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France: Navigating the current market turbulence

Key Messages

1. The recent economic underperformance is due to exceptional factors.
2. Structurally, France can generate growth that will help the public debt ratio to stabilise, provided that its budget deficit is brought down to approximately 3% of GDP.
3. France's fundamentals and a growing political alignment towards stability suggest that the current volatility is a transition phase rather than a systemic failure.

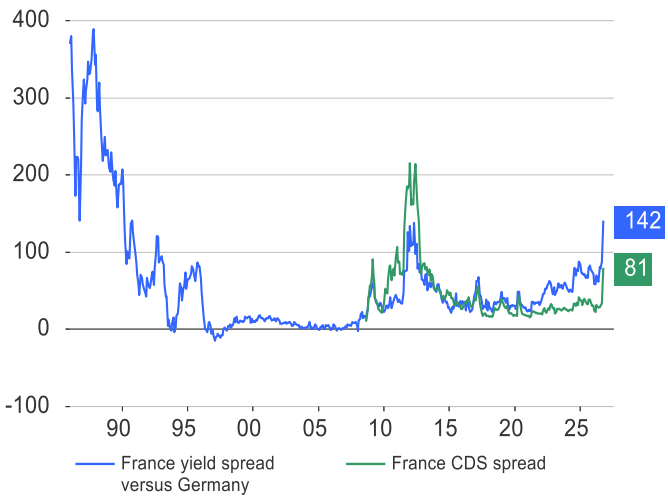
Economic Outlook

In 2026, the government has once again failed to stabilise its public debt-to-GDP ratio due to a significant fiscal deficit and lower-than-usual growth. According to our analysis, this underperformance is due to exceptional factors. Structurally, France can still generate growth that will help the public debt ratio to stabilise, provided that its budget deficit is brought down to approximately 3% of GDP. To achieve this, it has significant strengths: i) improved competitiveness in terms of labour and energy costs, ii) its services sector, notably through the development and use of new technologies (including AI); iii) an industrial recovery driven by aeronautics, military spending and electrification, which calls for increased investment; iv) accelerating business creation that supports employment; v) its attractiveness to foreign investors. All these structural drivers should enable French growth to rebound and participate in the expected acceleration in the eurozone in 2027. We expect growth to accelerate from 0.5% 2026 to 1% in 2027. Inflation is expected at 2.3% compared with 2.4% in 2026.

Market concerns put into perspective

The concerns fuelling this market volatility are rooted in three primary areas: fiscal discipline, political stability, and short-term growth. France has struggled to meet its fiscal consolidation targets in three of the last four years, leading to a projected debt-to-GDP ratio exceeding 120% for next year. This fiscal fragility is compounded by a complex political landscape. Since the summer of 2024, a hung Parliament has made passing budgets a precarious exercise. With presidential elections approaching in April and May 2027 and polls showing strong support for parties on the Far Left and the Far Right, investors are pricing in a degree of political uncertainty. Furthermore, the economy narrowly avoided a recession in the first half of 2026, underperforming relative to the broader eurozone.

RISK INDICATORS



Source: LSEG Datastream, 12/10/2026

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However, despite these alarming signals, a narrative of panic is not justified. While the market's reaction is a necessary wake-up call for policymakers, drawing parallels with the Greek government debt crisis is not relevant. France possesses fundamental structural strengths that provide a robust buffer. As already mentioned, the economy remains capable of returning to its 1% trend growth rate, and the nation's financial resilience is underscored by household financial assets that amount to approximately twice the level of public debt.

Crucially, the political climate is shifting towards a consensus on fiscal responsibility. While the potential winner of the 2027 election remains uncertain, public opinion has overwhelmingly identified public debt as a priority. Candidates across the political spectrum, from the Centre Left to the Far Right, are committed to stabilising the debt-to-GDP ratio by 2032 and capping deficits at 3%.

There is also a general acceptance of the necessity for pension reform and a unanimous commitment to remain within the euro area. No major political force wishes to be held responsible for a financial crisis, and this should facilitate the passing of the 2027 budget.

While the path to the forthcoming election in spring 2027 will likely remain bumpy, the extreme scenarios currently suggested by market pricing are improbable. It is also important to note that France is not alone in this trend; other high-debt eurozone sovereigns have also seen their spreads widen as yields rise globally. This broader trend may prompt the European Central Bank to reconsider the pace of its quantitative tightening, especially as the Federal Reserve and the Bank of England are adjusting their stances.

In sum, while alarm bells in the bond market are ringing, they serve as a catalyst for necessary fiscal correction rather than a signal of imminent collapse. France's structural fundamentals and a growing political alignment towards stability suggest that the current volatility is a transition phase rather than a systemic failure.

Classification : Internal

BNP Paribas Forecasts			
GDP Growth %	**2025**	**2026**	**2027**
United States	2.1	2.2	2.3
Japan	1.2	1.0	1.2
UK	1.3	1.2	1.3
Switzerland	1.8	2.0	1.7
Eurozone	**1.3**	**1.1**	**1.5**
Germany	0.3	1.1	1.3
France	0.9	0.5	1.0
Italy	0.7	0.9	0.8
Emerging			
China	5.0	4.6	4.5
India*	7.8	6.7	6.9
Brazil	2.3	1.9	1.3

* Fiscal year

Source : BNP Paribas - 01.10.2026

BNP Paribas Forecasts			
CPI Inflation %	**2025**	**2026**	**2027**
United States	2.7	3.4	2.3
Japan	3.1	2.0	2.5
UK	3.4	3.2	3.2
Switzerland	0.2	0.6	0.7
Eurozone	**2.1**	**3.0**	**2.8**
Germany	2.3	2.7	2.6
France	0.9	2.4	2.3
Italy	1.6	2.9	2.1
Emerging			
China	0.0	1.0	1.2
India*	2.1	5.0	4.6
Brazil	5.0	4.5	4.6

* Fiscal year

Source : BNP Paribas - 01.10.2026

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