Flash Economics

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Political uncertainty is here to stay in France and investors will be increasingly concerned

It is likely that, in France:

- Political instability will last, probably until the next presidential election, normally scheduled for the first half of 2027;
- Political uncertainty will also be long-lasting, particularly over the outcome of the next presidential election.

This situation heralds:

- Continued weakness in business investment, in turn weakening productivity and potential growth;
- High levels of precautionary savings;
- Weak growth that will worsen the situation of public finances;
- Finally, growing investor anxiety, leading to widening long-term interest rate differentials with other European countries.

As a result, we cannot expect a recovery in growth or an improvement in France's financial situation for several years to come.

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Lasting political instability and uncertainty in France

With **the National Assembly divided into three blocs** (left, Conservatives, far right), none of which has a majority, and with the profound differences of vision between them (on public spending, taxation, immigration, foreign policy, etc.), **it is likely that France will experience considerable political instability until the next presidential election**, with little likelihood of a government being able to stay in office for long.

In addition, the outcome of the next presidential election (in the first half of 2027) **is uncertain**, as we don't know what alliances will be formed in the first round of voting.

France is therefore likely to experience at least two years of political instability and uncertainty.

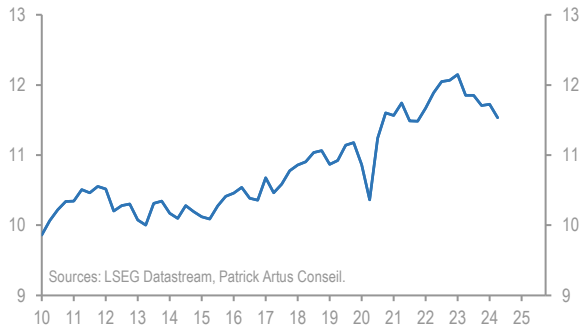
Consequences of political instability and uncertainty

1. Weak business investment

While **the rate of investment by French businesses** rose between 2015 and 2022, it has been falling steadily since the 2nd quarter of 2023 (**Chart 1**).

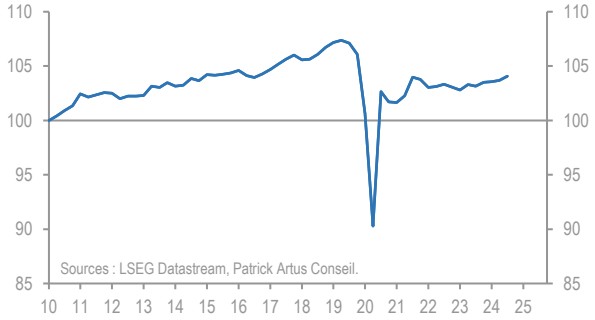
Uncertainty over the economic policies that will be pursued (possible increase in corporate taxes, possible cuts in social security contributions relief, possible reductions in public spending, etc.) is obviously holding back investment.

Chart 1
France: Investment of non-financial corporations in value terms (as % of nominal GDP)



The slowdown in investment will inevitably lead to a **slowdown in productivity** (**Chart 2**), and in potential growth.

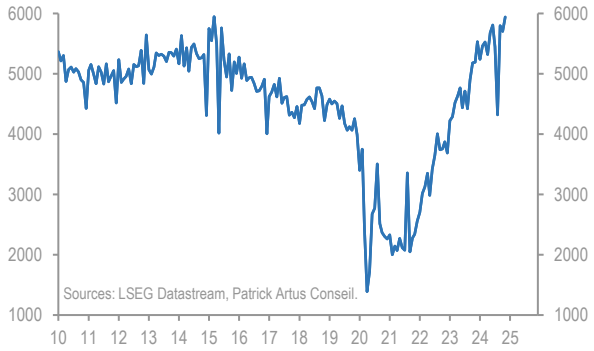
Chart 2
France: Productivity per head (2010.Q1 = 100)



2. Significant precautionary savings

Uncertainty also affects households' expectations regarding tax pressure, pension levels, unemployment and jobs; French households may also be particularly worried about the sharp rise in business failures (**Chart 3**).

Chart 3
France : Corporate bankruptcies (monthly data)



In response to this uncertainty, **French households have decided to build up substantial precautionary savings** (**Chart 4**), which is weighing on household consumption expenditure (**Charts 5 A/B**).

Chart 4
France: Gross household savings rate
(as % of gross disposable income)

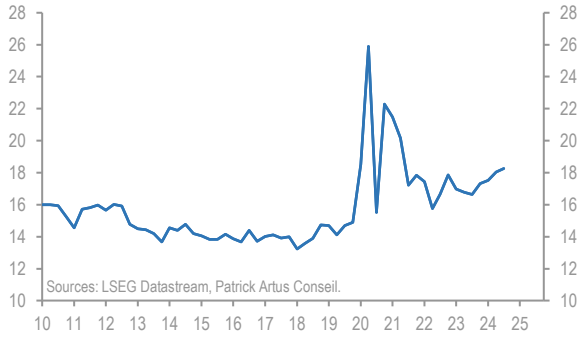


Chart 5A
France: Household consumption expenditure
in volume terms (Y/Y as %)

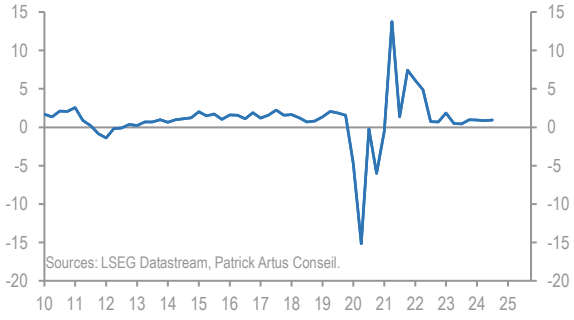
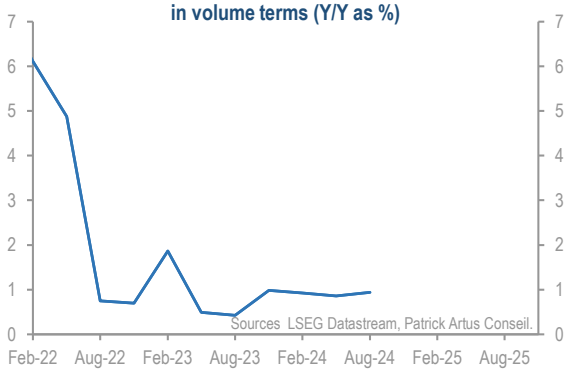


Chart 5B
France: Household consumption expenditure
in volume terms (Y/Y as %)



Weak growth and worsening public finances

Since both business investment and household consumption expenditure will suffer from political uncertainty, **growth in France will be weak in 2025 and 2026** (**Charts 6A/B/C**).

Chart 6A
France : Real GDP (Y/Y as %)

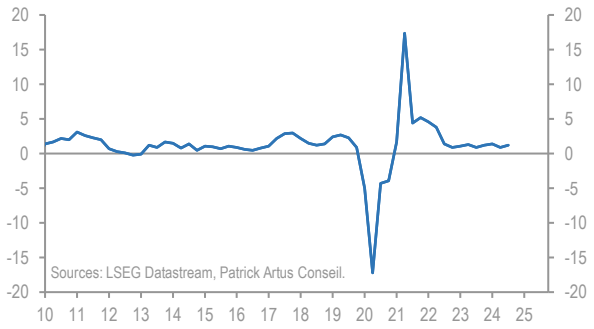


Chart 6B
France : Real GDP (Y/Y as %)

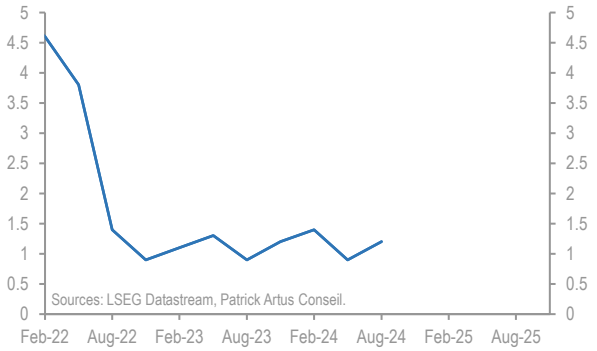
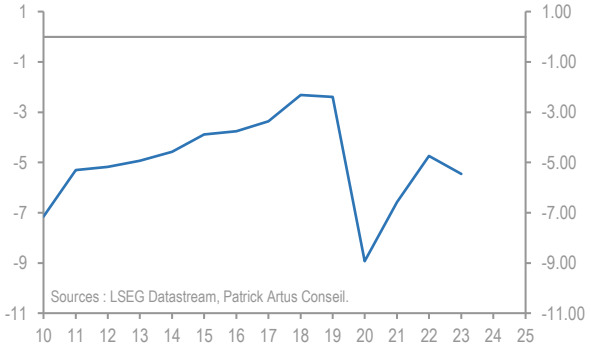


Chart 6C
France: Composite PMI (index)



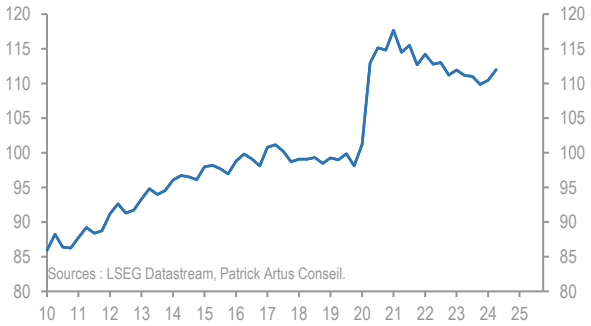
This weakness in growth **will uphold a high public deficit** (**Chart 7**), all the more so as the absence of a majority in Parliament will prevent the adoption of measures to cut public spending or raise taxes, with a majority of MPs opposing one or the other.

Chart 7
France: Fiscal surplus or deficit (as % of nominal GDP)



The public debt ratio will therefore continue to rise fairly rapidly (**Chart 8**).

Chart 8
France: Public debt (as % of nominal GDP)



Growing concern in financial markets

Political instability and uncertainty in France will therefore be long-lasting, resulting in weak growth and deteriorating public finances.

All these developments will be received negatively by investors, **and we can therefore expect long-term interest rates in France to rise relative to those in other European countries** (**Charts 9A/B/C**).

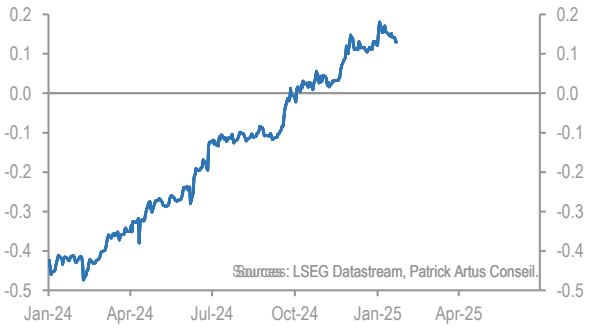
Chart 9A
France : 10-year government bond yield spread with Germany (in % points)



Chart 9B
France : 10-year government bond yield spread with Italy (in % points)



Chart 9C
France : 10-year government bond yield spread with Spain (in % points)



Summary: Political instability and uncertainty in France will have a long-lasting impact on investment, spending, growth and public finances.

We believe that, at least until the 2027 presidential election, political instability and uncertainty will be high in France.

The result will very probably be weak investment, spending and growth, a persistently high public deficit, a further rise in public debt levels and, consequently, a decline in investor confidence in France's financial solidity.

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