

## France's growth stabilises at a low level after a turbulent 2025

After a volatile 2025, France enters 2026 with modest growth and reduced uncertainty, but still faces structural challenges



We see a slightly more positive outlook for France this year, but a strong recovery is still unlikely

### Positive surprise in 2025

GDP growth stood at 0.2% quarter on quarter in the fourth quarter, an expected slowdown after the strong +0.5% surprise in the previous quarter. Total production of goods and services also decelerated sharply, rising by just 0.1% compared with 0.8% in the third quarter.

For the year as a whole, GDP growth averaged 0.9%, below the +1.1% recorded in 2024 but still stronger than anticipated at the beginning of last year.

The prolonged budget saga and the US trade war weighed on activity in 2025, particularly on household consumption, which increased by only 0.4% over the year, and investment, which grew by a modest 0.2% in 2025. Despite easing inflation and rising real wages, households accumulated record savings in mid 2025, before reducing them slightly at year-end. This helped consumption regain some momentum in the final months of the year.

Some sectors surprised to the upside, notably aeronautics, while public consumption rose by a dynamic 1.7% in 2025, far outpacing GDP growth. Last year, inventories were the largest

contributor to annual growth (+0.7 percentage points); strong imports and significant stockpiling of aeronautical parts in the first half were followed by export driven destocking in the second.

## Reduced fiscal and political uncertainty is good news

At the end of January 2026, budget uncertainty finally eased with the adoption, via Article 49.3, of a compromise bill designed to avoid a no confidence vote. The budget includes tax increases, especially for large companies, with the tax burden set to rise to 43.9% of GDP in 2026 (43.6% in 2025). Public spending is expected to decline slightly to 56.6% of GDP, thanks to operational savings, down from 56.8% in 2025. The deficit should narrow to 5%, below 2025's 5.4% but above the previously promised 4.6% in the structural plan submitted to EU authorities. Public debt will continue to climb, reaching 118% of GDP in 2026 and 120% in 2027, up from 110% at the start of 2024.

The European Commission's economic sentiment indicator, which rebounded sharply in January, confirms that the end of the drawn out budget process has eased uncertainty and reduced the risk of snap elections. This has brought French German spreads to their lowest level since summer 2024, supporting a slightly more positive outlook for 2026.

However, a strong recovery is still unlikely. The budget remains unfavourable to businesses, and higher taxes could weigh on investment and job creation. With no structural challenges being addressed, the 2027 budget looks set to be even more complex – a factor likely to raise uncertainty again, push long term rates higher, and continue to constrain economic activity.

## Growth could reach 1% in 2026

Overall, the 2026 outlook is moderately positive, with GDP growth expected to reach around 1%. Business sentiment is improving, particularly in industry, supported by the broader European rebound and the German stimulus plan. Industrial firms report better activity prospects and improving order books. Defence spending will continue to support the sector, and aeronautical exports should remain a key growth engine, provided production capacity keeps pace.

However, if it continues, the recent appreciation of the euro could weigh on exports and thus on French activity. According to the European Central Bank's latest estimates, a further 4.3% rise in the euro against the dollar subtracts 0.1 percentage points from eurozone GDP. High tax pressure may also act as a brake, and recent business surveys show investment intentions remain very weak.

Household confidence has strengthened in recent months, and reduced fears of unemployment could lower the still high savings rate, supporting a modest pickup in consumption in a context of sub 2% inflation and rising real wages. Household investment should also increase slightly, even though long term interest rates may continue to edge up.

In 2027, growth could reach 1.1%, but political and fiscal risks remain elevated. Overall, persistent uncertainty will likely keep French growth slightly below the European average.

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