

GLOBAL & REGIONAL FOCUS NOTES

France: Presidential Elections Increase Difficulty of Fiscal Cleanup

Political uncertainty, street unrest and rising public debt hang over 2027 budget

- General government deficit set to be 5.4% of GDP this year, with return to 5.0% delayed by a year until 2027, according to draft 2027 budget
- To achieve its 2027 deficit target, the government has presented a fiscal consolidation package totalling around €54bn, relying primarily on spending restraint
- The government's lack of an absolute majority in the National Assembly could necessitate concessions to opposition parties to secure the budget's adoption
- Country gearing up for presidential elections in April and May 2027, with recent opinion polls placing Marine Le Pen well ahead of her potential rivals
- A rise in French sovereign bond yields has raised questions about the potential role of the ECB in containing market tensions
- Reforming the pension system, a key challenge for the country's long-term sovereign debt sustainability

1. Introduction

France's debt trajectory has come into sharp focus since the summer as it has emerged that the government will miss this year's budget deficit reduction target, despite its fiscal commitments to the European Commission under the Excessive Deficit Procedure (EDP). Efforts to control public finances have become a political flashpoint in recent years, leading to the downfall of several prime ministers since President Emmanuel Macron lost control of the National Assembly in the country's 2024 parliamentary elections. Markets are getting jittery about the prospects of France's growing public debt being put on a more stable trajectory, particularly as the country is gearing up for presidential elections in the spring of 2027, with the far-right candidate, Marine Le Pen, running well ahead of her potential rivals in recent opinion polls. Against a generally bearish environment for bond markets across major economies, French sovereign paper has stood as a weak link, with the spread over German Bunds skyrocketing to levels last seen during the euro area debt crisis of the 2010s.

The comparisons with that earlier crisis do not stop there: violent street protests have been sweeping through France, heightening the sense of political discontent gripping the country. These started as student

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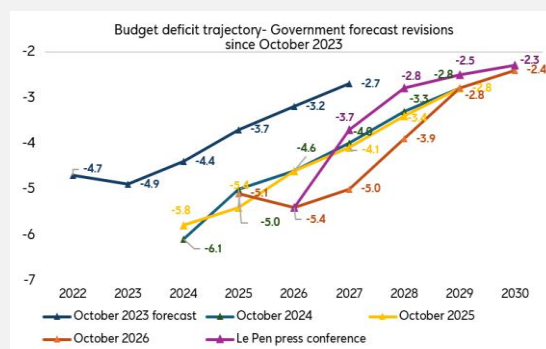
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protests against conditions in France's schools, though in recent days they have morphed into broader cost-of-living protests, with levels of violence escalating, including the burning of the 143-year-old city hall in Limoges.

This note surveys the government's attempts to grapple with the country's fiscal situation and the risks lurking in those consolidation efforts, including those stemming from the 2027 presidential elections. It also assesses the medium-term outlook and the structural drivers of France's fiscal imbalances. Finally, it examines the country's need for pension reform and draws a comparison with the pension system of Greece, which underwent significant reforms during the last crisis.

Figure 1: France's persistent difficulties in achieving fiscal consolidation

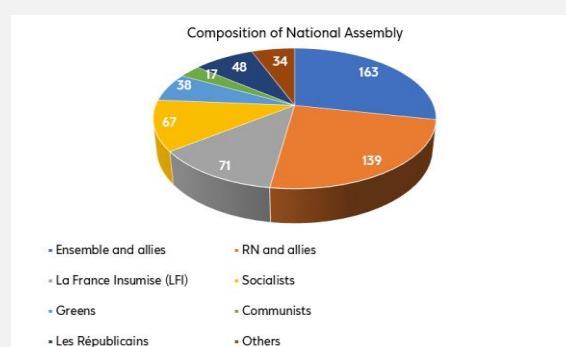


Source: French Treasury, Eurobank Research

2.1. The 2027 Budget: Fiscal Targets and Key Measures

France's draft 2027 budget, presented by Prime Minister Sébastien Lecornu's government on 1 October 2026, represents a renewed effort to address the country's fiscal challenges against a backdrop of weak economic growth, elevated borrowing costs and heightened political uncertainty ahead of the April-May 2027 presidential election. The government aims to reduce the general government deficit to 5.0% of GDP in 2027, from an upwardly revised projection of 5.4% in 2026, effectively postponing by one year a target originally set for 2026. The government's October 2023 fiscal projections, presented in the last budget before the 2024 legislative elections, envisaged a deficit of just 2.7% of GDP in 2027, illustrating the successive upward revisions to France's fiscal projections and the challenges of achieving sustained fiscal consolidation (Figure 1). More broadly, fiscal consolidation has remained limited since the pandemic, with political fragmentation in the National Assembly since the 2024 legislative elections further complicating efforts to secure sufficient parliamentary support for significant deficit reduction (Figure 2).

Figure 2: The government lacks a majority in the National Assembly



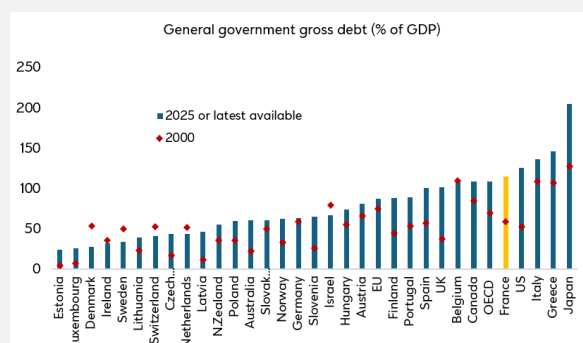
Source: French National Assembly, Eurobank Research

The draft budget assumes real GDP growth of 1.0% in 2027, following a downwardly revised forecast of 0.5% for 2026 (from 1.0% when the 2026 budget was adopted), alongside headline CPI inflation of 1.8%, reflecting expectations of easing energy prices and limited indirect and second-round effects from the energy shock. Despite the planned fiscal adjustment, public debt is projected to continue rising, from 115.7%

of GDP in 2025 to 119.3% in 2026 and 121.7% in 2027, more than double its percentage in 2000 (Figure 3), as persistently large fiscal deficits remain above the debt-stabilising level. As a result, France's public finances remain vulnerable to adverse economic and financial shocks, as illustrated by recent increases in energy prices and higher sovereign bond yields, which could further complicate efforts to project fiscal credibility.

To achieve its deficit target, the government has presented a fiscal consolidation package totalling around €54bn (c. 1.7% of GDP), including €11bn from previously adopted measures whose effects carry into 2027 and €43bn in new measures. The latter comprise approximately €26bn in expenditure savings and €17bn in additional revenues, implying an adjustment mix of roughly 60% spending restraint and 40% revenue measures. On the expenditure side, key measures include freezing the civil-service pay scale and adjustments to certain social benefits, including family and housing allowances, limiting inflation indexation for higher pensions, tightening healthcare expenditure and restraining local government spending. On the revenue side, the budget envisages targeted tax increases rather than broad-based tax hikes, including reductions in employer social-security contribution exemptions, changes to pensioners' tax allowances and measures to combat tax fraud. As a share of GDP, public spending is projected to decline marginally, from 57.1% in 2026 to 56.9% in 2027, while the tax burden would rise from 43.9% to 44.2%. Importantly, the €54bn fiscal adjustment is measured against a no-policy-change scenario, under which the government estimates that the deficit would otherwise deteriorate to around 6.5% of GDP in 2027, driven by expenditure categories that are either sensitive to inflation, such as social benefits and debt-servicing costs, or subject to persistent structural pressures, particularly healthcare.

Figure 3: France's general government gross debt has risen steadily since 2000



Source: OECD, Eurobank Research

2.2. Risks to the 2027 Fiscal Consolidation Effort

Achieving the government's 2027 fiscal objectives will nevertheless be challenging. Persistent expenditure pressures stemming from population ageing, pensions, healthcare, higher defence spending and an increased contribution to the EU budget constrain fiscal flexibility. These pressures are compounded by rising debt-servicing costs, which are expected to increase from €79bn (2.6% of GDP) in 2026 to €91bn (2.9%) in 2027. The budget assumes a 10-year sovereign bond yield of 4.2% at end-2026 and an average yield of around 4.3% in 2027, while recent yields exceeding 5.0% suggest upside risks to the government's borrowing cost assumptions of at least 70bps (based on France's planned issuance of €340bn in medium and long-term bonds in 2027, supplemented by short-term bills, the additional annualised borrowing cost could be estimated at approximately €2.4bn, assuming a similar increase in borrowing costs across maturities). Although France's relatively long average debt maturity of around 8.4 years as of end-September moderates the immediate impact of higher yields, the longer borrowing costs remain elevated, the greater the

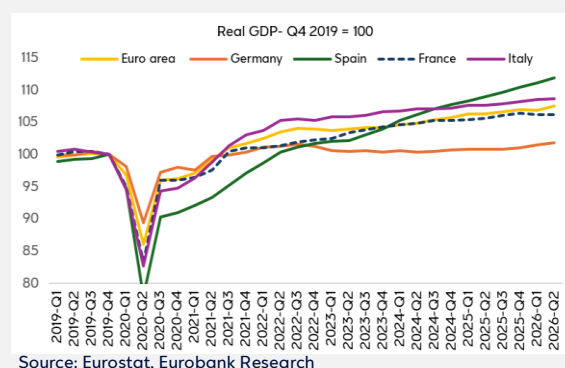
risk that refinancing at higher rates will push debt-servicing costs above budget projections and complicate efforts to stabilise public debt.

Economic activity has also remained weak, with France lagging behind most other major euro area economies (Figure 4). France's economy contracted by 0.2%QoQ in Q1 2026 (0.7%YoY) and stagnated in Q2 (0.5%YoY) pointing to a subdued first half of the year, with activity affected mainly by aerospace supply-chain bottlenecks and weaker construction investment associated with the temporary special budgetary law. Growth prospects for H2 2026 also remain challenging due to elevated energy prices, the adverse effects of summer heatwaves, tighter financing conditions, inflation-related pressures on households' real disposable income and political uncertainty surrounding the 2027 presidential election. For 2026 as a whole, the government expects 0.5% GDP growth following a slowdown from 1.5% in 2024 to 0.8% in 2025, when France underperformed the euro area average of 1.2%. Beyond these cyclical headwinds, France's growth prospects remain constrained by persistent structural weaknesses, particularly sluggish total factor productivity (TFP) growth, limited capital deepening and constraints on labour supply. These factors limit the economy's growth potential and tax revenue generation, further complicating fiscal consolidation efforts. The underlying structural drivers of France's weak growth performance are examined in greater detail in Section 5.

Looking ahead, the government's projected rebound in real GDP growth to 1.0% in 2027 may prove optimistic, as higher borrowing costs, weak private investment and the drag from planned fiscal tightening could weigh on domestic demand. In its latest World Economic Outlook, the IMF¹ revised down its growth forecasts by 0.2ppts for both 2026 and 2027, to 0.4% and 0.7%, respectively, placing France at the bottom of the growth rankings among the euro area's four largest economies, and casting further doubt on the government's growth assumption underpinning the 2027 draft budget.

Overall, the government's 5.0% deficit target for 2027 remains subject to significant downside risks, stemming from persistent expenditure pressures, weaker-than-expected economic growth and associated revenue shortfalls, as well as elevated borrowing costs. Political constraints could add to these pressures, as fiscal measures may be diluted during parliamentary negotiations. The government's lack of an absolute majority in the National Assembly could necessitate concessions to opposition parties, particularly the Socialists and centre-right Republicans, to secure the budget's adoption. These could include higher taxation of wealthy households, greater protection of pensions and social benefits, and a relaxation of certain healthcare spending cuts, potentially weakening the planned fiscal adjustment.

Figure 4: France's GDP growth underperformance



¹ IMF World Economic Outlook "Resilience Under Strain, Urgent Choices", October 2026, <https://www.imf.org/en/publications/weo/issues/2026/10/13/world-economic-outlook-october-2026>

3.1. Political Landscape and the Role of the Opposition

The political dimension of these fiscal risks is particularly important, as securing parliamentary approval for the budget will be challenging in the run-up to the April-May 2027 presidential elections (first round on 18 April, second round on 2 May). In 2025 and 2026, the Socialist Party (PS) played a decisive role in allowing the budgets to pass by refraining from supporting no-confidence motions. However, with the presidential election approaching and pressure from other left-wing parties, particularly La France Insoumise (LFI), the Socialists may be less willing to facilitate another agreement. Consequently, attention has increasingly shifted towards Marine Le Pen's Rassemblement National (RN), whose position could prove important in determining the outcome of budget negotiations and the government's ability to remain in office.

Nevertheless, both the PS and the RN face competing political incentives. Bringing down the government could demonstrate their opposition to its fiscal policies but might also prolong political uncertainty and leave the incoming administration facing greater fiscal challenges. Conversely, allowing an amended budget to pass without formally endorsing it could enable opposition parties to distance themselves from unpopular fiscal measures ahead of the elections, while preserving the possibility of revising fiscal policy should they come to power after the presidential election. These considerations could therefore reduce the incentives for opposition parties to bring down the government over the budget.

Recent statements by Marine Le Pen suggest a more flexible stance towards the adoption of the 2027 budget, despite her opposition to several proposed measures. In a newspaper interview in late September, she indicated a preference for adopting an "imperfect" but viable 2027 budget, rather than relying once again on a temporary special law. This approach appears intended to preserve the option of revising fiscal policy after the presidential elections should the RN come to power, rather than signalling support for the government's fiscal programme. This suggests that the RN could allow the budget to pass without formally supporting it, potentially by abstaining from a no-confidence vote if the government invokes Article 49.3 of the Constitution².

The RN has also presented an alternative fiscal programme aimed at delivering a faster fiscal consolidation than envisaged under the Lecornu government's proposal. Its counter-budget targets a reduction in the fiscal deficit to 3.7% of GDP in 2027, compared with the government's 5.0% target, while aiming to bring it below 3% by 2030 and reduce public expenditure to below 50% of GDP by 2032. The programme envisages €53.2bn in tax cuts and €16.1bn in additional spending, alongside offsetting measures intended to finance these commitments and support fiscal consolidation. Proposed tax measures include lower VAT on energy and essential goods and reductions in business taxation, while the main sources of savings include administrative restructuring (notably the abolition or consolidation of state agencies and the streamlining of local government structures), tighter controls on social expenditure, lower immigration-related spending, measures to combat tax and benefit fraud and reduced contributions to the EU budget. The programme also proposes reversing key elements of the 2023 pension reform, including the increase

² Article 49.3 of the Constitution allows the government to pass legislation without a vote in the National Assembly, unless a motion of no confidence is adopted

in the statutory retirement age. To reinforce its commitment to fiscal discipline, Le Pen has also proposed introducing a constitutional fiscal "golden rule" through a referendum, requiring the fiscal deficit to remain 0.5ppts of GDP below the debt-stabilising threshold, as long as public debt exceeds 60% of GDP. This rule would take effect only once the deficit had been reduced to 3% of GDP.

Despite the programme's emphasis on fiscal consolidation, its implementation would face considerable challenges. Achieving such a large adjustment in 2027 would be particularly demanding, given the limited time available after the presidential election and the need for sufficient parliamentary support. Several proposed savings depend on lengthy administrative reforms or changes to existing legislation, while reductions in EU budget contributions would face significant legal and institutional constraints at the European level. Reversing elements of the 2023 pension reforms would also entail additional fiscal costs, increasing the scale of offsetting measures needed to meet the programme's deficit target. Moreover, the programme's macroeconomic assumptions appear optimistic, projecting real GDP growth of 0.9% in 2027 and 1.8% in 2028 despite substantial fiscal tightening. A weaker-than-expected economic performance could constrain tax revenues and undermine the planned adjustment, adding to uncertainty over the feasibility of the RN's fiscal targets. Beyond the RN, other political parties have also outlined alternative approaches to fiscal consolidation ahead of the 2027 presidential election. While the Socialists have presented a quantified fiscal proposal centred on higher taxation of wealthy households and large corporations, La France Insoumise (LFI) has unveiled a more expansionary alternative budget, combining €106bn in additional revenues with €82bn in new spending. Centrist and centre-right parties, meanwhile, generally favour expenditure restraint over further tax increases. These contrasting approaches highlight the lack of political consensus over the composition and pace of fiscal consolidation, adding to uncertainty surrounding France's medium-term fiscal outlook.

3.2. Parliamentary Approval Process and Next Steps

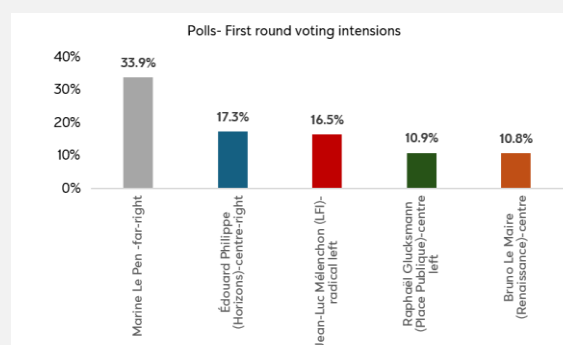
Following the presentation of the draft budget, parliamentary debate on the revenue component of the central government budget began in the National Assembly on 13 October. The initial vote on this component, originally scheduled for 20 October, was postponed due to the large number of outstanding amendments. Discussions are scheduled to resume on 27 October, with the vote now planned for 3 November. Separately, parliamentary debate on the social security financing bill, which is particularly important given the contribution of social security expenditure to fiscal slippage in recent years, began on 20 October, with a first-reading vote scheduled for 27 October. Under France's constitutional framework, Parliament has 50 days to consider the social security financing bill and 70 days the central government budget, calculated from their respective submission dates, placing the main deadlines between late November and mid-December.

Despite the government's lack of a parliamentary majority, the adoption of an amended budget following concessions to opposition parties remains a possible outcome. This could be achieved through Article 49.3 of the Constitution rather than a formal parliamentary vote, provided that no subsequent no-confidence motion secures an absolute majority in the National Assembly. If this approach proves unsuccessful, the government retains alternative constitutional options. Should Parliament fail to reach a decision on the

budget within 70 days of its submission, the government could resort to Article 47 of the Constitution to bring the budget into force by ordinance, an unprecedented and politically contentious procedure³. Alternatively, if no full budget is in place by 1 January, a temporary special law (*loi spéciale*) could ensure fiscal continuity by authorising the continued collection of existing taxes, while essential public expenditure would be maintained through separate decrees. However, this temporary arrangement would provide limited scope for implementing new fiscal consolidation measures, potentially delaying the planned adjustment.

Importantly, the adoption of the 2027 budget may not determine France's fiscal policy for the entire year. Following the presidential election, a new administration could seek to introduce a supplementary or corrective budget to align fiscal policy with its priorities, particularly if it secures sufficient parliamentary support. Such a revision could take place in the summer of 2027, following the formation of the new government and, potentially, early legislative elections. Consequently, the budget approved before the presidential election could serve as a transitional fiscal framework, subject to revision during the second half of the year.

Figure 5: Marine Le Pen in a clear lead in recent polls



Source: French press, Eurobank Research

4. 2027 Presidential Elections: Political Fragmentation and Fiscal Uncertainty

The April-May 2027 presidential election represents a major source of political and fiscal uncertainty, with France's political landscape increasingly fragmented and traditional party alliances under strain. President Emmanuel Macron is constitutionally barred from seeking a third consecutive term, while the weakening of the traditional centre-left and centre-right parties has contributed to a more divided political environment. Against this backdrop, recent opinion polls place Marine Le Pen well ahead of her potential rivals, with support generally around one-third of first-round voting intentions (Figure 5). However, the identity of her potential second-round opponent remains uncertain, with Jean-Luc Mélenchon (LFI) and Édouard Philippe (Horizons) among the main contenders.

Political divisions are also evident within the left. The left remains divided between Jean-Luc Mélenchon's radical-left La France Insoumise (LFI), which advocates substantially higher public spending, greater redistribution and a more confrontational approach towards EU fiscal rules, and the more moderate, pro-

³ Article 47 of the Constitution allows the government to bring budget provisions into force through ordinances if parliament fails to adopt the budget within 70 days of its submission. Unlike Article 49.3, this procedure does not make the implementation of the budget conditional on the outcome of a no-confidence vote.

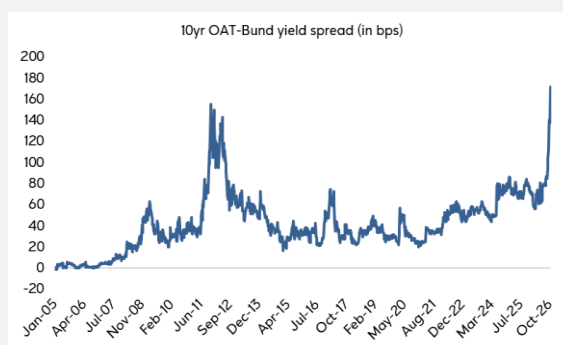
European social-democratic camp, comprising the Socialist Party (PS) and Raphaël Glucksmann's Place Publique. Following his victory in the social-democratic primary in October, Glucksmann has emerged as the joint presidential candidate backed by the PS and Place Publique for the 2027 election. However, his opposition to cooperation with LFI, alongside continuing differences within the broader left over electoral alliances, complicate efforts to build a unified left-wing front. Meanwhile, the centre and centre-right remain fragmented among competing political forces, including Édouard Philippe's Horizons and the Macron-aligned Renaissance, potentially splitting the moderate vote in the first round and influencing the composition of the runoff.

The composition of the second round could have important implications for the traditional *front républicain*, under which parties across the political spectrum have historically encouraged voters to support the remaining candidate against the RN. While a contest between Le Pen and a centre-right candidate such as Édouard Philippe could be more conducive to traditional anti-RN mobilisation, a potential Le Pen-Mélenchon runoff would represent a significantly different configuration.

Given the substantial ideological differences between LFI and moderate political forces, particularly on fiscal policy, European integration and foreign affairs, mobilising a broad anti-RN coalition could prove more difficult in the latter scenario. Moderate and centre-right voters might be less willing to support Mélenchon, potentially increasing abstention or weakening traditional cross-party mobilisation against the RN. Recent opinion polls are consistent with this assessment, with hypothetical Le Pen-Mélenchon runoff scenarios showing particularly wide margin in Le Pen's favour, at around 70% to 30%. However, the extent to which these divisions would influence voter behaviour and the eventual election outcome remains uncertain.

As outlined earlier in this report, the different political forces also advocate markedly different approaches to taxation, public spending and fiscal consolidation, underscoring the lack of political consensus over the path to fiscal sustainability. A new administration could seek to revise the 2027 budget to reflect its policy priorities, although its ability to implement such changes would depend heavily on securing sufficient parliamentary support. The credibility and feasibility of the next government's fiscal programme will therefore be important determinants of France's medium-term fiscal outlook.

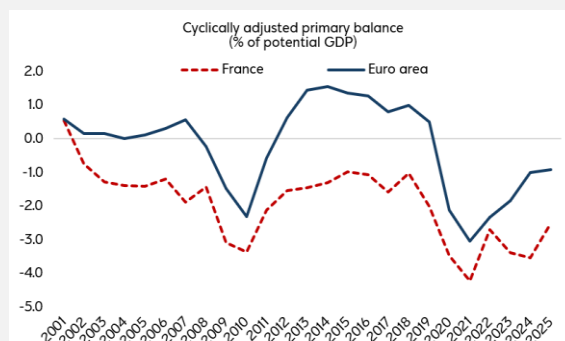
Figure 6: Sharp widening in the 10-yr OAT-Bund Yield Spread



Source: Reuters, Eurobank Research

Political uncertainty represents an additional source of risk for French sovereign bonds, which have underperformed several euro area peers in recent weeks, with the spread between 10-year French and German government bond yields reaching levels not seen since the euro area sovereign debt crisis (Figure 6). Although higher borrowing costs partly reflect higher benchmark yields across major bond markets, concerns over France's fiscal outlook and uncertainty over the next administration's fiscal strategy and its ability to deliver credible consolidation have contributed to elevated sovereign risk premia. Prolonged political uncertainty or policies perceived as weakening fiscal sustainability could therefore sustain pressure on French borrowing costs, further complicating debt stabilisation. At current levels, French sovereign spreads appear to incorporate a substantial degree of political and fiscal uncertainty, suggesting scope for some narrowing should political conditions stabilise and a credible fiscal consolidation strategy emerge. However, elevated spreads do not necessarily imply that adverse scenarios are fully priced in, particularly given the risks of prolonged political uncertainty and the emergence of a new administration whose fiscal consolidation strategy fails to convince investors. Political developments, fiscal outcomes and investor perceptions of the authorities' commitment to restoring fiscal sustainability are likely to remain key drivers of French sovereign bonds throughout 2027.

Figure 7: The fiscal balance has been structurally in deficit for around two decades



Source: OECD, Eurobank Research

5. Medium-Term Fiscal Outlook and Debt sustainability

Beyond the immediate political and budgetary uncertainties, France faces significant medium-term fiscal challenges, as even the achievement of the government's 5.0% deficit target for 2027 would not prevent public debt from continuing to rise. Despite the planned fiscal consolidation, the deficit would remain too large to stabilise the debt-to-GDP ratio, reflecting persistent primary deficits, subdued nominal GDP growth and rising debt-servicing costs. France has recorded a cyclically adjusted primary deficit for around two decades, highlighting the longstanding structural nature of its fiscal imbalances (Figure 7). Sizeable gross financing requirements (projected to reach €740bn or 23.6% of GDP in 2027) and the relatively high share of government debt held by foreign investors increase France's exposure to shifts in market sentiment during periods of heightened uncertainty. Nevertheless, France's well-capitalised banking sector and its relatively limited direct exposure to domestic sovereign debt relative to the situation during the euro area sovereign debt crisis of the early 2010s, help mitigate the risk of spillovers from sovereign debt market tensions to the broader financial system. The euro area's strengthened financial stability framework provides an additional safeguard.

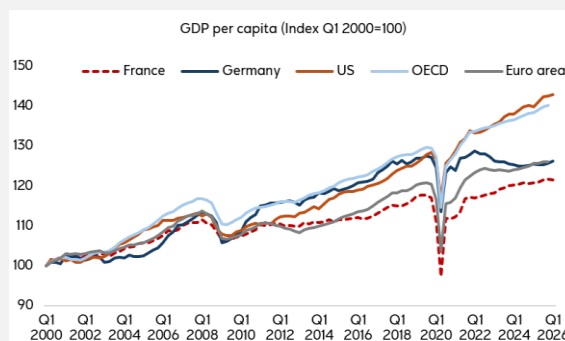
The recent rise in French sovereign yields has also raised questions about the potential role of the ECB in containing market tensions. Although the ECB's Transmission Protection Instrument (TPI) can address disorderly market developments that threaten monetary policy transmission, its activation is subject to

eligibility criteria, including fiscal sustainability and compliance with the EU fiscal framework. Consequently, market pressures stemming from concerns over France's underlying fiscal fundamentals would not automatically warrant ECB intervention, reinforcing the importance of restoring fiscal credibility and investor confidence.

Beyond the near-term cyclical pressures discussed in Section 2.2, France's subdued medium-term growth potential represents a more persistent challenge to debt sustainability. According to the OECD⁴, the gap in France's GDP per capita relative to the highest-income economies has widened over the past 15 years (Figure 8). This underperformance is associated with comparatively weak labour productivity growth and lower employment rates, particularly among younger and older workers (Figure 9a & 9b). According to the European Commission's 2026 Country Report⁵, almost stagnant total factor productivity (TFP) growth continues to weigh on labour productivity, reflecting subdued business R&D investment and insufficient diffusion of innovation⁶. Indeed, although labour productivity in France remains above the EU average, its relative advantage has narrowed significantly, from over 130% of the EU average in the early 2000s to 112.7% in 2025. Subdued business investment amid heightened uncertainty has also constrained capital deepening, further weighing on labour productivity growth. Several structural factors continue to weigh on productivity, including shortages of appropriately skilled labour, persistent skills mismatches and the uneven adoption of new technologies across businesses. Regulatory and administrative frictions, along with shortcomings in skills development and in the alignment of training with labour-market needs, further constrain medium-term growth prospects.

According to the European Commission, the OECD's economy-wide Product Market Regulation (PMR) indicator places France around the median among EU countries, suggesting that its overall regulatory framework is not particularly restrictive by EU standards. However, significant restrictions persist in certain professional services (notably legal, notarial, architectural and accounting services), particularly in the form of ownership restrictions, legal-form requirements and regulated fees. In retail trade, where France has been identified as having the most restrictive regulatory framework in the EU, restrictions on the establishment and operation of retail outlets may constrain competition. More broadly, administrative complexity and barriers to cross-border service provision may discourage investment, limit competition and weigh on productivity growth. Together, these structural weaknesses constrain France's potential growth, limiting tax revenue generation and complicating efforts to stabilise public debt.

Figure 8: France's GDP per capita growth lags behind that in the highest-income economies



Source: OECD, Eurobank Research

⁴ OECD (2026), OECD Economic Surveys: France 2026, OECD Publishing, Paris, <https://doi.org/10.1787/e88a1716-en>.

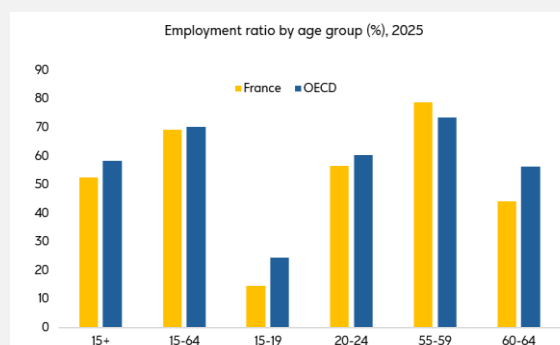
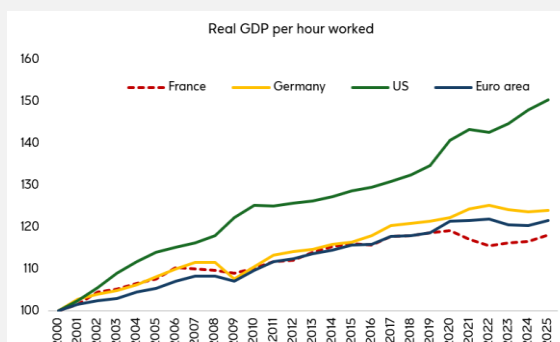
⁵ European Commission, 2026 Country Report-France, Commission Staff Working Document, SWD (2026) 210 final, 3 June, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52026SC0210>

⁶ According to the Bank de France, potential GDP growth is estimated at around 0.9-1.2% annually over 2026-2028, with TFP accounting for approximately half of the increase and capital and labour contributing roughly one-quarter each

France also remains subject to the EU's excessive Deficit Procedure, which requires reducing the deficit below 3% of GDP by 2029. Given the government's 5.0% target for 2027, achieving this objective would require substantial additional fiscal adjustment over the following two years, alongside compliance with the EU's fiscal requirements. The IMF estimates France's baseline potential growth at approximately 1%, while suggesting that a sufficiently ambitious structural reform agenda could raise long-term growth above 1.4%, with deeper EU integration providing additional upside. Achieving a durable improvement in public finances will therefore depend not only on sustained fiscal consolidation but also on addressing the structural weaknesses underlying France's persistently high public expenditure and subdued growth potential. The importance of tackling both persistent fiscal deficits and weak economic growth is reflected in France's public debt dynamics. The increase in the public debt-to-GDP ratio has been driven primarily by persistent primary deficits rather than an adverse interest-growth differential.

According to a parliamentary economic report based on data from the French Ministry of Economy and Finance⁷, primary deficits contributed an average of 3.2ppts annually to the public debt-to-GDP ratio over 2017–2025, partly offset by a favourable snowball effect of 1.7ppts, while stock-flow adjustments added around 0.5ppts. More recently, this favourable snowball effect has faded, declining from –1.7ppts in 2024 to broadly zero in 2025, with a slightly positive contribution 0.1ppts projected for 2026 as rising debt-servicing costs increasingly offset the debt-reducing effect of nominal GDP growth. For 2026⁸ the primary deficit and stock-flow adjustments are projected to contribute 2.5ppts and 0.3ppts respectively, to the increase in the debt ratio. These developments underscore the importance of sustained primary fiscal adjustment and stronger economic growth for stabilising France's public debt trajectory.

Figure 9a & 9b: France's productivity and employment rates lag below those in peer economies



Source: OECD, Eurobank Research

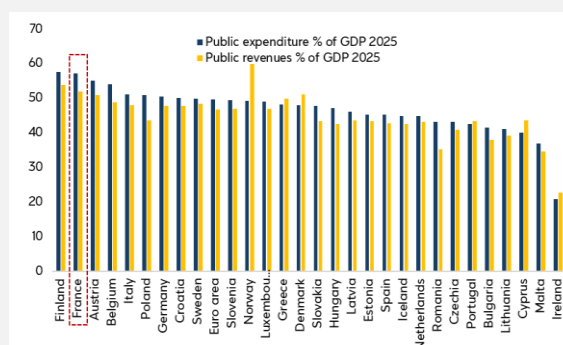
⁷ National Assembly (2026), Information report submitted pursuant to Article 146 of the Rules of Procedure, by the Committee on Finance, General Economy and Budgetary Control on the snowball effect of debt, No. 3006, 2 July 2026, https://www.assemblee-nationale.fr/dyn/17/rapports/cion_fin/117b3006_rapport-information

⁸ Direction générale du Trésor (2026), Rapport d'avancement annuel 2026, 22 April 2026, https://www.tresor.economie.gouv.fr/Articles/b16f3103-ed47-4c37-9362-11ff01e12ae5/files/1d29351b-0187-4837-a3cd-e4ea7b0e4ce1?utm_source=chatgpt.com

6. Structural Drivers of France's Fiscal Imbalances

France's fiscal imbalances have deep structural roots, as reflected in its long history of budget deficits and persistently high public expenditure. The country last recorded a general government surplus in 1974 (0.1% of GDP) and a primary surplus in 2001 (0.5% of GDP). Public debt rose sharply from around 60% of GDP in 2000 to nearly 115% in 2020 and has remained close to these historically elevated levels since then. This deterioration is not merely cyclical but reflects persistent structural pressures on public finances. A major contributor is France's high level of public spending, which reached 57.2% of GDP in 2025, the second highest in the euro area after Finland (Figure 10), and close to its 25-year average (56.4%), which is significantly higher than the corresponding euro area average (48.7%).

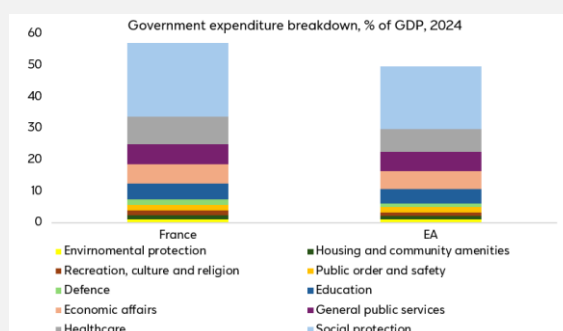
Figure 10: France records the second highest public spending to GDP ratio in the euro area



Source: Eurostat, Eurobank Research

A key driver of France's high public expenditure is its expansive social welfare system, particularly spending on social protection and healthcare programs (Figure 11). In 2024, these two categories accounted for 32.6% of GDP and 57.1% of public expenditure compared with the euro area average of 27.4% and 55.8% respectively, with population ageing expected to add further pressure to social spending over the medium term. Pensions represent a particularly significant component, accounting for 26.3% of public expenditure in 2024 or 15.1% of GDP, the third highest share in the euro area after Italy (15.9%) and Austria (15.6%) and well above the euro area average of 13%, according to the European Commission. France also records the highest spending on unemployment benefits in the euro area (1.8% of GDP), while expenditure on housing and social exclusion benefits ranks third (1.7% of GDP), behind Finland and the Netherlands, and stands at nearly twice the corresponding euro area average.

Figure 11: Expansive social welfare system a key driver of France's high public expenditure



Source: Eurostat, Economic Research

On the revenue side, public revenues stood at 52.1% of GDP in 2025, with tax revenues reaching 45.2% of GDP, the highest in the euro area and well above the euro area average of 40.6% (Figure 12). Given France's already high tax burden which may already be weighing on economic growth, particularly through its effects on labour costs, investment incentives and business competitiveness, the IMF⁹ cautions against relying

⁹ IMF, France: 2026 Article IV Consultation, Country Report No. 26/187
<https://www.imf.org/-/media/files/publications/cr/2026/english/1fraea2026001.pdf>

heavily on further tax increases to achieve fiscal consolidation, as this could undermine competitiveness, investment and economic growth. Instead, it recommends that additional revenue measures focus on closing tax loopholes, eliminating inefficient tax exemptions and strengthening tax compliance, while enhancing fairness.

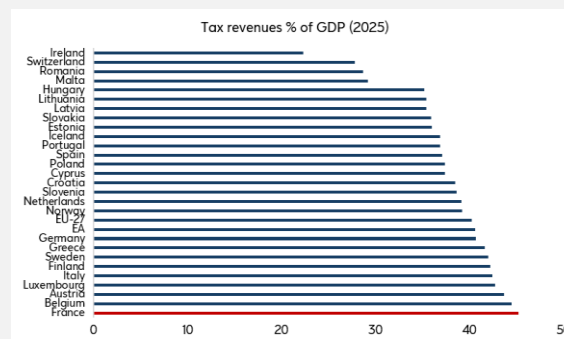
Structural inefficiencies in public spending and taxation further complicate fiscal consolidation. France's complex administrative structure characterised by overlapping responsibilities across different levels of government generates additional costs and limits spending efficiency. Moreover, despite comparatively high public expenditure on healthcare, education and social protection, there remains considerable scope to improve cost-effectiveness through greater spending efficiency and better targeting of social transfers. While France's social protection system plays an important role in reducing poverty and income inequality, its redistributive effectiveness relies heavily on the large volume of transfers rather than their precise targeting. The OECD also highlights the need to strengthen the implementation of spending reviews and systematically reassess tax expenditures. At the same time, the tax system's heavy reliance on social security contributions places a relatively high burden on labour and businesses, particularly through elevated employer contributions, which increase labour costs and may weigh on employment and competitiveness.

Against this backdrop, both the IMF and OECD emphasise the importance of improving public spending efficiency, strengthening fiscal oversight and pursuing structural reforms to boost productivity, employment and investment. These efforts are particularly important given mounting expenditure pressures from population ageing, defence commitments and the green and digital transitions. Achieving durable fiscal consolidation will therefore require better control and allocation of public expenditure alongside a more growth-friendly tax structure, while preserving productive investment and protecting vulnerable households.

7. Reforming France's Pension System and Greek Comparisons

Early-retirement provisions add to the complexity of pension reform in France. In 2024, approximately 19% of new retirees in the general pension scheme retired before the statutory retirement age with a full-rate pension, primarily through provisions allowing early retirement for individuals with long careers. France also belongs to the group of European countries offering relatively broad special pension provisions for hazardous or arduous occupations, according to the OECD. Demographic pressures compound these challenges: the number of contributors per pensioner declined from approximately 2.1 in 2002 to 1.8 in 2025 and is projected to reach around 1.3 by 2070. The financial sustainability of the system therefore depends not only on retirement ages but also on employment, contribution revenues and the evolution of pension benefits.

Figure 12: France has the highest tax-to-GDP ratio in the euro area



Source: Eurostat, Economic Research

Pensions have been a major sticking point in France's budget process and remain politically contentious. Lacking a parliamentary majority, the government sought to break the political deadlock surrounding the 2026 budget by agreeing to pause until 2028 scheduled increases in the statutory retirement age, from 62 to 64, that were part of Macron's 2023 pension reform. The concession eased immediate political tensions but deferred part of the challenge of financing pensions, complicating efforts to rein in the budget deficit. The government's draft 2027 budget revisits the issue, targeting €5.5bn in savings through restrictions on pension-related tax allowances and below-inflation indexation for retirees above specified pension-income thresholds. These measures remain subject to parliamentary approval.

France's mandatory pension system comprises both basic statutory pensions and complementary pension schemes, notably Agirc-Arrco for private-sector employees. Despite their designation as supplementary pensions, these schemes constitute mandatory retirement benefits and operate predominantly on a pay-as-you-go (PAYG) basis, rather than through individual capital accumulation. Both components therefore depend largely on contributions from the current workforce, exposing the overall system to demographic and labour-market developments. Voluntary occupational and individual retirement-savings arrangements provide an additional funded component, although their contribution to current retirement income remains limited. According to France's statistical agency for social policy, DREES, these schemes paid approximately €8.9bn in benefits in 2024, equivalent to roughly 2% of annual expenditure under France's mandatory pension system, illustrating the continued predominance of PAYG financing.

The scale of the French pension system is considerable. According to France's Pension Advisory Council (COR), total expenditure across the mandatory pension system amounted to €422bn in 2025, equivalent to 14.1% of GDP and 24.3% of total public expenditure, making pensions one of the largest components of public spending. This figure represents aggregate pension benefits, rather than a direct transfer from the central government budget. Employment-related social contributions provide approximately two-thirds of the system's financing, with the remainder coming principally from public transfers and earmarked taxes. At the end of 2024, some 17.3 million people received a direct pension entitlement, with an average monthly pension of €1,705 gross among retirees residing in France.

Compared with the Greek pension system, which was substantially consolidated and unified through successive rounds of reforms during the sovereign debt crisis, France's pension system remains more fragmented, comprising multiple basic and mandatory supplementary schemes for different occupational groups. However, both rely predominantly on PAYG financing. Greece's main public pension system is administered principally through EFKA and combines a flat-rate national pension with an earnings-related component. At the same time, supplementary pensions are provided through the existing PAYG scheme for current beneficiaries and previously insured workers, while a mandatory funded supplementary scheme (TEKA) began operating at the start of 2022 for new entrants to employment subject to supplementary insurance. Although both countries rely predominantly on PAYG financing, Greece is gradually expanding the funded component of its pension system through TEKA.

For an average earner completing a full career, OECD estimates put the prospective net pension replacement rate at 70.0% in France and 88.5% in Greece, although these figures represent modelled future entitlements under specified career assumptions rather than replacement rates currently observed among retirees. Greece's relatively high prospective replacement rate nevertheless represents a reduction compared with the pre-crisis pension framework. OECD estimates reported in *Pensions at a Glance 2011* indicated a net replacement rate of approximately 111% for an average earner completing a full career, compared with the 88.5% figure under the current framework in *Pensions at a Glance 2025*. Although changes in modelling assumptions limit exact comparability, the figures illustrate the substantial adjustment of Greek pension entitlements following the sovereign debt crisis. According to Eurostat, the observed aggregate pension replacement ratio stood at 61% in France and 77% in Greece in 2025, measured as the median gross pension income of people aged 65–74 relative to the median gross earnings of those aged 50–59. The Greek pension system has also undergone considerable fiscal adjustment. Public pension expenditure stood at approximately 14.4% of GDP in 2010. The European Commission's 2024 Ageing Report estimated expenditure at 13.4% of GDP in 2024, with a projected decline to 12.0% by 2070. Nevertheless, pensions continue to absorb a substantial proportion of public resources, accounting for approximately 28.5% of general government expenditure in the OECD's latest available observation. The central achievement of Greece's pension reforms has therefore been to contain the future expenditure trajectory despite pronounced population ageing, rather than to significantly reduce the current fiscal burden of pension provision.

Looking ahead, the long-term financial sustainability of France's pension system remains a significant concern. In its June 2026 report, COR projected that pension expenditure would rise from 14.1% of GDP in 2025 to 15.3% by 2070, while the system's financing deficit would widen from 0.2% to 2.4% of GDP under current policies. The predominance of PAYG financing leaves retirement incomes heavily dependent on future contribution revenues, although France has a more developed funded pension sector than Greece. According to the OECD, assets held in funded pension plans amounted to 12.9% of GDP in France at the end of 2024, compared with just 1.1% in Greece, which has the lowest ratio among OECD countries. However, these figures reflect different starting points, as Greece only recently introduced the TEKA scheme, with the gradual accumulation of assets expected to increase the funded component of its pension system over time. France has a more established market for individual and employer-sponsored retirement savings, including *Plans d'Épargne Retraite* (PER), whereas Greece's occupational pension funds (TEAs) remain comparatively small, alongside the newer TEKAs. Nevertheless, funded pensions account for a relatively modest share of overall retirement provision in both countries and cannot, by themselves, resolve the financing pressures facing their public pension systems.

Demographic ageing is set to intensify financing pressures on France's pension system, although the country faces a less adverse demographic outlook than Greece. According to OECD projections, the number of people aged 65 and over per 100 people of working age (20–64) is projected to rise, from 40, to 53 per 100 working-age people between 2024 and 2054 in France, compared with a much sharper increase from 42 to 71 in Greece.

The comparatively more favourable long-term expenditure outlook for Greece, despite its more adverse demographic projections, largely reflects the structural reforms implemented during the sovereign debt crisis. These included increases in statutory retirement ages, restrictions on early retirement, closer links between contributions and pension entitlements, consolidation of pension funds and the introduction of mechanisms constraining supplementary-pension financing. In particular, the reforms sought to limit reliance on state-budget transfers to supplementary PAYG schemes through financial-balancing provisions, although the implementation of the original zero-deficit rule was uneven. Greece also introduced an indexation mechanism under which increases in main pensions reflect inflation and real GDP growth in equal proportions, subject to an inflation ceiling, helping to contain expenditure growth when economic performance is weak. France has comparable features in certain respects, including inflation-based indexation of basic pensions and financial-balancing arrangements within Agirc-Arrco, but lacks an equivalent system-wide GDP-linked indexation rule. These differences help explain why Greece's projected pension expenditure is expected to decline over the longer term despite stronger demographic headwinds, whereas France faces increasing pressure to reconcile pension commitments with fiscal sustainability.

Indeed, according to the European Commission's 2024 Ageing Report, public pension expenditure in Greece is projected to decline by 2.5 percentage points of GDP between 2022 and 2070, compared with a decline of 0.9 percentage points in France. Nevertheless, France's demographic outlook has deteriorated considerably, with its fertility rate falling to 1.56 children per woman in 2025 and deaths exceeding births for the first time since the Second World War. It should also be noted that the European Commission's 2024 Ageing Report projections and COR's June 2026 estimates are based on different assumptions and information sets. In particular, COR's more recent projections incorporate a deterioration in France's demographic outlook, resulting in a less favourable long-term expenditure trajectory than envisaged in the earlier European Commission exercise. These demographic pressures will further strain France's PAYG pension system at a time when persistent budget deficits and rising public debt constrain the government's fiscal room for manoeuvre. Absent offsetting reforms, the resulting increase in pension financing requirements could further complicate efforts to stabilise public debt and heighten concerns over France's long-term fiscal sustainability and sovereign creditworthiness.

8. Conclusion

France faces significant challenges in restoring fiscal credibility, with the approaching 2027 presidential election adding considerable uncertainty to an already difficult consolidation process. Although the government's draft budget envisages a reduction in the fiscal deficit to 5.0% of GDP in 2027, weak economic growth, elevated borrowing costs and persistent expenditure pressures pose substantial risks to achieving this target. Political fragmentation further complicates the outlook, as parliamentary concessions or a potential revision of fiscal policy following the presidential election could weaken or delay the planned adjustment.

More fundamentally, even successful implementation of the proposed measures would be insufficient to stabilise public debt. Achieving durable fiscal consolidation will require sustained expenditure restraint alongside structural reforms aimed at improving spending efficiency, strengthening growth potential and

addressing mounting pension-related pressures. The next administration's ability to establish a credible medium-term fiscal strategy and secure the political support necessary for its implementation will be critical to restoring investor confidence and containing risks to France's sovereign debt sustainability.

Despite its deteriorating fiscal outlook, France does not appear to face an imminent sovereign debt crisis, but rather significant medium- to long-term fiscal sustainability risks. Its continued access to capital markets, relatively long average debt maturity, strong economic fundamentals, including a large and diversified economy and a broad tax base, and the absence of major near-term debt refinancing pressures, reduce the likelihood of an abrupt funding crisis. The ECB's capacity to intervene in the event of disorderly market fragmentation provides an additional safeguard, although such support is subject to certain conditions. Nevertheless, persistent fiscal deficits, rising debt-servicing costs and political uncertainty could gradually further undermine debt sustainability, potentially triggering more acute market tensions if investor confidence deteriorates sharply. Given France's systemic importance, a sustained loss of market confidence could have significant spillover effects across the euro area.

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