

2.7. FRANCE

Quarterly GDP growth remained stable at 0.3% over the first three quarters of 2019. GDP decreased by 0.1% in the fourth quarter, as several sectors were affected by temporary factors such as strikes against the upcoming pension reform and refinery maintenance. As a result, annual GDP growth decreased to 1.2% in 2019, from 1.7% in 2018. Among GDP components, private consumption picked up somewhat in 2019 as households' purchasing power increased significantly. Investment remained buoyant in a context of digital transformation and local elections, supported by favourable financial conditions. Net exports weighed on GDP growth in 2019 as export growth decreased while import growth increased.

GDP growth is set to decrease to 1.1% in 2020 and recover to 1.2% in 2021. The impact of the ongoing strikes are expected to fade progressively during the first quarter of 2020 as the participation rate declines over time. GDP growth is set to accelerate over the first half of 2020 as stockpiling are expected to bounce back after a significant decrease in 2019. During 2020 as a whole, economic activity is set to be supported by resilient private consumption and robust investment, although less than the previous year for the latter. Private consumption growth is expected to increase somewhat in 2020 and remain broadly stable in 2021, boosted by gains in purchasing power already registered in 2019. Corporate investment is set to slow down gradually, as anticipated by the latest investment surveys and gradually decreasing capacity utilisation rates. The slowdown in public investment is expected to be more pronounced, as already seen in the last quarter of 2019, due to local elections in the first quarter of 2020. Finally, net exports are forecast to continue weighing on GDP growth in 2020 and to be broadly neutral in 2021.

Contrary to external risks which are mainly on the downside, domestic risks are tilted to the upside. In particular, the expected rebound in the first half of 2020 could prove more robust, with higher stockpiling.

Inflation decreased to 1.3% in 2019, from 2.1% in 2018, due to lower oil prices and lower tax increases. It is expected to remain broadly stable, with a modest decrease to 1.2% in 2020, before going back to 1.3% in 2021. Core inflation is set to increase slightly, in line with the services component.

