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Economic Briefing

France – Bayrou's new budget at a crossroads

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The French government wants to reduce it's budget deficit by €44 billion next year, thereby lowering the deficit ratio to 4.6%. To achieve this, Bayrou is calling for ambitious measures such as freezing pensions and civil servant salaries, cutting the number of civil servants, and eliminating two public holidays. This significantly increases the risk that the opposition will bring down the Bayrou government in the fall through a vote of no confidence. But even if the budget plan is implemented, France's debt ratio would continue to rise for the time being and the burden on the budget from interest payments would steadily increase.

Francois Bayrou has presented an ambitious budget plan, ...

French Prime Minister Francois Bayrou presented his draft budget for 2026 yesterday. The plan aims to reduce the budget deficit by €44 billion next year and increase defense spending. He is primarily relying on a "blank year" in which government and social spending, such as pensions and civil servant salaries, will be frozen at 2025 levels for the next year. In addition, one in three government employees who retires will not be replaced. Bayrou wants to boost the economy by eliminating two public holidays, among other measures.

It is not entirely clear whether these measures will actually achieve the planned savings of 44 billion. However, if these savings are realized, they should be sufficient to reduce the deficit ratio from the 5.4% expected for this year to the planned 4.6%, despite rising interest payments.

... which could fail due to resistance from other parties

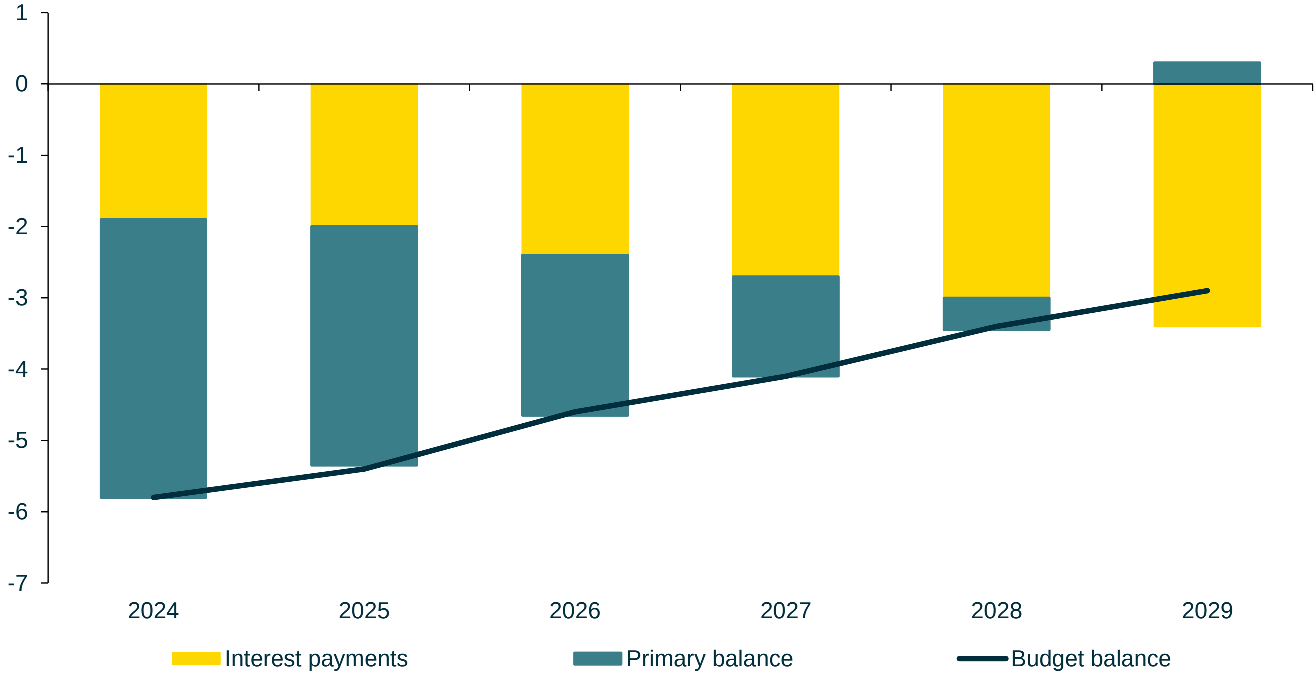
It is highly unlikely that Bayrou will obtain parliamentary approval for his plans. He does not have a majority of his own, and the Socialists and Le Pen's Rassemblement National (RN) appear to reject his plans. He could again invoke Article 49.3 of the French Constitution, which allows the government to pass a budget law without parliamentary approval. However, this would then most likely lead to a vote of no confidence. The probability that Bayrou would survive this has significantly fallen. Unlike two weeks ago, when the Socialists voted no confidence in connection with the pension reform, the RN deputies cannot abstain this time, but could vote against the government, thereby ending Bayrou's term in office.

The state of public finances is precarious

Budget consolidation is essential, and the measures now planned by Bayrou are far from sufficient to halt the rise in the debt ratio or even reduce it. Bayrou therefore plans to lower the deficit ratio to 3% in 2029 (Chart 1). This will be made more difficult by interest payments on existing government debt, which are likely to rise further in the coming years. This is another reason why extensive further consolidation measures of around €80 billion would be necessary by 2029 to achieve this goal. Given the political situation, this is hardly realistic, not least because it would weigh noticeably on the economy during this period.

Chart 1 - Projections of the French budget balance

General government interest payments, primary deficit and budget balance for France, in % of GDP; Assumptions: Bayrou's budget plan and Commerzbank economic forecasts



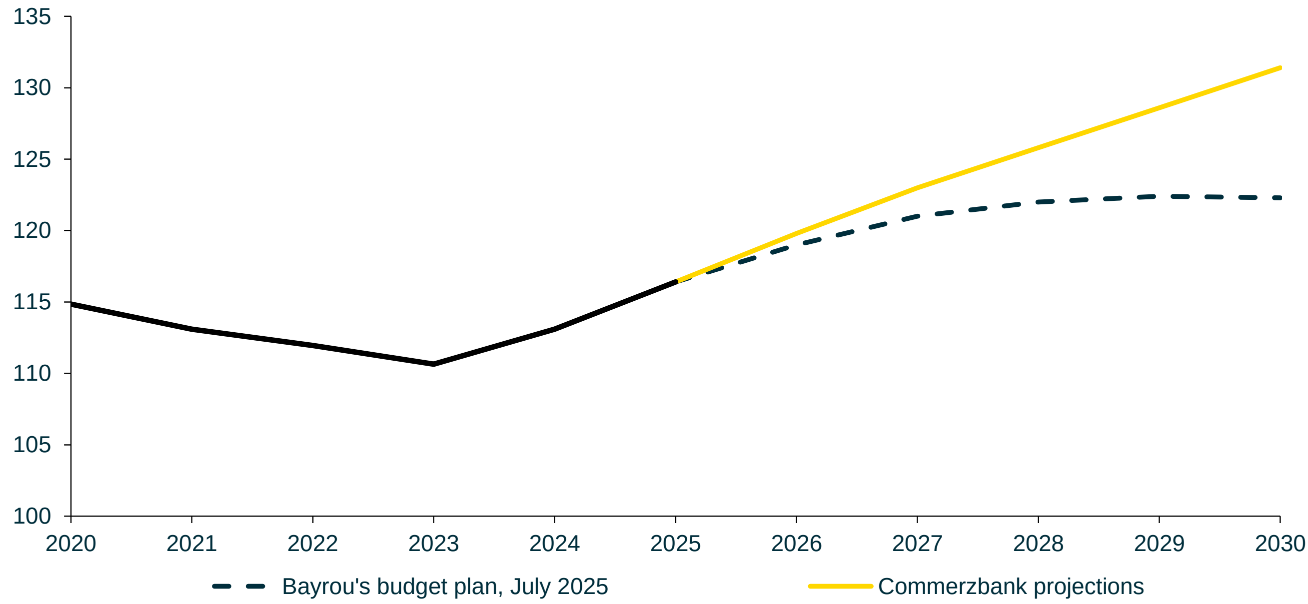
Source: World Bank, Bloomberg Economics, Commerzbank Research

Debt will rise in any case

Even if Bayrou is successful, France's national debt is likely to rise in the coming years (Chart 2). Under Bayrou's budget plan and our economic assumptions (see **here**), France's debt ratio is likely to stabilize at around 122% at the end of the decade. If the current government is only partially successful in its austerity measures, the debt mountain could even swell to 130% of GDP, with no end in sight.

Chart 2 - The mountain of debt continues to increase either way

Projections of the general budget debt as a share of GDP, in %; Assumptions: Budget plan by Francois Bayrou and Commerzbank assumptions on economic development



Source: Bloomberg Economics, Commerzbank-Research

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