



**“The French economy is facing a persistent energy shock”**

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**Interview with Emmanuel Moulin,  
Governor of the Banque de France**

**The Banque de France, where you have just taken over as Governor, has updated its forecasts for France. What is your new growth estimate for this year?**

Our baseline scenario forecasts growth of 0.5% in 2026, which is 0.4 percentage point lower than in our March projections. This scenario is based on an oil price of USD 112 in the second quarter and an average of USD 97 for the year. The negative surprise in the first quarter, marked by a 0.1% decline in economic activity, is weighing heavily on average annual growth. French growth is then expected to be 0.9% in 2027 and 1.2% in 2028.

Given the uncertainty, we have published several scenarios.

**Following the negative surprise of the first quarter, should we be concerned about a further fall in GDP this spring that could push France into recession?**

The first quarter was affected by exceptional factors, such as temporary problems in the aeronautics supply chains and a decline in household spending. These factors are not expected to last. France is therefore unlikely to experience a recession this spring. We forecast subdued growth in the second quarter, as the impact of the war in Iran, which began on 28 February, will be felt throughout the quarter. Our latest monthly business survey shows that May was a somewhat challenging month for industrial production and services, but business leaders expect activity to improve in June.

**Could the agreement between the United States and Iran, due to be signed on Friday, offer hope for a more favourable scenario?**

This agreement, which provides for the reopening of the Strait of Hormuz, is good news, but it marks the start of a 60-day period of negotiations on very sensitive issues, which calls for caution. A return to normality will take time. The Strait of Hormuz must be demined, the build-up of waiting ships must be cleared, production sites damaged by the war must be restored, strategic stocks must be replenished, and so on. We are facing a persistent energy shock.

**Does the persistent energy crisis therefore mean you are revising your inflation forecasts upwards?**

In France, inflation is expected to average 2.5% in 2026, which is 0.8 percentage point higher than the March forecast. According to our survey data, businesses are already starting to pass on rising energy costs to their selling prices, albeit to varying degrees across different sectors. Energy-intensive industries, as well as the air and road transport sectors, are the first to be hit.

**Are you concerned about second-round effects via wages?**

For the time being, there are few such effects, as wage negotiations were finalised before the war in the Middle East started. However, the national minimum wage (SMIC), which is indexed to inflation, already rose by 2.4% on 1 June, which will lead to an increase in sectoral minimum wages. The impact on other wages is likely to occur with a lag. We expect a catch-up in wages but not a wage-price inflation spiral.

**To what extent can we trust economic models? All central banks have got it very wrong in the post-Covid period...**

The post-Covid period has been marked by an unprecedented succession of shocks. First, the shock caused by the pandemic, which led to a historic fall in GDP. Then came a very strong rebound, immediately followed by an inflationary shock, which was also linked to Russia's invasion of Ukraine. This succession of shocks makes it difficult for models to forecast growth and inflation. We have no certainty regarding the price of oil, but its transmission to the economy is now more predictable.

**In this context of sluggish growth, is the government's target of reducing the deficit from 5.1% to 5% of GDP this year achievable?**

Weaker growth makes things more difficult, but it is important that France meets its commitments. We estimate that, in the absence of additional cost-cutting measures, the public deficit would increase slightly to 5.2% of GDP in 2026, following a marked improvement in 2025. In response to rising fuel costs, the government has decided to take highly targeted support measures, with a fiscal cost ten times lower than during the energy shock following the invasion of Ukraine. This approach helps to limit the impact on public finances, and the 5% deficit target remains within reach.

**France has started to repay the low- or negative-yield bonds issued during the Covid pandemic, whilst borrowing on terms that are now far less favourable. At what point might this rise in borrowing costs become dangerous?**

According to our forecasts, public debt will continue to rise to 122% of GDP by 2028, in contrast to the rest of the euro area (90% on average). The goal of reducing the deficit to 3% of GDP by 2029 – the threshold required to begin reducing debt – should be a matter of broad consensus amongst France's political forces. Otherwise, rising debt-servicing costs risk wiping out all our fiscal room for manoeuvre.

**The budget debate for 2027 promises to be complicated this autumn, in the midst of the presidential campaign. Does this worry you?**

It would be desirable that political forces in the French National Assembly agree on a budget adopted in a timely manner, one that reflects a certain degree of fiscal consolidation. France's international credibility, as well as the confidence of consumers and business leaders, is at stake. I do not believe we can operate under a special stopgap budget law for six months. Passing a budget for 2027 this year would allow us to navigate the presidential election period calmly, as this will certainly be followed by an amending budget.

**Aren't you concerned that France's credibility on the markets might be undermined?**

Anything we do to lend credibility to our fiscal path and reverse the debt trend will be beneficial. But at present, there is neither a loss of interest nor a decline in demand for French debt. It remains highly liquid and enjoys strong demand from foreign investors. This is evidenced by the high subscription rates at auctions. There is indeed less « real money» [long-term investors such as insurance companies and pension funds, Ed.] and more speculative funds such as hedge funds, which may constitute a short-term vulnerability. But the attractiveness of French debt depends above all on the credibility of our path to fiscal consolidation.

**Last Thursday, you took part in your first meeting of the ECB's Governing Council. What stood out for you about that experience?**

I had met a number of members of the Governing Council when I was Director General of the Treasury. I was struck by the professionalism of the discussions and the quality of the presentations, which enable us to make decisions informed by a wealth of data. There is also a genuine shared sense of European identity around the table, as well as a great deal of respect amongst the participants, whether they come from a small or a large country. And there is a genuine desire on the part of the President to reach a consensus.

**No one can deny the energy shock, but the second-round effects on inflation have not yet strongly materialised. And growth, too, has been weakened. Was this rate increase really justified?**

We have implemented a necessary but cautious increase. The deposit rate has been raised from 2% to 2.25%. And we remain committed to our approach of taking decisions on a meeting-by-meeting basis, according to the changes in economic data. My stance is data-driven and grounded in our mandate: I have no preconceived bias, whether "hawkish" – restrictive – or "dovish" – accommodative.

And whilst there was unanimity on the rate increase, there was also a consensus that we were not announcing a new cycle of rate rises.

This modest monetary policy tightening is considered appropriate across all scenarios. There are other factors holding back growth: obviously the energy crisis, but also structural factors which cause European growth to be weaker than in other parts of the world. Unfortunately, monetary policy cannot address these issues.

**To what extent did the fear of falling “behind the curve” – that is, of reacting too late to inflation – influence the ECB’s decision?**

There are in fact two pitfalls: acting too late, and f taking a decision which would need to be reconsidered shortly afterwards. It is therefore important to base our decisions on sound data.

I have heard some criticism of our decision to raise interest rates, mainly in France, but it has not been the dominant view in Europe. Our decision has been well understood by the markets.

**Several members of the ECB had been calling so strongly for a rate increase that the Bank would have risked its reputation by opting for the status quo last Thursday... Did the ECB not, in fact, leave itself with no choice but to implement a rate increase last Thursday?**

That is not why the decision was taken. This rate increase was decided on the basis of the economic situation and the fact that inflation is projected to exceed our 2% target over our projection horizon.

**As Governor, what are your priorities for the Banque de France?**

I will continue along the path set by my predecessor and within the framework of our strategic plan. In addition to monetary policy, another major challenge is European monetary sovereignty. We are experiencing a genuine revolution in both payments and currency, with a risk of currency privatisation and a loss of the anchor to a central bank currency. Yet this anchor is a key factor in citizens’ confidence in the currency.

The Banque de France, whose history stretches back more than two centuries, must remain at the forefront of innovation. It is involved in numerous projects relating to the tokenisation of finance and central bank digital currencies, and it is at the forefront of work on the digital euro. It must continue to draw on its regional network to engage with the public, explain economic issues, support businesses and fulfil its mission of financial inclusion.