France

Outlook

	Average 12-16	2017	2018	2019	2020	2021	2022	Forecast 2023	Forecast 2024
GDP growth (%)	0.8	2.5	1.8	1.9	-7.7	6.4	2.5	0.7	1.0
CPI inflation (%)*	0.8	1.2	2.1	1.3	0.5	2.1	5.9	5.6	2.4
Fiscal balance (% of GDP)	-4.0	-3.0	-2.3	-3.1	-9.0	-6.5	-4.7	-4.7	-4.3
Primary fiscal balance (% of GDP)	-1.9	-1.2	-0.6	-1.6	-7.7	-5.1	-2.8	-2.7	-2.3
Public debt (% of GDP)	94.5	98.1	97.8	97.4	114.6	112.9	111.6	109.6	109.5
Reference rate (repo) (%)*	0.3	0.0	0.0	0.0	0.0	0.0	0.0	3.8	4.0
Current balance (% of GDP)	-0.9	-0.7	-0.7	-0.7	-2.5	-0.8	-3.1	-1.5	-1.3

Note: * Annual average. CaixaBank Research forecast for GDP, CPI and interest rates; other variables, AMECO.
Source: CaixaBank Research, based on data from AMECO, the INSEE and the ECB (via Refinitiv).

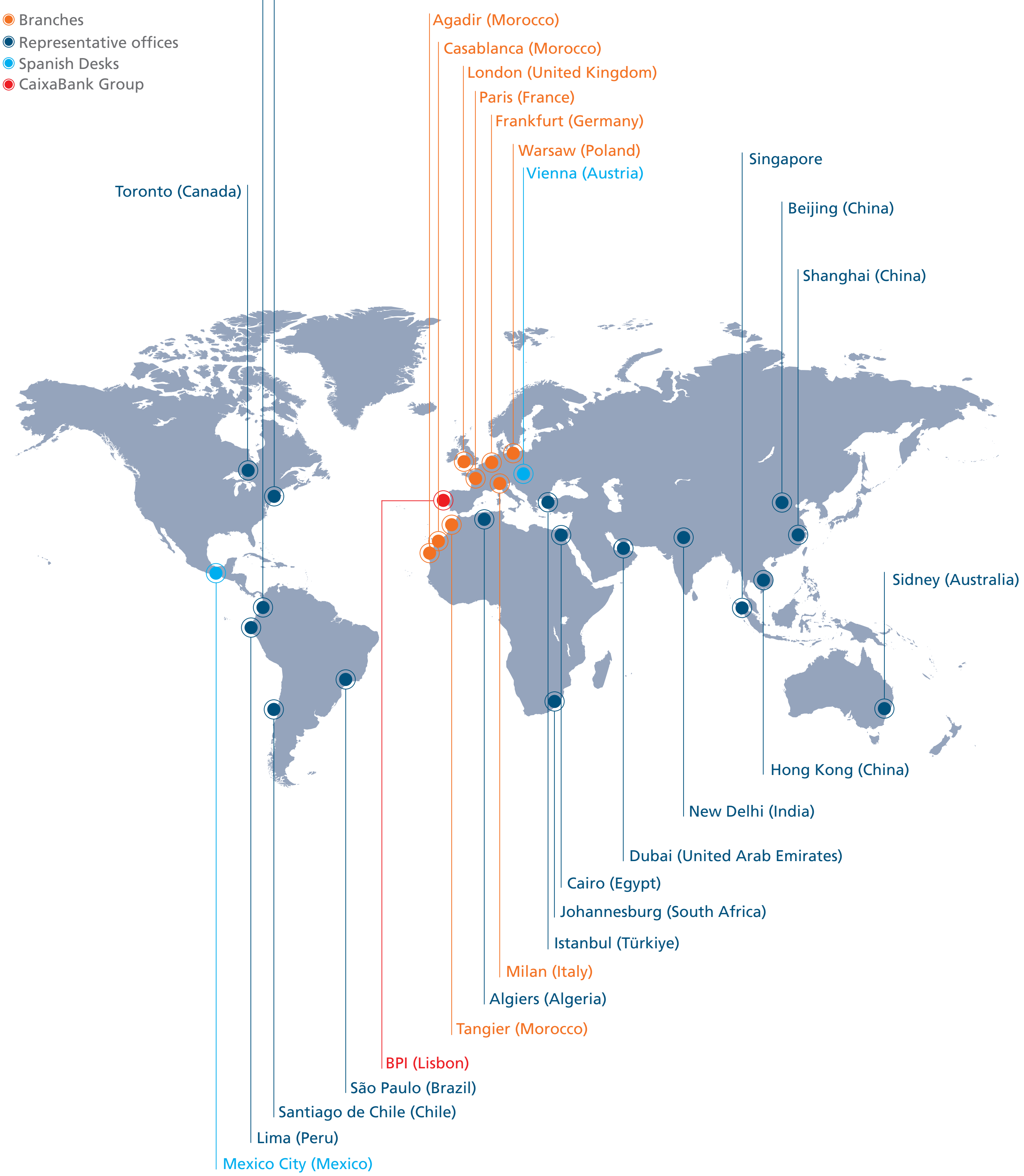
- **France recorded positive growth in Q1 2023**. The French economy surprised us at the start of the year by growing 0.2% quarter-on-quarter (0.8% year-on-year), after stagnating in Q4 2022. However, the aggregate data hides a clear evolution from «more to less» throughout the quarter. According to the Bank of France estimates, social protests against the pension reform planned by Emmanuel Macron would have conditioned the trade, hotels and restaurants sector to retract in March by 1.4%, contributing to GDP with a drop of 0.3% that month.

- **Social rejection of the pension reform proposed by Macron**. The social protests and strikes to reject Macron's pension reform (which, among other things, would increase the retirement age from 62 to 64) intensified in March. The French Constitutional Court endorsed the main points of the reform, giving the green light for it to be approved by the French Government in mid-April without having to go through Parliament, thanks to a process contained in the Constitution itself. Following its approval, the law will enter into force on 1 September. Despite the rejection it generates, this pension reform will be decisive for improving the fiscal metrics of the French economy, one of the weak points of its economy: the primary deficit would increase to 2.7% of GDP in 2023, the highest among the large euro area countries, and it is barely expected to correct in 2024, according to estimates by the European Commission.

- **The poor evolution of its public finances has an impact on the credit rating**. In April, Fitch cut France's credit rating to AA– (from AA) with a stable outlook (currently, the rating from other agencies is: Aa2 with a stable outlook according to Moody's, and AA with a negative outlook according to S&P). According to Fitch, the public deficit would increase to 5.0% of GDP in 2023 and would be 4.7% in 2024 (4.7% in 2022), a scenario that is not dissimilar to the one published in May by the European Commission in its Spring Report. These fiscal deficit metrics are significantly worse than those presented by the median of the group of countries with an AA rating (2.3% in 2023 and 0.9% in 2024), which would justify the drop in group. In terms of public debt, it has already reached 112% of GDP and, in absolute terms, it already exceeds Italy's. This reduction is occurring in the midst of social protests due to the pension reform and confirms the detachment of citizens from the Macron government, which may hamper his four remaining years to conclude his second and final term. It also makes it very difficult for new reforms to be undertaken that would make it possible to trust that public finances will return to a sustainable path in the medium term.

Closing date of this edition: 20 June 2023

CaixaBank in the world



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