

## France's business climate holds steady despite political uncertainty

Despite political uncertainty, business sentiment in France was steady in September. However, deeper cracks are emerging



New PM Sébastien Lecornu faces the tough task of forming a government and passing a budget

### Stability masks underlying fragilities

Despite ongoing political instability, France's business climate indicator held at 96 in September for the fourth consecutive month, below its long-term average. The survey was conducted after the confidence vote announcement, meaning business leaders' responses already reflect the political turbulence. In this context, the indicator's stability is somewhat reassuring.

The services sector saw a two-point rebound, driven mainly by improved assessments of past activity. However, general expectations fell sharply. The improvement was entirely due to the "information communication" sub-sector, which accounts for 29% of services. All other sub-sectors reported declines. In manufacturing, sentiment deteriorated due to weaker production and declining order books. Retail sentiment hit its lowest level since April 2022, amid worsening outlooks and rising uncertainty. The construction sector remained stable, while wholesale trade saw a modest improvement.

The most concerning development is the employment climate, which fell by two points due to reduced hiring plans in services. At 93, it now stands at its lowest level since January 2015,

excluding the pandemic period. This sharp decline signals a likely slowdown in economic activity in the coming months.

## Growth outlook dims as uncertainty rises

After a solid start to the third quarter, the risk of a marked slowdown in late Q3 and Q4 is high. Household consumption is expected to remain subdued, constrained by a weaker labour market and uncertainty surrounding the 2026 budget. With the savings rate at its highest since the late 1970s, a rebound in spending after a weak first half seems unlikely. Budget uncertainty may also prompt businesses to delay hiring and investment decisions.

All in all, following a moderately positive third quarter, stagnation is likely in the fourth quarter. We forecast GDP growth of 0.6% in 2025 and 0.8% in 2026, down from 1.1% in 2024.

## Budget challenges intensify

This weak economic momentum will worsen France's fiscal outlook. The budget proposal by François Bayrou was based on a 1.2% growth assumption for 2026. In this context, the task facing the new Prime Minister, Sébastien Lecornu, of forming a government and passing a budget is even more complex.

The political discussions of the last few days clearly show that the negotiations are likely to continue for a long time. There has been no concrete progress, no sign of an imminent agreement. In fact, quite the opposite. The likelihood of reaching an agreement on the government and the budget that would secure the support of the entire centrist bloc, the Socialist Party on the left and Les Républicains on the right, appears very low, in a very tense social climate. And, even if the new prime minister manages to form a government and pass a budget, the deficit for 2026 is likely to remain well above 5% next year.

The €44bn savings target proposed by Bayrou appears to have been abandoned; the idea of aiming for €35bn is circulating, but without any concrete steps. France is on track to remain the eurozone's worst fiscal performer in 2026.

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