

The Unemployment Insurance System's Financial Situation

Forecast for 2020 - 2022



25 February 2020

The Unemployment Insurance system's annual deficit has been diminishing since 2016: after standing at -€1.9B in 2019, it should reach -€0.9B in 2020. Unédic should return to balance in 2021, with a surplus of +€2.3B in 2021 and €4.2B in 2022.

A. Macroeconomic forecasts

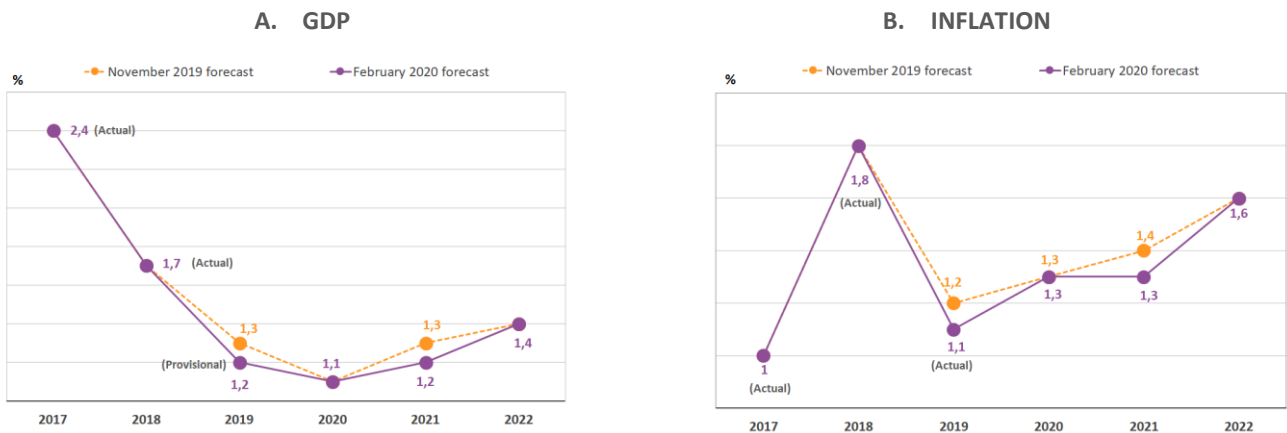
1. Growth and inflation assumptions

The prospects of a slowdown in French growth came to pass. In actual fact, GDP growth slowed down in 2019 (+1.2%) compared to 2017 (+2.4%) and 2018 (+1.7%). This slowdown was particularly pronounced at the end of the year, certainly due to the transportation strikes, which impacted economic activity. For coming years, uncertainties about the international context continue, with regard to the nature of the trade relationship between the United Kingdom and the European Union, the short-term consequences of the coronavirus epidemic, the consequences for third countries of the January 2020 trade agreement signed by China and the United States, or still yet the deceleration of growth in the Euro zone. However, French growth should be supported principally by domestic demand, household consumption in particular, which should benefit from purchasing power measures adopted in the 2020 draft finance law.

For 2020-2022 forecasts, the **growth** assumptions of the consensus of economists are revised downwards as compared to the November 2019 forecast. These assumptions reflect business outlook hovering around potential growth, i.e., +1.1% in 2020 (*Figure 1.A*). Growth should modestly increase in 2021 (+1.2%) and 2022 (+1.4%).

After having been supported by oil prices in 2018 (+1.8%), **inflation** should decrease in 2019 (+1.1%) in conjunction with the significant decline in energy prices, before it progressively increases between 2020 and 2022 and reaches +1.6% in 2022 (*Figure 1.B*).

FIGURE 1 – GROWTH AND INFLATION ASSUMPTIONS

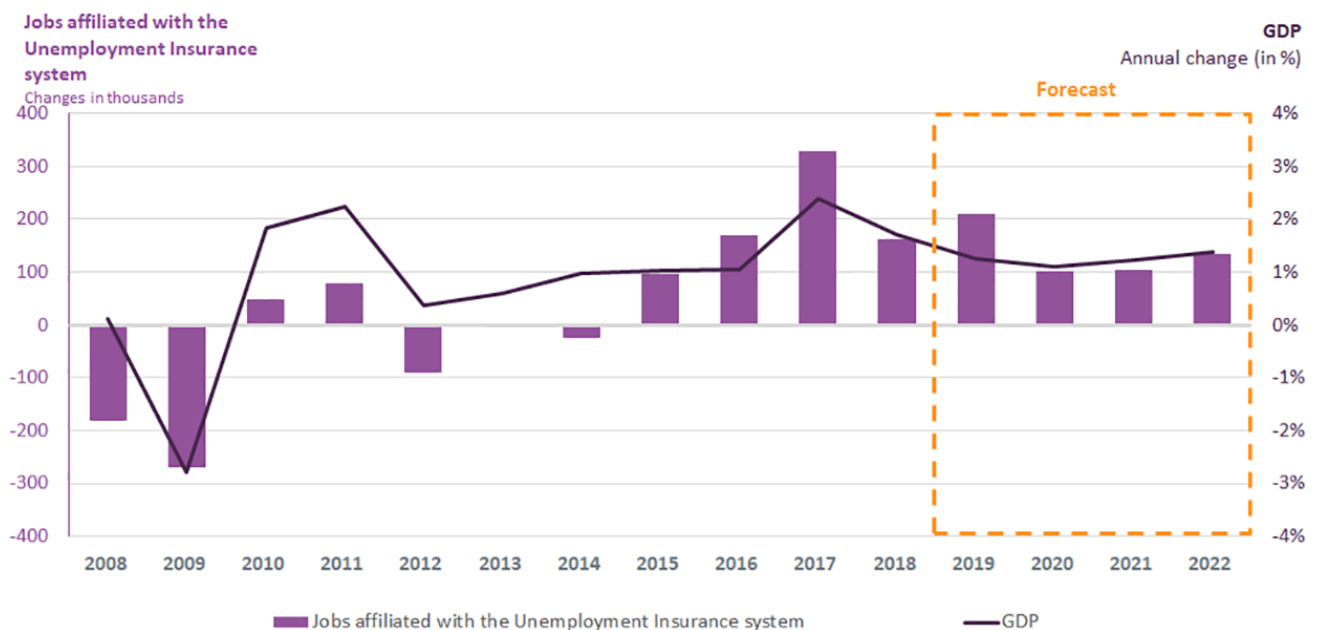


Source : Consensus of economists, February 2020, and consensus of economists for the long term, October 2019.

2. Affiliated employment and salary forecasts

In 2019, the rate of affiliated job creations should increase compared to 2018 (+210,000, after +163,000) in a context that is favorable to company margins as a result of the downward adjustment of employee contributions to the competitiveness and employment tax credit (*credit d'impôt pour la compétitivité et l'emploi*) starting 1 January 2019. Despite the positive impacts on employment expected from continued decreases in employer contributions and the Skills Investment Plan (*Plan d'Investissement dans les Compétences*), modest growth would cause a slowdown in affiliated employment in 2020 and 2021 (+102,000 and +104,000 jobs, respectively), which would begin to slightly speed up again in 2022 (+135,000 jobs).

FIGURE 2 – GROWTH AND EMPLOYMENT AFFILIATED WITH THE UNEMPLOYMENT INSURANCE SYSTEM



Sources: GDP: Insee, forecasts of the consensus of economists; jobs affiliated with the Unemployment Insurance system: Unédic estimates based on salaried employment data co-produced with Insee, Acoess and Dares, Unédic forecasts. Year on year at 31 December.
Scope: Jobs affiliated with the Unemployment Insurance system, all of France. Seasonally adjusted data.

Growth in the **average wage per employee (AWPE)** should accelerate within the forecast time horizon (+2.1% from 2020 to 2022), supported by increases in inflation and productivity.

Ultimately, the **wage bill**, which was still dynamic in 2019 (+3.2%), should nevertheless rise more solely in subsequent years due principally to the slowdown in affiliated jobs (yearly average): +2.8 % in 2020, +2.7% in 2021 and +2.6 % in 2022 (*Table 1*).

3. Unemployment forecasts

Unemployment

After having decreased by -0.4 points between the 3rd and 4th quarters of 2019, the **unemployment as defined by the ILO¹** and measured by Insee stood at **8.1 % in Q4 2019** in France.

In subsequent years, unemployment as defined by the ILO should continue to decrease since, despite being sluggish, total employment (approximately +140,000 on average per year from 2020-2022) is forecasted to exceed the growth of the active population. **At the end of 2022, the unemployment rate should reach 7.4%** (*Table 1*). However, since 2009, the gap between **JSME (jobseekers at months' end) A** and jobseekers as defined by the ILO is widening for several reasons²:

- ▶ the elimination of the exemption from seeking work and the 2010 pensions reform, which supported the numbers of JSME A. However, the effect of pensions reform on JSME A will fade once its ramping-up has ended. The gap between ILO and JSME A unemployment for persons over 50 should then stabilize;
- ▶ improved market conditions since 2016, which first impacted populations not registered with Pôle emploi, principally young entrants to the job market who are considered to be unemployed as defined by the ILO.

Since 2016, we have thus seen a decrease in the number of ILO unemployed without there being a corresponding decrease in JSME A statistics. The two effects cited above explain this lower transfer of the decrease in ILO unemployment to JSME As.

Provisionally, in total, the decrease in JSME (categories A, B, C, D and persons exempted from seeking employment) is less significant than that of the ILO unemployed (-30,000 JSMEs, compared to -61,000 ILO unemployed on average over 2020-2022), which is linked to an increase in forecasted JSME B/C (+37,000 on average over 2020-2022).

The unemployed receiving benefits

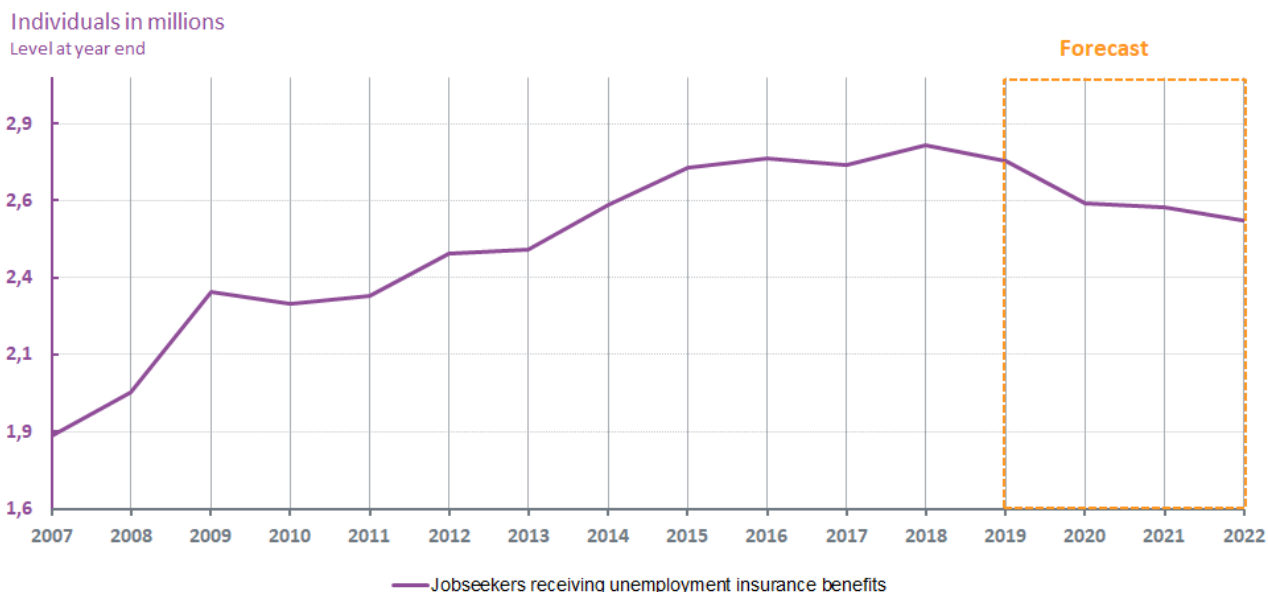
The number of jobseekers receiving benefits started to decrease in 2019 but only in the second half of the year³, due to a delay in the spread of the decrease in ILO unemployment to the JSME A population and, ultimately, to jobseekers receiving benefits (*see above*). That number should continue to decrease in subsequent years, due to the combined effects of the decrease in ILO unemployment, the ramping-up of the 2017 unemployment insurance convention, new rules on monitoring job searching put in place in January 2019 and the coming into force of the decree of 26 July 2019 on unemployment insurance rules. Changes effective 1 November 2019 to the conditions under which benefits are granted (6 months instead of 4 months for grants of benefits and instead of 150 hours for renewals) are forecasted to lead to a substantial decrease in the number of jobseekers receiving benefits, partially offset by the opening up of access to the Unemployment Insurance system to, under certain conditions, resigning employees (AREP) and independent workers starting 1 November 2019. In total, over the 2020-2022 period, the number of jobseekers receiving benefits is forecasted to decrease by approximately -64,000 jobseekers per year, on average (*Table 3*).

¹ Unemployment as defined by the International Labor Office (ILO) and the administrative registration with Pôle emploi are two different concepts. The ILO defines a jobseeker as an individual 15-years of age or older who did not work at least one hour during a reference week, is available to take a job within 15 days and has actively sought employment in the preceding month or has found one that starts within three months. Unemployment as defined by the ILO is calculated by Insee on the basis of the Employment survey. Jobseekers at months' end (JSME) are individuals registered with Pôle emploi and who have a job application in progress on the last day of the month. They are determined by Dares and Pôle emploi on the basis of registration data.

² See Insee, "Parings between the Employment survey and Pôle emploi's historical records over the 2012-2017 period - Methodology and first results", Work document no. F1904.

³ Hence, an increase in annual average compared to 2018.

FIGURE 3 – NUMBERS OF JOBSEEKERS RECEIVING UNEMPLOYMENT INSURANCE BENEFITS



Sources: Pôle emploi, Unédic, Unédic forecasts.

Scope: unemployment giving rise to benefits under ARE, AREF, ASP, AREP or ATI. All of France. Seasonally adjusted data.

TABLE 1 – PRINCIPAL MACRO-ECONOMIC EVOLUTIONS

	2018	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Growth, Prices, Employment, Wages, Unemployment (change in annual average)					
GDP	+1,7%	+1,2%	+1,1%	+1,2%	+1,4%
Consumer price index	+1,8%	+1,1%	+1,3%	+1,3%	+1,6%
Total employment	+0,8%	+0,9%	+0,5%	+0,5%	+0,5%
Jobs affiliated with the Unemployment Insurance system	+1,3%	+1,1%	+0,6%	+0,6%	+0,6%
Average wage per employee (AWPE) in the competitive sector	+1,9%	+1,8%	+2,1%	+2,1%	+2,1%
Wage bill in the competitive sector	+3,5%	+3,2%	+2,8%	+2,7%	+2,6%
ILO unemployment rate (at year end)	8,8%	8,1%	8,0%	7,8%	7,4%
Jobseekers receiving Unemp. Ins. benefits (ARE, AREF, ASP, AREP, ATI)	-0,1%	+0,9%	-4,1%	-3,0%	-0,5%
Employment, Unemployment (change over the period)					
Total employment	+175 000	+261 000	+127 000	+131 000	+163 000
Jobs affiliated with the Unemployment Insurance system	+163 000	+210 000	+102 000	+104 000	+135 000
JSME category A	-44 000	-137 000	-37 000	-52 000	-94 000
JSME categories B, C	+26 000	-57 000	+24 000	+32 000	+54 000
JSME D	+8 000	+16 000	-3 000	-4 000	-8 000
Exempt from seeking a job	-2 000	-1 000	0	0	0
JSME categories A, B, C, D + Exempt from seeking a job	-11 000	-178 000	-17 000	-25 000	-48 000
Jobseekers receiving Unemp. Ins. benefits (ARE, AREF, ASP, AREP, ATI)	+66 000	-52 000	-139 000	-14 000	-39 000

Sources: Insee, Pôle emploi, Dares, Acoss, Unédic forecasts.

Scope: All of France. Seasonally adjusted data.

B. Financial forecasts

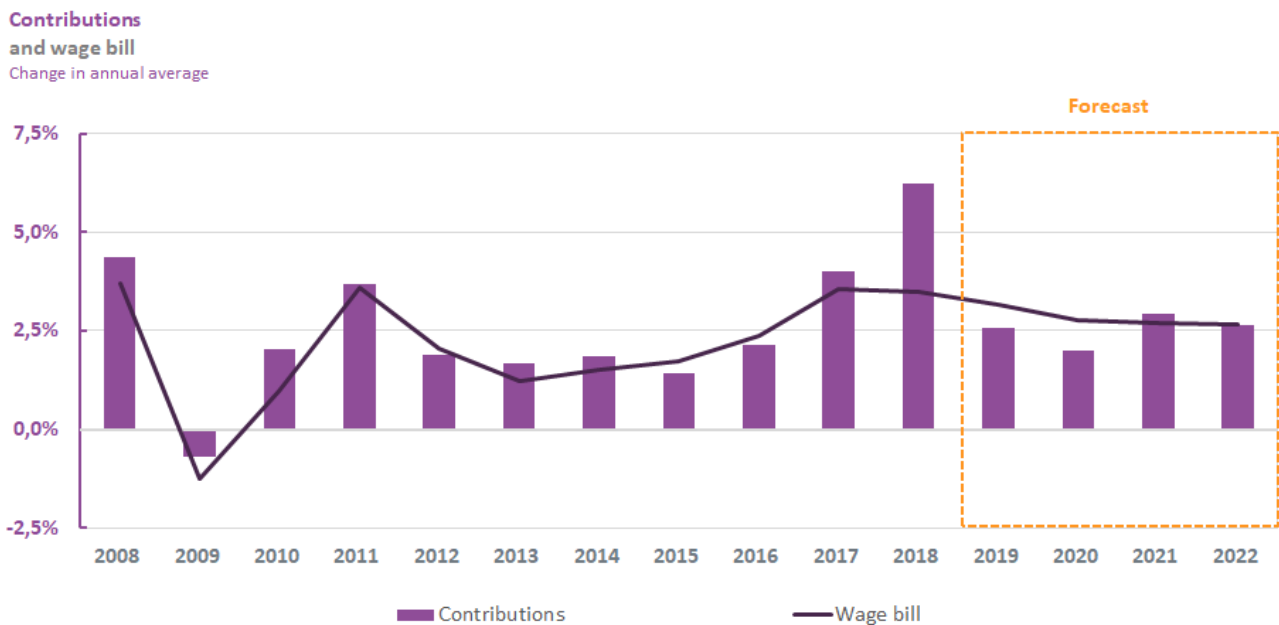
1. Unemployment Insurance revenues

Since 1 January 2019, employee contributions (2.4% of gross salary) were eliminated and a share of the general social contribution on employment income replaced those contributions. We are assuming that the general social contribution revenues will evolve in the same way as employer contributions and therefore like the private sector wage bill, as noted in the framing document sent to the social partners by the Prime Minister on 25 September 2018⁴.

In 2019, the change in Unédic's revenues will be lower (+2.6%) than that of the wage bill (+3.2%) due to cash flow effects which are notably connected to the 2018 implementation of the monthly collection of contributions via the nominative social declaration (*déclaration sociale nominative*), which improved revenues collected in 2018 to the detriment of those collected in 2019⁵.

Other cash effects related to the elimination of employee contributions in 2019 and their being replaced by the general social contribution on employment income would affect the evolution of contribution revenues in 2020. Contribution revenues would therefore evolve less quickly than the wage bill in 2020 (+2.0% compared to 2.8%), despite the introduction commencing 1 January 2020 of a tax on short-term contracts customary in certain sectors (*contrat à durée déterminée d'usage*) (but excluding entertainment workers), provided for in the 2020 draft finance law, and the extra-contribution under short-term contracts in the entertainment industry (provided for by decree no. 2019-797 of 2019). Unemployment Insurance contributions should then increase in line with wage bill in 2021 and 2022: +2.7% in 2021 and +2.6% in 2022 (Figure 4).

FIGURE 4 – EVOLUTION OF THE WAGE BILL AND UNEMPLOYMENT INSURANCE CONTRIBUT



Sources: Acoess, Unédic, Unédic forecasts.

⁴ Framing document in view of the negotiation of the unemployment insurance convention: https://www.actuel-rh.fr/sites/default/files/article-files/document_de_cadrage.pdf

⁵ See, "The Financial Situation of the Unemployment Insurance system", 26 November 2019.

2. Unemployment Insurance expenditures

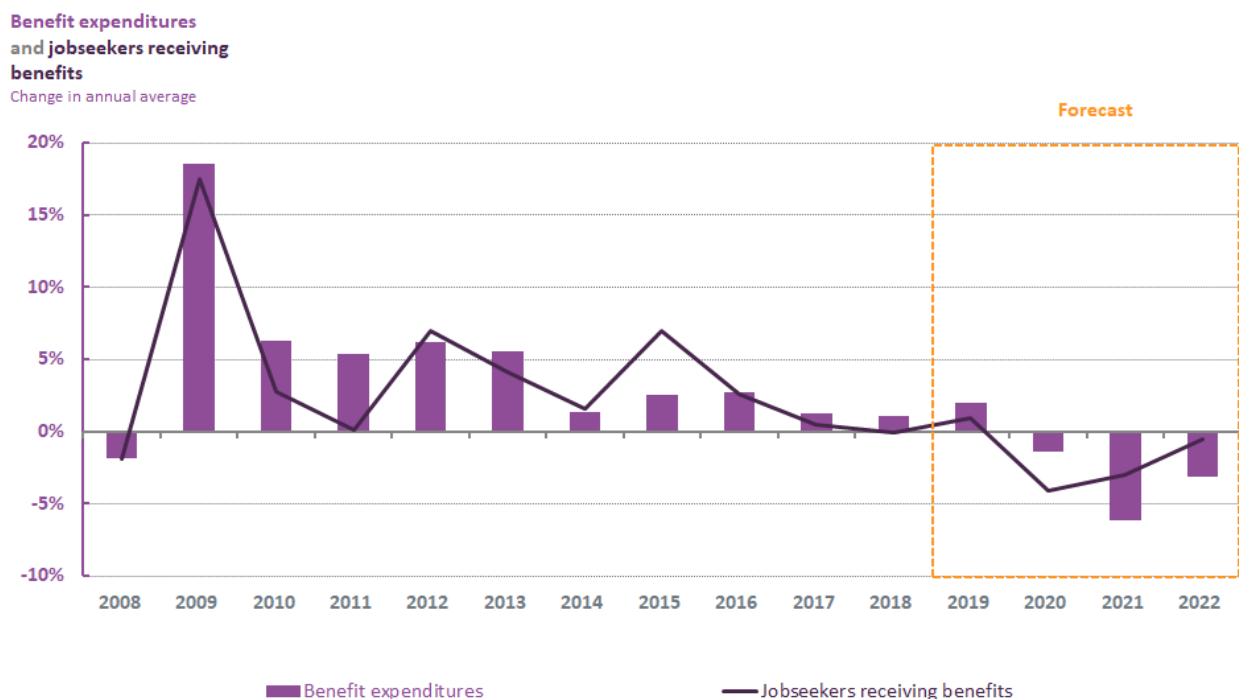
2020-2022 expenditure forecasts

Benefit expenditures, which depend on the number of jobseekers receiving benefits and the progression of the daily benefit paid, increased by +2.6% in 2019. They should decrease starting in 2020 due to the combined effect of the economic climate and new regulations (change in the conditions under which benefits are granted and calculation of the reference salary, instituting degression for high benefits): -2.2% in 2020, -5.8% in 2021 and -2.8% in 2022 (Figure 5)⁶. Daily benefits continued to increase in 2019 due to the impact of salaries levels of the new Unemployment Insurance beneficiaries, which were generally higher than those of individuals who were already receiving benefits, and the revaluation of the reference daily salary. In fact, the reference daily salary was increased by +0.7% starting 1 July 2019 (as on 1 July 2018). In 2020 and subsequent years, however, daily benefits should decrease due to the change in the way the daily salary is calculated starting 1 April 2020 and, to a lesser extent, the institution of degression for higher benefits starting 1 November 2019.

Aid (ARCE for persons starting up or taking over a business and the durable redeployment bonus for CSP beneficiaries) continued to increase in 2019, due to the simplification of the formalities to be completed to benefit from ARCE starting 1 January 2019. Indeed, since the ACRE is a prerequisite to obtaining ARCE, this simplification should lead to more widespread use of this arrangement. These expenditures will subsequently stabilize before returning to the downward trend observed over the past few years as a result of the 2020 draft finance law on ACRE which re-introduces eligibility criteria.

Finally, **expenditures relating to the financing of Pôle Emploi's budget**, which correspond up to now to 10% of annual contributions collected by Unédic in year N-2, then 11% starting 1 January 2020, should increase during the 2020-2022 period (1 contribution point equals about €380M per year).

FIGURE 5 – EVOLUTION IN JOBSEEKERS RECEIVING BENEFITS AND BENEFIT EXPENDITURES



Sources: Pôle emploi, Unédic, Unédic forecasts.

Scope: unemployment giving rise to benefits under ARE, AREF, ASP, AREP or ATI. All of France. Seasonally adjusted data.

⁶ We note that this decrease in expenditures includes the anticipated impacts of job search monitoring measures, amended by decree on 28 December 2018.

3. Financial position of the Unemployment Insurance system

In 2019, Unédic's financial situation improved compared to 2018. However, the cash flow effects linked to recovering contributions on a monthly basis in 2018 changed the distribution of revenues between those two years and reveal a slight decrease in the balance.

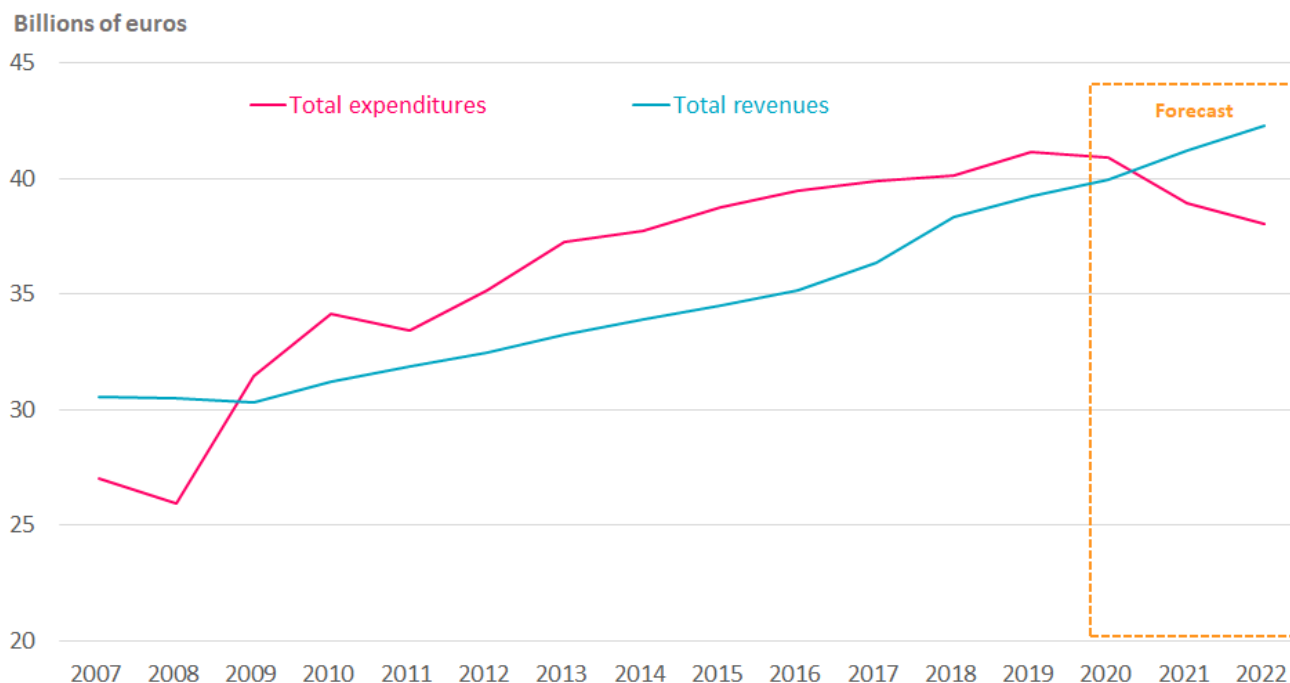
For subsequent years: the financial balance should continue to improve, with a return to balance being effective in 2021. In 2020, Unédic is forecasted to have a deficit amounting to -€0.9B, a surplus of +€2.3B in 2021, and then +€4.2B in 2022 (Table 2 and Figure 7).

TABLE 2 – FINANCIAL BALANCE OF THE UNEMPLOYMENT INSURANCE SYSTEM

In millions of euros, at 31 December	2018	2019	2020	2021	2022
		Provisional	Forecast	Forecast	Forecast
Total revenues	38 322	39 220	39 954	41 235	42 263
of which principal contributions	37 658	25 459	24 950	25 623	26 300
of which levies of all kinds		13 167	14 453	14 930	15 325
Total expenditures	40 126	41 140	40 894	38 960	38 046
of which beneficiary expenditures	36 201	37 157	36 343	34 226	33 262
Balance = Revenues - Expenditures	-1 805	-1 920	-941	2 275	4 217
Exceptional items	22	18	15	5	0
Financial balance	-1 783	-1 902	-926	2 280	4 217
Net financial debt position	-35 530	-37 432	-38 358	-36 078	-31 860

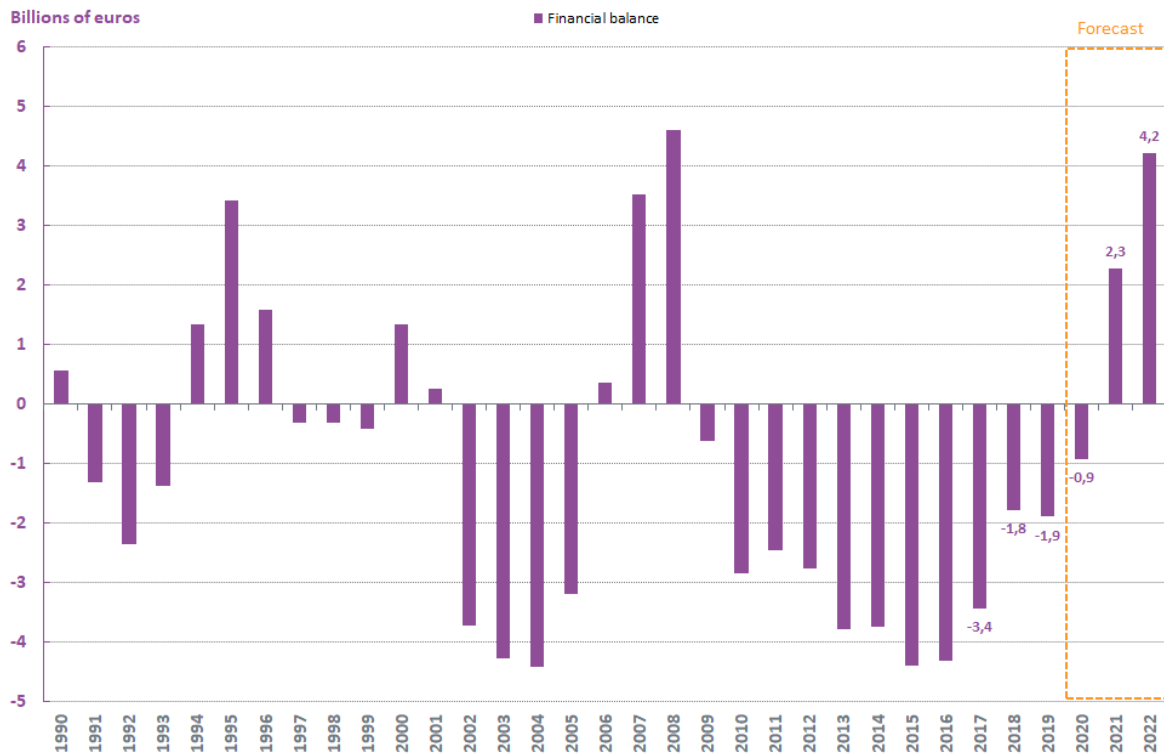
Source: Unédic, Unédic forecasts.

FIGURE 6 – TOTAL REVENUES AND EXPENDITURES



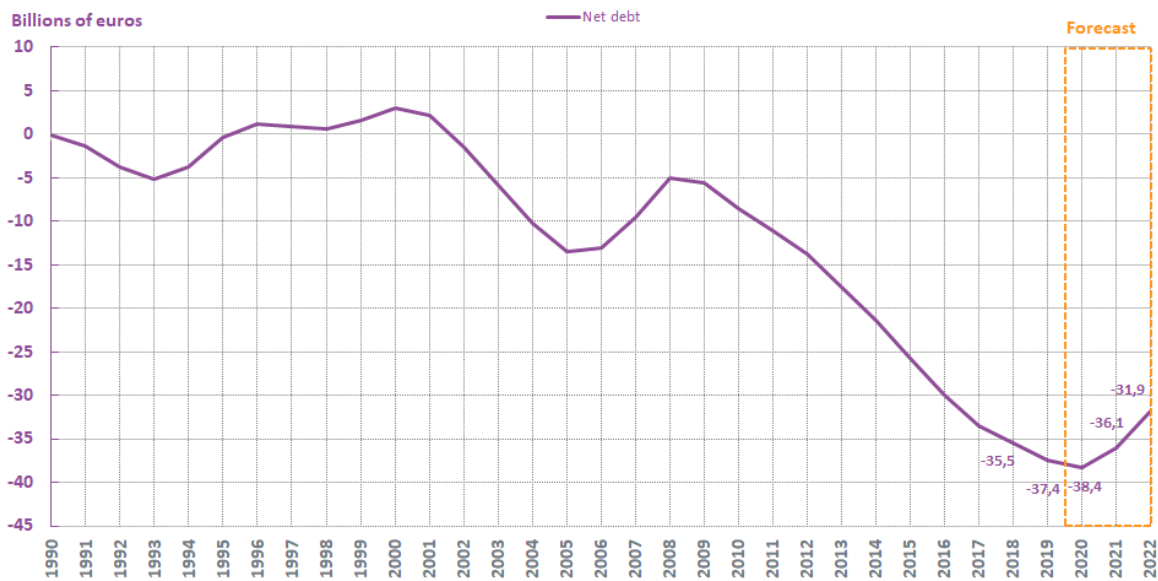
Source: Unédic, Unédic forecasts.

FIGURE 7 – FINANCIAL BALANCE OF THE UNEMPLOYMENT INSURANCE SYSTEM



Source: Unédic, Unédic forecasts.

FIGURE 8 – NET DEBT OF THE UNEMPLOYMENT INSURANCE SYSTEM (DEBT)



Source: Unédic, Unédic forecasts.

Appendix

TABLE 3 – FINANCIAL SITUATION OF THE UNEMPLOYMENT INSURANCE SYSTEM, IN EURO MILLIONS

In millions of euros, at 31 December

	2018	2019 Provisional	2020 Forecast	2021 Forecast	2022 Forecast
Unemployment Insurance contributions	37 658	38 625	39 403	40 553	41 625
Principal contributions	37 658	25 459	24 950	25 623	26 300
Levies of all kinds (GSC)		13 167	14 453	14 930	15 325
Various conventions, including EU	244	182	174	326	282
CSP employer contribution	420	413	377	356	356
Total revenues	38 322	39 220	39 954	41 235	42 263
Beneficiary expenditures	36 201	37 157	36 343	34 226	33 262
Gross assistance	33 499	34 318	33 523	31 503	30 656
ARE / AREF	33 530	34 350	33 505	31 316	30 323
CSP, including ARE equivalents	1 103	1 075	980	927	901
AREP	0	0	100	200	300
ATI	0	0	50	100	140
Repayment of overpayments	-1 140	-1 111	-1 117	-1 046	-1 012
Other benefits (death, etc.)	5	4	5	5	5
Aid	683	757	747	709	677
Allowance for creating or taking over a business (ARCE)	503	572	578	549	522
Other allowances (CSP bonus, end of benefits assistance, etc.)	180	185	169	160	155
Social and tax levies	-2 028	-3 022	-2 940	-2 748	-2 661
Supplementary retirement funds	-1 387	-1 433	-1 398	-1 307	-1 265
Social security (GSC, CRDS, illness)	-640	-673	-657	-614	-594
State - At-source withholding		-916	-885	-827	-801
Payouts and additional amounts	4 047	5 104	5 013	4 762	4 589
Supplemental retirement funds (including deductions)	3 409	3 596	3 459	3 319	3 189
Social security (GSC, CRDS, illness)	638	670	664	613	596
State - At-source withholding		838	890	830	804
Other public expenditures	37	39	39	39	39
Part-time work, long-term part-time work allowance	37	39	39	39	39
Other	0	0	0	0	0
Financing and operator management expenses	3 466	3 585	4 133	4 340	4 424
Financing of Pôle Emploi	3 419	3 521	4 075	4 285	4 371
Other (CSP support, collection)	47	63	58	54	53
Operating and management expenses	35	35	35	35	35
Interest on borrowings	388	325	345	320	286
Total expenditures	40 126	41 140	40 894	38 960	38 046
BALANCE = REVENUES - EXPENDITURES	-1 805	-1 920	-941	2 275	4 217
Exceptional items	22	18	15	5	0
Financial balance	-1 783	-1 902	-926	2 280	4 217
Net debt position	-35 530	-37 432	-38 358	-36 078	-31 860

Source: Unédic, Unédic forecasts.