FRANCE

Economic growth is projected to continue to strengthen to about 1½ per cent in 2018, boosted by investment and consumption. Firming domestic demand will be supported by rising confidence, cuts in social contribution and business taxes and continued favourable financing conditions. The labour market will gradually recover. Inflation will remain low, since pressures on production capacity are limited. The current account deficit is expected to increase slightly, as solid domestic demand will boost imports.

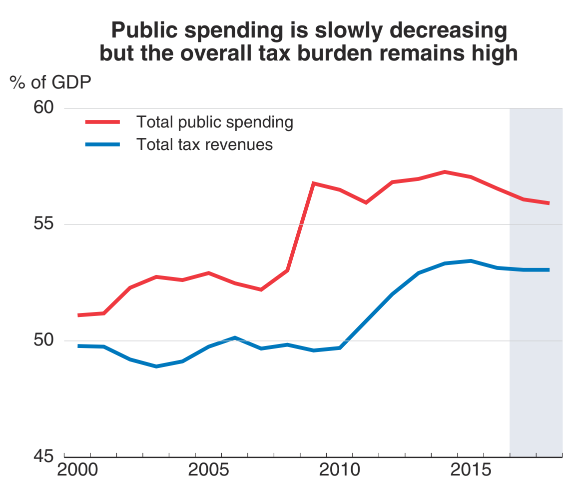
A continued reduction in debt service costs and some spending restraint will bring the fiscal deficit down to just below 3% of GDP in 2018, but a long-term strategy is needed to reduce public spending and continue lowering high taxes that weigh on employment and investment. Advancing tax cuts would provide a welcome boost to demand. The tax system is too complex and needs to be simplified. In addition, spending should be shifted from lower-priority and inefficient spending toward infrastructure, education and social expenditure focussed on the poor. Unifying the many pension systems could lower administration costs. Such a strategy, combined with further reforms to strengthen competition in services, would create conditions for French firms to be more productive, lifting real incomes and job opportunities.

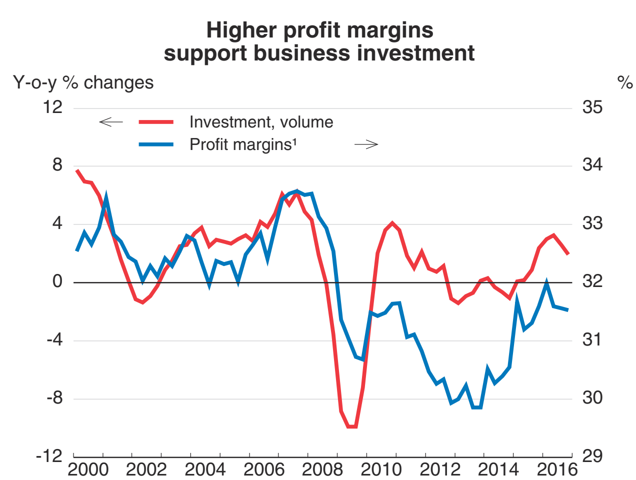
Too many workers lack the necessary basic and digital skills to benefit from globalisation. More has to be done to hire excellent teachers and improve teaching practices in disadvantaged schools, create apprenticeships at the secondary level and improve access to high-quality training by simplifying the system, improving information about quality and providing effective guidance.

Moderate growth has taken hold

Tax cuts and low energy prices have bolstered real wages, supporting consumption, and helped companies restore their profit margins. This has encouraged business investment, which was also strengthened by an accelerated depreciation allowance that

France





1. Non-financial corporations, as a percentage of gross value added.
Source: OECD Economic Outlook 101 database; and INSEE.

StatLink http://dx.doi.org/10.1787/888933503092

France: **Employment, income and inflation**

Percentage changes

	2014	2015	2016	2017	2018
Employment	0.1	0.1	0.6	0.5	0.7
Unemployment rate[1]	10.3	10.4	10.0	9.7	9.6
Compensation per employee[2]	1.1	1.1	1.2	1.7	1.8
Unit labour cost	0.7	0.1	0.9	1.1	1.0
Household disposable income	0.8	1.5	1.8	2.2	2.5
GDP deflator	0.5	0.6	0.8	0.9	1.1
Harmonised index of consumer prices	0.6	0.1	0.3	1.3	1.2
Core harmonised index of consumer prices[3]	1.0	0.6	0.6	0.6	1.2
Private consumption deflator	0.1	-0.2	0.1	1.1	1.1
Memorandum item					
Unemployment rate[4]	9.9	10.1	9.8	9.5	9.4

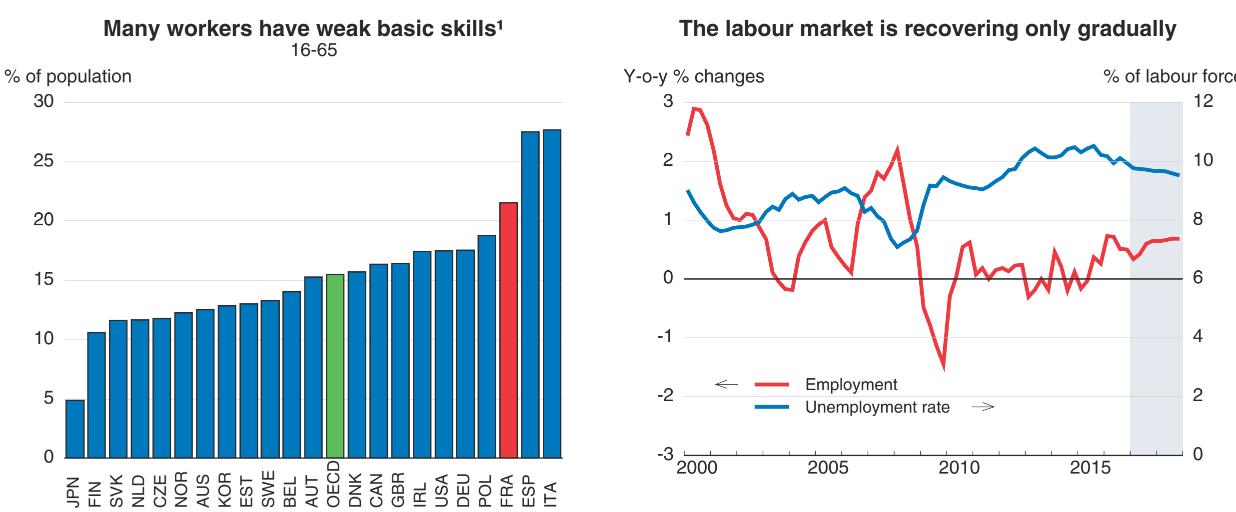
1. As a percentage of labour force, national unemployment rate, includes overseas departments.
2. In the total economy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. As a percentage of labour force, metropolitan France.

Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933505353

ended in April 2017. Housing investment appears to have bottomed out. Public consumption has continued to grow at a moderate pace, but local governments have sharply cut back their investment in response to lower central government transfers. This effect is now levelling off. The government has made significant use of subsidised employment in the non-market sector in recent years, but since 2015 market-sector employment has also increased more strongly, helped by hiring subsidies and cuts in social security contributions. The unemployment rate has only recently fallen below 10%, and

France



1. Adults scoring below level 2 in PIAAC's reading proficiency scale.

Source: OECD Economic Outlook 101 Database; and OECD (2013), OECD Skills Outlook 2013 Database.

StatLink http://dx.doi.org/10.1787/888933503111

France: **Financial indicators**

	2014	2015	2016	2017	2018
Household saving ratio, gross[1]	14.1	14.1	14.1	14.1	14.1
General government financial balance[2]	-3.9	-3.6	-3.4	-3.0	-2.8
General government gross debt[2]	120.2	121.1	123.5	124.9	125.7
General government debt, Maastricht definition[2]	95.2	96.2	96.6	98.0	98.8
Current account balance[2]	-1.1	-0.2	-0.9	-1.2	-1.3
Short-term interest rate[3]	0.2	0.0	-0.3	-0.3	-0.3
Long-term interest rate[4]	1.7	0.8	0.5	0.9	1.2

1. As a percentage of disposable income (gross saving).
2. As a percentage of GDP.
3. 3-month interbank rate.
4. 10-year benchmark government bonds.

Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933505372

persistently high levels of long-term unemployment remain. The situation facing youth is particularly challenging, with very short-term contracts making up the bulk of new hires.

Exports were anaemic in 2016, but mainly due to temporary factors, such as supply disruptions in aeronautics, bad weather and weak demand from France's trading partners. Exports regained strength towards the end of the year. Headline inflation has increased somewhat, as energy prices have rebounded, but core inflation continues to be low, given limited pressures on production capacities.

France: **Demand and output**

	2015	2016	2017	2018	Fourth quarter 2016	Fourth quarter 2017	Fourth quarter 2018
	Current prices EUR billion	Percentage changes from previous year, volume (2010 prices)					
GDP at market prices	2 181.1	1.1	1.3	1.5	1.2	1.4	1.5
Private consumption	1 201.6	1.8	1.2	1.4	2.0	1.2	1.4
Government consumption	521.8	1.4	1.2	1.1	1.3	1.2	1.1
Gross fixed investment	469.1	2.7	2.3	2.8	2.0	2.7	3.1
Public	75.3	-0.7	-0.8	2.0	-2.4	0.9	2.0
Residential	112.2	2.1	3.5	3.6	2.7	3.6	3.6
Non-residential	281.7	3.9	2.6	2.7	2.8	2.7	3.1
Final domestic demand	2 192.5	1.9	1.5	1.6	1.9	1.5	1.7
Stockbuilding[1]	18.8	-0.1	0.4	0.0			
Total domestic demand	2 211.3	1.8	1.9	1.6	1.3	1.9	1.7
Exports of goods and services	654.8	1.2	2.5	3.9	2.0	2.5	3.9
Imports of goods and services	685.0	3.5	4.4	4.2	2.4	4.3	4.5
Net exports[1]	- 30.2	-0.7	-0.7	-0.2			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933505391

Fiscal and structural reforms would help France benefit more from globalisation

Lower interest rates, sharp cuts in local government investment and some spending restraint in other areas helped to lower the budget deficit to 3.4% of GDP in 2016. While the ongoing series of tax cuts is reducing public revenues and the government has budgeted additional spending on employment, education and security for 2017, spending restraint in other areas and the recovery could help reduce the deficit further to around 3% GDP in 2018. This is, however, very much dependent on the new government's priorities. Further streamlining of sub-central governments, increasing the effective retirement age and better targeting infrastructure and education spending on poor neighbourhoods and students would improve efficiency and make growth more inclusive. The financial sector is healthy and non-performing loans are low, while household indebtedness remains at comfortable levels. Thus, there is no barrier for lending to support business and household investment.

Weak productivity growth and high unemployment have meant that the benefits of globalisation have not been equitably shared. Recent social contribution cuts on lower wages have reduced labour costs, but the job prospects of many adults are constrained by weak skills. Labour market activation and access to high-quality training for low-skilled workers need to be strengthened by simplifying the system, improving information about quality and providing effective guidance. A recent school reform has laid the basis for stronger teacher training in pedagogy. Pay systems and career paths should also be developed to attract excellent teachers to difficult schools. High and complex taxes hinder business creation and growth. They should be simplified and lowered, by broadening narrow tax bases. Further enhancing the autonomy of universities and increasing the share of project financing in public R&D funding would help them develop innovative education and research programmes, while promoting industry-science collaboration in research.

Growth is projected to pick up

The recovery in GDP growth to 1½ per cent in 2018 should support gradual employment gains and further, but gradual, declines in the unemployment rate. Strong order books and resilient business confidence should continue to support non-residential investment, albeit at a slower pace after the recent end of the accelerated depreciation allowance. Residential investment will continue to grow given the latest rise in building permits and resilient household confidence. Public investment will expand moderately in line with budget commitments.

Exports should benefit from stronger global demand and a gradual recovery in tourism after a number of terrorist incidents. The current account deficit is nevertheless expected to increase slightly to 1.3% of GDP in 2018 as stronger domestic demand boosts imports. Owing to limited pressures on production capacity consumer price inflation is not expected to accelerate much.

The outlook for France's exports depends on demand from trading partners in a context where the effects of the United Kingdom's exit from the European Union remain highly uncertain, as does the economic situation in major emerging market economies, notably China. The medium-term effects of lower business taxes and social charges on business sentiment could be stronger than expected, leading to more dynamic investment, employment growth and consumption. However, businesses may prefer to lower their debt instead, which would weaken the impact on private investment. Households have reacted to previous energy price falls with somewhat higher saving and could use this reserve to increase consumption more than projected.