Flash Economics

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Why is the euro zone economy holding up much better than the French economy?

The euro zone is still growing at a trend rate of close to 1% a year, whereas the French economy is stagnating. Yet the euro zone and France are facing the same shocks: rising energy prices and rising long-term interest rates. How can France's poor economic performance relative to the rest of the euro zone be explained? Probably by:

- the deterioration in the French labour market and, consequently, the decline in employees' purchasing power;
- greater pessimism among companies about the economic and political situation and, consequently, weak business investment;
- the restrictive fiscal policy required to stabilise the general government deficit at a time of zero growth.

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Euro zone growth has outpaced French growth since mid-2024

Charts 1A and 1B compare **growth in the euro zone and in France** from 2022 onwards, on a year-on-year and a quarter-on-quarter basis. **French growth has been significantly lower than euro zone growth** since mid-2024.

Chart 1A
Real GDP (Y/Y, %)

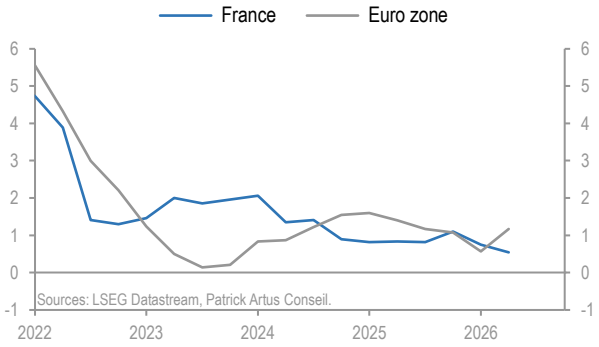
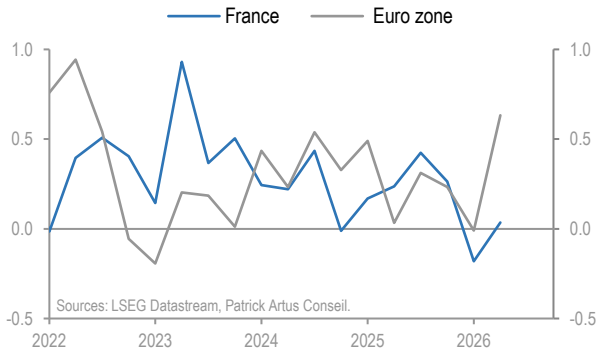


Chart 1B
Real GDP (Q/Q, %)



Yet France and the euro zone have been hit by the same adverse shocks:

- **rising energy prices** since the end of 2025 (**Charts 2A and 2B**);
- **rising long-term interest rates** (**Chart 3**).

Chart 2A
Oil price (Brent, $/bbl)

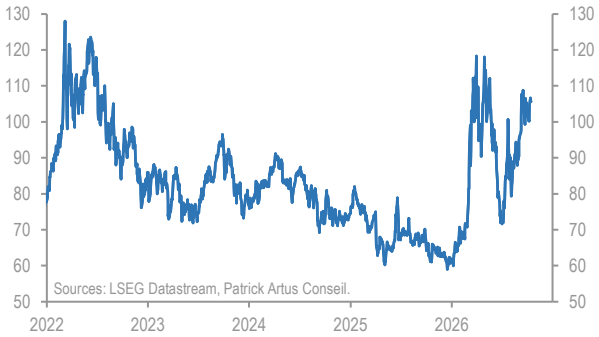


Chart 2B
Europe: Natural gas price (TTF, €/MWh)

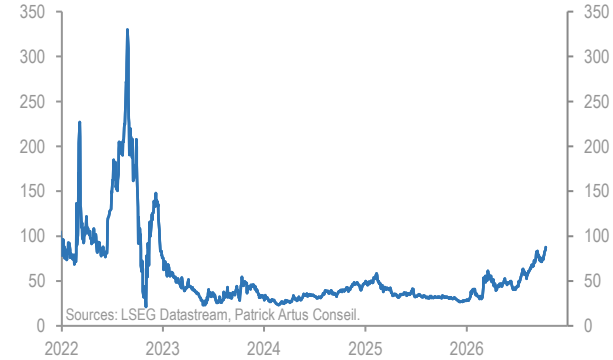
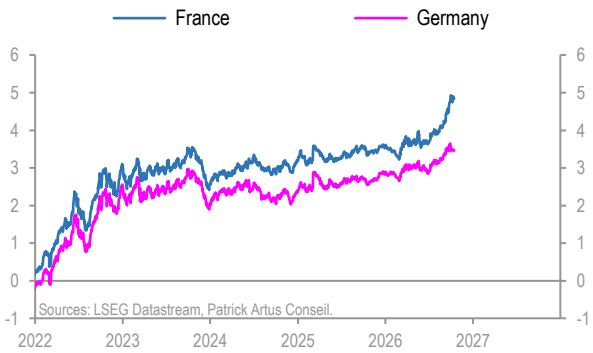


Chart 3
10-year government bond yields (%)



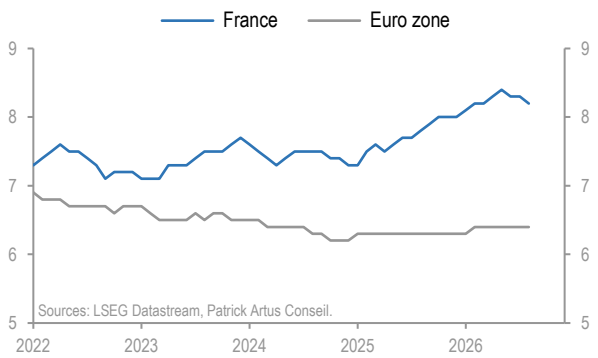
What explains the relative deterioration in France's economic situation?

Why France's situation has deteriorated relative to the rest of the euro zone since mid-2024

First explanation: the deterioration in the labour market

In France, **the unemployment rate** is higher than in the euro zone and is rising, whereas it is stable in the euro zone (**Chart 4**).

Chart 4
Unemployment rate (as %)



This explains why **wages** are rising more slowly in France than in the euro zone as a whole (**Chart 5**), hence **a decline in real wages** (the purchasing power of wages) in France in 2026 (**Chart 6**).

Chart 5
Nominal compensation per employee (Y/Y, %)

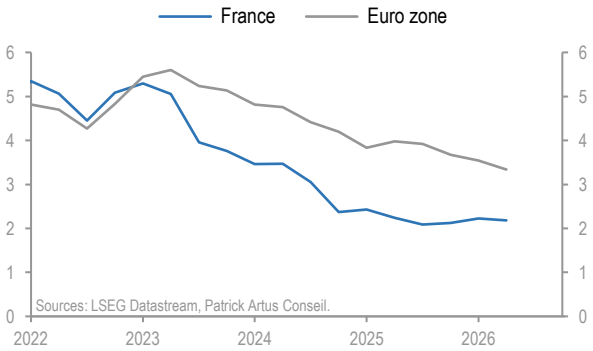
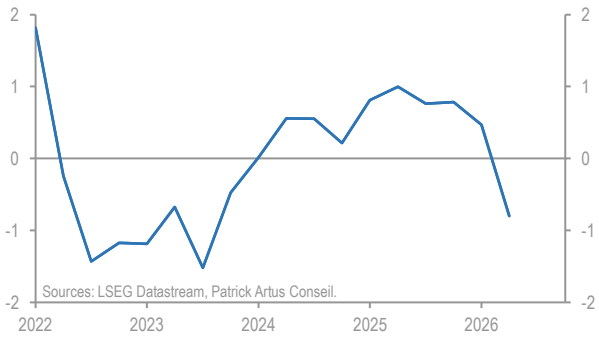


Chart 6
France: Real average wage per employee (Y/Y, %)

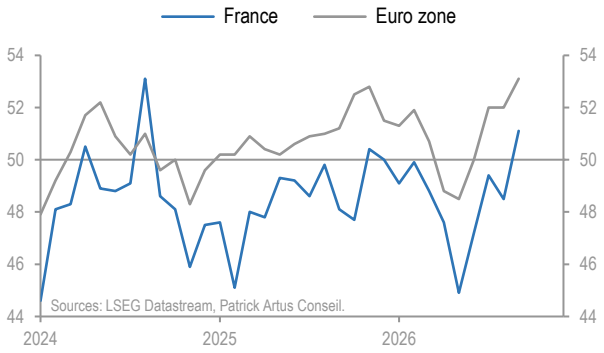


There is of course a vicious circle here: in France, weak growth is causing the labour market to deteriorate. The deterioration in the labour market is holding back wage growth, and household demand is consequently weak.

Second explanation: business pessimism

Since 2024, **the composite PMI** has pointed to **relative confidence in the economic outlook among euro zone companies and pessimism among French companies** (**Chart 7**).

Chart 7
Composite PMI



This pessimism among French companies may stem from:

- the fiscal outlook, with concerns about the tax burden on companies;
- political uncertainty.

This pessimism is perpetuating the weakness of business investment, which has stagnated in volume terms since the end of 2023 and whose share of GDP has been declining since the beginning of 2023 (**Charts 8 and 9**).

Chart 8
France : Investment by non-financial corporations in volume terms

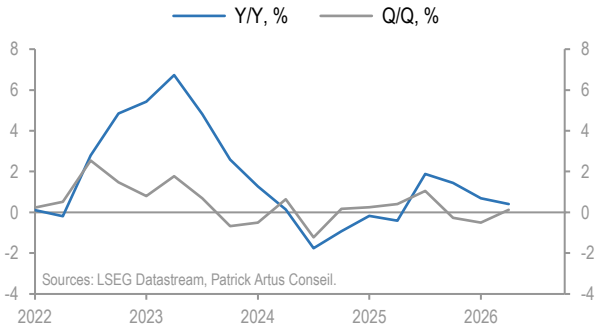
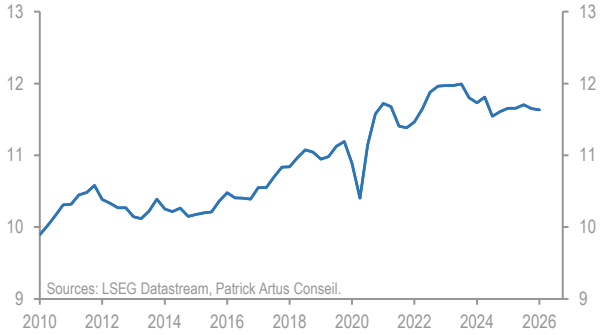


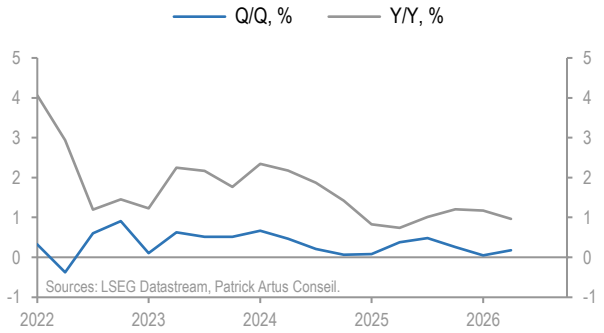
Chart 9
France : Investment by non-financial corporations (as % of GDP)



Third explanation: a necessarily restrictive fiscal policy

Fiscal policy is already restrictive today: central and local government expenditure has been growing very slowly since the end of 2024 (**Chart 10**).

Chart 10
France: General government consumption and investment in volume terms



It is, however, widely acknowledged **that French fiscal policy will have to be markedly more restrictive in the future** if the aim is to stabilise the government debt-to-GDP ratio. Given the gap between the long-term interest rate and nominal GDP growth, **the**

improvement in the general government primary balance (excluding interest payments) required to achieve this **would be of the order of 5 percentage points of GDP**, which is considerable. It is therefore logical for companies to respond to this prospect by cutting back on investment and employment.

Summary: towards a dangerous vicious circle

The French economy has entered a vicious circle: the need for a very restrictive fiscal policy, hence pessimism among companies, a fall in investment and employment, and therefore a deteriorating labour market and slower wage growth. This results in weak demand from companies and households, and therefore weak tax revenue and a greater need for fiscal adjustment.

Breaking out of this vicious circle would require:

- either a very favourable shock (a sharp fall in energy prices, a sharp fall in long-term interest rates);
- or the prospect of a recovery in productivity gains and growth driven by the development of artificial intelligence;
- or an abrupt cut in public spending that would rapidly repair the public finances and, although very costly in terms of employment and growth in the short term, would revive optimism about the long term, especially if it made room for more future-oriented investment (energy transition, digitalisation, research, education, etc.).

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