French fiscal policy: the outlier

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Introduction

France is currently an outlier in terms of fiscal situation in the euro area

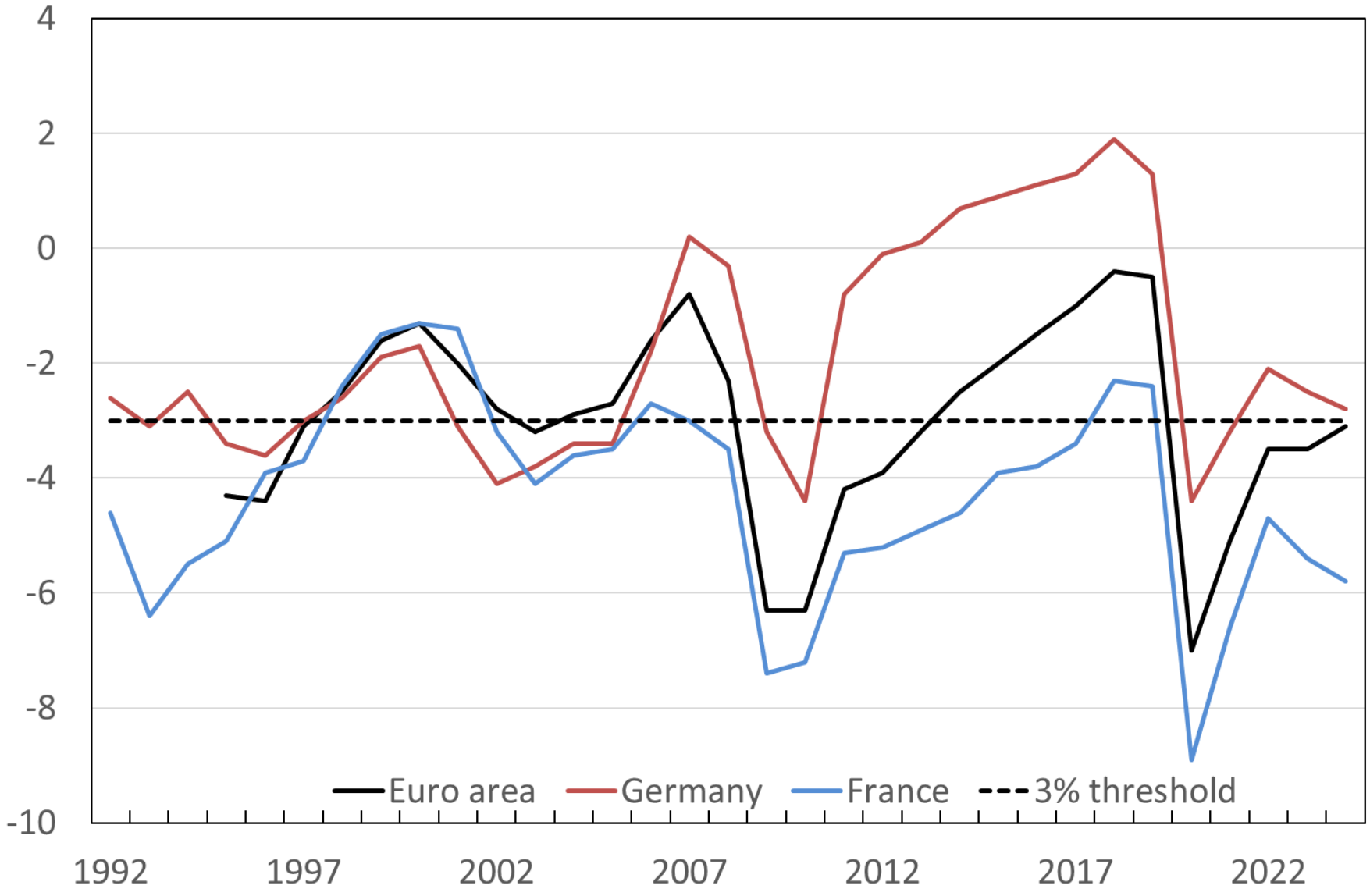
- High level of public and social expenditure, financed via a high rate of taxation
- High public deficit and debt, which does not sound sustainable in 2025.
- Since the introduction of the Maastricht Treaty, France has been the ‘bad pupil of the class’, refusing to meet fiscal rules, and being often under an EDP.
- The EU fiscal rules were irrelevant, requiring pro-cyclical restrictive fiscal policies and failing to ensure satisfactory coordination between the single monetary policy and domestic fiscal policies.
- But France failed to impulse the introduction of more satisfactory fiscal rules.
- Besides, due to the single currency’s constraints (fixed exchange rate, loss of control of the interest rate) and due to financial markets’ surveillance, France has to implement a restrictive turn in fiscal policy in 2025, the difficulty being to avoid to undermine social cohesion and to dampen economic activity too strongly.

Outline of the presentation

- The French fiscal situation in 2025.
- Public finance developments in relation with the macroeconomic context.
- Taxation: past developments and current context
- Public expenditure: past developments and current context
- Plans currently under discussion for the 2026 Budget
- Strategies to bring public finances back into balance.

Figure 1a. Public balance, % of GDP

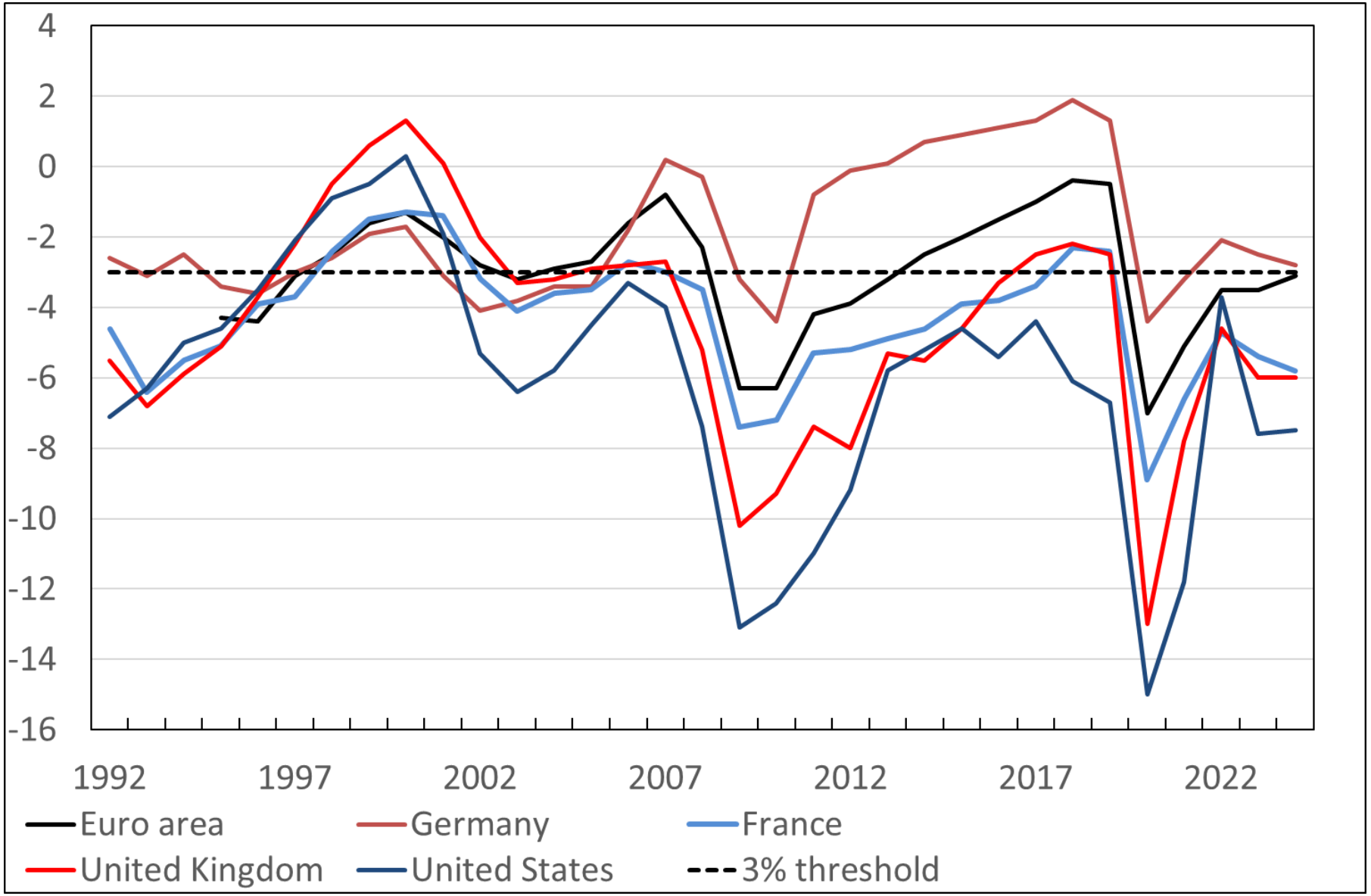
In 2025:
The French public deficit (5.5% of GDP) would be among the largest in the euro area (3.2% as a whole)



Source: European Commission, AMECO, Spring 2025

Figure 1b. Public balance, % of GDP

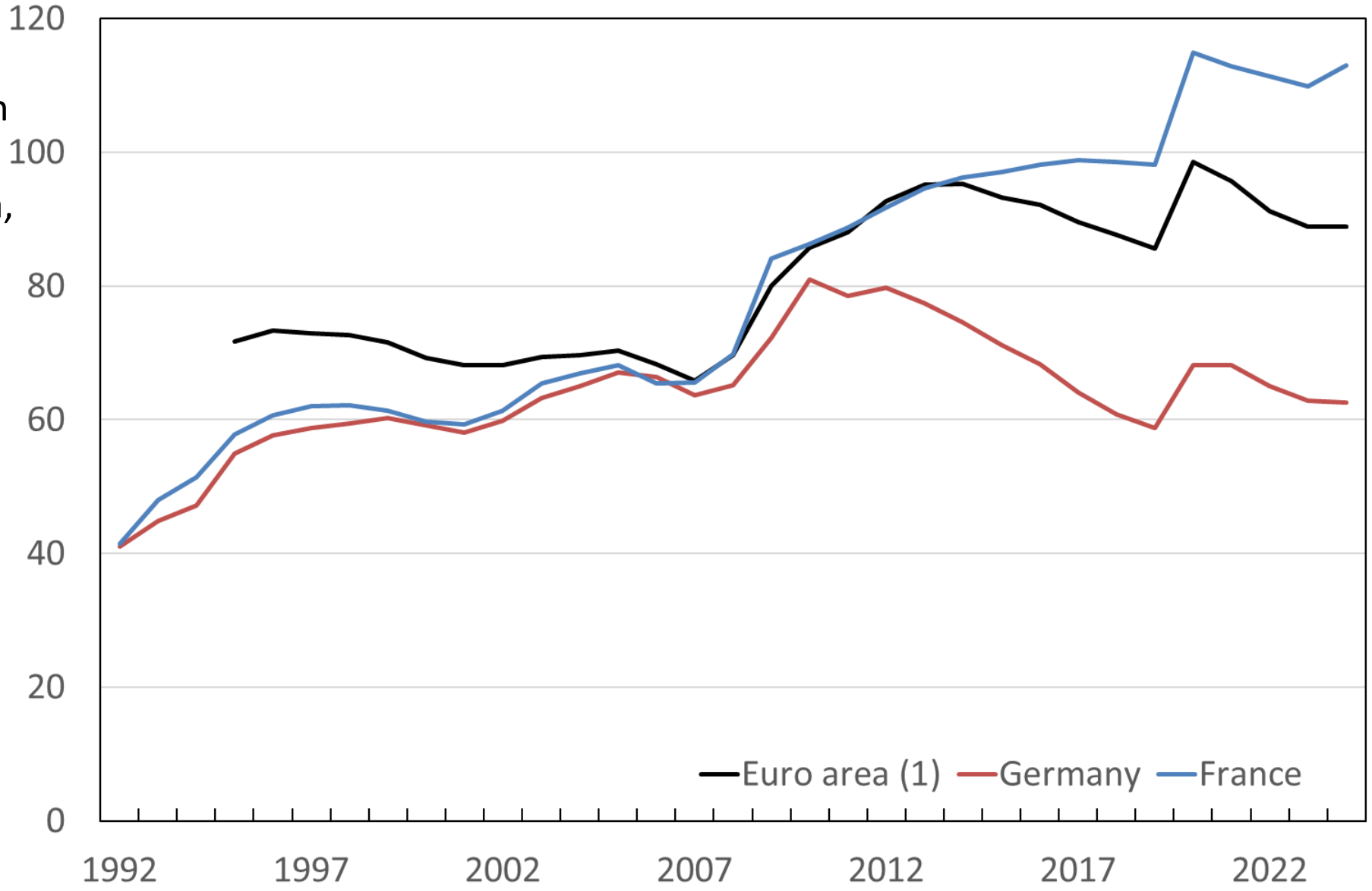
In 2025:
The French public deficit (5.5% of GDP) would be the largest in the euro area (3.2% of GDP as a whole), but between the UK deficit (5%) and the US one (7.5%), according to the EC latest forecasts.



Source: European Commission, AMECO, Spring 2025

Figure 1a. Public debt, % of GDP

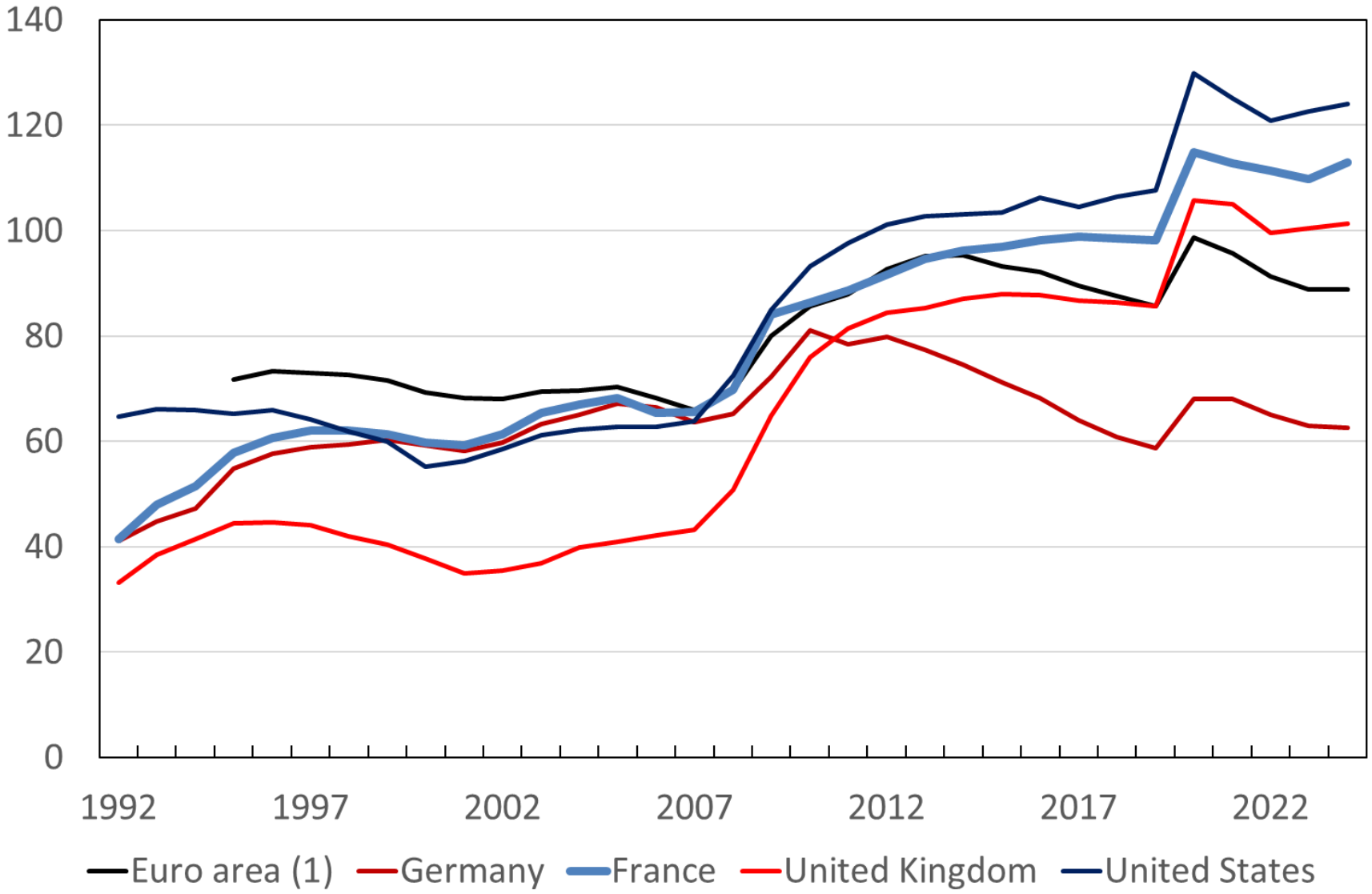
In 2025, the French public debt would reach 116% of GDP, the third highest in the euro area, behind Greece (147%) and Italy (136%), public debt being above 100% also in Belgium and Spain.
The debt-to-GDP ratio would reach 89% in the euro area as a whole.



(1) Euro area 20. Source: European Commission, AMECO, Spring 2025

Figure 1b. Public debt, % of GDP

In 2025, the French public debt would reach 116% of GDP.
The debt-to-GDP ratio would reach 89% in the euro area as a whole,
But 245% of GDP in Japan, 125 in the US, 100 in the UK.



(1) Euro area 20. Source: European Commission, AMECO, Spring 2025

Among the largest EU economies, France is where the effort needed to stabilize the public debt ratio is the largest (Table 1).

Given the public debt level, the French government has decided not to use the 1.5 percentage point of GDP flexibility to increase defence expenditure, as proposed by the Commission (escape clause).

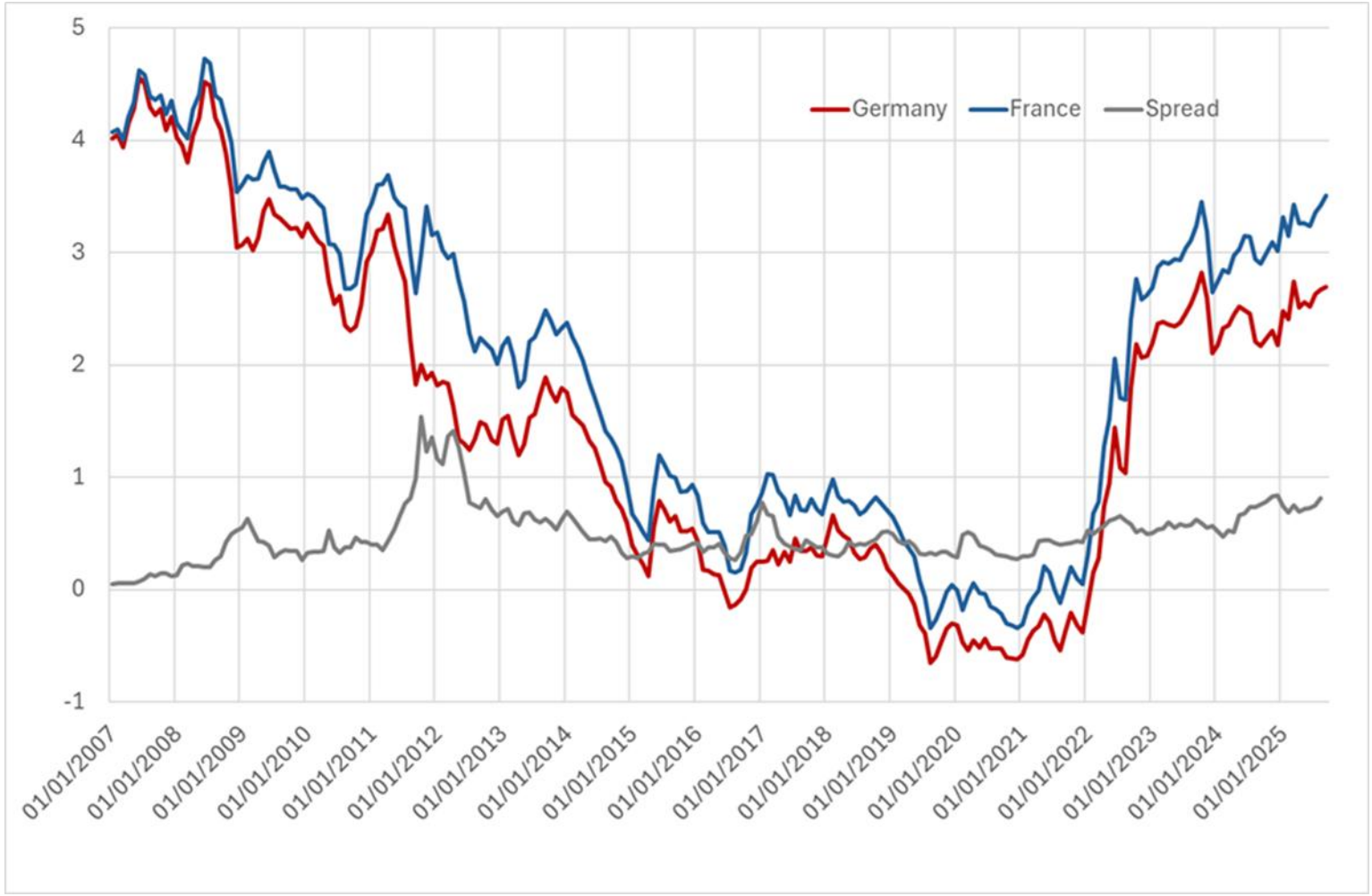
Table 1. Public finances in 2024

	Primary structural balance	Public debt	Sustainable primary balance	Required adjustment
Euro zone	-1.5	88.9	-0.4	1.1
Germany	-1.3	62.5	-0.3	1.0
France	-4.1	113.0	-0.6	3.5
Italy	- 0.5	135.3	-0.7	-0.2
Spain	-1.6	101.8	-0.5	1.1
Netherlands	-0.7	43.3	-0.2	-0.5
Belgium	-3.1	104.7	-0.5	2.6
Austria	-2.9	81.8	-0.4	2.5
Sweden	-0.7	33.5	-0.2	0.5
Denmark	4.5	31.1	-0.2	-4.7
Poland	-4.4	55.3	-0.3	4.1
Romania	-7.1	54.8	-0.3	6.8
Czech Rep.	-0.4	43.6	-0.2	0.2

Assumptions: structural balance as estimated by the Commission. Interest rate = GDP growth-0.5 pp.
Source: European Commission AMECO Spring 2025

10-year government bonds

- From 2015 to 2021: spread with German bonds averaged 0.35 pp
- Since July 2024: Some limited rise in spreads (ca. +0.45 pp) in the context of increased political uncertainties.
- Mid-November 2025: 10-Y French bonds: 3.4 per cent, i.e. 0.8 pp higher than German bonds (2.6 %)



What efforts should be made?

- In 2024, France's public deficit stood at 5.8% of GDP. According to the Annual Progress Report (RAA, 2025), this resulted from: 0.4 pp of cyclical deficit, 2.2 pps of interest payments and 3.2 pps of structural primary deficit (SPB). Public debt amounted to 113% of GDP.
- A 3.4% of GDP deficit would stabilise public debt, assuming GDP growing by 3% (i.e. 1.25% in volume and 1.75% in prices). However, with a 3% interest rate on public debt, the debt burden could rise to 3.4% of GDP, meaning a SPB at zero would be required. The required fiscal effort stood therefore at around 3.2% of GDP in 2024.
- Adding 1 pp of GDP in additional military spending, 1 pp of expenditure for the green transition, brings the required effort to 5.2 pps. If we add the objective of cutting the public debt to GDP ratio by 1 percentage point per year, the required effort reaches 6.2 points.
- As primary expenditure amount to 55% of GDP, they would need to be cut by 9% to gain 5.2 percentage points of GDP without increasing taxes.

High public debt? Counter-arguments

- At the end of 2023, public administrations owned: 2790 billion physical assets, 1704 billion financial assets and had debt outstanding at 3708 billion, leading to a net wealth of 786 billion (28% of GDP). Public debt therefore has a counterpart in terms of assets. It does not generate a priori intergenerational inequalities.
- Households owned: 9662 billion physical assets, 6806 billion financial assets, and debt outstanding as 14373 billion (5 times GDP). The French households' net financial wealth (4710 billion) is larger than public debt.
- The French external debt was 410 billion euros (14.5% of GDP) but capital income flows are positive.
- In 2024, households built 164.6 billion financial savings; companies 10.1 billion. This allowed to finance a public deficit of 169.9 billion, with an external surplus of 4.9 billion. The public deficit was therefore financed by domestic savings. In other words, public debt is desired by households who wish to own a large amount of safe assets, while at the same time financial markets worry about the size of the public debt.
- The public deficit may be cut only through a fall in households' financial savings (accumulated by the richest households) or companies' savings (more investment, less non-distributed profits, more borrowing).
- From 1985 to 2021, inflation was very low in France; fiscal policy cannot be held responsible for overheating.
- In 2025, France is not in a situation of excessive demand, consumer price inflation among the lowest in the EU, the output gap is negative. Public deficit cuts should be implemented within a macroeconomic strategy not dampening economic output.

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- Primary structural deficit since 2002
- But low inflation
- Small external surpluses
- Fiscal policy did not lead to overheating demand.
- Output gap close to 0 (EC), except 2002-2007, 2019. But the positive OG in 2007 and 2019 are artefacts of the Commission's method.
- No macroeconomic imbalance

Figure 4. Output gaps, % of potential GDP

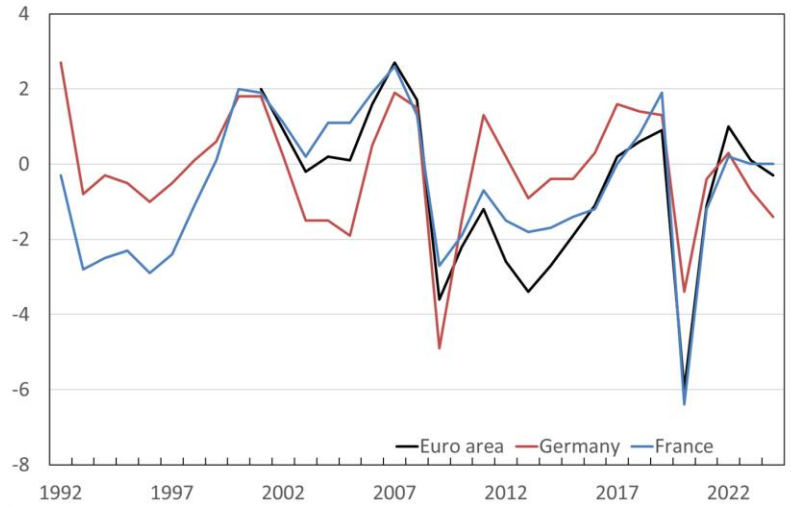
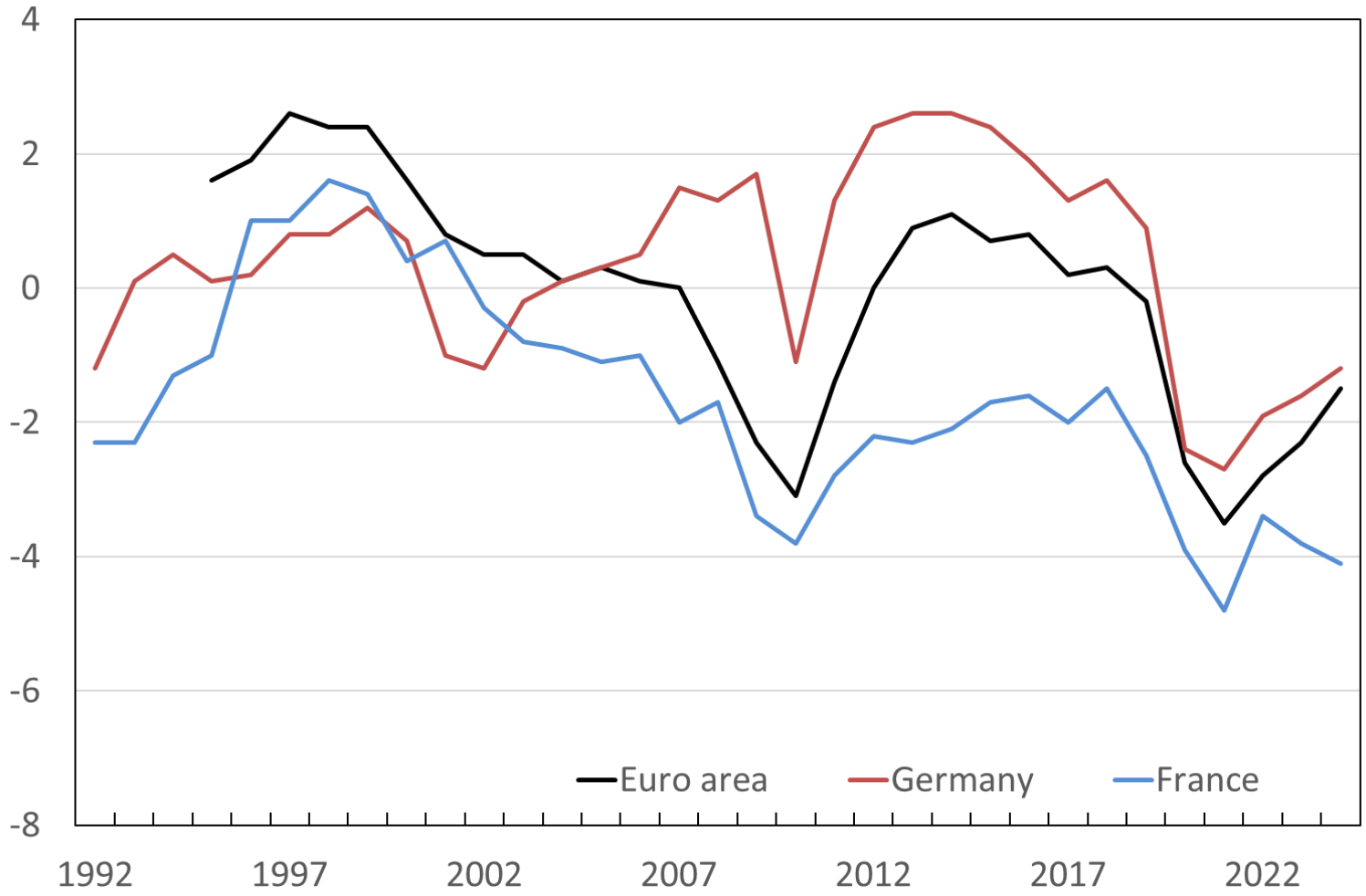


Figure 3. Primary structural balance, % of trend GDP



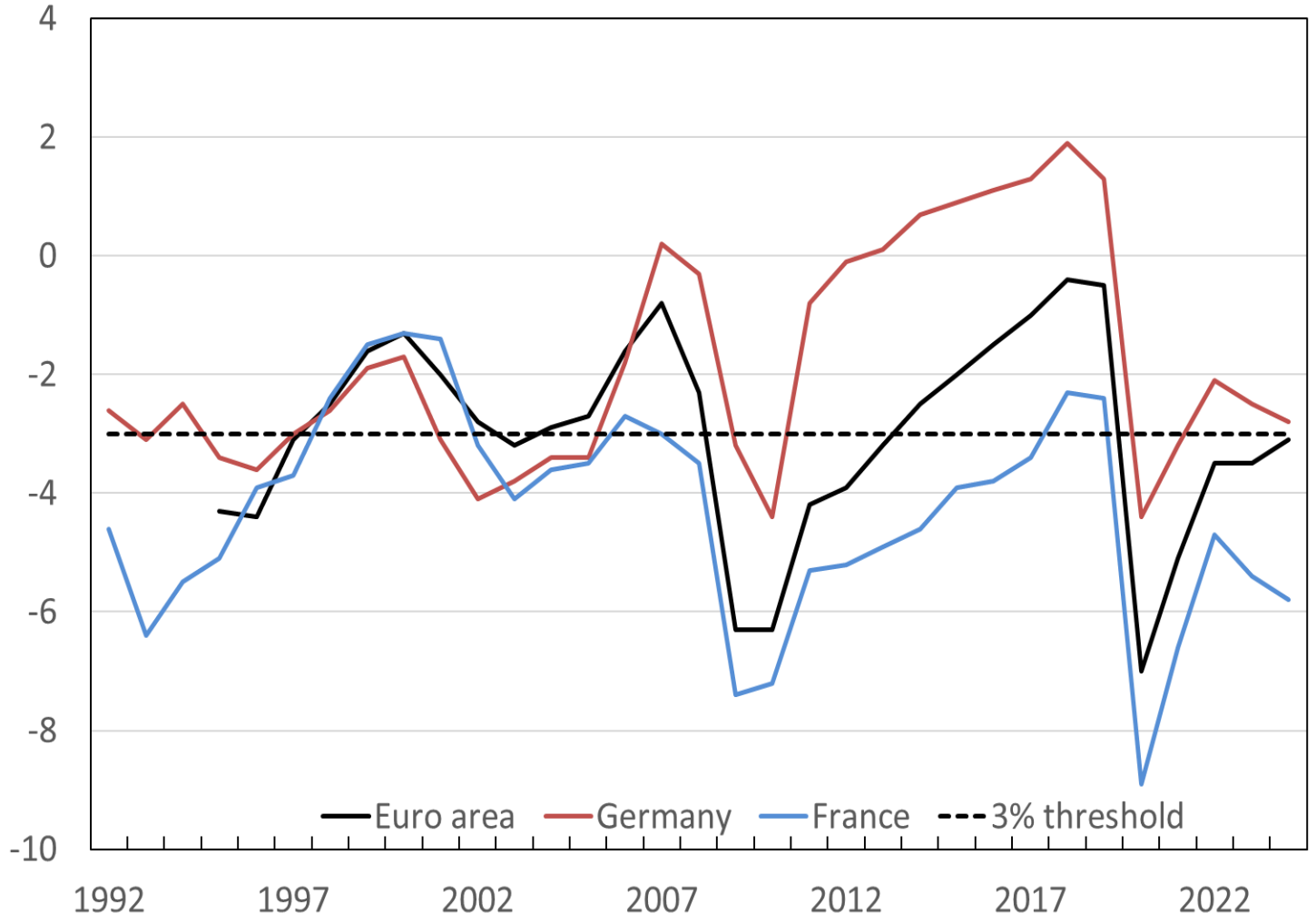
France was under an EDP from 2003-2007, 2009-2018, and again since 2024.

The EU fiscal rules were irrelevant, and did not account for the cyclical situation. France, as one of the large euro area could allow itself not to obey the rules.

From 2003 to 2008, despite strong growth, the French deficit widened, while Germany ran austerity policies and improved its public balance.

On the whole time period, France appears to have never made any effort to cut its deficit structurally below 3% of GDP.

Figure 1a. Public balance, % of GDP



Source: European Commission, AMECO, Spring 2025

The French fiscal situation

Table. Public finance trends in France (% of GDP)

	1996	2006	2016	2024
Primary expenditure	52.4	51.1	55.5	55.1
Interest payments	3.6	2.6	1.9	2.1
Revenues	52.1	51.1	53.6	51.4
Of which tax-to-GDP ratio	*43.5*	*43.0*	*44.6*	*42.8*
General government balance	-3.9	-2.7	-3.8	-5.8

Source: National accounts

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- The French tax-to-GDP ratio followed with a lag the increases in the expenditure-to-GDP ratio. It increased substantially between 1973 (34%) and 1985 (42%).
- This was halted under François Mitterrand's presidency. Since then, governments set themselves the objective of avoiding to raise taxation.
- The ratio rose to 45% in 1997, in order to cut the public deficit, so as to meet the criteria to join the euro area.
- High GDP growth allowed to bring the tax-to-GDP ratio down to 44% in 2007-2009, but the fiscal adjustment after the financial crisis led to a rise, from 2012, especially as François Hollande increased taxes on the wealthiest and on capital incomes.
- On the contrary, Emmanuel Macron launched a set of tax cuts with a view to bring the tax-to-GDP ratio to the euro area average.

Figure 6. Tax-to-GDP ratios

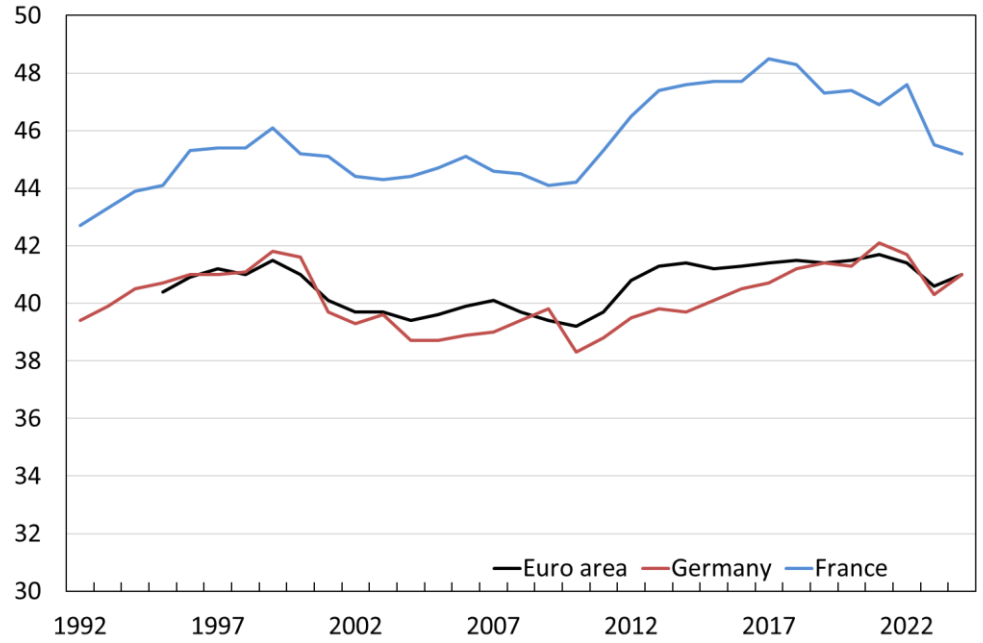
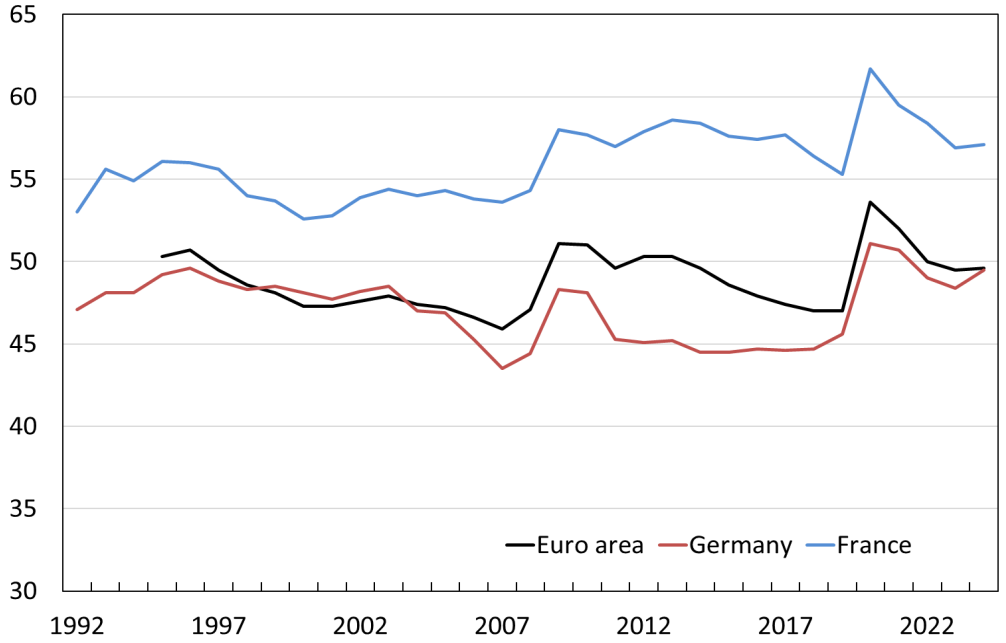


Figure 5. Government expenditure, % of GDP



Source: European Commission, AMECO, Spring 2025

Table 3. Tax-to-GDP ratios in 2023 (% of GDP)

France	43.8
Denmark	43.4
Italy	42.8
Austria	42.7
Belgium	42.6
Sweden	41.4
Spain	37.3
Finland	42.4
Germany	38.1
The Netherlands	38.5
United Kingdom	35.3
Poland	35.1
Japan	34.4
United States	25.2
Ireland	21.6

Source: Public revenue statistics, OECD, 2024.

Since 2017, the successive Macron governments have cut taxes and social contributions.

In total, this may be estimated to amount to **71 billion euros**, i.e. 2.7% of GDP, of which:

38 billion for companies:

- The corporate tax rate was cut from 33% to 25%: 18 billion
- Cuts in production taxes: 15 billion
- Social contributions tax cuts: 5 billion

33 billions for households:

- Introduction of a flat-rate tax on financial assets' incomes (prélèvement forfaitaire unique), replacing the wealth tax (impôt de solidarité sur la fortune, ISF) by a tax on housing wealth (impôt sur la fortune immobilière, IFI), 5 billion
- Personal income tax cuts, 5 billion
- Tax exemption and tax cuts on social contributions on overtime work (4 billion)
- Abolition of the housing tax (taxe d'habitation, 16 billion);
- Abolition of the tax financing public radio/television programmes (redevance pour l'audiovisuel public), 3 billion).

These tax cuts were implemented despite the bad situation of public finances, while governments did not succeed to cut public spending as much.

1) the government was counting on the carbon tax to finance part of the expenditure increases (for around 10 billion euros), but the “yellow vest” revolt halted this.

The Constitutional Council constrained the government to extend the housing tax abolition to all households, contrary to the initial plan which restricted this measure to the 80% less rich households (half of the housing tax revenues).

2) The government was expecting a “Laffer effect”.

Tax cuts were expected to strongly boost demand, especially investment, to induce rich French fiscal exiles to come back and to generate revenues which would more than offset the initial losses of tax revenues.

3) This is the liberal strategy.

Cutting taxes allows to justify afterwards expenditure cuts.

The fall in tax revenues that occurred in 2023 was unexpected. However, a strategy based on social contributions exemptions and incentives for apprenticeship and for self-employment cannot bring in tax revenues, even if it has a positive effect on employment.

Table 4 : Taxes and social contributions, % of GDP

	2014	2024	Variation
Personal income taxation	8.4	9.15	+0.75
Corporate income taxation	2.0	2.0	-
Other taxes on households	2.55	1.85	-0.7
VAT	7.0	7.2	+0.2
Taxes on products	4.2	4.3	+0.1
Taxes on production	2.1	1.55	-0.55
Wage taxation	1.7	2.0	+0.3
Social contributions, employers	11.05	10.0	-1.05
Social contributions, employees	5.5	4.7	-0.8
Total	44.55	42.75	-2.1

Source: French National Accounts

- From 2014 to 2024, the 2 p.p. cut in the tax-to-GDP ratio was mainly on employers' contributions, taxes on production and on other households' taxes (housing tax and capital taxation). The rise in wage taxation financed the rise in apprenticeship spending. Employees social contributions cuts were offset by an increase in the CSG (a flat-rate tax on households' incomes).
- In 2023, the tax-to-GDP was 4.3 percentage points higher than in the euro area. France collects 2.3 percentage points more in employers' contributions, 2.4 percentage points more in production taxation, but 1.3 percentage point less in employees' contributions. According to the employers and to some economists, this is one of the reasons for the weak competitiveness/attractiveness of the French economy.
- In 2025, the employers, the liberal economists, the right-wing political parties and the President of the Republic claim that any tax rise would undermine the policy of attractiveness that France has been pursuing since 2017 and would lead entrepreneurs to leave France. For others, it is the only way to cut rapidly the French public deficit, increasing taxation on the wealthiest is needed to show that fiscal consolidation is fair.

Table 4 : Taxes and social contributions, % of GDP, 2023

	France	Euro area
Total	43.8	39.5
Direct taxes, of which		
Personal income taxes	9.5	9.4
Corporate income taxes	2.9	3.2
Other	1.0	0.9
Social contributions, employers	9.9	7.6
Social contributions, households	4.6	5.9
Indirect taxes, of which		
VAT	7.3	7.0
Taxes on products	4.0	3.4
Other taxes on production	4.6	2.2

Source: European Commission, *Data on Taxation trends* (2025)

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- France has the highest public spending to GDP ratio in the EU (ca. 57% in 2023 and 2024).
  However, the cyclically adjusted primary expenditure to GDP ratio has remained stable at around 55% of GDP since 2013.
- Three conflicting explanations for this high level of public spending:
  - it reflects a social choice in favour of a model based on solidarity and mistrust of private mechanisms, especially for pensions and healthcare.
  -it results from lobbying both from businesses and individuals;
  -it results from the inefficiency and 'bureaucratization' of public services, largely due to the trade unions' strength.

France spends more than the euro area average in almost all main categories of public expenditure, but especially in social protection (health and pensions). French households have a small "reste à charge" in health expenditure and pensioners have a similar living standard as working people.

Figure 5. Government expenditure, % of GDP

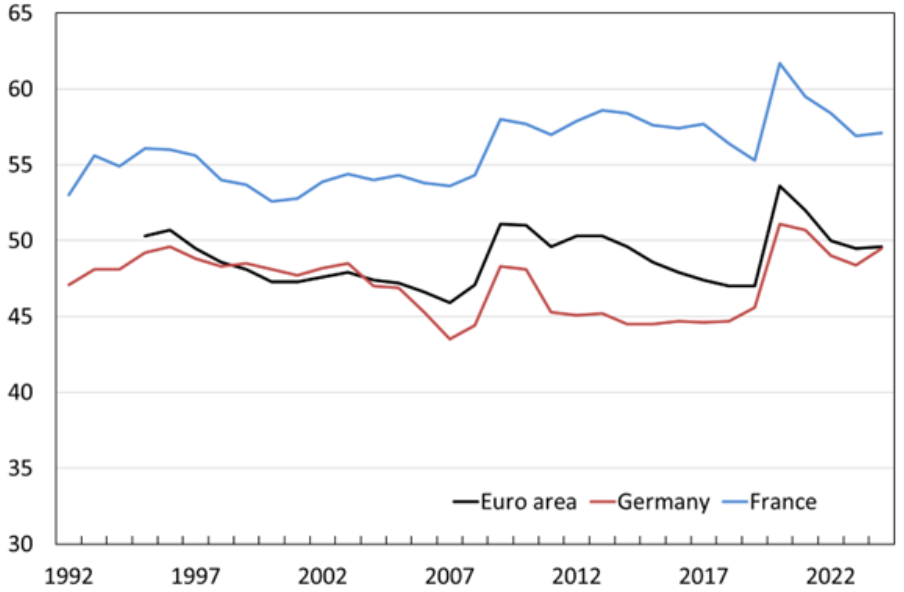
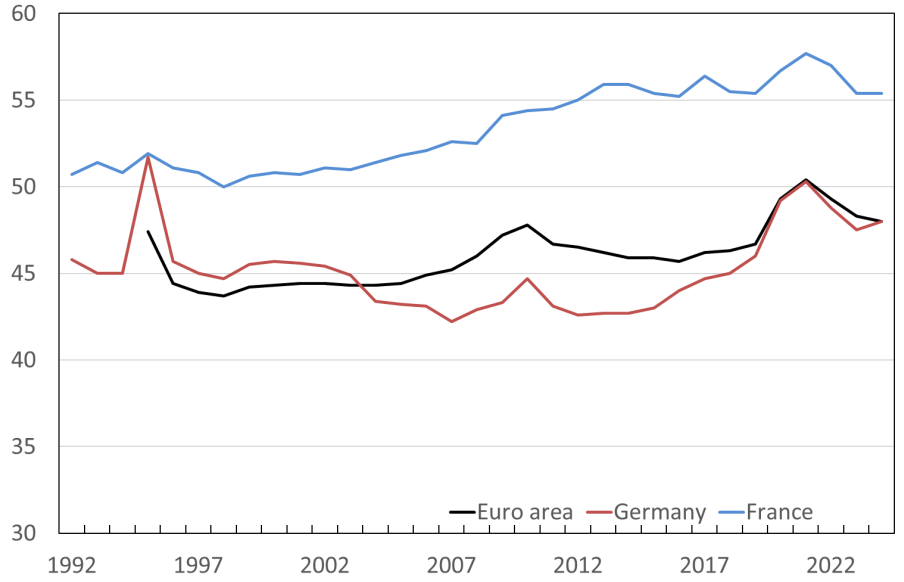


Figure 5b. Total expenditure, excluding interest, adjusted for the cyclical component, % GDP



Source: European Commission, AMECO, Spring 2025

Table 5: Public spending, % of GDP (Source: Eurostat)

	France 2004	France 2023	Euro Area 2023
Total	53.2	57.0	49.5
General Services	3.9	3.7	3.7
Public debt	2.9	1.8	1.8
Basic research	0.6	0.7	0.7
Defense	1.9	1.8	1.2
Public order	1.5	1.7	1.7
Economic affairs	4.6	6.3	5.7
Environmental protection	0.8	1.0	0.9
Housing and amenities	1.1	1.3	1.2
Recreation. culture	1.3	1.5	1.2
Education	5.6	5.0	4.6
Health	7.6	8.9	7.4
Social protection	21.3	23.4	19.8
Sickness and disability	*2.5*	*2.8*	*2.8*
Old age	*12.6*	*14.5*	*12.3*
Family and children	*2.4*	*2.3*	*1.8*
Unemployment	*2.1*	*1.6*	*1.3*
Housing	*0.9*	*0.7*	*0.4*
Exclusion	*0.7*	*1.3*	*1.0*

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- The **Annual Progress Report** (*Rapport d'avancement annuel*) sent to Brussels in May 2025 revised the Medium-Term Fiscal-Structural Plan of October 2024.
- GDP is expected to growth by 0.7% in 2025 (instead of 1.1% previously) and the public deficit is expected to be 5.4% instead of 5.0%. The fiscal effort would be 4 percentage points of GDP over five years (120 billion).
- From 2024 to 2029, GDP would grow by 1.2% per year on average. The negative impact of fiscal contraction on economic activity is not really taken into account.
- Assuming that the effort now focuses solely on primary expenditure, the latter should remain stable in volume, which will be difficult.
- Despite these efforts, France will not bring its deficit below 3% of GDP until 2029. Public debt, as % of GDP, will not fall until 2028. France has committed to a seven-year adjustment period, which the EU Council has accepted.
- By 2026, the government seeks to achieve savings of 40 billion, as compared to an unspecified trend. According to the RAA, the effort would be 1 pp of GDP plus 5 billion to offset the loss of the temporary taxation on large companies.
- Prime Minister François Bayrou had announced that he would present a comprehensive programme to restore public finances before 14 July. He faced opposition from the National Assembly, where he does not have a majority. The RN, left-wing parties and even some parties supposed to support the government rejected measures that would hit their electorate. François Bayrou resigned on 9 September.

Table 7. France: Main economic and fiscal indicators

In % of GDP	2023	2024	2025	2026	2027	2028	2029
GDP	0.9	1.1	0.7	1.2	1.4	1.4	1.2
Potential GDP	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Output gap	-0.6	-0.7	-1.2	-1.1	-0.9	-0.7	-0.5
Public balance	-5.4	-5.8	-5.4	-4.6	-4.1	-3.4	-2.8
Cyclical balance	-0.3	-0.4	-0.7	-0.6	-0.5	-0.4	-0.2
Structural balance	-5.1	-5.4	-4.7	-4.0	-3.6	-3.0	-2.6
Interest payments	-1.9	-2.1	-2.3	-2.6	-2.8	-3.0	-3.1
Primary structural balance	-3.2	-3.3	-2.4	-1.4	-0.8	0.0	0.5
Fiscal adjustment	-0.5	-0.2	0.9	1.0	0.7	0.7	0.6
Public debt	109.9	112.9	116.2	117.6	118.1	117.8	117.2

Source: Rapport d'avancement annuel, April 2025

Latest developments: October 2025

- The new Prime Minister Sébastien Lecornu and his government presented a draft budget on 14 October 2025.
- S. Lecornu pledged not to use Article 49.3, i.e. not to impose a budget on the Parliament, which would have no choice but accept it or censure the government.
- In order to avoid immediate censure by the National Assembly, S. Lecornu agreed to temporary halt the implementation of the pension reform until January 2028 (i.e. to maintain the retirement age at 62 years and 9 months for one year, whereas it was due to rise to 63 on October 2026, and to maintain the number of quarters of contributions for a full pension at 170 whereas it was due to rise to 171 on October 2026).
- Unless new legislation is passed after the presidential elections (due to be held in 2027) and unless an agreement is reached between social partners, increases in the retirement age would resume in 2028, one year later than planned. An agreement seems difficult to reach, as trade unions question the 2023 reform, while employers refuse any increase in contributions and the government wants the pension system to return to financial equilibrium. The cost of the postponement would be around 2 billion euros in 2027.

- For 2026: the Govt. maintains the objective of cutting the deficit from 5.4% in 2025 to 4.7% of GDP (-21 billion euros).
- But: military spending is expected to increase by 6.7 billion, interest payments by 7.5 billion, and the exceptional surtax on large companies is expected to decrease by 4.7 billion.
- This implies that the government needs to find around 40 billion.

Table 8: Fiscal plans until 2029

In % of GDP unless otherwise stated	2024	2025	2026	2027	2028	2029
Public balance	**−5.8**	**−5.4**	**−4.7**	**−4.1**	**−3.4**	**-2.8**
Cyclical balance	**0.0**	**−0.2**	**−0.4**	**−0.3**	**−0.3**	**−0.1**
Structural balance	**−5.8**	**−5.1**	**−4.3**	**−3.7**	**−3.1**	**-2.7**
Interest payments	**2.1**	**2.2**	**2.4**	**2.7**	**3.0**	**3.2**
Primary public expenditure	54.5	54.6	54.0	53.2	52.4	51.8
Primary structural balance	**-3.7**	**-2.9**	**-1.9**	**-1.0**	**-0.1**	**0.5**
Primary structural adjustment	**−0.2**	**0.8**	**1.0**	**0.9**	**0.9**	**0.6**
Tax receipts	42.8	43.6	43.9	44.2	44.4	44.6
Public debt	**113.2**	**115.9**	**117.9**	**118.7**	**118.6**	**118**
GDP growth, volume (%)	**1.2**	**0.7**	**1.0**	**1.2**	**1.3**	**1.3**
Potential growth (%)	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.0**
Output gap	0.0	−0.4	−0.6	−0.6	−0.5	−0.2

Source: Rapport économique social et financier 2026

- Tax-to-GDP ratio: +0.3 pp of GDP
- interest payments: +0.2 pp;
- primary expenditure: -0.6 pp (-0.8 pp excl. military expenditure).
- Accounting for a 0.2 pp increase in the cyclical deficit,
- Fiscal effort of 1% of GDP
- GDP expected to grow by 1%: optimistic, given:
- The uncertainties induced by the geopolitical context abroad,
- the French political situation
- the announced restrictive fiscal policy.

Table 8: Fiscal plans until 2029

In % of GDP unless otherwise stated	2024	2025	2026	2027	2028	2029
Public balance	**−5.8**	**−5.4**	**−4.7**	**−4.1**	**−3.4**	**-2.8**
Cyclical balance	**0.0**	**−0.2**	**−0.4**	**−0.3**	**−0.3**	**−0.1**
Structural balance	**−5.8**	**−5.1**	**−4.3**	**−3.7**	**−3.1**	**-2.7**
Interest payments	**2.1**	**2.2**	**2.4**	**2.7**	**3.0**	**3.2**
Primary public expenditure	54.5	54.6	54.0	53.2	52.4	51.8
Primary structural balance	**-3.7**	**-2.9**	**-1.9**	**-1.0**	**-0.1**	**0.5**
Primary structural adjustment	**−0.2**	**0.8**	**1.0**	**0.9**	**0.9**	**0.6**
Tax receipts	42.8	43.6	43.9	44.2	44.4	44.6
Public debt	**113.2**	**115.9**	**117.9**	**118.7**	**118.6**	**118**
GDP growth, volume (%)	**1.2**	**0.7**	**1.0**	**1.2**	**1.3**	**1.3**
Potential growth (%)	**1.2**	**1.2**	**1.2**	**1.2**	**1.2**	**1.0**
Output gap	0.0	−0.4	−0.6	−0.6	−0.5	−0.2

Source: Rapport économique social et financier 2026

Latest developments: October 2025

- The budget plans are currently being debated in the National Assembly.
- The outcome from the parliamentary debates is likely to be very different from the draft submitted by the government, as the latter has neither a majority in the National Assembly (divided into three main blocs) nor in the Senate (where right-wing parties prevail).
- The right wing rejects any tax increases and advocates public spending cuts,
- The far right wants to cut spending for immigrants and transfers to the European Union,
- The left wing wants taxes to be increased on large companies and on the wealthiest individuals.
- There is a majority in the National Assembly (but not in the Senate) in favour of abolishing the 2023 pension reform.
- It will be very difficult to build a realistic budget allowing to cut the public deficit.

On the tax revenue side

- Despite Emmanuel Macron's opposition in principle to any tax increase, the government has resigned itself to a net tax increase of 13.7 billion, including 8 billion on households and 1 billion on businesses.
- As part of the “Année blanche", the freeze on income tax and CSG rates is expected to bring in 2.2 billion.
- Following the debate on the taxation of the ‘ultra-rich’, the government has introduced a 2% annual tax on the assets of family holding companies not invested in controlled companies: 1 billion.
- Article 5 of the draft finance bill abolishes certain tax expenditures, in particular:
  - tax reductions for secondary and higher education tuition fees (450 million),
  - non-taxation of daily allowances for long-term illness (900 million),
  - tax exemptions on agricultural fuel (350 million).
- The change from a 10% allowance on pensions to a flat-rate allowance of €2,000 will bring in 1.2 billion.
- The abolition of social security exemptions for apprentices will bring in 1.2 billion.
- Employer social security contribution exemptions will be reduced by €1.5 billion, certain non-salary benefits (meal vouchers, etc.) will be subject to an 8% tax, and mutual agreement contract termination payments will be subject to a 10% tax.
- However, the CVAE (contribution on value added c) will be reduced by €1.3 billion and, as planned, exceptional contributions on large companies will be cut by €4.7 billion as compared to 2025. Overall, the tax burden on businesses will hardly increase.
- A tax on small parcels is intended to combat Chinese imports (500 million euros).
- The government expects to raise 1.5 billion euros from the fight against tax fraud.
- The 1.7 billion increase in social security contributions for local authorities should encourage them to reduce their spending.

On the expenditure side

- Public expenditure excluding interest payments and military expenditure should be cut by around 0.8 pp of GDP, or 24 billion (in volume terms, compared with a trend increase of 1% per year).
- Central government expenditure is expected to fall by 9 billion. Some expenditure will be cut, especially in the areas of ecology and employment (Maprimerénov', vocational training, apprenticeships) as well as certain aids to businesses.
- The National Consumer Institute will be abolished.
- All benefits, even those benefiting the poorest, housing assistance, RSA and AAH, will not be price-indexed.
- Civil servants' pay and staff number will be strictly managed (the wage index will be frozen and collective revaluations prohibited), but the staff number will be cut by 3,000 only.

On the expenditure side

- The government counts on local authorities to cut their spending by 6 billion, due to their financial constraints.
- Social security administrations are expected to cut spending by 10 billion through:
- Health expenditure: a 2.3 billion increase in medical deductibles (*franchises médicales*), a 0.6 billion cap on daily allowances, a 0.4 billion transfer of reimbursements to supplementary health insurance schemes, 3.2 billion in efficiency measures or price cuts in the health sector,
- Family**:** 1 billion in the longer-term by raising the age for family allowance supplements for teenagers from 14 to 18
- Pensions: 4 billion by not indexing all pensions on prices in 2026. Until 2030, pensions will grow by 0.4 percentage point less than inflation, amounting to a cumulated 3.3% fall in purchasing power.

Summary of the current debates in the parliament

- The budgetary documents are currently being examined by the Parliament. The texts amended by the National Assembly must now be examined by the Senate, which will reverse many of the amendments.
- The government will have to submit a final text to the National Assembly, which will have to either accept it or censure the government. The government therefore has the difficult task of making sufficient concessions to the Socialist Party without losing the votes of the right.
- The National Assembly suppressed many of the spending cuts and tax increases for households which were planned in the government budgetary documents. Besides, it has voted for tax increases on large companies and the wealthiest individuals, the credibility of these measures being problematic (capital flight abroad, international commitments). The votes were won with disparate majorities, often right-wing/far-right or left-wing/far-right.

Summary of the debates in the parliament

- The Assembly re-introduced the price-indexation of the income tax scale. It rejected the taxation of long-term daily allowances, the abolition of tax rebates for schooling, the end of benefits for non-road fuels, the transformation of the 10% allowance on pensions into a €2,000 allowance, the reduction of tax benefits for investments in the French overseas departments.
- The Assembly rejected non-price indexation of benefits and freezing the CSG scale on pensions (amounting to a €4.6 billion loss of revenue). It rejected the introduction of a flat-rate contribution for appointments with dental surgeons and a deductible for medical devices. It rejected the increase in taxation on supplementary health insurance and the 8% tax on meal and holiday vouchers. It maintained the exemption from social security contributions on apprentices' earnings.
- The Assembly limited the government's proposed increased taxation of the assets of family holding companies to luxury assets.
- An Assembly vote postponed the implementation of the 2023 pension reform by three months, while rejecting the financing measures proposed by the government: taxation of supplementary health insurance and price under-indexation of 0.8% (instead of 0.4%) of pensions in 2027.

Summary of the current debates in the parliament

- However, the annual ceiling for tax deductible personal services expenditure has been lowered from €12,000 to €10,000.
- The Assembly has changed the IFI (Impôt sur la fortune immobilière) into a tax on unproductive wealth, affecting real estate assets, financial assets (excluding shares), cryptocurrencies and luxury goods (including artworks). The first property benefits from a €1 million allowance. The tax rate is 1% for the share of wealth above €1.3 million. The concept of 'unproductive wealth' is meaningless. The tax does not affect the billionaires that the Zucman tax was intended to target. It would generate €2 billion more than the current IFI.
- The National Assembly voted to raise the CSG on capital incomes from 9.2% to 10.6% (i.e. an additional revenue of 2.7 billion).
- Companies having benefited from the Research Tax Credit (CIR) would have to repay the amount granted during the three previous fiscal years in the event of relocation abroad.
- The digital services tax (GAFAM tax) would raise from 3% to 6%.
- The exceptional surtax on corporate income tax for largest companies which was supposed to decrease from €8 billion in 2025 to €4 billion in 2026, will only decrease to €6 billion (government amendment).

Summary of the debates in the parliament

- The National Assembly has decided that share buybacks will be taxed at 33% of their actual value (rather than 8% of their nominal value), which would in theory bring in €8 billion. However, share buybacks are likely to dry up as they become costly.
- The National Assembly has introduced a 25% tax on profits made in France by multinational companies, calculated as the company's overall profit divided by France's share of its activity.
- Multinational companies would be subject to Pillar II of the OECD agreement, with turnovers from 500 million rather than 750 million.
- The National Assembly has introduced a surtax on superdividends, i.e. dividends 25% higher than the average dividends of the previous three years.
- The government considers that these four amendments are not in line with France's international commitments and refuses to take them into consideration.

- Overall, according to the government, the voted budget measures would cut the public deficit from 5.4% to 5% of GDP only, far from the 4.7% target.

Outline of the presentation

- The French fiscal situation in 2025.
- Public finance developments in relation with the macroeconomic context.
- Taxation: past developments and current context
- Public expenditure: past developments and current context
- Plans currently under discussion for the 2026 Budget
- Strategies to bring public finances back into balance.

What shall be done?

Several suggestions have been made (and often rejected) to cut the deficit by 3 percentage points of GDP, while increasing military spending and green transition expenditure by at least 2 pp:

- Boosting GDP
- Handing over some expenditure at the EU level
- Cutting public expenditure: functioning, social protection
- Increasing taxes
- Cutting tax expenditure
- Increasing taxation mainly on the wealthiest and on large companies

In the debate: *Taxing the richest individuals*

- This is the solution advocated by the left-wing parties. Is it realistic?
- The Zucman tax would set a 2% minimum tax rate on individual's assets worth more than €100 million. According to Zucman, this would generate around €20 billion, without taking into account the risk of capital flight abroad. It would enable fair taxation of billionaires who currently avoid taxation by accumulating unrealised capital gains.
- If the company has a profit margin of 8%, its main shareholders would be taxed at 2% (corporate income tax) + 2% under the Zucman tax if no dividends are distributed, i.e. a tax rate of 50%. The tricky point is that the company's valuation may bear no relation with its profits (in the case of a stock market bubble or a start-up).
- The taxpayers concerned could pay with shares in their company. In order to prevent this tax from reducing overall investment, its revenues should remain earmarked for public investment.
- This proposal has the disadvantage of introducing a special taxation on a few wealthiest. In order to avoid that rich families may never pay taxes on their unrealised capital gains, an alternative proposal would be to abolish the capital gains purge through death or donations and to prohibit family cash boxes. Given the risks of capital flight abroad, it is difficult for France to adopt it alone. France should promote the proposal at the EU and OECD levels.

Conclusion

- France's public deficit in 2025 is not sustainable from the point of view of EU authorities and financial markets.
- However, it does not cause any macroeconomic imbalances and is financed by French household savings.
- The policies envisaged to cut the deficit involve public spending cuts rather than tax increases. The risk is to undermine the French social model and lead to a long period of slow growth.
- It is unlikely that this austerity policy will give the French society and the economy the impulse they need.
- Governments should strive to decrease household savings rates by guaranteeing the continuity of the French social model. Spending cuts and tax increases should target the wealthiest individuals, who have a higher propensity to save.
- Meanwhile, the banking and financial system should be encouraged to increase lending for investments, especially those related to the green transition.