

FRANCE

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GROWTH, PUBLIC FINANCES: STAYING ON TRACK

Since rebounding in Q2 2025, French growth has been relatively robust. Things are not expected to have changed in Q1 2026, with growth supported in particular by precautionary spending. In Q2, higher inflation (and thus lower purchasing power) should weigh on household consumption, whilst support from public finances is expected to be more moderate than in 2022. However, French growth is expected to remain resilient, driven in particular by public investment (both French and European) in defence and private investment in AI. Overall, we are revising our growth forecasts to 1% in 2026 (-0.3 pp) and 1.1% in 2027 (-0.2 pp); and our inflation forecasts to 2.4% in 2026 (+1.3 pp) and 1.9% in 2027 (+0.4 pp). However, we are maintaining our forecasts for the public deficit at 5% of GDP in 2026 and 4.5% in 2027.

GROWTH: COPING WITH HIGHER INFLATION, BUT BENEFITTING FROM THE RESILIENCE OF INVESTMENT AND EXPORTS

The stars had aligned for 2026 to be a good year for growth. Rebounding aeronautics production and the implementation of European rearmament plans were set to support exports. The clearer pass-through of the ECB's monetary easing to lending rates for the non-financial private sector had boosted investment. After several months of wage growth outpacing inflation, growth in household consumption was accelerating. Finally, the budget adopted in February pointed to robust public consumption and investment.

With the war in Iran, private domestic demand is facing the most pronounced downside risks. Rising oil prices are weighing on household purchasing power, which is likely to affect their spending intentions. As a result, household consumption will likely decline in the second quarter.

Rising uncertainty and inflation have already weighed on interest rates (a 15-basis-point rise in lending rates to non-financial corporations between August 2025 and February 2026). It is still uncertain as to whether the ECB will raise its key interest rate. This would weigh on private-sector investment prospects, but would not call them into question. Business investment is expected to rise in both the services and construction (AI and data centres) sectors. Household investment is expected to mainly benefit maintenance/renovation (strong performance in second-hand transactions) and, to a lesser extent, new-builds (a slight rebound in housing starts). Public investment (+2.1% in 2025) is expected to continue to grow, supported by decarbonisation, rearmament and service investment efforts.

Overall, the business climate remained stable for the time being. It is underpinned by the situation in industry, which is benefitting in particular from public spending (rearmament plan) and robust exports, which are expected to continue.

FOREIGN TRADE: BULLETPROOF?

Since mid-2025, France has benefitted from a rebound in its exports of goods, particularly in aeronautics, defence, pharmaceuticals and industrial inputs (electronics). This momentum continued in January and February 2026, helping to restore the current account balance (following a deficit of EUR 12.5 billion in 2025, or -0.3% of GDP). Export gains are mainly intra-EU, primarily to Germany, and are expected to provide significant support for GDP growth. This momentum is expected to continue despite the war in Iran, as it is driven by industrial sectors with little exposure to the region. Furthermore, it depends on growing public demand driven by European rearmament plans (which are far from limited to the German plan; [see our analysis](#)) or investments that are not sensitive to the economic cycle (AI).

Growth and inflation

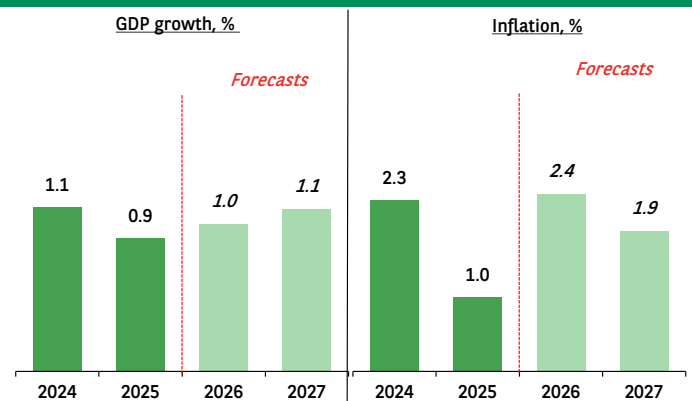


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

LOANS: GOOD MOMENTUM WITH SLIGHT DETERIORATION RISKS

The rate on new housing loans to households rose by 10 bp in Q1 2026. This modest rise contrasts with the stable rate, at around 3% in 2025. Despite a highly competitive environment, our rate scenario (money market and swap rates) suggests a slight increase in average mortgage rates in Q2, and probably a sharper rise thereafter. At the same time, monthly new lending has stabilised since Q2 2025, hovering around the moderate level of EUR 12.5 billion, before falling slightly in Q1 2026 (EUR 12 billion). A rise in rates would automatically weigh on the figures. Therefore, growth in outstanding loans is modest (+0.2% y/y in February) due to high repayment flows linked to the abundant new lending during the period of low interest rates. As a result of households' decreased ability to purchase property, transaction volumes are expected to decline and prices are expected to stabilise over the coming quarters.

Corporate investment loans remained buoyant in Q1 2026, driven mainly by the acceleration in the lending for construction purposes (up 4.6% y/y and 5.5% y/y in January and February, respectively). Market financing is keeping pace, rising by 6.1% y/y, against a backdrop of a slight fall in the cost of debt issued (-9 bp m/m). The forthcoming rise in market rates is likely to make bank financing more attractive. However, the profitability of investment projects could be eroded, but not enough to jeopardise them.



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INFLATION IS PAINFUL FOR THE CONSUMER

Harmonised inflation hit a low in January 2026 (0.4% year-on-year), which pointed to improved household purchasing power and suggested a rebound in household spending. At the time, it was not known that the period of wages rising faster than inflation (by a cumulative 2 percentage points over 2024–25) was about to end. Harmonised inflation accelerated in March to 1.9% y/y, driven by rising fuel prices. As a result, from Q2 onwards, it is expected to outpace wage growth. Although, according to our forecasts, inflation is expected to rise less sharply than in 2022–2023 (peaking at nearly 3% in early 2027, compared with 7.3% in February 2023) and spread less widely to goods and services, household purchasing power is also likely to be less protected than in 2022–2023. According to our calculations, public support measures adopted at the time prevented (at their peak) nearly 2.5 percentage points of inflation, whereas the support is likely to be more limited this time – with the government favouring targeted measures to prevent the public deficit from widening. According to our forecasts, the purchasing power of gross disposable income is set to contract by 0.3% in 2026 (compared with a gain of +0.4% in 2022, despite an inflation of nearly 6% according to the harmonised measure). Consequently (and despite a fall in the savings rate from 18.1% in 2025 to 17.5% in 2026), private consumption is expected to grow by just 0.5% in 2026 (as in 2025), compared with a 1% rebound anticipated before the war in Iran. This would reduce GDP growth by nearly a quarter of a percentage point.

LABOUR MARKET: MODERATE DETERIORATION

The slight decline in salaried employment in 2025 (-0.2% y/y in Q4, compared with +0.2% y/y in Q4 2024) followed the low point recorded in terms of growth (0.7% y/y in Q1 2025) and led to a slight rise in the unemployment rate (7.9% in Q4, compared with 7.3% a year earlier). In 2026, the unemployment rate is expected to rise to 8.2%, driven by a rise in youth unemployment. This moderate deterioration should limit the decline in household confidence. This situation is also consistent with the continued moderation of wage pressures, meaning that, like in 2022, corporate margins would be supported by a decline in real wages (albeit to a lesser extent), partly offsetting the impact of rising oil prices. This trend is expected to persist until mid-2027. Indeed, although an increase in the minimum wage is expected from May (with the price index having risen by 2% compared with the end of 2025), the imperfect indexation of wages above the minimum wage suggests that real wages are likely to decrease.

PUBLIC FINANCES: CONSOLIDATION REMAINS THE TARGET

The public deficit reached 5.1% of GDP in 2025, a more pronounced improvement on its 2024 level (5.8%) than the government's target (5.4%), linked to a 0.8-pp rebound in compulsory levies (43.6% in 2025, [see our analysis](#)). In 2026, the public deficit is expected to be in line with the government's 5% target. The consequences of the energy shock are likely to wipe out the fiscal leeway that had emerged following the strong performance of 2025, particularly due to an additional 0.1 percentage point in debt servicing costs (mainly due to the impact of inflation on index-linked bonds). A rise in bond yields would have only a very marginal upward effect on the latter, due to the debt's high average maturity (8.5 years).

French exports have rebounded sharply since mid-2025

12-months sum, EUR bn

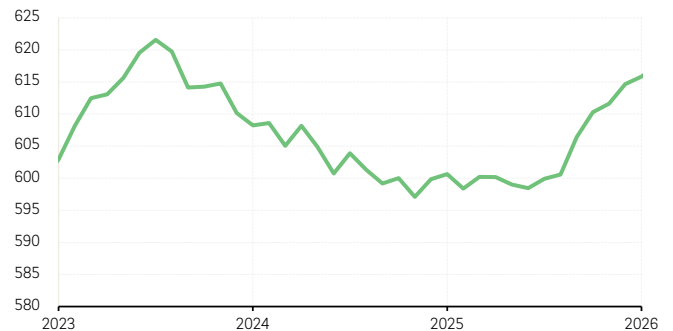


CHART 2

SOURCE: CUSTOMS, BNP PARIBAS

Support measures in response to the inflationary shock, currently amounting to EUR 400 million (less than 0.1% of GDP), have been announced. With no room for manoeuvre, the government has announced that any additional measures will be offset by equivalent savings. The increase in the defence budget and the debt service (together accounting for +0.6 percentage points of GDP) is expected to prevent a decline in the public expenditure ratio (which is projected to stabilise at around 57% of GDP in 2026 and 2027). As a result, the reduction in the public deficit would, once again, rely on a rebound in compulsory levies, which would return to their pre-COVID level (44.4% of GDP) by the end of 2027. Reducing the public deficit at an average rate of 0.5 percentage points of GDP per year would help to slow the rise in public debt (115.6% of GDP in 2025, +3 pp y/y) before stabilising it at around 120% of GDP in 2030, when the budget deficit is expected to return to the 3% of GDP target.

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