FRANCE

Economic growth is projected to continue at a pace of around 1½ per cent in 2019 and 2020. Still supportive financing conditions and business tax cuts will boost business investment, despite slowing external demand. Lower labour taxes, a more flexible labour market and improved training opportunities will help job creation, notably for low-skilled workers, supporting household consumption. Core inflation will strengthen, underpinned by the firming of the economy and a pick-up in wages.

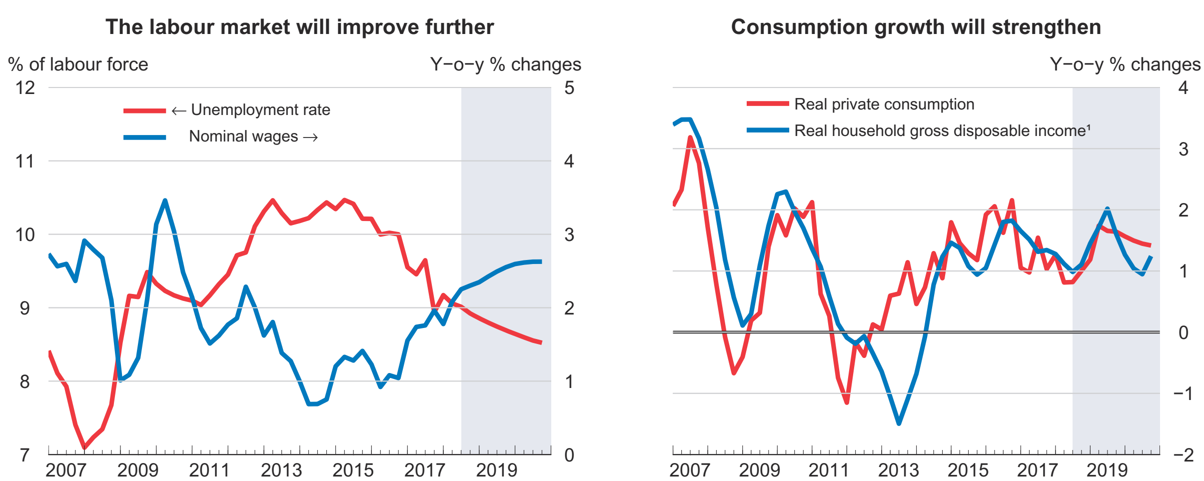
The fiscal deficit will progressively decline, despite a temporary increase due to a tax credit reform in 2019. Consolidation efforts remain limited, though. A further reduction in non-priority spending is needed to put the public debt-to-GDP ratio, currently close to 100% (Maastricht definition), on a firmly declining path and sustainably finance ongoing tax cuts for businesses and households. In parallel, the government should continue to pursue structural reforms to generate more inclusive and sustainable growth.

Growth is solid

Economic activity has rebounded after a temporary slowdown. Warm weather, prolonged strikes and some reduction in household's purchasing power, owing to a peak in inflation and an increase in some taxes, reduced consumption and household investment at the beginning of 2018. However, household purchasing power has risen since then, as employment gains have remained strong and the lowering of the housing tax and some social contributions have taken effect.

The unemployment rate is declining and dependence on subsidised jobs and short-term contracts has diminished. Skills shortages for high-skilled jobs are increasing and wage growth has gathered pace. However, employment rates remain low and lower-skilled workers face higher unemployment, lower quality jobs and worse access to training, limiting well-being and incomes.

France



1. Four-quarter moving average.
Source: OECD Economic Outlook 104 database.

StatLink http://dx.doi.org/10.1787/888933876651

France: **Demand, output and prices**

	2015	2016	2017	2018	2019	2020
	Current prices EUR billion	Percentage changes, volume (2014 prices)				
GDP at market prices	2 198.3	1.1	2.3	1.6	1.6	1.5
Private consumption	1 188.5	1.9	1.2	1.0	1.6	1.5
Government consumption	523.4	1.4	1.4	0.9	0.8	0.4
Gross fixed capital formation	472.6	2.7	4.7	2.9	2.4	2.4
Final domestic demand	2 184.5	2.0	2.0	1.4	1.6	1.4
Stockbuilding[1]	26.4	-0.4	0.2	-0.3	-0.1	0.0
Total domestic demand	2 210.9	1.6	2.2	1.1	1.5	1.4
Exports of goods and services	672.2	1.5	4.7	3.3	3.6	3.4
Imports of goods and services	684.8	3.1	4.1	1.5	3.2	3.3
Net exports[1]	- 12.6	-0.5	0.1	0.5	0.1	0.0
Memorandum items						
GDP deflator	_	0.2	0.7	0.9	1.4	1.6
Harmonised index of consumer prices	_	0.3	1.2	2.2	1.8	1.8
Harmonised index of core inflation[2]	_	0.6	0.6	0.9	1.2	1.6
Unemployment rate[3] (% of labour force)	_	10.1	9.4	9.0	8.8	8.6
Household saving ratio, gross (% of disposable income)	_	13.7	13.8	14.0	14.0	13.8
General government financial balance (% of GDP)	_	-3.6	-2.7	-2.7	-2.9	-1.7
General government gross debt (% of GDP)	_	125.6	124.3	125.0	125.5	124.7
General government debt, Maastricht definition (% of GDP)	_	98.3	98.5	99.1	99.8	99.4
Current account balance (% of GDP)	_	-0.8	-0.6	-0.4	-0.2	0.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. National unemployment rate, includes overseas departments.
Source: OECD Economic Outlook 104 database.

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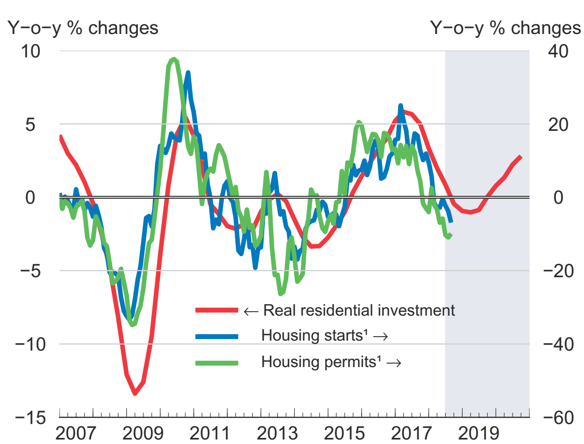
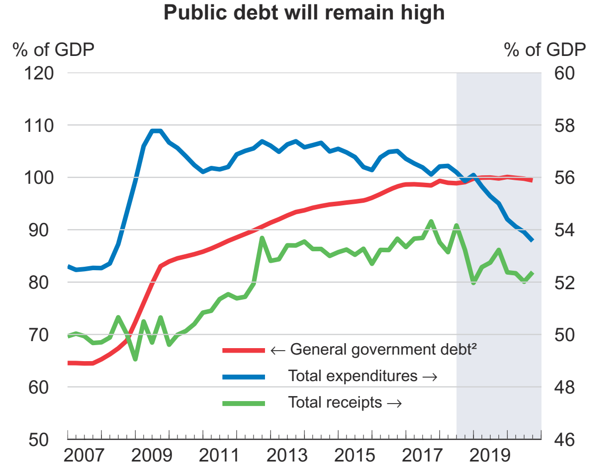
The downturn in residential investment will reverse



Public debt will remain high



1. Year-on-year percentage changes of 3-month cumulated flows.
2. Maastricht definition.
Source: OECD Economic Outlook 104 database; and Ministry of the Environment.

StatLink http://dx.doi.org/10.1787/888933876670

The effects of the recent oil price increases and gradual tax hikes on tobacco and energy have temporarily raised consumer price inflation this year. The strengthening of the economy, as well as second-round effects from higher energy prices, are supporting a gradual pick-up in core inflation, but it is partly held back by the past appreciation of the euro. Higher oil prices and the recent soft patch of exports have weakened the trade balance, but exports are set to accelerate on the back of stronger aircraft deliveries and a rebound in tourism.

Structural reforms will support more inclusive growth

The fiscal deficit will be increased due to a large one-off business tax reduction in 2019, but is then set to decline to close to 1.7% of GDP in 2020. However, consolidation efforts are limited. Measures to reduce the tax burden for households and firms broadly compensate efforts to lower current public expenditures, as well as welcome hikes in environmental and tobacco taxes, over the projection period. Lower labour and business taxes will enhance employment incentives and boost economic performance. However, public debt will remain historically high, at close to 100% of GDP (Maastricht definition).

Additional efforts to cut inefficient and non-priority spending are key to make room for the ongoing tax reductions, rebuild fiscal buffers and put public debt on a firmly declining path. The effective use of targeted expenditure reviews will be particularly important to reduce overlap in sub-central governments' responsibilities and to identify areas where there is room not to replace every retiring civil servant. The rapid implementation of reforms of adult training, health care and pensions could also foster inclusiveness and long-term growth and reduce debt more rapidly.

Recent labour market reforms will help raise inclusiveness, skills and job quality. The 2017 labour reforms facilitate firm-level negotiations, reduce legal uncertainty surrounding economic dismissals, simplify workers' representation and better take into account the situation of smaller firms in branch-level agreements. Their implementation and the development of new firm and sector-level agreements will better align firm-level wage and productivity developments and encourage hiring on open-ended contracts. Additional financing for the training of low-skilled and unemployed workers, the overhaul of vocational training, and the increased focus on apprenticeships will also improve skills and ensure better job matches. Increasing competition in services would also strengthen employment growth.

Growth is projected to remain robust

Economic growth will remain at 1.6% in 2019 before edging down to 1.5% in 2020. Ongoing labour market and fiscal reforms will sustain business investment and exports. Employment gains and favourable financing conditions, as well as lower taxes on households, will raise private consumption and support housing investment. In turn, the tighter labour market is projected to result in higher wage and price inflation. Public investment will continue to recover. However, weaker international momentum will weigh on exports and business investment towards the end of the projection period.

Consumption growth might turn out stronger or weaker than expected, as the impact of ongoing tax changes on consumer confidence and saving behaviour are hard to predict. The effects of lower taxes and social charges on businesses, and the temporary improvement of their financial situation in 2019, could also 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 growth. Renewed financial market turbulence and economic shocks in large European economies could also reduce exports and investment.