Flash Economics

N° 71
July 27th, 2026

Subscribe here.

How can France stabilise its public debt ratio?

The first avenue for stabilising – or even reducing – France's public debt ratio would consist in bringing long-term real interest rates well below real growth. This avenue cannot, however, be pursued: the ECB rejects an expansionary monetary policy that would result in negative real interest rates; moreover, potential growth is low.

To stabilise France's public debt ratio, action must therefore be directed at the primary deficit (excluding interest on the debt). Given the gap between the long-term real interest rate and real growth (around 1.6 percentage points), the primary balance would need to move from a deficit of 2.9% of GDP to a surplus of 1.9% of GDP – an improvement of 4.8 percentage points of GDP in the primary balance (€144 billion at 2025 prices).

In addition, France would need to raise its defence spending by 0.5 percentage points of GDP by 2030, as well as its education spending (which, once teachers' pensions are taken into account, is too low by around one percentage point of GDP) and its climate change adaptation spending. Combining the improvement in the primary balance needed to stabilise the public debt ratio with the required increase in public spending, the overall required improvement in the public deficit is of the order of 6.5 percentage points of GDP. How can this be achieved? An increase in corporate taxation would weigh on companies' capacity to invest and to fund their research spending.

The following options can be considered:

- an increase in inheritance taxation (the effective inheritance tax rate is only 10% on the largest estates);
- a nominal freeze in public spending, excluding defence and education spending – this aggregate amounting to 50% of GDP; if tax revenue grows in line with nominal GDP (at around 2.5% per year), such a freeze would reduce the public deficit by 1.25 percentage points of GDP per year, making it possible to achieve the objective of improving the public finances within five years.

Of course, the effort required of civil servants, pensioners and the sick would then be considerable. Primary public spending (excluding interest on the public debt) would fall from 54.8% of GDP to 48.8% of GDP over five years.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

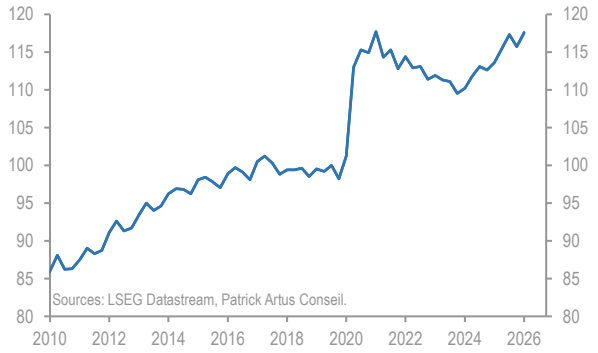
Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

Marketing communication: this document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

A rising trend in the public debt ratio: long-term real interest rates below long-term real growth cannot be relied upon

France's public debt ratio is rising rapidly on trend (**Chart 1**).

Chart 1
France: general government debt (% of GDP)



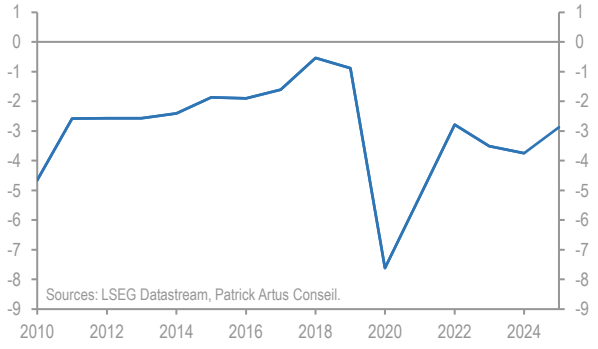
If the long-term real interest rate were well below long-term real growth, the public debt ratio could be stabilised. The ten-year real interest rate (the gap between the ten-year nominal interest rate and the ten-year inflation swap) currently stands at 2.3%. Growth in 2026 is likely to be of the order of 0.7%. Bringing the long-term real interest rate below real growth is not feasible in an environment of low inflation and low growth. It would require inflation to be high and the ECB not to react to it.

To stabilise the public debt ratio, action must therefore be directed at the primary public deficit (excluding interest on the public debt).

What improvement in the public finances is needed to stabilise the public debt ratio?

The primary public deficit (excluding interest on the public debt) stood at 2.9% of GDP in 2025 (**Chart 2**).

Chart 2
France: General government primary deficit (as % of GDP)



With the long-term real interest rate exceeding GDP growth by 1.6 percentage points, the primary balance must move from a deficit of 2.9% of GDP to a surplus of 1.9% of GDP (the gap between the real interest rate and the real growth rate, multiplied by the public debt ratio). **The primary balance must therefore be improved by 4.8 percentage points of GDP** (€144 billion at 2025 prices) **to stabilise the public debt ratio.**

Account must, however, also be taken of the sharp increases in public spending. Defence spending must be raised by 0.5 percentage points of GDP by 2030. Once education spending is adjusted for teachers' pensions (0.5% of GDP) to make it comparable

with that of other countries, it amounts to 4.6% of GDP in France, compared with 6.3% of GDP in Finland, 5.5% of GDP in Denmark and 4.7% of GDP for the European Union as a whole. Bringing France's education spending up to the level of countries with a good-quality education system would require an increase of the order of one percentage point of GDP (Table 1).

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

Country	2022
Estonia	516
Ireland	504
Switzerland	499
Finland	495
United Kingdom	494
Poland	492
Czech Republic	491
Denmark	491
France	**478**

Source : OECD

Taking further account of climate change adaptation spending, **the required reduction in the primary deficit — excluding defence, education and climate change adaptation spending — is around 6.5 percentage points of GDP in order to stabilise the public debt ratio.**

How can a reduction of this magnitude in the primary deficit be achieved?

Increasing the tax burden on companies appears difficult from the outset:

- the corporate income tax rate (25%) rises to 30.1% for companies with turnover of between €1.5 billion and €3 billion, and to 35.3% for companies with turnover above €3 billion. Given this exceptional surcharge on the profits of large groups, the average effective tax rate on profits now exceeds that of other European Union countries;
- production taxes borne by French companies (3% of GDP) are markedly higher than those borne by companies in the European Union (1.7% of GDP) or by German companies (0.7% of GDP).

To move from a primary deficit of 2.9% of GDP to a primary surplus of 1.9% of GDP and, in addition, to fund the necessary increases in defence, education and climate change adaptation spending, two options remain:

- **an increase in inheritance taxation**. The average tax rate on the largest inheritances is only 10%, while that on all inheritances stands at 6%. The annual amount of wealth transfers is €50 billion. It is, however, set to rise considerably in the future, probably reaching €300 billion with the transfer of baby boomers' wealth. It thus appears that a 10-percentage-point increase in the inheritance tax rate would, in time, yield €30 billion per year (1 percentage point of GDP) and would curb the rise in wealth concentration;
- **a nominal freeze in public spending — excluding defence, education and climate change adaptation spending** — assuming nominal GDP growth of 2.5% per year, would yield 1.25 percentage points of GDP per year and would make it possible to secure the 6.5 percentage points of GDP of improvement in the public finances in a little under five years. Raising the retirement age — that is, increasing the employment rate of those aged over sixty — would make it easier to freeze pension spending.

Summary: a considerable effort required of households

If public spending — excluding defence, education and climate change adaptation spending — must be cut by 6.5 percentage points of GDP, and if corporate taxation cannot be increased, it must be acknowledged that a major effort will be required of households, in particular of civil servants, pensioners and the sick (through a freeze on the civil service index point (point d'indice), a freeze on pensions and a freeze on healthcare spending reimbursed by social security). We nonetheless see no other way of funding the necessary spending (defence, education and energy transition spending) while stabilising the public debt ratio.

Disclaimer

Ossiam, a subsidiary of Natixis Investment Managers, is a French asset manager authorized by the Autorité des Marchés Financiers (Agreement No. GP-10000016). Although information contained herein is from sources believed to be reliable, Ossiam makes no representation or warranty regarding the accuracy of any information of which it is not the source. The information presented in this document is based on market data at a given moment and may change from time to time. This material has been prepared solely for informational purposes only and it is not intended to be and should not be considered as an offer, or a solicitation of an offer, or an invitation or a personal recommendation to buy or sell participating shares in any Ossiam Fund, or any security or financial instrument, or to participate in any investment strategy, directly or indirectly. It is intended for use only by those recipients to whom it is made directly available by Ossiam. Ossiam will not treat recipients of this material as its clients by virtue of their receiving this material. All performance information set forth herein is based on historical data and, in some cases, hypothetical data, and may reflect certain assumptions with respect to fees, expenses, taxes, capital charges, allocations and other factors that affect the computation of the returns. Past performance does not predict future returns. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Ossiam assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from, an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. This information contained herein is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Ossiam to any registration requirements in these jurisdictions. This material may not be distributed, published, or reproduced, in whole or in part.