

**LBBW**

Bereit für Neues

**To the point!**

Cross-Asset- and Strategy-Research

# Postcard from Marseille

## The French economy is performing better than Germany's

Today I am writing to you from my summer vacation in the South of France. After a few days in Aix-en-Provence and its equally idyllic surroundings, I am now in Marseille. The country's second largest city represents France's discord and contradictions like no other.

On the one hand, a vibrant cultural scene and the fabulous institutions that marked Marseille's ranking as European Capital of Culture exactly a decade ago. Particularly spectacular, in my opinion: the [MuCEM](#), Museum of European Civilizations (see photo).

On the other hand: almost endless, desolate suburbs, reverberating France's unresolved social issues. Again and again, one comes across remnants of the riots and looting in early July that followed the police shooting of a teenager. Today, the local newspaper "[La Provence](#)" reports a wave of violence: six murders in six days. Gang warfare in the drug milieu. Some statistics suggest that Marseille has the highest [crime rate](#) in Europe.

### France's economy has nothing to hide!

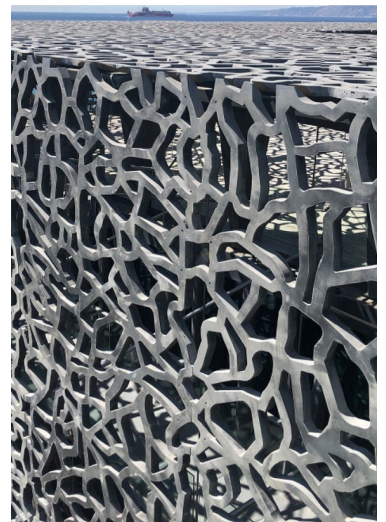
So maybe France is the "sick man of Europe" after all and not Germany? Unlikely. For all the justified concerns about social cohesion and a political fragmentation in which extremists on the left and right seem to be increasingly constraining the government's room for maneuver: For a "sick man," France's economy moves with respectable agility.

Since the introduction of the euro, the French economy has grown by an average of 1.4% per year, somewhat faster than Germany. This is all the more remarkable given that France did

**Moritz Kraemer** -- Chief Economist

LBBWResearch@LBBW.de

August 25, 2023



---

## France's economy grows faster than Germany's

---

not benefit to the same extent from the export demand generated by the rapid globalization at the beginning of the century as its neighbor on the right bank of the Rhine. Since 2018, economic momentum has declined to only 1% GDP growth per year. Nothing to write home about. But still better than the anemic German economy, which achieved growth rates only half as high.

## Why France succeeded

This does not fit at all into the picture of ungovernability. Charles de Gaulle already quipped: "It is difficult to govern a people that has 246 types of cheese". Culinary diversity, however, is the lesser problem compared to eroding social cohesion. The rift was most recently on display at the beginning of the year, when a million people took to the streets on one day alone via [to protest](#) the increase in the retirement age to – drumrolls - 64 (!).

But: President Macron pushed through the reform nonetheless against all protests, which was as necessary as it was courageous. How timid, on the other hand, Germany's federal government, which could not even agree on a far more modest "Growth Opportunities Act". The Berlin cabinet did not use the summer break to make a fresh start.

## Public Finance: Mince alors!

However, the French model is likely to be more seriously tested soon. For ten years, the government was able lavishly spend to keep the economy chugging along and maintain its public infrastructure. Ultra-low interest rates made this affordable. But the fiscal space will soon deflate like a soufflé as interest rates rise. Macron's courage may soon be in demand once more! The chart shows that Germany has much more legroom in terms of fiscal policy. Or would have, had it not imposed a hard debt brake on itself in the constitution.

## Disclaimer:

This publication is addressed exclusively at recipients in the EU, Switzerland, Liechtenstein and the United Kingdom. This report is not being distributed by LBBW to any person in the United States and LBBW does not intend to solicit any person in the United States.

LBBW is under the supervision of the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany).

This publication is based on generally available sources which we are not able to verify but which we believe to be reliable. Nevertheless, we assume no liability for the accuracy and completeness of this publication. It conveys our non-binding opinion of the market and the products at the time of the editorial deadline, irrespective of any own holdings in these products. This publication does not replace individual advice. It serves only for informational purposes and should not be seen as an offer or request for a purchase or sale. For additional, more timely information on concrete investment options and for individual investment advice, please contact your investment advisor.

**We retain the right to change the opinions expressed herein at any time and without prior notice. Moreover, we retain the right not to update this information or to stop such updates entirely without prior notice.**

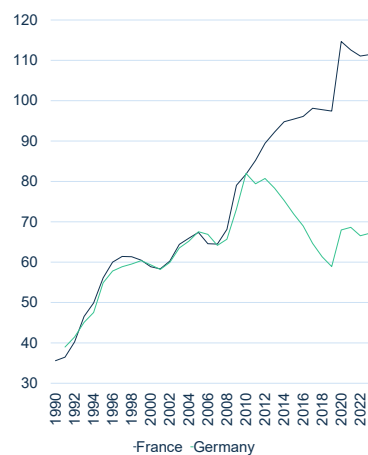
Past performance, simulations and forecasts shown or described in this publication do not constitute a reliable indicator of future performance.

The acceptance of provided research services by a securities services company can qualify as a benefit in supervisory law terms. In these cases LBBW assumes that the benefit is intended to improve the quality of the relevant service for the customer of the benefit recipient.

**Additional Disclaimer for recipients in the United Kingdom:** Authorised and regulated by the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany). Deemed authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.

## Macron shows courage. Berlin is dithering.

### General government debt ratio (% of GDP)



Source: LBBW Research, IMF