Flash Economics

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Risks of a chain reaction in France linked to the rise in long-term interest rates

Issuance of French government bonds (OATs) is going very well. On September 4, 2025, bids represented between 2.18 and 2.73 times the amount auctioned, depending on maturities.

Still, the fiscal outlook is not favourable. The public deficit adjustment required to stabilize the country's debt-to-GDP ratio amounts to €130 billion (4.4 percentage points of GDP). In reality, buyers of French sovereign debt do not believe in a default scenario and are merely demanding increasingly higher yields on their purchases (around 3.55% for 10-year Treasury bonds, around 4.40% for 30-year bonds).

Nonetheless, the risk of an increasingly diverging public debt ratio does exist. In early September 2024, the 10-year interest rate stood at 2.84%, slightly above the long-term nominal growth rate. Today, a primary budget surplus of 1.1 percentage points of GDP is required to stabilize the public debt ratio, whereas a year ago, a surplus of just 0.4 percentage points was sufficient. The risk lies in the continued increase of the required primary surplus, which could undermine the effectiveness of spending cuts or tax increases in curbing the rise in the public debt ratio.

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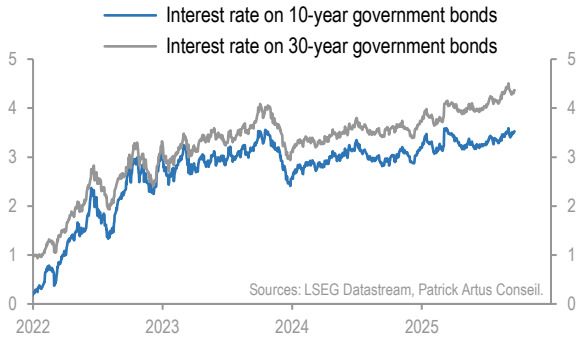
No issue with demand volume for OAT issuance

Recent French Treasury auctions have gone well **in terms of demand.**

On September 4, demand was 2.18 times the amount auctioned for the 10-year OAT, 2.73 times for the 20-year OAT, and 2.66 times for the 30-year OAT.

However, the challenge for the French Treasury lies in **the interest rates it must offer to attract such strong demand**: on September 4, it was 3.57% for 10-year bonds, 4.04% for 20-year bonds, and 4.43% for 30-year bonds (**Chart 1**).

Chart 1
France: Interest rates on 10-year and 30-year government bonds (as %)



Still, the fiscal outlook is not favourable

France's primary public deficit is expected to reach 3.2% of GDP in 2025 (**Chart 2**). But since the long-term interest rate exceeds the long-term nominal growth rate (estimated at around 2.5%, with 1% of real growth and 1.5% inflation), France must generate a primary budget surplus of 1.1% of GDP **to stabilize its public debt ratio. This means the country needs to reduce its primary budget deficit by 4.3 percentage points of GDP** (**Chart 3**).

Chart 2
France: Primary fiscal deficit (as % of nominal GDP)

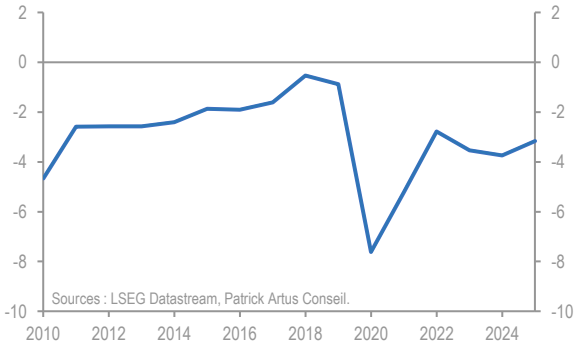
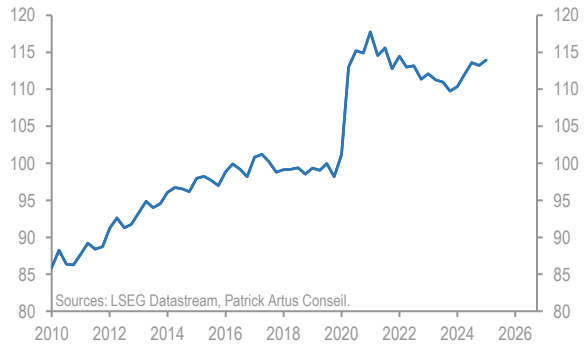


Chart 3
France: Public debt (as % of nominal GDP)



But investors do not believe in a French default, which would likely lead to the collapse of the euro. **They continue to purchase large volumes of French sovereign debt, but at increasingly higher interest rates.**

The risk of a very dangerous spiral

This dangerous spiral would unfold as follows:

- The primary public deficit continues to drive an increase in the public debt ratio;
- As a result, the interest rate France pays on its public debt keeps rising;

Consequently, **the primary surplus required to stabilize the public debt ratio also increases.**

Here is an example of such a dangerous spiral:

In early September 2024, the 10-year interest rate paid by the French government was 2.84%. Today, it is around 3.55%. This increase means that **while a primary surplus of 0.4 percentage points of GDP was sufficient a year ago to stabilize the debt ratio, a surplus of 1.1 percentage points is now required**.

From 2024 to 2025, the primary budget deficit decreased from 3.7% of GDP to 3.2% of GDP—an improvement smaller than the increase in the required surplus to stabilize debt. **As a result, the pace of public debt growth is accelerating due to rising long-term interest rates.**

Summary: the real risk is the failure to slow the rise in the public debt ratio

In our view, the risk is not that France will be unable to finance its public deficit, **but rather that long-term interest rates will continue to rise steadily.** This could result in fiscal consolidation efforts being entirely offset by the increase in the surplus required to stabilize the debt ratio—meaning that the upward trajectory of public debt may not slow down.

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