France: political uncertainty will weigh on the economy

The French economy is expected to face significant challenges in 2025 due to ongoing political instability, more restrictive fiscal policy, and a challenging international environment. GDP growth is projected to slow as a result

French Prime Minister François Bayrou

The last few months have been turbulent

France has experienced considerable political turbulence in recent months. Following the dissolution of the French National Assembly in June and the subsequent legislative elections over the summer, Michel Barnier formed a minority government. However, this government lasted only three months, as a budget vote led to a vote of no confidence in the National Assembly. Consequently, a new government was established at Christmas, with centrist François Bayrou as prime minister, but it has yet to pass a budget. As a result, 2025 has begun with a caretaker budget, mirroring that of late 2024. This situation is unfolding against a backdrop of extremely tight public finances, with the deficit expected to have reached 6.1% in 2024, significantly higher than the forecast in January 2024.

From an economic perspective, France enjoyed a dynamic third quarter in 2024, with GDP growth of 0.4% quarter-on-quarter, largely due to the Paris Olympic Games. However, the economic situation has since deteriorated sharply. Uncertainty over future budget adjustments, including potential tax hikes for businesses and households, along with political instability, the aftermath of the Olympics, and a less favourable international environment, have weighed on fourth-quarter activity and the economic outlook.

Political uncertainty remains high

Although the new government escaped a motion of censure on 16 January - the Socialists and the far-right RN having decided to abstain from voting on it - the political situation is still unstable and the risk of another vote of confidence in the coming months is high. The next crucial moment will be the vote on the budget. To avoid a motion of censure in early January, François Bayrou had to announce a number of concessions to the Socialists, which will complicate the budget process.

The new government's goal is to reduce the deficit to 5.4% of GDP in 2025, a less ambitious target than the Barnier government's 5% deficit goal for the same year. However, achieving this will be challenging in the context of weak growth. Budget discussions are expected to be tense, as will those on pension reform, raising the possibility that the French government could fall again. New parliamentary elections cannot be held before July 2025 so if the Bayrou government were to fall before then, another minority government would once again have to be formed. In short, political uncertainty will remain high throughout the year.

Activity is likely to be weak in 2025

This uncertainty will weigh heavily on the economic outlook for 2025. The year has started poorly, with surveys indicating a decline in consumer and business confidence. Domestic demand will continue to be affected by fiscal consolidation measures and the surrounding uncertainty. Household consumption is expected to remain very moderate. Despite falling inflation and rising real wages, increased fears about unemployment and uncertainty are likely to lead to a further rise in the household savings rate. Uncertainty and the low potential for long-term rate declines also suggest that household and business investment will fall again in 2025.

With exports likely to be hit by the resurgence of trade tensions, there is every reason to believe that industrial activity in France will be very moderate over the coming months. The services sector should continue to fare better than industry, but here companies are becoming less optimistic too, signalling a slowdown in services as well. Order books in the construction sector are still falling, indicating another difficult year.

Ultimately, GDP growth should be just 0.6% in 2025, compared with 1.1% in 2024 and 2023. A recovery is expected in 2026, but given the challenging international environment and restrictive French fiscal policy, it may be limited to 1%.

Inflation in France should remain below 2%

Harmonised inflation ended the year at 1.8%, down from 3% at the start of 2024, due to falling food and energy prices. Despite rising energy prices on international markets, the 15% reduction in regulated electricity tariffs in February should keep energy inflation very low in 2025. The normalisation of wage trends is expected to moderate services inflation, while food and goods prices may see a slight acceleration. Overall, inflation is expected to remain close to the current level throughout the year, before returning to around 2% in 2026.

The French economy in a nutshell (%YoY)

	2020	2021	2022	2023	2024F	2025F	2026F
Demand and output							
GDP	-7.6	6.8	2.6	1.1	1.1	0.6	1.0
Private consumption	-6.5	5.3	3.2	0.9	0.9	0.8	1.1
Investment	-6.2	9.6	0.1	0.7	-1.7	-0.7	1.4
Government spending	-4.4	6.6	2.6	0.8	2.0	0.3	0.1
Net trade contribution (% points of contribution to GDP)	-1.1	-0.1	-0.4	1.3	2.0	0.4	0.2
Labour market							
Employment net variation	-17	1,225	553	128	0	-1	0
Labour force net variation	-150	622	349	54	0	0	0
Unemployment net variation	-163	-100	-26	-141	349	54	0
Unemployment rate (% eop, Eurostat)	8.0	7.9	7.3	7.4	7.5	7.7	7.8
Government finances							
Budget balance as a % of GDP	-9.1	-6.5	-5.0	-5.5	-6.3	-5.7	-5.5
Government debt as a % of GDP	113	111	110	111	114	117	118
Prices							
Inflation (HCPI)	0.5	2.1	5.9	5.7	2.3	1.7	2.0

Source: Refintiv Datastream, ING forecasts

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