Prospects

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The point of view

France: Banque de France says slightly lower growth and inflation in 2025 and 2026

The Banque de France has published the findings of its start of March Monthly Business Survey as well as interim macroeconomic projections. As was the case the previous month, the survey suggests positive but weak first-quarter growth of between 0.1% and 0.2%. Compared with its most recent medium-term forecasts (December 2024), the Bank has downgraded its growth forecasts for this year and next year to 0.7% and 1.2% respectively. It has also cut its average annual inflation forecast to 1.3% this year and 1.6% next year (based on the Harmonised Index of Consumer Prices, HICP). Forecast unemployment remains unchanged, rising to 7.8% in 2025 and 2026.

The findings of the Banque de France Monthly Business Survey – Start of March show that industrial activity continued to grow in February, contrary to last month's expectations. Conversely, there was little growth in market services and construction. Business leaders expect modest growth in market services in March but little growth in industry and construction. There is some good news: after rising the previous month, the monthly uncertainty indicator has declined in market services and even more so in construction. The Bank puts this decline down to the fact that the French Government has now passed a budget. However, the indicator remains unchanged in industry, with manufacturers citing the international environment as the number one driver of uncertainty, with particular concerns about US import tariffs in sectors such as metalworking, metal products and capital goods. Survey responses also suggest that selling prices and recruitment difficulties continue to normalise.

In light of elements derived from its survey, which it traditionally supplements with other short-term economic indicators, the Banque de France anticipates first-quarter growth of between 0.1% and 0.2%, unchanged from last month. Added value is expected to be driven by market services (after the boost from the Paris Olympic and Paralympic Games washed out in the fourth quarter of 2024), agriculture and energy while holding steady in manufacturing industry and construction.

In its March interim macroeconomic projections, the institution downgraded its growth and inflation forecasts for the next two years. It now expects GDP to grow by 0.7% this year (compared with 0.9% in its December 2024 projections) and 1.2% in 2026 (previously 1.3%). Looking at the detail, the 2025 downgrade is a result of the decline in the contribution of changes in inventory to growth (down 0.2 percentage points/pp), probably as a result of overhang effects. The 2026 downgrade is due to lower growth in investment and public consumption.

As regards inflation, the Banque de France has also downgraded its average annual forecasts for 2025 and 2026 to 1.3% (down 0.3 pp) and 1.6% (down 0.1 pp) respectively, based on HICP. These downgrades are a result of weaker core inflation (i.e. excluding energy and food), revised down 0.4 pp to 1.8% in 2025 and 0.1 pp to 1.8% in 2026. In particular, wage growth was slower than forecast in 2024 (with growth in the average per capita wage coming in 0.3 pp lower than expected, at 2.5%) and is also set to be less buoyant than originally forecast in 2025 (0.4 pp lower at 2.4%), which means services inflation should slow more sharply than previously expected.

Net job destruction should be lower in 2025 than the Bank's December forecast after stronger growth in employment in 2024. However, forecast average annual unemployment rate remains unchanged and is set to rise to 7.8% for the whole of France in 2025 before stabilising at that level in 2026.

The Banque de France's forecast takes into account the 10 pp increase in US import tariffs on Chinese goods and China's retaliatory measures (with a minimal impact on France). However, it does not take into account higher tariffs on imports from Canada, Mexico or the European Union (EU). Uncertainty arising from these measures is, however, factored in, with a negative impact on economic activity in France (reducing 2025 GDP by 0.1 pp). Nor does the forecast take into account the European Commission's announcements on increased military spending or measures being debated in Germany. Domestically speaking, the Bank has factored in the effects of the 2025 Budget Act passed on 14 February. The forecast is fraught with uncertainty. Risks remain mainly to the downside on growth (potential US tariff hikes and European responses). However, higher military spending constitutes an upside risk to growth at the end of the forecast horizon.

The Bank has endeavoured to quantify the risk associated with trade tariffs, modelling the impact of a 25 pp hike in US import tariffs on goods from the EU. Estimates produced by the ECB-Global model point to a decline in eurozone GDP after a few quarters and a maximum impact of around -0.3% after one to two years. This includes both direct effects on European exports and the indirect effects of a slowdown in the US economy (with monetary policy in particular likely to be more restrictive) and the global economy. But the impact on European GDP and inflation will depend on how exchange rates move in response, how the EU responds, whether Chinese exports shift to the European market, and so on. In other words, there is still plenty of uncertainty. The effects on European inflation are equivocal and would in any case be limited. The economic impact on France would be lower than that on the eurozone as a whole because France's exports are less exposed to the US market.

☑ **Our opinion –** The Banque de France's growth forecasts for 2025 and 2026 are fairly close to the ones built into our December scenario, with growth slightly weaker in 2025 (0.7% as opposed to 0.8%) and subsequently slightly stronger in 2026 (1.2% as opposed to 1.1%). What we find most surprising is the sharp acceleration in wages expected in 2026. Our scenario for France will be revised in the near future, with an updated version due to be published in early April.

High levels of uncertainty around international trade (US import tariffs and reprisals) and recent European announcements (potential additional military spending and a German infrastructure investment plan) mean forecasting is currently a complicated business. However, the assessment put forward by the Banque de France of the impact of a 25 pp increase in US import tariffs on European goods shows that the effect on the French economy should remain fairly limited at the macroeconomic level, though some sectors could fare worse than others. One thing is clear: if there is a trade war, we will all be losers.

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