

10. FRANCE

The gradual recovery of exports lifts growth prospects

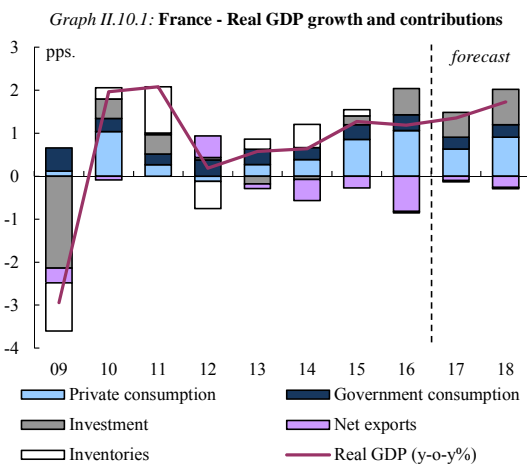
Economic activity in France is forecast to gently accelerate, as a pick-up in world trade helps strengthen exports after a weak 2016. Rising headline inflation, however, is expected to dampen private consumption growth by eating into the purchasing power of households. Unemployment is set to continue its gradual decline. The general government deficit is expected to fall from 3.4% of GDP in 2016 to 3.0% in 2017.

France's economic performance was broadly stable in 2016, with GDP growth easing to 1.2% after 1.3% in 2015. Despite strong domestic demand, growth was curbed by several temporary factors which mainly affected exports: strikes in refineries, bad weather conditions hitting crops, and terrorist attacks weighing on tourism.

GDP growth expected to firm

Economic sentiment improved sharply in recent months, with several confidence indicators reaching their highest levels in six years. Although temporary factors have hampered growth in the first quarter, economic activity is expected to firm over the coming quarters.

As a result, GDP growth is expected to reach 1.4% for 2017 as a whole and 1.7% in 2018.



Consumption set to decelerate while investment is expected to remain dynamic

Domestic demand is set to decelerate in 2017. In particular, private consumption growth is expected to decline in line with household purchasing power, as nominal wages increase less than headline inflation.

Investment growth is expected to remain dynamic in 2017 and 2018. On the one hand, non-construction investment is forecast to moderate somewhat, in particular after the end of the over-amortisation scheme on 14 April 2017, a fiscal incentive for firms to invest. On the other hand, construction investment is forecast to continue gaining momentum.

Exports expected to gradually recover

After weak growth in 2016, exports are expected to gradually recover in 2017 and 2018, in line with growth in French export markets. Meanwhile, imports are forecast to moderate somewhat in 2017 due to the deceleration of domestic demand. A less negative contribution from net exports is thus expected to help lift growth prospects.

Unemployment set to continue its gradual decline while inflation moderates

Employment growth is forecast to increase further, supported by the ongoing economic recovery and by policy measures to foster job creation by reducing the labour tax wedge (the Tax Credit for Competitiveness and Employment, the Responsibility and Solidarity Pact, and the Hiring Subsidy). As a result, unemployment in France is set to decline to 9.9% in 2017 and 9.6% in 2018.

Headline inflation rose markedly at the beginning of 2017, although core inflation remained subdued. Inflation is expected to moderate somewhat in the coming quarters, as the strong positive contribution from energy prices fades out and domestic price pressures increase only gradually. Overall, inflation is forecast at 1.4% in 2017 and 1.3% in 2018.

The current forecast is complicated by the timing of the French presidential and general elections. The projections are based on the usual no-policy-change assumption and the cut-off date for taking new information into account was 25 April.

Public deficit at around 3% of GDP in 2017

The headline deficit was 3.4% of GDP in 2016, down from 3.6% in 2015. This is 0.1 pps. of GDP worse than in the winter forecast. The difference is explained by lower-than-expected results by the State and social security, which is partly offset by the surpluses registered by local governments, whose operating expenditures slowed down.

The government deficit is expected to decrease further to 3.0% of GDP in 2017. Revenues are set to pick up mainly due to higher nominal GDP growth and the increase in green taxes, in spite of the negative base effect associated to the above-mentioned lower-than-expected revenues in 2016. Public expenditure net of tax credits is expected to increase by 1.9%, mainly as a result of higher spending on education, security and employment, higher wages for civil servants following the end of the wage freeze in 2016, the increase in the healthcare spending ceiling (*ONDAM*) compared to 2016 and the projected rise in public investment. The forecast includes the expected yield of the recent agreement on the unemployment benefit scheme UNEDIC. Higher inflation should add additional stress on expenditure ceilings. In this regard, the State

expenditure ceiling (*norme de l'État*), which has been reduced by EUR 1.7 bn. compared to the budget act, seems now more difficult to be respected and represents a risk to the forecast. Moreover, the planned recapitalisation of the state-owned company AREVA with a public capital injection of EUR 4.5 bn. entails an additional negative risk for the 2017 deficit amounting to 0.1% of GDP. The structural balance is projected to improve by around ¼ pps. in 2017.

At unchanged policies, the deficit is forecast to rise again to 3.2% of GDP in 2018. The revenue-to-GDP ratio is projected to decline by 0.3 pps. due to the corporate income tax cut and the finalisation of some temporary revenue measures in 2017. The expenditure-to-GDP ratio is set to decline only slightly. Although spending growth is expected to remain moderate, primary current expenditure net of tax credits in volume terms is projected to accelerate with respect to the average of the period 2013-2017. Public investment is projected to gain momentum and interest payments are set to start increasing after some years on a declining path. The structural balance is projected to deteriorate by close to ½ pps. in 2018. The debt-to-GDP ratio is forecast to keep rising at a moderate pace, from 96.0% in 2016 to 96.7% in 2018.

Table II.10.1:

Main features of country forecast - FRANCE

	2015			Annual percentage change						
	bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	2181.1		100.0	1.7	0.6	0.6	1.3	1.2	1.4	1.7
Private Consumption	1201.5		55.1	1.9	0.5	0.7	1.5	1.9	1.2	1.6
Public Consumption	521.8		23.9	1.4	1.5	1.2	1.4	1.5	1.2	1.2
Gross fixed capital formation	469.2		21.5	2.2	-0.8	-0.3	1.0	2.8	2.6	3.7
of which: equipment	103.2		4.7	2.6	-3.5	2.0	2.3	5.5	3.2	4.1
Exports (goods and services)	654.9		30.0	4.1	1.9	3.3	6.1	1.2	3.2	4.2
Imports (goods and services)	685.0		31.4	4.8	2.1	4.7	6.6	3.7	3.3	4.7
GNI (GDP deflator)	2216.5		101.6	1.7	0.6	0.6	1.6	1.2	1.4	1.7
Contribution to GDP growth:										
Domestic demand				1.8	0.4	0.6	1.4	2.0	1.5	2.0
Inventories				0.1	0.2	0.5	0.1	0.0	0.0	0.0
Net exports				-0.1	-0.1	-0.5	-0.3	-0.8	-0.1	-0.3
Employment				0.7	0.1	0.2	0.4	0.5	0.8	1.0
Unemployment rate (a)				9.0	10.3	10.3	10.4	10.1	9.9	9.6
Compensation of employees / f.t.e.				2.5	1.6	1.2	1.1	1.3	1.5	1.8
Unit labour costs whole economy				1.6	1.1	0.8	0.2	0.7	1.0	1.1
Real unit labour cost				0.1	0.3	0.3	-0.4	-0.2	0.1	-0.2
Saving rate of households (b)				15.1	14.0	14.1	14.1	14.2	14.0	14.1
GDP deflator				1.5	0.8	0.5	0.6	0.8	0.9	1.3
Harmonised index of consumer prices				1.7	1.0	0.6	0.1	0.3	1.4	1.3
Terms of trade goods				-0.2	1.3	1.6	3.8	1.9	-0.4	0.7
Trade balance (goods) (c)				-0.5	-2.0	-1.7	-1.0	-1.2	-1.3	-1.3
Current-account balance (c)				0.1	-2.9	-3.2	-2.0	-2.3	-2.4	-2.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				0.1	-2.8	-3.2	-2.0	-2.2	-2.4	-2.4
General government balance (c)				-3.5	-4.0	-3.9	-3.6	-3.4	-3.0	-3.2
Cyclically-adjusted budget balance (d)				-3.9	-3.2	-2.9	-2.7	-2.6	-2.4	-2.8
Structural budget balance (d)				-	-3.4	-2.9	-2.7	-2.5	-2.3	-2.8
General government gross debt (c)				68.0	92.3	94.9	95.6	96.0	96.4	96.7

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.