

2027 budget: French debt faces a credibility test

We explained in our previous research note¹ that French bond yields are being driven upwards again largely because the market is concerned about the country's budget trajectory. The draft budget for 2027 now lies at the very heart of the matter. France's financial credibility is well and truly being put to the test, with questions about its adherence to Europe's new fiscal rules, its ability to manage its swelling debt, and political uncertainty in the run-up to its presidential elections.

KEY FIGURES AND BUDGET ANALYSIS

The government presented its draft budget for 2027 on 1 October based on the following macro-financial blueprint.

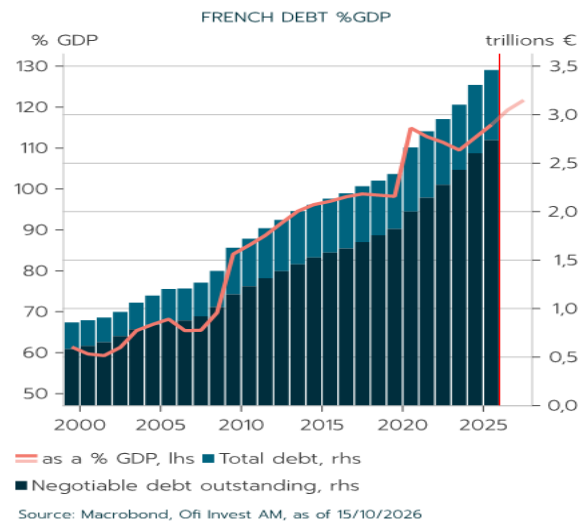
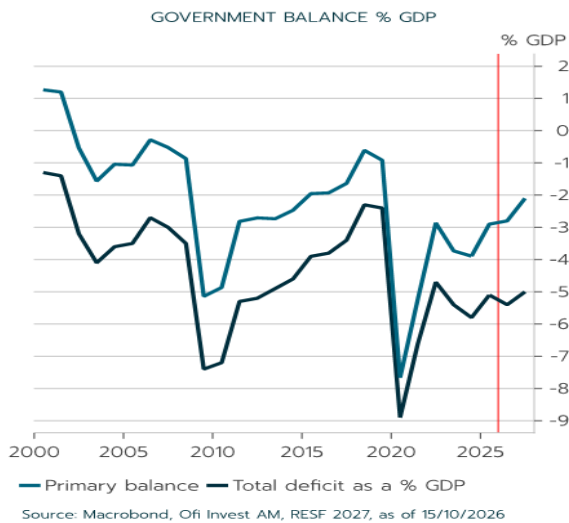
As a % of GDP, unless otherwise specified	2025	2026	2027
Total balance	-5.1	-5.4	-5
Public debt	115.7	119.3	121.7
Interest expenditure	2.2	2.6	2.9
Primary balance	-2.9	-2.8	-2.1
Structural primary balance	-3.0	-2.5	-1.7
Structural primary adjustment	0.8	0.4	0.8
Real growth in primary public spending (%)	1.3	0	0
Real GDP growth	0.9	0.5	1.0
Potential GDP growth	1.2	1.2	1.2
Compulsory tax rate	43.6	43.9	44.2
New compulsory tax measures (€bn)	23.5	14.2	17.3

Source: [RESF 2027](#).

The key takeaways from the draft budget are as follows.

- 1) The public deficit remains high and is set to return to its 2025 level of 5.0% in 2027.** The deficit will automatically push public debt higher as the primary deficit is too large and interest expenditure on the increase.

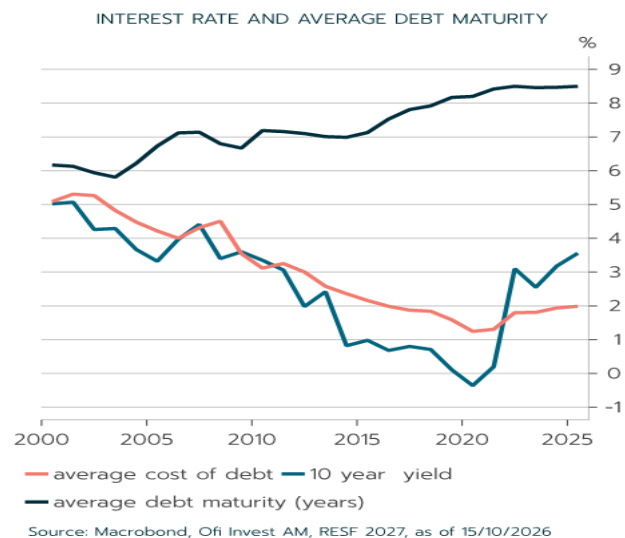
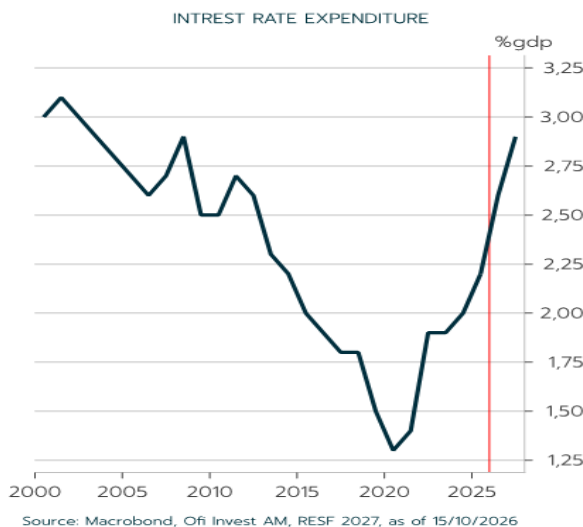
¹ [OAT-Bund: France faces a widening risk premium. Ofi Invest AM. September 2026.](#)



2) The government is proposing a consequential primary structural adjustment in this budget corresponding to 0.8 point of GDP. The adjustment consists mostly of expenditure savings: a freeze on the public sector pay index, a freeze on ministerial credits, the under-indexation of pensions (except for the lowest), a freeze on certain welfare benefits, and healthcare expenditure savings (sickness allowances and drugs).

The main measures regarding government receipts include: a freeze on contributions relief for low earners, a cap on tax allowances for pensioners, an increase in local authority contributions, and reduced exemptions for contributions under profit-sharing schemes.

3) Despite such a sizeable structural adjustment the public deficit would fall by only half of the amount earmarked for it, evidence that **interest expenditure accounts for an ever-increasing share of France's growing budget.** The average yield on French debt is going to rise come what may in the years ahead as the government refinances its earlier debt at higher rates.



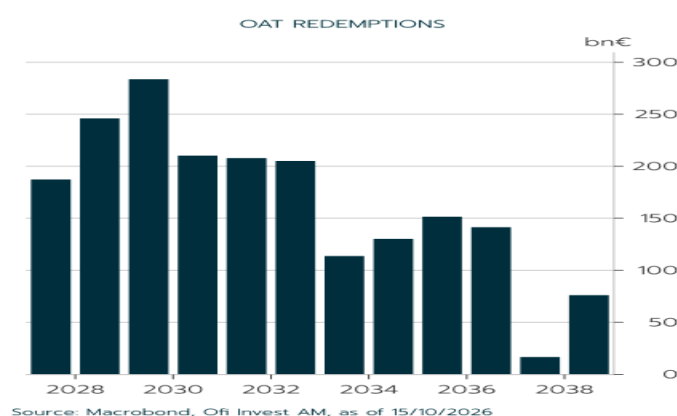
4) The adjustment is consistent with Europe's Excessive Deficit Procedure recommendations under the EU's new fiscal rules. France is thus securing its potential eligibility for the [TPI \(Transmission Protection Instrument\)](#), a tool created by the ECB in July 2022 to ensure that monetary policy is transmitted smoothly throughout the euro zone and to prevent any unjustified financial fragmentation. Three other eligibility criteria are taken into consideration, and the final decision to activate the TPI is at the ECB Governing Council's discretion².

5) However, the adjustment comes nowhere near the €54bn of savings announced by the government. Why is this? The €54bn was calculated by the government in relation to what its public spending (and receipts) would have amounted to at unchanged policy. But reducing the deficit will take more than merely slowing down the pace of public spending growth; above all, public spending needs to increase at a slower pace than the potential economic growth rate, and this is precisely what the structural adjustment measures.

6) The High Council of Public Finances (HCFP)³ reckons that the government's macro-financial blueprint for 2027 is based on an overly optimistic growth assumption. We would also point out that the government's **macroeconomic forecasts are based on an oil price of 80 dollars and a 10-year yield of 4.3% in 2027.**

CONSEQUENCES FOR ISSUANCE

The government's draft budget means that the State's issuance programme is going to reach a record high of €340bn of medium- and long-term debt issuance in 2027, after amounting to €310bn in 2026. Its financing needs are set to increase mainly for the purpose of refinancing the bonds it issued to cover the Covid public health crisis and energy crisis. Outstanding medium- and long-term debts due to mature next year total €187bn, and the amount maturing between now and 2030 is just under €1,000bn.



² The four criteria considered to assess a country's eligibility for the TPI are as follows: compliance with the EU fiscal framework (e.g. not being subject to an excessive deficit procedure or not having failed to take effective action in response to EU recommendations), absence of severe macroeconomic imbalances, fiscal sustainability, and sound and sustainable macroeconomic policies.

³ [Avis relatif aux PLF et PLFSS 2027. HCFP. October 2026 \(in French only\).](#)

WHAT NEXT: TIMELINE AND SCENARIOS

Upcoming key dates to watch closely include the following:

15/10: deadline for submitting the draft budget to the European Commission

20/10: vote on the first part of the budget (receipts and equilibrium)

23/10: rating review by Moody's, expected to align with the A+ assigned by Standard & Poor's and Fitch

30/10: deadline for the European Commission to issue its opinion

27/11: rating review by Standard & Poor's

31/12: deadline for adopting the budget

There are four possible scenarios for adopting the budget.

1) Adoption of the budget by parliamentary vote before 31 December 2026. The process of getting the budget adopted is complicated by France's current political fragmentation and the fact that its main parliamentary groups have little interest in reaching a lasting compromise in the lead-up to the presidential election. The *Rassemblement National* party has already put forward a counter-budget.

2) Adoption of a special law before 31 December 2026, with budget talks continuing in 2027.

This was the scenario chosen back in late 2024 for the 2025 budget and in late 2025 for the 2026 budget. The special law is not a budget: it essentially allows the State to continue collecting existing taxes and ensure public service continuity pending adoption of an actual finance law. On a full-year basis, such a scenario would result in at least a 0.5-point deterioration in the public deficit compared with 2026 (i.e. at best corresponding to 5.9% of GDP), according to a recent report from the *Cour des Comptes* (France's Audit Office)⁴. Other sources suggest the deficit could soar to 6.4% in 2027 if the budget is extended to next year.

3) Adoption of the budget through Article 49.3. In this case the government assumes responsibility for the bill. If the parliament does not pass a vote of no confidence, the budget will be considered as adopted. A vote of no confidence, however, would topple the government and get the budget bill thrown out.

4) The budget comes into force by government order under Article 47 of the Constitution.

If parliament fails to reach a decision within 70 days of the finance bill being submitted, the government can enforce the draft bill's provisions by government order. This mechanism has never once been used under the Fifth Republic. Were the government to take such action, it is possible that it would trigger a vote of no confidence and the government could be overthrown in this case. But unlike Article 49.3, a government order that has been signed does not automatically become null and void if the government then falls.

⁴ [Effets d'une application prolongée de la loi spéciale en 2027. Cour des Comptes. July 2026 \(in French only\).](#)

CONCLUSION

From an investor's perspective, the market's ability to absorb France's debt is being put to the test just as much as the country's budget credibility is. With an issuance programme amounting to €340bn for 2027, France will have to persuade investors to maintain and even step up their commitments. Our baseline scenario remains that of a 10-year OAT–Bund spread⁵ of 100–150 basis points. But any dilution of the country's fiscal effort or insufficient demand when it auctions off its bonds could exert stress and push the spread closer towards 200–250 basis points. In this case, the risk is that of a doom loop: higher interest rates would gradually make it more expensive for the country to refinance its debt, thus undermining its budget trajectory and pushing its risk premium higher. This would stretch France's eligibility for the TPI, without any guarantee that the ECB would activate it.

Written on 13 October 2026

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⁵ [OAT-Bund spread: the interest rate differential between France's government bond \(Obligation Assimilable du Trésor française\) and a same-dated German benchmark government bond \(Bund\) which is regarded as being the least risky.](#)