

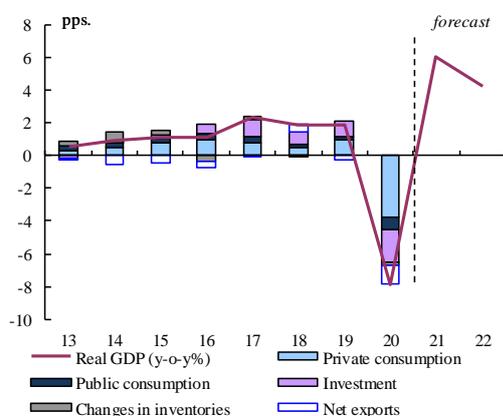
## 2.7. FRANCE

Following a decline of 1.5% q-o-q in the last quarter of 2020 and 0.1% q-o-q in the first quarter of this year, economic activity is set to expand by 0.7% in the second and by 3.1% in the third quarter of 2021. The latest available indicators paint a brighter picture of France's economic outlook in the months ahead, which should more than offset the downward revision in the first quarter and the reduced carry-over from last year. Overall, annual real GDP is expected to increase by 6.0% in 2021 and by 4.2% in 2022.

The impact of restrictions affecting close contact services, introduced in April, has been more limited than expected in the spring. In addition, the accelerating pace of vaccinations and the improvement in the health situation have led to restrictions being eased sooner than expected. Consequently, consumer and business sentiment have improved, suggesting that economic activity, including in the sectors most severely hit by the pandemic, has moved onto a solid recovery path. These positive developments are expected to continue in the coming months. In particular, the consumption of services is set to rebound strongly, also supported by the better-than-expected situation on the labour market where employment increased in the first quarter. The labour market is expected to continue to benefit from support measures, as the government has indicated that their gradual withdrawal will be closely linked with recovery.

As it is implemented, France's Recovery and Resilience Plan should strengthen private and public investment, which have already recovered strongly in the past months. Net exports are set to support growth in the coming quarters on the back of a recovery in international tourism and regained market shares in crucial sectors such as aeronautics. France's net exports are also expected to benefit from the implementation of Recovery and Resilience Plans in neighbouring countries. Against this positive background, some sectors, such as the automotive industry, are set to face supply bottlenecks. But given the predominance of services in the economy, this temporary phenomenon should not prevent overall activity from rebounding quickly.

Graph 2.7: France - Real GDP growth and contributions



Annual HICP inflation is expected to reach 1.6% in 2021, mainly due to the rise in energy prices, oil prices in particular. Service sector prices also rose at the end of the first quarter. However, price pressures are expected to remain temporary due to the prevalence of slack in the labour market. With limited wage increases, core inflation is set to remain subdued at 1.1%. In 2022, inflation is forecast to decline to 1.2%, mainly because of the decline in energy prices and the pause on tobacco tax increases.