Prospects

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The point of view

GDP per capita in Europe: France losing ground, but not stalling

According to Eurostat data, France's GDP per capita, measured on a purchasing power parity (PPP) basis, comes in at 98% of the European average – fixed at 100 – putting it below the latter for the third year running. This is frequently portrayed in the media as a sign that the French economy is "stalling". While there is no denying France's relative decline – from an eight-point advantage over the EU average to a two-point lag – the country has slipped just two places in the ranking over a ten-year period. However, the spectacular catch-up by Italy, which has managed to erase a ten-point gap to France, has really made people sit up and take notice.

It's appropriate, then, to revisit this ranking, not only to analyse its underlying factors and understand the changes but also to identify its limitations. GDP per capita measures the average amount of wealth produced per person across a given territory. This indicator is adjusted using purchasing power parities (PPPs), which convert incomes in a shared currency by neutralising differences in the cost of living between countries: for example, a given amount of money does not provide the same amount of purchasing power in Bulgaria as it does in France[1].

The ranking has remained broadly stable over the past decade, though differences between countries have narrowed significantly. The ratio of GDP per capita at PPP of the top-ranked country to that of the bottom-ranked country is now just one to four, compared with one to six in 2014. This reduction in dispersion reflects a trend towards economic convergence, substantially driven by Eastern European countries catching up, which has also helped raise the European Union average used as a benchmark. In this regard, the gap between Poland's GDP per capita and this average has narrowed by 10 points in the space of 10 years.

Luxembourg, the Netherlands and Ireland hold the top three spots in the ranking, for unusual reasons. In Luxembourg, cross-border workers contribute to GDP but are not included in the resident population, while in Ireland and the Netherlands, the tax regime is very attractive to multinationals. In both countries, patents, intellectual property rights and profits inflate GDP via royalties but this revenue does not benefit the population, suggesting that the significance of their top positions in the ranking needs to be put into its proper perspective.

France has slipped to 12th place: while the gap to the top countries – notably Ireland, Denmark and the Netherlands – has widened, France has, above all, been caught up or even overtaken by countries that had previously trailed it, such as Malta and Cyprus, while Italy is back on an equal footing. Beyond this phenomenon of being caught up from below, France's relative decline stems from characteristics specific to its economy. On the one hand, it is one of the European countries whose population is ageing the least

[1] This adjustment aims to avoid underestimating GDP per capita for countries where the cost of living is low or overestimating it where the cost of living is higher.

rapidly, with a relatively higher proportion of young people under the age of 15, who do not contribute directly to GDP. **This demographic structure inevitably affects GDP per capita, particularly in comparison with countries such as Italy, whose population is shrinking.** However, what is now a handicap could become an asset in the medium term as this younger generation enters the labour market. Conversely, Italy's particularly unfavourable demographic trajectory is ultimately likely to hamper its growth and wealth creation potential. **On the other hand, France has a number of structural weaknesses: a low employment rate, particularly among youth and older people, high unemployment** – **especially among the youngest** – **and slowing productivity**. The difficulties faced by young people as they try to enter the labour market echo another worrying development: France's decline in the PISA rankings, which points to increasing shortcomings in its education system. Moreover, lifetime hours worked by the French rank among the lowest of any country, mainly due to early retirement, a collective preference that translates into lower wealth creation today. Increasing overall output would thus simply mean having to work a little longer – a choice most of France's European partners came to terms with long ago. What makes this choice all the more necessary is that France's high productivity, which used to make up for its lesser "quantity" of work, has eroded since the Covid crisis, while its structural weaknesses remain.

GDP per capita at PPP does not tell the whole story: it reflects neither income distribution nor the contribution made by public spending – including social transfers – to living standards, particularly for low-income households. Based on the actual individual consumption indicator, which measures real consumption including public services, France – thanks to its generous welfare state – rises sharply up the ranking to 6th place, above the European average and far ahead of Italy (11th). **Despite its more modest GDP per capita, France remains one of the wealthiest countries thanks to the standard of living provided by its public services.**

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