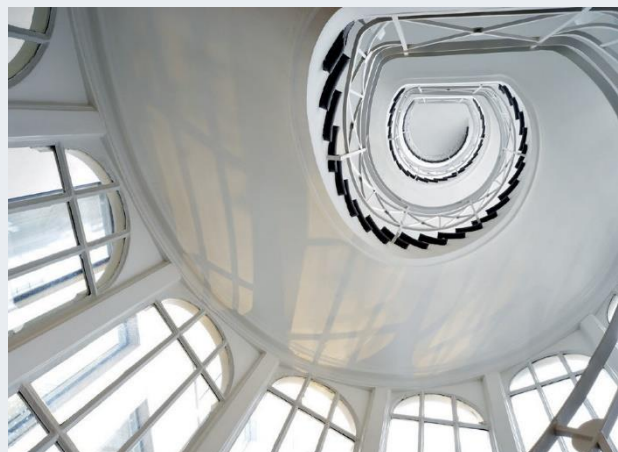


THE LETTER FROM THE BANK

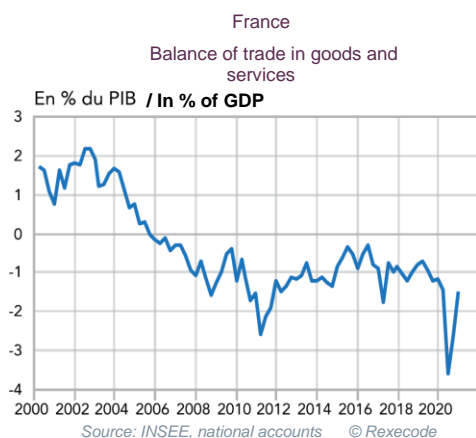
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THE WORRYING DEGRADATION OF FRANCE'S COMPETITIVENESS

The lack of a French vaccine against Covid has not gone unnoticed. It has been perceived as a downgrading. The "Pasteur country" is struggling! Is this a one-off, or does this failure reflect the weakening of our research and production facilities? Unfortunately, it is the latter assumption that has to be retained. To better analyse it, the Rexecode Economic Research Institute has just published its 14th report on French competitiveness, and it does not make good reading.

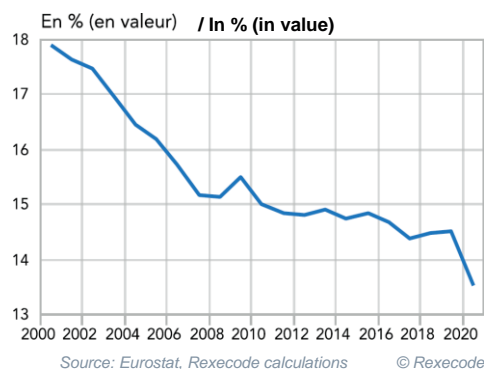
The trade balance deficit reached €65 billion, the record for the eurozone and the highest in France. The deficit has grown by €7.3 billion compared to 2019. The surplus on the services balance, a traditional strong point, fell by €13.5 billion to just €8 billion. France's share in eurozone exports fell by 1 point between 2019 and 2020 to reach its lowest level (13.5%) for twenty years. This decrease represents a loss of exports of €46 billion. Meanwhile, its main European competitors (Germany, Spain, Italy) are doing less badly or even better.



For sure, like all European countries, France has suffered from the Covid crisis, which has upset its economic balance, but its competitiveness has suffered more than that of other countries. It shows the strongest decline the main economies of the eurozone: Spain saw its market share in exports of goods and services from the eurozone fall by 0.8 points in 2020 and Italy by 0.4 points. Conversely, Germany gained 0.5 points and the rest of the Eurozone grew by 1.7 points on average.

This deterioration is not a one-off. Looking back, we can see that France's share in exports of goods and services from the eurozone fell between 2000 and 2017 (from 17.9% to 14.4%), then seemed to stabilise in 2017-2019, before falling sharply to 13.5% in 2020. We are facing a long trend of continued degradation, and that is all the more worrying.

Share of French exports of goods and services in that of the eurozone



As Rexecode explains: "The competitiveness of an economy is its ability to sustainably maintain its position in international competition both on foreign markets and on

the domestic market without eroding the international purchasing power of its agents.”

That is to say, maintain (or increase) its competitive position without resorting to devaluation, which makes imports more expensive and, above all, which offers only a temporary advantage and dissuades companies from improving their “intrinsic” competitiveness, That is to say to invest in research and development.

According to Rexecode, the deterioration of the year 2020 is not limited to our specialisation (aeronautics, tourism, which have been hit hard), because “a detailed sectoral examination of our export market shares” shows that all sectors are affected. Germany, Italy and Spain manage to improve their exports in several sectors while France appears uniformly in the red (food products, drinks and tobacco, chemicals, manufactured goods, machinery and transport equipment). The pandemic has been an accelerator for the digital sector, but France has few strong points in this area. The situation is therefore more serious than expected; it is not cyclical but structural.

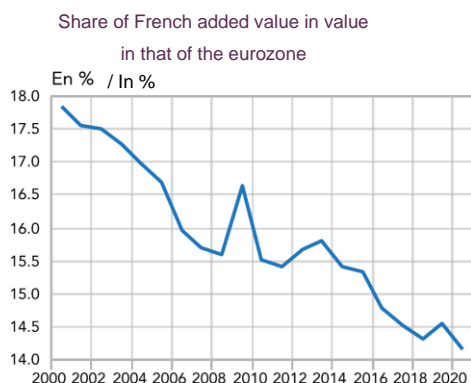
It is the French production system that suffers from a general fragility, and this can be seen in particular with the reduction of the share of French industry in the industrial added value of all the countries of the eurozone at 14.1%, a historic low. Manufacturing industry accounts for three quarters of France's exports, the widening of our trade balance is therefore likely to increase in the years to come...

Rexecode identifies production costs as a handicap, due to excessive taxation. Moreover, the reductions in charges from the CICE (tax credit for competitiveness and employment) and the Responsibility Pact explain, according to the institute, the stabilisation of performance during the 2017-2019 period. A lesson to remember.

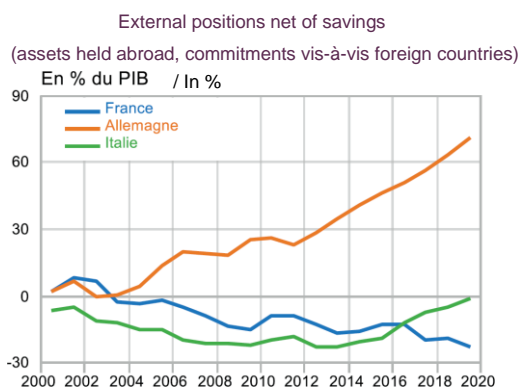
To emerge from the Covid crisis, rather than talking about aid and a "recovery plan", which will above all increase the public debt, we should move towards a reduction in the charges weighing on companies. A massive reduction would sustainably restore France's competitiveness, which could increase its exports and reindustrialise. The state itself would gain in the long run with higher tax revenues. This is the virtuous circle that needs to be put in place to stop this decline.

It is above all a change of paradigm: we must get out of the magic of public spending that is supposed to solve all the problems, and instead trust companies by giving them more autonomy, which means improving their profitability. As the Rexecode Institute points out: “The eurozone is unified in monetary terms, it is not in terms of competitiveness.”

There are winners and losers, and France is unfortunately on the wrong side.



Source: Eurostat, Rexecode calculations © Rexecode



Source: Eurostat © Rexecode



Sources:

INSEE, Eurostat, The Rexecode study

<http://www.rexecode.fr/public/Analyses-et-previsions/Documents-de-travail/Les-indicateurs-de-competitivite-de-la-France-reculent-nettement-en-2020>