

2.7. FRANCE

Economic activity during the first half of last year was marked by a severe contraction. All domestic demand components took a hit, with private consumption falling by 17% and investment by 24%. Net exports also weighed significantly on growth, with the drop in exports exceeding the fall in imports. After a stronger-than-expected rebound during the summer months, economic activity suffered from a renewed tightening of restrictions which began in November. According to Eurostat’s flash estimate, activity in the fourth quarter fell by 1.3%. Overall, GDP growth in 2020 showed a contraction of 8.3%.

The level of restrictions is set to remain high over the first half of 2021, particularly in the first quarter, which will weigh especially on services consumption. Growth is expected to be negative (-1.3%) in the first quarter and turn positive in the second quarter, when restrictions are assumed to relax somewhat and a few positive effects of the national recovery plan on investment kick in.

Key support measures (in particular short-time working scheme, the solidarity fund and the exoneration of social security contributions) are set to remain operational during the first half of 2021. These should help mitigate the effects of the decline in activity on employment. In the third quarter, activity is set to rebound strongly as the most stringent restrictions are lifted and as the effect of the national recovery plan are felt. The plan, incorporated into this forecast only for 2021, amounts to 1.6% of GDP this year, of which 0.7pps is expected by the government to be financed through the Recovery and Resilience Facility. It notably includes €10 billion (0.4% of GDP) of permanent cut in taxes on production. Private consumption is set to be the main driver of the rebound, but with net exports also contributing significantly again to growth.

Under the usual no-policy change assumption, the pace of growth in 2022 is set to slow down as pent-up demand peters out and since no additional expenditure under the national recovery plan is as yet included in the forecast for next year. Activity is set to reach pre-crisis levels during the first half of 2022. Overall, in terms of annual growth, real GDP is projected to expand by 5.5% in 2021 and by 4.4% in 2022.

Annual HICP inflation decreased to 0.5% in 2020 due to lower oil prices and the sizeable negative demand shock. In line with the rebound in both oil prices and economic activity, annual HICP inflation is expected to rise to 1.1% in 2021 and 1.5% in 2022.

