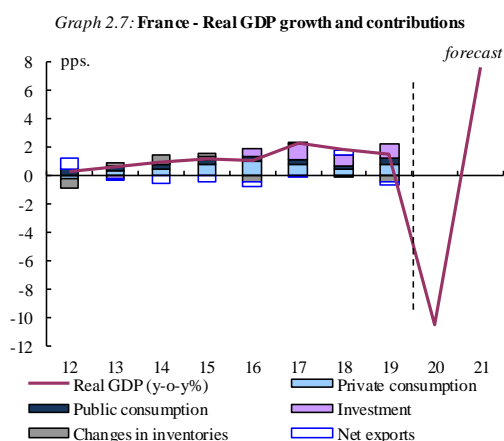


## 2.7. FRANCE

GDP growth in 2019 has been revised up to 1.5% but the forecast for 2020 has been revised down to about -10 ½% from close to -8 ¼% in the spring. <sup>(1)</sup> Lockdown measures adopted in mid-March to contain the COVID-19 outbreak led GDP to decline by 5.3% (q-o-q) in the first quarter of 2020. All expenditure components took a hit, with private consumption falling by 5.5% and investment by 10.5% quarter-on-quarter. Public consumption also shrank, although more mildly. In turn, net exports weighed slightly on growth, with the drop in exports exceeding the fall in imports.

The contraction in GDP is forecast to be sharper in the second quarter of 2020, due to the longer-lasting period of mandatory confinement. After collapsing to historical lows in April, business sentiment, consumer confidence and PMIs showed a partial uptick in May and rose further sharply in June, with PMIs entering back into expansionary territory. Following the easing of restrictions, the French economy is expected to rebound gradually from the third quarter onwards. But the negative impact on some sectors is set to be more protracted, especially those reliant on person-to-person contact, such as food services and accommodation, recreational activities, transport, and tourism more generally.

After sinking in the first half of the year, private consumption is projected to gather momentum from the second half onwards. The decrease in private consumption is set to bring about a sizeable increase in household savings in 2020 that underpins the projected rebound starting in the third quarter. Job losses, value chain disruptions, high uncertainty and liquidity constraints are expected to continue weighing on investment, although fiscal measures adopted by the government to mitigate firms' liquidity difficulties are projected to offer some help to support the rebound. Net exports are expected to weigh slightly on GDP growth in 2020, in line with weaker global demand.



The projected economic recovery is set to remain on track in 2021, with GDP expanding by some 7 ½%. Despite this strong rebound, France's GDP at the end of 2021 will be lower than it was in 2019. Private consumption and investment are projected to take the lead, whereas the negative contribution of net exports to growth is expected to be largely the same as in 2020. In turn, the severe knock to growth is expected to push unemployment up in 2020, cushioned to some degree by the extension of France's short-term activity scheme.

Annual HICP inflation is set to decrease to 0.3% in 2020, due to lower oil prices and the sizeable negative demand shock. In line with the rebound in economic activity, annual HICP inflation is expected to rise to 0.7% in 2021 on average.

<sup>(1)</sup> Annual GDP growth figures are not calendar-adjusted. Calendar-adjusted growth remained at 1.5% in 2019 and is forecast reach -10.8% in 2020 and expand by 7.6% in 2021.