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FRANCE

France's unrest adds to an already toxic economic mix

Violence and disruption have already caused significant damage, but the ultimate hit to growth will depend on how long the unrest lasts and whether it causes a broader loss of confidence. For France, the timing could hardly have been worse



France remains in a difficult position with weak growth, budgetary concerns and higher interest rates all weighing on economic activity

Since 17 October, France has experienced a wave of violence, looting and property damage, with images of the unrest circulating widely around the world. Initially driven by protests involving secondary school and university students, the movement quickly gathered broader demands around purchasing power, public services and the cost of living.

From material damage to lost activity

Initial estimates already point to significant material damage. As of 20 October, France's network of chambers of commerce estimated that more than 2,000 businesses had been directly affected since 17 October, with the provisional bill running into several hundred million euros. For comparison, the urban unrest of summer 2023 cost insurers more than €790 million, compared with €256 million for the entire Yellow Vest movement. An initial estimate from Morningstar puts the insured cost of the current unrest of at most €1.2 billion, equivalent to around 0.04% of French nominal GDP. These figures remain highly preliminary.

Insured losses are also only the visible part of the economic cost. The Cazeneuve-Lescure parliamentary report on the 2018 Yellow Vest movement estimated turnover losses of around €2 billion for shopping centres and close to €850 million for hotels, cafés and restaurants, compared with €217 million paid out by insurers for property damage. Indirect costs arising from closures, lower footfall and permanently lost sales therefore far exceeded the insured damage.

Even this broader economic bill should not be treated as an equivalent loss of GDP. GDP measures a flow of production, whereas the destruction of buildings, vehicles, shop windows and inventories is primarily a loss of wealth. Repairs generate activity that is recorded in GDP, although this does not make the destruction economically beneficial: resources are being used simply to restore what existed before.

The impact on GDP, therefore, depends mainly on how much economic activity is permanently lost. For the Yellow Vest movement in autumn 2018, the French statistics office, INSEE, estimated that blockades, closures and disruption to retail, hotels, restaurants and transport may have reduced fourth-quarter 2018 GDP growth by around 0.1 percentage point. Some purchases of goods could be postponed and made later, but this was far less true for services such as a restaurant meal, a hotel night or a cancelled journey. As another point of reference, the strikes of December 1995 reduced quarterly GDP growth by an estimated 0.2 percentage point.

The protests against the pension reform in 2023 provide a more recent illustration of the potential for a rebound. According to the Banque de France, the social unrest of March and April 2023 reduced first-quarter 2023 GDP growth by around 0.1 percentage point. The subsequent recovery in production, particularly in refining and energy, then added around 0.1 percentage point to second-quarter 2023 growth. In that case, the initial negative impact was fully offset in the following quarter.

The bigger risk runs through confidence

While short-lived disruption can be recovered, a lasting loss of confidence can have a bigger impact. Images of violence can deter households from visiting city centres, encourage tourists to postpone their trips and lead businesses to delay investment.

An International Monetary Fund study covering 836 episodes of social unrest in 89 countries between 1990 and 2019 found that, following a standard increase in social unrest, GDP remained on average 0.2% below its baseline six quarters later. For larger episodes, the gap reached around 1% after six quarters.

The economic impact of the events that began on 17 October will therefore depend less on the value of the damage already recorded than on whether the disruption continues. If it remains brief and geographically concentrated, the macroeconomic effect may be limited even if the

losses for individual businesses are considerable. Repeated unrest, precautionary closures, disruption to transport and logistics, and a broader fall in confidence would make it much less likely that the lost activity is subsequently recovered. Further protests have already been called for 24 and 31 October, while a broader national day of strikes and demonstrations backed by several major unions is scheduled for 5 November. This increases the risk that the economic disruption will extend beyond a one-off shock.

The initial market reaction suggests that the confidence channel is already at work. The spread between ten-year French and German government bonds widened from 137 basis points on Friday to 153 basis points on 20 October, while French equities fell. The violence is clearly not the only factor behind these moves. Budgetary and political concerns were already weighing heavily on French assets. But the unrest adds another layer of uncertainty and reinforces the perception that any future government will find it difficult to deliver the reforms and savings required.

This further tightening in financial conditions will weigh on activity itself. Persistently higher interest rates gradually raise financing costs for the government, businesses and households. They discourage productive and residential investment and reinforce wait-and-see behaviour. The economic shock therefore no longer comes only through closed shops and lost days of activity. It also works through a higher cost of capital and weaker confidence.

Weak growth and a widening political constraint

These events further darken an economic outlook that was already unfavourable. We had expected French GDP growth of just 0.3% in 2026 and 0.6% in 2027. If the unrest continues, confidence deteriorates further or market tensions intensify, growth could be even weaker.

The situation also complicates an already very difficult fiscal equation. France's public deficit is expected to reach 5.4% of GDP in 2026. The government aims to bring it down to 5% in 2027, compared with around 6.5% in the absence of new measures. Yet the 5% target is based on GDP growth of 0.5% in 2026 and 1.0% in 2027, a very optimistic and unlikely scenario. This means that even full implementation of the draft budget will probably not be enough to deliver the targeted deficit reduction, as weaker growth would generate less tax revenue than the government assumes. The draft budget also faces difficult parliamentary negotiations, and the current unrest makes the adjustment being asked of the population even harder to accept politically.

The government has almost no room to respond to the protests through additional spending or tax cuts. Yet without concessions, it may also struggle to restore calm. Any attempt to ease the tensions through measures that further weaken the public finances could, in turn, increase investor concerns and push French borrowing costs higher. All in all, France has neither the fiscal room to buy social peace nor the political room to impose adjustment easily.

France is therefore caught in a particularly difficult circle. Weak growth worsens the fiscal position, budgetary concerns push interest rates higher, and tighter financial conditions weigh further on activity. At the same time, social unrest reduces the political capacity to implement the adjustments required. The combination of weak growth, strained public finances and political instability is likely to keep both the French economy and French markets under pressure in the coming months.

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