

France 2025–2026: Entering a Window of High Political and Fiscal Risk

August 2025



Growth Stuck in Low Gear

- France lags Eurozone recovery: consumption muted, investment stalled, exports underperforming.
- Growth stays in the 0–0.7% range in 2025, with only modest recovery in 2026.

Fiscal Fragility

- Debt >115% of GDP, deficit near 5%, with debt servicing costs rising fast.
- Bayrou's austerity plan faces weak political backing and high social backlash.

Political Gridlock

- Fragmented parliament, no stable majority, frequent government changes.
- Rising polarization and recurrent social unrest erode policy credibility.

Markets Price a "France Premium"

- OAT–Bund spreads remain elevated (65–80bp), reflecting domestic fragility.
- Risk of a sustained move above 100bp → structural loss of confidence, limited ECB support.

Critical Risk Window (Q4 2025–Early 2026)

- Sept–Dec 2025: Draft Budget Law, EU opinion, and rating reviews (DBRS, Fitch, Moody's, S&P).
- Failure to pass a credible budget could trigger special finance bill, snap elections, or technocratic government.
- 2026 municipal, presidential, and legislative elections heighten uncertainty.

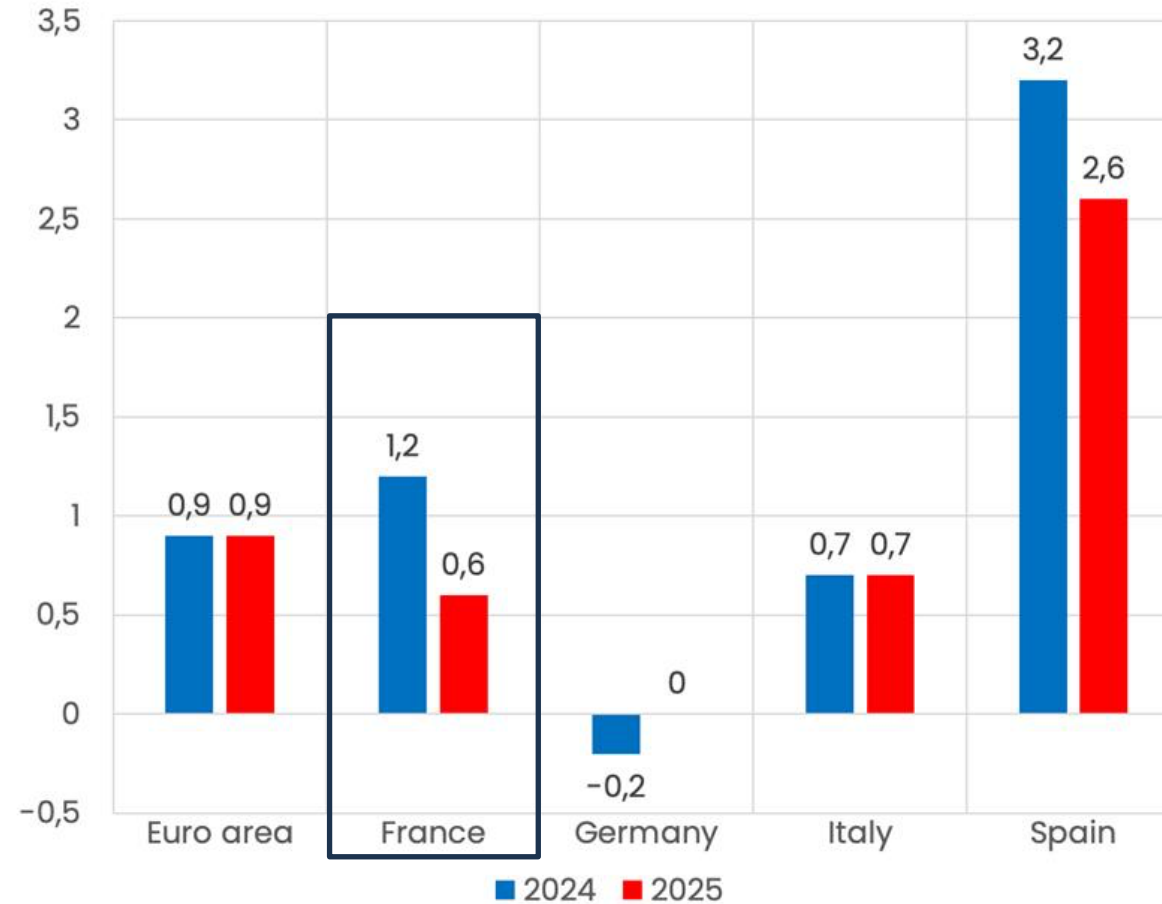
Structural Weaknesses

- Persistent current account deficit, productivity slowdown, and policy uncertainty (industry, climate).

1. Why is France Under Renewed Scrutiny?

Mediocre Growth Outlook – France lags behind Eurozone

Comparative GDP Growth 2024–2025 (%)

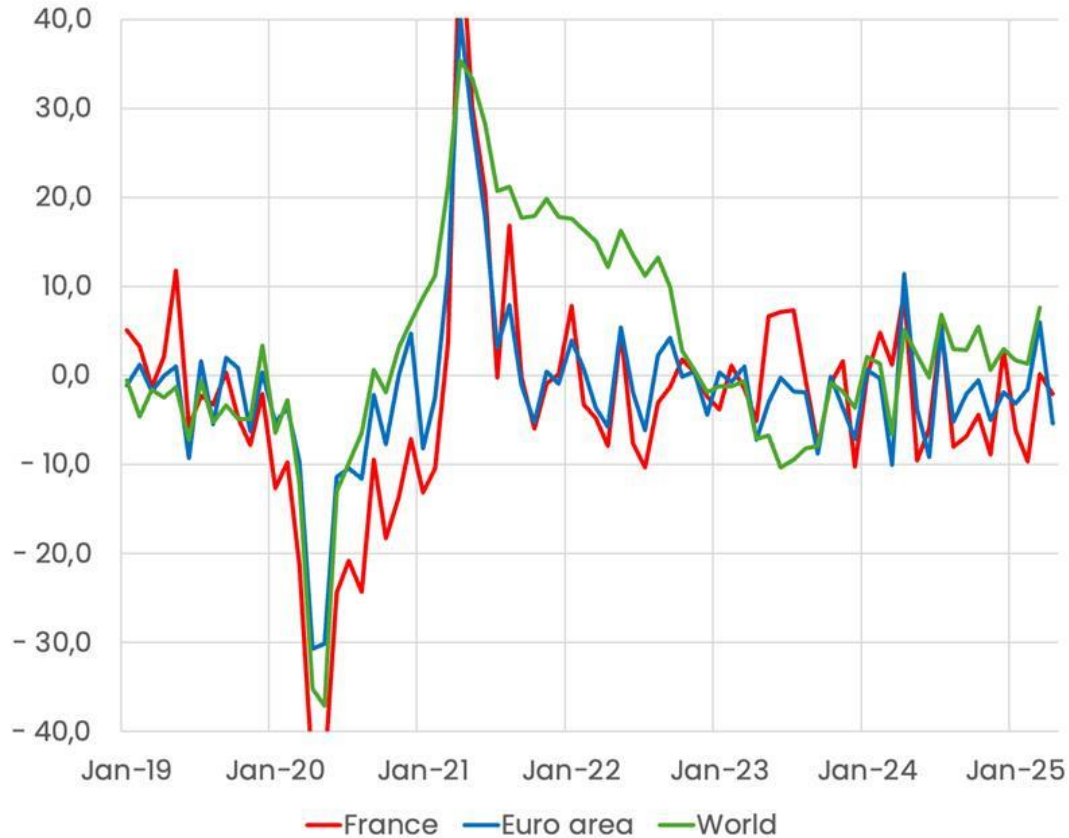


"Post-Olympics slowdown, weak confidence, and stalled investment offset any disinflation boost."

1. Why is France Under Renewed Scrutiny?

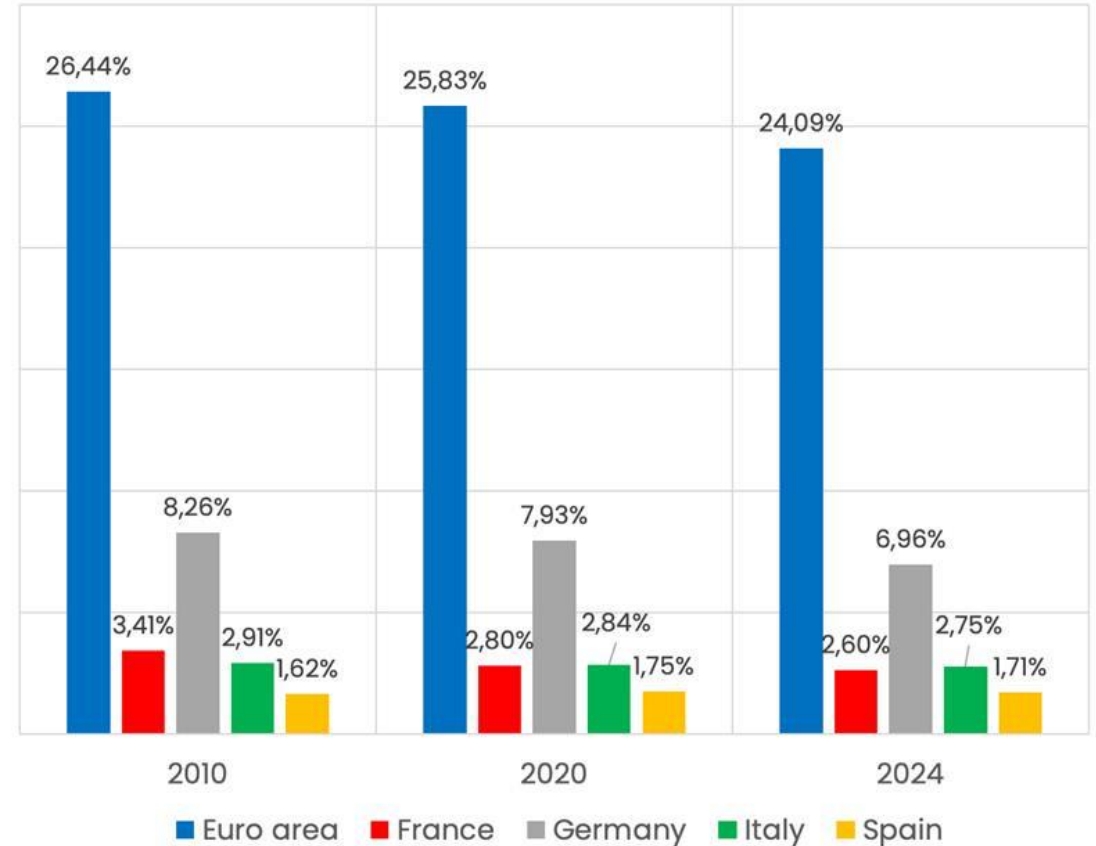
Mediocre Growth Outlook – France lags behind Eurozone recovery

Exports Growth (volume, y/y %)



"France underperforms Eurozone peers despite global trade rebound."

Evolution Euro area market share in World Trade

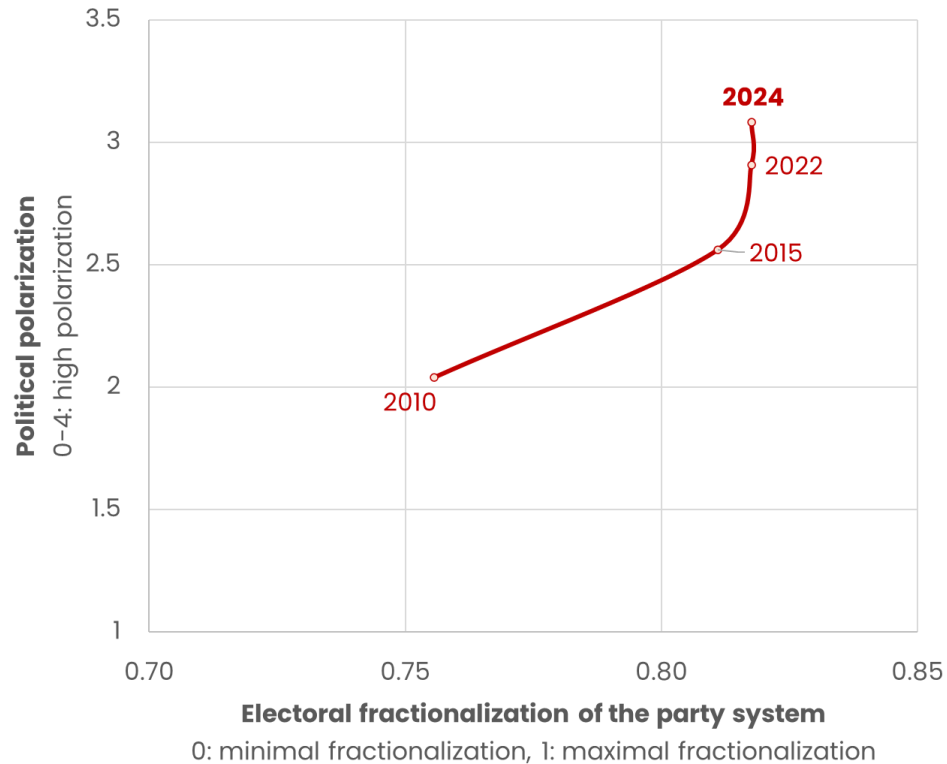


"No structural export gain: market share erosion persists."

1. Why is France Under Renewed Scrutiny?

Political fragmentation and policy paralysis – No clear majority, weak governance

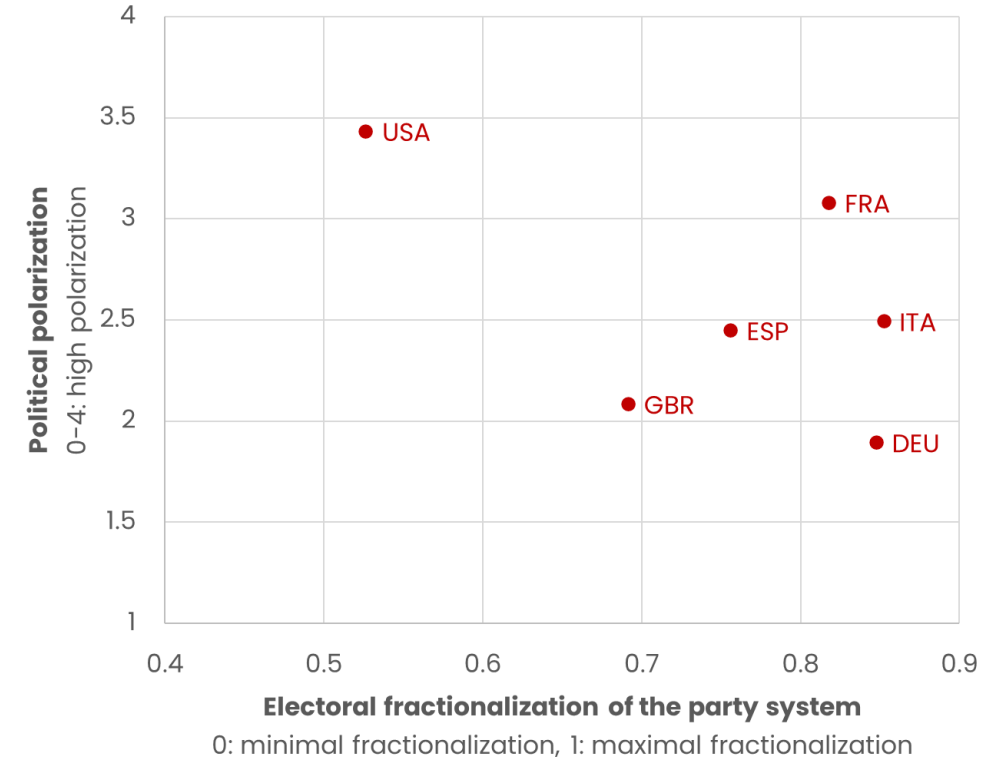
France Polarization and Fractionalization



Sources: TAC ECONOMICS, vdem, CPDS

"France moved from moderate to high fragmentation and high polarization in less than a decade"

Polarization and Fractionalization across countries – 2024



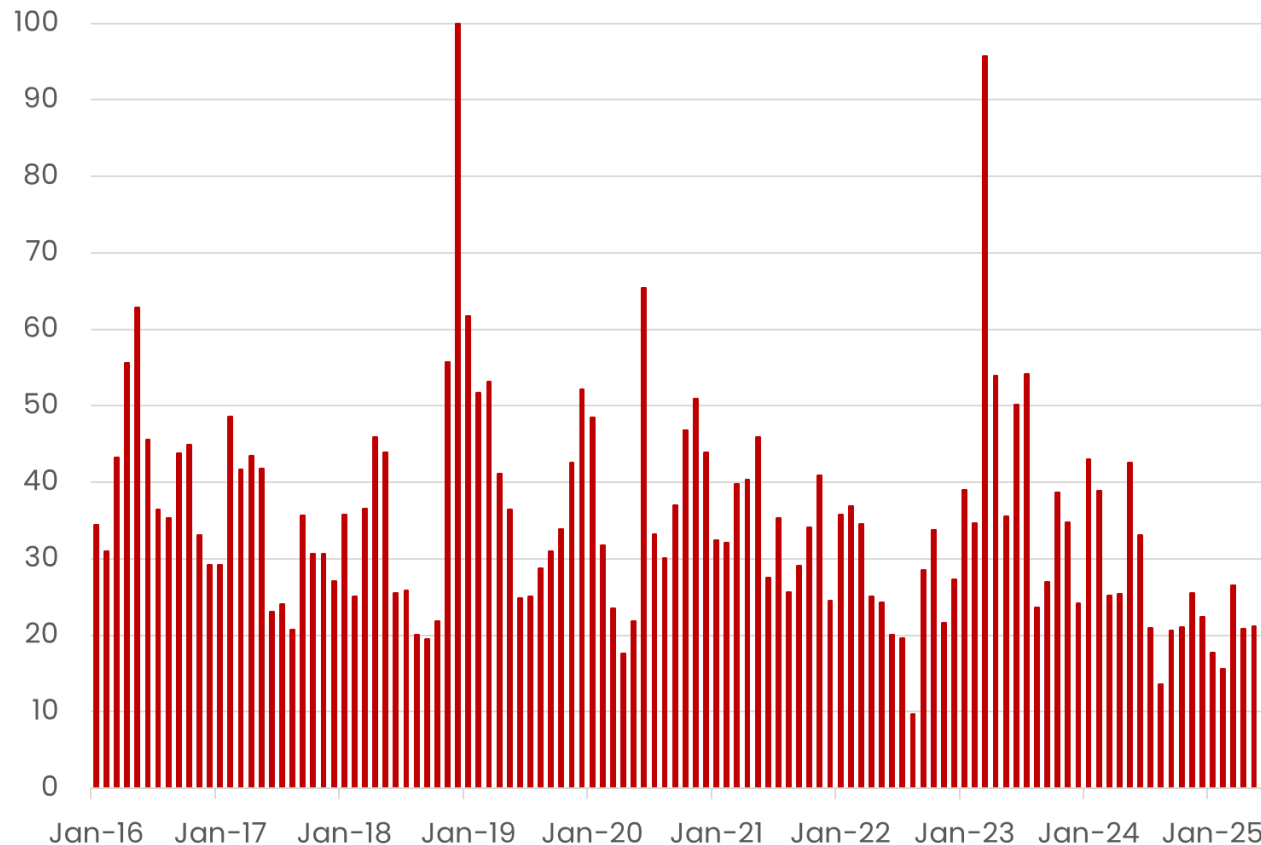
"France combines US style polarization with EUZ-level fragmentation but lacks the institutional safeguards of federal systems or majoritarian rules, making governance risks far greater."

1. Why is France Under Renewed Scrutiny?

Political fragmentation and policy paralysis – No clear majority, weak governance

Tracking Social Unrest: TAC ECONOMICS Social Risk Index – France

The *Social Risk Index* tracks civil unrest and social tension by combining event data and media sentiment.



Source: TAC ECONOMICS, GDELT, ACLED

The Social Risk Index is based on:

1. Event-Based Pressure (80% weight):
Monthly counts of protests from GDELT and ACLED, including protests, riots, and violence against civilians.

2. Sentiment-Based Tension (20% weight):
The average media tone from GDELT protest events, where more negative values signal higher perceived tension.

Both components are normalized on a 0–100 scale, with 100 representing the peak level observed since January 2016. The index is a weighted average, offering a timely and comparative measure of social risk across countries.

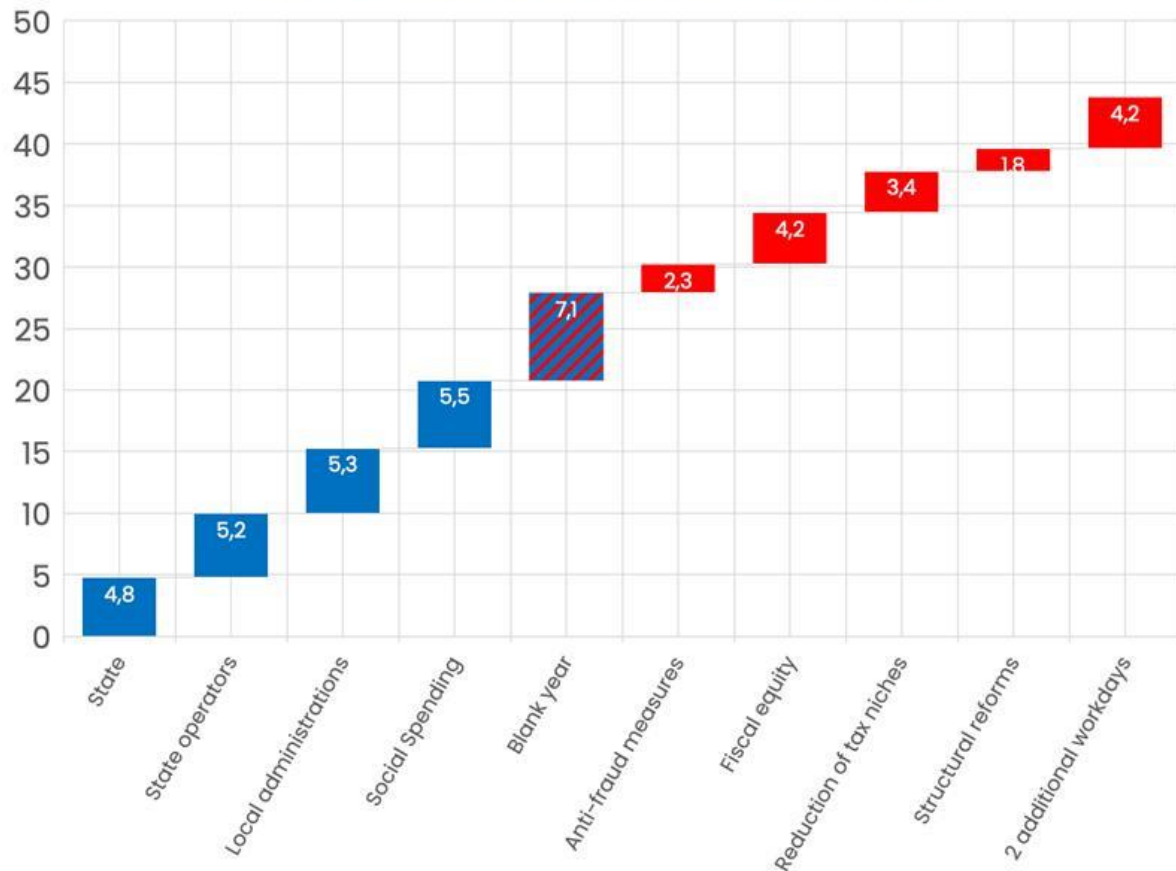
"Despite a recent lull, France remains structurally exposed to recurring social unrest, creating persistent risks for fiscal credibility and policy implementation."

2 – How do these dynamics reshape growth, fiscal sustainability, and market risk?

Fiscal sustainability challenges – Bayrou 2025 budget proposal

Bayrou 2025 budget proposal

Spending cut: 26,7Bn; Increase in revenues : 17,1Bn



Budget Adjustment Measures (2025) Total savings target: ~41 Bn€

1. State & Public Sector (15.3 Bn€)

- State: 4.8 Bn€ – Spending capped at 2025 levels (except Defense), 1/3 civil servants not replaced, asset sales.
- State Operators: 5.2 Bn€ – Eliminate non-productive agencies (1,000–1,500 jobs), re-internalization/mergers.
- Local Authorities: 5.3 Bn€ – Spending growth capped at State revenue, support for struggling departments (€300M each).

2. Social Spending (5 Bn€)

- Social security reforms: lower drug reimbursements, stricter sick leave checks, finalize shared medical record.
- Without measures, healthcare spending +10 Bn€ next year.

3. Fiscal Measures & Structural Reforms (20.8 Bn€)

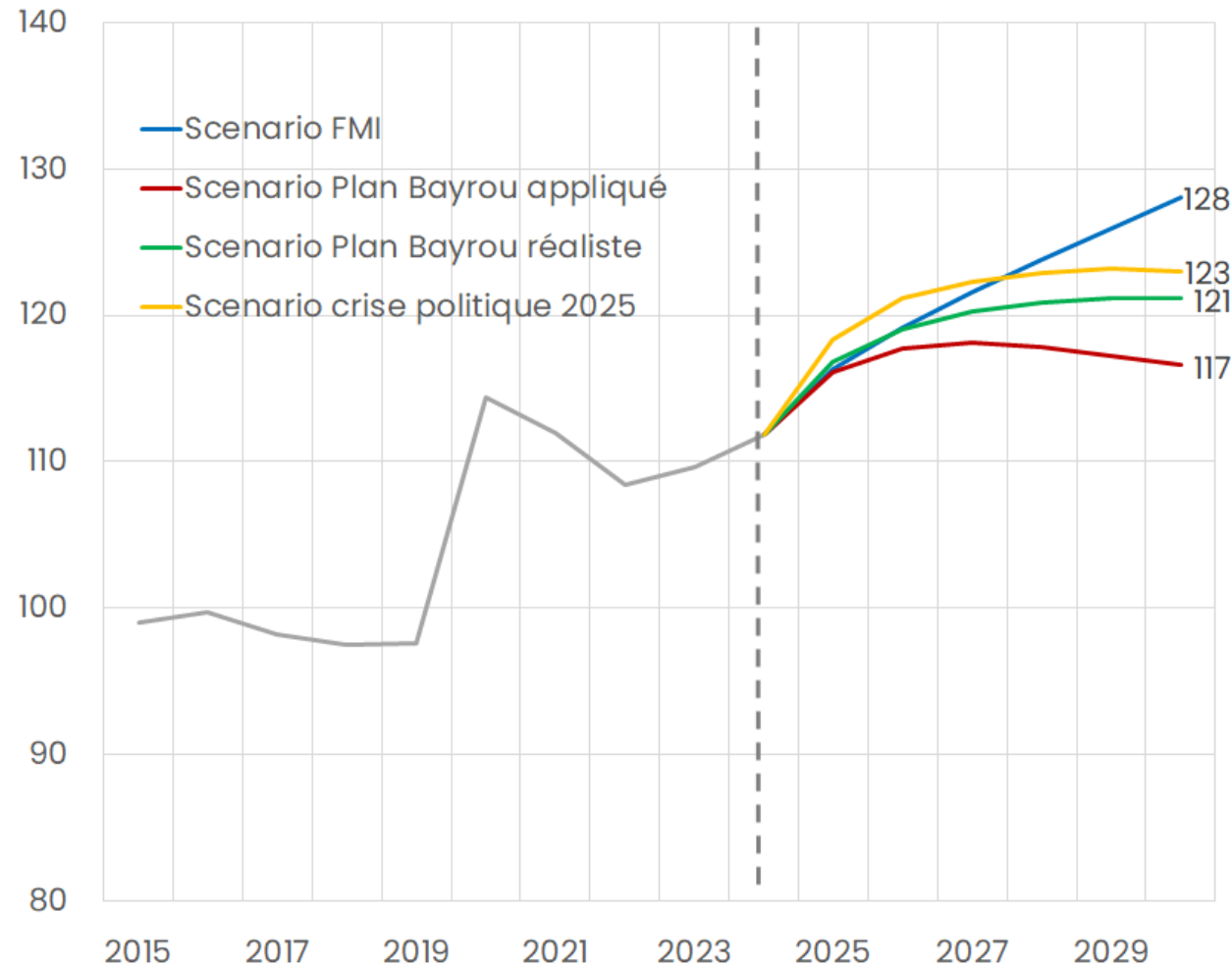
- Blank Year: 7.1 Bn€ – Freeze pensions, social benefits, public pay, and tax brackets.
- Anti-fraud: 2.3 Bn€.
- Fiscal equity: 4.2 Bn€ – Solidarity contribution from wealthiest.
- Suppression of tax/social niches: 3.4 Bn€ – End of 10% pension tax deduction replaced by €2,000 allowance.
- Structural reform: 1.8 Bn€ (TBD).
- Abolition of 2 public holidays: 4.2 Bn€ (Easter Monday, May 8),

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Fiscal sustainability challenges

France debt sustainability analysis

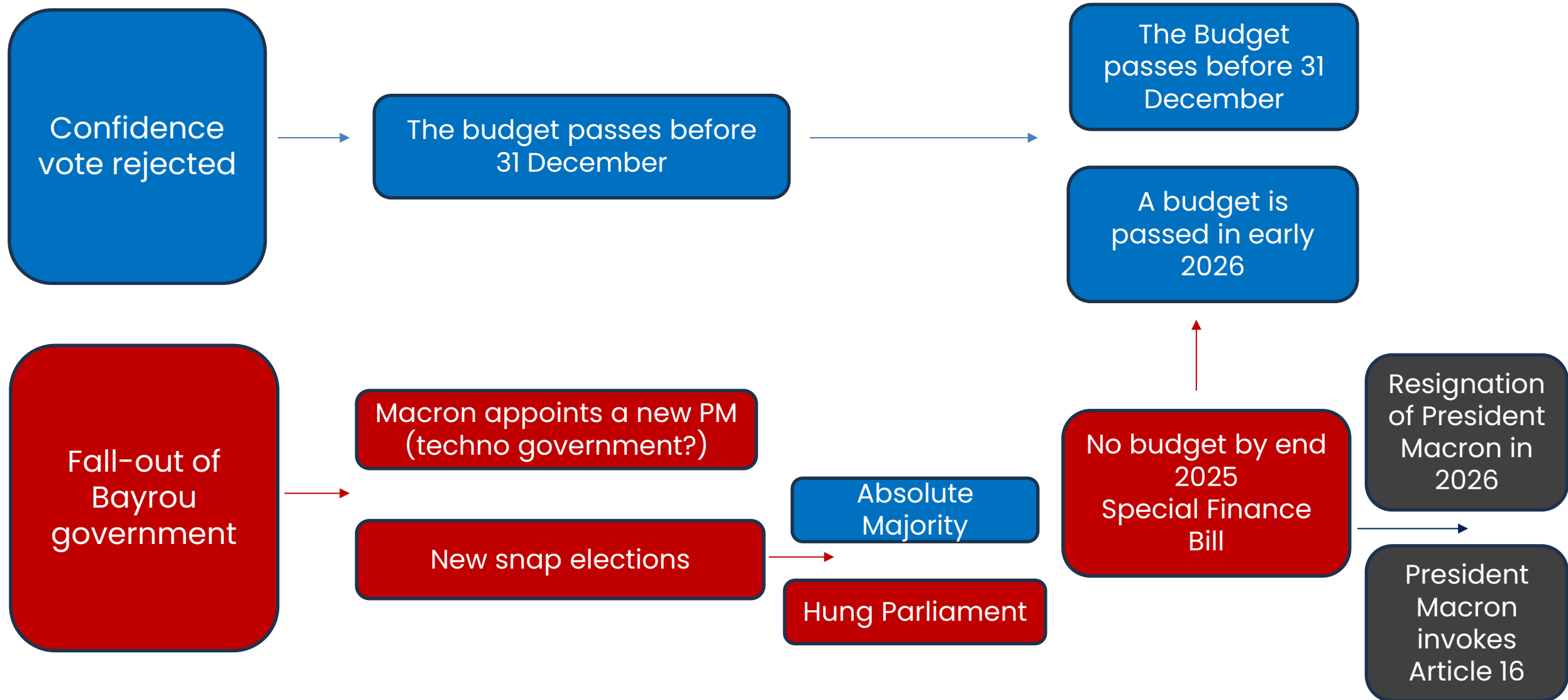
% of GDP



1. IMF (128% in 2030): Central debt scenario without budgetary adjustment
2. Bayrou Plan applied (117%): Strong spending cuts, strict implementation
3. Bayrou Plan realistic (121%): Partial implementation, limited effort.
4. Political crisis 2025 (123%): Policy paralysis, persistent deficit, weak growth

3. What you should monitor

Political calendar and potential scenario



Any questions?

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