

Article | 11 September 2025

FRANCE

France's fiscal outlook deteriorates, but a full-blown crisis remains unlikely

It will be a challenge to form a new government following the resignation of Prime Minister François Bayrou. There is more uncertainty in France as public finances worsen. But we think a full-blown crisis can be averted



Prime Minister François Bayrou lost the confidence of parliament and resigned

Forming a new government will be very difficult

On Monday 8 September, Prime Minister François Bayrou lost the confidence of Parliament and subsequently resigned. The next day, President Emmanuel Macron appointed Sébastien Lecornu, a close associate from the centre-right, as the new prime minister. Lecornu now faces the daunting task of forming a government and presenting a 2026 budget in a deeply fragmented parliament.

To avoid a vote of no confidence, he must secure tacit support from either the left or the far-right, a scenario unlikely unless the budget proposal undergoes significant revisions.

As a result, we anticipate protracted negotiations. If these talks succeed, it will likely be at the cost of a less stringent fiscal path, effectively slowing budgetary consolidation. However, there remains a strong possibility that Lecornu will fail to build a viable coalition, which would

increase the probability of new parliamentary elections. In our view, the likelihood of Macron resigning is very low at this stage.

Weak growth will only exacerbate the problem

The fall of the government and the low probability of a swift resolution to the political crisis have added a new layer of uncertainty to an already weak economy. Indeed, France's GDP growth in early 2025 appeared resilient, but underlying fragilities persist. The modest expansion was driven almost entirely by inventory accumulation, masking stagnation in private consumption and contractions in investment and net exports.

While industrial production showed a slight uptick, overall momentum remains weak. Labour market conditions are deteriorating, and household confidence is fragile. Political instability further clouds the outlook, making a recovery in the second half increasingly unlikely, especially as the higher risk premium on French bonds is likely to weigh on interest-sensitive sectors like construction and real estate.

On average, GDP growth could reach just 0.6% in 2025, down from 1.1% in 2024. With a weak starting point for 2026, growth is expected to remain below potential, continuing to weigh on public finances.

The public finance situation is serious

According to the Ministry of Finance, public spending is projected to increase by €51.1bn in 2026 without corrective measures, resulting in a budget deficit of 6.1% of GDP, which significantly exceeds the 4.6% target submitted to the European Commission. With little prospect of resolving the current political crisis and even less likelihood of rapidly securing an agreement on the 2026 budget, the fiscal outlook is poised to deteriorate further.

Without a shift in policy, public debt is projected to climb from 113% of GDP in 2024 to 125.3% by 2029. France's fiscal challenge is largely structural, driven by demographic trends and weak potential GDP growth.

The existence of TPI should help

The political crisis has already caused government bond (OAT) spreads to widen, though not to levels seen during the sovereign debt crisis. Importantly, the European Central Bank retains significant firepower to limit excessive widening of eurozone government bond spreads, and markets are well aware of this.

In theory, the ECB could activate the Transmission Protection Instrument (TPI) if elevated interest rates on OATs begin to impair monetary policy transmission. While the TPI requires compliance with EU fiscal rules, which France currently does not meet, the ECB has stated that these criteria are "inputs into its decision-making and may be dynamically adjusted".

It is unlikely that France would receive a free pass upfront, but the ECB would likely trigger TPI if spillover risks threaten financial stability. As such, the mere existence of the tool may be sufficient to prevent spreads from spiralling upwards, avoiding a full-blown crisis.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.