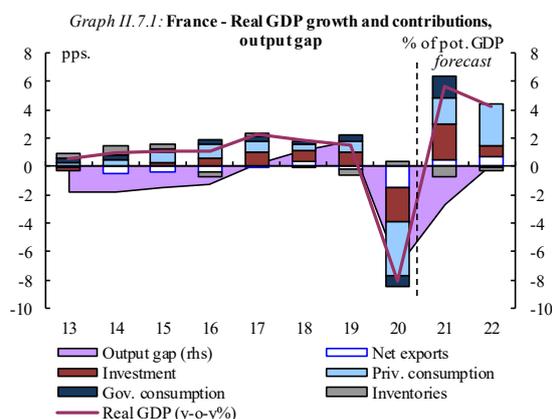


7. FRANCE

France's GDP growth is set to gain momentum in 2021. Economic activity is forecast to rebound gradually, particularly in the second half of the year when restrictions should be eased, and supported by the recovery plan 'France Relance'. In 2022, all demand components are set to exceed their pre-crisis levels, with total activity standing around 1 pp. higher than in 2019. After peaking in 2021, the unemployment rate is projected to decline next year but to remain higher than in 2019. The general government deficit is forecast to decrease to 4.7% of GDP in 2022, while public debt will remain above 116% of GDP.

A gradual recovery following a historical recession

After a historic drop in 2020 (-8.1%), real GDP is set to rebound gradually by 5.7% in 2021 and 4.2% in 2022.



The stringency of restrictions was high during the first months of 2021, and increased further in April. The vaccination campaign is set to lead to eased restrictions during the course of the second quarter, allowing economic activity to rebound. However, the rebound is unlikely to offset the negative impact of France's lockdown in April, and GDP is thus set to decrease (-0.4%) in the second quarter, after expanding by 0.4% in the first. In the third quarter of this year, activity should benefit more fully from the easing of restrictions and from the government's plan to relaunch the economy ('France Relance') with GDP expected to rise by 3.2%. The growth momentum is then set to gradually moderate until the end of the forecast horizon. Real GDP is set to reach its pre-crisis level at the beginning of 2022.

The gradual rebound is set to affect all demand components and the resilience of household purchasing power is expected to be central to the recovery. In particular, the withdrawal of measures

is set to be gradual, thus limiting the increase in bankruptcies and the associated job losses. Private consumption is projected to rebound sharply in the third quarter as the most severe restrictions weighing on the service sector are eased. The saving rate, which rose to 21.1% in 2020, is set to decrease in 2021 and fall to its pre-crisis level in 2022 (14.6%).

Investment fell more sharply than consumption in the first half of 2020, but then also recovered more quickly. It is set to continue growing and benefit from the easing of restrictions from the third quarter of this year. Public and private investment are also poised to benefit from favourable financing conditions and the 'France Relance' plan over the forecast horizon.

Net exports are projected to rebound as from 2021, although more slowly than the other growth components. Crucial export sectors (e.g. tourism and aeronautics) are expected to continue to be weighed down by long lasting restrictions on international mobility. As a result, net exports cumulative contribution to growth over the 2019-2022 period is set to remain slightly negative.

Unemployment rate and inflation are set to peak in 2021

Unemployment in France is projected to increase in 2021. This is due to the slow recovery of the labour market and a surge in the labour force after its sizeable fall in 2020 caused by pandemic-related restrictions. In 2022, the unemployment rate should diminish in line with the recovery in all economic sectors. Inflation is forecast to increase to 1.4% in 2021 after 0.5% in 2020 due to higher oil prices. Despite the recovery in demand, inflation is set to diminish in 2022 (1.1%), mainly because of a decrease in energy prices and the decision to keep taxes on tobacco steady after several years of sharp increases.

Deficit to remain high in 2021 while debt rises

The COVID-19 pandemic and its effects on economic activity entailed sizeable increases in public deficit and debt. The general government deficit rose to 9.2% of GDP. This was due to a drop in tax revenues, the effect of automatic stabilisers and deficit-increasing temporary measures, adopted to fight the pandemic and its socio-economic impacts, which amounted to 3.5% of GDP. These measures, mainly on the expenditure side, included additional healthcare expenditure, transfers to cover partial unemployment schemes and subsidies to SMEs and independent workers under a dedicated fund. Emergency measures also included exemptions of social security contributions of almost €8 billion.

The general government deficit is forecast at 8.5% of GDP in 2021. Some emergency measures have been extended in response to the deterioration of the health situation in the first four months of the year. Together with the recovery measures under the plan *France Relance* that are not financed by the RRF, they are expected to largely offset the positive contribution from automatic stabilisers of almost a point of GDP and the unwinding of some emergency measures adopted in 2020. While the revenue-to-GDP ratio is set to dwindle by only some ¼ pps., due to the resilience of incomes due

to support schemes and low corporate profits in 2020, the expenditure ratio is expected to shrink by some 1½ pps., to 60.6%. These projections incorporate measures from *France Relance* of 1.7% of GDP, including a permanent cut in production taxes of €10.5 billion and additional expenditure of €29.8 billion. Spending measures incorporate an envelope for the partial activity scheme of €6.6 billion. The RRF is expected to partly finance recovery measures worth €19 billion (0.8% of GDP). The possibility that public guarantees could be called on implies a downward risk.

The government deficit is set to narrow to 4.7% of GDP in 2022, partly due to the effect of automatic stabilisers of some 1½ pps. While the revenue ratio is expected to narrow by half a point of GDP, the expenditure ratio is set to decline by ¼ pps. This forecast incorporates RRF financing amounting to 0.4% of GDP.

After having risen to 115.7% of GDP in 2020, public debt is forecast to increase to almost 117½% in 2021, before declining to around 116½% 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	-8.1	5.7	4.2
Private Consumption	1303.3	53.7		1.4	1.5	0.9	1.5	-7.2	3.4	5.6
Public Consumption	560.2	23.1		1.5	1.4	0.9	1.7	-3.0	6.0	-0.3
Gross fixed capital formation	573.1	23.6		1.1	4.7	3.2	4.2	-10.2	11.0	3.1
of which: equipment	126.3	5.2		0.9	4.1	2.4	3.9	-13.6	10.7	3.3
Exports (goods and services)	770.7	31.8		2.5	4.4	4.4	1.9	-16.0	10.0	9.6
Imports (goods and services)	794.4	32.8		3.2	4.5	3.1	2.5	-11.1	7.6	6.6
GNI (GDP deflator)	2476.0	102.1		1.2	2.4	1.7	1.4	-7.8	5.4	4.0
Contribution to GDP growth:										
Domestic demand				1.4	2.2	1.4	2.2	-7.0	5.9	3.6
Inventories				0.0	0.2	0.0	-0.4	0.3	-0.7	-0.2
Net exports				-0.2	-0.1	0.4	-0.2	-1.4	0.5	0.7
Employment				0.5	1.1	1.0	1.2	-1.0	0.1	1.2
Unemployment rate (a)				9.0	9.4	9.0	8.4	8.0	9.1	8.7
Compensation of employees / head				2.3	2.0	1.7	-0.2	-2.7	4.2	2.8
Unit labour costs whole economy				1.6	0.8	1.0	-0.5	4.8	-1.4	-0.2
Real unit labour cost				0.2	0.3	0.0	-1.7	2.5	-1.8	-1.2
Saving rate of households (b)				14.5	13.8	14.1	14.6	21.1	18.4	14.6
GDP deflator				1.4	0.5	1.0	1.2	2.2	0.5	1.1
Harmonised index of consumer prices				1.6	1.2	2.1	1.3	0.5	1.4	1.1
Terms of trade goods				0.4	-1.6	-1.5	1.1	1.4	-1.4	0.1
Trade balance (goods) (c)				-1.2	-1.6	-1.6	-1.4	-2.2	-2.2	-1.4
Current-account balance (c)				-0.1	-0.7	-0.9	-0.8	-2.0	-1.7	-1.2
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.2	-0.7	-0.8	-0.8	-2.2	-1.1	-0.6
General government balance (c)				-4.0	-3.0	-2.3	-3.1	-9.2	-8.5	-4.7
Cyclically-adjusted budget balance (d)				-4.0	-3.1	-3.0	-4.2	-4.8	-6.8	-4.8
Structural budget balance (d)				-2.7	-2.9	-3.0	-3.3	-4.7	-6.7	-4.7
General government gross debt (c)				77.7	98.3	98.0	97.6	115.7	117.4	116.4

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