INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/179

FRANCE

July 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR FRANCE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with France, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 11, 2025 consideration of the staff report that concluded the Article IV consultation with France.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 11, 2025, following discussions that ended on May 22, 2025, with the officials of France on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 25, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for France.

The documents listed below have been or will be separately released.

Financial Stability System Assessment

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
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PRESS RELEASE

PR 25/249

IMF Executive Board Concludes 2025 Article IV Consultation with France

FOR IMMEDIATE RELEASE

- *France's economy has demonstrated resilience despite high uncertainty, with disinflation progressing well and the labor market remaining robust.*
- *The medium-term fiscal adjustment envisaged by the authorities is appropriate to strengthen public finances and should be supported by the approval of a credible and well-designed package of measures.*
- *Advancing France's structural reform agenda will be crucial to boost productivity and facilitate fiscal consolidation in the face of a challenging global environment.*

Washington, DC – July 14, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for France on July 11, 2025.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

The French economy has demonstrated resilience in 2024 despite high uncertainty. Real GDP grew by 1.1 percent in 2024, supported by the impact of the Paris Olympics, which temporarily boosted services and consumption, despite rising household savings rates. Policy uncertainty and tight financial conditions continued to weigh on private investment. The disinflationary process is progressing well, and the labor market remains robust. Despite the authorities' efforts to control spending, the fiscal stance was again expansionary in 2024, due to lower-than-expected revenues, overruns in local governments and social security, as well as rising debt service payments. As assessed by the IMF's 2025 Financial Sector Assessment Program (FSAP), the banking sector demonstrated resilience to recent shocks, maintaining healthy capital and liquidity buffers.

Real GDP growth is projected to slow to 0.6 percent in 2025, as trade tensions, weak growth in trading partners, market volatility, and high uncertainty add to already subdued external and domestic demand. While growth is expected to reach 1 percent in 2026, deepening geoeconomic fragmentation and domestic policy uncertainty pose significant downside risks. Nevertheless, easing trade tensions and renewed structural reform momentum could support

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/France page.

business and consumer confidence, enhancing growth prospects and facilitate fiscal consolidation over the medium term.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the French economy's resilience, notwithstanding the high uncertainty, noting the robust labor market and declining inflation. Noting the high and rising public debt, combined with significant domestic and external headwinds to the recovery, Directors emphasized the urgent need to strengthen public finances and pursue structural reforms to foster sustainable growth.

Directors agreed that the authorities' fiscal adjustment plans are appropriate to place debt on a downward path and emphasized the need to approve a well-designed and credible package of additional measures to underpin this adjustment going forward. They noted the importance of continuing to build consensus to further advance fiscal and structural reforms amidst difficult trade-offs in the current domestic and external environment, while ensuring fairness and equity. Directors generally agreed that fiscal consolidation should prioritize rationalizing current spending, with concerted action across all government levels, i.e., central, local, and social security ones, and called for robust contingency plans.

Directors commended the authorities for their strong financial oversight and macroprudential measures, as evaluated by the 2025 Financial Sector Assessment Program (FSAP). They broadly agreed that financial stability risks remain contained, with the financial system showing resilience under severe downside scenarios in the FSAP stress tests. Given the environment of increasing complexity, volatility, and regulatory requirements, Directors supported continued efforts to enhance risk analysis and improve data quality, notably on interconnectedness of financial institutions, while ensuring that supervisory authorities have adequate resources to meet evolving needs. They welcomed efforts to have financial institutions integrate cyber and climate risks into their strategy, governance, and risk management processes.

Directors emphasized the importance of raising productivity growth to sustain economic prospects, while facilitating fiscal consolidation. They welcomed ongoing efforts to better target state aid and R&D spending, enhance access to finance for productive firms, and reduce the regulatory burden. Directors stressed that advancing the EU Savings and Investments Union could boost these reforms.

Directors noted France's leading role in the digital and green transitions and encouraged efforts to promote employment and job quality to facilitate progress in these areas. Building on the authorities' recent reform efforts, they supported further social benefit reforms to enhance work incentives and reduce career fragmentation, thereby supporting employment. Directors recommended complementing these measures with efforts to strengthen human capital, further increase women's labor force participation, and better integrate migrants into the labor market. They also commended its leadership in multilateral cooperation, including in

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[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

addressing global challenges, such as those related to climate change and debt, and in providing official development assistance.

It is expected that the next Article IV consultation with France will be held on the standard 12-month cycle.

France: Selected Economic Indicators, 2022–27
(Annual percentage change, unless noted otherwise)

				Projection		
	2022	2023	2024	2025	2026	2027
Real economy (change in percent)						
Real GDP	2.8	1.6	1.1	0.6	1.0	1.2
Domestic demand	2.8	0.7	-0.1	1.2	0.9	1.1
Foreign balance (contr. to GDP growth)	-0.1	0.9	1.2	-0.6	0.1	0.1
CPI (year average)	5.9	5.7	2.3	1.1	1.5	1.9
GDP deflator	2.9	4.9	2.1	1.3	1.6	1.9
Public finance (percent of GDP)						
General government balance	-4.7	-5.4	-5.8	-5.4	-5.7	-6.0
Revenue	53.7	51.4	51.4	51.9	51.7	51.5
Expenditure	58.4	56.8	57.2	57.3	57.4	57.5
Primary balance	-2.9	-3.7	-3.8	-3.4	-3.4	-3.5
Structural balance (percent of pot. GDP)	-4.2	-5.3	-5.8	-5.2	-5.5	-6.0
General government gross debt	111.4	109.6	113.1	116.5	119.1	121.5
Labor market (percent change)						
Employment	1.9	1.0	1.2	-0.3	0.1	0.2
Labor force	1.3	1.0	1.2	0.0	-0.1	0.0
Unemployment rate (percent)	7.3	7.3	7.4	7.7	7.5	7.3
Credit and interest rates (percent)						
Growth of credit to the private non-financial sector	5.7	3.6	0.6	1.0	1.2	1.9
Money market rate (Euro area)	0.3	3.4	3.6	...	...	...
Government bond yield, 10-year	1.7	3.0	3.0	...	...	...
Balance of payments (percent of GDP)						
Current account	-1.2	-1.0	0.4	-0.1	-0.3	-0.5
Trade balance of goods and services	-2.6	-1.4	-0.1	-0.7	-0.8	-0.8
Exports of goods and services	36.6	34.3	33.9	33.7	33.2	33.0
Imports of goods and services	-39.2	-35.7	-34.0	-34.4	-34.0	-33.7
FDI (net)	-0.8	1.0	-0.3	0.4	0.8	1.0
Official reserves (US$ billion)	100.4	79.2	78.4	...	...	...
Exchange rates						
Euro per U.S. dollar, period average	0.95	0.92	0.92	...	...	...
NEER, ULC-styled (2005=100, +=appreciation)	95.9	97.0	97.3	...	...	...
REER, ULC-based (2005=100, +=appreciation)	90.7	90.5	91.7	...	...	...
Potential output and output gap						
Potential output (change in percent)	1.4	1.2	0.8	0.8	1.0	1.0
Memo: per working age person	0.8	1.0	0.4	0.8	1.0	1.0
Output gap	-0.7	-0.4	-0.1	-0.4	-0.4	-0.2

Sources: INSEE, Banque de France, and IMF staff calculations.

INTERNATIONAL MONETARY FUND

FRANCE

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

June 25, 2025

KEY ISSUES

Context. The French economy has demonstrated resilience in 2024 despite high uncertainty, bolstered by the summer Olympics in Paris. The disinflationary process is progressing well, and the labor market remains robust. However, high and rising public debt, combined with significant domestic and external headwinds to the recovery, highlights the urgent need to strengthen public finances and pursue structural reforms to foster sustainable growth. While the political compromise on the 2025 budget reached in February marked a positive step forward, it will be essential for the authorities to continue building consensus to further advance fiscal and structural reforms.

Outlook and risks. Real GDP growth is projected to slow to 0.6 percent in 2025, as trade tensions, weak growth in trading partners, market volatility, and high uncertainty add to already subdued external and domestic demand. While growth is expected to reach 1 percent in 2026, deepening geoeconomic fragmentation and domestic policy uncertainty pose significant downside risks. Nevertheless, easing trade tensions and renewed structural reform momentum could support business and consumer confidence, enhancing growth prospects and facilitating fiscal consolidation over the medium term. Domestic reforms could be strengthened through deeper coordination and integration at the EU level to meet increasing demand, including for defense as well as digital and green technologies.

Policies. Staff's main policy recommendations are as follows:

- **Fiscal policy.** Building on the 2025 budget, the French authorities are committed to implementing their Medium-Term Fiscal Structural Plan (MTFSP) to bring the deficit below 3 percent of GDP by 2029, in line with EU rules. The envisaged adjustment is appropriate to improve debt dynamics and strengthen France's resilience to shocks, but it needs to be supported by the approval of a credible and well-designed package of measures and remains subject to implementation risks, as evidenced by recent setbacks. The fiscal deficit is projected to decline to 5.4 percent of GDP in 2025, in line with the budget target, but, unless significant additional measures are approved, it will remain elevated in the medium term, keeping debt on an upward trend. To set debt firmly on a downward path while creating room to absorb rising spending demands, staff recommends a frontloaded structural fiscal effort of 1.1 percent of GDP in 2026, followed by an average of about 0.9 percent of GDP per year over the medium term, broadly in line with the authorities' plans. Achieving this substantial fiscal consolidation will require decisive actions and difficult decisions to ensure equity and fairness amidst challenging trade-offs in the current domestic and external environment. Given France's already high tax-to-GDP ratio, the authorities should prioritize rationalizing current spending, building on recent reforms and ongoing spending reviews, with concerted action across all government levels.

- **Structural reforms.** Advancing France's structural reform agenda will be crucial to boost productivity and facilitate fiscal consolidation in the face of a challenging global environment and high uncertainty. France is well-positioned to capitalize on the green and digital transitions through greater efforts to support innovation and access to capital. Ongoing efforts by the authorities to rationalize state aid and R&D tax expenditures, while enhancing access to finance and reducing financing costs for productive but credit-constrained firms, are crucial and should be supported by advancing the EU Savings and Investment Union which can increase the availability of capital and its efficient allocation. To foster entrepreneurship, policies should prioritize easing barriers to entry and reducing the regulatory burden. Deepening the single market through the removal of remaining intra-EU trade barriers and greater harmonization of regulations can help firms achieve economies of scale and incentivize innovation by expanding market size. Sustained efforts to promote employment and job quality remain critical to facilitate the green and digital transitions, amid an aging workforce, and boost productivity growth.

- **Financial stability.** The French banking sector has demonstrated resilience to recent shocks, supported by prudent lending standards and strong precautionary buffers. Sound prudential measures are mitigating housing market risks as property prices stabilize, while risks to the banking sector from corporate indebtedness and sovereign exposures remain manageable. Notwithstanding high uncertainty, financial stability risks remain contained, with French banks showing resilience under severe geopolitical and recessionary stress test scenarios. In accordance with the 2025 Financial Sector Assessment Program (FSAP) recommendations, France's strong financial oversight and macroprudential policy toolkit should continue to adapt to a complex and evolving financial landscape. Amid global uncertainty and episodes of market volatility, this includes ensuring greater monitoring on fund liability structures as well as closer collaboration among non-bank financial institutions supervisors in France and at the EU level. Financial institutions should also continue to proactively integrate cyber and climate risks into their governance and risk management processes.

Approved By
Helge Berger (EUR) and Eugenio Cerutti (SPR)

Discussions took place in Paris during May 12–22, 2025. The staff team comprised Manuela Goretti (head), Florian Misch, Rasmane Ouedraogo, Maryam Vaziri, and Torsten Wezel (all EUR), with contributions from Onintsoa Raoilisoa (FAD), and assistance from Xun Li, Laila Azoor, and Victoria Timonova (all EUR). Arnaud Buisse (Executive Director) joined the mission. Charles Cohen (MCM and FSAP head) joined the concluding meetings. Staff met with the Minister for the Economy, Finance, and Industrial and Digital Sovereignty Lombard, the Minister for Public Accounts de Montchalin, the Central Bank Governor Villeroy de Galhau; senior officials in the President and Prime Minister's offices, the *Haut Conseil des Finances Publiques*, and Members of Parliament; financial sector interlocutors, think tanks, trade union and employer association representatives. A press conference was held at the end of the mission.

CONTENTS

ANNEXES

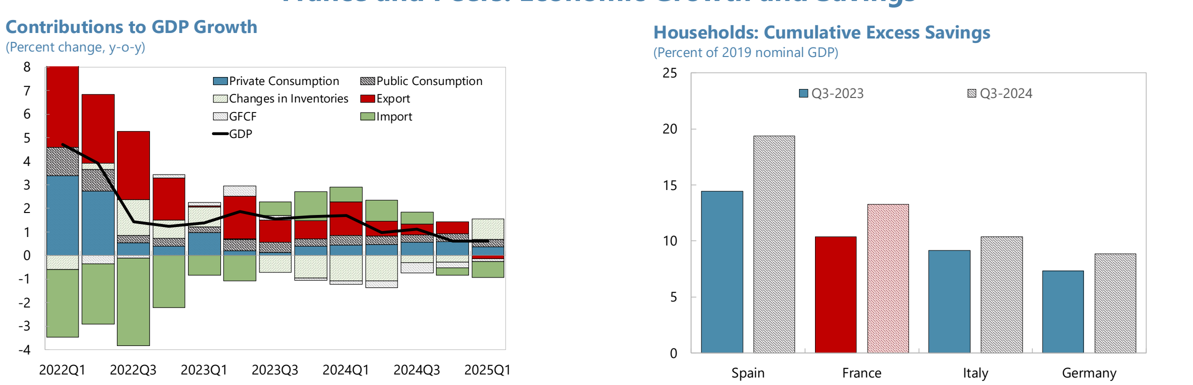
CONTEXT

1. **Amid high domestic and external uncertainty, the French authorities should prioritize strengthening public finances while advancing growth-enhancing reforms.** Although the French economy has demonstrated resilience, the recovery continues to lag due to significant domestic and external headwinds. The political compromise reached on the 2025 budget marked a positive step forward, following notable fiscal slippages in 2023 and 2024. However, high and rising public debt, combined with increasing spending demands in priority areas, highlights the urgent need for credible, well-designed fiscal measures to rebuild buffers and place public debt on a downward trajectory. Implementing structural reforms will be crucial to boost productivity and employment, facilitating fiscal consolidation, in the face of a challenging global environment and high uncertainty. Broad-based political support will be essential to further advance fiscal and structural reforms.

RECENT ECONOMIC DEVELOPMENTS

2. **The French economy remained relatively resilient in 2024, despite high uncertainty, benefiting from one-off factors.** Real GDP grew by 1.1 percent in 2024, supported by the impact of the Paris Olympics, which is estimated to have contributed around 0.2 percentage points in 2024Q3. The event temporarily boosted services and consumption, despite rising savings rates and a wait and see attitude among households. Policy uncertainty and tight financial conditions continued to weigh on investment, leading to weaker business investment in the second half of 2024, as well as an ongoing, though slower, contraction in the construction sector. An acceleration in government spending, amid fiscal slippages, partly offset weaker domestic demand. On the external front, lower commodity prices and imports helped to boost net exports, despite slower goods export growth due to weak external demand from trading partners. After the statistical rebasing of the national accounts in May 2024, real GDP growth increased by an additional 0.2 percentage points due to higher carryover, as already reflected at the time of the 2024 Article IV Consultation.

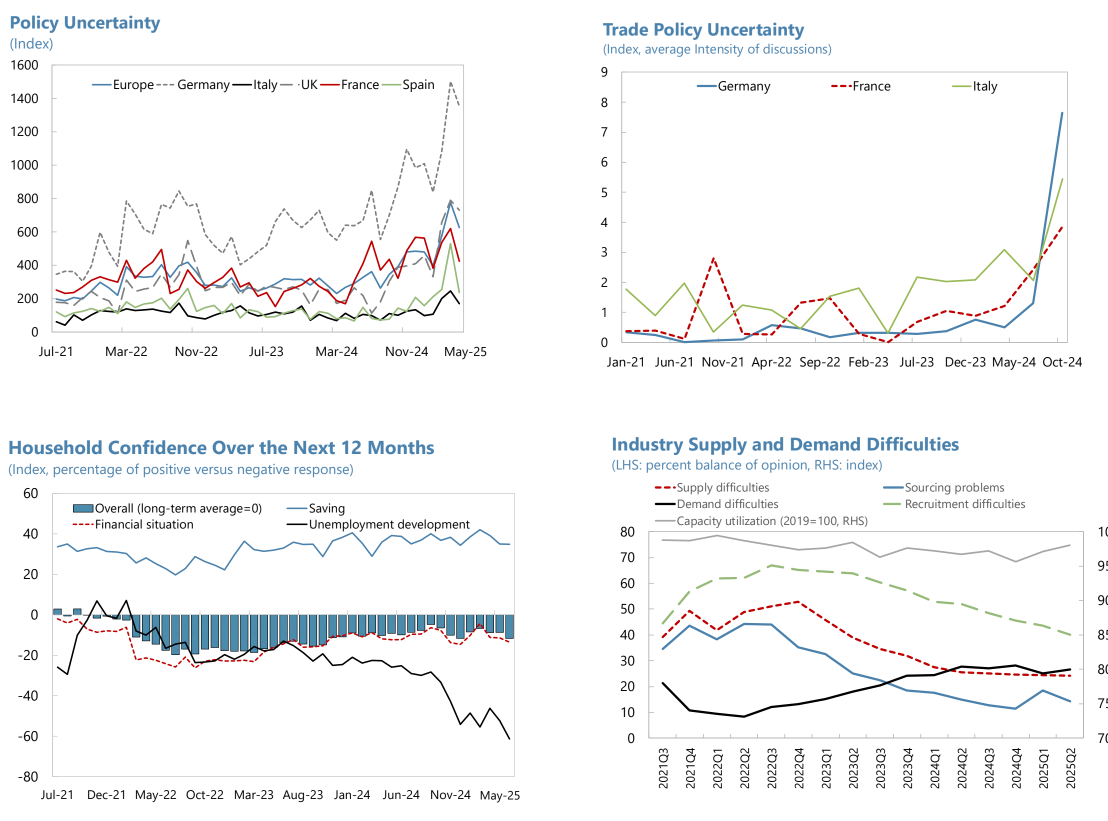
France and Peers: Economic Growth and Savings



Sources: INSEE and IMF staff estimates.
Note: Excess savings are calculated with respect to the average 2018–19 household savings rate.

3. High-frequency indicators signal subdued growth prospects for the first half of 2025, amid weakening business and consumer sentiment. Real GDP grew moderately by 0.1 percent (q/q) in 2025Q1, driven by a strong positive contribution from inventories, despite a decline in net exports and private consumption. After some recovery in the previous two months, industrial production contracted by 1.4 percent in April (month-on-month), primarily driven by the energy sector. The composite PMI showed some recovery in recent months, although it remains in contractionary territory, mainly driven by the weak performance of the service sector. Despite tentative signs of improvement in the overall business climate, May survey data highlight renewed concerns over inadequate demand and sourcing issues. Households' sentiment remains cautious, with a focus on precautionary savings, in the context of high policy uncertainty, notwithstanding reduced inflationary pressures. Both business and consumer surveys also reflect weak employment prospects.

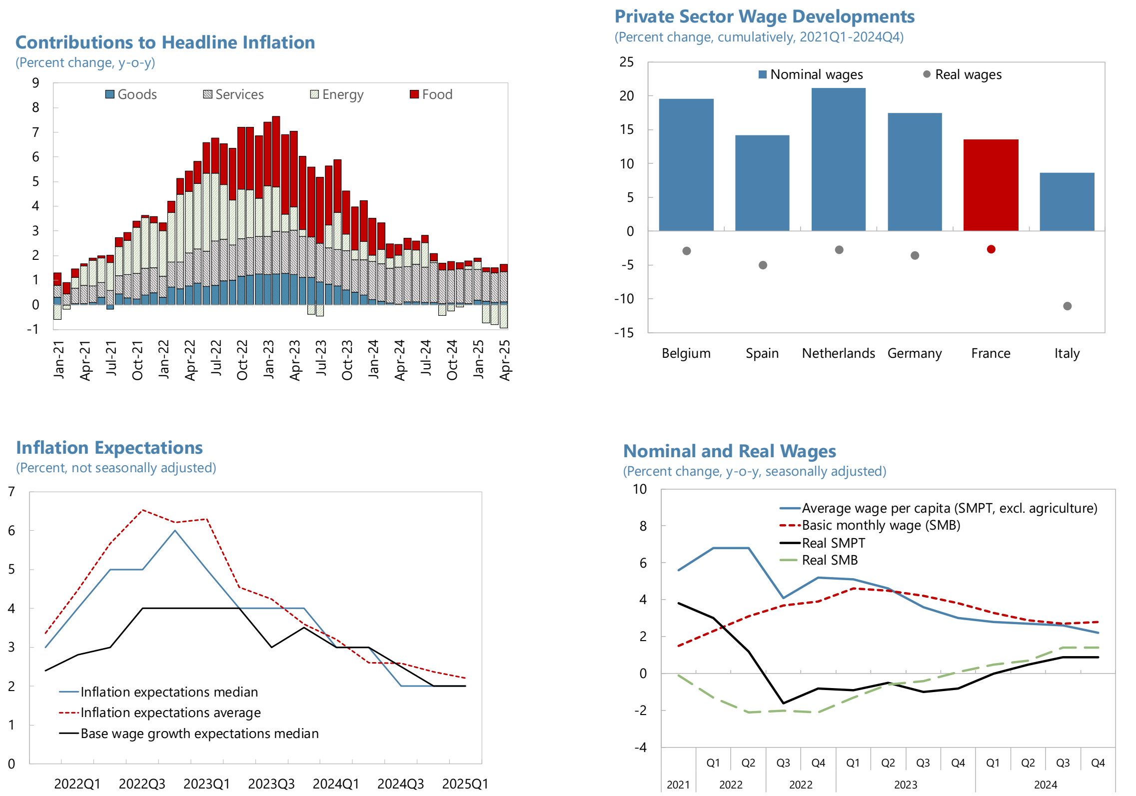
France and Peers: Economic Activity and Sentiment Indicators



Sources: Baker, Bloom, and Davis (2016), INSEE, S&P Global, and IMF staff estimates.
Note: The uncertainty measures are based on news, media outlets, and earnings call transcripts.

4. The disinflationary process is progressing well. Headline inflation fell to 0.6 percent (y-o-y) in May from 2.6 percent one year ago, mainly driven by lower energy prices (-8.0 percent y-o-y) and planned reductions in electricity prices earlier in the year. Core inflation remains more persistent, with services inflation at 2.1 percent (y-o-y) in May. Inflation expectations remain well anchored at around 2 percent, supported by contained growth in nominal wages, also relative to peers. While real wages resumed modest growth in 2024, purchasing power remains below pre-2021 crisis levels.

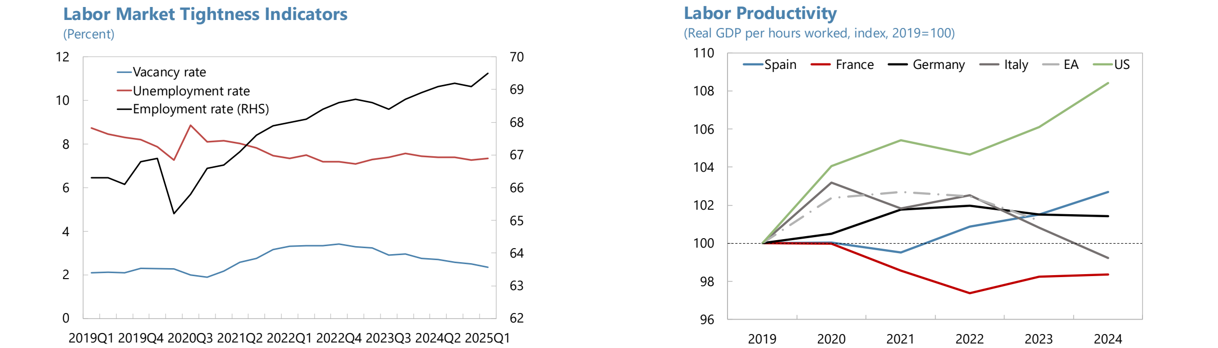
France and Peers: Inflation and Wages



Sources: Eurostat, Ministry of Labor, Banque de France, and INSEE.

5. The labor market has shown remarkable resilience amid successive shocks, despite some signs of softening. Following strong policy support during the pandemic, labor force participation remained at an all-time high of 74.6 percent in 2024. However, the post-pandemic employment trend has begun to weaken, as evidenced by stalled performance in market-oriented sectors, recent employment climate surveys, and declining vacancy rates. While the overall unemployment rate only slightly increased to 7.4 percent in 2024, the rise was more pronounced in the 15–24 age group, notably women, also due to the expiration of the apprenticeship bonuses. This was partly offset by a continued decline in unemployment among the 50–64 age group, on the back of the 2023 pension reform. The unemployment rate was stable in 2025Q1. Labor productivity remains significantly below pre-pandemic levels, lagging developments in peer countries, with only a modest improvement of about 0.2 percent over the last two years, as labor hoarding in specific sectors and other cyclical factors start to wane. Nevertheless, this growth masks significant heterogeneity across sectors: while ICT has experienced a remarkable surge in labor productivity of nearly 6 percent in 2024, manufacturing and construction have continued to face negative cumulative growth over the last three years.

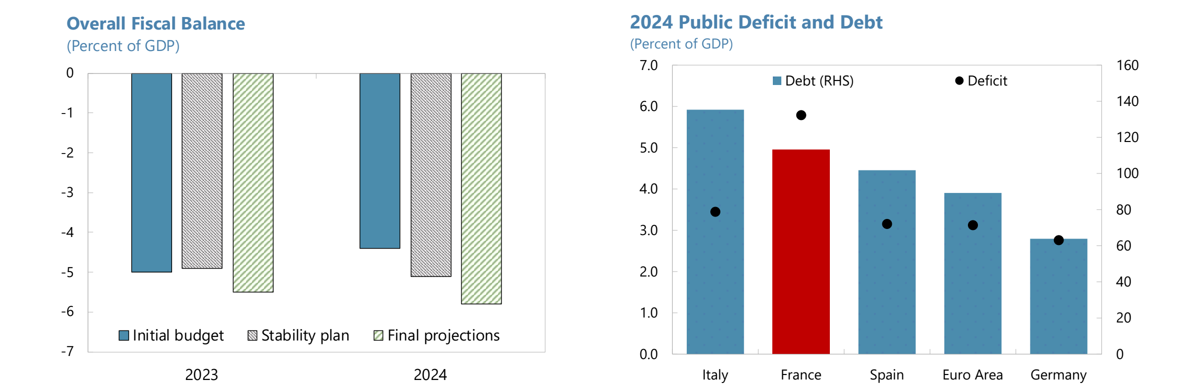
France and Peers: Labor Market Performance and Productivity



Sources: Eurostat, Ministry of Labor, and IMF staff estimates.

6. **Despite the authorities' efforts to control spending, the fiscal stance was again expansionary in 2024.** The 2024 headline deficit outturn was 5.8 percent of GDP, 0.4 percentage points looser in structural primary terms than in 2023 and 1.4 percentage points above the original budget target. Lower-than-expected revenues due to sluggish domestic demand and weak corporate earnings, overruns in local governments (0.3 percent of GDP) and social security (0.5 percent of GDP), as well as rising debt service payments all contributed to the slippages. The authorities averted an even higher deficit by approving additional savings at the central government level in February and April, amounting to nearly 0.5 percent of GDP. The debt to GDP ratio reached 113.1 percent of GDP in 2024.

France and Euro Area: Fiscal Developments in 2024

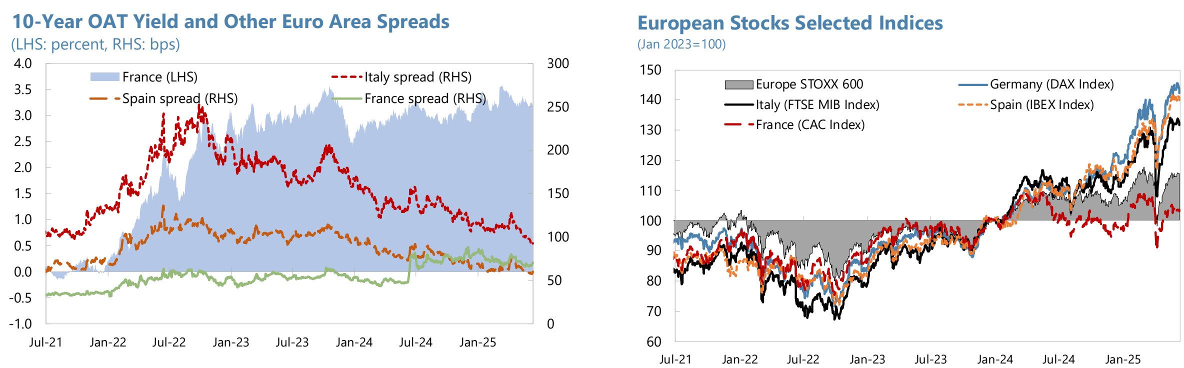


Sources: WEO and IMF staff estimates.
Note: Weighted average for the Euro Area (PPP GDP).

7. **The external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies** (Annex II). The current account (CA) balance stood at 0.4 percent of GDP in 2024, up from a deficit of 1 percent in 2023. The change was driven by lower energy imports and strong services exports, due in part to tourism related to the Olympics. Accordingly, staff assesses the CA gap in 2024 to be between -0.1 and 0.7 percent of GDP, with a midpoint of 0.3 percent of GDP (compared to a midpoint of -0.9 percent of GDP in 2023). The overall policy gap is also 0.3 percent of GDP.

8. Market conditions remain volatile, driven by external and domestic policy developments. Sovereign bond (10-year OAT-Bund) spreads peaked at 88 basis points in December, ahead of the fall of Prime Minister Barnier's government, and rose again in early April as trade tensions reignited market volatility in France and other European countries. Recently, spreads have stabilized around 70 basis points. The increase in sovereign bond yields in March, driven by a record-high rise in Bund yields, linked to Germany's policy announcement of higher infrastructure and defense spending, has been offset by more recent downward safe-haven pressures. The market response to rating actions, including Moody's downgrade of France's credit rating to Aa3 last December, was muted, as the impact was reportedly largely priced in. Demand for French sovereign debt remains strong and secondary markets continue to be liquid.

France and Peers: Market Developments



Sources: Bloomberg and IMF staff estimates.

OUTLOOK AND RISKS

9. High domestic and external uncertainty is expected to continue weighing on the short-term economic outlook. Real GDP growth is projected to slow to 0.6 percent in 2025 and reach 1 percent in 2026. These projections reflect a delayed recovery in private consumption and investment due to weak confidence and fiscal tightening this year, despite some uplift from monetary policy easing. Weaker external demand,[1] amid trade tensions, market volatility, and geo-economic uncertainty, is expected to further dampen exports and investment prospects. Average headline inflation is projected at 1.1 percent in 2025 and 1.5 in 2026, due to base effects, lower energy prices, with core inflation converging below 2 percent amid weak domestic demand and modest improvements in real wages.

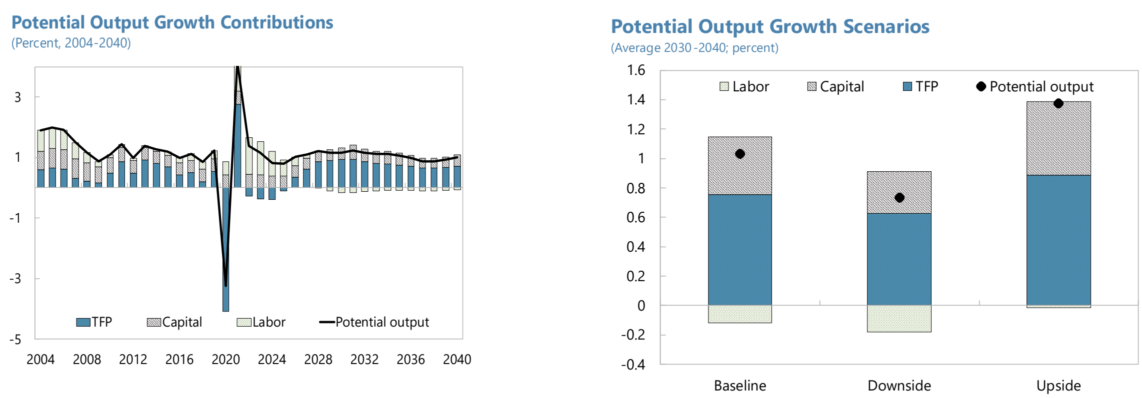
10. The short-term outlook remains subject to significant downside risks, notwithstanding potential upsides (Annex III). Deepening geoeconomic fragmentation and rising trade tensions could disrupt trade and financial flows and dampen economic activity (April 2025 WEO, Box 1.1). In

[1] France's direct exposure to the US is relatively low at 7 percent of exports, limiting the direct impact of tariffs, as per April WEO assumptions, to about 0.1 percentage points in 2025. However, weak trading partners growth, market volatility, and high uncertainty are expected to increase the overall impact to approximately 0.3 percentage points.

such an environment, uncertainty would increase, and financial conditions could tighten further, reducing domestic demand and worsening debt dynamics. Lack of political consensus and social tensions could delay fiscal consolidation and reform efforts, further weighing on confidence and the outlook, raising fiscal risks. On the upside, easing trade tensions and renewed structural reform momentum could boost confidence, improving growth prospects and facilitating fiscal consolidation over the medium term. Domestic reforms could be strengthened through deeper coordination and integration at the EU level. Consumption could be stronger if household saving rates eased more rapidly on the back of dissipating uncertainty. Business investment and export performance could also surprise on the upside, driven by higher demand—in France and in the rest of Europe—including for defense as well as digital and green technologies.

11. Over the medium term, growth is projected to converge to around 1.2 percent, before decelerating towards its long-term potential of 1 percent.[2] The contribution of labor, a key driver of potential growth in recent years, is expected to moderate as crisis support measures are unwound and the population ages. At the same time, capital and total factor productivity (TFP) are expected to gradually normalize following recent shocks, while remaining slightly below their historical average. Ongoing policies to integrate lower skilled workers and the fading out of cyclical factors are expected to support this normalization. Nevertheless, a steeper-than-expected decline in the working population could undermine investment and TFP by shifting resources toward consumption. Geoeconomic fragmentation could also lead to productivity-reducing long-term reallocations. On the upside, faster structural reform momentum fostering growth in quality-adjusted employment combined with greater R&D and innovation could support the labor stock and TFP, boosting potential growth (broadly consistent with IMF WP/25/104). Deeper integration at the EU level can further support potential growth in France (IMF WP/25/113).

France: Potential Output Growth



Sources: INSEE, UN, PWT v10.0, and IMF staff estimates.

Authorities' Views

12. The authorities broadly shared staff's views on the outlook and balance of risks. They noted the French economy's remarkable resilience in the face of recent shocks, despite significant

[2] See Annex IV on "Projecting Medium-to-Long Term Potential Output in France," France: 2024 Article IV Staff Report.

uncertainty surrounding trade policy and its effects on corporate investment decisions and demand. Compared to staff's projections, the government's 2025 Annual Progress Report (RAA) anticipates slightly higher real GDP growth of 0.7 percent and 1.2 percent for 2025 and 2026, respectively, driven by improved purchasing power and stronger private consumption. They stressed that the disinflation process was progressing well and viewed risks to inflation as balanced, while concurring with staff's assessment of the external position. Additionally, they were broadly aligned in terms of the medium-to-long-term potential growth estimates. While recognizing sizable downside risks to the outlook, including from geopolitical fragmentation, they identified significant upsides from a faster rebound in domestic demand, as temporary factors affecting household saving rates diminish, and from stronger external demand, due to a quicker resolution of trade tensions and new investment initiatives in Germany and the EU.

POLICY DISCUSSIONS

Building on the 2025 budget, the French authorities should identify a well-designed and credible package of measures to support the necessary fiscal adjustment over the medium-term, halting the swift rise in public debt and firmly placing it on a downward trajectory, while creating room to absorb rising spending demands. Advancing France's structural reform agenda would not only help boost private investment and productivity in the face of a challenging global environment but also facilitate fiscal consolidation, fostering sustainable growth. While the financial sector remains resilient, strong supervisory practices need to continue adapting to an increasingly complex financial landscape. France's sustained efforts to deepen the European single market remain critical to support the economy and strengthen its ability to withstand shocks.

A. Fiscal Policy: Reducing Debt While Refocusing Spending Priorities

13. The 2025 budget targets a welcome reduction in the fiscal deficit to 5.4 percent of GDP, although this is primarily achieved through temporary revenue measures. Following a no-confidence vote on the budget and the fall of PM Barnier's government in December 2024, Parliament approved a special law to allow for a rollover of the 2024 budget and avert a government shutdown. The new 2025 budget, approved in February, aims for a structural fiscal adjustment of 0.7 percent of GDP. Revenue measures account for the majority of the estimated fiscal effort (with the latter calculated vis-à-vis the 2024 baseline), and tend to be mostly temporary in nature, although the budget also includes important spending reductions across all government levels as well as specific allocations for higher green and security spending. To meet this year's deficit target, the authorities

France: 2025 Budget Measures

Fiscal measures	Estimated impact	
	Billion	Percent of GDP
Revenue	**19.6**	**0.7**
Corporate taxes	10.8	0.4
Personal income taxes and taxes on products	3.1	0.1
Social contributions	3.7	0.1
Other taxes	2.0	0.1
Spending	**12.4**	**0.4**
Central government	8.1	0.3
Social security	3.1	0.1
Local government	1.2	0.0

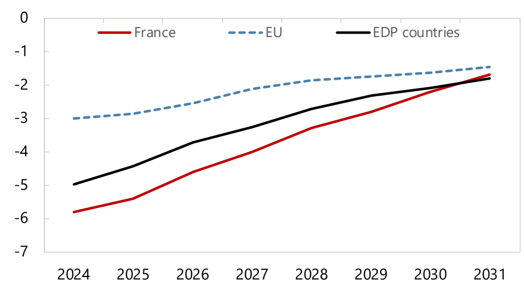
Sources: French authorities and IMF staff estimates.
Note: Includes only new and specified budget measures.

are proactively freezing and canceling budget credits to meet priority spending demands, although they have confirmed their intention not to activate the EU escape clause for defense spending this year.

Box 1. France's Medium-Term Fiscal Structural Plan

To anchor their consolidation plans, the authorities have presented a frontloaded adjustment path for 2025–29, in compliance with the new EU governance framework. The Medium-Term Fiscal Structural Plan (MTFSP) was submitted in October 2024 and approved by the Economic Council last January. The authorities requested an extension of the adjustment period from 4 to 7 years to make space for growth-enhancing structural reforms and investment in key priority sectors. In January 2025, France was also placed under the Excessive Deficit Procedure (EDP) for exceeding the Maastricht limit of 3 percent of GDP in 2023.[1] Under the MTFSP, the authorities aim at bringing the deficit below 3 percent of GDP by 2029. This entails a higher adjustment than the annual minimum structural effort of 0.6 percent of GDP recommended by the European Commission. Nevertheless, with the delayed approval of the 2025 budget in February, part of the initial frontloading is now shifted to 2026 (April 2025 Annual Progress Report, RAA). The envisaged adjustment is still expected to bring the deficit closer to the average of other EU and EDP countries by 2029.

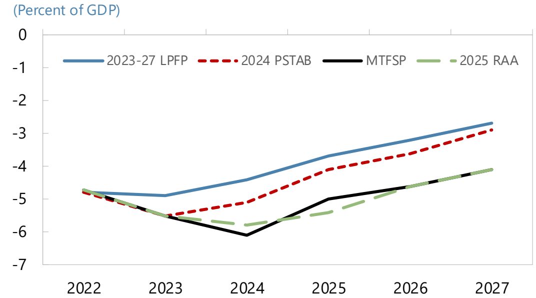
France and Peers: Overall Fiscal Balance Paths under MTFSP
(Percent of GDP)



Sources: French authorities, European Commission and IMF staff estimates.

Nevertheless, the MTFSP is subject to implementation risks, amid high uncertainty. The frontloaded adjustment path in the authorities' plan is warranted to improve debt dynamics and strengthen France resilience to shocks. However, a large portion (3.1 percent of GDP) of the planned structural fiscal effort (3.9 percent) remains unidentified and is subject to budget approval. Moreover, the MTFSP's macroeconomic and fiscal projections are subject to important downside risks, amid high uncertainty, and, as also noted by the High Council of Public Finances, might prove optimistic, as it has been the case with past Stability Programs (PSTAB). For illustrative purposes, if revenue were to underperform by the same elasticity level as in 2024, the fiscal deficit would worsen by an additional 0.3 percent of GDP in 2025.

France: Revisions in Overall Fiscal Balance
(Percent of GDP)



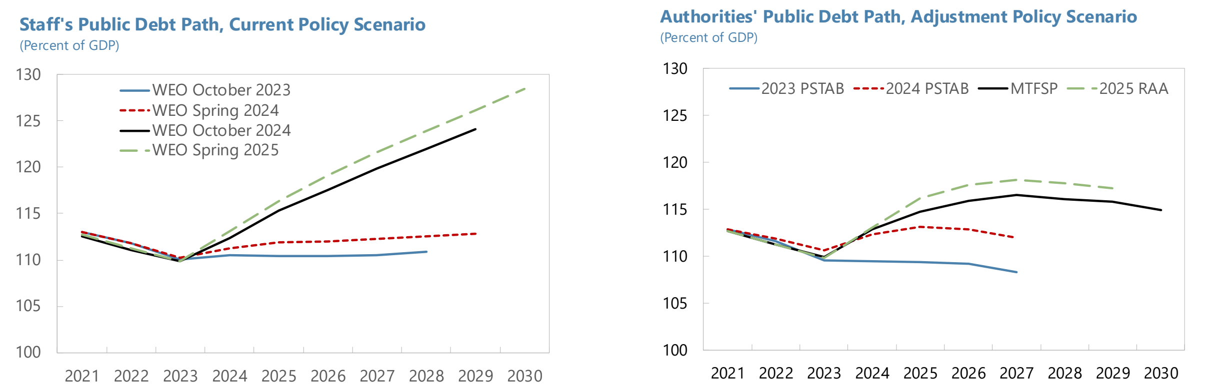
Sources: French authorities and IMF staff estimates.
Note: *loi de programmation des finances publiques* (LPFP).

[1] The EU re-launched the EDP in 2024 following its temporary suspension due to the activation of the general escape clause for all member states during 2020–23.

14. **Unless significant additional measures are approved, the fiscal deficit is projected to remain elevated in the medium term, keeping debt on an upward trend.** While the authorities have approved an ambitious MTFSP, the fiscal adjustment needs to be underpinned by the approval of credible and well-designed measures over the medium term and remains subject to implementation risks (Box 1). Under staff's current policy baseline scenario, which incorporates only legislated and clearly specified measures, the deficit is projected to decline to 5.4 percent of GDP in 2025, in line with the budget target, with public debt reaching 116.5 percent of GDP. However,

unless further measures are approved, the deficit would remain around 6 percent of GDP in the medium-term, keeping debt on an upward trend until 2030.[3] While France's short-term risk of sovereign debt distress remains low, benefiting from a liquid debt market with a diversified investor base and the stabilizing role of the ECB, debt dynamics have weakened significantly since the 2024 Article IV Consultation, raising medium term risks, and remain highly sensitive to the real interest rate and growth path. This points to a moderate overall risk of debt stress under staff's current policy baseline scenario (Annex IV), although France's commitment to further fiscal consolidation, as per EU rules, represents an important mitigating factor.

France: Public Debt



Sources: French authorities and IMF staff estimates.

15. Substantial additional fiscal efforts will be crucial to preserve fiscal space and create room to absorb rising spending demands, while placing debt on a downward path. Staff recommends a frontloaded structural fiscal effort of 1.1 percent of GDP in 2026, followed by an average of about 0.9 percent of GDP per year over the medium term, broadly in line with the authorities' plans. The recommended adjustment path would markedly reduce medium-term debt sustainability risks, with the debt-stabilizing primary balance being reached in 2027, and allow France to exit the EDP by end-2029, as targeted. Achieving these substantial fiscal consolidation efforts will require decisive actions and difficult decisions to ensure equity and fairness amidst challenging trade-offs in the current domestic and external environment. A credible and well-designed package of fiscal measures and structural reforms—targeting nonessential and inefficient current and tax expenditures (¶16–18) as well as growth enhancing initiatives (Section B)—would be critical to strengthen debt dynamics, limit the impact on the economy, and facilitate fiscal consolidation.

[3] Staff's baseline incorporates structural spending pressures from pensions, defense, health, and green spending (consistent with the authorities' approved measures). Based on the defense programming law 2024–30, defense spending is projected to increase to 2 percent of GDP in 2030, from 1.6 percent of GDP in 2024.

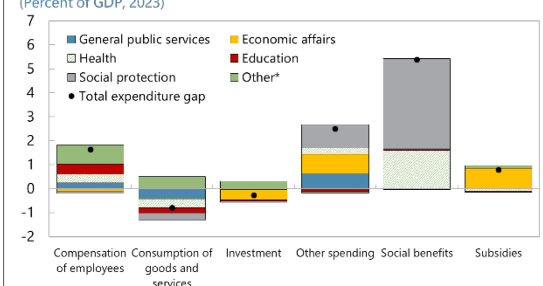
France: Fiscal Scenarios
(Percent of GDP, unless noted otherwise)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Baseline											
Real GDP growth (percent)	-7.6	6.8	2.8	1.6	1.1	0.6	1.0	1.2	1.3	1.2	1.2
Revenue	52.8	52.9	53.7	51.4	51.4	51.9	51.7	51.5	51.5	51.4	51.4
Expenditure	61.7	59.5	58.4	56.8	57.2	57.3	57.4	57.5	57.5	57.5	57.6
Overall balance	-8.9	-6.6	-4.7	-5.4	-5.8	-5.4	-5.7	-6.0	-6.0	-6.0	-6.1
Primary balance	-7.7	-5.2	-2.9	-3.7	-3.8	-3.4	-3.4	-3.5	-3.2	-3.0	-2.8
Fiscal effort 1/			1.4	-1.2	-0.3	0.7	-0.1	-0.1	0.2	0.1	0.3
Public debt	114.9	112.8	111.4	109.6	113.1	116.5	119.1	121.5	123.7	125.9	128.1
Recommended											
Real GDP growth (percent)	-7.6	6.8	2.8	1.6	1.1	0.6	0.8	1.0	1.1	1.1	1.1
Revenue	52.8	52.9	53.7	51.4	51.4	51.9	51.7	51.6	51.7	51.7	51.8
Expenditure	61.7	59.5	58.4	56.8	57.2	57.3	56.4	55.7	55.0	54.3	53.7
Overall balance	-8.9	-6.6	-4.7	-5.4	-5.8	-5.4	-4.6	-4.0	-3.3	-2.5	-1.9
Primary balance	-7.7	-5.2	-2.9	-3.7	-3.8	-3.3	-2.4	-1.5	-0.6	0.3	1.2
Fiscal effort 1/					-0.3	0.7	1.1	0.9	0.9	0.9	0.9
Recommended additional fiscal effort 1/					0.0	0.0	1.2	1.0	0.7	0.8	0.7
Public debt	114.9	112.8	111.4	109.6	113.1	116.4	118.3	119.0	118.7	117.8	116.2

1/ Computed as the change in the structural primary balance. Recommended additional fiscal effort is relative to the baseline projections.
Source: IMF staff estimates.

16. The authorities should focus on rationalizing spending and enhancing efficiency, with concerted action across all levels of government: central, social security, and local. As per staff's past policy recommendations[4] and recent opinions by the Court of Auditors, fiscal efforts should focus on containing current spending and improving its quality. A comparative analysis shows that France has the highest spending to GDP ratio among EU countries, driven mostly by a higher social security and wage bill. There are several avenues to rationalize spending and improve its quality, while preserving growth-enhancing investment in key priority areas and mitigating distributional impacts on the most vulnerable, although more might be needed for the authorities to deliver on their fiscal commitments:

France: Contribution to Spending Gap vis-à-vis EU14
(Percent of GDP, 2023)



Sources: Eurostat and IMF staff estimates.
Notes: EU14 includes Belgium, Denmark, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, Netherlands, Austria, Portugal, Finland, and Sweden. "Other" includes defense, public order and safety, environmental protection, housing and community amenities, recreation, culture, and religion spending.

- *Re-focusing spending and strengthening efficiency across all government levels*. The French authorities have been advancing multi-annual spending reviews and integrating identified savings—estimated at €8 billion over 2025–27—in the draft budgets. Following recent reviews on apprenticeships and vocational training, financial support to firms, and social security spending, the authorities launched in 2025 a new review cycle on judicial fees, local government transfers, emergency housing benefits and subsidies. Ongoing efforts to expand these reviews and minimize overlaps across government entities, including local governments, can streamline spending and improve its quality by addressing inefficiencies and reducing red tape (¶25).

[4] See Spending Efficiency and Reforms, France: Selected Issues, 2023.

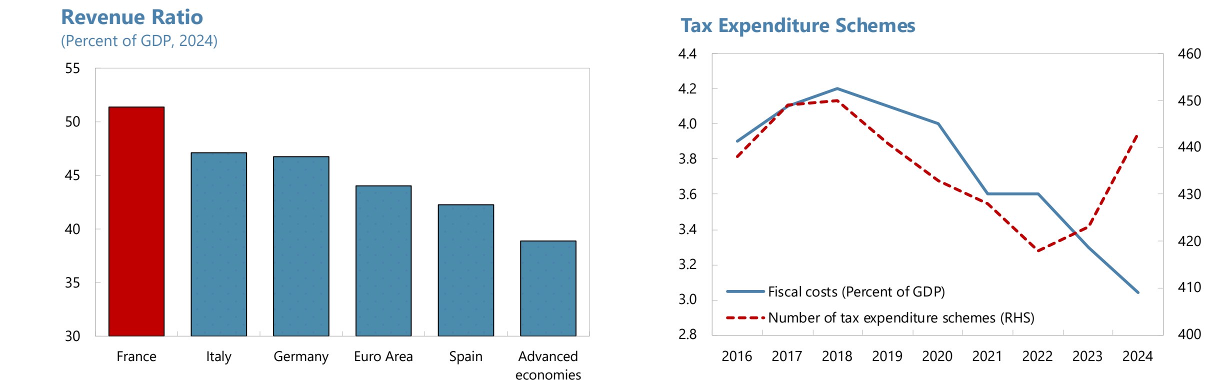
- *Better targeting social benefits, while ensuring a balanced pension system*. France's social security system is generous compared to its peers but does not consistently deliver better services and outcomes. For instance, enhancing efficiency in health and education (¶26) could improve overall effectiveness and allow for better resource prioritization. Moreover, introducing co-payments for non-critical social security services, potentially tiered by need and income, could promote responsible resource usage, reduce unnecessary spending, and ensure essential support remains available for those in need. Ongoing efforts to ensure a balanced pension system, building on the 2023 pension reform,[5] are also critical and should be supported by greater simplification and harmonization of pension schemes, enhancing the transferability of accrued pension benefits (Annex V). Additionally, there is scope to further review eligibility and duration of unemployment benefits and better target active labor market initiatives, while retaining adequate coverage against unemployment risks and boosting job opportunities. These efforts would foster less fragmented and longer careers while enhancing the sustainability and intergenerational equity of the social security system.

- *Enhancing fiscal oversight and efficiency of local government spending*. Despite past efforts to clarify roles and responsibilities, the multi-layered and complex nature of local governments create administrative overlaps and coordination challenges (Annex VI). Assigning exclusive competencies to specific levels of government and implementing clearer co-financing guidelines would help clarify their roles and responsibilities, strengthen spending efficiency, and enable policy evaluation. This should be accompanied by policies to enhance fiscal oversight mechanisms to limit risks of fiscal slippages. In addition, financial coordination could be enhanced by consistently implementing a multi-year budgetary framework and expanding multi-level financing contracts.

17. Given France's already high tax-to-GDP ratio, any new tax measures should be focused on reducing inefficient tax expenditures and tackling tax avoidance while improving equity. While exceptional revenue measures helped kickstart much needed fiscal adjustment in 2025, France's level of taxation—among the highest in the EU—indicates that sustained tax-based fiscal consolidation, of the magnitude necessary to advance France's medium-term plans, would hamper business confidence, household consumption, and growth potential. If tax measures were to be considered, they should be carefully targeted to reduce tax avoidance and improve equity. For example, while the French authorities have made significant progress during 2018–23 to reduce tax expenditure from 4.2 to 3.3 percent of GDP, the number of schemes has increased, with nearly 14 percent of existing ones still unassessed according to the Court of Auditors. Building on recent experiences, the authorities should continue to monitor and evaluate tax expenditure schemes to address inefficiencies vis-à-vis intended objectives and generate savings. This approach would also simplify the tax system and facilitate revenue forecasting. Furthermore, further revenue-neutral schemes and higher carbon pricing could complement ongoing green spending efforts (2024 Climate Deep Dive).

[5] The 2023 reform increased the minimum legal retirement age from 62 to 64 years in 2030, raising the necessary contribution period for a full pension to 43 years in 2027 and boosting the minimum contributory pension level.

France and Peers: Tax Revenue and Expenditure



Sources: French authorities, World Economic Outlook database, and IMF staff estimates.

18. In the face of high global uncertainty, contingency plans and spending prioritization will be needed to ensure that pressing needs are met without compromising public finances. While staff assesses that France has some fiscal space which could be deployed if downside risks were to materialize, in line with EU fiscal rules, contingency planning would be essential to face possible shocks and higher spending pressures in priority areas. In this context, the authorities' plans to absorb any new spending needs on defense within their existing fiscal consolidation plans, by reprioritizing resources, is warranted. If growth were to fall significantly short of the baseline, amid further increases in global uncertainty and tighter financial conditions (¶10 and April 2025 WEO, Box 1.1), the authorities could allow automatic stabilizers to operate and consider targeted and time-bound support to the most vulnerable if needed. Nevertheless, fiscal consolidation efforts would need to continue. A well-defined multi-year package of measures would provide a valuable medium-term anchor amid weakening debt dynamics in the short term. Greater EU coordination can also improve efficiency, reduce financing costs, and enhance resilience against common challenges.

19. The authorities' initiatives to reinforce public finances forecasting and budget controls, in response to recent fiscal slippages, are welcome. The March 2025 Action plan by the authorities aims at enhancing monitoring of tax revenue and budget execution, fostering greater transparency, and reinforcing the role of the High Council for Public Finances. Sustained efforts in these areas are essential to identify and proactively address fiscal risks, strengthen public finance management, and enhance fiscal policy credibility. As recommended by the Court of Auditors, ongoing upgrades to modelling techniques and ex-post reviews will be also critical for enhancing public finances forecasting in a rapidly evolving economic landscape.

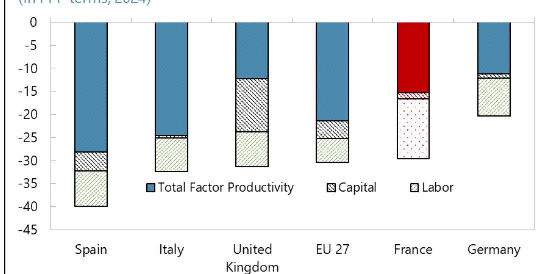
Authorities' Views

20. The authorities are fully determined to correct the course of public finances and place debt on a downward path, in line with their European commitments under the 2025–29 Medium-Term Fiscal-Structural Plan (MTFSP). After higher-than-expected fiscal deficits in 2023 and 2024, the authorities are committed to achieving the 2025 deficit target, in particular by implementing their action plan aiming to strengthen budget controls, enhance macro-economic forecasting, and improve transparency, and by continuing to implement the spending reviews as they are carried out. They reaffirmed their determination to reduce the fiscal deficit below 3 percent of GDP by end-2029, in line with staff's recommendations, emphasizing that their MTFSP is based on sound and realistic macroeconomic assumptions, as also assessed by the European Commission. Well-defined measures are expected to be included in the upcoming annual budgets. The authorities highlighted the timeline of the 2026 budget preparation, noting that discussions are already underway to foster dialogue and secure a broad political support. The authorities concurred with staff regarding the need to rationalize current spending across all government levels—central, social security, and local—to achieve the required fiscal adjustment. They also acknowledged the need to accommodate new spending demands, including for defense, within their existing fiscal consolidation plan by reprioritizing resources as necessary.

B. Macrostructural Policies: Supporting Jobs and Productivity Growth

21. Raising weak productivity growth is critical for sustaining France's economic prospects, in the face of ongoing transitions and substantial fiscal consolidation needs. The per capita income gap between France and the US has increased since the early 2000s and now exceeds 20 percent, primarily due to lower productivity and employment in France. In the recent post-pandemic era, France's labor productivity has fallen significantly including relative to peers, despite some sectoral differences. This decline is partly due to temporary factors, such as labor hoarding or higher survival of unproductive firms due to crisis-related support measures (¶32), which are expected to gradually decrease as job-retention schemes and other crisis-related effects are unwound (¶5). Nevertheless, persistent structural factors—primarily linked to the reintegration of lower skilled workers through new programs and sorting processes as firms adapt to the green and digital transitions amid the challenges of geoeconomic fragmentation—continue to significantly contribute to the overall decline in productivity (BdF, 2024, INSEE, 2024). Macro-structural reforms aimed at (i) fostering entrepreneurship and innovation; and (ii) supporting employment and human capital can play a critical role in countering these effects, lifting potential output while facilitating fiscal consolidation efforts. For example, an increase in potential GDP growth of 0.3 percentage points (¶11) could help reduce public debt by nearly 10 percent of GDP over the long term.

France and Peers: Decomposition of GDP per Capita Difference with the US
(In PPP terms, 2024)

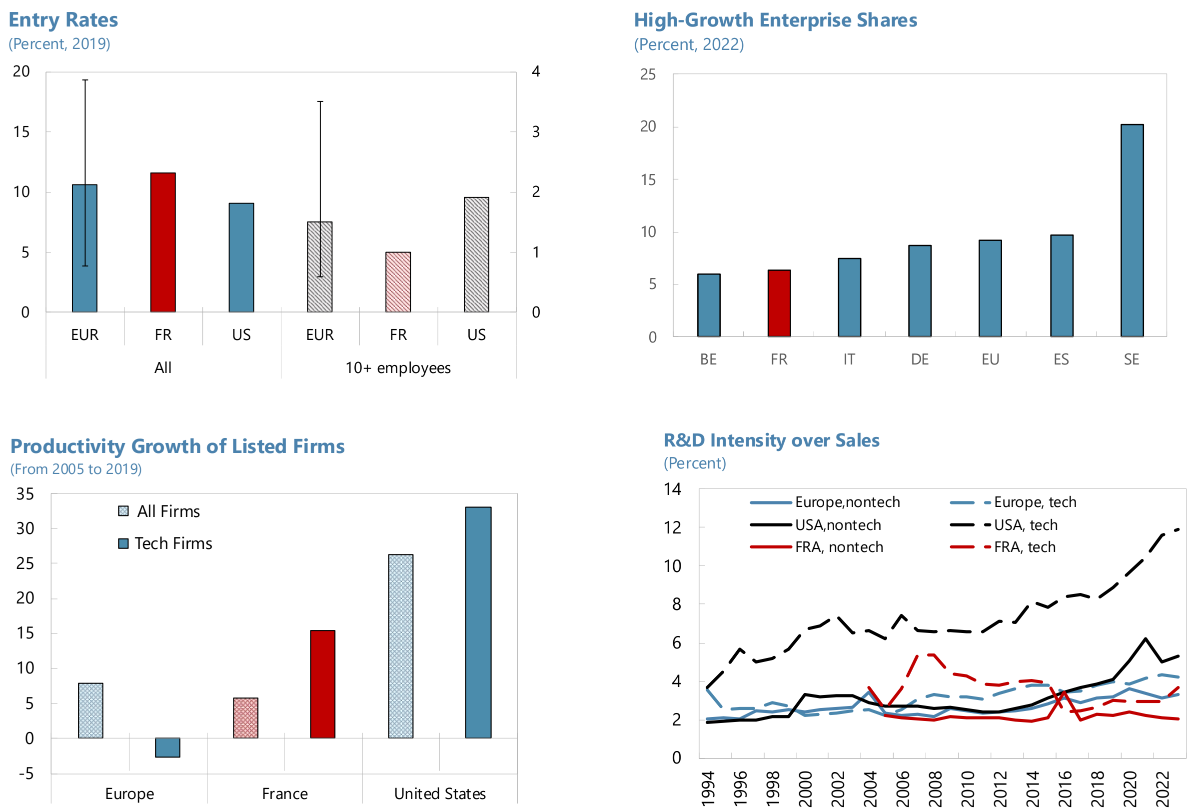


Sources: World Economic Outlook database, IMF WP/25/40, and IMF staff estimates.

Fostering Entrepreneurship and Innovation

22. Innovation-oriented firms have the potential of lifting France's productivity growth, as the country is well-positioned to benefit from the green and digital transitions. Cumulative productivity growth among leading tech firms in France has averaged 2.5 times that of non-tech firms, above the average of European peers, in recent years. However, large French companies, especially in the tech sector, continue to lag their US counterparts. According to Banque de France, tech-intensive sectors account for 68 percent of the productivity growth differential with the US, partly due to lower investment in innovation. Moreover, while France is more dynamic than peers in business formation, it has a smaller footprint of high-growth firms and a disproportionate share of small and micro firms, which tend to be characterized by relatively weak "up-or-out" dynamics (Annex VII). France's comparative advantage in low-carbon technologies (2024 Climate Deep Dive) and its potential to become a European hub for Artificial Intelligence (Box 2) can foster new technological development and support growth. Greater digitalization and AI adoption would also benefit non-tech sectors. Growing demand may also support increased capacity in the country's defense industry, the second in terms of exports after the United States.

France and Peers: Firm Entry, Growth, and Innovation

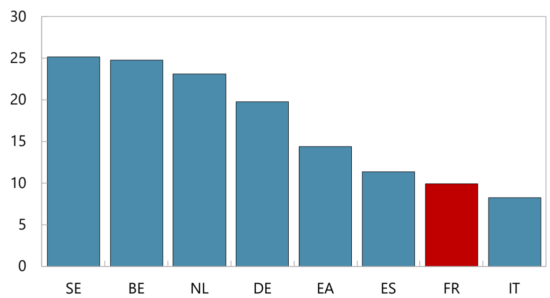


Sources: OECD DynEmp, Business Dynamics Statistics, Eurostat, Compustat, IMF WP/25/40, IMF (2024), and IMF staff estimates.
Note: For details on calculations and country samples please refer to IMF WP/25/40.

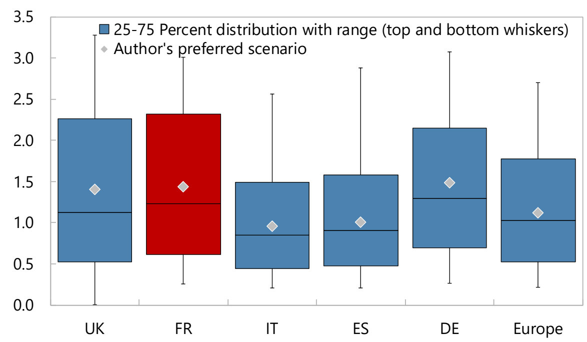
Box 2. Potential Medium-Term Productivity Effects of Artificial Intelligence in France

Artificial intelligence (AI) can boost productivity through several different channels. Over the long term, AI could create new industries and value chains as well as accelerate R&D activity by generating novel research ideas and local spillovers from the development of AI itself. The authorities are well aware of these benefits and have been promoting France as a hub for AI (Make France an AI Powerhouse, 2025), leveraging the country's comparative advantages relative to European peers, including a stable low-carbon electricity supply, to attract new private investment. Over the short and medium term, there are also potential productivity gains from adopting existing AI tools. Given the relatively low level of AI adoption in France, the authorities are making efforts to establish AI-focused hubs that provide supercomputer access and support for startups, SMEs, and researchers.

France and Peers: Usage of Artificial Intelligence Technologies
(Percent of firms with more than 10 persons employed using at least one AI technology, 2024)



France and Peers: Medium-Term TFP Gains from Artificial Intelligence
(Percent, cumulative over 5-year period)



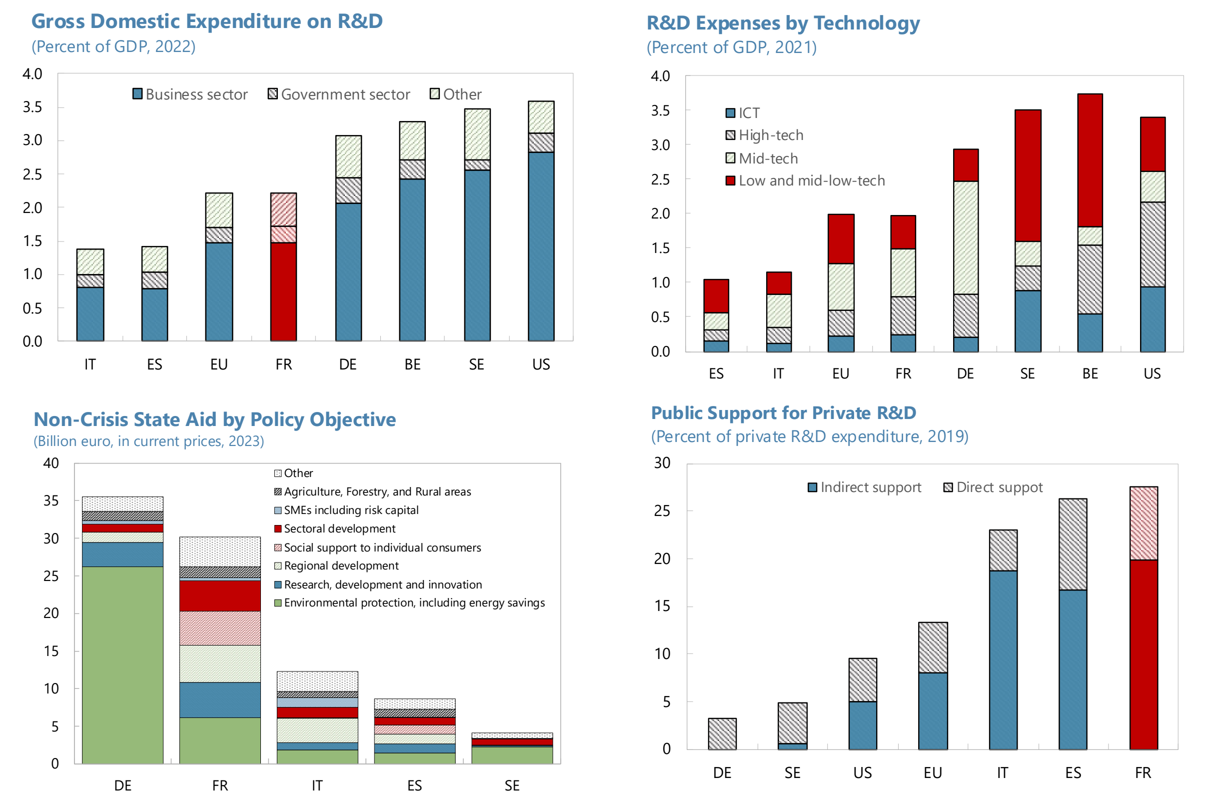
Sources: Eurostat and IMF WP/25/67.

There are potential upsides to TFP growth from AI adoption over the medium term, although they are subject to high uncertainty. Staff estimates (IMF WP/25/67) suggest that AI adoption could cumulatively increase France's TFP growth by approximately 1.2 percent over five years based on the country's sectoral structure, current AI capabilities, and predicted adoption rates reflecting costs and benefits for firms. While this estimate is slightly above the EU average, it is subject to considerable uncertainty, ranging from less than 0.5 to around 3 percent under alternative scenarios for AI capabilities. These potential gains are separate from the substantial benefits that France's AI ecosystem may offer, which includes some of Europe's most advanced AI start-ups. While AI adoption could exacerbate inequality, recent evidence is mixed (e.g., IMF WP/25/68). Facilitating reskilling and enhancing vocational training can support workers in AI-exposed jobs (¶26).

23. **There is potential to strengthen R&D in France, as it is currently skewed toward mid-tech sectors and concentrated among a small subset of firms**. Despite relatively generous support for private R&D, including through state aid, France's R&D investment remains below that of its peers and the 3 percent Lisbon target, at 2 percent of GDP. Notably, R&D expenditure in the ICT sector is lower than in the United States and some EU peers, despite France's ICT sector being relatively large by European standards. This may be partly attributed to the dominance of R&D spending in mid-tech sectors, where firms generally have a lower technology-intensity, grow more slowly and face limited innovation opportunities (Dietrich and others, 2024). The most comprehensive R&D tax credit scheme, the CIR (*Crédit d'Impôt Recherche*), is most effective when used by financially constrained innovative firms, typically from younger cohorts. However, the beneficiaries are primarily a small number of firms from older cohorts, suggesting that the CIR may

currently function as a substitute for reductions in corporate tax rates (Aghion and others, 2022). In this context, ongoing efforts by the authorities to review and rationalize state aid and R&D tax expenditures by focusing on the most impactful schemes and better targeting eligibility criteria for tax credits—without distorting firm size—are welcome.

France and Peers: Research and Development Spending



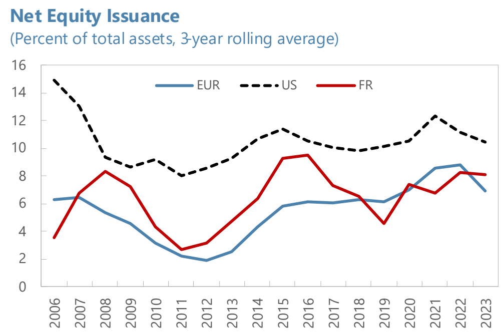
Sources: Eurostat, European Commission Scoreboard, OECD, US National Science Foundation, and IMF staff estimates.

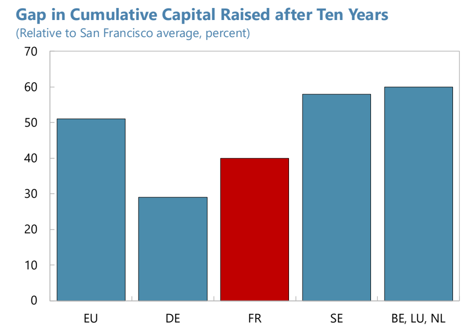
24. **Enhancing access to finance is also crucial for productive but credit-constrained firms.** French venture capital funds can play a crucial role in supporting the entry and scale-up of intangible-intensive young high-growth firms typically facing higher borrowing costs (see Annex VII). Initiatives like Tibi have shown promise by mobilizing institutional investors to support this type of companies, although more engagement and scalability are needed. Public support through France 2030 can further these efforts, facilitating innovation, including as part of the green transition.[6] Coordinated support under Important Projects of Common European Interest (IPCEI) can foster greater alignment of industrial policies with EU objectives and promote more efficient and targeted interventions (Box 3). A well-functioning Savings and Investment Union can increase the availability of capital—channeling more savings to early-stage, risky assets—and its efficient cross-

[6] See also France's Multi-Annual Strategy for Financing the Ecological Transition.

border allocation through more integrated markets, lowering the cost of finance and supporting the scale up of dynamic young firms (IMF WP/25/113).

France and Peers: Equity Financing



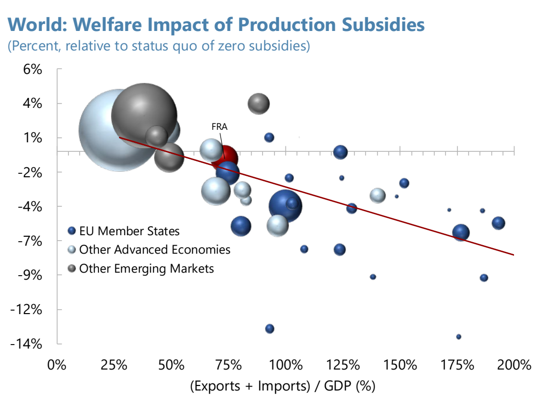


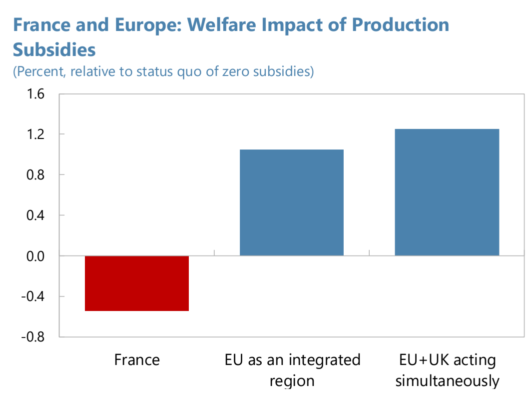
Sources: Compustat, IMF WP/25/40, Fratto and others (2024), and IMF staff estimates.
Note: See IMF WP/25/40 and Fratto and others (2024) for calculations and country samples.

Box 3. Coordinating Industrial Policies in Europe

Unilateral industrial policies (IP), even when well-targeted, can create important economic inefficiencies. Although most of the sharp increase in recent years was due to crisis-related measures which are now being unwound, non-crisis state aid remains significant in France at 0.9 percent of GDP (as of the latest 2022 official data). France accounts for 20 percent of state aid expenditure in Europe (70 percent of total, together with Germany, Italy and Spain). Structural modeling results (IMF WP/24/249) show that unilateral production subsidies, even when appropriately targeted to address market failures, may reduce welfare (by roughly 0.5 percent in France), while entailing important fiscal costs. These results are common among EU countries, due to their relative size and openness to trade, as negative externalities from unilateral IP shift production patterns away from their underlying comparative advantage, leading to production inefficiencies, negative spillovers, and risks of fragmentation within the single market.

Greater coordination can enhance the benefits derived from these policies, while mitigating its harmful effects. Industrial policies should be targeted to specific objectives where externalities or market failures prevent effective market solutions, be time-bound and supported by rigorous cost-benefit assessments, and avoid favoring domestic producers over imports to minimize trade and investment distortions. By combining a coordinated industrial policy at the EU-level, with deeper integration of intra-European trade and financial integration, the EU can enhance its competitiveness, help firms reap economies of scale and incentivize innovation, with positive net welfare gains.

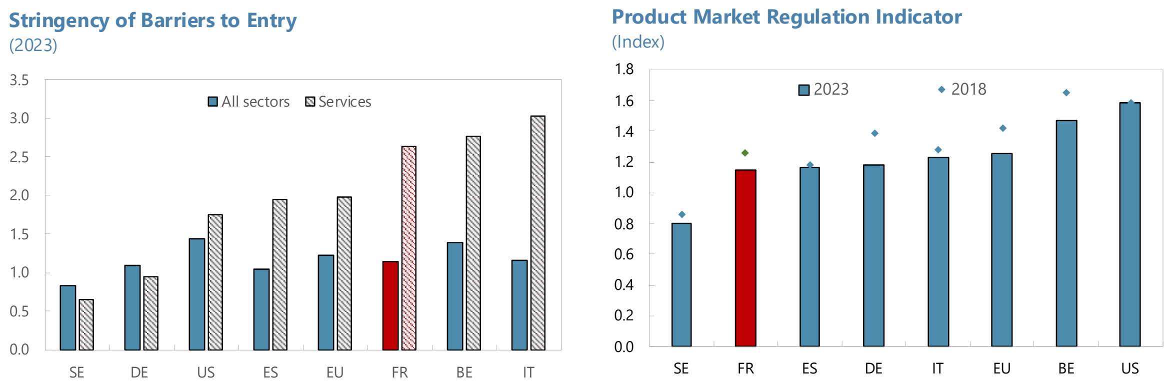




Source: IMF WP/24/249.
Note: (LHS) Welfare gains from unilateral scale-correcting production subsidies, while other countries maintain zero subsidies. Bubble size corresponds to each country's nominal GDP in 2023.

25. To support entrepreneurship, policies should focus on easing entry barriers and reducing regulatory burden. While France performs relatively well in terms of product market regulation, reducing administrative entry barriers, especially in some professions and services sub-sectors, is crucial for boosting business dynamism and productivity growth. Ongoing efforts by the authorities, including the Simplification Bill, to further reduce the regulatory burden, streamlining authorization and reporting requirements—particularly for SMEs, are critical to improving the business environment. At the European level, deepening the single market through the removal of remaining intra-EU trade barriers and greater harmonization of regulations can help firms achieve economies of scale and incentivize innovation by expanding market size (see IMF, 2024).

France and Peers: Barriers to Entry



Sources: IMF (2024), OECD Product Market Regulation dataset, and IMF staff estimates.
Note: (LHS) Higher value indicates more stringent barriers to entry. (RHS) A lower value of product market regulation shows a better performance.

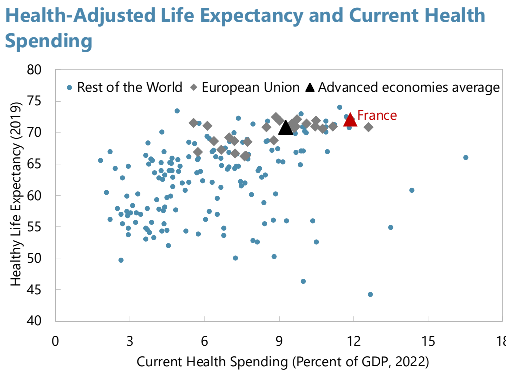
Supporting Employment and Human Capital

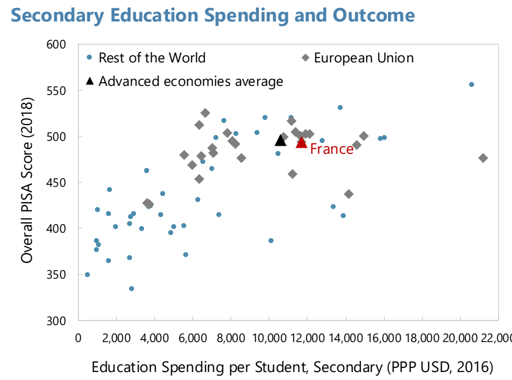
26. Sustained efforts to promote employment and job quality remain critical to facilitate the green and digital transitions, amid an aging workforce, and boost productivity growth. France's working-age population is expected to remain flat or decline under most scenarios over the next decade, despite relatively high fertility rates compared to EU peers and positive net migration. Although employment rates have increased, they remain low in segments of the population compared to peers. While France can leverage its human capital for ongoing transitions, education attainment has deteriorated in recent years, particularly in reading and math (CAE, 2024), and does not align with the country's high spending, especially on secondary education.[7] As identified in the *Choc des savoirs* program and OECD, 2024, there is scope to further strengthen education, including through greater emphasis on math, improved teacher training, increased school autonomy, and upgraded teaching methods. Ongoing reductions in class size can also help strengthen education outcomes. Additionally, initiatives under the *Plan d'Investissement dans les Compétences*, including in connection with *France Travail*, aimed at addressing skill mismatches and enhancing vocational training, can support the integration of lower skilled workers in the labor market and help reskill

[7] See Spending Efficiency and Reforms, France: Selected Issues, 2022.

workers at risk of skill obsolescence, particularly older individuals in carbon-intensive or AI-replaceable jobs.

France: Education and Health Spending Efficiency





Sources: WHO Global Health Observatory (GHO), IMF World Economic Outlook (WEO), OECD, and IMF staff estimates.

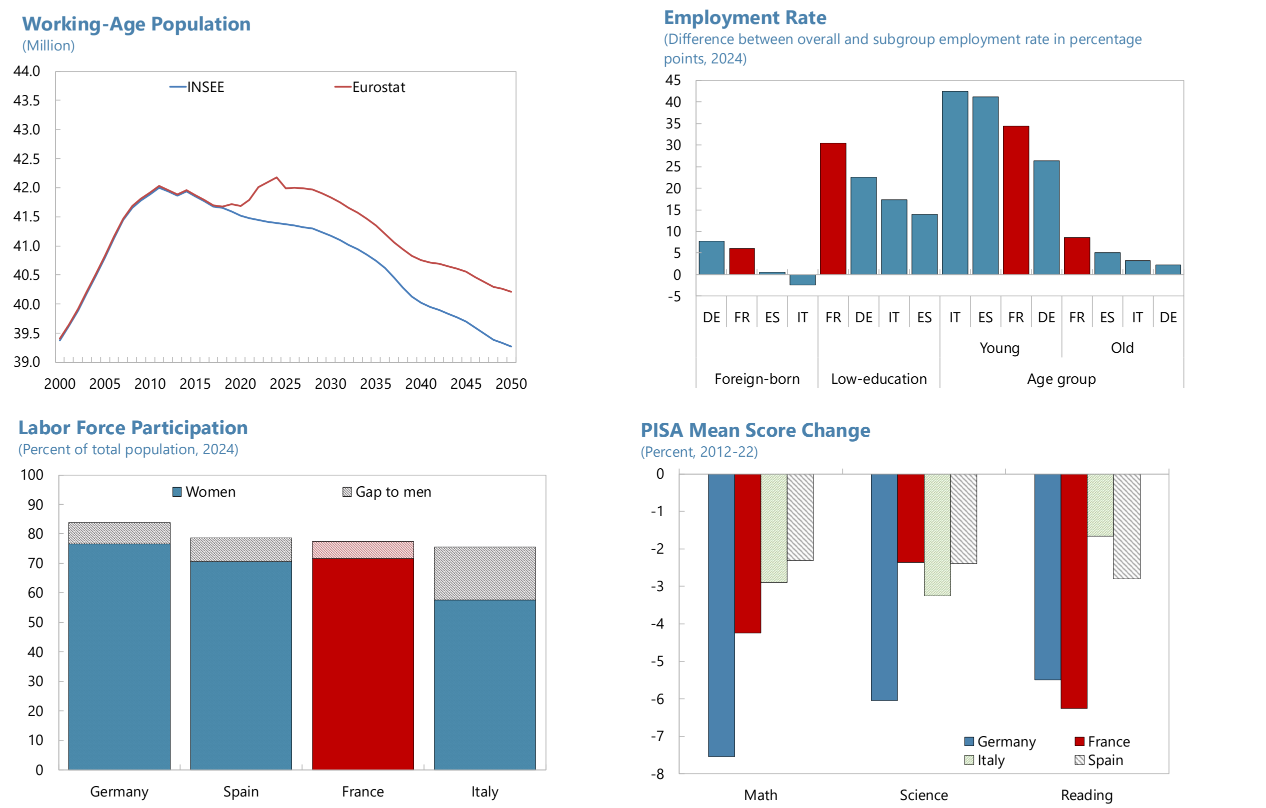
27. Key areas for policy intervention to further support employment and human capital include:

- *Promoting longer, less fragmented careers*. Building on recent efforts, further social benefit reforms (¶16) could enhance work incentives, reduce career fragmentation, and increase employment rates, particularly among younger and older individuals. Effective health-promotion and prevention policies can enable the population to age in better health and, together with efforts to facilitate the transition of older workers to age-friendlier jobs, expand their effective labor supply through increased employment opportunities and productivity (Annex V).

- *Further narrowing gaps between men and women*. Women's labor force participation in France remains lower than that of men, although the gap is narrower than in many peer countries. Plans to reform parental leave to offer shorter but better-paid options for both parents, along with improved daycare for young children, can further enhance women's labor force participation and support longer careers. Ongoing efforts to reduce biases in education (e.g., *Filles et Maths*) and career choices (e.g., *Industri'Elles)* while promoting equal pay through greater remuneration transparency can further aid women's integration into the labor market.

- *Better integrating migrants into the labor market.* While relatively narrow, employment rate gaps persist between the foreign- and domestic-born population, partly due to differences in educational attainment and skills mismatches. A significant proportion of migrants with tertiary education are employed in lower-skilled jobs, indicating potential productivity gains through better job matching. While the 2023 Law on Full Employment introduced measures to lower job search costs for migrants and enhance language training, there remains room for improvement in the volume and quality of professional training available to them.

France and Peers: Demographic Change and Employment



Sources: INSEE, Eurostat, OECD, and IMF staff estimates.
Note: (Top RHS) Low-education = less than primary, primary and lower secondary education. Age group: young = from 15 to 24 years, old = from 55 to 64 years. (Bottom LHS) Employment gap is the difference in percentage points between women employment and men employment (from 15 to 64 years).

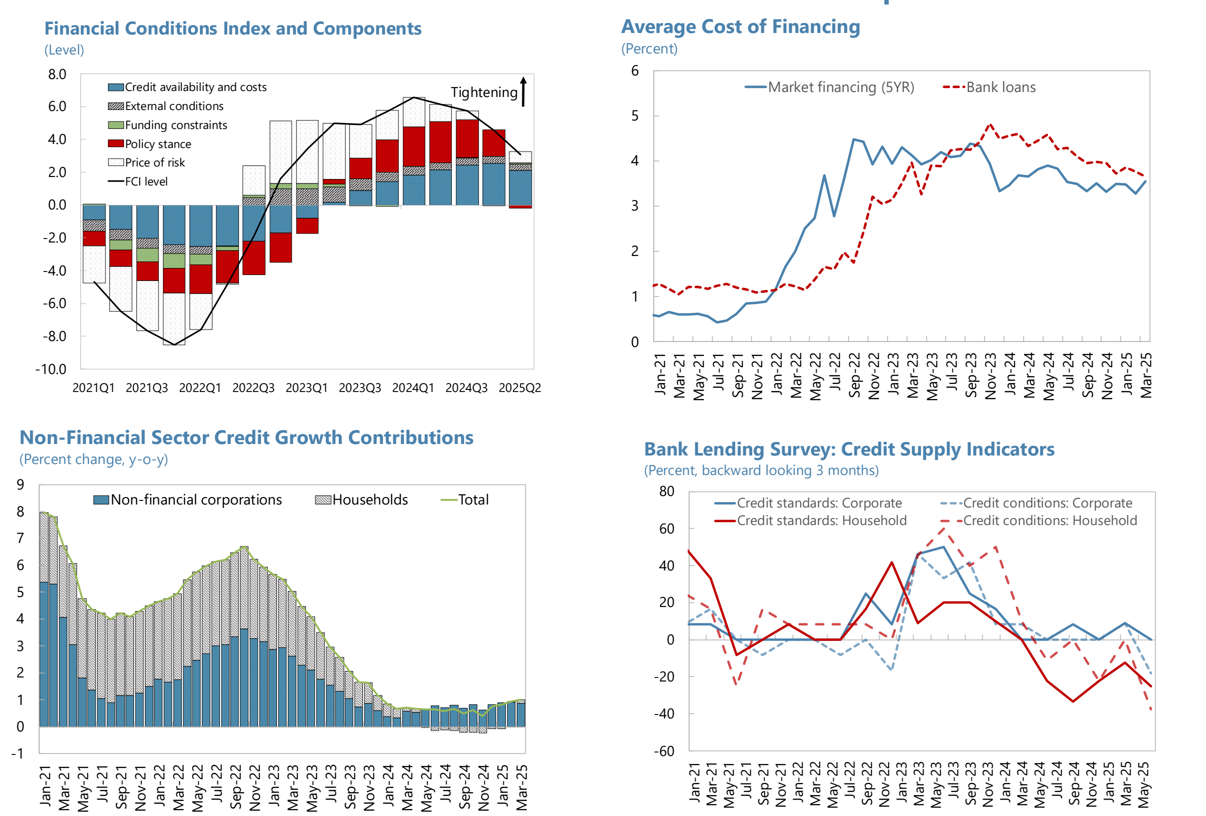
Authorities' Views

28. The authorities largely concurred on the importance of growth-enhancing reforms to support jobs and economic growth. They remain committed to implementing recently approved fiscal and macro-structural reforms to achieve the intended outcomes. Concurrently, they are proactively redirecting resources to high-growth and innovation-intensive firms, particularly in AI and green technologies, while also supporting training and STEM education, notably for women, to meet the demands of the green and digital transitions. Recognizing the need to ease the regulatory burden on firms, they regarded the envisaged measures under the simplification bill as a key step, aligning with broader EU efforts for regulatory simplification and harmonization. Additionally, they highlighted recent initiatives to better target R&D policies while maintaining corporate tax stability. The authorities reiterated their strong support for the EU Savings and Investment Union to mobilize capital, focusing on the recent initiatives for EU labeling of savings products. Efforts are also ongoing to boost employment rates, particularly among younger and older individuals, while the positive impacts of recent pension and unemployment benefit reforms are still unfolding. In addition, they emphasized the continuous efforts pursued to implement the green agenda, as exemplified by the publication of a Multi-Annual Strategy for Financing the Ecological Transition, or the introduction of a number of measures to support the green transition in the 2025 budget. More generally, the authorities concurred on the benefits of deeper integration at the EU level to support productivity and growth.

C. Financial Sector Policies: Adapting to a Complex Financial Landscape

29. The recovery in credit growth remains sluggish amid high uncertainty. Monetary policy easing and the resulting decrease in the average cost of financing contributed to improving financial conditions by 2025Q1, alongside a lower price of risk. Financial pressures reemerged in April due to rising trade tensions and episodes of high market volatility, with BdF and ECB bank lending surveys pointing to rising bank risk perceptions about the economic outlook amid increased uncertainty. Nevertheless, fund outflows were negligeable, with no cross-border contagion. Household credit remained relatively stable (y-o-y) in 2025Q1, while the non-financial corporate (NFC) contribution to total credit growth was sluggish at around 1 percent, well below pre-pandemic levels.

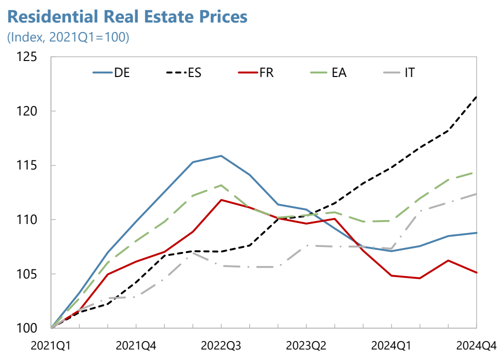
France: Recent Macro-Financial and Credit Developments

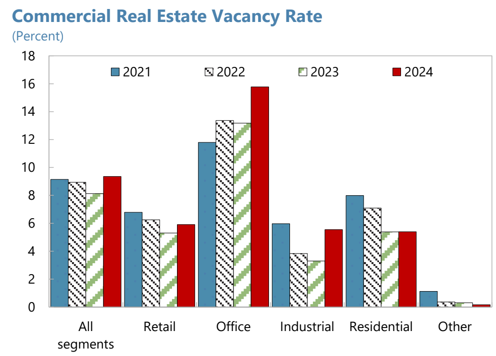


Sources: Banque de France, BLS, Bloomberg, and IMF staff estimates.
Note: FCI is unscaled. See IMF WP/23/209 for methodological details. Market financing of corporate bonds are securities other than shares, excluding financial derivatives, non-financial corporations sector.

30. The banking sector has shown resilience to recent shocks, supported by prudent lending standards, although profitability remains weak. French banks continued to experience significant compression in net interest margins as fixed-rate housing and corporate loan books saw little repricing from the delayed impact of financial tightening. At the same time, funding costs increased because of reliance on wholesale funding, rising term deposits, and higher interest rates on regulated national savings accounts. Nevertheless, banks capitalized on strong fee-based income and reductions in operating costs, notwithstanding a still sizable gap in the cost-to-income ratio to EA peers. This, together with prudent lending practices, kept credit losses low (¶31–32). Overall, banks maintain healthy capital buffers, with an average regulatory capital ratio of 19.8 percent, as of end-2024. Liquidity remains robust, as evidenced by a Liquidity Coverage Ratio (LCR) of 145 percent and a Net Stable Funding Ratio (NSFR) of 116 percent, both exceeding required minimums.

France and Peers: Real Estate Developments



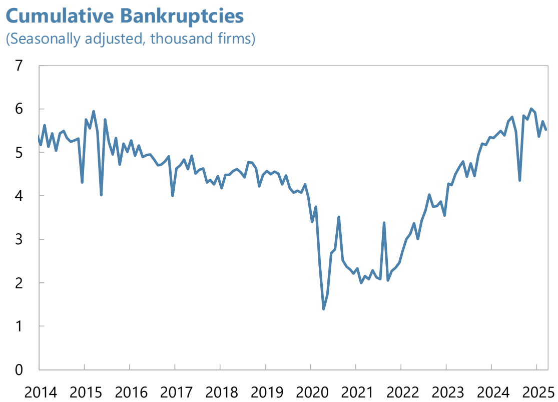


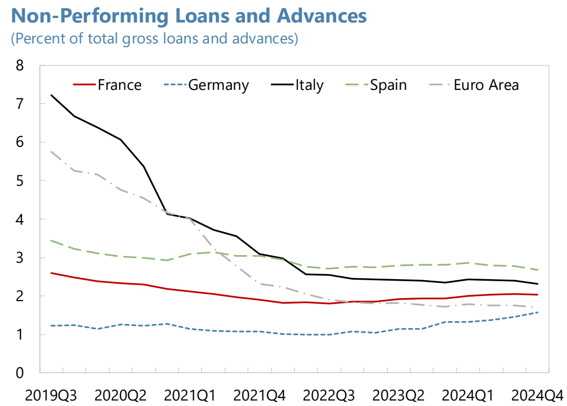
Sources: ECB, MSCI, and IMF staff estimates.

31. Sound borrower-based measures continue to mitigate housing market risks, as property prices stabilize. In the context of rising rates, housing loan issuance declined sharply in 2023–24, while the average debt service-to-income (DSTI) and loan-to-value (LTV) ratios for new housing loans edged up. Nevertheless, housing NPLs remain low at 2 percent as of end-2024, aided by the prevalence of fixed-rate loans and effective borrower-based measures (DSTI and maturity limits), with risks further mitigated by mortgage insurance and historically high recovery rates. The decline in commercial real estate (CRE) prices, amid somewhat higher vacancy rates, has had a limited impact on banks, given their small direct exposures (about 5 percent of total loans). Conservative borrower-based limits have supported prudent lending practices and should continue to be updated to reflect evolving risks, including by broadening their coverage to home renovation and other consumer loans to avoid leakages (2025 FSAP).

32. Despite high indebtedness and recent increases in bankruptcies, corporate sector risks remain manageable. NFC debt is elevated (at around 75 percent of GDP on a net consolidated basis), with about one quarter of firms showing inadequate debt service capacity. Bankruptcies peaked up at the end of 2024 back to around pre-pandemic levels, notably among SMEs in the construction and retail sectors, partly due to some catching up after the expiration of crisis support measures but have recently stabilized. Moreover, corporate profits are healthy and the overall NPL ratio remains low at just above 2 percent, with provisions coverage aligned with the euro area average. While the existing sectoral systemic risk buffer (SyRB) has effectively reduced large exposures and was recently lifted by the HCSF as no longer binding, the authorities should continue to monitor NFC developments and introduce new measures as necessary.

France and Peers: Bankruptcies and NPLs

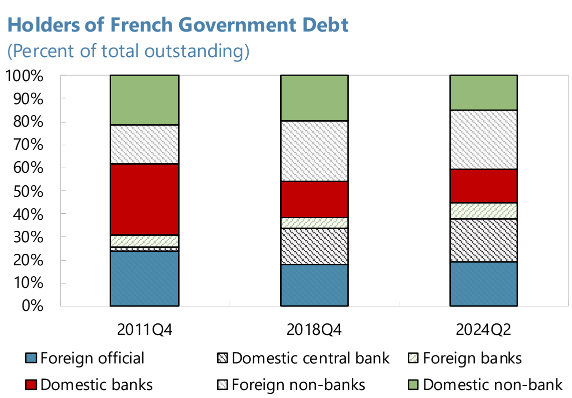


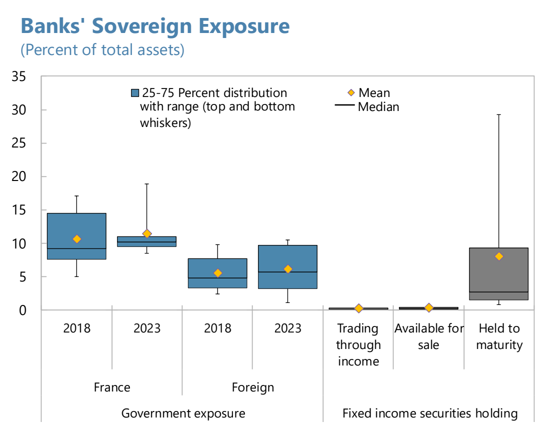


Sources: Banque de France, European Banking Authority, and IMF staff estimates.
Note: (RHS), Simple average of all euro area countries.

33. **Financial stability risks remain contained, but high uncertainty warrants continued monitoring.** French banks showed resilience under severe geopolitical and recessionary stress test scenarios, applied in the context of the 2025 FSAP (and consistent with the Euro Area FSAP stress tests), with no banks breaching their minimum capital requirements, although some dip into their additional regulatory buffers. High fees from bancassurance products provide a strong source of revenue for French banks even in adverse scenarios, and net interest income appears relatively stable under macro-financial stress, despite vulnerabilities linked to highly indebted enterprises—as corroborated by the corporate stress tests. Moreover, the existing countercyclical buffer (CCyB) provides an important additional buffer to banks. In this context, the authorities should continue to improve guidance regarding the neutral level of the CCyB and to proactively adjust rates as warranted. Liquidity buffers remain high in the French banking system, and cash flow stress tests reveal that most banks can withstand significant liquidity outflows under several adverse scenarios. However, amid high uncertainty, continued monitoring of the links between banks and NBFI is warranted (¶35).

France: Banks' Sovereign Exposure





Sources: IMF WP/14/39 and EU-wide transparency exercise.

34. Risks from the sovereign-financial sector nexus appear limited. Non-bank institutions are the primary holders of French government debt, resulting in relatively low banking sector sovereign debt holdings, which are close to the eurozone average of 6 percent of assets. Additionally, banks with larger exposures primarily hold French sovereign bonds and loans to maturity, while the share of mark-to-market securities is larger for non-French sovereign exposures. While increases in sovereign yields tend to impact the cost of banks' wholesale funding—particularly important for significant institutions (SIs), given their loan-to-deposit ratio of 104 percent—and could potentially offset the beneficial effects of future monetary policy easing, the impact on bank capital would likely be limited, according to BdF and 2025 FSAP estimates.

35. The connections between the banking system, insurance firms, and domestic funding markets warrant continued close monitoring. NBFIs account for about one-third of financial sector assets, primarily held by insurance companies and investment funds. The 2025 France and euro area FSAP stress test indicates that investment funds possess sufficient liquidity to withstand large redemption shocks, and French banks' liquidity buffers can absorb potential market shocks from associated fixed-income sell-offs. Moreover, liquidity management tools to contain redemption risks, notably swing pricing and redemption gates, have been widely adopted. Nevertheless, amid global uncertainty and episodes of high market volatility, there is scope to further strengthen oversight through greater monitoring and data sharing on funds' liability structures as well as closer collaboration among NBFI supervisors in France and at the EU level. The authorities' upcoming system-wide stress test will provide a valuable exercise to assess resilience to additional severe scenarios.

36. In line with 2025 FSAP recommendations, France's strong financial oversight should continue to adapt to a complex and evolving financial landscape. In an environment of increasing complexity, volatility, and regulatory requirements, the FSAP recommends enhancing risk analysis by improving data quality and timeliness on interconnectedness of financial institutions, and on derivatives and repo markets, while ensuring that the supervisory authorities have adequate resources to meet future capacity needs. Other key FSAP recommendations include (i) strengthening the HCSF's framework to ensure effectiveness and enhance communication; (ii) formalizing inter-agency coordination, notably on financial crisis preparedness and management; (iii) prioritizing work to ensure operational readiness for the combination of resolution tools and cross-border bail-in procedures; and (iv) strengthening resources of the deposit insurance fund and introducing a public backstop.

37. The authorities have established a robust cyber risk framework, although there is room for improvement in staffing and supervisory coordination. The 2025 FSAP found that the framework and practices for supervising cyber risks—a key concern for the authorities—are effective, thanks to the relevant EU regulatory framework and strong national laws. Additionally, the EU Digital Operational Resilience Act (DORA) mandates that financial institutions implement formalized risk management and enhance coordination in incident responses. However, challenges remain, including resource constraints, increased staffing needs with DORA implementation, and a fragmented supervisory structure.

38. Financial institutions should continue to proactively integrate climate risks into their governance, strategy, and risk management processes. Recent state-of-the-art exercises by the ECB and BdF and staff's own climate risk assessment (IMF WP/24/144) have highlighted the risks for the financial sector from the increased likelihood of extreme weather events as well as the need for a timely and orderly climate transition. In this context, the authorities' ongoing efforts, including in the context of the Thematic review on climate and environmental risks, to proactively integrate climate risks into financial institutions' strategy, governance, and risk management processes are welcome.

39. France's anti-money laundering and combating the financing of terrorism (AML/CFT) regime was found to be largely effective by the Financial Action Task Force (FATF) in 2022 and has since been further enhanced. France has a high or substantial level of effectiveness in most of the areas assessed by the FATF and a moderate level in the application of AML/CFT preventive measures and supervision. Following the FATF evaluation, France has published the new national money laundering and terrorism financing risk assessment with new chapters related to digital assets in 2023. Regulatory weaknesses relating to requirements for due diligence of politically exposed persons and beneficial ownership have also been addressed by legal changes, while the financial markets regulator (AMF) continues efforts to formalize its risk-based approach. Legislative proposals have also been developed to strengthen controls as a part of banking licensing procedures. The authorities should continue to strengthen risk-based AML/CFT supervision and ensure a full understanding of obligations in beneficial ownership transparency by banks and other AML/CFT obliged entities. France should also continue efforts to monitor and mitigate ML/TF risks arising from the virtual asset sector.

Authorities' Views

40. The authorities broadly shared staff's views on the resilience of the French financial system, while concurring with the need to adapt their policy toolkit to a rapidly evolving environment. They highlighted the stabilizing effects of fixed-rate mortgages and prudent borrower-based exposure limits, expecting that monetary policy easing will enhance banks' net interest margins. They concurred with the staff's assessment that the non-financial private sector, in particular SMEs, appears exposed to macroeconomic shocks, but noted that they have been resilient to the rise in interest rates and that the recent rise in insolvencies is partly explained by a catch-up effect following the expiration of pandemic support measures. While the financial system had weathered well recent bouts of high market volatility, with limited redemptions and no reported cross-border contagion, the authorities plan to utilize the upcoming system-wide stress test to assess resilience to additional severe scenarios. They supported most of the FSAP recommendations, including calls for greater data sharing and supervisory coordination in France and at the EU level. Regarding the macroprudential policy framework, they deemed borrower-based measures sufficiently broad to mitigate risks and did not see the need for further guidance on the neutral CCyB level, although they saw merit in improving public communication and governance practices as well as reassessing the CCyB framework within a broader review of regulatory buffers.

STAFF APPRAISAL

41. **The French economy has demonstrated resilience, despite high uncertainty.** Real GDP grew by 1.1 percent in 2024, bolstered by the summer Olympics in Paris. The disinflationary process is progressing well, and the labor market remains robust. The financial sector has withstood recent episodes of market volatility and the external position in 2024 was assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies. However, high and rising public debt, combined with significant domestic and external headwinds to the recovery, highlights the urgent need to strengthen public finances and pursue structural reforms to foster sustainable growth.

42. **The French authorities' fiscal adjustment plans under the MTFSP are appropriate and should be supported by the approval of a well-designed and credible package of measures.** While short-term risks remain manageable, debt dynamics have weakened significantly, following consecutive fiscal slippages in 2023 and 2024. Significant additional fiscal efforts will be crucial to achieve the MTFSP's goal of bringing the deficit below 3 percent of GDP by 2029 and place debt on a downward path, while creating room to absorb rising spending demands. Achieving this consolidation plan will require decisive actions and involve challenging decisions to ensure equity and fairness amidst difficult trade-offs in the current domestic and external environment. Given France's already high tax-to-GDP ratio, the authorities should prioritize rationalizing current spending, building on recent reforms and ongoing spending reviews, with concerted action across all government levels. In the face of high global uncertainty, contingency plans will be needed to ensure that pressing priority needs are met without compromising the public finances.

43. **Raising weak productivity growth is critical for sustaining France's economic prospects.** France is well-positioned to capitalize on the green and digital transitions through increased efforts to support innovation and access to capital. Ongoing efforts by the authorities to review and rationalize state aid and R&D tax expenditures by targeting the most impactful schemes can boost innovation and help close gaps with peers. Enhancing access to finance and reducing financing costs for productive but credit-constrained firms is crucial and should be supported by advancing the EU Savings and Investment Union which can increase the availability of capital and its efficient allocation. Policies that ease entry barriers and reduce the regulatory burden can further support entrepreneurship.

44. **Sustained efforts to promote employment and job quality can facilitate the green and digital transitions, amid an aging workforce.** While employment rates have increased, they remain low in segments of the population compared to other countries. Possible areas for policy intervention include further social benefit reforms to enhance work incentives and reduce career fragmentation, particularly among younger and older individuals. These measures can be complemented by efforts to further raise labor force participation of women, including through recent initiatives to support STEM careers, and better integrate migrants into the labor market. Promoting workforce skills and healthy aging would also contribute to job quality.

45. France's strong financial oversight and macroprudential toolkit should continue to adapt to a complex and evolving financial landscape, in line with FSAP recommendations. The banking sector demonstrated resilience to recent shocks, supported by prudent lending standards and strong precautionary buffers. Sound prudential measures are mitigating housing market risks as property prices stabilize, while risks to the banking sector from corporate indebtedness and sovereign exposures remain manageable. Notwithstanding high uncertainty, financial stability risks remain contained, with the French financial system showing resilience under severe FSAP stress test scenarios. Nevertheless, in an environment of increasing complexity, volatility, and regulatory requirements, the authorities should continue to enhance risk analysis by improving data quality and timeliness on interconnectedness of financial institutions, and on derivatives and repo markets, while ensuring that the supervisory authorities have adequate resources to meet future capacity needs. The authorities' proactive efforts to have financial institutions integrate cyber and climate risks into their strategy, governance, and risk management processes are welcome.

46. It is proposed that the next Article IV consultation takes place on the standard 12-month cycle.

Table 1. France: Selected Economic Indicators, 2019–30
(In percent of GDP, unless otherwise indicated)

							Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Real economy (change in percent)												
Real GDP	2.1	-7.6	6.8	2.8	1.6	1.1	0.6	1.0	1.2	1.3	1.2	1.2
Domestic demand	2.1	-6.3	6.0	2.8	0.7	-0.1	1.2	0.9	1.1	1.2	1.2	1.1
Private consumption	1.7	-6.5	5.3	3.3	0.8	1.0	0.7	1.1	1.2	1.4	1.3	1.1
Public consumption	1.1	-4.4	6.6	2.7	1.5	1.4	1.2	1.0	0.9	1.0	1.0	1.0
Gross fixed investment	4.2	-6.2	9.6	-0.2	0.8	-1.3	-0.5	0.3	0.9	1.0	1.1	1.1
Foreign balance (contr. to GDP growth)	0.0	-1.3	0.7	-0.1	0.9	1.2	-0.6	0.1	0.1	0.1	0.1	0.1
Exports of goods and services	2.2	-16.9	11.0	9.3	2.8	2.4	-0.6	1.7	1.8	2.3	2.2	2.2
Imports of goods and services	2.1	-12.5	8.0	9.3	0.1	-1.3	1.3	1.3	1.5	2.1	2.1	1.8
Nominal GDP (billions of euros)	2,432	2,318	2,508	2,654	2,830	2,921	2,976	3,056	3,152	3,255	3,359	3,467
CPI (year average)	1.3	0.5	2.1	5.9	5.7	2.3	1.1	1.5	1.9	1.9	1.9	1.9
GDP deflator	1.1	3.2	1.3	2.9	4.9	2.1	1.3	1.6	1.9	1.9	1.9	1.9
Gross national savings (percent of GDP)	23.6	20.8	23.7	22.9	22.0	21.9	21.8	21.2	20.9	20.9	20.9	20.9
Gross domestic investment (percent of GDP)	23.0	22.8	23.4	24.0	23.0	21.5	21.8	21.5	21.4	21.2	21.1	21.0
Public finance (percent of GDP)												
General government balance	-2.4	-8.9	-6.6	-4.7	-5.4	-5.8	-5.4	-5.7	-6.0	-6.0	-6.0	-6.1
Revenue	53.0	52.8	52.9	53.7	51.4	51.4	51.9	51.7	51.5	51.5	51.4	51.4
Expenditure	55.3	61.7	59.5	58.4	56.8	57.2	57.3	57.4	57.5	57.5	57.5	57.6
Primary balance	-0.9	-7.7	-5.2	-2.9	-3.7	-3.8	-3.4	-3.4	-3.5	-3.2	-3.0	-2.8
Structural balance (percent of pot. GDP)	-1.4	-5.9	-5.1	-4.2	-5.3	-5.8	-5.2	-5.5	-6.0	-6.0	-6.1	-6.2
Nominal expenditure (change in percent)	1.4	6.3	4.3	4.0	3.7	3.8	2.1	2.7	3.4	3.2	3.2	3.4
Real expenditure (change in percent)	0.1	5.7	2.2	-1.8	-1.8	1.5	1.0	1.2	1.5	1.3	1.3	1.4
General government gross debt	98.1	114.9	112.8	111.4	109.6	113.1	116.5	119.1	121.5	123.7	125.9	128.1
Labor market (percent change)												
Employment	0.5	0.1	2.3	1.9	1.0	1.2	-0.3	0.1	0.2	0.3	0.2	0.1
Labor force	-0.2	-0.3	2.1	1.3	1.0	1.2	0.0	-0.1	0.0	0.1	0.1	0.1
Unemployment rate (percent)	8.4	8.0	7.9	7.3	7.3	7.4	7.7	7.5	7.3	7.1	7.0	7.0
Credit and interest rates (percent)												
Growth of credit to the private non-financial sector	5.3	7.1	4.5	5.7	3.6	0.6	1.0	1.2	1.9	2.2	2.2	2.2
Money market rate (Euro area)	-0.5	-0.4	-0.5	0.3	3.4	3.6	...	...	...	...	...	...
Government bond yield, 10-year	0.1	-0.1	0.0	1.7	3.0	3.0	...	...	...	...	...	...
Balance of payments (percent of GDP)												
Current account	0.6	-2.1	0.3	-1.2	-1.0	0.4	-0.1	-0.3	-0.5	-0.3	-0.2	-0.1
Trade balance of goods and services	-0.6	-1.8	-1.0	-2.6	-1.4	-0.1	-0.7	-0.8	-0.8	-0.6	-0.5	-0.4
Exports of goods and services	32.5	28.2	31.3	36.6	34.3	33.9	33.7	33.2	33.0	33.0	33.0	33.0
Imports of goods and services	-33.1	-30.0	-32.3	-39.2	-35.7	-34.0	-34.4	-34.0	-33.7	-33.5	-33.5	-33.4
FDI (net)	1.1	0.4	0.7	-0.8	1.0	-0.3	0.4	0.8	1.0	1.1	1.1	1.2
Official reserves (US$ billion)	69.7	76.1	101.7	100.4	79.2	78.4	...	...	...	...	...	...
Exchange rates												
Euro per U.S. dollar, period average	0.89	0.88	0.82	0.95	0.92	0.92	...	...	...	...	...	...
NEER, ULC-styled (2010=100, +=appreciation)	97.1	97.4	97.8	95.9	97.0	97.3	...	...	...	...	...	...
REER, ULC-based (2010=100, +=appreciation)	88.2	86.6	88.8	90.7	90.5	91.7	...	...	...	...	...	...
Potential output and output gap												
Potential output (change in percent)	1.2	-3.3	4.2	1.4	1.2	0.8	0.8	1.0	1.0	1.1	1.2	1.2
Memo: per working age person	1.4	-3.2	4.5	0.8	1.0	0.4	0.8	1.0	1.0	1.1	1.1	1.1
Output gap	0.0	-4.5	-2.1	-0.7	-0.4	-0.1	-0.4	-0.4	-0.2	-0.1	0.0	0.1

Sources: INSEE, Banque de France, and IMF staff calculations.

Note: Under current policies, which incorporate only legislated and clearly specified measures.

Table 2. France: General Government Operations, 2019–30
(In percent of GDP, unless otherwise indicated)

	Estimates						Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue	53.0	52.8	52.9	53.7	51.4	51.4	51.9	51.7	51.5	51.5	51.4	51.4
Taxes	30.4	30.3	30.0	30.7	29.0	28.6	29.1	28.8	28.8	28.8	28.9	28.9
Direct taxes	13.1	13.2	12.9	13.5	12.6	12.5	12.8	12.5	12.5	12.5	12.5	12.5
Indirect taxes	17.3	17.1	17.1	17.2	16.4	16.1	16.3	16.3	16.3	16.3	16.3	16.4
Social contributions	16.7	16.9	16.7	16.7	16.3	16.5	16.6	16.6	16.6	16.6	16.5	16.5
Other revenue	5.9	5.6	6.2	6.3	6.1	6.3	6.2	6.3	6.1	6.1	6.1	6.1
Expenditure	55.3	61.7	59.5	58.4	56.8	57.2	57.3	57.4	57.5	57.5	57.5	57.6
Expense	55.0	61.4	59.1	58.1	56.5	56.8	57.0	57.0	57.2	57.1	57.2	57.2
Compensation of employees	12.4	13.3	12.6	12.5	12.2	12.4	12.5	12.6	12.5	12.5	12.5	12.5
Goods and services	5.2	5.5	5.4	5.5	5.5	5.6	5.6	5.7	5.7	5.7	5.7	5.7
Interest	1.5	1.3	1.4	1.9	1.9	2.1	2.2	2.4	2.7	2.9	3.2	3.5
Social benefits	25.5	28.8	27.1	25.9	25.1	25.6	25.5	25.3	25.3	25.1	25.0	24.8
Other expense	10.4	12.5	12.6	12.3	11.8	11.2	11.1	11.1	11.0	10.9	10.8	10.7
Gross public investment	4.2	4.2	4.1	4.2	4.3	4.3	4.3	4.2	4.2	4.2	4.2	4.1
Net acquisition of nonfinancial assets	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net lending / borrowing	-2.4	-8.9	-6.6	-4.7	-5.4	-5.8	-5.4	-5.7	-6.0	-6.0	-6.0	-6.1
Primary balance	-0.9	-7.7	-5.2	-2.9	-3.7	-3.8	-3.4	-3.4	-3.5	-3.2	-3.0	-2.8
Memorandum items:												
Structural balance (percent of potential GDP)	-1.4	-5.9	-5.1	-4.2	-5.3	-5.8	-5.2	-5.5	-6.0	-6.0	-6.1	-6.2
Structural primary balance (percent of potential GDP	0.0	-4.7	-3.8	-2.4	-3.6	-3.9	-3.2	-3.3	-3.4	-3.2	-3.1	-2.8
Change in structural primary balance	*0.2*	*-4.7*	*0.9*	*1.4*	*-1.2*	*-0.3*	*0.7*	*-0.1*	*-0.1*	*0.2*	*0.1*	*0.3*
Public gross debt (Maastricht definition)	98.1	114.9	112.8	111.4	109.6	113.1	116.5	119.1	121.5	123.7	125.9	128.1
Nominal GDP (in billion of Euros)	2,432	2,318	2,508	2,654	2,830	2,921	2,976	3,056	3,152	3,255	3,359	3,467
Real GDP growth (in percent)	2.1	-7.6	6.8	2.8	1.6	1.1	0.6	1.0	1.2	1.3	1.2	1.2
Nominal expenditure growth	1.4	6.3	4.3	4.0	3.7	3.8	2.1	2.7	3.4	3.2	3.2	3.4
Real expenditure growth (in percent)	0.1	5.7	2.2	-1.8	-1.8	1.5	1.0	1.2	1.5	1.3	1.3	1.4
of which: primary	0.0	6.4	1.9	-2.8	-1.8	1.2	0.8	0.9	0.9	0.8	0.9	0.8
of which: structural primary	0.1	5.7	2.2	-2.6	-1.8	1.2	0.7	0.9	0.9	0.9	0.9	0.8

Sources: INSEE, Banque de France, and IMF staff calculations.

Table 3. France: Balance of Payments, 2019–30
(In percent of GDP)

							Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Current account	0.6	-2.1	0.3	-1.2	-1.0	0.4	-0.1	-0.3	-0.5	-0.3	-0.2	-0.1
Net exports of goods	-1.5	-2.2	-2.6	-5.0	-2.7	-2.0	-2.3	-2.3	-2.2	-2.0	-2.0	-1.9
Exports of goods	21.6	18.8	20.6	23.7	22.2	21.2	21.2	20.9	20.8	20.8	20.8	20.8
Imports of goods	23.1	21.0	23.2	28.7	24.9	23.2	23.5	23.2	23.0	22.8	22.8	22.7
Net exports of services	0.9	0.5	1.6	2.5	1.3	1.9	1.7	1.5	1.4	1.5	1.4	1.5
Exports of services	11.0	9.4	10.7	12.9	12.1	12.7	12.6	12.3	12.2	12.2	12.2	12.1
Imports of services	10.0	9.0	9.1	10.5	10.8	10.8	10.9	10.8	10.8	10.7	10.7	10.7
Income balance	3.0	2.0	3.2	3.3	2.3	2.1	2.1	2.1	2.1	2.2	2.2	2.2
Current transfers	-1.9	-2.3	-1.9	-1.9	-1.8	-1.6	-1.5	-1.6	-1.8	-1.9	-1.9	-1.9
Capital and financial account												
Capital account	0.1	0.1	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Financial account	0.0	-2.6	0.1	-1.4	-1.3	-0.7	0.1	-0.1	-0.3	-0.1	0.0	0.1
Direct investment	1.1	0.4	0.7	-0.8	1.0	-0.3	0.4	0.8	1.0	1.1	1.1	1.2
Portfolio investment	-2.8	-1.3	0.4	-3.2	-4.9	-0.7	0.7	0.6	0.6	0.8	0.9	1.1
Financial derivatives	0.2	-1.0	0.7	-1.5	-0.6	-0.9	-0.6	-0.4	-0.3	-0.3	-0.2	-0.2
Other investments net	1.4	-0.9	-2.6	4.1	4.0	1.0	-0.6	-1.3	-1.7	-1.9	-2.0	-2.1
Reserve assets	0.1	0.2	0.9	0.1	-0.7	0.0	0.1	0.1	0.2	0.2	0.2	0.2
Errors and omissions	-0.7	-0.7	-0.6	-0.6	-0.5	-1.3	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Banque de France, and IMF staff calculations.

Table 4. France: Depository Corporations Survey, 2019–24

	2019	2020	2021	2022	2023	2024
	(In billions of euros, end of period)					
Net foreign assets	437.6	481.0	425.2	346.9	517.1	629.0
Claims on Nonresidents	2,779.8	2,943.4	3,132.7	3,310.7	3,573.1	3,767.9
Central Bank	388.9	468.5	513.4	480.1	463.2	510.3
Other Depository Corporations	2,390.9	2,474.9	2,619.3	2,830.5	3,109.9	3,257.6
Liabilities to Nonresidents (-)	2,342.2	2,462.4	2,707.5	2,963.8	3,056.1	3,138.9
Central Bank (-)	167.8	195.8	244.1	191.5	188.0	279.5
Other Depository Corporations (-)	2,174.4	2,266.6	2,463.4	2,772.3	2,868.1	2,859.4
Net domestic assets	3,395.8	3,807.7	3,979.3	4,168.8	4,231.5	4,270.5
Net Claims on Central Government	484.1	583.1	718.6	799.0	824.1	824.1
Claims on State and Local Government	212.6	239.8	234.5	245.8	270.6	239.7
Claims on NBFIs	642.6	648.0	615.2	637.4	646.3	759.1
Financial Derivatives	171.6	208.4	173.9	160.0	135.3	158.7
Claims on Private Sector	2,600.3	2,907.1	3,027.8	3,166.0	3,181.8	3,161.1
Corporates	1,236.3	1,467.4	1,508.4	1,580.7	1,603.0	1,612.2
Households	1,364.1	1,439.7	1,519.4	1,585.3	1,578.8	1,548.9
Capital and Reserves (-)	685.6	723.1	761.4	924.6	926.3	972.9
Other Items, Net (-, including discrepancy)	(141.8)	(152.8)	(144.7)	(245.2)	(235.1)	(198.7)
Broad Money	2,446.8	2,885.6	3,024.6	3,108.9	3,168.8	3,210.1
Currency in Circulation	235.6	262.9	284.0	289.4	286.4	286.6
Transferable Deposits	1,081.6	1,355.9	1,483.0	1,410.4	1,230.3	1,192.2
Other Deposits	1,072.1	1,216.4	1,218.6	1,358.8	1,597.2	1,681.7
Securities	57.4	50.4	39.0	50.3	55.0	49.5
Other Liabilities	1,386.7	1,403.0	1,379.9	1,406.8	1,579.7	1,689.4
Financial Derivatives	171.1	210.9	180.1	168.4	143.9	166.9
	(Annual percentage change)					
Net foreign assets	(20.3)	9.9	(11.6)	(18.4)	49.1	21.7
Net domestic assets	23.6	12.1	4.5	4.8	1.5	0.9
Claims on private sector	27.9	11.8	4.2	4.6	0.5	(0.6)
Corporates	34.3	18.7	2.8	4.8	1.4	0.6
Households	22.6	5.5	5.5	4.3	(0.4)	(1.9)
Broad Money	32.5	17.9	4.8	2.8	1.9	1.3
	(In millions of U.S. dollars, end of period)					
Net foreign assets	486.4	585.4	480.6	367.3	563.7	691.2
Net domestic assets	3,774.0	4,633.8	4,498.1	4,414.3	4,613.6	4,692.9
Claims on private sector	2,889.9	3,537.8	3,422.6	3,352.4	3,469.1	3,473.8
Corporates	1,373.9	1,785.7	1,705.1	1,673.8	1,747.7	1,771.6
Households	1,515.9	1,752.1	1,717.5	1,678.6	1,721.4	1,702.1
Memorandum items						
Velocity (GDP/Broad Money)	1.0	0.8	0.8	0.9	0.9	0.9
Euro per U.S. dollar (end of period)	0.9	0.8	0.9	0.9	0.9	0.9

Sources: International Financial Statistics and IMF staff calculations.

Table 5. France: Vulnerability Indicators, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
External Indicators										
Exports (annual percentage change, in U.S. dollars)	-11.7	-0.1	7.3	9.7	-2.0	-15.7	24.4	10.2	2.6	2.3
Imports (annual percentage change, in U.S. dollars)	-13.3	0.3	8.2	10.3	-3.3	-12.0	20.8	14.2	-0.1	-1.6
Terms of trade (annual percentage change)	3.2	0.9	-1.2	-1.1	0.8	1.2	-0.7	-3.0	-0.4	0.2
Current account balance	-0.3	-0.5	-0.5	-0.7	0.6	-2.1	0.3	-1.2	-1.0	0.4
Capital and financial account balance	-0.4	-0.1	-1.1	-0.4	0.1	-2.6	0.4	-1.0	-1.0	-0.5
Of which										
Inward portfolio investment (debt securities, etc.)	0.3	0.6	1.9	1.2	5.5	7.5	4.5	5.3	10.9	10.9
Inward foreign direct investment	1.8	1.4	1.7	2.8	2.0	0.7	3.3	3.9	0.3	1.8
Other investment (net)	-5.1	-3.0	-1.6	-2.3	1.4	-0.9	-2.6	4.1	4.0	1.0
Total reserves minus gold										
(in billions of U.S. dollars, end-of-period)	55.2	56.1	54.8	66.1	69.7	76.1	101.7	100.4	79.2	78.4
Euros per U.S. dollar (period average)	0.9	0.9	0.9	0.8	0.9	0.9	0.8	0.9	0.9	0.9
Market Indicators										
Financial Markets										
Public sector debt 1/	96.9	98.1	98.7	98.5	98.1	114.9	112.8	111.4	109.6	113.1
3-month T-bill yield (percentage points)	-0.2	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	0.0	3.3	3.5
3-month T-bill yield in real terms (percentage points)	-0.2	-0.7	-1.7	-2.5	-1.7	-1.1	-2.3	-5.2	-1.6	1.5
US 3 month T-bill	0.1	0.3	0.9	1.9	2.1	0.4	0.0	2.0	5.1	5.0
Spread with the US T-bill (percentage points)	-0.3	-0.9	-1.6	-2.6	-2.6	-1.0	-0.7	-2.0	-1.8	-1.5
10-year government bond (percentage points)	0.8	0.5	0.8	0.8	0.1	-0.1	0.0	1.7	3.0	3.0
10-year government bond (United States)	2.1	1.8	2.3	2.9	2.1	0.9	1.4	3.0	4.0	4.2
Spread with US bond (percentage points)	-1.3	-1.4	-1.5	-2.1	-2.0	-1.0	-1.4	-1.3	-1.0	-1.2
Yield curve (10 year - 3 month, percentage points)	1.0	1.0	1.5	1.4	0.7	0.4	0.7	1.7	-0.3	-0.5
Stock market index (period average, 1995=100)	216.2	218.6	221.7	224.0	227.3	229.5	230.4	231.7	231.3	231.2
Real estate prices (index, Q1-10=100, period average)	100.0	100.9	104.0	107.1	110.7	116.8	124.6	132.5	131.6	126.2
Credit markets (end-of-period 12-month growth rates)										
Credit to the private sector	2.5	4.3	4.6	6.3	5.3	8.5	3.8	5.8	-0.4	0.9
Bank credit to households	3.3	3.3	5.6	5.3	6.0	4.7	5.3	4.9	1.0	-0.1
Housing Loans	4.0	3.5	6.1	5.8	6.8	5.5	6.4	5.5	1.1	-0.7
Bank credit to nonfinancial enterprises	4.3	4.3	5.8	5.7	4.2	13.0	3.5	7.3	1.4	1.9
Sectoral risk indicators										
Household sector										
Household savings ratio	14.0	13.9	14.0	13.8	14.6	20.5	19.1	16.9	16.9	18.2
Household financial savings ratio	4.7	4.3	4.0	3.5	4.1	10.5	7.7	5.6	7.0	9.1
Corporate sector										
Gross margin ratio	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Investment ratio	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Savings ratio	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Self-financing ratio	1.0	1.0	1.0	0.9	1.0	0.9	1.0	0.9	1.0	0.9
Banking sector										
Share of housing loans in bank credit to the private sector	41.6	41.8	42.4	42.4	42.7	42.2	43.4	42.9	42.9	41.4
Share of nonperforming loans in total loans	4.0	3.7	3.1	2.7	2.5	2.7	2.4	2.1	2.1	2.1
Ratio of nonperforming loans net of provisions to capital	18.0	16.2	15.0	13.6	12.2	11.9	10.3	11.0	11.5	11.3
Liquid assets to total short-term liabilities 2/	17.5	20.2	20.7	19.3	20.1	26.0	27.0	23.8	24.3	23.4
Return on assets	0.6	0.5	0.4	0.4	0.4	0.2	0.5	0.3	0.4	0.6
Return on equity	9.2	8.4	6.3	6.7	6.4	3.9	7.5	5.9	7.1	6.8
Regulatory capital to risk-weighted assets	17.1	18.3	18.9	18.8	19.6	19.9	20.4	19.4	19.5	19.8

Sources: French authorities, INSEE, BdF, ECB, and IMF International Financial Statistics.

1/ The debt figure does not include guarantees on non-general government debt.

2/ Data is based on new methodology which is not comparable to older figures before 2014.

Table 6. France: Core Financial Soundness Indicators, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Deposit-taking institutions 1/										
Regulatory capital to risk-weighted assets 2/	17.1	18.3	18.9	18.8	19.6	19.9	20.4	19.4	19.5	19.8
Regulatory Tier I capital to risk-weighted assets 2/	13.8	15.1	15.4	15.6	16.0	17.1	16.9	16.8	17.2	17.4
Nonperforming loans net of provisions to capital	18.0	16.2	15.0	13.6	12.2	11.9	10.3	11.0	11.5	11.3
Bank provisions to Nonperforming loans	50.6	51.0	50.6	50.4	49.9	48.7	49.2	46.5	45.0	44.6
Nonperforming loans to total gross loans	4.0	3.7	3.1	2.7	2.5	2.7	2.4	2.1	2.1	2.1
Sectoral distribution of loans to total loans, of which										
Deposit-takers	3.4	3.0	3.0	3.0	3.5	3.5	3.4	3.2	4.9	5.6
Nonfinancial corporation	15.1	15.3	16.3	16.1	16.4	16.6	20.0	21.7	20.6	20.0
Households (including individual firms)	28.4	29.3	25.8	25.7	25.9	24.2	30.1	29.6	28.3	27.9
Nonresidents (including financial sectors)	40.5	38.8	37.4	38.5	37.9	34.8	38.5	36.5	37.2	37.5
ROA (aggregated data on a parent-company basis) 3/ 4/	0.4	0.4	0.4	0.4	0.4	0.3	0.5	0.5	0.5	0.6
ROA (main groups on a consolidated basis) 2/ 4/	0.6	0.5	0.4	0.4	0.4	0.2	0.5	0.3	0.4	0.4
ROE (aggregated data on a parent-company basis) 3/ 4/	6.8	6.5	6.4	6.5	6.0	4.1	7.1	6.2	5.9	6.8
ROE (main groups on a consolidated basis) 2/ 4/	9.2	8.4	6.3	6.7	6.4	3.9	7.5	5.9	7.1	6.5
Interest margin to gross income	32.9	37.8	36.2	36.0	37.1	38.8	35.6	36.4	32.9	28.6
Noninterest expenses to gross income	75.2	71.5	74.2	76.2	73.3	70.4	67.5	63.6	67.1	71.4
Liquid assets to total assets	0.0	13.0	13.9	13.7	14.1	18.0	18.5	17.4	16.9	16.1
Liquid assets to short-term liabilities	17.5	20.2	20.7	19.3	20.1	26.0	27.0	23.8	24.3	23.4

Sources: Banque de France and ACPR.

1/ These may be grouped in different peer groups based on control, business lines, or group structure.

2/ Consolidated data for the five banking groups (IFRS).

3/ All credit institutions' aggregated data on a parent-company basis.

4/ ROA and ROE ratios are calculated after taxes (same calculation as the ECB consolidated data ratios).

Annex I. Authorities' Response to Past Fund Policy Advice

IMF 2024 Article IV Recommendations	Authorities' Response
Fiscal Policy	
Identify additional fiscal measures of around 0.4 percent of GDP in 2024, relative to staff's baseline.	There was large fiscal slippage in 2024, despite central government efforts to control spending.
Implement a fiscal structural primary effort of nearly 3 percent of GDP over 2025–27 to bring the deficit below 3 percent of GDP by 2027.	The authorities have submitted their MTFSP which foresees bringing the deficit to below 3 percent of GDP by 2029, in compliance with the EU rules.
Fiscal consolidation should continue to focus on targeted measures to lower current spending, while preserving room for growth-friendly investment.	The 2025 budget introduced new spending measures to advance fiscal consolidation efforts, while allocating resources to key areas.
Structural Policy	
Promote longer and less fragmented careers through further unemployment benefit reforms.	The November 2024 agreement with social partners and the 2025 budget refined the unemployment benefits and apprenticeship reforms.
Undertake education and training reforms to prepare the labor force for the green and digital transitions.	The *Choc des savoirs Acte II* program identifies further measures to strengthen primary and secondary education.
Further reduce regulatory burden and barriers to entry and review existing R&D tax expenditure.	The 2025 budget included measures to better target eligibility criteria for the R&D tax credit.
Complement spending efforts to support the green transition with other revenue-neutral schemes and higher carbon pricing.	The 2025 budget allocated additional resources to green investments and includes adjustments to the bonus/malus on vehicles purchases and aviation taxes.
Financial Sector Policies	
Continue to ensure that the HCSF enjoys operational independence and has sufficient legal powers.	A legislative proposal to modify the HCSF's composition and exempt banks from adhering to its measures failed to pass.
Continue to monitor risks in real investment funds and encourage use of liquidity management tools.	The AMF requires investment funds to have a minimum number of liquidity management tools in place.
Continue to integrate climate transition risks into banks' governance, strategy, and risk management processes.	The authorities continued to operationalize environmental risk supervision.

Annex II. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: On a preliminary basis, the external position in 2024 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The CA balance increased to a surplus of 0.4 percent of GDP in 2024, driven by stronger services exports due to the Paris summer Olympics. Over the medium term, the CA balance is projected at -0.1 percent of GDP by 2030, as private consumption and investment improve.

Potential Policy Responses: Sustained fiscal consolidation over the medium term will help maintaining the external position in line with medium-term fundamentals, together with structural reforms to support productivity and attract higher private investment to facilitate the green and digital transitions. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and avoid favoring domestic producers over imports to minimize trade and investment distortions.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The NIIP stood at -20.3 percent of GDP in 2024, within the range observed during 2014–19 (between -19 percent and -28 percent of GDP). The NIIP improved by 7.8 percent of GDP since 2023, largely driven by an increase in portfolio investment. While the net position is moderately negative, gross positions are large. Gross assets stood at 373 percent of GDP in 2024, of which non-FDI- and non-portfolio-related assets accounted for about 50 percent, reflecting in part the financial sector's global activities. Gross liabilities increased to 393 percent of GDP in 2024, of which external debt was about 259 percent of GDP (52 percent accounted for by banks and 22 percent by the public sector) in the third quarter of 2024. About three-quarters of France's external debt liabilities are denominated in domestic currency. The average TARGET2 balance in 2024 was about € -147.9 billion.

Assessment. The NIIP is negative, but its size and projected stable trajectory do not raise sustainability concerns. However, there are vulnerabilities coming from the large public external debt (57.7 percent of GDP in the third quarter of 2024) and banks' gross financing needs—the stock of banks' external short-term debt securities was 4 percent of GDP in the third quarter of 2024), and financial derivatives (liabilities) stood at about 63.9 percent of GDP.</td></tr>
<tr><td>2024 (% GDP)</td><td>NIIP: −20.3</td><td>Gross Assets: 372.5</td><td colspan="2">Debt Assets: 191.7</td><td>Gross Liab.: 392.9</td><td>Debt Liab.: 231.7</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA balance increased to a surplus of 0.4 percent of GDP in 2024 (from a deficit of 1 percent in 2023), driven by the continued unwinding of the large terms-of-trade shock and a stronger services export performance partly due to the Paris summer Olympics. Gross national savings increased in 2024, driven by higher private savings, given still high uncertainty around the outlook. After recovering in the post-pandemic period, private investment has been contracting since 2023. The CA surplus is expected to decrease to about 0.2 percent of GDP in 2025, including due to the dissipation of the positive one-off factors. Over the medium term, the CA balance is projected at about -0.1 percent of GDP by 2030 as domestic demand is expected to gradually strengthen.

Assessment. The 2024 cyclically adjusted CA balance is estimated at 0.3 percent of GDP compared with an EBA-estimated norm of 0.1 percent. On this basis, IMF staff assesses that the CA gap in 2024 is between -0.1 and 0.7 percent of GDP (compared with -1.3 and -0.5 percent of GDP in 2023), with a midpoint of 0.3 percent of GDP. The main contributor to the overall positive policy gap of 0.3 percent of GDP is a positive credit gap of 0.6 percent, while the health expenditure gap is closed. The fiscal policy gap is -0.3 percent.</td></tr>
<tr><td>2024 (% GDP)</td><td>CA: 0.4</td><td>Cycl. Adj. CA: 0.3</td><td>EBA Norm: 0.1</td><td>EBA Gap: 0.3</td><td>Staff Adj.: 0.0</td><td>Staff Gap: 0.3</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The ULC-based REER appreciated by 0.7 percent, while the CPI-based REER depreciated by -0.1 percent in 2024. The relatively small cumulative changes in the CPI- and ULC-based REERs since early 2022 are driven by more limited wage and price increases compared to trading partners. As of March 2025, the ULC-based REER was 2.4 percent above the 2024 average, while the CPI-based REER was 1.3 below the 2024 average.

Assessment. The CA gap, as assessed by IMF staff, implies a REER gap of -1.0 percent in 2024 (applying an estimated semi-elasticity of 0.28). While the EBA REER level model does not point to a REER gap, the EBA REER index model points to a REER gap of −7.8 percent, largely reflecting unexplained residuals. Consistent with the staff CA gap, staff assesses the REER to be broadly in line with fundamentals and desirable polices with a midpoint of -1.0 percent with a range of uncertainty of ± 1.4 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. After a temporary dip in 2023 after post-pandemic normalization in 2021–22, inward and outward foreign direct investment recovered in 2024. The financial account is open.

Assessment. France remains exposed to financial market risks owing to the large refinancing needs of the sovereign and banking sectors.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. The euro has the status of a global reserve currency.

Assessment. Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.</td></tr>
</table>

Annex III. Risk Assessment Matrix

Source of Risks	Relative Likelihood[1]	Impact if Realized	Policy Response
Global Risks			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	High	**Medium:** Increasing geoeconomic fragmentation could reduce exports and trade market share, directly and due to negative spillovers from key trading partners, and lower potential growth.	Further diversify supply chains and undertake structural reforms to boost competitiveness. Deepen the European single market and foster capital market integration to encourage investment and innovation. Maintain a level playing field between firms and sectors, and limit state intervention to address market failures.
Sovereign debt distress. Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	High	**Medium:** Higher sovereign bond yields in France raise refinancing costs over the medium-term, weakening debt dynamics, and reducing fiscal space for growth-enhancing spending. This is mitigated by France's liquid debt market, diversified investor base and the stabilizing role of the ECB.	Advance fiscal consolidation efforts under the authorities' medium-term fiscal structural plan, underpinned by a comprehensive and credible package of fiscal measures over the medium term. Support fiscal adjustment efforts with structural reforms to support jobs and growth.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances and worsens debt affordability.	Medium	**Medium:** Tighter financial conditions could trigger further deleveraging of the private sector, increase vulnerabilities, and lower growth.	Macroprudential policies, including cyclical and systemic buffers, should be deployed as warranted to mitigate systemic financial instability. Maintain close monitoring of liquidity risks in NBFIs. Fiscal policy should allow automatic stabilizers to operate.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	Medium	**Medium**: Heightened uncertainty weakens consumer and business confidence with a negative impact on consumption and investment, affecting both manufacturing and services.	Accelerate the green transition and further diversify energy mix and sources. Provide targeted fiscal support to vulnerable households and firms. Advance structural reform agenda to boost productivity and improve competitiveness.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	Medium	**Medium:** France is a net energy importer, with imported products accounting for about half of total energy supply. The adverse terms-of-trade shock from a renewed spike in international energy prices would have a material impact on inflation and real income.	Accelerate the green transition and further diversify energy mix and sources. Provide targeted fiscal support to vulnerable households and firms. Advance structural reform agenda to boost productivity and improve competitiveness.

Source of Risks	Relative Likelihood[1]	Impact if Realized	Policy Response
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High**	**Medium:** Increasing geoeconomic fragmentation could reduce exports and trade market share, directly and due to negative spillovers from key trading partners, and lower potential growth.	Further diversify supply chains and undertake structural reforms to boost competitiveness. Deepen the European single market and foster capital market integration to encourage investment and innovation. Maintain a level playing field between firms and sectors, and limit state intervention to address market failures.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High**	**Medium/High:** Cyberattacks to key infrastructure can disrupt economic activity and threaten financial stability.	Advance crisis preparedness to cyberattacks and further strengthen coordination at the European/international level. Strengthen the operational resilience of the financial system.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**Medium**	**Medium:** Extreme climate events disrupt economic activity and negatively impact growth.	Provide targeted fiscal support and undertake public investment for climate change preparedness and adaptation.
Domestic Risks			
Political fragmentation. Lack of political consensus leads to delays in needed fiscal adjustment and the reform agenda.	**High**	**Medium/High.** Setbacks to the fiscal and structural agenda would negatively impact business confidence and investment, employment, raise refinancing costs, and weaken public debt dynamics.	Promote broad-based political and social support to advance France's fiscal plans, as per EU fiscal rules, and make progress on structural priorities, providing targeted support to the most vulnerable.
Social discontent. Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.	**Medium**	**Medium:** Social discontent could impact consumer and business confidence and slow growth. This could delay fiscal adjustment and reform efforts, increase financing costs, and weaken public debt dynamics.	Provide targeted fiscal support to vulnerable households and firms. Advance structural reform agenda to boost jobs and productivity.

[1] The Risk Assessment Matrix shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more).

Annex IV. Sovereign Risk and Debt Sustainability Analysis

Under their MTFSP, the French authorities aim at bringing the fiscal deficit below 3 percent of GDP by 2029, but a credible and well-designed package of measures still needs to be specified to support this adjustment path. Under staff's baseline scenario, based only on legislated measures, the deficit is projected to decline to 5.4 percent of GDP in 2025 and remain around 6 percent of GDP in the medium-term—about 2 percentage points above its debt-stabilizing primary level. As a result, public debt would reach 134 percent of GDP by 2033, about 13 percentage points higher than estimated at the time of the 2024 Article IV Consultation. Main fiscal risks include the high sensitivity of the debt ratio to an uncertain future path of real interest rates and growth and rising spending pressures from priority areas. Risk-mitigating factors are represented by the France's fiscal consolidation commitments under the new EU fiscal rules, and a liquid debt market that benefits from a diversified investor base and the stabilizing role of the ECB.

1. Background. Against significant fiscal slippages, the headline fiscal deficit reached 5.8 percent of GDP in 2024, compared to an initial target of 4.4 percent of GDP. The debt ratio increased to 113.1 percent, from 98 percent in 2019. Sovereign bond yields have increased by about 15 basis points since the European elections in June 2024. While the 10-year OAT yield increased in March, mainly driven by a rise in German Bund yields, it declined back in recent weeks. Fitch and S&P reaffirmed their AA- credit rating on France maintaining the negative outlook, while Moody's downgraded France's credit rating to Aa3 in December.

2. Baseline. Staff's baseline projection incorporates only measures that are legislated, including the 2025 budget, as well as measures contained in sectoral and medium-term programming laws that are sufficiently specified. Importantly, the projection abstracts from commitments under the MTFSP, in line with European fiscal rules, to bring the overall fiscal deficit below 3 percent of GDP by 2029. Under staff's baseline, the fiscal deficit is projected at 5.4 percent of GDP in 2025 and around 6 percent of GDP over the medium term. The debt ratio would increase from 116.5 percent of GDP in 2025 to 135 percent of GDP by 2034, reflecting a projected primary deficit that is about 2 percentage point above its debt-stabilizing level. The differential between the effective real rate and real GDP growth is initially negative, but over the next 10 years it progressively increases and turns marginally positive, although this is not sufficient to prevent an increase in the debt ratio. Over the same horizon, the interest rate burden increases by 1½ percentage points of GDP.

3. Realism of the medium-term projections. The realism analysis points to some optimism in staff's past projections for the drivers of debt, with realized values for the primary deficit and the r-g differentials significantly larger than initially projected over the medium term. In the last five years, a large primary deficit from the fiscal response to the pandemic and the energy crisis was the main driver of rising debt levels, but low interest spending was a mitigating factor. Looking ahead, persistent deficits would continue to be the key driver of debt accumulation as well as higher interest payments. Projected fiscal efforts are well within norms of both past fiscal consolidation episodes in France and in other advanced economies.

4. Risks and mitigating factors. At its currently high level, the evolution of the debt ratio remains highly sensitive to the path of future real interest rates and real growth, posing risks that unfavorable shocks and additional spending pressures on defense as well as the digital and green transitions may put the debt ratio on a steeper upward trajectory. There are however some elements that mitigate these risks. The baseline fiscal projection is relatively conservative, as it does not consider consolidations that are planned, including under the authorities' MTFSP, but not yet based on sufficiently specified measures. For example, the fiscal trajectory under the MTFSP, targeted at below 3 percent by 2029, would already reduce significantly the levels of the mechanical signal of medium-term risks. In addition, France's sovereign debt has a large investor base and is traded in a liquid market that benefits from the stabilizing role of the ECB.

Annex IV. Figure 1. France: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**Moderate**	Overall risks are moderate. France's short-term risk of sovereign debt distress remains low, benefiting from a liquid debt market with a diversified investor base and the stabilizing role of the ECB. Nevertheless, medium- and long-term risk have increased due to higher debt levels and refinancing needs, following consecutive fiscal slippages, pointing to a moderate overall risk of debt distress under staff's current policy baseline scenario. However, there are important mitigating elements to this assessment. The baseline projection for France's primary deficit is conservative, as it does not incorporate consolidations that are planned but not yet based on sufficiently specified measures. For example, the fiscal trajectory under the MTFSP, targeted at below 3 percent by 2029, would already reduce significantly the levels of the mechanical signal of medium-term risks.
Near term 1/			
Medium term	**Moderate**	**Moderate**	The mechanical signal has slightly increased since the last Article IV consultation (July 2024) with risks remaining moderate as debt dynamics remain highly sensitive to the future paths of interest rates and growth.
Fanchart	**Moderate**	...	
GFN	**Moderate**	...	
Stress test		...	
Long term	...	**Moderate**	Long-term risks are assessed to be moderate. Under relatively conservative scenarios, fiscal consolidation can put gross financing needs and the debt on a downward trajectory as a share of GDP. However, there are risks that additional long-term spending pressures may materialize due to security spending, as well as the demographic, digital and green transitions. In line with the EU Fit-for-55 climate goals, France targets to reduce emissions by 52 percent by 2030 relative to 2005 levels and achieve net zero by 2050 (see 2024 Deep Dive on the Climate Transition for France: https://www.imf.org/en/Publications/CR/Issues/2024/07/12/France-Selected-Issues-551777), while discussions on the pension system are underway.
Sustainability assessment 2/			
Debt stabilization in the baseline			No

DSA Summary Assessment

France is at a moderate risk of sovereign stress. Medium-term sovereign risks are moderate and stem from high debt levels and from debt dynamics that are highly sensitive to the future paths of interest rates and growth. The debt level would reach 133.6 percent of GDP in 2033, against 122 percent of GDP estimated in the 2024 Article IV consultations. Significant elements mitigate these mechanical signals. They include the use of a conservative deficit projection based only on legislated measures that are sufficiently specified, thus excluding most of the authorities' fiscal consolidation plans, as presented in their medium-term fiscal structural plan and/or required by the EU fiscal rules. Debt rollover risks from non-fundamental shocks are strongly mitigated by the presence of a deep and liquid debt market. Over the longer term, risks are assessed as moderate as new additional spending pressures, currently not included in the baseline projection, may arise from the demographic and green transitions and security spending needs.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex IV. Figure 2. France: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

	Subsectors captured in the baseline	Inclusion	Comments
1	Budgetary central government	Yes	
2	Extra budgetary funds (EBFs)	No	Not applicable
3	Social security funds (SSFs)	Yes	
4	State governments	Yes	
5	Local governments	Yes	
6	Public nonfinancial corporations	No	
7	Central bank	No	
8	Other public financial corporations	No	

(Rows 1–3: CG; rows 1–5: GG: expected; rows 1–6: NFPS; rows 1–8: CPS)

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	0	0	0	0	0	0	0	0	0

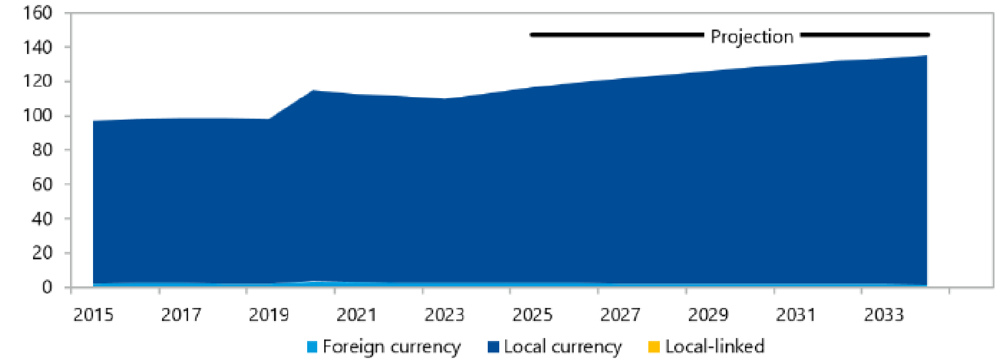
(Rows 1–3: CG; rows 1–5: GG: expected; rows 1–6: NFPS; rows 1–8: CPS)

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

The debt coverage is unchanged from recent AIVs -- i.e. it covers general government debt, with most debt issued by the central government. Bank loan guarantees issued in response to the pandemic and energy crises (PGE) amount to some 6 percent of GDP.

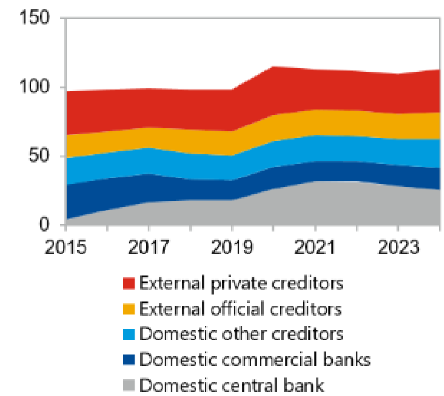
Annex IV. Figure 3. France: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



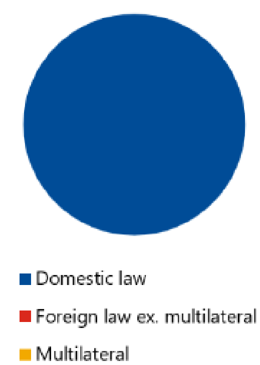
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



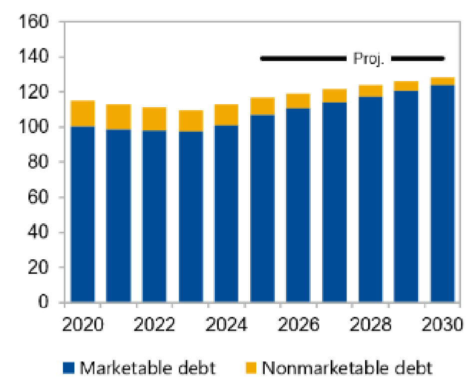
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (Percent)



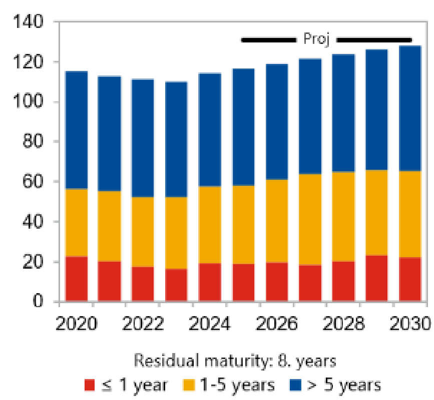
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Debt is predominantly in domestic currency and marketable. The share held by the central bank has increased steadily since 2015 but is now projected to decrease. Shares are similar across the other four identified holders, but with a relatively larger presence of external private creditors. All public debt is governed by domestic law. About half of debt is long term, and the overall average residual maturity is about 8 years.

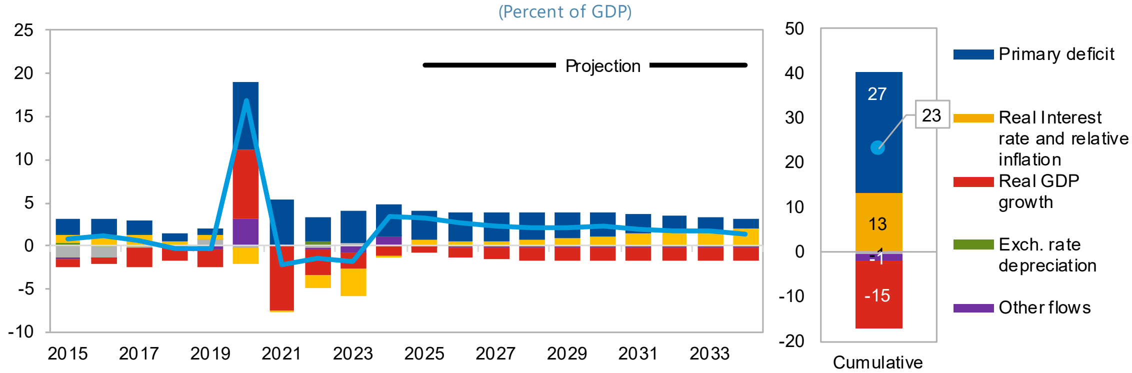
Annex IV. Figure 4. France: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term Projection						Extended Projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	113.1	116.5	119.1	121.5	123.7	125.9	128.1	130.1	131.9	133.6	135.1
Change in public debt	3.5	3.3	2.7	2.4	2.2	2.2	2.2	2.0	1.8	1.7	1.5
Contribution of identified flows	3.4	3.4	2.7	2.4	2.2	2.2	2.2	2.1	1.9	1.8	1.6
Primary deficit	3.8	3.4	3.4	3.5	3.2	3.0	2.8	2.2	1.9	1.6	1.2
Noninterest revenues	51.3	51.8	51.5	51.3	51.4	51.3	51.3	51.3	51.3	51.3	51.4
Noninterest expenditures	54.8	54.8	54.6	54.5	54.2	54.0	53.8	53.2	52.9	52.6	52.3
Automatic debt dynamics	-1.4	0.0	-0.6	-0.9	-0.9	-0.7	-0.4	0.0	0.2	0.3	0.4
Real interest rate and relative inflation	-0.2	0.7	0.5	0.4	0.7	0.8	1.1	1.5	1.7	1.8	1.9
Real interest rate	-0.2	0.7	0.5	0.4	0.7	0.8	1.1	1.4	1.7	1.8	1.9
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.2	-0.6	-1.2	-1.4	-1.6	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.9	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other transactions	1.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Gross financing needs	22.3	22.3	24.4	25.3	24.1	26.0	28.7	27.8	28.7	25.9	27.2
of which: debt service	18.6	19.1	21.1	22.0	21.1	23.1	26.0	25.7	26.9	24.4	26.1
Local currency	18.6	19.1	21.1	22.0	21.1	23.1	26.0	25.7	26.9	24.4	26.1
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	1.1	0.6	1.0	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Inflation (GDP deflator; percent)	2.1	1.3	1.6	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Nominal GDP growth (percent)	3.2	1.9	2.7	3.2	3.3	3.2	3.2	3.2	3.2	3.2	3.2
Effective interest rate (percent)	1.9	2.0	2.1	2.3	2.5	2.6	2.9	3.1	3.3	3.4	3.4

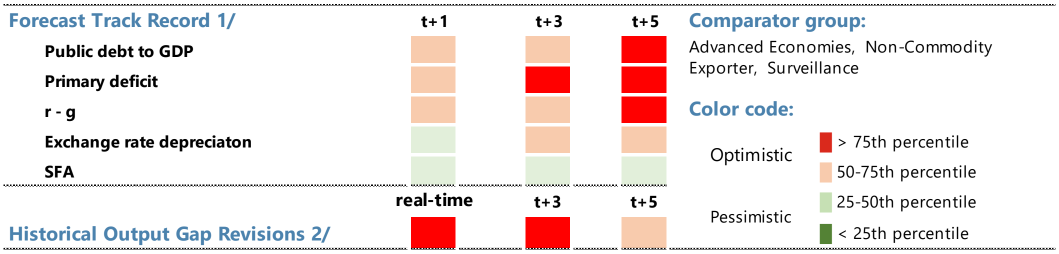
Contribution To Change In Public Debt

(Percent of GDP)

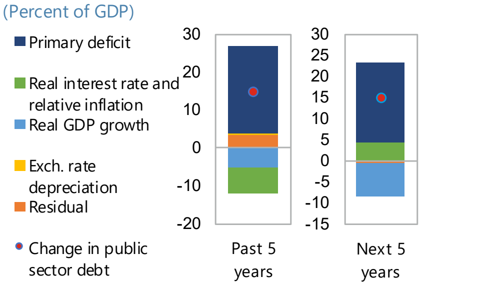


The ratio of public debt to GDP gradually increases over time, reflecting a projected primary balance that continues to remain negative, based on a current policy baseline scenario. The differential between the effective real rate and real GDP growth is initially negative but it progressively increases and turns marginally positive, thus providing a slightly positive contribution to debt creation. Compared to estimates at the time of last year Article IV consultations, the primary deficit and amortizations have increased by 0.8 and 2.3 percent of GDP over 2027-34 due to the persistent effects of the fiscal slippages in 2024 and slightly lower growth perspective due to global uncertainty.

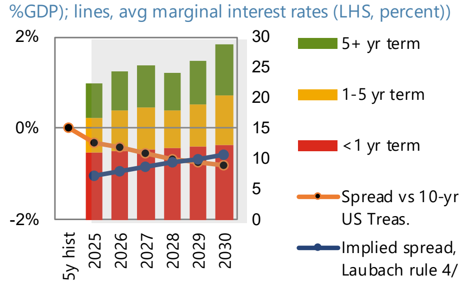
Annex IV. Figure 5. France: Realism of Baseline Assumptions



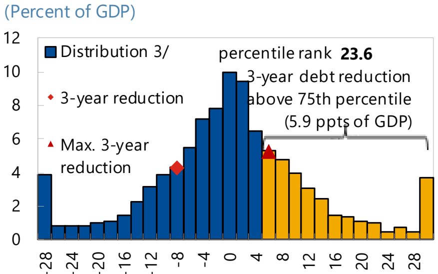
Public Debt Creating Flows
(Percent of GDP)



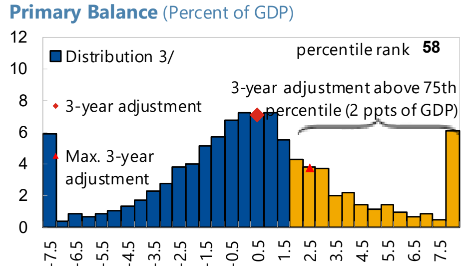
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



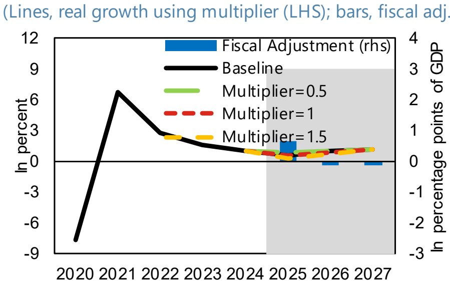
3-Year Debt Reduction
(Percent of GDP)



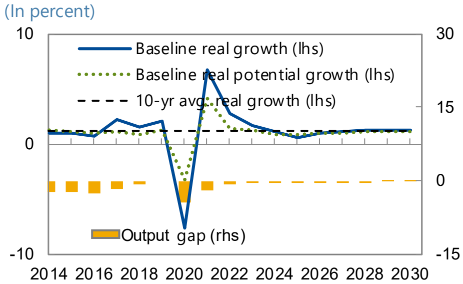
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth
(In percent)



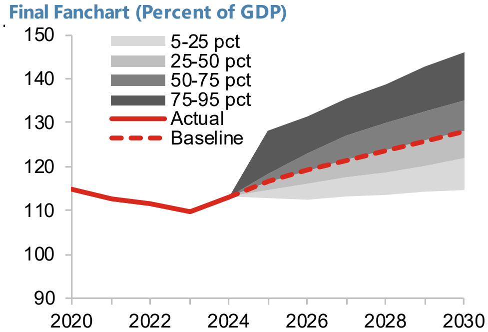
The realism analysis point to some optimism in staff's past projections for the drivers of debt, with realized values for the primary deficit and the r-g differentials significantly larger than initially projected over the medium term. In the last five years, a large primary deficit from the fiscal response to the pandemic and the energy crisis was the main driver of rising debt levels, but low interest spending was a mitigating factor. Over the medium-term, persistent deficits would continue to be the key driver of debt accumulation as well as higher interest payments. Projected fiscal efforts are well within norms of both past fiscal consolidation episodes in France and in other advanced economies.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

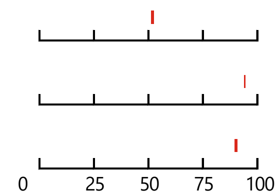
Annex IV. Figure 6. France: Medium-Term Risk Assessment

Final Fanchart (Percent of GDP)

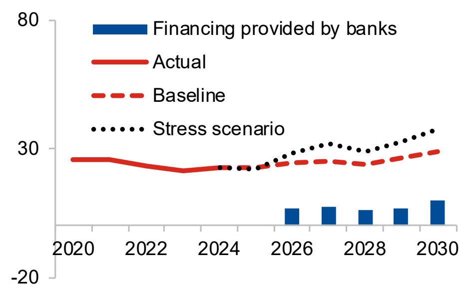


Debt fanchart module

	Value	Contrib [1/]	Percentile in peer group [2/]
Fanchart width *(percent of GDP)*	31.4	0.5	
Probability of debt non-stabilizaiton *(percent)*	94.7	0.8	
Terminal debt-to-GDP x institutions index	37.3	0.8	
Debt fanchart index (DFI)		2.1	
Risk signal: [3/]		Moderate	

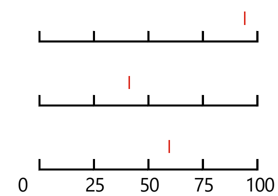


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

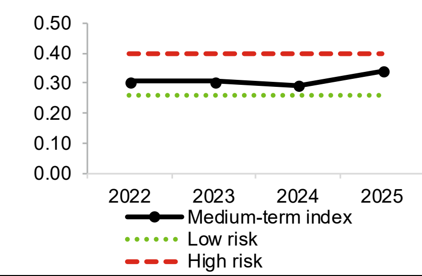
	Value	Contrib [1/]	Percentile in peer group [2/]
Average baseline GFN *(percent of GDP)*	25.1	8.6	
Initial Banks' claims on the gen. govt *(pct bank assets)*	4.0	1.3	
Chg. In banks' claims in stress *(pct banks' assets)*	4.8	1.6	
GFN financeability index (GFI)		11.5	
Risk signal: [4/]		Moderate	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index (Index number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	2.1	0.5	0.5	0.2
GFN finaceability index	11.5	0.2	0.5	0.1
Medium-term index		0.34		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.

Prob. of false alarms, 2025-2030, if stress predicted: 21.6 pct.

The mechanical signals point to moderate medium-term risks. While the debt ratio is increasing under the baseline, the probabilistic fan chart constructed from past shocks points to moderate risks of non-stabilization. The index of the gross financing needs (11.5) is well above the low-risk threshold (7.6), with the moderate risk signal driven by large average gross financing needs. The terminal debt-to-GDP has increased to 37.3, from 30.7 last year, due to the increase in debt levels following the fiscal slippage in 2024. The overall mechanical signal (0.34) deteriorates significantly from its value last year (0.29).

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the Medium-term index is below 0.26; high risk if the Medium-term index is above 0.40; and otherwise, it is moderate risk

Annex IV. Figure 7. France: Long-Term Risk Assessment

France: Triggered Modules

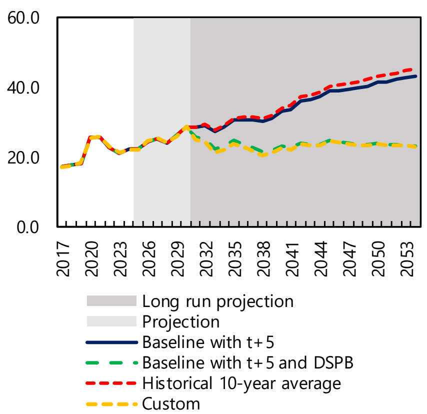
Large amortizations	Pensions
	Health

France: Long-Term Risk Assessment: Large Amortization

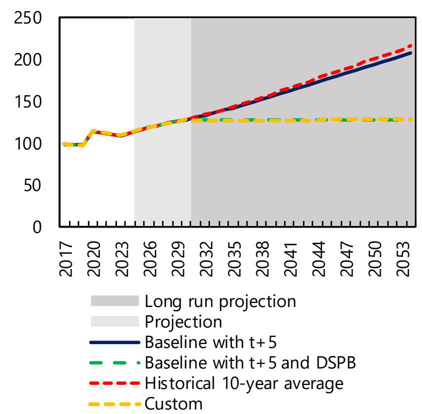
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Variable	2030	2031 to 2035 average	Custom Scenario
Real GDP growth	1.2%	1.2%	1.0%
Primary Balance-to-GDP ratio	-2.8%	-1.6%	0.7%
Real depreciation	-1.9%	-2.0%	-2.0%
Inflation (GDP deflator)	1.9%	1.9%	1.9%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

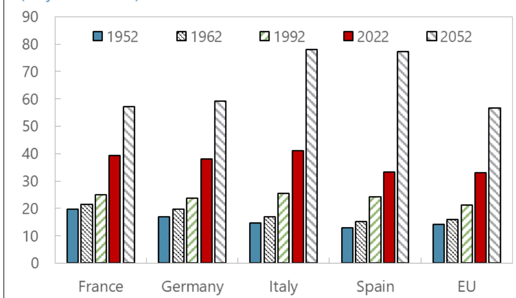


The Large Amortization module presents a range of four illustrative policy scenarios (three standard and one "Custom") for the long-term evolution of gross financing needs and debt. The "historical" scenario assumes mechanically that after 2029 debt drivers evolve on average as in the past decade (including large and rare negative shocks like the Covid-19 pandemic), without any new fiscal measures. A second scenario ("Baseline") assumes that after 2029 debt drivers are kept constant at their 2029 level, with no new fiscal measures. A third scenario ("Baseline and DSPB") assumes that, starting in 2030, the authorities undertake new fiscal measures to stabilize the debt ratio. In the case of France, under this scenario, the government's deficit remains throughout the projection period above the 3 percent of GDP deficit limit of the Excessive Deficit Procedure (EDP). Finally, the "Custom" scenario is calibrated so that, after 2029, the deficit remains at around 2.2 percent of GDP (corresponding to a primary balance of 0.7 percent of GDP), that is between 3 percent of GDP and the minimum 1.5 percent deficit conservation buffer under the new EU fiscal rules. This is a conservative scenario, since it assumes that no new fiscal measures are taken between 2024 and 2029 and it uses staff's own potential longer GDP growth projection of 1 percent, to account for the impact of population aging. The mechanical signals of the three standard scenarios breach the GFN thresholds, pointing to the presence of long-term risks in the absence of any new fiscal measures. Under the customized scenario, gross financing needs and the debt ratios return to a downward long-run trajectory under still conservative assumptions for fiscal policy and GDP growth.

Annex V. Healthy Aging and Pension System in France

1. **France's demographic trends, while relatively less severe compared to other EU peers, have significant economic and financial implications.** The working-age population in France is projected to remain flat or decline under most scenarios over the next decade, despite relatively high fertility rates compared to EU peers and positive net migration. In the context of an aging population, the old-age dependency ratio (i.e., the ratio of elderly people to active workers) is expected to rise from nearly 40 percent in 2022 to over 57 percent by 2050. Although the pace of population aging is slower in France than in peer countries, without further reforms, this demographic shift could place considerable strain on public finances, particularly on healthcare services and the pension system, as fewer workers contribute to the system while more retirees draw benefits. Additionally, an aging workforce can lead to labor shortages if appropriate policies are not implemented, potentially hindering economic growth and productivity.

France and Peers: Old-Age to Working-Age Ratio
(65 years or over)

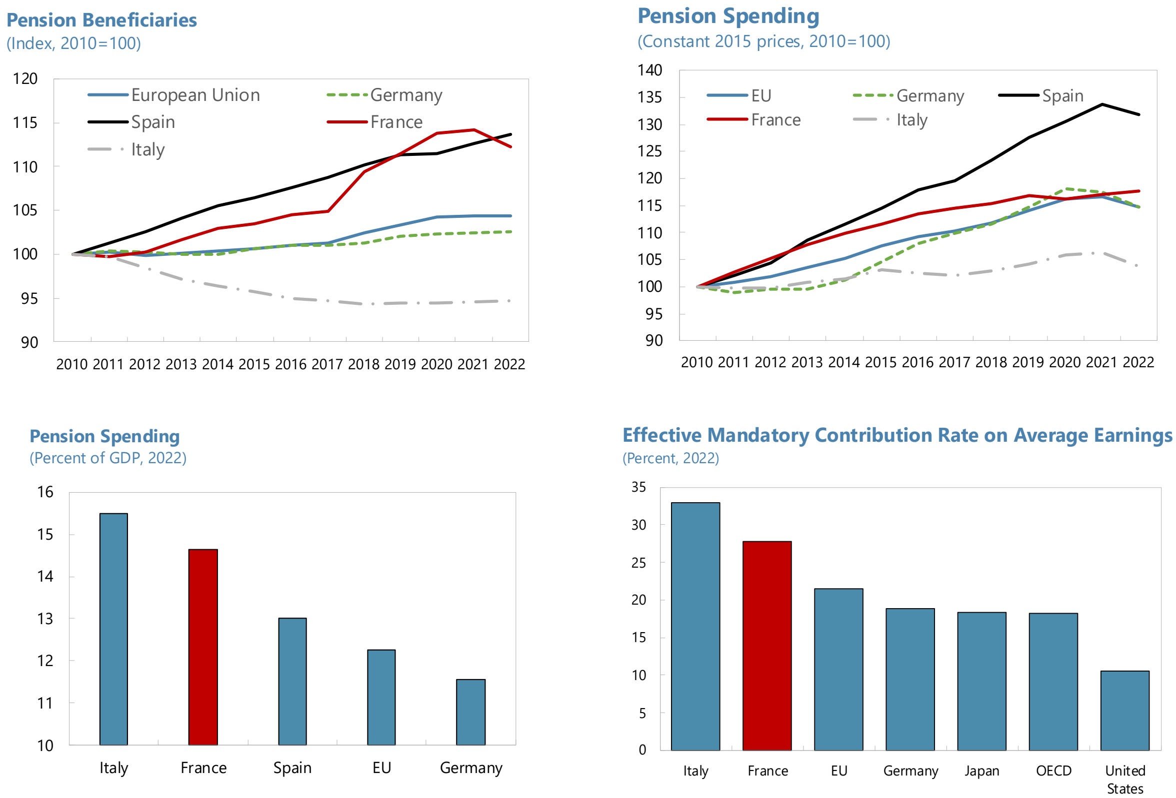


Source: OECD.

2. **The French pension system, a critical component of old-age social protection, is facing significant financial pressures as the population ages.** Despite recent efforts to reduce its complexity, the French pension system encompasses 42 retirement plans with various mandatory, supplementary, and private regimes, each with different contributions rules and pensions. Managed by the State, in collaboration with social partners for the complementary regimes, the system has seen the number of pension beneficiaries grow by 12.2 percent from 2010 to 2022, twice as fast as the population growth rate. Notwithstanding better demographic trends, the increase in pension beneficiaries in France was about three times higher than the EU average (4.3 percent), and four times than in Germany (2.6 percent).

3. **France’s pension spending ratio, at 14.7 percent of GDP in 2022, ranks as the second highest in the EU in 2022, just behind Italy, and is financed through high contribution rates**. In real terms, pension spending grew by 17.7 percent from 2010 to 2022, a rate four times higher than Italy’s 3.8 percent. Moreover, at approximately 28 percent of average earnings, France has the second highest contribution rate among OECD and EU countries, just behind Italy's 33 percent, compared to the EU average of 21.4 percent and Germany's 18.8 percent. While this high contribution rate helps mitigate the financial impact of low labor market participation among seniors, it also compresses disposable income and leaves little room for future pension reforms on the contribution rates.

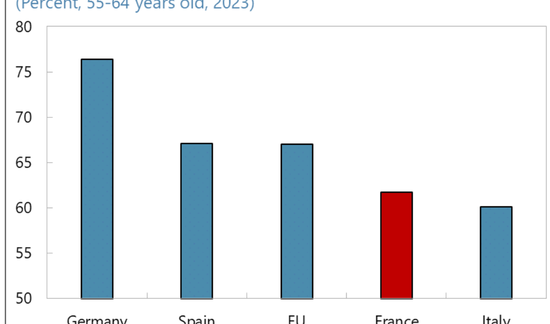
France and Peers: Pension Beneficiaries and Spending



Sources: Eurostat and IMF staff estimates.

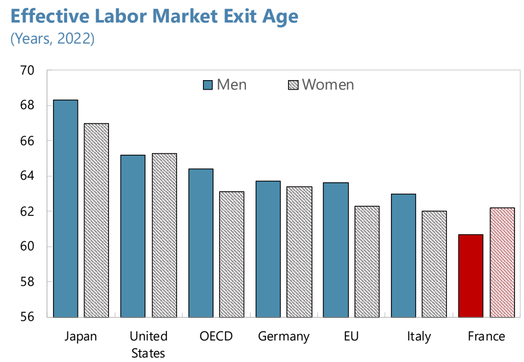
4. The French pension system faces three critical labor market challenges: low participation of seniors, early retirement, and the growing number of years individuals spend in retirement. Despite improvement in recent years, the employment rate for seniors aged 55–64 in France was 61.7 percent in 2023, compared to around 67 percent in the EU and over 76 percent in Germany. French seniors retire early, with average labor market exit ages in 2022 of 60.7 years for men and 62.2 years for women, compared to 63.7 and 63.4 years in Germany. The average retirement age should however increase in the coming years, following the raise of the retirement age in the 2023 reform. Additionally, in 2022, the average expected years after labor market exit was 26.1 for women and 23.3 for men in France, exceeding the EU average by more than 3 and 5 years, respectively. These factors lead to fewer active contributors and prolonged pension benefit periods, posing financial challenges to the pension system as a shrinking workforce supports a growing retiree population.

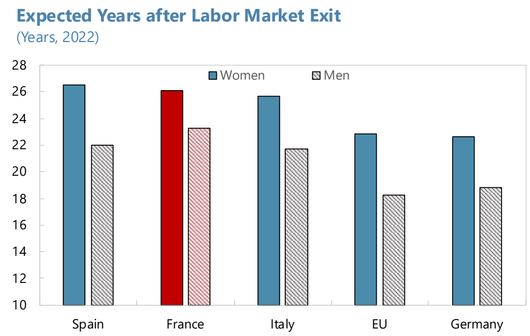
France and Peers: Labor Force Participation
(Percent, 55-64 years old, 2023)



Sources: Eurostat and IMF staff estimates.

France: Labor Market Exit and Life Expectancy





Source: OECD.

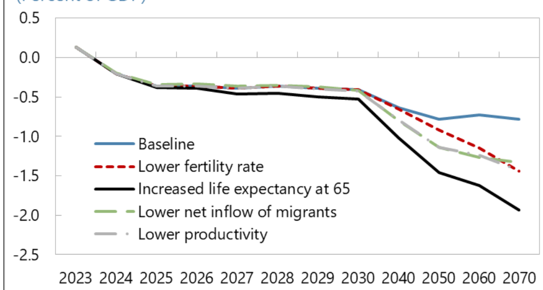
5. **Past pension reforms, targeting parametric changes and convergence between special and basic plans, generated significant savings.** France's pension system, established in 1945, initially enjoyed stability due to economic growth and a population boom. The 1970s crises exposed the first financial weaknesses leading to a series of parametric reforms focused on aligning special and basic plans and enhancing fiscal sustainability. The 1983 reform controversially reduced the retirement age for a full pension from 65 to 60, for pensioners with a period of pension contributions fixed at 37.5 years. The latter was progressively extended to 43 years in 1993, 2003 and 2014 with a different timeline for the private sector and the public sector. The retirement age was ultimately increased to 62 years old in 2010, before being raised to 64 years old by 2030 in the 2023 reform. Other significant changes involved shifting pension indexation from wage growth to inflation, adjusting reference wages, and addressing inequalities across schemes. These reforms have generated substantial savings, with projections by INSEE (2014) indicating that, without them, pension expenditures could have reached 17.6 percent of GDP by 2020 (more than 2 percent of GDP above actual pension spending). Notably, the indexation shift saved 1.8 percent of GDP in 2020, while extending contribution periods and raising the retirement age contributed to significant long-term financial benefits.

6. **However, there is still room to harmonize pension schemes, which can enhance public understanding and awareness.** Several differences still exist between pension regimes, creating complexity (Court of Auditors, 2021). These include the reference salary for pension payment (best 25-years average earnings in the general regime, against salary for the last six months for public sector workers), the definition of the contribution base (the entire salary in the general regime, and salary excluding benefits for public sector workers), and the duration of pension contributions (one quarter validated for a hourly salary of 150 SMIC under the general regime, against working-time based for public sector workers). There are further discrepancies linked to the distinction between general and complementary pensions (only in the private sector), and solidarity measures linked to children (increase in insurance duration of at most one year per child for public sector workers, compared to two years under the general regime). While pensions under the general regime are legally indexed to the inflation rate, the indexation of the complementary pensions is defined by

social partners every year. Beyond these differences, the hardship of working conditions is legally not well specified, creating loopholes in pension benefits and early retirement cases.

7. **Without further measures, the balance of the pension system is projected to deteriorate over the medium and long term, as the population ages**. Because of pension indexations, the system shifted to a deficit of 0.2 percent of GDP in 2024 (from a 0.1 surplus in 2023). Under its baseline scenario (June 2024 report), the *Conseil d'Orientation des Retraites* (COR) projects the deficit of the pension system to further deteriorate to 0.4 percent of GDP in 2030 and 0.8 percent of GDP by 2070. This deterioration is driven by multiple factors including the aging population, low labor market exit age and a projected decline in central government transfers. However, under some alternative scenarios, the deficit of the pension system could further worsen to between 1.3 and 1.9 percent of GDP by 2070.

France: The Pension System Balance
(Percent of GDP)



Source: Conseil d'Orientation des Retraites (COR), June 2024 Report.

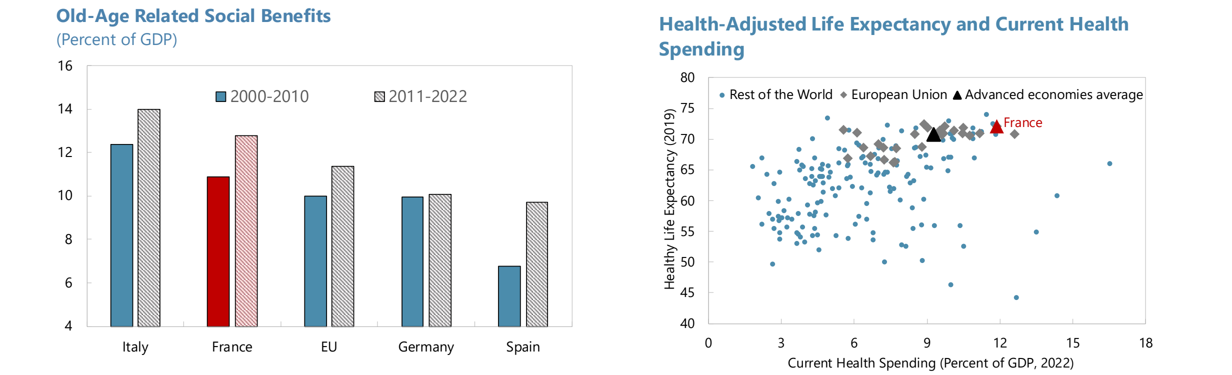
France: Projected Pension System Deficit under Alternative Scenario Assumptions

	Unit	Baseline	Alternative Scenarios
Fertility rate	Percent	1.8	1.6
Productivity	Percent	1.0	0.7
Net inflow of migrants	Thousands	70.0	20.0
Life expectancy at 65	Years	Women: 26.7; Men: 24.8	Women: 29.7; Men: 27.7
Unemployment rate	Percent	5.0	7.0

Source: Conseil d'Orientation des Retraites (COR), June 2024 Report.

8. **With increasing life expectancy, a longer working life can alleviate demographic pressures, but should be accompanied by appropriate policies to ensure healthy aging.** Extending the retirement age helps balance the financial pressures of supporting an aging population with the need for a stable workforce. The 2023 pension reform, which raised the retirement age from 62 to 64, is projected to boost labor force participation by 600,000 people by 2070 (INSEE, 2023). At the same time, as the population ages, the demand for comprehensive old-age social protection (healthcare services, social assistance, and programs supporting the elderly) has also risen significantly, with costs rising from 10.9 percent of GDP in 2000–2010 to 12.8 percent in 2011–22, making France one of the highest spenders in Europe, just behind Italy. Spending on accommodation and care services rose from 0.1 percent of GDP in 2000 to 0.4 percent in 2022. These increased expenses are essential for healthy aging and contribute to longer working life. Based on a global sample, IMF (2025) shows that an improvement in average cognitive health for older-age individuals over a decade is associated with rises in labor earnings and labor productivity by about 30 percent, and an increase in their likelihood of participating in the labor force by about 20 percentage points. However, while France's overall health spending contributes to healthy life expectancy, it is high compared to regional peers, suggesting opportunities for efficiency improvements to manage costs effectively.

France and Peers: Social Protection and Health Spending

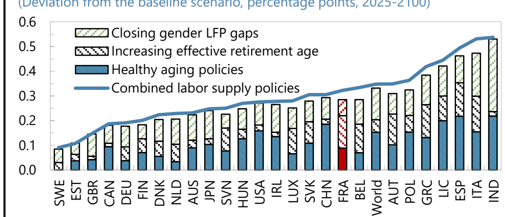


Sources: Eurostat and IMF staff estimates.

9. Strategic reforms and a unified approach are essential to address the multifaceted challenges facing France's pension system. With an aging population, tapping into the potential of the silver economy is vital. This involves not only encouraging older individuals to remain active in the labor market but also ensuring the provision of necessary social services to support longer working lives. At the same time, the complexity and inefficiencies arising from multiple pension schemes demand further simplification and harmonization of rules. Moving towards a unified system and ensuring transferability of accrued pension benefits could streamline operations and enhance equity. A cross country analysis from the [IMF's World Economic Outlook (2025)] show a comprehensive package of policies could boost annual economic growth in France by almost 0.3 percentage points over 2025–2100. In light of projected pension deficits, forging a national consensus is crucial to implement changes that will enhance the system's sustainability and fairness. Moreover, the current climate of economic uncertainties, driven by geopolitical tensions and potential downturns, poses additional risks to pension funding. This underscores the need for resilient strategies that can secure financial sustainability in the face of external pressures.

France and Peers: Average Impact of Labor Supply Policies on GDP Growth

(Deviation from the baseline scenario, percentage points, 2025-2100)



Source: IMF (2025).

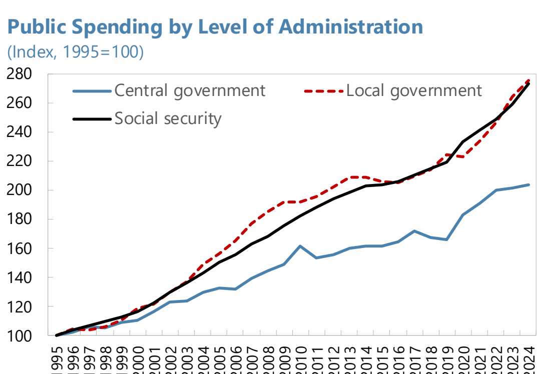
Notes: Deviations from the baseline scenario is when each labor policy is implemented in isolation. The sum of the values for the individual policies does not necessarily coincide with the value for the combined policies scenario because of interactions between the policies. The value for "World"=average for the economies included in the model, "LFP"=labor force participation, "LIC"=bloc of low-income countries.

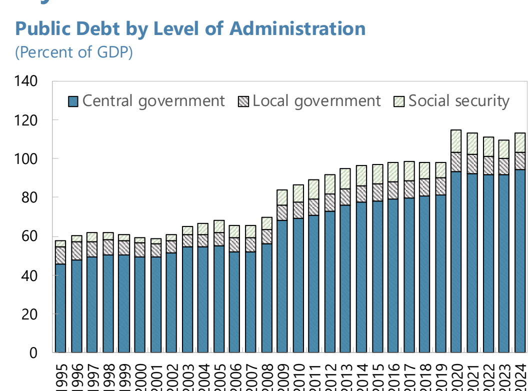
Annex VI. Improving Spending Efficiency at the Local Level in France[1]

Concerted efforts across all levels of government are essential to correct the course of public finances, following consecutive shocks, and strengthen fiscal and debt sustainability. Local government spending represents around 20 percent of total public expenditure and contributes to more than half of public investment in France. Despite strong fiscal rules, spending has increased rapidly, often surpassing revenues in recent years, with the deficit reaching 0.6 percent of GDP in 2024. Complexities in fiscal decentralization governance influenced these trends, calling for improved coordination and enforced multi-year budgetary framework.

1. **Despite strong fiscal rules, local governments (LG) have contributed to France's fiscal slippages in recent years.** Local spending, which accounts for around 20 percent of total public spending and 11 percent of GDP, plays a crucial role in infrastructure development (roads, transportation), education, green transition, and social services. Current expenditures, including wages, represent roughly half of this spending. The LG 'golden rule' requires balanced budgets (on a cash basis) and limits LG borrowing to capital projects, with oversight provided by the central government (CG) representative (Prefect) and the court of auditors. While LG have autonomy on the recruitment side, subject to their fiscal rules, a significant portion of their current spending is driven by CG decisions (e.g., on salary increases). This is especially the case for LG departments whose spending is largely on social issues and difficult to control. France has also experienced a notable increase in local investment spending in recent years as a result of transfers of responsibilities and competencies. In 2024, a record slippage of €8 billion in local government spending—70 percent of which was from current expenditures—added another 0.3 percentage points of GDP to the public deficit (compared to the original target), after a comparable slippage in 2023. By 2024Q4, local government debt exceeded €261.9 billion, or 9 percent of GDP, with significant variations across regions, departments, and municipalities. The authorities forecast a deficit of 0.6 percent of GDP for local governments in 2025, suggesting no savings vis-à-vis the 2024 budget outturn.

France: Public Spending and Debt by Administration Level





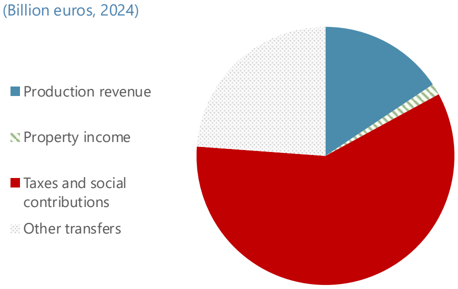
Sources: INSEE and IMF staff estimates.

[1] Prepared by Harilala Onintsoa Raoilisoa Andrianometiana and Chloe Hyungsun Cho.

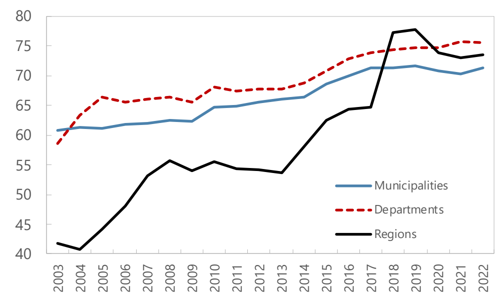
2. While local governments in France continue to rely on transfers from the central government, their financial autonomy has increased over time. According to the Constitution, the transfer of responsibilities should be accompanied by the transfer of corresponding resources. Since the early 1980s, local government revenues have indeed increased, reaching 10.7 percent of GDP in 2024 (3 percentage points higher than in 1983). At the same time, financial autonomy has also increased, with own revenues reaching over 70 percent of total LG revenues, including government transfers. Nevertheless, transfers from the CG remain important, amounting to €54.8 billion in 2024. Most local taxes are collected by the central government and subject to national regulation. Recent reforms on the resident tax, the VAT Compensation Fund (FCVAT), and property tax were offset by VAT reallocation and levies on state revenues.

France: Local Government Revenue and Financial Autonomy

Local Government Revenue
(Billion euros, 2024)



Financial Autonomy Ratio of Local Government
(Percent)



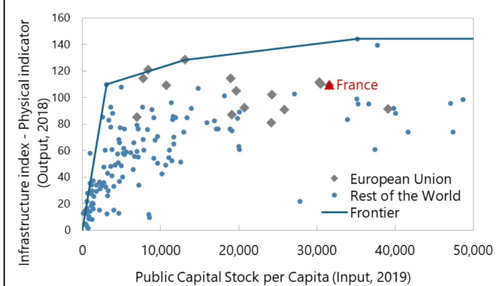
Sources: INSEE and French authorities.
Note: Financial autonomy ratio is the ratio between local governments' own revenue and total revenue (including government transfers).

3. The French decentralization system is multi-layered and complex, impacting public finance efficiency. France has three main levels of territorial division—regions, departments, and municipalities—along with intercommunal cooperation (EPCI) with varying degrees of financial autonomy. In addition, five overseas departments (French Guiana, Martinique, Guadeloupe, Reunion and Mayotte) are considered "ultra-peripheral regions". These multiple governance layers create administrative duplication and coordination challenges, particularly in co-financing across various sectors, as also highlighted by the Auditors' Court in the 2023 Annual Public Report. A 2015 territorial organization (NOTRe) law, aimed at streamlining local administration and improving efficiency, by significantly reducing the number of municipalities and regional responsibilities while strengthening intercommunal cooperation. Despite these efforts to clarify roles between departments and regions in economic development, overlaps remain—leading to misalignment in expenditures and outcomes, complicating policy evaluation, and creating inefficiencies (IMF WP/15/59).

4. Specifically, the implementation of the territorial government general code (CGCT) poses difficulties in coordinating fiscal policies and public service delivery. In the CGCT, responsibilities are shared among municipalities, departments, and regions, leading to overlapping competencies particularly in infrastructure, education, and social services. Regions fund high schools (buildings and services) and develop climate strategies, departments maintain roads and manage social welfare, while municipalities handle primary schools and local transport. They collaborate on initiatives such as school meal services, flood prevention, and cultural funding, with regions driving innovation and business support, departments providing social aid, and municipalities supporting local enterprises. This intricate system requires strong coordination and co-financing across various sectors and level of government.

5. There exist significant opportunities for improving public efficiency at the local and national level. In investment, the "efficiency frontier" using the volume of economic and social infrastructure[2] suggests that the country is not at the optimal level of output at the given level of input. In education,[3] while France invests more per secondary student than average, the test scores are relatively lower (¶26). The high share of local government spending in these two sectors presents a strong case to streamline efforts and strengthen collaboration among different levels of government to achieve greater efficiency and improved outcomes.

World: Physical Infrastructure Efficiency Frontier



Source: IMF Template for Investment and Efficiency (2022).

6. Improving coordination among local governments could significantly enhance efficiency and optimize local public spending. Key recommendations include strengthening intercommunal cooperation by expanding the role of Intercommunal Public Cooperation Establishments (EPCI) and encouraging the mergers of small municipalities. Assigning exclusive competencies to specific levels of government and implementing clearer co-financing guidelines can help to more clearly define responsibilities and reduce overlap. Financial coordination can be enhanced through expanded multi-level financing contracts, such as *Contrats de plan État-Region* (CPER). Establishing regional councils of local governments and enhancing the role of regional prefects as mediators can also streamline administrative processes.

7. Adoption of a multi-year budgetary framework and monitoring mechanisms can support fiscal consolidation efforts at the local level. LG financial autonomy should be accompanied by adequate oversight and transparency at the local level, through strict financial control on spending and reporting requirements. While investment budgets can be financed through borrowing, there is substantial variations in debt levels and fiscal discipline across municipalities and regions. The regional courts of audit issue critical reports and recommendations (which are often reactive than preventive) but there is no immediate consequence for no compliance. Contractualization of spending has been used in the past (e.g., *contrats de Cahors*)[4] to manage local public finances, although with mixed results. Enhanced mechanisms in this sense could

[2] Infrastructure efficiency indicator combines data on road, electricity, water.

[3] In 2023, local governments were responsible for over 30 percent of total public spending on secondary education and contributed to more than half of public investment in education in France.

[4] Introduced in 2017, the "contrats de Cahors" is an agreement between the French government and local authorities to control public spending by setting growth limits on operating expenses for 322 local entities, with penalties for exceeding spending limits. However, in 2022, the government decided not to enforce sanctions for municipalities that fail to comply and canceled the contracts.

be considered to support fiscal consolidation efforts at LG level, in line with the MTFSP. France could significantly improve fiscal discipline at the local level by providing multi-year visibility on local transfers and implementing a monitoring framework to enhance budget transparency and accountability. In this context, use of digital tools for project tracking and budget transparency, along with big data and artificial intelligence analyses, can improve regional planning and service delivery.

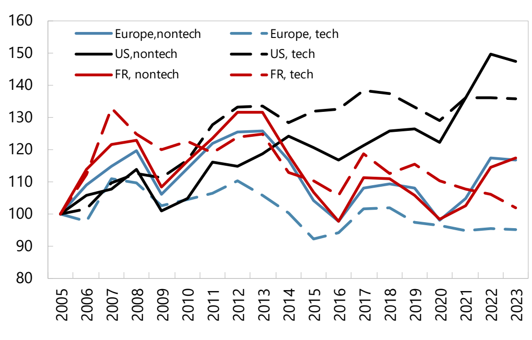
Annex VII. France's Corporate Productivity Performance

This annex examines the performance of firms in France, focusing on various segments, including frontier firms, young high-growth companies, and laggards,[1] to identify growth bottlenecks. It highlights limited equity financing and slow technology diffusion as key barriers to growth for French firms. For frontier firms, especially in the tech sector, access to equity financing is a significant concern which affects their ability to invest consistently in research and development. Additionally, improving access to finance for high-potential young firms can enhance business dynamism, enabling more of these firms to scale and emerge as market leaders. Lastly, the slower pace of technology diffusion compared to the past decade suggests that enhancing the adoption of existing technologies could improve the performance of laggard firms and boost productivity growth.

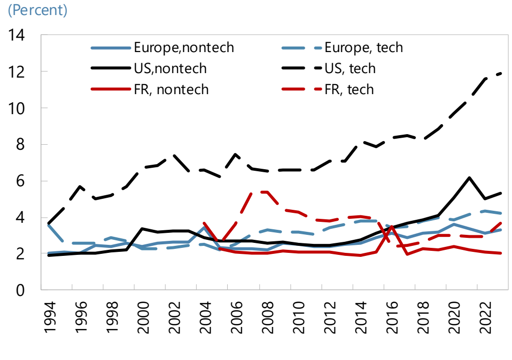
1. France's large leading firms, particularly in the tech sector, are lagging their US counterparts in productivity, amid a growing divergence in innovation efforts. Between 2005 and 2023, the annualized total factor productivity growth for France's non-tech firms was 0.9 percent, on par with the European average, but significantly lower than the 2.6 percent growth in the US. In the tech sector, productivity for French listed firms stagnated at an annualized rate of just 0.1 percent, compared to 1.5 percent in the US. Similarly, using sector level data, Banque de France (2025) finds that the hourly productivity gap with the US can be mainly attributed to the tech-intensive sectors. This productivity gap is mirrored by a divergence in innovation efforts; R&D expenditures for French tech firms averaged 3.6 percent of sales, like other European firms, while US tech firms have tripled their R&D spending to 12 percent of sales in 2023. Given that US tech firms also experienced higher sales growth during this period, the absolute R&D spending gap between France and the US is even more pronounced, contributing to a widening innovation gap.

France and Peers: Frontier Firms

Productivity of Listed Firms
(2005=100)



R&D Intensity over Sales
(Percent)

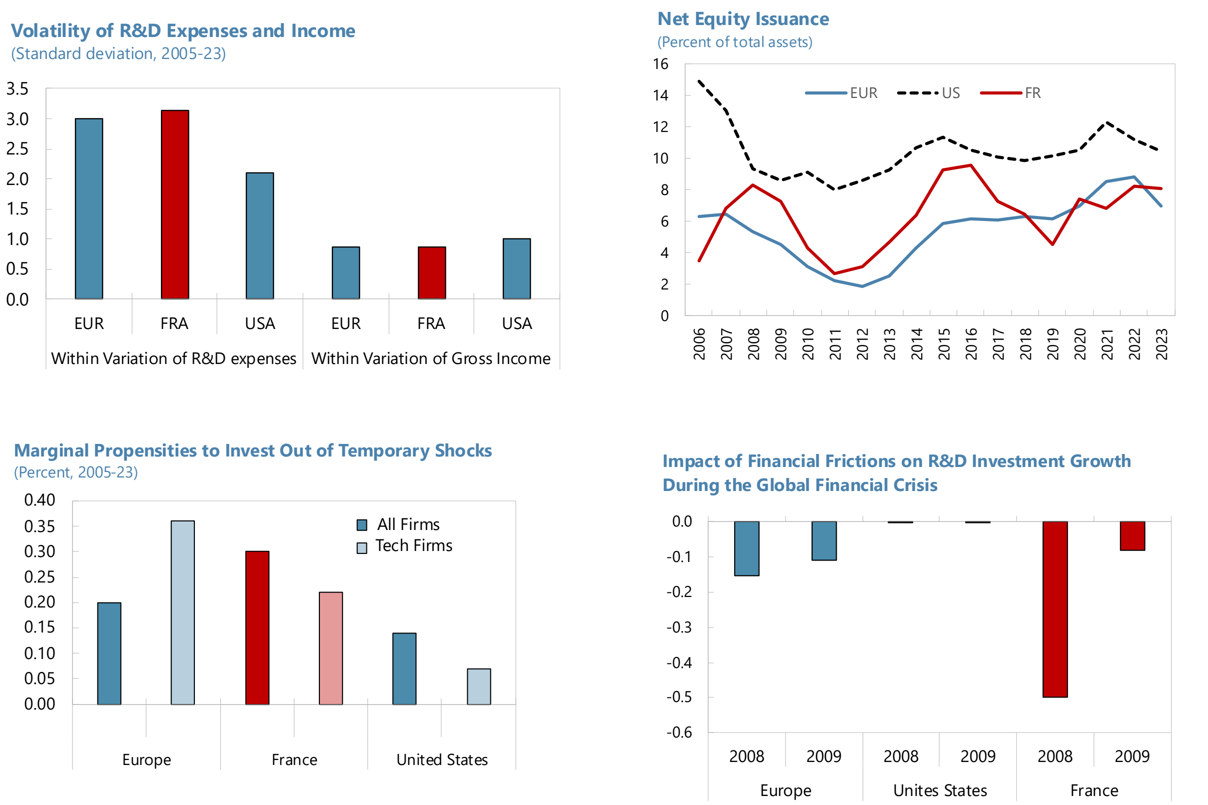


Sources: Compustat, IMF WP/25/40, IMF (2024), and IMF staff estimates.
Note: (LHS) Productivity estimates are based on non-parametric approach proposed by Gandhi and others (2020). Europe includes Belgium, Germany, Great Britain, Ireland, Italy, Netherlands, Spain, and Switzerland.

[1] Frontier firms are publicly listed, typically larger firms. Young high-growth firms or 'gazelles' are firms that, by the age of 10, have (i) at least one three-year period of annualized growth in deflated sales of 20 percent or more; and (ii) eventually employ more than 100 people. Laggards are those firms at the bottom 25 percentile of labor productivity.

2. Limited reliance on equity contributes to more volatile R&D investment among French firms compared to their peers, despite similar levels of gross income volatility. French firms are less dependent on equity than US firms, which is crucial for funding riskier investments, particularly intangible assets that cannot serve as collateral. In contrast, debt financing exposes firms to bank-related financial stress, as seen during the global financial crisis and the European sovereign debt crisis, which led many distressed firms to reduce their investments in intangible assets (IMF WP/17/129). Additionally, R&D investment in France is cyclical and sensitive to temporary liquidity shocks; firms facing significant financial frictions show a higher marginal propensity to invest (MPI) during such periods, investing more when liquidity improves and less when it deteriorates. While French listed firms outperform their European counterparts, they have higher MPIs than US firms. For instance, a temporary 1 percent increase in sales leads to a 0.22 percent increase in investment for French listed firms, compared to just 0.06 percent for US firms, indicating greater responsiveness to liquidity fluctuations. The figure below illustrates that firms with similar characteristics, including research intensity and profitability, experienced a more significant reduction in R&D spending during 2008 and 2009 due to tightened financial constraints in France compared to their US counterparts.

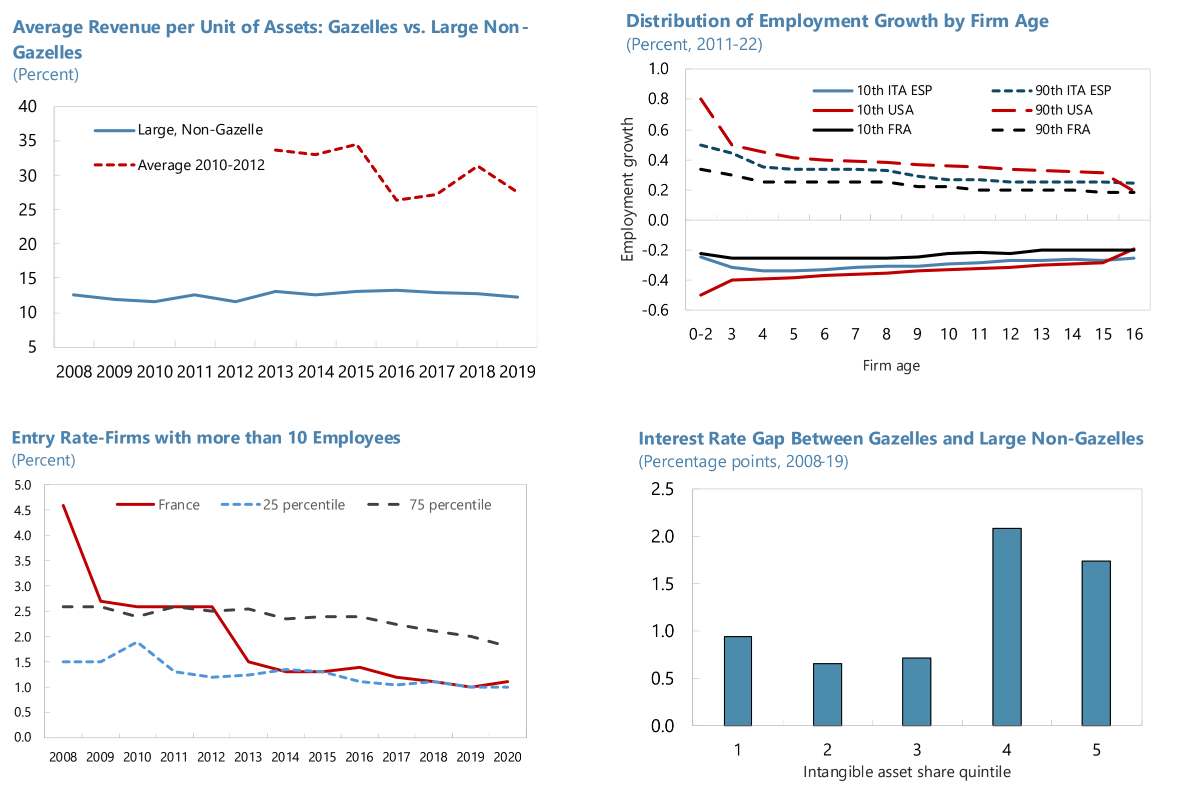
France and Peers: Frontier Firms' R&D Volatility and Financing



Sources: Compustat; IMF WP/25/40, IMF (2024), and IMF staff estimates.
Note: Europe includes Belgium, Germany, Great Britain, Ireland, Italy, Netherlands, Spain, and Switzerland. (LHS) Volatility is measured by (within-firm) the standard deviations of respective variables. For details on measuring firm-level financial frictions see Adilbish and others (2025).

3. France shows a broader lack of business dynamism that extends beyond its leading firms, with younger companies demonstrating less dynamism than their US counterparts. Although entry rates in France are similar to those in other European countries and the US, the average entry rate of higher-quality firms has nearly halved over the past decade when excluding microenterprises (firms with fewer than ten employees). While there are signs of post-crisis catch up in the exit of less productive firms (DGE, 2025), "up-or-out" dynamics remain relatively weak. The growth distribution of firms in France is narrower across all age groups compared to the US and its European peers. Higher-growth firms in France tend to scale up more slowly, while lower-growth firms contract at a modest rate. This situation underscores the weaker 'up-or-out' dynamics in France, in sharp contrast to the trends observed in the US (Eslava and others, 2022).

France and Peers: Business Dynamism and Financing Constraints

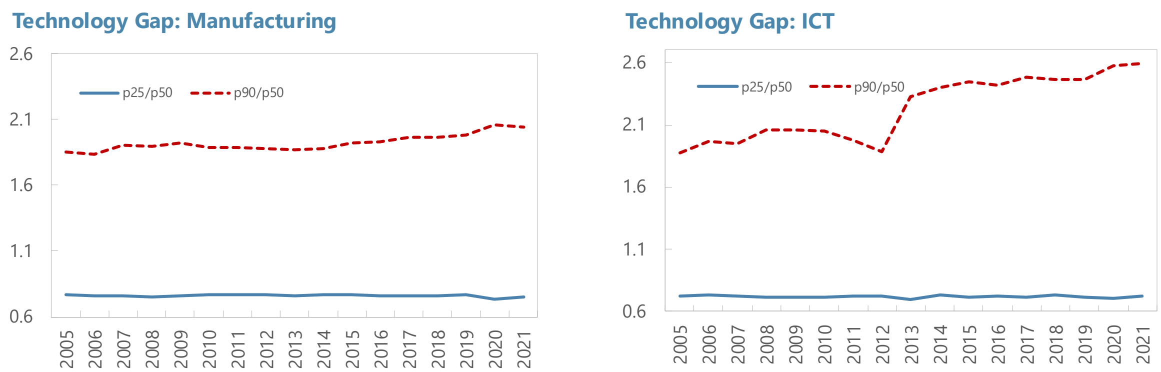


Sources: OECD DynEmp; Orbis, IMF WP/25/40, IMF (2024), Eslava and others (2022) and IMF staff estimates.
Note: (Top, RHS) Employment growth for Spain and Italy is weighted by the PPP-adjusted nominal GDP in US dollars. (Bottom, RHS) Interest rates are calculated as financial expenses divided by debt, including loans and long-term liabilities. X-axis shows the quintiles by firm-level intangible asset share.

4. France's high-performing startups—or 'gazelles'—face significant underfinancing. Although these startups demonstrate stronger sales growth compared to larger non-gazelle firms, their representation in high-tech sectors is low, remaining below 10 percent. Furthermore, they exhibit high marginal productivity of capital relative to larger firms, a trend that continues throughout their lifecycle and indicates binding financing constraints that limit their capital intensity and growth. Such constraints also lead to higher borrowing costs, especially for gazelles with a larger proportion of intangible assets that cannot be used as collateral. Firm-level analysis shows that access to venture capital significantly enhances these firms' intangible assets and productivity following VC investment (IMF, 2024).

5. Technology diffusion from frontier firms to median firms has slowed over the past decade. In 2005, the average technology gap with frontier firms was relatively similar in both the manufacturing and ICT sectors; however, this gap has since widened, particularly in the ICT sector, where frontier firms have experienced faster growth. By 2021, the median firm in manufacturing was about 49 percent as productive as a frontier firm, compared to just 39 percent in the ICT sector. Interestingly, firms at the bottom of the distribution, specifically those at the 25th percentile, are growing at a rate consistent with the median. Overall, this widening gap indicates that spillovers from highly productive firms to the broader distribution may be slowing.[2]

France: Technology Diffusion



Sources: Orbis, and IMF staff estimates.
Note: 90th percentile of the productivity distribution used as the proxy for frontier productivity and the ratio of the median to the frontier as a measure for technology gap with the frontier.

6. Despite these challenges, French firms have significant potential for growth. While access to equity financing and risk capital limits firm growth, addressing these issues could increase investment in innovation and growth. As highlighted in IMF, 2024, factors like a fragmented market and a limited supply of skilled labor can be seen as bottlenecks that once resolved can significantly improve business dynamism and productivity in France. By focusing on attracting and retaining talent and addressing skill mismatches, there is potential to foster the formation and scaling of young high-growth firms. Furthermore, implementing policies to improve access to risk capital, enhance education and training systems, and deepen the European single market—along with streamlining administrative barriers—could facilitate growth and innovation among firms.

[2] Banque de France (2025) finds similar results for French firms between 1991–2016.

Annex VIII. Data Issues

Annex VIII. Table 1. France: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Staff assess the overall data quality as adequate for the Fund's surveillance. France's economic and financial statistics are comprehensive, generally of high quality, and are provided to the Fund in a comprehensive manner. The authorities regularly publish a full range of economic and financial data, as well as a calendar of dates for the main statistical releases. France is also subject to the statistical requirements of Eurostat and the European Central Bank, including the timeliness and reporting standards, and it has adopted the European System of Accounts 2010. It is critical to close data gaps and establish relevant metrics for monitoring broader system risks stemming from indirect exposures via NBFIs.

Changes since the last Article IV consultation. No material changes since the last Article IV consultation.

Corrective actions and capacity development priorities. N/A

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use data and/or estimates different from official statistics.

Other data gaps. N/A

Annex VIII. Table 2. France: Data Standards Initiatives

France adheres to the Special Data Dissemination Standard (SDDS) Plus since February 2015 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Annex VIII. Table 3. France: Table of Common Indicators Required for Surveillance

As of June 9, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	France[8]	Expected Timeliness[6,7]	France[8]
Exchange Rates	06/25	06/25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	05/25	06/25	M	M	M	M	1W	1M
Reserve/Base Money	04/25	05/25	M	M	M	M	2W	25D
Broad Money	04/25	05/25	M	M	M	M	1M	1M
Central Bank Balance Sheet	04/25	05/25	M	M	M	M	2W	25D
Consolidated Balance Sheet of the Banking System	04/25	05/25	M	M	M	M	1M	1M
Interest Rates[2]	05/25	05/25	D	D	D	...	...	...
Consumer Price Index	05/25	05/25	M	M	M	M	1M	Approximately 13D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2024	05/25	A	A	A/Q	...	2Q/12M	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	04/25	06/25	M	M	M	M	1M	45D
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4/2024	Q1/2025	Q	Q	Q	M	1Q	35D
External Current Account Balance	04/25	06/25	M	M	Q	M	1Q	7W
Exports and Imports of Goods and Services	04/25	06/25	M	M	M	M	8W	8W
GDP/GNP	Q1/2025	Q2/2025	Q	Q	Q	Q	1Q	50D
Gross External Debt	Q4/2024	Q2/2025	Q	Q	Q	Q	1Q	3M
International Investment Position	Q4/2024	Q1/2025	Q	Q	Q	Q	1Q	3M

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

FRANCE

June 25, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By European Department

CONTENTS

FUND RELATIONS

(As of May 31, 2025)

Membership Status: Joined December 27, 1945; Article VIII.

General Resources Account	SDR Million	Percent of Quota
Quota	20,155.10	100.00
Fund Holding of Currency (total holdings)	14,740.13	73.13
Reserve Tranche Position	5,415.14	26.87
Lending to the Fund		
New Arrangements to Borrow	18,958.32	

SDR Department:	SDR Million	Percent of Allocation
Net Cumulative Allocation	29,451.96	100.00
Holdings	27,370.19	92.93

Outstanding Purchases and Loans: None

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Sep 19, 1969	Sep 18, 1970	985.00	985.00
Stand-By	Jan 31, 1958	Jan 30, 1959	131.25	131.25
Stand-By	Oct 17, 1956	Oct 16, 1957	262.50	262.5

Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

			Forthcoming			
	2025	**2026**	**2027**	**2028**	**2029**	**2030**
Principal						
Charges/Interest	31.37	62.18	62.18	62.21	62.15	62.18
Total	**31.37**	**62.18**	**62.18**	**62.21**	**62.15**	**62.18**

Implementation of HIPC Initiative: Not applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not applicable.

Exchange Rate Arrangements:

- The currency of France is the euro. The exchange rate arrangement of the euro area is free floating. France participates in a currency union (EMU) with other members of the EU and has no separate legal tender. The euro, the common currency floats freely and independently against other currencies.

- France has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions imposed solely for the preservation of national or international security, which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

Article IV Consultation:

The last Article IV consultation was concluded on June 27, 2024. The associated Executive Board assessment is available at IMF Executive Board Concludes 2024 Article IV Consultation with France and the staff report at France: 2024 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for France. France is on the standard 12-month consultation cycle.

FSAP Participation and ROSC:

The Financial System Stability Assessment (FSSA) for the last mandatory FSA was discussed by the Board on July 22, 2019. The FSSA and accompanying Reports on the Observation of Standards and Codes (ROSCs) are available at https://www.imf.org/en/Publications/CR/Issues/2019/07/22/France-Financial-System-Stability-Assessment-48516.

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT):

France's anti-money laundering and combating the financing of terrorism (AML/CFT) regime was found to be largely effective by the Financial Action Task Force (FATF) in 2022 and has since been further enhanced. The 2022 FATF report is available at https://www.fatf-gafi.org/content/dam/fatf-gafi/mer/Mutual-Evaluation-France-2022.pdf.coredownload.inline.pdf.

Statement by Mr. Arnaud Buissé, Executive Director for France, Ms. Eve Maurice, Alternate Executive Director, Mr. Vincent Grossmann-Wirth, Senior Advisor to the Executive Director, Ms. Meghann Puloc'h and Mr. Amisi Felix Mwenetombwe, Advisors to the Executive Director
July 7, 2025

On behalf of the French authorities, we would like to warmly thank Ms. Goretti, Mr. Cohen and their teams for the insightful discussions, as well as for the carefully written and balanced reports. Our authorities greatly valued this constructive engagement on key policy priorities. Both the rich report and its annexes constitute a valuable contribution to the policy debate in France. They broadly concur with staff's views, notably on the economic outlook, the main recommendations on fiscal consolidation and on the reform efforts to be undertaken.

Economic Outlook

As highlighted in the report, the French economy has continued to demonstrate strong resilience, despite recent shocks, increased uncertainty and the effects of the past tight monetary policy. Growth reached 1.2 % in 2024 (in volume terms, without adjustment for working day), according to the latest available Insee figures, which is slightly higher than the 2024 Article IV forecast for 2024 (0.9 % in volume terms, without adjustment for working day) but less than what was observed in 2023 (1.4 %). Close to its long-term potential, output growth in 2024 was driven by household consumption, dynamic exports and public demand.

Due to the deterioration of the international environment, economic growth in 2025 is expected to moderate, reaching 0.7 %, before rebounding to 1.2 % in 2026—which is slightly above staff's projections of 0.6 % for 2025 and 1.0 % for 2026. The French government's projection takes into account the estimated impact of heightened uncertainty weighing on international trade dynamics. Private consumption is set to drive growth given the decrease in inflation and the associated increase in real disposable income. The savings rate, which is at a high level is expected to slightly decline but would remain significantly above historical trends. Due to the uncertain environment, which encourages a wait-and-see attitude, business investment would be held back although less markedly than in 2024 as it would be supported by more favorable financing condition. The increase in tariffs would slow trade and weigh on exports. Nonetheless, the French economy should be less directly affected by the tightening of trade policies than most of its European partners, given its lower exposure to US demand.

As of the first quarter of 2025, France's carry-over growth stands at 0.3 %. The unemployment rate was almost stable in 2025Q1 at 7.4 % which is close to the lowest level observed over the last forty years. The disinflationary process continues to progress steadily, with inflation expectations remaining well anchored at around 2 %.

The French authorities broadly share staff's views on the outlook and on the need to strengthen public finances and pursue reforms to enhance productivity. They have already begun efforts to build broad political support and secure social buy-in of this course of action, notably through early engagement with Parliament on the draft 2026 budget bill, but also through clear and consistent public communication, as well as continuous dialogue with civil society and social partners. On fiscal policy, the Prime Minister will soon outline the planned efforts for 2026.

Fiscal Diagnostic and Strategy

After higher-than-expected fiscal deficits in 2023 and 2024, the French authorities are fully determined to reduce public deficit and put debt on a downward trajectory. France is therefore committed to implementing its Medium-term Fiscal Structural Plan (MTFSP) for 2025-2029 to progressively bring the deficit below 3 % of GDP by 2029, broadly in line with staff recommendation. Given the high revenue-to-GDP ratio, our authorities' strategy to achieve this objective focuses mainly on rationalizing public spending and strengthening its efficiency, involving all levels of government and public administrations (central, social security, and local authorities), as well as implementing structural reforms to promote sustainable growth (*see section below*).

To bring the public deficit down to the ambitious—but achievable—MTFSP level of 5.4 % of GDP for 2025, EUR 50 billion in savings (1.7 % GDP) were included in the 2025 budget and Social Security Financing Acts. These measures notably include expenditure cuts by the State and its agencies, improved control over social spending, a reduction in tax exemptions, and targeted and temporary tax increase. Local governments also contributed to this consolidation effort. In addition, rigorous budget execution is a key priority for our authorities, who published in March 2025 an action plan to enhance public finance execution *(Plan d'action pour améliorer le pilotage des finances publiques)*.

In an effort to strengthen macroeconomic forecast transparency and accuracy underpinning budgets, a committee, called "Cercle des prévisionnistes"—gathering eminent economists from various institutions and private sector—has been established and first met on May 20, 2025. An "Alert Committee" to monitor fiscal execution has also been established in April 2025. This committee, which brings together representatives from central and local governments, members of Parliament and social partners, aims to facilitate information-sharing on potential revenue or expenditure risks. A second meeting was held on June 26, 2025. While revenue projections for 2025 remain in line with the budget, the identified expenditure pressures mean that achieving the 5.4% of GDP deficit target for 2025 remains achievable, but is conditional on another EUR 5 billion consolidation effort. This effort will be driven notably though central government credit cancelation and extra-savings from the national health system. This adjustment is imperative to ensure that the 2026 budget is prepared on a credible basis, and is part of a broader and ongoing effort, already initiated with the EUR 5 billion in savings committed by our authorities during the committee's first meeting on April 15. The committee will meet again in September, underscoring the authorities' determination to meet their fiscal objectives. On June 4, the European Commission positively assessed the fiscal efforts outlined in the Government's first Annual Progress Report (APR) and held in abeyance the excessive deficit procedure for France. This decision followed France's adoption of a first package of effective measures responding to the correction trajectory recommended by the Council.

The French authorities will continue to prioritize public spending rationalization in 2026 and beyond and have already initiated discussions with relevant stakeholders to secure broad support. The Government has publicly committed to an additional EUR 40 billion (1.4 % of GDP) of fiscal effort in 2026, relative to the spontaneous trajectory of expenditure and revenue. An upcoming announcement around mid-July will detail the key fiscal orientations. In addition, ongoing multi-annual spending reviews help identify further potential savings over 2025-2027 and have already started to deliver with EUR 4.3 billion integrated in the 2025 budget. Staff's baseline scenario for debt trajectory is, as usual, a no policy change scenario and is therefore relatively conservative—as acknowledged by staff—since it does not account for all planned consolidations, including those under the MTFSP. However, the trajectory recommended by staff is broadly aligned with the one planned in the MTFSP, aiming at putting the debt-to-GDP ratio on a downward trend and bringing the deficit back under 3 % in 2029. We concur with staff that short-term risk of sovereign debt distress remains low and that France's sovereign debt benefits from a deep and liquid market.

Financial Sector

The French authorities greatly appreciated the FSAP engagement and the cooperative spirit in which discussions were held, as well as the constructive exchanges of views with the team and the in-depth assessment of systemic risks. Since the last FSAP in 2019, our authorities have taken several actions to further mitigate risks to financial stability through enhanced regulatory framework and supervision, following many of staff's recommendations. This review is a valuable input into the French authorities' continuous efforts to ensure adequate financial regulation and supervision in a rapidly evolving environment.

As noted in both the 2025 Article IV and 2025 FSAP reports, the French financial sector has proven resilient—even in the face of a series of shocks. Banks exhibit strong capital buffers and robust liquidity ratios, both exceeding required minimums, with an average regulatory capital ratio of 19.8 % as of end-2024, a *Liquidity Coverage Ratio* of 145 % and a *Net Stable Funding Ratio* of 116 %. French banks benefit from a sound and diversified business model and from improved financing conditions, which have enabled them to post historically high income. Fixed-rate mortgages and prudent borrower-based exposure limits have a stabilizing effect, and the recent decline in short-term rates will support banks' net interest margins. The insurance sector remains sound, with solvency well above regulatory requirements. French insurers hold own funds well in excess of their capital requirements, with the solvency capital requirement coverage ratio reaching 238 % as of end-2024. The asset management sector proved resilient and lays ahead of the curve in terms of liquidity management tools adoption. The residential real estate market is starting to recover, helped by the gradual easing of borrowing costs. Meanwhile, the commercial real estate market is stabilizing but remains vulnerable to potential deterioration in the macroeconomic environment. Despite relatively high household indebtedness, household default risk remains low thanks to banks' conservative origination practices and the adequate and well-calibrated macroprudential borrower-based measures introduced in 2019.

While the French financial sector can hence rely on solid and diversified business models to be able to absorb potential shocks, close monitoring is warranted in light of continued global uncertainty. Our authorities agree with the FSAP stress test findings that the banking system is broadly resilient to severe but plausible macro-financial shocks, both from solvency and liquidity perspectives. While not specific to France, they also agree that the growing interconnections between banks and non-bank financial intermediaries are increasing complexity of financial markets and warrant close monitoring. In this regard, *Banque de France*, *Autorité de Contrôle Prudentiel et de Résolution* and *Autorité des Marchés Financiers* are currently finalizing the terms of a pilot system-wide stress test exercise to be conducted in the second half of 2025 and involving banks, insurers and asset managers. Financial intermediaries have limited direct exposure to US assets but remain exposed to a deterioration of the macroeconomic environment.

The French authorities are committed to further strengthening resilience in the financial sector, including through greater data sharing and enhanced supervisory coordination—both domestically and at the EU level. They support most of the FSAP recommendations. Regarding the macroprudential policy framework, our authorities see merit in improving public communication and governance, while noting that the High Council for Financial Stability (HCSF) is well-functioning, as stated by staff. As staff also highlighted, the HCSF's tailored approach enables a nuanced response to financial risks, and our authorities have proactively rebuilt releasable capital buffer (CCyB) since the COVID crisis. They also deem that any evolution in the overall buffer strategy would need to be considered in the context of a holistic approach aimed at simplification. Similarly, regarding existing arrangements on crisis management, they consider the current FGDR target level for the deposit insurance fund to be adequate, as it stems from EU legislation and is based on a risk methodology developed by the European Commission. Our authorities consider the carefully designed presence of a representative from the Ministry of Finance on supervisory boards to be helpful for the regulator to prepare fit for purpose regulation. They appreciate staff's recognition that this arrangement does not raise any issue of undue influence, and believe that the current governance structure can be maintained.

Structural Reform Strategy

The French authorities share the staff's view on the need to advance structural reforms to boost productivity and facilitate fiscal consolidation, and they are fully committed to this effort. In this regard, policies promoting attractiveness and competitiveness are needed, both at the national and European levels. Accelerating the simplification agenda, investing in green technologies and reinforcing our efforts to support innovation, upskilling and reindustrialization are at the core of our authorities' agenda. Investing in the French and European defense capacity will also strengthen our strategic autonomy and sovereignty. France has already adopted a multi-year military programming law for 2024-2030, reflecting the Government's ambition to establish a renewed model for the armed forces. It plans to allocate 413 billion euros to defense over the coming years, a 40% increase compared to the previous law (2019-2025). Our authorities stand ready to step up our efforts, mobilize private financing and implement reforms aimed at creating fiscal space to support defense spending.

Our authorities' priorities are anchored in a five-pillar reform strategy, consistent with staff recommendations, the implementation of which is already underway.

First, to **ensure the sustainability of public finances**, the Government remains determined to restore the financial balance of the pension system by 2030, while simultaneously intensifying efforts to enhance the efficiency of public spending. For instance, reforms to the health system - which accounts for 20 % of public spending - will continue, with a view to improving efficiency, promoting preventive care (including by addressing medical desert), and streamlining treatment pathways. Rationalization of state aid is also ongoing, following the expenditure reviews carried out. The ongoing assessment led by Parliament on government operators and agencies will provide a useful review of their missions and of potential overlaps, paving the way for further rationalization and structural savings. Human and technological resources dedicated to combating tax, social and custom evasion will be further strengthened.

Second, **labor market reforms** launched since 2017 remain a top priority for our authorities, with continued efforts to promote employment and reinforce work incentives and skills, particularly for population segments that are the furthest removed from the job market. The progressive implementation of the recent reforms on unemployment benefits and pension system already contributes to this goal, as well as the reform of the national employment agency (France Travail). The same applies to investments in education and skills, *i.e.,* improving proficiency in mathematics and French or encouraging girls to pursue scientific studies.

Third, the Government continues to **prioritize simplification**, both at the national and European levels, as a lever to improve the business environment and competitiveness. The draft law on business simplification, currently under discussion in Parliament, seeks to reduce regulatory burden and red tape for businesses, especially SMEs. At the EU level, France supports the Commission's simplification initiatives to reduce excessive regulatory pressures on companies—which creates uneven international competition—while upholding key policy goals such as the promotion of sustainable finance and appropriate regulation.

Fourth, the **reindustrialization** of the French economy lies at the heart of the agenda. In this regard, our authorities agree on the need to strengthen innovation financing and are proactively redirecting resources to innovation-intensive firms - particularly in AI and green technologies—while also improving the targeting of R&D policies. With EU savings amounting to EUR 35,000 billion, French and European savers have a crucial role to play in financing innovation and industry in Europe. To encourage such investments, France—alongside Spain, Germany, Estonia, Luxembourg, the Netherlands and Portugal—launched a pan-European label ("Finance Europe") on June 5, 2025, for savings products invested for at least 70 percent in the European Economic Area. In addition to the *Tibi* initiative, which promotes investments by institutional investors in innovative companies scaling up their industrial and commercial operations, France has been a strong supporter of advancing the EU Savings and Investment Union, to improve the financing conditions of businesses and the efficient allocation of capital. To further enhance competitiveness, our authorities are committed to reducing energy costs and accelerating business digitalization and use of high-value technologies (AI, quantum computing, deep tech). France is actively positioning itself as an AI hub, with IMF staff estimating that widespread adoption could boost total factor productivity growth by 1.2 % over five years.

Fifth, the Government remains fully engaged in the decarbonization of all sectors of the economy, with the goal of achieving **carbon neutrality in 2050**. Staff rightly emphasized in the 2024 Article IV report the need to accelerate the green transition. Since then, our authorities published a multi-year strategy on the financing of the climate transition, which will be updated in autumn 2025. This strategy usefully complements the state's green budgeting (disclosed annually since 2020) by adding a mid-term perspective and perspectives of private financing mobilization. We agree with staff that France's comparative advantage in low-carbon technologies presents strong opportunities for technological development and growth.

The French authorities once again thank staff for the reports. They broadly agree with their policy advice, especially regarding the fiscal consolidation and structural reforms to be undertaken, as well as with the FSAP analysis. They have already begun work to strengthen public finances and enhance productivity, and are committed to pursuing their efforts in this regard.