

France

Weak growth and fiscal consolidation in focus

The French economy is expected to stay on a very modest growth path over the next two years, constrained by weak domestic demand, a challenging international environment and the need to make progress on fiscal consolidation.

Economic activity will remain subdued, with gross domestic product (GDP) growth of 0.4% in 2026 and 0.8% in 2027. Household consumption was affected in 2026 by the rebound in inflation, the resulting loss of purchasing power and heightened uncertainty. However, easing energy price pressures should support a recovery in real disposable income from next year onwards. A recovery in confidence will also be important in 2027, as will the extent to which the expected increase in household income translates into consumption rather than additional savings. The household saving rate is still relatively high by historical standards, at around 18% of disposable income.

Business investment is also weak, weighed down by restrictive financial conditions and persistent political and fiscal uncertainty, which continues to undermine business confidence.

By contrast, we expect the external sector to continue being one of the main sources of support for economic activity, with exports maintaining the positive momentum observed in 2026. France retains a competitive position in high-value-added industries such as aerospace, defence, electronics and electrical equipment, which is still one of the economy's key strengths.

The labour market is also likely to remain weak. Total employment has been broadly stagnant since late 2024, with declining salaried employment not offset by growth in self-employment. As economic activity gradually recovers, we expect employment conditions to improve, although probably not before the second half of 2027. Even then, the improvement is unlikely to be strong enough to generate a significant drop in unemployment. We expect the unemployment rate to stay at 8.3% in 2026 and 2027.

Inflation has increased as a result of higher international energy prices. Our scenario envisages average inflation of 2.1% in 2027. This would put it below the euro-area average, reflecting weak domestic demand and intense competitive pressures, which make it difficult for companies to fully pass higher costs through to final consumer prices.

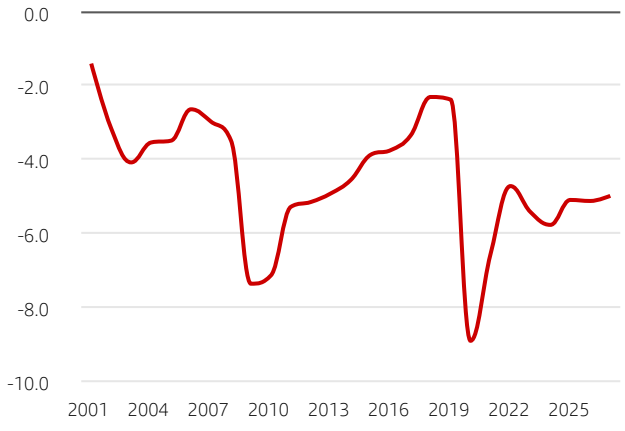
France

France's main structural challenge is still its public finances. The fiscal deficit continues to exceed 5% of GDP, while public debt stands above 115% of GDP. Approval of fiscal consolidation plans has proved difficult in an environment of domestic political instability. Fragmentation in the National Assembly is making it harder to reach agreements on budgets and structural reforms, while the proximity of the 2027 presidential election reduces incentives to adopt potentially unpopular measures.

This lack of clarity regarding the fiscal strategy is also putting upward pressure on government bond yields and tightening sovereign financing conditions. These pressures could ultimately spill over into financing conditions for both businesses and households, further delaying the economic recovery.

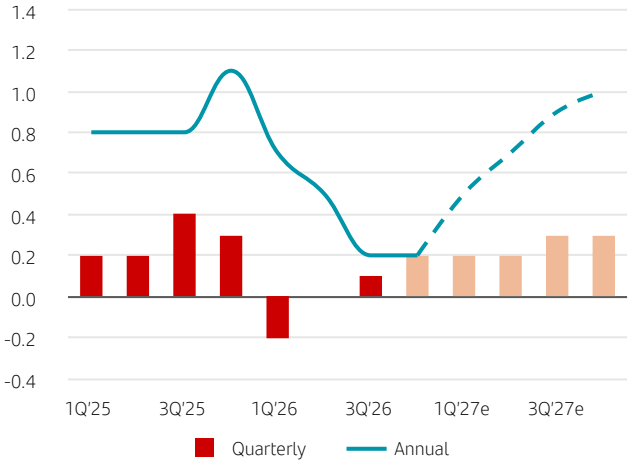
Overall, France's economy is stagnating rather than falling into recession, while the country retains important strengths in high-value-added industrial sectors. Weak domestic demand, fiscal consolidation that has yet to begin in earnest, low confidence and higher interest rates are delaying the recovery. The key challenge will be to combine a credible fiscal consolidation strategy with greater political stability. Next year's presidential election will be a test of this.

France: The public deficit is a challenge
(% GDP)



Source: Fiscal Monitor IMF.

France: GDP will improve in 2027
(%)



Source: Fiscal Monitor IMF.

Macroeconomic forecasts

	2026e	2027e	2028e
GDP growth (%)	0.4	0.8	1.1
Unemployment rate	8.3	8.3	8.1
CPI inflation	2.3	2.1	1.4

Source: Santander Research. Annual average.