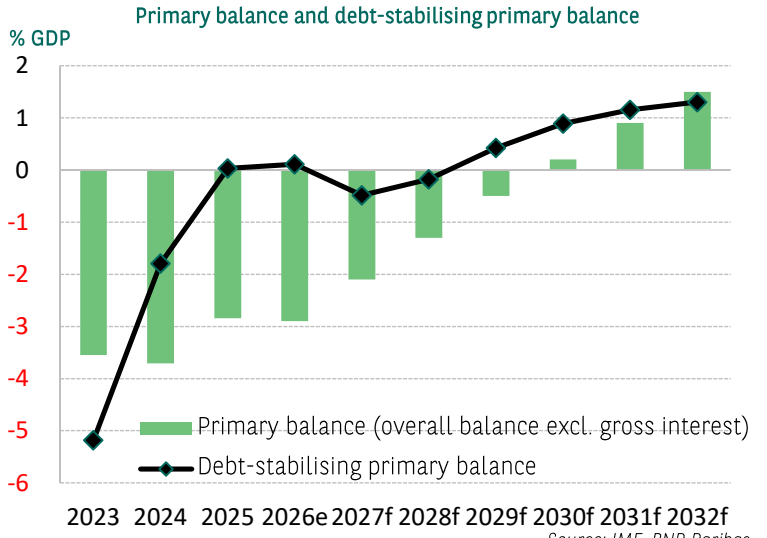
France: Public finances hampered by weak growth (1/2)

A primary deficit too high to stabilise the debt

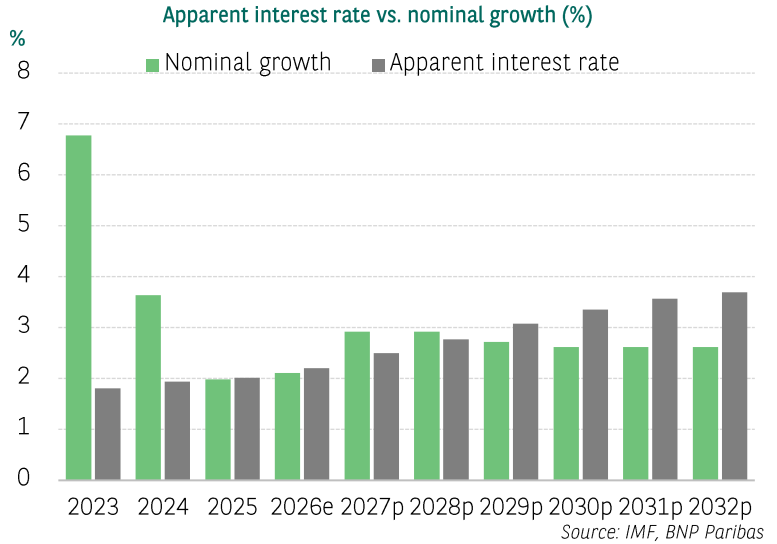


Source: IMF, BNP Paribas

The reduction in the primary budget deficit remains very limited compared with the level observed in 2024. It came to a halt in 2026, and the gap between the actual balance and the balance required to stabilise the debt has even widened.

In the coming years, the primary balance is expected to remain worse than the debt-stabilising balance. The public debt ratio is therefore likely to continue rising. By 2032, the effort required to stabilise the debt ratio is expected to reach nearly 4 percentage points of GDP (*i.e.* EUR 140 billion). To achieve this, France will need to generate a primary surplus.

The effective interest rate will exceed growth from 2028 onwards

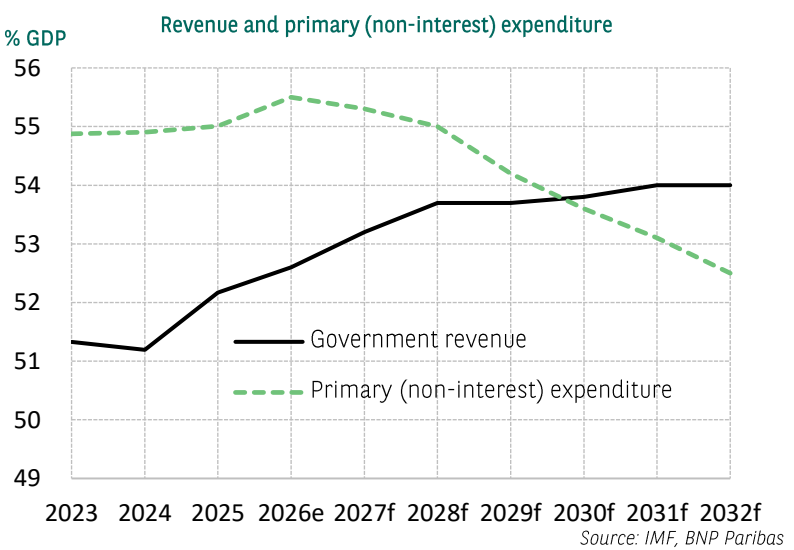


Source: IMF, BNP Paribas

The low level of real GDP growth in 2026 (0.3%) does not prevent nominal growth from remaining above the effective interest rate (due to inflation). Furthermore, the rise in the effective interest rate is very gradual (reaching 2.2% in 2026) because part of the debt was issued at very low interest rates.

The rise in the effective interest rate is set to accelerate. Debt currently being issued carries a rate of close to 5%, whilst maturing debt carries a rate of less than 1%. Consequently, the effective interest rate will continue to rise and exceed nominal GDP growth from 2028 onwards.

Fiscal consolidation is relying in increased revenues



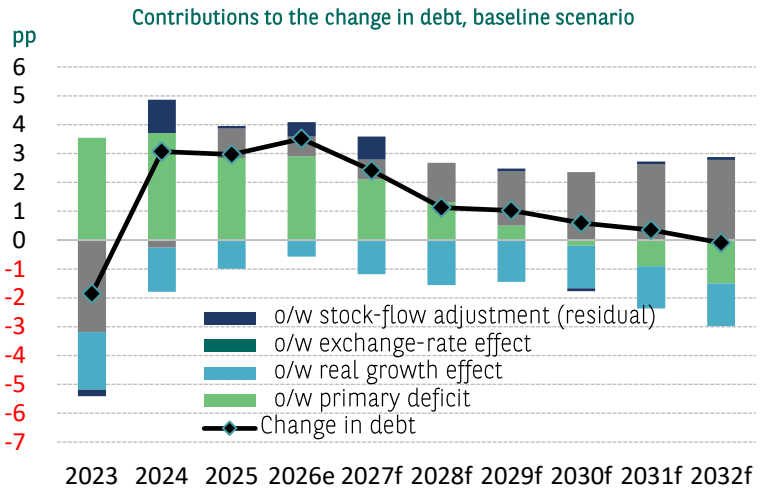
Source: IMF, BNP Paribas

So far, the consolidation of public finances has relied on increased revenue. This was the case in 2025, when the government managed to meet its deficit target. Revenue is expected to continue rising in 2026 and 2027. Expenditure is expected to remain virtually unchanged, due to rising defence spending and the indexation of social expenditure to inflation, which has been in place to date.

A reduction in the share of public expenditure in GDP appears necessary to cut the public deficit more significantly. However, we do not anticipate this happening before 2028, as the current government does not have the necessary majority in the National Assembly to push through such a policy.

France: Public finances hampered by weak growth (2/2)

A rise in debt caused by deficits



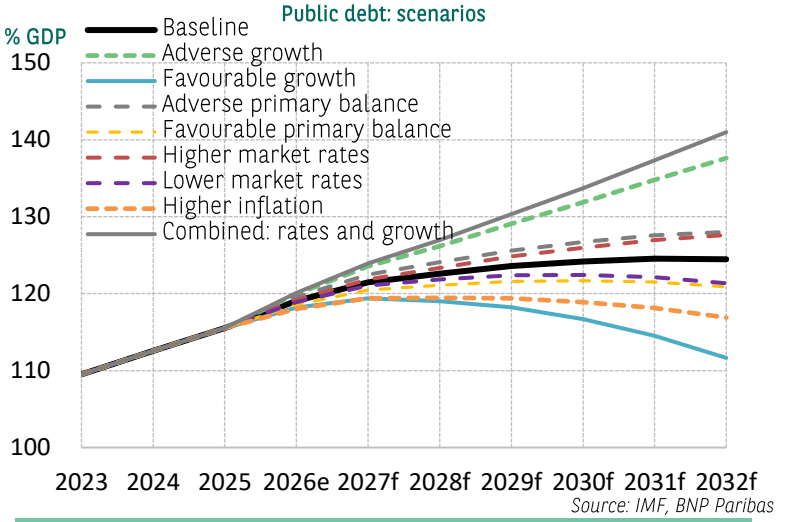
Source: IMF, BNP Paribas

The high primary deficit is the main driver of the rise in the public debt-to-GDP ratio (+3.3 percentage points of GDP in 2026). This is expected to remain the case in 2027.

The slowdown in growth is also having an impact, as, since 2025, growth has been doing significantly less to mitigate the rise in the public debt-to-GDP ratio.

The effective real interest rate still plays a relatively minor role in debt dynamics. Its role will strengthen from 2028 onwards (with the expected decline in inflation) and will eventually become the primary driver of the rise in the public debt ratio. From 2030 onwards, primary surpluses will therefore be a necessary condition for stabilising public debt.

Public debt ratio: upside risks predominate

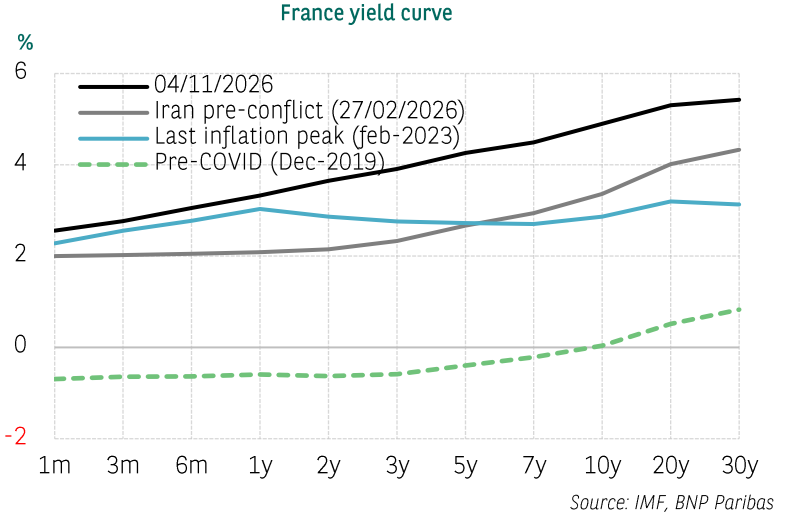


Source: IMF, BNP Paribas

Note: the 'growth' and 'primary balance' scenarios incorporate, respectively, a negative shock to growth and to the deficit of 0.5 percentage points of GDP per year compared with the baseline scenario; the 'interest rate' scenario incorporates a 1 percentage point rise in the apparent interest rate.

Our baseline scenario anticipates an increase in public debt to 124.5% of GDP in 2032, at which point it would stabilise. However, this scenario assumes a significant reduction in the public deficit in the meantime, with a primary surplus of 1.5% of GDP in 2032. According to our calculations, **postponing this consolidation by one year** (as in 2026, when the public deficit did not fall) **would result in an additional 2pp rise in the public debt ratio by 2032.** Whilst higher growth would help stabilise the debt ratio more quickly, the risks appear to be moderately skewed to the downside in the short term.

The rise in interest rates is substantial and has accelerated



Source: IMF, BNP Paribas

The rise in interest rates has accelerated further since the outbreak of the conflict in the Middle East. This trend is partly common to all advanced economies due to the rebound in inflation expectations. However, France has seen its *spread* widen to 160 basis points by the end of October (175 basis points at its peak) relative to Germany.

The rise in short-term rates remains moderate due to the ECB's gradual rate hikes. The rise in long-term rates is more pronounced, highlighting market concerns regarding the government's stated fiscal consolidation target. This rise will only be gradually passed on to the effective interest rate due to the relatively long average maturity of public debt (just over 8 years).