Is France in Trouble?

Many European monetary policymakers have suddenly taken a keen interest in the strength of the French economy.

If the European Central Bank attempts to bring inflation down to 2 percent from 3 percent, they fear that France could fall into a recession and Italy could face a debt crisis wreaking havoc on its banking system. Meanwhile, Germany would largely remain unaffected.

Is the country on the economic performance level of Mississippi?

In a recent speech, ECB board member Isabel Schnabel noted that the public debt of the major eurozone economies in relation to GDP has jumped to levels not seen since just after World War II, with France topping the leaderboard. Her worry is that the ECB could face a situation where securing the state's solvency is given priority over inflation fighting, forcing the central bank to monetize the public debt. ECB strategists are calling this structural factor potentially threatening the central bank's independence "fiscal dominance."

Complicating this situation, they say, is the growing indebtedness of the real economy. It is here where France again stands out. In France, the indebtedness of non-financial companies is 155 percent of GDP, compared to 122 percent in Belgium, 90 percent in Germany, and only 59 percent in Italy. As German financial analyst Stefan Schoenberg notes, "That means that Italy's problem is mostly with its sovereign debt. By comparison, France faces not only soaring sovereign debt but the highest corporate debt of all major European economies."

Note too that France's unusual predicament has unfolded at a time when the ECB's narrow mandate of price stability has not prevented the central bank itself from becoming an important fiscal policy player. As Schoenberg puts it, "SMP, OMT, PSPP, and TPI—the alphabet soup of ECB purchase programs—is likely to grow as green monetary policy takes over." Europe is also working to beef up its defense.

Meanwhile, some analysts ask whether France's low-per-capita-GDP economy puts the country on the economic performance level of Mississippi, the American state with the lowest per capita GDP. This comparison with Mississippi has spawned a debate over the accuracy of economic measurements. But the more important question is what happens to the French economy if the ECB follows its narrow mandate and raises short-term interest rates in an attempt to hit a 2 percent inflation target. And if France—an original member of the G5 group of top industrialized economies—goes into crisis, how will global financial markets react? Or is this worry about the French economy grossly exaggerated?

Nearly two dozen noted experts offer their analyses.

The welfare state has been the key driver for the rise in public debt. Now it is crashing.

THOMAS MAYER
Founding Director, Flossbach von Storch Research Institute, and former Chief Economist, Deutsche Bank Group

The welfare state, so cherished by the Europeans in general and the French in particular, has been the key driver for the rise in public debt. Now it is crashing as the public debt it has created is no longer sustainable. France is in the lead, as it was at the birth of the welfare state, when its citizens not only demanded *liberté,* as the Federalists in the United States did, but also *égalité* and *fraternité.*

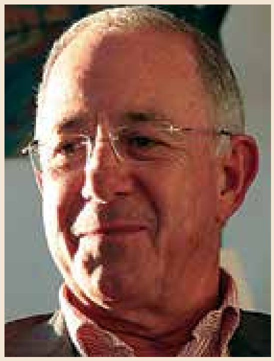
The welfare state is a child of the machine age, which followed the agricultural and craft economy at the end of the eighteenth century. It gained momentum in the nineteenth century and reached maturity in the second half of the twentieth century. Contrary to the predictions of Karl Marx, the machine age was not brought down by its driving force, capitalism. Instead, it gave birth to the welfare state: at the end of the nineteenth century with social insurance in Germany, at the beginning of the twentieth century with National Insurance in the United Kingdom, and in the 1930s with the New Deal in the United States.

Now the machine age is succeeded by the network economy. First came the microprocessor, then the World Wide Web, and most recently artificial intelligence. Owing to increasing economies of scale and a "winner-takes-most" economy, the network age will bring more inequality. Those who are in or close to it are gaining, others who are further away are losing. The equalizing welfare state of the machine age is unfit for the new reality.

But it has been hogged by the generation of the Baby Boomers. As of the mid-1960s, they had fewer children and consumed the demographic dividend. Now they enter retirement and expect to draw benefits for two decades or more. As they often joined the workforce towards the end of their twenties and intend to leave it by their mid-sixties, they expect that thirty-five years of work will be enough to fund fifty years without it. This will not succeed. But as they command a very large share of the votes, no politician dares to confront them.

The way out is more government borrowing. With public debt issuance exerting upward pressure on interest rates, central banks will be called upon to monetize the debt. The welfare state will go down in the flames of financial repression and inflation. This is a general predicament, but France holds the pole position. Its government finances are out of control, and its dysfunctional politics prevent any adjustment to the new reality. It will drag the other members of the European Monetary Union—who lack the determination and strength to change course—with it.

The network economy will be ruled by Asia and the Americas, where the Milei administration in Argentina offers an even friendlier regulatory environment for AI than the Trump administration in the United States. Europe, where the age of the machine economy began, will be turned into a retirement home for poor pensioners. Should one give in to it? No. There is a Germany saying: You don't stand a chance, but go for it.



France is a shipwreck kept afloat only by the huge inflatable rescue boat known as the euro system.

PHILIPPE RIÈS
Former Chief Economics Editor and Tokyo and Brussels Bureau Chief, Agence France Presse

"It's the politics, stupid."

France is entering the troubled waters of the next presidential election, in April 2027, on a shipwreck kept afloat only by the huge inflatable rescue boat known as the euro system. In a recent issue of *TIE* (Fall 2025), I explored the historical background and the longstanding sociological trends behind the country's half-century-old vagaries of public finance. But now is the time when EU institutions will have to face the political consequences of their complacency toward a large founding member deemed "too big to fail" and too influential to confront.

The growing influence of right-wing populist parties has been a common feature in most European countries, where the obsolete welfare-state model is crumbling under the weight of global competition and demographic trends, kept on life support by ever-growing public debt now at levels unseen in peacetime. But France is not only the worst recent performer in that regard. It is suffering from two distinct political conditions that compound its economic and financial troubles.

The first is the presidential system itself. Every five years, French voters are called upon to elect a "savior" expected to put to good use constitutional powers unrivaled among other Western liberal democracies. Except that these "powers" have become increasingly illusory, producing a frustration commensurate with the unfounded expectations.

The outgoing head of state, Emmanuel Macron, was elected in 2017 and reelected in 2022 as a default candidate, because the alternative, Marine Le Pen of the right-wing populist National Rally, was simply unpalatable to most of the moderate electorate. Next spring, given Le Pen's judicial troubles, the National Rally candidate will very likely be Jordan Bardella, a thirty-year-old poster boy with about as much gravitas as a smooth-faced humanoid AI. But—and this is the other unique feature of French politics—his opponent in the decisive second round could well be Jean-Luc Mélenchon, a seventy-four-year-old former Trotskyist running for the fourth consecutive time, and an admirer of the late Fidel Castro and Hugo Chávez.

Despite sitting at opposite extremes of the political spectrum, the National Rally and Mélenchon's La France Insoumise (France Unbowed) have much in common. Right-wing and left-wing populism are two faces of the same counterfeit coin. Their economic platforms are equally oblivious to the country's actual conditions and capabilities. Their attitudes toward Russian President Vladimir Putin's aggression in Ukraine are ambiguous at best. And, most importantly, they share a common hatred of the European project.

Neither is advocating a Frexit—that would frighten away large swaths of the electorate. But both would turn the relationship with Brussels and other member states into a game of chicken likely to trigger a major European crisis. For example, the National Rally wants to cut France's contribution to the EU budget by 50 percent, while La France Insoumise is planning to unilaterally "suspend" any European law or regulation it regards as contradicting its platform.

The worst is never a given. The election is still a long way off, and the current political fog could clear by early next year. The moderate, pro-Europe center-right—the only alternative to the extremes—might still manage to unite behind a candidate capable of facing Bardella in the second round.

So how should the key European institutions, especially the European Central Bank, navigate the coming months? Obviously, they should refrain from any interference that would play into the hands of the extremes. But when it comes to monetary policy decisions, the ECB should stick rigorously to its mandate. The very low, or even negative, interest-rate environment that major central banks' unconventional policies sustained for too long should at least have been used to tackle the ballooning public debt. France has only itself to blame for having taken the opposite course.

Should the worst-case scenario materialize next May and trigger a French financial and banking crisis, the European Commission and the ECB, along with the International Monetary Fund, would need to ride the powerful wave that financial markets would inevitably generate—and at long last force Paris to get its act together. It worked with the PIGS in 2011–2013. France is no different an animal, and deserves the same treatment. For its own good.

France has become increasingly ineffective at transforming world-class science, engineering, and innovation into productivity growth and globally competitive firms.

PIROSKA NAGY MOHÁCSI

Visiting Professor, London School of Economics and Political Science

France's debt burden dominates political debate, but the country's deeper challenge lies elsewhere. Despite producing world-class science, engineering, and innovation, France has become increasingly ineffective at transforming technological excellence into productivity growth and globally competitive firms—a problem that extends across much of Europe.

France's public debt, now above 110 percent of GDP, is certainly a concern. Yet countries can sustain high debt levels when they generate robust productivity growth and maintain confidence in their economic prospects. Moreover, part of France's debt—particularly that acquired through quantitative easing—is held by the central bank and is effectively becoming a perpetual obligation. The Banque de France, after all, still carries some government debt dating back to the Napoleonic wars.

Corporate debt, at more than 150 percent of GDP, is elevated but lower than in some other G7 countries, while the sector also holds substantial assets.

The more fundamental question is why France is not growing faster despite rising indebtedness and despite possessing some of the world's finest scientists, engineers, and research institutions.

France remains a technological powerhouse. It pioneered civilian nuclear energy, helped build Airbus into a global champion, developed one of the world's most extensive high-speed rail networks, and continues to produce frontier research in mathematics, physics, artificial intelligence, and biotechnology.

The problem is not invention, but scale.

France excels at producing discoveries but is less successful at turning them into globally dominant firms and economy-wide productivity gains. The contrast with the United States is instructive. America not only invents; it commercializes, finances, and scales. Silicon Valley's success rests not merely on technological brilliance but on an ecosystem that combines venture capital, flexible labor markets, deep capital markets, entrepreneurial culture, and a willingness to tolerate failure.

France—and Europe more broadly—often struggles precisely at this stage.

Part of the explanation lies in Europe's fragmented economic architecture. A startup that succeeds in California gains immediate access to a market of more than 340 million consumers operating under a single regulatory, legal, and financial framework. A French startup seeking continental scale still encounters multiple regulatory regimes, capital markets, tax systems, and administrative barriers. Europe has created a common currency but has yet to complete the single market in finance, digital services, and innovation.

France is not an innocent bystander or victim of this fragmentation but, in one way or another, an active participant when it comes to protectionist measures that undermine a truly integrated European market.

None of this is uniquely French. Germany faces its own productivity slowdown and protectionist temptations. Italy struggles with weak innovation diffusion. Across Europe, Mario Draghi's warnings about declining competitiveness reflect a common concern: a continent that remains scientifically sophisticated but increasingly struggles to translate knowledge into growth. Yet the remarkably clear diagnosis has not been matched by implementation of the equally clear remedies proposed by the Draghi and Letta reports, the International Monetary Fund, and others. Cross-border acquisitions remain rare, while obvious areas for European-level action, such as defense, continue to disappoint—as the recent collapse of the Franco-German FCAS combat aircraft project demonstrated.

The policy focus should shift toward the political economy of protectionism: understanding why national interests repeatedly override the broader European interest. Let us name and shame.

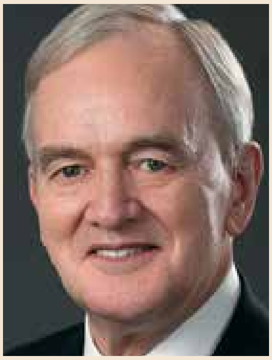
Europe should also think more boldly. It could import managerial talent much as it attracts scientific talent. Just as football clubs recruit the world's best coaches, European governments and firms might consider bringing in a handful of proven technology entrepreneurs and scale-up executives from the United States, compensating them accordingly and giving them a mandate to identify and dismantle the barriers that prevent European innovations from becoming global champions.

The proposal may sound heretical. But Europe does not need more American scientists; it already has plenty of its own. It needs a few American "scale architects"—people who have repeatedly transformed breakthrough technologies into global businesses.

France's problem is not debt. It is scale.

Yet scale cannot be built while national governments continue to defend national champions, national regulations, and national exceptions.

France needs more Europe. But it must also be willing to allow more Europe.



France is in serious financial and economic trouble.

WILLEM BUITER
Former Global Chief Economist at Citigroup

France is in serious financial and economic trouble. Its general government gross debt-to-GDP ratio was 116 percent (and rising) in 2025. It was 123.9 percent for the United States. France's general government cyclically adjusted deficit was 5 percent of GDP in 2025. For the United States, this was 7.2 percent. Among the larger countries of the euro area, only Italy is in the same league as regards fiscal unsustainability. Germany, while no longer a model of fiscal and financial rectitude, benefits from the low public debt burden inherited from a more virtuous fiscal-financial past. The United States, Japan, and the United Kingdom are also in terrible fiscal-financial shape.

If there is no early recourse to material fiscal austerity, financial markets will become increasingly reluctant to finance new issues of public debt at manageable interest rates. A complete stop to market absorption of public debt is likely. In euro area member states, this reflects the fear of sovereign default and/or the fear that, when faced with the choice between the systemic financial crisis associated with sovereign default and higher inflation triggered by large-scale monetized ECB purchases of sovereign debt, the ECB will rank systemic financial stability above price stability, even if this violates the Treaties (TEU and TFEU). If the ECB refuses to monetize French sovereign debt that the market refuses to absorb, the French government can default in two different ways. France can remain a member of the euro area and write down its sovereign debt to a sustainable level. Alternatively, there could be Frexit—France leaving the euro area (and possibly the European Union)—and redenominating its sovereign debt in TNFs (*Tout Nouveaux Francs*)—with the initial exchange rate of the euro and the TNF set to impose a massive capital loss on the holders of euro-denominated French sovereign debt.

The odds of the Fed not monetizing enough U.S. sovereign debt if the alternative is default are very low. Even if the Federal Open Market Committee were to choose price stability over sovereign solvency and financial stability, the executive branch of the U.S. federal government could suspend or abolish central bank independence and force the Fed to monetize the otherwise unabsorbable debt. The same holds for the United Kingdom, Japan, and any other nation in which a single finance minister or treasury secretary faces the central bank. In the euro area, however, a single central bank faces twenty-one national finance ministers. There is a material likelihood that the ECB Governing Council, consisting of six Executive Board members (each with one vote) and twenty-one governors of the national central banks (eighteen of which can vote at any time) could resist pressure from any euro area member state government.

Is a restoration of fiscal sustainability without public debt restructuring or inflationary debt monetization possible in France? Significantly higher long-term economic growth seems extremely unlikely. Significant tax revenue increases and/or public spending cuts are highly unlikely. France's general government revenue as a share of GDP was 52.4 percent in 2025. Of the thirty-eight countries covered in the April 2026 IMF Fiscal Monitor, only fiscally sustainable Finland and natural resource-driven asset-rich Norway have higher revenue ratios in 2025. Italy's and Germany's general government revenue ratios are 47.9 percent, the United Kingdom's is 38.3 percent, Japan's is 35.8 percent, and that of the United States is 30.8 percent. A meaningful increase in France's general government revenue ratio is unlikely, not only because of political resistance but because, given the existing tax burden, even-higher tax rates are likely to depress the tax base, both through adverse incentive effects and through tax avoidance and evasion. French fiscal sustainability will require a meaningful reduction in public spending (currently 57.4 percent of GDP) by at least 4 percent of GDP for the general government to have a surplus on its cyclically adjusted primary (non-interest) balance of at least 1 percent of GDP. It is hard to visualize the French polity implementing such cuts. Even if they were implemented, such a fiscal contraction would likely result in a serious recession, with a significant cyclical decline in tax revenue. Without large-scale ECB/Eurosystem purchases of French public debt, the government would be likely to face a funding crisis. Since the government would be implementing the right policies to ensure sovereign solvency, the ECB would likely engage in purchases of French public debt on a scale sufficient to enable the French government to reach the distant shore of debt sustainability.

France now is the weakest fiscal link in the eurozone.

CHARLES W. CALOMIRIS
Senior Scholar, Andersen Institute for Finance and Economics

France has arrived at an unsustainable fiscal impasse. Its sovereign debt-to-GDP ratio stands at 113 percent, its fiscal deficit is 6 percent of GDP, and its government debt-to-GDP ratio is projected to rise to 125 percent by 2030. France now is the weakest fiscal link in the eurozone. French ten-year bonds have a yield to maturity 70 basis points above Germany's. If historical experience is any guide, without major fiscal reform, in less than four years the market will conclude that a French default (or European Central Bank bailout) is certain.

An ECB bailout is likely because France is one of the largest and most politically powerful countries in the eurozone. France (with Germany) was at the center of the euro's creation. Two of the ECB's four presidents have been French, including its current president, Christine Lagarde.

A new ECB policy instrument to monetize French debt is conveniently on hand. In 2022, the Transmission Protection Instrument was created. It can be used to counter "unwarranted, disorderly market dynamics," permitting the ECB to purchase the government debt of any member country in response to declining market prices. Although French fundamentals, if they persist, would justify a major further price decline in French debt, the ECB is free to view it as "unwarranted," which is the obvious path of least resistance.

If the TPI were used to bail out the French, under its rules the ECB is supposed to prevent any consequent acceleration of inflation by reducing its purchases of other debts. But how will other eurozone members react to a bailout of profligate France that reduces ECB purchases of their debts? For that reason, France's fiscal crisis may lead the ECB to tolerate a rise in inflation, even though that's contrary to its charter.

The eurozone operates under a common fiscal standard known as the Maastricht criteria, which limits each country's fiscal deficits to 3 percent of GDP and its government debt to 60 percent of GDP. But it's toothless. France has violated the Maastricht criteria for years, routinely promising fiscal reforms (like increased retirement age) that never materialize. The percentage of people in France working after age sixty-five is only 4 percent, compared to 7 percent in Germany, 9 percent in the United Kingdom, 20 percent in the United States, and much higher percentages in Japan and Korea. There is lots of opportunity for significant French fiscal reform, but so far, no appetite.

All attempts to contain France's debt burden have failed.

THOMAS MIROW

Acting Chairman, German National Foundation, and former President, European Bank for Reconstruction and Development

France, Europe's second-largest economy, obviously is pivotal for the future of the European Monetary Union—and the EMU being the center piece of today's European Union, the continent's future is at stake should risks of a debt crisis materialize.

During his two terms in office, President Emmanuel Macron has tried in many ways to improve France's business climate and to foster the country's competitiveness.

In a number of areas, his endeavors have proved quite successful. The labor market has become more flexible. Foreign investments have risen markedly. The start-up scene is remarkably buoyant.

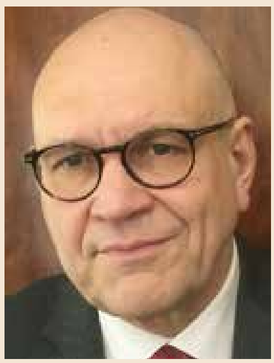
And though not only public, but also private sector debt is worryingly high, the country's financial system looks quite stable. French banks and insurers display quite robust balance sheets that would allow them to absorb a considerable portion of potential external shocks.

However, all attempts to contain France's debt burden, reduce the public share of GDP, and adapt the relevant welfare systems have more or less failed. The only big move, raising the pension entry age, has always been fiercely contested and proved impossible to be implemented.

So here is France's key problem. Civil society is deeply unwilling to accept any major cut in its welfare benefits, many of which were acquired after long and hard political fights beginning in the early twentieth century. It's no surprise, therefore, that since the 2024 snap elections, center parties that favor reforms have lost the majority in the National Parliament. Worse, as seems possible—and domestic as well as foreign investors will be watching closely—it can't be ruled out that the candidates from the far left and far right might make it into the second round of the forthcoming presidential election, leaving no realistic prospect for a solid growth path and a concise strategy to address the rapidly growing sovereign debt burden.

Although France seems for now sufficiently equipped not to undergo any immediate financial or economic crisis, there is an undeniable risk that it might face a period of economic stagnation alongside a risky debt development.

This might force the European Central Bank to face hard choices: between the need to stick to its mandate and contain inflation in the whole euro area, versus France's expectation that it not exacerbate the country's problems. Whether the tools at hand, especially the so-called "Transmission Protection Instrument" that would allow the ECB to buy French bonds in order to avoid fragmentation of the EMU, would suffice to fully address possible stress situations remains to be seen.



The risks are real and should not be underestimated, but they should also not be overstated.

LORENZO CODOGNO

Visiting Professor in Practice, London School of Economics and Political Science, and Founder and Chief Economist, Lorenzo Codogno Macro Advisors Ltd.

France enjoys a rich and diversified advanced economy, with growing exposure to technology and advanced services. Yet it has public finance problems, partly linked to its unstable and fragmented political situation.

Debt in advanced economies reached 108 percent of GDP in 2025, according to International Monetary Fund estimates. Under the European Commission's gross debt definition, debt-to-GDP ratios were 82.8 percent and 88.7 percent in 2025 for the European Union and the eurozone, respectively. Greece's debt stood at 146.1 percent, though it was declining rapidly. It was 137.1 percent in Italy and 115.6 percent in France. Greece had a primary surplus of 4.9 percent of GDP, Italy a 0.8 percent surplus, and France a 2.5 percent deficit. The average cost of borrowing was 2.9 percent for Italy, but only 2.0 percent for France. All high-debt countries in the eurozone are exposed to interest-rate shifts, but, starting from such a low level, interest rates can only rise in France at current interest rate levels. So, it is not surprising that the European Commission's projections point to further increases in the French debt ratio. Considering the debt dynamics and the interplay among estimates of potential growth, nominal interest rates, the structural primary balance position, and the starting debt ratio, there is an upside risk. Yet there are also some positives for France. Estimates of potential growth were at 1.2 percent for 2025, that is, somewhat higher than in other major countries (-0.2 percent in Germany, 0.8 percent in Italy). Moreover, despite the current stalemate in French politics, the government managed to reduce the primary deficit from 3.7 percent in 2024 to 2.9 percent in 2025. While fiscal consolidation remains a challenging endeavor, a more stable and stronger government should make it feasible without draconian efforts. Private debt is also high in some countries, but combining the two sectors is not entirely appropriate.

There are two possible challenges for central banks. One is a direct attack from the government, as we have seen in the United States with President Donald Trump. The other, more subtle threat comes from fiscal dominance. No matter how independent the central bank is—and indeed the European Central Bank is probably the most independent, with its prerogatives enshrined in the European Treaty—there remains a danger of creeping fiscal dominance. Beefing up defenses against financial instability, and maintaining the singularity of the monetary union and the solidity of the euro are part of the central bank's mandate. But beyond certain limits, this may compromise the independence of monetary policy, which would have to follow other priorities, and that is the risk in the eurozone.

A rich and diversified economy such as the French one, enjoying a low cost of energy due to nuclear power, good demographic dynamics, and a decently strong domestic demand, has all the potential to address its fiscal problems. The real issue is about the political will to do it, and the voters' understanding of what is needed. The risks are real and should not be underestimated, but they should also not be overstated.

The real problem in France is severe political polarization.

JOSEPH E. GAGNON
Senior Fellow, Peterson Institute for International Economics

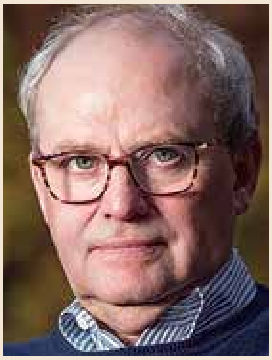
France's high public and private debt levels have attracted the concern of economic observers both in and out of Europe. The government's inability to bring its deficit into line with the Stability and Growth Pact raises the specter of a bond market crisis in the euro area's second-largest economy. Although France's economic performance is not stellar, neither is it as bad as commonly believed. Rather, the crux of the issue is pure politics and the emergence of a policy consensus to move forward probably will require that things get worse before they can get better.

On the economics, France has been growing more slowly over time, which makes debt harder to deal with, other things equal. But the main reason for slower growth is declining population growth, which affects many countries around the world and also contributes to lower interest rates that make debt easier to deal with. France is actually outpacing its European neighbors in maintaining a modestly growing population.

A better measure of economic performance is per capita growth. Here France is doing a bit worse than its neighbors to the south and east, but mainly because they are catching up from a relatively worse historical position. In terms of the all-important comparison to America, France is holding its own.

A recent debate on the internet concerns how to compare per capita growth across countries. It appears that the United States does dominate some fast-growing technology sectors. But falling prices in these sectors mean that the benefits of growth are widely shared. Rather than argue over different ways to calculate real growth rates, a simpler approach is to compare the market value of GDP per capita. The United States has consistently topped France on this measure, largely because of a lower unemployment rate and longer working hours. But the ratio of French GDP per capita to U.S. GDP per capita was the same in 2025 as in 1985. In other words, French per capita output grew at exactly the same rate as U.S. per capita output on average over the past forty years.

The real problem in France is political polarization caused by sharp disagreements over the source of French malaise and how to deal with it. The issues here include immigration, inequality, and cultural values. Debt problem urgency is not yet apparent to most French voters, in part because low interest rates mean a given level of debt is not the burden it used to be. At some point, rising debt and market jitters will push interest rates high enough to strangle economic growth. Then voters may listen to proposals to get debt under control. But we are not there yet.



France's current course is hardly sustainable.

ANDERS ÅSLUND
Author,* Russia's Crony Capitalism: The Path from Market Economy to Kleptocracy *(2019)

For centuries, France has been one of the dominant countries of Europe, but it reached its political and economic peak at the Peace of Westphalia under Cardinal Richelieu in 1648. It stayed at the top until Louis XIV concluded the Peace of Utrecht in 1713. Ever since, it has been declining, though remarkably slowly. Has France finally reached a crucial turning point? Its current course is hardly sustainable.

Most European countries have gone through serious crises. Scandinavia around 1990 and Eastern Europe with the collapse of communism. Southern Europe in the euro crisis from 2010, but France kept afloat. The French live well, but better than they can afford.

France suffers from too-high public expenditures, too-generous social benefits, too-high taxes, an excessive public debt, and a political system that impedes change.

At about 58 percent of GDP, France's public expenditures are higher than anywhere else. The EU average was 49 percent of GDP in 2025. Other European countries, notably Sweden, had even higher public expenditures at 70 percent of GDP in the early 1990s, but that led to a severe financial crisis and huge cuts.

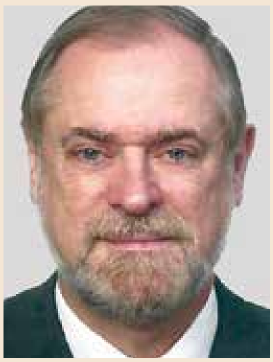
Unfortunately, France seems politically unable to rein in its high public expenditures, leading to a persistently high budget deficit of 5–6 percent of GDP and a public debt at 116 percent of GDP in 2025, almost as large as the U.S. federal debt. Within the European Union, only Greece and Italy have larger public debt, but they have smaller current budget deficits and thus lower interest rates.

President Emmanuel Macron has made heroic efforts to liberalize the French economy and raise the uniquely low retirement age from sixty to sixty-four years, but he has been forced to retreat and reduce it to sixty-two. Any attempt at cuts of public expenditures or higher taxes is encountered with violent demonstrations, with the French habit of burning cars.

Sadly, the insightful and talented Macron squandered his enormous political capital out of apparent arrogance, presenting his proposals without having sounded out anybody. Hence, everybody feels insulted and turns against him, and the national assembly has the power of the purse as in all democracies. This is the flaw of the French political system, currently the only presidential system in Europe.

Next April, France will have presidential elections. The situation looks awful. One extreme rightwing candidate from the National Rally (Jordan Bardella or Marine Le Pen) will go to a runoff. Will the other runoff candidate be an extreme leftist (Jean-Luc Mélenchon) or a centrist? Neither the right nor the left are likely to pursue any sensible reforms. The natural outcome would be a severe public finance crisis.

Alas, France needs a real crisis to wake up. A financial crisis might be the best option to prompt a constitutional change. France needs a functioning democratic system, which should be a parliamentary system.



France is now in a phase where its margin for policy mistakes is diminishing.

KLAUS F. ZIMMERMANN
Professor Emeritus, Bonn University, President, Global Labor Organization, and former President, German Institute for Economic Research

France is not yet on the brink of becoming the next crisis state in the eurozone. The country remains a large, diversified economy with deep capital markets, a sophisticated state, strong household savings, major global firms, and considerable political and institutional resources. The danger is subtler: France is now in a phase where its margin for policy mistakes is diminishing.

Recent French governments have not been inactive. Labor-market reforms, apprenticeship expansion, and pension changes have moved policy in the right direction. Employment performance has improved, and the French economy is no longer fairly described as unreformed. However, the changes have been incomplete, politically contentious, and inadequate. The pension system continues to be a significant burden on public finances, and health expenditures are still substantial and challenging to discipline. The labor market still combines relatively strong protection with persistent structural unemployment, alongside insufficient incentives at the margins. While France has implemented reforms to prevent stagnation, these changes have not been sufficient to regain fiscal credibility.

This matters because the political calendar is becoming an economic variable. With Macron's presidency nearing its end, the incentive for difficult adjustment weakens just as the need for it grows. France is not under immediate pressure from investors to achieve a balanced budget. However, investors do expect a credible plan for the medium term. Currently, this plan lacks persuasiveness. The country's public debt and deficits are substantial, and economic growth is insufficient to simplify the financial calculations.

The corporate debt issue reinforces the concern. France's problem is not merely sovereign borrowing. Its non-financial corporations are also highly leveraged by European standards. That does not imply an imminent wave of defaults. Many French firms are productive, international, and financially sophisticated. But higher interest rates expose balance-sheet vulnerabilities. When public debt, corporate debt, and weak growth coincide, the economy becomes more sensitive to monetary tightening.

The European Central Bank cannot solve this problem for France, since its mandate is price stability, not fiscal insurance. It can prevent disorderly market fragmentation if monetary transmission breaks down. It can act against panic. But it cannot rightfully take on the role of a perpetual buyer of French budget deficits without risking its independence. The concept of "fiscal dominance" is not just a theoretical notion. It underscores a real institutional danger: a central bank being forced to choose between controlling inflation and ensuring the stability of government financing.

The right conclusion is neither alarmism nor complacency. France is strong enough to avoid a sudden crisis if it restores confidence in reform and fiscal consolidation. However, it cannot rely solely on its size, historical significance, or eurozone membership to shield it from market discipline indefinitely. The challenge is not that France is already in serious economic trouble. Rather, the concern is its gradual progression toward a stage where preventing problems becomes significantly costlier.

France is not "the next Greece."

JOSEF BRAML

U.S. and geoeconomic expert and author

France is not on the brink of an immediate crisis—but it has become a structural fault line in the euro area. The problem is less today's stability than tomorrow's shrinking policy space.

President Emmanuel Macron still presents France as Europe's investment showcase: a "start-up nation" that attracts global chief executives to Versailles and channels capital into artificial intelligence, data centers, green technologies, cars, aerospace, and nuclear power. Yet the glitter masks a more ambivalent legacy.

Macron's pro-business reforms were real, but limited. Labor market rules were loosened, corporate taxes lowered, and a flat tax on capital income improved France's image among investors. Industrial employment has stabilized after decades of decline. But the deeper weaknesses remain: weak export performance, heavy bureaucracy, high labor costs, and an economy still struggling to translate attractiveness into durable competitiveness.

The central weakness is fiscal. Since 2017, France has grown more strongly than Germany and Italy, but less than the EU average—and much of that growth was bought with public spending rather than productivity gains. Public debt has risen from about €2.01 trillion in 2017 to roughly €3.5 trillion, with debt at around 115 percent of GDP, trailing only Greece and Italy in the eurozone. The deficit remains far above EU rules, while meaningful spending reform has stalled.

The labor market tells the same mixed story. Unemployment initially fell, helped by reforms and apprenticeship subsidies, but has risen again to about 8.1 percent. Youth unemployment remains close to 21 percent. The employment rate is historically high, yet still below Germany's and only around the euro-area average. France has moved closer to the European mean, not decisively beyond it.

This matters for the eurozone because France combines vulnerabilities rarely found together in advanced economies: high public debt, high corporate leverage, and limited growth dynamics. Public debt constrains fiscal flexibility. Corporate debt makes the real economy sensitive to interest-rate changes. Weak underlying growth complicates any attempt to deleverage through expansion.

If the European Central Bank tightens decisively, France risks recession faster than stronger core economies; if it hesitates, inflation credibility suffers. This is the political economy problem often described as fiscal dominance.

Macron's greatest failure may therefore not be that he misdiagnosed France's problems. In many respects he was right about labor, taxation, investment, and industry. The failure was implementation at scale. Political paralysis after the loss of his parliamentary majority in 2022, worsened by the 2024 snap election, slowed or reversed reforms. The pension-age increase from age sixty-two to age sixty-four was abandoned.

The political risk is now a change of course after Macron. If the Rassemblement National, currently leading in polls, succeeds him, parts of the liberal economic agenda could be unwound in favor of a more state-driven, tax-and-spend approach. France would then remain politically indispensable to Europe but economically more exposed.

France is therefore not "the next Greece." But it is a pivotal test case for the eurozone's institutional design. Stress can spread not only through sovereign bond markets, but also through banks and corporate balance sheets. The French question is ultimately whether Europe can reconcile fiscal sustainability, monetary credibility, and political cohesion in a harsher global environment.

Fiscal dominance is the real danger. France is too big to bail.

MARCEL KASUMOVICH
Senior Adviser, Evenflow Macro

Yes, France is in trouble. Not the dramatic kind, more the slow burn. And France has lived through far worse. It's built to survive it, with European solidarity—volunteered or not.

The numbers are unambiguous. Public debt sits at 118 percent of GDP and climbing. The deficit cleared 5 percent in 2025. Debt service now costs more than France spends on education or defense, and that's with relatively low rates.

It's a warning shot, and markets see it. Ten-year OAT yields at 3.6 percent run 65 to 70 basis points over German Bunds. France once paid 20 to 25 over, when it was part of the "core." A premium above 50 is the new normal. Markets price risk gradually, then all at once. After all, bond markets never announce the day they stop buying at yesterday's price.

TARGET2, the European Central Bank's plumbing for netting cross-border flows, is both glue and accelerant to the story.

When France runs payment deficits, its central bank racks up a phantom liability; Germany mostly holds the offsetting claim. That liability hit €187.4 billion in April. Five years ago, France ran a surplus. Even in 2012 it never crossed €100 billion. Capital is quietly leaving French banks, the accelerant.

Yet TARGET2 is also already fiscal union by the back door, the glue: its financing arm, uncapped, unvoted, and, since 2025, paying interest at the deposit rate. The mutualization Europe keeps debating is not a future choice. It's live in the payments system, with plausible deniability because it's "technical."

Churchill understood the pattern. "When a country undergoes so frightful a catastrophe as France, every other evil swarms down upon her like carrion crows." Today's catastrophe is fiscal. But the crows are the same. Soaring sovereign debt, a market increasingly alert to the risks, and a central bank cornered into fiscal dominance.

Fiscal dominance is the real danger, not a Greek-style default. France is too big to bail. The International Monetary Fund can't ride to the rescue. The European Central Bank's "whatever it takes" reflex was easy against deflation. Now, energy and artificial intelligence shocks have driven eurozone inflation past 3 percent, with the ECB hiking. The solution is for France to "bail in" everyone else.

Watch the rhetoric shift toward mutualization. Macron renewed the Eurobond push, dressed in defense, green tech, and digital sovereignty. But Eurobonds would not create mutualization. They would just move TARGET2 from the back door to the front. France can no longer meet the original terms of the union, so it wants to change them.

Even the Banque de France is hedging. Between July and January, it repatriated its last 129 tons of gold from abroad. It's routine management, as says every central banker under strain.

The trillion-dollar question: will the ECB choose 2 percent inflation over French solvency? It will not. It cannot. Solvency wins.

The worry is not exaggerated. If anything, it's early.

France may have a similar economic performance to Mississippi, but Mississippi has a currency union that will never be asked to monetize its debt. France does. That's the difference. And that's the trouble.

The "bond vigilantes" who punish spendthrift governments are back and spoiling for a fight.

ARNAB DAS
Cofounder, GeoLogica Strategies

The "bond vigilantes" who punish spendthrift governments are back and spoiling for a fight—with good reason. Inflation and fiscal pressures are intensifying—demographics, defense, and infrastructure, along with capital expenditures for artificial intelligence, and supply-chain security, pushing up long-term yields. And don't forget potential fiscal risks due to climate change or AI-related unemployment on top of rising dependency ratios, already-high and rising budget deficits, and public debt.

The bond vigilantes are eyeing the United States, the United Kingdom, Japan, Italy, and France, among others. The United States seems off the hook given high growth, AI/tech, and perhaps reserve-currency status—for now. Japan's jury is out, waiting to see if recent reflation takes root. The United Kingdom, traumatized by sterling crises and Gilt routs, aims to outrun the vigilantes by raising tax revenue, cutting spending, and meeting fiscal rules. Italy seeks to head them off at the pass with budget surpluses (before interest payments).

France alone is playing a game of chicken, unable to sustainably cut spending, raise taxes, reform, or raise growth, despite reshuffling ministers. Whether France muddles through, lurches between bond selloffs, or adjusts as forced to by the vigilantes, depends on politics and policies. The 2027 elections will bring in a new sheriff—but to clean house or roll the dice? A hard-right, centrist, or hard-left president are all conceivable, with very different implications.

A centrist would probably hold the vigilantes at bay by muddling through. The Franco-German engine of the European Union could get a boost until Germany's 2029 election. There may even be some fiscal and structural reform. But centrism is polling poorly.

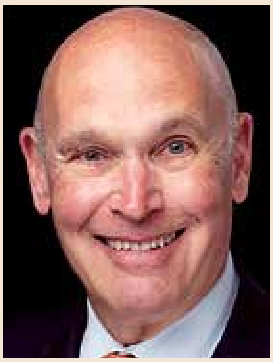
The hard right, currently polling best, might provoke the vigilantes by resisting EU limits on sovereignty—fiscal rules, excessive deficit procedures, delaying or reversing budget cuts, even undermining the union by forging a common front with other rightist member states.

The hard left, emboldened by winning despite trailing in the polls, might defy the vigilantes and implicitly threaten "Frexit," gambling that the European Union wouldn't dare lay down the law to a member state without which it could cease to exist. The European Union pushed Portugal, Ireland, Greece, and Spain to reform when the vigilantes hit during the 2010–2012 eurozone crisis, but loosened the rules when Germany and France broke ranks in 2003–2004.

These possibilities suggest a standoff: France versus EU institutions versus bond vigilantes. The worse France's fiscal fix, the more vengeful the vigilantes, the higher its yields. In a financial crisis, the European Central Bank could cap yields using its Transmission Protection Instrument, even if it were raising rates—if it judged market movements were excessive and debt/deficits were normalizing.

Yet if France resisted reform or threatened secessionism, it could stoke eurozone fragmentation risk and moral hazard. Who would blink first? If France held Europe hostage against the vigilantes, what about Italy, Germany … or a gang of nationalist governments?

All this points to *déjà vu*: Occasional shootouts with the bond vigilantes, policy changes good enough for crisis management but not transformational reform, and therefore, a Europe that cannot really get its act together and keeps punching below its weight in the world.



The simple answer to the question of whether France is in economic trouble is yes.

FRANCIS J. KELLY
Founder & Managing Partner, Fulcrum Macro Advisors

The simple answer to the question of whether France is in economic trouble is yes. France's current economic outlook is both complex and worrisome, compounded by simmering national political tensions and growing global challenges.

France is now anticipating anemic 0.8 percent growth for the rest of 2026. Add to this that European monetary policymakers have been pointing out that if the European Central Bank pushes inflation down from 3 percent toward its 2 percent target, France could be pushed into recession—and this point was being made before the Iran War and resulting economic shocks.

Private-sector indebtedness compounds the picture. Non-financial corporate debt in France stands at roughly 155 percent of GDP—well above Belgium's 122 percent, Germany's 90 percent, and Italy's 59 percent. The implication is that France's vulnerability is broader than even Italy's—where Italy's exposure is largely a sovereign debt story, France faces elevated sovereign debt and the highest level of corporate debt among major European economies, leaving less room to maneuver if borrowing costs rise.

All of which I would argue brings us to the core of France's economic problem today: its relentlessly unstable political situation. Markets (and every French politician) well remember the *Gilets Jaunes* (Yellow Vest) grassroots protests of 2018–2020 that sprang up in opposition to fuel tax increases. Those protests massively contributed to the economic challenges of today. To deal with that long and often violent movement, President Emmanuel Macron was forced to announce an €11 billion package to boost low incomes—leaving a €10 billion hole in the Treasury's finances and pushing France back over the European Union's 3 percent deficit ceiling after two years of being on target.

That led to an event which shocked financial markets into understanding the seriousness of France's economic challenges: Then-Finance Minister Eric Lombard saying in August 2025—just as the government was teetering toward collapse—that an International Monetary Fund intervention was "a risk that is in front of us."

All this highlights France's political leadership consistently choosing short-term social/political stability over deficit discipline. The protests set a new precedent by creating a political playbook of "protest pressure equals costly concession package equals blown deficit target" repeated with each subsequent French budget crisis (for example, the pension reform fights, the 2024–2026 government collapses).

In short, the French political system keeps choosing to spend its way out of domestic political unrest rather than reform its way out. And now with presidential elections looming in April 2027, financial markets cannot expect to see—indeed, not a word about—reform proposals until late next year.

Finally—and this is where global markets are increasingly focused—France is being squeezed on three distinct trade fronts: China, the United States, and from within the European Union itself. With China and the United States, the squeeze hits France's biggest export sectors: aerospace, wine/champagne, luxury goods, and pharmaceuticals. And within the European Union, the challenge comes as a result of France increasingly pushing back on Chinese exports—especially electric vehicles at a time when the struggling German auto sector remains highly dependent on China as an export market and for supply chains—something Beijing is wisely exploiting with the European Union in negotiations.

Global financial markets are quietly but keenly aware of France's economic challenges. What leaders in Paris do to show a willingness to address them is what has markets guessing—and worried.

There are plenty of reasons to hold off for now on hitting the panic button. That said, France's debt trajectory is clearly unsustainable.

STEVEN B. KAMIN
Senior Fellow, American Enterprise Institute, and former Director, International Finance, Federal Reserve Board of Governors

There is no shortage of reasons why France might face imminent crisis. Persistent budget deficits of 5 percent of GDP are set to push the government's debt up to 118 percent of GDP this year. Rampant political dysfunction means these deficits are slated to continue for the foreseeable future. Worries of euro-skeptic politicians winning next year's elections are adding fuel to the flames. And with weak growth and soaring corporate debt, the rise in oil prices and interest rates threatens to push the economy over the brink.

Yet there are plenty of reasons to hold off for now on hitting the panic button.

The markets are expressing their jitters about French debt, but they are hardly running for the exits. The spread of long-term French bonds over German bunds has moved up to about 70 basis points, but that is still less than half its peak reached during the euro crisis and a tiny fraction of the 500-basis-point spread reached by Italy at that time.

French long-term bond yields are only about 3.5 percent at present, compared with 4.4 percent in the United States and 4.7 percent in the United Kingdom. Again, investors are abandoning French debt in droves. And yields are unlikely to weigh heavily on French corporate borrowers.

European Central Bank tightening is unlikely to seriously impact either economic growth or debt sustainability.

So far, the ECB has raised rates only once, to a mere 2.25 percent, and only a few more hikes are expected. Even with the Iran conflict continuing to churn, oil prices have fallen back, suggesting inflation will start retreating as well. And unlike in the United States, euro-area inflation had fallen to the ECB's target before the conflict, reducing the ECB's need to prove its credibility.

France's sovereign debt-to-GDP is high, but lower than Italy's (138 percent) and Japan's (200 percent!) and not much higher than in the United States and United Kingdom.

If France were to default, or even move into severe financial crisis, that could spell the end of the euro area. The ECB will not let that happen.

All that said, France's debt trajectory is clearly unsustainable, and a crisis seems likely if it stays on its current path. In this regard, it faces much the same challenge as the United States, where political dysfunction has also sapped the will of politicians to fix the budget. But France's position is even weaker than in the United States. France already has one of the highest tax burdens in the world, so tax hikes are not an option—it will have to cut spending, which is a lot harder. Additionally, its economy is far weaker and slower-growing than the U.S. economy; this will make debt sustainability even harder to achieve, and will make spending cuts more onerous. And finally, while the U.S. government issues the world's premier reserve currency, France has only partial claim, through its weight in the ECB, on the issuance of the world's second reserve currency.

French economic troubles will deepen regardless of election results.

BRIGITTE GRANVILLE
Professor of International Economics and Economic Policy, Queen Mary University of London, and author,* What Ails France? *(MQUP, 2021)

I am in the "yes" camp, defining "serious" as an adverse structural change rather than mere cyclical deterioration in economic performance. The other part of my definition of "serious" is that the structural setback in question is specific to France.

Of course, France has no monopoly of structural challenges, and it shares heavily in many—such as the declining share of world exports—that likewise afflict its peer group. The specific structural feature of the French economy now running out of road is the country's "exorbitant privilege" within the European monetary union. This change puts an end to France's soft budget constraint.

The phrase "exorbitant privilege" was ironically coined by Valéry Giscard d'Estaing—at a time (1965) when the future French president was finance minister—to describe the ability of the United States, as the issuer of the world's reserve currency, to borrow on relatively favorable terms. The French version of this privilege emerged after France—under François Mitterrand—forced the creation of a monetary union in Europe without a fiscal union. Rules to prevent the fiscally sovereign members of this union from free-riding have been far from strictly enforced. But in the case of France, they have not been enforced at all thanks to the country's existential centrality to the monetary union that is now at the heart of the entire "European project."

The result has been to allow France to practice long years of fiscal dominance. The combined debt of the country's government and companies—relative to GDP, the highest in the OECD area—has been piled up at virtually the same cost as their German counterparts. Lenders assume that the Eurosystem's cops—the Commission in Brussels and the central bank in Frankfurt—will always turn a blind eye. This indulgence may be jeopardized by the plausible election next year of a euroskeptic president.

But French economic troubles will deepen regardless of election results. The country may not face the shock of lost market access experienced by Italy and others a decade ago, but instead a chronic ordeal of rising borrowing costs and painful fiscal retrenchment.

With productivity performance since Covid notably inferior to that of its peers, such mediocre growth as the French economy has eked out is largely down to unaffordable fiscal expansion now shifted into grinding reverse. The International Monetary Fund noted last year that of the planned consolidation of 3.4 percent of GDP by 2029, 3.1 percent-worth of this remain unidentified. Tax hikes concentrated on companies were the key to the 0.9 percentage points of GDP fiscal tightening in 2025 that left the deficit still at the very high level of 5.1 percent of GDP.

Spending cuts will have to take up the baton from here. But the interests entrenched by decades of the highest spending in Europe as a share of GDP point to formidable social and political obstacles to the resulting required adjustment. That, in turn, increases the risks of destabilizing upheaval—serious trouble indeed.

The situation is dangerous.

SYLVAIN CATHERINE
Associate Professor of Finance, Wharton School, University of Pennsylvania

Yes. France is in trouble because it combines a large public deficit with a deep political denial of its fiscal situation. Its public deficit does not stem from investment in the future, such as infrastructure or education. Nor can it be explained by low tax rates that might plausibly foster economic growth; quite the opposite. France's deficit and public debt stem primarily from a pension system that represents roughly a quarter of government spending and 14 percent of GDP, about six percentage points more than the OECD average.

Although contributions to the pay-as-you-go system amount to roughly 28 percent of gross wages, they do not cover pension spending. The system must therefore be supplemented by transfers from general revenues, putting pressure on the consolidated budget and reducing the resources available for other core government functions.

The fiscal pressures created by population aging are not unique to France. Indeed, until recently, France maintained a higher fertility rate than most other European countries. What distinguishes France is denial of the problem. French workers retire roughly two years earlier than the OECD average, while benefiting from higher replacement rates and longer life expectancy. Yet major political parties have campaigned for, and obtained, the suspension of the latest pension reform.

As the next presidential election approaches, several prominent candidates are even promising reforms that would make the system slightly more generous or barely change anything. If one of them is elected—which seems entirely plausible—this rhetoric will make it harder to implement the reforms the system requires. Over the past nine years, President Emmanuel Macron has attempted two pension reforms, both of which failed politically, even though he campaigned on raising the retirement age.

Beyond political denial, the situation is also complicated by the fact that France has set up convoluted accounting rules that make it hard to measure the deficit of its pension system. The official deficit is computed after transfers from general revenues and, as such, has little economic meaning. Moreover, the government keeps the pension system of public employees afloat with enormous contribution rates that now exceed 90 percent of gross wages and are therefore totally detached from the functioning of any reasonable system. The lack of accounting transparency is an obstacle to pension reform, since opponents can argue that the headline deficit of the system is technically small.

Overall, the situation is dangerous, as France must reduce spending by roughly four percentage points of GDP to stabilize public debt as a share of GDP, while starting from much higher tax rates than the United States. The next president will have to solve this issue, but none of the candidates is preparing the population for these efforts. In the short run, France faces major risks. Its deficit will rise mechanically as its debt is refinanced at higher interest rates. If a recession comparable to that of 2008, or to the pandemic, were to occur, France would have to go through painful reforms at the worst possible time.

Germany initiated the Maastricht criteria and the Stability and Growth Pact to ensure the euro's stability. France never took the Maastricht criteria seriously and refrained from a debt brake.

GUNTHER SCHNABL
Director, Flossbach von Storch Research Institute

When you travel from Berlin to Paris, you may note that Berlin is dirty and Paris is splendid—*inter alia* thanks to France's growing debt burden.

In 1999, when the euro was introduced, government debt as a percent of GDP stood in both countries close to the Maastricht benchmark of 60 percent. Since then, it has increased only slightly in Germany but has doubled in France.

Corporate debt in France has grown from 121 percent of GDP in 1999 to nearly 200 percent, compared with 127 percent in Germany. French households increased debt from 34 percent of GDP to 60 percent, while Germans deleveraged.

Germany had initiated the Maastricht criteria and the Stability and Growth Pact to ensure the stability of the euro by keeping debt under control. With the intention of being a role model, Germany introduced in addition a strict national debt brake.

By contrast, France never took the Maastricht criteria seriously and refrained from a debt brake. Instead, it exerted persistent pressure to water the fiscal criteria down.

Germany finally decided to soften its national debt brake in March 2025, probably motivated by the insight that debt is increasingly socialized in the European (Monetary) Union via various channels.

The most important one is inflation. Since 1999, the euro has lost about 42 percent of its purchasing power.

Through government bond purchases, reallocations within the Eurosystem's holdings of government bonds, and the announcement of the so-called Transmission Protection Instrument, the European Central Bank has ensured that risk premiums no longer reflect country-specific default risks.

Among other things, through direct bond purchases by the European Central Bank, the Eurosystem has accumulated assets worth more than €3 trillion on its balance sheet, for which all euro countries are jointly liable.

The European Union, which is responsible for monitoring the Maastricht criteria, has undermined its credibility by not enforcing them.

Crisis mechanisms such as the European Financial Stabilization Mechanism, European Financial Stability Facility, and European Stability Mechanism have circumvented the no-bailout clause. The Transmission Protection Instrument allows the ECB to buy government bonds of crisis countries without limit in times of urgency.

Through programs such as SURE and NextGenerationEU, the European Union has become a major issuer of joint bonds (Eurobonds), with the funds being distributed primarily to highly indebted euro countries such as Italy and Spain. France may become a major recipient in the next round.

Thus, France has not only benefited greatly from the growth and socialization of debt in the European Union, as reflected by net capital inflows since 2006. It also aims to make Eurobonds permanent, which would allow shifting parts of its spending obligations to the supranational level.

Given the inability of the French government to bring its high budget deficit under control, some observers see a new European sovereign debt crisis looming. However, sufficient instruments exist to prevent serious economic trouble for France.

Instead, the euro may get into serious trouble as confidence in the common currency continues to erode.

Bottom line: the French bond market will remain in a low-grade crisis.

CHEN ZHAO
Chief Global Strategist, Alpine Macro

France's fiscal condition is one of the most important macro stories in Europe today. In many ways, France resembles where Italy was fifteen to twenty years ago: high and rising public sector indebtedness, chronic deficits, weak and stagnating growth, and a political system that struggles to deliver fiscal consolidation.

France remains well above the EU Maastricht deficit limit of 3 percent of GDP and debt limit of 60 percent of GDP. Public sector debt is projected to exceed 118 percent of GDP in 2026 and may surpass 120 percent by 2027. Although the budget deficit improved from 5.8 percent of GDP in 2024 to 5.1 percent in 2025, it has remained around 5 percent since. Importantly, much of that improvement came from temporary tax measures and stronger corporate tax revenues rather than structural spending reforms.

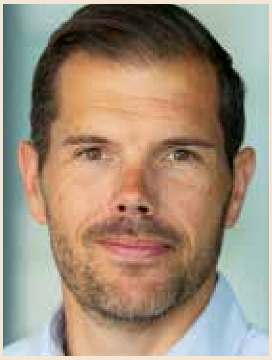
France's major economic problem is not that it will fall into a Greek-style debt crisis. It is the second-largest economy in the eurozone, and its public debt is entirely denominated in euros. This means that the European Central Bank can underwrite French OATs and would almost certainly come to the rescue in the event of a lender strike. Of course, should such a situation arise, there would be economic consequences, including a weaker euro, a deflationary recession in France, and rising inflation elsewhere in the eurozone.

The biggest economic problem in France is that it essentially has a socialist economy that generates very little growth. Public spending accounts for 57 percent of GDP, while government revenues amount to roughly 52 percent of national income. Both are among the highest in the world. How can free-market capitalism thrive in such a system?

There has long been a well-established negative correlation between the size of government and economic growth. Simply put, the bigger the government, the lower the long-term growth rate. The public sector is well known for its low efficiency, while government bureaucracy often creates more obstacles to growth than it resolves.

Meanwhile, France has one of the most generous welfare states in the world, with social spending accounting for 31–33 percent of GDP, higher than in Italy. The combination of large entitlement programs and weak economic growth means that France's fiscal condition is likely to worsen before it improves, unless the government undertakes aggressive public finance reforms. Yet with the 2027 presidential election looming, it is difficult to envision a sea change. Most candidates appear to favor more spending, which is likely to result in even larger budget deficits.

Bottom line: the French bond market will remain in a low-grade crisis, with OATs trading at a yield premium to their German counterparts. This means France will continue to face higher borrowing costs and, therefore, weaker economic growth. This low-grade OAT crisis will continue to weigh on ECB policy decisions, the euro, and the eurozone's overall growth outlook.



The presidential election, due in April next year, could be a flashpoint.

NEIL SHEARING
Group Chief Economist, Capital Economics

Economists, like generals, are often doomed to fight the last war. In the eurozone, that means looking for echoes of the financial crisis that swept through the region in the 2010s. But today's challenges are different.

Back then, the key issue was one of regional imbalances, reflected in large differences in current account positions between creditor countries in the "core" and debtor countries in the "periphery." Today, intra-regional current account imbalances are much smaller. Moreover, the focus of concern has shifted from the periphery to the core, with France emerging as one of the most vulnerable economies.

Unlike the countries that ran into trouble in the 2010s, France's current account is broadly in balance. It ran a small deficit of only 0.2 percent of GDP last year. However, this masks a large public sector deficit of roughly 5 percent of GDP, offset by a similarly sized private sector surplus. France's vulnerabilities are therefore primarily fiscal rather than external in nature.

Nor is this simply a question of a large budget deficit. Public debt is already high, at more than 115 percent of GDP, and the debt dynamics are precarious. The arithmetic governing the future path of the debt burden is straightforward: it depends on the primary budget balance, nominal GDP growth, and the interest rate paid on government debt. For France, all three have shifted in the wrong direction.

The primary deficit is close to 3 percent of GDP. Various recent governments have attempted measures to improve the fiscal position—notably pension reform—but these efforts have fallen short of what is required. Meanwhile, spending pressures, from the costs of an aging population to the need to raise defense spending, are increasing.

At the same time, nominal GDP growth is weak, and the era of ultra-low interest rates has ended. Super-loose policy from the European Central Bank is no longer anchoring government borrowing costs at exceptionally low levels. As a result, debt-servicing costs are rising.

Taken together, these factors leave France in a precarious position. The key question is whether its government can continue to keep bond investors onside.

The presidential election, due in April next year, could be a flashpoint. It is too early to predict the outcome but it is not inconceivable that the second-round run-off could feature candidates from the far right and far left, both advocating significantly looser fiscal policy. Such an outcome would prove toxic for bond markets and raise the prospect of a self-reinforcing cycle of fiscal deterioration.

A crisis is not inevitable. A centrist candidate could prevail, and modest fiscal reforms may prove sufficient to reassure investors. But the locus of risk in the eurozone has shifted—from the periphery to the core, and from current account imbalances to fiscal imbalances.

If the eurozone faces a crisis over the next five years, there's a good chance that France will be at its center.

The challenges are daunting, but not worse than the budget-busting antics of Trump in the United States. Expect France to continue to muddle through.

HOLGER SCHMIEDING
Chief Economist, Berenberg

France is in trouble. But who isn't? While the challenges are daunting, they are not worse than the budget-busting antics of Donald Trump in the United States, the unprecedented misallocation of capital in

China under Xi Jinping, or the six-year slump of business investment in Germany.

On many counts, France has made progress under President Emmanuel Macron. Thanks partly to reforms which he spearheaded after taking office in spring 2017, French real GDP advanced by 10.2 percent in the first eight years of his presidency, ahead of the United Kingdom (9.4 percent), Italy (7.9 percent), and Germany (3.8 percent).

More importantly, the French employment rate rose from 65 percent to 69.2 percent during this period, bringing unemployment down from 9.7 percent to 7.3 percent. France's worst social problem, the alarmingly high rate of youth unemployment, improved from 26 percent in 2016 to a still-dismal 19 percent in early 2025.

Unfortunately, progress stalled after Macron made the mistake of his life by dissolving parliament in June 2025. Ever since the parties that broadly support his pro-growth agenda lost their majority, political uncertainty and a few reform reversals have held back France. Slower growth and rising youth unemployment, back to 21.4 percent in early 2026, exacerbate the fiscal woes.

France's fiscal position is precarious. Under Macron, its debt-to-GDP has surged further by 17.5 percentage points from 98.1 percent in 2016 to 115.6 percent in 2025. The public deficit of 5.1 percent of GDP in 2025 points to a higher debt burden ahead.

But we need to put this into context: although troubling, the French trends are not as bad as in the United States with a 2025 deficit of 5.8 percent and a surge in the debt ratio by 22.1 percentage points from 76 percent in 2016 to 98.1 percent of GDP in 2025. Whereas French private debt is higher than in most other economies with 277 percent of GDP in 2024 versus 217 percent for the United States, it is at least coming down from a pandemic-related peak of 299 percent in 2020.

France clearly needs reforms to promote growth and restrain the public deficit. That Paris now usually has to offer slightly higher yields than Italy and Greece to attract buyers for its ten-year bonds is a sign of potential trouble ahead.

However, it could also be part of the solution. In Europe, markets exert some discipline on policymakers. Just ask Liz Truss, the short-term UK prime minister forced out of office within six weeks in 2022 by a market revolt against her plans for unfunded tax cuts. Whoever wins the French election in spring 2027 cannot afford to drive bond investors away.

Chances are that a center-right reformer such as Édouard Philippe or Gabriel Attal will move into the Élysée Palace with a modestly pro-growth agenda and a fresh mandate for change. But even if the right-wing candidate Jordan Bardella wins the presidency, markets would likely force him to pursue mostly sensible policies like those of Giorgia Meloni in Italy. He seems to be tilting that way already. Expect France to continue to muddle through.

It is now up to the bond vigilantes to instill discipline. That is exactly the situation the European fiscal rules were meant to avoid.

MORITZ KRAEMER
Chief Economist and Head of Research, LBBW Bank

When I started working on European sovereign credits for a major rating agency in 2001, one would have been unable to tell Germany and France apart when looking at debt, deficits, and macro indicators. It is no coincidence that the Maastricht Treaty plumped for a ceiling of 60 percent for general government debt. This level coincided broadly with the debt ratios of these two economic giants. That was then.

Fast forward to 2026 and the differences could not be starker, even as Germany now embarks on a debt-financed spending spree itself. France's gross general government debt stands at 117 percent of GDP, against Germany's 64 percent. The budget balance since 2020 averaged 6 percent west of the Rhine river, twice the level in neighboring Germany. Meanwhile public spending skyrocketed to 57 percent of GDP in France. In Germany that ratio is expected to surpass 50 percent for the first time this year, a level where, according to former chancellor Helmut Kohl, socialism begins.

Why have these disparities widened so much between countries that used to be almost macroeconomic twins twenty-five years ago? It is not due to differences in growth. In fact, since the turn of the millennium, France's economy has grown somewhat faster than Germany's. My own theory is that it is due to different fiscal rules, with Germany adhering to the self-imposed debt brake. Fiscal rules tend to work best in societies that least need them because a broad consensus in favor of prudence exists in the first place. The more polarized societies become, as also in Germany right now, the weaker the commitment to fiscal prudence as governments try to appease voters with fiscal generosity. That this hasn't really worked anywhere has not deterred this practice.

The European Stability and Growth Pact could in theory have performed a similar role. But it didn't. Brussels was not able to impose credible sanctions against such a powerful member state. Not forgotten is Commission President Jean-Claude Juncker's quip in 2016 that Paris would get more fiscal leeway under the Pact "because it is France." Repeated exceptions and carve-outs under the Stability and Growth Pact have further weakened its enforcement credibility. Needless to say, the rules were adjusted asymmetrically: when the going was tough, limits were effectively eased. When times were good, such as in the long period of ultra-low interest rates, there was no offsetting tightening of targets.

In principle, it is up to the rating agencies to raise red flags. But it seems that they have partly abdicated their responsibilities when it comes to those sovereigns that regulate them. The regulatory backlash following the euro-area debt crisis has not been forgotten at the agencies.

It is now up to the bond vigilantes to instill discipline. That is exactly the situation the European fiscal rules were meant to avoid. With every year the debt spree continues, not only in France but really across most major advanced economies, the risk of fiscal dominance to monetary policy rises. This does not bode well, neither for price stability nor financial stability.

France is unlikely to grow itself out of trouble.

BERNARD CONNOLLY
Author and former advisor to central banks and asset managers

If expectations about interest rates are unrealistically low or expectations about growth rates are unrealistically high, debt burdens as high as France's are highly unlikely to be sustainable. And if markets begin to take that view, real interest rates are, other things equal, likely to go up and growth to come down. Things then get very ugly very quickly.

France is unlikely to grow itself out of trouble—not least because of the brakes the European Union is putting on artificial intelligence and, more generally, by over-regulation.

Given that, can private or public sector agents change their behavior in time? The increasingly polarized political situation in France strongly suggests that the public debt trajectory could be sustainable only through intense market pressure, as was the case in Greece. But financial collapse in Greece was averted only by adding intense external political pressure—the infamous Troika—to market pressure. The current—relative—market insouciance about France's debt trajectory is unlikely to reflect an assumption that similar external political pressure will be brought to bear on the country. A far-left or radical-right victor in the 2027 presidential election might increase the temptation for external authorities to dictate adjustment to France, but would equally make it more likely that such pressure would be fiercely resisted: France does not see itself as Greece nor even Italy and neither LFI nor RN would see themselves as Syriza or Forza Italia; and the humiliation of the terms imposed on the three Mitterrand/ Delors franc devaluations of the early 1980s has not been forgotten.

While France's external position is in net terms not alarming, putting the country on a sustainable public- and corporate-sector debt trajectory would require a substantial improvement in the current account if recession were to be avoided as, notwithstanding high levels of private savings suggestive of some element of Ricardian equivalence which might act as a partial buffer, domestic demand weakened. But given the euro constraint, that would in turn require an internal devaluation—domestic deflation—achievable only via recession and unemployment and a further worsening of debt dynamics.

Could the European Union bail France out either via fiscal subsidies or a euro depreciation induced by lax ECB policy? Neither option is impossible—the European Central Bank bailed Germany out via a dramatically weak euro at the end of the 1990s. But the example of state defaults in the United States in the 1840s might be more relevant than that of assumption of state debts in the 1790s. That is going to be an even greater problem the more nationalistic both French and German governments may become.

For Germany to allow France to be forced into internal devaluation and recession in an adjustment scenario would put the European Union at risk. Bailing France out would create enormous moral hazard and simply postpone crises. The best way to save the European Union would be for France to abandon the euro; but given the numbers for gross French external debts and credits, there would be financial chaos, conceivably on a global scale. ◆

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