



FRANCE 2024-2025 SCENARIO

RECOVERY ON THE HORIZON

April 2024

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**WORKING EVERY DAY
IN YOUR INTEREST**



GROUP ECONOMIC RESEARCH

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OVERVIEW

Scenario highlights

- The disinflation process will continue and wages will rise in real terms.
- Household consumption should rebound and drive growth.
- Investment will continue to be impacted in 2024 by the past tightening of financial conditions.
- Annual growth is expected to remain moderate in 2024 and increase in 2025 only.

France	2022	2023	2024	2025
GDP y/y, %	2.5	0.9	0.9	1.3
Domestic demand excl. inventories contribution to GDP, pp	2.4	0.8	0.7	1.3
Household consumption y/y, %	2.1	0.6	1.3	1.4
Investment y/y, %	2.4	1.2	-1.0	1.4
Changes in inventories contribution to GDP, pp	0.8	-0.4	-0.3	-0.1
Net exports contribution to GDP, pp	-0.7	0.5	0.4	-0.1
Inflation (CPI) y/y, %	5.2	4.9	2.5	2.1
Unemployment rate %, France excluding Mayotte	7.3	7.3	7.9	7.8
Budget balance % of GDP	-4.8	-5.5	-4.8	-4.2

Latest observations: 2023.

Sources: INSEE, Crédit Agricole S.A./ECO calculations and forecasts.

Economic activity slowed significantly in France in 2023 on persistently high inflation and emphatic monetary tightening. The French economy grew 0.9% over the year (seasonal and working-day adjusted), after 2.5% in 2022, but avoided a recession.

The economy is expected to recover in 2024, with annual growth stable at 0.9% but with higher quarterly growth than in 2023. Annual growth is expected to be adversely affected by sluggish activity in the second half of 2023, with a very low growth overhang for 2024 at the end of fourth-quarter 2023. The recovery will be driven by household consumption as disinflation continues, while investment will continue to be impacted by the past tightening of financial conditions.

Growth is expected to increase to 1.3% in 2025, bolstered by persistent strong consumption momentum and the rebound in investment as monetary policy returns to normal. Annual average inflation is expected to fall sharply, to 2.5% in 2024 in CPI terms (after 4.9% in 2023) and 2.1% in 2025.

Completed on 09/04/2024

INTRODUCTION

RECOVERY ON THE HORIZON

Against a backdrop of persistently high inflation and strong monetary tightening, the French economy slowed in 2023 with annual GDP growth of just 0.9% (after 2.5% in 2022). Economic activity even stagnated in H2 2023 (0.0% qoq in the third quarter and +0.1% in the fourth quarter). The Q3 rebound in household consumption did not continue through the end of the year, while business investment, hitherto resilient amid tighter financial conditions, declined in the fourth quarter. Foreign trade rebounded in the fourth quarter, but on a decline in imports, not an increase in exports. However, the French economy managed to steer clear of a recession, while annual average GDP contracted in Germany. The disinflationary process continued at the end of 2023 and the beginning of 2024 in France and in the Eurozone as a whole. This should reassure the ECB regarding the initiation of monetary policy easing, though the central bank appears to be waiting for confirmation of a slowdown in wage data. Nominal wages have started to slow in France but remained dynamic in the Eurozone at the end of 2023. French public finances disappointed in 2023. According to the provisional estimate, the public deficit increased to 5.5% of GDP (after 4.8% in 2022), significantly exceeding the autumn 2023 government forecast of 4.9% (2024 budget bill). This slippage has maintained public debt above 110% of GDP.

Our scenario is based on relatively stable global growth over the forecast horizon despite the expected slowdown in the US and Chinese economies. However, after the trough in 2023, demand

addressed to the Eurozone is expected to recover somewhat, particularly in 2025. Eurozone exports are expected to grow, but less than demand due to the decline in Eurozone competitiveness, while imports are expected to grow at an annual rate similar to exports. Growth in the Eurozone is therefore expected to remain weak in 2024, at 0.7% (after 0.5% in 2023), before rising to 1.5% in 2025, the pick-up being largely driven by domestic demand. Demand will be fuelled first and foremost by continued disinflation, generating gains in wage purchasing power and a rebound in Eurozone consumption starting in 2024 and holding up strongly into 2025. Investment will continue to suffer in 2024 from the past tightening of financial conditions, but a rebound is expected in 2025. We expect the ECB to gradually ease its monetary policy starting in June 2024, cutting its deposit rate by a total 75bp in 2024 and a further 75bp in 2025. The deposit rate is thus expected to stand at 2.5% at the end of 2025. This return to normal will give Eurozone businesses more breathing room, with investment picking up again in 2025. At the same time, the oil price will be relatively stable, our assumption being \$87 at end-2024 and \$90 at end-2025 per barrel of Brent (versus \$88 at the beginning of April 2024). The euro is expected to depreciate against the dollar by the end of 2024 (from EUR 1.08/USD in April to EUR 1.05/USD in December) and appreciate significantly in 2025 (ending the year at EUR 1.12/USD). Disruptions in maritime freight (Suez Canal) could lengthen transport times but would have only a marginal effect on final prices in the Eurozone.

INTRODUCTION

RECOVERY ON THE HORIZON

The French economy is expected to begin recovering in 2024. Economic activity is set to increase starting in the first quarter (+0.2%) and accelerate on a quarterly basis through the second half of the year (+0.4% per quarter). Growth will be driven by the rebound in household consumption relating to continued disinflation, generating wage growth in real terms. However, annual growth is expected to be stable compared with 2023, at 0.9%, the result primarily of a modest growth overhang at the end of Q4 2023. Investment will also continue to be undermined in 2024 by the past tightening of financial conditions, recovering only in the last quarter of the year ahead of a more emphatic comeback in 2025 on the normalisation of monetary policy. Economic activity is expected to grow at an average rate of 0.3% per quarter in 2025. Activity will slow slightly in Q2 and Q3 due to the recession expected in the United States two quarters earlier, with a modest impact on growth in the Eurozone and France. Annual growth is expected to increase to 1.3% in 2025 on continued strong consumption momentum and a rebound in investment. Foreign trade is expected to make a humble contribution to growth in 2024, though mainly owing to end-2003 overhang. Imports are expected to trend in step with exports over the forecast horizon. The contribution of foreign trade to growth will thus be negligible in 2025. Inflation is expected to fall sharply in 2024, to an annual average of 2.5% in CPI terms, after 4.9% in 2022. But inflation is likely to trend more turbulently year-on-year from May onwards and could then nudge upwards as a result of base effects on energy prices. Inflation will fall back in 2025,

to an annual average of 2.1% in CPI terms, i.e. close to the ECB target. Service inflation is expected to remain relatively high in 2024, owing primarily to wage increases in this labour-intensive sector, nearing 3% year-on-year for 2024 before decreasing slightly to 2.5% at end-2025.

Risks to growth are trending downwards. Geopolitical tensions could worsen, with the risk of a further rise in energy prices. But this scenario looks to have receded as the situation in the Middle East appears to have got bogged down. French exports could be impacted more significantly by the economic slowdown in the Eurozone, particularly in Germany. However, our forecast on the trend in exports is cautious and, as is usually the case with France, growth will be driven by domestic demand. The trend in domestic demand continues to depend on the behaviour of households and companies against a backdrop of relative uncertainty. The key risks here are that household savings could exceed expectations or that past monetary tightening could have a greater-than-expected impact on investment. But the latest economic indicators appear to rule out these dangers. However, inflation risks are trending downwards. Inflation has surprised on the downside recently (particularly food inflation) and could once again surprise. Nominal wages have slowed more than expected in France, which should significantly limit the second-round effects on core inflation.

INTRODUCTION

RECOVERY ON THE HORIZON

International background assumptions																				
	2022	2023	2024	2025	2022				2023				2024				2025			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
World GDP growth y/y, %	3.5	2.8	2.6	2.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United States GDP growth y/y, q/q, %	1.9	2.5	1.8	0.4	-2.0	-0.6	2.7	2.6	2.2	2.1	4.9	3.2	1.5	1.1	0.5	-0.8	-0.5	1.1	1.4	2.0
Euro area GDP growth y/y, q/q %	3.4	0.5	0.7	1.5	0.6	0.8	0.5	0.0	0.0	0.1	-0.1	-0.1	0.2	0.3	0.4	0.4	0.3	0.4	0.3	0.3
China GDP growth y/y, q/q, %	3.0	5.2	4.4	4.2	0.6	-2.1	4.0	0.6	0.0	0.1	-0.1	-0.1	0.2	0.3	0.4	0.4	0.3	0.4	0.3	0.3
ECB refinancing rate end of period, %	2.50	4.50	3.40	2.65	0.00	0.00	1.25	2.50	3.50	4.00	4.50	4.50	4.50	4.25	3.65	3.40	3.15	2.90	2.65	2.65
Federal Reserve funds rate end of period, %	4.50	5.50	5.00	3.50	0.50	2.50	3.25	4.50	5.00	5.50	5.50	5.50	5.50	5.50	5.25	5.00	4.50	4.00	3.50	3.50
Exchange rate average, EUR/USD	1.05	1.08	1.07	1.10	1.12	1.06	1.01	1.02	1.07	1.09	1.09	1.08	1.08	1.07	1.06	1.05	1.07	1.09	1.10	1.12
Brent average, USD/barrel	99.1	82.3	85.0	88.0	98.0	112.1	97.7	88.6	82.2	77.9	85.9	83.0	83.0	85.0	85.0	87.0	85.0	87.0	90.0	90.0

Latest observations: Q4 2023.

Sources: BAE, ECB, Eurostat, IMF, Refinitiv, Federal Reserve, Crédit Agricole S.A./ECO forecasts.

RECOVERY ON THE HORIZON

Economic data remained mixed at the start of 2024, but an improvement appears to be on the horizon. The latest survey data point to an improvement in terms both of business sentiment and consumer confidence. The business climate reached its long-term average (+2 points to 100) in March for the first time since September 2023, with an improved economic climate in all business sectors barring construction. The employment climate remained stable, above its long-term average. Household confidence rebounded in March by 1 point. Though lower than its long-term average (91 vs. 100), it has staged a solid comeback since the summer 2022 low (80). Households were less pessimistic in March about their personal financial situation (past and future) as well as the trend in living standards in France (past and future). The consensus on the opportunity to make large purchases, which is at a low, rebounded (up 6 points, after a 5-point gain in February), while the consensus on the opportunity to save, which is at a high, dipped once again (-5 points after -5 points). Household fears regarding the trend in unemployment also fell sharply in March (consensus of -4 points), to well below their long-term average.

According to provisional results, inflation also continued to decline in March, at 2.3% year-on-year in CPI terms after 3% in February. This sharp decline is linked to a slowdown in prices across all components over one year (including services), but almost half of

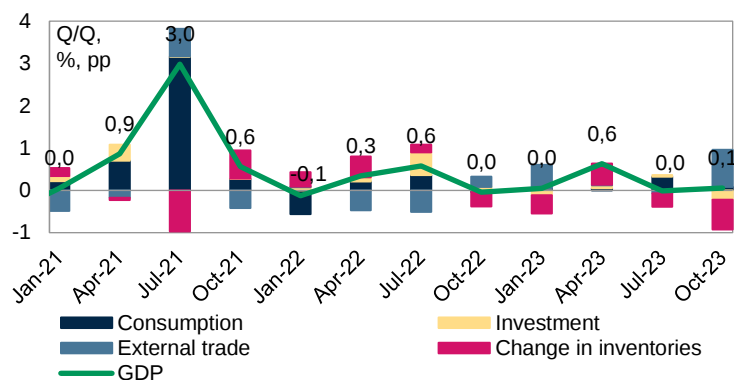
the decrease can be attributed to the drop in food inflation (+1.7% in March after +3.6% in February). Though close to the ECB's 2% target in March, inflation is expected to rise slightly in the coming months (particularly in May) mainly due to energy prices, which had fallen sharply a year earlier. Services have been the largest contributor to year-on-year inflation since last autumn.

Regarding growth, the latest data available are for Q4 2023. Activity increased very slightly at the end of the year (+0.1% qoq) after holding steady in the third quarter (0.0%). After rebounding in the third quarter, household consumption stagnated (0.0% after +0.5%) due to a fall in goods consumption (mainly food and energy), which offset the increase in the consumption of services. Moreover, investment by non-financial companies, which had previously proved resilient relative to the past tightening of financial conditions, contracted in the fourth quarter (-0.9%, after +0.3%). Household investment continued to decline (-1.4%, after -1.1%). The contribution of foreign trade to quarterly growth rebounded in the last quarter (+0.9 points after -0.1 points), but this was the result of a fall in imports (-2.3%), while exports stagnated (0.0%). Changes in inventories weighed heavily on activity in the fourth quarter (-0.7 points, after 0.3 points). The growth overhang for 2024 at the end of Q4 2023 was a modest 0.2%.

LATEST ECONOMIC NEWS

RECOVERY ON THE HORIZON

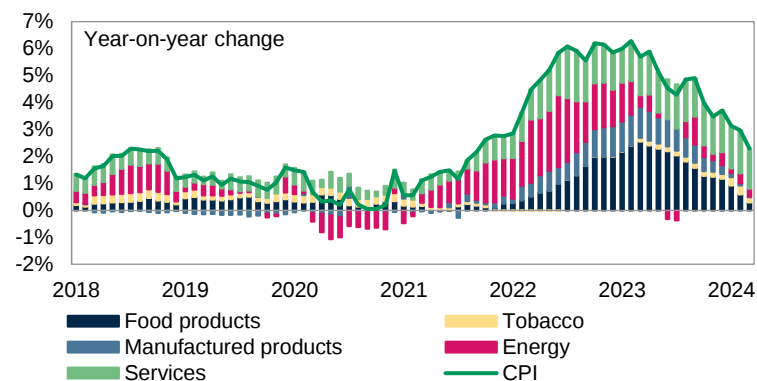
Activity remained sluggish at the end of 2023



Last review: Q4 2023.

Sources: INSEE, Crédit Agricole S.A./ECO.

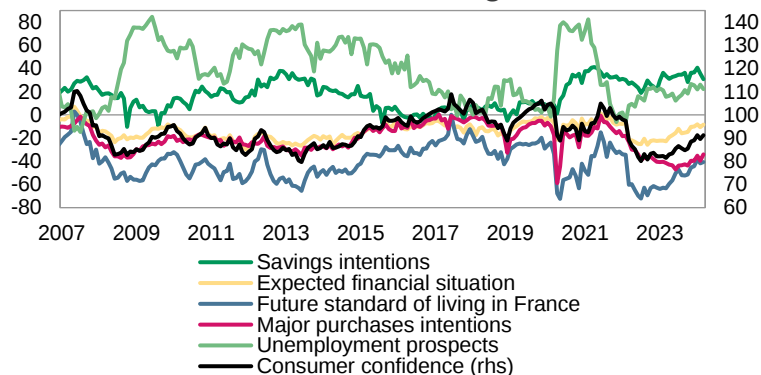
Inflation (CPI) has decreased



Last review: March 2024 (provisional).

Sources: INSEE, Crédit Agricole S.A./ECO calculations.

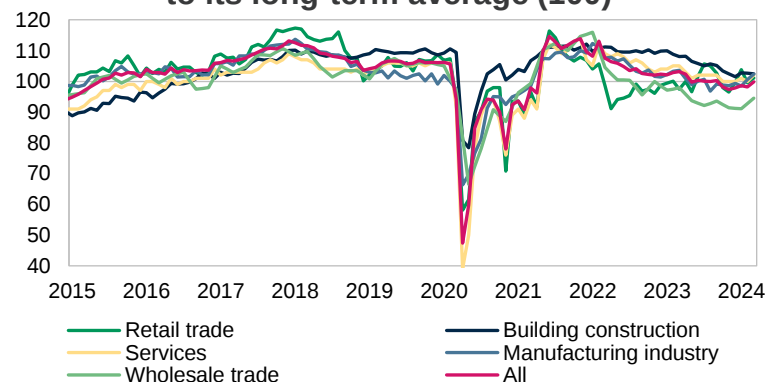
Consumer confidence is still low but rebounding



Last review: March 2024.

Sources: INSEE, Crédit Agricole S.A./ECO.

The business climate is close to its long-term average (100)



Last review: March 2024.

Sources: INSEE, Crédit Agricole S.A./ECO.

EMPLOYMENT, PRODUCTIVITY, WAGES

RECOVERY ON THE HORIZON

A modest rebound in the unemployment rate expected in 2024

Employment held up well against the slowdown in activity in 2023, but it slowed and ended the year virtually flat (+0.1% qoq after +0.2% in the third quarter). This slowdown is expected to continue throughout 2024 before a slight increase in 2025. The unemployment rate as defined by the ILO gradually increased in 2023 (from a record low of 6.9% for mainland France in Q1 to 7.3% in Q4) and this trajectory should lead to a further increase in 2024. The annual average unemployment rate is expected to increase to 7.6% in 2024 (after 7.1% in 2022-2023), before stabilising overall in 2025 (at 7.5%).

Sluggish productivity to be put into perspective

Labour productivity (GDP per job or GDP per hour worked) is substantially lower in France than before the health crisis (2019) as momentum has been stronger in job creation than economic activity. This case is not specific to France, but it is particularly emphatic in the country. The trend results from temporary factors shared by other European countries (including retaining labour in a relatively tight labour market) but is also linked to more specific and lasting factors, such as the increased use of apprenticeships in France. The trend is also accompanied by an increase in the employment rate and above all reflects the better use of available labour resources, with the entry into employment of people previously excluded from the labour market (particularly the least qualified) and therefore needs to be put into perspective. With the economy rebounding and employment slowing, apparent labour productivity is expected to recover slightly over the forecast horizon but remain below its pre-COVID level owing to relatively long-lasting factors.

Wages are slowing but still rising sharply and finally catching up with prices

Nominal wages started to increase in 2022, lagging behind prices. Despite strong nominal increases, they have contracted in real terms over the past two years due to high inflation. In the recent period, the only segment of the population to maintain its purchasing power (and even increase it slightly) is that of workers on the minimum wage (SMIC), as the latter is automatically indexed to inflation. The basic monthly wage (SMB) increased 4.3% on an annual average in 2023 (after +3.3% in 2022) but, deflated by CPI, decreased 0.3% over the year (after -2.1% in 2022). Despite the slowdown in nominal wages during the course of 2023, their increase nevertheless rose above inflation at the end of the year, so that the year-on-year change in real wages became positive once again: +0.1% for the basic monthly wage (after -0.6% the previous quarter) and +0.6% for negotiated wages (after 0.0%) in Q4 2023. Only the average wage per capita in the non-agricultural market branches (SMPT BMNA) was down year-on-year in real terms (-0.6% in Q4 2023 after -0.7%). Nominal wages are expected to remain relatively strong in 2024 and 2025, at just over 3% per year. And with disinflation set to continue, wages should rise in real terms.

EMPLOYMENT, PRODUCTIVITY, WAGES

RECOVERY ON THE HORIZON

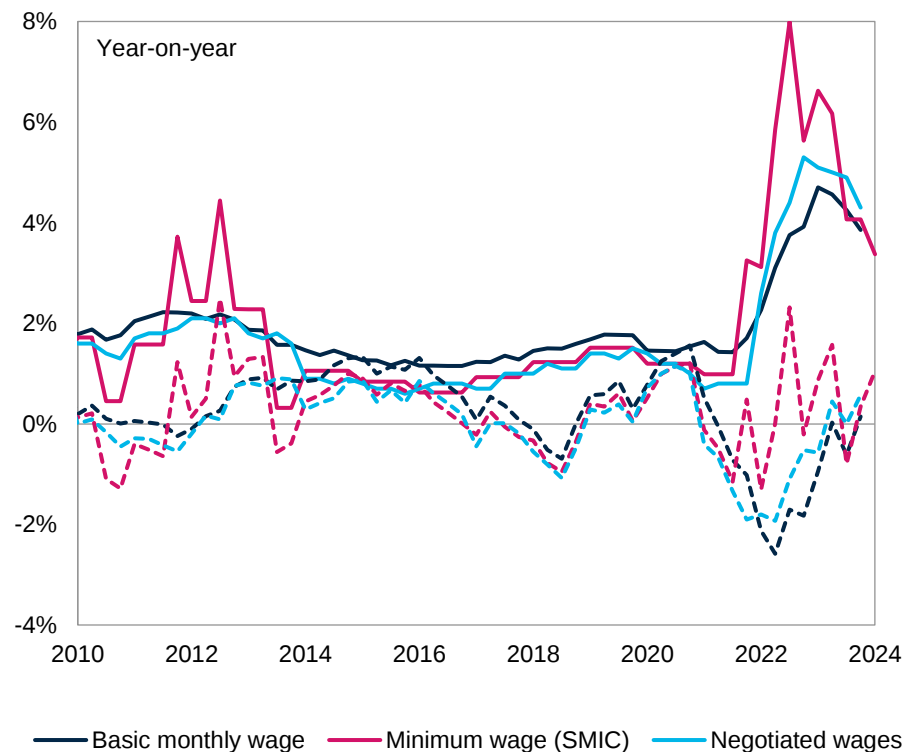
The recovery in the unemployment rate is expected to continue in 2024 (mainland France)



Latest observations: Q4 2023.

Sources: INSEE, Crédit Agricole S.A./ECO forecasts.

Year on year, wages slowed in nominal terms but caught up with prices in real terms



NB: Dotted lines show trends in real wages (wages deflated by total CPI).
End-of-quarter data.

Last review: Q1 2024 (SMIC and CPI), Q4 2023 (SMB and negotiated wages).

Sources: DARES, INSEE, Banque de France, Crédit Agricole S.A./ECO calculations.

HOUSEHOLDS

RECOVERY ON THE HORIZON

The future rebound in consumption will be driven above all by disinflation

Household consumption of goods remains lower than before COVID (-4% in February 2024) and thus has room to catch up. The consumption of energy has fallen significantly from January 2020 (-6%), particularly that of oil products (-9.5%), but this is a fairly positive trend as it reduces France's dependence on energy imports and contributes to the ecological transition. Food consumption is down sharply (-7.2%), despite a slight rebound in February 2024, clearly related to recent high food inflation. Textile consumption is also down (-6.6%). However, some items fared better, including durable goods (+1.8%).

The disinflation process, already well under way, is expected to continue through end-2025. Having peaked year-on-year in March 2023 (at 15.9% in CPI terms), food inflation stood at 1.7% in March 2024 according to provisional results. Leading indicators on production and import prices suggest that this decline is likely to continue. Inflation in manufactured products has already run its course, nudging 0% year-on-year in March 2024 (at 0.1%) after also peaking in March 2023, at 4.8%. Nominal wages should continue to rise sharply and employment remain relatively resilient, as detailed above. These two factors together will bolster household purchasing power and thus household consumption, which will be the key driver of recovery and growth in 2024 and 2025. Over the forecast horizon, gross household disposable income is expected to increase on average by around 3% per year in nominal terms and by 0.7% per year in real terms. Household consumption is expected to grow 1.3% in 2024 and 1.4% in 2025, contributing 70% to annual growth in 2024 and 50% in 2025.

Savings will remain high but fall slightly

The household savings rate is currently very high, at close to 18% at the end of 2023, and thus substantially higher than before the health crisis (14% between 2015 and 2018, 15% in 2019). This phenomenon should be seen in the light of high inflation and recent geopolitical and economic uncertainties. The savings rate could fall slightly by the end of 2025, which will also contribute to the rebound in household consumption, but it is expected to remain higher than pre-COVID (16.5% on average in 2025). This scenario is supported by the recent fall in the consensus on saving opportunities (which remains at a high level) and the rise in the consensus on opportunities to make large purchases (which remains at a low level) in business surveys.

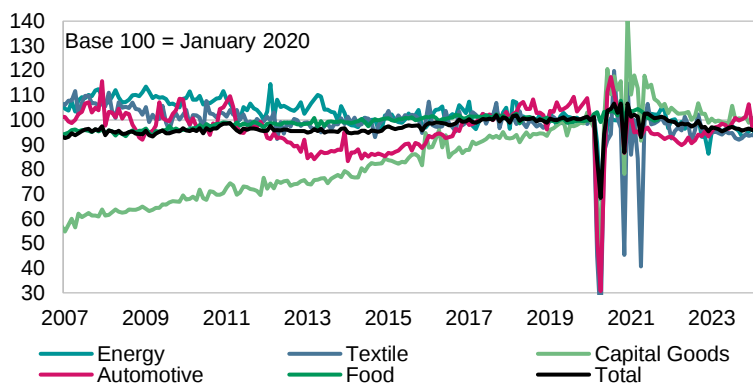
Household investment is expected to remain sluggish in the medium term

At end-2023, household investment had fallen for six consecutive quarters and contracted by an annual average of 5.1% in 2023 (after -1.3% in 2022). Household investment in 2024 is expected to remain heavily impacted by the past tightening of financial conditions, with a further decline of 3.7% on an annual average. Investment is then expected to stabilise in 2025 (+0.3% over the year) as monetary policy returns to normal, but it will not stage a real recovery over the forecast horizon.

HOUSEHOLDS

RECOVERY ON THE HORIZON

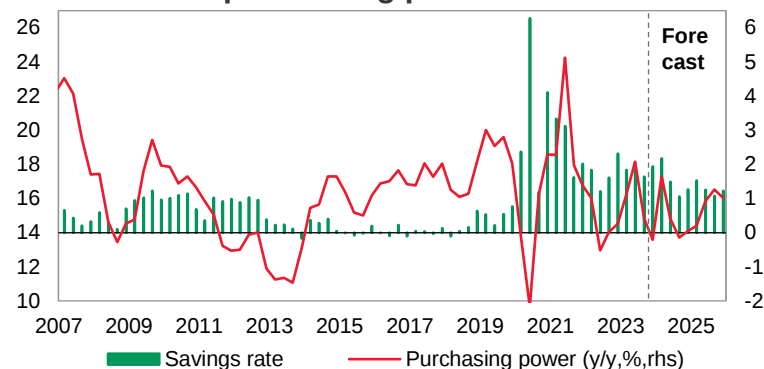
Room for catch-up in goods consumption



Last review: February 2024.

Sources: INSEE, Crédit Agricole S.A./ECO calculations.

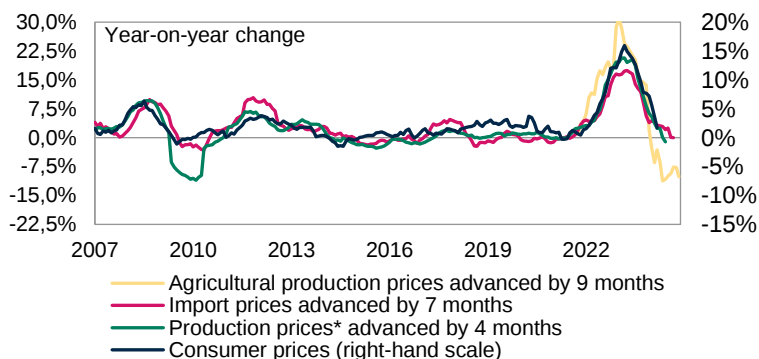
The savings rate is expected to fall slightly and the purchasing power to increase



Latest observations: Q4 2023.

Sources: INSEE, Crédit Agricole S.A./ECO calculations and forecasts.

Food inflation is expected to decline further



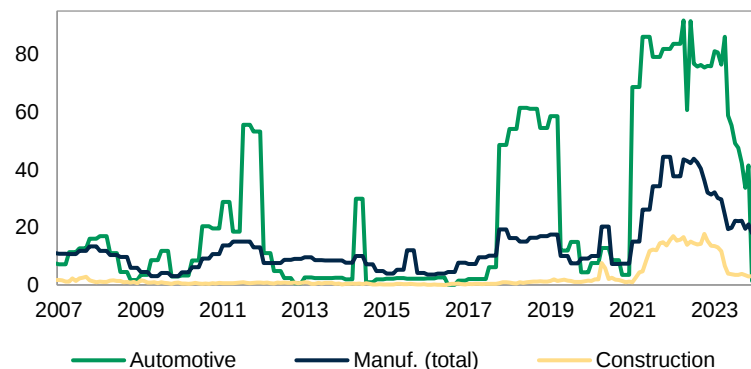
*Production prices for the domestic market

Last reviews: March 2024 (CPI, provisional),

February 2024 (IPPAP and IPPPI).

Sources: INSEE, Crédit Agricole S.A./ECO calculations.

The easing of supply constraints is helping the disinflation process



Last review: March 2024.

Sources: INSEE, Crédit Agricole S.A./ECO.

BUSINESSES

RECOVERY ON THE HORIZON

Investment in 2024 will continue to be impacted by past monetary tightening

Corporate investment held up well overall to the swiftest ECB monetary tightening in history. Investment contracted in Q4 2023 (-0.9%, after +0.3% the previous quarter) but once again increased on an annual average in 2023, though slowing substantially (+2.7%, after +3.9% in 2022). However, the past tightening of financial conditions will continue to adversely impact business investment in 2024, with a 1% contraction expected. The capital accumulation of non-financial companies is expected to begin to stabilise on a quarterly basis in second-half 2024.

Monetary normalisation and structural needs will drive a recovery in investment in 2025

Business investment is expected to recover only in 2025, as a result of the relative easing of monetary conditions, with annual growth of 1.7%. Growth will be driven by the structural needs relating to the digital and ecological transitions and by the rebound in economic activity. But investment in construction is expected to remain relatively depressed owing to structural changes and in particular the development of teleworking.

High margin rates on average

Corporate margins were high overall at the end of 2023 from a historical perspective. The average margin rate of non-financial companies was close to 33% at the end of 2023, compared with less than 32% in 2018 (pre-crisis reference year for the margin rate). But the margin rate continues to differ from one sector to the next and in historical terms is particularly high in the energy and agri-food sectors. The strong margins in the agri-food sector follow a period of contraction (on soaring commodities prices) and a return

to normal appears to have been initiated in the last few quarters. In contrast, the margin rate is particularly low in services, particularly accommodation and catering. The margin rate is expected to decrease slightly on average as nominal wages increase, but it should remain at a comfortable level in historical terms. In sectoral terms, however, it could decrease in sectors where it is extremely high (agri-food) and increase in sectors where it is currently particularly low (accommodation and catering, which still have plenty of catch-up potential). In a form of creative destruction, the increase in the margin rate in the latter sectors could result from the elimination of the least productive companies.

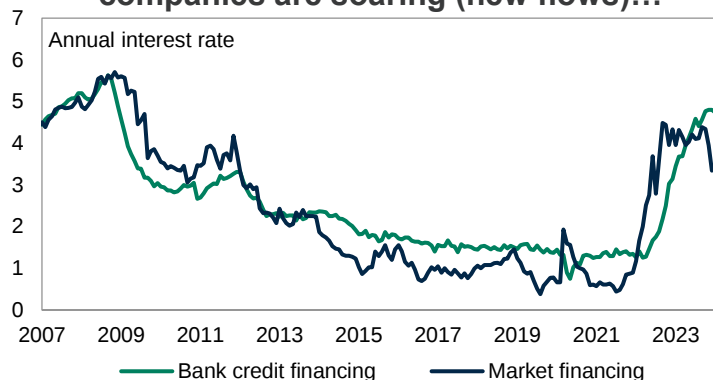
Catch-up in defaults combined with substantial business creations

The number of corporate insolvencies has increased considerably since 2022. But the trend results primarily from a form of normalisation and catch-up, after a period when company failures were particularly thin on the ground (2020-2021). The wide-ranging public support measures rolled out during the health crisis protected all companies in a relatively uniform fashion, regardless of their economic viability. In addition, procedural changes may have delayed insolvency declarations. The rise in corporate defaults can also be explained by the recent economic slowdown. But even from this point of view, it is not necessarily a bad sign. The renewal of the economic fabric is a good thing, with the most productive and innovative companies remaining while others fold. The increase in insolvencies also coincides with a very high number of business creations since the health crisis. These creations can also explain the increase in the number of business insolvencies, as the result of a larger pool of existing businesses. They are also a sign of a renewal of the productive fabric. But it is true that the increase in the number of business failures (particularly strong among mid caps) makes a major impression, notably because the size of these companies gives them an important role in terms of the economy and employment.

BUSINESSES

RECOVERY ON THE HORIZON

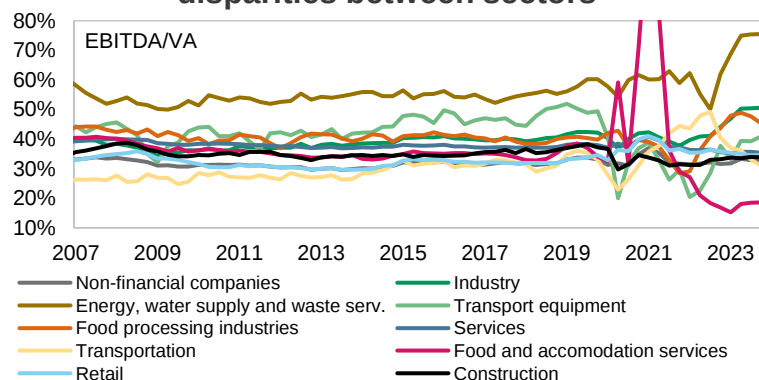
The financing costs of non-financial companies are soaring (new flows)...



Last review: January 2024.

Sources: Banque de France, Crédit Agricole S.A./ECO.

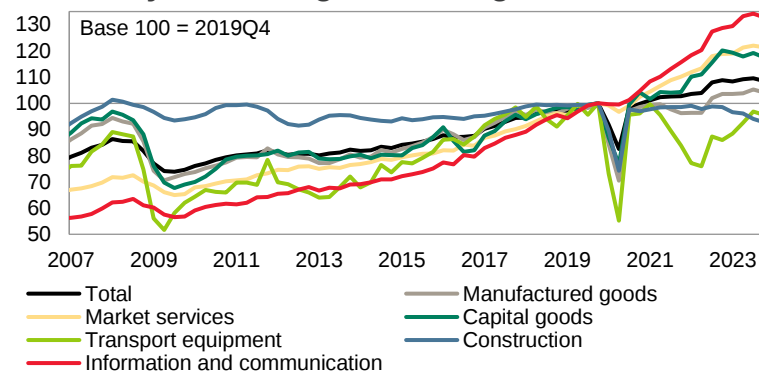
The margin rate is high on average, concealing disparities between sectors



Last review: Q4 2023.

Sources: INSEE, Crédit Agricole S.A./ECO calculations.

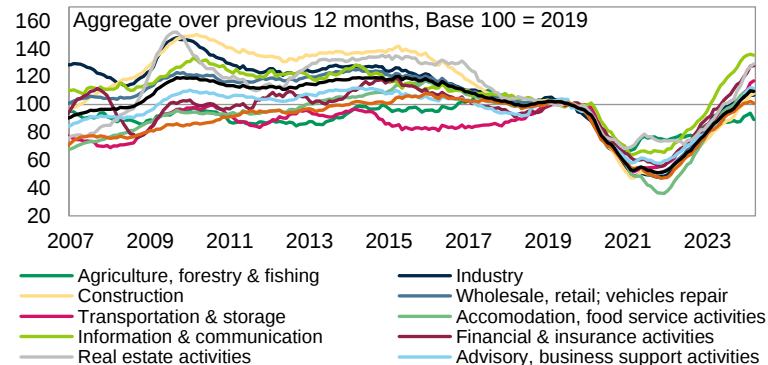
... affecting their investment, driven in the long term by the ecological and digital transitions



Last review: Q4 2023.

Sources: INSEE, Crédit Agricole S.A./ECO calculations.

The rebound in corporate insolvencies is impacting all business sectors



Last review: March 2024.

Sources: Banque de France, Crédit Agricole S.A./ECO calculations.

INTERNATIONAL TRADE

RECOVERY ON THE HORIZON

Overhang aside, exports are expected to trend broadly in line with imports

The contribution of international trade to quarterly growth rebounded at the end of 2023 as imports fell while exports remained stable. Exports are expected to increase, fuelled by renewed demand and major catch-up potential in the aeronautics sector. But imports are also expected to rise owing to the recovery in household goods consumption. As such, exports and imports are expected to trend in a broadly similar fashion. Foreign trade is expected to contribute 0.4 points to annual growth in 2024 due to a strong overhang effect at the end of 2023. The contribution of foreign trade to growth will be negligible in 2025 (-0.1 point).

PUBLIC FINANCES

RECOVERY ON THE HORIZON

Public finances ran out of control in 2023

The first results of the national government accounts for 2023 were published recently. The public deficit increased to 5.5% of GDP (after 4.8% in 2022), with the government having forecast 4.9% in autumn 2023. While there were already rumours that the 4.9% target set in the budget bill for 2024 would not be met, this figure is a major setback for the French government, whose public finance objectives through 2027 were already deemed “unambitious” by the High Council of Public Finance in September and by the European Commission in November. Public debt ultimately fell only to 110.6% of GDP at the end of 2023 (after 111.9% at the end of 2022), higher than the government’s autumn forecast of 109.7%. The biggest surprise was government revenues, which fell more sharply than spending in 2023, and this time increased much less than GDP in value terms, unlike the previous year. VAT revenues slowed sharply, corporate income tax plummeted, and personal income tax rose only slightly, its scale having been indexed to inflation. The mandatory tax rate (tax and social security contributions) in 2023 was similar to that of the pre-COVID period, at 43.5% of GDP (down from 2022). Government spending increased less than prices in 2023, declining in real terms and as a proportion of GDP (to 57.3%), though the ratio remains higher than before COVID (55.2% of GDP in 2019). Operating expenses soared on a steep increase in intermediate consumption, energy prices in particular, while wages increased only slightly. Social benefits are accelerating, in particular inflation-linked social benefits, chief among them pensions, while healthcare benefits are stable (some increases being offset by the fall in expenditure linked to COVID). Subsidies are slowing, notably with the discontinuation of COVID-related aid to businesses. Support measures to help businesses and households cope with rising energy prices (price shields) are stabilising. Despite recommendations from the European Commission that these measures be withdrawn as soon as possible, France, unlike other European countries, opted to keep this safety net (or at least part of it) in place. The phasing out of the measures should help reduce the public deficit in 2024. Moreover, public investment remained buoyant in 2023 and the debt interest burden eased (to 1.8% of GDP) as the cost of servicing inflation-linked bonds fell.

Savings need to be found

The government will have to find the “right” savings for the years to come. If not, it will have to count on revenues, meaning an increase in taxes (totally ruled out until now), if France is to stand a chance of coming back into line with the EU target. But in the short term, this slight slippage is likely to have little impact on the cost of financing French public debt, and in particular the sovereign rate spread with the German Bund (Germany currently having other fish to fry). This is because the markets have already gradually priced in a higher perception of risk and a possible downgrade of the French debt rating by the rating agencies, which is looking increasingly likely.

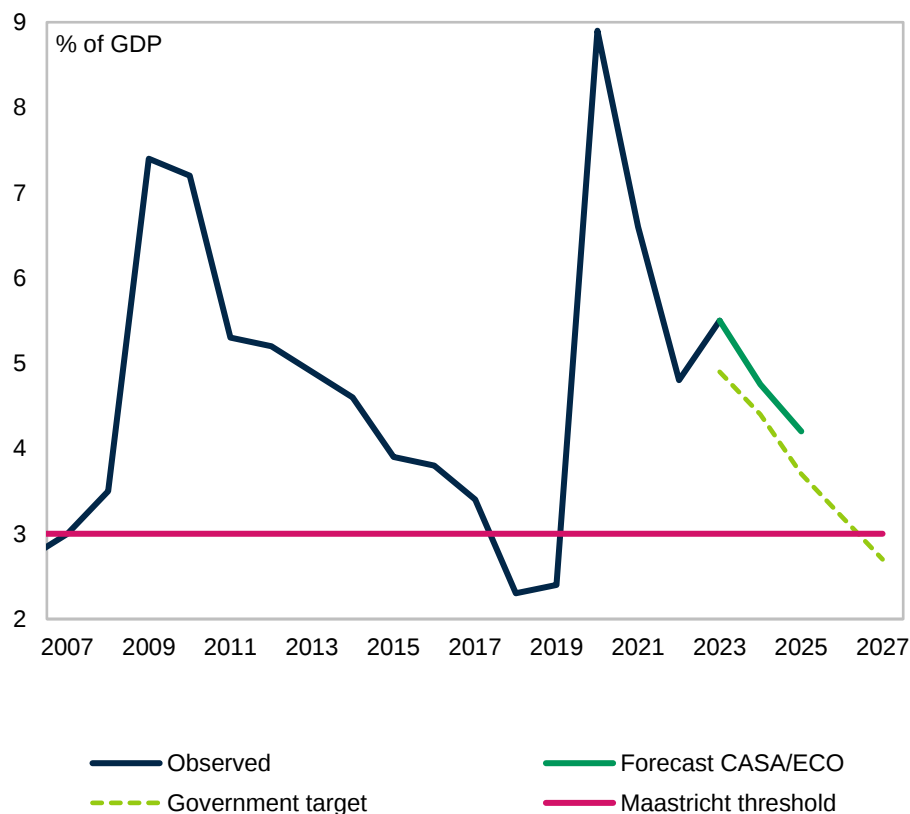
Increasingly limited room for manoeuvre

The impact is long-term. At a time when financing the ecological transition and adaptation to climate change (as well as digitalisation, which could be a source of productivity gains in France) needs to become a priority, and also needs to rely on public funds (in particular due to the existence of externalities), room for manoeuvre is becoming even more limited. It should also not be forgotten that a debt always has to be paid back – which means today’s households and businesses (and, no doubt, tomorrow’s even more so) are the ones who will have to shoulder the cost.

PUBLIC FINANCES

RECOVERY ON THE HORIZON

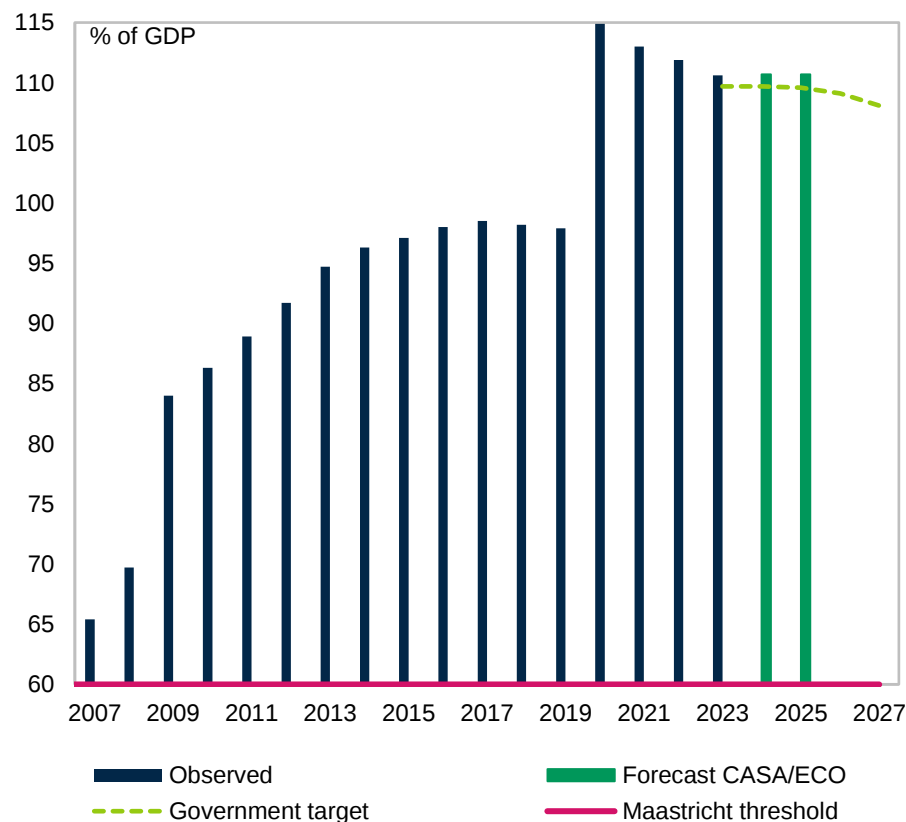
The government budget deficit is not about to fall below 3% of GDP



Latest observations: 2023.

Sources: INSEE, 2024 PLF (budget bill) and 2023-2027 revised PLPFP (public finance programming bill), Crédit Agricole S.A./ECO.

Public debt is expected to remain close to 110% of GDP in the coming years

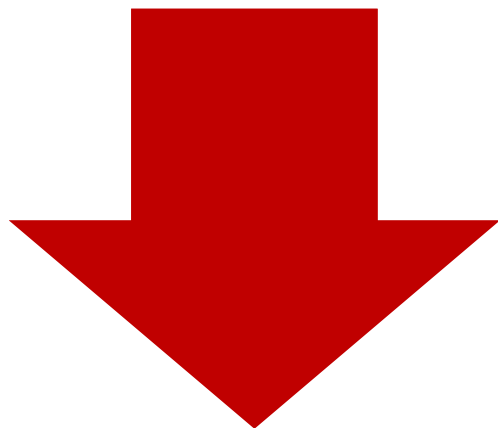


Latest observations: 2023.

Sources: INSEE, 2024 PLF (budget bill) and 2023-2027 revised PLPFP (public finance programming bill), Crédit Agricole S.A./ECO.

RISKS

RECOVERY ON THE HORIZON



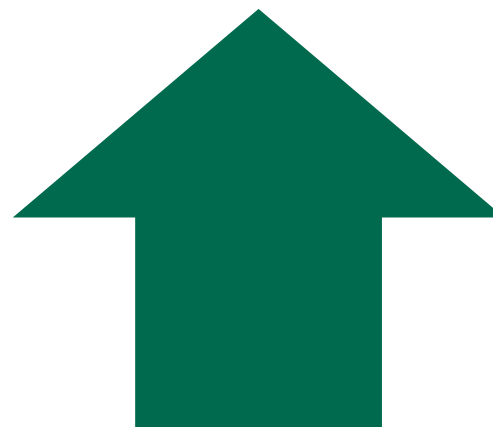
Downside risks to activity

Worsening geopolitical tensions
Behaviour of households (savings +)
and companies (investment -)
Budgetary savings to address deteriorated public finances
Low growth among trade partners
Delayed impact of monetary tightening



Upside risks to activity

Rapid continuation of disinflation
Gains in wage purchasing power
Maintaining employment
Behaviour of households (savings -)
and companies (investment +)
Rapid easing of financing conditions



APPENDIX 1

THE FORECAST IN DETAIL

France	2022	2023	2024	2025	2022				2023				2024				2025			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP y/y, q/q, %	2.5	0.9	0.9	1.3	-0.1	0.3	0.6	0.0	0.0	0.6	0.0	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.2	0.4
Domestic demand excl. inventories contribution to GDP, pp	2.4	0.8	0.7	1.3	-0.5	0.3	0.9	0.1	-0.1	0.1	0.4	-0.1	0.1	0.2	0.3	0.3	0.4	0.3	0.3	0.4
Household consumption y/y, q/q, %	2.1	0.6	1.3	1.4	-1.3	0.7	0.5	-0.4	0.2	0.0	0.5	0.0	0.3	0.5	0.5	0.4	0.4	0.2	0.2	0.3
Public consumption y/y, q/q, %	2.5	0.5	0.9	0.7	0.4	-0.5	0.3	0.6	-0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Investment y/y, q/q, %	2.4	1.2	-1.0	1.4	0.3	0.4	2.3	0.4	-0.5	0.3	0.2	-0.8	-0.5	-0.3	0.0	0.3	0.4	0.5	0.5	0.7
Changes in inventories contribution to GDP, pp	0.8	-0.4	-0.3	-0.1	0.3	0.5	0.2	-0.3	-0.4	0.5	-0.3	-0.7	0.1	0.1	0.1	0.1	-0.1	-0.1	-0.1	-0.1
Net exports contribution to GDP, pp	-0.7	0.5	0.4	-0.1	0.0	-0.5	-0.6	0.2	0.5	0.0	-0.1	0.8	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Exports y/y, q/q, %	7.4	1.5	1.9	1.8	1.7	-1.1	3.3	0.3	-1.8	2.7	-0.7	0.0	0.6	0.5	0.8	0.5	0.5	0.3	0.3	0.4
Imports y/y, q/q, %	8.8	-0.1	0.5	1.9	1.5	0.4	4.7	-0.5	-3.1	2.5	-0.4	-2.3	0.8	0.7	0.7	0.5	0.5	0.3	0.3	0.3
Inflation (CPI) y/y, %	5.2	4.9	2.5	2.1	3.7	5.3	5.8	6.1	6.0	5.2	4.7	3.7	2.9	2.5	2.5	2.3	2.2	2.0	1.9	2.2
Inflation (HICP) y/y, %	5.9	5.7	2.8	2.0	4.2	5.9	6.5	7.0	7.0	6.1	5.5	4.2	3.1	2.7	2.8	2.5	2.3	2.0	1.8	2.0
Unemployment rate France excluding Mayotte, %	7.3	7.3	7.9	7.8	7.4	7.4	7.3	7.1	7.1	7.2	7.5	7.5	7.8	8.0	8.0	7.8	7.9	7.8	7.8	7.7
Unemployment rate Metropolitan France, %	7.1	7.1	7.6	7.5	7.2	7.2	7.1	6.9	6.9	7.0	7.2	7.3	7.5	7.7	7.7	7.5	7.6	7.5	7.5	7.4
Budget balance % of GDP	-4.8	-5.5	-4.8	-4.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public debt % of GDP	111.9	110.6	110.7	110.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

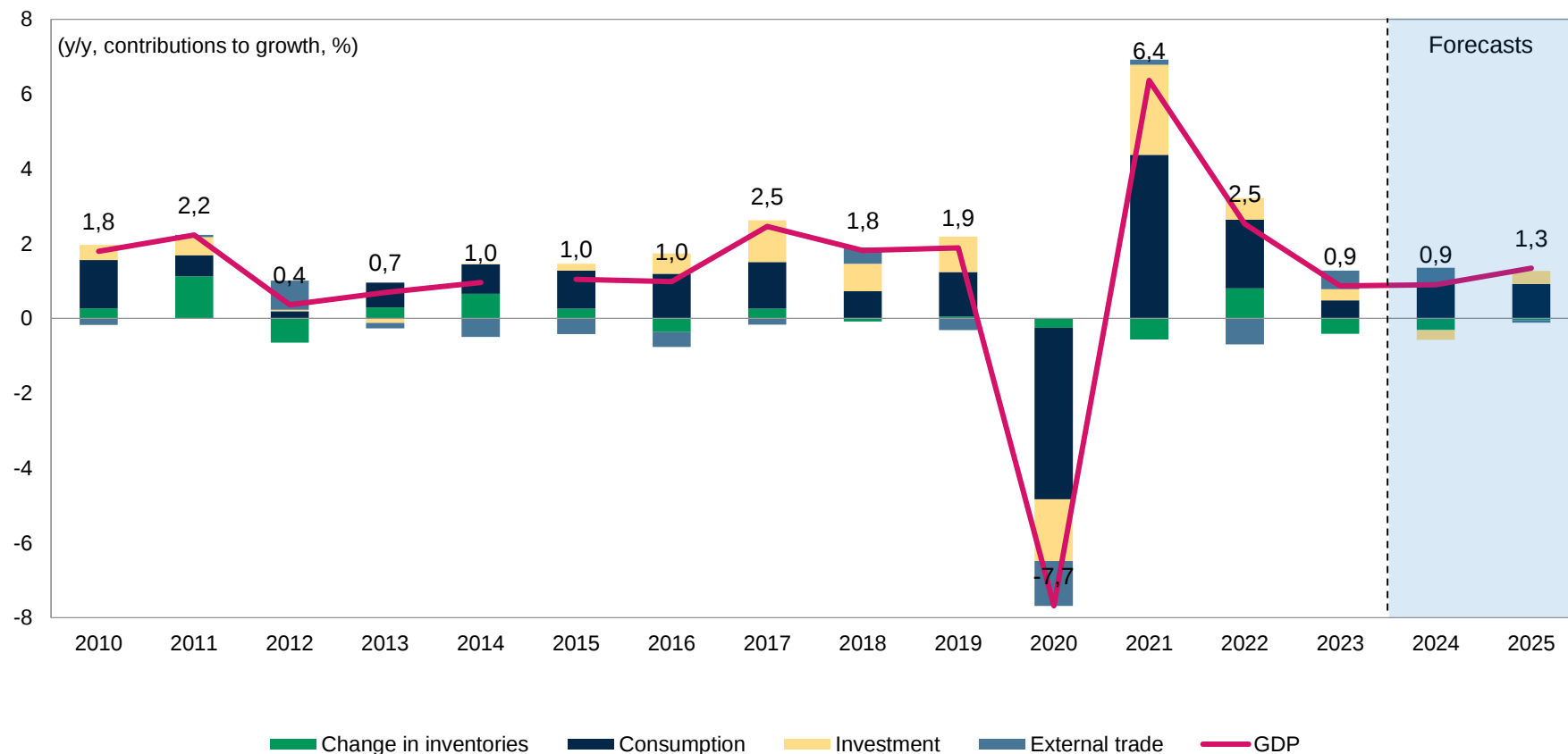
Latest observations: 2023.

Sources: INSEE, Crédit Agricole S.A./ECO calculations and forecasts.

APPENDIX 1

THE FORECAST IN DETAIL

Consumption-led growth forecast



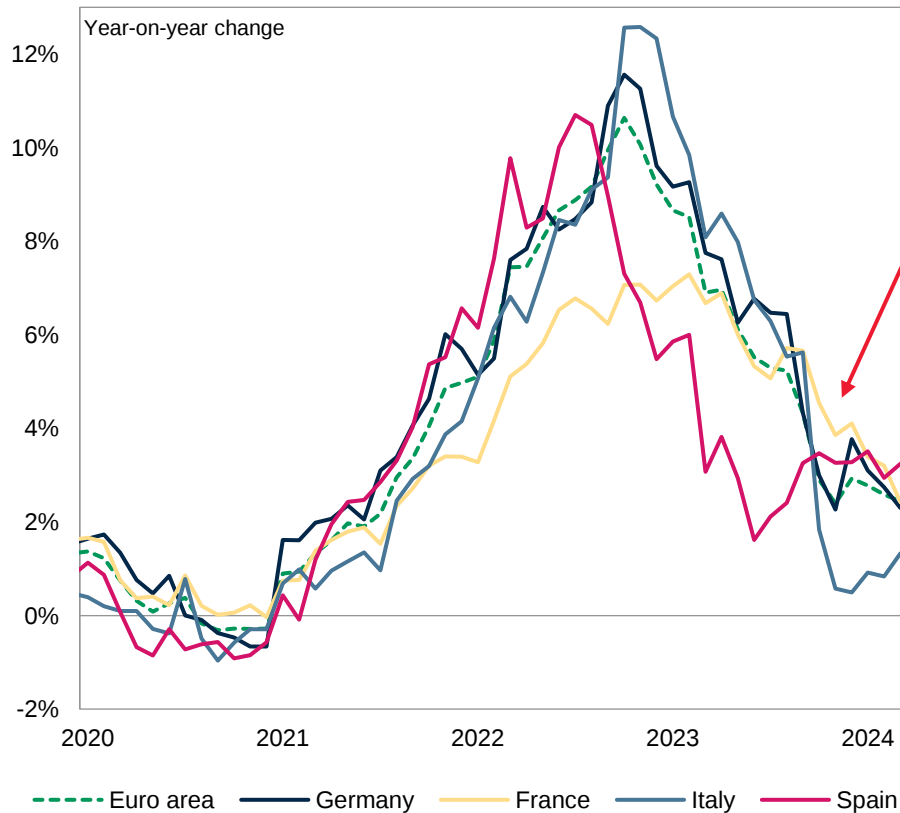
Latest observations: 2023.

Sources: INSEE, Crédit Agricole S.A./ECO calculations and forecasts.

APPENDIX 2

COMPARATIVE INFLATION IN THE EUROZONE: INFLATION SMOOTHER OVER TIME IN FRANCE

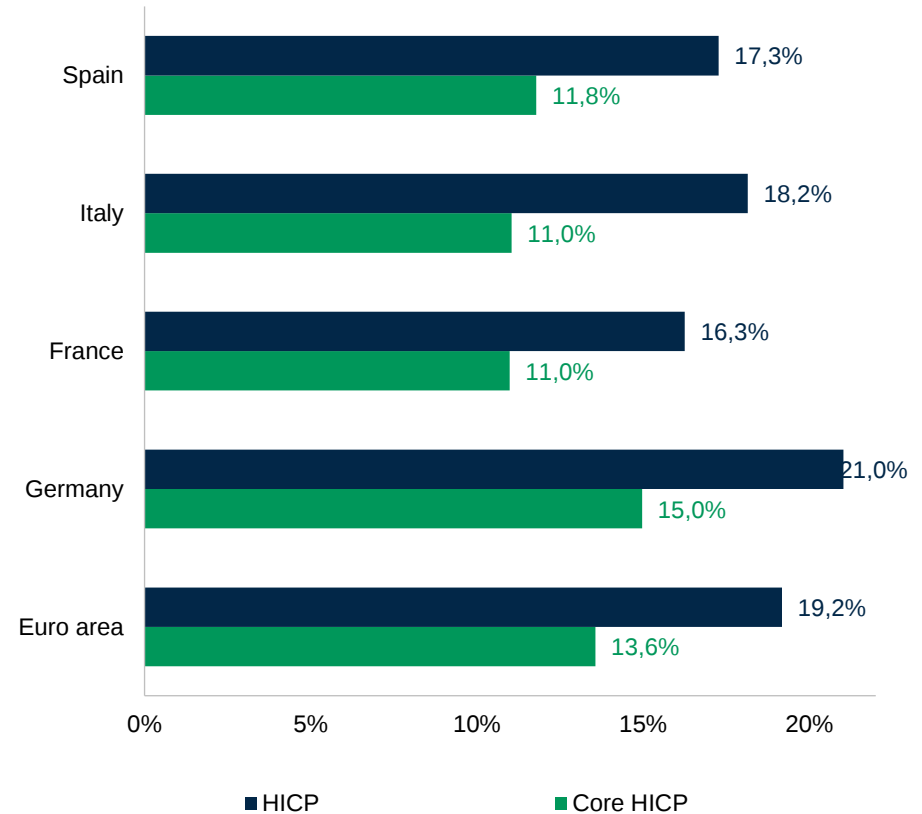
Year-on-year harmonised inflation (HICP)
smoother over time in France



Last review: March 2024 (flash).

Sources: Eurostat, Crédit Agricole S.A./ECO calculations.

Lower inflation (total and core) in France cumulatively
between January 2020 and February 2024

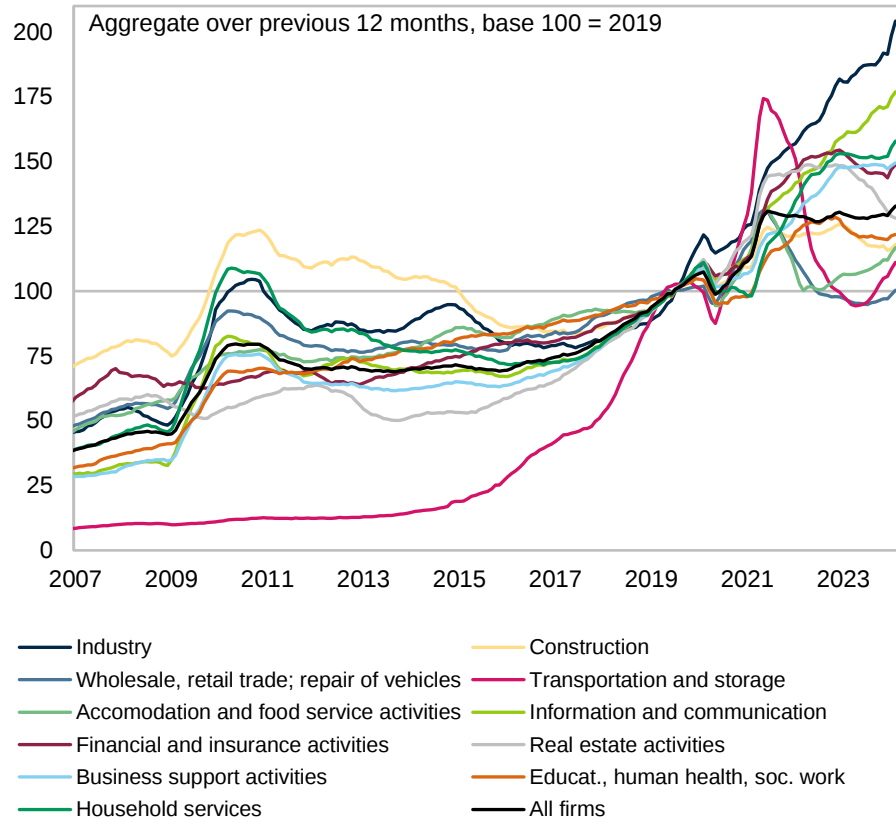


Sources: Eurostat, Crédit Agricole S.A./ECO calculations.

APPENDIX 3

NUMEROUS BUSINESS CREATIONS AND A PARTICULARLY SHARP INCREASE IN INSOLVENCIES FOR MID CAPS

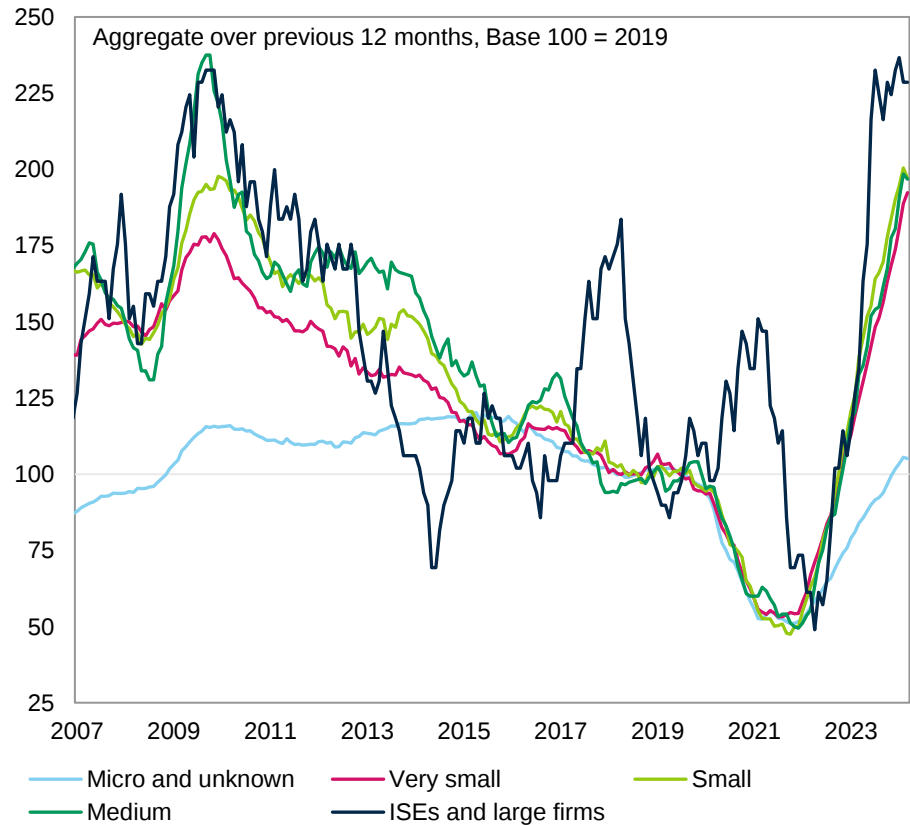
Strong momentum in business creations since 2021



Last review: February 2024.

Sources: INSEE, Crédit Agricole S.A./ECO calculations.

Rise in company bankruptcies particularly strong for ISEs



Last review: March 2024.

Sources: Banque de France, Crédit Agricole S.A./ECO calculations.

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