BANQUE DE FRANCE

EUROSYSTÈME

Letter to the President of the Republic 2025

From stupefaction to a general mobilisation

How to respond to America's policy shift

Letter submitted to
the President of the French Republic,
the President of the Senate and
the President of the National Assembly

by
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Due to the new announcements by Mr Trump
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(section 1.2) on the evening of 10 April.

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SUMMARY

This 2025 *Letter* is published at a time of exceptionally strong uncertainty. Our national difficulties have been starkly amplified by the new US administration's policy shift. The international order and alliances are being upended; mutually beneficial trade and global growth are under attack. Americans themselves, but also the rest of the world, appear stunned. However this *Letter* is a resolute call for France and Europe to shake off their stupefaction. A call for us to raise our game and broaden its scope beyond the quarrels of the day. A call to act, and act further and with greater unity. We have the means to launch this general mobilisation, provided we have the firm will.

Amidst all of this unpredictability, there is nonetheless one certainty: our victory over inflation is almost assured, with price growth falling to well below the 2% mark in France, and close to this target in the euro area. This has already allowed us to make significant cuts to interest rates. It is also supporting the purchasing power of wages. The current threats pose little risk to our inflation rate, but are more of a downside risk to French growth, which has already slowed. However, the Banque de France's baseline projection remains that of an exit from inflation without a recession, then a gradual acceleration of activity.

America's new protectionism is primarily a severe blow to the US economy, but it will obviously have an impact on Europe. As well as organising a concerted trade response, doubtless with targeted retaliation, we also need a positive strategy: to regain control of our economic destiny, we must act in four urgent areas of mobilisation.

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First, we need to cement our monetary sovereignty. Fortunately, Europe has built up a solid advantage in the form of the euro, and hence its own monetary policy autonomy. This includes further scope for pragmatic rate cuts. But we also need to prepare our technological sovereignty by working on a digital euro, and develop the international role of the euro.

The second area of mobilisation consists in taking back our fiscal sovereignty. Our longstanding illness – the relentless rise in our public debt – has today become critical: our citizens are worried about it, causing them to over-save; financial markets are charging us a higher risk premium; and our debt interest payments are increasingly eating into our fiscal space. To be credible, we first need to adhere strictly this year to our public spending commitments, in order to cut our deficit to 5.4% of GDP for 2025, based on current economic forecasts. But beyond that, we need a multiannual strategy – stabilising our overall public spending in volume terms, in other words adjusted for inflation. This will allow us to bring the deficit down towards 3% of GDP by 2029, which is the threshold at which we will finally be able to lower our debt.

We cannot have the highest spending in the world and at the same time keep increasing it in real terms. Ending this drift is feasible, on one firm condition: that the efforts on spending efficiency are made not just by the state, which only accounts for 36% of total expenditure, but also by social security and local government administrations, whose spending is continuing to rise by over 2% a year in volume terms. Any additional investment in defence will need to be financed, and is even further justification for this overall stabilisation.

We must also aim to boost our potential growth, which needs to be raised from around 1% today to 1.5%. Which brings us to the third area of mobilisation: investing in labour. This is the key to our prosperity and it is entirely in our hands. In France, working more collectively means eliminating the lag of over 15 percentage points in our employment rate for both young people – hence the need for training reforms – and seniors. For the latter, therefore, in the ongoing talks on pension reform, it is not just financial solidity that is at stake, but also our economic strength. But it also means working better and increasing our productivity, notably thanks to artificial intelligence.

To boost growth, we also need to leverage Europe's strengths – and this is the fourth area of mobilisation. Everything that needed to be said was said in the Letta and Draghi reports and reiterated in the European Commission's "Competitiveness Compass". It is urgent now that we effectively implement three imperatives, at no fiscal cost – imperatives that we can call the three i's. First we need to *integrate the single market more* – focus on our size – by removing internal barriers, especially in services and energy. Second we need to *invest better*, giving much greater priority to disruptive innovations and beefing up European equity financing through a Savings and Investments Union. Finally, we need to *innovate faster*. Europe needs simplification – less bureaucracy, fewer procedures and shorter deadlines. But in response to the temptations voiced across the Atlantic, simplification is not deregulation – and this also applies to the financial sphere. Europe can also mobilise new "coalitions of the willing": it is not alone on the climate, on open trade or on development financing.

America's policy shift is obviously worrying. But it should make us realise that what unites us, as French and Europeans, is much more important than what divides us. This is why there has to be a *general mobilisation*: our response can only be collective, with a fair sharing of the burden and a decisive pace of action. We cannot change the other side of the Atlantic, but we can beef up our side. This can and must be France and Europe's moment.

INTRODUCTION

This *Letter to the President of the French Republic* and to the Presidents of the two Assemblies has been a republican tradition since 1945. This year, however, it comes at a time of historic upheaval. Since taking up power on 20 January, the new American administration has upended the existing international order and alliances, and singularly undermined American democratic processes. In the economic arena, the protectionist announcements, which came to a head on 2 April, have dealt a heavy blow to America's former closest allies such as the European Union. An unprecedented wave of deregulation has been announced that risks triggering future financial crises, and multilateralism is being contested on all fronts. It is still too early to say which of the multiple, sometimes contradictory, announcements – including the partial turnaround on 9 April – will be fully implemented. Robust transatlantic dialogue needs to be maintained.

But one thing is certain: this upheaval is increasing economic unpredictability everywhere. Americans themselves, along with the rest of the world, appear stunned. For Europe, and especially our country, it only adds to the political instability that was already causing consumers and investors to pause their spending decisions. Yet this *Letter* is a resolute call to collectively shake off this stupefaction and act, by launching a general mobilisation. It is based on one overriding conviction: we have a collective duty to make this shift, but we also have the means.

First, because our country and Europe, while naturally facing major economic challenges, still have many strengths. Top of the list is our labour, which is the lasting key to our prosperity; never before have there been as many jobs or as many hours worked in France. Our businesses, from the largest – international leaders that rival Germany in number – to the youngest (some 400,000 were set up in 2024, 30% more than a decade ago). Our abundant annual savings, which make France the leading financial centre in Europe. And lastly, our anchoring within the European Union, whose single market is the largest in the world – on a par with the United States – and whose single currency is widely supported by the French and completely independent from the dollar. We need to look beyond our collective concerns and recognise these strengths; if there is one virtue we should take from the Americans, it is to have more self-confidence.

Next, we have to accept that tomorrow's battles will no longer be those of the past. Either because they have already been won – as in the case of our victory over inflation, which is gradually restoring purchasing power. Or because constantly revisiting our past collective failures – the 40-year drift in our public spending and deficits, the difficulty reforming pensions – and blithely shifting the responsibility on to others, does not take us forwards towards lasting solutions. Yet solutions do exist, if we can elevate public debate, and broaden its scope beyond purely French concerns and the multiple quarrels of the day.

This *Letter* aims, first, to shake off our current stupefaction in the face of the unpredictability, by shedding light on the challenges: price stability has been restored but our activity projections point to a slowdown, and are being jeopardised – especially in the United States – by the trade war (1). Second, it is a call for us to regain control of our economic destiny, to take action and launch an urgent general mobilisation, focused on four imperatives: cementing our monetary sovereignty; taking back our fiscal sovereignty; collectively working more and better in France to boost our growth; and leveraging Europe's economic strengths (2).

1

Shaking off our stupefaction in the face of unpredictability

The unpredictability has left us in a state of stupefaction. Without claiming to provide any certainties, the first response needed is to shed light on the economic situation – its milestones and challenges.

1.1 One milestone: victory over inflation is virtually assured

The return of inflation towards its 2% target has allowed rates to be cut, and this should continue

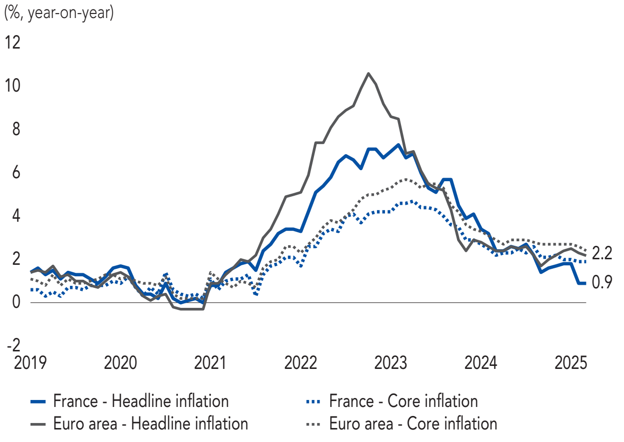
In recent years, France and Europe have experienced a period of strong price growth. However, inflation fell more than expected in 2024, and is now close to our 2% target for the euro area, coming out at 2.2% in March 2025.

In France, inflation is even below target, at 0.9% in March 2025 *(see Chart 1)*. We expect the annual average rate to be 1.3% in 2025, and to then remain durably below the 2% mark. The slowdown mainly reflects a marked decline in food, energy and manufactured goods prices. However, services inflation is falling more slowly, which explains why inflation excluding energy and food remained higher in March, at 1.9% *(see Chart 2)*.

As a central bank, price stability is our primary mandate, and our monetary policy action has been decisive: in 2023 and 2024 it contributed directly to a reduction of 1-2 percentage points in inflation, depending on the different models used. The process of disinflation has therefore proved faster and less costly in terms of growth and jobs than in the 1980s. The increased credibility of the European Central Bank (ECB) and the Banque de France derives from their independence, their simple and clear objectives (2% inflation over the medium term), and the decisive action taken in the past. Inflation expectations have remained largely anchored, and the shocks to commodity prices have fuelled no lasting inflationary spirals.

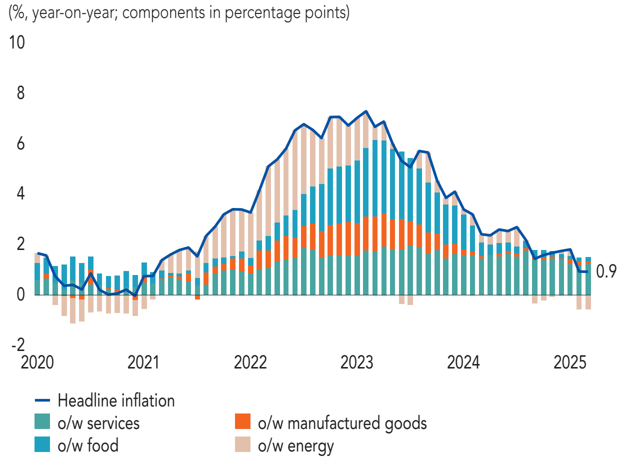
Research by the Banque de France[1] suggests that, if inflation expectations had been as poorly anchored as in the United States in the 1970s, our key rates would have had to peak at around 8% (instead of 4%)

Chart 1 Headline inflation and inflation excluding energy and food in France and the euro area



Sources: INSEE, Eurostat; Banque de France calculations.
Notes: HICP (Harmonised Index of Consumer Prices) inflation and core HICP inflation (excluding energy and food).
Last data point: March 2025 (flash estimate).

Chart 2 Inflation and its components in France



Sources: INSEE, Banque de France calculations.
Notes: HICP (Harmonised Index of Consumer Prices) inflation.
Last data point: March 2025 (flash HICP estimate).

(see Chart 3), inflation would have remained higher for longer (1.4 percentage points higher in 2022, and 3.5 percentage points higher in 2023), and activity would have been weaker (1.4 percentage points less growth in 2022, and 2.2 percentage points less in 2023).

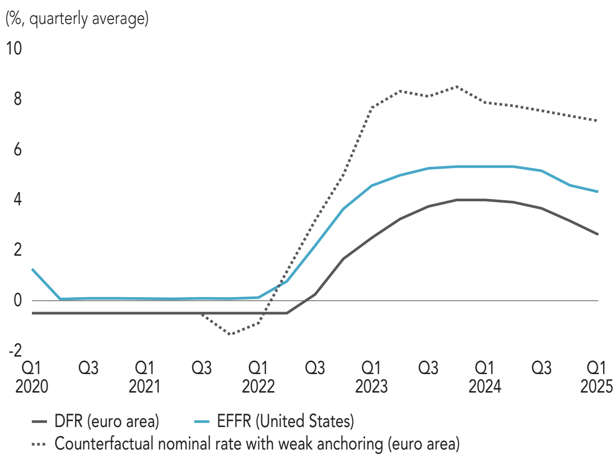
Central banks have thus responded to the uncertainty, and indeed "absorbed" it. The success in tackling inflation has sustained confidence in the single currency. In the autumn of 2024, 76% of French people and 81% of Europeans supported the euro,[2] which are historically high rates.

The return of inflation towards target has allowed the ECB Governing Council, chaired by Christine Lagarde, to cut our key rate six times between June 2024 and March 2025, from 4% to 2.5%. That said, long rates, which are set by the markets, have risen again recently, albeit to a lesser extent. German 10-year Bund yields have notably added just over 20 basis points since early March 2025, due to the (positive) announcement of additional German public spending. Overall, the impact remains favourable. The cut in the key rate has been passed through to new business and household loans: the average rate on loans for house purchases in France was 3.3% in January 2025, compared with 4.2% at the start of 2024. It is thus helping to support the financing of the economy and the gradual recovery in activity.

Purchasing power rose in 2024 and should maintain this trend, driven by wages

Incomes – including wages and pensions – have also increased.[3] Since early 2022, they have gradually been revised upwards to counter inflation, with low wages and social security benefits receiving greater protection in relative terms. As a result, income from social transfers has continued to play a significant role in supporting purchasing power. Since the start of 2024, growth in the average market sector wage per employee has outstripped inflation – the gap between the two variables was 0.6 percentage point at the end of 2024 *(see Chart 4)*. This positive trend can also be seen in the broader measure of purchasing power per capita, real gross disposable income, which rose by 2.2% in 2024, thanks largely to the sharp upward revision of pensions (+5.3%) on 1 January 2024. Naturally, these are average figures that do not reflect variations in individual situations or overall perceptions, either over the short or long term.[4]

Chart 3 Key interest rates in the euro area and the United States

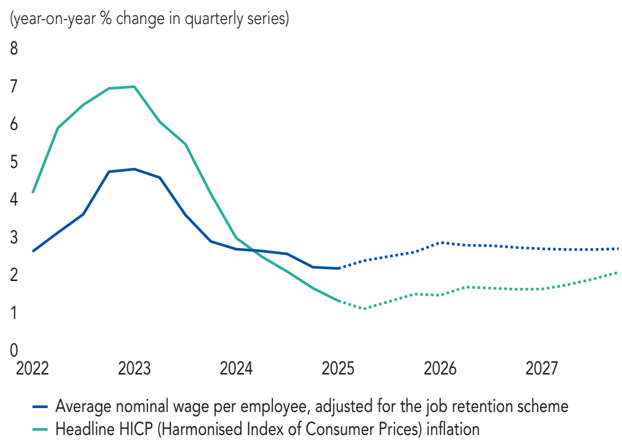


Sources: European Central Bank, US Federal Reserve, Dupraz and Marx (2025).

Notes: Deposit facility rate (DFR) for the euro area; effective federal funds rate (EFFR) for the United States.

The dotted line shows the path of the euro area nominal interest rate estimated using a model where expectations of long-term rates react to past inflation with an elasticity of 0.145 (weak anchoring).

Chart 4 Change in average market sector wage per employee and inflation in France



Sources: INSEE (up to Q4 2024), Banque de France (dotted line shows March 2025 projections).

In 2025, the purchasing power of wages per capita should grow at a similar rate of 0.4%, driven by the acceleration in real wages per employee and despite a temporary dip in employment *(see Chart 5)*. It should then gather pace in 2026 and 2027, as stronger economic activity helps to drive a jobs recovery.

The French and European economies have slowed but should not slip into recession

In 2024, growth remained positive at 0.7% in the euro area and 1.1% in France *(see Chart 6)*. French growth was primarily driven by external trade, and received a boost of around 0.25 percentage point in the third quarter from the Olympic and Paralympic Games. The payback from this was a slight contraction at the end of 2024, but the French economy remains resilient and could expand by 0.7% over 2025, compared with 0.9% for the broader euro area. Obviously, America's protectionism poses downside risks to this figure *(see section 1.2)*, but our baseline scenario remains that of an exit from inflation without a recession.

The recovery could then gather momentum in 2026 and 2027, with growth forecast respectively at 1.2% and 1.3%. This assumes a gradual rise in household consumption as purchasing power grows, and a similar trend in private investment.

Businesses are obviously being adversely affected by the domestic and international uncertainty, but it is important to stress that they remain financially resilient. Non-financial corporations' margin rate was 32.2% in the fourth quarter of 2024, which is well above pre-Covid levels (30.9% in 2019). Increases in productivity should also continue to support corporate profit margins.

1.2 America's policy shift has nonetheless created huge unpredictability

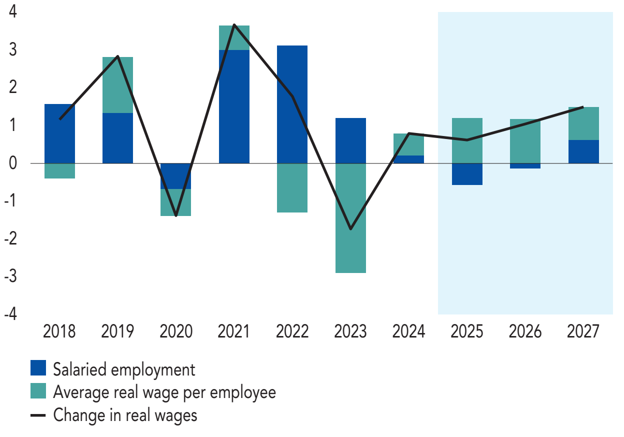
The years 2020 and 2024 were already marked by a series of shocks. However, 2025 looks set to be a year of unparalleled uncertainty. In France, the political instability and fiscal drift of the past two years have led to a prolonged bout of uncertainty. This has caused economic agents to postpone spending and investment decisions to some extent.

However, it is now primarily the international environment that is seeing a sharp rise in uncertainty. The United States' criticism of multilateralism is being accompanied by heightened geopolitical and trade tensions.

Between the start of D. Trump's second term in office and 1 April, US customs duties already rose markedly, driven by higher levies on China (+20 percentage points), on the fraction of Canadian and Mexican imports not covered by the

Chart 5 **Contributions to the change in market sector real wages in France**

(annual % change, contributions in percentage points)

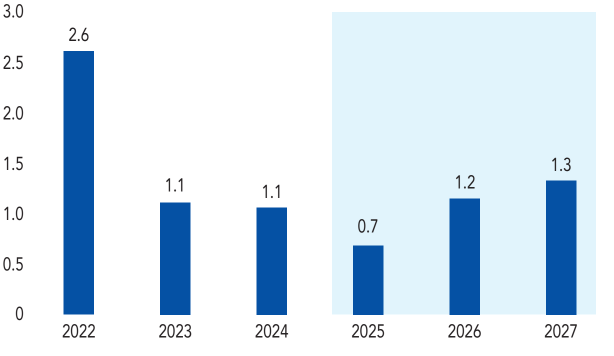


Sources: Eurostat and INSEE (up to 2024), Banque de France (March 2025 projections in blue-shaded area).

Note: The average wage per employee and real wages are adjusted for the job retention scheme.

Chart 6 **GDP growth in France**

(annual average % change)



Sources: INSEE (up to Q4 2024), Banque de France (March 2025 projections in blue-shaded area).

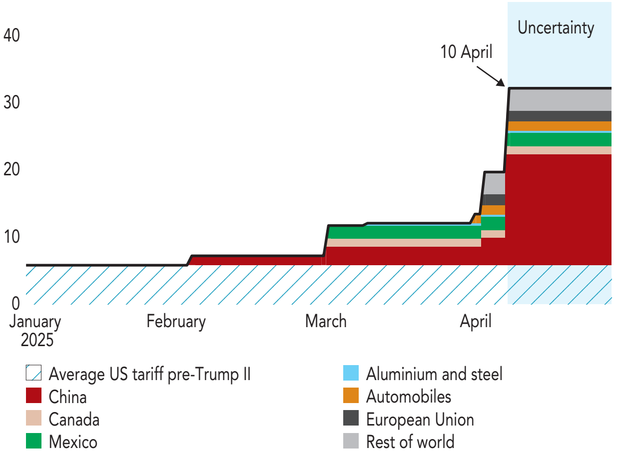
USMCA agreement (+25 percentage points),[5] on all steel and aluminium imports (+25 percentage points), on vehicle imports (since 3 April), and on auto part imports (+25 percentage points from the start of May, *see Chart 7*). These "product" measures will affect the European Union (EU) in particular, raising the cost of its goods exports to the United States.

On 2 April, **D. Trump crossed a new threshold of protectionism**, with the announcement of a baseline 10% levy on 185 countries from 5 April, followed by country-specific tariff hikes from 9 April. For the EU, a 20% tariff on imports of all European goods was announced. Given the EU's weight in US imports, this measure would raise average customs duties by around 3 percentage points.

However, on 9 April, the country-specific rises were paused for 90 days and only the universal 10 percentage point hike has been maintained. China is still being specifically targeted with the application of another major tariff hike, taking the total rise in bilateral tariffs since Trump's inauguration to around 125 percentage points. There is still considerable uncertainty over how US customs duties will effectively evolve in the future.

Chart 7 Average customs duty levied in the United States and contributions by country and by product

(average tariff in %; contributions in percentage points)



Sources: TDM database (imports), Peterson Institute for International Economics – PIIE (customs duties); Banque de France calculations based on data available as at 10 April 2025.

Note: The average tariff pre-Trump II is constructed using the structure of imports in 2017, while changes are constructed using the structure of imports in 2023.

A significant worsening of the economic outlook

If they are actually applied after the 90-day pause, the measures announced on 2 April will constitute the biggest rise in protectionism in recent history – US customs duties will reach their highest level since the 1930s – and will be a major negative shock to the global economic outlook.

But the protectionist shock will primarily have a much larger adverse effect on US growth, as it will prompt a sharp jump in inflation in 2025 and probably retaliation from those countries worst-hit by the tariff hikes. According to convergent analyses from several banks, the United States could be facing a scenario of stagflation in 2025, with an average estimated loss of around one percentage point in annual growth and a similar-sized rise in underlying inflation. Although the studies vary in the calibration of the trade shocks and how the scenarios are constructed, the risks to the American economy appear very firmly tilted to the downside.

The shock will also affect European growth *(see Box 1)*. According to preliminary assessments, there should be a direct negative impact of at least a quarter of a percentage point on euro area GDP growth in 2025. However, if the 90-day pause on reciprocal tariffs announced on 9 April is made permanent (limiting the rise to 10 percentage points for the EU), the direct impact could be significantly mitigated. The effect is expected to vary widely across countries and sectors, depending on their degree of exposure, and should be comparatively smaller in France. The effect on inflation remains uncertain and could be very weak or even negative. Import prices should be dragged lower by slower global growth and an associated fall in oil prices, and by a potential re-routing to the EU of exports from countries particularly hard-hit by the US measures (China and other countries in Asia), whose export prices are predicted to fall amid excess capacity. The upside risks to euro area inflation are less certain at this stage, as the euro exchange rate has not fallen since the announcements of 2 and 9 April.

The EU has to respond, and responsibility for this falls to the European Commission. The least economically harmful option would be to bring America to the negotiating table and then de-escalate the situation – which is what seems to be taking shape since 9 April – rather than setting off a spiral of tariff hikes. This could mean rapidly coming up with a series of retaliatory measures, but deferring their application. **It is also in Europe's interests to maintain open trade ties with a maximum number of partners, from Latin America to Asia: increasing the number of balanced free trade agreements is a strategic priority.**

However, China clearly remains a special case, due to government production subsidies, which are creating massive excess capacity in certain sectors that needs to be exported.

A very negative reaction in financial markets

US asset markets have corrected sharply. After registering record gains, the S&P 500 shed some 14% between its peak of 19 February and 10 April, in a sign that investors are jittery about the way D. Trump is implementing his economic policies and their potential effects. The announcements of 2 April have exacerbated those fears, leading US 2-year Treasury yields to drop sharply from the very next day (-40 basis points between 19 February and 10 April, to 3.86%) on the back of a decline in real rates (-28 basis points). The tariff measures also pose a short-term upside risk to US consumer prices, as reflected in the stark rise in 1-year market expectations to 3.28% on 10 April, which is 35 basis points higher than at the start of March.

After appreciating after the US elections last November, the dollar exchange rate has given up all of these gains since mid-January, both in "effective" terms – i.e. against the weighted average of other currencies – and against the euro. Its depreciation against the main currencies, including the euro, has intensified since the 2 April announcements (the euro has gained some 7% against the dollar between 19 February and 10 April). The announcement of the US tariff hikes should, in theory, have pushed the value of the dollar upwards to offset the inflationary impact of higher import prices. Yet this has not been the case. One possible explanation is that the inflationary concerns are being outweighed by fears of a drop in US growth. This would account for why markets are expecting the Fed to continue its monetary policy easing.

In the current climate of strong geopolitical and trade uncertainty, the dollar is also not benefiting from its traditional status as a safe-haven asset, unlike gold and the Swiss currency. The recent measures could start to erode long-term confidence in the greenback's status as an international reserve currency.

Over the same period, concerns over the tariff measures have affected European financial markets. The Euro Stoxx 50 has retreated by over 12%, wiping out all of the gains since the start of the year (-1.5%). Worries over European activity are being reflected in European long-term market rates, but to a much more moderate extent than in the United States: German 10-year Bund yields have fallen by over 32 basis points since 11 March, reflecting long-term inflation expectations and real rates.

The economic uncertainty caused by the trade tensions is thus affecting financial stability. There are two types of risk. First, the exacerbation of vulnerabilities in the real economy, especially for the most indebted agents, could increase financial institutions' credit risk. Second, the spike in volatility is intensifying market and liquidity risk. These risks have indeed materialised in the US Treasuries market, where volatility has been exceptionally high and has spilled over into all markets. The volatility has been fuelled by uncertainty over the US economic outlook and by the partial unwinding of some highly leveraged positions.

Against this backdrop, the Banque de France and the ECB stand ready to safeguard the financing of the economy and the stability of the financial system. In light of the current uncertainty, the solidity of the French banking and insurance industry will be a key factor for absorbing potential shocks.

Since the presidential elections, the United States has announced a major scaling back of regulation that risks making the financial sector more vulnerable at a time when markets are already being rocked, and could sow the seeds of the next financial crises. Europe must take care to avoid excessive deregulation, although it does need to take steps to simplify existing rules *(see section 2.4)*.

Box 1

THE EFFECT ON EUROPE OF TRADE TENSIONS: NEGATIVE IMPACT ON ACTIVITY, LIMITED IMPACT ON INFLATION

Following the announcements of 2 April and then the decision to impose a 90-day pause on 9 April, there is still considerable uncertainty about future developments in global trade policy. However, at this stage, the announced rise in US customs duties on European Union (EU) goods is expected to make our exports more expensive for American consumers. As a result, it should have a direct impact on the volume of EU goods exported to the United States, and hence on growth in European countries, including in France.

Under the scenario announced on 2 April, with a universal rise in customs duties for all US trade partners, a 20 percentage point hike in levies on EU imports in the second quarter of 2025 could reduce euro area gross domestic product (GDP) by at least a quarter of a percentage point over the full year. These figures are based on the assumption that tariffs are kept in place over the long term, and incorporate a re-rerouting of trade from and to the euro area. However, following the new announcements on 9 April, if the 90-day pause on reciprocal tariffs were to become permanent (resulting in a limited rise of 10 percentage points for the EU), the direct impact would be considerably attenuated.

Whatever the ultimate size of the tariff hikes, several factors could mitigate the negative impact on the euro area. The bloc could become more competitive than China if the US continues to levy higher tariffs on Chinese goods. Moreover, existing and future trade treaties between the EU and other economies (JEFTA,[1] CETA,[2] Mercosur[3]-EU) could provide more of a cushion against the tariff shocks caused by US trade policy.

A retaliation against the tariffs by all countries would affect the European economy, but would be even worse for the United States. Our initial analyses suggest that a proportional response of an immediate 20 percentage point tariff hike in the second quarter of 2025 would have a limited impact on the euro area. However, the hit to US growth would be stronger, at around -1.5 percentage points in the first year. A proportional response strategy targeting consumer goods (and excluding inputs and investment goods) could therefore be justified, to preserve the EU's credibility and ultimately discourage additional measures.

This initial analysis is nonetheless subject to considerable uncertainties regarding: the intensity and horizon of individual country's retaliatory measures; possible adjustments to the announced tariffs (bilateral agreements, US response to retaliation); amplifier effects via transmission channels such as exchange rates; and risks of financial dislocation and instability linked to threats to global growth.

The impact on the French economy would be qualitatively similar but quantitatively smaller. France's goods export exposure to the US market (1.7% of French GDP) is around 40% smaller than that of the EU as a whole (2.8% of EU GDP, *see chart below*).

The impact on European inflation and GDP would also depend on how the value of the euro changed against the dollar and the European response to higher customs duties:

- A depreciation of the dollar against the euro, as observed since 2 April, lowers import prices.
- The inflationary effect of European retaliation would vary depending on whether the tariffs targeted products that could be easily substituted by households, and whether US exporters were willing to squeeze their margins.

1 Japan-EU Free Trade Agreement.

2 Comprehensive Economic and Trade Agreement, a free trade agreement between Canada and the European Union.

3 South American free trade zone for goods, comprising Argentina, Brazil, Paraguay, Uruguay and Bolivia.

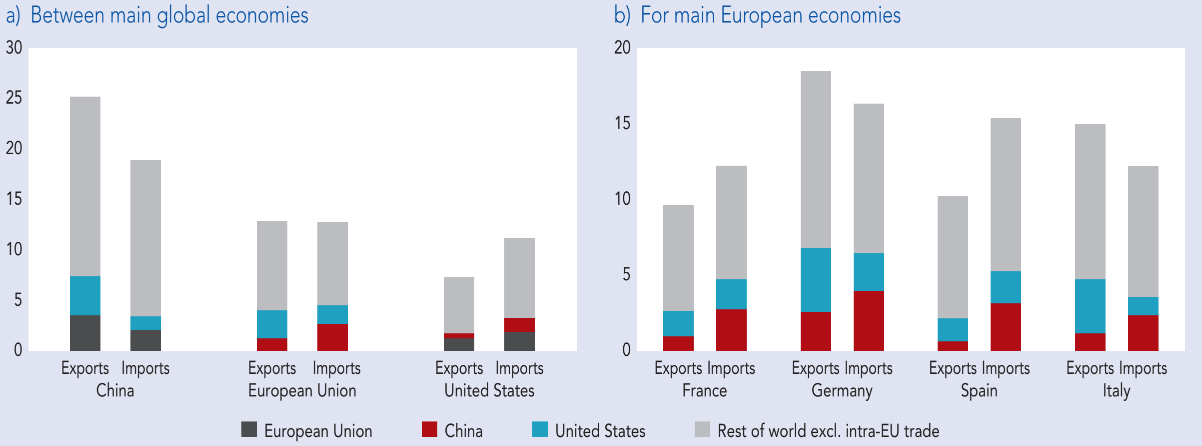
…/…

- However, other factors could have a downward impact on European inflation. For example, the re-routing of a larger share of Chinese exports to Europe would negatively affect European inflation and growth.

Overall, therefore, the risks to inflation appear relatively balanced and probably fairly small. The hiking of tariffs on European products would therefore have a smaller effect on inflation in Europe than in the United States.

Trade exposures

(% of GDP)



Sources: Banque de France calculations, Trade Data Monitor (World Bank for GDP).
Note: 2023 data.
Scope: Trade in goods.

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On the upside, in response to the US shift, Germany is planning a fiscal stimulus package, consisting of EUR 500 billion of infrastructure investment over 12 years to get rid of its lag in transport, power networks and the energy transition. It is also expected to raise its military expenditure to 3.5% of GDP (from the current 2%), thanks to a targeted easing of its constitutional debt break. This historic change of heart on the part of Germany means it will use the fiscal headroom it had built up since the 2009-11 financial crisis. It changes things for the better for both Germany and Europe, provided industrial output increases as much as the financing: it is just as important to avoid inflationary bottlenecks as it is to prevent a persistent reliance on purchases of US weapons. According to preliminary estimates, the additional public spending could add between 0.1 and 0.3 percentage point to euro area growth over the coming years, depending on the structure of the spending commitments and the pace at which the funds are disbursed. The impact on inflation is expected to be very limited. However, these estimates are surrounded in considerable uncertainty as we still lack precise details of how the measures will be applied.

2

An urgent general mobilisation to regain control of our economic destiny

In the current environment, without a profound shake-up, the French economy risks slipping into further decline. Yet the solutions for regaining control of our economic destiny exist and are well-known. It is urgent now that we act, using our European commitment to launch a general mobilisation on four fronts: cementing our monetary sovereignty; taking back our fiscal sovereignty; collectively working more and better in France to boost our growth; and leveraging Europe's economic strengths. If there is one good thing to come out of America's policy shift, it is that, paradoxically, it has set the stage for "Europe's awakening". This must be the time for European economic sovereignty.

2.1 Cementing our monetary sovereignty

Fortunately, the euro is a decisive advantage, built patiently over more than 25 years. The ECB key rate is now close to the range of estimates for the neutral rate, which marks the boundary between a restrictive and an accommodative monetary policy stance. This is a marker and not necessarily the terminal rate. We remain determined to ensure that inflation stabilises durably at around 2%, and will work towards this target with agile pragmatism. "Pragmatism" by basing ourselves on observed growth and inflation data, as well as on our forecasts; in a more uncertain environment, tracing out a precise future policy direction ("forward guidance") would be fanciful. "Agile" because, once the 2% inflation target has been met, it is our duty to support Europe's fragile growth. The risks to inflation appear balanced, with an upside risk from customs duties, and a downside one from weak demand, commodity prices and recent moves in exchange rates.

Overall, there is still room for more cuts to key rates, but the pace and size of these remain an open question. In the face of the current uncertainty, the Eurosystem will make sure to keep inflation anchored at 2%. But our monetary sovereignty now has two additional dimensions: a technological one and an external one.

Europe needs a strategy for the innovative and rapidly digitalising payments sector, to help reduce frictions and offer reliable solutions to rival the many private, crypto-asset-based projects that are emerging. The issuance of a **digital euro** as a complement to cash would guarantee greater European sovereignty in a payments ecosystem dominated by non-European players *(see Box 2)*, while at the same time preserving the link between citizens and central bank money.

Box 2

THE DIGITAL EURO

The trend towards digitalisation in the European economy is leaving everyday payments increasingly reliant on non-European players, notably international networks – which accounted for 72% of euro area card payments in the second quarter of 2023[1] – and big techs.

Cash use is declining in France, with only 43% of point-of-sale purchases made in banknotes and coins in 2024, compared with 68% in 2016.[2] The trend is being amplified by online commerce, which accounted for 25% of all purchases in 2024.

The surge in stablecoins – generally pegged to the US dollar – and other forms of crypto-asset raises the risk that our money will become "privatised" or "de-Europeanised". On 23 January 2025, Donald Trump issued an executive order[3] suspending and prohibiting all projects for central bank digital currencies.[4] Instead, he is encouraging the development of crypto-assets, especially stablecoins, for which he is planning a harmonised regulatory framework. In the absence of a European alternative, these developments could lead to an overreliance on private, non-European issuers.

1 Cipollone (P.) (2025), "The role of the digital euro in digital payments and finance", contribution, 28 February.

2 Banque de France (2025), "French people still value cash, despite using it less and increasingly turning to cards and mobile payments", *Banque de France Bulletin*, No. 256/1, January-February.

3 The White House (2025), "Strengthening American leadership in digital financial technology", 23 January.

4 The ban concerns retail central bank digital currencies. The United States Federal Reserve is continuing to participate in experiments, including at the international level, on the issuance of a wholesale central bank digital currency.

…/…

The issuance of a "digital banknote +" would offer an additional option to cash without replacing it; it would transpose the features of cash to the digital world, while also remaining anchored to central bank money. As well as providing the highest standards of privacy, a digital euro would guarantee Europe's strategic autonomy thanks to its native European infrastructure, and increase the region's payments integration. It would also encourage more competition in the fees charged to merchants, which doubled between 2018 and 2022.[5]

The digital euro would be created via a public-private partnership, notably with commercial banks. The latter would be responsible for all aspects of distribution, including account-holding and customer relations. The Eurosystem is working closely with market participants on the design of the digital euro, to maximise synergies with existing private solutions – such as the French *Cartes Bancaires* network and the mobile payment solution, Wero.

5 Cipollone (P.) (2024), "Monetary sovereignty in the digital age: the case for a digital euro", speech, 27 September.

Private solutions such as Wero – developed as part of the European Payments Initiative (EPI) – can also carry out secure instant payments from account to account. Its aim of building an interoperable European network is a response to the imperative of financial sovereignty. Interlinking the Eurosystem's instant payment system (TIPS) with those in emerging economies would also be a major boost for our international influence.

Regarding a wholesale digital euro, the strategy could take the form of a phased transition towards a wholesale central bank digital currency (CBDC) that would be exchanged on a European shared ledger. The idea would be to support the trend towards the tokenisation of finance while still providing a central bank money anchor, thereby reconciling innovation and stability.

Geopolitical tensions are threatening to increase the fragmentation of the international monetary system. In this context, supporting and developing the international role of the euro is an important lever for strengthening our strategic autonomy, facilitating the financing of our economy, and making the investments needed in defence, and the digital and ecological transitions.[6] Although the euro is the second most important currency in the world – its share in the indicators monitored by the ECB is around 20%[7] – the US dollar remains predominant. Moreover, global foreign exchange reserves are continuing to diversify into other currencies, such as the Chinese renminbi and the Australian and Canadian dollars. The combined share of these currencies in global reserves was 23% in the third quarter of 2024. Our single currency has the potential to play a key role as an international reference currency. A more integrated and deeper European financial market, thanks to a Savings and Investments Union, would be a decisive contribution to this *(see page 20)*.

2.2 Taking back our fiscal sovereignty

A longstanding problem that has recently got worse

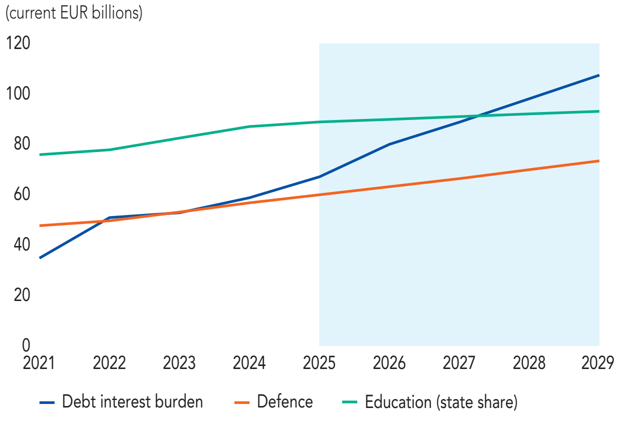
Our public finances have been steadily deteriorating for over 40 years. In 1984, our public debt amounted to just 30% of GDP; today, it has almost quadrupled to 113% of GDP in 2024, 25 percentage points above the euro area average (88%).[8] France is also one of the few countries where the public debt ratio is still rising. The deterioration is tending to push up long-term interest rates, either to balance out savings and investment, or because of the fiscal uncertainty. Yet for monetary policy to be effective, fiscal policy needs to be both predictable and sustainable.

France's "chronic illness" is nothing new, but it has now exceeded several critical thresholds. A lot of French people are now worried about it, which is causing them to over-save. In two years' time, our debt interest burden – an expense inherited from the past – will be as large as the national education budget, which is an investment in our future par excellence *(see Chart 8)*. Moreover, the fiscal drift of 2023 and 2024 has widened the spread between French and German bond yields from 0.5% to 0.8%, and sharply narrowed the spread versus Italy from 0.8% to 0.5% *(see Chart 9)* – although the latter has tended to widen since the shock of 2 April.

The main cause of this illness is well-known: public spending is growing faster than government revenues. This "non-congruence" generates systematic structural primary deficits, which are fuelling the increase in the debt ratio. France's public spending ratio – around 57% of GDP in 2023[9] – is 9.1 percentage points higher than the average in neighbouring countries, reflecting an "efficiency gap" of around EUR 260 billion *(see Chart 10)*, even though we share the same European social model – one that is rightly supported by a majority of French people.

The gap has become particularly wide in social protection spending[10] – which accounted for over half of the disparity, or 6.3 percentage points, in 2022 – and in local government spending *(see Chart 11)*. Since 2000, the sharp rise in public spending (+4.5 percentage points of GDP) has been driven by strong growth in local government and social security expenditure.

Chart 8 **Debt interest burden, defence and education budgets**

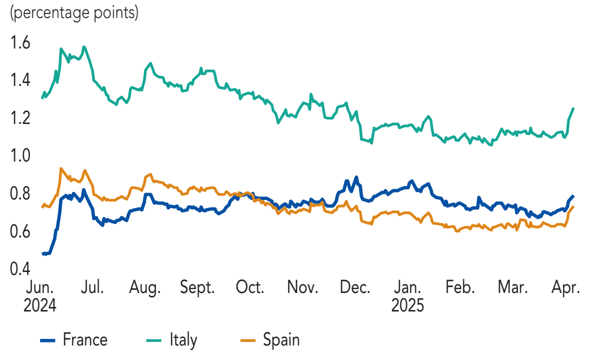


Sources: INSEE, opinion of the High Council for Public Finances on the 2025 amended draft budget law, 2025-29 medium-term fiscal and structural plan (MTP), 2021-25 budget laws, 2023 Act on Military Programming (AMP); Banque de France calculations.

Notes: Payment credits for defence follow the trajectory defined in the 2023 AMP as of 2026.

Payment credits for school teaching are assumed to follow the trajectory for primary expenditure set out in the 2025-29 MTP as of 2026.

Chart 9 **Yield spread between 10-year government bonds and 10-year Bund**

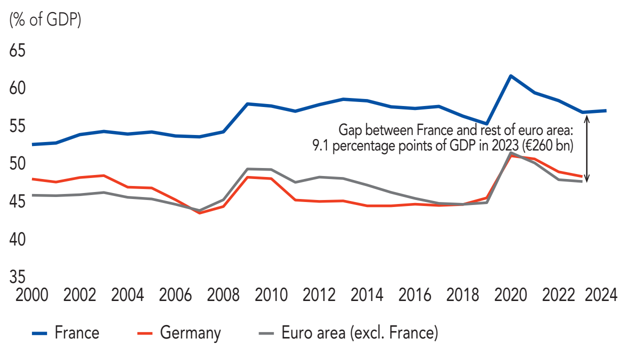


Sources: Bloomberg, Banque de France calculations.

Notes: The Bund is a German government bond.

Last data point: 7 April 2025.

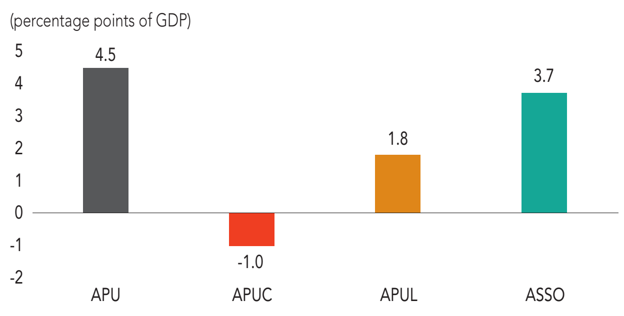
Chart 10 **Public expenditure in the euro area**



Sources: INSEE, Eurostat; Banque de France calculations.

Note: Last data point 2024 for France, 2023 for Germany and euro area.

Chart 11 **Change in public expenditure by sub-sector from 2000 to 2024**



Sources: Eurostat, INSEE, draft 2025 budget law amended for 2024; Banque de France calculations.

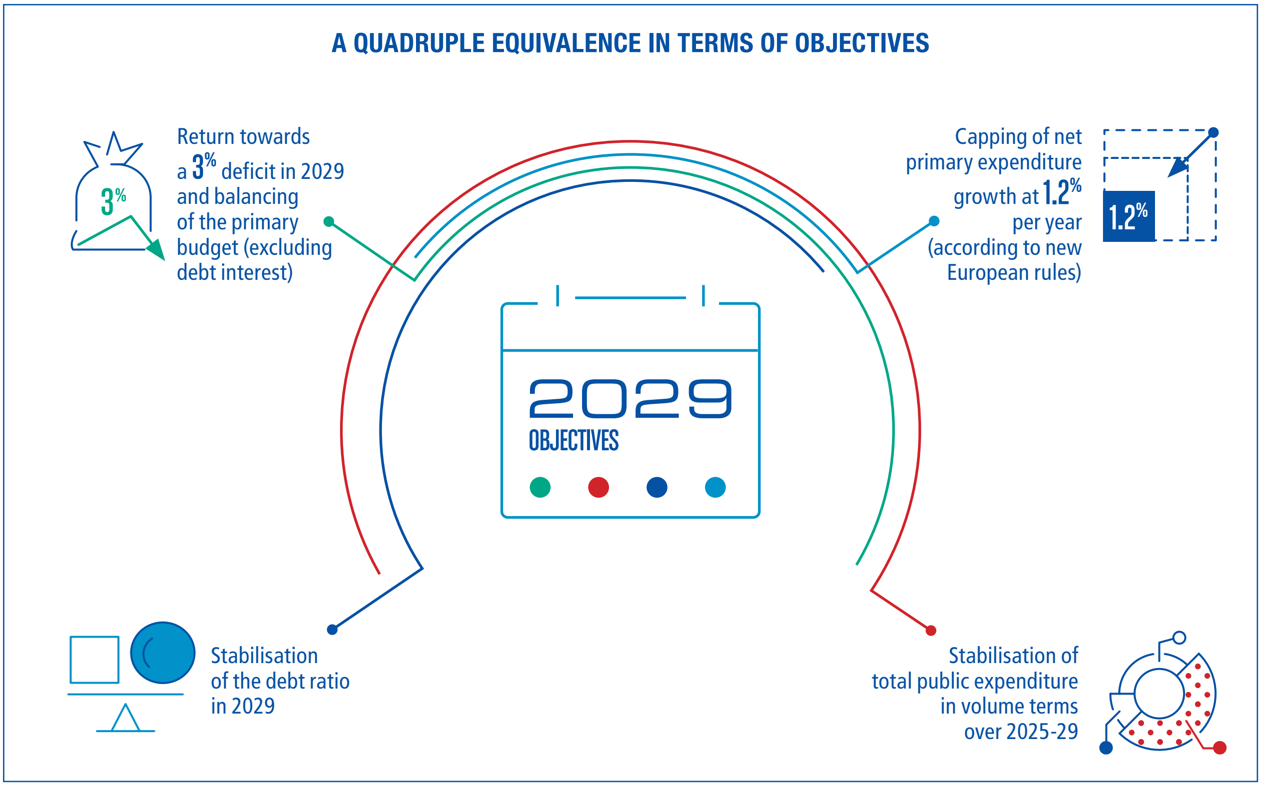
Notes: Public expenditure consolidated for transfers between sub-sectors.
APU, general government administrations; APUC, central government administrations; APUL, local government administrations; ASSO, social security funds.
APU = APUC + APUL + ASSO.

The imperative of a medium-term strategy where the burden is shared fairly

The seriousness of our fiscal situation has at least one silver lining: our country no longer has to choose between consolidating public finances and growth. Reducing the fiscal and tax uncertainty that weighs on businesses and households is an essential condition for trust and therefore growth. It is also a condition for maintaining our sovereignty: our country cannot become overreliant on ratings agencies and international markets.

Consolidating our finances is possible, if we share the burden fairly to reach two targets. The government has committed to narrowing the deficit to 5.4% of GDP this year. This commitment must remain our target, and, whatever happens, we need to keep spending strictly below the planned thresholds: we could temporarily allow the automatic stabilisers to kick in **if** there is ultimately less growth and hence lower revenues, but additional spending would be ineffective in stimulating the economy and unjustified. We then need to narrow the deficit to well below 5% in 2026. The exceptional challenges we need to tackle could justify keeping certain tax measures in place for longer – especially given the announced loss of EUR 10.5 billion of exceptional revenues in 2025 – but this time, the majority of the adjustment should be on the spending side.

The other fundamental target is medium-term: we need to bring our public deficit down towards 3% of GDP by 2029. This is the commitment made to our European partners, but it is also, above all, a deficit target that will balance our primary account (i.e. *excluding the debt interest burden*), and hence allow us to stabilise and then start paying down our public debt from 2029 onwards. We can achieve this goal if we meet our European commitments on controlling public expenditure: we need to limit the rise in primary expenditure (excluding the debt interest burden and any tax measures) to 1.2% per year in value terms between now and 2029, which equates to stabilising our total expenditure in volume terms. We therefore have a "quadruple equivalence" in terms of objectives.



A defence spending effort, on top of that already set out in the Act on Military Programming or AMP (increase in annual expenditure from EUR 50 billion in 2025 to EUR 68 billion in 2030), could be justified given the threat, but it has to be properly financed. The amount should be assessed not just in light of our needs, but also with regard to our weapons production and recruitment capacities, as these will only increase gradually. It must not be a return to a "whatever it takes" approach. There are two key considerations in this regard:

- For the additional spending only, France could ask for the Stability and Growth Pact rules to be waived. But this would not alter the reality of its debt and deficits, and it is not in our financial interest, unless we want to put off controlling our public debt even further.
- **If** the additional effort is within a framework of close European integration of industrial supplies and military operations, there could be grounds for shared European borrowing (as in 2020 after the Covid outbreak) which would not increase our national debt. But France cannot use this as an excuse for offloading its fiscal problem onto Europe.

If, on the other hand, the defence effort comes after 2030 – in the subsequent AMP – the action to stabilise our total spending will have to be extended for an equivalent amount of time. Whatever happens, this stabilisation needs to start now, without delay.

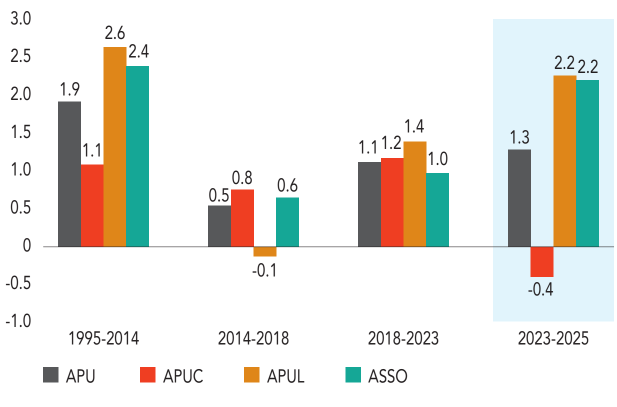
The stabilisation is ambitious in light of past trends, but not impossible. Between 2014 and 2018, France succeeded in limiting growth in total spending in volume terms to 0.5% per year *(see Chart 12)*, notably by controlling local government and social protection spending. This illustrates one essential condition, which the urgent circumstances prevented us from meeting in the 2025 budget: **the efforts to control expenditure need to be extended to all public administrations – including social security and local government administrations**, whose expenditure is continuing to rise by 2% a year in volume terms. They must not be concentrated solely on the state budget, which only accounts for 36% of total expenditure, even though the state bears the brunt of the public deficit due to the numerous transfers it makes to local government administrations – which the *Cour des Comptes* estimated at EUR 150 billion for 2023[11] – and social security funds.

2.3 Collectively working more and better

Over the past 25 years, there has been a worrying widening of the gap in productivity per hour worked (Y/H) between the main European economies and the United States *(see Chart 13)*.

Chart 12 Change in public expenditure by sub-sector, in volume

(annual average % change)

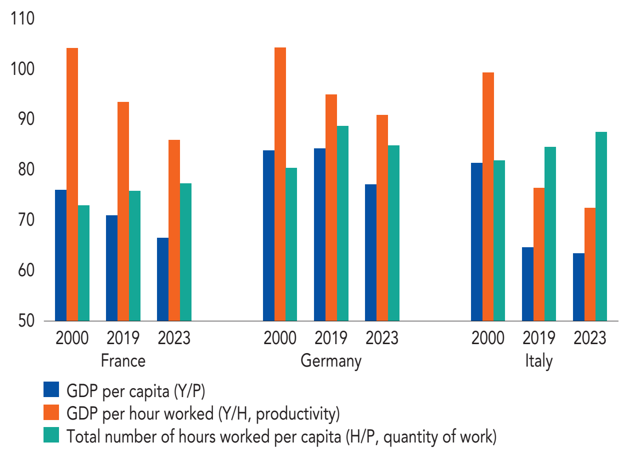


Sources: Eurostat, INSEE, projections from the amended 2025 draft budget law in blue-shaded area; Banque de France calculations.

Notes: Consolidated public expenditure adjusted for the GDP deflator.
APU, general government administrations; APUC, central government administrations; APUL, local government administrations; ASSO, social security funds.
APU = APUC + APUL + ASSO.

Chart 13 GDP per capita and GDP per hour worked as a % of US level

(United States = 100)



Sources: Ameco database; calculations by Bunel et al. (2025).

Note: Y/P, Y/H and H/P are expressed as a percentage of levels in the United States. Y is GDP at constant prices and purchasing power parity (2015 = 100). H is the total number of hours worked by the working population. P is the total population.

In 2000, France, Germany and Italy were at least as productive as the United States in hourly terms, whereas in 2023, the productivity gap stood at 14% for France. Conversely, in terms of the quantity of labour – the number of hours worked per capita (H/P) – the gap with the United States has narrowed, but France is lagging significantly, not just behind the United States, but also behind Germany and Italy.

The situation therefore calls for us to work collectively more and better in France to raise our potential growth. Together, and under a favourable scenario, these two levers could boost our potential growth from around 1% to 1.5% by 2030. Through more collective labour, we can make it at least half of the way to 1.5%: gradually aligning the employment rate for young people (15-24 year-olds) and seniors (55-64 year-olds) with German levels would translate into an additional 0.25 percentage point of potential growth per year on this trajectory. A similar-sized boost – the other half of the journey – could be gained by improving our productivity, notably through the dissemination of artificial intelligence and implementation of European reforms *(see section 2.4)*.

The transformation of work

It is important to remember one positive fact: the key to our prosperity is our labour, and it is therefore in our hands. This is the first lever for boosting French growth. Admittedly, the labour market has grown remarkably over the past decade, and there have never been as many French people in work (30.6 million). The same is true of the number of hours worked. Our country has created a net 2.2 million jobs in ten years, 1.1 million of these in the five years since the Covid outbreak. However, since 2024, the labour market has been feeling the lagged effect of the activity slowdown, and the partial recovery of the productivity lost after the health crisis. The unemployment rate is expected to peak at between 7.5% and 8% in 2025 and 2026, before decreasing again thanks to the recovery in activity *(see Chart 14)*.

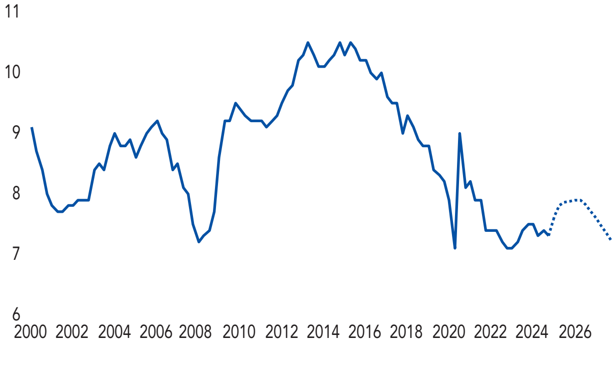
But despite this clear progress, France is far from achieving full employment – conventionally estimated at a 5% unemployment rate – and our employment rate (69%) is lower than in neighbouring countries, especially in two age brackets: young people (15-24 year-olds) and seniors (55-64 year-olds, *see Chart 15*).

For **young people**, the expansion of apprenticeships has been a success, creating 320,000 jobs since 2020.[12] Two years after leaving education, the employment rate for young French people who finished school at 18 is 15 percentage points lower than in Germany.[13] Steps should therefore be taken to target apprenticeship support, by adapting grants to the level of educational attainment.

The *quantitative* gaps observed in the French labour market can partly be explained by a *qualitative* lag, and the sharp drop

Chart 14 Unemployment rate

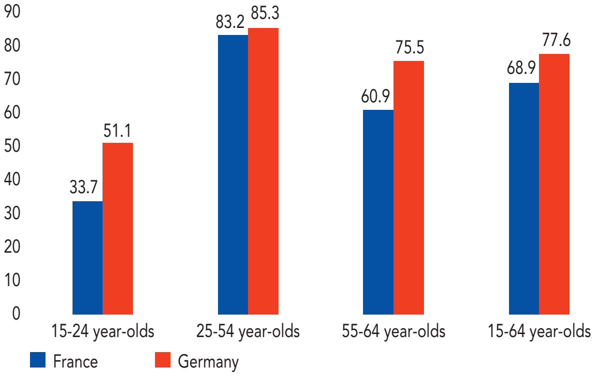
(ILO, % of labour force, mainland France and overseas departments)



Sources: INSEE (up to Q4 2024), Banque de France (dotted line shows March 2025 projections).

Chart 15 Employment rate by age group in France and Germany

(% of age group)



Source: Eurostat.
Note: Q4 2024 data.

in educational attainment in France over the past decades, especially in mathematics,[14] even though France spends at least the OECD average in this area.[15] In a context of high, unmet demand for candidates with a background in science, technology, engineering and mathematics (STEM subjects),[16] this may have hampered our capacity for innovation[17] and contributed to the slowdown in French productivity growth. Improving initial and professional training must therefore be an absolute priority.

Although the employment rate for **seniors** has risen by 21 percentage points since 2003, to 60.9%, it remains well below the figure for Germany (75.5%). The difference is mainly due to the over-60s, who tend to retire earlier in France than in Germany: in 2023 the average effective retirement age in France was 62.4, compared with 64.4 in Germany. The 2023 pension reform was supposed to eliminate some of this lag.

Yet, as a share of GDP, our spending on pensions was 2.7 percentage points higher than the euro area average (excluding France) in 2023. In financial terms, the *Cour des Comptes* has confirmed the extent of the deficit in our system: it should remain stable at around EUR 7 billion until 2030, provided the 2023 reform is ramped up, and is then forecast to widen significantly, to EUR 15 billion (adjusted for inflation) in 2035, and EUR 30 billion in 2045.[18] This situation is unsustainable, both for our public finances *(see section 2.2)* and for the sake of intergenerational fairness. Yet our country has a harder time accepting pension reforms than elsewhere in Europe. Sweden is one of a number of positive examples:[19] its pension system adjusts more easily to demographic and economic changes – gradually, transparently and flexibly. This is also true of the Agirc-Arrco supplementary pension scheme managed by social partners – proof that social dialogue works in our country.

It seems difficult today to envisage an increase in compulsory contributions to our pension system, given that France already has one of Europe's highest tax ratios (43.2% of GDP in 2023). We therefore need to target different spending levers in our current social dialogue. Wealthier pensioners could also be asked to make an additional sacrifice, bearing in mind that, for almost 30 years, French pensioners have enjoyed better average living standards than the overall population, in contrast with the situation in neighbouring countries. A small portion of funded retirement saving could gradually be developed, although this would do nothing to solve the initial financing problems. Businesses must also do their bit to increase the employment of seniors.

Beyond collective enrichment *through* work, we must find a way to enrich *work itself*. The hugely popular adoption of remote working, strong demand for autonomy and professional mobility, as well as a real desire for a sense of purpose in work, are all positive signs. It is wrong to claim that "the French" or "young people" "no longer want to work", when more of them than ever before are doing so.

Working better: productivity and the dissemination of artificial intelligence

It is not enough simply to increase the number of hours worked, we also need to increase the productivity of each hour worked, in line with the United States which has done this much better than we have since 2000.[20] Artificial intelligence (AI) is a second lever for growth. Its spread will make it possible to automate tasks carried out by humans in goods and services production – although to what extent is still a subject for debate[21] – and help to boost productivity over the coming decade.

Current research gives a wide range of estimates for the impact of AI on potential growth in advanced economies over the next decade, ranging from 1.3 percentage points per year for the most optimistic to 0.07 percentage point for the most pessimistic.[22] On top of this significant transitory effect, AI could also have a permanent positive effect on productivity – albeit one that is difficult to quantify – by increasing our ability to generate new ideas, provided an excessive concentration of players does not deter new innovative firms from entering the market.[23] Developing AI-dedicated infrastructure should therefore be high on our list of priorities, to make France and Europe more attractive. Moreover, the proposed idea of a "European Artificial Intelligence Community"[24] could encourage the emergence of European players.

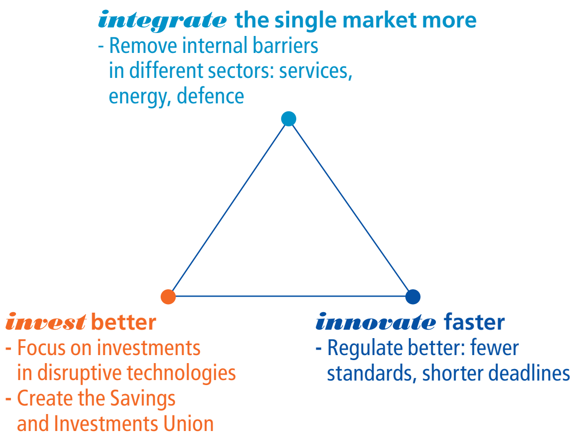
2.4 Leveraging Europe's strengths

A growth gap has opened up between Europe and the United States, with GDP per capita rising by a cumulative 46% between 1999 and 2024 in America, compared with 30% in the euro area and 26% in France. Over a third (36%) of France's lag versus the United States in terms of GDP per capita is estimated to be attributable to lower hourly productivity.[25]

This disappointing performance can essentially be explained by a productivity lag in digitally intensive industries. This observation is consistent with the economic literature (Aghion et al., 2024[26]; Bergeaud, 2024[27]), which highlights a growing gap between the euro area and the United States in innovation and investment in disruptive technologies, with European firms investing half as much as their US counterparts in research and development (R&D), as a share of GDP.

Europe cannot change US economic policy, but it can beef up its own policy. The Letta and Draghi reports in 2024, and the European Commission's "Competitiveness Compass" in February 2025, are remarkably in alignment over the structural reforms needed, at no fiscal cost. There are three imperatives – 3 i's – for building up Europe's economic muscle.

3 IMPERATIVES FOR BEEFING UP THE EUROPEAN ECONOMY



Integrate the single market more

Measured at purchasing power parity, our single market is as large as the United States, with EU GDP amounting to USD 27,089 billion in 2023, compared with USD 27,720 billion in America.[28] Yet it is less attractive because it is too fragmented. Removing 10% of our internal barriers would generate substantial gains, of around 7% of GDP, which would benefit all EU countries.[29] The Letta report[30] recommends reducing the persistent fragmentation in several sectors that have so far escaped European integration: services, telecommunications and the energy sector.

Since the start of 2022, a lot has been done to diversify our energy sources and reform European energy markets, but there are still 27 separate energy policies. Yet our continent is a leader in low carbon solutions, and it is crucial that we increase their use – both of renewable **and** nuclear energy – and develop shared cross-border capacities and networks. Having ambitious green targets[31] can be a benefit for both our competitiveness and our strategic autonomy.

We also need to have a genuine European competition policy, and work strategically by targeting sectors rather than individual firms. This will help to foster the emergence of European champions.

Invest better

The EU requires substantial financing to meet its long-term challenges. According to the Draghi report,[32] we need to invest an additional EUR 750 billion to EUR 800 billion per year up to 2030, or between 4.4% and 4.7% of European GDP, to remain competitive in sectors related to the environmental transition (EUR 450 billion), the digital transition (EUR 150 billion) and innovation (between EUR 100 billion and EUR 150 billion).

Public investment is a scarce resource, and must be kept close to its long-term level of 20% of total investment. It also needs to concentrate on defence and a few key sectors to get rid of our lag. In this respect, in France, the national and European long-term investment programmes (NextGenerationEU, France 2030, France Relance) would also benefit from being better coordinated and focused.

In Europe, too much private investment goes towards existing sectors, and not enough to innovative sectors – a phenomenon known as the "middle technology trap" highlighted by Jean Tirole, among others. In the United States, high-tech industries account for 85% of private R&D. In the EU, by contrast, some 50% of private R&D investment[33] still goes towards middle technology sectors, such as the automotive industry.

To stimulate private investment, we have an abundant resource: European private financial savings, representing a rolling annual flow of EUR 1,080 billion in the third quarter of 2024, and exceeding the amount of investment by EUR 430 billion over the same period. To succeed, we need to foster a genuine Savings and Investments Union (SIU).

Several levers can be activated within the framework of the SIU.[34] The priority is to increase equity financing, which amounts to 215% of GDP for US non-financial corporations, compared with 88% in the euro area *(see Chart 16)*. The EU is also lagging clearly behind in venture capital funding, with the amounts raised between 2013 and 2023 totalling just 0.07% of GDP, compared with 0.36% of GDP in the

United States *(see Chart 17)*. Institutional investors could be brought on board, taking inspiration from the French Tibi or German WIN[35] initiatives, but scaled up to a European level. Pan-European funds could be developed, with a new version of the European Tech Champions Initiative (ETCI), open to private investors.

At the same time, we should also deepen capital market integration by introducing Europe-wide supervision – by ESMA,[36] in coordination with national authorities – of systemically important cross-border players such as European crypto-asset platforms[37] and market infrastructures.

Innovate faster

To innovate faster, Europe needs to simplify, stripping back bureaucracy and adding more incentives. In recent years, the number of regulations has grown twice as fast in Europe as in the United States.[38] Sixty per cent of European small and medium-sized enterprises (SMEs) cite regulatory issues as a barrier to investment.[39] Higher restructuring costs in Europe than in the United States are thought to be hindering risk-taking and the development of the European venture capital market.[40] In response, the EU "Competitiveness Compass", included in the February 2025 Omnibus Directive, proposes a 25% reduction in firms' reporting obligations and a 35% reduction for SMEs. The creation of a "28th scheme" of voluntary membership for innovative firms could also foster harmonisation in several areas, such as business law and insolvencies.

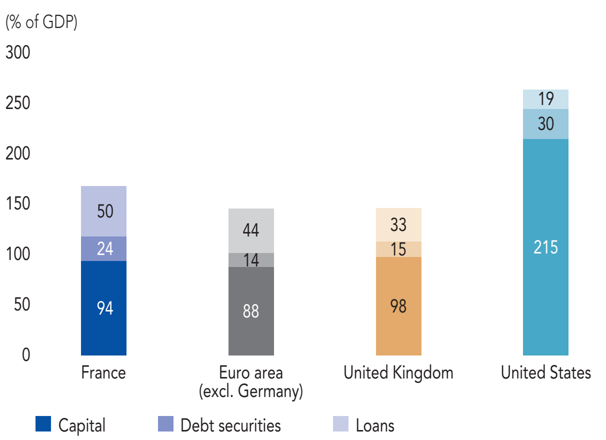
Financial sector regulation could also be simplified.[41] In response to the temptations voiced across the Atlantic, let us be clear: simplification is not deregulation. On the contrary, it means regulating more effectively: fewer standards but better implementation to make them more effective. The recent Omnibus Directive is a welcome move towards lightening the regulatory load on climate change. However, we will have to make sure we maintain high standards regarding financial stability and the environment. Conversely, the US delay in transposing Basel III for banks, and the lack of rules for non-banks – including asset managers and hedge funds – and crypto-assets risk sowing the seeds of another financial crisis. To protect ourselves, we need to maintain robust regulation and stringent supervision, but make them less complex.

Working with Europe to mobilise international coalitions

Multilateralism is experiencing an unprecedented crisis, especially with the US policy shift, at a time when strong, collective and concerted action is needed to preserve or provide essential – indeed existential – public goods.

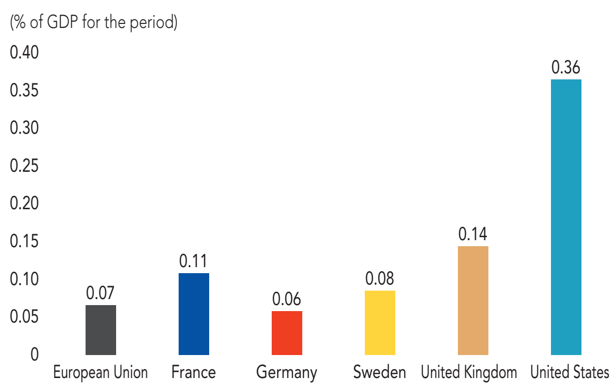
The G7 and G20 must be preserved as far as possible. We need to deploy a pragmatic multilateralism, focused on a reduced agenda of concrete deliverables: financial stability, cross-border payments and crypto-assets, non-banks and extreme climate events.

Chart 16 Non-financial corporation liabilities



Sources: Banque de France, ECB, OECD, US Federal Reserve (Fed).
Note: Q3 2024 data.

Chart 17 Total venture capital raised from 2013 to 2023



Sources: Invest Europe, National Venture Capital Association, IMF; Banque de France calculations.

"Coalitions of the willing" combining developed and emerging economies will doubtless need to be formed in parallel. The Network for Greening the Financial System (NGFS) has shown how effective this approach can be in fighting climate change. Created in 2017 by the Banque de France along with eight other central banks, the network has now grown to over 160 members and international observers.

Reaffirming the EU's environmental commitments is not incompatible with strengthening European competitiveness, as underlined by the Draghi report. Indeed, the Carbon Border Adjustment Mechanism (CBAM), which could be simplified if necessary, aims to level the playing field by charging a carbon price on imports from countries with more lenient environmental rules, without undermining the multilateral trade framework. It is currently being rolled out ahead of full application on 1 January 2026.

Europe is therefore not alone. In addition to the solid partnerships already forged, numerous countries hold similar positions to ours and have expressed a strong interest in closer ties. The coalition of the willing approach could be extended – first, for the purpose of preserving trade openness, with the EU developing trade agreements underpinned by fair rules *(see section 1.2)*. It could also be applied to international tax reform,[42] financial regulation, AI and development finance.

CONCLUSION

None of this will be easy, but the main elements are in our hands. America's policy shift is of course worrying, but it should make us realise that what unites us, as French and Europeans, is much more important than what divides us. Defending our values, safeguarding our social and environmental model for the 21st century, combining social justice and agile innovation... all of these are struggles that go beyond the economy, but that call for us to build up our economic might.

We have emerged from the acute inflation crisis, and central banks will do their bit to reduce the uncertainty. But America's new offensive calls for us to make more serious economic choices: either stupefaction or a general mobilisation. At the moment, our game is not yet up to the challenge. We cannot continue financing our current expenditure on credit; we must be prepared collectively to work more and better, and to make the necessary European reforms to boost our potential growth from 1% to 1.5% per year. We urgently need to shake off our air of economic nonchalance. And the mobilisation must be *general*: our response can only be collective, with a fair sharing of the burden and a decisive pace of action. Only on these firm conditions can France take back control of its economic destiny. And on these conditions, Europe can be not only an attractive model for the rest of the world, but also a balancing force in the face of America's retreat. If, and only if we want to, now is the time for us to come into our own. In the words of Albert Einstein, "we shall have the destiny we deserve".[43]

François Villeroy de Galhau

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GLOSSARY

Competitiveness

Capacity of a country to win export market shares or meet its domestic demand. It depends both on domestic production costs and on "non-cost" factors such as the quality of the country's goods and services.

Crypto-asset

Digital representation of a value or a right that can be transferred or stored electronically using distributed ledger technology (such as blockchain) or similar.

Customs tariff / duty

Tax levied on goods when they are imported into a country.

Debt interest burden

Interest paid by all government administrations on their debt.

Deflation

Decline in the general price level.

Disinflation

Decline in the rate of inflation (fall in the rate of growth of the average level of prices).

Employment rate

Share of the total working age population that is in work, expressed as a percentage.

Eurosystem

The European Central Bank and the national central banks of the countries that have adopted the euro.

Exchange rate (nominal)

Value of a country's currency relative to that of another country.

Governing Council

Main decision-making body of the European Central Bank. It is comprised of the six members of the Executive Board and the governors of the national central banks of the euro area countries.

Household disposable income

Share of household income available for consumption, investment or saving. It includes earned income net of social security contributions, unemployment benefit, retirement pensions, income from wealth, and social transfers and benefits, net of direct taxes.

Inflation expectations

Inflation rates expected by different categories of economic agents (households, business leaders, financial market participants) for different time horizons (1 year, 3 years, 5 years, 10 years, etc.).

Key interest rates

Interest rates set by the central bank of a country or monetary union. In the euro area, the European Central Bank sets three key interest rates: the deposit facility rate, the main refinancing operations rate, and the marginal lending facility rate.

Margin rate

A measure of the level of profitability of a company or sector. In national accounting, it is the ratio of gross operating surplus to value added.

Neutral rate

The theoretical interest rate at which monetary inflation neither accelerates nor slows.

Non-bank financial institutions

Entities operating outside the banking system that collect funds and grant loans.

Potential growth

The rate of growth of gross domestic product (GDP) that an economy can theoretically achieve by fully utilising its production capacity without creating inflationary pressures.

Primary expenditure

Government expenditure before interest payments on debt.

Purchasing power

The amount of goods and services that can be purchased with income; it therefore depends on both the level of income and the level of prices.

Real wages

These measure the purchasing power of nominal wages by adjusting the latter for the change in the general price level.

Stablecoin

Type of crypto-asset whose value is designed to remain stable relative to one or more assets, such as an official currency or basket of currencies.

Terminal rate

In the current context of central bank cuts to key rates, the terminal rate is the minimum rate that will be reached at the end of the monetary easing phase.

Tokenisation

The process of issuing and registering a financial or non-financial asset in the form a digital token, using distributed ledger technology such as blockchain.

Underlying inflation

A measure of inflation that shows the fundamental trend in price developments. It reflects the underlying changes in production costs and the match between supply and demand. Underlying inflation is therefore more appropriate for analysing inflationary pressures, as it is less affected by exogenous factors.

Unemployment rate

Share of the labour force (employed and unemployed active population) that is unemployed, expressed as a percentage.

Venture capital

Financing of the creation or development of a risky but high potential business.

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