

Financial situation of Unemployment Insurance for 2021-2022



24 February 2021

In paying all or part of the income of more than 3 million unemployed and 8 million temporarily laid off, or furloughed, workers at the height of the 2020 crisis, Unédic has played its full role as an economic and social stabiliser throughout the year. **This commitment has a cost**: while the scheme's finances were expected to return to balance by the end of 2021 and to surplus by 2022, with the crisis the balance of the Unemployment Insurance scheme reached -€17.4bn by the end of 2020.

Unemployment benefit expenditures were not the biggest contributor to the deficit in 2020. Indeed, the increase in unemployment benefits accounted for only a quarter of the 2020 deficit, with exceptional measures for jobseekers accounting for just over 5%. Specific factors accounted for the remaining 70%: funding in connection with the coronavirus job retention scheme (furloughing) (55%), as well as deferred contributions and other revenues decreases (15%).

There will still be a deterioration in the economic situation in 2021 and 2022 compared with the years leading up to the Covid crisis. Furloughing scheme funding and benefit expenditures are expected to increase due to the increase in unemployment since the beginning of the crisis. The Unemployment Insurance scheme is expected to have a deficit of €10 billion in 2021 and €6.4 billion in 2022.

The scheme's debt is therefore expected to reach nearly €70.6 billion at the end of 2022, compared with €64.2 billion at the end of 2021 and €54.2 billion at the end of 2020. Excluding furloughing scheme expenditures, the debt is forecast to be €55.1 billion in 2022.

This estimate, marked by large uncertainty due to the current health and economic situation, is based on the growth estimated by the Consensus Forecasts issued in February 2021. The estimate is based on the current unemployment insurance rules and takes into account the extension of unemployment entitlements until the end of February and the "blank year" (year of no change) regarding casual workers employed in the entertainment industry.

A. Assumptions used for forecasts

There was a marked deterioration in the financial situation regarding Unemployment Insurance in 2020, due to furloughing scheme funding and a worsening economic situation. There is still great uncertainty at the beginning of 2021, which will continue to have a significant effect on Unédic's situation in the next two years.

Growth

2020: downturn of exceptional intensity

In October, Unédic based its forecast on the Consensus Forecasts, which forecasted a 9.5% fall in growth in 2020. The latest INSEE estimate published in January forecasts a 8.3% drop in GDP in 2020¹. This upward revision of growth in

¹ Quarterly national accounts, *Informations rapides* ('key data'), INSEE, 29 January 2021.

2020 leads to an overall improved trend for 2020 (*Charts 1 and 2*), which results in a slightly lower 2020 deficit than the deficit forecast last October.

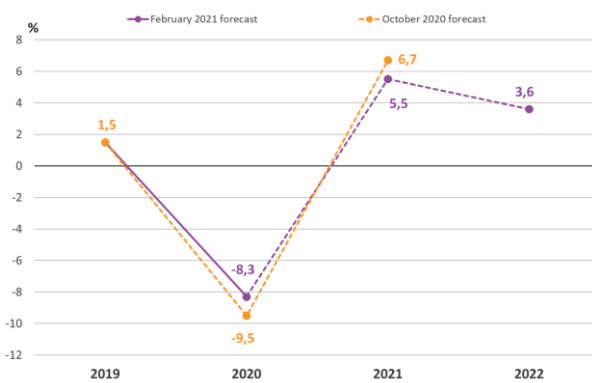
2021: a year of recovery, but not full recovery

Following the unprecedented decline in economic activity in 2020, the gradual return to normal activity is expected to result in an economic recovery in 2021. GDP growth is forecast at 5.5% in 2021 according to the Consensus Forecasts. This GDP growth forecast is nevertheless still very marked by uncertainty, due to changes in the health crisis, including the pace of vaccinations.

2022: a return to normal?

The GDP forecast from the Consensus Forecasts is 3.6% in 2022, which would mean GDP recovering back to, or even exceeding, its level in 2019 level (*Chart 2*). Economists therefore anticipate a return to normal activity from 2022. However, GDP in 2022 is forecast to continue to be lower than its level forecast before the Covid crisis.

CHART 1 AND TABLE 1 – GROWTH ASSUMPTIONS FOR 2020-2022
UNÉDIC FORECAST ASSUMPTIONS COMPARISON OF DIFFERENT FORECAST SOURCES

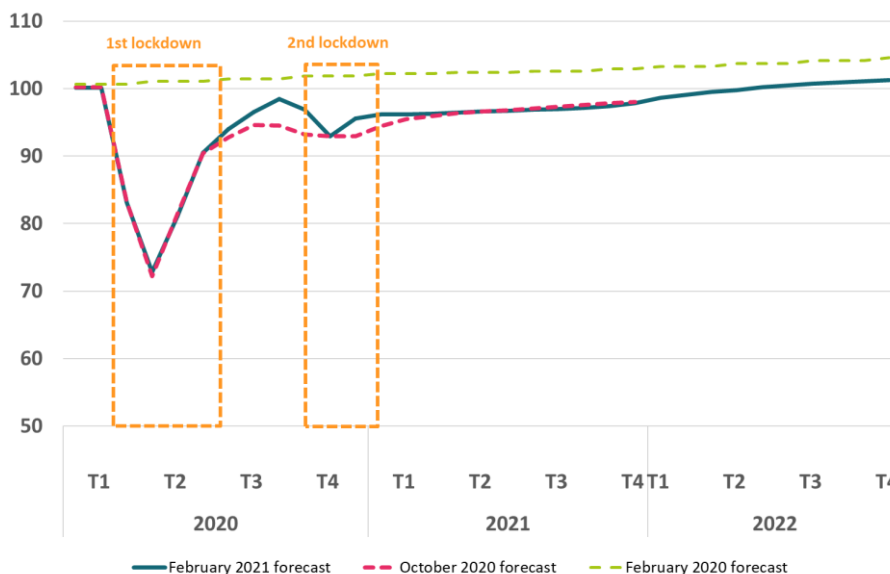


Sources: INSEE for the actual figures, Consensus Forecasts for the forecast figures.

GDP in terms of volume	2020	2021	2022	2020-2021 change
Consensus Forecasts	-8.3%	+5.5%	+3.6%	-3.3%
Unédic forecast of February 2021	-8.3%	+5.5%	+3.6%	-3.3%
European Commission (February 2021)	-8.3%	+5.5%	+4.4%	-3.3%
INSEE (January 2021)	-8.3%	-	-	-
Banque de France (December 2020)	-9.0%	+5.0%	+5.0%	-4.5%
OECD (December 2020)	-9.1%	+6.0%	+3.3%	-3.6%
OFCE (December 2020)	-9.5%	+7.1%	-	-3.1%
Rexecode (December 2020)	-9%	+5.6%	2.8%	+3.9%
Government (September 2020)	-11.0%	+6.0%	-	-5.7%
Unédic forecast of October 2020	-9.5%	+6.9%	-	-3.3%

Sources: Consensus Forecasts, European Commission, INSEE, Banque de France, OECD, OFCE, Rexecode, Government.

CHART 2 - 2020-2022 VALUE ADDED TRAJECTORY (1ST QUARTER 2019 = 100)



Sources: INSEE for the actual figures; Consensus Forecasts for the forecast figures. Unédic calculations.

Reading: in February 2020, GDP was forecast to increase in Q3 2020 compared with Q3 2019, rising to 101.4, based on Q1 2019 being taken as 100. In October, value added in Q3 2020 was estimated to contract by 6% compared with the end of 2019, giving value added of 94, based on Q1 2019 equal to 100. Since then, INSEE has revised this figure, estimating GDP of around 4% (96 based on Q1 2019 equal to 100).

Temporary laying off workers

The Temporary laying off, or furloughing, of workers, one third of which financed by Unédic and two-thirds by the State, has supported the French economy since last March.

The main determinant of furloughing scheme expenditures, like the number of furloughed employees, is the loss of activity as measured as the difference in value added when compared with the 4th quarter of 2019 (Chart 3). In 2021 and 2022, both the number of furloughed workers and amount of furloughing scheme expenditures are thus estimated based on loss in activity forecasts compared with the 4th quarter of 2019.

By April 2020, the height of the crisis, more than 8 million employees had been temporarily laid off, or furloughed. After this point, use of the furloughing scheme gradually declined during the months of economic recovery in the summer of 2020. There was an increase in the number of workers furloughed in the second lockdown in November and December 2020 and economic activity declined again, but less than in the first lockdown.

Since then, use of the furloughing scheme has reduced and is mainly used in those sectors closed because of government restrictions (catering, arts and entertainment, recreational and sports activities, etc.). Both the number of furloughed workers and furloughing scheme expenditures are expected to decrease gradually in 2022, in line with the return of activity to pre-crisis levels.

Expenditures on the long-term furloughing scheme (APLD) is still very low to date, certainly due to the fact that the payments awarded under the standard scheme, simpler to implement, have been more generous up till now.

**GRAPH 3 - VALUE ADDED AND FURLOUGHING SCHEME EXPENDITURES
IN 2020**



Sources: INSEE, for GDP; ASP, for furloughing scheme expenditures. Unédic calculations.

Reading: in April 2020, activity decreased by 28 percentage points compared with its 2019 level; furloughing scheme funding (ASP source) was then at its maximum of 8.3 billion euros (State + Unédic).

Employment

INSEE recorded 360,500 job losses in the private sector in 2020². **Even though this loss in private sector jobs is the highest recorded in France since the Second World War, it is not linked to the extent of the economic crisis:** in 2020, the number of salaried employees fell by 1.4%, whereas GDP fell by 8.3%. In comparison, in 2009, 269,000 jobs were lost for a contraction in GDP of 2.8 percentage points.

Furthermore, after the sharp fall in the spring, in the third quarter of 2020 **there was a remarkable recovery in employment.**

- ▶ **Temporary workers**, the first to have felt the impact of the crisis, recovered strongly in the 2nd and 3rd quarters of 2020 (+22.8% or +131,600 temporary workers, compared with +22.9% or +107,800 in the previous quarter).
- ▶ **Hiring on fixed-term contracts of more than one month** almost returned to its pre-crisis level in the 3rd quarter.

This relatively strong resistance of employment compared with the fall in activity recorded throughout 2020 clearly shows **the protective impact on jobs of measures to support the economy**, in particular the furloughing scheme.

However, will this impact endure? What will be the impact on jobs of the gradual reduction in furloughing scheme payments? What will be the degree of resistance of companies in difficulty when the time comes to repay deferred contributions or loans guaranteed by the State?

Some **early warning signs regarding jobs seem to suggest that the protective impact of all these measures on jobs will fade**: the upturn in the 3rd quarter, although strong, did not completely cancel out the impact of the first lockdown. At the end of September 2020, the number temporary worker jobs was still 10% less than at the end of December 2019³. At the same time, hiring on fixed-term contracts and permanent employment contracts declined during the second lockdown, while GDP declined relatively little: between the 4th quarters of 2020 and 2019: -21% for permanent contracts, -33% for fixed-term contracts of less than a month, -13% for fixed-term contracts of more than a month⁴. Finally, the number of workers laid off for economic reasons and re-employed on a *Contrat de sécurisation professionnelle* (CSP)'s contract, has sharply increased in recent months (+66% for the 3rd quarter 2020 and +29% in the 4th quarter 2020, year-on-year)⁵.

We therefore assume here **that the retention of workers will decrease during 2021**, due to the gradual reduction in support and the impact of the crisis continuing to weigh on companies' finances (*Box 1*).

At the end of 2021, 230,000 jobs are forecast to be lost, while 210,000 jobs are forecast to be created at the end of 2022, thanks to the cyclical improvement (year-on-year values) (*Graph 4*).⁶

² INSEE, Jobs at a glance, 5 February 2021, file:///T:/DEA/4-PRODUCTION/2-EQTECH/1_Unedic/2021/2021-02-24/Documentation/IR035_FlashEmp.pdf

³ Dares, agency worker data, 5 February 2021.

⁴ *Accoss Stat* No 319, January 2021, https://www.acoss.fr/files/Publications/Accoss_Stat/Accoss_Stat_319.pdf

⁵ Unédic, provisional estimate.

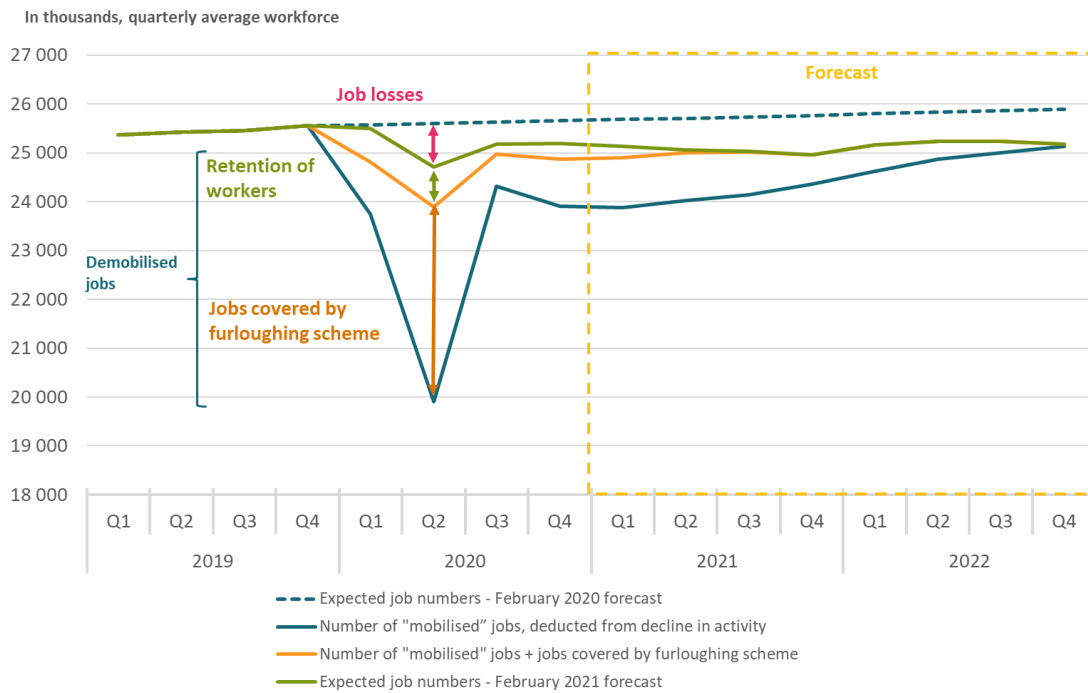
⁶ On average, over the year, the level of employment is expected deteriorate in 2020 (370,000 lost jobs on average compared with the previous year), like in 2021 (150,000 lost jobs on average over the year).

Box 1 - Unédic's forecasting method

Since June 2020, Unédic's forecasts have been based on sectoral activity estimates. These sectoral analyses are expressed in terms of the volume of so-called "demobilised" jobs, that is to say, jobs which are endangered by the decline in activity (assuming that the contraction of value added threatens an equivalent percentage of jobs).

The number of jobs at the end of 2021 and 2022 is determined by deducting the number of jobs covered by the furloughing scheme from the estimated number of "demobilised" jobs (see above) – (for more details on the methodology used, see Unédic's forecasts of the financial situation of 18 June and 21 October 2020).

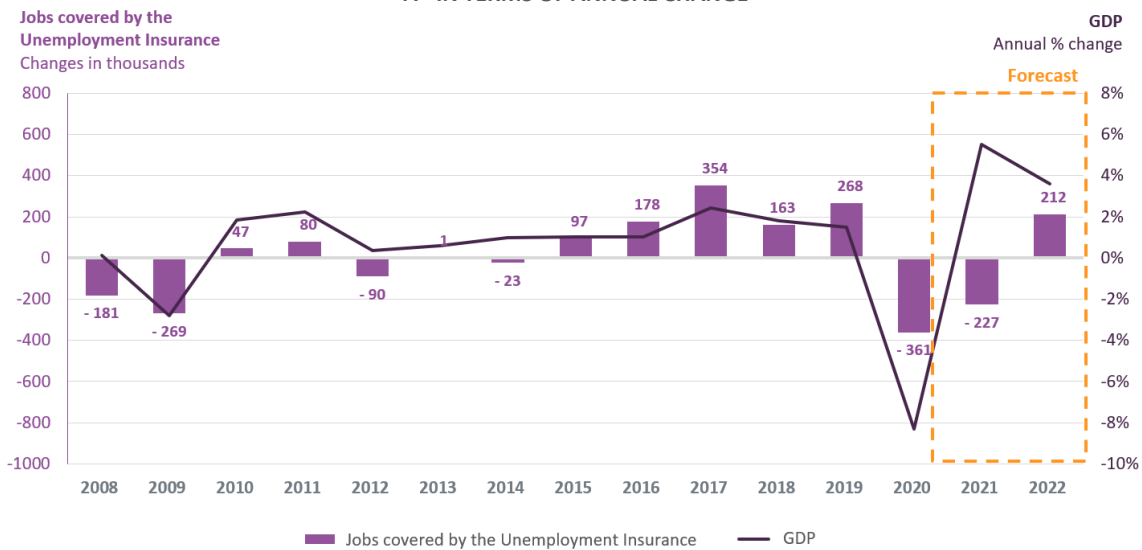
RECORDED AND FORECASTED JOBS OVER THE PERIOD 2019-2022



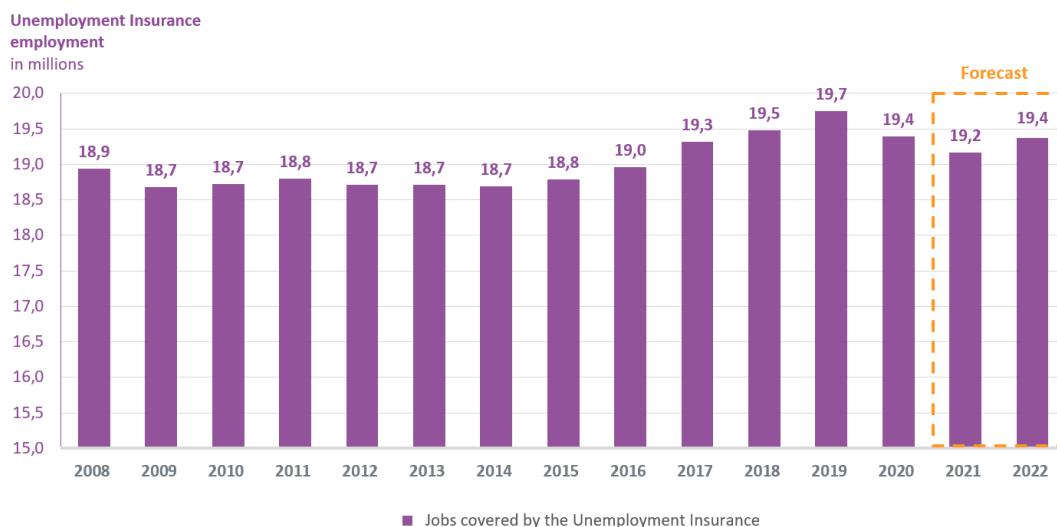
Source: Unédic forecasts.

CHARTS 4A AND 4B - GROWTH AND JOBS COVERED BY UNEMPLOYMENT INSURANCE SINCE 2008

A - IN TERMS OF ANNUAL CHANGE



B - IN TERMS OF NUMBERS OF JOBS



Sources: GDP: INSEE, Consensus Forecasts figures from February; jobs covered by Unemployment Insurance: Unédic's estimates based on employment data co-produced with INSEE, Acoess and Dares; and Unédic forecasts. Year on year at 31 December. Scope: Jobs covered by Unemployment Insurance. Whole of France. Seasonally adjusted data.

Unemployment rate

INSEE forecasts the unemployment rate to be 8% at the end of 2020, compared with 9.1% in the third quarter of 2020. This fall in unemployment, described as an "illusory" fall even by INSEE, is mainly linked to the definition of the International Labour Organisation (ILO)'s indicator: as with the first lockdown, during the second lockdown a substantial number of individuals declared not to be actively seeking employment and thus are not included in the ILO's measure of unemployment. These individuals are temporarily inactive and are not counted as unemployed, the number of which increased sharply in direct line with the periods of lockdown.

By the end of 2021, the unemployment rate is expected to increase to 10.1%. It is then forecast to fall and go back to its current level of 9.3% by the end of 2022.

This estimate does not take into account the number of individuals who stop being counted as part of the working population for long periods, a possibility made likely because of the Covid-19 crisis. For example, students unable to

enter the labour market and choosing to continue their studies, or individuals who are no longer actively seeking employment due to a lack of openings.

Unemployment insurance rules used for forecasts

To date, the prevailing unemployment insurance regulations are those of the 2017 agreement (with the exception of upgraded entitlements after four months of being registered in the scheme, instead of one month before November 2019).

Discussions are currently taking place between the social partners and the Ministry of Labour on the implementation of the unemployment insurance measures contained in the decrees of July 2019 and which should originally have applied on 1 April 2020. These discussions concern the change in conditions for entitlement (the reform provided that it is necessary to have worked 6 months in the last 24 months instead of the current 4 months) and the re-introduction of a sliding scale for high benefit payments, changes which have been suspended since the beginning of the Covid crisis. The discussions also concern the change in the calculation of the daily reference salary, which is used to determine the level of benefits paid. The new calculation set out in the 2019 reform was cancelled by decision of the Council of State on 25 November 2020.

The decision of the Council of State of 25 November 2020 also cancelled the bonus-malus (decrease or increase in contributions) provisions of the decree of 26 July 2019. This mechanism was originally due to be introduced on 1 January 2021, with a modulated rate applied to the first reporting deadline of March 2021. We do not consider any effect on 2021-2022.

Pending decisions on the application of these rules, the forecasts presented here are based on the current regulations. Box 2 shows the sensitivity of the forecast to regulatory changes.

The forecasts do however take into account the exceptional support measures for those severely affected by the Covid crisis:

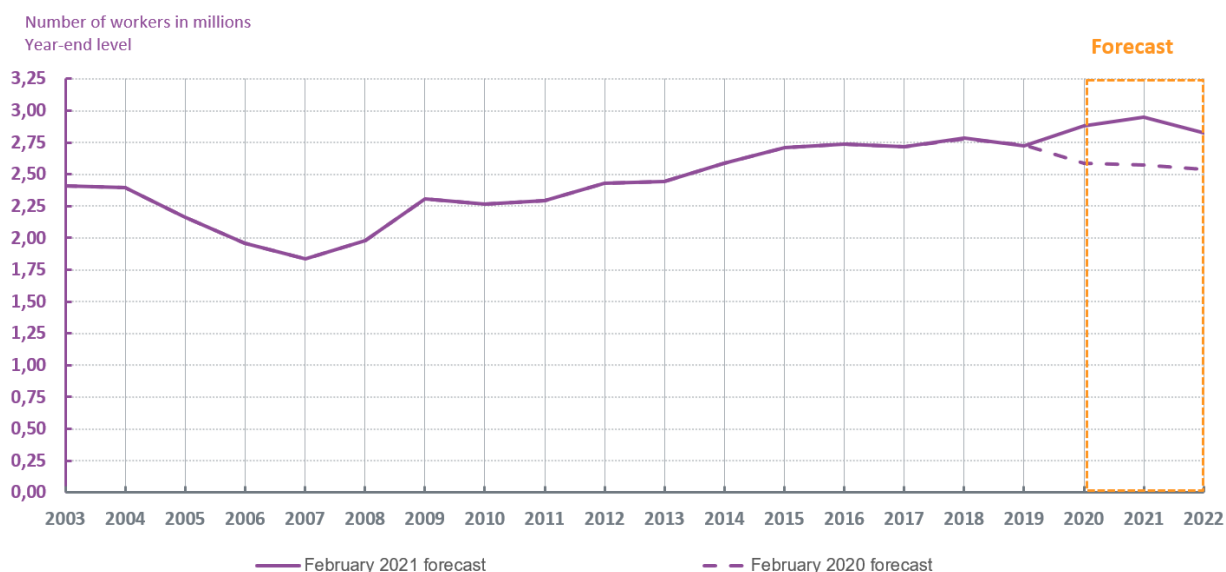
- ▶ extension of entitlements for casual workers in the entertainment industry until 31 August 2021 (“blank year” or year of no change);
- ▶ extension of entitlements announced at this stage until 28 February 2021 for beneficiaries of the general scheme whose entitlements ended before 15 February 2021.

Unemployed receiving benefits

At the end of 2020, due to the loss of jobs, continuation of payments to those whose entitlements had ended and change in the conditions of entitlement from 6 to 4 months on 1 August 2020, **2.9 million people received unemployment benefits**, i.e. an increase of 159,000 compared with the end of 2019.

By the end of 2021, the number of individuals receiving benefits would increase by another 70,000. By the end of 2022, as a result of newly created jobs, the number of unemployed receiving benefits is expected to fall by 124,000, bringing the **number of unemployed receiving benefits to around 2.8 million** (Chart 5).

CHART 5 - NUMBER OF UNEMPLOYED RECEIVING UNEMPLOYMENT BENEFITS, YEAR-END FIGURES



Sources: Pôle emploi; Unédic, Unédic forecasts.

Scope: unemployment benefits paid under ARE, AREF, ASP, AREP or ATI schemes. Whole of France. Seasonally adjusted data.

TABLE 2 - SUMMARY OF MACROECONOMIC ASSUMPTIONS OF THE FORECAST

	2019	2020 Forecast	2021 Forecast	2022 Forecast
Growth, Prices, Employment, Salary, Unemployment (annual average change)				
GDP	+1,5%	-8,3%	+5,5%	+3,6%
Consumer price index	+1,1%	+0,5%	+0,8%	+1,1%
Jobs covered by the Unemployment Insurance	1,2%	-1,4%	-0,5%	0,8%
Average wage per employee (AWPE) in the competitive sector	+1,6%	-4,9%	+5,6%	+1,9%
Payroll in the competitive sector	+3,1%	-6,3%	+5,1%	+2,7%
ILO unemployment rate (year-end)	8,1%	8,0%	10,1%	9,3%
Unemployed receiving unemployment benefits (ARE, AREF, ASP, AREP, ATI)	+0,3%	+6,6%	-0,4%	-3,5%
Unemployment (level at the end of CVS period)				
Jobs covered by the Unemployment Insurance	19 748 000	19 387 000	19 160 000	19 372 000
Unemployed receiving unemployment benefits (ARE, AREF, ASP, AREP, ATI)	2 724 000	2 883 000	2 953 000	2 829 000
Jobs, Unemployment (change over the period)				
Jobs covered by the Unemployment Insurance	+268 000	-361 000	-227 000	+212 000
Unemployed receiving unemployment benefits (ARE, AREF, ASP, AREP, ATI)	-58 000	+159 000	+70 000	-124 000

Sources: Insee, Pôle emploi, Dares, Acoess, Unédic's forecast of February 2021.

Scope: Whole of France. Seasonally adjusted data.

B. Financial situation 2021-2022

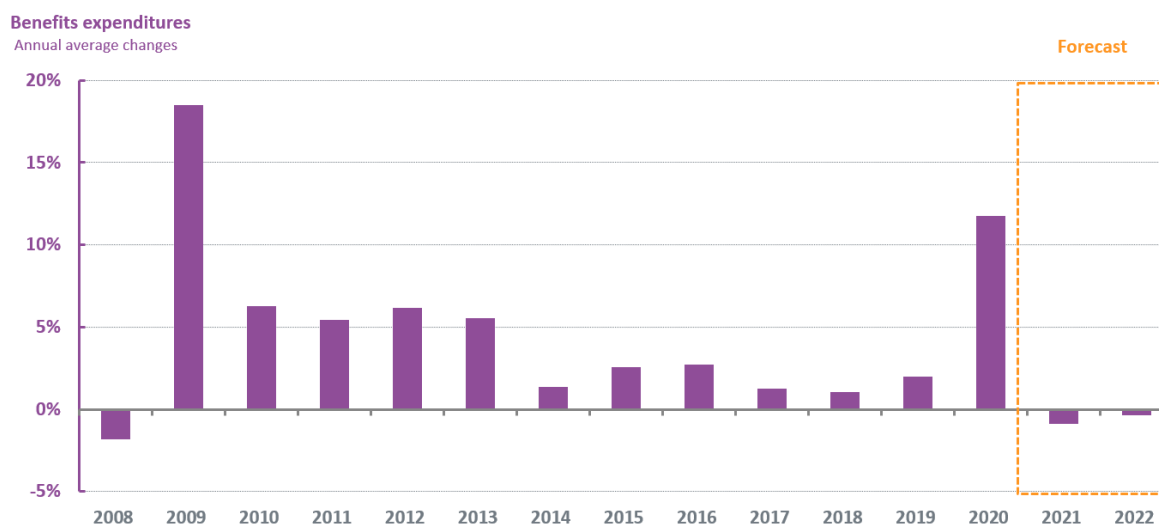
Expenditures

The scheme's spending is forecast to fall in 2021 and 2022.

- ▶ **Unemployment benefit expenditures** (including exceptional measures), €39.1 billion in 2020, is expected to fall very slightly in 2021 and 2022 (falls of 1% and 0.4% respectively). In 2022, while the number of unemployed receiving benefits is forecast to decrease, expenditures are expected to remain unchanged as this decrease would be partially offset by an increase in the average benefit paid⁷.
- ▶ **Furloughing scheme funding** borne by Unédic is forecast to amount to €3.8 billion in 2021, compared with €7.5 billion in 2020. It is expected to reach €1.4 billion in 2022.

In total, in 2021, Unédic's expenditures are expected to be around €49.5 billion, or -7% compared to 2020. 2022 expenditures are forecast to reach €46.6 billion (Table 3).

CHART 6 – ANNUAL CHANGE IN UNEMPLOYMENT BENEFIT EXPENDITURES UNTIL THE END OF 2022



Sources: Pôle emploi, Unédic, Unédic forecasts.

Scope: unemployment benefits paid under ARE, AREF, ASP, AREP and ATI schemes; France as a whole. Seasonally adjusted data.

⁷ The expected increase in the average monthly unemployment benefit is the result of several factors:

- the decline in activity and the extension of payments when entitlements end lead to the payment of benefits to the unemployed for more days in the month than during the "normal activity" period. This factor is expected to have an impact mainly in 2020 and 2021.

- the increase in the number of those registering as unemployed at the end of their fixed-term contracts: generally better paid than the rest of the employed population; they are likely to receive a larger benefit;

- the end of short upgrades: only those who can prove more than 4 months of work can now upgrade their entitlements, whereas these upgrades were possible after just 1 month of work until October 2019. However, those who upgraded with less than 4 months had lower benefits because they had lower paid jobs on average.

- the trend of an increasing daily wage-based benefit is expected to continue in 2021 and 2022.

Revenues

Excluding the Covid crisis, as Unédic's revenues are linked to changes in payroll, they should have grown by an average of 2.7% per year between 2020 and 2022. But they have contracted since March 2020, due to the fall in, and deferral of contributions.

- ▶ Under the effect of the **fall in activity** and therefore in jobs, the total payroll subject to unemployment contributions (employer's contributions and GSC on income from employment (*CSG activité*)) has decreased. In addition, payments made to furloughed workers or sick leave benefits paid instead of workers' normal wages are not subject to employer's contributions and the GSC tax. Finally, these **shortfalls (excluding contribution deferrals) and the effects on revenues of the decline in activity** are expected to be around €3.0 billion in 2020, €1.8 billion of which related to the furloughing scheme.
- ▶ In March and December 2020, the State authorised the deferral of social security contributions, a part of which concerns Unemployment Insurance revenues.
 - **For private-sector employers:** deferrals of unemployment contributions (employers' contributions and GSC on income from employment) amounted to more than €1.2 billion, or 3% of Unédic's annual revenues. Of this €1.2 billion, €0.5 billion was offset by the State and Acoess, as part of the measures to compensate for exemptions and support for the payment of contributions granted in the third amending finance law of July 2020. These figures are based on the assumption that half of the remainder to be recovered at the end of 2020 in respect of these deferred contributions will be paid in 2021 (approximately €0.3 billion) and a quarter in 2022 (€0.2 billion). Remaining amounts to be recovered after 2022 are expected never to be recovered.
 - **For the self-employed:** in view of the **deferral of GSC** in respect of 2020 and the facilities granted by Urssaf for the payment of contributions (2020 contributions calculated on the basis of 50% of 2019 income), the remainder to be recovered in respect of the deferred self-employed contributions at the end of 2020 is expected to amount to €0.5 billion. These figures are based on the assumption that half of the remainder to be recovered at the end of 2020 will be recovered in 2021 (approximately €0.2 billion) and a quarter in 2022 (€0.1 billion).

In total, in 2021, Unemployment Insurance revenues are forecast to amount to €39.4 billion, an increase of 10% compared with the previous year, a level close to that observed in 2019. These revenues are also forecast to increase in the following year and reach €40.2 billion in 2022 (Table 3).

TABLE 3 - UNÉDIC EXPENDITURES AND REVENUES FOR 2019-2022

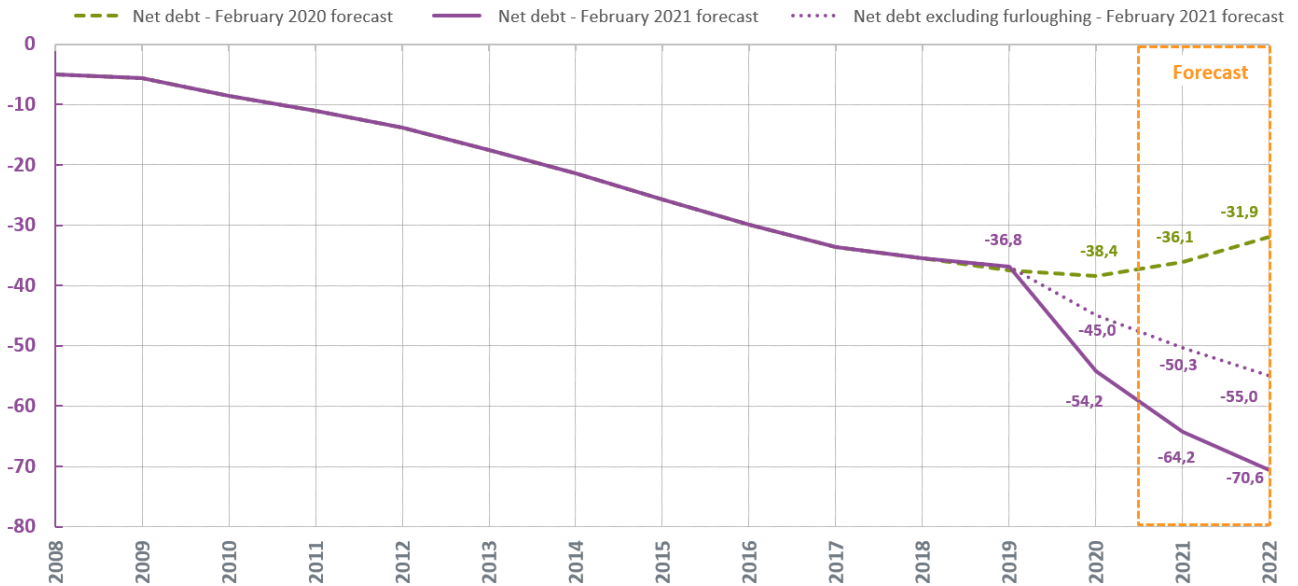
In billions of euros, as at 31 December	2019	2020	2021	2022	Changes in numbers			Changes in %		
					19/20	20/21	21/22	19/20	20/21	21/22
Revenues	39,2	35,8	39,4	40,2	-3,4	+3,6	+0,7	-9%	+10%	+2%
Unemployment Insurance Contributions	38,6	35,2	38,8	39,5	-3,4	+3,6	+0,7	-9%	+10%	+2%
<i>of which loss of revenues accounted for by furloughing</i>		-1,8	-0,9	-0,3	-1,8	+0,9	+0,6		-49%	-63%
of which main contributions	25,5	22,4	24,3	24,7	-3,1	+1,9	+0,4	-12%	+8%	+2%
of which taxes of all kinds (GSC)	13,2	12,8	14,6	14,8	-0,3	+1,7	+0,2	-2%	+13%	+2%
Other revenues	0,6	0,6	0,6	0,7	-0,0	+0,1	+0,0	-7%	+11%	+7%
Expenditures	41,1	53,2	49,5	46,6	+12,0	-3,7	-2,9	+29%	-7%	-6%
Gross benefits	35,0	39,0	38,7	38,5	+4,0	-0,4	-0,2	+11%	-1%	-0%
Furloughing	0,04	7,5	3,8	1,4	+7,4	-3,7	-2,4		-49%	-63%
Pension funds	2,2	2,3	2,3	2,3	+0,1	+0,0	+0,0	+7%	+1%	+0%
Other expenditures	3,9	4,4	4,7	4,4	+0,4	+0,3	-0,3	+11%	+8%	-7%
of which Pôle emploi financing	3,5	4,1	4,3	4,0	+0,6	+0,2	-0,3	+16%	+4%	-7%
of which interest expense on debt	0,3	0,2	0,4	0,3	-0,1	+0,2	-0,0	-36%	+77%	-7%
Balance of finances	-1,9	-17,4	-10,0	-6,4						
Net debt	-36,8	-54,2	-64,2	-70,6	-17,4	-10,0	-6,4	+47%	+19%	+10%
Balance of finances excluding furloughing	-1,9	-8,1	-5,4	-4,7						
Debt excluding furloughing	-36,9	-45,0	-50,4	-55,0	-8,1	-5,4	-4,7	+22%	+12%	+9%

Source: Unédic, Unédic forecasts.

However, the **interest burden on the debt** remains low for the scheme mainly due to the maintenance of low interest rates: the burden is expected to be €0.4 billion in 2021 and €0.3 billion in 2022.

CHART 9 - UNEMPLOYMENT INSURANCE SCHEME DEBT UNTIL THE END OF 2022

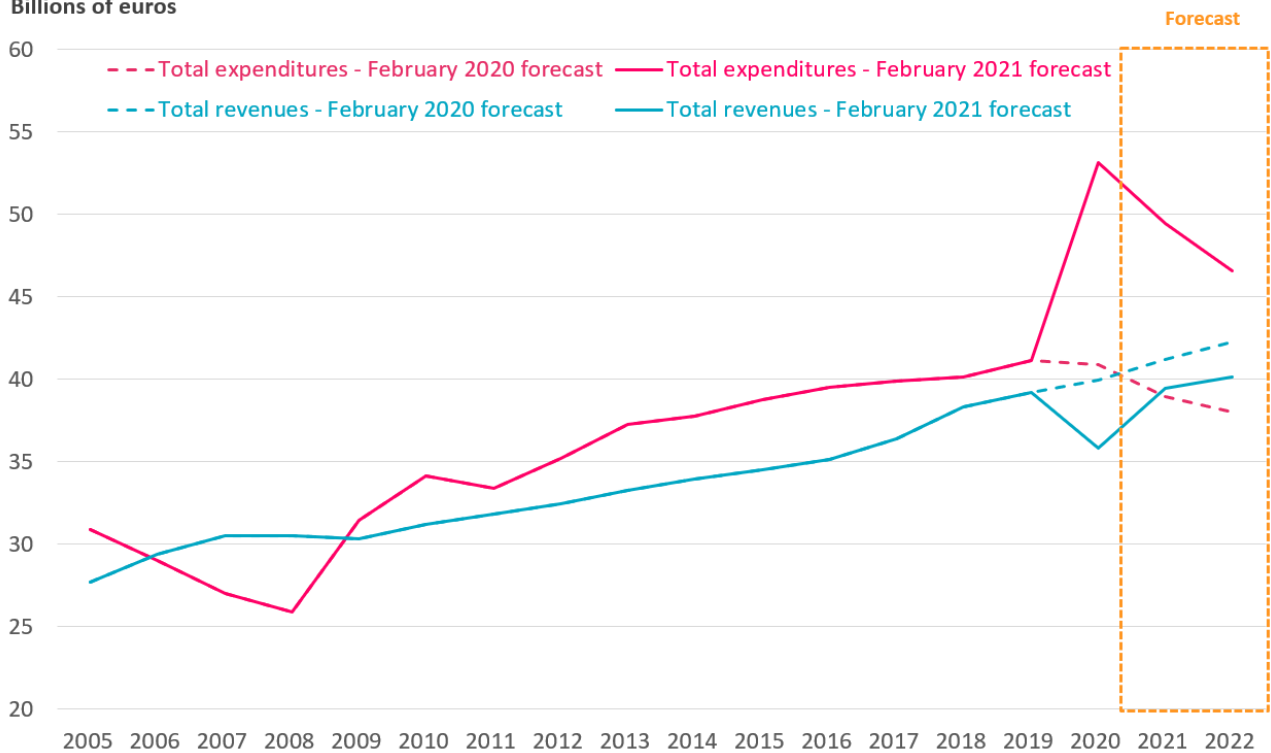
Billions of euros



Source: Unedic, forecast Unedic.

CHART 10 - UNEMPLOYMENT INSURANCE EXPENDITURES AND REVENUES UNTIL THE END OF 2022

Billions of euros



Source: Unédic, Unédic forecasts.