

THE QUALITY PULSE

ONE INSIGHT. ONE PERSPECTIVE. EVERY WEEK.

ISSUE 08

30 OCTOBER 2026

6 MIN READ

When Debt Stops Being Abstract



France, Europe and the price of fiscal credibility

A government can carry a large debt for years without a crisis. The pressure changes when investors begin to doubt that borrowing will be brought under control. France is now a vivid example: the issue is not an imminent inability to pay, but the rising cost of debt

and the political difficulty of agreeing how to slow it. Public debt is high across much of the world, yet markets still rank borrowers – by growth, budget discipline, institutions and the ability to respond when conditions change.

WHY FRANCE, WHEN EVERYONE IS INDEBTED

The IMF's October outlook puts 2026 debt at 94.6% of global GDP and 107.8% in advanced economies. That is the backdrop, not an excuse: investors still distinguish countries by growth, budget discipline, institutions and their ability to respond. Japan and the United States also face high debt burdens, but France's immediate vulnerability is sharpened by its place in a currency union: it cannot set euro-area interest rates or issue its own currency. [2]

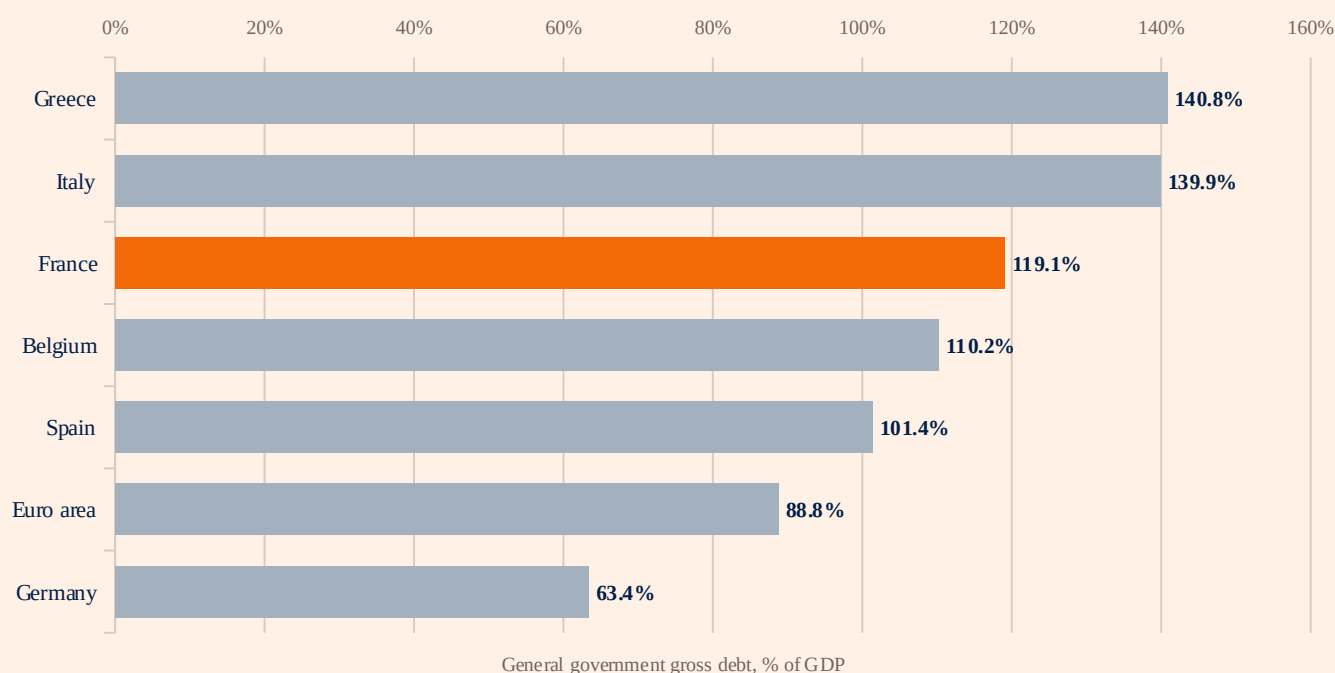
FRANCE HAS BOTH A DEBT BURDEN AND A CREDIBILITY PROBLEM

At 119.1% of GDP, France had the euro area's third-highest debt ratio in Q2, behind Greece and Italy. Its 2026 deficit is forecast at 5.4% of GDP, while the IMF expects growth of only 0.4%. The government's draft 2027 budget aims to reduce the deficit to 5.0%, but parliamentary resistance has already weakened some proposed savings. A target matters only if the government can pass and deliver it. [1][2][6]



INVESTMENT PERSPECTIVE

High public debt does not automatically trigger a crisis. What matters is whether a government can maintain confidence in its ability to manage future deficits while supporting growth. For investors, the level of debt is only the starting point; its direction, and the credibility of the plan behind it, deserve at least as much attention.

Government gross debt in Q2 2026, % of GDP

Eurostat, Q2 2026, provisional. Gross debt as a share of GDP; the level alone does not measure the risk of a debt crisis.

SOURCE: EUROSTAT [1]

THE LEVEL MATTERS, BUT SO DOES THE DIRECTION

Debt is the amount a government already owes; the deficit is the yearly shortfall that adds to it. A country's debt ratio can fall if it borrows less or if its economy grows faster than its debt. That is why the direction matters alongside the starting level. Over the year to Q2 2026, France's debt ratio rose from 115.4% to 119.1% of GDP, and Belgium's from 106.4% to 110.2%. Greece's ratio fell from 152.0% to 140.8%, although it still had the EU's highest debt ratio. Its debt stock also declined. This improvement is encouraging, but it does not make Greece's debt low or remove the need to keep it under control. [1]

The underlying arithmetic matters. When an economy grows faster than the effective interest rate on its outstanding debt, stabilising the debt ratio becomes easier. When the effective interest rate exceeds nominal economic growth, the government generally needs a stronger primary budget balance – the balance before interest payments – to prevent the debt ratio from rising. This relationship is central to the economics of public debt, as discussed by Olivier Blanchard. Growth driven mainly by inflation may offer less lasting relief if it also pushes up future borrowing costs. [12]

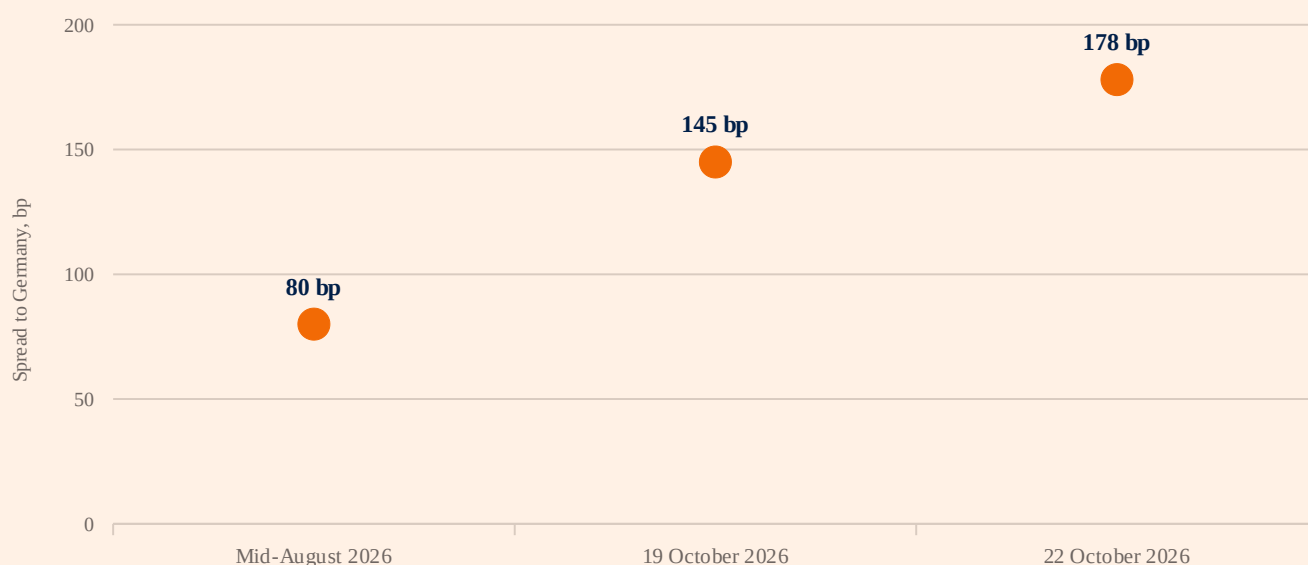
WHAT THE BOND MARKET IS PRICING

France has to pay more to borrow than Germany. The comparison is useful because both countries borrow in euros and face the same ECB policy environment. German government bonds are widely used as a reference point because investors see them as especially safe and easy to trade. The gap between the two countries' borrowing rates therefore shows how much extra compensation investors are asking for to lend to France. It is not money France pays to Germany, and it does not apply to every French bond. [3][4]

On 22 October, that gap reached about 1.78 percentage points. Borrowing rates had risen more widely too, but investors were also worried about France's large deficit and whether its divided parliament could agree on a plan to reduce it. The next day, Moody's kept France's credit rating at Aa3 but left its outlook negative. That offered some relief, though the rating assumed France would adopt a budget that reduces the deficit in 2027 and that borrowing costs and social tensions would ease. [3][4][5]

The roughly 5% yield quoted on 22 October does not apply to all the debt France already has. Existing fixed-rate bonds generally retain their coupons, while new borrowing is financed at prevailing market rates. As older bonds mature and are refinanced, higher rates gradually increase the government's interest bill. If that bill keeps growing faster than the economy, France will have less room in its budget unless it improves its fiscal balance. [3][4]

French–German 10-year government bond spread, basis points



Selected historical spread observations, not a continuous daily series or current market quotes. On 22 October, the French 10-year yield briefly reached 5.14% and the spread to Germany approximately 178 basis points.

SOURCES: REUTERS, LE MONDE [3][4]

119.1%

France's gross debt in Q2 2026, the euro area's third-highest ratio

SOURCE: EUROSTAT [1]

5.4%

France's 2026 deficit forecast, against expected growth of only 0.4%

SOURCE: IMF [2]

178 bp

French–German 10-year spread on 22 October, up from about 80 bp in mid-August

SOURCES: REUTERS, LE MONDE [3][4]

1974

The last year in which France recorded an annual budget surplus

SOURCES: LE MONDE, OECD [7][8]

FRANCE HAS SPENT MORE THAN IT HAS RAISED IN REVENUE FOR DECADES

France has not recorded an annual budget surplus since 1974. Government revenue has fallen short of spending, and borrowing has covered the difference. Much of that spending supports pensions, healthcare, social benefits and public services. These commitments are difficult to change, while weak growth limits the pace at which revenue rises. Now, higher interest payments on accumulated debt are adding to annual costs. The government plans to reduce the deficit, but getting the measures through parliament is difficult. [7][8]

Credibility also has a measurable price. A 2025 IMF working paper studied six countries that introduced fiscal rules with robust correction mechanisms. The authors found a persistent median reduction in sovereign spreads of about 75 basis points, or 25%, over one year. The result is not a forecast for France, but it illustrates why investors care whether governments have credible ways to correct fiscal slippage. [13]

THE ECB CAN CONTAIN FRAGMENTATION, NOT ERASE FISCAL CHOICES

The ECB can intervene when unwarranted, disorderly market dynamics threaten the transmission of monetary policy across the euro area. Its Transmission Protection Instrument (TPI) allows purchases of eligible government bonds, but it is not a promise to keep France's borrowing costs low or pay its bills. Eligibility depends on the ECB Governing Council's assessment of several criteria, including compliance with the EU fiscal framework, debt sustainability and sound macroeconomic policies. France is already subject to an EU excessive deficit procedure; this does not automatically preclude support, but it makes the assessment of effective corrective action particularly relevant. The Pandemic Emergency Purchase Programme (PEPP) stopped reinvesting in maturing bonds at the end of 2024, so that support has ended. Ultimately, France's government must tackle the deficit through its own budget choices. [9][10][11]

THE COST OF LOSING FINANCIAL FLEXIBILITY

As more government revenue is absorbed by interest payments, less is available for other priorities unless taxes rise or spending elsewhere is reduced. Governments need room to respond to recessions, invest in infrastructure and education, and meet demographic or security challenges. High debt does not eliminate these choices, but it can make them more difficult and politically costly. Unlike a company, a sovereign state has taxation powers and, depending on its monetary arrangements, additional financing options. Yet the underlying constraint is familiar: commitments made today can limit the freedom to act tomorrow. The danger may be not a sudden crisis but a gradual loss of room to manoeuvre.

THREE PATHS FROM HERE

A budget deal. If France agrees on a credible plan to reduce its yearly spending gap, investor confidence may improve and the gap between French and German borrowing rates may narrow. France would still feel the effect of higher rates as older bonds are refinanced at higher cost.

More political deadlock. If lawmakers cannot agree on a plan, investors may continue to charge France more to borrow – and may become more cautious about other countries with large debts, such as Italy and Belgium.

A worsening cycle. If the economy weakens, government revenues may fall just as borrowing costs rise, making the spending gap harder to close. The ECB could act if markets became disorderly, but France would still need to address its budget.

THE PULSE



High public debt does not automatically trigger a crisis. The decisive question is whether a government can maintain confidence in its ability to manage future deficits while supporting economic growth.

When that confidence weakens, higher borrowing costs can gradually turn a manageable debt burden into a constraint on future policy choices.

The real cost of excessive debt is not only the interest paid today, but the freedom of action it takes away tomorrow.

SOURCES

1. Eurostat (21 October 2026), Government debt at 88.8% of GDP in the euro area, euro indicators 2-21102026-BP
2. IMF (13 October 2026), World Economic Outlook, October 2026
3. Le Monde (19 October 2026), France's political crisis and "near-insurrectional" image risk worsening budgetary tensions
4. Reuters (22 October 2026), French debt risk premium reaches euro zone sovereign crisis levels
5. Reuters (23 October 2026), Moody's keeps France's Aa3 rating and negative outlook
6. Agence France Trésor (2026), State budget – France's 2027 budget and deficit target, aft.gouv.fr
7. Le Monde (1 October 2026), How much does France's debt cost? 13 graphs to understand France's public finance crisis
8. OECD (30 June 2026), OECD Economic Surveys: France 2026
9. European Central Bank (21 July 2022), The Transmission Protection Instrument, press release
10. European Commission (2026), Excessive Deficit Procedure – France, economy-finance.ec.europa.eu
11. European Central Bank, Pandemic Emergency Purchase Programme (PEPP), ecb.europa.eu
12. Blanchard, O. (2019), "Public Debt and Low Interest Rates", American Economic Review, 109(4), 1197–1229
13. Acalin, J., Martinez, L. & Roch, F. (2025), "Fiscal Rules, Robust Correction Mechanisms, and Sovereign Spreads", IMF Working Paper 2025/195