

FRANCE

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GROWTH STRIKES BACK DESPITE UNCERTAINTIES

French growth has been rebounding since Q2 2025, driven primarily by aeronautics production, but also by business investment in a context of decreasing interest rates. These two factors are coming along with two structural drivers: growth in services and public consumption. In 2026, these momentums are expected to continue. Additionally, exports should benefit from the rebound in German growth. Inflation is expected to remain low and household consumption to strengthen moderately, against a backdrop of continued high political uncertainty. French GDP growth is expected to return to its 2024 level (1.1%) in 2026, after a soft patch in 2025 (0.8%).

GROWTH REBOUND

French growth has been picking up since June 2025 (+0.5% q/q in Q3) with the rebound in aeronautics production. The latter had stagnated between December 2023 and May 2025, at nearly 20% below its pre-Covid level; from June, it has been only 6% below that level on average. In 2026, this strength would add nearly 0.3 percentage points to French GDP growth. At the same time, the industry has benefited from an early rebound in exports to Germany, which is expected to continue in 2026.

Investment by non-financial corporations has also recovered. Having stabilised at a healthy level for nearly a year (investment rate at 21.5% of value added, 1 point above its historical average), it grew by 0.8% q/q in Q3 (supported by investment in digital services and AI), against a backdrop of decreasing interest rates. This rebound was not affected by the increase in compulsory levies, with corporate margins reflecting good profitability (31.5% in Q3 2025, compared with an historical average of 31% since 2010).

These positive dynamics would support growth in 2026 (to 1.1% after 0.8% in 2025) and strengthen further in 2027 (1.3%). This acceleration, mainly driven by a reduction in supply constraints, should not generate inflationary pressures. These positive factors are in addition to the two structural supports that have continued to sustain growth even when it was low: the trend growth of services and the increase in public consumption (with fiscal consolidation not really curbing its growth rate). Finally, household consumption growth is likely to pick up (after stagnating between Q3 2024 and Q3 2025).

Public investment would decline (in a context of fiscal consolidation) and household investment would stagnate. In the latter case, land remains scarce and most of the rebound in purchases is driven by second-hand transactions, which should continue to be the case in 2026 and 2027.

STABILIZING INTEREST RATES AND PROPERTY PRICES

Interest rates on new housing loans have been stable for seven months, close to 3% in September 2025. Their disconnect from the 10-year OAT rate, which rose slightly over the same period, is becoming more pronounced. This is explained by the relative stability, since July 2025, of the 10-year swap rate, which is a better indicator of changes in the cost of bank resources backing fixed-rate loans. The recovery in new loan production recorded in the first half of the year was short-lived. Between June and September 2025, monthly flows of new loans stood at around EUR 13 billion, due to the stabilisation of rates. This new production is barely sufficient to ensure growth in outstanding loans (+0.3% y/y in September), given the repayment flows inherent in the abundant new production during the period of low rates.

Credit conditions have stabilised and are no longer a factor supporting households' real estate purchasing capacity. However, transaction volumes continued to recover. In August 2025, the number of sales over twelve months (916,000) recorded positive annual growth (+10%) for the sixth consecutive month. Prices for existing homes nevertheless remained stable between Q2 and Q3 2025, even falling slightly compared

GROWTH AND INFLATION (YEARLY RATE)

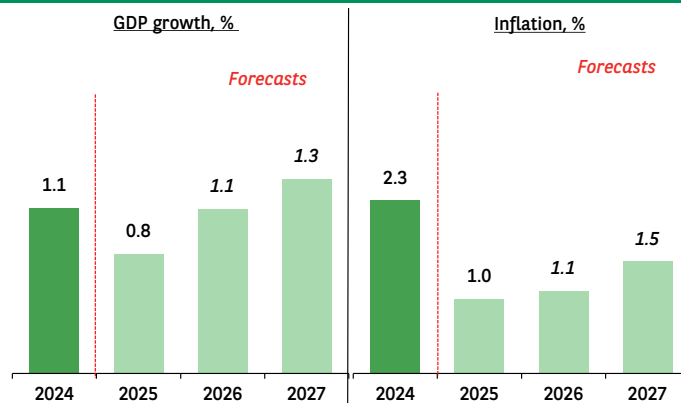


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

to Q1 (-0.5%). After a sharp rebound in housing between May and August 2025, the recovery came to a halt in September (-8.9% m/m). After three consecutive years of decline, cumulative housing construction over one year was characterised by particularly low volumes in July. After +0.6% in August, the increase strengthened in September (+4.4%). New housing prices, which declined between Q4 2023 and Q3 2024, have been recovering since then (+2.7% y/y in Q2 2025).

In a highly competitive environment, our interest rate scenario (money market rates and swap rates) suggests that average housing loan rates will remain relatively stable over the next quarter and beyond. This stability would contrast with the continued moderate rise in German and French 10-year sovereign yields, which we expect to continue until the end of 2026. Combined with the slowdown in household income (due in particular to the dissipation of the catch-up effects that played a role in 2025), transaction volumes are expected to decline and prices to rise only moderately, or even level off depending on location, over the coming quarters.

LABOUR MARKET: RESILIENCE ACROSS THE BOARD

The observed and expected resilience of the labour market will support household consumption in the coming quarters. This resilience is relative, as the unemployment rate rose to 7.7% in Q3 2025 (compared to 7.4% in Q3 2024) and 100,000 net salaried jobs were lost in one year. However, this has not undermined the progress made in terms of the employment rate (69.4% in Q3, close to its peak, up more than 3 points compared to pre-Covid levels).

However, the balance of opinion on fears of unemployment (incorporated by INSEE into household confidence) rose by 30 points to peak at 60 in May 2025. In 2013, a rise in this proportion was followed by an increase in unemployment of nearly 2 points (0.3 pp this time). As a



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result of the resilience of the labour market, the balance of opinion began to fall by nearly 12 points between May and November (see chart).

Furthermore, nearly half of the deterioration in employment is due to the decline in apprenticeships (decrease in budgetary support), but this has not led to further inactivity: the proportion of 15-29 year olds who are neither in employment, education or training fell to 12.5% in Q3 2025 (-0.3 pp over the last two quarters). From 2026 onwards, stronger growth should halt job losses and allow the unemployment rate to stabilise.

LOW INFLATION AND MODERATE REBOUND IN REAL WAGES

Since February 2025, harmonised inflation has once again reached a level close to 1% y/y (pre-Covid level), driven down by energy prices (electricity, oil), whose decline has been accentuated by the appreciation of the euro against the dollar. Core inflation has moderated as prices for manufactured goods have stabilised, while disinflation is slower for services. In 2026, inflation is expected to remain close to 1%. The decline in energy prices is expected to be less pronounced, but inflation in services is expected to continue to slow.

As a result, core inflation is expected to reach 1.2% (1.6% in 2025), in line with a slowdown in nominal wage growth (+1.6% in 2026 after +2% in 2025). Real wages would increase moderately and would be the main driver of growth in gross disposable household income (unlike in 2024-25, when social benefits were the main contributor). Purchasing power would increase less (+0.5% in 2026 compared with an estimated +1.2% in 2025), but would be based more on wage dynamics. In an environment of low inflation and stabilised unemployment, this would trigger a decline in the household savings rate, which fell from 18.7% in Q2 2025 to 18.4% in Q3. In 2026, the decline would remain moderate (to 18.3%), before accelerating in 2027 (to 17.6%), after two years of increases that brought it to an average of 18.6% in 2025 (+2 pp in two years). Household consumption is expected to grow by nearly 1% in 2026 and 2027 (after 0.4% in 2025).

LIMITED FISCAL CONSOLIDATION, BASED ON REVENUE

According to the High Council of Public Finances (HCFP), there is a strong probability that the target of a deficit of 5.4% of GDP in 2025 will be achieved (compared with 5.8% in 2024). This would mark the first reduction in the budget deficit since 2022. However, public spending is expected to remain at around 57% of GDP in 2025 (higher than before Covid), mainly due to increased social spending. The deficit would therefore be reduced thanks to a rebound in revenues.

Budget debates in Parliament suggest that the 2026 budget should follow the same formula: a more moderate deficit reduction target than that of the government (5% according to our forecasts, compared with 4.7%), mainly due to an increase in revenue (from businesses, savings and wealth). On the expenditure side, the government has to contend with higher defence spending, increased contributions to the EU budget, high social spending (impact of ageing, no under-indexation) and higher interest costs (which are expected to rise from 2.2% in 2025 to 2.5% in 2026). The increase in revenue would improve the primary balance by 0.7 percentage points to 2.5% of GDP in 2026.

These constraints are likely to continue to weigh on the economy until the end of the decade, with the public deficit only returning to 3% of GDP in 2030. And until the deficit returns to this level, public debt is expected to continue to rise, reaching nearly 121% of GDP in 2030. The increase in sovereign interest rates (penalized by political uncertainty and the upward trajectory of public debt) has remained contained: the France-Germany spread on the 10-year rate fluctuates between 65 and 80 basis points, and is expected to do so again in 2026.

FRANCE: HOUSEHOLD BALANCE OF OPINIONS ON UNEMPLOYMENT FEARS VS. UNEMPLOYMENT RATE (%)

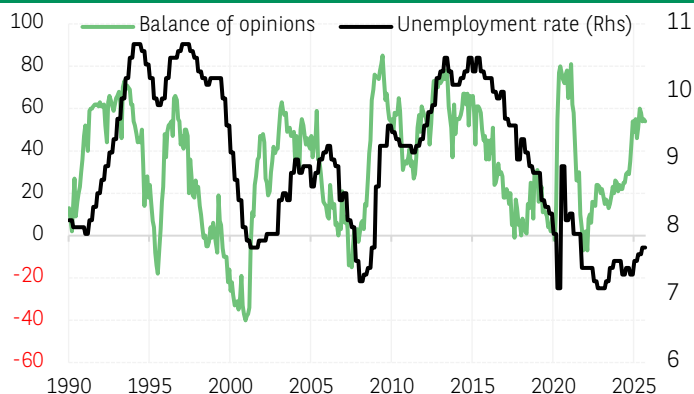


CHART 2

SOURCE: INSEE, BNP PARIBAS

FRANCE : CURRENT ACCOUNT BREAKDOWN (MDS EUR)

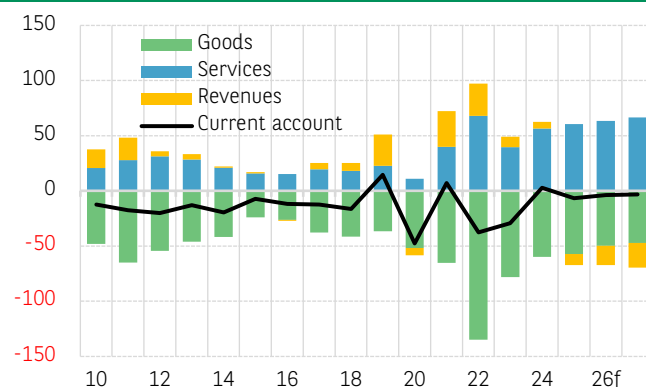


CHART 3

SOURCE: BANQUE DE FRANCE, BNP PARIBAS FORECASTS

BALANCED FOREIGN TRADE SUPPORTING GROWTH ONCE AGAIN

Between mid-2024 and mid-2025, stagnating aerospace exports and declining exports to Germany accounted for the clearly negative contribution of foreign trade to GDP growth. The rebound observed from Q3 2025 onwards, both in aeronautics and in sales to Germany, is expected to continue. Exports to the United States have been relatively stable despite additional customs duties.

Overall, the trade deficit on goods should therefore narrow in 2026. At the same time, the surplus on services is relatively stable. Thus, the net contribution to growth from trade in goods and services should be positive in 2026. At the same time, the income balance (previously in surplus) exhibits a moderate deficit.

These developments are consistent with the current account balance remaining relatively balanced in the coming years.

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Stéphane Colliac and Thomas Humblot

stephane.colliac@bnpparibas.com, thomas.humblot@bnpparibas.com



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