

France outlook report

Third quarter of 2024



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The objective of France's quarterly report is to provide a comprehensive and summarized overview of the main sectoral indicators of the country, classified by regulated industry, as well as the macroeconomic situation at the end of each quarter.

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1. International overview

Global growth remains stable, driven by recovery in both advanced and emerging economies, with moderate inflation supporting real income growth. Labour market pressure continue to ease, while unemployment remains mostly stable, majorly at or near historical lows.

Macroeconomic outlook

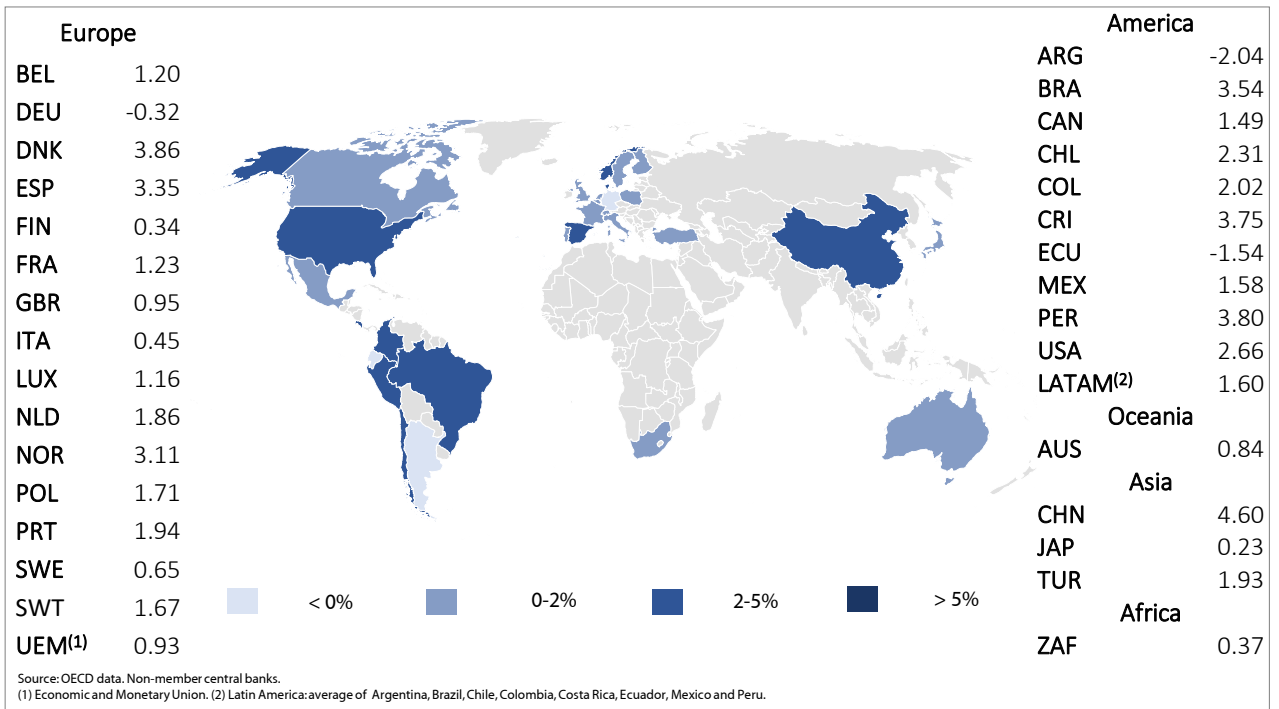
- ▶ In the third quarter, GDP in the eurozone grew by 0.93% year-on-year, continuing its upward trend. However, Germany continued its negative trend, recording negative growth of -0.32%. The average CPI in the eurozone continued to fall for another quarter, reflecting the effectiveness of the EU's current monetary policy. Only the Netherlands recorded an increase in its CPI compared to 3Q23. The average unemployment rate in the eurozone was 6.33%, down slightly from 6.40% in the previous quarter.
- ▶ In the third quarter of 2024, U.S. GDP grew by 2.66%, while Canada's year-over-year growth was 1.49%, still slightly up from the second quarter. Latin America's growth rate rose to 1.87%. Inflation in the U.S. decreased to 2.62% and in Canada to 2.04%. The average inflation rate in Latin America was 2.57%, excluding Argentina's high rate of 234.24%. Also in Latin America, the average unemployment rate was 5.88%, with a slowdown observed in Brazil (6.40%) and Peru (5.99%), both of which declined on a quarterly and annual basis. On the other hand, the unemployment rate increased in the United States and Canada, reaching 4.20% and 6.50%, respectively.
- ▶ In the Asia region, China recorded growth of 4.60% in the quarter, down from 4.90% in 3Q23. Japan recorded a GDP increase of 0.23% after two consecutive quarters of negative growth. Turkey's growth slowed down to 1.93%, continuing a downward trend since 1Q24 (6.70%). China's inflation rose to 0.48%, an increase both year-on-year and quarter-on-quarter. Turkey ended its upward trend, with inflation dropping by 18.18 p.p. quarter-on-quarter and by 2.11 p.p. Y-o-Y. Unemployment rates in China and Japan remained relatively stable compared to the previous quarter. In Turkey, however, the unemployment rate decreased by 0.53 p.p. compared to 3Q23.
- ▶ In the third quarter of 2024, South Africa's GDP growth rate increased by 0.87 p.p. compared to 3Q23, reaching a growth rate of 0.37%. Inflation continued to decline, falling by 0.78 p.p. year-on-year. The unemployment rate remained high at 32.10%. In Australia, GDP slowed down with a decline of 1.28 p.p. compared to 3Q23. The CPI continued its downward trend and stood at 2.81%, 2.56 p.p. lower than in 3Q23. Unemployment worsened significantly by 4.62 p.p. compared to 3Q23.
- ▶ According to the OECD, indicators point to a gradual moderation in the second half of the year after the strong growth in the first half. The services sector slowed down in July and August, but recovered in September. Similarly, retail trade grew by 5.1% in the first half of 2024, remained flat in July and August, and then picked up again in September. Industrial production followed a similar trend, showing robust growth in early 2024, but losing momentum in July and August.
- ▶ The IMF's growth projections show that emerging economies will remain stable, similar to advanced economies, which slowed in 2023. Global inflation is expected to decline, although disinflation will be faster in advanced economies than in developing ones.

Other indicators and key risks

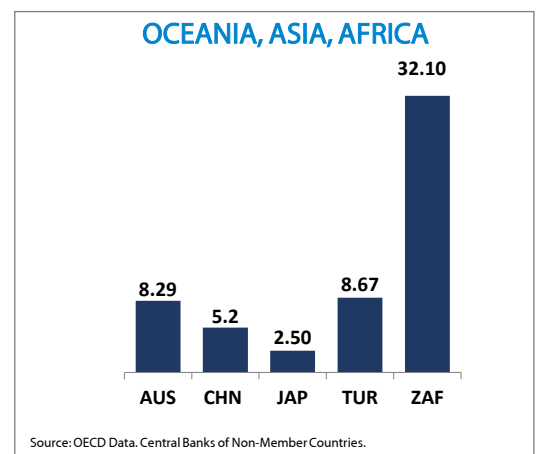
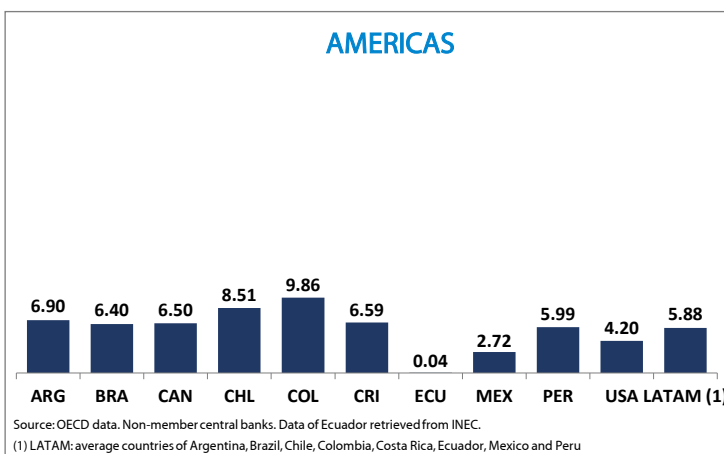
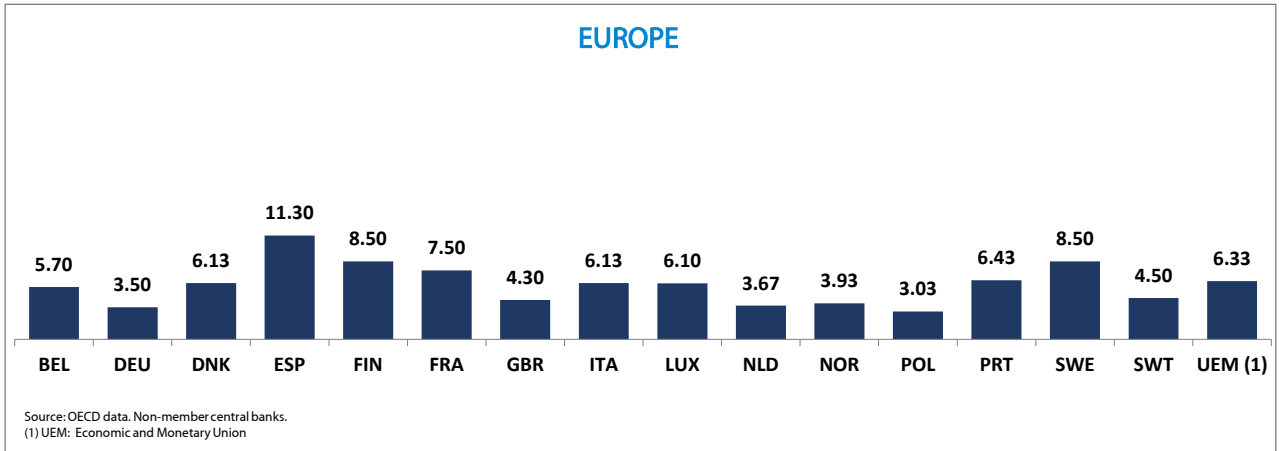
- ▶ The IMF highlights the importance of mitigating the disruption caused by exchange rate volatility. Differences in disinflation across countries lead to desynchronization of central bank policies, which may result in increased capital flows. The appreciation of the US dollar on the back of high-interest rate expectations could push up domestic prices in economies with higher import dependence and a larger share of dollar-denominated imports, potentially putting pressure on their financial sectors.
- ▶ OECD notes that global risks include geopolitical tensions, trade issues, and slower growth, but a recovery in real incomes could boost consumer confidence. Fiscal measures and structural reforms are crucial to ensuring sustainability and long-term growth.
- ▶ The OECD also warns that financial risks remain due to elevated debt levels, overvalued assets, and the deteriorating creditworthiness of some borrowers, particularly in the commercial real estate sector. In addition, the growing scope and interconnectedness of less regulated non-bank financial institutions increase the likelihood of adverse shocks spreading rapidly across different market segments.

(1) The average for Latam countries is based on macroeconomic data for Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru

GDP (% , year-on-year growth)

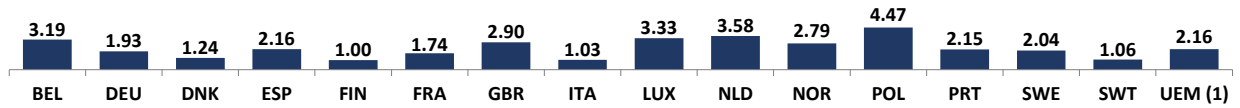


Unemployment rate (%)



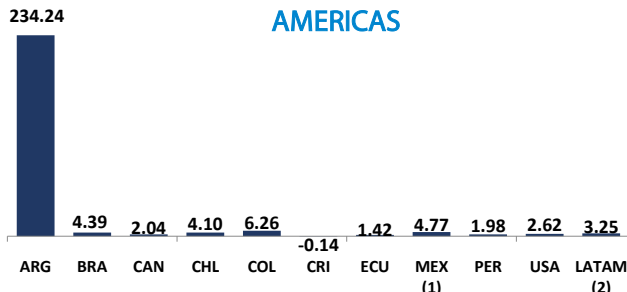
Inflation rate (%)

EUROPE



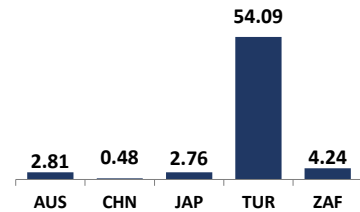
Source: OECD Data, Central Banks of Non-Member Countries.
(1) Monetary and Economic Union

AMERICAS



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries. Data of Ecuador retrieved from INEC.
(1) Data from 2Q24. 3Q24 data not available.
(2) LATAM: average of Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru

OCEANIA, ASIA, AFRICA



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries

Global Ratings and Exchange Rates

LONG-TERM RATES 3Q24

	MOODY'S	S&P	Fitch
EUROPE			
BEL	Aa3	AA	AA-
DEU	Aaa	AAA	AAA
DNK	Aaa	AAA	AAA
ESP	Baa1	A	A-
FIN	Aa1	AA+	AA+
FRA	Aa2	AA-	AA-
ITA	Baa3	BBB	BBB
LUX	Aaa	AAA	AAA
NLD	Aaa	AAA	AAA
NOR	Aaa	AAA	AAA
POL	A2	A-	A-
PRT	A3	A-	BBB+
GBR	Aa3	AA	AA-
SWE	Aaa	AAA	AAA
SWT	Aaa	AAA	AAA
AFRICA			
ZAF	Ba2	BB-	BB-
OCEANIA			
AUS	Aaa	AAA	AAA
ASIA			
CHN	A1	A+	A+
JAP	A1	A+	A
TUR	B1	BB- ▲	B
AMERICAS			
ARG	Ca	CCC	C
BRA	Ba1 ▲	BB	BB ▲
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	Ba3 ▲	BB-	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB-	BBB
USA	Aaa	AA+	AAA

▲ Increased from 2Q24 ▼ Decreased from 2Q24

Source: Investing

EXCHANGE RATES 3Q24 (\$¹)

EUROPE	3Q23	4Q23	1Q24	2Q24	3Q24	2024
EUR	0.92	0.93	0.92	0.93	0.91	0.92
CHF	1.13	1.13	1.14	0.90	0.87	0.88
DKK	6.85	6.93	6.87	6.93	6.79	6.90
NOK	10.48	10.81	10.51	10.75	10.70	10.75
SEK	10.81	10.65	10.39	10.68	10.42	10.58
GBP	0.79	0.81	0.79	0.79	0.77	0.78
PLN	4.14	4.10	3.99	3.99	3.90	3.99
AMERICAS	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ARG	334.66	443.71	833.91	885.25	940.59	913.54
BRL	4.89	4.96	4.95	5.21	5.55	5.36
CLP	839.20	895.36	945.96	933.72	903.11	943.76
COP	4,043.78	4,064.32	3,913.15	3,923.29	4,904.54	4,090.76
PER	3.66	3.77	3.74	3.73	3.47	3.76
MXN	17.06	17.54	16.97	17.23	18.93	18.30
AFRICA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ZAR	18.64	18.73	18.87	18.56	17.97	18.36
OCEANIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
AUS	1.53	1.54	1.52	1.52	1.49	1.51
ASIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
RMB	7.24	7.22	7.19	7.24	7.16	7.20
TRY	26.81	28.55	30.90	32.35	33.50	32.77

Source: Investing, OECD projections, December 2024.

(1) The base currency used is the U.S. dollar against each local currency quoted

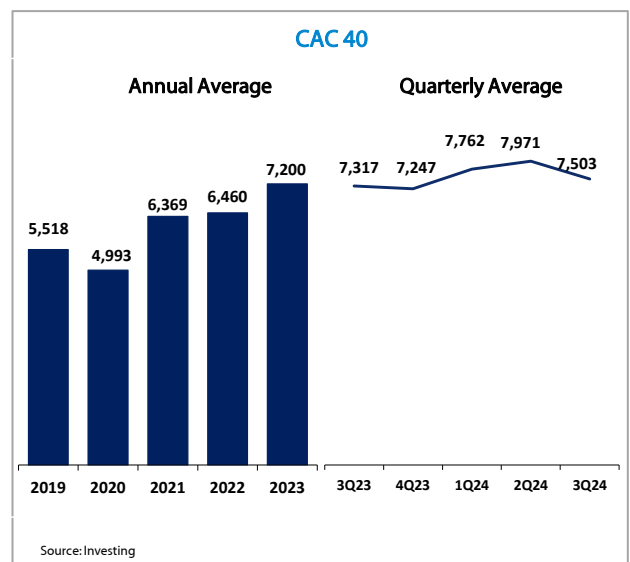
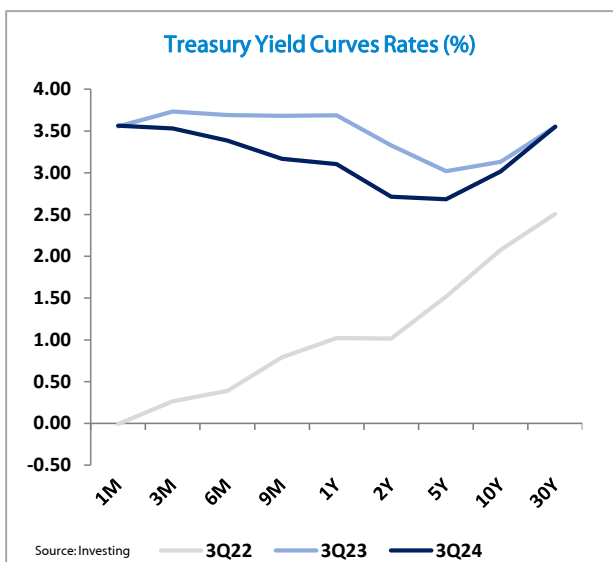
2. Macroeconomic view

France's economy is predicted to grow slightly in 2024, with growth expected to decrease to 0.9% in 2025. Energy price uncertainties, influenced by global geopolitical tensions, remain a concern. Additionally, monitoring central banks' interest rate policies is essential, as they directly impact consumption levels

Main Macroeconomic Indicators (%)									
ACTIVITY	3Q23	4Q23	1Q24	2Q24	3Q24	Var. p.p.2Q24	Var. p.p.3Q23	2024	2025
GDP	0.88	1.23	1.39	0.89	1.23	0.34	0.35	1.14	0.90
DOMESTIC DEMAND	-0.06	-0.24	-0.16	-0.16	0.22	0.38	0.28	0.07	0.65
HOUSEHOLD CONSUMPTION	0.44	0.98	0.94	0.89	0.97	0.08	0.53	0.83	1.16
PUBLIC CONSUMPTION	1.03	0.75	1.78	2.25	2.28	0.03	1.25	2.13	0.34
CAPITAL FORMATION	0.63	-0.65	-0.97	-1.64	-2.26	-0.62	-2.89	-1.73	-0.40
EXTERNAL DEMAND									
EXPORTS	1.32	1.49	3.56	0.95	1.12	0.17	-0.20	1.65	1.43
IMPORTS	-1.17	-2.77	-0.66	-2.28	-2.35	-0.07	-1.18	-1.43	0.67
INFLATION									
CPI	4.68	3.72	2.79	2.21	1.74	-0.47	-2.94	2.41	1.60
LABOUR MARKET									
UNEMPLOYMENT RATE	7.40	7.50	7.47	7.47	7.50	0.03	0.10	7.40	7.66
EMPLOYMENT ⁽¹⁾	1.07	0.83	0.68	0.56	0.40	-0.16	-0.67	1.82	0.28

(1) The employment variable represents the year-on-year change in employment growth. Source: quarterly data extracted from the Organization for Economic Cooperation and Development (OECD) as of December 9th, 2024. The series for the other quarters have also been updated to the database as of December 9th, 2024, to gain consistency. Projections OECD December 2024.

- ▶ The French economy is expected to grow around 1.14% in 2024. Due to a deterioration in conditions regarding the supply of energy, weaker growth in foreign demand, a negative trade balance, real disposable income will suffer throughout 2025 but is expected to improve in last quarter of 2024. On the other hand, household consumption seems likely to rise in 2024 and continue rising during 2025.
- ▶ From 2024 onwards, the French economy is expected to gradually recover due to foreign demand rising, a progressive improvement of the trade balance, price pressures from energy commodities diminishing, and the rate of inflation already falling.
- ▶ The labour market in France has remained stable, with unemployment rising slightly from its 2023 level, and employment growth decreasing quarter-to-quarter. This trend is expected to reverse in 2024 but may deteriorate in 2025.
- ▶ Lastly, government spending has gradually increased year-on-year and quarter to quarter, as the country rebounds from several years of low public investment. In 2025 forecasts expect a smaller growth rate of the public investment.



3. Banking sector

During 3Q24, year-on-year growth rates for total loans and total deposits declined. The efficiency ratio improved compared to 3Q23 and 2Q24. However, the NPL and coverage ratios worsened year-on-year, similar to the EU trend. Regarding solvency, CET 1, leverage ratio and LCR decreased compared to 3Q23 and the previous quarter. The ECB reduced interest rates by 0.60 p.p. compared to 2Q24.

BUSINESS ⁽¹⁾	BANKING SECTOR CONTEXT 3Q24 (%)				3Q24	Var p.p. 2Q24	Var p.p. 3Q23
	3Q23	4Q23	1Q24	2Q24			
TOTAL LOANS	1.94	1.10	0.53	0.50	0.38	-0.12	-1.56
TOTAL DEPOSITS	0.65	0.44	-0.05	0.80	-0.15	-0.95	-0.80
LTD RATIO	116.04	115.30	116.25	116.02	116.66	0.64	0.62
EFFICIENCY							
COST/INCOME RATIO	70.06	71.08	70.37	68.40	67.18	-1.22	-2.88
EU AVERAGE	54.68	55.64	54.61	53.23	52.60	-0.63	-2.08
CREDIT RISK							
NPL RATIO	1.93	1.94	2.00	2.03	2.06	0.03	0.13
EU AVERAGE	1.80	1.84	1.86	1.86	1.90	0.04	0.10
COVERAGE RATIO	45.63	45.22	44.48	44.83	44.85	0.02	-0.78
EU AVERAGE	42.55	42.26	41.80	42.00	41.60	-0.40	-0.95
SOLVENCY⁽²⁾							
CET 1	15.80	16.06	15.89	15.87	15.60	-0.27	-0.20
LEVERAGE RATIO	5.30	5.44	5.34	5.36	5.29	-0.07	-0.01
LCR	149.50	151.36	150.44	147.84	146.82	-1.02	-2.68
ECB INTEREST RATE							
INTEREST RATE	4.00	4.50	4.50	4.25	3.65	-0.60	-0.35

Source: European Banking Authority (EBA).

(1) Note: The values for loans and deposits reflect their year-on-year growth rates. (2) CET1 ratio measured as fully-loaded and Leverage ratio as fully phased-in definition of Tier 1.

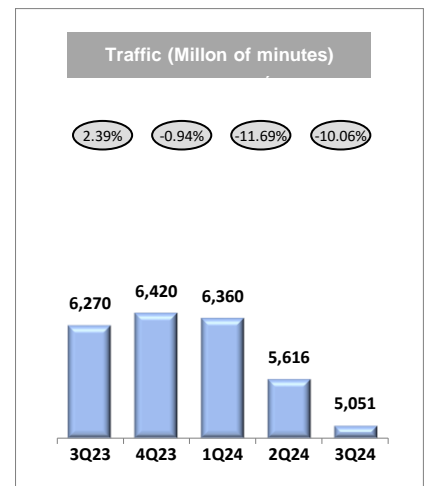
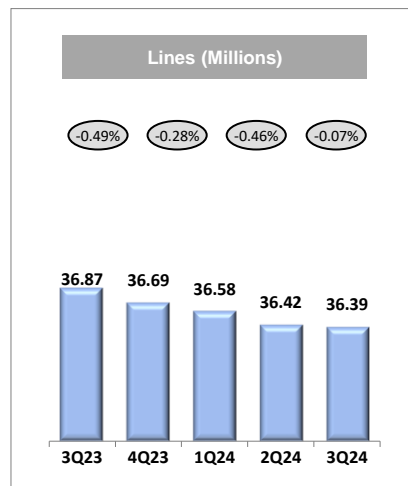
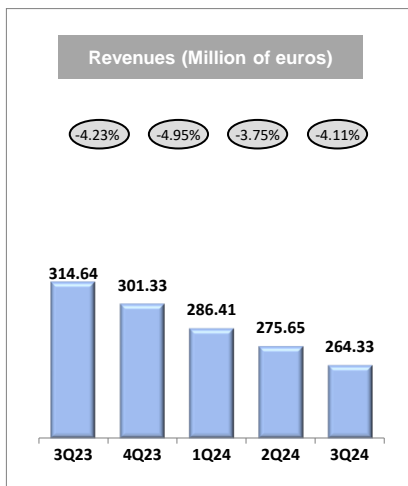
- ▶ During 3Q24, the year-on-year growth rate for total loans declined by 1.56 p.p., with a quarterly decrease of 0.12 p.p. Similarly, the growth rate for total deposits decreased by 0.80 p.p. year-on-year and declined by 0.95 p.p. compared to 2Q24. The LTD ratio rose by 0.62 p.p. year-on-year and by 0.64 p.p. quarterly, reaching 116.66% in the third quarter of the year.
- ▶ In terms of efficiency, the French banking sector improved its cost-to-income ratio compared to the same quarter of the previous year, reducing it by 2.88 p.p. to 67.18%. However, this ratio remains above the EU average of 52.60%.
- ▶ The NPL ratio deteriorated year-on-year, increasing by 0.13 p.p. to 2.06% in the third quarter, which remains above the EU average ratio of 1.90%. Additionally, the coverage ratio also worsened, decreasing by 0.78 p.p. compared to 3Q23 to 44.85%, though it remains above the EU average of 41.60%.
- ▶ Regarding solvency ratios, the CET 1 ratio decreased by 0.20 p.p. and 0.27 p.p. compared to 3Q23 and 2Q24, respectively. The leverage ratio slightly declined by 0.01 p.p. annually, with a quarterly decrease of 0.07 p.p. Meanwhile, the LCR deteriorated, falling by 2.68 p.p. year-on-year and by 1.02 p.p. from 2Q24.
- ▶ The ECB reduced the EU interest rate by 0.60 p.p. to 3.65% in September, as a response to moderate inflation.

4. Telecommunications sector

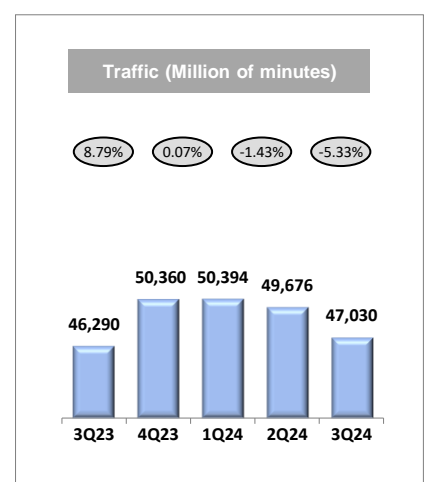
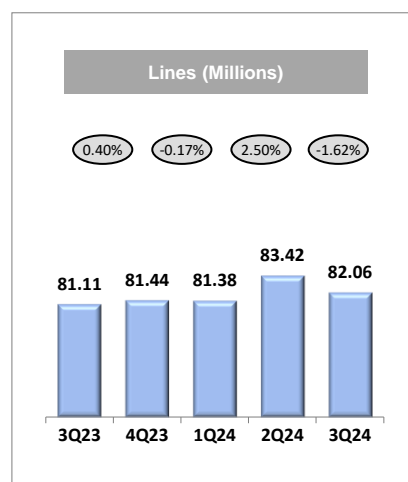
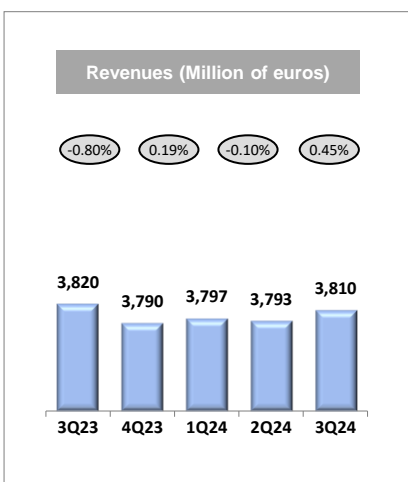
During 3Q24, the volume of fixed lines continued its downward trend, decreasing year-on-year, while the volume of mobile lines increased compared to 3Q23. In terms of revenue, fixed-line sector and mobile sector saw a decline, both relative to the same quarter of the previous year. Data traffic on fixed lines decreased year-on-year and mobile data traffic increased compared to 3Q23.

- During the third quarter of 2024, the volume of fixed lines experienced an annual decline of 1.29% and a quarterly decrease of 0.07%. In contrast, mobile lines saw an annual increase of 1.17% and a quarterly decrease of 1.62%.
- Fixed-line revenues continued to decline, decreasing by 15.99% year-on-year and 4.11% compared to the previous quarter. Meanwhile, revenues in the mobile sector decreased by 0.27% compared to 3Q23 but increased by 0.45% compared to 2Q24.
- In terms of traffic volumes, fixed lines saw a year-on-year decrease of 19.45%, while mobile lines increased by 1.60%, reaching 47,030 million minutes. Compared to 2Q24, fixed-line traffic decreased by 10.06% and mobile-line traffic decline by 5.33%.

3Q24 MAIN MAGNITUDES – Fixed Lines



3Q24 MAIN MAGNITUDES – Mobile Lines



Source: Electronic Communications, Postal and Print media distributions Regulatory Authority (ECPRA).

*Note: The percentages shown in the roundels represent the quarter-to-quarter variations of the data sets displayed.

5. Glossary

- ▶ **BoF:** Bank of France.
- ▶ **Business volume:** The turnover volume is the set of activities that generate income for a bank, formed by financing (loans) plus customer resources (deposits).
- ▶ **CET 1:** Common Equity Tier 1 capital is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
- ▶ **Coverage ratio:** Ratio that informs us about the protection that financial entities have against the unpaid loans of their clients. It is represented as the total provisions that the entity has over the total doubtful loans.
- ▶ **CPI:** (stands for Consumer Price Index) Ratio that measures the evolution of the average cost of the basket of goods and services representative of household final consumption.
- ▶ **EBA:** European Banking Authority.
- ▶ **ECPPRA:** Electronic Communications, Postal and Print media distributions Regulatory Authority.
- ▶ **Efficiency ratio:** Ratio that measures the productivity of an entity. It is the result of the quotient between operating expenses and gross margin. In other words, it relates the income obtained with the expenses necessary for its achievement. As a conclusion, an entity will be more efficient the lower its efficiency ratio. (Non-interest expense -amortization of intangible assets) / (net interest income + non-interest income).
- ▶ **GDP:** Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
- ▶ **GM/ATAs:** Gross Margin / Average Total Assets. Gross margin is composed of the set of revenues generated by a financial entity in its activity.
- ▶ **Leverage ratio:** The Tier 1 leverage ratio measures a bank's core capital relative to its total assets. The numerator consists of the most stable and liquid capital, as well as the most effective at absorbing losses during a financial crisis or recession. The denominator is a bank's total exposures, which include its consolidated assets, derivative exposures and certain off-balance sheet exposures.
- ▶ **LTD ratio:** The loan-to-deposit ratio (LDR) is used to evaluate a bank's liquidity by comparing the total loans of a bank with the total deposits during the same period.
- ▶ **INSEE:** National institute of statistics and economic studies (stands for, in French, Institut national de la statistique et des études économiques).
- ▶ **Non-Performing loans ratio:** The non-performing loan (NPL) ratio is an indicator used to measure the volume of operations that have been considered non-performing, in relation to the volume of loans and credits granted by said entity. Non-performing loans / net loans and assets.
- ▶ **OECD:** Organization for Economic Co-operation and Development.
- ▶ **OE/ATAs:** Operating Expenses / Average Total Assets. Operating expenses are those that an entity incurs during the exercise of its activity.
- ▶ **p.p.:** percentage points.
- ▶ **Return on assets (ROA):** An indicator that measures the profitability of a company in relation to its total assets. It indicates the return that is being obtained for its assets. It is calculated as the quotient between profit and total assets. The profit used is that obtained before taxes and interests. Net income / average total assets.
- ▶ **Return on equity (ROE):** Financial profitability is also known as return on equity, which relates the net profits obtained in a given investment operation with the own resources. Net Income / equity.

6. Appendix

MACROECONOMIC OVERVIEW

- Insee:
<http://www.bdm.insee.fr>
- BBVA Research:
<http://www.bbvarsearch.com>
- European Central Bank:
<http://www.ecb.int/>
- International Monetary Fund, IMF:
<http://www.imf.org>
- Organisation for Economic Cooperation and Development, OECD:
<http://www.oecd.org/home/>
- World Bank, WB:
<https://www.worldbank.org/>
- Fitch Ratings:
<http://www.fitchratings.com/>
- Moody's:
<http://www.moody's.com/>

FINANCIAL SECTOR

- Banque de France:
www.banque-france.fr
- European Banking Authority:
<http://eba.europa.eu/>

ACRONYMS

- | | | | | |
|-----------------|-----------------------|--------------------|----------------------|--------------------------------|
| ‣ DEU - Germany | ‣ LUX - Luxembourg | ‣ TUR - Turkey | ‣ ECU - Ecuador | ‣ ZAF - South Africa |
| ‣ BEL - Belgium | ‣ NLD - Netherlands | ‣ ARG - Argentina | ‣ MEX - Mexico | ‣ UEM- European Monetary Union |
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