Flash Economics

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The deterioration of France's public debt quality

Financial market participants are gradually realizing that France will have great difficulty reducing its public deficit, due to demographic aging; the need to spend more on education, energy and digital transitions; the absence of a parliamentary majority; and the lack of acceptance—by most political parties and a majority of the French population—that public spending must be reduced. There is a general rejection of any measures that would slow household consumption. Finally, an increase in the employment rate, which would generate additional tax revenues, can only be achieved in the long term through improvements in the quality of the education system and the vocational training system.

As a result, France's 10-year interest rate shows a significant spread compared to Germany's, despite Germany's own plan to increase public spending. It has risen above Spain's 10-year interest rate and will likely soon exceed Italy's. However, these developments are not yet sharp enough to trigger a reaction from French politicians or public opinion.

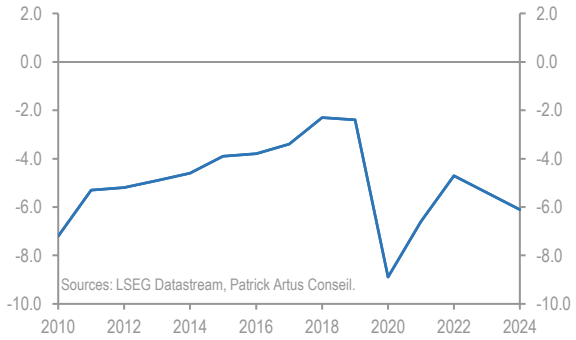
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Very difficult to reduce the French public deficit

Chart 1 shows France's public deficit up to 2024.

Chart 1
France: Fiscal deficit (as % of nominal GDP)

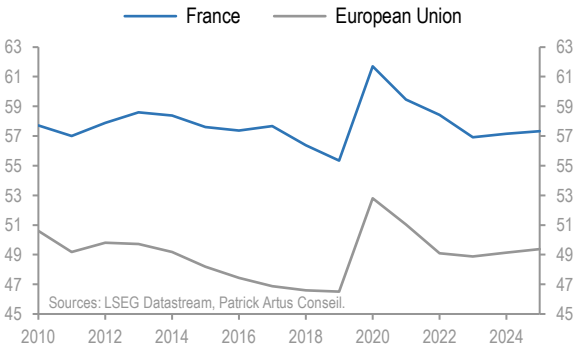


It will be very difficult to reduce the French public deficit for several reasons:

- Demographic aging, which increases healthcare and dependency-related expenses;
- The poor quality of the education system, linked in part to the low financial attractiveness of teaching careers;
- The high level of subsidies to businesses (according to a Senate inquiry commission, business subsidies amount to €200 billion per year), which offsets the heavy tax burden on companies—particularly production taxes, which amount to 3.7% of GDP compared to an average of 2% in the European Union and only 0.9% in Germany;
- The need for additional public investment to fund the energy and digital transitions.

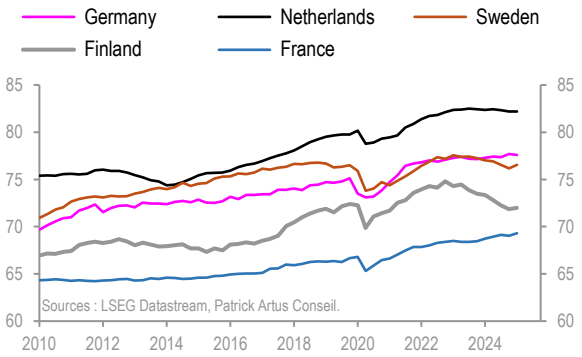
Moreover, **there is no parliamentary majority** in favor of reducing public spending, and public opinion is not aware of the need to cut government expenditures (**Chart 2**).

Chart 2
Public spending (as % of nominal GDP)



Finally, **the increase in the employment rate** (**Chart 3**), which could potentially lead to a significant rise in tax revenues, can only be achieved in the long term—provided that the quality of the education system and the vocational training system (which has limited reach among people over 50) are significantly improved.

Chart 3
Employment rate of population aged 15 to 64 (as %)

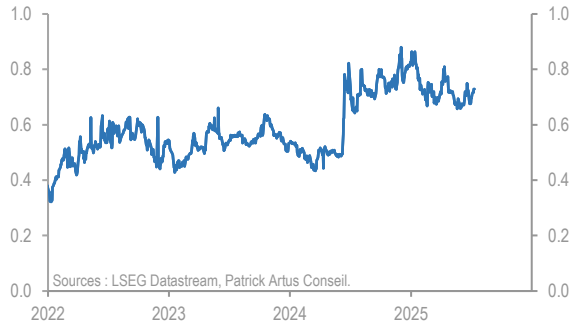


All of this suggests that it will be very difficult to reduce the public deficit from 5.8% of GDP in 2024 to 4.6% in 2026 and to 3% in 2030, which is the target announced by the French government.

Financial market participants are increasingly doubtful about France's ability to reduce its public deficit.

Despite **Germany's announcement of a significant public deficit** starting in 2026—due to increased military spending and investment in infrastructure (digital and transport)—the 10-year interest rate spread between France and Germany has remained stable at around 70 basis points (**Chart 4**).

Chart 4
France: Yield spread on country's 10-year government bonds against Germany (as % point)



But the deterioration in investors' perception of France's public debt quality is clearly visible when comparing long-term interest rates between France on the one hand, and Italy and Spain on the other (**Charts 5/6**).

Chart 5
Spain: Yield spread on country's 10-year government bonds against France (as % point)

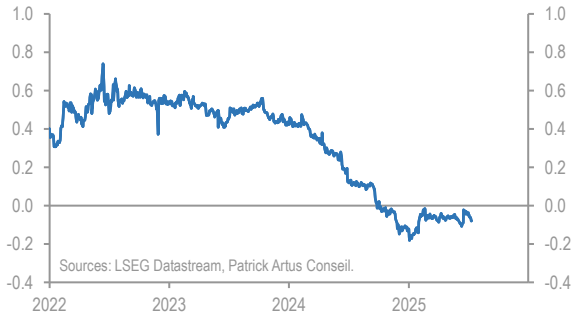
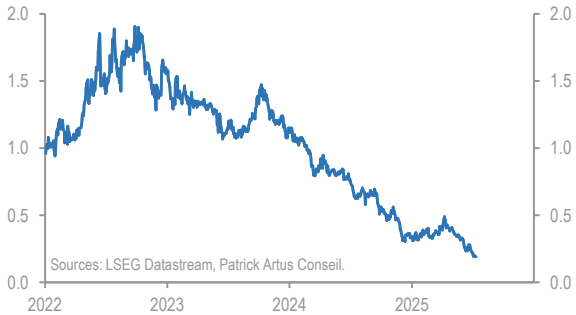


Chart 6
Italy: Yield spread on country's 10-year government bonds against France (as % point)



Spain's 10-year interest rate has now fallen below that of France, and the spread between Italy's and France's 10-year rates has narrowed significantly. Spain now has a 5-year interest rate lower than France's (Charts 7/8), while Italy's 5-year rate is only slightly higher than France's.

Chart 7
Spain: Yield spread on country's 5-year government bonds against France (as % point)

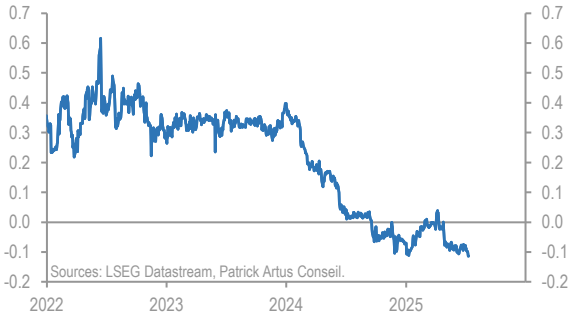
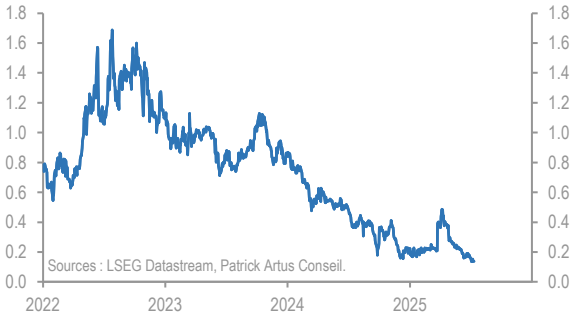


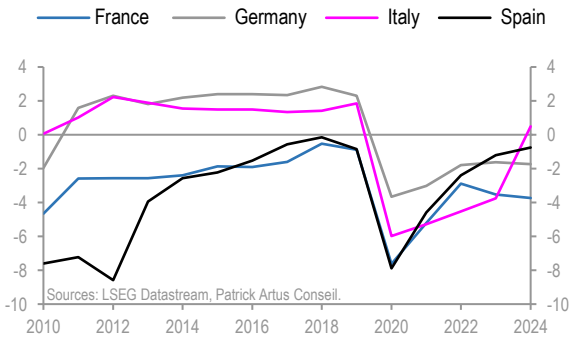
Chart 8
Italy: Yield spread on country's 5-year government bonds against France (as % point)



Markets are reacting logically to the fact that Spain, in 2025, and Italy, in 2026, will already have reduced their public deficits below 3% of GDP, while France will likely still have a public deficit of at least 5.5% of GDP in 2025.

When looking at **primary budget deficits** (excluding interest on public debt), **Chart 9** shows that Italy has a primary surplus, Spain a small primary deficit, and Germany a primary deficit much smaller than France's.

Chart 9
Primary fiscal surplus or deficit (as % of nominal GDP)

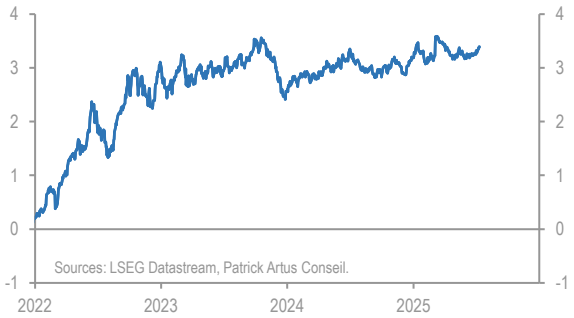


Summary: a continuing upward trend in France's long-term interest rates

Financial market participants' disappointment regarding the speed of France's public deficit reduction will grow, and as the April 2027 presidential election approaches, increasing political risk will be factored in.

As a result, **a continuous rise in long-term interest rates** (currently at 3.30%, **Chart 10**) can be expected, while short-term interest rates should remain stable with the ECB reaching its terminal rate.

Chart 10
France: Interest rate on 10-year government bonds (as %)



This rise in interest rates, above the long-term nominal growth rate (around 2.5% per year), will also worsen the situation of public deficits and public debt.

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