FIVE REASONS WHY FRENCH GROWTH SHOULD PICK UP

In 2026, the government once again failed to stabilise its public debt-to-GDP ratio due to a significant fiscal deficit and lower-than-usual growth. According to our analysis, this underperformance is due to exceptional factors. Structurally, France can still generate growth that will help the public debt ratio to stabilise, provided that its budget deficit is brought down to approximately 3% of GDP. To achieve this, it has significant strengths: 1/ Improved competitiveness in terms of labour and energy costs; 2/ Its services sector, notably through the development and use of new technologies (including AI); 3/ An industrial recovery driven by aeronautics, military spending and electrification, which calls for increased investment; 4/ Accelerating business creation that supports employment; 5/ Its attractiveness to foreign investors. All of these structural drivers should enable French growth to rebound and join the expected acceleration in the Eurozone in 2027.

The French government will present its 2027 draft budget[1], while the presidential election looms on the horizon. Ahead of these major events, the French people are appearing very pessimistic about the picture in France. The [latest survey] by the Jean Jaurès Foundation reveals that nearly two out of three people use only negative words, with "worry" and "uncertainty" at the forefront. Furthermore, three-quarters expect the country's situation to deteriorate.

Indeed, the French economy has faced a series of setbacks since the beginning of the year. It narrowly avoided recession in the first half (a 0.2% q/q contraction of GDP in Q1 and stagnation in Q2), in contrast to the Eurozone, where growth excluding Ireland remained stable (0.3% q/q per quarter).

Even though exceptional factors are behind this underperformance[2], it is weighing on public finances (lower revenues), just like another exceptional factor: the conflict in Iran[3]. Consequently, the fiscal deficit is expected to increase to 5.4% of GDP in 2026 (compared to 5.1% in 2025), according to the government. According to our forecasts, the public debt-to-GDP ratio would reach 119% in 2026, compared to 115.7% in 2025.

Against this backdrop, France's ability to generate growth is crucial. Yet, even with fiscal consolidation which should, by its very nature, weigh on demand, we can identify five reasons to believe that the French economy can generate growth significantly above 2026 outcome (0.5% according to our forecasts).

1. FRANCE IS MORE COMPETITIVE

During the Eurozone crisis (2012–13), France implemented a policy to reduce labour costs through the Competitiveness and Employment Tax Credit (CICE). This was subsequently replaced, at the beginning of Emmanuel Macron's first term, by a 6-pp reduction in social security contributions. These labour-cost improvements persist today, whereas we have seen an acceleration over the last decade in wage growth elsewhere in Europe, notably in Germany. Alongside the relative improvement in French labour costs, the bilateral trade deficit with Germany has significantly decreased.

France's trade deficit with Germany has significantly reduced

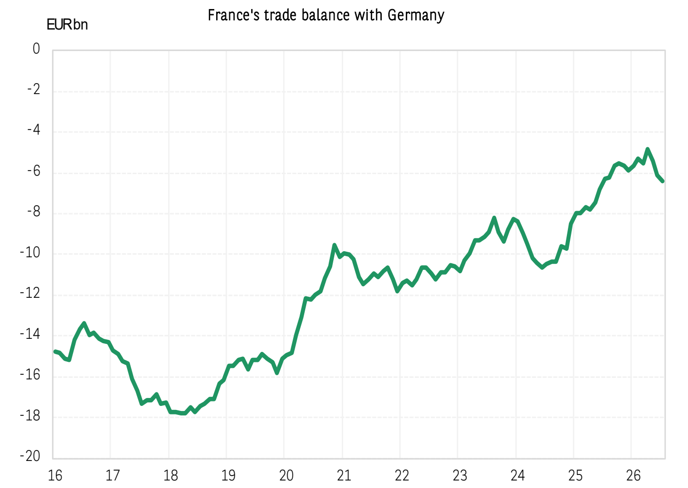


CHART 1 SOURCE: CUSTOMS, BNP PARIBAS

France produces more abundant and cheaper electricity

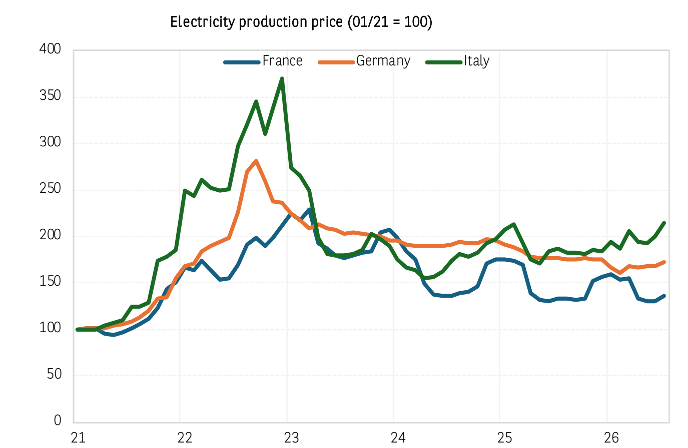


CHART 2 SOURCE: MACROBOND, BNP PARIBAS

1 We will review this in an *EcoFlash* scheduled for publication on 1st October.

2 The municipal election cycle (around which local investment always contracts) has weighed on the economy, as well as the decline in agricultural production (more heavily than elsewhere in the Eurozone, notably due to the weight of corn production in France).

3 This has led to additional expenditure: debt servicing (indexed bonds made more expensive by rebounding inflation) and other spending (fuel subsidies and the budget for the military's external operations).

At the same time, France benefits from cheaper electricity which is also less sensitive to rising hydrocarbon prices because, in 2025, nearly 95% of electricity was produced through nuclear and renewable power[4]. Furthermore, electricity accounts for 27% of energy consumption in France, compared to a European average of 24%.

2. FRANCE: A EUROPEAN LEADER IN SERVICES, INCLUDING TECH, AND IN UPWARDLY REVISED GROWTH FIGURES

Services account for nearly 80% of French GDP, which is significantly higher than in the other major Eurozone countries. France is leading the race within the European Union in several sectors, including financial services, logistics and tech. This is resulting in a services trade surplus of nearly 1.7% of GDP, which is offsetting an equivalent external deficit in goods. This is also behind the investment in intellectual property products of around 5.5% of GDP in 2025, the highest rate among the major European countries.

Furthermore, nearly one in two French people now uses AI, compared to less than one-third in the United States, according to a study by the Microsoft AI Economy Institute. France ranks 4th in the world in this field. In Europe, it is surpassed only by Ireland (where many companies in the sector are concentrated). France's combined advantages (energy and digital culture) place it at the forefront of destinations for artificial-intelligence investment in Europe, particularly for data centres (announcements were made during the most recent Choose France summit).

Additionally, France is the country that revises its growth figures upwards most frequently. In a recent study, we showed that ex-post revisions (as national accounts are only finalised 30 months after the end of a calendar year) were significant there. This phenomenon is likely linked to the weighting of tech in the investment of French companies, with the impact on activity measured more easily along time.

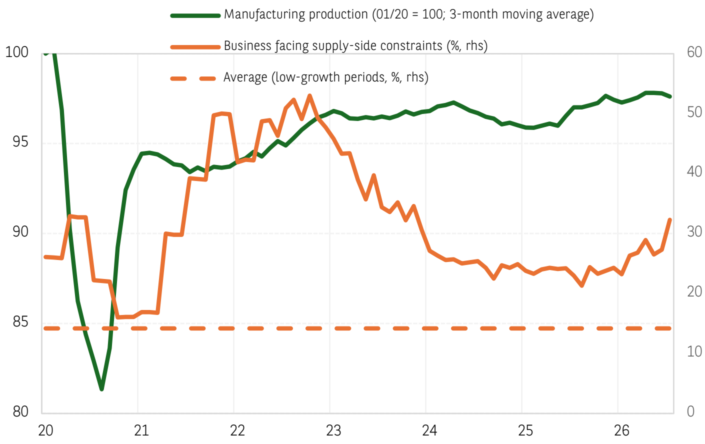
3. THE INDUSTRIAL RECOVERY IS TEMPORARILY SLOWED BY SUPPLY CONSTRAINTS

The French industrial rebound is real and is supported, in particular, by strengthening French comparative advantages in aeronautics and electrical equipment. It relies on rising global demand for these goods and a European momentum that has been accelerating for several quarters. As a result, French goods exports increased by 5% in the early months of 2026 compared to the same period in 2025.

However, the industrial recovery is being hampered by the difficulty faced by companies in meeting demand. Since the end of the COVID-19 pandemic, industrial production has experienced a bumpy recovery. The most recent of output surges helped French growth to outperform between the 2nd and 4th quarters of 2025, when aeronautical production suddenly increased by nearly 20%. The increased delivery targets of the major companies in the sector could have driven further growth. This did not materialise, as manufacturing production decreased by 1.2% over the last three months for which data has been published (May–July) compared to the previous three months.

Production for companies with the most filled order books (aeronautics, electrical and electronic equipment) has been limited by a sharp rise in supply constraints. The production capacity of industrial companies puts them in a position to meet demand less effectively than before, due to both shortages of skilled labour and an insufficient number of production lines. This situation calls for more investment. The good news is that, according to the latest quarterly survey from Insee, investment intentions in the industry have rebounded significantly.

Renewed supply constraints have interrupted the industrial recovery



SOURCE: INSEE, BNP PARIBAS

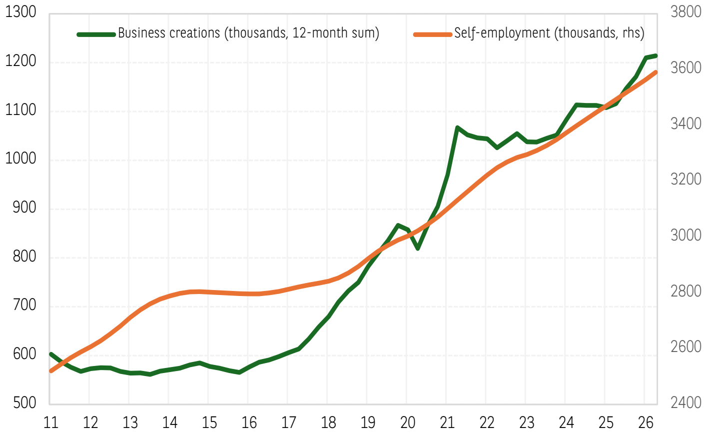
CHART 3

4. STRONG BUSINESS CREATIONS SUPPORT EMPLOYMENT

When France undergoes a period of recession or low growth, business creation also tends to dive. This was the case during the Eurozone crisis in the first half of the 2010s, but that is not what we are seeing in 2026. Business creation has even seen its growth accelerate since the beginning of 2026, standing at +12% y/y. It is increasing more significantly in digital-related sectors (+46% y/y), which are benefiting from the wave of AI-related innovation. However, it is also progressing elsewhere, such as in trade (+13%) and construction (+9%).

Business creation is even increasing faster than business insolvencies (+5% y/y in the first half), with the rise in insolvencies largely driven by stronger business creations.

The joint development of business creation and self-employment



SOURCE: INSEE, BNP PARIBAS

CHART 4

4 With the exception of 2022 (maintenance of nuclear power plants).

The increase in business creation is noticeable among companies (+5%) and even more so among micro-enterprises (+16%). This reflects the rise in self-employment. While payroll employment has seen a slight decline over the last two years (80,000 net job losses), part of this slowdown is linked to the increase in self-employment (204,000 net creations). Overall, France has continued to create jobs and the employment rate has reached historic highs.

5. FRANCE REMAINS ATTRACTIVE TO FOREIGN INVESTMENT

French has maintained its attractiveness despite the higher uncertainty. Uncertainty increased significantly following the dissolution of the National Assembly in June 2024, according to estimates from the Banque de France and Insee. However, France remains at the top of the European countries in international attractiveness rankings. The annual EY barometer notes a decrease in the number of projects in 2025 (-17%), but France has maintained its first-place position for the 7th consecutive year. Furthermore, against a European backdrop where the number of jobs per project has dropped sharply (-25%), it has remained overall stable in France (-4%). This is a sign that, while there are slightly fewer investments in number, their footprint on the French economy remains steady.

France's attractiveness is driven in particular by the development of services, as well as the quality of its infrastructure and logistical capabilities (including transport hubs, often on a European scale). Moreover, while France already boasts a developed tech sector, the country is well-positioned to attract foreign investment in AI (low energy costs and skilled labour).

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French growth should return in 2027 to a level more in line with its strengths (our forecast is 1%). Given the prevailing interest rate conditions, this is a necessary condition[5] for the public debt ratio to stabilise, provided that the government succeeds in bringing the fiscal deficit down to 3% of GDP.

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5 This is also a sufficient condition, provided that the effective interest rate remains below 3.5% (it is expected to stand at 2.1% in 2026 and 3.2% in 2030, according to our scenario).