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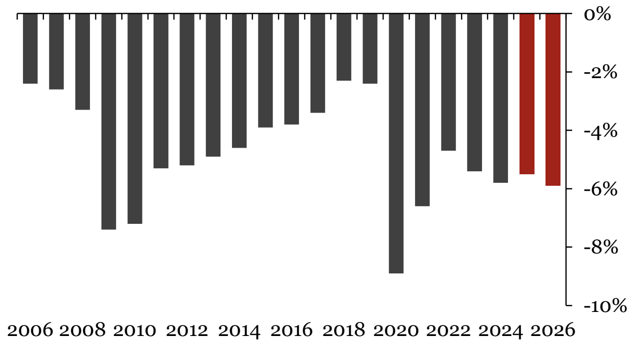
France: Reforms Fail, Prime Ministers Fall, Deficits Persist

Persistent political wrangling and stalled reforms are driving France's debt ratio to record highs. Markets are already demanding higher risk premiums, and the sovereign rating is coming under mounting pressure

After French Prime Minister Barnier failed a vote of no confidence by the opposition in December 2024, only three months into office, his successor François Bayrou now seems headed for a similar fate. Today he faces a confidence vote. The backdrop is his controversial plans to restore order to the heavily strained state budget. In July, Bayrou proposed scrapping two public holidays, introducing a new tax on the wealthy, and freezing welfare spending. These measures, which were intended to relieve the state budget by EUR 44 billion annually, met with little support.

France: Spending more than it collects remains the norm (last surplus in 1974)

Fiscal balance (in % of GDP)

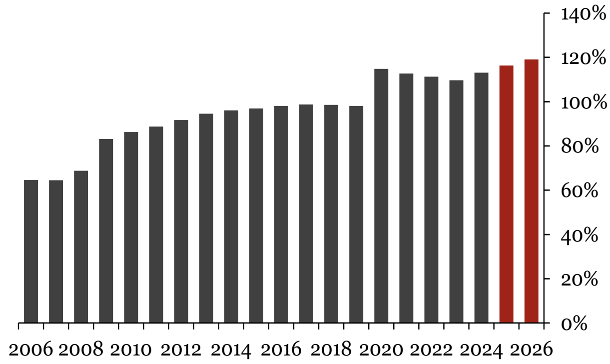


Source: IMF

France's debt ratio is being driven higher by persistent deficits (2025e: -6%) and is set to climb to just under 120% of GDP this year. After Greece and Spain, this represents the third-highest level in the euro area – with an unfavourable trajectory.
The political situation remains deadlocked. The three main fractions in parliament are blocking each other, preventing progress. President Macron – the only, and increasingly unpopular, constant in this political stalemate – seems left with no option but to put forward yet another doomed candidate.
In the meantime, markets are reacting. The risk premium has risen above Italy's, and the additional refinancing costs are roughly on par with the planned – but unachievable – savings. As a result, today's episode is feeding into even higher deficits (via rising debt-service costs) and is accelerating the increase in public debt.

France: Persistent deficits fuel debt build-up

Government debt (in % of GDP)



Source IMF

Since entering the Excessive Deficit Procedure (EDP) in July 2024, France's fiscal position has come under scrutiny: the Maastricht criteria of a 3% deficit and a 60% debt ratio (to GDP) are not only being missed but will remain out of reach for the foreseeable future. This has been pushing the risk premium on French government bonds relative to Bunds structurally higher.

Conclusion

Our **A+** rating reflects France's position as the second-largest economy in the euro area, characterised by high levels of wealth and education, a diversified industrial base, and strong integration into European value chains. At the same time, it highlights the latent risk of a debt spiral, fuelled by chronic budget deficits, rising interest costs, and a lack of commitment to reform. The paralysed political situation – marked by frequently changing prime ministers, a weakened executive, and large-scale protest movements – further hampers the implementation of urgently needed structural reforms.

We continue to expect that credit metrics will deteriorate further (Fundamentals: **Declining**) and that the ratings of the major agencies (Aa3/AA-/AA-) will come under pressure. Markets have already priced in a downgrade, reflecting the erosion of confidence in France's public finances. Against this backdrop, French government bonds currently appear fairly valued on the basis of our rating.

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