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France’s potential growth following the Covid crisis

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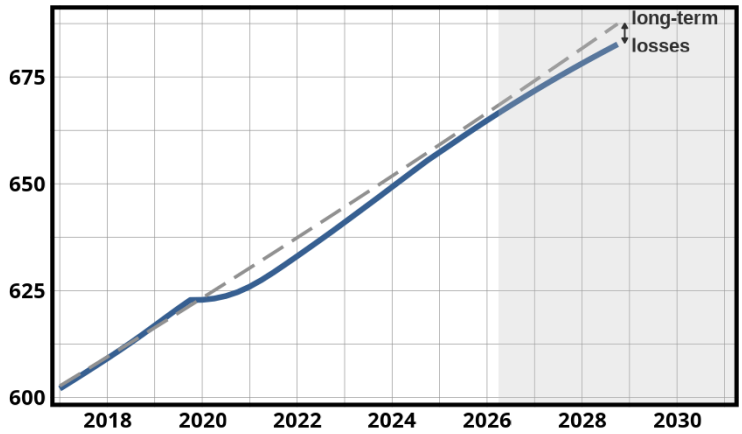
France’s potential GDP still bears slight negative effects of the Covid crisis in level terms, but it is estimated to have returned to its pre-crisis growth rate by the end of 2025. These effects are deemed to result from long-term productivity losses, partly offset by greater labour force participation. Over the coming years, potential growth is expected to decline slightly due to demographic factors.

Chart 1: Potential GDP as estimated by the Banque de France and its pre-Covid trend



Note: estimates as at June 2026; quarterly potential GDP in billions of euro (chain-linked volumes, 2020 base). The dotted line represents the log-linear trend in potential GDP estimated over the period Q1 2010–Q4 2019.

Potential GDP is an estimate of an economy’s maximum output free from any strains on the factors of production and, ultimately, without inflationary pressures. Such pressures arise if, for example, the demand for goods and services from businesses is too high in relation to their production capacity, which may encourage businesses to raise their prices. This effect can be exacerbated if businesses seek to recruit new staff while the labour market is already tight, as this can lead to higher wages, which would then be passed on to consumer prices, particularly in the services sector.

Potential growth corresponds to the growth in potential GDP. The link with inflation explains why central banks take an interest in this variable: the deviation between GDP and potential GDP, known as the “output gap”, is a leading indicator of possible domestic inflationary or deflationary pressures.

Because it is by nature unobservable, potential GDP must be estimated. This can be done using various approaches. Most commonly, it is constructed by assuming a “production function” that links GDP to the factors of production, i.e. the stock of productive capital (means of production), the total number of hours worked, and the productivity of these factors. The latter reflects the

efficiency with which capital and labour are utilised. In particular, productivity increases with technical progress, labour skills, improvements in work organisation, or the quality of infrastructure.

Potential GDP is calculated by applying the production function to the stock of capital (generated by productive investment and net of obsolete equipment), to the total number of hours worked, adjusted for fluctuations due to the business cycle and to trend productivity gains. To extract the "potential" trajectories of hours worked and productivity, statistical filters are used that can break down a time series into a trend component (which, by definition, constitutes its potential level) and a cyclical component. By contrast, the stock of capital, which is naturally akin to a trend variable insofar as it reflects the accumulation of past investment, enters the production function directly without any filtering.

The Banque de France applies a production function only when estimating the potential value added of the French economy's market sectors. The potential level of the non-market share of GDP, which includes the value added of non-market services (education, healthcare, general government, etc.) as well as taxes on goods (VAT, fuel, tobacco, etc.), is treated separately. The potential market and non-market components are then aggregated to form potential GDP.

Slight, long-term losses in level terms, but a return to the pre-Covid growth rate

In recent years, France's potential GDP has been estimated at slightly below its pre-Covid trajectory. While its growth rate is thought to be broadly similar to that which would have prevailed without Covid, the post-Covid trajectory remains, on the whole, approximately 0.7% lower than that corresponding to an extrapolation of its pre-Covid trend (see Chart 1). The bulk of this gap (0.5 percentage point) is likely to stem from the non-market component of potential GDP.

The remainder of the gap (0.2 percentage point) probably corresponds to the contribution from the market sectors. This small decline can be explained by two opposing factors: on the one hand, a marked increase in the labour force and in market sector employment since 2022, which is estimated to have raised the level of potential market sector labour by around 2.6% compared with its pre-Covid trend. On the other hand, a 2.7% decline in potential market sector productivity (see Table 1), which is itself partly linked to the strong growth in employment (see Garnier and Zuber, 2023). Indeed, in addition to the large-scale recruitment of new apprentices observed since 2020, the new jobs are likely to have benefited people who were sometimes outside the labour market or low-skilled. The creation of new jobs, which on average are less productive than pre-existing ones, is thus considered to have weighed on the aggregate productivity of the market sectors through a labour composition effect.

Other factors behind the long-term decline in market productivity include the negative effects of lockdowns (which hampered innovation, business dynamism and skills acquisition over prolonged periods). Lastly, our analysis highlights an unexplained residual of 0.3 percentage point. This could result from the rise in the share of labour-intensive – and therefore low-productivity – activities within the economy, or alternatively from the increase in the number of self-employed workers with short working hours.

Table 1: Causes of the decline in potential market sector productivity

Compared with the pre-Covid trend, in percentage points

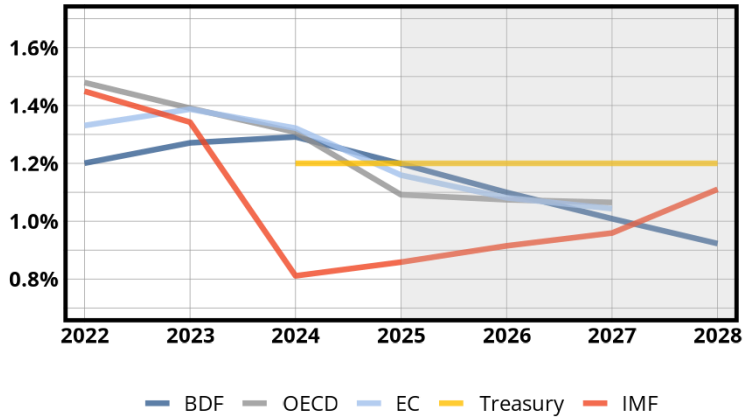
Labour composition effect	1,2
Increase in apprenticeships	0,8
Negative effects of the Covid crisis	0,4
Other unexplained persistent factors	0,3
Total	**2,7**

Notes: Estimates based on an update of our analysis of the causes of the decline in market sector productivity compared with the pre-Covid period on the quarterly national accounts data of 29 May 2026.

Potential growth is expected to decline due to demographic factors

Although their estimates for previous years sometimes differ due to variations in estimation methods, most institutions providing estimates of France's annual potential growth (the OECD, the IMF, the European Commission, the French Treasury and the Banque de France) expect it to be between 0.9% and 1.2% for the years 2026–28 (see Chart 2).

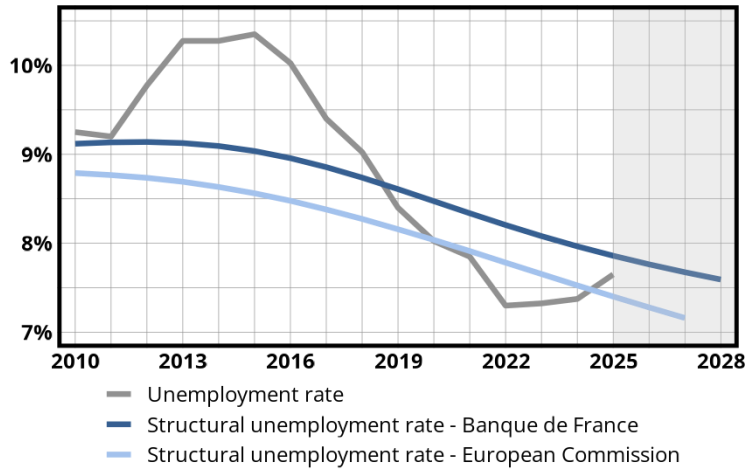
Chart 2: Main estimates of potential growth for France



Sources: AMECO May 2026 (European Commission), Economic Outlook December 2025 (OECD), World Economic Outlook April 2026 (IMF), RESF 2026 (French Treasury), June 2026 macroeconomic projections (Banque de France).

According to our estimates for this period, which are based on the June 2026 macroeconomic projections of the Banque de France, total factor productivity is expected to account for half of potential growth, and capital and labour for approximately one-quarter each. The contribution of labour is likely to decline due to demographic factors. Indeed, despite an expected upward trend in the labour force participation rate, and following years of strong growth, the labour force is projected to grow at a historically low rate, owing to sluggish growth in the working-age population. The decrease in the structural unemployment rate, which began as early as 2015 (see Chart 3) and is largely the result of recent structural reforms, is deemed insufficient to offset this effect of the ageing of the French population.

Chart 3: Main estimates of the French structural unemployment rate



Sources: INSEE, European Commission (AMECO May 2026), Banque de France

Considerable uncertainty surrounds these estimates of potential growth for the coming years. Certain factors could provide greater support for growth, in particular the development of artificial intelligence. However, this assumes that France is capable of fostering the emergence of leading national AI players and that businesses adopt it widely in a way that boosts their productivity without undermining employment (as suggested, for certain sectors, by recent studies such as Aghion et al., 2025). Conversely, other factors, such as geopolitical fragmentation hindering the development of efficient value chains, could reduce growth.