# 7. FRANCE

## GDP growth moderating slightly amid rising uncertainties

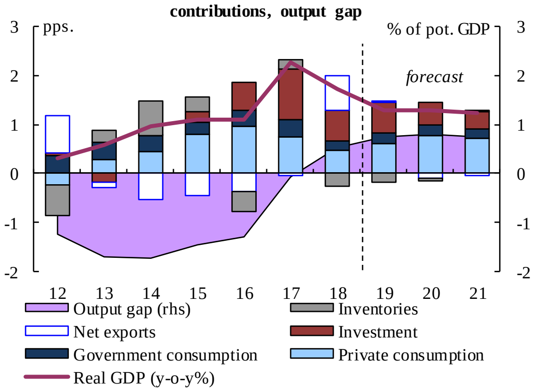
*Real GDP growth is set to decrease in 2019 before levelling out a rate close to the economy's potential. Private consumption is forecast to pick up somewhat, partly compensating the slowdown in investment, while net exports should cease to support GDP growth. The public deficit is forecast to temporarily exceed 3% of GDP in 2019, but to fall to 2.2% in 2020 and 2021.*

### GDP growth to be supported by domestic demand

Economic activity in France grew by 0.3% in the first two quarters of 2019. Investment remained buoyant, while private consumption slightly decelerated. The contribution of net exports to GDP growth was subdued in the first half of 2019.

Supported by domestic demand, GDP is forecast to grow by 1.3% in 2019 and 2020 [109] and then by 1.2% in 2021, levels which are close to the economy's estimated potential growth rate. Following a deterioration at the end of 2018, economic sentiment and consumer confidence indicators have been improving and have stabilised above their historical means. However, rising external uncertainties are set to weigh on net trade and the external sector is not expected to provide any support to growth over the forecast horizon.

*Graph II.7.1:* **France - Real GDP growth and contributions, output gap**




Private consumption is forecast to pick up somewhat in 2020, boosted by gains in purchasing power, which increased strongly in 2018-Q4 and 2019-Q1 on the back of rising wages, falling unemployment and inflation and supportive fiscal measures. Household purchasing power is set to continue expanding in 2020 and 2021, albeit at a slower pace. This slowdown is explained by the planned adjustment in social benefits after significant increases in 2019 and by the slowdown in job creation. Households are set to smooth their private consumption profile over the forecast horizon. Therefore, changes in purchasing power are expected to lead to higher precautionary savings in 2019 that should gradually fade away afterwards.

Stronger private consumption is expected to partially compensate for the slowdown in investment over the next few years. Corporate investment is still set to soften, but should continue to grow faster than economic activity in general, supported by favourable financing conditions. Household investment is projected to remain subdued. Finally, public investment is forecast to accelerate in 2019 and weaken thereafter in line with the local electoral cycle.

After a strong contribution to economic activity in 2018, net exports' contribution to GDP growth is set to be broadly neutral over the next years. Imports are projected to accelerate in line with domestic demand, while export growth, which has slowed this year, is expected to remain rather flat as external demand loses momentum.

### Unemployment rate to continue falling and inflation to remain broadly stable

Unemployment in France is forecast to dwindle in 2019 and to continue falling afterwards, albeit at a slower pace. Inflation is forecast to drop to 1.3% in 2019, from 2.1% in 2018, due to lower oil prices and lower tax increases. Core inflation is also set to remain broadly stable and close to HICP. [110]

### Risks are balanced

Private consumption growth could prove stronger than expected due to the strong gains in purchasing power. However, the deterioration of the external environment could weigh more than expected on corporate investment and exports.

[109] The GDP annual growth figures are non-calendar adjusted. In 2020, calendar adjusted GDP growth would reach 1.2%.

[110] Core inflation estimate takes into account processed food including alcohol and tobacco.

### Stable structural deficit over the forecast horizon

The headline deficit declined to 2.5% of GDP in 2018. In 2019, it is expected to rise to 3.1% of GDP, unchanged from the spring forecast. The increase in 2019 is mainly due to the one-off impact of 0.9% of GDP stemming from the transformation of the tax credit for competitiveness and employment (*crédit d'impôt pour la compétitivité et l'emploi, CICE*) into a permanent cut in employers' social contributions. In turn, the measures, mainly on the revenue side, which are aimed to enhance the purchasing power of households, entail a net deficit-increasing impact of around 0.3% of GDP in 2019.

In 2020, the deficit is projected to fall to 2.2% of GDP, unchanged from the spring estimate. This reduction mainly reflects the fading away of a one-off impact, stemming from the transformation of the CICE in 2019. Additional measures aimed at further enhancing household purchasing power were adopted after the broad national debate "Grand Débat National" in April. These measures include a EUR 5 billion reduction in the personal income tax (0.2% of GDP), the indexation of pensions below EUR 2000 per month, and the increase in minimum pensions (both amounting to EUR 1.5 billion, or 0.1% of GDP). The deficit increasing impact of these measures is however, offset by a sizeable decline in the debt service due to low interest rates. Public expenditure in nominal terms, net of tax credits, is set to rise by 1.8%, which implies an increase in real terms of 0.6%. The projected reduction in the expenditure-to-GDP ratio of 1.1 pps. is mainly due to the transformation of the CICE (0.9 pps.), followed by the projected reduction in interest payments (0.2 pps.). The structural balance, however, is set to improve only marginally.

Under a no policy change assumption, the headline deficit is expected to remain stable, at 2.2% of GDP in 2021. The revenue and the expenditure-to-GDP ratios are projected to decline by 0.3 pps. and 0.4 pps., respectively. The fiscal stance is expected to be broadly neutral. In turn, public debt is set to rise from 98.4% in 2018 to 98.9% of GDP in 2019 and 2020, then to further increase to 99.2% of GDP by the end of the forecast horizon.

*Table II.7.1:*

**Main features of country forecast - FRANCE**

| | 2018 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn EUR Curr. prices | % GDP | 00-15 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| GDP | 2353.1 | 100.0 | 1.3 | 1.1 | 2.3 | 1.7 | **1.3** | **1.3** | **1.2** |
| Private Consumption | 1268.5 | 53.9 | 1.5 | 1.8 | 1.4 | 0.9 | **1.1** | **1.4** | **1.4** |
| Public Consumption | 550.9 | 23.4 | 1.5 | 1.4 | 1.5 | 0.8 | **0.9** | **1.0** | **0.8** |
| Gross fixed capital formation | 537.9 | 22.9 | 1.3 | 2.7 | 4.7 | 2.8 | **2.7** | **1.9** | **1.4** |
| of which: equipment | 116.3 | 4.9 | 1.1 | 6.1 | 1.1 | 2.0 | **3.0** | **1.7** | **1.6** |
| Exports (goods and services) | 737.4 | 31.3 | 3.2 | 1.8 | 3.9 | 3.5 | **2.2** | **2.2** | **2.5** |
| Imports (goods and services) | 755.6 | 32.1 | 3.9 | 2.9 | 3.9 | 1.2 | **2.1** | **2.4** | **2.5** |
| GNI (GDP deflator) | 2406.1 | 102.3 | 1.4 | 1.1 | 2.5 | 1.6 | **1.3** | **1.3** | **1.2** |
| Contribution to GDP growth: Domestic demand | | | 1.5 | 1.9 | 2.1 | 1.3 | **1.4** | **1.4** | **1.3** |
| Inventories | | | 0.1 | -0.4 | 0.2 | -0.3 | **-0.2** | **-0.1** | **0.0** |
| Net exports | | | -0.2 | -0.4 | -0.1 | 0.7 | **0.0** | **-0.1** | **0.0** |
| Employment | | | 0.6 | 0.5 | 0.9 | 1.0 | **1.1** | **0.7** | **0.5** |
| Unemployment rate (a) | | | 9.0 | 10.1 | 9.4 | 9.1 | **8.5** | **8.2** | **8.0** |
| Compensation of employees / f.t.e. | | | 2.4 | 1.3 | 2.0 | 1.8 | **-0.2** | **1.4** | **1.9** |
| Unit labour costs whole economy | | | 1.7 | 0.7 | 0.6 | 1.0 | **-0.4** | **0.9** | **1.3** |
| Real unit labour cost | | | 0.2 | 0.1 | 0.1 | 0.2 | **-1.7** | **-0.3** | **0.1** |
| Saving rate of households (b) | | | 14.4 | 13.6 | 13.6 | 13.8 | **14.6** | **14.4** | **14.1** |
| GDP deflator | | | 1.5 | 0.5 | 0.5 | 0.8 | **1.4** | **1.2** | **1.2** |
| Harmonised index of consumer prices | | | 1.7 | 0.3 | 1.2 | 2.1 | **1.3** | **1.3** | **1.3** |
| Terms of trade goods | | | 0.1 | 1.2 | -1.6 | -1.7 | **0.4** | **0.0** | **0.0** |
| Trade balance (goods) (c) | | | -1.2 | -1.1 | -1.6 | -1.7 | **-1.5** | **-1.5** | **-1.5** |
| Current-account balance (c) | | | 0.0 | -0.6 | -0.6 | -0.6 | **-0.4** | **-0.6** | **-0.6** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | 0.0 | -0.6 | -0.5 | -0.5 | **-0.4** | **-0.5** | **-0.5** |
| General government balance (c) | | | -3.8 | -3.5 | -2.8 | -2.5 | **-3.1** | **-2.2** | **-2.2** |
| Cyclically-adjusted budget balance (d) | | | -4.0 | -2.7 | -2.7 | -2.9 | **-3.5** | **-2.8** | **-2.7** |
| Structural budget balance (d) | | | - | -2.7 | -2.7 | -2.7 | **-2.7** | **-2.6** | **-2.6** |
| General government gross debt (c) | | | 75.2 | 98.0 | 98.4 | 98.4 | **98.9** | **98.9** | **99.2** |

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.