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France: many reasons for concern

There are legitimate grounds for concern about France's economic and financial outlook, for the following reasons:

- falling real wages will hold back household consumption, even though the saving rate is declining;
- rising long-term interest rates will cause residential investment to fall again;
- political risk, the decline in the profit share and the high cost of debt give businesses little incentive to invest;
- growth will therefore remain weak, unemployment will continue to rise and the employment rate to fall;
- with very weak growth, well below long-term interest rates, and no parliamentary majority, the chances of reducing the public deficit and eventually stabilising the public debt ratio are very slim.

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First concern: falling real wages

Real wages have been falling since the start of 2026 (**Chart 1**), reflecting higher inflation and weak wage growth (1.9% year on year) due to the relatively high unemployment rate (8.3% in the second quarter of 2026, up 0.7 percentage points on a year earlier).

Despite the decline in the household saving rate since the fourth quarter of 2024, falling real wages account for **the very weak growth in household consumption since mid-2025** (**Chart 2**).

Chart 1
France: Real average wage per employee (Y/Y, %)

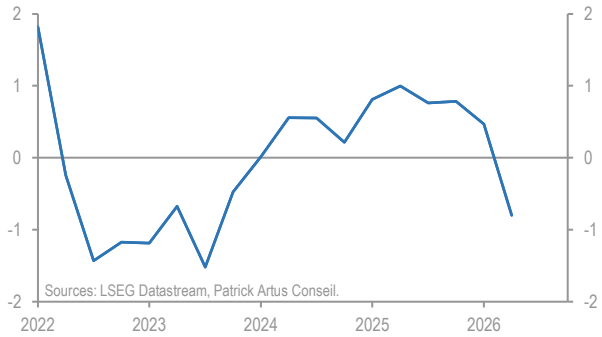
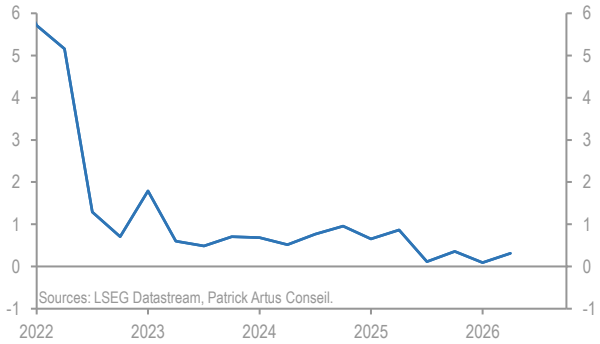


Chart 2
France : Real household consumption (volume, Y/Y, %)



Second concern: rising long-term interest rates

Long-term interest rates, both nominal and real, have been rising continuously since 2022 (**Chart 3**). This has, in particular, **depressed residential investment** (**Chart 4**).

Chart 3
France: 10-year government bond yield (%)

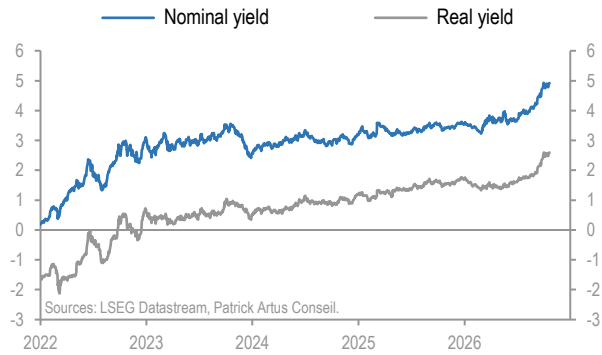


Chart 4
France: real household investment



Third concern: chronic underinvestment

French businesses invest little, both overall and in intellectual property products (research and development; **Charts 5 and 6**).

Chart 5
France: Investment by non-financial corporations
(as % of GDP)

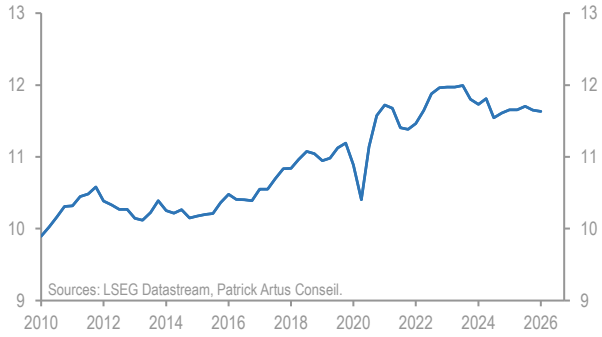
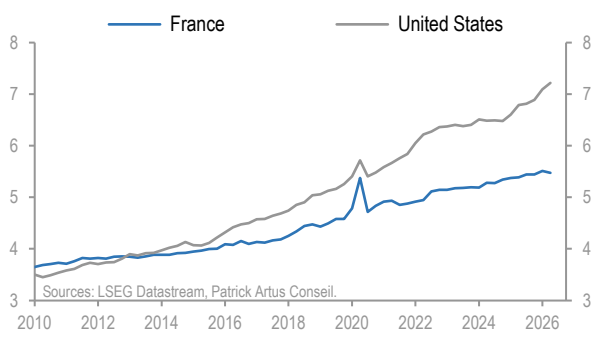


Chart 6
Investment in intellectual property products
(as % of GDP, in volume terms)



This weakness in investment, which has been particularly pronounced since 2022, stems from:

- **political risk** (uncertainty about the outcome of the April–May 2027 presidential election), and the resulting uncertainty over policies towards businesses (taxation, inheritance tax, etc.);
- **the decline in the profit share of non-financial corporations** since the start of 2024 (**Chart 7**);
- **rising interest rates** (see **Chart 3** above).

This underinvestment explains weak labour productivity gains since 2019 (**Chart 8**), and hence weak growth.

Chart 7
France: Profit share of non-financial entreprises (as %)

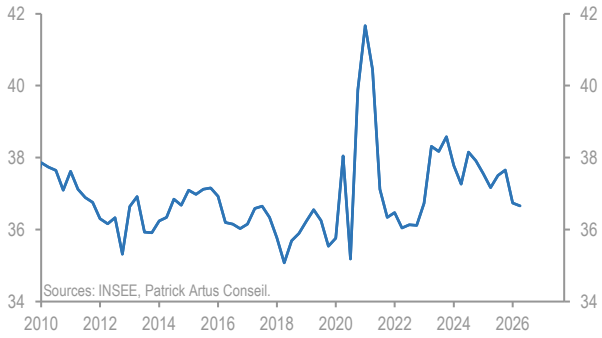
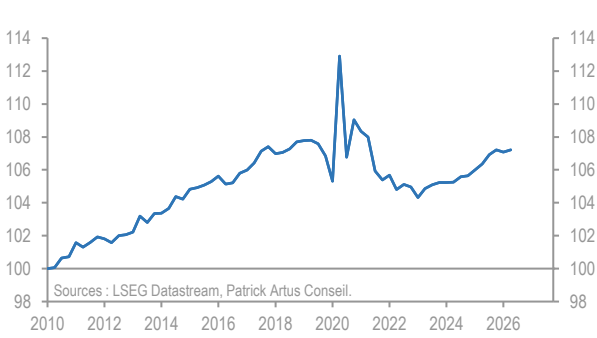


Chart 8
France: Labour productivity per hour worked
(2010 Q1 = 100)



Fourth concern: growth will remain weak

Three factors are at work:

- falling real wages;
- declining residential investment;
- underinvestment by businesses.

As a result, **growth will remain weak** (**Chart 9**), the unemployment rate will continue to rise and the employment rate to fall (**Chart 10**), as has been the case since mid-2025.

Chart 9
France: Real GDP

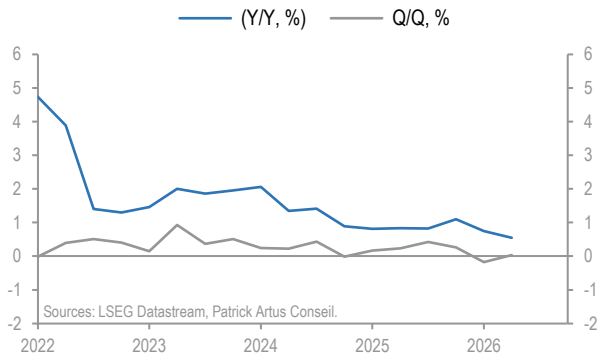
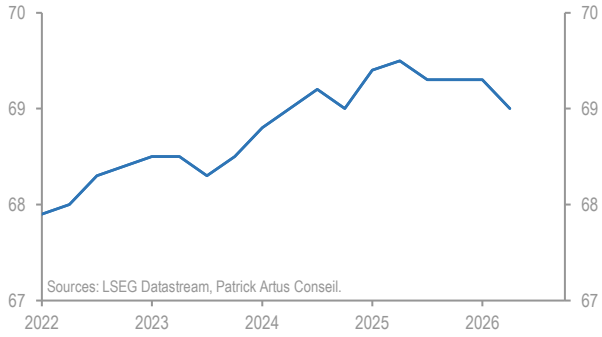


Chart 10
France: employment rate, aged 15–64 (%)



This creates a vicious circle: as unemployment rises, real wages fall ever further, while weak growth gives businesses little incentive to invest.

Fifth concern: stabilising the public debt ratio is all but impossible

Growth is therefore weak and well below the long-term interest rate (**Charts 11A and 11B**). **The primary deficit remains close to 3% of GDP** (2.8% in 2026; **Chart 12**).

Chart 11A
France: nominal GDP (Y/Y, %)

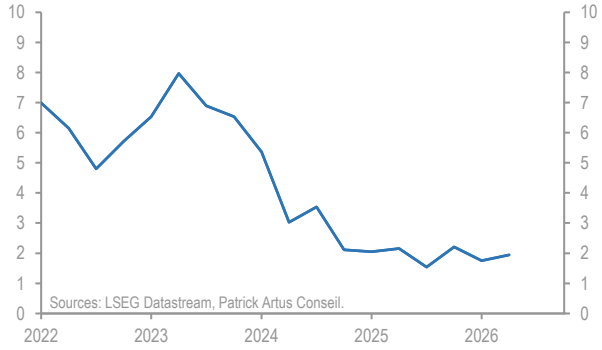


Chart 11B
France: 10-year government bond yield (%)

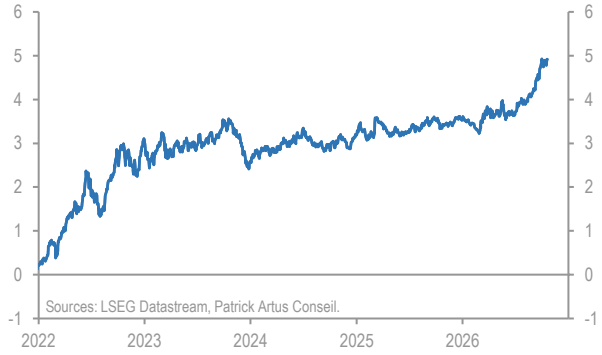
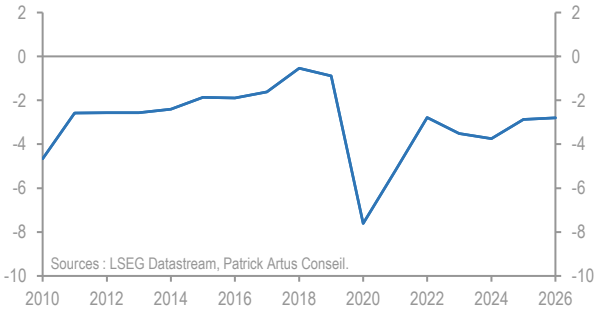


Chart 12
France: General government primary deficit
(as % of GDP)



Stabilising the public debt ratio would require France to move from a primary deficit of 2.8% of GDP to a primary surplus of 3.5% of GDP, i.e. **an improvement in the primary balance of 6.3 percentage points of GDP**.

No government will be prepared to pursue such a restrictive fiscal policy; **the probability of the public debt ratio being stabilised over the medium term is therefore very low**.

Summary: which way forward for economic policy?

If the outlook is for rising unemployment and hence falling real wages, rising long-term interest rates, declining residential and business investment, and governments unable to reduce the public deficit and stabilise the public debt ratio, then the prospects for the French economy are very bleak.

To break out of this situation, France would need to:

- raise the employment rate (among young people through reform of the education system, and among the over-60s by raising the statutory retirement age), which would also require vocational training to be geared more towards older workers;
- use the increase in tax revenue generated by the rise in the employment rate to invest in education and to help businesses adopt new technologies (artificial intelligence); the resulting pick-up in long-term growth would reassure investors and help to bring down long-term interest rates.

Without a recovery in the employment rate, tax revenue will remain weak, the public deficit will remain high and it will be impossible to break out of the equilibrium of weak growth and rapidly rising public debt.

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