2.10. FRANCE

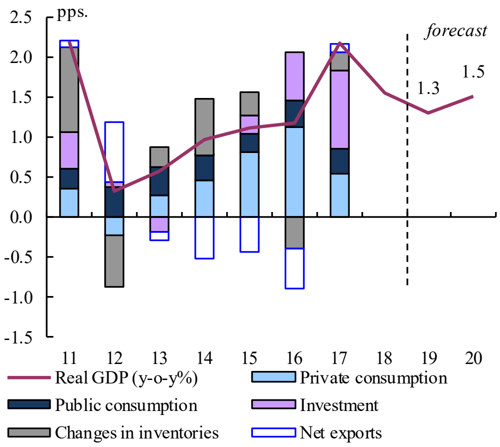
Quarterly GDP growth reached 0.3% both in the third and fourth quarter of 2018. As a result, annual GDP growth decreased to 1.5% in 2018 from 2.2% in 2017 ([1]). After a weak start to the year, economic activity accelerated during the summer, although slightly less than expected. In addition, at the end of the year, social protests affected GDP growth. In this context, private consumption stagnated in the fourth quarter in contrast to what was expected in the autumn forecast and despite several fiscal measures favourable to purchasing power that had already been enacted before the social unrest. Investment remained dynamic overall, although less buoyant than in 2017. Import growth decreased sharply in 2018, while exports remained robust, though somewhat less so than in 2017.

Quarterly GDP growth is set to increase somewhat in the near future. Private consumption is expected to rebound in the first quarter of 2019 and to recover more gradually thereafter. Fiscal measures, including those additionally adopted at the end of 2018, as well as lower inflation, should provide support to purchasing power. The overall effect on private consumption could nevertheless be limited in the first few months, translating instead into precautionary savings, in line with the persistence of low consumer confidence levels. Investment growth is set to ease but should remain stronger than GDP growth, as suggested by economic sentiment indicators. The growth contribution of net exports is projected to disappear. Imports are set to accelerate, boosted by domestic demand, while exports are set to moderate slightly in line with slower world trade. As a result, GDP growth is expected to reach 1.3% in 2019 and 1.5% in 2020.

Risks to this scenario are slightly tilted to the downside. In addition to general risks, the persistent weakness of consumer confidence could translate into lower-than-projected private consumption growth. On the other hand, the impact of the measures announced by the government at the end of 2018 could materialise faster than expected.

Inflation picked up in 2018 and reached 2.1%, sustained by higher oil prices and increases in tobacco excises and energy taxes. It is expected to fall back to 1.4% in 2019 as oil prices and taxes abate before reaching 1.7% in 2020, partly sustained by core inflation. Core inflation is projected to gain momentum in line with slightly higher wage growth but should remain contained.

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



([1]) The GDP growth figures are non-calendar adjusted. Calendar adjusted GDP growth reached 2.3% in 2017 and should reach 1.4% in 2020. Calendar effects are not significant in 2018 and 2019.