

# France: Activity to stagnate, inflation to peak

After a resilient 2022 in France, where economic activity grew by 2.6%, 2023 should be characterised by quasi-stagnation. Inflation is expected to rise further, before starting to fall in the summer of 2023



French Economy  
Minister Bruno Le  
Maire

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## 2022, a year of resilience

In France, the year 2022 was characterised by resilience in activity despite the negative impact of the war in Ukraine and global inflation. The end of the restrictive Covid measures led activity in services to rebound significantly, while very expansionary public policies and the strength of the labour market largely supported household purchasing power, leading French GDP to grow by around 2.6% over the year. As a result of the government's policy of limiting the increase in French energy bills, French inflation remained much lower than in other European countries in 2022, averaging 5.2% (5.9% for the harmonised index).

## Higher inflation in 2023 than in 2022

While most European countries have already passed the peak of inflation, inflation in France is expected to rise further in the first quarter of 2023. The revision of the “tariff shield” will lead to a

15% increase in household energy bills, compared to a 4% increase in 2022. Many companies are facing the first upward revision of their energy bills since 2021. Rising production costs are expected to continue to support inflation in food and manufactured goods. In addition, the four indexations of the minimum wage to inflation in 2022 will continue to lead to increases in all wages, which will push up inflation significantly, particularly in services, in 2023. Ultimately, average inflation in 2023 will probably be higher than in 2022 (we expect 5.5% for the year, and 6.3% for the harmonised index), with a peak above 6.5% in the first quarter, before gradually declining from the summer onwards. At the end of 2023, inflation will probably still hover above 4%, a level higher than the European average. The deceleration should continue in 2024, with inflation averaging 2.6% over the year (3.5% for the harmonised index).

## Near stagnation of activity in 2023

2023 should be characterised by a quasi-stagnation of the French economy in all quarters of the year. Although nominal wages per capita are expected to rise by around 6% in 2023, real purchasing power per person will remain very weak, weighing on private consumption. Given the uncertainties, the expected (albeit small) rise in the unemployment rate and the low level of household confidence, the household savings rate will probably remain high and above its historical average. Household investment in housing is likely to stall, weighed down by higher commodity prices and rising interest rates. The manufacturing sector should continue to see supply difficulties ease but will face much weaker global demand and will still be at risk of a further significant rise in global energy prices. We expect growth of 0.2% for the full year 2023 and 1.1% for 2024.

## Difficult exit from "whatever it costs"

While in several European countries trade unions and public opinion are mobilising to demand wage increases, in France the protests are focused on pension reform. The government wants to implement reform that will, among other things, raise the legal retirement age from 62 to 64 in order to maintain the budgetary sustainability of the system. Although the reformed system can still be characterised as generous in comparison with its European neighbours, the unions and the political left are strongly opposed to it. The scale of the mobilisation has yet to be confirmed on the streets. After years of "whatever it costs" where the government has largely subsidised activity (in 2022 alone, 50 billion euros have been spent to protect households and companies against inflation), fiscal sustainability has disappeared from the political debate. As a result, fiscal policy is likely to remain quite accommodative in the coming years. The deficit is expected to remain above 5% of GDP until 2025 with debt above 112%.

## The French economy in a nutshell

|   | 2021 | 2022F | 2023F | 2024F |
|---|------|-------|-------|-------|
| GDP                                       | 6.8  | 2.6   | 0.2   | 1.1   |
| Private consumption                       | 5.3  | 2.5   | 0.1   | 0.9   |
| Investment                                | 11.4 | 2.7   | 0.8   | 0.4   |
| Government consumption                    | 6.3  | 2.4   | -1.1  | 0.0   |
| Net trade contribution                    | -0.1 | -0.4  | 0.2   | 0.3   |
| Headline HICP                             | 2.1  | 5.9   | 6.3   | 3.4   |
| Unemployment rate (% Eurostat definition) | 7.9  | 7.3   | 7.4   | 8.0   |
| Budget balance as % of GDP                | -6.5 | -5.5  | -5.4  | -5.4  |
| Government debt as % of GDP               | 114  | 112   | 113   | 115   |

Source: Thomson Reuters, all forecasts ING estimates

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