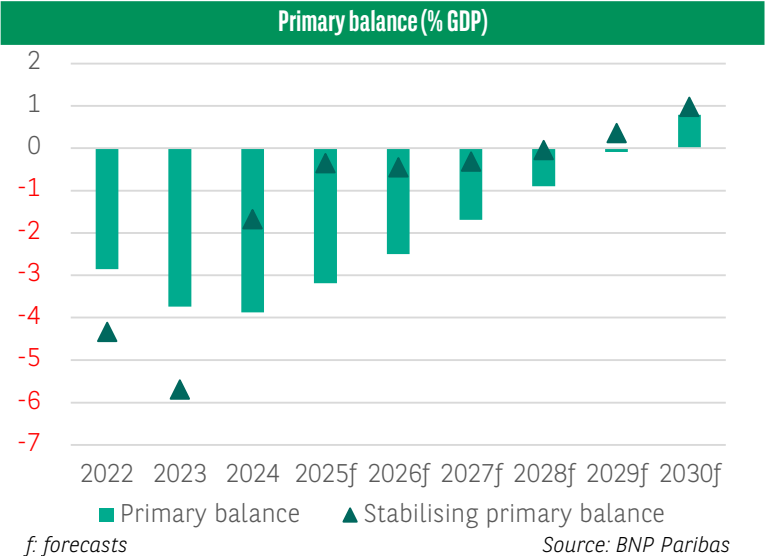
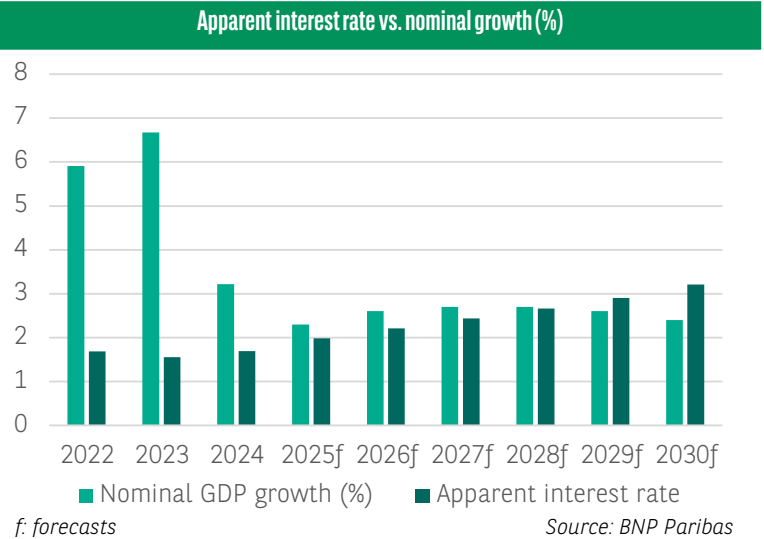


FRANCE: Public debt will continue to rise before stabilising at the end of the decade (1)



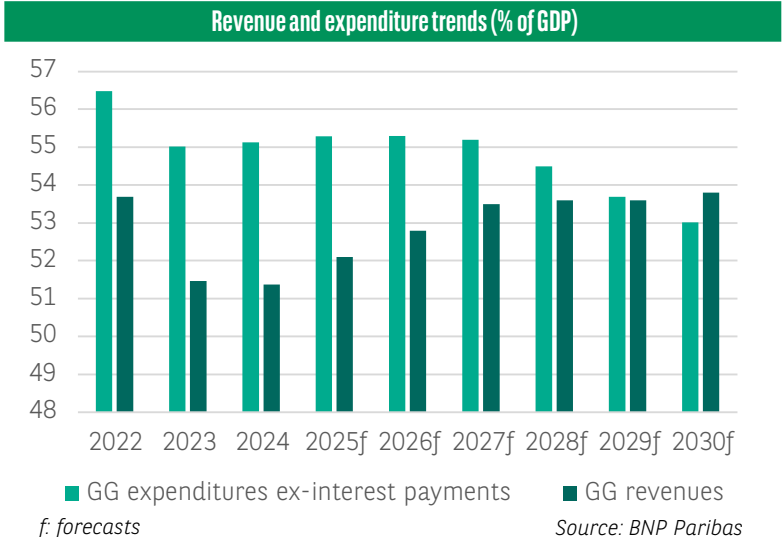
France's primary budget balance deteriorated until 2024. According to the High Council of Public Finances (HCFP), it improved in 2025. However, the deficit remains too high to allow public debt to stabilise.

Despite consolidation, which is set to continue from 2026 until the end of the decade, the primary deficit will remain worse than the stabilising balance (public debt will therefore increase).



Real growth is expected to rebound in 2026 (1.1%) and 2027 (1.3%) and therefore no longer penalise public finances. At the same time, the increase in the apparent interest rate reflects the rise in interest rates since 2022.

After 2027, the return of GDP growth to its potential (1.1%) and moderation in inflation would erode nominal growth. The rise in the apparent interest rate would push it above nominal GDP growth from 2029 onwards.

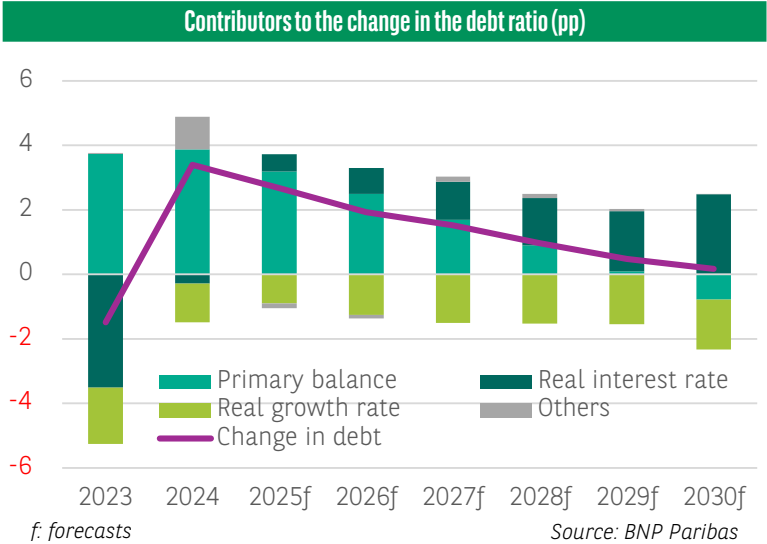


In 2025, fiscal consolidation would be based entirely on increased revenue, according to the latest opinion of the HCFP. The indexation of social spending and the increase in key expenditure (defence, police and justice) would have offset the slowdown in central- and local-government expenditure.

In 2026 and 2027, the adjustment would once again come through increased revenue, while expenditure would follow the same trend (new defence spending, increased contribution to the EU budget, and indexation of social benefits). Therefore, revenue would ultimately return to its share of GDP observed until 2022.

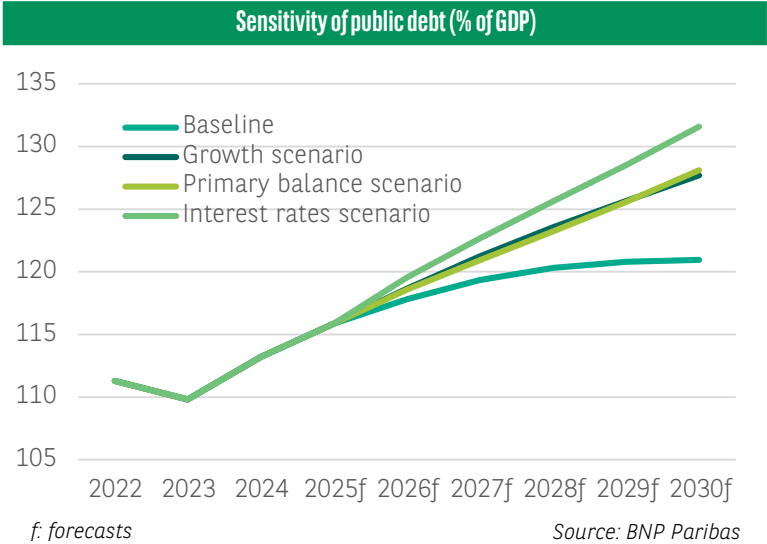


FRANCE: Public debt will continue to rise before stabilising at the end of the decade (2)



The persistence of a high primary deficit led to a rebound in the public debt ratio in 2024, especially as the decline in inflation enabled a sharp rebound in the apparent real interest rate (previously strongly negative). The decline in real growth was also a negative factor. From 2025 onwards, the real interest rate contributed to the rise in the debt ratio, while consolidation remained too moderate to reverse this trend.

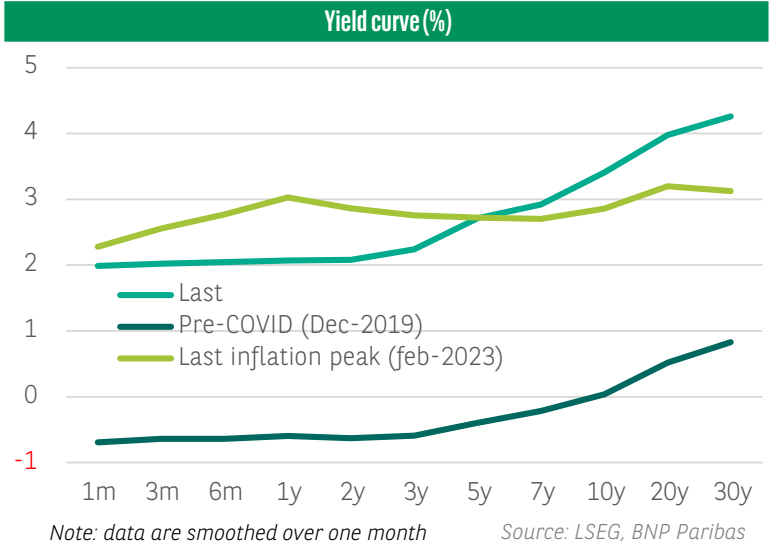
Thereafter, continued consolidation and a rebound in real growth would help to curb the rise in the debt ratio. It would stabilise in 2030, provided that the improvement in the primary balance offsets the gradual rise in the real effective interest rate.



Please note: the "growth" and "primary balance" scenarios incorporate a negative shock to growth and to the deficit of 0.5 pp of GDP per year compared to the central scenario, respectively; the "interest rate" scenario incorporates a 1 pp increase in the apparent interest rate.

In our central scenario, the public debt ratio would stabilise in 2030 at around 120% of GDP (113% in 2024) with the public deficit returning to 3% of GDP. Given the sharp increase in interest expenditure, this stabilisation would require a primary surplus of around 0.8 percentage points of GDP in 2030 (a surplus that France last achieved between 1998 and 2001).

The risk scenario that would have the greatest impact relates to interest rates. However, this is also the least likely scenario, as French interest rates depend in part on European conditions (particularly German rates).



The rise in interest rates is evident after COVID. Its relatively recent nature has limited the impact on interest expenditure. However, the relative steepening of the yield curve should eventually have an impact on the latter, as the average maturity of public debt is relatively high (8.5 years).

While short maturities have benefited from the ECB's rate cuts, long-term rates have continued to rise, penalised by political uncertainty, the increase in public debt and the rise in German rates.

