FRANCE

France's economic freedom score is 65.7, making its economy the 64th freest in the 2021 Index. Its overall score has decreased by 0.3 point because of a decline in property rights and other scores. France is ranked 34th among 45 countries in the Europe region, and its overall score is below the regional average but above the world average.

This year, the French economy remains in the moderately free category where it has been since 2004. The government has pushed a series of reforms to reduce unemployment, improve the investment climate, and increase competitiveness. Unfortunately, even if they were adopted, they would have little impact on the country’s very high levels of government spending.

IMPACT OF COVID-19: As of December 1, 2020, 52,821 deaths had been attributed to the pandemic in France, and the economy was forecast to contract by 9.8 percent for the year.

BACKGROUND: France is one of the world’s most modern countries and sees itself as a leader among European nations. President Emmanuel Macron of the center-left La République en Marche (REM) was elected in 2017 but remains unpopular. His REM performed poorly in 2020 municipal elections. Macron’s coalition won a majority of parliamentary seats in 2017, but the July 2020 resignation of popular Prime Minister Édouard Philippe’s government posed a political challenge. Pension reform remains unresolved following months of opposition protests and strikes. France’s diversified economy is led by tourism, manufacturing, and pharmaceuticals. The government has partially or fully privatized many large companies but maintains a strong presence in such sectors as power, public transport, and defense.
Property rights and enforcement of contracts are secure, but real estate regulation is complex and inefficient. Robust laws protect intellectual property rights. An independent judiciary and the rule of law are firmly established. Even though the government actively promotes a strong anticorruption legal framework, corruption remains a problem in procurement in such sectors as public works, defense, and wherever else business and politics overlap.

The top individual income tax rate is 45 percent, and the top corporate tax rate has been cut to 28 percent. Other taxes include a value-added tax. The overall tax burden equals 46.1 percent of total domestic income. Government spending has amounted to 55.9 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.7 percent of GDP. Public debt is equivalent to 98.5 percent of GDP.

France’s reputation as a country that respects the prerogatives of business owners is still well deserved, but the time it takes to start a business and to handle construction permits has increased. Powerful labor unions and France’s Yellow Vest movement have slowed efforts to enact labor reform. The government’s efforts to slim down the large and heavily subsidized public sector have progressed slowly.

As a member of the EU, France has 45 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 3 percent, with 639 EU-mandated nontariff measures in force. France has an additional 29 country-specific nontariff barriers. Investment in some sectors is restricted, and a new decree in 2020 expanded the list of strategic sectors. The financial sector is modern and mostly in private hands.