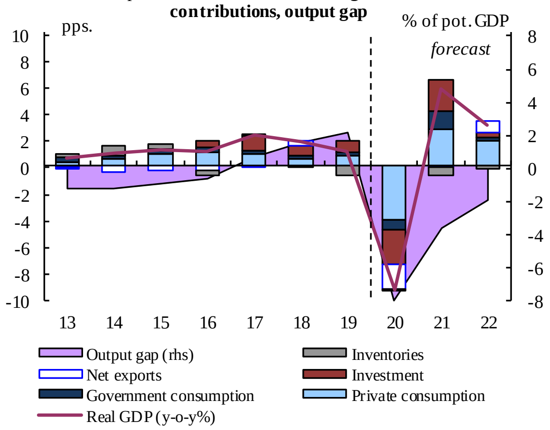
7. FRANCE

France's GDP is set to decline sharply in 2020. Supported by fiscal measures aimed to ensure liquidity for businesses and protecting employment in 2020, and the recovery plan in 2021 and 2022, economic activity is set to rebound slowly. At the end of 2022, however, both GDP and employment are projected to remain lower than at the end of 2019. The general government deficit is expected to rise to 10½% of GDP in 2020, before shrinking to 8¼% in 2021. Public debt is set to rise steadily, to 119½% in 2022.

A much sharper recession than in 2008

Due to the COVID-19 pandemic, GDP growth in France is set to contract by 9½% of 2020. The economic impact of the outbreak was concentrated in the second quarter when the lockdown measures hit production and all demand components.

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



Despite a strong rebound due to the lifting of restrictions, activity is set to remain below its pre-crisis level in the third quarter, reflecting both persistent supply disruptions in the hardest hit sectors (e.g. hospitality, transport and recreational services) and lower confidence among households and businesses. In the fourth quarter, GDP is expected to diminish again due to the impact of new restrictions triggered by a resurgence in infections. Private consumption is forecast to decline most sharply due to the imposition of curfews. This high level of stringency is set to persist over the first quarter of 2021, preventing activity from improving significantly.

Followed by a partial recovery

Beyond the first quarter, the relatively strong rebound forecast in 2021 is set to be dampened by several factors. On the supply side, some of the worst hit sectors are expected to remain subject to certain restrictions and the adaptation of relevant supply chains will take time. On the demand side, corporate investment is likely to be impacted by persistent uncertainty and the financial difficulties stemming from the fall of the activity in 2020. In addition, the recovery in consumer confidence is likely to be limited by a relatively modest improvement in the job market, which will restrain private consumption from returning to its pre-crisis level. Although the partial work scheme will still apply in 2021 and should limit job losses in the beginning of the year, the economy is unlikely to begin recreating the jobs lost in 2020 until mid-2021. Net exports are also expected to detract from GDP growth over 2020 and 2021, with key sectors for French exports (namely aircraft and tourism) being severely hit by the pandemic. The national recovery plan is set to provide significant support to activity in 2021.

In 2022, assuming the lifting of pandemic-related restrictions should support GDP growth, which is forecast to reach some 3%. Consumption and investment are set to recover further, with a change in the main driver for the latter. While the reduction of uncertainty is set to encourage private investment, public investment, after its surge in 2021 supported by the national recovery plan, is expected to lose momentum in that no additional measures for 2022 have been specified yet. Despite the recovery, France's real GDP at the end of 2022 is forecast to be 0.5% lower than at the end of 2019. The recovery is expected to suffer from long-lasting effects on several sectors such as hotels, restaurant, leisure and transport equipment. Additional measures to be adopted under the umbrella of the French recovery plan constitute an upside risk to the forecast, especially in 2022.

Inflation set to decline

Inflation is expected to drop to 0.5% in 2020 from 1.3% in 2019, due to lower oil prices and the negative demand shock from the crisis. Inflation is expected to gradually rebound from 2021 onwards.

Steady rise in public debt

After 3% of GDP in 2019, the general government deficit is set to reach 10½% of GDP in 2020, 0.6 pps. higher than in the spring forecast. The sizeable drop in economic activity following the lockdown will weigh heavily on tax revenues and push up social transfers due to the response of automatic stabilisers. This macroeconomic-related impact accounts for most of the deterioration in the deficit. The temporary expenditure measures adopted to fight the pandemic and to assuage the adverse macroeconomic effects amount to 3.0% of GDP and comprise, among others, additional healthcare expenditure, transfers to cover partial unemployment schemes and subsidies under the sectoral compensation fund for SMEs. These measures also include tax exemptions, mainly social security contributions, of €5.2 billion. Liquidity measures and public guarantees to support companies, amounting to almost €400 billion, are assumed to entail no immediate material budgetary impact.

All in all, the revenue-to-GDP ratio is set to remain broadly constant, whereas the expenditure-to-GDP ratio is projected to rise by 7½ pps. to some 63% of GDP. Interest payments are set to continue declining.

For 2021, the reversal of the emergency measures and the functioning of automatic stabilisers are expected to reduce the general government deficit to 8¼% of GDP. While the revenue-to-GDP ratio is set to dwindle by around 1 ppt., the expenditure-to-GDP ratio is projected to shrink by around 3¼ pps. These projections incorporate measures from the French Recovery Plan of 1.6% of GDP, including a permanent cut in taxes on production of €10 billion and additional expenditure of €27.4 billion. Spending measures include an envelope for the partial activity scheme of €6.6 billion. The government assumes the Recovery and Resilience Facility will partly finance recovery measures worth 0.7% of GDP.

At unchanged policies, the government deficit is set to narrow to 6% of GDP in 2022. While the revenue ratio is expected to dwindle only slightly, the expenditure ratio is projected to decline by 2½ pps. Public debt is forecast to rise from 98.1% in 2019 to almost 116% of GDP in 2020, and then to 117¾% in 2021 and around 119½% in 2022.

Table II.7.1:

Main features of country forecast - FRANCE

	2019			Annual percentage change						
	bn EUR Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP	2425.7	100.0	1.2	2.3	1.8	1.5	**-9.4**	**5.8**	**3.1**
Private Consumption	1303.3	53.7	1.4	1.5	0.9	1.5	**-7.7**	**5.1**	**3.5**
Public Consumption	560.2	23.1	1.5	1.4	0.9	1.7	**-3.2**	**5.2**	**0.9**
Gross fixed capital formation	573.1	23.6	1.1	4.7	3.2	4.2	**-10.9**	**10.8**	**1.7**
of which: equipment	126.3	5.2	0.9	4.1	2.4	3.9	**-17.6**	**11.3**	**5.5**
Exports (goods and services)	770.7	31.8	2.5	4.4	4.4	1.9	**-17.7**	**6.6**	**6.7**
Imports (goods and services)	794.4	32.8	3.2	4.5	3.1	2.5	**-11.6**	**6.3**	**3.3**
GNI (GDP deflator)	2476.0	102.1	1.2	2.4	1.7	1.4	**-9.4**	**5.8**	**3.1**
Contribution to GDP growth: Domestic demand			1.4	2.2	1.4	2.6	**-7.5**	**6.5**	**2.5**
Inventories			0.0	0.2	0.0	-0.8	**-0.1**	**-0.6**	**-0.3**
Net exports			-0.2	-0.1	0.4	-0.2	**-1.8**	**-0.1**	**0.8**
Employment			0.5	1.1	1.0	1.2	**-10.5**	**7.0**	**2.9**
Unemployment rate (a)			9.0	9.4	9.0	8.5	**8.5**	**10.7**	**10.0**
Compensation of employees / f.t.e.			2.3	2.0	1.7	-0.2	**5.5**	**-1.6**	**-0.2**
Unit labour costs whole economy			1.6	0.8	1.0	-0.5	**4.2**	**-0.5**	**-0.3**
Real unit labour cost			0.2	0.3	0.0	-1.7	**1.3**	**-1.0**	**-1.6**
Saving rate of households (b)			14.5	13.8	14.1	14.6	**20.9**	**17.9**	**16.0**
GDP deflator			1.4	0.5	1.0	1.2	**2.8**	**0.5**	**1.2**
Harmonised index of consumer prices			1.6	1.2	2.1	1.3	**0.5**	**0.9**	**1.5**
Terms of trade goods			0.4	-1.6	-1.5	1.1	**1.3**	**-0.3**	**0.1**
Trade balance (goods) (c)			-1.2	-1.6	-1.6	-1.4	**-2.5**	**-2.5**	**-1.8**
Current-account balance (c)			-0.1	-0.7	-0.9	-0.8	**-3.0**	**-2.8**	**-1.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-0.2	-0.7	-0.8	-0.8	**-3.1**	**-2.9**	**-1.6**
General government balance (c)			-4.0	-3.0	-2.3	-3.0	**-10.5**	**-8.3**	**-6.1**
Cyclically-adjusted budget balance (d)			-4.0	-3.3	-3.1	-4.2	**-5.3**	**-5.8**	**-4.8**
Structural budget balance (d)			-	-3.1	-3.1	-3.3	**-5.1**	**-5.7**	**-4.8**
General government gross debt (c)			77.7	98.3	98.1	98.1	**115.9**	**117.8**	**119.4**

(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.