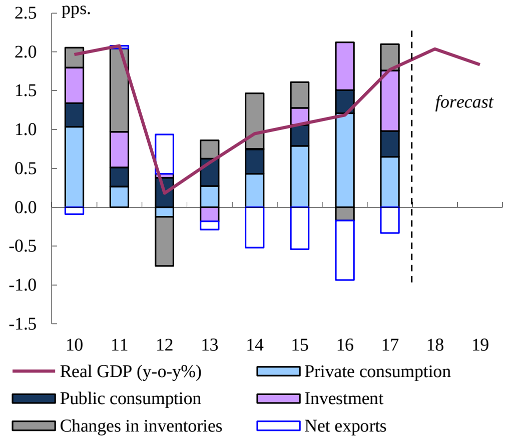
2.10. FRANCE: GROWTH IN HIGHER GEAR

GDP growth reached 0.6% in the fourth quarter of last year, thus growing at more than 0.5% for the fifth consecutive quarter. As a result, annual GDP growth increased sharply to 1.8% in 2017 from 1.2% in 2016 ([1]). In 2017, economic activity was primarily driven by strong private investment growth. Household investment grew at a sustained pace, recovering strongly after several years of contraction. In addition, corporate investment held up remarkably well following the end of the over-amortisation scheme, a fiscal incentive for firms to invest. However, private consumption growth declined as higher inflation ate into households' purchasing power. Net exports detracted from growth, while changes in inventories contributed positively.

Economic momentum is set to remain strong in the near future. GDP growth in France is forecast at 0.5% in the first quarter of 2018. Economic sentiment has continued to improve in recent months, with some confidence indicators approaching or even exceeding their pre-crisis peaks. As a result, GDP growth is expected to reach 2.0% in 2018 before easing to 1.8% in 2019 as spare capacities in the economy are reabsorbed.

Graph 2.10: **France - Real GDP growth and contributions**



Private consumption growth is set to recover somewhat after subdued growth in 2017, in line with disposable income. Investment growth is expected to rise further in 2018. Household investment is set to remain strong, as indicated by the increase in new construction starts. Moreover, public investment is set to rebound in 2018 after several years of contraction. Exports should accelerate in a context of sustained global demand. Meanwhile, import growth is expected to moderate slightly.

Unemployment in France is expected to continue falling, in line with the economy's growing strength. However, employment growth is set to moderate somewhat after strong growth in 2017, as the effects of past cuts to the labour tax wedge fade.

Inflation is forecast to reach 1.5% in both 2018 and 2019, up from 1.2% in 2017. Higher oil prices are expected to feed into higher headline inflation in 2018. Due to strong base effects, inflation is set to peak at 1.7% in the third quarter of 2018, before moderating again. In 2019, second round effects from higher energy prices and a tighter labour market are set to stoke a gradual recovery in core inflation.

([1]) The GDP growth figures are non-calendar adjusted. In 2017, calendar adjusted GDP growth reached 1.9%.