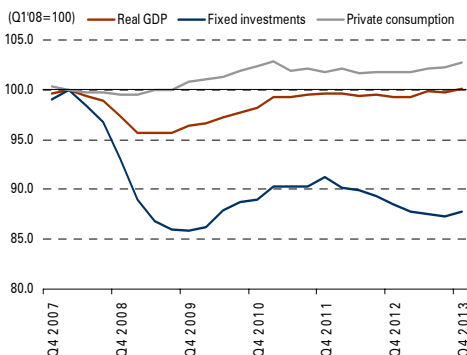


France: Broad-based recovery encouraging

Chart 1: French GDP surpasses its previous peak



Source: Eurostat, ICICI Bank Research

Table 1: Major components of French GDP

	YoY (%)		QoQ (%)		Contribution to QoQ GDP growth (pp)	
	2012	2013	Q3 2013	Q4 2013	Q3 2013	Q4 2013
Private Consumption Expenditure (PCE)*	-0.3	0.4	0.1	0.5	0.05	0.26
General Consumption Expenditure (GCE)	1.4	1.7	0.2	0.4	0.06	0.09
Gross Fixed capital Formation (GFCF)	-1.2	-2.1	-0.3	0.6	-0.06	0.11
GFCF: Private	-1.3	-2.7	-0.5	0.5	-0.07	0.08
GFCF: Government	-0.6	1.4	0.4	1.1	0.01	0.03
Inventories	...	...	...	...	0.57	-0.33
Net Exports	...	...	...	...	-0.67	0.17
Exports	2.5	0.6	-1.6	1.2	-0.44	0.32
Imports	-0.9	0.8	0.8	0.5	0.23	0.16
Gross Domestic product (GDP)	0.0	0.3	0.0	0.3	...	...

Source: INSEE, ICICI Bank Research

* includes households and Non-Profit Institutions serving households (NPISHs)

Private GFCF is GFCF excluding General Government share

- **Real GDP in France grew 0.3% QoQ in Q4 2013, better than the market consensus of 0.2%. Consequently, French economy surpassed its previous peak reached in Q1 2008.**
- **Encouragingly, better growth in the last quarter of 2013 was broad-based. While private consumption grew at the fastest pace in three years, private investment grew for the first time in two years.**
- **Going forward, the economy is expected to grow at slower pace in the first half of 2014, as the uptick in investments is expected to be gradual, held back by the absence of recovery in construction activities¹.**

French economy grows faster than expected in Q4 2013

French GDP grew 0.3% QoQ (+0.8% YoY) in Q4 2013, following stagnation in Q3 2013 (revised up from a fall of 0.1% reported previously). For the full-year 2013, real GDP grew 0.3%, following no growth in 2012. Notably, the economy surpassed its previous peak in the last quarter of 2013.

As shown in chart 1, this recovery in real GDP growth was primarily driven by private consumption expenditure (PCE) which is almost 3% higher than in Q1 2008. On the other hand, Gross fixed capital formation (GFCF) was still ~13% lower at the end of 2013 than what it was six years ago. Going forward, the national statistics institute (INSEE) believes that an uptick in investments will be moderate due to the absence of a revival in construction¹. Besides, net exports, on an average, were also a drag on full-year GDP growth, as imports grew faster than exports.

Broad-based growth encouraging

Unlike in the previous quarter, growth in French economic activity was broad-based in Q4 2013, which is encouraging. Private consumption expenditure (PCE) grew at highest growth in three years in the final quarter of 2013, while private investment grew for the first time in two years. Net exports also contributed 17 basis points (bps) to real GDP growth in Q4 2013. While inventories contributed positively to GDP growth in Q3 2013, they acted as a drag in the final quarter of 2013. Accordingly, French GDP excluding inventories grew 0.6% QoQ in Q4 2013.

Economy is expected to lose some steam in the first half of 2014

According to INSEE's December 2013 economic outlook, the prospect for the first half of 2014 is not particularly bright. The economy is expected to grow 0.2% QoQ each in Q1 and Q2 2014, as the uptick in investments is likely to be gradual. Moreover, the unemployment rate is likely to rise to 16-yr highest levels of 11% by mid-2014 from 10.8% in December 2013.

Additionally, exports growth is expected to be less dynamic in the first half of 2014, probably adversely affected by strong Euro in the past few months.

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Please see important disclaimer at the end of this report

¹ INSEE Economic Outlook "Conjuncture in France", December 2013

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