OCTOBER 2025

LE DÉLUGE
THE FRENCH PENSIONS PROBLEM

- **France has a persistent deficit problem, linked to the political problem. Pensions are not the only part of that, but they are the largest part.**
- **Suspending pension reforms may reduce the risk of immediate re-collapse of Prime Minister Lecornu's government, but worsens the fiscal deterioration and does very little for longer-term political risks.**
- **S&P is likely to downgrade France to A+ on 28 November 2025.**

Over the last year, three French prime ministers have been ousted because of an inability to pass a budget with any sort of fiscal consolidation. While this is partly due to political fragmentation, there is a circularity to this causation. Budget problems and the attempts to fix them have in part caused the political problems, and vice-versa. So it is worth looking at the French fiscal issues in more detail: what exactly are the problems, and is there something unique to France behind them?

PERSISTENT DEFICITS

When it comes to fiscal sustainability, France is one of the countries we are most concerned about. This is driven by persistent budget deficits and the political inability to fix them, and the result is unsustainably rising debt/GDP levels (see Figures 1 and 2).

Figure 1: Budget balance of the select developed markets[1]

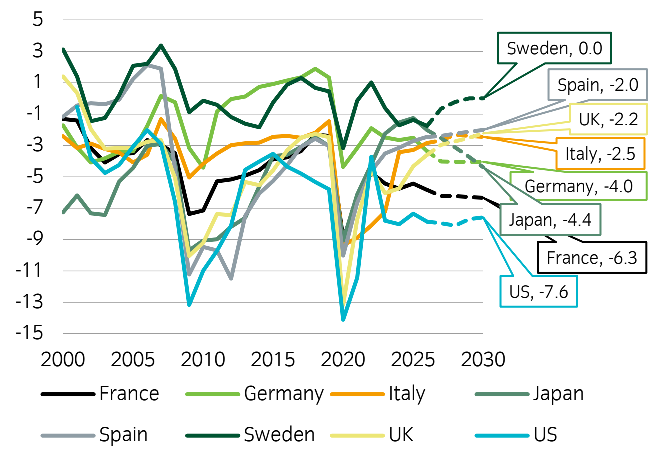
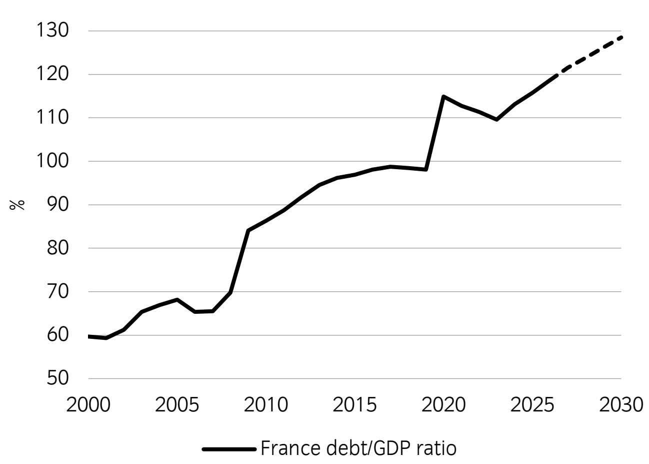
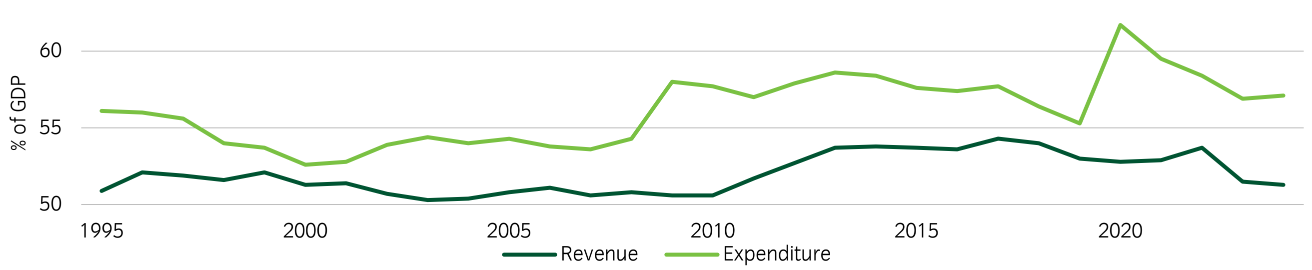


Figure 2: Debt/GDP ratio of France[2]



French budget deficits extend back 50 years. The last budget surplus was in 1974. Although revenues have been broadly stable in a range of 51%-54% of GDP in recent decades, expenditures have gradually crept higher (see Figure 3).

Figure 3: France public finances



[1] Source: IMF, as at 8 October 2025.
[2] Source: IMF and Insight forecasts, as at 8 October 2025.

Comparing French government expenditure to other European countries, we can see that French spending is very high (see Figure 4). Government revenues are also high, and this suggests our focus should be on the expenditure side. If the French government is to fix this, they probably need to focus more on cutting spending than raising taxes further.

Figure 4: Government expenditure (% of GDP)[3]

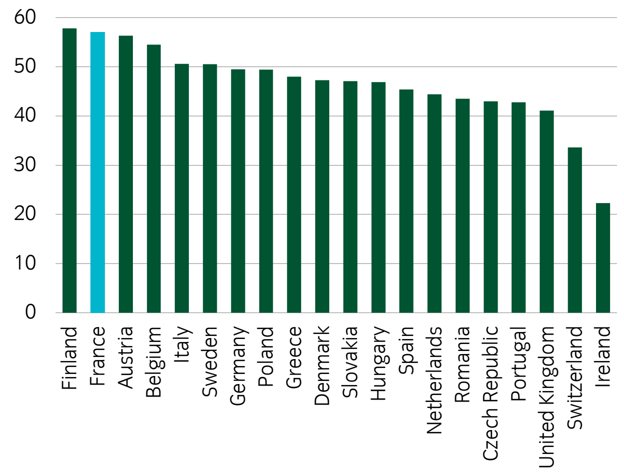
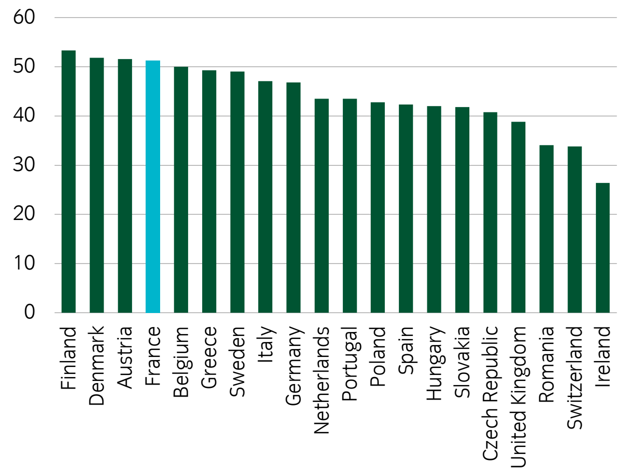
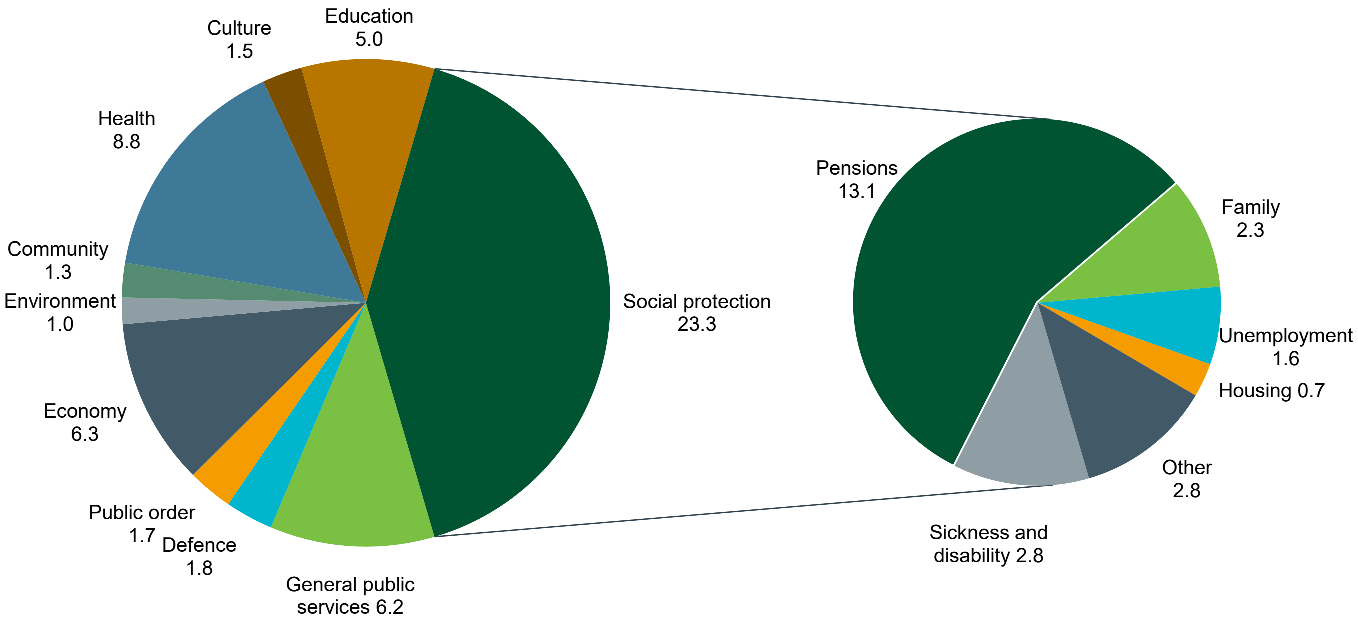


Figure 5: Government revenue (% of GDP)[3]



If we look at the breakdown of French government spending, we can see that social protection dominates at 23.3% of GDP out of a total of 56.9%. Breaking that down further, pensions dominate social protection spending, at 13.1% of GDP (see Figure 6).

Figure 6: France government spending in 2023 (% of GDP)[4]



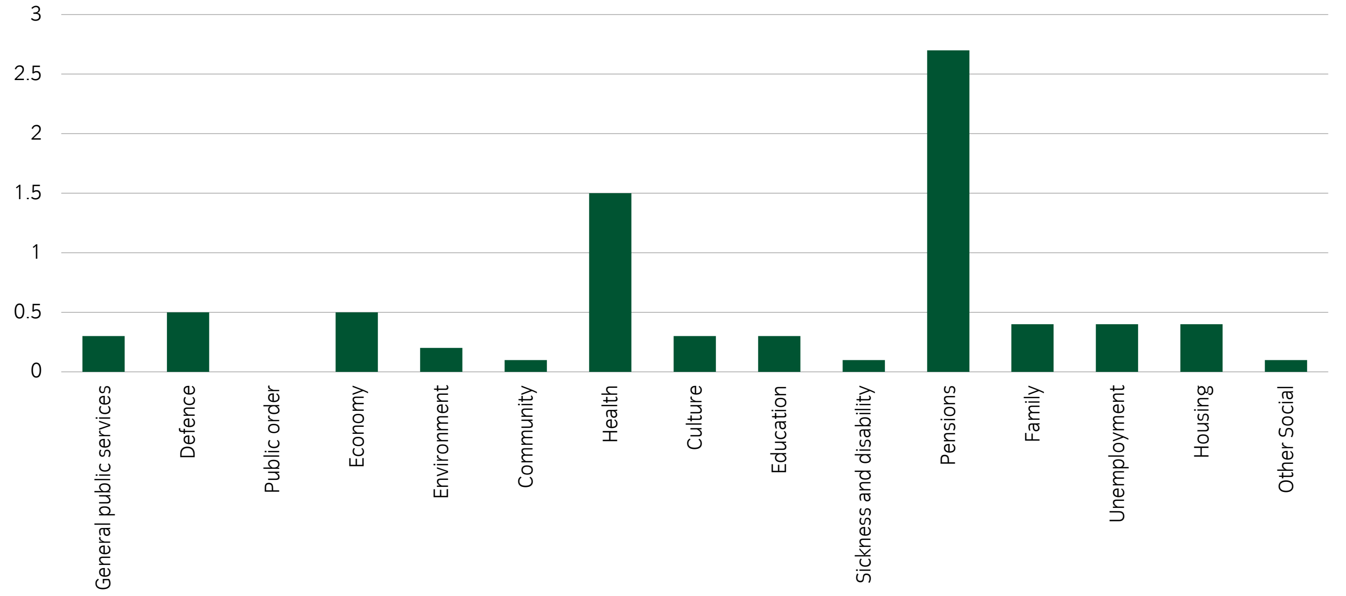
So we can see that pensions are a particular expense for France in an absolute sense. We can also compare French spending with EU average spending. Overall French public spending is 7.8% of GDP higher than the EU average. The breakdown shows that France spends more than the EU average across almost every category (see Figure 7). Pensions are 2.7% of GDP higher, and health is 1.5% higher.

If France is politically unable to reduce spending on pensions, then any successful budget consolidation will either need to significantly cut health spending, or impose broad austerity across almost all government functions – both of which are also politically very difficult.

[3] Source: Eurostat, as at 8 October 2025.

[4] Source: Macrobond, Eurostat.

Figure 7: France vs EU average spending (% of GDP)[5]



If we focus on pension spending, unsurprisingly, France is towards the upper end of the range of European countries (see Figure 8), but French pension spending and the gap to the EU average have actually been improving slightly since around 2017, ignoring the blip from the Covid recession (see Figure 9).

Figure 8: Public pension spending (% of GDP)

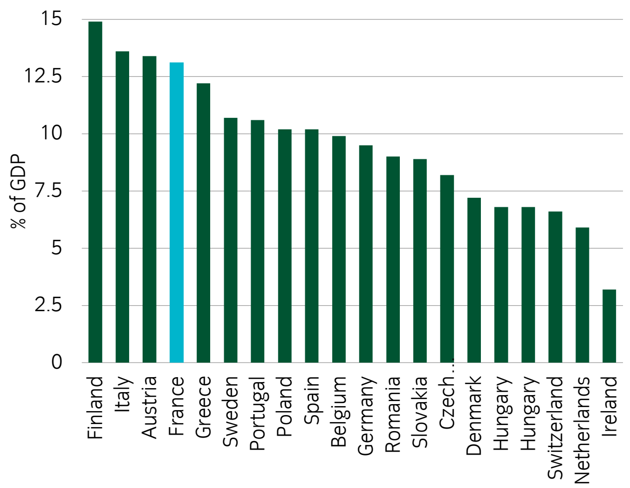
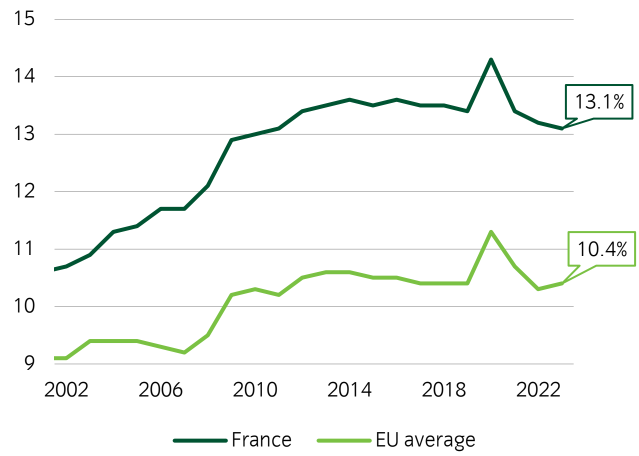


Figure 9: Public pension spending, France vs EU (% of GDP)



It now appears that the 2023 pension reforms are the necessary sacrifice to keep a modicum of political stability, with Prime Minister Lecornu promising the Socialists to suspend the reform until after the next presidential election in 2027.

Note Eurostat data (used in Figures 4 to 7) only extends to 2023, so the effect of the pension reforms are not shown, but further improvements on pensions spending are dependent on pension reforms. The effects of those reforms were to gradually increase the retirement age from 62 to 64 years of age, still low by general European standards (see Figure 10), but as a result the budgetary benefits only accrued gradually over time (and conversely the financial pain is felt entirely by people coming up to retirement age, with no impact on existing retirees).

[5] Source: Macrobond, Eurostat.

Figure 10: Average effective retirement age[6]

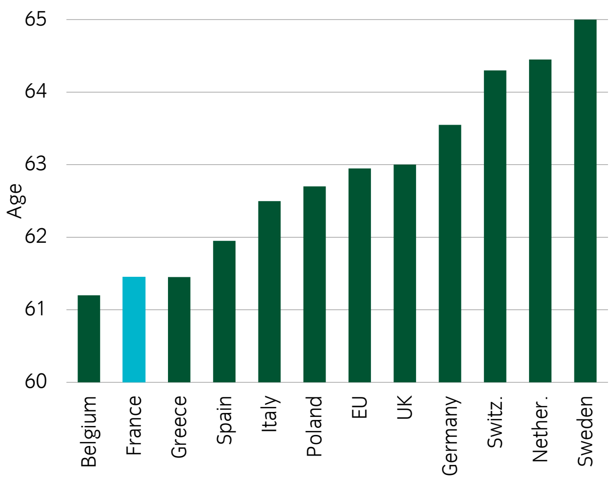
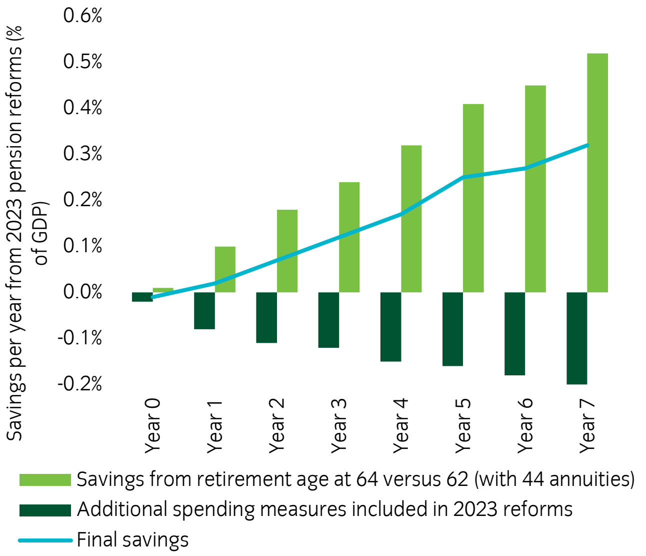


Figure 11: Public finance savings from 2023 pension reform[7]



Suspending this reform costs only around 0.1%-0.2% of GDP in 2026, but those abandoned savings continue increasing in future years (see Figure 11) if we assume the suspension becomes permanent with a new president, which has to be the base case.

France remains in a state of deterioration on both fiscal and political fronts. Averting an immediate political crisis has only been achieved at the cost accelerating the fiscal deterioration, which will not reduce the probability of an eventual sovereign market crisis. Moody's has a review of France due on 24 October, but having only downgraded France to Aa3 last December is still on a stable outlook. A change to negative outlook cannot be ruled out. S&P, however, already has France on a negative outlook, and its review on 28 November is now surely very likely to result in a downgrade to A+, joining Fitch in the A bucket. This may lead to some forced selling of French bonds from very high-grade portfolios.

While a short-term reduction in political event risk may lead some investors to take some profits, the medium to long term deterioration suggests some may opt for keeping a core underweight position in France.

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IMPORTANT INFORMATION

[6] Source: OECD, Insight.
[7] Source: CNAV, COR, PLFRSS 2023, Crédit Agricole CIB.

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