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France, Europe's free rider

If France had its own currency and central bank, it is clear that the risk of a default on France's public debt would have already emerged, leading to a depreciation of the exchange rate and a sharp rise in interest rates.

However, the existence of the Euro prevents these unpleasant consequences of France's deteriorating public finances coming to fruition. It is unimaginable that the ECB would fail to react to a potential default by France on its sovereign debt, which would trigger a major Euro crisis and likely lead to the collapse of the currency.

As a result, foreign investors continue to finance the French Treasury under acceptable conditions, and the prospect of persistently high public deficits does not pose a major challenge for France.

France is therefore Europe's free rider: it makes no real effort to restore its public finances, its economy, or its education system, yet continues to be supported by other European countries that have made those efforts.

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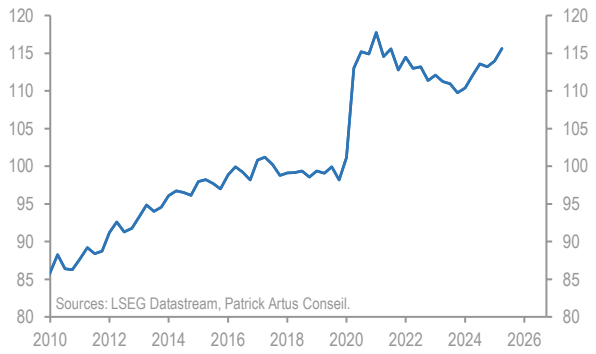
What would happen without the Euro?

It is clear that, in the absence of a consensus to restore order to public finances, **France's public deficit will remain high, and the public debt ratio will continue to rise**. The primary public deficit — excluding interest payments on the debt — would need to be reduced by €130 billion to stabilize the public debt ratio (**Charts 1A/B**).

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



Chart 1B
France: Public debt (as % of nominal GDP)



Without the Euro, if France had its own currency and central bank, there is no doubt that **expectations of a default on France's public debt would emerge**, leading to a depreciation of the exchange rate and a sharp rise in interest rates. The dynamic would be similar to that observed following François Mitterrand's election as President of the Republic in 1981 (**Charts 2A/B/C**).

Chart 2A
France: Fiscal deficit (as % of nominal GDP)

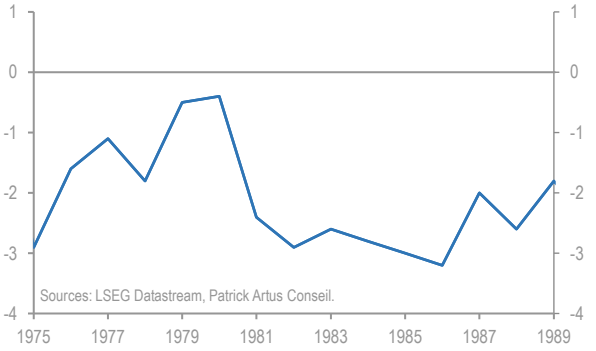


Chart 2B
French franc/deutsche mark exchange rate
(100 FRF = … DM)

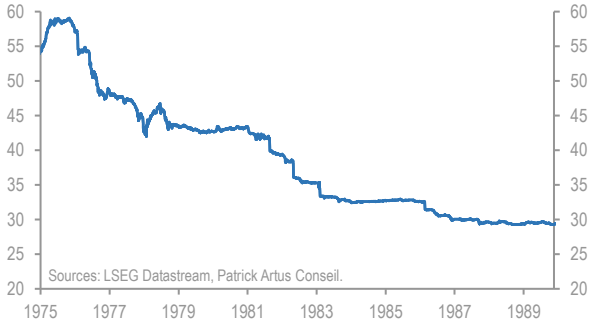
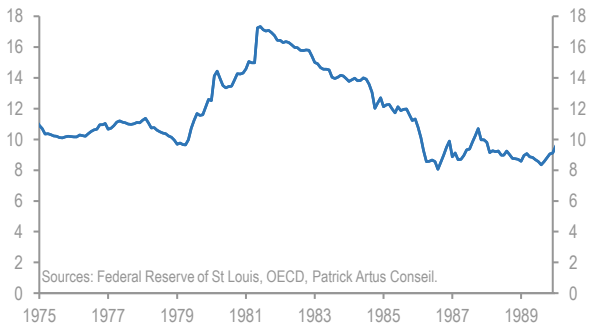


Chart 2C
France: Interest rate on 10-year government bonds
(as %)



The existence of the Euro prevents these adverse consequences of France's deteriorating public finances.

In the current context, **it is certain that the ECB could not accept a default (or restructuring) on France's debt**. A default by France would cast doubt on the quality of all Euro-denominated financial assets, leading investors to reject these assets, triggering a financial crisis, and ultimately resulting in the collapse of the Euro. The ECB would therefore prevent a French default by purchasing

as much French public debt as necessary. Anticipating this behavior from the ECB, **investors continue to finance France under fairly favorable conditions**:

- **The bid-to-cover ratio** (ratio of bids received to bonds allocated) at the most recent OAT auction (October 6, 2025) ranged from 2.42 to 3.49, depending on maturities.
- **The 10-year interest rate spread** between France and Germany remains contained, slightly above 80 basis points.

Despite the sharp deterioration in public accounts, France faces no major difficulty in financing its public deficit, thanks to the fact that the perceived probability of default on French debt is close to zero.

Summary: France, Europe's free rider

France is therefore making **no effort to restore its public finances, improve its economic situation** (labor productivity remains below its 2019 level, **Chart 3**), or strengthen its education system (**Table 1**).

Chart 3
France: Productivity per head (2010.Q1 = 100)



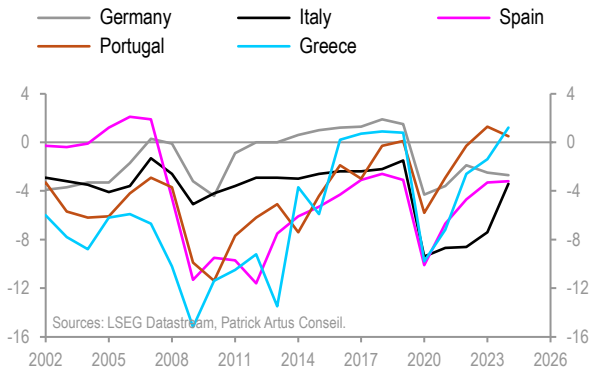
Table 1 : Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2012	2015	2018	2022
Japan	540	529	520	533
Canada	522	523	517	506
Finland	529	523	516	495
Denmark	498	504	501	491
Germany	515	508	500	482
Netherlands	519	508	502	480
France	500	496	494	478

Source : OECD.

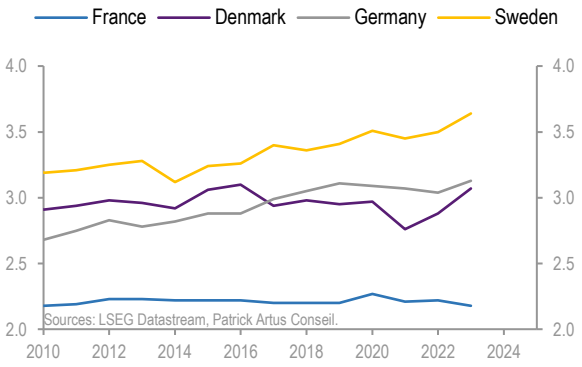
All other Euro area countries have made efforts to reduce their public deficits (**Chart 4**).

Chart 4
Fiscal surplus or deficit (as % of nominal GDP)



The countries of Northern Europe have **high-quality education systems, make a concerted effort to invest adequately in research and development** (**Chart 5**), and thus continue to improve their productivity.

Chart 5
Total R&D spending (as % of nominal GDP)



Because it belongs to the Euro area, France can therefore avoid making the efforts undertaken by other European countries, while continuing to attract their savings to finance its public deficits.

This is clearly a case of free-rider behavior, with France benefiting from the efforts made by other countries while making none itself.

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