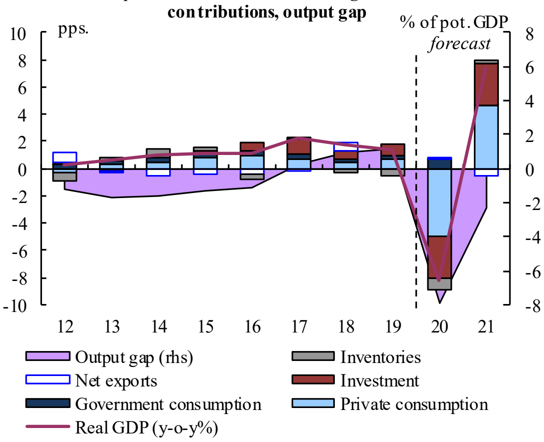
7. FRANCE

France's GDP is set to decline sharply in 2020 due to the COVID-19 outbreak. Economic activity is forecast to rebound gradually once lockdown measures are eased, supported by fiscal measures aimed at ensuring firms' liquidity and protecting employment. The general government deficit is forecast to rise to 10% of GDP in 2020.

GDP growth sharply impacted by the virus

GDP growth in France decreased to 1.3% in 2019 after 1.7% in 2018. This was mainly due to temporary factors such as strikes against pension reform, which lowered quarterly growth in the final quarter of 2019 after three quarters at near-potential rates.

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



Due to the COVID-19 outbreak, GDP is projected to contract by 8¼% in 2020 before rebounding and grow by 7½% in 2021. While economic activity had gradually recovered in January and February as the strikes eased, economic sentiment indicators plunged in March after lockdown measures were introduced to contain the virus. Surveys suggest that services, including the retail sector, have been particularly impacted. The impact of the virus outbreak is expected to show in Q1 data but will be even more significant in Q2 due to the prolongation of the confinement period. France's economy is set to contract sharply in the first half of 2020 before rebounding from the third quarter onwards. Yet the impact on some sectors may be long lasting (food services and accommodation, recreational activities, transport, and tourism more generally).

Private consumption is projected to sink during the lockdown period and to recover gradually afterwards. Despite fiscal measures supporting household disposable incomes, the rebound is expected to be partial as some categories of workers may face net losses, especially in transport and leisure-related activities. The decrease in private consumption is set to outweigh the decrease in purchasing power, resulting in an important increase in the household saving rate in 2020. Due to workforce unavailability, value chain disruptions, increased uncertainty and liquidity constraints, investment is set to contract sharply in the first half of 2020. Fiscal measures should mitigate firms' liquidity difficulties and help support the rebound. Nevertheless, a rebound in equipment investment is likely to face obstacles from a more prolonged demand shock in sectors such as transport equipment. In line with tumbling external demand, exports are projected to plunge in 2020, especially in tourism-related sectors. Recovery in these sectors is set to be hindered by long lasting negative impacts, in particular on tourism and transport equipment. Imports are expected to evolve in line with domestic demand, resulting in a contraction in 2020 and a rebound in 2021. The broadly neutral contribution of net exports to GDP growth in 2020 is set to deteriorate in 2021.

Unemployment rate set to increase moderately and inflation to decrease

Unemployment in France is projected to increase due to the severity of the economic downturn but the extended short-term activity scheme set up by the government should help to contain the rise. Inflation is forecast to drop to 0.4% in 2020 from 1.3% in 2019, due to lower oil prices and the negative demand shock. Inflation is expected to gradually rebound starting in 2021.

Risks are tilted to the downside as regards global economy as well as the impact on tourism-related sectors.

High deficit in 2020

The general government deficit was 3.0% of GDP in 2019, 0.1 pps. lower than projected in the autumn forecast. In 2020, however, the deficit is set to reach an unprecedented 10% of GDP.

The sizeable drop in economic activity following the lockdown will weigh heavily on tax revenues and social transfers due to the response of automatic stabilisers. This macroeconomic-related impact accounts for most of the deterioration in the deficit. The expenditure measures adopted to fight the pandemic and to assuage the adverse macroeconomic effects amount to 1.9% of GDP and comprise additional healthcare expenditure of EUR 8 billion; transfers to cover partial unemployment schemes of EUR 24 billion; subsidies under the sectoral compensation fund for SMEs of EUR 7 billion; and the creation of an emergency fund of EUR 2.5 billion. Liquidity measures and public guarantees aimed to support firms, amounting to about EUR 385 billion, are assumed to entail no immediate budgetary impact.

Other measures affecting the deficit forecast for 2020 compared to the previous year include the 0.9% of GDP one-off effect mainly 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 2019. The measures aimed at enhancing household purchasing power adopted after the broad national debate 'Grand Débat National' altogether amount to 0.3% of GDP in 2020.

Accordingly, the expenditure-to-GDP ratio is projected to rise by some 7 pps., to 62¾% of GDP, whereas the revenue-to-GDP ratio is set to increase only slightly. Interest payments are set to continue declining. These projections are nonetheless subject to a high degree of uncertainty.

At unchanged policies and assuming that the measures adopted to fight the pandemic will take place only in 2020, the general government deficit is expected to shrink to 4% of GDP in 2021. While the revenue-to GDP ratio is set to improve slightly, the expenditure-to-GDP ratio is projected to decline by 5½ pps. In turn, public debt is set to rise from 98.1% in 2019 to 116½% of GDP in 2020, before declining to almost 112% in 2021.

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**	**-8.2**	**7.4**
Private Consumption	1268.5	53.9	1.5	1.8	1.4	0.9	**1.2**	**-9.3**	**8.9**
Public Consumption	550.9	23.4	1.5	1.4	1.5	0.8	**1.4**	**2.8**	**0.0**
Gross fixed capital formation	537.9	22.9	1.3	2.7	4.7	2.8	**3.6**	**-13.3**	**14.0**
of which: equipment	116.3	4.9	1.1	6.1	1.1	2.0	**3.5**	**-14.8**	**13.2**
Exports (goods and services)	737.4	31.3	3.2	1.8	3.9	3.5	**2.0**	**-12.0**	**8.8**
Imports (goods and services)	755.6	32.1	3.9	2.9	3.9	1.2	**2.2**	**-11.8**	**10.6**
GNI (GDP deflator)	2406.1	102.3	1.4	1.1	2.5	1.6	**1.4**	**-8.5**	**7.4**
Contribution to GDP growth:	Domestic demand		1.5	1.9	2.1	1.3	**1.8**	**-7.4**	**7.7**
	Inventories		0.1	-0.4	0.2	-0.3	**-0.4**	**-0.8**	**0.2**
	Net exports		-0.2	-0.4	-0.1	0.7	**-0.1**	**0.0**	**-0.5**
Employment			0.6	0.5	0.9	1.0	**1.3**	**-9.1**	**10.0**
Unemployment rate (a)			9.0	10.0	9.4	9.0	**8.5**	**10.1**	**9.7**
Compensation of employees / f.t.e.			2.4	1.3	2.0	1.8	**0.2**	**6.0**	**-6.0**
Unit labour costs whole economy			1.7	0.7	0.6	1.0	**0.1**	**5.1**	**-3.7**
Real unit labour cost			0.2	0.1	0.1	0.2	**-1.3**	**3.7**	**-4.6**
Saving rate of households (b)			14.4	13.6	13.6	13.8	**14.8**	**22.0**	**15.7**
GDP deflator			1.5	0.5	0.5	0.8	**1.5**	**1.3**	**0.9**
Harmonised index of consumer prices			1.7	0.3	1.2	2.1	**1.3**	**0.4**	**0.9**
Terms of trade goods			0.1	1.2	-1.6	-1.7	**1.2**	**1.6**	**0.0**
Trade balance (goods) (c)			-1.2	-1.1	-1.6	-1.7	**-1.3**	**-0.9**	**-1.3**
Current-account balance (c)			0.0	-0.6	-0.6	-0.6	**-0.1**	**-0.1**	**-0.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			0.0	-0.6	-0.5	-0.5	**0.2**	**0.2**	**0.3**
General government balance (c)			-3.8	-3.6	-2.9	-2.3	**-3.0**	**-9.9**	**-4.0**
Cyclically-adjusted budget balance (d)			-4.1	-2.9	-3.1	-2.9	**-3.7**	**-4.9**	**-2.6**
Structural budget balance (d)			-	-2.9	-2.9	-2.8	**-2.8**	**-4.7**	**-2.5**
General government gross debt (c)			75.2	98.0	98.3	98.1	**98.1**	**116.5**	**111.9**

(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.