



EEFC Seminar

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Remarks on the economic outlook for France and the euro area

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Ladies and Gentlemen,

Let me begin by thanking the European Economic and financial Center and its Chairman, Professor Scobie, for their invitation and for organizing today's exchange. I am grateful for the opportunity to discuss recent economic developments in France and in the euro area, and to share our assessment of the short-to-medium term outlook.

Over the past few years, our economies have been confronted with a series of significant and atypical shocks: the Covid-19 pandemic, the War in Ukraine, and renewed global trade tensions. Despite this challenging environment, economic activity and employment have proved remarkably resilient.

At the same time, inflation, which had reached unprecedented double-digit levels, has receded close to our 2 percent reference value. The disinflation process is now essentially complete: in January, inflation stood at 1.7% in the euro area. Thanks to the credibility of the European Central Bank, the monetary policy tightening needed to bring inflation down did not trigger a recession—an “immaculate disinflation” that few thought possible. As President Christine Lagarde indicated, we are “in a good position”, although vigilance and agility remain essential in an uncertain environment.

In that context, I have structured my remarks around three issues: the economic momentum since the beginning of the year, our central scenario for the medium-term outlook and our assessment of the balance of risks.

1. Regarding the momentum since the beginning of this year, I would like to highlight four underlying points:

a. A new increase in global uncertainty.

Several geopolitical events have contributed to this: the United States' intervention in Venezuela, a new round of political tensions around Greenland, not to mention threats of new tariffs directed at U.S. allies. Let me note that the recent U.S. supreme court ruling that declared the Trump administration tariffs illegal is merely another symptom of the unpredictability surrounding U.S. trade (and other) policies. Overall, text-based indicators of uncertainty have risen sharply, reflecting media amplification.

By contrast, financial market volatility has remained well contained, with no significant increase in the VIX index. Action was concentrated in specific market segments, including higher gold and gas prices. Over the same period, the euro appreciated against the dollar—more as a consequence of doubts surrounding U.S. economic policies than of the euro's intrinsic strength.

b. In France, by way of contrast, domestic uncertainty has eased slightly following the adoption of a budget and a period of relative political stability.

This contributed to lower government bond (OAT) yields and a modest improvement in business sentiment, as shown by the evolution of the uncertainty indicator incorporated into the Banque de France Monthly Business Survey. That said, while the direction is good, the absolute level of uncertainty remains high.

c. Against this mixed backdrop, economic activity has continued to show resilience.

In the fourth quarter of last year, euro-area GDP growth exceeded expectations at 0.3% – which was above the 0.2% forecast. The latest high-frequency indicators suggest that the growth momentum in the first quarter of 2026 is again likely to surprise on the upside, both in the euro area and in France. Our current forecast for France is a growth rate for Q1 of 0.2% – 0.3%.

The composition of growth continues to differ across sectors, as illustrated on this slide (slide 3). Services remain more dynamic than manufacturing at the euro-area level. This uneven pattern is often described as a K-shaped recovery, with some sectors performing much better than others. In France, manufacturing is now also recovering, buoyed by the aeronautics, defense and agrifood industries, whereas other branches are less dynamic, once again representing the famous K curve.

- d. **Euro-area inflation has normalized but fairly sizeable differences remain across countries** (slide 4). In January, it came out at 0.4% for France and 1.7% for the euro area.

As you can see on the slide there are significant cross-country differences. They reflect a combination of temporary factors—such as the concentration of winter sales in January in France or electricity-price base effects—and more structural elements such as wage dynamics and movements in administered prices (healthcare, sewage or transportation services, to name but a few). In France, where average inflation has consistently been below that of the euro area, a sharper wage deceleration—partly reflecting muted second-round effects related to much lower peak inflation in 2022—together with more moderate increases in administered prices, are damping down services inflation compared to the rest of the euro area.

2. **Given the current momentum, let me turn now to my second point, our central projection for the medium-term outlook for France (slide 5).** Here I would like to highlight three points:

- a. **Our central scenario remains in line with our most recent projections.**

Compared to the December projections, the latest information points to a slightly stronger growth momentum in both France and the euro area in 2026. In contrast to the euro area, inflation in France surprised on the downside at the beginning of this year.

Turning to the public finances, the French budget adopted involves less fiscal consolidation than anticipated when preparing the December projections—notably due to the re-indexation of certain social benefits and tax brackets. However, this is likely to be offset by more cautious behavior from households and firms, leaving the overall growth impact close to zero, and the expected upward growth trend moderate and hovering at a little over 1%.

- b. **Growth is expected to be driven mostly by domestic demand.**

In France, with wages rising faster than prices, household purchasing power keeps increasing, while the labor market remains resilient. Total employment in France is at a historic high. These elements should support consumption and, in turn, investment, possibly more strongly than initially projected. Meanwhile, external demand is gradually improving.

Uncertainty nevertheless remains a notable headwind. The household savings rate is expected to remain high – it is currently at 18.4% – while firms are expected to keep healthy cash buffers to deal

with contingencies. As a result, both consumption and investment are likely to remain more muted than they would in a less uncertain environment.

Trade and public expenditure trends are two areas of contrast between France and the euro area. Euro-area exports will continue to be constrained by competitiveness issues, whereas French export market shares are expected to stabilize thanks to lower unit labor costs than in the euro area. As regards public consumption and investment, they should increase significantly in the euro area, against the backdrop of booming defense and infrastructure spending in Germany. Elsewhere in the euro area, public expenditure profiles will vary, reflecting in particular the unwinding of NGEU-related spending in Southern Europe. In France, growth in public consumption and investment is projected to remain sluggish over the coming years, despite planned increases in defense spending, in the context of the ongoing fiscal consolidation. The projection assumes a primary structural adjustment of 0.6 percentage point of potential GDP in 2027 and 2028. This assumption is strictly conventional, however, and we will know more about the amplitude and composition of French fiscal consolidation in future finance acts.

c. The inflation outlook is similar for France and the euro area, albeit with a somewhat lower inflation path in France.

Headline inflation should stay below 2% in 2026 and 2027, before gradually moving back toward the ECB's 2% medium-term target in 2028. This trajectory is largely driven by energy: strong base effects in 2026 will push inflation lower, with a normalization expected in 2027, before a pickup in 2028 on the back of ETS2 implementation.

Core inflation should continue to decrease as wage pressures (and with them service inflation) moderate. France's lower trajectory will reflect continued wage moderation and limited industrial goods inflation.

3. My final comments are related to the balance of risks (slide 6)

In December, the balance of risks surrounding activity for the euro area and France was assessed as broadly neutral. Recent positive surprises in economic activity may indeed signal a stronger rebound in the short run. However, geopolitical tensions and domestic uncertainties will continue to weigh on household consumption and business investment.

For inflation, the balance of risks was seen as broadly neutral for the euro area and slightly to the downside for France due to imported prices and more muted wage growth.

Two points deserve particular attention going forward.

First, the exchange rate. The recent appreciation of the euro is primarily the result of dollar weakness. At around 1.18 dollars per euro, the exchange rate remains close to its long-term average. Nevertheless, given the unpredictability of U.S. economic policy and its impact on the attractiveness of dollar-denominated assets, we must remain vigilant.

Second, Chinese imports. Their recent increase in volume, combined with falling prices, is likely to exert additional disinflationary pressure in the euro area.

Absent new shocks, these elements suggest that risks to inflation in 2026 may well remain tilted to the downside.

Conclusion – Monetary Policy

To conclude, let me highlight the main points that emerge from our assessment.

First, the beginning of 2026 confirms the resilience of both the French and euro-area economies. Despite a rise in global uncertainty, activity continues to hold up well and the disinflation process is now complete.

Second, our outlook remains consistent with the December projections: domestic demand should gradually strengthen, supported by the recovery in real wages and a resilient labor market. Differences between France and the euro area persist, but they do not alter the overall trajectory of a stabilization around the inflation target.

Third, risks remain and call for vigilance and agility. On the one hand, geopolitical tensions could increase energy prices but on the other hand, exchange-rate developments and trends in imported prices—especially from China—could exert additional downward pressure on inflation.

In this context, even if the Governing Council decided to maintain interest rates at 2% in early February, our policy stance cannot be seen as fixed. More than ever, it must remain governed by pragmatic agility, informed by hard data and anchored in the medium-term inflation outlook.