

## France: The growth outlook remains under fiscal clouds

After a positive surprise in 2025, French growth shows signs of further recovery in 2026 but remains hampered by political and budgetary uncertainty



France's Emmanuel Macron is facing economic and political storms

### A positive surprise in 2025

French economic growth delivered an upside surprise in 2025, driven largely by strong output in the aerospace sector and buoyant public consumption, which grew faster than GDP. In contrast, domestic political and fiscal uncertainty, combined with a challenging global backdrop, weighed on household spending and private investment, both of which saw only marginal gains.

Despite a sharp drop in inflation and robust real wage growth, consumption remained sluggish, and households increased savings to a record high due to uncertainty. The main driver of 2025 growth was an inventory build-up, with significant imports and stockpiling of aircraft parts in the first half of the year, followed by partial destocking and export flows in the second half.

### Fiscal and political clouds loom over 2026

As 2026 begins, uncertainty remains elevated. The 2026 state budget has not yet been approved, leaving France operating under the 2025 framework. Talks have resumed, but an agreement looks

distant amid a deeply deteriorated fiscal position.

The deficit likely reached 5.4% of GDP in 2025, after 5.8% in 2024. The government aims to keep it near 5% this year, already above the previously promised 4.6%, pushing public debt close to 120% of GDP. For a budget to pass, centrist, right-wing (LR) and left-wing (PS) blocs must find common ground, which seems unlikely given entrenched positions and looming elections: municipal polls in March 2026 and presidential elections in 2027.

If a budget agreement were ultimately passed, it would likely result in a deficit exceeding 5% of GDP and further complicate discussions on the 2027 budget. Failure to agree may require the government to force it through, via Article 49.3 of the Constitution, which would lead to a vote of no confidence and possibly early parliamentary elections. Overall, political and fiscal uncertainty is set to remain high throughout the year. Even if fiscal consolidation proves milder than expected, it is unlikely to translate into faster economic growth, as prolonged fiscal uncertainty may lead to increasingly wait-and-see behaviour among households and businesses.

## Growth seen around 1%

Despite these headwinds, the outlook for 2026 is still moderately upbeat, with GDP growth expected to average around 1%. Business sentiment has improved in recent months, particularly in industry, alongside higher capacity utilisation, which is a positive signal for the French manufacturing sector against a backdrop of European industrial recovery on the back of the German recovery plan. The overall increase in defence spending should also continue to benefit French industry, with France ranking as the world's second-largest arms exporter. Aerospace exports will remain a growth pillar, provided production keeps pace with well-filled order books.

Against all odds, consumer confidence has been strengthening, and job fears have eased significantly, pointing to a lower household savings rate - though still above its historical average - and a recovery in consumption in a context where inflation is expected to remain well below 2% and real wages are expected to rise. Household investment should also recover slightly during the year, but will be hampered by the upward impact of the fragile public budget finances on long-term interest rates. High financing costs and budgetary uncertainty will keep a lid on the recovery in business investment.

The modest growth momentum should carry into 2027, with GDP growth expected to average 1.1%. Overall, political and fiscal uncertainty is likely to keep French growth below the eurozone average.

## The French economy in a nutshell (% YoY)

	2024	2025F	2026F	2027F
<b>Demand and output</b>				
GDP	1.1	0.8	1.0	1.1
Private consumption	1.0	0.4	0.9	1.0
Investment	-1.3	-0.1	0.8	1.3
Government spending	1.4	1.4	0.6	0.6
Net trade contribution (% points of contribution to GDP)	1.3	-0.7	0.5	0.2
<b>Labour market</b>				
Unemployment rate (% eop. Eurostat)	7.4	7.6	7.7	7.8
<b>Government finances</b>				
Budget balance as a % of GDP	-5.8	-5.5	-5.2	-5.2
Government debt as a % of GDP	112	115	118	120
<b>Prices</b>				
Inflation (HCPI)	2.3	0.9	1.3	1.2

Source: Refinitiv Datastream, ING forecasts

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