

## France: The economy could outperform its European neighbours

The year 2020 ended with a further fall in French GDP and the first quarter of 2021 is not expected to see any significant improvement. Nevertheless, the outlook for the second half of 2021 is encouraging and France should see GDP grow more than its European neighbours



French President  
Emmanuel Macron

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### 5% below the pre-crisis level

As with other European countries, the second wave of the coronavirus has had and continues to have a significant impact on the French economy. The new strict lockdown implemented in November with the closure of shops and drastic restrictions on mobility, as well as the severe restrictions imposed in December, led to a 1.3% drop in GDP in the fourth quarter of 2020, pushing the economy 5% below its pre-crisis level. In the end, for the whole of 2020, GDP fell by 8.2%, a historic drop for France and much sharper than that observed on average in the euro area. At the same time, thanks to the strong support measures put in place by the government, including the partial unemployment scheme, employment fell only slightly over the year (-1.1%) and household purchasing power was preserved.

## Stagnation expected in the first quarter

For the beginning of 2021, the outlook remains lukewarm. Since the beginning of the year, and unlike Germany or the Netherlands, France has been able to avoid a new closure of shops and schools, but restrictions remain very important and continue to increase due to a health situation that is far from being completely under control. In particular, the 6pm curfew, the closure of major shopping centres, bars, restaurants, ski lifts, leisure and cultural venues are having a major impact on economic activity, and mainly on the services sector. Household consumption remains largely hampered. And the new restrictions, including weekend lockdowns, which have been in place since the end of February in certain cities, leave little hope that the situation will improve by the end of March.

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### *Industrial and construction sectors can drive the French economy forward*

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Fortunately, the industrial and construction sectors are less sensitive to the restrictions than they were during the first lockdown and can act as a driver for the French economy. Thus, industrial production recovered strongly in January, posting monthly growth of 3.3%, though still 1.7% below its pre-crisis level (February 2020). The construction sector is in a very good position, posting a 4.4% increase in January compared to its pre-crisis level. With business climate and PMI indicators in industry pointing in the right direction, industry should continue to drive the French economy throughout the first quarter. However, this will not fully offset the negative effects of the restrictions on the services sector.

For 1Q as a whole, economic activity in France is likely to stagnate at around 5% below its pre-crisis level. We, therefore, expect a GDP growth rate of 0% quarter-on-quarter in the first three months of the year.

## Vaccination, a necessary condition for recovery in the second quarter

Since the beginning, the vaccination campaign in France has been moving at a very slow pace. On 8 March, only 6.1% of the total population had received at least one dose of the vaccine, which does not allow for any improvement in the health situation or to envisage any schedule for easing measures in the coming weeks. Nevertheless, the pace of vaccination has accelerated in recent days and the government expects that 10 million French people (15.1% of the population) will have received a first dose by mid-April, and 20 million by mid-May.

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### *Household savings will play an important role in the recovery*

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This implies a relaxation of the health measures by the second half of April. The second quarter of 2021 should therefore see a gradual recovery in the sectors currently at a standstill. While it is difficult to envisage a full return to normalcy by the summer, the recovery should strengthen

strongly in 3Q, thanks in particular to a strong recovery in household consumption. Provided that household confidence does not deteriorate too much, the forced savings accumulated during the crisis due to restrictions (€110 billion over the year 2020) should play an important role in the revival of consumption, as was observed during the summer of 2020 and in December. Ultimately, for 2021 as a whole, we expect growth to be in the region of 5.3%.

The recovery will continue after 2021, still driven by consumption despite a likely deterioration in the labour market situation, and therefore confidence, following the reduction in support measures. Fiscal policies should continue to support the economy at both the European and national levels, driven by the context of the 2022 presidential elections in which Emmanuel Macron will seek re-election despite a disappointing reform record due to the pandemic. We expect GDP growth of 3.1% for the full year 2022.

## The French economy in a nutshell (%YoY)

	2020	2021F	2022F	2023F
GDP	-8.2	5.3	3.1	1.6
Private consumption	-7.3	5.1	5.2	1.0
Investment	-10.3	8.6	2.5	2.01
Government consumption	-3.1	3.8	0.9	1.2
Net trade contribution	-0.7	-0.1	-0.3	0.2
Headline CPI	0.5	1.5	1.4	1.3
Unemployment rate (%)*	8.2	10.3	9.6	8.3
Budget balance as a % of GDP	-10.5	-8.5	-6.5	-4.5
Government debt as a % of GDP	118	120	122	122

Source: Refinitiv Datastream, all forecasts ING estimates

\*Eurostat definition

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