indication of his chances of re-election in 2022. In any case, the pension reform will provide an opportunity to express the discontent that is emerging in many domains of the French society. The countdown to the major transport strike planned for 5 December has begun. Before and particularly afterwards, there is a good chance that the pension plan plans will be diluted or amended in one way or another.

### France: public opinion and pension reforms



Sources: BVA, polling institutes, ODDO BHF Securities

### France: Emmanuel Macron's popularity rating



<sup>1</sup> Delevoye report, "Pour un système universel de retraite" (For a universal pension system), <https://www.reforme-retraite.gouv.fr/>

<sup>2</sup> Elabe survey, "Les Français et les mobilisations sociales" (The French and social movements), 7 November 2019



## The fortnight's economic newsflow

- According to the first estimate of the national accounts, real GDP rose by 0.3% q-o-q in Q3 2019, at the same pace as during the two previous quarters. For Q4, the Bank of France forecasts a 0.2% increase, whilst INSEE is looking for 0.3%. Assuming no major deviation from these forecasts, GDP growth will be at 1.3% on average in 2019, representing a 0.4-point decline vs 2018 and 1.1 points vs 2017. The growth slowdown in France has been far less marked than in the rest of the Eurozone (-1.6 points between 2017 and 2019), and particularly Germany (-2.3 points). This is partly due to the robustness of investment spending, particularly from corporates. All told, final domestic demand - excluding the contribution from foreign trade and stock variations - has been on a more robust trend of 0.5% q-o-q for the past two quarters.

	2019				2016	2017	2018	2019
	Q1	Q2	Q3	Oct				
					y/y%			carryover
Real GDP	0.3	0.3	0.3	-	1.0	2.4	1.7	1.2
- o/w Household consumption	0.4	0.2	0.3	-	1.6	1.6	0.9	1.1
- o/w Household investment	0.2	1.6	0.1	-	2.8	6.6	2.0	1.6
- o/w Business investment	0.6	1.1	1.2	-	2.7	5.0	3.9	3.9
Private employment	0.5	0.2	0.3	-	0.9	1.4	1.1	1.2
Business climate INSEE (level)	103	106	106	105	101	107	106	105
PMI-composite index (level)	49.2	51.3	51.9	52.6	50.9	57.1	55.0	51.2

- We might be surprised that household consumption has not bounced back more this year given that disposable income has been stimulated by tax cuts and job creation in the private sector is holding up well, growing as fast as GDP. The household savings rate jumped at end-2018 and early 2019, reflecting the cautious stance adopted both during and in the aftermath of the "yellow vests" crisis. Since then, consumer confidence has shown a spectacular rebound, to a level not seen since 2007 or 2017 (see page 3), but spending has not changed gear. Certain fiscal measures, such as the abolition of council tax, were announced end-2018 but only took effect in Q4 2019. We might simply be seeing a time lag. Social tensions have by no means completely died down (see pages 1-2), which might warrant a wait-and-see attitude. Finally, we must not rule out the possibility that the national accounts have underestimated consumption levels. For instance, we struggle to understand why there has been a sharp and constant decline in food spending for the past two years. VAT revenue has shown a fairly marked increase since the start of the year (+5.3%), which is not an indicator of weak consumption. All in all, French households have rarely shown so little anxiety about unemployment. For 2020, it is likely that we will see a reduction in the savings rate and a firming in consumption expenditure.
- The business climate indices for **October** are also encouraging. According to the INSEE, there is some gloom in industry – albeit to a lesser extent than in most other European countries – but sentiment is high, or even very high, in other sectors. The same applies to the employment climate, which is well above its historic average. According to Markit, the PMI indices rallied a little to 52.9 points in services and 50.7 points for manufacturing. They are continuing to edge away from the low points hit earlier this year - in January for services (47.8) and in March for industry (49.7).

## Forthcoming events

- Governments, trade unions, politicians, newspaper columnists - all eyes are firmly set on **5 December** when an unlimited strike in public transport has been called. The principle is a familiar one: agent A (the trade union) prevents agent B (ordinary people) from accessing a public service, watched by agent C (the press, which airs the grievances expressed in various quarters) so that agent D (the government) will shelve its reform. Here, the main point of contention is the future of the special pension systems. The battle is about winning public opinion and the outcome depends on the length and intensity of the strike. In December 1995, the strike in the transport segment and large swathes of the public sector had been very intense, with public transport brought to a standstill for around one month. In the end, the Chirac-Juppé government capitulated. In spring 2018, the strike in the rail sector lasted for longer (on and off for three months), but since it gained less support and did not spread to the rest of the economy, the government finally managed to push through its reform to the national rail company's status. The example of 1995 is the ultimate deterrent for any government wishing to introduce reform. Various concessions are therefore likely to be made.



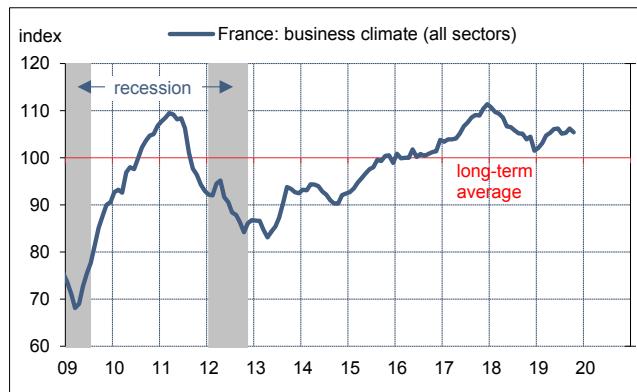
## Appendix chart: business climate, confidence, households

### Confidence indicators

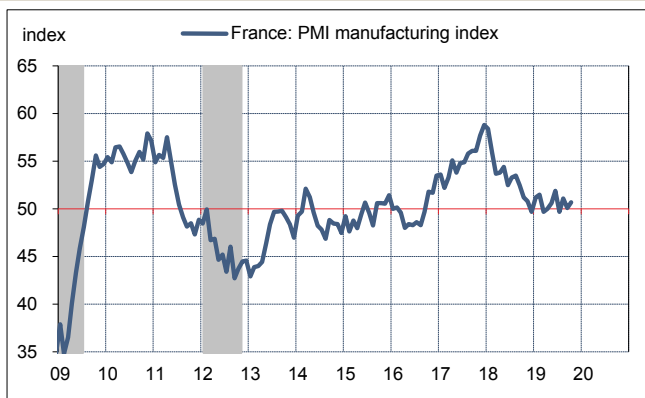
France: survey data and the business cycle						
Index	Current			Expansion	Recession*	
	Oct	Sep	Aug		2008-09	1992-93
PMI manufacturing	50.7	50.1	51.1	52.0	42.6	-
PMI services (output)	52.9	51.1	53.4	55.2	46.8	-
PMI composite (output)	52.6	50.8	52.9	54.5	44.9	-
INSEE manufacturing	99	102	103	102	84	81
INSEE services	106	106	105	101	84	84
INSEE construction	112	112	111	103	102	85
INSEE retail sector	105	105	100	101	86	86
INSEE wholesale sector	-	105	106	101	85	87
INSEE consumer conf.	104	104	103	101	84	101
BdF manufacturing	98	96	99	103	79	86
BdF services	98	99	99	101	91	83

\*from Q2 2008 to Q2 2009; and from Q2 1992 to Q2 1993

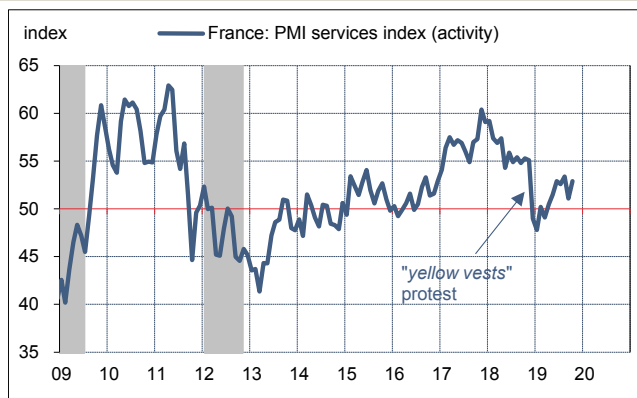
### Business climate



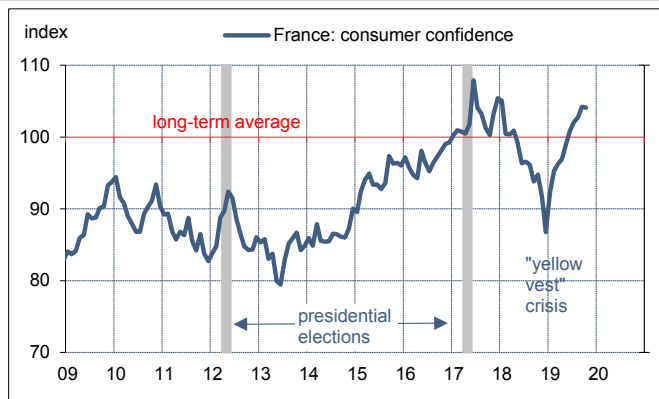
### PMI-manufacturing survey



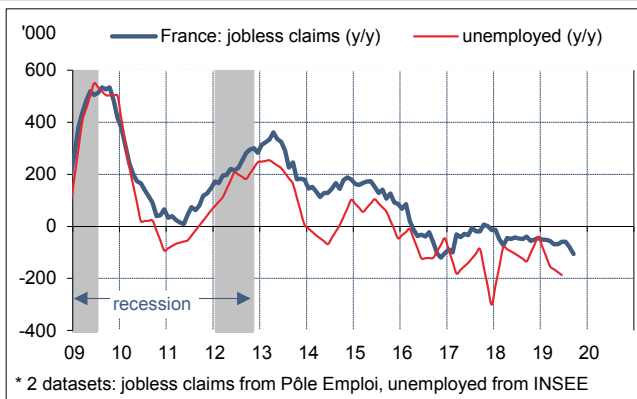
### PMI services survey



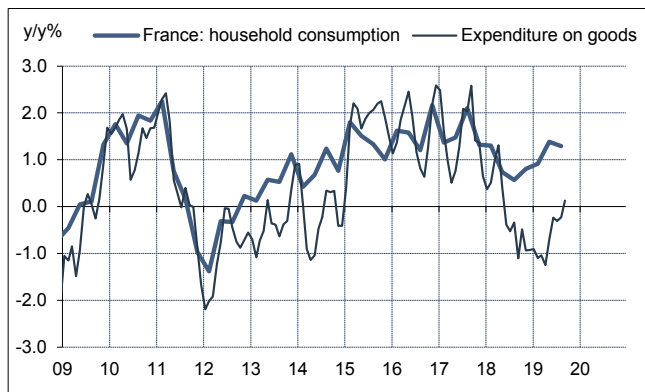
### Consumer confidence



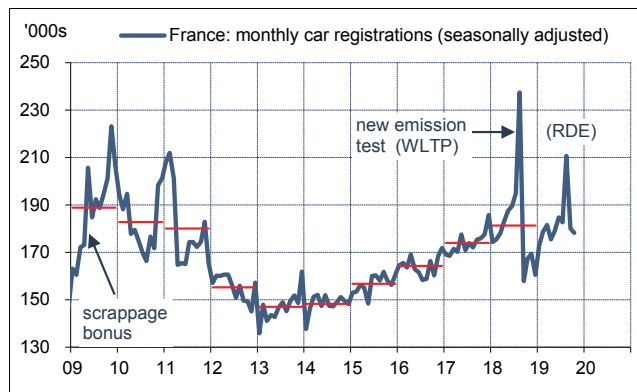
### Jobless claims



### Household spending



### Vehicle sales

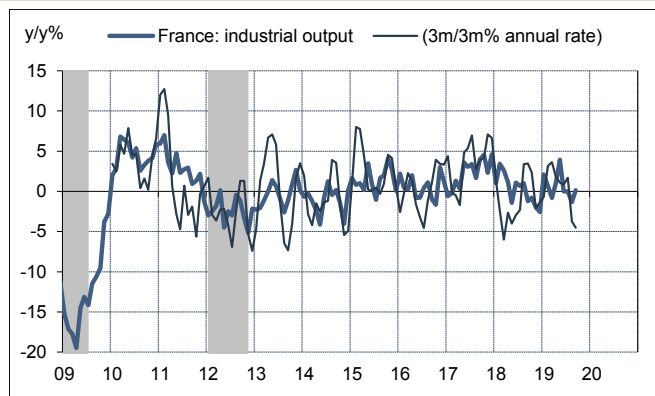


Sources : Thomson Reuters, Markit, Odoo BHF Securities

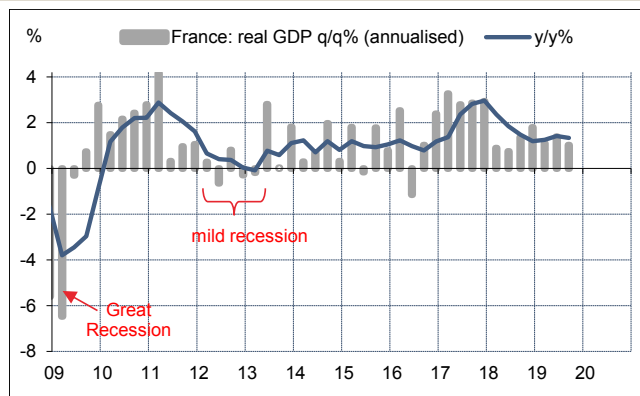


## Appendix chart: activity, inflation, credit, finances

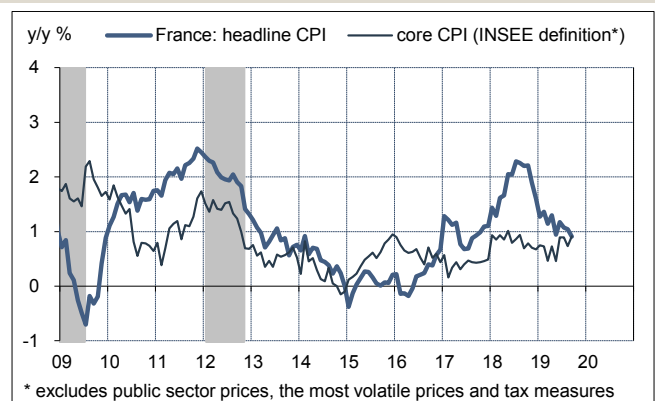
### Industrial output



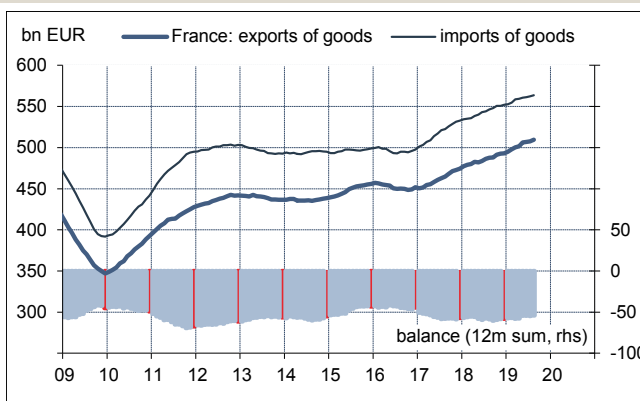
### Real GDP



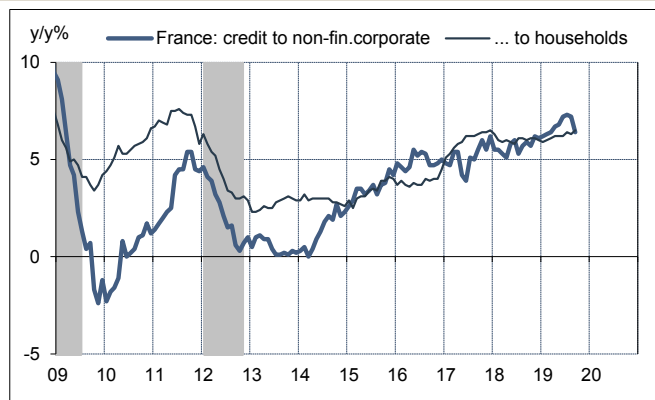
### Headline and core inflation



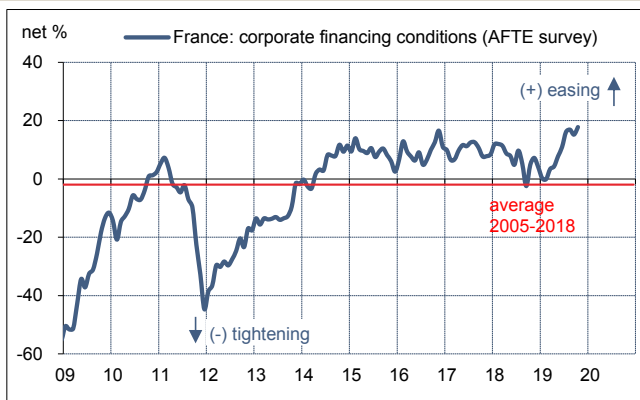
### Trades of goods



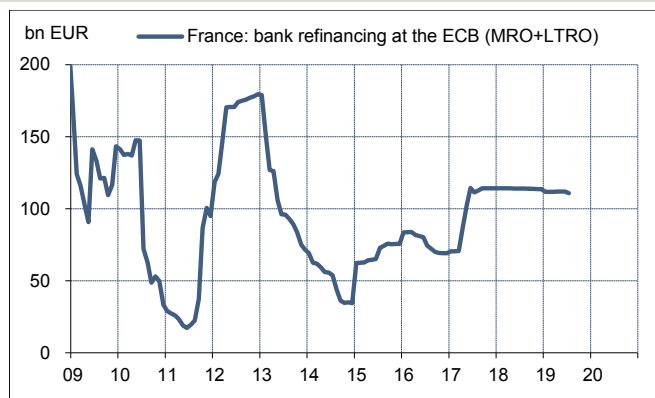
### Private sector credit



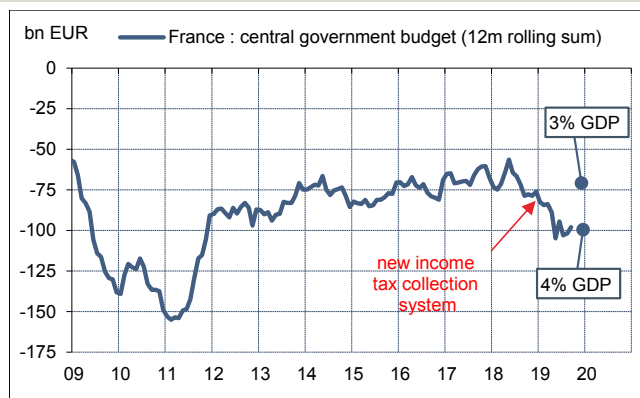
### Credit conditions for businesses



### Bank refinancing at the ECB



### Government budget



Sources : Thomson Reuters, AFTE, Odco BHF Securities





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