



Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	2021	2022	Forecasts
GDP growth (%)	1.2	1.1	1.1	2.3	1.8	1.5	-8.3	5.7	3.1	
CPI inflation (%)*	1.6	0.1	0.3	1.2	2.1	1.3	0.3	1.0	1.4	
Fiscal balance (% of GDP)	-5.0	-3.6	-3.6	-3.0	-2.3	-3.0	-10.5(e)	-8.3	-6.1	
Primary fiscal balance (% of GDP)	-2.5	-1.6	-1.8	-1.2	-0.6	-1.6	-9.1(e)	-7.1	-5.1	
Public debt (% of GDP)	90.4	95.6	98.0	98.3	98.1	98.1	115.9(e)	117.8	119.4	
Reference rate (%)*	0.2	-0.2	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	
Current account balance (% of GDP)	-0.8	-0.4	-0.5	-0.8	-0.6	-0.7	-2.8(e)	-2.6	-1.5	

Notes: * Annual average. (e) estimation.

Source: CaixaBank Research, based on data from national statistical agencies and the IMF.

- **France has been one of the European countries that has been worst hit by the COVID-19 pandemic.** The authorities took a number of strict containment measures that led to a sharp fall in the incidence of the virus in the country after the peak in infections in April and November 2020. These restrictions had a significant economic impact, but the economic measures taken to mitigate the economic shock and boost the recovery were effective, as became evident in Q3 of the year. However, the economy is still clearly below its pre-crisis level. We expect it to recover very gradually, before returning to that level in 2023, partly thanks to European aid and the French recovery plan (Plan Relance). Uncertainty will remain high and the main short- and medium-term risks are the fiscal risks associated with the measures taken to tackle the COVID-19 crisis and a possible rise in social tensions.
- **Real shock of COVID-19.** The containment measures taken in the first half of 2020 resulted in a sharp contraction of GDP. However, the recovery in Q3 2020 – following the relaxation of restrictions on mobility and driven by the economic measures taken by the government – was impressive. Nevertheless, the virus outbreaks during the final quarter of the year forced the authorities to take further strict containment measures, which may very possibly result in a slowdown in the short-term. During 2021, the distribution of a vaccine against COVID-19 may make additional restrictions unnecessary in the country, thus ensuring the gradual recovery of the economy. However, the economic impact of the pandemic may be long-lasting and we cannot rule out a rise in unemployment and non-performing loans, two areas where the negative economic impact of the pandemic has been contained thus far.

Economic policy response

- **Domestic fiscal policy.** The French government implemented a number of decisive and effective fiscal measures which will lead to the deficit standing at around 10.5% of GDP in 2020, a similar level to that of the main countries in the euro area. Public debt is expected to reach 116% of GDP in 2020 (up from 98% of GDP in 2019), before standing at around 118% of GDP in 2021. The measures taken by the authorities include: i) the short-time working scheme (*chômage partiel*), used by around 18 million people, and ii) the guarantee facilities provided to banks to support the liquidity of French businesses. The French government also announced the Plan Relance, an economic recovery and transformation plan through which the country will invest around 100 billion euros, 40 billion of which will be funded by the NGEU, the European Recovery Plan (see below). The aim of this programme is to support the recovery of the economy and its transformation towards a greener and more digital economy.

Outlook (continued)

- › **Monetary policy.** The launch of the ECB's asset purchase programmes has helped maintain French borrowing rates at very low levels and we expect this to continue over the coming quarters. Through TLTROs, bank loans at low interest rates, the ECB also facilitated the flow of credit in the French economy.
- › **European policy.** The EU approved a set of aid packages to member states, of which France is expected to be one of the main beneficiaries. These measures include loans from the SURE fund to pay for work schemes (of which France is yet to avail itself) and the European Recovery Plan (or NGEU), from which France may receive around 37 billion euros in grants (2% of GDP) between 2021 and 2026.
- **Medium-term outlook.** Weak performance in productivity and a too-slow recovery following this health crisis could hinder the potential of the economy. Therefore, it is highly important that the Plan Relance is implemented properly, as it has the potential to raise French productivity.

Main risks

- **Fiscal.** Although the fiscal measures taken this year resulted in a significant rise in sovereign debt, servicing the debt should continue to be manageable, partly thanks to the actions of the ECB, which has held interest rates at low levels. Nevertheless, the guarantee facilities provided to support the liquidity of French businesses represent a fiscal risk if there is a wave of bankruptcies. France is one of the European countries where these guarantee facilities are used most.
- **Social.** France already experienced social unrest in 2019, due to the increase in fuel tax that led to a period of heated demonstrations, organised by the "yellow vests". In turn, these had a significant economic impact. An uneven recovery, a return to strict social restrictions or a "green boost" without compensating those hardest hit could lead to a return of social unrest.

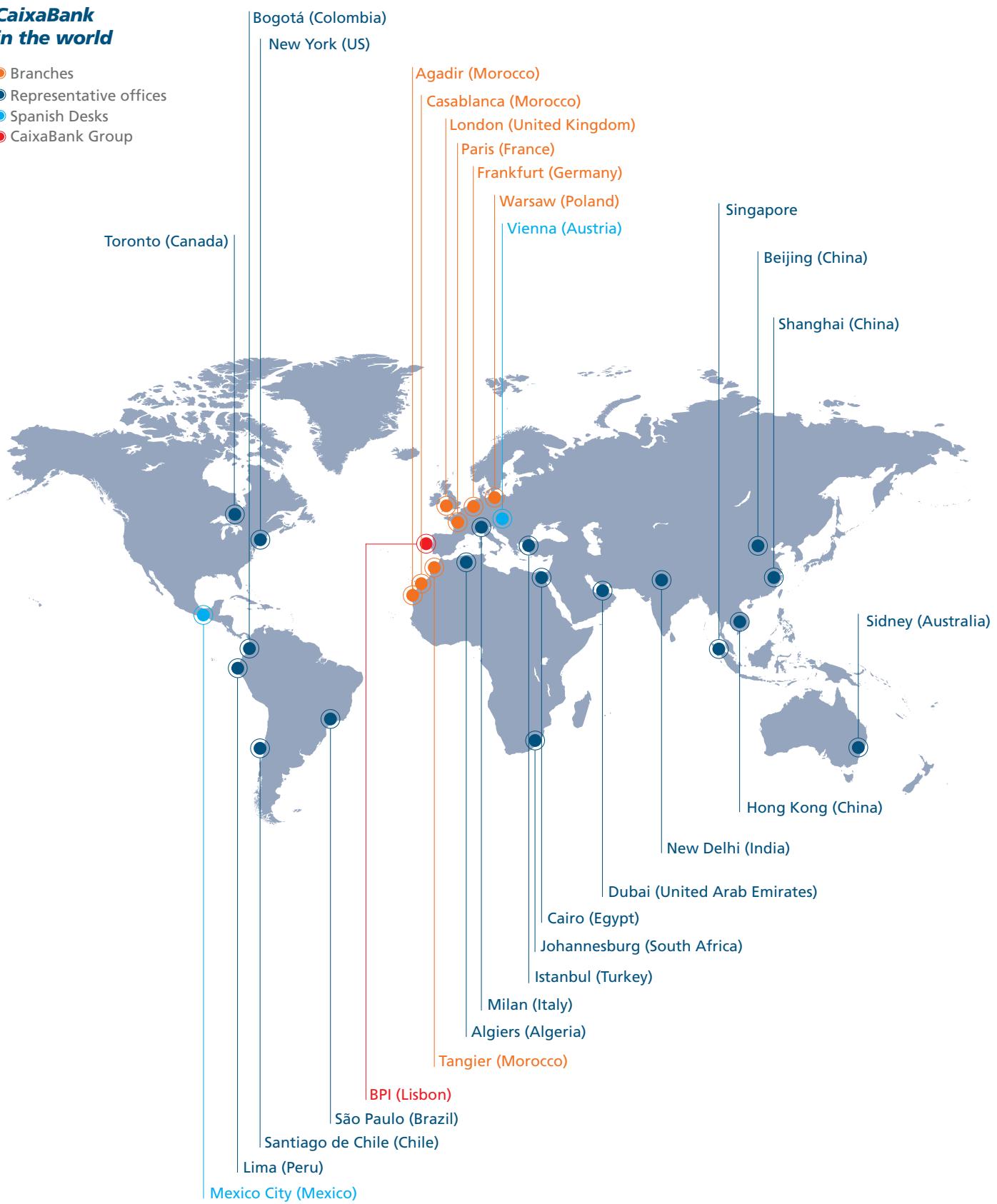
	Rating	Last changed	Outlook	Last changed
STANDARD & POOR'S	AAA	11/08/13	Stable	21/10/16
Moody's	Aa2	18/09/15	Stable	21/02/20
FitchRatings	AA	12/12/14	Negative	15/05/20

■ Indicates that the country has "investment grade".

□ Indicates that the country does not have "investment grade".

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