

## France: Political uncertainty increasingly weighs on business climate and outlook

The French economic outlook continues to worsen as a result of political uncertainty, with business sentiment falling again in December



France's parliament this week approved a bill to roll over the budget to prevent a government shutdown

### Third consecutive fall in the business climate

Business sentiment in France deteriorated again in December, falling by two points. This is the third consecutive month of decline. It deteriorated in all sectors except industry, where it was stable but weak. The decline is very visible in the forward-looking components, with business leaders taking a much less positive view of demand and production in the months ahead. The rise in pessimism for the months ahead is particularly noticeable in the services sector. The French economy's former growth engine is no longer in operation, apparently held back by political uncertainty and the resulting deterioration in the economic environment. In industry, the perceived uncertainty is rising sharply, leading business leaders to predict a deterioration in the production outlook, despite a rise in orders. Inventories are rising again. The rise in perceived uncertainty is also strong in the retail sector, where managers are also reporting a fall in past sales.

At the same time, the employment climate continues to deteriorate, signalling a future weakening

of the labour market and a likely rise in unemployment.

## Possible contraction in 4Q GDP

Taken together, the data points to a clear weakening in the French economic outlook. While the third quarter was buoyant, thanks in particular to the Olympic Games, the confidence indicators point to a much weaker fourth quarter. While INSEE and the Banque de France are still expecting economic growth to stabilise at the end of 2024, today's data, together with the downward revision to November's business climate figures, indicate that a contraction in activity is possible. We are expecting GDP to fall by 0.1% quarter-on-quarter in 4Q.

## A dark cloud over the 2025 outlook

Looking ahead, the political situation will continue to influence the outlook. Until a government is formed, the appointment of François Bayrou as Prime Minister will not be enough to reduce political uncertainty. The unresolved issue of the 2025 budget continues to put businesses and households in a wait-and-see situation, which is clearly putting the brakes on activity. At this stage, the only thing that is certain is that the 2024 budget will be extended into 2025, as the special law allowing this has been passed. This means that the budget deficit will remain far too high, after having been close to 6.3% in 2024. The latest estimates, surrounded by considerable uncertainty, point to a deficit in excess of 6% in 2025 as things stand, i.e. as long as the 2024 budget is extended to next year. It seems unlikely that a budget will be voted on in the next few weeks, which will make the subsequent effort to restore public finances even more difficult. The previous government had promised to return to a deficit of 5% of GDP by 2025 and 3% by 2029, but these targets are becoming less and less credible as time goes by. Meanwhile, all the economic players are well aware that a restrictive budget will have to be put in place at some point, and are postponing their decisions until they see what tax increases will be implemented. As a result, business investment and household consumption have stalled. A further rise in the household savings rate is likely.

Added to these questions is the attention of the financial markets, with Moody's downgrade of France's debt the clearest sign of this. As a result of this downgrade, the ratings of seven French banks have been downgraded, which could lead to an increase in their financing costs and ultimately to a rise in the cost of credit in France. This is not good news in an environment where business investment is still very depressed.

Finally, the international context, with weak growth in our European neighbours, strong competition from Chinese products, and the threat of tariff hikes, is not favourable for French exports in the coming months.

All these factors suggest that the French economy is in for a difficult winter, with economic activity likely to stagnate and a recession not out of the question. While we can hope for a slight recovery when - and if - the political situation becomes clearer, this will not be enough to give a significant boost to French activity in 2025. We are therefore still expecting GDP to grow by 0.6% in 2025, compared with 1.1% in 2024 - a lower figure than most official institute forecasts. The difference is explained by the fact that the latest political developments are already factored into our forecast, as is the likely increase in tariff barriers next year. Against this backdrop, we can only hope that the Christmas spirit, and the political decision-makers, will soon dispel the clouds hanging over the French economy and help us revise our forecasts upwards. However, this will require a real Christmas miracle, as the risks are currently on the downside.

## Author

### Charlotte de Montpellier

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).