

Debt-to-GDP divergence of France and Germany

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The stability of the eurozone is at risk if German and French public debt ratios – and hence their political objectives – diverge. In 2019, the difference between the public debt-to-GDP-ratios of the two countries already amounted to 38.3 percentage points. This divergence was due to:

- ▶ Different levels of interest payments on public debt in France and Germany (as a percentage of GDP) with higher interest payments on average in France.
- ▶ Different levels of nominal GDP growth in France and Germany with on average lower nominal GDP growth in France.
- ▶ Different levels of primary balances with persistent primary deficits in France and prolonged primary surpluses in Germany.

In order to enhance the stability of the eurozone the Centres for European Policy Network recommends:

- ▶ France should enhance GDP growth by introducing a longer legal working week and measures that reduce unemployment to curb its debt-to-GDP ratio. Furthermore, France should reduce its primary deficit especially by reducing pension expenditure growth.
- ▶ Germany should reactivate its debt brake and begin to reduce its debt-to-GDP ratio to 60% of GDP as soon as the COVID-19 crisis is over.

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1 Introduction

The measures taken by EU Member States to mitigate the economic consequences of the COVID-19 crisis will lead to a massive increase in their public debts. As not all Member States are affected to the same extent by COVID-19, debt will increase in some Member States more than in others.¹ Within the eurozone for instance it is forecast that countries which already register a high debt-to-GDP-ratio will on average face a larger increase in their debt-to-GDP-ratio than eurozone countries with a low ratio.² It is therefore expected that the political tensions already present between eurozone countries with high and low debt ratios will increase: while the former will intensify their request for further debt mutualisation³ and ask for more redistribution⁴, the latter will push for a stricter application of the stability and growth pact⁵ (SGP) and further advocate in favour of implementing structural reforms or an insolvency regime for eurozone countries.⁶

Increasing differences in the debt-to-GDP-ratios will also lead to differences in the assessment of the European Central Bank's (ECB) monetary policy: Eurozone countries with a high debt level will become even more dependent on the ECB's loose monetary policy, particularly the ECB's asset purchase programmes of public sector securities, and therefore push the ECB to keep or even expand this kind of policy. Eurozone countries with low debt ratios, on the other hand, do not usually support this view. These different political objectives between the eurozone countries threaten the stability of the eurozone.

Finally, large differences in the public debt levels of the eurozone countries may also reinforce existing economic differences within the eurozone: In 2018 for instance, a higher debt level was correlated with a lower public investment rate. Such a development is a further threat to the stability of the eurozone.

The stability of the eurozone is particularly at risk if German and French debt ratios – and hence their economic situation and their political objectives – diverge as both countries are political and economic heavyweights in the eurozone. In 2019, the difference between the debt-to-GDP-ratios in the two countries already amounted to 38.3 percentage points. This difference is expected to increase to 40.1 percentage points by the end of 2021.⁷ France and Germany have not always shown such large differences. Before 2008, both countries registered similar trends (see figure 1). The difference in the debt-to-GDP ratios of France and Germany, and the political and economic problems associated with this development, therefore present a rather new phenomenon.

¹ General Government Data, General Government Revenue, Expenditure, Balances and Gross Debt, Spring 2020, https://ec.europa.eu/info/sites/info/files/economy-finance/ggd_part_ii_spring_2020.pdf, p. 158.

² The debt-to-GDP ratio of the eurozone countries with a debt-to-GDP ratio above 60% in 2019 is expected to increase on average by 11.5 GDP points until 2021. For the eurozone countries with a debt-to-GDP ratio below 60% in 2019 the expected increase is only 9.5 GDP points. Own calculations with data from Eurostat and the European Commission spring forecasts 2020 : https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf.

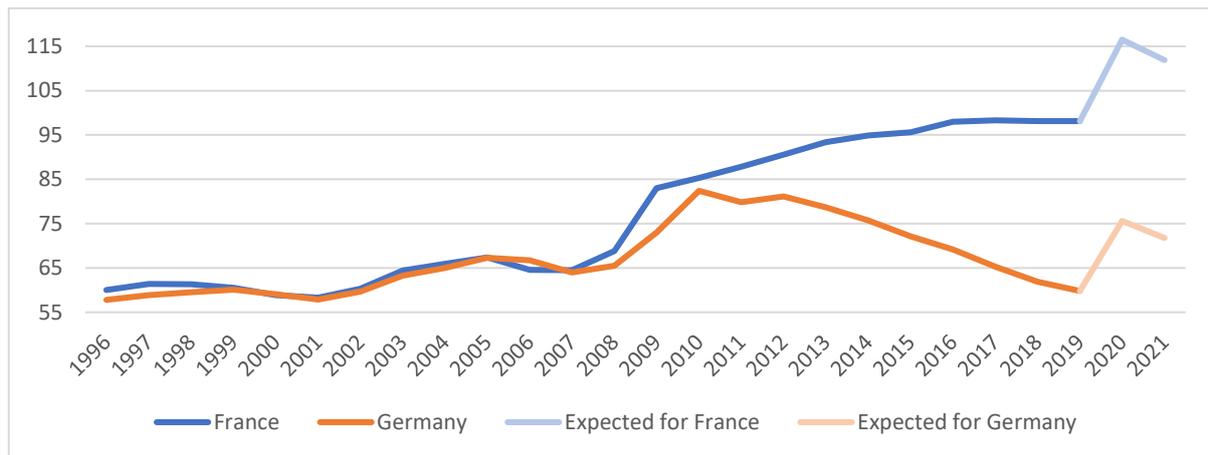
³ E.g. through Eurobonds.

⁴ E.g. through the EU budget or the European Stability Mechanism.

⁵ cepInput, How can a reform of the Stability and Growth Pact foster sound fiscal policies? See online: https://www.cep.eu/fileadmin/user_upload/cep.eu/Studien/cepInput_Stabilitaets-und_Wachstumspakt/cepInput_How_can_a_reform_of_the_SGP_foster_sound_fiscal_policies.pdf and European Commission, Stability and Growth Pact, https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact_en.

⁶ CepStudy, A sovereign default regime for the euro area, July 2015, https://www.cep.eu/fileadmin/user_upload/cep.eu/Studien/Staatsinsolvenz/cepStudy_Sovereign_Default_Regime.pdf.

⁷ European Commission spring forecasts 2020: https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf.

Fig. 1: Public debt-to-GDP ratios of France and Germany between 1996 and 2021 (in % of GDP)

Source: For real values [Eurostat](#), for expected values: European Commission [Spring forecast](#).

This cepInput develops policy recommendations on how the public debt-to-GDP ratios of France and Germany can converge at the SGP target of 60%. On that basis, it sets out the theory of debt-to-GDP-ratio dynamics (section 2). Then an empirical analysis of the components of the debt-to-GDP ratio dynamics (interest payments, GDP growth, public expenditure and revenue) of both countries in the post-2008-crisis period explains which factors were decisive in driving the divergence between the debt-to-GDP ratios (section 3). Finally, this cepInput gives recommendations on how French and German debt ratios can converge at 60% of GDP (section 4).

2 Debt-to-GDP-ratio dynamics in theory

The following equation describes a country's public debt level in nominal terms:⁸

$$D_t = (1 + i_t)D_{t-1} - (T_t - G_t) + DDA_t \quad (1)$$

D_t is the level of public debt in year t whereas D_{t-1} is the public debt in the year $t-1$. i_t is the interest rate on the debt in year t , T_t is government revenue in year t and G_t government expenditure without interest payments in year t . Revenue and expenditure are both measured in monetary units. DDA_t corresponds to the deficit-debt adjustment⁹ composed by (1) financial transactions¹⁰, (2) change in value of debt without transactions¹¹ or (3) non-financial transactions with impact on public deficit and no impact on debt¹². DDA_t therefore explains the difference between the deficit calculated according to the Maastricht definition – this can also be found in the SGP – and the change in the public debt in a certain year.¹³ Leaving DDA_t aside, equation 1 shows that the level of public debt in year t depends

⁸ ECB, Interest growth differential and government debt dynamics, 2019, https://www.ecb.europa.eu/pub/economic-bulletin/focus/2019/html/ecb.ebbox201902_06~0c96ee6f7c.en.html.

⁹ ECB, "Deficit-debt adjustment (DDA) analysis: an analytical tool to assess the consistency of government finance statistics", 11.2018, <https://www.ecb.europa.eu/pub/pdf/scpsps/ecb.sp29.en.pdf>, p. 13.

¹⁰ For instance, the DDA will increase when governments issue debt securities to finance the acquisition of equity, and it will decrease when governments dispose of financial assets to redeem debt instruments.

¹¹ For instance, the DDA will increase when changes in exchange rates increase the value of debt denominated in foreign currency.

¹² For instance, the DDA will increase when accrued taxes are recorded as revenue, but some of them remain unpaid, and new debt is registered on accounts other than government ones. This will also occur when governments purchase military aircraft without paying for them immediately in full: the new debt is recorded in a special account which does not appear in total debt but in public deficits.

¹³ "Public deficit according to the Maastricht definition corresponds to the net borrowing need (B9NF) of general government. It is the balance of general government capital account. It measures the difference between all the current expenditure, non-financial investment expenditure and capital transfers on the one hand, and all the non-financial resources on the

on the debt in year $t-1$ and the corresponding interest payments $(1 + i_t)D_{t-1}$, as well as the primary balance $T_t - G_t$, which can be positive (primary surplus) or negative (primary deficit). Thus, public deficits according to the Maastricht definition correspond to $i_t D_{t-1} - (T_t - G_t)$.

The debt-to-GDP ratio $\frac{D_t}{Y_t}$ in year t can easily be expressed by:

$$\frac{D_t}{Y_t} = (1 + i_t) \frac{D_{t-1}}{Y_t} - \frac{T_t - G_t}{Y_t} + \frac{DDA_t}{Y_t} \quad (2)$$

where Y_t is the country's GDP in year t .

Thus, the evolution of the debt-to-GDP ratio $\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}}$ can be described as:

$$\begin{aligned} \frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} &= (1 + i_t) \frac{D_{t-1}}{Y_t} - \frac{T_t - G_t}{Y_t} + \frac{DDA_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}}, \\ \frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} &= (1 + i_t) \frac{D_{t-1}}{Y_t} - \frac{T_t - G_t}{Y_t} + \frac{DDA_t}{Y_t} - (1 + g_t) \frac{D_{t-1}}{Y_t}, \\ \frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} &= (i_t - g_t) \frac{D_{t-1}}{Y_t} - \frac{T_t - G_t}{Y_t} + \frac{DDA_t}{Y_t} \end{aligned} \quad (3)$$

Where Y_{t-1} is the country's GDP in year $t-1$ and g_t is the GDP's nominal growth rate in year t . For the change in debt-to-GDP ratio $\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}}$ to be negative, i.e. a decreasing debt ratio, the primary balance $\frac{T_t - G_t}{Y_t}$ has to be larger than the difference between interest payments $i_t \frac{D_{t-1}}{Y_t}$ and the change of the debt-to-GDP ratio due to nominal GDP growth $g_t \frac{D_{t-1}}{Y_t}$, plus the deficit-debt adjustment $\frac{DDA_t}{Y_t}$. We will call $(i_t - g_t) \frac{D_{t-1}}{Y_t}$ in the rest of this ceplnput the "interest-growth differential". When $i_t - g_t$ is negative, and $\frac{DDA_t}{Y_t}$ insignificant, governments can have primary deficits and still decrease their debt-to-GDP ratio $\frac{D_t}{Y_t}$.

3 Debt-to-GDP-ratio dynamics in practice

In this section, we first break down the German and French debt-to-GDP ratio changes $\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}}$ into their deficit-debt adjustments $\frac{DDA_t}{Y_t}$ and public deficits $(i_t - g_t) \frac{D_{t-1}}{Y_t} - \frac{T_t - G_t}{Y_t}$ (section 3.1). Then we break down the public deficits $(i_t - g_t) \frac{D_{t-1}}{Y_t} - \frac{T_t - G_t}{Y_t}$ into the primary balances $\frac{T_t - G_t}{Y_t}$ and the interest-growth differentials $(i_t - g_t) \frac{D_{t-1}}{Y_t}$ (section 3.2). Once this is done, we break down interest-growth differentials $(i_t - g_t) \frac{D_{t-1}}{Y_t}$ into their interest $i_t \frac{D_{t-1}}{Y_t}$ and growth $g_t \frac{D_{t-1}}{Y_t}$ components to measure the influence of each in driving the debt-to-GDP ratios (section 3.3). We conclude the analysis by breaking down the primary balances into public expenditure without interest payments $\frac{G_t}{Y_t}$ and public revenue $\frac{T_t}{Y_t}$ (section 3.4).

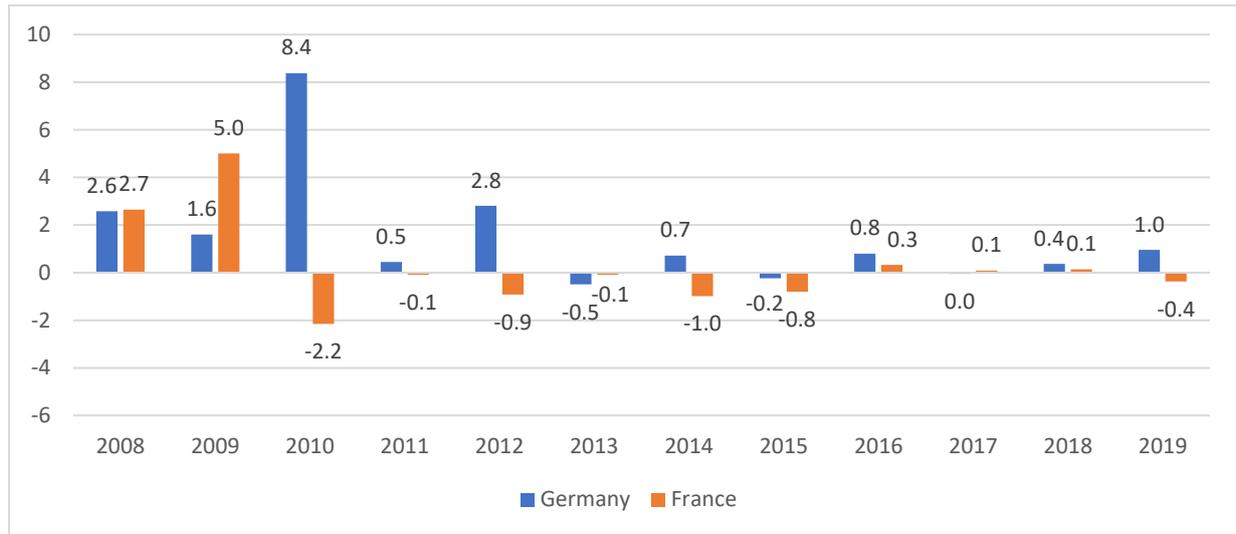
3.1 Debt-to-GDP ratio changes

As mentioned in section 2, $\frac{DDA_t}{Y_t}$ is the difference between the real change in debt-to-GDP ratio $\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}}$ and the public deficit $(i_t - g_t) \frac{D_{t-1}}{Y_t} - \frac{T_t - G_t}{Y_t}$. This is how we compute it in this section. Our

other hand." INSEE, „debt and deficits within the meaning of Maastricht”, <https://www.insee.fr/en/statistiques/2839326?sommaire=2839395#documentation>.

calculations show that the deficit-debt adjustments observed in 2008, 2009 and 2010 in France and Germany are rather large. This is due to financial asset purchases performed in the context of the financial crisis.¹⁴ The average $\frac{DDA_t}{Y_t}$ for Germany between 2008 and 2019 is 1.5 GDP points per year while it only reaches 0.2 for France. As $\frac{DDA_t}{Y_t}$ contributes more to raising the debt-to-GDP ratio for Germany than for France, $\frac{DDA_t}{Y_t}$ limits the divergence of the German and French debt-to-GDP ratios. Since it is only composed of occasional measures (see section 2), we exclude $\frac{DDA_t}{Y_t}$ from the rest of our analysis.

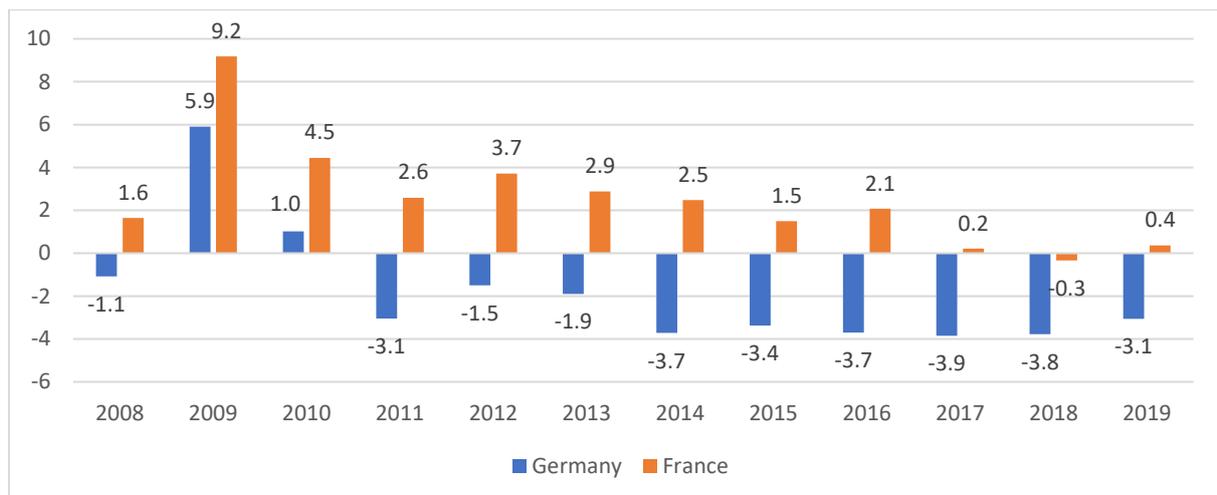
Fig. 2: Deficit-debt adjustment (in % of GDP)



Source: Own computation from [Eurostat](#).

Excluding $\frac{DDA_t}{Y_t}$, the year-to-year change in the German debt-to-GDP ratio is negative since 2011, whereas it is positive for France from 2008 until 2017.

Fig. 3: Change in debt-to-GDP ratio excluding deficit-debt adjustment (in % of GDP)



Source: Own computation from [Eurostat](#).

¹⁴ ECB, op. cit. (13), p. 19.

In section 3.2, in order to understand what caused these different trends in the German and French debt-to-GDP ratios, we break them down into their two components: interest-growth differential $(i_t - g_t) \frac{D_{t-1}}{Y_t}$ and primary balance $\frac{T_t - G_t}{Y_t}$.

3.2 Break-down of the debt-to-GDP ratio change

The break-down of the change in the debt-to-GDP ratio shows for Germany that the decrease in the debt-to-GDP ratio that started in 2011 is driven by both a negative interest-growth differential and a large primary surplus. The French debt ratio development is characterized by a primary deficit which has existed at least since 2008, while Germany only registered primary deficits in 2009 and 2010. The French stabilisation of the debt-to-GDP ratio that started in 2017 is essentially due to a negative interest-growth differential.

Fig. 4: Primary balance and interest-growth differential for Germany (in % of GDP)

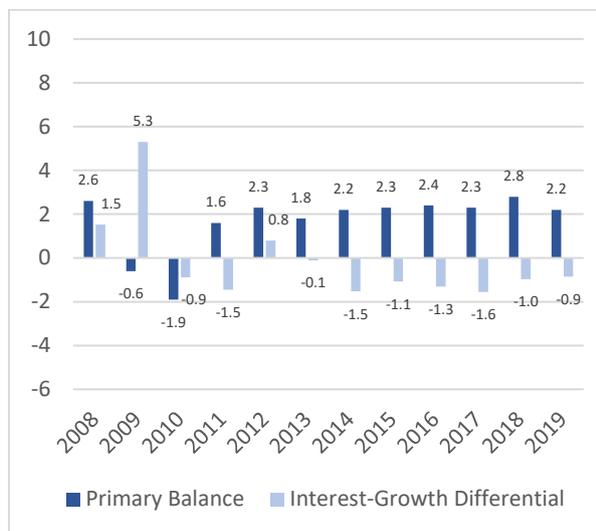
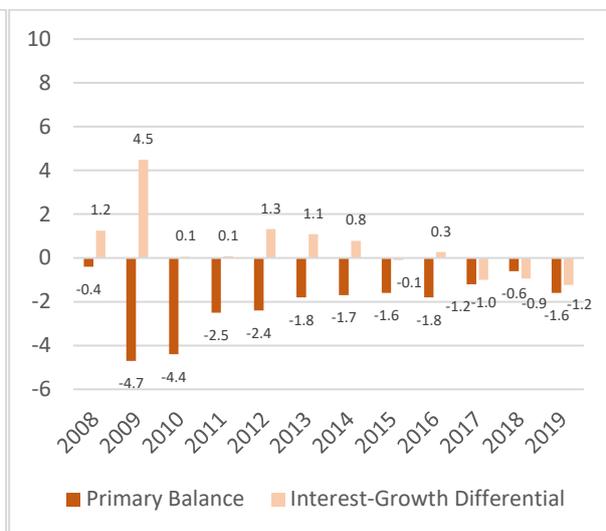


Fig. 5: Primary balance and interest-growth differential for France (in % of GDP)



Source: Own computation from [Eurostat](#).

Thus, the main findings of figures 4 and 5 are the following:

- After the financial crisis, nominal GDP growth rates in Germany exceeded interest rates in most years. Furthermore, Germany achieved primary surpluses. Both contributed to decreasing the German debt ratio.
- France never registered a primary surplus. Until 2014 the interest rates exceeded nominal GDP growth rates. Therefore, until 2014, the primary balance as well as the interest-growth differential contributed to the increase in the French debt ratio. Since 2017, nominal GDP growth rates have exceeded interest rates while the primary balance remains negative. Hence, the stabilisation of the French debt ratio can be explained by the favourable development in the interest-growth differential.

As Germany and France differ both in their interest-growth differential and in their primary balance, we are going to further break down both components. In section 3.3, we break down the interest-growth differential $(i_t - g_t) \frac{D_{t-1}}{Y_t}$ into its interest component $i_t \frac{D_{t-1}}{Y_t}$ and growth component $g_t \frac{D_{t-1}}{Y_t}$ in order to better understand these differences. In section 3.4 we then break down the primary balance $\frac{T_t - G_t}{Y_t}$ into $\frac{T_t}{Y_t}$ and $\frac{G_t}{Y_t}$.

3.3 Break-down of the interest-growth differential

For both France and Germany, the weight of the interest component $i_t \frac{D_{t-1}}{Y_t}$ is decreasing over time even if more steeply for Germany. In parallel, the growth component $g_t \frac{D_{t-1}}{Y_t}$ is on average larger for Germany than for France during this period.

Fig. 6: Interest component ($i_t \frac{D_{t-1}}{Y_t}$) and growth component ($g_t \frac{D_{t-1}}{Y_t}$) of the interest-growth differential for Germany (in % of GDP)

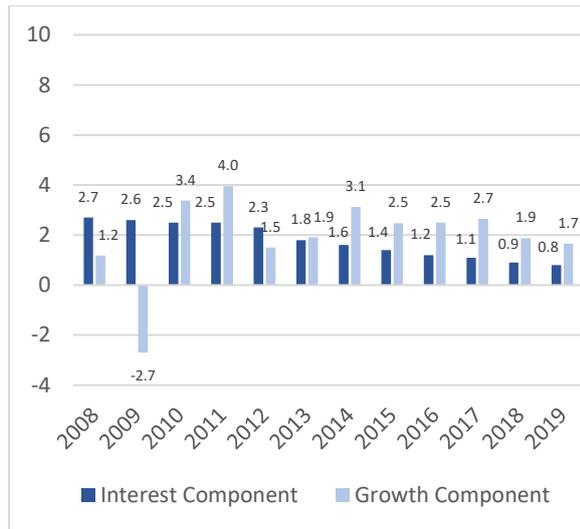
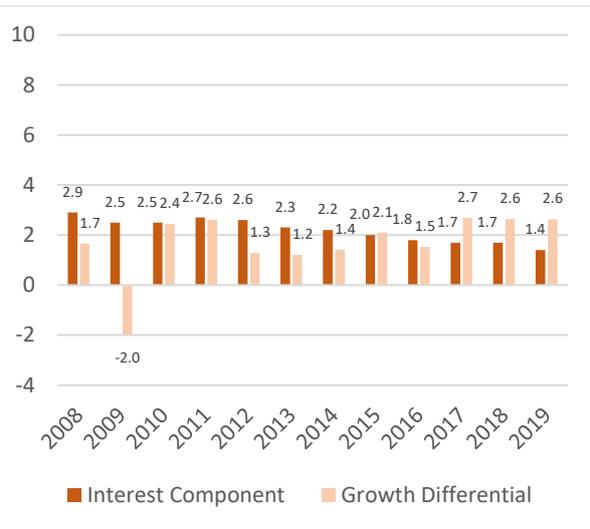


Fig. 7: Interest component ($i_t \frac{D_{t-1}}{Y_t}$) and growth component ($g_t \frac{D_{t-1}}{Y_t}$) of the interest-growth differential for France (in % of GDP)



Source: Own computation from [Eurostat](https://ec.europa.eu/eurostat).

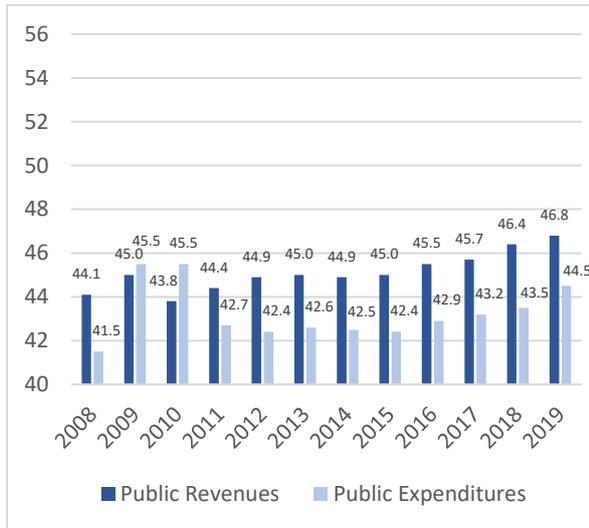
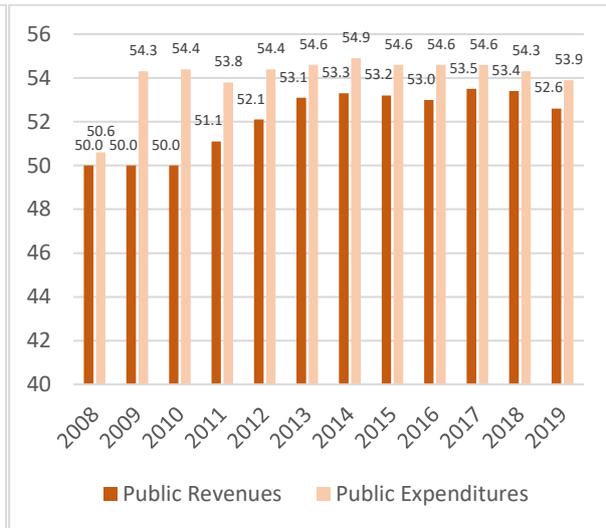
Therefore, the main findings of Figures 6 and 7 are the following:

- The negative interest-growth differential that Germany registered in most years was caused by decreasing interest rates and high GDP growth rates.
- The positive interest growth differential that France registered in most years – by contrast with Germany – was caused by higher interest rates and lower GDP growth rates. In most years, the interest rates exceeded the GDP growth rate, hence the interest-growth differential was positive.

3.4 Break-down of the primary balance

The level of public expenditure as a percentage of GDP is much higher in France than in Germany. Regarding the dynamics of both public expenditure and public revenue in 2008, public revenue already exceeded public expenditure in Germany, while the relationship was balanced in France. Moreover, the 2009 crisis had a different effect on public revenue and expenditure in France and Germany. In Germany, public expenditure as a percentage of GDP increased for two years and then decreased close to the pre-crisis level in relative terms. Public revenue increased in relative terms from 2010 onwards in most years. Germany's positive primary balance is essentially due to increasing public revenue and the rather small increase in public expenditure as a percentage of GDP.

The situation in France is different as the level of public expenditure as a percentage of GDP increased in 2009 without significantly decreasing in the following decade, while public revenue grew as from 2011 without reaching the level of public expenditure as a percentage of GDP.

Fig. 8: Public revenue and public expenditure for Germany (% of GDP)**Figure 9: Public revenue and public expenditure for France (% of GDP)**

Source: Own computation from [Eurostat](#).

Henceforth, the main findings in Figures 8 and 9 are as follows:

- The primary surplus that Germany achieved in most years was due to stable public expenditure as a percentage of GDP and increasing public revenue. Since 2016 both public expenditure and public revenue have increased.
- Compared to Germany, France showed higher public expenditure and higher revenue than Germany. In every year, public expenditure exceeded the revenue.

4 Policy recommendations to reduce the divergence between the debt-to-GDP ratios

Overall, German and French debt-to-GDP ratios diverged due to:

- (1) Different levels of interest payments in France and Germany, with on average higher interest payments as a percentage of GDP in France.
- (2) Different levels of nominal GDP growth in France and Germany, with on average lower nominal GDP growth in France.
- (3) Different primary balance levels, with prolonged primary deficits in France and prolonged primary surpluses in Germany.

Based on these findings section 4.1 sets out the policy recommendations for France and section 4.2 those for Germany.

4.1 Recommendations for France

Since interest payments are heavily influenced by monetary policy (see section 1), the nominal GDP growth and primary balance are the main levers for the French government to reduce the debt-to-GDP ratio. Nominal GDP growth can basically be divided into inflation and real GDP growth: as inflation is outside government's control, we do not give recommendations on how to increase inflation.¹⁵

¹⁵ IMF, "Monetary policies: stabilizing prices and output", <https://www.imf.org/external/pubs/ft/fandd/basics/monopol.htm>.

4.1.1 Real GDP growth

In general, real GDP can be increased in three ways: (a) increasing a country's overall annual working hours, (b) increasing the capital stock or (c) increasing the efficiency of the way in which labour and capital are combined, the so called total factor productivity (TFP). Since capital already contributed a lot to GDP growth in France during the last decade,¹⁶ we prefer to focus on working hours and the TFP.

(1) Increasing working hours:

France should focus on increasing the hours worked, firstly by increasing the number of hours worked per worker and secondly by increasing the number of workers:

- The hours worked per worker can be increased by introducing a longer legal working week. This possibility has existed at company level since 2016.¹⁷
- The number of workers can be increased by reducing unemployment. Aligning the needs of workers and businesses through targeted training courses for the unemployed and better incentives for greater geographical mobility for the unemployed,¹⁸ can reduce unemployment and thereby increase the number of workers.
- A toughening of the unemployment benefit system to shorten unemployment periods could further lower the unemployment rate. This has already been partially adopted.¹⁹
- The delayed 2020 pension reform could be adopted raising full retirement age and increasing the participation rates of senior workers.²⁰

(2) Stimulating GDP growth through total factor productivity (TFP):

To improve its TFP, France should focus specifically on the following measures:

- Improving the qualifications and skills of the workforce, particularly by raising the general education levels. There is, for example, a very large skills gap between rich and poor in France, compared to the average for OECD countries.²¹ This gap could be addressed by developing better education programs for school dropouts.²²

¹⁶ Capital stocks contributed to 44.2% of real GDP growth in France between 2010 and 2018, whereas hours worked contributed to 14.5% and TFP to 41.3%. By comparison, in Germany, capital stocks contributed to 17.7%, hours worked to 32.2% and TFP to 50.1%. Own calculation from OECD.Stat, Contribution to GDP growth, https://stats.oecd.org/Index.aspx?DataSetCode=PDB_GR#.

¹⁷ Fondation Ifrap, "Les 35 heures, vingt ans après, des effets toujours nocifs", 15.02.2018, <https://www.ifrap.org/emploi-et-politiques-sociales/les-35-heures-vingt-ans-apres-des-effets-toujours-nocifs>.

¹⁸ Alexandra Roulet, "Améliorer les appariements sur le marché du travail", 2018, <http://www.pressesdesciencespo.fr/fr/book/?GCOI=27246100131500>. For its content : <https://laviedesidees.fr/Toi-moi-emploi.html>.

¹⁹ Vie publique, "Quels sont les demandeurs d'emploi concernés par la réforme?", 16.03.2020, <https://www.vie-publique.fr/questions-reponses/271537-7-questions-sur-la-reforme-de-lassurance-chomage#:~:text=La%20mise%20en%20place%20de%20cette%20r%C3%A9forme,'assurance%20dch%C3%B4mage%20est%20progressive%20%3A&text=au%201er%20avril%202020%2C%20le,mani%C3%A8re%20excessive%20aux%20contrats%20courts.>

²⁰ The government plans to adopt the main principles of the reform after the covid-19 crisis. Les Échos, "Le gouvernement commence à faire le tri dans la réforme des retraites", 10.06.2020, <https://www.lesechos.fr/economie-france/social/le-gouvernement-commence-a-faire-le-tri-dans-la-reforme-des-retraites-1209702>.

²¹ The gap between the 25% better-off and the 25% worst-off reaches 107 points in the 2018 PISA studies vs. 87 points on average in the OECD. OECD, "Perspectives des politiques de l'éducation, France", June 2020, <http://www.oecd.org/education/policy-outlook/profil-par-pays-France-2020.pdf>, p. 9. For the second figure: Le Parisien, "Nouveau classement PISA : l'école française, cette élève « moyenne » qui ne progresse pas", <https://www.leparisien.fr/societe/nouveau-classement-pisa-l-ecole-francaise-cet-eleve-moyen-qui-ne-progresse-pas-03-12-2019-8208645.php>.

²² Conseil national de la productivité, "Productivité et compétitivité : où en est la France dans la zone euro ?", 04.2019, https://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/premier-rapport-cnp-avril-2019_0.pdf, p. 49.

- Incentives (such as tax credits) should be more effectively targeted at private R&D investments to enable more intensive development of automation and digitalisation.²³
- In order to stimulate innovation, domestic competition on the goods and services markets should be intensified, such as by reducing regulatory entry costs and barriers.²⁴

4.1.2 Primary balances

Considering that the fiscal pressure in France is sufficiently high²⁵ and taxes create disincentives to work and invest, the French government should focus on reducing public expenditure to reduce the primary deficits by way of the following measures:

- (1) Reduction in pension expenditure growth as, under the French pension system, pensioners have the second-best standard of living of all the OECD countries.²⁶
- (2) Reduction of public service salaries which are much higher than Germany in GDP points (12.9 points in 2015 compared with 7.5 points).²⁷

4.2 Recommendations for Germany

In the course of the COVID 19 crisis, debt will also rise rapidly in Germany. The debt-to-GDP ratio is likely to increase more than projected in Figure 1 as the data used for this projection do not include the German government's latest recovery plan. The German debt brake, which has contributed to the decline in debt levels, has been paused for 2020 and 2021. As soon as the crisis is over, Germany should reactivate the debt brake and begin to reduce its debt to 60% of GDP. If necessary, public expenditure and tax relief, that has already been decided, should be postponed. In particular, the forthcoming federal elections next year should not be used for election gifts that unnecessarily increase the German debt level even further.

5 Conclusion

The stability of the eurozone is particularly at risk if German and French debt ratios – and hence their political objectives – diverge as both countries are political and economic heavyweights in the eurozone. In 2019, the difference between the debt-to-GDP ratios of the two countries already amounted to 38.3 percentage points and is expected to increase. German and French debt-to-GDP ratios diverged due to:

- (1) Different levels of interest payments in France and Germany, with on average higher interest payments as a percentage of GDP in France.
- (2) Different levels of nominal GDP growth in France and Germany, with on average lower nominal GDP growth in France.
- (3) Different primary balance levels, with prolonged primary deficits in France and prolonged primary surpluses in Germany.

²³ Ibid., p. 60.

²⁴ Ibid.

²⁵ Surveys show it will be difficult for France to further increase fiscal pressure: 88% of French people think they pay too many taxes and contributions in France. Observatoire Français des Conjonctures Economiques, "Les déterminants fiscaux du sentiment d'injustice fiscale", 2019, <https://www.ofce.sciences-po.fr/pdf/revue/6-161OFCE.pdf>.

²⁶ According to the OECD, France provides people aged over 65 with income that exceeds 100% of the average total population income, just behind Luxembourg. OECD, "Pensions at a Glance 2019, OECD and G20 indicators", <https://www.oecd-ilibrary.org/docserver/b6d3dcfc-en.pdf?expires=1601983425&id=id&accname=guest&checksum=51984947BF72402B6DBBACAF6FC20B82>, p. 20.

²⁷ France Stratégie, "Dépenses publiques: une comparaison France – Allemagne", https://www.cnis.fr/wp-content/uploads/2017/11/DC_2016_colloque_cnis_depenses_publiques_france_strategie.pdf, p. 5.

In order to reduce its public debt ratio France should enhance its GDP growth and reduce its primary deficits. As soon as the crisis is over, Germany should reactivate the debt brake and begin to reduce its debt to 60% of GDP.

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