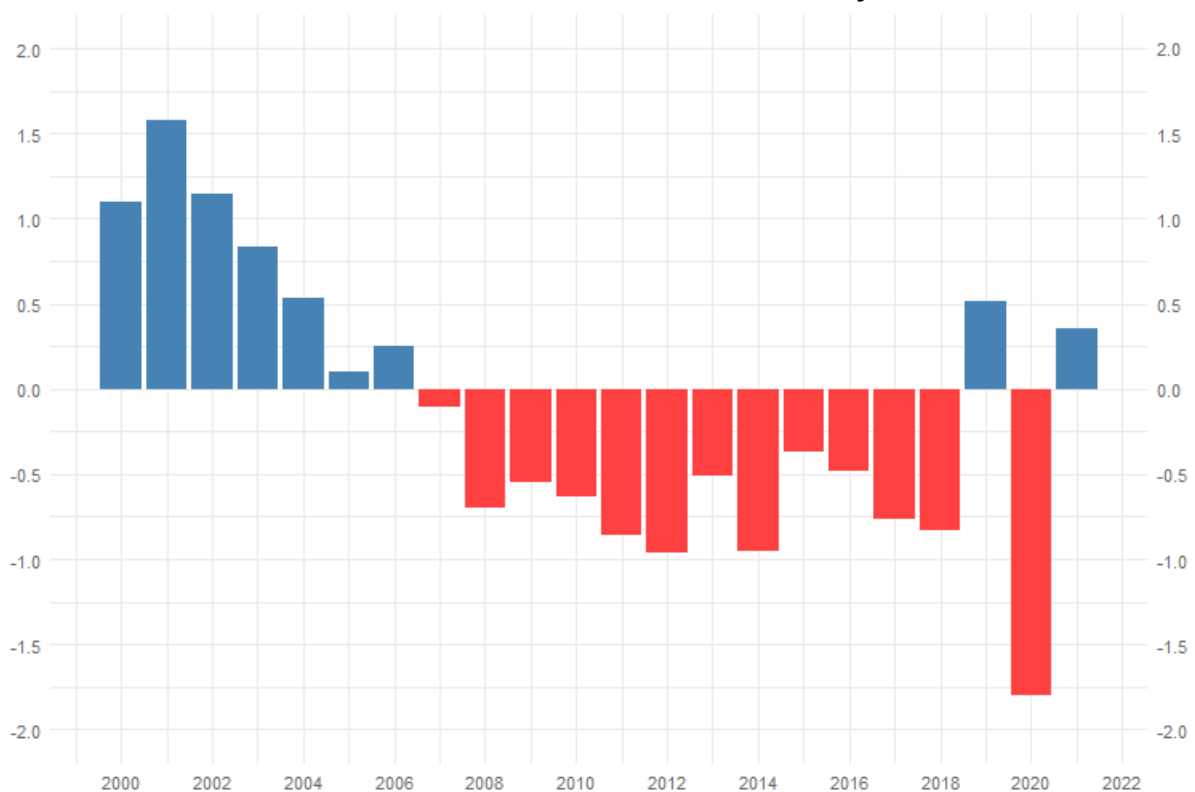


The three faces of France's international trade

By Barbara Castelleti Font and Véronique Genre

Since 2007, the recurring current account deficits in France have tended to worsen. However, the trade in services balance and the primary income balance, which traditionally show a surplus, have limited or even offset the goods trade deficit, which hit a record high in 2021 due in particular to the energy bill. In 2019 and 2021, France returned to a current account surplus. But the sustainability of this current account surplus is by no means assured.

Chart 1. France: Current account balance (% of GDP)



Source: Banque de France and Insee

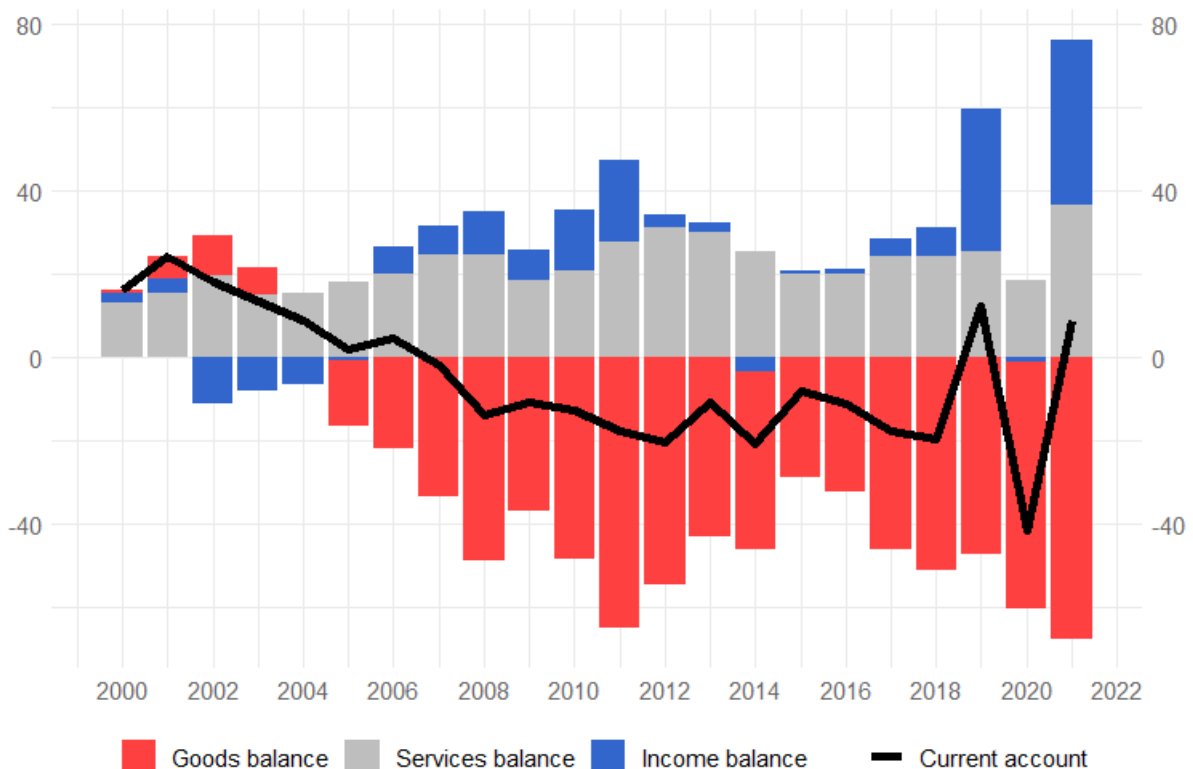
In 2021, the current account balance displayed a surplus of EUR 9 billion, or 0.4% of GDP. It thus returned to its pre-pandemic level (0.5% of GDP in 2019), after a very large deficit in 2020 (see Chart 1). This is France's second current account surplus in 15 years, after that of 2019 (EUR 12 billion). While these results may seem encouraging, a longer-term analysis paints a different picture: current account deficits have been a recurring feature since 2007 and are tending to worsen over time.

In France, the recurrent current account deficits can be attributed to the goods balance. In 2021, the balance of trade in goods reached its lowest point since 2000 (see Chart 2), standing at EUR -67.4 billion, sharply down on the previous year (EUR -59.1 billion). In addition to the one-off effects from the Covid-19 crisis, there has been a gradual decline in the non-energy goods balance and an energy bill deficit that is expected to continue to affect the economy in 2022, given the sharp rise in gas and oil prices.

Trade in goods: an incomplete picture of French international trade

A country's international trade must be viewed not just from the perspective of trade in goods, but in terms of overall economic trade. In particular, the current account also covers trade in services and income flows. In France, the trade in services and primary income balances (mainly foreign direct investment) are significantly in surplus and, since 2004, have limited the effect of the goods trade deficit on the overall current account balance, or even offset it, like in 2019 or 2021 (see Chart 2). In 2021, the trade in services and income balances showed record surpluses of EUR 36 and 40 billion, respectively. The sum of these two intermediate balances offset the goods trade deficit (EUR -67.4 billion) and resulted in a slight current account surplus in 2021, as was the case in 2019.

Chart 2. Current account balance and its components (EUR billion)



Source: Banque de France.

Services exports: one of the strengths of France's foreign trade

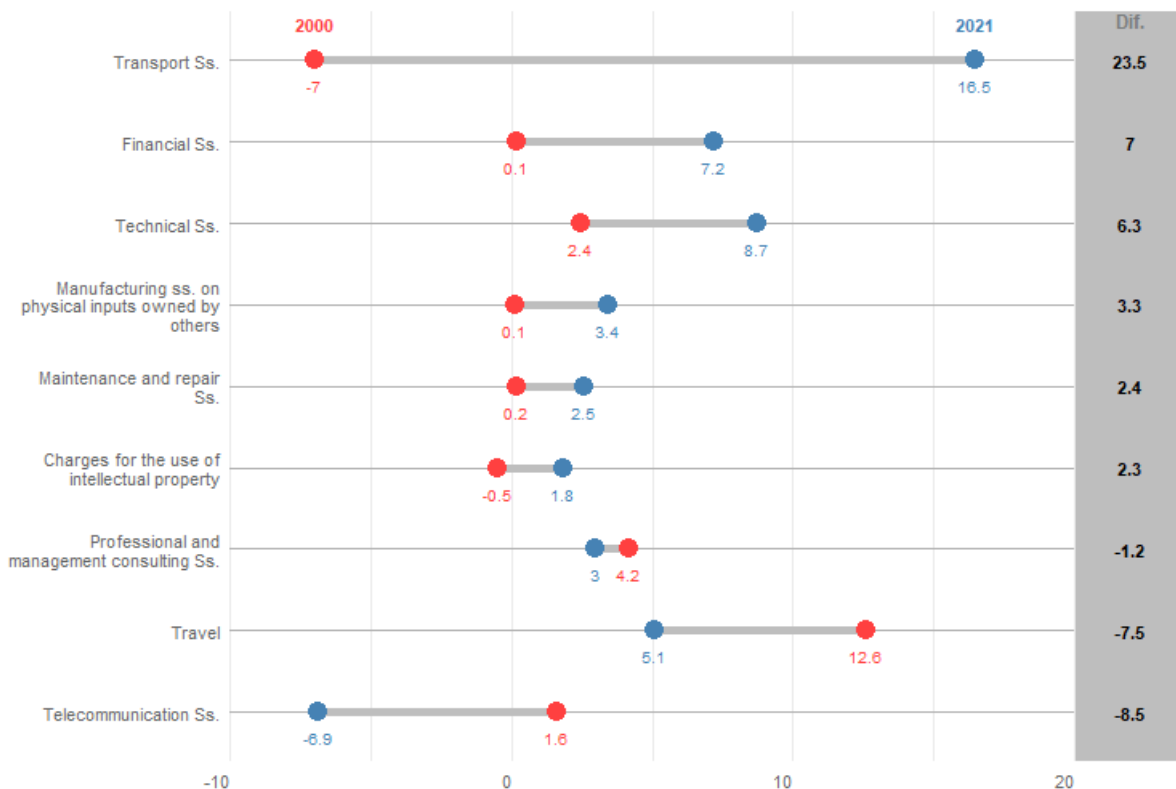
Trade in services has largely contributed to reducing France's trade deficit over the past two decades. Compared to its main European partners, France's current account structure is more skewed towards the export of services ([Bui-Quang and Gigout, 2021](#)). More specifically, services exports accounted for about 25% of France's total current account receipts in 2021 compared to 16% in Germany and 13% in Italy.

France is one of the main players in services exports at the global level, with a diversified supply and several sectors in surplus over the past two decades (see Chart 3). In the recent period, the significant increase in exports of transport services may prove to be temporary. In 2021, the maritime component explains this result since the France is home to one of the world's leading container shipping companies, which has benefited from a sharp rise in freight rates.

Since 2000, financial and technical services have also been drivers of growth in international trade. The financial services balance accounts for a large part of this increase, particularly due to the arrival of Anglo-Saxon firms in Paris following Brexit. Lastly, in technical services, scientific research services and services related to the extractive industries are strong assets for the French economy.

Travel services, boosted by France's tourist appeal, continue to be buoyant, despite the worsening of the balance since its peak in 2013 and the Covid-19 crisis. The balance in 2021 continued to be affected by the drop in the number of visitors from distant countries and business tourism. Nevertheless, a recovery was observed as of the second quarter of 2021 (especially from travellers from the Americas).

Chart 3. Trade in services: changes in the balance between 2000 and 2021 (EUR billion, selected categories)



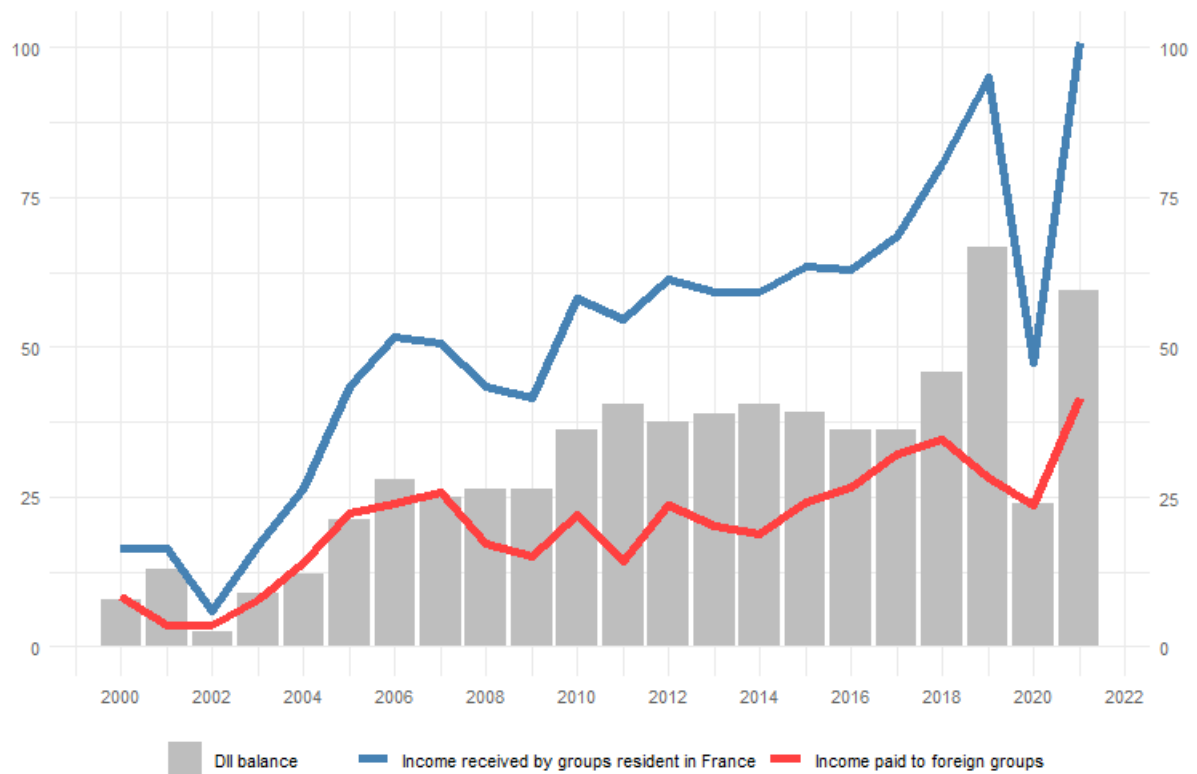
Source: Banque de France

The primary income balance: a robust surplus confirmed in 2021

Primary income is the other driver of the French current account surplus. This income compensates agents for the provision of labour (in the form of wages), capital (investment and interest income) or other resources (rents). In particular, direct investment income, which accounts for about two-thirds of primary income, contributes to the current account surplus. This mainly consists of dividends to shareholders and retained earnings held in reserve.

For France, income received by shareholders of subsidiaries located abroad is historically higher than income paid by French subsidiaries to non-residents, meaning that the balance of direct investment income is structurally positive. This difference reflects income transfers from the rest of the world to France. For instance, the activities of multinationals contributed about 2% of GDP to gross national income over the period 2012-21. With a large number of multinationals, France, along with the United States and Japan, is among the countries that benefit most from this transfer of income ([Nayman and Vicard, 2018](#)) This positive balance has tended to increase since the early 2000s (Chart 4).

Chart 4. Changes in direct investment income (EUR billion)



Source: Banque de France.

It increased rapidly between 2017 and 2019, driven by the growth in the earnings of subsidiaries of French multinationals, against a favourable economic backdrop. The health crisis brought this growth to an abrupt halt, bringing the balance of direct investment income down from EUR 67 billion in 2019 to EUR 24 billion in 2020. In 2021, thanks to a sharp rebound in companies' net operating profits, the balance of direct investment income should rise to almost EUR 60 billion according to initial estimates. The excellent relative

performance of the CAC40 in 2021 (up 28%) compared to other stock markets (14% for the FTSE 100, 16% for the DAX, 22% for the Stoxx or 18% for the Dow Jones) reflects the apparent better return on French investment abroad, which remains higher than that of foreign investment in France.

In the Banque de France's latest macroeconomic projections, the trade balance is expected to improve over the medium term. It should benefit from a return to the 2019 level of goods exports, particularly in aeronautics. Nevertheless, structural factors affecting trade in goods (negative effects of non-cost competitiveness) are likely to persist. Moreover, the energy bill is expected to continue to increase significantly in 2022 due to the sharp rise in gas and oil prices. Preliminary data for 2022 also show that tourists are returning to France. The sustainability of the current account surplus will therefore depend in part on future income developments.