

June 2019

- French GDP should expand by 1.3% in 2019 and by 1.4% in 2020 and 2021. This pace of growth should allow the unemployment rate to fall gradually, reaching 8.1% in 2021.
- The major purchasing power gains seen since end-2018, which have largely been saved up to now, should lend strong support to household consumption in coming years.
- In contrast, the international environment is expected to weigh on activity, with demand from euro area trading partners and the rest of the world slowing sharply in 2019. Thereafter, foreign demand for French exports could become progressively more favourable.
- After peaking at an annual average of 2.1% in 2018, French headline inflation (HICP) should ease to 1.3% in 2019, notably reflecting less dynamic energy price growth.
- Headline inflation should then hover around 1.3-1.4%, supported largely by non-energy, non-food prices, while energy prices should make a near-zero contribution.
- In the absence of additional measures to control government expenditure, the government debt-to-GDP ratio is not expected to fall over the projection horizon.
- These growth and inflation projections are subject to significant risks, which in France's case are both to the upside and downside.

KEY PROJECTIONS FOR FRANCE

	2016	2017	2018	2019	2020	2021
HICP	0.3	1.2	2.1	1.3	1.3	1.4
HICP excluding energy and food	0.6	0.5	0.9	0.7	1.0	1.4
GDP deflator	0.5	0.5	0.8	1.3	1.2	1.2
Real GDP	1.0	2.4	1.7	1.3	1.4	1.4
Contributions to GDP growth (in percentage points): ^{a)}						
<i>Domestic demand (excluding changes in inventories)</i>	1.8	2.3	1.3	1.3	1.6	1.5
<i>Net exports</i>	-0.4	-0.1	0.7	0.0	-0.2	-0.1
<i>Changes in inventories</i>	-0.3	0.2	-0.2	0.0	0.0	0.0
Household consumption (52%) ^{b)}	1.6	1.6	0.9	1.1	1.7	1.5
Government consumption (23%)	1.4	1.5	0.8	1.0	1.1	1.2
Total investment (23%)	2.5	5.0	2.8	1.9	1.9	1.7
<i>Government investment (3%)</i>	0.0	0.5	2.4	2.8	1.4	0.5
<i>Household investment (5%)</i>	2.8	6.6	2.0	-0.6	0.7	1.4
<i>Business investment (NFCs-FCs-IEs) (14%)</i>	3.1	5.5	3.2	2.7	2.4	2.1
Exports (31%)	1.8	4.0	3.5	2.5	2.8	3.3
Imports (32%)	3.0	4.1	1.2	2.5	3.4	3.5
Real household gross disposable income	1.6	1.4	1.2	2.3	1.5	1.3
Net job creations (thousands)	176	276	284	149	143	126
ILO unemployment rate (France and overseas departments, % of labour force)	10.1	9.4	9.1	8.6	8.3	8.1

Sources: Insee data for 2016, 2017 and 2018 (quarterly national accounts published on 29 May 2019). Blue-shaded columns show Banque de France projections based on the quarterly national accounts published on 30 April 2019.

Figures are adjusted for the number of working days.

a) Individual contributions may not add up to GDP growth as figures have been rounded.
b) Percentages in brackets refer to each item's share of GDP in 2018.

French economic growth should prove resilient despite an unfavourable international environment

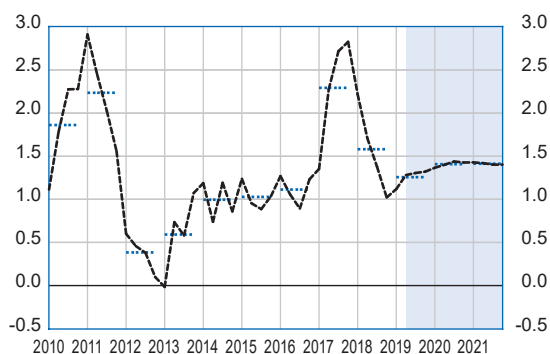
French economic growth is continuing its phase of normalisation following the exceptional peak seen in 2017 (see Chart 1). GDP has been expanding at a fairly stable pace since mid-2018, showing a certain amount of resilience compared with other euro area countries where activity has softened more markedly (see Chart 2).

In the first quarter of 2019, this resilience was mainly underpinned by solid domestic demand, which helped to offset the slowdown in exports. Based on the Banque de France business surveys published on 11 June, we expect French GDP to expand by 0.3% in the second quarter of 2019, in line with the growth rate in the three preceding quarters. In the coming quarters, domestic demand should remain the main engine of economic growth, with external trade only starting to make a bigger contribution as of the end of 2019.

French GDP growth should ease slightly in 2019 versus 2018, to an annual average rate of 1.3%. This slowdown mainly reflects a smaller contribution from external trade (see Chart 3), caused by a weakening of foreign demand and a normalisation of imports after a particularly sluggish 2018. Growth should then increase to 1.4% in 2020 and 2021, slightly above potential, as both domestic and external drivers begin to strengthen. On the one hand,

Chart 1: Real GDP growth in France

(percentage change)

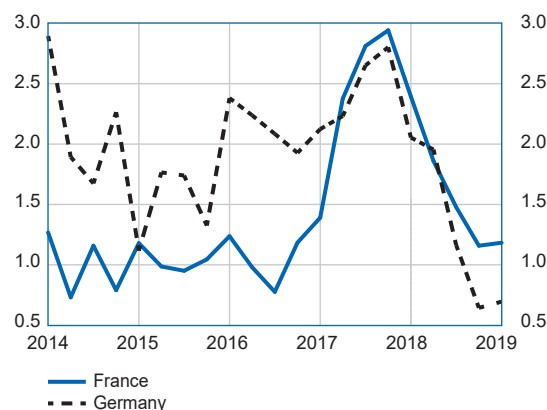


Sources: Insee data up to the first quarter of 2019 (quarterly national accounts published on 30 April 2019). Blue-shaded area shows Banque de France projections.

Note: The curve shows the percentage change year-on-year and the horizontal lines show the annual average percentage change.

Chart 2: Real GDP growth in France and Germany

(year-on-year percentage change, quarterly series)



Sources: Insee (quarterly national accounts published on 30 April 2019) and Destatis (quarterly national accounts published on 23 May 2019).

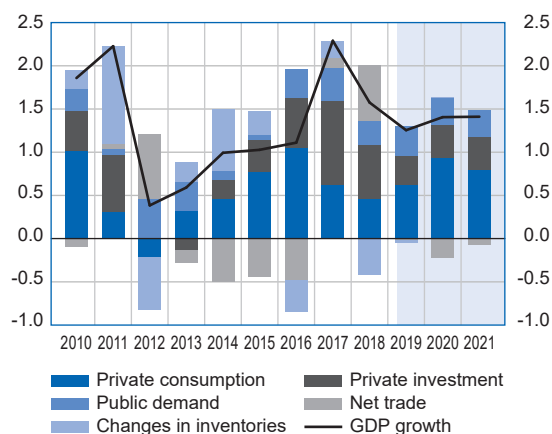
domestic demand should start to gather momentum as households pare back their savings and start spending the large purchasing power gains seen since end-2018, leading to stronger consumption growth; on the other hand, exports are projected to rebound on the back of increased global demand.

Compared with our March 2019 publication, GDP growth projections for 2019 and 2020 have been revised down slightly by 0.1 percentage point respectively. The projection for 2021 remains unchanged. The downward revisions for 2019 and 2020 essentially reflect the international environment, which is less favourable than anticipated in March due to higher oil prices¹ and a deeper than expected slowdown in France's main partner economies. In addition, the upsurge in household consumption that was expected to result from the large purchasing power gains is in fact taking longer to materialise than we initially thought, and the saving ratio has risen more than anticipated. This has contributed to the downward revision to growth for 2019; however, it has also led to an upward revision to household consumption for 2020 and 2021, when the purchasing power gains are expected to be consumed. The incorporation of a number of new measures since our March scenario (re-indexation of pensions under EUR 2,000 to inflation in 2020, decision to cancel the hike in the domestic consumption tax on energy products (TICPE) that was planned for 2020 and 2021) has also provided a stronger boost to purchasing power in 2020 and 2021 than previously anticipated.

These June projections are based on the quarterly national accounts published by Insee on 30 April which cover the period up to the first quarter of 2019.² They also factor in the technical and international environment assumptions used in the Eurosystem June projection exercise, for which the cut-off date is 15 May (see Table A2 in the appendix). With regard to the measures announced by the government following the "Great National Debate", we have taken into account those that have been set out in detail, including the indexation of the lowest pensions to inflation in 2020. Conversely, the announced cut in income tax has not been factored in as the full details have not yet been decided, in particular how it will be financed.

Chart 3: Contributions to GDP growth

(annual average percentage change and percentage point contributions)



Sources: Insee data up to the first quarter of 2019 (quarterly national accounts published on 30 April 2019). Blue-shaded area shows Banque de France projections.

Note: Private investment groups together business and household investment. Public demand groups together government consumption and government investment.

¹ Oil spot prices have nonetheless fallen sharply since 15 May which is the cut-off date for the technical assumptions used in these projections. However, oil futures point to a less steep downward path in prices. The differences versus our 15 May assumptions thus become less marked towards the end of the projection horizon.

² In the quarterly national accounts published on 29 May 2019, GDP growth estimates were revised upwards from 2.3% to 2.4% (working-day adjusted) for 2017 and from 1.6% to 1.7% for 2018. The growth carry-over at the end of the first quarter of 2019 was revised upwards slightly (but is still 0.8% when rounded off to one decimal point, the same as in the 30 April accounts on which these projections are based).

Household purchasing power gains should be particularly strong in 2019 (average of 2.1% per capita)

Purchasing power per capita should rise at a much stronger pace in 2019, with gains estimated at 2.1% over the year, the highest since 2007 (see Chart 4). Gains should also prove strong in 2020 and 2021, at 1.2% and 1.0% respectively, which is in line with the rate of growth in GDP per capita. Of course, these growth figures are averages for the entire population and individual situations will differ depending on the household category (see box entitled “Measuring gains in purchasing power” in our March 2019 macroeconomic projections).³

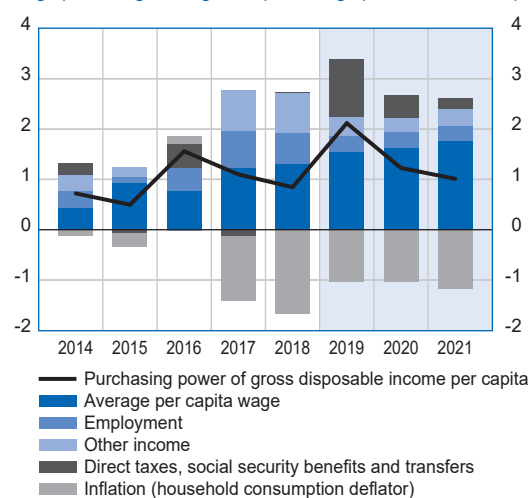
Purchasing power should benefit from a combination of tailwinds (see Chart 4). First, the decline in oil prices between 2018 and 2019, and the cancellation of the TICPE hike initially planned for January 2019 should dampen headline inflation (see below). Second, the *mesures d'urgence économiques et sociales* (MUES – emergency economic and social measures) voted into law in December 2018, especially the increase in the activity bonus, the tax relief on overtime and the cut in the general social security contribution (CSG) for those on modest pensions, should help to bolster household income. In 2020, income is expected to be further supported by the re-indexation of pensions under EUR 2,000 to inflation and the continuing elimination of housing tax.

Household income should also continue to benefit from the strength of wages over the projection horizon, which will be supported by productivity gains and, at the start of 2019, by the one-off tax-free bonus paid by firms (see Chart 5).

As a counterpart to accelerating wages and productivity, employment is expected to make a weaker, albeit positive contribution to purchasing power over the projection horizon (see Chart 6). Up until the start of 2018 labour income was supported by the strong growth in employment. However, job creations slowed from the second quarter onwards

Chart 4: Contributions to changes in purchasing power of household GDI and changes in purchasing power per capita

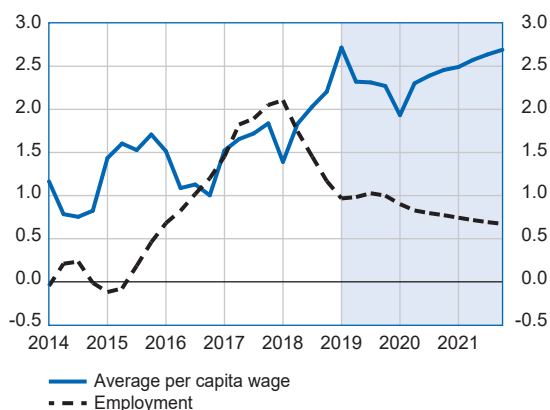
(annual average percentage change and percentage point contributions)



Sources: Insee data up to the fourth quarter of 2018 (quarterly national accounts published on 30 April 2019). Blue-shaded area shows Banque de France projections.

Chart 5: Market sector wages and employment

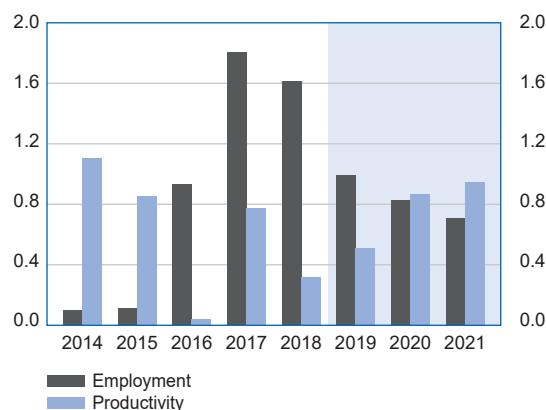
(year-on-year percentage change, quarterly series)



Sources: Insee data up to the fourth quarter of 2018 (quarterly national accounts published on 30 April 2019). Blue-shaded area shows Banque de France projections.

Chart 6: Market sector employment and productivity

(annual average percentage change)



Sources: Insee data up to 2018 (quarterly national accounts published on 30 April 2019). Blue-shaded area shows Banque de France projections.

³ https://publications.banque-france.fr/sites/default/files/media/2019/03/15/819052_bmpe_03-2019_en_v11_signets.pdf

due to the reduction in subsidised contracts, the end of the impact of policies to cut labour costs (Tax Credit for Competitiveness and Employment or CICE, Responsibility and Solidarity Pact and new-hire bonus for SMEs), and the slowdown in economic activity. In 2019-21 the economy should continue to add jobs at a net rate of 130,000-150,000 a year (compared with 271,000 in 2018), helped by the cut in employers' social security contributions on lower salaries that is scheduled to take effect at end-2019. Thanks to this employment growth, the unemployment rate is expected to decline gradually over the projection horizon, reaching an annual average of 8.1% in 2021.

After a rise in the saving ratio, household consumption should lend support to domestic demand over the entire projection horizon, and especially in 2020

Household consumption growth softened in 2018 as higher oil prices and tax hikes on energy and tobacco weighed on gains in purchasing power. However, as already observed in the first quarter of 2019 when it rose by 0.4%, consumption should gather momentum over the rest of the year, supported by the growth in purchasing power. Household consumption growth is thus expected to increase between now and the end of the year, and then continue at a sustained pace in 2020 (1.7% in annual average terms).

This scenario of a gradual acceleration in household consumption growth fuelled by purchasing power is similar to our projection for March, and in line with what we would expect from a major shock to income (see box). However, we have pushed our forecasts back slightly compared with March (see Chart 7). Consumption turned out to be slightly weaker than expected at the start of the year, and short-term data suggest it should continue to rise at a limited rate in the months ahead.

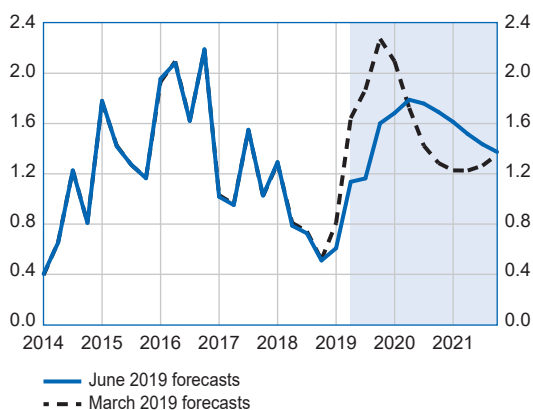
For the time being, the strong purchasing power gains have only been passed through very partially to household expenditure, and the saving ratio has increased markedly (see Chart 8). The latter is thus expected to peak at 15.3% in 2019, representing a stronger rise versus 2018 than we anticipated in March (when the starting point for 2018 was higher). The saving ratio should subsequently fall back in 2020 and 2021 (see box), helping to support economic growth in both years.

Household investment growth (spending on the construction of dwellings and on home improvements) has been slowing since mid-2017, and the recent fall in home sales and housing starts suggests this could continue for most of 2019, weighing on domestic demand. It should then gradually settle into a pace more in line with purchasing power.

Business investment growth is expected to converge gradually towards GDP growth over the projection horizon, and the investment rate, which is currently at a record high, should begin to stabilise. Spending on intangible assets – one of the main drivers of business investment over recent years – stalled in the first quarter of 2019, and the trajectory of business investment over coming quarters will depend on whether this proves temporary or permanent.

Chart 7: Household consumption

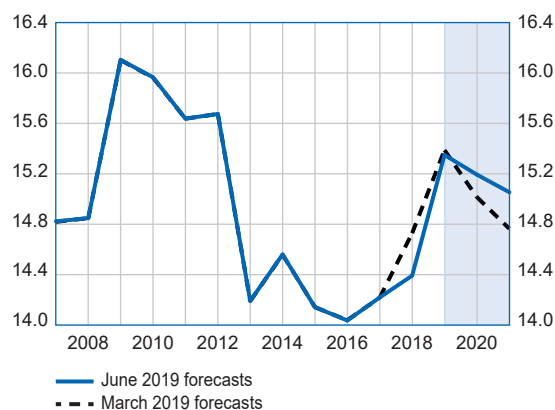
(year-on-year percentage change, quarterly series)



Sources: Insee data up to the first quarter of 2019 (quarterly national accounts published on 30 April 2019). Blue-shaded area shows Banque de France projections.

Chart 8: Household saving ratio

(percentage of gross disposable income)



Sources: Insee data up to the fourth quarter of 2018 (quarterly national accounts published on 30 April 2019). Blue-shaded area shows Banque de France projections.

PURCHASING POWER GAINS INITIALLY ALLOCATED TO SAVINGS AND A GRADUAL ACCELERATION OF CONSUMPTION OVER TIME

Usual empirical estimates show that purchasing power gains are initially smoothed by an increase in household savings since these agents do not immediately adjust their level of consumption. Indeed, the household saving ratio rose sharply in the fourth quarter of 2018 and even further in the first quarter of 2019 on the back of the strong gains in purchasing power observed at the end of 2018 and in early 2019. Overall, in 2019, this ratio is expected to increase greatly, before returning to levels closer to historical averages in 2020 and 2021 in our projection, as these purchasing power gains are gradually consumed.

It is nevertheless not easy to estimate the level at which the saving ratio will stand at the end of the projection horizon.

In the September 2018 macroeconomic projections, in a box entitled “The composition of household income, the household saving ratio and household consumption”,¹ it was explained that when describing changes in the saving ratio over recent years, it is useful to consider the composition of household income (wages, social security benefits, direct taxes and social security contributions, financial income, etc.), which is a key determinant of the household saving ratio. According to this analysis, households have an intermediate propensity to consume a tax cut: on average, about half is saved and half consumed. Following this rationale, the cuts in taxes and social security contributions in recent times should result in a rise in the saving ratio in the medium term compared with its 2017 level. Hence, the saving ratio could converge towards a midway level between its 2009-10 peak and its 2015-16 trough, consistent with our forecast of the share of direct taxes and social security contributions in household gross disposable income, which is also expected to return to a midway level.

This “average-based” forecast may admittedly be affected by the distribution of tax cuts by income levels. For example, we could assume that the abolition of housing tax or the increase in the activity bonus for the most modest households have a higher propensity to be consumed. But the capital income tax cuts implemented in 2018 are likely to lead to a permanent rise in the saving ratio. Moreover, other factors play a role in the structure of household income. In particular, the sharp increase in financial income observed in 2018 also drives up the average saving ratio. Overall, the upside and downside risks surrounding our saving ratio scenario appear to be balanced.

/ https://publications.banque-france.fr/sites/default/files/medias/documents/bmpe_09_2018_en_avec-signets_0.pdf

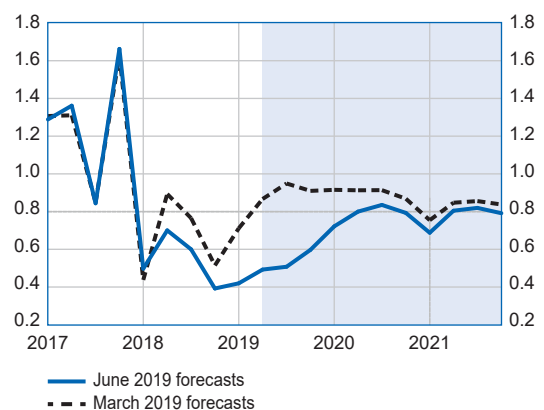
The international environment will weigh much more heavily on France’s outlook than predicted in our March projections

Demand from France’s intra- and extra-euro area trading partners has been revised sharply downwards (see Chart 9) compared with the international assumptions underlying our March projections. For extra-euro area partners, the revisions mainly concern emerging Asian countries, especially China, whereas in the euro area, they relate primarily to Germany and Italy, where the outlook for the coming quarters remains uncertain despite the rebound at the start of the year. The slowdown should therefore last longer than previously expected, and growth in foreign demand for French exports should only return to the path anticipated in March towards the middle of 2020. Overall, foreign demand should only rise by 2.0% in 2019, which is the lowest growth rate since 2012.

Against this weaker-than-expected international backdrop, French export growth should on the whole evolve in line with foreign demand for French goods and services: it should slow sharply to 2.5% in 2019, before picking up again in 2020 and 2021 (to 2.8% and 3.3% respectively), and helping to

Chart 9: Foreign demand for French goods and services

(quarter-on-quarter percentage change)



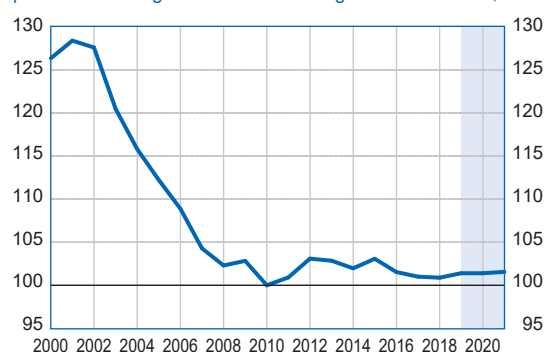
Sources: Eurosystem data. Blue-shaded area shows Eurosystem projections.

bring activity back onto a relatively robust growth path. Export market shares should increase slightly in 2019 in annual average terms, driven mainly by the strong performances seen at the end of 2018. They should then remain stable over the rest of the projection horizon, close to the average level observed since 2010 (see Chart 10), and confirming the end of the disappointing performances seen in 2016 and 2017.

Imports for their part are expected to rise in line with demand. In particular, the sharp increase in household consumption in 2019 and 2020 should help drive import growth up to a peak in 2020. As a result, external trade should make a strong negative contribution to GDP for that year (see Chart 3).

Chart 10: France's export market shares

(ratio of exports to total foreign demand for French goods and services; Q1 2010 = 100)



Sources: Insee and Eurosystem data up to 2018. Blue-shaded area shows Banque de France and Eurosystem projections.

Headline inflation should ease back from its 2018 peak to around 1.3-1.4% in 2019-21. Energy prices should make a very weak contribution, largely due to the cancellation of the indirect tax hikes

In the last few years, the market sector value added deflator, and hence the underlying inflationary pressures that are strongly linked to it, has risen at a very modest pace. This may have been helped by weak growth in the cost of production factors. Growth in unit labour costs has been kept in check in France, particularly in 2014 and 2015, thanks to government policies to reduce the cost of labour (the CICE and cut in social security contributions), and a generally limited rise in wages. Moreover, the fall in interest rates has led to a sharp drop in the cost of capital, even though the cost of equity remains high. On the whole, low production factor costs have allowed French firms to keep their prices down and, after the strong margin gains seen in 2014-15 (helped also by the drop in oil prices over the period), prices have even risen at a weaker rate than unit labour costs over the past few years (see Chart 11). This trend should continue over the projection horizon, with firms expected to cut their margins slightly to limit the pass-through of accelerating wage growth to prices. This, combined with public sector wage moderation, should keep growth in the GDP deflator and hence in underlying inflationary pressures, at a modest level (around 1.2% in 2019-21).

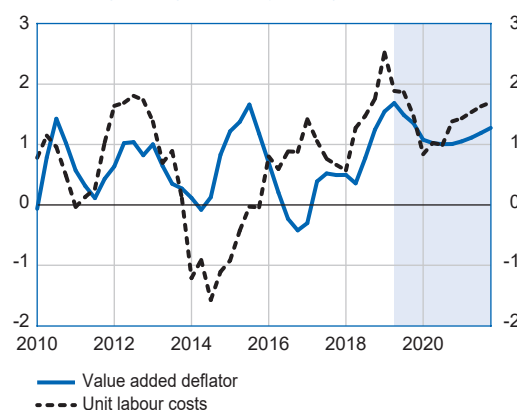
Against this backdrop, inflation excluding energy and food should ease to 0.7% in annual average terms in 2019, down from 0.9% in 2018. The annual rate has been particularly weak since the start of the year (around 0.6%), but it should firm up again in the second half of 2019.

In 2020 and 2021, inflation excluding energy and food should gradually accelerate, driven by a more dynamic labour market (characterised by a falling unemployment rate and higher wage growth), and a marked rise in import prices. However, it should still remain moderate, at an annual average of 1.0% in 2020 and 1.4% in 2021.

As a result, after peaking at an annual average of 2.1% in 2018, inflation as measured by the Harmonised Index of Consumer Prices (HICP) should fall significantly to 1.3% in 2019. It has already been edging downwards in recent months due to the drop in oil prices, and fell to around 1.4% year-on-year between January and April. It should ease back even further over the rest of the year (see Chart 12), and in some months may even come down to 1% year-on-year. Aside from weak non-energy, non-food inflation, the other factor weighing on the HICP in 2019 will be lower energy inflation. This reflects the trajectory of oil prices as implied by the futures curve (see also the last section on risks to our projections), and the cancellation of the TICPE increase at the start of 2019, both of which pushed energy prices upwards in 2018 (see Chart 13).

Chart 11: Market sector unit labour costs and value added deflator

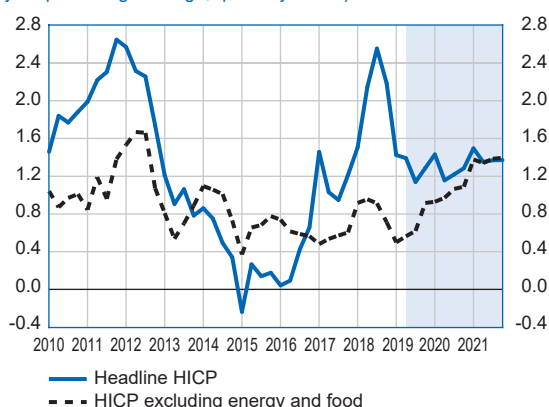
(year-on-year percentage change, quarterly series)



Sources: Insee data up to the first quarter of 2019 (quarterly national accounts published on 30 April 2019). Blue-shaded area shows Banque de France projections. Note: Unit labour costs have been adjusted for the CICE (Tax Credit for Competitiveness and Employment) as of 2014 which is the year when it was incorporated into the national accounts. For 2019, the CICE received by firms has been stripped out to get rid of the double impact of the CICE/reduction in employers' social security contributions.

Chart 12: HICP and HICP excluding energy and food

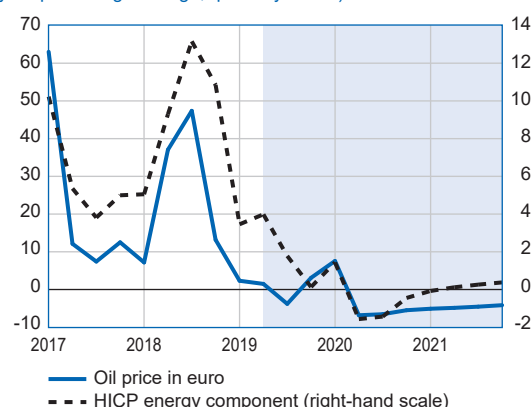
(year-on-year percentage change, quarterly series)



Sources: Insee data up to April 2019. Blue-shaded area shows Banque de France projections.

Chart 13: Oil price and HICP energy component

(year-on-year percentage change, quarterly series)



Sources: Insee and Eurosystem data up to April 2019. Blue-shaded area shows Banque de France and Eurosystem projections.

In 2020 and 2021, HICP inflation should hover around the 1.3-1.4% level, despite the expected rise in inflation excluding energy and food. Indeed, after bottoming out in 2019, energy price growth should remain relatively weak over the projection horizon. This lack of dynamism stems in large part from the absence of a TICPE hike in 2020 and 2021, but also from the downward trajectory in oil futures over the projection horizon. Although growth in food prices should remain fairly dynamic in 2019, it should then decelerate in subsequent years. Thus in 2021 HICP inflation is expected to be 0.3 percentage point lower than anticipated in our March projections, of which 0.2 percentage point stems from the cancellation of the TICPE hike.

The government deficit should temporarily exceed the ceiling of 3% of GDP in 2019 due to the transformation of the CICE. Without a more significant structural adjustment, it should only shrink to below 2% of GDP in 2021. As a result, the government debt ratio is not expected to fall, but should stabilise at around 99% of GDP

After narrowing from 2.8% to 2.5% of GDP in 2018, the government deficit is expected to exceed the 3% Maastricht deficit ceiling temporarily in 2019, widening to 3.1% as a result of the transformation of the CICE tax credit into a permanent cut in employers' social security contributions. Excluding this temporary effect, the deficit is projected to narrow to 2.2% of GDP in 2019, and should remain around this level in 2020 before shrinking to slightly below 2% in 2021. These projections factor in the most recent government announcements (2019 Stability Programme and the measures announced at the end of April), with the exception of the planned cut in income tax as we have insufficient details on how it will be financed (this tax cut should weigh on our deficit projection from 2020 onwards unless it is offset by other measures).

In 2019, the aggregate tax-to-GDP ratio (taxes and social security contributions as a percentage of GDP) is expected to decline, due on the one hand to the cuts voted into law at the end of 2018 (2019 budget law and MUES) and on the other hand to the transformation of the CICE into a reduction in employers' social security contributions. In 2020 and 2021, our projection factors in the cancellation of the TICPE rises that were initially planned by the government, as well as the decision to extend the increase in the fifth corporate tax instalment (both these measures are in the Stability Programme). As mentioned previously, it does not at this stage incorporate the announced cut in income tax or the next stages in the abolishment of housing tax on households' primary residence, which could extend beyond the end of our projection horizon. Based on these assumptions, we expect the aggregate tax-to-GDP ratio to fall to 44.2% in 2021, from 45.0% in 2018.

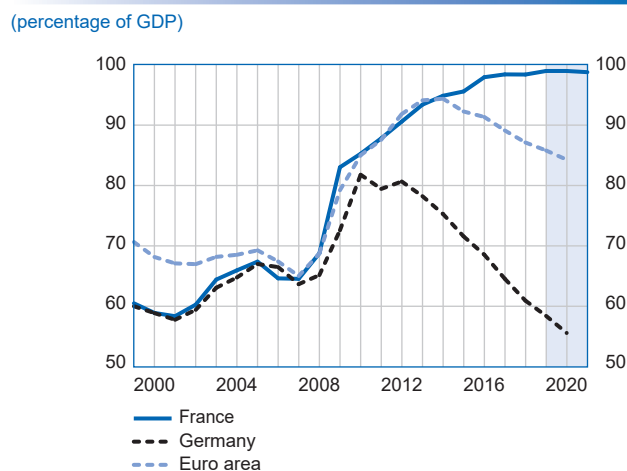
Government spending excluding tax credits should grow by an average of 1.9% per year in nominal terms and 0.8% in real terms (adjusted for CPI excluding tobacco) between 2019 and 2021 (0.7% in real terms excluding the impact of the incorporation of France Compétences⁴ into the scope of general government). Although this growth rate is weaker than in the past, it is not low enough to allow the government to fund the cuts underway to taxes and social security contributions and at the same time reduce its debt-to-GDP ratio. The ratio of government spending to GDP

⁴ French national authority for the oversight and financing of professional training and apprenticeships.

(excluding tax credits) is projected to fall from 54.4% in 2018 to 53.2% in 2021. This trajectory notably takes into account the decision announced at the end of April to re-index pensions under EUR 2,000 to inflation in 2020, followed by all pensions in 2021.

The government's structural balance,⁵ calculated using the European Commission's methodology and estimates for potential growth, is projected to improve marginally over the period 2019-21, but only thanks to a reduction in interest payments. Excluding this impact, the primarily structural adjustment is expected to be slightly negative over the period. As a result, the government debt ratio should increase in 2019, then remain stable at around 99% of GDP (see Chart 14), which is higher than the forecast in the government's Stability Programme (98.1% in 2021).

Chart 14: Government debt



Sources: Insee and European Commission data up to 2018. Blue-shaded area shows Banque de France and European Commission projections.

These projections remain subject to considerable risks, which for French growth and inflation are both to the upside and downside

These projections remain subject to significant risks, notably due to the uncertain international environment. Economic activity in France could be undermined by a slowdown in our euro area trading partners, especially in Germany which has been hit by the weakening of global trade and difficulties in its automobile sector, and in Italy where financing conditions have tightened in recent quarters. The current escalation in trade tensions, coupled with the uncertainties over the outcome of Brexit, also continue to pose significant risks. If these were to intensify, the slowdown in foreign demand for French exports could prove more prolonged than expected. That said, our baseline scenario already factors in the partial materialisation of certain unfavourable scenarios, notably regarding global trade, and there is also potential for less negative developments to emerge that could support French economic activity.

On a domestic level, one of the main risks to our projection is the uncertainty over the speed at which purchasing power gains will be consumed. The fiscal measures announced following the “Great National Debate” (especially the cut in income tax), which still need to be set out in detail in the 2020 budget law, are an upside risk (liable to provide a further boost to household consumption), although their impact will depend on the timetable for implementation and the exact composition of the measures.

There are also a number of risks to the trajectory of prices in France. Oil price volatility generally poses a symmetric risk to energy prices. However, it is worth noting that the oil price futures taken into account in our energy price forecasts point to a downward trend in 2020-21; if this future decline in oil prices failed to materialise, the risk to headline inflation would be to the upside. At the same time, however, the recent weaker-than-expected readings for non-energy, non-food inflation suggest there is still some uncertainty over the timing and extent of the pass-through of wage growth to prices over our projection horizon, and it could prove more moderate or slower than expected.

⁵ The government budget balance excluding the cyclical component and temporary measures, expressed as a percentage of GDP. The change in this balance from one year to the next is called the structural adjustment.

Appendix A: Revisions to projections and technical assumptions since the March 2019 projections

Table A1: Revisions to projections since March 2019

	June 2019 projections			Revisions since March 2019 projections		
	2019	2020	2021	2019	2020	2021
HICP	1.3	1.3	1.4	0.0	-0.4	-0.3
HICP excluding energy and food	0.7	1.0	1.4	-0.2	-0.2	-0.2
GDP deflator	1.3	1.2	1.2	-0.1	-0.2	-0.3
Real GDP	1.3	1.4	1.4	-0.1	-0.1	0.0
Contributions to GDP growth (in percentage points): ^{a,b)}						
<i>Domestic demand (excluding changes in inventories)</i>	1.3	1.6	1.5	-0.4	0.0	0.1
<i>Net exports</i>	0.0	-0.2	-0.1	0.0	-0.1	-0.1
<i>Changes in inventories</i>	0.0	0.0	0.0	0.3	0.0	0.0
Household consumption (52%) ^{c)}	1.1	1.7	1.5	-0.5	0.1	0.2
Government consumption (23%)	1.0	1.1	1.2	0.0	-0.2	-0.2
Total investment (23%)	1.9	1.9	1.7	-0.4	-0.2	0.0
<i>Government investment (3%)</i>	2.8	1.4	0.5	1.0	-0.1	-0.3
<i>Household investment (5%)</i>	-0.6	0.7	1.4	0.1	0.8	0.5
<i>Business investment (NFCs-FCs-IEs) (14%)</i>	2.7	2.4	2.1	-0.9	-0.5	0.0
Exports (31%)	2.5	2.8	3.3	-0.8	-1.1	-0.2
Imports (32%)	2.5	3.4	3.5	-0.8	-0.7	0.1
Real household gross disposable income	2.3	1.5	1.3	-0.2	0.4	0.3
Net job creations (thousands)	149	143	126	25	-35	-22
ILO unemployment rate (France and overseas departments, % of labour force)	8.6	8.3	8.1	-0.1	0.0	0.1

Sources: Blue-shaded columns show Banque de France projections.

Annual percentage change except where otherwise indicated. Revisions are in percentage points.

a) Individual contributions may not add up to GDP growth as figures have been rounded.

b) The revisions presented here are have been calculated using unrounded figures and then rounded off to one decimal.

c) Percentages in brackets refer to each item's share of GDP in 2018.

Table A2: Revisions to technical assumptions and the international environment^{a)}

	June 2019 projections			Revisions since March 2019 projections		
	2019	2020	2021	2019	2020	2021
Technical assumptions						
Brent oil price (USD/barrel)	68.1	65.8	62.7	6.4	4.5	2.1
Brent oil price (EUR/barrel)	60.6	58.7	56.0	6.4	4.9	2.8
Non-energy commodity prices in EUR (annual percentage change)	1.4	4.3	3.8	-3.5	0.0	-0.4
USD/EUR exchange rate	1.12	1.12	1.12	0.0	0.0	0.0
Euro nominal effective exchange rate (annual percentage change) ^{b)}	-1.0	0.1	0.0	-0.1	0.1	0.0
3-month Euribor ^{c)}	-0.3	-0.3	-0.2	0.0	-0.1	-0.2
10-year French government bond yields ^{c)}	0.4	0.5	0.7	-0.3	-0.4	-0.4
International environment, annual percentage change						
Extra euro-area competitors' prices on the export side (in EUR)	4.8	2.6	2.3	-0.2	0.3	0.0
World real GDP	3.1	3.4	3.3	-0.2	0.0	0.0
World (excluding euro area) real GDP	3.3	3.6	3.6	-0.1	0.0	0.0
Global (excluding euro area) trade	0.7	2.8	3.4	-1.8	-0.6	-0.3
Foreign demand for French goods and services	2.0	2.8	3.1	-1.1	-0.9	-0.3
<i>Intra-euro area</i>	2.5	3.1	3.4	-1.5	-1.1	-0.1
<i>Extra-euro area</i>	1.5	2.5	3.0	-0.8	-0.7	-0.4

Sources: Eurosystem. Blue-shaded columns show Banque de France projections.

Revisions to the March 2019 projections are expressed as percentages for levels and as percentage points for rates of growth.

a) These technical assumptions and international environment projections were constructed by the Eurosystem on 15 May 2019 for market data and foreign demand for French goods and services, in accordance with the principles set out in *A guide to the Eurosystem/ECB staff macroeconomic projection exercises*, July 2016, available at: <https://www.ecb.europa.eu/pub/pdf/other/staffprojectionsguide201607.en.pdf>. Foreign demand corresponds to the average imports of France's main trading partners weighted by the share of each country in France's exports. The method of calculation is described in the Occasional Paper "Trade consistency exercise in the context of the Eurosystem projection exercises – An overview", available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecbocp108.pdf>.

b) Calculated against 38 trading partners of the euro area.

c) The forecasts for interest rates were calculated using the yield curve.

Appendix B: Additional indicators

Table B1: Change in household consumption and purchasing power

(annual average percentage change)	2017	2018	2019	2020	2021
Real household consumption	1.1	0.8	1.1	1.7	1.5
Purchasing power	1.4	1.0	2.3	1.5	1.3
Purchasing power per capita	1.1	0.8	2.1	1.2	1.0
Saving ratio	14.2	14.4	15.3	15.2	15.1

Sources: Insee quarterly national accounts published on 30 April 2019. Blue-shaded columns show Banque de France projections.

Table B2: Ratios of non-financial corporations

(annual average, in %)	2017	2018	2019	2020	2021
Margin rate	32.0	31.8	33.2	31.9	31.7
Investment ratio	23.5	23.9	24.0	24.2	24.3
Self-financing ratio	96.6	94.4	98.5	93.3	93.2

Sources: Insee quarterly national accounts published on 30 April 2019. Blue-shaded columns show Banque de France projections.

Table B3: Change in wages and productivity in the market sector

(annual average percentage change)	2017	2018	2019	2020	2021
Value added deflator	0.3	0.7	1.5	1.0	1.2
Unit labour costs	1.0	1.6	-0.7	1.1	1.6
Productivity per capita	1.0	0.5	0.7	1.0	1.0
Average per capita nominal wage	1.7	1.9	2.4	2.3	2.6
Average per capita real wage ^a	0.4	0.2	1.4	1.2	1.4

Sources: Insee quarterly national accounts published on 30 April 2019. Blue-shaded columns show Banque de France projections.

a) Adjusted for the household consumption deflator.

Note: In the national accounts, only social security contributions are included in unit labour costs. The CICE (Tax Credit for Competitiveness and Employment) therefore has no impact on this indicator: the decline in unit labour costs in 2019 is thus attributable to the cut in social security contributions introduced to replace the CICE.

Table B4: Job creation and unemployment

(annual average change, in thousands)	2017	2018	2019	2020	2021
Total employment	326	271	149	143	126
<i>Market-sector salaried employment</i>	306	279	174	146	126
<i>Non-market sector employment</i>	23	-22	-31	-3	0
<i>Non-salaried employment</i>	-2	15	6	0	0
Labour force	147	184	17	68	68
Unemployed	-180	-88	-132	-75	-58
ILO unemployment rate (France and overseas departments, % of labour force)	9.4	9.1	8.6	8.3	8.1

Sources: Insee data (Labour Force Survey, quarterly national accounts published on 30 April 2019). Blue-shaded columns show Banque de France projections.

Note: The labour force projections from the second quarter of 2019 onwards are based on Insee's baseline scenario projections for the labour force up to 2070.