

FINANCIAL SITUATION OF THE UNEMPLOYMENT INSURANCE FOR 2023-2025

21 February 2023

SUMMARY

The effects of the deteriorating economic situation at the beginning of the year are combined with the consequences of two successive reforms of the Unemployment Insurance and have an impact on Unédic's financial forecasts for the 2023-2025 period.

An economic headwind is expected to hurt the Unemployment Insurance scheme in 2023. The momentum observed since the end of the lockdowns in 2021 is indeed broken: GDP growth is expected to be low in 2023 (0.4%) according to the Consensus Forecasts, before a recovery in 2024 (1.2%) and an acceleration in 2025 (1.7%). Inflation remains the dominant element in this landscape and its peak has still not been reached. It is expected to return to levels closer to pre-crisis levels in 2025, but uncertainty remains high.

Job creation, after two exceptional years, is expected to slow down in 2023 (+6,000 net creations, versus +305,000 in 2022). Subsequent years are expected to see a very gradual rebound in jobs covered by the Unemployment Insurance: +66,000 in 2024, +152,000 in 2025.

The joint effects of successive reforms of the Unemployment Insurance are expected to occur on the forecast horizon. The 2021 reform has already produced most of its effects, which are noticeable as early as 2022. The 2023 reform, also known as "adapting the rules to the economic situation", should result in a reduction of the number of compensated beneficiaries by 12% at cruising speed.

Thus, in 2023, the deteriorating economic situation is expected to increase the number of compensated beneficiaries, while the end of the ramp-up of the 2021 reform is expected to reduce it: the number of unemployed persons receiving benefits is expected to be 2.4 million at the end of the year. This number is expected to be stable in 2024 (2.3 million) and is expected to start to fall again in 2025 (2.2 million), due to the combined effect of the improvement in the economic situation and the implementation of the 2021 and 2023 reforms.

Despite a sluggish growth in 2023, this forecast confirms that the balance of the scheme is expected to be anchored in positive territory on the forecast horizon, with a substantial increase in 2025 driven by the full ramp-up in the burden of the reform of February 2023 (balance of +€3.8bn at the end of 2023, +€4.7bn at the end of 2024, +€8.6bn at the end of 2025). These values are higher than those anticipated during the October 2022 forecast, carried out before the final parameters of the reform were known. In this context, Unédic is expected to be able to accelerate the repayment of its debt, still burdened by the cost of the measures of the Covid crisis. The debt is forecast to be €55.5bn at the end of 2023, then €50.8bn at the end of 2024 and €42.2bn at the end of 2025.

NB: Future measures relating to job abandonment could also have an impact on the scheme's finances. They are not included in this work. The impact of the pension reform, which is currently being examined by Parliament, is also not taken into account.

1. ASSUMPTIONS USED IN THE FORECASTING EXERCISE

GROWTH: SHARP SLOWDOWN IN ECONOMIC ACTIVITY IN 2023 BEFORE A RECOVERY IN 2024, CONFIRMED IN 2025

For its growth assumptions, Unédic uses the forecasts produced by the Consensus Forecasts, which is the average of the forecasts of some twenty banks and institutions, published each month. This forecast is therefore based on the Consensus Forecasts' last publication of 16 February 2023.

2023: Stagnation of the economy

In 2022, economic activity benefited from the strong rebound observed in 2021¹ in the aftermath of the health crisis. Driven by this momentum, GDP growth in 2022 was +2.6% on average over the whole year (*Chart 1 and Table 1*).

GDP no longer benefits from this momentum². Its growth is weakened by the inflationary shock set in in the wake of soaring energy prices. This shock affects all growth items, starting with consumption, by reducing the purchasing power of households. Therefore, GDP is expected to grow by only +0.4% in 2023.

2024: beginning of a gradual recovery

After the inflationary peak and the tensions on the energy supply, economic activity could gradually resume thanks to the improvement in the purchasing power of households, allowing GDP to grow by +1.2% in 2024.

2025: Accelerated growth

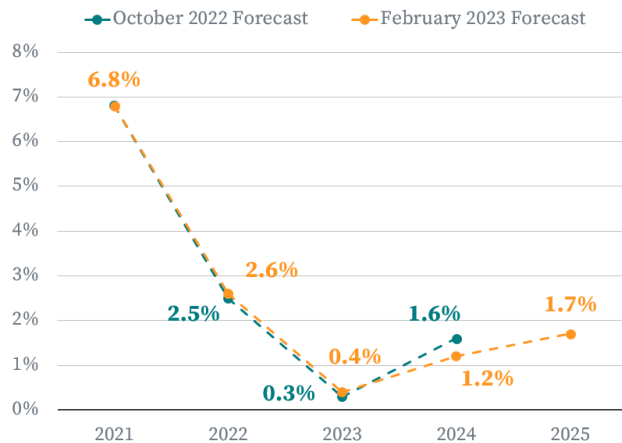
According to the Consensus Forecasts, the economy is expected to return to growth levels close to those observed before the Covid crisis, with growth of +1.7% in 2025.

Given the geopolitical uncertainties, this scenario remains subject to significant risks, in particular with regard to the prices of commodities and more particularly those of energy. Caution is also required with regard to the supply of energy itself.

¹ Growth at the end of 2021 was +2.3%.

² Growth at the end of 2022 amounted to +0.3%.

CHART 1 – GROWTH ASSUMPTIONS



Sources: INSEE for the actual figures; Consensus Forecasts of February 2023 for the forecast figures

TABLE 1 – COMPARISON OF VARIOUS GDP FORECAST SOURCES

Real GDP growth	2021	2022	2023	2024	2025
Unédic (Consensus of February 2023)	6.8%	2.6%	0.4%	1.2%	1.7%
European Commission (Jan. 23)	6.8%	2.6%	0.6%	1.4%	
IMF (Jan. 2023)	6.8%	2.6%	0.7%	1.6%	1.8%
Banque de France (Dec. 2022)	6.8%	2.6%	0.3%	1.2%	1.8%
Insee (Dec. 2022)	6.8%	2.5%			
OECD (Nov. 2022)	6.8%	2.6%	0.6%	1.2%	
Finance Bill (Oct. 2022)	6.8%	2.7%	1.0%	1.6%	
Unédic October 2022 forecast	6.8%	2.5%	0.3%	1.6%	

Sources: INSEE for the observed figures, Consensus Forecasts of February 2023, Banque de France, INSEE, Finance Bill, IMF, OECD, European Commission.

INFLATION: MAINTAINED AT HIGH LEVEL IN 2023, BEFORE A SLOWDOWN IN 2024 AND 2025

Under the combined effect of the supply difficulties at the end of the covid crisis and the surge in energy prices, inflation rose significantly in 2022 to reach +5.2% on average over the year (after +1.6% in 2021) despite the efforts made by the authorities to limit the increase in energy prices by introducing price cap measures.

2023: higher inflation in the wake of tensions initiated in 2022

As strong as it is, this price acceleration has not yet reached its peak. This could occur during the first months of 2023 in connection with the end of the fuel rebate on 31 December 2022 (partially offset by the fuel allowance), as well as the increase in regulated gas prices on 1 January and electricity prices on 1 February for households, or the renewal of electricity contracts for companies³. Therefore, inflation is expected to reach +4.8% in 2023 (*Chart 2 and Table 2*).

However, there is also a great deal of uncertainty regarding this forecast. This is evidenced by the revision, month after month, of inflation forecasts: since January 2022, its peak has constantly been revised upwards and postponed (*Chart 3*).

2024-2025: clear slowdown in inflation with a return to 2%

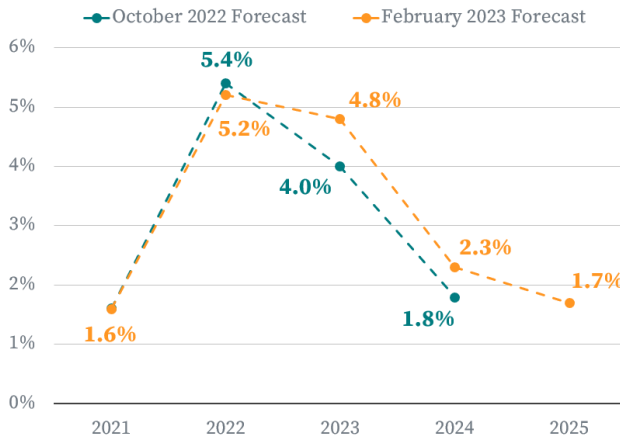
Inflation is forecast to fall to +2.3% in 2024 and then +1.7% in 2025 due to lower energy price pressures⁴ and the European Central Bank's tightening of monetary policy, with the impact of higher key interest rates and reduced asset purchase programmes initiated in 2022 occurring with a time lag⁵.

³ +15% of the Regulated Selling Rate for Gas on 1 January 2023 and +15% of the Regulated Selling Rate of Electricity on 1 February 2023. These new Regulated Selling Rates are in force for the entire year 2023.

⁴ Banque de France, "Macroeconomic Projections, France 2022-2025", December 2022.

⁵ Interview with François Villeroy de Galhau: "We should reach the peak of inflation in France and Europe by the first half of 2023"; Banque de France, 25 November 2022.

CHART 2 – INFLATION ASSUMPTIONS (CONSUMER PRICE INDEX)



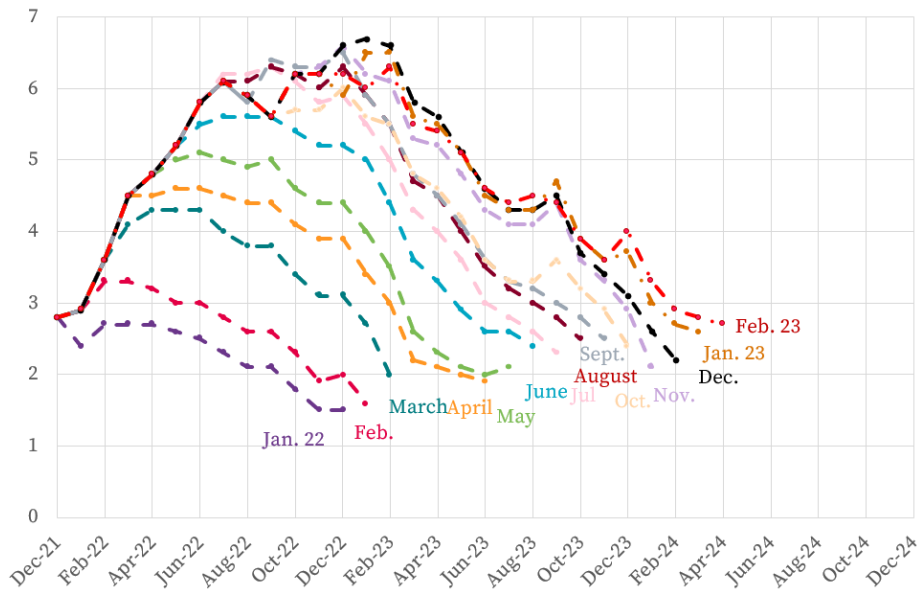
Sources: INSEE for the actual figures; Consensus Forecasts of February 2023 for the forecast figures.

TABLE 2 – COMPARISON OF VARIOUS INFLATION FORECAST SOURCES

Inflation	2021	2022	2023	2024	2025
Unédic (Consensus of February 2023; CPI)	1.6%	5.2%	4.8%	2.3%	1.7%
European Commission (Jan. 23; HICP)	2.1%	5.9%	5.2%	2.5%	-
IMF (Jan. 2023; HICP)	2.1%	5.9%	5.0%	2.8%	2.1%
Banque de France (Dec 2022; HICP)	2.1%	6.0%	6.0%	2.5%	2.1%
Insee (Dec 2022; CPI)	1.6%	5.3%	-	-	-
OECD (Nov. 2022; HICP)	2.1%	5.9%	5.7%	2.7%	-
Finance Bill (Oct. 2022; CPI excluding tobacco)	1.6%	5.3%	4.2%	-	-
Unédic forecast of October 2022 (CPI)	1.6%	5.4%	4.0%	1.8%	-

Sources: INSEE for the actual figures; Consensus Forecasts of February 2023, Banque de France, INSEE, Finance Bill, IMF, OECD, European Commission.

CHART 3 – CHANGE IN THE FORECAST OF THE CONSUMER PRICE INDEX (YEAR-ON-YEAR, IN %)



Sources: Consensus Forecasts from January 2022 to February 2023.

EMPLOYMENT: PRONOUNCED SLOWDOWN IN NET JOB CREATION AND RECOVERY IN 2024

After a decline of 256,000 jobs in 2020, employment covered by the Unemployment Insurance rebounded sharply in 2021 (+839,000 net job creations) and increased significantly in 2022 (+305,000 net job creations) despite sluggish activity throughout the year. However, job creation slowed down in the 4th quarter of 2022 with only +3,000 net creations despite the significant increases in the previous quarters (+93,000 in the 1st quarter, then +90,000 in the 2nd quarter and +119,000 in the 3rd quarter). Covered employment reached 20.8 million at the end of 2022 (*Charts 4A and 4B*).

2023: employment driven by apprenticeships

The stagnation of activity in 2023 is expected to result in a significant deceleration in employment. However, apprenticeships are expected to increase again in 2023⁶. Consequently, the increase in apprenticeships is expected to mitigate the deterioration in employment. Ultimately, the net increase in jobs covered by the Unemployment Insurance scheme is estimated to be around +6,000 jobs in 2023.

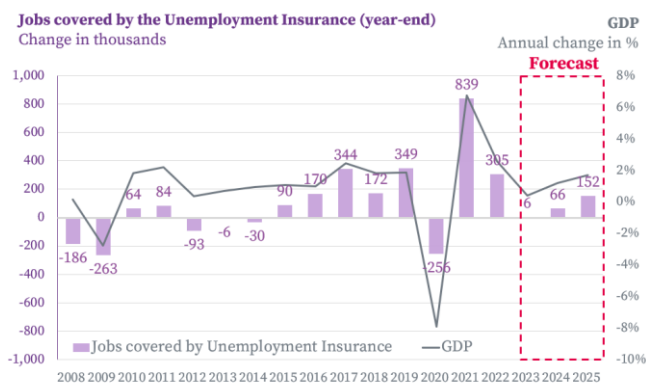
2024-2025: very gradual rebound in employment in the wake of economic activity

The economic recovery is expected to once again support employment, initially modestly and then *crescendo* over the forecast horizon. Jobs covered by the Unemployment Insurance will increase by +66,000 jobs in 2024 and +152,000 in 2025, lower than in the pre-crisis Covid period (+225,000 net new jobs on average each year between 2015 and 2019). Apprenticeship entries are expected to be less dynamic leading to a slowdown in apprenticeship employment in 2024 and 2025.

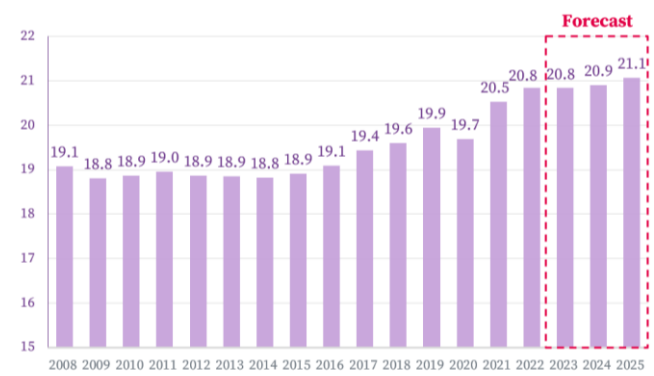
At the end of the health crisis, employment showed a very good profile during the recovery, much higher than that of activity, leading to a significant deterioration in productivity per capita⁷. At the end of 2022, it has still not returned to its pre-crisis level. In 2023, productivity gains are expected to still be small. It is from 2024 that these productivity gains are expected to become more significant and are expected to allow productivity per capita to converge again towards its pre-crisis trend.

CHARTS 4A AND 4B – CHANGE AND NUMBER OF JOBS COVERED BY THE UNEMPLOYMENT INSURANCE

A – ANNUAL CHANGE, IN THOUSANDS



B – YEAR-END LEVEL, IN MILLIONS



Sources: GDP: INSEE, Consensus Forecasts; jobs covered by Unemployment Insurance: Unédic forecasts of February 2023 based on employment data co-produced with INSEE, URSSAF Caisse nationale and Dares. Year-on-year as at 31 December.

Scope: Jobs covered by Unemployment Insurance. France excluding Mayotte. Seasonally adjusted data.

⁶ "Rise in apprenticeships and its effect on employment and unemployment insurance", Unédic, December 2022.

⁷ Per capita productivity is the ratio between production and the resources (labour and capital) used to obtain it. Work productivity is calculated as follows: work productivity = value added / number of employees. Productivity gain is the percentage change in productivity over the course of a given period.

UNEMPLOYMENT RATE: LEVELLING OFF AT A RELATIVELY LOW LEVEL, BEFORE FALLING BACK AT THE END OF THE FORECAST

At the end of 2022, the unemployment rate stood at 7.2%, a decrease of almost 0.3 point compared to the level observed at the end of 2021. Despite the strong net job creation recorded in 2022, the decline in the unemployment rate is more modest given that the labour force has increased significantly due to the increase in apprenticeships.

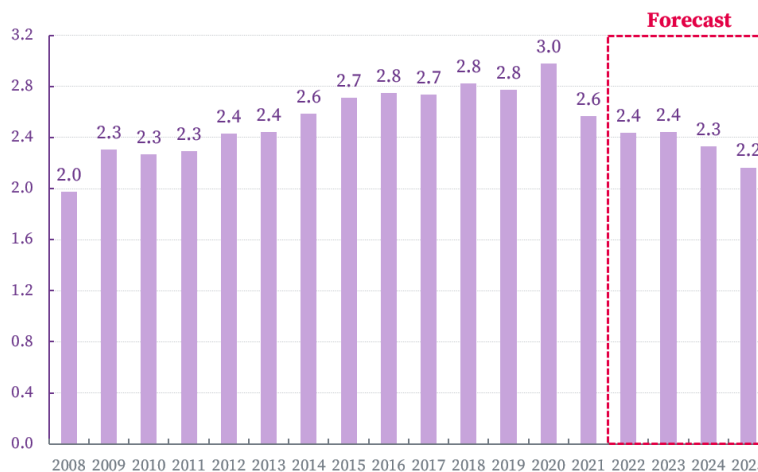
The slowdown in employment forecast in 2023 should lead to a slight increase in the unemployment rate, which should be 7.4% at the end of 2023, before falling to 7.2% at the end of 2024, then to 6.8% at the end of 2025, given the expected recovery in activity and employment.

UNEMPLOYMENT BENEFITS: COMBINED EFFECTS OF THE ECONOMIC SITUATION AND THE NEW UNEMPLOYMENT INSURANCE RULES

After having hovered around 2.8 million at the end of the 2010s, the number of unemployed persons receiving benefits increased significantly in 2020 (+200,000 for a total of 3.0 million) and then decreased in 2021 (-410,000 persons for a total of 2.6 million), following the application and then the end of the extension of unemployment entitlements in support of the economy during the covid crisis (*Chart 5*). The employment momentum, as well as the 2021 reform of the Unemployment Insurance, also contributed to this significant decline in 2021 and early 2022 (*Box 1*). This decrease was then less significant with the weakening of employment momentum in the 4th quarter of 2022.

In 2023, the effects of the deterioration of the economic situation, which increase the number of unemployed persons receiving benefits, should be opposed to those of the 2021 reform, which reduce this number. Ultimately, the number of unemployed persons receiving benefits is expected to stabilise at 2.4 million at the end of the year. It is then expected to start falling again in 2024 and 2025 to reach respectively 2.3 and 2.2 million at year-end under the combined effect of the improvement in the economic climate and the implementation of the 2021 and 2023 reforms.

CHART 5 – NUMBER OF UNEMPLOYED PERSONS RECEIVING UNEMPLOYMENT BENEFITS, YEAR-END LEVEL, IN MILLIONS



Sources: Pôle emploi; Unédic, Unédic forecasts of February 2023.

Scope: unemployment benefits paid under Return-to-work allowance (ARE), Return-to-work training allowance (AREF), Career safeguard benefit (ASP), subsidies to takeover production businesses (AREP) or Independent worker benefit (ATI) schemes. Whole of France. Seasonally adjusted data.

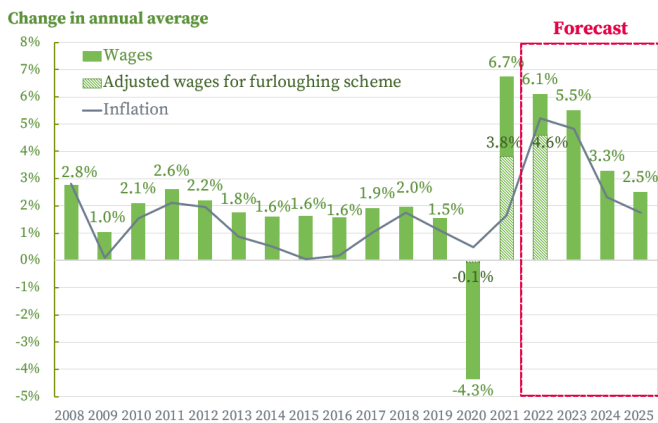
PAYROLL: SALARY MOMENTUM SUPPORTS THE PAYROLL

After declining by -4.3% in 2020 and rebounding strongly by +6.7% in 2021, the average wage per capita (AWPC) is expected to grow sharply in 2022, at +6.1%. These changes are greatly aggravated by the lack of inclusion of furloughing scheme benefits in the calculation of the AWPC⁸. In addition to these mechanical effects, the favourable state of the labour market as well as the **transmission of inflationary pressures to salaries**, in particular via the three revaluations of the minimum salary (“*salaire minimum de croissance*” – SMIC) in 2022, strongly benefited the AWPC in 2022 (+3.8%) (*Figure 6A*).

In the absence of significant recourse to furloughing scheme, the state of the labour market and high inflation should remain dominant in the change in salaries from 2023. Therefore, **the AWPC is expected to increase by +5.5% in 2023, +3.3% in 2024 and +2.5% in 2025, which is expected to remain higher than the rate observed during the 2010 decade** (*Chart 6A*) despite the decline in inflation from 2024.

The spectacular rebounds in employment and the AWPC described above brought the growth of the payroll in 2021 to an exceptionally high level (+8.9%). **Their momentum is expected to once again support the payroll in 2022 (+8.9%)**. In 2023, the decline in employment is expected to lead to a reduction in its contribution to the payroll, which is expected to be driven mainly by the change in salaries. However, it is expected to increase steadily in 2023 to +5.9%, before returning to levels close to that recorded on average between 2017 and 2019 (+3.5% in 2024 and +3.0% in 2025). The difference compared to the situation before the arrival of the health crisis is that now the growth of the payroll is almost exclusively based on that of salaries. Previously, payroll growth was more balanced between employment and AWPC (*Chart 6B*).

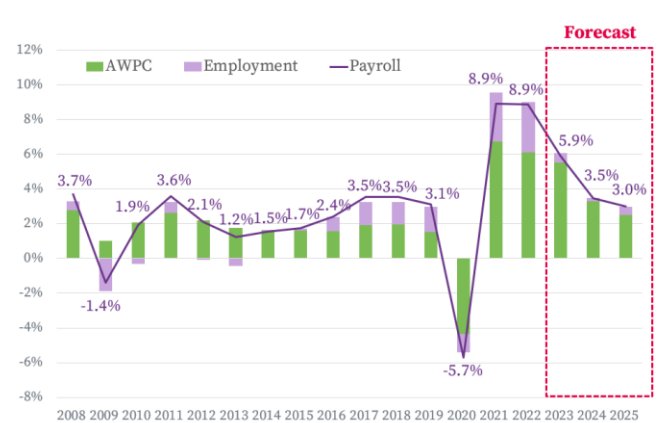
CHART 6A – CHANGE IN WAGES (AWPC)



Sources: Urssaf Caisse nationale for the actual figures; Consensus Forecasts and Unédic calculations for the February 2023 forecasts.

NB: the strong variations in 2020 and 2021 of the AWPC are linked to the accounting treatments of furloughing scheme, the benefits of which are not considered as salary.

CHART 6B – CHANGE IN PAYROLL



Sources: Urssaf Caisse nationale, Unédic forecast of February 2023

Scope: payroll subject to private sector social security contributions (uncapped base) in France excluding Mayotte

⁸ The latter reports the payroll paid on the salaried workforce, as furloughing scheme benefits are not considered as salaries and are not included in the payroll amounts. Consequently, the calculation of the AWPC without taking into account these benefits leads to a decrease in salaries in 2020 and then strong increases in 2021 and 2022 while the addition of these benefits on the payroll mitigates these fluctuations in salaries.

TABLE 3 – SUMMARY OF MACROECONOMIC ASSUMPTIONS AND FORECASTS

	2020	2021	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Growth, Prices and Salaries						
GDP	-7.9%	+6.8%	+2.6%	+0.4%	+1.2%	+1.7%
CPI inflation	+0.5%	+1.6%	+5.2%	+4.8%	+2.3%	+1.7%
Average wage per capita (AWPC) in the competitive sector	-4.3%	+6.7%	+6.1%	+5.5%	+3.3%	+2.5%
Employment and total workforce						
Jobs covered by unemployment insurance						
change in annual average as a percentage	-1.1%	+2.8%	+2.9%	+0.6%	+0.2%	+0.5%
annual average level	19,576,000	20,125,000	20,715,000	20,831,000	20,871,000	20,971,000
year-end level	19,694,000	20,533,000	20,838,000	20,843,000	20,909,000	21,061,000
year-on-year at year end	-256,000	+839,000	+305,000	+6,000	+66,000	+152,000
Payroll in the competitive sector	-5.7%	+8.9%	+8.9%	+5.9%	+3.5%	+3.0%
Unemployment						
Unemployed receiving unemployment insurance (ARE, AREF, ASP, AREP, ATI)						
change in annual average as a percentage	+6.8%	-4.5%	-12.3%	-1.0%	-2.0%	-6.3%
annual average level	2,934,000	2,801,000	2,456,000	2,431,000	2,381,000	2,232,000
year-end level	2,977,000	2,566,000	2,439,000	2,440,000	2,333,000	2,165,000
year-on-year at year end	+203,000	-411,000	-127,000	+1,000	-107,000	-168,000
ILO unemployment rate (year-end)	8.1%	7.5%	7.2%	7.4%	7.2%	6.8%

Sources: INSEE, Pôle emploi, Dares, Urssaf Caisse nationale, Unédic's forecast of February 2023.

Scope: France excluding Mayotte, seasonally adjusted data for covered employment and ILO unemployment; whole of France, seasonally adjusted data for unemployed persons receiving benefits

BOX 1 – 2021 AND 2023 REFORMS ARE REDUCING UNEMPLOYMENT INSURANCE EXPENDITURES

The main effects of the 2021 reform are already evident

Adopted in 2019 and postponed several times due to the covid crisis and appeals to the *Conseil d'État*, the reform which eventually entered into force in 2021 mainly consists of the following 4 components:

- the extension of the period of affiliation required for entitlement: from 4 to 6 months of work in the last 24 months,
- the modification of the calculation of the Daily Reference Salary (DRS) and the duration of entitlement, which takes into account the periods not worked,
- the sliding scale of benefits in the 7th month of benefits for benefit recipients under 57 years of age who have received monthly salaries exceeding €4,800 gross,
- a bonus-malus system on the employer's contributions of Unemployment Insurance applied since September 2022.

According to Unédic's *ex ante* estimate, it should be accompanied by lower expenditures of around €2.2bn under cruising conditions⁹. This should be achieved beyond the forecast horizon, even if most of the expected effects (modification of the calculation of the Daily Reference Salary (DRS) and extension of the membership period) are noticeable as early as 2022.

February 2023: adaptation of the rules to the economic situation

A new reform of unemployment insurance **entered into force on 1 February 2023**. It provides for a **25% reduction in the duration of entitlements for new entrants in the event of good economic conditions**, i.e. when the unemployment rate is below 9% and its quarter-on-quarter change remains below +0.8 point. Therefore, the maximum duration of compensation is now 18 months for beneficiaries under the age of 53, 22.5 months for those aged 53 and 54, and 27 months for others. It has a minimum duration of 6 months.

The first effects of this measure are expected to be distant because they occur at the end of the unemployment entitlement: in the first year, the effects are very limited, the entitlements are fully ramped up after 5 years. **In the long term, this reform is expected to result in an average decrease in the number of compensated beneficiaries by 12% in the cruise year** (i.e. around 300,000 persons according to our *ex ante* impact estimates) **and reduced benefit expenditures of €4.5bn** (including €4.2bn for unemployment benefits and €0.3bn for the financing of supplementary pension schemes) in the absence of a cyclical reversal.

While there is a consensus in the economic literature on the reduction of the average duration of unemployment as a result of a measure reducing entitlement, the effect on employment is more controversial. This type of measure alone does not make it possible to improve the matching of applications and job advertisements. In addition, the accelerated return to work for the unemployed persons does not necessarily imply an increase in the volume of jobs created by companies, since the jobs filled may be net creations but may also result from a different rotation in hiring between the unemployed who are entitled to benefits, the unemployed who are not entitled to benefits, the unemployed who are inactive, etc. Lastly, in the case of a supply shock, the reduction in the duration of entitlements may have an effect on employment but in the long term¹⁰.

In total, under the cruise regime, the two reforms are expected to lead to lower expenditures of €6.7bn. In 2025, the ramp-up in expenditures is not yet complete (€5.2bn in lower expenditures, i.e. €3.3bn more than in 2022, see *Table A below*).

⁹ "Study of impact on changes in Unemployment Insurance rules on 1 July 2021", Unédic, April 2021: [Study of impact on the changes in unemployment insurance rules on 1 July 2021 | Unedic.fr](#)

¹⁰ "The Mésange Macroeconomics Model: Reestimation and New Developments", DG Treasury, Working Paper, May 2017.

TABLE A - ESTIMATED LOWER UNEMPLOYMENT BENEFIT EXPENDITURES (AND FINANCING OF SUPPLEMENTARY PENSION FUNDS) RELATED TO THE 2021 AND 2023 REFORMS, IN €BN

Year	2021 Reform	2023 Reform	Total	Effects compared to 2022
2021	< 0.1	-	< 0.1	-
2022	1.9	0.0	1.9	-
2023	2.2	0.0	2.2	0.4
2024	2.2	0.7	2.9	1.0
2025	2.2	3.0	5.2	3.3
In cruising mode	2.2	4.5	6.7	4.8

Source: Unédic

Upcoming provisions on job abandonment

The “labour market” law published on 21 December 2022 introduces a presumption of resignation in the event of job abandonment by the employee whereas it previously gave rise to a dismissal. With this new provision, the former employee abandoning his job will not be able to claim compensation by the Unemployment Insurance. However, if the job abandonment is not voluntary but forced, or results, for example, from the culpable conduct of the employer, the resignation cannot be presumed. It should be noted that there are no administrative data on job abandonment, which is why Unédic carried out a survey of beneficiaries to assess the population who would have become unemployed in this case. The results of this survey will shed light on the effects of these provisions. A forthcoming decree must determine the conditions and the date of application of this measure. Therefore, its effect has not yet been taken into account in the present estimates.

2. FINANCIAL SITUATION 2023-2025: A BALANCE ANCHORED IN POSITIVE TERRITORY

EXPENDITURES: FLUCTUATIONS SOMETIMES DUE TO THE OPPOSITE EFFECT OF THE ECONOMIC AND REGULATORY CLIMATE

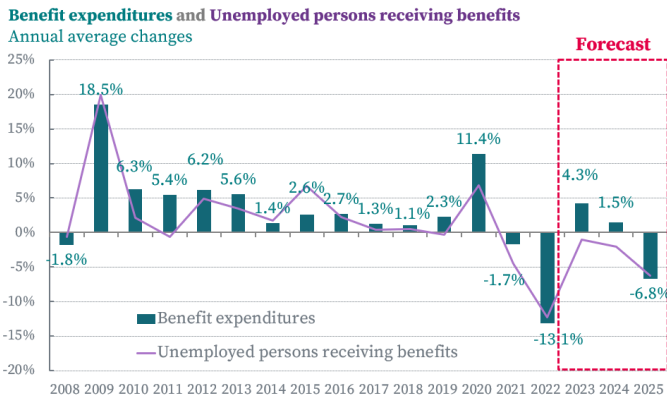
After reaching a peak of €39.0bn in 2020 and €38.4bn in 2021 due to the Covid crisis, **unemployment benefit expenditures** have fallen sharply in 2022 with the end of the emergency measures, the favourable direction of employment and regulatory changes. They thus stood at €33.4bn in 2022, below their pre-crisis level (*Charts 7A and 7B*).

Benefit expenditures is expected to hover around this level. They are expected to increase in 2023 (to €34.6bn) and 2024 (to €35.1bn) while two opposite effects are expected to occur simultaneously. The first, of a cyclical nature, comes from the significant slowdown in employment in 2023, the increase in salaries and the revaluation of the daily benefit. This upward effect on expenditures is expected to be offset by the end of the ramp-up of the 2021 reform, and especially the entry into force of the 2023 Unemployment Insurance reform (*Box 1*).

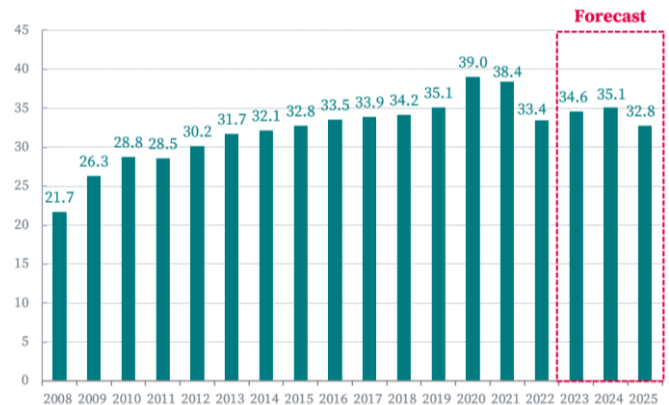
By 2025, the inflation effect is expected to have dissipated, while the number of unemployed persons receiving benefits is expected to decline in line with the economic and employment recovery, favouring lower spending on benefits. In addition to these cyclical aspects, regulatory changes are expected to continue to work. As such, unemployment benefit expenditures are expected to fall significantly to €32.8bn.

CHARTS 7A AND 7B – UNEMPLOYMENT BENEFIT EXPENDITURES

A – ANNUAL CHANGE IN %



B – LEVEL, IN €BN



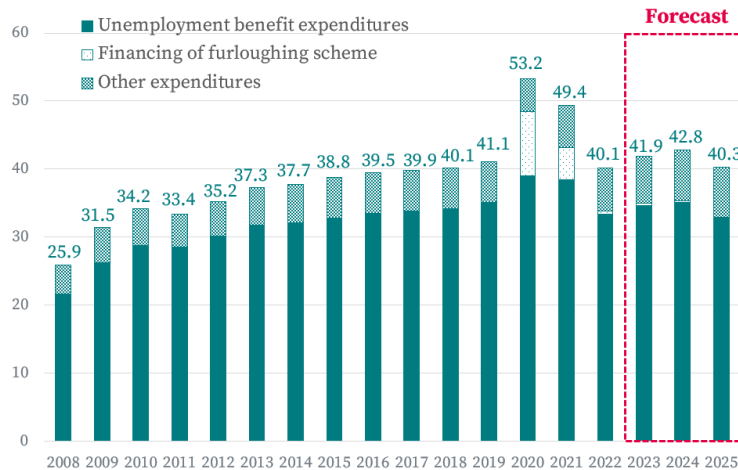
Sources: Pôle emploi, Unédic, Unédic forecasts of February 2023

Scope: Whole of France.

Our forecasts include revaluation assumptions that do not prejudice the decisions of Unédic’s Board of Directors, which has the competence to decide on a revaluation of allocations. As a reminder, in order to take into account the high inflation observed, Unédic’s Board of Directors voted last June a greater increase than in previous years in the amount of benefits which took effect on 1 July 2022 (+2.9%). As inflation assumptions are still strong but slightly less than for 2022, an assumption of a revaluation of benefits of +1.5% in 2023 and +0.6% in 2024 and 2025 has been used in these forecasts to model the change in benefits. This assumption corresponds to a gradual return of revaluations to the average of past increases, following the change in inflation.

In addition to compensation for the unemployed persons, Unédic also finances various items, the main ones being the operating budget of Pôle emploi, the supplementary pension points of the beneficiaries and furloughing scheme. All of this constitutes Unédic’s total expenditures, which follows more or less the same trend as that of allocation expenditures (*Chart 8*). After €49.4bn in 2021 and €40.1bn in 2022, Unédic’s total expenditures is expected to increase in 2023 and 2024 (to €41.9bn and €42.8bn respectively), before going down again in 2025 to €40.3bn (*Table 4*).

CHART 8 – TOTAL EXPENDITURES AND UNEMPLOYMENT BENEFIT EXPENDITURES, IN €BN



Source: Pôle emploi, Unédic, Unédic forecasts of February 2023
 Scope: Whole of France.

Furloughing scheme, which is one-third funded by Unédic and two-thirds by the State, protected the labour market during the health crisis by avoiding mass lay-offs. For Unédic, expenditures rose to €11.4bn between March 2020 and December 2021. After having remained at a high level at the beginning of 2021, **furloughing scheme expenditures have started declining sharply since mid-2021**. This decline continued in 2022 as expenditures declined to almost €0.2bn (compared to €3.9bn in 2021). Furloughing scheme expenditures are expected to remain stable at €0.2bn in 2023, followed by a slight decline to €0.1bn in 2024 and 2025.

Unédic’s contribution to the **financing of Pôle emploi** corresponds to 11% of Unédic’s revenues in year N-2, i.e. €3.9bn in 2022, after €4.3bn in 2021. **Under the assumption of same financing method**, and in the absence of information on the transformation of Pôle emploi as part of France Travail, **this amount is expected to increase from year to year under the revenues’ momentum effect**: €4.3bn in 2023, €4.8bn in 2024 and €5.0bn in 2025.

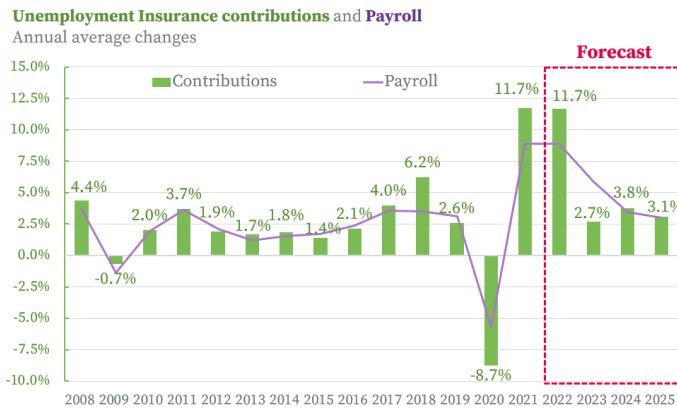
REVENUES: STRONG GROWTH ON THE FORECAST HORIZON THANKS TO THE EXCEPTIONAL SALARY MOMENTUM

The gap in unemployment insurance contributions, which fell to €35.2bn in 2020 (-€3.4bn compared to 2019), corresponded to exceptional events such as the reduction in employment directly related to the covid epidemic, the shortfall in contributions on furloughing scheme benefits, or the deferral of contributions. It was filled in as early as 2021, such that unemployment insurance contributions amounted to €39.4bn as a result of the impact of the payroll catch-up (*Charts 9A and 9B*). The strong increase in employment, but especially in salaries, observed in 2022 continued to support the payroll and therefore contributions to the Unemployment Insurance, which reached €44.0bn.

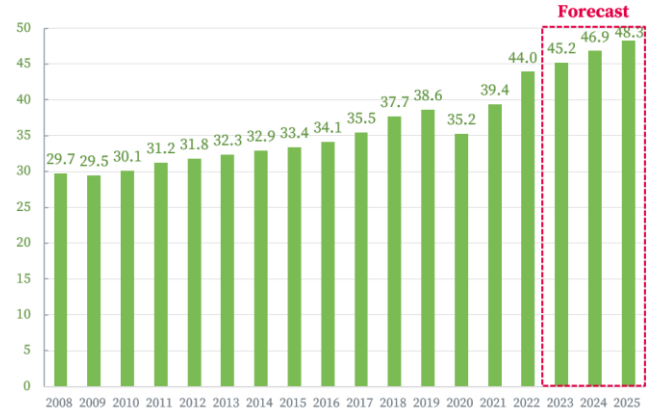
In anticipation, **contributions are expected to continue growing at €45.2bn in 2023, €46.9bn in 2024 and €48.3bn in 2025**, but almost solely thanks to salaries momentum while the contribution of employment is expected to be minimal (*Table 4*). NB: these forecasts are based on the assumption that the general social security contributions (GSC) will continue to fully compensate the removal of unemployment insurance employee contributions.

CHARTS 9A AND 9B – UNEMPLOYMENT INSURANCE CONTRIBUTIONS

A – ANNUAL CHANGE IN %



B – LEVEL, IN €BN



Sources: Urssaf Caisse nationale, Unédic, Unédic forecasts of February 2023

BALANCE OF FINANCES: A BALANCE ANCHORED IN POSITIVE TERRITORY DESPITE THE ECONOMIC SLOWDOWN OF 2023

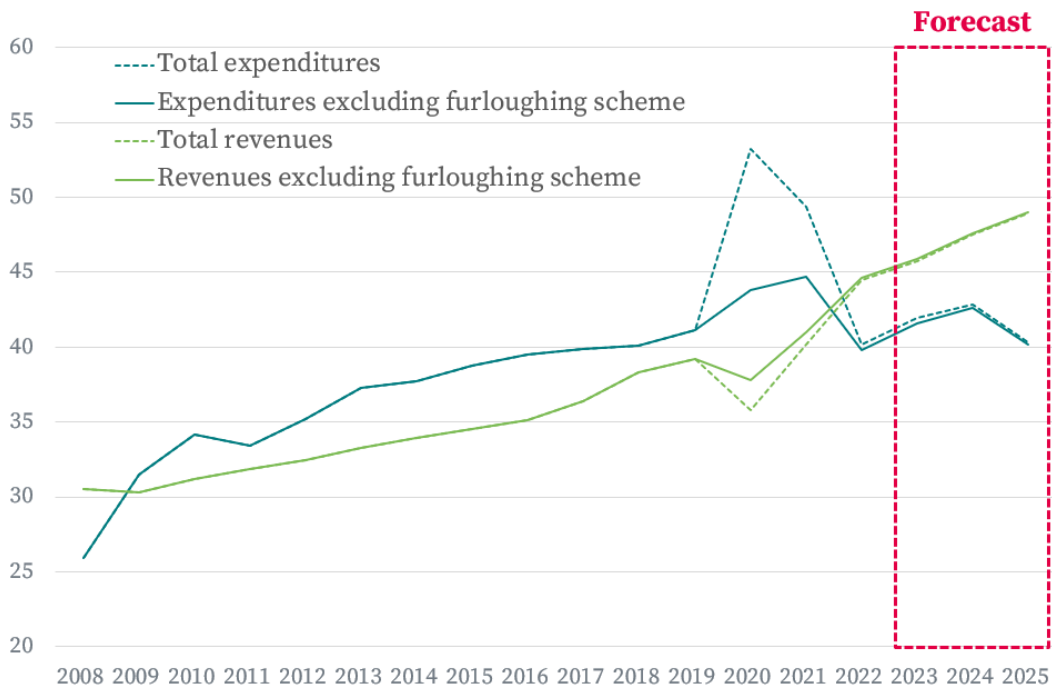
In deficit every year since 2009, Unédic’s financial scheme has deteriorated sharply in 2020 and to a lesser extent in 2021 due to the health crisis. The end of the emergency measures, as well as the cyclical and regulatory factors detailed above, allowed the scheme to **return to positive territory from 2022 with a balance of +€4.3bn**.

In 2023, with expenditures growing faster than revenues, **the Unédic balance is forecast to contract to +€3.8bn**, remaining positive despite the highly uncertain context, the slowdown in activity and the net decrease in employment (*Chart 10*). The economic recovery and the ramp-up of unemployment insurance reforms are expected to allow the balance to **grow again in 2024 to +€4.7bn, but especially in 2025 to +€8.6bn** (*Chart 11*).

As a proportion of GDP, Unédic’s revenues remain stable at 1.6% of GDP, **while expenditures are reduced:** 2.3% in 2020, then 2.0% in 2021 and now 1.5% in 2022, a level at which they are expected to stagnate until 2024, before starting to decline to 1.3% of GDP in 2025 (*Figure 13 attached in appendix*).

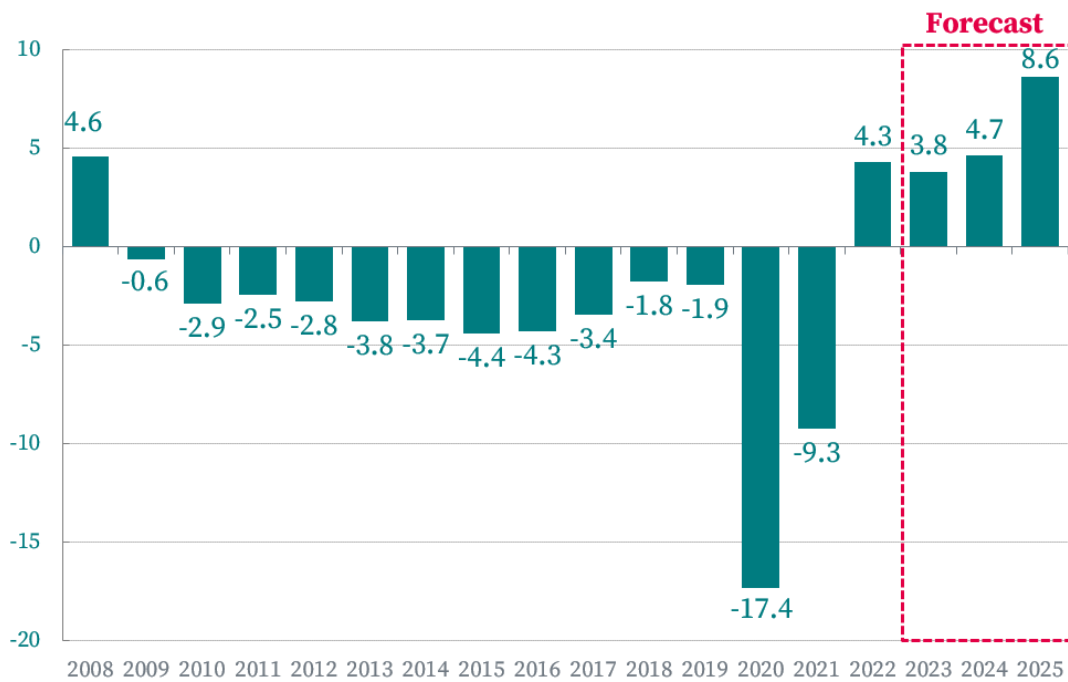
Note: the impact of the pension reform, currently being examined by Parliament, is not taken into account in the forecast (*Box 2*).

CHART 10 – UNEMPLOYMENT INSURANCE EXPENDITURES AND REVENUES, IN €BN



Source: Unédic, Unédic forecasts of February 2023

CHART 11 – BALANCE OF FINANCES OF THE UNEMPLOYMENT INSURANCE, IN €BN



Source: Unédic, Unédic forecasts of February 2023

BOX 2 – PENSION REFORM AND UNEMPLOYMENT INSURANCE SCHEME

The draft amending social security financing law for 2023 presented to the Council of Ministers on 23 January 2023 and under discussion in Parliament provides for several measures to reform the pension system, including:

- a gradual increase in the legal retirement age from 62 to 64,
- an acceleration of the schedule of the extension of the contribution period necessary to benefit from a full-rate pension which will be increased to 43 years in 2027 (this extension provided for by the “Touraine law” of 2014 previously ended in 2035),
- an adaptation of certain early departure arrangements (long career, early retirement of disabled workers, etc.).

The first two measures mentioned above that are likely to have the greatest impact on Unemployment Insurance scheme over the long term. Indeed, the seniors who will be affected by the extension of retirement age will eventually find themselves employed, unemployed or inactive. This distribution is uncertain at this stage, but observing the effects of past reforms can provide initial insight into the potential effects of a new reform.

In 2022, compared to 2010, under the effect of the two-year delay in the legal retirement age and the age of cancellation of the discount (2010 reform), 100,000 additional beneficiaries of 60 years or more are compensated. The peak of entitlement openings occurring about 3 years before the retirement age, known as the “horizon effect”¹¹, also shifted over this period (59 years *versus* 57-58 years in 2010). Lastly, the end of entitlements due to retirement have also increased at older ages. Formerly concentrated at 60, they are now mainly distributed between 60 (early departures) and 62 (legal age).

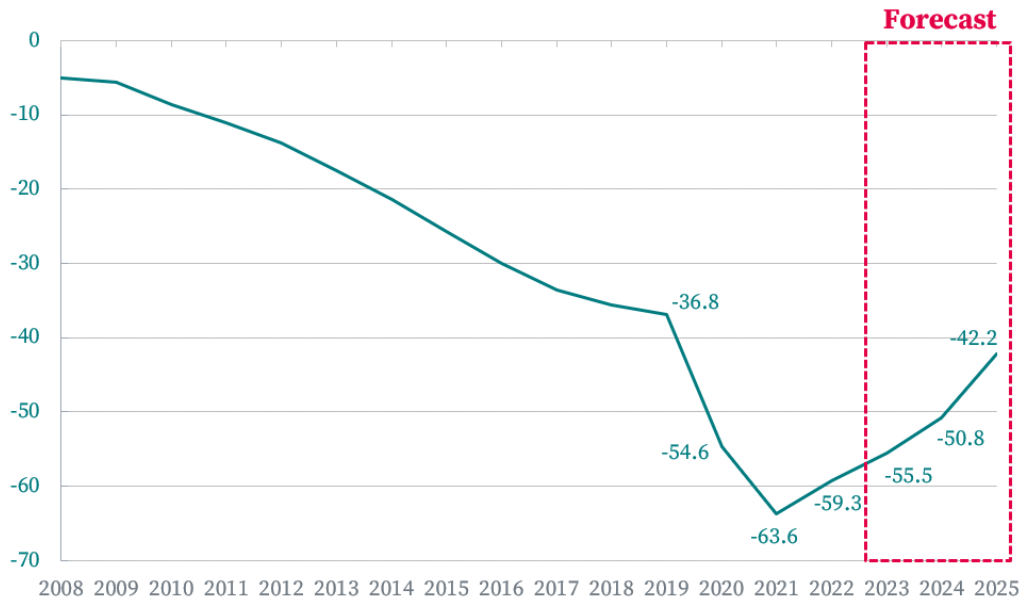
Raising the legal retirement age from 62 to 64 would increase both revenues (more seniors in employment) and expenditures (more seniors entitled to benefits) of the Unemployment Insurance scheme. The final effect on the balance is now uncertain, on the one hand, because the parameters of the reform under discussion are not yet known and, on the other hand, because these effects remain difficult to estimate. In addition, they may not be the same as those at work for the 2010 reform, which is just finishing its ramp-up. In any case, these effects would only fully manifest themselves in the long term, beyond the horizon of our forecast.

¹¹ The horizon effect is when the specific characteristics of the labour market for seniors are determined by the distance to retirement age. In this definition, the main labour market indicators for seniors (employment rate, age of definitive termination of employment, etc.) are linked to distance at one or more ages defined by pension legislation. This effect would imply that a lag in these ages would also translate into a lag in these indicators.

DEBT DELEVERAGING CONTINUES

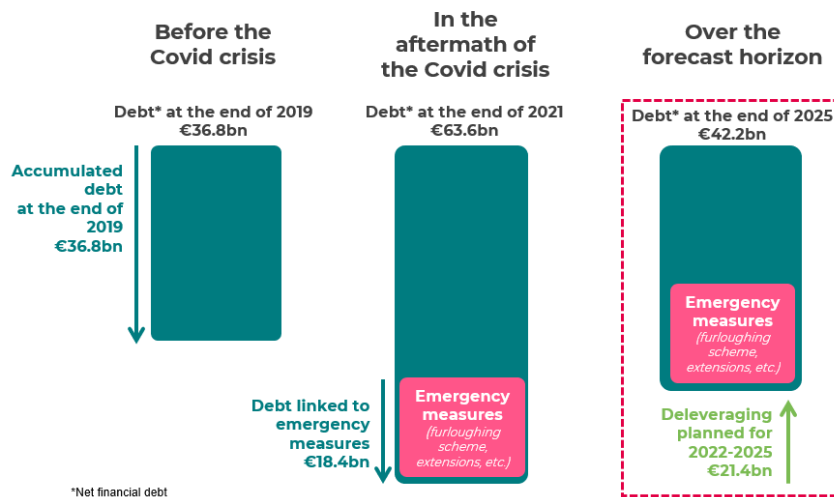
The scheme’s debt, which stood at €36.8bn in late 2019, then at €63.6bn in late 2021, began a reduction trajectory as early as 2022. **It amounted to €59.3bn at the end of 2022 and will continue to decrease to €55.5bn at the end of 2023, €50.8bn at the end of 2024 and €42.2bn at the end of 2025 (Chart 12).** However, it is expected to remain above its pre-crisis level. Excluding emergency measures, it is nevertheless expected to fall to **€23.8bn in 2025 (Figure 1).**

CHART 12 – UNEMPLOYMENT INSURANCE SCHEME DEBT, IN €BN



Source: Unédic, Unédic forecasts of February 2023

CHART 1 - DEBT BEFORE THE COVID CRISIS, AT THE END OF THE CRISIS AND UNTIL YEAR-END 2025



*Net financial debt

Sources: Unédic, Unédic forecasts of February 2023

INTEREST EXPENDITURES REMAIN UNDER CONTROL

In 2022, Unédic completed a “Social Bond” issue of €1.0bn. The medium- and long-term funding programme was therefore much reduced compared to the €19bn issued in 2020 and €12.5bn in 2021. This significant decrease was made possible by a return to balance of the Unemployment Insurance’s accounts. At the same time, €4.1bn in medium- and long-term borrowings were repaid from the scheme’s own resources.

This year 2022 was also marked by disruptions in financial markets linked to a rapid and **strong rise in interest rates** that was not anticipated at the beginning of the year. This increase in interest rates stems in particular from changes in the monetary policies of the European Central Bank (ECB), which, like the other major central banks, aims to limit the rise in inflation. Unédic’s financial management, defined by the social partners, makes it possible to **limit exposure to refinancing and interest rate risks**.

Despite an increase in short-term financial expenditures due to the rapid increase in interest rates and a higher level of short-term outstanding debt than before the Covid crisis, they remain under control for the coming years: €0.5bn in 2023, then €0.4bn in 2024 and €0.2bn in 2025, i.e. less than 1% of Unédic’s revenues.

Changes in the Unemployment Insurance’s financial situation should make it possible to reduce the scheme’s debt, based on the debt amortisation programme below (*Table 5*).

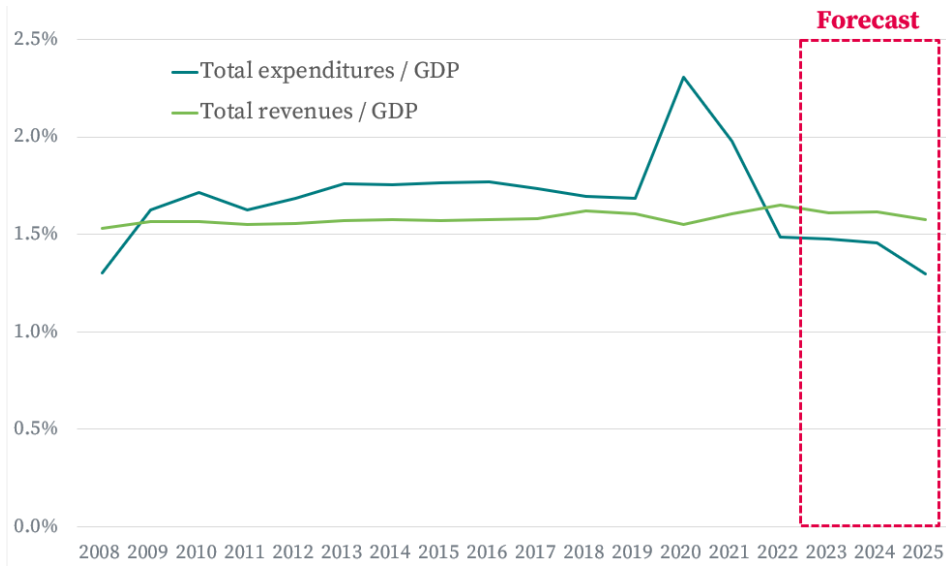
TABLE 5 – UNEDIC’S DEBT AMORTISATION PLAN, IN €BN

	2023	2024	2025
Balance of finances before change in financing	3.8	4.7	8.6
Change in medium- and long-term outstanding debt	-2.8	-3.1	-2.0
<i>New medium/long term debt issuances</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>
<i>Medium/long term debt repayments</i>	<i>3.8</i>	<i>4.1</i>	<i>3.0</i>
Change in short-term outstanding debt	-1.1	-1.6	-5.0
Change in cash	0.0	0.0	1.6
Change in net debt	-3.8	-4.7	-8.6
<i>Net debt</i>	<i>55.5</i>	<i>50.8</i>	<i>42.2</i>

Source: Unédic, Unédic forecasts of February 2023

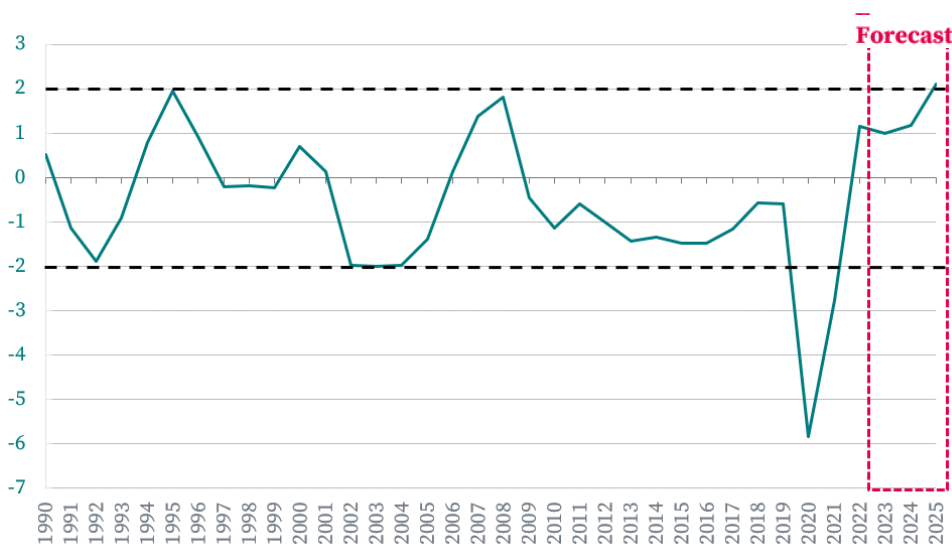
APPENDICES

CHART 13 – UNEMPLOYMENT INSURANCE EXPENDITURES AND REVENUES, IN % OF GDP




Source: Unédic, Unédic forecasts of February 2023

CHART 14 – UNEMPLOYMENT INSURANCE’S BALANCE OF FINANCES, EXPRESSED IN MONTHS OF REVENUES



Source: Unédic, Unédic forecasts of February 2023



FINANCIAL SITUATION OF THE UNEMPLOYMENT INSURANCE 2023-2025

21 February 2023

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