FRANCE

TOWARDS A SUSTAINED REBOUND IN GROWTH

France recorded a rebound in growth to 0.3% q/q in Q2 2025 after a more unfavorable period marked by political uncertainty. Although this uncertainty persists, the rebound in growth should be sustained. Unlike the political situation, other aspects of the French economy have improved (agricultural and aeronautical production, interest rates in the private sector, investment) or are on track to do so (German demand). The stabilization of the labor market and the sharp increase in business creation already confirm the rebound.

GDP GROWTH: AFTER WINTER COMES SPRING

French growth is recovering after several quarters below the Eurozone average. Beyond budgetary uncertainty, stagnant aeronautics production (supply constraints) and declining agricultural production weighed on growth until Q1 2025. Only the trend growth in services continued to support it.

Spring 2025 saw the beginning of a rebound in production thanks to a one-off effect in agriculture (return to normal wheat production) and another, more structural effect in aeronautics (new production capacity). The rebound in German growth in 2026 should add to the support provided by services, aeronautics, and housing (see below) to enable French growth to return in 2026 to the pace recorded in 2024 (1.1%).

LOWER BORROWING COSTS AND A REBOUND IN REAL ESTATE

After falling by 60 basis points since the beginning of 2024, mortgage rates have plateaued (3%) since February 2025. Their disconnect from the rising OAT rate can be explained by the decline in the 10-year swap rate (a more relevant indicator of changes in the cost of bank resources backing fixed-rate loans). As a result, new business volumes rose sharply in H1 2025 (+46% y/y). This momentum enabled bank housing loans outstanding to return to slightly positive annual growth (+0.1% in June) for the first time since February 2024. However, this growth remains hampered by significant repayment flows linked to the abundant loans granted during the period of low interest rates.

Improved credit conditions supported real estate purchasing power and, in October 2024, halted the decline in existing home sales volumes that had been observed since 2022. In June 2025, these had reached 906,000 transactions over 12 months (+8.2% year-on-year). Existing home prices (+0.1% q/q in Q4 2024) returned to growth in Q1 2025 (+1.0% q/q). The same is true for new housing, where, after the historic low of 2024 (264,000 cumulative annual starts in October), construction figures are on the rise again (+5.9% y/y in July, after +4.4% in June). New housing prices, which had been falling since October 2022, have been rising again since Q3 2024 (+2.0% y/y in Q1 2025). However, the disappearance of support from lower mortgage rates weighed on prices in the existing home market in Q2 (-0.6% q/q), which helped keep transaction volumes high.

The ECB's key interest rates and swap rates are expected to stabilize. As a result, mortgage rates are likely to remain close to their current levels over the coming quarters (despite the moderate rise in German and French sovereign yields, which is expected to continue until the end of 2026). This trend, combined with slower growth in household income (notably due to the end of the catch-up effects on past inflation, which will still be at play in 2025), suggests that transaction volumes and prices will remain relatively stable over the coming quarters.

GROWTH AND INFLATION (YEARLY RATE)

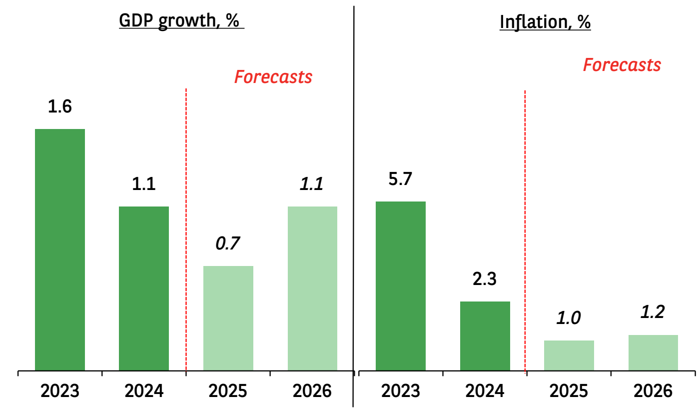

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

FRANCE: A LAND OF INVESTMENT AND BUSINESS CREATION

The political context has led to increased uncertainty, without calling into question the main engines of the French economy. After a dip in late 2024 and early 2025, business creation has regained momentum (as has employment, see below). It reached an unprecedented level of nearly 100,000 businesses created in July 2025 (up nearly 5% on the pace recorded at the end of 2024).

Beyond the positive signs on the household investment front (+1.4% between Q3 2024 and Q2 2025), business investment has been stable for three quarters at nearly 21.5% of value added (about 2 points higher than in Germany). Its previous decline was inevitable: it had reached a historic high in Q2 2021, at 23.3% of the value added of non-financial businesses, driven by the France Relance plan. Under the effect of rising interest rates, tangible investment fell sharply until Q3 2024, and then much less so thereafter. At the same time, the groundswell of « servitization » of investment is leading to uninterrupted growth in intangible investment, which is set to continue.

LABOR MARKET: STABILIZATION

France saw a net loss of 103,000 salaried jobs in Q4 2024 and Q1 2025. This figure has only been exceeded (excluding Covid) in 1993 and 2008, two years of recession at the end of which the unemployment rate had risen by more than 2 points. This time, it reached 7.5% in Q2 2025, marking a marginal increase (+0.2 points in one year) and is not expected to rise significantly in the coming quarters. In addition, hiring resumed in Q2, leading to an increase in salaried employment (+52,000), suggesting more of a postponement (at the height of political uncertainty) than a cancellation of hires.

The rise in the retirement age since 2010 continues to support the employment rate for 55-64 year olds (+20 points in 15 years, to 61.8% in Q2 2025). In addition, the decline in real wages in 2022-23 (i.e., wages did not keep pace with inflation) contributed 2.5 points to the improvement in corporate margins. This is helping to support employment, whereas the rise in real wages in the years preceding the recessions of 1993 and 2008 had, on the contrary, penalized it.

LOW INFLATION BUT NO INCREASE IN CONSUMPTION

Inflation has returned to its pre-COVID level (close to 1% y/y) and is expected to remain there. However, household consumption has yet to rebound. French consumers' perception in their standard of living deteriorated, which can be explained by a loss of purchasing power of wages observed in 2021-23. However, for nearly 18 months, wages have been growing faster than inflation. In addition, social benefits continue to fuel purchasing power, as do wages (both contributed equally, 0.2% each, to the 0.4% increase in purchasing power in Q2). Consumption is also growing slowly because pension increases (accounting for nearly half of the rise in social benefits in 2024 and 2025) are largely being saved (see INSEE's June 2025 economic report). Growth in household consumption is expected to remain moderate (+0.4% in 2025 and +0.9% in 2026): gains in purchasing power are real but are declining (+2.5% in 2024, +0.9% in 2025, and +0.4% in 2026 according to our forecasts). In addition, the state of public finances may weigh on household spending intentions, as households understand that most of the consolidation work remains to be done.

FISCAL CONSOLIDATION HAS NOT YET TAKEN PLACE

An average reduction in the budget deficit of 0.5 percentage points of GDP per year is needed to bring it down to 3% of GDP by 2030 and to stabilize public debt at 120% of GDP (113.2% in 2024). This reduction actually requires a greater effort, in the order of 0.8 percentage points excluding interest charges, as interest charges are expected to increase by an average of 0.3 percentage points per year.

With this in mind, a first step would be to achieve the government's target of reducing the public deficit to 5.4% of GDP in 2025 (vs. 5.8% in 2024). However, this could be achieved by increasing revenues (including the exceptional contribution to corporate tax). France differs from other European countries mainly in terms of higher social spending. This has even increased faster than inflation, reaching 26.6% of GDP in 2024 (vs. 25.6% in 2019). This increase is unfunded (and the main cause of the rise in the public deficit), as contributions have grown at a rate close to that of wages (below inflation). As wages are now rising faster than inflation, benefits could now be under-indexed. This would reduce their share of GDP without risking a decline in the purchasing power of households' gross disposable income: a challenge for 2026 and beyond.

FOREIGN TRADE EXPECTED TO RECOVER

While foreign trade supported growth in 2024, this was due more to a decline in imports than to an increase in exports, which were penalized by the industrial recession in Germany and Italy. The first half of 2025 saw this trend continue, particularly in the automotive sector and its inputs, which were affected by the increase in US customs duties.

However, there are reasons for hope: on the one hand, since the implementation of US customs duties, there has been no decline in French exports across the Atlantic, but rather stagnation; on the other hand, the rebound in exports, already noticeable in the aeronautics and food sectors, should strengthen. Similarly, exports to Germany are growing again (after two years of decline), a trend that should be sustained by the implementation of significant investment support in Germany.

FRANCE: AERONAUTICS OUTPUT (VOLUME, SA)

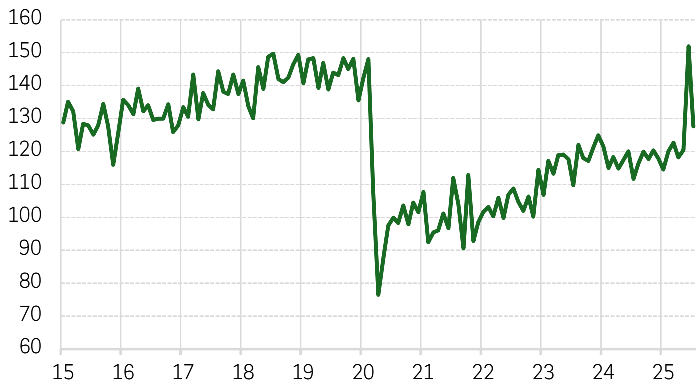

CHART 2 SOURCE: INSEE, BNP PARIBAS

FRANCE: MONTHLY BUSINESS CREATIONS (SA)

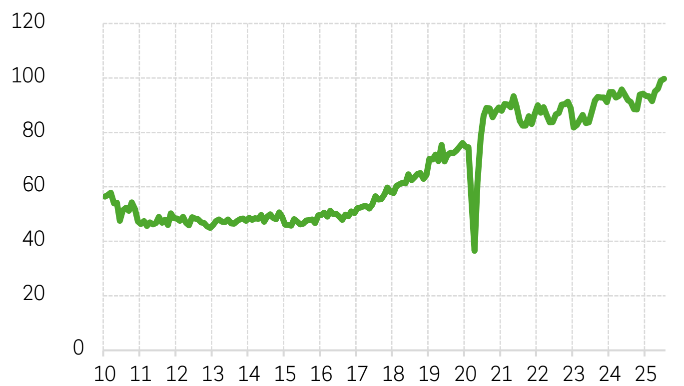

CHART 3 SOURCE: INSEE, BNP PARIBAS

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