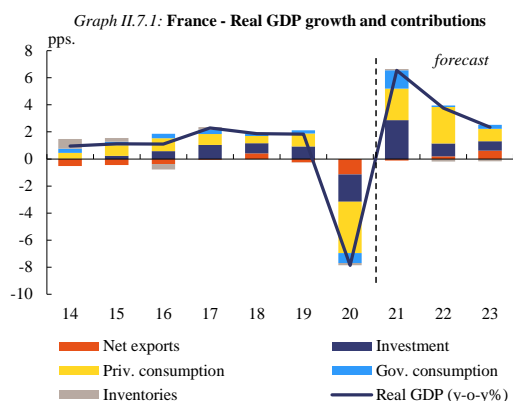


7. FRANCE

Economic activity is projected to gain momentum in 2021, following a strong rebound in the third quarter of the year as restrictions were largely eased, and to reach its pre-crisis level by the end of 2021. Despite high input prices and disruptions in the global supply chains assumed to last until mid-2022, growth is expected to remain solid in 2022 and 2023. The sharp rise in consumer prices, mainly due to higher energy prices, is set to persist over the coming quarters but to moderate in 2023. The general government deficit is forecast to fall to 5.3% and 3.5% of GDP in 2022 and 2023, respectively, while public debt is set to start declining already in 2021.

Economic recovery after a historic recession

Following a historic drop in 2020 (-7.9%), real GDP is set to rebound strongly by 6.5% in 2021, and by 3.8% in 2022 and 2.3% in 2023.



In the third quarter of this year, activity is expected to have benefited from the easing of restrictions (after a lockdown in April) following a successful vaccination campaign. The growth momentum is then projected to moderate until mid-2022, suffering from the rise in input prices and global supply chain disruptions (real GDP being nonetheless forecast to reach its pre-crisis level by the end of 2021). Activity is forecast to accelerate in the second half of 2022, thanks to the deceleration in inflation, the improvement of international trade and the recovery of tourism. GDP is then projected to return progressively to historic growth trends in 2023.

The rebound is set to involve all demand components with the resilience of household purchasing power expected to be central to the recovery. Private consumption is projected to have rebounded sharply in the third quarter as the most severe restrictions weighing on the service sector were eased. With consumption patterns normalising, the saving rate, which rose to 21.0%

in 2020, is projected to decrease in 2021 and come back to its pre-crisis level in 2022 and 2023.

Investment recovered more quickly than consumption and exceeded its pre-crisis level already by mid-2021. It is set to continue growing, supported by the global rebound of demand. Public and private investment are also expected to benefit from favourable financing conditions and from the 'France Relance' plan over the forecast horizon.

After the sharp decrease in 2020, net exports are projected to recover with a delay and more slowly than the other GDP components. Net exports are expected to contribute positively to growth next year, mainly thanks to a rebound in tourism next summer, and to accelerate in 2023. However, the external trade cumulative contribution to growth is projected to remain negative by -0.4 ppt over the 2019-2023 period.

Unemployment rate to decrease slightly

The labour market rebounded strongly mid-2021 and total payroll employment exceeded its pre-crisis level by the middle of the year. Total hours worked remained below pre-crisis levels, but are set to increase further in 2022 as the labour market strengthens on the back of job creation. The unemployment rate is projected to stabilise in 2022 at 8.0% before slightly diminishing in 2023, which should limit wage increases.

Inflation is set to remain high in 2022

Inflation is set to surge towards the end of 2021, particularly due to high raw materials and energy prices. The significant increase in energy prices is expected to slow down gradually but will be passed onto industrial goods in the beginning of 2022. Inflation is projected to reach 2.1% in 2022 and slow down to 1.4% in 2023 thanks to a decrease in energy prices.

Public debt expected to decline as of 2021

The general government deficit is set to narrow to 8.1% of GDP in 2021 from 9.1% in 2020. This is mainly due to the improvement of the macroeconomic situation and the dynamism of tax revenues, including those linked to the housing market. These were offset in part by the extension of some emergency measures, such as the partial activity scheme and direct subsidies via the solidarity fund, as well as those recovery measures included in the French recovery plan *France Relance* but not financed by the e Recovery and Resilience Facility (RRF) and the subsidies to assuage the rise in energy prices. The RRF is expected to partly finance recovery expenditure measures worth €16.5 billion (0.7% of GDP). The revenue-to-GDP ratio is set to dwindle by around ½ pp., due to the permanent cut in production taxes under *France Relance*, and low corporate profits in 2020. Moreover, by cushioning the shock on government revenues in 2020, income support schemes are set to lead to a lower-than-one elasticity of some tax revenues in 2021. In turn, the expenditure ratio is expected to shrink by 1½ pps., to 60.1%. A downward risk to these projections, presented by the possibility of public guarantees being called, appears limited.

The general government deficit is set to decrease to 5.3% of GDP in 2022, mainly due to the unwinding of most emergency measures and to lower recovery measures under *France Relance* than in 2021. This forecast incorporates RRF financing worth 0.4% of GDP and an annual estimate of the budgetary impact of the investment plan France 2030 of 0.1% of GDP as of 2022. The revenue ratio is expected to further narrow, by ¾ pp. of GDP, due to the withdrawal of the housing tax, the cut of the corporate income tax rate, the reduction in electricity taxes and lower RRF grants. In turn, the expenditure ratio is set to decline by 3¾ pps.

For 2023, the government deficit is set to narrow further to 3.5% of GDP. While the revenue ratio is expected to increase only slightly mainly due to the unwinding of the cut in electricity taxes, the expenditure ratio is projected to decline by 1½ pps. Public debt is forecast to display a downward trend over the whole forecast horizon. From 115% of GDP in 2020, it is set to decline to 114.6% already in 2021 due to the dynamic growth and relatively high inflation. Public debt is then expected to fall to 113.7% in 2022 and to around 113% in 2023.

Table II.7.1:

Main features of country forecast - FRANCE

	2020		Annual percentage change							
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	2302.9		100.0	1.2	1.9	1.8	-7.9	6.5	3.8	2.3
Private Consumption	1223.7		53.1	1.4	1.0	1.8	-7.1	4.4	5.1	1.7
Public Consumption	577.3		25.1	1.5	0.8	1.0	-3.2	5.4	0.4	1.2
Gross fixed capital formation	528.8		23.0	1.2	3.3	4.0	-8.6	12.5	3.9	2.8
of which: equipment	114.6		5.0	1.1	2.6	3.0	-10.6	11.3	2.8	2.4
Exports (goods and services)	641.9		27.9	2.6	4.5	1.6	-15.8	8.4	8.7	7.5
Imports (goods and services)	688.4		29.9	3.3	3.1	2.3	-11.9	8.2	7.4	5.1
GNI (GDP deflator)	2339.2		101.6	1.2	1.8	1.7	-8.3	6.8	4.0	2.6
Contribution to GDP growth:		Domestic demand		1.4	1.5	2.1	-6.5	6.5	3.7	1.9
		Inventories		0.0	0.0	0.0	-0.2	0.1	-0.2	-0.2
		Net exports		-0.2	0.4	-0.3	-1.1	-0.1	0.2	0.6
Employment				0.4	1.0	1.3	-0.9	1.4	0.6	0.5
Unemployment rate (a)				9.1	9.0	8.4	8.0	8.0	8.0	7.9
Compensation of employees / head				2.3	1.7	-0.2	-3.0	4.3	3.1	2.3
Unit labour costs whole economy				1.5	0.8	-0.7	4.3	-0.7	0.0	0.4
Real unit labour cost				0.2	-0.2	-2.0	1.8	-1.5	-1.3	-1.0
Saving rate of households (b)				14.5	14.1	14.6	21.0	18.6	15.2	14.8
GDP deflator				1.3	1.0	1.3	2.5	0.8	1.4	1.4
Harmonised index of consumer prices				1.5	2.1	1.3	0.5	1.9	2.1	1.4
Terms of trade goods				0.3	-1.5	1.3	1.1	-1.5	-0.9	0.6
Trade balance (goods) (c)				-1.4	-1.7	-1.4	-2.1	-2.9	-2.7	-1.9
Current-account balance (c)				-0.3	-0.9	-0.8	-2.6	-2.4	-2.2	-1.0
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.3	-0.8	-0.8	-2.5	-2.0	-1.7	-0.6
General government balance (c)				-4.1	-2.3	-3.1	-9.1	-8.1	-5.3	-3.5
Cyclically-adjusted budget balance (d)				-3.9	-2.8	-4.2	-4.7	-6.8	-5.3	-4.0
Structural budget balance (d)				-2.7	-2.8	-3.3	-4.6	-6.7	-5.2	-3.9
General government gross debt (c)				80.2	97.8	97.5	115.0	114.6	113.7	112.9

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.