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FRANCE

France approves social security budget but still lacks a state budget

France passed its social security budget, but the state budget remains unresolved, and the deficit outlook is worsening



French Prime Minister Lecorno in the National Assembly

What was voted today: the social security budget

The National Assembly has adopted the social security budget (PLFSS) after tense negotiations. This 'social security budget' is a French peculiarity: it is somewhat artificial because it includes taxes beyond the scope of the social security system and also counts direct transfers from the state budget. In most countries, there is only one consolidated budget that incorporates social security, but France has retained two separate texts—the PLFSS for social security and the PLF for the state budget.

The PLFSS for 2026 suspends the 2023 pension reform (costing €300 million in 2026), introduces a 3% increase in health insurance expenditure, and boosts spending on healthcare: €850 million for hospitals, €150 million to fight medical diseases, plus additional funds for nursing homes and overseas territories.

To finance this, the key measure is a hike in the social contribution (CSG) on capital income, from 9.2% to 10.6%. Combined with other social contributions, the total levy rises from 17.2% to 18.6%, meaning an overall tax burden of 31.4% on capital income when income tax is

included. Certain investments—such as life insurance, home savings plans, and regulated savings accounts—are exempt from this increase.

Finally, and most importantly, the government agreed to transfer an additional €4.5 billion from the state budget to the social security budget. Despite these measures, the social security deficit will reach €19.4 billion in 2026 (or €24 billion without those transfers), compared with €23 billion in 2025.

The government's initial goal was to reduce the social security deficit to €17.5 billion in 2026. This proved impossible given divisions in the Assembly. The budget could only pass by making it highly expansionary. Even then, the vote was extremely tight: several MPs from the centrist group supporting Lecornu's minority government abstained, and the government relied on support from the left. This underlines the fragility of the current majority and the difficulty of imposing fiscal discipline. Remember, this social security deficit is only a fraction of France's total deficit, which reached €169 billion in 2024.

The budget marathon is far from over

The PLFSS vote does not end the saga. The state budget (Projet de Loi de Finances, PLF) is still under discussion in the Senate, with a vote expected before 15 December. A joint committee between the Senate and the Assembly will then attempt to reconcile positions, but an agreement appears highly unlikely. The text will return to the National Assembly for a “final reading”, with negotiations almost starting from scratch. The deadline for the Assembly to vote is 23 December.

In our view, the probability of reaching agreement on the state budget has always been much lower than for the social security budget. The difficulty of passing the PLFSS reinforces our view that chances of agreement on the PLF are extremely low.

If no compromise is reached, a special law will likely extend the 2025 budget into 2026, with talks resuming in January. Either way, the deficit is highly likely to remain above 5% of GDP—and probably even higher if a deal on the state budget is struck at the cost of further spending.

The debt trajectory will continue to deteriorate

The French parliament is to pursue a highly expansionary policy. While tax hikes on capital income will generate some revenue, they fall far short of offsetting the surge in spending. Although today's successful vote means the Prime Minister remains in office (which reduces short-term uncertainty), it also means higher deficits for longer and a deteriorating debt trajectory. France's fiscal situation will remain under close scrutiny from rating agencies and investors in the weeks ahead.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

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